

Date:

Thursday, June 25, 2026

Agenda:

- (1) Accelerate Innovation with AI and ESG
- (2) Q&A Session and Dialogue

Speaker:

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Wakako Sato, Executive Fellow

(1) Accelerate Innovation with AI and ESG

Kao's Core Technology (Essential Value)

- **Core technology:** Precision interface control technology that transforms materials from an undesirable state into a high-quality state—washing, aligning, and mixing them “cleanly and precisely”—without causing unnecessary damage.
- **Dual-engine management:** Kao's distinctive strength lies in creating diverse value across a long value chain, from raw materials to intermediates and products, by leveraging both its diversified Consumer Care Business and its Chemical Business rooted in oleochemical raw materials. This embodies Kao's concept of *One science, Many solutions*.

ESG-driven Innovation — Stable Procurement of Raw Materials and Environmental Adaptability

- **Raw material environment:** Supply and demand are tight for both petrochemical and palm-based raw materials. Securing a stable supply of high-quality raw materials is our top priority.
 - More than 80% of the world's palm kernel oil (PKO) production is concentrated in two countries, Indonesia and Malaysia, and RSPO-certified Palm Kernel Oil (CSPKO) accounts for only about 2% of palm oil production.
- **Ensuring stable supply:** Our answer to the question of whether Kao can secure product supply and business continuity is clear: yes. One of the Chemical Business's strengths is its close ties with manufacturers of intermediates. Even if a specific petrochemical raw material becomes scarce, Kao can procure intermediate materials through alternative routes, reduce its dependence on that raw material, and redirect the freed-up volume to small-lot, high-mix specialty products. This flexible supply chain enables Kao to secure surfactants suited to each application—from laundry detergents to cosmetics and beauty care products—and maintain product supply.
- **Expansion of Bio IOS:** Kao has developed and deployed *Bio IOS*, the world's first high-performance surfactant made from the previously underutilized portion of palm oil (C16–18). It features non-petrochemical-derived raw materials, uses no ethylene oxide (EO), and is based on stable resources. It has been incorporated into products such as *Attack ZERO* laundry detergent.
 - Palm stearin, the raw material for *Bio IOS*, is more affordable and more stable in supply than PKO, the main raw material for surfactants.
- **Economic Rationality and Environmental Compatibility:** Kao achieves both economic rationality—through high performance and the securing of stable raw materials—and environmental compatibility through ESG-driven initiatives. Kao will expand this cycle into beauty care and other areas.

AI-driven Innovation — Foundational Contribution and Advanced Application

- **Structure of the AI ecosystem:** The AI ecosystem is generally divided into a software layer and a hardware layer. Kao supports the hardware layer from the standpoint of materials and processes, while also leveraging the software layer to enhance predictability and maximize on-site execution capabilities.
- **Chemical Business supporting the growth of AI:** Through process chemicals, Kao contributes to advanced fields such as semiconductors, hard disks, rare metals, and rare earths. A key strength is that this field can be expanded without requiring major new facilities.
- **Consumer Care Business leveraging AI:** Kao is advancing the development of its data infrastructure and the use of AI company-wide. By analyzing data in an integrated manner—from research through to consumer touchpoints—it is working to make its marketing and business operations more sophisticated.

Conclusion — Virtuous cycle of growth and *Minimum waste, Maximum value*

- **Virtuous cycle of growth:** By cultivating synergies in raw materials, technologies, and insights from integrated data through its ownership of both the Consumer Care Business and the Chemical Business, Kao aims to help solve social issues while creating distinctive value unique to Kao.
- **Minimum waste, Maximum value:** Kao’s philosophy of “creating maximum product value with minimum resource consumption,” long championed under ESG, is highly compatible with AI. Kao will accelerate its business by positioning AI and ESG as its next core pillars of growth.

(2) Q&A Session and Dialogue

I. Kao Group Mid-term Plan 2027 (K27) Progress and Outlook

- 1. How do you view the likelihood of achieving K27’s record-high operating income of 211.7 billion yen? Please tell us about the contribution and strengths of each business amid changing preconditions, such as the situation in the Middle East.**

K27 is progressing steadily, as previously explained, although we recognize that market consensus is somewhat below our target. The lineup for new products to be launched over the next two years is largely fixed, and our outlook for achieving the plan already takes into account their likelihood of success. We believe the underlying conditions supporting achievement of the target have become stronger, and excessive concern is unnecessary.

In response to heightened consumer price-consciousness, we can address this with a “two-pronged” approach spanning both mass and high-premium price ranges. This is one of our strengths. We manage the business while simulating the magnitude and timing of price increases for both price ranges and the impact on demand. In terms of businesses, we believe the growth of the Cosmetics Business will play a significant role in achieving the target.

- 2. As President, what is the one thing you absolutely want to accomplish during the period through the end of K27?**

To expand Kao's global presence. In the cosmetics domain, we aim to leverage Japanese beauty (*J-Beauty*) as a key strength to expand markets outside Japan.

II. **Growth Potential of the Chemical Business and its Contribution to Electronic Materials and the AI Ecosystem**

3. **With the volatility of palm oil market conditions rising, does the Chemical Business have a structure that is not swayed by market conditions? How do you view the potential to shift toward specialty and high-value-added products?**

Performance chemicals and information materials are resilient. Oleochemicals have scale but have lower profitability in commodity-like areas; however, a major structural shift is now underway, and we are advancing a shift toward high-value-added areas where Kao can leverage its unique technologies. We are also considering the use of locally produced and locally consumed resources, which are less affected by tariffs. The more sustainable society becomes, the greater this need will grow.

Among these, we are particularly focused on process chemicals. They do not require large new facilities, and combinations of surfactants can be applied to a wide range of uses, resulting in high investment efficiency. Their strength lies in functioning as essential materials that support semiconductor and hard disk manufacturing processes, rather than as circuits or metals themselves. One of our next growth pillars is process chemicals in the electronics domain, and once this growth materializes, we expect the structure of both the Chemical Business and the Consumer Care Business to begin changing significantly.

4. **Semiconductors and electronic materials attract attention, but their sales scale remains small and this potential is not reflected in valuation. Will the semiconductor and electronic materials business grow significantly in the future?**

Demand in the high-value-added semiconductor and electronic materials domain could expand substantially as the AI market grows.

At present, we have not been able to sufficiently demonstrate the potential of this domain. Because it is a business-to-business (B2B) business, there are difficulties stemming from relationships with customers, but we are actively considering improvements to our disclosure.

III. **AI and Data-driven Management**

5. **Please tell us how AI- and data-driven management has contributed to marketing results such as 35 consecutive months of market share growth.**

The key is "our people." Through ROIC management, profit awareness has permeated sales, production, and R&D, and each department has become able to work backward from company-wide

profit goals to identify how it can contribute. Even when answers can be derived from data, it is our people who execute.

In addition, by accumulating successful cases and incorporating them into the data set, predictive accuracy is improving further.

Marketing is shifting from an influencer-centric era to an era of being “selected” and “prioritized” by AI, where our evidence-based approach gives us a competitive advantage. Quantitatively, this contributes to loss reduction, inventory optimization, and profit management.

6. Does the use of AI extend not only to marketing but also to production and R&D?

Results are also emerging in R&D through the use of AI; for example, the time required for catalyst design and for optimizing fragrances and formulations has been dramatically shortened. By inputting large volumes of data and accumulated experience, we derive optimal solutions.

IV. Businesses outside Japan and Global Expansion (M&A and Governance)

7. To what extent can we expect an improvement in profitability outside Japan (the Americas and Europe)? Has the path to success been determined?

The current position of our businesses outside Japan is comparable to where Japan was in 2023-2024. Going forward, we will deploy the data-driven approach, targeting, and portfolio optimization that we have cultivated in Japan over the past three years to markets outside Japan, and select strong brands by region. Even where conventional commercials and social media offer poor cost-effectiveness, we believe that strengthening AI marketing will improve efficiency and enable us to compete.

The Americas are experiencing inflationary conditions, where the greater the scale, the greater the return. In Europe, we will compete by narrowing down brands and regions.

8. Has your sense of speed and execution capability in advancing global expansion changed compared with the past?

We have appointed Mr. Okuyama, who served as Representative Director and President of a major company in the Household and Personal Care products (H&PC) industry, as an Outside Director, establishing a structure through which we can obtain candid, independent observations on Kao's strengths and challenges, drawing on his deep management experience in that industry and an external perspective. Personnel well versed in global business, such as Ms. Casanova and Ms. Sakurai, have also joined the Board of Directors, strengthening management oversight functions that retain an on-the-ground perspective. At the same time, we recognize that there are challenges regarding execution capability at the frontline level.

9. The evolution of AI is a growth opportunity. To make the achievement of K27 more certain, could AI also be used to solve challenges in the Consumer Care Business outside Japan, such as

intensifying competition in Asia?

We envision a business that clusters customers using analysis with RNA and other methods. If AI can deliver optimal proposals to each country and each customer, it could create an opportunity to leverage the strengths of Japanese *monozukuri*, or product development and manufacturing, to gain a leading position.

Recently, the number of visitors to Japan has been increasing, and the proportion of visitors from the Americas and Europe is also rising. By tracking these customers' cross-border purchasing data, we can target a new form of inbound demand. The scale is large, and we see this as an area where Kao can leverage its leading strengths in Japan.

V. Cosmetics and Brand Strategy / Long-term Vision**10. What is the rationale for deliberately launching *SOFINA BASIC+* skincare brand in the mass market price range? How do you design the overall balance between higher added value and profitability?**

In the Cosmetics Business, we believe that concentrating exclusively on either the prestige price range or the mass market price range is not necessarily optimal. We are pursuing a two-tier strategy that secures stable earnings by leveraging economies of scale in the mass market price range, while creating new brand value in the prestige price range. Specifically, it is precisely because of the earnings base generated by mass-market price-range brands such as *Curél* derma care and *KATE* makeup that continued investment in the luxury brand *SENSAI* becomes possible.

Once consumers try *SOFINA BASIC+*, the difference in efficacy is clear, so we deploy it in the mass market price range with confidence. We believe it has strong product power and will also resonate with inbound demand.

11. Is there a possibility that, beyond K27, Kao will become a completely different company in 5 to 10 years? Will Kao's basic strategy of advancing both B2B and business-to-consumer (B2C) businesses change?

The Chemical Business is shifting its emphasis toward higher value-added areas, while the Consumer Care Business is responding to significant changes in consumer lifestyles, with Kao aiming to play a leading role. We will maintain the core strategy of pursuing both B2B and B2C. The Chemical Business could increase its share of net sales from the current level to around 30%.

VI. Other Topics: Pricing Strategy, RNA Platform, Logistics in Japan, AI Positioning**12. Regarding price increases in response to the hikes in crude oil prices, please tell us about your assumptions for price and volume going forward.**

In addition to direct transactions with raw-material manufacturers, we have incorporated intermediary routes that procure at low cost through alternative channels, giving us high resilience to rising raw material costs. Portions that cannot be covered by our own cost-mitigation efforts will inevitably require price increases, but rather than implementing them uniformly, we will carry them out while closely examining the situation of each brand and category. We believe that securing market share and raising prices can be achieved simultaneously.

13. Is there a prospect of profit contribution from the RNA platform? Are regulations and certifications necessary?

Kao can identify the customer segments most likely to experience the benefits of specific products and ingredients by leveraging its RNA platform and scoring attributes based on survey data from around 10,000 people. Unlike influencer marketing, which presupposes appeal to an unspecified, large audience, its strength as a new marketing method is that it enables a customer approach based on individual biological characteristics. Because RNA, unlike genetic information (DNA), is biological information that varies with environment, lifestyle, and other factors, it is different in nature from information that permanently identifies an individual.

14. What was the aim of bringing in external personnel to start optimizing logistics, and what are the future possibilities?

In April, we launched the joint logistics consortium “CODE (Cargo Owners’ Data-driven Ecosystem),” and began initiatives together with competitors, food wholesalers, and the government. Amid a serious driver shortage, sharing unused truck capacity can improve loading efficiency, increase drivers’ income, and reduce waste. Kao is the only company that holds this centralized management data, with other companies participating in the initiative. Because Japan’s delivery network is dense, the impact of efficiency gains is significant. In addition to its contribution to profit, the ability to manage the data obtained is also a key benefit, and we expect to generate meaningful results next year.

VII. Comments by Wakako Sato, Executive Fellow

The axis of Kao’s business is to extend precision interface control technology into a sustainable society and to become an essential company. Kao is not a company that simply runs only the Consumer Care Business. No matter how the world may change beyond K27, Kao will nimbly expand the application areas of its interface control technology in line with the direction of that change. Accordingly, the end point may change, but the axis will not.

The strengths I was able to reconfirm after joining Kao are its research and development capabilities, its business structure that also encompasses the Chemical Business, and the quality of the people who support them. On the other hand, the fact that these are not yet sufficiently appreciated by the market is a challenge, and we will work to improve the way we express and disclose them.

Note

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