

Q&A Small Meeting with President and CFO (held on February 22, 2023)

Questions & Answers

Sapporo Holdings Limited

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Sapporo Holdings Limited

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Medium-Term Management Plan / Overall Corporate Management

Q1. What is the background behind the formulation of the Medium-Term Management Plan?

A1. The two key points of the current Medium-Term Management Plan are a sense of crisis, and objectivity.

With regard to the sense of crisis, the COVID-19 pandemic started in 2020, and there was a risk of falling into the red with the survival of the business becoming difficult, which led to the formulation of a new Medium-Term Management Plan.

The element of objectivity has been added to the formulated Medium-Term Management Plan. We also asked investors and analysts for their opinions, as we had to look squarely at how the market perceived us. In addition, outside directors were also involved in the process of formulating the Medium-Term Management Plan. Regarding the assembly of plans for operating companies, we proceeded with the plan formulation with the participation of outside parties such as consulting companies.

Also, in terms of historical perspective, the business management system has changed drastically over the past three years. Previously, overseas alcoholic beverages were managed by the Sapporo Holdings. Operating companies now manage the overseas alcoholic beverages business. We have established a system to manage the entire beer business, including brands and manufacturing, not only in Japan but also globally.

In addition, Sapporo Holdings has revised its organizational structure to a simple structure in which it does not manage the business but it is instead managed by operating companies, and has reduced the number of employees from 300 to 100.

At the same time, we have also changed our governance design, changing from a Company with a Board of Corporate Auditors to a Company with an Audit & Supervisory Committee, and have further strengthened governance by managing both internal and external directors equally. We have gradually changed the system instead of changing it all at once.

There are also currently Sapporo Holdings Board of Director members serving concurrently as directors of operating companies, and we have strengthened the management system by having each officer become deeply involved in the business.

Such changes in the system from the past have led to the formulation of the new Medium-Term Management Plan and the monitoring system.

Q2. The 8% ROE target in the Medium-Term Management Plan appears to be achievable simply by improving profitability. How do you intend to achieve an “emphasis on capital efficiency”?

A2. Capital efficiency refers to investments and returns. Until now, we have focused on the scale of sales and the amount of profit, but based on past reflections, we will review our business portfolio in a timely manner, realize returns that exceed the cost of capital in each business, and improve ROE, which will lead to an increase in corporate value. At present, the profit margins of all businesses are low. In order to increase corporate value, this improvement must be pursued as a top priority.

In terms of balance sheet improvement, in addition to reviewing our business portfolio, we will continue to examine whether there are measures that can be improved in detail on an account basis.

Q3. Regarding the reorganization of the business portfolio, you mentioned that ROIC and the achievement of the core operating profit margin will be the criteria for judgment. Is there a system in place to determine whether to exit when it is deemed difficult to achieve them?

A3. We are trying to create such a system. Decisions regarding exits will be made not only based on ROIC but also from various perspectives.

Q4. How do you evaluate the previous Medium-Term Management Plan?

A4. We aimed to expand our business in the food field, but we have come to the conclusion that we need to reorganize our business because there are too many businesses, as there have been challenges that differ from our initial expectations due to drastic changes in the times.

We have decided to focus on areas where we have strengths, rather than getting involved in various areas. Our main business is the beer business, and the real estate business that supports it will play an important role in achieving the Medium-Term Management Plan from the perspective of synergies. In the beer business, the assumptions are different from the previous Medium-Term Management Plan due to tax reforms and price revisions despite soaring costs. Because the starting line is different, we are confident in achieving the Medium-Term Management Plan to some extent.

Q5. What are Sapporo’s strengths? Other companies are also attempting similar initiatives. What elements will allow you to outperform the market?

A5. What distinguishes us from competing beer companies is our “real estate business tied to the local community,” and we see it as our strength. The reason why we redeveloped Ebisu, Hokkaido was because it is our birthplace, and we thought that it was necessary to preserve the industrial heritage of

the brick construction that had been passed down since the Meiji era to future generations. No other beer company has anything like that. In addition to being a beer company rooted in the region, we have a history there, such as building Yebisu Garden Place and Sapporo Factory because of our desire to contribute to the community. We have not just been selling real estate, but have also been thinking about what we can do in the region where we were established and are associated with. No other company conducts business based on its ties with local communities and contributions to those communities. We provide various value through urban development. Ebisu has prospered so far thanks to the contributions of other companies and residents, but our efforts to date have also contributed. Another value we provide is that we are able to operate a beer hall in Ginza at reasonable prices. We want to provide value to our customers in a variety of ways that are not limited to our products, and conduct business that is centered around our beer company and rooted in local communities.

Alcoholic Beverages

Q6. How do you assess the potential profitability of the Japanese and overseas alcoholic beverages businesses for further growth?

A6. While total demand for beer in the United States is expected to decrease, imported beer is growing, and there is still room to expand sales. Against this backdrop, we have been expanding sales in the United States by focusing on these four states that have large populations: California, Florida, Texas, and New York. A third of the U.S. population is concentrated in these four states. We will continue to expand our business mainly in these areas. From a channel perspective, we will further strengthen sales expansion in the off-trade market by utilizing the foundation of the on-trade market that we have been working on. In marketing, we believe that collaborating with members of Stone will open up new possibilities.

For Japanese alcoholic beverages, we are considering various profit improvement measures on a zero-basis, including price revisions, product mix improvements, and in-house RTD production at the Sendai Brewery in order to improve profitability.

Q7. What is the reason for the increase in SPB* sales in the United States? *Sapporo Premium Beer

A7. The reason why sales are growing in the U.S. is that our sales network is expanding not only in the ethnic Japanese market but also to the general U.S. market. Sales at Costco, Trader Joes, and other retailers are expanding. We have strengthened our connections with distributors based on the sales network we have built up so far. However, even in the U.S. market, there are some chains that do not have enough of our products, so we believe there is still room for growth.

In Canada, Sleeman's market share was about 4 percent when we acquired it, but now its share has grown to about 9 percent over the past decade or so. With a 9 percent share, you can buy Sleeman products anywhere. In the future, we would like to aim at a level where our products can be purchased

anywhere in the United States.

Q8. After acquiring Stone, will you be able to achieve the transfer of manufacturing and expected synergies? How many issues have been identified at the present time, and what is the system in place to recover if something occurs?

A8. We had several options for acquiring a manufacturing site in the United States. We had the option of negotiating with companies other than Stone and doing everything in-house from scratch. In the midst of all these options, Stone had an excellent management team, had logistical advantages with two locations in the east and west, and had sufficient capacity for SPB manufacturing. Considering that it takes too much time to manufacture in-house, it was judged as the optimal option.

We recognize that there are difficulties in transferring manufacturing. However, we have already made capital investments to transfer SPB manufacturing, but we have not found any manufacturing issues at this time.

We have doubled our sales in Canada. We are proud to say that this is the result of the high evaluation of our manufacturing technology and marketing from the market. In addition, we have outsourced SPB manufacturing while overcoming quality problems in the U.S.

A similar approach may not work equally well in the U.S., but there is some odds of success against the background of such a track record.

Q9. What are your thoughts on the cross-border beer brand strategy? Wouldn't consistent branding increase value?

A9. We are also aware of this issue and are currently working on it. Until now, branding was divided into the Japanese and overseas markets, but we want to make branding consistent and prioritize brand investment.

Q10. Beer is the priority for Japanese alcoholic beverages, but what is the future direction of Happoshu, new genres, and RTD?

A10. There will be a change to the alcohol tax in October 2023, with which the alcohol tax on beer will be reduced, and the tax rate will be unified in 2026. The main reason for purchasing new genres and Happoshu is that the price is low. Even if the tax rate is unified, the price difference will remain, and this does not mean that the new genres and Happoshu will disappear, but the shift to beer will continue and the number of customers who choose beer will increase overwhelmingly.

The price difference is also a factor in the purchase motivation for RTD products, but the ease of drinking and the trend of the times are also a factor in their growth. We believe that the market will continue to grow in the future.

The total demand for beer-type beverages is about half for beer and half for new genres and

Happoshu. Beer accounts for 70% of our business. It is true that price is the motivation to purchase, and with the change to the alcohol tax going forward, we expect that people who want to drink beer will shift from new genres and Happoshu to beer, and customers who are sensitive to price will shift to RTD products. Against this backdrop, we are working to strengthen our beer and RTD products.

In terms of price, I think it is necessary to think about beers that can be bought at high prices. Some customers do not feel that the current price of beer is too high, so the possibility of developing higher-priced beers must always be explored.

Q11. With regard to Japanese alcoholic beverages, what strategies will you take to maintain profit margins even after achieving the Medium-Term Management Plan?

A11. In order to maintain the profit margin of beer, it is essential to increase brand value. By increasing brand value, the number of customers who like the brand increases, which also leads to a reduction in sales promotion costs. Sapporo Lager Beer (Akaboshi) is a prime example. As the number of customers who have come to like the brand has increased, we are able to increase sales without spending on sales promotion costs.

We will have the opportunity to entice the customers who have chosen beer only based on price, with the value of beer through the revision of the alcohol tax. It will allow us to approach our customers in a completely different way. We believe that 2026 and beyond will be a good opportunity to show our skills, and it can also be a risk.

Food & Soft Drinks

Q12. I understand that the Food & Soft Drinks business will concentrate its resources on lemon-based products, but what about other businesses? How do you envision the Food & Soft Drink business will look like in the end?

A12. Among the four categories of soft drinks, soups, plant milk, and lemon-based products, lemon-based products have the highest profit margin.

Lemon-based products have strengths in terms of market share and customer recognition, and we believe it is a business that can generate returns.

As for soft drinks, the vending machine business may change significantly. In the vending machine business, we are considering various options, but we would like to take the best option while keeping in mind that we will carry out further structural reforms over the next two years.

For soups, because we had competition and increased the number of products too much in the past with the aim of expanding sales, we are now working to improve profitability by reducing SKUs.