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Mid-term Management Plan

Interim or half year financial reporting is in full swing in Japan now. Some companies release to investors their plan in next 3-5 years as Mid-term Management Plan (hereafter MTP) at the same time. We have seen wrong messages from companies in MTPs. A beer company released MTP yesterday and a wrong message was included in the plan. The alcoholic beverage maker plans to generate less Free cash flows (FCF) in next 4 years than ongoing this year. The MTP shows totals JPY50 billion FCF for 2017- 2020, which is JPY12.5 billion a single year, whereas FCF is expected to be JPY16.6 billion for 2016. FCF often fluctuates in some companies for a certain short-term period, but aggressive investment is projected for the next 4 years after 2021 in the plan. I do not believe long-term investors will buy the shares of the company, which releases future FCF does not grow. Such a mistake is mainly due to lack of consideration of shareholders value as well as lack of basic knowledge in finance. Such a wrong message or plan has never produced if the MTP was based on maximization of shareholders' value and discussion on improvement in profit margin rather than the increase of sales. The company plans only 0.9pt increase in adjusted OP margin before amortization from 4.4% for this year to 5.3% in 2020. I would like to say for the company, as this fault is not only in the company but also in investors (mostly analysts). At the analyst meeting yesterday afternoon, all questions by participants focused on past poor business performance of the company. Sell side analysts criticized past financial results, leaving their fault of believing everything in company's previous MTP or guidance, but no one pointed out the lack of consideration of goal of corporation or maximization of shareholders value.

FCF projection MTP: P4

http://www.sapporoholdings.jp/english/news_release/pdf/16110201.pdf

FCF for ongoing year: P2

http://www.sapporoholdings.jp/english/ir/report/fs/pdf/201609_Supplement

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