Consolidated Financial Results

for the Nine Months Ended September 30, 2018

Kao Corporation

October 24, 2018

FASF MEMBERSHIP

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Forward-looking statements such as earnings forecasts and other projections contained in this release are based on information available at this time and assumptions that management believes to be reasonable, and do not constitute guarantees of future performance. Actual results may differ materially from those expectations due to various factors.

■ As of the three months ended March 31, 2018, the following changes have been made.

1. The Beauty Care Business has been divided into the Cosmetics Business and the Skin Care and Hair Care Business, changing the four former reportable segments into five.
2. The *Curél* derma care brand, which formerly had been classified as skin care and hair care products, has been included in the Cosmetics Business, and the *Success* men's products brand, which formerly had been classified in the Human Health Care Business, has been included in the Skin Care and Hair Care Business. Net sales and operating income for the same period a year earlier have been restated accordingly.
3. Due to the reorganization of the sales organization of the Consumer Products Business in Japan, operating income for the same period a year earlier has been restated.

Overview of January-September 2018 and Forecasts

- In a persistently severe competitive environment, the Kao Group made proactive investments for the future and enhanced marketing and sales activities to respond to diversification of consumer values and changes in the structure of retailing. However, due to lower-than-expected sales growth, the impact of increased fixed expenses for investments and higher raw material costs also resulted in lower-than-expected operating income.
- The Cosmetics Business continued to perform strongly in Asia, mainly in China. In Japan, the operating margin improved as structural reforms progressed steadily. Aiming to increase sales and operating income by focusing on eleven global strategy brands (G11).
- Skin care products continued to perform well in Japan and Asia. In the Americas, aiming to expand sales by responding to competition with new product launches, enhanced in-store merchandising and other measures.
- Hair care products continued to struggle due to shrinking mass markets in Japan, the Americas and Europe. Aiming to expand sales by differentiating brand image through improvements, conducting digital marketing, enhancing in-store merchandising and other measures.
- The Consumer Products Business in the Americas and Europe has been conducting structural reforms to achieve higher profitability.
- Baby diapers struggled in Japan and China. In China, sales decreased due to competition from local manufacturers, downward pressure on prices and other factors. The operating margin declined due in part to higher raw material costs and increased depreciation expenses. Aiming to maintain brand value and expand sales from various perspectives, such as by promoting initiatives with retailers and enhancing communication of value.
- In the Fabric and Home Care Business, sales were basically flat compared with the same period a year earlier due to the severe competitive environment in Japan, and the operating margin declined due to higher raw material costs and increased fixed expenses. Sales and operating income are expected to recover, with steady sales of new and improved products in autumn.
- Aiming to achieve the forecast of consolidated results for the year ending December 31, 2018 by increasing sales and operating income through measures including launching of new and improved products and enhancing marketing and sales activities to make them more effective.

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Highlights of Consolidated Financial Results

Consumer Products Market[1] (January - September 2018)

Growth of household and personal care market in Japan:[2] SRI/SCI: +1 point

Growth of cosmetics market in Japan:[3] Flat (Inbound demand grew)

Consumer purchase price for 15 major household and personal care categories in Japan:[4] +2 points

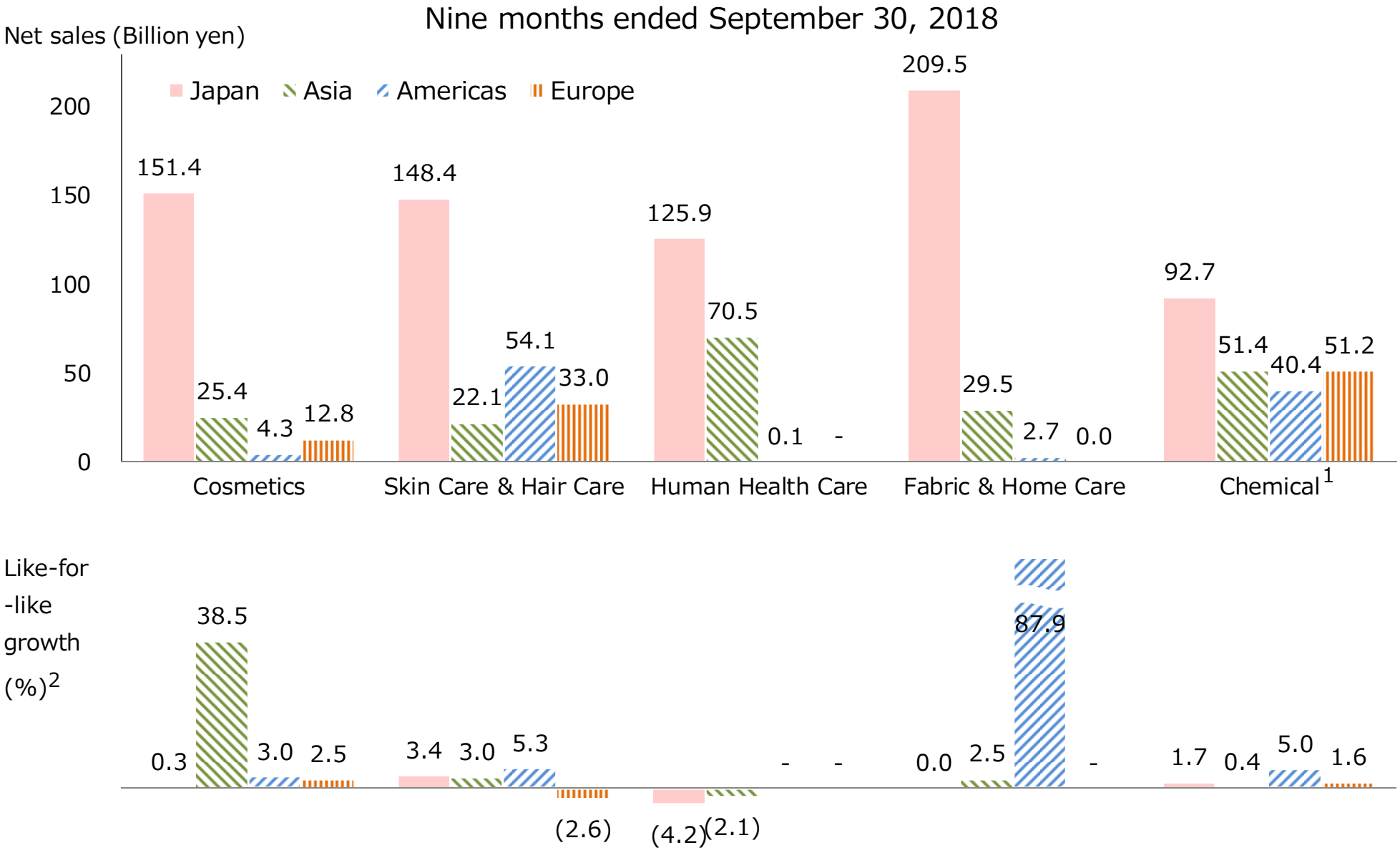
Consolidated Operating Results (Nine months ended September 30)

(Billion yen)	FY2017	FY2018	Growth %	Change
Net sales	1,080.2	1,097.8	+1.6	+17.6
		Effect of currency translation[5]	+0.3	+2.9
		Like-for-like, excluding effect of currency translation	+1.4	+14.7
Operating income	137.8	142.2	+3.2	+4.4
Operating margin	12.8%	13.0%	-	-
Income before income taxes	137.4	141.9	+3.3	+4.5
Net income	97.2	100.6	+3.5	+3.4
Net income attributable to owners of the parent	96.4	99.4	+3.1	+3.0
EBITDA (Operating income + Depr. & amort.)	178.1	186.8	+4.9	+8.7
Basic earnings per share (yen)	195.64	202.97	+3.7	+7.33

1. SRI: Estimates based on POS data from approx. 3,000 retail outlets nationwide / SCI: Purchasing data from approx. 50,000 consumer monitors nationwide
   SLI: Purchasing data for cosmetics, skin care and hair care products from approx. 40,000 female monitors nationwide. [Surveys by INTAGE Inc.]
2. Year-on-year growth rate of market size on a value basis (yen). (Source: SRI POS data, SCI data.)
3. Year-on-year growth rate of market size on a value basis (yen). (Source: SLI data based on Kao's definition. Survey excludes inbound demand.)
4. Comparison with the same period of the previous fiscal year using an index with January to December 2008 as 100 (Source: SRI POS data)
5. Exchange rates: 109.65 yen/USD, 130.98 yen/Euro, 16.85 yen/Yuan

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Consolidated Net Sales by Segment/Geographic Area



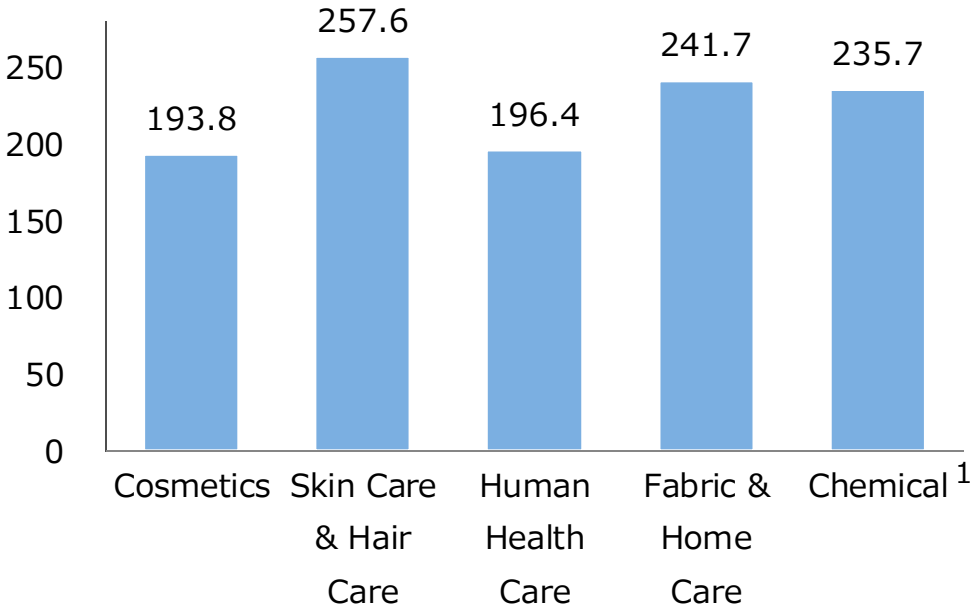
1. Net sales of the Chemical Business include intersegment transactions
2. Excluding the effect of currency translation

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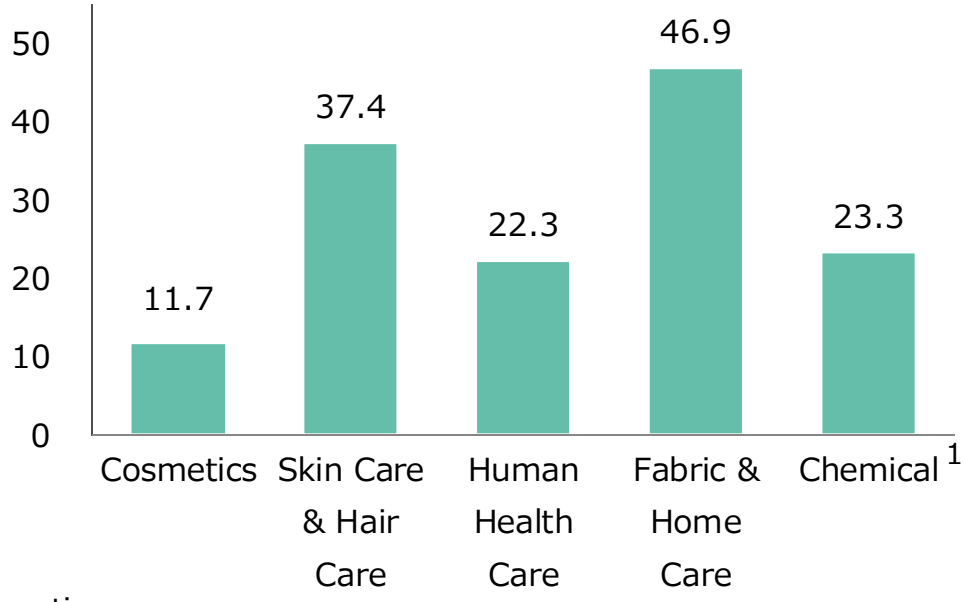
Consolidated Results by Segment

Nine months ended September 30, 2018

Net sales (Billion yen)



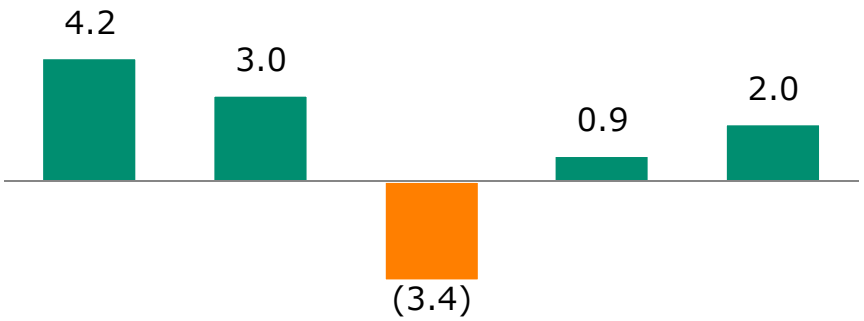
Operating income (Billion yen)



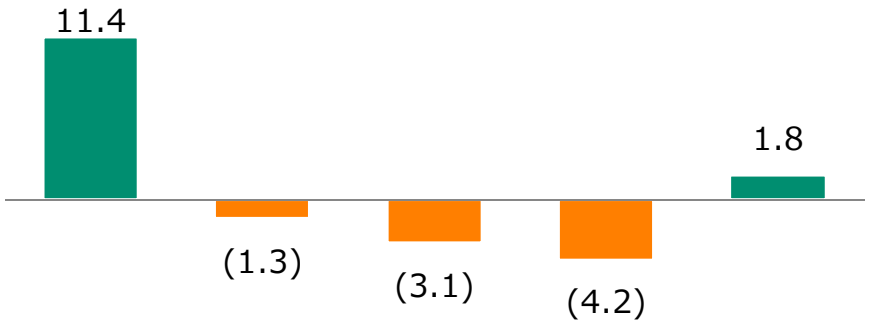
Operating margin (%)

Cosmetics	Skin Care & Hair Care	Human Health Care	Fabric & Home Care	Chemical
6.0	14.5	11.3	19.4	9.9

Like-for-like growth (%)[2]



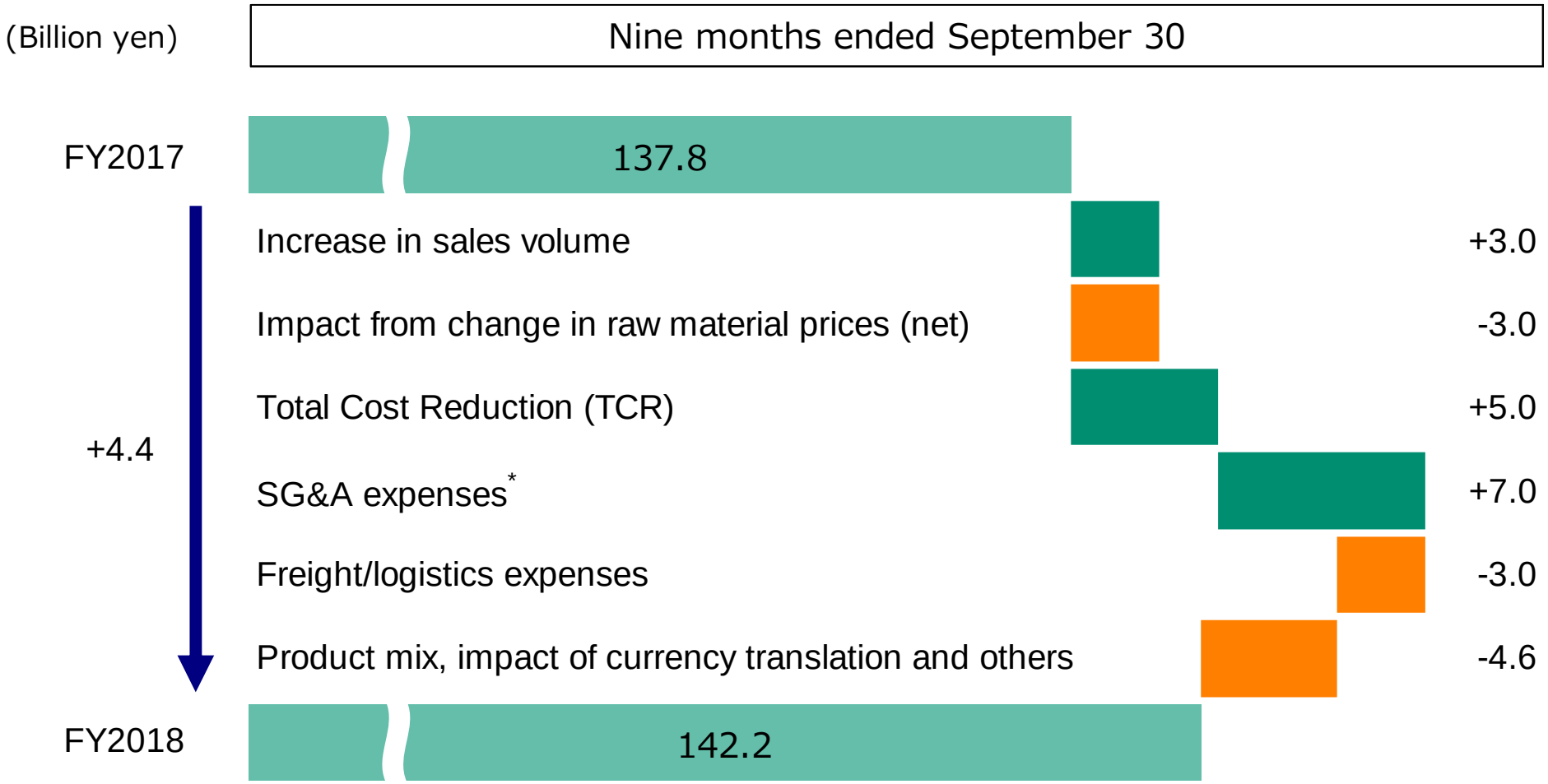
Change (Billion yen)



1. Net sales and operating income of the Chemical Business include intersegment transactions
2. Excluding the effect of currency translation

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Analysis of Change in Consolidated Operating Income



* Excluding the effect of currency translation

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