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[Q&A Session Minutes]
Presentation on 3Q FY2023 Financial Results

Date & Time:	November 8, 2023 (Wednesday) 4:00-5:00 pm (JST)
Presenters:	Hiroaki Takaoka, Executive Officer & General Manager of Corporate Strategy Department. Hidefumi Matsuo, General Manager of Financial Strategy Department.

[Question and Answer Record]

Q. Regarding Lion, you said that an extra week is recorded. If we see the July-September period, does that mean that additional one week raised the results? If so, please explain the impact and the market share of Lion along with the market condition in Australia excluding the above.

A. Since the ERP package was implemented, we have managed the year on a 52-week basis, but for this year it is 53 weeks, and the adjustment occurs during July-September. Normally a quarter includes 13 weeks, but this quarter 14 weeks. The impact on the Normalized OP basis is around AUD 10m. Regarding the market, its condition deteriorated during April-June, but it has been recovering in July-September. The on-premise channels continue to be negative, but the off-premise channels are recovering; it was about 10% negative in April-June, but it turned slightly positive in July-September, and we believe the market is recovering.

Q. I think the off-premise channels are recovering. What is the background to the improving market environment?

A. It is difficult to explain the changes in the market over a short period of time, but our analysis shows that the economic environment deteriorated significantly during April-Junee, and consumer sentiment weakened, which had some impact on alcohol as a luxury item. However, consumer sentiment has improved somewhat, and we suspect that sales volume is recovering.

Q. Is it correct to assume that the market share will basically remain flat?

A. It has not changed significantly.

Q. Could you give us an overall sense of the progress made in 3Q and the outlook for 4Q, including ups and downs by Operating Company? Also, it seems that Normalized OP will turn to decline in the 4Q if we calculate backwards from the 3Q results.

A. Progress in the results of 3Q was almost as planned. It was slightly higher than planned with some delayed expenses. The 4Q outlook is in line with the original plan, but if we look at it alone, it will be negative, but this is mainly due to a large increase in marketing investments at Kirin Brewery and Lion compared to the previous year.

Q. Is it correct to say that for the 3Q, except for Cork Northeast, the results are basically as planned or slightly above? It appears that corporate expenses and inter-segment eliminations will come out as negative in the 4Q.

A. Please understand that the plan is basically in line except for Cork Northeast. There will be some corporate expenses, but not much. In terms of risks, Kyowa Hakko Bio has a negative impact, but we believe that this will be covered by Coke Northeast and other segments as a whole.

Q. It is a little early, but could you tell us about your current thinking on the growth of the Normalized OP next year? You also mentioned that the cost of raw materials and other items will increase, but please tell us how large that increase will be.

A. We are in the process of finalizing next year’s plan. Basically, we would like to create a plan for each Operating Company to exceed FY2023’s landing, and each company will aim to increase profits through increased sales volume. Naturally, cost reductions are also being carried out in parallel, and we expect to see the effects of the structural reforms that we have already announced, especially with respect to Lion. It is difficult to say at this time how much the increase in the Normalized OP will be, so please wait until next February.

A. As a supplement, there is also the impact of Kyowa Kirin's recently announced acquisition of Orchard Therapeutics. The closing is scheduled for 1Q FY2024, and as Kyowa Kirin is now still calculating the specific amount of impact, we believe that there will be an impact on profits, and we would like you to be aware of this.

A. Regarding costs, we expect costs for aluminum cans, malt, and items affected by foreign exchange rates to increase year-on-year. In addition, the recent sharp rise in undiluted fruit juice price is expected to have an impact. In addition, logistics problems in Japan are also expected to be a factor in cost increases. On the other hand, we hope to be able to basically offset these cost increases. The beverage business in particular continues to face a difficult operating environment, but we will continue to monitor the market and consider countermeasures, including price revisions.

Q. <u>I would like to know the quantitative impact of cost increases, just for the main businesses.</u>

A. Although we cannot give a specific figure, we expect the impact to be billions of yen at the domestic operating companies.

Q. <u>With that level of cost increase, do you think it would be necessary to make additional price revisions not only in the beverage business but also in the beer business?</u>

A. There is nothing we can tell you about future price revisions at this time. Kirin Brewery will also see the effects of the price revisions implemented in October 2023 for on-premise beer and *happoshu* over the next year. In addition, we will also be cutting other costs. While we will continue to spend on marketing, we will also reduce operating expenses and general and administrative expenses.

Q. <u>I received your message that you will respond to cost increases, but I can't image what you can really do. Do you mean that you will respond not only by revising prices in the on-premise channels and *happoshu*, but also by reducing additional costs? Is it correct to say that you are thinking cautiously about additional price revisions?</u>

A. For details, please wait until next February, but we will work in the direction of offsetting. There is nothing we can tell you about price revisions.

Q. <u>Regarding Lion's U.S. craft, will this also be affected by the 52-week adjustment? You mention that the recent sales momentum is up 9% year-on-year, but what would the figure be if we consider the adjustment? 9% seems like it has more momentum than the first half FY2023, so please tell us about its conditions along with U.S. craft market.</u>

A. There is no adjustment for the 52- or 53-week periods in U.S. craft business. Its results are calculated based purely on the July-September calendar, and therefore there has been no impact on the 9% growth figure. As for momentum of New Belgium and Bell's, in particular, Bell's had some difficulties last year, but the effects of the integration are starting to show, and it has recently shown significant growth. These figures highlight the effects of the integration. Looking at the U.S. craft market as a whole, the situation is not so rosy, and the beer market as a whole is not growing significantly, but New Belgium and Bell's are doing very well.

Q. <u>What was the growth rate of U.S. craft sales volume in July-September? Will you be able to maintain or increase market share next year with the market not growing as much?</u>

A. Lion's craft beer growth in U.S. from July-September was in the 10% plus range. In terms of whether this growth rate can be maintained, it may be difficult in a market where the overall market is not growing significantly, but both New Belgium and Bell's have an excellent capability to launch new products that meet consumer preferences in a timely manner, and we believe that continued growth can be achieved through the continuation of these initiatives.

Q. <u>Could you tell us about your approach for FY2024? To reiterate, is it correct that you are basically aiming for an increase in profit through an increase in sales? Could you tell us again how to increase profits? Also, given the concerns about cost increases at the domestic operating companies and the anticipated reversal of the one-week increase in Lion's administrative figures, please tell us which segments you are aiming to increase profits.</u>

A. Basically, we will aim to earn profits by increasing sales volume. In particular, we will invest in the main brands of each operating company to achieve an increase in sales. We will earn incremental profits from *KIRIN ICHIBAN* and from Lion's *XXXX* and *Hahn* brands. The pharmaceuticals business will expand sales volume of its main products *Crysvita* and *Poteligeo* in the U.S. and Europe. Kirin Beverage will aim to increase sales while making solid investments in the Health Science domain and in its core brands, *Gogo-no-Kocha* and *Nama-cha*.

Q. <u>There is a detailed description of Blackmores on p21 of your presentation. I would like to know if the net take-up is likely to increase or not as a result, and what is your view of profit for the next fiscal year.</u>

A. First, we will tentatively take in FY2023's figures, and then we will give final figures in 1Q FY2024. At this point, we are tentatively calculating goodwill and depreciation and amortiation. The annual operating profit for the previous year was about AUD 60 million, and if we assume the same level of performance this year, we will take in about AUD 30 million in the second half of FY2023, from which we have subtracted the provisional amortization cost. In FY2023, in addition to the annual depreciation and amortization expenses, there is a one-time cost. For example, although it is simply an accounting issue, there is an accounting procedure to mark inventories to fair value when an acquisition is made, which requires revaluation to a value close to the selling price rather than the actual manufacturing cost, and the impact of this revaluation is recognized as a cost. The same one-time costs, such as stamp tax, will result in little or no operating profit FY2023. Next year, there will be no such temporary costs. Analyst estimates (when the company was listed on the stock exchange) were around AUD70-80m, and we would like to aim for this level. Please understand that depreciation and amortization expenses will be incurred when consolidate.

Q. <u>Can I assume that the fair value of inventories has had the effect of shrinking goodwill?</u>

A. Inventories have been overvalued, but the overvalued inventories will be sold and gone in about six months. Where the higher inventory valuation will go is in the form of a decrease in goodwill.

Q. <u>What is the sense of scale of depreciation and amortization expenses for the next fiscal year?</u>

A. I think it will be about AUD 10 to 20 million, but we are still estimating and will let you know when we announce our FY2024 plans next February.

Q. <u>If we assume a Normalized OP of AUD 70 million and depreciation and amortization of AUD 20 million, is it correct to think that about AUD 50 million will be captured in Normalized OP?</u>

A. That is correct in concept.

Q. <u>I would like to ask about the liquor tax revision starting in October 2023. I have the impression that the sales floor has changed a lot. *Spring Valley* and *KIRIN ICHIBAN* are well represented, while *Honkirin* is sometimes hard to find. Regarding the market situation after the revision of the liquor tax, what do you think about the difference between the forecast and the actual market situation?</u>

A. We think beer and new genre beer have remained mostly unchanged from our forecast. On the other hand, temporary demand increase for *happoshu* in September 2023 was larger than we had expected. In October 2023, after the revision of the liquor tax, the demand for *happoshu* was lower than expected due to a reaction to the previous month, but we believe that overall movement was generally as initially expected.

Q. <u>You said that the new genre beer was within your expectations, but how did you see it?</u>

A. As the price difference with beer becomes smaller after the liquor tax revision, we assume that there will be an inflow from *happoshu* and new genre beer to beer and RTDs. We believe that the *happoshu* and new genre beer categories will also undergo a shakeout within the category as conditions on the sales floor change, and that demand will be concentrated on the top-ranking brands. We believe that it is important to capture the brand groups that will be eliminated in the *happoshu* and new genre beer categories.

Q. <u>Do you recognize that only *happoshu* is in weaker demand than your forecast?</u>

A. That is correct. There was more temporary demand than we had expected in September 2023, resulting in less sales of *happoshu* in October than we had expected.

Q. <u>Looking ahead to the next fiscal year, do you expect marginal profit from beer category to be positive, given the decline in *happoshu* and new genre beer categories where Kirin has strong</u>

brands? I would like some comments on whether this is possible.

A. While *happoshu* and new genre beer are expected to decline in the category as a whole, we will capture the demand firmly with our strong brands including functional product. We intend to improve marginal profit by strengthening *KIRIN ICHIBAN and* our craft beer, especially *Spring Valley*.

Q. Will you continue to pursue marketing investments in the next fiscal year?

A. We will continue to invest in our brands.

Q. Kyowa Hakko Bio posted a loss of 2.1 billion yen during the July-September period. Since the nine months result was already -5.1 billion yen towards full-year forecast of -6.0 billion yen, I would like to know its progress. Also, you mentioned that sales volume of amino acids declined more than expected. What is your outlook for next year, taking into account the market environment?

A. As you pointed out, the amino acid business is in a very difficult situation. In the current fiscal year in particular, amino acids for use in cell culture media are in a difficult situation due to the decline in demand for vaccines after COVID-19, and we concern that there is a risk of further expansion of the deficit. Naturally, we will work to achieve the plan, but we intend to cover the risk of Kyowa Hakko Bio as a whole group. Regarding the next fiscal year, as we mentioned when we recognized the impairment of amino acids in February 2023, the effect of the decrease in amortization expenses will be found next year, not this year, and we expect a decrease in fixed costs. We are in the process of finalizing the plans to turn profitable. The situation for amino acids continues to be difficult, but fixed costs will change between this year and next year, so the deficit will shrink.

Q. If the same -2.0 billion or so during October-December 2023 is expected, it could land on a total of -7.0 billion yen, but I understand that the deficit will decrease next year, although it will not be enough to turn a profit. How much do you think the change in fixed costs will contribute to profit?

A. Although it is difficult to say specifically, we think it will be at the level of several billion yen. In addition to the decrease in fixed costs due to the recognition of impairment, we are planning various other things, including structural reforms, to achieve a profit recovery.

Q. Is it correct to say that sales volume of non-amino acids, such as Citicoline, are doing well?

A. Citicoline, especially for use in health foods, is showing steady progress. In addition, although human milk oligosaccharides have just started and not yet to contribute to sales, we have started manufacturing and will continue to work on it.

Q. I understand that Coke Northeast is making a good progress against plans, but looking only at 3Q FY2023, sales growth is stagnant. Are there any changes in the U.S. beverage market? Also, the obesity treatment drug GLP-1 has recently become a hot topic in the U.S. beverage market. What impact will it have on the U.S. beverage market, etc., if any? Are you discussing something with local management?

A. Coke Northeast had been able to absorb the input cost hikes and increase sales volume, but sales volume itself has come to a standstill, although it has been steady. However, even with the price hikes, products are selling well and the economy itself is growing steadily. Please understand that the situation up to now was irregular, where both price and sales volume have been raised at the same time. We have been discussing health materials, and we have been told that there may not be much of an impact.

Q. What are the drivers of profit growth and earnings growth for Coke Northeast next year? Will price revision continues and how will volume be changed?

A. We will consider raising prices while keeping an eye on the inflation situation, so please understand that the price revision is the only measure. We are taking on the challenge of cost management (efficiency improvement through automated warehousing and SCM reforms, etc.), and we believe that these efforts will be effective in the near future.

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