

## **Asahi Group Holdings, Ltd.**

### Q2 2022 Financial Results Briefing Conference Call Summary

Date & time: Wednesday August 10, 2022; 15:30–17:00

Presenter: Atsushi Katsuki, President and CEO, Representative Director

#### ◆ Executive Summary (P1)

- Core operating profit was more or less in line with our plan in the first half of this year, mainly owing to flexible pricing strategies in each region and better cost management, even though results were affected by considerably higher-than-expected cost increases.
- We also achieved steady topline growth centering on our core brands by improving unit prices through increased premiumization, including a recovery in the on-premise market, and also by stepping up investments in new value proposals.
- As we expect future raw material prices and energy costs to keep rising, or remain at elevated levels, we face the challenge of having to ensure stable profitability by further strengthening our price competitiveness and cost efficiency in each region.
- Also, in anticipation of a changing market structure based on the assumption that COVID-19 is not going away anytime soon, as well as the impacts of runaway inflation, we must make topline growth more sustainable by promoting optimal portfolio strategies in each business.
- Going forward, we will continue to push ahead with our premium strategy based on a style of brand management that reflects the respective characteristics of each region, and will also maintain and improve profitability based on a medium- to long-term guideline by continuously reviewing costs in all respects.
- Furthermore, we intend to accelerate efforts aimed at building the ideal business portfolio and boosting the effectiveness of sustainability, digital transformation, R&D, and other core strategies outlined in our Medium- to

Long-term Management Policy and reinforce our foundation for sustainable growth so that it is less susceptible to changes in the operating environment.

◆Improvement in Unit Sales Prices (H1 Results) (P2)

- In the first half, unit sales prices steadily increased in all three major regions even though progress and the main drivers differed depending on the business.
- In the Alcohol Beverages Business in Japan, the category mix continued to improve and the unit sales price increased 1.9% year on year. This was due to not only a recovery in on-premise sales, but also to strong year-on-year growth of 26% in canned beer sales driven by increased investment in the beer category centering on *Asahi Super Dry*.
- In Europe, the unit sales price rose a sharp 13.6% year on year, buoyed mainly by channel mix improvement thanks to a rebounding on-premise market, growth in the premium category, including non-alcohol beer, and boosts from price hikes carried out from the second half of last year through to the first half of this year.
- In the Alcohol Beverages Business in Australia, as previously explained, even though sales volume declined mainly on the impact of the spread of the Omicron variant, benefits of price hikes and revenue management centering on the core brands of *Great Northern*, *Super Dry*, and *Peroni Nastro Azzurro* drove a 2.8% year-on-year increase in the unit sales price.
- Even though inflation is currently rising at a rapid pace, beer is said to be an “affordable luxury” compared to other consumer goods. While we are unable to be optimistic concerning the future outlook, even when global recessions occurred in the past, sales volumes might have dipped temporarily, but there was still no major change in the shift to premiumization thereafter.
- Our policy going forward will be to vigorously promote premiumization—the pillar of our growth strategy—by further improving brand equity, including global brand growth and expansion, and investing heavily in the creation of new value and new markets.

#### ◆ Cost Increases and Countermeasures (P3)

- Group-wide variable cost increases in the first half came to just over 30 billion yen in total, primarily due to skyrocketing raw material prices and energy costs.
- In light of this development, we now factor cost increases of 80 billion yen into our full-year earnings forecasts, which is much higher than our previous assumption of at least 60 billion yen announced in the first quarter results.
- Even though aluminum and other commodity prices have fallen since we announced first quarter results, we had already hedged against higher prices, and costs have increased overall because of surging material processing fees and logistics expenses, etc. which are directly affected by energy prices.
- As for cost increases next year, at this point in time it is difficult to make an accurate estimate, but if we were to assume that the current market prices remain the same, and taking into account the negative effects of exchange rates, we think costs next year could increase to roughly the same level as this year.
- That said, even if cost increases of that magnitude materialize, we basically expect to be able to offset higher variable costs in each region, including Japan, primarily through cost pass-throughs and by streamlining fixed costs.
- On top of that, we will set our sights on steady profit growth in line with our profit growth guideline set out in the Medium- to Long-term Management Policy by advancing our premium strategy, which hinges on efforts to strengthen our existing brands and new value proposals, along with the growth and expansion of our global brands.

#### ◆ Sales Trend by Region (P4)

- In each region, sales fell back temporarily in the January–March quarter by the impact of a resurgence in Omicron infections, but they rebounded again in the April–June period.

- The risk of a resurgence in infections, like the high case numbers currently seen in Japan for example, as well the impact of inflation, are some of the factors that will need to be carefully watched, but we think the way infectious diseases are actually handled will be reconsidered and we therefore think the recovery in the on-premise market overall will remain largely unchanged.

#### ◆Japan: Overview and Direction (P5)

- In the Alcohol Beverages Business, the recovery of the on-premise market was slow to materialize in the first half, but sales of canned beer came in ahead of plan because we ramped up investments in beer centering on *Asahi Super Dry*. Also, the recovery in sales momentum continued to gain traction from our Smart Drinking initiative and other market development efforts.
- Our policy for the Alcohol Beverages Business going forward will be to not only strengthen beer sales ahead of next year's liquor tax revisions, but to also continue investing in new value proposals and carry out fundamental earnings structure reforms by optimizing supply chain management centering on a realignment of factories.
- In the Non-Alcohol Beverages Business, we achieved sales volume growth in the first six months mainly by investing more in carbonated drinks and core brands like *CALPIS*, launching extension products, and offering new value proposals in anticipation of consumer needs.
- Looking ahead, coping with unrelenting cost increases will present a challenge, but our policy will be to set our sights on achieving our initial target by continuing to invest in core brands, maximizing the benefits of price hikes, and improving overall cost efficiency, among other measures.
- In the Food Business, we stepped up new value proposals to tap consumer demand for such brands as *Amano Foods*, *Ippon Manzoku Bar*, and *Dear-Natura*, and we also endeavored to streamline costs predominantly by optimizing inventory levels.
- Going forward, along with a sales recovery for *Mintia*, we will strive to boost profitability mainly through sales growth and product mix improvements

centering on efforts to strengthen growth categories.

◆Japan (Alcohol Beverages Business): Main Initiatives (P6)

- First, we estimate that the canned beer market overall grew only slightly in the April–June period mainly because of the delayed timing of sales promotions and the impact of the rebound in on-premise demand, but for the entire January to June period we think the market expanded by just under 10% year on year.
- In this environment, sales of canned beer largely outpaced the market average and rose 26% year on year, driven by the benefits of a full revamp of *Super Dry*, plus solid sales of *Asahi Super Dry Nama Jokki Can* and *Asahi Nama Beer*.
- As you can see on the slide, the number of *Asahi Super Dry* consumers surpassed 20 million in the first half of the year and recovered to the 2012 level. This is mainly attributable to our efforts to attract many more new customers with *Asahi Super Dry Nama Jokki Can* and the new drinking experience it provides, as well as due to the abundance of information we communicated to the market in connection with the full revamp of *Super Dry* in March.
- Looking ahead, we intend to sustain this brisk sales momentum by strengthening the information we disseminate as a worldwide partner of the Rugby World Cup, and by expanding advertising and marketing in connection with the year-round sales of *Asahi Super Dry Nama Jokki Can* that was launched in late July.
- Also, in the focus area of non-alcohol beer-taste beverages, the overall market declined year on year in the first six months of the year as demand for consumption at home receded, but our initiatives in the very-low alcohol category helped realize an overall 6% year-on-year increase.
- In June we opened a so-called “Smart Drinking bar” in Shibuya where customers can experience smart drinking and we are also accelerating other initiatives with the aim of raising awareness among mainly young people. We will continue to take steps towards expanding our product lineup in an

effort to instill a culture of smart drinking.

#### ◆Japan (Non-Alcohol Beverages Business): Main Initiatives (P7)

- Sales volume in the first half rose 3% year on year on par with the market average, but at Asahi, we focused on delivering new value proposals and rolling out new products to meet customer needs for healthy and refreshing drinks, and in response to changing lifestyles.
- Specifically, as you can see on the slide, we launched a new series of products under the *Wilkinson* brand called *Wilkinson Sober* with the aim of targeting a new lifestyle. We are also seeking to generate increased sales momentum in each category and brand primarily by launching new products such as the *Wakocha* bottled tea drink, which is made from 100% Japanese tea leaves, and a *CALPIS mini pack*, which is geared towards the increasingly diverse consumption scenarios of the domestic market.
- A tough operating environment characterized by steep cost increases and price hike saturation will continue, but in conjunction with near-term countermeasures, we will continue to invest in these kinds of value proposals unique to Asahi Soft Drinks.

#### ◆Europe (P8-9)

- In summing up the first half of the year, as I explained at the start, even though we were besieged by sharply rising costs, being able to successfully increase unit prices as a core component of our premium strategy was a major achievement.
- As you can see in the chart at the top of the next page, sales volume and net sales in the premium category grew sharply and the channel/category mix improved considerably owing to a recovery in the on-premise market, boosts from price hikes, and growth and expansion of flavored non-alcohol beer products.
- At the bottom of the page there is a waterfall chart showing factors behind profit increase and decrease. As you can see, we were able to absorb the increase in variable costs in the first half by improving the price mix, which included cost pass-throughs.

- Nevertheless, we will need to prepare for future bigger-than-expected increases in market prices, and because marketing, personnel, and other costs will rise simultaneously when business activities return to normal after the COVID-19 pandemic, all of these expenses will have to be managed even more stringently going forward.
- While the tough conditions in terms of costs are expected to continue for the time being, the fundamentals of the business itself remain firm, therefore our policy will be to implement a business strategy that balances investment in premiumization with near-term measures to combat cost increases.
- Consumer behavior dictated by inflation will need to be watched closely going forward, but as I mentioned at the start, we do not envisage any major changes in the shift to premiumization, so we will continue to deploy a premiumization-oriented growth strategy in each country in Europe.

#### ◆Oceania (P10–11)

- In summarizing the first half, we were able to further extend our competitive advantage through sustained growth of core brands and by promoting a multi-beverage strategy that utilizes an extensive sales network for alcohol and non-alcohol beverages.
- More specifically, as you can see on the next page, sales of the core brand *Great Northern* continued to outpace the overall market, growing at 6% year on year. Meanwhile, sales increased in the craft beer category, led by *Balter*, a brand that we are developing into a new growth driver.
- Also, with regard to integration synergies, both cost synergies and topline synergies drove the sales volume of *Asahi Super Dry* and *Peroni* to a 7% year-on-year increase, whilst the number of outlets stocking our alcohol and non-alcohol beverages is steadily growing thanks to cross-selling.
- Just like in the other regions, further strengthening our earnings base, including how we cope with higher-than-expected costs, will prove challenging going forward, but our plan is to further improve unit prices in

the product portfolio overall mainly through enhanced revenue growth management, which will include additional cost pass-throughs.

- Also, with the aim of powerfully propelling the multi-beverage strategy, we have raised our target for cost synergies and we will now look to accelerate topline synergies. In this way, we hope to further boost the overall profitability of the Oceania business.

#### ◆ Global Brands (P12)

- We are currently targeting annual average growth of around 10% in the five global brands pictured on this slide, however in the first half of this year, we achieved total growth of 14% year on year, driven mainly by the top priority brand of *Asahi Super Dry*, along with *Peroni Nastro Azzurro* and *Kozel*.
- *Super Dry* was adversely impacted by lockdowns in China, but total sales volume still increased 14% year on year, which partly reflects growth of around 50% in the UK and the impact of recovering on-premise markets in countries worldwide.
- Sales of *Peroni Nastro Azzurro* also increased 17% year on year on the back of above-market-average growth in the UK and a positive impact from the launch of the non-alcoholic *Peroni Nastro Azzurro 0.0* in more than 20 countries this year.
- Our policy going forward will be to enhance brand appeal mainly by expanding the scale of global campaigns and stepping up marketing activities to coincide with global sporting events. In this way, we will seek to develop the global presence of both brands.