SAPPORO HOLDINGS LTD.

Sapporo Holdings Limited

Q4 Financial Results Briefing for the Fiscal Year Ending December 2021

February 14, 2022

Event Summary

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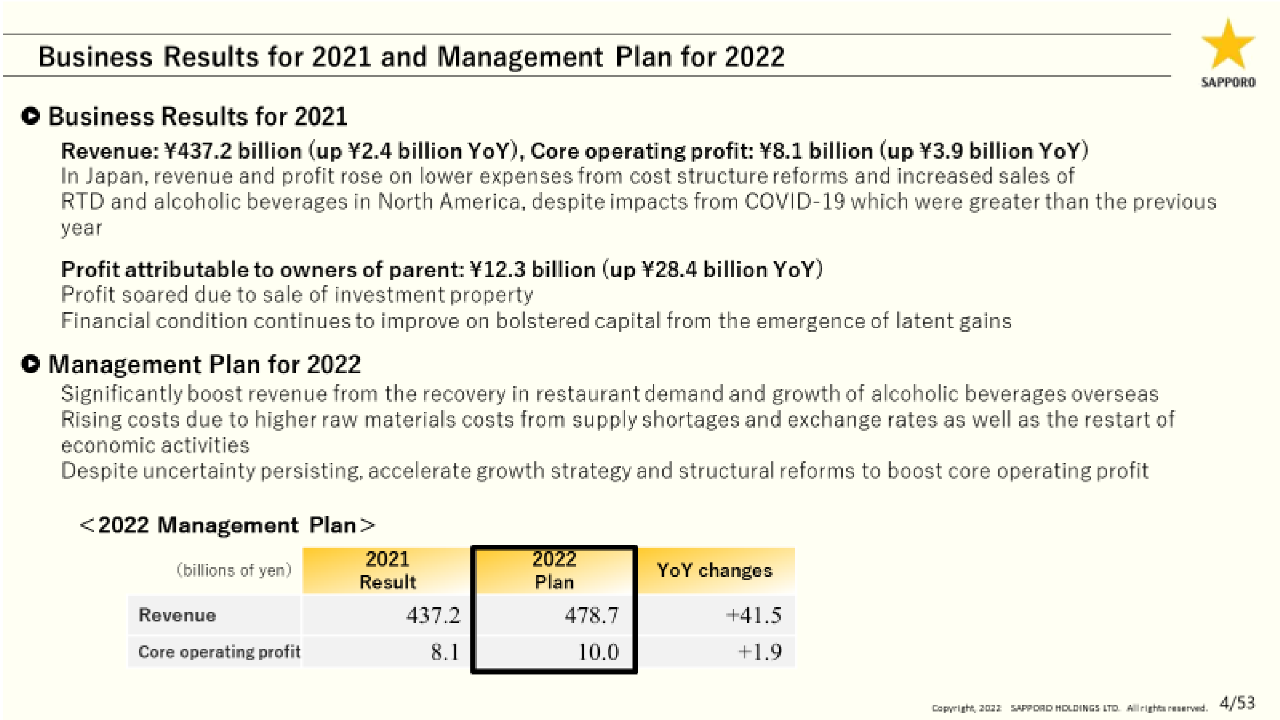
[Number of Speakers]	3	
	Masaki Oga	President and Representative Director
	Yoshihiro Iwata	Managing Director
	Hiroyuki Nose	President and Representative Director, Sapporo Breweries Limited

Presentation

Moderator: Good morning investors. Thank you for participating in today's presentation of Sapporo Holdings Limited's financial results for the fourth quarter of FY2021. The time has arrived, so we will begin now.

Masaki Oga, President and Representative Director of Sapporo Holdings, Yoshihiro Iwata, Managing Director of Sapporo Holdings, and Hiroyuki Nose, President and Representative Director of Sapporo Breweries Limited are present today. Please have the prepared financial statements, supplementary explanatory materials for the financial statements, and PowerPoint presentation of the financial statements at hand.

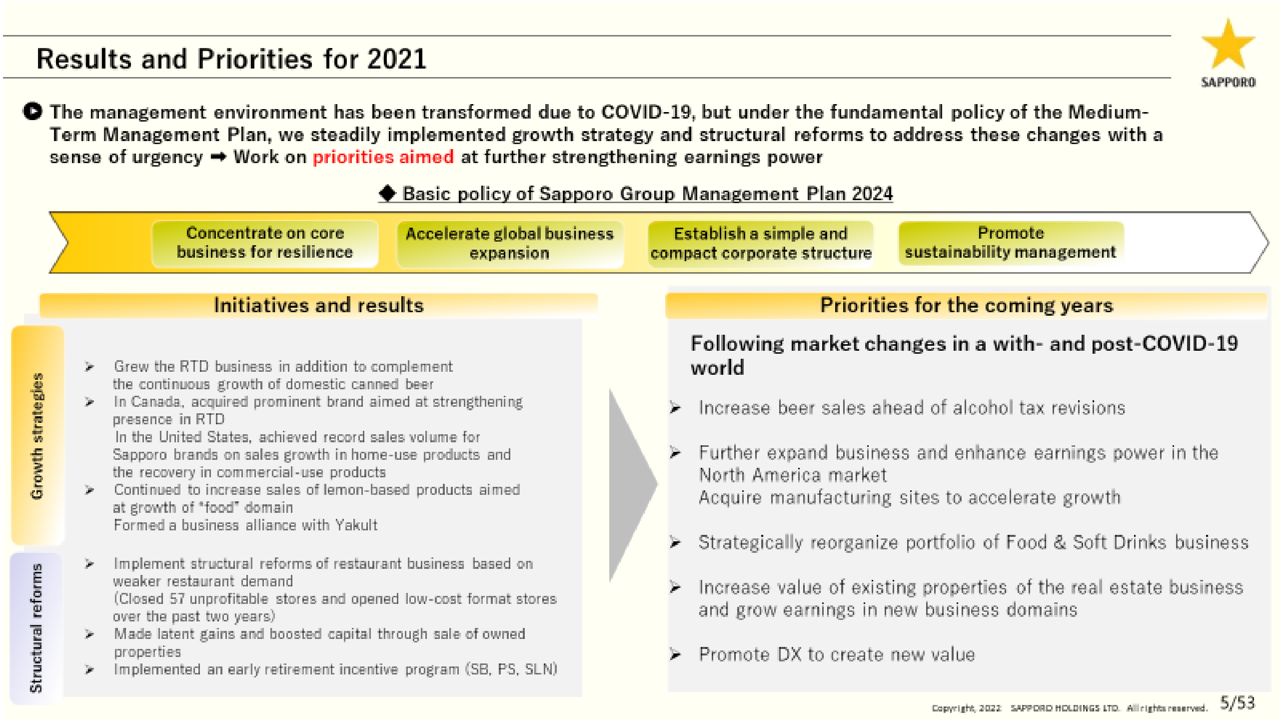
First, Mr. Oga and then Mr. Iwata will give an overview of the financial results for the fourth quarter, based on the PowerPoint presentation, for about 40 minutes, followed by a question-and-answer session. The entire meeting is scheduled to last approximately one and a half hours. The conference call will now begin. Let me start with a presentation from Oga. Please go ahead.



Oga: Good morning. I am Oga. Now, I would like to give you an overview of our business performance for 2021.

I would like you to open the power point presentation to page 4. First, we look back on last year's restaurant business, including Lion, as the most affected. There were many days when business itself was not possible, and as in 2020, food services struggled the most.

In terms of timing, it's the three months of July, August, and September. In the so-called third quarter, during the summer, we perceive that we were very strongly affected. In this environment, we struggled in some areas, but in the alcoholic beverages business, we were able to expand sales both in Japan and overseas, with sales revenue of JPY437.2 billion, up JPY2.4 billion from the previous year, and core operating profit of JPY8.1 billion, up JPY3.9 billion from the previous year. Therefore, we were able to secure an increase in sales and profits.



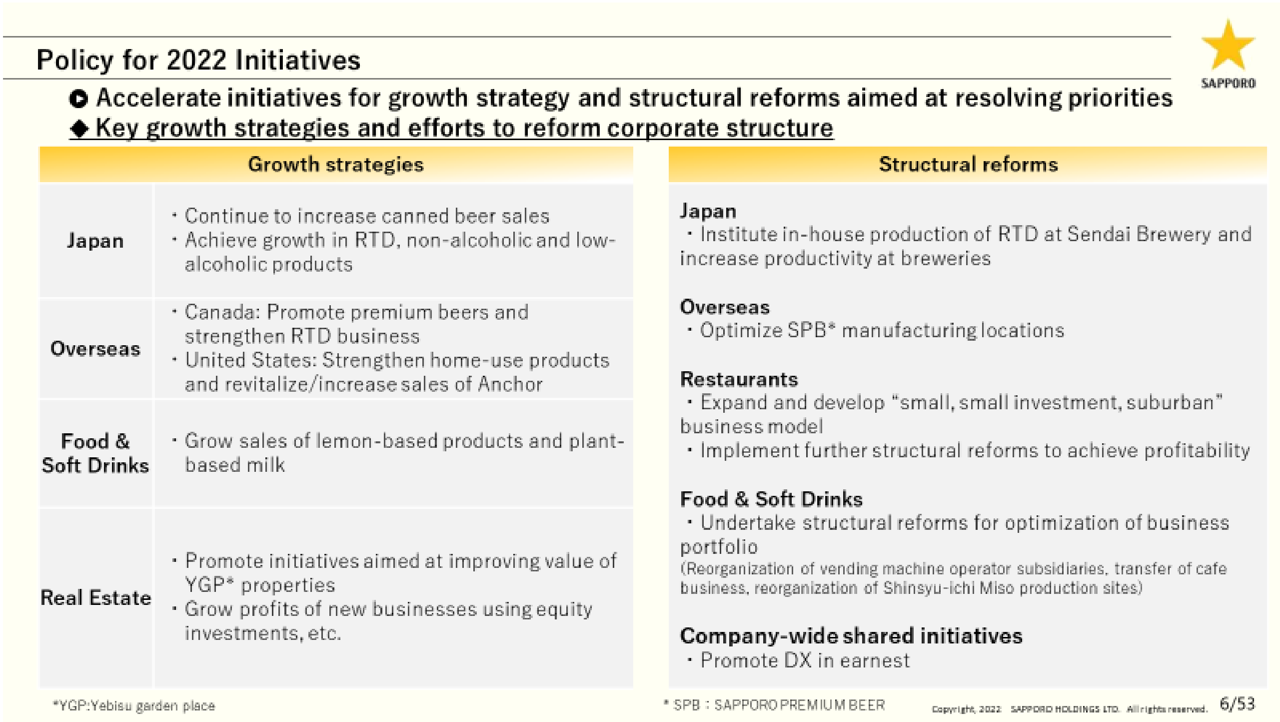
As you can see on the left side of page 5, especially in terms of the results, the so-called canned beer business in Japan has continued to grow, and the RTD business has expanded. As for the North American business, in addition to the introduction of new ready to drink brands, sales volume of the Sapporo brand reached a record high thanks to growth in home-use products, and a recovery in commercial-use products.

In the food sector, lemon products are where we are seeing sustained, continuous growth. In addition, the restaurant business struggled, but we took this as an opportunity to strengthen it and we continued to implement structural reforms as usual. We closed 57 unprofitable stores in two years.

As a result of the sale of properties held by the Company, unrealized gains were realized, resulting in a final net income of JPY12.3 billion, JPY28.4 billion more than the previous year. We believe that we have made progress in strengthening our capital and improving our financial position.

What is the plan for FY2022. First of all, how do you see the market itself? Although there is still a sense of uncertainty about the effect of COVID-19 on part of the market in January and February, from a global perspective, we believe that the market will definitely improve, as some countries, such as Denmark, have begun to abolish all regulations. As a result, we are projecting a significant increase in sales due to a recovery in demand for restaurants, and growth in overseas alcoholic beverage sales.

Although there will be a slight increase in the cost of these activities, as well as an increase in raw material prices and costs associated with the resumption of activities, we are aiming to increase both sales and profits, and are aiming for JPY478.7 billion, and JPY10 billion in core operating profit for 2022. We would like to build on this. Specifically, we believe that we already know exactly what we have to do.



I would like you to look at page 6.

In terms of our policy for 2022, in Japan, we will continue to strengthen our canned beer business, and focus on the growth of RTD. Overseas, we are aiming for growth in RTDs, and the growing Sapporo brand, where sales are expected to increase. As for food and beverages, we have lemon products and plants-milk. We are in the process of expanding this. In terms of real estate, we will continue to work towards the opening of Yebisu Garden Place this year, with the final renovations to be completed in November.

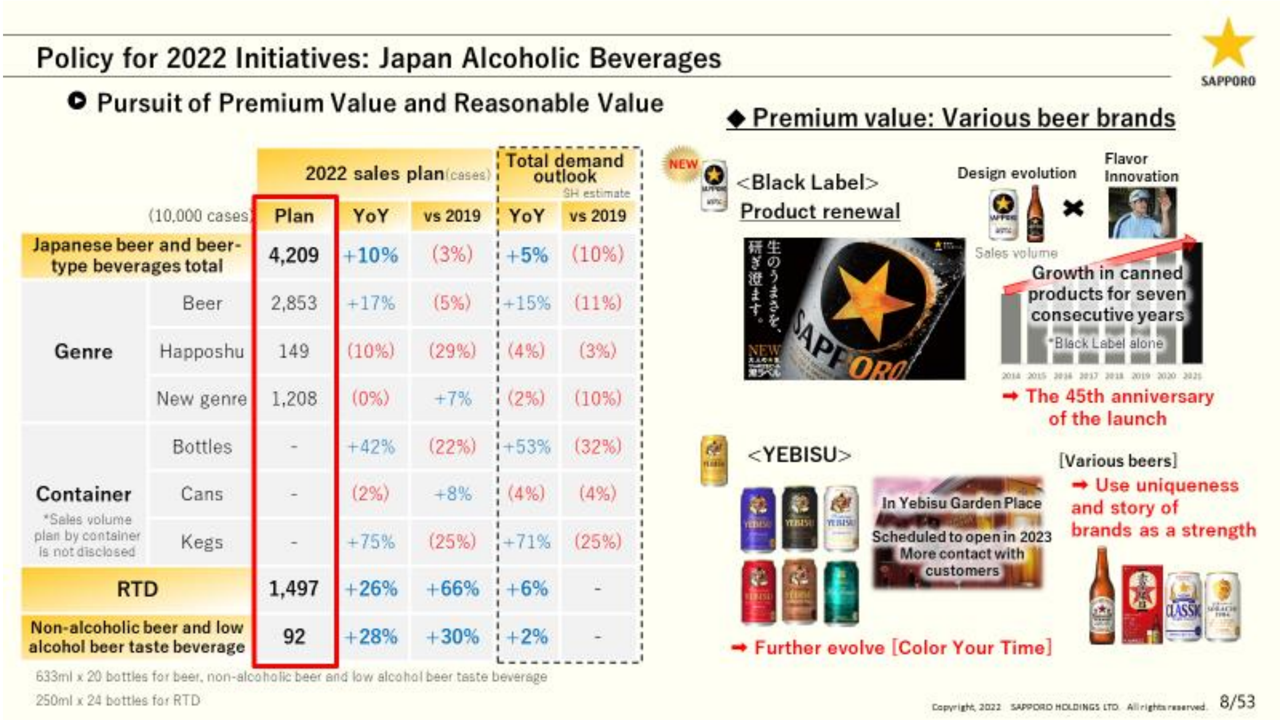
I would like to continue with the efforts we have been making for the past several years.

The Sendai beer plant will be renovated to produce RTD in-house. In addition to the benefits of in-house production, we would like to take steps to increase the productivity of beer production. In particular, we would like to optimize the location of our beer production facilities in North America. This has been our company's dream for many years, and we see it as something that we must do.

In the restaurant business, we will further strengthen our structure to return to profitability. Food and beverages will also be undergoing further structural reforms, and the entire company will be working to promote DX in earnest this year. We will spend money on IT human resources investment across the board. Therefore, we would like to promote efforts to produce IT human resources in all departments, not just in one IT department, through all employees, and sections.

So, although COVID-19 continues, and there is a sense of uncertainty, I believe that 2022 will be the foundation for activities that will lead to 2023, and beyond. This is why I gave you this explanation. That is all.

Moderator: Thank you very much for your presentation. Iwata will continue with the presentation. Please go ahead.



Iwata: Yes. I am Iwata of Sapporo Holdings. I would like to explain the outlook for the current fiscal year (2022), and the details of the financial results for previous fiscal year (2021) via the PowerPoint presentation.

I would like you to look at page 8. First, I would like to explain our full-year forecast for the current fiscal year. First, let's look at domestic sales of alcoholic beverages. Our plan, the total demand forecast by genre and container compared to the previous year, and also compared to 2019. This is the assumption from before COVID-19, so we are stating a comparison to 2019.

We also estimate that total demand for beer in the current fiscal year will be 105% due to an expected recovery in commercial use. In anticipation of next year's liquor tax revision, we will continue our efforts to strengthen our beer products. We will further increase the number of cans of Black Label and YEBISU, which are doing well. The recovery of the commercial-use market has also made a significant contribution, and we plan to achieve 110% sales of beer.

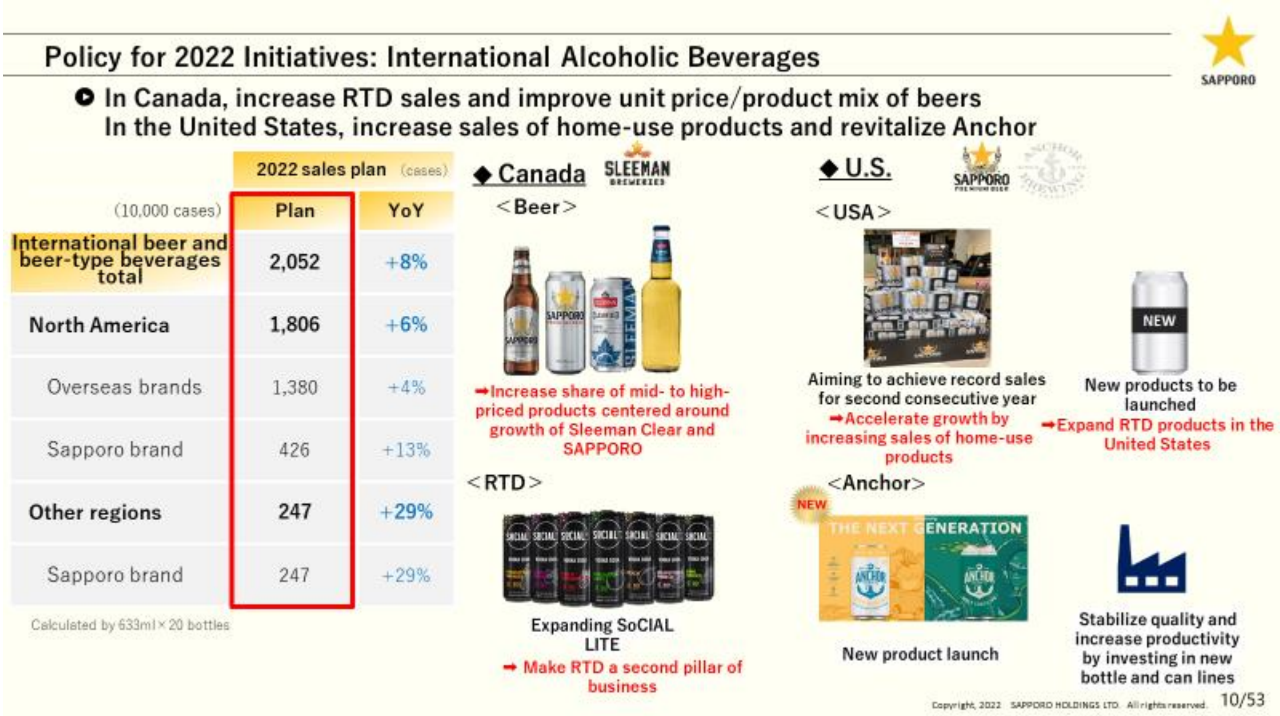
Total demand for kegs is also expected to increase by about 71% due to the recovery from COVID-19, and the our plan was for a 75% increase, so we are expecting a significant increase. However, the pre-COVID-19 level is about 75% of the 2019 level. We will also continue our efforts in the RTD, non-alcoholic beverage, and low alcohol beverage categories, which were the major drivers of our business performance in the previous fiscal year.

I would like you to look at page 9. In terms of new genres and RTDs in the domestic alcoholic beverage market, the total demand for new genres is estimated to have decreased slightly to 98%. We would like to achieve the same level of sales as the previous year in the new genre, focusing on GOLD STAR, which grew last year. GOLD STAR was renewed at the beginning of the year, and we have been able to start almost as planned.

In the RTD category, we will continue to strengthen our product lineup this year with a focus on Strong lemon sour and Otoko-ume. I would like to briefly mention the Sendai Plant renewal that was announced in December last year, which is written in section two of RTD.

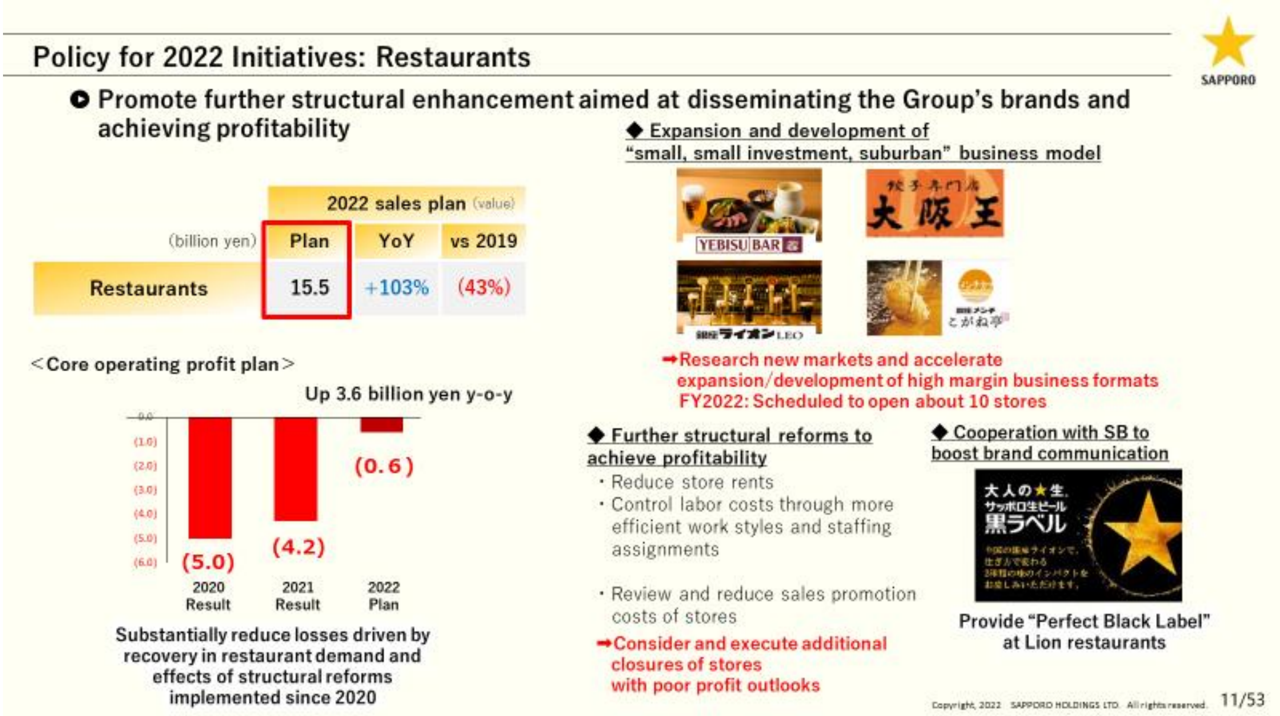
The Sendai plant of Sapporo Breweries will stop producing beer and will be renovated to produce RTDs. As a result, our RTD production capacity will be doubled. In addition, improvements in beer production efficiency are expected to generate approximately JPY1 billion in benefits from the next fiscal year onward. From 2024 onwards, the rate of self-manufacturing of RTDs will increase, and the effect of in-house production is expected to be several hundred million yen.

In connection with the renewal of the plant, JPY1.4 billion was recorded in other operating expenses in the previous fiscal year for removal costs. In addition, amortization of plant equipment will be shortened and amortized this fiscal year, resulting in an increase in annual amortization expenses of approximately JPY1.5 billion. For the new style of drinking, we will continue to focus on DRAFTY, a low-alcohol drink. We are also planning to launch non-alcoholic RTDs, and low alcohol wines.



This is page 10. It is about our overseas alcoholic beverage business. Overseas sales of beer, including local brands and the SAPPORO brand, are expected to exceed 20 million cases this fiscal year. In Canada, we will work to improve the variety mix while expanding strong sales of Sleeman Clear. Utilizing the sales channels of Sleeman, we will greatly expand SoCIAL LITE, an RTD product acquired last year, throughout Canada.

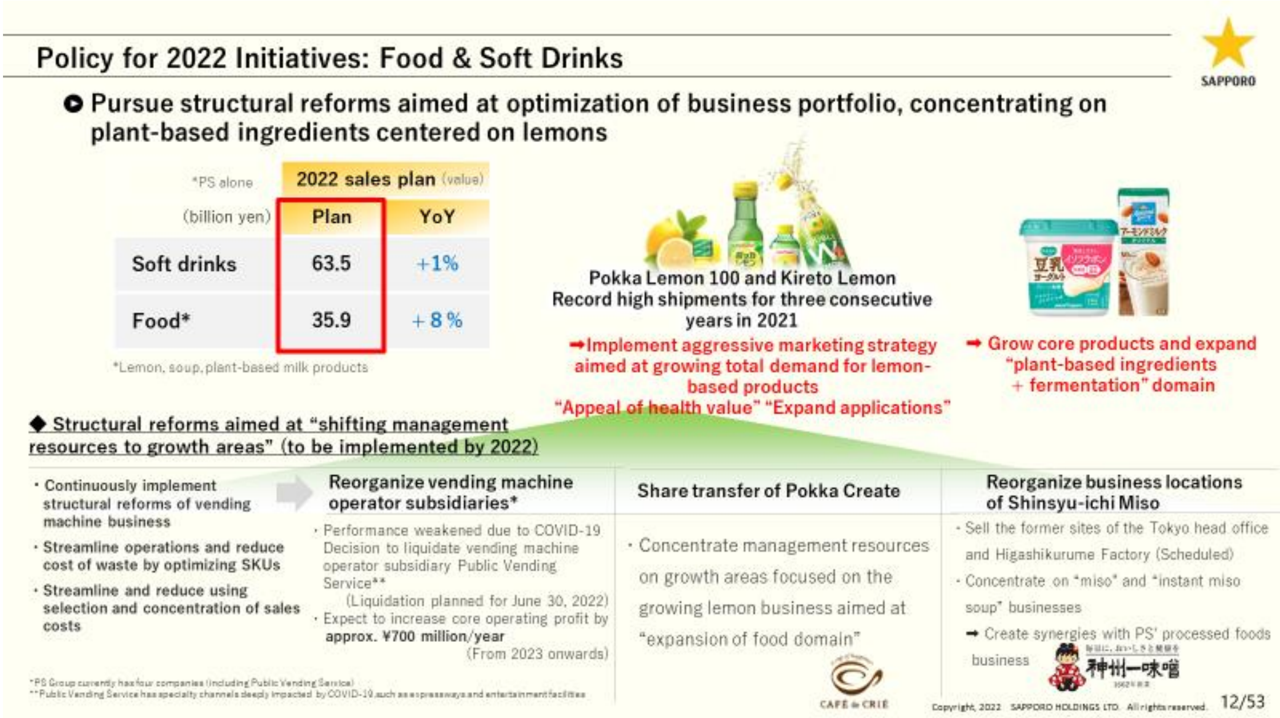
In the US, sales of the SAPPORO brand reached a record high last year. In the current fiscal year, we will further accelerate this process. We are also planning to launch a new RTD product. As for the anchor, the canned products that were renewed last year are doing well, and we would like to accelerate the momentum of canned beer by introducing new products.



I would like you to look at page 11. This is the food service segment. In the restaurant business, we expect a large increase in sales this fiscal year due to the recovery from COVID-19. The restaurant segment is expected to double to JPY15.5 billion, up 103% from the previous year. At present, due to the impact of COVID-19, sales have greatly exceeded those of the previous year, but looking at January, sales are about 40% of those of 2019.

The assumption for the restaurant segment is that January through March will be less than 40% of the 2019 level, which is on par with the current level. With the development of booster inoculations, etc., there has been a gradual recovery in eating out since April, and for the summer, it is about 63%, compared to 2019. For the full year, we plan to achieve 57%, or about 60% of the 2019 level. Last year's fourth quarter was approximately 53% of the 2019 level, which we believe is fully achievable.

The restaurant business has been in the red for the two previous years, and we have been working to bring it back into the black this fiscal year. However, we have taken into account the impact of COVID-19 on sales, and as a result, we are forecasting a loss of JPY600 million in core operating profit. However, since we have become stronger compared to the previous fiscal year, we plan to improve by JPY3.6 billion. Sapporo Lion Ltd. has been rolling out Perfect Black Label at their outlets since the end of last year, allowing customers to experience its delicious taste.



I would like you to move on to page 12. The food & beverage segment. As explained by Oga at the beginning of this presentation, we will continue to promote structural reforms to optimize our portfolio and further grow lemon products and plants-milk. As for beverages, although we will significantly increase sales of lemon beverages, overall sales will remain almost flat due to structural reform of vending machines and other factors. As for food products, we plan to significantly increase sales of lemon products and plants- milk.

As part of our structural reforms to shift resources to growth areas, we will dissolve our subsidiary vending machine operator, Public Vending Service, which is mainly responsible for special routes, at the end of June. The impact of this change on profits is expected in the next fiscal year and beyond. It is expected to have an effect of approximately JPY700 million in core operating profit.

We have already announced last week that we will transfer the shares of Pokka Create, which is in the center, to C-United, which operates Coffee-Kan, Veloce, and other businesses, in April this year. This business also posted a loss in the previous fiscal year, so core operating profit will improve by about JPY600 million this fiscal year. As for Shinshu Ichimiso Co., the company closed its aging Higashi Kurume factory last year, and plans to sell the site. This is expected to improve profits by several hundred million yen from this fiscal year.

As for the expenses associated with the series of structural reforms, the major ones have been allocated at the end of the previous fiscal year, and we do not expect any major expenses to be incurred this fiscal year.

I would like you to move on to page 13. This is about the real estate business. In the real estate business, YGP's occupancy rate declined due to the departure of a major tenant. In addition, the commercial building will open in November this year, so profits will be lower than last year due to the opening costs, and other expenses.

For the next fiscal year and beyond, rent for the commercial building will contribute to the full year. In addition, since there will be no one-time expenses incurred this year, the profit level is expected to bottom out this fiscal year and increase from the next fiscal year. For the office building, we will invest in improving the functions to create a comfortable space for workers. As for new business initiatives, we will strengthen our efforts in the new businesses of Equity and Value Add.

2022: Group Management Plan

SAPPORO

(billions of yen)	2021 Result	2022 Plan	YoY changes (amount)	YoY changes (%)
Revenue	437.2	478.7	41.5	9.5%
Revenue (Excluding liquor tax)	331.2	357.9	26.7	8.1%
Overseas revenue	74.5	83.4	9.0	12.0%
EBITDA	28.6	31.6	2.9	10.3%
Core operating profit	8.1	10.0	1.9	23.2%
Core operating profit margin	1.9%	2.1%	0.2%	—
Operating profit	22.0	7.3	(14.7)	(66.9%)
Profit attributable to owners of parent	12.3	5.0	(7.3)	(59.1%)
EBITDA interest-bearing debt ratio (times) ※Net	6.3	6.1	(0.2)	—
D/E ratio (times) ※Net	1.1	1.2	0.1	—

The balance of debt excludes the balance of lease obligations.

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This is page 14. This is our consolidated management plan. We are forecasting an increase of JPY41.5 billion, or approximately 9.5%, to JPY478.7 billion due to strong growth in domestic alcoholic beverages, food services, and overseas alcoholic beverages.

Overseas sales revenue will be JPY83.4 billion, an increase of 12% from the previous year. The ratio of overseas sales to total sales is expected to be 17.4%. core operating profit is expected to be JPY10 billion, an increase of JPY1.9 billion from the previous year, due to a large decrease in the deficit in the food service and the cafébusinesses, as well as an increase in costs due to high raw material prices, and a decrease in income from real estate.

As for profit indicators below operating profit, operating profit was JPY7.3 billion, a JPY14.7 billion decrease from the previous fiscal year, due to the absence of gains on the sale of real estate in the previous fiscal year. Financial indicators such as net EBITDA debt-to-equity ratio and net debt-to-equity ratio are almost within the range of the figures assumed in the mid-term plan due to the profit and cash inflow from the sale of real estate in the previous fiscal year. We plan to maintain this level for the current fiscal year as well.

Revenue by Segment

(billions of yen)	2021 Result	2022 Plan	YoY changes (amount)	YoY changes (%)
Revenue by Segment	437.2	478.7	41.5	9.5%
Alcoholic Beverages	289.7	333.7	44.0	15.2%
Japanese	228.6	257.8	29.2	12.8%
Overseas	53.4	60.4	7.0	13.1%
Restaurants	7.6	15.5	7.9	103.2%
Food & Soft Drinks	125.5	124.2	(1.2)	(1.0%)
Real Estate	21.9	20.7	(1.1)	(5.2%)
Other	0.2	0.0	(0.2)	(100.0%)

Factors are explained in the next slide

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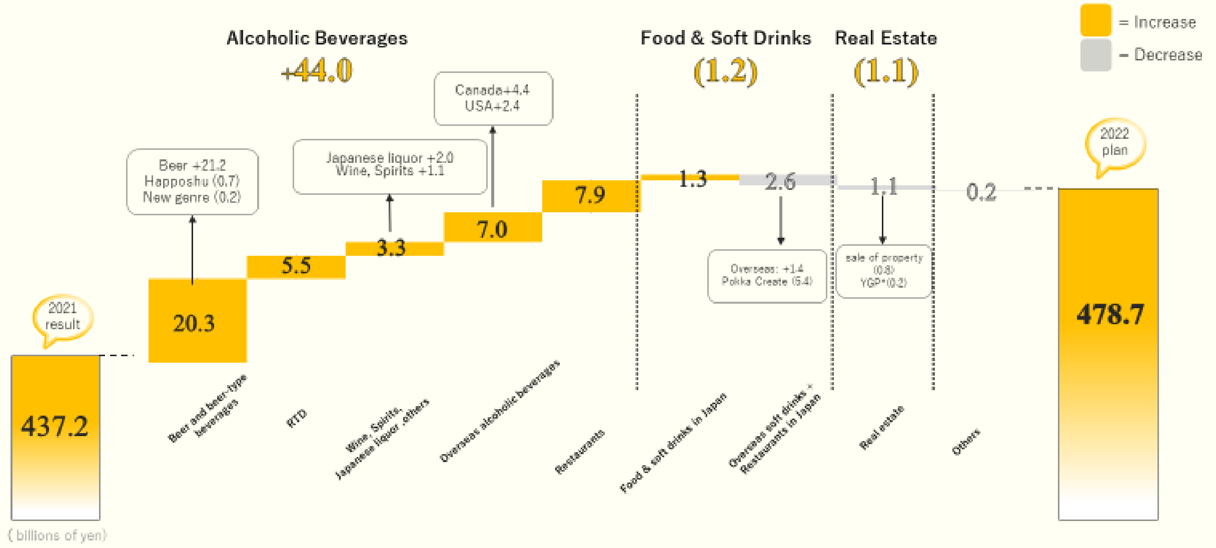
Please refer to page 15. Sales revenue by segment. Sales in the alcoholic beverages segment will increase significantly due to a recovery in restaurant sales, and increased sales of alcoholic beverages overseas. As for domestic alcoholic beverages, sales of beer will increase by approximately 9.5%. RTD and non-beer alcoholic beverages also showed significant growth, resulting in an increase of JPY257.8 billion, or JPY29.2 billion from the previous year. Overseas sales are expected to reach JPY60.4 billion, an increase of JPY7 billion, or 13%, from the previous year due to increased sales of beer not only in North America but also in Asia and other regions.

In the food service sector, the January to March period was less than 40% of the 2019 level. We plan to recover from April and achieve 57% of the 2019 level for the full year. In food & beverage, we will work to grow lemon beverages and food products, but due to the transfer of shares in the café business and the dissolution of a consolidated subsidiary vending machine operator, we expect segment sales to decrease slightly to JPY124.2 billion.

Real estate is expected to decline by JPY1.1 billion from the previous year to JPY20.7 billion due to the impact of the sale of properties and the decrease in YGP rent. As a result, consolidated net sales are expected to be JPY478.7 billion, an increase of JPY41.5 billion from the previous year.

Main Contributors to Changes in Revenue for 2022

Increased revenue mainly from recovery in beer/restaurant businesses and growth overseas



*YGP:Yebisu garden place

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This is page 16. This is a waterfall chart that shows the increase or decrease by factor of what I just explained on page 15. The impact of the sale of Pokka Create is expected to be a negative JPY5.4 billion this fiscal year. As for the breakdown of the JPY1.1 billion decrease in the real estate business compared to the previous year, the impact of the sale of properties was JPY800 million. We expect a JPY200 million impact from the decrease in rent of YGP.

Core Operating Profit by Segment

(billions of yen)	2021 Result	2022 Plan	YoY changes (amount)	YoY changes (%)
Core Operating Profit by Segment	8.1	10.0	1.9	23.2%
Alcoholic Beverages	5.4	9.5	4.1	74.4%
Japanese	7.9	7.5	(0.4)	(5.3%)
Overseas	1.7	2.6	0.9	50.5%
Restaurants	(4.2)	(0.6)	3.6	—
Food & Soft Drinks	0.7	1.7	1.0	133.7%
Real Estate	8.2	6.3	(2.0)	(24.0%)
Other・General corporate and intercompany eliminations	(6.2)	(7.4)	(1.1)	—

Factors are explained in the next slide

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The next page is page 17. This is the business plan by segment. Consolidated core operating profit was JPY10 billion, an increase of JPY1.9 billion from the previous year.

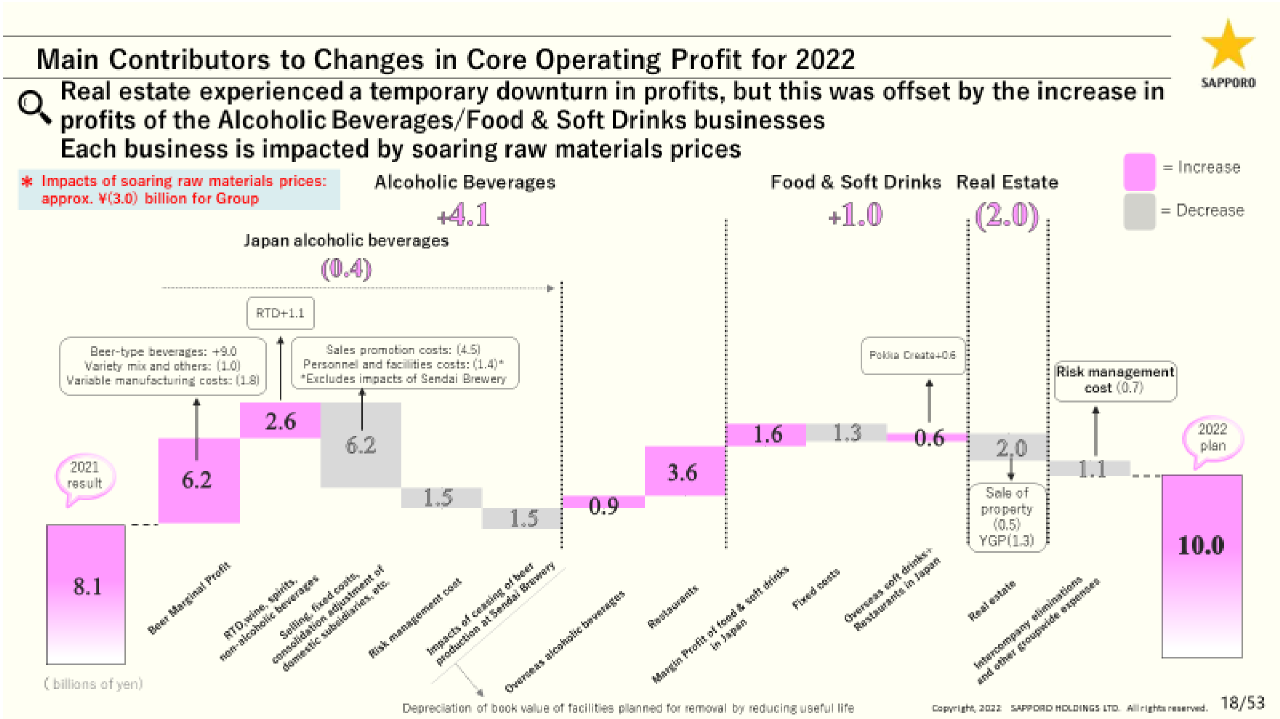
Domestic alcohol beverages within the alcoholic beverages segment totaled JPY7.5 billion, a slight decrease from the previous year. This is an increase of JPY8.8 billion in marginal profit due to increased sales including RTD. The increase in expenses associated with the resumption of activities will be JPY6.2 billion, and the beer sales plan has not been changed from the figures announced at the business policy briefing at the beginning of the year, but there is a risk of a decline in commercial-use sales due to COVID-19.

One is to make up for this with sales of canned products for home use, and the other is to control the management of expenses in line with sales. In addition, we have set aside JPY1.5 billion as a risk response reserve to prepare for risks due to COVID-19's effects on business operations. As I mentioned at the beginning of this report, there will be a temporary increase of JPY1.5 billion in depreciation expenses for the renovation of the Sendai Plant, and after this is taken into account, we plan to increase profits.

Overseas sales of alcoholic beverages are expected to increase by JPY900 million YoY, to JPY2.6 billion, due to higher sales, and an improved product mix. Although we had planned for the restaurant business a loss of JPY600 million, partly due to the fact that sales were based on current conditions. However, it was an improvement of JPY3.6 billion from the previous year.

For food & beverages, net income increased by JPY300 million due to increased salesof Pokka Sapporo Food & Beverage, specifically Lemon products and other products. In addition, with the elimination of cafes deficits , we plan to improve our other businesses by JPY600 million and increase profits by JPY1 billion over the previous year to JPY1.7 billion.

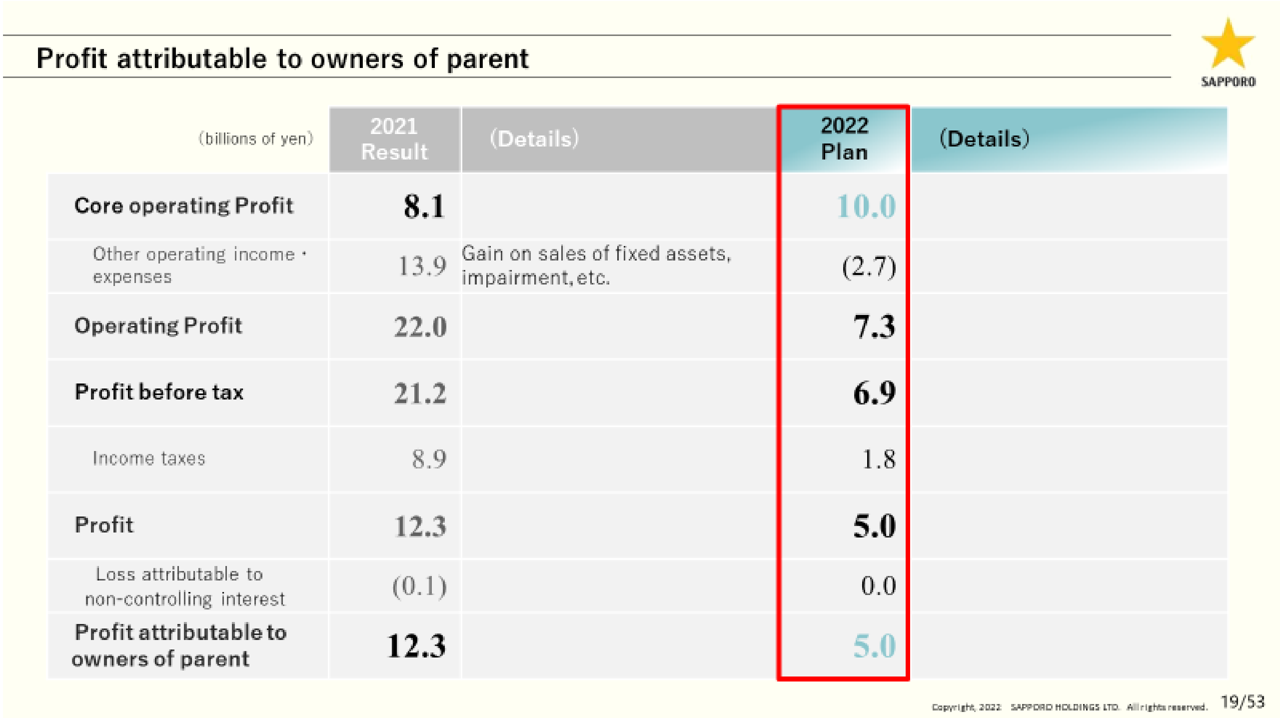
In real estate, the impact of the sale of properties resulted in a YoY increase of approximately JPY500 million. Due to the decline in the occupancy rate of YGP and the opening cost of the commercial building, we expect this to have an impact of JPY1.3 billion compared to the previous year, and plan for a decrease of JPY2 billion compared to the previous year to JPY6.3 billion.



On page 18, the waterfall graph shows the factors behind the YoY increase and decrease I just mentioned. The impact of the high cost of raw materials on the Group as a whole is approximately JPY3 billion, as stated. Specifically, JPY1.3 billion for domestic alcoholic beverages, and JPY600 million for overseas types. Food products, which include overseas, are expected to be impacted by about JPY1 billion.

At the time of the financial results briefing for the third quarter, we mentioned that the impact of the high cost of raw materials was several hundred million yen, but the difference is due to the new inclusion of overseas operations.

As for the cost increase, we will basically pass on the cost increase to overseas customers. In the domestic market, we will make decisions based on market conditions. In addition, we have set aside JPY700 million as a reserve for risk response in our corporate expenses. We would like to ask for your understanding that this is mainly to prepare for a downturn in food service sales in the event that the impact of COVID-19 is prolonged.



Profit attributable to owners of parent

(billions of yen)	2021 Result	(Details)	2022 Plan	(Details)
Core operating Profit	**8.1**		**10.0**	
Other operating income・expenses	13.9	Gain on sales of fixed assets, impairment, etc.	(2.7)	
Operating Profit	22.0		**7.3**	
Profit before tax	21.2		**6.9**	
Income taxes	8.9		1.8	
Profit	12.3		**5.0**	
Loss attributable to non-controlling interest	(0.1)		0.0	
Profit attributable to owners of parent	**12.3**		**5.0**	

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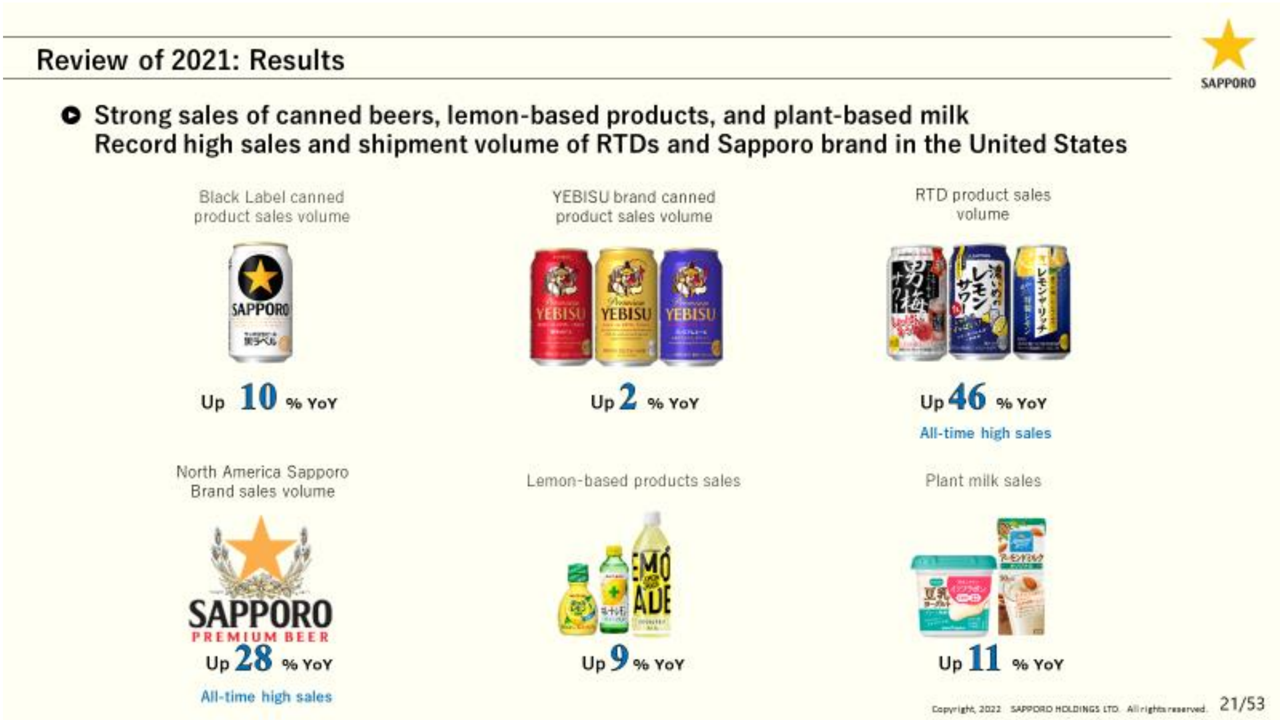
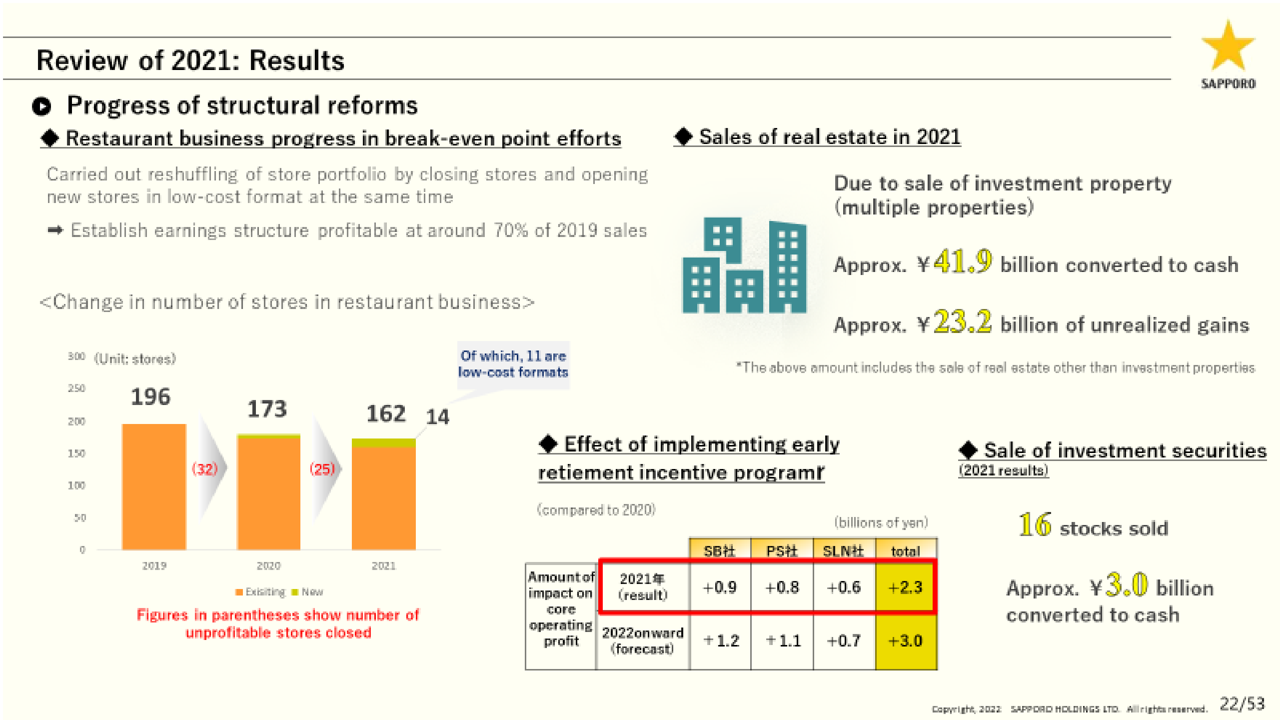
I would like to show you page 19. This is about the profit below the core operating profit. Other operating revenue and expenses were negative JPY2.7 billion, meaning a loss. We do not expect any major losses due to the sale of real estate or structural reforms in the current fiscal year, so please understand that this is in the range of normal retirement of fixed assets and stores.

The indexes below operating profit are expected to decrease due to the reversal of the gain on the sale of real estate in the previous fiscal year. Profit attributable to owners of parent is expected to be JPY5 billion.

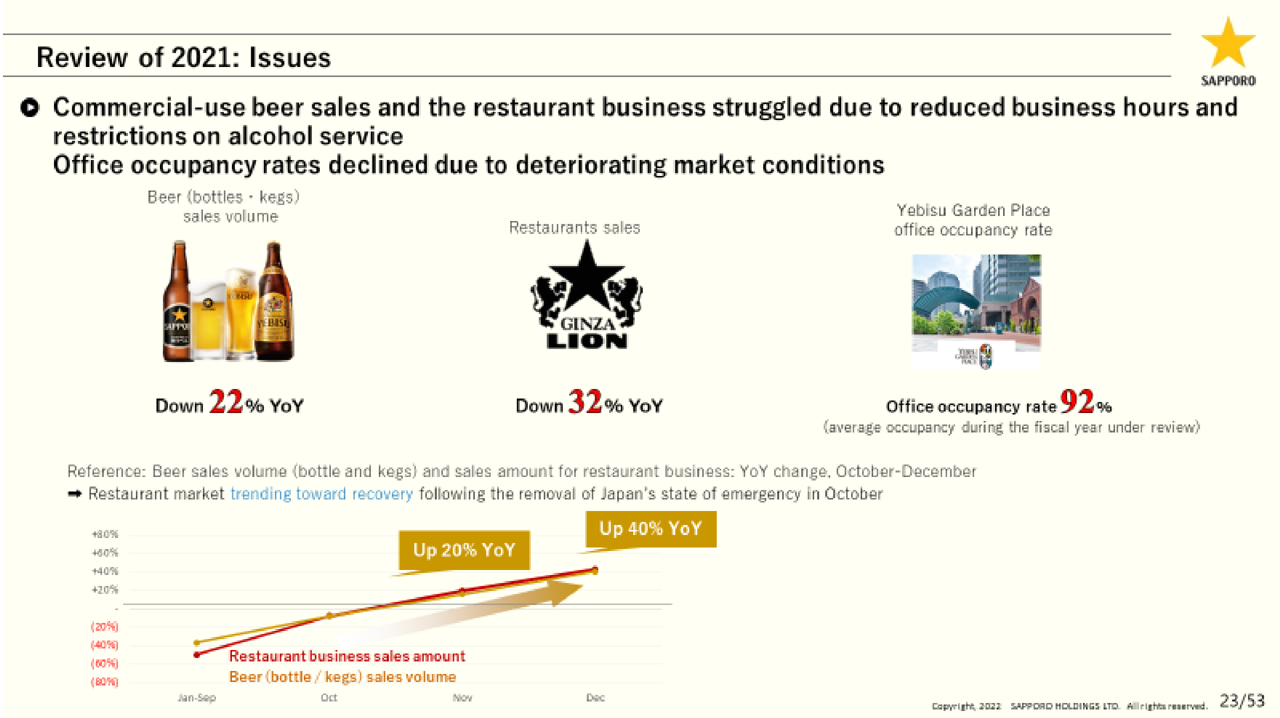


The following is a summary of the financial results for the previous fiscal year. I would like you to look at page 21. The results of each of the initiatives described in the results section are almost the same as those up to the third quarter, with Black Label cans, YEBISU cans, RTD, and overseas sales performing well. As for food and beverage products, lemon beverages and plants-milk were able to maintain strong sales throughout the year.



Page 22 shows the progress of structural reform. As for restaurant store closures, as stated in the minus column here, we have closed 57 stores in the past two years, with minus 32 and minus 25. As for the status of sales of fixed assets, we were able to generate JPY41.9 billion in cash inflow from Ebisu First Square and other properties, and we were also able to realize unrealized gains of approximately JPY23.2 billion.

The effect of early retirement was approximately JPY2.3 billion in the previous fiscal year, as some of the effects occurred during the period. We have been able to achieve almost the expected effect of JPY3 billion for this fiscal year. In addition, in the previous fiscal year, we conducted a review of our strategic shareholdings of approximately JPY3 billion.



I would like to move on to page 23. Next is our challenges. Since October of last year, the state of emergency has been lifted, and sales in the food service industry have recovered significantly. However, on an annual basis, sales of bottles and barrels in domestic alcoholic beverages are down 22%. This is about 46%, or half the level of 2019.

Food service sales were impacted by a negative 32%, or 28% of the 2019 level, or about a quarter of the previous year's level.

The average occupancy rate of the office building in Yebisu Garden Place during the period was 92%, which is a 6% decrease from the 98% occupancy rate of the year before last.

2021: Highlights

SAPPORO

(billions of yen)	2020 Result	2021 Result	YoY changes (amount)	YoY changes (%)
Revenue	434.7	437.2	2.4	0.6%
Revenue (Excluding liquor tax)	328.6	331.2	2.6	0.8%
Overseas revenue	65.5	74.5	9.0	13.7%
EBITDA	27.4	28.6	1.3	4.7%
Core operating profit	4.3	8.1	3.9	91.1%
Core operating profit margin	1.0%	1.9%	0.9%	—
Operating profit	(15.9)	22.0	38.0	—
Profit attributable to owners of parent	(16.1)	12.3	28.4	—
EBITDA interest-bearing debt ratio (times) ※Net	8.1	6.3	(1.8)	—
D/E ratio (times) ※Net	1.5	1.1	(0.4)	—

The balance of debt excludes the balance of lease obligations.

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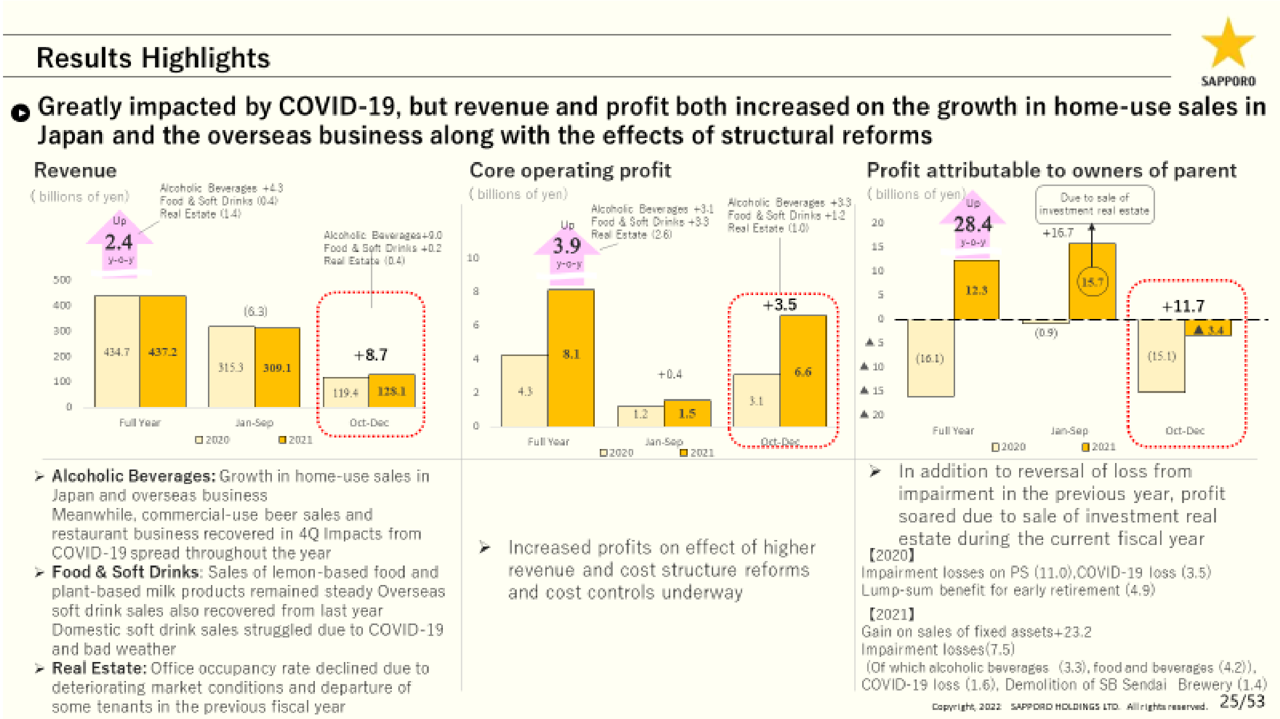
Page 24 shows the highlights of the previous fiscal year's results. In terms of sales revenue, the restaurant business was impacted more than a year ago by the declaration of a state of emergency due to COVID-19 and other factors, but we were able to secure an increase in revenue by expanding sales of beer and RTD for home use in Japan and alcoholic beverages overseas, especially in North America. In addition, we were able to secure an increase in profits by reducing fixed costs, which we have been working on for some time.

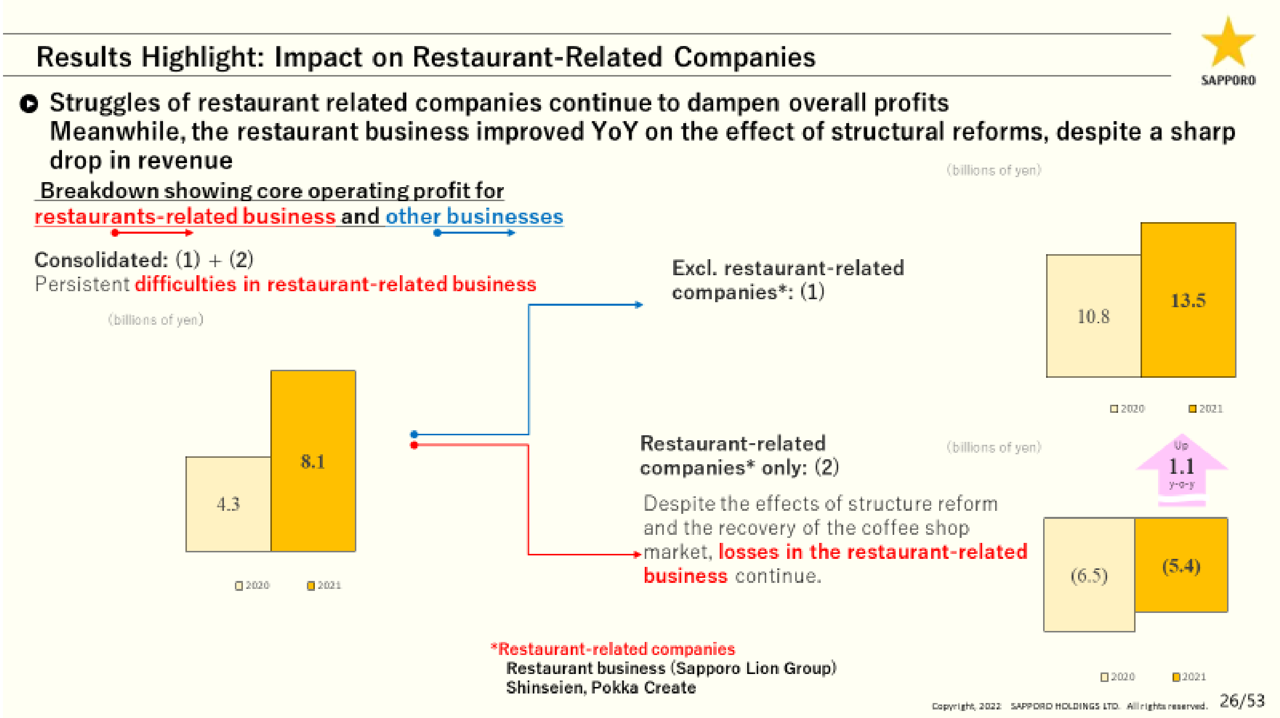
Sales revenue was JPY437.2 billion, an increase of JPY2.4 billion from the previous year. Overseas sales revenue was JPY74.5 billion, an increase of JPY9 billion. core operating profit was JPY8.1 billion, an increase of JPY3.9 billion from the previous year. Operating profit was JPY22 billion, an increase of JPY38 billion from the previous year, due in part to gains on the sale of real estate. Profit attributable to owners of parent was JPY12.3 billion, an increase of JPY28.4 billion from the previous year.

The net EBITDA debt-to-equity ratio was 6.3, and the net debt-to-equity ratio was 1.1, which is a significant improvement over the past 20 years due to our financial restructuring.



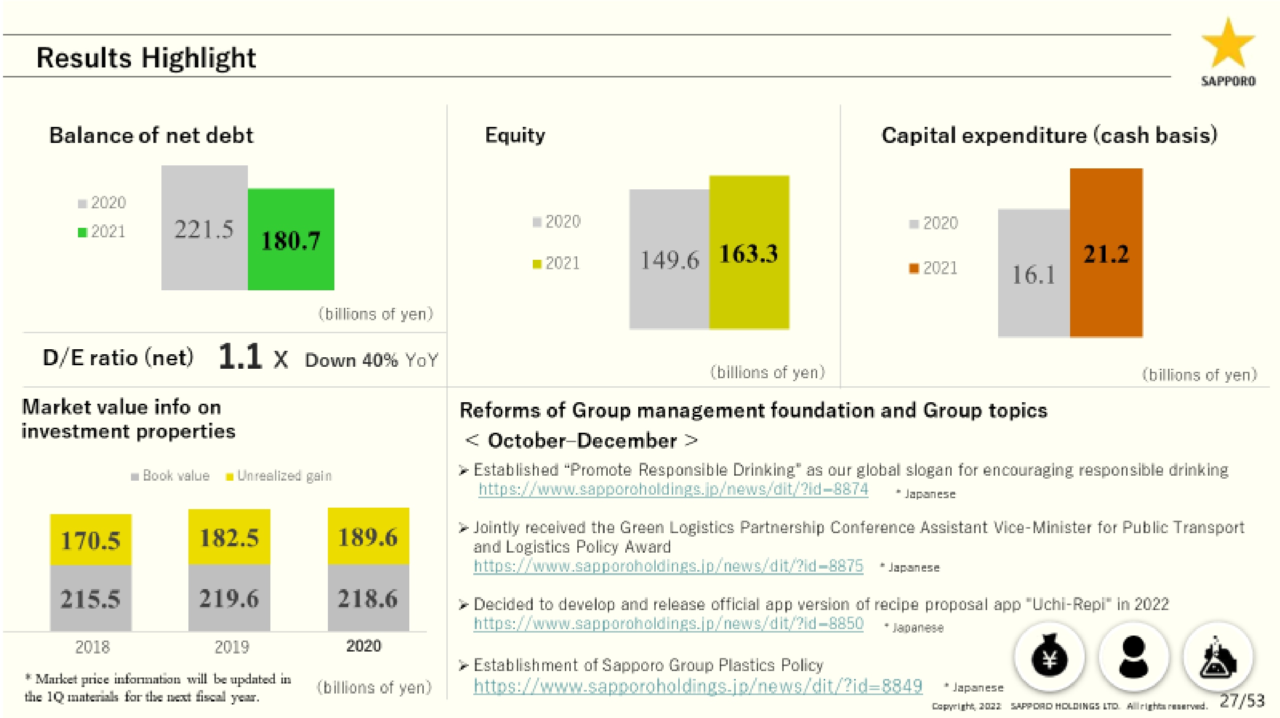
On page 25, I include the fourth quarter in the highlights. Sales were down through the third quarter, but as you can see in the fourth quarter, the restaurant business recovered and the alcoholic beverages segment was a major driver, resulting in an increase in sales for the full year.

As a result, we were able to secure JPY6.6 billion in core operating profit for the fourth quarter, an increase of JPY3.5 billion from the previous year, due in part to cost reduction effects. Profit attributable to owners of parent improved YoY in the fourth quarter, partly due to the reversal of impairment losses in the previous year.



The next page is page 26. We have been explaining the impact of food service-related issues all last year. The food service-related company listed here is the Sapporo Lion Group in the food service segment. In the domestic liquor segment, there is Shinsei-en, which is a beer garden. Pokka Create in the food and beverage segment. This is the total of these three companies.

The breakdown of core operating profit is separated into non-food service and three food service companies. In the non-food services segment, the total was JPY13.5 billion, an increase of JPY2.7 billion from the previous year. For the three restaurant companies, the deficit was JPY5.4 billion, the same large deficit as in 2020, but we have improved it by JPY1.1 billion.



Page 27 is about our highlights. In terms of net financial assets, we used the cash generated from the sale of real estate to repay debt, and interest-bearing debt at the end of the previous fiscal year was JPY180.7 billion, a decrease of approximately JPY40 billion, and the debt-equity ratio was approximately 1.1. Shareholders' equity totaled JPY163.3 billion, partly due to the increase in profits. Also, the market value information of the investment properties listed has not changed since the third quarter of last year. We will provide the most recent information as of the end of the previous fiscal year when we announce the financial results for the first quarter.

Revenue by Segment

SAPPORO

(billions of yen)	2020 Result	2021 Result	YoY changes (amount)	YoY changes (%)
Revenue by Segment	434.7	437.2	2.4	0.6%
Alcoholic Beverages	285.4	289.7	4.3	1.5%
Japanese	227.9	228.6	0.7	0.3%
Overseas	46.2	53.4	7.2	15.7%
Restaurants	11.3	7.6	(3.7)	(32.5%)
Food & Soft Drinks	125.9	125.5	(0.4)	(0.3%)
Real Estate	23.3	21.9	(1.4)	(6.0%)
Other	0.2	0.2	(0.0)	(3.5%)

Factors are explained in the next slide

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Page 28, sales revenue by segment. In the domestic alcoholic beverages business, beer sales volume declined 4% YoY, but sales of RTDs, Japanese liquor, and other products grew, resulting in a JPY228.6 billion increase in sales, up JPY700 million from the previous year.

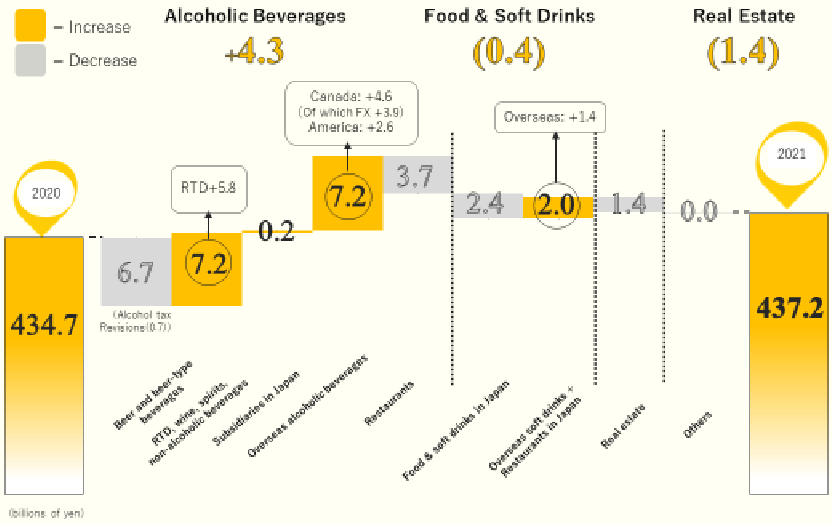
Overseas sales increased by JPY7.2 billion YoY to JPY53.4 billion, due to increased volume and foreign exchange factors. Restaurant sales were JPY7.6 billion, a decrease of JPY3.7 billion from the previous year. Sales of food and beverages overseas and lemon beverages and food products increased significantly, but domestic beverages struggled and remained almost flat.

Regarding real estate, rent decreased due to lower occupancy rate of YGP, resulting in approximately negative JPY800 million. The impact of the sale of properties was a negative JPY600 million, for a total decrease of approximately JPY1.4 billion to JPY21.9 billion. Consolidated sales revenue was JPY437.2 billion. This means an increase of JPY2.4 billion over the previous year.

Main Contributors to Changes in Revenue

SAPPORO

Commercial-use beer, restaurant business and domestic soft drinks struggled, but higher revenue from RTD and overseas alcoholic beverages helped push overall revenue higher (up ¥ 2.4 billion)



(billions of yen)

	YoY Changes				
	Total	1Q	2Q	3Q	4Q
Total	2.4	(9.9)	9.7	(6.0)	8.7
Alcoholic Beverages	4.3	(6.7)	6.9	(4.9)	9.0
Japanese	0.7	(3.9)	3.4	(4.9)	6.0
Beer and beer-type bevarages	(6.7)	(4.3)	1.0	(7.0)	3.6
Beer	(5.5)	(4.1)	1.4	(3.0)	2.3
Happoshu	(0.4)	(0.1)	(0.2)	(0.1)	(0.0)
New genre products	(0.9)	(0.1)	(0.2)	(1.9)	1.3
RTD,wine, spirits, non-alcoholic beverages	7.2	1.0	2.5	1.8	1.8
RTD	5.8	1.3	1.8	2.0	0.8
wine, spirits, non-alcoholic beverages	1.3	(0.2)	0.7	(0.2)	1.0
Subsidiaries in Japan	0.2	(0.7)	(0.1)	0.4	0.6
Overseas	7.2	(0.1)	3.2	1.6	2.5
Restaurants	(3.7)	(2.7)	0.3	(1.7)	0.5
Food & Soft Drinks	(0.4)	(2.8)	2.7	(0.5)	0.2
Food & soft drinks in Japan	(2.4)	(1.9)	0.9	(0.9)	(0.6)
Overseas soft drinks + Subsidiaries in Japan	2.0	(0.9)	1.7	0.3	0.7
Real Estate	(1.4)	(0.4)	0.1	(0.6)	(0.4)
Others	(0.0)	0.0	(0.0)	(0.0)	(0.0)

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Page 29 shows a waterfall chart for each of the factors that I just explained. Also, on the right side of the page, there is a breakdown by quarter, although it is smaller in font size.

Of the JPY7.2 billion increase in overseas sales, JPY3.9 billion was due to the impact of foreign exchange rates.

Core Operating Profit by Segment

SAPPORO

(billions of yen)	2020 Result	2021 Result	YoY changes (amount)	YoY changes (%)
Core Operating Profit by Segment	4.3	8.1	3.9	91.1%
Alcoholic Beverages	2.4	5.4	3.1	129.7%
Japanese	6.7	7.9	1.3	18.9%
Overseas	0.5	1.7	1.3	270.2%
Restaurants	(5.0)	(4.2)	0.8	—
Food & Soft Drinks	(2.6)	0.7	3.3	—
Real Estate	10.9	8.2	(2.6)	(24.2%)
Other・General corporate and intercompany eliminations	(6.3)	(6.2)	0.1	—

Factors are explained in the next slide

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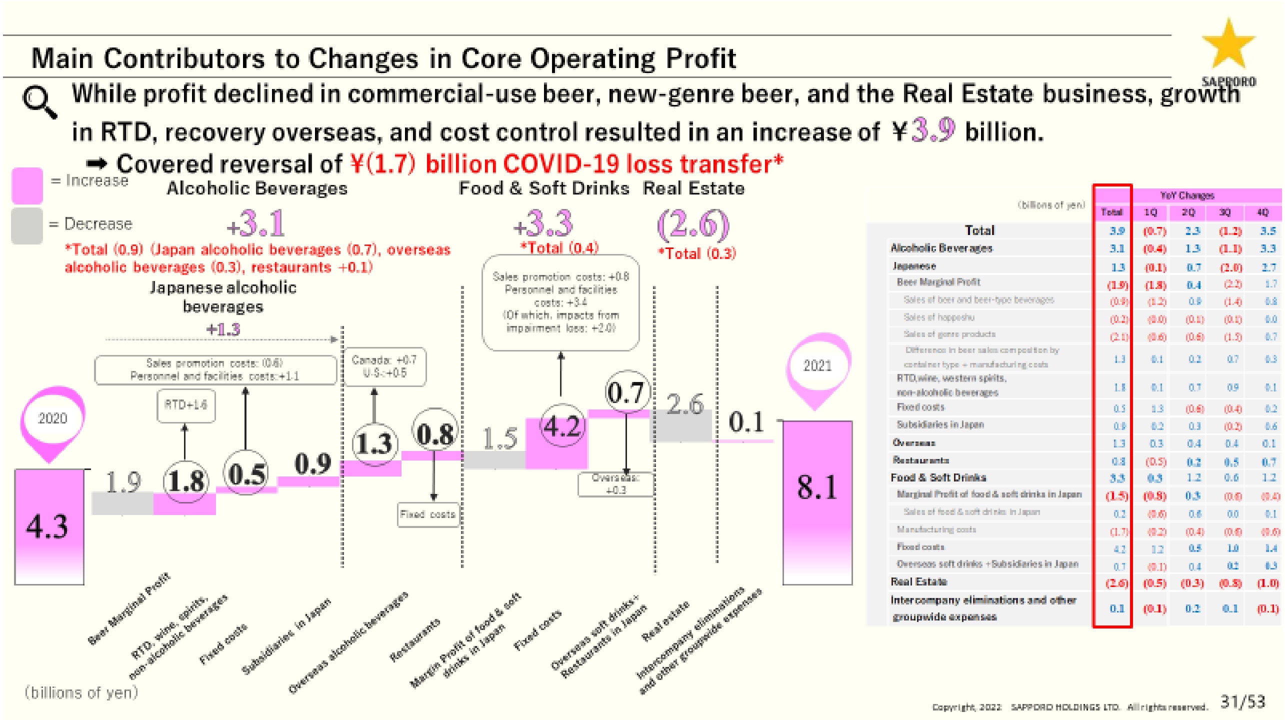
I would like you to move on to page 30. This is the core operating profit by segment. In the domestic alcoholic beverages business, sales of RTDs, Japanese liquor and other products offset the decline in beer sales. Profits increased to JPY7.9 billion due to the reduction of fixed costs. Overseas sales of alcoholic beverages increased JPY1.3 billion to JPY1.7 billion due to higher sales of beer in North America. In the restaurant business, sales declined significantly, but the deficit decreased by JPY800 million from the previous year to a deficit of JPY4.2 billion due to structural reforms such as the closure of loss-making restaurants.

In the food and beverage business, the year before last, fixed assets were impaired at Pokka Sapporo Co. This resulted in a decrease in depreciation expenses of approximately JPY2 billion for the full year. In addition, there was a reduction in fixed costs such as early retirement, etc., which together resulted in an increase of JPY2.8 billion. Overseas sales also increased by JPY300 million, resulting in a JPY3.3 billion improvement over the previous year to JPY700 million, and a return to profitability.

Real estate profits were JPY1 billion due to decrease in rent at YGP, renovation of commercial building, etc. Approximately negative JPY700 million from the sale of properties. Also,the impact of the accounting treatment changeis about JPY700 million. Overall Real estate segment profit is a decrease of JPY2.6 billion from the previous year to JPY8.2 billion.



Page 31 is a waterfall chart of what I just explained on page 30. We have also listed each item by quarter, so please take a look.

Profit attributable to owners of parent

SAPPORO

(billions of yen)	2020 Result	(Details)	2021 Result	(Details)
Core operating Profit	**4.3**		**8.1**	
Other operating income	3.7	Gain on sales of non-current assets: +1.6	28.5	Gain on sales of non-current assets: +23.2 COVID-19 related subsidies: +4.5
Other operating expenses	23.9	Impairment losses on PS: (11.0) COVID-19 loss: (3.5) Lump-sum benefit for early retirement: (4.9)	14.6	Impairment losses: (7.5) (Of which: alcoholic beverages: (3.3), food and beverages: (4.2)) COVID-19 loss: (1.6), Demolition of SB Sendai Brewery: (1.4)
Operating Profit	**(15.9)**		**22.0**	
Profit before tax	**(19.4)**		**21.2**	
Income taxes	(2.8)		8.9	
Profit	**(16.6)**		**12.3**	
Loss attributable to non-controlling interest	(0.5)		(0.1)	
Profit attributable to owners of parent	**(16.1)**		**12.3**	

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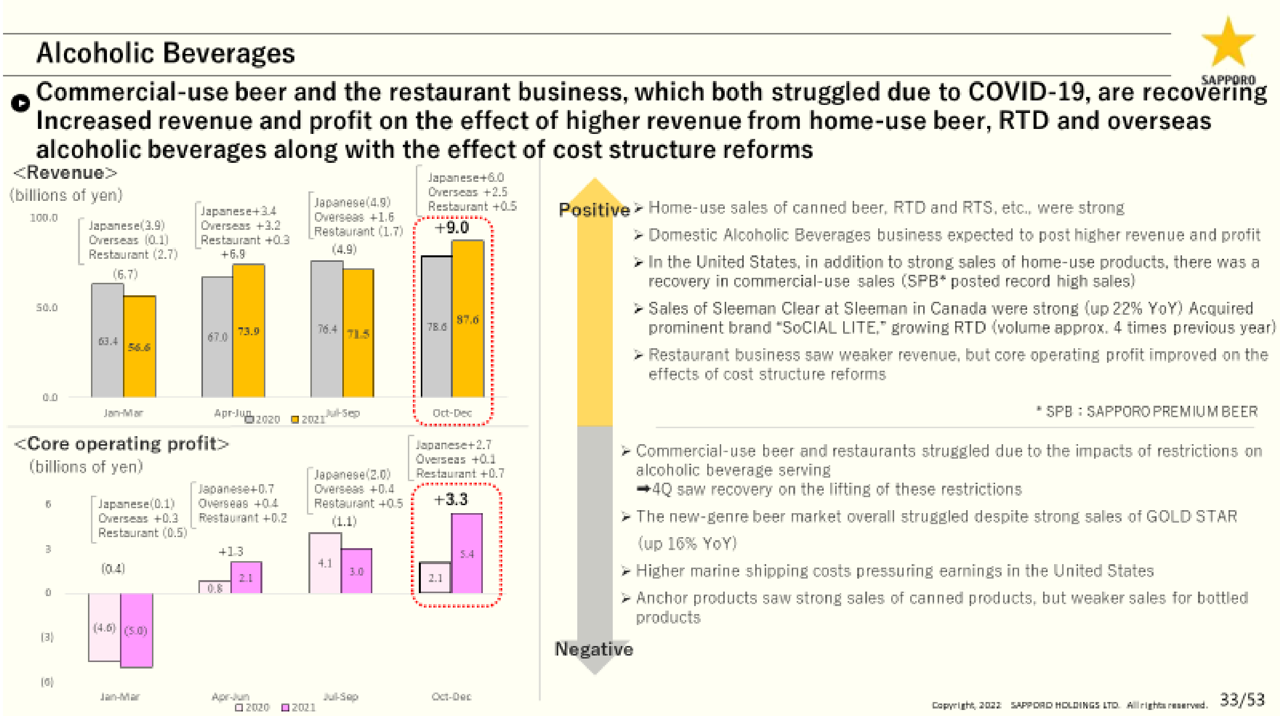
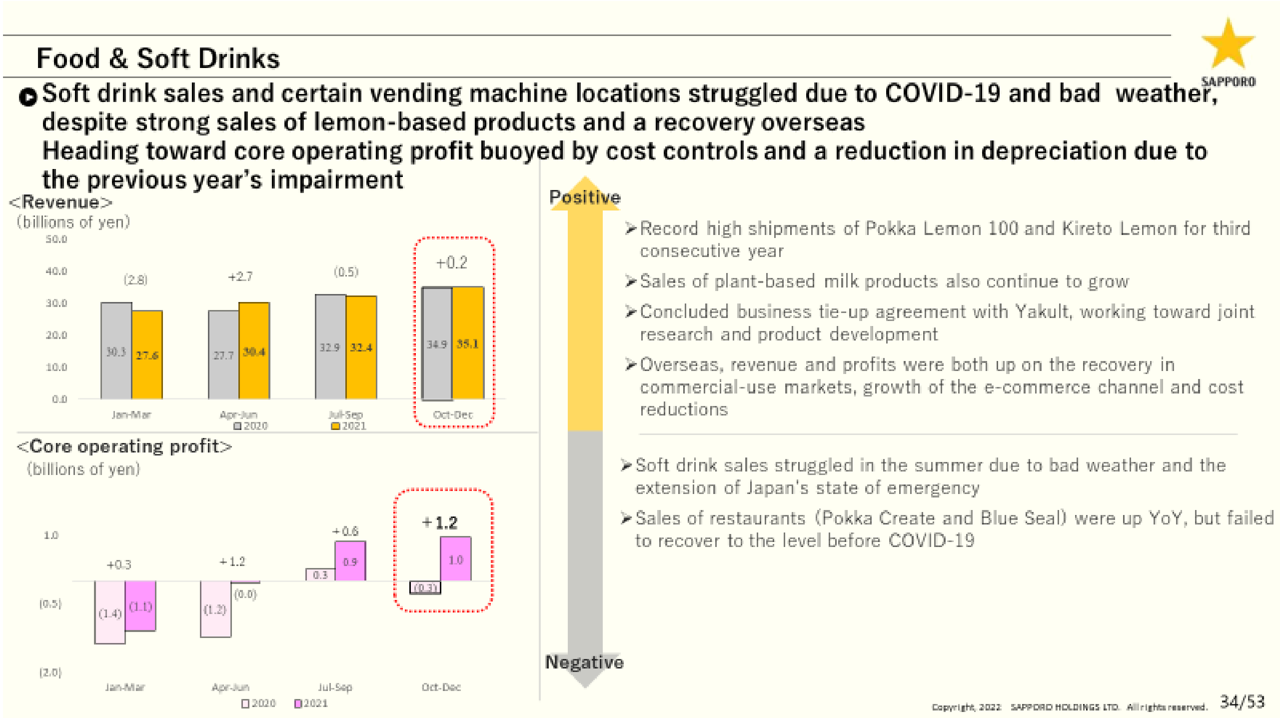
The next page is page 32. The following are profit indicators for core operating profit. In the previous fiscal year, other operating income was JPY28.5 billion, including JPY23.2 billion in gains on sales of fixed assets and JPY4.5 billion in subsidies from COVID-19. As for other operating expenses, there was an impairment loss of JPY7.5 billion. This represents JPY4.2 billion in the food & beverage segment, and approximately JPY3.3 billion in the alcoholic beverages segment.

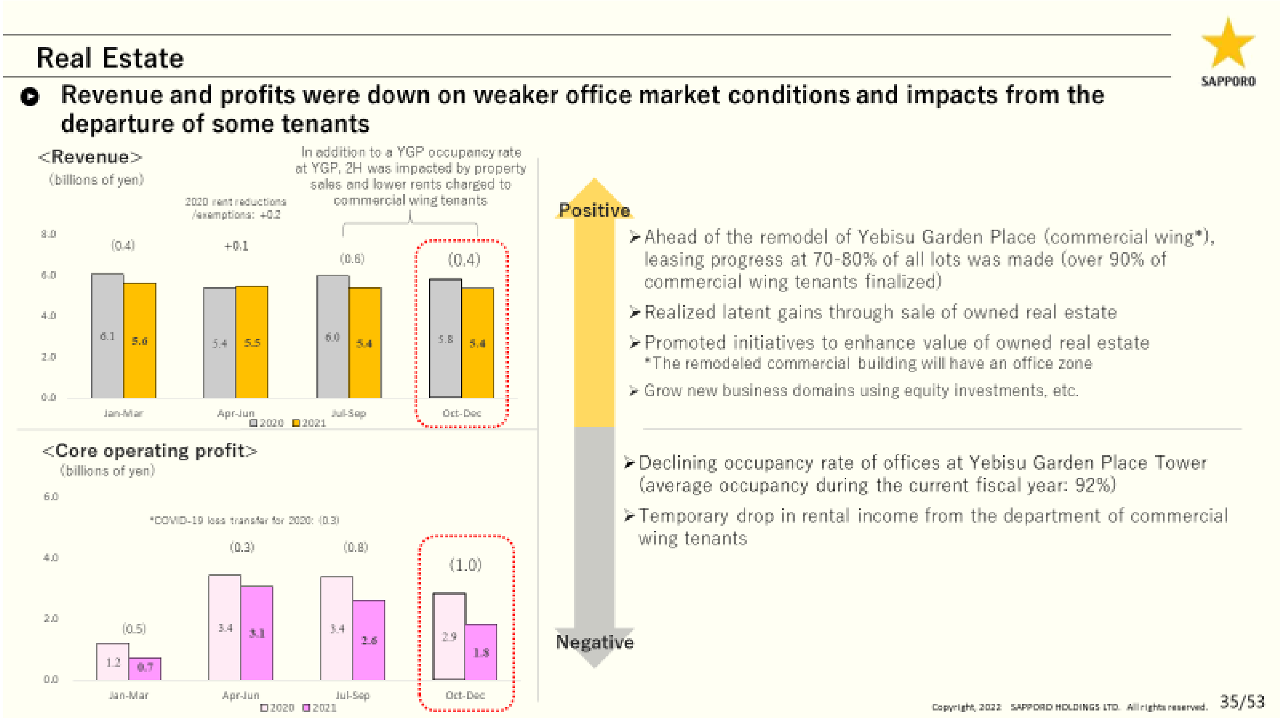
In the food & beverage segment it was JPY3 billion, mainly related to Pokka Sapporo Co. Also, JPY800 million for the impairment of CLIÉ stores, and others. As for the alcoholic beverages segment, there was JPY1.6 billion in impairment losses on restaurant outlets. Overseas-related expenses are JPY1.4 billion. In addition, there was a loss of JPY1.6 billion due to COVID-19, and JPY1.4 billion for the removal of the Sendai Plant, which was decided last year, for a total of JPY14.6 billion.



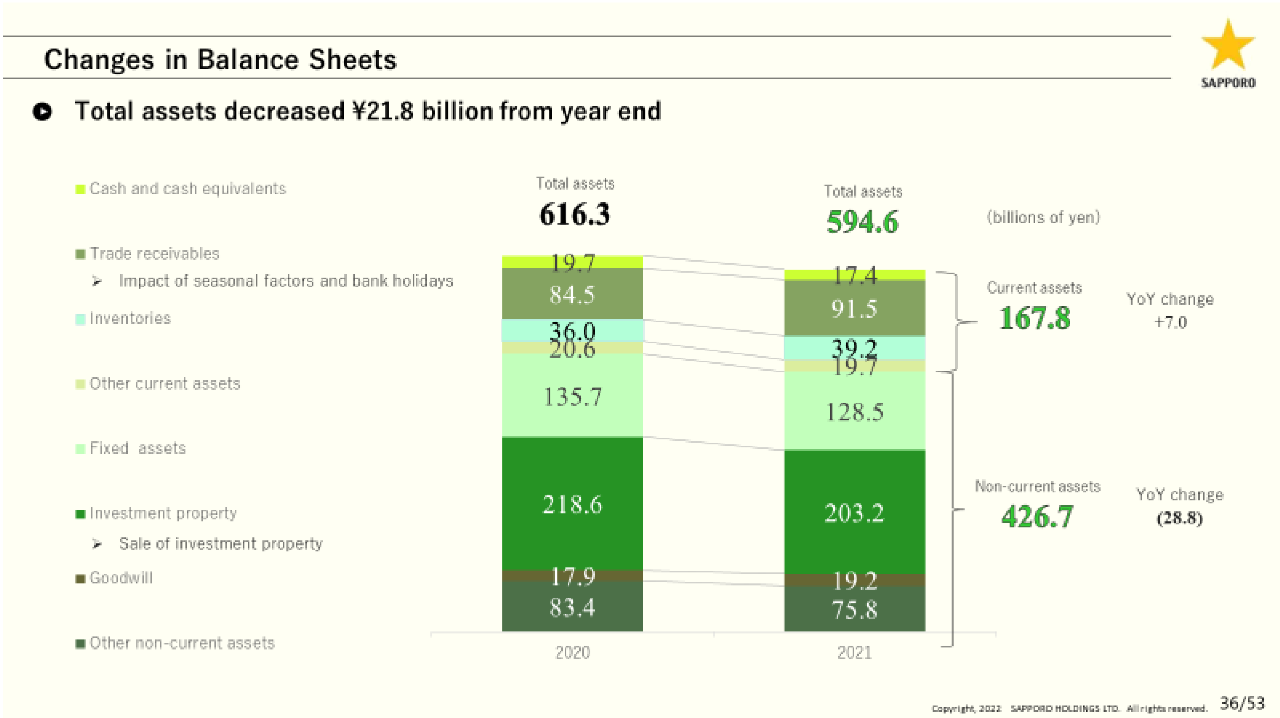
I would like you to move on to page 33. I will describe the situation per segment, and per quarter. As for the alcoholic beverages segment, both sales and profits have improved significantly since the second quarter as economic activity resumed from COVID-19 for overseas. As for Japan, again in relation to COVID-19, sales and profits improved significantly in the fourth quarter and with the lifting of the emergency declaration.



Page 34 is about the food & beverage segment. In the third quarter, we struggled mainly with beverages, partly due to the weather. In the fourth quarter, as in the case of domestic alcoholic beverages, the lifting of the state of emergency led to a recovery in sales of food services, Blue Seal, and other products, and profits increased accordingly.



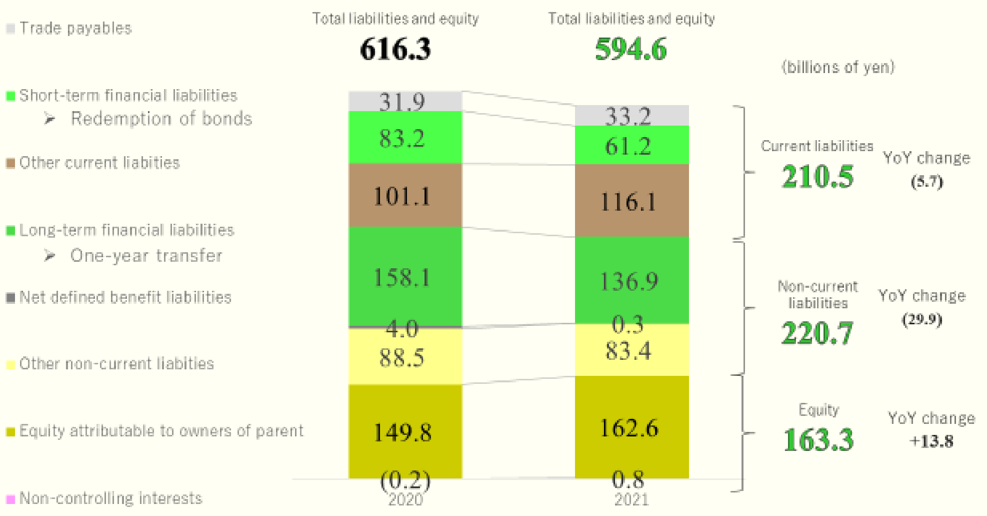
Page 35 is about real estate. In real estate, a decline in the occupancy rate of YGP from the third quarter and loss of rental income from the third quarter due to the renovation of the commercial building, as well as the impact of the sale of properties, resulted in a decrease in both revenue and profit.



Page 36 shows the balance sheet. Non-current assets decreased by JPY28.8 billion from the end of the previous fiscal year, due in part to the sale of real estate. As a result, total equity decreased by JPY21.8 billion to JPY594.6 billion.

Changes in Balance Sheets

- **Total liabilities declined ¥35.6 billion from year end, total equity increased ¥13.8 billion**



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Page 37 is the debt element. Total liabilities decreased by JPY35.6 billion as we used the cash obtained from the sale of real estate to reduce financial liabilities, and total equity increased by JPY13.8 billion due to the increase in profit.

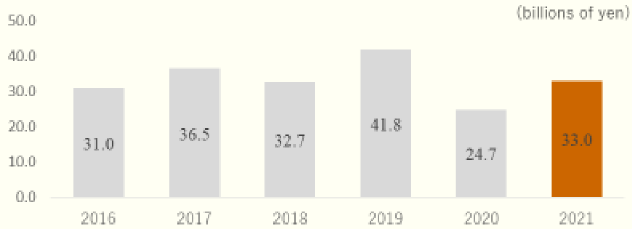
Financial Status

- **Investment on a cash basis was ¥33.0 billion**

<Consolidated cash flow (CF) statement>

(billions of yen)	2020 Results	2021 Results	Change	Change (%)
CF from operating activities	16.5	30.3	13.8	84.1%
CF from investing activities	(16.0)	20.7	36.7	–
Free CF	0.5	51.0	50.6	10,851.6%
CF from financing activities	4.1	(53.1)	(57.2)	–

<Changes in amount of investment (cash basis)>



<Investment total (①+②+③)> ¥ **33.0** billion

① **Capital expenditure** (cash basis) : ¥ **21.2** billion
(Property, plant and equipment, intangible assets, investment property)

<Major items>
- Alcoholic Beverages: ¥7.1 billion
  - SB: ¥4.0billion
  - Sleeman ¥2.1 billion
- Food & Soft Drinks: ¥5.1 billion
  - PS : ¥2.3 billion
  - POKKA PTE. LTD. : ¥1.4 billion
  - Shinsyu-ichi Miso Co., Ltd. ¥0.6 billion
- Real Estate: ¥8.2 billion
  - Acquisition of investment property
- Group-wide: ¥0.8 billion

② **Lease fees: ¥ 3.4 billion**
(excluding lease fees for renting restaurant premises)

③ **Other investments: ¥ 8.4 billion**
(Acquisition of Aware Beverages Inc., Invest in property's equity etc..)

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Page 38 shows the cash flow. In addition to the increase in operating cash flow, the investment cash flow was more cash-in from the sale of real estate properties. As a result, free cash flow increased significantly to JPY51 billion. As a result, the financial cash flow was negative JPY53.1 billion, which was used to reduce financial liabilities.

As for page 39 onwards, the appendix provides figures and other information on the status of each segment's efforts, so I will not explain them today.

I have now explained the full-year forecast for the current fiscal year and the financial results for the previous fiscal year. Thank you.

Question & Answer

Moderator [M]: Thank you very much for your presentation. We will now begin the question-and-answer session. When it is your turn to ask a question and the moderator calls your name, please ask your question after stating your company name, and your name.

We will now begin. Please ask your questions in a one question, one answer format. Also, in order to answer questions from as many people as possible, we will limit the number of questions to two per person.

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

Saji [Q]: Thank you very much. Now, I have two questions. First of all, please tell us about the structural reform of food and beverages.

This time, you announced the dissolution of one of your four vending machine operator subsidiaries, and the sale of Café de Crie. One thing I would like to ask you is that you have been working on various structural reforms in the vending machine business, and have taken various approaches in the past, but what is the position of the dissolution of this one company's special route in terms of your vending machine reforms?

Of the improvement in the profitability of the vending machine business itself, what does it mean? Looking at this year's plan for the food and beverage business, the profit margin is still only about 1.4%, so what are your thoughts on further structural reforms to improve the profit margin in the future?

Iwata [A]: This is Iwata. Thank you for your question. First of all, what is the position of the dissolution of the Public Vending Service for direct sales of vending machines, and what are our future plans? Among the direct sales, Public Vending Service mainly deals with special routes such as highways, and amusement facilities. Therefore, even looking ahead to the post-COVID-19 period, it would be very difficult to achieve a recovery, so we decided to dissolve the organization.

The dissolution of this company is expected to have the effect of improving profits by JPY600 to JPY700 million in the next fiscal year and beyond, and this is the reason why we decided to dissolve the vending machine business, which was the heaviest and had the largest deficit.

As for direct sales other than those, we would like to continue them as we expect them to be profitable in the future, as we are working on reducing fixed costs as well as recovering from COVID-19. As we have explained since last year, we will continue our efforts to increase the profitability of vending machines, such as removing unprofitable locations, and reducing the number of machines.

We don't know yet what will happen to the vending machine market after COVID-19, but we will continue to work on reducing fixed costs and improving efficiency while monitoring the current situation.

The main objective of the three structural reforms is to improve the profitability of the food and beverage business. I have already explained about the direct sales business, Crie, and Shinshu-ichi, but the food and beverage business also includes a variety of smaller businesses.

We will organize them properly, and by strengthening the core of our business, which is our strength in lemon and Plants-milk, we will be able to increase profitability while making the most of our strengths. Therefore, we would like to improve the profit margin properly in the future. That is all.

Saji [Q]: Okay. Thank you. The second thing I would like to talk about is something you mentioned on page 18 of the slides. I have the impression that the amount of contribution from RTD and non-RTD sales is quite large this year. If you look at page 18, the contribution of RTD is about JPY1.1 billion.

In addition, wine, spirits, non-alcoholic beverages, etc., account for about JPY1.5 billion of the total difference from JPY2.6 billion. You have a plan to make a considerable contribution to the spirits by making the sales, but could you explain a little about the feasibility of this, or the background behind it?

Iwata [A]: Thank you. This is Iwata. Let me explain a little about this. As you have just asked, JPY2.6 billion in other alcoholic beverages will be used to improve the business this fiscal year, and sales of wine and Spirits will increase significantly due to a recovery in commercial use, which will also make an extremely large contribution to marginal profit. In addition, we are planning to significantly increase the number of non-alcohol and low-alcohol products this fiscal year. The profitability of this area is high, and this has contributed to the profit. The above is my explanation, and response. Thank you.

Saji [Q]: I see. Of the JPY1.5 billion non-RTD products, I have the impression that non-alcoholic beverages and low-alcoholic beverages are quite large.

Iwata [A]: Wine, spirits, and Japanese liquor also contribute to profits to about the same extent, and the RTD and Japanese liquor products made an extremely large contribution to the increase in sales and profits in the previous fiscal year. In the current fiscal year, in addition, we expect a significant recovery in the commercial-use sector.

Saji [M]: I understand. Thank you.

Iwata [M]: Thank you very much.

Moderator [M]: Thank you for your questions.

Next, Mr. Fujiwara from Nomura Securities Co., Ltd. Please ask your questions.

Fujiwara [Q]: Thank you very much. This is Fujiwara from Nomura.

Now, I have two questions as well, so please answer each question. Now, let's talk about domestic alcoholic beverages. The business profit plan for the current fiscal year is JPY7.5 billion, and I think the actual level is about JPY9 billion because of the amortization expenses. From the next fiscal year onward, how much ability do you have to increase the profit level of JPY9 billion within a time frame of, say, two to three years? Can you give us some quantitative thoughts on this?

In addition, it is for business use. This fiscal year, your figures are 75% of the 2019 level, and the market is assumed to be over 70%. When the influence of COVID-19 really fades away, it may be difficult this fiscal year, but from the next fiscal year onward, to what extent will the commercial-use market return? To be honest, I think it will be difficult to return to 100%, so I would like to know if this 75% level is the best we can do. This is my first question, please.

Nose [A]: I will answer. Thank you, Mr. Fujiwara. As you know, the business profit forecast for this year is 75%, which is a decrease in both sales and profit compared to last year's result. We made announcement last year because we wanted to make the decision to reorganize our beer manufacturing bases and invest in RTD bases. As a result, as you know, if we hadn't made the decision, we would have been looking the profit level of JPY9 billion, but now that we've made that decision, we’re looking at JPY7.5 billion taking into account accelerated depreciation.

In the future, the contribution of the investment in RTD will be seen in the release of products from next year, from August onwards, and also in the progress of self-production. We are talking about a few hundred million yen for that, but we are planning to expand our business considerably, so that means we will see some profit from that, and the stoppage of beer production will still be at a level of about JPY1 billion. Altogether, that means that billions will come out of the improvements. Also, we are trying to expand our products for home use as well as for business use. Also, we are planning to improve the product mix and reduce taxes on beer, right?

In that sense, we have been doing relatively well, so our strategy is to increase our total gross margin. If you ask me to quantify it today, it is a little difficult, but at the very least, we would like to see an improvement of more than JPY1 billion, and in addition, we will promote structural reforms such as improving the product mix. I would like to see us exceed JPY10 billion.

So, we would like to discuss this internally as well, and we are currently working on the assembly with this in mind. In addition, in either 2023 or 2026, there will be a big impact of beer tax changes, so I would like to take more time to explain the strategy. I hope I can leave it like this for today. That's all.

Fujiwara [Q]: Excuse me but just the idea for business use.

Nose [A]: Business use. Let me see. The rate of return this year is 75% compared to the previous year, and that is the point of view I am using. From our point of view, the number of restaurants itself will decrease. Obviously, such a time will come.

In addition, I believe that the fact that we are hoping for a recovery in the business-use category, which includes wine and spirits, is a positive factor in this plan. I think the key point is how much we can increase the profitability of the commercial-use business at the 75% target.

We've already started working on it internally. We're going to increase our efforts in the area of multi-layered approach, and we're also going to improve the variety mix in that area, so I think that will be one of the key points. This is exactly how it was in October and November of last year, and how it was in November and December. From the way it moves. So, I see that as one of the key points.

Fujiwara [Q]: Thank you very much. Now let's move on to the second question. I'd like to ask you about real estate. This fiscal year, the business profit is about JPY6.3 billion, down from last year. There will be the impact of the sale and the renewal cost of YGP. You said that this year is the bottom and you would like to increase profits from the next fiscal year onward, but what is the probability that profits, which have shrunk, will recover next year?

I'm still not sure about the equity investment in private funds, so I'd like to know what you think about it, excluding that part. That's all.

Iwata [A]: This is Iwata. The reason for the decrease in profit this fiscal year is the negative impact of YGP's operation, and we also expect JPY1.3 billion in renovation expenses for the commercial building. So, out of this, there is a large increase in one-time expenses due to renovation of the commercial building, etc. From the next fiscal year, this one-time factor, minus JPY1.3 billion, will disappear. Therefore, I believe that we will be able to recover to the level of 2021, at least for the next fiscal year.

As for YGP, we will make some strategic investments to increase the attractiveness of the real estate value, starting this fiscal year. However, since we have seen a slight decrease in utilization during the summer, we would like to raise the utilization rate to 90% from next fiscal year.

Also, beyond that. With the opening of the Shinkansen bullet train route servicing to Sapporo, we have been developing existing properties in Hokkaido, such as Sapporo Factory in Hokkaido, and have also started several equity investments in the previous fiscal year. With these and other contributions, we hope to achieve an improvement of about JPY1 billion.

Fujiwara [Q]: I'm sorry to ask about the additional JPY1 billion for Hokkaido, and the equity portion that you just gave us. Excuse me. Is this for next year, I guess you can't be certain about this one. The equity part.

Iwata [A]: Rather than next fiscal year, I would say a little further down the road.

Fujiwara [M]: A little further.

Iwata [A]: For the next fiscal year, there will definitely be an improvement of more than JPY1 billion due to the elimination of one-time expenses, and other factors. We are expecting that to happen, but the part I just mentioned is a little further away.

Fujiwara [Q]: It's beyond that, isn't it?

Iwata [A]: I would like you to expect it in the future.

Fujiwara [Q]: Also, excuse me. Yebisu Garden Place had a 92% occupancy rate last year. This year, there was a little bit of talk about it falling off in the summer and being temporary, but can you give us some assumptions about how much you are expecting this year?

Iwata [A]: We expect the occupancy rate for this fiscal year to be around 86%, which is the average occupancy rate. This is due to the fact that some of our major tenants are scheduled to move out, so we would like you to understand that the figure is 86% to 87% due to the replacement of those tenants and new tenants.

Fujiwara [M]: Yes, I understand. Thank you very much.

Moderator [M]: Thank you very much, Mr. Fujiwara.

Next, Mr. Sumoge from Okasan Securities Co., Ltd. would like to ask a question.

Sumoge [M]: From Okasan Securities, this is Sumoge. Thank you for your time. I appreciate it.

Moderator [M]: Please go ahead.

Sumoge [Q]: Two questions only, one question, one answer, so I'll start with the food and beverage part. Structural reforms have made a lot of progress. As you mentioned earlier, you still have a lot of small businesses in the beverage and food industry, so you are going to organize those businesses and put more strength into Lemon products and Plants-milk that have the current advantage. My current impression is that sales of lemon beverages account for only about a quarter of total beverages sales, and that the scale of the plant-milk business is not that large.

You also talked about optimizing the business portfolio on the slide. Regarding the optimal portfolio that your company has in mind, I understand the divisions that you are currently focusing on, but I also have an image that the scale of those divisions is not very large, so what is the optimal portfolio that your company has in mind for the future? I'd like to know what you think at this point.

Iwata [A]: Excuse me. For one thing, the scale of lemon-related foods is still small, I'm just checking the figures now, but the combined sales of lemon-related foods and beverages are about JPY30 billion. We are going to increase this significantly. As for Lemon products, it is our original business, and we have the overwhelmingly largest share of the lemon-related food market, so we believe that we will grow these businesses significantly.

The total for all lemons, lemon foods and beverages are about JPY30 or so billion. The total amount of lemon products amounts to more than JPY30 billion, so we are planning to double this amount. This is what we are thinking about.

In the beverage business, we are still very competitive, but our sales are large, so we are trying to maintain profitability by reducing unprofitable items. In addition to this, we would like to focus more on soups and plant milk, as these are areas of food that we would like to expand. Therefore, we would like to double the volume of lemon beverages in the future from 30 or so billion.

I can't give you any specific numbers right now, but I hope you can understand what I'm talking about.

Oga [A]: May I talk a little? I'm Oga. I'm defining us as being a lemon products and plants-milk company, now. In fact, 70% of Pokka Sapporo's total sales are beverages. However, if we imagine this ratio for beverages, our current idea is to make it 50%. Of course, there are lemons and lemon beverages, but the basic focus is on lemon products and plants-milk.

Plants-milk is still at the level of JPY5 billion, but the yogurt market is JPY500 billion, so from a growth rate perspective, this is the area with the most growth potential, and it still has the most growth potential. That's why we are focusing on lemon products and plants-milk.

As for beverages, vending machines accounted for half of our sales, so in a way, we were lucky to have a very high profit margin when canned coffee was selling well. As we look at the future of the vending machine market, I think it's safe to say that the focus is shifting to what can be done with lemons.

Sumoge [Q]: I see. Thank you. If that is the case, do you think that you will be able to reduce the number of SKUs in the future by reducing the number of beverages? At the moment, I think that lemon beverages do not account for a large percentage of the total beverage market, so if you look at it from a total perspective, you can gradually narrow down other areas such as coffee and tea to create a stronger structure, is that correct?

Oga [A]: I think it's correct. With vending machines as our mainstay, we had to have SKUs in order to be viable, so we are trying to narrow down our focus to include locations. However, we recognize that vending machines are still necessary for us, so we are trying to keep the number of items as muscular as possible.

Sumoge [Q]: Thank you very much. In that case, the number of vending machines. I understand that one of the operators was dissolved this time, but there are still three companies left. How do you plan to reduce SKUs and improve profitability in this area?

Iwata [A]: Iwata here, the number of vending machines itself is more than 60,000. Some of the vending machines are owned by our subsidiaries, which are called direct sales, while others are owned by the operators who sell to us. In this sense, vending machines are also a part of the sales space, so we will make sure that we give proper attention to the sales spaces that sell well. At the same time, we have been developing our business based on the number of units, and the flow of people has also changed considerably due to COVID-19.

In that sense, some vending machines have become unprofitable, so we will remove them to improve profitability. As for beverages in general, as Oga just mentioned, we are trying to improve efficiency by reducing the number of items.

Sumoge [Q]: Okay. I understand. Finally, I'd like to add something to the food and beverage section. We don't know how much cash will be coming in from the transfer of the café business, or from Shinshu-ichi Miso because there is no disclosure. I think that you want to use these resources to accelerate the growth of your mainstay products such as lemon and plants-milk. Can you tell us how you plan to use this reinvestment approach to grow the businesses that you are focusing on in the future?

Iwata [A]: This is Iwata. In this mid-term plan, we have decided that operating cash flow equals investment cash flow. In this sense, the cash generated from the sale of real estate has been used to reduce debt, but we are also investing in the real estate business in order to replace the portfolio for real estate growth as I mentioned earlier.

As for the cash-inflow from the structural reform of beverage and food products, we are investing in rationalization in the course of cost reduction at Shinshu One, and also in the food and beverage business, we are considering investments to expand the food area, especially lemon products and plants-milk, as mentioned earlier. In this sense, we would like to prioritize investments within the Group as a whole, rather than allocating the sold portion directly to something else.

The first and foremost priority will be the investment to strengthen our North American alcoholic beverage business, as mentioned by Oga at the beginning of this report. That is all.

Sumoge [Q]: Okay. Thank you. The second question is a little bit about the cost of raw materials. I would like to confirm again that you plan to have an impact of JPY3 billion in raw material costs this fiscal year, and I think you commented earlier that you will pass on the cost of raw materials overseas, while making decisions in Japan based on market conditions. This time, I would like to know more about the domestic market, and what categories of profitability are becoming more difficult due to the rise in raw materials.

Also, in what markets are you considering price revisions? What are your current thoughts on the possibility of price increases for major items in the beer and food and beverage industries, although I understand that there are factors such as market share?

Nose [A]: Now, let me, Nose, answer. As you mentioned, the price of domestic alcoholic beverages, including raw materials, can materials, etc., are being raised in a wide range of areas. The basic idea of this year's contract itself is to absorb the cost increase in that area by factoring in the recovery in all categories of commercial-use products.

On the other hand, there is the issue of how to set shipping prices from manufacturers of both mainstay beer and fast-growing RTDs, but for now, I can only answer that we will make decisions based on the situation in t surrounding areas.

If possible, we would like to reflect the cost increase. There is also competition in the market, and other manufacturers' initiatives, so I cannot answer at this stage except to say that we will monitor the environment and respond appropriately. However, as we are aware of the problem, we would like to examine it thoroughly and come up with a result.

Please understand that this year, we have decided to make such a move first.

Sumoge [M]: Yes. I understand. That's all. Thank you.

Nose [A]: Yes. I'm sorry.

Moderator [M]: Thank you very much, Mr. Sumoge.

Next, Ms. Yoshida from JPMorgan Securities Japan Co., Ltd., please ask your question.

Yoshida [M]: I'm Yoshida from JPMorgan Securities. Can you hear me?

Oga [M]: Yes, I can hear you.

Yoshida [Q]: Thank you very much. I would like to ask you about one point: overseas demand. First of all, in the area of overseas brands, the fourth quarter also appears to have been a YoY decline in terms of volume, but I would like to know how much the newly acquired SoCIAL LITE contributed to the volume. The plan is to increase the volume by about 4% from here to FY2022, but what kind of contribution will be made by, for example, the beer from Sleeman, SoCIAL LITE and Anchor? I would like to know about each of them.

Also, the SAPPORO brand did quite well in FY2021, but in order to further increase the volume by 13%, will household use be the driver? I would appreciate it if you could tell me a little more about this. Thank you for your time.

Nose [A]: One of the main points we worked on last year in the fourth quarter was to report that the Sapporo Premium sold in the US was very popular and growing, so we are actually working on the back side to narrow down the so-called SKUs on the Canadian side. We have been trying to close down the unprofitable ones. As a result, the EBIT ratio has been increasing.

Originally, Sleeman was trying to adopt a strategy that focuses on gross margins, so even though there will be a decrease in volume, we are now trying to increase the profit margin. SoCIAL LITE has not yet disclosed how much it has contributed to the project. In any case, the ratio of RTD to beer in Canada is about 15%. In the medium-term, we would like to raise it by about 10%.

I'm thinking that this year it will work for a full year, which will contribute to the profit side of things, and be a positive thing. It's just that it's still too small, and not quite big enough for me to be proud of it. This is why we acquired SoCIAL LITE last year and incorporated it into our portfolio.

As for us, we would like to get it to about 10% of our total sales. I think this will increase, and I am sure that the percentage will increase. The beer market is a little stagnant, but I think there is a lot of promise there. Also, did I have one more question?

Yoshida [Q]: Yes. One supplementary point about that. I understand that the volume of SoCIAL LITE is not that large yet, but for the 4% plus in FY2022, the volume contribution from the newly acquired RTD is not that large yet. The second point is to further increase the volume of the SAPPORO brand, is household use the key to this? I'd like to know what you think.

Nose [A]: Yes. In terms of the degree of contribution from SoCIAL LITE this year, it may still be small in terms of volume, but we expect it to have a positive effect on profits. I believe it is a highly profitable business. So that's what's in the plan for this year.

That's the situation. Also, on the US side, the growth of SAPPORO Premier Beer this year and last year was partly due to the recovery in the commercial market, but the growth in the home market was also significant. The growth in business use hasn't arrived yet to the level of 2019. So, this year, I've heard reports that the US side will see quite a revival in economic activity, so shipments to restaurants will probably increase as well. Therefore, I believe that we can bring the total number of household and commercial users to a positive level.

The anchor also cleared the previous year's level, but it is still accounted for large portion by commercial use, and the influence of COVID-19 is still significant here. The number of cans for household use has doubled, but the improvement for commercial use has been slow. We are aware that the market will recover a little this year, so the increase in volume will have a positive impact on the market. The total of these is a 4% increase. This is the figure of the plan that we are putting out at 4% increase in overseas brands. That's all.

Yoshida [Q]: Thank you. I understand that SoCIAL LITE makes a significant contribution to profits, but how much of the JPY900 million for the current fiscal year, or the entire fiscal year, is attributable to this RTD? And one last point, will this SKU reduction continue in FY2022? I would appreciate it if you could tell me these two last points.

Nose [A]: I'm sorry but about the profit contribution part of SoCIAL LITE, I cannot yet say. I apologize for the non-disclosure today. I'm afraid I can't report on this for a bit, so please bear with me.

Regardless of the amount of contribution, the basic idea is that the transformation of the SKU portfolio is to increase the ratio of products in mainstream and premier areas, and to slightly decrease the weight of what we call value brands. Also, we are trying to control fixed costs flexibly according to the market conditions, since Sleeman itself is a company that is fully capable of doing so.

So, in that sense, our basic approach has not changed. That is the stance we are taking.

Yoshida [M]: Okay. Thank you very much.

Nose [M]: I'm sorry. Thank you.

Moderator [M]: Thank you very much for your question, Mr. Yoshida.

Now, let me move on to the next question. Citigroup Global Markets Japan Inc., Miura. Please ask your questions.

Miura [M]: Hello, this is Miura. Can you hear me?

Oga [M]: I can hear you.

Miura [Q]: Okay. Thank you. First, I would like to know a little bit about the overall domestic beer consumption in Japan. In the past two years, there has been an increase in the number of canned beers, or RTDs. I think there is a clear distinction between those who have strong price sensitivity, and those who don't. I would like to know how consumption is changing in terms of price. Your explanation would be very helpful. This is the first question.

Nose [M]: Okay. Should I wait for your second question? One by one is okay?

Miura [Q]: The second point is actually the same. The question is, what should Japanese beer companies do to capture this consumption considering consumption? The volume will return this year. I think that's a good thing. However, I'm not sure if the profits will really return to normal, or not. It's great that we’re getting better in this phase of recovery, but we'd like to know what we need to do now, and we'd like to learn how to think in a more organized way. This is the second point.

Nose [A]: Okay. Thank you, Miura. We are now thinking domestically. The term polarization of consumption has been around for a long time, but there is certainly a difference in consumer behavior between those who are price-sensitive, and those who have enough money and can afford it. However, I see that consumers are consuming different types of beer, and RTDs depending on the situation.

So, it's not just that the very wealthy are buying expensive things. I think the reality is that even those people are reaching for the reasonably priced products as well. However, on the other hand, what I have been feeling for the past two years is that people have been responding to low selling prices. The new genre had a hard time in the Japanese market last year due to the tax hike last year, and the year before.

Therefore, the fact that we were not able to meet the previous year's sales figures indicates that customers reacted negatively to the price increase, which was more than we had expected. On the other hand, customers reacted quite well about the beer side of things even though there was still a difference in price. This is not to say that I am surprised, but I think that the movements of the last year have been a little different from what I had expected.

With that in mind, I would also say that RTD is the same. In addition to the cheap, not the best word, but so-called low-priced products, we have started to sell products that are high store prices. So, I think the big movement last year was that the price range of RTDs started to become very wide.

With that in mind, the volume of RTDs will continue to grow. It is expected to grow by 7% or 8% again this year, but if you combine beers for household, third beer and regular beer, it may or may not exceed the annual level. This was the year that the approach to the beer side in the narrow sense of the word advanced rapidly for each company. In this context, as we have done, it is important to create a story that allows customers to taste a variety of products in different price ranges, rather than just using the same price strategy as before. The beer we are talking about will be premium, and we will work on it well. I believe that this is going to be a major basic line in the future.

And, again, taxes will be lowered. Affordable prices will continue to appear in the future, so it depends on what kind of product and marketing measures will be implemented here. I believe that we are now in an era in which the expectations of our customers are becoming very high.

So, in terms of profitability. Since the profitability and sales of commercial-use products will decrease, it may be necessary to work on sales promotion and recovery of profitability, but on the other hand, it is also necessary to reform the product mix and build various portfolios for home use. It's not about spending a lot of money on sales promotion. How to combine them will be the key point of our strategy in the future, and I think that is what our customers are expecting from us.

I feel that the volume of beer shelves at retailers is increasing little by little. I am aware that one of the key points will be how to strike a balance between the two.

So, in terms of whether profits will return, depending on how we combine the two, we naturally expect to see a recovery in profitability, and we will take on the challenge of that. I am aware that this is the basic idea. Yes. That is all.

Also, in terms of new categories that we launched, we are developing products that are slightly alcoholic, or non-alcoholic. The growth potential of the market is high in this area, so I think we need to think about how we can propose new products for this market. That's all.

Miura [Q]: Thank you. One thing, though, is to promote the premiumization of beer. This is true, but although craft beer and other types of beer are increasing somewhat, the price of beer in the narrow sense of the word has not yet gained momentum. I know you have the potential. Why can't we get to a stage where there is a huge increase in, say, Yebisu, or a huge increase in craft beer? What are your thoughts on this?

Nose [A]: That's right. Are our proposals still not getting through to the customers? In terms of selling price and buying price, there are things that have been ingrained for a long time, so I wonder if there is a mental hurdle there, and I think there are many ways to solve this. However, in areas with high sensitivity to the market, where the products are clearly sold in stores, products with a certain level of high selling price are selling well.

We released a product called Hop Terroir, and the response was great. That kind of product. So, while it may not work the same way across the country, I believe that there will always be areas that respond depending on the area, the timing, and the approach. We have a large market, especially for those in the Tokyo metropolitan area. About that. I think we can expect a lot from them.

Miura [M]: Thank you very much.

Nose [M]: Not at all, thank you.

Moderator [M]: Thank you very much, Miura.

The time is almost up, so I would like to conclude the question-and-answer session. In closing, Oga will say a few words. Please go ahead.

Oga [M]: Thank you very much for your many questions. The core operating profit plan for this fiscal year is JPY10 billion, which I thought was a very low plan. Initially, we had set a target of JPY30 billion for FY2024 in the mid-term plan, so compared to that, I think we have deviated considerably.

However, the gap of JPY30 billion is not something that can be filled right now. As mentioned in the previous questions, we are not giving up on the idea of where we can grow, and whether the market will return. We haven't lowered the medium-term plan yet, but we believe that we can expect significant growth.

As for your last question, I was wondering if the beer market would return. It will return, and I know it can. This is because there will be two more price revisions until 2026, and I believe that it will take three or four years to define the price and value of beer one more time within these four, or three years.

I don't know if it's a matter of "I took it, or they took it," but we probably won't be fighting for business anymore, even if we have to pay for it. It has become clear that this is the case, and if we can set a price and value for beer in the future, the volume may decrease, but I believe that the market will still be attractive in terms of profit.

While doing that in the domestic market, we are also selling RTDs, wines and other alcoholic beverages other than beer, and the biggest thing for us right now is our overseas manufacturing bases. I believe that selling the Sapporo brand here will lead to very large growth. If this can be done, the alcoholic beverage business will grow significantly.

Also, real estate may seem to be suffering a bit in the near future, but we do not think that Yebisu Garden Place is unpopular, and we believe that it is still popular. However, although we spent some money on the renewal this year, I think we lacked in our efforts to find out where we could add more value. I believe that if we do this, we will be able to create that value more than ever before.

Also, the food and beverage industry, which we had been wondering if there was any point in doing this, has finally started to gain ground. If we focus on where we need to focus, we will not be able to reach the figures in our medium-term plan, but I think we are starting to get a sense that we can do something. I would like to use this year's numbers as a stepping-stone to achieve these goals.

There may have been some inconveniences due to the remote location but thank you very much for your time today. Thank you again for your cooperation. That's all.

Nose [M]: Thank you very much.

Iwata [M]: Thank you very much.

Moderator [M]: This concludes the conference call. Thank you very much for joining us today and staying until the end. Thank you for your continued support.

[END]