

Financial Results
for the nine months ended September 30, 2020 — Consolidated
(Based on IFRS)

November 6, 2020

Company name **Sapporo Holdings Limited**

Security code 2501

Listed on Tokyo Stock Exchange (First Section); Sapporo Securities Exchange

URL <https://www.sapporoholdings.jp/en/>

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Scheduled dates:

Filing of quarterly financial report November 13, 2020

Commencement of dividend payments -

Supplementary information to the quarterly earnings results Available

Quarterly earnings results briefing held Yes
(mainly targeted at institutional investors and analysts)

1. Consolidated Financial Results for the nine months ended September 30, 2020
(January 1 – September 30, 2020)

(Amounts in million yen rounded to the nearest million yen)

(1) Operating Results

(Percentage figures represent year-over-year changes)

	Revenue		Core operating profit		Operating profit		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
Nine months ended September 30, 2020	315,346	(12.7)	1,173	(81.7)	(2,041)	–	(1,162)	–
Nine months ended September 30, 2019	361,015	–	6,401	–	7,769	–	4,214	–

	Profit attributable to owners of parent		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	million yen	%	million yen	%	Yen	yen
Nine months ended September 30, 2020	(925)	–	(8,084)	–	(11.87)	(11.87)
Nine months ended September 30, 2019	4,560	–	10,933	–	58.55	55.14

Note: Profit before tax

Nine months ended September 30, 2020: (2,850) million yen

Nine months ended September 30, 2019: 7,000 million yen

Note: Core Operating Profit is a proprietary profit indicator that measures the performance consistency of our business. Core operating profit is calculated as Revenue – Cost of sales – SG&A expenses.

Note: The profit and loss of the North American soft drinks business has been classified under discontinued operations because all of the shares in Country Pure Foods, Inc. since previous consolidated fiscal year.

The periods half quarter consolidated cumulative have also been rearranged in the same manner, these year-on-year changes are not stated.

(2) Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Equity ratio attributable to owners of parent
	million yen	million yen	million yen	%
Nine months ended September 30, 2020	643,696	163,145	162,972	25.3
December 31, 2019	638,722	174,524	174,071	27.3

2. Dividends

Record date or period	Dividend per share				
	End Q1	End Q2	End Q3	Year-end	Full year
	Yen	yen	yen	yen	yen
Year ended December 31, 2019	—	0.00	—	42.00	42.00
Year ended December 31, 2020	—	0.00	—		
Year ending December 31, 2020 (forecast)				42.00	42.00

Note: Changes were made to dividends forecasts in the nine months ended September 30, 2020: None

3. Forecast of Consolidated Earnings for the Year Ending December 31, 2020 (January 1 – December 31, 2020)

(Percentage figures represent year-over-year changes)

	Revenue		Core operating profit		Operating profit		Profit		Profit attribute to owners of parent		Basic earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	Yen
Year ending December 31, 2020	444,500	(9.6)	1,000	(91.5)	(7,900)	—	(6,500)	—	(6,500)	—	(83.44)

Note: Changes were made to earnings forecasts in the nine months ended September 30, 2020: None

4. Other

(1) Changes to scope of consolidation: None

*Changes affecting the status of significant subsidiaries (scope of consolidation)

Newly consolidated: - Newly excluded: -

(2) Changes in accounting policy, changes in accounting estimates, and retrospective restatement

1) Changes in accounting policies required by IFRS: None

2) Changes other than 1) above: None

3) Changes in accounting estimates: None

(3) Number of shares issued and outstanding (common stock)

1) Number of shares issued at end of period (treasury stock included):

September 30, 2020: 78,794,298 shares

December 31, 2019: 78,794,298 shares

2) Number of shares held in treasury at end of period:

September 30, 2020: 896,223 shares

December 31, 2019: 898,162 shares

3) Average number of outstanding share during the period:

Nine months ended September 30, 2020: 77,897,518 shares

Nine months ended September 30, 2019: 77,891,207 shares

*Quarterly review status

The quarterly financial results are not subject to quarterly reviews pursuant to the Financial Instruments and Exchange Act.

Appropriate Use of Earnings Forecasts and Other Important Information

This document contains projections and other forward-looking statements based on information available to the Company as of the date of this document. Actual results may differ from those expressed or implied by forward-looking statements due to various factors. For the assumptions underlying the forecasts herein and other information on the use of earnings forecasts, refer to "1. Analysis of Operating Results and Financial Condition (3) Consolidated Earnings Forecast" on page 6.

1. Analysis of Operating Results and Financial Condition

(1) Operating Results

In the first nine months of 2020 (January 1 – September 30, 2020), the Sapporo Group was impacted by the novel coronavirus outbreak, with sales of mainly commercial-use beer and soft drinks sold via vending machines, and sales at beer halls and restaurants, including café chain outlets falling sharply.

As a result, revenue and core operating profit were down year on year in all segments except the Real Estate business, operating profit was down in all segments, and profit attributable to owners of parent also declined year on year.

Revenue	¥315.3 billion (down ¥45.7 billion or 13% year on year)
Core operating profit (*)	¥1.2 billion (down ¥5.2 billion or 82% year on year)
Operating loss	¥2.0 billion (profit of ¥7.8 billion a year earlier)
Net loss attributable to owners of parent	¥0.9 billion (profit of ¥4.6 billion a year earlier)

*Core operating profit is the Sapporo Group's unique profit benchmark for measuring the performance of its regular business and is calculated by deducting cost of sales, and selling, general and administrative expenses from revenue.

Results by segment are outlined below. From this fiscal year, the logistics business, which used to be included in "Other business", is now included in the Alcoholic Beverages segment. To enable year-on-year comparisons, segment figures for the previous fiscal year have been adjusted to reflect this change.

Alcoholic Beverages (Japan & Asia)

The commercial-use beer market in Japan and Asia has been significantly impacted by the novel coronavirus outbreak. Reflecting this adverse impact, total demand in Japan for beer and beer-type beverages in the first nine months of 2020 was 9% lower than in the previous year.

In the beer category, while commercial-use beer sales declined sharply, sales of our mainstay canned Sapporo Draft Beer Black Label have been strong, increasing 4% year on year. In the new genre category, Sapporo Gold Star, a new product launched in February, has been well-received, helping drive total sales volume of new genre products up 31% year on year. Overall, strong sales to the home-use market could not compensate for the large drop in shipments to the commercial-use market, and total sales of beer and beer-type beverages products fell 8% year on year in the first three quarters of 2020.

In the RTD*1 category, sales of core collaborative RTD product Otoko Ume Sour were strong, but category revenue declined year on year partly due to sluggish growth of the core Sapporo Chuhai 99.99 (Four Nine) brand products.

In the wine and spirits categories, weak demand in the commercial-use market led to a year-on-year decline in category revenues.

The Japanese liquor business, however, posted a year-on-year increase in revenue with solid sales of our Kokuimo brand, Japan's best-selling*2 blended imo shochu, as well as Koime no Lemon Sour no Moto, which was launched in October 2019.

In Asia, in the Vietnam market we are continuing our efforts to establish sales channels capable of generating profit growth while the business faces tightened restrictions against alcoholic beverages and the impact of the novel coronavirus outbreak.

(North America)

In the North American beer market, demand in the commercial-use market has been affected significantly by the novel coronavirus outbreak. We estimate that total beer demand declined year on year in both the US and Canada.

Among our overseas beer brands, Sleeman Breweries led with sales volume up year on year,

reflecting Sleeman's relatively large ratio of sales to the home-use market.

Sales of Sapporo brand beers were down year on year, primarily owing to the impact on the commercial-use market caused by the closure of restaurants in the US.

(Restaurants)

The restaurant industry has suffered greatly from the spread of the novel coronavirus.

The restaurant business operating environment has remained difficult even after the Japanese government lifted the state of emergency, as the shift to remote work and a "new normal" in people's lifestyles have resulted in a smaller-than-expected recovery in the number of people dining out. Our restaurants have responded to the difficult operating environment by revising meals and menus and strengthening the lineup of take-out and delivery offerings, proposing new all-you-can-drink courses for individual customers, and thoroughly reducing costs by revising store hours and store holidays as well as negotiating rent reductions with landlords. Despite these efforts, restaurant sales and profits fell significantly from the previous year's levels.

As of the end of September, our domestic restaurant business had 185 outlets open for business.

As a result of the above factors, revenue in the Alcoholic Beverages segment in the first three quarters of 2020 came to ¥206.8 billion (down ¥36.0 billion or 15% year on year). The segment posted a core operating profit of ¥0.3 billion (down ¥4.4 billion or 93% year on year) and an operating loss of ¥3.7 billion (compared with a profit of ¥4.4 billion a year earlier).

*1) RTD, or ready-to-drink beverages, are pre-mixed, low-alcohol cocktail-like beverages that can be consumed as is immediately after opening.

*2) Based on Intage SRI market research on combined blended imo shochu sales in the supermarket, convenience store, and direct sales channels from December 2018 to September 2020.

Food & Soft Drinks

In the Japanese domestic food and soft drinks market, demand in the commercial-use and vending machine sales markets was severely impacted by the novel coronavirus outbreak during the first nine months of the fiscal year. We estimate that overall demand for soft drinks in Japan fell 6% year on year during this period.

In our domestic soft drinks business, sales of lemon-based drinks continued to do well, supported by consumers' heightened health consciousness. However, weak sales of our soft drinks sold through the vending machine channel weighed on overall sales, resulting in a year-on-year decline in sales of the domestic soft drinks business in the first nine months of the fiscal year.

In our domestic food business, soup sales volume expanded year on year, supported by the pandemic-induced stay-at-home demand for our box- and cup-based soups. Lemon-based food product sales volume also increased year on year, supported by strong growth in sales for Pokka Lemon 100 and our lemon-based cocktail mixes. Sales volume of plant-based milk products was also up year on year, supported by sales of our soymilk yogurt.

Pokka Create, which operates the Café de Crié coffee shop chain, saw its revenue decline year on year as it was forced to temporarily close some shops or reduce operating hours, especially at its outlets in urban areas, during the state of emergency declared by the Japanese government.

As a result of the above factors, revenue in the Food & Soft Drinks segment in the first three quarters of 2020 came to ¥91.0 billion (down ¥8.8 billion or 9% year on year). The segment posted a core operating loss of ¥2.3 billion (compared with a loss of ¥1.0 billion a year earlier) and an operating loss of ¥2.5 billion (compared with a loss of ¥1.2 billion a year earlier).

Real Estate

The novel coronavirus pandemic has also affected Japan's real estate industry, with vacancy rates in the Greater Tokyo office leasing market remaining on an upward trend. Average rent levels have been trending downward.

In this market environment, Sapporo Real Estate Co., Ltd., has been able to hold office rents steady while maintaining high occupancy rates at its properties in the Greater Tokyo Area, including Yebisu Garden Place Tower, the business's core source of earnings. However, the novel coronavirus outbreak has led to a decline in revenue from commercial facilities and going forward is expected to have an impact on office rental income.

To further improve the profitability of our Real Estate business, we will continue to strategically review and revise our property portfolio from a long-term perspective. We continue to invest for growth by acquiring rental properties in the Ebisu area and enhancing the value of properties in the area. We are also making equity investments in private-placement funds.

As a result of efforts outlined above, revenue in the Real Estate business came to ¥17.5 billion (down ¥0.9 billion or 5% year on year), while the segment's core operating profit was ¥8.0 billion (up ¥0.2 billion or 2%) and operating profit was ¥8.6 billion (down ¥1.1 billion or 12%).

(2) Consolidated Financial Condition

Consolidated assets as of September 30, 2020, totaled ¥643.7 billion, ¥5.0 billion more than at the end of the previous fiscal year (December 31, 2019). The increase is mainly due to an increase in cash and cash equivalents made in anticipation of the tightening of the fund procurement environment due to the novel coronavirus outbreak, which offset decreases in trade and other receivables and in other financial assets (non-current).

Consolidated total liabilities totaled ¥480.6 billion, ¥16.4 billion more than on December 31, 2019. The increase primarily reflects the new issuance of bonds and commercial paper in anticipation of the tightening of the fund procurement environment due to the novel coronavirus outbreak, which offset decreases in other current liabilities, other financial assets (non-current), and deferred tax liabilities.

Consolidated total equity totaled ¥163.1 billion, down ¥11.4 billion from December 31, 2019. This decline was due to the posting of a net loss attributable to owners of parent, the payment of year-end dividends, and a decline in other components of equity.

(3) Consolidated Earnings Forecast

The consolidated earnings forecast for the full fiscal year to December 31, 2020, is unchanged from the forecast announced by the Company on August 6, 2020.

2. Consolidated Financial Statements

(1) Consolidated Statement of Financial Position

(Millions of yen)

	December 31, 2019	September 30, 2020
Assets		
Current assets		
Cash and cash equivalents	15,215	52,477
Trade and other receivables	92,529	66,706
Inventories	36,528	38,634
Other financial assets	5,403	5,122
Other current assets	6,090	9,936
Total current assets	<u>155,765</u>	<u>172,874</u>
Non-current assets		
Property, plant and equipment	147,014	141,480
Investment property	219,589	218,745
Goodwill	18,358	18,263
Intangible assets	8,844	9,029
Investments accounted for using equity method	428	442
Other financial assets	78,728	72,634
Other non-current assets	7,445	6,027
Deferred tax assets	2,551	4,202
Total non-current assets	<u>482,957</u>	<u>470,822</u>
Total assets	<u><u>638,722</u></u>	<u><u>643,696</u></u>

(Millions of yen)

	December 31, 2019	September 30, 2020
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	34,475	31,394
Bonds and borrowings	72,121	103,957
Lease liabilities	6,538	6,181
Income taxes payable	2,414	655
Other financial liabilities	33,021	38,187
Other current liabilities	61,903	44,427
Total current liabilities	210,472	224,803
Non-current liabilities		
Bonds and borrowings	155,220	161,923
Lease liabilities	23,921	22,210
Other financial liabilities	46,624	45,599
Retirement benefit liability	5,007	6,369
Other non-current liabilities	2,828	2,790
Deferred tax liabilities	20,125	16,857
Total non-current liabilities	253,725	255,749
Total liabilities	464,197	480,551
Equity		
Share capital	53,887	53,887
Capital surplus	40,958	40,944
Treasury shares	(1,792)	(1,786)
Retained earnings	51,521	46,770
Other components of equity	29,497	23,158
Total equity attributable to owners of parent	174,071	162,972
Non-controlling interests	454	172
Total equity	174,524	163,145
Total liabilities and equity	638,722	643,696

(2) Consolidated Statement of Profit or Loss and Comprehensive Income

Consolidated Statement of Profit or Loss

(Millions of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Continuing operations		
Revenue	361,015	315,346
Cost of sales	246,213	219,059
Gross profit (loss)	114,802	96,287
Selling, general and administrative expenses	108,402	95,114
Other operating income	3,127	2,670
Other operating expenses	1,758	5,884
Operating profit (loss)	7,769	(2,041)
Finance income	759	734
Finance costs	1,543	1,557
Share of profit of investments accounted for using equity method	14	14
Profit (loss) before tax	7,000	(2,850)
Income tax expense	2,538	(1,688)
Profit (loss) from continuing operations	4,462	(1,162)
Discontinued operations		
Loss from discontinued operations	(248)	—
Profit (loss)	4,214	(1,162)
Profit (loss) attributable to		
Owners of parent	4,560	(925)
Non-controlling interests	(346)	(237)
Profit (loss)	4,214	(1,162)
Basic earnings (loss) per share		
Continuing operations	59.83	(11.87)
Discontinued operations	(1.29)	—
Basic earnings (loss) per share	58.55	(11.87)
Diluted earnings (loss) per share		
Continuing operations	56.35	(11.87)
Discontinued operations	(1.21)	—
Diluted earnings (loss) per share	55.14	(11.87)

(3) Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2020
Profit (loss)	4,214	(1,162)
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	3,297	(4,947)
Remeasurements of defined benefit plans	3,961	(646)
Total of items that will not be reclassified to profit or loss	7,258	(5,593)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(374)	(1,351)
Effective portion of net change in fair value of cash flow hedges	(166)	22
Total of items that may be reclassified to profit or loss	(540)	(1,329)
Total other comprehensive income, net of tax	6,718	(6,922)
Comprehensive income	10,933	(8,084)
Comprehensive income attributable to		
Owners of parent	11,375	(7,813)
Non-controlling interests	(443)	(270)
Comprehensive income	10,933	(8,084)

(4) Consolidated Statement of Changes in Equity

(Millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of cash flow hedges
Balance as of January 1, 2019	53,887	40,998	(1,822)	46,065	(1,485)	(188)
Profit (loss)				4,560		
Other comprehensive income					(353)	(90)
Comprehensive income	-	-	-	4,560	(353)	(90)
Purchase of treasury shares			(5)			
Disposal of treasury shares		0	39			
Dividends				(3,277)		
Changes due to sale of consolidated subsidiaries						
Share-based remuneration transactions		(48)				
Transfer from other components of equity to retained earnings				3,701	-	-
Total transactions with owners	-	(48)	34	424	-	-
Balance as of September 30, 2019	53,887	40,950	(1,788)	51,049	(1,838)	(278)

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total other components of equity			
Balance as of January 1, 2019	24,046	-	22,373	161,501	3,234	164,735
Profit (loss)			-	4,560	(346)	4,214
Other comprehensive income	3,297	3,961	6,815	6,815	(97)	6,718
Comprehensive income	3,297	3,961	6,815	11,375	(443)	10,933
Purchase of treasury shares			-	(5)	-	(5)
Disposal of treasury shares			-	39	-	39
Dividends			-	(3,277)	(12)	(3,289)
Changes due to sale of consolidated subsidiaries			-	-	(273)	(273)
Share-based remuneration transactions			-	(48)	-	(48)
Transfer from other components of equity to retained earnings	259	(3,961)	(3,701)	-	-	-
Total transactions with owners	259	(3,961)	(3,701)	(3,292)	(285)	(3,576)
Balance as of September 30, 2019	27,603	-	25,487	169,585	2,507	172,091

(Millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Exchange differences on translation of foreign operations	Effective portion of cash flow hedges
Balance as of January 1, 2020	53,887	40,958	(1,792)	51,521	(863)	(68)
Profit (loss)				(925)		
Other comprehensive income					(1,318)	22
Comprehensive income	-	-	-	(925)	(1,318)	22
Purchase of treasury shares			(3)			
Disposal of treasury shares		0	9			
Dividends				(3,277)		
Changes in ownership interest in subsidiaries		(2)				
Share-based remuneration transactions		(12)				
Transfer from other components of equity to retained earnings				(549)	-	-
Total transactions with owners	-	(14)	6	(3,826)	-	-
Balance as of September 30, 2020	53,887	40,944	(1,786)	46,770	(2,180)	(46)

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total other components of equity			
Balance as of January 1, 2020	30,428	-	29,497	174,071	454	174,524
Profit (loss)			-	(925)	(237)	(1,162)
Other comprehensive income	(4,947)	(646)	(6,889)	(6,889)	(33)	(6,922)
Comprehensive income	(4,947)	(646)	(6,889)	(7,813)	(270)	(8,084)
Purchase of treasury shares			-	(3)	-	(3)
Disposal of treasury shares			-	9	-	9
Dividends			-	(3,277)	(10)	(3,287)
Changes in ownership interest in subsidiaries			-	(2)	(1)	(3)
Share-based remuneration transactions			-	(12)	-	(12)
Transfer from other components of equity to retained earnings	(97)	646	549	-	-	-
Total transactions with owners	(97)	646	549	(3,285)	(11)	(3,296)
Balance as of September 30, 2020	25,384	-	23,158	162,972	172	163,145

(5) Notes on the Going-concern Assumption

Not applicable

(6) Segment Information

1. Overview of reportable segments

The Company's reportable segments are components of the Sapporo Group about which separate financial information is available. These segments are subject to periodic examinations to enable the Company's board of directors to decide how to allocate resources and assess performance.

Under the Company, which is a pure holding company, Group companies carry out business activities and formulate strategies for the products and services they offer and for the sales markets they cover. The Group's businesses are segmented mainly based on the products, services and sales markets of Group companies and their affiliate companies. The Company's three reportable segments are Alcoholic Beverages, Food & Soft Drinks, and Real Estate.

The Alcoholic Beverages segment produces and sells alcoholic beverages and operates restaurants of various styles.

The Food & Soft Drinks segment produces and sells foods and soft drinks.

The Real Estate segment's activities include leasing and development of real estate.

Changes to Reportable Segments

From this year, the logistics business, which used to be listed under "other business," is classified under "Alcoholic Beverages." To enable year-on-year comparisons, figures for the previous fiscal year have been adjusted to reflect the new reportable segments.

The profit and loss of the North American soft drinks business has been classified under discontinued operations in 2019. Therefore, the amount of continuing operations excluding the amount of discontinued operations from related items is shown.

2. Revenue, profit (or loss)

(millions of yen)

	Nine months ended September 30, 2019 (January 1, 2019 – September 30, 2019)						
	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other *1	Total	Adjustment	Consolidated total
Revenue							
To outside customers	242,769	99,813	18,324	109	361,015	-	361,015
Inter-segment revenue	7,396	194	2,031	0	9,621	(9,621)	-
Total	250,165	100,007	20,355	109	370,637	(9,621)	361,015
Operating profit (loss)	4,382	(1,244)	9,731	10	12,880	(5,110)	7,769

(millions of yen)

	Nine months ended September 30, 2020 (January 1, 2020 – September 30, 2020)						
	Alcoholic Beverages	Food & Soft Drinks	Real Estate	Other *1	Total	Adjustment	Consolidated total
Revenue							
To outside customers	206,797	90,966	17,459	123	315,346	-	315,346
Inter-segment revenue	8,849	497	1,959	1	11,305	(11,305)	-
Total	215,646	91,463	19,418	123	326,650	(11,305)	315,346
Operating profit (loss)	(3,655)	(2,469)	8,609	(4)	2,480	(4,521)	(2,041)

*1: "Other" comprises businesses, such as health food business, etc., that are not included in reportable segments.

(Subsequent Events)

None