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## Minutes of teleconference on 3Q financial results of FY2020

<Date and time> 5:00 p.m. – 6:00 p.m., Friday, November 6, 2020 (JST)  
<Participants> General Manager of Corporate Planning Department,  
General Manager of Finance & Accounting Department

Q. Kirin made very good progress in 3Q, but even with this upward revision, normalized operating profits are planned to decline by 22 billion yen year-on-year in 4Q. We believe that there are some factors such as a decline in demand for year-end parties, but are you taking a conservative view of 4Q or is it just a reflection of the actual excess in 3Q? I'd like you to explain about Kirin Brewery and Lion in particular.

A. Normalized operating profits have been building up to more than 130 billion yen in 3Q. We made the revision based on our progress.  
The impact of COVID-19 is still hard to predict in 4Q. In addition, Kirin Brewery had a positive response from consumers to newly launched brands, and it will allocate selling expenses to these brands.  
With regards to Lion, as disclosed in the presentation, it reflected the prospects for off-premise and on-premise channels.

Q. I understand that Kirin Brewery will ramp up its investment and take it into the next fiscal year. On the other hand, what was the organic change in sales volume for Lion in July-September? As for off-premise channel, the market share appears to have been declining. How did Lion compete for off-premise channel?

A. July-September sales volume in Australia and New Zealand was -5% due to the impact of lifting the lockdown. Lion BSW's sales volume was up more than 10% in June and saw a drop in turn in July; as a result, August-September sales volume declined by single-digit. Considering the limited number of seats in on-premise channel, this was a better-than-expected recovery, which we view positively and an improvement over our forecast for July-September. As on-premise channel has higher profitability, the mix is also coming back better than expected. In terms of category, the craft and contemporary categories have been able to grow.

Q. I would like to know the sales volume forecast for Lion BSW for this year and for the next year. What is the forecast for the current fiscal year and the next fiscal year's forecast for the sales price of Lion BSW?

A. For 4Q of the current fiscal year, we expect that sales volume for off-premise channel will be flat and that sales volume for on-premise channel will be -30% to -5%, but sales will gradually recover towards the end of the year. ASP rose by 2% in July-September.

Q. I would like to know the annual forecast for Lion BSW's sales volume as well as the total forecast for off-premise and on-premise channels.

A. We expect a single-digit decrease in sales volume for off-premise channel for the full year. As for the next fiscal year, it will take a little more time to prepare the plan. It will depend on the extent to which on-premise market recovers. The off-premise market will change in line with the recovery of the on-premise market.

Q. Despite the impact of COVID-19 on Lion BSW this year, there was no more than a single-digit decline in sales volume for the full year. Is it fair to expect sales volume in the next fiscal year to be -2% to 2%?

A. Of all the countries in which we operate, people are the most beer-loving, and the market recovery from COVID-19 might be quick. It is hard to say anything about the next fiscal year at this point, but if current conditions continue, we expect a greater recovery than this fiscal year.

Q. Do you think it is possible to raise the price of Lion BSW twice a year next fiscal year?

A. We were unable to raise prices this fiscal year due in part to COVID-19. Next year, we will make a decision based on the impact of COVID-19 and sales trends, and we will try to raise prices waiting for a favorable opportunity.

Q. What are the sales volume forecasts for Kirin Brewery for the current fiscal year and next fiscal year?

A. With the number of cases of COVID-19 re-expanding in Europe, it is difficult to predict the impact of COVID-19 in the future. In addition, because of the impact of rush demand before the liquor tax revision, we have no quantitative forecast to share with you at this time. What we can say is that total beer sales volume was down 9% in the nine months, and so we expect sales volume to recover from this level.

By category, beer sales will be up year-on-year due to the downward revision to liquor tax, while the outlook for happoshu and new genre is difficult to predict because these categories are on an upward trend despite the impact of the upward revision to liquor tax on new genre in particular.

In terms of channels, although sales volume of on-premise channel will not return to pre-

COVID-19 levels, a recover from the current fiscal year is expected. Conversely, there will be a decline in off-premise channel due to the shift from on-premise channel to off-premise channel during the current fiscal year.

Q. As for *Kirin Ichiban Zero Sugar* you launched, is there any cannibalization of your other products in the beer category? I believe the increase in the demand for *Kirin Ichiban Zero Sugar* comes from demand for your own products and those of the competitors.

A. We are aware that cannibalization of *Kirin Ichiban* is limited at the moment. We believe that the value of combination between *Kirin Ichiban* brewing method and zero sugar content is well accepted by consumers.

In terms of demand, we believe there will be a partial shift within the *Kirin Ichiban* brands, mainly from the competitors in Japanese beer industry. In terms of the degree of impact, *Honkirin*, *Tanrei Green Label* and the competitors' new genre products have an impact, in that order. The impact on *Kirin Ichiban* seems to have been limited because *Kirin Ichiban* canned products were up more than 20% in October, when *Kirin Ichiban Zero Sugar* was launched.

Q. Do you expect next year's normalized operating profits to be on par with 2019? Also, where will you make profits and where will you invest?

A. We are holding down costs considerably this fiscal year. We plan to spend parts of the expenses that we cut back on this year and invest in R&D, human resources and other intangible assets. We are not yet at the stage of talking about the forecast of the next year's normalized operating profits due to the uncertainty of COVID-19.

Q. Is it too early to get back to 2019 levels in the next fiscal year?

A. Yes, we expect it to take about two years. The situation of COVID-19 in Japan is relatively stable, but we don't know what will happen there yet.

Q. Where will you make marketing investments?

A. Investments will be in order to create strong brands. In 4Q, Kirin Brewery will invest in *Kirin Ichiban*, *Kirin Ichiban Zero Sugar* and *Koji Lemon Sour*. We will concentrate investment in focused brands to keep the current momentum. Kirin Beverage has a similar strategy. In addition, Kirin Beverage also plans to invest in the health-focused products. The company will take advantage of the health claim for *Lactococcus Plasma* products. Needless to say, we will invest with discipline. It is the same as we have been doing for the past several years, and we believe that the results for 3Q showed this.

Q. Can the return on marketing investment be expected in two years?

A. It depends on the brand, but we will take a medium to long term perspective. Kirin Brewery has plans to develop the brands over a 3 to 5 year period, and we invest in accordance with these plans. Kirin Beverage also basically invests in brands for two years or beyond. Some new products and health-focused products can make short-term returns.

Q. Do you envision that the return will be remain to be seen within 2020 with the marketing investments in brands and you will be unable to reach 2019 levels of normalized operating profits as the top line still does not grow that much?

A. We are not going to launch new products one after another in order just to pursue short-term returns. We will continue strengthening existing brands.

Q. Looking at the outlook for Kyowa Hakko Bio's earnings in the health science domain, is it possible to achieve the full-year forecast for normalized operating profits? Also, you said that you were aiming to break even in the next fiscal year. Is this feasible?

A. Progress in production volume at the Hofu Plant has been somewhat slow. There is a slight delay in the process of obtaining GMP certification from the authorities, and we have also had to extend the period to stop our production lines to change the Hofu Plant into high margin site in the future.

We decided to stop the production lines a little longer with a temporary impact because we believed it would lead to profitability in the future. The Hofu Plant manufactures pharmaceutical ingredients and we are working to achieve our full-year forecast of -2 billion yen in normalized operating profits, in coordination with our customers. For the next fiscal year, we will use our production capacity for high margin products rather than returning the production volume to the previous level.

Q. I believe that *Lactococcus Plasma* has been positively recognized in the market. I understand that last year's revenue from sales of *Lactococcus Plasma* products was approximately 4 billion yen; what level of revenue is expected for the next fiscal year?

A. The market response to *Lactococcus Plasma* has been getting better and better. It was difficult to do business with products in immunity field, but we have received inquiries from customers and there are strong needs for these products. We expect revenue of about 8 billion yen this fiscal year, and we aim to achieve our sales target of 50 billion yen in 2027 by developing our business not only for B-to-C but also for B-to-B.

Q. How do you plan to expand *Lactococcus Plasma*?

A. The products will be launched on November 24 with a packaged product with health claim of immunity, and it will also be advertised at a level above 3,000 GRP to encourage customers to buy them.

Q. Will there be any changes to the target of breaking even for Kyowa Hakko Bio's earnings improvement in the next fiscal year?

A. No changes at this time.

Q. Is it Kirin Beverage that records sales of *Lactococcus Plasma*? Kirin Beverage has revised upward both revenue and normalized operating profits this time, but how much of a contribution will *Lactococcus Plasma* make?

A. Although *Lactococcus Plasma* are not only used in beverages, most of them are Kirin Beverage products. However, Kirin Beverage's upward revision was not only due to this, but also due to the strong performance of *Nama-cha Roasted Green Tea*.

Q. With regard to *Lactococcus Plasma*, will the contribution to normalized operating profits be limited because you are also focusing on marketing this fiscal year?

A. That's right. Because of the timing of its launch in late November, the contribution to normalized operating profits will remain limited.

Q. How many hundreds of millions of yen come from *Lactococcus Plasma* alone? How much was originally planned for *Lactococcus Plasma*, and how has it been revised this time to reach 8 billion yen in revenue?

A. Kirin Beverage has not disclosed sales targets of *Lactococcus Plasma* beverage. Our *Lactococcus Plasma* products include not only Kirin Beverage's *iMUSE* beverages, but also Kyowa Hakko Bio's supplements, Koiwai Dairy's yogurt, and supplements for the professional channel, but as the amount of sales in non-beverage products is still small, please consider that most of the increase is in Kirin Beverage.

Q. What was Lion's revenue growth on AUD basis for July-September excluding New Belgium Brewing? I would like to know the price/mix.

A. Revenue was -7%. Profitability in Australia varies by channel and is higher in the on-premise channel; in July-September it was -5% in volume but -7% in value; in January-September it was -4% in volume and -10% in value, so the price/mix is improving in line with the recovery in the on-premise channel.

Q. When do you expect the price/mix of Lion BSW will turn positive?

A. It depends on the situation of COVID-19, and so the question you asked was about when COVID-19 impact will cease. We expect it to take one to two years.

Q. With regard to San Miguel Brewery, sales and profits fell sharply in 3Q; what is your view of the market outlook and earnings trends? Its profit of equity-accounted investee for the nine months was 13.9 billion yen, a decrease of 6.6 billion yen from the same period last year. What was the progress?

A. Due to the impact of COVID-19 in the Philippines, San Miguel Brewery also experienced a decline in revenue and profit. Kirin Holdings consolidated its earnings in the October 2019-June 2020 period, including the April-June period, which was most heavily impacted in COVID-19.

For the full year, we will consolidate the October 2019-September 2020 results, and we believe that the situation in July-September has improved from April-June (back to around 90% of the prior year's level on a net income basis in July-September).

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