

## **Suntory Holdings Limited** **Summary on FY2019 Earnings**

Presenter: President and CEO Takeshi Niinami  
Suntory Holdings Limited

Thank you very much for your support to the Suntory Group.

Today, I will take the opportunity of the 2019 results announcement, to explain our results for the year 2019, as well as our medium to long term strategy.

### **(1)Results for FY2019**

Looking back, 2019 was another year of heightened geopolitical risks in the world, such as the U.S. / China trade war. On top of extraordinary weather conditions globally, Japan suffered numerous natural disasters such as typhoons and heavy rainfall, which had a notable impact on our business. Under these circumstances, our net sales (excluding excise taxes) was 2 trillion 294.7 billion yen, up 2.0% year-on-year, while our operating income was 259.6 billion yen, up 3.5% year-on-year. We achieved both sales and income growth in all segments; “Beverages and foods”, “Alcoholic beverages” and “Others”.

We have two core global businesses; “Beverages and foods”, and “Alcoholic beverages”. For “Beverages and foods”, *BOSS* and *Green Dakara* saw strong growth, as announced yesterday. The soft drink business did well in Asia, and both net sales and income grew for the segment. Meanwhile, the “Alcoholic beverages” segment also achieved growth in both net sales and income, with Beam Suntory serving as the driver.

Since my appointment to President, I had positioned the Beam Suntory integration as the top priority. The first phase of the integration is now over, and our efforts bore fruit in 2019 as actual products. With the new management led by CEO Albert, we were able to launch unique, high quality products by bringing together the expertise of the eastern and western worlds, making it a truly “East meets West” process. We launched the bourbon whisky *LEGENT* in the U.S. in March, followed by the *Suntory World Whisky ‘Ao’* in Japan in April. In December, we released the whisky *OAKSMITH* in India, marking the beginning of a new challenge in emerging markets. In 2020, we will strengthen our focus on the growth markets of China and India, which will mark a leap forward for Suntory.

Meanwhile in Japan, the beer category faced an extremely tough environment, with the consumption tax hike and the unstable weather in summer, resulting in the market shrinking for the 15th consecutive year.

The beer business is the forefront of Suntory's challenge, and symbolizes our "Yatte-Minahare" spirit. Strong growth of *The PREMIUM MALT'S* is important because it gives us confidence in future growth, as well as serving as the driver of that growth.

2019 was a year in which we felt positive momentum for all three of our core brands. *The PREMIUM MALT'S*, for which we focused on the "Kamiawa" activities, *Kin-Mugi*, which underwent a major renewal after 13 years, and *All-Free*, where *KARADA-WO-OMOU All-Free* is doing well, all achieved year-on-year growth, despite the negative trend in the overall beer category market.

This year, we will continue accelerating the growth of *The PREMIUM MALT'S*, with all Group employees taking ownership as its salespeople. *Kin-Mugi* made a good start following the renewal, and we are aiming for record sales volume.

## **(2) Mid-to-long term strategy**

Next, I will talk briefly about the future direction of Suntory Group. We will continue to seek to "Growing for Good", and pursue both "business growth" and "coexistence with society" in our activities.

On the "Growing" side, the key will be to continue providing high quality products like *The PREMIUM MALT'S* and *Jim Beam*, and creating strong brands that are loved by consumers. In order to do this, it is important to develop and grow premium products that bring new value, which our rivals cannot offer. We need to continue investing in our MONOZUKURI and R&D capabilities with a medium to long term perspective.

On the "Good" side, it is crucial to coexist with society and nature. As a company that has committed to "Mizu to Ikiru", we have been working on the "Natural Water Sanctuary" activity. Last year, we set our "Plastics Policy", with the objective of helping to create a sustainable society. We will aim for 100% sustainability by the year 2030, by using only recycled or plant-based materials for all our pet bottles globally, and reducing the new use of petroleum-based materials to zero. We are also working to reduce net emissions of CO<sub>2</sub> in the overall value chain to zero by the year 2050. These are all ambitious targets, but we are ready to take on the challenges.

Going forward, companies will be required to coexist with society, and be sustainable. Simply providing good products and services will not be enough any more. We would like to be the global leader in environmental protection, by bringing together the state-of-the-art technology we possess in the Group.

In order to make “Growing for Good” a reality, it is of utmost importance to train our people. Innovation comes from highly capable and diverse talent. We believe it is crucial to grow and train employees with digital capabilities, in order to promote our digital transformation. Suntory Group will work on reforming its workstyle, offer a work environment and culture that brings out the best of each individual, thereby creating new value.

In the year 2020, Suntory Group will continue positioning the “Beverages and foods” and “Alcoholic beverages” businesses at our core, and pursue further growth of the firm.

We appreciate your continued support to Suntory Group.

Presenter: Masuo Kawasaki,  
Managing Executive Officer, Suntory Holdings Limited

This is Masuo Kawasaki, CFO since January of this year. Thank you very much for your support to the Suntory Group. I will now go over the consolidated results for the year ended December 2019, as well as the outlook for the year ending December 2020.

We announce our results based on IFRS. Our net sales excludes excise taxes, as is the case with many spirits makers and global players in the beer industry, which we benchmark ourselves against. However, since many companies in Japan announce their sales including excise taxes, we also announce our net sales including excise taxes, from a comparability perspective.

### **(1) Results for FY2019**

I will begin with Suntory Group's performance for the year ended December 2019. Net sales (excluding excise taxes) was 2.2947 trillion yen, up 2.0% year on year. Net sales (including excise taxes) was 2.5692 trillion yen, up 2.1% year on year. Operating income was 259.6 billion yen, up 3.5% year on year. Adjusted operating income, which reflects the actual state of the business, was up 3.0% year on year. Profit attributable to owners of the Company was 140.9 billion yen, up 0.6% year on year.

We outperformed the previous year in net sales as well as all the profit metrics.

Next, I will go over our major segments; "Beverages and foods" and "Alcoholic beverages".

#### <Beverages and foods>

Net sales was 1.2917 trillion yen, up 0.4% year on year.  
Operating income was 135.7 billion yen, up 0.3% year on year.

#### <Alcoholic beverages>

Revenue (excluding excise taxes) was 773.4 billion yen, up 3.2% year on year.  
Revenue (including excise taxes) was 1.0479 trillion yen, up 3.1% year on year.  
Operating income was 144.3 billion yen, up 8.5% year on year.  
We achieved both revenue and profit growth in all segments, including the "Others" segment.

As for "Beverages and foods", Suntory Beverage and Foods announced their results yesterday, so today I will talk about the "Alcoholic beverages" segment.

Business conditions in 2019 were extremely tough for the domestic beer category, with the market shrinking for 15 consecutive years. Despite this, we achieved year on year volume growth for all three main brands; *The Premium Malt's*, *Kin-Mugi* and *All-Free*.

Why was *The Premium Malt's* able to outperform the previous year, while the other beer players struggled? This was thanks to our initiatives based on “Uncompromising focus on quality” and “Demand creation by always providing new value to consumers”, which has been our philosophy since our founding.

Since its launch in 2003, *The Premium Malt's* has been running at the forefront of the premium beer market. We at Suntory have been making a firm-wide effort, collaborating between on and off-premise, focusing on taste and quality from flavor-development to the point of consumption. We began the “Kamiawa” promotion in 2018, focusing on the foam, which is the value factor intrinsic to beer, allowing consumers to enjoy a new taste of beer. It is thanks to initiatives such as these that we were able to improve the brand value, and gain the support of consumers despite the tough market environment.

As Mr. Niinami mentioned earlier, *The Premium Malt's* represents our founding spirit of “Yatte Minahare”. *The Premium Malt's* doing well helps invigorate not only our beer business, but also the entire alcoholic beverages, including the new genre of beer, whisky and RTD. Last year, we achieved strong sales growth for our whiskies such as *Jim Beam*, *Maker's Mark*, *Kakubin* and *Torys*, as well as RTD products such as *-196 °C Strong Zero* and *Horoyoi*. We also succeeded in creating new demand in the lemon sour market, through the launch of an RTD product from *Kodawari Sakaba no Lemon Sour*, the liquor product that captures the needs of consumers wanting to enjoy the taste of the lemon sour drinks, usually only available in the Japanese dining bars called Izakaya's. It is precisely because of the steady growth of *The Premium Malt's* that we succeeded in creating new demand in this way.

## **(2) outlook for 2020**

With the upcoming Olympic and Paralympic Games, Japan will receive a lot of attention, which will help our business. On the other hand, uncertainties in the global economy are expected to continue, with the spread of the Coronavirus, as well as the presidential elections in the U.S. Under these circumstances, Suntory Group will maximize on its strength as a multifaceted beverage and liquor company, and continue to pursue sustainable growth by capturing consumers' needs in each business and region.

2020 will be an important year for our business in Japan, with the revision of the liquor tax coming up in October onwards. As for *The Premium Malt's*, the breweries have put in everything they have on the renewal of its flavor, in order to achieve the best taste ever. We will also further evolve the “Kamiawa” promotion, and conduct activities where the on and off-premise businesses collaborate, which is something Suntory is good at.

We have conducted a major renewal of the entire *Kin-Mugi* brand, including the regular *Kin-Mugi*, *Kin-Mugi 75% Less Carbohydrate* and *Kin-Mugi Gold Lager*. The breweries have involved themselves even in the malt-making process, improving the flavor of the barley, making *Kin-Mugi* popular among consumers. We will be offering a *Kin-Mugi* for each season, slightly modifying the taste throughout the year, which will help it to match the dishes of each season, thereby improving the quality at the point of consumption.

For whisky, we will renew the flavor and design of all canned highball products such as “Jim Beam Highball”, “Kaku Highball” and “Torys Highball”, and propose an even better tasting highball to consumers.

In relation to our medium to long-term growth, we will accelerate digital transformation as well as making investments into our brands, while taking a leading role in building a sustainable society.

As for our digital transformation, we need to deepen our understanding of end users (consumers), and provide them with a better product experience. In order to do this, we will make use of both data and technology, and accelerate our digital transformation globally. We will also work on growing and training employees with digital capabilities, involving not only the tech division but the whole Suntory group.

In terms of brand investments, we are currently constructing the “Kita Alps Shinano-no-Mori” plant, which will be the fourth water resource for Suntory’s *Tennensui*, with operations expected to begin in the spring of 2021. We are also adding whisky storage facilities, to increase our future capacity, which as of today is insufficient to meet the demands from domestic and international customers.

We have set ambitious goals for sustainability, in areas such as water, CO<sub>2</sub> and pet bottles, and will strive to achieve them. For pet bottles, we announced last year that we will switch all pet bottles used around the globe to recycled or plant-based materials, and reduce the new use of petroleum-based materials to zero by 2030. We also plan to reach net zero CO<sub>2</sub> emissions by 2050.

Lastly, I will talk about our forecast.

Net sales excluding excise taxes is forecasted to be 2.36 trillion yen, up 2.8% year on year.

Net sales including excise taxes is forecasted to be 2.64 trillion yen, also up 2.8% year on year.

We are forecasting our operating income to be 260 billion yen, up 0.1% year on year.

Our operating income may look flat year on year, but the adjusted operating income, which reflects the actual state of the business, is expected to grow 2.9%.

Profit attributable to owners of the Company is expected to be 130 billion yen, down 7.8% year on year. This is due to the gain in 2019 from booking deferred tax assets not being repeated in 2020.

We look forward to your continued support to Suntory. Thank you very much for your attention.