Kao DX Strategy Briefing Session

Acceleration of the "*Global Sharp Top* Strategy" through DX

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www.kao.com/global/en/investor-relations/library/business-strategy-presentations/

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.
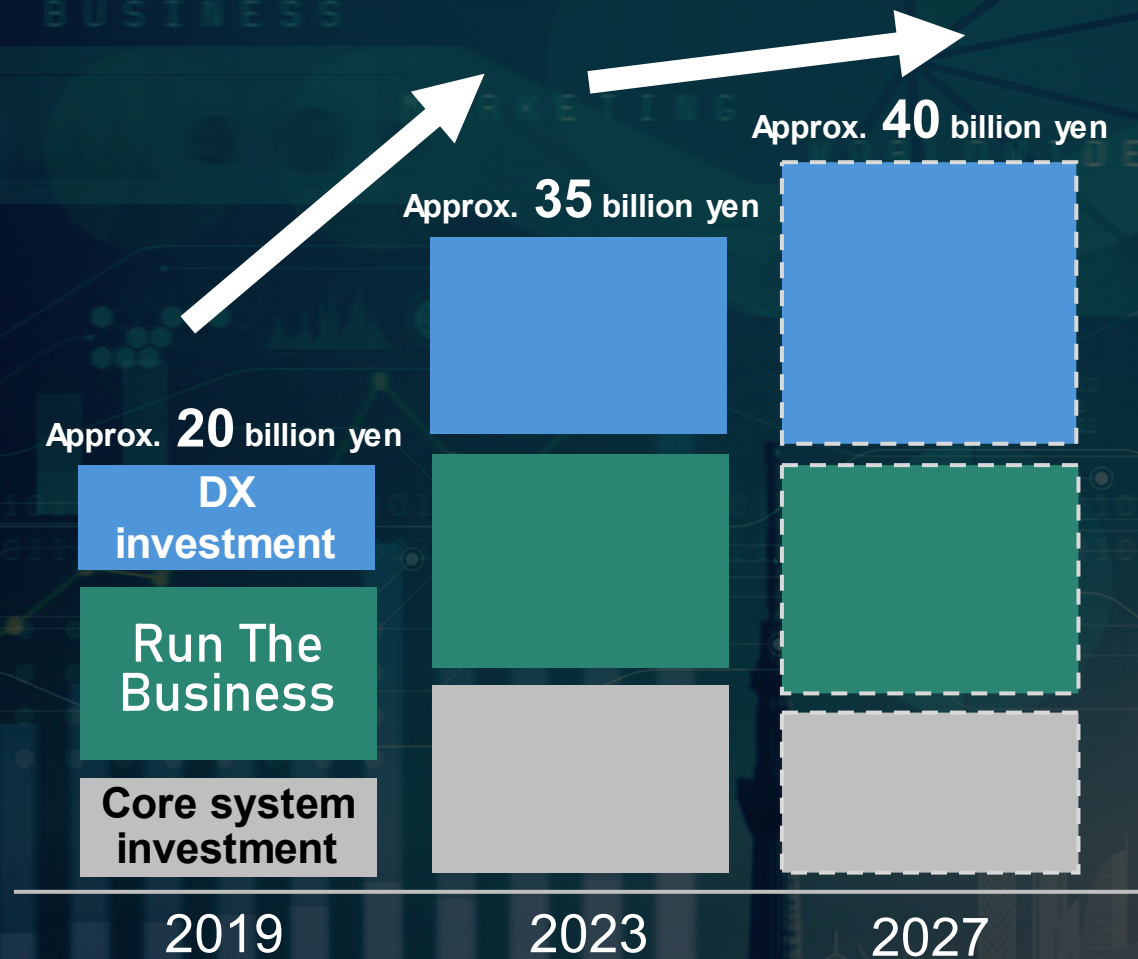
Key questions/topics of interest received in questionnaire

Kirei–Making Life Beautiful

- Scale of digital investments and future investment plans
- Explanation behind return on digital investment
- Kao's competitive advantage in DX

- Kao's DX strategy and achievements to date
- Results in product development, SCM, and marketing
- Application of DX to marketing
- Relevance to Precision Life Care
- Status of database construction and the talented people who work with the data
- Status of first-party data acquisition and future policy

Current and future digital investments

Digital investment trends

Approx. **40** billion yen

Approx. **35** billion yen

Approx. **20** billion yen

DX investment

Run The Business

Core system investment

2019   2023   2027

Peer Comparison of DX Investment against Sales*

2.5%

Consumer goods manufacturer (Global)   2.1%
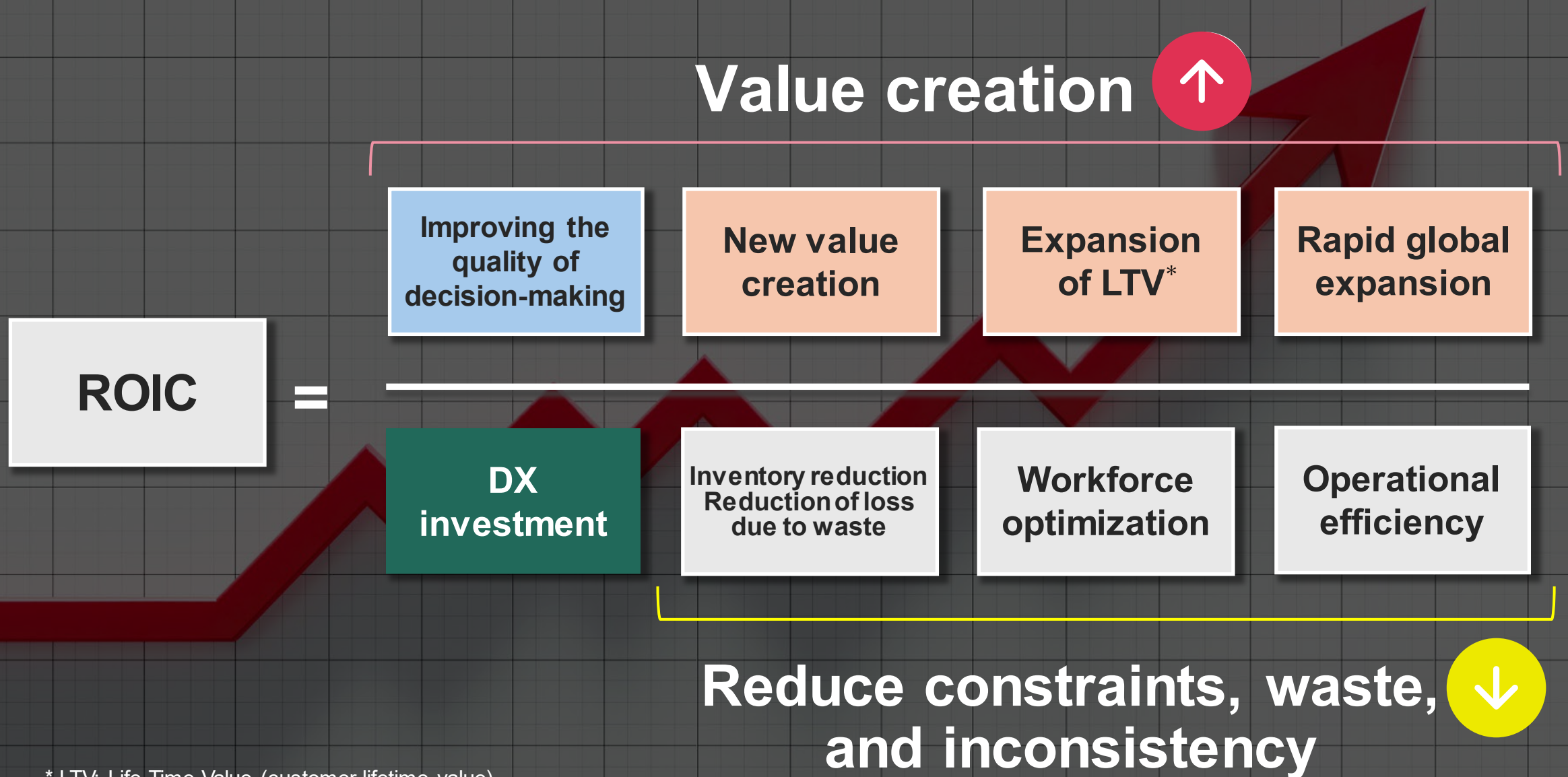
2.3%

1.6%

Kao

2019   2023

* Projected figure, based upon projected 2023 IT spending provided by Gartner clients.

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ROIC management for Kao DX investments

Value creation ↑

$$\text{ROIC} = \frac{\text{Management} \quad \text{Business}}{\text{DX investment} \quad \text{Operation}}$$

Reduce constraints, waste, and inconsistency ↓

ROIC management for Kao DX investments

Value creation ↑

| Improving the quality of decision-making | New value creation | Expansion of LTV* | Rapid global expansion |

$$ROIC =$$

| DX investment | Inventory reduction Reduction of loss due to waste | Workforce optimization | Operational efficiency |

Reduce constraints, waste, and inconsistency ↓
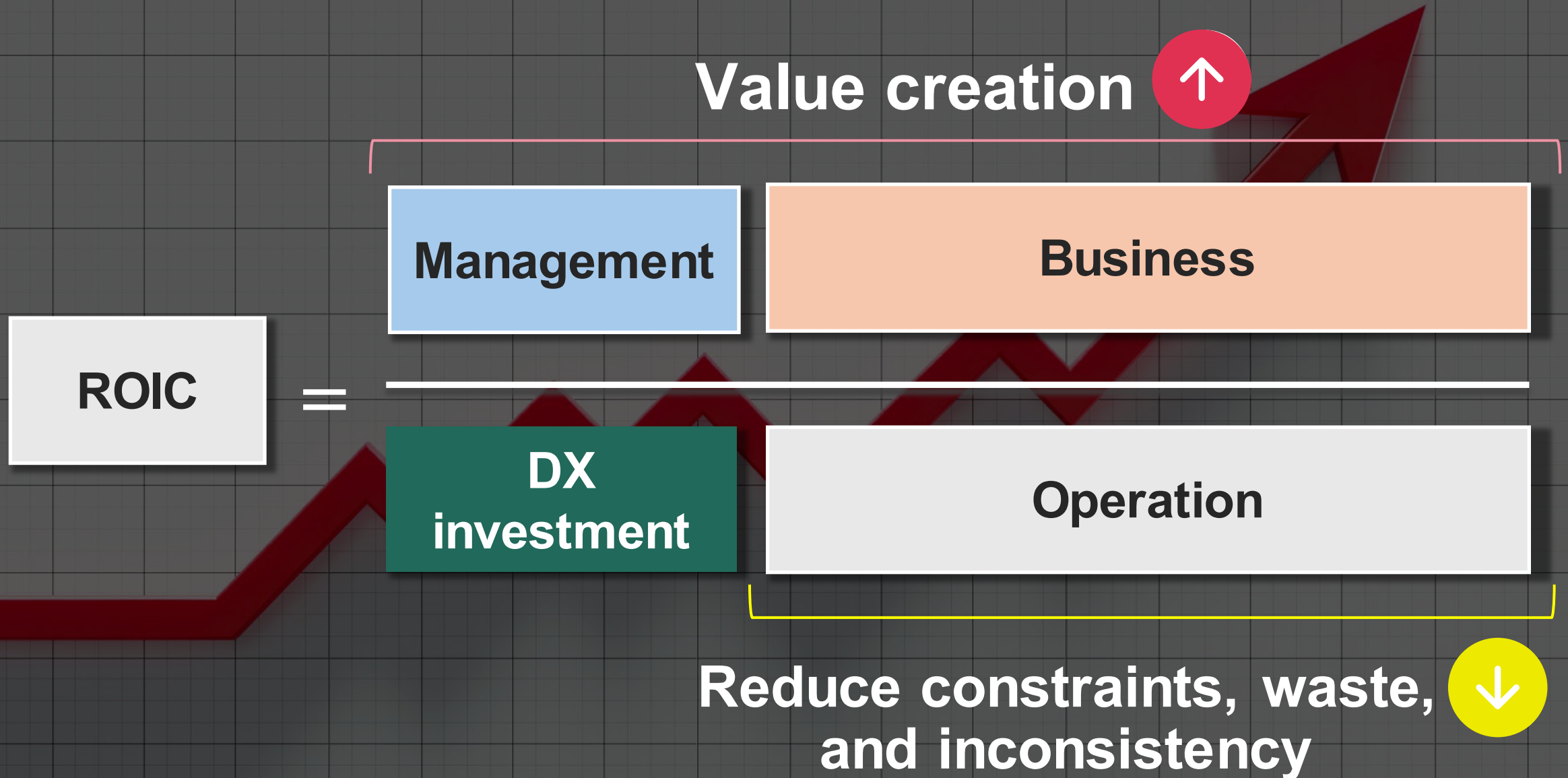
* LTV: Life Time Value (customer lifetime value)

Kao
Kirei—Making Life Beautiful

Data maintenance

'68 UNIVAC418II in operation

'79 KAO MIS in operation

'93 Data Lake Concept 1.0

'03 ERP (SAP) implementation

'18 Kao i-Lake launch

DX human capital

' 85 Knowledge and information science
research laboratory

' 88 Mathematical sciences research
laboratory

' 89 Kao system engineering school

' 04 DBM* launched

' 21 Citizen Developers' training

Kao i-Lake

* DBM: Digital Business Management

Agenda

(1) Kao's DX vision

(2) Actions that are already starting to produce positive achievements

(3) Current priority actions

(4) Future key actions for K27

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DX is a creative and disruptive initiative

DX is a creative and disruptive initiative

To accelerate transformation in the new era of competitive rules,

old systems, old practices, stereotypes,

and past legacies must be discarded and redesigned through digital technology.

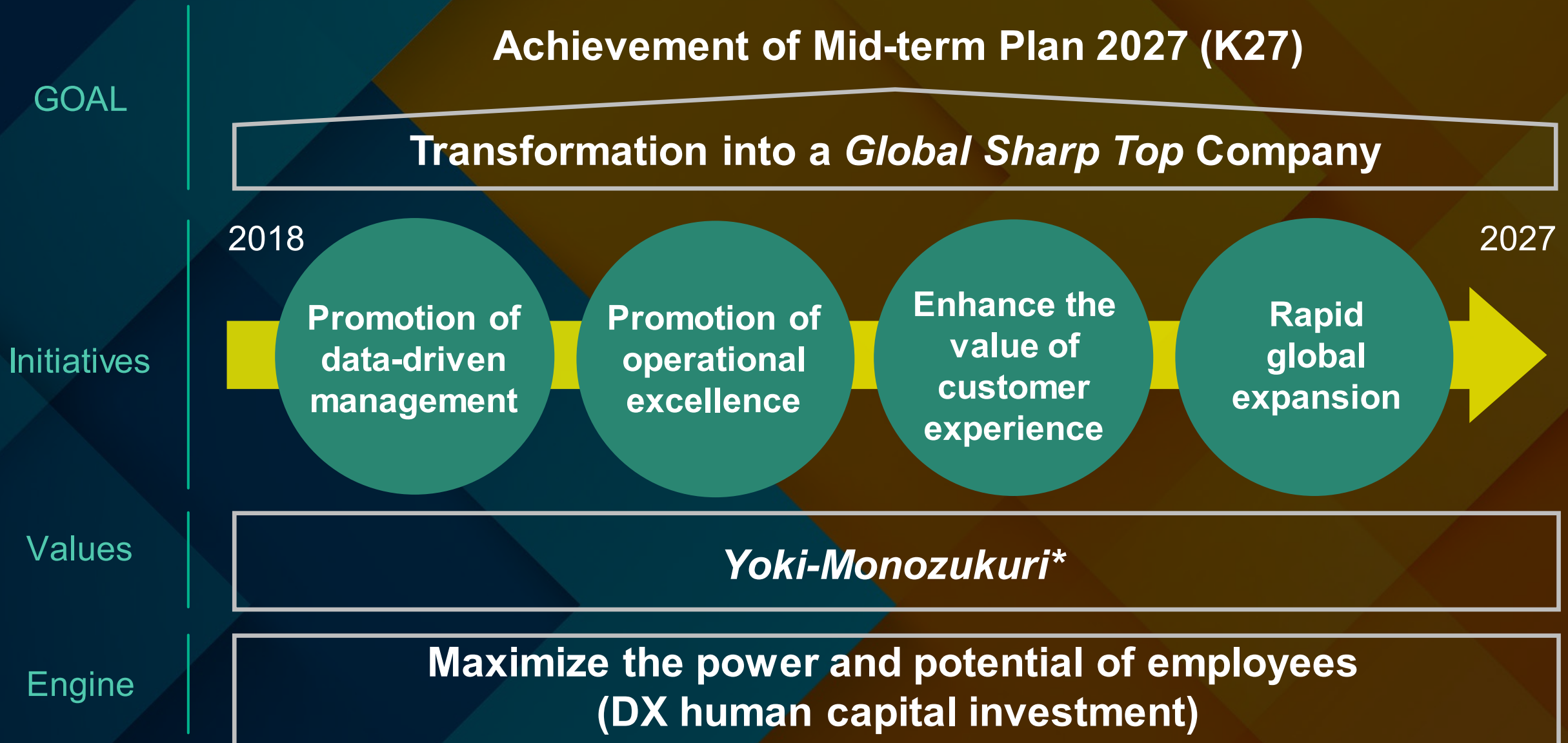| **Management structure** | **Decision-making** | *Monozukuri** | **Customer relations** |

* *Monozukuri* means "development/manufacturing of products".
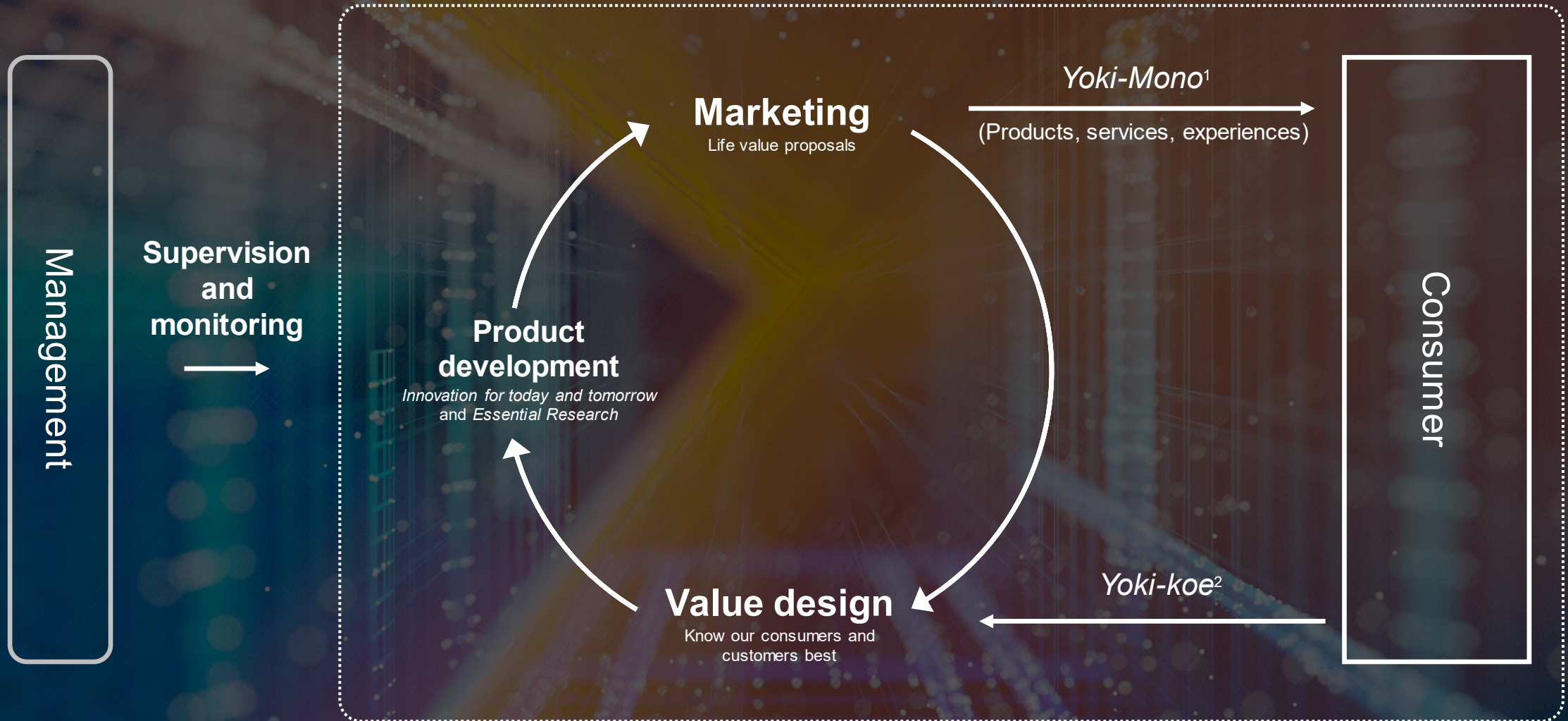
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Disrupt legacy systems and accelerate transformation into a *Global Sharp Top* Company through the power of digital technology and Human Augmentation.

Overall view of Kao's DX strategy

Achievement of Mid-term Plan 2027 (K27)

GOAL

Transformation into a *Global Sharp Top* Company

Initiatives

2018   2027

Promotion of data-driven management · **Promotion of operational excellence** · **Enhance the value of customer experience** · **Rapid global expansion**

Values

Yoki-Monozukuri*

Engine

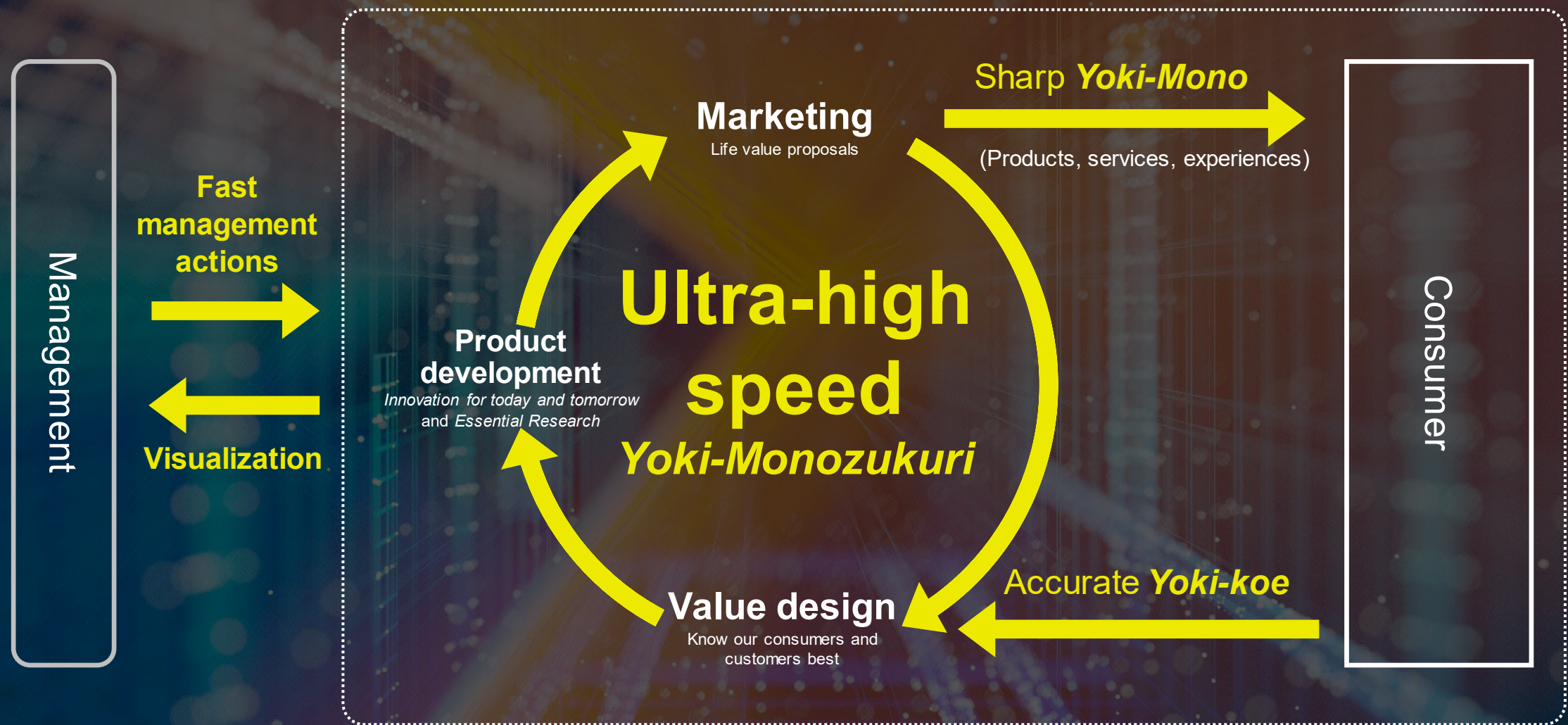**Maximize the power and potential of employees (DX human capital investment)**

* The Kao Group defines *Yoki-Monozukuri* as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, *Yoki* literally means "good/excellent," and *Monozukuri* means "development/manufacturing of products."

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The essence of corporate activities: the "*Yoki-Monozukuri*" cycle

Management

**Supervision
and
monitoring**

Marketing
Life value proposals

**Product
development**
*Innovation for today and tomorrow
and Essential Research*

Value design
Know our consumers and
customers best

Yoki-Mono[1]
(Products, services, experiences)

Yoki-koe[2]

Consumer

1. *Mono* means products

2. *Koe* means customer response

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KAO
Kirei–Making Life Beautiful

Management

Fast management actions

Visualization

Marketing
Life value proposals

Product development
Innovation for today and tomorrow and *Essential Research*

Ultra-high speed
Yoki-Monozukuri

Sharp *Yoki-Mono*
(Products, services, experiences)

Accurate *Yoki-koe*

Value design
Know our consumers and customers best

Consumer

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Overall view of Kao's DX strategy

Achievement of Mid-term Plan 2027 (K27)

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Initiatives

2018

Promotion of data-driven management

Promotion of operational excellence

Enhance the value of customer experience

Rapid global expansion

2027

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Yoki-Monozukuri

Engine

Maximize the power and potential of employees (DX human capital investment)

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KAO
Kirei—Making Life Beautiful

Playing an active role as citizen developers

Employees who are not IT technicians, but who identify familiar business issues and work to improve business processes by themselves using IT tools

Number of Microsoft Power Platform developers
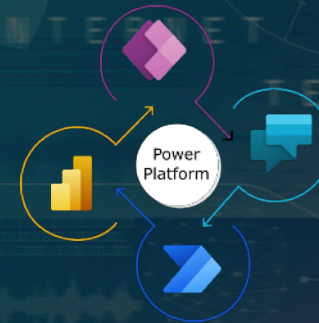
3,000
employees

1,500
employees

80
employees

| 2021 | 2023 | 2027 |

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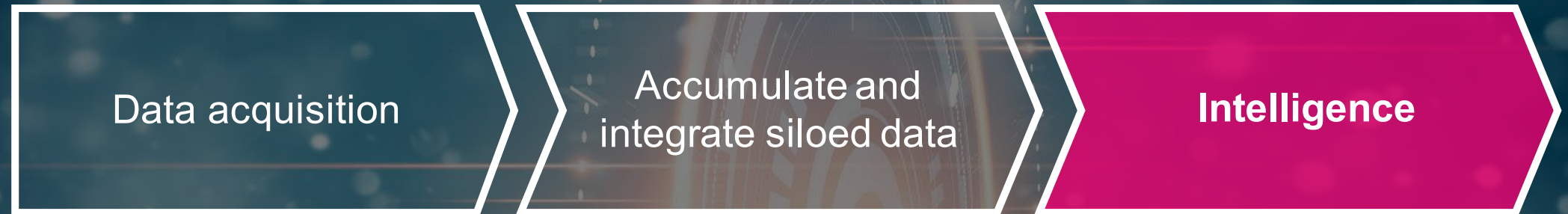(4) Future key actions for K27

Overall view of Kao's DX strategy

GOAL

Achievement of Mid-term Plan K27

Transformation into a *Global Sharp Top* Company

2018   2027

Initiatives

Promotion of data-driven management

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Enhance the value of customer experience

Rapid global expansion

Values

Yoki-Monozukuri

Engine

**Maximize the power and potential of employees
(DX human capital investment)**

20
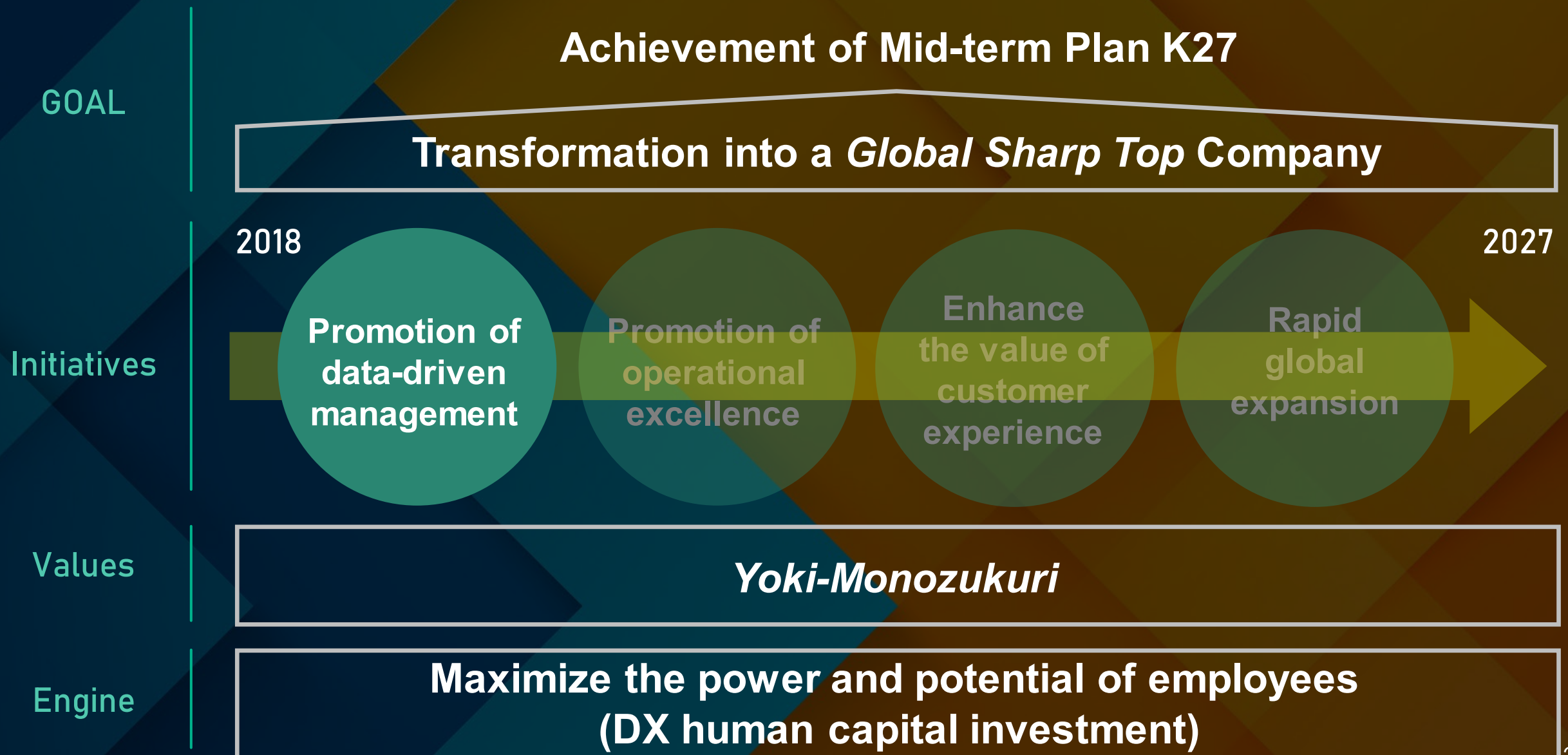
25 billion yen

Successful strategic price increases

Kao i-Lake supported strategic price increases of 25 billion yen*and expansion of market share.
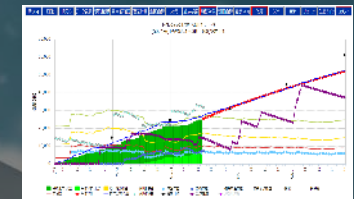
* Japanese market 2022 vs. 2023

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Kao i-Lake supporting data-driven management

Kao Kirei–Making Life Beautiful

Data acquisition	Accumulate and integrate siloed data	Intelligence

Data acquisition:
- Accounting (ERP)
- R&D
- Production & Logistics
- Sales & Inventory
- Human resources
- Market information
- Customers' voice

GMAP [1]

Inventry monitoring

S&OP [2] simulation
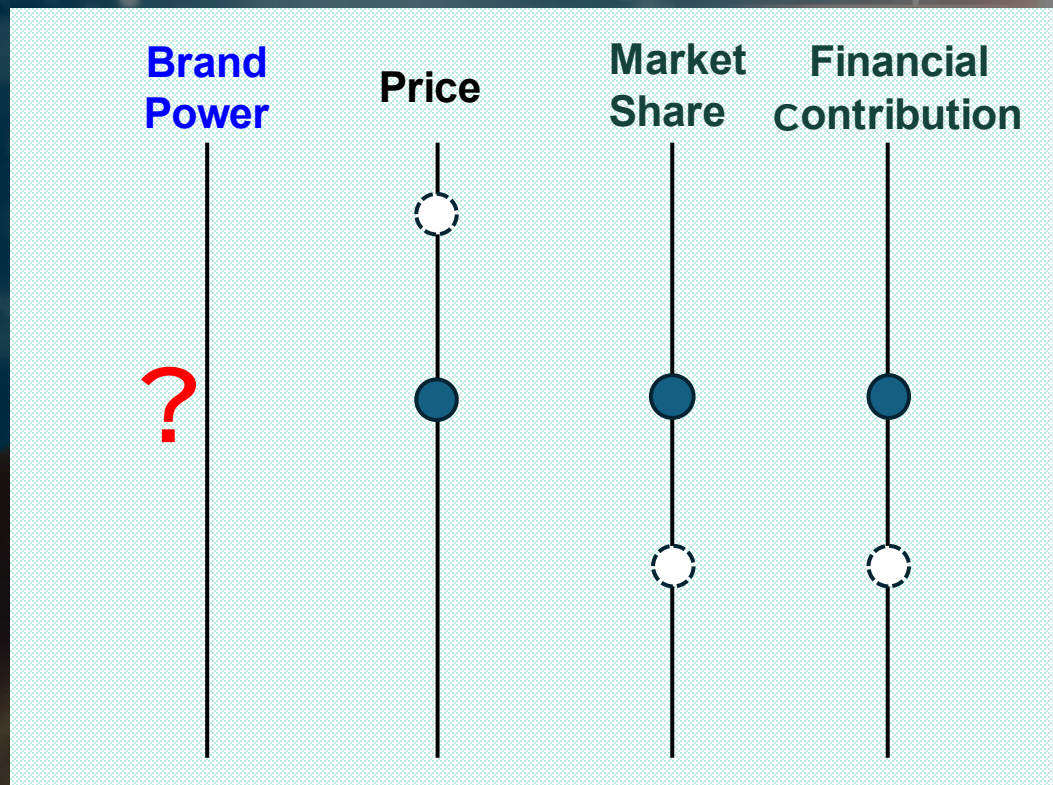
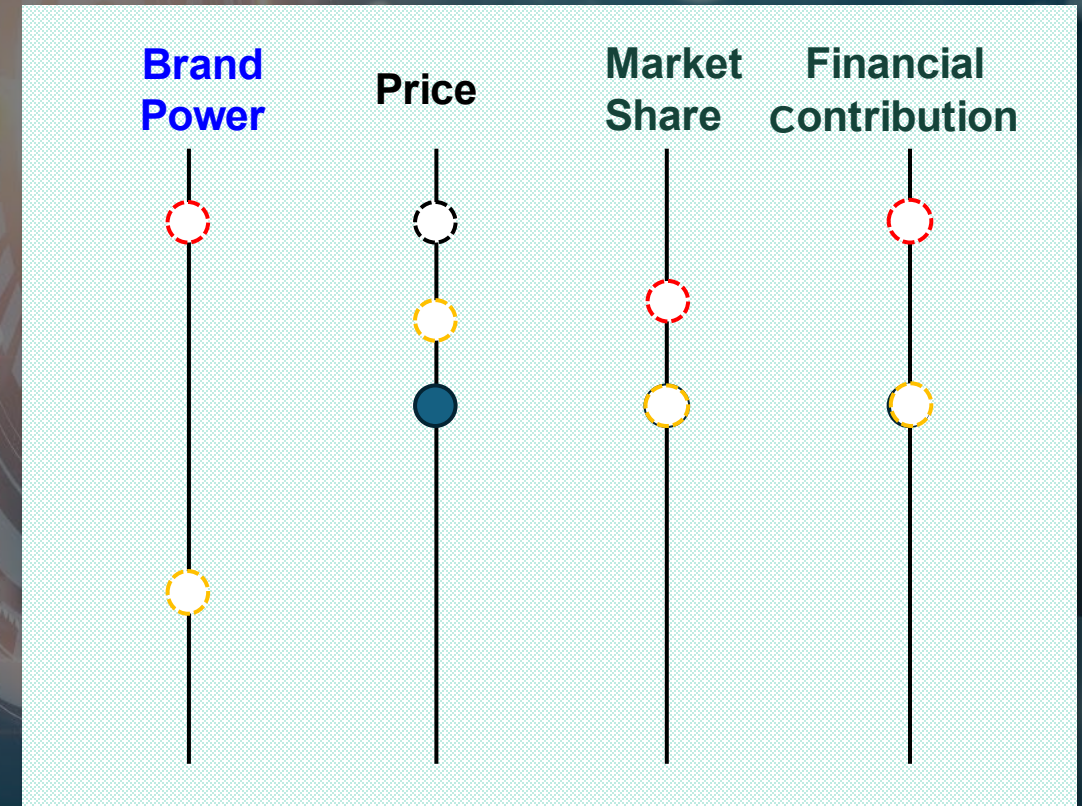Marginal profit rate monitoring

Digital clairvoyance

Global market information

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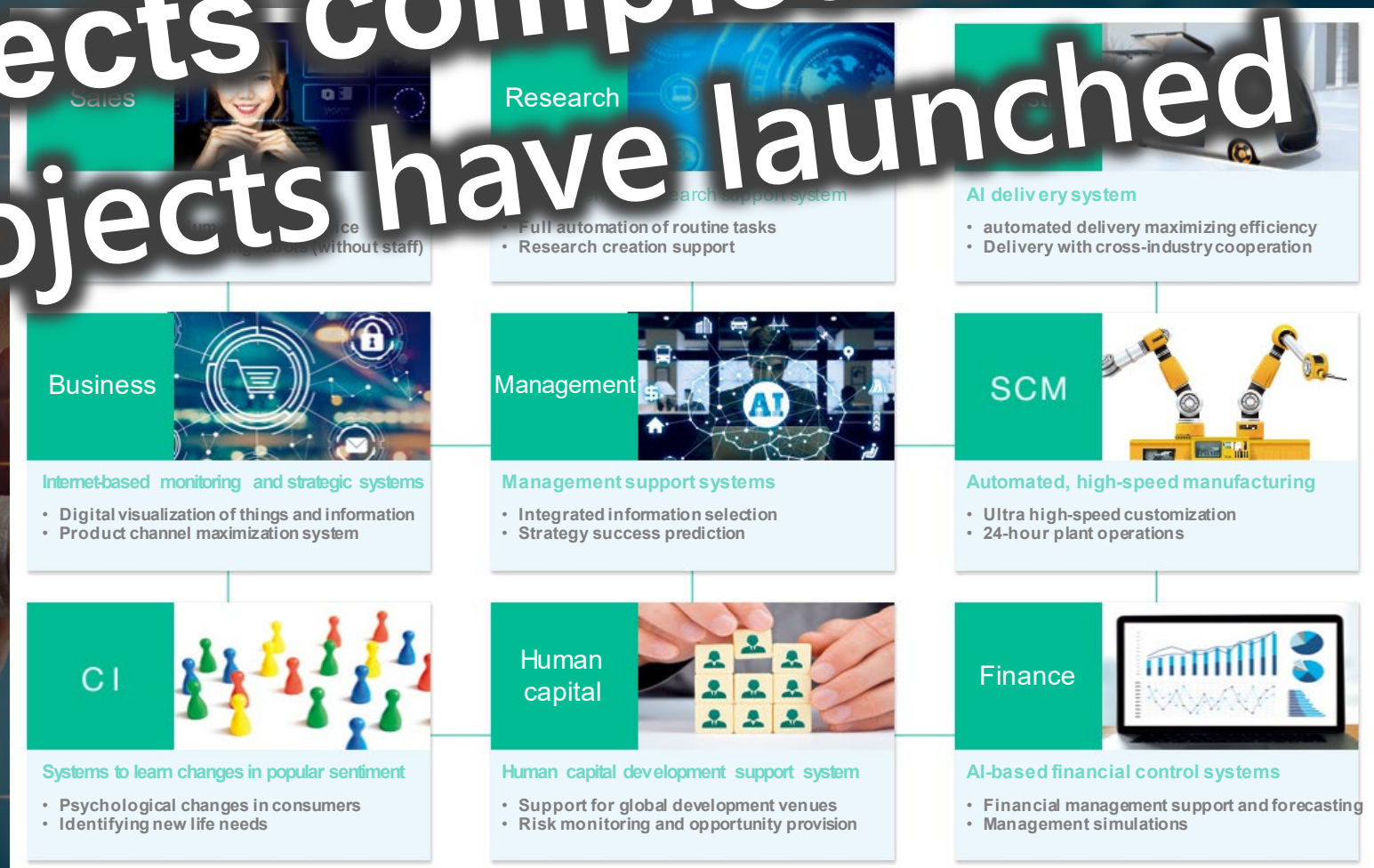
Enhance the value of customer experience

Rapid global expansion

Values

Yoki-Monozukuri

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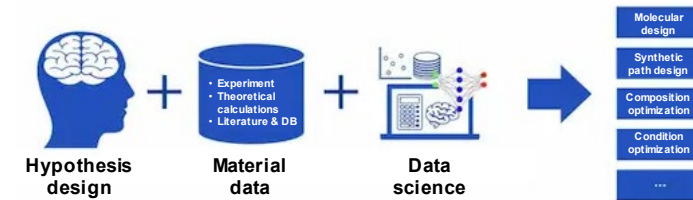**Maximize the power and potential of employees (DX human capital investment)**

KaO
Kirei−Making Life Beautiful

27 projects completed and new projects have launched

Sales

(without staff)

Research support system
- Full automation of routine tasks
- Research creation support

AI delivery system
- automated delivery maximizing efficiency
- Delivery with cross-industry cooperation

Business

Internet-based monitoring and strategic systems
- Digital visualization of things and information
- Product channel maximization system

Management

Management support systems
- Integrated information selection
- Strategy success prediction

SCM

Automated, high-speed manufacturing
- Ultra high-speed customization
- 24-hour plant operations

C I

Systems to learn changes in popular sentiment
- Psychological changes in consumers
- Identifying new life needs

Human capital

Human capital development support system
- Support for global development venues
- Risk monitoring and opportunity provision

Finance

AI-based financial control systems
- Financial management support and forecasting
- Management simulations

Examples of new dimensions of R&D with DX

Material informatics

Hypothesis design + Material data + Data science → Molecular design / Synthetic path design / Composition optimization / Condition optimization / ...

Cleaning agent for power semiconductors
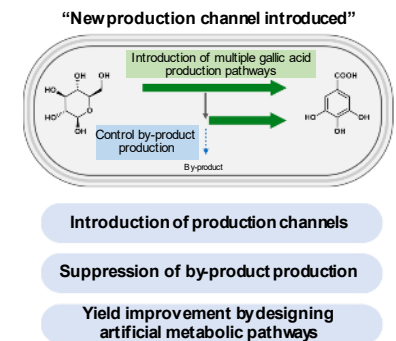
Copper oxide — Organic (rosin)

Power semiconductors

Development targets
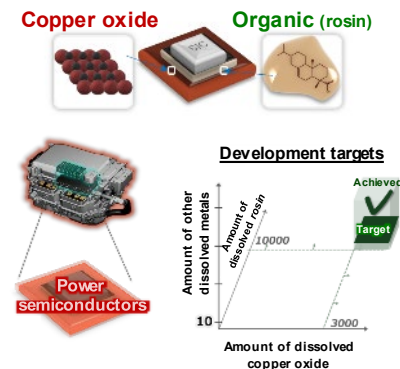
Selection of the best solvent from

877 species without experimentation

Fermentation production with bio gallic acid realized

"New production channel introduced"

Introduction of multiple gallic acid production pathways
Control by-product production

- Introduction of production channels
- Suppression of by-product production
- Yield improvement by designing artificial metabolic pathways

Reduce labor intensity by

one thousandth

compared to exhaustive gene disruptive experiments

**Established a "Once Only" system
to shift to product development operations with
"accuracy," "legal compliance," and "speed"**
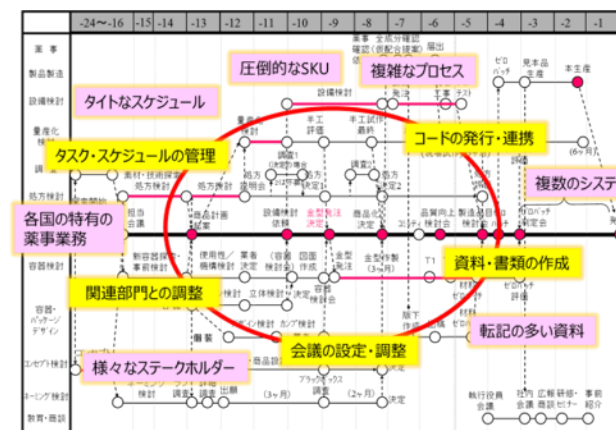
**Reduction of overtime
by 20,000 hours[*] / year**

* Achieved after 2024

Marketing transformation with digital utilization

Proactive implementation of social listening tools

Understanding user interests	VoC* listening

Visualization of Web behavior

DS.INSIGHT   story bank   Dockpit   Talkwalker by Hootsuite

* VoC: Voice of Customers

Training for internal implementation

Text mining training	Data analyst training

→ Approx. 500 employees   → Approx. 40 employees

Marketing transformation with digital utilization

Matrix method → Scrum method
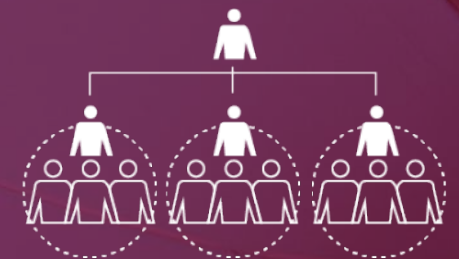
Marketing transformation with digital utilization

Makeup experience for a new you

Digital co-creation space with core fans

2020	2023
7%	→ **10**%

Makeup market SRI+[1] value share

Realization of continuous high-speed PDCA

Quickly detect customer evaluations of test marketings with **social listening tools**, and keep brushing up UX[2] and marketing measures with a scrum system

2020	2023
8%	→ **24**%

Sunscreen market SRI+ value share

Ultra-fast product development through scrum system + digital utilization

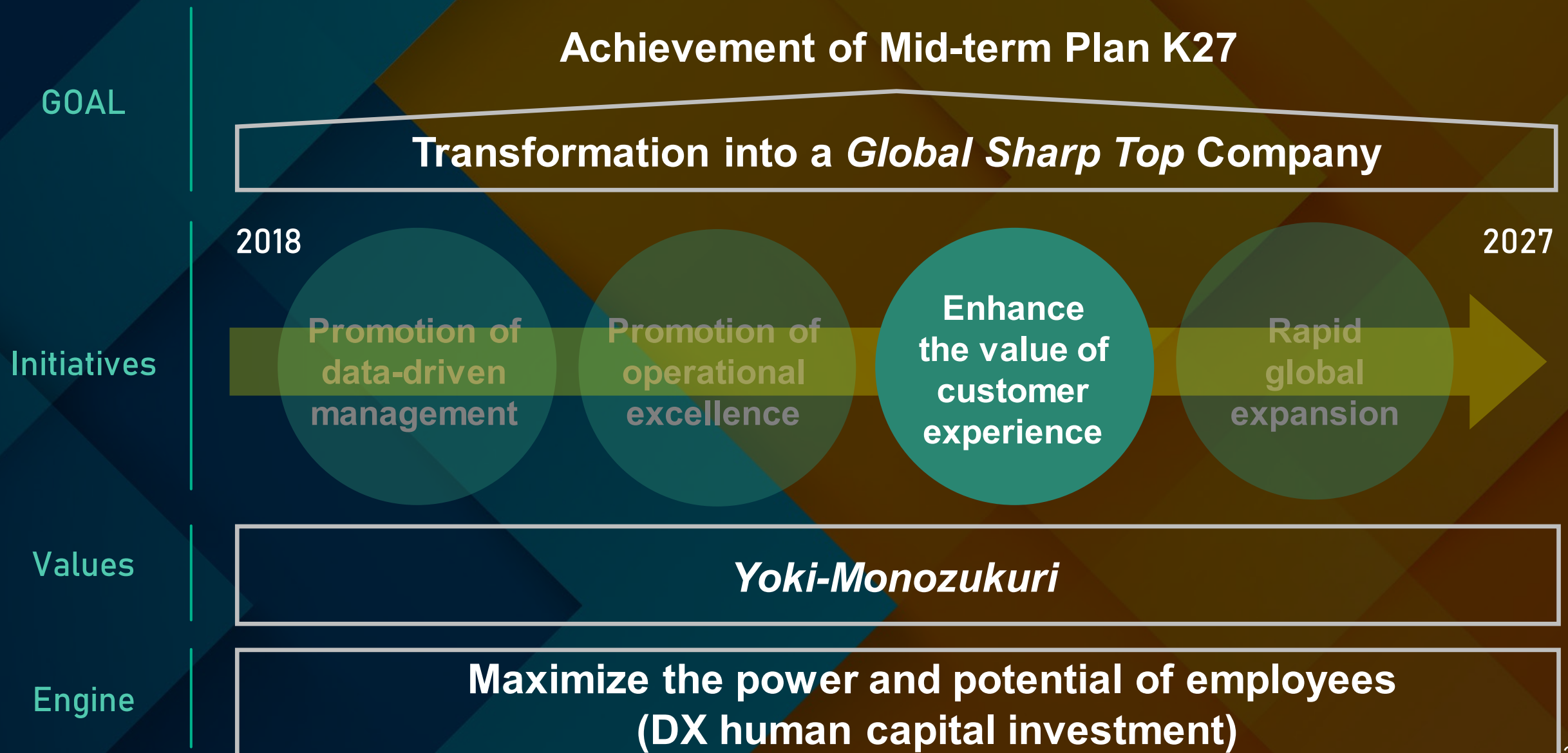|			
High premium Shampoo ¥1,400+/item	ines / Rental Beauty melt	April 2024	Fall 2024 (planned) **2nd launch**	2025 (planned) **3rd launch**
Mass market Premium/Reasonable Shampoo less than ¥1,400/item	April 2024 **Rebranding** New communication メリット	April 2024 **Rebranding** Essential	Fall 2024 (planned) **Rebranding** Segreta

Product development speed **6 times**[3]

1. SRI+: Estimates based on POS data from approx. 6,000 retail outlets in Japan (Source: INTAGE Inc.) 2. UX: User Experience 3. Compared to 2022

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10 million visitors in 2023

(1.6 million monthly visitors)

My Kao interactive platform

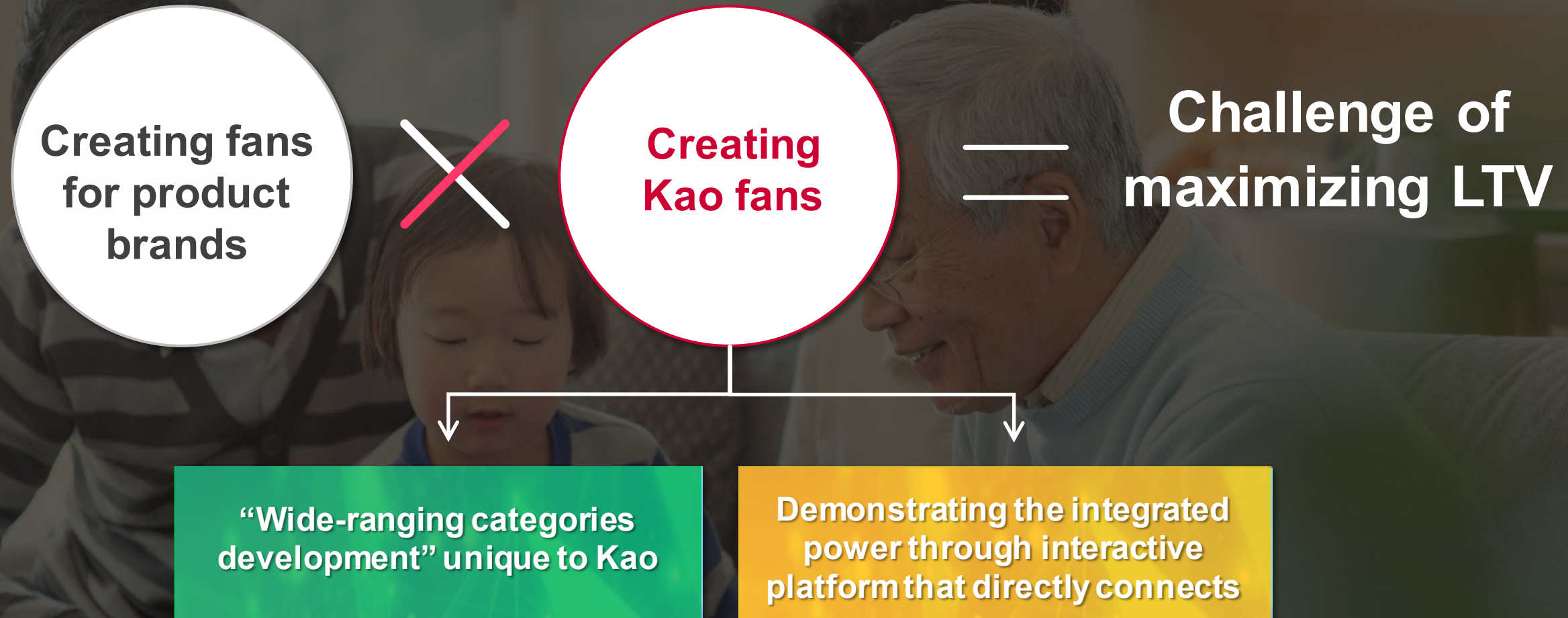**Kao's new digital platform to connect directly and interactively with consumers**
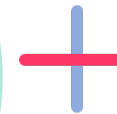
Creating Kao fans **+** New marketing platform

Maximizing LTV by strengthening fan creation

Creating fans for product brands

✕

Creating Kao fans

═ **Challenge of maximizing LTV**

"Wide-ranging categories development" unique to Kao

Demonstrating the integrated power through interactive platform that directly connects

My Kao as a marketing platform

Collect the voices of consumers

Dialogue with consumers

Make test sales
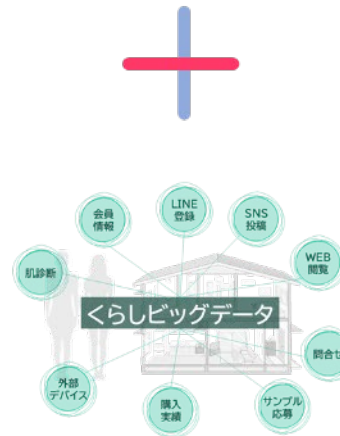
Global expansion of "interactive platform"
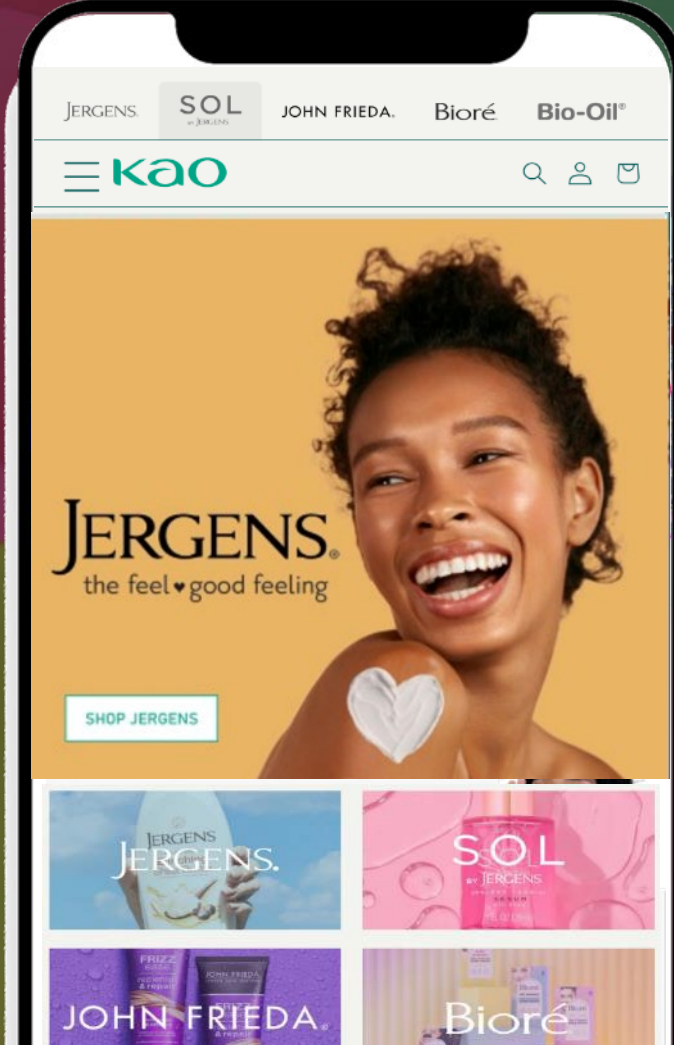
JP   US   China

Business implementation of RNA monitoring technology

2024 | 2025

RNA Co-creation Consortium

March 11, 2024

SA G
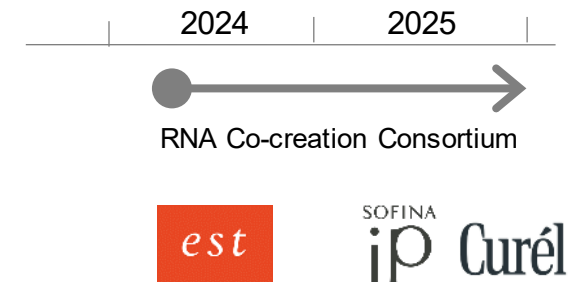
Skin Athlete Gym

est

Beauty for a lifetime

A personal skin care gym for members with an annual membership fee of 330,000 yen, which offers cutting-edge skin analysis such as sebum RNA monitoring and personalized luxury solutions to create beauty that lasts a lifetime.
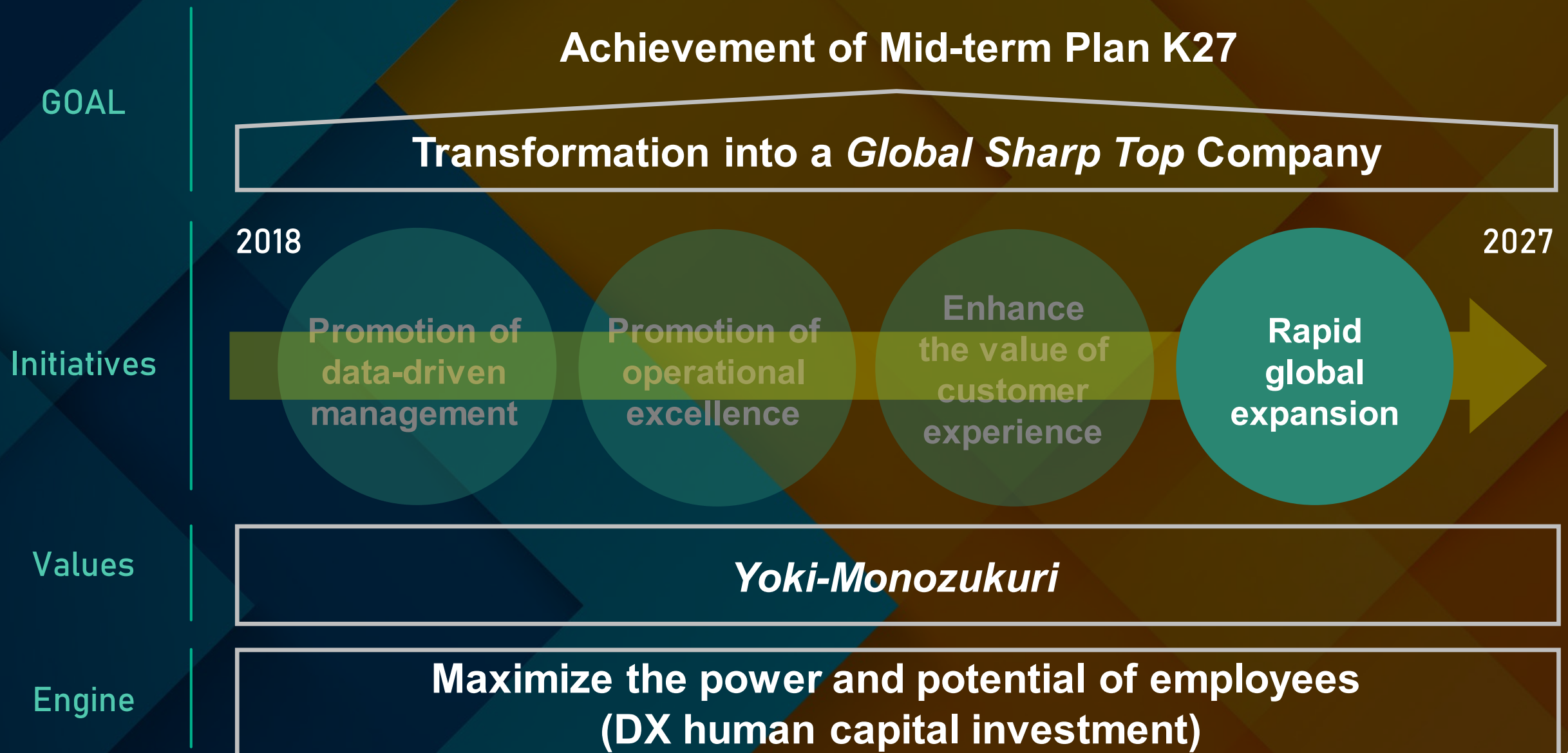
RNA Analysis ✕ Precision Solution

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Kao
Kirei—Making Life Beautiful

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