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**[Q&A Session Minutes]**  
**Presentation on 2Q FY2021 Financial Results**

Date: August 11, 2020 (Tue), 10:00-11:30 JST

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. I understood that businesses other than the Myanmar business are making good progress. On that basis, I want to ask CEO Isozaki about his thoughts on the stock price. Today's stock price is down from the previous day and remains at a low level.

There are three ways of looking at the stock price, and the first is about Kyowa Kirin. There is a curious tendency for the stock price of Kirin Holdings (hereafter Kirin HD) to fall as the stock price of Kyowa Kirin rises. We believe that this is due to the observation that Kirin HD will make Kyowa Kirin a wholly owned subsidiary in the future. The second is uncertainty about the future of the Myanmar business. The third is that the profitability of Lactococcus lactis strain plasma (hereafter Lc-PLASMA) and Home Tap is still far from being realized. We believe that these factors have influenced the current level of the stock price. I want to hear Mr. Isozaki's thoughts on each of these topics.

A. I think the weakness of the stock price is partly due to yesterday's announcement of financial results. Although we currently own more than 50% of Kyowa Kirin, Kirin HD will not invest directly in Kyowa Kirin. Kyowa Kirin will invest in its own growth. Kirin HD will focus on the health science domain. With regard to the existing business in the food domain, although it is difficult to increase volume because the food domain is a mature market, we believe that it is possible to increase the profit margin. However, since it will not be easy to achieve this by raising prices, we need to create more value-added products/services and provide them in an environment where consumers will pay more for them. We are working on this.

Regarding the Myanmar business, we have been negotiating with MEHPCL since the coup in February; but since then, COVID-19 has spread again in Myanmar and the situation on the ground remains chaotic. Our resolve to continue our business in Myanmar remains unchanged. However, as this is a matter under negotiation, if the other party (MEHPCL) is unwilling to sell (their stake in Myanmar Brewery), we may have no choice but to exit. Some people may think that the impairment of the Myanmar business will result in little or no earnings in the future, but

we expect to achieve a minimum annual normalized operating profit (hereafter normalized OP) of 6 billion yen. Although demand is declining in urban areas such as Yangon, there is demand in other areas.

We are currently selling existing Lc-PLASMA products through various routes, but we need to develop new products, including the ones with container types. In addition, we want to sell products through companies outside the group, with the name of Lc-PLASMA displayed.

For *Home Tap*, the target number of subscribers has been revised upward to 150,000 as the number of subscribers reached 100,000 earlier than planned. Once we have determined potential maximum subscribers, it will be necessary to decide how long to continue investment. Further verification will be necessary in the future, but one way to look at it is to consider a potential maximum subscribers of 300,000 subscribers, after which we will be able to make a significant contribution to profits.

Q. Regarding Kyowa Kirin, is there any possibility of an acquisition in the long term?

A. For Kyowa Kirin, we want to create synergies with the health science domain. Kirin Group has always had a pharmaceutical business, so it is able to apply its knowledge to the health sciences domain. I myself have visited the research institute and have seen various synergies at work there. It is necessary to materialize these synergies on a companywide scale as soon as possible. Therefore, at this point in time we want to focus on creating synergies in the Health Science and Pharmaceuticals domain rather than immediately purchasing more shares of Kyowa Kirin.

Q. How prepared is Kirin for the dissolution of the Myanmar Brewery joint venture? I want to know the timeline. Also, how will you absorb the volatility of the (Myanmar) business in the consolidated business as a whole, and what are your principles and resolve when negotiating with the other party (MEHPCL) as a global leader in CSV?

A. We are having serious discussions, including with outside directors, from various perspectives such as business portfolio, human rights, and geopolitical risks. Regarding a timeline, with chaos in the country due to the spread of COVID-19 we are in a situation where getting to the bargaining table remains difficult. We want to make as much progress as possible by the end of this year. We understand that if there is too little progress, there will be concerns from various people, including shareholders, investors, human rights groups, and employees in Myanmar, and we are mentally prepared to exit if the other side (MEHPCL) is not willing to negotiate. In that case, we will continue our efforts to generate profits from existing and new businesses by all possible means and not disappoint shareholders and investors.

Q. With regard to Kirin Brewery, you have revised revenue upward by 900 million yen. What are your forecasts for on-premise and off-premise? Sales volume for off-premise seems strong, but

what is the extent of the revision for revenue and marketing costs? It seems to be planning to aggressively use marketing costs for off-premise, but in terms of ROI, will this be a fruitful investment for the next fiscal year and beyond?

A. In response to the spread of COVID-19, the volume mix of beer for on-premise has fallen from more than 20% in around 2019 to around 10%. If you break down on-premise and off-premise by bottle, keg, and can, the ratio of cans is now over 90%. Demand for off-premise is growing. With the expansion of COVID-19 vaccinations, we expect a recovery in on-premise in the second half of the year. We expect a few percent increase in on-premise and a few percent increase in off-premise, for a total increase of about 4% in volume. Demand for on-premise is expected to return, but COVID-19 has caused a major change in the consumption behavior of customers. A typical example is the so-called "home drinking" demand. Our marketing efforts to establish strong brands for home use, such as *Kirin Ichiban* cans, *Kirin Ichiban Sugar Free*, launched under the *Kirin Ichiban* brand to meet the health-conscious consumers' needs, as well as craft beer, have been successful, and our investments are paying off. We will continue to update our strategy in line with consumer behavior. In addition, we have revised upward the number of *Home Tap* subscribers from 100,000 to 150,000. Please note that the increase in marketing costs is due to this reason.

Q. In the first half of the fiscal year, there was approximately 2 billion yen in marketing costs for on-premise products that were not executed, and you have revised upward your full-year forecast by 1.1 billion yen after including such costs. Are you saying that you have revised upward your marketing costs for off-premise products by approximately 3 billion yen, and that this is a strategic investment that will lead to further profit growth in the next fiscal year and beyond?

A. That's correct.

Q. I want to ask you about the Myanmar business and the trend of the market share in the country. There have been reports that companies affiliated with Thai Beverage are increasing their market share, but on the other hand, you commented that the domestic market share has not declined much, as the share change partly includes the impact of illegal imports. However, in terms of numbers, while the overall market sales volume has decreased by 20%, the Myanmar Brewery has decreased by 30%. Let me confirm your view on the situation in the market.

A. In Myanmar, there is a decrease in consumption by consumers due to restrictions on going out at night (to combat COVID-19), malfunctioning of financial institutions, and boycotts by medical staff at hospitals; so the situation is not conducive to normal living and consumption behavior. Since Myanmar Brewery has a high percentage of on-premise sales, these conditions have a significant impact on sales volume. In addition, the shortage of cans and the inability to launch a nationwide campaign have also had an impact. As for cans, it is a common issue in the industry, but illegal imports are increasing in response to a situation where products cannot be made due to the shortage of a domestic supply of cans. As for the boycott campaign, it is true that it is

happening in large cities, but the impact on sales volume is limited, and the impact on material procurement and production system is larger. This is the main reason of Myanmar Brewery losing its market share.

Q. With regard to Kirin Beverage, revenue and normalized OP have been revised downward in the full-year plan, but how are the business structural reforms contributing to profit?

A. The structural reform of vending machines had a cumulative effect of 1.3 billion yen in the first half, which is included in fixed selling expenses. The 1.3 billion yen includes the reduction of unprofitable vending machines and other fixed costs. The number of vending machines has been reduced by 14,000 units from the 214,000 units as of December last year. In regards to fixed cost reductions, we are proceeding with reductions in fixed column fees. In addition, the company has been collaborating with Asahi Soft Drinks in the area of vending machine maintenance operations, which has also led to cost reductions. As a result of these efforts, the normalized OP margin has improved by about 1%.

Q. The number of *Home Tap* subscribers is steadily increasing. You said that the potential maximum subscribers are 300,000 but we were told at a previous briefing that there were between 1.5 and 2.7 million potential households. On what basis do you plan to gain 300,000 subscribers? In addition, as you increase the number of subscribers, I understand that there is a learning curve in terms of acquisition cost. How do you plan to improve efficiency?

A. We are still learning as we go, and the future outlook for the actual churn rate is still unpredictable. The number of subscribers must be viewed as a fixed constant at some point, or the cost to compensate for the churn rate may increase. We believe that the appropriate balance is currently 300,000 subscribers. As you understand, this business is a recurring revenue model and it is important to be able to increase the number of subscribers as quickly as possible. We will determine what level the optimal balance is while making investments at an early stage. In addition, CRM is important in order to develop a long-lasting relationship with consumers who become subscribers. Based on the number of consumers who have become subscribers, we will estimate the amount of investment and the profit margin through hypothesis testing.

Q. What is the time frame for reaching the 300,000 potential maximum subscribers? End of next year?

A. It is difficult to predict, but we want to achieve it during the next mid-term plan at the latest. We will show our progress every quarter. When COVID-19 comes to an end, we will be able to conduct experiential promotions and our sales promotion activities will change. We hope you will understand that we will continue to work on this project while conducting hypothesis testing.

Q. Regarding Lion, you mentioned that you are going to make firm investments in supply chain management (hereafter SCM) reforms and brands, and this is similar to the situation where

Kirin Brewery was stagnant. The brand is expected to be effective from a medium- to long-term perspective, while the SCM is expected to be effective from a short-term time frame. I want to know quantitatively how the series of reforms will improve profitability.

A. We have already started to reform our production system and supply chain, including the closure of one plant, and we expect to see the results of these reforms from 2021 to 2023. We plan to achieve cost reductions of about AUD 100 million over the next three years.

Q. Even if there is a cost reduction of AUD 100 million, there is still investment in the brand. What will remain as profit?

A. We hope to return to the pre-COVID level of 2019 by 2023. We will proceed with this two-pronged strategy of improving brand value through marketing reforms and reducing costs through supply chain reforms.

Q. Regarding the impairment loss on the Myanmar business, is the amount of 21.4 billion yen appropriate? Could you also tell us about the assets remaining on the balance sheet?

A. We have been conducting impairment tests since the first quarter, and two things have changed since that time: the business plan has been revised and the WACC has risen due to rising country risk. Of the current impairment, about 70% is due to the slowdown in the growth of the beer market due to the impact of COVID-19 and the remaining 30% is due to the increase in the WACC; the WACC has risen from the upper 10% range to the 20% range. This reflects the increase in the country risk premium announced in July 2021 and the downgrade of the Moody's equivalent rating by about four levels.

Q. With respect to Lion, the perception is that the trend was weaker than that of Carlton & United Breweries, a subsidiary of Asahi Group Holdings, in both the on-premise and off-premise. What is your view?

A. In the first half of the year, off-premise sales in Australia and New Zealand declined by 5% and on-premise increased by 60% compared to the previous year. Looking at the April-June period alone, off-premise sales declined by about 5% YoY, while on-premise sales improved significantly by 340% YoY. We want to maintain this momentum in the second half of the fiscal year, but COVID-19 has spread again, and some areas have been locked down. Therefore, some of the effects of COVID-19 will be felt in the second half of the year, but the third quarter is an off-peak season and we believe that the situation will improve toward the fourth quarter, which is the peak season. As I mentioned earlier, we will continue to make improvements through the two pillars of marketing reform and SCM reform.

Q. Regarding market share, do you see that there is not much fluctuation?

A. We see that our business has been stable.

Q. What is the direction of the next medium-term business plan? I believe that the current medium-term plan has been successful in the sense that it has opened up the most difficult path of reassessing the company's portfolio. On the other hand, it is difficult to see the profit levels. What is the key to future growth? In the past, you said that you want to bring profit levels back to the 2019 level by 2022, even excluding the growth of Kyowa Kirin, but I want to know again about your approach to profit levels.

A. In the KV2027 long-term management plan, the 2019 medium-term business plan is the first step and the next medium-term plan is the second step. As you said, it is difficult to change the portfolio, but we feel that we are getting good results despite the impact of COVID-19. We will accelerate this process and make it more robust. The key to the next medium-term business plan is to link this acceleration of the process to the next plan. Lc-PLASMA is growing, and Kyowa Hakko Bio is planning to raise its operating rate to its original level of profit. We are moving forward with the vision that business profits in the health science domain will grow considerably, and that they will account for a higher percentage of the overall medium-term business profit. In the existing beer business, we are also making upfront investments in marketing costs, but we are determined to generate profits. For example, as I have already explained, *Home Tap* is expected to contribute 10 billion yen in profit in the future, and Lion will return to the 2019 level by 2023. We are getting closer to realizing our plans. We are working on these plans one by one, so please keep your eyes on us.

Q. With regard to Kirin Brewery, we feel that it is necessary to review the profit structure for each channel because consumer behavior is changing in each channel. Specifically, is there any possibility of changing the actual selling price of on-premise products? Also, you say that high value-added RTDs are doing well, but what are you going to do about standard RTDs?

A. We need to take into account the competitive environment in terms of price, and there is a risk that we will be the only one to take the lead. On the other hand, raising the profit margin of on-premise in Japan is an issue, and we will focus on raising the profit margin rather than the volume through ongoing efforts such as *Tap Marche*. Our goal is to shift to high value-added RTDs rather than pricing them. We aim to increase the ratio of high value-added RTDs to our total RTD sales volume from the current 8% to 20%.

Q. CEO Isozaki's strong comments are welcomed, but I still do not see the health science domain contributing to profits. We need to see profits of 5 billion yen or more in the next year or the company will not reach its profit targets for the next few years. I understand that several Lc-PLASMA products are being introduced, but all the others health science products seem to be few.

A. We have been sowing the seeds of the future. Naturally, we are aware that we will not be commended unless we can show both revenue and normalized OP in numbers. As for the *Human Milk Oligosaccharide* and *Citicoline* functional ingredients, construction of their

manufacturing facilities is now progressing smoothly. As for Lc-PLASMA, we need to show progress in more numerical terms. We want to make this progress visible on the surface and in lines; not in dots. We will consider how to disclose this information in the segment.

Q. Regarding the business portfolio, even if the performance of Kyowa Kirin and Coke Northeast - which is included in the Other segment - were good, Kirin HD would not gain praise by capital markets. As for Myanmar Brewery, we understand that the company wants to contribute to the people of Myanmar through its local business, but as long as it continues to operate in the country, paying corporate taxes in this environment will not be easily praised by the capital market. Please tell us what you think is necessary for Kirin HD to be evaluated by the stock market.

A. We are well aware that the fact that owning a variety of companies has not led to recognition as a holding company. The issue is we have not been able to fully explain the connection between the beer businesses to non-beer businesses. When we first appealed to investors about the strategy of the health science business, it was difficult for them to understand, but through one-on-one meetings with investors, they have come to understand the necessity and future potential of our involvement in the health science domain.

Q. Do you recognize that further efforts are still needed to unify the disparate efforts in the health science area?

A. We are working on a variety of initiatives, but they are not yet visible from the outside. We are doing what we need to do, and we hope to be able reveal these initiatives soon.

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