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Ken Nishimura
President Executive
Officer & Director



Focus on Both Expanding Sales and Improving Profits for 14th Middle-Range Planning (MP-14) as an Opportunity for Human Asset Development

Review of MP-13



I begin by looking back over the previous Middle-Range Planning “MP-13” (⇒ P.31), which was positioned as a “Period of Reformation and Challenges” toward achieving VISION2027—I am not happy with the results that we achieved for our quantitative targets, due to factors such as the impact of the COVID-19 pandemic. Yet we were able to take on numerous challenges to secure our future, including internal reform and initiatives.

We have been making preparations for entering new categories and developing new distribution channels as a means of approaching generations who hold a new sense of values and securing new targets for Mandom, and we were able to launch new brands like “aono,” “HOLIDEA” and “ium” at the end of the previous Middle-Range Planning. ⇒ P.52 Next I want to take a look at the internal systems we have worked to create. We developed the job-type personnel affairs system with clear job descriptions for employees in managerial positions of manager level and above, clarified the job expectations, work details and skills required for each position, and made employees aware of the know-how for devising career plans to reach those positions. I believe that building up the relationships that help bring about “Happy individuals make a happy company,” in which employees feel that they are able to develop themselves by working at Mandom, is what makes Mandom truly stand out as a “human-oriented” company. In this sense, we focused more on the development of internal systems and our employees over the past three years.

After looking back over MP-13, I can say that there are two key management issues present today. The first is the drop in profitability of the Japan Business and Indonesia Business. In addition to the recent increases in raw material prices, the drop in consumption caused by fewer opportunities to go out will result in a decrease in production volume and higher costs. In contrast, when considering whether or not we have been able to set prices that match this value, we have not been able to achieve this in at least our main segments of low- and mid-priced cosmetics and daily necessities market, and this has resulted in a low-profit business structure. The second is the ongoing sluggish nature of the Indonesia Business. PT Mandom Indonesia Tbk is a company with a history dating back to 1969, and its main brands of “GATSBY” and “PIXY” have long been well-regarded by consumers, and with products available in almost every corner of the many island that make up this large country. When it comes to the level of economic development, this is a market that requires an aggressive approach to marketing with active investments, but given the long history of our Company, we seem to be taking a somewhat defensive stance as we are mainly deal with markets that have matured. Today, cosmetics priced in excess of 1,000 yen are available throughout the Indonesian market as ordinary products, rather than luxury items. Until now we have mainly focused on products in the low-to-medium price range of several hundred yen, and our slow response to changes in such markets has ultimately led to a drop profitability.

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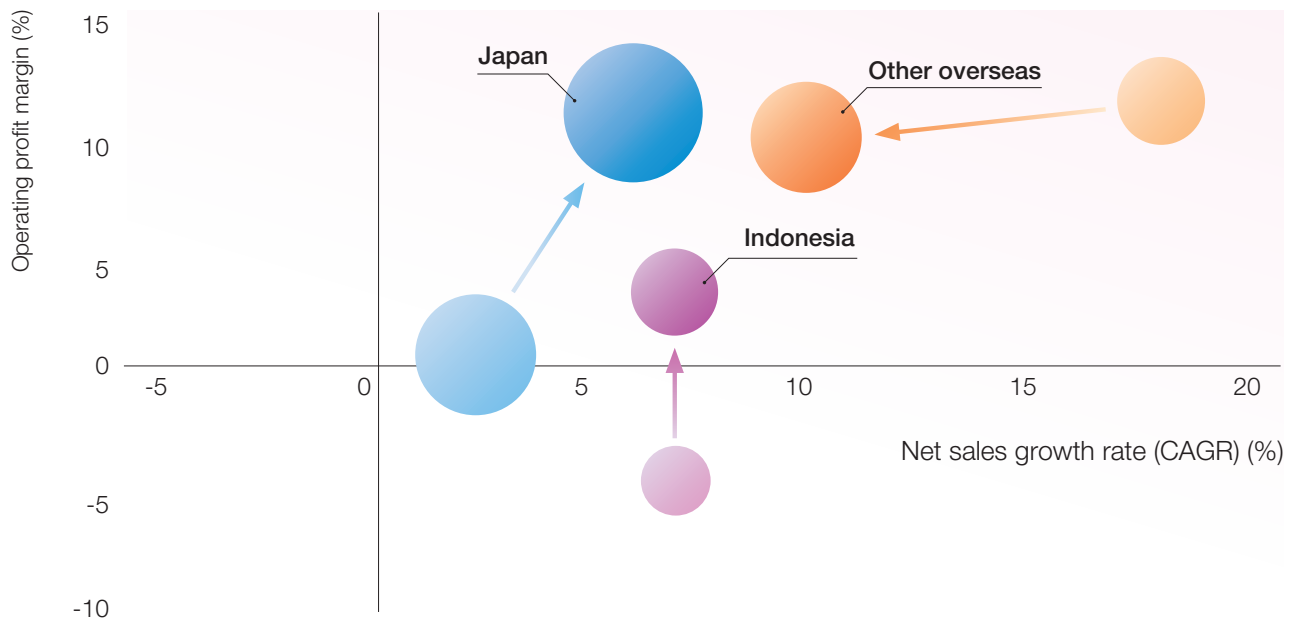
External environments when formulating MP-14



A major change that is occurring in the external environment that affects us are the issues related to the declining population of Japan, its aging society and declining birthrate. The population of the younger population, which our company has primarily targeted as the core audience for Gatsby, and this is also expected to continue going forward. One point of note regarding this is that the number of cosmetics used by younger consumers—particularly men—is still lower than the amount used by women. I believe that we can increase the amount of cosmetics used by customers and create greater demand by coming up with new ways that expand the scope of their cosmetic activities, and as such, I am of the view that it will be possible to maintain and expand our level of sales even if the size of the market drops somewhat. Yet there is no escaping the fact that the population will continue to grow older going forward, and the key challenge for us is identifying how to extend the period in which our customers can remain in a state of well-being. Traditional anti-aging strategies tended to be pursued by people with a keen level of awareness and at considerable expense, but I think that

this trend will expand to demographics with a relatively casual attitude in the future. I view such changes in awareness and environments as an opportunity to carve out a new approach for achieving Oyakudachi (Dedication to Service). Southeast Asia and other overseas countries are still experiencing population growth, and I felt that those markets was extremely active when I traveled there for business. I am positive that the Other Overseas segment will be period where we will be able to achieve quantitative business growth, at least for the duration of MP-14. The global society will continue to evolve with fewer constraints on borders over the next 5 to 10 years, and I am positive that this will present a turning point where the trends and values sought by customers in these regions will undergo even more drastic changes—this is something that we need to be well prepared for. The population and market in Indonesia will both continue to grow in size, so I recognize the importance of finding ways to correct the poor profitability there, while regaining our positive approach and managing our business in an assertive manner. ⇒ P.37

Changes in net sales growth rate and image of operating profit margin



The net sales growth rate is a comparison between MP-13 (3 years) and MP-14 (4 years)
 The operating margin is a comparison of the final fiscal year of MP-13 and MP-14 respectively

The size of a bubble is the volume of sales



Direction of MP-14 initiatives



Two key concepts raised with MP-14 (⇒ P.34) for increasing the Oyakudachi (Dedication to Service) we provide are selection and concentration. There were not many competitors throughout the Men's Cosmetics market in Asia in the past, and I believe that our strategy of taking a broad but shallow approach was the right one in such an environment. Yet given the increase in the number of players and the booming market conditions, we need to make a concerted effort to focus and strengthen our resources on our key fortes like hair styling. I expect that the cosmetics markets in Asian countries will experience growth in various categories for both men and women, but it will not always be efficient to focus our efforts on product development in categories where we have limited knowledge. In such circumstances, I think we will need to exercise the right options for the right purposes, like joining forces with outside partners for the development of new concepts, or executing M&As with outside companies or brands.

One approach to increasing on our Oyakudachi (Dedication to Service) during MP-14 is to expand on our areas of operation. Expanding areas overseas will require a more assertive approach than those taken in the past. The fact is that we have not expanded into any new areas since the launch of our group company in Vietnam in 2015. Going forward, we will need to consider forging new methods of sales in areas outside of Asia in the future, if an opportunity exists for developing sales methods for existing commercial products, without limiting ourselves to the conventional approach of establishing a group company in a local market. Human resources are the most important aspect for achieving this. We will need to train employees who are able to identify areas and countries with signs of becoming promising markets, so that we can focus our full efforts there. Another approach toward expansion is increasing the target demographics of

our products. In Japan in particular, I would like to expand the scope of generations that we will target for our Oyakudachi (Dedication to Service) than before. An example that illustrates this is products related to anti-aging effects for middle-income and upper-middle-income customers. Having them use our products in a casual manner on a daily basis will help them take care of themselves while also leading to greater internal self-confidence. In turn, this will increase their involvement with society and enrich their own daily lives. I view this approach to anti-aging through cosmetics as a form of Oyakudachi (Dedication to Service). The way people consider aging has changed with the times, and we are confident of our ability to come up with appealing products based on proven technologies that are capable of responding to these changes. I am looking at coming up with products like these in the future, and this stems from our desire of providing Oyakudachi (Dedication to Service) that forms part of everyday life. If we are able to contribute to the development of a healthy, positive lifestyle and a cheerful society, I think we will be well on the track way to achieving consolidated net sales of 100 billion yen. (⇒ P.35)

We need to consider the supply of sustainable products as our underlying base while we push ahead with these initiatives. There are methods of achieving sustainability while reducing unit costs. An example of this is that if too much plastic is used for the packaging of cosmetics products, that amount can be decreased while also reducing costs. I think that the way consumers choose products and their sense of values will undergo change moving forward. I will be overseeing this with a high sense of awareness from an ESG and sustainability perspective. I am of the belief that we are conducting business with a high sense of ethical standards because I view this as the right things to do, rather than as a way of seeking validation from society.

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Human resources are at the core



Above all else, the most fundamental and crucial aspect for achieving the initiatives of MP-14 is the development of our human resources. The key structural reform project (⇒ P.39) initiative of MP-14 has been designed with the fundamental view that profitability will be improved as a result of developing human resources. We will be working on improving profitability by reducing unit costs, and achieve this by having employees acquire know-how and knowledge that they currently do not have and to change a certain mindset—examples of this include how to find suppliers, or how to be audited by third-party organizations when fair trade is

taken into consideration. The reason why we position human resource development at the core is that it is the growth of human resources itself that leads to ongoing positive performance as a company, and also makes it rewarding for employees and boosts their motivation. Viewing the current crisis as an opportunity for nurturing our employees will in turn create the experiences of success that will improve our profit structure, where employees continuously grow and condition at the company improves. The projects will first be rolled out in Japan, and we are planning to apply the successes we achieve with this horizontally to bases overseas.

Promoting group management



Another aspect of structural reform is the promotion of group management during MP-14. If we consider overall optimization of human resources, for example, it is certainly feasible for skilled human resources from countries other than Japan to be engaged in companywide group management with regards to head office functions. We wanted to convey the message that Mandom would be implementing group management going forward, so each CxO made presentations in English at the group management policy announcement held in April. (⇒ P.38) This was not only a message to our employees overseas showcasing that the management team was able to converse directly with them in English, but it was also a message to our Japanese employees highlighting the fact that despite the sizable local market in Japan, it is not the core of group management. Given our diverse group of employees, I am certain that we can develop more exciting value by coordinating efforts with them to leverage their skills and maximize their individual abilities. Based on this, the keyword I am putting forward to all group employees for MP-14 is Co-Creation . Several skill sets are required in order to implement Co-creation and to pursue collaboration among employees on a global scale. One of these is zero-based thinking. We have been fortunate to be able to create markets in each area and that business remained positive by adopting the same

operations as we did prior—we have developed a habit of basing our thinking on this approach. I was keenly aware of the problem that this created and saw signs that this would start to become a bottleneck, so more recently we have been saying that we should always use zero-based thinking. Even as work is conducted across national boundaries and departments, I hope to implement Co-Creation for creating value with a sense of unity, without being constrained by sectionalism or other factors.

The CxO system that we will be using from this fiscal year also plays an important role for promoting group management. (⇒ P.36) The mission of each CxO is to consider overall optimization of group management for using the group's capital to increase consolidated sales, by determining what should be resolved first for group management, or overall optimization of the group, and what is required for maximizing corporate value for the entire group. All our CxOs are currently located in Japan, but naturally they will be considering factors about their own areas overseas. An example to illustrate this is Chief Supply Chain Officers (CSCOs) who, in addition to production sites in Japan, are also in charge of production overseas. I expect them to harness knowledge available in Japan to solve problems that may currently be occurring in Indonesia, or allocate assets in Japan to help support those problems in Indonesia.

In closing



For the first year of MP-14, the fiscal year ending March 31, 2025, we are planning for expenses for initiatives aimed at improving profitability, so we will be unable to generate sufficient profit to meet your expectations. Yet we will be pushing ahead with proper structural reform and planning to achieve the strong sales and profit guidance disclosed for the next fiscal year and beyond, so I am confident that we will be recover and expand our corporate value during MP-14.

I believe that the reason why Mandom was able to survive until now was because it is needed by society and customers as a company as well as a brand. Underpinning this was the approach of providing some form of Oyakudachi (Dedication to Service) to society and associated stakeholders, a concept that has been passed down among employees from the back in the days of our founder and even as new generations have taken the reins. We have been, and need to remain committed to being, a corporate entity that is able to share the “Fun” aspects included in our sustainable policy that also make up our mission of “Health, Cleanliness, Beauty and Fun,” and through various circumstances and moments that bring joy and happiness to those involved with Mandom. If you were to ask me what in particular I would like to achieve or change during my tenure over the long-term span, one of my answers would be to make the company the most enjoyable place to work in Japan and the world, while another answer would be to further grow our business from the current Asia-centric business to a global one. These two answers are actually related, and are connected to my ideal vision of being the most exciting and enjoyable company in the world and the cosmetics industry, all while ensuring an environment where both Japanese employees as well as employees currently working in areas around Asia are able to play an active role on a global scale. At the very core of this is the need to make our employees and other stakeholders, and those working with us, happy and content as a “human-oriented,” and I think it will be important to remain committed to this approach.

We ask for your continued understanding and support on this matter.