August 11, 2021

Asahi Group Holdings, Ltd.

Fiscal 2021 Q2 Financial Results Conference Call

Date & Time: Wednesday, 11th August, 2021
15:30-17:00 Japan Standard Time

Speakers: Atsushi Katsuki, President and CEO, Representative Director
Ryoichi Kitagawa, Managing Director, CFO

◆ H1 2021 Overview & 2021 Direction

<Executive Summary> (P1)

- Although the going was tough for domestic Alcohol Beverages Business, in the first half of this year we were still able to post record-high earnings mainly on the back of sharp profit growth in Soft Drinks Business, and new profit contributions and robust growth from the consolidation of CUB in Oceania Business.
- Also, despite the adverse operating environment, we made a certain degree of progress toward "Our Vision" of "growing with high-value-added brands", as set forth in the Asahi Group Philosophy. This was mainly thanks to progress in the premium strategy for the off-premise market in Europe and the introduction of new types of containers and new product categories in Japan.
- However, there have been challenges. Negative impacts from the resurgence of COVID-19 still remain in some regions. In particular, on-premise demand remains sluggish in Japan, and in some parts of Australia restrictions were tightened once again.
- Also, in anticipation of structural changes to markets up ahead, in addition to bolstering our resilience from next year onwards with an eye to new opportunities, I believe we must unflaggingly advance "Value Creation Management" over the medium to long term through investment in intangible assets and sustainability-related areas.
- In terms of our future direction, we will endeavor to develop and reinforce high value-added categories and brands in each region and step up our efforts to not only realize integration synergies in each region, but to expand the creation of synergies worldwide by driving the global penetration of our five global brands.
- Also, to enable further investment in growth after improving our financial position, we

will strive to further enhance our cash-generating capacity and enhance management quality primarily by advancing earnings structure reforms and improving capital efficiency.
- Furthermore, our policy will be to upgrade management resources by promoting digital transformation and proactively making investments geared toward boosting efforts to integrate sustainability into management.

＜Impact of COVID-19 (beer-type beverage sales by region)＞ (P2)
- In Japan, April sales far exceeded the year-earlier level mainly because of the strong rebound from the biggest monthly downturn seen last year, as well as the sales launch of *Asahi Super Dry Nama Jokki Can*, but sales in the other months struggled more than expected as a result of the decline in on-premise demand caused by a raft of tighter restrictions that continued to be enforced from the start of the year.
- In Europe, January and February sales were impacted by lockdowns across the region, but after that, sales started to recover overall as governments eased restrictions, beginning with the UK, even though some restrictions remain in place.
- Restrictions were lifted earlier on in Australia after the spread of infections was contained and sales volume grew by double digits in the first half, including a higher market share for CUB, but a fresh wave of infections from June onwards forced some states, such as Victoria and New South Wales, into lockdown again.
- At this stage, it’s difficult to accurately predict the impact on sales in the second half, but we think restrictions will be steadily eased as progress is made with the vaccination rollout. Our policy going forward will be to pursue a flexible marketing strategy with the aim of restoring sales momentum, while closely monitoring trends by business category in each market.

＜Overview and Direction of Alcohol Beverages Business＞ (P3)
- To summarize the first half, while the situation in the on-premise market grew increasingly more severe than initially anticipated, we were able to achieve a certain degree of success in creating new markets with an eye toward certain megatrends and the revitalization of *Asahi Super Dry* mainly due to the launch of *Asahi Super Dry Nama Jokki Can*, as well as the launch of *Beery* in the off-premise market.
- That said, challenges remain. For example, achieving a recovery in sales momentum for off-premise canned beer products and building a strong brand portfolio, centering on high-margin categories, that is both distinctive and competitive.
- Specifically, as the shift from on-premise to off-premise becomes clearer, in an effort to get sales momentum back on track from next year, in the second half we plan to use this

opportunity to beef up our canned beer product and functional product brands and expand investments aimed at generating new demand for products in the minimal alcohol category, for example.

- In light of the challenges we currently face, our policy going forward will be to further bolster marketing investments in core brands and new growing categories in anticipation of medium-to-long-term structural changes without focusing solely on a near-term earnings recovery.
- Also, in addition to improving the channel mix and category mix, including on-premise business reforms, we will ramp up our efforts to shift to value-focused management, as outlined in our management policy, by simultaneously advancing fundamental reforms to our earnings structure, including working style reforms.

＜Initiatives for Off-Premise Beer＞ (P4)

- As you can see in the POS data graph at the top of the slide, since the liquor tax revisions in October last year, sales of canned beer products have continued to outstrip year-earlier results. This indicates a steady return by consumers from new genre products back to beer.
  Under these circumstances, shipments of canned *Asahi Super Dry* products decreased year on year in the January through March period, mainly reflecting weaker holiday and celebration-related demand, but in the April through June period the contraction in demand dropped out and the positive impact of the *Asahi Super Dry Nama Jokki Can* launch and other factors helped drive a sharp turnaround.
- Regarding *Asahi Super Dry Nama Jokki Can*, the graph at the bottom shows the number of *Asahi Super Dry* consumers. Cannibalization of existing consumers has been limited to around 10% to 15% and we have been able to gain new younger generation and female consumers, which had been an outstanding issue for *Asahi Super Dry* in the past. It appears that *Asahi Super Dry Nama Jokki Can* has greatly contributed to the increase of some three million *Asahi Super Dry* consumers from around the time it was launched.
- For the time being, sales volume will be limited, but once we put in place capacity for boosting production from next year onwards and ramp up our brand communication efforts, we hope to be able to breathe new life into the *Asahi Super Dry* brand.
- As for the “Drafters” server for home use business, we started accepting membership applications on April 7 and as of the end of July we had already registered approximately 25,000 customers, which at this stage is ahead of targets considering that our target for this year is 30,000.
- In the second half too, we will aim to further bolster these *Asahi Super Dry* marketing activities and reinvigorate the expanding canned beer market and further boost the

recovery in sales momentum by bringing new differentiated products to market.

＜Initiatives for Minimal Alcohol Category＞ (P5)

- On June 29 we expanded sales of *Beery* to the rest of Japan and also launched *Beery Kaoru Craft* in Greater Tokyo and Koshinetsu regions. It has been well received by a broad range of customers, including those who drink alcohol and those who do not.
- In particular, the purchasing ratio is higher for *Beery* than normal non-alcohol beer-taste beverages among Millennial consumers, and this continues to drive growth in the market for products with an alcohol content of less than 1%. This is a reassuring sign that a new market is opening up and that there is further growth potential up ahead.
- Our policy going forward will be to aggressively roll out new products and step up marketing activities as the next growth driver based on our “Smart Drinking” concept, which encourages greater acceptance of diversity in how people consume alcohol.
- To be more specific, we intend to provide more options to customers with the planned launch of the minimal alcohol category highball product *Asahi Hibally* in September and the roll out of *Beery* in bottles to the on-premise market. In doing so, we will aim to achieve our stated target of a 20% sales volume weighting for products with 3.5% or less alcohol content by the year 2025.

＜Overview and Direction of Soft Drinks Business＞ (P6)

- To summarize the first half, earnings recovered and exceeded our forecasts as a result of continued progress with product mix improvement owing to brisk sales of *Mitsuya* and *Wilkinson*, plus a recovery for *Wonda*, as well as ongoing earnings structure reforms including reducing the cost of sales ratio mainly through optimization of the in-house production ratio, and streamlining of advertisement and sales promotion expenses and vending machine-related costs.
- Meanwhile, challenges include value proposals in the health domain in light of environmental changes, and channel mix improvements at a time when vending machine sales have yet to recover to 2019 levels.
- Our policy going forward will be to build a business structure capable of balancing sales and profit growth primarily with measures designed to strengthen our channel strategies and new value proposition, taking into account changes in the market environment as we set our sights on rejuvenating momentum in sales of core brands such as *Calpis* and *JUROKUCHA*.
- And on the expenses front, in the second half we will enhance brand-building investment, but we will also further push ahead with efforts to optimize supply chains so as to swiftly respond to changes in demand, and streamline vending machine-related

costs.

＜Food Business＞ (P8)

- To summarize the first half, while issues remain, particularly those relating to the sales recovery of *Mintia*, we managed to record a large enough sales increase to offset the decline in *Mintia*'s performance as a result of dramatic growth of *Ippon Manzoku Bar* sales and stronger marketing of *Dear-Natura* and freeze-dried food products, reflecting changes in the business environment.
- Our policy up ahead is outlined on the next page, but we plan to rebuild the foundations for growth by offering more new proposals that are in tune with changes in consumer needs, expanding our initiatives to get *Mintia* sales momentum back on track, and focusing investments on growing categories.

＜Europe Business＞ (P10 & P11)

- To sum up the first half, with off-premise sales volume increasing in the low single digits year on year, we aimed to strengthen brands in mainly the premium category and the non-alcohol beverages segment, while expanding our rollout of extension products of existing brands and hard seltzer products, and further advancing our premiumization strategy.
- Although we continued with brand-building investments to a certain extent, we still managed to get first half Core Operating Profit back to the year-earlier level by virtue of synergies generated through organizational integration and also through vigorous efforts to review all expenses.
- As you will see on the next page, on-premise sales varied from country to country, and the recovery in demand took longer than expected because of the resurgence in COVID-19 infections. Nevertheless, total unit sales price for Europe in the April through June recovery period improved by a sharp 12 percentage points from a year earlier and even improved by 4 percentage points for the first six months of the year.
- Going forward, we will set our sights on achieving a recovery in topline growth by aiming to maximize efforts to tap demand in the on-premise market during this recovery period and continue to advance our premium strategy in the off-premise market centering on premium beer and non-alcohol beer.
- For the second half we assume a year-on-year sales volume increase in the high single digits, but because it is still difficult to predict how long the restrictions still in place in some countries will continue, we will aim to reach our full-year targets by factoring in some level of risk and continuing to implement flexible cost management.

＜Our Strategy for Global Brands＞ (P12)

- Following the business integration in Europe in November last year, we newly positioned *Asahi Super Dry*, *Peroni Nastro Azzurro*, *Kozel*, *Pilsner Urquell*, and *Grolsch* as our five global brands. We also switched to a system of centrally managing marketing functions for these brands.
- We are still formulating the concrete details of our strategy, as well as our numerical targets, which we plan to discuss in the February briefing next year, but our approach going forward will be to focus most heavily on *Asahi Super Dry* and *Peroni Nastro Azzurro* in a bid to have them ranked alongside other top global brands.
- We plan to accelerate our global strategy for *Asahi Super Dry* in particular, given that it is the official beer of the Rugby World Cup.
- For *Kozel*, *Pilsner Urquell*, and *Grolsch*, we plan to align the characteristics of each brand with market needs, identify respective strategic regions, and work on steadily increasing brand awareness.

＜Oceania Business＞ (P13)

- To summarize the first half for Oceania Business, we stepped up off-premise marketing investment centering on the mainstay alcohol and non-alcohol categories, and as shown on the next page, we achieved above-market sales growth by sustaining and expanding our competitive advantage particularly in the contemporary beer category.
- Also with regard to integration synergies, in addition to steady progress on cost synergies, topline growth is trending favorably chiefly because we have gained more on-premise outlets for *Asahi Super Dry* and *Peroni Nastro Azzurro* than we had targeted.
- Meanwhile, the development of next-generation growing categories, such as craft beer and non-alcohol beverages, issues to address on the way to achieving sustained growth. In other words, there is potential for growth in this area.
- Going forward, in light of these challenges, we will build a robust portfolio with which we can concurrently strengthen core brands and nurture new growing categories, whilst also promoting our premium strategy.
- In the Australian beer market, the sales volume weighting of the contemporary beer category is higher than the premium beer category, which is centered on international beer. The unit prices of the contemporary category are slightly lower than those of the premium category. Accordingly, not only will we expand our presence in the premium category, but we will strive to further boost already-high margins by revenue management that maximizes sales and profit, optimally combining pricing, promotions, and product mix revisions.
- Our policy will be to further enhance our competitive superiority as a total beverage

company by bolstering integration synergies through a business-wide effort.

＜Progress on Sustainability Initiatives＞ (P15, P16, & P17)

- We continue to steadily undertake initiatives in each region mainly in the areas of environment, community, and responsible drinking—material issues that are particularly high priorities for the Asahi Group.
- As we work towards integrating sustainability into management, we will aim to continually enhance our corporate value creation processes by placing sustainability issues at the heart of our management stance and constructing a business model that delivers both business growth and solutions to societal issues at the same time.
- To be more specific, instead of simply strengthening stand-alone initiatives and the system with which we promote measures, we will make an effort to further identify the quantitative impacts of risks and opportunities related to climate change, incorporate roadmaps for achieving Group-wide targets into the respective business strategies of each region, and proactively invest capital with the aim of increasing the effectiveness of integrating sustainability into management.
- We also plan to aggressively ramp up investments in the management resources that act as the driving force behind these initiatives—namely, human resources, R&D resources, and resources required for promoting digital transformation. In this way, we intend to accelerate enhancement of the overall corporate value creation process.

＜Conclusion＞

- While the operating environment remains adverse as the COVID-19 pandemic continues, we will keep pursuing business strategies in each region in a way that is flexibly responsive to changes in the business environment based on Our Vision of “growing with high-value-added brands”.
- We are currently reviewing the quantitative targets in our Medium-Term Management Policy, and are also taking a fresh look at the kind of company we want to be 10 years from now by analyzing megatrends from an ultra-long-term perspective and then backcasting from there.
- Our goal of getting profit, including full-year earnings at CUB, back to 2019 levels by next year remains unchanged and even though performance will likely vary between businesses, such as in the lagging domestic Alcohol Beverages Business, for example, our objective is to get Group-wide profit back on a stable growth trajectory.
- Along with the transferal of authority to each region, including the establishment of a regional headquarters in Japan that we announced yesterday, we will continue to pursue value creation management with a well-balanced business portfolio.