

Date: Thursday, June 7, 2018  
Respondent: Yoshihiro Murakami,  
Executive Officer, Responsible for Cosmetics Business, Kao Corporation  
Representative Director, President, Kanebo Cosmetics Inc.

1. **Although you were behind competitors, I think that global marketing capabilities and sales channels are strengths of Kao when working to strengthen the prestige range. However, isn't it true that an increased focus on improving the operating income will mean less marketing investment, making brand development difficult? Shouldn't the first priority be to nurture brands with sufficient investment to increase sales, even if it means a decrease in profit in the Cosmetics Business, which may be offset by gains in other businesses?**

I don't think we should sacrifice brand development for the sake of improving profit. While we will step up the marketing investment necessary for communication with our customers, we also believe that there is a large room to improve profitability by reviewing expenses related to promotional materials, for which return on investment hasn't been sufficient.

By concentrating investment and allocating resources such as marketing properly on focus brands, we will better nurture those brands.

2. **Competitors are sometimes using external human resources to strengthen the prestige range. Is Kao doing the same? You pointed out that you introduced a brand team system in the Cosmetics Business to make the PDCA cycle shorter and faster. Has the utilization of external human resources lead to the speeding up or refinement of emotional and sensorial appeal of brands?**

We will become an organization with a shorter and faster PDCA cycle, but the structure will not be uniform for each brand. For example, for brands where digital marketing is particularly important, we will bring in experts from outside. We will also allocate human resources with expertise in travel retail in our focus on related brands. As you pointed out, in order to create an optimal structure for each brand in the future, we would like to actively utilize skills and expertise from outside the company.

3. **The ratio of sales for the global strategy brands "G11" is currently about 40%, but how will you grow them toward achieving the sales target of 300 billion yen in 2020? In particular, I think strong growth is targeted for the *SENSAI* brand, which is regarded as the flagship brand, but when will it start growing and how much? And, what about the regional strategy brands "R8"?**

For the G11 brands, we are aiming for a sales ratio of 70% by 2025. The compound annual growth rate (CAGR) will be double-digit.

*SENSAI* is sold in Europe and the Middle East, and the current sales are just under 10 billion yen. We will introduce the brand in Japan and China in the future, and we are also planning to expand it to other major Asian countries as well. In Japan and other Asian countries, we would like to achieve sales close to the current level of sales as early as possible.

The R8 brands currently account for about a quarter of sales. That proportion will be at around the same level in 2020. We envision that the proportion of the G11 brands will increase, the R8 brands will stay the same, and the proportion of brands other than the G11 and R8 brands will decrease.

4. **You said that, under the new brand strategy for Japan, you will transform from the existing sales-channel-based strategy to a customer-based strategy whereby brand placement will be tailored to customer buying habits. At the same time, masstige (mid-price range) brands will become self-selection brands. Will this be completed by 2020? Or, because it is a somewhat**
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**long-term strategy, will the transformation of mid-price range brands to self-selection brands start with product development and marketing this year?**

It will take about two years to review the mid-price range brand strategy, including the product line, product specifications, and how the packaging looks, etc. We will start with what we can do right away, such as reviewing communication.

We will phase out approximately two-thirds of brands other than the G11 and R8 brands one-by-one over the course of the four years to 2022, while properly advising our customers regarding alternative brands. The remaining one-third of the brands is prominent brands with distinctive identities, so we would like to continue with them for the time being.

**5. What is the current sales mix of travel retail and e-commerce (EC), and what is the target for 2020? What are the leading brands in each?**

Our travel retail initiatives are significantly behind our competitors, and the proportion of sales is about 5%. We aim to increase that to 10% in 2025. We attended the Tax Free World Association (TFWA) Asia Pacific Exhibition & Conference, held in Singapore in May this year, and engaged in direct business negotiations. We want to strengthen this sales channel as soon as possible. We will nurture the G11 brands in particular.

The proportion of EC sales is also about 5%. Our decision to enter the EC channel was late. We are currently strengthening our efforts. In the cosmetics market in Japan, the ratio of EC sales is about 20%, but for Kao Group as a whole it is about 5%. We want to increase this to 15% in 2025.

We have been slow to engage in travel retail and EC, the channels that are most important going forward for our global brands. In other words, there is considerable room for growth, so we will totally commit ourselves.

**6. In the Cosmetics Business for the first quarter of fiscal 2018, sales in China increased by 40% year on year, while sales in Japan were down year on year. How do you see growth by region toward the 2020 target?**

CAGR by 2020 will be +3% for Japan, +16% for Asia and +5% for Europe. We will continue to grow considerably in Asia, mainly in China.

**7. It appears that you have targets for 2020 and 2025, but as 2020 is a milestone, have specific plans been made right up until 2025?**

Although our brand strategy has been devised with a vision for 2025, it is difficult to set target figures for 2025 because of the considerable changes that will occur between now and then, so we have devised these plans for 2020.

**8. Which of the 2020 targets is being prioritized, sales or operating margin? A sales CAGR of +3 or +4% seems easy, while improving the operating margin from just over 4% to 10% looks to be difficult.**

We anticipate that improvements in the operating margin can be achieved through various measures including optimization of costs. We will work to expand sales in the prestige brands and mass brands of the G11. However, at present, since the proportion of the R8 brands and other mid-price brands in Japan is large, we believe there is a risk of falling short of the plan depending on whether the transformation to self-selection brands is successful.

**9. Sofina, est the lotion and SOFINA iP are doing well, but how will you add emotional and sensory appeal to est and how do you plan to develop it in the future?**

Those products are symbolic of Kao style, but, these cosmetics require allure and a sense of excitement. We need to increase the appeal of these cosmetics, including by changing creators and exchanging personnel in the marketing, and I believe that theory and skin science alone will not be enough. We will make new offerings for both *est* and *SOFINA iP* from 2019.

**10. You said that the plan is to thoroughly expand the G11 brands. For example, SENSAI will expand to Japan in 2019 and to China in 2020. Can this not take place a little sooner? How can the plan be accelerated?**

With regard to the introduction of new brands and new products accompanying the change in strategy, product development will get underway around autumn next year at the earliest because of regulatory procedures. Other than that, we have started doing what we can right away.

**11. Does this mean that, rather than expanding SENSAI to Japan and China as is, you will release products that are different from those in Europe?**

There are two ranges of *SENSAI* in Europe – products in the 10,000-yen price range and products in the 30,000 to 40,000-yen price range. However, we will build a global strategy line around the middle price range of about 20,000 yen, and, as the core line, we will introduce it as one of two lines to Japan, together with the products in the 30,000 to 40,000-yen price range.

**12. Sales in the Cosmetics Business are not growing and profitability is low, despite the fact that there are many growing brands among the G11 brands, which account for 40% of sales. Is this due to weak performance of the R8 brands? What is the development strategy for the R8 brands?**

With regard to profitability, major issue stems from the mid-price range. We must reform our high cost structure, which includes completing the transformation to self-selection brands. We will proceed with structural reforms in the mid-price range by allowing the G11 brands to grow and increasing the proportion of sales.

**13. I think there are also some R8 brands for which sales must be raised. For example, what is the growth strategy for LUNASOL makeup brand and specialty store brands?**

The R8 brands are also important brands, and we will properly invest in them and strengthen marketing. Up to now, we have invested in many brands in a fairly uniform manner, but now we will concentrate on our top priority, the G11 brands, followed by the R8 brands. Marketing investment in *LUNASOL* and others was insufficient, so we will strengthen this aspect as well.

**14. If Euromonitor's five-year forecasts for regional cosmetics market growth by the year 2022 are not realized, which of the G11 brands will be prioritized for growth?**

Based on Euromonitor's forecasts for the cosmetics market over the next five years, we see little growth in Japan, but substantial growth in the rest of Asia.

All G11 brands are important. However, they can be divided into the eight brands shown in the top of the pyramid and the three brands in the bottom. [Refer to slide 22 of the presentation materials]  
For the three mass brands shown in the bottom, *KATE*, *freeplus* and *Curél*, sales are large and growth potential is large in absolute terms. We believe they can grow significantly if our production capabilities are in place.

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For the eight brands shown in the top, we have the targets sharply in focus, and as they are brands that do not target the mass market, we will make them shine, not just in terms of sales scale, but in terms of unique identities. We are not considering the introduction of super-prestige *SENSAI* brand at many brick-and-mortar stores in Japan. We are thinking about totally new and different types of marketing. The focus is on makeup with *RMK* and *SUQQU*, and skincare with *est* and *KANEBO*, while *MOLTON BROWN* has its own unique position.

- 15. You are targeting an operating margin of 10% in 2020, but what drives most in achieving that? Is it the improvement of the operating margin of the G11 brands? Or through structural reforms in the mid-price range and cost efficiency gains, as operating margin won't improve much due to large investment in the G11 brands? Or from scrapping brands with low profitability?**

Improvement in the operating margin due to structural reforms in the mid-price range is important. At the same time, we will improve profitability by growing the highly-profitable G11 brands.

- 16. You say you will increase advertising expenses and sales promotion expenses to create strong brands, but how will the ratio of sales to marketing expenses change between now and 2020? How will the G11 brands' share of marketing expenses change?**

Currently, marketing expenses are about 20% of sales, but since there are issues with how these expenses are used, we feel that a review is important. We will increase efficient marketing investment to strengthen the brands.

In addition, in this day and age, the scale of marketing expenses does not necessarily correspond to growth in market share, and even without the use of marketing expenses, a single online review can lead to strong sales. In addition, if it is a unique new product, making it available on EC sites ahead of offline shops may mean that it gets good reviews, which will spread via social media. It is also necessary to think about how to disseminate information on the Internet, and to consider attractive exclusive items and techniques for EC channels. We will create a team that can take on the challenge of a new marketing method, with new ideas.

- 17. You said that the sales ratio of the G11 brands is about 40%, the R8 brands about 25%, and the rest 35%, but are marketing expenses allocated at a level proportional to sales? How will they be allocated to the G11 brands, the R8 brands and other brands toward 2020?**

Although I cannot speak in quantitative terms, by improving the efficiency of marketing expenses, we can shift marketing investment to the G11 brands without significantly increasing the total amount. I think there is much that we can still do under the current marketing expense ratio, rather than just increasing the marketing expenses for brand building.

- 18. What level of sales will each of the G11 brands grow to?**

We expect sales of each of the eight brands other than the three mass brands to grow to a scale of about double the current 10 billion yen level sales. The sales of each of the three mass brands are about 20 billion yen. These brands will also be strengthened.

- 19. What typical items are selling well for each major brand?**

*RMK* and *SUQQU* are makeup-centric brands. *SUQQU* is strong in base makeup with cream-type foundations, while *RMK*'s strength lies in foundations and lipsticks. *est* has been doing well with *est the lotion*, which was launched last year. For *KANEBO*, main identities lie on creams featuring unique technology. *SOFINA iP*'s beauty serum is the best-selling product in its category in Japan. *MOLTON*

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*BROWN*'s main products are hand wash and body lotion. In terms of mass brands, *KATE* is strong in eye makeup products. *Freeplus*' mild soap for facial cleansing is enjoying strong sales, particularly in China. *Curél*'s creams and facial cleansers are also selling well.

**20. The impression is that you have prioritized focus on *SOFINA iP* and *KANEBO* over the past two to three years. Has the positioning of these brands changed?**

In the Cosmetics Business, five business entities have operated independently. However, we have conducted an overall review, organizing the brands laterally, and globally strengthening the e'quipe brands *RMK* and *SUQQU* and the *SENSAI* brands. The priorities of *SOFINA iP* and *KANEBO* have not changed, and we will continue to strengthen them as constituents of the G11 brands.

**21. What is the current total number of SKUs? How many is it expected to be in 2020 and 2025?**

As of the end of December 2017, there were 4,754 SKUs. This will be reduced to 4,600 by 2020 and 4,300 by 2025. For the G11 brands, we will increase the number of SKUs and strengthen the brand. The number of SKUs offered in the R8 brands will decrease slightly, while the number of SKUs other than the G11 and R8 brands will be drastically reduced.

We will focus on brands and reduce the number of SKUs, taking efficiency into consideration.

**Note**

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