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You intend to add about 10 billion yen in sales to your original plan for July-December because Kao's performance was not in line with its plan in January-June. In addition, you say you have a plan for covering that shortfall with last-minute demand ahead of the consumption tax rate increase in Japan, even if that demand is half of what you had been assuming. How are you going to do that?

To achieve our full-year forecast, we must add about an extra 10 billion yen in sales. If last-minute demand is lower than our initial expectation, the impact of the subsequent decline in sales following the tax rate increase will also be small, and demand will recover quickly. We have been considering this trend and have prepared measures for it.

Previously, you mentioned that you are producing products ahead of the consumption tax rate increase and reinforcing distribution functions at warehouses and other locations to meet last-minute demand. If that demand turns out to be lower than expected, won't you wind up with excess inventory that you will have to sell at a reduced price?

The inventory situation differs depending on the category and product. Fabric care products were the subject of substantial last-minute demand ahead of the previous consumption tax rate increase, but our inventory is not as large as before because we are focusing on *Attack ZERO* laundry detergent this time.

In addition, due to adverse weather conditions in Japan in June and July, sales in the retail sector were slow not only for household and personal care products but also for seasonal products including beverages and clothing. Retailers therefore are likely to respond with a sense of impending crisis, so we intend to work together with them.

Even excluding weather as a factor, have you seen a decrease in consumer sentiment?

With so much news about unstable economies globally, intense heat and heavy rainfall here in Japan, and so on, consumer purchasing may be weakening. If this situation continues, it will affect overall consumption, so we are hoping things normalize soon.

You have announced Kao's ESG strategy, but when will we see measures using ESG activities that lead to sales growth and price increases? Do you have any specific examples?

Our ESG strategy is based on the premise that medium-to-long-term activities will improve our corporate value over the long term and increase our presence as consumers become interested in buying products if they are made by the Kao Group. However, even taking a short-term view, eliminating wasted time and resources from returns or disposal of unsold products, for example, will be beneficial for the Earth, provide financial returns, and let people know that we have changed direction toward ESG management.

We are looking into opportunities to talk about our ESG strategy.

Do you think that the industry as a whole will go in the same direction and increase returns if you refine new and improved products from an ESG perspective?

We believe that we can propose completely new product development and manufacturing methods with an ESG perspective to our entire industry, including competitors, as well as to all industries across business boundaries. As the chairman of the Japan Clean Ocean Material Alliance (CLOMA), I would like it to demonstrate leadership in solving the problem of marine plastic waste and to promote sustainable development through public-private partnerships.

Does the rise in consumer purchasing prices for 15 household and personal care items

in Japan indicate that consumer buying behavior has been shifting from mass to small mass products?

We have been offering small mass products in line with the diversifying lifestyles of consumers, who tend to want to use products that suit their own values even if the price is high. This is also the case among mass products—even though *Attack ZERO* is high priced it offers high performance, so it tends to be accepted if it fits in with the purchaser's lifestyle.

You said that even if last-minute demand before the consumption tax rate increase is half what you expect, it will be covered by other sales. However, the profit margin from last-minute demand would be higher. Even if you cover the shortfall in last-minute demand with other sales, how will you make up for the difference in profit margins?

We will cover the difference by using expenses effectively as we expand sales. We are planning to launch new high-margin products in the Cosmetics Business in the fourth quarter, and we expect this to change the product mix.

Can I consider the success of the super prestige brand *SENSAI*, which you will launch in autumn, to be absolutely essential and the biggest risk you face?

SENSAI, a brand that combines Japan's refined sense of delicate harmony with the latest dermatological science from Japan, will not be rolled out over a wide area in Japan yet, so its contribution to profits will not be especially large.

How is the competitive environment for premium-priced products in China's baby diaper market? Have prices bottomed out?

Still at the sell-in stage, in June we launched super-premium-priced *Merries* baby diapers in China. We are aiming to enhance *Merries'* brand power rather than the scale of its sales. We will work to strengthen communication of their value in preparation for Singles' Day (an event for online retailers in China) so that consumers can experience *Merries'* quality first hand.

China's baby diaper market posted double-digit year-on-year growth in 2018, but it has recently been in the single digits as market growth weakens due to slowing growth in volume caused by the decline in the number of births. By sales channel, online retailers and baby products specialty stores are growing and account for a large proportion of the market. To deal with this situation, it will be important to enhance brand power to respond to global competitors in the online retail channel and local manufacturers in baby products specialty stores and to continue improving tape-type diapers while strengthening pants-type diapers, sales of which are growing significantly.

Have resellers' purchases of baby diapers in Japan to sell in China ended?

January-June sales in Japan decreased about 30% compared with the same period a year earlier because resellers' purchases of *Merries* in Japan to sell in China decreased substantially. We will communicate the quality of *Merries* to parents of infants in Japan. Our share among consumers in Japan is increasing, according to purchasing survey data (SCI*). Sales through cross-border online retail and the market in China are also on a recovery track.

* SCI: Consumer monitor data from INTAGE Inc.

Will the Consumer Products Business in the Americas and Europe be able to achieve its 10% operating margin target in 2020? Are reforms progressing as planned? Can the business achieve the "discontinuous growth" mentioned in the original plan?

The Consumer Products Business in the Americas and Europe was short of our plan during January-June 2019, but we aim to recover with new and improved products scheduled for July-December. We are aiming for an operating margin of 10% in both the Americas and Europe, and we are planning more new and improved products with different offerings next year.

We are also preparing for new initiatives from an ESG perspective.

I understand that considerable adjustments to baby diaper production in the first quarter resulted in a decline in operating income in line with the decline in sales. What is the trend for the capacity utilization rate?

Because the ratio of pants-type diapers is increasing in China, capacity utilization of production facilities for those diapers is high, but we need to increase capacity utilization for the tape-type diaper production facilities we have invested in. In addition to raising capacity utilization by increasing sales volume of super-premium-priced tape-type baby diapers in China, we also intend to look into expanding the regions where our tape-type diapers are sold.

The Cosmetics Business is performing strongly, with an operating margin above 10%. What is the status of the eleven global strategy brands (G11) and eight regional strategy brands (R8)? What is the trend for inbound demand (demand from visitors to Japan)? I have the impression that cosmetics are in a slump in Japan, but how has Kao been affected?

In January-June 2019, G11 sales increased 19% and R8 sales increased 8% compared with the same period a year earlier. Sales of other brands decreased. G11 accounted for 54% of our total cosmetics sales and R8 for 27%. We have implemented strategies to increase sales and operating income through concentrated investment in strategic brands.

Cosmetics Business sales have also increased in Japan. We want to analyze consumption trends in Japan by also looking at the situation at our competitors.

As for inbound demand, *Curél*, a derma care brand, sold strongly throughout January-June, to give one example. The situation is different depending on the brand. The brands being bought by visitors to Japan also change, so we are monitoring the situation closely.

Local manufacturers hold a share of nearly 50% of the baby diaper market in China. Aren't Chinese consumers switching to local products rather than ones made in Japan? Don't they prefer lower prices? How do you compete with local manufacturers?

Local manufacturers are numerous and varied, but high-priced brands are selling well at baby products specialty stores. They are getting good reviews because they feature thin absorbent sheets, which bring to mind breathability and ease of movement.

We will continue to improve *Merries* to provide even better performance. In China, we need the technology we have cultivated in Japan, but since there is no need for production to be in Japan anymore, we intend to strengthen our production base in Hefei, China.

In China, have opinions of brands made in Japan become negative as a result of resellers clearing out their inventory of *Merries* at low prices?

I do not think there has been any change in attitudes in China about the high quality of Japanese-made products. At the same time, Chinese-made products have become more accepted as their quality has improved. Few Chinese consumers currently insist on Japanese-made products. We want to provide quality products regardless of what country they are made in.

Will the increase in operating income in the Cosmetics Business continue to be nullified by the decrease in operating income from baby diapers in 2020? In China, I think the growth rate of the baby diaper market will decline further as the birth rate decreases. How much do you expect the operating margin for baby diapers to recover?

We are aiming for a higher operating margin for baby diapers year on year in 2020. In January-June 2019, the Human Health Care Business faced tough conditions and operating income decreased 10.8 billion yen compared with the same period a year earlier, but it is on a recovery track, so we are aiming for an increase in January-June 2020. During July-December 2020, the proportion of our sales from pants-type diapers, which account for a growing

proportion of the market, will increase further, so we expect an improvement in the operating margin.

In the Cosmetics Business, there has been a decline in resellers' purchasing activities in Japan so I think you need to increase sales in China, but can the growth of *Curél* and *freeplus* continue? Expectations for *SENSAI* in Japan are not so strong, but do you expect substantial growth in China?

The scale of sales of *SENSAI* will not be large at the time of its launch in Japan, but we have high expectations. For *Curél* and *freeplus*, which is hypoallergenic and contains Japanese and Chinese botanical extracts, we are also planning new products, and we expect ongoing growth from enhancing cooperation with retailers. The scale of sales of *freeplus* is still small in Japan and can be expanded in the future, so we will continue to strive for growth.

Until now, the Cosmetics Business has been making up for past delays, but from here on we believe we will face the real challenge of achieving growth by enhancing our brands. We will grow steadily, first achieving sales of 300 billion yen, then aiming for sales of 400 billion yen and an operating margin of 15% as soon as possible during the period to 2025.

In addition, the target for 2020 in the Kao Group Mid-term Plan K20 is extremely high, so we are also planning new products that incorporate technology innovations to meet investors' expectations.

In the laundry detergent and fabric softener market in Japan, what are the trends, the competitive environment, and the market share for brick-and-mortar and online retailers?

The market share of *Attack ZERO* continues to grow. We will listen to consumer feedback as we continuously make innovations and further strengthen communication of its value. We are also planning to launch new products for 2020, and intend to continue expanding our share in the laundry detergent market.

For fabric softeners, we will not only focus on consumers who want large-volume products and fragrances but also work to make offerings that meet various needs without being overly concerned with our competitors or market share so that customers can more fully experience the quality of our products, such as our newly launched product *Humming LINNE*, a fabric softener that we focused on making fragrance-free and super-absorbent.

You said that the Human Health Care Business and skin care products will drive profit growth in 2020. Won't the Fabric and Home Care Business be a major factor in increasing profit in 2020 due to the greater importance of sales and market share compared to profit, the expense for new and improved products, and a rebound from this year's low prices of natural fats and oils? How do you envision 2020?

Historically, the Fabric and Home Care Business has achieved a high operating margin of more than 20%, and we intend to maintain it at least 20%. Sales growth will be a major source of increased profit. We also intend to take measures for steady growth of fabric care products other than laundry detergents and fabric softeners.

Note

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