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[Q&A Session Minutes]
Presentation on Q3 FY2024 Financial Results

Date & Time: November 7, 2024(Thu), 4:00 p.m. (JST)
Speakers: Hiroaki Takaoka, Executive Officer & GM of Corporate Strategy Dept.
Hidefumi Matsuo, GM of Finance Dept.

[Question and Answer]

Q. Competitors announced a price revision. Let us know whether Kirin is going to increase prices this time.

A. We are constantly considering price revision in light of rising input costs, etc. As for the future, nothing has been decided at this time. If anything is decided, we will inform you promptly.

Q. What is your outlook for the cost of raw materials in the next term?

A. The cost of everything, including raw materials, is soaring, so how we deal with it is crucial. We are currently assessing the impact for the next term.

Q. What are your thoughts on the beer category transition until FY2026 due to the liquor tax revision? What position do you want to take there?

A. Regarding future category transitions, we aim to strengthen our brands and build dominant positions in the growing pure beer category. Although the economy beer category continues to shrink, it still accounts for over 40% of the total in volume terms, so we aim to maintain dominant positions within the category, focusing on *Honkirin*.

Q. What were the sales trends in the Australian market and Lion. Also, are there any signs of recovery in the Australian beer market?

A. For the period from January to September, the off-premise beer saw a mid-single-digit % decline for both the market and Lion, while the on-premise beer saw a low-single-digit decline for both, resulting in a mid-single-digit decline for the market and a 4% decline for Lion overall. Although we slightly underperformed the market in the on-premise beer, we outperformed overall. There are no signs of recovery in the market environment, and we expect tough conditions to continue this year. If the CPI decreases next year, there may be a recovery in consumption, but we are not optimistic. If the market recovers, the effects of brand investment will become more visible.

Q. What is the financial impact of the hurricane on the Asheville brewery? Also, was there any financial impact on results for July-September? What is the schedule for recovery and resumption of operations.

A. We are currently assessing the financial impact, so we cannot provide quantitative details. The Asheville brewery is still not operational, and it has incurred transportation and other costs due to manufacturing at other breweries and partially outsourcing instead of Asheville brewery. The incident occurred in late September, so there was little financial impact in July-September. We expect to gradually resume operations in Q1 of next year.

Q. Regarding US craft beer, sales and profits declined YoY in July-September. Please tell us the factors, such as changes in sales momentum.

A. The US craft beer market itself has been in a downward trend, and we are affected by that. Despite this, we achieved low-single-digit growth in volume terms and high-single-digit growth in price per unit from January to September, but the current situation has become challenging.

Q. Lion's Q3 results seem tough. What growth image should we have for Q4 and FY2025?

A. The Q4 is the peak season in Australia, and it will be the largest in volume terms for the year, but we expect a decline in profits due to the significant impact of volume decline as the economic environment will not recover in the short term. However, we aim to minimize the impact as much as possible with measures such as expanding health consciousness products across multiple brands. Although the economic environment is expected to improve next year compared to the current situation, we still anticipate negative growth. We will continue marketing investments next year and aim to outperform the market, but details are still being under consideration.

Q. Regarding Blackmores, what was the background of the performance by area?

A. Blackmores is progressing well overall. In South-East Asia & Korea, we were affected by delays in shipping infant formula in Vietnam until Q2, but we recovered and returned to normal in July-September. In China, we saw steady growth in revenue after the price revision until Q2. However, in Q3, revenue was at the same level as the previous year due to the termination of contracts with some distributors who strongly demanded rebates against the backdrop of an economic downturn.

Q. How did the Q3 results compare to the plan overall and by operating company?

A. Progress was almost as planned. Although the market environment is tough for Lion, structural reforms are steadily progressing, and Normalized OP is in line with the plan.

Q. Kyowa Kirin is expected to post a profit decline of about 20 billion yen in 4Q. Is it correct to say that there is a high possibility of an upside?

A. Due to the acquisition of Orchard, R&D and selling expenses have increased, resulting in a YoY profit decline in Q4. Additionally, Kyowa Kirin sold the business in Southeast Asia as part of rationalization efforts, but since they sold inventory in Q3 that was scheduled to be sold in Q4, this led to increased sales in Q3 and will decrease sales in Q4.

Q. Kyowa Hakko Bio also seems to be progressing well against the plan announced in Q2. How is the structural reform progressing?

A. The amino acid market continues to face tough conditions, and the fundamental situation has not changed. The timing of shipments also affects how costs are accounted for, so we need to continue monitoring closely. Structural reforms are also progressing, but there is nothing to tell currently.

Q. Will there be any additional information about Kyowa Hakko Bio at the Investor Day scheduled for December 18?

A. We will tell you if there is anything we can say.

Q. How did Kirin Beverage results against the plan? Also, what is your view on the competitive environment?

A. In terms of sales volume, *Nama-cha* has been performing well since its renewal. However, due to the intense competitive environment in the green tea category, we have spent a lot on rebates, making it tough in terms of profit. Progress against the plan is good as of Q3, but the future performance depends on the realization of the price revision in October and the impact of rebates.

Q. I think the price was raised in October, but are negotiations not progressing?

A. Many mass retailers have not been able to raise prices because they have certain amount of inventory. We expect the implementation of price increases to improve from November.

Q. What is the background of the discrepancy between Normalized OP and operating profit in July-September?

A. This is due to loss on step acquisitions of 18 billion yen with the acquisition of FANCL, which was recorded in other operating expenses.

Q. Kirin will incorporate FANCL performance from 4Q, but what are the reasons for maintaining the full-year Normalized OP forecast?

A. The reasons are the significant YoY increase in R&D expenses for Kyowa Kirin, the lack of signs of recovery in the market environment for Lion, leading to a decline in profits, and the increase in corporate expenses compared to the previous year, offsetting the profit factors.

Q. What are the challenges of Kirin Beverage for the next term?

A. It is important to improve the mix by strengthening sales of highly profitable small PET bottles. The second is to increase the sales ratio of the Health Science products. Health Science products have functions such as immunity, so we need to promote them well and sell them at a high unit price. Additionally, it is important to strengthen the sales of ultra-small PET bottles like *Oishii Immune Care* to increase the composition of mid-to-high-priced products.

Q. I think it is the same strategy as before, but what will change in the future?

A. It is important to deal with retailers and create more sales spaces where our products can be purchased. In that context, we will strengthen the deployment of small PET bottles. It is a steady effort, but we will work carefully on each step.

Q. The change of the president of Kyowa Kirin has been announced, but he is not from Kirin. Are there any changes in strategy?

A. Kyowa Kirin will not change our strategy. The change in president is to further expand global strategic products.

Q. Kirin Brewery has a plan for profit growth in Q4, but how can it be achieved amid the profit decline in Q3?

A. In Q3 of the previous year, there was a temporary demand in September due to the liquor tax revision in October. As a result, sales volume has decreased YoY because of this spike in last year. We believe we can recover in October because the impact of temporary demand will be eliminated.

Q. What are the profit growth drivers for the next term? Kirin Brewery has steadily invested in *Harekaze* and is on track, but will it be a phase to secure profits by reducing marketing investment next year?

A. Rather than having one business as a profit growth driver, we aim to achieve profit growth through the organic growth of each operating company. We will also work to ensure FANCL grows steadily after consolidation. Although Kyowa Kirin will invest heavily in R&D for KHK4083, we aim to achieve profit growth by complementing it with other operating companies. *Harekaze* is also on track to achieve the plan announced in Q2 and is performing well. It is still an investment phase, and we will continue to invest in preparation for the liquor tax revision in 2026, strengthening the pure beer category along with *KIRIN ICHIBAN*.

Q. It seems that Kirin Beverage has failed in the way it applies rebates. Has the management method changed?

A. We have been managing costs properly as before, but the competitive environment, especially in the green tea category, has become more difficult, and we have had to spend on rebates.

Q. It is expected that "*Harekaze*" will exceed 6 million cases this year. However, it is important to continue growing in the second year. What scale do you think it can grow to in the future? I also think the brand condition of "*KIRIN ICHIBAN*" is improving, but why is it going well?

A. "*Harekaze*" is performing very well, and we will continue to work on it in the second year. The reasons for its success include its taste, brand communication, and the "*Harekaze Action*," where a portion of sales is donated, which is particularly supported by the younger generation. Its refreshing and easy-to-drink taste is also chosen by those who have not previously drunk beer. We believe there is still room for growth in developing these light users. As for "*KIRIN ICHIBAN*," it is not that we have changed anything in the short term, but rather it is the result of continuous brand investment and consistent communication. We were concerned about cannibalization with "*Harekaze*," but it has been kept within the expected range.

Q. Will there be any changes in the approach for “Harekaze” in the future? You mentioned there is still room for growth, but specifically, what do you think this potential? If there are any challenges such as low brand awareness, please let us know.

A. We have implemented “*Harekaze Action*” with cherry blossoms and fireworks, among other things, but we are considering what to do next. We believe there is still room for growth in brand awareness.

Q. It seems that the profit growth of Four Roses has reached its peak. Considering the consumption environment in US, how do you think future growth? Also, is there room for additional capital investment in the future?

A. Four Roses maintains a high Normalized OP margin and is progressing as planned. While the overall US bourbon market has recently slowed in growth, the premium-priced bourbon is growing, and there is room for growth. Although we had a shortage of raw whiskey at one time, we have increased our production capacity. We believe that sales will increase as this raw whiskey becomes available for sale. Additional capital investment will be carefully considered in relation to future bourbon market forecasts.

Q. Is it correct to say that the issue is with supply rather than demand?

A. We have launched new premium-priced products this year and are promoting premiumization. While it is difficult to say that the bourbon market will be bright in the medium term, we believe that promoting premiumization will achieve growth. Additionally, as the supply of raw whiskey increases, we believe growth can be accelerated.

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