SAPPORO HOLDINGS LTD.

Sapporo Holdings Limited

Q4 Financial Results Briefing for the Fiscal Year Ending December 2020

February 12, 2021

Event Summary

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[Participants]		
[Number of Speakers]	3	
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	Yoshihiro Iwata	Managing Director
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	Ritsuko Tsunoda	JPMorgan Securities Japan Co., Ltd.
	Satoshi Fujiwara	Nomura Securities Co., Ltd.
	Hiroshi Saji	Mizuho Securities Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

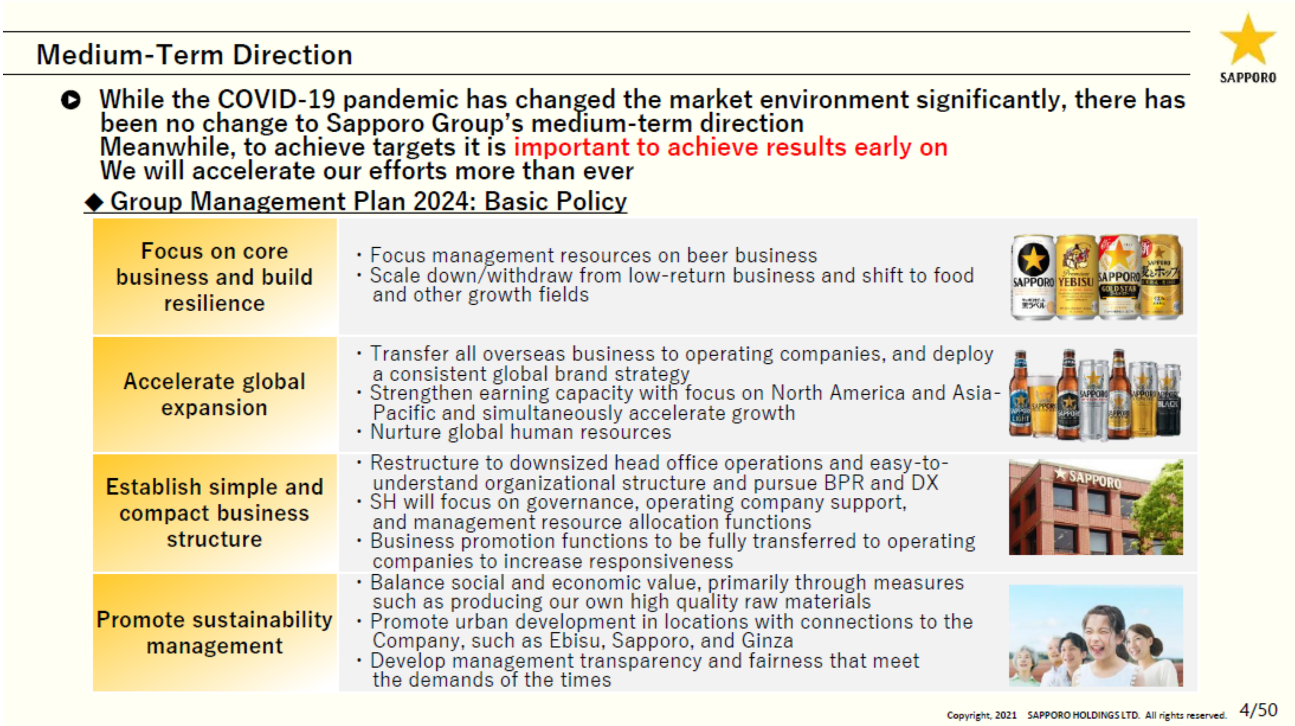
Moderator: Hello, investors. Thank you for participating in Sapporo Holdings Limited's Financial Results Briefing for the Fourth Quarter of FY2020 today. It is now time to start so we will begin.

Today, Masaki Oga, President and Representative Director of Sapporo Holdings Limited; Yoshihiro Iwata, Managing Director of Sapporo Holdings Limited; Hideya Takashima, President and Representative Director of Sapporo Breweries Limited are attending the briefing.

Please prepare the financial statements, supplementary explanatory materials for the financial statements, and PowerPoint presentation of the financial statements at hand.

Mr. Oga and Mr. Iwata will explain an overview of the financial results for the fourth quarter based on the PowerPoint presentation, followed by a question-and-answer session.

Now, we will begin the conference call. First, Mr. Oga will give an explanation. Please begin.



Oga: This is Oga. Good morning. Thank you for joining us today.

Now I would like you to look at page four of the PowerPoint.

Last year, we launched our five-year medium-term management plan, the first year of which is FY2020. Last year, the first year of the plan, the market environment changed dramatically due to the coronavirus.

Regarding whether or not this is consistent with our mid-term plan, I believe that what we are trying to do and the direction we are heading will not change, so our basic policy will remain unchanged.

As for the quantitative target, I would like you to understand that this basic policy is still in place, as the outlook for the coronavirus situation is uncertain and we cannot change it.

2020 in Review

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- **In 2020, all businesses struggled due to the impact of COVID-19. In particular, Restaurants and Food & Soft Drinks suffered major declines in sales and profits**
  Food & Soft Drinks posted impairment of property, plant and equipment as profitability fell

◆ Overview and topics

Business		Overview
Alcoholic Beverages	Japan & Asia	・Cost control was successful ➡Slight decline in core operating profit
	North America	・Difficulties in U.S., but strong performance in Canada ➡Slight increase in core operating profit
	Restaurants	・Major decline in restaurant demand ➡Significant declines in sales and profits
Food & Soft Drinks		・Fall in vending machine beverage and café demand ➡Significant declines in sales and profits
Real Estate		・High office occupancy rates maintained ➡Solid performance

Topics	
Impairment of property, plant and equipment at PS	・Posted ¥11.0 billion in other operating expenses
Loss resulting from COVID-19	・Posted ¥3.5 billion in other operating expenses
Early retirement incentive program	・355 people (3-company total) ・One-off cost of ¥4.9 billion
Closure of restaurants	・Closed 32 Ginza Lion outlets

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On page five, I would like to make a slight review of last year.

Last year, some products such as canned beer, lemons, soups, and cup miso soup grew despite the impact of the coronavirus, but all businesses were affected in various ways.

On page five, the third from the top on the left side of the PowerPoint presentation, please look at the restaurants segment, and you will see that there has been a significant decrease in demand, resulting in a large decrease in both sales and profits.

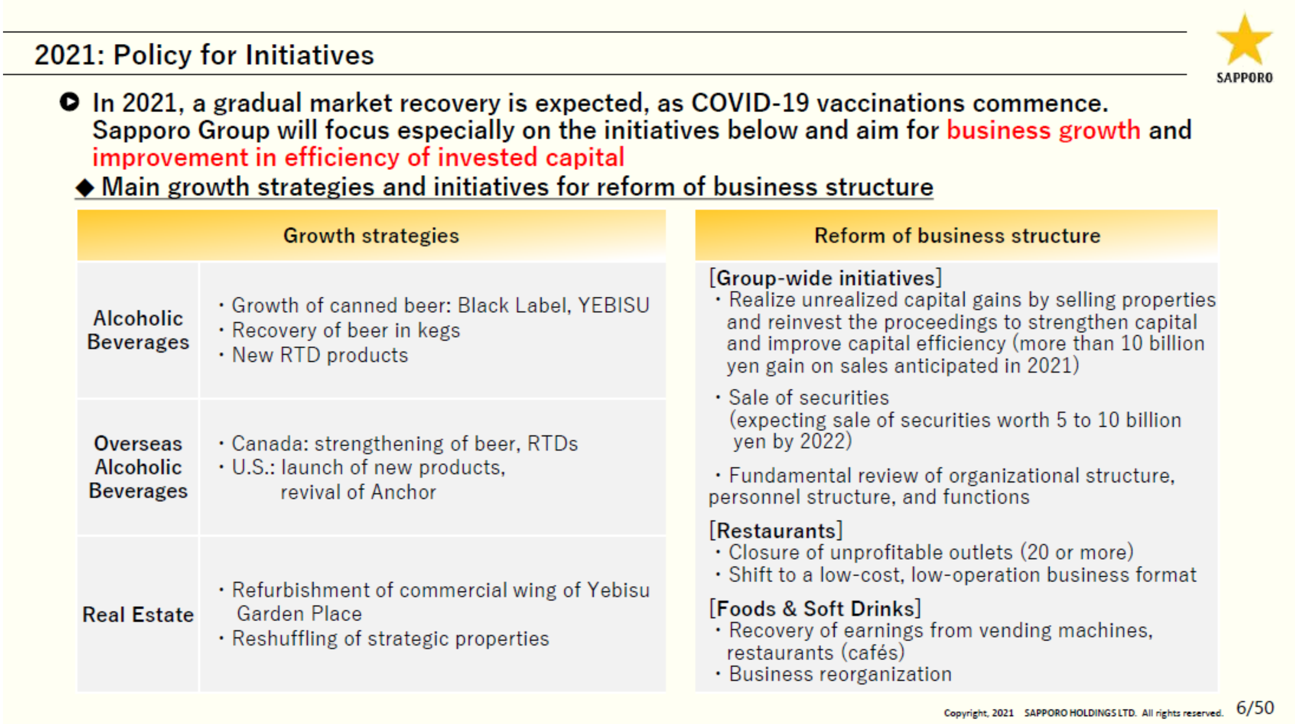
And next, sales and profits in food and soft drinks fell sharply due to a decline in demand for vending machine beverages and cafes. This was a big blow to us.

The topic on the right is the impairment of fixed assets owned by POKKA SAPPORO FOOD & BEVERAGE LTD. JPY11 billion was recorded.

As for the loss from the coronavirus, we recorded JPY3.5 billion as other operating expenses. As for the early retirement incentive program, the total number of employees at Sapporo Breweries, POKKA SAPPORO, and SAPPORO LION is approximately 350. In addition, a one-time expense of JPY4.9 billion has been recorded.

And as for the Ginza Lion stores, we have closed 32 stores.

This is a review of last year, FY2020.



Then I would like you to look at the next page, page six. This is the policy for initiatives for this year.

One is how to grow the business. The other is to further evolve our efforts to change the corporate structure itself, which we have been considering for some time. That is the second point.

Regarding the left-hand side as to how we will grow, the first thing to consider is the growth of canned beer in domestic alcoholic beverages. As for keg beer, this is not a growth, but rather a recovery from last year. In addition, we will respond to the growing RTD market in various ways, including new products. This is the domestic alcoholic beverages.

In Canada, even with the impact of the coronavirus crisis last year, we are blessed with a very good situation in terms of volume growth, so we will strengthen both beer and RTD, which is growing rapidly overseas.

In the US, we will be launching new products and Anchor, as well as renewing our products, which we really wanted to do last year but could not. That is how we will try to achieve this growth.

And the other one is the real estate. We will renovate this commercial building, Ebisu Garden Place, although some of the returns may be a little later. At the same time, we will grow by strategically reclassifying and selling properties. That is the growth strategy.

Then, the transformation of the corporate structure on the right. This also involves the real estate, where unrealized gains are realized through the sale of properties, and reinvestment is undertaken to recover and strengthen capital that was damaged last year. We will do this in an effort to improve capital efficiency.

At the same time, we are planning to sell JPY5 billion to JPY10 billion of securities by 2022, and we are also working on a fundamental review of our organizational structure, personnel structure, and functions. We would like to evolve this as well.

As in the previous year, the Restaurants Business continues to face difficulties, so I believe that the business structure reform will include further closing of unprofitable stores and a shift to low-cost and low-operation stores, especially in the Restaurants Business. We will also work to improve the profitability of vending machines and cafes in food and soft drinks and restructure other businesses as well.

That's all from me.

Moderator: Thank you. Next, Mr. Iwata will explain. Please begin.

Iwata: Good morning. Thank you very much for taking time out of your busy schedule to participate in our financial results briefing today.

I, Iwata, would like to start by explaining the financial forecast for this fiscal year, followed by the details of financial results for the previous fiscal year.

2021: Growth Strategy

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[Japanese Alcoholic Beverages] Pursue both "premium value" and "reasonable value"

(10,000 cases)		2021 sales plan (cases) Plan	2021 sales plan YoY	2021 sales plan vs 2019	Total demand outlook (SH estimate) YoY	Total demand outlook (SH estimate) vs 2019
Japanese beer and beer-type beverages total		4,188	+5%	(4%)	+0%	(9%)
Genre	Beer	2,638	+7%	(12%)	+5%	(18%)
	Happoshu	142	(19%)	(32%)	(4%)	(5%)
	New genre	1,408	+5%	+25%	(4%)	(1%)
Container *Sales volume plan by container is not disclosed	Bottles	-	+15%	(27%)	+21%	(31%)
	Cans	-	+1%	+10%	(3%)	(2%)
	Kegs	-	+21%	(31%)	+17%	(30%)
RTD		986	+22%	+9%	+6%	-
Non-alcoholic beer		74	+29%	+4%	+1%	-

Beer and beer-type beverages and non-alcoholic beer calculations based on 633ml × 20 bottles; RTD is calculated by 250ml × 24 bottles

◆ Total beer demand outlook

<Beer and beer-type beverages>
- Though expecting recovery in commercial-use market, it will not recover to 2019 levels

<RTD, non-alcoholic beer>
- Market expansion will continue

◆ Sales plan

<Beer and beer-type beverages>
- Premiumization of beer products
- Two-pillar flavor-value strategy for new genre category

<RTD>
- Major volume increase by releasing new products

<Non-alcoholic beer>
- Cultivate market with taste+function+convenience

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I would like you to see page seven of the PowerPoint presentation.

This is the forecast for sales in the Domestic Alcoholic Beverages Business for the current fiscal year.

This fiscal year, sales of beer, Black Label and YEBIS will expand. For the new genre, we are planning to greatly expand the top line with a two-top strategy.

Regarding the outlook for total demand, or the assumption for beer demand in the midst of the coronavirus. With the recent declaration of a state of emergency, sales of commercial-use beer are currently in a very difficult situation.

The state of emergency was extended until March 7, but after the lifting of the declaration, sales for commercial use will be gradually recovering, and especially in April and May, sales will grow significantly compared to the previous year because of the turnaround from last year. After that, vaccination will start, and the scenario is that demand for restaurants will gradually recover after the summer.

The total demand for beer this year is shown on the right side of this PowerPoint presentation. The figures are listed YoY and compared to 2019, but are on par with the previous year. We still expect the level to be minus 9% compared to 2019.

As for commercial demand, as I mentioned earlier, we expect a gradual recovery from the summer to the end of the year, and the middle column shows the expected demand by container. We expect bottled beer to increase by 21% and keg beer to increase by 17%.

However, compared to the year before last, all of them are down 30%, and it will take some time before they return to the level of the year before last. For canned beer, we expect a 3% decrease due to a recovery in demand for restaurants.

By category, beer sales will increase by 5% due to a recovery in the commercial market. Although there is a partial shift of new genres from home drinking to commercial use, and the impact of the tax hike, the demand forecast is solid due to lifestyle protection and is expected to be minus 4%.

That is our plan. I would like you to take a look at our sales plan for 2021.

We will pursue premium value and reasonable value and continue our two-top strategy for beer and new genres. The sales plan calls for a 7% increase in beer, a 5% increase in new genre, and a 5% increase in total beer.

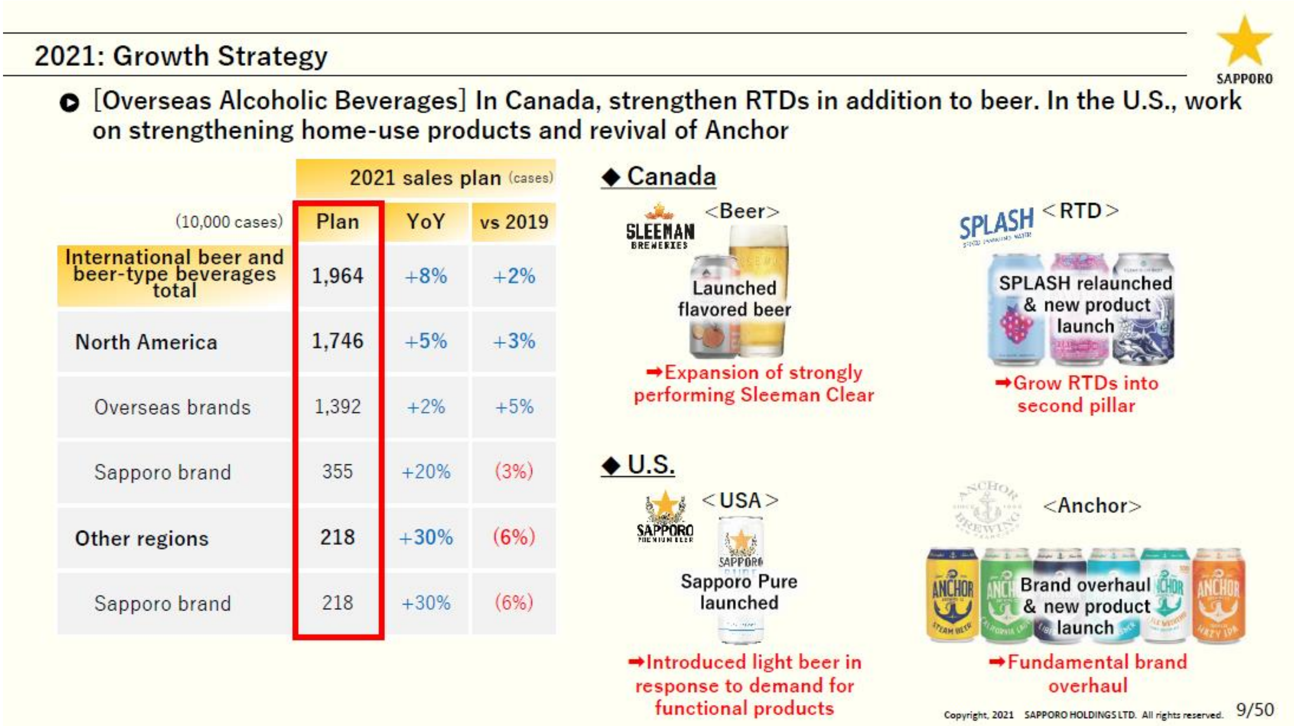
The plan by container is for a 15% increase in bottles and a 21% increase in kegs. One of the reasons for the increase in sales was the return of demand for commercial use, which had declined significantly last year due to the coronavirus.

We also plan to increase sales of canned beer for home use, mainly Black Label cans, which have been growing for six consecutive years as a premium product, and YEBIS cans, which have increased YoY for the first time in four years.

In the new genre category, we will work to expand the two-tops of GOLD STAR and “Mugi to Hop,” which were launched last year and have been well received. GOLD STAR and “Mugi to Hop” are renewed in January and February, respectively, in order to increase sales.

As for RTD, 99.99 had a tough time last year and fell below the previous year’s level. For this year, we will work to expand sales by developing the already well-received “Koime no Lemon Sour” in cans, increasing sales of the “Otoko Ume Sour,” and linking the RTD in cans with the RTS, a sour that can be mixed at home.

I would like to skip page eight, as it is the content of the initiatives I have just explained.



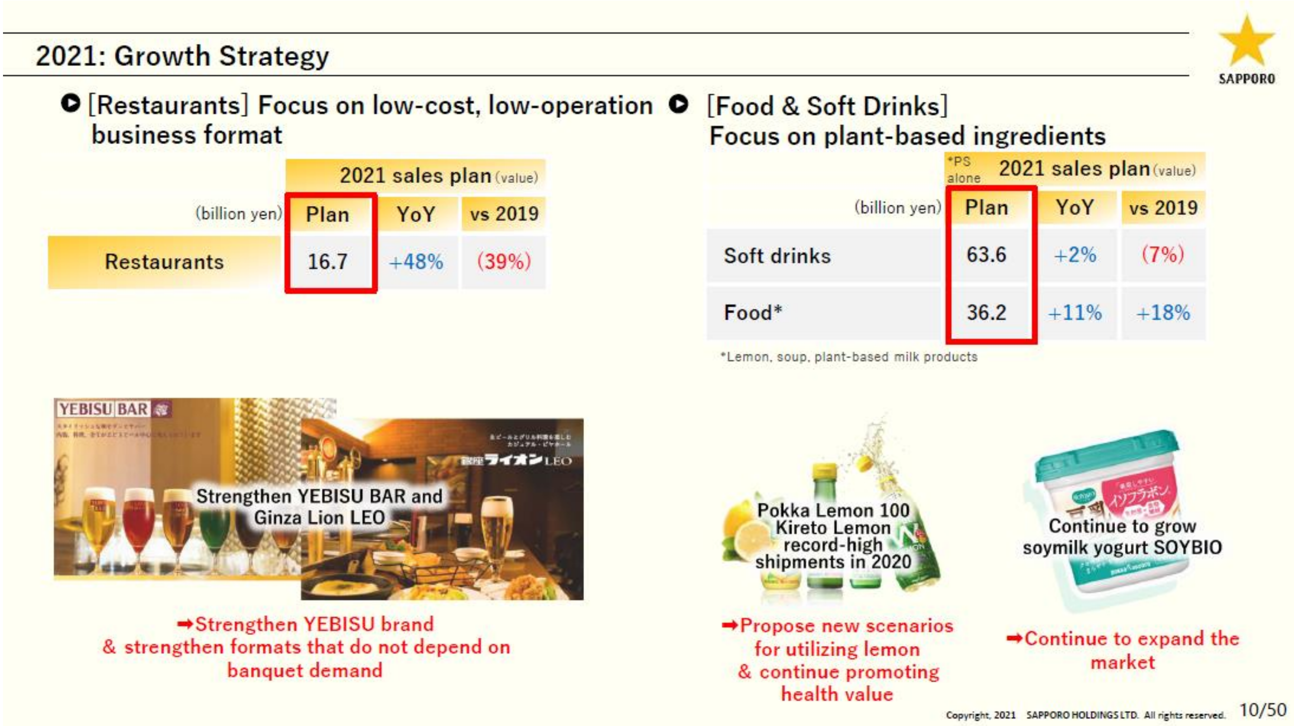
On page nine, we describe our growth strategy for overseas alcoholic beverages.

In overseas alcoholic beverages, Sleeman’s sales in Canada grew by 5% on a volume basis last year. Sleeman will launch a new product as a health extension that is doing well. In addition to this, we will develop new products to make RTD the second pillar of our business after beer.

Unfortunately, sales of Sapporo USA declined due to the large percentage of commercial use, but this year we will launch a new functional product, Sapporo Pure, and work to expand in the home use market.

For Anchor, we will carry out a major renewal and work on growth by introducing new can products.

Overseas beer sales totaled 19.64 million cases. We are planning for a significant increase of 8% over the previous year.



The next page, page 10, shows the initiatives for the current fiscal year in the Restaurants Business and the Food & Beverages Business.

In the Restaurants Business, we had a large deficit last year. To stop the bleeding, we closed about 30 loss-making stores last year. For this fiscal year, we plan to close about 15 stores, which we decided to close last year.

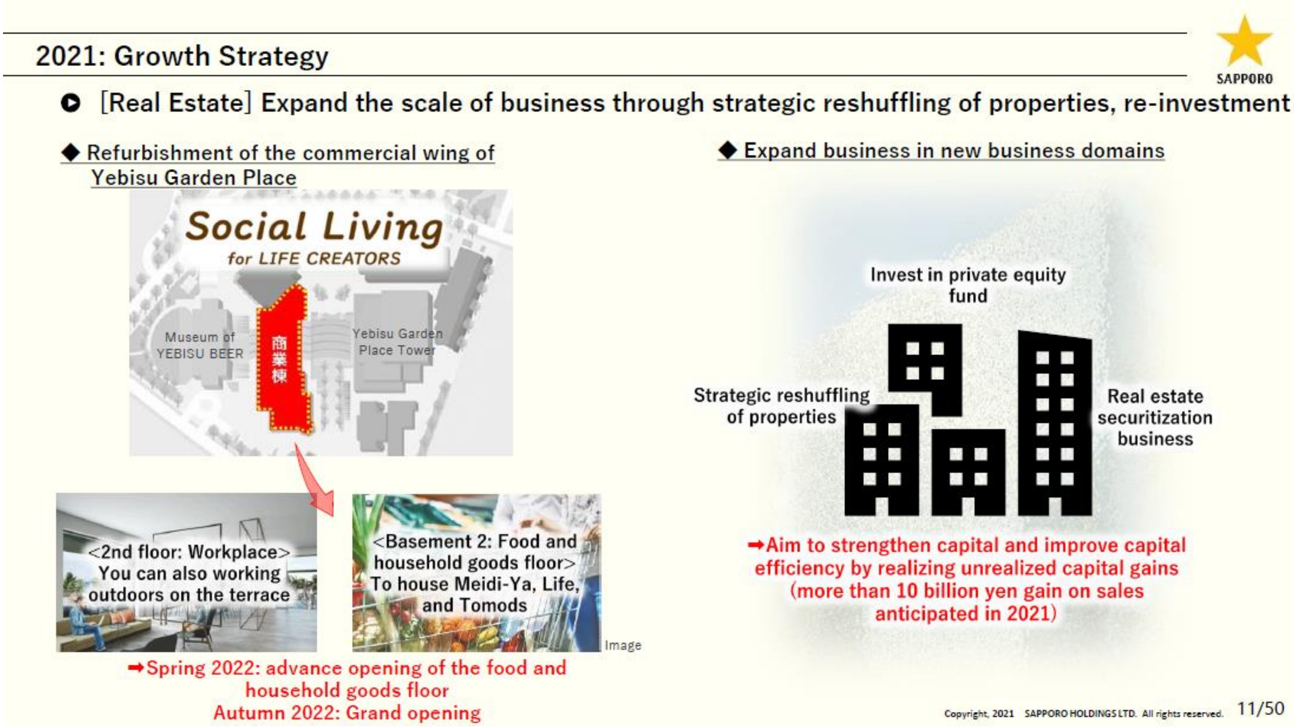
Sales will increase significantly by 148% compared to last year but will still be about 40% lower than in 2019.

Next, the food and beverages.

As for the food and beverages, sales of beverages for the current fiscal year will increase by 2%. In food products, we are planning an 11% increase.

Along with the expansion of lemon beverages and lemon food products, which are performing well and are our strong points, we will work on the expansion of plant milk, especially soymilk yogurt.

As for vending machines, last year we sold 69,000 units, a reduction of 7,500 units from the year before last. We will make sure to remove unprofitable locations in the current fiscal year.



I would like you to look at page 11. This is a growth strategy for the Real Estate Business.

Sales revenue in the Real Estate Business for the current fiscal year is expected to be almost the same as the previous year.

As for the tenants of the Garden Place after Mitsukoshi moves out, Life, Meidi-Ya, and Tomod's will join the commercial area, as we announced the other day.

The commercial area of the building is scheduled to open in the fall of 2022, but the B2 commercial area of the building will open first in the spring of next year. The first and second floors will be used for offices, cafes, et cetera. The building is scheduled to open in the fall of 2022.

We will take various steps this fiscal year to achieve our growth strategy in the Real Estate Business. We will acquire properties through strategic reclassification of properties, aiming to diversify risks and achieve more stable profitability. We will also work on new methods such as real estate securitization, equity, and funds.

From an ESG perspective, Garden Place will start an initiative to achieve 100% renewable energy for the electricity used in its facilities by 2022.

2021: Reform of Corporate Structure

- Improve profitability and balance sheet efficiency to enhance efficiency of invested capital

Reshuffling of properties	Plan to carry out strategic reshuffling of properties in 2021 also ➡Realize unrealized capital gains and reinvest proceeds to strengthen capital and improve capital efficiency (more than 10 billion yen gain on sales anticipated in 2021)
Sales of securities	Sales have been carried out since 2017 bringing in roughly 11 billion yen in cash ➡Pursue yet more in-depth consideration. Projecting sales worth 5 to 10 billion yen by 2022
Review of organizational structure, personnel structure, and functions	Offer early retirement incentive program to increase working-style options for employees while also enhancing profitability *Impact on core operating profit: 2.5 to 3.0 billion yen (full-year) ➡Review circumstances at all divisions with aim of sustaining impact of improvements and achieving further organizational streamlining
Value chain reform	Review all processes, from procurement of ingredients, production, logistics, sales, and disposal ➡Thoroughly reduce all waste and realize efficient business operation

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 12/50

I would like you to look at page 12. The following are the major structural reform initiatives for this fiscal year.

Improve profitability and improve the balance sheet, which was damaged by the loss in the previous fiscal year. We will continue our efforts to improve the efficiency of our invested capital by increasing the efficiency of our balance sheet.

There are two aspects to real estate property reclassification. The first is from the perspective of strengthening capital by realizing some of the unrealized gains.

And in terms of cash. By using the cash from the sale to reinvest in property replacement, we hope to contribute to the expansion of sales in the Real Estate Business and reclassify our portfolio.

Also, as Mr. Oga mentioned at the beginning, we would like to sell about JPY5 billion to JPY10 billion of shares held for policy purposes by 2022.

2021: Group Management Plan

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(billions of yen)	2020 Result	2021 Plan	YoY changes (amount)	YoY changes (%)
Revenue	434.7	468.2	33.5	7.7%
Revenue (Excluding liquor tax)	328.6	354.1	25.5	7.8%
Overseas revenue	65.5	72.7	7.2	11.0%
EBITDA	27.4	29.4	2.0	7.5%
Core operating profit	4.3	9.0	4.7	111.2%
Core operating profit margin	1.0%	1.9%	0.9%	–
Operating profit	(15.9)	18.0	33.9	–
Profit attributable to owners of parent	(16.1)	12.0	28.1	–
EBITDA interest-bearing debt ratio (times) ※Net	8.1	7.3	(0.8)	–
D/E ratio (times) ※Net	1.5	1.4	(0.1)	–

The balance of debt excludes the balance of lease obligations.

 13/50

I would like you to look at page 13. This is our management plan for this fiscal year.

We plan to increase both sales and profits in the current fiscal year. In addition to the increase in sales revenue, we plan to increase operating income by JPY4.7 billion to JPY9 billion due to the effects of the workforce reduction through early retirement implemented last year and a decrease in depreciation and amortization expenses.

Since the future coronavirus situation remains uncertain, we have included JPY1.6 billion in corporate expenses as risk response expenses.

For operating income, we expect a gain of over JPY10 billion from the reclassification of real estate properties. Operating income is expected to be JPY18 billion, including JPY9 billion in other operating income and JPY9 billion in business profit. JPY33.9 billion compared to the previous fiscal year. We expect a significant increase in profits.

We expect net income to be JPY12 billion, a significant increase from the same level as operating income.

2021: Revenue Plan by Segment

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(billions of yen)	2020 Result	2021 Plan	YoY changes (amount)	YoY changes (%)
Revenue by Segment	434.7	468.2	33.5	7.7%
Alcoholic Beverages	285.4	310.9	25.5	8.9%
Japanese	227.9	245.3	17.4	7.6%
Overseas	46.2	49.0	2.7	5.9%
Restaurants	11.3	16.7	5.4	47.7%
Food & Soft Drinks	125.9	133.8	8.0	6.3%
Real Estate	23.3	23.3	0	0.2%
Other	0.2	0.2	(0.0)	(11.4%)

Sub segment of "Alcoholic Beverages" will be changed "Japanese", "Overseas", "Restaurants" in 2021.

Factors are explained in the next slide

14/50

I would like you to look at page 14. This is the sales revenue plan by segment.

This is the Alcoholic Beverages Segment. This will be an increase of JPY25.5 billion, or 8.9%, compared with the previous fiscal year, and will be a major driving force behind the overall increase in sales.

Sales of the Japan alcoholic beverages will increase by JPY17.4 billion, or 7.6%, due to higher sales of beer in the Japan alcoholic beverages and expansion of RTD through the launch of new products.

In addition, the Restaurants Business. In the Restaurants Business of the SAPPORO LION Group, we also expect a gradual recovery in demand for restaurants, and forecast an increase of JPY5.4 billion, or 47.7%.

Until the previous fiscal year, we indicated the sub-segments of Japan and Asia alcoholic beverages and North America alcoholic beverages, but we plan to change this from the current fiscal year so that the Vietnam, Europe, and North America businesses are combined into the Overseas Alcoholic Beverages Business, so we have the Japan alcoholic beverages and the overseas alcoholic beverages. The impact of this will be JPY500 million in sales. Business profit is expected to be JPY200 million.

The Food and Beverages Business. Sales are expected to increase by JPY8 billion, or 6.3%, due to a significant increase in sales of food products.

In the Real Estate Business, we plan to achieve the same level of sales as the previous fiscal year by offsetting the decrease in rent income due to the replacement of tenants in the office and commercial buildings at YGP by the increase in income from the hotel in Hokkaido.

Page 15 shows a waterfall chart of the sales revenue broken down by factor.

Since I have already mentioned the main points, I would like to skip this part of the explanation.

2021: Core Operating Profit Plan by Segment

(billions of yen)	2020 Result	2021 Plan	YoY changes (amount)	YoY changes (%)
Core Operating Profit by Segment	4.3	9.0	4.7	111.2%
Alcoholic Beverages	2.4	7.3	4.9	208.2%
Japanese	6.7	7.2	0.5	7.8%
Overseas	0.5	1.7	1.3	273.4%
Restaurants	(5.0)	(1.6)	3.4	—
Food & Soft Drinks	(2.6)	1.0	3.6	—
Real Estate	10.9	8.6	(2.3)	(20.8%)
Other・General corporate and intercompany eliminations	(6.3)	(8.0)	(1.6)	—

Factors are explained in the next slide

16/50

The business plan by segment is shown on page 16.

The total increase in the Alcoholic Beverages Business will be JPY4.9 billion, with an overall increase of JPY4.7 billion, so we plan to lead the group in this area.

The Japan alcoholic beverages. We plan to invest in marketing in line with increased sales. This is an increase of JPY500 million, due in part to a large expected increase in sales volume.

The North America alcoholic beverages. In the North America Alcoholic Beverages Business, profits are expected to increase by JPY1.3 billion due to increased sales volume from the launch of new products in Canada, the United States, Sapporo USA, and Anchor, as well as the effect of cost reductions.

In the Restaurants Business, we expect an increase in profit of JPY3.4 billion due to the closure of loss-making stores, the effect of the personnel reduction implemented last year, and the expected recovery in sales at existing stores.

The Food and Beverages Business. The Food and Beverages Business, which was in the red in the previous fiscal year, is expected to see an increase of JPY3.6 billion this fiscal year due to increased sales, the effect of headcount reduction, and a decrease in depreciation expenses resulting from the impairment of fixed assets implemented last fiscal year.

In the Real Estate Business, we expect a decrease in income of JPY2.3 billion due to a decrease in rent income from the replacement of tenants in the office and commercial areas of Ebisu Garden Place, investment in renovation, and the fact that the portion of the business that was transferred to other losses due to the coronavirus in the previous fiscal year will be reflected as an expense in operating income this fiscal year.

2021: Main Factors Contributing to Changes in Core Operating Profit

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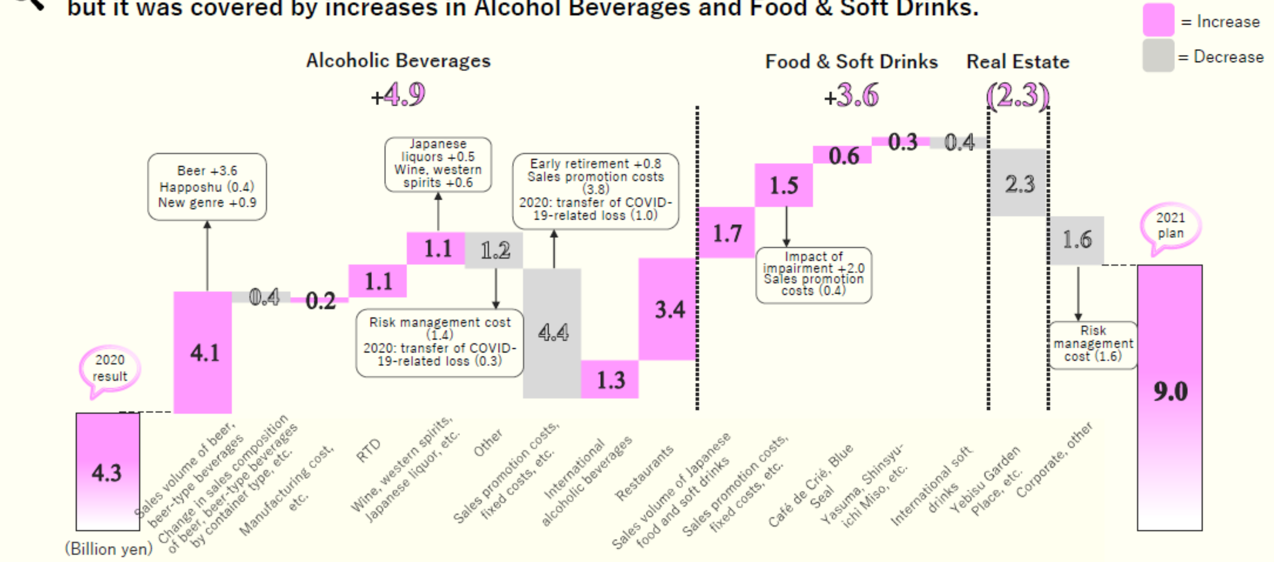
Core operating profit of Real Estate temporarily declined due to a fall in office occupancy rate but it was covered by increases in Alcohol Beverages and Food & Soft Drinks.



 17/50

Next, page 17. Page 17 shows the main reasons for the increase/decrease in business profit.

As I mentioned in the business plan for this year on page 13, we are expecting JPY1.6 billion of the risk response expense to the coronavirus in the form of company-wide and others on the far right.

For the Food and Beverages Business, we explained in our disclosure last year that the reduction in depreciation expenses for this fiscal year due to the impairment of fixed assets would be about JPY1 billion, but as a result of a closer examination, the effect for this year will be JPY2 billion.

2021: Profit attributable to owners of parent

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(billions of yen)	2020 Result	(Details)	2021 Plan	(Details)
Core operating Profit	**4.3**		**9.0**	
Other operating income, expenses	(20.2)	Impairment at PS (11.0) Loss from COVID-19 (3.5) Early retirement program lump sum payments (4.9)	9.0	Proceeds from sale of real estate, etc.
Operating Profit	**(15.9)**		**18.0**	
Profit before tax	**(19.4)**		**17.0**	
Income taxes	(2.8)		5.0	
Profit	**(16.6)**		**12.0**	
Loss attributable to non-controlling interest	(0.5)		0	
Profit attributable to owners of parent	**(16.1)**		**12.0**	

 18/50

On page 18, I would like to explain the following areas under business profit.

In terms of operating income, in light of the current real estate market conditions, we will replace real estate properties whose profitability is not expected to increase significantly in the future and reclassify the properties. As a result of this, a gain on the sale of real estate of more than JPY10 billion is expected, and therefore we expect to make a profit of approximately JPY9 billion in other operating income and expenses.

As a result, final profit will be JPY12 billion. We expect an increase of JPY28.1 billion from the previous fiscal year.

The following is a summary of our financial results for 2020.

I would like you to look at page 20.

On page 20, we reported that our mainstay brands such as Black Label, YEBISU, and New Genres made great strides, and that overseas sales of Sleeman also increased by 5%. In addition, sales of lemon-related products have been very strong, and there has been no major change in the trend up to the third quarter.

I would like you to look at page 21.

Issues. Sales of commercial-use beer, restaurants, and beverages for vending machines declined significantly due to the impact of the coronavirus. Also, page 21 shows that RTD sales were sluggish due to 99.99.

2020: Highlights

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(billions of yen)	2019 Result	2020 Result	YoY changes (amount)	YoY changes (%)
Revenue	491.9	434.7	(57.2)	(11.6%)
Revenue（Excluding liquor tax)	371.1	328.6	(42.5)	(11.5%)
Overseas revenue	71.2	65.5	(5.7)	(8.0%)
EBITDA	36.0	27.4	(8.6)	(24.0%)
Core operating profit	11.7	4.3	(7.5)	(63.7%)
Core operating profit margin	2.4%	1.0%	(1.4%)	–
Operating profit	12.2	(15.9)	(28.1)	–
Profit attributable to owners of parent	4.4	(16.1)	(20.4)	–
EBITDA interest-bearing debt ratio (times) ※Net	5.9	8.1	2.2	–
D/E ratio (times) ※Net	1.2	1.5	0.3	–

The balance of debt excludes the balance of lease obligations.

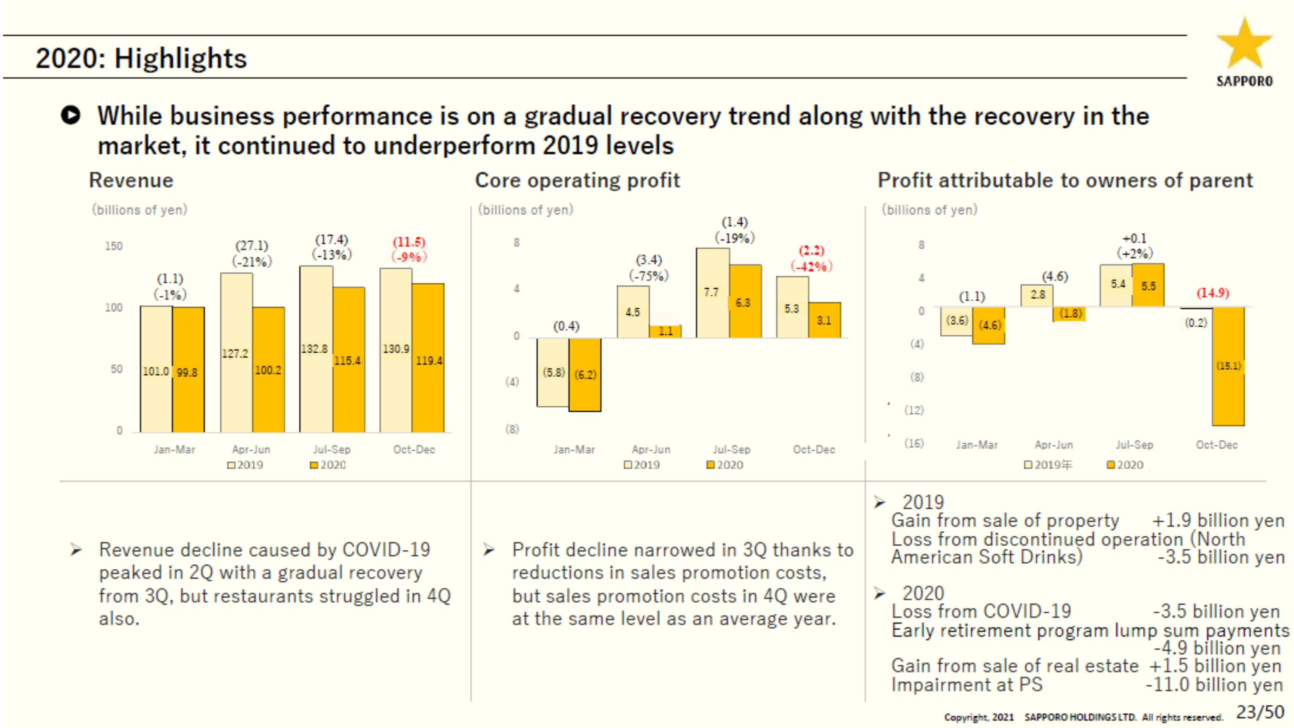
 22/50

I would like you to look at page 22.

I mean the highlights of the previous fiscal year's performance. In the previous fiscal year, sales and profits decreased due to the significant impact of the coronavirus, and net sales decreased by JPY57.2 billion, or minus 11.6%, to JPY434.7 billion.

Operating income was JPY4.3 billion due to proper cost control. This is a decrease of JPY7.5 billion from the previous fiscal year.

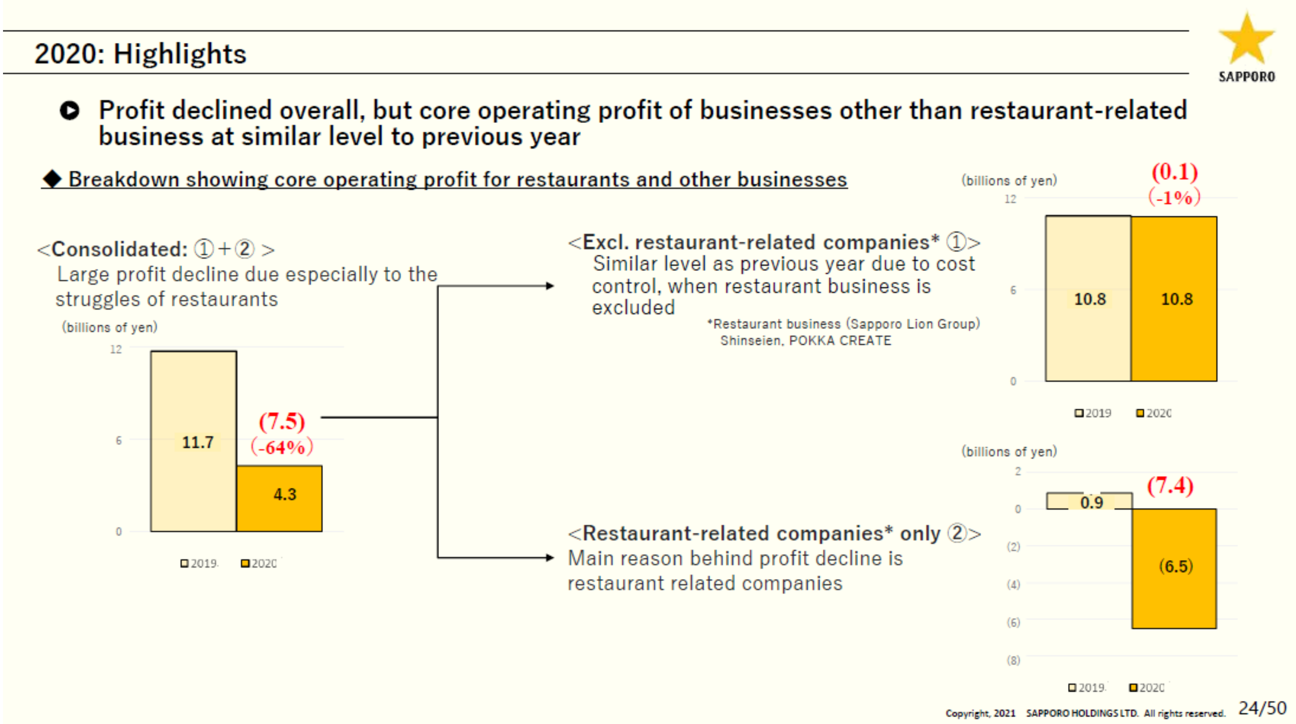
The other profit and loss is an extraordinary loss of JPY3.5 billion due to the coronavirus. Early retirement related expenses of JPY4.9 billion. Other operating losses, such as JPY11 billion due to the impairment of fixed assets of Pokka Sapporo, were significant, resulting in an operating loss of JPY15.9 billion, a large deficit.



Next page. Sales, business profit, and net income by quarter.

In the previous fiscal year, we bottomed out in the second quarter when the state of emergency was declared, and gradually recovered in the third quarter and the fourth quarter.

However, even in the fourth quarter, there was a slight decrease in December due to the impact of the coronavirus in October, November, and December.



I would like you to look at page 24.

This is the performance of companies related to restaurants and other businesses in terms of business profit last year.

Business profit of businesses other than restaurants is shown in the upper row. For businesses other than restaurants, we were able to earn business profits that were almost on par with the previous fiscal year and the fiscal year before last.

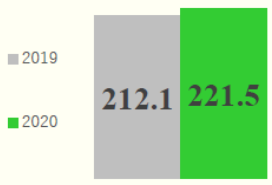
On the other hand, for the Restaurants Business, there was a profit of JPY900 million in FY2019, while there was a loss of JPY6.5 billion in the previous fiscal year, which means a negative JPY7.4 billion.

The entire group’s profit decreased by JPY7.5 billion, so most of the decrease was due to the three restaurants. These three restaurants are the SAPPORO LION Group, Shinseien, a beer garden in Hokkaido, under the umbrella of Sapporo Breweries, and POKKA CREATE. Those three.

2020: Highlights

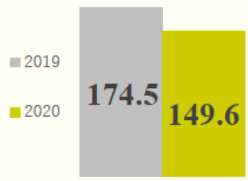
SAPPORO

Balance of net debt



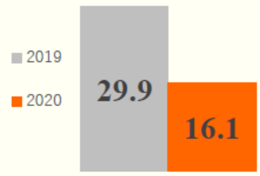
(billions of yen)

Equity



(billions of yen)

Capital expenditure (cash basis)



(billions of yen)

Transformation of the Group management platform

<October-December>

- Registered for "Declaration of Partnership Building" framework https://www.sapporoholdings.jp/news/dit/?id=8705

Group Topics

<October-December>

- Support restaurants in Shibuya Ward! "Oishii Shibuya-ku" project launched! https://www.sapporobeer.jp/news_release/0000012278/
- 「EBISU OPEN INNOVATION PROGRAM 2021」 held https://www.sapporo-re.jp/pdf/sapporore/store/storage/cname_20201214081842.pdf

 25/50

I would like you to look at page 25.

This is BS-related. There was an increase in net financial debt. Capital has been reduced due to the large deficit.

Capital investment has decreased significantly compared to FY2019 due to the restraint of the impact of the coronavirus.

2020: Revenue by Segment

SAPPORO

(billions of yen)	2019 Result	2020 Result	YoY changes (amount)	YoY changes (%)
Revenue by Segment	491.9	434.7	(57.2)	(11.6%)
Alcoholic Beverages	330.2	285.4	(44.8)	(13.6%)
Japan & Asia	254.7	228.4	(26.2)	(10.3%)
North America	48.3	45.7	(2.5)	(5.3%)
Restaurants	27.3	11.3	(16.0)	(58.6%)
Food & Soft Drinks	136.9	125.9	(11.0)	(8.0%)
Real Estate	24.7	23.3	(1.4)	(5.8%)
Other	0.2	0.2	0.0	12.8%

Factors are explained in the next slide

 26/50

I would like you to look at page 26. Sales by segment.

In the Alcoholic Beverages Business, profits declined by JPY48.8 billion, to JPY285.4 billion. Due to a decrease in sales volume in the commercial-use market in Japan and Asia alcoholic beverages, sales in Japan and Asia alcoholic beverages decreased by JPY26.2 billion to JPY228.4 billion. In addition, the SAPPORO LION Group's restaurant sales declined by JPY16 billion, to JPY11.3 billion.

In the Food and Beverages Business, net sales were JPY125.9 billion, a decrease of JPY11 billion from the previous fiscal year. The growth in food products was not able to offset the decline in sales of drinking water from vending machines.

On page 27, the factors behind the increase and decrease in sales revenue are described in detail. I would like to skip the main points as I mentioned them earlier.

2020: Core Operating Profit by Segment

SAPPORO

(billions of yen)	2019 Result	2020 Result	YoY changes (amount)	YoY changes (%)
Core Operating Profit by Segment	11.7	4.3	(7.5)	(63.7%)
Alcoholic Beverages	8.5	2.4	(6.2)	(72.2%)
Japan & Asia	8.0	7.0	(1.0)	(12.0%)
North America	0.2	0.3	0.1	51.5%
Restaurants	0.4	(5.0)	(5.4)	–
Food & Soft Drinks	(0.5)	(2.6)	(2.2)	–
Real Estate	10.7	10.9	0.1	1.1%
Other・General corporate and intercompany eliminations	(7.1)	(6.3)	0.7	–

Factors are explained in the next slide

 28/50

On page 28, we show the business profit by segment.

I would like you to take a look at our Japan and Asia alcoholic beverages, North America alcoholic beverages, and Real Estate businesses. Unfortunately, sales decreased slightly, but we were able to secure the same level of business profit as the previous year, or slightly lower than the previous year, due to cost reduction efforts.

On the other hand, the Restaurants Business posted a loss of JPY5 billion, and the Restaurants Business, which has stores, was greatly affected by the coronavirus.

The Food and Beverages Business posted a loss of JPY2.6 billion, a decrease of JPY2.2 billion. JPY1.6 billion out of this was due to lower profits at POKKA CREATE and Blue Seal, an ice cream company in Okinawa. POKKA SAPPORO alone was not able to offset the negative impact from drinking water with cost reductions and positive impact from food products.

Page 29 shows the main reasons for changes in operating income by business segment.

I have explained these points verbally, so I will skip them.

2020: Profit attributable to owners of parent

SAPPORO

(billions of yen)	2019 Result	(Details)	2020 Result	(Details)
Core operating Profit	**11.7**		**4.3**	
Other operating income	3.5	Proceeds from sale of real estate +1.9	3.7	Proceeds from sale of real estate +1.5
Other operating expenses	3.0		23.9	Impairment at PS (11.0) Loss from COVID-19 (3.5) Early retirement program lump sum payments (4.9)
Operating Profit	**12.2**		**(15.9)**	
Profit before tax	**11.6**		**(19.4)**	
Income taxes	4.3		(2.8)	
Profit	**3.8**	Loss from discontinued operations (3.5)	**(16.6)**	
Loss attributable to non-controlling interest	(0.5)		(0.5)	
Profit attributable to owners of parent	**4.4**		**(16.1)**	

 30/50

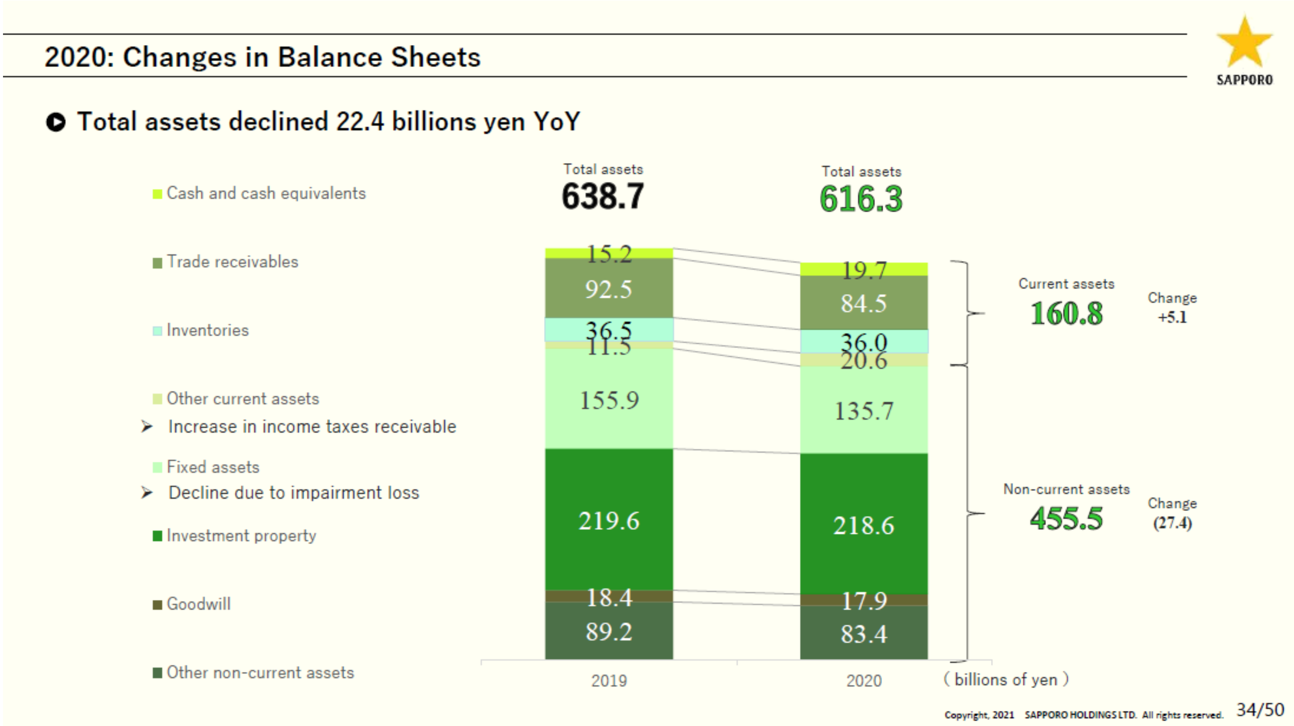
I would like you to look at page 30.

Page 30 shows the status of the following items under business profit to net income.

In the previous fiscal year, as mentioned in the main contents section, there was a JPY11 billion impairment loss on fixed assets at PS. JPY3.5 billion in other losses due to the coronavirus. The company posted an operating loss of JPY15.9 billion due to the JPY4.9 billion of early retirement lump-sum payments and JPY23.9 billion in other gains and losses. The loss for the period was JPY16.1 billion.

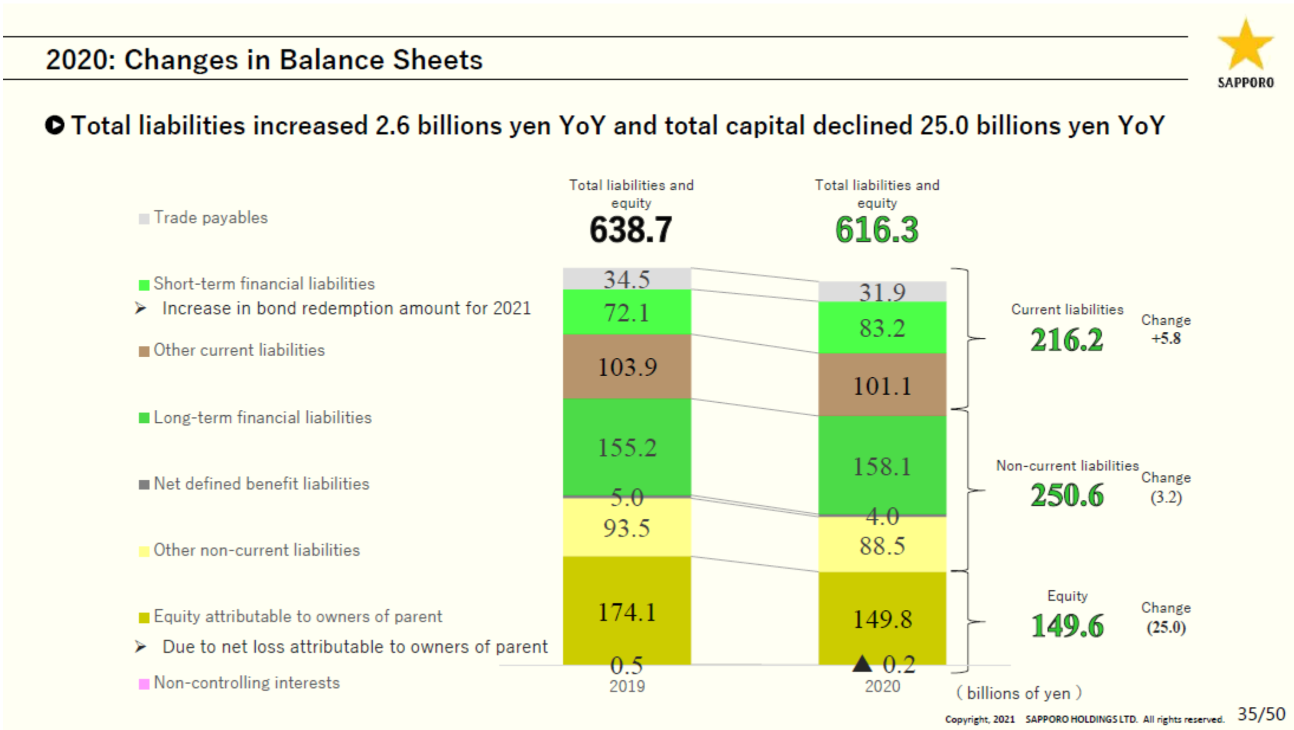
Pages 31, 32, and 33 show the quarterly sales revenue and operating income of the three segments. I will skip this explanation today.

I have listed the positive and negative aspects of each, as well as future initiatives, so please take a look at them later.



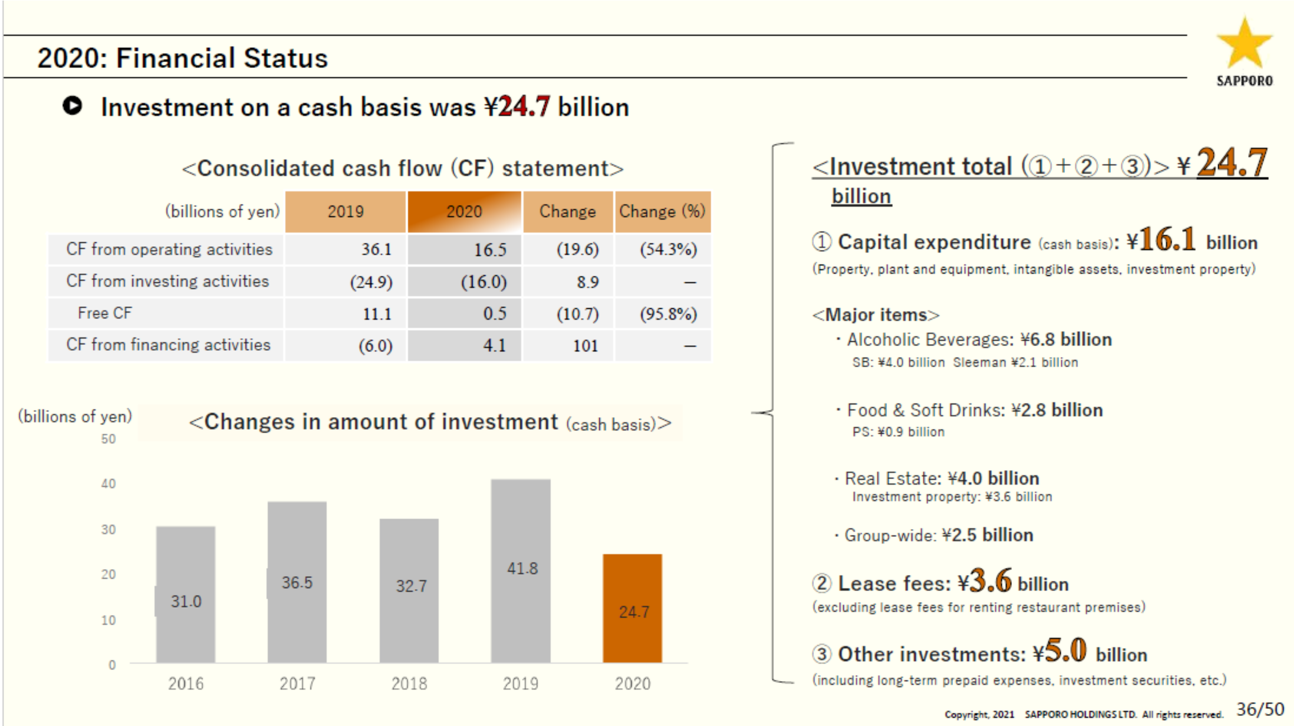
Page 34 shows the assets section of the B/S.

Total assets were minus JPY22.4 billion, mainly due to an increase in other income taxes receivable in current assets, but a decrease in fixed assets due to impairment losses at PS.



Next, I would like you to look at page 35.

In terms of liabilities and shareholders' equity, total liabilities increased by JPY2.6 billion, while total shareholders' equity decreased by JPY25 billion due to the recording of a loss for the current fiscal year.



(billions of yen)	2019	2020	Change	Change (%)
CF from operating activities	36.1	16.5	(19.6)	(54.3%)
CF from investing activities	(24.9)	(16.0)	8.9	–
Free CF	11.1	0.5	(10.7)	(95.8%)
CF from financing activities	(6.0)	4.1	101	–

Page 36 is for the financial situation, which shows the cash flow including investments.

In the previous fiscal year, operating cash flow decreased because of the decrease in sales and profits due to the coronavirus, but free cash flow was almost flat due to restrained investment, and financial cash flow increased because we had a little more cash on hand.

On page 37 and below, you will find the data of each business, so please take a look at them later.

This concludes my presentation on the financial results for the previous fiscal year and the outlook for the current fiscal year. Thank you very much.

Moderator: Thank you very much for your explanation.

Question & Answer

Moderator: We will now begin the question-and-answer session. Please ask your questions in a question-and-answer format. In order to answer questions from as many people as possible, we will limit the number of questions to two per person.

First of all, Mr. Saji from Mizuho Securities. Please ask your questions.

Saji: Thank you very much, this is Saji. Since we're going to ask one question at a time, I'd like to ask about the real estate first.

I would like to know more about the figures and also about the current situation of Ebisu Garden Place.

What I would like you to tell us about is the JPY2.3 billion deficit in the real estate and the plan to reduce profits. As you mentioned earlier, there were various factors such as the transfer to extraordinary losses, replacement of tenants, and investments. I would like to know what the contents of each of these are, and what the negative figure of JPY2.3 billion is.

What I am also concerned about is that the occupancy rate of Ebisu Garden Place, which was 100% in the first half of the year, is now 98% for the year, which is a little bit lower. In the second half of the fiscal year alone, Garden Place saw a JPY200 million decrease in profit. What is the status of the office building at Ebisu Garden Place, and what are your plans for improvement in terms of leasing effects and initiatives? Please tell me about this one. That is all. That is the first question.

Moderator: Thank you for your question. As for your question about the Real Estate Business, Mr. Iwata will explain.

Iwata: This is Iwata. Thank you for your question.

Out of the JPY2.3 billion, about JPY300 million is attributable to the reversal of the extraordinary loss caused by the coronavirus. JPY2 billion is due to the project, and the negative rent related to YGP is about JPY600 million out of the JPY2 billion negative factor. Also, the cost increase in YGP is JPY1 billion. In addition, there will be a JPY400 million decrease in profit due to a partial delay in the replacement of properties, for a total of JPY2.3 billion.

I would also like to talk about our initiatives for this fiscal year. The occupancy rate for the previous fiscal year in the Real Estate Business was 97.2% in YGP. As of the end of December of the previous fiscal year, the percentage was 91%, and we expect 96% for the current fiscal year.

Regarding renovation et cetera, due to the fact that Mitsukoshi moves out, as mentioned earlier, tenants for the B2 area will be Life, Meidi-Ya, and Tomod's. As for the first and second floors, there will be renovation work and leasing will begin.

The attraction of the Garden Place itself is that it has been very well received by customers. After Lehman, we lost large tenants for a while, and the occupancy rate declined for a while, but it recovered faster than others, so we are not worried about the occupancy rate of YGP.

That is all.

Saji: By the way, regarding the office building. In the suburbs, I think there is a slight shift to telecommuting or to the suburbs, but is it correct to say that there is no particular concern about the office building?

Iwata: Yes. As I mentioned earlier, the occupancy rate will drop slightly due to the replacement of large tenants, but we have received high evaluations in the past for leasing afterwards, as well as for improving the attractiveness of the entire town. We don't think we have any major concerns about that part. That is all.

Saji: Thank you.

Another point is about the domestic alcoholic beverages. I understand that the declaration of the state of emergency has been prolonged, but I would like to know if the figures themselves reflect the impact of the state of emergency or the coronavirus.

Also, you have factored in the recovery of restaurants and so-called commercial use, but I think the external environment, such as vaccination, will also have an impact. If possible, I would like to know what assumptions you have.

Since you are expecting a significant recovery, could you tell us a little about your assumptions about this? That is all.

Moderator: Thank you for your question. Mr. Takashima will explain the assumptions for the second point, the Domestic Alcoholic Beverages Business.

Takashima: This is Takashima from Sapporo Breweries. Thank you for your question.

We are in a situation where there is uncertainty and things change from moment to moment, so the reality is that we will respond to that, but as you said, as you mentioned in the question, we have a plan with a pessimistic view.

However, let me tell you the most recent story, for example. The declaration of the state of emergency has been prolonged for a month, which meant that the entire month of February was a cooling off of the demand for restaurants. The plan was immediately lowered and we are now in the process of tightly controlling costs.

To give you an idea of how much we have lowered the total volume of beer shipped in February, we originally estimated the volume of keg beer to be about 35, but we have changed that to 18% of the previous year's level.

However, if we consider the shipments up to today, the figure has been around 34, so we hope that the situation will somehow stay like this.

But I'm thinking now that the only way to do that is to be really pessimistic and pessimistic about cost control, and to do it in an agile way. Or rather, we hope to do so.

As for the future recovery of the commercial market, the start of vaccination will gradually improve the atmosphere of society as a whole.

To be more specific, we hope to quickly change the situation so that the world will allow us to have dinner with more than one person, and we are currently waiting to see how long it will take. We are looking at these things as we make our plans for this year. Such is the situation. That is all.

Saji: Thank you. By the way, I would like to confirm that, according to what you just said, even if sales do not go as planned, you will be able to control costs.

And beer. Since last year's tax cut, I think it has been a very good category. It is difficult to see what is going on at the moment due to the declaration of the state of emergency, but I would like to ask you to comment on the current situation in the beer category as a whole, regardless of whether it is for commercial use or not.

Takashima: Sure. This is Takashima from Sapporo Breweries. I will continue to answer your question.

I would like to add to your earlier question about the commercial market and how much we are looking at. At the moment, January and February total, 20% of 2019. 50% in March. After that, we expect it to recover to 70% to 75%.

And the current beer situation. Last year, I now see that the movement in December was remarkable. We have been experiencing such a phenomenon. Every year in December, the Christmas shopping season is over. In the last week of the year, the shipment shrinks.

However, products of Sapporo Breweries, such as Black Label, YEBISU, and CLASSIC in Hokkaido, continued to grow all the way to the end. I believe that products of Sapporo Breweries were chosen because they are consumed at home during the year-end and New Year holidays.

When we take external data, we can see that canned beer of Sapporo Breweries is doing remarkably well, so we want to be confident here.

Incidentally, in December, shipments of canned beer, cans in the beer category increased from 101 in 2019 YoY to 107.8 last year, and this situation is still continuing for canned beer.

Also, as Iwata explained earlier, we renewed GOLD STAR in January, and we are planning to renew "Mugi to Hop" this month. Because the plan is so large, we have not been able to reach the target yet, but we have managed to stay a little below the target. That is all.

Iwata: Iwata would like to make a few additional comments on the sales increase and expenses.

On page 17 of the PowerPoint presentation, you will see the factors that contributed to the increase and decrease in business profit. JPY4.1 billion was contributed to business profit by the increase in sales volume of Sapporo Breweries.

On the other hand, we plan to increase sales promotion expenses by JPY3.8 billion compared to the previous fiscal year.

As for sales and sales promotion expenses, as you saw in the previous fiscal year, we have established a system to properly control expenses within Sapporo Breweries, and the increase in sales and the increase in sales promotion expenses are almost in line with each other.

We believe that we will be able to achieve our business profit. That is all.

Saji: I understood very well. Thank you very much.

Moderator: Thank you. Next, Mr. Fujiwara from Nomura Securities. Please ask your question.

Fujiwara: Hello, this is Fujiwara from Nomura. Thank you. I have two points, and one question at a time, right? I'll start with the first point.

First, I would like to ask about the food and beverages. Last year, you had a JPY2.6 billion loss in business profit, and this year you have a JPY1 billion profit. With early retirement and a reduction in fixed costs due to impairment, we can estimate that you will be able to break even.

I would like to know about your strategy to further increase profits, including quantitative aspects, so to speak.

I believe that the profit margin will not increase unless you go a little further into the structural aspects. Please tell us what's in here that will make this place profitable and even more profitable on top.

Moderator: Thank you for your question. Mr. Iwata will explain our strategy for the food and beverages.

Iwata: This is Iwata. The reason for the increase of profit in the food and beverages.

The decrease in depreciation due to the impairment last year is JPY2 billion. In addition, the reduction in the number of employees due to early retirement will have an effect of approximately JPY800 million this fiscal year. That's JPY2.8 billion. In the Domestic Beverages and Food Business of POKKA SAPPORO, we expect profits to increase by about JPY3 billion, but we need to make sure that profits are generated in this area first.

Also, regarding the Café de Crié Business, a deficit of JPY1.6 billion from Café de Crié and Blue Seal in the previous fiscal year is expected to improve by about JPY500 million. We believe that we will be able to achieve the business profit for this fiscal year.

Also, in the Beverages and Food Business, we struggled quite a bit in the last fiscal year, with vending machine sales in the 80% range. For the current fiscal year, we do not expect any significant growth in beverages, with 102%.

For this reason, we plan to increase the sales of our highly profitable signature product, lemons, not only in the previous fiscal year but also in the current fiscal year. We believe that the positive aspects of the product mix will also contribute in addition to the sales increase.

That is all.

Fujiwara: Thank you very much. I'd like to know something more about the vending machines.

In addition to reducing the number of vending machines, have you implemented or will you implement more in-depth structural reforms? Please provide additional information about this area.

Iwata: As for the vending machines, in terms of cost, machines for reuse. There are new vending machines, and also used machines or machines for reuse that have been salvaged. One of the first things we will do is to reduce the cost of leasing new machines and vending machines by using machines for reuse.

Also, repairs. In the area of vending machine breakdowns and repairs, we are expecting a negative impact from the review of the contracts with our clients.

Specifically, in the area of vending machines, we expect to reduce lease fees and vending machine repair costs by focusing on the deployment of new machines at highly profitable locations where sales can be expected in order to increase profit per machine. That is all.

Fujiwara: Thank you very much.

Oga: Mr. Fujiwara, this is Oga. We're working on reforms. However, there are many circumstances that can cause a setback in the middle of the project. So, you may say that nothing has changed in the end, but we are working on it. That's it.

Fujiwara: Do you think the momentum will build again?

Oga: Or rather, it's become obvious that we have to do it. Now we just need to figure out how and when we can present the results.

Fujiwara: I understood. The second question is about the overseas alcoholic beverages.

Sleeman in Canada has been very strong so far and has also produced very strong results in the midst of the coronavirus crisis, but I think the Anchor is dragging them down.

In terms of the overseas alcoholic beverages this year, you mentioned new products, renewals, and cost efficiency, but what is your strategy for turnaround? Can you be more specific?

Takashima: Thank you for your question. This is Takashima of Sapporo Breweries. I will answer your question.

The top-level concept on which this is based is that the commercial market is shifting to the household market. In order to achieve this, it is essential to reorganize people and systems.

Last year, we were hit by the coronavirus shock, which had a huge negative impact on our business. In August of last year, we implemented structural reforms at both Sapporo USA and Anchor, including drastic layoffs. With members who are strong in the household market at the helm, Sapporo USA has made a fresh start in business development and started a new style within the last year.

One thing that both Anchor and Sapporo USA have in common is the introduction of new products. And we will aggressively promote brand renewal.

As for the renewal of the brand, this is about Anchor, but so far it seems to be well received by wholesalers. We are now at the stage where we are trying to summarize the results of the entire month of March.

Also, Sapporo USA has already started consignment manufacturing of new products called "low-carb products" to a beer company on the West Coast. We will launch it this month. In the future, this new product will also have a good reputation since it is well received in the market for now. We would like to have two main axes: one is to aggressively expand to raise such a top line, and the other is to promote structural reform.

In terms of structural reform. Logistics costs in the US have been skyrocketing, but we have changed logistics companies. We are now able to reduce costs considerably, so we are working on those aspects at the same time.

One more thing, although I can't go into specifics here yet, we are currently considering the possibility of mergers and acquisitions of manufacturing bases around the West Coast. That is all.

Fujiwara: I would like you to make additional comments on two points.

I heard that Anchor has a good reputation, and this seems to rejuvenate the brand image considerably or give it a pop atmosphere, but will this have any impact on existing users?

Takashima: Thank you for your good question.

In fact, I've been getting some negative feedback from old Anchor fans. We've received about 600 comments directly from Anchor, but only about 10% of them are negative, and the rest are positive.

The Golden Gate Bridge, one of San Francisco's most famous landmarks, came up out of the fog, and we have been posting about it on Instagram with the message Anchor is Rising. Young people are saying that it is very good, so I want to be confident about that.

Fujiwara: I understood. I would also like to ask you to supplement the figures for the overseas alcoholic beverages, which saw an increase of JPY1.3 billion. Could you please tell us the breakdown of this?

Iwata: This is Iwata. The breakdown is JPY200 million at Sleeman, Canada. JPY500 million at Sapporo USA. JPY600 million at Anchor, and the total is JPY1.3 billion.

Fujiwara: I understood. Thank you very much.

Moderator: Thank you. Next, Ms. Tsunoda from JPMorgan. Please ask your questions.

Tsunoda: Good morning. This is Tsunoda from JPMorgan. Thank you for giving me this opportunity. I would also like to ask two questions.

The first point is a bit similar to the question from Mr. Fujiwara earlier, but this is about food.

In the JPY3.6 billion increase in profit for this fiscal year, the impact of the impairment loss from last year, the offsetting effect, and the JPY500 million improvement in Café de Crié seem to be almost completely explained by cost factors.

I was wondering how much of the profit increase factor associated with the JPY8 billion increase in revenue has been factored in.

I also think that starting in January is a bit tough. Your company plans to increase sales of drinking water by 1.7%, but I think the industry's overall monthly sales of beverages declined by 10% in January.

I would like to know what assumptions you are making about the impact on the top line, including the extension of the declaration of the state of emergency. Based on the current situation, are there any areas of risk that you are considering? The first question I would like you to explain is about this.

Moderator: Thank you for your question. Mr. Iwata will explain the first point, the plan, profit and risk of the Food and Beverages Business.

Iwata: How much of an effect we expect from the increase in sales of the food and beverages. As you can see in the PowerPoint table on page 17, we are forecasting JPY1.7 billion in domestic food and beverage sales volume, cost of sales, and other items. In this sense, the effect of the increase in volume is JPY1.3 billion since the sales promotion expenses on the right side of the table are JPY400 million.

I would also like to know how we see beverages this fiscal year. The beverage market itself is similar to the commercial-use beer market, with the declaration of the state of emergency and the vaccines.

Last year, we had a cool summer in July, so we expect total demand to be about 102%, as demand will recover after the summer. We are planning for 102, which is almost the same as the total demand.

In terms of beverages, it is very difficult for us to compete in the overall beverage market in terms of overall balance, given our size, so we are expecting a large increase in sales of lemon beverages, which have been growing significantly since last year. That is all.

Tsunoda: Thank you for your explanation. As a supplement, I would also like you to answer the question, "What was the percentage decrease in sales of soft drinks in January?"

Also, it is true that JPY1.7 billion is shown, but I think it includes food, beverages, and cost reduction. Could you please tell us the breakdown of this?

Iwata: Here are the results for beverages for January. For the industry as a whole, it is estimated to be around 90%. In this context, POKKA SAPPORO and our company expect to achieve 90%, which is about the same as the industry average.

For the breakdown of what's inside, I would like you to refer to the main reasons for changes in the forecast for the current fiscal year in the supplementary materials of the financial results explanation. Supplementary materials for financial results.

Tsunoda: It's the breakdown of the JPY1.7 billion that I'm asking about. I am asking about the breakdown of this JPY1.7 billion in terms of the portion linked to food and beverage sales and the effect of the reduction in manufacturing costs.

Iwata: The breakdown of the JPY1.7 billion.

The Lemon Food and Beverage Business is considered to be a single business within the company, and the Lemon Food and Beverage Business accounts for JPY1.4 billion. In addition, processed foods, this is soup, JPY400 million for soup. Also, plant milk, which is mainly soymilk yogurt, is expected to be JPY400 million.

I am very sorry, but I would like to refrain from answering the question about the explanation of the increase in volume and the cost reduction, and the differences in the breakdown by business segment. That is all.

Tsunoda: I understood. Thank you very much. Secondly, I would like to ask you about the restaurants.

I believe you are expecting an increase in operating income of JPY3.4 billion on a JPY5.4 billion increase in sales this fiscal year. I have the impression that the profit here is quite strong, as it is JPY3.4 billion compared to the JPY2.1 billion profit decline in the first half of last year.

I would like to know your assumption about the timing of the recovery, and approximately from which quarter you have factored in.

Moderator: Thank you for your question. Mr. Iwata will explain the second point, the plan and recovery for the restaurants.

Iwata: As for the restaurants in general, Takashima explained earlier about the current forecast and the figures for the summer season, but the situation for SAPPORO LION is also very difficult, with sales of beer at around 25% in January and February, almost in line with the overall trend in restaurants.

From the second quarter onward, we expect it to be in the mid-60% range compared to 2019, and for the full year, we expect it to be around 60% compared to the previous year.

Out of the JPY3.4 billion increase in profits, roughly half is due to the increase in profits, as we expect a recovery in sales, and reduced costs through the closing of stores that are also in the red at LION, and early retirement. Half of the breakdown is due to structural reforms, such as store closures and personnel reductions. That is all.

Tsunoda: Thank you very much. I'd like to add to that.

In that case, the degree of recovery will gradually accelerate from the first half or the fiscal year, around the third quarter, and the first quarter will be tough, but we will see a remarkable YoY recovery around the second quarter onward. Do I understand correctly? In any case, I got the impression that the full-fledged recovery will be concentrated in the second half of the fiscal year, which is the third quarter and beyond. Is that correct?

Iwata: This is Iwata. I think Ms. Tsunoda's understanding is correct.

Last year, however, sales of LION in April and May were in the single digits due to the declaration of the state of emergency. Since almost all of our stores were closed, we expect that if the state of emergency is lifted on March 7, sales in April and May will be significantly higher than last year.

However, I believe that the overall trend, including the year before last, is the one that Ms. Tsunoda has just described. That is all.

Tsunoda: Thank you very much for your explanation. That's all from me.

Moderator: Thank you. Next, Mr. Sumoge, Okasan Securities. Please ask your question.

Sumoge: Thank you. This is Sumoge from Okasan Securities. Thank you. There are two points from me as well.

First of all, let me confirm the figure of JPY9 billion in other operating revenues. I believe that more than JPY10 billion in gains from the sale of real estate has been factored in as income, but I would like to know how many hundreds of millions of JPY of other expenses, such as structural reform expenses, have been factored in specifically.

Iwata: Iwata will answer your question.

The breakdown of the JPY9 billion in other operating income. At this point, we have said that the gain on the sale of real estate will be more than JPY10 billion, but we expect it to be JPY14 billion. And JPY3 billion in company-wide structural reform expenses. In addition, we incur about JPY2 billion of loss on disposal throughout the year, including disposal due to the closure of stores and disposal of production facilities. This is JPY2 billion.

After deducting JPY3 billion in restructuring costs and JPY2 billion in other ordinary disposal costs from JPY14 billion, the total is expected to be JPY9 billion. That is all.

Sumoge: Thank you. I would like to ask you about the JPY3 billion in structural reform expenses.

I think this part was included last year, but as a result, it was not realized. I think the Vending Machine Business and other businesses were previously listed as problematic businesses, so as you mentioned earlier, I have the impression that this part has been included in the structural reform.

What kind of business structural reforms do you expect to incur losses, and to the extent that you are able to talk about it at this point, can you tell us the progress of those reforms?

Iwata: Iwata would like to continue to answer.

Last year, we expected to incur JPY5 billion in structural reform expenses, and this was covered by JPY4.9 billion in early retirement at the three companies.

In the current fiscal year, as Mr. Oga mentioned at the beginning of this report, the Food and Beverages Business and the Restaurants Business will undergo structural reforms in order to return to profitability. The vending machines in the Food and Beverages Business, and Shinsyu-ichi Miso in the others were also in the red in the previous fiscal year. Such structural reforms in the Food and Beverages Business.

In addition, LION has already decided to close about 15 stores this fiscal year but depending on the extent of the impact of the coronavirus, we will consider a new review. We have not made any decisions at this point, but that is what we are expecting. That is all.

Sumoge: Are restaurant closures factored in here? So, you already know the specific amount?

Iwata: We have factored in the decisions that have already been made in the Restaurants Business. I would like to refrain from answering the question about the amount.

Sumoge: I understood. The second point is about the real estate.

I don't know how much cash will come in from this sale, but I think it will be more than JPY10 billion, since there is at least a JPY10 billion gain from the sale.

Is it correct to understand that this is included in the reinvestment in the real estate? Or do you want to allocate this money to other projects as well? I think there are still some parts of the portfolio that have not been decided yet, but I would like to ask you about your current thoughts on this.

Iwata: Iwata would like to continue to answer.

We expect cash from the sale of real estate to be approximately JPY30 billion. We plan to use these funds to basically reclassify and grow our Real Estate Business portfolio. That is all.

Sumoge: Thank you. Regarding the concept of ROI when reinvesting, I think the president commented earlier that the return will be slower, but when should we think about this?

Iwata: Regarding the reinvestment in the Garden Place, the decision to invest in the replacement of the commercial area, et cetera, has not yet been made, but the investment will be made.

As I mentioned earlier, the rent income from the B2 commercial area will start in spring of next year, and from the first and second floors will start in fall of next year, so we are expecting returns from 2022 to 2023, and 2024. That is all.

Sumoge: I understood. Does this mean that money will not be invested in new business areas?

Iwata: Are you talking about equity or securitization?

Sumoge: Yes, it's written on page 11 of the presentation materials. Is it correct to say that the cost of the commercial building and renewal will be quite high?

Iwata: We will spend the JPY30 billion for the renovation of the commercial building that we are currently planning. On the other hand, we are still working out the specifics of the acquisition, whether it will be physical property acquisition, equity, or securitization, and it will take some time.

And the sooner we get this, the sooner we will see the returns. If the timing of the acquisition is off, the timing of returns will be off. Of course, it is not enough to just acquire a property, but it is necessary to acquire a property whose profitability can be properly guaranteed, and it will take some time to carefully examine the contents of the property before acquiring it. Not everything is Garden Place.

Sumoge: I understood. So, do you mean that it's a little difficult to answer because it hasn't been decided yet?

Iwata: Yes.

Sumoge: Incidentally, I think one of the reasons for the sale is the worsening profitability of the property. Could you tell us about the possibility of selling other properties in the future, or selling real estate in the future because you want to add more depth to your current capital?

Iwata: At this point, we have no further plans to sell any more real estate.

We are not selling because of the current deterioration in earnings, but rather for the future growth of the Real Estate Business. The profitability of each property is changing due to the current coronavirus situation. In that sense, the objective is to properly replace the portfolio and link it to future growth, and also to diversify risk.

We are not going to sell the real estate for profit because it has deteriorated, but we are going to use the cash as I mentioned earlier for future growth. Rather, the main reason is to stabilize the portfolio through growth or portfolio reclassification. That is all.

Sumoge: I understood. Thank you very much.

Moderator: Thank you. We have run over the scheduled time, so this will conclude the question-and-answer session.

In closing, Mr. Oga will give a few words. Thank you.

Oga: Although the sale of real estate is one of the major factors, as Iwata mentioned earlier, we are now thinking about how to grow in total, including the real estate. Based on this coronavirus situation, I believe that we are making plans based on the fact that this is the year for continuous growth for this year, next year, and the year after that.

Structural reforms have not made much progress, and there are some areas that are not visible, so we are a bit cagey about them, but we hope to get things in place by the end of this year. That is all.

Thank you very much for today. Thank you for your continued support.

Iwata: Thank you very much.

Takashima: Thank you very much.

Moderator: This concludes the conference call. Thank you very much for your participation today. Thank you for your continued support.

[END]