

Date and time:

Tuesday, September 26, 2023, 13:30-15:00 (JST)

Respondents:

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1) The Cosmetics Business forecasts sales of 300 billion yen in 2027. What is your view on the operating margin?

We forecast achieving sales of 300 billion yen in 2027. We were aiming at over 13% for the operating margin initially, but as of now, it is expected to reach double digits in 2027. Going forward, we will prioritize investments in 1st RUNNER brands and strategic investment brands to achieve our desired position in each market around the world. We will aim to achieve the operating margin plan in order to expand our marketing investment.

2) What is the sales target for each of the 1st RUNNER brands?

SENSAI: We plan to triple 2022 sales by 2030. In 2022, over 90% of global sales were from Europe, but in 2030, we aim for more than half of sales outside Europe.

MOLTON BROWN: We will increase 2022 sales 1.5-fold by 2030, boost sales in Asia to shift from Europe-centered sales and raise the proportion of sales in areas outside Europe.

Curél: We will increase 2022 sales 1.5-fold by 2030 and expand to more areas.

3) Among global competitors' luxury brands, some record large sales from 100 to 200 billion yen. According to the future growth rates of the 1st RUNNER brands, they will not reach that level. If Kao aims to be No.1 worldwide, in what kind of positions are you trying to be No.1?

Compared to global luxury brands, *SENSAI* and *MOLTON BROWN*'s sales will not be as large in 2030. However, we want to establish solid positions in unique categories to achieve a more significant presence. If we roll out in more countries and regions through various sales channels, it is possible to aim for sales of 100 billion yen, but we will strive to be the Global Sharp Top without taking such an approach.

SENSAI: Particularly in Asia, we will target affluent consumers and aim to establish a position as a luxury brand that revolves around skincare.

MOLTON BROWN: We want to make it into a brand that is luxurious, sustainable and has a unique position and presence as a holder of a British Royal Warrant.

Curél: We will aim to be No.1 in derma cosmetics.

4) *MOLTON BROWN* is a brand that has not been doing well since you acquired it in 2005. Why did you choose it as one of the 1st RUNNER brands now? And also, what are your reflections looking back on the brand?

MOLTON BROWN has been growing because the lifestyle-oriented market centered on fragrance is growing and also because it changed marketing strategies by emphasizing its position as a brand that holds a British Royal Warrant. Around 2013, we replaced the brand representative and changed the marketing to focus on its emotional value, which contributed to establishing a foundation for the brand growth. In the future, we aim to strongly promote the fragrance line, launched in 2022, to grow the brand with the uniqueness featuring a more luxurious fragrance.

5) Which are the most prominent brands that compete with *MOLTON BROWN* and *Curél*?

MOLTON BROWN: We are checking the movements of lifestyle-oriented brands, but we do not have any brand in mind that is positioned the same as *MOLTON BROWN*.

Curél: We are monitoring the trend of famous competitors' derma care brands.

The plan is to increase *MOLTON BROWN* and *Curél* sales 1.5-fold over the eight years from 2022 to 2030, but that is not such a high growth rate. Is this a result of your strategy?

1.5-fold is just a milestone. Japan and China will account for most sales within three to four years. After that, we will launch in more countries. It might appear to be slow growth, but we have set achievable numbers that we can steadily reach.

6) How will your current regional portfolio change by 2030? Also, if you will do M&A, in which regions and business categories?

In the future, the proportions of Asia and Europe will grow. According to our current plan, we are projecting the proportion of 15 to 20% growth for Asia except China, and a

bit short of 15% for Europe from 2027 to 2030.

As for the regional portfolio in the years ahead, we cannot disclose specific regions, but we have been preparing and evaluating a list of potential M&A opportunities for regions whose markets are growing that we have yet to cover thoroughly. The regional and category portfolio ratios will likely change when this is realized. We have plans regarding the scale of M&A toward 2030 and which regions and categories, but we cannot disclose these plans now.

7) In the next three to five years, will Japan and Asia and the 1st RUNNER brands lead the Cosmetics Business?

That is correct.

8) China is the country with the highest profits in the Cosmetics Business today. How will profitability in each region change as you look to an operating margin of 10% by 2027?

China is currently contributing significantly to profits, but by 2027, we want China's proportion to be about half of the current level. We plan to rebuild the business in Japan, ensure profits, and raise the contribution rate, including operating margin, with Japan first, China second, then other Asian countries and finally Europe in such order.

9) In Asian market, fragrance accounts for a low percentage. Why are you launching *MOLTON BROWN* in Asia?

Compared to Europe, fragrance in Asia has a low percentage. However, the usage rate is high for our target affluent consumers. Meanwhile, *MOLTON BROWN*'s fragrances account for a smaller portion of its sales than in-bath products, hand gels and other products, which are the main categories, but in Asia we are going to roll out those as well. We will limit our targets to affluent consumers, so we believe there is a chance to grow the brand with these products.

10) Why did you not include the rebranded *freeplus*, a hypoallergenic brand containing Japanese and Chinese botanical extracts, among the 1st RUNNER brands or strategic investment brands?

We rebranded *freeplus* this year as a brand mainly for China. Within the next two to three years, we will expand it within the market in China, and then plan to expand from China to ASEAN. We will only expand in some parts of Asia, so we did not include it among the 1st RUNNER brands.

11) Are the three brands enough to become the Global Sharp Top in the market for which the 1st RUNNER brands aim? Or are you thinking about M&A?

The current three 1st RUNNER brands are not enough. We are thinking about M&A in growth markets.

12) In the past, *Curél* was transferred from the mass skincare business to the Cosmetics Business. Considering the shop shelves in the stores where the brand is sold and *Bioré* is being launched in more countries, it seems likely that *Curél*'s globalization can be accelerated by collaborating more with the mass skincare business. What is your view on that?

We plan to roll out *Curél* with the mass skincare business team for sales outside Japan. In expanding its sales outside Japan, we have already developed relationships with various retailers in countries in which we operate a mass skincare business, so the entire Cosmetics Business will be working together, not just *Curél*.

13) How much of the 74-billion-yen sales target for the skin protection business for 2027 includes sales of items that are already on track for regulatory approval? Could you explain the new products that you are scheduled to launch with new technologies? How do you plan to launch *Bioré* UV Aqua Rich Aqua Protect Mist in the market in North America, and how long it will take to get approval?

We have listed the launch schedule for Japan for the new products in the briefing material that adopts new technologies. We will target launches one or one-and-a-half years after launching in Japan for Asia and North America. It took nearly two years in the past, but after we enhanced our initiatives to obtain regulatory approval, we are seeing the possibilities of getting approval more quickly.

The 2027 sales target in North America does not include sales of *Bioré* UV Aqua Rich Aqua Protect Mist. We believe the *Bondi Sands* brand will drive sales growth in the market in North America. We aim to explore the sunscreen market in North America with the *Bondi Sands* brand, which is already being sold in Australia.

The 74-billion-yen sales target for the entire business includes sales of products that have already obtained regulatory approval or are highly likely to be approved. We can exceed the target if the synergy with *Bondi Sands* works well.

14) What is the current operating margin of the skin protection business, and what is its 2027 forecast? Also, what are the operating margins of the UV care and self-tanning businesses?

The operating margin of the skin protection business is as follows.

Operating margin by region (2023 forecast): 16-17% for Japan and Asia combined, and in the single digits in North America

Right now, the operating margin of the UV care business is higher than that of the self-tanning business. By expanding the UV care business globally, we aim to eventually make the operating margin of North America over 10%, just like Japan and Asia. Currently, Japan's operating margin is slightly higher than that of Asia, so one challenge is to improve Asia's operating margin to Japan's level.

Is it possible to improve the operating margin of the self-tanning business too?

For the following two reasons, we believe it is possible to improve the operating margin in North America.

- We sell relatively higher priced products that are over 10 dollars each.
- Right now, we only have *JERGENS*, but as *Bondi Sands* joins in, the market presence will increase, and we can also expect sales synergy.

15) What is your approach to M&A in the skin protection business?

To realize sales of 100 billion yen in the skin protection business in 2030, the hurdle is too high for organic growth alone. In particular, to grow sales in the sunscreen market in North America, we need to enhance our lineup in the high-price range. We are considering that we could do this more speedily if we had new partners. The acquisition of *Bondi Sands* will give us a brand that is strong in the mid-price range, so we will now target brands that are strong in the high-price range.

Note

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