

November 5, 2020

Asahi Group Holdings, Ltd.

## Fiscal 2020 Q3 Financial Results Conference Call

Date & Time: Thursday, 5th November, 2020  
16:30-17:30 Japan Standard Time

Speaker: Osamu Ishizaka, Head of Corporate Communications, Executive Officer

### ◆ Q3 2020 Financial Results Digest

#### <Q3 2020 Financial Results Highlights>

- Total revenue fell 4.3% year on year to 1,483.1 billion yen, as an increase in revenue in our Overseas Business, which was primarily due to the consolidation of the CUB business from June, was outweighed by the COVID-19 pandemic's negative impact on revenues at our three domestic business segments.
- Total core operating profit also benefitted from the consolidation of the CUB business but lower revenues at existing businesses and channel mix deterioration resulted in a 19.1% year-on-year decline to 131.7 billion yen.
- Nonetheless, a better-than-expected rebound in the July through September quarter has us outperforming our full-year forecast for Group-wide core operating profit.
- The entire Group will continue efforts aimed at beating our full-year targets, but in the October through December quarter we are scheduled to amortize in a lump sum intangible assets of the CUB business. In addition, the risks from a resurgence of COVID-19 infection in Europe and lower demand for year-end parties in Japan could have a larger negative effect than we had originally assumed.

#### <Operating Profit and Profit Attributable to Owners of Parent>

- Operating profit in the first three quarters of 2020 totaled 118.0 billion yen, down 26.2% year on year, reflecting an increase in "Other" expenses due to COVID-19-related temporary costs and the decrease in core operating profit.
- Profit attributable to owners of parent decreased 29.5% year on year to 79.6 billion yen reflecting losses on sales of investments accounted for using the equity method, deterioration in finance income, and other factors, which outweighed a decrease in income

tax expense.

- However, a stronger-than-expected increase in core operating profit has operating and net profits on pace to come in above our full-year forecast.
- In the fourth quarter, we face negative risks to core operating profit and a possible increase in costs, including business integration-related expenses in Australia and Europe, but we still are aiming to beat our full-year forecasts.

#### <COVID-19 Impacts>

- Beer sales in all geographical regions bottomed out in April and began to recover from May onward. However, in Japan the decline in sales worsened again in summer owing to the cancellation of events and government requests to eating and drinking establishments to once again shorten operating hours. Meanwhile, relaxation of restrictions in Europe and Australia enabled our operations in those regions to recover to around the same levels as those seen in the previous fiscal year
- Europe has, however, been seeing a resurgence in COVID-19 infections since October, prompting re-tightening of restrictions, including lockdowns in Czechia. Accordingly, we assume European sales will decline once again.
- Just how much sales will be affected is hard to say at this time, as the extent of the impact will depend on infection case number trends and the length of time the restrictions are imposed. Given the better-than-expected results in the July through September quarter and the fact that our full-year forecast incorporates a certain amount of negative risk in the October through December quarter, we think it unlikely that sales will fall below the full-year forecast.
- Meanwhile, the Soft Drinks Business is on a recovery track, while the Food Business continues to face a challenging operating environment, with *Mintia* continuing to struggle.

#### <Alcohol Beverages Business (Revenue of Beer-typed/Sales Volume by Brands)>

- In the first nine months of 2020, the overall market for beer-type beverages is thought to have shrunk by about 9% to 10%, as declines in on-premise demand and demand related to holidays and celebrations have outweighed the positive impact from increased consumption in the off-premise market and a temporary spike in demand prior to revision of the liquor tax in Japan.
- Efforts to strengthen our mainstay brands continue to provide a certain level of results, with year-on-year sales of *Asahi Super Dry* and *Style Free* exceeding the market average and our annual sales target for *Asahi the Rich* being revised upward again. However, with on-premise beer accounting for a large proportion of our sales of beer-type beverages, total revenue from beer-type beverages fell 16.4% year on year, to 410.4 billion yen.

- As for our full-year forecast, progress with sales volume is below forecast and year-end demand from parties and other gatherings could be lower than we initially assumed. We are responding by strengthening marketing of core brands, especially our beer brands following the reduction in the tax on beer in October, and will work to connect this to a recovery in sales volume from 2021 onward.

#### <Alcohol Beverages Business (Revenue)>

- Total revenue from alcohol beverages other than beer-type beverages is on track to exceed our forecast, despite lower revenues in all categories except RTDs.
- As with beer-type beverages, we expect year-end demand to be weaker than initially forecast. However, we are redoubling our marketing activities in each category, with an emphasis on core brands, as we aim to achieve our annual targets for all non-beer categories.

#### <Alcohol Beverages Business (Core Operating Profit)>

- Total core operating profit of the Alcohol Beverages Business declined 23.2% year on year, to 59.9 billion yen. Despite our efforts to streamline and reduce overall costs, including advertisement and sales promotion expenses and “Other” expenses, we were unable to offset the large decline in revenue from sales of beer-type beverages and other products.
- However, we are still on track to beat our full-year forecast. Sales could be difficult again in the October through December quarter, but we aim to achieve our full-year forecasts by continuing to strengthen our efforts to control fixed costs.

#### <Soft Drinks Business (Sales Volume)>

- In the first nine months of 2020, the overall market for soft drinks is thought to have shrunk by about 6% to 7% owing to a slump in consumption, including sales through vending machines, although we did see a slight year-on-year rebound in July from the weak sales due to the cool summer in the previous year.
- Asahi Soft Drinks’ total sales volume declined 4.6% year on year, to 191.71 million cases, as strong sales of carbonated beverages were offset by weak sales of coffee and fruit juice drinks.
- Sales were below the pace needed to reach our full-year targets, which is now looking slightly more difficult following adverse weather conditions in October. However, we will strengthen our marketing efforts, especially for core brands, to set the stage for a recovery from 2021 onward.

#### <Soft Drinks Business (Core Operating Profit)>

- The Soft Drinks Business's total core operating profit decreased 6.7% year on year, as our efforts to reduce costs in manufacturing and streamline advertising and sales promotion expenses could not overcome channel mix deterioration and the decline in sales volume.
- However, category mix improvements and other factors have kept segment profits on pace to beat our full-year forecast, and even though sales volume is below forecast we aim to surpass the target for full-year core operating profit.

#### <Food Business (Revenue/Core Operating Profit)>

- Food Business revenue declined 4.8%, owing to lower sales of *Mintia* mainly due to a drop in office-related demand. Segment core operating profit was down 14.2% year on year.
- Nonetheless, core operating profit is above forecast, and we aim to achieve our full-year targets while increasing investment in marketing in the October through December quarter to boost sales momentum for *Mintia*.

#### <Overseas Business (Revenue)>

- On a reported basis, the Overseas Business's total revenue for the first three quarters of 2020 increased 7.5% year on year, to 557.9 billion yen, thanks to the consolidation of the CUB business, which offset an 11.7 billion yen negative forex impact and lower sales on an existing-business basis.

#### <Overseas Business revenue breakdown on a constant currency basis>

- Revenue in the Europe business decreased 8.2% year on year, if we exclude the 3.9 billion yen negative forex impact, which I will explain later.
- The Oceania business meanwhile saw an 81.6% year-on-year increase in total revenue, reflecting the consolidation of the CUB business, and strong off-premise sales at our existing businesses, which more than covered the decline in their on-premise sales. I will discuss the CUB business later.
- At the Southeast Asia business, revenue slipped 1.0% year on year on lower sales for all products except dairy products in Malaysia. Asahi International, meanwhile, posted a 15.9% decline in revenue, mainly due to lower sales in the UK.
- As for our full-year forecasts, the Europe and Oceania businesses are ahead of expectations thanks to a stronger-than-expected recovery during the July through September quarter. Although we expect the Europe business to suffer from a resurgence of COVID-19 in the October through December quarter, we are looking for the Overseas Business as a whole to exceed our full-year targets.

#### <Overseas Business (Core Operating Profit)>

- On a reported basis, total Overseas Business core operating profit declined 12.6% year on year, to 69.4 billion yen. Despite the positive impact from consolidation of the CUB business, profit declined owing to a 1.0 billion yen negative forex impact and lower profits from existing businesses.

<Overseas Business core operating profit breakdown on a constant currency basis>

- At our Europe business, total core operating profit on a constant currency basis decreased 20.2% year on year, as lower sales to the on-premise channel and channel mix deterioration outweighed the positive effects of expanding consumption in the off-premise channel and continuing premiumization.
- The Oceania business, however, saw its core operating profit expand 165.6%, as the positive effect from consolidation of CUB offset lower profit from existing business, temporary expenses of 7.6 billion yen, and other negative factors.
- Profit in the Southeast Asia business declined 25.9% year on year, primarily owing to lower revenue and steep rises in raw material prices. Asahi International saw its profit fall 75.8% year on year, mainly due to the impact of a decline in revenue from the UK, where on-premise channel account for a high share of sales, as well as channel mix deterioration.
- The Overseas Business is on pace to beat our full-year forecasts, especially in Europe and Oceania. However, we expect conditions in Europe to be difficult in the October through December quarter. Nonetheless, we will redouble our efforts to exceed our full-year targets for the Overseas Business as a whole.

<Europe Business>

- July through September quarter results at the Europe business recovered sharply from the first-half results, as the reopening of eating and drinking establishments and relaxation of restrictions on people's movements in Europe helped reduce the year-on-year decline in sales volume to just 1%.
- In addition to the rebound in the on-premise channel, the recovery was supported by a rise in the average unit price in the off-premise channel, which boosted the average unit price for the Europe business as a whole. We believe this confirms the sustainability of our premiumization strategy going forward.
- We expect the COVID-19 resurgence to make for a difficult operating environment in the October through December quarter. However, as we did during the pandemic's first wave, we will respond quickly by grasping the changes in purchasing trends and consumer sentiment, which will strengthen our resilience during the next recovery period.

<Oceania Business (Revenue/Core Operating Profit)>

- The CUB business is well-ahead of forecasts despite the impact from the second lockdown in the state of Victoria. The strong results to date have been supported by expanding sales of core brands, such as *Great Northern* and *Victoria Bitter*, and better-than expected recovery outside of Victoria.
- In Melbourne, eating and drinking establishments have been open again since October 28, but controls on customer numbers and other remaining restrictions will continue to have some negative impact on results. In this environment, the Oceania business aims to exceed its full-year targets by carrying out aggressive marketing targeted at peak season.

#### <Balance Sheet & Cash Flow>

- Since releasing first-half results, we continued financing activities to cover the CUB acquisition, procuring 156.8 billion yen through a public offering of new shares and 300 billion yen through the issuance of subordinated bonds. As a result, we accomplished our goal of procuring 300 billion yen in equity credit attributes.
- We were also able to issue domestic straight bonds and Eurobonds at low interest rates. We have therefore completed the shift to permanent financing totaling about 750 billion yen for the CUB acquisition.
- With regard to cash flow as well, debt repayment is proceeding ahead of schedule, supported by the reduction of working capital and liquidation of non-core assets, as well as the trend toward an earnings recovery.
- We intend to continue with our efforts to bolster the resilience of the performance of all businesses from next fiscal year onwards, while swiftly securing financial soundness and meeting the expectations of our shareholders and investors.