

## KIRIN HOLDINGS PROVIDES UPDATE TO CAPITAL MARKETS

Kirin Holdings Hosted an Investor Day on March 3 to promote mutual understanding with the capital markets  
Outlines key initiatives for driving sustainable long-term growth through executing KV 2027 and creating synergies across businesses

The Company refutes claims made by Independent Franchise Partners

Releases investor presentation available at  
[https://www.kirinholdings.co.jp/english/ir/library/explain/20200309/presentation\\_material.pdf](https://www.kirinholdings.co.jp/english/ir/library/explain/20200309/presentation_material.pdf)

### **Kirin Hosted an Investor Day on March 3 to Promote Mutual Understanding with Capital Markets**

TOKYO – MARCH 10, 2020 – Kirin Holdings Co., Ltd. (“Kirin” or the “the Company”) held an Investor Day in Tokyo on March 3 to facilitate mutual understanding with the capital markets on Kirin's long-term sustainable growth.

The CEO of the Company, Mr. Isozaki, and its operating segment leads provided in-depth perspectives on their business initiatives, sharing the same view that steady execution of Kirin Group Vision 2027 (“KV 2027”) is the best way to create sustainable value for all stakeholders, including shareholders, consumers and employees. <https://www.kirinholdings.co.jp/english/ir/library/event/>

The Investor Day highlighted how Kirin is:

- Driving continued growth in existing Food (alcoholic and non-alcoholic beverages businesses) and Pharmaceuticals domains;
- Pursuing high-growth opportunities in Health Sciences that leverage Kirin's strength and long-standing expertise in fermentation and biotechnology;
- Driving incremental synergies from Kirin's existing businesses; and
- Pursuing diversity and strengthening board governance by nominating four high-calibre director candidates, including two international and two female nominees who have expertise in international business, capital allocation and successfully executing strategic reviews; following their appointments, the majority of the Board (seven out of twelve) will be independent non-executive directors.

### **KV 2027 aims for sustainable value creation over the long term by leveraging Kirin's core competencies in fermentation and biotechnology**

Kirin's Board of Directors and Management firmly believe that the focused and successful execution of KV2027 is the best path forward for creating value for all its stakeholders – including shareholders, consumers, and employees.

The strategy is grounded in Kirin Group's core expertise in fermentation and biotechnology, which have been a consistently core part of the Group for more than 100 years since its founding, which can drive growth and address social and environmental changes surrounding its businesses.

Since its founding as a brewing business more than 100 years ago, the majority of Kirin's growth has been in the food domain, underpinned by developing its fermentation and biotechnologies, as well as strengthening its marketing capabilities. About 40 years ago, the Company entered the pharmaceuticals domain, again leveraging fermentation and biotechnology. Gordon Binder, former CEO of Amgen, which has now become a global leader in biopharmaceuticals and was a partner of our pharmaceutical business in its early days, later explained his impression of Kirin; "Kirin had a great fermentation technology and understood the importance of R&D. Brewing is an art for most brewers, but Kirin alone has embraced it into science." Source: "Science Lessons", Gordon Binder and Philip Bash, Harvard Business Review Press, 2008

Kirin's pharmaceutical business, which it started as a result of its natural evolution into a biopharmaceutical manufacturer when small molecule drugs were still mainstream, is now achieving significant growth globally, driven by international strategic products such as Crysvida, used to treat rickets, which Kirin created through its R&D initiatives.

As described in KV 2027, Kirin is tapping into the Health Science domain, leveraging the Company's assets in and knowledge of fermentation and biotechnologies, in response to structural challenges in the beer market and global societal changes, as well as the growing preference toward healthier lifestyles to address consumer needs and position Kirin for growth over the long term. Kirin is not building a conglomerate of disparate businesses, but a Company with inter-connected and synergistic businesses.

Between the Company's traditional core businesses in food and pharmaceuticals, there is a field of "pre-disease", which draws substantial attention not only in Japan but also around the world. By defining the "Health Science Domain" as one that includes pre-disease, as well as health-orientation and sports area, as its new growth pillar it expects this to contribute to Kirin's sustainable growth while also making Kirin the world leader in Creating Shared Value ("CSV").

Only Kirin is able to implement and unlock value through this initiative given its strengths in fermentation and biotechnology which are underpinned by a strong business platform in food and pharma.

In KV 2027, Kirin will target CAGR 4-6% of consolidated Normalized Operating Profits, with this growth driven by unlocking synergies across the food, pharmaceuticals and health science.

Furthermore, Kirin is confident it has the right management team to execute its strategy. Since Isozaki became CEO in March 2015, the Company has rolled out a structural reform of the Group across all verticals, without exceptions, which has led to a positive momentum. In the food domain, it strengthened and expanded its domestic profit base, invested in Myanmar Brewery to deliver future growth in its core beer business and revitalized its domestic non-alcoholic beverage business. While making strategic investments to achieve medium- to long-term growth, Kirin also restructured low-profit businesses. In the pharmaceuticals domain, Kyowa Kirin is accelerating its growth by launching three global strategic products.

As a result, Kirin achieved all of the quantitative targets set in its Medium-Term Business Plan for 2016 – 2018, including ROE, normalized EPS, and consolidated Normalized OP. In addition, since Mr. Isozaki became CEO in 2015 until the end of 2019 our Total Shareholder Return has outperformed both its domestic<sup>1</sup> and international peers<sup>2</sup>.

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<sup>1</sup> Average. Includes Asahi Group, Sapporo, Suntory Beverage & Food

<sup>2</sup> Average. Includes AB InBev, Heineken, Carlsberg, and Molson Coors

## ■ Initiatives in the Food Domain

### Reform of Kirin Brewery

Kirin Brewery is targeting a Normalized OP margin (revenue excluding the Liquor Tax) of 25% by 2027 by enhancing the Group's established brands and exploring new growth engines. In beer products, it will focus on developing its core brands to deliver long-term returns. Kirin Brewery will also focus on craft beer, non-alcoholic beverages and Japan whisky as new growth drivers.

## ■ Initiatives in the Pharmaceuticals Domain

### Kyowa Kirin's Evolution into a Global Specialty Pharmaceutical Company

Kyowa Kirin was created in 2008 through the merger of Kirin Pharma and Kyowa Hakko Kogyo, both of which had seen strong organic growth since inception due to innovative fermentation capabilities and cutting-edge biotechnologies. Since the merger, the Company's growth has accelerated and remains on track to become a global specialty pharmaceuticals company via the continued development of innovative drugs using ground-breaking biopharmaceutical technology.

In addition to delivering organic growth, Kyowa Kirin is also expected to contribute to Kirin's broader initiatives as it develops a next generation health science business including emerging care for pre-disease, pre-emptive medicine, and personalized medical treatment.

Since 2016, Kirin has conducted joint fundamental research for unmet needs in fields in which Kyowa Kirin specializes including neurology, nephrology, immunology, and intestinal health.

The Company expects Kyowa Kirin to increase in both revenues and Normalized OP for 2020 as it makes strong progress in delivering its Mid-Term Business Plan which calls for Core Operating Profits of over ¥100 billion by the early 2020s.

## ■ Initiatives in the Health Science Domain

### Revitalization and driving value in Kyowa Hakko Bio

Kyowa Hakko Bio (KHB) is a global leading biotechnology company that can produce high-quality products in large quantities at low cost given its highly advanced fermentation technology as the world's only producer of multiple specialty products. It is the # 1 global supplier of amino acids for infusions that are widely used in surgery, with significant market share in Japan, Europe, and the US. KHB is also the sole supplier in Japan of many integrated innovations for pharmaceuticals and essential nutrition for infants, including FAD for pharmaceutical vitamins, ATP for vertigo, and lysine glutamate for phenylketonuria and infant foods.

Currently, Kirin's production and technology divisions are making a concerted effort to address the manufacturing problems identified in August 2019 and are working to strengthen its manufacturing system, collaborating with relevant organizations. The Kirin Group will have achieved a successful turnaround by 2021.

In parallel, KHB will generate incremental economic value through the expansion of its pipeline of high-performing proprietary materials, including human milk oligosaccharides. As a result of improved profitability via an expanded pipeline of the high-quality materials, the Company expects KHB will generate Normalized OP of ¥9.5 billion by 2024 and ¥15 billion by 2027.

## **Creation of Synergies with FANCL**

Kirin and FANCL expect significant synergies from the capital and business alliance between the two companies across the whole value chain. Kirin expects it will unlock approximately ¥5.5 to ¥7 billion in Normalized OP through to 2024. Meanwhile, FANCL expects to generate additional operating profit of ¥2 billion by 2024. These synergies will derive from a shared R&D platform and the launch of collaborative products, leveraging sales channels and reducing expenses through sharing resources and achieving efficiencies across business units.

Kirin will accelerate the partnership with FANCL and plan to launch jointly developed products such as drinks and supplements using materials developed by Kirin from autumn 2020. Kirin remains convinced that the partnership with FANCL will be highly beneficial for the Company.

The Company expects these efforts to result in the Health Sciences domain delivering Normalized OP of ¥15-18 billion by 2024.

## **Enhancing Returns to Shareholders**

Kirin's capital allocation priorities are (1) stable dividend payments, (2) strategic investment for growth, and (3) share repurchases.

This commitment is clearly demonstrated by its consolidated dividend pay-out ratio, which was raised from 30%+ of normalized EPS to 40%+ from 2019, as well as by its consistent increase in dividends without any reductions since its listing. Kirin remains committed to continuing to improve shareholder returns through stable dividends.

Furthermore, the Company repurchased ¥100 billion of shares in 2018 and, on November 7, 2019, it announced its Board's authorization for the repurchase of up to ¥100 billion of additional shares – thereby bringing its cumulative share repurchase commitment for the two-year period to ¥200 billion. As demonstrated by prior commitments, the Company will continue to consider shareholder returns while balancing asset sales and future growth investments.

## **Disagreement with the Points Made by Independent Franchise Partners (FP)**

Kirin reiterates its understanding of the following claims that are posted on the website and the media campaign conducted by FP on its website and in the media.

- (1) Claim that KV 2027 is a repetition of KV2015 (Long-term management plan up to 2015 announced in 2006)
- (2) Claim that the new board will not be given an opportunity to review the KV2027 Strategy
- (3) Claim that the Company adopted FP's opinion to make a majority of the new board of directors independent directors

(1) As a matter of best practice our company rigorously reviews all past management strategies, including KV2015, to determine the best route forward to deliver value for shareholders. Coupled with its understanding of the long-term market dynamics facing the business, these insights resulted in Kirin focusing on the following for the KV2027 Strategy:

- Fully leverage its existing assets with exploiting synergies as its highest priority;
- Focus on driving organic business growth by fully utilizing its technological experience and assets in fermentation, biotechnologies, marketing capabilities, and human resources;

- Ensure that the strategy is monitored and reviewed by the more diverse and international Board of Directors; and
- Execute a disciplined cash allocation and appropriately restructure businesses with weaker growth prospects to return profits to shareholders.

(2) and (3) Kirin's Nomination and Remuneration Advisory Committee, comprised of a majority of independent directors including its Chairperson, has conducted a rigorous process to identify, interview and select candidates based on qualities including their diversity, experience, and skillsets relative to the needs of the Board and the Company. The process incorporated the results of a previously conducted Board effectiveness assessment. This selection process predates FP's comments on the Board's composition, and contrary to their claims, neither the Committee nor the Board require potential nominees to support the Company's current strategic direction.

Kirin's board members and nominees have an independent perspective on important matters, including strategy and resource allocation, and recognize their responsibility to challenge policies that are not in the best interests of shareholders. The Board regularly assesses the Company's strategy to ensure it offers the best path to long-term shareholder value and deliberately fosters open-minded debate and robust discussion.

Kirin looks forward to the Board's continued independent and rigorous oversight with the newly installed members.

Kirin is a leader in corporate governance in Japan. With the addition of four independent director nominees taking its total to seven, 58% of its Board will be fully independent, more than double the TOPIX average<sup>3</sup> of 28%. Additionally, 17% will be international, and 17% will be women. This significantly outweighs the TOPIX averages<sup>3</sup> of 1% and 6%, respectively. Furthermore, each of Kirin's director nominees meets the independence criteria of the Tokyo Stock Exchange, on which Kirin is listed.

### **Kirin's Recommended Independent Director Nominees are Highly Specialized and Skilled**

Kirin's director nominees bring deep experience in areas critical to the success of our business:

- **Chieko Matsuda** has strong management, capital allocation, and corporate governance expertise. She has decades of management consulting experience, including at Booz & Company, where she was a partner, and Moody's. Ms. Matsuda is currently a Professor of Economics and Business Administration at Tokyo Metropolitan University. Ms. Matsuda is currently a non-executive director of Hitachi Chemical, Foster Electric, and SATO Holdings.
- **Noriko Shiono** brings valuable insights in health sciences and pharmaceuticals as a Representative Director of pharmaceuticals manufacturer SSP Co. and President of medical device manufacturer Widex Japan. She also brings expertise in corporate strategy and marketing experience, having served as President of Konami Sports, an operator of fitness clubs and manufacturer and seller of fitness equipment and sports-related products. Ms. Shiono is currently a Strategic Advisor to the Company, having served as an independent Director on the Board of the former Kirin Co., Ltd. prior to it being wound up in March 2019. Ms. Shiono's independence will not be affected by this.
- **Sir Rod Eddington** brings a strong international perspective and capital allocation and corporate governance experience acquired over many decades as a corporate executive and director of global companies. As one of Australia's most experienced and accomplished business leaders, he serves as Chairman, Independent Non-Executive Director of Lion Pty Ltd. He is President of Australia Japan

<sup>3</sup> Average of companies with internal auditors out of TOPIX constituent stocks

Business Co-operation Committee, a member of APAC Business Advisory Council, and formerly served as CEO of Cathay Pacific Airways, Executive Chairman of Ansett, and CEO of British Airways.

- **George Olcott** offers decades of international financial markets experience and deep expertise in corporate governance and human resources. He is a director of leading Japanese companies Hitachi Chemical, DENSO Corporation, and Dai-ichi Life Holdings. Dr. Olcott formerly served as Director of Nippon Sheet Glass and NKSJ Holdings. The company expects him to provide valuable input on corporate strategy, corporate governance, and capital allocation.

### **Release of Presentation Material with Shareholders and Capital Markets**

The Company discloses presentation material for the communication with shareholders and capital markets, which can be viewed via the following link:

[https://www.kirinholdings.co.jp/english/ir/library/explain/20200309/presentation\\_material.pdf](https://www.kirinholdings.co.jp/english/ir/library/explain/20200309/presentation_material.pdf)

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Kirin welcomes a dialogue with shareholders and values their input. Towards that end, members of the Company's Board and management have met with FP on numerous occasions. Kirin's Nomination and Remuneration Advisory Committee interviewed FP's director nominees and, following extensive discussions, determined that FP's nominees were not prepared to contribute to value creation in the manner required by independent directors to contribute to the enhancement of corporate value. Based on these facts and recognizing the deep expertise and diversity of the Company's own nominees, the Board of Directors determined it was unnecessary to nominate FP's recommended candidates.

Kirin will continue to engage its shareholders on matters important to the Company.