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[Q&A Session Minutes]
Presentation on 1Q FY2024 Financial Results

Date & Time:	May 9, 2024 (Thur), 4:30-5:30 pm (JST)
Presenters:	Hiroaki Takaoka, Senior Executive Officer & General Manager of Corporate Strategy Dept., Hidefumi Matsuo, General Manager of Finance Dept.

Q. Please tell us about the sales status of "KIRIN Beer *Harekaze*". You said that it has a good start and In-house cannibalization is minimal, so where is the brand getting demand from? Also, I'd like to know what effect the strong sales "KIRIN Beer *Harekaze*" will have on future plans.

A. The sales of "KIRIN Beer *Harekaze*" have been very strong, and in April also significantly exceeded the plan. There are several factors, but first of all, we were able to create a buzz in the market by strengthening communication, including advertising, even prior to its launch, which was effective. We recognize that the product has been well received a high evaluation for taste. The consumer base for "KIRIN Beer *Harekaze*" differs from that for "KIRIN *ICHIBAN*", with support from women and the younger generation. Therefore, we believe there is less cannibalism with "KIRIN *ICHIBAN*" than we had expected at first. Although there are some inflow from "KIRIN *ICHIBAN*", we have a view that most of it is coming from other products, including other competing companies, and this is a positive factor for us. We intend to strengthen our investment to make "KIRIN *ICHIBAN*" and "KIRIN Beer *Harekaze*" our two-flagship brand, and to strengthen the beer category in preparation for the unification of liquor taxes on beer in 2026.

Q. You said that other competing companies' products are the source of inflow, specifically from which category is the brand gaining consumer?

A. We think that we are gaining from other competing companies' beer categories, with most of the inflow coming from regular-priced beers.

Q. Do you plan to increase marketing investment in the future to strengthen the "KIRIN Beer *Harekaze*"?

A. Although we keep an eye on the sales situation, we will not slow down our investment and reduce momentum, but rather strengthen our marketing investment to establish the brand in the market.

Q. I thought the overall plan for this fiscal year is for Kyowa Kirin's profit decline to be absorbed by the other companies, but Kyowa Hakko Bio and Lion's US craft started with a decline in profit. How is the progress in 1Q, including the newly consolidated Blackmores.

A. Kyowa Kirin plans a decrease in profit due to a significant increase in R&D investment, but we plan to supplement this with other companies' profit. Kyowa Hakko Bio continues to face difficulties, especially in sales of amino acids, which are below plan. We'll cover the decrease in profits by Kirin Brewery, Lion and Coke Northeast. Although Lion's US craft sales fell slightly short of the plan, we regard this is due to inventory adjustments by distributors in the US. We expect a recovery after 2Q, as we recognize that consumer consumption remains strong. We think that Australia has more risk due to the market decline. However, Lion has been gaining market share for several consecutive months, and we believe we will be able to achieve our plan.

Q. Blackmores is down 11% in SEAK (South-East Asia plus Korea) in Australian dollar basis, but is it because of Infant Formula, or is something tougher than expected in the SEAK area?

A. That is correct. In Vietnam, sales of Infant Formula fell short, but sales in other countries were favorable. In China, we implemented price revision due to the soaring prices of fish oil, but the sales also increased.

Q. Am I correct in understanding that the \$12m profit from Blackmores this time is also in-line with the plan?

A. Exactly.

A. SEAK's sales of Infant Formula in Vietnam were temporarily suspended due to the time required to change the contract manufacturer of Infant Formula.

We predict that the trend recovery in May. We believe that we can return to the planned line overall by covering other areas.

Q. Please explain the factors behind the company-wide 1Q results that exceeded the plan in terms of both sales revenue and Normalized OP and how about the continuity.

A. Among companies, Coke Northeast and Kyowa Kirin in particular exceeded the plan, with Coke Northeast exceeding the plan despite a price revision in January, as sales volume has not declined. Kyowa Kirin exceeded the plan due to the impact of foreign exchange rates and higher technology revenues, and although some expenses were delayed in 1Q and there is a risk of a downturn at Kyowa Hakko Bio in the future, we expect the full-year results to be in line with the initial plan.

Q. Kirin Brewery planned to strengthen its marketing investment this year, is it correct to say that the 1Q is off to a good start?

A. Kirin Brewery exceeded the plan. We recognize that we have made a good start.

Q. Other than "KIRIN Beer Harekaze", you said that brands such as "KIRIN ICHIBAN" and "Honkirin" are also good condition, but what are the reasons for this and how sustainable is it?

A. We think that the marketing investments we have made since last year have had a positive effect on "KIRIN ICHIBAN" and "Honkirin". In addition to the strong performance of the beer category, we believe that the economy beer market will remain in demand for about half of beer products total, and we will continue marketing investment of "KIRIN ICHIBAN" and "Honkirin" to nurture this market.

Q. I would like to ask you about Health Sciences. You mentioned that Kyowa Hakko Bio fall down, but while the annual plan for Normalized OP is -3.0 billion yen, it was already -2.3 billion yen in the 1Q. What kind of progress should we expect in the 2Q? Also, you mentioned that Blackmores' sales in China have increased by 20% while the company implement the price revision.

A. Kyowa Hakko Bio has ongoing structural problems that it's not getting out of the situation. We continue to face intensifying price competition for amino acids for food products, a decline in demand for amino acids for vaccines, which have high profit margins, and a situation in which we are unable to pass on rising costs to prices. In addition, we continue to supply products that are not profitable to fulfill supply responsibility, and we have not been able to improve the situation. We expect the annual amount to be less than the planned 3 billion yen, but we will closely examine the specific amount toward the mid-period. We try not to go as far into the red as last year.

Q. Is it correct that you try not to be -2.3 billion yen times 4Q, but you don't know how much that will be, and it will not be a big improvement in 2Q?

A. That is our understanding. We will take whatever measures we can to sell the products, but we would like to wait a little longer for specific figures. As for Blackmores in China, we were concerned about the economy, but we have consumers, and even if we implement prices revision, the price elasticity is within our expectation. However, we need to keep an eye on Customer Trends. We will also keep a close eye on the competition, including competitors, as competition among fish oil products is intensifying. We believe that the reason for the strong sales is that our customers continue to buy our products. We believe that one of the strengths of supplements is that they are consumer goods and can be purchased regardless of the economic climate.

Q. Please tell us about Lion's sales volume and market in Australia in 1Q.

A. The Australian market for beer total was down mid-single digit %. The on-premise channel was down low-single digit % and the off-premise channel was down mid-single digit %. Lion outperformed the market in off-premise channel and was almost on par with the previous year. The on-premise channel was on par with the market, and the Lion total decrease about 1%.

Q. Compared to last year's 4Q, market conditions seem to have deteriorated, but what is the background to this?

A. We think that the economic perspective is significant. With prices and interest rates remaining high and disposable income failing to keep pace, we think that spending on luxury items is declining. We have a view that the situation will change as the economic environment improves. Since interest rates are expected to fall in the second half of this year, we believe that demand for luxury items will recover at that time.

Q. What factors are contributing to Lion outperforming the market?

A. We believe that the effects of our ongoing marketing investments are beginning to show. In addition to the double-digit or higher growth of health-functional Hahn and craft beer Stone & Wood. XXXX, which has a large sales volume, is now on par with the market and appears to have stopped going down.

Q. Do you implement price revision strategically?

A. Basically, our policy is to raise the average unit price by price revision. In this context, we are strategically implementing price revisions to maximize sales by adjusting the range of price revisions according to each brand and its characteristics.

Q. Did Lion achieve the plan?

A. Both sales revenue and Normalized OP are almost in line with the plan.

Q. Regarding Australia, since the price was raised in February in line with the liquor tax revision, I would like to confirm whether the sales situation is more difficult from March onward when looking at the monthly figures amid the poor consumption environment. Also, regarding Lion's price revision, you mentioned that you will implement the price revision strategically and that you will raise some prices and not other, but looking at the monthly figures from January to March, please tell us if the price revision is having a positive effect in terms of market share change.

A. The momentum of sales dropped in March due to a price revision in line with the liquor tax revision in February. As for sales volume, the drop in numbers is not so big because there was Easter. Lion has been implementing a pricing strategy for each SKU and brand, and the market share has continued to increase, which is having a certain effect.

Q. Rather than an increase in market share since March, have you been gaining market share continuously since January?

A. That perception.

Q. Regarding the market, will sales momentum remain poor in April and beyond, but will sales volume rise in the second half of the year due to lower interest rates and income tax cuts?

A. We have that expectation as well.

Q. You said that Lion's sales revenue and Normalized OP were in line with the plan, but if we break it down by area, Oceania and US, does that mean they were in line with the plan?

A. In terms of sales revenue and Normalized OP vs. plan, Oceania slightly exceeded the plan. Although sales in US grew year-on-year, it fell slightly short of the plan, partly because the plan was set so high.

Q. Please break down the increase in sales and earnings of the US craft business into the existing products and the contribution from new products (Hard Charged Tea).

A. New products are performing well, but the current volume is not that large, and most of the increment is existing products.

Q. Sales and earnings of the US craft business grew 18%, but is it correct to say that existing products are growing?

A. That is correct. Sales volume grew by a high single-digit %, and revenue grew by 17~18%

due to the effect of price revision.

Q. What are the product features of Hard Charged Tea and how is the consumer response of it?

A. Hard Charged Tea is a black tea flavored alcohol product. It is gaining support and growth mainly among the younger generation. Last year, Hard Charged Tea was sold on a trial basis in Colorado and some other areas, but this year, the product was launched in all- US and is making steady progress.

Q. You say you have made a good start with “KIRIN Beer Harekaze” but what differentiates it from other products? Why is it accepted by consumers? While Kirin has launched great products over the years, I think that while it is off to a good start, there are some challenges in terms of continuing to nurture the brand. I would like to know how you plan to nurture the brand this time, and if there are any differences from past methods.

A. There are several factors, but the fact that it has become a hot topic mainly through SNS as an advertisement, the fact that it has a light taste despite being 100% malt, and the fact that it is a product that can support communities in various regions of Japan are among the factors that have accepted to younger consumers. We consider the sustainability of momentum to be the most important issue for the future, and we will make necessary investments according to the situation. In addition, we will cultivate the brand from a medium- to long-term perspective, such as by strengthening our efforts in preparation for the liquor tax revision in 2026. We will continue to place the highest priority on these activities.

Q. You mean you don't lose investment as you have done in the past?

A. Not that we have been lose in the past, but we will invest well.

Q. Regarding Kyowa Hakko Bio, the deviation from the plan disclosed at the time of the 4Q 2023 financial results was already large as of the 1Q, and we recognize that the situation is severe. The reasons for this seem to have not changed significantly for some time, but why has the situation deteriorated to this point? Also, do you think it is impossible to improve profitability without drastic reforms in the future? I would like to know about it including a timeline.

A. The major trend is the same as before and has not changed. In addition, we have not been able to pass on the higher cost of raw materials to our products, and amino acids for pharmaceutical use have been heavily impacted by the fact that we are responsible for supplying them and must ship even if it is in the red. While we are reorganizing product lines to improve profitability from a medium- to long-term perspective, in the short term, the fixed cost burden has increased due to the decrease in sales volume caused by the reorganization of product lines. As you have pointed out, we recognize the need for drastic reforms and we are considering every possible means, but at this point, there is nothing we can explain to the public, so we ask that you please wait a little longer.

Q. As the deficit further widens, more drastic reforms will become more difficult. Please tell us your thoughts.

A. As you recognize, we think that we must take action immediately. In fact, we have already begun to reduce the deficit in some parts. On the other hand, we have a responsibility to supply pharmaceutical-use amino acids, so we cannot immediately stop manufacturing them. We are currently taking steps to overcome this issue.

Q. Is it correct to understand that due to the responsibility of supply, it is taking time to search for other companies to take on Kyowa Hakko Bio's business?

A. Unit prices are fixed due to contracts, but we are negotiating to pass on prices, and we are also finding customers who have left in the past. We hope that the sales volume will recover to some extent during the course of the product lineup consolidation, but the current situation is the most difficult yet. We will continue our efforts to improve the situation.

Q. Is it correct to understand that if sales volume improves, there is a possibility that Kyowa Hakko Bio will take over the business?

A. Fundamental reforms are not necessarily mean selling the business to another company.

Efforts to recover sales volume and drastic reforms, including all options such as collaboration with other companies, are being carried out in parallel.

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