

Asahi Group Holdings, Ltd.

2022 Financial Results Briefing Conference Call Summary

Date & time: Wednesday February 15, 2023; 15:30–17:00

Presenter: Atsushi Katsuki, President and CEO, Representative Director

◆ Executive Summary (P1)

- Last year's business environment was a very difficult one, with new geopolitical risks emerging and unprecedented cost increases. As has just been explained, however, we still achieved 8.0% revenue growth and 5.9% core operating profit growth. This was achieved mainly through prudent pricing strategies and strengthened cost management.
- As the on-premise channel recovered, we managed to vigorously advance our "premium strategy" Group-wide through increased investment in new value propositions focused on our core brands and improving unit sales prices.
- In line with our Medium- to Long-Term Management Policy announced last February, we also advanced other core strategies such as "integrating sustainability into management", and strengthened Group governance through the establishment of Asahi Group Japan and other measures. I'll provide further details on this later.
- We expect significant cost increases to continue occurring this year, mainly due to rising energy and raw materials prices. As we expect performance to recover from 2024, however, we remain focused on advancing our "premium strategy" and intend to continue with investment in core strategies and human capital.
- We've been making good progress with improving financial soundness through optimal cash flow management. In light of this and other factors, we aim to meet the expectations of shareholders and investors by raising our dividend payout ratio to 40% by 2025, and by working to ensure a steady recovery in performance.

◆ Progress of Medium- to Long-Term Management Policy (Business

Portfolio (P2)

- We're making steady progress in the implementation of our "premium strategy", including progress with growing our global brands as noted on this page, as we work on building an ideal business portfolio. I'll explain the growth of existing businesses in detail when discussing individual business segments.
- Through our work on the "expansion of adjacent categories and new areas" we've expanded non-alcohol category sales volume in a manner that's responsive to the market characteristics of each region, with a focus on Europe. In Japan, we're also continuing our investment in raising awareness about our "Smart Drinking" initiative advocating for greater acceptance of diversity in drinking styles.
- To further our expansion into beer adjacent categories, we recently established a startup investment fund in San Francisco. The fund will invest in and collaborate with brands with high growth potential, and will also search for potential next-generation growth drivers through seed funding.

◆ Progress of Medium- to Long-Term Management Policy (Core Strategy: Sustainability) (P3)

- Our efforts toward "integrating sustainability into management" include revamping our Objectives and strategies and revising Key Initiatives based on dialogue with investors and other stakeholders.
- For our Key Initiatives, we've set global targets and are bolstering initiatives aimed at achieving these. For details on these targets please refer to page 19 later at your leisure.
- We've also set new Sustainable Product Guidelines based on our newly established Objectives. We're taking concrete actions to incorporate these guidelines into the business strategies of each region while also visualizing the business and social impacts of our Key Initiatives.
- Visualization of our five Key Initiatives was performed using the following three methods: value relevance analysis, overview analysis, and impact-weighted accounting. It was performed in coordination with external

organizations and involved detailed testing, collation, and inspection of past data.

- This testing enabled us to visualize the social impacts of our sustainability initiatives and how they're linked to our corporate value. We intend to utilize this information in management decision-making. The directions we're taking with our initiatives are as noted on page 16, and depending on how much progress we make, we hope to make use of this information in our dialogue with stakeholders.
- The main areas of progress with each Key Initiative are as noted at the bottom of the page. We've set ambitious targets relating to climate change and packaging, and we're also making developmental updates to our Environmental Vision 2050.
- Within the global target "Realize Sustainable Communities", we've set "sustainable agricultural industry" as a key activity. With the "Responsible Drinking" target, we'll also be strengthening our communications and marketing aimed at helping to reduce harmful drinking in line with the characteristics of each region. Details are provided from page 20 onward, so please also refer to that information afterwards at your leisure.

◆ Progress of Medium- to Long-Term Management Policy (Core Strategy: DX and R&D) (P4)

- With our digital transformation strategy, we're promoting innovation in the three areas of business models, processes, and organization. With "Business Innovation" we're emphasizing the areas of personalization and sustainability. An example of this is our efforts to accumulate data and test hypotheses in our development of digital tools that can be used to promote moderate drinking.
- With "Process Innovation" we're rolling out our global supply chain management and sustainability data platform for use in other areas such as internal communications and human resources. "Organizational Innovation" involves not only data utilization and IT personnel training, but also the establishment of incubation organizations in Japan and Oceania, which are now launching specific initiatives.

- We'll continue working on efforts such as developing new capabilities from non-conventional perspectives, including through collaboration with external organizations, and will accelerate our work on building a management platform suited to creating new business.
- With our R&D strategy, as shown at the bottom of the page, in the four key domains noted we're also promoting the development of technologies targeting commercialization and practical application, and the Group-wide deployment of functional ingredients.
- We also update our future scenarios as required, and are expanding our investment in longer-term research with the aim of both contributing to societal sustainability and securing business growth.
- I'm unable to disclose information on progress with specific R&D projects, but we will continue to recruit and train high-level R&D personnel and pursue open innovation in coordination with universities and startups in order to further enhance our capabilities.

◆ Progress of Medium- to Long-Term Management Policy (Strategic Foundation Strengthening) (P5)

- With regard to our "advance human capital" policy, we're executing a concrete action plan based on engagement surveys that we've been implementing since 2021. We're also bolstering our management staff training in light of increasing globalization, through initiatives such as increasing the number of levels within our Global Leadership Development Program.
- At Asahi Group Holdings, our global Group headquarters, we're working to boost our competitiveness as an employer through the introduction of a new compensation scheme and other measures, in order to recruit talented personnel from around the globe.
- With regard to efforts to enhance Group governance, as I mentioned at the start, the establishment of Asahi Group Japan has created a structure with four regional headquarters operating on an equal footing, enabling rapid

decision-making.

- We're also launching targeted reforms to strengthen the functions of the Group headquarters, including the appointment of non-Japanese executives. To ensure our governance framework is on par with our global competitors, we intend to bolster it through measures such as setting optimal future-oriented management indicators.

◆ **Improvement of Unit Sales Prices (2022 Results)** (P6)

- Unit sales prices continued to steadily increase in our three key regions. The drivers of these increases differed for each region.
- The Alcohol Beverages Business in Japan saw a 3.8% year-on-year increase due to price revision effects in October and 13% year-on-year growth for canned *Asahi Super Dry* and other canned beer products.
- Europe and Australia saw year-on-year growth of 11.7% and 4.7% respectively. This was due to channel mix improvements with the recovery of on-premise channels, price revision effects, progress with premiumization, and promotion of revenue growth management.
- In these three regions we're extending our competitive advantage. As a market leader in each region, we led moves to introduce appropriate price revisions and also expanded our share in almost all key national markets. We will continue vigorously pursuing premiumization, the main pillar of our growth strategy, and this will include expanding the reach of our global brands.

◆ **Cost Increases and Future Countermeasures** (P7)

- Last year, variable costs for the Group as a whole increased by about 85 billion yen. That was slightly higher than forecast and was the result of higher market prices for the unhedged portion and the impact of the weaker yen when converting figures into yen.
- We had initially forecasted a similar cost increase again for 2023, but due to the emergence of additional costs and forex impacts, we now forecast a cost increase of around 100 billion yen.

- These additional costs are mainly due to supplier price increase requests made in response to increased energy prices and inflation. We expect forex impacts to include impacts from yen depreciation and US-dollar-denominated procurement in Oceania.
- We will need to closely monitor the impact of high inflation on consumption. Our basic policy, however, will be to use price pass-throughs to cover variable cost increases in each region.
- As I mentioned at the start, we intend to steadfastly continue pursuing our “premium strategy” and other core strategies without allowing changes in the operating environment to influence our direction. In doing so, our aim is to achieve sustained growth.

◆ **Japan: Overview and Direction** (P8)

- To sum up new developments in Japan in 2022, as I mentioned at the beginning, we established Asahi Group Japan to oversee our business in Japan; we also began work on optimizing the beer production system through supply chain restructuring; and we began transitioning to alcohol/non-alcohol beverage hybrid breweries with an emphasis on sustainability considerations.
- Also, in response to significant cost increases, the three main domestic businesses have carried out price revisions, and although issues remain, such as the need for the Non-Alcohol Beverages Business to improve unit prices, product mix is steadily improving as a result of factors such as the Alcohol Beverage Business’s revamp of *Asahi Super Dry*.
- Since we expect the cost increase to be even larger than in 2022, our policy ahead will be to maximize the positive effects of price revisions in each business. We will also roll out a marketing strategy with an emphasis on product mix, involving efforts such as new value propositions and strengthening of brands in the high-value-added categories in which we have strengths.
- As “One Asahi” we will also be carrying out fundamental cost structure

reforms across the Alcohol Beverages Business, Non-Alcohol Beverages Business, and Food Business. We'll integrate the data and knowhow of each company relating to consumers and business partners, develop new business in coordination with digital transformation and R&D efforts, and leverage synergies to evolve business models.

◆ **Japan (Alcohol Beverages Business): Main Initiatives** (P9)

- As shown on the graph on the top left, the recovery of off-premise market beer sales has continued since the October 2020 liquor tax revision. Liquor tax revisions are also scheduled for 2023 and 2026, and because of this we expect the current trend to continue.
- In this environment, sales of canned beer significantly outpaced the market average and rose 13% year on year. This was largely driven by the benefits of our revamp of *Asahi Super Dry* last March, year-round sales of *Asahi Super Dry Nama Jokki Can*, and the added boost from *Asahi Nama Beer "Maru F"*.
- As you can see on this page, the number of *Asahi Super Dry* consumers recovered last year to above the 2012 level. This was mainly due to the acquisition of new consumers through the novel drinking experience provided by *Asahi Super Dry Nama Jokki Can*, and our enhanced promotional communications following the *Asahi Super Dry* revamp.
- This year we'll work to sustain the current high level of momentum. This will involve bolstering promotional activities, mainly through leveraging our role as a Rugby World Cup "Worldwide Partner", and utilizing the lineup that has been expanded with the addition of *Asahi Super Dry Nama Jokki Can* and *Asahi Nama Beer "Maru F"* to propose new ways for consumers to enjoy our products.

◆ **Japan (Non-Alcohol Beverages Business): Main Initiatives** (P10)

- Last year, sales volume rose 2.9% year-on-year, on par with the market average. In addition to strengthening core brands, we focused on developing new products that are responsive to consumer needs and changing lifestyles.

- Specifically, as you can see on the page, we launched a new series of products under the *Wilkinson* brand called *Wilkinson Sober*, with focus on new lifestyle trends, and this has caused sales to remain far above overall results for the carbonated beverages market.
- In addition, by accurately picking up on changing consumer needs, we managed to significantly expand demand for label-less products, the development of which we pioneered.
- We expect significant cost increases again this year and predict that it will adversely impact performance. Despite this, we will continue with our new value propositions, and will also proceed with fundamental earnings structure reforms including maximizing the positive effects of the additional price revisions announced last week, and a comprehensive vending machine business alliance with DyDo.

◆ **Europe** (P11-P12)

- To provide an overview for Europe in 2022, although costs increased significantly, as I explained at the start, we're making steady progress with our "premium strategy", achieving sales volume growth particularly in the premium category, and unit sales prices increased 11.7%.
- As you can see in the chart at the top of the next page, sales volume in the premium category grew sharply and the channel mix and category mix both improved considerably owing to the recovery in the on-premise market, price revision effects, and growth and expansion of non-alcohol beer products.
- As the profit waterfall chart on the upper right shows, we were able to absorb last year's increase in variable costs through product mix improvements, including price revisions.
- For this year as well, we expect a significant rise in costs exceeding that of last year. To cover this we will pursue further product mix improvements including additional price revisions, while also expanding marketing and personnel investments targeting sustained growth.

- We'll need to closely monitor changes in consumption trends, but there are currently no indications of negative trends such as consumers trading down, and consumption of premium products as an "affordable luxury" is largely remaining firm.
- We will continue pursuing our premiumization-centered growth strategy in Europe.

◆ **Oceania** (P13–14)

- Last year saw a continuation of strong growth momentum in Oceania. This was due to sales volume growth, particularly for core brands, and implementation of the multi-beverage strategy focused on shared utilization of sales networks 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 8% year on year. We also saw the results of efforts to nurture new growth drivers, such as the sales of craft beer expanding 13%.
- Also, with regard to integration synergies, we achieved and exceeded our 10-billion-yen cost synergy target two years ahead of schedule. With regard to topline synergies as well, *Asahi Super Dry* and *Peroni Nastro Azzurro* sales were up 9%, mainly due to increased cross-selling of alcohol and non-alcohol beverages.
- This year, we expect core operating profit growth to temporarily slow in Oceania. Reasons for this include additional price increase requests from suppliers in response to inflation and rising labor costs, the negative impact from US-dollar-denominated procurement, and increased investment in branding and human resources.
- The competitive superiority of our overall business in Oceania is further improving, however, and as in Europe, we will work on overcoming the difficulties posed by the current operating environment with a view to a recovery in performance from next year.

◆ **Global Brands** (P15)

- Total sales volume for our five global brands last year was 8% higher than

in 2021.

- *Asahi Super Dry* performance was particularly strong, with total sales volume up 15% year-on-year despite the negative impact of lockdowns in China. This strong performance was partly a result of the on-premise market recovery in many countries, particularly in the UK where growth was around 40%.
- Sales of *Peroni Nastro Azzurro* also increased 13% year on year on the back of above-market-average growth in the UK and the rollout of the non-alcohol beer *Peroni Nastro Azzurro 0.0%* to additional countries.
- This year, we'll be working to further strengthen our global presence. This will involve expanding our rollout of *Asahi Super Dry 0.0%*, and bolstering our marketing through sponsoring global sports events, including the promotion of *Asahi Super Dry* through a Rugby World Cup sponsorship and *Peroni Nastro Azzurro* through a partnership with a Formula One team.

◆ **Conclusion**

- We expect core operating profit growth to temporarily slow this year, due to larger-than expected cost increases and increased investment in branding and human resources in each region. Despite this, we intend to work now to ensure a recovery in performance from next year, with an eye to the profit growth guidelines in our Medium- to long-Term Management Policy.
- We ask for your understanding about our decision to raise the dividend payout ratio. Although we do need to be prepared for a certain amount of risk, such as the risk of changes in consumption patterns associated with global inflation, raising the ratio indicates the confidence we have in our ability to achieve sustained growth.