[Translation]

May 12, 2021

Kakuyasu Group Co.,Ltd.
Representative Director and President Junichi Sato
(Ticker Code : 7686 Tokyo Stock Exchange Second Section)
Inquiry to Director Yoshiyuki Maegaichi

# Issuance of New Stocks via Third-Party Allotment

This is to announce that the Company resolved to issue new stocks (hereinafter "New Stocks") to be allotted to ITOCHU-SHOKUHIN Co., Ltd. (hereinafter "Itochu Shokuhin") and Mitsubishi Shokuhin Co., Ltd. (hereinafter "Mitsubishi Shokuhin"; Itochu Shokuhin and Mitsubishi Shokuhin are each hereinafter referred to as an "Allottee" and collectively as the "Allottees") at the Board of Directors meeting held today with the following.

1. Overview of offering

| | | |
|---|---|---|
| (1) | Payment date | May 28, 2021 |
| (2) | Number of New Stocks | 1,500,000 |
| (3) | Issued price | JPY 1,479 per stock |
| (4) | Capital to be raised | JPY 2,218,500,000.- |
| (5) | Allotees | Itochu-Shokuhin 750,000 stocks<br>Mitsubishi-Shokuhin 750,000 stocks |

※ The offering is valid subject to the notification under the Financial Instruments and Exchange Act being effective.

2. Purposes of and reason for issuance

(1) Purposes of the third-party allotment

The Kakuyasu Group is a company that sells liquor and has been in business for 100 years. Its basic management policy is to be determined and prepared to meet any customers' requests, and its stores are named *Anything Liquor Store Kakuyasu*. The Company has developed a range of business models to create liquor stores that are considered most convenient by customers.

The Company has two primary businesses. One is the sale of liquor for business purposes, offering fine-tuned delivery services to pubs, hotels, restaurants, and other establishments that serve food and drinks. It had 12 large distribution centers located in the Tokyo metropolitan area, Osaka, and Fukuoka (as of March 31, 2021). It also has more than 190 dedicated salespeople for the sale of liquor for business purposes. With these resources, the Company offers a variety of timely support services to its customers.

The other is the sale of liquor for home consumption. The Company delivers liquor to customers' homes and to locations that customers choose. It also sells liquor at its stores.

In the delivery business, the Company defines the trade area of each store in Tokyo's 23 wards as the area within a 1.2-km radius of the store and has established a system that offers free liquor delivery to any location in the 23 wards within an hour, even for small orders like a single bottle of beer. The Company provides end-to-end services from order placement to delivery.

The Company also sells liquor in its stores. In addition to *Anything Liquor Store Kakuyasu* stores with a pink signboard, the Company operates other store chains catering to many different customer demands, including *KY Liquor*, which offers an exceptionally wide assortment of liquors for customers to enjoy, *CORK*, which sells liquor and flower packages for parties and gifts, and Gulliver, which is located mainly in Fukuoka.

The sale of liquor for home consumption is supported by a network of 209 stores in the Tokyo metropolitan area, Osaka, and Fukuoka (as of March 31, 2021).

The Company was listed in the 2nd Section of the Tokyo Stock Exchange in December 2019. The Company's growth strategy was to expand the Kakuyasu Model, which is a combination of liquor sales for both commercial and personal purposes, to major cities across the country. The Company also aimed to evolve into a "delivery and sales promotion platform company" by expanding its product range and utilizing numerous customer touchpoints and a vast database of customer information.

The Company entered the market in the Kansai region, taking its first step to expand into major cities across Japan. Subsequently, it decided to enter the market in Fukuoka prefecture, in Kyushu. Fukuoka has a large entertainment district with a concentration of restaurants and pubs. Additionally, Fukuoka's large population and number of households create a strong demand for liquor for home consumption. The Company acquired Sannoh Co., Ltd. and Dangami Co., Ltd. as subsidiaries in May and December 2020, respectively.

In February 2021, the Company acquired Meiwa Bussan Co., Ltd., a company that sells dairy products. This acquisition has allowed the Company to broaden its product range. Additionally, the Company has gained expertise in refrigeration and freezing logistics, as well as the delivery procedure for leaving packages at users' front doors. The Company is transforming into a "delivery and sales promotion platform" in the home consumption business.

In October 2020, the Company restructured to a holding company model to enable a flexible and dynamic management structure, allowing the Company to quickly adapt to a rapidly changing market environment. Under the new structure, the strategic management function and business execution function are clearly separated. The operating company has the responsibility and authority to establish a flexible business structure that allows for the efficient execution of business operations in response to changes. The holding company develops management strategies for the Company to achieve sustainable growth and works to strengthen and streamline the management infrastructure.

From the latter half of February 2020, COVID-19 (the novel coronavirus) spread throughout Japan, producing a drastic change in the environment for liquor sales businesses. In April 2020 and January 2021, a state of emergency was declared which led to shorter business hours, long-term business suspensions, and closures in the food service industry, which represented a significant portion of alcoholic beverage consumption. Consequently, the Company's sales of liquor for business purposes declined significantly.

Meanwhile, due to measures taken to prevent the spread of the novel coronavirus, such as stay-at-home advisories, requests to avoid moving to other prefectures, and the promotion of remote work, people began to spend more time at home. This has resulted in a significant shift in liquor consumption from restaurants to homes (emergence of “stay-at-home demand”). Additionally, the shift from physical to online shopping due to the avoidance of the three Cs (closed spaces, crowded places, close contact) resulted in a surge in demand for the Company’s home delivery service. However, many events, including those that were scheduled to take place in workplaces and local communities, were canceled to prevent the spread of infection, and as a result, the decline in sales of liquor for commercial purposes was only partially offset by an increase in sales of liquor for home consumption.

The Company’s sales of liquor for business purposes, which account for 70% of its total sales, were significantly impacted by the coronavirus pandemic. Moreover, it is difficult for the Company’s food-service industry customers to return to pre-pandemic levels. The Company must be aware that it is dealing with an extremely difficult business environment of a kind it have never faced before.

To restore profitability in this environment, the Company reviewed its management resources allocation based on changes in performance trends in its businesses—that is, a decline in sales of liquor for commercial purposes and strong demand for the delivery of liquor for home consumption. In addition, the Company halted some of its strategic investments, reduced fixed costs for all its offerings, suspended the operation of distribution centers for commercial purposes, expedited the establishment of bases for home delivery, and broadened the range of products other than liquors it handles. However, sales of liquor for commercial purposes decreased more than expected partly due to the extension of the state of emergency declared on January 8, 2021, which lasted until March 21. Consequently, the Company posted a loss attributable to owners of parent of 1.6 billion yen in the fiscal year ended March 31, 2021, and the equity ratio declined 6% year on year.

The Company is financially stable with a commitment line of 10.5 billion yen and 2.5 billion yen cash on hand as of March 31, 2021. The Company currently has sufficient funds for management for some time to come. However, to avoid the possibility of breaching debt covenants that require maintaining certain net assets, the Company needs to increase its equity capital as its financial performance improves.

It is impossible to predict when the coronavirus pandemic will end due to uncertainty about the quantity of vaccine available and the schedule for administering it. To have excessive expectations about the early end of the pandemic is dangerous for management. The Company has decided that raising funds and increasing capital is the best way to establish a foundation for achieving business growth even if the age of living with the coronavirus continues for some time to come. To consolidate its business foundations, the Company needs an early recovery in its performance and an improvement in the soundness of its balance sheet. These can be achieved by ensuring the implementation of growth strategies formulated when the Company was listed and the strategies that were revised in light of changes in the business environment. Additionally, the Company needs to make the necessary investments flexibly to capture demand for liquor consumed at home, especially demand for delivery services, which has increased significantly amid the pandemic.

(2) Financing through the third-party allotment

Considering the Company’s situation as described, the Company has decided that the third-party allotment is the best option to improve its financial foundations, thereby protecting the interests of existing shareholders, and to expedite the implementation of growth strategies in the post-coronavirus age. The reason is that the Private Placement will enable the Company to procure funds in a reliable and agile manner and strengthen its relations with the Allottees.

3. Amount of capital to be procured, use of capital, and expected timing of expenditure

(1) Amount of capital to be procured

| Total amount to be paid | Estimated amount of issuance expenses | Estimated amount of net proceeds |
|---|---|---|
| JPY 2,218,500,000 | JPY 12,000,000 | JPY 2,206,500,000 |

(2) Specific usage of procured capital

The uses of the estimated amount of net proceeds, JPY 2,206,500,000, are as stated below.

| Specific usage | Monetary Amount | Scheduled expenditures |
|---|---|---|
| 1) Investment in establishing new stores and shipping depots | JPY 616 million | From May 2021 to March 2023 |
| 2) Investment in stores specializing in selling liquor | JPY 80 million | From May 2021 to March 2023 |
| 3) Investment in renovating existing stores | JPY 133 million | From May 2021 to March 2023 |
| 4) Debt repayment | JPY 1,377 million | June 2021 |
| Total | JPY 2,206 million | |

1) Investment in establishing new stores and shipping depots (to meet a high demand for home delivery)

Changes in lifestyles and social structure due to the coronavirus pandemic, such as the increasing adoption of telework and measures taken to prevent the spread of infection, have resulted in strong sales of delivered goods in the Tokyo metropolitan area. To capture demand in the area, the Company plans to set up 22 stores and small storage facilities that will function as shipping depots by March 2023.

The Company plans to invest a total of 616 million yen in constructing these shipping depots. The cost of building one facility is expected to be around 28 million yen. The Company aims to build 12 facilities from May 2021 to March 2022 and 10 facilities from April 2022 to March 2023.

2) Investment in stores specializing in selling liquor (to meet a high demand for liquor sold at stores)

Since there are a limited number of properties with sufficient space to operate three types of sales channels in its *Anything Liquor Store Kakuyasu* business: sales for commercial purposes, home delivery of liquor, and sales at stores. The Company thus plans to open four stores specializing in selling liquor that can be operated in small spaces in the Tokyo metropolitan area, sales for which are strong, by March 2023.

The Company plans to invest 80 million yen in opening stores specializing in selling liquor. The cost of opening a store is expected to be around 20 million yen.

3) Investment in renovating existing stores (to meet a high demand for liquor sold at stores)

Out of 143 *Anything Liquor Store Kakuyasu* stores located in Tokyo (as of March 31, 2021), the Company plans to renovate 19 stores that account for a large percentage of the total sales by March 2023. In these stores, the Company will revamp the layout of goods on display shelves to attract customers and increase sales.

The Company plans to invest 133 million yen to renovate the stores. The cost of renovating for each store is expected to be around 7 million yen.

4) Debt repayment

Due to the coronavirus pandemic, the Company's consolidated shareholders' equity declined from 5.1 billion yen as of March 31, 2020, to 3.2 billion yen as of March 31, 2021, a decline of 1.9 million yen. The Company needs to increase its equity capital to strengthen its financial position. The consolidated equity ratio decreased from 18% as of March 31, 2020, to 12% as of March 31, 2021. Considering the possibility of breaching debt covenants that require a certain level of net assets, the Company needs to increase its equity capital and improve its financial position as soon as possible.

Of the funds to be procured, the Company plans to allocate 1,377 million yen to the repayment of borrowings. The repayment and capital increase will raise the equity ratio to 20%.

## 4. Rationale for use of funds

The Company believes that utilizing the funds raised from the Private Placement for the purposes outlined above will help it address important issues faced by the Company, such as investing in continued growth and strengthening its financial foundation, and thereby achieve sound management. This in turn will lead to stable business continuity and the enhancement of corporate value. The Company therefore thinks that the Private Placement of the New Shares will contribute to enhancing shareholder value.

## 5. Rationale for the issuance conditions

### (1) Basis of calculation of the amount to be paid

After negotiating with each Allottee, the Company has set the amount to be paid for the New Shares to be issued for the Private Placement at 1,479 yen per share, which is equivalent to the closing price of the Company's common stock on May 11, 2021, which was the trading day immediately preceding the date of the resolution of the Board of Directors for the issuance of the New Shares.

The Company has set the amount to be paid at the closing price on the trading day immediately preceding the date of the resolution of the Board of Directors in compliance with the Japan Securities Dealers Association's guidelines for private placements to a third party, which says that in principle, the amount to be paid shall be the price on the trading day immediately preceding the date of the resolution of the Board of Directors multiplied by 0.9, or more. The Company has decided that the most recent stock price fairly reflects the Company's objective corporate value.

The amount to be paid for the New Shares is 1.11% less than the simple average of the closing prices of the Company's stock for a month leading up to May 11, 2021, the day immediately preceding the date of the resolution of the Board of Directors for the issuance of the New Shares, which is 1,496 yen, 5.06% less than the simple average closing price for the three months prior to the resolution, which is 1,558 yen, and 5.42% less than the simple average closing price for the six months prior to the resolution, which is 1,564 yen.

Based on the above, the Company has decided that its method for determining the amount to be paid for the New Shares is appropriate and reasonable. The Board of Directors thoroughly examined and discussed the conditions of the New Shares issuance based on the decision and unanimously agreed to pass the resolution on the issuance.

The Company's three auditors (all of them are outside auditors) all agreed that the amount to be paid for the New Shares complies with the Japan Securities Dealers Association's guidelines for private placements to a third party and that the issuance of the shares is particularly advantageous to the allotted parties.

(2) Rationale for issuance quantity and dilution

The Company will allot 1,500,000 New Shares to the Allottees and give them 15,000 voting rights. These New Shares will account for 19.29% of the shares of the Company outstanding before the Private Placement, which is 7,777,200, and these shares will be diluted. However, the Company will use the funds raised for the purposes outlined above to strengthen and expand its business foundation and enhance its corporate value and shareholder value in the medium to long term. The Company believes that the financing will sufficiently benefit the existing shareholders despite the dilution of shares. The Company has therefore finds the number of shares to be issued and the extent of dilution to be reasonable.

6. Allottees

(1) Allottees

- ITOCHU-SHOKUHIN Co.,Ltd.
- Mitsubishi Shokuhin Co., Ltd.

(2) Reason for selecting Allottees

The Company selected allottees based on the Company's management strategies. The Company primarily examined companies that have a large volume of transactions with it and understood its strategies.

Itochu Shokuhin and Mitsubishi Shokuhin, prospective allottees, have had transactions with the Company as important suppliers.

Itochu Shokuhin mainly sells liquor and has strength in the Tokyo metropolitan area and the Kansai region, where the Company operates.

Mitsubishi Shokuhin is the top seller in the food wholesale industry and is strong in processed food and low-temperature food. The company utilizes its logistics network of over 300 bases in Japan to optimize its entire supply chain.

Both of these companies have different strengths and features in the domestic wholesale industry, and they can form partnerships with the Company to help implement its growth strategies. Specifically, they can help ensure a stable supply of goods, increase non-alcoholic beverage transactions, which the Company aims to do from now on, and expand trade areas. They can also support the logistics functions. After the Private Placement, the Company expects the companies to contribute to enhancing the Company's corporate value in the medium to long term.

(3) Holding policy of Allottees

The Company and the Allottees haven't made any agreements related to the continuous holding or depositing of the Company's shares allotted to them. The Company has verbally agreed with the Allottees that they will hold the shares to promote sales transactions.

The Company will obtain from the Allottees written statements confirming that (1) they will provide the Company with written notice if they transferred all or some of the New Shares issued for the Private Placement within two years of the date they pay for the shares, and that (2) in such a case they will consent to the Company disclosing their notice to the Tokyo Stock Exchange and making it viewable to the general public.

(4) Confirmation of assets required for payment by Allottees

Itochu Shokuhin's quarterly consolidated balance sheet for the first nine months of the fiscal year ending March 31, 2021, included in the company's quarterly report for the 103rd term (submitted on February 8, 2021) shows that the company has sufficient cash and deposits (1,324 million yen) and current assets (228,735 million yen) to pay for the New Shares to be allotted to it. Mitsubishi Shokuhin's quarterly consolidated balance sheet for the first nine months of the fiscal year ending March 31, 2021, included in the company's quarterly report for the first nine months of the fiscal year ending March 31, 2021 (submitted on February 12, 2021) shows that the company has enough cash and deposits (443 million yen) and current assets (664,349 million yen) to pay for the New Shares to be allotted to it.

7. Major Shareowners and their ownership

| Before Financing | | Post Financing | |
|---|---|---|---|
| SKY Group Holdings Co.,Ltd. | 63.13% | SKY Group Holdings Co.,Ltd. | 52.93% |
| Custody Bank of Japan, Ltd. Trust Account | 7.32% | ITOCHU-SHOKUHIN Co.,Ltd. | 8.08% |
| Kakuyasu Employee Share-ownership Association | 4.81% | Mitsubishi Shokuhin Co., Ltd. | 8.08% |
| Kirin Brewery Company, Limited | 1.62% | Custody Bank of Japan, Ltd. Trust Account | 6.14% |
| Suntory Ltd. | 1.61% | Kakuyasu Employee Share-ownership Association | 4.04% |
| ASAHI BREWERIES, LTD. | 1.54% | Kirin Brewery Company, Limited | 1.36% |
| Sapporo Breweries Limited | 1.54% | Suntory Ltd. | 1.35% |
| Shigeki Okamura (Mr.) | 1.37% | ASAHI BREWERIES, LTD. | 1.29% |
| The Master Trust Bank of Japan ,Ltd. Trust Account | 0.72% | Sapporo Breweries Limited | 1.29% |
| Nobuhide Gowa (Mr.) | 0.71% | Shigeki Okamura (Mr.) | 1.15% |

8. Future Outlook

The Company deems that the impact of the capital allotment on the business results forecast for the current fiscal year is minor.

9. Matters related to procedures within the Code of Corporate Conduct

Because the issuance of the New Shares will (i) result in a dilution rate of less than 25% and (ii) not be accompanied by a change in the controlling shareholders, the procedures provided in Article 432 of the Securities Listing Regulations prescribed by Tokyo Stock Exchange, Inc. to obtain an opinion from independent third parties or to confirm the intent of shareholders are not required.