SAPPORO HOLDINGS LTD.

Sapporo Holdings Limited

Q1 Financial Results Briefing for the Fiscal Year Ending December 2023

May 12, 2023

Event Summary

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	Yoshitada Matsude	Managing Director
	Takayuki Sato	General Manager of Accounting Department
[Analyst Names]	Hiroshi Saji	Mizuho Securities Co., Ltd.
	Satoshi Fujiwara	Nomura Securities Co., Ltd.
	Manabu Sumoge	Okasan Securities Co., Ltd.
	Naomi Takagi	SMBC Nikko Securities Inc.
	Ami Yoshida	JPMorgan Securities Japan Co., Ltd.

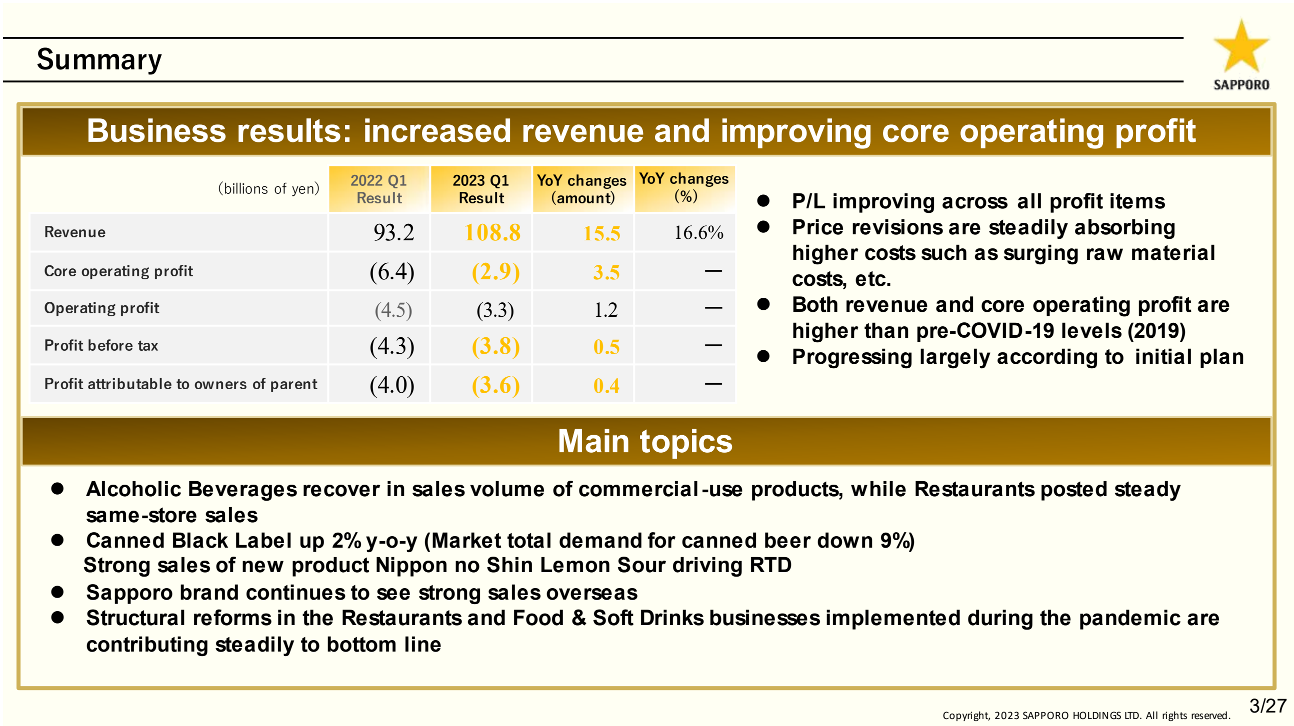
Presentation

Moderator: Hello, investors. Thank you for attending today's briefing on the financial results for the first quarter of fiscal year 2023 of Sapporo Holdings Limited. The time has arrived, and we will now begin.

Present today is Yoshitada Matsude, Managing Director, and Takayuki Sato, General Manager of Accounting Department, Sapporo Holdings.

Please have at hand the Financial Results, Supplementary Materials to the Financial Results, and Financial Results Presentation PowerPoint. First, Matsude and Sato will provide an overview of Q1 financial results for approximately 20 minutes based on the financial results presentation materials and PowerPoint presentation, followed by a question-and-answer session. The entire meeting will last approximately one hour.

Let us begin with a summary from Matsude, followed by a detailed explanation from Sato. Best regards.

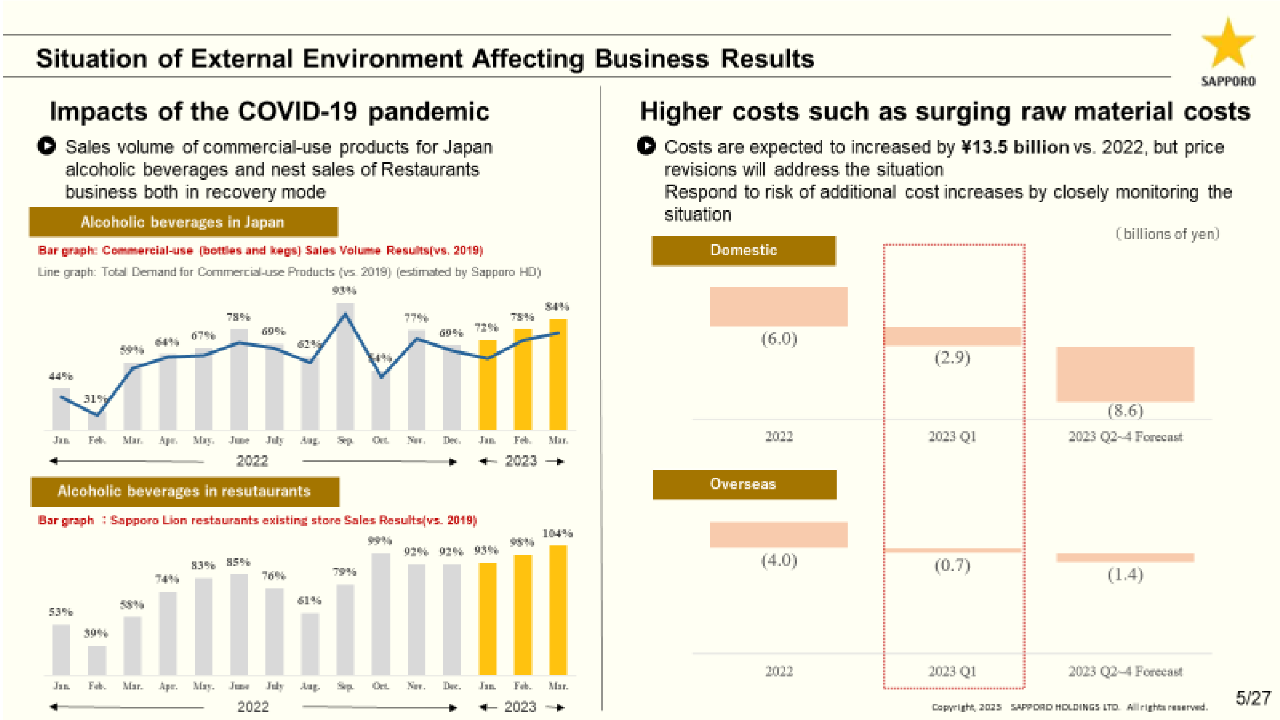


Matsude: My name is Matsude from Sapporo Holdings. I will now give an overview of the financial results for Q1 of this fiscal year.

First, points. Revenues were up from the previous year, while core operating loss and operating loss also improved. As in the previous year, there was an impact of about JPY3.5 billion in this fiscal year due to the cost increase, but we were able to respond to this impact with price revisions.

In addition to the recovery of the commercial-use market, the domestic alcoholic beverages business saw the strengthening of beer and the growth of RTD, while the overseas alcoholic beverages business saw the growth of the Sapporo brand, mainly in North America, while the effects of structural reforms in the restaurants business and the food and soft drinks business contributed to the business situation.

In comparison with the Company's plan, both sales revenue and profit are progressing as expected.



I would like to continue with an explanation of the external environment affecting our business results. Let me begin with the graph on the left.

Regarding the impact of the COVID-19, the graph in the upper row shows the change in sales volume of beer bottles and kegs for so-called commercial use in the domestic alcoholic beverages business compared to 2019. The bottom row shows the change in Sapporo Lion's existing store sales in the restaurants business compared to 2019.

As you can see, the January-March period of last year was rather severely affected, but since April, the economy has been on a recovery track. We believe that this trend has remained unchanged since January of this year.

In terms of Q1 YoY comparisons, the volume of domestic alcoholic beverages sales to the commercial use increased by 72% year on year. Although total demand has also grown significantly, the figure is also about 6 points higher than total demand. Restaurants operator Sapporo Lion's existing store sales in January to March were also up 100% from the previous year, meaning that the Company doubled its sales.

Next, I would like to explain the cost increases on the right side, such as raw material. We expect a cost increase of JPY13.5 billion in raw materials and other costs for the current fiscal year. This is an increase of about JPY1 billion from the figure we announced at the beginning of the year.

Also, as I mentioned earlier, the cost for this Q1 was JPY3.5 billion higher than the same period of the previous year. Please refer to the documents for the distinction between domestic and overseas.

These cost increases will continue to be addressed through various price revisions, as in Q1.

We will now explain the situation by segment. Mr. Sato, General Manager of the Accounting Department, will explain these matters.

Financial Highlights

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(billions of yen)	2022 Q1 Result	2023 Q1 Result	YoY changes (amount)	YoY changes (%)
Revenue by Segment	**93.2**	**108.8**	**15.5**	**16.6%**
Alcoholic Beverages	60.6	76.6	16.0	26.5%
Japanese	46.1	54.0	7.9	17.2%
Overseas	12.1	18.3	6.2	51.1%
Restaurants	2.3	4.3	1.9	83.4%
Food & Soft Drinks	27.7	26.8	(0.9)	(3.1%)
Japanese	22.3	20.2	(2.1)	(9.4%)
Overseas	5.4	6.6	1.2	22.8%
Real Estate	5.0	5.3	0.4	7.1%
Other	0.0	0.0	0.0	7.0%

(billions of yen)	2022 Q1 Result	2023 Q1 Result	YoY changes (amount)	YoY changes (%)
Core Operating Profit by Segment	**(6.4)**	**(2.9)**	**3.5**	—
Alcoholic Beverages	(3.9)	(0.5)	3.4	—
Japanese	(2.8)	(0.2)	2.6	—
Overseas	(0.1)	(0.4)	(0.3)	—
Restaurants	(1.0)	0.1	1.1	—
Food & Soft Drinks	(1.0)	(0.3)	0.7	—
Japanese	(1.3)	(0.7)	0.6	—
Overseas	0.3	0.4	0.1	26.6%
Real Estate	0.1	(0.0)	(0.1)	—
Other・General corporate and intercompany eliminations	(1.6)	(2.1)	(0.5)	—

Sato: I am Sato from the Accounting Department of Sapporo Holdings. I will explain the details of the financial results for Q1 of 2023, as well as the progress of the action plan of the mid-term management plan and the overview of our business.

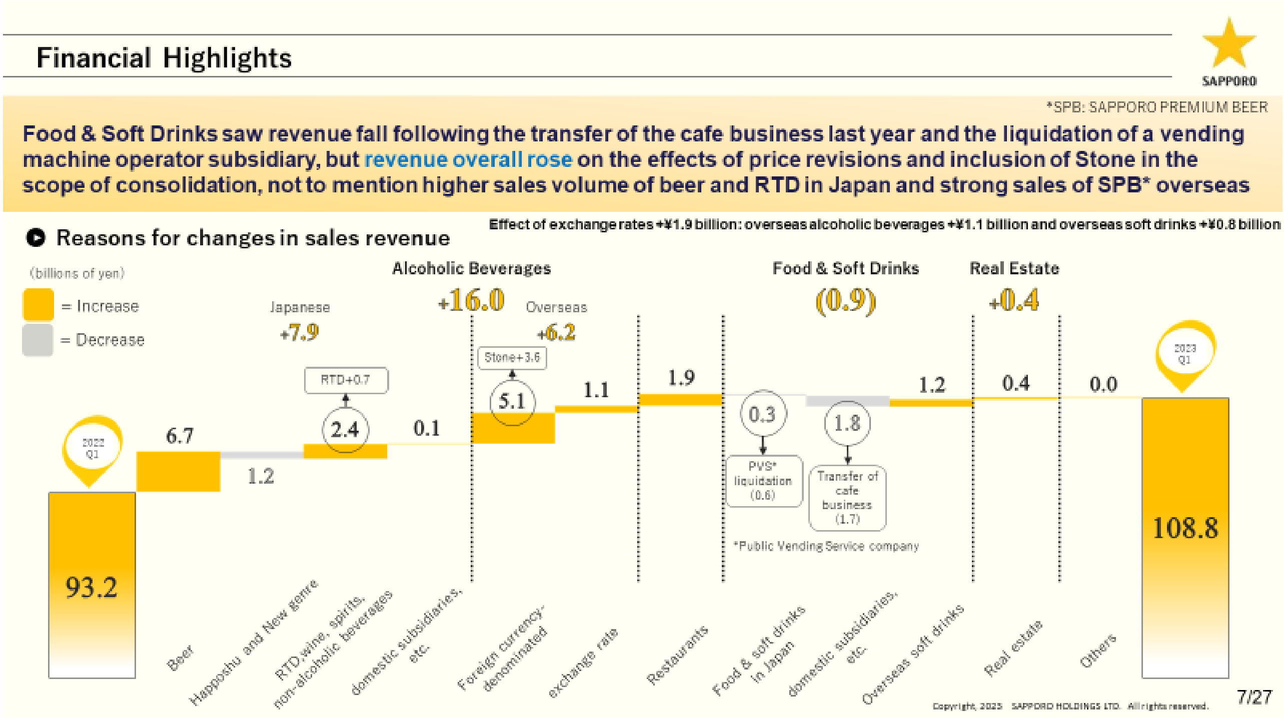
First, please look at the left side, revenue summary. Consolidated total sales JPY108.8 billion, up by JPY15.5 billion or 16.6% from the same period last year.

By segment, domestic alcoholic beverages, where beer sales grew due to a turnaround in the commercial-use market in particular, and overseas alcoholic beverages, where the strong performance of the Sapporo brand combined with the revenue growth effect of the new consolidation of Stone, made a significant contribution to the consolidated total.

In the domestic food and soft drinks business, the sale of the café business last year and the liquidation of a vending machine operator company, as part of structural reforms have had a significant impact on sales but have contributed positively to profits.

Next is the right side, core operating profit. The consolidated total was minus JPY2.9 billion, an improvement of JPY3.5 billion in profit over the same period last year. Many of our businesses, including domestic alcoholic beverages, have resulted in improved profits.

The overseas alcoholic beverages segment saw a decrease in profit during the period due to the new consolidation of Stone and integration costs, and we expect the effect of synergies to be realized from Q2 onward.



We will supplement the overview of sales revenue with a waterfall chart.

First, total sales in the alcoholic beverages business increased by JPY16 billion. Of this amount, domestic alcoholic beverages increased by JPY7.9 billion. The favorable turnaround in the commercial-use market has contributed to a JPY6.7 billion increase in beer sales, and our focus on RTDs includes a JPY700 million increase in sales due to the strong performance of Shin Lemon Sour and Koime no Lemon Sour.

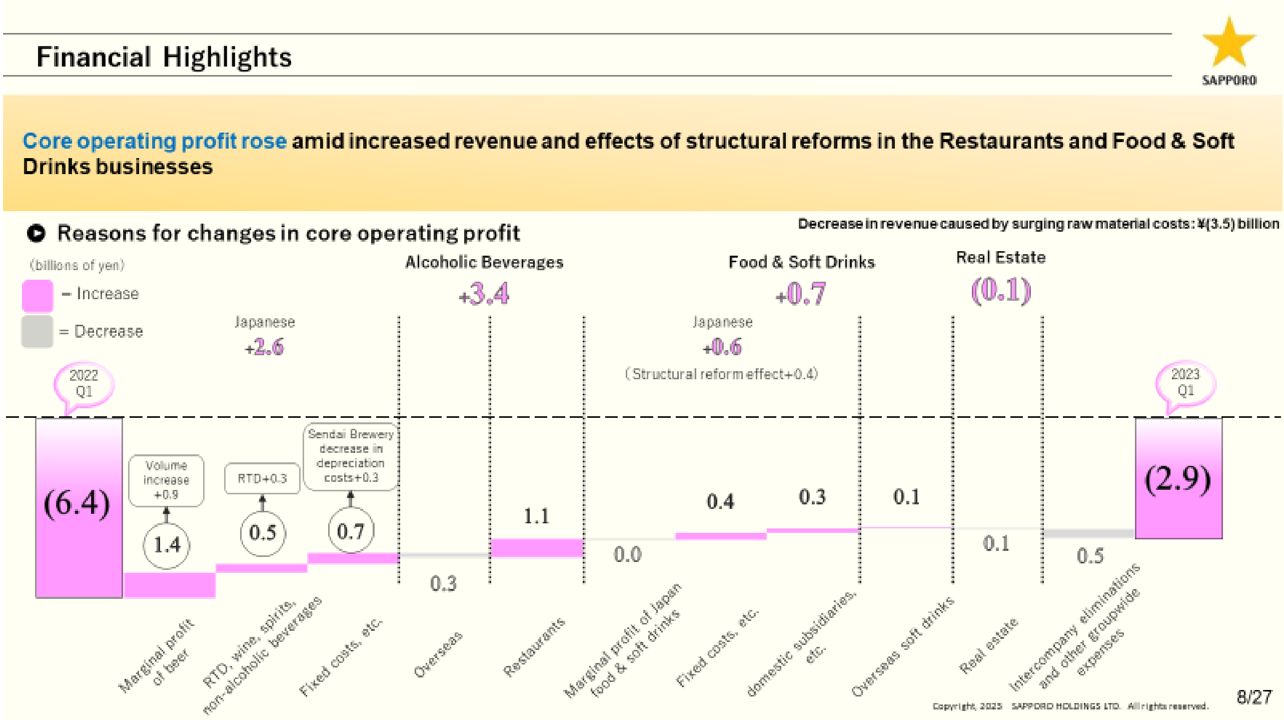
As for overseas alcoholic beverages, sales increased by JPY6.2 billion. First, sales in local currency also increased by JPY5.1 billion, including JPY3.6 billion from the new consolidation of Stone, in addition to the growth of the Sapporo brand.

Restaurants sales have been recovering strongly since Q1, increasing by more than 80% or JPY1.9 billion from the same period last year.

Next is the food and soft drinks business. This resulted in a decrease of JPY900 million. However, as I mentioned earlier, the sale of the café business and the liquidation of the vending machine operator company last year had a negative impact of JPY1.7 billion and JPY0.6 billion, respectively. Therefore, in terms of profit, this is a positive contribution.

Overseas beverage sales increased by JPY1.2 billion, also in local currency, as a result of sales growth in Singapore, Malaysia, and exports, respectively.

In addition, the real estate business increased revenues by JPY0.4 billion. This is largely due to the contribution of increased revenues from Center Plaza in Yebisu Garden Place, which was reopened last year. The number of visitors to Yebisu Garden Place has also been steadily increasing, thanks in part to the effects of these renovations.



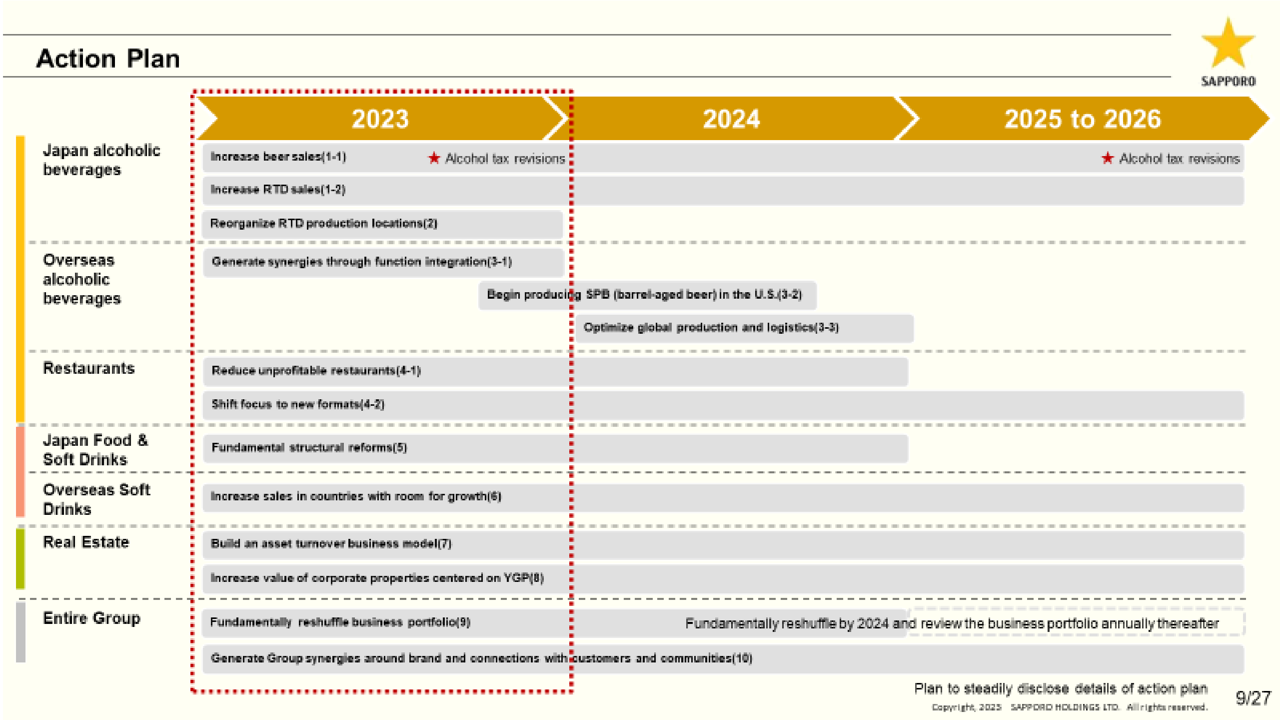
This is a supplement to the core operating profit summary. First, the alcoholic beverages business showed a total increase of JPY3.4 billion. The domestic alcoholic beverages business posted a JPY2.6 billion increase in profit, thanks to the increase in sales, a decrease in depreciation costs incurred last year at the Sendai Brewery, and a reduction in total costs.

The overseas alcoholic beverages segment resulted in decrease in profit due to the impact of integration costs and other factors resulting from the new consolidation of Stone.

The result for restaurants is a JPY1.1 billion improvement in profit over the previous year, and a return to profitability for the three months from January to March.

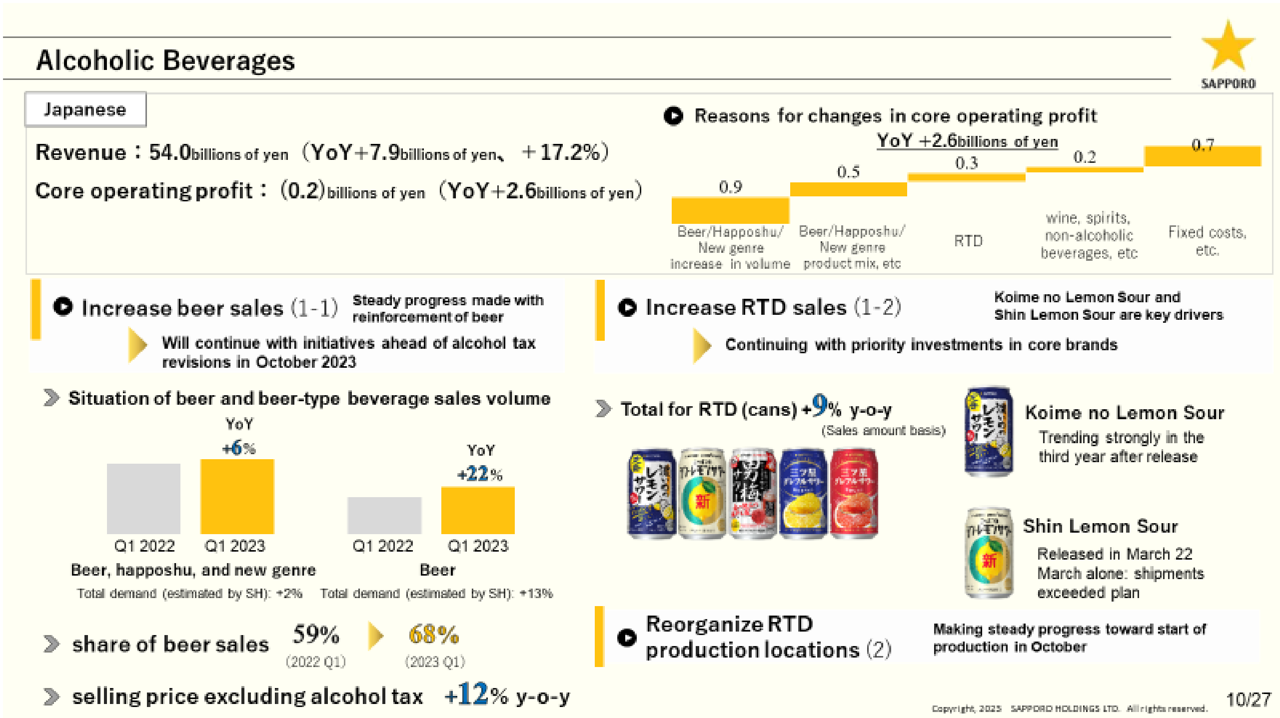
Next is the food and soft drinks business. The total profit here improved by JPY700 million. In addition to the effects of structural reforms, such as the sale and liquidation of subsidiaries in the domestic food and soft drinks business, the effects of each of the structural reforms in the ongoing business are also being realized.

The real estate business resulted in a decrease of JPY0.1 billion in income. This slight decrease was due to a decrease in rent due to vacancy for work to update the HVAC facilities in the office tower at Yebisu Garden Place, which could not be covered by the increase in profit from the reopening of Center Plaza. However, I hope you understand that progress is generally on schedule in terms of planning.



I will continue with an overview of the progress of the action plan of the mid-term management plan and an overview of our business operations.

First, here is the list of action plans that we announced in February. As for this one, we hope you will take a look at it.

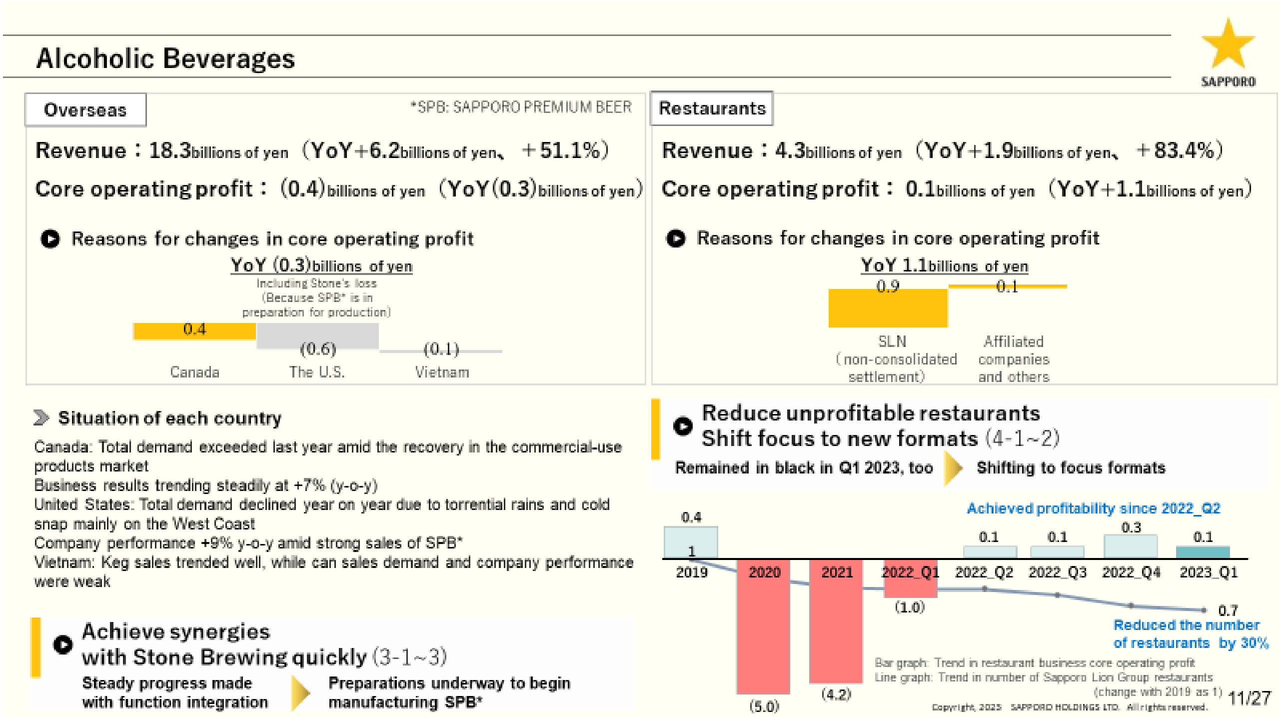


First, look at the alcoholic beverages business. Domestic alcoholic beverages had sales revenue of JPY54 billion, an increase of JPY7.9 billion over the same period last year, and core operating profit of minus JPY0.2 billion, an improvement of JPY2.6 billion in profit over the same period last year.

In addition to the increase in sales due to the upturn in the commercial-use market, the cost increase since last year has been absorbed by price revisions, resulting in an increase in both sales and income.

First, there are two key points of the action plan in domestic alcoholic beverages. The first point is to strengthen beer in anticipation of future liquor tax revisions. In this Q1, beer sales volume grew by a significant 22% while beer,Happoshu,and new genre total sales volume grew by 6% YoY. This growth also exceeds our estimate of total demand. As a result, the percentage of beer increased to 68% from 59% in the previous year, indicating a steady shift to beer.

The second point is on the right side, RTD enhancement. In this Q1, sales of Koime no Lemon Sours and Shin Lemon Sour led the way, with an increase in sales of 9% over the same period last year. In addition, in order to improve production efficiency for the future, we are in the process of converting the Sendai Brewery into an RTD production locations, and preparations are progressing smoothly for the start of production in October of this year.



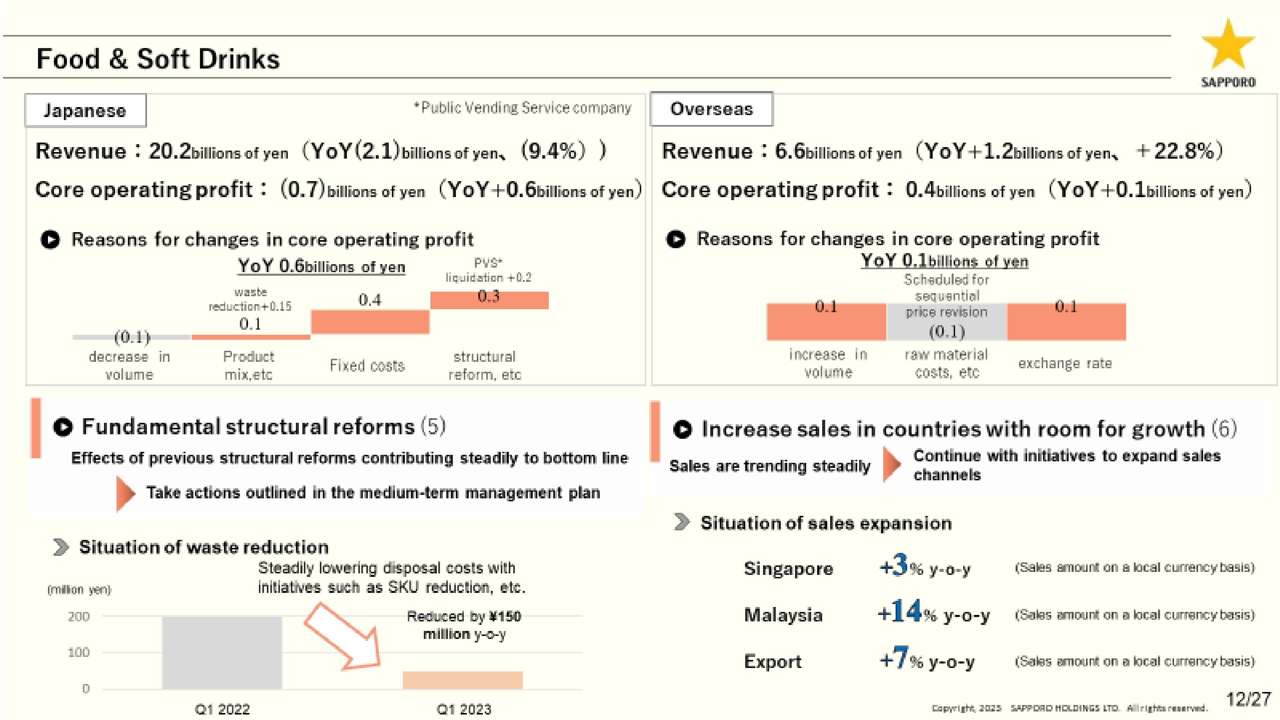
First, on the left side of the document are the results for overseas alcoholic beverages. Overseas alcoholic beverages had sales revenue of JPY18.3 billion, a YoY increase of JPY6.2 billion, and core operating profit of minus JPY0.4 billion, a YoY decrease of JPY0.3 billion, resulting in a slight decrease in profit on higher sales.

Here is an overview by country. As noted, sales in Canada were up 7% from the previous year, due in part to a recovery in commercial use. In the US, total demand appears to be below the previous year's level due to unfavorable weather, but our Sapporo brand continues to perform well. In Vietnam, kegs continued to perform well, but cans were significantly affected by market conditions and ended Q1 on a weak note.

The key themes for overseas alcoholic beverages that we will focus on are the integration of operations with Stone, which we acquired last year, and the manufacturing of Sapporo brands in the US. Sapporo brand production is in the process of preparing to start production by the end of this fiscal year.

Next, on the right side of the document is the performance of the restaurants business. Revenue was JPY4.3 billion, an increase of JPY1.9 billion from the same period last year, and core operating profit was JPY100 million, an increase of JPY1.1 billion from the same period last year, achieving a return to profitability in Q1.

In the restaurants business, we have been able to significantly lower the break-even point through structural reforms, and in addition to the market recovery in Q1, our shift in focus business categories was also successful, resulting in a significant increase in sales. We will continue our efforts to improve profitability in this area as well.



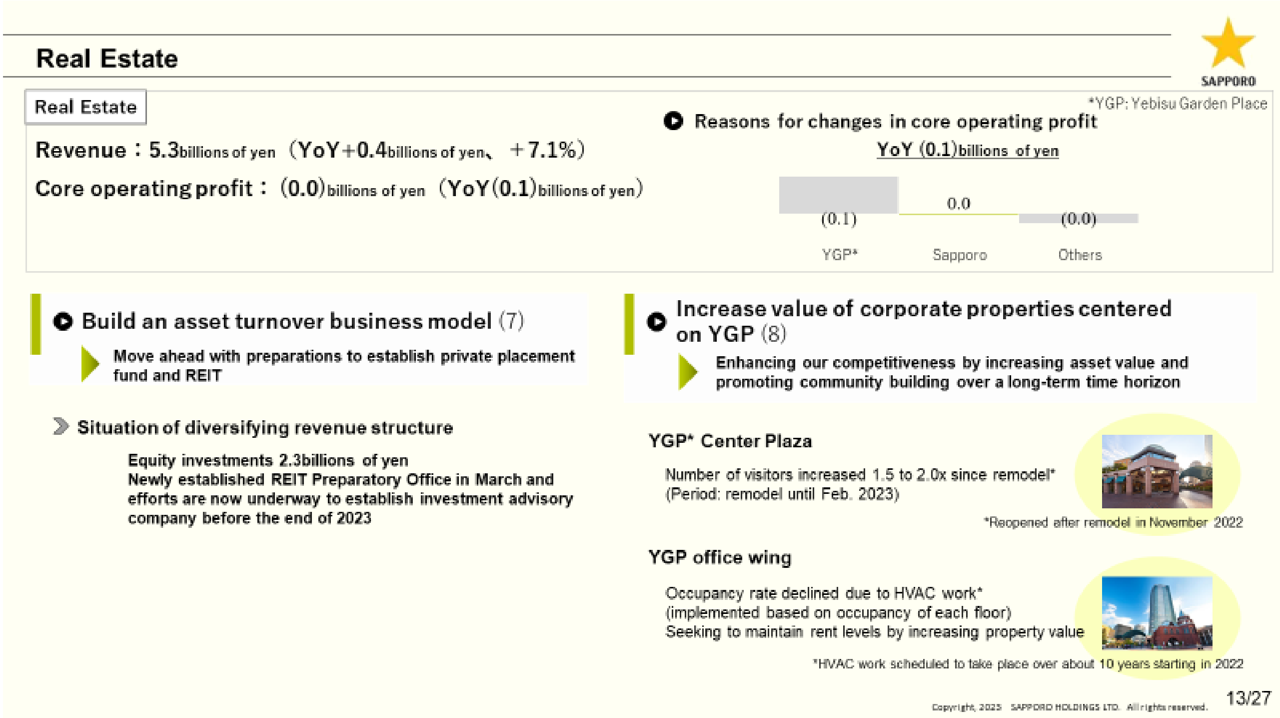
I would like to explain our food and soft drinks business. First, the left side of the document is domestic. Revenues JPY20.2 billion, down JPY2.1 billion from the same period last year. Although core operating profit was minus JPY0.7 billion, it was an improvement in profit compared to the same period last year, or up JPY0.6 billion.

In the domestic food and beverage business, the structural reforms that we have been pursuing to date have contributed to a steady improvement in profitability, although revenue has declined. In the ongoing business, we are also promoting reforms such as SKU reduction initiatives, and we are steadily seeing results from the strengthening of our profit structure.

Next, on the right side, we have overseas soft drinks. Revenue was JPY6.6 billion, an increase of JPY1.2 billion from the same period last year, and business profit was JPY0.4 billion, an increase of JPY0.1 billion from the same period last year.

In overseas soft drinks, we are in the process of expanding sales in countries where there is room for growth. First, Singapore, which is the base of our business, has seen a steady increase in sales, with a 3% YoY increase, due in part to the market recovery from the covid-19.

In Malaysia, our focus country, we have been strengthening our sales structure including distributors and enhancing the presence of the Pokka brand, resulting in a 14% YoY increase.



This is followed by the real estate business. The real estate business reported net sales of JPY5.3 billion, an increase of JPY0.4 billion from the same period last year, and zero core operating profit a decrease of JPY0.1 billion from the same period last year.

Although there was an increase in income due to the reopening of Center Plaza, this was not enough to cover the decrease in rent due to the vacancy of the office tower at Yebisu Garden Place for work to update the HVAC facilities, resulting in a slight decrease in income.

Under these circumstances, we have two initiatives to focus on in the real estate business. Regarding the first point, build an asset turnober business model, we are currently preparing to make significant progress in building a business model by launching a REIT preparatory office in March of this year and planning to establish an investment management company by the end of this year.

The second point is that efforts to increase value of corporate properties centered on Yebisu Garden Place, have contributed to an increase in the number of visitors, partly due to Center Plaza, etc., which was renovated last year. These are the results in the real estate business.

Action Plan KPI

*Forex assumption: ¥130
*2 Local currency basis (Singapore dollar)
* to be disclosed in Q2 or fiscal year end financial results

Segment	Item	Q1results 2022 Q1	Q1results 2023 Q1	Full year 2022	Full year 2023Plan	medium-term plan Target
Japan alcoholic beverages	**Reinforcement of Beer / Improving Profitability of Beer-type Bev.**					
	Increase beer sales: share of beer sales (1-1)	59%	**68%**	68%	71%	79%
	Improve profit margin: selling price excluding alcohol tax (1-1)	-	**+12% (y-o-y)**	-	+9% (y-o-y)	+11% (VS 2022)
	RTD Business Growth and Production Streamlining, Etc.					
	RTD growth: RTD sales amount (1-2)	-	**+9% (y-o-y)**	-	+23% (y-o-y)	+74% (VS 2022)
	Increase production efficiency: ratio of in-house production (2)	-	*	73%	64%	88%
Overseas alcoholic beverages	**Stone Acquisition Synergy / SPB Growth**					
	Sapporo brand volume (3-1-3)	1.45million cases	**1.69million cases** (y-o-y +17%)	6.61million cases	7.47million cases	10.0million cases
	Cost synergy (3-1-3) ※1	-	*	-	$4M	$23M
Japan food & soft drinks	**Cost Structure Reforms** (5)	-	**¥0.2billion**	-	¥1.0billion	¥2.0billion
Overseas soft drinks	**Expanding Sales and Increasing Logistics Efficiency** Overseas sales amount (6) ※2	-	**+7% (y-o-y)**	-	+3% (y-o-y)	+30% (VS 2022)
Real Estate	**Revenue Structure Diversification** Asset share of securitization business (7)	-	*	3.7%	7.2%	19.2%
	Increase value of YGP* *YGP: Yebisu Garden Place Rate of increase in average rent price (8)	-	*	-	+0.4% (y-o-y)	+2.5% (VS 2022)
Entire Group	**Drastic Reorganization of Unprofitable Businesses, Etc.** (9)	-	*	¥1.0billion (y-o-y)	¥0.5billion (y-o-y)	-

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Finally, the Action Plan KPIs are listed. This Q1 is the first quarter of the first year of our mid-term management plan, and I would like to reiterate that we are off to a good start.

The figures have been generally explained in the previous pages, so we will not provide a detailed explanation.

The data on page 15 and beyond are for reference only, so we will not provide explanations here, but we hope that you will make use of the data and other information provided.

That concludes my explanation.

Question & Answer

Moderator [M]: We will now begin the question-and-answer session. First, Mr. Saji from Mizuho Securities, please ask youe question.

Saji [Q]: Thank you very much.

First, let me ask you about your domestic alcoholic beverage business, and restaurants business. In Q1, beer recovered very well, and the commercial market in particular improved, as well as your company, more than the market.

I think we are seeing a bright market environment outlook for this current period, especially with the economic recovery, the coronavirus situation's transition to Class 5, inbound, etc. How do you see the so-called strong performance in Q1 changing the market in the current period against your initial view in the future? Or, in such a business environment in Q2 and beyond, can you continue to perform as well as you did in Q1?

In particular, the lower right-bottom corner of page 11 shows that the restaurants business has been profitable since Q2 of last year, partly due to the effects of structural reforms. I would like to confirm whether or not you can further expand the range of improvement in these areas as the market environment improves.

Matsude [A]: Thank you, Saji-san. Matsude will answer your question.

As for the current situation, as you mentioned, we are aware that various regulations during the pandemic have been eased and consumer sentiment is improving. On the other hand, if there is a downside, or risk, I think it is how inflation will relate to consumption behavior.

Based on the current beer market situation, we expect that the market will remain almost in line with our estimates. In other words, the big question is what will happen to the commercial market, and we expect it to be roughly 75% of the year 2019 level. This may be due to changes in the external environment, but our current view is that the trend will continue.

In terms of our response to the marketing efforts of various companies, we recognize that the market environment in April, as you mentioned, was characterized by new product launches and renewals by competitors. Looking at the market, we are aware that new beer products are having difficulty establishing themselves. It is a place where the standard is strong. On the other hand, I believe that a standard plus one situation is occurring where consumers are reaching out for trials.

For home use, we will continue to strengthen Black Label, as in the past, and for Yebisu beer, we launched a limited-time Creative Brew in Q1 of this year. We would like to promote this kind of development.

Saji [Q]: I think that other companies' new products and concepts are slightly different, but even if there is a sales promotion offensive for your company's, especially, say, Black Label, there will be little, maybe no impact, is that correct?

Matsude [A]: In the short term, I think it will be slightly affected -- for example, when the products are on store shelves -- but in terms of a few months, our analysis suggests that it will not be that big an impact.

In restaurants business, Sapporo Lion continued to maintain existing store sales above 100% in April when compared to 2019, and we expect this trend to continue. Then, as shown in this graph, we plan to be in the black after Q1, but we see the possibility of going slightly higher, depending on trends.

Saji [Q]: Thank you very much.

I think that if the ban on group travel by Chinese nationals is lifted in the future, your company's stores in urban areas will benefit as well. Are there any signs of such a positive impact from inbound travel in the restaurants industry?

Matsude [A]: As you mentioned, we are receiving a great number of inbound visitors to our stores. In particular, during the hours between 3:00 and 5:00 PM, when Lion is usually open, there are quite a few inbound customers who come to the store for a beer while taking a break.

The other is not inbound, but the economic environment is improving, and I think this is due to the easing of regulations related to the coronavirus situation, but we are also seeing quite a few senior citizens visiting our stores. Lion is patronized by many people of all ages, but as I mentioned, during the daytime hours, there is an increase in the number of senior citizens plus inbound customers.

Saji [Q]: Thank you very much. The second point is real estate business.

I think the average occupancy rate is about 77% for the office building of Yebisu Garden Place alone. I believe that the commercial building was opened in stages last year. And with the economic recovery, could you give us your evaluation of the results for the first three months and the outlook for the office and commercial buildings separately?

Matsude [A]: Thank you very much.

First, the commercial building was renewed in stages last year, and will make a full contribution this year. In particular, we believe we were able to make a decent contribution to rental income from January to March. We have seen an increase in the number of visitors and, as Mr. Saji said, the economic environment is improving, and store revenues that support rents are also increasing.

In addition, food and beverage, merchandise sales, and halls and rooms for rent outside of the commercial building area are also showing a positive turnaround, along with the recovery of the economic environment.

Meanwhile, as we have been informing you, the office is undergoing work to update the HVAC facilities. As you may know, the market environment is still soft, so we have added a few floors of HVAC work here, and we are planning to do HVAC work now to be ready for the market recovery period.

So, a 77% occupancy rate would be a below-market occupancy rate, but since it is 77%, the vacancy is 23%. About 70% of this amount is allocated to work to update the HVAC facilities, which means that the leasing target parcel is roughly 7% of the total.

Saji [M]: Okay**.** Thank you very much.

Moderator [M]: Thank you very much. Now, Mr. Fujiwara from Nomura Securities, please go ahead.

Fujiwara [Q]: I am Fujiwara from Nomura. Best regards.

The first is that you have made a good start against the full-year plan. The original plan for this year was JPY13.5 billion in core operation profit, a JPY4.2 billion increase, and another JPY3.5 billion increase in Q1.

I believe that to this JPY13.5 billion, a buffer of about JPY2 billion against fluctuations in the external environment was estimated. I think this Q1 is a good start, so is that against JPY13.5 billion, or is it against, say, about JPY15.5 billion, excluding the buffer? I heard earlier that restaurants business is also good, and I have a feeling that commercial use of beer will go a bit further, so may I know your thoughts on the full-year plan, even though Q1, only three months have passed?

Matsude [A]: The forecast for the full year has not been changed in the current financial results. As you mentioned, the current situation is in line with the Company's plan, but if you ask whether it is positive or negative, the situation is slightly positive. We have prepared a risk buffer of 2 billion yen, but if the business environment continues as is, we would like you to understand that if we do not use the risk buffer, increase profits by 2 billion yen.

Regarding risks, there are a variety of factors, such as weather and competition, but as I mentioned earlier, the JPY1 billion that we did not anticipate at the beginning of the year due to rising raw material prices is in the food and soft drinks business.

Also, as we mentioned at the beginning of the year, we have factored into our real estate business plan to a certain extent that new investments in equity and value-up liquidation businesses will contribute to profits. There is some volatility here, as we are watching market conditions and trying not to get too high.

Fujiwara [Q]: Of course the hurdles for the business part will be raised from Q2 onward, but in any case, you have made a good start so far.

Matsude [M]: Thank you very much.

Fujiwara [Q]: Second. In your explanation, you mentioned that the commercial use of beer for the full year will be around 75%, and I believe the figure was originally something like 72% to 73% at the beginning of the term. But, as you can see on this very slide, your company has already outperformed the market, and is at about 84%.

I wonder if we can't go a little higher, or in short, if we can't see it at a level close to 80%? Of course, there may be risks around here, but if we think about it on the premise that there is nothing, could you tell us how much we can expect?

Matsude [A]: Okay. For the most recent April, it was about 70%. Rather than a dent this year, we see April 2019 as a special number, and if we take January-April, we see it as about 75%. Although consumer sentiment is improving, there are still some areas that have not fully recovered, such as the demand for after-party parties, as was the case before COVID-19, and the industry, which used to be quite active in the late evening hours. Therefore, I think it is difficult to recover to 80%, and I don't think we should be too optimistic about that.

Fujiwara [Q]: I see. So, you say that it is about 75% so far.

Matsude [A]: Yes, that’s right. In addition, it remains to be seen how inbound will make a positive contribution.

Fujiwara [M]: I understand. Thank you very much.

Moderator [M]: Thank you very much. Now, Mr. Sumoge from Okasan Securities, please go ahead.

Sumoge [Q]: I am a Sumoge from Okasan Securities. Thank you very much.

First, I think the changes in the external environment are very positive, so I would like to ask again how your company's initiatives will catch up with the positive factors in your business portfolio, which also includes alcoholic beverages, restaurants, and real estate.

Of course, I understand that your company's performance will naturally increase with the recovery of human flow and the increase in inbound traffic, but if your company works on this, the pace of recovery will be faster depending on the details of your initiatives. How are you trying to catch up with demand by taking advantage of this external environment, and what measures, if any, are you taking in the alcoholic beverages, restaurants, and real estate sectors?

Matsude [A]: This is a difficult question, especially in the domestic alcoholic beverages business. As the recovery trend for commercial use becomes stronger, we see that it must have a slightly negative impact on home use. In this sense, we will continue our efforts in the commercial-use business, and since some of our commercial-use products, such as Sapporo Lager Beer, have been well received, we may further strengthen such products.

Also, regarding restaurants, we are in the process of working on how much we can increase customer satisfaction at Sapporo Lion. While raising the level of service, we have a shortage of staff, so we are working hard to increase sales per worker.

As for real estate, the market has been very soft for office space, and as I mentioned earlier, we are working hard to update the HVAC facilities. On the other hand, we also have a portfolio of fields close to our customers. We also have a commercial portfolio that includes the Yebisu Garden Place “Center plaza”, Sapporo Factory, and Sapporo Garden Park. I would like to have as many customers as possible come to the store and make it exciting so that they can be satisfied.

Sumoge [Q]: Thank you very much.

For example, I think you mentioned group synergy in your action plan this time. I think there are many ways to do this, such as by utilizing real estate when people come back.

For example, I think there are synergies that can be worked on using the current external environment as an opportunity, such as thinking about this kind of initiative in the future as group synergies, or combining it with real estate to strengthen the alcoholic beverage brand, and doing this when people return to the Company. What do you think about that?

Matsude [A]: I think the first typical example is the synergy between restaurants and domestic alcoholic beverages. As I have mentioned earlier, we are seeing a return of customers who are willing to dine out and new customers coming into the outlets. Sapporo Lion is also considering increasing exposure at YEBISU BAR and Ginza Lion, and the development of YEBISU BAR in terms of opening new stores.

The synergy with real estate is to enhance our brand awareness through our properties in Sapporo, Ginza, and Ebisu. Sapporo has a museum in Sapporo Garden Park, which attracts many visitors. As for Yebisu Garden Place, as you mentioned, we are considering opening Yebisu Brewery Tokyo at the end of this year, and we expect many visitors to come there.

Sumoge [Q]: Okay, I understand. Thank you very much.

On another point, I would like to first check on progress regarding overseas alcoholic beverages. This time, the deficit is widening, but looking at the breakdown, Canada is increasing its profit, and without the consolidation of Stone's deficit and the factors that pushing down its profit, I feel that its total performance would have improved.

To begin with, can you give us an update on how this Q1 is progressing against the plan, and also on the current environment, as I think there is some talk that Q4 of the last fiscal year was quite difficult for logistics costs, so can you give us an update on the situation?

Matsude [A]: Since the countries are separate, let's start with the US, shall we? As for Stone, we are aware that one thing we need to do is to maintain Stone's original business, while we are working on the integration so that we can quickly generate synergies.

As I mentioned in the document, we have already been unusually affected by the unseasonable weather in Q1 of this fiscal year. Half of Stone's sales are actually in California, and the poor weather in Q1, especially on the West Coast, had a very negative impact on beer consumption, as it snowed where it does not often snow in California, and there were long rainy spells.

Therefore, we estimate that weather factors account for about half of the JPY600 million decrease in profit in the United States. The other half of the Company has yet to create synergies with Stone, so I hope you can understand the situation as a company in the red.

We also sell Sapporo Premium Beer in the US through Sapporo USA. Sales volume, as noted here, is just now maintaining a very strong situation. On the other hand, the concern about freight costs and logistics costs has been lightening since its peak in Q4 of last year, and has just returned to about the same level as in Q1 of last year. Therefore, if this level can be maintained in the future, we expect a significant improvement compared to last year.

As for how it is doing against the plan, it is almost exactly as planned. I also mentioned earlier the weather factor at Stone, but the weather factor was the only one that we could not read in the plan, so I see that as something behind us.

For Canada, please see here. This means that they are performing well. However, since this is Q1, the volume is not that large, so I hope you will see it as on par with the plan.

Sumoge [Q]: I see. Since the price increase in Canada was originally factored into the plan, I guess youare making progress as expected against the full-year profit increase of JPY800 million.

Matsude [A]: Assumption, plus an extra.

Sumoge [Q]: Okay, I understand. Thank you very much.

Moderator [M]: Thank you very much. Now, Ms. Takagi of SMBC Nikko Securities, please begin.

Takagi [Q]: Hello. I'm Takagi. Best regards.

On one point, I would like to ask about the profitability of domestic alcoholic beverages. In a nutshell, the main driver for measures to improve profitability from now on is to increase the beer mix, isn't it? Do you have any ideas on how to make your company more efficient in areas other than the top line, such as the production system and supply chain, to reduce costs and thereby make the Company leaner and stronger and more profitable? It is also a question of whether the current situation is optimal.

Matsude [A]: I do not believe the current situation is optimal. Therefore, we are constantly taking steps to come up with various measures. Typical of the production system is the suspension of beer production at the Sendai brewery and also the shift to RTDs.

In the supply chain, logistics costs have been on an upward trend, so we are working to establish a centralized logistics base and to consolidate external warehouses by establishing a warehouse adjacent to the Chiba brewery.

As for personnel, I am sure that we are not alone in this, but we are considering a system that will allow operations to run even with fewer people, in order to be prepared for the upcoming labor shortage by utilizing DX.

Then, we are also considering various things regarding promotional expenses. We will concentrate on products that sell well, stop inefficient expenditures on sales promotion, etc. We will consider various measures, including product axis and channel axis, and gradually roll out such measures.

Takagi [Q]: Thank you very much.

If so, roughly how much room is there for reduction in terms of fixed costs? Do you have any idea? Or, even if we were to take these measures, your company has been involved in various fixed-cost reduction efforts for quite some time now, and there have been times when it has been difficult. With that in mind, I would like to know if there is any quantitative image of this kind of potential or effect of boosting profit margins for the next three years, say, to 2026.

Matsude [A]: Yes, that's right. As for the story of the mid-term plan announced externally, the Sendai brewery is the major centerpiece of cost reduction. On the other hand, we have constructed a shift toward lighter investment in sales promotion and, conversely, in beer brand investment. It is better to see this place as flat.

We have conducted various simulations internally, but the figures we are presenting to the public are not the same as those in the past, and we will continue to work to generate as much extra as possible in the future.

Takagi [Q]: You have about four or five existing core factories. Is the utilization rate here currently satisfactory?

Matsude [A]: We believe that we will be roughly in line with our target utilization rate with the suspension of beer production at the Sendai brewery.

Takagi [Q]: The occupancy rate we are targeting is roughly 80%, considering the seasonality.

Matsude [M]: I'm sorry, I didn't disclose it. Please guess it.

Takagi [M]: Okay**.** Thank you very much.

Moderator [M]: Thank you very much. Since there appear to be no other questions, I will close the question-and-answer session.

In closing, I would like to invite Matsude to give a few words. Best regards.

Matsude [M]: Thank you very much for taking time out of your busy schedules today to attend this briefing.

We were able to enter Q2 amid increased revenue and improvement in Q1. We will continue to do our best in the market environment, both positive and negative, and we would appreciate your continued support.

Thank you very much for your time today.

Moderator [M]: That concludes the online meeting. Thank you for your participation until the end of today's meeting. Thank you for your continued support

[END]