SAPPORO HOLDINGS LTD.

# Sapporo Holdings Limited

Q3 Financial Results Briefing for the Fiscal Year Ending December 2021

November 5, 2021

# Event Summary

| | | |
|---|---|---|
| **[Company Name]** | Sapporo Holdings Limited | |
| **[Company ID]** | 2501-QCODE | |
| **[Event Language]** | JPN | |
| **[Event Type]** | Earnings Announcement | |
| **[Event Name]** | Q3 Financial Results Briefing for the Fiscal Year Ending December 2021 | |
| **[Fiscal Period]** | FY2021 Q3 | |
| **[Date]** | November 5, 2021 | |
| **[Number of Pages]** | 29 | |
| **[Time]** | 17:00 – 18:00<br>(Total: 60 minutes, Presentation: 31 minutes, Q&A: 29 minutes) | |
| **[Venue]** | Dial-in | |
| **[Venue Size]** | | |
| **[Participants]** | | |
| **[Number of Speakers]** | 1 | |
| | Yoshihiro Iwata | Managing Director |
| **[Analyst Names]*** | Manabu Sumoge | Okasan Securities Co., Ltd. |
| | Satoshi Fujiwara | Nomura Securities Co., Ltd. |
| | Hiroshi Saji | Mizuho Securities Co., Ltd. |

## Presentation

**Moderator**: Good evening. Thank you for participating in today's presentation of Sapporo Holdings, Ltd.'s financial results for Q3 of fiscal 2021. The time has come, so we will begin now.

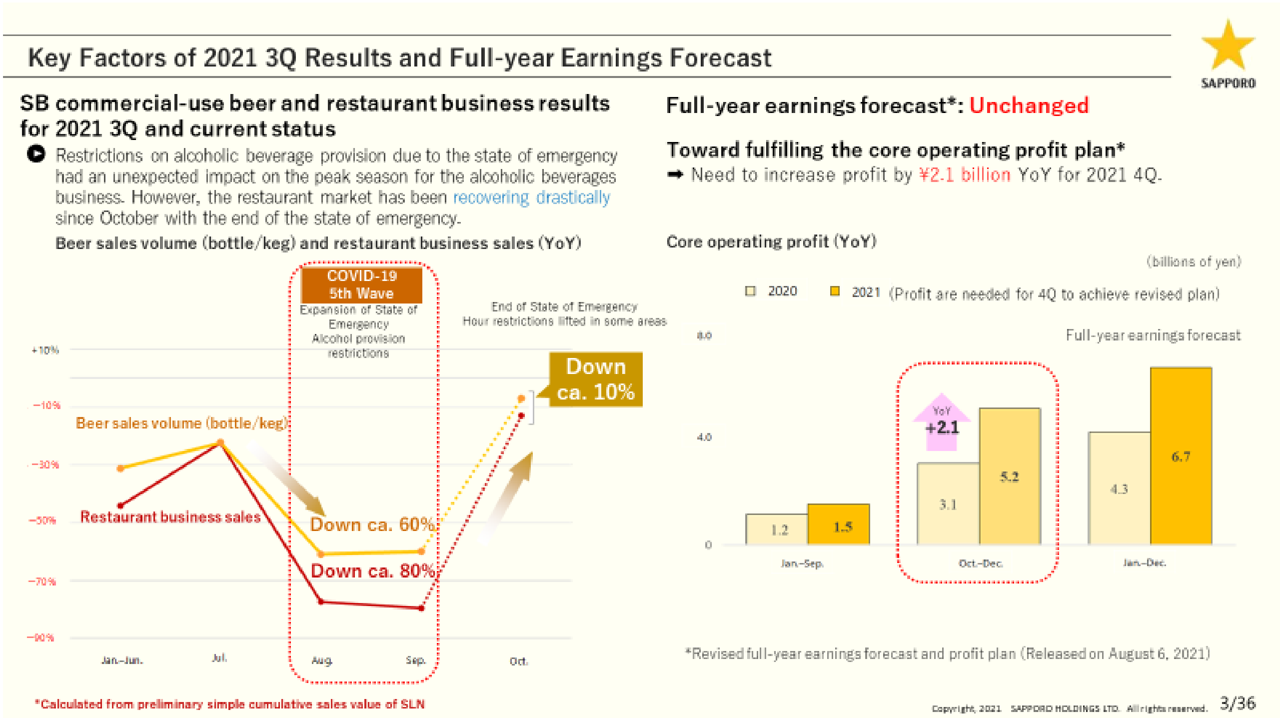
Managing Director, Yoshihiro Iwata is in attendance today.

Please prepare earnings report, supplementary materials for the financial statements, and PowerPoint presentation of the financial statements at hand. Mr. Iwata will begin by presenting an overview of Q3 financial results based on the PowerPoint presentation, followed by a question and answer session.

The online presentation will now begin. Iwata will give you an explanation. Thank you.

**Iwata**: I am Iwata of Sapporo Holdings.

I will now explain the key points and summary of the financial results for Q3 based on the PowerPoint presentation. Thank you.




First, I would like you to take a look at page 3.

It is about the key points of Q3 results and the outlook for the full year.

In Q3, from July to September, a state of emergency was declared, and beer for commercial use and food services were very badly affected. We announced our forecast for the full year in August, and the results were still slightly more severe than our initial forecast.

However, since October, when a state of emergency declaration was lifted, the commercial beer and restaurant businesses have been recovering.  We believe that we will be able to achieve our full-year profit plan, and we will not change our full-year forecast for Q3, which we announced at the time of Q2 results in August.

The figure on the left of page 3 shows the sales trend of Sapporo Breweries' commercial beer – bottled beer and Keg beer, and restaurant business. In August and September, sales of beer bottles and kegs were down 60% under the declaration of the state of emergency.

In addition, sales in the restaurant business were down 80% in August and September. In October, the declaration of the state of emergency was lifted, and both are down 10%, recovering to 90% compared to the previous year. In addition, our beer sales in October were 108%, exceeding the previous year's level.

According to estimates in the trade journal and other sources, total demand may have been about 107% in October. As I said, sales at Sapporo Lion are down 10% in October. However, the number of stores has been decreasing significantly since 2019 due to the closure of unprofitable stores, so on a comparable store basis, sales have been exceeding the previous year's level.

There is no change to the full-year forecast.

To achieve business profit of JPY6.7 billion, we need to increase profit by JPY2.1 billion in Q4 compared to the previous year. The reduction of fixed costs is progressing well, and we believe it is fully achievable if the situation in October continues as is.

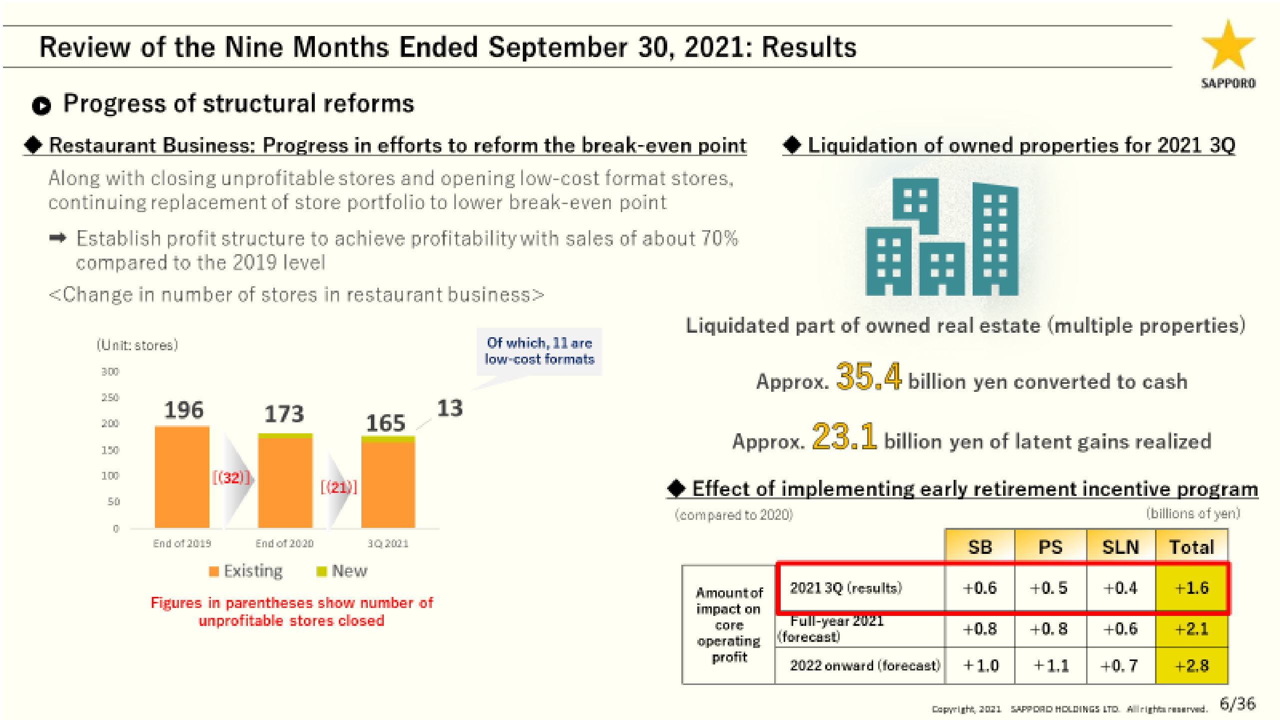

The following is a summary of the financial results.

On page 5, I would like to explain the results of major businesses in Q3 review, results.

Sales of Black Label canned beer continued to be strong, increasing 14% on the back of growth in demand for home use. Sales of Yebisu brand cans also increased by 4%. As for RTDs, strong lemon sour and other distinctive products are doing very well, and this category has also increased by 56%, which is probably much higher than the market estimate.

In North America, sales of the Sapporo brand have grown significantly, up 28%, due to a recovery in the commercial market, in addition to a very strong increase in the sales of canned beer for home use, which is now turning over well.

Sales of lemon and plant milk, such as soymilk yogurt, also continued to be strong.

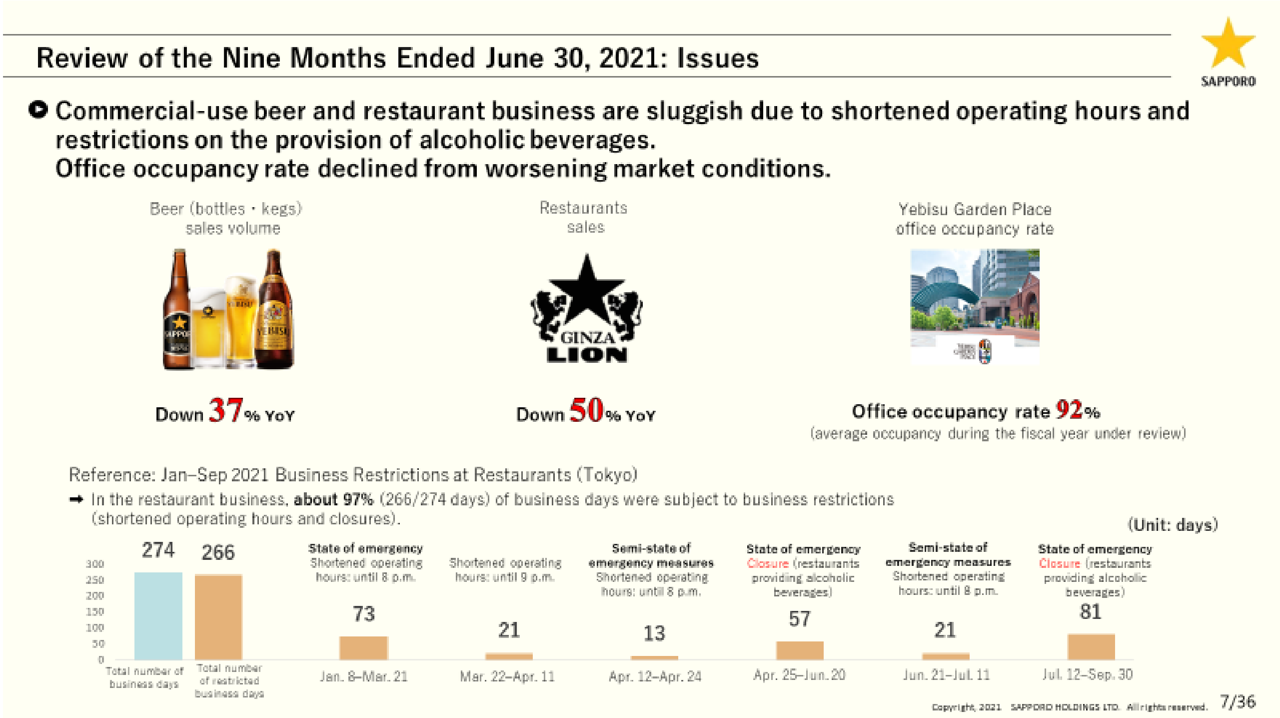



I would like to continue with page 6. This is the progress of structural reform.

In the restaurant business, we have been closing unprofitable stores and opening new low-cost stores with a high take-out ratio. The restaurant business, led by Sapporo Lion, has a business structure that can return to profitability with 70% of sales compared to 2019.

The status of reclassification of properties held for sale. Although there were no major developments in Q3, we generated approximately JPY35.4 billion in cash from the sale of properties we owned, and realized unrealized gains of approximately JPY23.1 billion by Q3, mainly from the sale of properties in Q2.

In addition, here are the estimates of early retirements by business and by term, which were implemented from last year to this year. By Q3, the Group has contributed to a fixed cost reduction of JPY1.6 billion, and we expect to reduce costs by about JPY2.1 billion for the full year.




I would like to continue with page 7.

These are issues.

Due to impact of declaration of a state of emergency, the commercial Alcoholic beverages and restaurant businesses continue to face very difficult conditions. Sales of bottled and Keg beer in the July to September period were down about 1/3, or minus 37%, and the value of sales in the restaurant business was halved, or 50% YoY.

The average occupancy rate of the offices in Yebisu Garden Place was 92% during July to September, which is a slight decrease from the previous year. The previous year was almost 100%.

For your reference, the bottom row on page 7 shows the number of days that there were some restrictions on business at restaurants in Tokyo. From January to September, there were 274 working days, 266 days with restrictions, and only 8 days without any restrictions.

## Results Highlight

SAPPORO

| (billions of yen) | 2020 3Q Result | 2021 3Q Result | YoY changes (amount) | YoY changes (%) |
|---|---|---|---|---|
| Revenue | 315.3 | 309.1 | (6.3) | (2.0%) |
| Revenue（Excluding liquor tax） | 238.4 | 234.5 | (3.9) | (1.7%) |
| Overseas revenue | 48.9 | 54.7 | 5.8 | 11.8% |
| EBITDA | 18.4 | 16.9 | (1.5) | (8.1%) |
| Core operating profit | 1.2 | 1.5 | 0.4 | 31.7% |
| Core operating profit margin | 0.4% | 0.5% | 0.1% | ― |
| Operating profit | (2.0) | 23.9 | 26.0 | ― |
| Profit attributable to owners of parent | (0.9) | 15.7 | 16.7 | ― |
| D/E ratio (times) ※Net | 1.3 | 1.1 | (0.2) | ― |

The balance of debt excludes the balance of lease obligations.

 8/36

Page 8.

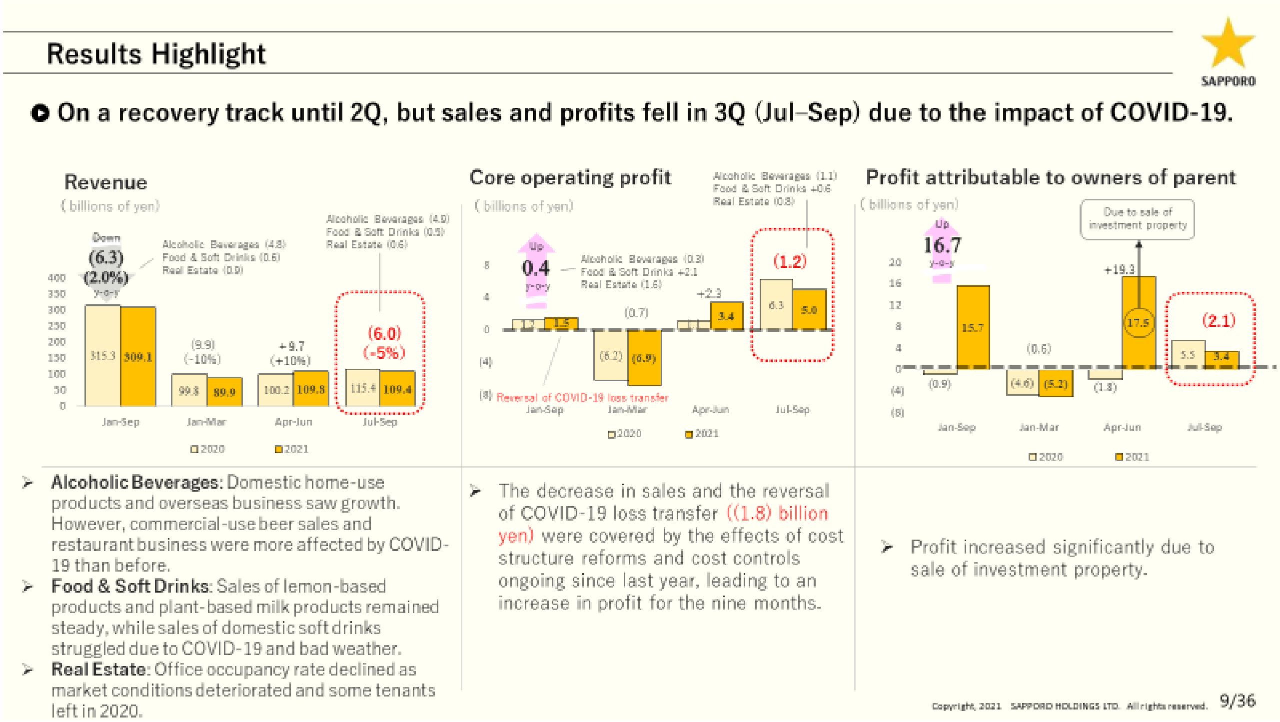
The highlights of our performance in Q3.

Sales revenue was JPY309.1 billion, a decrease of JPY6.3 billion from the previous year. It is minus 2%. Overseas sales revenue increased significantly to JPY54.7 billion, up JPY5.8 billion, or 12%, from the previous year, due to increased sales in North America and other regions, as well as the impact of foreign exchange rates.

Business profit decreased to JPY1.5 billion, but we were able to maintain an increase in profit thanks to cost reduction efforts.

Operating income, final income. Net income attributable to owners of the parent company, increased significantly due in part to gains on the sale of real estate.

The cash from the sold real estate was once again used to pay off the debt. In addition, the D/E ratio improved by 0.2 from the previous fiscal year to 1.1 due to a large increase in equity because of higher profits.



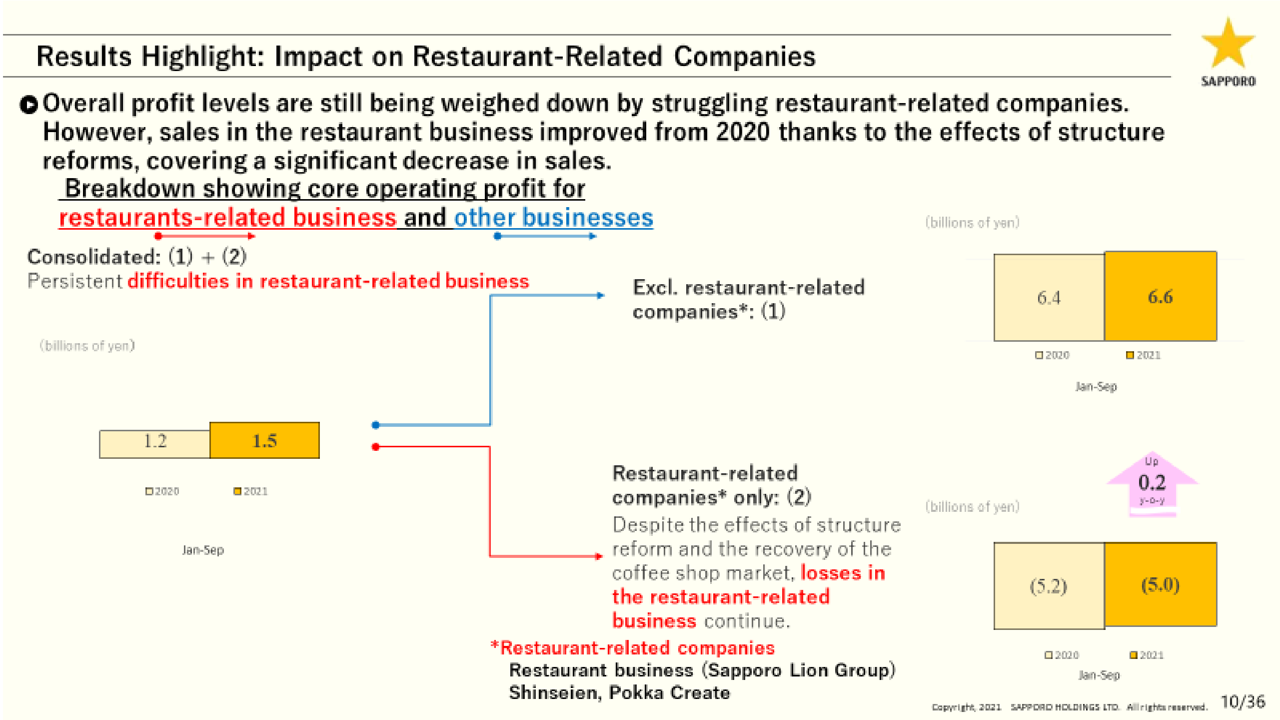

Page 9.

I would like to explain the quarterly sales, business profit, and final profit.

In Q2, sales were on a recovery trend and increased, but in Q3, as I mentioned, sales and profits decreased due to the impact of the coronavirus.

In Q3, sales decreased by JPY6 billion. On the other hand, business profit in Q3 alone was JPY5 billion, a decrease of JPY1.2 billion from the previous year due in part to the effects of cost structure reforms, and we have maintained an increase in profit for the 9-month period.

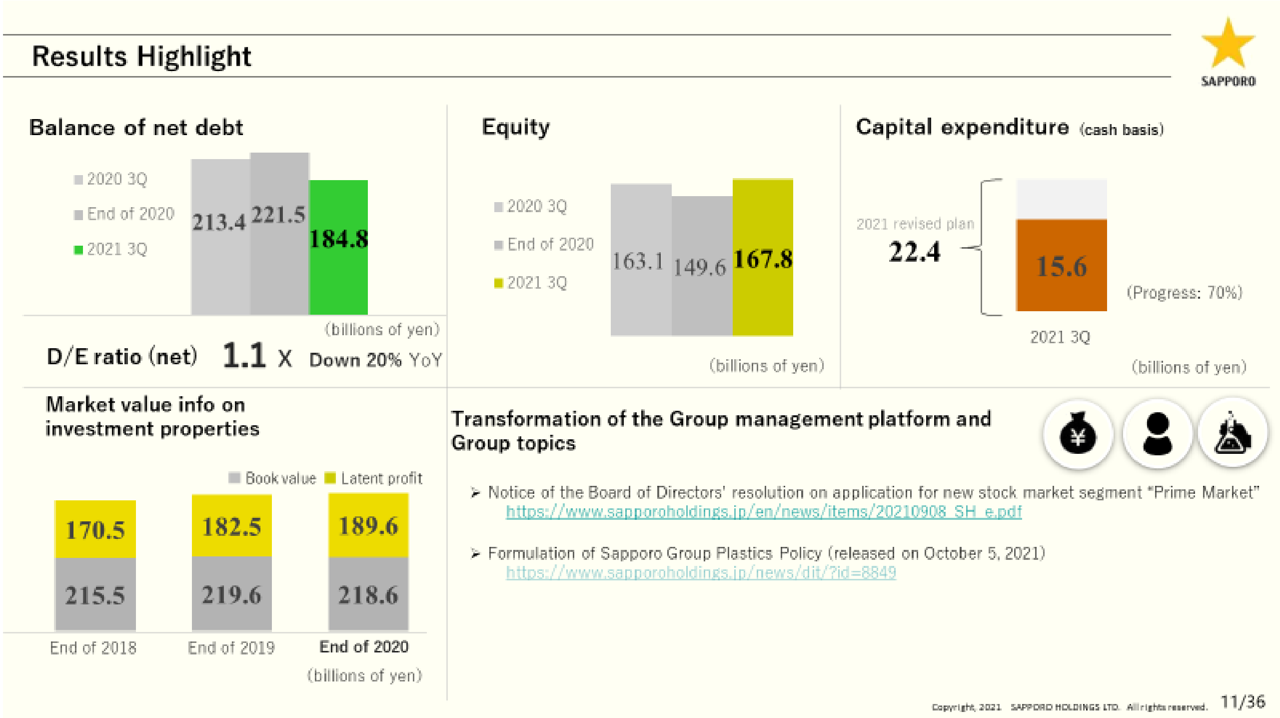
Net income attributable to owners of the parent company has increased significantly due to the gain on the sale of real estate in Q2.




Please see page 10.

As you have already seen several times, it is about an impact of restaurant-related companies. This is a profit situation of these 3 groups: Sapporo Lion Group, Shinseien, which is centered on the Sapporo Beer Garden in the domestic alcoholic beverages business, and CAFÉ de CRIÉ, which is in the food and soft drinks business segment.

Due to the struggles of food service companies, overall profit levels continued to be depressed. On the other hand, food service companies experienced a significant drop in sales, but their operating income was a loss of JPY5 billion, an improvement of JPY0.2 billion from the previous year due to structural reforms.




Please go to page 11.

This is a financial highlight.

Net financial debt was JPY184.8 billion, a significant decrease as we used the cash generated from the sale of real estate to repay debt.

Capital was JPY167.8 billion, a significant increase from the end of the previous fiscal year, due to the increase in profits.

Capital investment is JPY15.6 billion through Q3, which is about 70% of the annual plan.

The market value information of real estate investment is unchanged as of the end of the previous fiscal year. As of the end of the previous fiscal year, we had approximately JPY190 billion in unrealized gains.

## Revenue by Segment

SAPPORO

| (billions of yen) | 2020 3Q Result | 2021 3Q Result | YoY changes (amount) | YoY changes (%) |
|---|---|---|---|---|
| **Revenue by Segment** | 315.3 | 309.1 | (6.3) | (2.0%) |
| **Alcoholic Beverages** | 206.8 | 202.0 | (4.8) | (2.3%) |
| Japanese | 163.7 | 158.3 | (5.4) | (3.3%) |
| Overseas | 34.8 | 39.5 | 4.7 | 13.6% |
| Restaurants | 8.3 | 4.2 | (4.1) | (49.9%) |
| **Food & Soft Drinks** | 91.0 | 90.4 | (0.6) | (0.6%) |
| **Real Estate** | 17.5 | 16.5 | (0.9) | (5.4%) |
| **Other** | 0.1 | 0.1 | (0.0) | (0.0%) |

Factors are explained in the next slide





Please go to page 12.

Sales revenue by segment.

For domestic alcoholic beverages, sales of Black Label and Yebisu for home use have been very strong. RTD sales also increased significantly. On the other hand, we were unable to make up for the decline in commercial beer sales, which totaled JPY158.3 billion, down JPY5.4 billion from the previous year.

Overseas, sales increased by JPY4.7 billion due to increased sales of the Sapporo brand in North America and other areas, as well as the effect of foreign exchange rates.

As for food services, as I explained earlier, most of the days there were some kind of restrictions on business, including the declaration of a state of emergency, and sales dropped by 1/2 to JPY4.2 billion.

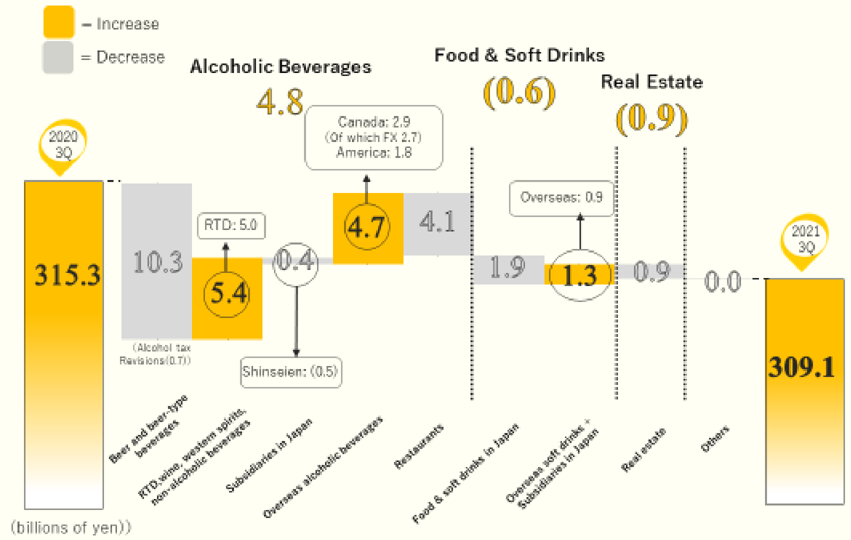
In the food and soft drinks business, overseas sales were strong due to a steady recovery from the coronavirus in Singapore during the January-September period, but domestic sales of beverages were sluggish, falling JPY0.6 billion from the previous year to JPY90.4 billion.

In the real estate business, revenue decreased by JPY0.9 billion from the previous year to JPY16.5 billion due to the negative impact of the operation of Yebisu Garden Place and the sale of real estate properties.

## Main Contributors to Changes in Revenue

SAPPORO

**Revenue of RTD, overseas alcoholic beverages and soft drinks rose, but overall revenue declined due to struggling commercial-use beer and restaurant business (down 6.3 billion yen).**




(billions of yen)

| | YoY Changes | | | |
|---|---|---|---|---|
| | Total | 1 Q | 2 Q | 3Q |
| Total | (6.3) | (9.9) | 9.7 | (6.0) |
| Alcoholic Beverages | (4.8) | (6.7) | 6.9 | (4.9) |
| Japanese | (5.4) | (3.9) | 3.4 | (4.9) |
| Beer and beer-type beverages | (10.3) | (4.3) | 1.0 | (7.0) |
| Beer | (7.7) | (4.1) | 1.4 | (5.0) |
| Happoshu | (0.4) | (0.1) | (0.2) | (0.1) |
| New genre products | (2.2) | (0.1) | (0.2) | (1.9) |
| RTD, wine, western spirits, non-alcoholic beverages | 5.4 | 1.0 | 2.5 | 1.8 |
| RTD | 5.0 | 1.3 | 1.8 | 2.0 |
| Wine, western spirits, non alcoholic beverages | 0.3 | (0.2) | 0.7 | (0.2) |
| Subsidiaries in Japan | (0.4) | (0.7) | (0.1) | 0.4 |
| Overseas | 4.7 | (0.1) | 3.2 | 1.6 |
| Restaurants | (4.1) | (2.7) | 0.3 | (1.7) |
| Food & Soft Drinks | (0.6) | (2.8) | 2.7 | (0.5) |
| Food & soft drinks in Japan | (1.9) | (1.9) | 0.9 | (0.9) |
| Overseas soft drinks + Subsidiaries in Japan | 1.3 | (0.9) | 1.7 | 0.5 |
| Café de Crié, Blue Seal | 0.3 | (0.6) | 0.7 | 0.2 |
| Overseas soft drinks + Subsidiaries in Japan | 1.0 | (0.3) | 1.0 | 0.2 |
| Real Estate | (0.9) | (0.4) | 0.1 | (0.6) |
| Others | (0.0) | 0.0 | (0.0) | (0.0) |




Please go to page 13.

The main factors of sales revenue are described in the waterfall graph.

In the alcoholic beverages segment, total sales in the alcoholic beverages segment decreased by JPY4.8 billion due to the struggles of restaurants and commercial-use beer. This includes a JPY10.3 billion decline in beer sales. However, the revision of the liquor tax, which increased the tax on new genres, had a positive impact. On the other hand, beer sales were negatively affected by the tax cut, so the net effect of the tax increase and tax cut was JPY0.7 billion. The breakdown by genre is shown in the table on the right.

Sales of other alcoholic beverages, including RTDs, increased by JPY5.4 billion. Most of this increase is due to the increase in RTDs.

Overseas sales of alcoholic beverages increased by JPY4.7 billion, with JPY2.9 billion in Canada. Of the JPY2.9 billion, JPY2.7 billion is due to foreign exchange factors. JPY1.8 billion in the US. The foreign exchange factor is 0.

In the restaurant business, the Sapporo Lion Group posted a loss of JPY4.1 billion.

Domestic food and soft drinks sales were down JPY1.9 billion due to the struggles in the drinking water segment.

Overseas soft drinks sales, which are mainly in Singapore, increased by JPY0.9 billion, and the total food and soft drinks segment decreased by JPY0.6 billion.

Real estate saw a minus of JPY0.9 billion, of which JPY0.6 billion was mainly due to the decline in the occupancy of Yebisu Garden Place. Sales of properties, et cetera, totaled JPY0.3 billion.

The total decrease in revenue was JPY309.1 billion, a decrease of JPY6.3 billion.

## Core Operating Profit by Segment

| (billions of yen) | 2020 3Q Result | 2021 3Q Result | YoY changes (amount) | YoY changes (%) |
|---|---|---|---|---|
| Core Operating Profit by Segment | 1.2 | 1.5 | 0.4 | 31.7% |
| Alcoholic Beverages | 0.3 | 0.0 | 0.3 | (85.9%) |
| Japanese | 3.8 | 2.4 | (1.4) | (37.0%) |
| Overseas | 0.4 | 1.6 | 1.2 | (269.1%) |
| Restaurants | (4.1) | (3.9) | 0.1 | — |
| Food & Soft Drinks | (2.3) | (0.3) | 2.1 | — |
| Real Estate | 8.0 | 6.4 | (1.6) | (20.0%) |
| Other・General corporate and intercompany eliminations | (4.8) | (4.6) | 0.2 | — |

Factors are explained in the next slide




Please go to page 14.

This is the business profit by segment.

Business profit through Q3 was JPY1.5 billion, an increase of JPY0.4 billion.

In the alcoholic beverages business, profit were slightly positive, down JPY0.3 billion from the previous year. Profit of domestic alcoholic beverages were JPY2.4 billion, a decrease of JPY1.4 billion, and the struggle for business use during the height of the summer season had a very large impact.

Overseas profit increased by JPY1.2 billion from the previous year to JPY1.6 billion due to increased sales and the effect of foreign exchange rates.

In the restaurant business, soft drinks were cut in half, but the deficit improved by JPY0.1 billion from the previous year due to the reduction of fixed costs because of the structural reforms we have been working on since last year.

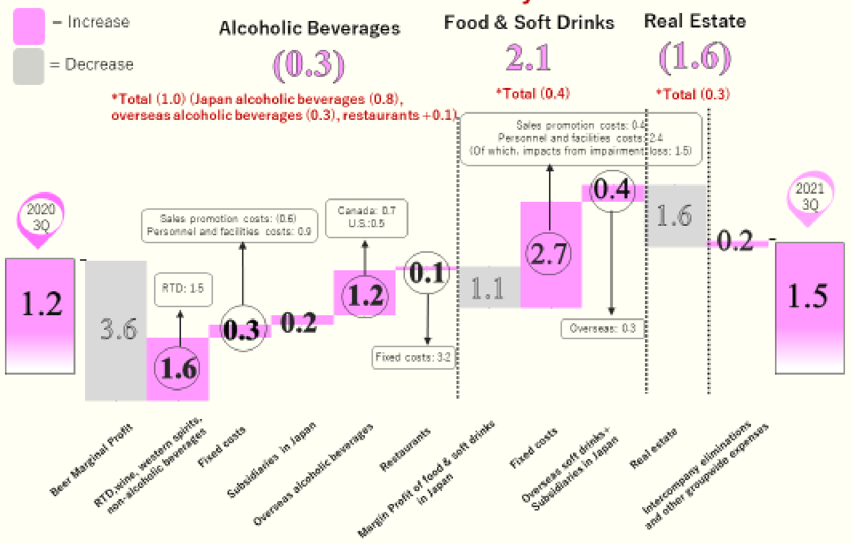
In the food and soft drinks segment, there will be a decrease of JPY1.5 billion in depreciation cost due to impairment losses at Pokka Sapporo in Japan and overseas. In addition, due to the reduction of fixed costs and the growth of overseas operations, although the deficit was JPY0.3 billion, it improved to JPY2.1 billion from the previous year.

In the real estate business, there was a negative impact of JPY1.6 billion. Main factor of decrease was due to the impact of the accounting system, including the impact of the real estate business, which was written off as an extraordinary loss in the previous fiscal year, resulting in a negative impact of approximately JPY0.6 billion. Also, there were a negative impact of JPY0.6 billion due to a decline in the occupancy rate of Yebisu Garden Place, and JPY0.3 billion due to real estate sold.

## Main Contributors to Changes in Core Operating Profit

While profit declined in commercial-use beer, new-genre beer, and the Real Estate business, growth in RTD, recovery overseas, and cost controls resulted in an increase of 0.4 billion yen in profit.

➡ Also covered a reversal of 1.8 billion yen of COVID-19 loss transfer*




(billions of yen)

| | YoY Changes Total | 1Q | 2Q | 3Q |
|---|---|---|---|---|
| Total | 0.4 | (0.7) | 2.3 | (1.2) |
| Alcoholic Beverages | (0.3) | (0.4) | 1.3 | (1.1) |
| Japanese | (1.4) | (0.1) | 0.7 | (2.0) |
| Beer Marginal Profit | (3.6) | (1.8) | 0.4 | (2.2) |
| Sales of beer and beer-type beverages | (1.8) | (1.2) | 0.9 | (1.4) |
| Sales of happoshu | (0.2) | (0.0) | (0.1) | (0.1) |
| Sales of genre products | (2.7) | (0.6) | (0.6) | (1.5) |
| Difference in beer sales composition by container type + manufacturing costs | 1.1 | 0.1 | 0.2 | 0.7 |
| RTD,wine, western spirits, non-alcoholic beverages | 1.6 | 0.1 | 0.7 | 0.9 |
| Fixed costs | 0.3 | 1.3 | (0.6) | (0.4) |
| Subsidiaries in Japan | 0.2 | 0.2 | 0.3 | (0.2) |
| Overseas | 1.2 | 0.3 | 0.4 | 0.4 |
| Restaurants | 0.1 | (0.5) | 0.2 | 0.5 |
| Food & Soft Drinks | 2.1 | 0.3 | 1.2 | 0.6 |
| Marginal Profit of food & soft drinks in Japan | (1.1) | (0.8) | 0.3 | (0.6) |
| Sales of food & soft drinks in Japan | 0.1 | (0.6) | 0.6 | 0.0 |
| Manufacturing costs | (1.1) | (0.2) | (0.4) | (0.6) |
| Fixed costs | 2.7 | 1.2 | 0.5 | 1.0 |
| Overseas soft drinks +Subsidiaries in Japan | 0.4 | (0.1) | 0.4 | 0.2 |
| Real Estate | (1.6) | (0.5) | (0.3) | (0.8) |
| Intercompany eliminations and other groupwide expenses | 0.2 | (0.1) | 0.2 | 0.1 |




Please go to page 15.

A waterfall graph on page 15 shows the main points of change in business profit.

The decrease in marginal profit due to the decline in sales of beer products was a negative JPY3.6 billion. Marginal profit increased by JPY1.6 billion due to increased sales of RTDs and other products. The reduction of fixed costs is JPY0.3 billion.

For overseas business profit, JPY0.7 billion for Canada and JPY0.5 billion for US were added.

For food and soft drinks profit, as explained on page 14, we have improved by JPY2.1 billion, including a decrease in depreciation cost on the flip side of impairment and a reduction in fixed costs.

Due to the impact of the coronavirus, the difference between last year and this year is JPY1.8 billion. Taking this JPY1.8 billion into account, we believe that the reduction in fixed costs had a significant positive impact on profits.

## Profit attributable to owners of parent

| (billions of yen) | 2020 3Q Result | (Details) | 2021 3Q Result | (Details) |
|---|---|---|---|---|
| **Core operating Profit** | 1.2 | | (1.5) | |
| Other operating income | 2.7 | Gain on sales of non-current assets: 1.0 billion yen | 25.5 | Gain on sales of non-current assets: 23.2 billion yen COVID-19 related subsidies: 1.9 billion yen |
| Other operating expenses | 5.9 | Coronavirus losses 3.6 Early retirement program lump sum payments 1.2 | 3.1 | Coronavirus losses 1.6 |
| **Operating Profit** | (2.0) | | **23.9** | |
| **Profit before tax** | (2.9) | | **23.9** | |
| Income taxes | (1.7) | | 8.2 | |
| **Profit** | (1.2) | | **15.7** | |
| Loss attributable to non-controlling interest | (0.2) | | (0.1) | |
| **Profit attributable to owners of parent** | (0.9) | | 15.7 | |




Please go to page 16.

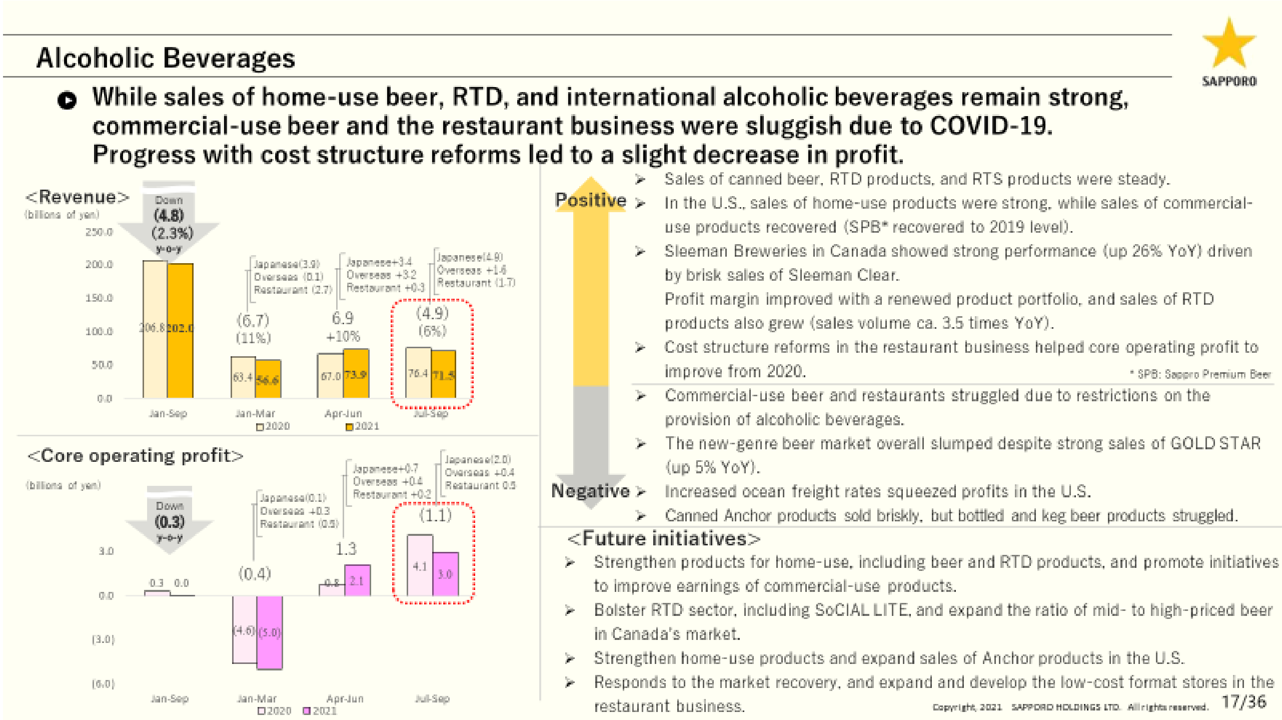
I would like to briefly explain the breakdown of profit listed below business profit, which is the net income attributable to owners of the parent company.

Other operating revenues increased significantly to JPY25.5 billion. The main item was a gain of JPY23.2 billion on the sale of real estate. Coronavirus-related subsidies were JPY1.9 billion.

Other losses are decreasing due in part to the reversal of early retirement expenses recorded last year, and other losses due to the coronavirus were JPY1.6 billion.

As a result, operating income was JPY23.9 billion, an increase of JPY26 billion from the previous fiscal year.

Net income attributable to owners of the parent, or final profit, was JPY15.7 billion, an increase of JPY16.7 billion over the previous year, as we were still in the red in the previous year.




Please go to page 17.

We have listed the positive and negative aspects of each quarter's sales and business profit.

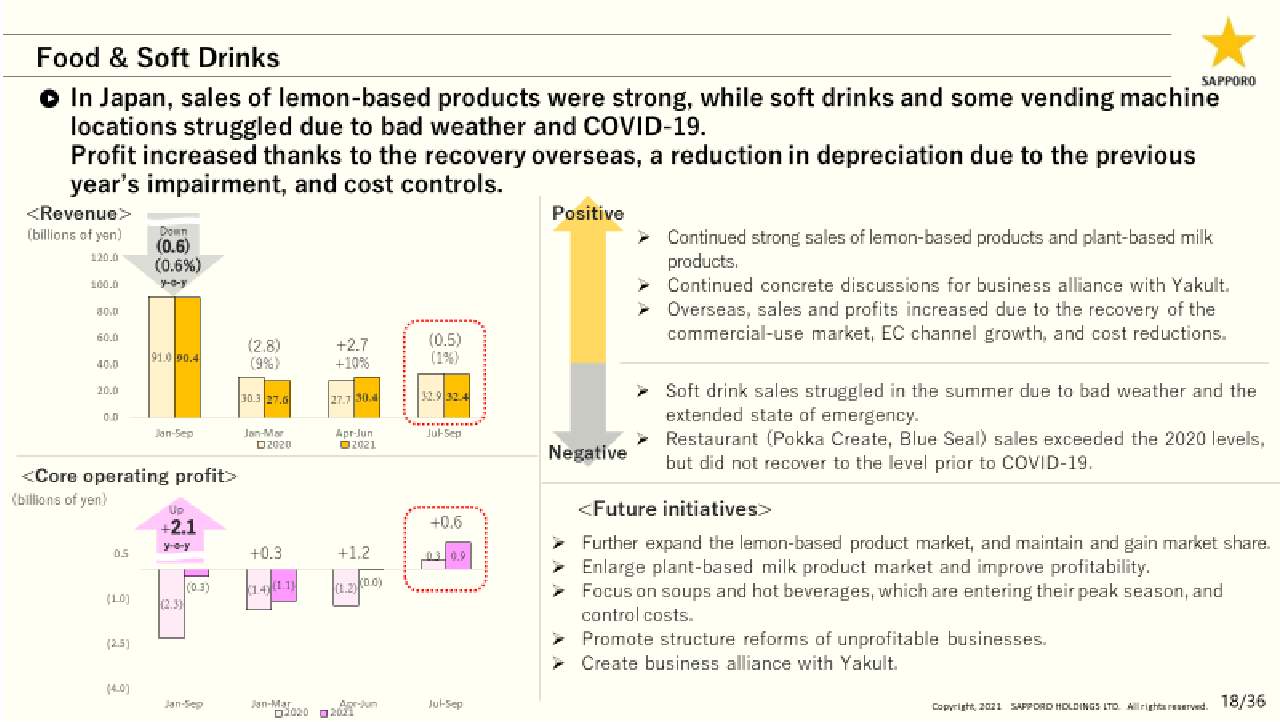
The July to September sales figures for the alcoholic beverages business shows that sales in the alcoholic beverages business declined by JPY4.9 billion in Q3 alone, indicating that the coronavirus had a significant impact during the height of the summer season.

As a result, operating income decreased by JPY1.1 billion from the previous fiscal year.

As for future initiatives, we will continue to strengthen our domestic sales of products for home use and promote efforts to improve profitability of products for commercial use.

RTD business, which was acquired by Sleeman Breweries, Canada, will be greatly expanded together.

In the US, we will work to increase the turnover, as well as expand the aspect of the Sapporo brand in home use. As for Anchor Beer, the renewed cans are doing very well, and we will work to continue the growth of can beer and focus on re-launching the commercial-use business.




Please go to page 18.

Page 18 shows the sales and business profit by quarter for the food and soft drinks business, with the positive and negative points, and future initiatives.

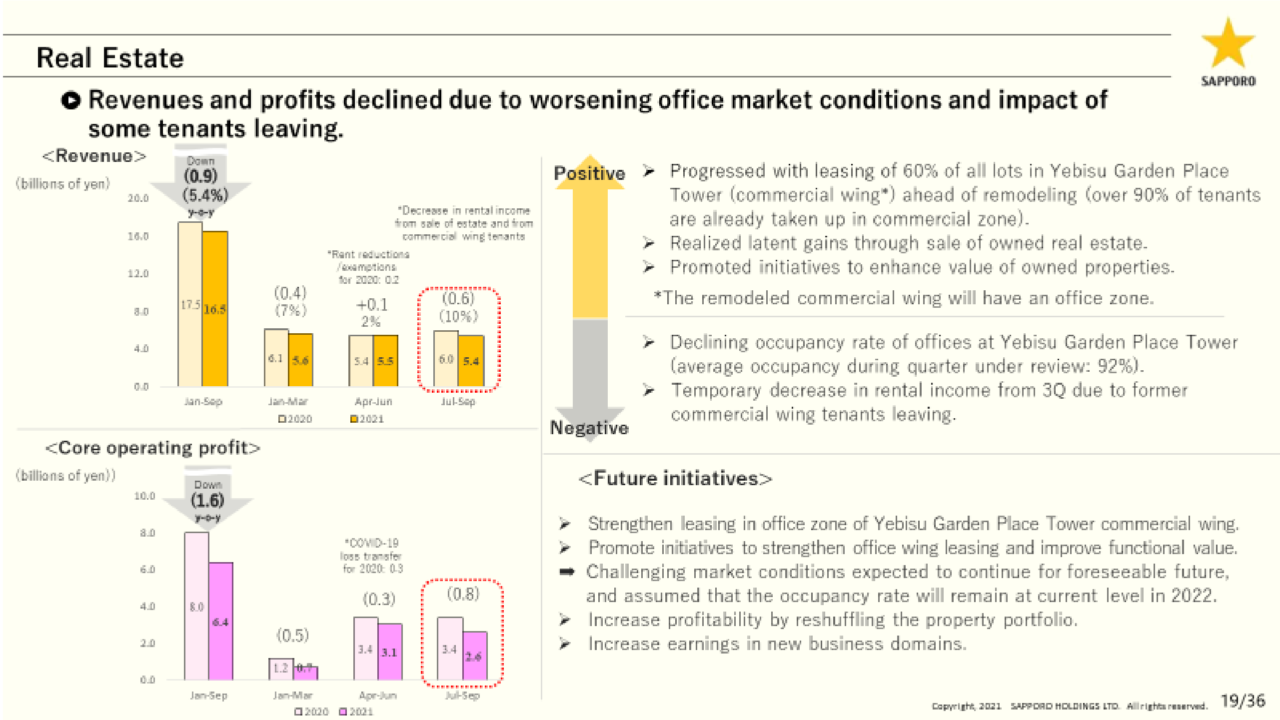
The food and soft drinks business were affected by weather factors rather than the coronavirus, and struggled in Q3.

Operating income increased due to a decrease in depreciation expenses resulting from the reversal of impairment losses and the effect of headcount reduction.

Looking ahead, we will work to continue the strong growth of our lemon beverage business. As for plant milk, in addition to soymilk yogurt, we would like to accelerate our growth by including increased sales of almond milk, which has recently become a hot topic.

Unprofitable businesses are typically vending machines. We will continue our efforts to remove unprofitable machines and reduce maintenance costs.

Also, regarding the alliance with Yakult, I have nothing new to share with you as of today, but would like to ask for some more time as we are making good progress toward a business alliance.




Please see page 19.

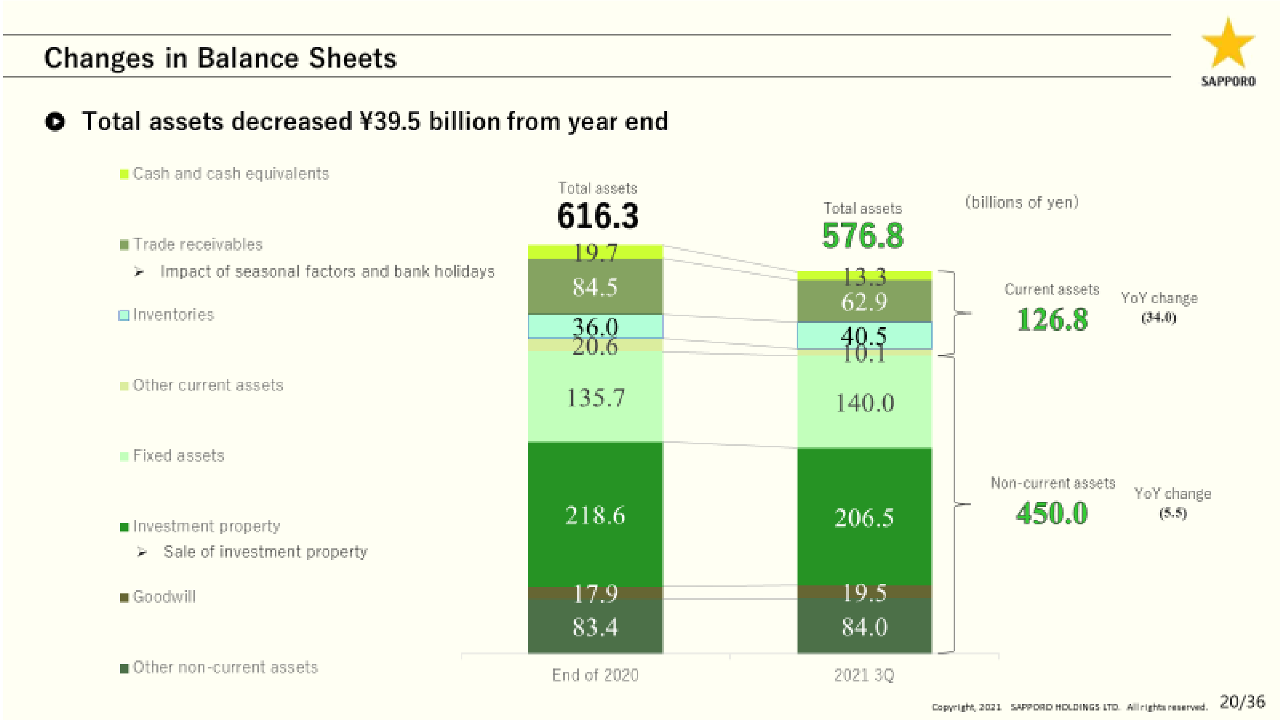
This shows the sales and business profit per quarter for the real estate business, with positive and negative points.

The deterioration in the office market is expected to continue for some time to come. Yebisu Garden Place will also be affected by this, and the current occupancy rate is expected to continue.

Currently, we are considering carrying out strategic long-term repairs to Yebisu Garden Place based on such assumptions. It has been about 30 years since Yebisu Garden Place was built, and we would like to make the most of the current difficult real estate market conditions and carry out strategic repairs for future growth.

Leasing for the commercial building is progressing smoothly, and we expect to open the building as scheduled in the fall of next year.

We will continue to promote the replacement of our property portfolio. We will continue to focus on business development in new businesses such as securitization and equity.



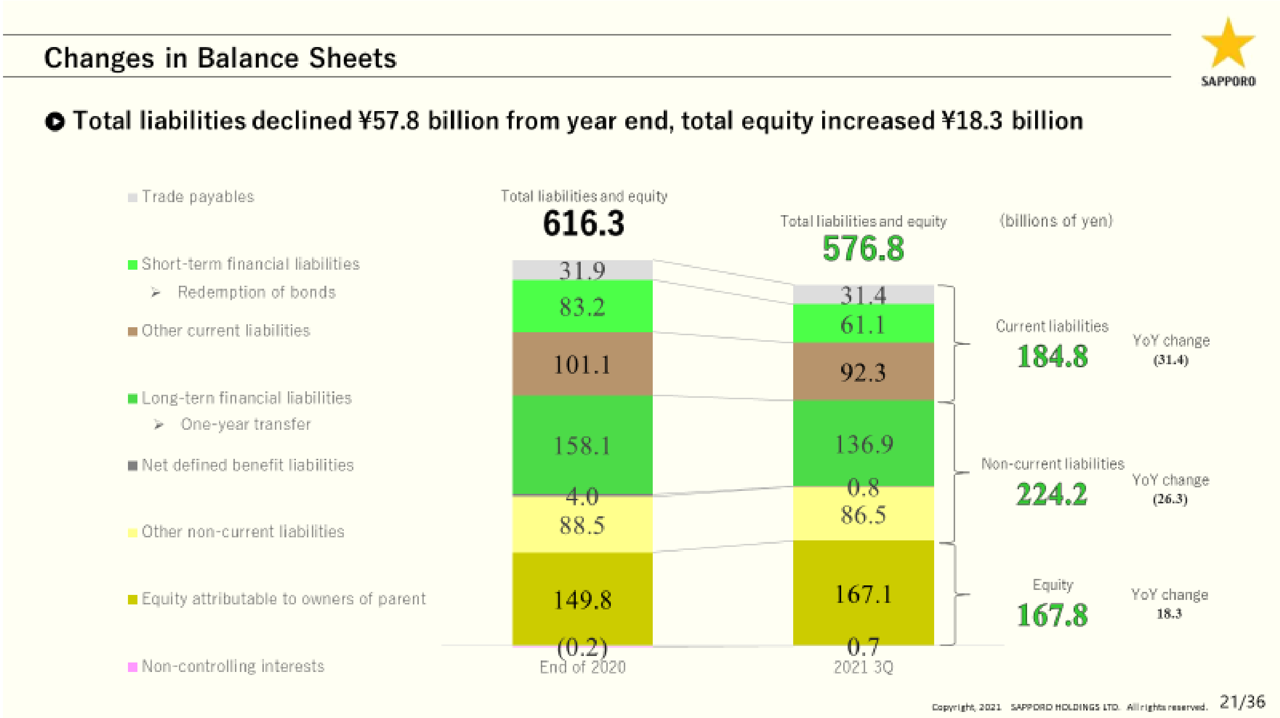

Go to page 20.

This is the status of the balance sheet.

In terms of assets, total assets decreased by JPY39.5 billion from the end of the previous fiscal year to JPY576.8 billion. The main reason for this was a decrease in trade receivables. There are also seasonal factors. In addition, trade receivables decreased due to bank holidays.

For cash and cash equivalents on hand, we had a slightly larger amount at the end of the previous fiscal year due to our preparations for the coronavirus pandemic, but we have returned to a normal situation, and as a result, current assets posted JPY126.8 billion, a decrease of JPY34 billion YoY.

Non-current assets totaled JPY450 billion, a decrease of JPY5.5 billion. The main reason for this is the sale of investment properties.

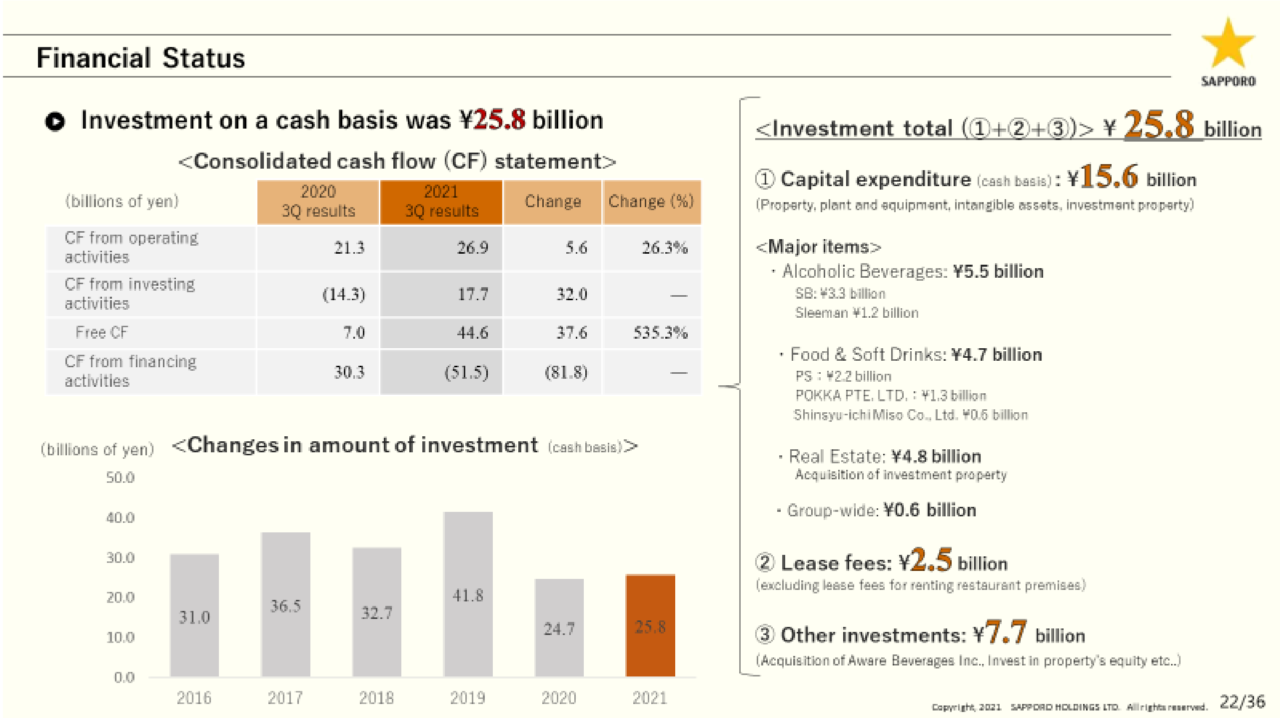



Please see page 21.

This is the liabilities and equity section of the balance sheet.

Total liabilities decreased by JPY57.8 billion from the end of the previous fiscal year. The cash generated from the sales of real estate is used to repay debt.

For equity, total equity increased by JPY18.3 billion YoY to JPY167.8 billion, due in part to an increase in net income.




Go to page 22.

For financial situation, I would like to talk about cash flow. In addition to operating cash flow, investment cash flow from the sale of real estate increased significantly, and as a result, free cash flow was JPY44.6 billion, an increase of JPY37.6 billion YoY.

Since that portion was used to repay loans, cash flow from financing activities was negative JPY51.5 billion.

Cash flow from investment was expected to be JPY25.8 billion, about the same as the previous fiscal year.

The following is an updated version of the sales volume data for each business as reference material. Please look at them when you have time.

This concludes my explanation. Thank you very much for your time today.

**Moderator**: Thank you very much for your explanation.

## Question & Answer

**Moderator**: We will now begin the question and answer session.

If you have a question, please state your company name and your name followed by your question when your turn to ask a question comes and the moderator calls your name.

We will now begin the question and answer session. Please ask 1 question at a time. Thank you. Also, to answer questions from as many people as possible, we will limit the number of questions to 2 per person.

Now, first, Mr. Saji of Mizuho Securities, please ask a question.

**Saji**: Thank you very much. 2 questions, but 1 question at a time, please. About the so-called raw material cost hike for next year, and I believe that the issue of raw material cost hike is emerging in various industries. In the beer industry, there is a concern about the rising cost of aluminum cans and other containers. What is your view of the current situation, and what impact, if any, will it have on the next fiscal year? This is my first question.

**Iwata**: My name is Iwata. Thank you for your question. As for the next fiscal year, we are currently discussing the budget for the next fiscal year within the Company. As Mr. Saji mentioned, requests from material manufacturers and raw material manufacturers have been coming in from all over the world, and when we add them up, the entire group is requesting an increase in costs on the scale of more than JPY1 billion.

At the same time, however, we are discussing with material manufacturers about procurement methods to reduce costs, and we are currently examining internally how much we can absorb. We would like you to wait until we announce our financial results in February next year to find out exactly what will happen.

Mr. Saji was talking about cans, but our concern is not only cans, but also raw materials, such as malt, which we import as the Japanese yen is weakening. There are things like coffee and sugar. If we put all these together, it would amount to the billions of Japanese yen that I mentioned earlier, and we are currently having internal discussions to reduce the cost. That is all.

**Saji**: Thank you very much. Is it correct to understand that the amount is more than JPY1 billion, and that it is not so large that you need to consider raising the price at this point?

**Iwata**: In Japan, we would like to pass on as much of the cost as possible while monitoring the relationship with our competitors and the market, but we are not in an environment where we can do so, so we will first consider how much we can absorb through self-help efforts.

Overseas, we have been affected by the high cost of raw materials as well. The labor cost has been increasing every year, and that part is being passed on to the price. We will continue to pursue such a policy overseas.

**Saji**: Thank you very much. As for the next year, I understand that the market environment has improved considerably since October, so I would like to know how you feel about the next year.

I think it is difficult to predict at this point what will happen, such as the sixth wave, even though it has been improving from October in Q4. The profitability of the alcoholic beverages business has been declining considerably, but you can expect improvement in the next fiscal year since you have lowered your fixed costs considerably, so I feel that if sales return to normal, profits will also return to normal. For example, what is your view of the market, aggregate demand, and your view on the recovery of profitability, and what guidance can you give us at this point?

**Iwata**: First, regarding the situation during the year, at the time of the announcement of Q2 financial results in August, I told you that total demand for beer was 96%. At this point, we expect the rate to be around 95%.

In terms of the outflow from new genres to beer and RTD, the new genre sales were slightly lower than the August forecast at around 90%. As for the cans, the rate is about 100%, which is almost the same as we expected in August.

As for bottles and kegs, there was a drop during the summer and the peak season, so bottles accounted for 83%, kegs 75%, and bottles and kegs combined 77%, which is a 6% to 7% decrease from the August forecast.

Q4 alone saw about 107% for beer. Sales of bottles and barrels were about 122%, and in October, as I mentioned earlier, our sales were 108%. From November onward, total demand is expected to recover beyond the previous year, although it will depend on the status of this coronavirus. Still, for bottles and barrels, it's about 76% compared to 2019. We are still a little short of the pre-coronavirus level.

As for the forecast for 2022 and the next fiscal year, as I mentioned a little bit in August, at this point we have not made any updates since August. As of August, in terms of YoY comparisons alone, the figures for the current fiscal year will be different. We are expecting a 104% for beer in the next year, and a nearly 50% growth in bottles and barrels. Aside from the previous year, we are planning for next year's bottled and kegs beer sales to be around 70% of the 2019 level, the same as in Q4.

In the restaurant business, Sapporo Lion has been closing unprofitable stores and reducing its workforce, and with sales at 70% of the 2019 level, the Company will break even, so in theory, the deficit of JPY5 billion in this fiscal year could disappear next fiscal year.

I would like to provide a more detailed explanation of the status of the Group's overall profit and impact in February. What I can say with certainty is that the reduction in the number of employees will have an effect of more than JPY2 billion this fiscal year, and there will be a decrease of approximately JPY2 billion in depreciation expenses due to the reversal of impairment losses this fiscal year alone. Considering these factors, we believe that the fixed cost portion of the structural reform can be expected to be positive. That is all.

**Saji**: Thank you very much. I just want to confirm 1 point. As you explained, the real estate business will remain almost flat next year, and the occupancy rate will not improve easily, so is it correct to say that it will be difficult to increase a profit?

**Iwata**: It depends on the point in time you place it, but with the real estate business being in a severe situation right now, rather than just strengthening leasing and lowering rents to make up for it, we are now thinking that it will be more beneficial to increase profitability by properly carrying out repairs over the medium to long term. The rest will depend on how much we can accumulate new investments in areas such as equity and securitization in the future.

**Saji**: Do commercial buildings make profit?

**Iwata**: The commercial buildings will open in early fall, so its impact on the next fiscal year will be about a quarter.

**Saji**: I see. I understand. Thank you.

**Iwata**: Thank you very much.

**Moderator**: Thank you very much, Mr. Saji. Now, let me move on to the next question. Nomura Securities, Mr. Fujiwara, please ask your question.

**Fujiwara**: Hello, good evening. I'm Fujiwara from Nomura Securities. Thank you. I'd like to ask you about the management of fixed costs and the control of sales promotion expenses. I think the way you use sales promotion expenses has changed since the coronavirus crisis occurred last year, but I got the impression that you have a surprisingly firm control over sales promotion expenses.

Through the coronavirus pandemic, I have an impression that the cost management approach has become very precise and well controlled. I would like to ask you how you are managing these costs, and how your management capabilities are in this area. Please.

**Iwata**: Thank you for your question. In terms of cost control, for home use, sales conditions will be adjusted to match sales, and expenditures will be made. This is also the case with the commercial-use products, but we are shifting from fixed expenses to variable expenses, or a ratio based on sales. As for RTDs, of course, there is competition with other companies, and we, of course, respond to certain conditions.

On the other hand, the marketing department is working on how to use sales promotion expenses in a way that not only sells volume, but also raises profits. In that sense, those things are working.

As for the commercial-use business, sales are also declining, so we reduce the number of employees through early retirement program as we have done since last year, or rather, we keep sales personnel in slightly more efficient positions, review some of our sales bases, and change the way we use expenses from fixed to proportional.

In terms of investment in new products, mainly Sapporo Breweries Ltd. is trying to increase profitability by monitoring the situation and being aware of the ROI of the investment rather than investing a lot in an initial period.

**Fujiwara**: After the coronavirus disaster, the beer market itself shrank a bit, and demand is not expected to completely return in the next fiscal year. I have the impression that the standards for budget management, or the standards for internal review, or the standards for being allowed to spend this amount of money, are becoming stricter, or something like that.

**Iwata**: As you said, like marketing ROI, but we are looking at sales and expenses to make sure we can get a good return on them. What we have learned over the last year is that we should not just hand over all the money at once and spend it, but rather allocate expenses to the sales force in the field while keeping an eye on the sales situation, including the freezing of preliminary expenses and expenses that can respond to sudden changes, such as the sudden loss of activities or sales during the coronavirus pandemic. We think we should improve this ability more.

**Fujiwara**: I understand. 1 more thing, in overseas alcoholic beverages, particularly in North America, the 9 months total shows an increase in profits compared to last year, but I think that profits are also increasing compared to 2 years ago. Please share what areas, if any, are becoming stronger in terms of revenue structure compared to the pre-coronavirus pandemic. That's all.

**Iwata**: Thank you very much. First, Sleeman, Canada, we are working on a variety mix, including the development of highly profitable brands, such as Sleeman Clear.

In the US, SAPPORO USA and Anchor have been separate organizations, but since last year, we have been reviewing our sales and production systems. In this sense, we have made great progress in reviewing fixed costs, including personnel costs, and have established a system in which an increase in sales contributes to an increase in profits. For the US market, I believe that the system has become such that if sales increase, profits will follow.

In the case of Sleeman, the ratio of RTDs to total demand is still low, so we will work to increase RTD sales to bring it in line with the market composition, including the expansion of SoCIAL LITE, which we acquired. That is all.

**Fujiwara**: I understand. The break-even point has been lowered, and I think you have been working hard this year to develop new products, and the effects of these efforts are starting to show. Yes, I understand. Thank you.

**Iwata**: Thank you very much.

**Moderator**: Thank you very much, Mr. Fujiwara. Now, let me move on to the next question. Mr. Sumoge of Okasan Securities, please ask your questions.

**Sumoge**: This is Sumoge of Okasan Securities. Thank you very much. First, I would like to confirm something about restaurants. I think you mentioned earlier that if sales compared to 2019 is 70%, it is break even, and that there is a possibility of eliminating the deficit.

I wonder if they followed what was said in August. However, as with alcoholic beverages, I would like to confirm whether this break-even is realistic in light of the recent situation with regard to food service. At the level of JPY19 billion in full-year sales, the revenue growth rate will be quite high, so let me check if this is a bit of a realistic figure. Thank you.

**Iwata**: Thank you for your question. As for the current situation, as I mentioned, sales of restaurant industry are at 90% of the previous year's level. The total demand for bottled and keg beer for the next fiscal year is expected to be about 70% of the 2019 level. As of October, the number has already reached nearly 90% compared to the previous year, but it is still about 70% of the 2019 level, and I think there is a great possibility of achieving 70%.

For existing stores alone, in the case of Lion, we have been closing stores that are losing money, so existing store sales are over 100%. As of October, sales were down 10% compared to 2020, and 50% to 60% compared to 2019. This trend has continued in November and December, and since October, sales have been continuing. The 70% of the 2019 sales level will depend in part on the coronavirus situation, but we believe that it is possible.

**Sumoge**: I see, thank you very much. If we look at the number of days of operation of restaurants, which is shown on slide 7, the total number of restricted days of operation has returned to a very high level of 60% since the emergency declaration was lifted in October. Even if we were to simply discount this, we were already almost at 0 after January in H1 of the year, especially after March. If we take this into account, can we assume that the profit will come back with a very high probability?

**Iwata**: I think you are right. The specific figures are still in the budget formulation stage, but as I have been saying, we will break even at 70% against 2019. Lion expects to post a deficit of about JPY5 billion, or more than JPY4 billion, for the current fiscal year, so if we can achieve 70% of the 2019 sales level, we will be able to eliminate that deficit. We are currently working to determine how much we can expect to spend next fiscal year. I would like to explain the specific figures again in February. That is all.

**Sumoge**: Yes. Thank you. 1 more point I would like to ask you briefly is on slide 18, the future initiatives for the food and beverage business. It is mentioned that you are promoting structural reform of unprofitable businesses. I think this includes the vending machine business, which the President mentioned in August, and possibly other businesses as well. Please tell us a bit more about this.

You may not be able to discuss the details of the current situation until February, but I would like to know what your strategy is at this point. Thank you.

**Iwata**: Thank you very much. In the food and soft drinks business, we have a large number of businesses, including drinking water, soups, lemon drinks, soymilk yogurt, a cafe business run by a subsidiary, and a direct sales vending machine business. 1 of the biggest issues is the direct sales of vending machines, and the direct sales business has seen an increase in losses due to the impact of the coronavirus crisis.

At present, we are working on cost reduction measures, such as removing unprofitable machines and reducing repair costs, as I have mentioned each time. However, we still need to make more in-depth reforms, so I can't give you any concrete details yet, but we would like to proceed with efforts to reduce the deficit by targeting the direct sales business of vending machines.

In the food business, we also have cafes that serve food. In the past, the cafe was a profitable business, but due to the impact of the coronavirus, it is now in the red. For cafes, there are also franchise stores, so we cannot simply reduce the business structure and deficits by closing loss-making stores. However, we can reduce the number of unprofitable stores under our direct management. The question is how to create a system that will attract customers considering the reopening.

We believe that the largest chunk of the market will be food service in the food category, such as vending machines and cafes. That is all.

**Sumoge**: Thank you very much. As for the vending machines, I think the President said that he hoped to have something in place by the end of this year. If you can tell us a bit, I will be happy. As for the cafe, is this something you envision for the next fiscal year and beyond?

**Iwata**: As for the cafe, as you pointed out, the impact from the coronavirus has now ended, so we are now working to bring it back into the black, and it is an issue for the next fiscal year and beyond.

As for the vending machines, it is already the end of the year, and it is November, so it is very regrettable that I cannot explain it here now, but when you asked me about it, I think you said that you were thinking about it, not just enthusiastic about it. We will continue to work as hard as we can to reach a conclusion as soon as possible, which is only 2 months away. I am sorry, I cannot tell you more today.

**Sumoge**: Thank you very much. I just wanted to confirm that the story is still alive. I'm sorry. Thank you. That's all.

**Iwata**: Thank you very much.

**Moderator**: Thank you very much, Mr. Sumoge. Now, since we are running out of time, I would like to conclude the question and answer session.

In closing, Iwata would like to say a few words. Thank you.

**Iwata**: Hello, I am Iwata. I would like to thank all investors for taking time out of their busy schedules to attend today's meeting.

In the January to September period, the bottom due to the impact of the coronavirus disaster was reached in the July-September period, and the entire Group will work together to achieve a recovery in Q4 and beyond.

In October, we achieved 108% sales of beer, and our employees' faces have changed dramatically in October and November, and we will continue to work to make this trend produce results.

Thank you very much for your continued support. Thank you very much for your time today. That is all.

**Moderator**: This concludes the online presentation. Thank you very much for your participation until the end of today. Thank you for your continued support.

[END]