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# ***Coca-Cola East Japan Q1 2016 Earnings Presentation***

Calin Dragan, CEO

Jawahar S.K., CFO

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*Coca-Cola East Japan*

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

# 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.



# ***Q1 2016 Earnings Presentation***

## ***Introduction***

- **Overview and Key Messages**

## ***First Quarter Results***

- **Volume, Share and Financial Results**

## ***Second Quarter and Full-Year 2016***

- **Key Milestones, Initiatives and Marketing Plan**

## ***Business Integration MOU Between CCEJ & CCW***





# Q1 2016 Overview and Key Message

- ✓ ***A solid start to the year; Positive trends from Q4 2015 continued in Q1***
- ✓ ***Revenue grew 13%, driven by volume growth as well as the benefit of the integration of Sendai Coca-Cola Bottling in April 1, 2015***
- ✓ ***Volume and value share growth; Recovery after pricing initiatives in 2H 2015***
- ✓ ***Delivered second consecutive quarter of positive gross profit from volume, price and mix***
- ✓ ***Gross profit margins improved, as we continue to deliver manufacturing and procurement synergies in line with plan***
- ✓ ***Announced MOU with Coca-Cola West (CCW) on April 26, 2016 to proceed with discussions/review of business integration opportunities***





# ***Q1 2016 Sales Results***

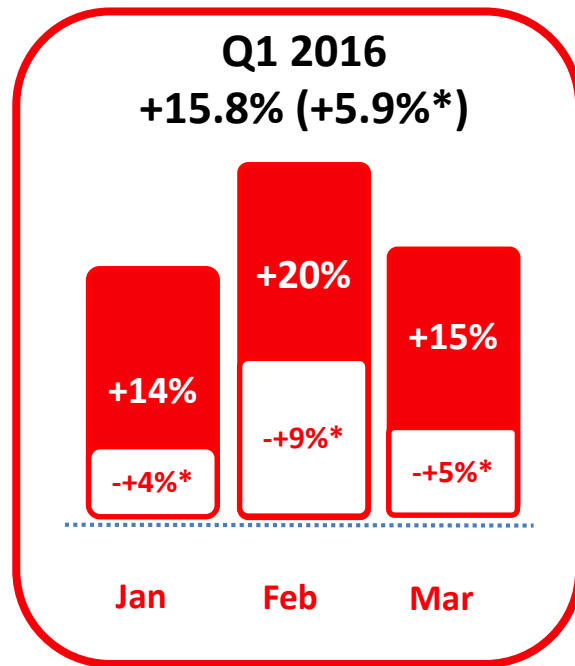
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# Growth Across Categories, Channels & Packages

## Reported Volume



\* Comparison of volume growth assuming Sendai was integrated from January 2015

- ✓ Consumer-centric marketing activities
- ✓ Revenue-rich new launches across channels



Coca-Cola Global Campaign  
"Taste The Feeling"



Georgia The Premium Campaign

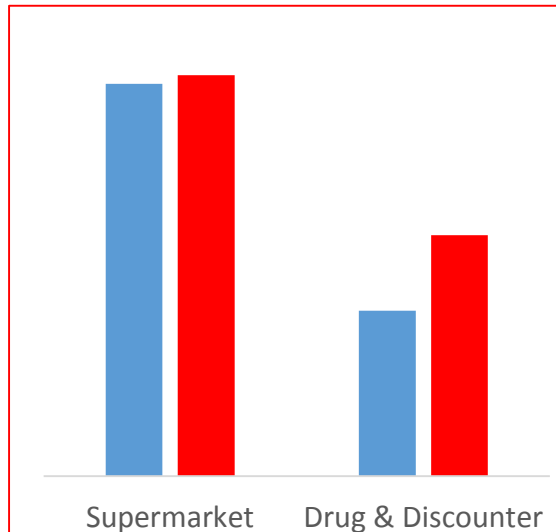


# Strategic Focus on Stabilizing Pricing Environment

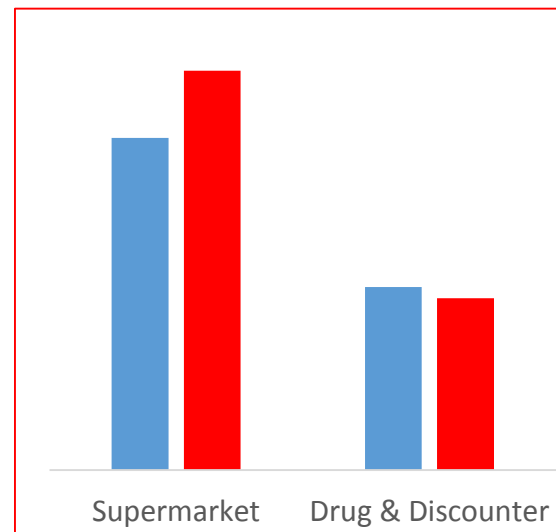
## Improved Wholesale Price

- Minimize unprofitable promotions through PTC initiatives

A Major CCEJ NST Brand  
Wholesale Price per Case



A Major CCEJ Sparkling Brand  
Wholesale Price per Case



■ Q1 2015

■ Q1 2016

## OTC Retail Pricing Trends

- Pullback in heavy price promotions has continued from prior year
- CCEJ average retail price continues above market average for both large and small packages





CCEJ OTC Retail Price (YTD, as of April 10, 2016)	vs. Market Average	vs. Prior Year
Large PET	+11.9	-2.7
500ml PET	+0.7	-1.0

Unit: JPY

Source: Intage, OTC channel, NARTD beverages



# Managing a Complex Pricing Landscape

	Q1 Trend	Impact on Q1 Price/Mix	Rest of 2016	CCEJ Actions
<b>Consumer Behavior</b>	<ul style="list-style-type: none"> <li>Polarization: Price conscious vs. premium products</li> <li>Rapid expansion of online channel</li> </ul>	<p>Neutral</p> <p>Negative</p>	<p>Continue</p>	<ul style="list-style-type: none"> <li>Strong Innovation pipeline</li> <li>Profitable expansion in online channel</li> </ul> 
<b>Channel Mix</b>	<ul style="list-style-type: none"> <li>Vending channel trends</li> <li>Growth in Supermarket and Convenience Store Channels</li> </ul>	<p>Negative</p>	<p>Stabilize</p> <p>Continue</p>	<ul style="list-style-type: none"> <li>Vending task force start delivering results</li> <li>Focusing on value-added activities; no end-quarter push</li> </ul> 
<b>Product Portfolio</b>	<ul style="list-style-type: none"> <li>Cycling of new outlet acquisitions &amp; customer exclusive launches in PY</li> <li>High value SKUs growing faster</li> </ul>	<p>Negative</p> <p>Positive</p>	<p>Ending in Q2/3</p> <p>Continue</p>	<ul style="list-style-type: none"> <li>Strong Innovation pipeline</li> <li>Channel-specific products/SKUs</li> <li>Revenue-rich new launches</li> </ul> 
<b>Pricing &amp; Competition Trend</b>	<ul style="list-style-type: none"> <li>Competitive environment leading to price erosion</li> </ul>	<p>Negative</p>	<p>Will depend on industry actions</p>	<ul style="list-style-type: none"> <li>Full deployment of PTC activities across all channels</li> <li>Category management projects</li> </ul> 



# Market Share Recovery and Growth

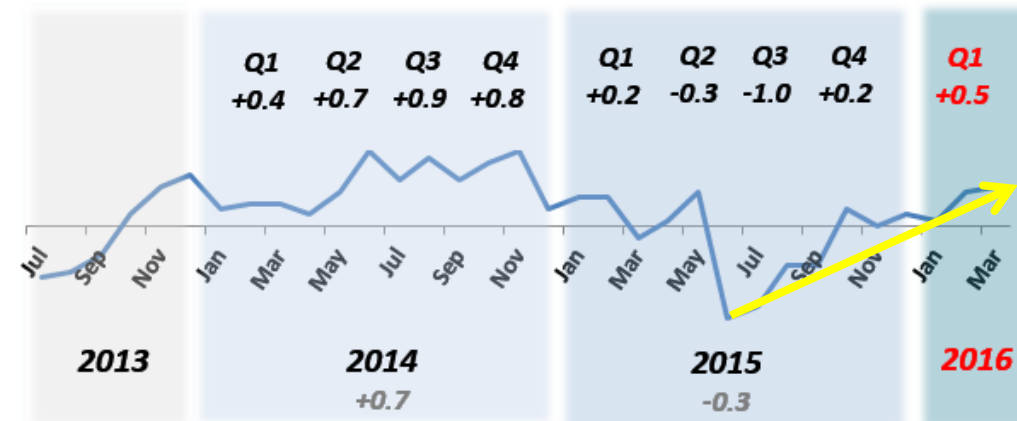
Market Share	vs. Prior Year
	Q1 2016
Value	+0.2
Volume	+0.5

- Volume and value share growth after PTC initiatives in 2H 2015
  - Share gains in Colas, Water, Teas and Coffee
- Value share gains in Convenience Store, Supermarket, Drug & Discounter channels

Value Share vs. Prior Year



Volume Share vs. Prior Year

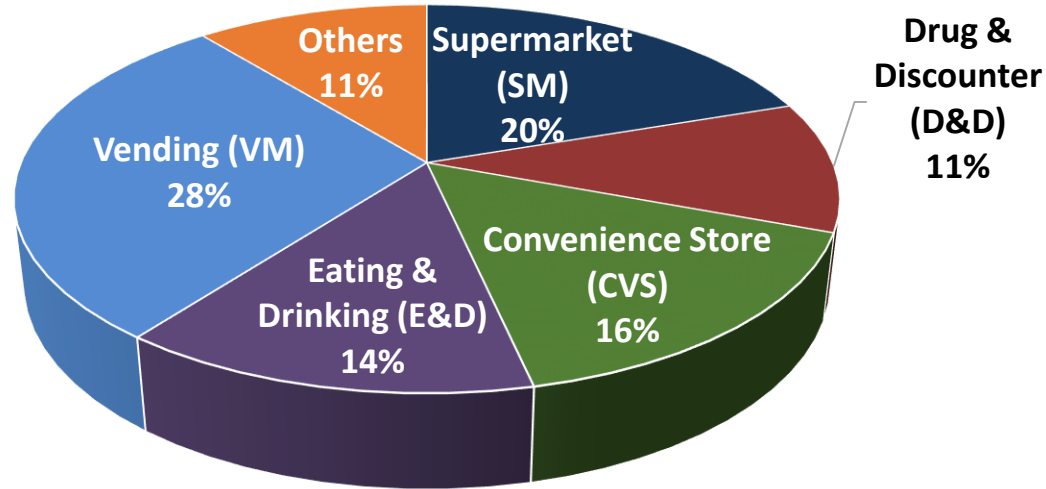


Source: Intage, OTC channel, NARTD beverages



# Performance by Channel

Q1 Volume by Channel  
(% of total)

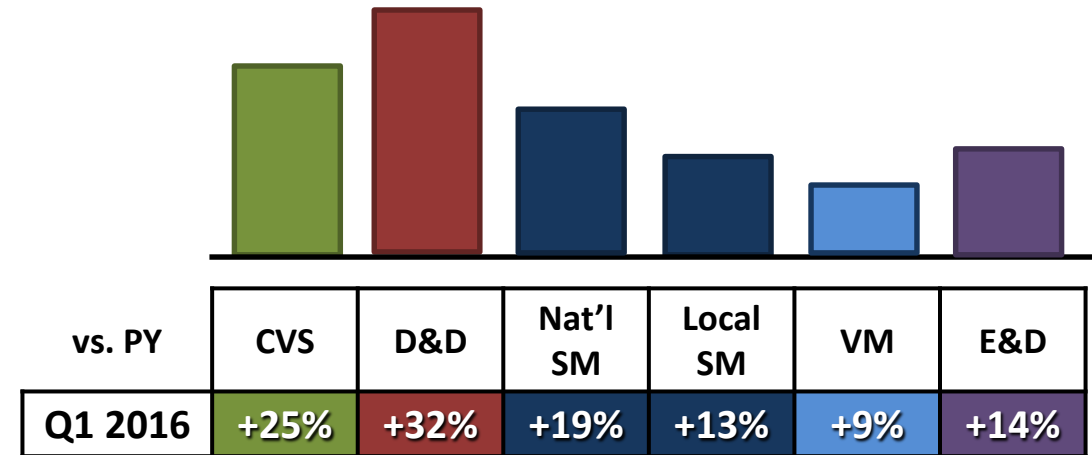


Volume YoY: Q1 +15.8%

## Q1 Performance Drivers

- **Convenience Store** growth led by *coffee, water, NST*
- **Drug & Discounter** grew *across categories*
- **Supermarket** recovery driven by *NST, water and coffee*
- **Vending** supported by *water, coffee*
- **Eating & Drinking** growth led by *outlet expansion*

Channel Volume Growth



Comparison of volume growth assuming Sendai was integrated from January 2015

vs. PY	CVS	D&D	Nat'l SM	Local SM	VM	E&D
Q1 2016	+13%	+17%	+4%	+5%	-1%	+7%

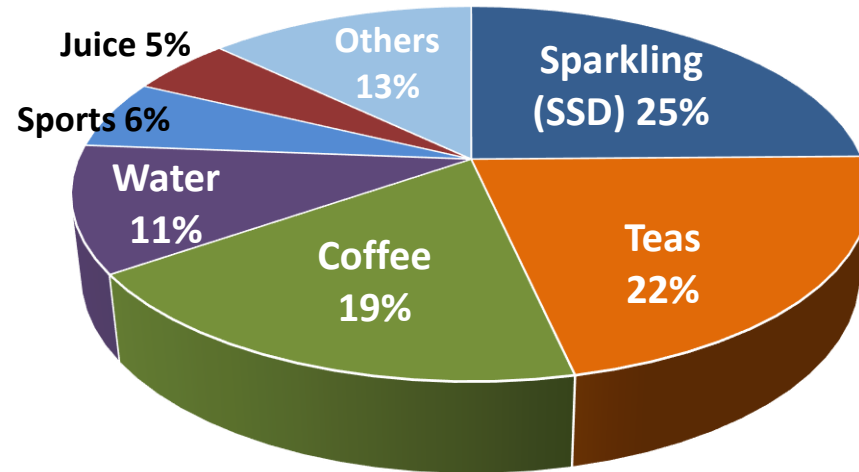
Volume YoY: Q1 +5.9%

\* NST (Non-Sugar Tea)



# Performance by Category

Q1 Volume by Category  
(% of total)

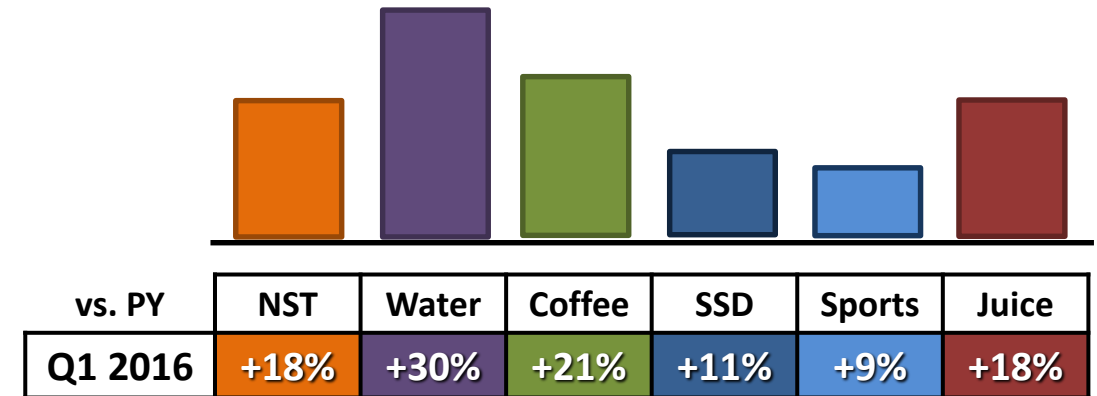


Volume YoY: Q1 +15.8%

## Q1 Performance Drivers

- **Water** growth fueled by *ilohas Momo (peach)* and newly launched *cider* flavored water
- **Tea (NST)** growth driven by strong momentum of *Ayataka* green tea, accelerated by newly launched *Ayataka Nigorihonoka*
- **Coffee** led by *The Premium*. Growth across all channels
- **Sparkling soft drink recovery** led by E&D and D&D channels
- **Juice** growth driven by *new outlet expansion*

Category Volume Growth



Comparison of volume growth assuming Sendai was integrated from January 2015

vs. PY	NST	Water	Coffee	SSD	Sports	Juice
Q1 2016	+10%	+18%	+8%	+2%	-2%	+9%

Volume YoY: Q1 +5.9%

\* NST (Non-Sugar Tea)





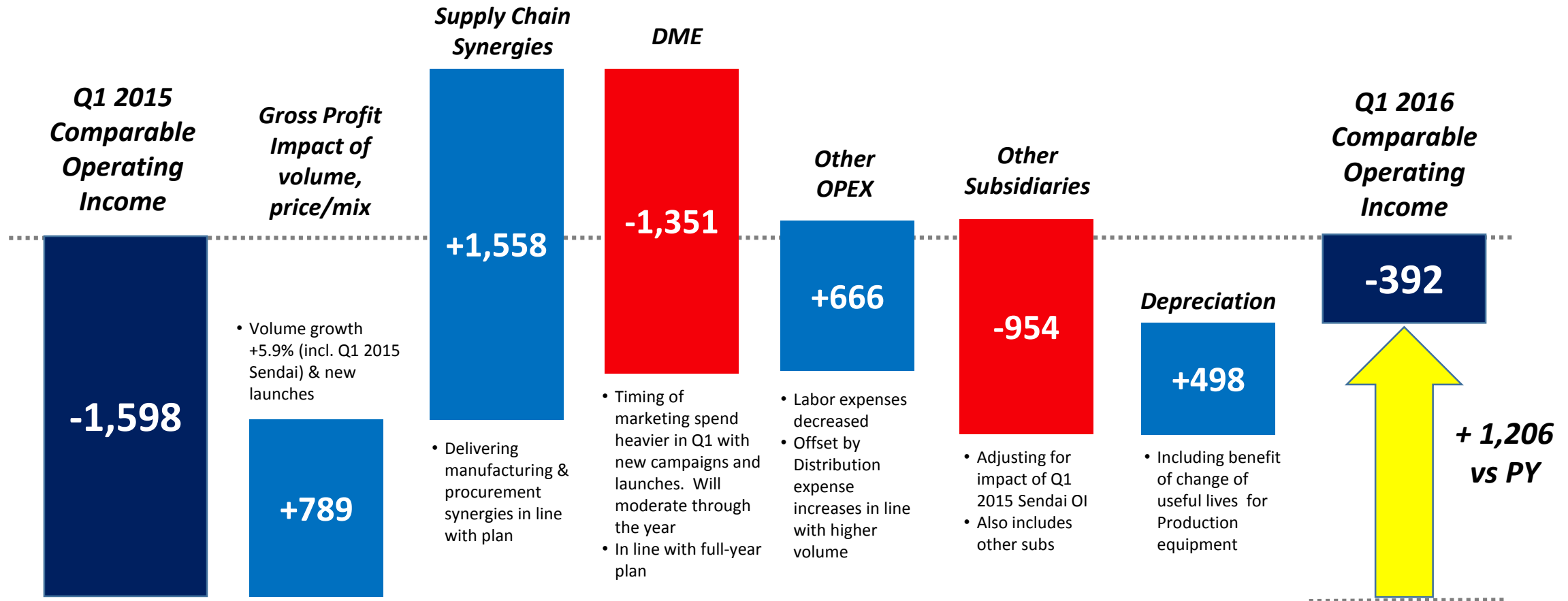
# ***Q1 2016 Financial Results***

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# Drivers of Q1 2016 Operating Income



Unit: Million JPY

**Successful integration of Sendai is driving value.**  
**If Sendai's results were included in our Q1 2015 results, the year-on-year comparable OI improvement in Q1 2016 would have been ~2 billion yen**



# Q1 2016 Financial Results Summary

- Volume and revenue growth • Improved gross margin driven by manufacturing and procurement efficiency in line with plan • SG&A increase led by marketing investment, logistics, Sendai integration, etc.

Q1 2016 Reported in million yen		Q1 2016 One-time items	Q1 2016 Comparable	Q1 2015 Comparable	Vs. PY	
					Diff	%
Sales Volume (BAPC) (,000 cases)	68,349	-	68,349	59,009	+9,340	+15.8
Net Revenue	124,522	-	124,522	110,220	+14,302	+13.0
COGS	65,818	-	65,818	58,846	+6,972	+11.8
Gross Profit	58,703	-	58,703	51,374	+7,329	+14.3
SG&A	59,145	-50	59,095	52,972	+6,123	+11.6
Operating Income	-442	50	-392	-1,598	+1,206	-
Profit Before Tax	-1,105					
Net Income	-838					

Capital Expenditure: 3,702 M JPY / Reported Depreciation and Amortization: 5,543 M JPY

Note: Previous year volume shown above may be slightly different from what we shared in the previous year, as part of the implementation and standardization for the new ERP system, CokeOne+.





# ***Milestones/Initiatives***

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# ***Key Milestones/Initiatives Rest of the Year***

- ***Keep focusing on delivering results***
  - *Continue working to improve profitability toward peak season*
  - *Vending task force fully deployed*
  - *“Coke ON” App and smart phone enabled vending machine deployment of 44K machines in 2016 to deploy loyalty program for consumers*
- ***Manage and optimize working capital***
- ***Planned integration of Coca-Cola East Japan Products, Co. into CCEJ as of October 1, 2016***
  - *Wholly owned subsidiary of CCEJ in charge of manufacturing, logistics, distribution and equipment maintenance*
  - *Continue effort to optimize and simplify legal entity structure*



# Q2 2016 Strong Marketing & Innovation Plan



**Coca-Cola TM  
Global Campaign  
"Taste The Feeling"**



## New Products/Revenue-rich Innovations

YOGURSTAND  
Pineapple/Peach



Glaceau  
Sleepwater



Georgia Cold Brew  
Black/Café Latte



Georgia  
European  
Bito Black



## Core Brands Renewal/Innovations

Georgia European  
Kaoru Black/Jukuren Blend  
Renewal



Fanta  
Renewal &  
New Flavor



Kochakaden  
Royal Milk Tea  
Momoiro Clover Z  
Special Design

Sokenbicha  
Renewal



Real Gold Works



Schweppes  
Grapefruit  
Blend



Sprite Renewal



## Customers/Channel Specific Launches

Georgia Private Reserve  
Renewal & new  
introduction (Café au lait)



Canada Dry  
Sparkling  
Peach  
Renewal



Kochakaden  
Ice Milk  
Tea (VM)



illy Latte  
Macchiato



Karadameguricha  
Jasmine Tea Blend  
(CCEJ VM exclusive)

Hajime  
Renewal



Fanta Hojun  
Apple  
Renewal  
(VM)



Skal  
(CCEJ VM exclusive)







# ***Business Integration MOU Between CCEJ and CCW***

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# Summary of the MOU Announcement on April 26

- **MOU agreed between CCEJ and CCW to proceed with discussions/review of a business integration opportunities**
- **MOU supported and signed by The Coca-Cola Company**
- **Background & objective of proposed business Integration:**
  - **Better positioned to drive future growth in the industry**
  - **React to changes in the market environment, respond to customer and consumer needs, and accelerated market competition**
  - **Build competitive advantage through the integration and accelerate the transformation of the Coca-Cola system in Japan**
  - **Maximize the enterprise value of the combined entity and establish one of the leading Coca-Cola bottlers in the world**

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- Combined Sales Territories:  
Covering Tokyo and 37 prefectures, representing a population of approximately 111 million
- Combined Annual Revenue:  
Approximately 1 trillion JPY





# *Appendix*

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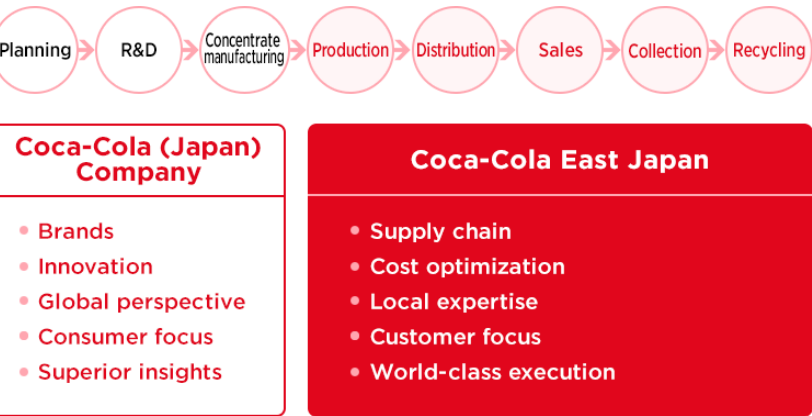
# The Coca-Cola System

## 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.



### 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

<b>CDE</b>	Abbreviation of <b>Cold Drink Equipment</b> . Vending machines, coolers and beverage dispensers, etc.
<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>PicOS</b>	Abbreviation of <b>Picture of Success</b> , which outlines standards and example for making ideal market place execution and market place activities including product deployment, CDE and advertisement placement, vending machine faces and column management, etc.
<b>PTC</b>	Abbreviation of <b>Price, Terms and Conditions</b> , an internal guideline for setting appropriate transaction conditions with customers, frequently used in conjunction with RGM.
<b>RGM</b>	Abbreviation of <b>Revenue Growth Management</b> , an overall strategy and process to grow revenue and profit
<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

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*May 16, 2016*

<Inquiries>

Investor Relations  
Coca-Cola East Japan

[ir@ccej.co.jp](mailto:ir@ccej.co.jp)

+81-3-5575-3797

<http://investor.ccej.co.jp/>

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