

# Highlights for FY2008

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## Kao Corporation

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President and CEO



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Note: The yen amounts in these presentation materials are rounded down.

# Agenda

■ ■ **Summary of FY2008**

■ ■ **Summary of FY2009 Forecast**

■ ■ **Focal Points for FY2009 and Beyond**

# Summary of FY2008

# Financial Overview of FY2008

- *Performance in prestige cosmetics and the Chemical Business was poor during FY2008 amid higher raw material prices up to the third quarter and a drastic economic slowdown in the second half. Both net sales and profits fell short of our revised forecast announced in January 2009, despite price adjustments, the introduction of high-value-added products, improved efficiency of marketing expenditures and reinforced integration of business operations in Asia, including Japan.*

		<u>% of sales</u>	<u>Year-on-year</u>
<b>Net sales:</b>	<b>¥1,276.3 billion</b>		<b>-3.2%</b>
<b>EBITA*:</b>	<b>¥134.6 billion</b>	<b>10.6%</b>	<b>-14.6%</b>
<b>Operating income:</b>	<b>¥96.8 billion</b>	<b>7.6%</b>	<b>-16.7%</b>
<b>Net income:</b>	<b>¥64.4 billion</b>	<b>5.1%</b>	<b>-3.2%</b>
<b>Net income per share:</b>	<b>¥120.25</b>		<b>-1.9%</b>
<b>ROE:</b>	<b>11.5%</b>		<b>-20bps</b>
<b><u>Shareholder returns</u></b>			
<b>Cash dividends per share:</b>	<b>¥56</b>		<b>+¥2</b>
<b>Consolidated payout ratio:</b>	<b>46.6%</b>		

\* Operating income before amortization of goodwill and intellectual property rights related to M&A



# Overview of FY2008 Business Environment

**Drastic change in business environment beyond forecast**

**Negative impact on profits due to higher raw material prices**

**Rapid deterioration of global economy**

- **Cooling prestige cosmetics market due to change in consumer purchasing attitudes**
- **Decrease in demand and inventory adjustments in customer industries of the Chemical Business**

# Focal Points and Results of FY2008

**1. Launch of consumer-driven, high-value-added products**

- *Blauné* hair color foam
- *Medicated Pyuora Nano-bright Toothpaste*

**2. Continuous market share expansion of household and personal care products in Japan due to the reinforcement of brand power as well as sales force**

**3. Sales of the Consumer Products Business in Asia and Oceania grew 10% as a result of successful integration of business operations in the region, including Japan**

# Issues to Be Addressed

## 1. Year-on-year decrease in prestige cosmetics sales due to impact of sluggish mid-priced products market and slowdown in high-priced products market

- Nurture strong brands in each appropriately defined segment, reflecting consumer changes
- Maximize brand equity of Kanebo Cosmetics to make retail channel-based proposals that involve the entire Kao Group

## 2. Year-on-year decline in Beauty Care sales in North America and Europe due to economic slowdown and increased competition

- Premium mass products: Reinforce brand power by strengthening collaboration with Japan and differentiate ourselves with high-value-added products
- Prestige products: Enhance brand value of *Molton Brown* by further emphasizing its prestigious nature

## 3. Recent significant sales decline of Chemical Business amid global economic slowdown

- Promote development of distinctive, high-value-added products by introducing new approaches such as environmental protection



# Summary of FY2009 Forecast

# FY2009 Forecast

*In FY2009, we will focus on reinforcing our foundation for profitable growth including a review of our fixed expenses structure, while placing importance on shareholder returns, amid an uncertain business environment due to the global recession.*

		<u>% of sales</u>	<u>Year-on-year</u>
<b>Net sales:</b>	<b>¥1,210.0 billion</b>		<b>-5.2%</b>
<b>EBITA*:</b>	<b>¥132.0 billion</b>	<b>10.9%</b>	<b>-2.0%</b>
<b>Operating income:</b>	<b>¥97.0 billion</b>	<b>8.0%</b>	<b>+0.2%</b>
<b>Net income:</b>	<b>¥56.0 billion</b>	<b>4.6%</b>	<b>-13.1%</b>
<b>Net income per share:</b>	<b>¥104.47</b>		<b>-13.1%</b>
<b>ROE:</b>	<b>10.0%</b>		<b>-150bps</b>
<b><u>Shareholder returns</u></b>			
<b>Cash dividends per share:</b>	<b>¥56</b>		<b>±¥0</b>
<b>Consolidated payout ratio:</b>	<b>53.6%</b>		

\* Operating income before amortization of goodwill and intellectual property rights related to M&A



# Focal Points for FY2009 and Beyond

# Mid-term Growth Strategies

***Profitable growth driven by high-value-added products***

- Accelerate growth in the Beauty Care and Human Health Care\* businesses.**
- Further strengthen and develop Fabric and Home Care, a core business.**
- Further enhance the Chemical Business globally and locally with distinctive products that meet customer needs.**

\*The scope of “Human Health Care” does not include pharmaceuticals.



# Review of the Period from FY2006 to FY2008

## Achievements

1. Implementation of four business unit operating structure and reinforcement of matrix management by business and function
2. Strengthening of sales functions with the establishment of Kao Customer Marketing Co., Ltd.
3. Establishment of global management structure
  - Integration of business operations in Asia, including Japan
  - Promotion of global supply chain management
4. Innovation of marketing
  - Thorough analysis of values and lifestyles rooted in the cultures of Japan and each country in Asia
  - Strong brand-building with unique RPDC (Research-Plan-Do-Check) brand diagnosis
  - Effective and efficient communication with IBC (Integrated Brand Communications)
5. Generation of cost synergy with Kanebo Cosmetics

## Unexpected factors

1. Cumulative impact of higher raw material prices on profits since FY2007: Approx. ¥60 billion
  - ➔ Product price adjustments and cost reduction activities
2. Cooling of consumption and slump in markets where Kao operates due to sudden economic slowdown in FY2008
  - ➔ Focus on investment in core brands and new product development/launches to stimulate markets

# Focal Points for FY2009 and Beyond

## ***Expand sales of Beauty Care Business with high-value-added products***

### **Prestige cosmetics**

- Establish leading presence in Japan**
  - Conduct marketing that covers products from counseling to self-selection cosmetics in response to polarization of consumer needs
  - Strengthen the organization by promoting exchange of human resources, including from Kanebo Cosmetics Inc.
  - Use overall capabilities of the entire Kao Group, such as sales force and supply chain management
- ¥8 billion projected sales of Kanebo Cosmetics in China in FY2010 by increasing sales per shop**
- Estimated cumulative cost reduction synergy with Kanebo Cosmetics by FY2010: ¥10-15 billion**

### **Premium mass products\***

- Thoroughly reinforce operations in Japan using Kao's product development capabilities and organized sales force**
- Expand business in Asia by nurturing pan-Asian brands**
- Ensure premium status of brands by strengthening product development system in North America and Europe**

\* Premium mass products consist of premium skin care and premium hair care products.

# Focal Points for FY2009 and Beyond

## *Expand areas in health care*

- Reinforce functional foods and beverages business amid rising consumer awareness of metabolic syndrome countermeasures
- Establish solution service business linked with mandatory special health examinations and specified health guidance

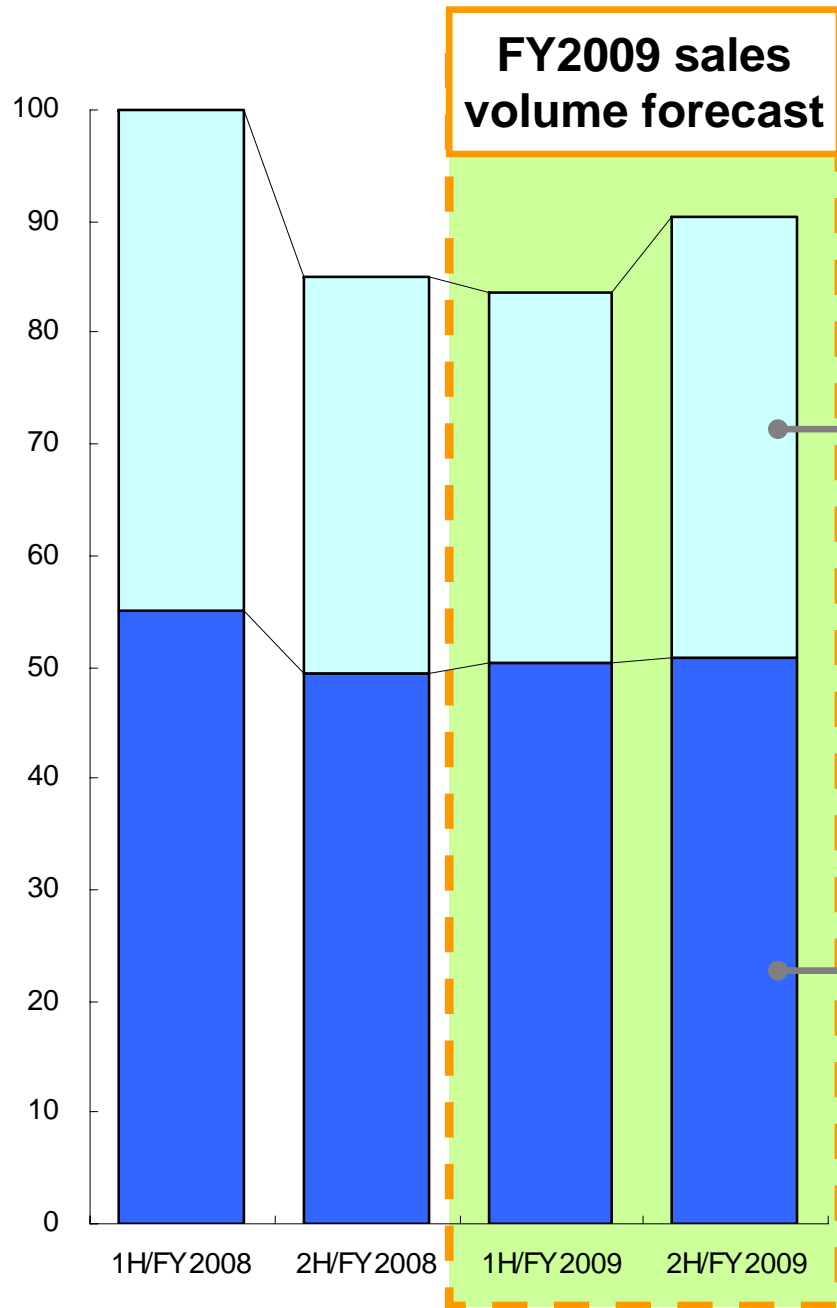
# Focal Points for FY2009 and Beyond

***Further reinforce Fabric and Home Care Business with proposals to offer a comfortable, pleasurable and fulfilling life***

- Revitalize market with high-value-added products**
- Offer market-creating products in response to growing consumer consciousness of sanitation, safety and the environment**
- Further strengthen Kao's leading position in the Japanese market and establish brands with a strong presence in Asia and Oceania**



# Impact of Deteriorating Economy on Chemical Business



**FY2009 sales volume forecast**

Product categories with major impact	
<p><b>Products</b></p> <ul style="list-style-type: none"> <li>Plastic additives</li> <li>Low temperature metal cleaner</li> <li>Foundry chemicals</li> <li>Polishing agents for hard disks</li> </ul>	<p><b>Principal industries</b></p> <ul style="list-style-type: none"> <li>Automotive industry</li> <li>Consumer electronics</li> <li>Electronic materials</li> </ul>

Product categories with comparatively less impact	
<p><b>Products</b></p> <ul style="list-style-type: none"> <li>Toner and toner binder for copiers and printers</li> <li>Raw materials for household and personal care products</li> <li>Aroma chemicals, edible oils</li> </ul>	<p><b>Principal industries</b></p> <ul style="list-style-type: none"> <li>Office supply</li> <li>Consumer products</li> </ul>

\* Sales volume of 1H/FY2008 = comparative base (100)



# Focal Points for FY2009 and Beyond

## *Initiatives for the recovery of the Chemical Business*

- ❑ **Accelerate product development and sales expansion focusing on environmental protection**
  - Strengthen eco-materials: Sales expansion of oleo chemicals derived from natural oils and fats such as palm kernel oil
  - Increase sales of products with environmental functions: Introduction and nurturing of improved plant-based polylactide resin, low temperature metal cleaner
- ❑ **Focus on development of high-value-added products expected to be future growth drivers, such as in the IT-related category**

## **Synergy with Consumer Products Business**

- ❑ **Source of fundamental technology**
- ❑ **Supply of raw materials to Consumer Products Business**

# Further Enhance Cost Reduction Activities

## FY2009 forecast

- **Total Cost Reduction (TCR) activities: ¥5 billion**

## Generate more profit with additional cost reduction activities

- **Improve cost of sales ratio (proportion of variable expenses)**
  - Review cost of product formulas
  - Reduce yield loss
- **Review fixed expenses structure**
  - Enhance efficiency by streamlining overlap among organizations
  - Streamline product development cost

# Use of Increased Free Cash Flow\*

*Use steadily generated free cash flow effectively from an EVA standpoint toward further growth.*

1. Capital expenditures and M&A for future growth

2. Steady and continuous cash dividends

*FY2009  
forecast*

- *Cash dividends per share: ¥56*
- *Consolidated payout ratio: 53.6%*

3. Share repurchases and repayment of interest-bearing debt including borrowings

\*Free cash flow = Net cash provided by operating activities + Net cash used in investing activities

# Keywords for Kao's Further Profitable Growth

**Accelerate growth of business globally  
(Stronger focus on BRICs, etc.)**

**Expand business through development of  
high-value-added products from  
a new viewpoint using the environment  
as a keyword**

# Appendices

# Business Segments and Main Product Categories

Consumer Products  
Business

## Beauty Care

**FY2008 sales: ¥588.3 billion**

[ -6.3% year-on-year / Share of net sales: 46.1% ]

Beauty salon products  
Prestige cosmetics  
Premium skin care  
Premium hair care



Consumer driven

## Human Health Care

**FY2008 sales: ¥191.3 billion**

[ +0.0% year-on-year / Share of net sales: 15.0% ]

Functional food and beverages  
Oral care  
Blood circulation enhancement products  
(incl. bath additives and thermal pads)  
Sanitary products



Consumer Products  
Business

Consumer Products  
Business

## Fabric and Home Care

**FY2008 sales: ¥274.2 billion**

[ -0.2% year-on-year / Share of net sales: 21.5% ]

Laundry detergents and fabric treatments  
Products for kitchen, bath, toilet and living room care



## Chemical

**FY2008 sales: ¥262.0 billion**

[ +1.3% year-on-year / Share of net sales: 17.4% ]

Oleo chemicals  
Performance chemicals  
Specialty chemicals



Chemical Business

\* Sales include intersegment sales. Share of net sales is calculated based on sales to customers.

# FY2008 Breakdown of Beauty Care Business

Billion yen      Increase  
(Decrease)\*

		Billion yen	Increase (Decrease)*
<b>Beauty Care</b>	Net sales	588.3	(6.3%)
	Operating income	17.5	(9.7)
	Operating margin	3.0%	(130bps)
<b>Prestige Cosmetics</b>	Net sales	290.8	(8.0%)
	Operating income**	(18.5)	(9.5)
	Operating margin	(6.4%)	(360bps)
<b>Premium mass products and professional hair care products</b>	Net sales	297.4	(4.6%)
	Operating income	36.0	(0.2)
	Operating margin	12.1%	+50bps

**Kanebo Cosmetics**

- Net sales:  
Approx. ¥210 billion
- EBITA as a % of sales\*\*\* :  
6%+

\* Increase (decrease) in percent for net sales and billion yen for operating income

\*\* Includes ¥28.8 billion of amortization of goodwill and intellectual property rights related to M&A

\*\*\* Operating income ratio before deduction of royalties



# Kao's Skin Care and Makeup Brand Portfolio in Japan

		Department Stores	Drugstores/ GMS	Specialty Stores
Counseling	High prestige	Impress LUNASOL e s t R M K		TWANY LISSAGE
	Prestige		SOFINA beauté ALBLANC GRACE SOFINA MEDICATED DOLTIER Primavista FINE-FIT AUBE couture Kanebo BLANCHIR SUPERIOR DEW SUPERIOR freepus suisai COFFRET D'OR	
Self-selection			EVITA Frēshel WHITE C KATE Lavshuca media	
Premium mass Personal care			Bioré Curel	

# Kao's Cosmetics Mega Brands (Beauty Care Business)

**Cosmetics Mega Brands**  
(annual sales in excess of  
¥10 billion)  
in FY2008



COFFRET D'OR



BLANCHIR SUPERIOR



FINE-FIT



KATE



EVITA



TWANY



MOLTON BROWN  
LONDON



LISSAGE



R M K



SENSAI



# SRI Indexes and External CSR Evaluation

## SRI indexes for which Kao has been selected



## CSR-related evaluation from external organization



(As of April 24, 2009)

CSR: Corporate Social Responsibility  
SRI: Socially Responsible Investment

