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# ***Coca-Cola East Japan Q2 & Year-to-Date 2016 Earnings Presentation***

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*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)

# 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.



# Q2 & YTD 2016 Earnings Presentation



## *Introduction*

- Overview and Key Messages

## *Second Quarter and Year-to-Date (YTD) Results*

- Volume, Share and Financial Results

## *Second Half Outlook*

- Key Milestones and Initiatives





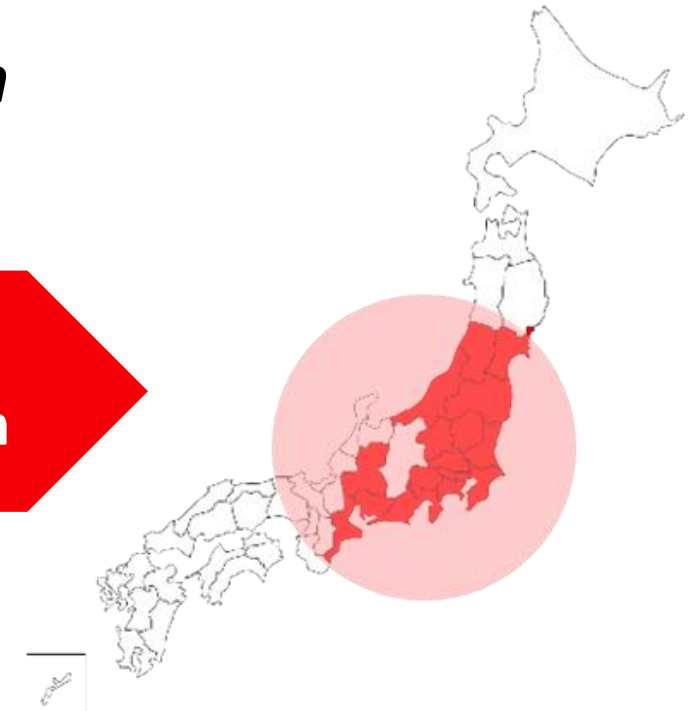
# Strong Results in the First Half of the Year

- ✓ **Significant YTD reported operating income growth – over four times prior year period**
- ✓ **Balanced value and volume share growth momentum continued**
- ✓ **YTD reported revenue grew 5%, driven by volume growth as well as the benefit of the integration of Sendai Coca-Cola Bottling in April 1, 2015**
- ✓ **Delivered 3<sup>rd</sup> consecutive quarter of positive gross profit from volume, price & mix**
- ✓ **Gross profit margins improved, as we continued to deliver strong supply chain savings**
- ✓ **On track to deliver full-year operating income of at least 14 billion yen**



# *Delivering Tangible Results from Transformation*

*A successful bottler integration model built on speed, scale, capabilities and synergy capture*





# *Q2/YTD 2016 Sales Results*

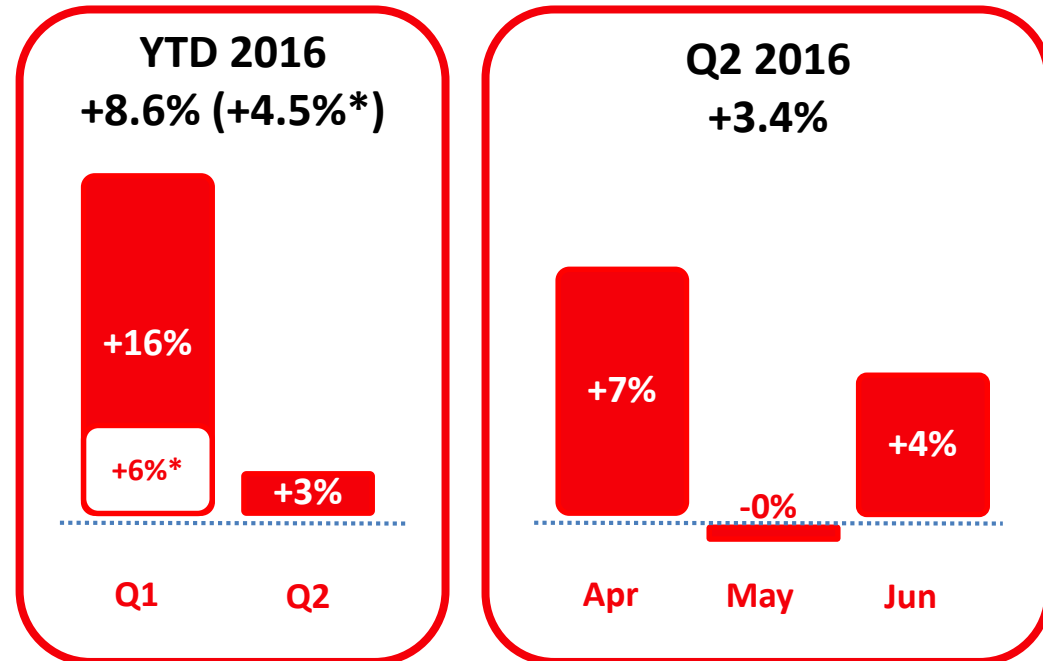
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# Solid Growth Across Categories, Channels

## Reported Volume



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

## Q1 Highlights

- Strong start to the year– maintained positive momentum from Q4 2015 in Q1
- Benefit from Sendai acquisition in prior year

## Q2 Highlights

- Volume growth led by product innovation
- Growth in Drug & Discounter, Supermarket & Convenience Store channels
- Category performance led by Water, Coffee, Tea
- May volume performance cycling strong prior year



# Revenue-Rich New Launches Driving YTD Growth

- ✓ Consumer-centric marketing activities
- ✓ More launches versus prior year in smaller packages & specific channels



Coca-Cola Summer Campaign



“Coke ON” Loyalty App and smartphone-enabled vending machine deployment

## New Products/Revenue-Rich Innovations



## Core Brand Renewal/Innovations



## Customer/Channel Specific Launches





# Managing a Complex Environment: Innovation, Superior Execution and Focus on Revenue Growth

## CCEJ Status

### Channel Mix

- Stabilized Vending profitability
- Revenue per case growth in Supermarket, Convenience Store and Vending channels
- Strong growth in Drug & Discounter channel

### Product Portfolio

- High value SKUs growing faster
- Growth in bottle can package

### Market Environment

- Pricing competition across industry
- Macro-environment still challenging

## CCEJ Actions in Q2 & Rest of Year

- Coke ON smartphone machines & indoor locations positive
- Focus on value-added; minimize volume-only programs
- Strategic objective for discounters to increase shelf space while growing value with smaller packages
- Revenue-rich new launches in smaller package sizes
- Channel-specific products/SKUs show promising results
- Strong innovation pipeline and in-market execution
- RGM and PTC initiatives are top priority for CCEJ
- Innovation pipeline delivering volume, value & share growth
- Profitable expansion in online channel



# Initiatives to Stabilize Pricing are Working

## CCEJ Selling Price

Per-case selling price movement YoY reflects channel strategic priorities



### Supermarket

- Focusing on value-added activities



### Drug & Discounter

- Increased shelf space, focus on IC packages



### Convenience Store

- Customer-exclusive branded products



### Vending

- Quality focus – exclusive SKUs, Coke ON, female-friendly vending, package mix

## OTC Retail Price

CCEJ average retail price continues above market average for both large and small packages. Decline versus prior year led by water in Drug & Discounter channel

CCEJ OTC Retail Price (YTD, as of June 30, 2016)	vs. Market Average	vs. Prior Year
Large PET	+11.6	-4.1
500ml PET	+0.9	-0.9

Unit: JPY

Source: Intage Weekly (Supermarket and Drug & Discounter)

## New Strategic Package Expanded in Q2

Introduced 1L PET targeted to small households with intention to reduce promotion pressure on large PET

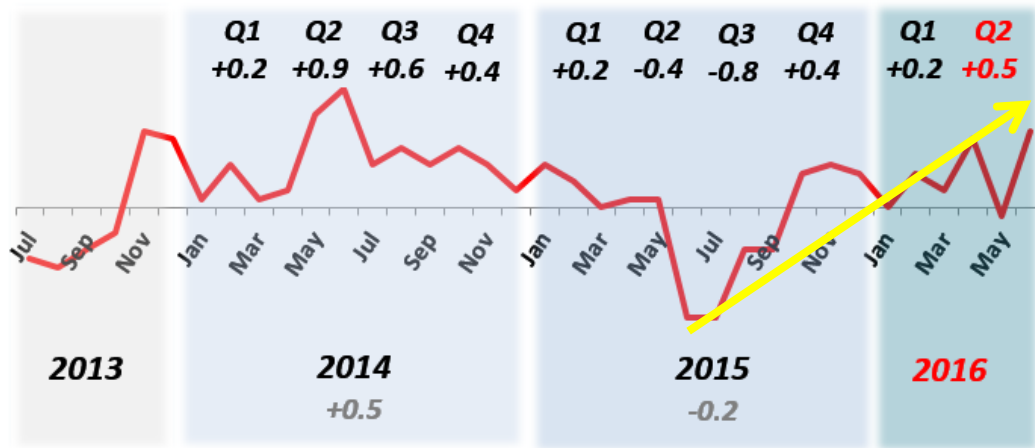


# Continued Market Share Recovery and Growth

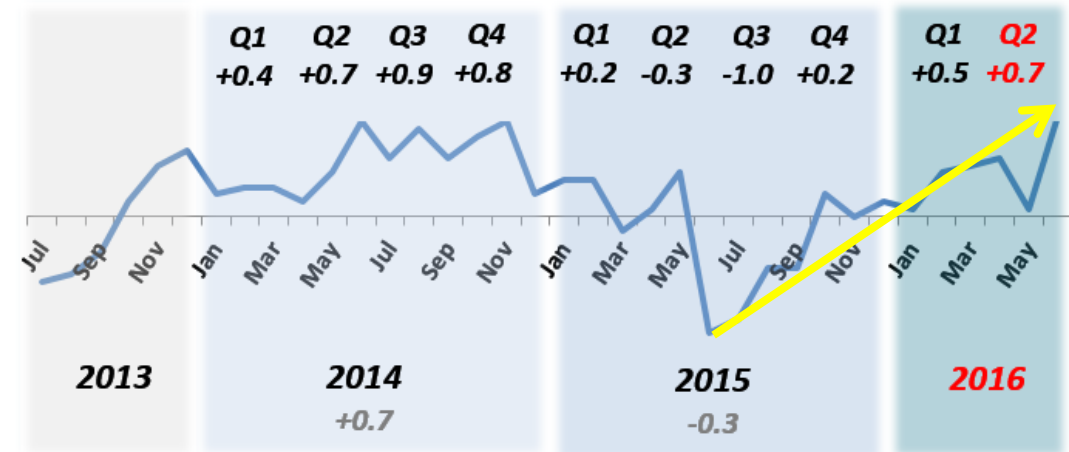
Market Share	vs. Prior Year	
	Q2 2016	YTD 2016
Value	+0.5	+0.4
Volume	+0.7	+0.6

- Value and volume share growth momentum
- Value share gains in Drug & Discounter, Supermarket and Convenience Store channels
- Volume share gains in Coffee, Colas, Water and Teas

Value Share vs. Prior Year



Volume Share vs. Prior Year



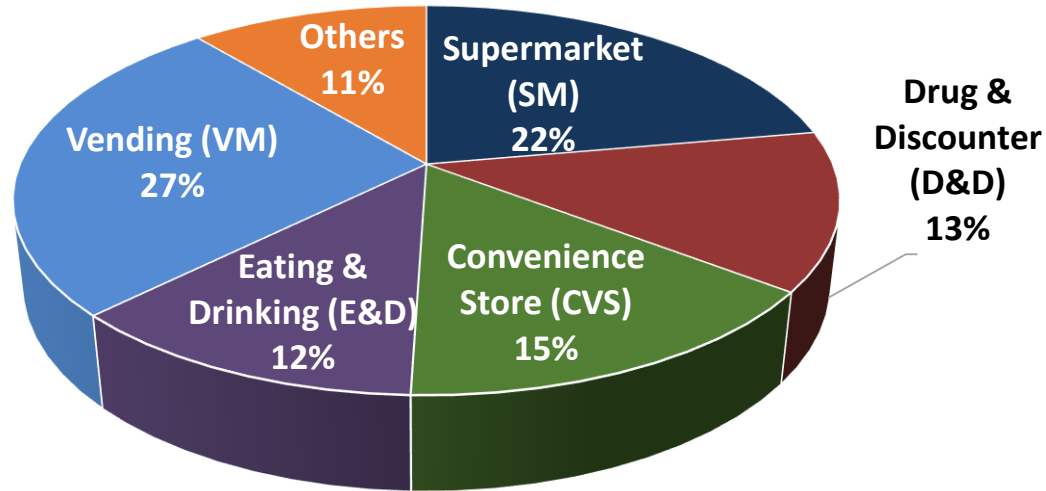
Source: Intage, OTC channel, NARTD beverages





# Performance by Channel

Q2 Volume by Channel  
(% of total)



Channel Volume Growth

vs. PY	CVS	D&D	Nat'l SM	Local SM	VM	E&D
Q2 2016	+3%	+20%	-1%	+6%	-2%	-1%
YTD 2016	+12%	+24%	+7%	+8%	+3%	+6%

Volume YoY: Q2 +3.4%; YTD +8.6% (+4.5%\*)

## Q2 Performance Drivers

- **Drug & Discounter** growth across beverage categories
- Rational pricing led to lower volume growth in **Supermarkets**
- Coffee and premium ILOHAS Water growth in **Vending**. Indoor and smartphone-enabled machines grew volume
- **Eating & Drinking** impacted by cycling of new outlet expansion

↓ Comparison of volume growth assuming Sendai was integrated in Jan. 2015

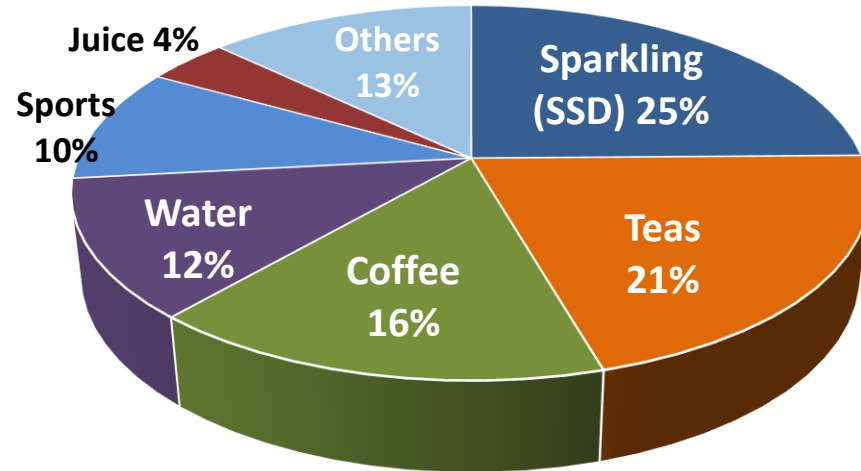
vs. PY	CVS	D&D	Nat'l SM	Local SM	VM	E&D
YTD 2016	+7%	+18%	+1%	+6%	-1%	+3%

Volume YoY: +4.5%



# Performance by Category

Q2 Volume by Category  
(% of total)



**Volume YoY: Q2 +3.4%; YTD +8.6% (+4.5%\*)**

## Q2 Performance Drivers

- *Balanced **water** growth between premium **ILOHAS** and 2L package **Mori no Mizu Dayori** brands.*
- ***Coffee** led by **The Premium** and **customer-exclusives***
- ***NST** growth driven by strong momentum of **Ayataka** green tea*
- ***Sparkling soft drink** grew market share even though impacted by cycling **Coca-Cola Life** in PY*

Category Volume Growth

vs. PY	NST	Water	Coffee	SSD	Sports	Juice
Q2 2016	+3%	+18%	+9%	+0%	-9%	-1%
YTD 2016	+9%	+23%	+15%	+5%	-4%	+7%

↓ Comparison of volume growth assuming Sendai was integrated in Jan. 2015

vs. PY	NST	Water	Coffee	SSD	Sports	Juice
YTD 2016	+6%	+18%	+9%	+1%	-7%	+4%

**Volume YoY: +4.5%**

\* NST (Non-Sugar Tea)







# ***Q2/YTD 2016 Financial Results***

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# Drivers of YTD Strong Operating Income Growth

Q2 YTD 2015  
Comparable  
Operating  
Income

Q2 YTD 2016  
Comparable  
Operating  
Income

2,640

Gross Profit  
Impact of  
Volume,  
Price/Mix

+1,092

- Organic volume growth +4.5% & new launches

Supply Chain  
Savings

+4,300

- Delivering strong manufacturing, logistics & distribution and procurement synergies

DME

-2,267

- Higher volume
- Upfront spending related to global campaign and Coca-Cola Summer Campaign
- Investing in more profitable vending placements

Other  
OPEX

+789

- Labor related expenses, etc. decreased, partially offset by increased delivery, outsourcing expenses, etc. associated with volume growth

Other  
Subsidiaries

-1,105

- Adjusting for impact of Q1 2015 Sendai OI
- Weakness in mixed vending business (FV East Japan)

Depreciation

+1,132

- CAPEX timing
- Includes benefit of change of useful lives for production equipment

6,581

Unit: Million JPY

*Delivering tangible benefits of significant integration and transformational efforts. Continuing to invest in our brands and marketplace execution*



# Q2 YTD 2016 Financial Results Summary

## Significant Operating Income Improvement

- Volume and revenue growth • Improved gross margin driven by strong supply chain efficiency improvement
- SG&A increase led by marketing investment, partially offset by decrease in labor and distribution expenses

Q2 YTD 2016 Reported in million yen		Q2 YTD 2016 One-time items	Q2 YTD 2016 Comparable	Q2 YTD 2015 Comparable	Vs. PY	
					Diff	%
Sales Volume <i>(BAPC) (,000 cases)</i>	151,858	-	151,858	139,801	12,058	+8.6%
Net Revenue	275,528	-	275,528	262,049	13,479	+5.1%
COGS	145,418	-116	145,302	140,051	-5,251	+3.7%
Gross Profit	130,109	116	130,225	121,997	8,228	+6.7%
SG&A	124,256	-613	123,643	119,356	4,287	+3.6%
Operating Income	5,852	729	6,581	2,640	3,941	+149.3%
Profit Before Tax	5,174					
Net Income	3,224					

- Capital Expenditure: 9,883 M JPY / Reported Depreciation and Amortization: 10,970 M JPY
- One-time items mainly expenses related to the 3<sup>rd</sup> party transaction costs for potential integration with Coca-Cola West (CCW)

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





# *Second Half Outlook*

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# 2016 Coca-Cola Summer Campaign Another Great Campaign Continues



**“That’s Gold” Moment**  
“ゴールドな瞬間”を、「コカ・コーラ」で味わおう！





# Strong Execution of Coca-Cola Summer Campaign



**Market Impact Teams (MIT) deployed across CCEJ**

- ✓ **450 associates participated in multi-day “big bang” activation of the market, across all channels**
- ✓ **Guests from multiple international Coca-Cola operations participated**
- ✓ **CCEJ employees also participated in international MIT activities**
- ✓ **17 CCEJ employees attending 2016 Rio Olympic Games to get firsthand experience for 2020**





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

- ***Capitalize on the strong first half momentum by delivering Q3 plan***
- ***Maintain focus on strategic initiatives***
  - ***Stabilize profitability of vending channel***
  - ***Drive revenue growth initiatives across channels***
  - ***Full rollout of Route-To-Market 2.0***
  - ***Deliver synergy objectives and cost efficiencies***
- ***Continue to optimize and simplify operational model***
  - ***Integration of Coca-Cola East Japan Products into CCEJ as of October 1***
- ***Review of potential business integration with CCW continues***



# *Delivering Tangible Results from Transformation*

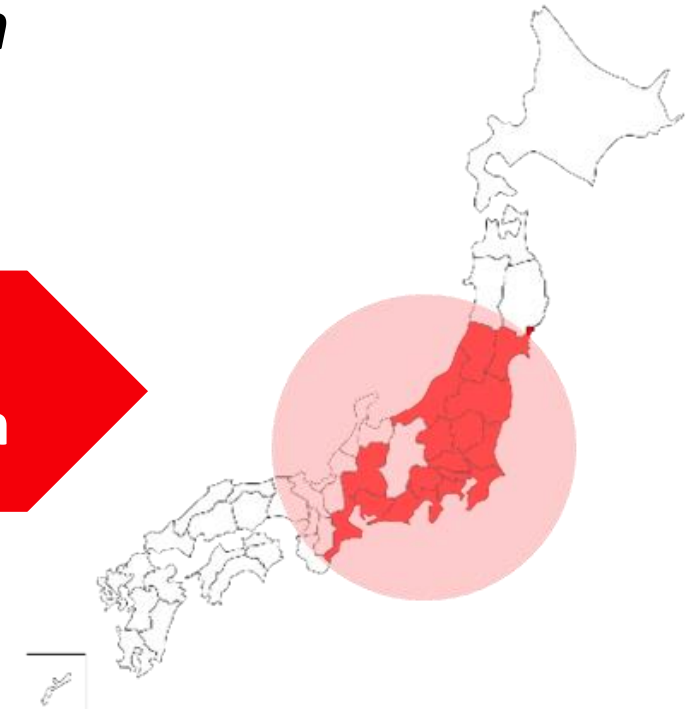
*A successful bottler integration model built on speed, scale, capabilities and synergy capture*

**Solid  
Foundation**

**Encouraging  
Results**

**Strong  
Momentum**

*On-track to deliver full-year operating  
income of at least 14 billion yen in 2016*





# *Appendix*

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# Drivers of Q2 2016 Operating Income

Q2 2015  
Comparable  
Operating  
Income



Gross Profit  
Impact of  
volume,  
price/mix

+303

- Volume growth +3.4% & new launches

Supply Chain  
Synergies

+2,742

- Delivering strong manufacturing, logistics & distribution and procurement synergies

DME

-916

- Higher volume
- Upfront spending related to global campaign and Coca-Cola Summer Campaign
- Investing in more profitable vending placements

Other  
OPEX

+122

- Labor related expenses, etc. decreased partially offset by increased delivery, outsourcing expenses, etc. associated with volume growth

Other  
Subsidiaries

-151

- Weakness in mixed vending business (FV East Japan)

Depreciation

+634

- CAPEX timing
- Includes benefit of change of useful lives for Production equipment

Q2 2016  
Comparable  
Operating  
Income



Unit: Million JPY





# Q2 2016 Financial Results Summary

- Slight decline of revenue due to decrease of sales to other Coca-Cola bottlers
- Improved gross margin driven by strong supply chain efficiency improvement
- SG&A decrease led by cycling of PY (labor, logistics, etc.), partly offset by marketing investment

Q2 2016 Reported in million yen		Q2 2016 One-time items	Q2 2016 Comparable	Q2 2015 Comparable	Vs. PY	
					Diff	%
Sales Volume <i>(BAPC) (,000 cases)</i>	83,509	-	83,509	80,791	+2,718	+3.4%
Net Revenue	151,005	-	151,005	151,828	-823	-0.5%
COGS	79,599	-116	79,483	81,204	-1,721	-2.1%
Gross Profit	71,406	116	71,522	70,623	899	+1.3%
SG&A	65,111	-563	64,547	66,384	-1,837	-2.8%
Operating Income	6,294	679	6,975	4,239	+2,736	+64.6%
Profit Before Tax	6,280					
Net Income	4,063					

- Capital Expenditure: 6,180 M JPY / Reported Depreciation and Amortization: 5,428 M JPY
- One-time items mainly expenses related to the 3<sup>rd</sup> party transaction costs for potential integration with CCW

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



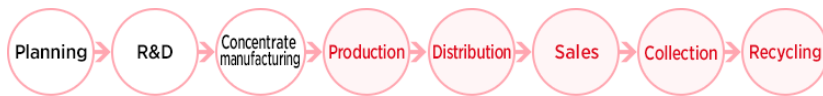
# The Coca-Cola System

## 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.



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 IBS Co., Ltd. (CCIBS)</b>	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.
<b>Coca-Cola Business Sourcing Co., Ltd. (CCBSC)</b>	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.
<b>Coca-Cola Customer Marketing Company (CCCMC)</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>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 fountain) and channels that consumers purchase the beverages for IC (for example, vending machines, convenience store channel, etc.).
<b>OBPPC</b>	Abbreviation of <b>Occasion, Brand, Package, Price, Channel</b> . A segmentation strategy tailored to consumption opportunities to drive revenue growth 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 examples 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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*August 15, 2016*

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