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Consolidated Financial Summary for the Third Quarter Ended September 30, 2018 (Japanese Standard)



November 9, 2018

Listed company name: Coca-Cola Bottlers Japan Holdings Inc.
Code number: 2579
Representative: Representative Director & President
Contact: Head of Controllers Senior Group, Finance
Expected date of quarterly report submission: November 13, 2018
FY 2018 3Q supplementary information: Yes
FY 2018 3Q earnings presentation: Yes

Listed stock exchanges: Tokyo and Fukuoka
URL: <https://en.ccbj-holdings.com/>
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Expected date of the dividend payments: —

(Fractions of one million yen are rounded down)

1. Consolidated financial results for the 3rd quarter 2018 (from January 1, 2018 to September 30, 2018)

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

(1) Consolidated financial results

	Net revenues		Operating income		Ordinary income		Net profit attributable to shareholders of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
3rd quarter 2018	741,254	14.9	32,016	(17.1)	31,196	(17.6)	13,936	(41.4)
3rd quarter 2017	645,088	82.4	38,606	102.9	37,876	106.7	23,797	123.9

Note: Comprehensive income

3Q 2018: 14,199 million yen (46.8 %) 3Q 2017: 26,707 million yen 228.5 %

	Earnings per share	Diluted earnings per share
	yen	yen
3rd quarter 2018	71.83	—
3rd quarter 2017	143.17	—

(2) Consolidated financial position

	Total assets	Net assets	Net assets (excl. non-controlling interests) to total assets
As of	million yen	million yen	%
3rd quarter 2018	835,541	576,548	69.0
Full year 2017	883,918	627,485	70.9

Reference: Net assets (excl. non-controlling interests)

3Q 2018: 576,107 million yen End of 2017: 627,058 million yen

2. Dividends

(Record date)	Dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
Year ended	yen	yen	yen	yen	yen
Full year 2017	—	22.00	—	22.00	44.00
Full year 2018	—	25.00	—	—	—
Full year 2018 (forecast)	—	—	—	25.00	50.00

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

3. Forecast of consolidated financial results 2018 (from January 1, 2018 to December 31, 2018)

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

	Net revenues		Operating income		Ordinary income		Net profit attributable to shareholders of parent		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	Yen
Full year 2018	965,300	10.6	27,000	(33.5)	25,200	(36.8)	9,000	(64.3)	46.77

Note: Revisions to the forecasts of consolidated financial results most recently announced: None

Notes

- (1) Changes in significant subsidiaries during the current period : None
- (2) Application of special accounting in preparing the quarterly consolidated financial statement : None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- 1) Changes in accounting policies due to revisions to accounting standards : None
 - 2) Changes other than those in 1) above : None
 - 3) Changes in accounting estimates : None
 - 4) Restatement of prior period financial statements : None
- (4) Number of outstanding shares (common shares)
- 1) Number of outstanding shares at the end of period (including treasury stock):
3Q 2018: 206,268,593 shares FY 2017: 206,268,593 shares
 - 2) Number of treasury stock at the end of period:
3Q 2018: 19,095,922 shares FY 2017: 2,015,532 shares
 - 3) Average number of outstanding shares during the period (nine months):
3Q 2018: 194,004,590 shares 3Q 2017: 166,211,884 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, Including 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 year-to-date results as of third quarter of the fiscal year ending on December 31, 2018, (January 1, 2018 to September 30, 2018). Tamio Yoshimatsu, president of CCBJH said, “2018 has been a tough year for Coca-Cola Bottlers Japan. While it will take some time to get back on track after the flooding in Western Japan, we are making necessary investments and we remain committed to executing our strategy to position this company for longer-term sustainable growth”.

In the year-to-date period, total nonalcoholic ready-to-drink (NARTD) beverage industry volume performance is expected to be positive, supported by a record hot summer which helped to offset the negative impact of various natural disasters, such as earthquakes and typhoons. The health food and cosmetics industries continue to grow, driven by demand from health-conscious consumers and inbound tourism, while the competitive environment has been marked by successive product launches by various industry players to meet growing consumer demand.

In the case of CCBJH, the heavy rain and flooding experienced in Western Japan in July had a severe impact on our operations in the region. The Hongo manufacturing plant and adjacent warehouse and distribution center of our subsidiary, Coca-Cola Bottlers Japan Inc., located in Mihara City, Hiroshima Prefecture, experienced substantial flooding due to the heavy rains in July, with equipment and finished goods inventory were damaged. In addition, some other facilities and sales centers in the region, as well as cold drink equipment and vehicles were damaged in the flooding, and local distribution infrastructure was impacted. CCBJH announced revised full-year earnings guidance reflecting the impact of the damage as well as underlying business trends on October 10, 2018.

CCBJH’s year-to-date results are summarized as follows. In addition to this qualitative information section, please also see the supplemental earnings presentation material posted on our Company IR website (<https://en.ccbj-holdings.com/ir/library/presentation.php>), which will be used for the earnings presentation and audio webcast on Monday, November 12, 2018 at 1:30 p.m. (JST).

Highlights

- Revised full-year forecast reflecting the impact of the flood damage and underlying business trends. Reported extraordinary loss of 7.9 billion yen due to natural disaster.
- Year-to-date pro-forma beverage volume decreased 2% versus prior year, driven by loss of manufacturing capacity and constrained distribution as we source product supply from other supply points nationwide, as well as some supply restrictions due to surge in demand for newly-launched aseptic products.
- Year-to-date reported net revenue increased 15% versus prior year due to the April 1, 2017 business integration. Net revenue decreased 3% on a pro-forma basis, primarily driven by the volume decline and negative channel and package mix.
- Year-to-date reported operating income decreased 17% versus prior year driven by increased logistics expenses and continued negative channel and package mix as well as an increase of goodwill amortization from the creation of CCBJH. Pro-forma operating income decreased 20% driven by lower revenue on top of reported results
- Continued focus on a clear financial framework for value creation. Announced new 25 billion yen share-buyback program in addition to repurchase of 8.28% of total outstanding shares in April
- Recovery of manufacturing capacity in Chugoku area and expansion of capacity to meet increasing consumer demand nationwide are a priority. We are progressively expanding manufacturing capacity, including relocation and reconstruction of the Hongo plant, to resume operation by Spring 2020.

*Pro-forma: Assuming the business integration of Coca-Cola West Co., Ltd. (CCW) and Coca-Cola East Japan Co., Ltd. (CCEJ) from January 2017.

Review of Results

Reported Results

Year-to-date Q3 (January to September)

In Million JPY	2017	2018	YoY
Net Revenue	645,088	741,254	+14.9%
Operating Income	38,606	32,016	-17.1%
Net Income Attributable to Owners of Parent	23,797	13,936	-41.4%

*2017 results are consolidated results of former CCW in the first quarter, and integrated results of CCBJH from April 1, 2017 to December 31, 2017.

Third-quarter year-to-date reported consolidated net revenue was 741,254 million yen, an increase of 96,165 million yen, or 15% compared to the prior-year period, and consolidated net revenue of the beverage business increased 97,263 million yen to 720,100 million yen (up 16%) year-on-year, primarily due to the business integration of CCW and CCEJ effective April 1, 2017. Consolidated net revenues of the healthcare & skincare business fell by 1,097 million yen to 21,153 million yen (down 5%) year-on-year, as growth of newly-launched products was unable to offset weakness of existing product performance due to increased competition, etc.

Third-quarter year-to-date reported operating income was 32,016 million yen, a decrease of 6,589 million or 17% year-on-year. Operating income of the beverage business decreased 6,892 million yen, or 19% year-on-year to 29,448 million yen, mainly driven by disruptions to product supply caused by the heavy rain in Western Japan as well as some supply constraints due to a surge in demand of newly-launched aseptic products. In addition, continued negative channel and package mix, as well as goodwill amortization related to the business integration, impacted operating income during the period. Operating income in the healthcare & skincare business was 2,567 million yen, an increase of 302 million yen or 13% year-on-year, as we continued a strong focus on operating efficiency in sales promotion, etc. Year-to-date net income attributable to owners of parent was 13,936 million yen, a decrease of 9,861 million yen, or 41% versus prior year, mainly driven by 7,945 million yen in extraordinary loss due to natural disaster.

<Reference>

Pro forma Results

Year-to-date Q3 (January to September)

In Million JPY	2017	2018	YoY
Net Revenue	764,029	741,254	-3%
Operating Income	40,131	32,016	-20%
Net Income (Loss) Attributable to Owners of Parent	24,389	13,936	-43%
Sales volume of beverage business (Million cases)	403	395	-2%

* Sales volume of beverage business does not include alcoholic beverage volume

Pro-forma net revenue, assuming the business integration of CCW and CCEJ from January 2017, decreased JPY 22,774 million, or 3% year on year. Due to the loss of production capacity at the Hongo plant and related supply constraints primarily in the third quarter after the July flooding, together with ongoing negative channel and package mix trends, sales volume and revenue for the beverage business declined 2% and 3%, respectively, in the year-to-date period. Pro-forma operating income decreased 8,115 million yen, or 20%, due to the revenue decline as well as higher transportation and logistics costs due to alternate product sourcing, negative channel and package mix, higher direct marketing expenses (DME) and goodwill amortization resulting from the business integration in April 2017. Third-quarter year-to-date pro-forma net income attributable to owners of parent decreased JPY 10,453 million or 43% year on year, mainly driven by 7.9 billion yen in extraordinary loss due to natural disaster.

Pro-forma beverage volume performance by channel and category

By channel, volume grew 2% in the drug & discounter channel and was 1% versus prior year in the convenience store channel, with new product launches contributing to growth. The supermarket channel, non-sugar tea, sparkling beverages and coffee volumes grew, but the channel volume slightly declined versus prior year as we rationalized some SKUs and asked to pull back on “chirashi” promotional activities to customers in the third quarter. The vending channel volume declined 8% as the channel was primarily impacted by supply constraints and prioritizing customer relationship in third quarter.

By category, sparkling beverage volume grew 3% and non-sugar tea volume was even. Coffee, sports and water categories volume decreased 5%, 4% and 11% versus prior year, respectively. Coffee category volume declined due to continued weakness in can and bottle can packages as well as in the vending channel, where Georgia Japan Craftsman has not yet to be fully deployed. Excluding the vending channel, coffee volumes grew 1% year-to-date. In water, premium iLohas natural mineral water volume grew, however, overall category volume declined due to cycling of flavor launches in the prior year and a pull-back in large-package volume.

(2) Details of Consolidated Financial Position

Assets at the end of the quarter were 835,541 million yen, a decrease of 48,377 million yen from the end of the previous fiscal year. This is mainly attributable to a decrease of cash and deposits, marketable securities, etc. due to the share repurchase completed in the second quarter, decrease of assets damaged by the disaster, partially offset by an increase of merchandise and finished goods, raw material and supplies, etc.

Liabilities at the end of this quarter were 258,992 million yen, an increase of 2,560 million yen from the end of the previous fiscal year. This is mainly due to an increase of trade notes and accounts payable driven by a seasonal increase of merchandise and finished goods, raw material and supplies, etc. offsets by a decrease of net defined benefits liability, long-term loans, etc.

Net assets at the end of this quarter were 576,548 million yen, a decrease of 50,937 million yen. This is mainly due to an increase of treasury stock due to the share repurchase completed on April 2018.

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

There are no change of full-year 2018 forecast the company announced on October 10, 2018.

2. Quarterly Consolidated Financial Statements and Main Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2017	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	101,858	51,743
Trade notes and accounts receivable	69,266	79,655
Marketable securities	17,000	—
Merchandise and finished goods	54,357	62,318
Work in process	267	580
Raw materials and supplies	7,323	9,526
Other	36,277	45,737
Allowance for doubtful accounts	(376)	(632)
Total current assets	285,974	248,930
Fixed assets		
Property, plant and equipment		
Buildings and structures, net	73,145	69,853
Machinery, equipment and vehicles, net	67,382	58,896
Sales equipment, net	111,800	114,343
Land	151,375	152,097
Construction in progress	591	3,661
Other, net	5,897	5,429
Total property, plant and equipment	410,192	404,281
Intangible assets		
Goodwill	76,557	73,166
Franchise intangible	50,098	48,146
Other	14,437	13,566
Total intangible assets	141,092	134,878
Investments and other assets		
Investment securities	31,792	32,039
Retirement benefit assets	257	295
Other	15,567	16,336
Allowance for doubtful accounts	(958)	(1,221)
Total investments and other assets	46,659	47,450
Total fixed assets	597,944	586,610
Total assets	883,918	835,541

(Millions of yen)

	As of December 31, 2017	As of September 30, 2018
Liabilities		
Current liabilities		
Trade notes and accounts payable	40,496	48,883
Current portion of long-term borrowings	1,817	1,606
Accrued income taxes	8,356	7,733
Other accounts payable	55,410	56,041
Provision for sales and promotion expenses	427	491
Provision for bonuses	2,521	6,401
Provision for directors' bonuses	134	33
Other	17,193	12,751
Total current liabilities	126,357	133,944
Non-current liabilities		
Bonds payable	66,000	66,000
Long-term loans payable	12,031	10,541
Net defined benefit liability	20,358	18,524
Provision for performance-linked incentive	—	80
Liabilities for directors' retirement benefits	30	23
Provision for environmental measures	90	90
Other	31,563	29,787
Total non-current liabilities	130,075	125,048
Total liabilities	256,432	258,992
Equity		
Shareholders' equity		
Capital stock	15,231	15,231
Capital surplus	450,568	450,561
Retained earnings	155,535	160,298
Treasury stock	(4,692)	(60,636)
Total shareholders' equity	616,642	565,455
Accumulated other comprehensive income		
Net unrealized gains (or losses) on other marketable securities	6,886	7,084
Deferred gains (or losses) on hedges	590	407
Foreign currency translation adjustments	12	12
Accumulated adjustments for defined benefit plans	2,926	3,147
Total accumulated other comprehensive income	10,416	10,651
Non-controlling interests	426	440
Net assets	627,485	576,548
Total liabilities and equity	883,918	835,541

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
(Quarterly Consolidated Statements of Income)
(First nine-month period of a fiscal year)

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Net revenues	645,088	741,254
Cost of goods sold	310,837	358,692
Gross profit	334,250	382,561
Selling, general and administrative expenses	295,644	350,545
Operating income	38,606	32,016
Non-operating income		
Interest income	15	2
Dividends income	278	292
Rent income	246	300
Gain on sales of valuable wastes	246	522
Other	232	290
Total non-operating income	1,019	1,409
Non-operating expenses		
Interest expense	401	409
Investment loss on equity method	37	153
Loss on disposal of property plant and equipment	757	1,245
Other	553	420
Total non-operating expenses	1,749	2,229
Ordinary income	37,876	31,196
Extraordinary income		
Gain on sale of property plant and equipment	369	—
Gain on sale of investment securities	16	91
Gain on sales of shares of subsidiaries	—	388
Gain on step acquisitions	188	—
Total extraordinary income	574	480
Extraordinary losses		
Loss on disaster	—	7,945
Business integration-related expenses	721	—
Total extraordinary losses	721	7,945
Income before income taxes and non-controlling interests	37,730	23,730
Income taxes - current	12,934	13,459
Income taxes - deferred	1,014	(3,692)
Total income taxes	13,949	9,766
Net profit	23,780	13,963
Net profit (loss) attributable to non-controlling interests	(16)	27
Net profit attributable to shareholders of parent	23,797	13,936

(Quarterly Consolidated Statements of Comprehensive Income)
(First nine-month period of a fiscal year)

(Millions of yen)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Net profit	23,780	13,963
Other comprehensive income		
Net unrealized gains (or losses) on other marketable securities	1,959	197
Deferred gains or losses on hedges	508	(182)
Foreign currency translation adjustments	18	(0)
Remeasurements of defined benefits	440	224
Share of other comprehensive income of investees equity-method	(0)	(3)
Total other comprehensive income	2,926	235
Comprehensive income	26,707	14,199
Comprehensive income attributable to shareholders of the parent	26,724	14,171
Non-controlling interests	(16)	27

(3) Notes to Quarterly Consolidated Financial Statements

(Notes Relating to Assumptions for the Going Concern)

Not applicable.

(Notes for Case Where Shareholders' Equity underwent Significant Changes in Value)

The Company repurchased its own shares by means of a tender offer in accordance with the Board of Directors resolution as of February 21, 2018. As a result, treasury stock increased by 55,921 million yen during the nine-month period ended September 30, 2018, and amounted to 60,636 million yen as of September 30.

(Application of Special Accounting for Preparing the Quarterly Consolidated Financial Statement)

Not applicable.

(Segment Information)

First nine-month period of the previous fiscal year (January 1, 2017 – September 30, 2017)

1. Information on net revenues and profits or losses by reported segment

(Millions of yen)

	Beverage business	Healthcare & skincare business	Total
Net revenues			
Net revenues-outside customers	622,837	22,251	645,088
Net revenues and transfer-inter-segment	—	—	—
Total	622,837	22,251	645,088
Segment profit	36,341	2,264	38,606

(Note) Net revenues and Segment profit are equivalent to Net revenues and Operating income in Quarterly Consolidated Statements of Income, respectively.

First nine-month period of this fiscal year (January 1, 2018 – September 30, 2018)

1. Information on net revenues and profits or losses by reported segment

(Millions of yen)

	Beverage business	Healthcare & skincare business	Total
Net revenues			
Net revenues-outside customers	720,100	21,153	741,254
Net revenues and transfer-inter-segment	—	—	—
Total	720,100	21,153	741,254
Segment profit	29,448	2,567	32,016

(Note) Net revenues and Segment profit are equivalent to Net revenues and Operating income in Quarterly Consolidated Statements of Income, respectively.

2. Matters relating to changes in the Company's reported segments

(Change of segment name)

From the first quarter consolidated accounting period, the segment name of "Soft drink business" has been changed to "Beverage business" in order to more properly display the business contents.

There is no effect on segment information due to segment name change.