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[Q&A Session Minutes]
Presentation on 1Q FY2022 Financial Results

Date: May 12, 2022 (Thu), 5:30-6:30 pm (JST)

Presenters: Shinjiro Akieda, Senior Executive Officer & General Manager of Corporate Strategy Dept. and
Takashi Hayashi, Executive Officer & General Manager of Finance Dept.

Q. I would like to know the KPIs of Kirin Brewery's efforts to add value to its products, along with the number of subscribers of *Home Tap*. I would also like comments on the outlook for high value-added RTDs and craft beers.

A. *Home Tap* has over 100,000 subscribers since last year, but this year we will examine whether this business model works properly while improving consumer satisfaction. Details cannot be disclosed, but KPIs include the retention rate of current subscribers, the number of consumers who choose the higher-priced 8 liter option, the number of consumers who make additional purchases during the month, and the number of new subscribers. We were not able to fully activate in-person touchpoints in 1Q due to Omicron, etc, but we plan to increase in-person touchpoints this year, rather than using mass advertising as we did last year. The number of subscribers is currently about 110,000. While new consumers have signed up, some have cancelled, hence the total number of subscribers have been steady. In this business, it is impossible for no subscribers to cancel, so it is important to ensure consumer satisfaction. We will promote measures to increase consumer satisfaction, such as introducing products other than beer through our customer call centers. We have a high weighting within the craft beer market, and the release of *SPRING VALLEY Hojun 496* last year added a volume of just over 18,000 kl. We believe that the Japanese craft beer market will continue to grow, and this year we will expand the market to over 60,000 kl through both the on-premise channels and DtoC channels by expanding *Home Tap*, *Tap Marché*, etc. in addition to *SPRING VALLEY Hojun 496*. In the RTD market, we are trying to expand into the high value-added range, but competitors are also launching a variety of products. The market expanded steadily last year, and we will work to expand the market through renewals in the spring.

Q. You mentioned that recently the business in Australia has been tough. I understand that in the domestic business you are considering price increases and various other measures. Please tell us about your outlook on the business in Australia and how you plan to retrieve the opportunity loss in the first quarter. Also, are the growth rates in Australia in the on-premise and off-premise channels shown on page 7 of the financial results presentation volume based?

A. We had a challenging 1Q result with lower sales and profits, but there are three reasons for this: 1) last year's results include one month's worth of dairy & drinks business, 2) unexpected Omicron impact in January and February (mainly in the on-premise channels), and 3) flooding impact from late February to March. An impact of about 70m due to Omicron and higher-than-expected tax increase, etc and an additional impact of 20m due to the increase in raw materials is expected toward Lion's full-year business profit plan of 420m. In 1Q, there was about a 50m impact, but it has been partially covered. We are considering further price increases in the future, and we expect an improvement of about 50m, including reductions in overhead costs. We will continue to build up for the shortfall, but we will stick to the plan set at the beginning of the year. The figures in the financial results presentation is volume based, but the value based figures are almost the same. The market growth from January to March was -9% in the on-premise channels, -5% in the off-premise channels, and -6% in total. The market share has weakened slightly from around 35%, but this is due to the impact of core brands losing sales. This is a medium- to long-term issue. In the off-premise channels, logistics were temporarily affected by the flooding in Queensland, where our main brewery is located.

Q. The decrease in marginal profit on beer is significant, perhaps because the number of *Home Tap* subscribers hasn't changed much. Is there a decrease in per capita purchases?

A. The per capita purchases for *Home Tap* has not decreased. We are working to increase it. The decrease in marginal profit on beer is the result of a decrease in volume of our standard products and other factors, not because of *Home Tap*.

Q. Has the Company repurchased its own shares since the announcement? If not, I would like to know the reason.

A. When the Company acquires treasury stock, it is required to disclose the status of acquisition on a monthly basis in a timely manner. The fact that we have not made such disclosure at this point in time means the repurchase has not begun. The planned acquisition of 50 billion yen will be properly implemented by February 14, 2023, the announced period. The reason for why the repurchase of treasury stock has not been conducted is because the Company was unable to do so when considering insider trading rules and regulations.

Q. The purpose of Kirin Brewery's price revision is to absorb cost increases, but how do you see the medium- to long-term opportunities and risks? Also, what, if any, emphasis do you place on the price revision? Please tell us about them, along with price elasticity.

A. Regarding price revisions, we will take into consideration the past and future outlook for price increases in raw materials and the impact of soaring distribution costs, and we will pass on these costs. In the on-premise channels, profitability is not high to begin with, and there is also the impact of COVID-19, so we need to carefully consider price revisions in this area as well. By securing resources for brand development, we would like to allocate investment to the development of craft beer and high value-added products. In addition, it is our understanding that the price elasticity has been around 0.4 - 0.5 in the past, but our competitor's announcement indicates that there will be a considerable negative impact on volume. Simulations have been made for multiple patterns of calculation, including the case where we take the decision to raise prices on our own, the case where all companies raise prices, and the case where the impact of each category is taken into account. With these factors in mind, we intend to set prices in a way that will allow us to remain profitable in the future.

Q. Does the price increase include RTDs?

A. Of course, we are considering to include RTDs in the price increase. Otherwise, there will be a shift from beer to RTDs.

Q. Could you elaborate on the additional profit improvement measures for the additional cost increase of 14 to 17 billion yen mentioned on page 5 of the financial results presentation? Does this not include the impact of domestic beer price increases?

A. Reduction of costs is mainly related to raw materials and distribution costs. We believe that we can respond to prices for Lion, Coca-Cola Beverages Northeast and other overseas businesses. The impact of price revisions on domestic alcoholic beverages is not included here.

Q. Please tell us about the recent situation of the Myanmar business. How is the progress in collecting cash and the equivalent of your share of current assets and liabilities?

A. The business is continuing as usual, making a profit, and our employees are active. As for negotiations, I cannot give you any details yet. We are still negotiating with the other party on the sale of the company. We ask that you please wait until we are able to provide you with further information. Regarding the recovery of cash and other assets, we would like to try to recover as much as possible the amount equivalent to the value of the business. Negotiations are underway with the aim of maximizing that amount.

Q. Kyowa Hakko Bio's normalized operating profit deficit is growing, but is this in line with the plan?

A. In the Health Science domain, we were able to improve productivity at Kyowa Hakko Bio. We also highly regard the double-digit increase in sales at Kirin Beverage with the launch of new beverage products. The reason for the loss in operating profit is mainly due to increased marketing investment in the Health Science Department and Kirin Beverage, and these are positive investments for the future. The loss at Kyowa Hakko Bio was temporary due to the transfer of the BtoC division to Kirin Holdings, and there was no impact on the group as a whole.

Q. How is the progress of 1Q operating profit against the plan and the difference by business segment? Did you leave the full-year plan unchanged because you thought you could offset the negative impact through cost reductions and other measures?

A. The spread of Omicron was not anticipated at the planning stage, so there was a negative impact, particularly in the on-premise channels in Japan and Australia, but progress is in-line with consolidated operating profit. Although there was an impact of cost increases, we believe that the full-year plan is achievable because costs are within the scope of cost control for the consolidated business as a whole. Kyowa Kirin is also performing well, and we have high expectations for Coca-Cola Beverages Northeast for the full year.

Q. I thought Kirin Brewery would have to spend a large amount on sales promotion due to competitor's product renewal, but it was not as much as expected. KIRIN ICHIBAN's (can) sales in the single month of March was 15% and the recent sales is also strong, but what impact did the competitor's major product renewal have on Kirin? Also, what is the reason for the growth of SPRING VALLEY Hojun 496 amid the return of dining out?

A. Regarding the competitor's renewal, we believe that they are making substantial marketing investments. On the other hand, KIRIN ICHIBAN has been making efforts to increase its brand equity for about three years, and its brand favorability continues to increase. The competitor's moves cannot be underestimated, so we have been considering them as a threat, but at the same time we have been taking countermeasures by allocating investment to KIRIN ICHIBAN and Honkirin. As a result, KIRIN ICHIBAN has not been affected by any major changes in the trends. We expect competitors to continue to invest aggressively in the future, but brands do not grow in a single year, so we will continue to monitor ROI to ensure that our brands are optimized to increase consumer satisfaction in the future. As for SPRING VALLEY Hojun 496, the increase in off-premise channels due to the voluntary restraint of staying home is not the only reason for why it performed well. I was also president of Brooklyn Brewery Japan, and craft beer is purchased by people who relate to the story behind it. The premium beer market will continue to expand by creating value beyond the price. The same trend is taking place in North America, which is the leading market. At the moment, we are not aware of any decline in craft beer in the off-premise channels as a result of the recovery in the on-premise channels.

Q. You mentioned that the additional impact of the sharp rise in raw material prices was 18 billion yen to 21 billion yen, compared to the initial estimate of 14 billion yen at the beginning of the year. What is the reason for the impact to more than double compared to your initial estimate? I assumed that a large portion is hedged.

A. The impact on the domestic and overseas business is split 50-50. In addition to raw materials, there was a 4 billion yen increase in liquor tax in Australia. I cannot give you the details for each product, but aluminum, liquid sugar, alcohol and crude oil are mainly affected. The impact on raw materials in the domestic business is small because we have annual contracts with suppliers, so this is the result of accumulating both domestic and overseas impacts. Some suppliers have annual contracts and some have spot contracts. Annual contracts are not affected to a great extent, but spot contracts are affected. The price increase in raw materials was also affected by soaring fuel prices due to the impact of Ukraine and soaring labor costs in North America.

Q. Is Lion's market share declining?

A. Lion's market share is not declining significantly. It has weakened in 1Q due to external factors such as the temporary suspension of logistics functions after the main brewery was impacted by the floods and the impact of the pallet shortage, but it will improve from 2Q onwards.

Q. You are considering the details of the price revision for domestic beer, but we have heard that your competitors have announced that they will differentiate prices by category. Will Kirin's price revision have a different policy? Is there a possibility that the price revision will be different between manufacturers?

A. We do not know about our competitors, but we do not base our price adjustments on a category-by-category basis. Price revisions require a good cause, and explanations are also required. If there are different cost increases for beer, *happoshu*, and new genres, then we should revise prices accordingly, but if that is not the case, there is no reason for the difference. On the other hand, there may be cases where the cost will differ by container depending on the manufacturing efficiency and sales conditions, so a weighted average of the various container volumes may result in a difference, but as a concept, we are not considering to differentiate.

Q. You explained that you were responding to the additional liquor tax in Australia, but was this something you had not anticipated in the beginning of the year? If there is any impact on the price increase measures as a result of this, please let us know. I would also like an update on the sales situation from April onwards.

A. The rate of increase in liquor taxes announced in February was approximately 2.1%, which was higher than we had expected. Our unit sales price in Australia improved by a little more than 1%, but this is slightly short of our plan, so we will secure earnings through further pricing measures. Omicron impacted Australia in January and February and NZ in March, and although there was no lockdown, there was a voluntary curfew and restaurants were closed to ensure employee safety. These conditions have now improved. In terms of flooding, XXXX's main brewery in Queensland was severely impacted. Sales losses due to the impact on manufacturing and logistics resulted in more than 10m. As it took about a month to recover, sales volumes in Queensland and neighboring New South Wales were down by double-digit in the single month of March. On the other hand, signs of recovery have been seen recently, with sales in Queensland and Australia nationwide up by double-digit in the month of April.

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