

August 6, 2020

Asahi Group Holdings, Ltd.

## Fiscal 2020 2Q Financial Results Conference Call

Date & Time: Thursday, 6th August, 2020

15:30-17:00 Japan Standard Time

Speakers: Akiyoshi Koji, President and Representative Director, CEO

Atsushi Katsuki, Senior Managing Director, CFO

### ◆ H1 2020 Summary & 2020 Forecast

#### <Executive Summary>

- In the first half of this year, group-wide revenue declined 11% year on year, while core operating profit was down 41%. This was mainly due to a contraction in on-premise consumption of beer and beer-type beverages both in Japan and overseas owing to the COVID-19 pandemic.
- In Japan, bar and restaurant demand for *Super Dry* was lackluster, while Soft Drink Business vending machine sales and sales of *Mintia* in the Food Business also struggled. Overseas too, our company strengths continued to be hit mainly by the negative impact of shrinking sales in the highly profitable commercial-use channel.
- Meanwhile, we were able to significantly expand our glocal growth platform by completing the acquisition of Australia's Carlton & United Breweries on June 1. We have already kicked off in earnest a business integration project aimed at creating synergies.
- However, considering that this large-scale acquisition came during the time of a global pandemic, securing cash flow and guaranteeing financial soundness under a suitable finance plan will present challenges.
- Given this situation in the first six months, our full-year forecasts indicate a revenue decline of 4% and a decrease in core operating profit of 31%. We factor in a more moderate COVID-19 impact going forward, as well as benefits from the consolidation of the CUB business from June onwards.
- In the second half, we will aim to meet our targets with a flexible marketing strategy that can respond to local changes; for example, we have already started strengthening the off-trade channel and reviewing core brands so that we can respond to low-price pressure

and down-trading.

- Also, in addition to accelerating the pace of profit structure reforms mainly by streamlining fixed costs and keeping a lid on capital expenditure, we plan to extend returns to shareholders with an optimal finance plan and stable dividend increases.
- Furthermore, in anticipation of structural changes in the so-called “new normal”, not only will we continue with our premium strategy and the building of our three-pillar global platform, we also plan to carry out management reforms with an emphasis on resilience, flexibility, robustness, and sustainability.

#### <Impact of COVID-19 (beer by region)>

- Turning to page 2, I would like to discuss the impact of COVID-19 in each business.
- This slide shows sales of beer-type beverages in each region, including our forecasts for July.
- While the impact varied from region to region, as the pandemic started spreading from March onwards, sales of mostly on-premise beer-type beverages declined mainly because people refrained from going out or were under lockdown.
- Sales then bottomed out in April and we can see that there was a recovery from May because governments eased restrictions, among other factors.

#### <Impact of COVID-19 (Soft Drinks & Food)>

- Page 3 shows monthly sales trends for the Soft Drinks Business and Food Business. In similar fashion, sales bottomed out in April and vending machine and *Mintia* sales are still recovering, but in terms of year-on-year figures, the situation remains very challenging.
- The table at the bottom of the page shows the progress of recovery in each business and our sales projections for the second half taking into account ongoing social distancing. The earnings forecasts we have just announced are based on these figures.
- That said, because we have not gone so far as to factor in additional rounds of full-fledged societal restrictions in the event of a second or third wave, we will disclose our earnings forecasts again if a change in circumstances means we have to revise them.

#### <Response Policy for COVID-19>

- Looking at page 4, I would like to discuss how we are responding to the COVID-19 crisis.
- As I mentioned at the 1Q results briefing, we publicly announced Response Policy for COVID-19 in April. We are working to fulfil our responsibilities to all of our stakeholders by focusing our attention on countermeasures to respond to each of the three phases displayed.
- We are currently shifting from the spread of infection phase to the recovery phase, but in

the new normal phase up ahead, I believe the resilience of our business overall will hinge on our ability to discern the structural changes in society at large and swiftly take action.

#### <Direction of Reforms to Adapt to the “New Normal”>

- Page 5 summarizes the direction of our management reforms in addressing the structural changes that have already materialized and those that we expect will occur up ahead in each group of stakeholders—namely, consumers, business partners, employees and society.
- I personally think that the COVID-19 crisis has propelled us 10 years into the future and as I mentioned a few moments ago, I believe our management reforms, which are focused squarely on the new normal for society, must emphasize the four aspects of resilience, flexibility, robustness, and sustainability.
- First, in terms of changes in consumer sentiment, we think a polarization in the consumption structure will develop because we are currently seeing a down-trading trend take place with people tightening their purse strings as they continue to choose not to go out and instead drink at home more often, while in Europe premiumization continues to progress among households.
- Furthermore, we believe that COVID-19 will only further drive demand for highly trustworthy and safe brands, as well as products that appeal to health-conscious consumers.
- In responding to this structural change, we are reviewing how we can flexibly allocate resources to respond to this down-trading trend in the market. For example, in Japan we are looking to strengthen our new genre brands, while in overseas markets, we will do the same for brands in the mainstream segment.
- At the same time, with the goal of fully reaping the benefits of a recovery in premium consumption, we will aim to enhance the sustainability of our premium strategy—which we consider a pillar of earnings growth—mainly by investing in the core premium brands of each country and bolstering our lineup of non-alcohol beer.
- From the perspective of our business partners, sales at bars, restaurants, and other on-premise channels continue to shrink and we think an increasing number of entities will end up joining forces with each other based on the assumption that the market will never fully recover.
- Also, as e-commerce and other online channels become increasingly mainstream, we need to be prepared for the risk of our supply chains being severed.
- With the aim of driving a recovery in the on-premise channel, we will deploy various measures to support the business continuity of our business partners and also promote more efficient operations in response to decreased demand.

- And in addition to stepping up our response to digitalization, although business reorganization is already underway in Europe and Australia, we will seek to establish more efficient organizational structures by consolidating shared functions in each region, for example.
- From the viewpoint of employees and society, we will prioritize the safety of our employees and accordingly further establish teleworking. The work styles of employees engaged in sales, production, and logistics are also diversifying.
- Furthermore, we anticipate that ESG initiatives aimed at supporting employees and society will become more important than ever before in terms of how corporations are evaluated.
- We make active use of ERM in anticipation of all sorts of risks, but going forward we intend to further reinforce our crisis management practices so that we can deal with these kinds of pandemics.
- We also plan to further deepen our initiatives on ESG issues and invest in the digital transformation of the company on the assumption of increased teleworking. For example, on August 3 we announced the launch of a new remote working style for employees.
- By moving to steadily execute these management reforms in anticipation of the new normal up ahead, I think we can make the recovery in Asahi's robustness a powerful one.

#### <Purpose and Outline of Acquisition of CUB Business>

- Turning to page 6, I would like to discuss the CUB business, the acquisition of which was completed on June 1.
- The acquisition of CUB is part of our medium-term strategy to expand our global foundations for growth. Not only will profitability be boosted through the creation of synergies, but the establishment of a global platform with the three core pillars of Japan, Europe, and Australia, will enable us to vigorously drive global growth strategies.
- As you can see at the bottom of the slide, CUB boasts a strong portfolio of brands across all categories as Australia's number one beer company, and a level of profitability that ranks alongside other top global players.

#### <Australian Market and Major Brands>

- Page 7 gives an overview of the Australian beer market. At 3%, the premium market, which includes international premium beer, has the highest annual growth rate of all market segments.
- And as you can see in the pie chart on the right, CUB holds the leading brand *Corona* in its portfolio in the imported premium beer category, so together with our leading brands *Peroni* and *Super Dry*, we are well placed to establish an overwhelming competitive advantage in the market going forward.

- Also, in addition to *Carlton*, the leading brand in Australia, CUB boasts exceptional marketing know-how and product development capabilities. For instance, they were able to quickly nurture the *Great Northern* brand into the number one brand in the expanding low-alcohol, easy-drinking beer category.

#### <Medium-term Strategy and Overview of Oceania Business>

- Page 8 details our medium-term strategy for the Oceania business and provides an overview of the business. With the addition of CUB, we will aim to further increase our market presence in Oceania as a comprehensive alcohol and soft drinks company.
- Revenue in the existing Oceania business is roughly the same level as that for CUB. Under a regional hub framework and guided by a project called *Alliance for Growth*, we are working to share our business philosophy and starting to give shape to initiatives geared towards the creation of synergies over the short and medium term.
- We will also boost the sophistication of the Oceania business's managerial resources as a key base in our global platform by not only integrating our brands and infrastructure, but also by merging CUB's talented human resources and know-how into the business.

#### <Creating Synergies in Oceania Business>

- Page 9 shows specific initiatives for generating synergies. In terms of top-line synergies, we aim to harness CUB's far-ranging distribution network and achieve further growth in the imported premium brands that I mentioned earlier, such as *Super Dry* and *Peroni*.
- We will also look to create new growth drivers by expanding distribution routes for RTD beverages and soft drinks and also by uniting our respective marketing capabilities and product development know-how.
- As for cost synergies, we will aim to leverage economies of scale to generate 10 billion yen or more in synergies over the next five years or so mainly by building optimal production and distribution systems, strengthening procurement capabilities, and streamlining IT and shared services.
- Quantifying all of the top-line synergies is not easy, but we plan to do so gradually, starting with growth targets for imported premium brands and non-alcoholic beverages.
- Due to the impact of COVID-19, we anticipate lower earnings in the CUB business in the near term, but over the longer term we see ample potential for sustained profit growth in Australia where economic growth will likely be driven by stable population growth and the abundance of resources.
- Despite the extremely tough operating environment brought on by the COVID-19 crisis, we will still aim to aggressively expand our global business together with our highly motivated new colleagues and put into practice our "Glocal Value Creation Management".