

FOR IMMEDIATE RELEASE

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Kao Group Cosmetics Business

Building a *New Global Portfolio*

Refining a collection of brands with stand-out personalities and accelerating growth in Asia and Europe

Kao Corporation (Michitaka Sawada, President) has built a *New Global Portfolio* as a pillar of its new growth strategy within the Kao Group Cosmetics Business. The five cosmetics businesses entities in the group, including Kanebo Cosmetics, are strengthening their brand management and optimizing the portfolios for all of the brands they develop.



Kao Group's Five Cosmetics

Business Entities

The Kao Group created the *New Global Portfolio* by selecting 11 global strategy brands, some of them new, and refining each by highlighting the scientifically proven benefits of the products in combination with distinct beauty-enhancing qualities empowered by emotional and sensory appeal. The group will focus most on prestige ranges, with Kanebo Cosmetics accelerating the globalization of SENSAI, a brand now marketed mainly in Europe.

By refining its strategic brands into a portfolio of distinct, stand-out brand personalities, Kao Group will accelerate growth in Europe and Asia, including Japan. A sales target of over 300 billion yen is set for 2020, with an operating profit ratio of 10% and overseas sales ratio of 25%.

Background Trends in the Cosmetics Industry and Kao Group's Cosmetics Business

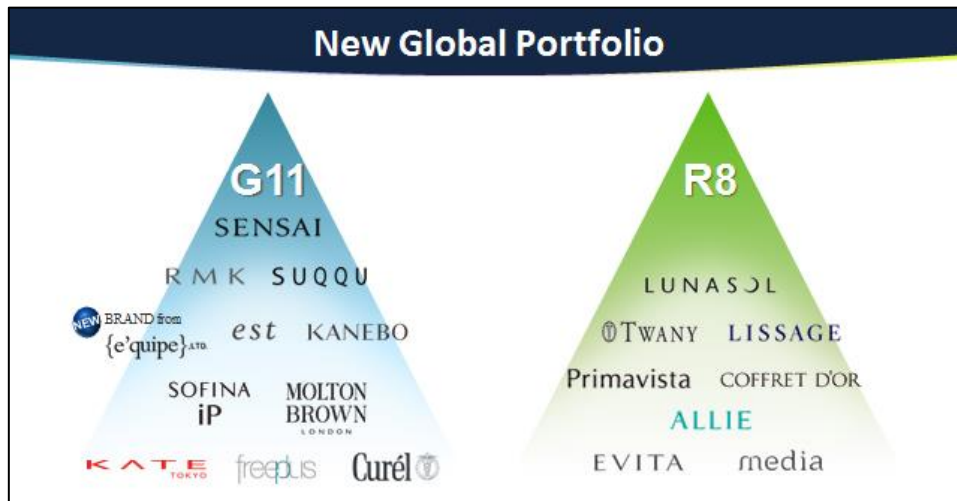
Japan's home cosmetics market is now active thanks to strong domestic consumption and growth of inbound demand from overseas visitors. The market is largely polarized into two segments, prestige and mass market. Good performance of the prestige segment continues to drive much of the current expansion of the Japanese cosmetics market. On the global level, powerful growth in Asia, particularly China, is driving the market. In parallel, dramatic changes in consumer purchasing behavior in the digital age call for new marketing strategies.

Against this backdrop, Kao Group's cosmetics sales are expanding in Japan and the rest of Asia, especially the prestige brands RMK and SUQQU (marketed by the e'quipe LTD., a subsidiary wholly owned by Kanebo Cosmetics), Curél (Kao), a dedicated skincare brand for dry and sensitive skin, and Kanebo's freeplus and KATE. Business in China, now back on a growth track after restructuring, is driving sales and market gains.

For the whole of Kao Group, meanwhile, a branching out of businesses running myriad group brands in separate directions has created challenges for strategic brand growth.

Building the New Global Portfolio

The *New Global Portfolio* was formed around the five cosmetics businesses of Kanebo Cosmetics, SOFINA, Curél, e'quipe LTD., and MOLTON BROWN. The portfolio consists of eleven global (G11) and eight regional (R8) brands, the former including a small number of brands selected from the domestic portfolio for their global potential. Kao Group will be stepping up growth in Europe and Asia, including Japan, with a focus on a stronger travel retail business. The R8 regional component encompasses strategic brands marketed mainly in the Japan market. By concentrating what once were far-flung investments on myriad brands, the Kao Group aims to cultivate stronger brands and facilitate growth.



Focus on prestige global brands

To reinforce the presence of Kao Group Cosmetics businesses globally, prestige brands in the global portfolio will receive special focus.

SENSAI

The super prestige brand marketed by Kanebo Cosmetics in over 40 countries of Europe and the Middle East will be expanded to other global markets. Launched in 1983 in Europe, SENSAI is known for its rare signature ingredient *Koishimaru silk* and its original *Saho* skincare method.

An additional line created for the global market will be launched in Europe in 2019.

Plans are also in place to strengthen the international brand presence of SENSAI by opening a flagship store in Japan in the autumn of 2019. The store presence will be second only to that of the SENSAI flagship store in Le Bon Marché in Paris, France. A SENSAI launch in China is projected for 2020.



est and KANEBO

The prestige skincare brands est by SOFINA and KANEBO by Kanebo Cosmetics will expand their value-added product lineups and embark on a style of brand communication with a more defined world view.



est

KANEBO

RMK, SUQQU, and a New Brand



RMK



SUQQU

e'quipe, a 100% subsidiary of Kanebo Cosmetics, will strengthen its overseas business for RMK and SUQQU, popular brands both in Japan and abroad, with a focus on travel retail business. The global presence of the company will be rising even higher.

e'quipe is also planning to launch a brand to offer beauty from a new perspective, aimed for 2020.

SOFINA iP

SOFINA will develop a new range, SOFINA iP. Since its nationwide launch in 2016, more than 3 million units of SOFINA iP Base Essence [Essence] have been shipped, making it Japan's top-selling* beauty serum. With this bestselling Base Essence at the core, SOFINA IP will be extended to a whole new line.

*Intage SRI beauty serum (excluding whitening) market, September 2016 to December 2017, cumulative sales and quantity by brand.



Accelerate Global Expansion of Three Mass Brands

The three mass brands within the global portfolio – the skincare lines Curél, freeplus and the makeup brand KATE – have been performing strongly, especially in Japan and China.

Curél will be expanded in Japan and Asia and is projected to launch in Europe and the US from 2019. freeplus, already a strong seller in China, will be accelerated throughout the whole Asia market through focused growth in Japan and a brand launch in ASEAN. KATE, a mega brand with a top sales share* in Japan for 16 years running, is poised to become Asia's No. 1 makeup. Expansion will continue for brick-and-mortar stores in Asia, in parallel with growth in the presence of digital.

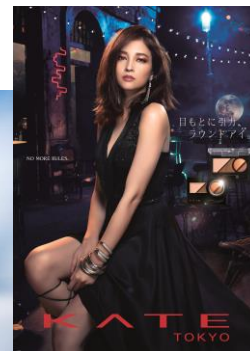
*Intage SRI self-makeup market, January 2002 to December 2017, cumulative sales.



Curél



freeplus



KATE

Repositioning local Japan brands as “counseling” and “self-service” brands and reviewing strategies for the distribution channels

As it builds this new portfolio, Kao Group is also advancing efforts to create strong brands for its domestic business through sharper marketing. In a departure from the conventional classification of “prestige,” “mass-tige, and “mass” brands, Kao will be moving its brands into “counseling” (beauty counselor retailing at stores) and “self-service” categories. In parallel with the clearer brand positioning, the group will also be thoroughly reviewing its manufacturing and sales methods. The manufacturing and marketing focuses for counseling brands will shift to customized suggestions for customers through professional beauty counselors prepared for their role by sophisticated, specialized training. The self-service brands, meanwhile, will realign around star items with distinct benefits. Kao Group’s communication and storefront strategies will be reshaped to best suit the brands, and proactive advances into e-commerce will continue.

Beyond these actions, Kao Group will also be reviewing brand strategies for every distribution channel. With recent changes in customer purchasing behavior, evolving business conditions pose challenges for every type of distribution business. The logistics for cosmetics are becoming borderless. Taking this in stride, Kao Group will sequentially shift from a conventional “channel-based” brand positioning strategy to brand positioning in a “customer-based” style attuned to customers’ methods for selecting and purchasing products.

New Brand Strategy in Japan

Repositioning in “counseling” and “self-service” brands

Category	Brands	Strategy
Counseling	KANEBO, LUNASOL, SUQQU, R M K, est, TWANY, LISSAGE, ALBLANC, DEW	Personal counseling through trained beauty consultants - Product development and marketing with a custom-made approach focusing on individual consumer needs
Self-Service	SOFINA, IP, EVITA, media, freeplus, Curél, COFFRET D'OR, Primavista, ALLIE, KATE TOKYO	Self-service without personal consultation - Create star items with distinct features - Reinforce communication and store promotion best suited to each brand - Proactively use E-commerce

About Kao

Kao creates high-value-added products that enrich the lives of consumers around the world. Through its portfolio of over 20 leading brands such as *Attack*, *Bioré*, *Goldwell*, *Jergens*, *John Frieda*, *Kanebo*, *Laurier*, *Merries* and *Molton Brown*, Kao is part of the everyday lives of people in Asia, Oceania, North America and Europe. Combined with its chemical division, which contributes to a wide range of industries, Kao generates about 1,500 billion yen in annual sales. Kao employs about 33,000 people worldwide and has 130 years of history in innovation. Please visit the Kao Group website for updated information.

<http://www.kao.com/global/en/>

Press contacts: <http://www.kanebo.com/pressroom/contacts.html>