

Identifying the challenges facing the Kirin Group and laying a path toward future growth

Matsuda The chief financial officer is not simply responsible for basic financial matters; it is an important leadership position that involves executing strategies, ensuring corporate governance on a group-wide basis, and making key decisions about fund procurement, growth-oriented investments, and financial policies. From your standpoint as CFO, what are the main challenges currently confronting the Kirin Group?

Yokota Our challenges are to reach the targets for return on equity (ROE) and normalized earnings per share (EPS) set in our 2016 medium-term business plan. Our initial goal for profitability now appears to be attainable. The target for free cash flow has already been exceeded and the company has made real progress in repaying interest-bearing debt.

The basic policy of the 2016 medium-term business plan is to restructure and revitalize the Kirin Group. One by one, steps were taken toward that end, and we managed to reach respectable levels of corporate profitability and financial soundness. At present, we recognize that the biggest concern among shareholders and investors is how the Kirin Group plans to use the cash it has generated to ensure future growth.

Matsuda In other words, now that finances are in order, the issue is what to do next. I think there are three key questions regarding how companies use cash. The first is how to use it to ensure sustainable growth over the medium and long terms. The next is how to allocate resources in a business portfolio that can realize that growth, and the CFO plays a very important role in that regard. Finally, the question is how to structure finances so that cash continues to be generated dependably.

As part of the 2016 medium-term business plan, the Group's business portfolio in particular was restructured. What are your objectives going forward?

Yokota Up until now, we focused on how to reach a respectable level of profitability, which includes the asset turnover of existing businesses, and how to revitalize the Group if that level of profitability could not be reached. As a result of our efforts,

Kirin Beverage increased its normalized operating profit margin to 7.6%, and Brasil Kirin was sold off.

Looking ahead, we intend to follow the same basic objectives as before while managing the Group's existing businesses. At the same time, however, it will be necessary to consider new lines of business. I think that identifying such businesses will be a task for our next medium-term business plan.

Matsuda Investors generally prefer specialized companies over corporate groups with diversified businesses due to concerns that a situation known as conglomerate discount may occur. In order to eliminate such concerns, the CEO and CFO, who are also investors in the Group, must strictly manage the



Continuing to proactively invest in growth while maintaining a sound financial structure based on a long-term management vision

company's assets and capital with even more discipline than investors from outside the Group. It is also essential to pursue synergies between businesses, which is not possible for specialized companies.

Yokota I agree with you. Especially in terms of creating synergy effects, the Kirin Group's competitive advantages as a manufacturer are its wealth of technologies and expertise. For instance, by drawing from microorganism cultivation techniques developed over many years in the beer brewing business, the Group generated synergies with other businesses, including the development of antibody pharmaceuticals and their production methods, and the application of technologies



for mass producing amino acids in its pharmaceutical business. I believe the Group can create more new value in the future by combining the wide range of technologies it has built up over the years as well as technologies from outside the Group.

Discussions of Kirin's long-term management vision and next medium-term business plan are currently underway. One issue is how to bolster the Group's exiting businesses while utilizing its assets to create synergies. We also want to channel synergies toward launching all-new businesses that create economic and social value for stakeholders. That is the kind of vision we would like to put forward.

Matsuda As market conditions grow increasingly volatile, companies will need to more clearly state their objectives for the future. That means it will be important to formulate a straightforward and coherent long-term vision, and work toward accomplishing its goals by carrying out each related measure step by step. With that in mind, I would like to hear your plans regarding how cash will be allocated for the purpose of realizing growth in the future.

Yokota I think the Kirin Group can continue to grow, so, when all is said and done, our policy for allocating cash is to give first priority to growth-oriented investments, which tend to be associated with expanding business through mergers and acquisitions. Indeed, the Group will continue searching for outstanding companies to merge with or acquire, but such opportunities are limited because many have already been acquired by our global competitors. Therefore, it is important for us to exercise discipline when making such investment decisions.

Under those circumstances, creating shared value is our strategy for ensuring the sustainable growth of the Kirin Group. Specifically, we aim to leverage the Group's competitive advantages and unique business portfolio to increase economic and social value. Accordingly, our policy is to step up investment in intangible assets that support this objective, namely human resources, the Group's brands, R&D, supply chain and IT.

Matsuda Nowadays, investors are not only concerned with financial performance and shareholder value; they also attach importance to the social contributions of companies, such as initiatives related to environmental, social and governance (ESG)

Noriya Yokota × Chieko Matsuda

Director of the Board, Senior Executive Officer & CFO, Kirin Holdings Co., Ltd.
Senior Executive Officer, Kirin Company, Ltd.

Mr. Yokota was appointed as a senior executive officer and member of the Board of Directors in 2018. He joined Kirin Brewery Co., Ltd., in 1984, where he was appointed as an executive officer and head of the Production Division. At Kirin Holdings, he has served as the director in charge of group-wide personnel and general affairs, senior executive officer, and director in charge of group-wide management strategies.

Outside Audit & Supervisory Board Member, Kirin Holdings Company, Ltd.

Ms. Matsuda was appointed as a member the Outside Audit & Supervisory Board of Kirin Holdings in 2016. She had joined Long-Term Credit Bank of Japan, Ltd., in 1987, after which she worked for Moody's Japan, Ltd., Corporate Directions, Inc., and Booz & Co., Inc. Ms. Matsuda is also a professor at Tokyo Metropolitan University in the Department of Urban Liberal Arts and the Graduate School of Social Science.



criteria. I believe Kirin's approach of creating shared value is a forward-looking, exemplary management initiative. Generally, however, since people are not very familiar with this concept, it needs to be clearly explained, which might be difficult.

Yokota You are right to say that. Creating shared value is not merely a conceptual approach, and, as CFO, I have an important duty to provide a clear and comprehensive explanation to investors about the Group's initiatives for tackling issues confronting society, specifically in the three areas of health and well-being, community engagement, and the environment, and how those initiatives eventually lead to economic value.

Matsuda Among the four important intangible assets being targeted, I think the value of Kirin's brands has a big impact on the competitiveness of its business since beer and beverages are business-to-consumer businesses. How do you plan to enhance brand equity?

Yokota It will be important to raise the value of Kirin's brands by implementing a thoroughgoing plan-do-check-act cycle and improving our marketing strategies. Toward those ends, we have actively brought new capabilities to our organization, such as inviting highly experienced personnel from outside the Group to lead the marketing division. Consequently, our strategies and processes got off to a fresh start and we have been steadily improving results, just like we did before with *Ichiban Shibori* beer and *Nama-cha* bottled green tea.

Aiming to make operations more advanced and efficient by adopting cutting-edge IT and ERP systems

Matsuda Please tell me about the company's future plans for strategic investment in IT.

Yokota In the Japan Integrated Beverages business, we will begin using enterprise resource planning (ERP)* software in production, logistics, and accounting operations by January 2020, and integrate numerous information systems that have been built and operated separately. By doing so, we will reduce costs and labor for system maintenance, and centralize management data that had been decentralized across various systems in the past, allowing that data to be more effectively utilized.

Matsuda Does that mean operations will be standardized with the ERP system?

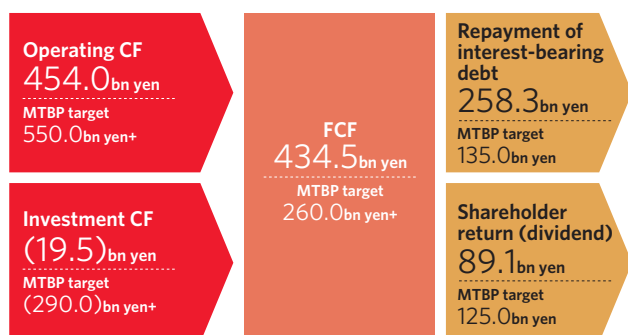
Yokota Yes, in an effort to facilitate efficiency and save labor costs, we plan to standardize operations in each division, eliminating factors that are dependent on the experience and skills of individual employees.

Matsuda For Japanese companies, raising the productivity of administrative and management divisions is an important issue with respect to realizing workplace reforms in the years to come. While adopting ERP systems, it will also be essential to re-examine operational processes themselves. Indeed, improvements that result from that will probably be a factor underlying differences between the competitiveness of companies' headquarters in the future.

Yokota ERP systems are not the only ones; we will also need to automate administrative operations using robotic process automation (RPA), and make use of artificial intelligence (AI) and the internet of things (IoT) in manufacturing. The challenge will be how to incorporate such new technologies while taking into account their cost effectiveness.

* ERP is a concept and a system that integrates key data about sales, production, personnel, accounting, and other factors as a means for making management more efficient.

Cash flow over two years from 2016 to 2017



	2016	2017
Operating CF	232.3	221.7
Investment CF	(82.7)	63.2
Free CF	149.6	284.9
Repayment of interest-bearing debt	111.0	147.3
Shareholder return (dividend)	43.2	45.9

Promoting international exchanges and leadership grooming while bringing innovations to diverse and highly capable organizations

Matsuda How does the Company plan to motivate and improve the performance of its human resources?

Yokota In the Japan Integrated Beverages business, we are proceeding to centralize our human resources system, making it possible to utilize a common personnel database for domestic Group companies. Although this allows us to examine uniform data on the career tracks of individual employees and other matters, we still cannot monitor data about their future career goals. Therefore, we intend to improve and replenish the quality of the data in the future in order to more effectively assign personnel to the most suitable jobs.

Matsuda What is being done for personnel outside Japan?

Yokota Although databases of human resources in Japan have not yet been integrated with those outside Japan, we have been actively promoting interaction among personnel on a global level. The Group has already held international conferences for manufacturing, marketing, R&D, IT, and other divisions, and plans to hold more for administrative divisions, such as finance. In Australia, an exciting leadership development program is being carried out by Lion Pty Ltd., and it has been used as a model for a leadership enhancement program that started in the



Japan Integrated Beverages business. (Please refer to pages 38 – 39 for more details.)

Matsuda If the Kirin Group steps up such international exchange and leadership promotion initiatives, it may indeed transform its corporate culture in the future.

Yokota Yes, I hope we can shift toward having organizations that are more engaged and accepting of diverse values.

Striving to ensure stable dividend payments while giving consideration to the Company's capital structure

Matsuda Finally, I would like to hear about the Company's approach to its capital structure and shareholder returns.

Yokota Under our former 2016 medium-term business plan, the debt-to-equity ratio grew to approximately 1 in fiscal 2015, but it was brought down to 0.51 by the end of fiscal 2017. At the stage we are at now, I think it is appropriate to maintain this level while giving consideration to cost of equity. At present, we are targeting a consolidated payout ratio of at least 30%, but we will review this target in the future along with our financial strategies based on business and investment strategies. Of course, we will make that decision while discussing it with investors.

Matsuda Looking ahead, the Company expects to generate substantial cash flows. In that context, while it is obviously important to pay dividends and repay interest-bearing debt, your policy is to give top priority to investments for future growth, right?

Yokota That's right. Although our operating environment is challenging, we want to ensure that the Kirin Group will grow by carrying out our management strategy of creating shared value while continuing to meet consumers' expectations and respond to requests from stakeholders and the general public. For that purpose, and based on very strict criteria, we intend to carefully select investment targets that offer high returns on investment when allocating capital.

Matsuda As you know, many people will depend on your ability to make shrewd decisions as the company's CFO. Thank you for sharing your views today.

Dividend/Consolidated payout ratio

