

Message from the Chief Financial Officer



Accelerating growth by implementing business structure reforms and creating new value by charting a "new growth track"

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2019-2021 Medium-Term Business Plan

Although our financial KPIs were not achieved, the foundation for growth in the Medium-Term Business Plan was established.

—Please review the 2019-2021 Medium-Term Business Plan (2019-2021 MTBP) and tell us about the results for fiscal 2021.

The CAGR of normalized EPS from 2019 to 2021 was -2.2% and ROIC in 2021 was 4.2%, both of which fell short of the MTBP targets (normalized EPS +5% or more and ROIC of 10% or more). In addition to external factors such as COVID-19 pandemic and political upheaval in Myanmar, we believe that quality control issues at Kyowa Hakko Bio had a significant impact on our earnings.

That said, looking at 2021 (alone) in which we set our financial KPI (147 yen of normalized EPS and 7.6% ROIC) at the beginning of the period, although we did not achieve the ROIC KPI resulting from the impairment losses booked for the Myanmar business, we did achieve our target by bringing normalized EPS back to 156 yen, close to the level marked in 2019 (158 yen) before the COVID-19 disaster.

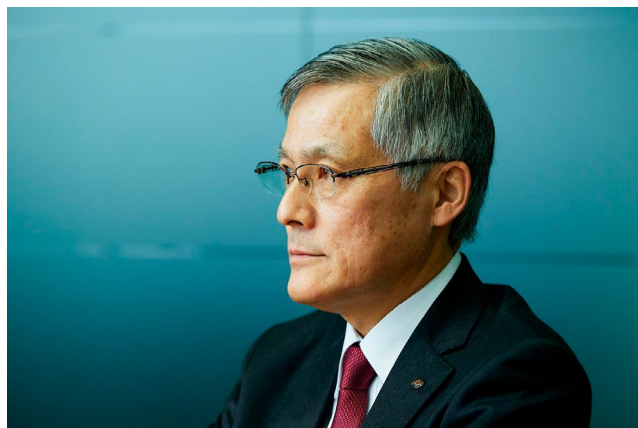
Executive Message

The non-financial KPIs of the 2019-2021 MTBP showed significant results, with employee engagement rising to 72%, meeting the target, and corporate brand value surging to US\$2,476 million, well above the target of US\$2,200 million. Although there were some indicators of CSV commitment that were not achieved owing to activity restrictions, we were able to make steady progress in our initiatives, especially in the environmental area.

—What are the specific impacts and responses to external factors?

Due to the impact of COVID-19 pandemic, normalized operating profit had an impact of around 100 billion yen in the two years of 2020 and 2021. In addition, the normalized operating profit had an impact of approximately 10 billion yen compared to 2021 in the Myanmar business due to political changes in Myanmar. Despite such strong headwinds, we built up cost reductions of more than 60 billion yen over two years, and were thus able to minimize the impact of the revenue decline.

With regard to the Myanmar business, we have continued discussions with our partner, Myanma Economic Holdings Public Company Limited (MEHPCL), to dissolve the joint venture, initially on the premise that the Kirin Group would continue its business in Myanmar. However, through discussions with MEHPCL and the filing of an arbitration in Singapore, we determined that it would be difficult to dissolve the joint venture in the manner we desired, and we have shifted our policy to withdraw from the Myanmar business. In formulating our withdrawal plan, we will give the utmost consideration to our stakeholders in accordance with our human rights policy, while placing the highest priority on the safety of local employees and their families.



—Please tell us about the growth investments in the 2019-2021 MTBP.

With the achievement of KV2027 in mind, we steadily invested in high value-added products and services in the Food & Beverages domain to strengthen the earnings capability. Kirin Brewery invested 5 billion yen in the Nagoya Plant in 2019 and 7.5 billion yen in the Sendai Plant in 2020 to expand ready-to-drink (RTD) production lines and accelerate commercialization of high value-added RTD products. In addition, we stepped up our investment in the craft beer *SPRING VALLEY HOJYUN* <496> and worked to provide even higher added value with the full-scale rollout of a Kirin Home Tap offering from 2021.

Meanwhile, we have strengthened our overseas craft beer business by investing about 40 billion yen in 2020 to make U.S. craft brewer New Belgium Brewing Company, Inc. a subsidiary and by acquiring Fermentum Group in Australia in 2021.

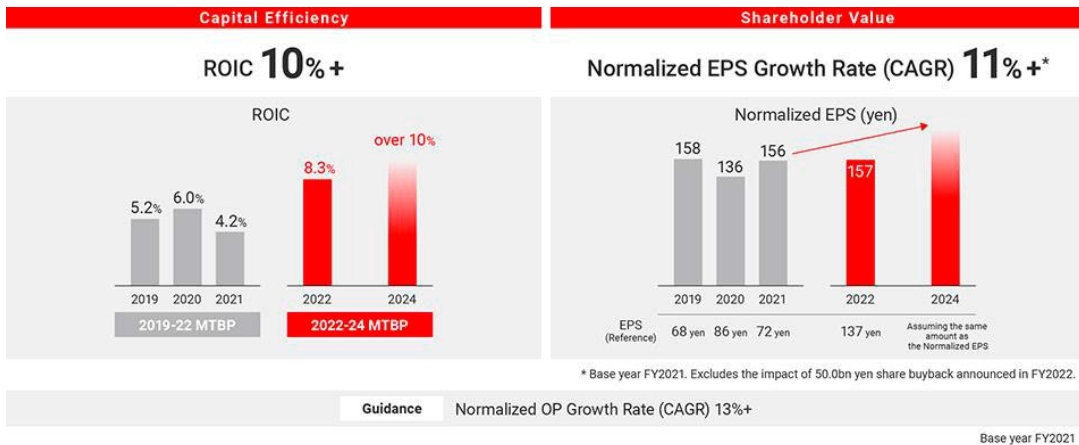
In the Health Science domain, we announced a capital and business alliance with FANCL CORPORATION in 2019. We acquired approximately 33% of the FANCL's shares for 129.5 billion yen and proceeded to cross-sell on our channels and launch jointly developed products. Kyowa Hakko Bio also started its growth and expansion by increasing production capacity for next-generation strategic materials, including the addition of production lines for Citicoline and human milk oligosaccharides.

2022-2024 Medium-Term Business Plan

Investing resources generated by balance sheet and portfolio management into growth drivers. Achieving a New Growth Track

—What are the financial KPIs and normalized operating profit guidance in the 2022-2024 Medium-Term Business Plan (2022-2024 MTBP)?

In the 2019-2021 MTBP, we mainly worked on "building a foundation for transformation," but in the 2022-2024 MTBP, we will invest management resources in the three domains of Food & Beverages, Health Science, and Pharmaceuticals to move forward on a "new growth track." For financial KPIs, we aim for ROIC of 10% or more and normalized EPS CAGR of 11% or more (vs Fiscal year 2021). Our guidance targets a normalized operating profit CAGR of at least 13% (versus fiscal 2021).



For non-financial KPIs, we have established eight indicators that are more directly related to economic value in the three categories of "environment," "health and well-being," and "employees," based on stakeholder expectations. This will strengthen the INPUT, BUSINESS, and OUTPUT of the "Value Creation Model" and lead to a greater OUTCOME, thereby deepening CSV management.

Items	Themes	Non-financial Indicators	Target Level in 2024
Environment	Climate Change	Reduction rate of GHG emissions (Scope1+2 vs. 2019)	23% (50% in 2030)
	Containers and Packaging	Recycling rate of resin for PET bottles	38% (50% in 2027)
	Water Resources	Water use intensity at manufacturing sites with high water stress Lion (Australia) (Water use intensity = Water usage / Production amount)	Under 3.0 kL/kL (Under 2.4kL/kL in 2025)
Health	Progress of mid-term health science strategy	Achievement level in supporting the maintenance of immune function 1. Recognition rate of LC-Plasma function in Japan 2. Number of people continuing to take LC-Plasma	1. 45% 2. 1,900,000 people (1. 50% in 2027)
		Achievement level of new value creation in the immunity, brain function, and intestinal environment domains and Achievement level of promotion of collaboration with pharmaceuticals domain	Not disclosed^{*1}
Employees	Organizational Culture	Employee engagement score	75%
	Diversity	Achievement level in "Increasing diversity" ^{*2} 1. Ratio of female managers in Japan 2. Ratio of career hires in Japan	1. 15% 2. 30%
	Occupational health and safety	Lost time injury frequency rate ^{*3}	0.95 (0.40 in Japan)

^{*1} Specific indicators and target levels are not disclosed for strategic reasons, as they include content related to intellectual property.

^{*2} The target group is employees of Kirin Holdings.

^{*3} Major group companies that have production and logistics functions within the group will be included. Partner companies within the plant premises are also included.

—What are the specific initiatives in the three domains of Food & Beverages, Health Science, and Pharmaceuticals?

In the Food & Beverages domain, which is the source of growth investment, we believe it is important to achieve even higher profitability and steady cash generation. In the 2022-2024 MTBP, we expect our mainstay brands to recover from the COVID-19 pandemic, and we will continue to improve our mix by strengthening high value-added products and services. In parallel with these efforts, each Group Company will work to improve profitability through business structure reforms in SCM.

In the Pharmaceuticals domain, in order to build a solid position as a "global specialty pharmaceutical company," we will achieve growth of our three global strategic products by investing in our business base, centered on global production and sales. We will also develop next-generation strategic products, aiming for medium- to long-term growth.

In the Health Science domain, we are expanding the development of products containing *Lactococcus lactis* strain Plasma, continuing collaboration with FANCL, and working on organic growth through Kyowa Hakko Bio's next-generation strategic materials Citicoline and human milk oligosaccharides. At the same time, we will also consider to expand our business in the Health Science domain through M&A.



—Please explain the initiatives in balance sheet management.

We will promote asset reduction of more than 100 billion yen during the time frame of the 2022-2024 MTBP to achieve ROIC of 10% or more. In 2021, we introduced our Global Cash Management System. This enabled us to consolidate and supply funds to and from overseas subsidiaries in a timely manner, leading to a reduction in cash balances. In the future, we will consider ways to utilize surplus funds while achieving further efficiency by expanding the number of companies included in this process.

Furthermore, we believe that we can improve managing inventories, and we will steadily shorten the CCC^{*3} by improving the accuracy of demand forecasts through ERP^{*1} and enhancing SCM^{*2} efficiency by reviewing required inventory quantities. In addition, we will continue to reduce our cross-shareholdings, which were greatly reduced in 2019-2021 MTBP, with the goal of reducing them to less than 5% of total capital in 2022-2024 MTBP.

*1:ERP: Enterprise Resource Planning

*2:SCM: Supply Chain Management

*3:CCC: Cash Conversion Cycle

—What is your view of the medium- to long-term business portfolio?

The Board discusses the allocation for the medium- to long-term business portfolio at least once a year. The divesting China Resources Kirin Beverages (Greater China) Company Ltd. announced in February 2022 was also delivered from these discussions, and we will actively pursue the sale of non-core businesses.

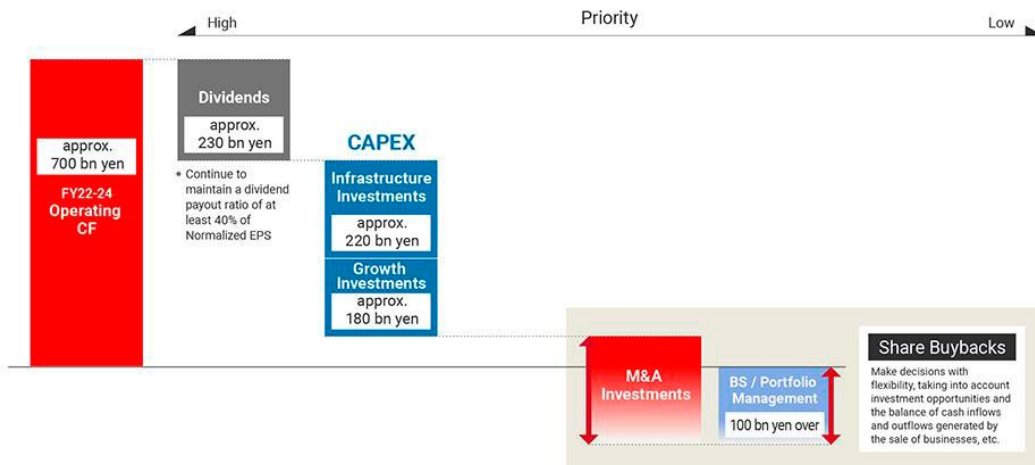
We will accelerate the transformation of the Food & Beverages domain and investment in the Health Science domain through balance sheet and portfolio management based on a series of constructive discussions.

—Would you tell us your cash allocation plan during the 2022-2024 MTBP period?

Cash flow after dividends will be allocated to capital expenditures initially for the current existing businesses, and then to growth segments, mainly the Pharmaceuticals and Health Science domains. The financials for M&A will be covered by the surplus after dividends and capital expenditures, plus funds generated by balance sheet and portfolio management. If there are investment opportunities that contribute to increasing corporate value, we view the use of debt as an effective means of doing so. In the consideration phase, we will make disciplined investments that lead to an increase in corporate value based on ROIC.

Furthermore, investment in intangible value is essential to strengthen organizational capabilities for innovation in order to achieve KV2027. We will continue to invest in our talent, including better linking remuneration to performance as well as developing skills and improving the work environment. Furthermore, we will sustain our investment in research and development, which is the foundation for value creation. In ICT digital, we will proceed with digital transformation mainly through maximum use of the new ERP system, which has gone live in 2022. The new ERP system enables us to build an optimal production and logistics system and standardize operations that lead to cost reductions and cash generation through asset reduction. We will also consider allocation of resources to digital when investing in new business.

Executive Message



Earnings Forecasts for 2022

Achieve first-year targets and ensure attainment of KPIs in the 2022-2024 MTBP

—In the current fiscal year, costs are expected to rise due to higher raw material costs, and expenses are expected to increase as a result of the go-live of the ERP system. Please share the initiatives under way to secure profits in the short term.

In the beginning of the fiscal year, we expected a cost increase of approximately 14 billion yen from the soaring cost of raw materials and an increase in expenses of approximately 10 billion yen associated with the ERP system launch. By reducing SCM costs and SG&A expenses, and by taking measures such as reflecting cost increases in selling prices overseas, we aim to improve profitability by approximately 11 billion yen. In addition, we aim to achieve normalized operating profit on par with the previous year, by offsetting any headwinds with top-line growth.

Through the use of ERP, we aim to reduce costs by optimizing SCM and standardizing operations, as well as generate cash by reviewing excess cash levels and reducing assets.

—Would you tell us your shareholder returns policy and thoughts on the current share price level?

The Kirin Group considers the shareholder returns is one of the most important topic management team is focusing, and that is why we maintained its dividend level even under COVID-19 pandemic. It has also never cut its dividend since listing. In the 2022-2024 MTBP, we intend to maintain a dividend payout ratio of 40% or more of normalized EPS and to continue to pay stable and ongoing dividends in the future.

At the same time, we consider investment for the growth is significant, thus the executing share buy back will be discussed adequately in the light of cash inflow and outflow. In 2022, we plan to execute a share buyback of up to 50 billion yen in light of our cash reserves and the funds generated by the divestiture of China Resources Kirin Beverages (Greater China) Company Ltd.



We recognize that the current share price level doesn't meet our investor's expectation. We intend to enhance shareholder value by achieving the KPIs of the 2022-2024 MTBP through the resolution of the Myanmar issue, profit growth in the Food & Beverages and Pharmaceuticals domains and growth in the Health Science business. To this end, we will strive to achieve 2022 targets which is the first year of the 2022-2024 MTBP.