



# Business Plan 2020

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## FORWARD-LOOKING STATEMENTS

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This presentation contains forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) increase in awareness of health concerns related to smoking;
- (2) regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
- (3) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (4) our ability to further diversify our business beyond the traditional tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside Japan;
- (6) competition and changing consumer preferences;
- (7) our ability to manage impacts derived from business diversification or business expansion;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

## Agenda

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- FY2019 Overview
- Business Plan 2020
- Our strategy
- Resource allocation policy

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## FY2019 Overview

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- **Adjusted operating profit at constant FX increased 0.9% driven by total tobacco business**
- **Profit\* decreased 9.7% due to unfavorable currency movements**
- **Consistent FCF delivery of 404.2 billion yen**
- **Dividend per share: 154 yen (estimate)**

### **Strengthened our business in a challenging environment to ensure future growth**

#### **Japanese Domestic Tobacco Business**

- Launched new RRP products
- Revamped employees' performance evaluation system to foster entrepreneurial mindset
- Strengthened cigarette portfolio

#### **International Tobacco Business**

- Continued focus on investment markets and integrating acquisitions
- Kicked-off transformation initiatives

#### **Pharmaceutical Business**

- Reformed business structure in Torii Pharmaceutical Co., Ltd
- Captured out- and in-licensing opportunities

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## Business Plan 2020

### Business Plan 2020 – Mid- to long-term target

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Adjusted operating profit at constant FX growth rate

**Mid to high single digit**

# Our strategy

## Our strategy – Tobacco Business

### Sharper focus on sustainable profit growth in “total tobacco”

#### Tobacco Business

#### Our core business and the Group’s profit growth driver

- Mid to high single digit profit growth for mid- to long-term
  - ✓ Further enhancing collaboration within tobacco businesses

#### Japanese Domestic Tobacco

- Strengthen top-line in both RRP and cigarettes

#### International Tobacco

- Sustainable profit growth in existing markets
- Geographic expansion through M&A and organic growth
- Expand presence in the RRP category

Total tobacco industry	
<ul style="list-style-type: none"> <li>Encouraging volume trend, expected to decline at low single digit rate</li> </ul>	
RRP	Cigarettes
<ul style="list-style-type: none"> <li>RRP industry volume to grow moderately, reaching over 25% of tobacco industry volume</li> <li>Competition to intensify</li> </ul>	<ul style="list-style-type: none"> <li>Cigarette industry volume decline to continue</li> <li>Downtrading to persist due to multi-year excise tax increases</li> </ul>

**Strengthen top-line in both RRP and cigarettes during Business Plan 2020**

	High-temperature heating type	Low-temperature heating type	
RRP	<ul style="list-style-type: none"> <li>Clear roles for high and low-temperature heating products</li> </ul>	<ul style="list-style-type: none"> <li>Prioritize share gain</li> </ul>	<ul style="list-style-type: none"> <li>Continue to foster the category</li> <li>Retain strong market share</li> </ul>
	<ul style="list-style-type: none"> <li>Areas of improvement</li> </ul>	<ul style="list-style-type: none"> <li>Kick / Convenience</li> </ul>	<ul style="list-style-type: none"> <li>Taste / Kick / Portability</li> </ul>
	<ul style="list-style-type: none"> <li>Prioritize investment in R&amp;D and marketing</li> </ul>	<ul style="list-style-type: none"> <li>Enhance device development capability by leveraging global resources                             <ul style="list-style-type: none"> <li>✓ Continuous upgrade of devices: Launch new devices in 2020</li> <li>✓ Develop next-generation device</li> </ul> </li> <li>Reinforce refill portfolio</li> <li>Build up digital infrastructure for future diverse marketing initiatives</li> </ul>	
Cigarettes	<ul style="list-style-type: none"> <li>Capture pricing opportunities</li> <li>Further enhance product portfolio</li> </ul>		

## Our strategy – Pharmaceutical Business and Processed Food Business

### Complementing the Group's profit growth

#### Pharmaceutical Business

**Promote R&D for next-generation strategic products and maximize the value of each product**

- Focus on drug discovery capabilities
- Develop our pipeline of compounds
- Enhance out- and in-licensing activities

#### Processed Food Business

**Ensure sustainable profit increase through top-line growth**

- Execute initiatives to optimize production capabilities
- Build more profitable product portfolio

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## Resource allocation policy

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### The “4S Model” guides our resource allocation

- Prioritize business investments<sup>1</sup> for sustainable profit growth in the mid- to long-term
- Strike a balance between profit growth through business investments and shareholder returns

### <Shareholder return policy>

- Aim to enhance shareholder returns considering the Company’s mid- to long-term profit growth trend, while maintaining a strong financial base<sup>2</sup>
  - Work toward stable and consistent growth in dividend per share<sup>3</sup>
  - Consider implementing a share buy-back program, taking into account the Company’s mid-term operating environment and financial outlook
  - Continue to closely monitor shareholder returns of global FMCG<sup>4</sup> companies

<sup>1</sup> Pursue quality top-line growth while continuing to offer new value and exceed consumer expectations. Investment towards the growth of tobacco business is of our highest priority.

<sup>2</sup> As its financial policy, the Company will maintain a strong financial base that secures stability in case of changes in business environment such as economic crises and flexibility enabling expeditious responses to business investment opportunities.

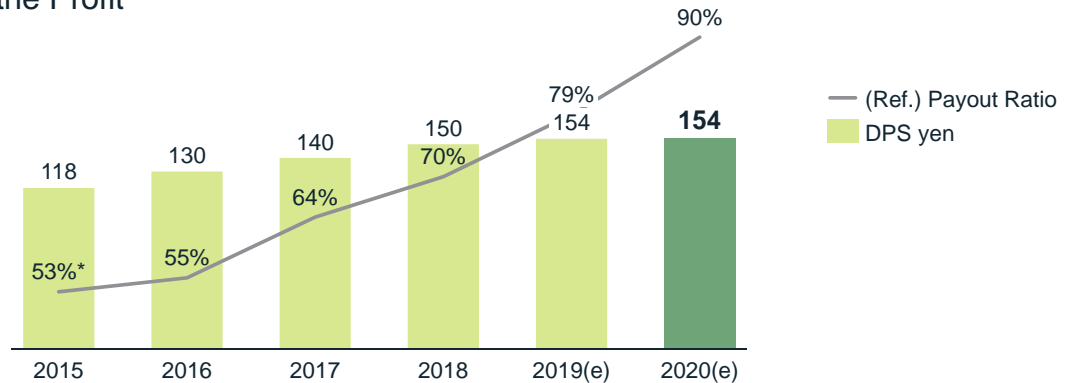
<sup>3</sup> Mid- to long-term term growth rate of Adjusted Operated Profit at constant FX remains to be the primary indicator, while we continue to monitor the Profit level

<sup>4</sup> A Fast-Moving Consumer Goods (daily consumer goods) company which has a stakeholder model similar to our “4S” model, and has realized strong business growth.

## 2020 Shareholder return

### Ensure stability of Dividend Per Share; propose DPS 154 yen

- Pursue mid to high single digit growth rate of adjusted operating profit at constant FX in mid-to long-term
- Ensure stability of DPS distribution and propose a dividend of 154 yen, while uncertainties continue to impact the Profit



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\*Based on basic EPS from continuing operations

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## Closing Remarks

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- Aim to be the first to offer new value to our consumers by addressing their diverse needs and revamping our organizational mindset
- 4S model, our management principles, remains the cornerstone for what we do
- Continue being the preferred choice of consumers, shareholders, employees and the wider society
- Through our sustainable profit growth for the long-term, we strive to fulfill our responsibilities, exceeding their expectations wherever we can

