



SAPPORO HOLDINGS LTD.

Sapporo Holdings Limited

Q1 Financial Results Briefing for the Fiscal Year Ending December 2021

May 7, 2021

Event Summary

[Company Name]	Sapporo Holdings Limited	
[Company ID]	2501-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending December 2021	
[Fiscal Period]	FY2021 Q1	
[Date]	May 7, 2021	
[Number of Pages]	29	
[Time]	17:00 – 18:09 (Total: 69 minutes, Presentation: 33 minutes, Q&A: 36 minutes)	
[Venue]	Dial-in	
[Venue Size]		
[Participants]		
[Number of Speakers]	1	
	Yoshihiro Iwata	Managing Director
[Analyst Names]*	Hiroshi Saji	Mizuho Securities Co., Ltd.
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	Manabu Sumoge	Okasan Securities Co., Ltd.
	Nobuyoshi Miura	Citigroup Global Markets Japan Inc.

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

Presentation

Moderator: Good evening, everyone. Thank you for participating in the Q1 Financial Results Briefing for the Fiscal Year ending December 2021 of Sapporo Holdings Limited. It is now time to start, so we will begin.

Yoshihiro Iwata, Managing Director, is attending the meeting today. Please prepare the financial statements, supplementary explanatory materials for the financial statements, and PowerPoint presentation of the financial statements at hand. Mr. Iwata will begin by presenting an overview of the financial results for the first quarter based on the PowerPoint presentation for about 30 minutes, followed by a question-and-answer session. The entire meeting is scheduled to be approximately 1 hour long. Now, we will begin the conference call. First, Mr. Iwata will give an explanation. Please begin.

Iwata: This is Iwata of Sapporo Holdings. Thank you very much for taking time out of your busy schedules to participate in our financial results briefing. I would like to explain the details of the financial results for the first quarter of this fiscal year based on the PowerPoint presentation materials. I would like you to take out the PowerPoint materials of this IR presentation.

I will explain the details later, but the financial results for the first quarter were affected by the COVID-19 pandemic, which had an impact on the restaurant business, commercial liquor, and beverages mainly for vending machines, resulting in a decrease in revenue. The decrease in revenue was compensated for by the reduction of fixed costs, and profits below core operating profit were only slightly lower than last year.

Review of Three Months Ended March 31, 2021: Result



- Beer continued to see strong sales of core brands.
New product Koime no Lemon Sour became a hit, greatly boosting RTD sales.
Lemon-based products and plant-based milk products maintain solid performance.

Black Label brand canned product sales volume



Up 16% YoY

YEBISU brand canned product sales volume



Up 19% YoY

RTD sales volume



Up 50% YoY

Japanese liquor sales



Up 9% YoY

Lemon-based products sales volume



Up 7% YoY

Plant milk sales



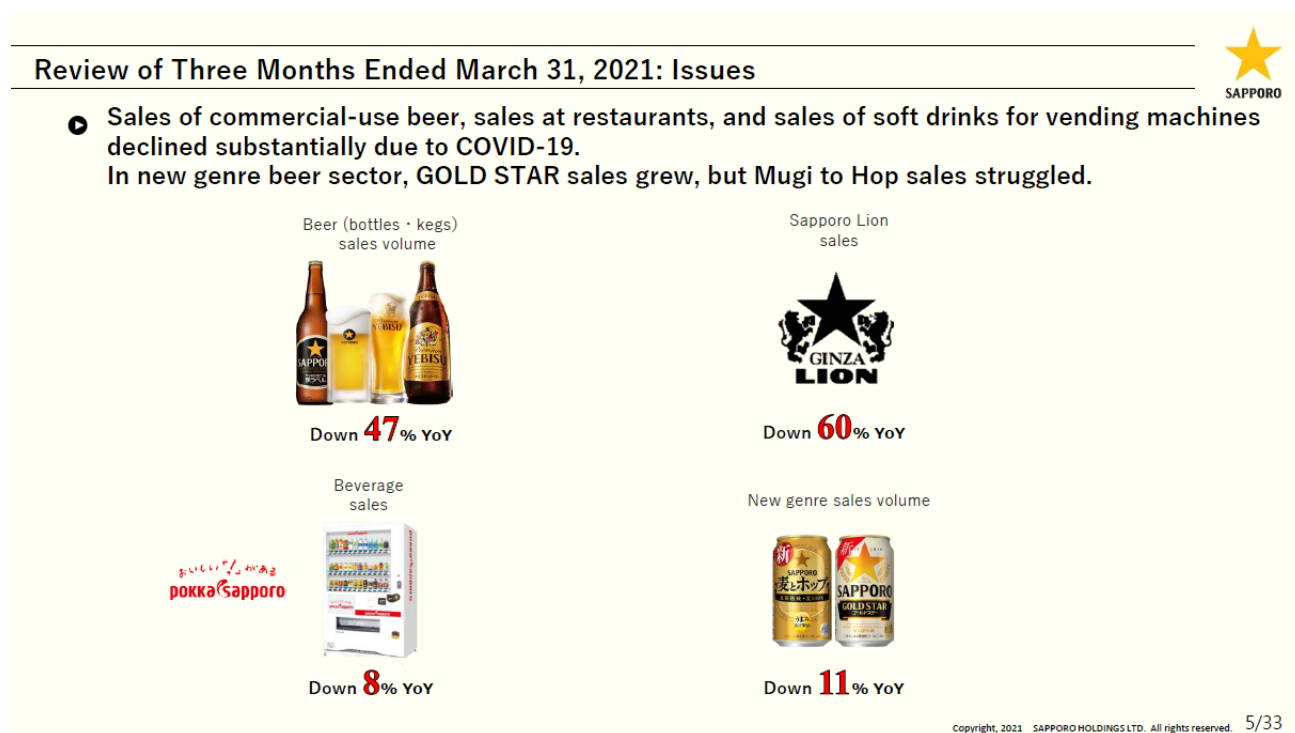
Up 12% YoY

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Now let's take a look at page 4. This is the results of the review of the first quarter of this fiscal year.

As in the previous year, sales of Black Label cans and YEBISU brand cans have remained strong. The total number of cans sold under the YEBISU brand increased by just under 20%, thanks to the strong performance of not only Gold YEBISU but also other brands. As for the RTD business, which had been facing challenges until last year, the Koime no Lemon Sour has been well received this year, and we announced an upward revision to our annual plan yesterday, and the January-March period has been very strong with a 50% increase over

the previous first quarter. In food and beverages, as in the past year, sales of lemon-based products and soy milk yogurt and other plant milk have been strong.



Next, page 5 is the issues identified by the review. There was a slight negative impact from the pandemic, which affected commercial-use beer, the restaurant business, and beverages, mainly from vending machines. Sales of beer bottles and kegs were on a recovery trend in March but slowed down sharply toward the end of March due to an increase in the number of patients caused by the pandemic, resulting in a 47% decline in sales of beer bottles and kegs from January to March. Lion's sales were also down by 60% due to the significant impact of the emergency declaration at the beginning of the year. As for new genres, sales of GOLD STAR increased from last year, but sales of Mugi to Hop were sluggish, resulting in an 11% decline.

Results Highlight

(billions of yen)	2020 1Q Result	2021 1Q Result	YoY changes (amount)	YoY changes (%)
Revenue	99.8	89.9	(9.9)	(9.9%)
Revenue (Excluding liquor tax)	77.1	68.5	(8.6)	(11.2%)
Overseas revenue	15.2	14.3	(1.0)	(6.3%)
EBITDA	(0.1)	(1.7)	(1.6)	—
Core operating profit	(6.2)	(6.9)	(0.7)	—
Core operating profit margin	(6.2%)	(7.6%)	—	—
Operating profit	(6.1)	(6.2)	(0.1)	—
Profit attributable to owners of parent	(4.6)	(5.2)	(0.6)	—
D/E ratio (times) ※Net	1.4	1.6	0.2	—

The balance of debt excludes the balance of lease obligations.

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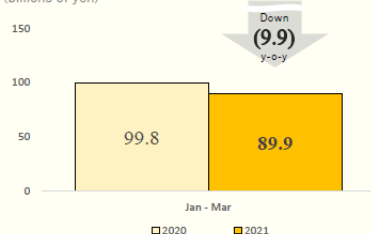
I would like you to look at the next page 6. This is the highlights of the P/L for the first quarter.

Revenue was JPY89.9 billion, a decrease of JPY9.9 billion from the previous first quarter. This was a decrease of about 10%. Core operating profit was a loss of JPY6.9 billion, as efforts to reduce fixed costs and other measures failed to make up for the negative impact of the sales decline. This was a decrease of JPY700 million from the previous first quarter. Operating profit was a loss of JPY6.2 billion, including a gain on the sale of real estate in the restaurant business. This is a decrease of JPY100 million from the previous first quarter. Profit attributable to owners of parent was a loss of JPY5.2 billion. This is a decrease of JPY0.6 billion from the previous first quarter.

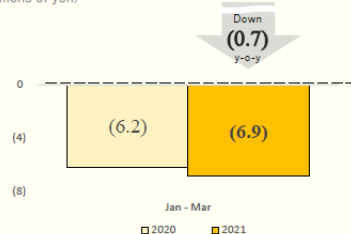
Results Highlight

Overall revenue and profits for 1Q declined due to the impacts of COVID-19 from the start of the year.

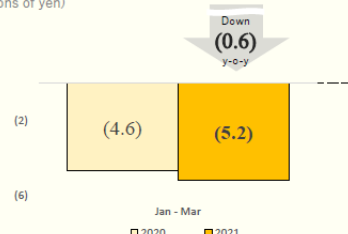
Revenue
(billions of yen)



Core operating profit
(billions of yen)



Profit attributable to owners of parent
(billions of yen)



- **Alcoholic Beverages:** Canned beer and RTD products posted sales growth, but overall sales were down because of lower sales volume of new-genre beers as well as a lagging recovery in commercial-use beer sales and in the restaurant industry.
- **Food & Soft Drinks:** Sales of lemon-based food and plant-based milk products were steady, but overall sales declined due to weakness in beverages for vending machines and in the restaurant sector.

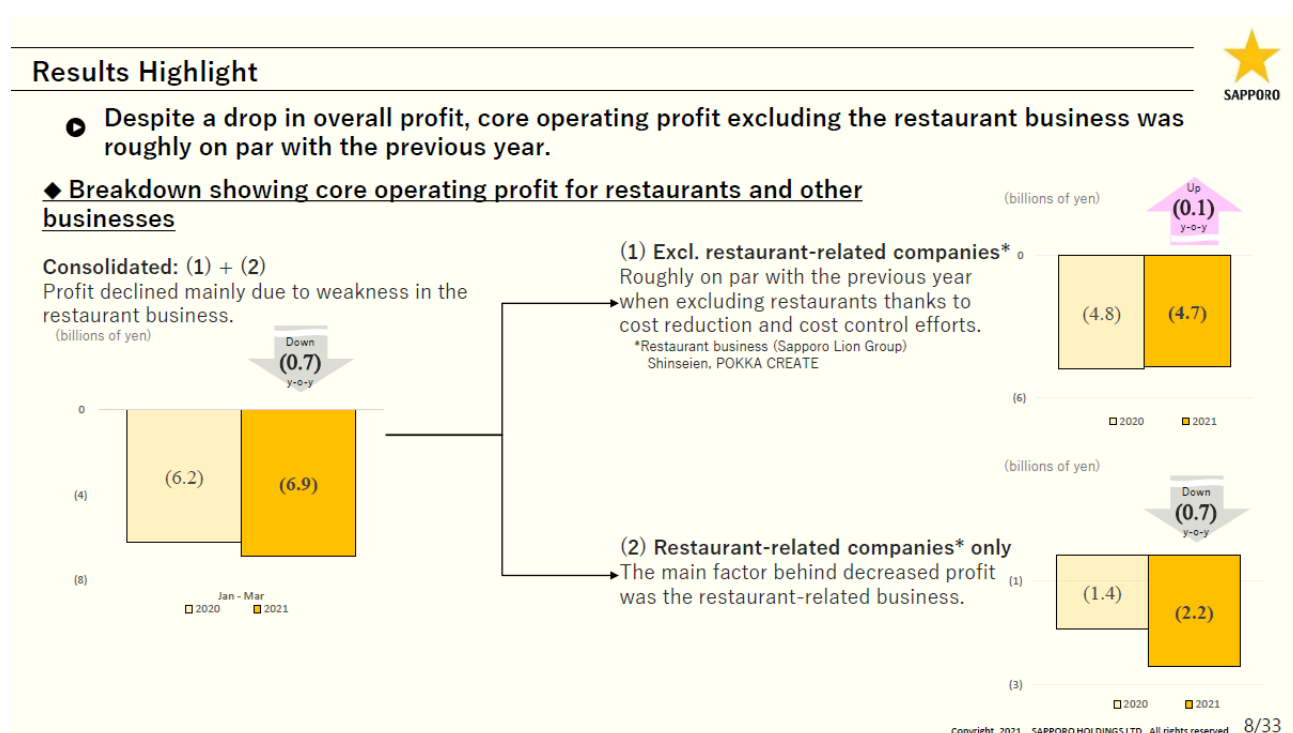
- The effects of cost structure reforms and cost control efforts currently underway failed to cover the overall impacts from the drop in sales, resulting in decreased profit.

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We will continue on page 7 for the highlights. Revenue decreased by JPY9.9 billion, as stated. In the alcoholic beverages business, as I mentioned at the beginning of this report, revenue of canned Black Label and YEBISU was strong, as in the previous first quarter, and revenue of canned beer and RTD increased, but revenue of new genres and a delayed recovery in the commercial food service business resulted in a decline in revenue. Beer sales accounted for 89% of our total sales in the January-March period on a volume basis. The estimated total demand for the period from January to March is about 90%, which is almost on par with the total demand.

In the food and beverage business, revenue of lemon-based food and beverages was strong, as in the previous first quarter, but total beverage revenue was negative due to a decrease in revenue from vending machines caused by the pandemic, which failed to be made up for by the increase in food revenue.

Core operating profit decreased by JPY0.7 billion from the previous first quarter, as the cost structure reforms that we have been implementing since last year had a positive effect on cost reduction but failed to offset the impact of the decline in revenue. As with core operating profit, profit attributable to owners of parent company was a loss of JPY5.2 billion, a decrease of JPY0.6 billion from the previous first quarter.



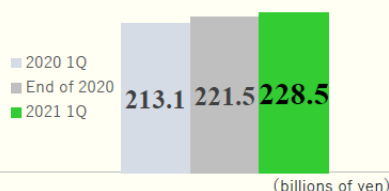
I would like you to look at page 8. The 3 companies in the restaurant business are the Sapporo Lion Group in the restaurant segment; Shinseien, which operates a beer garden in the domestic alcoholic beverages segment; and Pokka Create, running Café de Crié, in the food and beverage segment. In this page, we have broken down core operating profit into the 2 segments on the right: the 3 food service companies and the other businesses.

In the first quarter, the restaurant-related business struggled, dragging down our performance. Although sales decreased in each business except for the restaurant business, core operating profit was almost the same as the previous first quarter due to cost reductions.

The restaurant-related business posted a loss of JPY2.2 billion, an expansion of JPY0.7 billion from the previous first quarter, and the Group as a whole posted an expansion of JPY0.7 billion from the same period last year. Since existing businesses remained almost unchanged, it turned out the restaurant business was a factor in the overall decrease in profit.

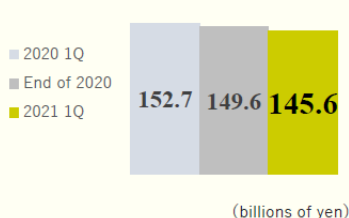
Results Highlight

Balance of net debt

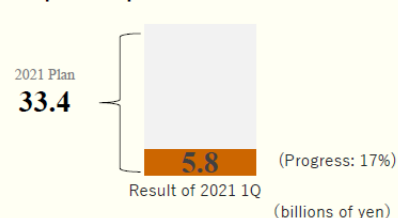


D/E ratio (net) **1.6 X** Up 20% YoY

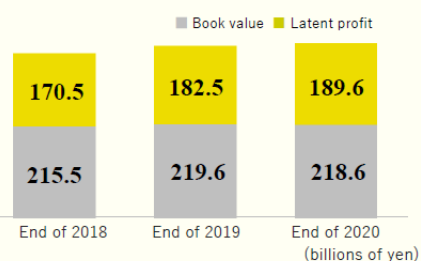
Equity



Capital expenditure (cash basis)



Market value info on investment properties



Transformation of Group management structure and Group topics

- Five companies of the Sapporo Group were recognized as "2021 Health & Productivity Management Outstanding Organizations".
<https://www.sapporoholdings.jp/news/dit/?id=8750>
- Sapporo Holdings Limited selected as "Semi-Nadeshiko Brand".
<https://www.sapporoholdings.jp/news/dit/?id=8758>
- Our response to the TCFD's recommendations "Responding to Climate Change with Development of New Varieties of Barley and Hops" (released on April 26, 2021)
<https://www.sapporoholdings.jp/news/dit/?id=8770>

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I would like to continue with page 9. B/S related and Group topics are described here. Net financial debt totaled JPY228.5 billion, an increase of JPY7 billion from the end of the previous fiscal year. Total equity was JPY145.6 billion, a decrease of JPY4 billion from the end of the previous fiscal year, partly due to the loss in the current fiscal year. Although there is no change from what was disclosed at the end of the previous fiscal year in February this year, the fair value of investment real estate as of the end of the previous fiscal year increased from the year before last, and unrealized gains on real estate increased from the previous fiscal year to JPY189.6 billion.

These are Group topics. Five companies in the Sapporo Group have been certified as Health & Productivity Management Outstanding Organizations again this year. In addition, the company was certified as a "Semi Nadeshiko Brand" for the first time this fiscal year. In addition, we disclosed our response to the TCFD and our efforts to develop raw materials for beer before the Golden Week holidays in April.

Revenue by Segment



(billions of yen)	2020 1Q Result	2021 1Q Result	YoY changes (amount)	YoY changes (%)
Revenue by Segment	99.8	89.9	(9.9)	(9.9%)
Alcoholic Beverages	63.4	56.6	(6.7)	(10.6%)
Japanese	48.6	44.7	(3.9)	(8.0%)
Overseas	10.3	10.2	(0.1)	(1.0%)
Restaurants	4.5	1.8	(2.7)	(60.4%)
Food & Soft Drinks	30.3	27.6	(2.8)	(9.1%)
Real Estate	6.1	5.6	(0.4)	(7.2%)
Other	0.0	0.0	0.0	14.0%

Factors are explained
in the next slide

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I would like you to continue on to page 10, sales revenue by segment. As for domestic alcoholic beverages, as I explained earlier, canned beer and RTDs performed well, resulting in an increase in revenue, but bottles and kegs for commercial-use struggled, resulting in a decrease in revenue of JPY3.9 billion. In yen terms, sales were almost unchanged from the previous first quarter. As in the previous first quarter, sales of Sleeman in Canada exceeded those of the previous first quarter on a volume basis.

In the restaurant business, revenue decreased by 60% from the previous first quarter, partly due to the declaration of an emergency. In the food and beverage business, revenue of food products increased by 5%, mainly lemon-based products, but revenue of beverages, mainly vending machines, struggled, with negative results from businesses such as Café de Crié and Blue Seal, resulting in a decline of JPY2.8 billion.

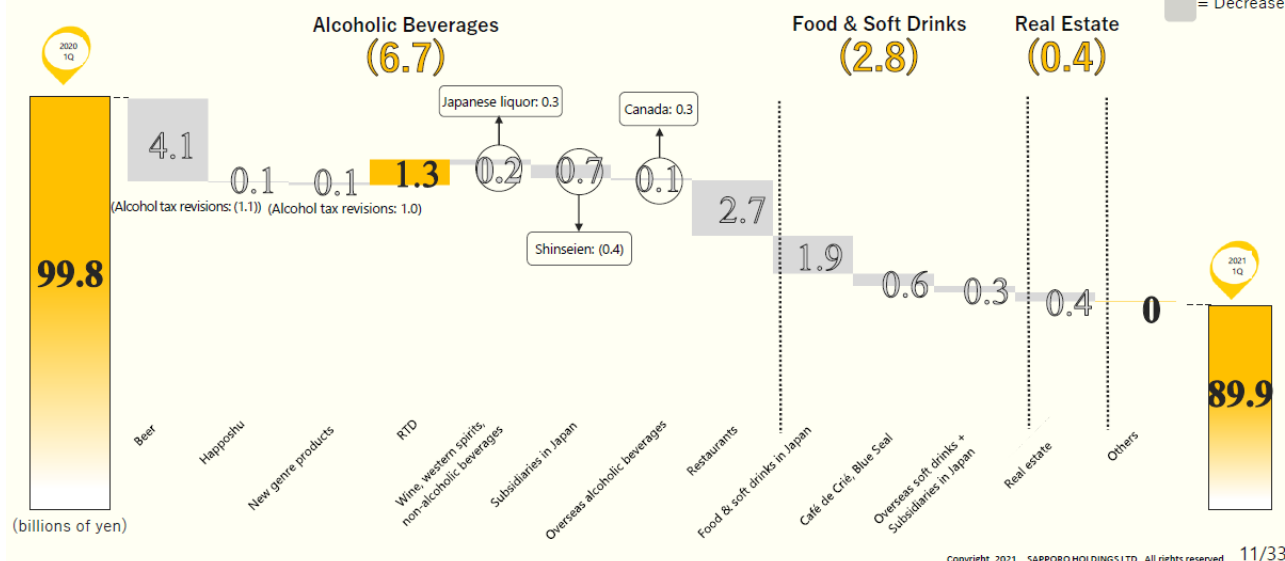
In the real estate business, revenue decreased by JPY400 million due to a decrease in office occupancy at Yebisu Garden Place, a decrease in occupancy at Garden Hall, and a decrease in revenue at hotels in Hokkaido.

Main Contributors to Changes in Revenue



Revenue of RTD rose, but declined for beer, restaurants and soft drinks, resulting in a net decrease of **9.9** yen billion year on year.

■ = Increase
■ = Decrease



I would like you to look at page 11. The main reasons for the increase and decrease in sales revenue for each business are explained using a waterfall chart. In the beer category, revenue of beer decreased by JPY4.1 billion, mainly due to the negative impact of eating out. The liquor tax revision in October last year led to a decrease of JPY1.1 billion in beer sales, but an increase of JPY1 billion in new genre sales, so the impact of the liquor tax revision on sales and profits is almost flat.

RTD sales increased by JPY1.3 billion due to strong sales of Koime no Lemon Sour. In the wine and spirits business, revenue decreased due to a decline in the commercial market, but in the Japanese liquor business, revenue of RTS, which can be mixed and drunk at home, such as Otokoto Ume and Koime no Lemon Sour, which have been on the market since last year, were very strong, resulting in an increase of JPY300 million.

Overseas, revenue of Sleeman in Canada increased, but in the U.S., revenue struggled slightly due to the high ratio of eating out, resulting in a decrease in revenue. Overall overseas sales were almost the same as the previous first quarter.

In food and beverages, revenue of food products increased, especially lemon-based products, but beverages, mainly for vending machines, struggled, and revenue of food and beverages in Japan decreased by JPY1.9 billion. In addition, Café de Crié, which operates food services, and Blue Seal, which operates ice cream stores, both saw their revenue decline by JPY600 million.

As for overseas beverages, the sales volume was on a par with the previous first quarter, but in total including other subsidiaries, there was a slight decrease.

Core Operating Profit by Segment



(billions of yen)	2020 1Q Result	2021 1Q Result	YoY changes (amount)	YoY changes (%)
Core Operating Profit by Segment	(6.2)	(6.9)	(0.7)	—
Alcoholic Beverages	(4.6)	(5.0)	(0.4)	—
Japanese	(2.9)	(3.0)	(0.1)	—
Overseas	(0.6)	(0.3)	0.3	—
Restaurants	(1.2)	(1.7)	(0.5)	—
Food & Soft Drinks	(1.4)	(1.1)	0.3	—
Real Estate	1.2	0.7	(0.5)	(40.0%)
Other - General corporate and intercompany eliminations	(1.4)	(1.5)	(0.1)	—

Factors are explained in the next slide

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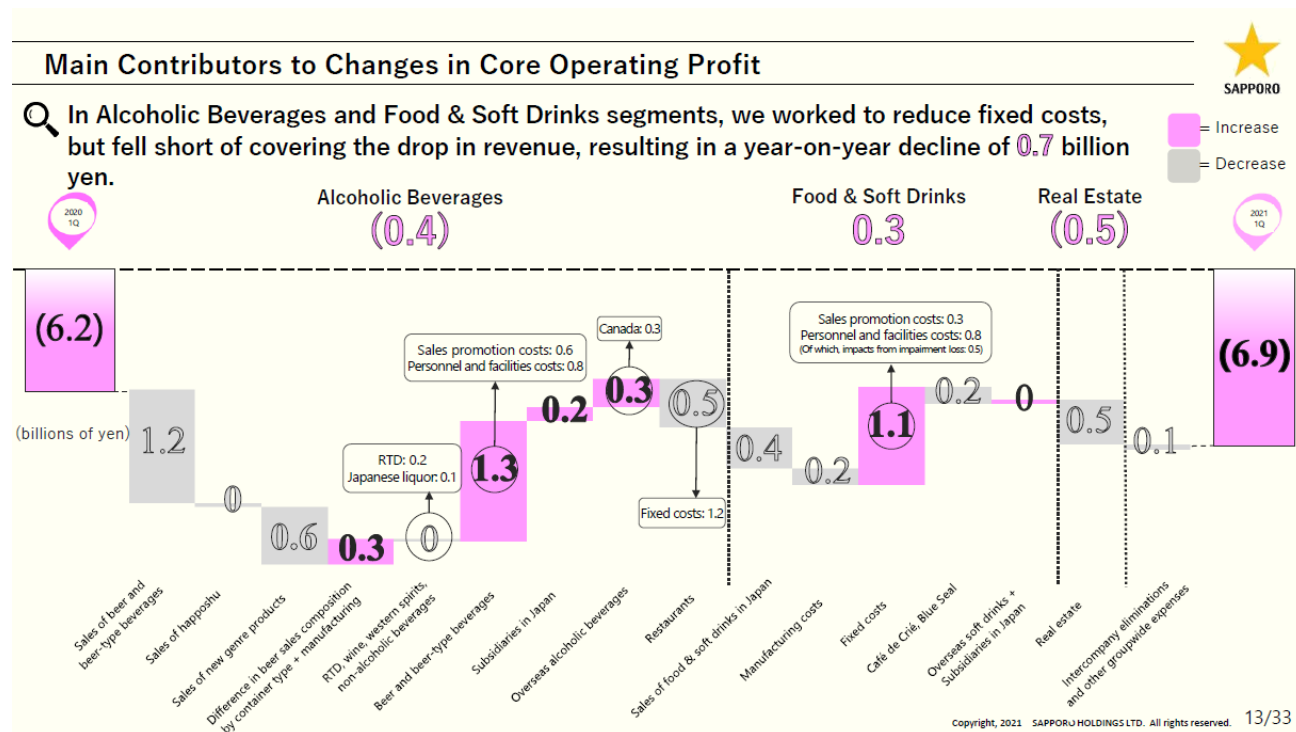
Next, I would like to explain core operating profit by segment on page 12. The alcoholic beverages business posted a loss of JPY5 billion, an expansion of JPY400 million from the previous first quarter. In the domestic alcoholic beverages business, Sapporo Breweries Ltd. posted a loss of JPY3 billion, almost the same as the previous first quarter, as we controlled the decline in revenue by reducing fixed costs.

In overseas alcoholic beverages, revenue was almost unchanged from the previous first quarter. Core operating profit was a loss of JPY0.3 billion, despite an improvement of JPY0.3 billion from the previous year due to cost reductions.

In the restaurant business, we posted a deficit of JPY1.7 billion, an expansion of JPY0.5 billion from the previous first quarter. In the restaurant business, revenue decreased, but the negative impact on profit as a percentage of negative revenue was considerably less than in the previous first quarter, due to efforts such as closing stores and reducing personnel compared to the previous first quarter. The effects of the break-even point reform have been apparent since the first quarter.

Food and beverages posted a loss of JPY1.1 billion, an improvement of JPY0.3 billion. Of this amount, JPY2 billion is through-year depreciation of fixed assets that were written down in the previous fiscal year. JPY500 million for each quarter, so of the JPY300 million improvement, JPY500 million was due to a decrease in depreciation.

In the real estate business, there was a negative impact of approximately JPY200 million due to a decrease in the occupancy rate of the YGP office, a negative impact of JPY100 million due to a decrease in the occupancy rate of the Garden Hall, an increase of JPY100 million in property tax and city planning tax, and an increase of JPY100 million in other expenses. This fiscal year, we plan for a decrease in profit, so this was almost in line with our initial plan.



I would like you to move on to page 13. As with sales revenue, I would like to explain the main factors behind the increase and decrease in core operating profit using a waterfall chart. The JPY1.8 billion decrease in sales volume of beer and new genre, etc., was offset by JPY0.3 billion coming from difference in the container composition due to an increase in cans and difference in costs, etc., and a JPY1.3 billion increase in RTDs and cost reductions. As a result, the domestic alcoholic beverages were slightly negative.

Looking at the difference from the previous first quarter, overseas improved by JPY0.3 billion—mainly from Canada. In the U.S., sales fell sharply due to the impact of eating out, but profits were almost flat YoY due partly to the effect of cost reductions.

In the food and beverage business, the negative impact of lower sales and higher costs was offset by reductions in fixed costs, resulting in higher profits. Of the fixed cost reduction of JPY1.1 billion, depreciation and amortization decreased by JPY0.5 billion due to the impairment loss in the previous fiscal year. The profit from food services such as Crêpe and Blue Seal decreased by JPY200 million. As for overseas, profits increased slightly, partly due to cost reductions. In the current fiscal year, the effect of reducing personnel expenses through early retirement is expected to be JPY2.2 billion for the entire Group for the full year, and in the first quarter, there will be approximately JPY300 million for the entire Group: 1.4 for domestic alcoholic beverages, 1.3 for Lion restaurant, and 0.8 for Pokka Sapporo Food & Beverage.

Profit attributable to owners of parent



(billions of yen)	2020 1Q Result	Details	2021 1Q Result	Details
Core operating Profit	(6.2)		(6.9)	
Other operating income	0.4		1.3	Proceeds from sale of real estate +0.9
Other operating expenses	0.2		0.6	
Operating Profit	(6.1)		(6.2)	
Profit before tax	(6.3)		(6.2)	
Income taxes	(1.6)		(1.0)	
Profit	(4.7)		(5.2)	
Loss attributable to non-controlling interest	(0.1)		(0.0)	
Profit attributable to owners of parent	(4.6)		(5.2)	

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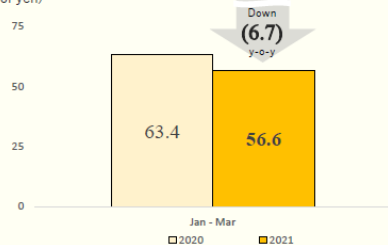
I would like you to look at page 14. These are various profits under core operating profit. Other operating income increased by JPY1.3 billion due to a JPY900 million gain on the sale of real estate properties, company housing, dormitories, etc. owned by Lion. As a result, operating profit was on par with the previous first quarter, but profit attributable to owners of parent for the current first quarter decreased slightly to a loss of JPY5.2 billion.

Alcoholic Beverages

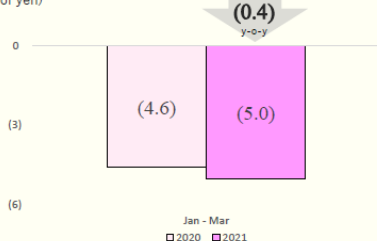


- Downtrodden conditions in commercial-use beer and the restaurant business due to COVID-19, while home-use beer and RTD products posted strong sales.
- Progress with cost structure reforms in the restaurant business helped to slow the decrease in profits.

<Revenue> (billions of yen)



<Core Operating Profit> (billions of yen)



Positive
Negative

- Canned beer sales were steady on rising demand for drinking at home.
- Sales of RTD Koime no Lemon Sour Can and RTS Koime no Lemon Sour no Moto were strong.
- Sales volume of Sleeman in Canada rose yoy amid strong sales of Sleeman Clear.
- Cost structure reforms in the restaurant business helped to ease the extent of losses (closed 13 unprofitable outlets in 1Q).
- Commercial-use beer and restaurants struggled.
- New-genre beer saw weaker sales.
- Canned products sold briskly in the U.S. market, but sales of commercial-use beer were sluggish.

Future initiatives

- Strengthen core brands in both beer and new-genre products.
- Solidify RTD and RTS brands by linking together commercial-use and home-use products.
- Bolster RTD sector, in addition to beer, in Canada's market.
- Improve profitability in the North America and expand sales of new and revamped products.

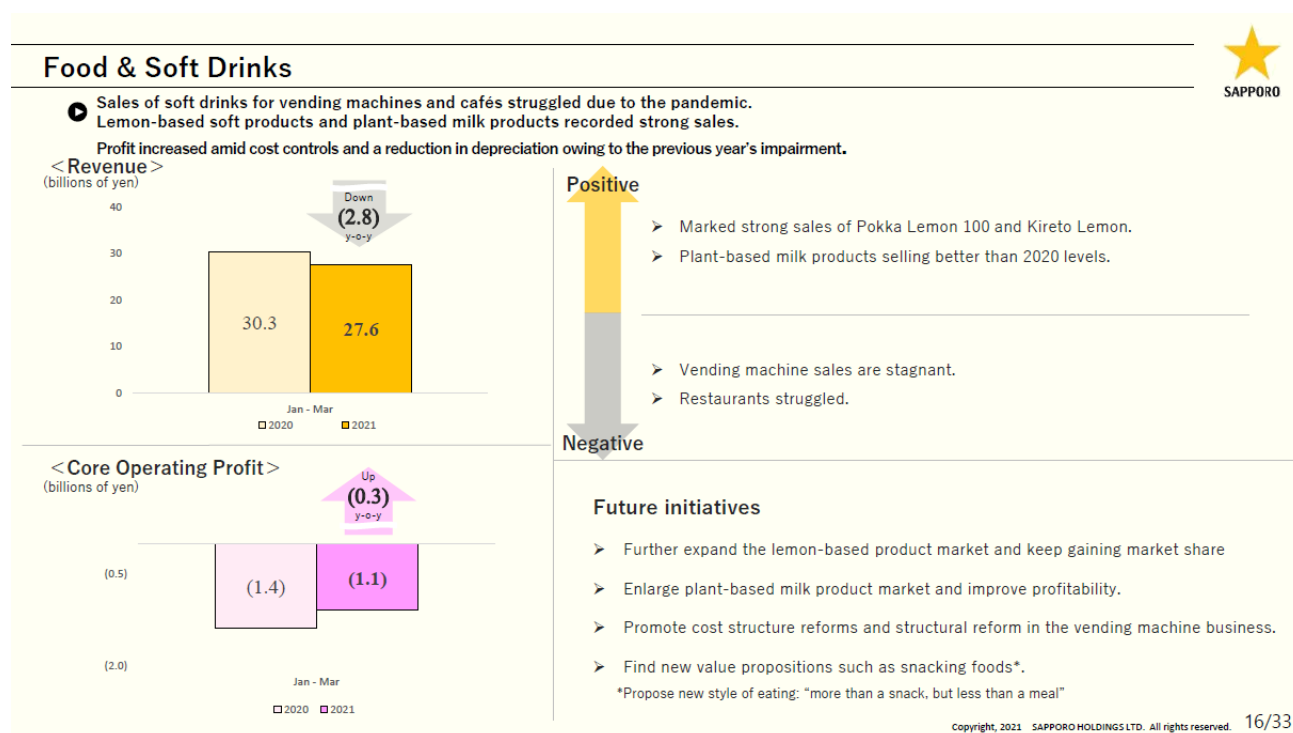
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I would like you to look at page 15. Positive and negative factors in the alcoholic beverage business, future issues, and initiatives are described in this page. The positives are that canned beer sales of both Black Label and YEBISU are extremely strong, RTD sales, which were an issue in the previous fiscal year, are performing

well, the overseas sales of Sleeman in Canada continue to be strong, and the restaurant business is making progress in lowering its break-even point.

As for negative factors, both in Japan and overseas, the restaurant business is still struggling, and the recovery is slightly slower than initially expected. Also, in this fiscal year, the new genre Mugi to Hop is struggling.

As for future initiatives, in addition to further strengthening our beer business, which is performing well, we will strengthen RTD business in Canada as well as beer business, and in the U.S., we will steadily work on the commercial-use business, where demand is expected to recover from April.



Continuing on page 16, I would like to explain the positive and negative factors and future initiatives for the food and beverage business. On a positive note, the lemon and soy milk yogurt businesses are continuing to perform well even after the stay-at-home demand has run its course. One negative point is that beverages, mainly from vending machines, are struggling. However, partly due to the fact that since March, the impact of the COVID-19 pandemic has faded, the vending machine business has returned to almost the same level as the previous first quarter, so sales themselves are on a recovery track.

In terms of future initiatives, we intend to significantly increase the sales of lemon-based products, which are performing well, increase the profitability of plant milk, and steadily implement structural reforms in the vending machine business.

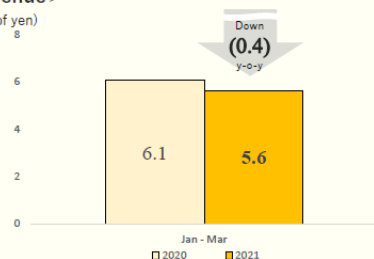
Real Estate



● Slight decline in revenue amid the impacts after some tenants left.

<Revenue>

(billions of yen)



Positive

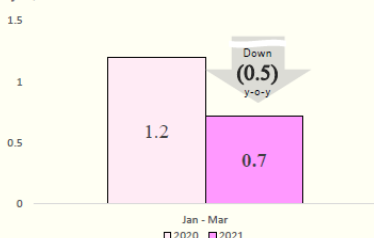
- Decide on tenants for the food and lifestyle floor ahead of the remodeling of Yebisu Garden Place Tower (commercial wing).
- Promote strategic reshuffling of properties.

Negative

- Declining occupancy rate of offices at Yebisu Garden Place Tower (average occupancy during the quarter under review: 90%)
- Hotel business was somewhat affected by COVID-19.

<Core Operating Profit>

(billions of yen)



Future initiatives

- Steadily promote remodeling of Yebisu Garden Place Tower (commercial wing).
- Strengthen leasing to increase occupancy rate of office area.
- Improve capital efficiency by reshuffling the property portfolio.

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Next is page 17. I will explain the positives, negatives, and future initiatives of the real estate segment. The real estate business saw a slight decrease in both revenue and profits due to the impact of some tenants moving out. On a positive note, tenants have been decided for the food and household goods floors of the Yebisu Garden Place (commercial building) in preparation for its renewal. We are steadily making preparations for the strategic reconfiguration of properties.

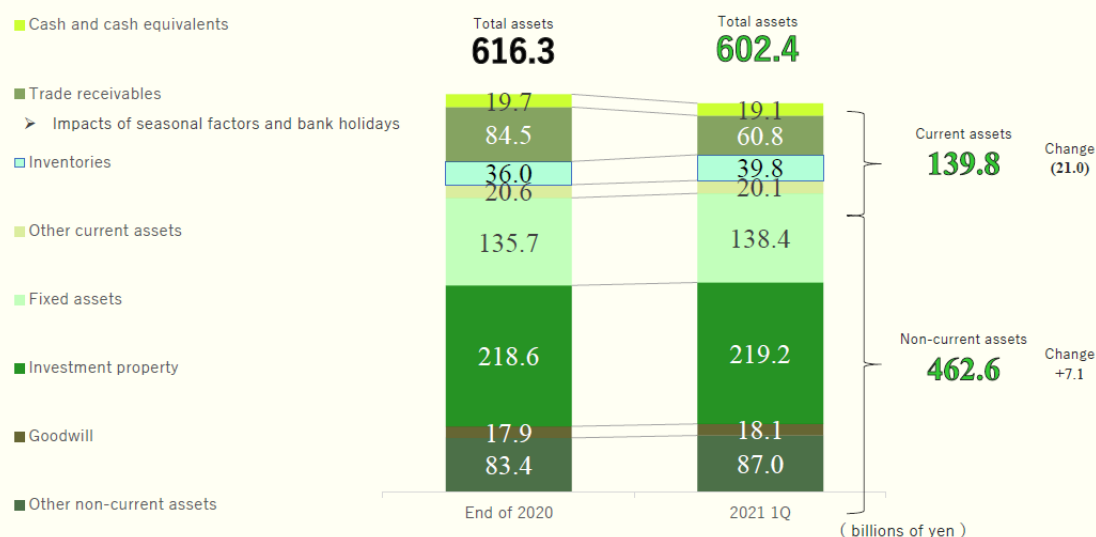
Another negative point is the decline in the occupancy rate of the offices in Yebisu Garden Place, which is at 90%. Our factories and hotels in Hokkaido have also been affected by the pandemic.

As future initiatives, we will steadily implement the renovation of the commercial building. We are currently working on the restoration of the building to its original condition. We started leasing the first basement floor in February, and the construction has been progressing smoothly. We believe that we will be able to explain the general framework of the commercial building around September, including the key tenants. Although the office occupancy rate is mostly within the planned and expected range for this fiscal year, we will continue to strengthen our leasing efforts to increase the occupancy rate. For this fiscal year, we are planning to replace properties as announced in the plan at the beginning of the year. We will ensure that the replacement is carried out and use the funds for growth in the real estate business to improve the capital efficiency of the entire Group, while embarking on future growth initiatives.

Changes in Balance Sheets



● Total assets declined 13.9 billions yen YoY

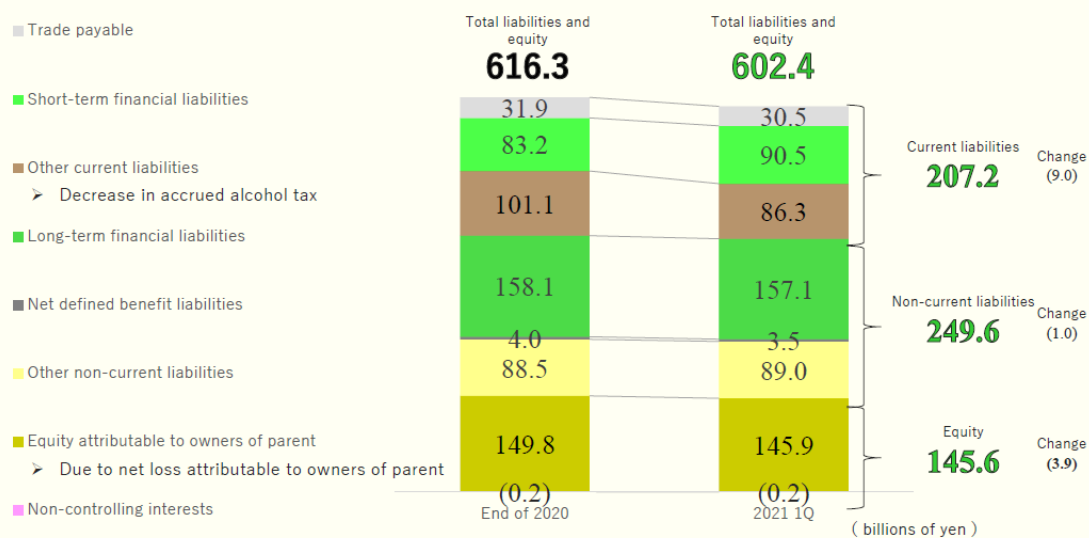


I would like to continue with page 18. This is the assets section of the balance sheet. Compared to the end of the previous fiscal year, current assets decreased by JPY21 billion due to seasonal factors such as the busy season at the end of the year and the effect of bank operating days.

Changes in Balance Sheets



● Total liabilities declined 10.0 billions yen YoY and total capital declined 3.9 billions yen YoY



Please move on to page 19. Liabilities and Equity. This was also due in part to seasonal factors compared to the end of the previous fiscal year, which resulted in a decrease of JPY9 billion in current liabilities. The topic of this report is the decrease of JPY3.9 billion in total shareholders' equity due to the recording of a loss for the current first quarter.

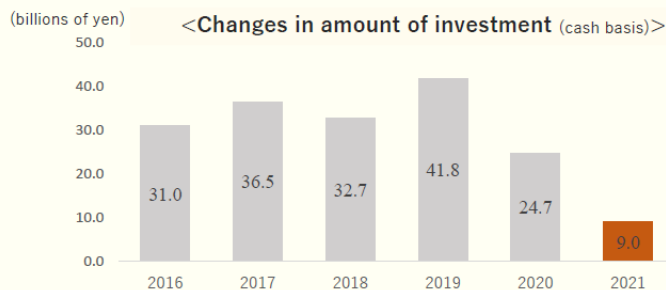
Financial Status



● Investment on a cash basis was ¥9.0 billion

<Consolidated cash flow (CF) statement>

(billions of yen)	2020 1Q Result	2021 1Q Result	Change	Change (%)
CF from operating activities	11.2	2.1	(9.1)	(81.4%)
CF from investing activities	(7.1)	(5.4)	1.6	—
Free CF	4.2	(3.3)	(7.5)	—
CF from financing activities	10.2	1.3	(8.8)	(86.8%)



<Investment total (①+②+③)> ¥9.0 billion

① Capital expenditure (cash basis): ¥5.8 billion

(Property, plant and equipment, intangible assets, investment property)

<Major items>

• Alcoholic Beverages: ¥1.6 billion
SB: ¥1.0 billion Sleeman ¥0.3 billion

• Food & Soft Drinks: ¥0.7 billion
PS etc.

• Real Estate: ¥3.2 billion
Acquisition of investment property: ¥3.1 billion

• Group-wide: ¥0.3 billion

② Lease fees: ¥0.8 billion

(excluding lease fees for renting restaurant premises)

③ Other investments: ¥2.3 billion

(Invest in property's equity etc.)

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Page 20 is for cash flow and investments, which describes our financial situation. Operating cash flow decreased compared to the previous first quarter. Free cash flow was a negative JPY3.3 billion due to restrained investment cash flow. This is a breakdown of major investments. In addition to regular capital investment in alcoholic beverages and food and beverage products, we have also acquired real estate properties, etc. The total investment amount for the first quarter is JPY9 billion, including capital investment, lease payments, and other investments.

This is the status of the financial results for the first quarter so far. I would like you to take a look at the first page of the financial summary. There has been no change in the earnings forecast for the current fiscal year and the dividend since the announcement of financial results at the beginning of the year in February. As for the outlook for the full year, we had initially predicted that the restaurant business in particular would gradually recover from the end of the Golden Week and reach 60% to 70% of the 2019 level by the end of the year, but the speed of recovery has been slightly delayed due to the extension of the emergency declaration.

On the other hand, while the restaurant business has been sluggish, demand from home consumption strong, so Sapporo Breweries is currently analyzing how total demand will be affected by the emergency declaration at the end of April. Therefore, at this point in time, I would like to ask for your understanding that the figures in the table below are the demand estimates prior to the declaration of the state of emergency in April.

And, in the first quarter, as I explained earlier, our company's revenue and profits decreased, but with the exception of restaurant services, they were almost the same as the previous first quarter. Sales of canned beer and RTD are strong. Cost reduction and cost control are progressing. In light of the current situation, our beer company is considering new measures to enhance home drinking time.

Overseas, especially in the U.S., demand for vaccinations will recover in April and May, and we can expect a recovery in demand by Independence Day in July.

The restaurant business is also in a very dire situation, but as I explained in the full-year forecast for this fiscal year, we have set aside JPY1.6 billion in risk-response reserve funds for the entire Holdings. In addition to these costs, we will be closing loss-making restaurants and reducing costs in the restaurant business.

In the real estate business, preparations for the reconfiguration of properties are progressing smoothly, and we believe that the Group as a whole will be able to achieve its profit plan for the full year, and there are no plans to change the full-year forecast at this time.

This is my explanation of the financial results for the first quarter. Thank you very much for your attention.

Question & Answer

Moderator: Thank you very much for your explanation.

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 let us have your company name and your name followed by your question.

Please ask your questions in a question-and-answer format. Also, in order for us to answer questions from as many people as possible, we will limit the number of questions to 2 per person.

Now, Mr. Saji, Mizuho Securities, please go ahead.

Saji: Thank you. I'm Saji from Mizuho Securities.

First, I would like to ask you about beer in Japan. You explained that the Black Label cans were up 16% and the YEBISU cans were up 19%. Since the tax cut on beer last year, the momentum has been that the new genre had a very hard time as a whole, and beer was good. I think it has been reported that despite the declaration of emergency, the market as a whole has been good since April, but I would like to ask how you are looking at the current situation of the beer category.

Also, with the declaration of the state of emergency, it's difficult to know how the proportion of the commercial and home consumption will be like, but please tell us what trends you expect to see in this category throughout this year. That's the first question. Thank you.

Iwata: First of all, I would like to answer your first question.

The overall demand for beer cans in April was 103% for the period from January to March and 113% for the period from January to April, and the overall demand for beer cans is probably on an upward trend. So, I have the impression that since the tax cut, beer cans have been on an upward trend.

As expected, due to the tax hike, demand for new genres is expected to be lower than the previous fiscal year again this fiscal year, or less than 100%.

On the other hand, RTD consumption was estimated to be 106% for the year. While our brands have been doing very well, the estimated demand for RTD has also grown by almost double digits since the beginning of this fiscal year. This is probably due to the fact that people who want to enjoy their time at home and savor beer tend to consume beer cans.

On the other hand, for those who prefer drinking casually, I think the demand is shifting slightly from new genres to RTD.

As for the relationship between bottles and kegs, it is difficult to know how much of the beer that is not consumed outside the home is consumed at home, but at this point, we believe that total beer demand is on par with the previous fiscal year.

People drink at home instead of drinking outside.

But on the other hand, compared to 2019, the demand is still negative by almost 10%. As a matter of fact, the number of outdoor events such as beer gardens and summer festivals, where people can enjoy and drink a lot of beer, is decreasing, and we believe that beer demand will not fully recover until the next fiscal year, when vaccines become widely available.

In addition, with the declaration of the state of emergency, restaurants have stopped serving alcohol, and our non-alcoholic beverages increased by 50% in April and by 10% in January and April.

I think this shows that in addition to restaurants demand, consumers are also trying to drink non-alcoholic beverages at home for a change, instead of drinking alcohol.

I can't give you a very quantitative explanation at this point, and this is all I can tell you.

Saji: I understand. Thank you.

My second question is not related to the financial results, but it is Xinjiang Uyghur. You had a joint venture company for hops, and I think you may still have it, but could you please tell us the current situation and your company's basic stance on the handling of Xinjiang Uyghur hops?

Iwata: I am not sure exactly what year it was, but Sapporo Breweries has been growing and selling hops in Xinjiang Uygur Autonomous Region since the end of 1900 in a joint venture with a local Chinese company.

However, there is political instability in the Xinjiang area. Our company is a joint contract grower, which means that our field staff go directly to the site to check the raw materials and use them as our own raw materials.

In the past, we used to sell products using hops from Xinjiang, such as hops from the Silk Road, but it was difficult for our field staff to go there and instruct them on the ingredients. Also, the future of the business is extremely unpromising. About 10 years ago, we sold our shares to a local company and exited, so we are not using any hops from China at this time, and we are not developing any business. That is all.

Saji: I understand. Thank you.

Moderator: Thank you very much.

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

Fujiwara: Good evening. I am Fujiwara of Nomura. Thank you.

Iwata: Thank you very much.

Fujiwara: First, in the real estate business, you mentioned that the occupancy rate for Yebisu Garden Place was 90% from January to March, but I think the annual plan for this year was 96%. I feel that the difference from 90 to an annual average of 96 is quite a gap. What are your thoughts on how you can improve the operation rate? Please tell me about that first.

Iwata: First of all, as for the office market, including Shibuya Ward, as reported recently, the vacancy rate was 5% in March, or 5.42%, which is the 13th consecutive month of increase. While downward pressure on rent levels is also increasing, the vacancy rate has been particularly affected by the BC class, which is small and medium-sized properties with a floor area of less than 200 tsubo or less than 100 tsubo.

These companies, which are assumed to be subsidiaries of the parent company, are consolidating their offices and reducing their floor space, and this trend is affecting the rate.

The occupancy rate of Yebisu Garden Place is almost the same as that at the end of last year, which is slightly lower than our initial expectation of the mid-90% range, but we believe that people are taking advantage of this opportunity to move their offices. While teleworking is becoming more and more popular, it is also true that there are a lot of inquiries from companies that want to ensure a work environment where they can work in a secure and confidential environment, and requests for preliminary inspections are coming in.

The current rate is 90% for the period from January to March, which is a little lower than our initial forecast of mid-90%. However, we have received many inquiries, and we will be strengthening our leasing activities, so we are now working to achieve the goal and get as close to the plan as possible. That is all.

Fujiwara: I understand. Secondly, I'd like to ask you a little bit about the overseas business. In the first quarter, the profit increase from Sleeman in Canada was about JPY300 million. I think, at the beginning of the year, or rather, according to the annual plan, Sleeman, USA, and Anchor were taking a bigger part in terms of profit increase. With regard to the USA, restaurants will recover. As for Anchor, which if I'm not mistaken, is planning to increase JPY600 million in profit, I think the renewal and new products have already been completed, and I would like to know how it is going with the plan. That's all.

Iwata: Since the beginning of this year, Anchor has been working on renewing its products. One of them is the renewal of the can design and the launch of new products including new products with different contents. At the same time, they will also renew their bottles, aiming at greatly boosting sales. On the other hand, we expect to increase profit by JPY600 million by reducing fixed costs.

For this fiscal year, the cans have already been put on the shelves, and sales are almost as expected. In addition, we have been able to get in-store listings and surface coverage, so I think we have gotten off to a good start.

On the other hand, as I mentioned earlier about the rapid recovery of demand in the U.S., about 80% of Anchor's sales are from restaurants in bottles and kegs. It's not easy to expect sales at restaurants because of ongoing lockdown. We will examine this from April onward.

Of the JPY600 million increase in profit, 100 million was due to increased volume, and the rest was due to the composition of products. The proportion of cans is higher than that of bottles. Since this portion is about JPY400 million, the sales of cans are definitely trending upward, and there is no doubt that profits will be positive compared to the previous fiscal year.

The most important thing is whether or not we will be able to list bottles and kegs properly and get them into the hands of customers as expected when restaurants recover. That is all.

Fujiwara: In the U.S., the food and beverage industry is gradually returning to normal, so from the external environment, do you think there is not much to worry about?

Iwata: We are off to a good start, and if the effects of the vaccine are sustained, we believe that we will definitely see a recovery. That is all.

Fujiwara: I understand. Thank you.

Moderator: Thank you very much, Mr. Fujiwara.

Now, I would like to continue with a question from Mr. Sumoge, Okasan Securities.

Sumoge: I am Sumoge of Okasan Securities. Thank you very much for your explanation.

Iwata: Thank you. Thank you.

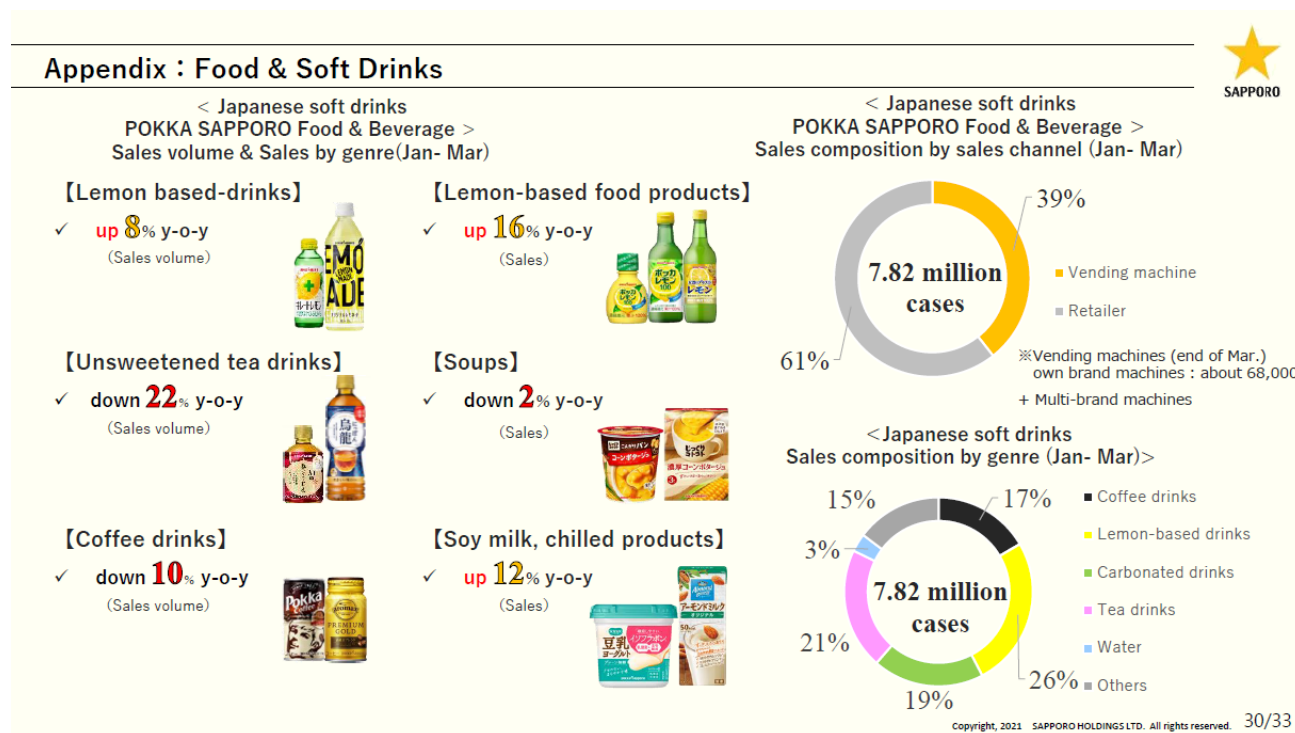
Sumoge: Thank you very much.

I would also like to ask 2 questions, 1 question and 1 answer.

First of all, I would like to know the figures on the vending machine.

How was the sales volume from January to March? If you look at page 5 of the presentation slides, you will see that beverage sales in the first quarter decreased by 8% compared to the previous first quarter, but I think that is probably different from the figure for the volume of vending machines, so I would like to ask you about the situation.

Also, I think you mentioned earlier that the impact of the COVID-19 pandemic has faded since March and has returned to the same level as the previous fiscal year. Can you please tell us what this figure is compared to the previous fiscal year? I would also like to know if it is March or April.



Iwata: Yes. The number of vending machines in operation as of the end of March was 67,976, as indicated in the appendix. Since December, we have been reducing the number of machines by 600, mainly unprofitable machines.

As for sales in the vending machine business, January sales were down almost 20%. In February, there was a decrease of 15%-16%, and in March, there was an increase of 2%. From January to March, there was a decrease of about 10%. So, the overall beverage market is also about 90% in January to March.

Looking at the period from January to April, vending machine sales were 99, almost the same level as the previous fiscal year, and Pokka Sapporo's beverage sales for the period from January to April were 101. So the recovery in vending machines is leading to a recovery in Pokka Sapporo's beverage sales.

In the January to March period, unfortunately, as I mentioned earlier, vending machine sales were down 10%. Overall beverage sales were also down 10%, but beverage sales were almost on par with the plan due to a recovery in vending machine sales resulting from the faded impact of the COVID-19 pandemic in April. We are in the middle of recovering to a positive. That is all.

Sumoge: Thank you very much. I understand very well.

In my understanding, your full-year plan for vending machines is a 7% decrease, which sounds pretty good compared to what you told me, so is it correct for me to think that there is an upside against this plan?

Iwata: The impact of the pandemic is still unclear due to the declaration of a state of emergency. In addition, as for the beverages themselves, the demand for beverages is estimated to be 102% for this fiscal year considering the flooding in the summer, supply and demand, long rainy season and cold summer. So, at this point, we are working to achieve the figures in the plan at the beginning of the year.

Since there are risks such as weather factors, I think we will be able to get a better idea of the outlook for the full year after the peak season in the summer. That is all.

Sumoge: Yes, I understand. Thank you.

Another question relates to beer. I just asked you about the outlook for demand for beer, but I would like to ask you again about the future strategy for canned beer for home consumption because each company is trying to differentiate itself with sugar-free cans, fresh mugs, healthier containers, etc. I understand that your company is growing on the 2 pillars of Black Label and YEBISU, but is there a possibility of competing with other strategies, such as health products or containers? Or will you use the strategy that you are currently explaining? Could you tell us about your future strategy for beer?

Iwata: Yes. First of all, with regard to beer, President Nose's policy is to strengthen the main brands such as Black Label and YEBISU. There is no change in the fact that the primary focus of the project is to strengthen beer.

Since the beginning of this year, we have been offering different variations of YEBISU to our customers to enjoy in various situations, under the concept of "Color Your Time."

As a result of these efforts, sales have been very strong, and we will continue to strengthen our main brands such as Black Label and YEBISU in line with the strategy.

On the other hand, it is also true that we feel the change in demand due to the prolonged trend of home drinking, such as the growth of RTDs and non-alcoholic beverages as mentioned earlier.

As we approach the peak of the season, we are preparing to consider the possibility of offering low-alcohol products or products that contribute to the enjoyment of beer. The timing and other details are still undecided, but at the moment we are thinking of preparing products that will allow customers to enjoy drinking beer in a casual way.

Of course, we have ideas for health-related products, but our main policy is to grow Black Label and YEBISU much bigger. For those major brands, we will work to strengthen the brands and, as Mr. Sumoge mentioned, expand the variety of beer demand for home drinking. We are currently working on efforts to get more people to choose our products, and we will let you know as soon as we make a decision.

We are not planning any new initiatives for containers at this time. That is all.

Sumoge: Thank you very much. Sorry, lastly, what about beer servers for home use?

Iwata: As for beer servers, we will continue to develop our brand and strengthen our beer lineup through our Sapporo Lion or with a focus on providing restaurants with delicious draft beer such as Perfect Black Label. At this point, we have no plans to develop something like a subscription pet keg.

Sumoge: Yes, I understand. Thank you very much.

Moderator: Thank you very much, Mr. Sumoge.

The next question is from Mr. Miura, Citigroup Global Markets Japan.

Miura: Good evening. I am Miura of Citigroup Global Markets Japan.

Iwata: Thank you.

Miura: My first question is about the sustainability of the canned beer market, which seems to be growing as a whole. What do you think about this? Canned Black Label has been growing for a long time. If it is difficult to talk about the whole market, I would appreciate it if you could explain about the growth and sustainability of canned Black Label this year, next year, or even in 2024. Thank you.

Iwata: Thank you very much.

First, the taxation of beer has been revised. The first round started last October, the second round will start in 2023, and by 2026, beer, happoshu, and new genres will all be combined into one. I'm sure there have been customers who really want to drink beer but give it up because it is pricey for them. As a result of the revision of the liquor tax, the price difference between beer and new genres has disappeared, and I believe that the barriers to beer have been lowered.

With the second round of liquor tax revisions in 2023 and the introduction of a single tax system in 2026, we believe that the trend toward a return to beer will continue.

Another point is that we would like to promote the Black Label through not only a TV advertisement, but also actual tasting and drinking, for example, at the Black Label bar in Ginza 4-chome, which is now closed due to the COVID-19 pandemic. I also believe that the experience of the Sapporo brands such as tasty draft beer and perfect draft beer at Sapporo Beer Garden and other such places, as well as the experience of tasty draft beer in restaurants, have led to the promotion of drinking canned beer at home.

In that sense, we have seen a clear increase in the influx of young people as new users of Black Label cans, and although Black Label is relatively well known in eastern Japan, there has been a marked increase in western Japan, west of Osaka, where the market share was not so high. So, I believe that these consumers will lead the market for the next few years, and we can expect growth in the future as well.

The same is true for YEBISU. This fiscal year, we have slightly changed the position of YEBISU under the key message "Color Your Time," from a slightly luxurious beer. So, I assume that YEBISU was perfect for the situation where people enjoy drinking beer at home during this pandemic.

For YEBISU, we are developing new initiatives, such as setting up online drinking situations, and I believe that the influx of young customers is also driving sales growth here. For the time being, we believe that the sales growth of Black Label and YEBISU will be able to maintain its momentum at least until the liquor tax revision in 2026. That is all.

Miura: Thank you very much.

The second question. Black Label has been growing for a long time, and I have the impression the taste gets better every year. And I also have the feeling people are buying it because it tastes better, and younger people are buying it because it tastes better. The reason is that if you were to go to the best beer hall in Japan, it could be in 7-chome, or 4-chome, or even in the Yebisu Garden Place, but your beer would obviously be delicious, wouldn't it?

Iwata: Thank you very much.

Miura: It's so good you'd think it was beer. If we can drink it at home, I think we would buy it no matter how much we have to pay for it because it is delicious.

So, I think that the reason why it is getting better is because your company is actually brushing up the taste, or rather the total taste.

Iwata: Thank you for your warm support message.

It's hard to comment on how the taste is getting better, but I can tell you that sales are steadily increasing, and turnover is increasing. With regard to raw materials and brewing, we have field staff checking raw materials all over the world and brewing using malt that does not oxidize. In addition to such effort of improving the quality of our products, we would also like to continue our efforts to ferment in a way that prevents oxygen from entering in the process of brewing and then pack into cans.

I would like to express my sincere gratitude for your compliment for our quality. Thank you.

Miura: Thank you very much.

One more thing. Excuse me. I would like to know one thing about eating out. I understand that the financial results for the first quarter of the current fiscal year have been getting worse, as with last year. In the beer industry as a whole, including your company, fixed costs for commercial use are quite high, and since profits are extremely low, I think the atmosphere is becoming such that you have to revise prices. On the other hand, your company does both, so can you give us some idea of how you are thinking about this?

Iwata: First of all, in the directly managed Lion business, as I have been explaining since last year, we are closing stores, mainly those that are in the red. We have closed about 20% of our stores. In line with this, we are trying to reduce fixed costs through early retirement of employees.

We had rented a building in Ebisu for our head office but moved to our own building in Ginza, leading to savings on rent.

In that sense, we are working to reduce fixed costs from all perspectives.

And the impact of the deficit due to the decrease in sales in the current first quarter is definitely decreasing compared to the impact of the deficit due to the decrease in sales in the previous fiscal year. In the previous fiscal year, a JPY16 billion decrease in sales, and core operating profit deteriorated by JPY5.4 billion.

In the current first quarter, sales decreased by JPY2.7 billion compared to the previous first quarter, while core operating profit deteriorated by JPY500 million. The extent of the decline in core operating profit in relation to the decline in sales has been decreasing. So, reduction is definitely underway. Since we are a business entity, we need to be in the black and generate profit. At the same time, we would like to provide delicious draft beer to our customers, and we are the point of contact for consumers. It will be very difficult to turn a profit in this fiscal year while achieving both goals, but Lion's role is to eliminate deficits, build a structure that can contribute to core operating profit, and provide delicious draft beer.

At present, we are trying to develop suburban-type stores, provide takeout dumplings, and menchi-katsu (fried pork cutlets), and somehow make it through, while contributing to profits and creating stores that can serve delicious draft beer. That is all.

Miura: Thank you very much.

Moderator: Thank you very much, Mr. Miura.

It's the closing time, so we will now conclude the question-and-answer session.

To wrap up, I would like to have Mr. Iwata say a few words. Please begin.

Iwata: This is Iwata. Thank you for taking time out of your busy schedules and during the Golden Week holidays to attend our financial results briefing today.

Although the first quarter of the current fiscal year got off to a somewhat harsh start, we believe at this point that we will be able to achieve the full-year plan as long as we make efforts to take in household demand and the restaurant business recovers.

I would like to give you an explanation when we announce our financial results for the second quarter in August, so I would like to ask for your continued support.

Thank you for taking time out of your busy schedules to attend today's meeting.

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

[END]

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