

Consolidated Financial Results for the Three Months Ended March 31, 2021

Kao Corporation

May 7, 2021



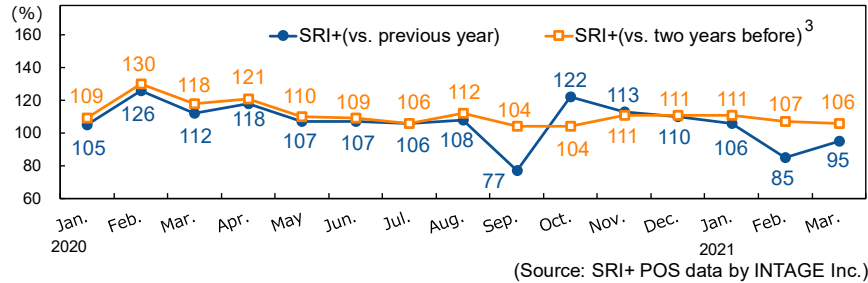
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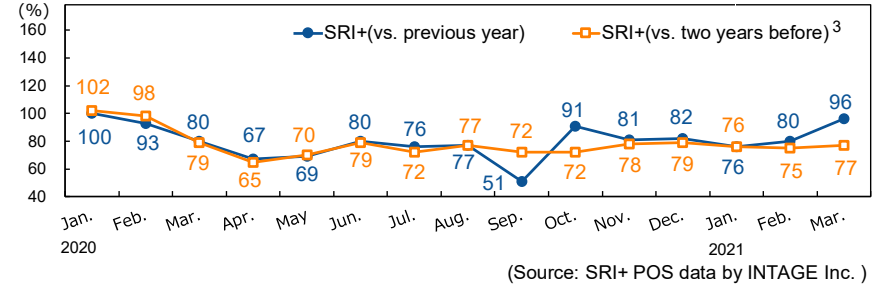
Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially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

- The following is an overview of the reportable segments that have changed as of the three months ended March 31, 2021. (For details, please refer to page 16).
 - 1. The Hygiene and Living Care Business has been newly established and incorporates sanitary products from the former Human Health Care Business in addition to fabric care products and home care products, which were previously classified in the Fabric and Home Care Business.
 - 2. The Health and Beauty Care Business has been newly established and incorporates personal health products, which were previously classified in the Human Health Care Business, in addition to skin care products and hair care products, which were previously classified in the Skin Care and Hair Care Business.
 - 3. The Life Care Business has been newly established and incorporates health drinks, which were previously classified in the Human Health Care Business, in addition to commercial-use hygiene products, which were previously classified in the Fabric and Home Care Business.
 - 4. Due to the reorganization of segments described in 1 to 3 above, sales and operating income for the same period a year earlier have been restated.
- Numbers in parentheses in charts are negative

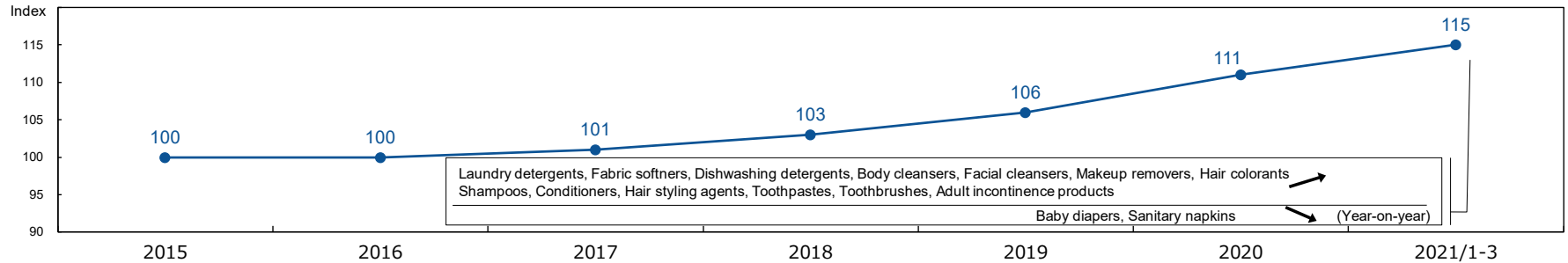
■ Growth of household and personal care market¹



■ Growth of cosmetics market²



■ Consumer purchase price for 15 major household and personal care categories⁴



- 86 major household and personal care product categories
- 26 cosmetics product categories
- SRI+: Estimates based on POS data from approx. 6,000 retail outlets nationwide
- Index with January to December 2015 as 100 (Figures for 2015 and 2016 are estimated from the ratio of SRI+ to SRI prices)

Kao's Main Markets in Asia, the Americas and Europe (Main Categories)

Main Markets in Asia

- ◆ China : Steady market recovery with continuing year-on-year growth since 2Q/FY2020 due to success in controlling the COVID-19 pandemic.
- ◆ Indonesia : Market slump due to the pandemic, with continuing shrinkage in many categories except during 1Q/FY2020, when there was special demand.
- ◆ Thailand : Continuing market shrinkage since 2Q/FY2020 due to the impact of the pandemic, with no signs of recovery at present.

<Market Growth Rate (%)>

	China (including e-commerce)					Indonesia					Thailand				
	20 1Q	20 2Q	20 3Q	20 4Q	21 1Q	20 1Q	20 2Q	20 3Q	20 4Q	21 1Q	20 1Q	20 2Q	20 3Q	20 4Q	21 1Q
UV care	105	105	95	118	151						88	69	87	77	84
Sanitary napkins and panty liners	96	103	100	105	104	112	92	87	95	97	106	84	93	94	87
Baby diapers	101	105	105	105	105	110	96	94	102	103	97	86	88	88	89
Laundry detergents	92	99	96	97	111	107	98	89	91	96	102	83	93	94	90
House cleaning products											125	105	99	107	85

Source: NielsenIQ. China includes e-commerce (UV care and laundry detergents include business-to-consumer only.)

Main Markets in the Americas and Europe

Although vaccinations have begun, the pandemic continued, and the hair care market shrank in the U.S., U.K. and Germany in 1Q/FY2021. On the other hand, the hand and body lotion market continued to grow as a result of more frequent hand washing and other factors, increasing 7% compared with the same period a year earlier.

<Market Growth Rate (%)>

	U.S.					U.K.					Germany				
	20 1Q	20 2Q	20 3Q	20 4Q	21 1Q	20 1Q	20 2Q	20 3Q	20 4Q	21 1Q	20 1Q	20 2Q	20 3Q	20 4Q	21 1Q
Hair care	104	100	99	97	97	103	79	90	90	84	109	88	95	96	89
Facial cleansers	104	102	100	101	98						105	91	93	94	90
Anti-perspirants and deodorants	106	88	92	93	89										
Hand and body lotions	103	108	105	103	107										

Source: NielsenIQ/IRI

Highlights of Consolidated Financial Results



Three months ended March 31

(Billion yen)	FY2020	FY2021	Growth %	Change
Net sales	337.8	320.6	(5.1)	(17.2)
	Effect of currency translation ¹		+0.6	+2.0
	Like-for-like growth excluding effect of currency translation		(5.7)	(19.2)
Operating income	39.3	30.9	(21.2)	(8.3)
Operating margin	11.6%	9.7%	-	-
Income before income taxes	37.3	33.9	(9.1)	(3.4)
Net income	27.2	26.2	(3.4)	(0.9)
Net income attributable to owners of the parent	26.7	25.7	(3.5)	(0.9)
EBITDA (Operating income + Depr. & amort.) ²	56.3	48.1	(14.5)	(8.1)
Basic earnings per share (yen)	55.45	53.61	(3.3)	(1.84)

1. Exchange rates: 105.96 yen/USD, 127.74 yen/Euro, 16.35 yen/Yuan

2. Excluding depreciation of right-of-use assets

Overview of Consolidated Results

Although net sales and operating income decreased compared with the same period a year earlier, reflecting the absence of the previous year's special demand caused by the COVID-19 pandemic and due to the impact of restrictions on going outside, they were in line with the Kao Group's plan.

Net Sales

320.6 billion yen

-5.1% compared with the same period a year earlier

-5.7% on a like-for-like basis excluding effect of currency translation

- Household and Personal Care Products: Sales decreased compared with the same period a year earlier due to market shrinkage reflecting the absence of the previous year's special demand, but progress was in line with the Kao Group's plan.
- Cosmetics: Due to the substantial impact of the declaration of a state of emergency in Japan and lockdowns in Europe, sales decreased compared with the same period a year earlier in line with the Kao Group's expectations at the beginning of the fiscal year, but have been on a recovery track since March.
- Chemicals: As customer industries recovered, fat and oil derivative products for disinfection and cleaning applications performed strongly, and sales increased compared with the same period a year earlier, exceeding the Kao Group's plan.

Operating Income

30.9 billion yen

-8.3 billion yen compared with the same period a year earlier

9.7% operating margin

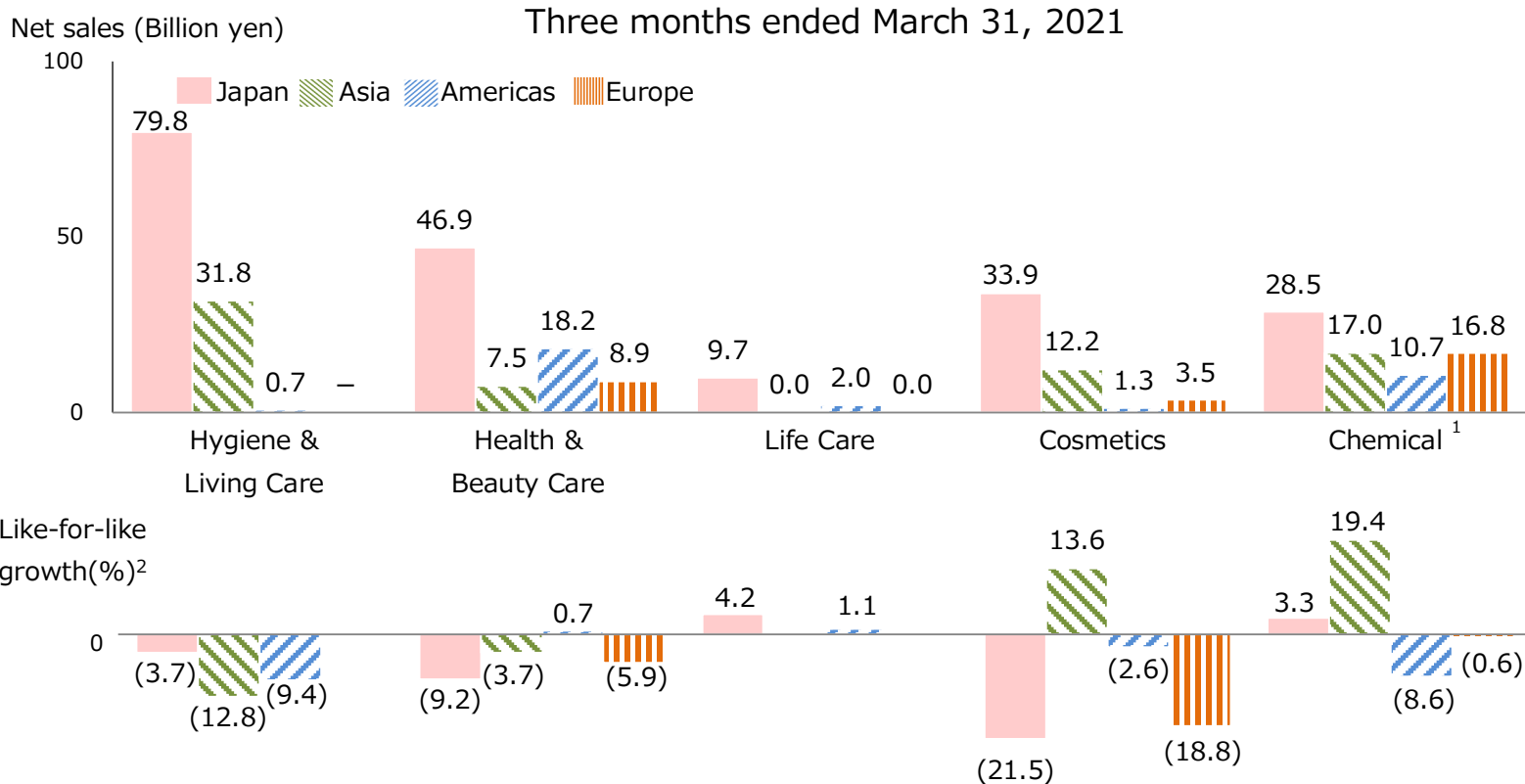
Shareholder Returns

Repurchased 6.88 million shares of stock totaling 50 billion yen between February 4 and April 30, based on a resolution of the Board of Directors at a meeting held on February 3, 2021.

Business Segment Overview

	Market (vs. same period a year earlier)	Sales (vs. same period a year earlier)	Market Share (vs. same period a year earlier)	Operating Income (vs. same period a year earlier)	Sales (vs. plan)	Evaluation	Contribution from New and Improved Products	E-commerce/ Digital Marketing
	[Reasons for change : Products]							
Hygiene and Living Care Business	Absence of last year's special demand ↓	Nonwoven products (sanitary napkins, baby diapers, etc.) Bleaches ↓	→	↓	↑	Given a market shrinkage reflecting the absence of last year's special demand, sales and operating income decreased, but were in line with the plan. Market share was unchanged.	✓✓	✓
Health and Beauty Care Business	Absence of last year's special demand ↓	Hand soap ↓	↑	↓	↓	Given a greater-than-expected market shrinkage reflecting the absence of last year's special demand and other factors, sales decreased and fell below the plan. Market share grew.	✓✓	✓✓
Life Care Business	Voluntarily refraining from going outside ↓	Restaurants/banquet facilities Travel/hotel industry, etc. ↑	—	↑	↓	Despite a market shrinkage due to restrictions on going outside and other factors, sales and operating income increased.	✓✓	✓✓
Cosmetics Business	Extensions of state of emergency/ Lockdowns ↓	Makeup products ↓	↓	↓	→	Given a market shrinkage due to restrictions on going outside and other factors, sales and operating income decreased as expected. On a recovery track since March.	✓	✓✓
Chemical Business	Recovery in customer industries/ Telework ↑	Disinfection and cleaning products ↑ Toner and toner binder ↓	—	↑	↑	As overall demand from customer industries recovered, sales and operating income increased and exceeded the plan.	✓✓✓	—

Consolidated Net Sales by Segment/Geographic Region KAO



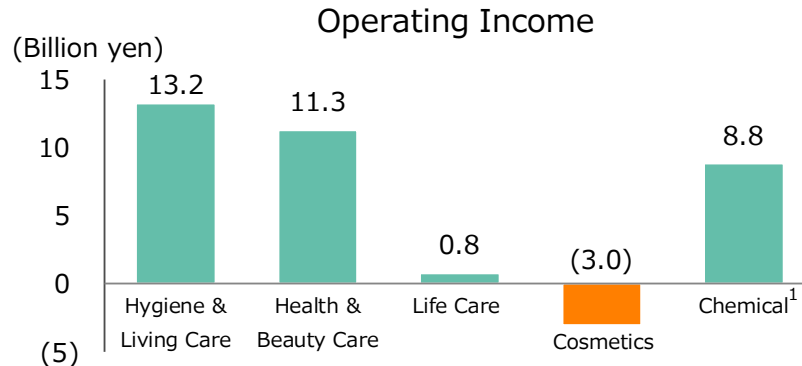
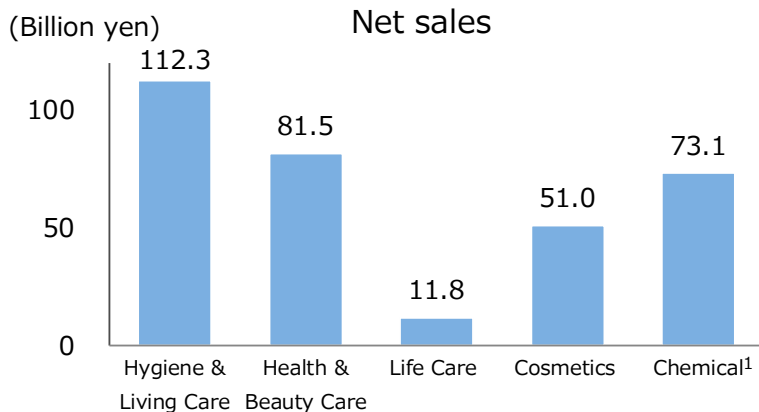
1. Net sales of the Chemical Business include intersegment transactions

2. Excluding the effect of currency translation

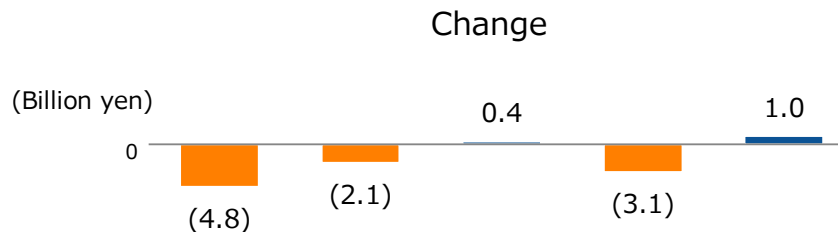
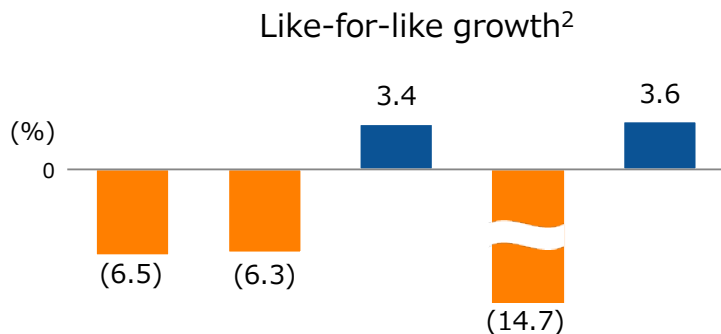
Sales by geographic region are classified based on the location of the sales recognized

Consolidated Results by Segment

Three months ended March 31, 2021

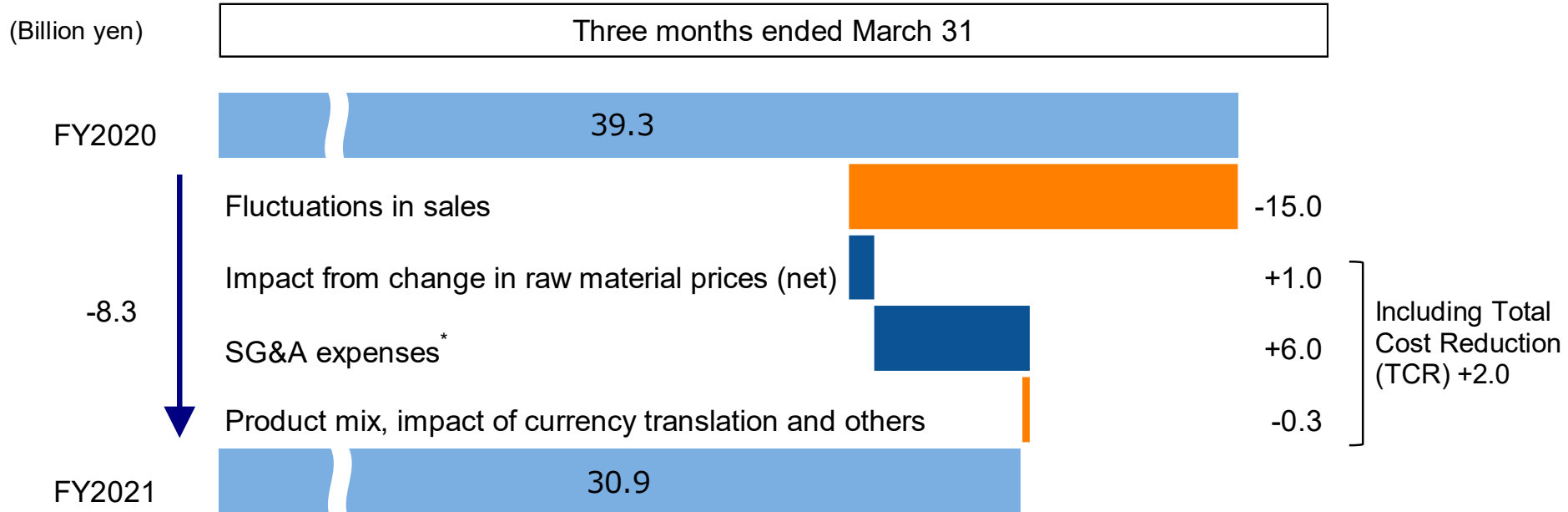


Segment	Operating margin (%)
Hygiene & Living Care	11.7
Health & Beauty Care	13.8
Life Care	6.4
Cosmetics	(5.9)
Chemical ¹	12.0



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 KAO



* Excluding the effect of currency translation

Although demand increased due to the ongoing pandemic, sales decreased compared with the same period a year earlier, reflecting the absence of the previous year's special demand, the impact of restrictions on going outside and other factors. Progress was in line with the Kao Group's plan.

Increased demand due to the ongoing pandemic

- Hand sanitizer and laundry detergent in Japan
- Strong performance of bath additives due to demand from people staying home
- Home care products in Asia

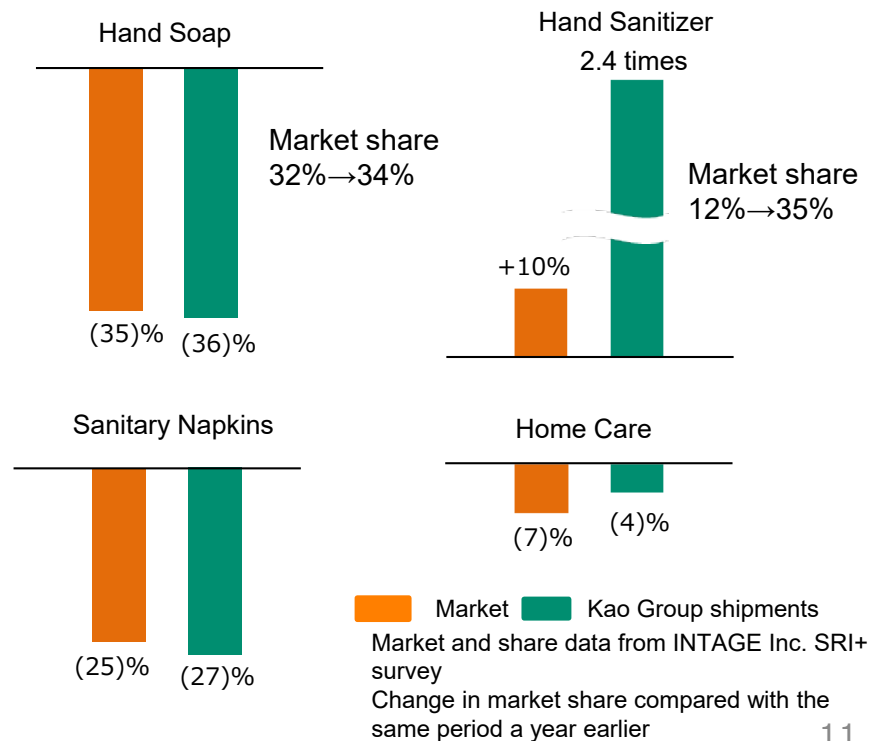
Market shrinkage reflecting the absence of the previous year's special demand

- Hand soap, home care products and sanitary napkins in Japan
- Fabric care products in Asia
- Skin care products in the Americas

Impact of restrictions on going outside

- Seasonal products such as UV care, makeup remover and hair care products in Japan and elsewhere in Asia
- Products for hair salons in Europe

■ Markets and Kao Group shipments by category in Japan



Although the business performed well in China, sales in Japan and Europe decreased compared with the same period a year earlier as expected due to the impact of the declaration of a state of emergency in Japan and lockdowns in Europe. On a recovery track since March. Accelerated the shift to e-commerce and structural reform.

Japan: -21.5% compared with the same period a year earlier/ vs. plan

- Due to the substantial impact of the disappearance of inbound demand and the declaration and extension of a state of emergency, recovery of the market, especially for makeup products, was delayed and sell-out from retailers to consumers fell below expectations.
- Large-scale new product launches and campaigns were restrained up to the end of the first quarter, but an aggressive rollout of marketing initiatives will begin from the second quarter.

Asia: +13.6% compared with the same period a year earlier/ vs. plan

- Sales increased substantially (+26%) compared with the same period a year earlier in China, with strong sales of *freeplus* and *Curél*.
- Sales of prestige brands *SENSAI*, *est* and *Biomimesis Veil*, which incorporates Fine Fiber Technology began in April 2021 in the Hainan Island duty-free shopping complex.

Europe: -18.8% compared with the same period a year earlier/ vs. plan

- Despite the impact of mandated temporary store closures due to lockdowns, e-commerce sales for *Molton Brown* were strong and in line with the Kao Group's plan.
- Directly managed e-commerce for *SENSAI* started in April.

■ E-commerce ratio

	2020		2021
	1Q	Full year	1Q
Japan	9%	10%	11%
China	58%	69%	61%
Europe (<i>Molton Brown</i>)	31%	46%	67%

Source: INTAGE Inc. SLI survey for Japan; ratio of e-commerce to total to sales for China and Europe

■ G11 and R8 Brands growth compared with the same period a year earlier and share of sales

	2020 Full year		2021 1Q	
	Growth	Share of Sales	Growth	Share of Sales
G11	(10)%	61%	(4)%	65%
R8	(28)%	23%	(22)%	22%
Other	(36)%	16%	(33)%	13%

The Cosmetics Business – Challenges & Measures for 2025 **KaO**

Acceleration of brand enhancement

Purpose-driven branding

- Reorganization by strategic business unit began on Jan. 1, 2021
- Revisions to the portfolio
- Next Innovation

Improvement of profitability by accelerating structural reform

- Consolidation of two beauty counselling companies in Japan on Apr. 1, 2021
- Transformation of makeup business model
 - Waste reduction
- Reinforcement of skin care business

E-commerce business expansion driven by DX

Acceleration of digital communication

- Newly established DX Co-Creation Center on Jan. 1, 2021
 - Acceleration of shift to e-commerce
 - Development of UX¹
- Acceleration of digital communication

Acceleration of globalization by reinforcing business in China and Europe

- Start of full-scale reinforcement of prestige skin care business in China
 - Start of duty-free sales at Hainan Island shopping complex on Apr. 1, 2021
 - Expansion in the C2C² market
- Discontinuous growth in Europe

1 User experience
2 Consumer-to-Consumer

As customer industries recovered, fat and oil derivative products for disinfection and cleaning applications performed strongly, and sales increased compared with the same period a year earlier and exceeded the plan. Proactively rolled out products developed from ESG perspectives.

Japan: +3.3% compared with the same period a year earlier

▲ vs. plan

- Sales increased due to market recovery in the automobile-related and other fields.

Asia: +19.4% compared with the same period a year earlier

▲ vs. plan

- Sales of fat and oil derivative products were strong in China, Indonesia, Thailand and elsewhere.

Americas: -8.6% compared with the same period a year earlier

▼ vs. plan

- Toners and toner binders faced tough conditions due to the impact of the worldwide expansion of telework.

Europe: -0.6% compared with the same period a year earlier

▶ vs. plan

- Although sales of fat and oil derivatives for disinfection and cleaning applications were firm, toner and toner binders faced tough conditions, resulting in a slight decrease compared with the same period a year earlier.



Before construction



After construction

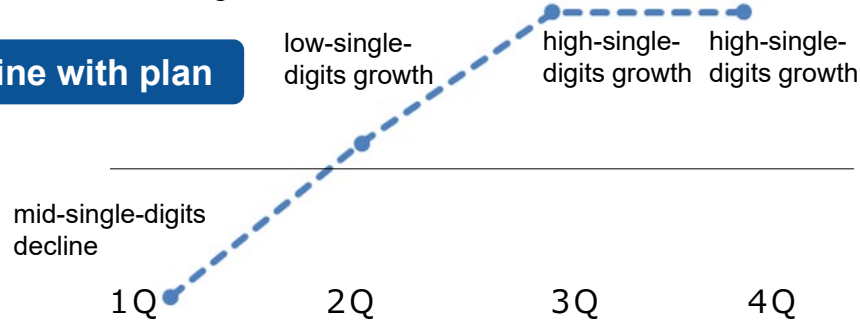
Iwata City, Shizuoka Prefecture became the first local government in Japan to use Kao's highly durable asphalt modifier made from recycled PET waste

Sales Plan and Main Initiatives Going Forward

Household and Personal Care Products: Comprehensive offerings for healthy lifestyles, including decisive investment in strengthening core brands and measures to prevent infection.

Envisioned YoY sales growth

1Q in line with plan



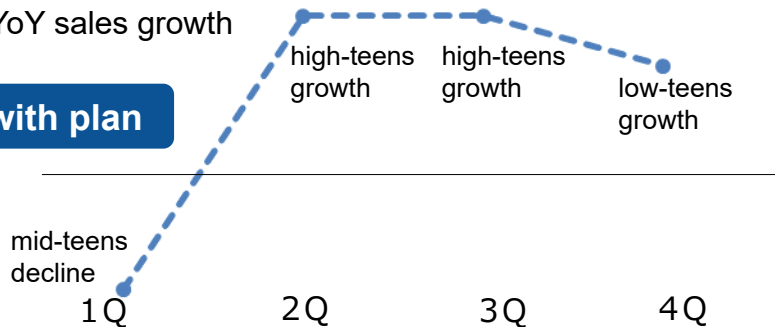
- ✓ Initiatives to protect kirei* lifestyles (hygiene-related products)
- ✓ Product launches of Reborn Kao in autumn
- ✓ Step up cooperation with e-commerce platforms
- ✓ Launch of new *Merries* baby diapers made in China etc.

* The Japanese word "kirei" means beautiful or clean, not only on the outside but also on the inside. At Kao, Kirei is the value we want to bring to everyday life with our brands, products and services - now and in the future.

Cosmetics: Transition to a highly profitable business through structural reform and promote DX to accelerate the shift to digital communication. Enhance value to society in the growing Chinese market with rapid cultivation of prestige brands.

Envisioned YoY sales growth

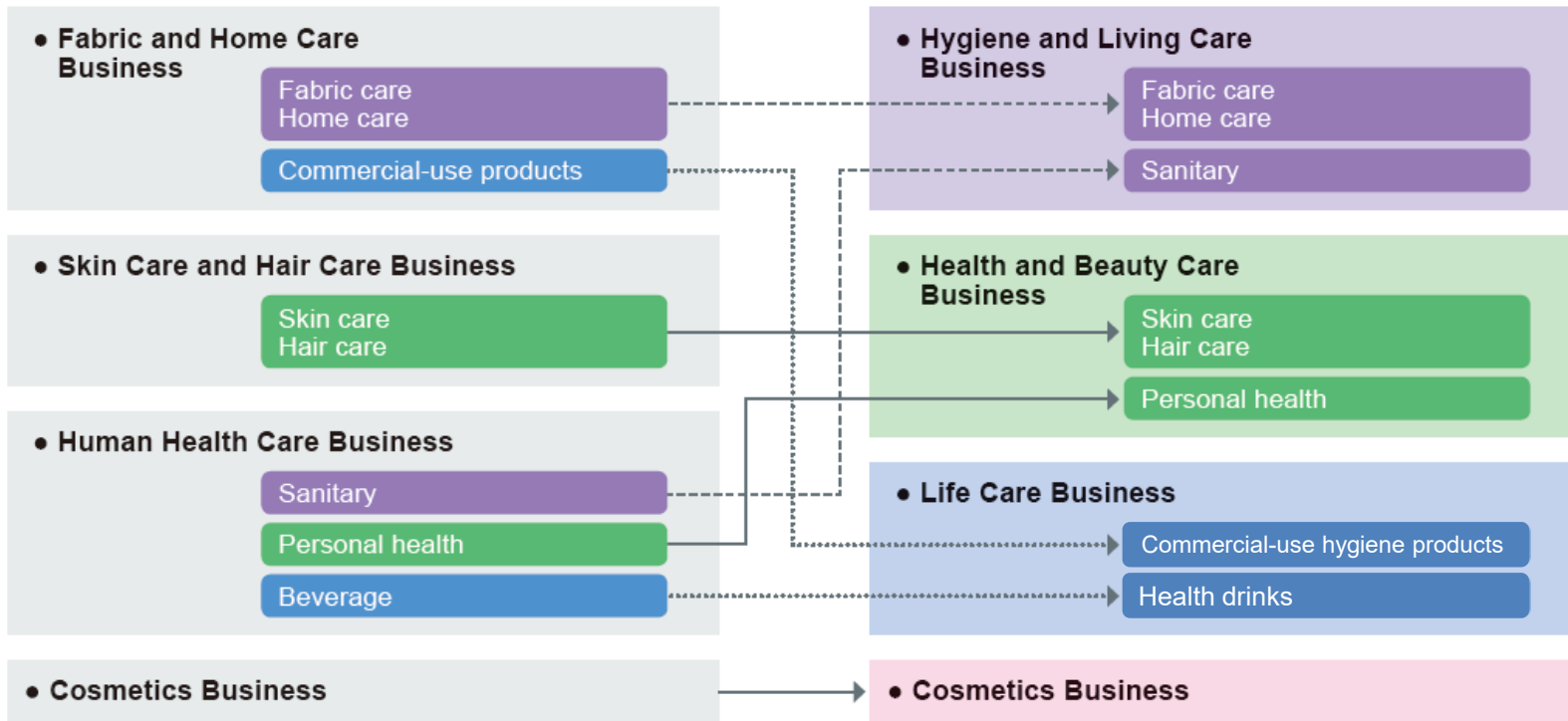
1Q in line with plan



- ✓ Acceleration of brand enhancement
- ✓ Acceleration of structural reform
- ✓ E-commerce business expansion driven by DX
- ✓ Acceleration of globalization by reinforcing business in China and Europe

Changes in Business Segment (As of January 2021)

The Consumer Products Business was restructured in January 2021 to conduct business with a focus on the fundamental value people seek. The Kao Group established the Hygiene and Living Care Business, which contributes to more comfortable lifestyles with support for people's daily lives and society, and the Health and Beauty Care Business, which offers care for the entire body to maximize healthy beauty. The Kao Group also established the Life Care Business to promote new businesses that protect human lives by fully utilizing the fundamental technologies that have supported the Kao Group.



Reference: Consolidated Financial Results for FY2020 (New Segments)

	Net sales (Billions of yen)	Share of net sales ² (%)	Operating income (Billions of yen)	Operating margin (%)
Hygiene and Living Care Business	503.2	36.4	79.6	15.8
Health and Beauty Care Business	362.3	26.2	60.5	16.7
Life Care Business	52.2	3.8	4.7	8.9
Cosmetics Business	233.6	16.9	2.4	1.0
Consumer Products Business	1,151.3	83.3	147.2	12.8
Chemical Business ¹	269.2	16.7	27.7	10.3
Total	1,420.5	—	174.9	12.3
Elimination and Reconciliation	(38.5)	—	0.7	—
Consolidated	1,382.0	100.0	175.6	12.7

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

2 Share of net sales is calculated based on sales to customers

Note: Consolidated financial results for FY2020 have been restated according to the new segments. (Please refer to page 16 for details of the reportable segments.)

KaO

Kirei — Making Life Beautiful