

# ***Coca-Cola Bottlers Japan Holdings Inc.***

***First Quarter 2019 Earnings Presentation***

***May 16, 2019***



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*(Posted to CCBJH website on May 15, 2019)*

# 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 Bottlers Japan Holdings Inc. (CCBJH or Company) 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”.

- Agreements with The Coca-Cola Company and Coca-Cola (Japan) Company Limited.
- The quality and safety of products
- Market competition
- Natural environment, such as climate, disaster, water resources, etc.
- Legal environment
- Leakage or loss of information
- Change of economic conditions, such as personal consumption, currency exchange rates, prices of raw materials, fair value of assets, etc.
- Business integration, streamlining and optimization of business processes, etc.
- Uncertain factors other than those above

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# Coca-Cola Bottlers Japan Holdings Inc. (CCBJH)

*First Quarter (Q1) 2019 earnings presentation*

**Situational analysis: Reflection on first 60 days**

**Q1 2019 summary and business update**

**Full-year revision and outlook for the rest of the year**

**Q&A**





## Situational analysis: Reflection on first 60 days

# Q1 2019 performance: A challenging start to the year

- Volume down 2%, reflecting disruption from 2018 flooding and supply capacity, also underperforming product launches and renewals in Q1. Focus on minimizing value share impact despite volume pressure.
- Business Income loss of 4.1 B yen reflects negative channel mix as well as expected negative annual phasing with elevated supply chain expenses during recovery year.
- Operating loss of 12.8 B yen, including 8.7 B yen one-time expenses in Q1 from implementation of voluntary retirement program. Announced downward revision to full-year forecast reflecting first-quarter results and outlook for rest-of-year.
- Price hike negotiations successfully concluded for large PET products.
- Investing to rebuild and expand supply capacity. Two new aseptic lines completed in Kyoto and Kumamoto.
- Completed 25 B yen share-buyback program end of February.



# Reflection on first 60 days

*“Doing things right, but are we always doing the right thing?”*

- Solid progress on CCBJH integration, disappointing business results
- Japan Coke System dynamically changing itself in face of rapid change
- Current business performance requires **structural & process change** and continued **investments** in support of a **renewed growth mindset**

## *Changes now; More to come*

- Board evolution toward best-in-class
- Organization & culture change
- First to announce price hike despite short-term pain
- Investing for today and tomorrow
- Work underway on updating strategic business plan target



# Reflection on first 60 days: Old to New

*A call to action to modernize and lead*

## Need to be more agile to meet constant change

- Fast-paced population migration toward urban areas
- Changing consumer trends
- Disruption of traditional production technologies and distribution model
- Old vending service model becoming less relevant

## Enabling the shift from old to new

- IT infrastructure
- Revamped business processes



# New Board of Directors approved at March 26 AGM

## *Governance structure supporting a renewed growth mindset*



**Toward best-in-class  
Governance, Independence  
and Diversity in terms of  
gender, nationality, relevant  
professional Experience**

### Governance & Independence

Executive  
Directors

Independent  
Directors

Outside directors in  
Audit & Supervisory  
Committee (ASC)

2

22%

4

44%

4

100%

### Diversity and Professional Skillset

Women on  
the Board

Nationalities

Coke System  
Experience

Finance/Audit

FMCG

IT/Manufacturing

3

33%

6

5

56%

3

33%

6

67%

2

22%

Figures indicate # of applicable directors. Figure in nationalities indicates # of nationalities of board of directors

# Building a workforce and workplace for the future

## *Organizational culture supporting a renewed growth mindset*

### Welcoming 385 new grads in 2019

- 🚩 Largest intake ever (+118 versus PY)
- 🚩 Diverse, with ~30% women; Balance of college, high school grads



### Sawayaka Style - Smile Together

- 🚩 Respect diversity, positive thinking
- 🚩 Build comfortable work environment

Casual dress  
introduced

“san” campaign

“Thank you”  
badge

- 🚩 Productivity & creativity
- 🚩 Friendly environment
- 🚩 Attract talented people



# Rebuilding supply network & investing for future growth

## *Toward normalized production capacity by Spring 2020*

2019

### **Two new manufacturing lines commissioned**

February: Kyoto Plant (#3 line)



March: Kumamoto Plant



### **Hakushu Warehouse**

- Provisional operation started
- Installing automated warehouse equipment



### **Saitama Mega Distribution Center**

- 14 billion yen investment, to be commissioned February 2021
- Construction started



### **Expanding private fleet capacity**



### **Manufacturing lines under construction**

- Kyoto Plant (#2 line)
- Hakushu Plant

### **Logistics & Distribution**

- Kumamoto auto- WH
- Hakushu auto- WH
- Private fleet (60 trailer trucks)

2020~

### **Spring 2020**

- Hiroshima Plant (2 lines)
- Zao Plant (1 line)

2021~

### **Saitama Mega DC**



# But all of this is not enough...

*We must “do the right thing” for the long-term,  
while getting the day-to-day right*

## ***Work underway to update mid-term plan and targets***

- Stabilize and return to growth
- Revenue targets with growth aspirations
- Build competitive advantage as efficient and lowest-cost operator
- Balanced volume and value share growth
- Financial framework for value creation





## Q1 2019 summary and business update

# Q1 2019 results vs. 2018 (IFRS)

*Operating loss includes one-time expenses related to voluntary retirement program*

	2019 Q1	2018 Q1	YoY
<b>Revenue</b>	<b>198,733</b>	205,614	<b>-3.3%</b>
Beverage Business Sales Volume (Million Cases)	<b>110</b>	112	<b>-2%</b>
COGS	<b>104,131</b>	104,686	<b>-0.5%</b>
<b>Gross Profit</b>	<b>94,602</b>	100,928	<b>-6.3%</b>
SG&A	<b>98,140</b>	101,021	<b>-2.9%</b>
<b>Business Income (Loss)</b>	<b>(4,059)</b>	(192)	<b>-</b>
<b>Operating Income (Loss)</b>	<b>(12,824)</b>	(192)	<b>-</b>
<b>Net Income (Loss)</b>	<b>(8,002)</b>	(290)	<b>-</b>

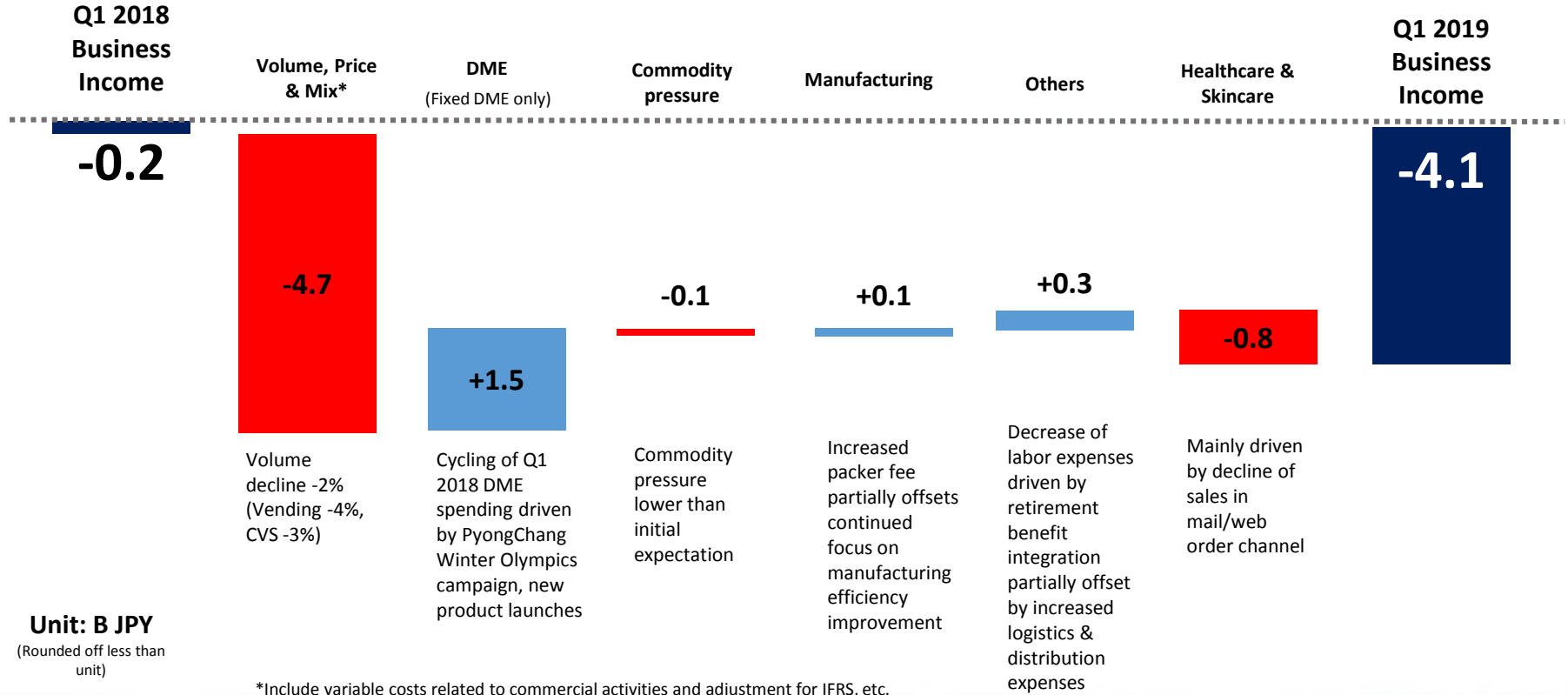
Beverage Business	2019 Q1	2018 Q1	YoY
Revenue	<b>192,767</b>	198,110	<b>-2.7%</b>
Business Income (Loss)	<b>(4,774)</b>	(1,744)	<b>-</b>

Health Care & Skin Care Business	2019 Q1	2018 Q1	YoY
Revenue	<b>5,966</b>	7,504	<b>-20.5%</b>
Business Income	<b>714</b>	1,552	<b>-54.0%</b>

Unit: Million JPY  
 Net Income (loss): Net income (loss) attributable to owners of parent.



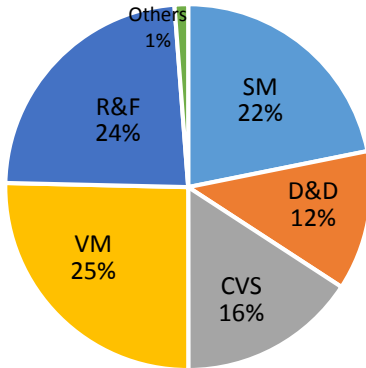
# Q1 2019 Drivers of business income performance in IFRS



# Q1 2019 channel and category volume performance

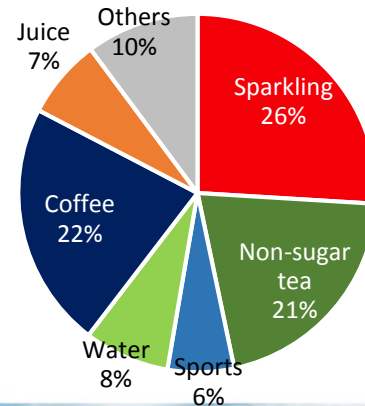
- Volume down 2% vs. PY** driven by vending decline, time lag in recovering OTC shelf space after last year's supply constraints, underperformance of newly-launched and renewed products
- Wholesale revenue per case** in D&D improved by less priority on large PET water, CVS supported by FOSHU Ayataka. Vending decline partly driven by strategic coverage increase of "one-coin" price point coffee to drive transaction growth as well as sparkling volume decline.
- By channel**, weak performance of new launches and renewed products impacted all sale channels. SM & D&D declines reflect less OTC shelf space after last year's supply constraints. Coffee grew in CVS supported by expansion of Georgia Japan Craftsman, but offset by weak hot product sales due to warm winter. VM declined but Georgia Grand Bito & Deep Black coffee and small 170g can growth helped to moderate recent volume trends.
- By category**, Sparkling volume decline mainly driven by weak product renewals, including Coca-Cola Peach. FOSHU Ayataka green tea and Ayataka Chaba no Amami contributed to non-sugar tea growth. Coffee volume recovered to even, supported by Georgia Japan Craftsmen and Deep Black. Water decline mainly driven by cycling of prior-year new launches and weak iLohas flavored waters, as well less priority on Large PET water pack size.

By channel



Vs. PY	Volume	Revenue per case (Yen)
Supermarket (SM)	-1%	-2
Drug & Discounter (D&D)	-2%	+16
Convenience Store(CVS)	-3%	+2
Vending (VM)	-4%	-11
Retail & Food (R&F)	Even	-3

By category



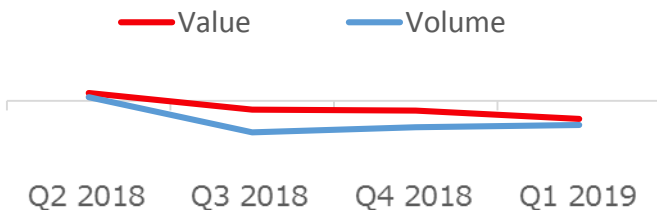
Vs. PY	Volume
Sparkling	-4%
Non-sugar tea	+3%
Sports	-3%
Water	-14%
Coffee	Even
Juice	+5%

Note: Sales volume doesn't include alcohol. Revenue per case doesn't include DFR (deduction from revenue)

# Q1 2019 OTC market share and retail price trends

## OTC Market Share

Market Share (vs. PY, PP)	Value	Volume
Q1	-0.9	-1.2



- Volume share decline mainly due to residual impact of supply constraints from last year. Continued focus on balancing volume and value share performance
- Value share growth in coffee category

## OTC Retail Price

OTC Retail Price (Jan. to Mar., JPY per bottle)	Vs. Market Average	Vs. PY
Small PET	+2.7	-0.3
Large PET (2L PET)	+21.0	+2.3

- Continued higher retail price vs. market average in both small and large PET, as impact to value share has been minimized compared with volume share decline

Source: Intage SRI



# CAPEX & depreciation in Q1, financial framework initiatives

## Capex & depreciation

Continued investments for growth, in line with plan

- Manufacturing lines
- Warehouses
- Fleet vehicles
- Vending machines
- Coke One ERP system

(B yen)	Q1 2019	2019 Plan
Capex	24.7	99.8
Depreciation	13.8	57.6

## Share buy-back

- Completed 25 B yen share-buyback program end of February, including 13 B yen buy-back in 2019

## Shelf registration

- For bond issuance filed on April 25






ERP: Enterprise Resource Planning





Full-year revision  
and outlook for the  
rest of the year

# Revising 2019 plan to reflect Q1 actuals and rest-of-year outlook

	2019 initial plan	Current status and outlook	2019 Revised Targets
Revenue growth	Revenue <b>+1%</b> Volume <b>even</b>	 Expected 1H volume impact from customer price increase. Continued negative channel, package mix	Revenue <b>even</b> Volume <b>-1%</b>
Value share	<b>VALUE</b> ahead of <b>volume</b>	 Focus on minimizing value share impact despite volume pressure. Q1 value -0.9 pts, volume -1.2 pts	<b>VALUE</b> ahead of <b>volume</b>
CAPEX investment	<b>99.8</b> billion yen	 Investing to recover and grow manufacturing capacity, optimize logistics network and complete ERP rollout	<b>99.8</b> billion yen
Business Income (BI)	<b>18.5</b> billion yen	 Recovery, building foundation for growth. New BI baseline for mid-term plan targets to be announced in August.	<b>15.4</b> billion yen
Dividend	Full-year <b>50</b> JPY/share	 Reflecting consistent focus on shareholder returns, despite transition period for business	Full-year <b>50</b> JPY/share



# Q2 new launches, campaigns, initiatives

## New products, renewals, campaigns

Expanding coverage of Georgia Japan Craftsman to all channels

New era name  
"Reiwa" promotion



Renewal launched in April



## Leveraging the Coca-Cola system's unique partnership assets



Leverage Coca-Cola's official sponsorship of the Japan Rugby National Teams, Tokyo 2020 Olympic and Paralympic Games

## Vending initiatives

Drive vending channel transaction growth

Coke ON



Introduced Coke ON IC



Coke ON promotion in office locations



Increase Georgia Japan Craftsman coverage

Vending exclusive products, small 170g SOT can, 100 Yen offerings

Joined MONET Consortium

Exploring new vending business opportunities in Maas (mobility as a service)

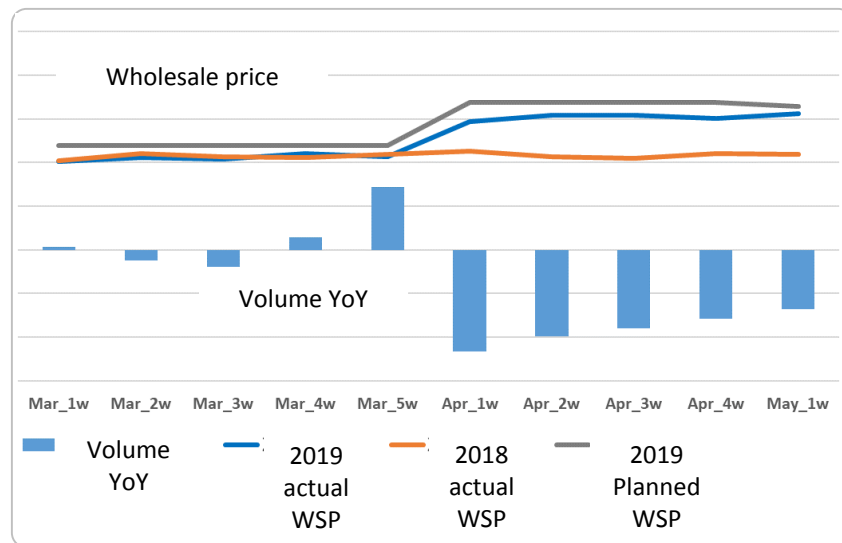
# Update on announced customer price increase

*Toward new growth mindset, but near-term volume impact*

- **Customer negotiations successfully concluded**
- **Expect increases in wholesale revenue to ramp up through rest of year**
- **Business plan reflects negative impact on volume performance in 1H as price increases initially take effect.**
- **Will continue to monitor market reaction**

## CCBJI large PET products wholesale price and YoY volume trend

(Excluding water, 1<sup>st</sup> week of March to 1<sup>st</sup> week of May)



# Supply chain outlook

*Higher inventories to ensure supply, but capacity limits and higher costs in 2019*

**22 M cases** annualized capacity lost by Hongo damage

**+3% vs. PY**

Aseptic production volume expected 2019

**30 M cases**

Annualized 2019 new capacity both internal & external

**Inventory**

Building inventory early to meet peak season demand

## Continued pressure on supply chain costs

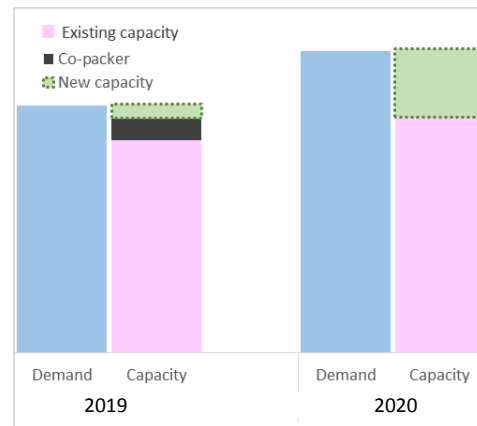
**Increased outsourcing costs**  
due to extra contract packer fees

**Higher Transport costs**  
due to longer shipping distances

**Higher warehouse costs**  
by building and maintaining higher inventory levels

**Increased rate of labor cost**

## CCBJ aseptic demand & production capacity



### 2019

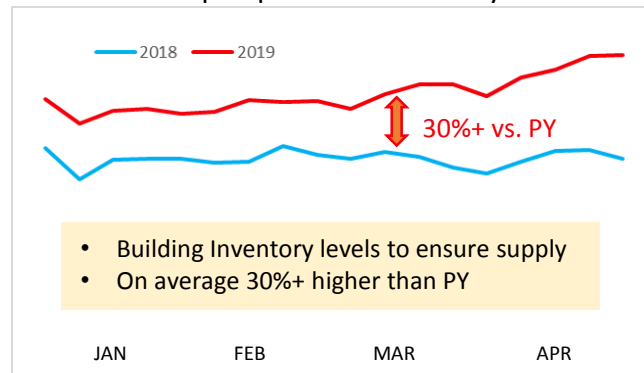
- Enough capacity with high cost co-packers, new lines
- No upside to capacity if higher demand

### 2020

- Normalized product supply
- Sufficient capacity to meet growing demand

## Earlier and higher inventory build

Aseptic products inventory



- Building Inventory levels to ensure supply
- On average 30%+ higher than PY



# Voluntary retirement program

*High acceptance rate with increase in expected one-time cost in 2019*

**Final results announced on April 16 with higher acceptance rate than initial expectations**

- **# of applicants: 950**
- **One-time expenses in Q1: 8.7 billion yen**
- **2019 expected cost savings: 5.7 billion yen**
- **Annualized cost savings: ~7.7 billion yen**



# Revised full-year 2019 forecast

IFRS	New 2019	Original 2019	Variance
Beverage Volume	-1%	even	
Revenue	923,300	936,100	-1.4%
Business Income	15,400	18,500	-16.8%
Operating Income	8,800	12,700	-30.7%
Net Income	5,200	7,200	-27.8%
EPS	28.91 Yen	39.97 Yen	-11.06 Yen

Beverage Business	New 2019	Original 2019	Variance	Health Care & Skin Care Business	New 2019	Original 2019	Variance
Revenue	895,900	906,100	-1.1%	Revenue	27,400	30,000	-8.7%
Business Income	10,000	13,100	-23.7%	Business Income	5,400	5,400	-

Unit: Million JPY, except for EPS

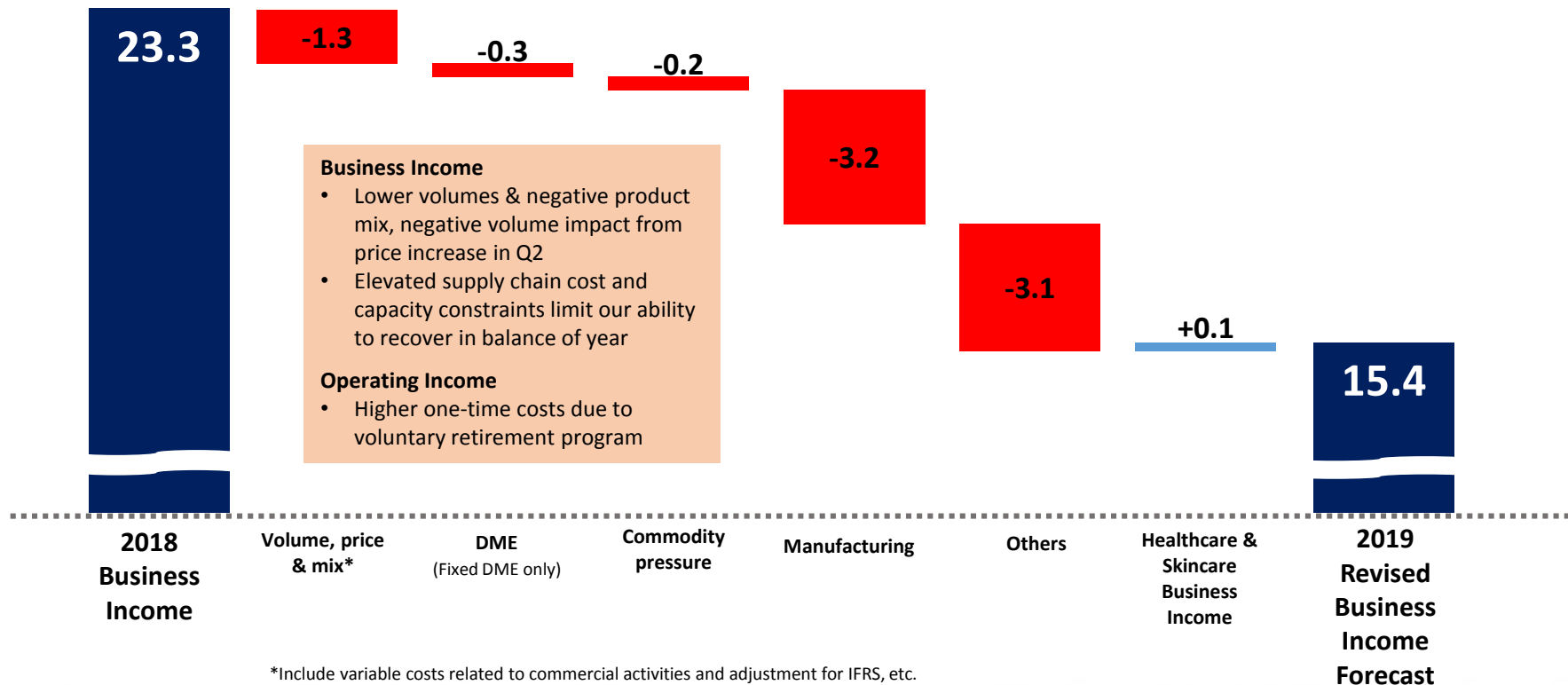
Net Income: Net income attributable to owners of parent



# 2019 Revised business income forecast (IFRS)

*New baseline for midterm plan target*

Unit: B JPY  
(Rounded off less than  
unit)





# Key takeaways

# Key takeaways

## 2019: A call to action to modernize and lead

- Not satisfied with current business performance
- Implementing structural & process change and investing to support a renewed growth mindset
- New 2019 outlook is starting point for updated mid-term plan, to be shared in August

## 2019 Milestones

**March 26**  
Annual General Meeting;  
New management and  
BOD members approved



**April 1**  
Completion of customer  
price rise negotiations



**May 15**  
Reflection on 1<sup>st</sup> 60 days;  
2019 revision to be starting  
point for mid-term plan



**August 2019**  
Expect updates to  
mid-term targets





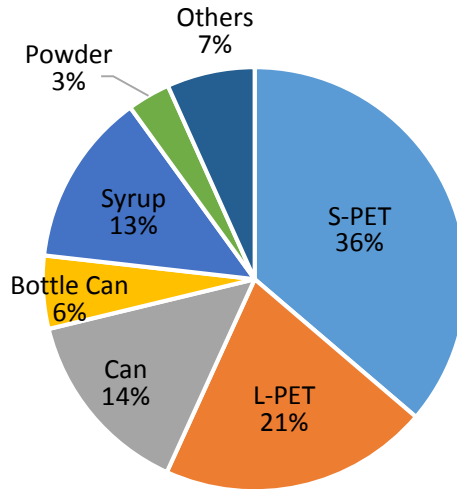
# Q & A



# Appendix

# Volume by package

**Q1 2019**  
**Volume:-2%**



vs PY	Volume
S-PET	Even
L-PET	-1%
Can	-1%
Bottle Can	-18%
Syrup	-1%
Powder	+9%

S-PET : PET under 600ml

L-PET : PET above 1.5L

Sales volume doesn't include alcohol



# We are part of the global Coca-Cola system

*An enduring and effective partnership*

*The Coca-Cola Company*

**Coca-Cola (Japan) Company**

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

*Coca-Cola*

**BOTTLERS JAPAN INC.**

- Customer focus
- Local expertise
- Best-in-class execution
- Finished goods production
- Logistics and distribution
- Cost optimization



# Glossary of key terms

Business Income	A measure of our underlying or recurring business performance after the adoption of IFRS. Business Income deducts cost of goods and SG&A from revenue, and includes other income and expenses which we believe are recurring in nature.
DME	Abbreviation of <b>Direct Marketing Expenses</b> . Sales promotion-related expenses, including advertisement, rebates, sales commissions, etc.
FC	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.).
HORECA	Abbreviation of <b>Hotel, Restaurants and Cafeteria</b> . Generally means sales channels of these kinds.
IC	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.).
PTC	Abbreviation of <b>Price, Terms and Conditions</b> , an internal guideline for setting appropriate transaction conditions with customers, frequently used in conjunction with RGM.
RGM	Abbreviation of <b>Revenue Growth Management</b> , an overall strategy and process to achieve profitable revenue growth.
RTM	Abbreviation of <b>Route-to-Market</b> . A framework, a process, a philosophy, a proven approach for driving profitable growth.

## Channel definitions



Vending	Retail sales to consumers through vending machine
Supermarket	Wholesale to supermarket chains customers
Drugstore & Discounter	Wholesale to drugstore and discounter chains customers
Convenience Store	Wholesale to convenience store chains customers
Retail & Food	Wholesale to grocery store, liquor store, eating & drinking establishments (HORECA), online sales channels customers, etc.
Others	Wholesale to customers other than above





# THANK YOU

## Investor Relations

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