Date and time:
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Respondent:
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I. R&D Strategy and Management

1) How will your R&D strategy accelerate the globalization of the Consumer Care business? Also, how will you establish a competitive advantage over global competitors?

Going forward, we will place emphasis on the concept of "Global Precision Market In." Our HQ Laboratories in Japan will create exclusive unique technologies, while our Regional Research Laboratories will implement value tailored to consumer needs and markets in each region. By clarifying the division of roles between them, which had been somewhat ambiguous, and strengthening collaboration, we will accelerate the implementation of value.

Taking dermacosmetics as an example, our point of differentiation is that, rather than starting from ingredients as is common in the industry, we use precision biological origin science and precision interface control technology to measure the condition inside the skin, identify points of action, and implement value in a way that brings out the skin's biological origin functions. By then delivering this value in a form that consumers can actually feel, including perceived quality, we will demonstrate Kao's competitive advantage.

2) What indicators do you emphasize when evaluating R&D productivity, and what is your approach to managing it? Also, was the decrease in R&D expenses in FY2025 the result of improved productivity?

As one of our internal indicators of R&D productivity, we use RORC (Return on Research and Development Capital: operating income divided by R&D expenses). RORC had been on an improving trend through FY2025 and currently stands at around 2.7, while internally we have set a KPI of 4 or higher. However, because we conduct in-house research that other companies often outsource, such as analysis, fragrances, safety, and processing, it is difficult to make simple comparisons of R&D expenses or productivity with other companies.

While we are working to use R&D expenses more efficiently, reducing them is not our objective. The decrease in R&D expenses in FY2025 reflects the effects of employee departures and other factors, in addition to efficiency improvements. We are not intentionally reducing the number of researchers, and we have secured the personnel and structure necessary for value creation.

3) How have your R&D organization and operations changed over the past two to three years, and what results have been achieved? Also, how will you change them going forward?

One major change has been the introduction of portfolio management for research themes. When the assumptions underlying a research theme change, it is important to review the theme and shift resources to new themes. We are strengthening management to prevent research assets from remaining idle and to increase their contribution to our businesses. In addition to the theme reviews we began three to four years ago, last year we started visualizing all research themes using Power BI and reviewing them regularly. We are also actively reallocating human capital to strengthen synergies by bringing together fundamental technology research and product development research. Furthermore, this year we launched global product development research projects. We will further enhance our approach of translating exclusive unique technologies created in Japan into value tailored to local markets.

4) **How will advancing "Technology Out" and "Precision Market In" change your sales and business portfolio? Will investment dynamically shift away from areas where social issues have been alleviated through technological progress toward areas where new challenges emerge?**

That is correct. From an R&D perspective, our approach to Management of Technology is to invest where areas of high social significance intersect with areas where Kao's technologies can contribute. We solve macro social issues through micro interface control. We operate on the principle that as social issues change dynamically, our R&D will adapt flexibly in response.

II. Key Topics in the Consumer Care Business

5) **How will you deploy R&D results and new technologies across brands and products? For example, will the technologies used in *SOFINA BASIC+* and *est* be limited to high-end brands?**

SOFINA BASIC+ and est are pioneering examples of our new dermacosmetics solutions based on precision biological origin science and precision interface control technology. We plan to deploy the new technologies incorporated in these brands across the entire Cosmetics Business and all our dermacosmetic products, rather than limiting them to specific brands. The specific scope of application and the order of deployment are currently under consideration.

6) **Regarding the future targets for the Cosmetics Business, how do you intend to combine organic growth and M&A to achieve them?**

The future targets for the Cosmetics Business presented at this briefing represent a level we aim to achieve as early as possible from FY2030 onward. We do not rule out M&A as an option to accelerate the growth of the Cosmetics Business. Specific details are being discussed as we formulate our next Mid-term Plan.

7) **How will you leverage R&D evidence in your marketing? How will you strengthen your**

communications so that Kao is chosen by AI?

We are working with the marketing division to strengthen initiatives that leverage our R&D evidence in marketing. Going forward, we are exploring effective ways to ensure that our communications reach their intended audiences, so that Kao is chosen by AI.

III. Technologies and Competitive Advantages in the Chemical Business and Semiconductor-Related Business

8) **Could you explain the background to the increase in disclosures about the semiconductor-related business since FY2026, and once again describe Kao's competitive advantage in this field?**

We have increased our disclosures in FY2026 because the business has been featured in the media more frequently since last year, and we believed it was important to provide a thorough explanation. The sources of our competitive advantage are our more than 40-year history in this business and the depth and breadth of the technologies we have cultivated through ongoing product development with customers. Our strengths lie in our extensive range of technologies that meet diverse needs, and in our "fine-tuning" capabilities to integrate multiple technologies together with customers.

9) **Does your competitive advantage in the semiconductor-related business lie in product performance or in long-term fine-tuning with customers? Also, how will you translate that advantage into higher prices and margins?**

The two are intertwined. Without sufficient performance, our products cannot be adopted in customers' processes, and without such adoption, we cannot refine our technologies. What matters is a virtuous cycle in which we gain opportunities through our technologies, fine-tune them with customers based on relationships of trust, and refine them further.

Our cleaning centers are not designed to drive higher prices; they are a mechanism to accelerate development and respond more quickly to customer issues. If other companies can provide equivalent value, it becomes a matter of price competition, making high margins difficult to achieve. We aim to achieve high margins by offering value that only Kao can provide and by proposing solutions to customer issues that no one has yet been able to solve.

10) **In the semiconductor-related field, we see a gap between the growth that is currently materializing (expansion from cleaning agents for back-end processes to etching agents for front-end processes) and your future growth plans. Could you share your view on which trends will create opportunities for Kao's exclusive uniqueness and how these opportunities will translate into growth?**

Technological changes, such as changes in materials, are creating opportunities where Kao's exclusive uniqueness is needed. In the semiconductor-related field, it typically takes three to five years from laying the groundwork for a technology to the realization of sales. Technologies in this field are constantly evolving, and many have not yet been disclosed. How we participate in such development and get our technologies adopted will be key to sustainable business growth going forward. Because there is a time lag between laying the groundwork for technology development and its realization as sales, it is difficult to discuss specifics. We will continue to provide updates through opportunities for dialogue.