

Revitalizing a “Strong Kao” by deepening EVA-driven management

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My greatest responsibility among my four roles as the person responsible for accounting and finance is effectively utilizing all our assets and taking the lead in sustainable corporate value enhancement. In 1999, Kao became the first Japanese company to adopt EVA^{*1} as a management indicator that reflects the corporate value and has pursued EVA-driven management since then. In 2023, we introduced ROIC^{*2} by business to bolster business portfolio management and refined EVA-driven management. We also seek to raise awareness among all employees about capital efficiency by introducing ROIC by business.

^{*1} Economic Value Added, EVA® is a registered trademark of Stern Stewart & Co.

^{*2} Return on Invested Capital



Progress and challenges in the Mid-term Plan 2025 (K25)

My other essential responsibility is to execute large-scale investments including M&A to realize our vision. I will lead to making the right decisions on investment in scrum-style organizational management by ensuring to read ahead of time rather than subsequent analysis of the facts.

One of my most important roles is to be accountable to stakeholders while reinforcing communication and engagement.

I cannot deny that decision-making and response have

been delayed in the past few years, due to rapid changes and significant impacts in the business environment. We have begun to focus our mindset on capital efficiency and to execute growth strategies based on structural reform and our business portfolio. Improving EVA as a company-wide effort will eventually lead to revitalization toward a “Strong Kao”. The business environment continues to be unclear, but we will share the results of these efforts as soon as the results prevail.

Sustainable transformation in a virtuous cycle

A key element of business transformation is to show all employees a detailed strategy for bolstering business portfolio management that drives our future forward. When this is clear, each employee will have more awareness of business reform. It is also crucial for them to understand the concept of cost of capital, to break away from a profit and loss mindset^{*3} and to widely penetrate the “Maximum with Minimum” approach that ties with EVA.

Any transformation includes a period of endurance, but

this only lasts briefly. The true nature of our transformation involves investing with a long-term perspective in the face of a certain degree of risk and realizing a virtuous cycle of repeated transformation based on these investments. Human capital investments are essential for organizational transformation, as are DX investments for business management transformation and ESG investments for social reforms. I will strive to optimize the balance among these investments.

^{*3} A short-sighted mindset and attitude that aims to maximize indicators such as immediate sales and income related to profits and losses.

Deepening EVA-driven management by introducing ROIC by business

Kao seeks to establish management that combines two indicators—EVA and ROIC by business—to deepen its EVA-driven management.

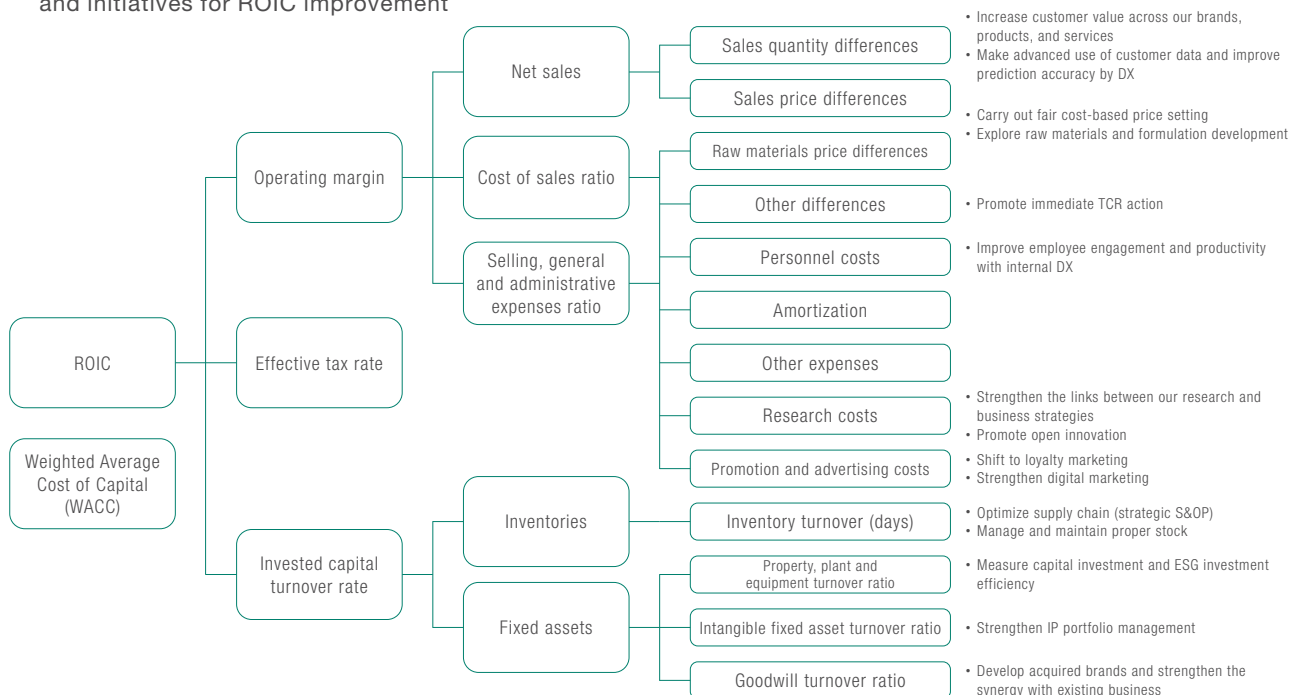
One characteristic of our five business segments is that they each have their own individuality but also relate to each other. It is vital to have a common target and management indicator (EVA) across these businesses to realize the power of our integrated approach. On the other hand, the awareness of cost of capital is gradually weakening in each business. As such, Kao will introduce ROIC by business and reinforce EVA again.

Each business is competing with specialized

manufacturers, so we could take an approach to define and manage target ROIC values for each business based on its market position. However, excessive focus on managing businesses individually may bring the risk of opportunity loss regarding large-scale investments. It is sometimes necessary to make decisions with a perspective to improve company-wide EVA. Through introducing ROIC by business, we will realize a management that considers cost of capital.

Our company transformation will accelerate once individual initiatives contribute to the desired growth of our company. To this end, I will hold workshops and other events to penetrate of this concept.

▼ Basic structure of ROIC tree by business and initiatives for ROIC improvement



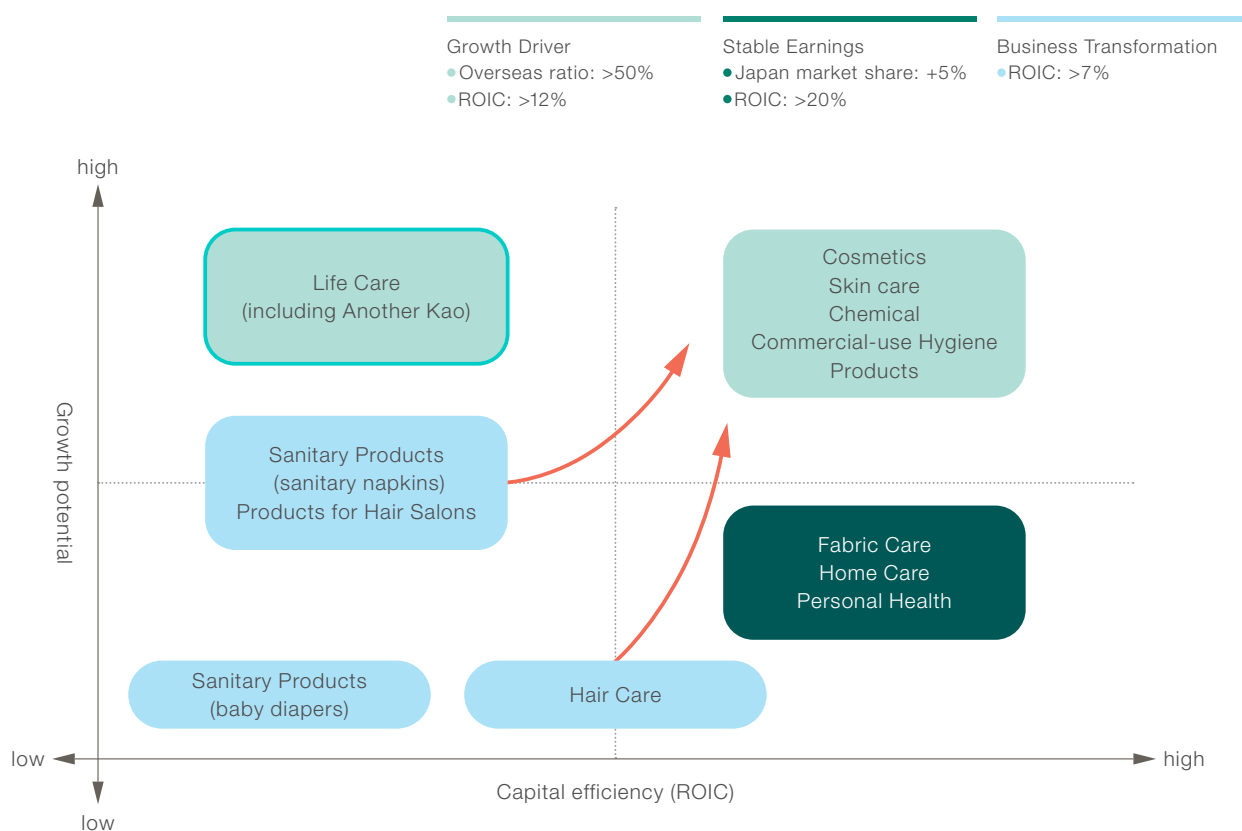
Bolstering business portfolio management

All of our businesses are crucial as we have customers that need those products and services. However, an analysis based on growth and capital efficiency (ROIC) will clarify businesses that need improvement. It is vital for management to consider appropriate measures for these businesses and execute the next measures swiftly through scrum-style management.

Growth Driver businesses are an area for focused investment. We have several options, such as expanding

their range to build a new field in Another Kao, creating synergy with other business areas, or further reinforcing the business through M&A investment. We will carry out structural reform in Business Transformation businesses that need improvement. If improving EVA is determined to be difficult despite carrying out every possible action, it is crucial to make timely decisions regarding the business, including withdrawal or sale. We plan to clarify the direction for the diapers business by the end of 2023.

▼ Concept for a business portfolio to realize K25



Managing both EVA and ESG

In 2019, Kao made a declaration for ESG-driven management. In K25, we set “sustainability as the only path” as our Vision and described our policy as only focusing on business activities that contribute to ESG. We are carrying out various initiatives to this end. For example, Kao is the only Japanese company to attain an AAA score in CDP for two consecutive years. We have also set our internal carbon pricing (ICP) at 168 USD/t-CO₂e, one of the highest values across Japan, and we are actively working to reduce CO₂.

Going forward, we will engage in value creation and business operations with an even stronger awareness for achieving both EVA (enhancing corporate value) and ESG (solving social issues). In parallel with this, we will carry out active public relations activities related to Kao’s ESG initiatives and link these to customer loyalty enhancement. Through investor relations (IR) activities, we will also reinforce engagement with all investors with a strong interest in ESG.