

Date and time:

Wednesday, December 9, 2020, 17:00-18:30 (JST) live streaming

Respondents:

Yoshihiro Hasebe	Representative Director, Senior Managing Executive Officer To become President and Chief Executive Officer as of January 1, 2021
Toshiaki Takeuchi	Representative Director, Senior Managing Executive Officer Representative Director, President, Kao Group Customer Marketing Co., Ltd.
Tomoharu Matsuda	Director, Managing Executive Officer President, Consumer Products, Global

1. How much of the respective financial targets, specifically the sales and operating income targets for 2025 and 2030, do you expect to achieve from Another Kao?

The breakdown of the 2.5 trillion yen sales target for 2030 includes 1 trillion yen from Another Kao and 1.5 trillion yen from Reborn Kao. We have not yet released the breakdown of operating income at the moment. As for the 1.8 trillion yen sales target for 2025, we are aiming to increase sales by approximately 300 billion yen from the current sales level, but we do not intend to achieve more with one compared to the other. For the K25 target, we will aggressively invest as a milestone for K30. As a result, the achievements from Another Kao and Reborn Kao are expected to be about the same.

2. Human capital should be quite important to reinforce ESG-driven management. Does the Objectives and Key Results (OKR) system you will be introducing in 2021 include a system to enhance ESG activities?

The OKR system includes a system to evaluate the degree of contribution to ESG activities. We are also considering a system, "One Team and Dream," in which a team's responsible work will be promoted when the work is used or leveraged by the other departments. The weighting of the ESG portion is currently being scrutinized, but we are looking to give around 30% to ESG-related evaluations. Including the CEO, all the members of Kao Group will be able to focus their efforts onto the ESG portion within the OKR system.

What exactly are you doing to evaluate ESG activities?

In the OKR, rather than targets that can be controlled only by ourselves, activities to confront various issues and difficulties and resolve them through efforts, ingenious attempts, and sometimes collaborations with other companies outside Kao Group, and which thereby significantly contribute to society, are evaluated. In September 2020, we announced we are working with Lion Corporation, a leading manufacturer of household products and pharmaceuticals, to recycle film packaging toward the realization of a plastic packaging resource circulation in society. This is also one good example.

- 3. According to a calculation based on a full-year forecast for 2020, the compound annual growth rate (CAGR) of net sales by 2025 is expected to be about 4.7%. To achieve 2.5 trillion yen in net sales in 2030, CAGR must be accelerated to 6.8% in 2026 onward. Do you expect the results from Another Kao to drive this acceleration? Or will ESG investments finally show their effectiveness from 2026 onward?**

Previously, the Kao Group has communicated steady linear growth as the publicly announced forecasts, but we will change it drastically from now on.

In Another Kao, we manufacture something in another field or another section, or gain new customers in another field. But it is not easy to recover the investment in the following year. We expect it will take 2 to 3 years to get it on track. We will eventually achieve the forecasts as we repeat that process. We will aggressively invest and make sure we get the returns so we can expand significantly, which we believe is the Kao Group's new way of competing in our business.

Are you starting Another Kao from zero in 2021? Or are you already working on it in the existing businesses?

We are not starting it from zero. For example, hand soap and hand sanitizer are very helpful for preventing infectious diseases. With the *Healthya* health functional drink brand, we are working on activities to protect the health and lives of people, such as the prevention of lifestyle-related illness. In addition, Kao Professional Services' commercial-use products business handles hygiene-related products at hospitals and so forth.

In this way, we have been conducting activities in the Consumer Products Business excluding the Cosmetics Business up to the present time, but going forward, we will work on activities as the lifecare business to protect people's lives and aggressively invest in it. By creating new value, we can grow the existing business dramatically as Another Kao business. Though the current business scale is quite small compared to the net sales growth of 150 billion yen, we will show you significant growth in 2025.

- 4. When will you achieve the targets you have set out for K20? I understand that the huge impact of the COVID-19 pandemic was one of the reasons you failed to achieve the targets, but the businesses in the Americas and Europe did not seem to be going well even before the pandemic. How do you reflect on the unexpected slowdown in the baby diapers business, and what are your plans to recover from the setback in the Cosmetics Business?**

We will explain our review on K20 and the future prospects in detail with numerical data in the full-year earnings conference scheduled for February 2021. Today, I will answer as much as I can as of the present time, as follows.

As for our businesses in the Americas and Europe, so far we have been expanding those

businesses mainly with beauty care products for which there are strong differences in terms of preferences. But going forward, I think we can make a great leap by reinforcing Another Kao business with our technologies to save the lives of people in an attempt to respond to the global increase in the awareness of hygiene. The Kao Group has a lineup of diverse products in areas other than the beauty care field, so we will develop our businesses in the Americas and Europe from a perspective that is different from our competitors. The same also applies to the Cosmetics Business.

Regarding baby diapers, as I explained using the key words, Next Innovation, in the presentation, we will drastically shift the values of sanitary products through Next Innovation in the future. The R&D department has almost completed the preparations for such a shift and we will launch baby diapers to the world as a specific outcome of this shift.

5. K20 targets of net sales like-for-like* CAGR of +5% and operating margin of 15% were not achieved. What were the reasons for this?

There were large impacts from the delay in digitalization in the Cosmetics Business and the delay in strengthening our businesses outside Japan.

In Kao Group's Cosmetics Business, Japan accounts for a high percentage of sales, so it has been significantly affected by the slowdown in the market. In addition, we are behind other companies in strengthening activities in the e-commerce channels and digitization, and we are working to catch up. Going forward, the outcome of such efforts will be added to the sales figures.

The same thing can be said about businesses other than the Cosmetics Business. We will actively challenge ourselves in new fields so that we will be able to respond to any changes in the situation, and this is also included in the initiatives under Another Kao.

**The Company has changed its method of recognizing sales for some transactions from the gross amount to net amount. Like-for-like grows rate excludes changes due to the abovementioned method of recognizing sales and the effect of translation of local currencies into Japanese yen.*

What were the reasons behind your delay in digitization or strengthening businesses outside Japan?

I felt that we were somehow became conceited because we gained a large share of the Japanese market and created sales and profits. I think that this is one of the reasons we were late in changing our mindset. But I do not think it is yet too late. Over the last six months, we were able to make quick progress in digitization. So we have changed our mindset and I would like to utilize it as a trigger for the next step. I hope that you pay attention to Kao Group's future digitization and development in businesses outside Japan.

6. In this Mid-term Plan, are you conducting investments first and plan to achieve 1.8 trillion yen in net sales and 250 billion yen in operating income as the final results in 2025?

Toward 2025, we will invest about 500 billion yen. We are not just looking at M&A or joint ventures, but we are also developing a strategy and will be investing in areas where we can start businesses earlier. Then, as the interim point to 2030, we will reach 1.8 trillion yen in net sales in 2025. Having understood this, you will be able to have an image of how our net sales and operating income will progress over the five years from 2021.

How can I expect your profits to grow in the future?

We will talk about it in the full-year earnings conference scheduled for February 2021.

Were the K25 targets determined from a top-down perspective?

They are not top-down targets. Upon formulating the K25 targets, I had many dialogues with Kao Group employees and heads of divisions inside and outside Japan for ten months. We tried to understand what the employees want to do, what they can do, and their potential and then showed the targets and direction in K25.

7. I understand that manufacturing of products is the core in your K25. How will you reform your marketing activities to ensure that the Kao Group's excellent technologies and quality that the Kao Group has are communicated to consumers? Based on the net sales and operating income targets for 2030, the operating margin can be calculated to be 16%. So, from the current 13 to 14% operating margin, how do you plan to improve it?

Regarding cosmetics and household and personal care products, there are cases where we cannot thoroughly communicate indication due to restrictions prescribed in the Pharmaceuticals and Medical Devices Law (Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices), but we are proud to say we have very good evidence. As such, we will make good use of digital going forward and communicate technologies and evidence that so far we have not been able to communicate thoroughly.

If we combine our visualization technology for monitoring and our product development technology, we will be able to create the process of visualizing a product to let people know so that they can choose it, and also gain high loyalty, and consequently, reduce marketing costs.

By utilizing digital and AI, we will shift from the mass marketing that we have been conducting to personalized marketing to get closer to consumers. Through horizontal development by leveraging our strengths as a comprehensive manufacturer of cosmetics and household and personal care products, we will generate new products and value that cannot be provided by specialized manufacturers. We will quit doing everything on our own and move from a siloed organization for each brand and business, and we will conduct marketing that is unlike

traditional marketing by incorporating open innovation and collaboration with parties outside of the Kao Group. Another Kao was named to give this meaning as well.

From your explanation of your shift to more personalized marketing by using digital technologies, I had the impression that sales from e-commerce channel, in which you can directly communicate with consumers, will further grow. What do you expect the percentage of e-commerce channel sales will be in the future?

Although the present percentage of sales from e-commerce channel among the Kao Group is still low, the growth rate is quite high, and there is no doubt that it will have a significant impact on our future growth. We will explain it in the full-year earnings conference scheduled for February 2021.

8. What are the issues in the development of new markets outside Japan and the measures to address them?

We will continue to work on reinforcing our existing businesses and will further address a variety of needs and issues due to physical differences in skin and hair, as well as environmental issues, with the Kao Group's technologies. We want to be a company that can respond to diversifying needs and issues earlier than others. I believe developing businesses that can save consumers with problems using technologies one after another is an approach unique to Kao. I think we have adequate capabilities to advance such a response in an organic manner, but our technologies are not sufficient in the digital area, so we will collaborate with parties outside Kao Group on that. Once our digitization advances, I think we will be able to drastically increase the speed and globalization.

From a sales strategy perspective, a delay in shifting to e-commerce is an issue for us, including Japan. This year, because of the regulations of restriction on going outside and people voluntarily refraining from going outside around the world due to the COVID-19 pandemic, we have seen even more people purchasing through e-commerce. Among the Kao Group, Kao China has been reinforcing activities in the e-commerce channel since 3 to 4 years ago and has achieved major growth. Using this as a best practice, we will shift to e-commerce in other markets as well. On the other hand, as represented by EC platforms launching operations of physical stores, the border between online and offline is disappearing. In this situation, how we can communicate with consumers has also become an issue and implementing measures that allow consumers to shop without stress is also needed. In the digitization that we will be working on, we will address such issues not only from a business or marketing perspective, but also from a sales perspective.

9. Media reports talk about Kao as having a strong presence in Japan but weak outside Japan. From the capital market perspective, in other words, we think you have growth potential outside Japan and that is what we are looking for. So, can you talk about your image about seriously expanding your businesses outside Japan?

The basic value and the origin of our business activities, "Yoki-Monozukuri"* is about hardware. Going forward, we want to compete with our software, or soft power as well. Even if we have good products, if value is not communicated to consumers properly, they are meaningless. When we say software, people tend to think it is simply the power of communication, but in an addition to communicating about great products, we want our consumers to highly evaluate our products. The word, monitoring, that I mentioned today also has this meaning. We will be aggressively investing in digitization, which is one of our issues, and making major changes in how we compete. Expanding our activities using digital technologies will drastically change the position of the Kao Group in all markets including the Americas, Europe, Asia and Japan.

In the past several years, we have tried to work hard so that we can have partners with who we can work together, and many partners who sympathize with our seriousness have already come to us to offer a collaboration. I strongly believe that when we work with such partners, somethings that we have been unable to achieve can be achieved in the businesses outside Japan. In the near future, we will reveal the names of the partners and the details of the collaborations. So please have high expectations about what we will do with them.

** The Kao Group defines Yoki-Monozukuri as a strong commitment by all members to provide products and brands of excellent value for consumer satisfaction. In Japanese, Yoki literally means "good/excellent," and Monozukuri means "development/manufacturing of products."*

What aspects of the Kao Group are the factors that attract your partners? What is the biggest attractiveness of the Kao Group for such partners? Can you give us just one specific example?

When we deal with digital companies, there is one big surprise that they tend to have. Namely, that we are always thinking about the business model, in which we understand the essential nature of things, conduct research based on that understanding, and eventually deliver that to consumers. For example, EC platforms are very much interested in selling products well, attracting the interest of consumers, and providing them quickly and cheaply. But when we say that we make sure that the products are something that the consumers really want and we can also customize our products if our consumers wish, they are really surprised. They often say, "why do you go that far?" or "you should just provide the many products that you have." But in our case, we produce and deliver what consumers really want. When we talk about that we are maintaining this approach, most digital companies are surprised and want to become our partner. I think this is because they can easily infer that the Kao Group is not merely a company that just supplies products. When I am asked the question, "What is the most important thing for us?" I say it is "Integrity." And for that, many of those digital companies value us highly, and by maintain this approach, I believe many partners will want to work with us and go to the next stage.

Note

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