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Consolidated Financial Summary for the First Quarter Ended March 31, 2019 (IFRS)

May 15, 2019

Listed company name: Coca-Cola Bottlers Japan Holdings Inc.
Listed stock exchanges: Tokyo and Fukuoka
Code number: 2579
URL: https://en.ccbj-holdings.com/
Representative: Representative Director & President
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Expected date of quarterly report submission: May 15, 2019
Expected date of the dividend payments: —
FY 2019 1Q supplementary information: Yes
FY 2019 1Q earnings presentation: Yes

(Fractions of one million yen are rounded)

1. Consolidated financial results for the 1st quarter 2019 (from January 1, 2019 to March 31, 2019)

(Percentages indicate changes over the same period in the prior fiscal year)

(1) Consolidated financial results

	Net sales		Business Income		Operating profit		Net profit		Net profit for the year attributable to owners of the parent		Total comprehensive income	
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%
1st quarter 2019	198,733	(3.3)	(4,059)	—	(12,824)	—	(7,985)	—	(8,002)	—	(5,536)	—
1st quarter 2018	205,614	—	(192)	—	(192)	—	(277)	—	(290)	—	(2,403)	—

	Earnings per share	Diluted earnings per share
	yen	yen
1st quarter 2019	(44.22)	—
1st quarter 2018	(1.42)	—

* "Business Income" is a measure of our underlying or recurring business performance after the adoption of IFRS, and deducts cost of goods and SG&A from revenue, and includes other income and expenses which we believe are recurring in nature.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to parent owners	Ratio of equity attributable to parent owners
	million yen	million yen	million yen	%
Mar. 31, 2019	936,411	557,368	556,915	59.5
Dec. 31, 2018	877,472	580,906	580,448	66.2

2. Dividends

	Dividends per share				
(Record date)	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
Year ended	yen	yen	yen	yen	yen
Full year 2018	—	25.00	—	25.00	50.00
Full year 2019	—				
Full year 2019 (forecast)		25.00	—	25.00	50.00

Note: Revisions to the cash dividends forecasts most recently announced: None

3. Forecast of consolidated financial results 2019 (from January 1, 2019 to December 31, 2019)

(Percentages indicate changes over the same period in the prior fiscal year)

	Net sales		Business Income		Operating profit		Net profit		Net profit for the year attributable to owners of the parent		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year 2019	923,300	(0.4)	15,400	(33.8)	8,800	(40.1)	5,200	(48.8)	5,200	(48.6)	28.91

Note: Revisions to the forecasts of consolidated financial results most recently announced: Yes

Notes

(1) Changes in significant subsidiaries during the current period : None

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

1) Changes in accounting policies due to revisions to accounting standards under IFRS : Yes

2) Changes other than those in 1) above : None

3) Changes in accounting estimates : None

(3) Number of outstanding shares (common shares)

1) Number of outstanding shares at the end of period (including treasury shares):

1Q 2019: 206,268,593 shares FY 2018: 206,268,593 shares

2) Number of treasury shares at the end of period:

1Q 2019: 26,914,220 shares FY 2018: 22,793,049 shares

3) Average number of outstanding shares during the period:

1Q 2019: 180,975,250 shares 1Q 2018: 204,251,699 shares

* These Consolidated Financial Results are not subject to quarterly review procedures conducted by certified public accountant or audit firm.

* Explanation regarding appropriate use of the forecast, other special instructions

Figures in the above forecast are based on information available to management at the time of announcement. Due to number of inherent uncertainties in the forecast, actual results may differ materially from the forecast. Furthermore, please refer to “1. Qualitative Information on the Financial Summary for this Quarter (3) Information on the Future Outlook, Such as Forecast of Consolidated Financial Results” on page 4 for matters relating to performance forecasts.

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1. Qualitative Information on the Financial Summary for this Quarter

(1) Details of Consolidated Financial Results

Coca-Cola Bottlers Japan Holdings Inc. ("CCBJH" or the "Company") announced first quarter results for the fiscal year ending on December 31, 2019 (January 1, 2019 to March 31, 2019). In this period, total nonalcoholic ready-to-drink (NARTD) beverage industry volume performance is expected to be flat versus prior year. The health food and cosmetics industries continue to grow, driven by demand from health-conscious consumers and inbound tourism as well as new demand driven by new functionality and efficacies, while the competitive environment has been marked by successive product launches by various industry players.

CCBJH has positioned 2019 as a transition year that is focused on recovery from the flooding damage and disruption to product supply in 2018, and building a solid foundation for future growth. We have been making major investments to recover our supply network and progressively expand production capacity through Spring of 2020. We were the first in the beverage industry to announce and begin implementing in April the first customer price increase for large PET products in 27 years. We have also put in place a new management and governance structure including a change of representative directors and new members of our Board of Directors with an eye toward best-in-class standards of governance, independence and diversity as well as relevant professional experience. From this year, only two out of nine Board members are Company executives, with four independent directors and an Audit and Supervisory Committee completely made up of external directors. Finally, we have introduced additional organizational changes to drive more effective and streamlined decision-making, including reducing the number of executive officers, simplifying management reporting lines and initiating a voluntary employee retirement program that concluded on April 30, 2019.

Our first quarter results were impacted by a decline of topline revenue due to channel mix pressure and lower beverage business sales volume, combined with continued elevated logistics and distribution expenses as we recover our supply and distribution infrastructure over the course of this year. First quarter operating income also reflects one-time expenses related to our previously announced voluntary employee retirement program.

In addition to this qualitative information section, please also see our earnings presentation material posted on the Company IR website (https://en.ccbjholdings.com/ir/library/presentation.php) to be used at our earnings presentation on Thursday, May 16, 2019 at 3:30pm (JST). The earnings presentation and audio will be available live and on demand as an audio webcast in the IR section of the CCBJH website.

Highlights of First Quarter

- Volume down 2%, reflecting disruption from flooding and supply capacity, also underperforming product launches in Q1. Focus on minimizing value share impact despite volume pressure.
- Net revenue decreased 3% versus prior year driven by lower volume performance and negative channel mix.
- Business Income loss of 4,059M yen (192M loss in 2018) reflects lower revenue as well as expected higher logistic expenses due to ongoing disruption from prior year.
- Operating loss of 12,824M yen (192M loss in 2018) reflecting one-time expenses in Q1 from implementation of voluntary retirement program. Announced a revision to full-year earnings guidance reflecting first quarter results and our outlook for the remainder of the year.
- Price hike negotiations successfully concluded for large PET products
- Two new manufacturing lines in Kyoto and Kumamoto commissioned in the first quarter. Continued investment to recover and expand supply capacity, with seven new production lines by Spring 2020.
- Completed 25 billion yen share-buyback program end of February as part of financial framework for value creation.
- New President and Board of Directors members approved at annual shareholders meeting, representing high standards of independence, diversity and relevant professional experience with strengthened governance. Work is underway to revise mid-term plan targets under the new management team.

Review of Results

In Million JPY, IFRS	2018 Q1	2019 Q1	YoY
Net Revenue	205,614	198,733	(3.3%)
Gross Profit	100,928	94,602	(6.3%)
Selling, General & Administrative Expenses	101,021	98,140	(2.9%)
Other income (Recurring)	417	293	(29.7%)
Other expenses (Recurring)	515	800	55.4%
Investment gain/loss on equity method	(2)	(14)	-
Business Income (Loss)	(192)	(4,059)	-
Other income (Non-recurring)	-	-	-
Other expenses (Non-recurring)	-	8,765	-
Operating Income (Loss)	(192)	(12,824)	-
Net Income (Loss) Attributable to Owners of Parent	(290)	(8,002)	-
Sales volume of beverage business (Million cases)	112	110	(2%)

* Sales volume of beverage business does not include alcoholic beverage volume
* We introduce "Business Income" as 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.

First quarter net revenue was 198,733 million yen, a decrease of 6,881 million yen, or 3.3% compared to the prior-year period. Net revenue of the beverage business decreased 5,343 million yen (down 2.7%) versus prior year period, to 192,767 million yen reflecting a 2% decline in sales volume versus prior year and negative channel mix driven by a 4% volume decline in the higher-profit vending channel. Vending channel volume declines moderated versus the 7% volume decline in 2018. Net revenues of the healthcare & skincare business fell by 1,537 million yen (down 20.5%) year-on-year to 5,966 million yen, as mail/web order sales to existing customers slowed in the quarter.

First quarter business income, an indicator of our recurring business performance, showed a loss of 4,059 million yen (192 million loss in prior year period). Business income of the beverage business was negative 4,774 million yen (1,744 million yen loss in prior year period). This reflects weak topline revenue, negative channel mix and continued elevated logistics and distribution expenses due to alternate product supply initiatives as we recover and expand supply capacity, and was partially offset by labor expense savings driven by the integration of retirement benefit programs and lower sales promotion expenses in line with volume performance. Business income in the healthcare & skincare business was 714 million yen, a decrease of 838 million yen or 54.0% year-on-year, reflecting lower revenues whilst we continued a focus on expense control on promotion expenses, etc.

Consolidated operating income was negative 12,824 million yen (192 million yen loss in prior year period), mainly driven by one-time expenses in the first quarter related to the voluntary retirement program concluded at the end of April. Net income attributable to owners of parent was a loss of 8,002 million yen (290 million yen loss in prior year period).

Beverage volume performance by channel and category
By channel, OTC channel volume, including supermarkets, drug & discounters and convenience stores declined, as new product launches and renewals underperformed in the first quarter and partly reflecting the residual impact of reduced customer shelf space after the supply constraints in late 2018. Supermarket, drug & discounter and convenience store channel volumes declined 1%, 2% and 3% respectively. Vending channel volumes declined 4%, reflecting a moderation of the trend from 2018. Canned coffee volume in the vending channel was even, supported by Georgia Grand Bito and Georgia Deep Black and the expansion of 100-yen "one-coin" price points small 170g can to drive growth in transaction volume. Sales volume was even in the retail & food channel.

By category, non-sugar tea grew across sales channels, with 3% volume growth supported by FOSHU (Ayataka

Tokusencha green tea) and the successful renewal of Ayataka Chaba-no Amami. Coffee volume was flat versus prior year as our new PET bottled coffee, Georgia Japan Craftsman helped to offset a volume decline in can and bottle can products. We expect to continue to expand coverage of Georgia Japan Craftsman through the year as we progressively expand aseptic manufacturing capacity. Sparkling beverages declined 4% due to weak performance of Coca-Cola Peach and Fanta product renewals. The sports category declined 3% and water declined 14%, mainly driven by weak performance of iLohas brand flavored water as we cycled prior year launches, and lower sales of large PET Morinomizu Dayori brand water.

(2) Details of Consolidated Financial Position

Assets at the end of the quarter were JPY 936,411 million, an increase of JPY 58,939 million from the end of the previous fiscal year. This is mainly attributable to an increase of non-current assets by newly including Right-of-use assets as a result of IFRS 16 implementation starting from this fiscal year. In addition, fixed assets increased as a result of commissioning two new production lines in Kumamoto and Kyoto.

Liabilities at the end of the quarter were JPY 379,043 million, an increase of JPY 82,477 million from the end of previous fiscal year. This is mainly due to an increase of lease liabilities in conjunction with including Right-of-use assets, and an increase of Bond and debt in current liabilities driven by higher borrowing for operational needs, etc.

Net assets at the end of the quarter were JPY 557,368 million, a decrease of JPY 23,538 million. This is mainly due to a decrease of Retained earnings as a result of paying year-end dividends, and an increase of Treasury shares due to completion of the most recent share buyback program.

(3) Information on the Future Outlook, Such as Forecast of Consolidated Financial Results

After reviewing recent business performance, the Company announced an update to its full-year 2019 (January 1 to December 31, 2019) earnings forecast, which was previously released on February 14, 2019. For details, please refer to the “Revision of Full-Year 2019 Forecast” separately announced today.

2. Condensed Quarterly Consolidated Financial Statements and Main Notes

(1) Condensed Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2018	As of March 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	65,510	54,129
Trade and other receivables	92,402	90,591
Inventories	68,781	72,056
Other financial assets	645	721
Other current assets	10,740	15,670
Total current assets	238,078	233,166
Non-current assets:		
Property, plant and equipment	435,305	447,247
Right-of-use assets	—	45,640
Goodwill	88,880	88,880
Intangible assets	66,539	66,722
Investments accounted for using equity method	298	296
Other financial assets	34,796	35,712
Net defined benefit asset	38	—
Deferred tax assets	6,264	11,342
Other non-current assets	7,274	7,406
Total non-current assets	639,394	703,245
Total assets	877,472	936,411

(Millions of yen)

	As of December 31, 2018	As of March 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities:		
Trade and other payables	105,701	125,924
Bonds and debts	45,512	64,628
Lease liabilities	—	6,778
Other financial liabilities	993	235
Income taxes payable	3,069	239
Provisions	18	20
Other current liabilities	22,230	25,364
Total current liabilities	177,524	223,189
Non-current liabilities:		
Bonds and debts	56,401	55,576
Lease liabilities	—	40,602
Other financial liabilities	749	371
Net defined benefit liabilities	33,712	29,197
Provisions	2,191	2,179
Deferred tax liabilities	23,082	24,849
Other non-current liabilities	2,907	3,080
Total non-current liabilities	119,042	155,854
Total liabilities	296,566	379,043
Equity;		
Capital stock	15,232	15,232
Capital Surplus	450,533	450,511
Retained earnings	182,418	171,276
Treasury Shares	(72,651)	(85,641)
Accumulated other comprehensive income	4,915	5,538
Equity attributable to owners of parent	580,448	556,915
Non-controlling interests	458	453
Total equity	580,906	557,368
Total liabilities and equity	877,472	936,411

(2) Condensed Quarterly Consolidated Statements of Income and Comprehensive Income

(Condensed Quarterly Consolidated Statements of Income)

(First three-month period of a fiscal year)

(Millions of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2019
Net sales	205,614	198,733
Cost of sales	104,686	104,131
Gross profit	100,928	94,602
Selling and general administrative expenses	101,021	98,140
Other income	417	293
Other expenses	515	9,565
Share of income (loss) of entities accounted for using equity method	(2)	(14)
Operating income (loss)	(192)	(12,824)
Financial revenue	52	377
Finance costs	295	268
Income (loss) for the period before income taxes	(435)	(12,715)
Income tax expense	(158)	(4,730)
Net income (loss) for the period	(277)	(7,985)
Net income (loss) for the period attributable to:		
Owners of parent	(290)	(8,002)
Non-controlling interests	13	17
Earnings (loss) per share (yen)	(1.42)	(44.22)

(Condensed Quarterly Consolidated Comprehensive Income)

(First three-month period of a fiscal year)

(Millions of yen)

	Three months ended March 31, 2018	Three months ended March 31, 2019
Net income (loss) for the period	(277)	(7,985)
Other comprehensive income		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurements of defined benefit plans	(2)	1,785
Net changes in financial assets measured at fair value through other comprehensive income	(1,089)	673
Subtotal	(1,091)	2,458
Items that may be reclassified subsequently to profit or loss:		
Foreign currency translation adjustments of foreign operations	(0)	—
Cash flow hedges	(1,034)	(9)
Subtotal	(1,034)	(9)
Total other comprehensive income (loss) for the period	(2,125)	2,449
Total comprehensive income (loss) for the period	(2,403)	(5,536)
Comprehensive income (loss) attributable to:		
Owners of parent	(2,415)	(5,553)
Non-controlling interests	13	17

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Three months ended March 31, 2018

(Millions of yen)

	Equity attributable to owners of parent							
	Capital stock	Capital surplus	Retained earnings	Treasury Shares	Accumulated other comprehensive income	Total	Non-controlling interests	Total
Balance as of January 1, 2018	15,232	450,498	184,317	(4,693)	9,258	654,611	427	655,038
Comprehensive income for the period								
Net income (loss) for the period	—	—	(290)	—	—	(290)	13	(277)
Other comprehensive income (loss)	—	—	—	—	(2,125)	(2,125)	—	(2,125)
Total comprehensive income (loss) for the year	—	—	(290)	—	(2,125)	(2,415)	13	(2,403)
Transactions with owners, etc.								
Dividends of surplus	—	—	(4,494)	—	—	(4,494)	(21)	(4,514)
Purchase of treasury stock	—	—	—	(11)	—	(11)	—	(11)
Disposal of treasury stock	—	0	—	0	—	1	—	1
Transactions of share-based payment	—	38	—	—	—	38	—	38
Reclassification from accumulated other comprehensive income to retained earnings	—	—	(6)	—	6	—	—	—
Reclassification from accumulated other comprehensive income to non-financial assets	—	—	—	—	(39)	(39)	—	(39)
Total transactions with owners, etc.	—	39	(4,500)	(11)	(33)	(4,505)	(21)	(4,526)
Balance as of March 31, 2018	15,232	450,536	179,527	(4,704)	7,099	647,691	419	648,110

Three months ended March 31, 2019

(Millions of yen)

	Equity attributable to owners of parent							
	Capital stock	Capital surplus	Retained earnings	Treasury Shares	Accumulated other comprehensive income	Total	Non-controlling interests	Total
Balance as of January 1, 2019 (Before restatement)	15,232	450,533	182,418	(72,651)	4,915	580,448	458	580,906
Adjustments resulting from the adoption of IFRS 16	—	—	(338)	—	—	(338)	—	(338)
Balance as of January 1, 2019 (After restatement)	15,232	450,533	182,080	(72,651)	4,915	580,110	458	580,568
Comprehensive income for the year								
Net income (loss) for the period	—	—	(8,002)	—	—	(8,002)	17	(7,985)
Other comprehensive income (loss)	—	—	—	—	2,449	2,449	—	2,449
Total comprehensive income (loss) for the year	—	—	(8,002)	—	2,449	(5,553)	17	(5,536)
Transactions with owners, etc.								
Dividends of surplus	—	—	(4,587)	—	—	(4,587)	(22)	(4,609)
Purchase of treasury stock	—	(64)	—	(12,991)	—	(13,055)	—	(13,055)
Disposal of treasury stock	—	(0)	—	0	—	0	—	0
Transactions of share-based payment	—	41	—	—	—	41	—	41
Reclassification from accumulated other comprehensive income to retained earnings	—	—	1,785	—	(1,785)	—	—	—
Reclassification from accumulated other comprehensive income to non-financial assets	—	—	—	—	(41)	(41)	—	(41)
Total transactions with owners, etc.	—	(23)	(2,802)	(12,991)	(1,827)	(17,642)	(22)	(17,664)
Balance as of March 31, 2019	15,232	450,511	171,276	(85,641)	5,538	556,915	453	557,368

(4) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes Relating to Going Concern Assumption)

Not applicable.

(Changes in Accounting Policies)

The Group has adopted following standards from the first quarter.

Establishment or revision of accounting standards and interpretations	Summary of requirements
IFRS 16 Leases (published January 2016)	New standard for leases, replacing IAS 17, requires all leases to be shown on the statements of financial position as if they were financed purchases. The new standard sets out the principles for the recognition, measurement, presentation and disclosures of leases.

The Group has adopted IFRS 16 “Leases” (hereinafter, “IFRS 16”), from the first quarter ended March 31, 2019. The Group retrospectively applied IFRS 16 according to transitional measures, the cumulative effect of the commencement of application is recognized as an adjustment to the opening balance of retained earnings in the first quarter. In the transition to IFRS 16, the practical expedient of IFRS 16.C3 was selected as to whether an arrangement contains a lease or not, it takes over the judgment of IAS 17 “Leases” and IFRIC 4 “Determining whether an Arrangement contains a Lease”.

IFRS 16 requires that lessee's lease not be classified as finance lease or operating lease, but rather as a single accounting model and, in principle, recognize the right-of-use asset representing the right to use the underlying asset and the lease liability representing the obligation to pay the lease payments for all lease. However, for short-term lease or leases for which the underlying asset is of low value, the Group may elect not to apply the requirements of this standard. After recognizing right-of-use asset and lease liability, right-of-use asset depreciation and interest expense related to lease liability are recognized.

In the Group, the lease term of the right-of-use assets is estimated by adding a reasonably reliable period in which the option to extend the lease is not exercised or the option to cancel the lease is not exercised. In addition, the discount rate applied to the lease liabilities for the right-of-use assets uses the lessee's incremental borrowing rate, and the weighted average is 1.0%. Right-of-use assets are depreciated using the straight-line method mainly over 15 years from the start date.

As of the end of the previous consolidated fiscal year, finance lease liabilities that were recognized by applying IAS 17 were 901 million yen.

Of 7,644 million yen (before discount) of the operating lease contracts disclosed by applying this standard,549 million yen (before discount) is accounted for as a small-value asset lease, in addition, there is 37,409 million yen increase in lease liabilities over a period in which it is reasonably certain that the extension option will be exercised.

As a result, in the consolidated statement of financial position at the beginning of the first quarter under review, right-of-use assets increased by 59,234 million yen, deferred tax assets increased by 15,200 million yen, lease liabilities increased by 44,505 million yen, deferred tax liabilities increased by 15,028 million yen and long-term accounts payable increased by 40 million yen, retained earnings decreased by 338 million yen. Deferred tax assets and Deferred tax liabilities are offset on the consolidated balance sheets based on IAS 12 “Income taxes”.

(Segment Information)

Operating segments of the Group are components for which discrete separate financial information is available and which are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess its performance. The Group establishes organizational management system for each product and service and identified “Beverage Business” and “Healthcare & Skincare Business” as operating segment and reportable segment based on the type and the nature of the products and sales market. Following reportable segments are identified by the Group and there are no operating segments or summarized segments that consist of reportable segments other than followings.

Reportable segments	Principal Products and Services
Beverage Business	Purchase, manufacture and sale of carbonated beverages such as Coca-Cola, coffee and black tea beverages, mineral water, etc., bottling, packaging, distribution and marketing, vending machine-related business in Japan
Healthcare & Skincare Business	Manufacture and sale of kale juice (aojiru) and other products made from Kale, as well as the manufacture and sale of health foods, cosmetics and other related products

The Board of Directors evaluates the performance of each segment compared to other companies in the same industry by using operating income as reported in accordance with generally accepted accounting principles (IFRS).

Information about reportable segments is as follows:

First three-month period of the previous fiscal year (January 1, 2018 – March 31, 2018)

(Millions of yen)

	Reportable segments				
	Beverage Business	Healthcare & Skincare Business	Reportable segments Total	Adjustment	Total
Sales revenue to external customers	198,110	7,504	205,614	—	205,614
Intersegment sales revenue	—	—	—	—	—
Total sales revenue	198,110	7,504	205,614	—	205,614
Segment profit (loss)	(1,744)	1,552	(192)	—	(192)
Adjustments					
Financial revenue					52
Finance costs					295
Income (loss) before tax					(435)

First three-month period of this fiscal year (January 1, 2019 – March 31, 2019)

(Millions of yen)

	Reportable segments				
	Beverage Business	Healthcare & Skincare Business	Reportable segments Total	Adjustment	Total
Sales revenue to external customers	192,767	5,966	198,733	—	198,733
Intersegment sales accumulation	—	—	—	—	—
Total sales revenue	192,767	5,966	198,733	—	198,733
Segment profit (loss)	(13,538)	714	(12,824)	—	(12,824)
Adjustments					
Financial revenue					377
Finance costs					268
Income (loss) before tax					(12,715)