

Q&A from Financial Results Briefing: Financial Results for 2Q of FY12/2019

Date and time: 3:00-4:30pm August 7

Speaker: President, Representative Director Masaki Oga, Managing Director Shinichi Soya, and President of Sapporo Breweries Ltd. Hideya Takashima

• Alcoholic Beverages (Japan)

Q. I have a question about the new genre beer, Mugi to Hop. How will the re-release on August 27 overcome issues that have existed so far?

A. (Takashima) The main customer base for new genre beer is people in their 40s and 50s, and this re-release will feature commercials that clearly target this demographic. We have also changed the preparation method to create a new genre beer with a taste more similar to genuine beer, and have received very positive feedback from the buyers in our distribution chain. The packaging design is also now more similar to that of beer, and we aim to re-promote this delicious new development to consumers who like beer.

Q. Sales promotion expenses decreased by 1.5 billion yen year on year in the first half, but an increase of 0.5 billion yen is planned for the year as a whole. Could you tell us about the spending on sales promotions that is planned for the second half?

A. (Takashima) Our sales promotion expenses for the year are being controlled according to our plan. Our sales promotion expenses for the first half were reduced by cutting advertising costs as well as revising spending on sales promotions in stores. During the second half, we aim to continue applying what we learned in the first half. We do not intend to make any major additional investments in the beer category in the second half. We opened Sapporo Draft beer Black Label THE BAR, our first year-round antenna shop, in Ginza to create a space where customers can sample our products and experience our quality-focused worldview of “the perfect draft beer”, but this was part of our plan, not an additional investment.

Q. With the increase in consumption tax coming up, to what degree do you anticipate an increase in demand before the tax increase and a decrease in sales afterwards?

A. (Takashima) It is hard to estimate a volume, but our distribution chain has various measures in mind to take advantage of demand from consumers who want to get in before the tax increase and we can make good use of this trend. In terms of decreases in sales afterwards, this is not something that can be stopped by stopgap sales promotion measures. We think that it will come down to the size of our core fan base, those consumers who have high standards when choosing a brand of beer.
(Oga) We are unsure of the impact that the 2% tax increase will have on consumers, but we are predicting that we will see less mass purchasing than before.

• Alcoholic Beverages (North America)

Q. I'd like to know your thoughts on future growth in sales. I've been told that it will take time to build a brand portfolio and the ideal SCM framework in the USA; what are your plans?

A. (Oga) When it comes to growth in sales in future, we believe that the production capacities of Sleeman in Canada and the production that will be needed as a result of increased demand in the USA will be issues.

We are currently talking with several companies about building the ideal SCM framework. We have various options, including looking for a production contractor in the USA or M&A of a company with an existing brand. Our statement about needing time was because it will take time to carefully weigh the options.

• **General Management**

Q. In the beginning-of-year plan, company-wide expenses include expenses for building a business base, investment in growth and reforming the business structure. I'd like to know what direction you will take as you carry out structural reform.

A. (Soya) We are sensing issues in the North American beverage business and the Japanese vending machine business, and are working to improve our profits. We expect that it will not take much time to eliminate our loss in the North American beverage business, but for the Japanese vending machine business, we intend to take a medium-term view and carry out structural reforms that will help to make our business profitable.

Q. I hear that you aim to turn a profit in the first half. What will be needed in order to do that?

A. (Soya) The alcoholic beverage and food & soft drinks businesses experience major seasonal fluctuations, so sales revenue tends to be lower in the first quarter than in other quarters. In order to turn a profit in the first half, we will need to think outside the box and change the way we think about getting a return on our investments, with measures such as revising our product cycle and the timing of our spending. We also aim to eliminate losses through measures such as reorganizing unprofitable businesses and lowering the break-even point by changing fixed costs to floating ones.

End.