

## Minutes of telephone conference on 3Q financial results of FY2018

<Date and time> 10:00 a.m. – 11:00 a.m., Wednesday, November 7, 2018

<Participants> Director of Corporate Strategy, Director of Group Finance

### <Kirin Group>

Q. The impression is that the consolidated annual targets seems achievable and also in a position to achieve the medium-term business plan (MTBP) as well. in the current MTBP, what enabled you to do what you could not do in the past?

(Director in charge) The 2016 MTBP is the first medium-term plan since Mr. Isozaki became CEO, and Mr. Isozaki has been leading the plan with strong leadership. The policy was clear, and we decided to regrow beer businesses, stayed away from the past on low-profit businesses and restructure them. In addition, we have clarified the positioning of the pharmaceuticals business and have reaffirmed that it is an extremely important business and is indispensable for the Group to grow in the future. Accordingly, we are engaged in various measures to create synergies within the Group, which has been effective in building teamwork to achieve revenue and profits, including improvement of internal communication. At the same time, we also showed our commitment to the targets and increased the frequency of monitoring. We are paying particular attention on financial figures within this MTBP. Despite the tough business environment, we are working to achieve the full-year targets for the remaining two months at each company.

Q. Are there internal changes in personnel incentives to achieve 2016 MTBP?

(Director in charge) A distinctive feature is the senior management remuneration system. The performance-linked portion of remuneration is expanded to increase incentives for achieving the MTBP.

(IR Section) The remuneration system was revised two years ago, and yearly bonus is linked to Normalized OP for a single year, and restricted stock remuneration is linked to the quantitative targets of the MTBP. Remuneration is based on the interests of investors and shareholders.

### <Japan Integrated Beverages Business: Kirin Brewery>

Q. *Kirin Ichiban* cans continued to perform well. What is necessary for the brand to lead this momentum to positive growth? What are your thoughts on *Hon Kirin*'s flipside risks for next year?

(Director in charge) The overall market declined in September. *Kirin Ichiban* is the most focused brand that was renewed last year, and we will continue to strengthen its sales activities toward the end of the year. Compared to the previous year, its sales volume was affected by the decline in extension product *Kirin Ichiban in 47 prefectures*, but we maintained our focus on the *Kirin Ichiban* brand itself, and Kirin Brewery gained good results. Although the sales volume target was not reached in September, the brand consideration rate and other results are showing good results for future growth. We will continue to strengthen *Kirin Ichiban*. *Hon Kirin* also has very strong momentum. Looking at the brand awareness, it is around 58%, meaning there is still a room to grow compared to competitors' products. Like *Kirin Ichiban*, we continue brand investment in it. We plan to develop *Kirin Ichiban* and *Hon Kirin* brands over the medium term of about three years. The marketing division is mainly responsible for planning how to develop the brands and marketing strategies going forward. We are also developing human resources capable of developing and managing brands from a medium-term perspective. We are prepared to keep the success of *Kirin Ichiban* and *Hon Kirin* on.

Q. When do you expect *Kirin Ichiban* will stop its overall volume decline, as you are managing your brand in a three-year plan?

(Director in charge) The beer market has been declining by more than 3% by the end of 3Q this year, we aim for outperforming the overall market. It is hard to promise when sales volume of *Kirin Ichiban* will bottom out and grow from there.

Q. While *Hon Kirin* is expected to grow over the medium-to-long term, the stock market is interested in the possibility of a rebound next year. While this has become the top seller among the products Kirin Brewery launched in the past 10 years, what is the level of target you are aiming for in medium-to long-term timeframe relative to the size of the *Nodogoshi* brand?

(Director in charge) Just as a guidance, considering that we will almost achieve the upwardly revised target for this year, the 2018 level will be 100,000kl, we think it could be classified as a mainstay product if it reaches 200,000kl. We would like to aim that level for a scale in the next fiscal year and thereafter.

Q. Sales promotion expenses are being kept down until 3Q. To what extent is there room for reductions from the next fiscal year onwards?

(Director in charge) Kirin Brewery's sales promotion expenses are rigorously controlled through focused marketing, and the effect of spending on sales promotion is also verified. By focusing on brands with strong momentum, such as *Kirin Ichiban*, *Hon Kirin*, the renovated Nodogoshi, Hyoketsu , and KIRIN The STRONG, selling expenses for this fiscal year will be exhausted.

Q. The sales promotion cost reduction target for Kirin Brewery has reached about 10 billion yen compared to the target of 20 billion yen. Can the sales promotion cost be kept down in the next fiscal year?

(Director in charge) The reduction in variable sales promotion expenses was 4.0 billion JPY due to the revision of the voluntary guideline last year, and the reduction in advertising expenses is expected to be 3.1 billion JPY this year, and the increase in bottle and keg product prices this year will bring the total to around ¥10.0 billion. Currently, we are in the process of being scrutinized in the formulation of the next medium-term plan, and in this fiscal year also, it is reducing its ineffective campaigns, and we will not change our stance of reducing costs, particularly sales promotion expenses. We have already stated that we want to increase Kirin Brewery's profit margin to 25% compared to revenue excluding liquor tax, so it is working to improve profitability, including by reducing selling expenses. Please wait for our announcement on the plan for the next fiscal year in detail.

Q. Do you mean that you want to control sales promotion expenses in the next fiscal year, not increase them?

(Director in charge) We will strictly control cost and improve efficiency.

Q. Could you tell us the reason for the improvement in product mix by 0.1 billion JPY in 3Q (Jul-Sep) and the outlook for the future?

(IR Section) In the three months from July to September, the product mix variance turned positive. Originally, this year it was a positive structure due to an increase in the ratio of cans and a price up for on-premise products, but it was negative in the first half due to a rise in logistics costs and other factors. *Hon Kirin* was initially manufactured at six factories, so the cost of transferring

products between factories was high. However, as of 2Q, we manufacture it in 9 factories due to strong sales. Furthermore, after the revision of the voluntary guidelines in January last year, the difference in retail prices with competitors were so big that we lowered the variable sales promotion expenses which increased in the first half of this year as a flipside, and the product mix was worsened accordingly. However in 3Q, the gap was less. These are the changes occurred in the first half and the second half of the year.

Q. Although the marginal profit of Kirin Brewery does not appear to be above the target, is it because the volume of *beer* and *happoshu* was insufficient, or because there were no impact of the increase in profit from Private Brands (PB)?

(Director in charge) The volume of *beer* and *happoshu* was below the target. In addition, the volume of kegs, which was affected by the price increase, was also below the forecast that was downwardly revised in the 2Q. There was also an increase in the unit cost of logistics due to the impact of heavy rain. It was not caused by PB. To achieve the full-year targets, we will try to make it up as much as possible with the growth of new genre and RTDs.

Q. This year Kirin Brewery outperformed other competitors and as a result, the market share fluctuation was large. Therefore we think that the next fiscal year will be a turnaround for other competitors. From the next fiscal year onward, there will be revisions to the consumption tax and liquor tax. What is your view on the market, including the external environment?

(Director in charge) This year, the market as a whole fell by about 3%. With weather factors such as the extreme heat being +0.8%, retail price rises due to the revision of the Liquor Tax Act, etc., -2.0% or less due to the reaction to the false demand in May of the previous year, and -1.8% due to the decline in the trend of the beer market. We expect the downward trend to continue in the next year and beyond as well. The impact of the revision of the liquor tax should be carefully examined. Even if the trend of the beer industry as a whole cannot be changed, the shift from *happoshu* and *new genre* to *beer* and the strategies of each company will be tailored to the milestone toward the revision of the liquor tax, while observing the price differences across categories. I think there will be gradual shifts among the categories within the beer product, but beer market as a whole seems likely to decline along with the trend.

Q. Next year will be the last year ahead of the revision of the liquor tax. Will it be a year in which many new products will come out?

(Director in charge) As this is a delicate period for the revision of the liquor tax, I don't think it will be a year in which many new products will be launched. Rather, it seems that each company will focus on responding to changes by strengthening its key brands.

#### **<Japan Integrated Beverages: Kirin Beverage>**

Q. Was the 3Q (Jul-Sep) profit increase resulted from a reduction in selling expenses just because the natural disasters caused Kirin Beverage not to implement marketing measures as planned? If so, it seems difficult for Kirin Beverage to increase its Normalized OP by 2.0 billion JPY in Q4 alone to achieve its full-year target.

(Director in charge) As pointed out, the distribution disruption caused by the heavy rain and the earthquake in Hokkaido forced us to deal with the tough situation, including stopping shipments of some SKUs. As a result, it was impossible to spend some sales promotion expenses. On the other hand, as we have changed to a business with more profitable structure, while focusing on the three main brands, we were able to manage to control selling expenses. Going forward, we

aim to achieve its full-year targets by continuing to focus on mainstay brands and controlling selling expenses.

(IR Section) We spent more marketing expenses in 4Q (Oct-Dec) of the past 2 years than usual from a medium-to long-term perspective, so we think the hurdles are not very high.

**<Japan Integrated Beverages: Overall>**

Q. How much was the increase of the logistics cost including the impact of the disasters for Kirin Brewery and Kirin Beverage throughout the fiscal year? How much was recorded in Other operating expenses for Kirin Beverage as a one-time factor? Do you estimate logistics costs will increase in the next fiscal year, too?

(Director in charge) We are not disclosing the impact to logistics costs but we are consulting with the accounting firm to record less than 1.0 billion JPY in Other operating expenses as a one-time factor for Kirin Beverage, which suffered from a significant impact by the disasters. We expect increase in logistics cost in the next fiscal year as well.

**<Overseas Integrated Beverages :Lion >**

Q. The Australian beer market as a whole looks slightly weak. Please tell us about the Australian market environment and Lion's recent results.

(Director in charge) The Australian beer market, like other developed countries, is declining by 1-2% per year. Container Deposit Scheme (CDS) was introduced into New South Wales (NSW) in December, and in Queensland (QLD) in November, and energy costs rose since the beginning of the year, which were external environment changes to have negative impacts on sales volume and profits. As the market matures, competition with rivals is fierce. However, we aim for generating profits outside of the classic category, as outlined in its Post ABI strategies. *Iron Jack*, a product in contemporary category, launched in September last year, was strengthened with the launch of full-strength extensions in July, and the brand as a whole trended three times year-on-year. In the craft category, we launched *Furphy* nationwide in May, which used to be exclusively sold in Victoria, and sales were approximately double the previous year's level. The international premium category products such as Heineken also performed well, outperforming the market. We are trying to promote sales in 4Q, the peak period in Australia, while the impact of CDS introduced in QLD is uncertain. Profits are expected to be in line with the forecasts by adjustments in supply chain costs.

Q. Why didn't average selling prices (ASPs) grow despite sales volume increase in high-end products? The impact of CDS in QLD is expected next year as well. In this case, is it difficult to exceed this year?

(Director in charge) In the Australian beer market, the demand for classic category beer is gradually decreasing. Similar to competitors, we are also aiming to increase sales volume in the growing contemporary category. Competitor ABI has been strengthening the sale of *Great Northern*, and we focused on *Iron Jack*. The negative impact of CDS in QLD in the next fiscal year cannot be clearly stated, but it is close to the size of NSW. We aim to reduce the negative impact of CDS on profits by price increases implemented this month. We would like to improve our product mix by growing key category products, thereby covering cost pressure in the next year.

Q. In order to meet the full-year target, Lion's Beer, Spirits and Wine (BSW) business needs to increase profits by 34 million AUD in Q4 (Oct-Dec) from the previous year. You explained that

profits are expected to be in line with the target and mentioned the price increase. Do you expect that the business will return to the planned level in 4Q?

(Director in charge) As for how certain it is to attain the full-year target, although there are uncertain factors such as the impact of CDS in QLD, we are working to maintain the strong performance of the products in contemporary, craft, and international premium categories toward its peak season while reducing supply chain costs. Profits are expected to be in line with the plan as we are trying to reduce corporate costs. In New Zealand, the impact of the introduction of ERP was seen as a one-time increase in costs in September, but it is beginning to settle down, so Lion's BSW business as a whole is expected to recover in 4Q.

Q. In Lion's BSW business, Normalized OP decreased by 17 million AUD year-on-year in 3Q (Jul-Sep). How much was ERP's one-time cost?

(Director in charge) Details cannot be disclosed, but, roughly speaking, the impact was low-single digit to mid-single digit million AUD.

Q. Can you tell us whether or not there are companies that are applying for a share transfer in Lion-Dairy and Drinks business. Please tell us when the deal will end.

(Director in charge) After the announcement of the commencement of sale process, a teaser was released on October 29. While we are still waiting for responses from there, and at the initial stage more than 20 companies responded. There are a lot of companies with interest in the deal, including strategic partners and financial partners. As we are preparing for a more detailed process from here, we cannot disclose further information.