

# *Coca-Cola East Japan Q2 & YTD 2015 Earnings Presentation*

Calin Dragan, CEO  
Michael Coombs, CFO

August 7, 2015

*Coca-Cola East Japan*

コカ・コーライーストジャパン株式会社

[www.ccej.co.jp](http://www.ccej.co.jp)

*(Posted to CCEJ Website August 6, 2015)*



# Forward-Looking Statements

The plans, performance forecasts, and strategies appearing in this material are based on the assumptions and judgment of the management of Coca-Cola East Japan Co. Ltd. (CCEJ) in view of data obtained as of the date this material was released. These forecasts may differ materially from actual performance due to risks and uncertain factors such as those listed below.

Risks and uncertain factors are not limited to the items listed below. They are also included in our annual securities report, or “Yuka Shoken Houkokusho”.

- Intensification of price competition in the marketplace
- Change in economic trends surrounding our business
- Major fluctuations in capital markets
- Fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen and the U.S. dollar
- Increases in prices of raw materials
- Change in the tax environment
- CCEJ's ability to realize production efficiencies and to implement capital expenditures at the levels and times planned by management;
- CCEJ's ability to market and distribute effectively
- Uncertain factors other than those above

The information in this presentation is provided for informational purposes and should not be construed as a solicitation of an investment in our securities.

CCEJ undertakes no duty to update any statement in light of new information or future events. You should rely on your own independent examination of us before investing in any securities issued by our company.



(TRY! #Kiki Coke – Coca-Cola Zero Taste Challenge Commercial Film)  
<http://www.cokezero.jp/movie/#movie09>

えっ!これ、  
ゼロなの?

COKE or COKE ZERO?

TRY!  
#利きコーク

× 中居正広

誕生。コーク史上最高のゼロへ。

kikicoke.jp



**What? Is this really ZERO?**

- June – July promotion
- Sampling ~100K cans
- Nine events in CCEJ territory



**Taste and then slide cover off can to discover if it was Coca-Cola or Coke Zero**

**Enjoy!**

## *Introduction*

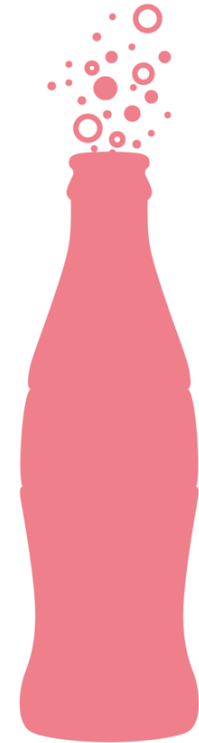
- Overview and Key Messages
- Transforming our Business

## *Second Quarter and Year-to-Date Results*

- Share, Volume and Financial Results

## *Rest-of-Year Outlook*

- Marketing Activities and Key Milestones



# Summary of First Half Results

Coca-Cola East Japan  
Q2 & YTD 2015

- ✓ YTD comparable\* operating income improved by 3.8 billion yen vs. prior year, including cycling the impact of the accounting policy change in Q1 2014.
- ✓ Ongoing delivery of supply chain synergies, partially offset by increased expenses related to employee overtime, inventory movement & systems support for rollout of new Enterprise Resource Planning (ERP) system. Below plan YTD.
- ✓ Share decline in the second quarter, cycling strong share growth in prior year and decision to decrease promotional activity at quarter-end (June)
- ✓ Balanced volume and revenue performance in the quarter and year-to-date
- ✓ Continued growth in tea, water & coffee led by Convenience Store channel
- ✓ Acquisition of Sendai Coca-Cola bottler reflected in results from Q2

\* Includes Q2 2015 acquisition of Sendai bottler

# Q2 & YTD 2015 Results

*Coca-Cola East Japan*

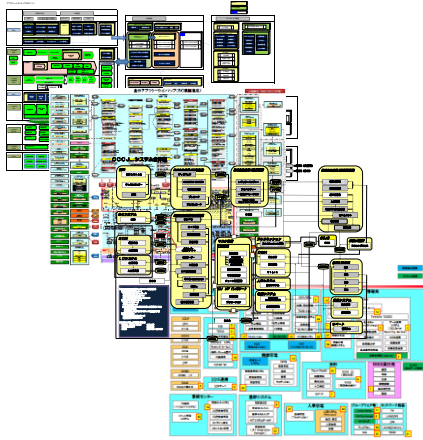
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- ✓ Rapid organizational transformation & integration continues; acquired Sendai Coca-Cola Bottling Company, consolidated eight subsidiaries into FV East Japan.
- ✓ Two new production lines operational in Q2 (Ibaraki, Ebina)
- ✓ Phase One of ERP System operational. Necessary fine-tuning and “hypercure” IT support was greater than expected. Limited customer out of stocks in spite of strong effort in Q2 to ensure stable continuity of supply during transition.
- ✓ Developing capabilities and implementing programs for revenue growth management to improve price/mix.
- ✓ Restructured indirect procurement into Coca-Cola Business Services Company





## Before CokeOne+ ERP System:

- Non-standardized business processes
- Insufficient management reporting
- From 26 legal entities to four
- ~200 Loosely integrated systems
- Complex – 2,500 interfaces
- Multiple master databases



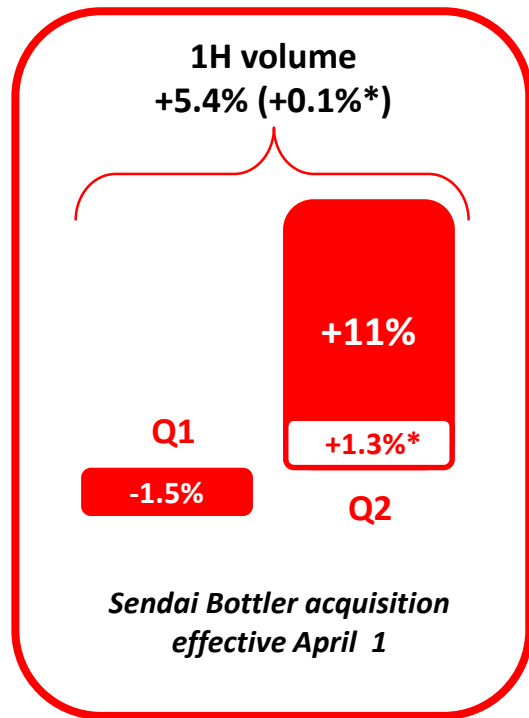
**Coke one**<sup>+</sup>  
BE “one”

*From April 2015*  
*One System; Cloud-Based*

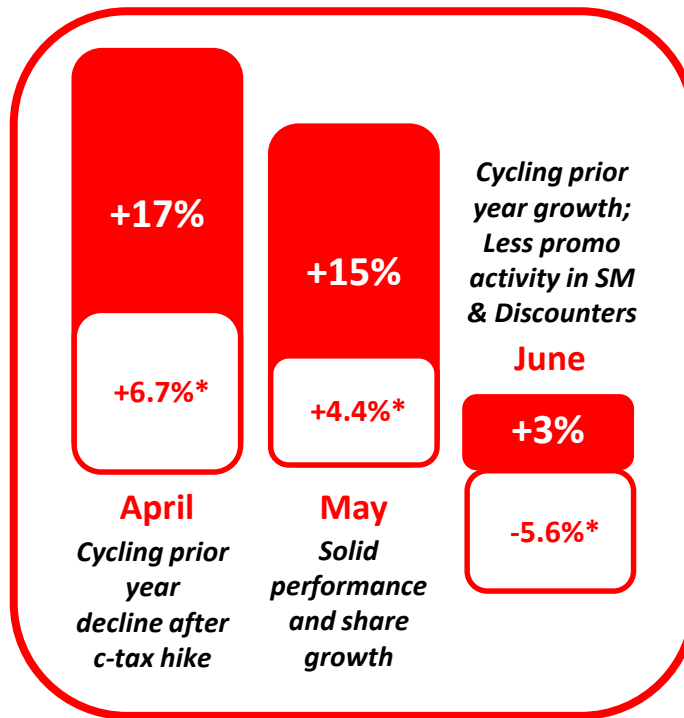
- **CokeOne+ is a full transformation of business processes and people’s daily activities, including accounting, procurement, payment, manufacturing, inventory, shipping, etc.**
- **Such an integrated management system is a “must-have” to manage the current business, and a foundation for further business transformation.**
- **We experienced a short-term impact on supply chain management in Q2, resulting in limited customer disruption, as well as increased costs.**

# Volume Performance in the First Half

## 1H Reported Volume by Quarter



## Q2 Reported Volume by Month



## Q2 Highlights

- Sendai acquisition April 1
- Strong volume in April cycling C-tax last year
- Less CCEJ volume promotions in June (2L water); Heavy competitor launch and promotional activity

## Outlook

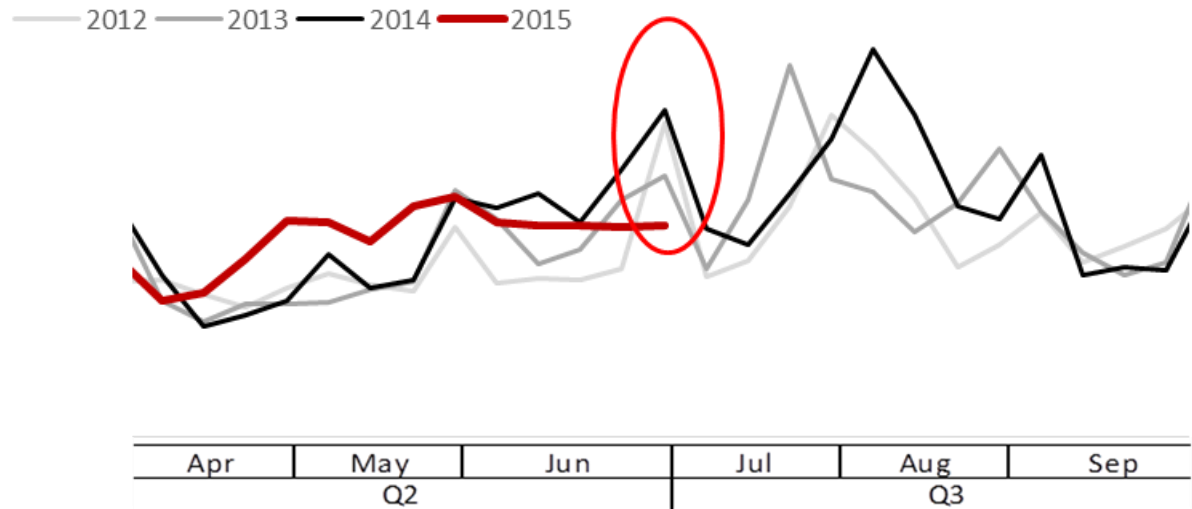
- Slow start to July; End of rainy season mid-month
- Competitor promotions, new products continue
- Q3 peak season for bottling business

\* Organic volume growth, not including Q2 acquisition of Sendai bottler

- Less promotional activities in June vs. past trends, in line with our ongoing price, terms & conditions (PTC) focus
- This continued emphasis on trying to balance volume and value could mean up to 2 to 3 million cases less volume in 2015
- The June volume decline negatively impacted profit and market share
- We continue to evaluate the effectiveness of various PTC actions in market and we will calibrate our activities

CCEJ Historic Weekly Volume Shipment Trends

### Example: Drug & Discounter Channel



# Connecting with the Consumer

Coca-Cola East Japan  
Q2 & YTD 2015

Q2

Coca-Cola Bottle 100<sup>th</sup> Anniversary



Coca-Cola Life

Kiki Coke Taste Challenge



Coca-Cola  
Aluminum  
Contour Bottle

Share-a-Coke



エリア限定 オムボトルも!  
みんなと、いっしょに飲もう。



The great taste  
of Coca-Cola Zero

Q2

Customer-Exclusive Branded Products

Georgia European Renewal

Georgia  
Private Reserve



Hajime  
Green Tea



I lohas  
Aloe



Concept Cafe  
Coffee House  
European opens in  
Omotesando, Tokyo



Q2

I lohas

FOSHU Tea

PEKO RAKU Crushable Large PET

TSUMUGI Oolong Tea

Toreta!



I lohas  
Tomato



特定保健用食品  
からだすこやか茶.W



Karada  
Sukoykacha W  
1L PET



Using  
Japanese  
tea leaves



# Slight Share Loss Cycling Prior Year Growth

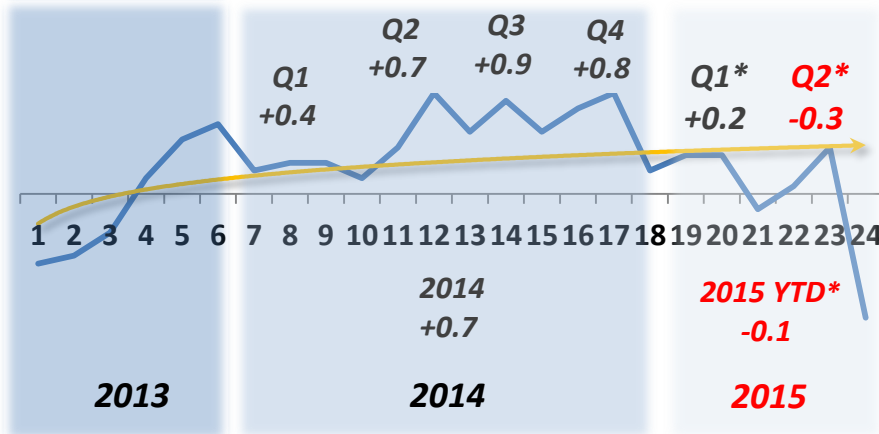
2015 Market Share*	vs. Prior Year	
	Q2	YTD
Volume	-0.3	-0.1
Value	-0.4	-0.1

Volume & value share growth in 6 of 7 quarters

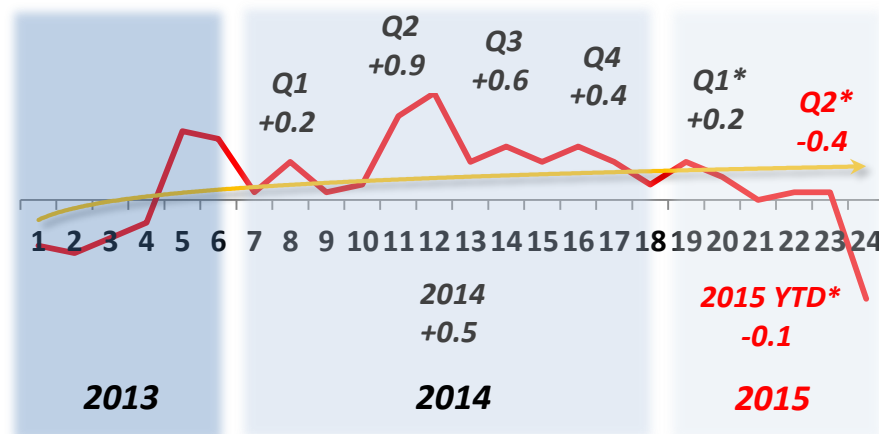
Share gains in cola, teas, water;  
Challenges in flavored sparkling

June share reflects less promotional activity

## Volume Share vs. Prior Year



## Value Share vs. Prior Year

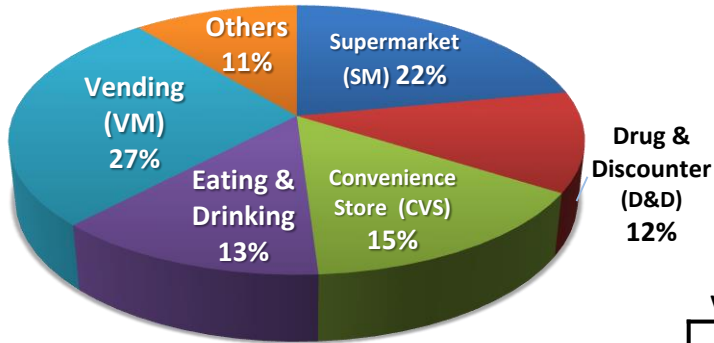


\* Including Sendai Bottler (now South Tohoku Region)

\*\* Source: Intage, OTC channel, NARTD beverages

# Volume Performance by Channel

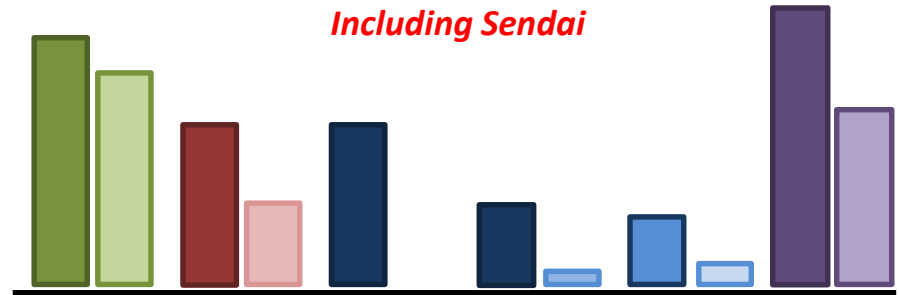
## Q2 Volume by Channel (% of total)



## Total Volume, including Sendai Q2 +11.1%; YTD 2015 +5.4%

- CVS growth led by **water, tea, coffee**
- Drug & Discounter, Supermarkets reflect **less promotional pricing** and **pullback in 2L water**
- Vending weak due to **weather** and **channel mix**. Indoor outperforming outdoor.
- Eating & Drinking growth led by **outlet expansion**

## Channel Volume Growth Including Sendai



vs. Prior Year	CVS	D&D	Nat'l SM	Local SM	VM	Eat & Drink
Q2 2015	+20%	+13%	+13%	+7%	+6%	+23%
YTD 2015	+17%	+6%	even	+1%	+2%	+14%

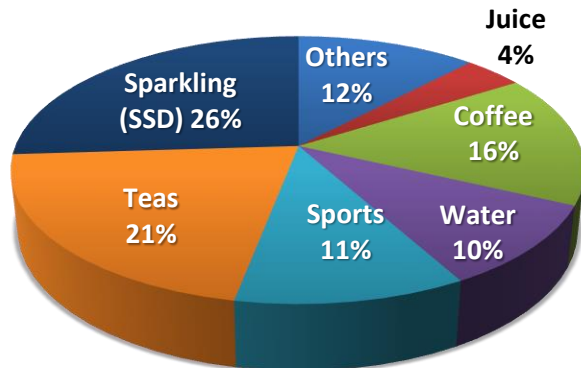
\* BAPC (Bottler Actual Physical Cases)

Organic Volume  
Excluding Sendai →  
Q2 +1.3%; YTD +0.1%

vs. Prior Year	CVS	D&D	Nat'l SM	Local SM	VM	Eat & Drink
Q2 2015	+8%	+1%	-1%	even	-4%	+15%
YTD 2015	+11%	-1%	-8%	-3%	-3%	+10%

# Volume Performance by Category

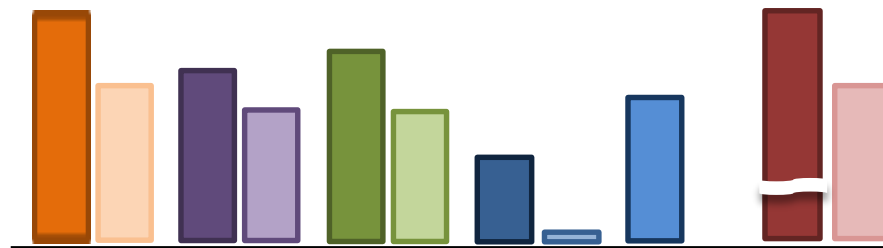
## Q2 Volume by Category (% of total)



**Total Volume, including Sendai**  
Q2 +11.1%; YTD 2015 +5.4%

- NST growth due to **success of recent launches**
- Water performance reflects **less 2L promotions**
- Coffee led by **customer-exclusive brands**
- SSD & Sports Drinks impacted by **weaker vending**
- Juice growth led by new **outlet expansion**

## Category Volume Growth Including Sendai



vs. Prior Year	NST	Water	Coffee	Sparkling	Sports	Juice
Q2 2015	+16%	+12%	+14%	+6%	+9%	+22%
YTD 2015	+11%	+8%	+8%	+1%	even	+10%

\* BAPC (Bottler Actual Physical Cases); NST (Non-Sugar Tea)

**Organic Volume  
Excluding Sendai** →  
Q2 +1.3%; YTD +0.1%

vs. Prior Year	NST	H2O	Coffee	SSD	Sports	Juice
Q2 2015	+8%	+1%	+1%	-3%	-2%	+12%
YTD 2015	+6%	+2%	+1%	-4%	-7%	+5%

# Q2 & YTD 2015 Financial Results

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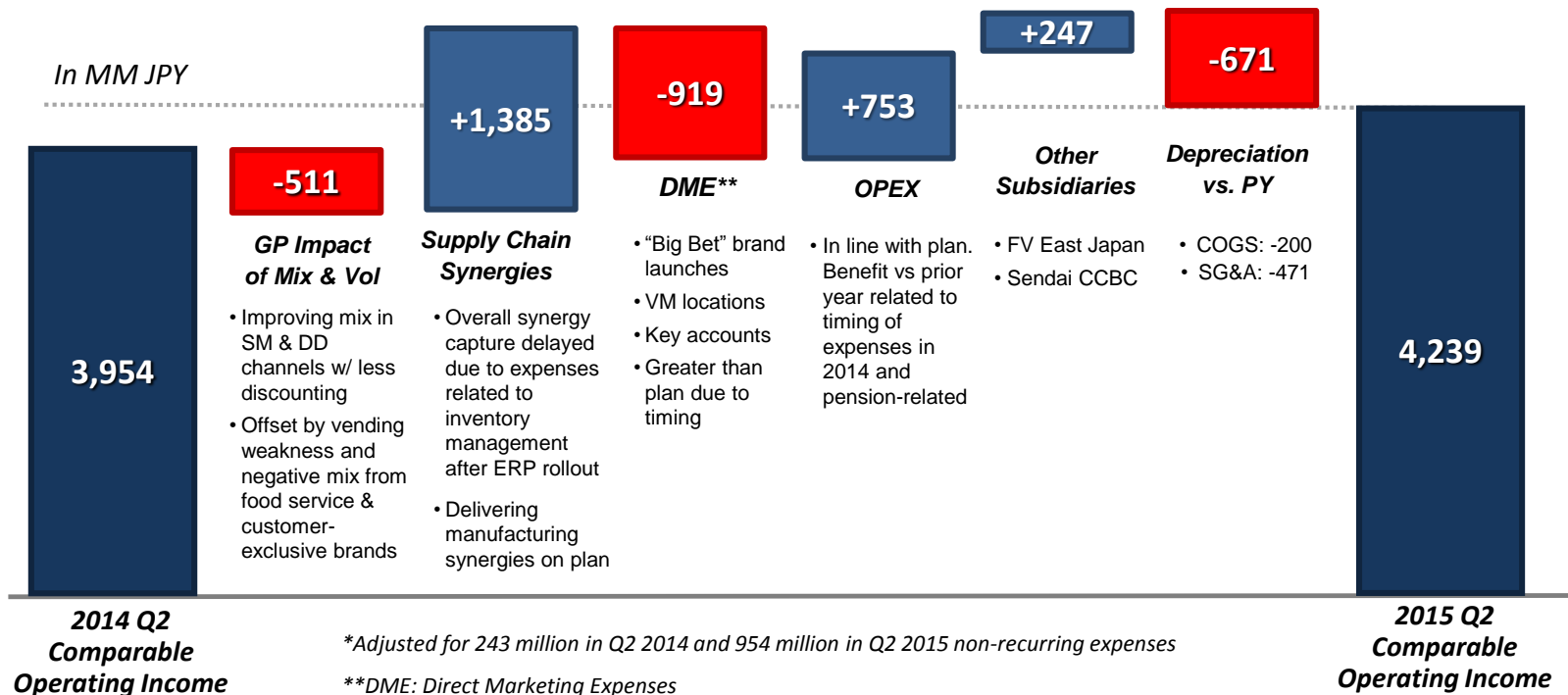
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# Drivers of Second Quarter Operating Income

Coca-Cola East Japan  
Q2 & YTD 2015



# Second Quarter 2015 Results

Coca-Cola East Japan  
Q2 & YTD 2015

- Balanced volume & revenue performance
- Improving gross margin driven by manufacturing efficiency
- Comparable SG&A increase led by continued marketing investment & people costs
- Q2 tax reflects deferred tax for consolidation of subs (FVEJ)

2015 Q2 Actual in million yen		2015 Q2 One-time items	2015 Q2 Comparable	2014 Q2 Comparable	Vs. PY	
					Diff	%
Sales Volume (BAPC) (,000 cases)	80,784	-	80,784	72,725	8,059	+11.1
Net Revenue	151,828	-	151,828	136,580	15,248	+11.2
COGS	81,204	-	81,204	74,229	6,975	+9.4
Gross Profit	70,623	-	70,623	62,351	8,272	+13.3
SG&A	67,338	-954	66,384	58,397*	7,987	+13.7
Operating Income	3,285	954	4,239	3,954	285	+7.2
Profit Before Tax	2,850	1,414	4,219	4,086	133	+3.3
Net Income	2,531	910	3,441	2,437	1,005	+41.2

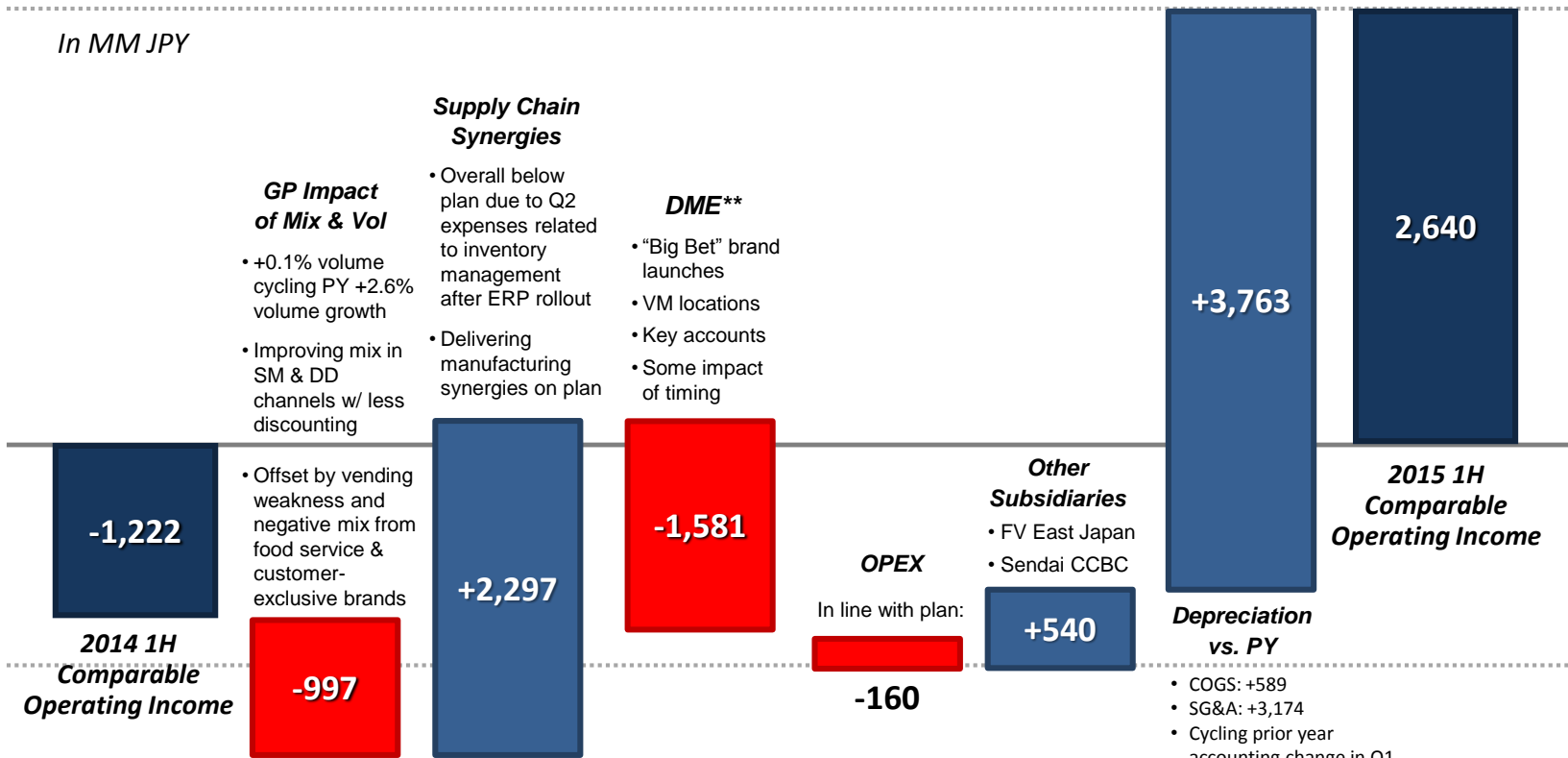
\*Adjusted for 243 million in Q2 2014 non-recurring expenses

Note: 2014 volume was revised in our Q4 2014 earnings announcement as a result of data and system standardization.

# Drivers of First Half Operating Income

Coca-Cola East Japan  
Q2 & YTD 2015

In MM JPY



\*Adjusted for 651 million in 1H 2014 and 1,295 million in 1H 2015 non-recurring expenses

\*\*DME: Direct Marketing Expenses

# First Half 2015 Results

Coca-Cola East Japan  
Q2 & YTD 2015

- Balanced volume and revenue performance
- Improving gross margin driven by manufacturing efficiency
- COGS and SG&A benefit from cycling Q1 2014 accounting policy change
- Q2 tax reflects additional deferred tax for consolidation of subs (FVEJ)

2015 1H Actual in million yen		2015 1H One-time items	2015 1H Comparable	2014 1H Comparable	Vs. PY	
					Diff	%
Sales Volume (BAPC) (,000 cases)	139,794	-	139,794	132,610	7,184	+5.4
Net Revenue	262,049	-	262,049	248,495	13,554	+5.5
COGS	140,051	-	140,051	135,781	4,270	+3.1
Gross Profit	121,997	-	121,997	112,714	9,283	+8.2
SG&A	120,651	-1,295	119,356	113,936*	5,420	+4.8
Operating Income	1,345	1,295	2,640	-1,222	3,862	-
Profit Before Tax	131	2,445	2,576	-1,036	3,612	-
Net Income	988	1,574	2,562	-1,540	4,102	-

\*Adjusted for 651 million in 1H 2014 non-recurring expenses

Note: 1H 2014 results include JPY 805 million in COGS and JPY 3,850 million in SG&A due to the write-off of residual value of existing tangible fixed assets related to a change in accounting policy

Note: 2014 volume was revised in our Q4 2014 earnings announcement as a result of data and system standardization.

# Second Half 2015 Outlook

*Coca-Cola East Japan*

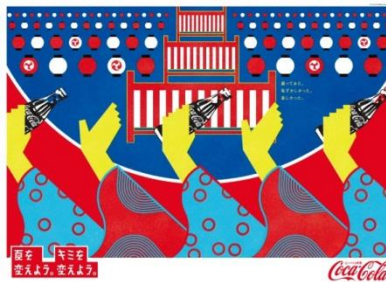
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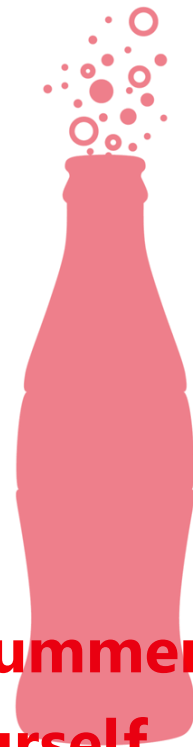


# Coca-Cola Summer Campaign

Coca-Cola East Japan  
Q2 & YTD 2015



**Transform the summer  
Transform yourself**



コカ・コーライーストジャパン株式会社

- ✓ **Q3 the most important quarter of the year**
- ✓ **We are strengthening Marketing & Execution programs in key channels**
  - Solid marketing calendar for second half of 2015
  - Targeted promotional activities that respect PTC guidelines
- ✓ **Increased focus on Logistics optimization**
  - Increase direct shipments (plant to sales center) & reduce hub-to-hub moves
  - Reduce finished goods transport distance; Improve efficiency of truck-loading
- ✓ **Close review of all operating expenses is underway**

# Key Milestones in the Second Half



- ✓ Continued stabilization and utilization of new ERP system in Q3; management of stable product supply as we fully shift to new system.
- ✓ Two new production lines (Iwatsuki) to be commissioned in 2H
- ✓ Additional Bottle Can capacity (Tokai) to be commissioned end of Q3
- ✓ Operational integration of Sendai (now South Tohoku Region) and FV East Japan
- ✓ Regional approach to Supply Chain optimization
- ✓ Pricing, Terms & Conditions; Continued promotional optimization



# APPENDIX

*Coca-Cola East Japan*

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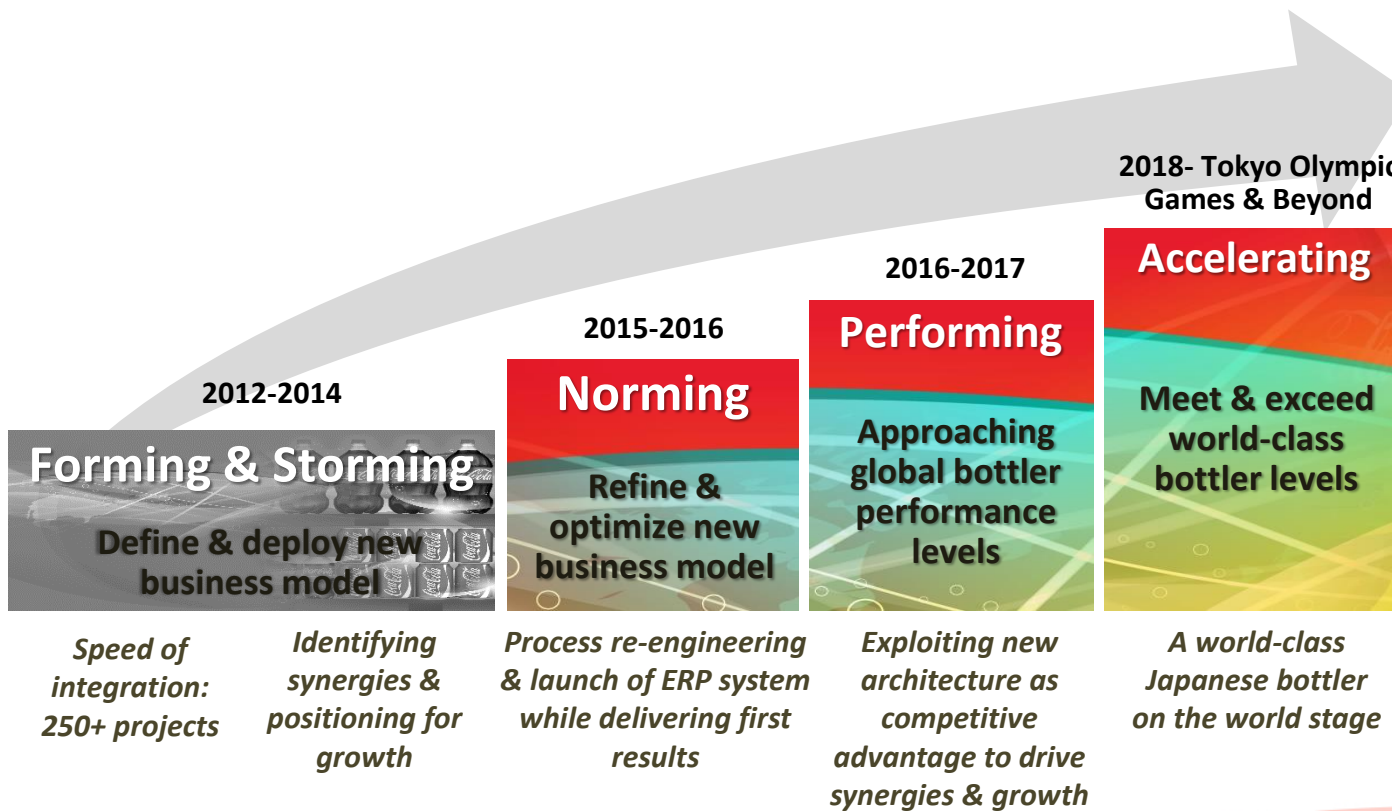


100 YEARS OF THE

COCA-COLA BOTTLE

# CCEJ One+ Roadmap for Growth

Coca-Cola East Japan  
Q2 & YTD 2015



TOKYO 2020

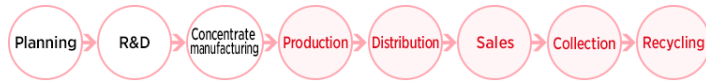


## A powerful partnership driving growth of the Coca-Cola business

The Coca-Cola system in Japan consists of the Coca-Cola (Japan) Company (CCJC), bottlers and other related companies.

CCJC, as the franchise owner, is responsible for supplying concentrate and beverage bases (coffee beans, tea leaves, juices, etc.) for all of Coca-Cola's brands, as well as R&D, innovation, and marketing and brand development.

The bottlers, including CCEJ, as franchisees, are responsible for manufacturing, distribution and selling the finished products. We all are working together with our system partners to grow the Coca-Cola business by optimizing our overall operations through more efficient production and distribution, marketplace execution that is firmly focused on the consumer, faster response to market preferences, enhanced customer service, and rigorous quality control.



Coca-Cola (Japan) Company
<ul style="list-style-type: none"> <li>• Brands</li> <li>• Innovation</li> <li>• Global perspective</li> <li>• Consumer focus</li> <li>• Superior insights</li> </ul>

Coca-Cola East Japan
<ul style="list-style-type: none"> <li>• Supply chain</li> <li>• Cost optimization</li> <li>• Local expertise</li> <li>• Customer focus</li> <li>• World-class execution</li> </ul>

## Other Coca-Cola System Related Companies in Japan

<b>Coca-Cola Tokyo Research &amp; Development Co., Ltd. (CCTR&amp;D)</b>	Product development and technical support to respond to the needs of the customer in Japan. A wholly owned subsidiary of The Coca-Cola Company.
<b>Coca-Cola Business Service Co., Ltd. (CCBSC)</b>	Providing joint procurement of raw materials, packaging, etc. as well as business consulting services, developing and maintaining the information systems to support Coca-Cola System. Jointly owned by The Coca-Cola Company and all the bottlers in Japan.
<b>Coca-Cola Customer Marketing Company (CCMC)</b>	Business negotiations window for nationwide retail, convenience stores, supermarket and food-service chains as well as developing proposals for sales promotions and storefront activities. Jointly owned by CCJC and all the bottlers in Japan.
<b>FV Corporation Co., Ltd. (FVC)</b>	Sales negotiations window for national chain vending operators, and deals non-Coca-Cola products as well as Coca-Cola branded products. Jointly owned by CCJC and all the bottlers in Japan.

# Glossary of Frequently Used Terms

<b>CDE</b>	Abbreviation of <b>Cold Drink Equipment</b> . Vending machines, coolers and beverage dispensers, etc.
<b>Coolers</b>	The equipment with Coca-Cola's logos which keeps beverages at an appropriate temperature (chilled and/or hot) for immediate consumption, and ready for selling them at the storefront of retail outlets and restaurants. It serves as point-of-sales advertising, too.
<b>DME</b>	Abbreviation of <b>Direct Marketing Expenses</b> . Sales promotion-related expenses reported in advertisement & sales promotion expenses and partly in sales commissions of SG&A.
<b>FC</b>	Abbreviation of <b>Future Consumption</b> . Purchase or sell beverage for future consumption in home, etc. It also means the products / SKUs for FC (for example, single packages 1L or more and multi-pack of IC packages) and channels that consumers purchase the beverages for FC. (for example, supermarket, drug & discounter channels, etc.).
<b>HORECA</b>	Abbreviation of <b>Hotel, Restaurants and Cafeteria</b> . Generally means sales channels of these kinds.
<b>IC</b>	Abbreviation of <b>Immediate Consumption</b> . Purchase or sell beverage for consuming it immediately. It also means the products / SKUs for IC (for example, single packages less than 1L as well as fountains) and channels that consumers purchase the beverages for IC (for example, vending machine, convenience stores channels, etc.).
<b>OBPPC</b>	Abbreviation of <b>Occasion, Brand, Package, Price, Channel</b> . A segmentation strategy tailored to consumption opportunities in five areas: occasion, brand, package, price and channel.
<b>Operational Excellence (OE)</b>	The Coca-Cola System's way to develop people and culture around productivity which allows higher financial value achievement by driving sustainable improvement using common language and tools as well as focusing on business priorities.
<b>RTM</b>	Abbreviation of <b>Route-to-Market</b> . A framework, a process, a philosophy, a proven approach for driving profitable growth.

# THANK YOU

*Coca-Cola East Japan*

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*August 7, 2015*

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