

## **Asahi Group Holdings, Ltd. Fiscal 2021 Financial Results Conference Call**

Date & Time: Wednesday, February 16, 2022  
15:30-17:00 Japan Standard Time

Speaker: Atsushi KATSUKI, President and CEO, Representative Director

### **◆ Executive Summary** (P1)

- The Asahi Group Philosophy came into effect in 2019, and we also updated our Medium-Term Management Policy at that time. Based on these two guidelines, we have continued to pursue value creation management on a global basis.
- Since 2020, the Group has faced an adverse business environment owing to the impacts of the COVID-19 pandemic, but we have continued to advance our premium strategy in off-trade channels and have established a robust global platform through our acquisition of the Carlton & United Breweries business in Australia.
- We have also created a clear path toward a stronger financial position mainly through optimal financing plans and a management approach that places emphasis on cash flow generation.
- We continue to pursue a style of management that can flexibly respond to environmental changes. Based, however, on the premise that the various impacts of the pandemic have suddenly propelled us a decade into the future, the management team felt that discussions on medium- to long-term strategies needed to be based on issues identified through back-casting from the megatrends we expect to see not only a decade from now, but also three decades into the future.
- Based on these discussions, we have also updated our Medium-Term Management Policy to create a new Medium- to Long-term Management Policy, which incorporates our long-term strategy.
- We will aim to achieve sustained growth and enhance corporate value by building a business portfolio that can respond to changing conceptions of well-being and by further enhancing our core strategies including those relating to sustainability, digital transformation, and R&D. I will explain this in more detail later.
- To sum up 2021, even though the impacts of COVID-19 continued to linger, we were able to achieve record-high revenue and profit attributable to owners of parent mainly by ramping up our premium strategy and new value propositions, and by further streamlining operations.
- Also, we endeavored to reduce our financial obligations by more than expected chiefly by creating synergies from the integration with Australia's CUB into the

Group and by implementing measures aimed at maximizing cash flow.

- Challenges still remain, such as resurgences in COVID-19 infections and raw materials cost increases. Despite this, in 2022 we intend to chalk up steady sales and profit growth in all businesses and vigorously go about building an ideal business portfolio and promoting core strategy initiatives in line with our updated Medium- to Long-term Management Policy. On this point too, I will go into more detail in a few moments.

#### ◆ **Megatrend Analysis** (P2)

- In terms of megatrends through to the year 2050, we anticipate issues of a global scale, such as climate change and the depletion of natural resources, as well as changes in demographics, shifts in economic power, and advancements in technology that bring about new technological capabilities for humanity and also provide people with more free time.
- As part of these broader trends, in addition to socioeconomic changes, we also expect to see changes to people's conceptions of well-being. We think sustainability-related considerations and technology will drive further diversification and personalization of individual's ideas about well-being.
- I will refrain from giving a detailed explanation, but as you can see in the table, in terms of megatrends some 10 years from now, we expect to see an increase in health consciousness, headwinds from alcohol-related issues, and a heightened awareness of sustainability-related considerations.
- For a Group whose mainstay business is alcohol beverages, taking stock of changes in culture and people's behavior over a medium-to-long time horizon is an absolutely crucial task. Reassessing conventional approaches and ways of thinking and harnessing the enrichment and fun that alcohol can deliver to generate new value propositions and business models will, in my opinion, become a prerequisite for the Group's survival.

#### ◆ **Overview of Medium- to Long-Term Management Policy** (P3)

- In light of this megatrend analysis and the challenges the Asahi Group will need to tackle, we decided that the concept behind our long-term strategies in the Medium- to Long-Term Management Policy should be: "Contribute to societal sustainability and responding to changing conceptions of well-being through delivering great taste and fun."
- Responding to changing conceptions of well-being is highly complementary to our Asahi Group Philosophy mission: "To deliver on our great taste promise and bring more fun to life." This concept also demonstrates how focused we are putting the Asahi Group Philosophy into practice.
- Based on this concept, with an ideal business portfolio we will seek to respond to risks and opportunities as we cater to the diversification of people's ideas about well-being and in addition to pursuing sustained growth for our beer business and

other existing businesses, we will leverage this business foundation to expand into adjacent markets and grow new businesses and services.

- We also intend to integrate sustainability considerations into management with the objective of driving business growth by helping to address societal issues, and also further bolster other core strategies covering areas such as digital transformation and R&D.
- Furthermore, we will continue to increase diversity, equity and inclusion, and underpin the strategies I just mentioned by enhancing human capital and Group governance. We will also strive to fulfill our social responsibilities, achieve sustained growth, and increase corporate value.

#### ◆ **Ideal Medium- to Long-Term Business Portfolio** (P4)

- Firstly, in terms of an ideal medium- to long-term business portfolio, in light of heightening health consciousness and increasing recognition of alcohol-related issues in society, which I touched upon just a moment ago, we will set our sights on achieving growth in existing businesses centering on the beer category, but at the same time, we will also expand into new areas.
- In our existing businesses, we will keep a close eye on growth in personalization and ethical consumption trends and further accelerate the implementation of strategies we are already pursuing, including further promotion of our premium strategy and using our global brands to expand into new regions.
- Meanwhile, the ability of our Alcohol Beverages and Non-alcohol Beverages businesses to share the technologies and know-how they've each cultivated is one of the Asahi Group's unique strengths even from a global point of view. In new business domains, we intend to leverage this strength to step up new added-value propositions aimed at tapping into demand arising from the heightened health consciousness and diversifying preferences of consumers.
- More specifically, we aim to bolster R&D activities and increase our sales weightings in the beverage categories adjacent to beer, which are referred to on this page as "BACs", short for "beer-adjacent categories". Beer-adjacent categories include ready-to-drink low-alcohol beverages, non-alcohol beverages, and soft drinks for adults.
- As for generating synergies with other areas, including the Food Business, we intend to create new products and services by harnessing the yeast and lactic acid bacteria technologies we have accumulated over the years. And we will also leverage the Group's technologies to build business models geared towards helping to address societal issues.
- Our approach will be to build an optimal business portfolio taking megatrends into account while drawing on the capabilities and business platform we have cultivated in the beer category, and expanding opportunities for growth in beer-adjacent categories and in new product and service areas.

### ◆ **Integrating Sustainability into Management** (P5)

- Our “Cheer the Future” concept expresses our resolve to “build value together with nature, community, and society at large for making the one and only future shine”.
- The pinwheel diagram on the right is a schematic representation of our sustainability strategy. The circle in the middle is the virtuous cycle created through integrating sustainability-related considerations into management, while the four blades on the outside show the actions the Asahi Group ought to take.
- In order to live up to “our promise for the future”, we intend to, as it were, keep this pinwheel spinning, by accelerating our integration of sustainability-related considerations into our management approach throughout the Asahi Group.

### ◆ **Key Policies and Themes of Sustainability Strategy** (P6)

- In order to “realize sustainable living for our customers across the value chain,” we have identified four key themes from among our list of material issues that we think are particularly important to communities and the Asahi Group.
- As part of our efforts to respond to climate change, we have raised our 2030 CO<sub>2</sub> emissions reduction target from 50% to 70%. We plan to invest at least 50 billion yen in solar power generation facilities, and pursue greater energy efficiency and the development of new fuel-related technologies.
- We have also set ourselves some concrete targets to respond to plastic issue. In addition to fulfilling our responsibilities in this area, we will help make communities more sustainable as part of Asahi Group’s mission to “deliver on our great taste promise and bring more fun to life.”
- And as I mentioned when talking about megatrend analysis, as a group primarily engaged in the production and sale of alcohol, we will contribute to reducing inappropriate drinking and roll out non-alcohol and low-alcohol products to create more drinking options for consumers.

### ◆ **Value Creation in Our Sustainability Strategy** (P7)

- With regard to the creation of value under our key sustainability themes, we have listed specific business impacts, societal impacts, and KPIs.
- In terms of minimizing risks and securing opportunities, which we have focused on thus far in our sustainability strategy, we will take stock of the risks and opportunities again across the entire value chain in an effort to generate positive impacts through our products and services.
- Heightening consumer awareness of sustainability-related considerations is a crucial megatrend to watch, and it is clear that new value propositions aimed at meeting growing demand relating to ethical consumption and so on are set to become increasingly important up ahead. Our policy will be to continue building

business models in which helping to address societal issues will also contribute to business growth.

#### ◆ **Digital Transformation Strategy** (P8)

- The Asahi Group's digital transformation, is not merely about digitalization, but a management reform initiative that is crucial for our survival. We consider digital transformation to mean business transformation. We intend to push ahead with innovation in the three key areas of processes, organization, and business models.
- With regard to process innovation, we will be investing more than 30 billion yen over the next three years and building a data platform to gather, store, and utilize data from inside and outside the Group. Also, to avoid data degradation, we will look to improve our data management processes in order to constantly maintain and improve data quality at a global level.
- With regard to organizational innovation, we will transform the Group into a "digital native" organization that is data-driven and agile, and also strengthen incubation functions. Although we are already moving ahead with training our own data analysts and other specialist personnel, we will also be coordinating more with external organizations.
- As for business innovation, we will work on building new business models with more emphasis on personalization so that we can respond to increasing well-being-related demand. Also, we will promote innovations that involve the building of mechanisms for the provision of information to enhance product value, as well as the provision of product and experiential value tailored to people's physical or mental conditions.

#### ◆ **R&D Strategy** (P9)

- In order to respond to changing conceptions of well-being and contribute to societal sustainability while also achieving business growth, it is vital that we not only increase the value of our existing products, but that we also never cease in tackling the creation of new products and markets.
- In line with our R&D strategy, we will work on creating new value and developing products and technologies designed to mitigate risk in four areas: alcohol, health & wellness, sustainability, and new business.
- With focus on these four areas, we will actively invest in nurturing human resources and attracting talent from outside the Group to further enhance our capabilities. At the same time, we will employ artificial intelligence and other emerging technologies and also promote open innovation, including collaboration with universities and startups.
- We also aim to develop products and technologies that harness our strengths in yeast and lactic acid bacteria, for example, and generate new value propositions in beer adjacent categories and new business fields.

#### ◆ **Enhancement of Human Capital** (P10)

- We will look to enhance the effectiveness of our medium- to long-term strategies by synchronizing and advancing initiatives aimed at fostering an ideal corporate culture through the continued nurturing of future management team members, securing the new capabilities and personnel that the Asahi Group requires, and increasing diversity, equity and inclusion in our workplaces.
- More specifically, following the establishment of our People Statement in March of last year, we formulated a Global Diversity, Equity and Inclusion Statement as a further step towards fostering an ideal corporate culture and boosting employee engagement under the core message of “shine as you are.”
- By enhancing human capital with a view to building an ideal business portfolio and executing core strategies, we hope to create a virtuous cycle that further drives our practice of the Asahi Group Philosophy and the execution of our medium- to long-term strategies.

#### ◆ **Key Medium-Term Strategies for Each Regional Headquarters** (P11)

- As the company overseeing the three businesses in Japan, Asahi Group Japan will pursue the optimization of product portfolios in each business and the creation of synergies between all domestic businesses.
- In Europe, we will continue to reinforce the premium strategy centering on our five global brands and market-leading local brands, while in Oceania the pillars of our growth strategy are the promotion of a multi-beverage strategy hinging on strengths in both alcohol and non-alcohol beverages and the generation of integration synergies.
- Also, so that we can respond to consumer’s changing conceptions of well-being in each region, we will push ahead with efforts to create added value in beer-adjacent categories and other categories, proactively increase our use of renewable energy, deliver new value propositions with emphasis on sustainability, and pursue supply chain management reforms.
- Under the global framework of four regional headquarters that we have established, our plan is to share best practices across the entire Group and build a well-balanced business portfolio.

#### ◆ **Expansion of Global Brands** (P12)

- Up ahead, by expanding our market presence, we are targeting an average total annual growth rate of around 10% for the five global brands of *Asahi Super Dry*, *Peroni Nastro Azzurro*, *Kozel*, *Pilsner Urquell*, and *Grolsch*.
- In particular, for *Asahi Super Dry* and *Peroni Nastro Azzurro*, which we have designated as top-priority super premium brands, we are targeting industry-leading sales volume among global premium beer brands.
- We have already globally standardized the tone and manner of branding and we

are currently building a framework with which to communicate a unified world view regardless of region.

- Along with the launch of new extension products, we have gained an ideal opportunity to promote *Asahi Super Dry* to premium beer drinkers around the world by becoming the first Asian corporation to be named as a worldwide partner for the 2023 Rugby World Cup.
- We will continue to work on the expansion of our five global brands as a pillar of our growth strategy in an effort to drive Group-wide growth.

#### ◆ **Medium-Term Guidelines for KPIs** (P13)

- After temporarily withdrawing our KPI guidelines in response to the impact of the COVID-19 pandemic, we now are aiming for average annual growth of Core Operating Profit and earnings per share in the high single digits, with 2021 results as the base point.
- Although we face such risk factors as further prolongation of the pandemic and rising raw materials costs, we will advance our growth strategy for each business based on our new Medium- to Long-term Management Policy as we seek to securely lock in the recovery trend in 2022 and beyond.
- As for free cash flow, a newly adopted KPI, we will strive to generate annual flows of at least 200 billion yen on average. When allocating these funds priority will be given to debt reduction to expand our capacity for future growth investment.

#### ◆ **Medium-Term Guidelines for Financial Policy** (P14)

- Our Medium-Term Financial Policy is unchanged. We aim to reduce the Net Debt-to-EBITDA ratio to around three times or less by 2024 and provide shareholders with stable dividend increases aimed at achieving a dividend payout ratio of around 35%.

#### ◆ **Restructuring of Supply Chain Management in Japan (Alcohol and Non-alcohol Beverages Businesses)** (P15)

- Based on our updated Medium- and Long-Term Policy and in consideration of the medium- to long-term market outlook and megatrends, we have decided to restructure the supply chain management system serving our Alcohol and Non-alcohol Beverages Businesses.
- This restructuring has three main focuses. The first is to bolster our responsiveness to a changing business environment, including increasingly diversified needs. The second is to increase our cost-competitiveness. The third is to accelerate the implementation of our sustainability strategy, through which we aim to become carbon *negative* as soon as possible.
- Specific measures include ceasing operations at Asahi Breweries' Kanagawa Brewery and Shikoku Brewery in January 2023. In 2024, the production facilities of Nikka Whisky's Nishinomiya Plant will be transferred to Asahi Breweries' Suita Brewery, and the adjacent Nishinomiya-Higashi Distribution Center will cease operations. In addition, from 2026 we plan to shift operations at the Hakata Brewery to a new

brewery with a next-generation production system that will serve as a model facility for the Asahi Group's other production facilities.

**◆Overview of Shin-Kyushu Brewery (tentative name)** (P16)

- This new brewery will feature next-generation technologies and produce multiple product types, including soft drinks, and multiple container types. In addition to the optimized production and distribution system created through hybridization and the adoption of new technologies, the new brewery will be a state-of-the-art facility with CO<sub>2</sub> capture and carbon recycling technologies.
- We also will be further enhancing the operational efficiency of all Asahi Breweries' facilities by establishing a central team to support production operations and the consolidation of facilities, and promote the standardization of operations that have until now been managed separately at each individual production facility.
- We expect these initiatives to generate an annual cost efficiency benefit totaling 3 billion yen by 2026 after adjusting for increases in logistics costs and certain other expenses. We also expect them to contribute to the creation of a model that will lead to further optimization of our supply chain management system.

**◆Revenue/Core Operating Profit (2021 Results)** (P17)

- Looking at our 2021 results on a constant currency basis as shown on the left side of this table, revenue increased 6.1% year on year as revenue growth in the Overseas Business supported by the impact of the consolidation of CUB and a recovery in on-premise sales offset a decrease primarily in on-premise revenue at our Alcohol Beverages Business.
- Core Operating Profit increased 23.1% year on year, as the decline in profit from the Alcohol Beverages Business was more than offset by the recovery of the Non-alcohol Beverages Business and profit growth in the Overseas Business driven by the consolidation of CUB and channel mix improvements.

**◆Revenue/Core Operating Profit (2022 Forecast)** (P18)

- Our 2022 forecast, shown in this table, reflects a change in our reportable segments. In conjunction with the establishment this January of Asahi Group Japan as the regional headquarters for our businesses in Japan, from this year we are disclosing financial results for four regional headquarters.
- Starting with revenue, we are aiming for year-on-year growth of 10.5%. We think this growth will be supported primarily by a certain degree of recovery in demand from the on-premise channel and accompanying improvements in our channel mix.
- As for Core Operating Profit, we are aiming for an 11.4% increase. In addition to the impact from the rising cost of raw materials mentioned earlier, higher utilities and logistics expenses are expected to push up Group-wide costs by about 40 billion yen. Nonetheless, we think various mix improvements and stronger cost management will enable us to increase profit.

**◆Operating Profit/Profit Attributable to Owners of Parent** (P19)

- Next let's look at operating profit. Despite posting business integration expenses and



an impairment loss, operating profit was generally in line with targets, up 56.8% year on year to 211.9 billion yen. Profit attributable to owners of parent was up 65.4% to 153.5 billion yen.

- The right side of this table shows our 2022 forecasts. We expect that the increase in Core Operating Profit will more than cover expenses associated with supply chain management restructuring in Japan and business integration costs. We therefore forecast that operating profit will increase 2.6% year on year to 217.5 billion yen.
- We project a 4.6% decrease in profit attributable to owners of parent. However, after excluding the loss related to supply chain management restructuring, adjusted profit attributable to owners of parent comes to 156.5 billion yen, a year on year increase of 1.2%.

#### ◆Statement of Financial Position/Statement of Cash Flow (P20)

- Total assets at the end of 2021 were 4,547.7 billion yen, an increase of 108.4 billion yen from the end of 2020, largely reflecting increases in goodwill and trademark rights.
- We reduced outstanding interest-bearing debt much more than initially targeted. In addition to the increase in Core Operating Profit, we were able to use cash generated through a reduction of working capital and the sale of non-operating assets to bring debt down. In 2022, we expect to generate free cash flow of 215.0 billion yen and with prioritization of debt repayment we anticipate a Net Debt-to-EBITDA of around 3.6 times.
- Also, in line with our policy of stably increasing the annual dividend and maintaining a payout ratio of at least 35%, we plan to increase the annual dividend for 2022 by 2 yen per share, which will bring it to 111 yen.

#### ◆Sales Trend by Region (P21)

- The spread of Omicron infections from November has made it difficult to predict the pandemic's impact on our business in 2022. However, we are seeing restrictions being relaxed in many countries and expect the on-premise market to stage a recovery during 2022.
- That said, considering the possibility of unforeseen continued negative impacts from the pandemic, we will flexibly revise our plan as needed and disclose any revisions in a timely manner.

#### ◆Japan: Overview and Direction (P22)

- Last year, the Alcohol Beverages Business had to deal with an unexpectedly severe and prolonged contraction of the on-premise market but nonetheless managed to put sales momentum back on a recovery track by prioritizing investment in its core brands and categories while also launching sales of *Asahi Super Dry Nama Jokki Can* and opening up the new minimal alcohol market.
- This year we are conducting a "full renewal" of *Asahi Super Dry* and will also further strengthen investment in brands, such as *Asahi Super Dry Nama Jokki Can* and *Asahi Nama Beer "Maru F"*, which have the potential to stimulate off-premise demand. I'll

provide some more details on this later.

- In addition, as I explained earlier, we aim to build a strong profit base through fundamental structural reforms, such as the restructuring of our supply chain management based on our analysis of medium- to long-term megatrends.
- Last year, in the Non-alcohol Beverages Business revenue fell short of targets owing to the prolonged impact of the pandemic. However, product category mix improvements focused on carbonated soft drinks and such efficiency improvements as raising capacity utilization rates enabled the business to return its Core Operating Profit to pre-pandemic levels.
- This year, we expect to be challenged by considerable increases in raw materials costs, but we will focus on expanding our product portfolio by developing products that meet evolving consumer needs, including environment-friendly products, while also continuing to invest in our core brands.
- Turning to the Food Business, in 2021 we managed to achieve revenue and profit growth above targets. While the recovery in sales of *Mintia* brand products came up a bit short, we succeeded in expanding sales of core brands that are capturing new demand: for example, *Amano Foods*, *Ippon Manzoku Bar*, and *Dear-Natura*.
- This year, in addition to strengthening *Mintia* sales through new value propositions and expanding sales of other core brands, we will strive to further improve the business's profitability through optimizing inventory levels and other initiatives.

#### ◆ **Beer Initiatives** (P23)

- As shown in the POS data graph on the lower right of this slide, off-premise market beer sales have rebounded steadily since Japan's liquor tax revision in October 2020. With further liquor tax revisions scheduled for 2023 and 2026, we expect this trend to continue.
- In this environment, we achieved a 35% increase in *Asahi Super Dry* customers, owing in part to the contribution from the launch of *Asahi Super Dry Nama Jokki Can*. With contributions also coming from other products, including stronger than expected sales of the newly launched *Asahi Nama Beer "Maru F,"* we were able to achieve a certain degree of progress toward a recovery in sales momentum.
- In 2022, we will conduct the first "full renewal" of *Asahi Super Dry* since its launch 35 years ago. While further enhancing the beer's characteristic dryness, we will continue refining the value of this one-of-a-kind beer brand in keeping with changing times.
- We have also boosted *Asahi Super Dry Nama Jokki Can* production capacity fourfold and will make further improvements, such as increasing foaming speed, as we target an increase in *Asahi Super Dry Nama Jokki Can* customers.

#### ◆ **Smart Drinking Initiatives** (P24)

- Starting with the launch of *Beery* last March, we have been expanding our "smart drinking" propositions, as we seek to provide people with a wider range of drinking options suited to various situations and occasions.

- As shown in the graph on the right side of this slide, *Beery* has contributed significantly to the growth of the non-alcohol beer-taste beverages market without cannibalizing sales of existing products.
- This January we established Smart Drinking Co., Ltd., as a joint venture with Dentsu Digital, and will increase communication and marketing activities targeting people who do not or cannot drink alcohol beverages.
- We plan to expand our product lineup and strengthen efforts to grow the minimal alcohol category and seek further penetration of our “smart drinking” concept with the aim of encouraging people to respect each other’s choices about whether to drink or not drink alcohol.

#### ◆ **Europe** (P27-29)

- This slide provides a brief overview of results and activities in Europe in 2021. To summarize, investment in our core brands and continued strengthening of support for our business partners dealing with the lingering impact of the pandemic led to a strong recovery at the top line.
- As the next slide shows, improvement in the channel mix driven by a recovery in the on-premise market combined with growth in sales of *Asahi Super Dry*, *Peroni Nastro Azzuro*, and non-alcohol beer to the off-premise market led to a 7 percentage point year-on-year improvement in the unit sales price.
- Meanwhile, we continue to face challenges, such as the creation of growth categories in response to changing consumer needs and the reform of the European business’s earnings structure in anticipation of rising costs.
- In 2022, we will respond to sharply rising costs by implementing flexible pricing strategies and conducting optimal cost management, in addition to product mix improvement associated with the recovery of the on-premise market. We will further enhance revenue management and implement pricing strategies at appropriate times in line with the situation in each country
- Although Omicron infections have continued to increase in European countries in 2022, restrictions have not been tightened significantly, and we expect the business environment to improve in the months ahead.
- Although the situation remains uncertain, we will continue to working to achieve our targets for 2022 by advancing our premium strategy and strengthening cost controls

#### ◆ **Oceania** (P30-31)

- To summarize last year’s results, we strengthened our competitive advantage by creating integration synergies with CUB, and enhancing brand value particularly in our core brand categories.
- As the next slide shows, sales of our core *Great Northern* brand greatly exceeded overall market growth by rising 12% year on year, as we expanded our share in the off-premise market. *Great Northern* has become a key growth driver of the

contemporary beer category.

- In addition to cost synergies, top line growth was achieved by increasing the number of stores selling *Asahi Super Dry* and *Peroni Nastro Azzurro*, which contributed to 6% growth in the combined average sales volume of the two brands. Cross-selling of our alcohol and non-alcohol beverages increased the number of on-premise outlets of Alcohol Beverages handling non-alcohol beverages by 90% compared to the 2020 level.
- This year, we expect that the business environment in Oceania will remain challenging owing to high raw materials prices and supply chain disruptions. We will endeavor to strengthen our profit base by promoting our multi-beverage strategy, including establishing revenue growth management in the Non-alcohol Beverage Business, and creating integration synergies.
- In addition, we will strive to further strengthen our business foundation in Oceania by optimizing supply chain, including expanding local production of some of our *Asahi Super Dry* and *Peroni Nastro Azzurro* brand products.