

Consolidated Financial Results

for the Three Months Ended March 31, 2020

Kao Corporation

April 27, 2020



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Enriching lives, in harmony with nature.

Overview of January-March 2020 and Forecasts

Overview of January-March 2020

Due to the novel coronavirus (COVID-19) pandemic, sales and operating income decreased in the Cosmetics Business, which was impacted by a decline in inbound demand and other factors, and in the business for hair salons in the Americas and Europe, which was impacted by salon closures. On the other hand, sales of hygiene-related products grew in Japan and Asia, and on a consolidated basis the Kao Group achieved increases in net sales (on a like-for-like basis) and operating income.

Cosmetics Business:

Sales and operating income decreased due to the impact of factors including a decline in inbound demand, a drop in makeup sales as a result of restrictions on going outside, limitations on counseling activities in stores, and store closures in the Americas and Europe. Sales by Kao China were on a recovery track from March. Sales of the eleven global strategy brands (G11) and eight regional strategy brands (R8) decreased 2% and 13%, respectively, compared with the same period a year earlier.

Skin Care and Hair Care Business:

Sales of *Bioré* hand soap and hand sanitizer grew substantially due to heightened awareness of hygiene. Sales of UV care and other seasonal products decreased due to the impact of restrictions on going outside. Although there was COVID-19-related special demand in the business for the mass market in the Americas, sales and operating income declined in the business for hair salons due to the closure of salons in the Americas and Europe.

Human Health Care Business:

In Japan, sales and market share of *Lauriers* sanitary napkins increased substantially due to strong performance by high-value-added products and COVID-19-related special demand for the products. Sales of *Merries* baby diapers remained strong in Indonesia, but decreased compared with the same period a year earlier both in Japan and at Kao China. Sales of personal health products were firm.

Overview of January-March 2020 and Forecasts

Fabric and Home Care Business:

Sales of bleach, kitchen cleaning agents and dishwashing detergents grew substantially in Japan due to heightened awareness of hygiene. Sales of hygiene-related products also grew substantially in Asia.

Chemical Business:

Although demand decreased in some customer industries, sales were firm for oleo chemical products for use in hygiene-related products. The Kao Group secured operating income at the same level as in the same period a year earlier.

Forecast

- Because the business environment continues to deteriorate in the second quarter, both net sales and operating income are expected to face severe conditions.
- It is difficult to predict when conditions will return to normal from the pandemic, or the status in each country and region, and judging by the present situation, economic recovery will also take time.
- The business environment in the second half of the year remains unpredictable, with a high hurdle for year-on-year comparisons due to last-minute demand in Japan ahead of the consumption tax rate increase in September 2019.
- Going forward, the Kao Group aims to achieve its announced figures as it anticipates cost reductions associated with the decline in the price of crude oil and will review all its measures and expenses. The Kao Group leaves the forecast of consolidated results unchanged at present and will consider the situation at the end of the second quarter.

Highlights of Consolidated Financial Results

Consumer Products Market ¹ (January - March 2020)

Growth of household and personal care market in Japan:² SRI +9 points/SCI +6 points

Growth of cosmetics market in Japan:³ Decreased significantly compared with the same period a year earlier

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

Consolidated Operating Results (Three months ended March 31)

(Billion yen)	FY2019	FY2020	Growth %	Change
Net sales	346.9	337.8	(2.6)	(9.1)
		Effect of currency translation ⁵	(0.9)	(3.1)
		Impact of change in method of recognizing sales ⁶	(2.3)	(8.1)
		Like-for-like growth excluding above impact	+0.6	+2.1
Operating income	38.2	39.3	+2.8	+1.1
Operating margin	11.0%	11.6%	-	-
Income before income taxes	38.6	37.3	(3.4)	(1.3)
Net income	27.0	27.2	+0.6	+0.2
Net income attributable to owners of the parent	26.4	26.7	+0.9	+0.2
EBITDA (Operating income + Depr. & Amort.) ⁷	54.1	56.3	+4.0	+2.2
Basic earnings per share (yen)	54.33	55.45	+2.1	+1.12

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: SLI data based on Kao's definition. Survey excludes inbound demand.)

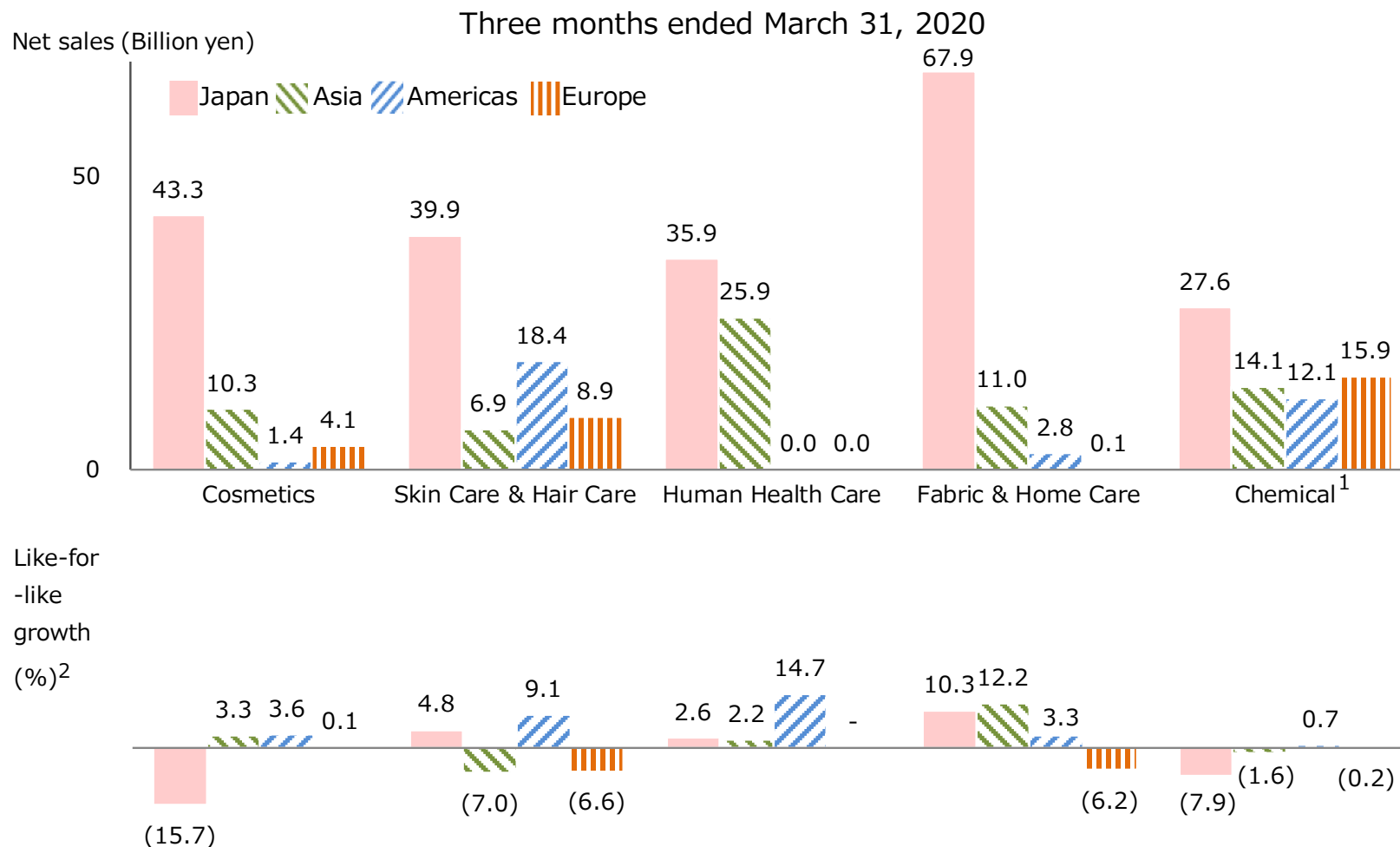
4. Comparison with the same period of the previous fiscal year (Source: SRI POS data)

5. Exchange rates: 108.95 yen/USD, 120.18 yen/Euro, 15.61 yen/Yuan

6. As of the fiscal year ending December 31, 2020, the Company has changed its method of recognizing sales for some transactions from the gross amount to the net amount

7. Excluding depreciation of right-of-use assets

Consolidated Net Sales by Segment/Geographic Area



1. Net sales of the Chemical Business include intersegment transactions

2. Excluding the effect of currency translation

Also excluding the effect of the change in the Company's method of recognizing sales for some transactions for the Skin Care and Hair Care Business from the gross amount to the net amount as of the fiscal year ending December 31, 2020.

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

Consolidated Results by Segment

Three months ended March 31									
(Billion yen)	Net sales				Operating income			Operating margin %	
	FY2019	FY2020	Growth %	Like-for-like % ¹	FY2019	FY2020	Change	FY2019	FY2020
Cosmetics Business	67.3	59.2	(12.1)	(11.4)	6.2	0.1	(6.0)	9.2	0.2
Skin Care and Hair Care Business	80.6	74.1	(8.1)	3.1	10.7	11.3	0.7	13.2	15.3
Human Health Care Business	61.1	61.9	1.3	2.5	2.9	5.1	2.2	4.7	8.3
Fabric and Home Care Business	74.3	81.8	10.0	10.2	11.0	15.3	4.2	14.9	18.7
Consumer Products Business	283.4	276.9	(2.3)	1.3	30.8	31.8	1.1	10.9	11.5
Chemical Business ²	73.4	69.8	(5.0)	(3.4)	7.7	7.8	0.1	10.5	11.1
Total	356.8	346.7	(2.8)	0.3	38.5	39.6	1.1	-	-
Elimination and Reconciliation	(9.9)	(8.9)	-	-	(0.3)	(0.3)	(0.1)	-	-
Consolidated	346.9	337.8	(2.6)	0.6	38.2	39.3	1.1	11.0	11.6

1. Excluding the effect of currency translation

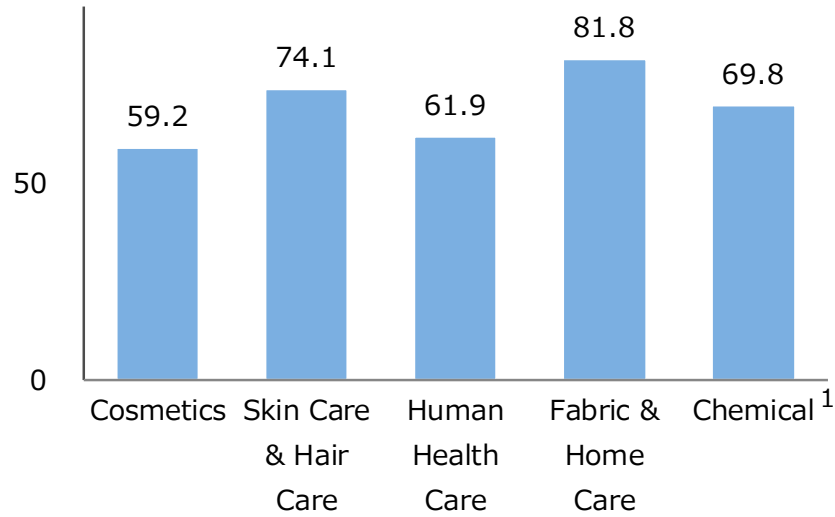
Also excluding the effect of the change in the Company's method of recognizing sales for some transactions for the Skin Care and Hair Care Business from the gross amount to the net amount as of the fiscal year ending December 31, 2020.

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

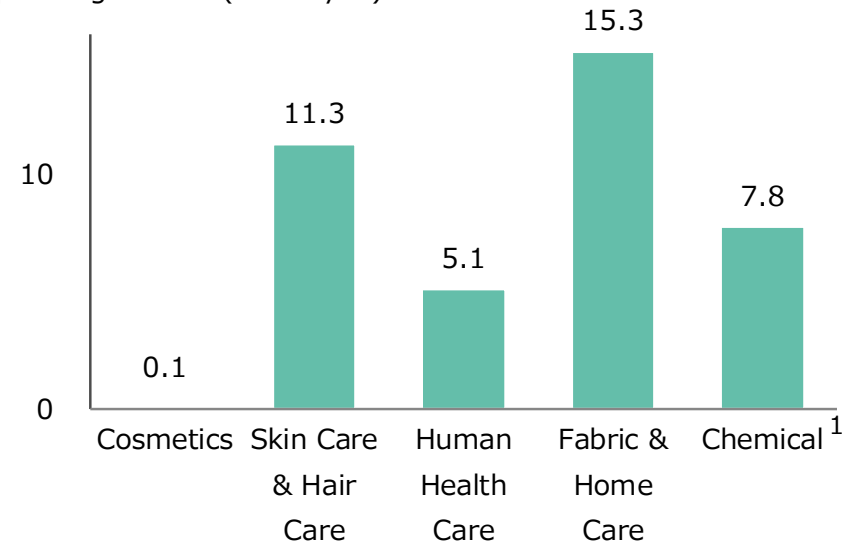
Consolidated Results by Segment

Three months ended March 31, 2020

Net sales (Billion yen)



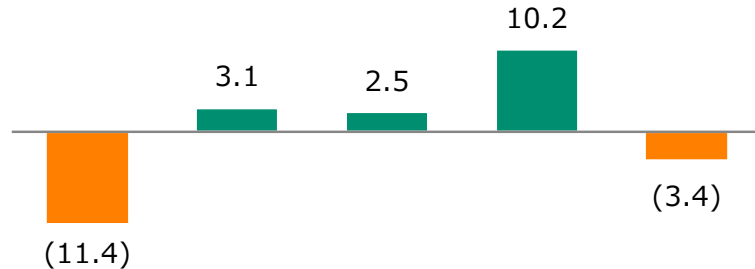
Operating income (Billion yen)



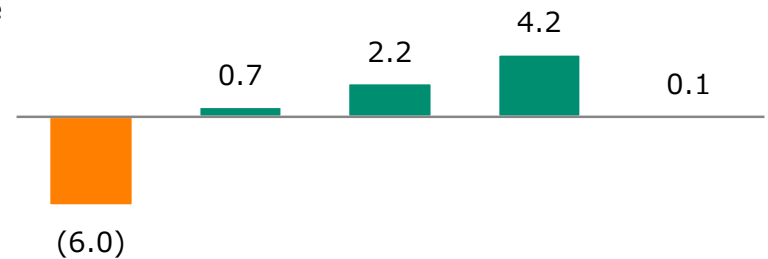
Operating margin (%)

Segment	Operating margin (%)
Cosmetics	0.2
Skin Care & Hair Care	15.3
Human Health Care	8.3
Fabric & Home Care	18.7
Chemical ¹	11.1

Like-for-like growth (%)²



Change (Billion yen)

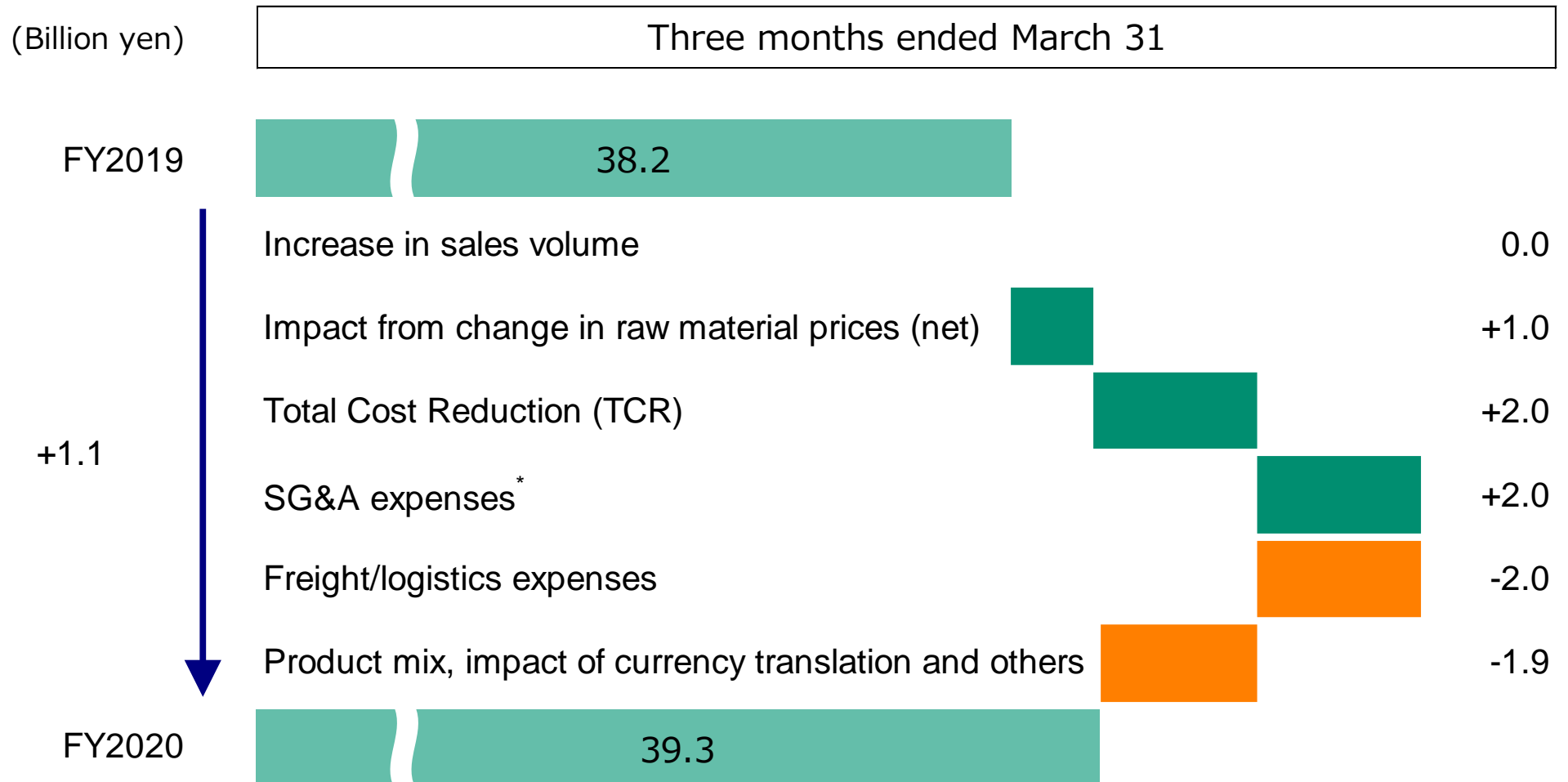


1. Net sales and operating income of the Chemical Business include intersegment transactions

2. Excluding the effect of currency translation

Also excluding the effect of the change in the Company's method of recognizing sales for some transactions for the Skin Care and Hair Care Business from the gross amount to the net amount as of the fiscal year ending December 31, 2020.

Analysis of Change in Consolidated Operating Income



* Excluding the effect of currency translation

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