

Financial Results for Q3 Fiscal Year Ending December 31, 2018

November 5, 2018
Suntory Beverage & Food Limited

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This is Haruhisa Inada.
I will explain the financial results for the third quarter of FY2018.

	FY2017 Jan - Sep	FY2018 Jan - Sep	Change		
			YoY	% YoY	Currency Neutral
Revenue	930.2	972.1	+41.8	+4.5%	+4.1%
Operating Income	93.1	94.4	+1.3	+1.4%	-0.0%
Net Income*	59.0	65.8	+6.8	+11.5%	+9.7%

* Profit for the period attributable to owners of the Company

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Compared to the same quarter of the previous year, revenue was 972.1 billion yen, up 4.5%, operating income was 94.4 billion yen, up 1.4%, and net income was 65.8 billion yen, up 11.5%.

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(Billions of yen)	Revenue	Change			Segment Profit	Change		
		YoY	%YoY	Currency Neutral		YoY	%YoY	Currency Neutral
Japan	536.8	+13.6	+2.6%	—	39.9	-5.7	-12.5%	—
Europe	193.6	+8.0	+4.3%	-0.1%	25.2	-3.6	-12.6%	-16.6%
Asia	143.3	+23.9	+20.0%	+21.6%	27.7	+12.2	+78.7%	+77.4%
Organic*	109.5	+5.0	+4.8%	+6.6%	14.4	+0.6	+4.7%	+4.1%
Oceania	38.8	-1.5	-3.7%	-0.2%	3.5	-0.4	-10.3%	-11.5%
Americas	59.5	-2.2	-3.5%	-1.5%	6.5	-0.7	-10.3%	-8.5%
Reconciliation	—	—	—	—	-8.4	-0.5	—	—
Total	972.1	+41.8	+4.5%	+4.1%	94.4	+1.3	+1.4%	-0.0%
Organic*	938.3	+23.0	+2.5%	+2.1%	81.8	-10.5	-11.4%	-12.6%

*Excluding incomes and expenses due to extraordinary factors such as M&A

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Let me explain revenue and profit by segment.

On a currency neutral basis,
 Japan and Asia were main drivers of revenue.
 In terms of profit, while Asia had a significant increase due to the
 gain on the sale of food and instant coffee business,
 profit decreased in other regions, particularly in Japan and Europe.

I will go over each segment in detail on the following pages.

Please turn to page 4.

Revenue

536.8

%YoY

+2.6%

Segment Profit

39.9

(Billions of yen)

%YoY

-12.5%

- Good performance of core brands such as *Suntory Tennensui* and *Boss* caused revenue increase.
- Profit decreased due to adverse product mix and SC cost increase
- Effect of hot summer and natural disasters

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First, Japan.

Revenue was 536.8 billion yen, up 2.6%.

Segment profit was 39.9 billion yen, down 12.5%.

While the market growth during January to September is estimated to be around 2%, our sales volume increased by 4% supported by the good performance of core brands such as *Suntory Tennensui* and *Boss*.

Suntory Minami-Alps Tennensui Sparkling and *Craft BOSS* were particularly strong, and were able to capture new demand.

On the other hand, profit was significantly lower than the previous year mainly because of two factors:

- First is the deterioration of product mix as a result of declined sales of FOSHU products, etc. compared to the previous year, and
- Second is an increase in supply chain cost.

The increase in supply chain cost was caused by

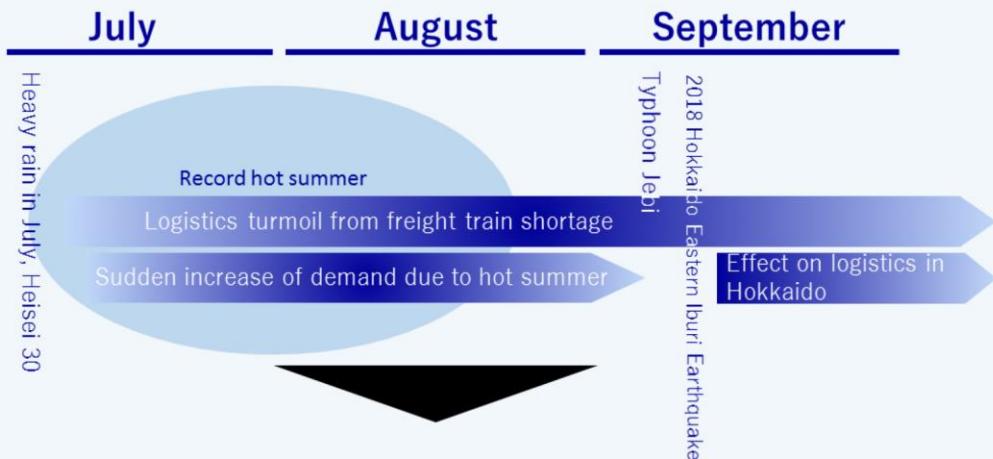
- Inventory build-up toward summer, in preparation for increased demand from the heat wave and new products launch; as well as
- Price hikes of raw materials such as resin for PET bottles.

On top of these factors, temporary costs associated with logistics turmoil incurred from the heat wave, and natural disasters during the summer also had a negative impact on supply chain cost.

Deterioration of product mix and logistics turmoil in summer heavily affected our vending machine channel. Along with the increase in operation cost, the environment surrounding the vending machine business is getting tougher.

On the next slide, I will explain the impact from the heat wave and natural disasters during summer in detail.

Please turn to page 5.



Increased demand and one-off cost related to logistics turmoil incurred.

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This summer, a record heat wave pushed up beverage demand greatly. Amid such situation, several natural disasters occurred, causing a major disruption to domestic logistics system.

First event was the heavy rain in western Japan in early July.

Freight trains of JR Sanyo Line, an important logistics artery, were interrupted by the heavy rain, causing immediate disruption to the distribution network in western Japan.

In a situation where the entire beverage industry suffered great obstacles in securing delivery means to supply products, we put our utmost effort in ensuring supply of our products.

Meanwhile, the rise in transportation costs and inevitable use of different distribution routes than usual pushed up supply chain cost at a stroke.

After the heavy rain, Typhoon Jebi severely hit Kansai region, damaging our assets such as vending machines.

To make the situation worse, Hokkaido was struck by a strong earthquake on September 6 which caused damages to our distribution center within the prefecture. The recovery cost for distribution center in Hokkaido as well as other additional costs directly associated with the series of natural disasters in summer summed up to approximately 1.5 billion yen.

Fortunately, disruptions have mostly been resolved by now.

Now, please turn to page 6.

Revenue flat v.s. last year (currency neutral)
On top of investment for *MayTea*, supply chain cost increase in France, deceleration of market in Spain also affected, profit decreased.

(Billions of yen)

	Revenue	%YoY	Currency Neutral	Segment Profit	%YoY	Currency Neutral
	Revenue	%YoY	Currency Neutral			
	193.6	+4.3%	-0.1%	25.2	-12.6%	-16.6%
France (*1)	82.5	+11.1%	+5.8%	Good performance of core brands and <i>MayTea</i>		
UK (*2)	47.4	+0.8%	-2.9%	Since summer, the sales trend of Lucozade Energy had been positive		
Spain (*3)	43.0	-2.3%	-7.0%	Continued decreasing due to on-premise market deceleration.		

(*1) France, Belgium (*2) UK, Ireland (*3) Spain, Portugal

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Next, Europe.

Revenue and segment profit decreased by 0.1% and 16.6%, respectively, on a currency neutral basis.

Thanks to the favorable weather in summer, France covered the revenue decline due to “bad weather in the First Half” and “market stagnation in Spain”. As a result, cumulative revenue from January to September stood at about the same level as the previous year.

On the other hand, profit was significantly lower than the previous year because of active investment in *MayTea* and the rise of supply chain cost in France.

I will explain the situation in France, the UK and Spain in detail, on the next page.

Please turn to page 7.

France

- Hot weather results in good performance of core brands & *MayTea*.
- With chronic shortage of truck drivers and increased demand due to hot weather, turmoil in logistics occurred, resulting SC cost to increase.
- *MayTea* investment continues.

UK

- Confusion after sugar tax implementation calmed.
- In addition to good weather, enhanced promotional activities also helps, the sales trend of *Lucozade Energy* became positive.

Spain

- The weather recovered from the bad weather in First Half, but on-premise market's down- trend continued. Although market share is maintained, the sales volume decreased.
- Spain also proactively invests on *MayTea*.

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In France, *MayTea* sold well along with core products such as *Orangina* and *Oasis* thanks partly to the intense summer heat.

On the other hand, profit was impacted by active investment in *MayTea* and increased supply chain cost.

Although supply chain management itself did not face as much disruption as the previous year, in addition to the continued and chronic truck shortage, greater demand from the heat wave led to disruption of the distribution network in the society. As a result, our supply chain cost increased significantly than expected.

In the UK, market disruption after the introduction of sugar tax in April has subsided, and the market grew significantly, helped by the good weather in summer.

Also, successful promotional activities brought *Lucozade Energy* back onto upward sales trend, and *Lucozade* brand turned around from the slow performance in the First Half and posted a major increase in sales volume by 15% in the period from July to September.

In Spain, the summer weather was as usual, but the market could not recover from the slowdown due to the bad weather in the First Half, and the overall market trend continues to run below the previous year.

Amid such situation, we maintained our market share, but the sales volume of Schweppes declined compared to the previous year.

In addition, we also actively invested in *MayTea* in Spain.

Please turn to page 8.

On top of the new JV in Thailand, Vietnam also grew, revenue increased.
 With gain on sale of food and instant coffee business, profit increased.

(Billions of yen)

	Revenue	%YoY	Currency Neutral	Segment Profit	%YoY	Currency Neutral
	143.3	+20.0%	+21.6%	27.7	+78.7%	+77.4%
Organic *	109.5	+4.8%	+6.6%	14.4	+4.7%	+4.1%

*Excluding incomes and expenses due to extraordinary factors such as M&A

	Revenue	%YoY	Currency Neutral	
Beverage (Vietnam)	55.8	+8.9%	+12.2%	Good performance in carbonated drinks, RTD tea, and water. 2-digit revenue increased on currency neutral basis
Beverage (Thailand)	30.5	-	-	Post-M&A integration goes well
Health Supplement	38.4	-3.1%	-3.9%	Regardless of good performance in Taiwan and Myanmar, core <i>Essence of Chicken</i> struggles in Thailand, decreased

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Asia.

Revenue and segment profit increased by 21.6% and 77.4% respectively on a currency neutral basis.

In terms of revenue, newly established joint venture in Thailand and the beverage business in Vietnam continued to perform well. The beverage business in Indonesia also grew steadily. As a result, Asia region as a whole posted a double digit revenue growth. Revenue from existing businesses also increased by 6.6% on a currency neutral basis.

Profit increased sharply due to the gain on the sale of food and instant coffee business.

Profit from existing businesses also increased by 4.1% on a currency neutral basis.

Please turn to page 9.

《Oceania》 Revenue flat on currency neutral basis.

With effect of increased raw material price, profit decreased

(Billions of yen)

Revenue	%YoY	Currency Neutral	Segment Profit	%YoY	Currency Neutral
38.8	-3.7%	-0.2%	3.5	-10.3%	-11.5%

Frucor Suntory

28.9

-4.7%

-1.1%

Although every drink is good, juice struggles, revenue slightly decreased

Fresh Coffee Business

9.9

-0.7%

+2.5%

All brands steadily grew, revenue increased on currency neutral.

《Americas》 Revenue slightly decreased due to struggle of the core CSD products.

With effect of increased raw material price, profit decreased

(Billions of yen)

Revenue	%YoY	Currency Neutral	Segment Profit	%YoY	Currency Neutral
59.5	-3.5%	-1.5%	6.5	-10.3%	-8.5%

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Oceania and the Americas.

In Oceania, revenue decreased by 0.2% on a currency neutral basis.

Segment profit decreased by 11.5% on a currency neutral basis, impacted by price hikes of raw materials in addition to the decline of Frucor Suntory revenue.

In the Americas, revenue decreased by 1.5% on a currency neutral basis as our core category, carbonated drink, continued to struggle.

Segment profit decreased by 8.5% on a currency neutral basis, impacted by price hikes of aluminum and other raw materials.

This concludes my explanation on the financial results for the third quarter.

Next, Yuji Yamazaki, Senior Managing Executive Officer, will explain the full year forecast for FY2018.

Revision of FY2018 Forecast

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This is Yuji Yamazaki.
I will explain the full-year forecast for FY2018.

Please turn to page 11.

	FY 2017	FY2018 Forecast (Revised)	Change from Previous	Change		
				YoY	%YoY	Currency Neutral
Revenue	1,234.0	1,293.0	+0.0	+59.0	+4.8%	+4.6%
Operating Income	118.0	118.0	-9.0	+0.0	+0.0%	-0.8%
Net Income*	78.1	80.0	+0.0	+1.9	+2.4%	+2.0%

* Profit for the period attributable to owners of the Company

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In regards to the full-year forecast that we announced in February this year, based on the results up to the third quarter and the projections for the fourth quarter, we revised the operating income forecast to 118.0 billion yen. However, the revenue, or net sales is expected to be in line with the initial forecast on consolidated basis thanks to good performance of core brands and new products mainly in Japan. Also, net income will fall within expectation due to improved finance income and costs as well as decreased taxes. As a result, the forecasts remain unchanged from the initial forecasts at 1,293.0 billion yen for revenue and 80.0 billion yen for net income. The dividend forecast of 78 yen also remains unchanged from the original forecast.

At the Earnings Release for the Second Quarter on August 6, regarding the full-year forecast, I mentioned that “we would aim to achieve the full-year forecast despite the downside risks of a few billion yen in operating income.” However, the environmental changes beyond our expectation at that time, particularly in Japan and Europe, occurred, making us revise down the operating income forecast.

I will explain in detail on the following pages.

Please turn to page 12.

FY2018 Forecast (by Segment)

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(Billions of yen)	Revenue	Change			Segment Profit	Change				
		Change from Previous	YoY	%YoY		Change from Previous	YoY	%YoY	Currency Neutral	
Japan	704.5	+11.5	+15.3	+2.2%	—	52.0	-6.5	-5.3	-9.2%	—
Europe	248.5	-6.5	+9.6	+4.0%	+0.9%	31.0	-3.0	-3.6	-10.4%	-13.4%
Asia	200.0	+0.0	+36.5	+22.3%	+24.0%	33.0	+2.0	+10.8	+48.7%	+48.9%
Organic*	153.0	—	+9.3	+6.5%	+8.3%	20.0	—	+1.9	+10.5%	+11.1%
Oceania	55.0	-3.0	-1.4	-2.4%	+1.6%	6.0	-0.7	-0.0	-0.0%	-0.5%
Americas	85.0	-2.0	-1.0	-1.2%	+0.2%	8.0	-1.3	-1.3	-14.1%	-12.9%
Reconciliation	—	—	—	—	—	-12.0	+0.5	-0.6	—	—
Total	1,293.0	+0.0	+59.0	+4.8%	+4.6%	118.0	-9.0	+0.0	+0.0%	-0.8%
Organic*	1,246.0	—	+31.7	+2.6%	+2.5%	106.0	—	-10.1	-8.7%	-9.4%

*Excluding incomes and expenses due to extraordinary factors such as M&A

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Here are the forecasts by segment.

While each region has different trends for revenue, we are aiming at achieving initial forecast announced at the beginning of the year on consolidated basis.

Regarding operating income, although we made an upward revision for Asia from initial forecast, other regions – mainly Japan and Europe – are expected to have lower profit than initial forecast, and the overall profit was revised down by 9.0 billion yen, 7.1% less than initial forecast.

As a result, overall, we aim to have a 59.0 billion yen increase in revenue while operating income remains to be flat compared to last year.

Next, I will explain factors behind increase and decrease of profit in each region in detail, by separating the factors occurred in the First Half and the Second Half.

Please look at page 13.

Japan

On top of adverse product mix and supply chain cost from First Half, one-off cost due to logistics turmoil from hot weather and natural disaster incurred. Raw material's price also increased.

Europe

Turmoil in logistics resulting additional cost in France. Spain's market trend also unable to recover.

Asia

Gain on sale of food and instant coffee business above estimate, pushing up the profit

Oceania

Affected by lower sales and raw material price increase

Americas

Price of raw materials such as aluminum increased

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This slide explains the factors that caused revision of operating income's full-year forecast.

First, Japan.

Upon closing the First Half, we were looking at the heat wave as an opportunity to recover from the underperformance of the first half due to the deterioration of product mix and increased supply chain cost.

However, costs in the third quarter increased 4.0 billion yen more than expected. As a result, combined with approximately 2.5 billion yen of underperformance in the First Half, we made a downward revision of 6.5 billion yen in total.

In regards to the factors of decrease, in the Second Half, as Inada explained earlier, natural disasters such as the heavy rain in western Japan, a series of typhoons and the Hokkaido earthquake, as well as the logistics turmoil due to record heat wave directly caused additional costs of about 1.5 billion yen.

Other than the above, in the vending machine business, sales opportunity loss from the inability to deliver enough products due to the logistics turmoil, and operation cost increase due to shortage of human resources also had an impact.

Additionally, further price hikes of raw materials such as resin against the backdrop of higher oil price also affected the profit. Despite the revenue increase thanks to hot weather, the effect of above-mentioned cost increase was larger, making the profit to be behind the forecast by 4.0 billion yen just within the Second Half.

Next, Europe.

As Inada explained, disruptions caused by the heat wave added more to supply chain cost in France and Spain was slow in recovery, especially for the trend of on-premise channel, pushing down the profit forecast by about 1.0 billion yen in the Second Half.

As a result, combined with approximately 2.0 billion yen of underperformance mainly due to bad weather in the First Half, we made a downward revision of 3.0 billion yen in total.

In Asia, the gain on the sale of food and instant coffee business was higher than expected at the beginning of the year that we made an upward revision of 2.0 billion yen.

In Oceania, in addition to the revenue underperformance, we faced price hikes of raw materials such as resin that we made a downward revision of 0.7 billion yen.

In the Americas, in addition to the delayed sales recovery of core carbonated drinks, profit is negatively impacted by price hikes of aluminum, resin, and other raw materials that we made a downward revision of 1.3 billion yen.

To conclude, we expect to mostly achieve the revenue – or net sales – target for this year thanks to the good sales of core brands and new products mainly in Japan, Asia, and Europe. I believe this is the result of our continued focus on revenue growth.

On the other hand, we had to revise down the operating income forecast as a result of a series of unexpected events.

Going forward, we will unite our effort across the company to take on the structure reform that our CEO, Kogo, had mentioned in the Earnings Release for the Second Quarter so that we can enhance the profit generating capability in the rapidly changing business environment in order to realize the medium and long-term growth. We appreciate your continuous support.

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This is all from us.

Revenue Results by Quarter

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	(Billions of yen)	Change			Change			Change					
		Q1 (Jan-Mar)	YoY	%YoY	Currency Neutral	Q2 (Apr-Jun)	YoY	%YoY	Currency Neutral	Q3 (Jul-Sep)	YoY	%YoY	Currency Neutral
Japan	150.5	+3.2	+2.1%	-		183.4	+3.5	+1.9%	-	202.9	+7.0	+3.6%	-
Europe	51.8	+2.3	+4.6%	-3.1%		71.7	+2.6	+3.7%	-2.5%	70.2	+3.1	+4.7%	+5.0%
Asia	44.3	+5.0	+12.7%	+13.5%		48.6	+9.6	+24.4%	+24.6%	50.4	+9.3	+22.7%	+26.5%
Oceania	13.6	-0.1	-0.7%	+0.4%		12.7	-0.4	-3.4%	-1.6%	12.6	-0.9	-7.0%	+0.5%
Americas	17.0	-1.5	-8.2%	-3.7%		20.3	-0.9	-4.4%	-2.5%	22.2	+0.3	+1.4%	+1.2%
Total	277.1	+8.8	+3.3%	+2.3%		336.7	+14.3	+4.4%	+3.2%	358.2	+18.8	+5.5%	+6.3%

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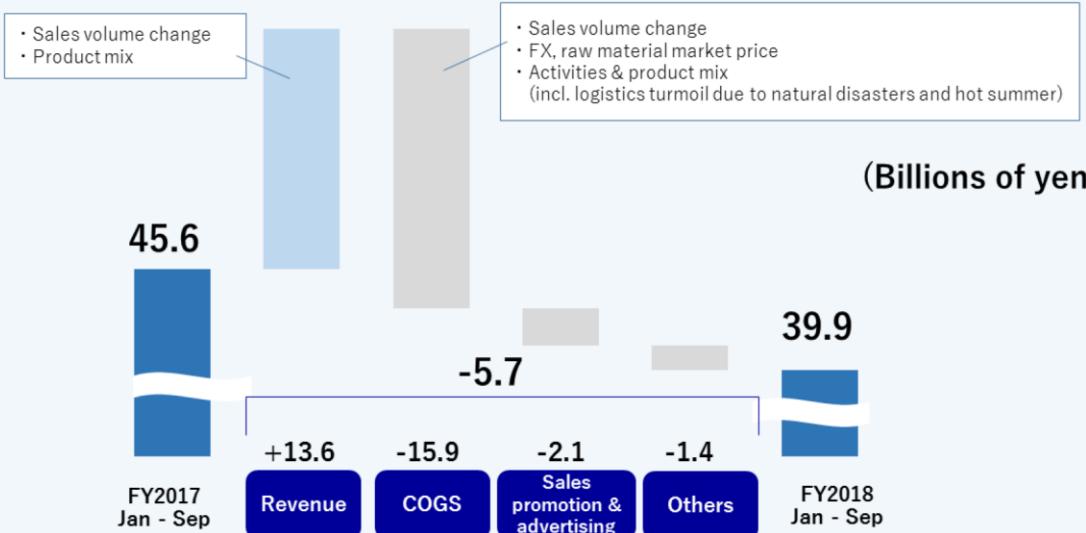
■ Segment Profit Results by Quarter

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	(Billions of yen)				Change			Change			Change			
	Q1 (Jan-Mar)	Q2 (Apr-Jun)			Q3 (Jul-Sep)	YoY			YoY			YoY		
		YoY	%YoY	Currency Neutral		YoY	%YoY	Currency Neutral	YoY	%YoY	Currency Neutral	YoY	%YoY	Currency Neutral
Japan	5.2	-3.0	-36.6%	–	13.7	-2.9	-17.4%	–	21.0	+0.2	+0.8%	–	–	–
Europe	3.7	-1.2	-24.4%	-30.1%	10.5	-1.2	-10.5%	-16.3%	10.9	-1.2	-9.9%	-11.1%	–	–
Asia	17.5	+10.1	+136.5%	+131.2%	4.7	+0.7	+18.7%	+19.2%	5.6	+1.4	+33.7%	+35.1%	–	–
Oceania	1.5	+0.1	+7.6%	+5.4%	1.4	-0.0	-0.9%	-1.7%	0.6	-0.5	-45.5%	-46.2%	–	–
Americas	1.5	+0.0	+0.2%	+5.1%	2.3	-0.4	-16.2%	-14.1%	2.7	-0.3	-10.4%	-10.1%	–	–
Reconciliation	-2.8	-0.4	–	–	-2.8	+0.1	–	–	-2.8	-0.2	–	–	–	–
Total	26.6	+5.7	+27.0%	+24.3%	29.8	-3.7	-11.2%	-13.0%	38.0	-0.6	-1.6%	-2.0%	–	–

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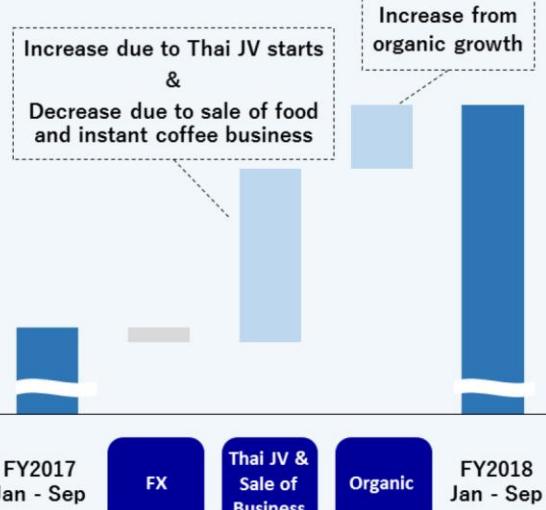
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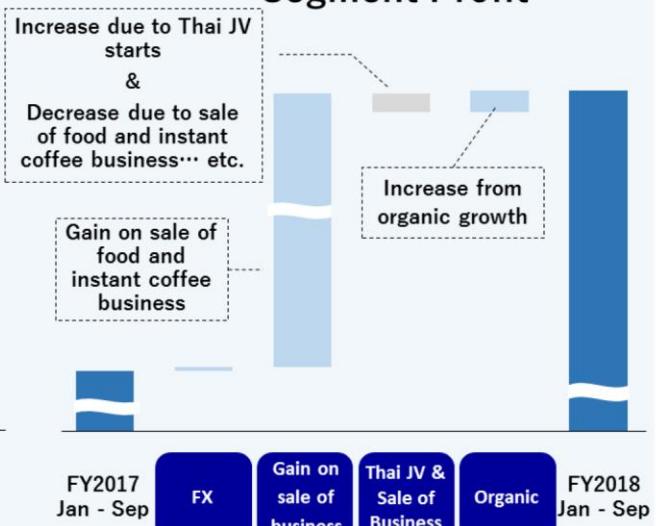
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Revenue



Segment Profit



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	FY 2017 Jan-Sep	FY 2018 Jan-Sep	FY 2018 Forecast	2018年 Initial Forecast
U.S. Dollar	111.9	109.6	111	110
Euro	124.6	130.9	131	131
British Pound	142.6	148.1	148	142
Singapore Dollar	80.5	81.8	82	81
Thai Baht	3.3	3.4	3.4	3.3
Vietnam Dong	0.0049	0.0048	0.0048	0.0048
New Zealand Dollar	80.1	76.7	76	79
Australian Dollar	85.7	83.1	83	87

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