

# The Failures at Sapporo Holdings

April 2023



# Table of Contents

Executive Summary	2
Poor Management at Sapporo Holdings	3
Inadequate New Medium-Term Plan	15
Weak Board Oversight and Qualifications	33
Conclusion	48
Appendix 1: Doubts about Real Estate Becoming a Core Business	50
Appendix 2: Growing Risks in Real Estate Investment	63
Disclaimers	66

## Poor Management at Sapporo Holdings

- Sapporo's share price has dramatically underperformed peers since 2006
- Weak share price is due to margins and asset turnover that are far below peers; these failures lead to the worst ROE and ROA in the industry
- Management has neglected the alcoholic beverages business and has instead emphasized the real estate business and complacently relied on the real estate business for profit
- Sapporo has failed to achieve targets set in medium-term plans since 2006
- **To improve corporate value, Sapporo needs to reevaluate whether it should keep both the real estate business and the alcoholic beverages business under the same holding company**

## Inadequate New Medium-Term Plan

- Real estate is defined as a core business and a growth/investment priority for management, although i) the company has a limited track record and no competitive advantage in real estate investing, ii) there are no synergies between the real estate business and the alcoholic beverages business and iii) previous growth investments have been unsuccessful
- Increasing investment in new real estate projects in the current environment risks destroying corporate value
- The margin targets set for the alcoholic beverages and food and soft drink businesses in the medium-term plan are far below those currently being achieved by peers in those businesses
- The new plan lacks clear milestones and specific action plans; this has led the investment community to doubt the executability of the plan and the achievement of its modest goals
- **The plan needs to be reexamined to see if it is the best way to increase corporate value**

## Weak Board Oversight and Qualifications

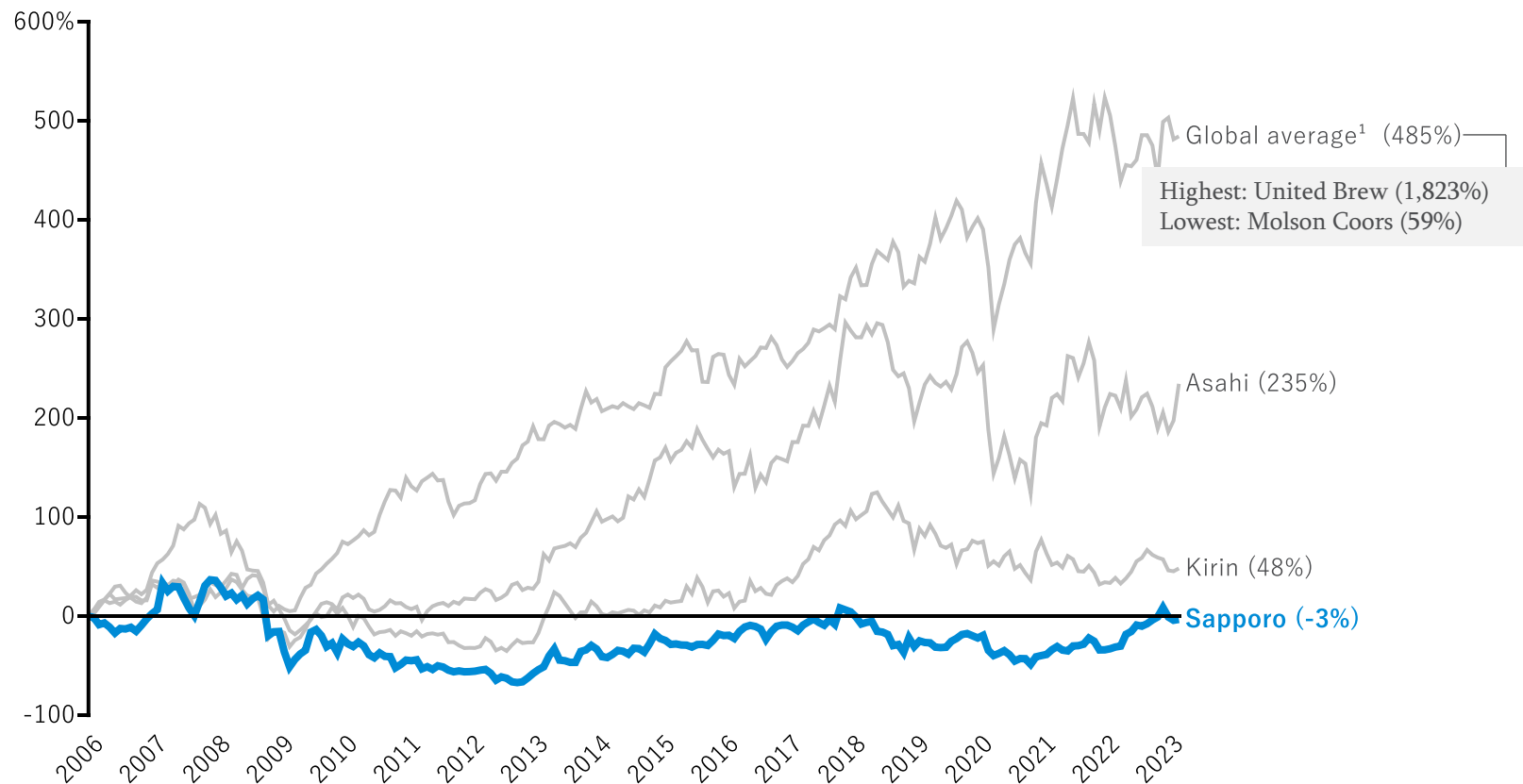
- The outside directors lack critical experience/expertise in consumer product branding/manufacturing, margin improvement, alcoholic beverages
- The latest additional outside director shows that the Board is going in the wrong direction; Mr. Taneshashi has a partial real estate background and given his history with Sapporo's main lender, has potential conflicts of interest and a lack of independence
- The Board has been unresponsive to 3D's requests and recommendations over the last year
- **Based on communications with Board members, it is clear that the Board is not providing adequate oversight of Sapporo's strategy or execution of that strategy**

## Poor Management at Sapporo Holdings

# Sapporo Holdings Has Provided Weak Share Price for Decades

## Lowest Share Price Returns in Sector Since 2006

Stock price return (2005/12/31-2023/2/28)



## Comments

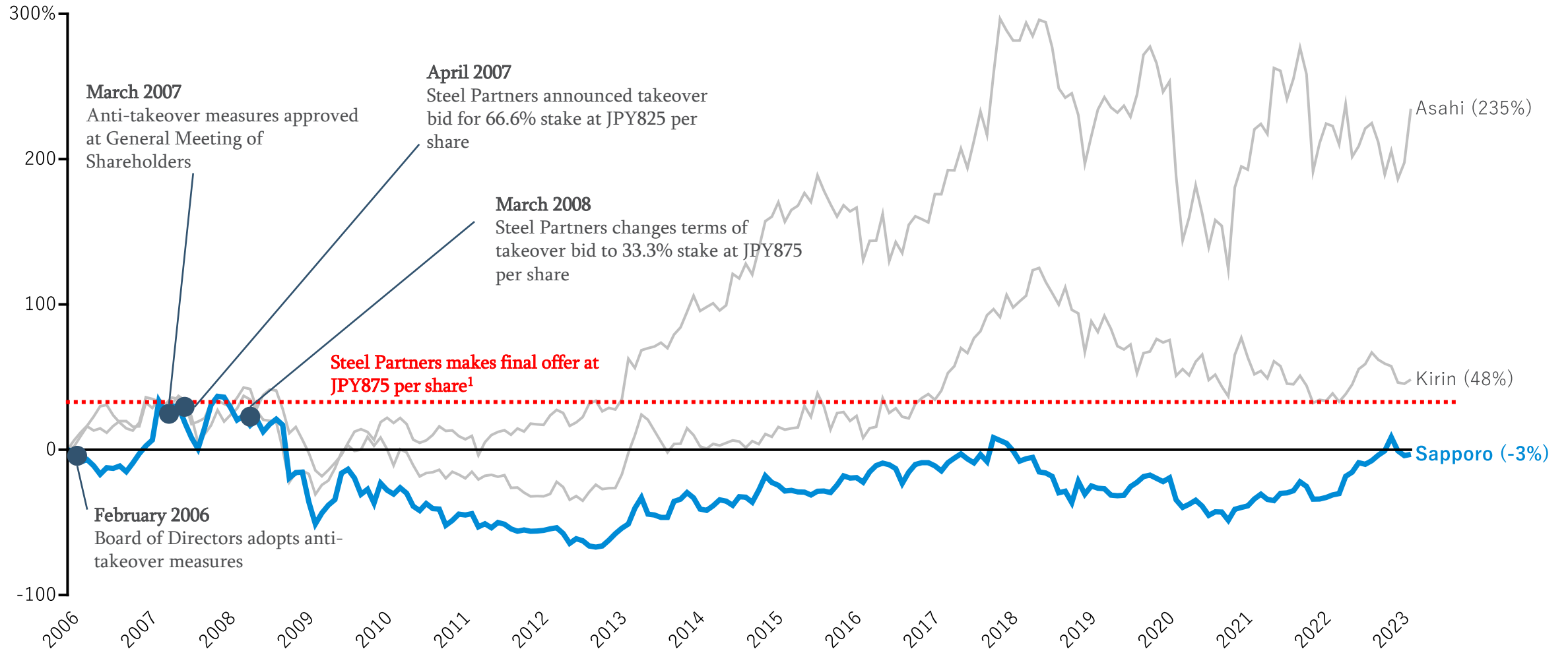
- Sapporo Holdings' **share price return** -3% since 2006, the **only negative return in the sector**
- **2006 is the year that management first made a commitment to shareholders after Sapporo Holdings became a pure holding company**
  - Sapporo Holdings transitioned to a pure holding company structure in 2003
  - Management unveiled its first official medium-term Management Plan in 2006, with a commitment to shareholders<sup>2</sup>

Source: Bloomberg; materials disclosed by Sapporo Holdings

Note: Covers December 31, 2005 to February 28, 2023; [1] Global average covers AB InBev, Heineken, Carlsberg, China Res. Snow, Molson Coors, Tsingtao, Efes, Yanjing, Constellation Brands, Diageo (Guinness), San Miguel Corporation, CCU, Saigon Beverage, Pearl River, United Brew, Beer Thai (Chang), HiteJinro, Olvi, Royal Unibrew; Data from December 31, 2005, excludes beer breweries with unavailable share prices; [2] Sapporo Group new medium-term management plan (2006-2008)

# (Reference) Sapporo Holdings' Share Price Still Below Takeover Bid Price Proposed in 2008

Stock price return



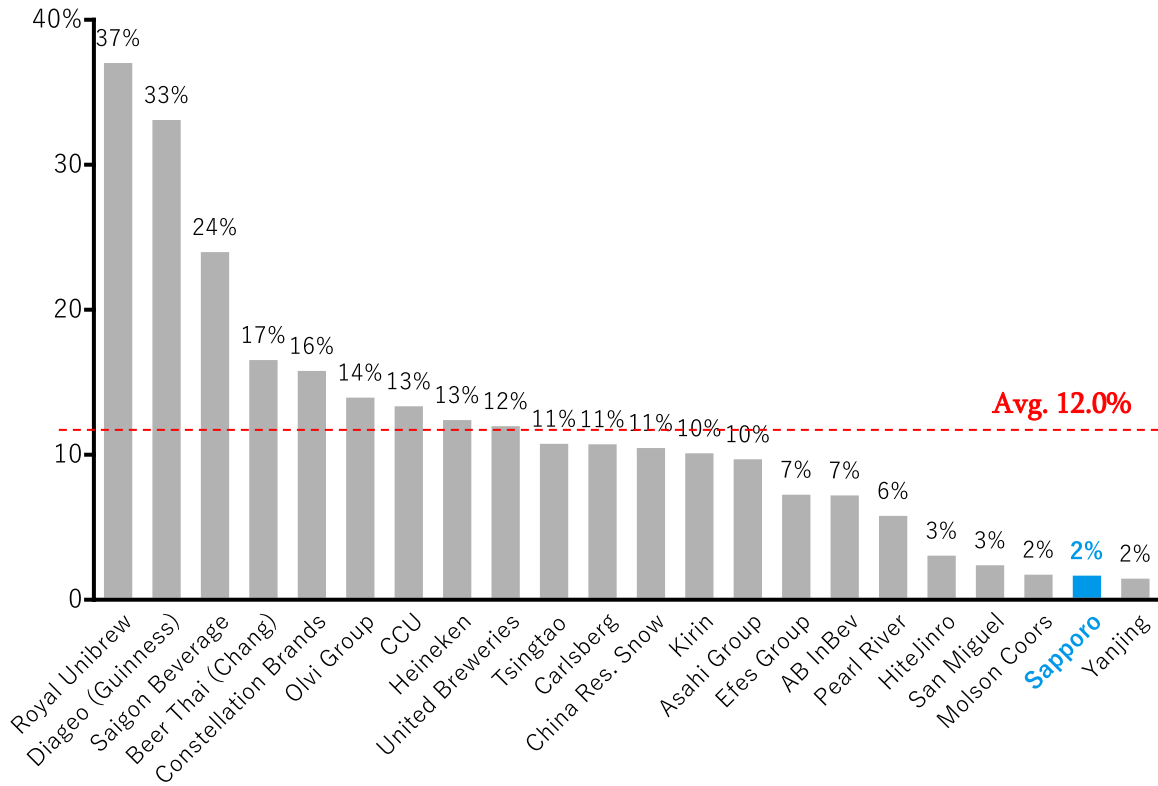
Source: Bloomberg

Note: Covers December 31, 2005, to February 28, 2023; [1] Takes into account 5:1 stock split in July 2016

# Low Returns Can be Traced to Weak Capital Efficiency

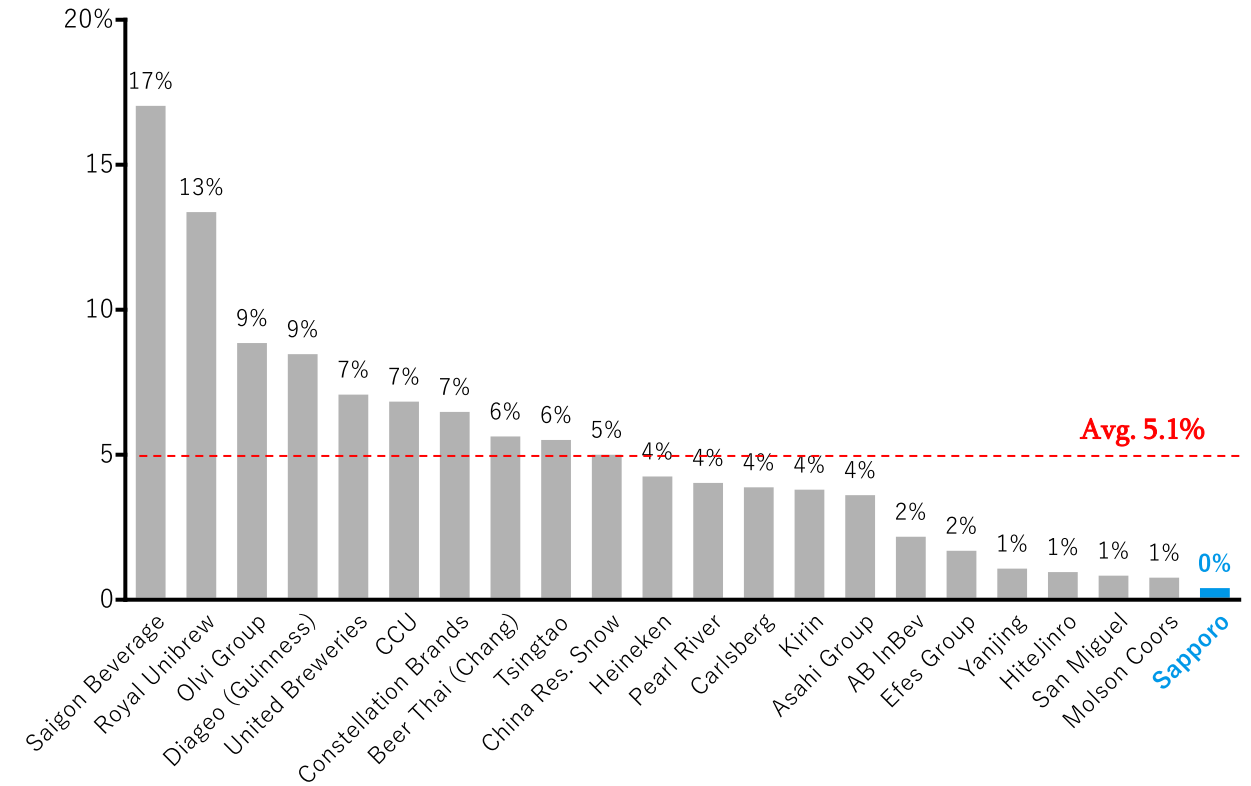
## ROE Around Lowest Among Global Peers

Average ROE over the past 5 years(FY2018-2022)<sup>1</sup>



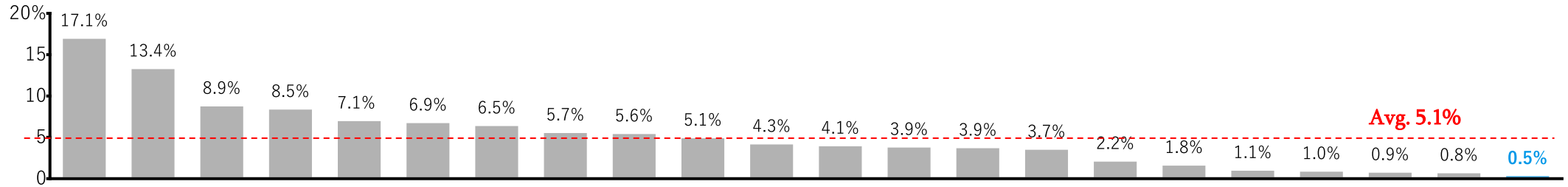
## ROA Lowest Among Global Peers

Average ROA over the past 5 years(FY2018-2022)<sup>1</sup>

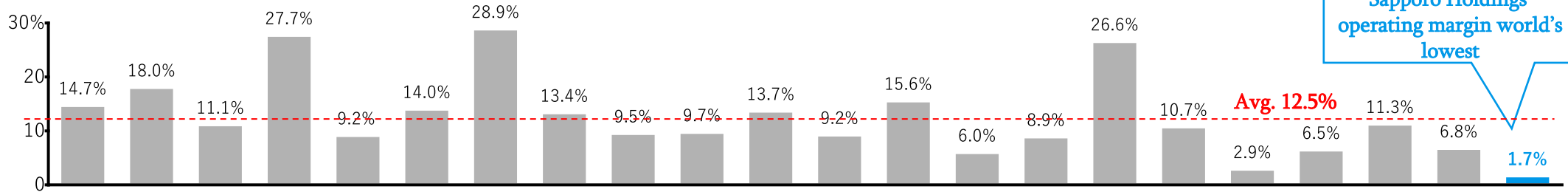


# Sapporo Holdings' Low Capital Efficiency Reflects Poor Margins and Low Total Asset Turnover vs. Global Peers

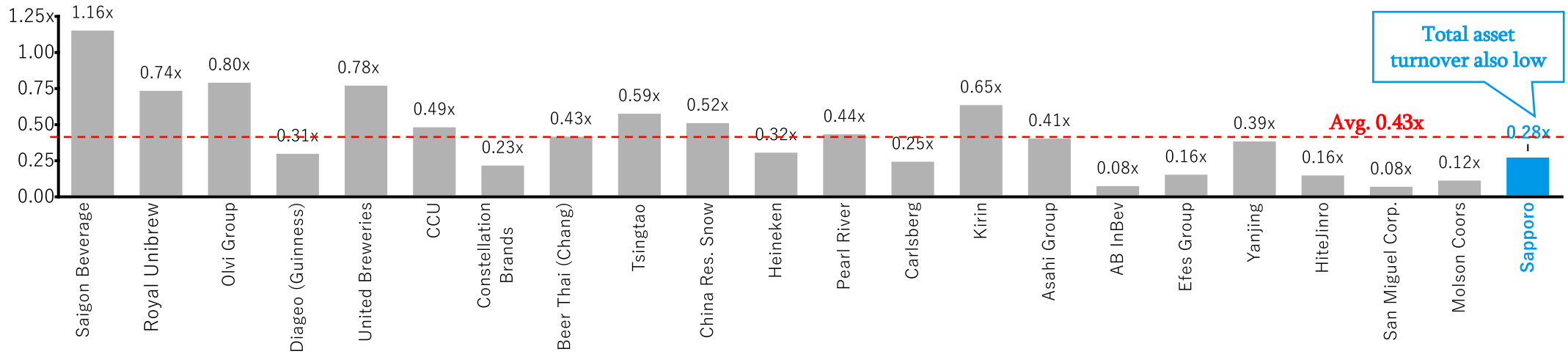
ROA  
(FY18-22 avg.)



① Operating margin  
(FY18-22 avg.)



② Total asset turnover  
(FY18-22 avg.)

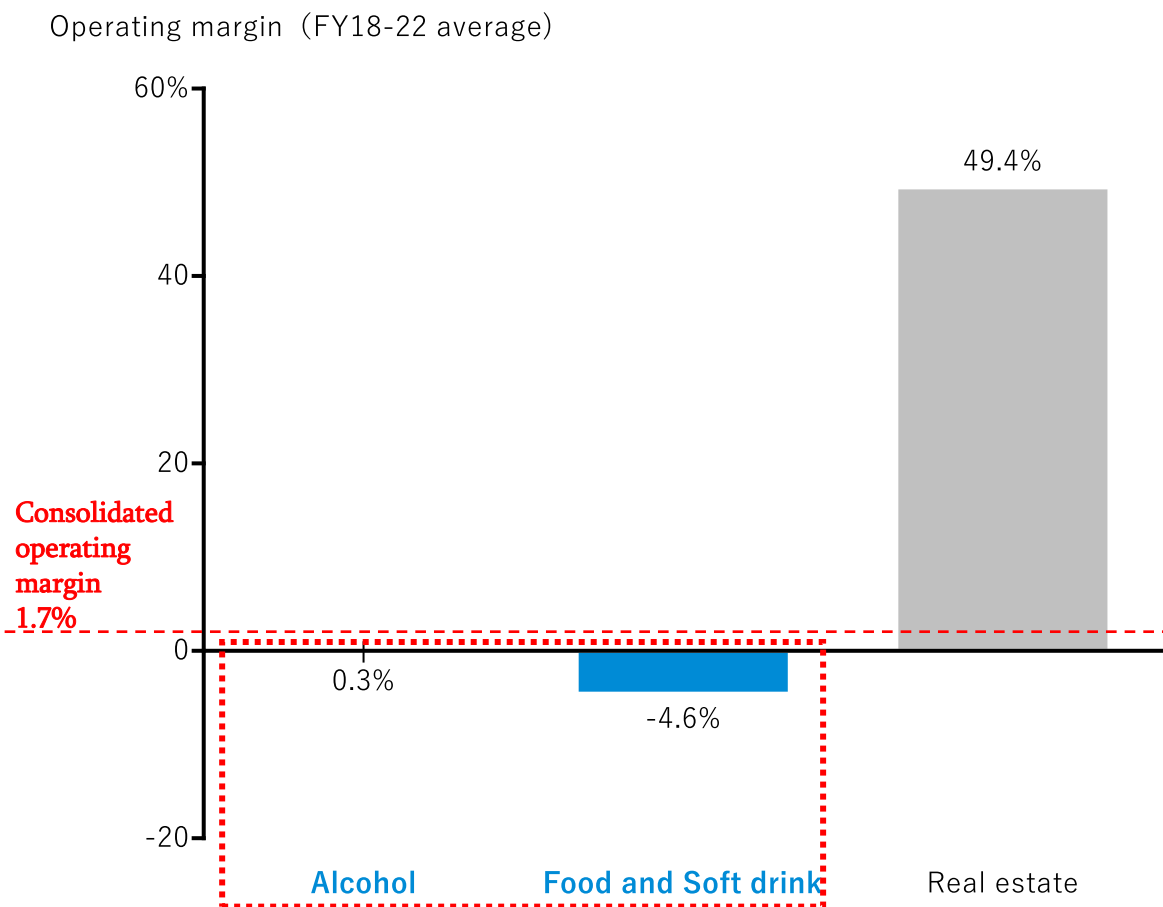


Source: Bloomberg; securities filings and annual reports of each company  
 Note: Covers 22 companies listed on stock exchanges out of top 40 global beer breweries in terms of production volume (2020)

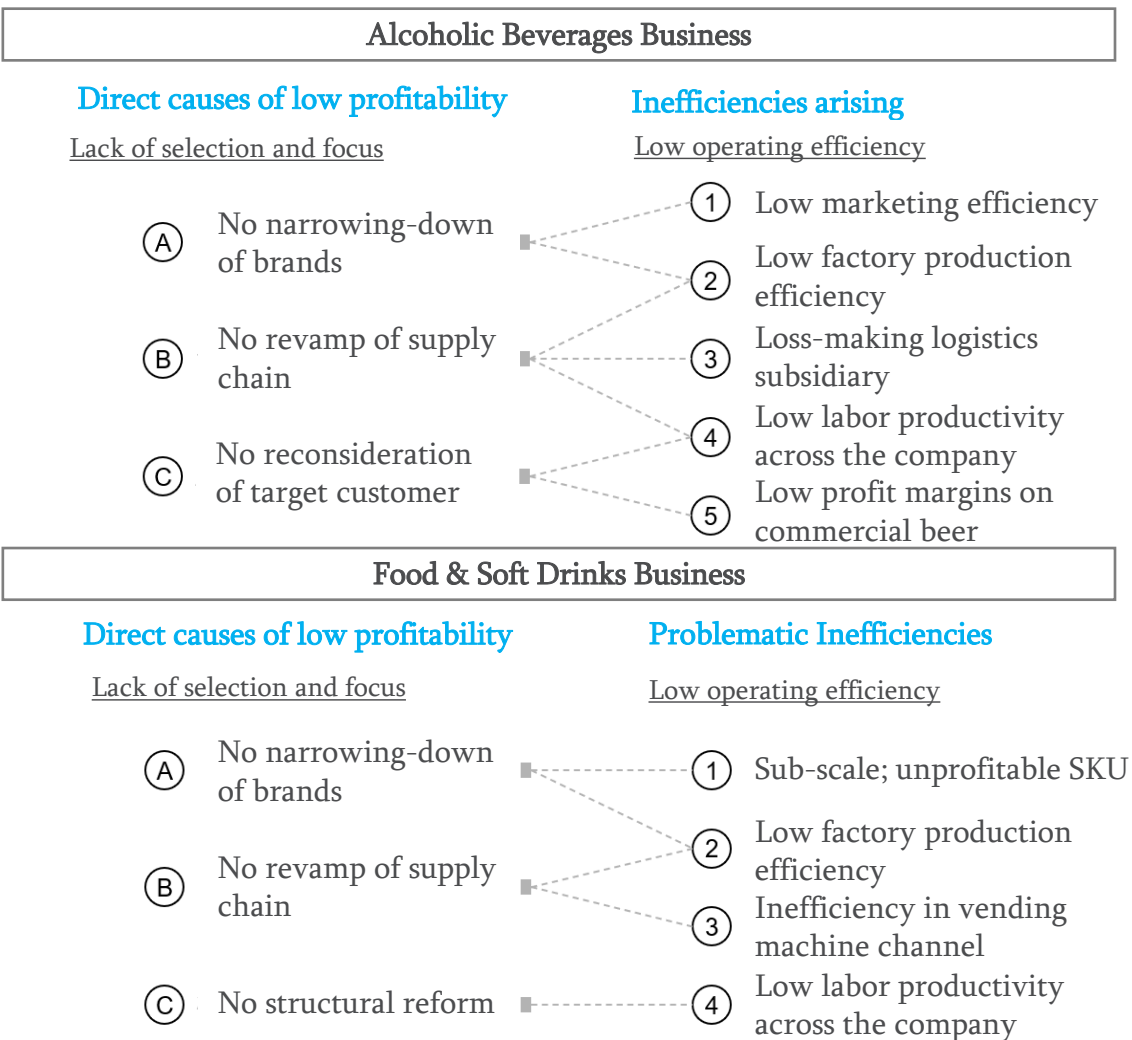


# Sapporo Holdings' Poor Profitability Due to Low Margins in Alcoholic Beverages and Food & Soft Drinks Businesses

## Weak Margins in Core Businesses a Drag on Overall Profitability



## Low Margins in Core Businesses Caused by Various Inefficiencies Due to Insufficient Selection and Concentration



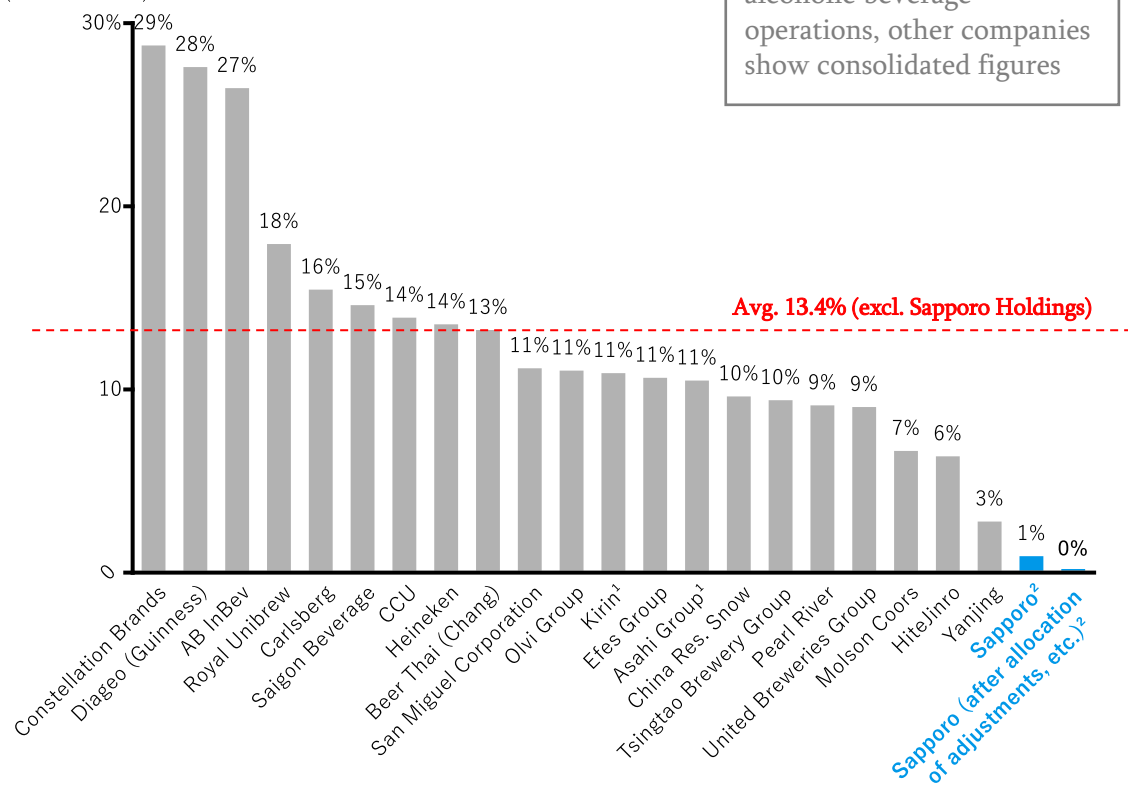
Source: Supplementary briefing materials for securities filings

Note: [1] Operating margins calculated by allocating to each business, depending on their sales weightings, the sales and operating profits from other segments and adjustments

# Comparison with Global Peers Sheds Light on Dismal Profitability of Core Businesses

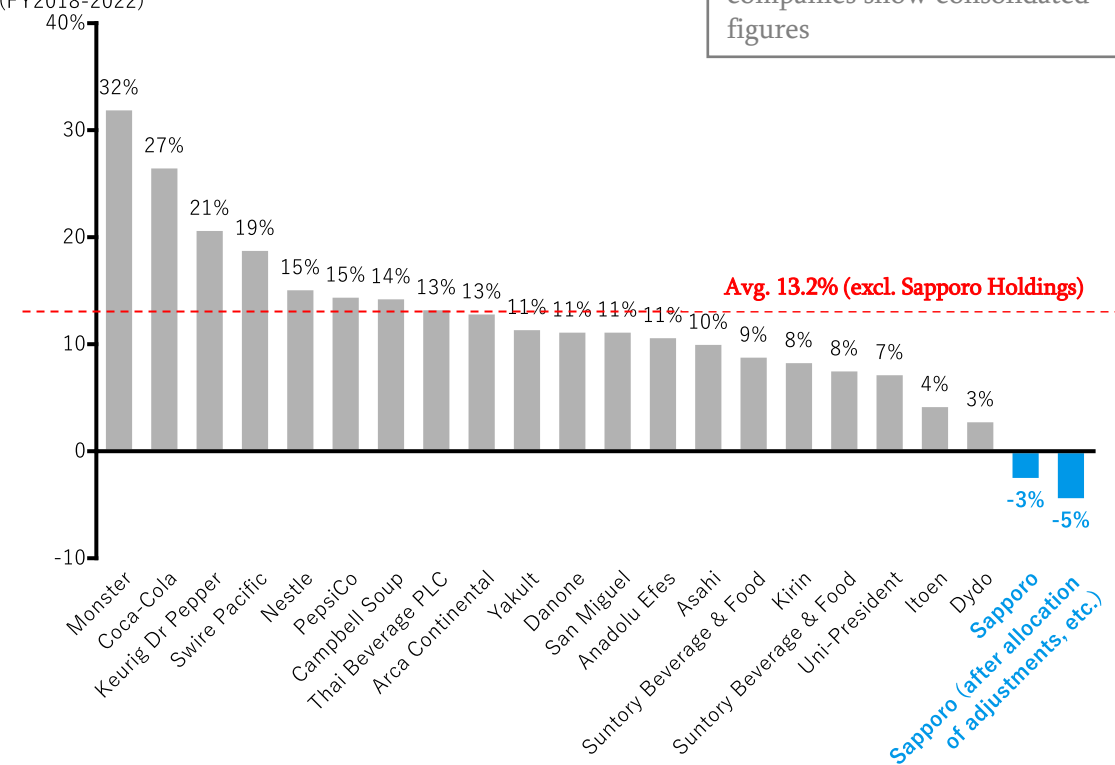
## Low Operating Margin in Alcoholic Beverages vs. Global Peers

Average of the past 5 years Operating income ratio (FY2018-2022)



## Operating Margin in Food & Soft Drinks Lowest Among Global Peers

Average of the past 5 years Operating income ratio (FY2018-2022)

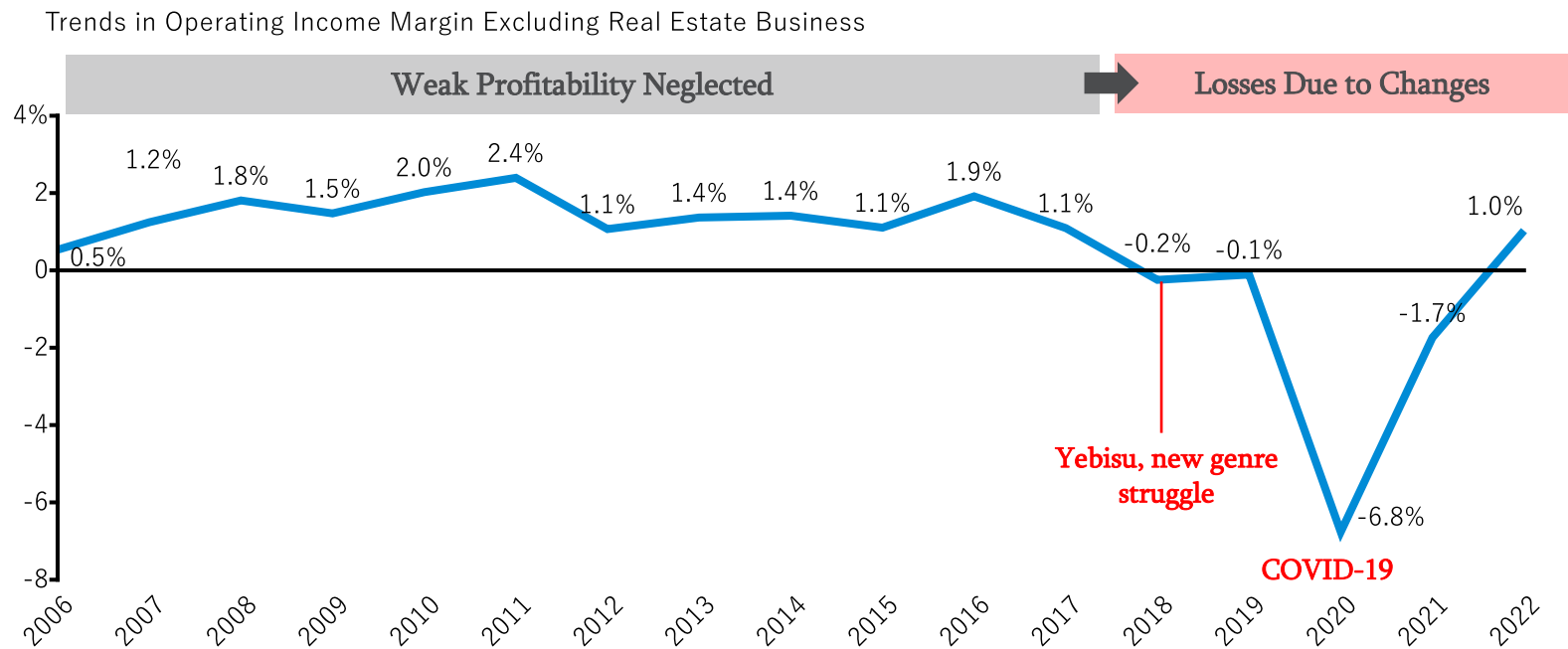


Source: Securities filings and annual reports of each company

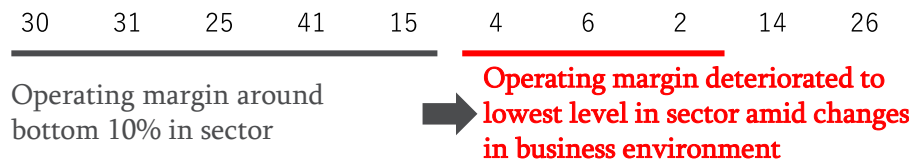
Note: Covers Suntory and 22 companies listed on stock exchanges out of top 40 global beer breweries in terms of production volume (2020); Food and beverage competition includes major domestic beverage manufacturers and overseas companies that fall under SPEEDA's 'soft drinks manufacturers' with sales of more than 30bn, excluding food-focused companies; see p59 for detailed notes on the food and beverages business; [1] Kirin covers domestic beer spirits and integrated beverages segment from FY18/12-FY20/12 and domestic beer spirits and Oceania alcoholic beverages segment from FY21/12 onwards. Asahi covers alcoholic beverages and international segment until FY21/12, and alcoholic beverages in Japan, Europe, Oceania, and South East Asia segments in FY22/12. [2] Sapporo covers domestic alcoholic beverages, international, and restaurant segments in 2018/12 and alcoholic beverages segment in 2019/12 onwards. Adjusted figures are calculated proportionally to each segment on a sales basis.

# Weak Margins in Core Businesses Are a Serious Lingering Problem that Needs to be Addressed Promptly

## Core Businesses Were Always Vulnerable If Markets and Competitive Landscape Changed



Belonging to the Living Essentials Sector  
 Ranking of Operating Profit Margin  
 within TOPIX Companies<sup>1</sup>  
 (Rank from lowest to highest)



## Comments

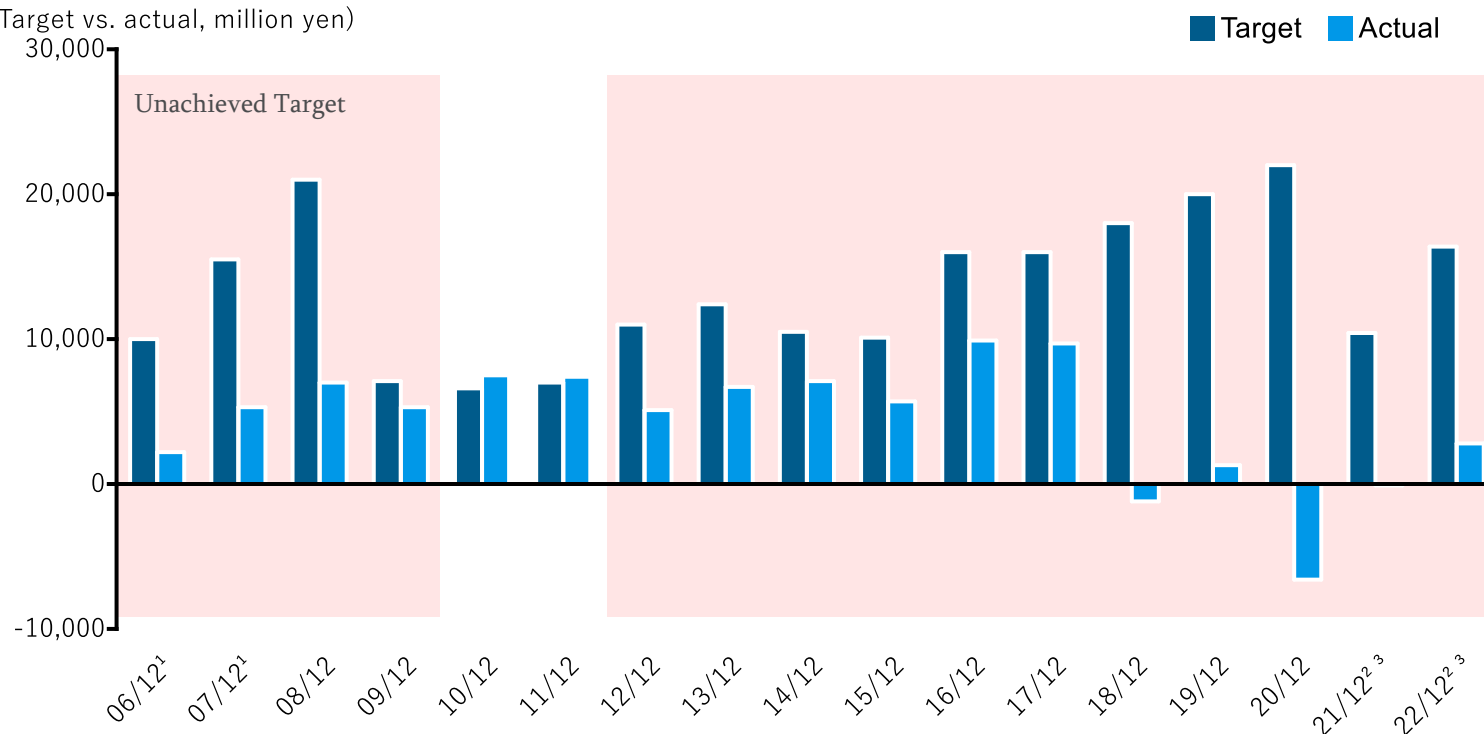
- From 2006 to 2017, operating margin ranged 1-2%, the **lowest margin for the sector globally**
- After 2018, **began to incur losses amid changes in markets and competitive landscape**
  - Yebisu and new genre struggled
  - COVID-19
- More exposed to change than its sector peers, **Sapporo Holdings' core businesses' weak profitability began to lose money**
  - Sapporo Holdings' operating margin among lower of 192 companies in BICS daily necessities sector
  - Operating margin worsened to lowest level in sector after business environment changed

# However, Sapporo Holdings Did Not Address Weak Margins in Core Businesses for Years

## Sapporo Holdings Almost Failed to Achieve Targets for Operating Profits in Core Businesses

## Comments

Operating income excluding real estate business  
(Target vs. actual, million yen)



- Achieved targets in medium-term plans only twice since 2006, when the company unveiled its first management plan since adopting a holding structure
- Company has not achieved medium-term targets even once over past 10 years
- The following criticisms of factors behind weakness at Japanese companies also apply to Sapporo Holdings, in our opinion.

- “Despite Japan having a strong capacity to innovate..., it has exhibited continuously low profitability”  
Ministry of Economy, Trade and Industry
- “Bold business judgment is not done sufficiently in companies, and companies concentrate their efforts on maintaining present status rather than on making changes. As a result, companies have... not made progress in ...shifting management resources to business segments that are likely to have growth potential and to be profitable”  
Cabinet Office

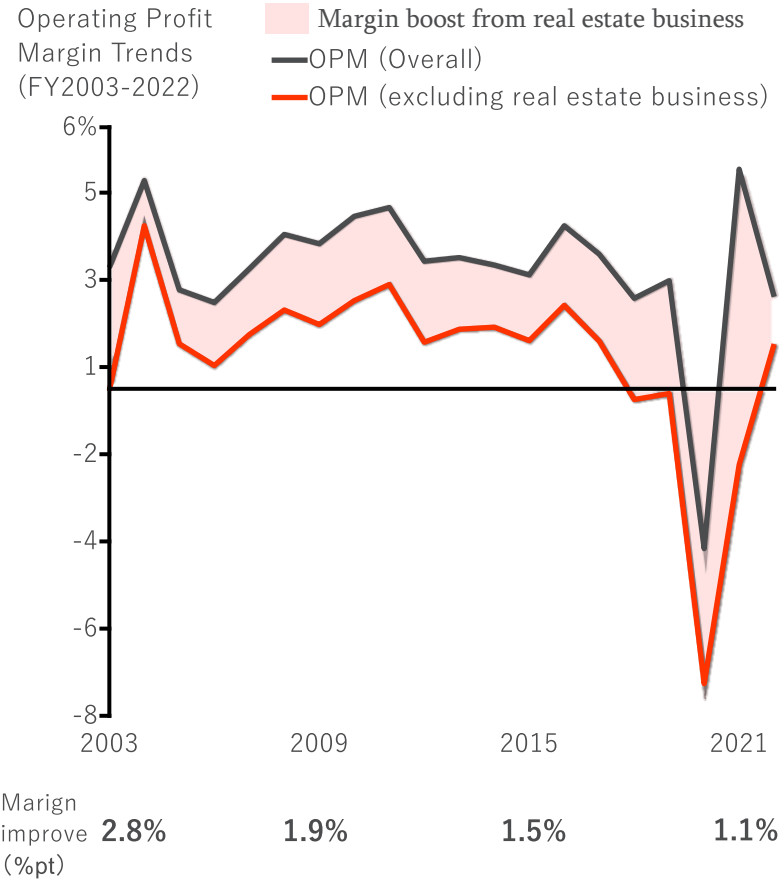
Sapporo Group Management Plan (2006-2008)	Group Management Targets (each fiscal year)	Sapporo Group Management Plan (2014-2016)	Long-Term Management Vision "Speed 150"	Group Management Plan 2024
---	---	---	---	----------------------------

Source: Bloomberg; Sapporo Holdings' IR materials; Ministry of Finance's Ito Report and Future Investment Strategy 2017-Reforms to Realize Society 5.0

Note: 2011 targets do not include Pokka acquisition. Results exclude operating profit at Pokka; Figures for FY17-20 before goodwill amortization; [1] Targets not disclosed, so figures assume same trendline between years with disclosed targets; [2] Targets for FY21 and FY22 assume business profit tracks 2024 target in Group Management Plan; Business profit targets excluding real estate business based on business profit targets disclosed with FY20-21 results; [3] Business profit shown for FY21 and FY22

# This Poor Performance Arose from Management's Dependence on Real Estate Leasing Income

## Real Estate Hid Weak Profitability of Core Businesses



## Real Estate Led to Complacency and Management's Dependence

- Employees have come to acknowledge Sapporo's strengths in real estate rather than the alcoholic beverages business; they believe that management has become complacent due to real estate leasing income

### Sapporo Holdings' strengths... (from employee discussion website)

"Yebisu Garden Place and other properties in prime urban locations are generating income. The company's nickname is "Sapporo buildings." "A laid-back approach to work is possible."

"Real estate assets are all that is left."

"Real estate companies in the group reliably generate income."

- The investment community realized that management depends on the stability of real estate.

"The time has passed for management to rebuild the beer business and founding businesses, which have sunk to the lowest margins among the four majors. Can Sapporo rebuild the beer business and its dependence on real estate? [omitted] Reliable income from real estate has led to the company's dependency on this income. Sapporo needs to reform the beer business with a sense of urgency."

Nikkei (September 24, 2016)

Sapporo Holdings' earnings structure has continued to depend on the real estate business, which generated JPY12.0 billion of the JPY10.8 billion in operating profit in 2018. Its FY19 management plan calls for restructuring, building a foundation and selective concentration of resources. Steel Partners withdrew, but the sweeping reforms to the earnings structure demanded by Steel Partners have not been enacted, even after a change in presidents. Third Point Management demanded that IHI spin off its real estate business. Like IHI, operating companies with large unrealized gains on real estate tend to lack margin discipline in their core businesses.

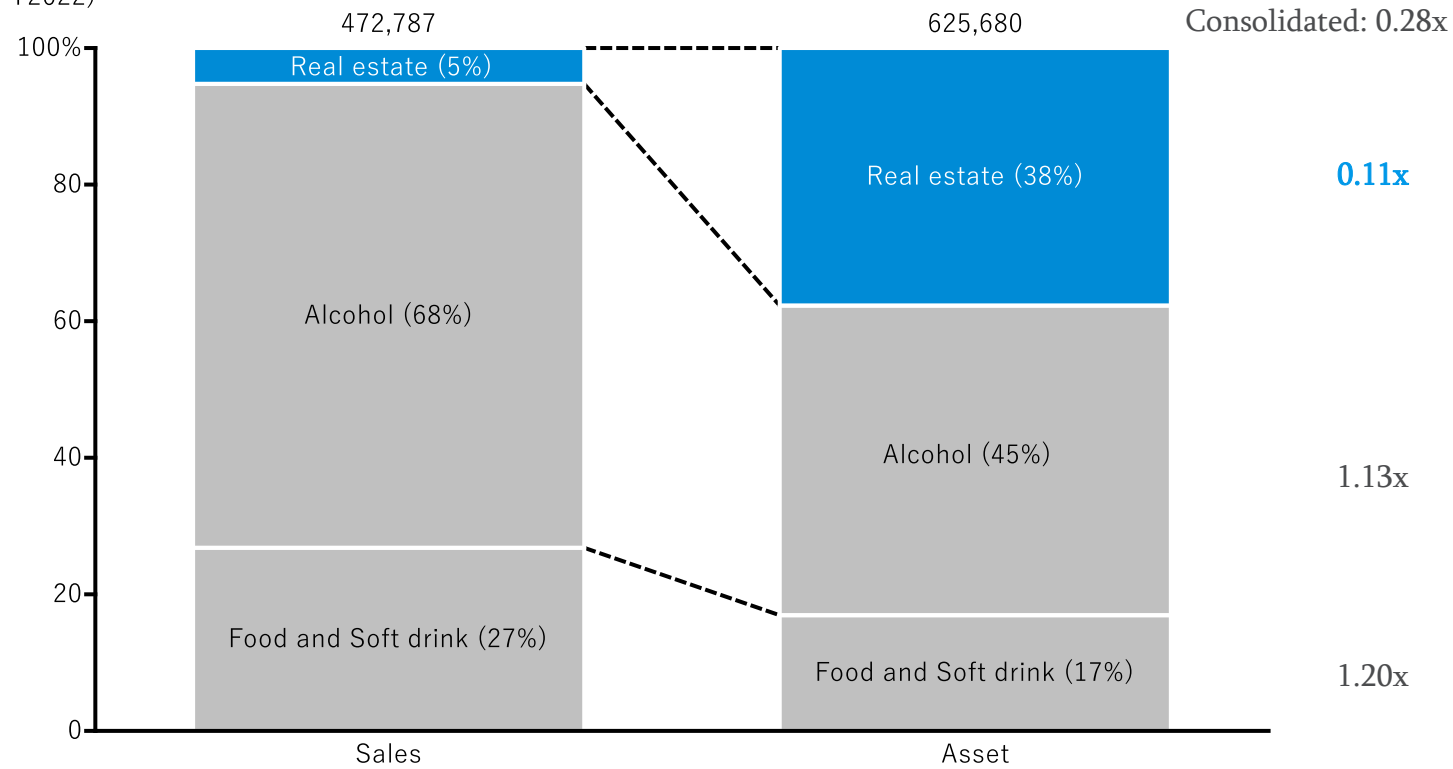
Masatoshi Kikuchi's "Attack of the Activists: Influence of Investors Demanding Change"

## Existence of real estate income allowed management to avoid dealing with weak profitability of core businesses

# Low Total Asset Turnover Due to Outsized Real Estate Assets

## Outsized Real Estate Assets Result in Low Total Asset Turnover

Average of sales and assets for the past 5 years  
(FY2018-FY2022)<sup>1</sup>



## Sapporo Holdings' Real Estate Assets (examples)

Yebisu Garden Place



Sapporo Factory



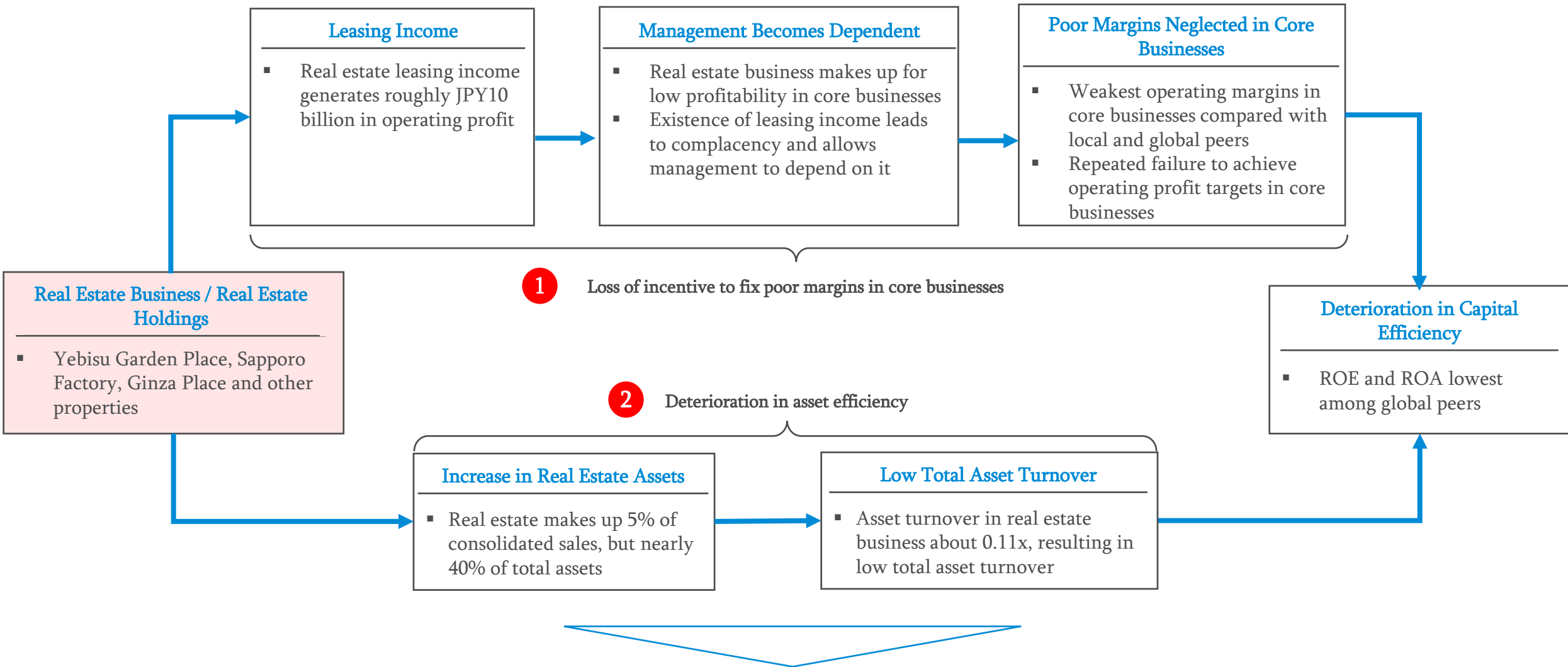
Ginza Place



Strata Ginza



# The Real Estate Business is the True Cause of Sapporo Holdings' Low Capital Efficiency



To improve Sapporo's corporate value, the company needs to fully reevaluate whether it should have real estate operations.

## Inadequate New Medium-Term Plan



# Three Major Problems in Sapporo Holdings' New Medium-Term Management Plan

## 1 As before, management still depends on real estate, neglecting to address poor profitability in core businesses

- Real estate newly defined as a core business in new medium-term management plan, but management is unable to provide an adequate rationale
- Redefining real estate as a core business normalizes management's dependence on it, while poor margins in other core businesses left to fester
- Margin target in new management plan roughly half that of peers, entrenching the company's underperformance and dependence on real estate

## 2 Risk of massive losses if real estate investments are increased

- In new management plan, Sapporo Holdings intends to increase investments in real estate to achieve capital gains
- However, Sapporo Holdings has posted substantial losses on past investments in real estate, raising doubts about its capital discipline and competence
- High likelihood of substantial losses again in view of the problems in the company's investment policies outlined in the management plan

## 3 Lack of milestones and concrete action plans cast doubt on achievability of management plan

- New management plan lacks details about how management will execute to achieve targets
- Achievability of medium-term management plan in doubt, given Sapporo Holdings' failure to achieve goals in previous management plans
- Majority of analysts harbor doubts about achievability of targets in new management plan

# 1 Sapporo Holdings Defines Real Estate as Core Business for Increased Investment in New Management Plan

## Real Estate Was Not a Core Business at Sapporo Holdings

"SPEED 150" Long-term management vision unveiled on November 2, 2016

長期経営ビジョン

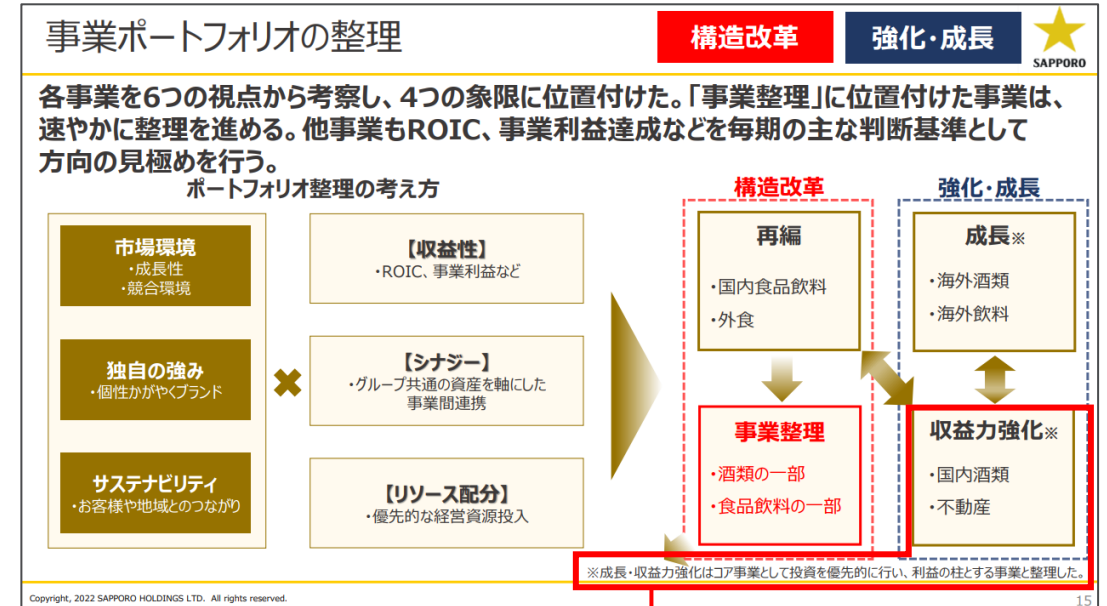
長期経営ビジョン『SPEED150』

グループのコア事業を『酒』『食』『飲』の3分野と位置づけ、不動産事業とともにグループ保有のブランドを育成・強化していきます。

Sapporo Holdings' long-term management vision announced in 2016 defined alcoholic beverages, foods and soft drinks as core businesses, not real estate

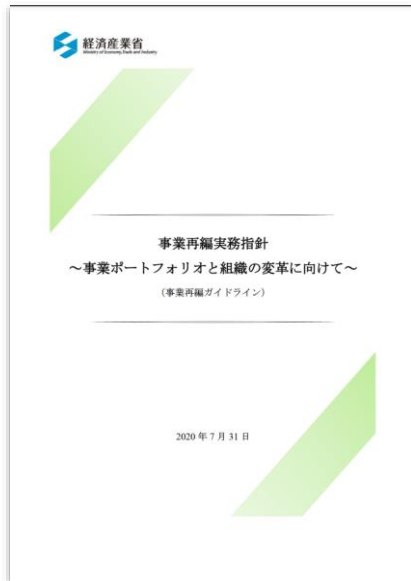
## However, New Management Plan Defines Real Estate as a Core Business

Medium-term management plan (2023-2026) announced on Nov 9, 2022



New management plan designates real estate as a core business in which Sapporo will invest to achieve capital gains

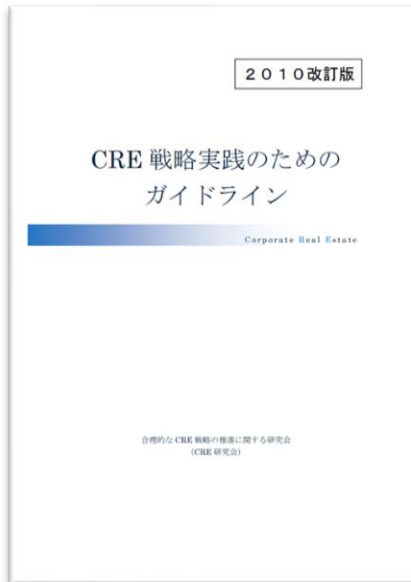
# 1 Sapporo Holdings Needs to Explain Rationale for Having Real Estate as a Core Business



*“The board of directors of companies with multiple businesses are required to discuss and explain to investors about whether those businesses have organized its operations under a single business model and whether the benefits, such as the creation of business synergies, outweigh the costs incurred by having multiple businesses, such as increased management complexity and associated administrative costs, and slower management focus.”*

*“In the context of basic policies for business portfolios, companies should explain the grounds for their decisions, in addition to the details of their decisions and conclusions. This includes the cases where companies decide to maintain their recently decided basic policies as a result of reviewing them.”*

*“Companies should clarify and explain to investors their logical reasons for having multiple businesses, from the perspective of whether their business models and management strategies align, based on the mechanisms for generating business synergies and their value creation stories.”*



*“Corporate real estate (CRE) strategy is a new concept based on the idea that corporate real estate, a limited management resource for a company, should be maximized for the business, in order to keep up with rapid changes in the business environments for real estate and companies.”*

*“Changing the awareness of management is the biggest factor to success in CRE strategy. CRE strategy is not a financial technique or near-sighted idea for pursuing short-term gains on real estate or relying on real estate for income. CRE strategy should be introduced for the sustained development of a company, in order to help build competitive advantages over the longer term.”*

*“An effective option is to earn revenue by moving real estate off the balance sheet and using that revenue to boost earnings in core businesses by concentrating management resources in core businesses. In recent years, an increasing number of companies have moved real estate off balance sheets and concentrated more resources in their core businesses.”*

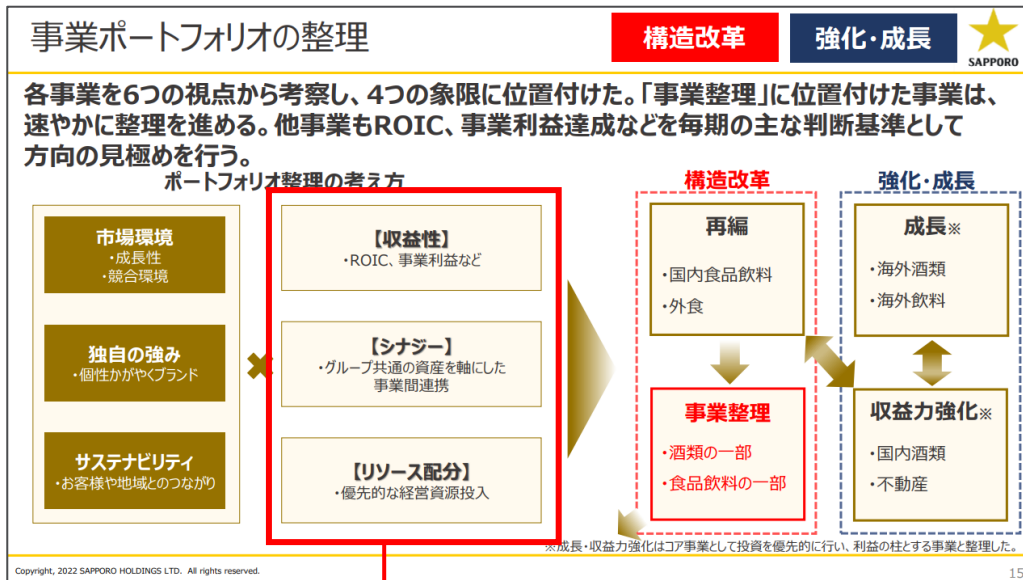
# 1 Sapporo Holdings Has Not Adequately Explained This Rationale to Shareholders

## Explanation in New Management Plan Lacks Specifics

“To explain again why real estate is a core business, our definition of ‘core’ is **a business that contributes to earnings and corporate value**, [omitted] and since Sapporo is a brand company, it is also **a business that contributes to brand value**. It is on this basis that **we position real estate as a core business**.”

Director Shofu at 2022 results briefing

## Medium-term management plan (2023-2026) announced on Nov 9, 2022



Lacks numerical data

## Analysts Asking for Quantitative Explanation Left in the Dark

### Question from analyst

“Synergies between the real estate and domestic alcoholic beverages businesses are a major point of interest. **Speaking frankly, [omitted] today’s disclosures are mostly qualitative expressions, and I would like to see more numbers. [omitted] I would appreciate it if you could give an explanation as to why Sapporo Holdings must own land, management’s reasoning for this, and more details about synergies.**”

Analyst from Nomura Securities at 2022 results briefing

### Management’s reply

- Management could not answer this question, raising concerns about whether the company has a quantifiable justification.

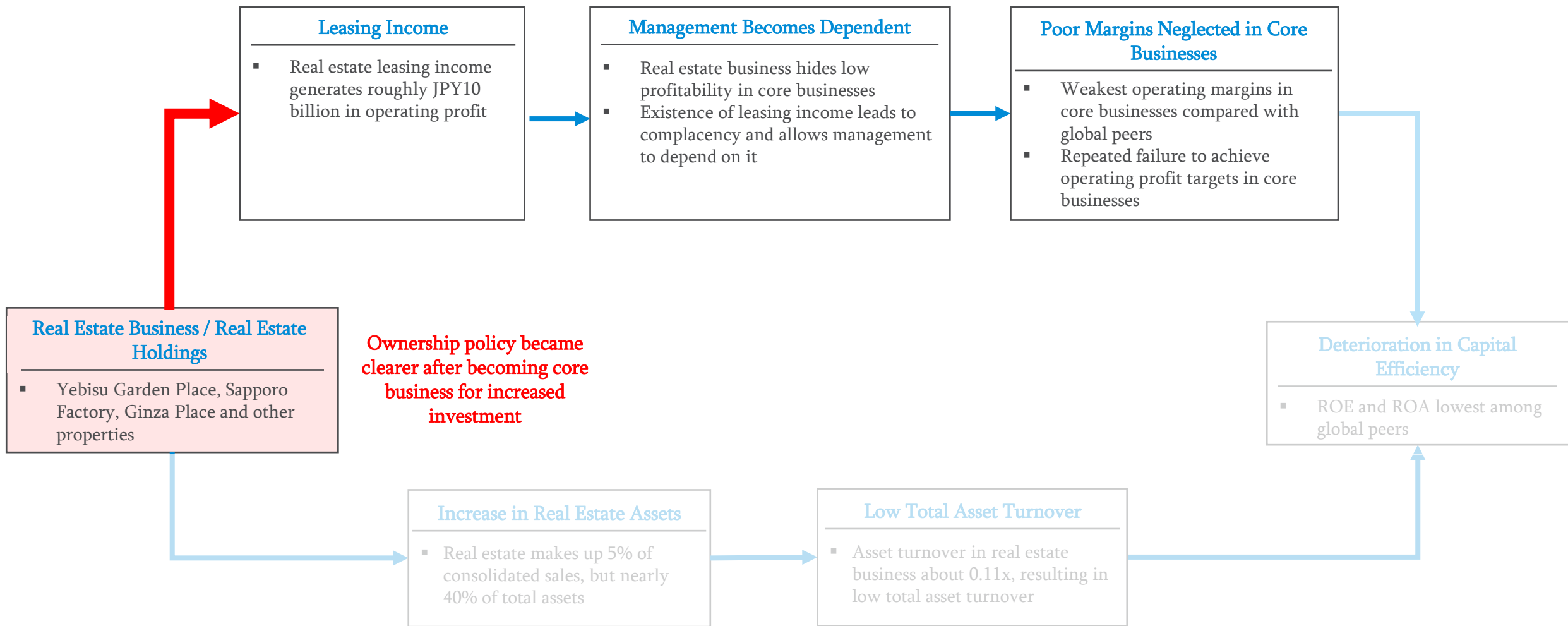
“I think **one big portion of this is how synergies contribute as a core business. Fixating over numbers from synergies between alcoholic beverages and real estate might risk losing sight of the big picture, but we will consider disclosing more data in the future. For the time being, we explained our view of the big picture.**”

Director Shofu at 2022 results briefing

“Being a local company that owns land is an essential part of our brand story, in my opinion. I think this is a very important point from the perspective of a beer brewery. **It is difficult to express this value as a number [omitted], but without land, our brand story would be harder to convey. This is how I understand it.**”

Operating Officer Nose at 2022 results briefing

# 1 Real Estate Becoming a Core Business With No Clear Rationale Implies Weaker Discipline in Future Management, Persistently Low Profitability in True Core Businesses (Alcoholic Beverages, Foods & Soft Drinks), and Risk of Damage to Brand Value

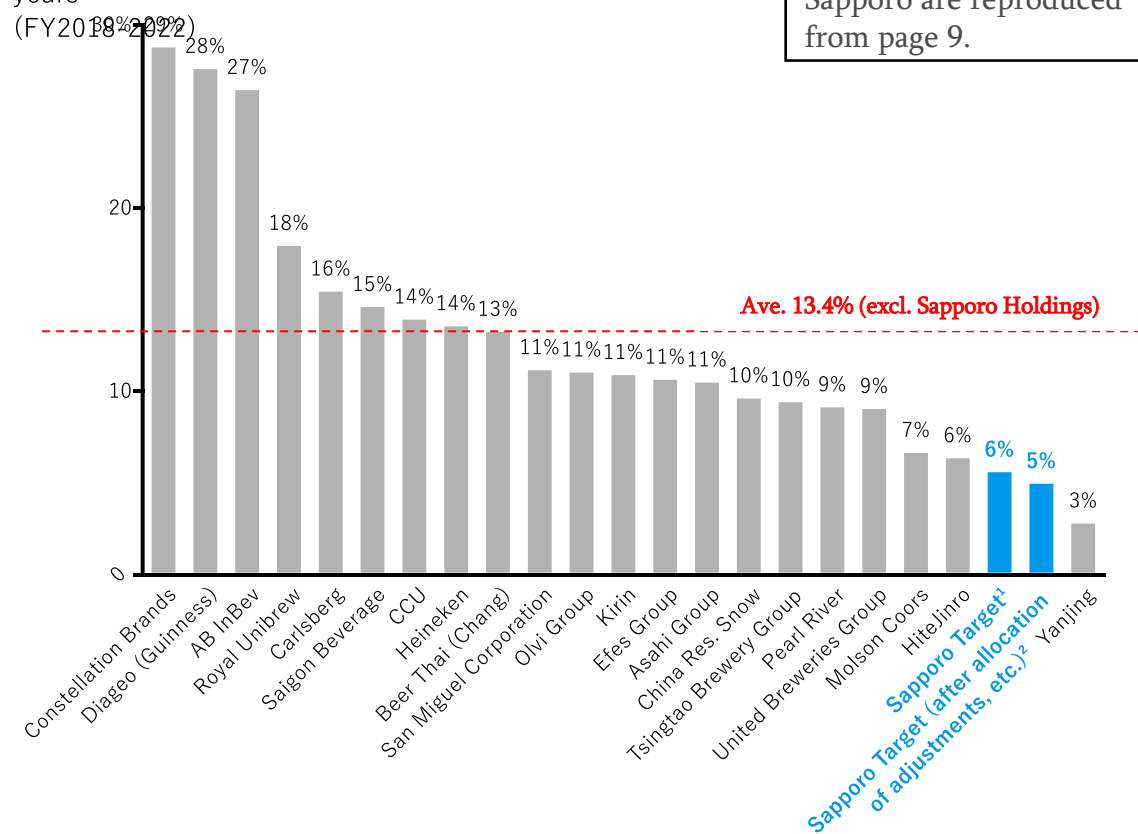


# 1 Management Plan's Margin Targets Are Less Than Those of Peers, Underscoring Management's Dependence

## Targets for Alcoholic Beverages Business Far Lower than Margins at Global Peers

Average operating margin over the past 5 years (FY2018-2022)

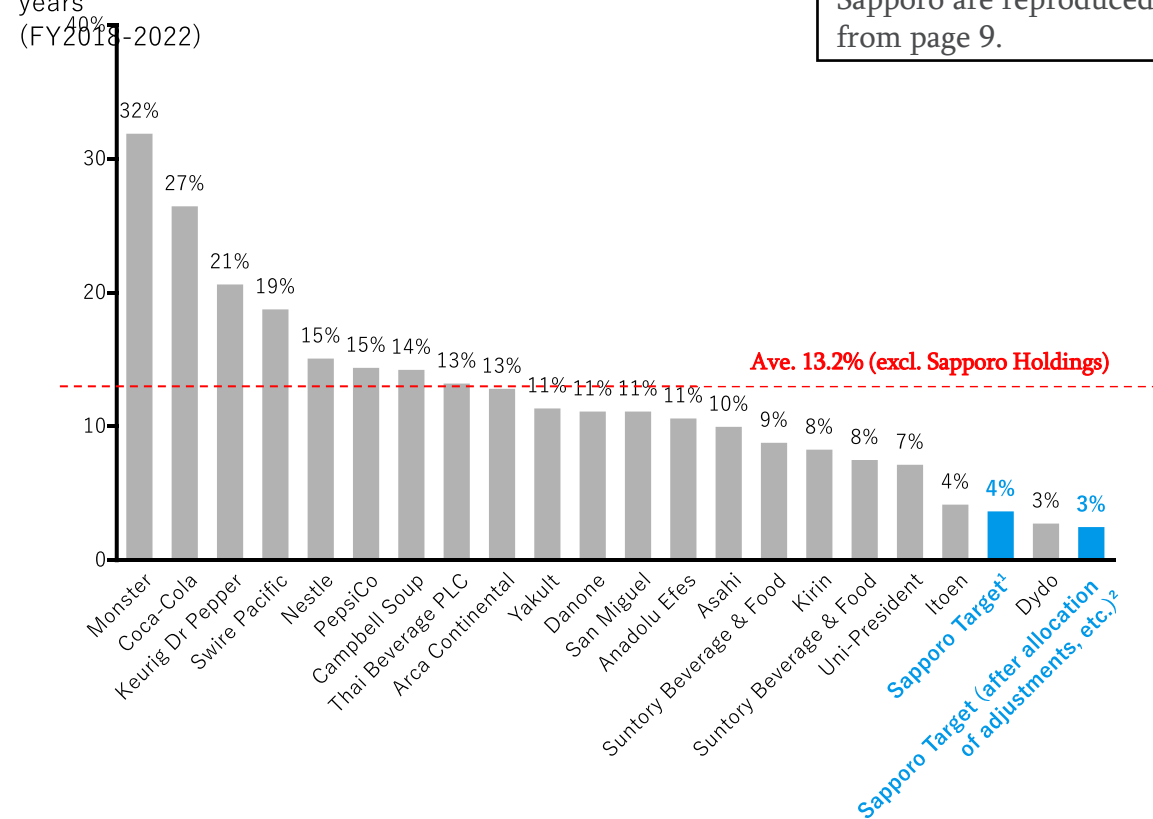
Figures except for Sapporo are reproduced from page 9.



## Targets for Food & Soft Drinks Business Also Far Lower than Margins at Global Peers

Average operating margin over the past 5 years (FY2018-2022)

Figures except for Sapporo are reproduced from page 9.



Source: Securities filings, annual reports

Note: [1] Sapporo's Targeted figures are business profit margin; [2] Sales and operating profit of other segments and adjustments are allocated to each business according to their sales ratios (planned figures are allocated the same amount as in FY2022, respectively).

# Three Major Problems in Sapporo Holdings' New Medium-Term Management Plan

## 1 As before, management still depends on real estate, neglecting to address poor profitability in core businesses

- Real estate newly defined as a core business in new medium-term management plan, but management is unable to provide an adequate rationale
- Redefining real estate as a core business normalizes management's dependence on it, while poor margins in other core businesses left to fester
- Margin target in new management plan roughly half that of peers, entrenching the company's underperformance and dependence on real estate

## 2 Risk of massive losses if real estate investments are increased

- In new management plan, Sapporo Holdings intends to increase investments in real estate to achieve capital gains
- However, Sapporo Holdings has posted substantial losses on past investments in real estate, raising doubts about its capital discipline and competence
- High likelihood of substantial losses again in view of the problems in the company's investment policies outlined in the management plan

## 3 Lack of milestones and concrete action plans cast doubt on achievability of management plan

- New management plan lacks details about how management will execute to achieve targets
- Achievability of medium-term management plan in doubt, given Sapporo Holdings' failure to achieve goals in previous management plans
- Majority of analysts harbor doubts about achievability of targets in new management plan

# 2 Management Has Limited Experience in De Novo Real Estate Investment

## Announced New Real Estate Investment Program

Medium-Term Management Plan (2023~2026) announced on November 9, 2022

### コア事業における収益力強化（不動産①）

**強化・成長**

長期的な時間軸で、賃貸中心から総合的に資産価値向上を図る事業体に転換し、収益性と資産効率を向上させる。

	21年実績	22年計画※2	26年計画
ROA※1	5.7%	4.9%	5.7%

※1 EBITDAベース

※2 YGPRリニューアルや空調更新による収入減などの理由から、一時的に低下する見込み。  
※3 37年に向けてはYGP施設環境向上などにより回復・成長の見通し。

**主な課題**

- ・YGPを中心とする賃貸事業の収益構造変化への対応
- ・まちづくりを通じた地域との更なる関係性強化

**2026年の先（2037年）を見据えたアクションプラン**

**コア物件の価値向上とまちづくり**

- ・YGPの価値向上とまちづくり推進による競争力強化
- ・北海道新幹線の札幌延伸を見据え、札幌エリアの資産の価値向上

**資産回転型ビジネスモデル構築（収益構造多様化・資産効率向上）**

- ・**エクイティ投資、VA流動化事業の推進** ※資産比率30%を上限に投資
- ・23年に投資顧問会社を設立、25年までに私募ファンドや私募リート組成に向けた準備を進め、「資産回転型ビジネスモデル」の構築を目指す ※私募ファンド・私募リートの対象は、YGPなどコア物件以外

**利益構成比変化**

年	YGP	VA流動化	エクイティ	その他物件
21年	29%	2%	69%	-
26年	30%	10%	43%	10%
37年	17%	24%	39%	20%

**トピック**

- ・恵比寿ガーデンプレイス(YGP)の物件価値向上（再生可能エネルギー導入、空調更新など）
- ・22年11月YGP センタープラザグランドオープン
- ・資産回転型ビジネスへの取り組み拡大

Copyright, 2022 SAPPORO HOLDINGS LTD. All rights reserved. 23

Equity investments are (partial) investments in SPC interests created to acquire properties. Value-added real estate investment business entails 100% acquisition of real estate with intention of selling after increasing its value to achieve capital gains

## Plans to Increase Investment in Real Estate Dramatically Over Next 3 Years

Results briefing materials announced on February 15, 2023

### 2023年 アクションプラン

**不動産**

**資産回転型ビジネスモデル構築 (7)**

- 私募ファンド・私募リートの組成に向けた準備を進める  
2023年春にREIT準備室、秋に投資顧問会社の設立を目指す

**流動化事業の資産構成比**

3.7% (2022年) → 19.2% (2026年)

**不動産** \*YGP: 恵比寿ガーデンプレイス

**YGP\*を中心としたコア物件の価値向上 (8)**

- YGP\*の価値向上  
オフィス棟の空調更新、セキュリティのVA工事等、価値向上への取り組みを進める  
価値向上に伴う賃料単価の増加を目指す  
2026年 +2.5% (22年比)
- 札幌エリアの資産価値向上 ~ホテル創成札幌 M ギャラリーオープン~  
サッポロファクトリー西構に位置するホテルクラブシーサッポロを改装  
フランス・パリを拠点とする世界最大級のホスピタリティグループアコー\*とホテルマネジメント契約を締結し、2024年初に「ホテル創成札幌 M ギャラリー\*」としてリニューアルオープンを目指します。  
アコー：フランス・パリを拠点とし、世界110ヶ国で5,300を超えるホテルやレジデンス、10,000を超えるレストラン、バー施設を展開し業界を牽引しているホスピタリティグループ。  
Mギャラリー：アコーグループのプレミアムホテルブランド
- さらなる再エネ推進に向け、全物件再エネ化へ  
保有全物件の電力の脱炭素化を決定、当社分として年間約13,000トンのCO2排出削減を見込む※（SRE社CO2排出量の約56%の削減に相当）  
「全エネルギーの再エネ化実現」と「自社使用電力を自ら創り出す創エネルギー実現」に向け再エネロードマップを作成 ※テナント分も含めた削減量は年間約25,000トンを見込む。

**YGP\*の電力再エネ化**      **保有全物件の電力の再エネ化**      **全エネルギーの再エネ化企業の脱炭素達成**      **自社使用電力の創エネ化**

2022年~      2023年~      2025年~      2040年~

Copyright, 2023 SAPPORO HOLDINGS LTD. All rights reserved. 31/54

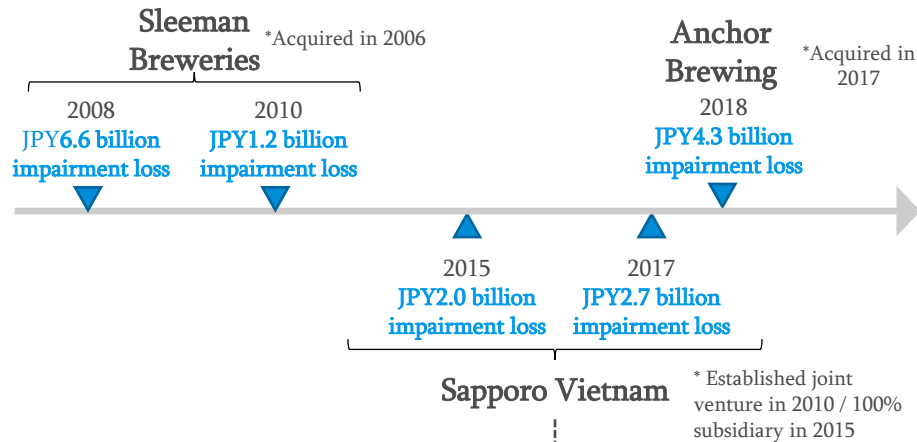
Source: Medium-Term Management Plan (2023-2026); results briefing materials



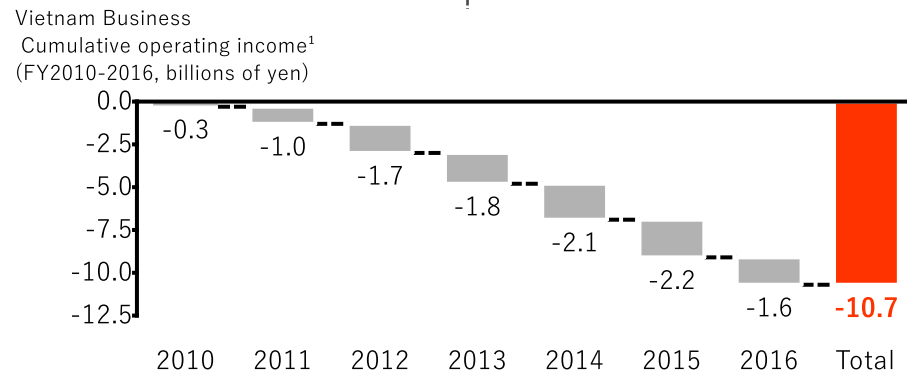
# 2 Sapporo Holdings Previously Booked Substantial Losses on Investments, Raising Questions About Capital Discipline and Competence

## Substantial Losses Booked in Overseas Strategy

Repeated impairment losses in overseas operations

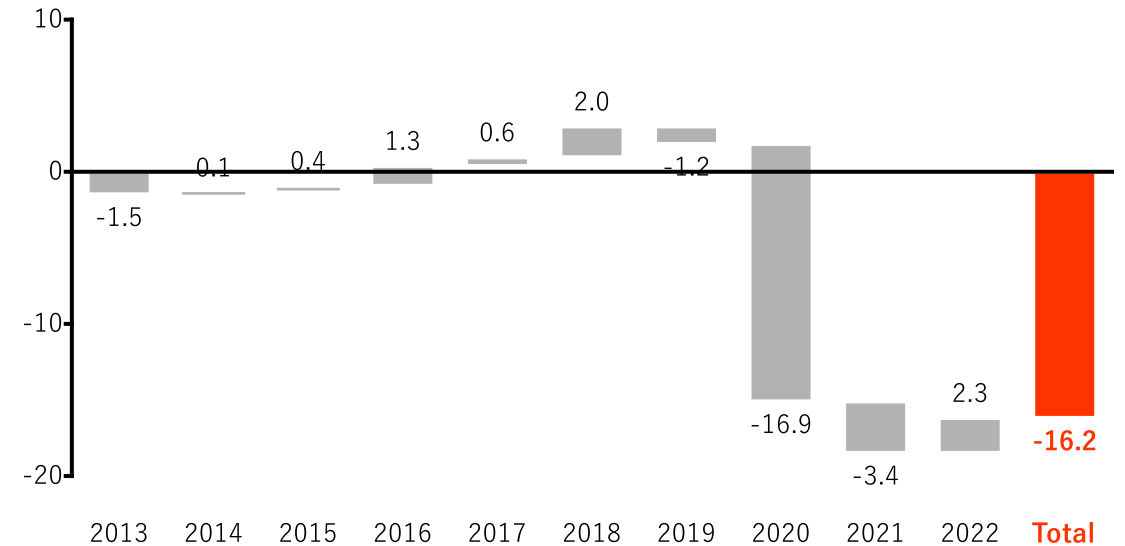


Vietnam business booked cumulative substantial losses



## Large Losses Also on Investments in Food & Soft Drink Business

Cumulative operating income of Food and Beverage business for the past 10 years (billions of yen)



Capital Expenditures (billions of yen)

2013	9
2014	7
2015	5
2016	8
2017	4
2018	8
2019	10
2020	5
2021	5
2022	2

**Cumulative capital investment: JPY63.5 billion**

# 2 High Likelihood of Losses Given Timing of Increased Investment in Real Estate

## A: Insufficient Experience

- Sapporo Holdings' past real estate investments were redevelopments of factory sites; the company has very little experience in de novo investments

### History of key property development



Yebisu Garden Place

- Redevelopment of Yebisu factory that closed in 1988



Sapporo Factory

- Redevelopment of site of No. 1 brewery of Sapporo factory after deciding to move it in 1985



Ginza Place

- Redevelopment of land that was Ginza Lion beer hall (redevelopment of Sapporo Ginza Building)

## B: Growing Market Risk

- Rise in real estate prices to date owes to sharp decline in yield expectations due to inflow of capital into real estate market amid low interest rates
- Amid increasing inflation around the world, however, central banks have moved to hike interest rates, and interest rates on Japanese government bonds have reacted, albeit moderately
- If interest rates increase further, expected yields on real estate investments will probably also increase and depress real estate prices**

\*See Appendix 2 for details

## C: No Capital Gains on Key Properties

- Yebisu Garden Place and other major properties, which probably have significant unrealized gains, are exempt from securitization

### Medium-Term Management Plan (2023~2026)

**強化・成長**

**コア事業における収益力強化（不動産①）**

長期的な時間軸で、賃貸中心から総合的に資産価値向上を図る事業体に転換し、収益性と資産効率を向上させる。

	21年実績	22年計画	26年計画
ROA※1	5.7%	4.9%	5.7%

※1 EBITDAベース

**ROA（EBITDAベース）推移**

※2 YGPリニューアルや空調更新による収入減などの理由から、一時的に低下する見込み。  
※3 37年に向けてはYGP施設環境向上などにより回復・成長の見通し。

**2026年の先（2037年）を見据えたアクションプラン**

- コア物件の価値向上とまちづくり
  - YGPの価値向上とまちづくり推進による競争力強化
  - 北海道新幹線の札幌延伸を見据え、札幌エリアの資産価値向上
- 資産回転型ビジネスモデル構築（収益構造多様化・資産効率向上）
  - エクイティ投資、VA流動化事業の推進 ※資産比率30%を上限に投資
  - 23年に投資顧問会社を設立、25年までに私募ファンドや私募リートへの組成に向けた準備を進め、「資産回転型ビジネスモデル」の構築を目指す ※私募ファンド・私募リートの対象は、YGPコア物件以外

**利益構成比変化**

■ YGP ■ VA流動化 ■ エクイティ ■ その他物件

Copyright © 2022 SAPORO HOLDINGS LTD. All rights reserved.

**\*Private placement funds and private placement REIT will cover properties other than YGP and other core properties**

## 2 Increased Investment in Real Estate to be Decided by Board of Directors that Lacks Real Estate Investment Expertise

No one has experience in real estate

Name	Inside/ Outside	Title	Career	Expertise in Real Estate
Masaki Oga	Inside	President and Representative Director	Mainly involved in marketing after joining Sapporo Holdings	×
Yoshitada Matsude	Inside	Managing Director	Mainly involved in accounting after joining Sapporo Holdings	×
Masashi Sato	Inside	Director	Mainly involved in supply chains after joining Sapporo Holdings	×
Rieko Shofu	Inside	Director	Mainly involved in business strategy after joining Sapporo Holdings from Hakuholdo	×
Toshio Mizokami	Inside	Director, Statutory Audit & Supervisory Committee Member	Mainly involved in accounting and business management after joining Sapporo Holdings	×
Mackenzie Clugston	Outside	Director	Built career as ambassador of Canada	×
Tetsuya Shoji	Outside	Director	Built career in telecommunications industry (NTT Communications)	×
Toshihiro Uchiyama	Outside	Director	Built career in precision machinery industry (NSK)	×
Shuji Fukuda	Outside	Director, Audit & Supervisory Committee Member	Built career at a cement maker (Taiheiyo Cement)	×
Kohtaro Yamamoto	Outside	Director, Audit & Supervisory Committee Member	Built career as an attorney	×

# Three Major Problems in Sapporo Holdings' New Medium-Term Management Plan

## 1 As before, management still depends on real estate, neglecting to address poor profitability in core businesses

- Real estate newly defined as a core business in new medium-term management plan, but management is unable to provide an adequate rationale
- Redefining real estate as a core business normalizes management's dependence on it, while poor margins in other core businesses left to fester
- Margin target in new management plan roughly half that of peers, entrenching the company's underperformance and dependence on real estate

## 2 Risk of massive losses if real estate investments are increased

- In new management plan, Sapporo Holdings intends to increase investments in real estate to achieve capital gains
- However, Sapporo Holdings has posted substantial losses on past investments in real estate, raising doubts about its capital discipline and competence
- High likelihood of substantial losses again in view of the problems in the company's investment policies outlined in the management plan

## 3 Lack of milestones and concrete action plans cast doubt on achievability of management plan

- New management plan lacks details about how management will execute to achieve targets
- Achievability of medium-term management plan in doubt, given Sapporo Holdings' failure to achieve goals in previous management plans
- Majority of analysts harbor doubts about achievability of targets in new management plan

# 3 No Adequate Plan Disclosed for Achieving Targets in New Medium-Term Management Plan

## Action Plans in New Management Plan

Domestic Alcoholic Beverages

アクションプラン	<ul style="list-style-type: none"> <li>✓商品カテゴリの再編                             <ul style="list-style-type: none"> <li>・高単価・高利益商品の強化による収益向上</li> <li>・発泡酒・新ジャンル類、国産デ일리ワインは縮小</li> </ul> </li> <li>✓コスト削減、コスト組み替え                             <ul style="list-style-type: none"> <li>・RTD製造拠点の拡充（仙台工場）によるコスト削減及びフレキシブルな生産体制の構築</li> <li>・販売費の見直し及び販売データに基づいた戦略的リソース配分の推進（ブランド・チャネル・エリア）</li> <li>・人員体制や拠点の見直しを含めた固定費、変動費の継続的削減</li> </ul> </li> </ul>
----------	--

Overseas Alcoholic Beverages

アクションプラン	<ul style="list-style-type: none"> <li>✓ Stone社とのシナジー早期実現                             <ul style="list-style-type: none"> <li>・Stone社の拠点を活用したSPB生産物流体制確立</li> <li>・効果的なマーケティング・販売体制の構築</li> </ul> </li> </ul>
----------	--

Domestic Food & Soft Drinks

アクションプラン	<ul style="list-style-type: none"> <li>・不採算事業、ノンコア事業の売却・撤退</li> <li>・事業提携による構造的な課題の解決</li> <li>・自販機事業の更なる構造改革</li> <li>・飲料、スープなどのSKU大幅削減</li> <li>・複数生産拠点の再編</li> <li>・レモン事業へのリソースシフトによる成長戦略促進</li> </ul>
----------	---

Overseas Food & Soft Drinks

アクションプラン	<ul style="list-style-type: none"> <li>✓シンガポール                             <ul style="list-style-type: none"> <li>・ヘルス&amp;ウェルネス系を軸とした新価値提案による需要喚起</li> </ul> </li> <li>✓マレーシア                             <ul style="list-style-type: none"> <li>・ブランド認知とディストリビューション拡大</li> </ul> </li> <li>✓中東など                             <ul style="list-style-type: none"> <li>・輸出拡大に向け、マーケティング拠点新設</li> </ul> </li> <li>✓基盤                             <ul style="list-style-type: none"> <li>・Pokka Logistics Hub（シンガポール）※2</li> <li>・新設による物流・オフィス・R&amp;D機能の集約</li> </ul> </li> </ul>
----------	--



- Only very abstract action plans disclosed; investors unable to qualitatively discern progress toward targets
- Lack of concrete milestones on way to final targets make it impossible for shareholders to assess progress on a quarterly basis and see degree of achievement of targets

*“Although sharing KPIs with respect to the creation of overall corporate value, such as ROE (Return on Equity) and ROIC (Return on Invested Capital), is beneficial, those KPIs alone are not sufficient to convince investors to invest in a company, because it is difficult to grasp the linkage between specific actions companies intend to take and those KPIs. Therefore, companies should formulate forward management plans in line with their own long-term strategies [omitted] and set company-specific quantitative/qualitative KPIs in order to monitor the progress of the plans”*

Guidance for Collaborative Value Creation 4.2

*“Only when a company begins to explain specific measures implemented on-site can investors begin to understand how far initiatives have really progressed inside a company. [omitted] For example, when a company with 3% ROE over the past 15 years states an aim to increase it to 10% within three years, this can leave a positive impression, but it also raises the question of how the company can achieve this target when it has not done so once over the past 15 years. While a full explanation of the measures is not necessary, saying something like this worksite or that worksite has room for improvement, as one of several representative examples, would convey to investors that management is serious about reaching these achievable targets.*

A Practical Introduction to Corporate Governance Code 3rd Edition (comment by Sampei)

# 3 Sapporo Holdings Unveiled Additional Action Plans at Request of 3D with Most Recent Results, but They Remain Still Abstract

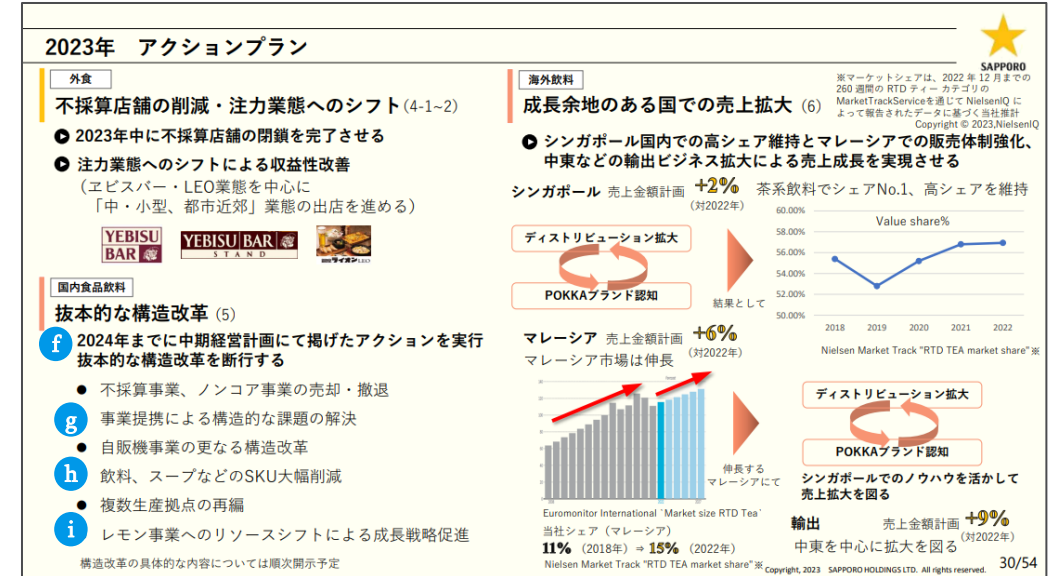
## Sapporo Holdings' Action Plan for Domestic Alcoholic Beverages



### Examples of Lack of Specifics

- a** “Focus on high-margin beer business”, but **unclear exactly what is the focus**
- b** “Aims to improve ASP<sup>1</sup> by strengthening high-value-added products,” but **unclear on specifics of how it will strengthen high-value-added products**
- c** Discloses 2026 targets for beer sales ratio and ASP, but **no milestones before 2026**
- d** “Revitalize markets and create new waves in RTD<sup>2</sup> market,” but **unclear what it will do when**
- e** “Concentrate reasonable investments,” but **unclear where resources will be concentrated**

## Sapporo Holdings' Action Plan for Domestic Food & Soft Drinks

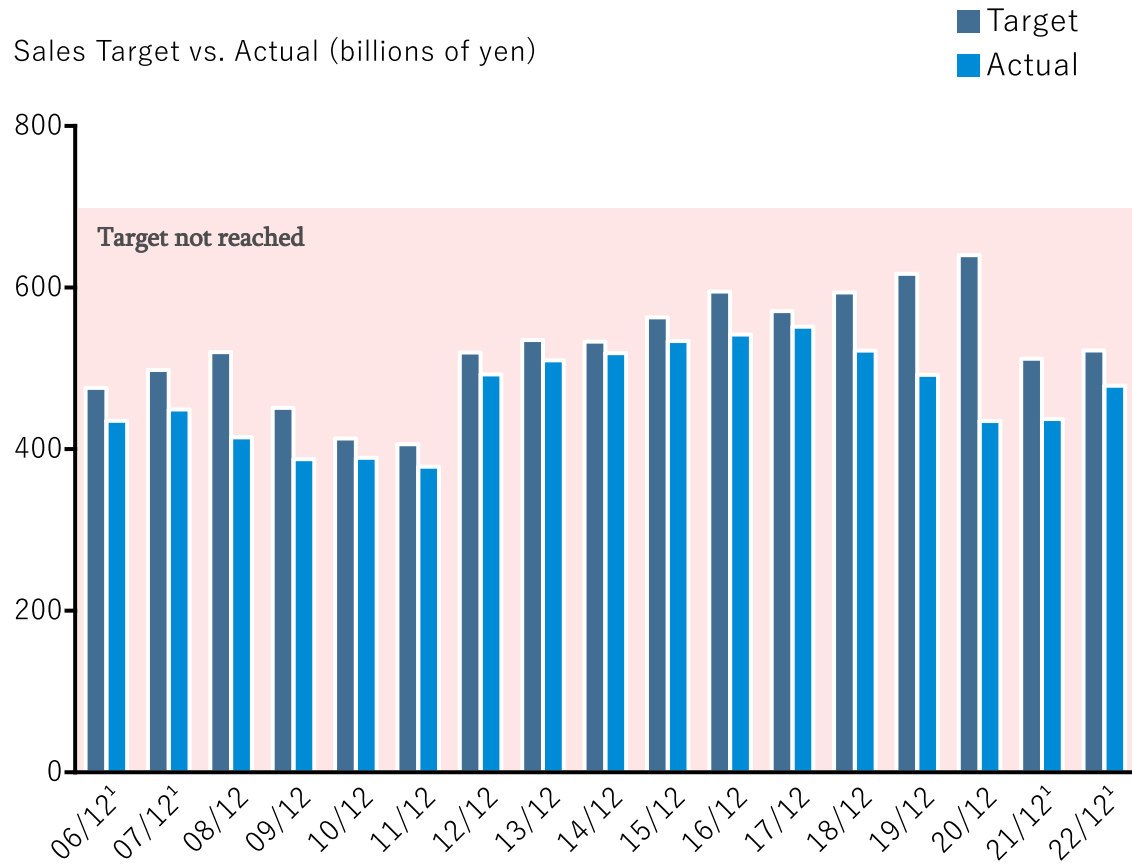


### Examples of Lack of Specifics

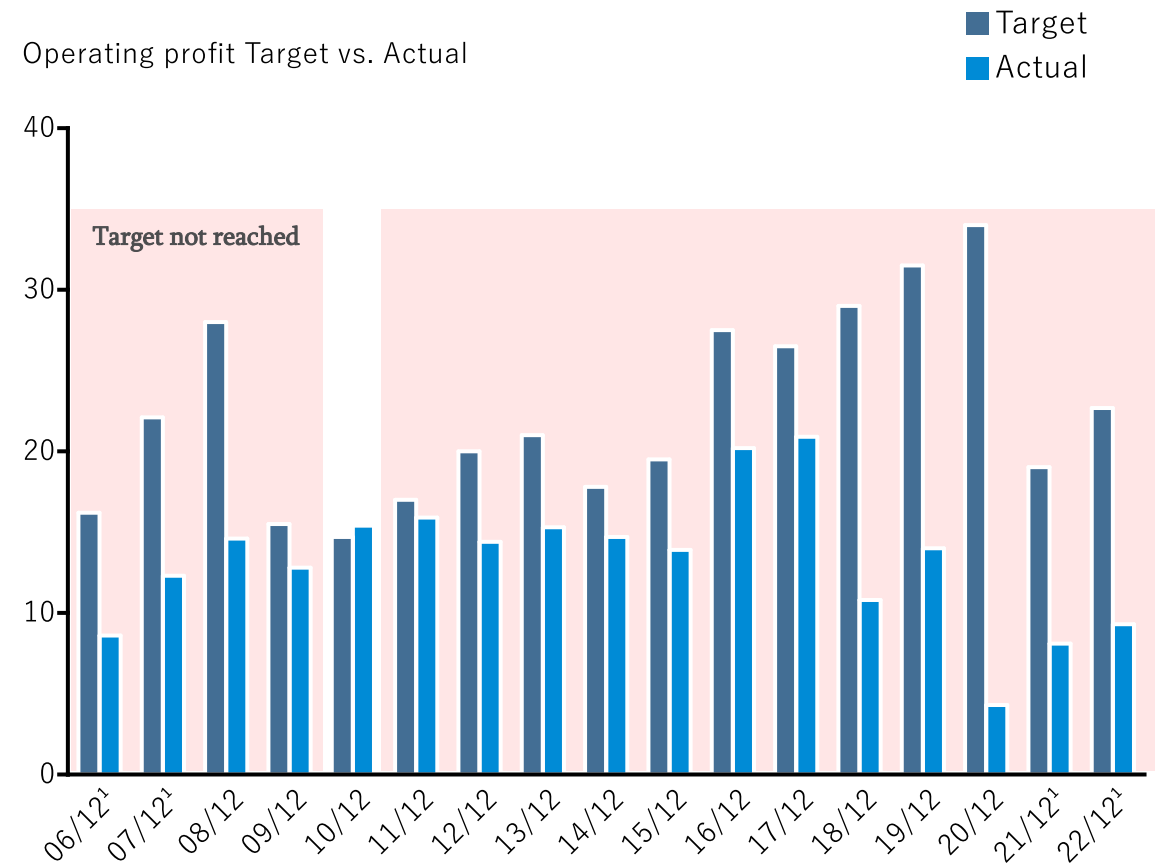
- f** “Take actions in line with medium-term management plan and conduct sweeping restructuring,” but **no disclosure of specifics in measures or milestones**
- g** “Solve structural issues through business tie-ups”, but **does not describe structural issues or how they will be fixed**
- h** “Large cuts in SKUs for beverages and soups,” but **unclear to what degree**
- i** “Advance growth strategy by shifting resources to lemon business,” but **unclear what this specifically means**

# 3 Sapporo Holdings Has Not Achieved Most of its Previous Management Plans; This Raises Doubts about the Achievability of Current Medium-term Plan (1/2)

## Failed to Achieve Sales Targets for 15 Years



## Failed to Achieve Operating Profit Targets for 15 Years



# 3 Sapporo Holdings Has Not Achieved Most of its Previous Management Plans; This Raises Doubts about the Achievability of Current Medium-term Plan (2/2)

## Failure to Increase Market Share / Brand Value

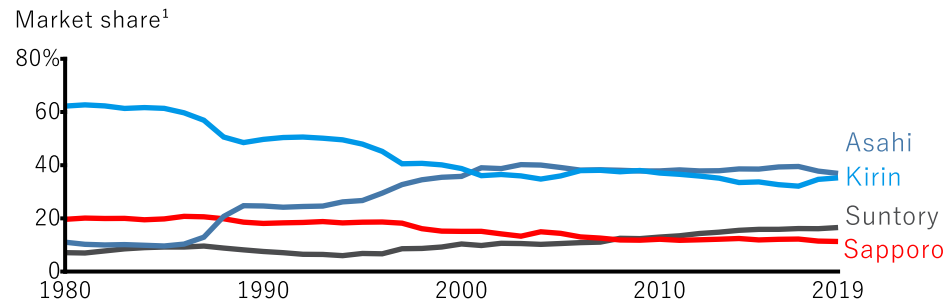
### Commitment

*“Sapporo will concentrate on its three main brands (Yebisu, Sapporo Nama Beer Black Label, Mugi to Hop) and invest business resources in refining the brand power of Sapporo Premium Alcohol Free, which was renewed in February for the non-alcoholic beer market.”*  
Sapporo Group Management Plan 2013-2014

*“Expand market share by concentrating resources in core beer brands while eyeing alcohol tax reforms”*  
First Medium-Term Management Plan 2020

### Results

- **No change in share of beer and low-malt beer markets**, casting doubt on whether brand power has improved

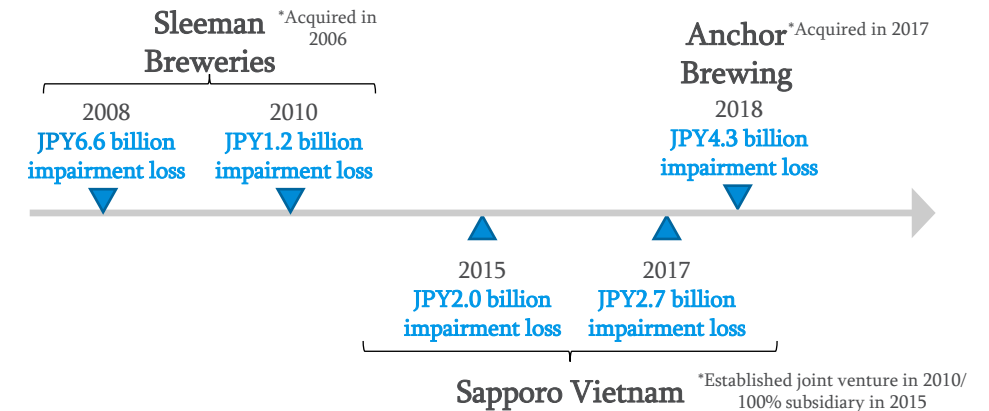


## Failure to Develop Overseas Business

*“Accelerate development in North America by leveraging strengths in premium categories and aim to increase sales by aggressively developing growth markets in Asia and elsewhere.”*  
Sapporo Group Management Plan 2013-2014

*“Advance growth strategies while considering area characteristics, especially in North America and Southeast Asia.”*  
2018 Integrated Report

- **Repeated booking of impairment losses**, despite targeting growth through M&A





### 3 Most Analysts Expressed Doubt About Achievability of New Medium-Term Management Plan

#### Comments and Questions by Analysts about Achievability of New Medium-Term Management Plan's Targets

*“The financial targets in the medium-term management plan look challenging and are difficult to assess at this juncture (the company has often failed to achieve targets in its management plans). However, Sapporo Holdings claims to have set highly achievable targets, with the aim of transforming its business structure through restructuring, measures to strengthen earnings and a growth strategy, to address the persistent problem of weak earnings.”*

Nomura Securities analyst report November 9, 2022

*“[omitted] To be point blank, I question whether these investments will truly improve capital efficiency. [omitted] I doubt whether the targets in the management plan can really be achieved this time. Does Sapporo Holdings expect these investments to quickly turn a profit?”*

Okasan Securities analyst comment at new medium-term management plan unveiling

*“While remembering that Sapporo Holdings has mostly failed to achieve targets in its previous management plans, [omitted] the current plan's targets look ambitious in quantitative terms. [omitted] What has changed to increase the likelihood of achieving these targets? Can you provide a general explanation of what has changed on an individual business level?”*

Okasan Securities analyst comment at new medium-term management plan unveiling

*“On Slide 24, where it discusses the monitoring system for achieving the medium-term plan, it seems that minor changes were made to the organizational structure. I understand that the likelihood of achieving the targets in the medium-term plan are higher now, despite often missing them in the past. How has this likelihood increased as a result of changes from the past? What are the key changes in the organizational structure? This is the first part of my question.”*

Okasan Securities analyst comment at 2022 results briefing

*“These structural reforms, [omitted] I wonder if they can really be done this time, because under the previous management plan, reforms to the vending machine business seem to have been smaller than we had anticipated. Can you provide some more details about this action plan?”*

JPMorgan analyst comment at new medium-term management plan unveiling

*“Sapporo Holdings has failed to achieve its targets in previous medium-term plans. Although it has drawn up a good-looking business strategy with a strong awareness of stakeholders, the key is whether this strategy can be executed. We will focus on whether organizational changes have truly increased the company's ability to execute.”*

SMBC Nikko Securities analyst report November 9, 2022

## Weak Board Oversight and Qualifications

# Weak Board Oversight Raises Questions about Board's Qualifications

## 1 The Board lacks the critical expertise/experience to address Sapporo's underperformance

- No knowledge of the liquor industry
- No experience in improving margins in consumer-oriented manufacturing
- No experience in branded consumer goods

## 2 Appointment of new director underscores lack of awareness of problems facing core businesses

- Board missed the opportunity to add a director who has experience in alcoholic beverages and/or consumer products
- New director has some experience in real estate, highlighting the shift of focus away from original core businesses

## 3 Newly appointed director may have conflicts of interest and lack independence

- Mr. Tanehashi has longstanding connections to Mizuho bank, Sapporo's main lender. This raises questions about his independence and possible conflicts of interest
- Tokyo Tatemono, where Mr. Tanehashi is Chairman, has cross-shareholdings with Sapporo

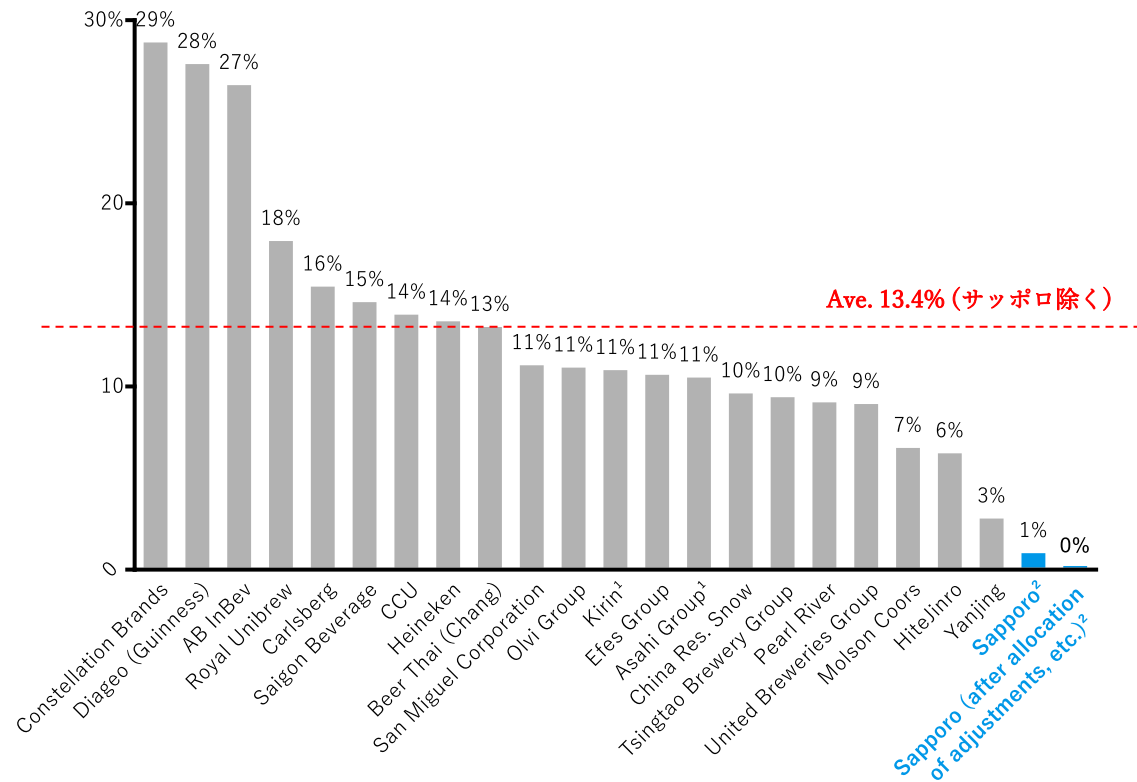
## 4 3D's interactions with the Board over the last year indicate that the directors are not providing appropriate oversight of management

- Directors have displayed a disinterest in hearing the opinions of shareholders
- Outside directors are failing to oversee the evaluation of business plans and voice the opinion of shareholders
- Despite numerous requests, the Board refused to seek shareholder input before creating and publishing the new medium-term plan

# 1 Sapporo Holdings Has Failed to Fix Issues in Alcoholic Beverages Business

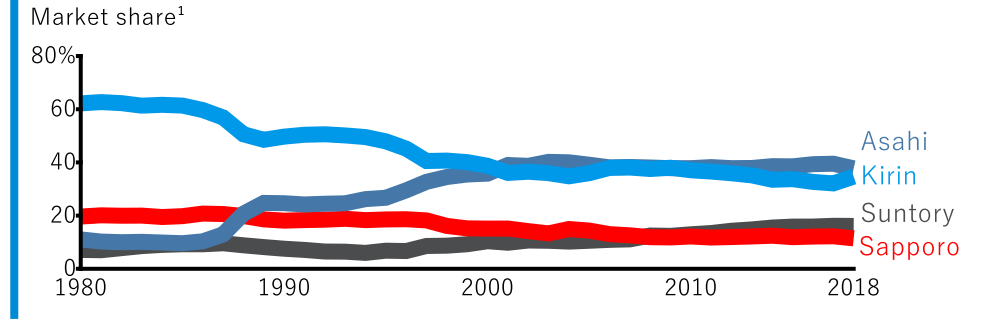
## Zero Improvement from Weak Profitability in Alcoholic Beverages Business

Average of the past 5 years Operating income ratio (FY2018-2022)

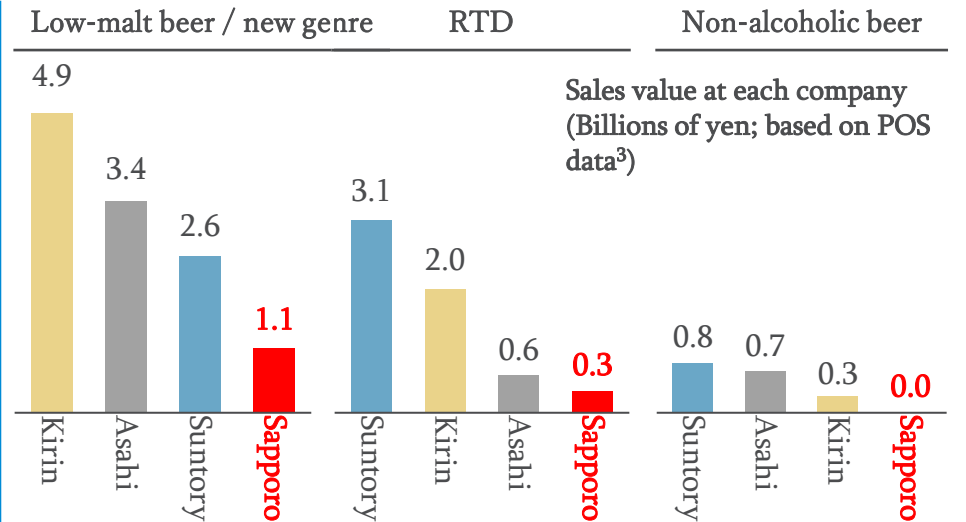


## Weak Competitiveness in Alcoholic Beverages Business

Stall in share of beer market



Unable to gain share of emerging markets



Note: [1] Covers Suntory and 22 companies listed on stock exchanges out of top 40 global beer breweries in terms of production volume (2020)  
Source: Securities filings and annual reports of each company; IR materials of each company; POS data; Lit search

# 1 Past Outside Directors Mostly Lacked Expertise Needed to Solve Issues in Alcoholic Beverages Business, and the Board of Directors Lacked Adequate Expertise in This Area

## Outside Directors Since 2006

Name	Date of Departure	Career Background	No experience in alcoholic beverages field		
			Industry Knowledge (Alcoholic Beverages)	Margin Improvement (Manufacturing for Individual Consumers)	Branding (Consumer Goods)
Tetsuo Seki	FY09	Steelmaking sector (Nippon Steel)	×	×	×
Hiroaki Etoh	FY12	Financial sector (Mizuho)	×	×	×
Nobuo Katsumata	FY12	General trading company (Marubeni)	×	×	×
Hiroshi Tanaka	FY15	Chemicals sector (Kureha)	×	×	×
Teruhiko Ikeda	FY18	Financial sector (Mizuho)	×	×	×
Shigehiko Hattori	FY19	Machinery maker (Shimadzu)	×	×	×
Shizuka Usawa	FY21	Machinery maker (Nisshinbo)	×	×	×
Kazuo Sugie	FY22	Chemicals maker (DIC)	×	×	×
Mackenzie Clugston	Current	Ambassador for Canada	×	×	×
Shuji Fukuda	Current	Cement maker (Taiheiyo Cement)	×	×	×
Tetsuya Shoji	Current	Telecommunications sector (NTT Communications)	×	×	×
Toshihiro Uchiyama	Current	Precision machinery sector (NSK)	×	×	×
Kohtaro Yamamoto	Current	Attorney	×	×	×

No experience in alcoholic beverages field

No experience in consumer-oriented manufacturing

No experience at consumer goods companies



# Weak Board Oversight Raises Questions about Board's Qualifications

## 1 The Board lacks the critical expertise/experience to address Sapporo's underperformance

- No knowledge of the liquor industry
- No experience in improving margins in consumer-oriented manufacturing
- No experience in branded consumer goods

## 2 Appointment of new director underscores lack of awareness of problems facing core businesses

- Board missed the opportunity to add a director who has experience in alcoholic beverages and/or consumer products
- New director has some experience in real estate, highlighting the shift of focus away from original core businesses

## 3 Newly appointed director may have conflicts of interest and lack independence

- Mr. Tanehashi has longstanding connections to Mizuho bank, Sapporo's main lender. This raises questions about his independence and possible conflicts of interest
- Tokyo Tatemono, where Mr. Tanehashi is Chairman, has cross-shareholdings with Sapporo

## 4 3D's interactions with the Board over the last year indicate that the directors are not providing appropriate oversight of management

- Directors have displayed a disinterest in hearing the opinions of shareholders
- Outside directors are failing to oversee the evaluation of business plans and voice the opinion of shareholders
- Despite numerous requests, the Board refused to seek shareholder input before creating and publishing the new medium-term plan

# 2 Despite Needing an Outside Director with Expertise in Alcoholic Beverages Business, Sapporo Holdings Nominated a Candidate with Experience in Real Estate

## Sapporo Holdings Nominated Real Estate Candidate for New Outside Director

## Prioritized Expertise in Real Estate Business

### Summary of candidate for new outside director



候補者番号 8

たねはし まきお

**種橋 牧夫**

満66歳(1957年3月13日生)

新任 社外  
独立

**社外取締役候補者の選任理由及び期待される役割の概要**  
 種橋牧夫氏は、企業経営者としての豊富な経験、実績を有し、不動産事業・財務・コンプライアンスに関する高い見識を有しております。「中期経営計画(2023~26)」の達成に向け、特に重点課題である不動産事業での収益構造多層化・資産効率向上において、金融、不動産での豊富な経営経験に基づき、客観的・専門的な視点からの確かな提言・助言をいただけるものと期待しております。持続的な企業価値の向上を目指す当社グループの経営を監督する適切な人材と判断し、社外取締役候補者としております。

**★ 略歴、地位及び担当**

1979年4月	株式会社富士銀行入行	2015年10月	同社 専務執行役員 アセットサービス事業本部長 兼 海外事業本部長
2011年6月	株式会社みずほ銀行 副頭取執行役員 支店部担当	2016年3月	同社 取締役専務執行役員 アセットサービス事業本部長 兼 海外事業本部長
2011年6月	同行 代表取締役副頭取執行役員 支店部担当	2017年1月	同社 代表取締役会長執行役員
2012年4月	同行 代表取締役副頭取執行役員 営業店業務部門長	2019年3月	東京建物不動産販売株式会社 取締役会長 同社 代表取締役会長(現在に至る)
2013年3月	東京建物不動産販売株式会社 代表取締役社長執行役員	2021年1月	東京建物不動産販売株式会社 取締役(現在に至る)
2015年7月	東京建物株式会社 専務執行役員 アセットサービス事業本部長		

取締役在任年数 (本総会終結時) —

所有する当社株式の数 0株

取締役会出席回数 —

“Mr. Makio Tanehashi has a wealth of experience and a rich track record as a corporate manager as well as extensive insight for real estate business, finance and compliance. For the achievement of the Medium-Term Management Plan (2023 to 2026), Mr. Tanehashi is expected to offer pertinent opinions and advice regarding the important issues of creation of multilayered structure to gain profit and improvement of asset efficiency in the real estate business based on his abundant management experience in finance and real estate, and from his objective and professional standpoint. (omitted)”

Sapporo Holdings' Notice of Convocation of 99th AGM

## Nomination of New Director Shows Lack of Awareness of Problems Facing Core Businesses

# Weak Board Oversight Raises Questions about Board's Qualifications

## 1 The Board lacks the critical expertise/experience to address Sapporo's underperformance

- No knowledge of the liquor industry
- No experience in improving margins in consumer-oriented manufacturing
- No experience in branded consumer goods

## 2 Appointment of new director underscores lack of awareness of problems facing core businesses

- Board missed the opportunity to add a director who has experience in alcoholic beverages and/or consumer products
- New director has some experience in real estate, highlighting the shift of focus away from original core businesses

## 3 Newly appointed director may have conflicts of interest and lack independence

- Mr. Tanehashi has longstanding connections to Mizuho bank, Sapporo's main lender. This raises questions about his independence and possible conflicts of interest
- Tokyo Tatemono, where Mr. Tanehashi is Chairman, has cross-shareholdings with Sapporo

## 4 3D's interactions with the Board over the last year indicate that the directors are not providing appropriate oversight of management

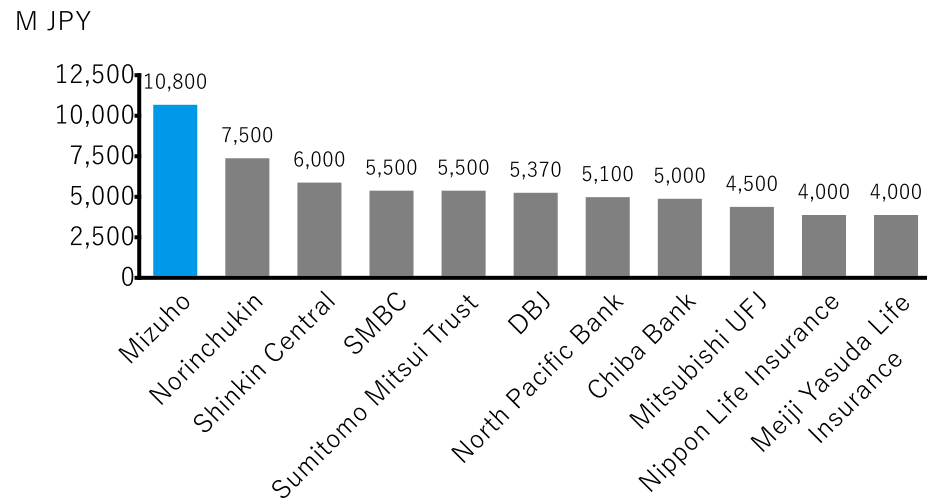
- Directors have displayed a disinterest in hearing the opinions of shareholders
- Outside directors are failing to oversee the evaluation of business plans and voice the opinion of shareholders
- Despite numerous requests, the Board refused to seek shareholder input before creating and publishing the new medium-term plan



# 3 Newly Appointed Outside Director Tanehashi's Deep Relationship with Sapporo Holdings' Main Bank Mizuho Bank (1/2)

## Sapporo Holdings' Main Bank is Mizuho Bank

### Loan balance (December 2022)



### Shareholder composition

- Mizuho Bank and Mizuho Trust & Banking own in total about 7.8% of Sapporo Holdings' outstanding shares
  - Mizuho Bank: 3.43%
  - Mizuho Trust & Banking: 4.32%
- Other Mizuho Financial Group companies own 2.54%

## Mr. Tanehashi Worked at Mizuho Bank for Over 30 Years, Including as Deputy President



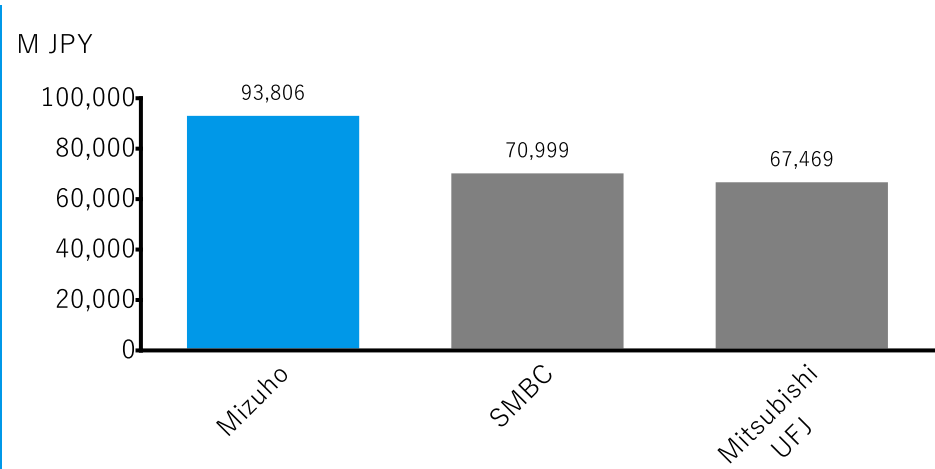
# 3 Newly Appointed Outside Director Tanehashi's Deep Relationship with Sapporo Holdings' Main Bank Mizuho Bank (2/2)

## Mr. Tanehashi Also Presently Serves as Representative Director & Chairman of Tokyo Tatemono



## Tokyo Tatemono's Main Bank is Also Mizuho Bank

Loan balance (December 2022)



## Composition of Board of Directors

- Three of 12 directors hail from Mizuho Bank (Messrs. Tanehashi, Tajima and Nakano)
- Messrs. Tanehashi and Tajima are inside directors; Messrs. Nakano is an outside directors

Source: Sapporo Holdings' Notice of Convocation of 99<sup>th</sup> Ordinary General Meeting of Shareholders; Tokyo Tatemono's Notice of Convocation of 205<sup>th</sup> Ordinary General Meeting of Shareholders; Tokyo Tatemono's securities filings

# 3 Tokyo Tatemono, Where Mr. Tanehashi Serves as Chairman, and Sapporo Holdings Have Cross-Shareholdings

## Sapporo Holdings' Specific Investment Securities (FY21 Securities Filing)

Company name	Current fiscal year	Previous fiscal year	Purpose of holding, quantitative effect of holding and reasons for increase in shares	Whether or not holding Sapporo share
	# of shares	# of shares		
	Balance Sheet amount (million)	Balance Sheet amount (million)		
丸大食品株	180,000	180,000	取引関係の維持・強化並びに営業協力関係の構築・推進のため	有
	274	305		
ダイダン株	106,500	181,500	取引関係の維持・強化並びに営業協力関係の構築・推進のため	有
	245	540		
Tokyo Tatemono Co., Ltd.	115,878	115,878	To maintain and strengthen business relationships and to build and promote cooperative business relationships	Yes
	195	164		
欄北洋銀行	683,000	683,000	取引関係の維持・強化並びに営業協力関係の構築・推進のため	有
	171	149		
日本山村硝子株	188,800	188,800	取引関係の維持・強化並びに営業協力関係の構築・推進のため	有
	147	162		
信金中央金庫	592	592	取引関係の維持・強化並びに営業協力関係の構築・推進のため	有
	144	141		
鹿島建設株	105,000	105,000	取引関係の維持・強化並びに営業協力関係の構築・推進のため	有
	139	145		

## Tokyo Tatemono's Specific Investment Securities (FY22 Securities Filing)

Company name	Current FY	Previous FY	Purpose of holding, quantitative effect of holding and reasons for increase in shares	Whether or not holding Tokyo Tatemono share
	# of shares	# of shares		
	Balance Sheet amount (million)	Balance Sheet amount (million)		
日油株	72,187	72,187	当社グループ全体の事業に係る良好な関係を維持・強化して企業価値向上に資するため。	有
	419	377		
アズビル株	80,000	80,000	ビル事業における建設・設備取引等を維持・強化して企業価値向上に資するため。	有
	419	451		
株ニッピ	100,000	100,000	当社グループ全体の事業に係る良好な関係を維持・強化して企業価値向上に資するため。	有
	370	382		
日本信号株	375,000	375,000	アセットサービス事業における建設・設備取引等を維持・強化して企業価値向上に資するため。	有
	343	352		
松井建設株	363,000	363,000	ビル事業における建設・設備取引等を維持・強化して企業価値向上に資するため。	有
	280	269		
株浅沼組	50,000	50,000	住宅事業における建設・設備取引等を維持・強化して企業価値向上に資するため。	有
	275	199		
西松建設株	74,200	472,967	アセットサービス事業における不動産取引等を維持・強化して企業価値向上に資するため。	無
	270	999		
Sapporo Holdings Ltd.	111,980	111,980	Tokyo Tatemono's group companies are tenants of buildings owned by Sapporo group company, To maintain and strengthen real estate transactions business to enhance corporate value.	Yes
	244	222		

# 3 Potential Risk of Conflicts of Interest with Minority Shareholders by Outside Director with Ties to Main Bank and Other Company with Cross-Shareholdings

## Risk of Conflicts of Interest Between Ordinary Shareholders and Main Bank

- Risk of conflicts of interest arising from different risk tolerances of banks and ordinary shareholders

*“Banks tend to require that companies have business structures able to steadily generate annual profits. This is likely to misalign with the interests of ordinary shareholders.”*

Investor Forum: Opinions on cross-shareholdings

*“As creditors, holders of corporate bonds or other forms of debt, have an intrinsic preference for financial prudence and a company’s ability to not only repay its credit obligations on a timely basis, but also to maintain a stable and predictable credit risk profile. ...hence the creditor’s tendency for risk aversion. ... Shareholders, on the other hand, have a focus on upside capital appreciation and total shareholder return, and tend to have a greater risk appetite for companies to generate desired returns on equity.”*

Harvard Law School Forum on Corporate Governance

*“In the agency relationship between creditors and shareholders, the asset substitution problem can be a concern. While shareholders are entitled to residual claims on profits only after debt repayment, they are protected by limited liability, which ensures that they cannot lose more than their investment. As a result, shareholders have an incentive to select relatively risky projects with greater volatility in returns, rather than projects with high repayment likelihoods that creditors desire (i.e., risk-shifting or asset substitution). Due to inefficiencies arising from the use of debt, this is referred to as the agency cost of debt.”*

Mizuho Securities’ website

## Risk of Conflicts of Interest Between Ordinary Shareholders and Owner of Cross-Shareholdings

- Risk of conflicts of interest with ordinary shareholders if owner of cross-shareholdings hampers activities to pursue value at a company

*“In economics, investors are concerned about the problem of corporate cross-shareholding, which can hinder the pursuit of value by companies. For example, cross-shareholding has been undertaken for the purpose of strengthening relationships between companies, as a way of keeping order in an industry. The identification of partners and shareholdings represent the power relationships between companies, and reduces the likelihood of pursuing the best opportunities for business transactions on an individual company basis.”*

*“Setting aside the theoretical benefits, which are difficult to evaluate, it is important to understand that actual cross-shareholdings pose a conflict of interest with ordinary shareholders.”*

*“If a company is receiving special benefits by owning shares of its partners, then the ‘partner’ might be providing excessive benefits to the ‘owner’.”*

*“For the description of an independent outside director, it can be contradictory to say that there are insignificant business transactions with the company to which the director belongs, while also explaining a company’s cross-shareholdings as important to maintain that business relationship.”*

Investor Forum: Opinions on cross-shareholdings

# Weak Board Oversight Raises Questions about Board's Qualifications

## 1 The Board lacks the critical expertise/experience to address Sapporo's underperformance

- No knowledge of the liquor industry
- No experience in improving margins in consumer-oriented manufacturing
- No experience in branded consumer goods

## 2 Appointment of new director underscores lack of awareness of problems facing core businesses

- Board missed the opportunity to add a director who has experience in alcoholic beverages and/or consumer products
- New director has some experience in real estate, highlighting the shift of focus away from original core businesses

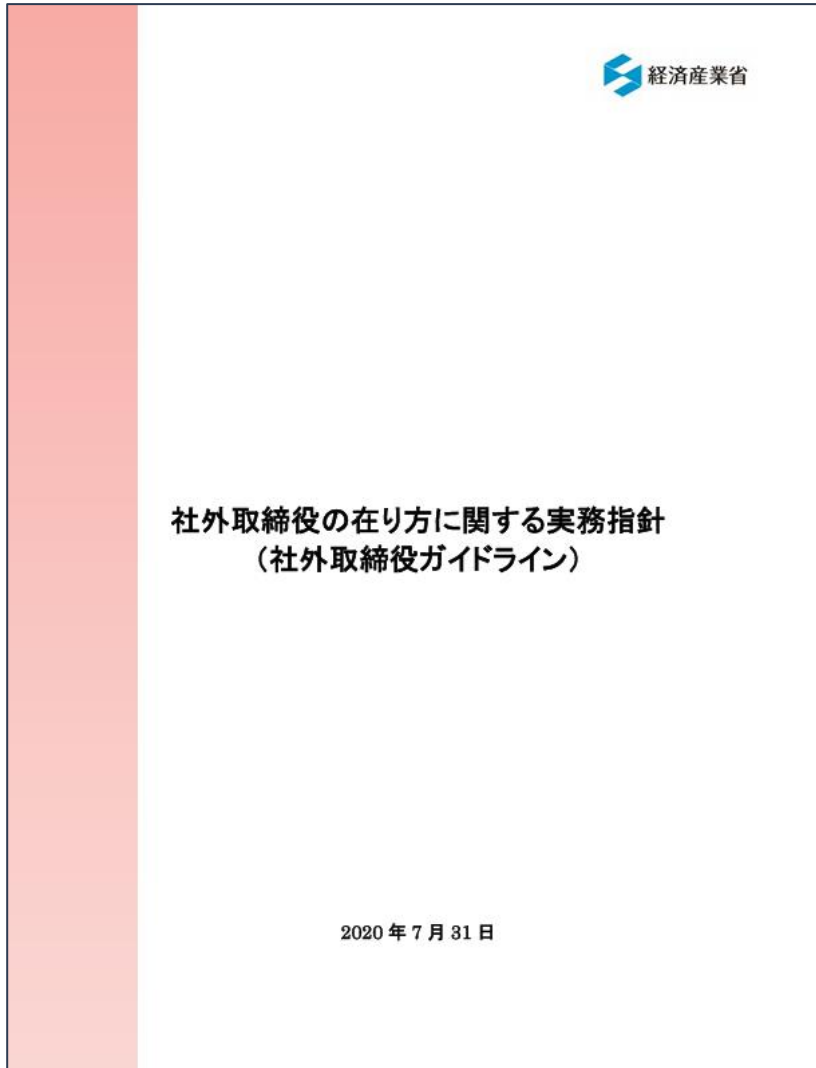
## 3 Newly appointed director may have conflicts of interest and lack independence

- Mr. Tanehashi has longstanding connections to Mizuho bank, Sapporo's main lender. This raises questions about his independence and possible conflicts of interest
- Tokyo Tatemono, where Mr. Tanehashi is Chairman, has cross-shareholdings with Sapporo

## 4 3D's interactions with the Board over the last year indicate that the directors are not providing appropriate oversight of management

- Directors have displayed a disinterest in hearing the opinions of shareholders
- Outside directors are failing to oversee the evaluation of business plans and voice the opinion of shareholders
- Despite numerous requests, the Board refused to seek shareholder input before creating and publishing the new medium-term plan

## 4 Role of an Outside Director is to Scrutinize Business Plans and Voice the Opinions of Minority Shareholders



*“An outside director is expected to play an important role in the oversight functions of the Board of Directors. They are expected to independently and objectively supervise the company's management from the perspective of representing the common interests of all shareholders, including minority shareholders, and to fulfill the role of monitoring conflicts of interest between management or controlling shareholders and minority shareholders.”*

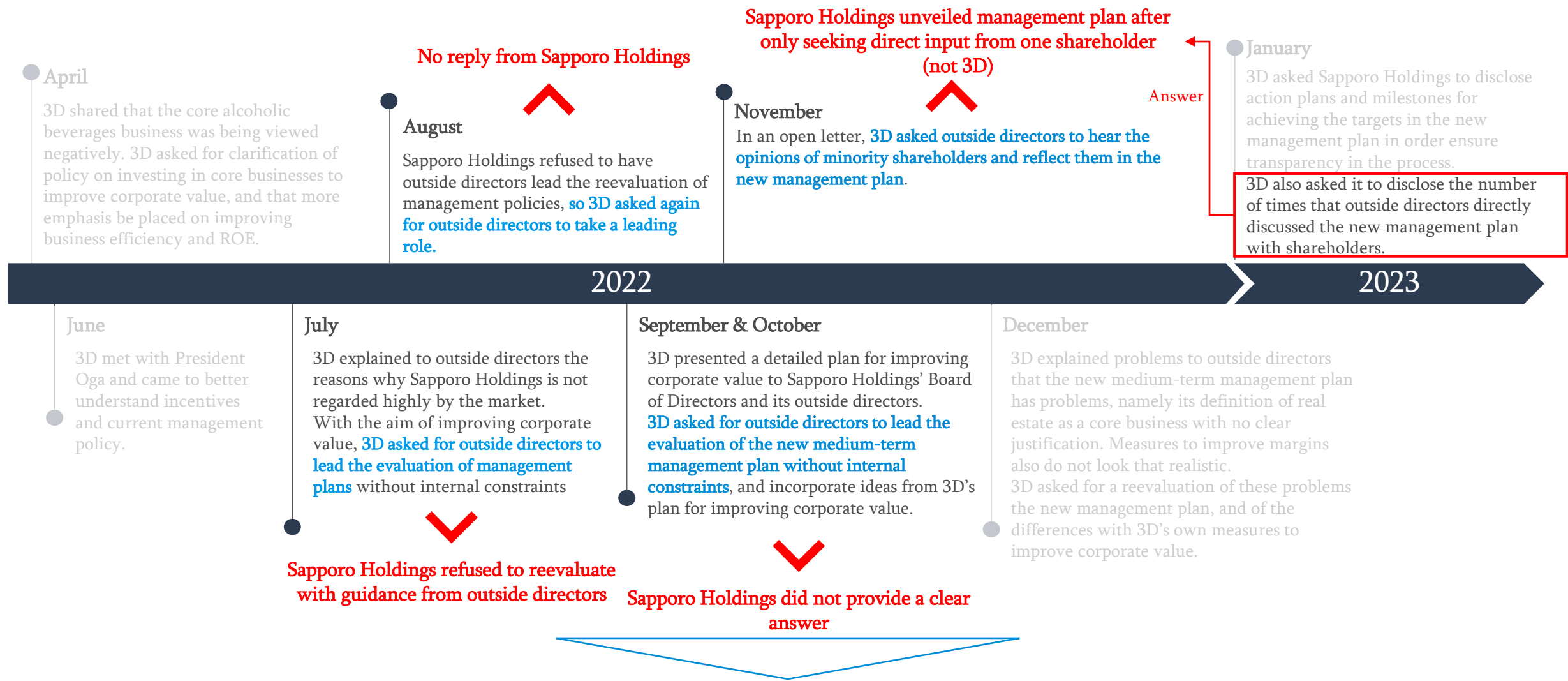
*“The fundamental role of an outside director is to supervise management from the perspective of ensuring sustainable growth and improving medium- to long-term corporate value, as a commitment to shareholders.”*

*“Regarding vital matters such as deciding medium-term management plans, it is important for outside directors to proactively request repeated discussion from the conceptual stage and throughout the intermediate stages where the executive side has not yet finalized the plan.”*

# 4 3D Asked Sapporo Holdings to Seek Out the Opinions of Minority Shareholders and Have Outside Directors Be More Proactive in Supervising Management Plans Due to Their Lack of Participation in the Past



# 4 However, New Medium-term Management Plan Was Approved Without Requested Input from Outside Directors



Questionable whether outside directors are able to provide proper oversight functions for business execution



## Conclusion

## Poor Management at Sapporo Holdings

- Sapporo's share price has dramatically underperformed peers since 2006
- Weak share price is due to margins and asset turnover that are far below peers; these failures lead to the worst ROE and ROA in the industry
- Management has neglected the alcoholic beverages business and has instead emphasized the real estate business and complacently relied on the real estate business for profit
- Sapporo has failed to achieve targets set in medium-term plans since 2006
- **To improve corporate value, Sapporo needs to reevaluate whether it should keep both the real estate business and the alcoholic beverages business under the same holding company**

## Inadequate New Medium-Term Plan

- Real estate is defined as a core business and a growth/investment priority for management, although i) the company has a limited track record and no competitive advantage in real estate investing, ii) there are no synergies between the real estate business and the alcoholic beverages business and iii) previous growth investments have been unsuccessful
- Increasing investment in new real estate projects in the current environment risks destroying corporate value
- The margin targets set for the alcoholic beverages and food and soft drink businesses in the medium-term plan are far below those currently being achieved by peers in those businesses
- The new plan lacks clear milestones and specific action plans; this has led the investment community to doubt the executability of the plan and the achievement of its modest goals
- **The plan needs to be reexamined to see if it is the best way to increase corporate value**

## Weak Board Oversight and Qualifications

- The outside directors lack critical experience/expertise in consumer product branding/manufacturing, margin improvement, alcoholic beverages
- The latest additional outside director shows that the Board is going in the wrong direction; Mr. Taneshashi has a partial real estate background and given his history with Sapporo's main lender, has potential conflicts of interest and a lack of independence
- The Board has been unresponsive to 3D's requests and recommendations over the last year
- **Based on communications with Board members, it is clear that the Board is not providing adequate oversight of Sapporo's strategy or execution of that strategy**

## Appendix 1: Doubts about Real Estate Becoming a Core Business

# Defining Real Estate as Core Business Requires Returns Well Above Cost of Capital, or Competitive Advantages in Sector

- A core business is one where a company can maximize its competitive advantages and is the best owner

*For one's own group, it is essential to strategically execute M&A to reinforce core businesses and streamline non-core businesses. The basic principle is to identify where competitive advantage lies in supporting sustainable growth, and focus management resources on the businesses ('core businesses') where we can become the 'best owner'*

Group Guidelines 3.2

*"Best owner" refers to **an entity that is likely to maximize the corporate value of a given business in the medium to long term**. Specifically, it refers to a company that is expected to have a higher likelihood than other companies (omitted) to build a competitive advantage and realize the growth strategy of that business by leveraging its organizational capabilities and financial strength"*

Practical Guidelines for Business Transformations 1.3.4

- For a business to be recognized as a core business, it must have a relatively high potential for growth due to reasons such as having a competitive advantage, or it must be able generate a return that significantly exceeds the cost of capital. Businesses that do not meet these criteria should be considered for streamlining as non-core businesses.

*"The term '**non-core business**' refers to a **business domain within a corporate group that**, while not necessarily having low profitability or growth potential, **has relatively low potential for growth** because of difficulty allocating sufficient resources from within the corporate group **for reasons that may include the group not having much competitive advantages in this field**. Alternatively, **the business domain is unlikely to generate a return that sufficiently exceeds the cost of capital**. As an optimal growth strategy, such businesses should be viewed as candidates for spin-offs or sale to another company's core business ('best owner')"*

Group Guidelines 3.2

# (Reference) Returns Need to Exceed Cost of Capital (ROIC) for Corporate Value to be Created

- Capital procured by companies incurs a cost of capital = a return on the investment in the company expected by the provider of the capital
- Corporate value is created when companies use the capital they procure and consistently generate returns in excess of the cost of capital
- Accordingly, the wellspring of corporate value is “ROIC – cost of capital,” and it is important to maximize this when companies develop and execute management plans
  - “In other words, corporate value increases when investments are made that create value (ROIC > WACC), and corporate value decreases when investments are made that destroy value (ROIC < WACC), even if there is growth.”<sup>1</sup>
- When the Board of Directors plans and executes a business strategy, **it is important to understand and be aware of the company’s cost of capital, as pointed out in the Corporate Governance Code.**
  - “When formulating and disclosing business strategies and management plans, companies should disclose their basic capital policies and earnings targets based on a precise understanding of its cost of capital. Companies should also disclose targets related to earnings capabilities and capital efficiency. Companies should clearly explain to shareholders, using easy-to-understand language and ideas, how they specifically intend to achieve these targets, such as through changes in business portfolios, and the allocation of management resources in capital investment, R&D and human capital.”<sup>2</sup>

Corporate value is created<sup>3</sup> when profit on invested capital (=ROIC) exceeds the return expected by the provider of the capital (= cost of capital) for the first time

+ ) Return on invested capital:  $IC * ROIC$   
 - ) Procurement cost:  $IC * \text{cost of capital}$   
**= Excess returns:  $IC * (ROIC - \text{cost of capital})$**

<b>Investment side</b>		<b>Procurement side</b>	
Invested capital IC		Interest-bearing debt D	Equity E

n years later

Excess returns in year n	Excess returns discounted for current value	Current value of excess returns	Increase in corporate value
...			
Excess returns in year one			
Invested capital IC	Interest-bearing debt D	Invested capital IC	Interest-bearing debt D
	Equity E		Equity E

$$C = E + D + \frac{IC * (ROIC - \text{cost of capital})}{1 + \text{cost of capital}} + \frac{IC * (ROIC - \text{cost of capital})}{(1 + \text{cost of capital})^2} + \dots + \frac{IC * (ROIC - \text{cost of capital})}{(1 + \text{cost of capital})^n}$$

$$r = IC + \frac{IC * (ROIC - \text{cost of capital})}{1 + \text{cost of capital}} \left( 1 + \frac{1}{1 + \text{cost of capital}} + \dots + \frac{1}{(1 + \text{cost of capital})^{n-1}} \right)$$

$$a = IC + \frac{IC * (ROIC - \text{cost of capital})}{1 + \text{cost of capital}} * \frac{1}{1 - \frac{1}{1 + \text{cost of capital}}}$$

$$v = IC + \frac{IC * (ROIC - \text{cost of capital})}{1 + \text{cost of capital}} * \frac{1 + \text{cost of capital}}{\text{cost of capital}}$$

$$u = IC + \frac{IC * (ROIC - \text{cost of capital})}{\text{cost of capital}}$$

➔ ROIC > cost of capital: Creation of corporate value  
➔ ROIC < cost of capital: Destruction of corporate value

Note: 1 Written Opinion of Third Business Restructuring Study Group sponsored by Ministry of Economy, Trade and Industry; 2 Corporate Governance Code Principle 5-2; 3 Calculation of corporate value assumes constant values for invested capital and ROIC (all profit allocated to dividends, 0% growth)

# However, Sapporo Holdings Unable to Explain Reasons for Real Estate Being a Core Business in Terms of Cost of Capital and Competitive Advantages

Unable to clearly explain cost of capital and competitive advantages, essential factors for defining real estate as a core business

## Cost of Capital

- Only “Returns exceed cost of capital” written. No specific estimate (xx%) of cost of capital, and no comment that ROIC in real estate business exceeds cost of capital.

中期経営計画（2023～26）基本方針

SAPPORO

<基本方針>  
Beyond150 ～事業構造を転換し新たな成長へ～

■ 事業戦略

- 事業ポートフォリオの整理
- 海外事業の成長
- コア事業における収益力強化

■ 財務戦略

- 持続的成長と資本効率を重視
- 資本コストを上回るリターン
- キャッシュ創出力の強化
- 成長を支えるキャッシュアロケーション

■ サステナビリティ

- 脱炭素社会の実現
- 地域との共栄
- 多様な人財の活躍

【 経営基盤（人財・DX・R&D）】

2023年～2026年

2026年 創業150周年

サッポログループが提供する価値

全ての事業が提供する時間と空間で、人々と地域社会のWell-beingに貢献

経営理念

潤いを創造し豊かさに貢献する

Copyright, 2022 SAPPORO HOLDINGS LTD. All rights reserved. 13

## Competitive Advantages

- Only a very abstract explanation of competitive advantages, and no description of actual competitiveness in real estate market

強化・成長

SAPPORO

コア事業における収益力強化（不動産②）

サッポロ、エビスというまちの名を冠する歴史あるブランドと資産のオーナーとしての強みを活かし、自治体やパートナーとの共創による一体となつたまちづくりを進め、価値向上を図る。

～ビールと人とともにまちづくりを～ 恵比寿、札幌

恵比寿1丁目～4丁目 昼間人口推移 ※

年	昼間人口 (人)
1990年	10,000
1995年	15,000
2000年	20,000
2005年	22,000
2010年	23,000
2015年	24,000

YEBISU BEER HOLIDAY 22年9月開催

恵比寿の街全体でブランド体験を設定

YGP開業により昼間人口は上昇、恵比寿の存在感・価値向上に寄与

ブランドの起点であるサッポロガーデンパークを再開発し、集客、ブランド発信力強化へ

当社と地域のつながり

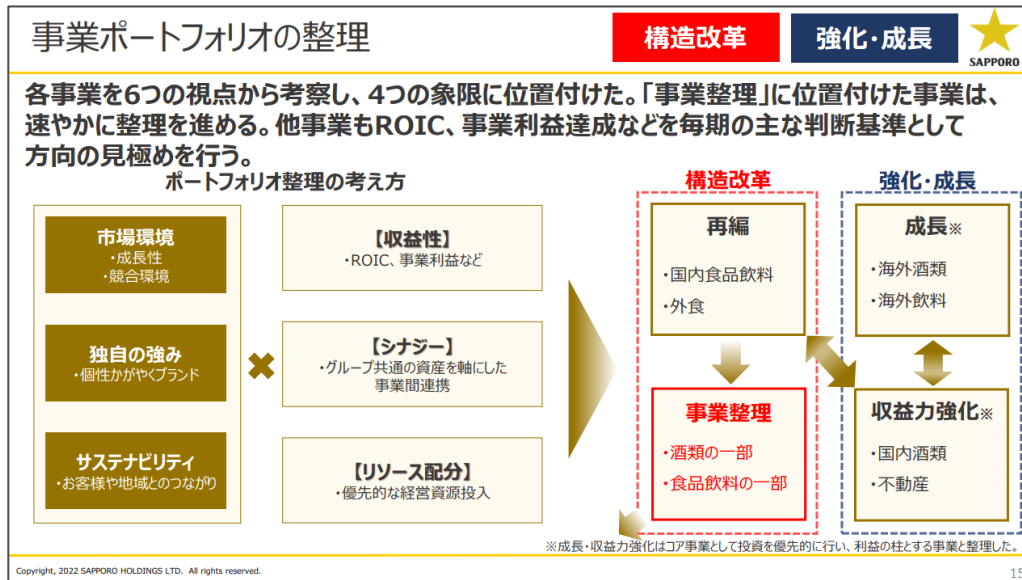
年	出来事
1876年	開拓使麦酒醸造所を札幌に開業 (現サッポロファクトリー)
1889年	エビスビール醸造場完成 (現恵比寿ガーデンプレイス)
1899年	恵比寿ビヤホールを銀座に開業
1928年	周辺地名が「恵比寿」に
1994年	恵比寿ガーデンプレイス開業
2022年	恵比寿ガーデンプレイス商業棟リニューアル
	サッポロガーデンパークリニューアル (予定)

Copyright, 2022 SAPPORO HOLDINGS LTD. All rights reserved. ※出典：東京都総務局統計部「国勢調査による東京都の昼間人口（従業員・通学地による人口）」 24

# No Explanation of Reasons for Defining Real Estate as a Core Business from Other Perspectives

## Explanation in Medium-term Management Plan (2023-2026)

- Only approach to portfolio management and outcomes are discussed, **no explanation of why each business is positioned in each domain**



## Management Team's Explanation

- Like the management plan, the company only talked about its approach to portfolio management and outcomes, and **did not offer any explanation of why real estate was defined as a core business**

*“To explain again why real estate is a core business, our definition of ‘core’ is **a business that contributes to earnings and corporate value**, [omitted] and since Sapporo is a brand company, it is also **a business that contributes to brand value**. It is on this basis that **we position real estate as a core business.**”*

Director Shofu at 2022 results briefing

*“Each business in the Sapporo Group is **positioned in one of four quadrants, based on market environment, unique strengths, sustainability, profitability, synergies and resource allocation.** ‘Divestment’ in the lower left quadrant contains portions of alcoholic beverages and portions of food & soft drinks businesses. We will quickly divest these. ‘Restructuring’ in the upper left quadrant contains Domestic Food & Soft Drinks and Restaurants. ‘Growth’ in the upper right quadrant has Overseas Alcoholic Beverages and Overseas Beverages. **‘Strengthen profitability’ in the lower right has Domestic Alcoholic Beverages and Real Estate.**”*

Director Shofu at briefing for new medium-term management plan

## If Real Estate Remained a Non-Core Business, It Would Still Need to Generate Synergies with Core Businesses

- Non-core businesses can be detrimental to corporate value, and should be rapidly divested in principle

*“Continuing to hold onto **non-core businesses like this, even though they incur a cost to maintain and do not contribute to growth, can be difficult to sell if opportunities are missed and they turn unprofitable.** It is therefore important to move quickly to make decisions that will leverage the potential of the business, while finding a way to secure growth funds and concentrating resources on departments that can leverage advantages for the company.”*

Group Guidelines 3.2

*“If it becomes **structurally impossible in a certain business to maintain and grow profits in excess of the cost of capital,** then that means the business has become unsustainable as a part of the company. Even if its income statement shows a profit, **it is better to decide to divest the business** before it deteriorates if the return on capital (i.e., ROIC) is lower than the cost of capital (hurdle rate) and recovery seems unlikely (or if it is unlikely to sustain an advantage over the hurdle rate).”*

Practical Guidelines for Business Transformations 2.1.3

- If real estate business continues to be managed alongside the core alcoholic beverages business, the Board of Directors has a responsibility to explain to investors how synergies will be generated in excess of the cost of maintaining the business

*“For companies with **multiple businesses, the Board of Directors should discuss and fulfill its responsibility to explain to investors, from a comparative perspective, how these businesses fit in a single business model, and whether the benefits of having these businesses, such as creating synergies, outweigh the costs associated with having multiple businesses, such as increased management complexity and associated management costs, and the dilution to management’s focus.**”*

Practical Guidelines for Business Transformations 2.1.2



# No Convincing Explanation on Synergies Between Core Businesses and Real Estate Business

## Explanation in FY22 Results Briefing Materials

- The company explained that one synergy between the real estate business and core businesses is when customers experience the Yebisu Garden Place, which leads them to Yebisu Beer.
- However, the company did not explain the need to have the real estate business, or its impact on earnings. In the Q&A session, an analyst asked management to quantify these synergies and explain why the company has a real estate business.

### Question from analyst

“Synergies between the real estate and domestic alcoholic beverages businesses are a major point of interest. **Speaking frankly, [omitted] today’s disclosures are mostly qualitative expressions, and I would like to see more numbers.** [omitted] Without the land, it seems that as long as the Yebisu Garden Place exists, it will help boost the brand and enhance the drinking experience. **I would appreciate it if you could give an explanation as to why Sapporo Holdings must own land, management’s reasoning for this, and more details about synergies.**”

Nomura analyst question at 2022 results briefing

Reply

“I think **one big portion of this is how synergies contribute as a core business. Fixating over numbers from synergies between alcoholic beverages and real estate might risk losing sight of the big picture, but we will consider disclosing more data in the future.** For the time being, we explained our view of the big picture.”

Director Shofu at 2022 results briefing

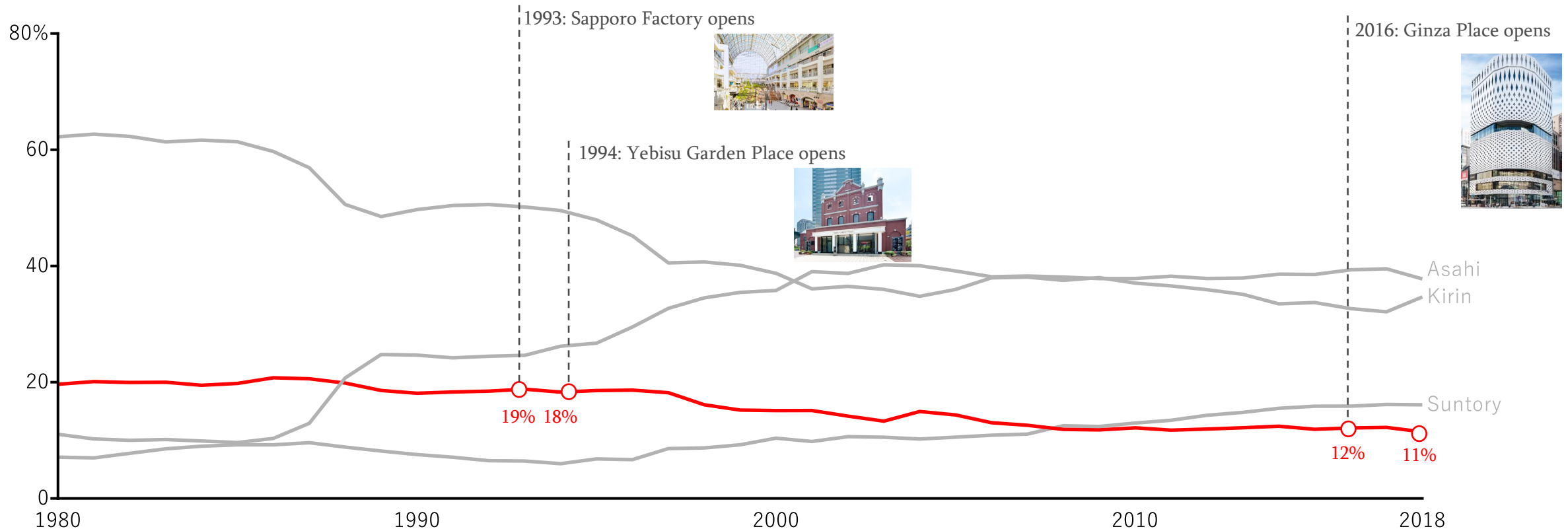
“Being a local company that owns land is an essential part of our brand story, in my opinion. I think this is a very important point from the perspective of a beer brewery. **It is difficult to express this value as a number** [omitted], but without land, our brand story would be harder to convey. This is how I understand it.”

Operating Officer Nose at 2022 results briefing

# Real Estate Business Has Objectively Not Created Synergies that Boost Market Competitiveness of Core Businesses

## Sapporo Holdings' Share of Beer Market Continued to Decline After Opening of Landmark Real Estate Properties

Market share<sup>1</sup>



Source: Materials disclosed by each company; Company's own disclosures

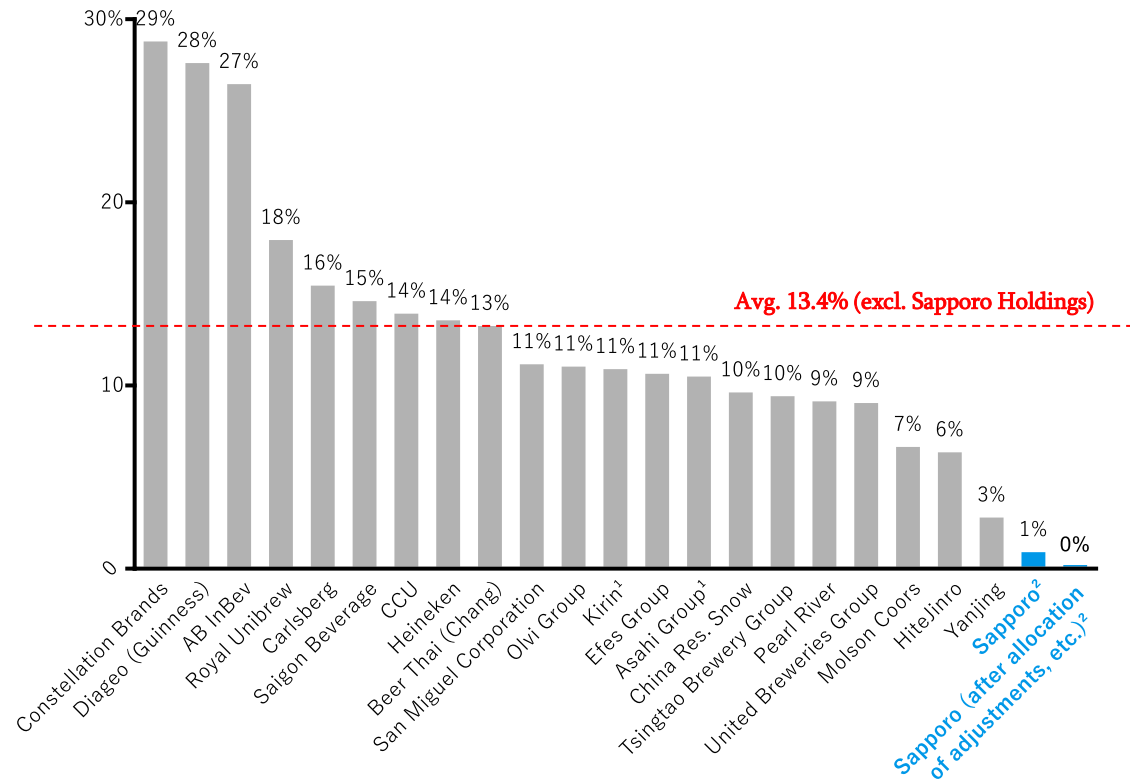
Note: [1] Calculated based on shipment volumes disclosed by each company, Asahi shows data through 2018 because it stopped disclosing volume in 2018

# No Evidence of Synergies that Would Boost Cost Competitiveness of Core Businesses

## Low Operating Margin in Alcoholic Beverages vs. Global Peers

Reproduced from p. 9

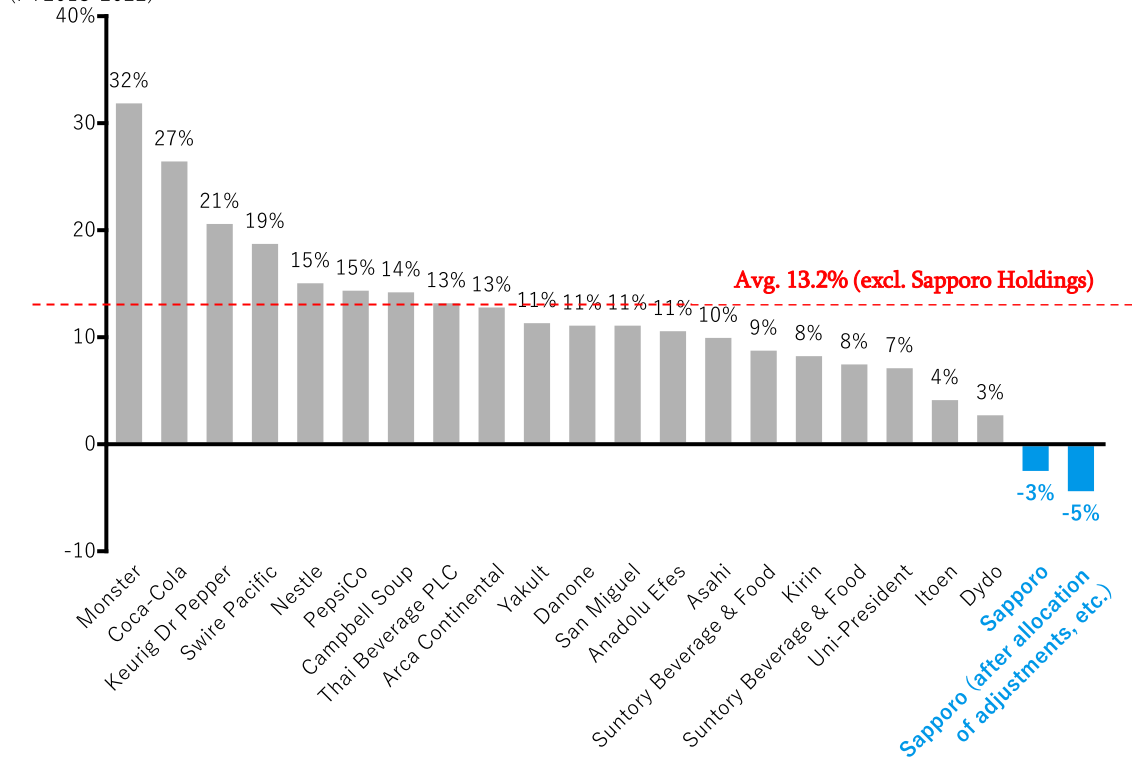
Average of the past 5 years Operating income ratio (FY2018-2022)



## Operating Margin in Food & Soft Drinks Lowest Among Global Peers

Reproduced from p. 9

Average of the past 5 years Operating income ratio (FY2018-2022)



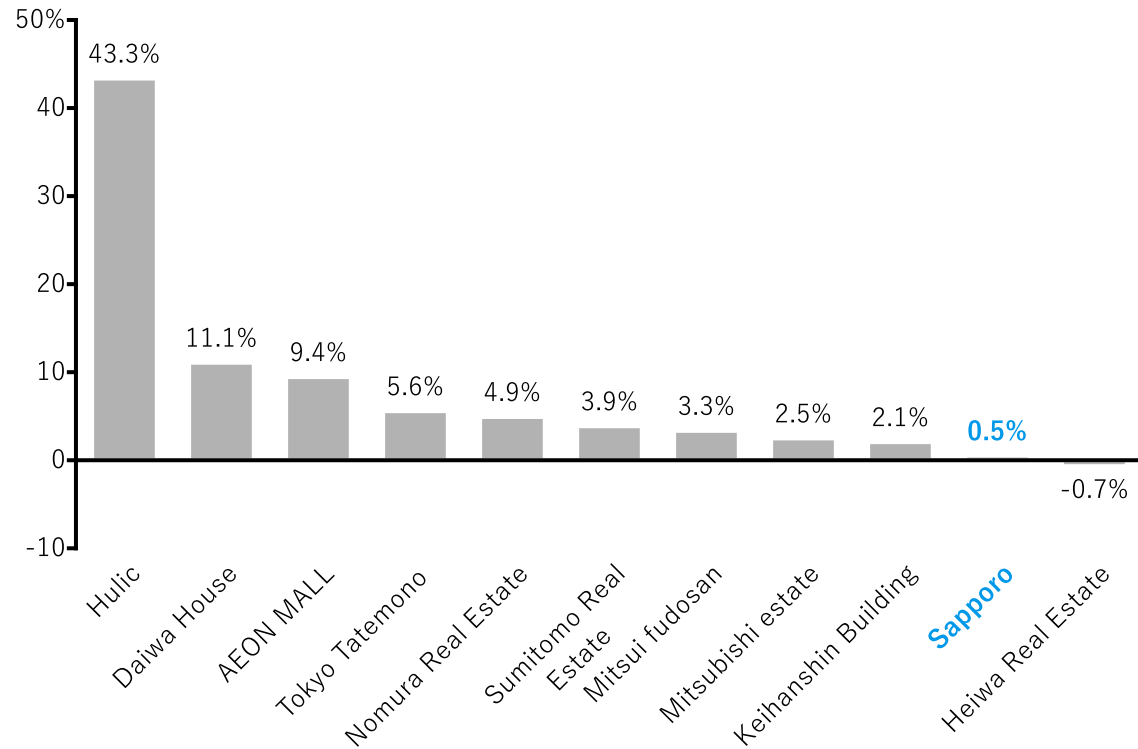
Source: Securities filings and annual reports of each company

Note: Covers Suntory and 22 companies listed on stock exchanges out of top 40 global beer breweries in terms of production volume (2020); Food and beverage competition includes major domestic beverage manufacturers and overseas companies that fall under SPEEDA's 'soft drinks manufacturers' with sales of more than 30bn, excluding food-focused companies; see p59 for detailed notes on the food and beverages business; [1] Kirin covers domestic beer spirits and integrated beverages segment from FY18/12-FY20/12 and domestic beer spirits and Oceania alcoholic beverages segment from FY21/12 onwards. Asahi covers alcoholic beverages and international segment until FY21/12, and alcoholic beverages in Japan, Europe, Oceania, and South East Asia segments in FY22/12. [2] Sapporo covers domestic alcoholic beverages, international, and restaurant segments in 2018/12 and alcoholic beverages segment in 2019/12 onwards. Adjusted figures are calculated proportionally to each segment on a sales basis.

# No Evidence of Synergies with Real Estate Business from Core Businesses

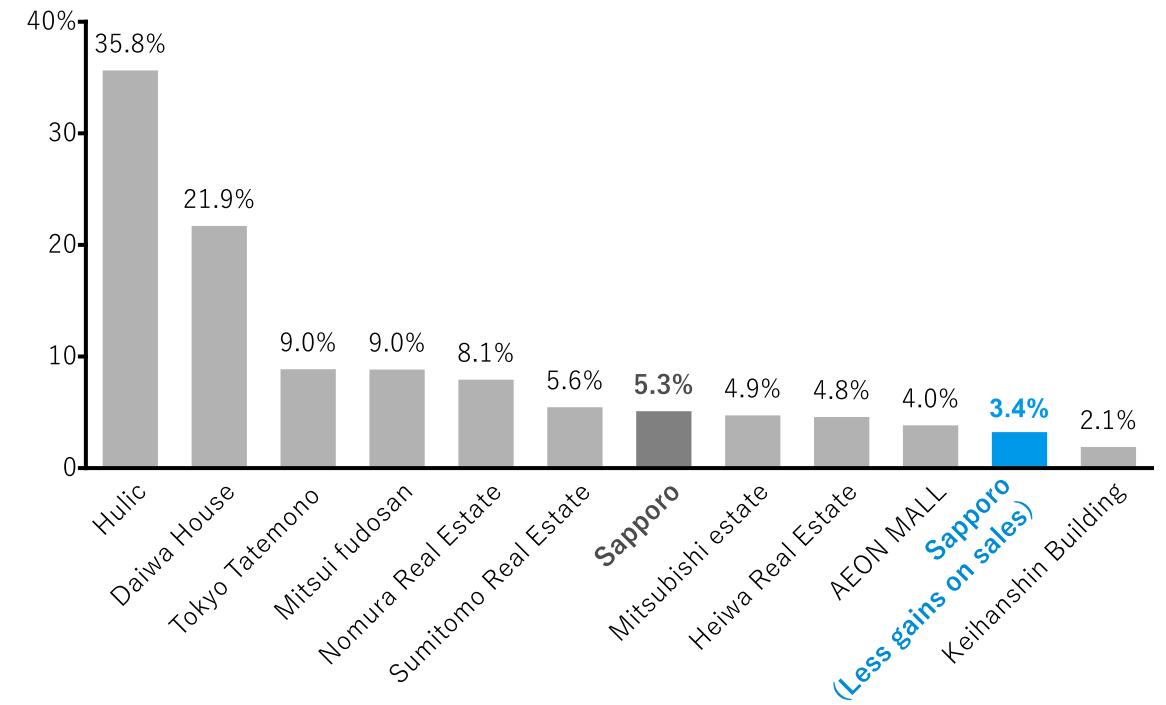
## Slowest Pace of Sales Growth in Real Estate Business in Sector

Sales CAGR in FY2010-2019<sup>1</sup>.



## Weakest Operating Profit Growth in Sector<sup>2</sup>

Operating Profit CAGR in FY2010-2019<sup>1</sup>.

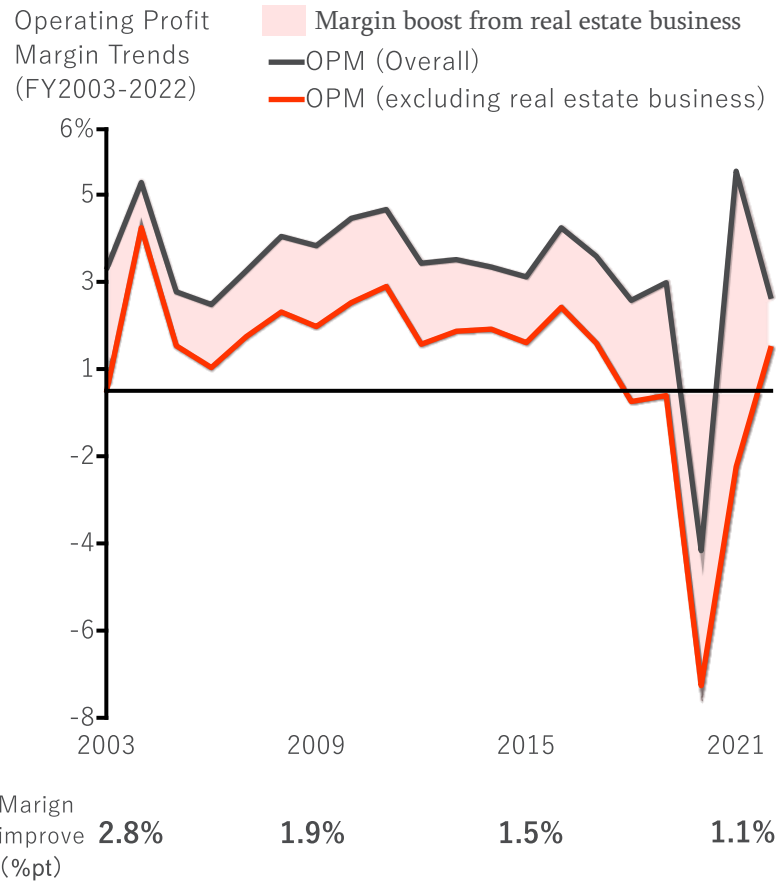


Source: Bloomberg

Note: Comparisons to other real estate companies which have largest sales ratios in their real estate-related segments, among listed companies belonging to the integrated developer and office/retail facility development and leasing categories on Speeda. [1] FY10-19 used to exclude impact from COVID-19 pandemic. [2] Sapporo Holdings' real estate business does not routinely sell properties, so we decided to refer to operating profits adjusted for gains on property sales to shed light on underlying value.

# In Contrast, Dis-synergies Exist Between Real Estate and Core Businesses (1/3): Real Estate Leasing Income Allows Management to Avoid Dealing with Low Profitability in Core Businesses

## Real Estate Hid Weak Profitability of Core Businesses



## Real Estate Led to Complacency and Management's Dependence

- Employees have come to realize Sapporo's strengths in real estate, not the alcoholic beverages business, and **see that management has become complacent with real estate leasing income**

Sapporo Holdings' strengths... (from employee discussion website)

*"Yebisu Garden Place and other properties in prime urban locations are generating income. The company's nickname is 'Sapporo buildings.' 'A laid-back approach to work is possible.'"*

*"Real estate assets are all that is left."*

*"Real estate companies in the group reliably generate income."*

- From the outside, **it can be pointed out that management depends on the stability of real estate.**

*"The time has passed for management to rebuild the beer business and founding businesses, which have sunk to the lowest margins among the four majors. Can Sapporo rebuild the beer business and its dependence on real estate? [omitted] Reliable income from real estate has led to the company's dependency on this income. Sapporo needs to reform the beer business with a sense of urgency."*

Nikkei (September 24, 2016)

*Sapporo Holdings' earnings structure has continued to depend on the real estate business, which generated JPY12.0 billion of the JPY10.8 billion in operating profit in 2018. Its FY19 management plan calls for restructuring, building a foundation and selective concentration of resources. Steel Partners withdrew, but the sweeping reforms to the earnings structure demanded by Steel Partners have not been enacted, even after a change in presidents. Third Point Management demanded that IHI spin off its real estate business. Like IHI, operating companies with large unrealized gains on real estate tend to lack margin discipline in their core businesses.*

Masatoshi Kikuchi's "Attack of the Activists: Influence of Investors Demanding Change"

# In Contrast, Dis-synergies Exist Between Real Estate and Core Businesses (2/3): Investments Needlessly Entangled Core Businesses to Real Estate Business, Might Reduce Investment Efficiency in Real Estate Business

## Sapporo Holdings Has Invested in Real Estate Using Marketing Brands in Core Businesses

Sapporo Holdings' News Release (September 12, 2022)

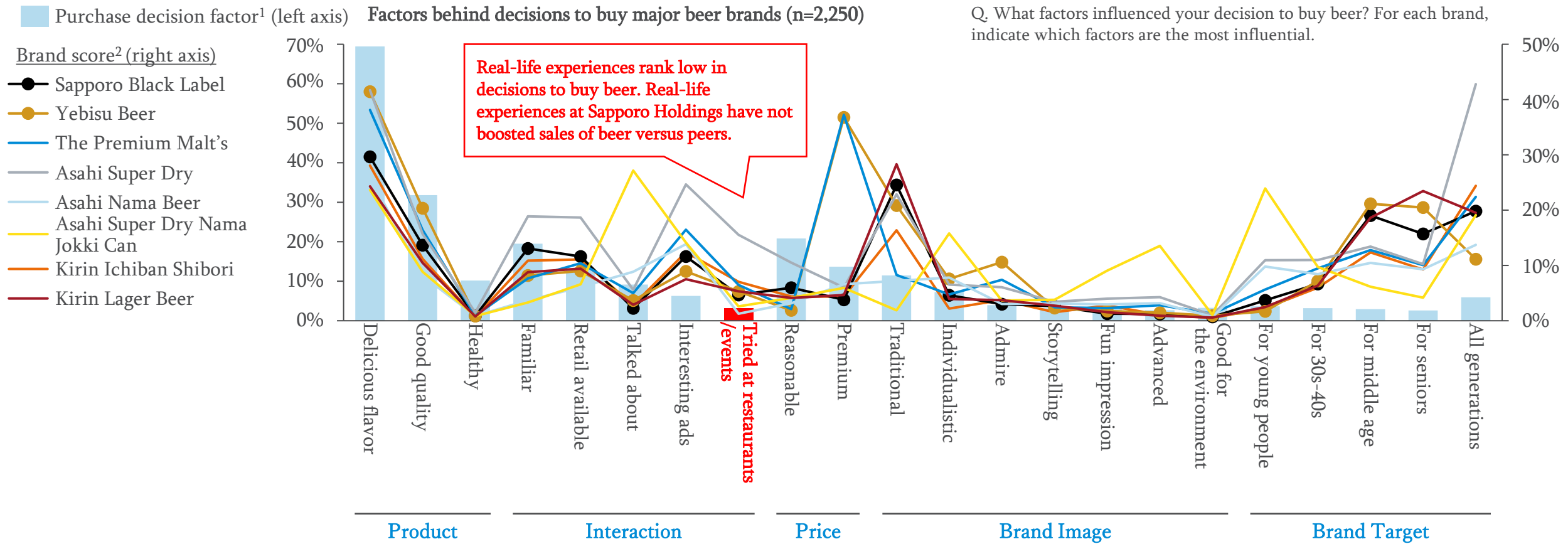


As a brand action, Sapporo Holdings has made investments with the **intention of using properties as venues for real experiences for customers.**

- Sapporo Holdings aims to open a new facility for creating real-life experiences for customers by investing JPY1.3 billion in **Yebisu Garden Place**.
  - Plans to open Yebisu Brewery Tokyo as a brand experience venue
  - Before this opening, the company is also renovating the Yebisu Beer Museum

# In Contrast, Dis-synergies Exist Between Real Estate and Core Businesses (3/3): Investments Needlessly Entangled Core Businesses to Real Estate Business, Might Reduce Investment Efficiency in Real Estate Business

## Doubts about Marketing Spend Efficiency Due to Real Estate



Source: Consumer Survey (July 2022; n=20,000)

Note: [1]Of people who consumed beer at least once a week (n=2,250), high ratio of people who answered each factor that influenced their decision. [2] Ratio of people who answered how each factor associates best with each brand

## Appendix 2: Growing Risks in Real Estate Investment



# In a Low Interest Rate Environment Amid Global Monetary Easing, Vast Sums Flowed Into Japan's Real Estate Market, Lowering Yields Expected by Investors

- Amid global monetary easing, investors' surplus funds have flowed into the Japanese real estate market.
- Capital flowing into Japanese real estate has reached a record-high level of JPY44 trillion on an asset basis** (Figure 1).
- In addition to capital inflows, yields expected by investors (cap rates), according to a survey conducted by Sumitomo Mitsui Trust Research Institute<sup>1</sup> of J-REIT purchases and sales of properties and beneficiary interests in real estate trusts, **yields** for Class A buildings in Tokyo (average for five central wards of Tokyo, five-minute walk to closest train station, 50,000 square meters of floor space, built within past five years, etc.) **have reached their lowest levels in 20 years, being unaffected by the COVID-19 pandemic while benefitting from the low interest rate environment** (Figure 2).

Figure (1) Real Estate Funds' Assets at Highest Levels<sup>2</sup>

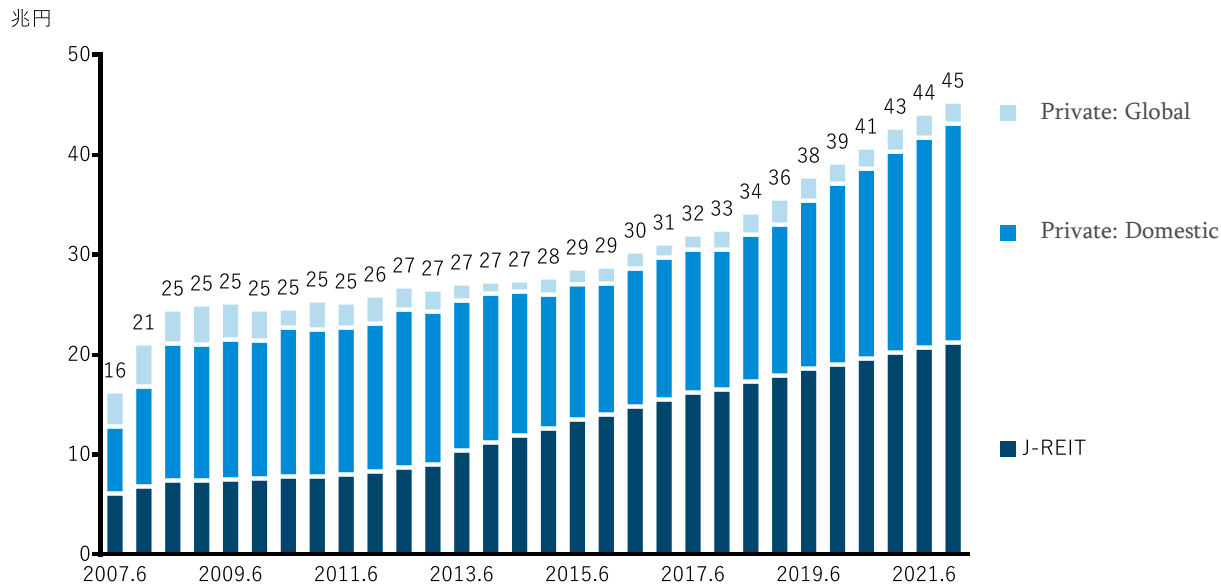
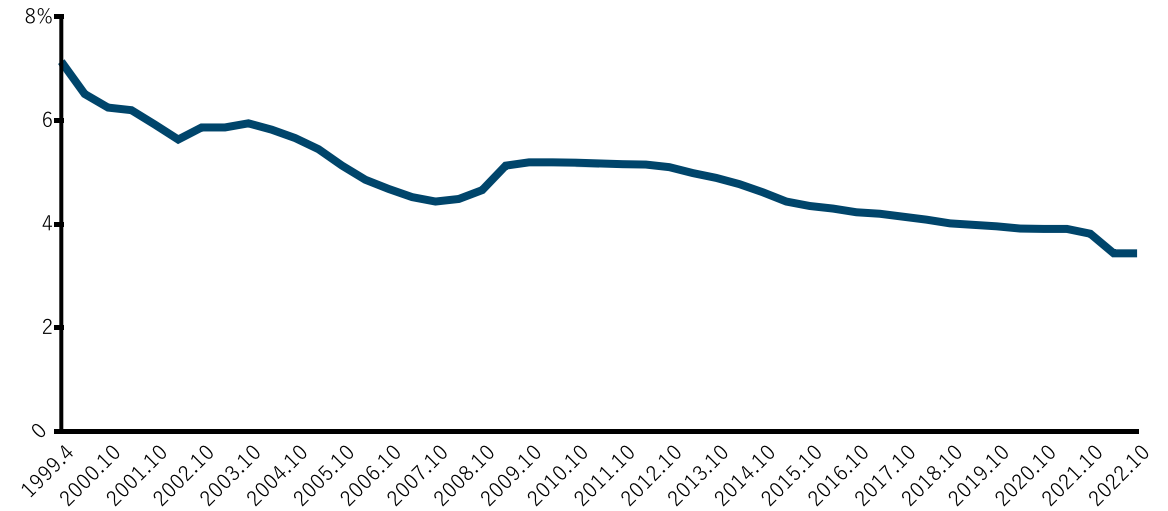


Figure (2) Investor Expected Yields (Cap Rate) in Tokyo Class A Buildings at Lowest Level<sup>1</sup>



# However, Decline in Global Interest Rates has Reversed and Started to Increase, Raising Likelihood of Decrease in Real Estate Prices as Yields Expected by Investors in Real Estate Remain High

- The increase in real estate prices to date has been largely driven by the decline in expected yields due to the inflow of capital into the real estate market amid low interest rates. Over the past 20 years, rents and vacancy rates have not changed that much (Figure 1), but the cap rate has declined from 5.9% to 3.8%, contributing strongly to the rise in prices (Figure 2).
- Central banks have moved to raise interest rates to combat accelerating inflation around the world (Figure 2), and interest rates for JGBs have picked up, albeit modestly.
- **If interest rates increase further, expected yields on investments in real estate would also increase, strengthening the likelihood that real estate prices will fall.** The spread between cap rates and 10-year JGB yields has held steady around 4.0% over the past 10 years (Figure 2).

Figure (1) Rents and Vacancy Rates Worsening for Large Buildings in Three Wards of Tokyo Since Pandemic<sup>1</sup>

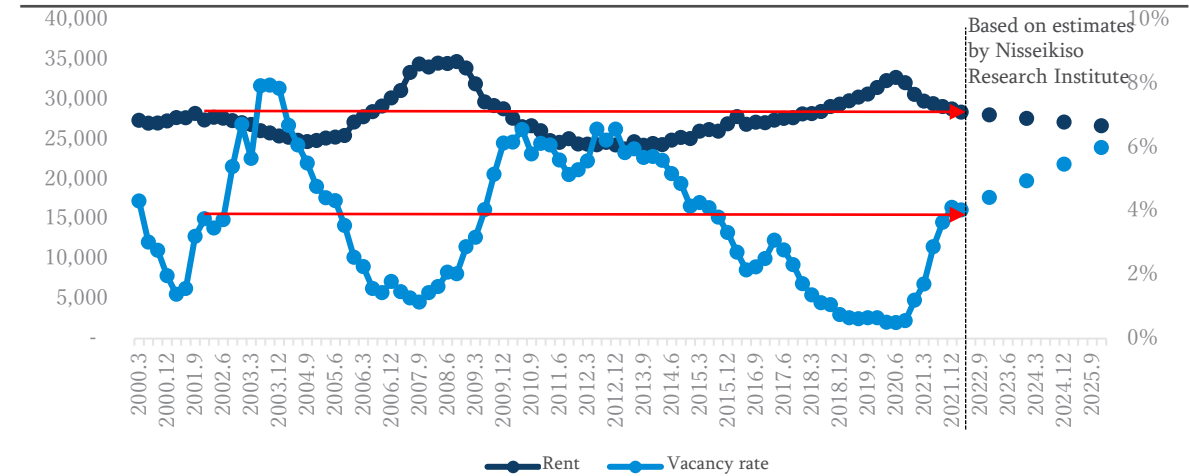


Figure (2) Yields Rising As Cap Rates Reach New Lows<sup>2</sup>

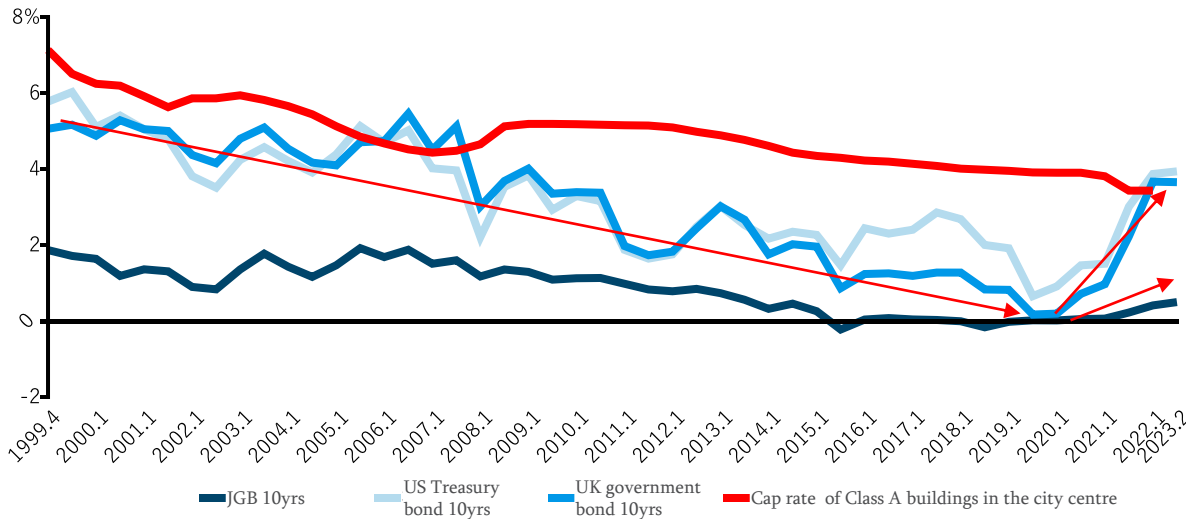
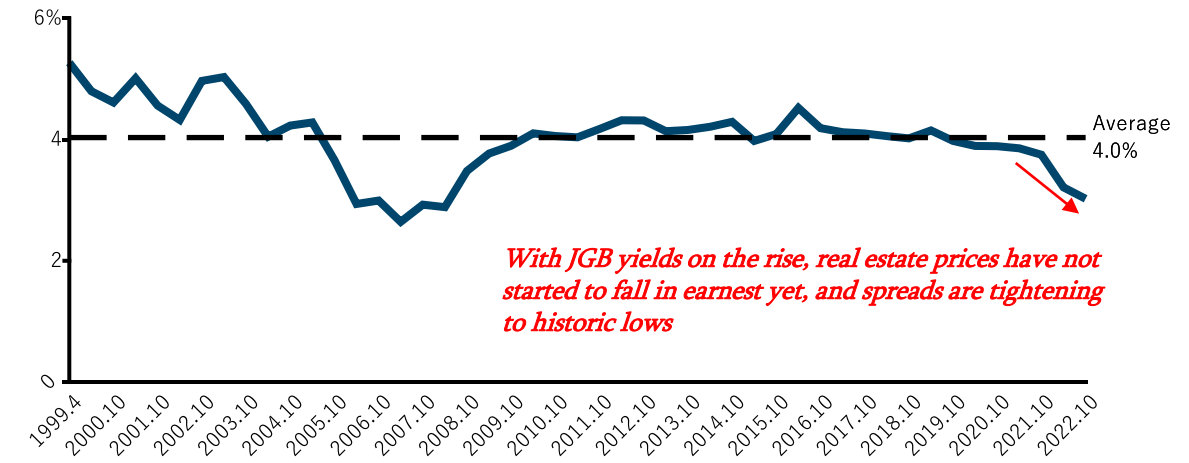


Figure (3) Spread Between Cap Rate and 10-Year JGB Yields Stays Around 4.0%



Note: 1 Actual figures by Sanko Estate; future outlooks are our forecasts based on estimates by Nisseikiso Research Institute for changes in rents and vacancy rates for Class A buildings in central Tokyo; 2 Cap rates from Japan Real Estate Institute's Real Estate Investor Survey, government bond yields based on Bloomberg data

# Disclaimer

This presentation and the information contained herein (collectively “this presentation”) is for the information of the shareholders of Sapporo Holdings Limited (“Sapporo”). 3D Investment Partners Pte. Ltd. is the investment manager of funds (“3D Funds”) that hold shares in Sapporo.

This presentation represents the views, estimates and opinions of 3D Investment Partners Pte. Ltd. exclusively, with regards to the business, capital structure, board of directors and governance structure of Sapporo. 3D Investment Partners Pte. Ltd. represents such views, estimates and opinions solely in its capacity as investment manager to the 3D Funds.

This presentation should not be construed as a solicitation or request for other shareholders or any third party to jointly exercise together with 3D Investment Partners Pte. Ltd. and its affiliates (“3DIP”), their rights as a shareholder (including, but not limited to, voting rights) with respect to the election of directors or any other proposal to be presented to shareholders at Sapporo’s annual general meeting of shareholders or the undertaking of any other action. 3DIP disclaims any intention or agreement to be treated as a joint holder (kyodo-hoyusha), a specially related party (tokubetsu-kankeisha), or closely related party (misetsu-kankeisha) with other shareholders under any Japanese law (or other applicable law) by virtue of its action to express its views, estimates and opinions or otherwise to engage in dialogue with other shareholders in or through this presentation.

3DIP does not have any intention to receive any power to represent other shareholders who hold the shares of Sapporo in relation to the exercise of their voting rights.

3DIP does not have any intention to make a proposal, by itself or through other shareholders, to transfer or abolish the business or assets of Sapporo and group companies of Sapporo at the general meeting of shareholders, nor does 3DIP have any intention or purpose to engage in any conduct to make the implementation of continuous and stable business of Sapporo and group companies of Sapporo difficult.

Nothing in this presentation should be construed as an offer, invitation, marketing of services or products, advertisement, inducement, or representation of any kind, nor as investment advice or a recommendation to buy or sell any investment products or to make any type of investment, to enter into or conclude any transaction or take or refrain from taking any other course of action (whether on the terms shown therein or otherwise), or as an opinion on the merits or otherwise of any particular investment or investment strategy. Any examples of strategies or trade ideas are intended for illustrative purposes only and are not indicative of the historical or future strategy or performance or the chances of success of any particular strategy.

This presentation is for informational purposes only and should not be relied on by any person for any purpose and is not, and should not be construed as investment, financial, legal, tax or other advice.

This presentation has been compiled based on publicly available information (which have not been independently verified by 3DIP) and does not purport to be complete, timely or comprehensive. 3DIP has not received any inside information as defined in the Financial Instruments and Exchange Act of Japan (“Inside Information”) and has not included any Inside Information in this presentation.

This presentation contains “forward-looking statements.” Specific forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts and include, without limitation, words such as “may,” “will,” “expects,” “believes,” “anticipates,” “plans,” “estimates,” “projects,” “targets,” “forecasts,” “seeks,” “could” or the negative of such terms or other variations on such terms or comparable terminology. Similarly, statements that describe 3DIP’s objectives, plans, business strategy or goals are forward-looking. Any forward-looking statements are based on 3DIP’s intent, belief, expectations, estimates, assumptions and projections, taking into consideration all information available to 3DIP at such point in time. These statements are not guarantees of future performance and involve risks, uncertainties, assumptions and other factors that are difficult to predict, are not within the control of 3DIP and that could cause actual results to differ materially. Accordingly, you should not rely upon forward-looking statements as a prediction of actual results and actual results may vary materially from what is expressed in or indicated by the forward-looking statements. 3DIP undertakes no obligation to update publicly or revise any forward-looking statement, whether as a result of new information, future developments, or otherwise.

# Disclaimer

Although 3DIP believes the information contained in this presentation to be accurate and reliable when made, 3DIP makes no representation or warranty, express or implied, as to the accuracy, completeness or reliability of those statements or any other written or oral communication it makes with respect to Sapporo and any other companies mentioned, and 3DIP expressly disclaims any liability relating to those statements or communications (or any inaccuracies or omissions therein). With respect to any public company referred to herein, there may be non-public information in the possession of the public companies or insiders thereof that has not been publicly disclosed by those companies. Therefore, all information contained in this presentation is presented “as is,” without warranty of any kind, whether express or implied, and 3DIP makes no representations, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. You should obtain your own professional advice and conduct your own independent evaluation with respect to the subject matter therein. 3DIP expressly disclaims any responsibility or liability for any loss howsoever arising from any use of or reliance on the information contained in this presentation (or any inaccuracies or omissions therein) in whole or in part by any person, or otherwise howsoever arising in connection with the same. Any investment involves substantial risks, including complete loss of capital. Any forecasts or estimates are for illustrative purposes only and should not be taken as limitations of the maximum possible loss or gain. 3DIP may without notice to any person change all or any part of this presentation, but is not under any obligation to provide any amended, updated or additional information or materials or to correct any inaccuracies in this presentation.

This presentation may include content or quotes from, or hyperlinks to, news coverage or other third-party public sources (“Third-Party Materials”). Permission to quote from Third-Party Materials in this presentation may neither have been sought nor obtained. The content of the Third-Party Materials has not been independently verified by 3DIP and does not necessarily represent the views of 3DIP. The authors and/or publishers of the Third-Party Materials are independent of, and may have different views to 3DIP. The making available of Third-Party Materials in this presentation does not imply that 3DIP endorses or concurs with any part of the content of the Third-Party Materials or that any of the authors or publishers of the Third-Party Materials endorses or concurs with any views which have been expressed by 3DIP on the relevant subject matter. The Third-Party Materials may not be representative of all relevant news coverage or views expressed by other third parties on the stated issues.

In respect of information that has been prepared by 3DIP (and not otherwise attributed to any other party) and which appear in the English language version of this presentation, in the event of any inconsistency between the English language version and the Japanese language version of this presentation, the meaning of the Japanese language version shall prevail unless otherwise expressly indicated.

3DIP currently beneficially owns and/or have an economic interest in and may in the future beneficially own and/or have an economic interest in, Sapporo group securities. 3DIP intends to review its investments in Sapporo group on a continuing basis and depending upon various factors, including without limitation, Sapporo group’s financial position and strategic direction, the outcome of any discussions with Sapporo, overall market conditions, other investment opportunities available to 3DIP, and the availability of Sapporo group securities at prices that would make the purchase or sale of Sapporo group securities desirable, 3DIP may from time to time (in the open market or in private transactions, including since the inception of 3DIP’s position) buy, sell, cover, hedge or otherwise change the form or substance of any of its investments (including Sapporo group securities) to any degree in any manner permitted by any applicable law and expressly disclaims any obligation to notify others of any such changes. 3DIP also reserves the right to take any actions with respect to its investments in Sapporo as it may deem appropriate, including, but not limited to, communicating with the board of directors, management and other investors.

This presentation and the content thereof are the copyrighted works of 3DIP. All registered or unregistered service marks, trademarks and trade names referred to in this presentation are the property of their respective owners and 3DIP’s use hereof does not imply an affiliation with, or endorsement by, the owners of these service marks, trademarks and trade names. In no event shall 3DIP be liable to any party for direct, indirect, special, incidental, or consequential damages, including lost profits, arising out of the use of this presentation.

Please note that this disclaimer may be altered or updated without notice. You should read it in full each time you read this presentation.