

[Key Q&A] Conference Call on Financial Results for the First Quarter of 2019

[Japan]

Q. In the forecast, the unit price mix for FY2019 was flat as volume and value being flat. In fact, Q1 unit price mix deteriorated by 2% due to 2% volume growth and flat value. What is the outlook going forward?

A. Products with volumes of large PET bottles sold well at supermarkets due to good weather in Q1 which led to the deterioration of size and channel mix. Although *Tokucha* is on a recovery trend with 3% volume decrease, it was below overall average growth of 2%. As a result, Q1 unit price mix was down. In Q2 onwards, we will stay focused on further trend recovery of FOSHU drinks and foods with function claims category through actions such as *Tokucha* renewal on April 2 and the launch of a new food with functional claims, *Iyemon Plus for Cholesterol Control*, on May 7. We will also continue our effort to realize price increase of certain products.

Q. How are customer negotiations going for the price hike of certain products from May 1? When will the new prices be reflected in store prices? Do you foresee any risk entailed in the price hike?

A. Most of our customers agreed to the price hike. We are not in the position to comment on the timing of store price hike as we do not control store prices. We anticipate the risk of sales volume decreased.

Q. Presentation material page 10 gives a breakdown of 0.3 billion yen increase in COGS of which activities and product mix costs decreased by 1.6 billion yen. What is your comment on it?

A. Currently we are making steady progress in cost reduction activities which we have started since the second half of last year such as weight reduction of *Craft BOSS* PET bottles and logistics improvement.

Q. How is the situation for the canned coffee products and the vending machine business in Q1?

A. The volume of canned coffee products decreased slightly and the vending machine business was flat year on year despite the estimated mid-single digit decrease and slight decline of the market, respectively. The situation of both business is tough, however we believe our persistent efforts brought results better than the market.

[Europe]

Q. What is your comment on Q1 results? Can you give roughly how much profit increase/decrease in each country had?

A. Situation differs by country, but overall result was nearly in line with the plan. The profit of France and the UK increased mainly due to the shift of sales promotion and advertising costs to Q2 and later. Spain's decline has not bottomed out yet.

Q. What are the reasons behind revenue decrease in France? How is *MayTea* performing?

A. French beverage market was stagnant with negative growth of 1%, partly due to political instability since the end of 2018 though the market has recovered from last year's bad weather. Amid such market condition, we could not outperform the market. *MayTea* increased its volume steadily by approximately 10%.

[Asia]

Q. Profit largely increased on an organic basis in Asia. Can you give the breakdown of it?

Significant profit was generated in light of the full year forecast. What is the outlook going forward?

A. The beverage business including that of Thailand which has been consolidated since March 2018 contributed largely to Q1 profit. Although revenue decrease in the health supplement business was a negative factor, overall profit increased significantly. However, we will sustain the full year forecast unchanged because we have three more quarters to go and we plan to make marketing investments in Q2 onwards to boost new product such as *goodmood* recently introduced to Thailand and Vietnam.

Q. Can you explain more in detail on the good performance in Vietnam and the struggling health supplement business?

A. (Vietnam)

The energy drink *Sting* and the Suntory brand RTD product *TEA+* which we have been strategically focusing on are performing well on top of the long-standing strong brand *Pepsi* brand products, adding momentum to the growth. Overall market is also growing in Vietnam. (Health supplement)

We realize the continued tough situations in Thailand and other countries, with slow-down in Myanmar which used to grow. We will take on revitalization of the business in earnest with a focus on the core Thailand market, through actions such as management reform, marketing strategy review, new product launch, although these actions will likely require certain amount of time.