Management Analysis Of Financial Position, Operating Results, And Cash Flows

(1)Operating Results

①Overall business conditions

Like 2020, 2021 was greatly affected by COVID-19. A new COVID-19 variant is spreading worldwide, and the virus is still not under control. In this environment, the Kirin Group moved forward toward becoming a leading global CSV company based on its Long-Term Management Vision “Kirin Group Vision 2027” (KV 2027). Seeing the solving of social issues as opportunities for growth, Kirin Holdings has sought to achieve both social and economic value in the three domains of Food & Beverages, Pharmaceuticals, and Health Science, which Kirin Holdings has cultivated through its strengths in fermentation—from its beginnings as a beer business—and biotechnology.

Food & Beverages domain

In the Food & Beverages business, Kirin Holdings built a strong brand system by concentrating investment in core products, while focusing on providing products and services that lead to the creation of new value, thereby mitigating the decline in earnings caused by COVID-19.

Pharmaceuticals domain

In the Pharmaceuticals field, the global strategic products grew steadily as a result of the “ongoing transformation to a global organizational structure” that began in 2019. Kirin Holdings also made steady progress in the development of next-generation strategic products.

Health Science domain

This was a year in which Kirin Holdings’ efforts to date to promote ingredient research and product development using R&D technology—one of its strengths—yielded great results. LC-Plasma (Lactococcus lactis strain Plasma), a strategic ingredient in the immunology field, took the Gold Prize the “1st STOP Infectious Disease Grand Prix” in the “Japan Resilience Awards 2021” conducted by the Resilience Japan Promotion Council. LC-Plasma was highly commended for factors including its discovery, product development into Foods with Function Claims. In addition, Kirin Holdings expanded its lineup of products containing LC-Plasma, and with the rise in health consciousness, sales grew significantly, up 50% from the previous year, contributing to solving consumers' health issues.

Kirin Holdings also received high marks from society in terms of ESG (Environment, Society, and Governance). In the Environment area, Kirin Holdings has been working to reduce GHG emissions, promote the use of renewable energy, and recycle and promote a virtuous “cycle of plastic recycling,” among other initiatives, in line with the Kirin Group’s Environmental Vision 2050 formulated in February 2020. As a result, Kirin Holdings received the Gold Award in the Environmentally Sustainable Company category at the ESG Finance Awards Japan (Minister of the Environment Award). In addition, Kirin Holdings has been selected for the CDP’s “A List” in both climate change and water security for the third year in a row. In the Society area, Kirin Holdings was selected as a “Nadeshiko Brand” among publicly listed companies that excel in promoting the advancement of women. For the fifth year in a row, Kirin Holdings was recognized as a “Certified Health & Productivity Management Outstanding Organization 2021 (Large Enterprise Category [White500])” for practicing particularly excellent health management. Furthermore, Kirin Holdings has received high praise for its overall ESG initiatives, with a focus on Governance. The Company's overall ESG initiatives—with a focus on governance—were highly commended; and for the third year in a row, it received the highest ranking in the Nikkei Research Inc.’s SDGs Management Survey, which commends corporate efforts to meet the Sustainable Development Goals (SDGs). In the MSCI ESG Rating—which is calculated by Morgan Stanley Capital International (MSCI), Kirin Holdings received the “AA” rating, which is in line with the world's leading CSV companies.

Employee engagement, which is a key performance indicator in the Kirin Group 2019–2021 Medium-Term Business Plan (2019–2021 MTBP), was at the same level as in 2020, when the score had improved significantly. In the midst of an uncertain social climate, Kirin Holdings has worked to disseminate the significance of its commitment to CSV management, which has increased employee engagement with management and helped Kirin Holdings achieve the goals set in the 2019–2021 MTBP.

(¥ billions, unless otherwise stated)

	FY2021	FY2020	Change	
Consolidated revenue	1,821.6	1,849.5	(28.0)	(1.5)%
Consolidated normalized operating profit	165.4	162.1	3.3	2.0%
Consolidated operating profit	68.1	102.9	(34.8)	(33.8)%
Consolidated profit before tax	99.6	124.6	(24.9)	(20.0)%
Profit attributable to owners of the Company	59.8	71.9	(12.1)	(16.9)%
(Key performance indicators)				
ROIC	4.2%	6.0%		
Normalized EPS (yen)	156	136	20	14.7%

Consolidated revenue for this fiscal year decreased due to the impact of the re-emergence of COVID-19 on sales of alcoholic beverages and soft drinks in Japan and overseas, and the sale of the Oceania Non-alcoholic Beverages Business. The Japan Beer and Spirits Businesses and Myanmar Brewery posted a decrease in profits, Coca-Cola Beverages Northeast, the Oceania Adult Beverages Business, as well as Kyowa Hakko Bio Co., Ltd. all saw an increase in profits, resulting in an overall increase in consolidated normalized operating profit. Profit attributable to owners of the Company decreased due to the recording of an impairment loss in the Myanmar business.
Normalized EPS and ROIC, our key performance indicators, failed to achieve their initial targets set in the 2019–2021 MTBP due to external factors such as the COVID-19 pandemic and political upheaval in Myanmar, as well as due to the impact of quality control problems at Kyowa Hakko Bio Co., Ltd. Although the ROIC target for FY2021 announced at the beginning of the current fiscal year was not met due to the impairment loss in the alcoholic beverages business in Myanmar against the backdrop of the political upheaval, we achieved the normalized EPS target. This was attributable to a recovery in consolidated normalized operating profit and acquisition of treasury shares in 2020.

②Performance by reportable segment

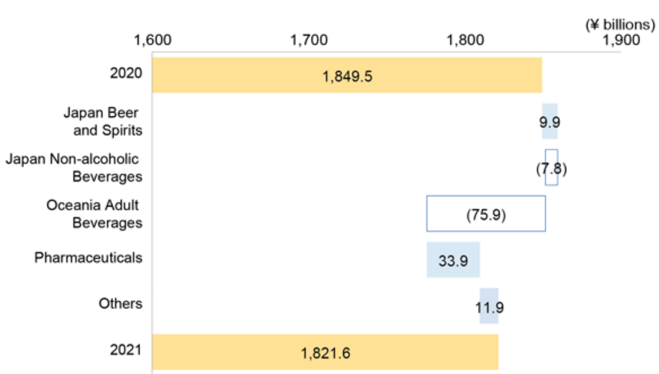
Results by segment are as follows.

(¥ billions, unless otherwise stated)

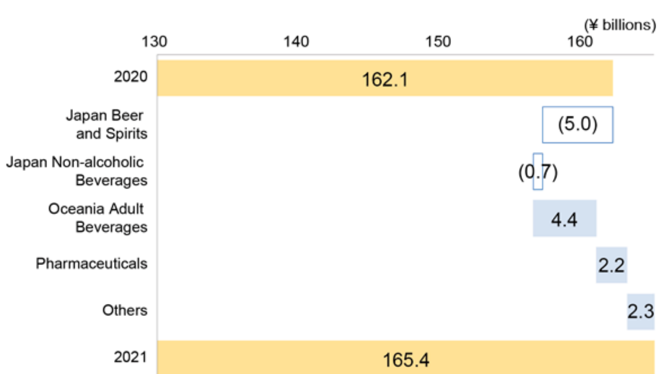
	FY2021	FY2020	Change	
Consolidated revenue	1,821.6	1,849.5	(28.0)	(1.5)%
Japan Beer and Spirits	661.3	651.4	9.9	1.5%
Japan Non-alcoholic Beverages	244.4	252.2	(7.8)	(3.1)%
Oceania Adult Beverages	216.3	292.1	(75.9)	(26.0)%
Pharmaceuticals	351.7	317.8	33.9	10.7%
Others	347.9	336.0	11.9	3.5%
Consolidated normalized operating profit	165.4	162.1	3.3	2.0%
Japan Beer and Spirits	70.5	75.5	(5.0)	(6.6)%
Japan Non-alcoholic Beverages	21.1	21.8	(0.7)	(3.0)%
Oceania Adult Beverages	26.6	22.1	4.4	20.0%
Pharmaceuticals	61.2	59.0	2.2	3.7%
Others*	(14.0)	(16.3)	2.3	—

*Corporate expenses and inter-segment eliminations are included in Others.

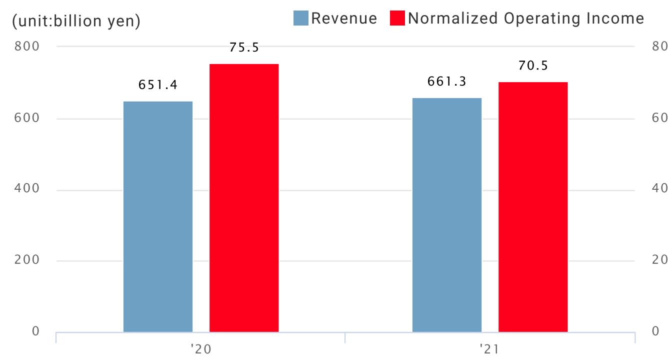
Consolidated revenue (year on year)



Consolidated normalized operating profit (year on year)



Japan Beer and Spirits Business

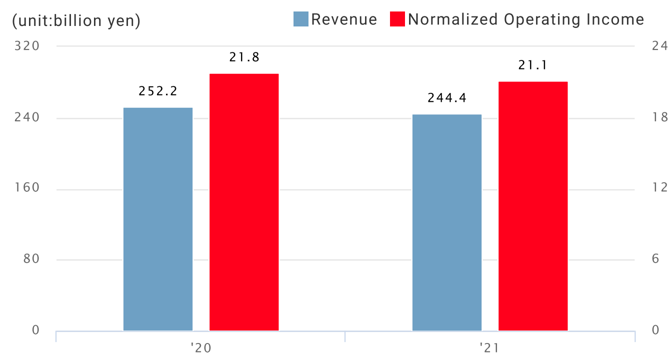


In the domestic alcoholic beverage market, sales of products for the on-premise market continued to be sluggish and off-premise sales grew due to effects of COVID-19—as in the previous year—in particular the beer segment expanded following tax reductions due to liquor tax revisions.

At Kirin Brewery Company, Limited (Kirin Brewery), canned KIRIN ICHIBAN, the mainstay brand, as well as KIRIN ICHIBAN Zero Sugar—which captured growing health consciousness—performed well. As a result, sales volume of canned KIRIN ICHIBAN brand products grew significantly, up 20% year on year. With more time spent at home due to COVID-19, there is also a need to make that time more fulfilling. Canned craft beer SPRING VALLEY Hojun 496 captured this demand, selling 1 million cases in just six months after its launch—growing at an unusually fast pace for a craft beer. In addition, the number of KIRIN Home Tap (which allows people to enjoy authentic draft beer at home) subscribers increased significantly, providing more than 100,000 customers with the special taste of beer directly from the brewery. In the on-premise market, Kirin Brewery worked closely with on-premise establishments to provide Kirin's unique value propositions, such as TAPPY, which can provide fresh and tasty draft beer, and Tap Marché, which can provide four types of craft beer in one unit. As a result, although the beer category's overall sales volume decreased by 4.1% due to the decline in the on-premise market, these efforts helped Kirin Brewery outperform the market trend for the third consecutive year. In the RTD (Ready to Drink) category—which is mainly for home use—the Kirin Hyoketsu Sugar-Free performed very well, and the Kirin Hyoketsu® brand achieved record sales, surpassing 16 billion cans in cumulative sales. Kirin HonshiboriTM Chuhai, as well as Kirin Hakko Lemon Sour high value-added brand that focuses on ingredients and manufacturing methods also performed well, with total RTD category sales volume increasing by 4.7% year on year.

As a result, sales volume of beer increased in off-premise channel, and sales volume of total beer products outperformed the market. Revenue increased by 1.5% to ¥661.3 billion due to higher sales volumes of beer, happo-shu, RTD and non-alcoholic beverages. Normalized operating profit decreased by 6.6% to ¥70.5 billion due to an increase in selling expenses as a result of strengthened investment in brands from a long-term perspective.

Japan Non-alcoholic Beverages Business



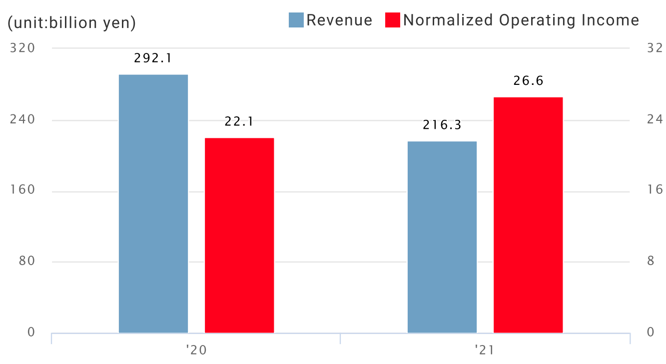
The domestic non-alcoholic beverage market saw a gradual recovery in sales volume from April onward with the gradual lifting of the state of emergency declaration, but the re-emergence of COVID-19 and unseasonable weather conditions resulted in only a slight increase over the previous year. In addition, Foods for Specified Health Uses (FOSHU) and Foods with Function Claims (FFCs) as well as the sugar-free and low-sugar categories continued to expand due to the further rise in health consciousness.

Kirin Beverage Company, Limited (Kirin Beverage) focused on the Health Science domain as one of the pillars of its business in addition to its existing non-alcoholic beverage business and invested aggressively in health-focused initiatives based on a "post-COVID recovery based on CSV" thinking. In the existing non-alcoholic beverage business, Kirin Beverage took the growing demand for sugar-free products as an opportunity to strengthen the lineup of the Kirin Gogo-no-Kocha Oishii Muto (sugar-free) series under the Kirin Gogo-no-Kocha brand. In addition to focusing on the health area, Kirin Beverage also focused on environmental initiatives. For the Kirin Nama-cha brand, Kirin Beverage launched Kirin Nama-cha in R100 PET bottles, which are made of 100% recycled PET plastic, as well as labelless PET bottles to cater to growing consumer environmental awareness. In the Health Science domain, Kirin Beverage worked to instill an "immune care" habit in consumers by rolling out beverages that contain LC-Plasma, labeled as foods with functional claims for immune function. In addition to reinforcing the iMUSE brand, Kirin Beverage launched Kirin Gogo-no-Kocha Milk Tea Plus and Kirin Nama-cha Life Plus Immune Assist to make it easier for people who want more access to immunity-related products to get LC-Plasma. As a result, Kirin Beverage was able to achieve the annual sales target of 5 million cases of beverages containing LC-Plasma, which Kirin Beverage revised upward during the fiscal year.

While the operating environment remained severe due to the impact of COVID-19 and other factors, overall sales volume of soft drinks decreased slightly, but Kirin Beverage worked to improve profitability through structural reforms in the vending machine business and further focusing on small-sized PET products.

As a result, revenue decreased by 3.1% to ¥244.4 billion due to a decline in sales volume. In addition, despite efforts to reduce sales promotion and advertising expenses, normalized operating profit decreased by 3.0% to ¥21.1 billion due to a decline in sales volume and difference of change in products mix and in composition ratio of containers, etc. caused by changes in the channel composition ratio.

Oceania Adult Beverages Business

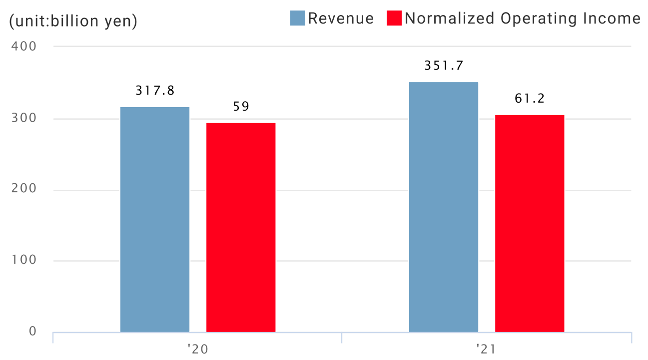


Following the sale of the dairy beverage business in January 2021, sales revenue for Lion Pty Ltd (Lion) declined significantly. In the alcoholic beverages business, the on-premise market in Australia and New Zealand was affected by COVID-19, however, the market has been recovering since mid-October with the gradual lifting of COVID-related movement restrictions, and sales volume in the premium beer and craft beer categories increased year on year.

Lion's craft beer business is positioned as a future growth area. To further solidify the Australian craft beer business, Lion also completed the full acquisition of shares in Fermentum, Australia's largest independent craft brewer. In the craft beer business in the United States, New Belgium Brewing's Voodoo Ranger, which is highly popular among young people, accurately captured demand for home use and sales were strong. In addition, Lion announced the acquisition of Bell's Brewery to expand the scale of its operations in the United States and create synergies.

As a result, although yen-based revenue decreased by 26.0% to ¥216.3 billion, yen-based normalized operating profit increased by 20.0% to ¥26.6 billion through progress in its craft beer strategy and cost reduction efforts.

Pharmaceuticals Business



In the first year of the 2021 Medium Term Business Plan, Kyowa Kirin Co., Ltd. (Kyowa Kirin) has established a new mission statement to guide it through to 2030, and worked to achieve growth as a Japan-based Global Specialty Pharmaceutical company.

In 2021, while the global pharmaceutical environment continued to be affected by COVID-19 as in the previous year—limiting Kyowa Kirin's business activities—Kyowa Kirin steadily grew its global strategic products, including Crysvita and Poteligeo. Kyowa Kirin also made steady progress in the development of next-generation strategic products such as KHK4083 and ME-401 (zandelisib) in the field of oncology. On the other hand, Kyowa Kirin was unable to obtain approval for the KW-6002 (istradefylline) global strategic product in Europe. Kyowa Kirin will continue to closely monitor the decisions of the authorities in each country and respond appropriately for the products that are pending filing and approval.

As a result, revenue increased by 10.7% to ¥351.7 billion due to an increase in overseas pharmaceutical sales, particularly of global strategic products. Despite an increase in selling, general and administrative expenses related to sales of global strategic products, normalized operating profit increased by 3.7% to ¥61.2 billion due to an increase in gross profit resulting from higher revenue.

Other Business

Kyowa Hakko Bio Co., Ltd. (Kyowa Hakko Bio)

Since receiving administrative punishment for deviating from manufacturing methods at the end of 2019, Kyowa Hakko Bio has rebuilt its entire business system with quality as the basis for all operations. Kyowa Hakko Bio has positioned 2021 as a year to move from revitalization to growth. With quality as the foundation of all its operations, Kyowa Hakko Bio has worked to restore the trust of consumers by gradually reviving its manufacturing volume. At the end of December, Kyowa Hakko Bio transferred control of its consumer products business to Kirin Holdings, and by concentrating on BtoB business, Kyowa Hakko Bio established an operating structure that will accelerate the development of new ingredients by utilizing cutting-edge fermentation technologies and biotechnology knowhow it has cultivated over many years. Despite challenges such as the sharp rise in raw material and fuel costs, etc. due to the impact of COVID-19, Kyowa Hakko Bio worked to reform its organizational culture, improve its product portfolio, and reform its operating structure, among others, resulting in a return to profitability in 2021. As a result, revenue decreased by 7.5% to ¥53.0 billion, and normalized operating profit amounted to ¥0.4 billion.

Mercian Corporation (Mercian)

Mercian worked to expand the number of wine drinkers and improve profitability in the off-premise (home) wine market. In the midst of diversifying consumer wine tastes due to environmental changes such as the impact of COVID-19, Mercian debuted MOCK Bar, a non-alcoholic sangria that offers the luxury of fruit juice and the lingering taste of wine. In addition, development of high-quality products in the organic wine category that are environmentally friendly were well-received by consumers. In the Château Mercian business, the Mariko Winery was selected as one of the World's Best Vineyards in 2021 for the second year in a row. However, revenue decreased by 6.8% to ¥57.9 billion, and normalized operating profit decreased by 35.1% to ¥2.3 billion.

Myanmar Brewery Limited (Myanmar Brewery)

In Myanmar, the on-premise market declined significantly due to the re-emergence of COVID-19 and the political changes that occurred in February 2021. In Myanmar, the beer market shrank by about 20% due to the effects of financial and supply chain disruptions. In addition, due to a decrease in production volume caused by material shortages and other factors, as well as restrictions on sales activities, Myanmar Brewery's sales volume decreased by approximately 30% compared to the same period of the previous year. As a result, revenue decreased by 39.3% to ¥19.3 billion, and normalized operating profit decreased 52.2% to ¥6.6 billion.

Coca-Cola Beverages Northeast, Inc. (Coke Northeast)

The United States beverage market overall sales volume increased due to the expansion of e-commerce sales and a significant increase in household consumption due to the impact of COVID-19, as well as a recovery in the on-premise market associated with an increase in the COVID-19 vaccination rate. On the other hand, inflation occurred as the supply of goods and services could not keep up with the recovery in consumer spending. In the midst of these market changes, Coke Northeast achieved the highest profit in its history through price revisions, continuous cost reduction, and operational efficiency. As a result, revenue increased by 19.7% to ¥154.9 billion, and normalized operating profit increased 78.3% to ¥16.5 billion.

(2)Financial Position

①General overview

Total assets at the end of this fiscal year were ¥2,471.9 billion, an increase of ¥12.6 billion from the end of the previous fiscal year. Property, plant and equipment, goodwill, and intangible assets increased by ¥17.5 billion in total from the end of the previous year. This was primarily as a result of making Fermentum a subsidiary and capital investment, despite the recording of an impairment loss of ¥68.0 billion in the alcoholic beverages business in Myanmar. Inventories and trade and other receivables increased by ¥30.1 billion and ¥15.8 billion, respectively, from the end of the previous fiscal year. In contrast, assets held for sale decreased by ¥73.7 billion mainly due to the sale of the Oceania Non-alcoholic Beverages Business.

Equity increased by ¥52.1 billion from the end of the previous fiscal year to ¥1,148.0 billion due to an increase in retained earnings of ¥17.3 billion and an increase in reserves of ¥38.2 billion. The increase in reserve was mainly attributable to an increase in foreign currency translation differences on foreign operations of ¥43.8 billion due to a weak yen.

Liabilities decreased by ¥39.5 billion from the end of the previous fiscal year to ¥1,323.9 billion. Despite the issuance of straight bonds worth ¥70.0 billion in June 2021, bonds and borrowings decreased by ¥91.2 billion due to a reduction in interest-bearing liabilities. The reduction was attributable to the fact that the amount procured was kept below the repayment amount mainly resulting from increased capital efficiency in line with the implementation of a global cash management system. Meanwhile, other non-current liabilities and other current liabilities increased by ¥29.5 billion and ¥13.3 billion, respectively, mainly due to an increase in up-front payment of Kyowa Kirin.

As a result, the equity ratio attributable to owners of the Company and the gross debt equity ratio stood at 36.2% and 0.62 times, respectively.

②Financial status of reportable segments

Japan Beer and Spirits

Segment assets of the Japan Beer and Spirits Business at the end of this fiscal year increased by ¥8.4 billion to ¥432.8 billion from the end of the previous fiscal year mainly due to capital investment in property, plant and equipment.

Japan Non-alcoholic Beverages

Segment assets of the Japan Non-alcoholic Beverages Business at the end of this fiscal year decreased by ¥10.7 billion to ¥139.2 billion from the end of the previous fiscal year mainly due to the sale of cross-holdings shares.

Oceania Adult Beverages

Segment assets of the Oceania Adult Beverages Business at the end of this fiscal year increased by ¥4.5 billion to ¥475.9 billion from the end of the previous fiscal year. This was mainly because property, plant and equipment and intangible assets increased primarily as a result of making Fermentum a subsidiary and capital investment, despite the sale of the Oceania Non-alcoholic Beverages Business.

Pharmaceuticals

Segment assets of the Pharmaceuticals Business at the end of this fiscal year increased by ¥120.4 billion to ¥862.1 billion from the end of the previous fiscal year mainly due to an increase in other financial assets and deferred tax assets.

(3)Cash Flows

①Cash flows and liquidity status

The balance of cash and cash equivalents (hereinafter, “net cash”) at the end of this fiscal year was ¥149.5 billion, a decrease of ¥12.2 billion from the end of the previous fiscal year. Cash flows for each activity were as follows:

Cash flows from operating activities

Net cash provided by operating activities increased by ¥54.5 billion year on year to ¥219.3 billion. Although outflow of working capital increased by ¥20.6 billion and profit before tax decreased by ¥24.9 billion, a ¥47.8 billion increase in impairment loss, which is a non-cash item, as well as the proceeds from up-front payment of Kyowa Kirin resulted in an increase of ¥29.2 billion in the sub-total. Below the sub-total line, cash flows from operating activities increased year on year due to a ¥25.0 billion decrease in income taxes paid.

Cash flows from investing activities

Net cash used in investing activities decreased by ¥59.6 billion year on year to ¥56.4 billion. The decrease was mainly because proceeds from sale of shares of subsidiaries, net of cash disposed of increased by ¥42.9 billion year on year to ¥42.9 billion as a result of the sale of the Oceania Non-alcoholic Beverages Business in this fiscal year. Meanwhile, acquisition of shares of subsidiaries, net of cash acquired increased by ¥5.8 billion year on year to ¥45.5 billion as a result of making Fermentum a subsidiary in this fiscal year, while making New Belgium Brewing a subsidiary in the same period of the previous fiscal year. Outflow for acquisition of property, plant and equipment and intangible assets decreased by ¥6.7 billion year on year to ¥86.3 billion. There was inflow of ¥22.1 billion for sale of investments through our continuous efforts to reduce cross-shareholdings.

Cash flows from financing activities

Net cash used in financing activities increased by ¥128.0 billion year on year to ¥180.5 billion. The Company continued to provide dividends based on a consolidated dividend payout ratio on normalized EPS of at least 40%. As a result, dividends paid, including to non-controlling interests, amounted to ¥65.4 billion. In addition, interest-bearing liabilities decreased by ¥96.4 billion in this fiscal year. The reduction was attributable to the fact that the amount procured was kept below the repayment amount mainly resulting from increased capital efficiency in line with the implementation of a global cash management system.

These initiatives enabled us to stabilize our capital structure through stable and continuous shareholder returns and the reduction of interest-bearing liabilities, while investing in existing businesses and making growth investment.
The 2022–2024 MTBP sets out the outline of financial strategy, under which cash generated from "cash generation through BS (balance sheet) / PF (portfolio) management" will be allocated to disciplined investment to acquire growth drivers as well as flexible shareholder return policy. By steadily implementing the strategy, we will achieve our financial targets of a normalized EPS CAGR of at least 11% by 2024 and ROIC of at least 10% as of 2024, so as to improve corporate value.

②Basic capital policy

Based on the capital policy formulated in the 2022–2024 MTBP, the Company will allocate resources to its businesses and distribute profits to its shareholders as set out below.
Regarding resource allocation to businesses, giving top priority to growth investment with a focus on the Health Science domain, the Company will make investments that contribute to enhancement of existing businesses and profitability improvement. The Company will also implement a stable and continuous allocation of resources to intangible value (such as brands, research and development, information and communication technology (ICT), and human resources) as well as new business creation that sustain the growth of future cash flows. The Company will take a disciplined approach to investments in terms of maintaining and improving the Kirin Group's capital efficiency.
We view the distribution of profits to shareholders as a key management matter. Since its foundation in 1907, the Company has continued to pay dividends to shareholders every financial year without fail. The Company has stably and continuously provided dividends based on a consolidated dividend payout ratio on normalized EPS of at least 40%. In addition, we will consider opportunities to acquire treasury shares as additional shareholder returns, comprehensively taking into account various factors including optimum capital structure, market conditions and reserve funds after investments.
With regard to financing, priority is given to debt financing, while maintaining a high credit rating that is not affected by financial conditions, in preparation for rapid changes in the economic environment and other factors. The Company fulfills its accountability to its shareholders by carefully considering the impact on stakeholders and other factors when raising funds for investments required to achieve medium- to long-term goals, which may result in a change in control or a large-scale dilution, after verification and review by the Board.