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**[Q&A Session Minutes]**  
**Presentation on FY2022 Financial Results and FY 2023 Plan**

Date & Time	February 15, 2023 (Wed) 10:00-11:30(JST)
Presenters:	Yoshinori Isozaki, President & CEO Noriya Yokota, Director of the Board, Senior Executive Officer & CFO Shinjiro Akieda, Senior Executive Officer & General Manager of Corporate Strategy Dept., and Takashi Hayashi, Executive Officer & General Manager of Accounting Dept.

Q. I would like to ask about the corporate culture. I think the results have been very good, despite the many negative issues related to the market environment. I believe that the company is evolving culture that can fight back against various negativity. Please explain the background of how the company is changing to a management style that responds quickly.

A. The environment has undergone tremendous change, and we have faced a variety of difficult situations since I took CEO office. We have established culture within the company to respond quickly and flexibly to any slight changes in the environment and resolve them immediately, and I believe this has led to the results we achieved in FY2022. The Kirin Group's business domains include food and beverages, pharmaceuticals, and health science, and the food and beverages domain, which is the core of the group's business foundation, has achieved results through various initiatives. In the pharmaceuticals business, our strong will to sell Crysvita and generate profits is reflected in the financial figures. I am confident that the health science business will return to profitability in 2024 and achieve a 15% Normalized OP margin in 2027. We decided to recognize the Impairment of assets positively. We have decided to move forward with our decision to specialize in Specialties materials and to move away from the low-profit amino acids business. I believe the corporate culture are changing.

Q. Regarding the change of the corporate culture, you said that communication is important and that you have accomplished this. I would like to ask you to elaborate in some kind of case study how you created the culture, etc.

A. I think it is important for the top management to be hands-on. If you take it easy, you will be swallowed up by the waves of the times. It is important to deepen communication by directly conveying one's own experiences in various rough spots to each director, division head, and leadership level. In the case of Myanmar issue, I personally met with the top management of our JV partner and conveyed to them my intention to sever the partnership and recover our investment. I also personally contacted the top management regarding the sale of the China Resources Kirin Beverage JV and conveyed Kirin's stance. I believe that the change of the corporate culture is the result of the top management showing their backs and conveying this image to those around them, and (metaphorically speaking) all of us playing soccer as one team.

Q. You have not changed your financial target of 200 billion in sales revenue and 15% Normalized OP (NOP) margin in 2027 for the health sciences domain. I know you are confident, but please explain quantitatively; how will sales and profits change from 2024 to 2027?

A. Although we do not disclose details for each fiscal year, we believe that NOP from Citicoline and human milk oligosaccharides (HMO) can grow to around 8-9 billion yen by 2027, and by adding new materials, Kyowa Hakko Bio will grow to 15 billion yen by 2027. Lc-Plasma also aims for sales of 50 billion yen in 2027, and even with a profit margin of 10%, NOP of at least 5 billion yen can be realized, or 10 billion yen with an NOP margin of 20%. In addition, there is the development of markets from Japan to overseas and the development of new material

products. This is organic growth. Through new brands and materials with other M&A, we aim to grow more.

Q. Regarding Kirin Brewery's brand enhancement, craft beer is growing but not enough, and *Kirin Ichiban Zero Sugar* is being slightly outpaced by the competitor's brand, giving the impression that product development and marketing are not working well. Please explain the process of brand enhancement and whether it is necessary to change it.

A. Last year, both craft beer and *Kirin Ichiban Zero Sugar* did not reach the target, and we recognize that there are issues to be addressed. Craft beer cannot be nurtured by selling the same way as mass beer products. It is necessary to communicate the brand's culture and philosophy, etc., and to market the brand so that people become fans, but we lacked the capability in this area. From March, Mr. Yamagata will also serve as vice president of Kirin Brewery, and he is committed to this point. Similarly, *Kirin Ichiban Zero Sugar* needs to communicate the added value of its products. Last year we conducted a renewal of the product, but the challenge was that we were not able to fully convey the good qualities of the product. Health-consciousness of consumers is sure to increase in the future, so we would like to expand the market as a whole rather than competing with competitors for a piece of the pie. We are working to make *Kirin Ichiban Zero Sugar* the brand of choice in this context, and we have been working on this since the beginning of this year as well.

Q. I know that Citicoline/HMOs in the health sciences business are an exciting material, what competitive advantages and growth potential do you see?

A. Citicoline is a pharmaceutical material used to treat cerebral infarction and brain dysfunction in Japan, but in the U.S., it is expected to be used as a food product for customers seeking to improve cognition and concentration as well. If the use of Citicoline as a health food is approved in other countries in the future, the market size may expand rapidly. There is a high level of interest worldwide in the function of Citicoline in the treatment of dementia, and it is a material with high potential. HMOs are oligosaccharides with components unique to breast milk that are not found in conventional powdered milk, and are of great interest not only in the U.S. and Europe, but also in China and Southeast Asia. First of all, we will market it as a material that contributes to the growth of infants. It has been also discovered that it can contribute to the health value not only of infants but also of adults, and we would like to expand our customer base in the future. The global market is said to be worth approximately 100 billion yen by 2027. While both materials are difficult to manufacture and suppliers are limited, we have started development at an early stage and have achieved efficient manufacturing. We would like to make a big leap forward because these materials have potential in the global market.

Q. I would like to ask about your future stance on business investments. I understand that this impairment is positive, but it is true that you bought Kyowa Hakko Bio for about 130 billion in 2019 and lost 43 billion in value. I think there have been some positive business investments so far, such as San Miguel Brewery and Coke Northeast, but I think there have also been some major losses, such as the Australian dairy & drink business, Brasil Kirin, and Myanmar. I think that there are cases where investments are made but there is not enough return, and I would like you to explain what stance you will take on business investments in the future, and what issues you recognize.

A. We have made various investments both domestically and internationally. There are some that have made large losses, such as Brasil Kirin and the Australian dairy & drink business. However, Lion, San Miguel Brewery, Kyowa Kirin, Four Roses Distillery, New Belgium Brewing, and China Resources Kirin Beverages have made solid returns. Not all wins, but certain results have been achieved; 43 billion in impairments against 130 billion in investments is a fact. Originally, we only wanted to do Kyowa Hakko Bio's specialty materials, excluding amino acids business, but in the negotiation process it was not possible to take only the good parts. We knew that the amino acid business was low-profit, so we made the decision to reduce its value to move forward. Our investment criteria are, first of all, whether the investment is in line with our management strategy. We do not make investments with a sense

of abruptness. We look at how it will lead to enhancing corporate value. Furthermore, I made it clear at the board meeting that we will not invest in projects that require more time than necessary before they lead to value, as there is no point in paying a premium for such project. The board makes decisions with discipline. Since the majority of the board of directors are non-executive external members, we believe that the candidates for investment will be those that have a solid quantitative return and are consistent with our strategy.

Q. From the outside, Kyowa Hakko Bio appears to be one-third impaired. You wanted to acquire by specializing in specialty materials, but were unable to do so. You decided to acquire it including amid acid business because specialty materials had that much appeal in the future, and that even if there was some loss, there would be an enough return in the future?

A. That is correct. The amino acid business is being transferred to Shanghai. We are considering various options in terms of how to downsize. First, we will cut our losses and focus on highly profitable products.

Q. You plan to increase marketing investment by just under 12 billion yen. Last year was restrained and let to profit, but what is your approach to investment with regard to Kirin Brewery, Kirin Beverage and Lion? You plan to invest about 5 billion yen in Kirin Beverage, but what exactly will you do? I believe that you are becoming more flexible in controlling selling expenses, but I would like to know your background thinking on marketing investments, including the flexibility to curb them in a tough situation.

A. Creating a brand is the primary objective of marketing investment, and there are three main criteria. Flexibility, focus, and investment efficiency. Flexibility does not mean "we will do what we decided at the beginning of the year" but rather, we will determine the level of investment based on the real-time condition of the brand and proceed accordingly. Focus does not mean "all brands treated equally" but rather, "which brands should be invested in now?" and other factors. Investment efficiency does not mean investing because the competition is investing, but rather considering the ROI of the investment to ensure a return on the investment. Marketing investment decisions are made with these three criteria in mind. Regarding this year's increase for Kirin Beverage, it is trying to become a unique company centered on health science, and we recognize that this is an important year for the company. We expect that the out-licensing of Lc-Plasma to a competitor will begin, which will greatly expand customer recognition of our products as well. Ultra-small PET products are also being developed through the chilled distribution network. In light of these circumstances, Kirin Beverage is increasing its investments in the health science area. Kirin Brewery will focus on *Kirin Ichiban* and craft beer; Lion is implementing initiatives to strengthen its brands while implementing structural reforms; marketing investments are being made in priority brands such as XXXX and Hahn, and new initiatives are being launched with different content. Although numerical results will follow, we will continue to invest in these brands, as we have seen results in the evaluation of mental indicators that are increasing.

Q. With a cost increase of 50 billion yen, does that mean you are going to be flexible and aggressive at the same time?

A. Exactly.

Q. Why did you switch to an offensive stance at this time with Kyowa Hakko Bio, Lion, and Kirin Beverage? Do you think the time is ripe?

A. There are times when we have to compete in the midst of various changes in the environment. We are making management decisions flexibly while keeping an eye on overall trends, such as when to sell assets or when there are businesses that should be divested, as in the case of the recent impairment. In particular, with regard to the Kyowa Hakko Bio impairment loss, we decided that now was the right time to downsize the amino acid business because the business infrastructure is being put in place to specialize in specialty materials.

Q. With Kyowa Hakko Bio's current targets being revised downward, will you be able to achieve your 2027 targets, and are there any points you can commit to before 2027? How should we track progress?

A. Based on the pipeline and amino acid business structure of Kyowa Hakko Bio, which has strong development capabilities, the Kirin Group organized Kyowa Hakko Bio's growth strategy and created a scenario of business development specializing in specialty products, therefore the basic strategy has not changed since the beginning. In order to focus on these specialties, we gradually reduced the volume of amino acid production, but the sharp rise in raw material and energy prices last year had a strong impact, leading to the current impairment loss. The growth story has not changed at all, and we are confidently designing the company to be profitable in 2024. Since HMOs have not yet been launched, we would like to focus first on Citicoline, which we are working on as a specialty product. We will regularly provide opportunities to explain about the developments in the future.

Q. What is the latest outlook for cash allocation for the mid-term plan at this time? I would like to know the numbers for the current and next fiscal year, as I think you have something in mind.

A. The medium-term business plan (MTBP) calls for 700 billion yen in operating cash flow within the three years of the MTBP, but we periodically review the plan and must admit that it is slightly weakening. Although there is a downward swing in capital investment in the infrastructure, the basic stance remain unchanged. We are making steady progress in generating 100 billion yen in cash management. Cash is being generated within the planned range due to the sale of assets, including the sale of China Resources Kirin Beverage, and the level of debt is also within investment capacity, with interest-bearing debt at around 520 billion yen and a gross DE ratio of 0.53. We do not believe that a revision of cash allocation plan is necessary at this point. We are determined to increase operating cash flow, and although ROIC and Normalized EPS growth will be restrained in 2023, we would like to increase them firmly toward 2024.

Q. The medium-term business plan states a three-year dividend total of 230 billion yen, but is this a viable level? Is it better to base the dividend on the Normalized EPS rather than the absolute amount of the dividend? What is your approach to shareholder returns, including share buybacks, to achieve this goal?

A. We do not intend to change our dividend plan from 230 billion yen at this time. Although the Normalized EPS appears to be stagnating a bit, we will continue to aim to achieve the target because growing EPS toward 2024 will also lead to returns. We believe that operating cash flow growth could be pushed back, but we are aiming for the level we designed in the MTBP. Last year, we conducted a 50 billion yen share buyback, which had the effect of improving EPS by about 3%. At this point, we would like to allocate cash to investments for future growth. Our current priority is investment, but if it becomes difficult to find good investment targets, the company may choose to return excess cash to shareholders through share buybacks.

Q. I believe you are considering M&A and other opportunities in the health sciences domain. Do you have any plans to replace your portfolio, including the food and beverages domain?

A. Regarding the portfolio discussion, we will remove from our portfolio those items for which profitability and growth potential cannot be expected in the future. In terms of affinity with our business, we have been strengthening the fields of food and beverages, pharmaceuticals, and health science using fermentation and biotechnology, and will continue to do so in the future. In this context, some assets have the ability to generate significant cash even if they are not 100% owned by Kirin. Some investors have told us that they would like us to hold these assets from a cash perspective. The Board of Directors review the business portfolio at least twice a year. Investment in health sciences is a subject to be solved for the future. Especially how to secure sales/distribution channels in Asia-Pacific and North America is an issue to be considered.

- Q. The U.S. business in the food and beverages domain is doing well. What is the size of sales revenue and NOP for each business? What are your thoughts on future upside?
- A. Our US businesses are growing strongly and is a large size with NOP of approximately 100 billion yen, including pharmaceuticals business. When viewed by region, the fact that we have several quality assets in US has contributed to our group performance in this year. Coke Northeast has revenue of over 200 billion yen and NOP of around 26 billion yen. The current performance is the result of a virtuous cycle in which volume growth is achieved even with price revisions while absorbing cost increases in raw materials, labor, and other items against the backdrop of the U.S. economic situation. Although the economic situation in the U.S. will have to be monitored closely to see how long this cycle can be sustained, it is expected to exceed last year's profit level, if not to the point of rapid growth. Last year, Four Roses's business earned approximately 9 billion yen, and Lion's craft beer business earned approximately 8 billion yen. Each is a quality asset and has the same potential as Coke Northeast.
- Q. In the health sciences domain, excluding Kyowa Hakko Bio, profits declined by approximately 3 billion yen last year, while profits are expected to increase by 2 billion yen this year. How much will the impairment loss on Kyowa Hakko Bio reduce the fixed cost burden?
- A. The impairment of Kyowa Hakko Bio is expected to reduce fixed costs by approximately 3 billion yen in 2024. In the health science domain, there are products such as supplements and Koiwai's yogurt, but Kirin Beverage's ultra small PET and others will be the biggest driver of growth for the health science domain business. As you recognize, we will turn profit growth around, but we believe that investments will continue to be necessary to improve functional recognition.

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