

## **Fiscal 2024 Small Meeting (held on February 21, 2024)**

### **Questions & Answers**

Sapporo Holdings Limited

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### **Regarding the details of the announcement of the medium- to long-term management strategy**

**Q1. I have the impression that there is a short time span between the announcements of the Medium-Term Management Plan in 2022 and the medium- to long-term policy. I would like to know the circumstances over the past year behind this medium- to long-term policy.**

A1. Both in the Medium-Term Management Plan in 2022 and the medium- to long-term policy, there is no change in our approach to pursue synergies in food and beverages, and in real estate.

What we were not sure of when we issued the medium-term plan was how strong the profitability of Alcoholic Beverages (Japan) could be, and we did not reach a point of certainty. However, during the past year, we became convinced of the strength of our Alcoholic Beverages (Japan) business. Changes in the market are one factor, as well as the continued profitability improvements in alcoholic beverages, evidenced by the increase of core operating profit by about 2% compared to the medium-term plan, due to the steady impact of structural reforms. Going forward, in order to further increase corporate value, we decided that we should take another step to reevaluate resource allocation and realize growth investments in alcoholic beverages. Without the medium-term plan, we couldn't have built a launching pad to review the medium- to long-term policy. The company is now on track to break away from the low profitability of domestic alcoholic beverages, and the foundation has been solidified, enabling us to announce the medium- to long-term policy this time.

**Q2. What type of discussions took place in the Committee?**

A2 The Committee was created to examine what kind of business portfolio to assemble, where to create synergies, and what to target beyond 2026. Discussions were held once every other week from September 2023 to January 2024. Since the committee members

included outside experts, we received harsh opinions, including some we had not considered before.

The Committee discussed in depth from various perspectives, on topics such as corporate culture and personnel systems, why the level of profitability is still low compared to competitors despite continuous improvements. In addition, we interviewed parties inside and outside the Company, including business partners, about our strengths, and had numerous discussions about where we should invest our limited resources in the future. Through this process, we gained confidence in our brands, especially beer brands, development capabilities, and technological expertise. For each business segment where we built a portfolio, resource allocation was reviewed, taking into account future market forecasts and competitive trends.

**Q3. Many decisions have not been made yet. Wouldn't it have been better to spend a little more time on deliberations before disclosing? Why did you choose to make the announcements now?**

A3 It is true that many aspects remain undecided. However, we thought it would be inappropriate not to share any of the information that we have been working on for the past five months and that has been discussed by the Group Strategy Committee. We also felt there was a risk of creating various speculation if we didn't communicate. With this in mind, our goal was to communicate our true situation at this time and demonstrate our willingness to have a sincere dialogue with the market. We believe the market has perceived this nuance that we have strongly decided to change direction.

Moreover, we do not immediately consider concrete actions of the medium- to long-term policy after the medium-term plan. We must continue steady preparations during the period covered by the medium-term plan.

#### **Regarding the review of the policy on real estate investment**

**Q4. You described real estate as one of your strengths. Why did you greatly modify the real estate policy this time? Please share the context behind this decision, including environmental changes.**

A4 Market conditions have changed since we announced the medium-term plan. In revolving businesses, inflation has increased the risk of higher interest rates, construction prices, and acquisition costs, raising concerns that the returns we originally envisioned might not materialize.

And in the Alcoholic Beverages and the Real Estate businesses, as we reconsider our strengths, we are convinced that our contact points with customers, such as YEBISU

BREWERY, are unique and not found at competing companies. We thought we first had to concentrate resources in these areas. We plan to strengthen these contacts with customers in Alcoholic Beverages moving forward.

It is still our understanding that we do have competitive advantages and strengths in the Real Estate business, but we recognized the challenges it faces in terms of resource allocation. In the past, many of our M&A transactions in each business were of a relatively small scale, and did not go smoothly as a result. We reached the conclusion that, to further increase profitability as a Group, we should strengthen and invest resources in the Alcoholic Beverages business, where growth is expected, including through M&A.

In the Restaurants business, the reorganization continued precisely because of the pandemic, but we truly still have room to concentrate our resources on our strengths in each business. Currently, the shift toward beer is undergoing after the alcohol tax revision, and it is our best chance in the battle that is coming after 2026. We wanted to make the best of this opportunity by any means necessary to further increase our profitability as a Group. Our plan is to shift our cash allocation from real estate to alcoholic beverages, realize large investments at an unprecedented scale, and proceed with an offensive management approach to strengthen the Alcoholic Beverages business where we foresee growth.

#### **Regarding cash allocation**

**Q5. There is great interest on how you will handle the balance sheet. I think you mentioned during the earnings briefing given a few days ago that, if real estate assets were sold, you did not plan to use the gains for capital reduction with share buybacks for example, but to allocate them to strategic investments in alcoholic beverages.**

**I think that if you don't engage in shareholder returns to a certain extent, capital efficiency will not improve. What are your thoughts on the subject?**

A5 We recognize that there was a question regarding our approach to shareholder returns during the earnings briefing. We answered that we would not be using external capital from real estate to conduct share buybacks, but that we would use the cash from real estate to realize growth investments in beer. We are not denying the possibility of share buybacks in the future.

When we make the kind of announcements we are making today, questions tend to initially focus on what our plans are for real estate. We intend to define the policy after considering the overall situation.

**Q6. You said that real estate cash would be allocated to overseas M&A in the future, but real estate assets cannot be sold right away. And good M&A targets are not found**

**right away either. I think managing portfolio replacement is becoming increasingly difficult, but what is your opinion ?**

A6 We are not implementing use of external capital from real estate and M&A all at once, but will consider various options when deciding the right steps. We must always be able to implement M&A, and are now firmly moving forward with preparations for the preliminary steps, including initiatives in the current medium-term plan such as the reduction of cross-shareholdings. We want to be able to respond as flexibly as possible.

**Regarding the future of the Alcoholic Beverages business (Japan)**

**Q7. In your opinion, how will the domestic premium beer market evolve following the revision of the alcohol tax?**

A7 As the effects of the alcohol tax consolidates, beer prices will go down. Some customers do not think premium beers are expensive. We have the added option of offering a sort of super-premium category. Instead of building up a new brand, we will probably derive one from our existing brands. We want to think of beer's price range in a more flexible manner. New beer products are expected to increase due to the contraction of new categories. This doesn't mean that if we release new products they will necessarily sell, because consumers are not as interested in beer as they were in the past. Eventually, there will be a gradual consolidation around a limited number of brands. The current market is not open to the point where a newly created large-scale product would immediately experience growth. We now have to establish what can be done with existing brands and with closely linked activities, and from that perspective, increasing the appeal of Black Label and Yebisu is key going forward.

**Q8. What is your target for the core operating profit margin of Alcoholic Beverages (Japan) going forward? Is your blueprint similar to that of your peers?**

A8 First, we are working toward solidly achieving the 5.7% target set in our medium-term plan. We are also considering our next vision after 5.7%, fully aware of our need to improve even more. While our competition is at 11% to 12%, we are considering our medium- to long-term targets taking into account our presence in the equipment industry.

**Q9. What are the areas where profitability improvements are lacking compared to your competitors?**

A9 Because of our activities in the equipment industry, the volume gap differs. Increasing efficiency by reducing SKUs is one way to improve the situation, but volume improvements are the most effective way to improve profitability. From this perspective, there is still room for the Company to take on more volume. These past few years, we have been outperforming

beer's market growth. We do not know whether getting our core operating profit margin closer to the 10% of our competitors would lead to linear growth. Profit margin might also temporarily decline due to the growth investments.

### **Regarding the future of the Alcoholic Beverages business (Overseas)**

**Q10. The market has been requesting for real estate cash to be allocated to alcoholic beverages, but some question whether this can really lead to growth. Competing companies are pursuing M&A, but deals are said to be few and far between. Are you in a position to find good projects? What are your thoughts on the topic?**

A10 There are few opportunities for M&A in the domestic market. The shift from new genres and happoshu to beer and the expansion of the RTD, non-alcoholic and low-alcohol markets are underway. We are investing in these areas of opportunities in the domestic market.

In overseas markets, we think there are still opportunities, despite the consolidation around global giants. We want to associate with partners compatible with Sapporo brands, rather than expand our brand portfolio. As a start, we will be looking for projects mainly in the North America and ASEAN regions, where our manufacturing bases are located. We would like to increase sales volume in areas where we are already working to spread our brands, and further expand the number of bases in other areas. We will not move to acquire manufacturing bases in a single bound. Specifics will be discussed in the future.

**Q11. Do you have criteria for your overseas targets?**

A11 I will refrain from making any statement here, as we will discuss our concrete criteria in the future. Having said this, one criteria is whether or not there are synergies in the value chain in the North America and ASEAN regions. Projects that cannot generate synergies are given a lower priority. Quantitative criteria will be examined in the future.

**Q12. What are the key elements concerning your acquisition of market share from competing companies in overseas markets? Please let us know whether you have received a positive response from a particular area or approach.**

A12 Imported beers are growing in North America, but in the case of Sapporo, growth is not driven by increasing immigration, as it the case for Corona or Modelo. Some qualitative research results suggest that the beer is appreciated for its positioning as a beer that goes well with food. While strengthening such positioning, we are steadily expanding from the Japanese-affiliated market to the rest of the U.S. market. We believe there is one of the paths to victory.

We want to sell the Sapporo brand in North America, and will join forces with partners who can make this happen.

In the ASEAN region, the brand itself is recognized, but distribution is weak. There is distribution in the areas where Japanese consumers are, but there is still room for growth in other areas. Deciding on how to build a network of agents and distributors will be key.

**Q13. How do plan to develop human resources for global expansion?**

A13 Global human resource development has been a consistent issue, and we are aware of the lateness of our response.

Although we have made some efforts for organic growth overseas, we lack human resources who can plan and execute post-merger integration and comprehensive due diligence in order to promote M&A in the future. Improvements will be made in terms of both internal development and external supplementation.

**Regarding the governance structure**

**Q14. What is your policy on the framework for outside directors?**

A14 At this time, we believe we have made the best choice in terms of the lineup for the next general meeting. We will actively incorporate outside knowledge so that we can include the opinions of capital markets and expertise on M&A and global affairs. The same is true for the executive team.

**Regarding the upcoming schedule**

**Q15. What is the timeline for the announcement of specific details of the medium- to long-term policy?**

A15 We would like to present them as early as possible. An easy-to-understand timing would be when we announce our financial results in February 2025, but we would like to keep you informed as soon as we have something to tell you before that date.