

Kao

Kao Corporation

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



- **Overview of the Activities in Fiscal 2019**
- Future Direction

Now I would like to present an overview of the Kao Group's activities in fiscal 2019 and our future direction.

## “K20” Goals — Three Commitments

- 1. Commitment to fostering a distinctive corporate image**
- 2. Commitment to “profitable growth”**
  - Continue to set new record highs for profits
  - Aim for like-for-like net sales CAGR of +5.0%, operating margin of 15.0%
  - Three ¥100 billion brands
- 3. Commitment to returns to stakeholders**

We considered fiscal 2019 to be a decisive year for achieving the targets of the Kao Group Mid-term Plan 2020 (K20), and have been aggressively working on both non-financial and financial aspects.

## Major Shift to ESG Management

**E** : Environmental

**S** : Social

**G** : Governance

As a result, on the non-financial side, we made a major shift to ESG management, achieving numerous practical applications of important technology innovations in doing so.

### Highlights of Consolidated Financial Results

	FY2018	FY2019	Growth/Change
Net sales	1,508.0 billion yen	1,502.2 billion yen	+0.7% like-for-like
Operating income	207.7 billion yen	211.7 billion yen	+4.0 billion yen
Net income attributable to owners of the parent	153.7 billion yen	148.2 billion yen	-5.5 billion yen
Basic earnings per share	314.25 yen	306.70 yen	-7.55 yen

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

On the financial side, although net sales decreased, the Kao Group increased operating income for the tenth consecutive fiscal year and achieved record-high operating income for the seventh consecutive fiscal year. This was the result of the understanding and support of our shareholders.

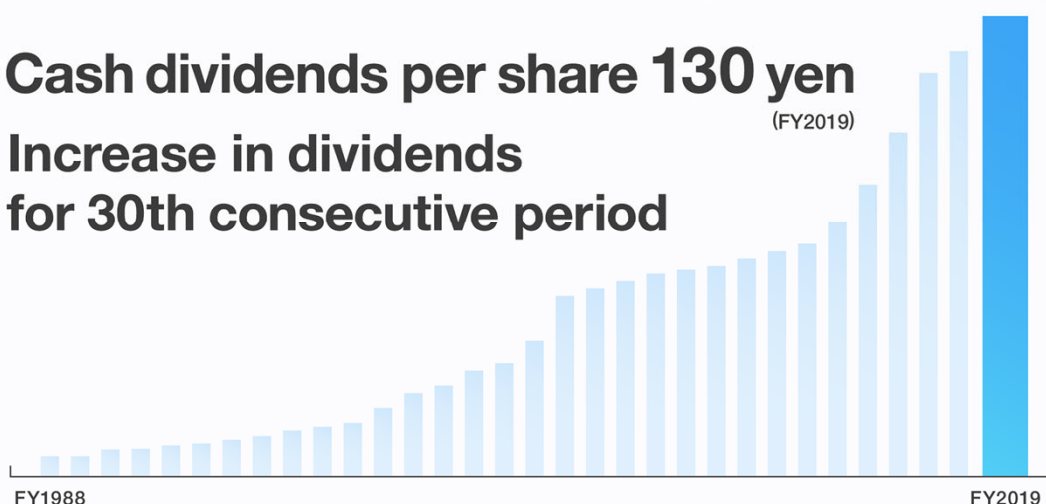
I would like to take this opportunity to express my gratitude.

## Shareholder Returns

**Cash dividends per share 130 yen**

(FY2019)

**Increase in dividends  
for 30th consecutive period**



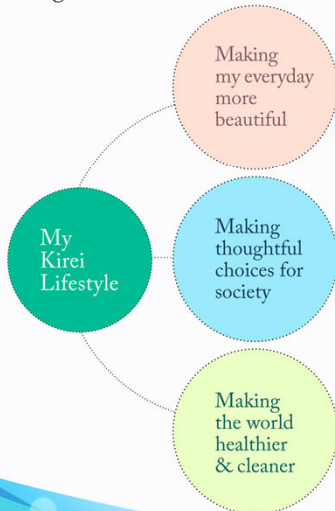
We intend to use the profit we generated this year to invest for future growth, and for returns to our employees, to society, and to our shareholders. For shareholder returns, we intend to pay a year-end dividend of 65 yen per share, as planned. As a result, annual dividends will total 130 yen per share. With your approval of today's proposal for dividends, we will achieve our thirtieth consecutive fiscal year of increases in dividends. We will continue to work for further increases.

I would also like to take this opportunity to talk in a bit more detail about our activities in fiscal 2019.

## Kirei Lifestyle Plan

Key message

Kirei — Making Life Beautiful



### Commitments by 2030

We will aim to empower all people, at least 1 billion by 2030, to enjoy more beautiful lives — greater cleanliness, easier aging, better health and confidence in self expression

100% of Kao brands will make it easy for people to make small but meaningful choices that, together, will shape a more resilient and compassionate society

100% of our products will leave a full life cycle environmental footprint that science says our natural world can safely absorb



My first topic is non-financial activities. In fiscal 2019, we focused on stepping up ESG activities. In April, we announced the “Kirei\* Lifestyle Plan,” an ESG strategy unique to Kao. In September, we announced a major shift to ESG management, and we made a strong start in implementing it.

*\* Kirei is a Japanese word that represents the concept of cleanliness, beauty, health, purity and fairness.*

## Results of ESG Related Awards and Evaluations

- Health and Productivity Management Brand for the sixth consecutive year
- Prime Minister’s Award for Leading Companies Where Women Shine
- Minister of Economy, Trade and Industry Award at the Green Sustainable Chemistry Awards
- Minister of the Environment Award in the Innovation Category at the UMIGOMI\* Zero Awards
- Prime Minister’s Prize at the 3Rs Promotion Merit Awards
- Best IR Award from Japan Investor Relations Association
- World’s Most Ethical Companies®\*\* List for 14 straight years
- Dow Jones Sustainability Indices
- A list from CDP for Climate Change and Water Security/Supplier Engagement Leader



\*UMIGOMI in Japanese; umi = marine, gomi= litter

\*\* “World’s Most Ethical Companies” and “Ethisphere” are registered trademark of Ethisphere LLC.

These initiatives have earned us many ESG-related awards.



Realization of Technology Innovation



In addition, we applied the technology innovations we announced in November 2018, including Bio IOS, Fine Fiber and RNA Monitoring technologies. I believe that we are making steady progress in fostering a distinctive corporate image, which is one of the goals of K20, and steadily increasing our global presence.

Fiscal 2019 Results

	FY2019 Announced forecast	FY2019 Results
Net sales	1,580.0 billion yen	1,502.0 billion yen +0.7% like-for-like
Operating income	225.0 billion yen	211.7 billion yen +4.0 billion yen
Operating margin	14.2%	14.1%

As for the financial side, in short, it was a difficult year. Our progress was generally as planned through the second quarter, but in the second half of the year our performance diverged substantially from our plan due to an accumulation of factors including unanticipated trends before and after the increase in the consumption tax rate in Japan, weak inbound demand, the demonstrations in Hong Kong, and trade friction between the United States and China. As a result, not only did we fall short of our forecast, but net sales decreased year on year. We managed to end the year with an increase in operating income, but we were unable to meet your expectations, for which I apologize as the Kao Group's top management.

Fiscal 2019 Topics

- **Cosmetics Business performed well.**

- **Consumer Products Business in Asia grew steadily.**



Amid these circumstances, the Cosmetics Business, which we have been strengthening, performed well and the Consumer Products Business in Asia grew steadily to more than 200 billion yen, which I believe will lead to future growth. The operating margins for both businesses also grew significantly to 14%. We will continue to aim for profitable growth.

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This is the final year of K20. By stepping up both non-financial and financial initiatives, we aim to achieve the K20 goals of (1) fostering a distinctive corporate image, (2) profitable growth, and (3) a high level of returns to stakeholders.

## Fiscal 2020 initiatives: Execution of ESG Strategy

### **E** : Environmental

- Decarbonization and helping to resolve the issue of plastic trash

### **S** : Social

- Contribute to hygiene-related and medical treatments areas
- Promote Diversity and Inclusion
- Support the development of the next generation

### **G** : Governance



On the non-financial side, we will put our full effort into implementing our ESG strategy. For the environment, we will focus on decarbonization and helping to resolve the issue of plastic trash. For society, our efforts will include contributing to hygiene-related area to prevent infectious disease and medical treatments area where the Company applies Fine Fiber and other technologies; promoting Diversity and Inclusion, including the empowerment of women; and supporting the development of the next generation.

### Forecast for Fiscal 2020

	FY2019	FY2020 Forecast	Growth/Change
Net sales	1,502.2 billion yen	1,510.0-1,530.0 billion yen	+2.3-3.6% like-for-like
Operating income	211.7 billion yen	220.0-230.0 billion yen	+8.3-18.3 billion yen
Operating margin	14.1%	14.6-15.0%	—
Net income attributable to owners of the parent	148.2 billion yen	154.0-161.0 billion yen	+5.8-12.8 billion yen
Cash dividends per share	130 yen	140 yen	+10 yen

On the financial side, even with the major impact expected from the novel coronavirus (COVID-19), we aim to achieve increases in sales and profits, our eleventh consecutive fiscal year of increases in operating income, our eighth consecutive year of record-high operating income and an operating margin of 15%. We also intend to achieve our thirty-first consecutive fiscal year of increases in dividends. By the way, in consideration of the decrease in inbound demand due to COVID-19, our forecast of consolidated operating results for fiscal 2020 is presented within ranges. For the upper end of the forecast, we are aiming for 1,530 billion yen in net sales and 230 billion yen in operating income (operating margin of 15.0%), which incorporate the decrease in inbound demand due to the restrictions on group travel and individual package travel from abroad. For the lower end of the forecast, we have set 1,510 billion yen in net sales and 220 billion yen in operating income, which assume no inbound demand. Actually, in addition to the decrease in inbound demand, negative factors that may impact sales and profit include a possible global economic downturn due to restrictions on the movement of people and goods and positive factors include increasing demand for hygiene goods. Even in such circumstances, we will strive to achieve higher sales and profits. In any event, we hope that the COVID-19 outbreak is brought under control and daily life returns to normal as soon as possible. Kao Corporation plans to increase its annual dividend to 140 yen per share, an increase of 10 yen per share from fiscal 2019.

## COVID-19 Impact and Response

### 1 Internal system

- Conducting discussions and giving thorough instructions at Emergency Countermeasure Headquarters
- Promote staggered working hours and teleworking → Teleworking (in principle)

### 2 Support

- Prompt support in response to requests from the government and industry associations

### 3 Impact on business

- Decrease in inbound demand
- The cosmetics business and salon business have been sluggish due to voluntary restraint of events and outings in various countries
- Increase in demand of hand cleansers, alcohol disinfectants, antibacterial cleaning sheets, and home care hygiene products

### 4 Production

- Proceeding as planned in regions other than China
- Gradually returning to normal in China

At this point, I will briefly explain the current status of the impact of COVID-19 and the Kao Group's response. (1) As infections are spreading around the world, we are going to further strengthen alerts to prevent infection for individual members and avoid cluster infections. We have been promoting staggered working hours and telework from an early stage in Japan, but in response to the request of the government, in principle, all Kao Group members in Japan except those at production and customer service centers telecommute between February 28 and March 29. (2) We are providing prompt support in response to requests from the government, industry associations and other parties. (3) As for our businesses, due to the sharp decrease in inbound demand, voluntary restraint of events, temporarily closure of brick-and-mortar stores and restraint of outings in various countries, significant effects are starting to appear to the cosmetics business and salon business. On the other hand, there has been a substantial year-on-year increase in sales of hand cleansers, alcohol disinfectant, antibacterial cleaning sheets, home care hygiene products and other products. Now is the time for us to make full use of the comprehensive strengths of the Kao Group to help society, leading to profitable growth.

Let's keep our lives clean!  
**Protecting Japan**

**HAND**  
Hygiene practices



**FACE & BODY**  
Cleanliness



**HOME**  
Hygienic living



Support your hard work  
[Beverage, tablet, mask]  
Putting minds at ease



One such measure is the “Protecting JAPAN” project. We are going to propose a hygienic lifestyle that puts minds at ease, and put more effort on fundamental research related to mucous membrane of mouth, eyes and nose. We also present useful lifestyle hygiene information on the Kao Japanese language website.



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(4) Production is proceeding as planned in regions other than Kao China, and production of hygiene-related products is at full capacity. In Kao China, the situation is gradually returning to normal. Going forward, the production may be affected in the Americas, Europe and ASEAN, but we are going to respond promptly, taking into account the situation in each country.

## 130<sup>th</sup> anniversary of the launch of Kao Sekken

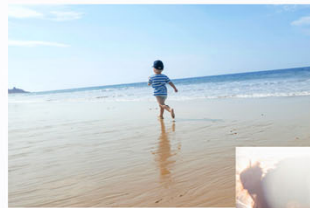
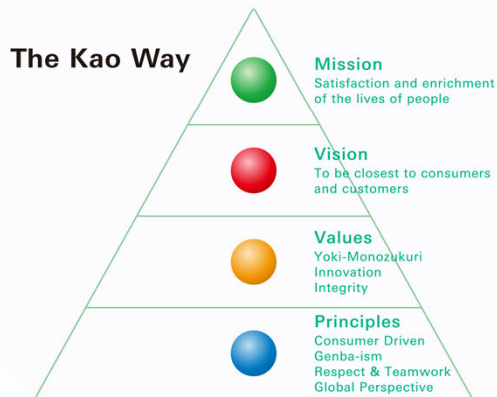


**1890**

Developed and sold domestic toilet soap *Kao Sekken*, with the desire to deliver high quality products to many consumers.

On another note, 2020 is the 130th anniversary of the launch of Kao Sekken quality toilet soap. Our ability to continue contributing to society for so many years is the result of the hard work of our predecessors who laid the foundation, as well as the backing of our shareholders and the support of the loyal users of Kao products. We offer you our wholehearted thanks and promise to continue to strive for continuous growth.

**“to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.”**



The Kao Group will work together by all possible means to carry out the measures I have presented today. Moreover, we will redouble our efforts and devotion to realizing the mission set forth in the Kao Way, our corporate philosophy, “to strive for the wholehearted satisfaction and enrichment of the lives of people globally and to contribute to the sustainability of the world.” I hope that you understand our basic stance and will continue to give us your understanding and support.

This concludes my report.

**KaO**

Enriching lives, in harmony with nature.