

Date:

Monday, November 25, 2024

Agenda:

Q&A Session and Dialogue

Speaker:

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Q&A Session and Dialogue

1. I would like to know the progress of the price increases.

Detailed price increase simulations are now possible for almost all brands in each category. The contribution from Fabric and Home Care is significant, as expected. In addition, 80% of price increases come from new products and improved products. I believe that we have already shifted from the structural reform phase to the growth phase.

In Japan, prices in the consumer products industry are relatively low, and I believe there is room for price increases. There is a trend for ongoing price increases throughout the industry.

2. I would like to know what your plan is for profit margins by category over the next 1 to 2 years.

(1) Stable Earnings

- ✓ Fabric and Home Care has already reached its target level for ROIC. Going forward, we will expand the market share of this category through product differentiation and thereby improve the profit margin.

(2) Business Transformation

- ✓ For Sanitary, we will expand the amount of profit.
- ✓ Our target for the hair care category is an operating margin of 20%. It is highly compatible with the cosmetics category and the skin care category, and so we will make it into a growth driver through collaboration between these three categories.

(3) Growth Driver

- ✓ We will proactively launch competitive products with a focus on the high price range, to increase profit margins and also expand market share.

3. When will the results of efforts in Japan in the Hair Care Business start to show up in the numbers?

We have stopped the market share decline for the existing *Merit*, *Essential* and *Segreta* hair care brands through rebranding. We expect the newly launched brands *melt* and *THE ANSWER* in 2024 to be pivotal in driving performance from 2025 onwards.

4. I would like to know the progress of the Kao Group Mid-term Plan “K27.”

Demand in China has been significantly lower than the original forecast. In 2019, when inbound demand (demand from visitors outside Japan) was at its peak, the Cosmetics Business posted an operating income of approximately 40 billion yen, which were affected negatively due to the decline in demand in China. We will cover this loss by expanding the Chemical Business and high-profit-margin core brands

in the Cosmetics Business. Sanitary is also expected to post a significant increase in profit if sales expand, chiefly with *Laurier*. In addition, we plan to revamp the operations of our businesses outside Japan.

What areas are you focusing on in the Cosmetics Business in China?

We see room for growth in brands such as *Curél* and *freeplus* that provide highly essential products in the medium price range. We believe that as long as products are made in China, we can grow our business in China by partnering with strong local retailers.

5. Could you provide the degree of certainty that you will achieve the operating income target of 160 billion yen for FY2025?

We recognized that this was not an easy target when announcing it in August 2023, but we are now more positive. The degree of certainty will also depend on the extent of sales growth.

To accelerate rollout of products outside Japan in the future, will the industry as a whole need to work together rather than individual companies working alone?

I believe that as we expand outside Japan, we should also consider cooperating with our domestic competitors. In some cases, other companies have essential resources and expertise for rolling out products outside Japan that we may not possess, and vice versa. I believe that we can develop collaborative strategies, as we did with Earth Corporation.

6. I would like to know the forecast for your SG&A expenses for FY2025.

We will deploy marketing expenses to develop our beauty-care-related businesses. In particular, we will proactively invest in *Bioré* and *SOFINA* skin care products, as well as hair care products. Meanwhile, other new products such as the hair care brands *melt* and *THE ANSWER* that are expected to involve lower expenses than other products that need mass advertising by making good use of social media. We will invest in communication with targeted customers efficiently.

7. I would like to know the medium- to long-term profit margin target for the Cosmetics Business.

In the medium to long term, we aim to achieve an operating margin of 15% or higher. We are maintaining a high operating margin with our core brands such as the *Curél* and *KATE* cosmetics brands. For other brands, we will focus our efforts on loyalty marketing. We will also promote local production for local consumption in China, while building a structure that is not overly dependent on the Chinese market.

8. I would like to know the outlook for the profitability of the Consumer Products Business by

region outside Japan for FY2025.

We will focus on the Americas and Europe for regions, and on the business for hair salons and the Skin Care Business for categories. We aim to expand the sales of irreplaceable products. In Skin Care, for example, UV care products are performing well in the UK, Canada and Brazil. We also have high expectations for *ORIBE* and *Jergens*. In Asia, we will work to differentiate our products, with an emphasis on *Laurier* and *KATE*.

If you were to divide the regions into the Americas, Europe, and Asia, which will grow the most for FY2025?

We cannot currently disclose details of our outlook for FY2025. However, in Asia, we will focus on expanding high-value-added products sold in Japan, while in the Americas and Europe we will focus on rolling out high-value-added products that are unique to those regions.

9. Has employees' resonance for structural reforms changed as the results of structural reforms have begun to emerge?

Departments that have started to show results have also seen improvements in their engagement survey results, and I feel that there has been an increase in positive comments. It is important that we continue delivering results going forward.

Will you continue your process of selection and focus for businesses and brands that have yet to show results?

We are considering how to transform each business according to its characteristics. We reviewed characteristics in regards to the pet care and beverage businesses and decided to sell them this year. We will continue to hold discussions and make decisions in a similar way going forward.

10. Have you completed the allocation of human capital resources to drive global expansion?

We are changing our structure so that the person in charge of each region will take the lead, make investment decisions from the perspective of a regional manager and take responsibility for those decisions. We plan to announce details of the organizational structure early in the new year.

11. The performance of the Consumer Products Business in Asia seems to be particularly challenging. How will the changes in personnel and the organization affect the performance of your business in Asia? If you are considering any additional measures or initiatives for FY2025, I would like to know about them.

The results of structural reforms appear quickly in Japan, but it will take a little longer outside Japan. We

hope you will have expectations for results in Asia later on. In addition, we will grow beauty care in 2025. This year, we have completed the first stage of structural reforms in Hair Care, and we will be able to offer Kao's unique beauty care products by linking skin care, cosmetics, and hair care products and creating synergies.

12. Regarding the businesses in China, could you provide your assessments of the results so far, and of your most recent performance and what you have not yet done?

We are deliberately reducing the sell-in of cosmetics products to optimize distribution inventory. This will negatively impact performance temporarily, but we have decided that it is important to address this quickly. We also expect the direction for growth in the Cosmetics Business from FY2025 and onward to become clear soon.

There are still many people in China with skin issues and concerns. In this environment, it will become even more important to offer high-quality products in the medium price range.

13. Can you provide specific examples of your initiatives to improve marketing efficiency and the results of these initiatives?

We rigorously monitor and simulate the kinds of tools and communication that impact customer responses. For example, in the case of cosmetics, we build a database of how influencers' comments spread through social media, and run simulations on the types of comments that are effective and the areas to promote them for the greatest profit. Through repeated trial and improvement, we aim to improve accuracy using the knowledge we gain in this process.

14. Looking at photos of products displayed in the U.S. and other countries, I get the impression that there is not enough shelf space. I would like to know your future strategy to secure more shelf space.

We do not use the method of uniformly placing the same products at large nationwide chains because it is not effective. We clearly define our targets and offer the right products in the right places accordingly. For example, the characteristics of *Bioré UV* make it more suitable for people living in coastal areas compared to those in inland areas. For this reason, we launched it in Canada and are now rolling it out primarily across the East Coast in a planned manner.

When expanding overseas, do you strategically leverage data retained by partner retailers' stores?

Yes, we do. Our recent partnership with Thailand's Charoen Pokphand Group is one such example.

15. How does the accumulation of marketing data in countries outside Japan compare to that in

Japan?

Compared with Japan, countries outside Japan are still in the growth phase. Specifically, data analysis is fairly advanced with our business for hair salons and other BtoB businesses, but there is a need to further strengthen data analysis for skin care. Progress varies by region, but the amount of data accumulated in Taiwan and Hong Kong, in which we have relatively high market shares, is equal to or even surpasses that in Japan within some categories.

Is it possible to expand overseas by improving marketing efficiency without requiring much higher costs?

Although it will be necessary to increase marketing investments, including digital investments, in the future, it is possible to roll out products efficiently outside Japan because the return on investment in overseas markets is generally higher than in Japan.

16. I would like to know what changes, if any, that have been made from the original plan in business portfolio and investment allocation. Also, do you have an organizational structure in place that allows for flexible changes in allocating investments?

The business portfolio is scheduled to change as follows:

- ✓ Sanitary: Shifting from Business Transformation to Stable Earnings
- ✓ Hair Care / Business for hair salons: Shifting from Business Transformation to Growth Driver

Growth Driver requires a certain amount of investment, but we are working to make it a category where we can expect a return on our investment. ROIC management has become more widely established internally than expected, enabling managers to determine how investments should be made to maximize profits.

17. Rather than investing in areas where there is a widespread need and potential for significant growth, you now seem to be focusing more on securing growth by increasing the value of brands that can maximize the lifetime value of customers who seek Kao products, even in small quantities. I would like to know what you think about this gap between the real demand of customers and the growth expected by the market.

It is easy to increase the number of SKUs and achieve the required numbers, but this will also increase inventory and waste, which will not lead to the realization of a sustainable society. It is necessary to reduce the number of products in the future, in consideration of the global environment as well. For us to continue to grow under these conditions, it is important to have areas of products that are chosen by customers. We are currently in the process of identifying these areas. Our goal is to deliver maximum value with a minimum number of products. To achieve this, it is important to engage in dialogue with our customers. Through dialogue, we will identify areas of demand and narrow down the number of products.

18 I would like to know the outlook for the Chemical Business for FY2025.

We expect demand to recover for our tertiary amines and disinfectant cleaners that are sold in large volumes. With respect to tertiary amines, a new facility in the U.S. will come on stream, and we also expect to see the effects from an increase in production. In addition, we expect profit contributions from high-profit margin semiconductor-related products.

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