

# Kirin Group

## Financial Results for the Third Quarter of 2014

**October 30, 2014**  
**Kirin Holdings Company, Limited**

- Despite bolstered initiatives in the second half towards restoring sales trends of domestic beer and Brasil Kirin, the top priority issue, Group results for the third quarter did not achieve plans.

Japan: Despite signs of recovery for *Ichiban Shibori*, sales of *Nodogoshi Nama* continued to decline, and overall sales trends did not improve. Unseasonable summer weather was also a factor.

Brazil: Despite aims to optimize areas/channels/products, sales volume continued to decline, affected by sluggish consumption in the market.

- Group forecasts for the full year have been revised downward due to revision of sales targets for Japan integrated beverages/Brasil Kirin based on recent sales trends and the completion of this year's brand enhancement measures. We will aim to achieve revised plans by maximizing the effects of sales promotion measures and managing cost. The annual dividend will be maintained at the originally planned amount.
- In addition to continuing efforts for strengthening the brand from a medium- to long-term perspective, we will promote even speedier efforts towards drastic reform aimed at realizing sustained growth, such as the strengthening of domestic sales force via the reallocation of personnel, which has already been commenced.

# Third Quarter Performance Highlights



Overseas sales increased, but overall sales and operating income decreased as a result of lower domestic sales volumes and the effects of drug price revisions and other factors.

(Billion yen)	FY2014 3Q	FY2013 3Q	Increase (decrease)	
Sales	1,608.2	1,677.6	(69.3)	(4.1%)
Operating income	80.7	107.4	(26.7)	(24.8%)
Non-operating income and expenses	(7.1)	(7.8)	0.6	—
Financial profit or loss, net	(10.7)	(10.8)	0.0	—
Equity in earnings or losses of affiliates	4.9	1.5	3.3	214.6%
Foreign currency translation gain or loss	0.1	1.1	(0.9)	(84.2%)
Ordinary income	73.6	99.6	(26.0)	(26.1%)
Special income and expenses	(8.6)	46.7	(55.4)	(118.4%)
Income before income taxes and minority interests	64.9	146.4	(81.4)	(55.6%)
Income taxes	33.4	48.4	(15.0)	(31.1%)
Minority interests	9.5	14.3	(4.7)	(33.4%)
Net income	22.0	83.6	(61.6)	(73.7%)

(Quantitative targets)

Normalized EBITDA	197.8	224.9	(27.0)	(12.0%)
Normalized EPS	83 yen	91 yen	(8 Yen)	(8.8%)

# Third Quarter Sales by Segment



(Billion yen)	FY2014 3Q	YoY change		Description
Japan integrated beverages	839.0	(32.0)	(3.7%)	Kirin Brewery (29.9), (5.6%) Kirin Beverage (9.5), (3.6%) Mercian 1.4, 3.2%
Overseas integrated beverages	518.3	8.2	1.6%	Lion 2.1, 0.6% Brasil Kirin 3.3, 2.7%
Pharmaceuticals and bio-chemicals	232.7	(12.3)	(5.0%)	
Others	17.9	(33.2)	(64.9%)	Kirin Kyowa Foods was removed from the scope of consolidation (July 2013)
Total	1,608.2	(69.3)	(4.1%)	

- Sales volume in Japan integrated beverages

Increase (decrease)	Beer total	RTD	Wine	Soft drinks
FY2014 Q3 Results	(7%)	+14%	+5%	(3%)

- Overseas Sales Status

Lion: Alcohol (1.4%)      Soft drinks (3.5%)

Brasil Kirin: Beer/soft drinks total (5.8%)

- Pharmaceuticals and Bio-chemicals:

Drug price revisions and a decline in technology licensing revenues affected results

# Third Quarter Operating Income by Segment

**KIRIN**

(Billion yen)	FY2014 3Q	YoY change		Description
Japan integrated beverages	36.4	(11.7)	(24.3%)	Kirin Brewery (7.3) (including a decrease in marginal profit (11.3)) Kirin Beverage (4.4) (including difference in volume of sales (5.2) and decrease due in change of product mix, etc. (3.3)) Mercian (0.3)
Overseas integrated beverages	18.1	(0.3)	(1.8%)	Lion 0.4 (Prior to amortization of goodwill, etc. +0.5) Brasil Kirin (1.2) (Prior to amortization of goodwill, etc. (1.3))
Pharmaceuticals and bio-chemicals	28.2	(15.1)	(34.8%)	The drug price revision (6.4), Technology licensing and others(7.0), etc.
Others	2.3	(0.5)	(18.9%)	
Corporate and eliminations	(4.4)	1.0	—	
Total	80.7	(26.7)	(24.8%)	

- Kirin Brewery**

- ✓ Sales of RTDs reached targets, rapid expansion of the new *Tanrei Platinum Double* (Doubled the initial sales target), and volume increase of Ichiban Shibori cans by the sales recovery measures.
- ✓ Unseasonable weather during the peak season contributed to sales volume decline of beer, particularly *Nodogoshi Nama*.



- Kirin Beverage**

- ✓ Sales volume, mainly of core brands, were down due to unseasonable summer weather.

- Lion**

- ✓ The alcohol beverages business continued to perform well, driving results for Lion as a whole.

- Brasil Kirin**

- ✓ Overall sales volume was down due to effects of remaining inventories throughout the market following the end of the FIFA World Cup.
- ✓ Steadily growing presence of the premium beer market.



# FY2014 Full Year Forecast

Group forecasts for the full year have been revised downward due to revision of sales targets for Japan integrated beverages/Brasil Kirin based on recent sales trends and the completion of this year's brand enhancement measures. We will aim to achieve revised plans by maximizing the effects of sales promotion measures and managing cost.

(Billion yen)	Revised forecast at 3Q	Revised forecast at 1H	Difference	YoY change	
Sales	2,210.0	2,260.0	(50.0)	(44.5)	(2.0%)
Japan integrated beverages	1,152.0	1,189.0	(37.0)	(28.1)	(2.4%)
Overseas integrated beverages	707.0	720.0	(13.0)	21.7	3.2%
Pharmaceuticals and bio-chemicals	327.0	328.0	(1.0)	(4.3)	(1.3%)
Others	24.0	23.0	1.0	(33.7)	(58.5%)
Operating Income	120.0	140.0	(20.0)	(22.8)	(16.0%)
Japan integrated beverages	48.5	61.5	(13.0)	(13.6)	(21.9%)
Overseas integrated beverages	30.0	35.0	(5.0)	(0.6)	(2.2%)
Pharmaceuticals and bio-chemicals	46.0	48.0	(2.0)	(8.3)	(15.3%)
Others	3.0	3.0	—	(0.7)	(20.0%)
Corporate and eliminations	(7.5)	(7.5)	—	0.5	—
Ordinary income	102.0	122.0	(20.0)	(30.1)	(22.8%)
Net income	35.0	49.0	(14.0)	(50.6)	(59.1%)

(Quantitative targets)

(Billion yen)	FY2014	FY2012	CAGR	Quantitative targets of MTBP
Normalized EBITDA	279.0	307.3	(4.7%)	Mid single digit CAGR
Normalized EPS	117 yen	117yen	0.0%	High single digit CAGR

# FY2014 Full Year Operating Income Forecast (Major Factors of Differences)

(Billion yen)	Revised forecast at 3Q	Revised forecast at 1H	Difference	Major factors of difference
Operating Income	120.0	140.0	(20.0)	
Japan integrated beverages	48.5	61.5	(13.0)	
Kirin Brewery	42.5	50.9	(8.4)	<ul style="list-style-type: none"> <li>Review of beer sales targets</li> </ul>
Kirin Beverage	(1.2)	3.1	(4.3)	<ul style="list-style-type: none"> <li>Review of sales targets</li> <li>Lower selling expenses</li> </ul>
Overseas integrated beverages	30.0	35.0	(5.0)	
Brasil Kirin	1.4	7.0	(5.5)	<ul style="list-style-type: none"> <li>Review of beer and soft drink sales targets</li> </ul>
Pharmaceuticals and bio-chemicals	46.0	48.0	(2.0)	<ul style="list-style-type: none"> <li>Effects of consolidation of Archimedes Pharma, etc.</li> </ul>



## Japan Integrated Beverages

- In addition to completing medium- to long-term brand enhancement measures, we will strive to achieve our revised plans for the full year by reinforcing sales of new products and maximizing the effects of sales promotion measures in the fourth quarter.

Sales Volume(YonY Change)	Beer total	RTD	Soft drinks
3Q Results	(7%)	+14%	(3%)
Full Year forecast (Revised at 3Q)	(7%)	+15%	(1%)

### Priority Issues

#### (1) Kirin Brewery

- Introduce concentrated measures that focus on core brands: consumer campaigns, brand extensions with seasonal offer, reinforced gift campaigns
- Bolster the recovery trend of *Ichiban Shibori*, the top priority brand, through campaign effects and take measures to complete the sales volume increase for the full year
- Further reinforce measures for RTDs, which continue to perform well



#### (2) Kirin Beverage

- Augment current sales trends by continuing to focus on core brands
- Further explore high-volume and high-profit categories: new item from “Fire”, the new premium brand “Bekkaku”, and renewed “Mets Cola”



- Bolster initiatives to achieve sustained growth**
  - Enhance execution capabilities by reforming organizational structure: personnel reallocation, streamline head office, etc.
  - Achieve the Medium-term Business Plan cost reduction targets (at least 20 billion yen over three years) and pursue further efficiency



## Brasil Kirin

- Increase sales and reduce costs through implementation of effective marketing activities in order to strive to achieve the revised plans for the full year

(Million BRL)	Sales	YonY Change	EBITDA	Incesase(Decrease)
3Q Results	2,829	+3.5%	195	(26)
Revised forecast at 3Q	4,240	+7.4%	500	+30

- Launch initiatives for conversion into strong profit structure
  - Improvement of product mix and optimization of promotion effects (thoroughly effective allocation of resources)
  - Reinforcement of the sales competitiveness (improvement of sales network and logistics structure)
  - Promotion of streamlining (optimal personnel allocation)



## Lion

- Steadily moved towards the forecast revised at 1H. Launch initiatives for medium-term growth.
  - Implement the “Vibrant Beer Culture” strategy to reinvigorate the Australian beer market (grow appreciation of beer and broaden its appeal)
  - “Turnaround Plan” for structural reform of the soft drinks business (focus on high-growth, high-profit categories, brands, and SKUs, strategic procurement and effective use of milk)



# KIRIN

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# Appendix

# Quantitative targets

## (Normalized EBITDA)

(Billion Yen)	FY2014 targets		FY2014 3Q (Results)	FY2013 3Q (Results)
	(Revised at 3Q)	(Revised at 1H)		
Operating income	120.0	140.0	80.7	107.4
Depreciation	100.0	99.0	73.0	73.9
Goodwill amortization	49.4	48.9	36.7	36.2
Dividends received from equity method affiliated companies	9.5	9.5	7.2	7.2
Normalized EBITDA	279.0	297.0	197.8	224.9

## (Normalized EPS)

(Billion Yen)	FY2014 targets		FY2014 3Q (Results)	FY2013 3Q (Results)
	(Revised at 3Q)	(Revised at 1H)		
Net income	35.0	49.0	22.0	83.6
Amortization of goodwill etc.	66.9	66.4	49.9	49.3
Special income and expenses after income taxes and minority interests	5.3	5.3	4.5	(46.4)
Normalized net income (1)	107.3	120.8	76.4	86.5
Average number of shares outstanding during period (thousand) (2)	918,643	918,646	920,423	948,512
Normalized EPS (yen) (1)÷(2)	117	131	83	91

# 3Q Performance - Japan Integrated Beverages



(Billion yen)	FY2014 3Q	FY2013 3Q	Increase (decrease)	
Sales	839.0	871.0	(32.0)	(3.7%)
Kirin Brewery	508.3	538.3	(29.9)	(5.6%)
Kirin Beverage	254.8	264.4	(9.5)	(3.6%)
Mercian	47.2	45.7	1.4	3.2%
Other and elimination	28.6	22.5	6.1	27.1%
Operating income	36.4	48.1	(11.7)	(24.3%)
Kirin Brewery	31.9	39.2	(7.3)	(18.6%)
Kirin Beverage	(1.3)	3.0	(4.4)	(143.6%)
Amortization of goodwill	(1.4)	(1.4)	—	—
Total	(2.8)	1.5	(4.4)	(278.4%)
Mercian	(0.8)	(0.4)	(0.3)	—
Others	8.1	7.7	0.3	5.0%

	Sales Volume (YoY Change)
Beer	(4%)
<i>Happo-shu</i>	(5%)
New genre	(12%)
Sub-total	(7%)
RTD	14%
Wine	5%
Soft drinks	(3%)

# 3Q Performance - Lion



		FY2014 3Q		FY2013 3Q		YoY change		YoY change (%)	
		Bn JPY	Mil AUD	Bn JPY	Mil AUD	Bn JPY	Mil AUD	JPY Basis	AUD Basis
Sales	Alcohol	195.2	2,084	186.9	2,011	8.2	73	4.4	3.6
	Soft Drinks	164.2	1,754	170.4	1,833	(6.1)	(79)	(3.6)	(4.3)
		359.5	3,839	357.3	3,845	2.1	(5)	0.6	(0.2)
Operating Income	Alcohol	54.4	581	50.3	541	4.1	40	8.2	7.4
	Soft Drinks	1.8	19	5.7	61	(3.8)	(41)	(68.1)	(68.3)
	Corporate	(6.3)	(67)	(6.6)	(71)	0.3	4		
Operating Income		49.9	533	49.3	530	0.5	2	1.2	0.4
Goodwill Amortization		(23.2)	(247)	(22.9)	(247)	(0.2)	(0)		
Brand Amortization		(3.0)	(32)	(3.1)	(34)	0.1	1		
Operating Income After Amortization		23.6	252	23.1	249	0.4	3	2.1	1.3

Consolidated period: Oct. 2013 - Jun. 2014      Currency exchange rate: 93.64 yen (Oct. 2012 – Jun. 2013: 92.94 yen)

Alcohol	Change in Operating Income (Mil AUD)	Soft Drinks
541	FY2013 3Q	61
(10)	Change in Sales Volume	(12)
50	Others	(29)
581	FY2014 3Q	19

	Sales Volume (YoY change)
Alcohol	(1.4%)
Soft drinks	(3.5%)

# 3Q Performance - Brasil Kirin



	FY2014 3Q		FY2013 3Q		YoY change		YoY change (%)	
	Bn JPY	Mil BRL	Bn JPY	Mil BRL	Bn JPY	Mil BRL	JPY Basis	BRL Basis
Sales	127.4	2,829	124.0	2,733	3.3	95	2.7	3.5
Operating Income After Amortization	(0.6)	(15)	0.6	14	(1.3)	(29)	(208.3)	(209.1)
Goodwill Amortization	(4.0)	(88)	(4.0)	(88)	0.0	—		
Brand Amortization	(2.3)	(52)	(2.3)	(52)	0.0	—		
Operating Income	(7.0)	(156)	(5.7)	(127)	(1.2)	(29)	—	—
EBITDA	8.8	195	10.0	221	(1.2)	(26)	(12.0)	(11.8)

Consolidated period: Jan. – Sep. 2014

Currency exchange rate: 45.03 yen (Jan.-Sep. 2013: 45.38 yen)

	Sales volume (YoY change)
Beer	(6.6%)
Soft drinks	(4.4%)
Total	(5.8%)

\*Reference Market Trend (SICOBÉ)

Beer 6.9%

Soft drinks (0.1%)

- Increase in gross income +\$R80M**

Higher manufacturing costs were covered through higher unit prices resulted from an increase in sales prices and increased efficiency in the supply chain.

- Increase in selling expenses and general and administrative expenses -\$R109M**

(1) Strategic brand investment to maximize sales volume during the peak season

(2) Respond to aggressive pricing strategies from competitors



# FY2014 Full Year Forecast (Revised)

## - Japan Integrated Beverages Business

**KIRIN**

(Billion yen)	FY2014 (Revised at 3Q)	FY2013	Increase (decrease)		FY2014 (Revised at 1H)	Increase (decrease)
Sales	1,152.0	1,180.1	(28.1)	(2.4%)	1,189.0	(37.0)
Kirin Brewery	692.6	729.1	(36.5)	(5.0%)	714.3	(21.6)
Kirin Beverage	350.5	353.5	(3.0)	(0.9%)	365.2	(14.7)
Mercian	68.8	67.0	1.8	2.7%	70.6	(1.7)
Other and elimination	40.0	30.4	9.5	31.4%	38.8	1.1
Operating income	48.5	62.1	(13.6)	(21.9%)	61.5	(13.0)
Kirin Brewery	42.5	51.8	(9.3)	(18.0%)	50.9	(8.4)
Kirin Beverage	(1.2)	3.7	(4.9)	(132.4%)	3.1	(4.3)
Amortization of goodwill	(1.9)	(1.9)	—	—	(1.9)	—
Total	(3.1)	1.7	(4.9)	(287.8%)	1.1	(4.3)
Mercian	0.5	0.3	0.1	46.1%	1.2	(0.6)
Others	8.6	8.1	0.4	5.6%	8.1	0.4

### Sales volume (YoY Change)

	FY2014 (Revised at 3Q)	FY2014 (Revised at 1H)
Beer	(3.0%)	(0.7%)
<i>Happo-shu</i>	(4.4%)	(3.9%)
New genre	(12.2%)	(4.7%)
Sub-total	(6.9%)	(3.1%)
RTD	15.3%	15.3%
Soft drinks	(1%)	4%

# FY2014 Full Year Forecast - Lion



		FY2014 (Revised at 1H)		FY2013		YoY change		YoY change (%)	
		Bn JPY	Mil AUD	Bn JPY	Mil AUD	Bn JPY	Mil AUD	JPY Basis	AUD Basis
Sales	Alcohol	258.8	2,753	244.9	2,663	13.8	89	5.7	3.4
	Soft Drinks	214.6	2,283	223.4	2,429	(8.7)	(146)	(3.9)	(6.0)
		473.5	5,037	468.4	5,093	5.0	(56)	1.1	(1.1)
Operating	Alcohol	69.0	734	66.3	721	2.6	12	4.0	1.8
	Soft Drinks	3.4	36	7.3	79	(3.9)	(43)	(53.6)	(54.6)
	Corporate	(10.4)	(111)	(10.2)	(111)	(0.1)	0		
Operating		61.9	659	63.3	689	(1.4)	(30)	(2.3)	(4.4)
Goodwill Amortization		(31.0)	(330)	(30.3)	(330)	(0.6)	(0)		
Brand Amortization		(4.1)	(43)	(4.2)	(45)	0.0	2		
Operating Income After Amortization		26.7	284	28.7	(313)	(2.0)	(28)	(7.0)	(9.1)

Consolidated period: Oct. 2013 -Sep. 2014      Currency exchange rate: 94.00 yen (Oct. 2012- Sep. 2013: 91.97 yen, fore-end: 93.00 yen)

# FY2014 Full Year Forecast (Revised) – Brasil Kirin



	FY2014 (Revised at 3Q)		FY2013		YoY change		YoY change (%)		Difference	
	Bn JPY	Mil BRL	Bn JPY	Mil BRL	Bn JPY	Mil BRL	JPY Basis	BRL Basis	Bn JPY	Mil BRL
Sales	190.8	4,240	178.3	3,947	12.4	292	7.0	7.4	(15.4)	(344)
Operating income	9.9	221	8.8	196	1.0	24	12.1	12.5	(5.5)	(123)
Goodwill Amortization	(5.3)	(118)	(5.3)	(118)	0.0	—			—	—
Brand Amortization	(3.1)	(69)	(3.1)	(69)	0.0	—			—	—
Operating Income After Amortization	1.4	32	0.3	7	1.1	24	306.1	307.7	(5.5)	(123)
EBITDA	22.5	500	21.2	470	1.3	30	6.2	6.3	(5.4)	(120)

Consolidated period: Jan. – Dec. 2014      Currency exchange rate: 45.00 yen (Jan.-Dec. 2013: 45.18 yen, fore-end: 44.00 yen)