[Q&A Session Minutes]
Presentation on FY2023 Financial Results and FY2024 Plan

Date & Time:	February 15, 2024 (Thu) 10:00-11:30 am (JST)
Presenters:	Yoshinori Isozaki, President & CEO Shinjiro Akieda, Senior Executive Officer & CFO Hiroaki Takaoka, Executive Officer & General Manager of Corporate Strategy Dept. Hidefumi Matsuo, General Manager of Finance Dept.

Q. <u>Looking back on your tenure as President & CEO thus far, what have you accomplished and what have you left to accomplish? Also, what are your expectations for the next President & COO, Mr. Minakata?</u>

A. I was appointed President of Kirin Holdings in 2015, a year I will never forget. It was the first time since Kirin Holdings was listed on the Tokyo Stock Exchange that we set a disgraceful record of a final profit deficit. As you know, the factor was the beer business in Brazil. When I became president, I had several growth drivers in mind for sustainable future growth, but I could not work on them from the beginning. Anyway, we had to first resolve the inconvenience we were causing to each stakeholder, i.e., we had to do something about our low-profit businesses. Over the three years from 2016 to 2018, we transformed or sold low-profit businesses such as Brazil Kirin, Lion Dairy and Drinks and Kirin Beverage. As a result, in 2018, the final year of the Medium-Term Business Plan, we were able to record its highest market capitalization ever. The following year, we announced our entry into the Health Science business, which we have been working on until today. As was the case when we started the pharmaceutical business, new businesses do not always go well from the start. Although there are still some issues to be resolved, we have finally reached to some point. There are some things that remain to be done, but I would like to hand them over to the next COO, Minakata, and hope that he will put them into practice. I will continue to work on things that will contribute to enhance corporate value, while keeping an eye on the overall management of the company. Thank you for your support.

Q. <u>On the slide P45, Blackmores reported an increase of 6.3 billion yen in NOP for FY2024, and I would like to ask about the drivers of this increase. For the second half of FY2023, NOP was AUD -5m, but you said there are one-time expenses and amortization of intangibles, etc. in there. Please let me confirm what these are. In addition, you have disclosed your sales revenue target by region on an AUD basis, saying that you will make a fairly large recovery. Sales revenue in China is supposed to increase by double-digit % and there should be an impact of inventory adjustments in Asia which you explained at the IR event (Health Science Day). Please tell us the certainty of your assumptions for the recovery in FY2024.</u>

A. One-time costs and amortization of intangibles was about 3.0 billion yen for FY2023. The amount was higher than expected because the remaining inventory at the time of the acquisition was re-evaluated as the fair value. We estimate that amortization for FY2024 will be in excess of 1.0 billion yen, and the amount will be finalized in 1Q. The distribution inventory has almost been cleared, and the current view of the market environment in FY2024 will be normalized. Therefore, we believe that we will be able to proceed as planned. One of our concerns are that the price of fish oil is soaring due to an anchovy fishing ban caused by El Niño and especially China business will have an impact. Although we have raised prices, we will continue to monitor market trends closely. The Chinese economy is also a concern, so we will keep a close eye on the situation after the Lunar New Year.

Q. <u>Let me check on the landing in FY2023. Blackmores lost about 3.0 billion yen in inventory re-evaluation. How much will the amortization of intangibles negatively affect the company's results?</u>

A. Amortization expenses, which will have an ongoing impact, exceed 1.0 billion yen. In addition to this, there were one-time expenses related to the acquisition, resulting in a total increase in expenses of about 3.0 billion yen in FY2023.

Q. Regarding the FY2024 plan for Japan beer business, I see it as finally making marketing investments to further strengthen the core brands. With competitors also investing towards 2026, does this mean that Kirin Brewery is prepared to make a firm investment for the next three years or so? Or is it just a temporary increase this year because of the launch of new products, and from the following year onward it will be more restrained? Personally, I believe that Kirin Brewery needs to make solid investments to solidify its foundation, but please tell us about the future policy.

A. We will strengthen our foundation. This year, we will focus on *KIRIN ICHIBAN* and new brands in the pure beer category, but competition will intensify in preparation for the 2026 liquor tax revision. In such a situation, it is important how we promote our brand strategy, so we plan to strengthen rather than loosen our marketing investment.

Q. I understand that you will increase marketing investment for FY2024, but do you expect to increase it by one more step next year and the year after that? Also, what factors do you think will determine the success of winning the market in 2026?

A. It is difficult to say how much marketing expenses will increase or decrease, as it depends on future trends, but rather than reducing them, we are supposed to continue to strengthen. As for the competition for 2026, the key to success in 2026 will be how much we can win in the beer category, given that the pure beer category has expanded more than expected since the October 2023 liquor tax revision. On the other hand, we expect a certain volume of *happo-shu* and new genre beer to remain, so it is also important to maintain our strong brands.

Q. Regarding Blackmores, at the IR event (Health Science Day), we were given a forecast of a sales revenue CAGR of 3-5% in Oceania and 7-9% in Southeast Asia and China from FY2024 to FY2027. I think FY2024 guidance is a bit above that, but I have the impression that business confidence has been deteriorating in China recently, and there is a perspective of tougher consumption in Australia as well. What do you see as Blackmores' medium-term sales growth potential by region? I assume you have backup plans in place if risks emerge, but please tell us how you intend to control these risks.

A. We believe that we are not in the phase of changing our plan, but in the phase of implementing it. We are also keeping a close eye on China, which is a concern of ours. We have interviewed local employees about the market and have heard that there is no sense that consumption is weakening to that extent at the moment. Since we raised prices, we would like to follow consumption trends closely. We believe that it is important to expand our products in each country and brand them. As for the backup plan, the key point is how to achieve branding as soon as possible. Although there are some risks, we believe that we must be agile in responding to them.

Q. In Oceania, we have heard that there are concerns about consumer confidence in beer and other products. Is there any impact in the supplement market as well or is there less impact due to Blackmore's strong brand establishment in Oceania? How should we see the situation?

A. Even though both beer and supplements are the same consumer goods, unlike beer, supplements are healthy materials, and it is not something that consumers will stop buying today depending on the economy. It is important to make it a habit, which is what we should do. By making it a habit, we would like to reach a point where it is not affected by the economy. We do not see the Australian consumer confidence having a significant impact on supplement sales.

Q. Currently, the KIRIN's business is stable, and I think the level of stability is at a certain level even when viewed on a global basis. On the other hand, the depth of FCF is small compared to the global level. Is there a shift from stability to expansion in the future? I think we are in a phase of making choices as we aim to maximize the FCF of the entire group. What is your management policy for the future?

A. We believe that the most important challenge for management is how much to increase FCF. It is difficult to increase earning power, but we would like to move from stability to expansion. In order to do so, we must make a solid foundation in each business. Without it, it will not be possible to expand, let alone generate stable CF. Therefore, the first step is to invest in marketing and make solid earnings in the core alcoholic beverages businesses.

A. While securing stable profits, I think the question now is how to grow for the future. FCF will also increase by achieving growth. Alcoholic beverages, Non-Alcoholic beverages, Pharmaceuticals, and Health Science businesses are in different phases. In the Pharmaceuticals business, R&D investment is increasing at the moment, but we can certainly expect a return on this investment in the future. Health Science business is not yet contributing to earnings, but we intend to grow it into a profitable business in the future. Based on our core Alcoholic Beverages business, we would like to expand our cash flow through medium- and long-term growth in Pharmaceuticals for the next five years, and in Health Sciences beyond that.

Q. I understand the strategy, but I think there is always a risk that the growth rate will be inferior in global comparison. Isn't it time to take action to maximize cash, for example, by making an equity-method affiliate a wholly owned subsidiary?

A. I assume that you are referring to Kyowa Kirin, San Miguel Brewery, and FANCL, and the Board of Directors is constantly reviewing our business portfolio. At this point, we are placing the highest priority on investments to build up our Health Science business, which we are able to do with financial soundness. At this point, we believe that the current state of our business portfolio is optimal. Maximizing cash is important, but we will also consider other management indicators in a comprehensive manner.

Q. I would like to ask President & CEO Isozaki. You mentioned that you will concentrate on the CEO role, but what areas are you planning to focus more as CEO?

A. Looking back on my own work, I have not always been able to get things done. I think that I have been so busy with day-to-day business that I have not been able to devote sufficient time to enhancing corporate value. In the future, I would like to improve both the quality and quantity of my work as a company by globalizing, enhancing corporate value, and refining CSV management. I would like to devote more time to improve our corporate value and meet the expectations of our stakeholders.

Q. For "globalization", do you mean structural expansion and development with respect to Health Science business?

A. Health Science is an area that can easily be globalized, and we cannot grow without promoting globalization. The largest market for Health Science is the United States. We believe that we cannot say that Health Science has truly succeeded unless we expand into the United States as well. In addition, in other business besides Health Science, for example, craft beer is performing well in North America, and we intend to promote globalization to further deepen each business.

Q. I think that sharing the roles of CEO and COO will increase what Isozaki CEO can do, but I also think that by delegating the execution of the COO role to Mr. Minakata, new President and COO will also increase what he can do. What can Mr. Minakata do as COO with the delegation of authority? I think that one is to quickly rebuild the Health Science business, but as the impairment losses continue, I would like to confirm whether there has been a divergence from the plan you originally drew up.

A. As COO, Mr. Minakata will be responsible for overseeing each business and function to enhance earning power. This is not to say that I will not be involved, but I would like to leave it to him. Regarding the Health Science business, since the acquisition of Kyowa Hakko Bio in 2019, some things have happened that we did not anticipate. For example, we have lost clients while we were working to resolve quality issues, demand for vaccines has declined after COVID-19, and price competition with competitors continue to be severe. However, when taking on a new business challenge, one must be prepared for these things. Not everything is in a blue ocean. This was the same situation when we entered the pharmaceuticals business. We believe that our R&D capabilities in genetic modification, fermentation and biotechnology are our greatest strength. I am sure that we are causing some inconvenience, but I believe that we must overcome the issues and take on new challenges. I hope that you will have faith in us.

Q. Competition is intensifying with regard to specialty materials, and I suspect that the barriers to entry that Kirin envisioned are actually not that high, and that there is a risk of further intensification of competition as we focus on Citicoline and HMOs in the future. I would like to know if this can really continue to be a strength.

A. Citicoline, for example, is a drug in Japan. Currently, it is used to activate the brain, but we are exploring the possibility of its efficacy in other functions as an extension of its application. Although it is necessary to conduct proper clinical trials, we are also conducting research to find efficacy in various areas. This type of research and development is difficult for other companies and is the result of our many years of cultivated research and development. Competition is likely to intensify if we focus only on existing functions, but this is not necessarily true in different fields. We are not trying to win only in terms of cost competitiveness, but rather to increase added value by expanding applications.

Q. With regard to Kyowa Hakko Bio, I believe that you had set targets of 100.0 billion yen in sales revenue and 15.0 billion yen in NOP by 2027. Is my understanding correct that it is currently becoming difficult to achieve these targets? Also, you explained that Kyowa Hakko Bio will carry out structural reforms based on all options. What do you mean by "all options"?

A. First of all, we regret to say that we believe it will be difficult to achieve the 2027 target that we initially communicated. We believe it is important to first work to resolve the deficit. All options regarding structural reforms are exactly what we have not ruled out all of them. In particular for the last year or two, the market itself, including the competition, has been in a difficult situation with regard to the amino acid business. To this end, we are of course looking for ways to rebuild by raising prices on our own and lowering costs. In any case, we will explore the best path for this business after considering all possible options. In the specialty materials business, we have taken a conservative view that the profitability may be tougher than initially expected and have recognized an impairment loss on the specialty materials business. We intend to achieve profitability as soon as possible while also exploring ways to differentiate this business by combining the Group's R&D capabilities.

Q. Regarding HMOs, you have recognized some immediate impairment loss while the plant has just started up and there have been no sales. What is the background?

A. We just started selling HMOs after the factory started operation last year, but we had to revise our projection because the sales speed and sales volume would not reach our initial projection. We will continue to take on the challenge, but this is the result of discussions with our auditors and others about the probability of realization.
The HMOs we are planning to launch are different from those currently in the market, and we are considering entering a new field, but the market has been moving differently than we had originally anticipated due to competition with early movers and other factors. We recognized the impairment loss as a change in the speed at which we can realize our goals.

Q. You mentioned before that specialty materials have superior R&D capabilities, but with other companies are also expected to invest, I think you are in a situation where your superiority in specialty may disappear.

A. Kirin and Kyowa Hakko Bio's original R&D departments have come together, and Kirin's capabilities are being applied to this field. This type of product is not finished once it is created, but it is necessary to continue new development that will contribute to the expansion of its applications. Although this may be a concern at this point, we believe that we can differentiate our products by applying our R&D capabilities in this area.

Q. I would like to ask you about the costs mentioned on slide P25 where you are looking at 35.0-37.0 billion yen in FY2024. What are your assumptions and how do they differ from those of competitors?

A. Raw material costs vary by country, industry, and material, and purchase methods, such as currency and contract types. For example, Kirin Brewery contracts on a yen and an annual basis, and long-term contracts from the previous year are reflected in the current year's performance. Comparisons with competitors cannot be made in general.

Q. Can you provide any more details on the major cost increases for FY2024?

A. Kirin Brewery has seen aluminum and carton prices rise above the FY2023 contract, and Lion, like other major companies, has seen aluminum cans and other products soar. Coke Northeast has also seen its aluminum cans and PET prices soar due to the oil market. These raw material price hikes are the most significant factors.

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