

Minutes of teleconference on 1Q financial results of FY 2021

<Date and time> 5:00-6:00 p.m., Wednesday, May 12, 2021
<Participants> General Manager of the Corporate Planning Department,
General Manager of the Finance Department

Q1 What are your thoughts on company-wide performance? It does not seem that Myanmar Brewery's struggles will be resolved anytime soon, but I would like to know how the Kirin Group as a whole is going to offset them, as well as the status of negotiations with MEHPCL.

A. Myanmar Brewery's sales volume was down 46% in 1Q. We are conducting simulations to the best of our ability, including future trends, but our initial yearly plan for Myanmar Brewery will not be changed at this time. Recently, the demonstrations in the region have subsided, and consumption has been returning. Sales volume in April is up approx. 40% from the previous year, and revenue is also up over 50% from the previous year. A recovery has been seen with the resumption of the production of bottles and cans in two lines each. There are risks that the situation may change in the future, but performance of the rest of the entire Kirin Group will offset it. We are unable to provide details on the status of negotiations, but we are holding talks with MEHPCL despite the turmoil.

Q2 The sales of *Kirin Ichiban Zero Sugar* have been strong in the first quarter, but Suntory Brewery's new rival product was also launched in April. Could you give us some information on market trends and market share?

A. *Kirin Ichiban Zero Sugar* is doing very well. We are aware that Suntory Brewery has launched a new beer product with zero sugar content. We will continue to monitor the situation closely.

Q3 You mentioned that *Home Tap* is doing well, but I would like to know if there is anything you could tell us about the impact on P&L, such as sales, and KPIs for subscriptions, such as subscription turnover. Also, is there an upward trend toward reaching 100 thousand subscribers by the end of December? Please explain the company's thoughts about the annual plan.

A. We are monitoring new subscribers and cancellations, but our goal is to get as many people as possible to enjoy *Home Tap*, so reaching 100 thousand subscribers is our KPI. As we mentioned at the beginning of the year, this is a new challenge for us; so considering that we will be utilizing advertising and sales expenses, please understand that this year will be a year of investment in establishing the product base. Contribution to profits may be seen from the second half of the year to next year. Also, we are making good progress

toward our goal of 100 thousand subscribers. Please keep an eye on future quarterly announcements to see how far we can go. As for the beer servers, there are no longer supply issues and have been able to deliver them without issue from March, so if a consumer were to sign up now, he/she would have the server the following month.

Q4 How many people are on the waiting list as of the end of March? I understand that you are not changing the target of 100 thousand people per year, but is there any supply risk for 100 thousand people?

A. The waiting list for subscribers has almost been eliminated.

Q5 How did consolidated profit performance in 1Q compare to consolidated profit plan for the full year? Please explain each of the major segments.

A. We are on track to meet our full-year plan. Although there are some negative factors such as the impact of COVID-19 in Japan and the political situation in Myanmar, we believe that we can achieve the full-year plan due to the strong performance of Kirin Brewery and Coke Northeast. Profit structure reforms are also progressing.

Q6 Do you plan to use the whole forecasted corporate expenses amount as planned?

A. Basically, we are planning to use the funds as planned, including investments in intangible assets. We will make a decision on whether to control costs or not by carefully watching profit and loss fluctuations.

Q7 Kirin Brewery's sales expenses increased by 1.5 billion yen. How is the marketing cost plan progressing vs. the annual plan? Also, it seems that the volume of total RTDs has increased and among these, high value-added RTDs now comprise 8% of total RTD sales; however what percentage of the 27% increase in RTDs volume does high value-added RTDs account for?

A. As the upward swing in fixed sales promotion expenses and advertising expenses in 1Q were behind plan, we plan to fully use the annual planned amount. In 2Q and 3Q of last year, we narrowed down our investment amidst the COVID-19 situation, but this year we will increase investment, which will negatively affect profit. Of the 27% increase in RTD volume, about one-third of this is comprised of high value-added RTDs.

Q8 Did you use up the planned 1Q marketing spend towards Kirin Brewery's new businesses?

A. We used up the 1Q marketing spend for new business; however we did not end up using all of the planned 1Q marketing spend for existing brands such as non-alcohol beers, among others.

Q9 While the volume in Australia and New Zealand excluding overseas craft beer decreased by 5.7%, revenue growth in Australian dollar terms was 3.9%. What is the revenue growth rate in Australian dollar terms when excluding the performance of overseas craft beer? Is pricing improving for both on- and off-premise channels?

A. First, with regard to overseas craft beer, the profit increase/decrease chart on page 18 of the financial results presentation shows overseas craft and others as +9m AUD, and the effect of the volume increase is significant. Sales revenue in Australia and New Zealand is about -6%, which is about the same change in sales volume. While there was an impact from a decline in on-premise channels*, there was also an improvement in price increases and variable sales promotion expenses due to the tax hike. YoY volume is down due to a rebound from a special demand for 30-can cases that occurred in 1Q last year; but profits are improving slightly. The channel mix was also upwardly revised from the plan.

Note: Comments marked with * have been revised in the minutes.

Q10 Will effects of reinforced measures towards off-premise channels in the Australian business be seen from 2Q?

A. Yes.

Q11 How much do you estimate volume performance in the Australian market is vs. the industry as a whole?

A. We understand that the Australian market volume is about -3% comparatively in 1Q.

Q12 FANCL's stock price is lower than when Kirin invested in the company. Should it be easier to buy now?

A. We don't have anything specific to say regarding the stock price, but our first priority is to create synergies with FANCL first.

Q13 Why are high value-added beers and high value-added RTDs selling well? Is this trend sustainable?

A. As demand for at-home drinking is increasing, we believe that there is consumer sentiment to drink something "special" – products with taste that makes people feel special and different from the everyday. This is exactly the strategy we have been working on in the past few years, and it is working. Craft beer is one of them, and so is *Home Tap*. The fact that we have been able to launch high value-added products and continue to do so means that Kirin Brewery's measures are beginning to be well-accepted by the consumers. We believe that this is a sustainable measure to achieve a 25% normalized operating profit excluding liquor tax.

Q14 How much did *Lactococcus strain Plasma* (LC-Plasma) sales increase in the first quarter? B-to-B sales are planned to earn 3.5 billion yen out of 50 billion yen in total sales plan for 2027. How have negotiations with potential B-to-B customers been proceeding?

A. LC-Plasma is a material that is easy to handle, and we are negotiating with companies such as beverage manufacturers as well as confectionery manufacturers in Japan. Overseas, B-to-B negotiations that will contribute to sales are underway, and we expect to make an announcement soon. The raw material business has a high profit margin, so we aim to achieve our goals by expanding this area.

Q15 Is LC-Plasma's B-to-B business progressing quickly against the plan?

A. We are on track to achieve planned goals.

Q16 Please explain the market conditions in Australia, separately for on- and off-premise channels. Also, what are the challenges for each channel?

A. According to our estimate, the overall market volume declined by about 3%, and a single-digit percentage declined for both on- and off-premise.

Q17 Was the increase in profit from the Australian dairy beverage business factored into the plan?

A. The large increase in dairy beverage profits was not included in the plan.

Q18 Lion's market share in the second half of 2020 seems to have dropped in comparison to competitors due to a rebound from intense competition in 2019, but has the market share stabilized in January-March?

A. Lion's market share has been stable and has not fluctuated significantly. In the cumulative period from January to March, the sales volume of Australia and New Zealand is down 5.7% YoY, but it has been gradually improving on a monthly basis.

Q19 San Miguel Brewery's profit is expected to decrease by one billion yen on an equity method basis but the forecasted full-year (equity method) profit is expected to increase. Is this increase within your expectations?

A. Yes. A difference in accounting timing is a factor. We are incorporating San Miguel Brewery's results from October-December 2020 into Kirin Holdings' 1Q performance, and the one billion yen decrease in profit is as expected. For Kirin Holdings' 2Q results, we will incorporate the January-March 2021 results; where the top line for this period is +1.6%, and the operating profit level is +25% YoY. Looking at the full year, positive factors will come into play from 2Q onwards.

Q20 Kirin Beverage has been losing ground against the market. What will be the trigger for it to outperform the market? Kirin Beverage has become a “defensive company”. In what areas could the company make the switch to a more aggressive management?

A. Kirin Beverage's sales volume is down by about 12%, and we are aware that the company is losing ground in the market. There are reasons for this, such as the lack of new products. However the strength of its mainstay brands, such as the *Gogo-no-kocha* series, has been affected by COVID-19. We aim to turn things around in 2022 by implementing measures such as product renewals and a 35th anniversary marketing promotion. However in the long run, the current way of doing business will not be profitable, so Kirin Beverage will reposition itself as a company responsible for strengthening Kirin's health science domain through beverages, based on the Group-wide health science strategy. When we talk about health science within beverage products, there are products with positive health effects as well as sugar-free and low-sugar products, but we are aiming to contribute to profits by adding value mainly through products with positive health functions.

Q21 There has been a decline in off-premise channels; please share your view of the Japanese beer market. Has there been any change in your assumptions?

A. This year, we expect the Japanese beer market to grow by 5-7% for pure beer only, due in part to the reaction to last year's drop and the effect of the liquor tax revision. As for *happo-shu*, at the beginning of the year we thought that the market would shrink, but it is now slightly positive. Since new genre product demand is flowing into *happo-shu* and RTDs, our view that the 2-3% per year decline overall in the new genre market has not changed.

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