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# ***Coca-Cola East Japan Q3 & Year-to-Date 2016 Earnings Conference Call***

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November 14, 2016

(Posted to CCEJ Website November 11, 2016)

*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.





# Q3 & YTD 2016 Earnings Presentation



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## Introduction

- Overview and Key Messages

## Third Quarter and Year-to-Date (YTD) Results

- Volume, Share and Financial Results

## Outlook Toward Rest of the Year

- Initiatives and Remarks



# Successful Integration Model Delivering Results

- ✓ **Strong results year-to-date—upward revision to full-year targets on September 9**
- ✓ **Reported operating income up 2.3X prior year; Net income up 2.7X prior year**
- ✓ **Growth in both value and volume share**
- ✓ **Gross margins improved as we continue to deliver significant supply chain savings**
- ✓ **Revenue Growth Management (RGM) efforts drove 4th consecutive quarter of positive gross profit from volume, price & mix**
- ✓ **Further optimized and simplified operating model. Integration of Coca-Cola East Japan Products into CCEJ completed on October 1**
- ✓ **Agreed proposed business integration with CCW on September 30—Coca-Cola Bottlers Japan Inc., the world's 3rd largest bottler by revenue, expected to be established on April 1, 2017**







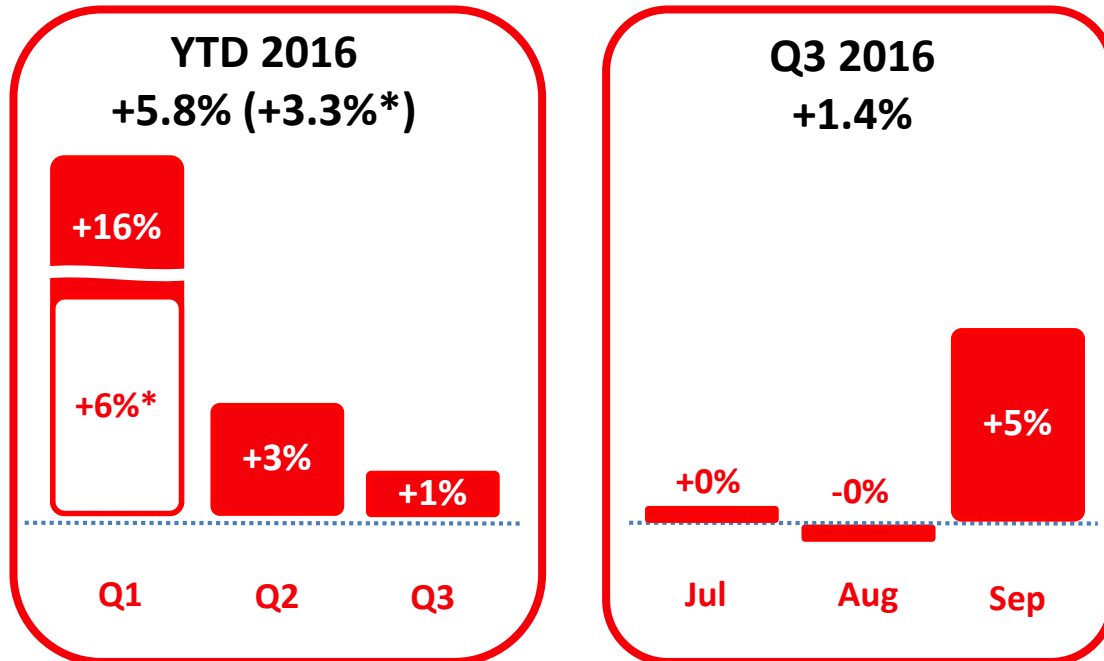
# *Q3/YTD 2016 Sales Results*

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# Balanced Growth in Volume and Value

## 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

### Q3 Highlights

- Continued growth of key new products
- Vending exclusive products and Coke ON contributed to stabilized vending channel profitability





# Three Points that Led to Q3 Success in Marketplace

1. Growth of key new products



2. Aggressive rollout of vending machine exclusive products



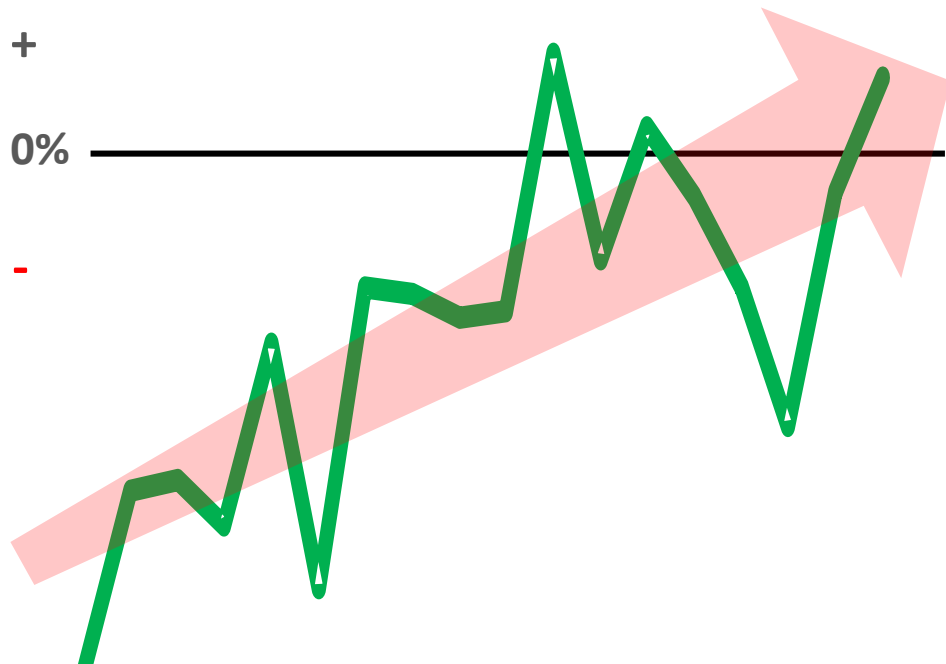
3. Strong in-store execution



# Initiatives to Stabilize Vending Channel are Working

## Per Machine Performance

Vending task forces, exclusive products and strong in-store execution successfully stopped per machine volume downtrends in Q3



CCEJ's per machine volume YoY of existing vending machine by month, from April 2015 to September 2016

### Coke ON Promotion

Volume approx. **+3%**

Better than non Coke ON enabled machines

Approx. **30,000**

Coke ON enabled machine installation completed by the end of Q3

Targeting **55,000** Placement by the end of 2016



### VM for Women



### JOC Olympic Support VM

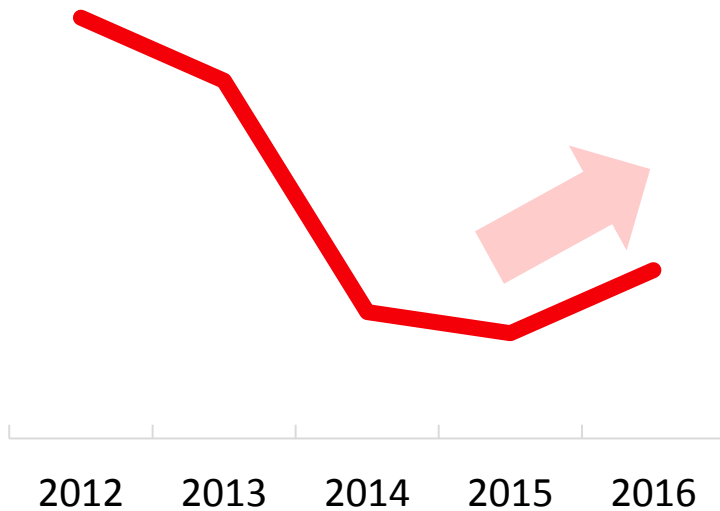




# Retail Pricing Trends

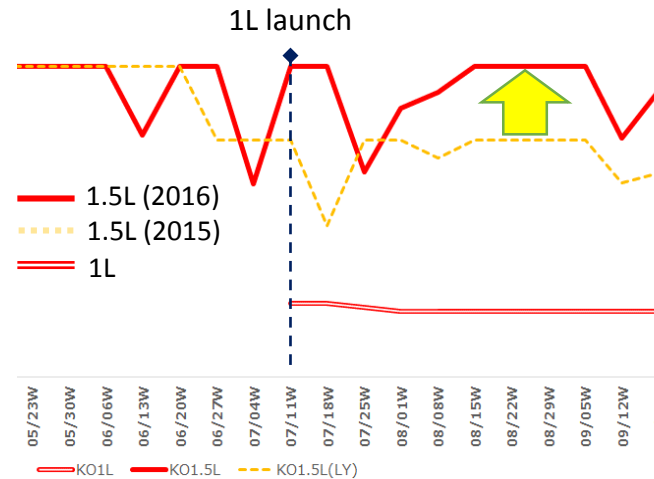
- Starting to see a change in retail price downtrend on Coca-Cola 1.5L
- Coca-Cola 1L PET launch delivering good results

Coca-Cola 1.5L Retail Price



Actual retail price at certain supermarket customers' outlets. From June to August

Coca-Cola 1.5L & 1L Retail Price



Actual retail price at certain supermarket customer's outlets. From week of May 22 to Week of September 19.

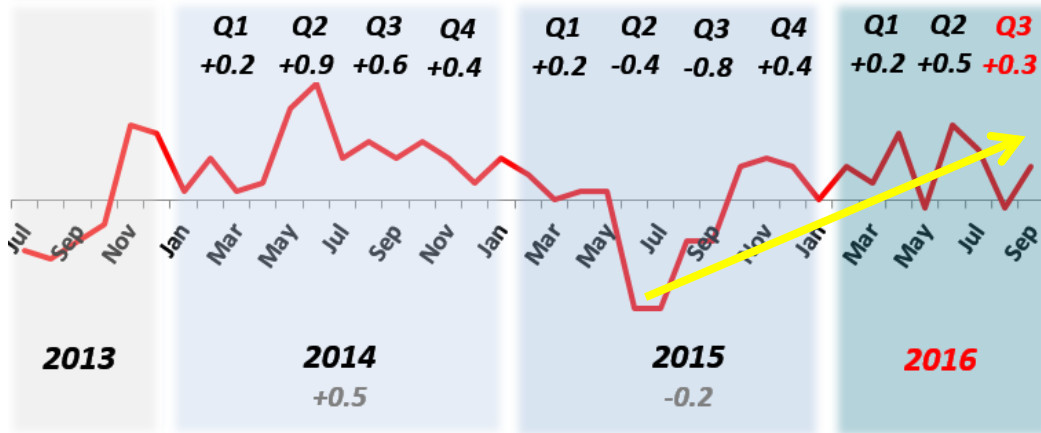


# Continued Market Share Recovery and Growth

Market Share	vs. Prior Year	
	Q3 2016	YTD 2016
Value	+0.3	+0.3
Volume	+0.6	+0.6

- Value and volume share growth momentum continues
- Value share gains in Drug & Discounter and Supermarket channels
- Volume share gains in Water and Coffee

Value Share vs. Prior Year



Volume Share vs. Prior Year



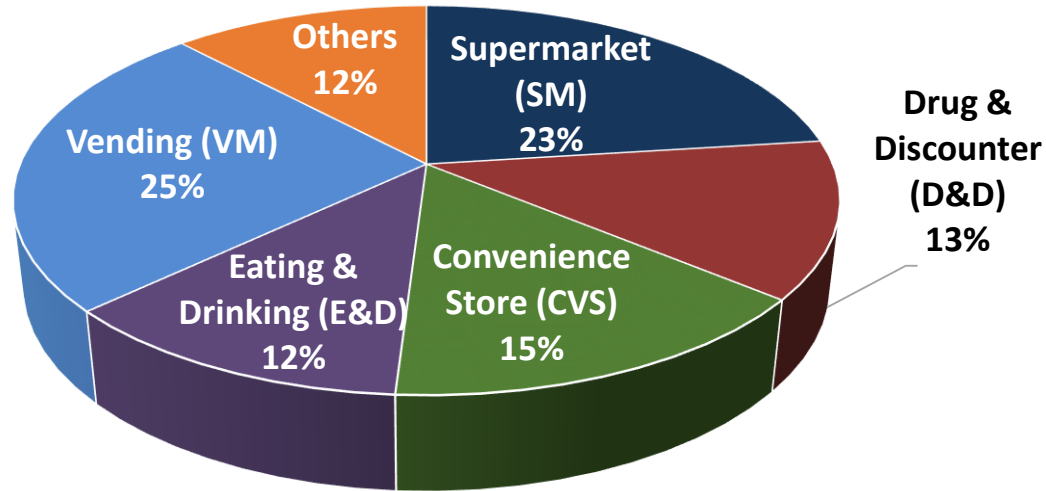
Source: Intage, OTC channel, NARTD beverages





# Performance by Channel

Q3 Volume by Channel  
(% of total)



Volume YoY: Q3 +1.4%; YTD +5.8% (+3.3%\*)

## Q3 Performance Drivers

- **Drug & Discounter** growth across beverage categories
- Growth in **Supermarkets** led by new launch in Coffee and Water
- I LOHAS Water & Sparkling growth in **Vending**. Smartphone-enabled machines and exclusive products contributed to stabilize profitability
- **Eating & Drinking** impacted by cycling of new outlet expansion

## Channel Volume Growth

vs. PY	CVS	D&D	Nat'l SM	Local SM	VM	E&D
Q3 2016	+3%	+10%	+2%	+1%	-3%	even
YTD 2016	+8%	+18%	+5%	+5%	+1%	+4%

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

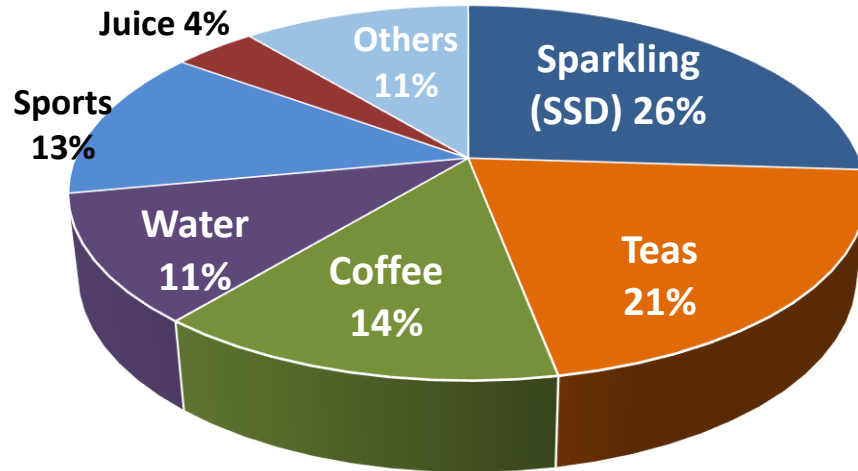
vs. PY	CVS	D&D	Nat'l SM	Local SM	VM	E&D
YTD 2016	+6%	+15%	+2%	+4%	-2%	+2%

Volume YoY: +3.3%



# Performance by Category

Q3 Volume by Category  
(% of total)



Volume YoY: Q3 +1.4%; YTD +5.8% (+3.3%\*)

## Q3 Performance Drivers

- *Balanced water growth between premium I LOHAS and 2L package Mori no Mizu Dayori brands.*
- *Sparkling soft drink growth driven by Coke, Fanta and Canada Dry*
- *Coffee growth supported by new launches and customer-exclusives*
- *NST growth driven by renewed Sokenbicha*

Category Volume Growth

vs. PY	NST	Water	Coffee	SSD	Sports	Juice
Q3 2016	Even	+13%	+2%	+3%	-8%	Even
YTD 2016	+6%	+19%	+10%	+4%	-6%	+5%

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

vs. PY	NST	Water	Coffee	SSD	Sports	Juice
YTD 2016	+4%	+16%	+6%	+2%	-7%	+2%

Volume YoY: +3.3%

\* NST (Non-Sugar Tea)







**Q3/YTD 2016**  
***Financial Results***

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# Drivers of YTD Strong Operating Income Growth

Q3 YTD 2015  
Comparable  
Operating  
Income

Q3 YTD 2016  
Comparable  
Operating  
Income

Gross Profit  
Impact of  
Volume,  
Price/Mix

+1,863

- Organic volume growth +3.3%
- New products, better pricing environment

Supply Chain  
Savings

+8,486

- Delivering strong manufacturing, logistics & distribution and procurement synergies

DME

-2,602

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

Other  
OPEX

+1,393

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

Other  
Subsidiaries

-934

- Adjusting for impact of Q1 2015 Sendai OI

Depreciation

+1,868

- CAPEX timing and plan review
- Full-year capex now expected to be 40B
- Includes benefit of change of useful lives for Production equipment

18,793

8,719

Unit: Million JPY





# Q3 YTD 2016 Financial Results Summary

## Significant Operating Income Improvement

- **Balanced volume & commercial revenue growth** • **Revenue impacted by lower sales to other bottlers** • **Improved gross margin** • **SG&A led by decrease in labor and logistic/distribution, partially offset by marketing investment**

Q3 YTD 2016 Reported in million yen		Q3 YTD 2016 One-time items	Q3 YTD 2016 Comparable	Q3 YTD 2015 Comparable	Vs. PY	
					Diff	%
Sales Volume <i>(BAPC) (,000 cases)</i>	243,952	-	243,952	230,587	+13,365	+5.8
Net Revenue	438,645	-	438,645	425,530	+13,115	+3.1
COGS	229,807	-116	229,691	227,997	+1,694	+0.7
Gross Profit	208,837	+116	208,953	197,532	+11,421	+5.8
SG&A	191,092	-932	190,160	188,813	+1,347	+0.1
Operating Income	17,745	1,048	18,793	8,719	10,074	+115.5
OI Margin	4.0%	-	4.3%	2.0%	+2.3	-
Profit Before Tax	17,125					
Net Income	11,138					

- Capital Expenditure: 27,615M JPY / Reported Depreciation and Amortization: 16,527M JPY
- One-time items mainly expenses related to the 3<sup>rd</sup> party transaction costs for proposed integration with Coca-Cola West

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+.



# Supply Chain Synergies: Examples of Contributors

## Accelerated Manufacturing Efficiency

- Manufacturing cost per case has been decreasing

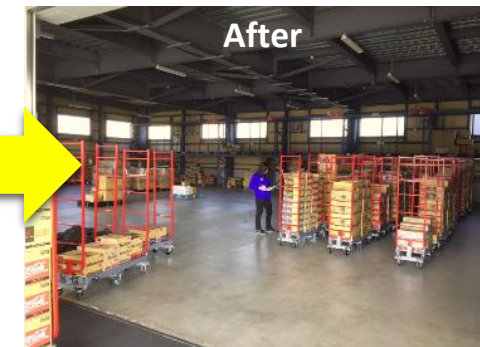
## Logistics and Distribution Efficiency Improvements

- Improved truck and cube utilization
  - More efficient truck loading
- Decreased non-productive inventory moves
  - More direct shipments to our sales centers and customers
- Cross dock operation
  - Significant space, equipment and labor savings in sales centers through timely delivery

### Truck loading space improvements



### Cross dock conversion







*Outlook toward  
Rest of the Year*

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# Extensive Marketing Activities in Q4

## Coca-Cola Winter Campaign and "Ribbon Bottles"



## Georgia Campaign



## I LOHAS Flavor Extension



Japanese pear "Nashi" flavor

## Coke ON Music



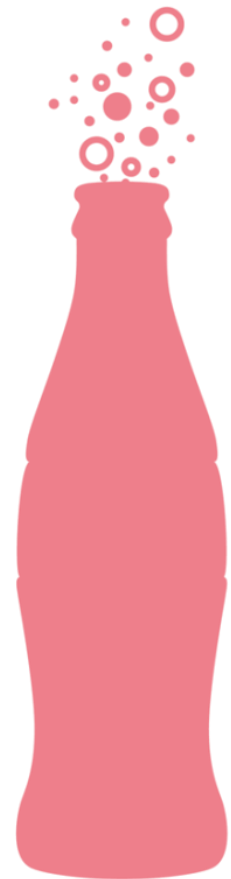
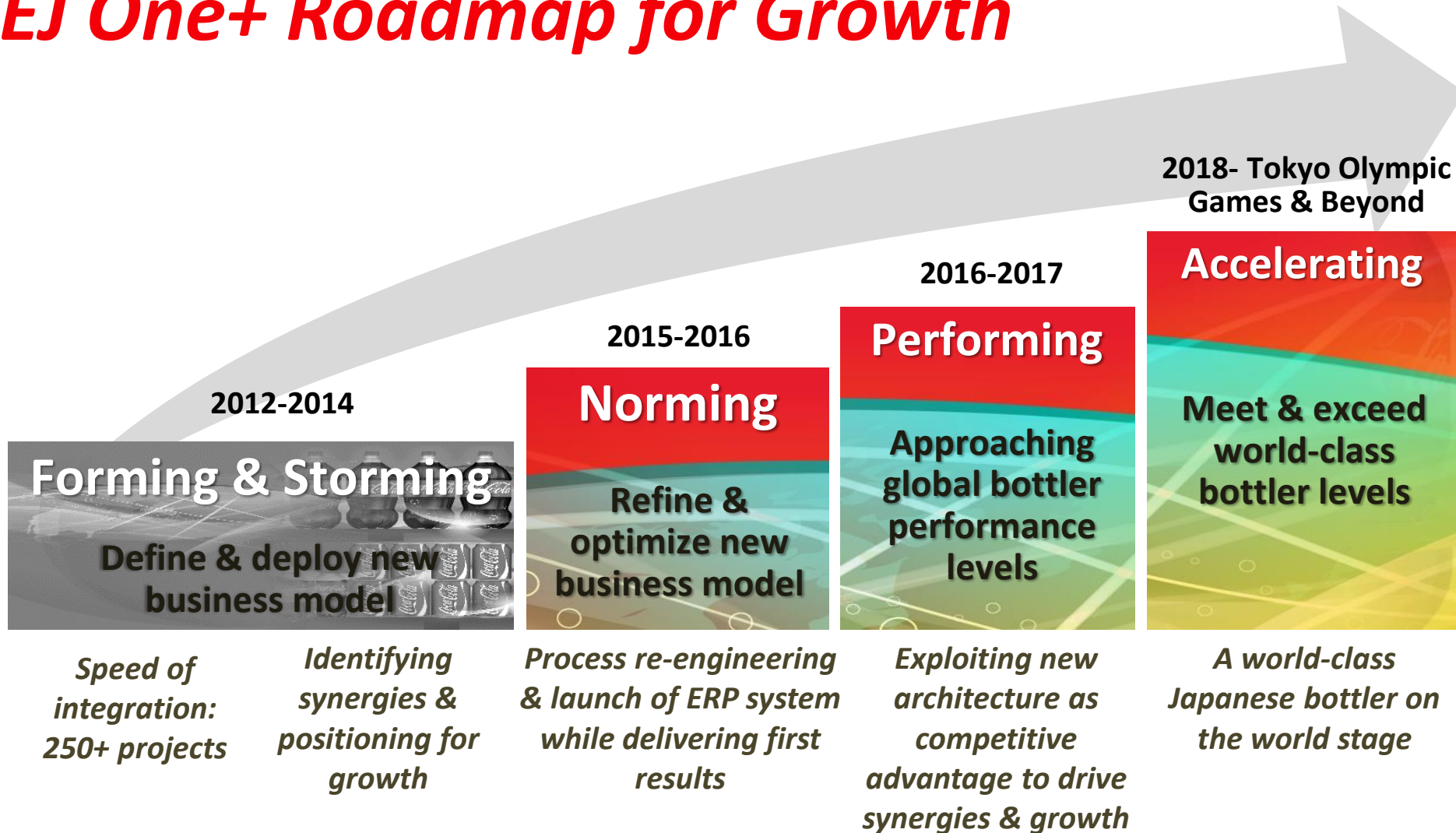
# Remarks for the Rest of Year

- **Q4 2016 results**
  - *Expect cycling from prior year*
- **Capex plan update**
  - *Full-year Capex will be approximately JPY 40 B*
- **Proposed business integration with Coca-Cola West**
  - *Appointed Vikas Tiku as CCEJ's Vice President and Chief Integration Officer*





# CCEJ One+ Roadmap for Growth





# *Appendix*

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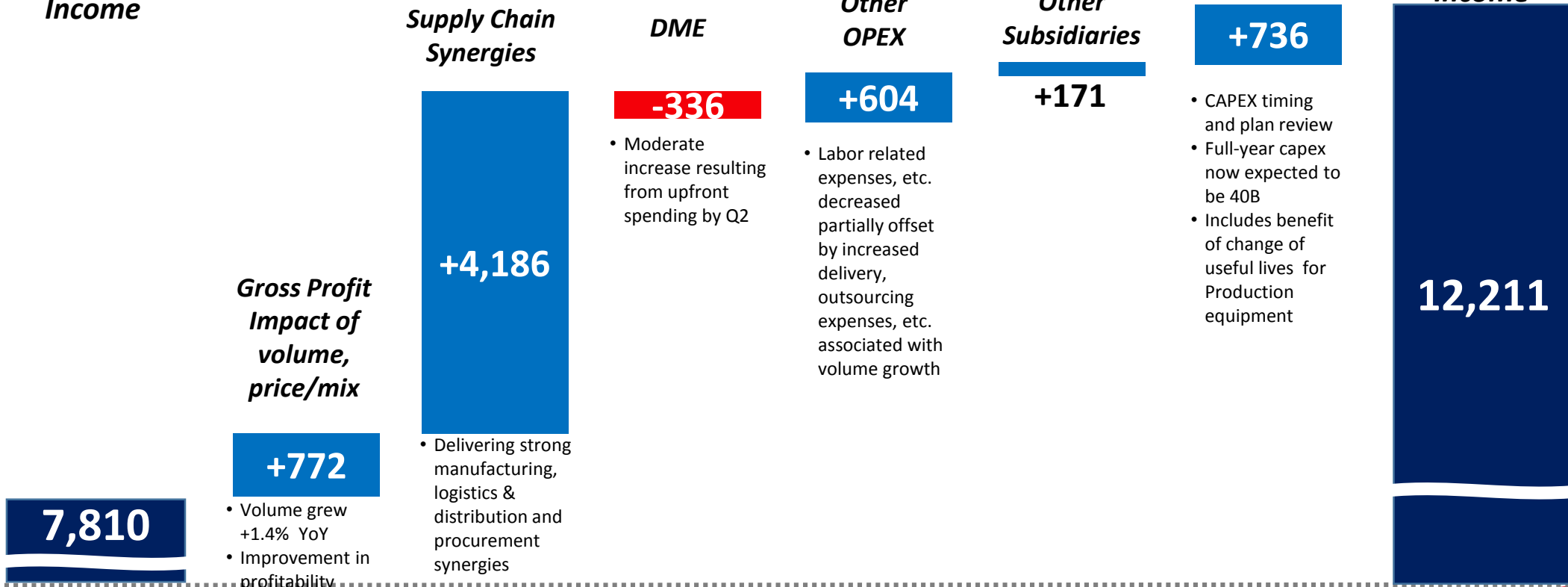
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# Drivers of Q3 2016 Operating Income

Q3 2015  
Comparable  
Operating  
Income

Q3 2016  
Comparable  
Operating  
Income



Unit: Million JPY





# Q3 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

Q3 2016 Reported in million yen		Q3 2016 One-time items	Q3 2016 Comparable	Q3 2015 Comparable	Vs. PY	
					Diff	%
Sales Volume <i>(BAPC) (,000 cases)</i>	92,093	-	92,093	90,787	+1,307	+1.4
Net Revenue	163,117	-	163,117	163,480	-363	-0.2
COGS	84,389	-	84,389	87,946	-3,557	-4.0
Gross Profit	78,727	-	78,727	75,534	+3,193	+4.2
SG&A	66,835	-319	66,516	69,456	-2,940	-4.2
Operating Income	11,892	319	12,211	6,078	+6,133	100.9
OI Margin	7.3%	-	7.5%	3.7%	+3.8	-
Profit Before Tax	11,950					
Net Income	7,914					

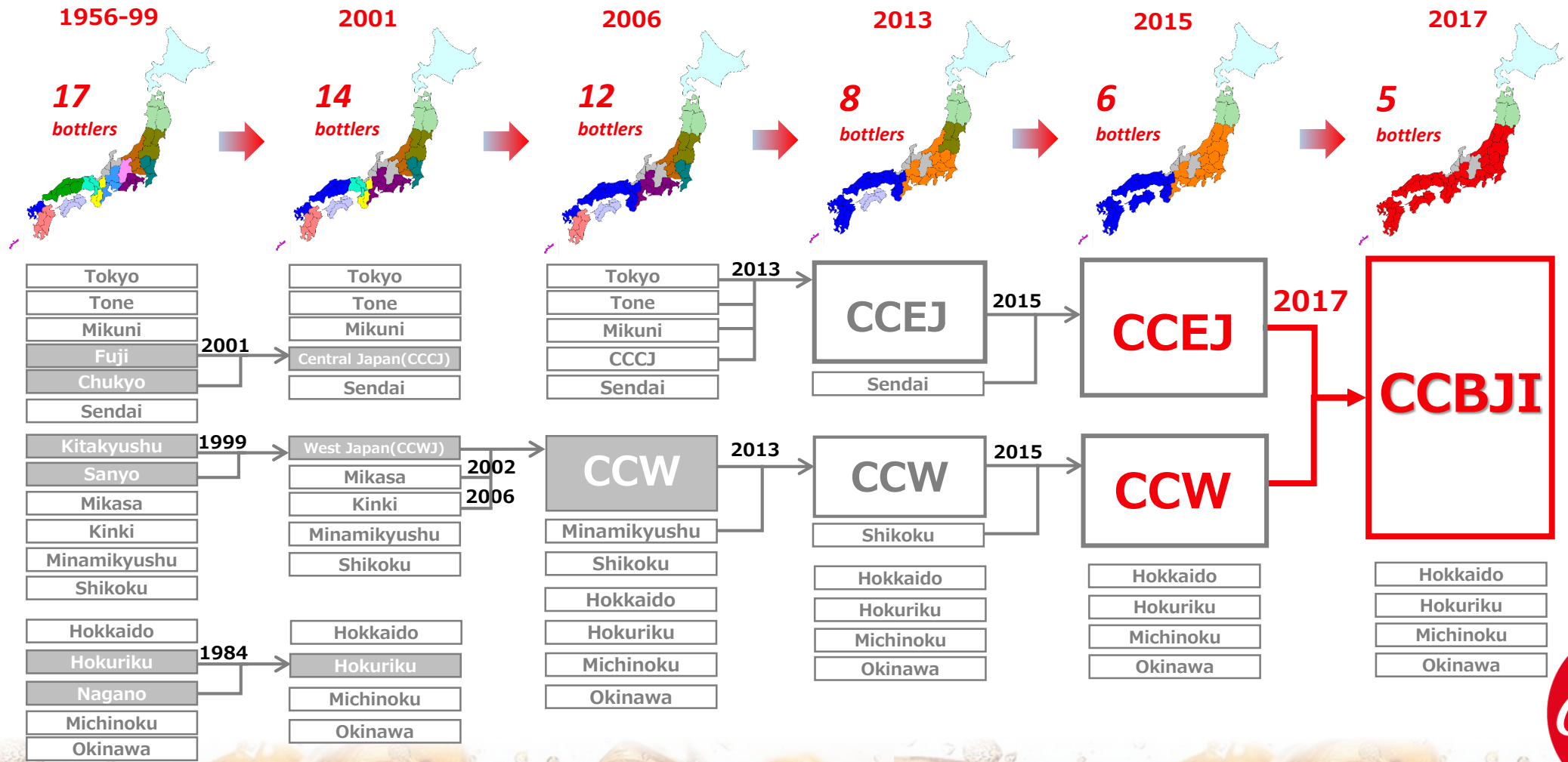
- Capital Expenditure: 17,732M JPY / Reported Depreciation and Amortization: 5,557M JPY
- One-time items mainly expenses related to the 3<sup>rd</sup> party transaction costs for proposed integration with Coca-Cola West

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 Japan Coca-Cola System Continues to Evolve

Together with the customer, consumer, competitive landscape





# 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. (CTR&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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*November 14, 2016*

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