[Q&A Session Minutes]
Presentation on Q2 FY2024 Financial Results

Date & Time: August 7, 2024(Wed), 10:00 a.m.（JST）
Speakers: Yoshinori Isozaki, CEO
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[Question and Answer]

Q. Lion’s full-year forecast was revised downward, but Normalized OP in the first half of the year was solid. I would like to check if there were the changes in the management structure and efforts to address internal environmental factors that have an impact on business performance are achieving results.

A. The first half of the year has been good. The market environment was difficult, but we have gained market share for several months in a row. In addition, cost reductions and other factors contributed to the overall positive results. Looking at the full year, the market environment shows no signs of improvement with the interest rates remaining high. The peak season in Australia runs from October to December, and we expect the second half of the year to be more affected. The biggest change is that the investment in the brand was paying off. Hahn and Stone & Wood continued to grow at double-digit rates. XXXX and Tooheys were struggling a bit, but we will intend to implement measures to improve in the second half of the year.

Q. Regarding the midterm plan, you mentioned that the corporate tax burden will increase due to the revision of capital structure for an overseas operation. I would also like to check whether the same thing will happen at other overseas operating companies.

A. We changed the capital structure of an Australian business. Due to the difference between the exchange rate at the time of the investment and the current exchange rate, there will be a tax burden of approximately 10 billion yen due to a deemed capital gain at the time of the capital reduction scheduled for the second half of the fiscal year. For accounting purposes, the gain is eliminated upon consolidation and is not reflected in the Profits & Loss statements.

Q. I appreciate that the direction of efforts has become clear this year, including measures to rebuild the beer business and the TOB of FANCL. On the other hand, where do you want to invest management resources in 2025 and beyond? Is it correct to understand that next year will be a time to strengthen investment toward KV2027?

A. Next year is the final stage of KV2027, our long-term management plan, so we will accelerate our final efforts. There are many initiatives to deal with in the Health Sciences business, but first, we want to resolve the Kyowa Hakko Bio issue as much as possible by the end of this year, and when the TOB of FANCL is completed, we need to achieve cost and sales synergies with FANCL and Blackmores. From these perspectives, it will be clear what we need to work on next year. In addition, the mainstay beer business should strengthen its marketing efforts in Japan as the 2026 liquor tax unification approaches and pure beer will be more in the spotlight. The Australian and US businesses also need to strengthen their marketing. In the Pharmaceuticals business, Crysvita and Poteligeo are doing very well and expanding their markets. We would like to further increase profits in the Pharmaceuticals business as soon as possible. There are initiatives an acceleration towards our final goal by KV2027, not just next year. The direction of KV2027 has not changed, but we will increase the level of execution next year. Please understand that we will further strengthen our strategies by function, such as marketing capabilities, human resources, and DX.

Q. How did you revise the FY2024 operating CF in Q2? As investments through M&A activities will slow down in the next fiscal year and beyond, it is very important to increase operating CF. What is your view of the normalized value of operating CF?

A. In the mid-term plan of FY2022-2024, we had planned for an operating CF of 600-700 billion yen. Operating CF is mostly Normalized OP, so please look at the normalized value there. There is a slight change compared to last year, but this is due to temporary factors such as the repayment of transaction deposits in the Alcoholic Beverages business.

Q. Although there have been changes in the business environment, it's slightly less than the 700 billion yen that you originally envisioned for operating CF over the three years. How do you plan to increase earning power in terms of operating CF from existing businesses in the next fiscal year and beyond?

A. Of course, we will improve operating CF by improving Normalized OP, but we also work to improve working capital CCC. In addition, as we work to improve the business structure through business portfolio reforms, the level of operating CF will also improve.

Comment: There are strengths and weaknesses among businesses, and accounting profits become difficult to evaluate in the process of asset replacement. Therefore, it would be good if you could emphasize the point of improving the operating CF as the real value of earning capacity.

Q. What is your business portfolio strategy? If the TOB of FANCL is completed this time, the D/E ratio will increase, making it difficult for you to make bold M&A in the near future. Considering this, I think you should accelerate the reorganization of Food & Beverages business portfolio, not only Four Roses, Coke Northeast, and San Miguel Brewery, but also Lion, which is facing a difficult market environment. Will you accelerate the reorganization of your business portfolio for the next mid-term plan to focus on the Health Science business?

A . We constantly discuss the business portfolio at the board meeting. Although the debt will increase when the TOB of FANCL is completed, we are not in the stage to increase cash by selling the business now, as it is within our temporary borrowing capacity. However, to return the D/E ratio to an appropriate level in preparation for the next investment, we will increase the earning power of existing businesses with priority given to repaying the increased debt. However, there is a possibility that Alcoholic business and Pharmaceuticals business may also have targets in which we should invest, and we never know when the timing will come. We will not hesitate to discuss various portfolio restructurings at such times. Nothing has been decided yet, but we will consider whether it is optimal to maintain holdings in cash-generating businesses while considering the optimal state of existing businesses.

A. When we change the business portfolio, it is necessary to be very drastic in terms of financial improvement. In the current situation, we will not go as far as to change the situation. On the other hand, as San Miguel Brewery, Coke Northeast, and Four Roses, are earning a lot of cash, there are people's opinions in the capital market who would like to see them continue to be held. If there are M&A opportunities that are necessary for further growth, we will consider reviewing them. Although the macroeconomic situation in Lion is exceedingly difficult, we believe that there is still plenty room for improvement, so in the current situation, Lion is not a target for reviewing the business portfolio.

Q. What were the trends in Lion's market environment by channel in the first half of the year? Please also tell us about the price increase in August, the competitive environment, and the outlook for the second half of the year (changes in volume basis). In addition, there is a risk that bad economy could disrupt the sales channels of the on-premises, but has such a trend become apparent recently?

A. For the first half of the year, the market for the off-premises channel was down mid-single digit % and Lion was down low-single digit %. For the on-premises channel, both the market and Lion were down low-single digit %. In total, the market was down mid-single digits% and Lion was down low-single digits% about 2%. The market environment is difficult, but Lion's momentum is not bad from the perspective of the competitive environment. Price revisions will be implemented in August. Although we will not raise prices by a uniform percentage, we will implement price revisions for each product and brand. Profits for the first half of the year were positive due to cost reductions and other factors, but for the full-year, sales volume during the peak season will have a large negative impact. In addition, annual results are normally calculated on a 52-week basis, but last year a 53-week count was used due to management factors, so this year there will be a one-week behind, and the overall result is expected to be negative compared to last year. As for the full-year sales forecast, the first half was down 2%, but we expect the second half to be down in the mid-single digits%. With interest rates remaining at high levels, we think that off-premises will be more affected given the impact on households.

Q. While *Kirin Beer Harekaze* was a great hit, new genre beer and Happoshu struggled. The current financial results would have decrease profits if there was not the decrease in depreciation expenses resulting from the change in useful life. How will Kirin Brewery increase profits in the future? For example, is 2025 an investment phase for marketing like 2024? Or is it a phase in which marginal profit will improve?

A. *Kirin Beer Harekaze* performed well, and the annual plan was revised upward by approx. 30%. *KIRIN ICHIBAN* had some cannibalization from *Kirin Beer Harekaze*, but sales still exceeded the previous year. In the pure beer category, we recognize that we are outperforming the market. The economy category is also shrinking more than expected, but it still accounts for nearly half of total beer products volume. To maintain brand power, we will continue to invest in brands such as *Kirin Tanrei Green Label* and *HonKirin*, etc. As we focus on the pure beer category in preparation for the liquor tax revision in 2026, we are allocating marketing investment more heavily and expanding *Kirin Beer Harekaze* and *KIRIN ICHIBAN*. These two will be the main pillars for Kirin Brewery to increase profits.

Q. Since you have a large proportion of Happoshu and new genre beer, the period of increasing the proportion of beer is a difficult situation. Since the situation will change after the liquor tax revision in 2026, will you still be in the phase of continuing investment in the next fiscal year?

A. We need think about the situation in 2026 and beyond, and we will continue to invest until then.

Q. How much synergy can be generated between Blackmores, which was acquired last year, and FANCL, which is in the process of conducting a TOB? Also, please explain to what extent that will be reduced if TOB of FANCL is not completed.

A. Since the TOB is still in process, I refrain from commenting on the synergies of each company, but we believe that the TOB will be completed, and we will have another opportunity to explain after the TOB is completed and the PMI is conducted.

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