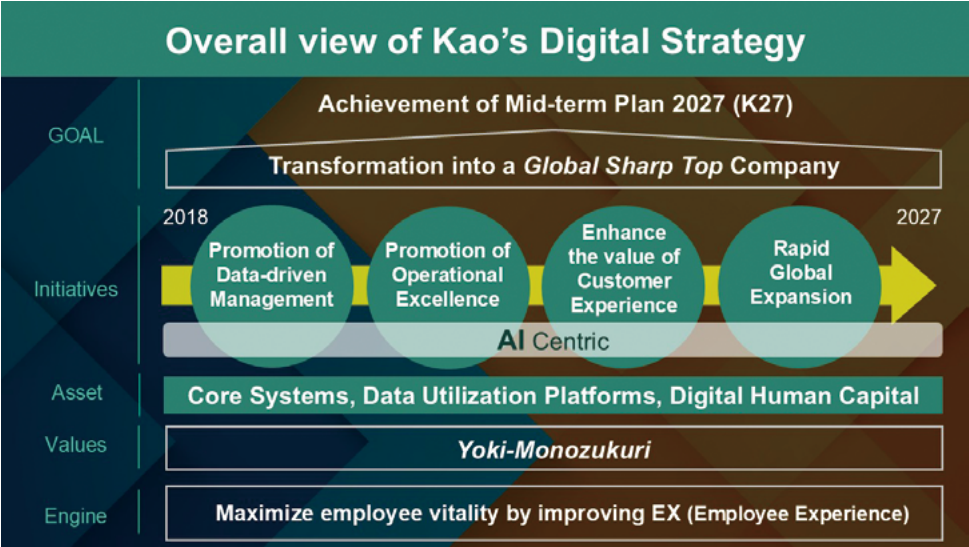


# Digital Transformation (DX)

To achieve the Mid-term Plan 2027 (K27), Kao is advancing its “Global Sharp Top” strategy, positioning Digital Transformation (DX) as a core driver of this acceleration. By leveraging digital technologies to dramatically accelerate the Yoki-Monozukuri cycle—the essence of our corporate activities—Kao aims to continuously deliver sharp value propositions that earn strong support from customers and become a one-of-a-kind presence in the global market. Specifically, grounded in the deepening of three key assets—core systems, data utilization platforms, and digital talent—Kao will accelerate its transformation into a Global Sharp Top company by 2027. Central to this effort is the use of AI, through which Kao will sequentially advance four initiatives: promoting data-driven management, driving operational excellence, enhancing the value of the customer experience, and achieving the fastest possible global expansion.



## Connecting with consumers around the world through a two-way platform

Kao has been establishing and utilizing a two-way digital platform called “My Kao,” which directly connects Kao to each consumer.

The user rate of the Kao Group website in Japan during FY2024 was 8.4%\* of Internet users, and its percentage of global e-commerce sales has reached approximately 10%. My Kao was built in awareness of the importance of these online touchpoints, as owned media that provides reliable information and thoughts

behind product development communicated from the manufacturer, while also serving a role as a new marketing foundation. By offering community functions and a mechanism with which various divisions in the company can hold direct dialogue with consumers, agile *Monozukuri* and marketing become possible, and providing personalized UX (user experiences) contributes to achieving a Kirei Lifestyle for each consumer.

“Members’ Salon,” the two-way online community inside My Kao, already has 13 communities. These initiatives help evolve direct dialogue with consumers, and many Kao divisions have begun to seize this opportunity. We are able to carry out agile product development by hosting online fan meetings as well as organizing low-cost and rapid test sales via My Kao Mall, our e-commerce platform inside My Kao. We are also enhancing customer experience by adding a store locator function to our digital catalog and by providing a skin measurement service called “*HADA RECO*” using a proprietary AI algorithm.

*HADA RECO* is a representative initiative that embodies our efforts toward ESG contribution using AI from Kao. This AI-based skin measurement service launched on March 30, 2023 and utilizes smartphone functions. By incorporating Kirei Skin AI Technology and Suppleness AI Analysis Technology developed with Kao’s insights from dermatology and makeup research, and combining these with an external technology (YouCam Makeup, the AR makeup app from Perfect Corp.), we are building a proprietary system for measurement logic. This enables us to deliver personalized beauty advice to users and help them achieve healthy and sustainable lifestyles. This service has attained approximately 775,000 cumulative users as of December 31, 2024.

The concept of a two-way platform is being promoted globally. In Japan, My Kao was launched in December 2022, followed by My Kao Shop in the U.S., and Kao Life + in China, and we continue to promote the use of these platforms.

\* An estimate by Kao based on the Population Estimates and the Communications Usage Trend Survey by the Ministry of Internal Affairs and Communications.

## Cross-industry business co-creation centered on sebum RNA monitoring technology

Kao has envisioned a new business model that involves utilizing sebum RNA monitoring technology to analyze the condition of customers’ skin, hair, and physiques at the genetic level, and then using collected personal data to provide beauty solutions (products and services) optimized for each customer. We are establishing new objective criteria with the concept of a “Skin Gene Mode” derived from sebum RNA monitoring technology in addition to the self-reported details on skin types (such as dry or sensitive skin) and hair types commonly known among customers. By establishing this approach as a standard among multiple companies, we are co-creating a system for informing customers about the products that may or may not suit them while cutting across the boundaries separating individual companies and brands.

Large initial investments were needed to develop new technology that can analyze consumers’ Skin Gene Modes using face photos and to build an AI model with high reliability using a huge volume of training data. Regardless, we did not view these efforts as costs or business risks; instead, we positioned them as essential investments for social implementation—that is to say, broadly popularizing this approach across the whole industry. As such, we are driving the project forward in collaboration with companies from many industries and

areas of business.

In March 2024, Kao and istyle Inc., jointly established the RNA Co-creation Consortium. In this consortium, Kao, which provides the sebum RNA monitoring technology, and istyle Inc., which is the largest platform provider specializing in beauty in Japan, have taken on the role as directors and organized a management committee. Leading companies from various industries, such as KOSÉ Corporation, Matsukiyo Cocokara & Co., Kirin Holdings Company, Limited, Perfect Corp., and Healthcare Systems Co., Ltd. have been welcomed as the inaugural coordinators for this initiative. The activities the consortium is promoting include establishing new criteria and standards for creating, selling and choosing products and services for beauty and health, as well as holding demonstrations (PoCs) of business use cases and supporting newly participating companies in business collaborations.

This initiative does not serve business from Kao alone; it aims to get the entire beauty and health industry involved in realizing sustainable consumption cycles. Conventionally, we might have decided to use our proprietary sebum RNA monitoring technology solely for maximizing the profit of our own brands and developing new products and services. However, with this new business model, we aim to publish and provide our technology to a wide range of companies in many industries and areas of work—including competitors—and thereby maximize the speed of establishing new criteria and standards in society as a whole. Using the same criteria across the entire industry can help address the concerns of customers who cannot find their ideal makeup (beauty care) product owing to the varied criteria presented by each company and brand.

By spreading products and services based on the criterion of Skin Gene Modes derived from sebum RNA monitoring technology, we hope to help customers feel a high level of satisfaction when choosing products. We expect this initiative will help companies as well by promoting reviews regarding excessive product supply, reducing product disposal, and sparking greater innovation in the development of products and services.

Fostering DX human capital who will act as the engine for strategy promotion

Since November 2023, we have been running a program to improve the digital skills of all 28,000 Kao Group employees in Japan, with different options catering to the needs and skill levels of each individual and division. This program consists of three layers and five levels. We plan to train 150 company-wide DX promoters, 300 division DX promoters and 3,000 citizen developers by the end of FY2027.

Before November 2023, we had promoted DX through a project-based approach centered around core team members in each division who had strong digital literacy. By introducing this program for all employees, we are expanding the base of DX human capital throughout the entire company and all divisions, while also accelerating the creation of new value and the transformation of business processes. Rather than implementing a “one size fits all” approach, we conduct assessments for individuals to get an objective view of their DX skills, and thereby customize the program to match the skill level of individual employees as well as the characteristics and needs of their divisions. Employees get Open Badges that visualize their new skills and that they can share with others inside and outside the company. This helps boost employee motivation.

Kao has also developed a generative AI service called “Kao AI Chat,” a secure in-house environment that all employees can use. So far, some 16,000 employees around the world have utilized this service, which has not only significantly boosted productivity, but has also helped expand the creativity of individual employees. In this way, it serves as a major factor for further accelerating the promotion of DX.

Framework

In January 2025, Kao established a new division called Digital Strategy. This new division will promote the maximal use of resources with respect to company-wide DX functions and thereby accelerate digital transformation to create value. Digital Strategy integrates Enterprise Information Solutions, DX Strategy, and some of the functions of Supply Chain Management involved in the building and running of information system infrastructure at the Kao Group. It is supervised by Managing Executive Officers and promotes DX with four centers: the Digital Strategic Planning, the DX Solutions, the Data Intelligence and the Enterprise Information Systems.

Adding to this, checks of strategies and investments related to DX at Kao are reported and resolved at the monthly DX Promotion Committee meetings. The DX Promotion Committee is chaired by the Managing Executive Officer in charge of Digital Strategy and advised by the President & CEO. Important matters are deliberated on by the Management Board and reported to the Board of Directors.

DX management structure

