

Financial Results for Q2 Year Ending December 31, 2018

Aug 6, 2018
Suntory Beverage & Food Limited

2018 First Half Review

Saburo Kogo, President & CEO

This is Saburo Kogo.
First, I would like to review the first half of 2018.

	(Billions of yen)			
	FY2018 Jan - Jun	Change		
		YoY	%YoY	Currency Neutral
Revenue	613.9	+23.1	+3.9%	+2.8%
Operating Income	56.4	+1.9	+3.5%	+1.3%
Net Income*	41.3	+6.9	+20.1%	+17.3%

* Profit for the period attributable to owners of the Company

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Here is our 2018 first half performance highlights.

Revenue was 613.9 billion yen, up 3.9%, operating income was 56.4 billion yen, up 3.5%, and profit for the period was 41.3 billion yen, up 20.1%. The dividends for the second quarter is 39 yen, up 2 yen from last year.

Each region and country were impacted by the external environment and other changes that occurred, and face unique short term issues and challenges, as well as “medium term structure challenges” which take longer time to address. By addressing these issues through trial and error and continuous efforts, we were able to finish the first half with increase in revenue.

As for profit, the gain on sale of food and instant coffee business in Asia was higher than expected, resulting in an increase in profit for both operating income and profit attributable to owner of the Company.

However, on organic basis, which exclude the sale of food and instant coffee business and figures from the new joint venture in Asia, operating income underperformed the previous year at a level greater than we had expected.

We believe that this result means that we are facing a business challenge resulted from growth plateau.

For further future growth, moving forward on the “structure reform” for the medium term, in order to speed up the execution of the Corporate Strategy for 2030 set at the beginning of the year, is necessary.

Examples that show we are experiencing growth plateau include the following:

-First, in Japan business, while sales and share increased through the activation of our core brands such as "Boss," and "Suntory Tennensui", adverse product mix and higher supply chain cost had a negative impact on profit.

-In Europe and in others regions, we are addressing market changes such as the trend towards natural and healthy and less sugar products by trying to reform and expand our portfolio through proactive investment, but it will take more time and funding until these efforts reach a level that will drive the overall business.

-In addition, until the new portfolio is able to contribute to the overall business, we need to continue to achieve sustainable growth with core brands and products.
Therefore, we must execute two initiatives concurrently.

For the transition from growth plateau to a new growth model, we will actively make investments where necessary without fearing risks, and work on structure reform head-on.

Structure Reform

- Strengthen core brands
- Accelerate portfolio expansion
- Enhance SCM & Optimize costs
- React to shift in drinking scenes and RTM
- Merger & Acquisition

Here are the five main points for structure reform.

Some overlap with the pillars of the long term strategy for 2030, but I would like to go over them again.

-First, achieve sustainable growth of major brands that are the core of each region.

Even for core brands that have already matured, it is possible to achieve sustainable growth by making continuous efforts on brand activation, such as the case of *Craft Boss*.

-Next is acceleration of portfolio expansion.

We need to accelerate portfolio reform and expansion in order to address the global health trend towards natural and healthy and less sugar, as well as the market expansion of non-carbonated categories including products such as RTD tea and RTD coffee.

-In addition, we need to further accelerate the supply-chain enhancement and cost

optimization that will allow us to quickly work with the new portfolio.

-We will also need to quickly react to shift in drinking scenes and route-to-market, which are changing even more rapidly through digital technology.

At the same time, it is important to proactively develop new drinking and purchasing scenes that are different from traditional channels.

-Lastly, in addition to the M&A in Thailand, we will aggressively challenge ourselves
to enter new markets where we can leverage our strength, by utilizing our cash.

As different regions reach a turning point at same time, we will set three years as a period for structure reform. We will not take a conservative approach based on a short term perspective, but view the global change such as preference towards healthy, less-sugar, and RTD products, as a great opportunity and further accelerate the structure reform.

That is all from me.

Supplementary Explanation

Yuji Yamazaki,
Senior Managing Executive Officer
Member of the Board

This is Yuji Yamazaki.
I will explain further details for this quarter's results.

Financial Results for Q2, FY 2018 by Segment

(Billions of yen)	Revenue	Change			Segment Profit	Change		
		YoY	%YoY	Currency Neutral		YoY	%YoY	Currency Neutral
Japan	333.8	+6.6	+2.0%	—	18.9	-5.9	-23.7%	—
Europe	123.5	+4.9	+4.1%	-2.7%	14.2	-2.4	-14.6%	-20.4%
Asia	92.9	+14.6	+18.6%	+19.0%	22.2	+10.8	+95.2%	+92.6%
Organic*	71.9	+3.1	+4.5%	+4.2%	9.1	-0.9	-8.9%	-10.6%
Oceania	26.3	-0.5	-2.0%	-0.6%	2.9	+0.1	+3.3%	+1.8%
Americas	37.3	-2.5	-6.2%	-3.0%	3.8	-0.4	-10.3%	-7.3%
Reconciliation	—	—	—	—	-5.6	-0.3	—	—
Total	613.9	+23.1	+3.9%	+2.8%	56.4	+1.9	+3.5%	+1.3%
Organic*	592.8	+11.6	+2.0%	+0.8%	43.3	-9.8	-18.5%	-20.3%

*Excluding gain on sale of food and instant coffee business, Food and Instant Coffee Business, Thai Joint Venture

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First, here are the results by segment.

For revenue, the beverage business in Japan, France, and Asia had significant growth, resulting in an increase in consolidated revenue for the first half.

Profit increased on consolidated basis, but on organic basis that exclude the sale of the food and instant coffee business in Asia, and the impact from the new joint venture in Thailand, profit decreased approximately 20%, with Japan and Europe struggling the most.

Japan	Revenue increased due to good performance of core brands. Profit decreased due to adverse product mix and supply chain cost.
Europe	Revenue decreased (currency neutral) due to market deceleration affected by bad weather and uncertainty caused by UK sugar tax. Profit decreased due to revenue decrease and effect of investment for <i>MayTea</i> .
Asia	On top of good performance in Vietnam, the new JV business in Thailand also attributed, resulting in revenue increase. Profit increased due to gain on sale of food and instant coffee business.
Oceania	Both revenue and profit are almost flat (currency neutral).
Americas	Revenue slightly decreased due to deceleration of the core CSD products. Profit decreased due to revenue decrease and rise of raw material price.

Next is the general overview by segment.

In Japan, profit increased as a result of positive performances of core brands such as *Suntory Tennensui* and *Boss*.

On the other hand, adverse product mix and higher supply chain cost led to decrease in profit.

In Europe, market deceleration due to bad weather continued from the first quarter into the second quarter.

Revenue increased in France, but UK and Spain struggled. As a result, revenue increased overall, but decreased on a currency neutral basis.

Profit decreased as well due to impacts from the revenue decrease.

In Asia, in addition to the positive performance in Vietnam, the new beverage joint venture in Thailand contributed, resulting in revenue increase.

Profit increased significantly as well, with the effect of gain on sale of food and instant coffee business.

Results of Oceania and the Americas are as shown.

Next, I would like to explain each region in detail.

Revenue increased due to good performance of core brands.
Profit decreased due to adverse product mix and supply chain cost.

		(Billions of yen)	
Revenue	%YoY	Segment Profit	%YoY
333.8	+2.0%	18.9	-23.7%

- Good performance of key categories including water, coffee, and sugar-free tea.
- Adverse product mix due to deceleration of FOSHU & 185g can coffee.
- Supply chain cost increased due to continuous preparation for the peak season.



First, Japan.

The major achievement of the first half in Japan is business growth through increase in sales, mainly of core brands.

Although the growth of the market sales volume was estimated to be 2%, our core category of water, coffee, and sugar free tea performed well, resulting our sales volume grew significantly by 4% compared to the previous year, and share went up as well.

However, profit decreased more than we had initially forecasted.

This is due to adverse product mix as a result of sales decrease of *Tokucha* and the 185g canned coffee.

Inventory build-up to prepare for increased demand from the heat wave and launch of new products led to higher supply chain cost, which impacted the result as well.

Based on this situation, here are the important points that should be implemented during the second half.

Strategy for H2, FY2018

Increase sales of core brands

Strengthen FOSHU & 185g can coffee

Proactive SC cost cut activity

There are three main initiatives for the second half.

Not only the core brands perform well, this summer's heat wave is expected to last for a while. This is an opportunity to significantly grow our sales volume.

We will further reinforce our activities mainly in water, coffee, and sugar free tea, in order to capture as much demand as possible through this opportunity.

Also, we will put the brakes on the adverse product mix by reinforcing activities of *Tokucha* and 185g canned coffee in order to leverage them.

We will implement innovative campaigns for *Tokucha*.

In addition, we will enhance communication and in-store activities to aim for recovery.

For 185g canned coffee, a major new product will be launched in September, called *Boss THE CANCOFFEE*.

Also, the new factory dedicated to roasting coffee beans, called "Suntory Roastery," will be positioned as the primary hub to the quality of our canned coffee, and we will work to develop new products that use high quality roasted beans.

We will also work to reduce supply chain cost.

In the first half, although there was capacity shortage in the aseptic line, we actively built up inventory to prepare for the peak season. In the second half, we are foreseeing cost reductions.

In addition, we will work on further cost reduction in each process to aim for

recovery.

Also, with record breaking heat and heavy rains that impacted the regions of western Japan last month, the industry overall is facing transportation capacity shortages.

The delivery of our products has been affected as well, but we are doing our best to amend the situation, and will continue those efforts to minimize the impact.

Mid-term Strategy**Innovate production & SC management****Establish new high added-value & profitability model****Innovate Vending Machine Business**

In the Japan business, we have been able to achieve business growth by acquiring support from customers through proposing new values.

However, as the business environment and structure change, in order to continuously create profit, we will need to work on “structure reform” that match the business environment.

We will accelerate our efforts in the three main points below.

First, is to innovate production and SCM.

In the recent years, while sales volume have been increasing as a result of our efforts in strengthening core brands, the ratio of products that are manufactured in aseptic lines are also increasing rapidly.

In addition to the new production line in Ujikawa Factory which will start operations in 2019, we have decided to invest in a new production line in Haruna Factory which will start operations in 2020.

We will further accelerate innovation of production and SCM in order to address to the category shift.

Next is establishing a new high added value and profitability model.

Since our listing, we have been implementing initiatives based on different circumstances to increase profit, including industry leading initiatives such as, “strengthening core brands,” “developing products with high added value, ” and “shifting to small format products.”

We will aim for further growth by taking on new challenges in the healthy category, and to set up new business models in new areas with fresh perspectives.

Lastly, we will innovate the vending machine business.

The vending machine channel has continued to shrink in the overall market, but we implemented proactive initiatives such as launching products exclusively for vending machines, and were able to keep the sales decrease to the minimum within the industry.

We are seeing changes in cost structure due to societal factors, such as increase in oil price and labor shortages.

However, we believe that vending machines will continue to be an important channel since it plays a large role in terms of consumer engagement.

We will make efforts to innovate and evolve the business model with new ideas.

Bad weather continued to affect Europe in Q2, resulting revenue decrease (currency neutral).
Profit decreased due to revenue decrease and investment for *MayTea*.

Revenue			Segment Profit		
Revenue	%YoY	Currency Neutral	Segment Profit	%YoY	Currency Neutral
123.5	+4.1%	-2.7%	14.2	-14.6%	-20.4%

(Billions of yen)

	Revenue	%YoY	Currency Neutral	
France ^(*)	53.8	+13.0%	+4.5%	Good performance of core brands and <i>MayTea</i>
UK ^(*)	30.6	-3.5%	-8.8%	Recover of <i>Lucozade Energy</i> slower than expected, decreased.
Spain ^(*)	25.1	-2.8%	-10.1%	Decreased due to market deceleration caused by bad weather.

(*) France, Belgium (**) UK, Ireland (***) Spain, Portugal



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Next, Europe.

Europe experience extremely cold weather through February and March, and bad weather continued during the second quarter.

This caused market deceleration, leading to decrease in revenue and profit on a currency neutral basis.

By country,

In France, *MayTea*, which was launched in 2016, as well as core brands perform well, leading to revenue increase.

On the other hand, marketing cost for *MayTea* increased.

Also, distribution cost increased as a result of labor shortages in the society.

Although we did not experience any major trouble as we did in the previous year, we still believe that we need to promote reform in the supply chain.

In the UK, in addition to bad weather, we are still seeing uncertainties caused by the introduction of the sugar tax.

The recovery of the main product *Lucozade Energy* fell behind, but is now on a recovering trend according to the latest results.

Spain was especially impacted by the weather, and it is estimated that the beverage market decreased by 4% from January to June.

Sales decreased as a result.

Based on this situation, I will explain the initiatives that we will take in the second half.

France

- Further growth of core brands & *MayTea*
- Continuous improvement on supply chain

UK

- Sales recovery of *Lucozade Energy*

Spain

- Enhance activity in peak season to aim for recovery

In France, core brands such as *Orangina* are performing well, and market share is increasing.

Also, *MayTea*, which we proactively invested in, is performing very well resulting in 60% increase compared to the previous year, in January to June.

We will continue to expand our portfolio by reinforcing our core brands and *MayTea* in second half.

Also, we will further promote reform in the supply chain based on a medium term perspective.

In the UK, the recovery of *Lucozade Energy* took longer than expected, but promotional activities proved effective, and we are starting to see positive responses since June.

We will continue to make efforts to recover sales by being proactive.

In Spain, bad weather continued even after February to March, and market deceleration continued. However, temperatures have started to rise from July, and we will work to recover sales by reinforcing our activities for the peak season.

On top of good performance in Vietnam, the new JV business in Thailand also attributed, resulting in revenue increase. Profit increased due to gain on sale of food and instant coffee business.

		(Billions of yen)					
		Revenue	%YoY	Currency Neutral	Segment Profit	%YoY	Currency Neutral
		92.9	+18.6%	+19.0%	22.2	+95.2%	+92.6%
	Revenue	%YoY	Currency Neutral				
Beverage (Vietnam)	36.9	+8.2%	+10.6%	Good performance in CSD and tea			
Beverage (Thailand)	17.8	-	-	Post-M&A integration goes well			
Health Supplement	25.5	+0.9%	-2.5%	While grow in developing countries, struggling in Thailand. Decreased (currency neutral).			

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Next, Asia.

I will explain by business type.

The beverage business overall is performing well.

In Vietnam, we achieved significant double digit growth on a currency neutral basis.

In Thailand, where we started a new joint venture, the integration process went well.

Also in Indonesia, we achieved stable growth, continuing the trend from last year.

Health supplement business continued to expand smoothly in the emerging countries where we are reinforcing our activities.

However, core brands, mainly "Essence of Chicken," struggled in Thailand, resulting in revenue decrease on a currency neutral basis.

On organic basis, excluding gain on sale of food and instant coffee business and new joint venture in Thailand, profit increased for the second quarter, but profit decrease in the first quarter still has effect, and profit for the first half decreased by approximately 10%.

In the second half, along with further growth in Vietnam, Thailand, and Indonesia for beverage business, in the health supplement business, we will reinforce "Essence of Chicken" in Thailand as well as emerging countries such as Myanmar, and expand direct-sales business to aim for recovery.

(Billions of yen)

	FY2018 Forecast	Change		
		YoY	%YoY	Currency Neutral
Revenue	1,293.0	+59.0	+4.8%	+4.6%
Operating Income	127.0	+9.0	+7.7%	+7.3%
Net Income*	80.0	+1.9	+2.4%	+2.0%

* Profit for the period attributable to owners of the Company

Next, is the 2018 full-year forecast.

There are no changes from the forecast which we announced on February 15.

The environment in the first half was tougher than expected, causing downside risks of a few billion yen in operating income. However, the second half, which includes the peak season, usually composes higher part of the revenue and profit. Towards the peak season, we will reinforce our activities to reverse the negative effect from bad weather and temporary supply chain cost increase in preparation for the summer in the first half, and aim to achieve the forecast that we announced in the beginning of the year.

That is all from me.

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FY2018 Forecast (by Segment)

	(Billions of yen)											
	Revenue	Change			Segment Profit	Change			Net Income*	Change		
		YoY	%YoY	Currency Neutral		YoY	%YoY	Currency Neutral		YoY	%YoY	Currency Neutral
Japan	693.0	+3.8	+0.6%	—	58.5	+1.2	+2.1%	—	—	—	—	—
Europe	255.0	+16.1	+6.7%	+4.5%	34.0	-0.6	-1.7%	-3.5%	—	—	—	—
Asia	200.0	+36.5	+22.3%	+23.6%	31.0	+8.8	+39.8%	+40.4%	—	—	—	—
Oceania	58.0	+1.7	+3.0%	+2.6%	6.7	+0.7	+11.4%	+8.9%	—	—	—	—
Americas	87.0	+1.0	+1.1%	+3.1%	9.3	+0.0	+0.0%	+2.0%	—	—	—	—
Reconciliation	—	—	—	—	-12.5	-1.1	—	—	—	—	—	—
Total	1,293.0	+59.0	+4.8%	+4.6%	127.0	+9.0	+7.7%	+7.3%	80.0	1.9	+2.4%	+2.0%

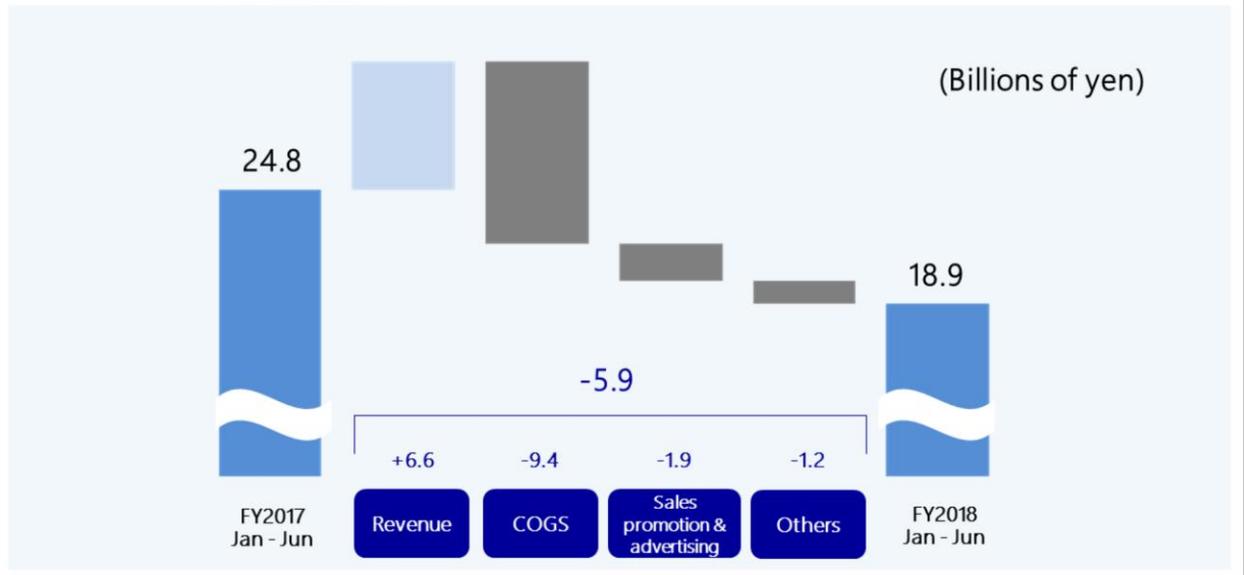
* Profit for the period attributable to owners of the Company

Revenue Results by Quarter

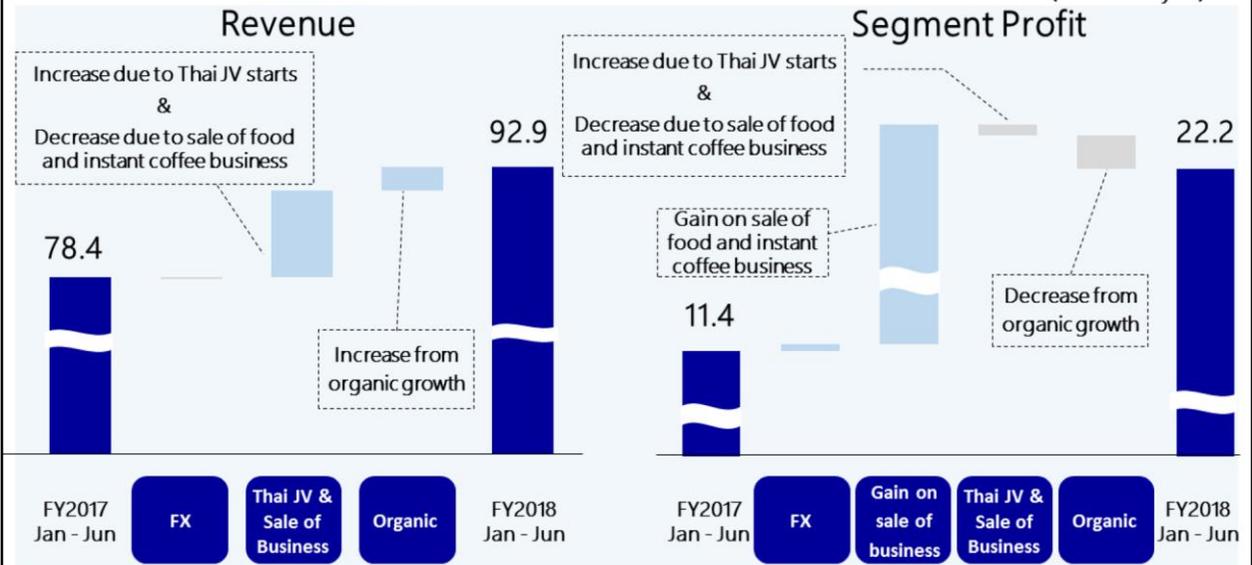
	Q1 (Jan-Mar)	Change			Q2 (Apr-Jun)	Change		
		YoY	%YoY	Currency Neutral		YoY	%YoY	Currency Neutral
Japan	150.5	+3.2	+2.1%	—	183.4	+3.5	+1.9%	—
Europe	51.8	+2.3	+4.6%	-3.1%	71.7	+2.6	+3.7%	-2.5%
Asia	44.3	+5.0	+12.7%	+13.5%	48.6	+9.6	+24.4%	+24.6%
Oceania	13.6	-0.1	-0.7%	+0.4%	12.7	-0.4	-3.4%	-1.6%
Americas	17.0	-1.5	-8.2%	-3.7%	20.3	-0.9	-4.4%	-2.5%
Reconciliation	—	—	—	—	—	—	—	—
Total	277.1	+8.8	+3.3%	+2.3%	336.7	+14.3	+4.4%	+3.2%

Segment Profit Results by Quarter

	Q1 (Jan-Mar)	Change			Q2 (Apr-Jun)	Change		
		YoY	%YoY	Currency Neutral		YoY	%YoY	Currency Neutral
Japan	5.2	-3.0	-36.6%	—	13.7	-2.9	-17.4%	—
Europe	3.7	-1.2	-24.4%	-30.1%	10.5	-1.2	-10.5%	-16.3%
Asia	17.5	+10.1	+136.5%	+131.2%	4.7	+0.7	+18.7%	+19.2%
Oceania	1.5	+0.1	+7.6%	+5.4%	1.4	-0.0	-0.9%	-1.7%
Americas	1.5	+0.0	+0.2%	+5.1%	2.3	-0.4	-16.2%	-14.1%
Reconciliation	-2.8	-0.4	—	—	-2.8	+0.1	—	—
Total	26.6	+5.7	+27.0%	+24.3%	29.8	-3.7	-11.2%	-13.0%



(Billions of yen)



	FY 2017 Jan-Jun	FY 2018 Jan-Jun	FY 2018 Forecast
U. S. Dollar	112.3	108.7	110
Euro	121.7	131.6	131
British Pound	141.4	149.6	142
Singapore Dollar	80.0	81.9	81
Thai Baht	3.2	3.4	3.3
Vietnam Dong	0.0049	0.0048	0.0048
New Zealand Dollar	79.6	77.8	79
Australian Dollar	84.8	83.9	87

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