

Date and time:

Thursday, May 9, 2024, 17:00-17:50 (JST)

Respondents:

Masakazu Negoro, Representative Director, Senior Managing Executive Officer

Mitsuhiro Watanabe, Vice President, Investor Relations

1. You said that you have achieved profits that exceeded plans. What were the contributing factors?

Profits exceeded plans due to a favorable turnaround in all aspects, including improved gross profit in the Chemical Business, reduced raw materials costs, and adjusted selling prices.

How much did they exceed the plans? Are the effects of structural reforms as expected? Which categories outperformed by segment?

Operating income exceeded our plans by approximately 10.0 billion yen*. The effects of structural reforms were largely in line with plans. By segment, Fabric and Home Care Business grew particularly strongly.

*Comparison with the internal plan set in November 2023. The amount is around several billion yen higher than the plan, which takes into account countermeasures for the recent business environment, and other factors.

2. Regarding the operating income forecast for FY2024, I see some changes compared to the plan three months ago (as of February 7). Can you share the effects of your structural reforms and changes in SG&A expenses, etc.?

We expect SG&A expenses to increase by 8.5 billion yen compared to the plan three months ago. Primarily, we plan to make an additional investment in marketing expenses. Of this amount, approximately 50% will be invested in Skin Protection, with plans to expand into Cosmetics, Fabric and Home Care, and Hair Care. Results of the structural reforms in the first quarter were as anticipated.

The effect of structural reforms is estimated at more than 18 billion yen, but which segments have been performing well?

"Reforms of earning power," that is to say reforms of our capability to generate profit, are working well. In the first quarter, while raw material prices fell by 2.0 billion yen, we were also able to achieve a 7.0 billion yen increase through adjusting selling prices. We are now able to set prices that reflect the added value.

In addition, "Other cost of sales" includes the effects from reducing fixed costs for *Merries*, and "SG&A expenses" include the benefits of personnel cost reduction through a structural reform in

human capital, which will begin showing up in the second half of the year.

Why are the offerings of high-value-added products accepted by consumers?

As an example, we have offered high-value-added Fabric and Home Care products that incorporate ESG-focused attributes. Consumers have accepted these offerings and we have also been able to increase our market share as a result.

3. A certain investor raised some points about marketing, etc. Are there any changes within your company in the way you present your products, respond to investors, and the like?

Kao values dialogue with all shareholders. We will listen to valuable input that leads to enhance shareholder value and continue to engage in positive dialogue with them. We are in an ongoing dialogue with the investor in question, along with our Investor Relations team, and I also have had two meetings with this investor. Many areas of their concern align with the Mid-term Plan K27. We will continue our dialogue about marketing as well, while striving to enhance shareholder value.

Regarding transformation of the Hair Care Business, what is the response to the new Hair Care brand *melt*?

Since this April, the launch of *melt* and the rebranding of *Essential* have improved our share in the Hair Care market. In the Hair Care Business, we plan to renew and build our brands going forward. We plan to launch more high premium brands to follow after *melt*, and we are also planning to hold a strategy briefing on the Hair Care Business in the second half of the year. We hope you look forward to our new brands.

4. You said that the Chemical Business and Fabric and Home Care Business were the main contributors to the higher-than-anticipated profits. What were the factors behind this?

The Fabric and Home Care Business significantly contributed to profits, with an increase of 7.0 billion yen compared with the same period a year earlier. The key reason was that the competitive advantage of the core brands improved. We have created a cycle by which we steadily accumulate profit in stable earning areas, and then use this profit as a source of funds to increase marketing investment for high-value-added products on a company-wide basis, thereby accelerating global expansion.

Are you saying that the price increase is not the only factor?

Until last year, we had been promoting "strategic price increases" to cope with rising raw material prices and other costs, but going forward, we will increase profits by additionally "setting prices that

reflect added value." This is what will improve the competitive advantage of our core brands.

What about the upturn in the Chemical Business?

The Chemical Business produces high-value-added products with unique new technologies. For example, hydrophobic cellulose nanofibers were difficult to commercialize, but they are now on the verge of being launched onto the market. They have a high profit margin, so they will contribute to future profit. In addition, we believe that the use of agricultural adjuvants as well as demand in hard disk and semiconductor-related sectors will recover, also contributing to profits in the second half of the year.

5. How quickly are structural reforms taking place?

We expect the effects of structural reforms to be slightly above the planned 18.0 billion yen. A 30.0-billion-yen effect is planned for 2025 and beyond, which we expect to achieve. The effects of structural reforms include personnel costs, depreciation and amortization, and other fixed cost reduction effects, but the most important goal is to reform our profit. In the first quarter, the gross margin improved by 4.4 points. The goal is not only to improve the gross margin, but also to improve ROIC. Progress was made in reducing inventories by 10%, and we will also strategically set appropriate stock keeping units (SKUs) in each business to maximize profits. We aim to reduce invested capital and increase ROIC. We are smoothly implementing structural reforms, so expect to see those effects.

Note

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