

# The 114<sup>th</sup> Annual General Meeting of Shareholders

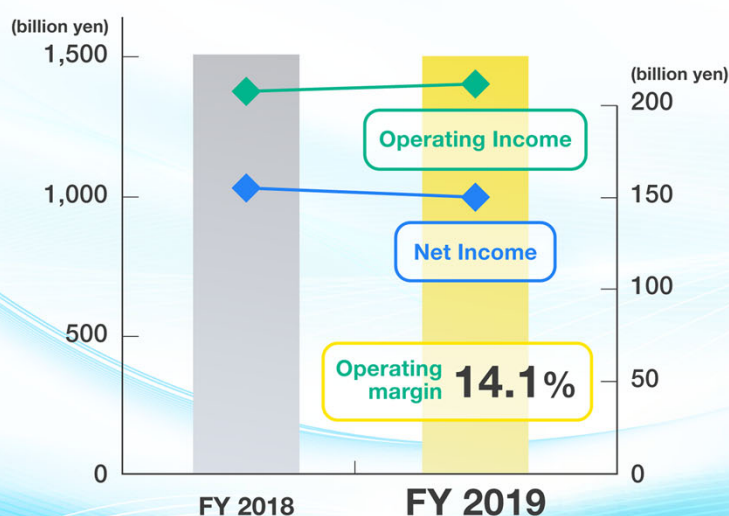
## **Business Report**

Good morning, my name is Kenichi Yamauchi and I am in charge of Accounting and Finance.

# Review of Operations

I am going to briefly report on the business report in the convocation notice that we have already distributed.

# Consolidated Sales and Profits



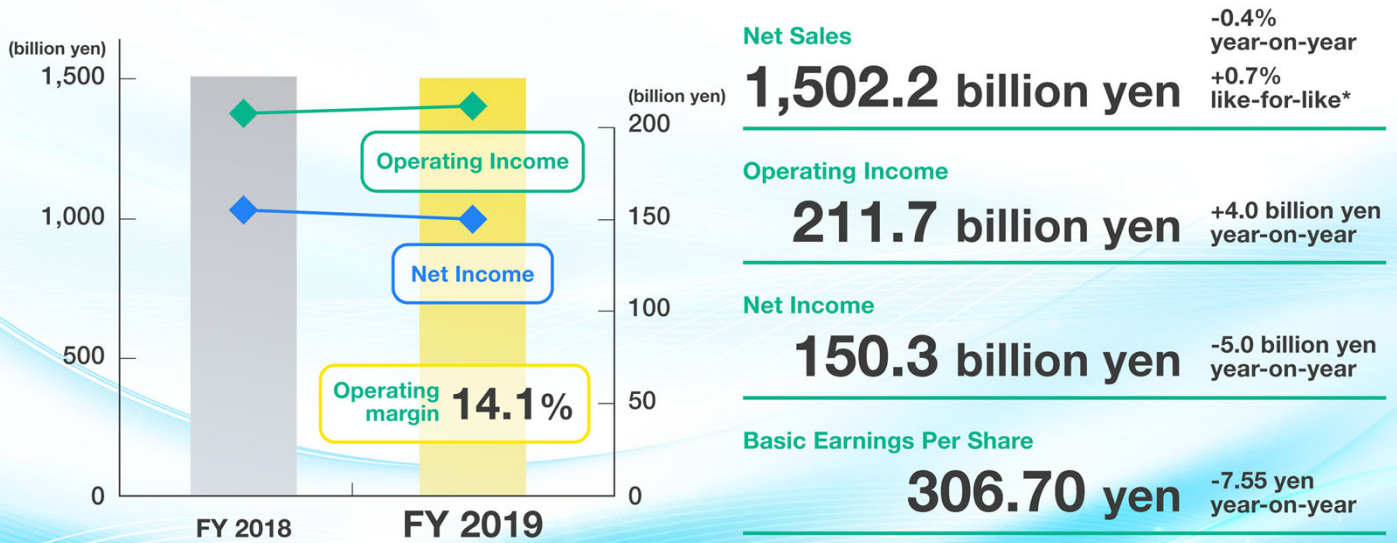
<b>Net Sales</b>	<b>1,502.2 billion yen</b>	-0.4% year-on-year +0.7% like-for-like*
<b>Operating Income</b>	<b>211.7 billion yen</b>	+4.0 billion yen year-on-year
<b>Net Income</b>	<b>150.3 billion yen</b>	-5.0 billion yen year-on-year
<b>Basic Earnings Per Share</b>	<b>306.70 yen</b>	-7.55 yen year-on-year

\*Like-for-like growth rates exclude the effect of translation of local currencies into Japanese yen.

In the fiscal year ended December 31, 2019, net sales decreased 0.4% compared with the previous fiscal year to 1,502.2 billion yen. On a like-for-like basis (exclude the effect of translation of local currencies into Japanese yen), net sales increased 0.7%.

Operating income increased 4.0 billion yen to 211.7 billion yen and the operating margin was 14.1%. Net income decreased 5.0 billion yen to 150.3 billion yen. Basic earnings per share decreased 7.55 yen to 306.70 yen.

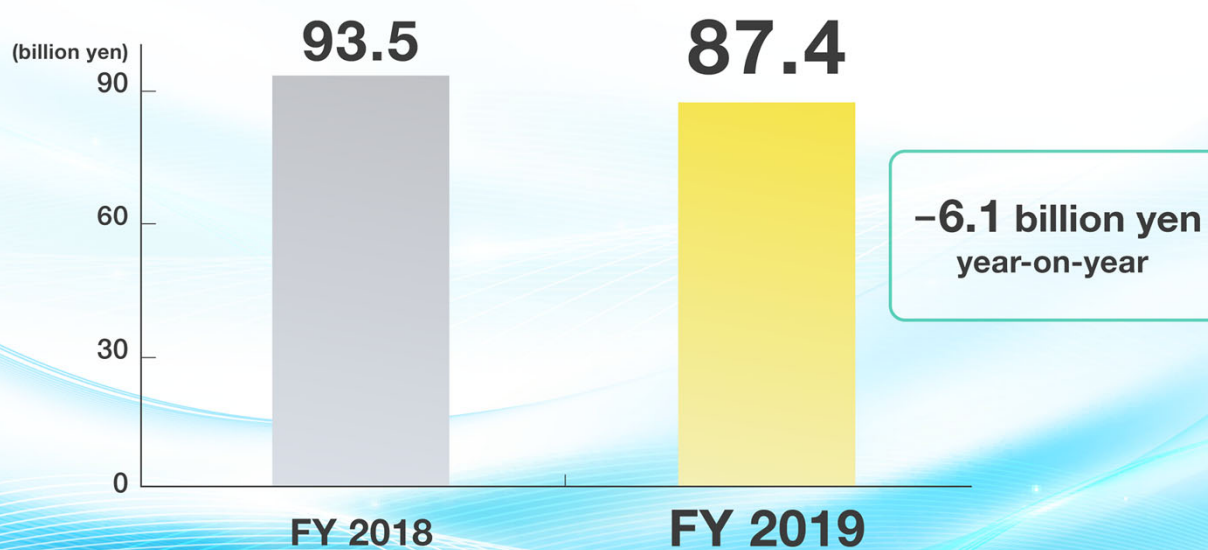
## Consolidated Sales and Profits



10<sup>th</sup> consecutive fiscal year of increases in operating income  
7<sup>th</sup> consecutive year of record-high operating income

Unfortunately, the results were lower than the announced forecast but the Kao Group increased operating income for the tenth consecutive fiscal year and achieved record-high operating income for the seventh consecutive fiscal year.

## EVA (Economic Value Added)



\*EVA is a registered trademark of Stern Stewart & Co.

EVA (Economic Value Added) decreased 6.1 billion yen to 87.4 billion yen due to a decrease in net operating profit after tax.



## Consolidated Results by Segment

Cosmetics Business

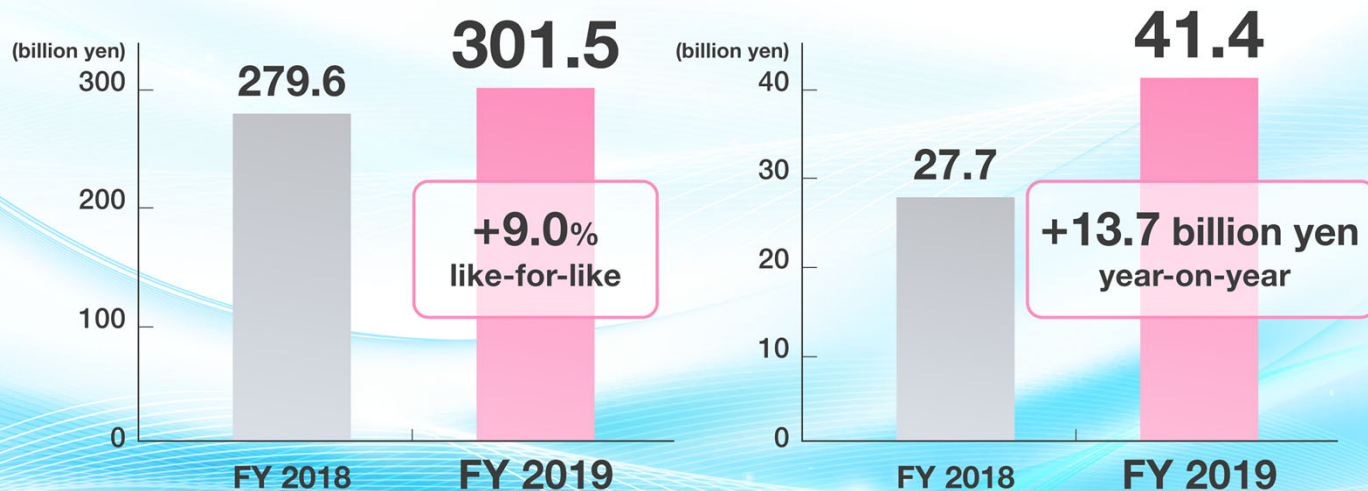
Skin Care and Hair Care Business

Human Health Care Business

Fabric and Home Care Business

Chemical Business

Next, let me explain about results by segment.

**Cosmetics Business**
**Net Sales**
**Operating Income**


In the Cosmetics Business, sales increased 9.0% like-for-like to 301.5 billion yen. Operating income was 41.4 billion yen, an increase of 13.7 billion yen from the previous fiscal year, due to the effect of increased sales.

## Global Portfolio



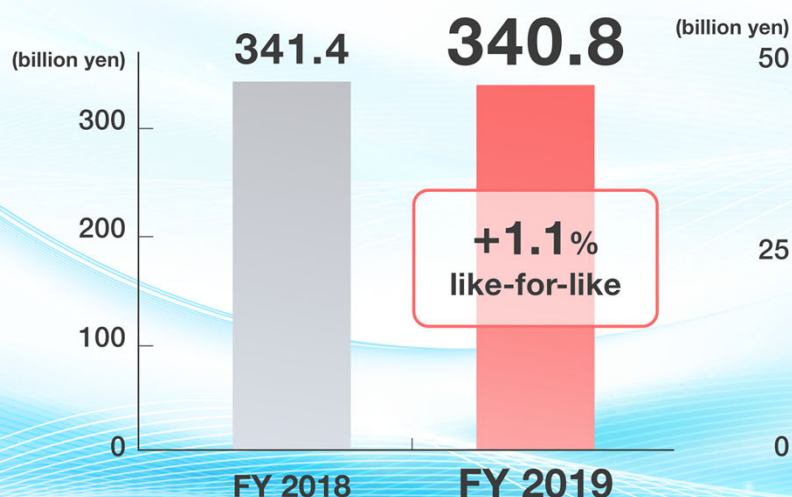
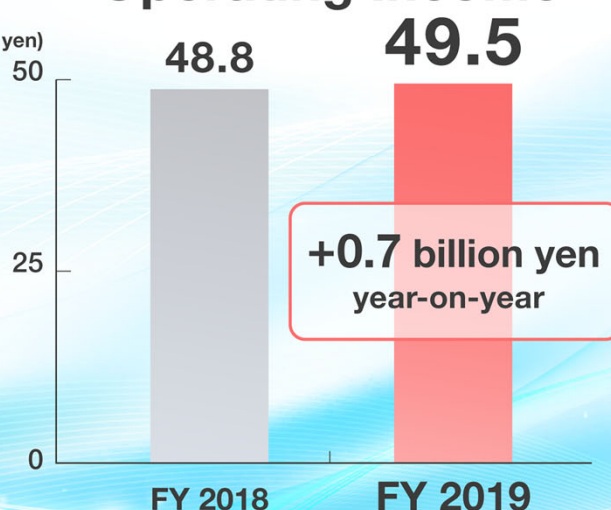
The Kao Group reorganized its brands owned by Kanebo and Kao, and sales grew strongly for the 11 brands ("G11") the Kao Group selected for its global strategy and the eight regional brands ("R8") it is nurturing, centered on Japan.



## Cosmetics Business



Amid signs of a slowdown in inbound demand, *Curél*, *freeplus*, as well as *SUQQU* and *SOFINA iP* performed well in Japan and the Chinese market. Also, the Kao Group strengthened its high-prestige range *est* and *Sensai*, and launched products that apply Fine Fiber Technology for the formation of layered ultra-thin membranes in December 2019. The Kao Group also reinforced its activities in the growing e-commerce and travel retail channels and promoted a shift to digital marketing.

**Skin Care and Hair Care Business**
**Net Sales**

**Operating Income**


In the Skin Care and Hair Care Business, sales were 340.8 billion yen. On a like-for-like basis, sales increased 1.1%. Operating income increased 0.7 billion yen compared with the previous fiscal year to 49.5 billion yen.

## Skin Care and Hair Care Business

*Bioré u The Body*

*Essential flat*

*Oribe*



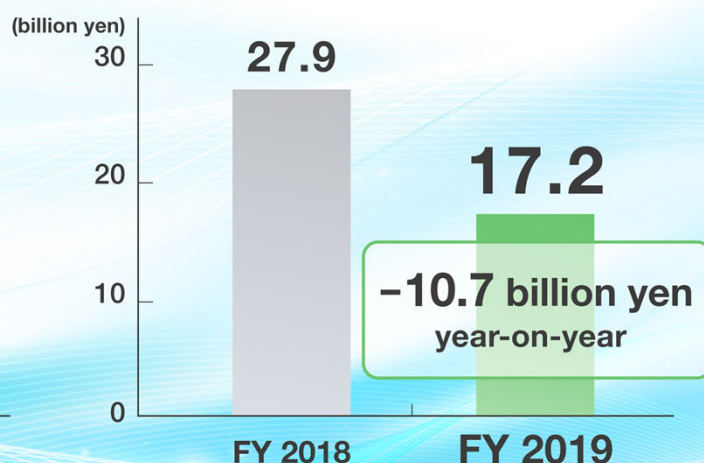
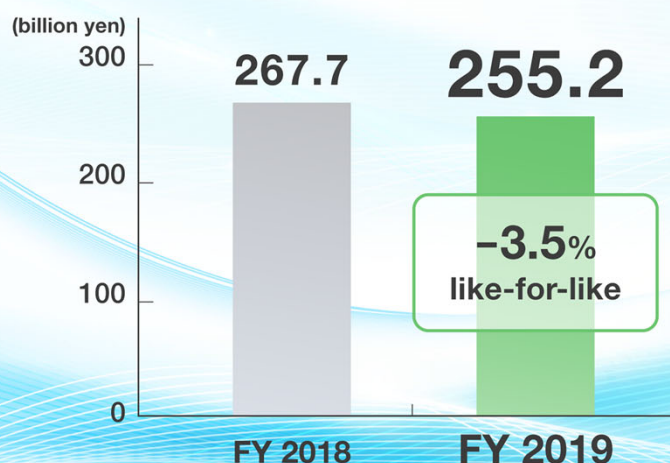
Sales of skin care products increased in Japan, new body cleanser *Bioré u The Body* steadily increased sales, despite the impact of adverse weather conditions in the first half of the fiscal year. Also, sales of *Bioré u* were firm in Asia, but sales of skin care products decreased in the Americas due to the impact of stiff competition.

Sales of hair care products were basically unchanged from the previous fiscal year. Sales were strong for *Liese* foam type hair color products in Japan and for *Oribe*, a brand in the Americas for high-end hair salons. The Kao Group launched *Essential flat*, new premium-priced shampoos, conditioners and other products in Japan, however, overall sales of hair care products were affected by the shrinking mass market.

## Human Health Care Business

### Net Sales

### Operating Income



Sales in the Human Health Care Business decreased 3.5% like-for-like to 255.2 billion yen.  
Operating income decreased 10.7 billion yen to 17.2 billion yen, mainly due to lower sales of *Merries* baby diapers and the depreciation of yuan.



## Human Health Care Business

*Merries*



*Bub Medicure*



*Laurier*

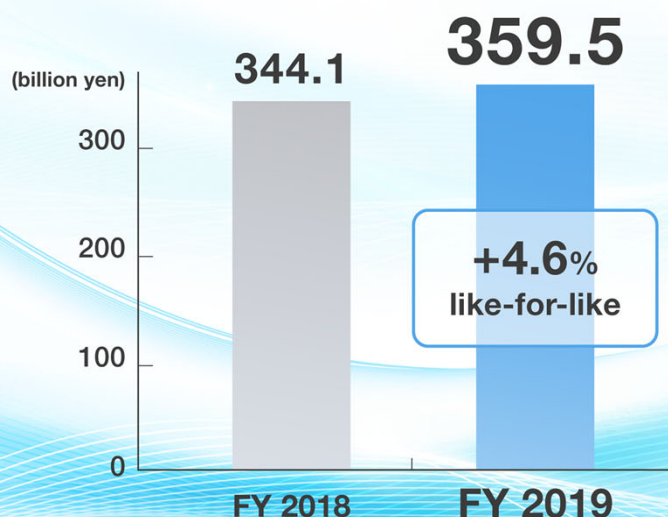


In Japan, demand for the purpose of resale in the Chinese market fell substantially. Sales in the Chinese market were on a recovery track but decreased compared with the previous fiscal year. On the other hand, locally manufactured products targeting the middle-class consumer segment performed strongly in Indonesia. For *Laurier* sanitary napkins, high-value-added products performed strongly in Japan, while sales by Kao China grew as a result of an increase in new retail outlets and enhanced activities in the e-commerce channel. For personal health products, the performance of *PureOra* and *Deep Clean* oral care products and Bub bath additives was steady.

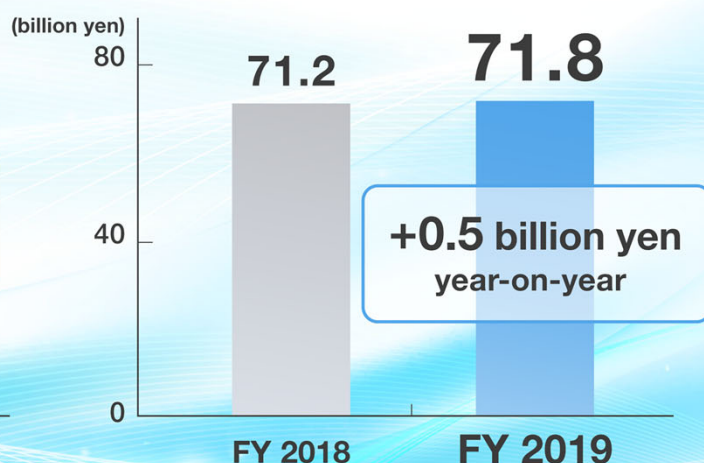


## Fabric and Home Care Business

### Net Sales



### Operating Income



Next, overall sales in the Fabric and Home Care Business were 359.5 billion yen, an increase of 4.6% like-for-like. Operating income increased 0.5 billion yen compared with the previous fiscal year to 71.8 billion yen due to the effect of increased sales, despite an increase in marketing expenses for new product launches.

## Fabric and Home Care Business

### Attack ZERO

Specifically for front load washers



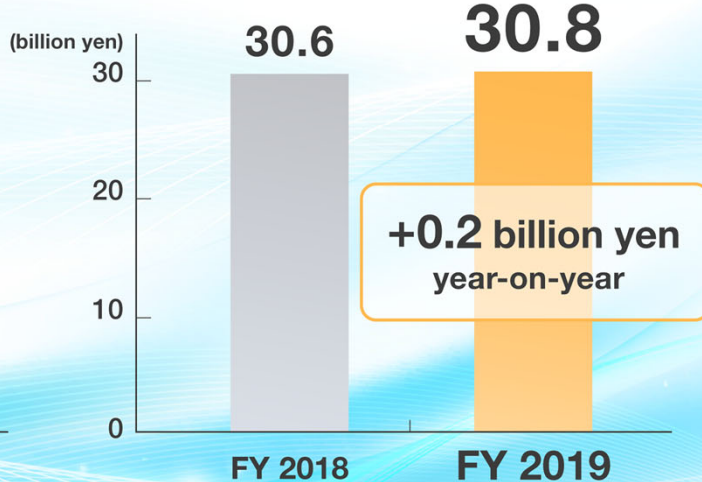
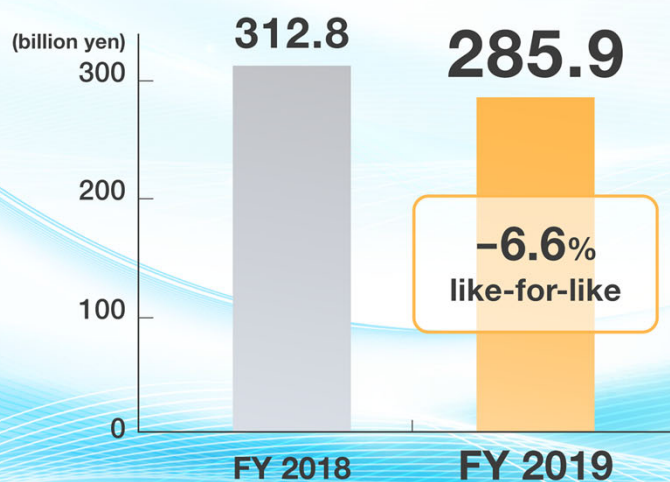
### CuCute Relax Days



### Quickle Joan



In the fabric care products business, sales of laundry detergents grew due to the launch in Japan of *Attack ZERO*, an innovative new laundry detergent. In home care products, sales of *CuCute* dishwashing detergents remained strong and the Kao Group launched the *Quickle Joan* series of antibacterial household cleaning products that are gentle on the skin.

**Chemical Business**
**Net Sales**
**Operating Income**


Finally, sales in the Chemicals Business decreased 6.6% like-for-like to 285.9 billion yen.

Operating income increased 0.2 billion yen to 30.8 billion yen, due to promotion of high-value-added products.

## Chemical Business



**Oleo chemicals**  
(Fatty alcohols)



**Performance chemicals**  
(Additives for asphalt pavement)



**Specialty chemicals**  
(Water-based pigment inkjet ink)

Sales of oleo chemicals decreased due to the substantial impact of selling price adjustments associated with a decline in prices for natural fats and oils, in addition to a trend toward declining demand for some products.

Sales of performance chemicals and specialty chemicals decreased due to the impact of sluggish demand associated with slowing economic growth, especially outside Japan.

Overall, the performance of *Merries* baby diapers remained sluggish, and the Kao Group covered this with the Cosmetics Business.



Enriching lives, in harmony with nature.

This report outlines the Kao Group's Business Reports.