

Suntory Holdings Limited

Summary on FY2016-4Q Earnings

Presenter: President and CEO Takeshi Niinami
Suntory Holdings Limited

Today, I will give you a brief overview on the results of 2016, as well as the current state of our Group, followed by more details from our CFO Mr. Hizuka.

(1)Results for FY2016

- Suntory Group's net sales for the year ending December 2016 was 2 trillion 651.5 billion yen, down 1% year on year. However, on a currency neutral basis, we achieved steady growth of 4%.
- Operating income was 198 billion yen, up 7% year on year. Ordinary income was 175.8 billion yen, up 13% year on year. We achieved record levels for both operating and ordinary income.
- Operating income before the amortization of goodwill etc., which is the KPI used by global companies, grew to the 260 billion yen level. We are now a firm that can generate stable profit.

- We have two core businesses, Non-alcoholic Beverages and Food, and Alcoholic Beverages, which we conduct globally. Both segments performed well.

- I have placed top priority on the integration of Beam Suntory Inc., and we are starting to see positive results. Full-year comparable sales are achieving mid-single digit growth year on year, and Beam Suntory also served as a driver for the significant operating income growth of our Alcoholic Beverages segment. In 2016, Beam Suntory achieved strong growth not only in its main market, the U.S., but also in Asia including Japan, as well as Europe. In the domestic Alcoholic Beverage business, we achieved major successes including the dramatic growth of "*Jim Beam*", as well as further growth of our RTD products.

- The damage suffered at our Kyushu Kumamoto Plant, due to the Kumamoto Earthquake last year, caused much concern among our stakeholders. The whole firm has been working on resuming operations, and we restarted the mashing of "*The Premium Malt's*" in November, and in December shipped draft kegs, and last month we were able to resume the shipment of cans. I would like to thank you again for your kind support in getting the plant up and running.

- Meanwhile, the Beer business saw a decline in revenue, leaving a challenge for the future. Our Beer business has been taking the lead in the challenge by the Suntory Group, and symbolizes the Yatte Minahare spirit. By making the major renewal of “*The Premium Malt’s*” coming up in March a success, we will definitely achieve a big leap this year.

(2)Strategy for FY2017

- This year, the entire firm will be placing full focus on the renewed “*The Premium Malt’s*”, in order to revitalize the Beer business, which is currently facing challenges. In doing this, a firm-wide sense of unity will become extremely important.
- Whether it be beer, whisky, or non-alcoholic beverages, the fact that the Suntory Group can come together as one, and communicate as “One Suntory”, will be a formidable weapon.
- I proposed the concept of matrix management 2 years ago, and we have been implementing it since then. Under this scheme, the CXO responsible for each function plays a central role, and collaborates closely with the Suntory Group companies worldwide, in order to overcome issues and challenges. We are starting to see initial successes.
- The sense of unity with Beam Suntory is getting ever stronger, and we are working on initiatives to improve production technology and quality, as well as joint product development. Whisky-making takes time, and I still cannot give out too much detail, but you can be sure to expect future successes.
- On the first of April, we will set up a new company Suntory Beer, Wine & Spirits Japan Limited, which will facilitate strategic planning for the entire Domestic alcoholic beverage business. We will split the Suntory Business Expert Limited by function into three, to further accelerate the decision making process.
- In 2017, the Suntory Group will continue to position the Non-alcoholic Beverage and Food business and the Alcoholic Beverage business as our two core businesses, and by placing the growth of “*The Premium Malt’s*” at the core, we will make a firm-wide effort to pursue further growth.

We look forward to your continued support.

Presenter: Shinichiro Hizuka, Senior Managing Director
Suntory Holdings Limited

Thank you very much for your support to our Group's activities. I will now go over the consolidated results of Suntory Holdings Limited, for the year ended December 2016.

(1) Results for FY2016

- In the year ended December 2016, Suntory Group's net sales was 2 trillion 651.5 billion yen, down 1.3% year on year, or up 3.5% on a currency neutral basis. Operating income was 198 billion yen, up 7% year on year, and double digit growth of 12.3% on a currency neutral basis (at the exchange rate of 109YEN to the US\$). We have achieved record levels for both operating and ordinary income for 4 years in a row.
- Our operating income before the amortization of goodwill etc., the KPI used to compare ourselves with other global companies, was 264.3 billion yen, up 3.7% year on year.
- Net income attributable to owners of parent saw a one-off significant growth. This was due to several business transfers that took place in this period, including the transfer of the brandy and sherry business in Spain and the dissolution of the beer joint venture in China, being booked at the extraordinary income level. Another factor was the impact from reorganizing and reshuffling capital relations with overseas subsidiaries.

(2) Business trends

■ Non-Alcoholic Beverage and Food Segment

As reported by Suntory Beverage & Food Limited yesterday, we worked on reinforcing our business platform in 2016, and achieved steady growth both in and out of Japan. Net sales was 1 trillion 400.9 billion yen, up 2.1% year on year. We made good progress of 7.7% growth on a currency neutral basis. Operating income was 113.2 billion yen, up 2% year on year, and up double digit, or 10%, on a currency neutral basis.

■ Alcoholic Beverage Segment

Net sales was 988.7 billion yen, down 3.6% year on year, due to currency fluctuations and other factors. However, we outperformed the previous year on a currency neutral basis. Operating income was 88.3 billion yen, up 12.7% year on year, or 13.6% on a currency neutral basis. The strong performance of Beam Suntory Inc. contributed, and we are seeing integration synergies in various areas.

▽Beam Suntory Inc. (including Japan) achieved mid-single digit growth in net sales, on an organic basis, excluding currency fluctuations and other extraordinary factors. Core brands such as “*Jim Beam*” and “*Maker’s Mark*” were the drivers of growth, not only in the main market in the Americas but also in Europe and Asia. In this period, Beam Suntory’s “*Booker’s Rye*” was chosen as the world’s best whisky in the “Whisky Bible”, the major whisky guidebook, while Suntory Whisky’s “*Hibiki 21 Years Old*” won the highest award in an international whisky contest. The fact that Suntory Group’s focus on high quality and *monozukuri* was recognized will form a major foundation of our future business.

In Japan, at Suntory Spirits Limited, the spirits business achieved notable successes, with “*Jim Beam*” achieving close to 40% growth year on year, and RTD and highball can drinks enjoying significant growth.

▽Suntory Beer Limited saw its revenue decline. However, “*The Premium Malt’s*” achieved positive year on year growth since September 2016, by successfully communicating its high quality. We have been able to reaffirm the potential of “*The Premium Malt’s*”. There was double digit growth year on year in January, and the entire Suntory Group is gaining momentum towards the renewal this March. Sales volume for “*Kin-Mugi*” and “*Kin-Mugi (75% less sugar)*” reached record levels.

▽Suntory Wine International Limited achieved 7% volume growth, significantly outperforming the domestic wine market growth of 1%.

(3) Reinforcing our financial status

- In terms of our financial status, the EBITDA this year reached 352.2 billion yen, up 2.3% year on year. This was approximately 8 billion yen higher than last year, and we are continuing our stable cash generation.
- Our net debt is steadily declining. The decline was especially significant this year at minus 214 billion yen, with one-off factors such as the currency impact and the sale of businesses. Even without these extraordinary factors however, we believe we can continuously reduce our net debt by around 100 billion yen per year.
- With the decline in our net debt this year, our debt to equity ratio (after factoring in the hybrid securities) has fallen to below 1 times, leading to a major improvement in our financial status.

(4)The outlook for 2017

- We expect uncertainty in the global economy to continue in fiscal year 2017. However, the Suntory Group will continue to pursue growth that is sustainable in the mid to long term.

- In 2017, we will work on reinforcing our existing business platforms, and place special focus on 3 points:

- ▽The first point is “Strengthening brand investments”. In uncertain times like these, having stable core brands becomes ever more important. We will further brush up our core brands, including “*The Premium Malt’s*”, “*Jim Beam*”, “*Maker’s Mark*”, “*Tennensui*”, “*BOSS*” and “*Iyemon*” from a long term perspective. We will also continue investing in our facilities and whiskies for the future.

- ▽The second point is “Enhancing our R&D”. Achievements in R&D become future growth drivers for manufacturers. In 2015, we completed the “World Research Center” in the Keihanna area of Kyoto, and are actively conducting R&D activities. The keywords for R&D this year are “Health” and “Taste”. We will further enhance our R&D efforts, which will lead to unrivalled originality and future value creation.

- ▽The third point is “Reforming our workstyle”. The growth of the Suntory Group will be driven our talented people. The key is to innovate the operations of all employees and achieve higher productivity. We will add value in our work, through an HR system that makes it easy for employees to work, as well as time created by utilizing IT. While valuing the lives of each individual, we will make sure to achieve results in our work. All of these efforts will lead to the growth of the firm. We believe the acceleration of personnel exchanges on a global scale will also contribute to reforming our workstyle.

- Lastly, we will continue proactive CSR activities, based on Suntory’s founding principle of “Sharing the Profit with Society”. This year we will refurbish the Suntory Hall on its 30th anniversary, and continuously strengthen our long-term support of cultural activities. We have begun spreading our domestic environmental initiatives to Group companies abroad, and will make progress in the watershed protection activities in the State of Kentucky in the U.S.

- As for the forecast for the year ending December 2017 for Suntory Holdings Limited, we are expecting net sales of 2 trillion 690 billion yen, up 1.5% year on year, or 1.9% on a currency neutral basis, operating income of 201 billion yen, up 1.5% year on year, or 2.7% on a currency neutral basis, and net income attributable to owners of parent to be 71 billion yen, down 41.6% year on year, however, it will reach roughly 1.5 times that of 2015.

- We expect operating income before the amortization of goodwill etc. to be 267 billion yen, up 1% year on year.

That will be all from me. We look forward to your continued support. Thank you very much.