

Date:

Tuesday, June 3, 2025

Agenda:

- (1) Review, and Necessity of Management Reform / Future Management Vision
- (2) Q&A Session and Dialogue

Speaker:

Yoshihiro Hasebe, Representative Director, President and Chief Executive Officer

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## (1) Review, and Necessity of Management Reform / Future Management Vision

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### Review, and Necessity of Management Reform

- **Stock price:** While performance has improved steadily since structural reforms began in 2023, there is still a gap compared to the peak price in 2019.
- **ROIC:** Once exceeding 15% in 2019, ROIC declined due to COVID-19, hikes in raw material prices, and Japan's discharge into the ocean of water treated using the Advanced Liquid Processing System (ALPS) from the Fukushima Daiichi Nuclear Power Station, exposing business vulnerabilities. In response, we implemented structural reforms, adopted ROIC as a key metric, and began monitoring and improving it across all businesses. Initial results are now evident.
- **Performance:** From 2018 to 2023, operating income fell short of expectations. Dependence on the Chinese market and inbound demand masked underlying structural issues.
- **Operating income structure:** In 2019, the Cosmetics Business and the capital-intensive Sanitary Business, were vulnerable as they were over dependent on the unstable Chinese market. By 2024, the profit base had shifted to the Fabric and Home Care Business and the Chemical Business, both of which are providing stability. Beauty care businesses like Skin Care are now positioned for global growth.
- **Reform Strategy:** With the aim of boosting corporate value, we have defined KPIs in the Mid-term Plan 2027 "K27" and are currently promoting reforms (such as portfolio clarification, strategic price increases, ROIC to enhance the independent profitability of each business, high-value-added products, data-driven management, and agile "Scrum style" operations).

### Future Management Vision

- **Image of Profit structure in K27:** We will create stable earnings in Asia through the Fabric and Home Care Business. The Chemical Business, which has been steady, will pivot to profitable growth. These businesses will fund investments in global beauty care businesses (Skin Care, Hair Care and Cosmetics). Beyond 2027, we will shift to seek further global growth. While financial KPIs such as EVA, ROIC and sales outside Japan will resemble 2019, the qualitative foundation will be completely transformed.
- **Characteristics and Opportunities:** The Fabric and Home Care Business and the Sanitary Business cater to "pain"—essential needs customers are willing to pay to solve—making them loyalty-driven and stable in Asia. This field requires capital investment, which can also create a barrier to entry. In contrast, beauty care targets "gain"—desire for improvement—and is suited for global growth. Though brand switching is frequent, Kao's strength in tangible value and evidence-based products supports loyalty

building. This category requires minimal investment and AI can reshape distribution models.

- **Global Sharp Top strategy:** This focuses on products with “Exclusive uniqueness” and “Expanding social needs.” We do not aim to cover all areas of beauty care, but rather focus on retaining brand switchers who stay with Kao’s brands.
- Almost all past acquisitions have been in beauty care, selecting brands with a compelling gateway for global expansion. Increasing the current 43% sales outside Japan share is essential, and we are committed to achieving this with precision and scale.

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## (2) Q&A Session and Dialogue

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1. **When do you expect the growth strategy outside Japan to start showing up in the numbers? Also, the growth in skin protection in the first quarter of FY2025 seems lower than expected—would you agree?**

We are currently in the preparatory phase for growth outside Japan; therefore, its contribution to our overall performance is still limited. From the second half of FY2025, we plan to accelerate our expansion and meet the targets, with a focus on sustainable growth thereafter. Skin protection initiatives are more established in Japan than outside Japan. Currently, in our simultaneous global expansion we are now conducting small-scale trials (a lean start-up) to assess the most promising regions, customer segments, and retail partners. We are beginning to see some initial results from these efforts.

2. **In the Americas and Europe, the Health and Beauty Care Business has experienced negative growth following structural reforms. Could you explain the reason for this? Additionally, could you clarify how you are positioning the hair salon business?**

The role of our salon business is to cascade the value of the prestige of professional haircare down to the mass market. Hair salons act as beauty “incubators” or trendsetters. It is not possible to establish mass-market products without recognizing this fact. In addition, we expect an increase in demand for enjoying many different shades of hair colorants. As demand grows for more hair-color options, linking with our *Liese* hair make brand will demonstrate the value of keeping a salon line.

The *ORIBE* brand for high-end hair salons in the United States is positioned not only as a hair-care brand but also extends into celebrity-style marketing across fragrance and body-care categories. We chose to acquire *ORIBE* because it allows us to cascade down to the customer segments targeted by *SENSAI* and *MOLTON BROWN*—consumers who aspire to a lifestyle two to three tiers above the mainstream.

The reason we have not yet seen growth in the Americas and Europe is that we are still in the process of implementing structural reforms. These include changes to our organizational structure and marketing strategies. We expect to start seeing positive results as these initiatives begin to take effect moving forward.

Our UV care business is going according to plan.

The self-tanning market is small (1/20 the size of UV care). However, with the *Jergens* skin care brand and *Bondi Sands* premium skin care brand, we can gain leadership more easily than in the UV care category and expect stronger growth. The desire to create a healthy-looking appearance without sunburn is like the desire related to makeup, so there is a strong element of engaging in skin care to obtain an appealing complexion. It is possible to grow this area alongside UV care.

3. **When comparing the characteristics of each business, you said that consumers easily switch brands in the skin care and hair care fields. I would like to know specifically what you mean by loyalty for keeping customers that you have gained.**

Even among the customers who easily switch brands, loyalty will rise sharply if they feel that a product suits them and is essential to them. To this end, it is important to have tangible performance and for customers to be able to objectively decide whether the products suit them in an evidence-based manner. Going forward, AI will dramatically spread within the lifestyles of humans. It is likely that AI will eventually select suitable products for users. Since AI only looks at generalized and correct information, we can conduct marketing using highly accurate and good-quality data. There are two elements that will serve Kao as influencer-based marketing shifts to AI-based marketing in the future: objective recommendations from AI, and tangible effects that make people want to keep buying the product after using it once.

4. **It is likely to be extremely difficult to gain a high market share in beauty care through technology alone. What are your thoughts about your steps for success?**

We will not engage in beauty care with an approach that competitors can also achieve, such as a marketing-oriented or fragrance-oriented strategy. Defining the segmentation is crucial. In the *Global Sharp Top* strategy, we place focus on who our customers are and what we will do to ensure that they will use our products for a long time.

It is also crucial to retain customers who come to us after switching brands. We have built a system for this with the *Curél* derma care brand, for example. Loyalty only increases for brands that give people a reason not to leave once they come to us. Our steps for success are to get customers who match this strategy.

5. **I understand that there are no alternatives besides *Curél* with respect to products for dry and sensitive skin. However, I would like to know your thoughts about the points that make people decide against switching to other cosmetics brands. What areas can you improve to boost profitability and marketing efficiency?**

The *KATE* makeup brand has a “Shadow Enhancing Makeup” philosophy. The brand features makeup products made for people who do not have sharply defined facial features. The *SOFINA* skincare brand has the excellent carbonated *SOFINA iP* base essence and targets people who can appreciate the

effects of the carbonated foam. It has instantly perceivable effects, including the sensation on the skin, as well as changes in redness. It has extremely high loyalty among target consumers. Similarly, the foundation in the *Primavista* makeup brand has regained its number one status. The finished look of makeup drastically changes depending on the quality of the foundation. *Curél* is effective for people with dry and sensitive skin who have a rough skin surface. The amount of ceramides included in the spray is drastically higher compared to products from other companies. Ceramides become rigid quickly, so it is extremely difficult to include them in a high concentration. However, Kao has advanced technologies that can be considered one-of-a-kind on a global scale.

We will leverage such exclusive uniqueness to compete as we address customers' strong issues.

**6. Can you really achieve growth through digital alone? Is there not a need to change the systems across the industry?**

AI has spread through the market at an explosive rate in the past few years. A major shift is about to take place from conventional influencer-centric marketing. AI recommends the greatest common factor based on existing accurate data. For example, in the case of AI recommending a product that best suits someone's physical condition, it is essential to have good-quality data that can facilitate accurate matching, as well as reliability and performance to be ranked highly among the many potential matches. As such, we place immense focus on differentiating ourselves from an evidence-based perspective.

**7. You previously mentioned a vision of ultimately delivering personalized products. Has the shift from influencer marketing to AI-based marketing brought you closer to this goal?**

Kao has two aims in product development: *Monozukuri* (designing a product, commercializing technologies, and creating finished products) and exploring the value that products bring (engaging in deep investigation to explain how substances and phenomena work). The research in this second aim serves as a database for achieving personalization. We are thinking about making personalized recommendations using this database. We can gather genetic information regarding RNA in a wide range of categories—not just from Kao alone but through co-creation with other companies. As such, we aim to utilize this information to achieve greater refinement and realize personalized recommendations.

**8. Will using AI reduce research and development expenses?**

Kao utilizes digital technologies in research. This allows for new connections with data, which undoubtedly results in greater speed and a higher level of research. However, competition will grow even more fiercely worldwide, so it is likely that a similar level of R&D expenses will be necessary going forward.

**9. Chinese consumers appear even more ingredient-conscious than those in Japan, with a strong preference for evidence-based, data-driven choices. How does Kao differentiate itself in this landscape?**

It is exactly the same. As you have said, there is currently a significant increase in networks that analyze ingredients in China. *freeplus* (which is hypoallergenic and contains Japanese and Chinese botanical extracts) that we are rolling out in China is designed and made without any ingredients that have been avoided by Chinese people for some time. This is another example of evidence-based marketing.

**10. Will digitalization at Kao eventually be outsourced? If so, how will Kao differentiate itself?**

Collecting real-world data, such as skin reactions, cannot be fully handled by AI. While some parts of data collection may become automated, human insight remains essential. AI excels at identifying the most probable common solutions from massive past data. Humans, however, can make discoveries from less probable events that lead to innovation—something AI cannot replicate. A hybrid approach is essential. Companies with rich real-world data hold a competitive advantage. There are few companies that study ingredients deeply and conduct biological research as we do.

**What is your competitive edge against rivals with similar capabilities?**

There certainly are companies utilizing efforts in basic research, such as studies on hair and skin. They have a large amount of data on Western people, but Kao has far greater data on Asian people with thick black hair and intermediate skin tones. We expect to have an advantage in the Asian market that will grow in the future, as well as among Asian people in the Americas and Europe.

**Do pharmaceutical companies have an advantage in terms of evidence?**

We are deeply engaged in skin science and film-coating formation research. We need to overcome the perception that pharmaceutical companies have a deeper level of research and technology.

**11. I would like to know your outlook for the Sanitary Business that underwent structural reforms in 2023 and 2024.**

We will differentiate clearly between areas that generate stable earnings and those that grow. Purchasers are more likely to understand the differences in tangible products within the field of sanitary napkins, as opposed to the field of baby diapers. Moreover, sanitary napkins are used for 30 to 40 years, which is significantly longer than the three years in the case of baby diapers.

**12. What market will drive the Chemical Business, and why is Kao competitive in that area? Do you feel that your strengths are being effectively demonstrated?**

The Chemical Business targets areas in which a major paradigm shift has occurred. In the field of semiconductors, the development of AI has resulted in an immense need for semiconductors with intricately designed circuits. With a greater number of semiconductors, we can demonstrate our abilities

in technologies for washing and making adjustments.

In the field of agriculture, there will be a need for stable production of food going forward. Kao's adjuvants for agrochemicals have the leading market share in Japan. We need to significantly change the positioning of these products to become number one globally. It has become clear that they can be applied to other technologies. Ultimately, this brings high added value and a high margin. The next 5 to 10 years will be the engine for ongoing growth. In terms of K27, the fact that we have the Chemical Business will serve as our strength.

**13. How have domestic competitors and retailers impacted Kao? Are private brands a threat?**

Our strength lies in having the most detailed understanding of Japanese consumer data and needs. We aim to build further on this advantage. Going forward, both selected national brands and private brands are likely to coexist. In fact, major retailers are more likely to favor Kao.

**14. What is your level of confidence in achieving K27? With a target of 60 billion yen year-on-year profit growth, what is the outlook by segment?**

- Cosmetics Business: Starting this year, we have appointed Ms. Tomoko Uchiyama as the new head of this business.
- Skin Care and Hair Care Business: We have expectations for Hair Care, which is still in the Business Transformation area. We have used English for the packaging of the premium hair care brand *THE ANSWER*, and we are making efforts towards global expansion. This is not a case of deploying a single product or brand within an area.
- Fabric and Home Care Business: This business is solid. With one further step in expansion, it will become both stable and strong.
- Chemical Business: This business has consistently met our expectations for the past 40 years and is achieving robust growth. It has a very high level of precision in each project and provides an excellent sense of stability once customers choose us. It is likely to have as much potential as the Skin Care Business.

**15. Why don't you set ROIC targets by business?**

We have not disclosed them. However, we are monitoring each business in detail with defined ROIC targets, including comparisons with competitors. In addition, we utilize EVA from a company-wide perspective.

**16. Can Kao reach ROIC levels comparable to global competitors after K27?**

Kao's scale is different from that of global competitors. Our strategy is focused on *Global Sharp Top*. It is likely that we can catch up if we can achieve linear growth to boost our global presence and weight.

**17. What is your plan for cash allocation going forward?**

The order of priorities is as follows: (1) investment including M&A, (2) shareholder returns, and (3) share buybacks.

Currently, our annual capital investment is 70 to 80 billion yen. One possible area for future capital investment is logistics, that have deteriorated and require maintenance. From the perspective of our relationship with retailers, it is essential to make investments related to reallocation. One other area is digital outside Japan. We have built a comprehensive system in Japan, but we expect that a certain amount of investment will be required outside Japan in the future.

**18. I would like to hear again your concept of M&A. Are you targeting categories where brand switching is common?**

I considered several companies after becoming CEO. However, only Bondi Sands was acquired in the end.

We focus on targets that can enhance global expansion through digital capabilities.

Our greatest success in recent years has been with ORIBE. Celebrity marketing has been a good mechanism, acting as a stimulus for a cascade down from the celebrities to the general consumer.

**19. How is your M&A strategy evolving from past beauty care acquisitions?**

Based on ample experience, we are gaining a clear view of the balance between areas in which we will achieve global expansion ourselves and areas in which we must expand even if that requires M&A. We cannot say that we have sufficient measures to retain customers who easily switch brands. We aim to implement a system in all brands to prevent people from leaving once they come to us.

**20. At the General Meeting of Shareholders, a certain portion of votes supported the shareholder proposals. This outcome appears to reflect a clear message from investors regarding their expectations. In particular, they seem to be seeking a well-articulated strategy for global expansion and greater agility in corporate decision-making. How do you interpret this result, and what specific actions will you take in response?**

Our Board of Directors values shareholders' opinions. It carries out extensive deliberations to boost shareholder value based on the valuable feedback that we have received, and it reflects these opinions in management as appropriate.

With respect to the speed of decision-making, we have made things much faster than before by implementing a scrum-style operation. In terms of diversity, our businesses in the Americas and Europe have many employees that come from global competitors. We engage in acquisitions and external recruitment to supplement areas in which such actions are required.

Our Outside Directors, including Ms. Sarah Casanova who recently joined us, have a background in management and have diverse and ample experience, knowledge, and skills in global efforts, structural



reforms, ROIC management, and other areas. We have received very harsh feedback from the Board of Directors. We welcome even the harshest views, as long as they are from those who truly want to improve Kao—not just for short-term gains.

**21. From an external perspective, it is difficult to assess whether the Outside Directors are conducting appropriate actions, such as identifying issues and offering advice. Could you elaborate on the specific actions they have taken in this regard? Also, have there been any notable changes since Ms. Sarah Casanova joined the board?**

We received advice that we must approach ROIC management with full commitment. When it comes to ROIC, there are some cases that stop at ROIC in each business, but this is not the right approach. All of our employees, including the Corporate Department, consider in terms of ROIC, using a reverse tree to consider the best way to make contributions. For example, it was difficult to introduce ROIC in the Human Capital Development Department, but we received input that introducing it would result in a significant improvement. This opinion spread because it came from someone who was successful in this avenue.

Ms. Sarah Casanova understands Kao's business fields by looking at detailed statistics. She aims to take her wisdom in expanding a major global food chain and utilize it in the field of household and personal care products (H&PC). She will provide insight and direction to us with regard to the areas in which to take opportunities and compete, based on her experience in a different field.

The Board of Directors holds active deliberations. We welcome people's opinions that have positive contributions, no matter how harsh they may be. The key point is whether our Outside Directors are people who truly want to make Kao better. It is not good to engage in management that gives a good appearance from a short-term perspective. We appreciate this way of looking at things.

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