

[Key Q&A] Conference Call on Financial Results for the Second Quarter of 2020

[Company-level]

Q. Regarding the withdrawal of the full year forecast, is the risk range you mentioned a full year one?

A. We withdraw the full year forecast for the time being. We think that there is a possibility where we have to suffer a deterioration of our full year operating income in the range of 10 to 20%

Q. How do you see the risks in the second half of the year, and how are you going to address them?

A. Unclear COVID-19 infection trends in Japan and the Americas as well as the slow recovery of Spain's on-premise demand are among the factors we need to deal with. In any case, we will concentrate our resources into core brands as our first priority in the second half of the year.

Q. Roughly when will you be able to catch up to the last year's operating income level of 114 billion yen?

A. It will be a trial and error process for the coming 12-month period in which we test hypotheses based on changes in customer behavior. One of the milestones is to understand new customer behavior by early autumn next year so that we can make a comeback to the previous level in 2022.

Q. In the "with-COVID" era, what will change and take root?

A. Population concentrated in urban areas will begin to disperse to suburbs which may change the supply chains. More adoption of remote working will drive the personal, home consumption demand with which we can expect an increase in demand for stress relief beverages such as energy drinks and coffee.

[Japan]

Q. Could you explain the increase/decrease factors in Japan's profit during the period of January to June?

A. Gross Profit decreased by 19.1 billion yen due to the following factors: unexpected effects from the COVID-19 offset the cost saving effects, currency and

commodities effects were almost flat, and the price increase for large format PET bottle products had positive effects from January to April. However, our gross profit was hit hard mainly by the volume decline and channel mix deterioration.

Q. Please elaborate on the profitability of the vending machine business.

A. The vending machine channel is different from other channels in a way that we own part of it directly. In other words, it involves operational costs. While it brings high gross margin, it entails fixed costs. The balance between gross profit and fixed costs was largely lost, contributing to the deterioration of profitability. The vending machine sales roughly halved at one point due to the stagnant traffic of people in April and May, but are now back to the 90% level along with the resumption of traffic of people.

Q. What are included in the structural reform of the vending machine business?

A. It consists of three themes: boosting sales, increasing profit margin, and reducing fixed costs. For example, aligning the product portfolio with the characteristics of the location through creative approaches to boost sales, expanding sales of high value-added products to increase profit margin, and improving the route efficiency to reduce fixed costs.

Q. Could you update us on the current situation of your health conscious products such as FOSHU (Food for specified health use)?

A. We would like to encourage people to build new health practice and behavioral habits even in the time of the COVID-19. We will rearrange our communications from August onwards for that purpose, and are aiming to make a recovery around the coming autumn.

[Overseas]

Q. What are the focuses in the transformation effort for your European on-premise business?

A. It consists of three focuses: continued support for our on-premise accounts, portfolio adjustments to align with the current situation, and improvement in the efficiency of our sales activities.

Q. What are the reasons behind Asia's profit growth despite the revenue decrease?

- A. On one hand, the degree of COVID-19 impact on each channel was similar that we did not fall into a negative channel mix. On the other hand, commodity prices improved. The review on the timing of marketing spend also contributed to the results of Asia.
- Q. How were the market condition and your position in Asia in the first half of the year?
- A. We outperformed the market when the beverage market fell by about 10% in Vietnam and by mid-single digit in Thailand during the period of January to May. Such a strong position of ours was underpinned by the factors such as our strong brands in the growth categories of water and tea in Vietnam, and good Pepsi Cola performance in Thailand.