

Q&A from Teleconference Meeting: Financial Results for 1Q of FY12/2020

Date and Time: May 14 (Thu), 17:00-18:00

Speakers: Yoshihiro Iwata (Managing Director), Yoshitada Matsude (Group Operating Officer, Director of Accounting & Finance), and Kazuo Maruyama (Deputy Director of Accounting & Finance)

The impact of the novel coronavirus

Q. Regarding the impact of the novel coronavirus, there was a minus 5.0 billion yen impact on revenue and a minus 2.0 billion yen impact on core operating profit in March, while there was a minus 9.0 billion yen impact on revenue in April. Won't the impact on Alcoholic Beverages in Asia including Japan and non-restaurant-related businesses in North America and Vietnam begin to appear from April onward? Also, what is the extent of the impact on business performance on Alcoholic Beverages in Asia including Japan and non-restaurant-related businesses?

Iwata: In terms of the breakdown of the minus 9.0 billion yen impact on revenue, the Alcoholic Beverages in Asia including Japan segment accounted for approximately 3.7 billion yen, the Food & Soft Drinks segment accounted for roughly 2.7 billion yen, while the Restaurants segment accounted for approximately 1.9 billion yen. Regarding Alcoholic Beverages in Asia including Japan, sales of beer-type beverages including beer in April were roughly 80% that of the previous April, but only 56% for beer alone, showing that the impact from the novel coronavirus was larger than in March. Almost all Lion restaurants are closed because they are concentrated in the 13 prefectures designated as "special alert areas". In the vending machine business for soft drinks, the cumulative total revenue for March was in the 90% range versus the previous year, but it is expected to have been in the 60% range in April. There has also been a negative impact from the closings of Café de Crié and BLUE SEAL outlets, which are included in the Food and Soft Drinks segment. For Sleeman of Canada, the household market accounts for 80 to 90% of revenue, so while there was a negative impact on commercial-use revenue, there has been a positive impact from "stay-at-home" demand from the household market, which has resulted in there being almost no impact overall. On the other hand, in the USA, both the Sapporo brand and the Anchor brand have been negatively impacted in the commercial-use market. In Vietnam, the lockdown has had a significant negative impact, but the overall scale of the Vietnam market is small, so its impact on business performance has been minor. The impact on Singapore's Pokka brand has been minimal.

Cost-cutting

Q. With respect to company-wide cost-cutting, to what extent can you curb fixed costs such as sales promotion expenses, to increase profits?

Iwata: Regarding sales promotion expenses, which is a fixed cost, we are currently in the process of examining which parts to increase and which areas to curb, but we cannot give an answer as to a specific reduction amount. We are also working on this in the back-office divisions, including BPR, centered on Sapporo Holdings' administrative divisions, and we will keep working to cut costs.

Q. How much progress has been made on the structural reforms planned for this year in the soft drinks business, including vending machines?

Iwata: The vending machine business is struggling in each company due to the decrease in sales caused by the novel coronavirus outbreak. We are working to reduce the number of unprofitable machines, and we have reduced the number by 3,000 from 76,000 units at the end of 2019, to 73,000 units now. In the current situation, it is difficult to carry out rapid structural reforms, but we are making adequate progress where we are able.

Food & Soft Drinks segment

Q. It appears that the business performance in the Food & Soft Drinks segment has been very strong, and that stay-at-home demand for foods containing lemon is making up for negatives in soft drinks. You mentioned that the vending machine business performed poorly in April, but will you be able to cover this with foods containing lemon?

Iwata: It is difficult to answer this because we do not know how long the impact of the novel coronavirus will last. The soft drinks business accounts for roughly 70% of the revenue in the Food & Soft Drinks segment, and around half of this is from the vending machine business. We would like to expand over-the-counter sales of flavored water drinks along with sales in the food business to offset the negative impacts on the vending machine business. However, we still do not know the impact on profit of the 2.7 billion yen revenue decline in the Food & Soft Drinks segment in April, and I think it will be difficult to offset the entire amount.

Q. With the difference in profitability between food and soft drinks, can you offset the negative impact on the soft drinks business, including vending machines, if sales in the food business increase?

Iwata: I cannot comment on the profit margins of each business, but due to the fact that the soft drinks business accounts for approximately 70% of revenue in the Food & Soft Drinks segment, it will be difficult for the food business to completely offset the negative impact on the soft drinks business.