

KaO

Kirei—Making Life Beautiful

Consolidated Financial Results for the Nine Months Ended September 30, 2022

Kao Corporation
November 1, 2022



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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.

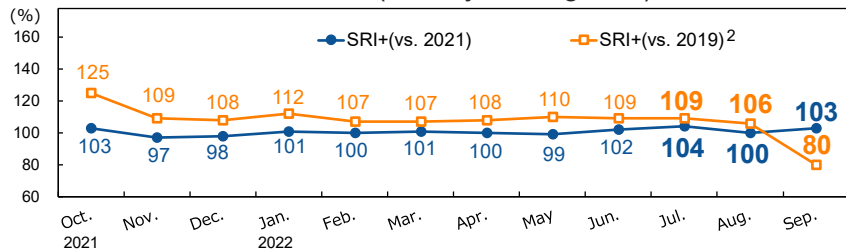
Notes:

1. Numbers in parentheses in charts are negative.
2. Year on year growth rates for net sales are all like-for-like, excluding the effect of translation of local currencies into Japanese yen.
3. Changes and comparisons are all with the same period a year earlier unless otherwise noted.

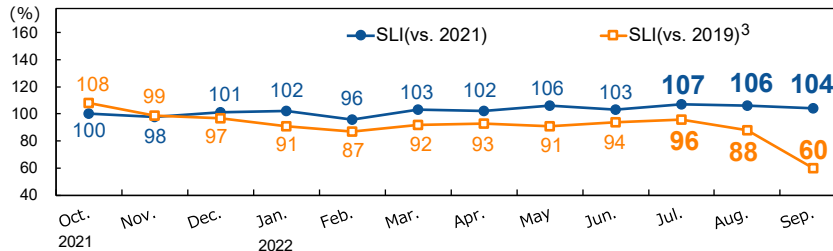
Consumer Products Market in Japan

- ◆ H&PC Market: Q3 growth was 2% year on year. Market recovery trend continued due to a heat wave and an increase in people going out.
- ◆ Cosmetics Market: Q3 growth was 6% year on year. Market recovery trend continued, driven by makeup and UV care products, due to an increase in people going out.

■ Growth of H&PC¹ Market (86 major categories)



■ Growth of Cosmetics Market (26 categories)



■ Market Growth Rates of Major H&PC Categories

	(vs. previous year)					22 Q3 As of the 3rd week of Oct.	(vs. 2019)
	22 Q2	22 Q3			22 Q3		
		Jul.	Aug.	Sep.			
H&PC total	101	102	104	100	103	105	97
Laundry detergents	103	107	107	102	111		97
Fabric softeners	102	100	101	97	102		99
Bath cleaning products	105	102	107	105	95		107
Sanitary napkins	101	103	105	101	104		89
Baby diapers	94	97	101	94	97		78
Hand soap	95	98	102	95	96		118
Hand sanitizers	57	92	123	89	73		724
Bath additives	97	95	97	94	93		111

■ Market Growth Rates of Major Cosmetics Categories

	(vs. previous year)					22 Q3 As of the 3rd week of Oct. ²	(vs. 2019)
	22 Q2	22 Q3			22 Q3		
		Jul.	Aug.	Sep.			
Cosmetics total	103	106	107	106	104	110	78
Skin care products	101	103	106	103	100		82
Facial cleansers / Makeup remover	102	108	119	104	100		81
Serum	100	99	101	107	91		79
Makeup products	110	114	112	113	116		67
Base makeup	109	111	110	109	115		62
Point makeup	111	116	114	118	117		72
Other	107	104	99	112	104		90
UV care	117	114	107	114	130		94

1. H&PC: Household and personal care

2. SRI+: Estimates based on POS data from approx. 6,000 retail outlets in Japan

3. SLI: Estimates based on a panel survey of approx. 40,000 consumers in Japan

(Source: INTAGE Inc.)

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

Main Markets in Asia

- ◆ **China** : Sales of UV care products recovered due to the impact of a heat wave, despite the lingering impact of pandemic-related lockdowns and other factors.
- ◆ **Indonesia** : Although the number of infections increased, the movement of people continued to increase. The market also continued to expand.
- ◆ **Thailand** : The number of infections decreased, and the movement of people recovered. The market continued a trend from recovery to expansion.

<Market Growth Rate (%)>

	China (including e-commerce)					Indonesia					Thailand				
	21 Q3	21 Q4	22 Q1	22 Q2	22 Q3	21 Q3	21 Q4	22 Q1	22 Q2	22 Q3	21 Q3	21 Q4	22 Q1	22 Q2	22 Q3
Baby diapers	99	93	97	92	83	109	107	108	107	111	89	87	94	96	100
Sanitary napkins and panty liners	101	102	101	97	97	111	115	117	116	123	91	93	100	112	117
Laundry detergents						107	110	119	115	120	79	82	86	109	126
UV care	103	110	99	75	110						70	92	104	136	153
House cleaning products											112	96	104	107	98

Source: NielsenIQ. China includes e-commerce (UV care includes business-to-consumer only.) Results for baby diapers and sanitary napkins and panty liners in China up to August 31, 2022.

Main Markets in the Americas and Europe

Regardless of the increase or decrease in the number of infections, the movement of people was in a recovery trend. Many categories grew year on year partly due to inflation.

<Market Growth Rate (%)>

	U.S.					U.K.					Germany				
	21 Q3	21 Q4	22 Q1	22 Q2	22 Q3	21 Q3	21 Q4	22 Q1	22 Q2	22 Q3	21 Q3	21 Q4	22 Q1	22 Q2	22 Q3
Hair care	108	109	103	104	105	103	105	106	106	103	110	107	108	109	105
Facial cleanser	102	101	99	102	105						101	91	90	95	99
Deodorant	112	110	111	115	117										
Hand and body lotions	108	107	106	105	112										

Source: NielsenIQ/IRI

Highlights of Consolidated Financial Results

Nine months ended September 30

(Billion yen)	FY2021	FY2022	Growth %	Change
Net sales	1,021.0	1,127.7	+10.5	+106.8
		Effect of currency translation ¹	+5.6	+57.0
		Like-for-like growth	+4.9	+49.7
Operating income	109.0	76.9	(29.4)	(32.1)
Operating margin(%)	10.7	6.8	-	-
Income before income taxes	113.5	85.1	(25.0)	(28.4)
Net income	83.4	59.5	(28.7)	(23.9)
Net income attributable to owners of the parent	82.1	58.3	(28.9)	(23.8)
EBITDA (Operating income + Depr. & amort.) ²	161.0	129.9	(19.3)	(31.1)
Basic earnings per share (yen)	172.42	123.82	(28.2)	(48.60)

1. Exchange rates: 128.20 yen/USD, 135.99 yen/Euro, 19.39 yen/Yuan

2. Excluding depreciation of right-of-use assets

Overview of Consolidated Results

To offset raw material price hikes, the Kao Group implemented strategic price increases, promoted high-value-added products and cost structure reforms, and ramped up Total Cost Reduction (TCR) activities, in addition to conducting measures in HP&C in Japan to increase loyalty and outperform the competition. However, due to the impact of factors including lockdowns and a market slowdown in China, net sales increased but operating income decreased year on year.

Net Sales **1,127.7 billion yen (+10.5%)** +4.9% on a like-for-like basis

Operating Income **76.9 billion yen (-32.1 billion yen) 6.8% operating margin**

Positive factors	Negative factors
<ul style="list-style-type: none"> ● Strategic price increases of H&PC products ● Measures to outperform the competition in H&PC in Japan ● Adjustments of selling prices in the Chemical Business ● Cost structure reforms and TCR 	<ul style="list-style-type: none"> ● Hikes in raw material prices Gross: (74.0) billion yen Net*: (31.0) billion yen ● Sharp fluctuations in exchange rates ● Slowdown in economic growth and continued lockdowns in China ● Increased SCM costs and economic slowdown in the United States

* Offsetting with adjustments of selling prices in the Chemical Business

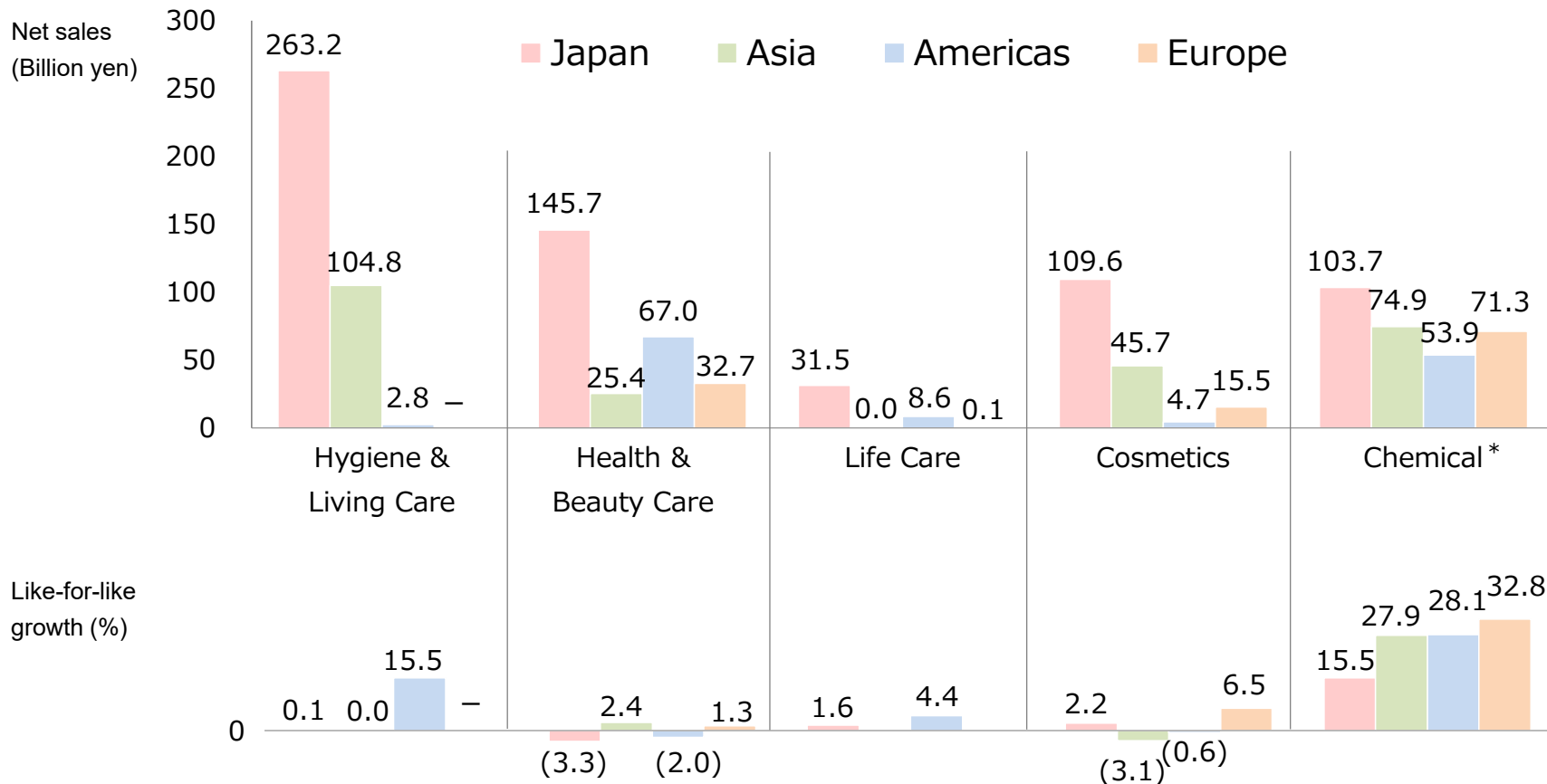
Net income attributable to owners of the parent **58.3 billion yen (-23.8 billion yen)**

The direct impact of the Russia-Ukraine crisis on the business was immaterial.

Shareholder Returns ■ Repurchased 9.08 million shares of the Company's stock for 50 billion yen. Retired 9.1 million treasury shares on September 28, 2022.

Forecast of consolidated results ■ No change from forecast of consolidated results announced on August 3, 2022.

Consolidated Net Sales by Segment/Geographic Region (Nine months ended September 30, 2022)



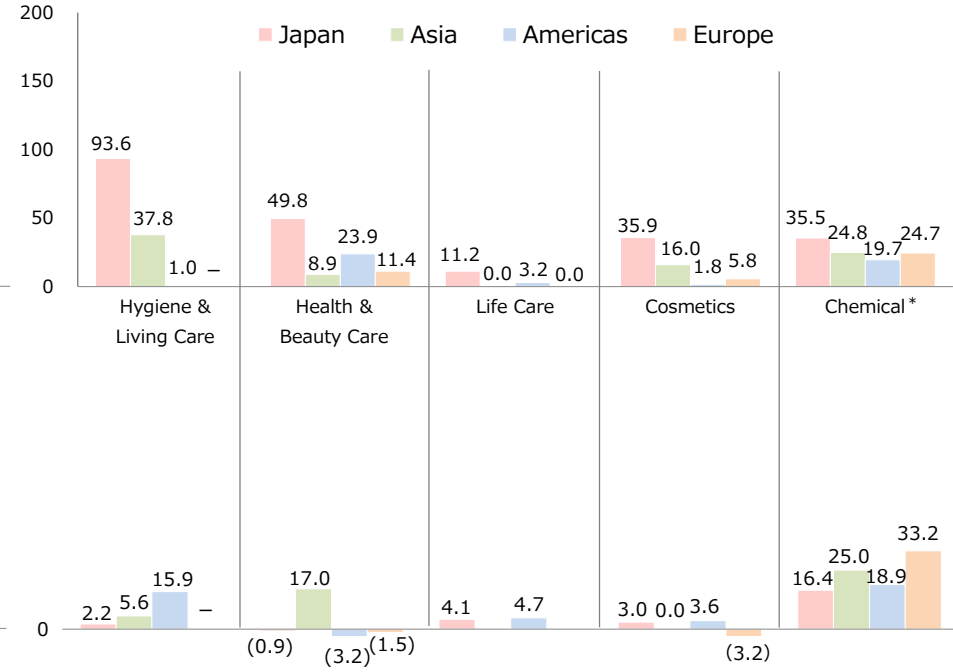
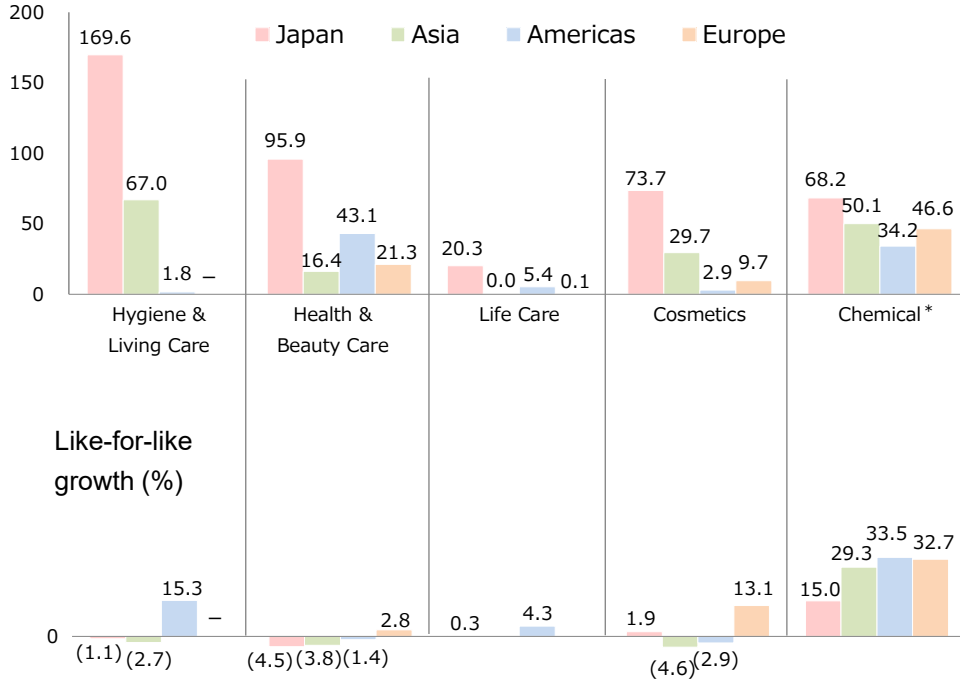
* Net sales of the Chemical Business include intersegment transactions
Sales by geographic region are classified based on the location of the sales recognized

Consolidated Net Sales by Segment/Geographic Region (Quarter)

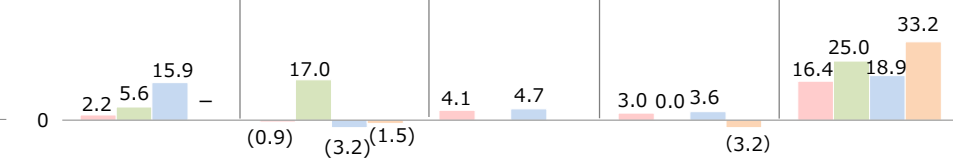
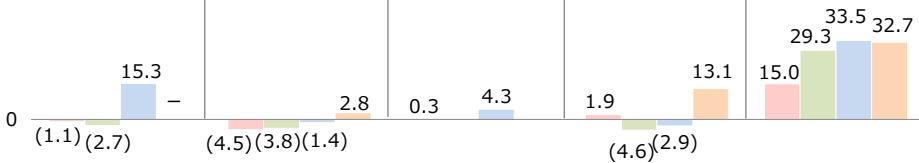
H1 (January-June)

Q3 (July-September)

Net sales (Billion yen)

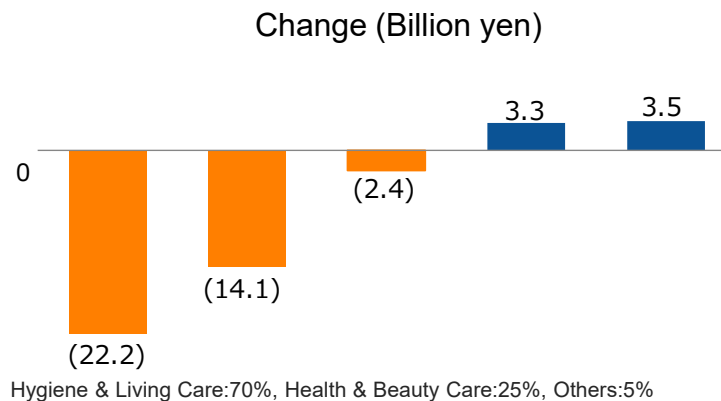
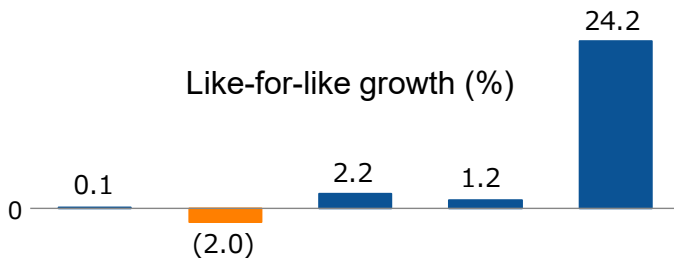
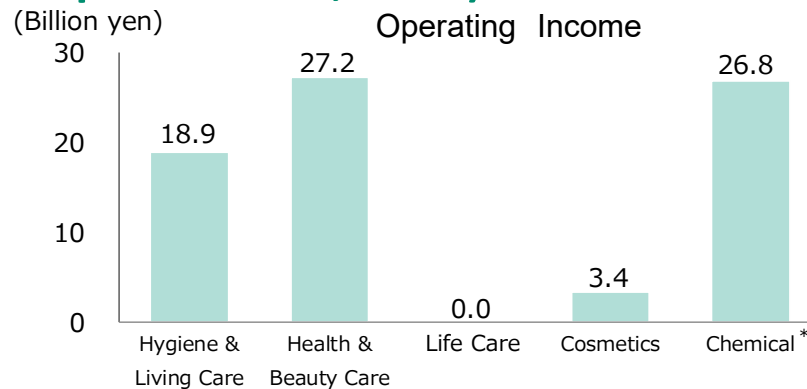
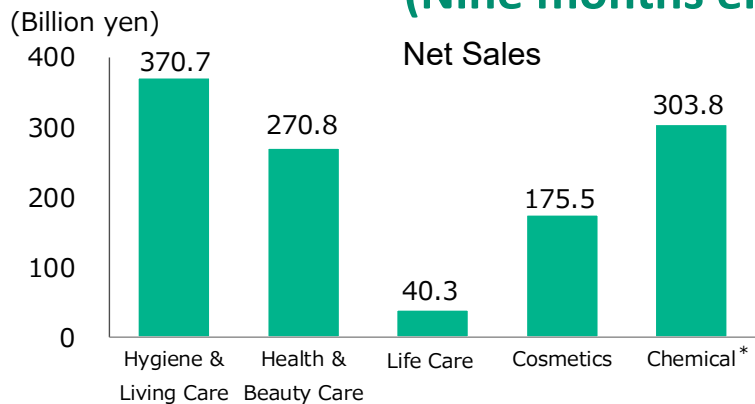


Like-for-like growth (%)



* Net sales of the Chemical Business include intersegment transactions
Sales by geographic region are classified based on the location of the sales recognized

Consolidated Results by Segment (Nine months ended September 30, 2022)

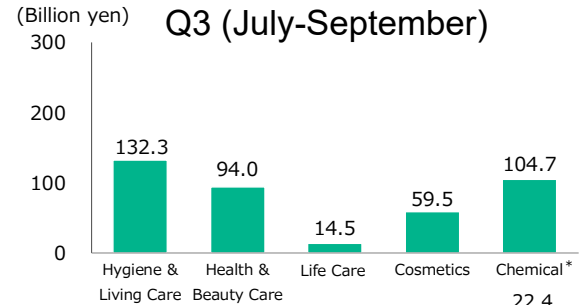
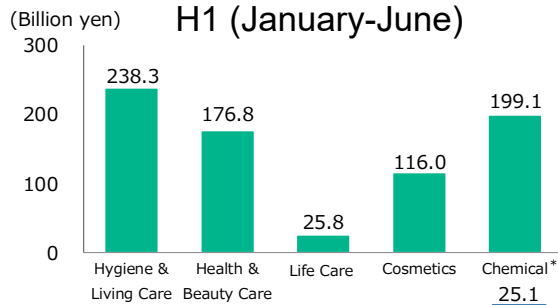


* Net sales and operating income of the Chemical Business include intersegment transactions

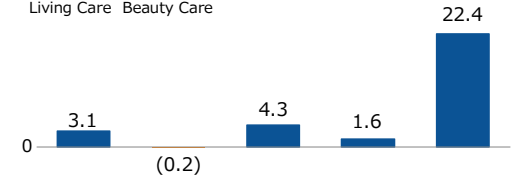
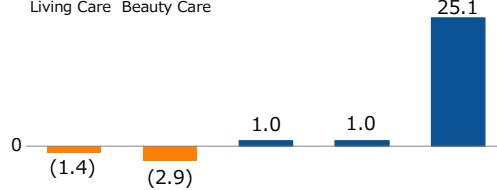
Impact of hikes in raw material prices on Consumer Products Business:

Consolidated Results by Segment (Quarter)

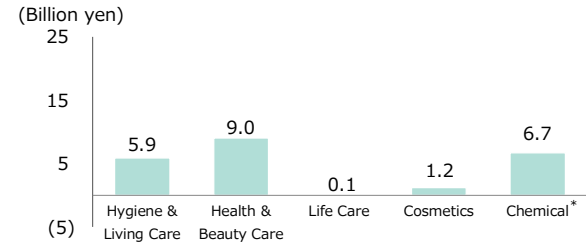
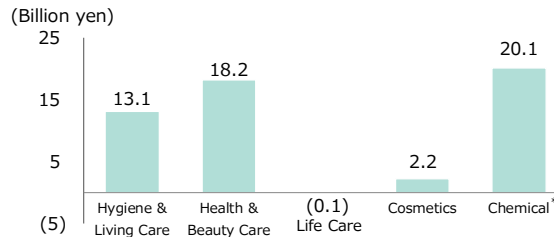
Net Sales



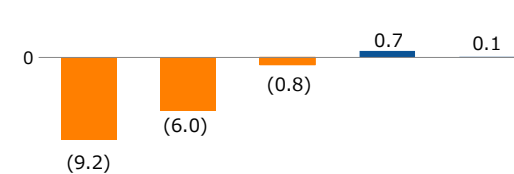
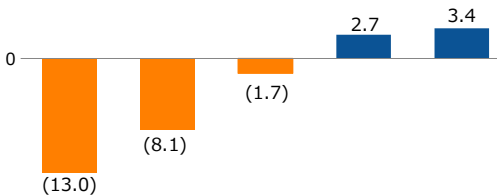
Like-for-like growth (%)



Operating Income

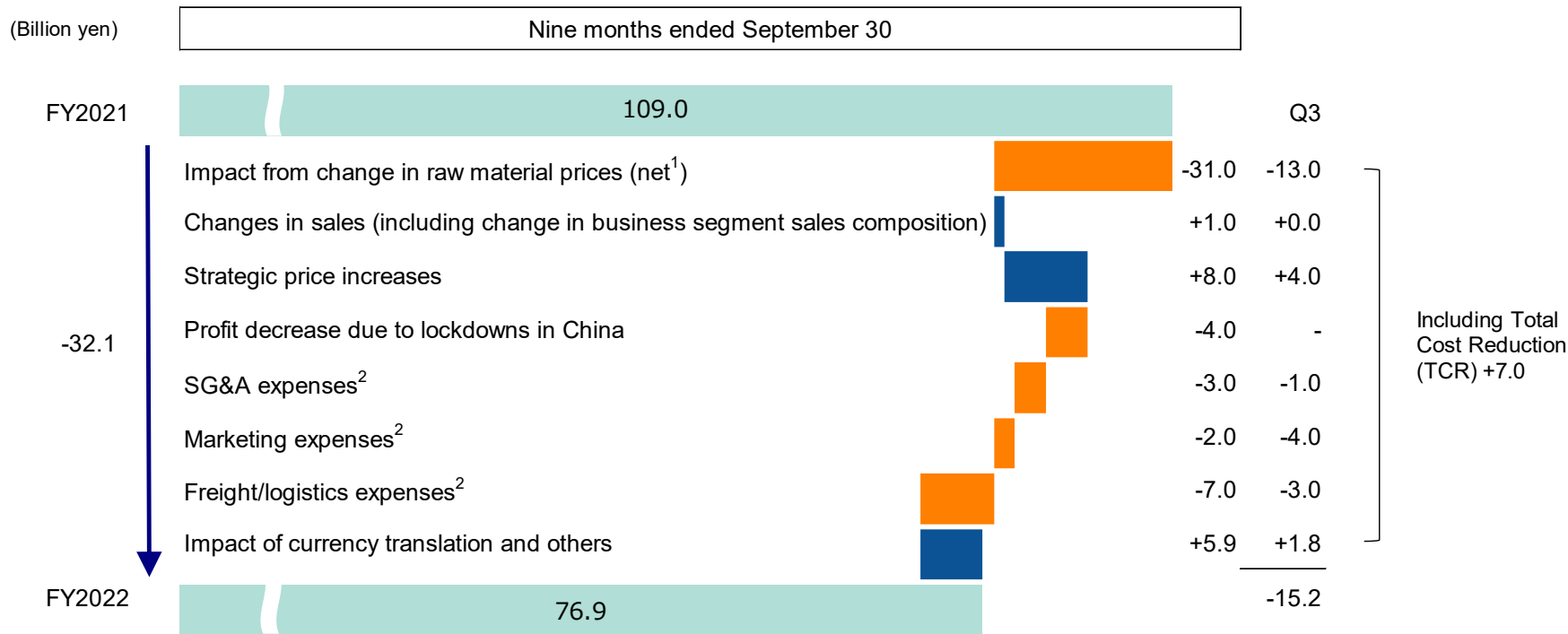


Change (Billion yen)



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

Analysis of Change in Consolidated Operating Income



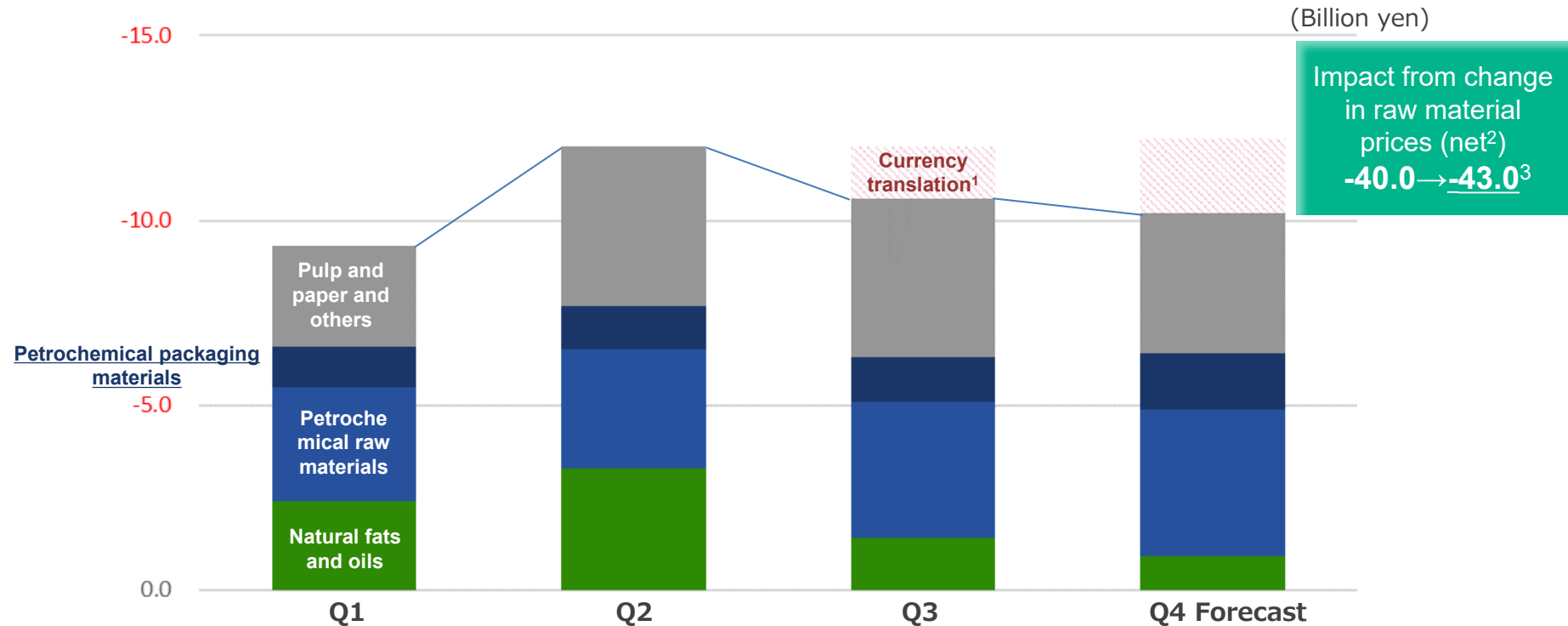
1. Offsetting with adjustments of selling prices in the Chemical Business
2. Excluding the effect of currency translation

Generating Results from Investment for Transformation into a Robust Business (Nine months ended September 30, 2022)

Reborn Kao		
Stable Earnings	Growth Driver	Business Transformation
<p>Fabric care <u>Laundry detergents</u> Attack brand enhancements, increased market share and profitability (H1) 38.7% ▶ (Q3) 40.4%</p> <p>Home care <u>Dishwashing detergent</u> CuCute brand enhancements firmed up No. 1 market share (H1) 47.2% ▶ (Q3) 47.4%</p>	<p>Cosmetics <u>Focal G11 brands</u> Continued global growth in sales of focal “G11” +5% year on year</p> <p>Skin care <u>UV care products</u> Increase in sales and market share in Japan and Thailand Market share in Japan (H1) 17.9% ▶ (Q3) 20.3% Market share in Thailand (H1) 16.4% ▶ (From Jul. to Aug.) 17.4%</p>	<p>Sanitary products <u>Sanitary napkins in China</u> Continued sales growth +12% year on year</p> <p>Products for hair salons <u>ORIBE</u> Sales growth from the expansion in the high-end hair salon market and EC channel, substantial contribution to transforming the profit structure of the entire business for hair salons +11% year on year</p>

Impact of Raw Material Prices on Consumer Products Business

- Currency translation is expected to be the main factor in worsening the negative impact of raw material price hikes.
- The impact of fat and oil derivatives is expected to decrease due to the decline in the market price.
- Petrochemical raw materials, petrochemical packaging materials, and pulp and paper and others are expected to continue to have a negative impact.



1. Effect of currency translation on the exchange rates in the forecast announced on August 3, 2022.

2. Offsetting with adjustments of selling prices in the Chemical Business

3. Changes from Aug. 3, 2022 forecast to Nov. 1, 2022 forecast

Strategic Price Increase Progress and Plan: Change to a Resilient Business Structure Independent of Market Conditions

Minimize the Impact of Raw Material Price Hikes

- In H1, price increases mainly for fabric care products and baby diapers in Japan, and for laundry detergents, skin care and other products outside Japan were implemented as planned. Effects were generally as expected.
- Accelerated price increases for laundry detergents in Q3. Overall progress as planned.
- Plans for further expansion in skin care, hair care and other categories in Q4.
- Policy of ongoing, proactive price increases in a wide range of categories in 2023 and beyond.

Strategic Price Increase Procedures

- Add higher value
- Reducing product contents
- Streamlining of sales promotion expenses
- Simple price increase, etc.

Effects of Strategic Price Increases

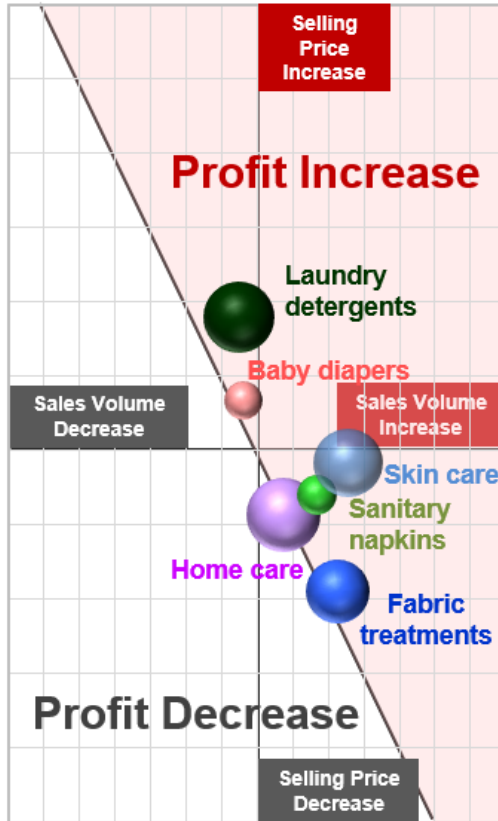
	(vs. previous year) Billion yen	H1 Results	Q3 Results	Q4 Forecast	Full-year Forecast
Japan		+2.0	+2.0	+5.0	+9.0
Outside Japan		+2.0	+2.0	+2.0	+6.0
Total		+4.0	+4.0	+7.0	+15.0

Effects of Strategic Price Increases (Major Consumer Products in Japan)

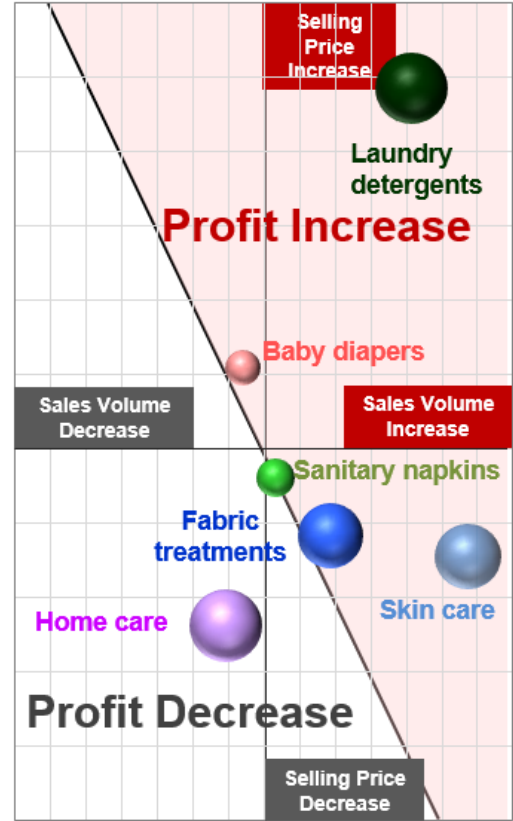
2022 Q1 (vs. 2021)



2022 Q2 (vs. 2021)



2022 Q3 (vs. 2021)



1. Bubble size: Net sales (scale adjusted for each graph)
2. Excluding the impact of hikes in raw material prices

Reborn Kao

Stable Earnings

Contribute to profit through appropriate investments

● Fabric care/Home care

- ✓ Increase market share and profitability through concentrated investment in high-value-added, highly profitable products.

- **Attack**, **Humming** and **Magiclean**



ハミング



● Personal health

- ✓ Increase sales through concentrated investment in high value-added products.

- **Bub** and **MegRhythm**



Growth Driver

Achieve sales and profit growth through aggressive investments

● Cosmetics

- ✓ Japan: Continue to offer new **KATE** products/Implement a digital measure, “HAPPY COSME SMILE FESTIVAL,” to attract customers to the stores.
- ✓ China: Expand initiatives with **new e-commerce platforms**/Ramp up **local production of Curél products**.

● Skin care

- ✓ Increase sales through concentrated investment in high value-added products.
 - **Japan: Body cleanser, Makeup remover**
 - **ASEAN: UV care products**

Bioré

- ✓ Introduce new **cross-brand sales measures** to stimulate the market (H&PC/cosmetics).
- ✓ Capture **inbound demand** and proactively conduct **cross-border e-commerce** for cosmetics.
- ✓ Broaden **strategic price increases for products with high brand power**.
- ✓ **Steadily implement cost controls** to absorb cost increases (Fixed cost structure reforms and thorough TCR implementation).

FY2022 Management Policies

■ Change to a resilient business structure independent of market conditions

- Minimize the impact of higher costs through the industry's first strategic price increases in Japan.
- Increase the ratio of high-value-added and highly profitable products.

■ Make strategic investments for a competitive advantage

- Increase customer loyalty through decisive investments and expand top market share for *Attack*, *CuCute*, and *Bioré*.
- Invest decisively in marketing expenses, allocating about 70% to 13 major brands (H&PC in Japan).
- Concentrate on strategic brands and new successful products for *KATE* and *KANEBO* (about 70% of the G11 brand lineup).
- Ramp up DX and begin full-scale D2C with the opening of a cosmetics community site in Dec.

■ Start businesses that grow rapidly by anticipating change

- Launch *Bioré GUARD Mos Block Serum* in Thailand, a newly developed mosquito repellent product for saving future lives from mosquitoes.
- Start overseas rollout in Mexico, the U.S. and Taiwan of highly durable asphalt modifier using waste polyethylene terephthalate (PET) from discarded plastic bottles.
- Advance preparations for digital life platform business.

Appendices

Household and Personal Care Business (Nine months ended September 30, 2022)

As the Kao Group worked toward goals including increasing loyalty of consumers and market share through promotion of digitalization, decisive investments and other measures, the fabric care and UV care products expanded its market share mainly through new products. However, recovery in the baby diapers and hair care businesses will be delayed due to the ongoing business transformation. The impact of hikes in raw material prices on profit was -34.0 billion yen.

Sales: 681.7 billion yen (-0.6%)

Operating income: 46.2 billion yen (-38.7 billion yen) **Operating margin: 6.8%**

Japan: Year-on-year sales decrease in H1, but increase in Q3 (H1: -2.2% → Q3: +1.3%)

- Increased market share of laundry detergents by offering new *Attack* products. (H1 vs. Q3: +1.7 points)
- Firmed up No.1 market share through overall renewal of *CuCute* and communication innovations. (H1 vs. Q3: +0.2 points)
- Growth of the UV care market due to an increase in people going out and a heat wave, and substantial increase in Kao Group's share by trying new sales methods. (H1 vs. Q3: +2.4 points)



Asia: Sales back on a growth track in Q3 despite a year-on-year decrease in H1 due to lockdowns in China, etc.

(H1: -2.9% → Q3: +7.6%)

- China: After the lockdowns were lifted, *Laurier* resumed high growth. *Merries* is undergoing business reforms.
- Indonesia: Jan.-Sep. sales increased 11%. Firm growth in both sales and market share for *Merries* and *Laurier*.
- Thailand: *Bioré* brand mosquito repellent lotion launched in June to help resolve the social issue of dengue fever. Substantial response inside and outside Thailand.

Americas and Europe: Tough conditions for mass market skin care products, but continued good performance by products for hair salons

- Conditions were tough, mainly for mass market skin care products, due to logistics disruptions and inventory adjustments by retailers in the Americas.
- Sales growth rate of products for hair salons was in the mid-single digits due to strong sales of new products from the *ORIBE* brand.



ORIBE

Cosmetics Business (Nine months ended September 30, 2022)

In Japan, market recovery was moderate, although lower than expected. Sales increased year on year due to double-digit growth for G11 brands. In China, a shrinking cosmetics market due to an economic slowdown led to a year-on-year decrease in sales. In Europe, sales remained strong from the previous year. Although total global sales increased only 1.2% year on year, sales of focal G11 brands increased 5%. Operating income increased 3.3 billion yen, as planned.

Sales: 175.5 billion yen (+1.2%)

Operating income: 3.4 billion yen (+3.3 billion yen) **Operating margin: 1.9%**

■ Global Shipments by Value: Year-on-Year Growth/Share of Sales

■ Sell-out in Japan¹

Japan: +2.2% vs. market +3%.¹ Sell-out +3%, focal G11 brands +13%

- *KANEBO: LIVELY SKIN WEAR*, launched in September, was a major hit product following *VEIL OF DAY*.
- *KATE: LIP MONSTER* and the high-value-added *Tamashii Collection* performed strongly.
- *est*: Best cosmetics awards for *CLARIFYING GEL WASH* in H1 and digital measures increased the number of new customers.

	2021		2022 Jan.-Sep.		2022 Jan.-Sep.
	Growth	Share of Sales	Growth	Share of Sales	Growth
G11	+8%	65%	+5%	69%	+13%
R8	(8)%	23%	(1)%	21%	(0)%
Other	(20)%	12%	(13)%	10%	(14)%

China: -5% year on year due to a market slowdown from Q2 onward, despite strong Q1 sales

- *freeplus*: Tough conditions due to market slowdown, but preparing for a rebound with next year's rebranding.
- *Curél*: Advance sales of locally produced anti-wrinkle face cream on T-mall.



Europe: +6.5% year on year from strong sales in the prestige category

- *SENSAI*: New product *COMFORTING BARRIER MASK* performed well.
- *MOLTON BROWN*: Strong sales of new home fragrance product *Rose Dune* and steady OMO² strategy.



1: SLI data by INTAGE Inc. 2: OMO: Online Merges with Offline

Chemical Business (Nine months ended September 30, 2022)

Results increased year on year and exceeded the plan, due in part to expansion in fields from steadily capturing recovery and growth in customer industries, in addition to the substantial contribution of selling price adjustments in response to raw material price hikes, mainly for fat and oil products outside Japan. The Kao Group continued to develop products from ESG perspectives.

Sales: 303.8 billion yen (+24.2%)
Operating income: 26.8 billion yen (+3.5 billion yen)
Operating margin: 8.8%

Japan: +15.5%

- Increase in sales due to the progress of selling price adjustments as well as expansion in fields where customer industries recovered and grew.
- Adoption of highly durable asphalt modifier increased, due in part to the effect of PR activities.

Asia: +27.9%

- Contribution from selling price adjustments, mainly for fat and oil products, offset the impact of slowing economic growth in China.
- Demonstration tests for the rollout of an adjuvant for drones are under way and progressing smoothly.

Americas: +28.1%

- Contribution from selling price adjustments for fat and oil products. Toner and toner binder also grew by capturing the recovery in demand.
- Sales were firm due to capturing high demand for tertiary amines, which the Chemical Business aims to expand through investment.

Europe: +32.8%

- Substantial contribution from selling price adjustments for various products, mainly fat and oil derivative products.
- The impact from rising energy costs increased in Q3; countermeasures are being taken.



Began activities for a U.S. rollout of highly durable asphalt modifier using waste PET.



Cassava and cassava starch

To help realize a low-carbon society, Kao began exploring the potential for the future creation and commercialization of an integrated system for manufacturing biochemicals from cassava residue. www.kao.com/global/en/news/business-finance/2022/20220907-001/

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Kirei-Making Life Beautiful

