

TOP MESSAGE



Message from Top Management

Accelerating the Kirin Group's Growth by Refining the Business Portfolio to Create Shared Value

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A Decade of CSV Management

Ten years have passed since the Kirin Group adopted CSV management in January 2013.

Today, CSV is widely accepted by our employees

and has become the Kirin Group's compass. However, initially, it was not easy to gain the understanding of all parties inside and outside the company, and we received a variety of opinions. We took note of that valuable advice, but continued to move forward with faith. As a result, Kirin Group employees are now working together as one to solve societal challenges, while also viewing

them as business opportunities that generate returns. Seeing them in action, I believe that our faith in our compass was well placed.

In 2022, we restored our performance to pre-COVID profit levels. Since announcing our Kirin Group Vision 2027 (KV2027) in 2019, our social systems and business foundations have faced significant environmental changes, including the COVID-19 pandemic, political upheaval in Myanmar, and Russia's invasion of Ukraine. Despite these challenges, we maintained our confidence in the direction of our CSV management policy and continued to address each issue one by one. This approach enabled us to achieve these results.

Our goal is to become a global leader in CSV, but this cannot be achieved by setting a numerical target alone. While we will set proper goals in line with international standards, it's akin to the high jump, where the bar gets raised higher as you go along. Our pursuit of this goal will continue, always responding to society's ever-increasing expectations. As a global company, we recognize that Japan is not the only place where we can demonstrate our worth. Through our CSV management, which generates both social and economic value, we aspire to be a company that stands on the global stage and positively impacts people around the world.

Solving social issues through fermentation and biotechnology

As previously mentioned, the Kirin Group operates in three domains: Food & Beverages, Pharmaceuticals, and Health Science. Although there are many companies that are larger than us in each of these areas, we believe that by leveraging our foundational core technologies



of “fermentation and biotechnology” to generate social and economic value in all three areas, we can establish ourselves as a unique and distinctive company, creating new value for society.

The Kirin Group has ventured into various new businesses, and I myself have been involved in several since joining the company. While most of these ventures were eventually discontinued, the ones that have survived to this day all share a reliance on the Kirin Group’s expertise in “fermentation and biotechnology.” This expertise is based on generations of technology, knowledge, and unwavering dedication. We are confident that by enhancing and leveraging this strength, we can maintain our competitive advantage in all of our businesses.

The Health Science domain newly launched in KV2027 aligns perfectly with this core technology. Leveraging our superior fermentation and biotechnology, we aim to grow our Health Science business and contribute to solving social issues related to people’s health. We believe that this move will enable us to achieve sustainable growth and ensure our existence as



a company for the next 100 years.

Strategic issues and direction in the three domains

While the foundation of our business portfolio has been established, we acknowledge the need to enhance the earning power of each business to achieve our KV2027 goals.

After withdrawing from Myanmar, our main markets in the Food & Beverages domain are now Japan, Australia, and North America. These markets are mature and share common issues, so we can learn from each other’s successful experiences to promote premium strategies and improve productivity, thereby increasing profits. For instance, specific initiatives of the premium strategy include craft beer initiatives in the alcoholic beverages business and expanding the product mix in the high value-added Health Science domain with a focus on health in the beverages business. We’re also optimizing our sales organization in light of changes in market and consumption trends and improving sales

processes using ICT (information and communication technology) to improve productivity and enhance our operating base.

Our focus in the Pharmaceuticals domain is to establish a solid global business foundation as a specialty pharmaceutical company. Our mainstay drug, Crysvida, has grown to the point where it can now be considered a blockbuster, with a sales revenue target of 150 billion yen by 2023. We’re actively exploring ways to establish a global supply system suitable for the expanding scale of our business while also expanding our next-generation pipeline. For instance, we’re currently co-developing KHK4083 (generic name: Rocatinlimab) for atopic dermatitis with Amgen and planning to proceed with Phase 3 trials on a large scale. Additionally, we’re promoting the development of KHK4951 (generic name: tivozanib), a new pipeline drug for the treatment of ocular vascular disorders (exudative age-related macular degeneration).

In the Health Science domain, we’re committed to solving people’s health issues by delivering specialty materials that contribute to good health, including *Lactococcus lactis* strain Plasma (LC-Plasma), to a wider audience. Our target markets include Japan, Asia-Pacific, where we also run businesses related to the Food & Beverages domain, and North America, the largest market. LC-Plasma, for which we’re making aggressive marketing investments, is performing well with a sales revenue target of 50 billion yen by 2027. We’re also actively creating and expanding the immune market by promoting alliances with partner companies that share our ideals. For example, we supply the LC-Plasma ingredient (postbiotic) for Coca-Cola (Japan) Company, Limited products (not Coca-Cola worldwide). Moreover, we’re establishing a global

manufacturing and sales structure for Kyowa Hakko Bio's specialty ingredients, such as Citicoline*1 and human milk oligosaccharides (HMOs*2), to strengthen our foundation for growth in the Health Science domain. Our stated goals of 200 billion yen in sales revenue and 15% normalized operating profit margin by 2027 remain unchanged.

- *1 An ingredient found in the body that maintains the cell membranes of the brain and nerve cells, and has been used for many years around the world in medicines for brain diseases and health foods that support the improvement of cognitive functions. In Japan, it is currently classified as a pharmaceutical product.
- *2 A generic term for oligosaccharides contained in breast milk. More than 200 kinds are contained in breast milk, and the results of research contributing to immunity and brain function, among others, have been reported.

Looking back on the past, the Pharmaceuticals business was launched in the 1980s in anticipation of Japan's declining birthrate and aging population in the future. However, the decision faced opposition at the time from many who believed that it would take too long to become profitable. While it did take a full 10 years to



achieve profitability, the Pharmaceuticals business is now the most profitable venture in the Kirin Group. If we only think about the next 5 to 10 years, it may be better to focus on growing existing businesses. However, thinking about sustainable growth and increased corporate value over the next 20 to 30 years, I believe that we must do our utmost to ensure that the Health Science business flourishes and becomes a “third pillar” of our business.

Enhancing the Kirin Group's ability to execute and show results

To ensure future growth, strengthening the organizational capabilities of the Kirin Group is essential. Among the four organizational capabilities for innovation, we have combined our R&D expertise in the Food & Beverages and Pharmaceuticals domains with intellectual property strategies in health science to establish a new Institute of Health Sciences with the aim of creating further value. In marketing, we are working to support our operating companies by enhancing our central marketing function for the purpose of developing new marketing capabilities and human resources and utilizing know-how across the Group, and our efforts in this area are already starting to bear fruit. In addition, Group employees are increasingly aware of the importance of promoting ICT usage and DX (digital transformation). We are working on business transformation using technology and data from the three perspectives of transforming the value chain of existing businesses, transforming corporate functions, and developing new business models, and we are increasingly receiving ideas for streamlining and improving operations from not only the departments

promoting DX but also from the field. To build a solid track record in each business area, we are committed to establishing an SCM (supply change management) system that achieves both efficiency and sustainability while maintaining a strong focus on quality.



Human capital is indispensable for advancing these activities. In addition to actively acquiring specialized human capital from outside the company, we will also focus on the development of internal human capital who are well-versed in each function, leading to an increased number of highly specialized and diverse personnel, and ultimately to the creation of innovation. Above all, we will create an organization culture in which each and every employee can excel through challenges, thereby enhancing our ability to execute.

We will continue striving to meet the expectations of our shareholders and other stakeholders and earn their further trust. We recognize that to do so, we must demonstrate our commitment through solid achievements. The Kirin Group is confident that its CSV management is right and will continue to move forward with it in 2023. By solving social issues and simultaneously reinvesting the cash generated by economic growth into further group growth, we will create a cycle that maximizes corporate value not only in the short term but also in the medium to long term. We are committed to achieving both sustainable growth as a company while contributing to the sustainability of society.

We look forward to your continued support.