

November 10, 2021

Asahi Group Holdings, Ltd.

Fiscal 2021 Q3 Financial Results Conference Call

Date & Time: Wednesday, 10th November, 2021

16:00-17:00 Japan Standard Time

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

◆ Q3 2021 Financial Results Presentation

<Q3 2021 Financial Results Highlights> (P.1)

- Total revenue for the nine months ended September 30 rose 5.6% year on year to 1,553.3 billion yen. This mainly owed to the recovery in on-premise sales in Europe and sales growth in the Overseas Business, including the positive impact from the consolidation of Carlton & United Breweries, which offset a decline in sales in the domestic Alcohol Beverages Business stemming from the protracted impact of the COVID-19 pandemic.
- Core Operating Profit increased 15.7% year on year to 145.8 billion yen. Despite a drop in profit in the Alcohol Beverages Business, the increase was driven by the recovery in the Europe Business, as well as profit growth in not only the Overseas Business—which includes the boost from the new consolidation—but also in the Soft Drinks and Food businesses.
- You can see on the right-hand side of the slide that we have lowered our full-year total revenue forecast by 30.0 billion yen to 2,166.1 billion yen. This reflects revenue falling short of our forecasts for mainly businesses in Japan in the July through September period because of extended COVID-19 restrictions and the impact of unfavorable weather, among other factors.
- For Core Operating Profit we have lowered our forecast by 10.4 billion yen to 203.4 billion yen. This reflects downward revisions to our forecasts for the Alcohol Beverages, Soft Drinks, and Overseas businesses. We left our forecast for the Food Business unchanged.
- We will do as much as possible to turn things around in each business in the

October through December quarter, but we made the decision to lower our full-year forecasts because we think it will be difficult to make up the shortfall incurred in the July through September period.

- That said, revamped marketing initiatives in the Alcohol Beverages Business are starting to yield some results and the fundamentals remain firm in connection with our premiumization strategy in overseas markets. After we achieve our revised targets this fiscal year, we will look to stage a steady recovery in all businesses starting from next year.
- Page 2 shows financial results on a reported basis, which includes the impact of exchange rate movements.

<Sales Recovery by Region> (P.3)

- In Japan, the on-premise consumption environment was more challenging than we expected mainly because of the extended and expanded state of emergency from July and the request from the government for bars and restaurants to stop serving alcohol.
- However, sales figures for October disclosed today show that on-premise consumption has been gradually recovering since the state of emergency was lifted, nearing about 70% of sales for the same period in 2019.
- In Europe, the situation continued to improve from the second quarter onwards with the easing of restrictions there, but even so, sales in the peak season dipped below the prior year due primarily to the impact of unfavorable weather. However, consumption momentum is steadily improving and sales have since turned to a recovery once again.
- In Australia, Sydney, Melbourne, and other cities were under lockdown from late June onwards, which impacted on-premise sales, but the lockdowns were lifted in October, so we think on-premise consumption will start recovering as the market approaches its peak season.
- We cannot be optimistic about any of these regions because it is still hard to accurately predict the impacts up ahead, but given the expanding vaccination rollout and changes in policies for coexisting with COVID-19, we expect the on-premise market to demonstrate a recovery trend in the lead up to next year.

<Alcohol Beverages Business (Revenue/Sales Volume of Beer and Beer-type Beverages)> (P.4)

- As shown in the table on the right-hand side of this slide, total sales volume for

beer and beer-type beverages in the nine months from January through September is estimated to have contracted by around 9% year on year mainly because of weak demand in the on-premise and new genre markets, despite the expanding can beer and happoshu markets.

- In this environment, sales of *Style Free* are outpacing the market average, and we have been successful to a certain extent in generating off-premise demand for can beer chiefly thanks to the hit products *Asahi Super Dry Nama Jokki Can* and *Asahi Nama Beer Maru F*. However, total revenue from beer and beer-type products declined 9.5% year on year mainly as a result of the waning on-premise beer and new genre markets.
- We therefore lowered our full-year revenue forecast for beer-type beverages by 13.5 billion yen to reflect the fact that we missed our target for the July through September quarter chiefly because of the sluggish on-premise channel and the impact of unfavorable weather.
- Even though the situation up ahead remains uncertain, a steady recovery in the on-premise market and the development of a supply framework for *Nama Jokki Can* and *Maru F* should allow us to target a recovery in sales momentum primarily in the beer category.

<Alcohol Beverages Business (Revenue)> (P.5)

- The lower table on this slide shows revenue for non-beer-type alcohol beverages. In similar fashion to the beer category, the stagnant on-premise market dented sales in all categories except for non-alcohol beverages and wine. Sales of wine were brisk at ENOTECA.
- And just as we did for beer-type beverages, we have lowered our full-year forecasts for all categories, with the exception of wine, to reflect the negative impact of the July through September quarter.
- Even though we have revised our forecasts for mainly minimal alcohol products, consumer demand is steadily growing for non-alcohol beverages owing to a heightened level of health consciousness and lifestyle changes in recent times. From a medium- to long-term perspective, we will continue to implement initiatives that aim to establish our products in the “smart drinking” market.

<Alcohol Beverages Business (Core OP)> (P.6)

- Core Operating Profit in the Alcohol Beverages Business fell 26% year on year to 46 billion yen. We made every effort to streamline costs on the “other expenses”

line, but in addition to the impact of lower sales, profit was dented by increased brand investments in each category.

- We have reduced our full-year forecast by 4.4 billion yen to 70.6 billion yen in line with the downward revision to our sales volume forecast for mainly beer and beer-type beverages.
- It has been a really tough year for earnings largely because of the delayed recovery in the on-premise channel, but as I mentioned a moment ago, the marketing reforms we have carried out thus far for mainly beer and minimal alcohol products are starting to bear fruit. We will continue to invest in growth categories and brands in an effort to steadily claw back our competitiveness in the domestic Alcohol Beverages Business.

<Soft Drinks Business (Sales Volume)> (P.7)

- The soft drinks market overall in the nine months from January through September was more or less flat year on year. Sales started to recover in the first half in the shape of a rebound from the year-earlier impact of COVID-19, but that was cancelled out by the impact of unfavorable weather during the peak season.
- In this environment, total sales volume at Asahi Soft Drinks dipped 0.8% year on year to 190.12 million cases. This mostly reflects a decrease in lactic acid drinks and mineral water, which outweighed an increase in carbonated soft drinks and tea drinks.
- Because unfavorable weather during the peak season derailed our sales volume targets in the first nine months, we have now lowered our total full-year forecast. However, our policy going forward will be to ramp up brand-building investments in mainly core brands with a view to triggering a recovery in sales momentum from next year onwards.

<Soft Drinks Business (Core OP)> (P.8)

- Total Core Operating Profit in the Soft Drinks Business grew 12.3% year on year thanks to a boost from higher sales, including improvements in the product mix in each category, and cost reductions derived from a shift to in-house production. These benefits outweighed increases in advertising and sales promotion expenses and other costs.
- Although we will endeavor to get things back on track in the fourth quarter, we have lowered our full-year Core OP forecast by 2.6 billion yen to 33.0 billion yen

to reflect the impact of the downward revision to our sales volume forecast.

- The domestic Soft Drinks Business too was impacted by unfavorable weather and deterioration in the competitive environment, but we will set our sights on steadily regaining profitability as early as next year by beefing up the brand power of mainly carbonated soft drinks and strengthening our approach in the health drinks domain.

<Food Business (Revenue/Core OP)> (P.9)

- Food Business revenue was up 2% year on year and Core Operating Profit grew 6% year on year. This was mainly attributable to the strong performance of *Ippon Manzoku Bar* and *Dear Natura* capturing new demand, despite lower sales of *Mintia* and sluggish earnings in the B2B business owing chiefly to weaker demand from offices.
- We have lowered our full-year revenue forecast by 4.0 billion yen taking into account the progress made in the first nine months, but we are still aiming to beat our Core Operating Profit target by pushing ahead with the streamlining of mostly fixed costs.

<Overseas Business (Revenue)> (P.10)

- As you can see in the table at the top of the slide, total revenue in the Overseas Business on a reported basis increased 33.9% year on year to 747.0 billion yen, including a boost of 67.0 billion yen from the impact of exchange rate movements. However, the lower table shows total revenue on a constant currency basis, which rose 21.9% year on year to 680.0 billion yen owing to sales growth in existing businesses and the impact of the CUB business consolidation, among other factors.
- We have left our full-year forecasts for Europe and Oceania unchanged, but in light of extended restrictions in Southeast Asia and the impact of distribution holdups, we have lowered our total revenue forecast by 1.5 billion yen to 946.7 billion yen.

<Overseas Business (Core OP)> (P.11)

- As you can see in the table at the top of the slide, Core Operating Profit in the Overseas Business on a reported basis increased 71.0% year on year, including a boost of 10.3 billion yen from the impact of exchange rate movements. However, the lower table shows Core Operating Profit on a constant currency

basis, which, in similar fashion to revenue, rose 55.6% year on year to 104.4 billion yen owing to sales growth in existing businesses and the impact of new business consolidations.

- We have left our full-year forecast for Oceania unchanged, but considering the impact of sales declines during the peak seasons in Europe and Southeast Asia, we have lowered our total Core Operating Profit forecast by 2.6 billion yen to 145.3 billion yen.

<Europe Business (Revenue/Core OP)> (P.12)

- Sales volume was negatively affected by lockdowns in the first half and then unfavorable weather during the peak season, but overall it has rebounded to the year-earlier level on the back of a recovery in the on-premise channel after COVID-19 restrictions were eased.
- Net sales excluding liquor taxes increased 6% year on year, supported by an improvement in unit prices in conjunction with the recovery in on-premise demand.
- Core Operating Profit declined sharply in the January through March quarter, but then returned to a growth track from April onwards. As a result, it came in 4% higher than the first nine months of last year.
- Core Operating Profit is tracking below our forecast because of the overall unfavorable weather conditions seen in Europe during the peak season and the fact that on-premise demand did not recover to the level we expected.
- We have left our full-year net sales target unchanged as we intend to turn things around as much as possible in the October through December period because, except for weather factors, consumption trends remain strong.
- On the other hand, we have downwardly revised our Core Operating Profit forecast by 570 million euros. This reflects the considerable shortfall versus our on-premise target for the peak season and our judgement that we ought to prioritize investments aimed at regaining momentum as our market share continues to grow.
- The table at the bottom shows how sales are faring in each channel. In the off-premise channel, the year-on-year increase in sales for the nine months through September was in the low single digits. In the on-premise channel, year-on-year sales growth in the July through September period in particular was in the high single-digit range partly because of the easing of restrictions, but for the whole nine months it was more or less flat year on year.

- There is currently no room for optimism because the number of infections in Europe is currently rising, but we maintain a strong brand appeal in each country and by continuing to achieve a recovery in topline growth centering on our premium strategy and improving the channel mix, we hope to turn earnings around even further from next fiscal year and beyond.
- Page 13 shows sales volume trends for our key markets in Europe.

<Oceania Business (Revenue/Core OP)> (P.14)

- Now, the Oceania Business. Net sales of alcohol beverages, excluding liquor taxes, climbed 73% year on year, driven by the consolidation of the CUB business and brisk sales in the contemporary beer category centering on the core brand *Great Northern*.
- Sales of non-alcohol beverages increased 9% year on year, with growth driven by the sugar-free cola *Pepsi Max* and other carbonated soft drinks.
- Core Operating Profit was up 108% year on year, reflecting greater sales accompanying the CUB business consolidation and the generation of integration synergies.
- Core Operating Profit is slightly outpacing our full-year target at this stage owing to sales growth in the off-premise channel and tighter cost controls, despite the impact of lockdowns. Our policy going forward is to reach the full-year target by continuing with brand-building investments even in the peak season when restrictions will have been eased.
- The lower table shows year-on-year sales volume with the addition of CUB's results before the acquisition.
- Off-premise channel sales were negatively impacted by the return of demand in the on-premise channel, but they still came in mostly flat year on year largely thanks to greater sales of *Great Northern*.
- On-premise channel sales increased by approximately 30% year on year due to a rebound from last year, despite the impact of lockdowns in major cities like Sydney and Melbourne from July into September.
- COVID-19 infection rates currently remain high, but restrictions are expected to be removed in stages up ahead. Our aim is to chalk up above-market growth during the peak season and drive further momentum in sales from next year onwards.

<Operating Profit/Profit Attributable to Owners of Parent> (P.15)

- Operating profit grew 52.3% year on year to 172.3 billion yen. The increase was fueled mainly by a gain on the sales and retirement of non-current assets in addition to Core Operating Profit growth.
- Due to the downward revision of our Core Operating Profit forecast, we have lowered our full-year operating profit forecast by 10.5 billion yen to 211.5 billion yen, which would represent a year-on-year increase of 56.5%.
- Even though financial expenses and income taxes increased, profit attributable to owners of the parent company grew 63.7% year on year to 124.6 billion yen, driven chiefly by operating profit growth.
- While we anticipate a decrease in income taxes, to reflect the downward revision of our operating profit forecast, we have lowered our full-year forecast for profit attributable to owners of the parent by 7.5 billion yen to 148.5 billion yen, which would represent a year-on-year increase of 60.0%.
- In line with the downward revisions to our earnings forecasts, we have also tweaked our forecasts for the net debt EBITDA ratio and other fiscal year-end indicators. But we still expect to be able to reduce our interest-bearing debt as initially planned by enhancing our ability to generate free cash flow.
- Also, even though we have lowered our earnings forecasts, we have left our annual dividend target from the start of the year unchanged. This is based on our policy of aiming to ensure stable dividend increases with a target dividend payout ratio of 35%.

<Forecasting Higher Costs>

- I would now like to take a moment to talk about the outlook for higher costs up ahead stemming from recent commodity price increases.
- Since announcing our interim results, various raw material prices have continued to skyrocket due to a multitude of factors, including the rapid recovery of the global economy and efforts aimed at transitioning to a net-zero carbon society.
- Our earnings this fiscal year will not be affected because we have either already procured what we need, or we have hedged our transactions to a certain extent, but if these market conditions continue, the cost inflation of more than 10 billion yen next year that we previously discussed could balloon out by an extra 15 billion yen or more.
- Our stated policy for next fiscal year is to restore earnings to 2019 levels, including those of the CUB business, but if cost increases amount to more than 25 billion yen, we will struggle to absorb them solely through our own efforts.

Achieving our targets will also become much harder.

- We will continue to keep a close eye on the market environment and consider what countermeasures to take, such as streamlining additional costs, but to sum up, there is a growing risk that earnings next fiscal year will be impacted by higher costs.