

Consolidated Financial Results

for the Nine Months Ended September 30, 2019

Kao Corporation

October 30, 2019



KaO

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Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.

- The Kao Group adopted IFRS 16 “Leases” in the three months ended March 31, 2019.

Overview of January-September 2019 and Forecasts

- The Cosmetics Business continued to perform strongly in both Japan and Asia. Sales of the eleven global strategy brands (G11) and eight regional strategy brands (R8) sales increased 18% and 11%, respectively, compared with the same period a year earlier. The Kao Group aims for further growth by launching new products from strategy brands, expanding the regions where they are sold, strengthening activities in the e-commerce and travel retail channels, and other measures.
- In the Skin Care and Hair Care Business, among skin care products a new body cleanser sold strongly in Japan. In the Americas, the competitive environment remained severe. Among hair care products, the Kao Group introduced new and improved products in the premium market in Japan and Europe as the mass market for shampoos and conditioners continued to shrink. In the Americas, a brand for hair salons performed strongly. The Kao Group intends to enhance skin care products in Japan and Asia and work for their recovery in the Americas, and to reinforce its premium line of hair care products in Japan, the Americas and Europe.
- Sales of *Laurier* sanitary napkins continued to grow in Japan, China and Indonesia. For *Merries* baby diapers, a recovery was underway but sales fell short of the plan. Sales and market share of *Merries* continued to expand in Indonesia. In Japan, sales and operating income declined compared with the same period a year earlier as resellers' purchase of products from Japan to sell in China continued to decline due to China's new e-commerce law and the depreciation of the yuan. In China, sales including cross-border e-commerce continued to fall short of the same period a year earlier, but were on a recovery track as the impact of lower selling prices associated with reseller's inventory clearance eased. Operating income declined substantially compared with the same period a year earlier, due in part to yuan depreciation and investment in marketing. The Kao Group aims for growth by continuing to attract new users in Japan and by strengthening activities in the e-commerce channel and enhancing brand power with premium products in China.
- In the Fabric and Home Care Business, sales of laundry detergents at retailers exceeded market growth in September due to measures the Kao Group took in response to the consumption tax rate increase in Japan. Sales of home care products were firm, despite the impact of competition. The Kao Group intends to expand the market share of laundry detergent *Attack ZERO* launched in Japan, through promotions until the end of the year to encourage consumers to try it. The Kao Group will work for further market expansion by offering *Quickle Joan*, a new series of antibacterial home cleaning products, and other measures.
- In the Chemical Business, sales decreased compared with the same period a year earlier due to the impact of a decline in prices for natural fats and oils and slowing economic growth outside Japan. The Kao Group aims for record-high operating income from expansion of high-value-added businesses and more effective use of expenses.
- Last-minute demand ahead of the consumption tax rate increase in Japan was lower than expected, but the Kao Group intends to stimulate demand in October-December by launching new and improved products with the aim of increasing sales and profits to achieve its forecast of consolidated results for the year ending December 31, 2019.

Highlights of Consolidated Financial Results

Consumer Products Market¹ (January - September 2019)

Growth of household and personal care market in Japan:² SRI +5 points/SCI +10 points

Growth of cosmetics market in Japan:³ SRI +3 points/SLI +7 points

Consumer purchase price for 15 major household and personal care categories in Japan:⁴ +2 points

Consolidated Operating Results (Nine months ended September 30)

(Billion yen)	FY2018	FY2019	Growth %	Change
Net sales	1,097.8	1,109.3	+1.0	+11.5
		Effect of currency translation ⁵	(1.1)	(12.3)
		Like-for-like, excluding effect of currency translation	+2.2	+23.8
Operating income	142.2	151.0	+6.2	+8.8
Operating margin	13.0%	13.6%	-	-
Income before income taxes	141.9	149.4	+5.3	+7.5
Net income	100.6	105.1	+4.4	+4.5
Net income attributable to owners of the parent	99.4	103.6	+4.2	+4.1
EBITDA (Operating income + Depr. & amort.)	186.8	199.5 ⁶	+6.8	+12.7
Basic earnings per share (yen)	202.97	213.99	+5.4	+11.02

1. SRI: Estimates based on POS data from approx. 3,000 retail outlets nationwide / SCI: Purchasing data from approx. 50,000 consumer monitors nationwide
SLI: Purchasing data for cosmetics, skin care and hair care products from approx. 40,000 female monitors nationwide. [Surveys by INTAGE Inc.]

2. Year-on-year growth rate of market size on a value basis (yen). [Source: SRI POS data, SCI data]

3. Year-on-year growth rate of market size on a value basis (yen). [Source: SRI POS data, SLI data based on Kao's definition (Survey excludes inbound demand)]

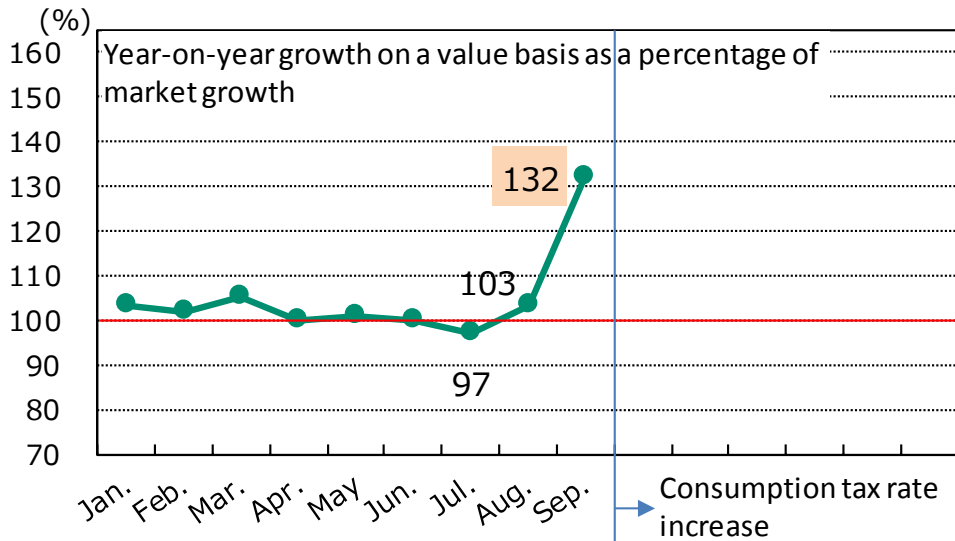
4. Comparison with the same period of the previous fiscal year. [Source: SRI POS data]

5. Exchange rates: 109.12 yen/USD, 122.66 yen/Euro, 15.91 yen/Yuan

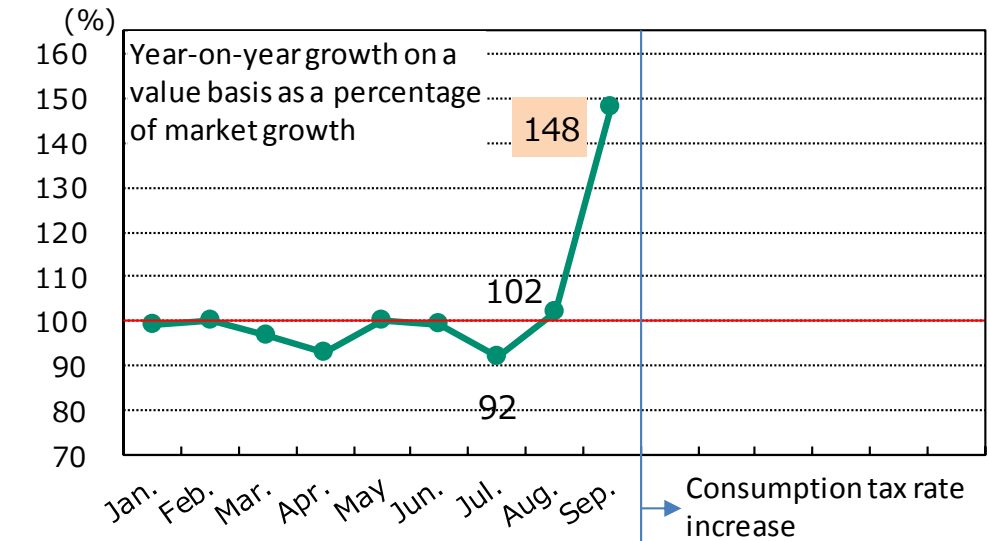
6. Excluding depreciation of right-of-use assets

Consumer Products Market in Japan

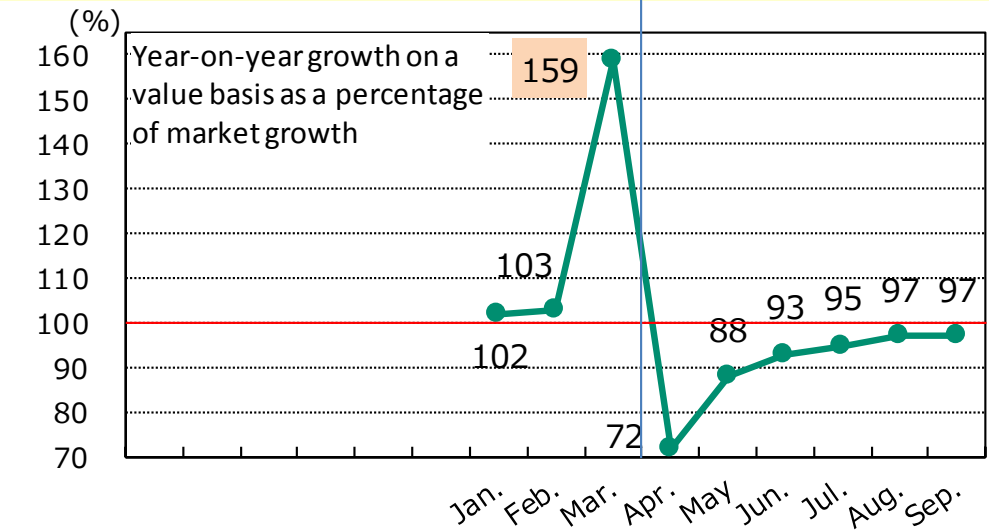
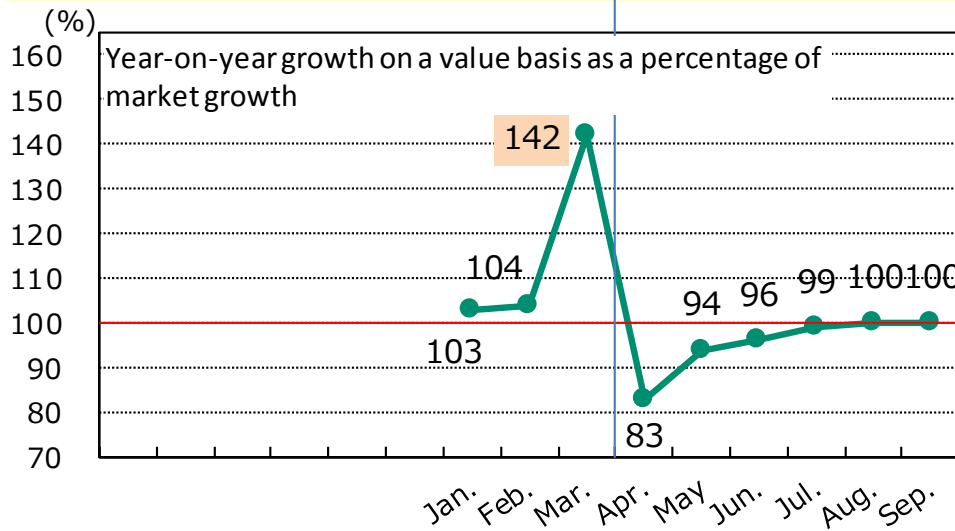
Growth of household and personal care market



Growth of cosmetics market



Previous consumption tax rate increase (2014)

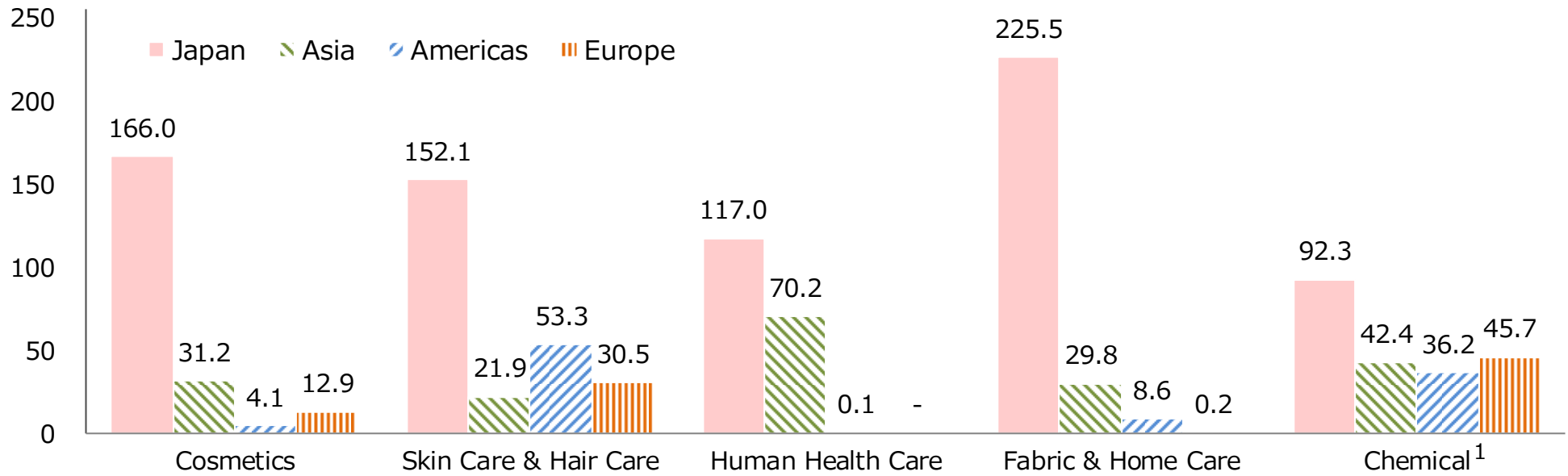


* Source: SRI (Estimates based on POS data from approx. 3,000 retail outlets nationwide) by INTAGE Inc.

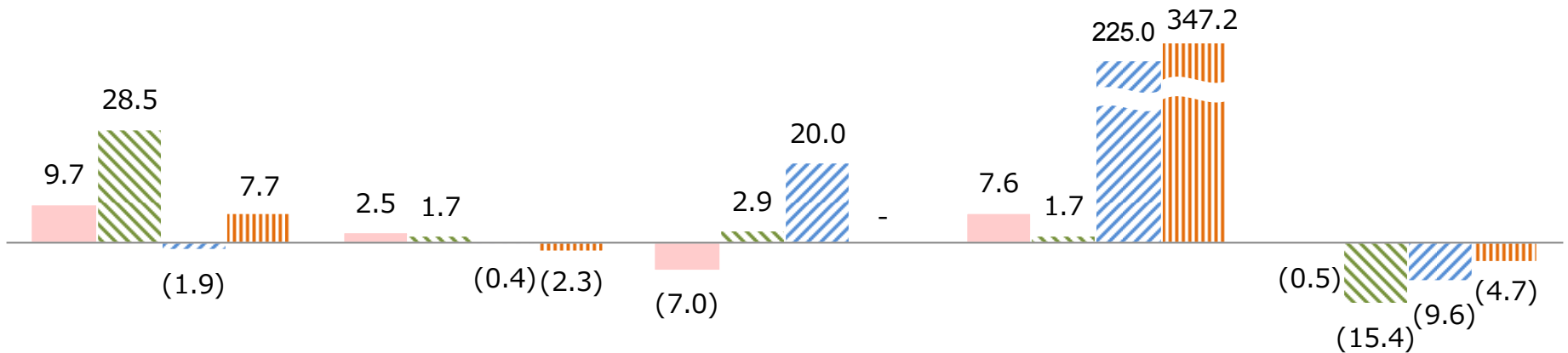
Consolidated Net Sales by Segment/Geographic Region

Nine months ended September 30, 2019

Net sales (Billion yen)



Like-for-like growth (%)²



1. Net sales of the Chemical Business include intersegment transactions

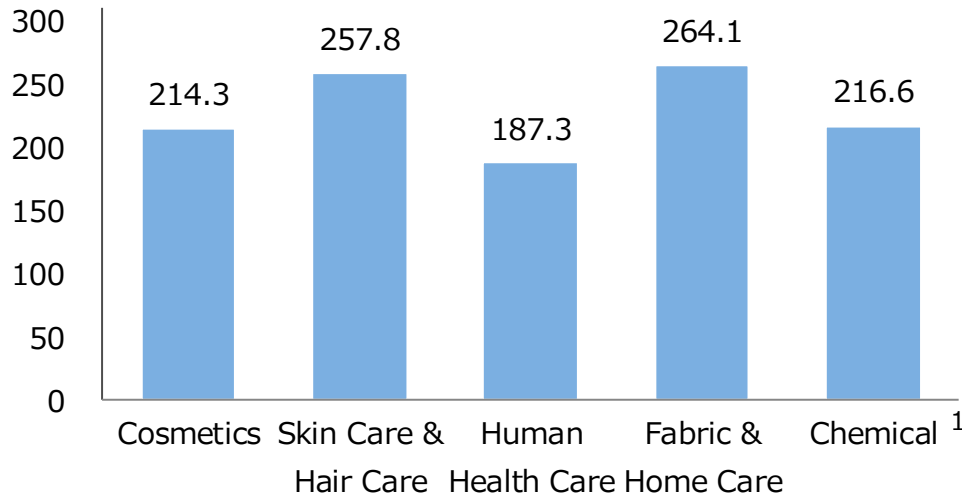
2. Excluding the effect of currency translation

Sales by geographic region are classified based on the location of the sales recognized

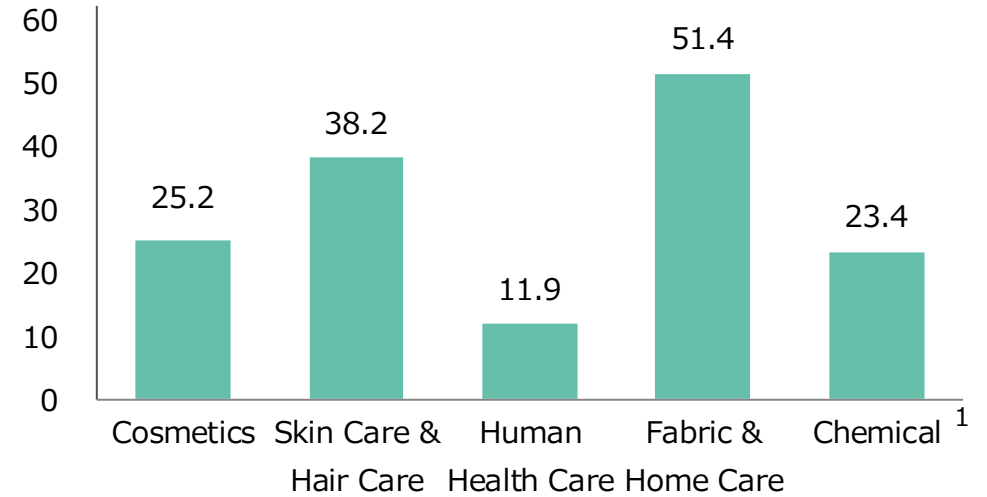
Consolidated Results by Segment

Nine months ended September 30, 2019

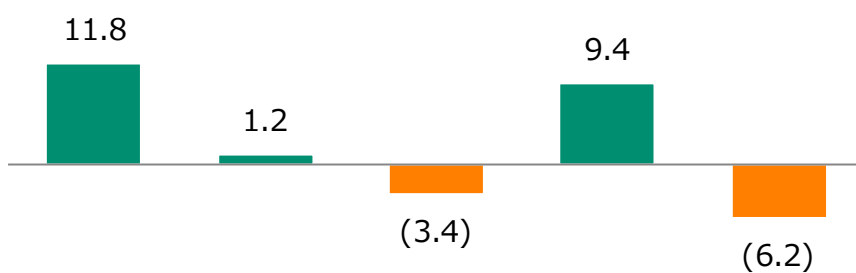
Net sales (Billion yen)



Operating income (Billion yen)



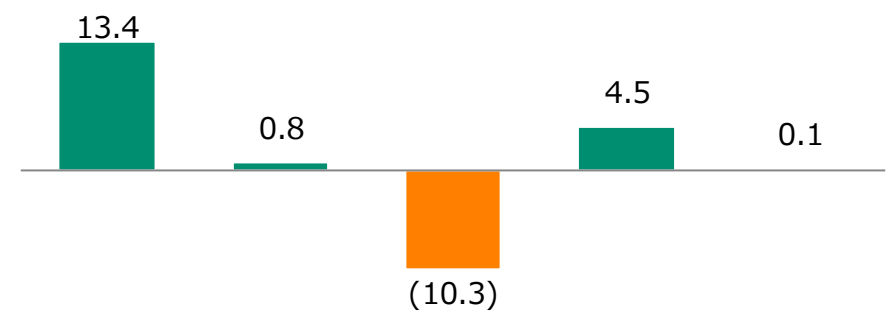
Like-for-like growth (%)²



Operating margin (%)

Segment	Operating margin (%)
Cosmetics	11.7
Skin Care & Hair Care	14.8
Human Health Care	6.4
Fabric & Home Care	19.5
Chemical	10.8

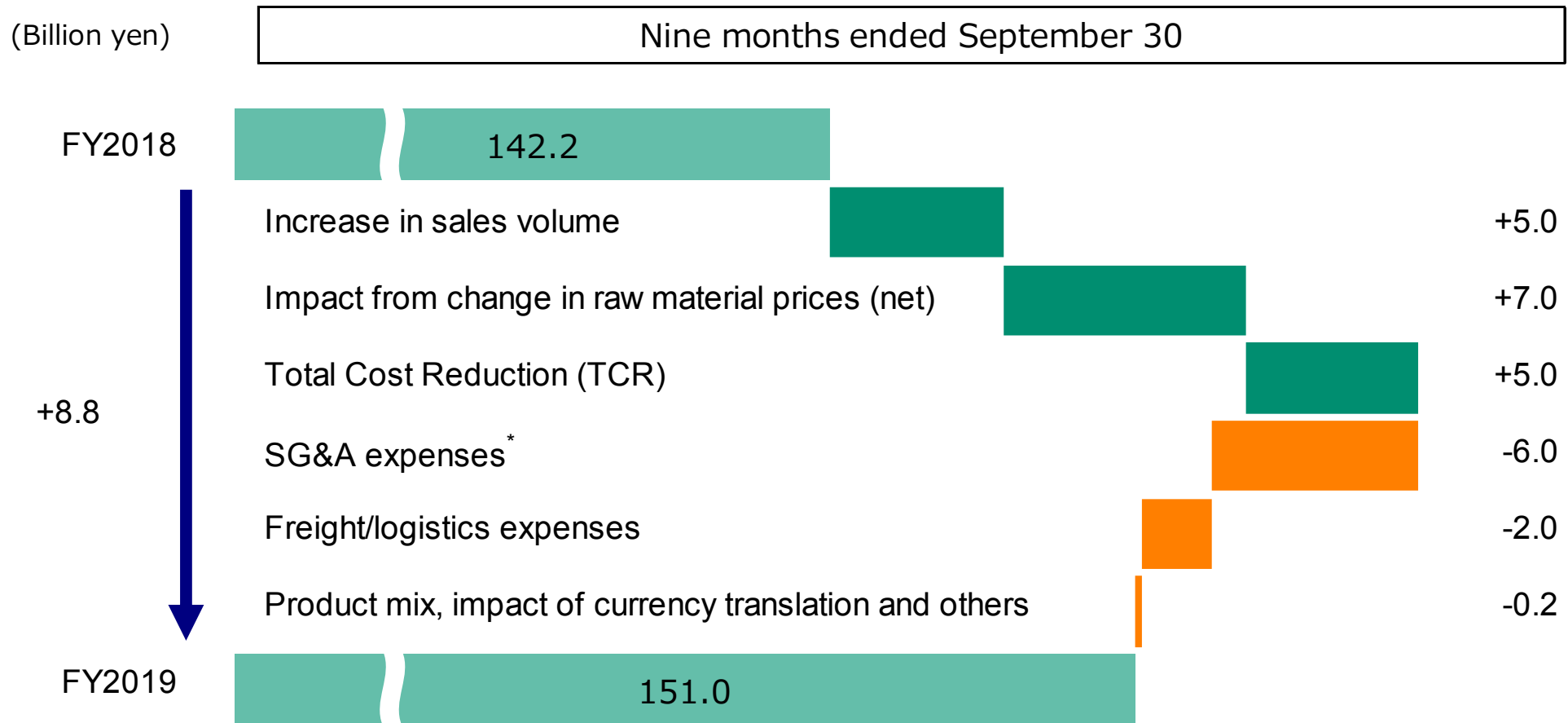
Change (Billion yen)



1. Net sales and operating income of the Chemical Business include intersegment transactions

2. Excluding the effect of currency translation

Analysis of Change in Consolidated Operating Income



* Excluding the effect of currency translation

Impact of Adoption of IFRS 16

The Kao Group adopted IFRS 16 “Leases” in the three months ended March 31, 2019.

For lease contracts previously accounted for as operating leases, right-of-use assets and lease liabilities are recognized in the consolidated statement of financial position.

Amount of transition at beginning of current period	Consolidated Statement of Financial Position				(Billion yen)
	Assets		Liabilities and equity		
	Right-of-use assets	+171.9	Lease liabilities	+167.4	
	Other	-6.4	Other	-1.9	
	Total impact of IFRS Adoption		+165.5		+165.5

The impact of this change on the consolidated statement of income and consolidated statement of cash flows for the nine months ended September 30, 2019 is shown below.

Nine Months ended September 30, 2019	Consolidated Statement of Income			Consolidated Statement of Cash Flows	
	Net sales	-			Income before income taxes
Lease payments	+16.1	(Decrease)	←	Depreciation	+15.5
Depreciation	-15.5	(Increase)		Net cash flows from operating activities	+14.9
Operating income	+0.6			Net cash flows from investing activities	-
Financial expenses (Interest expenses)	-1.2	(Increase)	←	Repayments of lease liabilities	-14.9
Income before income taxes	-0.6			Net cash flows from financing activities	-14.9
				Net increase (decrease) in cash and cash equivalents	-