

# **Highlights for FY2010**

## **(Ended March 31, 2011)**

April 26, 2011

# **Kao Corporation**

## **Motoki Ozaki**

### **President and CEO**



The Kao Corporation logo, consisting of the word "Kao" in a bold, green, sans-serif typeface.

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[http://www.kao.com/jp/en/corp\\_ir/presentations.html](http://www.kao.com/jp/en/corp_ir/presentations.html)

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

# Agenda

- ■ **Summary of FY2010**
- ■ **Mid-term Growth Strategies:  
Orientation and Initiatives**
- ■ **Summary of FY2011 Forecast**

# Summary of FY2010

# Financial Overview of FY2010

- *Amid global economic recovery, Kao focused on consumer-driven product development, efficient marketing and cost reduction activities to achieve growth in sales and income despite the impact of higher raw material prices and the Great East Japan Earthquake.*
- *In Japan, a shift in consumer preference to lower-priced products in the cosmetics market and deflation in the household and personal care market continued. Kao responded by rebuilding its prestige cosmetics business and launching high-value-added products.*
- *The Consumer Products Business outside Japan and the Chemical Business performed steadily.*

		<u>% of sales</u>	<u>Year-on-year</u>
<b>Net sales:</b>	<b>¥1,186.8 billion</b>	<b>-</b>	<b>+0.2%</b>
<b>EBITA*:</b>	<b>¥139.1 billion</b>	<b>11.7%</b>	<b>+7.4%</b>
<b>Operating income:</b>	<b>¥104.5 billion</b>	<b>8.8%</b>	<b>+11.2%</b>
<b>Net income:</b>	<b>¥46.7 billion</b>	<b>3.9%</b>	<b>+15.4%</b>
<b>Net income per share:</b>	<b>¥87.69</b>	<b>-</b>	<b>+16.0%</b>
<b>ROE:</b>	<b>8.5%</b>		<b>+120bps</b>
<b>Shareholder returns</b>			
<b>Cash dividends per share:</b>	<b>¥58</b>		<b>¥1 increase</b>
<b>Consolidated payout ratio:</b>	<b>66.1%</b>		
<b>Share repurchase:</b>	<b>¥29.9 billion</b>		

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

# Summary of Sales by Business – FY2010

**Consumer Products in Japan: -1.7%** (Includes effect of approximately ¥10 billion decrease in sales of *Econa* and related products)

- Impact of the Great East Japan Earthquake
- Consumer Products excluding prestige cosmetics achieved our full-year forecast with aggressive product launches in response to consumer and market changes
- Rebuilding of prestige cosmetics business is underway

**Consumer Products in Asia and Oceania: +3.0%** (Like-for-like\* +4.7%)

- Sales continued to expand with further progress of integration of business operations in Asia, including Japan

**Consumer Products in North America: -5.7%** (Like-for-like\* +1.2%)

**Consumer Products in Europe: -3.2%** (Like-for-like\* +9.2%)

- Amid severe market conditions, sales increased year-on-year on a like-for-like basis with the effect of new products, etc.

**Chemical: +11.6%** (Like-for-like\* +16.0%)

- Sales volume increased reflecting recovery of demand from customer industries, with Asia in particular driving growth

\* Change excluding effect of currency translation

# Impact of the Great East Japan Earthquake

## Impact on production/logistics and countermeasures

### ■ Production:

- In response to damage at the Kashima Plant and other facilities and lack of electric power supply, Kao is making efforts to supply products stably with measures including rearrangement of its production network among manufacturing facilities worldwide and use of cogeneration facilities
- The Kashima Plant is resuming production in stages, with the restoration of the production system expected by the end of April

### ■ Procurement of raw materials:

- Measures taken includes alternative procurement

### ■ Logistics:

- Efforts to quickly restore two affected logistics centers in Sendai area
- Kao is supplying products to the Sendai and Miyagi areas using neighboring logistics centers

### ■ Extraordinary loss in FY2010:

- ¥4.1 billion, consisting mainly of restoration expenses for factories, laboratories and distribution bases and evaluation loss on inventories

## Market conditions in March and April 2011

### ■ Household and personal care:

- Overall market is recovering after a temporary slowdown
- Market slowdown continues in the affected area

### ■ Cosmetics:

- Makeup in particular declined immediately after the earthquake
- On a recovery track from April

### ■ Chemical:

- Market contraction on a volume basis resulting from decreased demand at customers due to the earthquake

# FY2010 Status of Consumer Products Excluding Prestige Cosmetics in Japan

## Beauty Care:

- In premium skin care, sales of *Bioré* grew with contribution of UV care products, etc.
- In premium hair care, improved *Merit* and *Essential* shampoos and conditioners performed well



## Human Health Care:

- In food and beverages, conducted marketing of *Healthya* functional health drinks with a proposal to promote the habit of walking
- In sanitary products, launched high-value-added products such as *Laurier* sanitary napkins with increased absorbency and continued to gain consumer support for the gentleness on skin of *Merries* baby diapers
- In personal health, steam eye mask contributed to sales expansion of thermal product *Megurhythm*



## Fabric and Home Care:

- In fabric care, strengthened and nurtured the *Neo* series laundry detergents and fabric softener
- In home care, new living care products, including for *Bath Magiclean* cleaner and *Quickle Wiper* paper cleaning products, stimulated the market





# Prestige Cosmetics in Japan in FY2010

## Cosmetics market in Japan

[Year-on-year growth in value terms]

Apr. 10-Mar. 11    Apr. 09-Mar. 10

**Total market**

**-3.2%**

**-4.1%**

**High-priced segment (over 5,000 yen):**

**-3.2%**

**-5.3%**

**Mid-priced segment (2,000-5,000 yen):**

**-5.4%**

**-5.6%**

**Low-priced segment (below 2,000 yen):**

**+0.4%**

**+1.1%**

**Kao Group total (Kanebo Cosmetics + Kao Sofina)**

**-1.0%**

**-8.3%**

Source: SLI survey by INTAGE Inc. (Data based on tracking service of 40,060 female consumers nationwide in Japan)  
The database for Apr. 09-Mar. 10, including the number of female consumers, is different from the current SLI survey.

# Rebuilding Prestige Cosmetics Business in Japan (FY2010)

*Improve profitability by rebuilding prestige cosmetics business in Japan*

- ☐ Reform of brands
- ☐ Reform of marketing
- ☐ Reform of sales methods

## Kao Sofina

- Integrate into core brands
- Promote product development and sales methods that create repeat customers
  - Enhance each product and optimize inventory level at retailers
- Concentrate marketing investment and promote efficiency
- Conduct basic in-store activities

## Kanebo Cosmetics

- Select core brands and reform distribution channel strategy
- Optimize SKUs and start to ensure appropriate inventory level at retailers
- Fundamentally reform sales structure

## Cumulative cost synergy

- Achieved approximately ¥13.7 billion in cost reductions (from FY2006 to FY2010)

# Mid-term Growth Strategies: Orientation and Initiatives

# Kao's Mid-term Growth Strategies

***Use Kao's innovative technology to raise its competitive advantage in the global market and achieve profitable growth***

## ***[Consumer Products Business]***

- ☐ Further growth in Japan, the Kao Group's profit base
- ☐ Accelerated globalization
  - ↳ Mature markets:
    - Achieve further growth driven by high-value-added products
  - ↳ Growth markets:
    - Invest management resources to strengthen focal strategic brands
    - Establish corporate identity (CI)

## ***[Chemical Business]***

- ☐ Rapid progress toward an eco-chemical business

# Further Growth in Japan, the Kao Group's Profit Base

## Market conditions

### ■ Deflation

### ■ Changes in consumers

- Rising environmental consciousness
- Aging population
- Increasing health consciousness

*Launch and nurture products with high added value  
from functional, emotional and environmental perspectives*



Neo fabric care series



Grace Sofina skin care  
series



Healthya functional  
health drink series

**Outpace market growth to maintain market-leading position of  
Consumer Products Business in Japan, thereby enhancing profit**

# Accelerated Globalization

## [Mature markets]

**Achieve further growth driven by high-value-added products that use Kao's original technologies**

*Global roll-out of hair color foam products*

### ■ *Liese* brand in Asia

○Japan\*

○Singapore, Hong Kong, Taiwan



*Liese*

### ■ *John Frieda* brand in North America and Europe

○United Kingdom, Netherlands, United States



*John Frieda*

\* *Prettia* and *Blauné* brands in Japan

# Accelerated Globalization

## **[Growth markets]**

- Invest management resources to strengthen focal strategic brands**
- Establish corporate identity (CI)**

- Prioritize countries with large populations and high growth potential where Kao has insight into consumers
- Categories with sizable markets targeting mid-tier consumers
  - Focus on laundry detergents, baby diapers, sanitary napkins and others
  - Differentiated technologies
  - Cost-competitive advantage

# Kao's Competitive Advantages to Support Growth in China

## [Example: Attack Instant Clean Liquid]

### Ability to discover consumers' needs

- In-depth survey of actual lifestyle conditions
  - ➔ Laundering methods and expectations for laundry detergents: Superior cleaning performance even when hand washing and no residue after rinsing are important



### Ability to develop differentiated products

- Superb cleaning performance
- Quick and easy rinsing (water saving)

### Contribution to sustainability through business

- Contribution to environment by saving water
  - ➔ The product contributes to reducing water consumption in China, where water is a valuable resource
  - ➔ Certification of water saving from a major national certification body of China
- Proposal of products that meet unique needs of consumers in China for laundry detergent



Certification

Kao



# Consumer Products Business in China

## Proactive investment in China to nurture it as a growth driver

- Consumer Products excluding prestige cosmetics
  - Product development tailored to local lifestyles using Kao's original technologies
  - Laundry detergents, sanitary napkins
  - Baby diapers will be another area of focus in the future
    - ➔ Start of export of *Merries* baby diapers from Japan for specialty stores
    - ➔ Acquisition of site to build second plant in China at Hefei City, Anhui Province
- Prestige cosmetics
  - Kanebo Cosmetics will execute a product strategy that responds to changes in the fast-growing market
  - Kanebo Cosmetics FY2010 like-for-like\* sales growth: Approximately +6%
    - ➔ Growth rate has slowed temporarily due to fierce competition and the impact of stricter regulations for imported cosmetics, etc.

\* Change excluding effect of currency translation

# Achieving Global Business Growth

- **Shift to ecology-centered management**
- **Establish corporate identity (CI)**

## ***Accelerated Globalization***

### **Integration of business operations in Asia, including Japan**

(Standardize business processes, cooperate, share The Kao Way)

### **Global Business Harmonization of Beauty Care**

(Project toward official launch in 2012 is in progress)

### **Global Business Harmonization of Consumer Products**

# Rapid Progress toward an Eco-chemical Business

## Growth from environmentally conscious products

- Innovation led by Eco-Technology Research Center
- Major product:
  - ◆ Improved plant-based polylactide resin



## Focus on information-related materials markets

- Major products:
  - ◆ Toner and toner binder for copiers and printers
  - ◆ Polishing agents for hard disks



## Expansion of business in BRICs

- Major products:
  - ◆ Fatty alcohols
  - ◆ Fatty amines



# Summary of FY2011 Forecast

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***In a persistently uncertain business environment, with volatility in global market prices of raw materials, deflation in the Japanese market for household and personal care products and the impact of the Great East Japan Earthquake on the market in Japan, Kao will pursue profitable growth globally with its differentiated technologies and high-value-added products.***

		<u>% of sales</u>	<u>Year-on-year</u>
Net sales:	¥1,228.0 billion		+3.5%
EBITA*:	¥138.4 billion	11.3%	-0.5%
Operating income:	¥105.0 billion	8.6%	+0.4%
Net income:	¥53.0 billion	4.3%	+13.4%
Net income per share:	¥101.52		+15.8%
ROE:	9.8%		+130bps
Shareholder returns			
Cash dividends per share:	¥58		±¥0
Consolidated payout ratio:	57.1%		

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

# Use of 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

FY2011  
forecast



■ Cash dividends per share: ¥58  
■ Consolidated payout ratio: 57.1%

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

# Appendices



# Business Segments and Main Product Categories

Consumer Products  
Business

## Beauty Care

**FY2010 sales: ¥533.5 billion**

[ -2.6% year-on-year / Share of net sales: 45.0% ]

Beauty salon products  
Prestige cosmetics  
Premium skin care  
Premium hair care



Consumer  
driven

## Human Health Care

**FY2010 sales: ¥175.7 billion**

[ -4.0% year-on-year / Share of net sales: 14.8% ]

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

**FY2010 sales: ¥279.0 billion**

[ +0.8% year-on-year / Share of net sales: 23.5% ]

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



## Chemical

**FY2010 sales: ¥231.9 billion**

[ +11.6% year-on-year / Share of net sales: 16.7% ]

Oleo chemicals  
Performance chemicals  
Specialty chemicals



Chemical Business

Note: Sales include intersegment sales. Share of net sales is calculated based on sales to customers.

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# FY2010 Breakdown of Beauty Care Business

		Billion yen	Increase (Decrease) <sup>1</sup>
<b>Beauty Care</b>	Net sales	533.5	-2.6%
	Operating income <sup>2</sup>	5.5	+0.7
	Operating margin	1.0%	+10bps
<b>Prestige cosmetics</b>	Net sales	254.4	-4.0%
	Operating income <sup>2</sup>	-29.1	+1.0
	Operating margin	-11.5%	-10bps
<b>Premium mass products and professional hair care products</b>	Net sales	279.1	-1.3%
	Operating income <sup>2</sup>	34.7	-0.2
	Operating margin	12.4%	0bps

## Kanebo Cosmetics

- Net sales:  
Slightly less than ¥190 billion
- EBITA as a % of sales<sup>3</sup> :  
Approx. 3%

1. Increase (decrease) in percent for net sales and billion yen for operating income

2. Includes amortization of goodwill and intellectual property rights related to M&A

- Beauty Care: ¥34.3 billion

- Prestige cosmetics: ¥28.5 billion

- Premium mass products and professional hair care products: ¥5.7 billion

3. Operating income ratio before deduction of royalties

# SRI Indexes and External CSR Evaluation

## SRI indexes for which Kao has been selected



## CSR-related evaluation from external organization



(As of April 26, 2011)

CSR: Corporate Social Responsibility  
SRI: Socially Responsible Investment

Kao