

# **Highlights for the 1<sup>st</sup> Half of FY2011**

**(Ended September 30, 2011)**

October 25, 2011

**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 the 1<sup>st</sup> Half of FY2011**

■ ■ **Summary of FY2011 Forecast**

■ ■ **Mid-term Growth Strategies**

# Summary of the 1st Half of FY2011

# Financial Overview – 1<sup>st</sup> Half of FY2011

- *Severe market conditions persisted in Japan, with a weak economy, 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 focused on consumer-driven product development, efficient marketing expenditures and cost reduction activities. Net sales and operating income were almost in line with the forecast announced in July 2011 as Kao responded appropriately to higher raw material prices, the impact of the earthquake on the supply chain and power shortages.*
- *Kao accelerated rebuilding of its prestige cosmetics business.*
- *Sales of the Consumer Products Business outside Japan grew due to new products.*
- *In the Chemical Business, sales grew substantially outside Japan, although sales in Japan were impacted by the earthquake.*

		<u>% of sales</u>	<u>Year-on-year</u>
<b>Net sales:</b>	<b>¥614.8 billion</b>	<b>-</b>	<b>+2.3%</b>
<b>EBITA*:</b>	<b>¥74.3 billion</b>	<b>12.1%</b>	<b>-1.1%</b>
<b>Operating income:</b>	<b>¥57.5 billion</b>	<b>9.4%</b>	<b>-0.6%</b>
<b>Net income:</b>	<b>¥30.7 billion</b>	<b>5.0%</b>	<b>+10.4%</b>
<b>Net income per share:</b>	<b>¥58.89</b>	<b>-</b>	<b>+13.4%</b>

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

# Market Conditions and Their Impact on Net Sales and Profits in the 1<sup>st</sup> Half of FY2011

## Market conditions in Japan

- Household and personal care products:
  - Market growth rate on a value (yen) basis<sup>1</sup> (79 major products): -1% year-on-year
  - Year-on-year change in consumer purchase price index<sup>1</sup> (15 major products): -1 point
- Cosmetics market growth rate on a value (yen) basis<sup>2</sup>: -4.5% year-on-year (Please refer to slide 9 for details)
- Chemical products: Continued impact of decreased demand in customer industries due to the earthquake, the strong yen and other factors

## Impact on net sales and profits

- Effect of currency translation on net sales
  - - ¥9.5 billion, -1.6% year-on-year
  - Like-for-like sales<sup>3</sup> growth: +3.8% year-on-year
- Impact of higher raw material prices:
  - Gross impact: -¥23.0 billion
  - Net impact (after price adjustments): -¥3.0 billion
- Total Cost Reduction (TCR) activities: +¥3.0 billion
- Extraordinary loss related to the Great East Japan Earthquake: -¥1.7 billion

1. SRI POS data by INTAGE Inc.

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

3. Like-for-like sales exclude effect of currency translation.

# Summary of Sales by Business – 1<sup>st</sup> Half of FY2011

## **Consumer Products in Japan: +0.4%**

- The market, which was impacted by the earthquake, recovered faster than expected at the beginning of FY2011 but contracted 1% year-on-year.
- In Consumer Products excluding prestige cosmetics, Kao focused on high-value-added products and enhanced sales activities, and sales grew slightly year-on-year despite the impact of the earthquake, severe market conditions and deflation. Kao prioritized stable product supply in the first quarter and aggressively launched new products in response to consumer and market changes and invested in marketing in the second quarter.
- Market share of prestige cosmetics increased amid a contracting market and sales were almost flat year-on-year.

## **Consumer Products in Asia and Oceania: +5.2% (Like-for-like\* +10.0%)**

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

## **Consumer Products in North America: -1.1% (Like-for-like\* +9.9%)**

## **Consumer Products in Europe: +6.1% (Like-for-like\* +9.5%)**

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

## **Chemical: +11.3% (Like-for-like\* +14.8%)**

- Sales of the Chemical Business increased, although demand in customer industries in Japan decreased due to the earthquake.
- Kao adjusted prices in response to higher raw material cost, but the recent downturn in market prices is leading to stronger pressure to reduce selling prices.

\* Change excluding effect of currency translation

# 1<sup>st</sup> Half of FY2011 Status of Consumer Products Excluding Prestige Cosmetics in Japan

## Aggressive launches of high-value-added products under deflationary conditions

### Beauty Care:

- In premium skin care, thoroughly renewed *Bioré Skin Care Faical Foam* and UV care products contributed to sales growth
- In premium hair care, shampoos and conditioners including *Merit* performed steadily, while sales of hair color decreased year-on-year due to market contraction and more competitive conditions



### Human Health Care:

- In food and beverages, despite the impact of the earthquake, green tea sales were steady and a new product was added to the *Healthya* lineup of functional drinks
- In sanitary products, improved *Laurier F* sanitary napkins performed well, while *Merries* baby diapers regained their share in the contracting and competitive market
- In personal health, toothpaste and bath additives helped expand sales



### Fabric and Home Care:

- In fabric care, *Attack Neo Antibacterial EX Power* liquid laundry detergent strengthened the *Neo* series of ultra-concentrated laundry detergents and fabric softener and *Flair Fragrance* fabric softener was launched to meet growing demand for scented products
- In home care, *CuCute* dishwashing detergent and other products performed steadily





# Prestige Cosmetics in Japan in the 1<sup>st</sup> Half of FY2011

## Cosmetics market in Japan

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

Apr. -Sept. 11

Apr. 10-Mar. 11

**Total market**

**-4.5%**

**-3.2%**

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

**-4.6%**

**-3.2%**

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

**-6.7%**

**-5.4%**

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

**-1.0%**

**+0.4%**

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

**-0.8%**

**-1.0%**

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

# Rebuilding Prestige Cosmetics Business in Japan

*Improve profitability by rebuilding prestige cosmetics business in Japan*

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

**Kao Sofina**

Strive to return to profitability by FY2012

## ■ Strategically concentrate investment on focal brands

- For department stores .... 1 brand: *est*
- Skin care ..... 4 brands: *GRACE SOFINA, SOFINA beauté, SOFINA jenne, ALBLANC*
- Makeup ..... 2 brands: *Primavista, AUBE couture*

## ■ Raise efficiency of marketing expenditures with thorough Integrated Brand Communications (IBC)

## ■ Promote optimal deployment of beauty counselors

- Number of beauty counselors decreased around 7% over the half year to September 30, 2011
- Review stores to which Kao dispatches beauty counselors based on new standards
- Increase number of stores where beauty counselors offer “total beauty” proposals

# Rebuilding Prestige Cosmetics Business in Japan

*Improve profitability by rebuilding prestige cosmetics business in Japan*

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

## Kanebo Cosmetics

EBITA margin\* improving in line with plan  
From approximately 3% in FY2010  
to approximately 6% in FY2011

- **Reorganize brands and SKUs in response to market changes over the next 2 to 3 years**
  - Reduce number of brands by 30%
- **Focus and raise efficiency of marketing expenditures**
  - Concentrate advertising investment on the reorganized brands and enhance marketing using IBC
- **Suspend new recruitment of beauty counselors and optimize deployment of human capital**
  - Number of beauty counselors decreased around 3% over the half year to September 30, 2011
- **Carried out reorganization in sales company to strengthen sales abilities for each retail channel and accelerate synergy with Kao Customer Marketing Co., Ltd.**

\* EBITA margin is operating margin before deduction of royalties.

# 1<sup>st</sup> Half of FY2011 Topics – Consumer Products Business outside Japan

## Asia and Oceania:

- Continued to enhance integration of business operations in Asia, including Japan
- Steady performance of Beauty Care and Human Health Care
- In Fabric and Home Care, *Attack Easy* laundry detergent performed strongly in Indonesia
- In China, *Attack Instant Clean Liquid* steadily gained market share and Consumer Products excluding prestige cosmetics grew in the low teens on a like-for-like basis. Prestige cosmetics also achieved approximately 10% growth year-on-year.



*Essential Damage Care*  
hair care



*Bioré Skin Care Facial Foam*



*Attack Easy*



*Attack Instant Clean Liquid*  
laundry detergents



*Laurier* sanitary napkins

## North America and Europe:

- Contribution to sales growth from *John Frieda* brand foam hair color products, launched in the United States in February 2011 following successful launches in the United Kingdom and the Netherlands in November 2010
- *Jergens* body lotions also performed strongly in the United States
- Sales of professional hair care products were firm



*John Frieda Precision Foam Colour*



*Jergens*  
body lotions



*Colorance Goldwell* hair coloring agents  
for professional use



*Topchic*

# Summary of FY2011 Forecast

# Summary of FY2011 Forecast

***In a persistently uncertain business environment, with volatility in global market prices of raw materials, 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.***

		<u>% of sales</u>	<u>Year-on-year</u>
<b>Net sales:</b>	<b>¥1,235.0 billion</b>		<b>+4.1%</b>
<b>EBITA*:</b>	<b>¥141.5 billion</b>	<b>11.5%</b>	<b>+1.7%</b>
<b>Operating income:</b>	<b>¥108.0 billion</b>	<b>8.7%</b>	<b>+3.3%</b>
<b>Net income:</b>	<b>¥57.0 billion</b>	<b>4.6%</b>	<b>+22.0%</b>
<b>Net income per share:</b>	<b>¥109.24</b>		<b>+24.6%</b>
<b>ROE:</b>	<b>10.5%</b>		<b>+200bps</b>
<b>Shareholder returns</b>			
<b>Cash dividends per share:</b>	<b>¥58</b>		<b>±¥0</b>
<b>Consolidated payout ratio:</b>	<b>53.1%</b>		

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

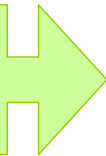
# Use of Free Cash Flow\*

*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: 53.1%

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

# 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***

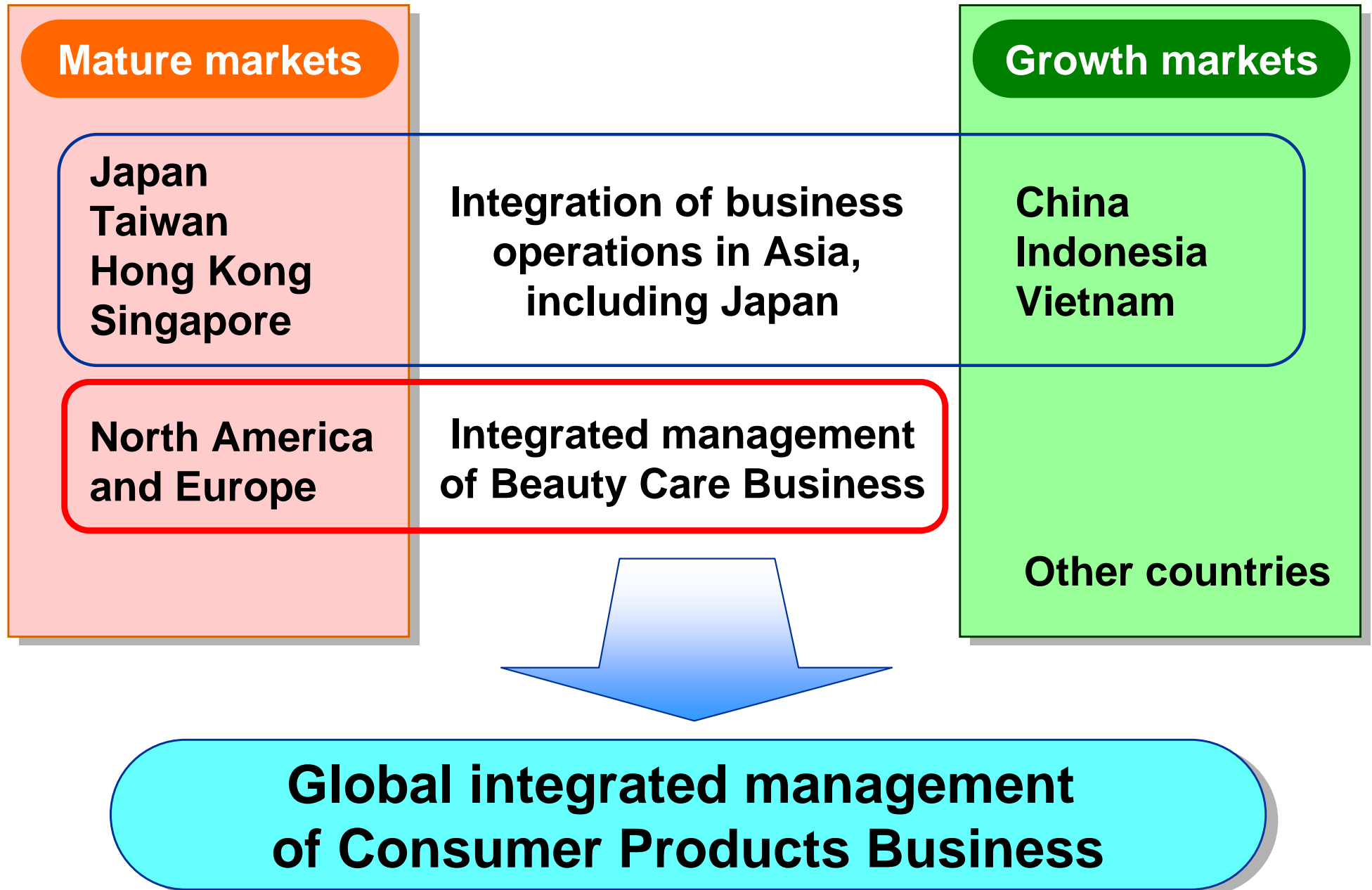
## ***[Consumer Products Business]***

- ☐ 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

# Accelerated Globalization



# Accelerated Globalization in Mature Markets

***Achieve further growth driven by high-value-added products***

## Japan

- Full renovation of *Bioré Skin Care Facial Foam*
- *Attack Neo Antibacterial EX Power* ultra-concentrated liquid laundry detergent
- *Success* medicated hair tonic  
➔ Response to deflation



*Bioré Skin Care Facial Foam*



*Attack Neo Antibacterial EX Power*



*Success medicated hair tonic*



*John Frieda Precision Foam Colour*



*Liese Bubble Hair Color*



*Essential Damage Care hair care series*

## North America and Europe

- *John Frieda* foam hair color products

## Taiwan, Hong Kong and Singapore

- *Liese* foam hair color products
- *Essential Damage Care* hair care series
- Launch of *Laurier Super Slim Guard* sanitary napkins in Taiwan and Singapore



*Laurier Super Slim Guard sanitary napkins*

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# Accelerated Growth of Beauty Care Business in North America and Europe

***Shift to matrix management of business units and functions that leverages the combined skills and experience of the Kao Group globally from the independent operations of each beauty care business company in North America and Europe\****

- **Build more powerful global 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**

- **Use management resources efficiently**

\* Beauty care business companies in North America and Europe: Kao Brands Company, KPSS – Kao Professional Salon Services, Molton Brown, Kanebo Cosmetics

# Unified Management in Each Country in Beauty Care Business in North America and Europe

Each country in North America and Europe (Current)

**Kao Brands Company**

**KPSS – Kao Professional Salon Services**

**Molton Brown  
Kanebo Cosmetics**

Products

— Premium mass

— Professional hair care

— Prestige cosmetics

Brands

Bioré

Curél

ban

Jergens

JOHN FRIEDA  
LONDON PARIS NEW YORK

GOLDWELL  
CLOSER TO STYLISTS. CLOSER TO HAIR.

KMS  
california

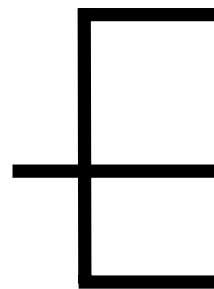
MOLTON  
BROWN  
LONDON

SENSAI



Each country in North America and Europe (From 2012)

**Unified management  
in each country**



Premium mass

Professional hair care

Prestige cosmetics

Bioré

Curél

ban

Jergens

JOHN FRIEDA  
LONDON PARIS NEW YORK

GOLDWELL  
CLOSER TO STYLISTS. CLOSER TO HAIR.

KMS  
california

MOLTON  
BROWN  
LONDON

SENSAI

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# Accelerated Globalization in Growth Markets

## China

- Sales of *Attack Instant Clean Liquid* laundry detergent grew
- Expansion of *Merries* baby diapers
  - ➔ Steady performance in the specialty store channel
  - ➔ Start of operations at a new plant in Hefei City, Anhui Province, China planned at the end of 2012
- Entry of Kanebo Cosmetics into the cosmetics specialty store channel and expansion into inland areas
  - ➔ Launch of *AQUA Lunash* skin care in the cosmetics specialty store and department store channels in September



*Attack Instant Clean*  
Liquid laundry detergent

*Merries* baby  
diapers



*AQUA Lunash*  
skin care

## Indonesia

- Further reinforcement of *Attack Easy* laundry detergent
- *Bioré* skin care and *Laurier* sanitary napkins continued to contribute to sales expansion



*Attack* laundry  
detergent series

*Laurier*  
sanitary napkins

## Russia

- Further expansion of sales of *Merries* baby diapers, which are recognized for their high quality
- Kanebo Cosmetics focused on strengthening the *SENSAI* brand



*Merries* baby  
diapers



*SENSAI* super  
prestige cosmetics

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# Change in Financial Term

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

### Objectives

- Promote integrated management of global business
- Further enhance management transparency through timely and accurate disclosure of management information
- Prepare for the International Financial Reporting Standards (IFRS) requirement to unify the financial terms of consolidated companies that is under consideration for future implementation

### *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**

1. Approval of partial amendments to Articles of Incorporation at the 106th Annual General Meeting of Shareholders of Kao Corporation to be held in late June 2012 is required.

2. Kao Corporation and certain consolidated subsidiaries with the same fiscal year end

# Appendices



# Business Segments and Main Product Categories

Consumer Products  
Business

## Beauty Care

**1H/FY2011 sales: ¥271.7 billion**

[ -0.3% 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

**1H/FY2011 sales: ¥90.6 billion**

[ +1.6% 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

**1H/FY2011 sales: ¥143.3 billion**

[ +1.6% year-on-year / Share of net sales: 23.3% ]

Laundry detergents and fabric treatments

Products for kitchen, bath, toilet and  
living room care



## Chemical

**1H/FY2011 sales: ¥128.1 billion**

[ +11.3% year-on-year / Share of net sales: 17.7% ]

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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# 1H/FY2011 Breakdown of Beauty Care Business

		Billion yen	Increase (Decrease) <sup>1</sup>
<b>Beauty Care</b>	Net sales	271.7	-0.3%
	Operating income <sup>2</sup>	7.0	+1.7
	Operating margin	2.6%	+70bps
<b>Prestige cosmetics</b>	Net sales	125.2	-1.3%
	Operating income <sup>2</sup>	-12.6	+3.2
	Operating margin	-10.1%	+240bps
<b>Premium mass products and professional hair care products</b>	Net sales	146.5	0.6%
	Operating income <sup>2</sup>	19.6	-1.4
	Operating margin	13.4%	-110bps

## Kanebo Cosmetics

- Net sales:  
Slightly more than ¥90 billion  
(1H/FY2010: Slightly more than ¥90 billion)
- EBITA as a % of sales<sup>3</sup> :  
Approx. 3%  
(1H/FY2010: Approx. 2%)

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: ¥16.7 billion

- Prestige cosmetics: ¥14.2 billion

- Premium mass products and professional hair care products: ¥2.5 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 October 25, 2011)

CSR: Corporate Social Responsibility  
SRI: Socially Responsible Investment

Kao