April 27, 2020
Kao Corporation

Impact on Business from the Novel Coronavirus (COVID-19) Pandemic

First, we would like to express our deepest condolences to those who have lost loved ones to COVID-19. We also extend our sympathies to those who have contracted the disease and pray for their full and swift recoveries.

We would also like to express our respect and gratitude for the selfless commitment of medical professionals and for the hard work of so many other essential workers in this challenging and unprecedented situation, including those in logistics and sales who are making efforts to ensure the provision of daily necessities.

The Kao Group's first priority is the health and safety of our stakeholders, including employees and their families, and our customers, and we have been working hard to prevent the spread of the virus. Furthermore, by placing the 'S' (solving social issues) of our ESG-driven management top of mind, we are working to strengthen the sanitation- and hygiene-related fields of our business, coming together as one Kao and collaborating with government, academia, and industry associations in order to provide products and information people need to live more hygienic lifestyles.

At this point, we would like to share a summary of the current state of the Kao Group's business and the risks we face.

1. Business operations

- In order to prevent the spread of COVID-19, countries and regions around the world have implemented border controls, restrictions on going outside, and store closures. The Kao Group is complying with instructions from central governments and local authorities in the countries and regions where we do business. While we have for the most part been able to continue production as planned, as employees in most of the locations where we do business are working from home, there has been some impact on our business.

- We are regularly confirming the health of all Kao Group employees and their families and are providing our workers with material support.

- We continue to increase production capacity for hygiene-related products including sanitizers, hand soap and bleach. In light of a significant increase in demand for sanitizers, in April we greatly increased sanitizer production capacity in Japan.

- This was not something we were able to do on our own. We have achieved this with the collaboration and support of our customers and other firms. Going forward, the Kao Group will continue business operations in close liaison with governments and local authorities, industry associations, and other firms.

2. Business impact

- As we announced today in our "Consolidated Financial Results for the Three Months Ended March 31, 2020," although the drop in inbound demand resulted in decreased sales for the Cosmetics Business, as sales increased for hygiene-related products in Japan and Asia, on a consolidated basis the Kao Group achieved increases in net sales (on a like-for-like basis) and operating income. Furthermore, while some of our business activities have been delayed, this has not resulted in a large impact.

- In the Consumer Products Business excluding Cosmetics in Japan and Asia, sales of hygiene-related products continue to increase, but new products and seasonal products such as UV care are not selling as planned and face a difficult situation.

- In the Cosmetics Business, in addition to the drop in inbound demand, store closures and the suspension of in-store beauty counseling mean we are starting to see a significant negative impact. In addition, restrictions on going outside in many countries and regions around the world have resulted in a reduction in makeup sales.

- In the Americas and Europe, our salon business, which sells professional haircare products, is one of our core businesses. Salon closures mean that this part of our business is essentially not operating.

3. Forecast of consolidated operating results

- As this difficult situation has continued, into the second quarter, we expect not only a significant shortfall to our original plan, but also extremely challenging financial results in terms of sales and profits compared to the previous year.

- We cannot predict when the pandemic will subside nor can we predict conditions in each country and region, but we assume that, even after the pandemic appears to be subsiding, economic recovery will take time. As for the second half of the year, considering last-minute demand in Japan in September 2019 ahead of the increase in the consumption tax rate, meeting previous year sales figures will be a high bar for us to clear in the third quarter. We expect the business situation to be difficult and the market environment to remain highly unpredictable.

- Going forward, in addition to the cost savings we expect from a fall in the price of crude oil, we are taking various steps to implement special measures and review expenses and therefore aim to achieve our previously-released forecasts announced on February 4, 2020. At this point, we are leaving our consolidated operating results forecast as it stands and will assess the situation at the end of the second quarter. If we do become aware of any potential major impacts, we will make timely disclosures.

4. Principles guiding management's decision-making and special measures implemented

In the midst of this challenging business environment, the Kao Group is committed to placing the following principles, in order, at the core of our managerial decision-making.

1. Protect employees
2. Meet the needs of consumers and customers
3. Respond to shareholder expectations

If we take care of our employees, we can expect their engagement and commitment. This will enable the Kao Group to invest the best of our abilities in serving society and meeting the needs of consumers and customers, which will ultimately lead to profitable growth. To ensure the safety and wellbeing of our employees, we must not only change the way we work in order to reduce to the absolute minimum the risk of them contracting COVID-19, but also ensure they have incomes stable enough to enable them to persevere through this difficult time and summon the courage to take on challenges. To do this, we are paying special supplementary compensation to employees who, despite stay-at-home requests, have been coming to work in production, logistics, sales and other activities to secure the continuity of our business. In addition, regarding bonuses linked to company financial performance, we will be taking a one-time special measure in 2020. We expect these measures to connect to employee motivation and willingness to work hard for the success of Kao Group, which we believe will deliver results that outweigh the increased expense.

What we must concentrate on now is controlling the spread of this novel coronavirus. To do this, we are focusing our efforts on realizing the mission of the Kao Way, our corporate philosophy. This is an unprecedented and challenging situation, but we will overcome it together as one Kao.

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