

## Food & Beverages

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**Strategically develop mainly in Asia and Oceania and establish a strong business foundation.**

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Kirin Group has been expanding its operations internationally by actively pursuing mergers and acquisitions. In addition to Lion's development of its alcoholic beverages business in Oceania, the Group has developed leading craft beer brands in the North American market in recent years, driving growth for the Group as a whole.

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## Policy

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**Profit structure reform by enhancing brands in existing businesses AND exploring new businesses**

Kirin Brewery: Enhance main brands, Driven growth of high value-added products and services

Lion: Improve off-premise channels profitability, Accelerate growth of craft beer business in Australia and North America

Kirin Beverage: Revitalize Gogo-no-Kocha and Nama-cha, structural reform of the vending machine business

## Strategies of operating companies

### Kirin Brewery



### Market environment

The market for beer beverages is gradually contracting in Japan, owing primarily to the nation's declining population. Additionally, consumption has become more polarized due to the revision of the liquor tax carried out in 2020 and the continued worsening of the pandemic. While the composition ratio of the new genre category has decreased, an increase was seen in both the beer and RTD category. This trend is expected to continue until 2026 when the tax rate will be consistent across all categories of alcoholic beverages. However, when combining the figures for both beer and RTD, the total market is expected to remain relatively flat.

Sales volumes through on-premise channels continued to decline significantly since 2020 due to the ongoing COVID-19 pandemic. Meanwhile, there has been a boost in the increase of health consciousness and consumers' desires for higher-quality products for home consumption.

### Strategies



Kirin Brewery is advancing three initiatives to achieve a normalized operating profit margin of 25% of sales revenue excluding liquor tax in 2027. The first initiative is to build a robust brand portfolio. We are applying a customer-oriented marketing and full-company brand development from production through sales to continue strengthening KIRIN ICHIBAN, Honkirin, and Hyoketsu brands. The second initiative is to establish new drivers for business growth. In 2021, we significantly increased the number of subscribers for Kirin Home Tap, a service to enjoy authentic draft beer at home, providing to more than 100,000 customers with special, delicious flavors by having KIRIN ICHIBAN Premium, craft beer, and other beer products sent directly from the brewery. Craft beer offerings have been developed with a primary focus in the on-premise channels, and we also launched a canned product called SPRING VALLEY Hojun <496> in the off-premise channels, which demonstrates that our products are driving the expansion of the craft beer market in Japan. These and other offerings are designed to boost profitability in the shrinking market by increasing the composition ratio of high value-added products and services. The third initiative is to transform the company's profit structure. In addition to increasing the proportion of craft beer and high value-added RTD within the category and improving the profit mix, we will also accelerate our efforts for cost reduction by reviewing raw material costs, optimizing the logistics cost structure, and more. We will also seek to improve ROI of selling expenses by improving efficiency in marketing costs and improving sales promotion efficiency in the mass retail channel.

## Lion

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### Market environment

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In 2021, the Australian and New Zealand beer markets saw a recovery from the pandemic during the first half of the fiscal year. In the second half of the fiscal year, however, the markets, primarily the on-premise channels, were affected by elements such as the temporary closure of pubs and restaurants owing to COVID-19 resurgence. Although there will continue to be a certain impact owing to elements such as virus variants, the company is expecting to see a gradual recovery as the number of new infections decreases and as the relaxation of regulations serving as measures against the spreading of infection takes place.

In terms of categories, there is growing interest in lighter-tasting beers and hard seltzers, in addition to highly preference-dependent products like craft beer.

### Strategies

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Lion aims to champion sociability and help people live well by having the best and most-loved crafted adult beverage brands in our target markets. Our business strategy is focused on accelerating growth and productivity while always keeping the consumer and customer at the heart of everything it does.

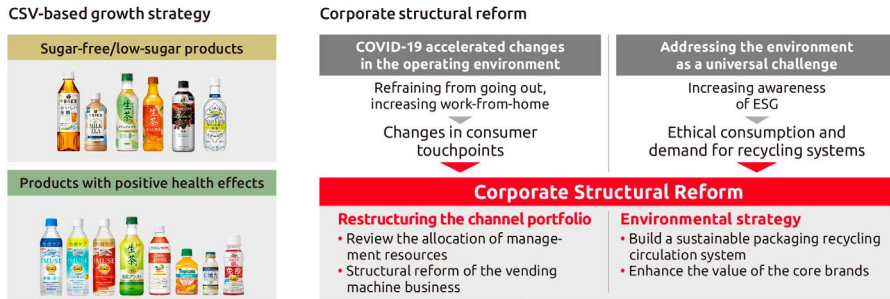
Specifically, the company will be investing in growth categories such as craft beer and hard seltzer while strengthening the brand power of its core products. To strengthen its craft beer business in Australia, Lion acquired Fermentum, Australia's largest independent brewer of craft beer. When it comes to the craft beer business in the US, Lion acquired Bell's Brewery to expand its business in the US and generate synergy in addition to having acquired the strong-performing company New Belgium Brewing.

In terms of functional efficiency, Lion will continue working on reducing costs, which includes the efforts implemented since 2021 to optimize its supply chains. Additionally, the enterprise resource planning (ERP) system introduced by the company will enable decision-making to take place with more speed as a result of improved operational efficiency and faster data analysis.

Under the company's new CEO, who will take on the role starting in July 2022, Lion will steadily move forward with strategies to achieve the goals outlined in the Medium-Term Business Plan by focusing on improving profitability through the aforementioned marketing transformation and efforts to optimize its supply chains.

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Kirin Beverage



Market environment

The Japanese soft drink market in 2021 experienced a slight increase of 1% year on year due to the continuing impact of the COVID-19 pandemic. A recovery consisting of a 2% year on year increase is expected to be seen during 2022, but in the medium to long term, the company is expecting to see a gradual contraction of the market as the country's total population declines.

Meanwhile, the sugar-free category and health drinks\* category are expected to continue seeing growth in the future due to heightened health consciousness fueled by the pandemic and the continuing graying of Japan's population. There have also been significant changes seen in the business environment as evident by elements such as continued sales volume declines in the vending machine channel as due to work-from-home arrangements becoming more common.

\* Health drinks: Food products for specified health uses and food with functional claims.

Strategies



As the business environment experiences significant changes, Kirin Beverage will go about achieving sustainable growth having the Food & Beverage domain and the Health Science domain work in tandem with one another.

In the Food & Beverage domain, the company will aim to bolster profit through efficient management resource allocation. By focusing on its core brands, Gogo-no-Kocha and Nama-cha, the company aims to go about growing its brands once again.

Kirin Beverage will strengthen its position in the Health Science domain and transform itself into a beverage company which contributes to people's health and well-being. The company will go about expanding its sale of health science-related products which leverage ingredients offering health benefits, such as products containing Lactococcus lactis strain Plasma, which were registered with Japan's Consumer Affairs Agency as food with functional claims in August, 2020. To further expand upon the domain of immunity in particular, the company will take aim at the acquisition of a "morning habits domain" found within the chilled drinks category by pressing forward with the Japan-wide deployment of the Kirin iMUSE Morning Immune Care starting in March, 2022.

The company will also continue to reform its profit structure. Kirin Beverage will be continuing with its structural reform of the vending machine business in 2022 and beyond as it is believed that sales volumes in the channel will continue to see declining figures.

To address environmental issues surrounding plastics, the company aims to create a recycling system which leverages chemical recycling as well as aim toward the bringing to fruition of a society in which plastics are continuously recycled through the building of processes which span the stages of the end of their usage to their reuse.

## Mercian

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There are more and more diverse ways of drinking wine owing to environmental changes which have come about, such as changes resulting from the COVID-19 pandemic. With that being the case, Mercian will continue to work on increasing the number of wine drinkers in the off-premise channels improving profitability as well. In 2021, Mercian launched MOCK Bar, a non-alcoholic sangria beverage, in consideration of people's rising health consciousness alongside the rising popularity of ethical consumption. The company has also gone forward with the deployment of high-quality, organic wines produced with consideration for the natural environment and other elements. A remarkable accomplishment was achieved by Château Mercian, with the Mariko Winery being selected for the second year in a row in 2021 as one of the World's Best Vineyards\*.

In 2022, the company has launched Mercian Wines as a new imported wine brand. By co-creating high-quality, imported wine which suits the Japanese palate with wineries which are serious about sustainable wine production when it comes to consideration for the environment and other elements, Mercian will once again communicate the inherent value of wine and make the wine market more appealing to consumers.

\*This is an award involving the selection of the 50 best wineries in the world and is sponsored by William Reed Business Media of the United Kingdom, the organization which holds the world's most prestigious wine competition: The International Wine Challenge. More than 2,000 wineries were nominated in 2021, with Château Mercian's Mariko Winery being ranked 33rd in the world.

## Coca-Cola Beverages Northeast

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The steady implementation of business restructuring after the territorial expansion resulted in our normalized operating profit margin to improve to 10.6% in 2021, achieving a record high profit for the company. Coca-Cola Beverages Northeast will continue to strengthen collaboration with its brand partners and suppliers, promote appropriate pricing strategies, and strengthen cost control.