

# Financial Results for Q3 Fiscal Year Ending December 31, 2017

November 2, 2017

Suntory Beverage & Food Limited



This is Haruhisa Inada.

I will explain the financial results for the third quarter of FY2017.

# Financial Results for Q3, FY2017 (9 months)

## Sales and profits both grew even without FX effect

(Billions of yen)

	FY2017 Jan - Sep	Change	
		% YoY	Currency neutral
Net Sales	1,095.0	+2.7%	+1.9%
Operating Income	76.8	+3.2%	+2.1%
Net Income <sup>*1</sup>	37.0	+1.7%	+0.7%
EBITDA <sup>*2</sup>	143.6	+2.9%	+1.8%
Net income before amortization of goodwill <sup>*3</sup>	58.9	+1.6%	+0.3%

\*1 Net income attributable to owners of the parent

\*2 EBITDA = operating income + depreciation and amortization + amortization of goodwill

\*3 Net income before amortization of goodwill = Net income attributable to owners of the parent + amortization of goodwill

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2

Compared to the same quarter of last year, net sales was 1,095.0 billion yen, up 2.7%, operating income was 76.8 billion yen, up 3.2%, and net income was 37.0 billion yen, up 1.7%.

In the past 9 months, we have seen changes in the business environment of each region and country, such as intensifying competition.

We were able to achieve sales and profit growth while addressing to those changes.

# Financial Results for Q3, FY2017 (9 months)

## Good performance in Japan and Asia

(Billions of yen)

	Sales	Change		Segment Profit	Change	
		% YoY	Currency neutral		% YoY	Currency neutral
Japan	688.5	+1.5%	-	47.8	+5.1%	-
Europe	185.6	+2.9%	+2.4%	30.8	-4.6%	-4.9%
Asia	129.4	+8.7%	+5.2%	15.8	+22.4%	+16.2%
Oceania	29.9	+5.0%	-1.6%	3.4	-5.7%	-9.6%
Americas	61.6	+2.9%	-0.2%	7.2	-4.7%	-7.5%
Reconciliations	-	-	-	-28.2	-	-
<b>Total</b>	<b>1,095.0</b>	<b>+2.7%</b>	<b>+1.9%</b>	<b>76.8</b>	<b>+3.2%</b>	<b>+2.1%</b>

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3

I will explain the sales and profit by segment.

Overall, Japan and Asia were main drivers of sales and profit growth although there were variations in different regions.

I will go over each segment in detail from the next page.

## Japan: Results for Q3, FY2017 (9 months)

- Sales volume growth outperformed market growth
- Both sales and profit increased

(Billions of yen)

Sales	% YoY	Segment Profit	% YoY
688.5	+1.5%	47.8	+5.1%

- Strong performance for core products such as *Suntory Tennensui* due to success in brand reinforcement
- New products such as *Craft Boss* and *PREMIUM MORNING TEA* also contributed to the good sales



First, Japan.

Sales was 688.5 billion yen, up 1.5%. Segment profit was 47.8 billion yen, up 5.1%.

While the market from January to September was forecasted to be at the same level as the previous year, our sales volume increased by 3%.

Our efforts in “Brand Reinforcement and Innovation” which we announced in the beginning of the year has been effective, and core brands such as *Suntory Tennensui* performed strongly.

Products with new values such as *Craft Boss* and *Suntory Tennensui PREMIUM MORNING TEA* also contributed to sales.

While launching new products and renewals, we have made efficient brand investments.

Also, the cumulative total of the three months from July to September, our peak season, show that we were able to outperform the market in sales volume growth with the good performance of new products, regardless of the weak market growth due to impacts such as adverse weather.

## Suntory Tennensui

Jan-Sep  
Sales Volume

83.9 Mil. cases  
(+8% YoY)



## Boss

71.3 Mil. cases  
(+3% YoY)



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5

Next, I would like to explain about our “Brand Reinforcement and Innovation” which we announced in the beginning of the year, by using the examples of *Suntory Tennensui* and *Boss*.

The water source has been at the core of the branding of *Suntory Tennensui* in the recent years, with focus on reinforcing brand values of “clear and tasty,” and “natural and healthy.” The sales volume of the mineral water *Suntory Tennensui* has been growing continuously. In addition, we have launched *Suntory Tennensui PREMIUM MORNING TEA* this year, and has been performing well. We have continuously reinforced the *Suntory Tennensui* brand and effectively utilized brand value to provide new ideas that match with changing lifestyles. With these two wheels in motion, the brand’s total sales volume up to September increased significantly by 8%.

Since the launch in 1992 as “The Worker’s AIBO\*,” *Boss* has been growing strong by continuing using this concept.

This year, we have done several activities to strengthen our bond with heavy users, such as implementing major marketing activities for the product *Pride of Boss*, which was launched for the brand’s 25<sup>th</sup> anniversary and expanding product line-up. In addition, we launched *Craft Boss* in April, a product that matches with the values and working styles of modern office workers. This product has been received well by consumers who normally do not drink canned coffee, and we have been able to acquire more demand than we had expected.

Even though the coffee market has been projected to decrease by 2%, we have been able to steadily increase the total sales volume of *Boss* by 3% up to September by continuing to gain support from customers in the 185g can product which makes up a large pie, and also by capturing new demand through the pet bottle product, *Craft Boss*.

As a result, this year’s growth has been achieved by capturing the consumers’ needs through “brand reinforcement” and “providing new values.” This has not only resulted in sales growth, but has also led to profit growth.

In the future, we will continue these efforts to aim for sales and profit growth.

\*AIBO: a reliable partner with long years of experience that can be trusted

# Europe: Results for Q3, FY2017 (9 months)

## Recorded good sales, but higher supply chain cost in France

(Billions of yen)

Sales	% YoY (Currency neutral)	Segment Profit	% YoY (Currency neutral)
185.6	+2.4%	30.8	-4.9%

	Sales	% YoY (Currency neutral)	
France <sup>(1)</sup>	74.1	+2.3%	Both <i>Orangina</i> and <i>Oasis</i> grew Higher supply chain cost
UK <sup>(2)</sup>	46.8	-0.9%	Weaker sales for <i>Lucozade Energy</i>
Spain <sup>(3)</sup>	44.0	+0.4%	<i>Schweppes</i> recorded steady sales



\*1: France and Belgium \*2: UK and Ireland \*3: Spain and Portugal

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6

Next, Europe.

In Europe, sales was up 2.4% on a currency neutral basis, and segment profit was down 4.9%.

Although sales of the segment is performing strongly mainly due to France's good performance, the segment profit has decreased due to increased supply chain cost in France and sales decrease in the UK.

For major countries, France's sales increased due to growth in both *Orangina* and *Oasis*, while UK had lower sales due to weaker performance of *Lucozade Energy* than the previous year.

# Europe: France Supply Chain Cost

2017.2Q~2017.3Q

2017.9

Strong market  
share gain

+

Lack of capacity  
due to production issue

Higher cost  
in outsourcing  
and logistics

Customer  
out of stock charge

Issue resolved

I will explain the challenges we faced in France and the UK, and our reactions to them. Firstly, the background and current situation of the supply chain cost increase in France.

From the second to the third quarter, demand for our brands increased, especially for *Orangina*, as a result of our brand reinforcement activities.

However, manufacturing line was temporarily suspended due to production issues and this has led to a decrease in our supplying capabilities.

As a result, outsourcing cost for production increased, and logistics cost also increased since we had to deliver products from other manufacturing plants.

We also paid out-of-stock charge to the retail channels that carry our products when we could not deliver the products as ordered.

This had significant impact on the sales and profit for the second and third quarter.

However, these negative impacts from higher supply chain cost is temporary, and issues have already been resolved.

Brand conditions continue to be good, and our market share is growing.

We will continue to implement marketing activities that reinforce our core brands to increase sales and profit.

# Europe: Our Low-Sugar Initiatives in UK

Higher demand for healthy products

Implementation of sugar tax



## LRS\* Health & Wellbeing Plan (November, 2016)

- Reducing sugar level of all beverages to below 4.5g/100ml
- Clear labeling of calories on the product
- Investment to inspire healthy lifestyle to consumers
- Encourage all employees to be more active and live well

\*Lucozade Ribena Suntory Limited, our UK subsidiary

**April, 2017: New low-sugar Lucozade Energy introduced**



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8

Next, I will explain about the low sugar initiatives in the UK.

On top of the global health trend, there is a stronger need observed in the consumption trend for natural and healthier products.

There are also movements in different countries towards imposing a tax on carbonated drinks that contain sugar.

In the UK, a sugar tax is planned to be implemented from April, 2018 on drinks that include sugar that is 5g or above per 100ml.

To respond to such trend, Lucozade Ribena Suntory has announced in last November, Health and Wellbeing plan that includes policies such as reformulating all added sugar drinks to contain less than 4.5g of total sugar per 100ml.

Based on this policy, we took on the big challenge of reviewing the recipe for *Lucozade Energy* and launched several low sugar products this April.

Unfortunately, at this point, sales have decreased as a result of losing some of our core users, and we have not been able to achieve the results that we expected.

However, we are gradually starting to see responses from our sampling and promotional activities that aims to raise awareness of the new taste of *Lucozade Energy*.

It may take time, but we will continue to make efforts in acquiring new customers and achieve a strong revitalization for *Lucozade Energy* toward the implementation of the sugar tax in April next year.

# Asia: Results for Q3, FY2017 (9 months)

Vietnam recovering, Health Supplement Business continued to grow

(Billions of yen)

Sales	% YoY (Currency neutral)	Segment Profit	% YoY (Currency neutral)
129.4	+5.2%	15.8	+16.2%

	Sales	% YoY (Currency neutral)	
Vietnam	51.2	+2.2%	Market recovering <i>Sting</i> and <i>TEA+</i> sales increased
Health Supplement	39.5	+10.6%	<i>BRAND'S Essence of Chicken</i> sales remained steady



In Asia, sales was up 5.2% on a currency neutral basis, and segment profit was up 16.2%.

The soft drinks market in Vietnam was flat during the first half, but turned positive from the third quarter.

Our new product of energy drink, *Sting*, was a success, and sales grew by double digits in the cumulative total of the three months from July to September.

In the Health Supplement business, we have started working with a new distributor in Thailand starting from January, which has improved route-to-market capabilities.

This has contributed to significant sales increase, mainly around *BRAND'S Essence of Chicken*.

## Asia: Vietnam on track to recovery

- Beverage Market on track to recovery in Q3
- With launch of *Sting*'s new product, Q3 resulted in good performance

Sales trend in Vietnam: Market v.s. SBF



"*Sting Max Gold*", new product of energy drink, *Sting* (launched in July)



Next, I will go over the situation in Vietnam.

During the first half, the beverage market's slowdown which started last year continued, mainly with the significant decrease of RTD tea market compared to previous year.

However, we were able to recover in the third quarter, growing by mid-single digit.

Our sales has been recovering as a result of proactive marketing activities in addition to the launch of new product of our core energy drink *Sting*.

Vietnam has once again led the Asia business with growth in both sales and profit for the third quarter.

We project continued growth in the market for the fourth quarter, and we will strive for continued sales growth that outperforms the market.

## Sell Food and Instant Coffee Business

Transfer shares of subsidiaries operating food and instant coffee business in Australia, New Zealand, and Singapore (but retain Fresh Coffee Business)

- Transferee: The Kraft Heinz Company
- Transfer Price: Approx. 26 billion yen
- Date of Agreement: October 19<sup>th</sup>, 2017
- Transfer Date: First Quarter, 2018 (planned)

## Form of a Joint Venture in Thailand

Acquisition of PepsiCo's beverage business in Thailand

- Transferor: Pepsi-Cola (Thai) Trading Co., Ltd.
- Transfer Price: Approx. 33 billion yen
- Date of Agreement: November 2<sup>nd</sup>, 2017
- Transfer Date: March, 2018 (planned)

Next, I will explain the sale of our business which was announced previously, and the acquisition which was announced today.

As we have announced on October 19 and also today at 3 pm, in order to bring Asia, the driver of our sales and profit growth, to the next level, we are taking the strategy of “select and focus” for the business.

I would like to take this opportunity to explain about it.

First, we will be selling our food and instant coffee business, which is currently a part of our foods business.

We have decided to sell our food and instant coffee business, which include sauces and spices, since they are not very compatible with our business portfolio.

We will retain the fresh coffee business and continue to strive for further growth as we have top brands in Australia and New Zealand.

Second, I would like to explain the acquisition of shares in PepsiCo's beverage business in Thailand.

We have come to an agreement with PepsiCo on forming a joint venture in which SBF owns 51%.

We will utilize the governance know-how which we have acquired through the joint venture in Vietnam, and aim to grow sales and profit with the strong distribution platform of PepsiCo as well as our strength in business expansion of non-carbonated products.

As a result, in addition to the existing health and supplement business, we will have a large business platform in Thailand, which is a promising market for strong growth.

Along with the soft drinks business in other countries such as Vietnam and Indonesia, we aim to achieve further growth in the overall South East Asia region.

# Oceania/Americas: Results for Q3, FY2017 (9 months)

## Oceania

### Headwinds for Juice category in New Zealand

(Billions of yen)			
Sales	% YoY (Currency neutral)	Segment Profit	% YoY (Currency neutral)
29.9	-1.6%	3.4	-9.6%



## Americas

### NCB\* grew but impacted by cost increase (raw materials, etc.)

(Billions of yen)			
Sales	% YoY (Currency neutral)	Segment Profit	% YoY (Currency neutral)
61.6	-0.2%	7.2	-7.5%



\*NCB: non-carbonated beverage

Next, Oceania and the Americas.

In Oceania, the sales of the core energy drink *V* and sports drink *Maximus* were strong, but the juice category in New Zealand faced headwinds, resulting in lower sales than the same period last year.

In the Americas, carbonated beverages and new products were weaker than expected, but non-carbonated beverages, such as water, performed steadily, resulting in approximately the same sales as the previous year.

With other factors such as rising price of raw materials, we ended up with a profit decrease.

## Revision of FY2017 Forecast

This concludes the financial results for the third quarter.

Next, I will explain the forecast for FY2017.

# Forecast for FY2017

(Billions of yen)

	FY2016 Result	FY2017 Revised Forecast	Difference from prev. forecast	Change		
				YoY	% YoY	Currency Neutral
Net Sales	1,410.8	1,445.0	+15.0	+34.2	+2.4%	+1.0%
Operating Income	93.5	98.0	-	+4.5	+4.8%	+2.5%
Net Income <sup>*1</sup>	46.1	47.0	-	+0.9	+2.0%	-0.3%
EBITDA <sup>*2</sup>	180.8	187.0	+1.0	+6.2	+3.4%	+1.4%
Net income before amortization of goodwill <sup>*3</sup>	74.7	76.3	+1.1	+1.6	+2.1%	-0.4%

\*1 Net income attributable to owners of the parent

\*2 EBITDA = operating income + depreciation and amortization + amortization of goodwill

\*3 Net income before amortization of goodwill = Net income attributable to owners of the parent + amortization of goodwill

We have revised the sales forecast of FY2017 that we had announced this February to 1,445.0 billion yen, up 2.4% from the previous year, taking into consideration the results of the third quarter and the projections for the fourth quarter.

The operating income will remain unchanged from what was announced at the beginning of the year at 98.0 billion yen.

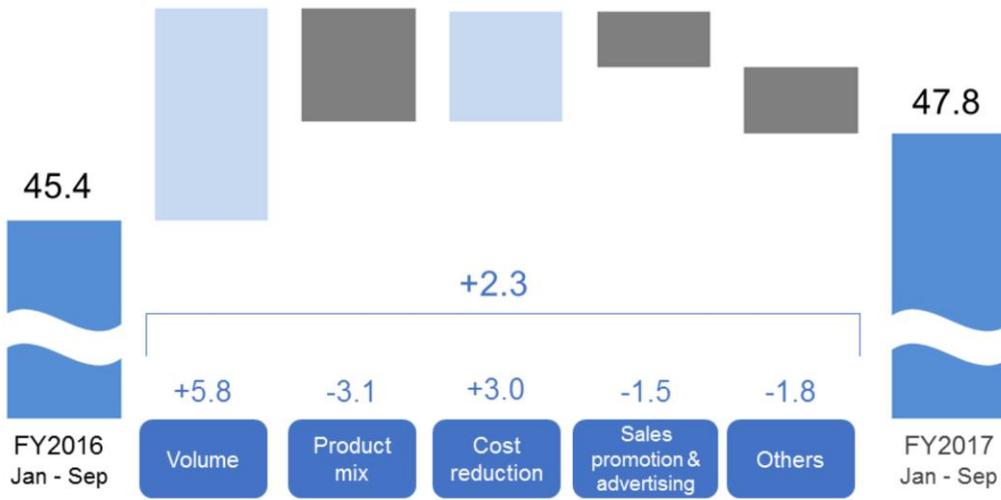
That is all from me.

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# Japan: Segment Profit Bridge for Q3 FY2017 (9 months)

(Billions of yen)



# Financial Results for Q3, FY2017 (3 months)

(Billions of yen)

	Sales	Change		Segment Profit	Change	
		% YoY	Currency neutral		% YoY	Currency neutral
Japan	262.4	+2.4%	-	22.0	+0.3%	-
Europe	67.0	+7.8%	-2.9%	12.8	-4.3%	-12.1%
Asia	44.4	+17.2%	+8.3%	4.7	+22.4%	+10.3%
Oceania	9.7	+6.6%	-4.3%	0.8	-26.8%	-35.3%
Americas	21.9	+2.6%	-4.7%	3.0	-3.6%	-9.7%
Reconciliations	-	-	-	-9.5	-	-
<b>Total</b>	<b>405.4</b>	<b>+4.8%</b>	<b>+1.5%</b>	<b>33.8</b>	<b>-2.1%</b>	<b>-6.1%</b>

# Forecast for FY2017 by Segment

(Billions of yen)

Sales	FY2016 Result	FY2017 Revised Forecast	Difference from prev. forecast	Change		
				YoY	% YoY	Currency Neutral
Japan	890.0	895.0	-	+5.0	+0.6%	-
Europe	229.4	240.0	+15.0	+10.6	+4.6%	+1.3%
Asia	164.3	181.0	-	+16.7	+10.1%	+6.0%
Oceania	40.8	42.0	-	+1.2	+3.0%	-3.3%
Americas	86.2	87.0	-	+0.8	+0.9%	-2.1%
<b>Total</b>	<b>1,410.8</b>	<b>1,445.0</b>	<b>+15.0</b>	<b>+34.2</b>	<b>+2.4%</b>	<b>+1.0%</b>

# Forecast for FY2017 by Segment

(Billions of yen)

Segment Profit	FY2016 Result	FY2017 Revised Forecast	Difference from prev. forecast	Change		
				YoY	% YoY	Currency Neutral
Japan	57.8	60.4	-	+2.6	+4.5%	-
Europe	39.7	40.0	+2.1	+0.3	+0.7%	-2.4%
Asia	16.2	21.0	+1.1	+4.8	+29.6%	+21.7%
Oceania	6.1	5.8	-0.4	-0.3	-4.3%	-9.5%
Americas	10.4	9.5	-1.1	-0.9	-9.0%	-11.7%
Reconciliation	-36.7	-38.7	-1.7	-2.0	-	-
<b>Total</b>	<b>93.5</b>	<b>98.0</b>	<b>-</b>	<b>+4.5</b>	<b>+4.8%</b>	<b>+2.5%</b>

# Exchange Rates

(Yen, average exchange rate)

	FY2016 Jan-Sep	FY2017 Jan-Sep	FY2016 Result	FY2017 Forecast (as of Nov 2)	Previous Forecast (as of Feb 13)
U.S.Dollar	108.6	111.9	108.8	112	110
Euro	121.0	124.6	120.2	126	115
British Pound	151.3	142.6	147.5	144	135
Singapore Dollar	79.1	80.5	78.7	81	77
Vietnam Dong	0.0049	0.0049	0.0049	0.0049	0.0048
New Zealand Dollar	75.0	80.1	75.7	80	77
Australian Dollar	80.4	85.7	80.8	86	82

# Forward-Looking Statements

This document contains forward-looking statements related to business and financial performance of the Company or the Group.

These forward-looking statements are projections made based on the currently available information and are subject to risks and uncertainties including, but not limited to, economic trends, competition in the industry in which the Company and the Group operate, market needs, exchange rates, as well as tax and other systems.

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