

Date and time:

Thursday, September 19, 2024, 15:00–16:00 (JST)

Speakers:

Toru Nishiguchi, Representative Director, Senior Managing Executive Officer

Mayumi Moriya, President, Hair Care Business-2, Health and Beauty Care Business

Mitsuhiro Watanabe, Vice President, Investor Relations

- 1) What is the significance of Kao having a business for hair salons in the Americas and Europe despite the low operating margin, and how will you improve profitability? Also, what is your operating margin target for 2027.**

The significance of Kao having a business for hair salons is as follows:

1. Hair salons serve as locations for us to gain the direct opinions of consumers through stylists. Consumer feedback is of the utmost importance to Kao, and so it is crucial to gain candid opinions from consumers.
2. Kao is incorporating “art” (emotion) into the development of new brands and products. Hair salons are the best places for obtaining information to this end. We can leverage this insight not only in the business for hair salons, but also across the Consumer Products Business as a whole.
3. We are gaining the ability to communicate with consumers in a timely and speedy manner, and so we can transform information from the business for hair salons into *Sharp Top* (resonating) ideas to carry out marketing that boosts loyalty through an approach that is characteristic of Kao.

We believe that we can improve profitability in the business for hair salons through the structural reforms launched in 2024 and by conducting loyalty marketing in line with Kao’s goals. The operating margin for the Hair Care Business (including the business for hair salons) is in the high single digits as of 2023, and we aim to boost this by 5% to 6% in 2027.

- 2) Could you provide details on the structural reforms in the Hair Care Business within Europe? Given the current low profitability, how do you expect profits to change by 2027 compared to 2023?**

We cannot disclose details about the structural reforms, but we are working to revamp the organization. In addition, we aim to maximize synergies between the business for hair salons and the business for mass market.

We plan to simultaneously pursue structural reforms alongside innovations in marketing to enhance profitability. The Hair Care Business in Europe was previously profitable, but circumstances changed with the shift in the landscape following the COVID-19 pandemic. By renewing our marketing efforts using DX, we aim to improve our current operating margin by 5% to 6% and enter the double digits.

- 3) What brands are competing with *ORIBE*? Also, how will you roll out *ORIBE* in Japan and Asia?**

We recognize *ORIBE*'s competitors as the brands that have shampoos, conditioners, and styling products in a similar price range and are used inside and outside hair salons. For example, we see *Kérastase* from L'Oréal as one such brand.

We are already rolling out *ORIBE* within Japan, primarily in a B2B approach, focusing on high-end hair salons. Based on our view of the brand as a whole, we are considering expanding our sales and presence with the focus on Europe. We aim to speedily establish a business model in the premium care market that differs from mass-market approaches.

4) What are your forecasts for the premium and mass markets in 2027? I would also like to know how you position your core brands with a target growth rate of 102%.

We anticipate a CAGR of approximately 105% within the hair color and premium care markets by 2027 where we are focusing our efforts, and we plan to achieve growth that surpasses this figure in our strategic brands. For the overall hair care market, we anticipate a CAGR of approximately 103% just like in the past five years.

Many of our core brands have a high level of sales and profitability, and we want to develop them as profit generators, aggressively investing the profits they generate into strategic brands to increase overall sales.

Do you mean to say that you are not considering reducing SKUs or revising the number of brands for core brands?

Our reorganization of brands is already complete, and the currently remaining brands are sound and strong.

5) What is the breakdown for the sales growth of 35 billion yen from 2023 to 2027? The fact that you will bolster the strategic hair color brand *Liese* in Asia is particularly notable. Have you incorporated specific figures regarding this into your plan?

We cannot disclose details for each brand, but we have ambitious growth plans for each of our strategic brands. Among these initiatives, the premium brands in Japan are expected to have the most significant impact on sales, with plans to launch a second brand and a third brand following *melt*. We have also incorporated specific figures into our plan with respect to bolstering *Liese* in Asia.

I believe that the sales scale of both *John Frieda* and *ORIBE* were approximately 10 billion yen when you acquired them. What do you envision the CAGR by 2027 to be, in comparison with CAGR in the past?

Currently, both *John Frieda* and *ORIBE* have achieved considerably large growth compared to the point at which we acquired them. *ORIBE* has the higher growth rate of the two.

- 6) **What is the status of your core brands *Essential* and *Merit*? Additionally, what is the anticipated share of e-commerce sales in achieving the 200-billion-yen sales target?**

We have achieved almost double-digit growth for *Essential* by changing our marketing approach this year. Regarding *Merit*, we have been engaged in new marketing initiatives since this spring, and we plan to carry out a renewal to further enhance profitability from next year onward. We are making efforts in our core brands as well, and we will boost consumer loyalty to reinforce our brands. Bolstering loyalty marketing is an initiative that Kao is working on company-wide. I view *Essential* and *Merit* as brands that will take a leading role in these efforts and that will support robust business in Japan.

The proportion of e-commerce sales within Japan at Kao remains low, but the growth rate is high. We expect the Hair Care Business as a whole to contribute to increasing Kao's overall sales in e-commerce.

Did the increase in sales of *Essential* result in an increase in Kao's market share?

Kao's market share had been stable for a long time, but it has switched to an upward trend starting this year.

- 7) **How do you intend to expand premium brands including *melt* in Japan in the lead-up to 2027? Additionally, could you share the key factors significantly contributing to the 5-6% increase in operating margin, even if described qualitatively?**

We began rolling out *melt* to a limited number of retail chains starting this spring, and we will expand the range of stores to which we will distribute *melt* products going forward. We are taking an approach in marketing that involves bolstering brands in collaboration with distributors. The rolling out of the second brand and the third brand will be completed by next year, and we are confident we'll see significant growth as the number of stores for distribution increases following this rollout.

With respect to improvements in our operating margin, there is significant contribution from the hair salon business, which is currently undergoing structural reform. In addition, our premium brands in Japan will be offered at a high price range, so we can expect these brands to contribute as well.

- 8) **Almost six years have passed since you acquired *ORIBE*. Could you tell me about its synergy with Kao in terms of technologies and products? Are you already using Kao's technologies in *John Frieda*?**

We can already see product synergies. We have achieved results with *John Frieda*, which have been gained by creating highly successful products through collaborative R&D efforts between Japan and Germany. Our activities that utilize our insight about each region and brand are bearing fruit. Product development for *ORIBE* that incorporates Kao's technologies is already underway.

Note

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