

Coca-Cola East Japan Q3 & YTD 2015 Earnings Call

Calin Dragan, CEO
Michael Coombs, CFO
November 9, 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

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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.

Introduction

- Overview and Key Messages
- Incorporating Learnings and Progress to-date

Third Quarter and Year-to-Date Results

- Share, Volume and Financial Results

Outlook for Full-Year 2015

- Revised Full-Year Plan
- Key Takeaways



- ✓ **October 7 revision of full-year performance targets**
- ✓ **Growth in YTD volume, revenue and operating income, including the benefit of the Sendai Coca-Cola Bottling Company integration in the second quarter**
- ✓ **Improving gross margins, as we deliver manufacturing and procurement synergies**
- ✓ **Two quarters of negative market share partly due to pullback on promotional pricing in FC (future consumption) packages well as aggressive competitor activity (pricing, product launches)**
- ✓ **Transformation of our business continues**
 - **Commissioned one new production line in Iwatsuki and a new bottle can filler in Tokai**
 - **Stabilized initial operation of new Enterprise Resource Planning (ERP) system “CokeOne+” after Q2 rollout**
 - **Continued smooth integration of Sendai people, processes and systems into CCEJ**

✓ Full-year reported operating income growth forecast revised to +13% (from +51%)

- Softness in vending channel persists due to channel mix shift since consumption tax rise. Poor summer weather in Kanto region also a factor.
- Continued strong competitive environment (pricing pressure, new product launches)
- Under-delivery of planned supply chain savings due to incremental logistics activity after ERP launch. Now expect approximately 2.8 billion yen in net supply chain and procurement savings in 2015.

✓ Task forces established to address priority areas

- Vending value proposition (pricing, cost structure)
- Supply chain synergies (fully leverage new production lines and further optimize logistics network)
- Cost to serve (complete review by channel to evolve RTM from phase 1- standardization, to phase 2- optimization)



Actual results have differed from original assumptions, primarily in topline performance and industry competition and pricing trends.

This masks real underlying progress:

- **High efficiency of new lines and further production insourcing**
- **Pricing, terms & conditions (PTC) discipline**
- **Smooth integration of legal entities and Sendai**
- **Initial full deployment of standardized Route-to-Market (RTM)**
- **Evolving relationship/role sort with Coca-Cola system companies**
- **Improved data visibility & control for decision support through systems**

Now finalizing our 2016 business plan, incorporating learnings from last three years, underlying progress and current market situation, and will announce it when we release our full-year 2015 earnings.



Vending

Situation

Vending channel value proposition less appealing with consumers

- Majority of Commercial gross profit lag in 2015 due to vending
- Price gap with other channels
- Volume per machine declines and lower outdoor VM profitability

What We are Doing Now

- Stop value decline by evaluating different price/pack combinations on a pilot basis, including vending exclusive
- Evaluating total cost base, from cost of machine to cost-to-serve
- Focus on growing indoor business and removing/moving unprofitable placements



Synergies

Situation

Ongoing synergy capture offset by topline erosion and unplanned costs

- Delayed start to logistics synergy programs due to ERP turbulence
- Inefficient inventory movements
- Need better visibility of slow-moving inventory

What We are Doing Now

- Remapping of complete logistics network– opportunity for 2016 business plan
- Full utilization of new production capacity; no expected disruptions
- Focus on energy & utilities saving
- Leverage ERP to manage P&L accountability for better control of slow-moving inventory



Cost Structure

Situation

- Current Route-to-Market rollout focused on implementing a standard model of service (one size fits all)
- No major cost savings yet from ERP (optimize labor cost; eliminate unnecessary work)

What We are Doing Now

- Complete review of cost-to-serve by channel and geography (i.e. high density vs. low density)
- From RTM phase 1 (standardize) to RTM phase 2 (optimize)
- Restructuring commercial organization to optimized service & cost model
- Indirect procurement at CCBSC

Q3 & YTD 2015 Results

Coca-Cola East Japan

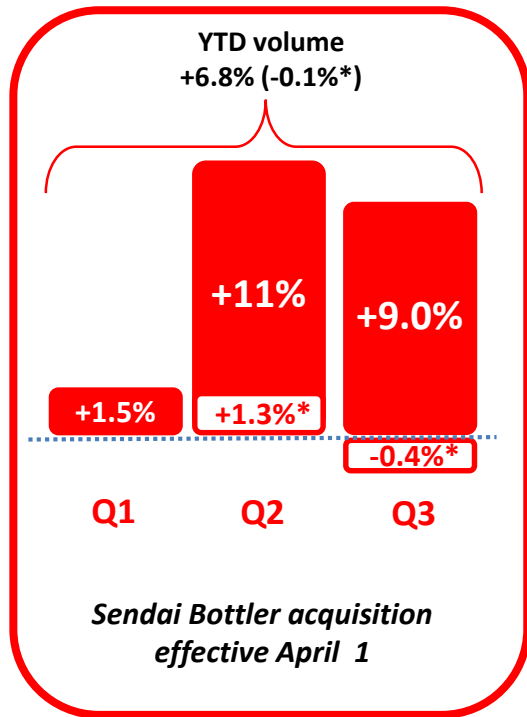
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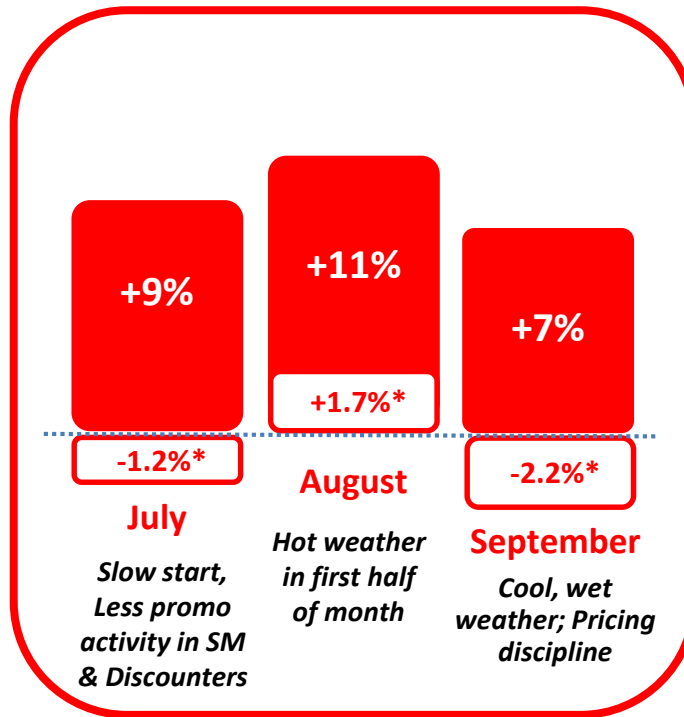


Year-to-Date Volume Performance

YTD Reported Volume by Quarter



Q3 Reported Volume by Month



Q3 Highlights

- Changeable weather: A tale of two summers
- Continued soft results in vending channel
- Competitor promotions, new product launch activities continue

Weather data in Tokyo
(vs. PY, Source: Metrological Agency)

	Jul	Aug	Sep
Ave. Temp. (Celsius)	-0.6	-1.0	-0.6
Precipitation (mm)	+129	-1.5	+348

Q4 Outlook

- Solid start in October
- Market share recovering

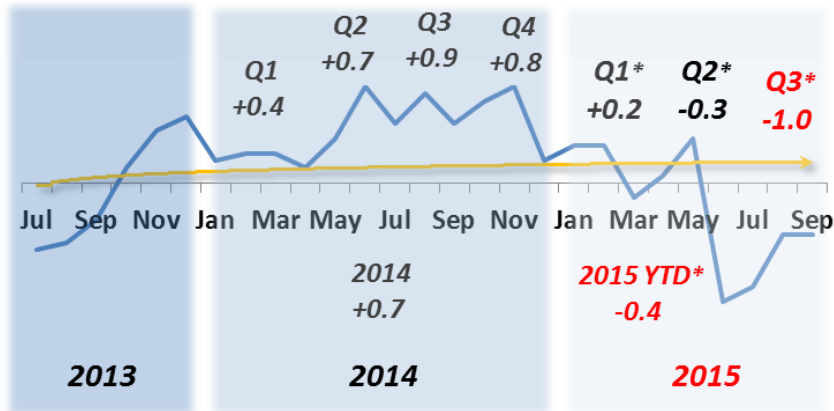
* Organic volume growth, not including Q2 acquisition of Sendai bottler

Share Loss amid Strong Competition

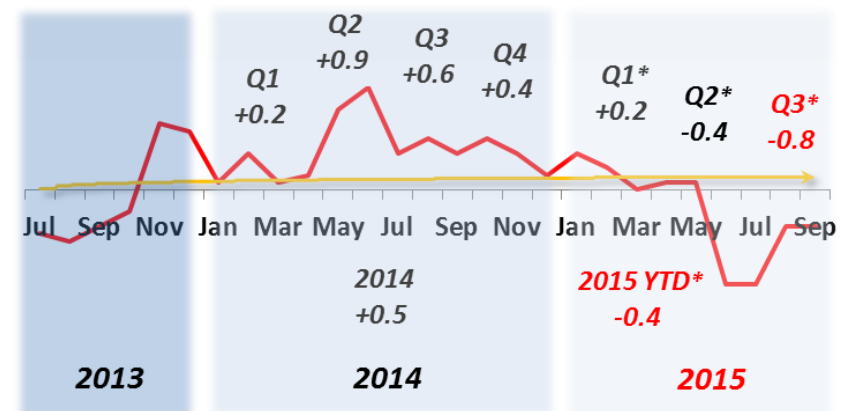
2015 Market Share*	vs. Prior Year	
	Q3	YTD
Volume	-1.0	-0.4
Value	-0.8	-0.4

- Share gains in teas, sports and coffee
- Challenges in sparkling due to competitor launches and water due to pullback on 2L PET package
- 6 out of 8 quarters volume & value share growth

Volume Share vs. Prior Year



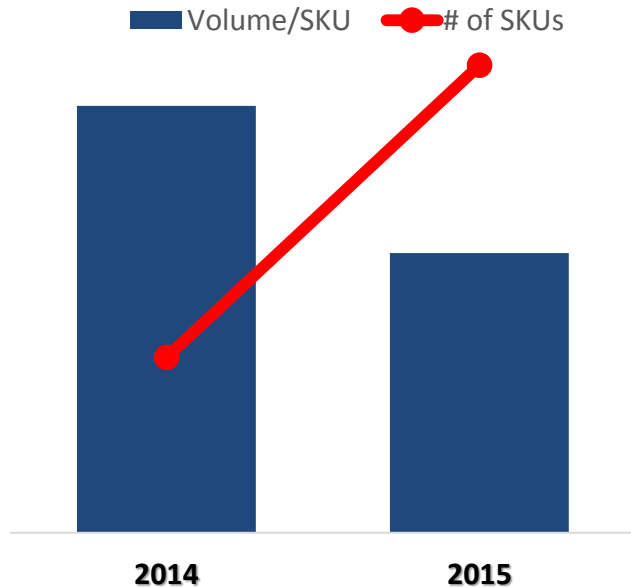
Value Share vs. Prior Year



* Including Sendai Bottler (now South Tohoku Region)
Source: Intage, OTC channel, NARTD beverages

New Product Performance (YTD)

Per SKU volume weaker than prior year



SKU: Stock Keeping Unit

Source: Intage, OTC channel, NARTD beverages

OTC Retail Price

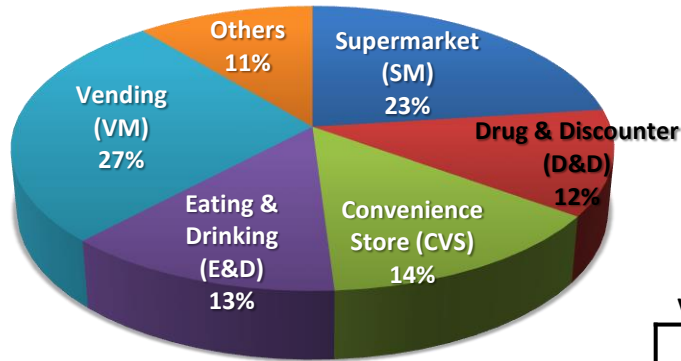
CCEJ average price declined vs. prior year, but our retail pricing is above market average, especially in large PET, where we have maintained price discipline

CCEJ OTC Retail Price (As of October 18, 2015)	vs. Prior Year (in Yen)	
	Last 12 Weeks	YTD
Large PET	-1.6	-2.4
500ml PET	-1.4	-1.8

CCEJ OTC Retail Price (As of October 18, 2015)	vs. Market Average (in Yen)	
	Last 12 Weeks	YTD
Large PET	+13.3	+14.2
500ml PET	-0.1	+0.6

Volume Performance by Channel

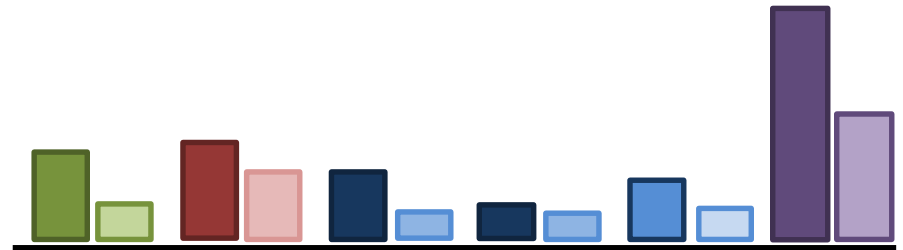
Q3 Volume by Channel (% of total)



Total Volume, including Sendai
Q2 +9.0%; YTD 2015 +6.8%

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

Channel Volume Growth Including Sendai



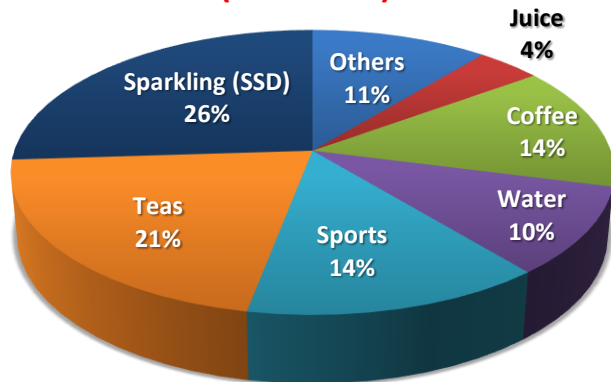
vs. Prior Year	CVS	D&D	Nat'l SM	Local SM	VM	Eat & Drink
Q3 2015	+10%	+11%	+8%	+4%	+7%	+21%
YTD 2015	+14%	+8%	+3%	+3%	+4%	+17%

**Organic Volume
Excluding Sendai** →
Q3 -0.4%; YTD -0.1%

vs. Prior Year	CVS	D&D	Nat'l SM	Local SM	VM	Eat & Drink
Q3 2015	even	-1%	-5%	-2%	-3%	+13%
YTD 2015	+6%	-1%	-7%	-2%	-4%	+11%

Volume Performance by Category

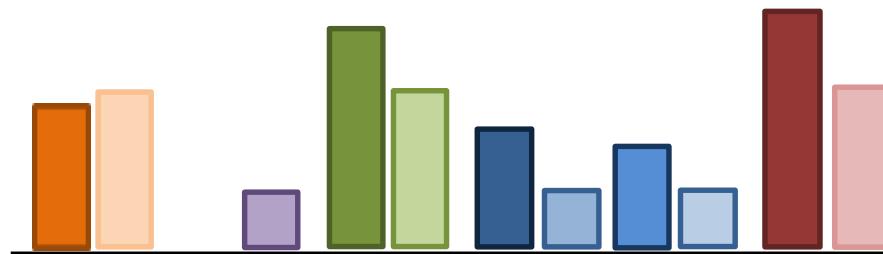
Q3 Volume by Category (% of total)



Total Volume, including Sendai
Q3 +9.0%; YTD 2015 +6.8%

- 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 **weather, vending**
- Juice growth led by new **outlet expansion**

Category Volume Growth Including Sendai



vs. Prior Year	NST	Water	Coffee	Sparkling	Sports	Juice
Q3 2015	+10%	even	+17%	+8%	+7%	+18%
YTD 2015	+11%	+4%	+11%	+4%	+4%	+13%

* NST (Non-Sugar Tea)

**Organic Volume
Excluding Sendai** →
Q3 -0.4%; YTD -0.1%

vs. Prior Year	NST	Water	Coffee	SSD	Sports	Juice
Q3 2015	+3%	-10%	+4%	-2%	-3%	+8%
YTD 2015	+5%	-3%	+2%	-3%	-5%	+6%

Q3 & YTD 2015 Financial Results

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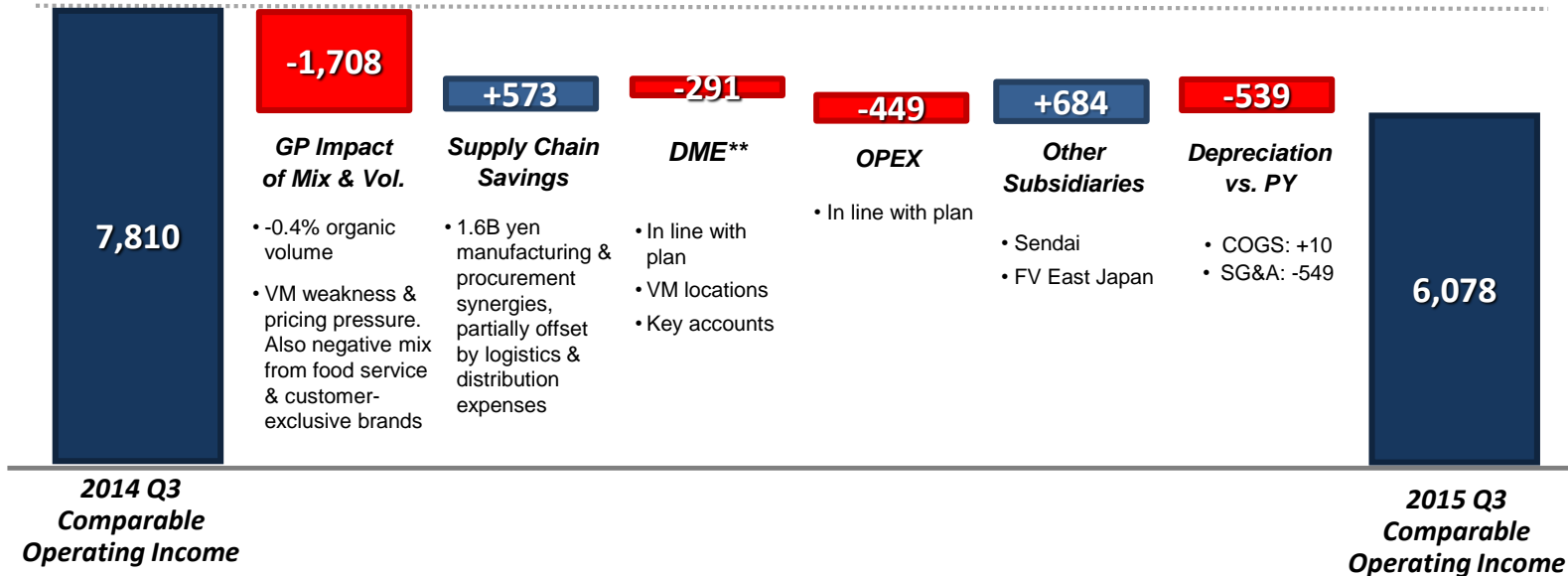
100 YEARS OF THE

COCA-COLA BOTTLE

Drivers of Third Quarter Operating Income

Coca-Cola East Japan
Q3 & YTD 2015

In MM JPY



*Adjusted for 204 million in Q3 2014 and -265 million in Q3 2015 non-recurring expenses

**DME: Direct Marketing Expenses

Third Quarter 2015 Results

Coca-Cola East Japan
Q3 & YTD 2015

- Improving gross margin driven by manufacturing and procurement efficiency
- SG&A increase led by continued marketing investment, logistics & distribution, depreciation, Sendai integration, etc.
- Tax rate increased by revisiting deferred tax accounting

2015 Q3 Actual in million yen		2015 Q3 One-time items	2015 Q3 Comparable	2014 Q3 Comparable	Vs. PY	
					Diff	%
Sales Volume (BAPC) (,000 cases)	90,783	-	90,783	83,313	7,470	+9.0
Net Revenue	163,480	-	163,480	152,106	11,374	+7.5
COGS	87,946	-	87,946	83,373	4,573	+5.5
Gross Profit	75,534	-	75,534	68,733	6,801	+9.9
SG&A	69,191	265	69,456	60,923	8,533	+14.0
Operating Income	6,343	-265	6,078	7,810	-1,732	-22.0
Profit Before Tax	5,771	288	6,059	7,827	-1,768	-22.6
Net Income	3,192	185	3,377	4,899	-1,522	-31.1

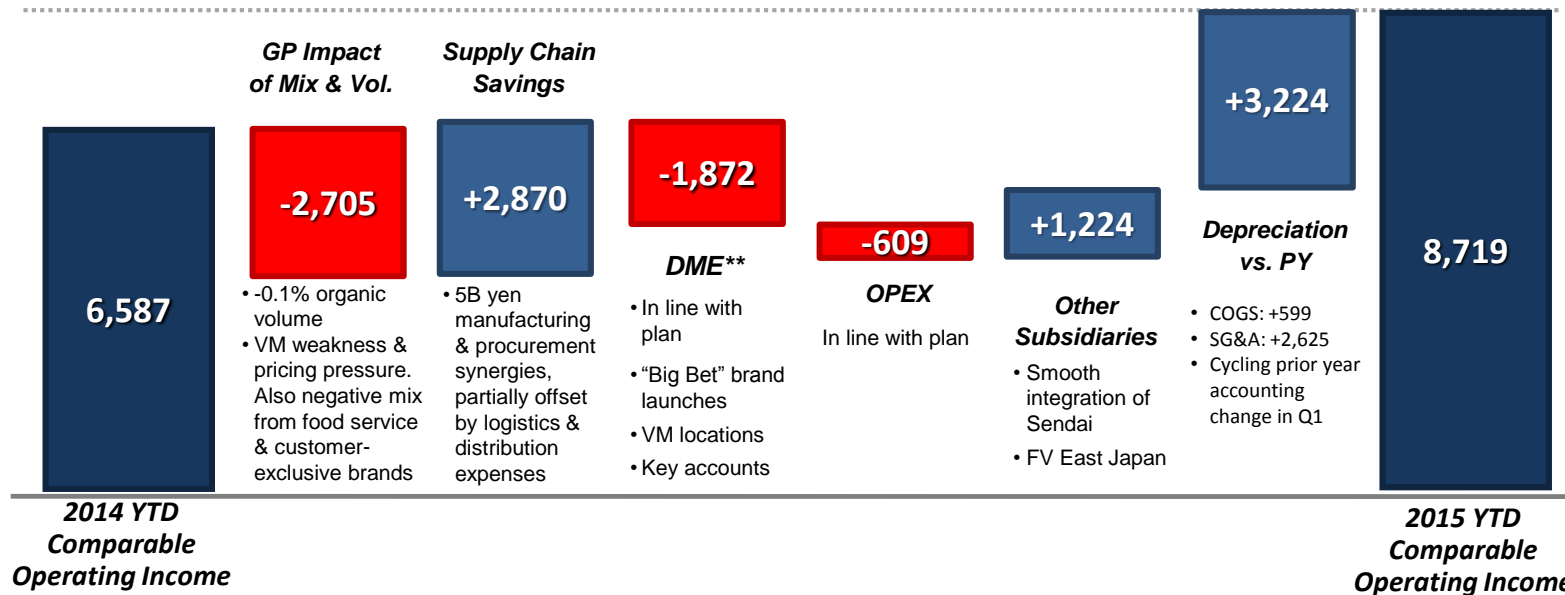
BAPC (Bottler Actual Physical Cases)

*Adjusted for 204 million in Q3 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 YTD Operating Income

In MM JPY



*Adjusted for 855 million in YTD 2014 and 1,030 million in YTD 2015 non-recurring expenses

**DME: Direct Marketing Expenses

YTD 2015 Results

Coca-Cola East Japan
Q3 & YTD 2015

- Improving gross margin driven by manufacturing and procurement efficiency
- SG&A increase led by marketing investment, logistics, Sendai integration
- YTD taxes decreased due to additional deferred tax assets for integration of subsidiaries in Q2

2015 YTD Actual in million yen		2015 YTD One-time items	2015 YTD Comparable	2014 YTD Comparable	Vs. PY	
					Diff	%
Sales Volume <i>(BAPC) (,000 cases)</i>	230,577	-	230,577	215,923	+14,655	+6.8
Net Revenue	425,530	-	425,530	400,601	+24,929	+6.2
COGS	227,997	-	227,997	219,154	8,843	+4.0
Gross Profit	197,532	-	197,532	181,446	16,086	+8.9
SG&A	189,843	-1,030	188,813	174,859	13,954	+8.0
Operating Income	7,689	1,030	8,719	6,587	2,132	+32.4
Profit Before Tax	5,903	2,733	8,636	6,790	1,846	+27.2
Net Income	4,181	1,759	5,940	3,356	2,584	+77.0

*Adjusted for 855 million in YTD 2014 non-recurring expenses

Note: YTD 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.

Outlook for Full-Year

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Revised Full-Year Outlook (announced October 7, 2015)

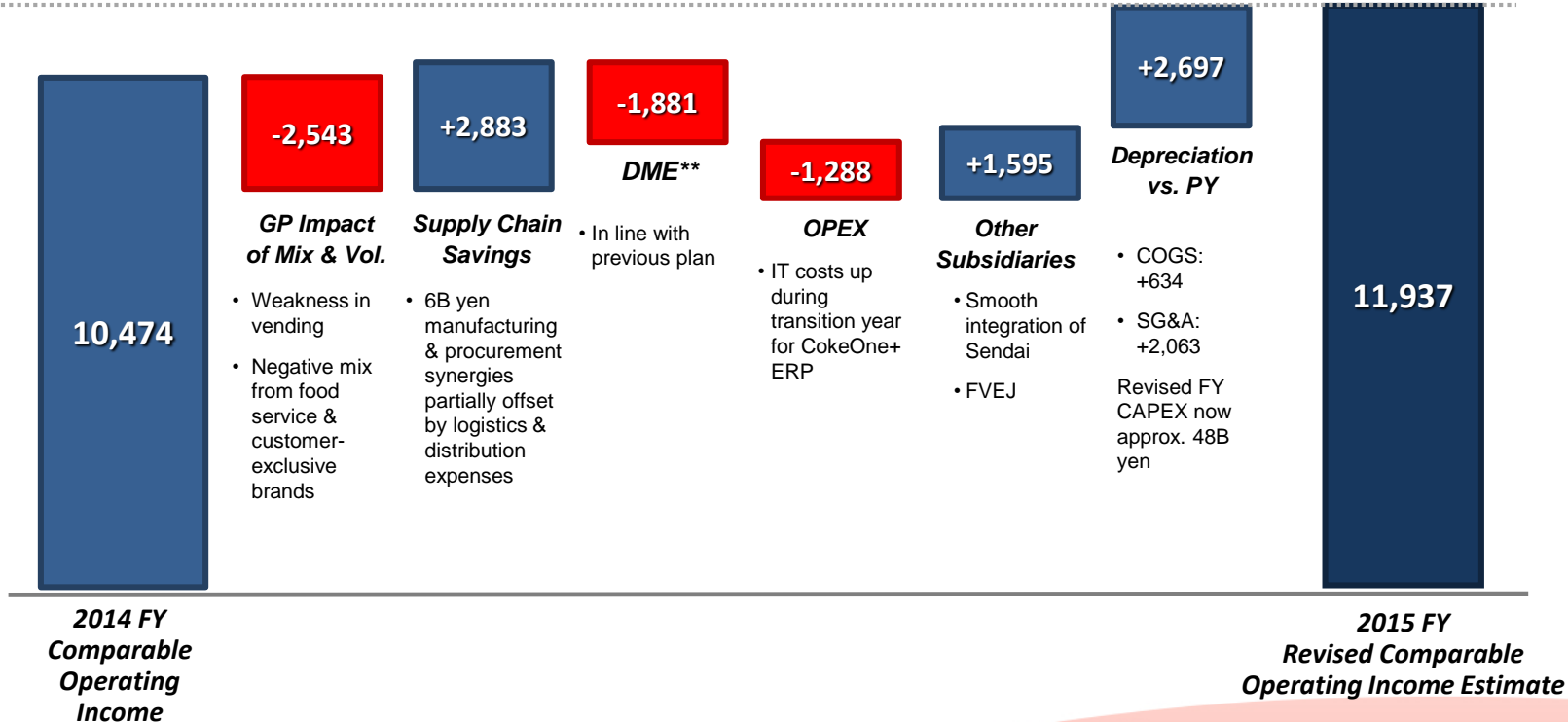
Coca-Cola East Japan
Q3 & YTD 2015

2015 FY Revised Estimate in million yen		2015 FY One-time Items	2015 FY Revised Comparable Estimate	2014 FY Comparable Result	Vs. PY	
					Diff	%
Sales Volume* <i>(BAPC) (,000 cases)</i>	303,685	-	303,685	281,586	22,099	+10%
Net Revenue	562,500	-	562,500	523,299	39,201	+7%
Gross Profit	263,800	-	263,800	239,336	24,464	+10%
Operating Income	10,600	+1,337	11,937	10,474	1,463	+14%
Profit Before Tax	8,300	+3,467	11,767	10,643	1,124	+11%
Net Income	5,800	+2,505	8,305	5,975	2,330	+39%

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

Drivers of Full-Year Revised OI Estimate

In million JPY



**DME: Direct Marketing Expenses

Coca-Cola Bottle 100th Anniversary



Coca-Cola
Lime



Winter Song
Bottles



Coca-Cola
Aluminum
Contour Bottle
Winter Design

Georgia 40th Anniversary / Vending Hot Drink Activation / iLohas Peach / Aquarius Cold Prevention



Enjoy Warmer Coffee This Winter
VM +2°C Up Campaign



- ✓ **2015 is a second full year of fundamental transformation**
- ✓ **Market situation has been tougher than we had anticipated (competition, lasting impact of consumption tax hike, etc.)**
- ✓ **We are taking urgent action with task forces to address specific priority areas**
 - ✓ **Vending machine strategy and value proposition**
 - ✓ **Continued synergy capture; focus moving from manufacturing to logistics**
 - ✓ **Review of cost structure**
- ✓ **There is still much work to be done. We remain committed to transforming our business for growth**

APPENDIX

Coca-Cola East Japan

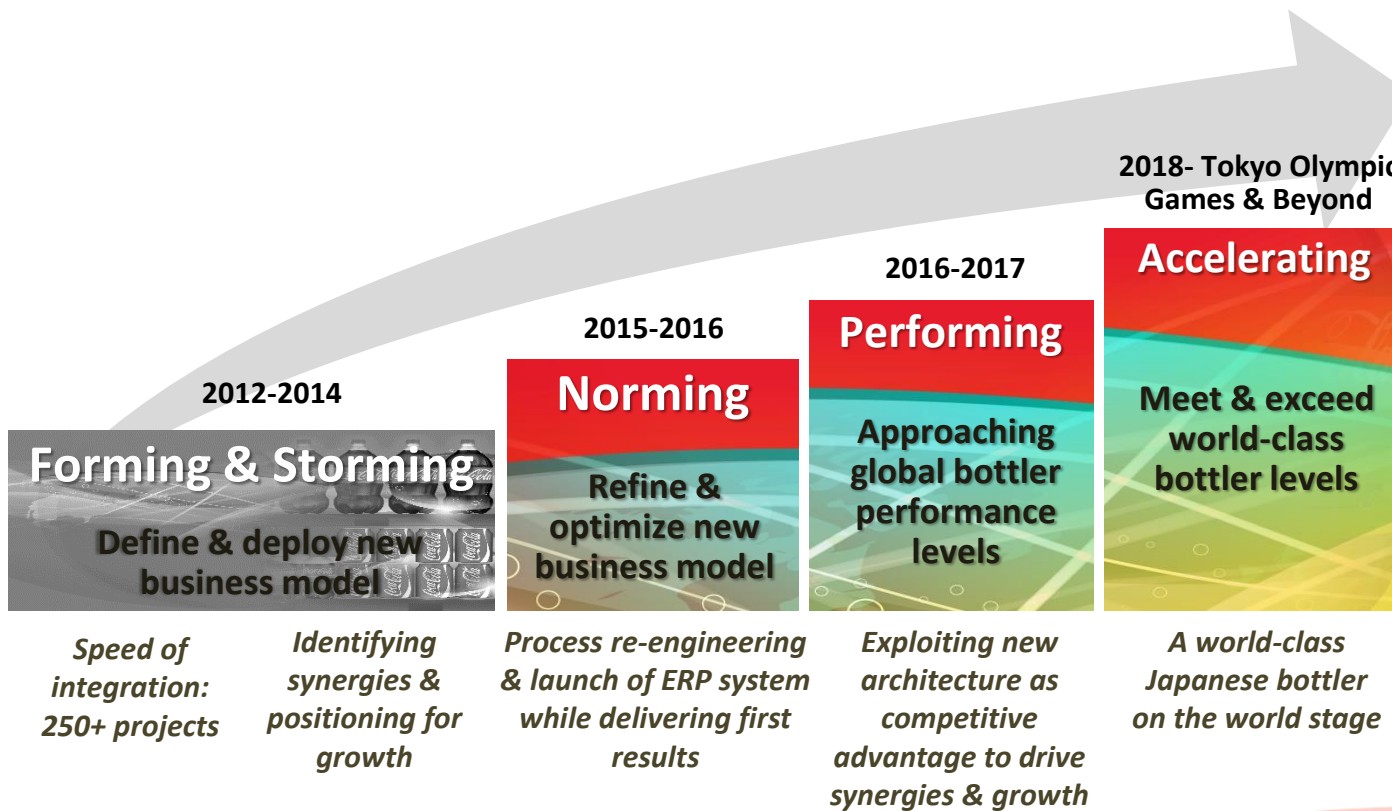
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CCEJ One+ Roadmap for Growth

Coca-Cola East Japan
Q3 & YTD 2015



TOKYO 2020

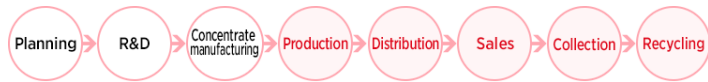


A powerful partnership driving growth of the Coca-Cola business

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

- Brands
- Innovation
- Global perspective
- Consumer focus
- Superior insights

Coca-Cola East Japan

- Supply chain
- Cost optimization
- Local expertise
- Customer focus
- World-class execution

Other Coca-Cola System Related Companies in Japan

Coca-Cola Tokyo Research & Development Co., Ltd. (CCTR&D)	Product development and technical support to respond to the needs of the customer in Japan. A wholly owned subsidiary of The Coca-Cola Company.
Coca-Cola IBS Co., Ltd. (CCIBS)	Providing business consulting services, as well as developing and maintaining the information systems to support Coca-Cola System companies in Japan. Jointly owned by The Coca-Cola Company and all the bottlers in Japan.
Coca-Cola Business Sourcing Co., Ltd. (CCBSC)	Providing joint procurement of raw materials, packaging, equipment, indirect material, etc., for Coca-Cola System companies in Japan. Jointly owned by The Coca-Cola Company and all the bottlers in Japan.
Coca-Cola Customer Marketing Company (CCCMC)	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.
FV Corporation Co., Ltd. (FVC)	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

CDE	Abbreviation of Cold Drink Equipment . Vending machines, coolers and beverage dispensers, etc.
Coolers	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.
DME	Abbreviation of Direct Marketing Expenses . Sales promotion-related expenses reported in advertisement & sales promotion expenses and partly in sales commissions of SG&A.
FC	Abbreviation of Future Consumption . 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.).
HORECA	Abbreviation of Hotel, Restaurants and Cafeteria . Generally means sales channels of these kinds.
IC	Abbreviation of Immediate Consumption . 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.).
OBPPC	Abbreviation of Occasion, Brand, Package, Price, Channel . A segmentation strategy tailored to consumption opportunities in five areas: occasion, brand, package, price and channel.
Operational Excellence (OE)	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.
RTM	Abbreviation of Route-to-Market . A framework, a process, a philosophy, a proven approach for driving profitable growth.

THANK YOU

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