

Financial Results for Q2 Year Ending December 31, 2019

Aug 5, 2019
Suntory Beverage & Food Limited

2019 First Half Review

Kazuhiro Saito, CEO

This is Kazuhiro Saito.

Now, I would like to review the first half of FY2019.

(Billions of yen)

	FY2018 Jan - Jun	FY2019 Jan - Jun	Change			
			YoY	Currency Neutral	%YoY	Currency Neutral
Revenue	613.9	627.8	+13.9	+21.9	+2.3%	+3.6%
Operating Income	56.4	50.9	-5.5	-4.8	-9.7%	-8.5%
Operating Income (Organic basis*1)	45.0	51.5	+6.4	+7.2	+14.3%	+16.2%
Net Income*2	41.3	31.8	-9.5	-9.0	-23.1%	-22.0%

*1 Excluding factors derived from extraordinary reasons from "Other income" and "Other expenses"

*2 Profit for the year attributable to owners of the Company

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Revenue was 627.8 billion yen, up 2.3% year on year, and up 3.6% on a currency neutral basis.

Operating income was 50.9 billion yen, down 9.7% due to the 12 billion yen gain on sale of food and instant coffee business in 2018. When excluding factors such as these, operating income on an organic basis was 51.5 billion yen, up 14.3% , and up 16.2% on a currency neutral basis.

Quarterly profit attributable to owners of the Company was 31.8 billion yen, down 23.1% year on year due to factors such as non-taxable gain on sale of food and instant coffee business in 2018.

Although situations differ from region to region, overall results of the first half were within the anticipated range as we are making progress in sustainable sales growth and profitability enhancement through structural reform in each region.

Having said that, structural reform is still halfway through and there are remaining challenges to be addressed. We will continue pushing it forward in a firm manner.

The dividends for the first half are 39 yen, same as last year.

(Billions of yen)

	FY2018 Results	FY2019 Forecast	Change		
			YoY	%YoY	Currency Neutral
Revenue	1,294.3	1,313.0	+18.7	+1.4%	+2.0%
Operating Income	113.6	110.0	-3.6	-3.1%	-2.5%
Operating Income (Organic basis*1)	108.4	111.0	+2.6	+2.4%	+3.0%
Net Income*2	80.0	66.5	-13.5	-16.9%	-16.4%

*1 Excluding factors related to extraordinary reasons such as M&A

*2 Profit for the period attributable to owners of the Company

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There are no changes to the 2019 full year forecasts announced on February 14.

In Japan, the prolonged rainy season and other factors led to a very tough start of the second half, but we will carry out the solid management activities in the coming peak season in pursuit of improvement of the full year performance.

It has been four months since I was appointed as CEO.

Taking this opportunity, I would like to talk about the areas I am putting emphasis on.

We have excellent talent resources and know-how across the world. A typical example I would like to highlight based on my experience abroad is outstanding brand building capability and R&D in Japan.

Meanwhile, Asia, where I was previously based in, has fewer analogue legacies than Japan and is rapidly digitalizing with underlying government initiatives and we have a lot to learn from Asia.

In order to share and incorporate each other's know-how from different parts of the world in a flexible manner, I am stressing on three Fs, namely flat, flexible and frank in each part of the company.

The ultimate goal is flexible adaptation to changes through establishing a flat and swift decision making structure. In order to facilitate that, we need to improve frank communication among each other. I am convinced that these three Fs are essential for our speedy growth down the road.

The business environment around the world is changing at an increasingly accelerated pace.

We will stay focused as we run the business with the mindset to keep ahead of the curve and the spirit to actively bring changes to the world.

That is all from me.

Supplementary Explanation

Takayuki Sanno, CFO

This is Takayuki Sanno.

I would like to review the first half of FY2019 in more detail.

Financial Results for Q2, FY 2019 by Segment(6 months)

(Billions of yen)

	Revenue	Change				Segment Profit	Change			
		YoY	Currency Neutral	%YoY	Currency Neutral		YoY	Currency Neutral	%YoY	Currency Neutral
Japan	336.0	+2.2	-	+0.7%	-	22.7	+3.8	-	+19.9%	-
Europe	111.1	-8.8	-2.3	-7.4%	-2.0%	14.7	-0.4	+0.4	-2.7%	+2.5%
Asia	115.3	+18.9	+19.2	+19.6%	+19.9%	12.7	-8.6	-8.7	-40.4%	-40.6%
Organic							+3.0	+2.9	+30.4%	+29.5%
Oceania	25.4	-0.9	+0.8	-3.3%	+3.0%	2.6	-0.3	-0.2	-11.3%	-5.8%
Americas	39.9	+2.6	+2.1	+6.9%	+5.6%	3.8	-0.0	-0.1	-0.4%	-1.7%
Reconciliation		-	-	-	-	-5.5	+0.1	+0.0	-	-
Total	627.8	+13.9	+21.9	+2.3%	+3.6%	50.9	-5.5	-4.8	-9.7%	-8.5%
Organic							+6.4	+7.2	+14.3%	+16.2%

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Revenue and profit by segment.

Revenue grew in all segments except for slight decrease in Europe year on year on a currency neutral basis. Asia particularly continued to grow significantly.

Overall segment profit increased in double digits on an organic basis, led by Japan and Asia.

I will go over each segment in detail on the following pages.

(Billions of yen)

Revenue

336.0

%YoY

+0.7%

Segment Profit

22.7

%YoY

+19.9%

- 0.6% volume growth led by *BOSS* and *Green DAKARA*
- Price increase for large formats in May
- Further sales recovery of FOSHU drinks and Foods with Function Claims
- Profit growth supported by cost saving activities and sales promotion and advertising costs lower than last year



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First, Japan.

Sales volume increased 0.6% due to continued good performance of products such as *BOSS* and *Green DAKARA*, outperforming the volume growth of overall beverage market which is estimated to be about negative 1%.

Revenue was 336.0 billion yen, up 0.7% year on year with factors such as continuous sales trend improvement of FOSHU drinks and Foods with Function Claims and the price increase implemented for large formats. During the April-to-June period, revenue grew 1.1% despite 0.5% down in sales volume, which means that the unit price is on a recovery trend.

Segment profit was up 19.9% due to increased revenue and other factors including continued emphasis on cost saving activities amid deteriorating currency and market prices for raw materials and decreased sales promotion and advertising costs in the first half compared to last year as a result of expenditure timing review to align with new product launch and brand development timings.

In our “Mid-term Structural Reform”, “Establish a high added-value and profitability business model” and “SCM structural innovation” are making steady progress. Regarding “Reform of the vending machine business structure”, the business was held at a slight decrease year on year with our efforts including the introduction of exclusive products for vending machines, while the vending machine market is estimated to have shrunk by 2%.

On the other hand, it will take some more time before we see positive results of operation cost saving, but we will continue our efforts in a steady manner.

(Billions of yen)

Revenue

111.1

%YoY

-7.4%

Currency
Neutral

-2.0%

Segment Profit

14.7

%YoY

-2.7%

Currency
Neutral

+2.5%

Revenue

%YoY

Currency
NeutralFrance
(*1)

47.9

-11.0%

-5.8%

Down due to market deterioration by bad weather

UK
(*2)

30.4

-0.7%

+4.3%

Up due to continued growth of *Lucozade Energy*Spain
(*3)

22.5

-10.1%

-4.9%

Down due to continued on-premise market decline

(*1) France, Belgium (*2) UK, Ireland (*3) Spain, Portugal



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Next, Europe. From here on, all the growth rates I present are on a currency neutral basis.

While the UK performed well, revenue decreased 2.0% due to revenue declines in France and Spain.

On the other hand, segment profit increased 2.5% due to the sales growth in the UK and the progress of cost saving activities and the timing shift of part of sales promotion and advertising costs in France and Spain.

France was hit by the coldest weather in forty years in May and the bad weather led to market deterioration.

In such a situation, our core brand *Oasis* faced difficulties, resulting in 5.8% decrease in revenue.

In July, the weather was favorable. We are pursuing sales trend recovery through our focused efforts in activities for core brands such as *Oasis*.

In the UK, our revenue was up 4.3% as a result of continued growth of *Lucozade Energy* while estimated volume growth of the market year to date in May is flat year on year.

In Spain, although we reinforced activities for the off-premise channel, revenue decreased 4.9% as we faced difficulties amid the continued sluggishness of the on-premise market including the tonic category.

We have been carrying out portfolio reviews and salesforce reforms, but it is going to take some time before we come back on track.

(Billions of yen)	Revenue	%YoY	Currency Neutral	Segment Profit	%YoY	Currency Neutral
	115.3	+19.6%	+19.9%	12.7	-40.4%	-40.6%
Organic					+30.4%	+29.5%
	Revenue	%YoY	Currency Neutral			
Beverage (Vietnam)	42.3	+14.6%	+17.0%	Up due to market growth and continued strength of core brands such as <i>Sting</i> and <i>TEA+</i>		
Beverage* (Thailand)	34.4	+93.0%	+89.7%	Up due to market growth and strong core brands such as <i>Pepsi</i>		
Health Supplement	24.2	-5.0%	-6.7%	Down due to core brand weakness in <i>Essence of Chicken</i> and <i>Bird's Nest</i>		



*Beverage (Thailand): Last year results consist of only 4 month (Business started operations in March last year)

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Next, Asia.

Revenue was up 19.9% as a result of continued significant growth of the beverage business. Segment profit was up 29.5% on an organic basis.

When January and February results from Thailand are excluded from the Asia total, revenue grew in mid 10-to-20% range and segment profit grew by approximately 20% year on year.

In Vietnam, estimated volume growth of the market stands at near 10% while our revenue was up 17% as a result of continued growth of core brands including the energy drink *Sting* and the RTD tea *TEA+*.

Thai market also is estimated to have expanded volume by more than 10%, with a tailwind of events such as the general election in March and measures to buoy up the economy implemented by the government. In such market condition, our core products including *Pepsi* performed well, resulting in approximately 40% revenue growth year on year in the four months period from March through June.

Meanwhile, the health supplement business decreased its revenue by 6.7% as not only *Essence of Chicken* but also *Bird's Nest* faced difficulties in intensifying competition in the core market, Thailand.

Fundamental structural reform is already underway and actions including reviews on distribution strategy are being carried out by the new leadership.

Although Asia is performing well for the time being, introduction and incremental raise of sugar tax are scheduled in Malaysia and Thailand from July and October, respectively. In addition, there is the volatility typical to emerging markets.

We will continue to speedily respond to situational changes.

(Billions of yen)

Oceania

Revenue

25.4

%YoY

-3.3%

Currency
Neutral

+3.0%

Segment Profit

2.6

%YoY

-11.3%

Currency
Neutral

-5.8%

Revenue

%YoY

Currency
Neutral

Frucor Suntory

19.0

-4.1%

+1.8%

Fresh Coffee Business

6.4

-1.4%

+6.3%

Americas

Revenue

39.9

%YoY

+6.9%

Currency
Neutral

+5.6%

Segment Profit

3.8

%YoY

-0.4%

Currency
Neutral

-1.7%

Lastly, Oceania and Americas.

In Oceania, revenue from both Frucor Suntory and the fresh coffee business increased while segment profit decreased due to the changes in the timing for sales promotion and advertising costs.

In Americas, revenue grew as our strong trend continued, while segment profit was slightly down due to high raw materials costs.

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With that, I would like to conclude my explanation on each segment.

We will stay focused to achieve the full year forecasts by making steady progress in structural reform in each region through the second half and by generating firm results in the peak season.

That is all from me.

Financial Results for Q2, FY2019(3 months)

(Billions of yen)

	FY2018 Apr- Jun	FY2019 Apr - Jun	Change			
			YoY	Currency Neutral	%YoY	Currency Neutral
Revenue	336.7	342.1	+5.3	+9.8	+1.6%	+2.9%
Operating Income	29.8	33.1	+3.3	+3.7	+11.0%	+12.6%
Operating Income (Organic basis*1)	29.6	33.4	+3.8	+4.3	+13.0%	+14.6%
Net Income*2	20.8	21.1	+0.3	+0.8	+1.2%	+3.8%

*1 Excluding factors derived from extraordinary reasons from "Other income" and "Other expenses"

*2 Profit for the year attributable to owners of the Company

Revenue Results by Quarter (IFRS)

(Billions of yen)

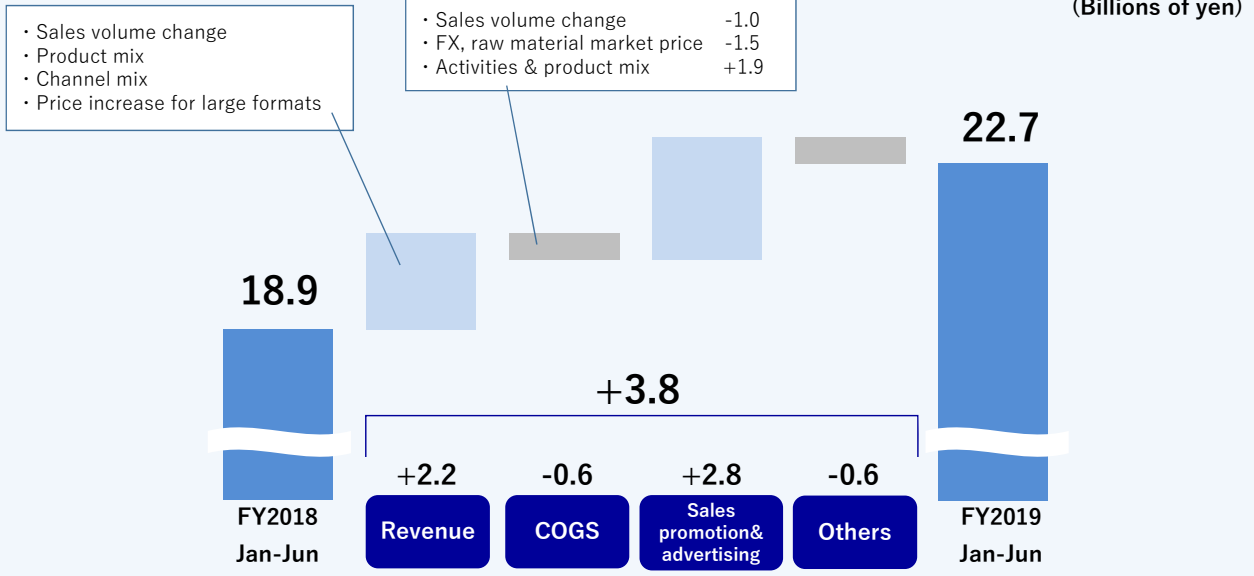
	Q1 (Jan-Mar)	Change				Q2 (Apr-Jun)	Change			
		YoY	Currency Neutral	%YoY	Currency Neutral		YoY	Currency Neutral	%YoY	Currency Neutral
Japan	150.7	+0.2	-	+0.2%	-	185.3	+1.9	-	+1.1%	-
Europe	46.8	-3.0	-0.2	-6.1%	-0.5%	64.3	-5.8	-2.1	-8.3%	-3.1%
Asia	57.0	+10.8	+11.0	+23.3%	+23.9%	58.2	+8.1	+8.2	+16.1%	+16.3%
Oceania	12.9	-0.7	+0.2	-4.9%	+1.4%	12.5	-0.2	+0.6	-1.5%	+4.8%
Americas	18.3	+1.3	+0.9	+7.4%	+5.5%	21.6	+1.3	+1.2	+6.5%	+5.6%
Total	285.7	+8.6	+12.1	+3.1%	+4.4%	342.1	+5.3	+9.8	+1.6%	+2.9%

Segment Profit Results by Quarter (IFRS)

(Billions of yen)

	Q1 (Jan-Mar)	Change				Q2 (Apr-Jun)	Change			
		YoY	Currency Neutral	%YoY	Currency Neutral		YoY	Currency Neutral	%YoY	Currency Neutral
Japan	6.5	+1.3	-	+24.8%	-	16.2	+2.5	-	+18.0%	-
Europe	4.1	-0.1	+0.1	-1.8%	+3.7%	10.6	-0.3	+0.2	-3.0%	+2.0%
Asia	7.1	-9.9	-9.8	-58.4%	-58.2%	5.6	+1.3	+1.1	+30.2%	+25.7%
Organic		+1.3	+1.4	+23.6%	+25.5%		+1.6	+1.5	+40.2%	+35.0%
Oceania	1.4	-0.1	-0.1	-9.7%	-4.1%	1.2	-0.2	-0.1	-13.1%	-7.7%
Americas	1.5	-0.0	-0.0	-0.4%	-2.2%	2.3	-0.0	-0.0	-0.4%	-1.3%
Reconciliation	-2.7					-2.8				
Total	17.8	-8.8	-8.5	-33.1%	-32.2%	33.1	+3.3	+3.7	+11.0%	+12.6%
Organic		+2.6	+2.9	+16.8%	+19.3%		+3.8	+4.3	+13.0%	+14.6%

(Billions of yen)



Japan

*On the basis of shipment volumes

(Million cases)	Six months ended June 30, 2018		Six months ended June 30, 2019	
	Actual	Increase (decrease)	Actual	Increase (decrease)
<i>Suntory Tennensui</i>	54.2	9%	53.2	-2%
<i>Boss</i>	51.4	9%	53.8	5%
<i>Iyemon</i>	25.6	-6%	24.8	-3%
<i>Suntory Oolong Tea</i>	12.5	4%	11.7	-7%
<i>Pepsi</i>	9.6	-9%	9.8	2%
<i>Green DAKARA</i>	14.8	16%	17.6	19%
FOSHU drinks and Foods with Function Claims	11.4	-12%	11.3	-1%
Total	214.5	4%	215.8	1%

*The portions of the sales volume that were supplied from other soft drink manufacturers such as Japan Beverage Holdings Inc. are not included in the above figures.

Europe

(Million liters)	Six months ended June 30, 2018		Six months ended June 30, 2019	
	Actual	Increase (decrease)	Actual	Increase (decrease)
<i>Orangina (France)</i>	86	1%	85	-1%
<i>Oasis (France)</i>	148	6%	139	-7%
<i>Schweppes (Spain, Portugal)</i>	60	-7%	60	1%
<i>Lucozade (UK, Ireland)</i>	184	-7%	200	9%
<i>Ribena (UK, Ireland)</i>	52	-3%	44	-16%

FY2019 Forecast (IFRS) (by Segment)

(Billions of yen)

	Revenue	Change				Segment Profit	Change			
		YoY	Currency Neutral	%YoY	Currency Neutral		YoY	Currency Neutral	%YoY	Currency Neutral
Japan	709.0	+0.3	—	+0.0%	—	53.0	+0.3	—	+0.6%	—
Europe	245.0	+6.1	+9.1	+2.5%	+3.9%	31.5	+2.4	+2.9	+8.1%	+10.1%
Organic						33.0	+0.1	+0.6	+0.2%	+1.7%
Asia	219.0	+11.6	+13.8	+5.6%	+6.7%	22.5	-6.7	-6.6	-22.9%	-22.6%
Organic						22.5	+2.8	+2.9	+14.3%	+14.6%
Oceania	53.0	-1.2	+0.8	-2.2%	+1.6%	6.5	+0.1	+0.3	+2.0%	+4.1%
Americas	87.0	+2.0	+1.5	+2.3%	+1.8%	8.5	+0.0	-0.0	+0.1%	-0.4%
Reconciliation	—	—	—	—	—	-12.0	+0.3	—	—	—
Total	1,313.0	+18.7	+25.6	+1.4%	+2.0%	110.0	-3.6	-2.9	-3.1%	-2.5%
Organic						111.0	+2.6	+3.2	+2.4%	+3.0%

(Yen, average exchange rate)

	FY2018 Jan - Jun	FY2019 Jan - Jun	FY2019 Forecast
U.S. Dollar	108.7	110.1	111
Euro	131.6	124.3	129
British Pound	149.6	142.5	144
Singapore Dollar	81.9	81.0	81
Thai Baht	3.4	3.5	3.4
Vietnam Dong	0.0048	0.0047	0.0048
New Zealand Dollar	77.8	74.0	73
Australian Dollar	83.9	77.8	80

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