

Date: Friday, June 11 and 18, 2021

Agenda: (1) Presentation: Current State of Progress on the Kao Group Mid-term Plan 2025
"K25"
(2) Q&A Session and Dialogue

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(1) Presentation: Current State of Progress on the Kao Group Mid-term Plan 2025 "K25"

Our Stock Price

I would like to apologize for making you worried about the recent drops in the stock price of Kao. I have a renewed enthusiasm to communicate information even more speedily and boldly than ever before so that our stakeholders will be able to imagine our future state and have expectations for the Kao Group more easily.

Image of One of the K25 Objectives: "Transform to build robust business through investment"

- We are further emphasizing well-focused investment in existing businesses.
- For the categories in which we have not been able to achieve the top market share, we will invest with a focus on a promising sub-category of the respective category and aim to be No. 1 in that sub-category.
- We will aim to further grow the businesses for which we have achieved the No. 1 share in a sub-category even though we do not have the No. 1 share in the respective overall category, by working to improve profitability.
- We will grow businesses in which we have a low share in the respective categories by effectively digitalizing as high-efficiency model businesses. For businesses and brands for which future growth is unlikely, we will consider selling or divesting such businesses.

A New Way of Competing in the Cosmetics Business—Value Proposition Using Digitalization and Enhanced Product User Experiences (UX)

- The Kao Group's new way of competing in the Cosmetics Business: Clearly communicating the value and features of products that are evidence-based by using digitalization to make high-impact value propositions, and thereby enhancing UX.
- A good example of this approach is *KATE LIP MONSTER*, a lipstick launched in April. By effectively communicating its features, of not discoloring easily even when a face mask is worn and long-lasting moisture by using digital marketing, we succeeded in gaining its recognition and support among consumers. As a result, the product gained a high market share.
- Due to the higher sales composition of make-up products, we have been deemed as performing poorly compared to competitors. However, we can revitalize the market with make-up products that meet consumer needs, even in the current difficult market environment. We will reinforce our business by building strong synergies between skin care products and make-up products.

A New Way of Competing in the Business of Baby Diapers—Value Proposition Using Digitalization and Intrinsic Value UX

- With regard to the intrinsic value that we pursue based on the research into walking that the Kao Group has long been working on, we will advance high-impact value propositions using digital marketing.
 - Scientific findings acquired from our research into walking has been applied to the new baby diaper product that we plan to produce and sell in China. It has Kao's unique advantage of allowing babies to walk in a way that will not prevent their growth, such as when they are naked, even when they are wearing the diaper. We have high expectations for this product.
 - In addition, by analyzing and visualizing videos of babies walking taken with smartphones and providing advice for their healthy growth, we will have interactive communication with consumers.
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- The average selling price of Kao baby diapers in China has been increasing since November 2020. We will aim to further revitalize our business by launching a new product.

A New Way of Competing in the Business of Beauty Care Products—a Digital-Based Real Transformation Experience

- Hair Color Simulation, Kao's hair colorant selection service based on augmented reality (AR), reproduces each piece of hair on a smartphone and allows users to try on hair colorants in a virtual setting. In the next version of this service, users will be able to experience more complex designs. We will also implement a function that will enable users to check how their hair color changes depending on the lighting direction. In Germany, we have already started to provide this feature.
- Going forward, we will develop this service to be a system that allows users to have the one and only hair color experience in the world. Kao's hair colorant to which Kao's "HD³ Dye Technology" is applied shows different hair colors depending on the angle from which it is viewed. We will expand this system by using digital technology.

Preparation for Another Kao (1): Establishing the Digital Life Platform

- We hope to make it common practice to perform sebum RNA monitoring, hair color simulation and skin analysis using a smartphone, and walking monitoring and analysis. The goal of analysis using a smartphone is health prediction. For example, we have technology to display health parameters in terms of blood circulation on a picture of a face picture taken by smartphones. In addition, we are working on the development of health parameters relating to motor skills that are linked to the walk monitoring and analysis technology that we have long been researching. Services using such linked parameters are called Precision Life Care, and we believe they will serve as the driving force for our Life Care Business in the future.

Preparation for Another Kao (2): Starting a Business That Contributes to Preserving Life

- The Kao Group's VHH antibody technology is a very special technology that enables mass production and supply of antibodies at a low price. We are advancing its research with a view to using it in the field of therapeutic drugs and diagnostic agents. The technology is also receiving attention from Japan's government institutions and has been adopted by the Japan Agency for Medical Research and Development (AMED).
- Going forward, the Kao Group will aim to be a company that can contribute to minimizing the period of illness, while also enriching people's daily life when they are healthy.

Initiatives for Positive Recycling

- The Kao Group has been promoting Positive Recycling (creating new businesses through recycling). As an example of this activity, we have been working in cooperation with the central and local governments and many companies on an initiative to turn PET bottles that cannot be recycled into a material for asphalt roads. Kao's proprietary asphalt modifier, *NEWTLAC 5000*, uses recycled waste PET as part of its raw material, improves the durability of pavement by almost five times, and suppresses the generation of dust from the asphalt pavement in which it is combined. We will expand sales of this product in collaboration with many partners.

(2) Summary of Q&A Session and Dialogue

1. What effects will be produced by the various initiatives currently being made by Kao in K25? In addition to the final target for K25, I want you to show us the process toward the target.

By increasing sales by about 150 billion yen from Reborn Kao, under which efforts are being made to grow the existing businesses, and by about 150 billion yen from Another Kao, we will increase the current sales of 1.4 trillion yen to 1.8 trillion yen. Another Kao is a model in which sales will increase in the latter half of K25. Although it is usually difficult to create a 150-billion-yen business, Another Kao is a technological development based on software

rather than on conventional manufacturing. It does not involve mass production but creating a growth model while using a network. As such, the key for success of Another Kao is to create a model that attracts partners and makes money. I think although the growth of the return on the initial investment in Another Kao will be small for a couple of years, a substantial increase will be seen in the latter half of the plan.

The shape of Another Kao will be visible as early as this or next year, but we will be able to realize the scale of Another Kao by around 2023. For Reborn Kao, although it will not be easy to achieve an increase in sales of 150 billion yen in the next five years, partly due to the impact of the COVID-19 pandemic, we are accelerating the use of digitalization and I believe Kao has the power to make it happen.

2. Under Another Kao, Kao will provide various proprietary technologies in the form of products and services to a wide range of age groups using a subscription model. Achieving this requires partners and this business model is totally different from conventional ones. Is my understanding correct?

That's correct. As a characteristic of Kao, we have many products that give us an opportunity to have multiple points of contact with users throughout their lives. Under Another Kao, we will communicate with various partners and users through a digital platform, and this will enable us to provide products and services even to business fields that we have not been able to enter-into so far. We call an initiative to provide only products and services needed by each individual user and thereby eliminating waste, "Sustainability as the only path." Aiming to break away from a world characterized by a flood of products and in which you do not receive treatment unless you visit a hospital, we will create a new model that will allow us to connect to any generation of consumers on a digital platform and become a pioneer in that area.

3. Looking back the last six months, what do you think are the reasons that caused Kao's corporate value and shareholder value to fall and what factors do you think are missing? I assume in addition to the changes in the external environment, internal factors may have led to the low corporate value. I want to know your understanding of this issue. Also, if there was a lack of information communication, what was missing?

I also would like to ask for an explanation regarding the criteria for investment decisions. It seems that the low returns on past investments has had a significantly negative impact on corporate value. At the very least, Economic Value Added (EVA*) does not serve as a tool to communicate with investors. I hope that you make improvements in this regard.

The primary factors for the low expected value are the lack of a sense of speed and boldness. We have been unable to divest of businesses once and for all and communicate information with a sense of speed. We must break away from such practices.

As for the criteria for divestment, we are now working to list possible criteria. It will take a little more time to make decisions on them, including on brands sold outside Japan. Businesses that are unlikely to grow in the future despite currently generating a certain level of profit are subject to a decision for divestment, while we will never withdraw from those businesses that we believe will grow in the future, regardless of their current low profitability. We will announce the criteria for the divestment in the not-so-distant future and communicate them, including the current initiatives, boldly and with a sense of speed.

** EVA is a registered trademark of Stern Stewart & Co.*

If you are not convinced by the current stock price of Kao, will you disclose and communicate quantitative information (profit margin, etc.) as well as qualitative information? I think Kao is lacking in terms of disclosing quantitative information.

I think Kao's stock price is appropriate according to its information communication. I am dissatisfied with the fact that we have not been able to communicate all the information we have. We have not been able to quantitatively explain information that allows investors to have expectations for our assets, as well as for the initiatives that we will be undertaking. This attitude is similar to the idea that just providing good products to consumers is enough to make them understand the products' value. We must drastically change our approach to break out of the status-quo. I believe it is necessary to further strengthen

communication with our shareholders, investors and other stakeholders as we do for consumers, and we will take immediate action.

4. **You have set the target of doubling the productivity of your on-site business activities, but no matter what initiative you may take or no matter what system you may develop, only a low percentage of employees act in accordance with your policy, according to the 20-60-20 (worker ants) rule. Similarly, no matter what good products you may launch, I think only a low percentage of consumers will understand their benefits and become loyal users. I believe increasing internal productivity will lead to the creation of a system for increasing the percentage of loyal users. Will you explain this?**

The target of "Doubling the productivity of our business activities" that we have set in K25 is what I struggled with together with the former President and CEO Sawada. Mr. Sawada committed to take this initiative, but both the system and the mindset of employees were hard to change. Because I also experienced the same, this year we have introduced Objectives and Key Results (or OKRs), as an evaluation system for employees to become more positive. Going forward, we will emphasize the distinction not only between businesses, but also between employees. Previously, we have only implemented a system, but as the President and CEO, I will speak on the operations of the system as well. Specifically, we will highly value employees who have thought hard about what to do and achieved aggressive targets, while also working to improve the productivity of employees with low productivity.

Do you think you can change the management of organizations so that the heads of peripheral organizations will be able to act autonomously in a year from now?

The matrix management adopted by Kao also has a function to evaluate people from a horizontal aspect, and it is a technique to carry out work at the maximum efficiency. Here, a problem is a siloed organization, and going forward we will boldly rework this as well. Since we have within us the best practices for breaking down a siloed organization, we will work on it according to them.

5. **I have heard that you have a plan to roll out hygiene-related products in the Americas and Europe, but in a situation in which vaccinated people are increasing and economic activities are resuming, I think the presence or absence of a change to hygiene-related habits will have a significant impact on investment decisions. What are your current thoughts about the roll-out of hygiene-related products in the Americas and Europe?**

It is anticipated that the effects of the COVID-19 pandemic may remain over the next 10 to 20 years. It is also possible that diseases such as dengue fever and malaria may spread in the future, that the number of deaths due to such diseases may exceed that due to COVID-19, and that it will be hard for the fear people feel about germs and viruses to disappear. If this is the case, we expect that needs in the field of curing diseases and taking preventive measures will increase. Although the therapeutic drugs will be the key, it will not be possible to develop a universal therapeutic drug. But as I explained, with our antibody technology, I am confident that we will be able to contribute in this area as well. I hope we will become the first company that can meet the needs with this technology when the world is in crisis.

Is it true that you have not changed your initial investment policy on hygiene-related products as their market size is increasing globally? Will you be increasing investment if the existing business areas expand?

We have not changed our investment policy for hygiene-related products. However, new business models will be created in the peripheral areas in which we have not so far engaged. This is specifically a transfer to the area for protecting people's health with our monitoring technology serving as the core, and our approach for the area will change.

Digitalization is implemented in almost all the aspects of the new business model, and it is completely different from the conventional manufacturing business model. Even when we reduce the amount of investment to one tenth or one twentieth, we hope we will be able to expand the market several times. Otherwise, we will not be able to survive.

6. When other companies are carefully reviewing their strategies by receiving feedback on the local situation on a weekly basis, does it not seem a little leisurely to decide whether or not to divest businesses on a two- to three-year basis?

There are not so many businesses that are making heavy losses in Kao, and we believe it is most beneficial to divest a business at the time when we transfer from it to a new business. At Kao, we do not seek to only gain profit without also seeking to expand the scale of business as a result of divesting a business.

With regard to Another Kao, I think the value of initiatives in the area of pre-symptomatic disease will increase from the viewpoint of the SDGs as well. However, Japanese people have low health literacy as a national characteristic and so far, they have not paid money for such services. As such, I think awareness-raising activities will be important and I want to know the concept of services that Kao is trying to provide.

In Japan, the cost of healthcare has become enormous and the country's national health insurance service is on the verge of bankruptcy. If this situation remains unchanged, people will not be able to receive diagnosis or treatment that they normally receive at hospitals, and they will need to pay extra fees in addition to their national health insurance fee. Kao will support the extension of the time that people can live healthy lives through their daily activities without doing anything special, rather than engaging in a business in the pharmaceutical field. There are many companies that support this idea and collaborating with such companies will increase what we can do without relying on the government. I do want to advance this initiative.

7. What is your future plan for the business in the Americas and Europe to make it grow?

Our business in Americas and Europe is weighted toward the area of beauty care for hair and skin, except for the Chemical Business. Although there is a return relative to the amount spent to purchase brands, the business has not grown to the level we expected. We have been pursuing an extremely high level of skin care and hair care under brands including *Jergens* and *GOLDWELL*, and we will further refine the way we compete in this business by leveraging our intrinsic strengths. The difference between companies that are oriented only to beauty care and Kao lies in our focus on "well-being." In the future, hair salons may become new places with healthcare functionality, just like drug stores. Adding the element of well-being through customer hair diagnosis will drastically change hair salons' service content. By strengthening the proposal of a new package that includes well-being, in addition to skin care and hair care, we will grow this business.

Around what time will we be able to see the results of those initiatives?

For the business for hair salons, we predict the results will start to be seen in one- or two-years' time as far as the Americas and Europe are concerned. On the other hand, in the business for mass skin care and hair care products, we are creating various initiatives together with platforms and we are aiming to achieve growth by partnering with them. Although not a large increase, the results actually started to appear in 2020 and we hope we will be able to show you further results within one to two years.

8. You mentioned that 15 billion yen will be spent for investment in digital transformation and another 15 billion yen for marketing investment in this fiscal year. How about the plan for over the next five years?

We will lower the amount of future strategic investments and return to the normal level of investment as early as possible. In most cases, companies that are engaged in digital transformation outsource the entire work to external vendors, pay the price for each part, go through a process of updating their systems several years later, and are affected by such vendors' business models. However, we ourselves thought about the business design through digitalization, so we do not need to spend a dime on unnecessary items and will not outsource the entire work. We will use digital transformation to obtain feedback from consumers and make it possible to use data on aspects such as raw-materials procurement, production, and sales comprehensively without dividing them into separate items. Since we will manage digital transformation in-house without solely relying on vendors, we will be able to produce a huge change even at a cost of as low as 15 billion yen.

Kao has been cutting the marketing expenditures over the last three years and I think this has led to the weakening of its core businesses. Although I know Kao has advantages in technological and development capabilities, I have the impression that you are not so good at communication or marketing. Under Reborn Kao, Kao's core businesses, is there also a possibility of transformation through digitization?

In the course of reducing marketing expenditure in the past, we have divided the approaches for marketing for each category and brand into either TV commercial or digital marketing, whichever is most beneficial.

Although Kao's marketing is often said to be poor, I think it has good qualities. However, it was too serious and courteous, and we tended to be reluctant to quickly move a step further. So, we introduced this OKRs-based employee empowerment system, in which employees will not be appreciated unless they move forward to take on challenges. We will advance the fundamental transformation under this system and I hope we will be communicating information with a more vigorous attitude at a level recognized by you to be effective by around the end of fiscal 2021.

You expressed the results of Another Kao in five years as a J-shape. Can we expect the results of Reborn Kao in a linear form?

As far as fiscal 2021 is concerned, we are not sure if the results will be produced in a linear form due to the uncertainty about what the impact of COVID-19 will be. The impact in Japan is especially considerable, and we understand that countries outside Japan are also in an unpredictable situation. Under these circumstances, the outlook for the Chemical Business is promising. The market is extremely active despite soaring raw material prices and the business is growing strongly. Our advantage is that we have the Chemical Business, and I hope it will become a new growth driver in the future.

9. How do you make changes in information communication for external parties and investors proactively? What are the issues in internal information communication?

Previously, we have not given sufficient explanations to our stakeholders, especially shareholders and investors. In our Integrated Report issued in June, we have organized items that we consider to be the issues and the things that we want to change. Going forward, I hope we will be able to tell our shareholders and investors the progress of Another Kao and the goals they can expect based on numbers and data, including those things that are not going well.

Based on the reflection that management was not able to drastically make a clear change of course, we launched Another Kao and showed management's unwavering resolve to employees. Since we have integrated the state of Kao that we will commit to into Another Kao, the viewpoint of employees has also started to move toward that direction.

10. The circumstances surrounding sustainability have changed drastically in the past year and I think that Kao's roles have also changed accordingly. CO₂ emissions, waste plastic problems, recycling of paper diapers, and other environment-related issues can be opportunities or risk factors. In 2019, former President and CEO Sawada proclaimed that he would make a change of course toward ESG-driven management. You are upholding this idea, but what will you develop this idea into? Can you also comment on the prevalence of sustainability among employees?

Kao places ESG at the core of its management. What we value most is open innovation. We will work on open innovation toward the creation of a self-propelling society by realizing the idea that any company partnering with Kao is automatically driven toward sustainability. In addition, we will embody the message "Maximum with minimum" by using the minimum amount of energetic material to deliver the maximum value to society. For instance, we have started a business based on *NEWTLAC 5000*, an asphalt modifier made from recycled waste PET. This technology is to collect non-recyclable PET bottles dumped around the world to build hyper-durable roads. A new PR strategy has helped us gather more partners and there is a suggestion that this initiative will be promoted nationally. Thanks to our close relationships with retailers and other companies, Kao is able to lead this initiative. Our role is to drive this kind of initiative.

For employees, we changed the corporate slogan in 2021 and will evolve our corporate philosophy, The Kao Way for the first time in 17 years. An important point of “Maximum with minimum” is that changes are made based not only on orders from the President, but also on each employee’s opinions. This year, we will put the maximum focus on creating a vibrant environment for employees and use this as a driving force to make sustainability prevalent among employees.

11. What changes does Kao assume will occur in the world in the next 5 to 10 years?

Kao assumes that, within 10 years, companies that make the most out of data will survive and become champions. In all industries, platforms will be the biggest threats. If Kao continues to develop businesses only as a manufacturer, it may end up becoming their subcontractor. Kao’s strengths are manufacturing and connections with consumers for manufacturing. In the coming years, the degree of closeness of connections that Kao can build with consumers and the degree of strength of those connections will probably determine whether or not Kao will become a subcontractor.

12. Current data indicates that Kao is losing share in various categories. What is the reason? When will the policy of considering divestment of businesses that are unlikely to grow be carried out, and when will Kao gain more market share as a result?

We have already started to make well-focused investments. We have many products that sell the most in some sub-categories. Investing in products that stand out in sub-categories will eliminate excess investments and boost our market shares. Even if our share falls from 30% to 25%, our profit ratio will increase from 5% to 10%. We will drive this kind of initiative. A representative example is *KATE LIP MONSTER*. We are aiming to increase share through a positive investment cycle.

In this fiscal year, we divided household and personal care products into three categories. For products that lead specific categories, we aim to completely dominate those categories. For products that hold the second or third largest share, we will change strategy and invest in promoting them to become category leaders or to dominate sub-categories within them. For products suitable for digital investments, we will shift toward solely digital marketing. We will adopt appropriate strategies in accordance with the characteristics of the three categories.

Will separating categories and changing investment methods modify the cost structure?

We will change how employees work. For instance, our beauty consultants are now striving to become something like YouTubers to promote Kao cosmetics products. We expect that accurately conveying the advantages of our products will help us to lead their respective markets. Some say that Kao has many beauty consultants and this will become one of our strengths. Each beauty consultant was previously able to reach only 50 people per day, whereas the use of SNSs enables them to fully inform 10,000 to 20,000 people of the advantages of our products each day, changing how beauty experts work. Please look forward to seeing to what extent we will maximize the wisdom and appeal that we have with the coronavirus pandemic as a turning point.

13. What approach prevents Kao from becoming a subcontractor of platforms?

Kao aims to become a platform, but not a platform that only prepares large volumes of products, but a loyal platform that creates and delivers specific products without fail. We aim to work on business models based on evidence and thoughtful data for individuals not only by ourselves, but also by involving many other companies, and to increase the level and speed globally together with them. You can consider whether or not Another Kao will become a digital platform as a touchstone to predict the future of Kao.

14. Will Kao partner with various companies for treatment and monitoring in the life care field and aim to achieve a trillion yen in sales from Another Kao in 2030?

In Japan, only 20% of the population are vaccinated for the flu and the consultation rate for checkups is low. When such people fall sick, they tend to become gravely ill. We are devising means to aid such people in the early stages by approaching them. The medical care field that we are addressing involves treatment to extend the time that people can live

healthily. We will focus on a system to help people who are about to become seriously ill to regain health. If Kao, which excels in daily supplies, teams up with companies that excel in professional medical products, usefulness will increase.

What do “life care products” specifically refer to?

In the context of monitoring, they refer to services that allow users to be informed precisely about their health conditions by performing simple tasks at home and sending the results to Kao without the need for a blood test. This is something like RNA monitoring. In the context of preventive care, they refer to supplements, health drinks, and other health-promotion products.

A Nikkei Shimbun article published on June 18 says that Kao is aiming to achieve 200 billion yen in operating income in 2023. As Kao is aiming to achieve 250 billion yen in operating income in 2025, this target seems a bit low.

There are two factors. One is the fact that, as major structural reforms are now underway, it takes one to two years to invest in developing a digital platform. The amount of investment is large and the cost for business structural reforms will be a burden. The other factor is the uncertainty about how the novel coronavirus will turn out and the difficulty in predicting how long its effects will continue. We have not lowered the target.

15. In China, UNIQLO, Estée Lauder, and L’Oréal have already made it possible for consumers to buy products on their websites without depending on leading EC platforms. In such an initiative, a platform can be built only if there is loyalty to products or brands. What is the value that only Kao can offer?

The difficulty of D2C (Direct-to-Consumer) is that the sales cannot exceed a certain level. In fact, it is not true that consumers want products only from a specific company. A core digital platform must deliver benefits not only to Kao, but also to participant companies and digital platform users, which requires accurate evidence-based data. For example, there is currently no digital platform that informs a user that it is most suitable for them to take company A’s supplement, use company B’s lotion, and wear makeup using Kao cosmetics based on accurate personalized data. Such data is derived from image monitoring or genetics, which means that highly loyal evidence-based marketing is implemented. We do not aim for a marketing approach that recommends products to specific users based on their purchase histories. If we deploy a digital platform that enables a marketing approach that makes them want to recommend products, other companies will become involved or will be motivated to become involved.

16. At the moment, the Americas and Europe are expediting their vaccination programs. What benefits will Kao receive from the business for hair salons and other businesses in the Americas and Europe? I would also like to know about the initiative on Hainan Island, China.

The business for hair salons is showing positive sales growth compared to last year. All the brands, but particularly the premium *Oribe* brand are growing in proportion to the immunization rate. In the Cosmetics Business, especially the *SENSAI* super prestige brand has had a good start in Europe.

We opened a cosmetic counter on Hainan Island in April and started to promote the *SENSAI* super prestige brand and the *est* prestige skin care brand. I heard that these brands have created significant demand and attracted many consumers. As inbound demand is unlikely to recover for a while, we will further develop the business in China, including Hainan Island. Although the business in China is very important, it is crucial to reinforce businesses in other countries as well in a well-balanced manner. In addition to the Cosmetics Business, the baby diaper business in Indonesia is growing significantly and we aim to make this business a stable revenue source.

17. Going forward, it is possible that things will not go as Kao expects. In that case, Kao may end up finding out that seemingly unnecessary things are actually important. How will you manage them having a sense of balance?

Reborn Kao is Kao’s core business and we promote it in a well-focused manner. However, that is not enough to outperform leading platforms and drive globalization. In that sense, we are taking a chance on Another Kao. As it involves data-based digital communication,

it is different from conventional manufacturing. Another Kao does not aim to deliver products and services to everyone. Another Kao values delivering products and services only to those to whom products and services should be delivered sincerely. “Spending money for myself is difficult, but my feelings for my dear family are unwavering.” This is the type of person we are targeting. An ordinary platform is a personalized platform, whereas Kao’s digital platform is a platform that is based on bonds.

In the field of Precision Life Care, providing a digital platform will generate subscription revenues. However, Another Kao is not expected to make a major contribution to profit in fiscal 2025. Rather, it is apparently structured to generate the same operating margin as other existing businesses or higher in fiscal 2030. How will sales and profits be accumulated in future years?

We aim to achieve an increase of 150 billion yen in sales by fiscal 2025. However, we will achieve larger sales as a digital platform. It may be wise to evaluate it based on the form, number of participating players, and size of the digital platform that we will announce in one to two years.

I heard that antibody technology enables stable mass production. It will be difficult to secure profits unless Kao is involved in sales as well. Does the scheme allow for sales?

At the moment, antibodies are extremely high-priced and selling more of them will generate tremendous profits. However, when R&D expenditures are taken into account, profits will be low. Even so, when supplied on a business-to-business basis, these antibodies will still help boost the numbers of users, pharmaceutical manufacturers and testing companies that use the antibodies exponentially, serving as a profit source.

18. When an explanation concerning Precision Life Care was provided at the press conference of K25, pharmacies, hospitals, and insurance companies were mentioned as partners. When you build partnerships with them, how will you monetize Precision Life Care?

Kao has had good relationship with drug stores for many years. Drug stores have many consumer touchpoints. With regard to insurance companies, the health of the insured is self-reported at the moment, but if more accurate data can be obtained more frequently than once a year, they have a reason to be involved in this digital platform. So, there are many potential partners other than drug stores and insurance companies. Going forward, we plan to develop the digital platform in such a manner over two to three years.

19. The Corporate Governance Code on Japan was revised on June 11 of this year and the appointment of those with experience in managing other companies to the Board of Directors is required. Were current Outside Directors selected to supplement what is lacking in Kao’s management?

We used to have Outside Directors from the manufacturing industry with experience in management, and I now feel the need for such talent again. At the moment, we are also implementing a non-conventional initiative that involves Outside Directors working together to solve issues on-site. We strive to secure the best talent while taking into consideration the skills that Outside Directors must have.

20. Kao’s initiative to become a platform may promote an oligopoly and there is a risk that huge platforms may obstruct the way. What is your opinion about such risk? Furthermore, spinning-off this digital platform from Kao into a joint venture is likely to have a more positive effect on society. What is your opinion about this idea?

I have no intention to compete head-on with other platforms at the same level as they do. Going forward, there will be a dichotomy of platforms, of those that are based on quantity, speed, and affordability, and those that increase loyalty with small quantities and build ties with users who want products and services based on reliability. It is uncertain which will survive.

A possible risk is that prospective participants on the digital platform that we want to build might express an unwillingness to use the Kao name. As you pointed out, it may be easier

for other companies to be involved if we spin-off the digital platform and entrust it an AI firm that takes the leadership in seeking partners. This depends on in what way participating companies want to increase their corporate value. At the moment, many of the prospective participating companies are Japanese companies with a strong will to collaborate with Kao. When this digital platform is realized, it will be a very unique one worldwide.

21. Can you reveal specific brands and products to be divested in the near future?

We consider divesting of brands or products that generate five billion yen or less in sales, that have a profit margin of less than 15%, and that have no growth potential. However, we will not abandon such brands or products if they have growth potential or become important units. If we are to abandon a business, we may sell it along with its associated brands. We aim to complete this selection process within one to two years.

Note

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