

Asahi Group Holdings, Ltd.
Fiscal 2022 Q1 Financial Results Conference Call

Date & Time: Monday, May 16, 2022
16:00-17:00 Japan Standard Time

Speaker: Osamu Ishizaka,
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Revenue and Core Operating Profit (P1)

- Total revenue in the first quarter rose 7.1% year on year to 496.9 billion yen on the back of higher sales driven mainly by a COVID-19 recovery in sales of beer primarily in Japan and Europe.
- We have not disclosed quarterly earnings forecasts, but sales overall are currently tracking below plan. They are on target in Europe and Oceania, but in Japan, the impact of tighter restrictions aimed at preventing the spread of the Omicron variant meant sales came in lower than expected.
- Core Operating Profit overall decreased 14.7% year on year to 24.7 billion yen owing to profit declines in mainly Japan and Oceania chiefly as a result of higher costs of raw materials and utilities in each business.
- Core Operating Profit is ahead of plan in all businesses, reflecting mainly efforts to further reduce costs in each business.
- At the same time, the cost of raw materials and utilities is currently skyrocketing due to the impact of the situation in Ukraine.
- If we were to assume that the current market prices continue as they are now, the impact of such higher costs on full-year earnings would likely amount to an additional 20.0 billion in Group-wide costs.
- With market conditions still volatile, making accurate forecasts at this point in time is difficult, but as we continue to consider what extra measures to

employ in each region going forward, if we see the need to revise our full-year earnings forecasts, we will do so and disclose them at our second quarter results briefing.

Operating Profit and Profit Attributable to Owners of Parent (P2)

- Operating profit declined 82.7% to 9.0 billion yen, mainly reflecting the dropout of the year-earlier gain on the sale of non-current assets and the booking of an impairment loss incurred from the SCM reorganization in Japan that we announced in February.
- Operating profit overall is tracking ahead of plan by virtue of mainly the overshoot in Core Operating Profit and efforts aimed at curbing business integration expenses.
- Profit attributable to owners of the parent company fell 86.9% to 4.3 billion yen owing to the decrease in operating profit.
- After stripping out the loss recorded from the SCM reorganization, adjusted profit attributable to owners of the parent comes to 13.3 billion yen, down 59.9% year on year.

Sales by Region (P3)

- In Japan, the on-premise market proved to be more challenging than we expected because of the enforcement of a quasi-state of emergency in January in response to the spread of the Omicron variant.
- However, total sales in the off-premise market were up year on year owing to sharp sales growth for mainly Super Dry and Asahi Nama Beer Maru F.
- In Europe, sales were up year on year after rebounding from last year's strict lockdowns, even though they were partially impacted by restrictions enforced again in November.
- Restrictions began to be lifted in multiple countries from March onwards, so up ahead we can expect to see a recovery in demand centering on the on-premise market.

- In Australia, on-premise demand weakened in January as infections spread, while March sales were negatively impacted by the later timing of the Easter holiday period. Still, on-premise sales turned to a recovery from February when infections peaked out.
- Looking ahead, a number of uncertainties still remain, such as the risk of a resurgence in infections in each region and impacts of the war in Ukraine, but because restrictions are gradually being eased in each country, we expect the recovery in on-premise markets to continue.

Japan (P4)

- Total revenue in Japan rose 5.8% year on year to 258.4 billion yen on the back of sales growth in the Alcohol Beverages Business owing to brisk sales of mainly canned beer, which was enough to offset lower sales in the Non-Alcohol Beverages Business stemming from deterioration in the category mix and channel mix.
- Total Core Operating Profit dipped 11.8% year on year to 11.9 billion yen. The decrease owes mainly to lower profit in the Non-Alcohol Beverages Business and the “other” segment as a result of sluggish restaurant businesses, despite the Alcohol Beverages and Food businesses posting profit growth and absorbing raw material cost increases with mainly higher revenue growth.
- Operating profit overall is slightly ahead of plan. The Alcohol Beverages and Non-Alcohol Beverages businesses are on target, while the Food Business is outpacing our forecast after streamlining fixed costs.

Alcohol Beverages Business (Revenue/Sales Volume of Beer-type Beverages (P5)

- As shown in the table at the bottom right of this slide, total sales volume for beer-type beverages in the three months from January to March is estimated to have expanded by around 0% to 1% year on year on the back of beer market growth driven by canned beer, despite the happoshu and new genre markets contracting.

- In this environment, even though sales of new genre products were below the market average, sales of mainly canned beer outpaced the market average, driven by the effects of a full revamp of Super Dry plus solid results for Asahi Super Dry Nama Jokki Can and Asahi Nama Beer Maru F. As a result, total revenue for beer-type beverages increased 13.4% year on year.
- As for sales of non-beer-type alcohol beverages, non-alcohol beer/RTD grew 18.6% year on year, reflecting the brisk performance of Dry Zero and growth in minimal alcohol products.

Asahi Super Dry Initiatives (P6)

- I would now like to briefly mention the full makeover of Super Dry that we carried out in March.
- With the canned beer market continuing to expand since the enactment of liquor tax revisions in October 2020, we aggressively launched a slew of in-store promotions and advertisements climaxing in the week of March 17 to mark the birth of Asahi Super Dry.
- As a result, sales of Super Dry cans rose a sharp 21% year on year in the January–March quarter, whilst consumer surveys indicated a significantly higher level of satisfaction and intent to purchase the product again compared to before the relaunch. We are also seeing a steady increase in the number of Super Dry consumers.
- Going forward, while we anticipate higher costs on multiple fronts in the domestic Alcohol Beverages Business, our policy will be to continue making brand-building investments in the beer market to keep up with rising demand and maintain and expand on the currently strong momentum with a view to the liquor tax revisions slated for next October.

Alcohol Beverages Business (Core Operating Profit) (P7)

- Core Operating Profit in the Alcohol Beverages Business increased 12.9% year on year to 9.9 billion yen. The main contributing factors were a boost to revenue from predominantly beer-type beverages and the streamlining

of “other” expenses, which outweighed higher variable costs such as raw materials and aluminum and more money spent on advertising and sales promotions.

- Compared to our target, even though the change in sales, category, and container mix came in below plan, Core Operating Profit overall is on track mainly because we successfully streamlined general fixed costs, including advertisement and sales promotion expenses for the on-premise market.
- As for the price hikes scheduled to take effect from October that we announced last month, the effects will be limited because only three months of this year will be subject to higher prices and we anticipate a temporary spike in demand at the end of September, but our policy up ahead will be to strengthen our measures, including how we respond to higher costs next year.

Non-Alcohol Beverages Business (Sales Volume) (P8)

- The soft drinks market overall expanded approximately 2% in the January–March quarter on the back of strong sales for relaunched or new tea and mineral water products from various companies, despite weaker sales of coffee and energy drinks.
- In this environment, total sales volume at Asahi Soft Drinks dipped 0.1% year on year to 51.73 million cases. This mostly reflects a decrease in coffee sales owing to the absence of the impact of last year’s new product launches and revamps, even though sales of carbonated soft drinks and tea were higher than the same period last year due to core brand makeovers and new products hitting the stores.
- Despite sales of carbonated soft drinks and tea beating our forecasts, total sales are tracking below plan because of the lackluster performance of coffee and lactic acid drinks, among other products.
- We will aim to stage a turnaround in sales volume in this business by not only revamping our core brands, but also by launching new products in the sugarless drinks category—an area in which demand continues to grow

stronger.

Non-Alcohol Beverages Business (Core Operating Profit) (P9)

- Total Core Operating Profit in the Non-Alcohol Beverages Business decreased 45.8% year on year to 2.4 billion yen. The main contributing factors were weak sales in the coffee category following brisk results last year, as well as product mix deterioration, plus cost increases for sugar and other raw materials. These negative factors outweighed our best efforts to tweak various fixed costs and bring down variable costs through improvements in capacity utilization.
- Still, compared to our target, despite the larger-than-expected decline in revenue, Core Operating Profit overall is on track mainly by virtue of additional fixed cost streamlining. We will aim to meet our target by continuing to strengthen existing brands primarily in the carbonated soft drinks category and expand into new domains.

Europe (Revenue and Core Operating Profit) (P10)

- As you can see in the table in the middle of the slide, even though the spread of the Omicron variant had an impact, total sales volume grew 7.4% year on year, driven by a recovery in the on-premise market compared to last year when much of Europe was subject to lockdowns.
- Looking at the table at the top of the slide, you can see that revenue increased 26.2% year on year, supported by the recovery in on-premise demand and an improvement in unit prices, including price hikes implemented throughout Europe.
- Core Operating Profit surged 349.9% year on year, buoyed by higher sales, including channel and brand mix improvements, which outweighed increased brand-building investments and higher input costs triggered by skyrocketing market prices.
- Compared to our forecasts, the topline is more or less on target partly because we factored in the impact of Omicron at the start of the year, while Core Operating Profit is slightly ahead of plan at this stage chiefly because

we have endeavored to improve overall cost efficiency.

- The table at the bottom shows how sales are faring in each channel. Sales volume in the off-premise channel declined by roughly mid-single digits year on year as demand returned to the on-premise channel, even though we strengthened our offerings of core premium brands and non-alcohol beer.
- Overall sales volume in the on-premise channel increased by more than twofold year on year as demand recovered sharply in all countries in the absence of the year-earlier lockdowns.
- Going forward, we will need to keep a close eye on market prices for raw materials and the like, as well as inflation-influenced trends in consumption, but we still intend to target a sustained recovery in topline growth centering on our premium brands and improve our channel mix.
- Page 11 shows sales volume trends for our key markets in Europe.

Oceania (Revenue and Core Operating Profit) (P12)

- As you can see at the top of the table, total revenue for the Alcohol Beverages and Non-Alcohol Beverages businesses came in 0.4% lower than the same period last year.
- In breaking down this result, the middle of the table shows net sales excluding liquor tax. Total net sales in the Alcohol Beverages Business dropped 3.1% year on year owing to the impact of Omicron and lower sales in Australia and New Zealand mainly because the Easter holidays fell in mid-April this year, as opposed to March last year.
- Net sales in the Non-Alcohol Beverages Business were up 6.1% year on year due to growth in sales of sugar-free cola and other drinks, as well as the impact of the consolidation of Allpress that was acquired at the end of June last year.
- Core Operating Profit declined 11.5% year on year, reflecting lower sales in the Alcohol Beverages Business and higher costs for raw materials and

distribution, despite our efforts to improve overall cost efficiency.

- Compared to our target, even though there were some negative impacts in the on-premise channel, Core Operating Profit overall is ahead of plan as a result of better-than-expected sales growth in the off-premise channel and the streamlining of fixed costs and advertisement and sales promotion expenses.
- The table at the bottom of the page shows sales trends in the Australian Alcohol Beverages Business. Even though sales of mainly Great Northern were solid, sales volume in the off-premise channel declined by low single digits year on year primarily as a result of the later Easter holidays.
- Sales in the on-premise channel contracted by mid-single digits from the same period last year mainly because the spread of the Omicron variant put a damper on on-premise demand in January.
- Up ahead, we anticipate further cost increases in Oceania too, but as demand in the on-premise channel continues to recover, we will look to meet our targets by ramping up marketing investments centering on our core brands and carrying out appropriate Revenue Growth Management.

Closing

- As I mentioned at the start of my presentation, since announcing our full-year results in February, raw material costs and utility prices have continued to surge higher, so if the current market environment persists up ahead, we can expect to incur additional cost increases this year and maybe even more next year.
- At this juncture, forecasting how our earnings will be impacted is no easy feat. Nevertheless, we intend to take stronger measures to ensure sales and profit growth in all regions and continue to sustain an earnings recovery. Your cooperation will be much appreciated.