

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

[Company-level]

- Q. Please elaborate on the full year forecast based on the expected decrease in profits in the fourth quarter.
- A. We continue to base ourselves on the underlying tone of the third quarter. However, our profits will be affected by factors such as seasonal revenue downtrend in the fourth quarter, deteriorated channel mix especially in Japan and Europe, and peak-out of our strategic pricing and format effects aligned with the beverage tax increases in Thailand. We will also continue investments for our core brands.
- Q. Is there any change to the assumption that your operating income will recover to the 2019 level by 2022? How are you envisioning the degree of recovery in each year, 2021 and 2022? For instance, a mild recovery next year, etc.
- A. Our business is closely linked to the traffic of people which makes it hard to project the future. At any rate, we will plan for the coming years on an assumption that the COVID-19 impact will persist until around next summer across the globe. There is no major change in our basic policy to go beyond the 2019 performance both in terms of top line and bottom line in 2022. For next year, we are aiming to grow revenue and profits company-wide. We will further drive our focused activities for core brands, innovation for brands themselves, and structural reform in an accelerated manner.

[Japan]

- Q. Please explain increase/decrease factors in Japan's profit during the period of January to September.
- A. Gross profit decreased by 25.3 billion yen due to the following factors: Volume decrease and channel mix deterioration were the main causes. The vending machine channel brought the largest impact among all channels. Effects from product mix both in terms of category and format, currency, and commodity market conditions were almost neutral. Our cost saving is mostly on track against the annual plan of 5 to 6 billion yen, excluding the temporary cost deterioration of 1 to 2 billion yen due to the COVID-19 in the second quarter.
- Q. Why are you expecting lower gross profit in the fourth quarter?

- A. There is continued large impact from volume decrease and channel mix deterioration, while product mix remains mostly neutral. Seasonal factors heavily weigh on the volume relative to the third quarter that the fourth quarter will face tougher impact from volume decrease and channel mix deterioration.

[Overseas]

- Q. What were the factors behind Europe's profit increase in the third quarter?
- A. Deteriorated channel mix impacted Europe's profit amid the continued tough situation for the on-premise channel. However, France grew revenue with good weather in the third quarter and our successful cost saving activities. Improved efficiency in marketing spend and our cost saving effort also contributed to the increase in segment profit.

- Q. With regard to the reintroduction of lockdown in Europe, please update us on the latest situation and how much of the lockdown effect is reflected in the new forecast.
- A. Our key markets, France and the UK reintroduced lockdown at the end of October while Spain declared a state of emergency. Spain only restricts outings during the night time, making it very difficult for us to estimate the impact. There is no major change to the adverse environment for the on-premise business, but the off-premise demand remains strong that we anticipate milder impact this time than the market shutdown back in the period from March to May. The lockdown effect is included in the new forecast to some extent, but not fully since the lockdown announcements were made recently.

- Q. Please tell us the market condition, revenue, and profit of each country in Asia.
- A. Asia's profit increased despite revenue decrease in the third quarter. The beverage business in Vietnam faced a headwind from the lockdown in some areas in July and August, but is recovering well since the lockdown has been lifted in September. In Thailand, the effects of our strategic pricing and format aligned with the beverage tax increases peaked out. There is no major change to the trend in the health supplement business. Although demand for *Bird's Nest* continues to be absent, *Essence of Chicken* is performing steadily. In Asia, there are contributing factors to profit such as similar margin levels among different channels compared to Japan and Europe, and high PET bottle ratio that can

largely benefit from favorable commodity prices. Volume growth in each beverage market during the period from January to August stood at negative 10% in Vietnam and negative 5 to 6% in Thailand, approximately. Our growth in Vietnam and Thailand continues to be faster than the market.

- Q. Is there more room for cost savings in the fourth quarter and beyond?
- A. Costs in the fourth quarter will be smaller than that of the third quarter considering the volume-linked costs because the volume will decrease in the northern hemisphere. We carry out our cost saving activities from scratch that we think there is some more room for cost savings.