Asahi Group Holdings, Ltd.
2023 Financial Results Briefing: Summary of Conference Call (1)

Date: Wednesday, February 14, 2024, 15:30-17:00
Presenter: Atsushi Katsuki, President and CEO, Representative Director

◆Executive Summary (P1)

- Despite considerable cost increases, which have been ongoing since 2022, the Asahi Group Holdings was able to achieve a higher-than-expected revenue and Core Operating Profit growth in 2023 thanks to the positive impact of expanding sales and firm cost management.

- We have been able to successfully increase unit sales prices in all regions by pursuing appropriate pricing strategies while also enhancing our competitive advantage in each region, and by actively expanding our premium category.

- Furthermore, we have been able to steadily build a sounder financial base by generating higher-than-expected free cash flow (FCF) to be channeled into reducing financial debt and reducing Net Debt/EBITDA to roughly 3.1.

- While we do need to continue to closely monitor the impact of persistent cost increases and inflation on demand, we intend to steadily boost profitability by improving our competitive advantage while also consolidating our global procurement function and actively promoting structure reforms in each region.

- Despite the persistently tough business environment, we are determined to press ahead with our efforts to strengthen investment in our brands, core strategies, and human capital in order to achieve sustainable growth.

- In addition to the announcements made on January 10 to evolve our corporate governance and refresh our business execution framework, we will seek to improve medium- to long-term corporate value by optimizing cash flow allocations with a view to ensuring sound finances.

◆Evolve Management Framework to Achieve True Global Operations (P2)

- We have been building a strong operational base in Europe and Oceania since 2016 through large-scale M&A, and we have created greater-than-expected synergies in the regions by pursuing appropriate post-merger integration (PMI) to help successfully incorporate those bases into the Group.

- In 2022, we established Asahi Group Japan and a new framework consisting of four regional headquarters. We have been able to successfully enhance our competitive advantage in each region despite the tough business environment during the COVID-19 pandemic by determinedly expanding investment in our brands and core strategies.

- We have regained significant growth momentum in the Alcohol Beverages Business in Japan in particular by applying our global expertise and adapting our policies, while also consistently expanding marketing investment to strengthen our brand.

- We intend to capitalize on our achievements in these regions and seek to maximize corporate value to a degree that exceeds the sum of our individual businesses as we enter a new phase towards becoming a truly global company.

◆Evolve Group Governance (P3)

- First, we have added one new internal director and two new outside directors on the Board of Directors, which serves as the cornerstone of governance, in order to ensure a majority of outside directors. Moreover, we have greatly increased the diversity of the 11-member Board, which now includes five women and two foreign nationals, to suit our evolving business structure and strategy.

- We have also refreshed our business execution framework. Specifically, we have set up new Group CxO positions in the five functions of Finance, People, Growth, Sustainability, and R&D that should operate comprehensively across the Group.

- In addition, we established the Executive Committee to serve as an advisory body to myself as the Group CEO. The Executive Committee will serve as a forum for discussing overall strategy and direction across the Group by including Group CxO and regional CEO in Group management decision-making.

- Finally, we intend to transform our Group headquarters into a highly diverse organization that befits a global company and that enables diverse human resources to play an active role, irrespective of nationality, gender, or other factors.

◆Progress of Medium- to Long-term Management Policy (P4)

- Looking first at our business portfolio, we are making steady progress on improving unit sales prices primarily for beer and non-alcohol beer* and expanding our global brands.

- In terms of expanding into new areas, we implemented the full-scale launch of our U.S. investment company and are developing new applications for yeast and lactic acid bacteria technologies. However, we need to accelerate the development and fostering of growth categories, including BAC, in order to effectively respond to changing wellbeing requirements.

- Regarding the sustainability element of our core strategy, we formulated our Environment Vision 2050 roadmap and accelerated targets forward from 2050 to 2040. We also reviewed our sales targets for non-alcohol beer and low-alcohol beverages and promoted initiatives to help revise our human rights policy. You can find the details of these measures on p19-20, so please take a look later.

- In terms of digital transformation (DX), we conducted AI-driven trial verifications in the personalization sphere and established our AGPRO global procurement platform. On the R&D front, we continue to pursue research and acquire exceptionally talented human resources in four key domains, and to strengthen regional collaboration to help develop specific value propositions.

- Regarding efforts to strengthen our strategic foundation, we have been promoting various measures designed to help globalize our operations and improve diversity. As I have just explained, we have also worked hard to evolve our Group governance by renewing our business execution framework and establishing AGPRO.

◆Progress of Medium- to Long-term Management Policy (P5)

- Looking now at the key indicators for our management policy, we are making better progress on FCF than we had planned, but Core Operating Profit and adjusted earnings per share (EPS) are expected to fall short of the CAGR guidelines over a three-year horizon, which includes the 2024 planned level, due to unprecedented cost increases over the past two years and our decision to expand various strategy investments.

- However, at this point in time, we continue to aim for Core Operating Profit growth in the high single digits, and we are working to gradually boost CAGR by increasing returns through various strategic investments, including greater marketing investment.

- In terms of our financial policy, we expect Net Debt/EBITDA to improve to a better-than-planned 2.7x by the end of 2024 following efforts to use FCF to reduce debt and other measures.

- Regarding shareholder returns, we plan to increase our annual dividend by JPY 11 per share in 2024, resulting in a dividend payout ratio of 38%. As shown in the next slide, we have increased our annual dividend for 16 consecutive years since 2008, and we intend to continue increasing the dividend payout ratio to 40% by 2025 as part of our aim to consistently increase dividends in line with profit growth.

◆Generate/Allocate CF to Improve Corporate Value (P7)

- It goes without saying that our ability to generate cash is fueled by sustainable top-line growth and increased cost efficiencies. In terms of revenue, as I mentioned earlier, we are working to consistently improve unit sales prices and promote our premium strategy by expanding global brands, etc., while also accelerating the development of BAC and high value-added products.

- On the cost front, in addition to the launch of our AGPRO global procurement company and the reform of earnings structures in each region, we intend to increase the Group's ability to generate cash flow by controlling working capital and improving capital efficiency in general.

- Regarding the allocation of generated cash, we are prioritizing the allocation of funds to areas that will help strengthen our strategic foundation, such as brand enhancement and M&A investment, as well as sustainability, DX, and R&D core strategies, and human capital.

- We will also consider further increasing shareholder returns once we have determined our progress on reducing financial debt and if we do not have any large-scale M&A or other investment requirements.

- It is hard to quantify specific returns from our investment in core strategies such as sustainability and in human capital at this stage, but we will continue to determinedly focus on prioritizing investment required to ensure medium- to long-term growth without being overly influenced by short-term negative PL impacts.

- To illustrate this point, the following slide entitled Brand Investment shows changes in advertising spend for the whole Group over the past three years and how, even when the business environment was extremely tough during the COVID-19 pandemic, we expanded brand investment and consequently increased our competitive advantage in each region.

- We will work to visualize other investments as much as possible through value association analysis and deepen the opportunity for constructive dialogue with all our stakeholders regarding cash allocations designed to increase shareholder returns and overall corporate value.

◆Progress on Our Premium Strategy (P9)

- While total sales volumes for beer-type beverages and non-alcohol beer in the three regions of Japan, Europe, and Oceania declined by 1.8% in 2023 (as shown in the third line of the table), the 14.9% improvement in the unit sales price in Europe and the 9.5% improvement for three regions generated primarily by our pricing strategies, greatly contributed to top-line growth.

- The sales volumes listed on the bottom of the slide for global brands, excluding home markets, contracted by 1% YoY in 2023 primarily due to a deterioration in the consumer environment for *Peroni Nastro Azzuro* in the United Kingdom. However, *Super Dry* sales volume increased by an impressive 35% YoY thanks to the positive impact of the Rugby World Cup and other factors, resulting in an overall year-on-year increase in sales volume of 4%.

- We have summarized some specific key topics relating to our global brands on the next slide, but, as far as *Super Dry* is concerned, we need to maintain this significantly higher sales momentum through continued brand extension and aggressive marketing.

- Meanwhile, we entered into a new partnership with Formula 1 team Scuderia Ferrari on *Peroni Nastro Azzuro* from 2024 and are looking to further increase brand awareness by promoting cooperation between these two iconic Italian brands.

◆Variable Costs Increase and Outlook (P11)

- In 2023, total variable costs, consisting primarily of raw materials and energy, stood at less than JPY 95 billion. While each region exhibited its own strengths and weaknesses, the result for the Group as a whole was lower than expected.

- In 2024, we expect total variable costs to increase by approximately JPY 20 billion as the cost of some items in the market remain high, suppliers are requesting price increases to cover soaring labor costs and other elements, and logistics costs are rising.

- Having said that, we are looking to offset those cost increases by continuing to pursue the pricing strategies that we started implementing in 2023 and improving our product mix through premiumization.

◆Japan: Overview and Direction (P12)

- To give you an overview of our business in Japan in 2023, we implemented appropriate pricing strategies to address significant cost increases. Thanks to strong progress in this area, we were able to generate higher-than-expected revenue and profits for the segment overall, despite higher additional brand investment in the fourth quarter.

- In terms of direction for 2024, we intend to strengthen our core brands to reflect changes in demand, such as the recovery in beer following liquor tax revisions, and to achieve top-line growth by proposing new value and developing more high value-added products.

- In addition to our efforts to reform earnings structures under our One Asahi framework, we intend to accelerate management reforms and advance human capital and organizational functions across Japan by, for instance, transferring management employees from each operating company to Asahi Group Japan to ensure appropriate employee treatment and assignment.

◆Japan (Alcohol Beverages Business): Main Topics (P13)

- As shown in the graph in the upper left corner, the consistent recovery in beer sales since the liquor tax was revised in October 2020 received an additional boost when the liquor tax was revised again in October 2023. It also shows how the volume composition ratio for canned beer and new genres has recently reversed.

- Anticipating these changes in market structure, Asahi Group Holdings started significantly expanding its investment in advertising and sales promotion from the second half of 2021 and has strengthened marketing activities for canned beer.

- As shown in the graph in the upper right corner, total canned beer sales had increased by 18% in 2023 compared to 2020 thanks to the renewed launch of the main *Super Dry* product as well as the release of *Nama Jokki* cans and *Dry Crystal*, and the entrenchment of *Asahi Nama Beer* in the market.

- Going forward, we intend to continue enhancing investment to help maintain this momentum. In 2024, we plan to release *Asahi SHOKUSAI* through all channels and to launch a new RTD called *Mirai no Lemon Sour* in a Jokki can. We also plan to strengthen our marketing activities in high value-added categories by, for instance, launching our *Asahi ZERO* product that leverages our alcohol removal techniques.

◆Europe (P15, 16)

To summarize our business in Europe in 2023, sales volumes declined partly due to inflationary pressures in the face of continued large cost increases. However, as I mentioned before, we made steady progress with our pricing strategies and other premiumization measures, as evidenced by the significant increase in unit sales prices.

- We have included the sales figures and total market share by category at the top of the next slide. Thanks to our renowned strength in the premium category, we are managing to increase market share while also significantly increasing unit sales prices, and also to consistently expand the competitive advantage of our European operation.

- It may take some time for consumption momentum to recover in the face of persistent inflationary pressures, but we will continue to strengthen our platforms for supporting sustainable growth by pursuing our premium strategy based on Profitable Revenue Growth Management and expanding human capital investment.

◆Oceania (P17, 18)

- To give you an overview of our business in Oceania in 2023, we further strengthened our earnings base by enhancing our competitive advantage through continued growth of main brands and development of high value-added products, and by promoting structural reforms covering everything from top-line sales to costs.

- As you can see in the specific topics described on the next slide, sales volumes for our *Great Northern* flagship brand expanded by 5% YoY, which was higher than the market average, as we continued to invest in the region following the acquisition of CUB in 2020. This is reflected in today's successful growth figures.

- We have already started implementing structural reforms, but we intend to promote a wider range of initiatives going forward, with a focus on developing innovative products while also strengthening our production bases and SCM and increasing efficiencies.

- While we do need to prepare for a potential slowdown in the broader market as a result of the recent deterioration in macroeconomic conditions and changes in the competitive environment, we are looking to establish an earnings base that is not overly impacted by changes in the business environment by pursuing our multi-beverage strategy more aggressively, while also implementing structural reforms and continuing to implement strategic investments.

◆Finally

- Despite the tough environment, we will strive to achieve sustainable growth and enhance corporate value by expanding strategic investment and optimizing cash allocations. We ask for your continued support as we press ahead with these policies.

*Alcohol-free alcohol-tasted (flavored) beverages