May 11, 2020

Asahi Group Holdings, Ltd.

Fiscal 2020 1Q Financial Results Conference Call

Date & Time: Monday, 11th May, 2020
16:00-17:00 Japan Standard Time

Speakers: Akiyoshi Koji, President and Representative Director, CEO
Atsushi Katsuki, Senior Managing Director, CFO

◆ Q1 2020 Financial Results Digest

<Executive Summary>

- In the first quarter, both revenue and profit outpaced our targets across all businesses in January and February, but on-premise market demand dropped sharply from March due to the novel coronavirus outbreak. As a result, revenue in the January through March quarter declined 4.7% year on year and core operating profit fell 36% overall. The impact was particularly significant in Europe.
- Moreover, quarterly profit fell 45.3%, mainly owing to the decline in core operating profit and the booking of expenses related to the novel coronavirus outbreak.
- Since we are still unable to predict when the novel coronavirus pandemic will end in Japan and around the world, we have yet to determine our earnings forecasts for the second quarter and for the full-year. We plan to disclose our forecasts by 1H results briefing in August—once we have a better idea of when the novel coronavirus situation will end—along with details about the impact of the Carlton & United Breweries, or CUB, acquisition in Australia, which we expect to conclude in June.
- Meanwhile, our dividend forecast remains unchanged. We plan to raise our year-end dividend by six yen to 106 yen based on our shareholder return policy of aiming for stable dividend increases.
- We have decided to leave our dividend forecast unchanged because we anticipate relatively stable cash flows in our businesses, so at this point in time we don’t anticipate any cash flow issues. It is also an indication that we have confidence in the sustainability of our businesses, as we feel that the current deterioration in earnings is only temporary.
- As we announced last week, we expect to close out the acquisition of Australia’s Carlton

& United Breweries on the first of June, subject to the approval of Australian regulatory authorities. However, we will consider flexibly amending our post-acquisition finance plan to reflect changes in the procurement environment and other factors.

＜First Quarter Highlights＞

- Revenue and profit increased in the Food Business mainly due to ongoing growth in health-related demand, but revenue and profit decreased in all other businesses mainly because people refrained from going out and on-premise market demand contracted sharply.

＜Alcohol Beverages Business＞

- Through to the end of February, sales in the beer-type beverages market overall was on par with the same period last year, but with on-premise demand slumping from March, we think the overall market shrank by 5% to 6% in the January through March quarter.
- For Asahi too, revenue was roughly the same as last year through to the end of February, but partly because of the high weighting of on-premise products within the beer category, revenue for beer and beer-type beverages decreased 8.8% in the January to March quarter.
- Nevertheless, we achieved some positive results outside of the novel coronavirus impact; sales of Super Dry cans were relatively solid thanks to a revamped marketing strategy, among other factors, and the new genre product Asahi the Rich, which we launched in March, got off to a solid start, so much so that we have already revised upwards our sales target to eight million cases.
- While we expect the tough operating environment to continue owing to the impact of the novel coronavirus outbreak and the subsequent postponement of the Olympics and Paralympics, which we saw as a chance to really stimulate demand, we plan to keep supporting bars and restaurants and other sales channel customers and steadily recover momentum by concentrating our efforts on ways to invigorate household demand by further promoting Asahi the Rich, for example.
- Sales are brisk for non-beer-type alcoholic beverages like western liquor and RTD low-alcohol beverages, however, and we will also continue to work on stimulating household demand for non-alcohol beverages as well.
- Total core operating profit in the Alcohol Beverages Business decreased 7.1% year on year to 13.5 billion yen. Our efforts to limit advertisement and sales promotion expenses and general fixed costs were not enough to offset the impact of weaker sales for beer and beer-type beverages.
- Although the sluggish on-premise demand is expected to continue for some time up ahead, we will continue to streamline general costs and seek to limit the impact on earnings as much as possible mainly by shifting the focus of our marketing investments to recovery

measures once the self-isolation restrictions are lifted and the stimulation of household demand.

＜Soft Drinks Business＞

- The soft drinks market overall contracted roughly 2% in the January through March quarter mainly because of sluggish sales at vending machines and convenience stores as people refrained from going out. In this environment, despite brisk results for Wilkinson and other carbonated soft drinks, our total sales volume declined 3% year on year, primarily reflecting a decline in sales of coffee beverages and fruit juice.
- Total core operating profit in the Soft Drinks Business fell 66.1% year on year to 1.1 billion yen. This chiefly owed to lower sales volume and a deterioration in the channel mix, despite our best efforts to reduce costs through improvements in capacity utilization.
- The adverse operating environment is still in play with demand dropping out in April following the earlier spate of bulk buying, but our policy up ahead will be to minimize the negative impacts as much as possible with marketing activities designed to flexibly respond to changes in demand in the lead up to summer when we expect sales to rebound from last year.

＜Food Business＞

- Total revenue in the Food Business rose 7.5% year on year to 28.2 billion yen on the back of heightened health-related demand and growth in "stay-at-home" consumption. Brisk sales for Dear Natura and other core brands were also a contributing factor. Also, core operating profit in this business grew 20.9% year on year to 3.7 billion yen largely by virtue of higher sales and the streamlining of advertising expenses.
- Although there are risks; for example, decreased sales of MINTIA, one of our core products, we will aim to cover the decrease in other brands and categories.

＜Overseas Business）＞

- On a consolidated financial results summary basis, total revenue in the Overseas Business declined 5.6% year on year, partly owing to a negative forex impact of 8.0 billion yen, but on a constant currency basis, it was flat year on year thanks to revenue growth in the Oceania business where there was anticipatory demand.
- In contrast, core operating profit fell 37.1% even on a constant currency basis owing to factors such as the impact of product mix deterioration caused by the spread of the novel coronavirus to all regions.
- In breaking down these numbers, revenue growth in January and February in the Europe business was in the low single digits, but this turned to a 4.4% year-on-year decline as

the region went into lockdown from March. Core operating profit decreased 17% due mainly to product mix deterioration as on-premise demand dwindled.

- In the Oceania business, revenue jumped 12.7% mainly on anticipatory demand for soft drinks in March ahead of novel coronavirus lockdowns, but core operating profit declined 27.3% chiefly because we booked one-off costs associated with the CUB acquisition, in addition to stagnating on-premise demand for alcoholic beverages and a worsening product mix, just like in Europe.
- In the Southeast Asia business, revenue fell 7.5% year on year as demand for soft drinks weakened with countries like Malaysia issuing so-called “movement control orders”. Core operating profit dropped a sharp 67.3%, mainly reflecting lower sales and skyrocketing raw material prices in Malaysia.
- Meanwhile at AIL, the Asahi Group company handling the exports of our global brands, revenue grew 8.6% thanks in part to the boost from the consolidation of Fuller’s Brewery in the UK, despite lower sales to Asia where the novel coronavirus first took hold.
- However, core operating profit worsened by 2.1 billion yen year on year due mainly to the dropout of one-off profits booked a year earlier and a deterioration in the product mix owing to sluggish on-premise demand.

＜Operating Profit and Profit Attributable to Owners of the Parent Company＞

- Factors affecting the operating profit line and below in the consolidated financial results are as shown in the materials.

＜Novel Coronavirus Impact (Japan)＞

- As for the domestic impact, in the Alcohol Beverages Business, in conjunction with the slump in sales of on-premise beer-type beverages, which account for roughly 30% of sales of beer-type beverages, total sales of bottles and kegs in March decreased by approximately 40%, and this decline grew to 80% in April when the state of emergency declaration was made.
- Restrictions and requests for companies to refrain from operating are expected to gradually ease depending on the decline in the number of infected people, but at this time it is difficult to predict the timing of this and the impact it will have. Of course, the longer these restrictions and requests are in place, the larger the negative impact on our business performance.
- Also, as I mentioned earlier, due to factors such as people refraining from going out, sales in the Soft Drinks Business have been contracting, especially in the vending machine and convenience store channels. Similar to the Alcohol Beverages Business, the magnitude of the impact will likely depend on when the requests for people to refrain from going out

will ease.

＜Novel Coronavirus Impact (Overseas)＞

- In Czechia and Italy, on-premise sales ratios are high at around 40%, and on-premise demand is now very close to zero due to the lockdown conditions, so the negative impact was even greater in April than in March.
- On the other hand, on-premise sales account for a low percentage of sales in Poland, so the impact of the novel coronavirus on sales has been relatively muted there. In the UK, which is under AIL’s umbrella, performance has been negatively impacted by the decline in on-premise sales, but this has been partially offset by strong sales of Super Dry and Peroni in the home-use category. In this way, the magnitude of the impact varies by country.
- If significant declines in on-premise sales continue in Europe overall, it will have a major impact on the performance of the Overseas Business, which Europe accounts for a large portion of.
- In Australia, RTD low-alcohol beverages, which account for half of the sales of alcohol beverages, is mostly for household-use so there has not been a negative impact, but in the beer business the ratio of on-premise sales is about 30%, and sales of alcohol beverages dropped significantly in April, including a decline in household-use sales.
- Overseas, the impact on profits is large considering the fact that the margins for on-premise products are higher than those of household-use products, and in some countries monthly profit has declined by one-half.
- Meanwhile, in countries like Czechia and Australia, the number of new infections has fallen sharply, and the easing of restrictions has already begun.
- While we need to maintain an appropriate degree of concern about the possibility of a second wave of infection, overseas subsidiaries are taking measures according to the ever-changing situation in each country. We will work to update this information to the fullest extent possible, and disclose it in an appropriate and timely manner.

＜Response to the Novel Coronavirus＞

- On April 24, we announced our “Novel Coronavirus Response” in which we stated that we will fulfill our responsibilities to all stakeholders. In accordance with this basic policy, as shown at the bottom of the slide, prioritization of our response measures will be implemented in three phases.
- During this period when the virus is still spreading, we are making the safety of our employees and their families our top priority, while fulfilling our responsibility to supply products to consumers and continuing to support our business partners and local

communities as we implement our business continuity plan.

- We believe that now is the time to promote sustainability not only for the company, but for society as a whole, based on the Asahi Group Philosophy. Asahi Group Holdings and our operating companies around the world will continue to work together on countermeasures.
- Also, while the situation varies from country to country and the timing remains uncertain, during the recovery period when restrictions and requests for companies to refrain from operating will be eased, we will focus on marketing, including selection and concentration for brands, and are also prioritizing cash flows and financial soundness, and working to increase the efficiency of capital investment and fixed costs, such as advertisement and promotion costs.
- Even during the global financial crisis of 2007 and 2008, beer consumption in Europe and Australia was not significantly affected. Needless to say, short-term demand has dropped sharply this time around due to the impact of restrictions on dine-in eating and other factors, but we feel that demand is certain to recover, even under the “new normal”.
- Also, from the recovery period towards the new normal period, it will be important to focus on our strengths, and I think that the recovery of our performance will particularly dependent on our brands.
- We have many top brands in both the premium and mainstream categories, and in Central and Eastern Europe, even amid the impacts of the novel coronavirus, we are demonstrating our strength as an industry leader possessing powerful brands.
- Europe CEO Paolo Lanzarotti has provided a powerful message that we should not only focus on the current market situation, such as the concentration on top brands, but that we should also think about the future after the novel coronavirus outbreak has come to an end, including bolstering our position and continuing the premium strategy.
- Our strength in the on-premise category, including in Japan, is currently a weakness for us, but by quickly and precisely deploying countermeasures in accordance with each respective phase, such as sparking demand originating from brands, I am convinced that we will see a strong recovery in anticipation of the new normal.
- Also, while we are not able to fully predict the future, under the new normal, rather than simply re-executing our previous strategies, we will aim to become an even stronger corporate group by boosting digital transformation efforts and by vigorously promoting all manner of structural reforms and pursuing disruption.

＜CUB Acquisition and Financing Plan＞

- As we disclosed on May 7, we are preparing for a June 1 closing on the deal to acquire the CUB business held by ABInBev in Australia, subject to approval by the Australian authorities.

- There have been some concerns voiced about a possible deterioration in our financial condition with the impact of the novel coronavirus outbreak coinciding with the acquisition, but we believe that the impact on financial soundness will be minor from a medium- to long-term perspective, and there will be no change in our strategic direction.
- We are promoting a premium strategy based on the Asahi Group Philosophy of “Aim to achieve growth as a glocal value-creating company based on core high-value-added brands”, and the CUB business will truly be a valuable asset in promoting such a strategy.
- Although it is necessary to prepare for a short-term decline in the Australian business’s performance due to the impact of the novel coronavirus, from a medium- to long-term perspective, by acquiring the CUB business in Australia, where stable population growth and economic growth are expected, it will be possible to create growth and cost synergies by pursuing premiumization.
- In addition to making our Australian business more profitable, we will be able to vigorously promote our glocal—or, global and local—growth strategy by building a global management platform centered on Japan, Europe and Australia.
- Meanwhile, with regard to the financing plan we announced last July, our plan to procure equity capital with the aim of securing financial soundness has not changed. However, since the stock market and financing environment have changed significantly since last year, we will consider flexibly reviewing the timing and the balance of procurement methods and so on.
- In addition, the EBITDA level for the current fiscal year is likely to be lower than initially forecast, and we expect it will take more time than previously anticipated for the Net Debt/EBITDA ratio to recover to around three times the current level.
- However, even after the acquisition, we do not believe that our balance sheet and financial base will deteriorate significantly, and we plan to quickly improve our financial position after the novel coronavirus outbreak comes to an end, through measures such as further enhancing our ability to generate cash flows.
- In addition, although our financial debt will increase as a result of this large acquisition, this will not change our policy on shareholder returns. We will aim to steadily increase dividends, targeting a dividend payout ratio of 35% by fiscal 2021, and 40% in the future.
- This policy is a part of our plan to emphasize value creation with not only with shareholders, but with all stakeholders. We will continue to engage in dialogue with stakeholders as we aim to improve our corporate value over the medium to long term.