

**【Q&A Session Minutes】**  
**Presentation on FY2020 Financial Results**

Date: February 16, 2021 (Tue), 10:00 a.m. -11:30 a.m.

Presenters: Yoshinori Isozaki, President & CEO,

Noriya Yokota, Director of the Board, Senior Executive Officer & CFO,

General Manager of Corporate Planning Dept., and

General Manager of Accounting Dept.

Q. With regard to Kirin Brewery, I understand that more than 8.0 billion yen of the more than 9.0 billion yen increase in selling expenses in FY2021 guidance is for investment in high-profit areas such as *Home Tap* and craft beer. I think it is necessary to invest in highly profitable areas for the future, but I would like you to indicate your commitment to return on investment, which you say is necessary to achieve a 25% normalized OP margin in 2027. It would be beneficial for us to calculate the corporate value. In particular, I think it is very important to know what will affect profits in the next two or three years.

**General Manager in charge:** The investment in future growth, as you understand, is necessary to achieve the normalized OP margin of 25% excluding liquor tax in 2027. Regarding the return on FY2021's investment, in terms of *Home Tap*, the market size is expected to be 100,000 people. I would like you to understand that even if the number of members increases steadily this year, it does not mean that profits will be affected immediately in FY2021. This prior investment contributes profit growth from the next fiscal year onward, and as we acquire more members, profit contribution will be proportional to the number of members.

**Isozaki:** As for *Home Tap*, we are working hard to reach 100,000 users by the end of this year. We are also working hard to catch up with the production of servers. Profit contribution will start next year. Assuming 100,000 users, sales will be about 10.0 billion yen and margin will be about 30%. We will expand this business. Sales volume of canned craft beer is expected to have increased by 30% year on year in FY2020, and we will ride on this momentum. Since prices are high and we do not offer discounts, craft beer will start contributing to profits this year.

Q. The first target is 100,000 people, but how many people do you expect to acquire over the next three years or so?

**General Manager in charge:** We have not set a target number for next fiscal year onward; we will decide based on the speed at which we reach 100,000 users.

Q. The 4Q sales volume results in Australia deviate from the ones of the competitor. Could you explain how you view this gap?

**General Manager in charge:** Lion's sales volume in FY2020 4Q was -7% year-on-year. As for the comparison with the competitor, we do not have detailed information, but we would like to give you our idea. Looking at FY2019, the comparative year for FY2020, the sales volume in the second half was slightly higher, partly due to a rebound from a harsh market in the first half. In the 4Q of FY2020, the sales volume was difficult to increase due to the reaction. Also, as a somewhat technical factor, the number of operating days in the 4Q of FY2020 was slightly lower due to the introduction of SAP. We have heard about the sales performance of our competitors through media reports, etc., so we are aware that there is a gap.

Q. In the 4Q in Australia, sales volume in the off-premise channel also declined, how do you evaluate this?

**General Manager in charge:** While the on-premise market was recovering, the off-premise market was decreasing. The mix is recovering as the sales volume in the on-premise channel was returning.

**Isozaki:** In the Australian market, the profit margin of on-premise beer is higher than that of off-premise channel. The two major retailers enjoy most of touch points with consumers in the off-premise market. The brand equity of Lion's products is relatively weaker in the off-premise channel than in the on-premise channel. In order to focus on off-premise, we need to improve our brand equity. Even if we cannot achieve the same profit margins as for on-premise channel, we believe that we need to profitability for off-premise channel as well.

Q. Asahi GHD has announced the appointment of a new CEO. Looking back on the past three years of Asahi GHD, I believe that the company has been engaged in extremely healthy global competition. Do you think that the current competitive environment will be maintained after the change of CEO of Asahi GHD?

**Isozaki:** I don't know much about the next CEO of Asahi GHD. He has a lot of experience in overseas business, and I understand that he was chosen as the company is steering its overseas operations.

Q. What are your thoughts on the equity stakes in Kyowa Kirin and FANCL?

**Isozaki:** We are aware that you have concerns about our business portfolio and equity. We have been discussing this issue with the non-executive directors in the board meetings. We would rather create synergies between the two companies than to immediately change our stake. We want to produce concrete results, not just consolidate the two companies.

We are also working on initiatives to achieve this. We are also focusing on creating synergies with FANCL. We want to make full use of the channels which FANCL has competitive advantages in.

Q. I would like to ask you about your thoughts on shorter-term collection of trade receivables, which would increase FCF and give you more financial flexibility. Also, to what extent can you reduce the turnover of working capital?

**Yokota:** I think there are various ways to finance trade receivables. Interest rates are currently low, and we are conducting simulations. As for inventories, we are trying on various calculations and drawing up a scenario that will lead to an improvement in ROIC by reducing inventories. We believe that this will also lead to an improvement in our balance sheet.

As for the reduction of working capital turnover, I cannot give you specific figures, but in case of doing that, we would like it to generate a certain level of scale.

Q. Isozaki CEO has given a strong commitment regarding the health science domain, but there is no disclosure of overall results in the domain. Also, the sales target of *Lactococcus lactis strain Plasma* is too modest to show how serious you are about it. I would like to see an explanation of the company's plans for profitability in the current and next fiscal year and beyond. I would also like you to disclose the revenue figures.

**General Manager in charge:** As for the product brand of *Lactococcus lactis strain Plasma*, *iMUSE*, beverage, which represent large portion, after obtaining functional labeling, sold more than double year-on-year. But FY2021 January sales volume growth looked like a slow down because sales volume was high due to the launch of *iMUSE Water* in January of last year. As you pointed out that this fiscal year's target is conservative, this target is based only on the existing *iMUSE* products. There is also potential product launch of *Lactococcus lactis strain Plasma* that are not necessarily under the *iMUSE* brand, we should meet this target at least. We have also set a target of 50.0 billion yen in sales in the immunology area by 2027. At the moment, we are mainly focusing on B-to-C, but we are also receiving a lot of offers for B-to-B both in Japan and overseas, so we will add these to our sales to reach 50.0 billion yen. I would like to explain the details at the Investor Day.

**Isozaki:** Sales of *Lactococcus lactis strain Plasma* have accelerated further this year. Total sales of supplements were up 130% in January and 37% in February, and are up 82% year-to-date. In beverages, although January sales were up by late single digits, sales to date were also up by 34%, showing very strong growth. With revenue of 50.0 billion yen aimed for in 2027, this year's target is just over one-fifth and does not include the overseas expansion that I explained about earlier. We are thinking of expanding into

small-bottled product in the next fiscal year and beyond. I cannot give you a target for the next year, but please understand that we are making steady progress toward the goal of 50.0 billion yen.

Q. I understand the numbers regarding *Home Tap*, but how about craft beer? Craft beer has not yet taken a certain position in the Japanese beer market as it has overseas. I would like you to explain the potential of craft beer with some figures.

**General Manager in charge:** In 2020, craft beer accounted for less than 1% of the market (about 400,000 HL). However, the Japanese beer market has been becoming not only low price preference but also drink-at-home trend and diversified thanks in part to COVID-19, and people need beer worth of drinking in precious time at home, resulting in craft beer growth. In 2020, canned craft beer products are expected to have grown by 30%, and we believe that we will be able to capitalize on this growth.

Q. What percentage of last year's numbers did craft beer make up, and what percentage will it make up in the future?

**Isozaki:** As far as Kirin Brewery is concerned, it accounts for about 1% of the total. When we decided to enter the craft beer market, we talked about bringing the ratio up to 3%, and we have persevered until now to penetrate the market mainly through on-premise market. As you can see in the presentation material, the percentage will increase by releasing cans for home-use market. We would like to increase the percentage to 3% at the earliest, and hopefully to 5%.

Q. I would like to know what you are aiming for and the scenario you envision for your business in Myanmar. If you are not able to dissolve the joint venture in the way you hope, what scenario do you expect?

**Isozaki:** We would like to contribute to the consumers of Myanmar and the employees of Myanmar Brewery, and these people expect Kirin to continue its business. We would like to properly respond to their expectations.

However, we have announced that we cannot continue the joint venture with the current partner. If the partner is unwilling to dissolve the joint venture or sell their ownership, the only option left is for us to withdraw from the business, but we have no intention of doing so at present.

In order to prevent this from happening, we need to give a proper explanation to the other party, and we held the first talk last week. I can't say anything definite about the future, but we will do our best.

Since we have limited time, we would like to reach a conclusion as soon as possible.

Q. What does it mean to have limited time?

**Isozaki:** If the negotiations are prolonged, there may be a possibility that the view to our company in Myanmar will change. Therefore, we would like to settle this matter as soon as possible.

Q. Myanmar Brewery is very promising in terms of sales revenue growth and high normalized OP margin. Is there an alternative to this?

**Isozaki:** If there is a company with the same sales revenue and normalized OP margin as Myanmar, it is the Philippines' beer business in which we have an equity stake, but we believe it is hard to find another.

Q. Regarding the target number of users of *Home Tap*, what is the basis for the figure of 100,000? I understand there is a trend of diversified preferences, but what is your company's perspective on this?

**Isozaki:** Currently, *Home Tap* is performing very well, and the waiting list is about 100,000 people. Although the number of people on the waiting list is increasing due to the factors of our server supply, the number of 100,000 is set against this background. While the diversified preferences are increasing, there is a growing demand for enjoying delicious meals and drinks at home when they cannot eat out. We will continue our efforts while keeping a close eye on the market trends.

Q. I have a question about Kirin Brewery's business transformation in on-premise channel. In the medium to long term, Kirin Brewery's normalized OP margin is to be raised to 25%, but the market is in a more challenging situation than before. What is the current composition ratio of on-premise beer? Also, you say that the market will not return to before COVID-19, but what initiatives are currently being implemented for on-premise channel and what about this year?

**Isozaki:** Kirin's on-premise beer represented about 19% in 2019, with the rest for off-premise. The percentage is relatively low in the Japanese beer industry. We have spent a long time lowering the ratio for on-premise beer. The on-premise market guarantees sales volume of our brand products, but fixed costs are required. Therefore, we have been making improvements in areas with low profitability. In order to make use of influence of on-premise channel on brands, we will expand and promote *Tap Marché* to raise the unit price of each individual, rather than trying to sell large kegs. Raising the unit price contributes an increase in the profitability of restaurants and pubs

Q. You are aiming for a 25% normalized OP margin. How far has your on-premise business transformation come toward the final goal?

**Isozaki:** We had thought that we would be close to this level during the next mid-term plan, but

due to COVID-19, we stagnated for a year or two. Therefore, we will slow down a little, but we hope to achieve this goal without waiting until 2027.

Q. Isn't the BSW business in Australia lagging behind the competitor? At the previous and today's presentations, you mentioned marketing reforms in Australia. I would like to know what you are working on and how soon. Is it working?

**Isozaki:** We have been working with Lion's CEO and marketing department to develop a plan since last year. We are in the implementation stage from this fiscal year, and we have appointed people with expertise as the marketer from outside of Lion. We hope to generate results within two to three years.

Q. What are the KPIs for marketing reform? I would love to hear about them at the next opportunity.

**Isozaki:** We would like to draw your attention to brand favorability.

Q. You have been reforming your business portfolio, but when do you expect you will start the payout time? What scale of normalized OP do you envision in the best and main scenarios?

**Yokota:** Due to the impact of COVID-19, we needed to establish a profit base of existing businesses once again. The current profit level is several years behind of the one we anticipated in 2019 MTBP, but we might be able to recover to 2019 level of normalized OP by 2022. We believe that the 2022 MTBP will be a kind of repeat of 2019 MTBP, with a storyline that aims for 10% ROIC by 2024, although we cannot show quantitative guidance as the next MTBP is under discussion now.

In the 2022 MTBP, we will achieve solid growth from the profit level of 2019. To achieve this goal, we will strengthen the growth potential of the food domain, achieve core OP of 100.0 billion yen in the pharmaceuticals domain as soon as possible, and develop the health science business into a growth driver of the Group at an early stage.

Q. The profit level of 2019 in 2022 means normalized OP of about 190.0 billion yen in 2022, which seems insufficient considering that Kyowa Kirin's OP will grow during that period.

**Yokota:** Please understand that we will return to 2019 levels excluding the pharmaceuticals growth.

Q. The restructuring of production sites in Australia will have the effect of reducing fixed costs and lowering the break-even point. How much financial impact will this have? How will it contribute to the current and next fiscal year?

**General Manager in charge:** The closure of the West End Brewery will have the effect of reducing fixed costs, but we will not disclose specific figures. We expect return on

investment in a few years, including the cost of transferring some functions to other plants.

Q. You say that there is a lot of offers for *Lactococcus lactis strain Plasma* in B-to-B business, and in what categories are they appearing?

**General Manager in charge:** Beverage category represents most of *iMuse* currently, but since *Lactococcus lactis strain Plasma* is an easy to handle material, it can be developed in various forms. For example, we have inquiries from confectionery manufacturers and, globally speaking, major beverage manufacturers and dairy drink manufacturers, and so we are thinking of expanding our business both domestically and internationally in these areas.

Q. Are there any problems with capacity? Are you planning to increase capacity in the future?

**General Manager in charge:** We have our own manufacturing site and contracted plant, total capacity of which is able to fulfill the volume to sell the 50.0 billion yen of *Lactococcus lactis strain Plasma*. When we go further, we should consider the best location, including overseas.

Q. Regarding *Home Tap*, how do you develop your marketing strategy to meet the increasing demand for drink-at-home? Since *Home Tap* is a D-to-C business, I think it is possible to advertise it more directly, but how will you promote its value to consumers?

**Isozaki:** We are promoting *Home Tap* through digital advertisement. We have been focusing on digital advertising, assuming the effect of TV and newspaper ads is a little limited.

Q. With regard to the *Home Tap* business, I understand that there was some concern about opposition on the part of distributors because of its D-to-C business model. Please update.

**Isozaki:** Up until now, we have been carefully explaining the business to our customers to gain their understanding. Through this process, we have gradually gained their understanding of Kirin's approach. We would like to sincerely continue our dialogue with distributors in the future.