

# **Highlights for FY2011**

## **(Ended March 31, 2012)**

April 24, 2012

# **Kao Corporation**

## **Motoki Ozaki**

### **President and CEO**



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

Forward-looking statements such as earnings forecasts and other projections contained in these materials are based on information available at this time and assumptions that management believes to be reasonable. Actual results may differ materially from those expectations due to various factors.

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

# Agenda

■ ■ **Summary of FY2011**

■ ■ **Mid-term Growth Strategies**

■ ■ **Summary of FY2012 Forecast**

# Summary of FY2011

# Financial Overview of FY2011

- *Kao surpassed its operating income forecast announced in July 2011 and improved ROE to 9.8%. Kao also plans to increase total cash dividends 2 yen per share to 60 yen per share.*
- *In Japan, the Kao Group's principal market, severe market conditions persisted, with the impact of the March 11 Great East Japan Earthquake, deflation in the household and personal care products market and contraction of the cosmetics market.*
- *Kao was impacted by higher raw material prices, the earthquake and flooding in Thailand, but focused on consumer-driven development of high-value-added products, control of expenses including marketing expenditures and cost reduction activities.*
- *Kao benefited from rebuilding its prestige cosmetics business in Japan and improved operating income significantly.*

		<u>% of sales</u>	<u>Year-on-year</u>
<b>Net sales:</b>	<b>¥1,216.0 billion</b>	<b>-</b>	<b>+2.5%</b>
<b>EBITA*:</b>	<b>¥142.1 billion</b>	<b>11.7%</b>	<b>+2.2%</b>
<b>Operating income:</b>	<b>¥108.5 billion</b>	<b>8.9%</b>	<b>+3.8%</b>
<b>Net income:</b>	<b>¥52.4 billion</b>	<b>4.3%</b>	<b>+12.2%</b>
<b>Net income per share:</b>	<b>¥100.46</b>	<b>-</b>	<b>+14.6%</b>
<b>ROE:</b>	<b>9.8%</b>		<b>+130bps</b>
<b>Shareholder returns</b>			
<b>Cash dividends per share:</b>	<b>¥60</b>		<b>¥2 increase</b>
<b>Consolidated payout ratio:</b>	<b>59.7%</b>		

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

# Summary of Sales by Business – FY2011

## Consumer Products in Japan: +1.8% <sup>1</sup>

- The household and personal care products market contracted by 1.0% year-on-year <sup>2</sup>, impacted by the earthquake.
- In Consumer Products excluding prestige cosmetics, Kao focused on high-value-added products and enhanced sales activities, and sales grew year-on-year despite the impact of the earthquake, severe market conditions and deflation.
- Prestige cosmetics increased its share of Japan's contracting market (-3.5% <sup>3</sup>). Operating income also improved significantly from rebuilding the business.



## Consumer Products in Asia and Oceania: +6.6% (Like-for-like +11.8%)

- Operating income decreased slightly year-on-year due to up-front marketing investment and higher raw material prices.



## Consumer Products in North America: -2.7% (Like-for-like +6.6%)

## Consumer Products in Europe: +1.3% (Like-for-like +5.1%)

- Sales increased year-on-year on a like-for-like basis with the effect of new products but operating income decreased year-on-year due to up-front marketing investment.



## Chemical: +6.7% (Like-for-like +10.0%)

- Sales volume in Japan decreased as demand in customer industries declined mainly due to the earthquake, flooding in Thailand and the stronger yen. Sales outside Japan were strong, mainly of oleo chemicals.
- Operating income increased outside Japan, but decreased in Japan mainly due to the impact of decreased demand from customer industries.



1: Percentages for each business show year-on-year change in sales. Like-for-like change excludes the effect of currency translation.

2: SRI POS data by INTAGE Inc.

3: SLI data by INTAGE Inc.

# Prestige Cosmetics Business in Japan – FY2011

## *Rebuilding prestige cosmetics business in Japan:*

### ☐ Reform of brands

↳ Narrow down number of brands

### ☐ Reform of marketing

↳ Raise efficiency of marketing expenditures

### ☐ Reform of sales methods

↳ Optimize deployment of human capital

↳ Create synergy between the sales activities of Kao Customer Marketing Co., Ltd. and Kanebo Cosmetics Sales Inc.

## Kao Sofina

- Operating income nearly reached break-even in FY2011

## Kanebo Cosmetics

- Improvement as planned in EBITA as a % of sales\*: From approx. 3% in FY2010 to approx. 6% in FY2011

## Efficient use of expenses by both Kao Sofina and Kanebo Cosmetics

- Advertising expenses: -5.8% year-on-year
- Personnel expenses: -2.2% year-on-year

\* Operating income ratio before deduction of royalties

# Mid-term Growth Strategies



# 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 reinforcement of business 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 Reinforcement of Business in Japan, the Kao Group's Profit Base

***Achieve further growth driven by high-value-added products in Consumer Products excluding prestige cosmetics  
→ Increase operating income with sales expansion that outpaces market growth of 2-3%***

## **Provide high-value-added products**

- **Functional value** e.g. *Cleansing performance with mildness to skin*
- **Emotional value** e.g. *Proposal for relaxation using aroma and design*

## **Add a business model that addresses social issues**

### ■ **Social value**

- ↳ **Environment** e.g. *Technologies for detergent that saves water and electricity*
- ↳ **Health** e.g. *Health solution combining a support campaign for healthy lifestyles and functional beverages*
- ↳ **Aging society** e.g. *Proposals of high-value-added products for skin care, hair care and oral care, universal design for products*

 **Use the high potential of the Kao Group to improve social value**

  
**Directly connected to future global strategies**

# Accelerated Globalization in Mature Markets

## North America and Europe

- **Build mega brands in the Beauty Care Business**

*Bioré, Curél, Jergens, John Frieda, Goldwell,  
Molton Brown, SENSAI*

- **Integrate management of the Beauty Care Business in North America and Europe**

- **Prioritize business strategies**
- **Optimize use of costs**

## Asia (Taiwan, Hong Kong and Singapore)

- **Promptly rollout high-value-added products that are successful in Japan**

# Accelerated Globalization in Growth Markets

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

- Prioritize countries with large populations and high growth potential
  - China, Indonesia, Vietnam, Russia, etc.
- Categories with sizable markets targeting mid-tier consumers
  - Focus on laundry detergents, baby diapers, sanitary napkins and others
  - Differentiated technologies
  - Cost-competitive advantage

# Measures for China, the Top-priority Growth Market

**Sales of Consumer Products business:  
FY2011: Approximately 15 billion yen  
➔ By FY2015: Approximately 50 billion yen**

- Strengthen categories with sizable markets targeting mid-tier consumers
  - Introduce products appropriate for the Chinese market, with a focus on laundry detergents, baby diapers and sanitary napkins
  - Expand Kao's distribution network nationwide through new sales channels
    - Number of cities where Kao products are sold:  
Current approximately 90 ➔ More than 400 in the near future
  - Full-scale production of baby diapers at a new manufacturing facility from the end of 2012
- Expand sales of prestige cosmetics
  - Expansion of Kanebo Cosmetics into the cosmetics specialty store channel and inland areas with the September 2011 launch of *AQUA Lunash* skin care, in addition to strengthening of department store and high-end drugstore channels

# Global Integrated Management of Consumer Products Business

## Integration of business operations in Asia, including Japan

[2006- ]

- Standardize business processes
- Cooperate
- Share The Kao Way

## Integrated management of the Beauty Care Business in North America and Europe

[2012- ]

- Matrix management of business units and functions
- Unified management in each country

## Global integrated management of the Consumer Products Business

[2013- ]

- Integrated management encompassing Japan, Asia, North America and Europe

➔ ***Accelerate globalization to achieve 50% of sales from outside Japan***

### **Growth and development in Japan is fundamental**

[Response to changes in the consumers and market in Japan  
→ Address social issues through core businesses]

# Rapid Progress toward an Eco-chemical Business

## Growth from environmentally conscious products

- Innovation led by Eco-Technology Research Center



## 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





# Rapid Progress toward an Eco-chemical Business

## Main eco-chemical products that Kao currently sells

- High-speed, low-fusion-temperature toner and toner binder for copiers and printers
- *ECOLA*, an improved plant-based polylactide resin that is attracting attention
- *Fomesaline 700*, low-temperature steel cleaning agent
- *Coolrinse*, low-temperature steel rinsing agent

**Sales expansion with differentiated eco-chemical products using research achievements from Eco-Technology Research Center**





# Improve Corporate Governance

**To expand business areas in tandem with globalization and further evolve business in Japan**

- **Strengthen supervision over execution of business**
- **Accelerate execution of business**



- Increase in outside Directors: Currently 2 → 3
- Decrease the total number of members of the Board of Directors: Currently 15 → 10
- Reinforce the organization of Executive Officers
  - ⇒ Increase the number of Executive Officers: Currently 26 → 28
  - ⇒ Establish four new positions with the title of Senior Executive Vice President or Executive Vice President and without concurrent positions in the Board of Directors
- Shorten the term of office of each Director: Currently 2 years → 1 year

\* These changes are to be made effective after the necessary resolutions of the Annual General Meeting of Shareholders of Kao Corporation, which is scheduled to be held on June 28, 2012, and/or the meeting of the Board of Directors to follow immediately thereafter.

# Summary of FY2012 Forecast

**Fiscal year end will be December 31 from FY2012<sup>1</sup>**

**Term of consolidation for FY2012 as a transitional period**

- **Group companies whose fiscal year end is currently March 31<sup>2</sup>:  
April-December 2012**
- **Group companies whose fiscal year end is currently December 31:  
January-December 2012**

**Record dates for FY2012**

- **Interim dividend: End of September 2012**
- **Year-end dividend: End of December 2012**

**Adjusted year-on-year growth rate**

**Comparison with the nine-month period from April 1 to December 31, 2011 for group companies with a fiscal year end in March**

1. Approval of partial amendments to Articles of Incorporation at the Annual General Meeting of Shareholders of Kao Corporation to be held on June 28, 2012 is required.
2. Kao Corporation and certain consolidated subsidiaries with the same fiscal year end

# Summary of FY2012 Forecast

*In a persistently uncertain business environment, with higher petrochemical raw material prices, the outlook for the world economy and deflation in the Japanese market for household and personal care products, Kao will pursue profitable growth globally with its differentiated technologies and high-value-added products. Kao forecasts increases in net sales and profits on an adjusted year-on-year basis in FY2012, excluding the impact of the irregular 9-month fiscal year for Kao Corporation and certain consolidated subsidiaries with a fiscal year end of March 31 due to the change in the fiscal year end. Kao also plans to increase total cash dividends 2 yen per share to 62 yen per share.*

		<u>% of sales</u>	<u>Adjusted year-on-year <sup>1</sup></u>
<b>Net sales:</b>	<b>¥1,020.0 billion</b>		<b>+1.2%</b>
<b>EBITA <sup>2</sup>:</b>	<b>¥123.8 billion</b>	<b>12.1%</b>	<b>-0.2%</b>
<b>Operating income:</b>	<b>¥100.0 billion</b>	<b>9.8%</b>	<b>+1.6%</b>
<b>Net income:</b>	<b>¥60.0 billion</b>	<b>5.9%</b>	<b>+16.1%</b>
<b>Net income per share:</b>	<b>¥114.98</b>		<b>+16.0%</b>
<b>ROE:</b>	<b>10.9%</b>		<b>+110bps</b>
<b>Shareholder returns</b>			
<b>Cash dividends per share:</b>	<b>¥62</b>		<b>+¥2</b>
<b>Consolidated payout ratio:</b>	<b>53.9%</b>		

<sup>1</sup> Year-on-year comparison excluding the impact of change in fiscal year (see slide 18 for details)

<sup>2</sup> Operating income before amortization of goodwill and intellectual property rights related to M&A

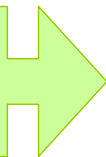
# Use of Free Cash Flow\*

*Use steadily generated free cash flow effectively in order of priority shown below from an EVA standpoint toward further growth.*

1. Capital expenditures and M&A for future growth

2. Steady and continuous cash dividends

FY2012  
forecast



- Cash dividends per share: ¥62
- Consolidated payout ratio: 53.9%

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

**FY2011 sales: ¥537.9 billion**

[+0.8% year-on-year / Share of net sales: 44.2%]

Professional hair care products  
Prestige cosmetics  
Premium skin care  
Premium hair care



Consumer  
driven

## Human Health Care

**FY2011 sales: ¥181.7 billion**

[+3.4% year-on-year / Share of net sales: 15.0%]

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

**FY2011 sales: ¥285.6 billion**

[+2.4% year-on-year / Share of net sales: 23.5%]

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



## Chemical

**FY2011 sales: ¥247.6 billion**

[+6.7% year-on-year / Share of net sales: 17.3%]

Oleo chemicals  
Performance chemicals  
Specialty chemicals



Chemical Business

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

Kao

# FY2011 Breakdown of Beauty Care Business

		Billion yen	Increase (Decrease) <sup>1</sup>
<b>Beauty Care</b>	Net sales	537.9	0.8%
	Operating income <sup>2</sup>	15.4	+9.8
	Operating margin	2.9%	+190bps
<b>Prestige cosmetics</b>	Net sales	259.9	2.2%
	Operating income <sup>2</sup>	-17.3	+11.8
	Operating margin	-6.7%	+480bps
<b>Premium mass products and professional hair care products</b>	Net sales	277.9	-0.4%
	Operating income <sup>2</sup>	32.7	-1.9
	Operating margin	11.8%	-60bps

## Kanebo Cosmetics

- Net sales:  
Approx. ¥190 billion  
(FY2010: Slightly less than ¥190 billion)
- EBITA as a % of sales<sup>3</sup> :  
Approx. 6%  
(FY2010: 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: ¥33.4 billion

- Prestige cosmetics: ¥28.4 billion

- Premium mass products and professional hair care products: ¥5.0 billion

3. Operating income ratio before deduction of royalties

# Prestige Cosmetics in Japan in FY2011

## Cosmetics market in Japan

[Year-on-year growth on a value (yen) basis]

Apr. 11-Mar. 12

Apr. 10-Mar. 11

**Total market**

**-3.5%**

**-3.2%**

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

**-4.4%**

**-3.2%**

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

**-4.2%**

**-5.4%**

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

**-1.2%**

**+0.4%**

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

**+1.6%**

**-1.0%**

Source: SLI survey by INTAGE Inc. (Data based on tracking service of 40,060 female consumers nationwide in Japan)



# SRI Indexes and External CSR Evaluation

## SRI indexes for which Kao has been selected



## CSR-related evaluation from external organization



(As of April 24, 2012)

CSR: Corporate Social Responsibility  
SRI: Socially Responsible Investment

Kao