



Kirei—Making Life Beautiful

Consolidated Financial Results for the Three Months Ended March 31, 2023

Kao Corporation
May 10, 2023



Disclaimer

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. Growth by volume includes changes due to differences in product mix.
3. Changes and comparisons are all with the same period a year earlier unless otherwise noted.
4. Household & personal care (H&PC): Consumer products excluding cosmetics.
5. G11: Abbreviation of Global 11. Eleven Cosmetics Business brands designated for growth globally.
6. R8: Abbreviation of Regional 8. Eight Cosmetics Business brands designated for growth in Japan.

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Financial Results

for the Three Months Ended March 31, 2023

Highlights of Consolidated Financial Results

Billion yen	FY2022 Q1	FY2023 Q1	Growth %	Change
Net sales	346.8	347.8	+0.3 Effect of currency translation ¹ +4.1 Like-for-like growth (3.8)	+1.0
Operating income	23.0	7.3	(68.3)	(15.7)
Operating margin	6.6%	2.1%	-	-
Income before income taxes	25.7	8.4	(67.1)	(17.2)
Net income	18.8	5.4	(71.4)	(13.4)
Net income attributable to owners of the parent	18.2	4.8	(73.6)	(13.4)
EBITDA ²	44.6	29.4	(34.0)	(15.2)
Basic earnings per share (yen)	38.50	10.36	(73.1)	(28.14)

1. Exchange rates: 132.29 yen/USD, 141.98 yen/Euro, 19.33 yen/Yuan

2. EBITDA=Operating income + Depreciation & Amortization

Key Points of Q1 Results

- Sales were nearly as planned.
- Profit decreased substantially year on year and was slightly behind the Kao Group's plan due to the impact of delayed recovery of chemical markets in the Americas and Europe.

Year-on-year Change

Net sales: 347.8 billion yen -3.8% on a like-for-like basis (-3.4% by volume, -0.4% by price)

Operating Income: 7.3 billion yen (-15.7 billion yen); operating margin: 2.1% (-4.5 pts)

- H&PC Business: Strategic price increases offset about 90% of the impact of high raw material prices (-5.5 billion yen). Volume decreased due to factors including a decrease in sales in underperforming categories and the impact of consumers stocking up on products from the end of 2022.
- Cosmetics Business: Results in China were impacted by curbs on shipments ahead of the rebranding of *freeplus*.
- Chemical Business: Marginal profit decreased due to a substantial decrease in demand in markets in the Americas and Europe and price adjustments for oleo chemicals.

vs. Plan

- Profit was nearly as planned in the Consumer Products Business.
- In the Chemical Business, market recovery in the Americas and Europe was slower than expected.

Consolidated Net Sales by Segment/Geographic Region

Billion yen			Japan	Asia	Americas	Europe	Consolidated
	Fabric & Home Care	Q1	58.6	11.3	1.0	-	70.9
		Like-for-like %	(1.8)	(3.1)	+7.0	-	(1.9)
	Sanitary	Q1	18.2	24.6	0.0	-	42.8
		Like-for-like %	+0.3	(6.2)	(69.0)	-	(3.5)
	Hygiene and Living Care Business	Q1	76.8	35.9	1.0	-	113.7
		Like-for-like %	(1.3)	(5.3)	+5.6	-	(2.5)
	Health and Beauty Care Business	Q1	42.6	8.6	23.8	11.9	86.9
		Like-for-like %	(2.6)	(3.7)	+14.6	+9.8	+2.8
	Life Care Business	Q1	9.6	0.0	3.2	0.0	12.8
		Like-for-like %	(1.2)	+52.4	+14.3	(26.2)	+1.9
	Cosmetics Business	Q1	34.1	11.1	1.6	5.0	51.8
		Like-for-like %	(2.3)	(31.9)	+5.5	(1.9)	(10.1)
	Consumer Products Business	Q1	163.1	55.6	29.6	16.9	265.3
		Like-for-like %	(1.9)	(12.0)	+13.7	+6.0	(2.3)
	Chemical Business*	Q1	32.8	22.5	16.1	21.9	93.2
		Like-for-like %	+1.5	(16.2)	(11.8)	(7.7)	(7.4)
Consolidated	Q1		186.7	77.2	45.7	38.2	347.8
	Like-for-like %		(1.6)	(13.2)	+3.4	(2.3)	(3.8)

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

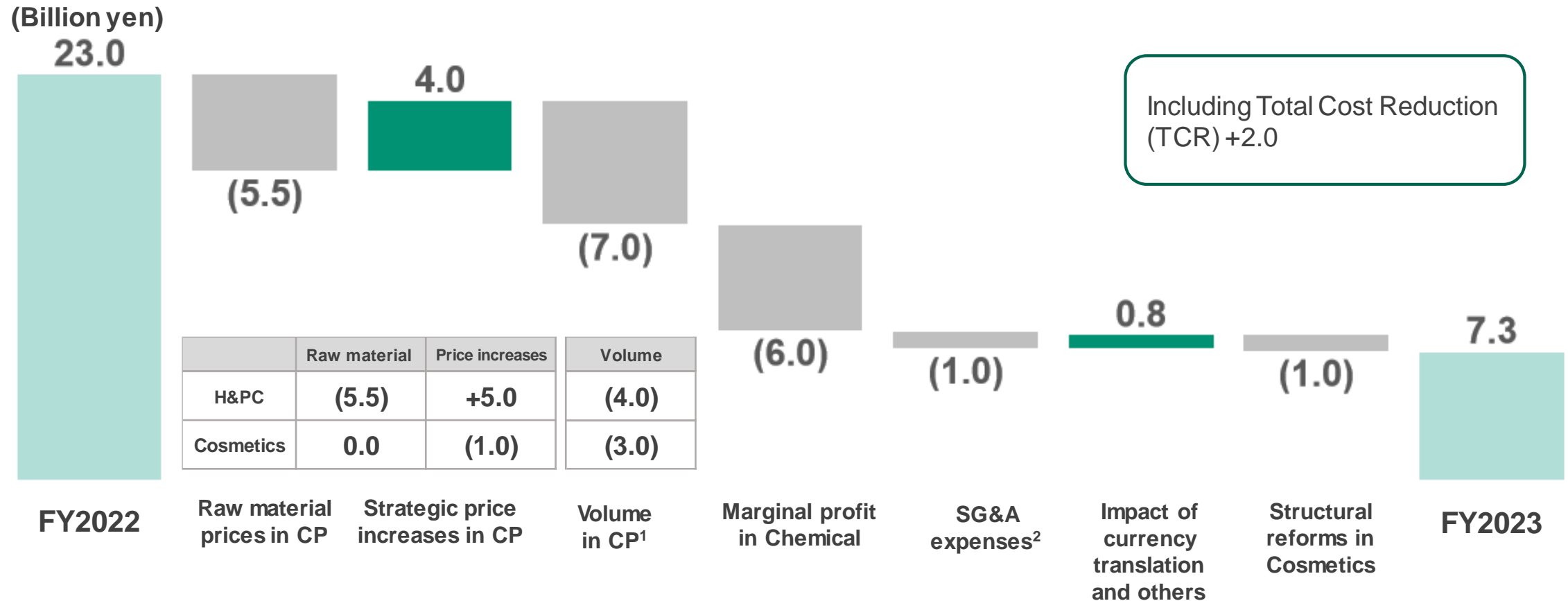
Consolidated Results by Segment

Billion yen		Net sales				Operating income		
		Q1		Like-for-like %		Q1	Change	Operating margin %
				By Volume %	By Price %			
	Hygiene and Living Care Business	113.7	(2.5)	(5.8)	+3.3	2.7	(4.1)	2.4
	Health and Beauty Care Business	86.9	+2.8	+1.3	+1.5	5.8	(0.4)	6.7
	Life Care Business	12.8	+1.9	+2.8	(0.9)	(0.6)	(0.4)	(4.8)
	Cosmetics Business	51.8	(10.1)	(8.0)	(2.1)	(4.5)	(4.8)	(8.8)
	Consumer Products Business	265.3	(2.3)	(3.7)	+1.4	3.4	(9.8)	1.3
	Chemical Business*	93.2	(7.4)	(2.0)	(5.4)	4.1	(5.8)	4.4
	Consolidated	347.8	(3.8)	(3.4)	(0.4)	7.3	(15.7)	2.1

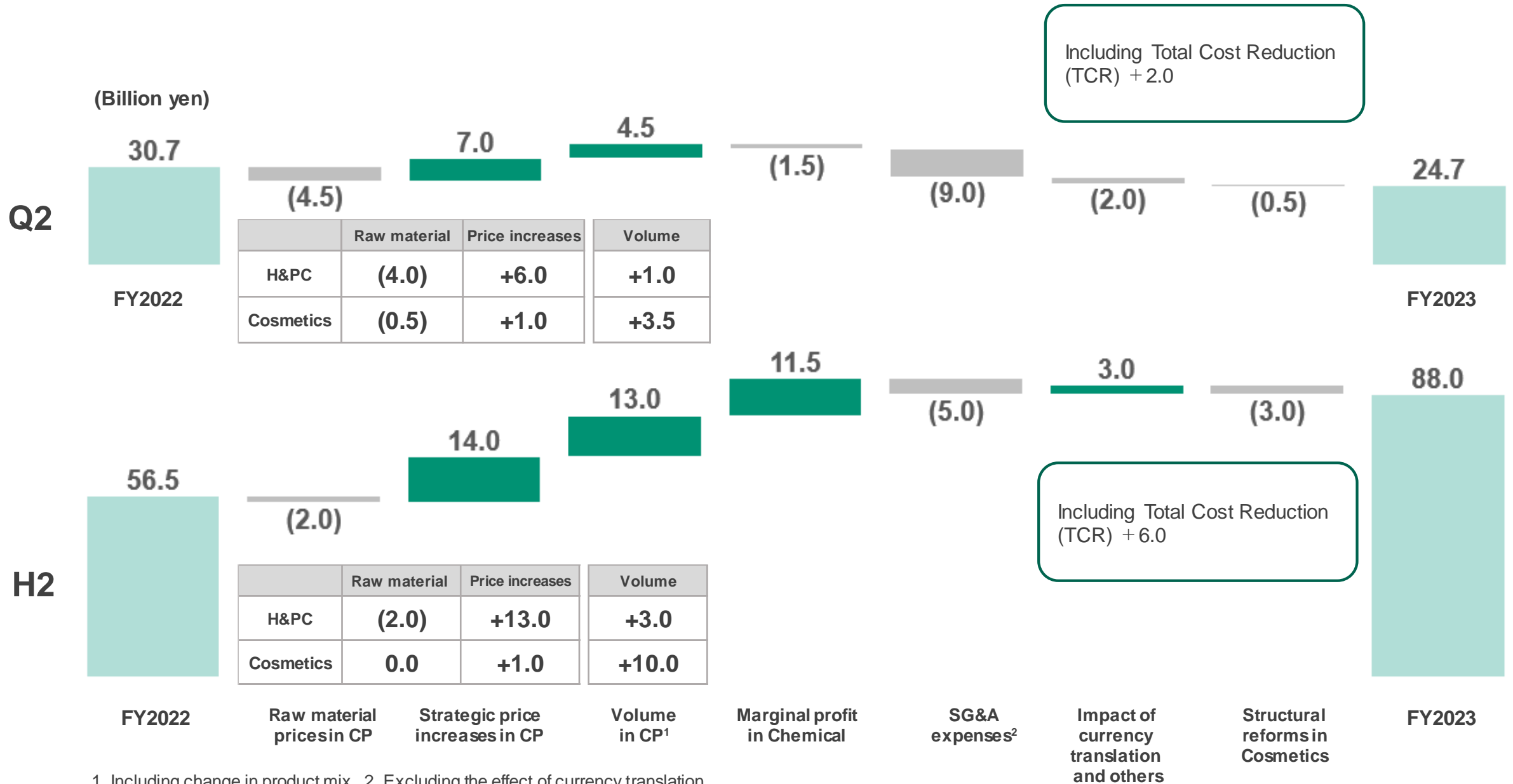
* Net sales and operating income of the Chemical Business include intersegment transactions. Growth by volume includes changes due to differences in product mix.

Analysis of Change in Operating Income in Q1 (Year-on-Year Change)

- H&PC: Strategic price increases offset about 90% of the impact of high raw material prices (-5.5 billion yen). Volume decreased due to factors including a decrease in sales in underperforming categories and the impact of consumers stocking up on products from the end of 2022.
- Cosmetics: The Kao Group reduced shipments and lowered prices in China ahead of the rebranding of *freeplus*.
- Chemical: Marginal profit decreased due to a substantial decrease in demand in markets in the Americas and Europe and price adjustments for oleo chemicals.



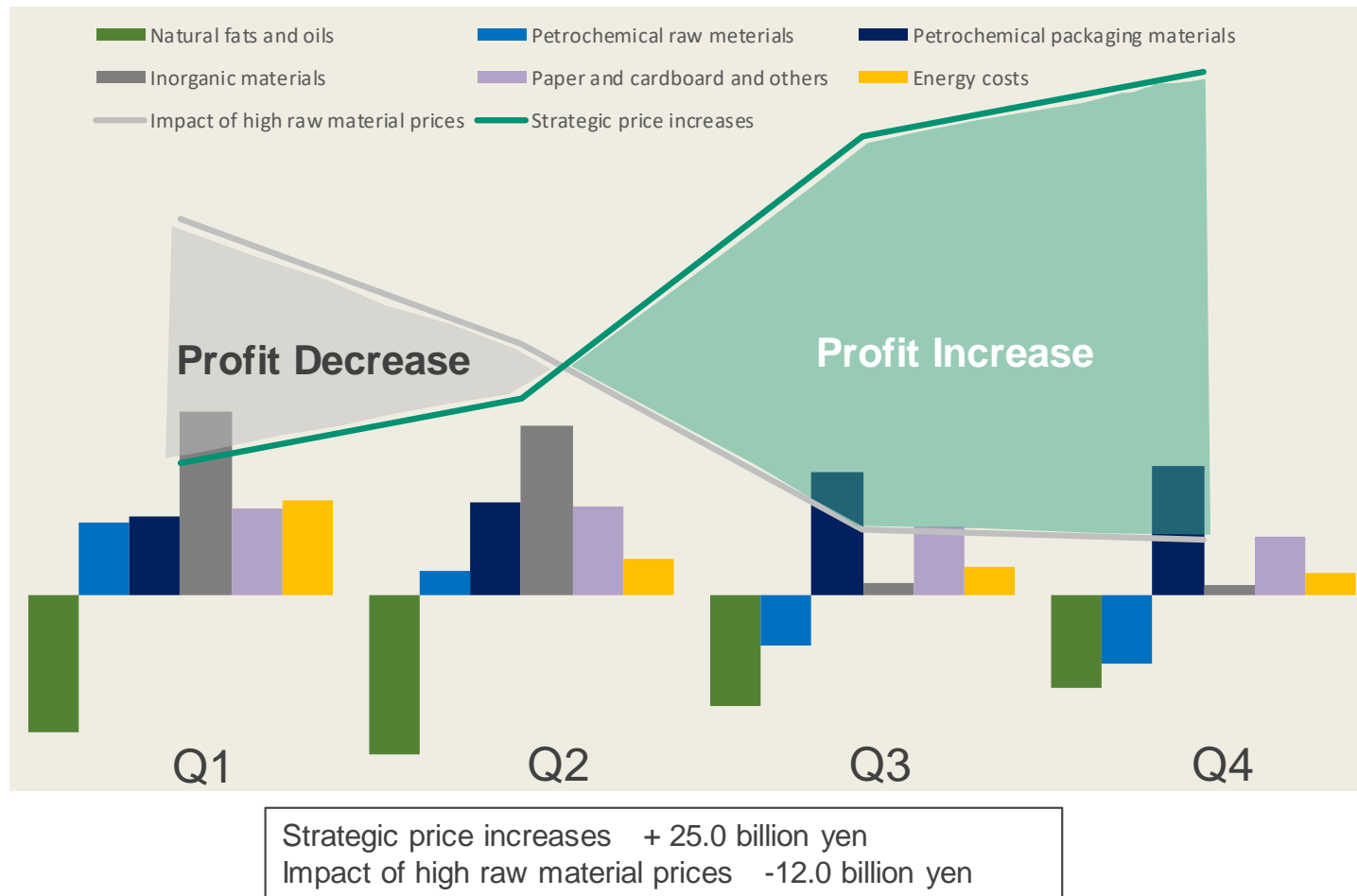
Forecast of Factors in Operating Income (Year-on-Year Change)



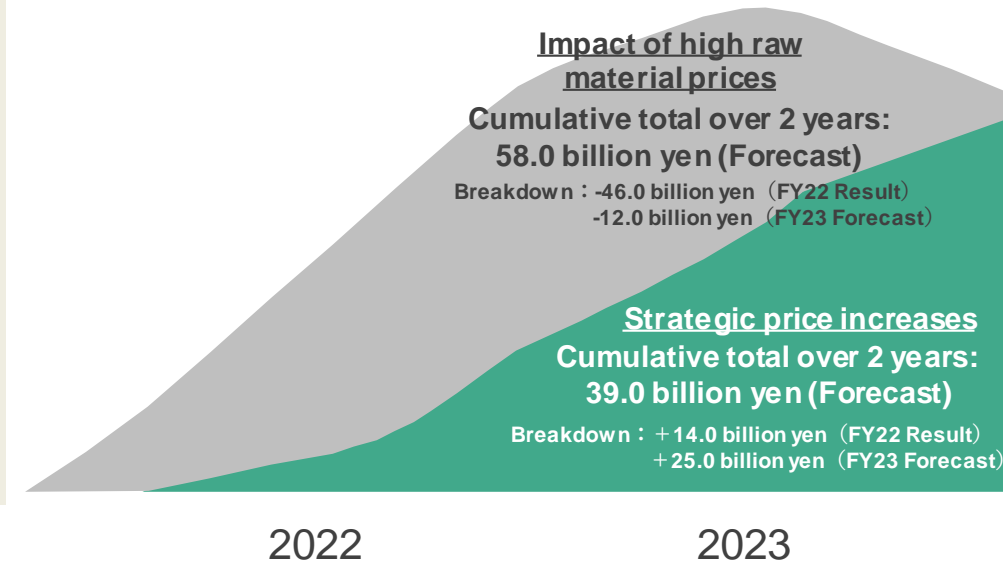
Changes in Raw Material Prices and Effects of Price Increases (Consumer Products Business)

- Shift to profit increase (vs. 2022) starting in 2023 H2 from ongoing price increases.
- Aim to cover more than 60% of the cumulative increase in raw material prices starting from 2021 through 2022-2023.

【 Image 】 Changes in Raw Material Prices and Effects of Price Increases (vs. 2022)



【Image】 Changes in Raw Material Prices and Effects of Price Increases Starting from 2021



Measures from Q2 Onward: Household and Personal Care Business

Market

- | | |
|----------------------------|--|
| <u>Japan</u> | <ul style="list-style-type: none"> Double-digit growth for UV care products, 5%+ growth for makeup removers and styling products due to market recovery as opportunities for going out increase. 0-1% growth overall. |
| <u>Asia</u> | <ul style="list-style-type: none"> China: -10% growth year on year in Q1 due to the resurgence of COVID-19. Growth from Q2 onward due to the absence of last year's lockdowns. Others: 4-5% growth due to recovery from COVID-19 since 2022. |
| <u>Americas and Europe</u> | <ul style="list-style-type: none"> 5-6% growth due to recovery from COVID-19. |

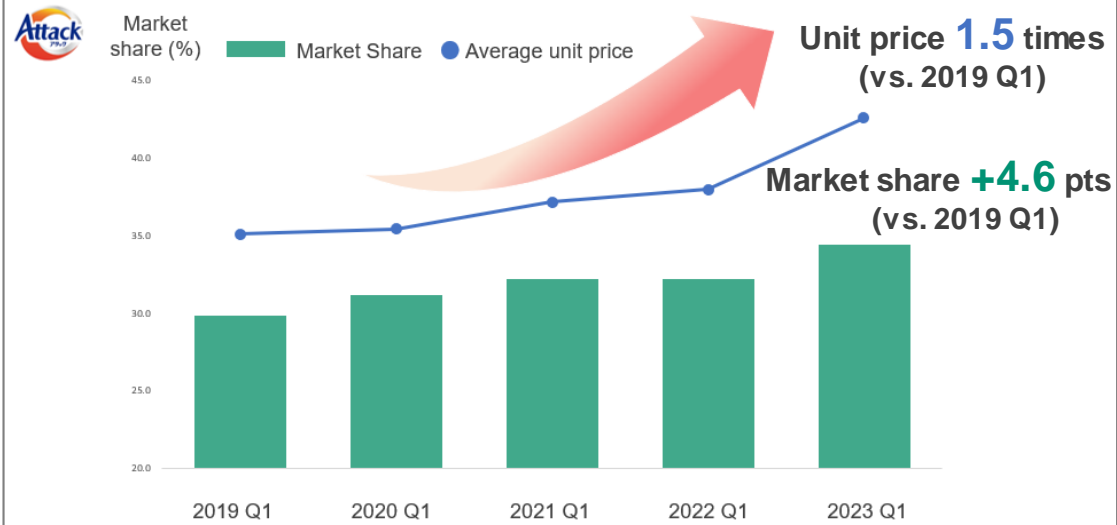
Measures to Increase Profits from Q2 Onward

- ✓ **Implementation of further strategic price increases** (full-scale implementation from July)
- ✓ **Kao's original new value offering for laundry (new product launch)**
 - Capture the No. 1 market share in the detergent category by revitalizing the market and increasing added value.
- ✓ **Ongoing cultivation of strong-selling new products launched in spring**
 - Bioré UV Mist*: Achieved more than double the targeted share.
Note: Nikkei Trendy Grand Prize for Hit Product in H1 in Beauty and Fashion Category
 - Bioré New Oil Makeup Remover*: Achieved targeted share for 2023 within two weeks after launch.
 - Essential Barrier Shampoo*: Captured double the targeted market share at multiple major drugstores.
- ✓ **Sales and profit growth from continuously launching and cultivating new and improved products with high added value**
 - Dishwashing detergents, fabric softeners, house cleaning products, hand soaps, etc.

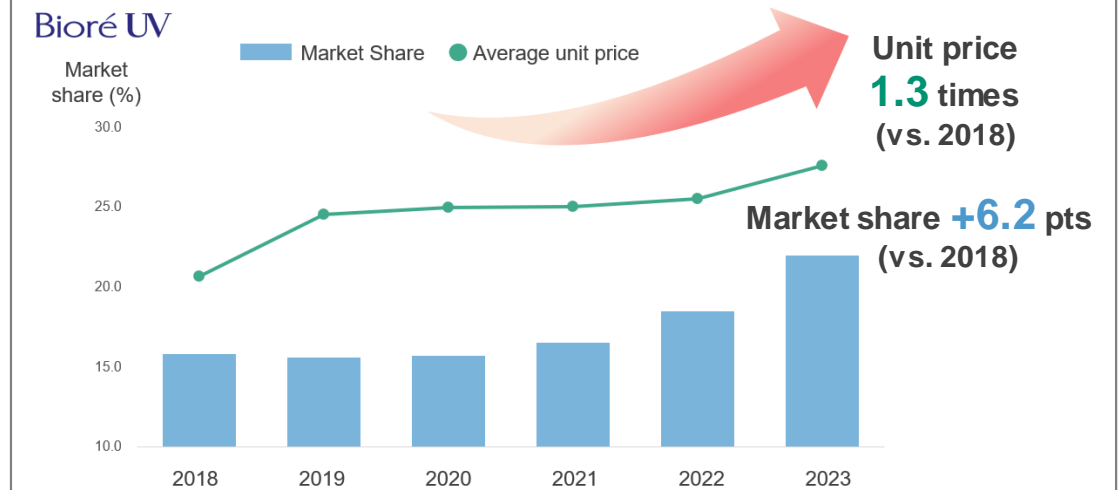


Increases in Market Share and Unit Price from High-value-added Products and Marketing Innovations

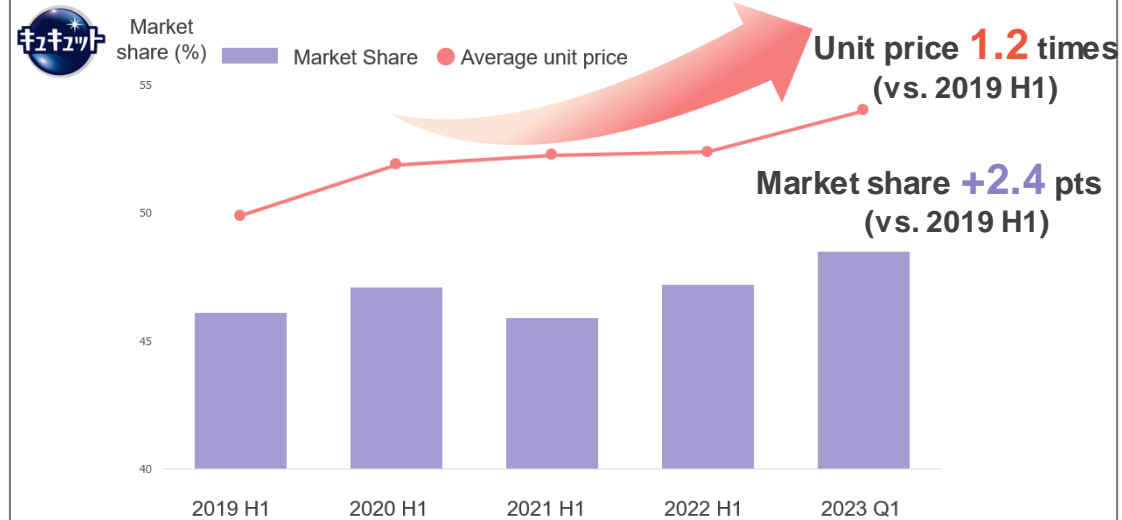
- Attack - Expanding Share of No. 1 Brands through Addition of High-value-added Items and Strategic Price Increases



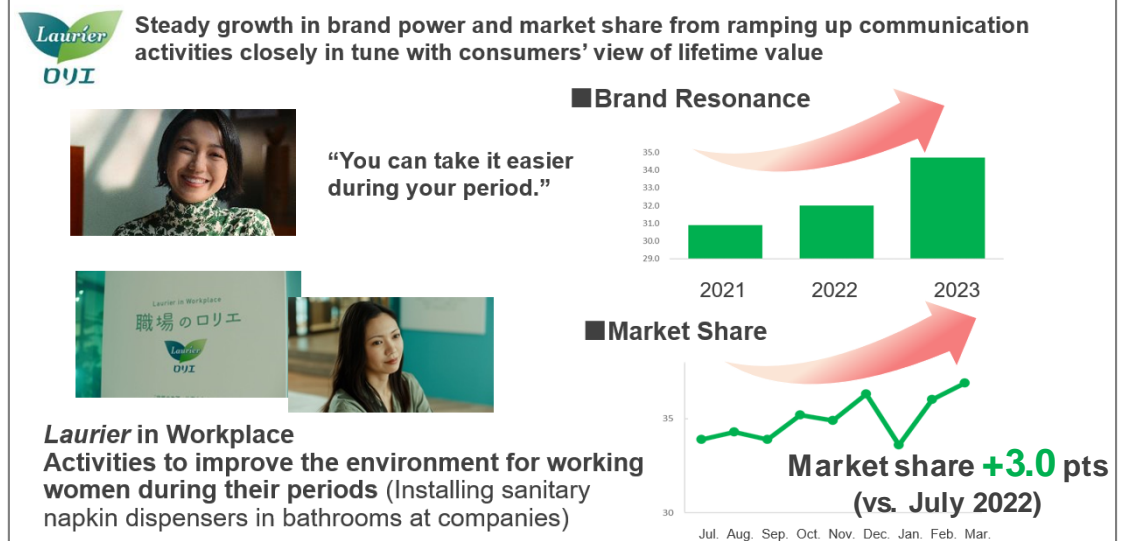
- Bioré UV - Increasing Prices While Expanding Share When Launching New and Improved High-performance Products



- CuCute - Expanding Share of No. 1 Brands through Addition of High-value-added Items and Strategic Price Increases



-Laurier- Currently Transforming into a High-Profit Business with Continuing Sales Growth through Marketing Innovations



Measures from Q2 Onward: Cosmetics Business

Market

- In Japan, progress toward end of mask wearing and recovery in makeup market. Inbound demand is also expected to increase.
- Steady growth is expected in Europe as the impact of inflation subsides.

Measures to Increase Profits from Q2 Onward

Japan

✓ Growth of prestige brands outpacing the market (around mid-teens % growth year on year)

- *KANEBO*: Acquire new customers with new products and expand travel retail.
- *LUNASOL*: Maintain No. 1 position in prestige eyeshadow and increase inbound demand.
- *RMK*: Strengthen makeup base and ramp up customer relationship management measures.

✓ Sales expansion in line with makeup market recovery

- *KATE*: Increase production of *LIP MONSTER* (50% year-on-year increase).
- *Primavista*: Strengthen makeup base.



China

✓ Aim for double-digit sales growth year on year

- Conduct *freeplus* rebranding.
- Expand strategic e-commerce platform.



Europe

✓ Growth exceeding the market from emphasizing the *SENSAL* story

- Renew hand creams and add Absolute Silk facial cleanser; renew the SIGNATURE line from Q3 onward.

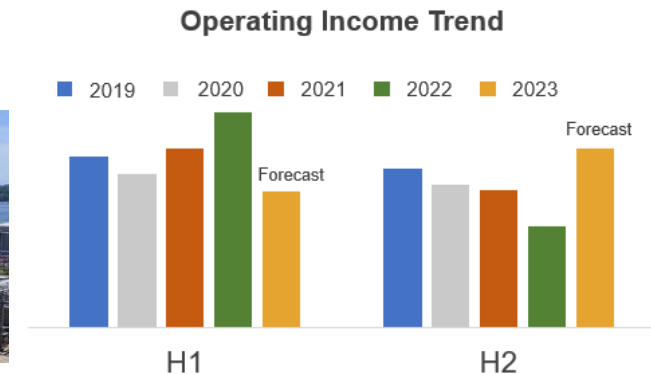
Measures from Q2 Onward: Chemical Business

Market Conditions

- In Q1, demand was weak as inventories piled up due to logistics disruptions, mainly in the Americas and Europe, and the subsequent economic slowdown.
- Expect to enter a transitional period in Q2 and to recover from Q3.

Measures to Increase Profits from Q2 Onward

- ✓ Expand business by adding facilities for highly profitable products (Europe: tertiary amines, synthetic fragrances; start operation of new facilities from Q3).
- ✓ Review raw material purchases, mainly for information materials, and adjust prices to restore profitability (Japan, Europe).
- ✓ Implement additional selling price increases, mainly for surfactants, to cover the amount lost due to delay in responding to raw material price increases (Japan).
- ✓ Expansion of high-value-added products: Highly durable asphalt modifier (60% year on year increase), adjuvant for aerial spraying of agrochemicals (50% year on year increase).



Upcoming Events

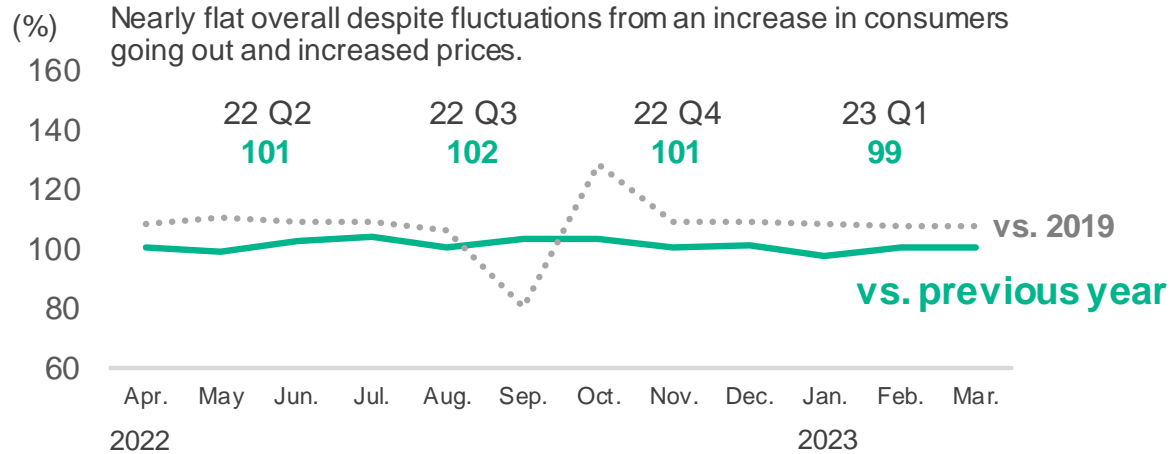
- **Chemical Business Growth Strategy Briefing**
Thursday, June 22, 2023
- **Q2/FY2023 and Mid-term Plan “K25” Progress Conference**
Thursday, August 3, 2023
- **Cosmetics Business and Mass Market Skin Care Business Growth Strategy Briefing**
September (planned)

02 | Appendix

Consumer Products Market in Japan

Growth of H&PC Market

86 categories, SRI+¹

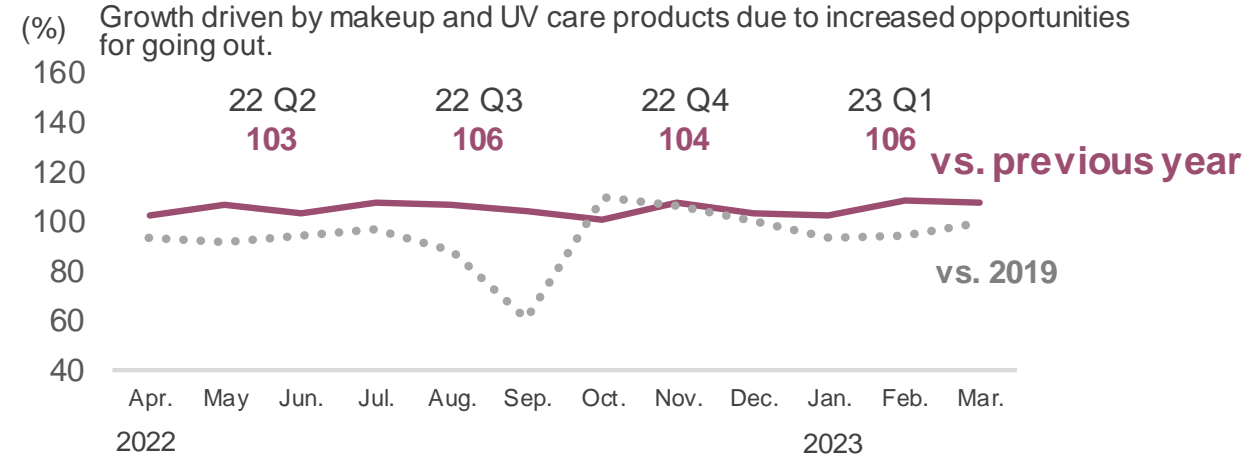


Market Growth Rates of Major Categories

vs. previous year	Jan.	Feb.	Mar.	Q1
H&PC total	97	100	100	99
Laundry detergents	100	103	103	102
Fabric softeners	93	97	95	95
Bath cleaning products	95	99	97	97
Sanitary napkins	99	106	106	103
Baby diapers	100	105	102	102
Hand soap	88	86	87	87
Hand sanitizers	60	40	45	49
Bath additives	91	89	91	90

Growth of Cosmetics Market

26 categories, SLI²



Market Growth Rates of Major Categories

vs. previous year	Jan.	Feb.	Mar.	Q1
Cosmetics total	102	108	107	106
Skin care products	100	106	104	103
Facial cleansers/ Makeup remover	101	101	107	103
Serum	111	111	109	110
Makeup products	106	115	114	112
Makeup Base	106	114	115	112
Point makeup	107	115	113	112
Other	111	110	125	117
UV care	112	121	138	130

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

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

Kao's Main Markets outside Japan

Asia

- China: Year-on-year decreases continued, although there were signs of recovery in consumption after the end of factors included lockdowns.
- Indonesia: Market growth continued, but at a somewhat slower rate due to product price hikes.
- Thailand: Growth continued due to post-COVID market recovery.

vs. previous year	China (including e-commerce)				Indonesia				Thailand			
	22 Q2	22 Q3	22 Q4	23 Q1	22 Q2	22 Q3	22 Q4	23 Q1	22 Q2	22 Q3	22 Q4	23 Q1
Baby diapers	90	91	97	85	106	111	102	99	96	101	97	92
Sanitary napkins and panty liners	97	97	94	96	113	122	114	111	112	117	114	112
Laundry detergents	-	-	-	-	110	118	108	101	109	126	118	118
UV care	75	111	89	91	-	-	-	-	137	153	125	129
House cleaning products	-	-	-	-	-	-	-	-	107	98	103	90

Source: NielsenIQ/IRI

Americas and Europe

- Market growth continued in all three countries due to rising product prices.

vs. previous year	U.S.				U.K.				Germany			
	22 Q2	22 Q3	22 Q4	23 Q1	22 Q2	22 Q3	22 Q4	23 Q1	22 Q2	22 Q3	22 Q4	23 Q1
Hair care	104	105	106	109	106	104	108	109	109	105	109	112
Facial cleanser	102	106	109	112	-	-	-	-	95	99	120	123
Deodorant	115	117	121	120	-	-	-	-	-	-	-	-
Hand and body lotions	105	112	115	107	-	-	-	-	-	-	-	-

Source: NielsenIQ/IRI

Hygiene and Living Care Business in Q1

- Sales: **113.7** billion yen (-2.5%) Operating income: **2.7** billion yen (-4.1 billion yen) Operating margin: **2.4%**
- Decisive investment increased sales and market share for laundry detergents and dishwashing detergents, but conditions remained tough for underperforming categories.
- Despite steady price increases for laundry detergents, the profit margin declined due to the negative 4.5 billion yen impact of high raw material prices on profit.

Fabric & Home Care

-1.9% due to continued tough conditions for fabric softeners and the shrinkage of the home care market

- Fabric care: In Japan, although sales and market share of laundry detergents increased due to improved products and steady price increases, overall sales decreased slightly as conditions remained tough for fabric softeners.
- Home care: In Japan, although the Kao Group increased prices and achieved growth in market share for dishwashing detergents, overall sales decreased slightly as the market shrank due to the impact of increased opportunities for going out.



Sanitary

-3.5% due to business reforms underway for baby diapers, although sanitary napkins performed well

- Sanitary napkins: In Japan, sales and market share continued to grow due to marketing innovations. In Asia, sales in China and Indonesia increased.
- Baby diapers: In Indonesia, sales remained strong due to factors including an increase in distribution stores. In Japan and China, sales decreased due to the impact of market shrinkage and other factors.



Health and Beauty Care Business in Q1

- Sales: **86.9** billion yen (+2.8%) Operating income: **5.8** billion yen (-0.4 billion yen) Operating margin: **6.7%**
- Decisive investment increased sales and market share for UV care and products for hair salons, but tough conditions remained for underperforming categories.
- -1.0 billion yen impact of high raw material prices on profit.

Skin Care

Increase in sales due to strong performance by UV care and other seasonal products, and growth in the Americas

- Japan: Although sales of hand soaps decreased due to market shrinkage and reduced sales promotion ahead of the launch of improved products, overall sales were nearly flat due to growth in sales and market share of UV care and other seasonal products.
- Americas: Growth due to the absence of the previous year's logistics disruptions.



Hair Care

Increase in sales due to continued strong sales of products for hair salons

- Mass-market hair care: Tough conditions remained for shampoos and conditioners in Japan.
- Products for hair salons: Both *ORIBE* and *Goldwell* performed well, with double-digit growth.



Personal Health

Market slumped due to increased opportunities for going out, and products faced tough conditions due to fierce competition.

- Market slumped, and products faced tough conditions due to fierce competition.
- Oral care: New product launch from Q2 from the mainstay brand *PureOra*.



Life Care Business in Q1

- Sales: **12.8** billion yen (+1.9%) Operating income: **-0.6** billion yen (-0.4 billion yen) Operating margin: **-4.8%**

Commercial-use Hygiene Products

Growth in Japan and the Americas due to market recovery

- Sales increased amid increased demand for products for the food service industry and lodging facilities, and market recovery in Japan.
- Sales in the Americas also increased due to growth in customer industries.



Health Drinks

Start of rebranding despite remaining tough conditions

- The Kao Group plans to increase first-time purchases of *Healthya*, which celebrates its 20th anniversary this year, by ramping up communication plugged in to consumers' daily lives and proactively utilizing social media and other digital technologies.



Cosmetics Business in Q1

- Sales: **51.8** billion yen (-10.1%) Operating income: **-4.5** billion yen (-4.8 billion yen) Operating margin: **-8.8%**
- Results were as planned, despite a year-on-year decrease due to curbs on shipments ahead of the rebranding of *freeplus* in China, structural reforms in Japan and other factors.
- Conducted a revision¹ of the brand portfolio (G11/R8). Will ramp up rollout of *ALLIE* outside Japan.

Japan

-2.3% due to the impact of structural reforms and other factors amid market recovery. Double-digit growth for G11 brands

- *KANEBO*: +50%.² *RADIANT SKIN REFINER* launched in March.
- *KATE*: +40%.² *LIP MONSTER* continued to perform well.
- *RMK*: +30%.² Mainstay makeup base grew at a faster pace than the market recovery.



China

-41% due to the impact of reduced shipments, despite recovery track of the market

- Although there was a reduction in shipments of current products ahead of the rebranding of *freeplus*, the impact was as expected.



Europe

-1.9% as consumption cooled due to inflation

- *SENSAI*: Began price adjustments for shipments in January. Sell-out from the flagship store grew by double digits, and travel retail sales doubled. Sales of *LIFT FOCUS ESSENCE*, which was launched in February, were strong.



1. See page 24 for details on the brand portfolio revision.
2. Year-on-year comparisons of area shipments for all brands

Cosmetics Business in Q1

Year-on-Year Growth/Share of Sales

	FY2022 Q1		FY2023 Q1	
	Growth	Share of Sales	Growth	Share of Sales
G11	+13%	72%	(6)%*	75%
R8	+2%	19%	(12)%	18%
Other	(21)%	9%	(26)%	7%

Global Shipments by Value

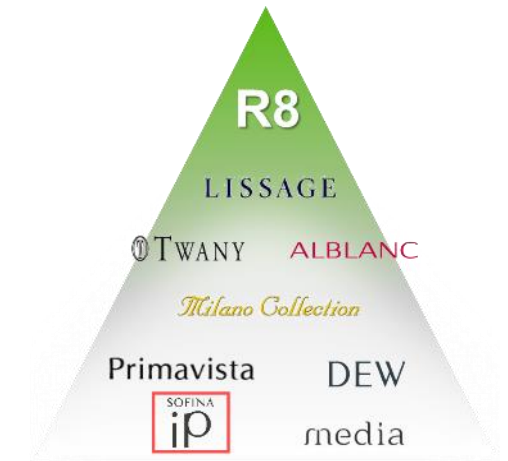
* +10% for Japan

G11 Growth Rates by Brand

+30% or more	KANEBO K A T E TOKYO R M K ath le tis
Single-digit	SENSAI est
Year-on-year decrease	MOLTON BROWN LONDON S U Q Q U ALLIE Curel freedus

Revision of Brand Portfolio

- Move ALLIE to G11 and SOFINA iP to R8



Chemical Business in Q1

- Sales: **93.2** billion yen (-7.4%) Operating income: **4.1** billion yen (-5.8 billion yen) Operating margin: **4.4%**
- Both sales and operating income decreased due to the impact of inventory adjustments by customers and shrinking margins, mainly for oleo chemicals.

Japan

+1.5% due to the contribution from price adjustments implemented since 2022

- Despite a slump in demand in some fields, sales increased due to the contribution from price adjustments.
- Launched a new series of highly durable asphalt modifiers using waste PET.

Launch of a new series of asphalt modifiers using waste PET that help resolve road problems in cold, snowy regions and offer improved durability, water resistance and workability.

Asia

-16.2% due to the impact of price adjustments for oleo chemicals and customer inventory adjustments

- Slump in demand in Greater China.
- Started new deliveries in response to favorable results in demonstration tests of an adjuvant for aerial spraying using drones.

Americas

-11.8% due to the lingering impact of customer inventory adjustments, mainly for fatty alcohols

- Price adjustments in line with falling prices of natural fats and oils also had an impact.
- Demand for tertiary amines was firm in some fields, and the Chemical Business aims to further expand this business.

Europe

- 7.7%, resulting from the substantial impact of customer inventory adjustments on oleo chemicals

- Falling prices of natural fats and oils and price competition due to the balance of supply and demand also had an impact.
- Sluggish demand is expected to continue, with more time required for recovery.

Inside the Pavement



Occasional gaps

Dense composition with few gaps

Underneath the Pavement

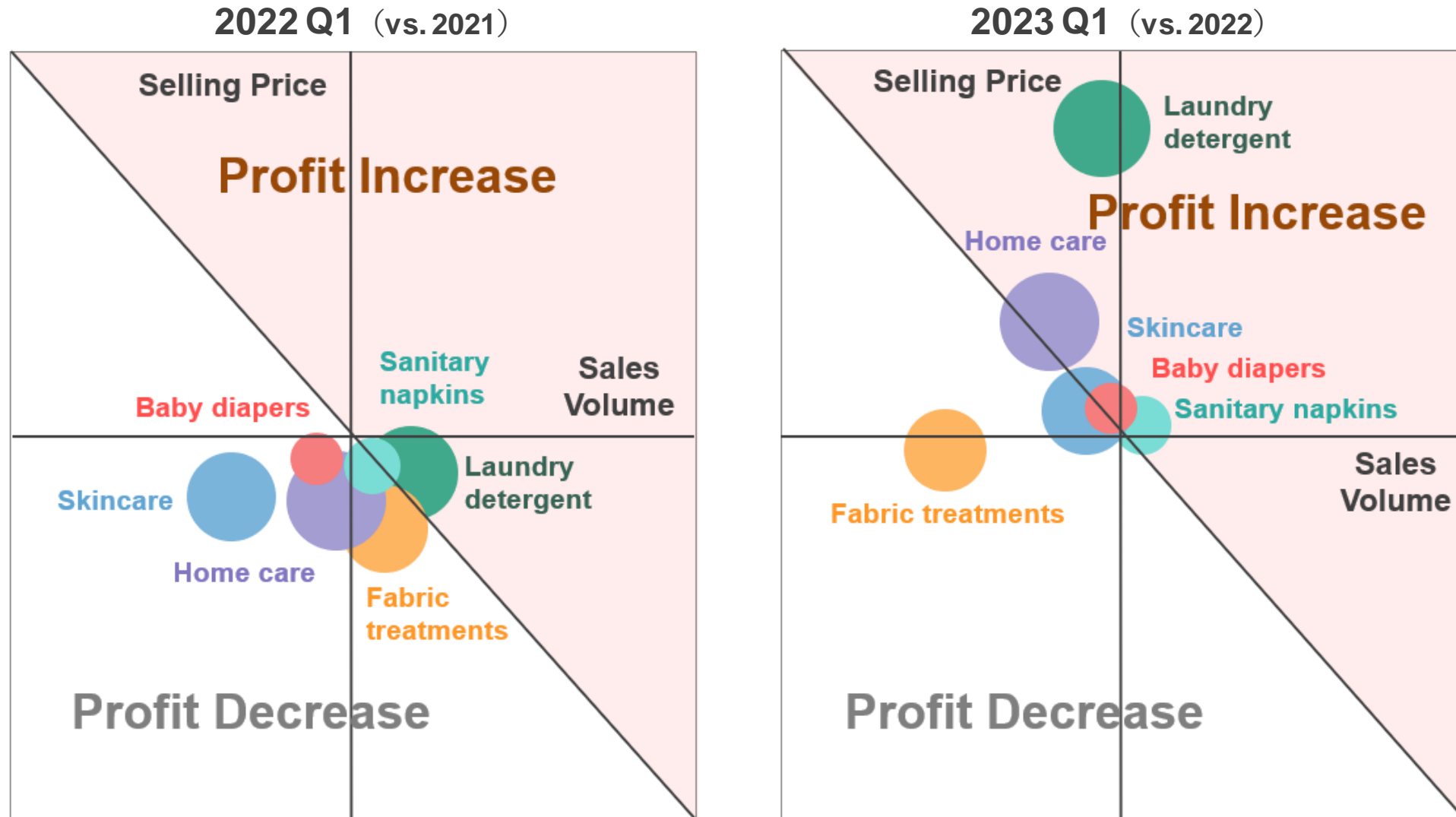


Occasional gaps

Dense composition

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

- Strategic Price increases implemented as planned for Consumer Products in Japan



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

Kao

Kirei—Making Life Beautiful

