[Q&A Session Minutes]
Presentation on 2Q FY2022 Financial Results

Date & Time:	Tuesday, August 9, 2022 10:00-11:30 (JST)
Presenters:	Yoshinori Isozaki, President & CEO
	Noriya Yokota, Director of the Board, Senior Executive Officer & CEO
	Shinjiro Akieda, Senior Executive Officer, General Manager of Corporate Planning Dept.
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Q. It is encouraging to see that efficiency has increased through the transformation of the business portfolio. What are your thoughts on the future transformation of your business portfolio, including San Miguel Brewery and FANCL?

A. The Board of Directors discusses the business portfolio at least once or twice a year, or more often if necessary, and San Miguel Brewery and FANCL are included in these discussions. We have been working with FANCL to create synergy for both parties. We do not believe that our ownership percentage should remain in its current state, but we would like to consider how it should be ultimately done, including timings. The annual dividend from San Miguel Brewery is around 15-16 billion yen. This is a high return, and the initial investment has been recovered. If it is difficult to acquire a majority share, or if an opportunity arises to acquire a business that is expected to return more than that, there will be an option to sell the business. I cannot mention the timing, but discussions are ongoing.

Q. I see synergies in R&D and sales with FANCL, but what do you envision as the final form? Will you increase shares after you start to see inbound sales from Asia, or what will be the trigger for your decision?

A. Effects of synergies are being generated more than expected, but we would like to make sure the inbound demand from China and East Asia will return to pre-COVID-19 levels. It does not mean that we will not make a decision to increase purchases unless there is a 100% recovery, but we will make a new comprehensive decision once the situation becomes clearer.

Q. Regarding San Miguel Brewery, you have mentioned to sell when you have the opportunity to invest in other areas. Are you thinking of something like a M&A?

A. I have resided at San Miguel Brewery myself, and it is a great company. Only 49% of the company is owned by Kirin, so if we cannot get majority ownership, or if we find a better asset for Kirin's future in the Food & Beverages or Health Science domain that Kirin is focusing on, we will consider how to deal with our stake. In that case, it may be necessary to replace the portfolio instead of borrowing all of the funds. However, the return on investment needs to be carefully evaluated. We do not want to dothis at a loss.

Q. In the Health Science domain, sales revenue increased but the business is still in the red; what level of sales and profit are you aiming for in 2023 and 2024?

A. We have made a downward revision to the profitability of the Health Science business this fiscal year and it is now in the red. The main reason for this is that manufacturing was halted at Kyowa Hakko Bio due to the lockdown in Shanghai, resulting in lower manufacturing efficiency and lower sales. Regarding the outlook for next year and beyond, we will aim for top-line growth and a return to profitability in order to bring our sales to the 140 billion yen level indicated in our Medium-Term Business Plan and LC-Plasma is especially important to achieve this. In addition to the BtoC channel, we will promote product development with partners in the BtoB channel. Kyowa Hakko Bio will begin full-scale sales of Citicoline and HMOs from 2023, and by enhancing our manufacturing facilities and managing profits, we will achieve a return to profitability and aim for profits exceeding 10 billion yen in the Health Science domain in 2024.

Q. <u>You mentioned that the Normalized operating profit target for the next fiscal year is at pre-COVID-19 level, but you plan to increase profit by about 23 billion yen vs the forecast for 2022 excluding Myanmar Brewery (comparison of the 2022 Normalized operating profit forecast excluding Myanmar Brewery of 167.4 billion yen profit to the 2019 Normalized operating profit actual of 190.8 billion yen). The 2022 Normalized operating profit forecast is 73.0 billion yen for both Kirin Brewery and Kyowa Kirin, and 34.2 billion yen for Lion, but how large will the increases be for each of the three companies next year? You said that the Health Science business will return to profitability in 2023 with an increase of 3.5 billion yen vs the forecast for 2022. Please give an explanation that will give us an idea of the breakdown of the 23 billion yen increase in profit, including the contributions of other companies.</u>

A. As you pointed out, we are aiming for an increase in profit of over 23 billion yen in the next fiscal year. We have just begun a strategic discussion on the targets for each company, but we envision around an increase not far from around one-third each for Kyowa Kirin, Kirin Brewery, and Lion. Kirin Brewery will aim for higher profitability by strengthening its brands in addition to price revisions. Lion can achieve this if it recovers from the impact of COVID-19. It is difficult to comment because Kyowa Kirin itself has not yet announced its single-year plan for the next fiscal year but we think it can achieve the level of its five-year medium-term plan.

Q. <u>When will Kyowa Kirin's core operating profit reach 100 billion yen?</u>

A. Kyowa Kirin should comment on this, but it has been mentioned that it should be at least by 2025. The specifics are being discussed within Kyowa Kirin.

Q. <u>Regarding H2 of Lion's fiscal year, the plan isto increase to 23 billion yen in 2022 from the result of 13.8 billion yen in 2021, which is a recovery of over 9 billion yen. I believe that this is partly a reversal of the challenging 3Q of last year, but could you please breakdown the 9 billion yen increase in profit such as by the contribution of the US craft business, the effect of cost reductions, etc.</u>

A. The addition of craft beer from Bell's and Fermentum is approximately 2.0 billion yen. We expect the on-premise channel to recover in the H2. The impact of the lockdown in Australia from July to October last year was about 6 billion yen, and the remainder was an improvement in the supply chain. Since the on-premise channel recovered in July to 60% year on year, we hope to maintain this momentum through December, which is the highest selling period.

Q. <u>Results for July was good, what factors contributed to your outperformance versus the market?</u>

A. The market data for July is not yet available but from April to June, Lion's on-premise channel was +6%, off-premise channel was +4%, and overall was up approximately +5%. The estimated market was +3% overall, so we believe Lion outperformed. One of the factors is the marketing transformation. 2020 to 2021 was the preparation period, but the effects are starting to show in the implementation period from this year. There are signs of recovery centered on the core brand *XXXX* (Four-ex).

Q. <u>What changes in the business environment do you perceive in an inflationary environment, and what steps are you planning to take in response? Please describe the opportunities and risks.</u>

A. We recognize that inflation will continue worldwide, but there will be positive and negative effects in each business. On the other hand, if consumers’ wages do not rise, purchasing power will decline. The difficultness for price revisions depends on the country. Each operating company is currently making a plan for the next fiscal year, including measures to be taken, considering inflation on costs, the consumer price index, and wages. Inflation may change the way consumers view the appropriateness of brand prices, and this could be both an opportunity and a risk. We believe that the polarization between low-priced and high-value-added brands will continue. Since each consumer’s values are different, promoting brand strategies for both will create business opportunities.

Q. I understand your explanation of the premiumization strategy, but how about low-priced categories? What strategies and preparations are you pursuing?
A. Mainly with Kirin Brewery, even when the liquor tax is unified in the future, we assume that the economy category will remain. We want to satisfy the needs of consumers who want low-priced products by strengthening brands such as *Honkirin*, *Kirin Nodogoshi Nama*, and functional *happoshu*, where the price itself is a value or health functions have been added. We will pursue a two-pronged strategy including high-value-added products.

Q. Tell us about the future development of LC-Plasma. What effects of synergy will be generated by the AMED grant, and what kind of activities will be accelerated in the coming year?
A. We received great news. In the Pharmaceuticals domain, I had hypothesized that LC-Plasma might be effective against COVID-19 and infectious diseases, and I am happy that the National Institute of Infectious Diseases will begin their research. If we can find its potential as a drug and as something relating to COVID-19, the scientific credibility as the research results will increase. *The information is about LC-Plasma (*Lactococcus lactis* strain Plasma) as a material. It does not indicate the effects or efficacy of products containing LC-Plasma.

Q. The recognition of the function of LC-Plasma has not progressed well. How can this be triggered through marketing?
A. Immunity is difficult for consumers to understand. We are tracking the awareness of the immune function and LC-Plasma brand name, and we are working to convey to consumers what is beneficial for them in terms of immunity. We are trying to communicate what is effective for immunity, and that is LC-Plasma, and that *iMUSE* products contain LC-Plasma. This takes time. It would be easy if we could communicate the efficacy and product together, but we are aware that it will take some time. We are putting our efforts into raising awareness of what happens when immunity is enhanced, and awareness is slowly increasing. We consider the first few years to be an investment.

Q. What is the outlook for cost increases and profit improvement measures in 2023?
A. Although we are still examining the situation, we expect the cost of Kirin Brewery's aluminum cans to increase by more than 10 billion yen compared to this year. In addition, we believe there will be an impact of at least several billion yen, including malt and RTD ingredients. On the other hand, we had said that the effect of the price revision would be around 20 billion yen in the announcement in May, but we now estimate it to be around 30 billion yen, which will cover the additional cost increase. As a profit improvement measure that can be accumulated in a single year, in addition to the effects of the price revision, we will implement cost reductions. Since inflation will continue, we need to work together with our suppliers on how to lower costs, both in the short- and medium- to long-term, and we are diligently examining this issue.

Q. Will there be some mitigation of cost increases in overseas operations, such as Lion and Coke Northeast?
A. Regarding Coke Northeast, we have set price revisions in response to inflation, but through discussions with the Coca-Cola Company, we believe that we should be somewhat more cautious. The current discussion is that continuously raising the price while also keeping up with the demand will not last that long. As for Lion, we are still examining the situation closely, but we believe that there will be an increase in costs of several tens of millions of Australian dollars. We will also consider how to absorb any increase in costs.

Q. How will the domestic price revision affect demand? Please explain for Kirin Brewery and Kirin Beverage.
A. As is true for both alcoholic and non-alcoholic beverages, it is difficult to measure the impact on demand when prices are rising across the world. We are currently negotiating with the retailers, and actual changes in the in-store sales prices are also a variable factor. Although it is difficult to give an exact figure, we expect demand to decline by 2% to 5%, and we are making our earnings plan based on this assumption. The range is wider for non-alcoholic beverages because it is more difficult to predict the impact of the competitors, but we believe that both will fall within the same range.

Q. What, if anything, can Kirin control to accelerate its business portfolio reforms?

A. Between 2007 and 2010, when I was General Manager of the Corporate Planning Department, we sold 15 companies, organizing the businesses we had positioned as non-core. Subsequently, we also sold businesses that were not non-core but were positioned as low-profit businesses over a period of about three years. Looking at the current portfolio, we believe that there are no businesses that can be positioned as non-core businesses. On the other hand, there may be some businesses that we have no choice but to sell when we invest in new businesses that will contribute to our growth. San Miguel Brewery and Coke Northeast are by no means non-core businesses, but there may be a time in which we will compare and consider them. I can't speak to timelines, but it is possible that inorganic growth may be necessary to achieve KV2027 and the medium-term business plan.

Q. Since your premiumization strategy appears to be at a standstill, what needs to be done to get it back on track?

A. As you pointed out, premiumization is not easy, but the basic principle is to keep challenging ourselves. Premiumization cannot be achieved by products alone. It is important not only to offer products that provide new value to consumers and make them willing to pay 10 or 20 yen more, but also to imagine the consumers' purchase behavior and how they use such products, and to develop a sales process that is suitable for them. We assess that the Company as a whole still lacks the know-how to get consumers to accept high value-added products. We have conducted marketing to speedily roll out existing products at a large scale, but we do not have sufficient experience in nurturing high-value-added products over time. It is important to enhance the Company's organizational capabilities, and the new *SPRING VALLEY* product is seen as an opportunity to do so.

Q. The beer industry has been disrupted by price competition this year, and Kirin appears to be suffering the brunt of it. Do you think the October price revision will correct this?

A. We are aware of the trends in retail prices through the results of consumer research, etc. As we are planning a price revision in October, we need to consider whether lowering prices at that time is the right thing to do for our consumers. We will make every effort to create an environment in which consumers can purchase our products at reasonable prices, and we hope that the October price revision will serve as a catalyst for such efforts.

Q. Why did you raise the effect of the domestic price revision from 20 billion to 30 billion yen when there is a consumer trend to save money?

A. We announced the financial impact at the time we initially announced the price revision, and the current estimate of 30 billion yen is the result of a re-evaluation of each SKU, including RTD and on-premise products.

Q. You mentioned that Lion is outperforming the market. As you move forward with your premiumization strategy, what is the market environment for the craft category?

A. We expect the Australian beer market to be flat to negative, but we are forecasting CAGR of less than 10% for high-priced craft beer. We believe that premiumization will continue and that there will be no down trade in consumption.

Q. Regarding your business portfolio, Coke Northeast, Kyowa Kirin, etc are leading the way, rather than the Food & Beverages domain, which is more rooted in the fermentation technology. Hasn't Coke Northeast become a core business? Is it necessary to change the structure of Kirin's business portfolio strategy beyond health sciences?

A. Fermentation biotechnology is our core technology and we have been expanding into beer, pharmaceuticals, and health sciences. Coke Northeast is a 100% owned North American bottler, but we believe it will be difficult to grow if we continue with our current approach alone, and we are considering a health science strategy. We will research whether it is possible to make beverages from LC-Plasma and Citicoline, etc. If it is feasible, letting go of the business means we will lose this channel. Health science has a broad base and can be developed into a variety of products. Once we let go of this business, it will be impossible to get it back, so we need to carefully consider the possibility.

Q. Kirin Brewery plans to increase sales volume by 5% in the H2, but you also expect to reduce sales promotion expenses and revise prices. What is your view on whether there is any downside risk? Also, please give us an idea of your marketing approach for the next fiscal year in terms of sales promotion in line with the effect of the price revision of approximately 30 billion yen.

A. It is not entirely risk-free. It is true that it is a challenging target. The timing is also in reverse of last year's marketing investment, and we believe the profit target is achievable. In terms of brands, the renewal of *KIRIN ICHIBAN Zero Sugar* has been delayed, but we are now in the process of sequentially switching it over, and full-scale activities will begin from September onwards. Even if Kirin Brewery fails to achieve its plan, we will make up for it across the entire business portfolio. Next year, if we can positively gain the effects of the price revision, we will be able to return to the pre-COVID-19 level. On the other hand, what is important is how we can restore the brand. If we can enhance our brand strength through growth in the premium category, we will be able to achieve our targets for the next fiscal year.

Q. How will the positioning of *Home Tap* change? How many subscribers do you have and what is your investment approach?

A. This year, we plan to maintain our 100,000 subscribers through CRM to make profit. The churn rate is within our expectations, but our miscalculation is that we have not been able to implement in-person activities as planned due to the impact of COVID-19. We will reassess in the H2 to acquire the skills and organizational capabilities to recruit new subscribers. Once we have a good prospect of this new approach, we will increase our investment from next year onward.

Q. Is Mercian's loss limited to this fiscal year? Also, is Kyowa Hakko Bio affected only by the lockdown in Shanghai? Are you not losing competitiveness?

A. Regarding Mercian, if the current level of foreign exchange rates continues, we believe that earnings will be challenging from the next fiscal year onward. In addition to how we will generate profit as a wine business, we will also consider how to secure earnings from domestic alcoholic beverages as a whole, in conjunction with our collaboration with Kirin Brewery. Regarding Kyowa Hakko Bio, the biggest factor for this fiscal year is the lockdown, and the amino acids themselves are not at risk. We also believe that we can increase the sales of Citicoline in North America and achieve our targets by enhancing the facilities and increasing supply capacity.

Q. Regarding Lion, it appears that the mix deteriorated in 2Q. Also, it is important to improve the mix in order to achieve the targets for the H2. Please explain this certainty.

A. In 2Q (April to June), the improvement in Australia was offset by the decline in NZ on-premise sales, which was a deteriorating factor. In Australia, on-premise sales in the January to June period was flat with an increase of 1% and a decrease of 2% in the off-premise, but looking at the April to June period, the current improvement in the on-premise is progressing. Lion Australia's sales in July was up 60% in the on-premise, and the mix will improve toward the end of the fiscal year. In particular, the craft category has a high ratio in the on-premise, and we would like to increase the sales toward the peak season.

Q. It was mentioned in the Investor Day material that you are aiming for a 22-24% profit margin in 2024 for Lion's Australia and NZ businesses. Regarding premiumization, rationalization of fixed costs, etc, I would like to know the assumption of improvement effects at this point.

A. I cannot give you the detailed breakdown, but in monetary terms, we are currently aiming to increase profits by about 100m AUD each year, and we hope to achieve profits of about 600m AUD by 2024. In addition to premiumization, fixed cost reductions will be a major key driver of this. The new CEO has also declared internally that he will carry out fundamental reforms, and will make steady progress. Looking at 2019 at the pre-COVID-19 level, the Normalized operating profit margin excluding the beverage business was about 23% in terms of alcoholic beverages alone. Considering this, we believe that the target level for 2024 is not too large and is achievable.

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