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[Q&A Session Minutes]

Presentation on 3Q FY2021 Financial Results

Date: November 9, 2021 (Tue), 4:00-5:00 pm (JST)
Presenters: Toru Yoshimura, General Manager of Corporate Strategy Dept., and
Takashi Hayashi, General Manager of Accounting Dept.

Q. As the cost of raw materials - mainly packaging materials - has been rising, to what extent do you expect costs to increase in fiscal 2022? The impact will differ depending on the region, but what is the outlook for Kirin Brewery, Kirin Beverage, and Lion, and what is the possibility of raising prices to reflect the increased materials costs?

A. Raw material costs for the next fiscal year are still being tabulated, but it is possible that costs will increase by about 10 billion yen in Japan alone. In addition, we have been cutting costs in the current fiscal year, so we expect some of that to be reversed. Also, since ERP will be operational in Japan in 2022, depreciation and operation costs will also be incurred, which will increase costs. We are currently examining cost reduction.

Q. I hear that there may be supply restrictions with aluminum cans, but is Kirin's procurement okay? I would also like to know if there is any allocation of the 10 billion yen cost increase in Japan for Kirin Brewery and Kirin Beverage.

A. I will refrain from explaining beer and beverages businesses separately, but aluminum cans etc. are the main factor. There is no problem in terms of supply.
As for raising prices based on rising materials costs, the hurdle is high for the domestic beer market. In particular, on-premise channels are in a difficult situation, and we cannot afford to make it worse. We will work on improving the product mix first.
As for the domestic beverage market, I believe that each company is formulating a price reduction strategy to recover from the effects of COVID-19, but this cannot continue indefinitely. If the top manufacturers move to raise their prices, we will follow suit.
Overseas, the impact of cost increases will be relatively smaller than in Japan, but we will make decisions based on the state of our competition.

Q. There is a reference to the increase in marginal profit due to an increase in the mix of Kirin Brewery products on page 7 of the presentation material. Please give me a breakdown by product, including *Home Tap*, craft beer, and high value-added RTD.

A. As for profit contribution, craft beer and high value-added RTD will each contribute around 2 billion yen for the full year. *Home Tap* will contribute more than this.

Q. How many subscribers does *Home Tap* have?

A. In the previous announcement of financial results, we revised our initial target for the number of subscribers upward from 100,000 to 150,000, but the pace has slowed down slightly to about 110,000 now. We believe that most of the customers who want to sign up immediately have done so. We had planned to create opportunities for customers who are still hesitant to subscribe to actually touch *Home Taps* – for example at shopping centers - but we were unable to do so due to COVID-19. For this reason, we may not be able to reach 150,000 by the end of this year.

Q. Do you sense a change in the tide regarding price increases for domestic beverages markets?

A. Not much yet. Each company is making efforts to recover from the decline in sales volume caused by COVID-19. We are watching the situation closely.

Q. Revenue declined 5% in the July-September period in the Australian alcohol business. I want to know the figures for the market and for Lion per channel. In addition to the channel mix and pricing impact, what is the outlook for recovery after October?

A. The Australian market situation is estimated to be about the same as Lion's, with a high single-digit percentage total decline in volume terms, a decline of approx.30% in on-premise channels, and a low single-digit percentage decline in off-premise channels. Almost the same in terms of value. On-premise channels are recovering, with NSW and VIC lifting their lockdowns on October 11 and October 22, respectively. Restrictions on restaurants are still in place, but are expected to be eased in stages. One concern is shipping restrictions due to pallet shortages throughout Australia and New Zealand, but the impact is being examined closely.

Q. Regarding Kirin Brewery's product mix in 3Q, the decline in marginal profit of beer was higher than I expected. Will new genre also experience as similar decline? How you view marginal profit in this case?

A. The marginal profit decline in the beer segment may appear large, but this is not unusual when we consider unit price. In the July-September figures, beer sales were almost flat, *happo-shu* sales increased slightly, and new genre sales were down by -57,000 kl for a total of a -56,000kl decrease. If we also take into account *Home Tap's* marginal profit contribution, this kind of marginal profit is not unusual.

Q. I understand that it will be difficult for *Home Tap* to reach 150,000 members by the end of this year, but please tell me how you plan to use marketing costs to acquire more subscribers in the future, from the perspective of both 4Q and next fiscal year. Also, does the 110,000 figure stated earlier include the impact of cancellations?

A. We believe that *Home Tap* is one of the key strategies for profit growth, and we will not relent now. This is the first time we are working on a subscription-based business, and we will continue test our hypothesis for the appropriate number of subscribers for this product. It is necessary to consider whether we should push forward toward our hypothesis of an appropriate balance of 300,000 subscribers. As for the pace of future investment, we will wait until the end of the year to determine a strategy. Since there is a cancellation fee within one year of becoming a member, we are aware that not many cancellations have occurred yet for this year's contracts.

Q. In order to achieve the full-year plan, you need to increase profits by about 20 billion yen in 4Q compared to the previous year, and Kirin Brewery alone needs to increase profits by about 15 billion yen compared to the previous year. The hurdle of +15 billion yen seems high, but to what extent can you actually increase it?

A. When the revised plan was formulated, the assumption was that the impact of COVID-19 would ease and the market would recover in both Japan and Australia, but as a result, the on-premise channels fell far short of the plan. In Japan, bad weather in August - which was the peak season - affected the off-premise channels as well, and was one of the reasons for the shortfall. The difference in operating profit from the full-year plan of 170 billion yen is 52 billion yen, and we understand that the situation is highly challenging. We will need to add 20 billion yen compared to the October-December period of last year, but when compared to the same period in 2019, the incremental amount will likely not be that large (approximately 10 billion yen). We will work on what we can do, such as cost control, and review our business so that we can recover the top line, and we will make company-wide efforts to get as close to the full-year plan as possible.

Q. Looking at the first three quarters of the fiscal year, it appears that some businesses, such as Myanmar Brewery, Coke Northeast, and Kyowa Hakko Bio, are on an upward trend. Is there a possibility of maintaining this upward momentum for the full year? Is there a possibility that the total of the three companies will swing upward by about 2 billion yen?

A. Myanmar Brewery has a risk in terms of business operation, so it is better to have a flat view. Coke Northeast has maintained its volume despite the price increase in August and is performing well, so we see a little room for upside. Kyowa Hakko Bio will have a slightly negative 4Q, which does not necessarily mean that profits will continue to increase.

Q. What will you work on and accomplish as the President & CEO of Kirin Beverage?

A. There are three major challenges. The first is how to strengthen our important brands, such as *Gogo-no-Kocha* and *Nama-cha*, in response to the slowdown in sales volume. We are currently planning our strategy for next year and beyond, but we need to make some changes. The second major task is to implement health science strategy I have been responsible for within the business. *iMUSE* and *Gogo-no-Kocha* and *Nama-cha* with *Lactococcus lactis* strain plasma - which were launched in October - are selling very well. The challenge is how quickly we can show results in health science through the beverage business. The third is sustainability. It is said that tackling the plastics recycling issue involves both competition and cooperation, but there is a tendency to get caught up in the competition, so I will speak out very clearly on this matter. Another sustainability challenge is vending machines. We are working on structural reform of our business, and since logistics and containers are related to the environment, we will work on these areas as well.

Q. <u>As for sales volume and unit price effects of the beer business in Australia, I don't feel anything particularly strange about the sales numbers, but it looks like "other" factors outside of volume affected the decrease in profit. Please tell me the reason why the Normalized operating profit margin was 13% and tell me about the operating profit forecast in 4Q.</u>

A. The main factor is the deterioration in the channel mix due to the slowdown in on-premise channels, as well as IT costs related to ERP and the cost of keg buybacks. The key point is how much the on-premise channels will recover. The peak season is from October to December in Australia, so we will increase the volume including Christmastime sales. At the same time, we will reduce head office costs.

Q. <u>Regarding Kirin Brewery, new genre products are losing momentum. If this trend continues next year, won't that be a significant headwind? In addition, while raw material costs are expected to increase by about 10 billion yen, assuming that most of the increase is in beer, how will the company be able to increase profits?</u>

A. Although the impact of COVID-19 is on the way to recovery, we will solidify our plan by watching the situation in 4Q. However, while there are possible risks such as on-premise channels refraining from selling alcoholic beverages should a sixth wave of COVID-19 reoccur (due to a government mandate from a possible state of emergency declaration), we expect the on-premise channels to decline by about 30% next year compared to FY2019 (pre-COVID-19) as a benchmark. In addition, we have been focusing on off-premise channels since before COVID-19, and we feel it is important to firmly develop brands such as *KIRIN ICHIBAN*, *Kirin Ichiban Zero Sugar*, *SPRING VALLEY Hojun 496*, and high value-added RTDs. It is important that we continue to implement the strategy we have set forth. As you have pointed out, profit increase will be tough, but we cannot blame the environment alone for this, so we will work hard to reduce costs.

Q. <u>Do you think that the profit for Australia can recover to planned levels by implementing marketing measures? Or is it impossible to offset the delay in 3Q?</u>

A. Looking at the 3Q results, we believe it will be difficult to achieve the full-year target. On the other hand, we will work to achieve the October-December plan, although there are risks.

Q. An increasing number of companies are withdrawing from Myanmar. Please give me an update on the current situation.

A. Nothing has been updated at this point, but we are well aware that we must dissolve the joint venture as soon as possible. We are preparing to take action by the end of this year, including legal action, and we are considering all possible measures to dissolve the JV. If there are any updates in the future, we will let you know.

Q. Regarding Kirin Brewery, will the trend of uptrading continue and can it be sustained? The trend of consumers who cut back on their spending on food and beverages due to COVID-19 and chose high-unit-price beer instead of new genre at home contributed to Kirin Brewery's brand uptrading. What do you expect to happen in the next fiscal year when consumers return to eating out after COVID-19?

A. I honestly believe that it will be tough. Our competitors are also releasing various products for off-premise while the on-premise business is suffering. We have to be aware of the intensifying competition in the premium product category that we have been targeting. Nevertheless, we do not think there is any need to change what we have been doing. We will continue to strengthen our brands while implementing initiatives to gain customer understanding. If the top line becomes more difficult, we will consider how to use costs. While we recognize that competition will become tougher, we do not believe that our current strategy is wrong. We will aim for uptrading while considering how to fight the competition, including how to devise appropriate marketing investments.

Q. I understood that the uptrading trend may slow down, but if that is the case, will the marketing costs invested this fiscal year be controlled next fiscal year? It will depend on the recovery situation of the on-premise channels, but there will also be an increase in costs. Will the beer business be chaotic next fiscal year?

A. That is correct. It is impossible to predict how much the on-premise business will recover. While we are aiming for uptrading, competitors are also entering the market because they find it attractive. However, we are not thinking of carelessly investing marketing costs due to intensifying competition. We have heard that the price of a six-pack of beer has already fallen below 1,000 yen. Although we may need to follow suit to a certain extent, we will not become the price leader. We will firmly control costs.

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