

# Financial Results for Q2 Fiscal Year Ending December 31, 2017

August 7, 2017

Suntory Beverage & Food Limited



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This is Saburo Kogo.

Thank you very much for joining us for the announcement of the financial results.

Last month marked four full years since our listing, and today, it has been announced that our company will be included in the JPX Nikkei Index 400. We will strive to further increase our corporate value and shareholder value. We appreciate your support in advance.

# Review of First Half FY2017

Saburo Kogo, President & CEO

Next, I would like to look back on the first half of FY2017.

# Performance Highlights

Sales and profit grew, driven by Japan and Asia business

	FY2017 Jan - Jun	(Billions of yen)	
		% YoY	Currency neutral
Net Sales	689.6	+1.6%	+2.2%
Operating Income	43.0	+7.9%	+9.6%
Net Income*	20.5	+14.8%	+17.1%

\* Net income attributable to owners of the parent

First, I will explain the performance highlights.

Net sales was 689.6 billion yen, up 1.6%, and up 2.2% on a currency neutral basis.

Operating income was 43 billion yen, up 7.9%, and up 9.6% on a currency neutral basis.

Net income was 20.5 billion yen, up 14.8%.

Looking at each region and country, we experienced events that we had not expected in the beginning of the year, but we were able to adapt to changes in the environment and end the first half with increase in sales and profit.

The dividends for the second quarter is 37 yen, up 3 yen from last year.

## Aim for higher sales growth than market and higher profit growth than net sales

### [Key Factors of FY2017 Management Policy]

- Continue and further reinforce business foundation in each region
- Expand business in new markets where high growth is expected (Asia, Africa)
- Expand premium business (Health supplement business in Asia)
- Further reinforce global management structure

This page shows the management policies that we have announced in February.

This year, we have been active in each area, aiming to achieve sales growth that outperforms the market, and profit growth that outperforms sales.

We have been continuing and digging deeper into our activities to further reinforcing business foundations in Japan, Europe, Asia, Oceania, and the Americas.

Mr. Inada will go over the details of each market later.

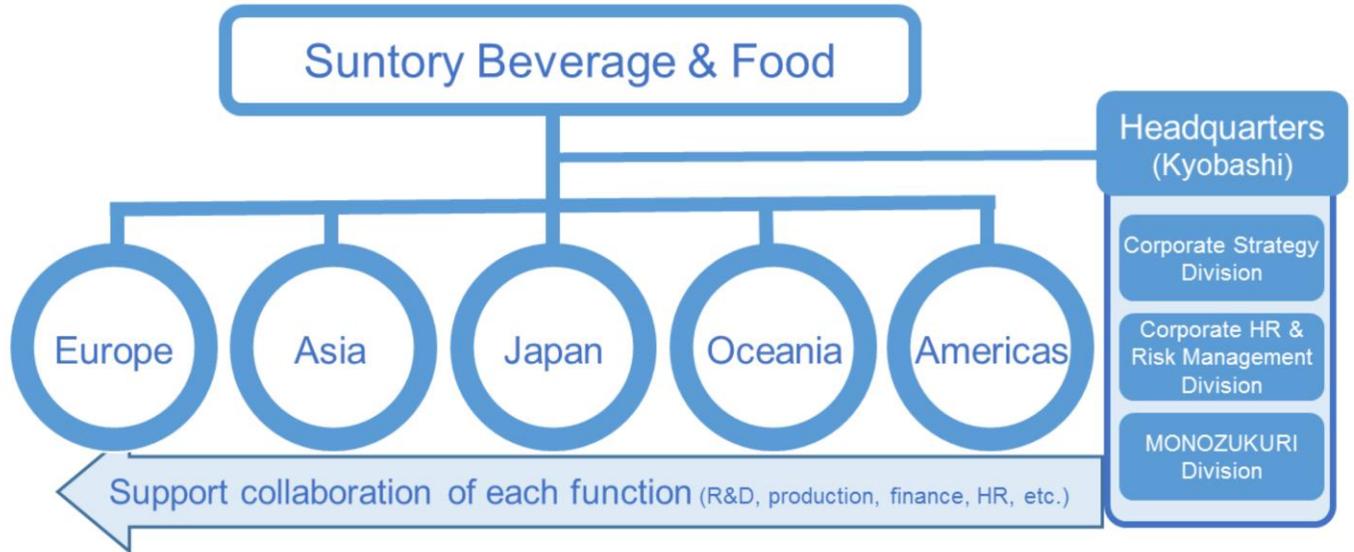
We will also expand business in new markets in Asia and Africa, where high growth is expected, and expand the health supplement business, which is a premium business.

In Thailand, which is our core market, we have begun working with a new distributor and have set up a system that can deliver products to even more consumers.

I will explain the further reinforcement of the global management structure in more detail.

# Further Reinforce Global Management Structure (1)

Actively promote autonomy and global management



First, we are working to actively promote autonomy in each area and also global management.

As we have announced in February, we made changes to the organization as of April 1<sup>st</sup>.

When our company first started, Japan made up the majority of our business, and the headquarters was responsible for part of the Japan business.

However, with the advancement of globalization, the ratio of Japan and Overseas businesses has become more balanced.

This has led us to clearly reposition Japan together with Europe, Asia, Oceania, and the Americas as one business unit and promote autonomous management in each region.

Also, our headquarters which we call “Kyobashi” based on our address, has changed its governance structure for global management as well.

Kyobashi has now been streamlined into three divisions: Corporate Strategy Division, Corporate HR & Risk Management Division, and MONOZUKURI Division.

Kyobashi will be responsible for supporting coordination among different functions, such as developing new products that provide value to consumers in each region and country, horizontally expanding manufacturing know how and processes, efforts in the finances department to generate cash flow, and management of global talent.

## Further Reinforce Global Management Structure (2)

Strengthen a sense of unity as one group



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Another element of the reinforcement of the global management structure is strengthening a sense of unity as one group, in other words becoming “One Suntory” or “One SBF (Suntory Beverage & Food).”

We call members who work in the Suntory Group “Suntorians.”

We believe that it is important for all Suntorians working all over the globe to share common values.

We want to continue to be a vibrant and dynamic company that offers new value to society by carrying on the Yatte-Minahare torch of our Founding Spirit.

We want to continuously create new value, supported by a corporate culture that is frank, flat and flexible, and powered by a diverse group of talented individuals.

We are working to spread those values to our group companies overseas.

Also this year, we have changed the company name of the health supplement business in Asia to “BRAND’S SUNTORY”, a combination of the brand name “BRAND’S” and “SUNTORY.” The FRUCOR Group in Oceania had their name changed to FRUCOR SUNTORY as well.

We will continue to further strengthen global unity and “One SBF” through these efforts.

Aim for 5<sup>th</sup> consecutive YoY increase in net sales and profit since listed in 2013 <sup>\*1</sup>

(Billions of yen)

	FY2017 Forecast	% YoY	Currency neutral
Net Sales	1,430.0	+1.4%	+2.2%
Operating Income	98.0	+4.8%	+6.4%
Net Income <sup>*2</sup>	47.0	+2.0%	+3.7%

<sup>\*1</sup>: Fifth consecutive year-on-year increase from 2013 to 2017, compared from 2012.

<sup>\*2</sup>: Net income attributable to owners of the parent

This is the earning forecast for FY 2017.

We have not made any significant changes from what we have announced on February 13<sup>th</sup>.

We will aim to achieve increase in sales and profit for 5 consecutive years since our listing by making sure to respond to changes in the business environment of each country and region.

That is it from me.

# Financial Results of First Half FY2017

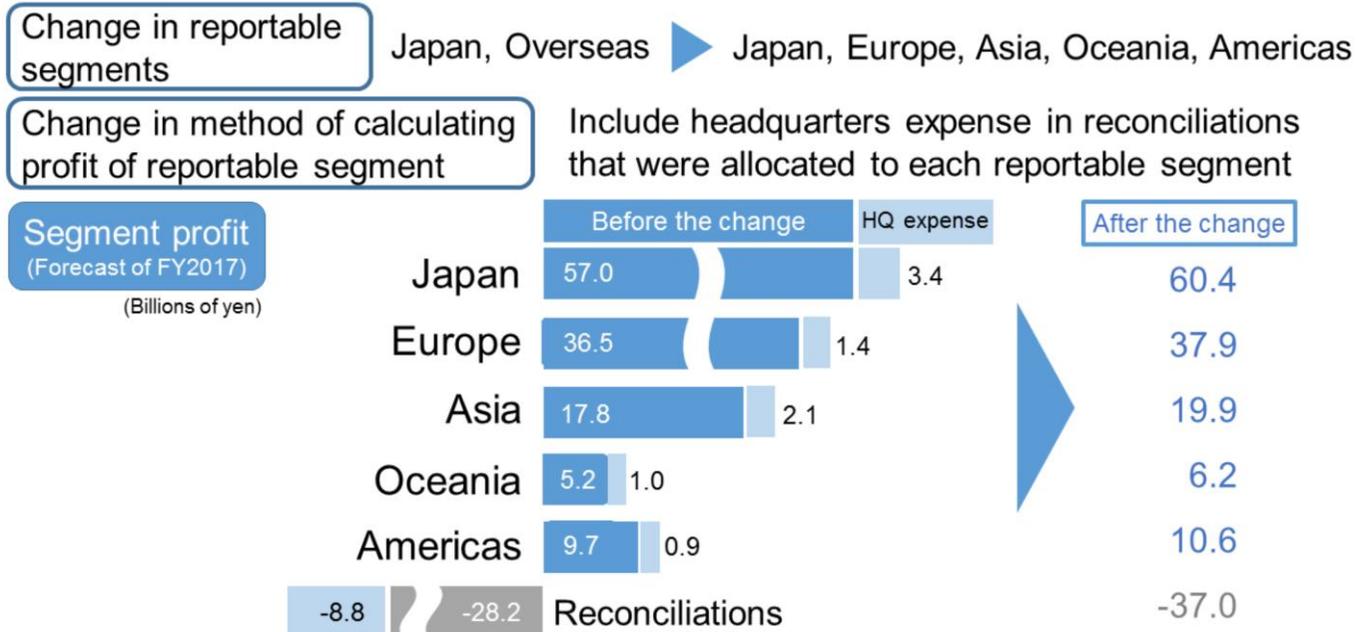
Haruhisa Inada, Managing Executive Officer

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This is Haruhisa Inada, Managing Executive Officer at SBF.

I will explain the financial highlights.

# Changes in Reportable Segments



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Before going into the results, I will explain the changes that were made to the segments.

As Mr. Kogo mentioned earlier, the Company implemented organizational changes on April 1<sup>st</sup>, 2017. With the organizational change, classification of the reportable segments and the method of calculating profit of the reportable segments has been changed as well.

First, I will explain the changes to the reportable segments. The previous reportable segments of “Japan business” and “Overseas business” have been changed to “Japan business,” “Europe business,” “Asia business,” “Oceania business” and the “Americas business.”

However, this does not result in substantial difference since we have been disclosing the figures for Europe, Asia, Oceania, and the Americas as part of the breakdown of the Overseas business.

Second, I will explain the changes in the method of calculating profit of the reportable segments.

The headquarters expense that previously were allocated to each reportable segment are now recorded in reconciliations.

As a result, the segment profit has been restated.

Please note that the segment figures which I will present from now, including those of the same period last year, are all reclassified figures.

If you would like to see the reclassified 2016 results, 2017 forecasts, and first quarter results, they are included after page 18.

Also, these changes only impact the results for each segment. The figures for the consolidated sales and operating income of the overall company has not been changed.

# Summary of First Half FY2017

Both sales and profit increased, although trends differ by country

Japan

Sales volume growth outperformed market growth and both sales and profit increased

Europe

Recorded good sales, but higher supply chain cost in France

Asia

Health supplement business grew, but slow recovery in Vietnam

Oceania

Energy drink V recorded good sales

Americas

Good sales but impacted by cost increase (raw materials, etc.)

First is the summary of the first half of FY2017.

The results are varied from country to country, such as France and Vietnam.

However, overall, we were able to end the first half of the year with increase in sales and profit.

I will go over each segment later.

# Financial Results for H1 FY2017

(Billions of yen)

	Sales	Change			Segment Profit	Change		
		YoY	% YoY	Currency neutral		YoY	% YoY	Currency neutral
Japan	426.1	+4.3	+1.0%	-	25.8	+2.3	+9.7%	-
Europe	118.6	+0.4	+0.3%	+5.7%	18.0	-0.9	-4.7%	+1.0%
Asia	84.9	+3.9	+4.8%	+3.6%	11.1	+2.0	+22.4%	+18.9%
Oceania	20.2	+0.8	+4.2%	-0.2%	2.6	+0.1	+4.1%	+4.0%
Americas	39.8	+1.2	+3.0%	+2.5%	4.2	-0.2	-5.4%	-5.9%
Reconciliations	-	-	-	-	-18.7	-0.1	-	-
<b>Total</b>	<b>689.6</b>	<b>+10.5</b>	<b>+1.6%</b>	<b>+2.2%</b>	<b>43.0</b>	<b>+3.1</b>	<b>+7.9%</b>	<b>+9.6%</b>

Next, I will go over the sales and profit by segment.

Japan and Asia drove both sales and segment profit.

The amount of reconciliations is presented at 18.7 billion yen, but this includes the goodwill amortization which was originally booked, and the corporate expenses of 4.3 billion yen which I have explained earlier.

## Sales volume growth outperformed market growth and both sales and profit increased

(Billions of yen)			
Sales	% YoY	Segment Profit	% YoY
426.1	+1.0%	25.8	+9.7%

- Good sales from product renewal and new products of core brands
- Continued initiatives focused on profitability
- Reinforced corporate sales in vending machines business



From here, I will explain the results for each segment. First, Japan.

Sales was 426.1 billion yen, up 1.0%, and segment profit was 25.8 billion yen, up 9.7%. While the market was flat compared to the previous year during the first half, our sales volume increased by 2%.

We continued to reinforce our brands and pursue innovation, following on the policies that we have announced in February.

In addition to our focus on core brands such as *Suntory Tennensui*, *BOSS*, and *Iyemon*, new products such as *Craft Boss* and *Suntory Tennensui PREMIUM MORNING TEA Lemon*, that provide new values contributed positively as well.

We made active brand investments with the launch of new products and product renewals, but we were able to control sales promotion and advertising expenses by focusing on efficiency.

Also, we have been steadily generating profit by continuing our effort to focus on profitability, such as reducing manufacturing cost.

For the vending machine business, we are continuing to enhance our corporate sales. We have been able to capture corporate customers' needs and secure good indoor locations by providing full-line beverage services that utilize various types of machines such as cup type vending machines and tea servers, in addition to the can and pet bottle vending machines.

In addition, "SUNTORY GREEN+," a service that support employee health and welfare management of companies, is a major advantage in corporate sales.

## Reinforcing Core Brands

+5%



Suntory  
Tennensui

+4%



Boss



Pride of Boss  
To be launched on Sep.5

+9%



Iyemon

+1%



Suntory  
Oolong Tea

\* Figures represent sales volume growth in H1 FY2017 compared to H1 FY2016

## Innovation



Craft Boss Black



Suntory Tennensui PREMIUM MORNING TEA Lemon



Suntory Tokucha Jasmine (FOSHU)



Orangina French Sparkling

Now I would like to briefly touch upon activities taken during the first half of reinforcing core brands and pursuing innovation, which is our focus for this year.

First, is activities to reinforce core brands.

For *Suntory Tennensui*, we continued to appeal to the consumers with our water sources, which are the Southern Alps, Okudaisen, and Aso. By reinforcing the brand values of “clear and tasty” and “natural and healthy,” sales volume increased by 5%.

*BOSS* has maintained sales levels of the previous year for its core 185g can products, and by implementing proactive product expansions and marketing activities, overall sales volume of the brand increased by 4%.

Major renewals were done for *Iyemon* and *Suntory Oolong Tea* in their flavor and packaging, to revitalize taste and brand image. Both have recorded good sales, with *Iyemon* sales volume increasing by 9%, and *Suntory Oolong Tea* sales volume increasing by 1%.

Next is regarding innovation. We have launched several products this year that provide new values. We feel that all of these products were products that could have only been launched by SBF, with our strength in product development and marketing.

Products such as *Craft Boss* that introduced a new style for drinking coffee, and *Suntory Tennensui PREMIUM MORNING TEA Lemon* that has created a new category of transparent lemon tea, are both well received by new customers and are contributing to the sales volume.

Also, *Suntory Tokucha Jasmine* and *Orangina French Sparkling*, which were launched in June, recorded a good start.

These new products have also contributed to reinforcing existing brands and are creating a virtuous cycle.

We will continue to implement and enhance similar activities in the second half.

In particular, this fall will be the 25<sup>th</sup> anniversary since the launch of *BOSS*. With the product launch of *Pride of Boss* on September 5<sup>th</sup> in the 185g can format, we will make efforts to create even stronger momentum in this format with its heavy user base.

We will continue to launch new products so please look forward to them.

# Europe: Results for H1 FY2017

## Recorded good sales, but higher supply chain cost in France

		(Billions of yen)	
		Sales	% YoY (Currency neutral)
		118.6	+5.7%
		Segment Profit	% YoY (Currency neutral)
		18.0	+1.0%

	Sales	% YoY (Currency neutral)	
France <sup>*1</sup>	47.5	+6.7%	Both <i>Orangina</i> and <i>Oasis</i> grew Higher supply chain cost
UK <sup>*2</sup>	31.5	+3.2%	<i>Lucozade Sport</i> recorded good sales
Spain <sup>*3</sup>	25.8	+1.9%	<i>Schweppes</i> recorded steady sales



\*1: France and Belgium \*2: UK and Ireland \*3: Spain and Portugal

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In Europe, sales was up 5.7%, and segment profit was up 1.0% on a currency neutral basis.

We struggled in France last year, but we were able to increase sales by growing *Orangina* and *Oasis* through focusing on small format products and active promotion.

In the UK, sales of *Lucozade Energy* was challenging, but *Lucozade Sport* and the spring water *Highland Spring* did well, resulting in a sales increase.

In Spain, there were impacts from market slowdown due to adverse weather during the 1<sup>st</sup> quarter, but sales of our core product *Schweppes* grew in the 2<sup>nd</sup> quarter, resulting in a sales increase.

Our activities to reinforce our core brands in each country and favorable weather during the 2<sup>nd</sup> quarter led to an increase in sales in Europe, however segment profit was limited to a slight increase.

This is due to higher supply chain cost in France, where there was an increase in consignment production.

## Health supplement business grew, but slow recovery in Vietnam

	Sales		Segment Profit	
	(Billions of yen)	% YoY (Currency neutral)	(Billions of yen)	% YoY (Currency neutral)
<b>Asia</b>	<b>84.9</b>	<b>+3.6%</b>	<b>11.1</b>	<b>+18.9%</b>
<b>Vietnam</b>	34.1	-1.5%	Impacted by delay in new product launch of <i>Sting</i>	
<b>Health Supplement</b>	25.4	+10.0%	<i>BRAND'S Essence of Chicken</i> recorded good sales	



In Asia, sales was up 3.6% on a currency neutral basis, and segment profit was up 18.9%.

In Vietnam, the market recovery during the 2<sup>nd</sup> quarter was slower than expected, and the new product launch of the core energy drink *Sting* was delayed to July, leading to a sales decrease.

For the 2<sup>nd</sup> half, we will focus on the new product of *Sting*, as well as the tea drink *TEA+*, and implement marketing activities that will keep us in the position of having top share.

In health supplement business, as we have presented in the 1<sup>st</sup> quarter earnings announcement, we have began working with a new distributor with excellent route to market capabilities since January. This has contributed positively and led to significant growth.

In addition to strengthening our relationship with major retailers (modern trade), we have also strengthened our route-to-market capabilities in general stores (traditional trade), resulting in significant sales increase in our core brand *BRAND'S Essence of Chicken*.

Also, in order to capture customers' needs more swiftly and appropriately, we have relocated our major functions of the health and supplement business, such as marketing, from Singapore to Thailand, our largest consuming area.

# Oceania/Americas: Results for H1 FY2017

## [Oceania]

Energy drink V recorded good sales

		(Billions of yen)	
Sales	% YoY (Currency neutral)	Segment Profit	% YoY (Currency neutral)
20.2	-0.2%	2.6	+4.0%



## [Americas]

Good sales but impacted by cost increase (raw materials, etc.)

		(Billions of yen)	
Sales	% YoY (Currency neutral)	Segment Profit	% YoY (Currency neutral)
39.8	+2.5%	4.2	-5.9%



In Oceania, sales of fruit juice drinks struggled, and resulted in a slight decrease from the same period of last year. But the core energy drink V and sports drink *Maximus* recorded steady sales.

In the Americas, sales of non-carbonated beverage category grew, such as water, RTD tea, and RTD coffee. This resulted in increase in sales, but profit decreased due to impacts such as higher raw materials cost.

# **SUNTORY**

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This concludes the results of the first half.

For the second half, we will reinforce our marketing activities in the peak summer season to increase sales, and at the same time, address the challenges in supply chain cost in countries such as France.

The annual forecast will remain the same with the operating income of 98 billion yen.

That is it from me.

## Sales by Quarter (After the change in segments)

(Billions of yen)

	Q1 (Jan - Mar)				Q2 (Apr - Jun)			
	FY2016	FY2017	% YoY	Currency neutral	FY2016	FY2017	% YoY	Currency neutral
Japan	191.6	189.6	-1.0%	-	230.2	236.5	+2.7%	-
Europe	51.1	49.5	-3.2%	+5.1%	67.1	69.1	+3.0%	+6.1%
Asia	39.8	42.3	+6.4%	+7.4%	41.3	42.6	+3.2%	+0.0%
Oceania	10.1	10.5	+4.1%	-0.4%	9.2	9.7	+4.4%	+0.1%
Americas	18.5	18.6	+0.2%	+1.8%	20.1	21.2	+5.7%	+3.2%
Reconciliations	-	-	-	-	-	-	-	-
<b>Total</b>	<b>311.1</b>	<b>310.5</b>	<b>-0.2%</b>	<b>+1.2%</b>	<b>367.9</b>	<b>379.1</b>	<b>+3.0%</b>	<b>+3.0%</b>

# Segment Profit by Quarter (After the change in segments)

(Billions of yen)

	Q1 (Jan - Mar)				Q2 (Apr - Jun)			
	FY2016	FY2017	% YoY	Currency neutral	FY2016	FY2017	% YoY	Currency neutral
	Japan	7.8	9.4	+20.5%	-	15.7	16.4	+4.3%
Europe	6.1	5.6	-8.4%	+0.5%	12.8	12.4	-2.9%	+1.2%
Asia	4.9	7.1	+46.3%	+47.5%	4.2	4.0	-5.4%	-11.7%
Oceania	1.1	1.5	+32.0%	+35.3%	1.4	1.1	-18.9%	-20.6%
Americas	1.8	1.5	-14.0%	-12.6%	2.7	2.7	+0.3%	-1.6%
Reconciliations	-9.2	-9.1	-	-	-9.4	-9.6	-	-
<b>Total</b>	<b>12.5</b>	<b>16.1</b>	<b>+28.8%</b>	<b>+33.7%</b>	<b>27.4</b>	<b>26.9</b>	<b>-1.7%</b>	<b>-1.1%</b>

# FY2016 Results & FY2017 Forecast (After the change in segments)

## Sales

## Segment Profit

(Billions of yen)

	Sales				Segment Profit			
	FY2016	FY2017	% YoY	Currency neutral	FY2016	FY2017	% YoY	Currency neutral
Japan	890.0	895.0	+0.6%	-	57.8	60.4	+4.6%	-
Europe	229.4	225.0	-1.9%	+3.8%	39.7	37.9	-4.5%	+1.3%
Asia	164.3	181.0	+10.1%	+10.1%	16.2	19.9	+22.7%	+21.2%
Oceania	40.8	42.0	+3.0%	+1.4%	6.1	6.2	+1.6%	+2.5%
Americas	86.2	87.0	+0.9%	-0.2%	10.4	10.6	+1.2%	+0.1%
Reconciliations	-	-	-	-	-36.7	-37.0	-	-
<b>Total</b>	<b>1,410.8</b>	<b>1,430.0</b>	<b>+1.4%</b>	<b>+2.2%</b>	<b>93.5</b>	<b>98.0</b>	<b>+4.8%</b>	<b>+6.4%</b>

# Japan: Segment Profit Bridge for H1 FY2017

(Billions of yen)



# Japan: Breakdown of FY2017 Segment Profit (Change in segments) SUNTORY SUNTORY BEVERAGE & FOOD

(Billions of yen)

	FY Forecast (Before the change)	FY Forecast (After the change)	FY2017 Jan - Mar	FY2017 Apr - Jun	FY2017 Jan - Jun
FY2016 Segment Profit	54.7	57.8	7.8	15.7	23.5
Sales volume	+1.6	+1.6	+0.6	+2.4	+3.0
Product mix	+0.5	+0.5	-0.6	-0.5	-1.1
Cost reduction	+3.0	+3.0	+2.1	+0.8	+2.9
Sales promotion & advertising	-2.0	-2.0	+0.5	-2.0	-1.5
Others	-0.8	-0.5	-1.0	±0.0	-1.0
<b>Total</b>	<b>+2.3</b>	<b>+2.6</b>	<b>+1.6</b>	<b>+0.7</b>	<b>+2.3</b>
FY2017 Segment Profit	57.0	60.4	9.4	16.4	25.8

# Exchange Rates

(Yen, average exchange rate)

	FY2016 Jan - Jun	FY2017 Jan - Jun	FY2017 Forecast
U.S. Dollar	111.7	112.3	110
Euro	124.5	121.7	115
British Pound	160.0	141.4	135
Singapore Dollar	80.9	80.0	77
Vietnam Dong	0.0050	0.0049	0.0048
New Zealand Dollar	75.5	79.6	77
Australian Dollar	81.9	84.8	82

# Forward-Looking Statements

This document contains forward-looking statements related to business and financial performance of the Company or the Group.

These forward-looking statements are projections made based on the currently available information and are subject to risks and uncertainties including, but not limited to, economic trends, competition in the industry in which the Company and the Group operate, market needs, exchange rates, as well as tax and other systems.

Therefore, actual business results and other outcomes published in the future may vary due to these factors. The Company accepts no liability for any loss or damage arising from the use of the information contained in this document.