

Parallel Business Transformation



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2-year results and challenges of the Mid-term Plan 2025

Nishiguchi: At present, some challenges remain regarding “Transform to build robust business through investment” in the Mid-term Plan 2025 (K25). In FY2022, net sales grew but bold measures are needed for achieving high profit and Economic Value Added (EVA®). Influence from external factors includes the impact of the COVID-19 pandemic and rising geopolitical risk leading to hikes in raw material prices. In addition, there are challenges with some brands losing momentum and having a lower impact to propose solutions to people.

Tanaka: We must accelerate our transformation into a high-profit structure in a method unique to Kao. Innovation is a part of Kao’s DNA as stated in the Kao Way. We will use the ROIC tree and other methods to increase the involvement of each employee in capital efficiency, thereby accelerating our transformation into a high-profit structure.

If we do not drive both Reborn Kao (RK) and Another Kao (AK) at the same time, our growth is sure to reach a limit. With AK, we are at the stage of nurturing the seeds of new businesses that we created in the past two years and creating a new stage. We will make maximal use of synergy with existing businesses to pursue these activities at an early stage.

Nishiguchi: I feel that Kao’s latent power allowed us to steadily promote AK in the face of severe conditions. The top-line growth in RK suggests an increase in Kao’s customers. After shifting to living with-COVID and post-COVID conditions, we will also exert every effort to take the lead in bringing tangible results from AK and RK. For example, in Asia, an area that I have worked with for a long time, in the past few years there has been a dramatic enhancement in online communication with other countries. By developing a structure that enables local team members understand communities up close, we are working to make proposals that create new lifestyles while engaging in robust collaboration between each area.

Tanaka: In the past two years, we have built the foundation for globalization. We have appointed three Executive Officers in AEMEA (the Americas, Europe, the Middle East and Africa) and developed a structure for local business execution. We are establishing knowledge for developing brands that joined us through M&A and are steadily working to bolster the *Oribe* and *Guhl* brands. We are ready for the expansion of our business in Brazil.

Place people at the center and draw a blueprint that maximizes value

Nishiguchi: Kao has continually built new markets and businesses. We will not change this style but rather significantly change our method. Peoples' interests have shifted from products to lifestyles, and thus consumption-based marketing is no longer effective. We must understand people more deeply, shift to marketing that proposes new lifestyles, and increase the number of our fans who feel that Kao is essential for their future lifestyles. For this purpose, the essence of RK and AK is the same.

That is why it is possible to develop AK in combination with RK. We launched the repellents under the *Bioré* brand, but with an AK approach. Because of our aspiration to protect the lives of people in Thailand from Dengue fever, we were able to gain strong support from governments and retailers, and we built a structure for sales and collaboration at an unprecedented speed. In addition, by utilizing the *Bioré*

brand in this initiative, we accelerated the spread of products and information while also increasing the number of new fans.

Tanaka: As you say, it is important to place people at the center and draw a blueprint that maximizes value by utilizing synergies between AK and RK. While RK aims to develop existing markets, AK aims to change the game in new markets—new fields—and create new businesses to serve as the next growth engine. To this end, we will utilize all existing and new technology assets, and we will also proactively consider partnerships with other companies and M&A. We will increase the number of fans through both RK and AK, and enhance loyalty for brands, products and services to help realize sustainable development at Kao.



We are working to make proposals
that create new lifestyles
while engaging in robust collaboration
between each area.

— Toru Nishiguchi



We are spreading
a mindset for the idea
“Don’t be afraid to fail.”

— Satoru Tanaka

Toward K25 achievement

Nishiguchi: We will reinforce our proposals for creating everyday lives. Specifically, we will move away from a method that relies on sales power and develop strong brands that are rooted in people's everyday lives.

For RK in Asia, we are focusing efforts on Indonesia. There are many lives that we can protect worldwide through soap, repellents and other products. We will shift our perspective from consumption to everyday lives and exert efforts to get close to the local area to develop businesses to protect future lives.

To change the way employees work, we will create a diverse workplace where people from different background work together. We will implement scrum-style in business operations to prioritize the power of our integrated approach and speed whereby relevant personnel gather together and take quick action from the initial stage.

Tanaka: It is important for AK to take a global perspective from the beginning of business design. We will delegate authority to each country while taking a 3D perspective of the world and establishing overarching strategies through backcasting to accelerate global development. With Skin Care, we will build footholds in the U.S. and expand into Brazil and the UK.

The source of our development has been our employees' unwavering stance in tackling challenges. Creating an environment in which everyone can work with excitement is my most important job. I will reinforce an environment in which open-minded discussions and ideas can be achieved while spreading a mindset for the idea “Don't be afraid to fail.” In addition to promoting AK, I will focus efforts on supporting management.

Roles of RK and AK

Reborn Kao

Bolster our business foundation and accelerate global growth in existing markets

With RK, we will achieve high profit in existing businesses through dynamic investments to accelerate growth through global expansion.

We will continue to concentrate investment in the four businesses within the Growth Drivers area based on our business portfolio. We will utilize ROIC by business and other indicators, while placing even greater priority on capital efficiency within each business strategy. We will also shift to implement scrum-style organizational management to carry out strategic investment decisions swiftly.

As we pursue globalization, we will offer one-of-a-kind value propositions that cannot easily get caught up in price wars or other rivalries with competitors. We will shift toward a local production for local consumption model to get even closer to local communities and optimize designs for provided value and cost performance.

Another Kao

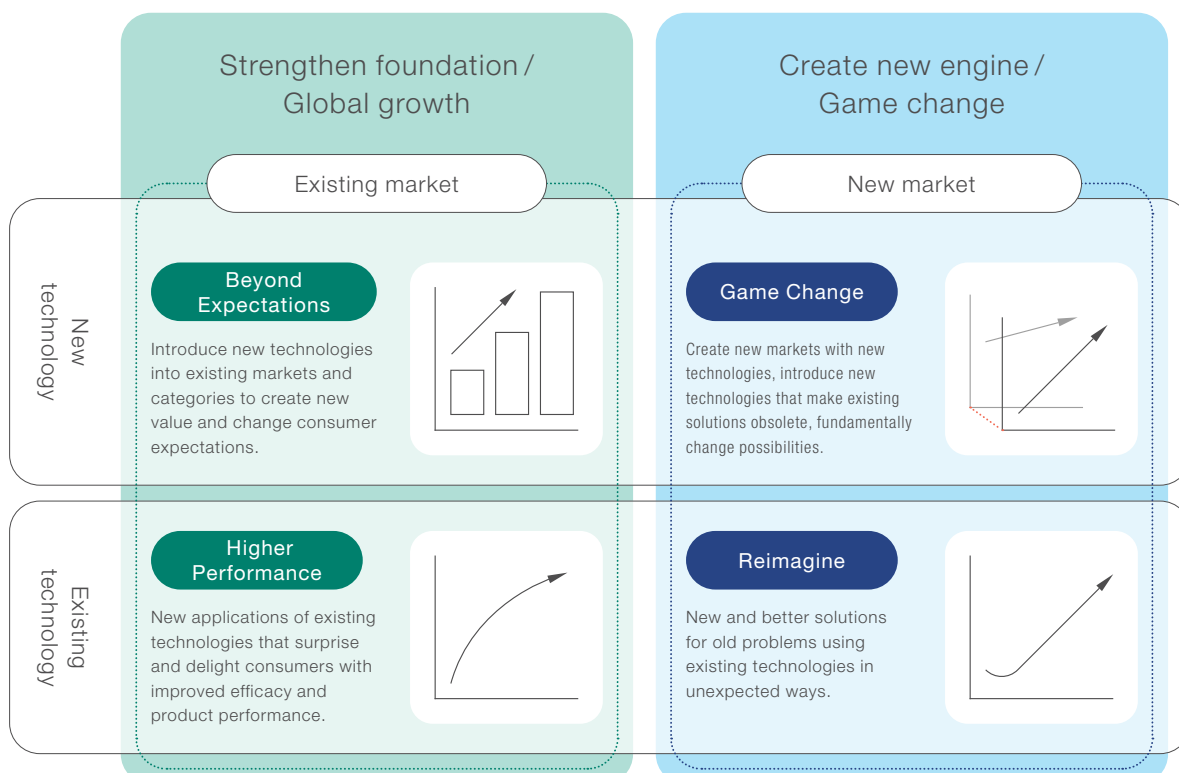
Create growth engines for the future and new fields in new markets

With AK, we are taking on challenges for completely new businesses and business models through co-creation with various partners and are creating engines for Kao's next step in growth as well as new fields that will help expand businesses. Regarding the target areas in new markets, we are focusing on Medical and Life Care, while also considering Digital, Circular Economy and others.

From 2021 to April 2023, we have started a total of five new businesses: Repellents, Durable Asphalt Modifiers made using waste PET, Highly Functional Spreaders for drone spraying pesticides, B2B Hygiene Solutions, and Mail-in Testing Services for the skin barrier of babies and infants. We will develop these businesses and expand them globally while also working to create more new businesses.

Reborn Kao

Another Kao



Business Concept for Realizing K25 and Making Further Developments

We will work in both Reborn Kao and Another Kao to provide new value that helps realize comfortable lifestyles for people throughout the world and helps achieve a sustainable society, while also continuously developing our businesses.

Reborn Kao

Another Kao

Strengthen foundation /
Global growth

Create new engine /
Game change

Existing market

New market

Beyond
Expectations

Game
Change



Higher
Performance

Reimagine



New
technology

Existing
technology