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[Q&A Session Minutes]

Presentation on Kirin Group 2022-2024 Medium-Term Business Plan, FY2021 Financial Results and FY2022 Plan

Date: February 15, 2022 (Tue), 10:00-11:30 am (JST)

Presenters: Yoshinori Isozaki, President & CEO,

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

Takeshi Minakata, Senior Executive Officer,

Shinjiro Akieda, Senior Executive Officer & General Manager of Corporate Strategy Dept., and

Takashi Hayashi, Executive Officer & General Manager of Accounting Dept.

Q. Regarding the 2022 - 2024 Medium-Term Business Plan (MTBP), strategic investment in core businesses through the sale of non-core businesses makes sense, but with approximately 150 consolidated subsidiaries, how do you decide to sell them? Is there anything you can say about the sale of China Resources Kirin Beverages?

A. Adjusting what is in the business portfolio is not a one-time decision. Rather, it is discussed multiple times a year by the Board of Directors, including independent non-executive officers. Even if a business is a core business now, it may become a non-core business in a few years. Regardless of the size of the business, we always review whether it is in line with the direction we should go and our strategy, and whether it will really contribute to our growth. If we determine that it is not, we will consider selling it as a non-core business. As for the reported sale of the beverage business in China, due to confidentiality obligations, please wait a little longer.

Q. Regarding the Normalized operating profit plan for the MTBP, based on the disclosed plan for 2022, the growth rate for 2023-2024 should be considerable. What are the specific drivers? What assumptions do you make for Kirin Brewery's and Lion's high profit growth?

A. While the Health Science domain will generate a certain amount of revenue by 2024, it is still in its first stages, therefore the drivers of the current MTBP will be the existing Food & Beverages domain and Pharmaceuticals domain. In addition to volume growth, Kirin Brewery will increase unit prices by increasing the product ratio of *Kirin Home Tap*, craft beer, and high value-added RTDs to achieve higher profitability. *Kirin Home Tap*, in particular, is a business model where profits can grow significantly once subscribers exceed a certain level, so it will have a positive impact on profit in the future. Lion will also promote structural reform and enhance its brands. It will grow its organic brands and improve profitability by reducing overhead expenses as well as expanding its craft beer business in North America. Kyowa Kirin will also achieve growth in its MTBP for 2025. Through these efforts, we believe that the profit level planned in the MTBP can be achieved.

Q. I have the impression that the profit target in the MTBP is very ambitious. Will the core businesses really grow this much? According to page 19 of the MTBP presentation material, operating CF in the Food & Beverages domain will increase significantly, but I don't know how certain this is because there is no break down for each company. What kind of commitments have you made to Kirin Brewery and Lion in the new MTBP?

A. First of all, Kirin Brewery is aiming for a 25% Normalized operating profit margin excluding liquor tax by 2027, as we have explained before. In the new MTBP, the company aims to increase Normalized operating profit by approximately 3% over three years. We will increase profits by growing the top line while improving profitability. Lion's profit margin and profit amounts have been declining since its peak due to changes in the competitive environment, but the company aims to return to the previous level in three years of the new MTBP by enhancing its brands and reducing costs.

Q. Will you continue to invest in overseas craft beer? What are your thoughts on additional investments in FANCL and Kyowa Kirin?

A. We are not done with M&A in the craft beer business. We expect significant synergies from the North American craft beer brands in which we have already invested, and will consider any opportunities to acquire promising brands at attractive prices. We also expect considerable synergies in the area of SCM for future acquisitions. For Kyowa Kirin, we are not currently considering any further purchases and will focus on increasing corporate value through collaboration as well as promote the active pharmaceutical ingredient (API) business utilizing Kyowa Kirin's knowledge. We will continue considering additional investment in FANCL.

Q. Are you saying that the growth in the Food & Beverages domain includes the M&A effects of the recently acquired craft beer brands?

A. That's correct.

Q. With regard to the 30 billion yen in profit improvement measures which will support profit growth in the MTBP, what do you envision in terms of SCM and SG&A cost reductions? In addition, Kirin Beverage plans to add a large amount of cost reduction of 7 billion yen in 2023-2024. Is the 30 billion yen figure on track to be achieved or is it an effort target?

A. We have accumulated 30 billion yen by thoroughly reviewing the entire value chain, for example product design, manufacturing, procurement, and sales etc. Although we are not able to disclose a breakdown of this amount separately, we will achieve this amount so that we can deal with any cost increases caused by further changes in the environment. Kirin Beverage's operating profit improvement effect is skewed toward the latter half of the MTBP because it includes structural reforms that will take time. We are on track to achieve the 30 billion yen target. We will visualize process efficiency by implementing ERP and other systems to see if there is room for further reductions and target the upside.

Q. Regarding investment in the Health Science domain, the level of 60 billion yen in capital expenditure over three years is not very much, and I understand that the business does not require many assets in the first place. I want to know what specific investments you are aiming to make to expand functionality.

A. HMO capital investment by Kyowa Hakko Bio has already started, but it is still small compared to the size of the overall market, so further continued investment will be made if there is potential. For further growth, we also plan to make ongoing capital investments in beverages, mainly at Kirin Beverage, and in the Food domain at Koiwai. In addition, a certain amount of investment in the new API business - which will contribute to future growth - is necessary and has been included in the plan. We will systematically make investments that can be utilized for growth in the Health Science domain on a consistent basis.

Q. First of all, I would like to ask you to summarize the MTBP that has just ended. Were you able to do what you wanted to do as the President & CEO? What were you able to do in preparation for the new MTBP?

A. It is very frustrating that we were ultimately unable to achieve our plan for 2021. Although it does not only concern our company, the first thing that was unexpected was the spread of COVID-19. This had a huge negative impact, especially in the Japanese and Australian markets, and we were unable to do some of the things we had been trying to do. Next was the political change in Myanmar. We never thought it would be in this situation with Myanmar Brewery, which was supposed to be a promising business earning 16-17 billion yen in annual profits. In the 2016-2018 MTBP, we have revitalized and restructured low-profit businesses and then launched KV2027, a long-term vision statement to move to the next stage of growth. However, in the Health Science domain - which is a pillar of the company's long-term growth strategy - Kyowa Hakko Bio experienced quality issues. Furthermore, the capital investment in FANCL in August 2019 was greatly affected by COVID-19 from the following year (2020). Although there are several things we could not do due to unexpected changes in the environment, I believe that we were able to do what we needed to do even under these circumstances.

Q. Listening to the questions that have been asked so far, the probability of achieving the new MTBP has become a matter of great concern. I think there are two major points that need to be focused on. One is whether you can really achieve profit growth in the Food & Beverages domain in the short term, and the other is whether the Health Science business will take off. What do you consider to be the most important point in each of these domains?

A. The new MTBP has been formulated based on this situation and by organizing what needs to be done in each business. In the Pharmaceuticals domain, the degree of achievement against the plan was lower than expected, and we believe that we need to exercise more management skills. We should improve our sales capabilities and cost management, especially our global

organizational capabilities if we are to become a global specialty pharmaceutical company. In the Food & Beverages domain, Kirin Brewery is currently taking on many challenges. Although we have not yet achieved quantitative results, we are sure that they will blossom in the future. *Kirin Home Tap's* contract retention rate is very high. Once a certain scale is established, it will become profitable. Lion is formulating its plan after carefully examining how to make the brand stronger. Although volume growth is not expected in a mature market, added value can still be increased. Kirin Beverage believes that by further focusing on vending machine reforms, it will be able to see a future contribution to profits. Finally, in the Health Science domain, we are working one by one to achieve the goals we have drawn up. We need to expand not only domestically but also overseas, and we are working on a long list since as M&As and business alliances will be necessary. As a whole, profit growth will be modest this fiscal year, but we would like you to view this as a situation where we are making preparations. I am confident that we will see growth from next year onward.

Q. At last year's Investor Day, Kyowa Hakko Bio disclosed that it expects Normalized operating profit of 9.5 billion yen in 2024, sales revenue of 100 billion yen (according to the questioner's calculations), and Normalized operating profit of at least 15 billion yen in 2027. In addition, is it correct to understand that the 100 billion yen in sales revenue from the API business, which you explained earlier, is not included in the figures disclosed on Investor Day?

A. The profit targets for 2024 and 2027 remain unchanged and will be achieved by strengthening sales of B-to-B strategic materials such as HMOs and Citicoline in Japan and overseas. Sales of 100 billion yen from the new API business are not included in the plan disclosed so far. This is a long term project, and the results will not be seen until 2030 or later, but we have presented it as an important project for the Group's collaboration for the future.

Q. Regarding Kyowa Hakko Bio's costs, it was said that they would fall by less than 3 billion yen over the next three years due to a decrease in depreciation expenses, etc. In 2022, sales are expected to increase by more than 2.5 billion yen, but why is the increase in profit limited to 100 million yen? Are there any other cost increase factors included?

A. At the end of last year, the B-to-C business was transferred to Kirin Holdings. The business had generated about 2 billion yen in Normalized operating profit, and Kyowa Hakko Bio will start the year with a negative figure in real terms if we take that into account. We will aim for a substantial increase in profits by lowering the overall cost ratio through recovering the production volume at the Yamaguchi Production Center and strengthening the overseas production system as well as accumulating cost reductions.

Q. What are your future prospects for overseas business, especially the beer business in emerging countries, after your withdrawal from Myanmar business? Will you continue to focus on San Miguel Brewery or will you explore new opportunities?

A. The decision to withdraw from the Myanmar business was a difficult one, but we believe it was unavoidable. As for beer development in emerging countries, it does not mean that we will not try. In terms of profitability, the search will focus on premium beers, including craft beers, rather than economy or regular beers. However there are no more big players left in Southeast Asia; so North American craft beers remain promising. Since cost synergies can be expected through M&As, we will actively consider them.

Moreover, overseas expansion is not limited to the beer business. In the Health Science domain, as we have already announced, we are beginning to see results in Malaysia through joint research efforts with Malaya University on *Lactococcus lactis* strain Plasma (LC-Plasma). We hope to find opportunities to expand our health science products globally.

Also, I would like to supplement the information disclosed by San Miguel Brewery. As an equity-method affiliate, we are limited in the information we can disclose, but we have added EBITDA in the financial results presentation materials, so please make use of it.

Q. You said that you would repurchase 50 billion yen in treasury stock, which means after the buyback is completed, you will own about 15% of your own stock. Will you retire it or use it for M&A?

A. The amount of treasury stock held will increase, but gradually will be retired based on certain criteria. Although we cannot explain in detail, we will discuss how to avoid continuing to hold such shares.

Q. You said that you will grow EPS by more than 11%, but if it falls below that, will you consider additional share buybacks?

A. Investments in business growth is the basic priority, but we will also consider share buybacks if necessary.

Q. Top-line growth is necessary to increase profits in the Food & Beverages domain, but I have the impression that Kirin is not very focused on the top line. I think you should change your organizational culture, but do you expect any changes? For example, a large investment was made in *Kirin Home Tap* last year, but the company is taking a wait-and-see approach for this fiscal year. While craft beer and high value-added RTDs are planned to grow, they are currently stagnant. I think LC-Plasma is a product that the company is confident about, but the sales figures are not disclosed.

A. We are all aware of the importance of top line growth in order to increase profits. For *Kirin Home Tap*, however, it is not enough to just invest and we need to assess the consumer retention situation. The same applies to craft beer. We will not stop investing, but at the same time we will not continue without proper consideration. We are thoroughly focused on the top line, so please rest assured.

Q. At what scale will you be investing in the Health Science domain? In the 100 billion yen range?

A. We have already announced 60 billion yen for capital expenditure, but we believe that this is not enough. 100 billion yen is also envisioned, but we emphasize our investment on projects that can be expected to be profitable.

Q. I think Lion's M&A in the craft beer business is already about 150 billion yen in total investment, but I don't know what the returns are. I want to see quantitative data on sales revenue, profit, incremental profit from acquisitions, and medium-term milestones etc.

A. It is included in Lion's earnings results and forecast. You are generally correct about the scale of investment you have pointed out. The scale of sales revenue is expected to be around 40-50 billion yen in North America, and incremental profit is expected to be 10 billion yen in the new MTBP. Normalized operating profit is about 20%.

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