

Q&A from Teleconference Meeting: Financial Results for 3Q of FY12/2019

Date and time: 5:00-6:00pm November 6 (Wed)

Question response and explanation: Shinichi Soya (Managing Director), Kazuo Maruyama (General Manager of the Accounting and Finance Department)

Alcoholic Beverages (Japan/Asia)

Q. How do you see your marketing strategy for the upcoming fiscal year in the context of the temporary increase in demand for new-genre beer before the tax hike and consumers' return to regular beer?

A. We have no plans of changing our strategy of strengthening the beer genre, which we have been working on in anticipation of the liquor tax reform. We expect the October 2020 tax reform to have a positive impact on sales. Our company is the only player to exceed previous year's sales in the beer category; we want to take advantage of this trend. Regarding new-genre beer, it is unknown how much customers will be dissuaded by the tax increase. Rather than expecting consumers to switch from new-genre beer to regular beer, we are keeping an eye on trends in the low-price carbonated beverage market, which combines new-genre beers and RTDs. "Mugi to Hop" was rebranded in August of this year and we believe it has become a more competitive brand. Going forward, the beer and RTD beverage market is expected to split into premium and value segments. We are looking to concentrate on beer in the premium segment and "Mugi to Hop" in the value segment, while also focusing on our RTD beverages such as Chu-Hi 99.99.

Alcoholic Beverages (North America)

Q. How have alcoholic beverages performed in North America up until the third quarter, and what is the outlook for the fourth quarter?

A. We were counting on success with a complete brand overhaul in Canada, but due to bad weather, sales across the entire market were poor. Since our share of the market is growing, sales can be recovered if the market returns to normal. In the US, management integration between Sapporo USA and Anchor Brewing took place in April this year, and progress is being made on implementing their marketing plan for 2020. Sapporo Premium's brand value is also on the rise. On the other hand, we are expecting higher costs such as transportation costs and are maintaining a conservative outlook for the fourth quarter.

Q. I'd like to know about craft beer market trends in the US—is the craft beer market growing? Also, how about the shift in packaging and growth in import and craft beers?

A. Sales of conventional premium brands have fallen, and the market is being supported by imports and craft beer. The growth in imports is remarkable as the market continues to diversify. Growth in the craft beer market continues, although it is slowing down. Packaging continues its shift to cans over bottles in line with consumer preferences. The shift from bottles to cans does not significantly affect profit per volume. Cans have a large surface area that allows for greater expression in packaging design. US consumers still have not tasted many of the world's beers and we believe there is still room for import brands to grow. The keyword here is diversity. Although the craft beer market seems to have established itself, we feel that certain brands will increase their sales as players drop out.

Food & Soft Drinks (Japan/Asia)

Q. Food and soft drinks have been doing well in Asia in the third quarter. Could you tell us why sales are negative in the fourth quarter?

A. The Singapore market was normalized in the first half of the year. We narrowed down the market to low-priced businesses that made a high contribution to profits. In addition, exports from Singapore recovered and showed a strong performance level. In the fourth quarter, we plan to launch sales promotions during the Chinese New Year sales season. Since this period of December through January straddles the fiscal year-end, sales promotion expenses are expected to be recorded ahead of time.

General Management

Q. What extent of change are you planning with the 6.5 billion yen in structural reform expenses?

A. The increase in costs means there is high feasibility. Regarding past investments, we have increased the amount from past investments in preparation for this.

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