

## Date:

Thursday, November 20, 2025

## Agenda:

- (1) Kao's Marketing / Kao's Research and Development
- (2) Q&A Session and Dialogue

## Speaker:

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**(1) Kao's Marketing / Kao's Research and Development**

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**Kao's Marketing**

- **Kao's core strength "exclusive uniqueness"**: This consists of two elements: product competitiveness and scientific marketing.
- **Scientific marketing**: This is an approach we have followed for around 55 years, in which we integrate raw data from the field and establish principles through a cycle of hypothesis, experimentation, and verification.
- **Evolution to AI marketing**: We are evolving our traditional scientific marketing by utilizing AI. This has made it possible to run the cycle from capturing consumer voices, to value design, product development, and execution of marketing initiatives at very high speed.
- **Specific examples of AI marketing**:
  - Digital Clairvoyance: Starting from visualizing consumers' purchasing structures by category and brand, this has evolved into clarifying cross-category and cross-brand co-purchasing structures, and is used to support shelf-layout proposals and recommendations in e-commerce.
  - Marketing initiative database: We compare and verify the effectiveness of marketing initiatives around the world by social media engagement as a common metric.
  - AI avatar and AI interviewer: Through interviews with virtual personas and AI-led interviews with consumers, we are able to conduct research globally at high speed and low cost, allowing us to understand consumers both comprehensively and in depth.
- **Linkage between marketing indicators and financial indicators**: By building marketing mechanisms enabled by AI, we constantly monitor quantitative indicators such as the effectiveness of marketing initiatives and brand penetration, and link these to improvements in ROIC.

**Kao's Research and Development**

- **Characteristics of Kao's research and development**:
    - We regard product development research and fundamental technology research as two halves of a whole, and generate synergies between consumer care products and chemical products.
    - We leverage the outcomes of fundamental technology research across our businesses.
  - **Examples of synergies between Global Consumer Care products and Chemical products**:
    - We use cleansing technologies developed in the Cosmetics Business for hard disk chemicals and semiconductor process chemicals.
    - We apply technologies that stabilize shampoo foam films to agrochemicals and fire extinguishers.
    - We use technologies developed for concrete admixtures in the makeup base *Primavista*.
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- **Future Key activities:** We will leverage the strength of our fundamental technology research in marketing and increase the recognition of advantages created by “exclusive uniqueness”. As an example, for *Bioré UV Aqua Rich Airy Hold Cream*, we will use UV camera images to visually communicate that its soft, whipped-cream-like formula spreads easily with light pressure to form a uniform coating.

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**(2) Q&A Session and Dialogue**

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**I. Progress toward and likelihood of achieving K27**

- 1. The current forecast for operating income in FY2025 is 165.0 billion yen. How do you plan to build on this to exceed the K27 target of a record-high 211.7 billion yen—an increase of 47.0 billion yen?**

In the Fabric and Home Care Business, we have already reached the target ROIC for K27 and have plans in place to grow further. The Chemical Business is also solid. In the beauty care businesses, including the Cosmetics Business, we aim to deliver solid results globally. For example, for the Cosmetics Business in FY2027, we are assuming sales of 300.0 billion yen and operating income of 21.0 billion yen, corresponding to an operating margin of 7%. We assume the regional composition of operating income will be 30% in Japan, 60% in Asia, and 10% in the Americas and Europe. We expect roughly two-thirds of the 47.0 billion yen increase to be delivered by the Cosmetics Business, the Hygiene Living Care Business, and the Chemical Business. I ask management in each business to use their own historical record-high profits as a reference and to establish self-sustaining profitability. K27 is a milestone on the way to those goals. By FY2027, we would like to present a picture in which each business has improved its profitability and is contributing to earnings growth.

- 2. Please tell us which areas have a high likelihood of contributing to profit toward the K27 targets, and which areas are more challenging. Also, what are the risks toward K27?**

Overall, including the Cosmetics Business and the Health Beauty Care Business, progress is steady, but by region, the contribution from the Global Consumer Care Business in the Americas and Europe is still limited.

For skin protection, we are taking a lean start-up approach in which we narrow down target retailers and build up data while exploring the potential. We see the second half of FY2026 as the turning point. In the Business for Hair Salon in Europe, *GOLDWELL* has become something of an older brand, so we need to move forward while rebuilding the brand. On the other hand, *ORIBE* is increasing its profit margin by using e-commerce.

In the Cosmetics Business, once the business passes the break-even point, its earning power is among the highest within Kao. In China, although we cannot say that there is no risk at all, customers are very familiar with brands such as Curél, a derma care brand and freeplus, which is hypoallergenic and contains Japanese and Chinese botanical extracts, and there is strong demand for these products.

There are various risks, but we will provide explanations as necessary.

**3. Among the KPIs for K27, which indicators have the highest likelihood of being achieved?**

We intend to meet all of the KPIs, but if we were to set priorities, we would first like to achieve ROIC of 11% or higher. Next is updating the record-high operating income of 211.7 billion yen. Among the KPIs, achieving sales outside Japan of over 800.0 billion yen may be the most difficult. For operating income, we are working on improving profitability in all of our businesses, and we believe we can achieve this.

**4. “Increasing profit through growth potential” is mentioned in your FY2025 Q3 results presentation materials. How will you realize this?**

Earning power increases through reductions in cost of goods sold and higher added value, while growth potential is realized by expanding areas globally. In terms of business fields, this applies to the Chemical Business, the Cosmetics Business, and the Health Beauty Care Business.

The area with the highest certainty of growth is the Chemical Business, followed by the Health Beauty Care Business, and we have very high expectations for Skin Care Business. We can also expect the Cosmetics Business to contribute, including future product development. In particular, the *KATE* make up brand, including a new product in autumn *Jellyfish in the Moonlight*, has now reached a point where it can clearly demonstrate its presence in Asia, and we expect the *SOFINA* skincare and makeup brand to follow *KATE*.

**II. Business strategies and outlook by business**

**5. It is said that sales in the Cosmetics Business in China are on a recovery trend. How do you view the outlook from here?**

Because Kao is developing function-oriented brands such as *Curél* and *freeplus* in the mid-price range, we believe the business is relatively less affected by overall market conditions. At the same time, for *SENSA*/luxury brand we are using a different approach. We communicate with affluent consumers in China while having them actually purchase the products in Japan, and this approach is delivering results. Rather than indiscriminately increasing the number of brands we deploy, we intend to select brands by area and deploy them.

**6. When do you expect the high-premium hair care business in the Health Beauty Care Business in Japan to start contributing to profit?**

Thanks to the effects of increasingly advanced marketing initiatives, the number of users has grown dramatically. The business has already passed the break-even point, and by further increasing volume, we would like to grow it into a business that makes a strong profit contribution in around one year.

**7. What is your outlook for the skin protection business in Asia?**

We believe that the current struggle is due not only to the aggressive moves of our competitors but also to insufficient evidence-based communication. We can turn the competitive environment in our favor and stage a recovery by strengthening evidence-based communication and clearly conveying the true value of *Bioré* UV products.

**8. How do you plan to revitalize *JERGENS* and *GOLDWELL* in the Americas and Europe?**

A common issue for both *JERGENS* and *GOLDWELL* is that they have somewhat become older brands. To strengthen our appeal among younger consumers, we are considering brand restaging, the introduction of new technologies, and the launch of new lines. *BURSTS*, a new product from *JERGENS*, is one such example. For *GOLDWELL*, we would also like to revitalize the brand by introducing new innovations that deliver unprecedented vibrant colors while minimizing hair damage.

**9. In China's sanitary products market, there has been reputational damage related to quality, and in Southeast Asia there is price pressure from low-priced local manufacturers. In addition, there are currently concerns about the impact of increasing geopolitical risk on your China business. What responses are you considering in Asia?**

With regard to our China business, we have not observed any impact from political tensions between China and Japan.

We will not engage in price competition by aligning our prices with those of local brands. Kao's way of competing is to create new ground by continuously generating large and small innovations. In the past we have also used game-changing moves, including those related to intellectual property rights, to strengthen our own playing field.

For *Laurier* sanitary napkins, we are achieving results by streamlining the business, focusing investment on strong products, and promoting globalization.

Even as reputational damage spreads in China's sanitary products market, *Laurier* has been able to build high perceived quality and strong loyalty.

We have also built a global database that allows us to track regulatory information in each country and its potential impact, enabling us to respond quickly to change.

**10. Where do you see the growth potential for the Chemical Business going forward?**

In the U.S., our tertiary amine production facility, which is scheduled to begin operation around the end of 2025, is expected to make a solid contribution to business growth, driven by rising demand for disinfection and cleaning applications. Looking ahead, we are also considering additional investment to respond to further demand growth. We would like to respond appropriately and solidify our No.1 position.

From a long-term trend perspective, not only tertiary amines but also high value-added products such as semiconductor process chemicals, hard disk chemicals, and agrochemicals are steadily increasing in sales. We hope you will have high expectations for this business.

**11. Given that Kao has an internal Chemical Business, is there a risk that you become dependent on it and miss opportunities to collaborate with other companies in pursuing global No.1 status?**

The Chemical Business has connections not only with competitors but also with companies in other industries, and engages in business development through collaboration. Compared with our other businesses, the extent of such involvement is significantly greater, and it can be considered one of Kao's strengths.

**12. In Japan, Kao's Fabric and Home Care Business maintains a high market share and profitability. Why can this not be deployed globally?**

We analyze Fabric and Home Care Business as a pain-based business in which the removal of consumer discomfort is the top priority. Once consumers use a product and like it, they are not inclined to switch to other brands. In each market, there are already global competitors that have built overwhelming positions. Large-scale facilities are required, and we believe that investing enormous resources and efforts to roll this business out globally would be inefficient.

**III. Organizational structure and use of data and AI**

**13. It appears that your scrum-style management system and new marketing mechanisms are being introduced not only in Japan but also outside Japan. What are the key factors that drive results?**

The key to delivering results lies in selecting the right leaders. Capable people are leading each business. We have established a process in which we identify people with high potential through 360-degree performance reviews and assign them appropriate positions. By prioritizing the assignment of our top talent from Japan to positions outside Japan and increasing mid-career hiring to invigorate the organization, each site is gradually starting to deliver stronger results.

**14. Do marketing efficiency and sustainability differ depending on product characteristics? In Beauty Care, for example, do you see a risk that marketing efficiency does not improve because of competitors' new products and the influence of influencers?**

The balance between functional value and emotional value differs by product category.

- In UV care, we compete based on functional value that can be felt when the product is touched and used.
- *ORIBE* and *MOLTON BROWN* have a world view with "exclusive uniqueness". Rather than relying only on emotional value, we aim to make consumers stay with us by ensuring that, in the end, the

products have unique functions, for example by blending natural fragrances in an overwhelmingly high proportion to create memorable scents. We aim to apply this kind of approach across all products. The same applies to *KANEBO* prestige skincare and makeup brand and *THE ANSWER* premium hair care brand.

**15. Kao has accumulated a large data asset and appears to be able to speed up management decisions by using this data. How does the current situation differ from the past?**

In order to make management decisions quickly and accurately, it is essential that headquarters can obtain accurate data on each business and each site in a timely manner. Three years ago we established a company-wide database, and we are now able to make solid management decisions based on facts such as return on investment. This is a major difference from seven or eight years ago. In addition, AI has rapidly advanced over the past one to two years, further strengthening Kao's capabilities.

**16. Regarding AI marketing, can you expand this not only in Japan but also outside Japan? Is your system something that offers Kao a unique advantage? How does your use of data differ between Japan and outside Japan?**

The key to using AI is to feed only high-quality data. If you input incorrect data or simply input too much data, it becomes noise and leads to mistaken decisions, but if you narrow it down to high-quality data, the quality of the output improves dramatically. We intend to deploy the same approach outside Japan. As an in-house development, it is a unique initiative, and we believe we have a certain level of advantage over other companies.

In Japan, we comprehensively accumulate data in a data lake, ranging from the purchase of raw materials to sales in retail stores. Outside Japan, as part of our lean start-up approach, we focus on acquiring data in collaboration with specific retail chains. While the way we obtain data differs by country and business situation, we use the accumulated data when developing other products and businesses.

**IV. Pricing strategy**

**17. Please share your views on the sustainability of strategic price increases in Japan.**

In response to the surge in raw material prices in recent years, Kao has implemented strategic price increases through measures such as enhancing added value. Looking at trends in consumption and retail, we see more room to raise prices for household and personal care (H&PC) products than for food. Kao is simultaneously expanding both market share and profit by offering products at higher price points that expand the market and products at more affordable price points that support consumers who are protecting their household budgets. High value-added products are at the core of our strategic price increases. As an industry-leading manufacturer, we believe that this way of competing fits with the

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current era.

**V. Capital allocation, M&A, and cash flow**

**18. Please tell us how you think about cash allocation.**

Looking back over the past several years, operating cash flow has been around 200.0 billion yen, of which we have allocated around 40% to growth investment, around 20% to 30% to M&A, and the remainder to shareholder returns. We would like to announce our capital allocation policy next year.

**19. Please share your views on M&A.**

In FY2025, there were no M&A deals, and we returned cash to shareholders, but we continue to review potential target companies. We intend to consider brands and other businesses that are expected to generate synergies with our existing businesses. One successful example is *ORIBE*. We spent time persuading the owners before the acquisition. As we expected, the brand had strong potential, and sales have more than doubled. If similar opportunities arise in the future, we will actively consider pursuing such deals.

**Note**

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