

Date and time:

Wednesday, October 28, 2020, 16:00-16:55 (JST)

Respondents:

Kenichi Yamauchi, Executive Officer, Senior Vice President, Accounting & Finance

Hideo Makino, Vice President, Financial Controllers

Mitsuhiro Watanabe, Vice President, Investor Relations

1. Operating income of the Human Health Care Business was 8.2 billion yen for January-June, but only 8.7 billion yen for January-September. Why was growth so small?

There are two reasons.

- (1) Special demand for sanitary napkins arose in January-March, when the COVID-19 pandemic began in Japan. From April onward, sales slowed as consumers used the products they had been stockpiling, and that impact was also felt in July-September.
- (2) Sales of baby diapers decreased. In particular, sales at Kao China were at a standstill due to a decline in selling prices stemming from an online sales campaign on June 18, among other factors.

In other words, are you saying the reason for the decrease in operating income was a decrease in sales, and that factors such as the impact of raw material prices were not significant? Can we assume that operating income for October-December will also depend on sales?

Yes. In October-December as well, the extent of recovery in sales will affect operating income. In October, for example, we are trying to stimulate sales with the launch of a new premium baby diaper in Japan.

2. You said that things are going largely as planned overall, but how is the Cosmetics Business doing? Hasn't it fallen significantly short of the company's plan announced with the interim results in July?

In the Cosmetics Business, we were expecting a turn to profitability in October-December to compensate for the loss from January-June, with full-year operating income at about 40% of that in the previous fiscal year. However, as of the end of September, the Cosmetics Business in Japan has fallen short of that plan. The reason that we believe the overall situation is largely as planned is because the shortfall in the Cosmetics Business in Japan has been covered by the strong performance of the hygiene-related products business* (hand soap, hand sanitizer, home care products, etc.) and the Cosmetics Business at Kao China.

* Hand soap and hand sanitizer include sales of commercial-use products (Fabric and Home Care Business).

Are businesses other than the Cosmetics Business performing as planned?

The Skin Care and Hair Care Business and the Fabric and Home Care Business, which include hygiene-related products, performed well, and the Human Health Care Business was slightly short of the plan. The Chemical Business has been performing generally as we expected.

3. I think the slow recovery in sales of the Cosmetics Business in Japan is largely due to the delay in recovery of the market. In April-June and July-September, operating income appears to have decreased considerably along with the decrease in sales. Are you taking any drastic measures to restore operating income?

In consideration of future brand value and other factors, we will control costs once we have strategically conducted the new product launches and campaigns we could not carry out in the first half, centered on strengthening skin care products.

The structural reforms of the Cosmetics Business we announced in 2018 have slowed somewhat due to the impact of the COVID-19 pandemic, but we are moving ahead without a change in direction. We are vigorously carrying out measures including the optimal placement of beauty advisers, reduction of product returns, new product launches and innovations in digital marketing for the “new normal” of coexistence with COVID-19. We are also working to step up activities in the e-commerce channel.

4. You said that you expect the extent of recovery of the Cosmetics Business to continue to have a major impact on achieving the full-year consolidated earnings forecast. Given that the Cosmetics Business in Japan is facing these tough conditions, do you have a strategy for increasing operating income during October-December to achieve the forecast, which you have left unchanged?

We will work to achieve the forecast by both increasing sales and controlling costs. We intend to grow sales by focusing on events such as Singles’ Day at Kao China and those at e-commerce platform providers in Japan. We will also increase sales and operating income for businesses other than cosmetics with launches of hygiene-related products and other new and improved products linked to various campaigns up to the end of the year.

Kao China is the only business that is recovering. What is the situation there? For example, what is its growth rate for online sales?

Kao China is making excellent progress in working with e-commerce platforms, which has resulted in a 40% increase in online sales of cosmetics in January-September compared with the same period a year earlier. We aim to further increase awareness with Singles’ Day, increasing sales to achieve record-high growth in operating income. We also want to extend this positive trend in cosmetics to sanitary napkins and baby diapers.

Our online sales of cosmetics in Japan are also doing well. Based on SLI* data, the Kao

Group’s year-on-year growth rate for January-September was +9% (about +30% on a shipment basis), compared with +3% for the market as a whole.

*SLI: Purchasing data for cosmetics, skin care and hair care products from approximately 40,000 female monitors nationwide

5. What was the January-September sales growth rate in major global markets of the Consumer Products Business?

Like-for-like growth (excluding the effect of translation of local currencies into Japanese yen) in January-September sales compared with the same period a year earlier was +4% at Kao China, +5% in Indonesia, -7% in Taiwan, about -20% in Hong Kong, -7% in Thailand and about -10% in Vietnam.

The growth rate of the Consumer Products Business at Kao China for January-June was 8%, so the nine-month growth rate was lower than it was for the first half. What were the respective sales growth rates of cosmetics, baby diapers and sanitary napkins at Kao China during July-September?

July-September sales at Kao China were as planned. Although sales of baby diapers were significantly lower than in the same period a year earlier, performance excluding baby diapers was steady. Compared with the same period a year earlier, sales of the Cosmetics Business increased 25% in January-June and around 20% in July-September, resulting in a growth rate of 20% for January-September. Sales of sanitary napkins were also strong, exceeding 10% in both the July-September and January-September periods.

6. Kao's recovery from the impact of the COVID-19 pandemic seems to have been weaker than that of its global competitors. What clear issues do you face at this point?

The issue for us is that we have not been able to make a full rollout of hygiene-related products outside Japan. Although we sell some products in Greater China, they are not sold in the Americas and Europe, and the scale of the rollout in Southeast Asia is small. We want to address issues such as our response to local regulations and local production as quickly as possible to establish the same conditions outside Japan that we have in Japan. This will enable us to promptly provide a large quantity of products that help prevent infection and to communicate timely and accurate information that helps people live with peace of mind. We will organize our product lineups in the Skin Care and Hair Care Business and the Fabric and Home Care Business to establish strong brands that we can roll out outside Japan, with the aim of global growth. For baby diapers, we will aim for recovery by enhancing our strategies, including the launch of new super premium products at Kao China next year.

7. Among the initiatives listed on page 10 of the financial results presentation materials, you state that "the Kao Group will conduct structural reforms as it proactively launches new products and resumes marketing activities at stores while implementing measures to prevent infection." What specific initiatives are you conducting?

We will not ease up on our structural reforms, which include optimal placement of beauty advisers and digital innovation. In addition, since our beauty advisers are highly skilled and

have good relationships of trust with customers, we intend to gradually move forward with in-store activities while communicating appropriately with customers while taking into consideration and implementing measures to thoroughly prevent infections, including social distancing.

Are you making progress with the optimal placement of beauty advisers? In terms of operating income, is it reducing costs?

Our cutbacks in the hiring of beauty advisers have had more of a direct impact on costs than the optimal placement of beauty advisers. Efforts are under way, but these are not costs that can be reduced drastically.

How are you handling in-store marketing during the pandemic? Isn't it difficult to sell new products under these circumstances?

It will be a process of trial and error. We are considering how to manage a variety of matters including product positioning for brick-and-mortar stores and e-commerce channels, and digital counseling. Since online purchasing of cosmetics has increased amid the COVID-19 pandemic due to restrictions on going out, among other factors, it will be crucial to work out how much information can be provided and how to develop loyal users online. We need to make full use of online counseling and other measures.

8. During July-September, sales of the Cosmetics Business in Japan decreased 40% compared with the same period a year earlier. Can this be explained just by the decline in the market for makeup products? Isn't it also because Kao is losing to the competition in skin care and other products?

Skin care products are performing well. Last-minute demand ahead of a consumption tax rate increase had a major impact on sales in September 2019. Although sales decreased 40% compared with the same period a year earlier, the decrease was only about 30% compared with the same period two years earlier. Makeup products accounted for about 53% of sales in the Kao Group's Cosmetics Business in fiscal 2019, which was relatively high compared with other cosmetics companies, so our results were affected by the substantial drop in the makeup product market.

Note

The content presented in this document is the opinion of the Company. The content is a summary of questions and answers in a conference call. The Company makes no guarantee or promise regarding the accuracy or completeness of this information, which is subject to change without notice.

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