

December 5, 2024

a better
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Kao Corporation

Meeting with Outside Directors

OASIS

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Oasis' Director Profiles

Skills and Independence to deliver *A Better Kao*

Independent Director Profiles

FMCG Supply Chain Specialist

This candidate spent nearly 35 years at one of the world's leading FMCG multinationals, where, for almost a decade, they presided over a team of more than 50,000 people in their global supply chain organization. During their tenure, they oversaw more than \$6.0 billion worth of structural savings in the supply chain function across areas such as transportation, material, packaging, and logistics, and inventory reduction. The tangible results of these initiatives included a more than 20% improvement in inventory turns in just under a decade, and improving the company's cash conversion cycle by over a month and half over the period.

Consumer Goods Commercial Leader

This candidate brings more than two decades of experience in Consumer Goods, focused on the intersection of Marketing, Financial Planning & Analysis (FP&A) and Strategy & Transformation. They were most recently Global Chief Financial Officer & Head of Strategy at one of the world's most recognizable brands, with operations in 150 markets worldwide. She previously held leadership roles at one of the world's largest cosmetics companies, where she was responsible for development of its long-range financial strategy and built its Global Strategic Pricing function, which continues to enable process improvement through digitalization and automation.

Beauty & Cosmetics Chief Marketing Officer

This candidate previously served as Global Chief Marketing Officer (CMO) for an international luxury cosmetics brand, where she oversaw Product Development & Innovation, marketing operations, and drove revenue growth. She has substantial experience in restructuring and brand portfolio management. She started her career as part of an internal strategy team tasked with pivoting the brand portfolio of a US consumer goods conglomerate towards growth opportunities in their respective product categories. She then worked in brand development at one of the world's leading cosmetic groups, refreshing and growing both existing and newly acquired brands in the portfolio, and worked in management consulting, running a consumer insights and analytics practice focused on FMCG firms.

Digital Transformation Leader

This candidate is currently a guest lecturer at one of the world's leading business schools. She was previously Chief Digital Officer and led the digital transformation strategy at one of the world's largest tobacco companies, where she created and implemented a two-year global digital transformation strategy at the company and established a new digital business unit to leverage consumer data to better handle the transition to E-Commerce, and oversaw programs to drive efficiency gains in Research and Development, Supply Chain Management, and sales. Prior to this, she held senior leadership roles at some of the world's largest Food & Beverage companies, where she created and implemented global E-Commerce and digital strategies focused on growing B2C and B2B online channels.

FMCG Turnaround Strategist

This candidate spent over 15 years as Vice President running the consumer products division of a top US FMCG company, specializing in brand turnarounds and implementing revenue growth strategies. Achievements include reviving multiple brands and growing revenue at one sub-scale brand by over ten times in three years. The candidate also ran substantial operations in Japan and managed the brand strategy for a multibillion dollar spin off at another employer while building out its digital marketing, customer acquisition and analytics efforts in both its B2B and B2C channels

Why Change?

Sleeping Giant of Japanese FMCG

Strong Brands in Growth Sectors

Kao possesses an impressive stable of brands in categories that global peers - the likes of L'Oréal, Beiersdorf, and Unilever - are experiencing **profitable growth**.

These brands are **ready to compete**; they are well-respected by industry insiders and rated by consumers across the globe.

Global Cosmetics



KANEBO

SENSAI

KATE
TOKYO

Derma-Cosmetics

Curél®

freedus

Mass-Market Skin Care

Bioré®



JERGENS.

Hair Care

JOHN FRIEDA®



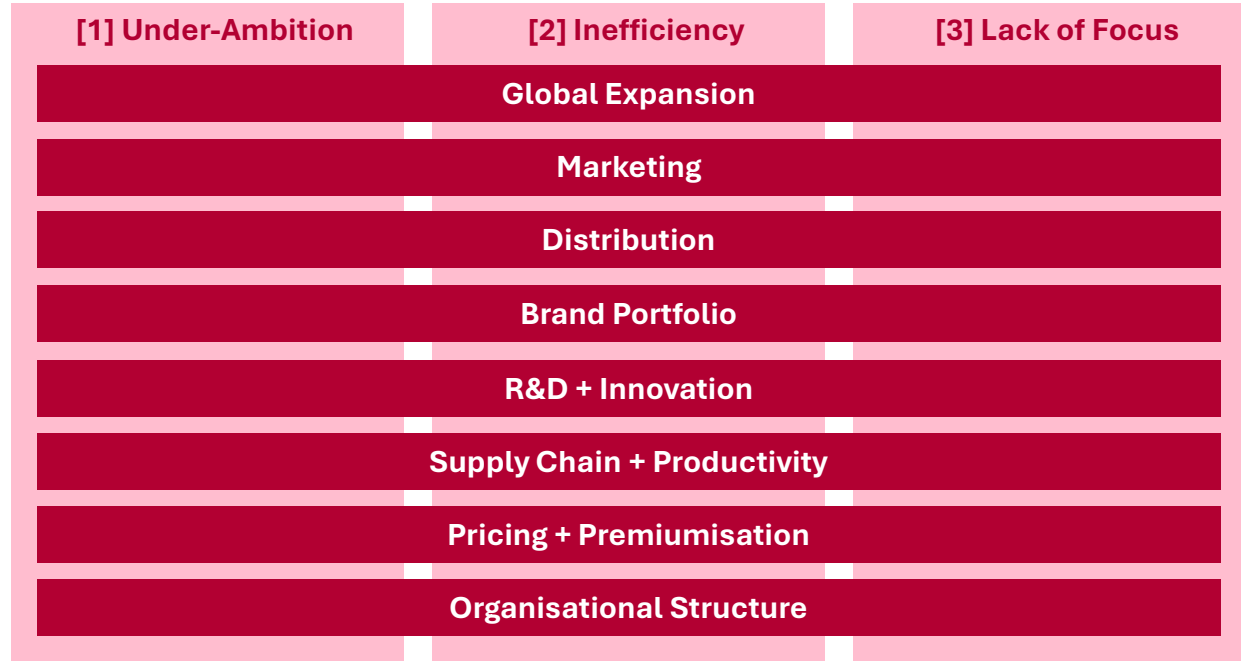
ORIBE

Fundamental Issues Limiting Kao

Improving Kao's corporate value depends on cash generation from profitable divisions feeding brands within growth sectors.

The success of this model depends on how well Kao management can **efficiently generate and effectively allocate capital**.

Oasis has observed **three [3] fundamental flaws** in this model which are apparent across numerous strategic pillars – four of which featured in “**a better kao**”.



Oasis is aware of external factors that have negatively impacted performance, however, each of these factors are within the control of Kao management and **raise critical questions**.

The investment community has become agitated with Kao's lack of growth despite brand potential:

“ We sold our holding in Kao as the company **continues to underperform its peers** ”
August 31, 2023

Investment
Managers

“ Killer Strengths, Just **Needs a Killer Growth Strategy** ”
October 03, 2023

SMBC日興証券

“ Kao has **great technology and many interesting products**, but management has yet to translate this expertise into strong revenue-generating products ”
February 20, 2024

CLSA

“ We believe **Kao can do much more** to raise the profile of its successful brands outside of Japan and expand overseas consumer product sales, especially given population demographics in Japan provide a headwind to future domestic growth. Historically Kao's dominant position in its domestic market may have given it a ready source of stable cashflows, but the company needs to **look abroad for its growth in the future.** ”
April 30, 2024

LINSELL
TRAIN

“ the operating margin now looks likely to stop falling. However, we see **no signs of next-generation growth** businesses or other growth drivers ”
June 11, 2024

J.P.Morgan

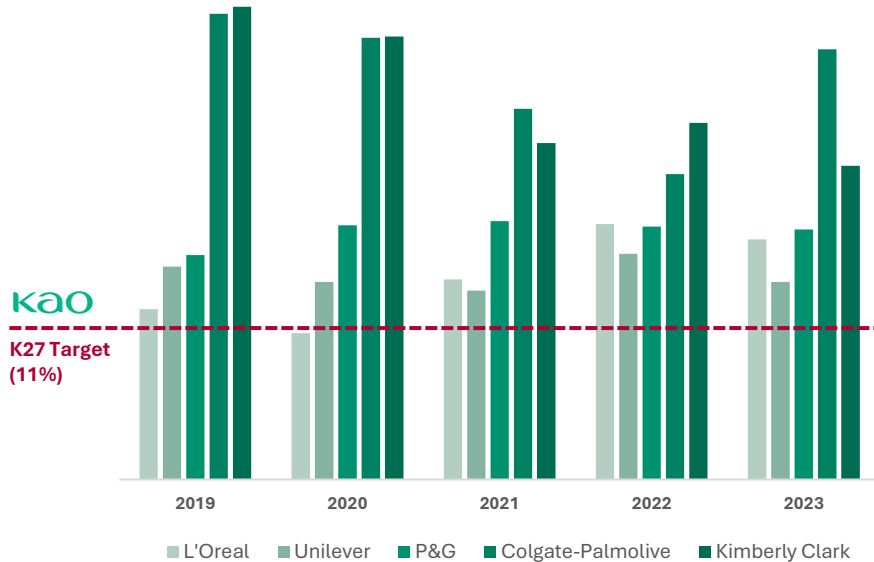
Under-Ambition

Brand Potential Exceeding Kao Expectation

Underwhelming Targets

What feedback have board members received from shareholders about K27 targets?

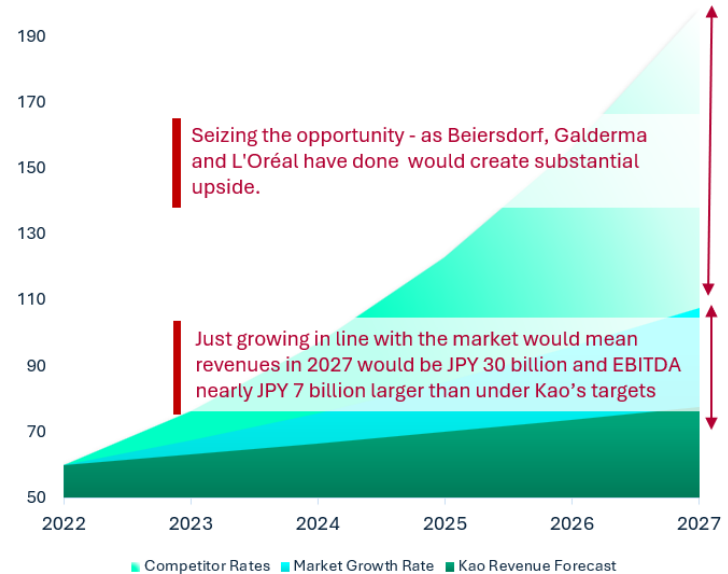
Peer Group ROIC Trends



How do External Directors track Kao's product performance vs competitors?

Curél Revenue Forecast (JPY billion) 2022-27

As featured in
"A Better Kao"

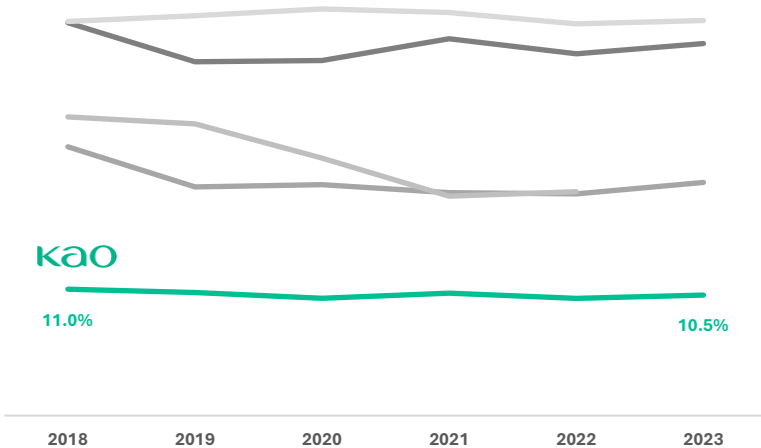


Underinvested Growth Drivers

How have External Directors established the sufficiency of marketing spend at Kao?

As featured in "A Better Kao"

Marketing & Advertising Spend (% of Revenue) (Kao Consumer Products Business Only)



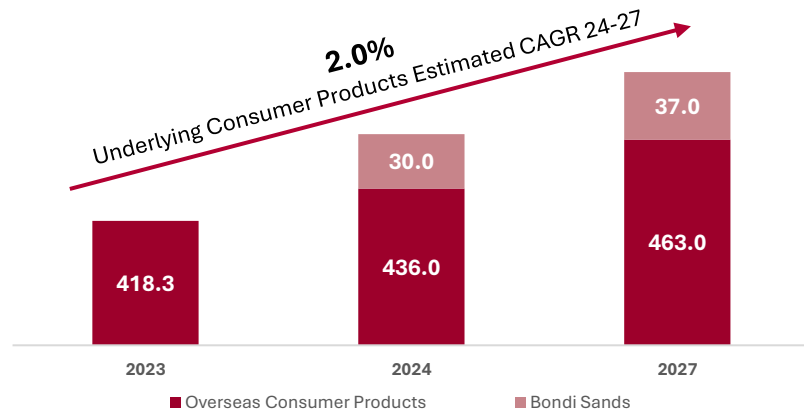
How do External Directors compare global opportunities to those domestically?

Kao Consumer Products Overseas Net Revenue Forecast

Inputs:

K27 Target Net Sales Outside Japan = JPY 800 billion

Estimated Chemicals Contribution in 2027 ~ JPY 300 billion



Inefficiency

Productivity Limiting Output and Innovation

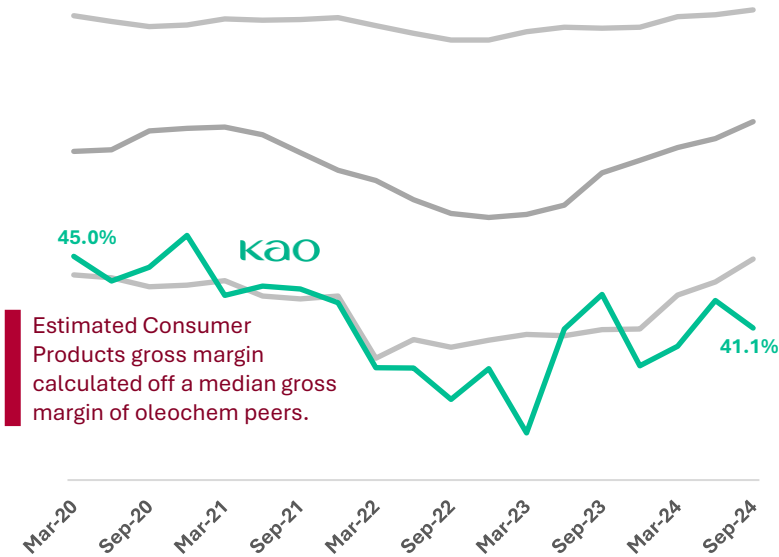
Lagging Margins

What is the External Directors' process for brands and segments that are unable to meet category growth?

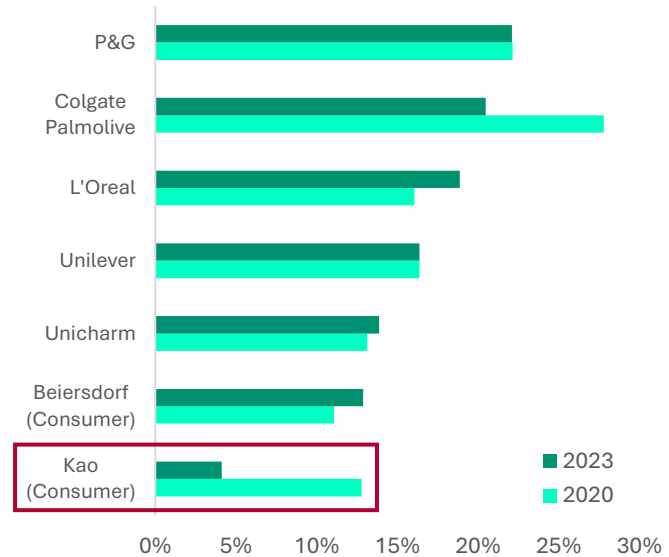
What has been the External Directors' assessment of the progress made on structural reforms?

As featured in
"A Better Kao"

FMCG Peer Gross Margins



Operating Profit Margin (Consumer Products)

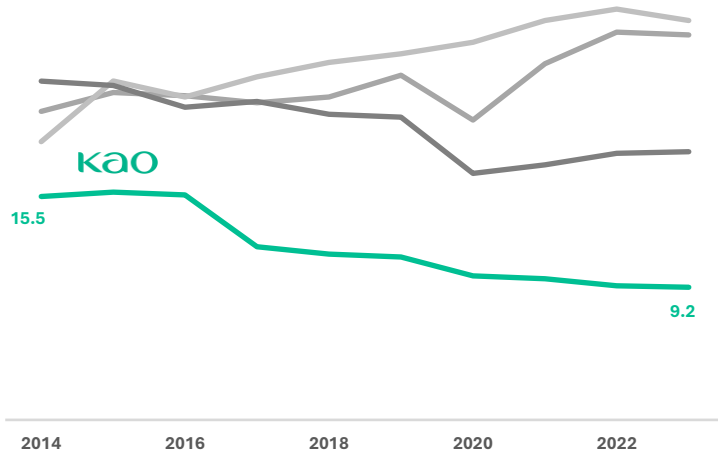


Depressed Productivity

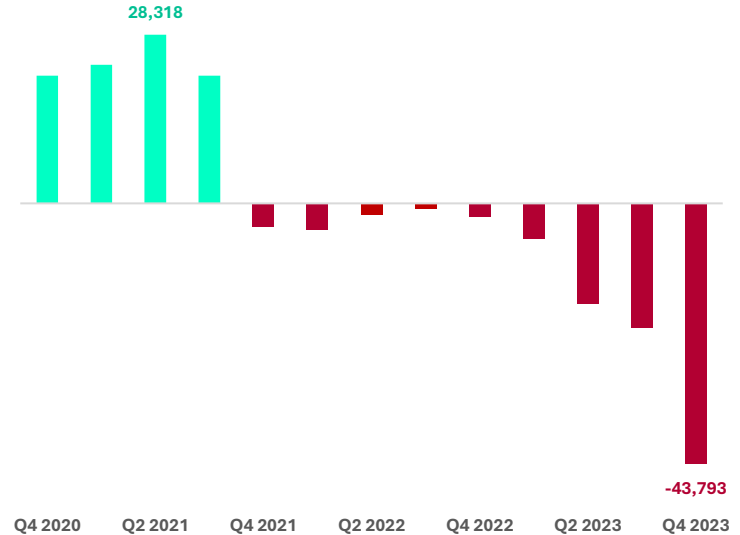
How is the board ensuring R&D is driving innovation and amortizing the cost of R&D across the portfolio?

What has been the External Directors' assessment of the decline in EVA over the past three years?

Kao Return on Research Capital vs Peers
(Gross Profit/1-yr lagged R&D Expense)



Kao Economic Value Added (EVA)



Lack of Focus

Strategic Confusion and Distractions

Diversification Distraction

What brands do the External Directors recognize as the most core strategic brands for growth?

As featured in
"A Better Kao"

“ SKUs have doubled over the past 10 years. The reason was to increase sales ”

Jefferies

September 1, 2023

“ It is true that we have too many businesses ”

KAO

President Yoshihiro Hasebe, February 2023

“ There are too many SKUs, and I would say around 20% are not contributing to profitability or sales at all. ”

KAO

Former President, EMEA, Kao Corp.
Interview with Oasis, August 2023

Do the External Directors believe Kao should develop medical treatments and enzyme-driven batteries?

President Hasebe on “Another Kao”:

2021

“Kao conducts world-class enzyme research... There have been limited occasions to demonstrate this... I think enzyme-driven batteries will be useful in unexpected places.”

2022

“We need a new engine for the future. With this in mind, we aim to enter the medical (treatment / diagnosis) field.”

June 2024

“Another Kao is intended to strengthen three categories: circular economy, digital and health care.”

Clarity of Direction

Has the board commissioned external resources, data and experts to validate the current strategy?

As featured in
"A Better Kao"

“ 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 ”

Kao Group Cosmetics and Skin Protection Business Growth Strategy Briefing, September 2023

“ Killer Strengths, Just Needs a Killer Growth Strategy ”

October 03, 2023

SMBC日興証券

Do the external directors plan further development of the pay policy for management? If so, what aspects?

Breakdown of Targets within the Long-Term Incentive Plan

VARIABLE	Growth	<ul style="list-style-type: none"> EVA Business growth of Net sales, Profit etc. 	28%
	ESG	<ul style="list-style-type: none"> External Evaluation, Achievement of Kirei Lifestyle Plan 	28%
	Mgmt	<ul style="list-style-type: none"> TSR Employee Engagement Survey 	14%
FIXED			30%

Oasis Requests

Due Consideration of Questions and Candidates

Our Questions Need Answers

What feedback have board members received from shareholders about K27 targets?

How have External Directors established the sufficiency of marketing spend at Kao?

What is the External Directors' process for brands and segments that are unable to meet category growth?

How is the board ensuring R&D is driving innovation and amortizing the cost of R&D across the portfolio?

What brands do the External Directors recognize as the most core strategic brands for growth?

Has the board commissioned external resources, data and experts to validate the current strategy?

How do External Directors track Kao's product performance vs competitors?

How do External Directors compare global opportunities to those domestically?

What has been the External Directors' assessment of the progress made on structural reforms?

What has been the External Directors' assessment of the decline in EVA over the past three years?

Do the External Directors believe Kao should develop medical treatments and enzyme-driven batteries?

Do the external directors plan further development of the pay policy for management? If so, what aspects?

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