

# Yakult Vision 2020 Phase III Plan (2017 – 2020)

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**Yakult Honsha Co., Ltd.**

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# Outline of Long-term Vision

# (1) Qualitative, Quantitative Goals



Yakult Vision 2020 is a medium- to long-term management plan formulated in the year of its 75th anniversary to clarify what we aspire to be in 10 years.

## Qualitative goals

Corporate philosophy

We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular.

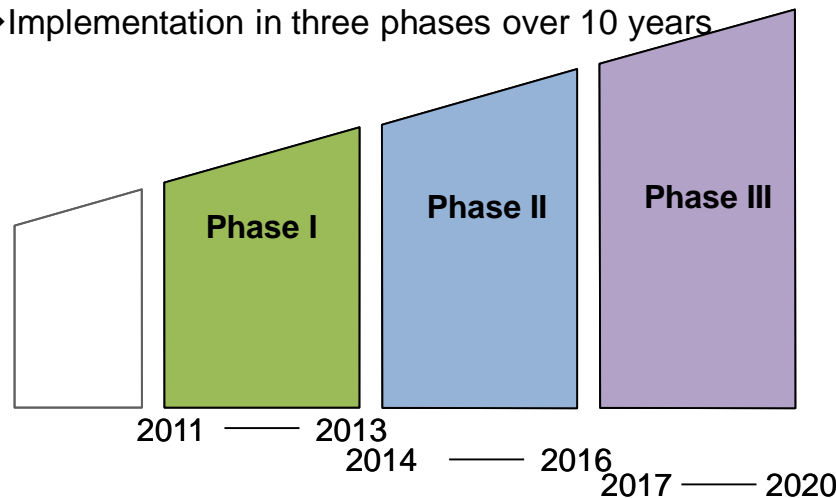
Yakult Vision 2020  
*Let's Build Yakult's Future Together!*

- Let's promote the idea that a healthy intestinal tract leads to a long life, to as many people as possible on the earth!
- Let's apply our unique combination of preventive medicine and therapeutic medicine to realize a healthy society!
- Let's offer satisfaction and happiness to our customers and ourselves by whole-heartedly delivering the best technology with gratitude!

## Quantitative goals

	FY2009	FY2020	
Number of bottles of dairy products sold per day worldwide	26.40 million bottles/day	36.50 million bottles/day	Up 10 million bottles
Consolidated sales	290.7 billion yen	500.0 billion yen	About double
Consolidated operating income	19.0 billion yen	50.0 billion yen	About triple

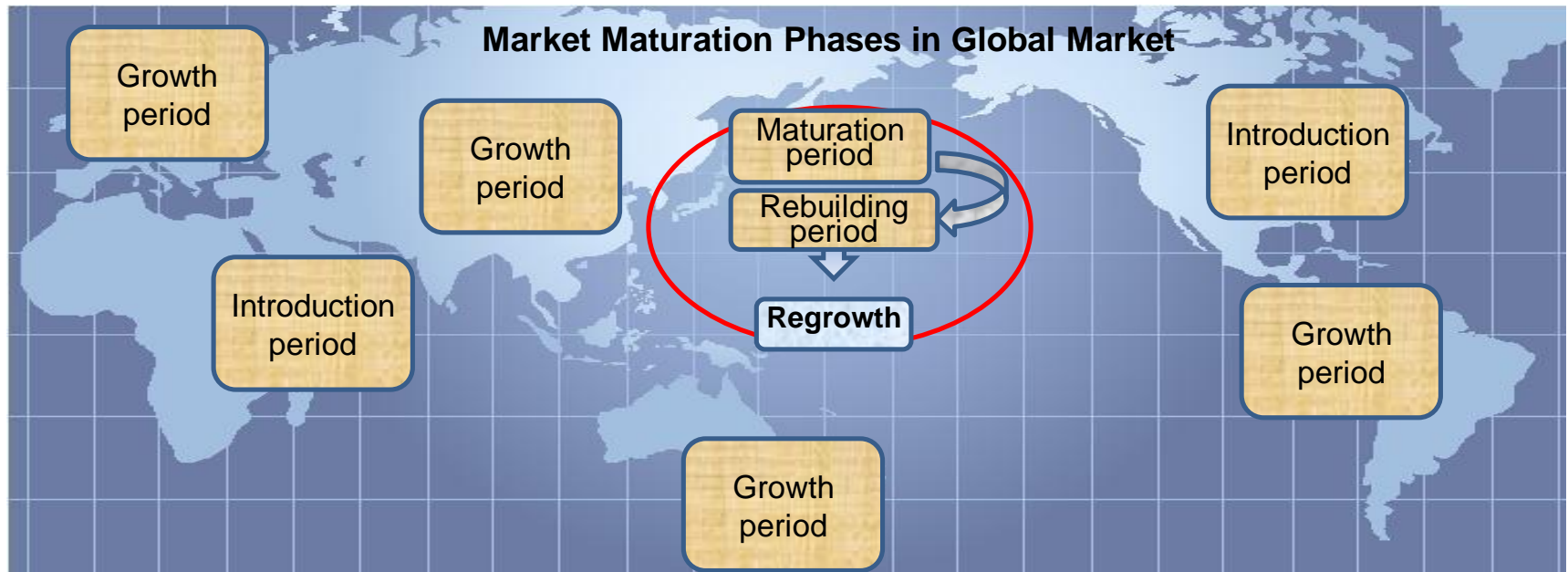
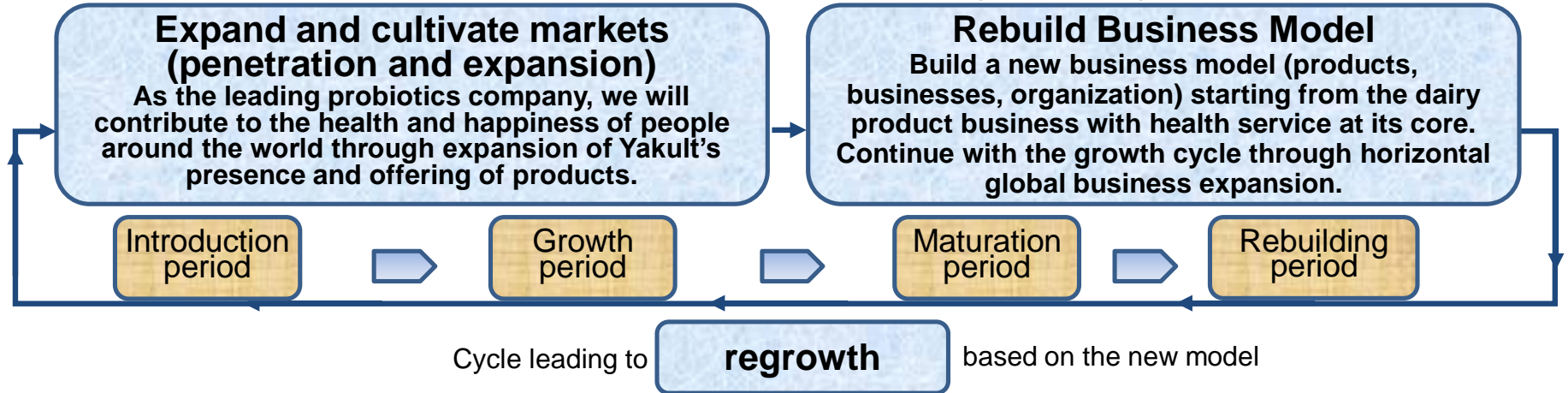
### ◆ Implementation in three phases over 10 years



## (2) Global Business Portfolio Strategy for Realization



Continue to grow the group by deploying the most appropriate strategies for each phase of introduction, growth, maturation, and rebuilding in respective areas of the global market. Also, drive forward development of the foundation of the domestic business, which leads the next-generation global businesses.



# **Phase II Plan Results (2014-2016)**

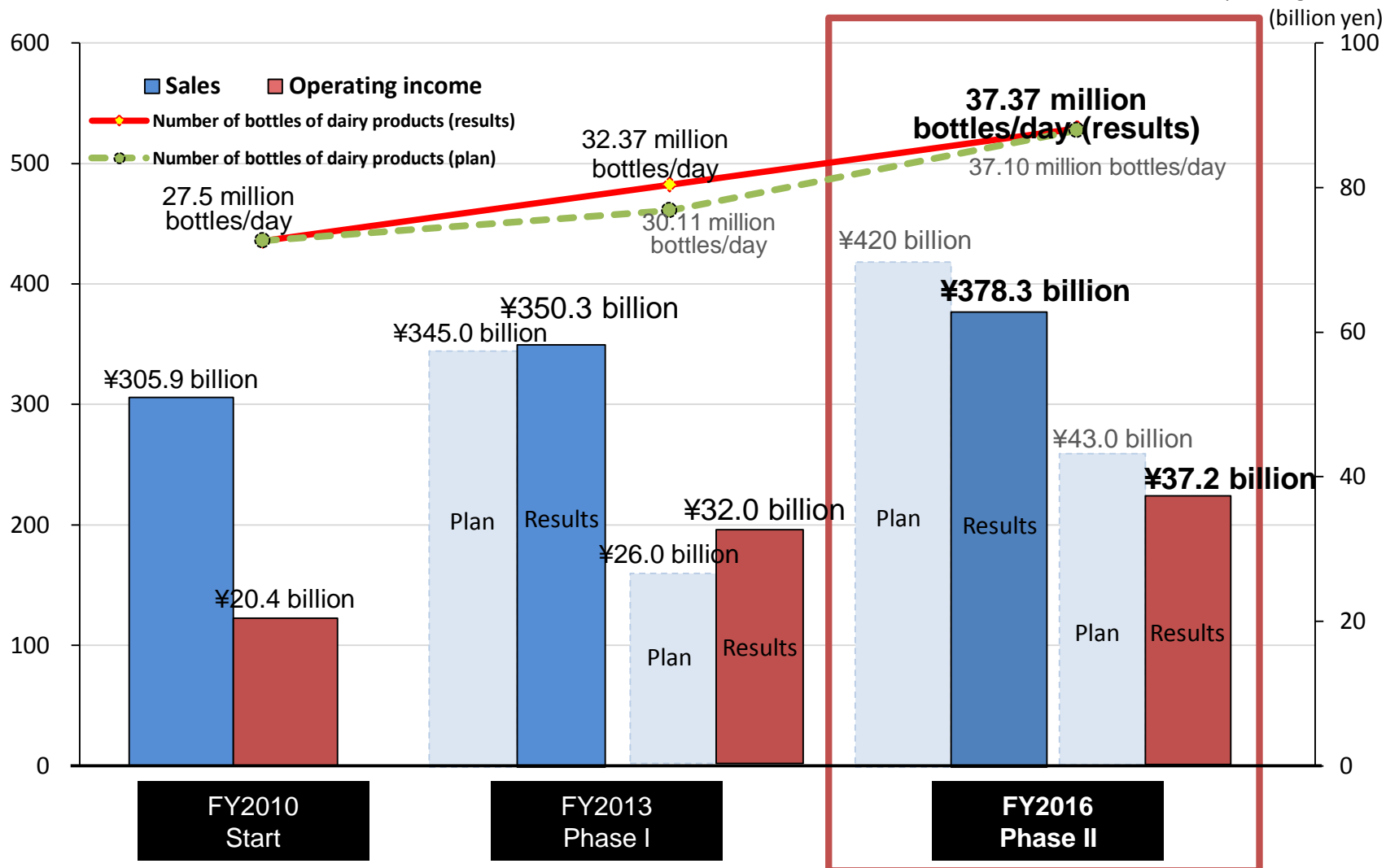
# (1) Phase II Results



## ◆ Company-wide

Sales (billion yen)

Operating income (billion yen)



## (1) Phase II Results



## ◆ By segment

(billion yen)

		FY2010 (Start)	FY2013 (Phase I)	FY2016 (Phase II)					
				Results	vs. FY2013		Plan	vs. Plan	
					Difference	Rate		Difference	Rate of achievement
Consolidated sales	Food and Beverages (Japan)	189.7	200.4	204.1	+3.7	101.8%	216.0	-11.9	94.5%
	Food and Beverages (Overseas)	71.6	118.8	146.4	+27.6	123.2%	150.0	-3.6	97.6%
	Pharmaceuticals	38.8	35.3	27.8	-7.5	78.8%	50.0	-22.2	55.6%
	Others (Cosmetics, etc.)	17.1	18.0	19.9	+1.9	110.6%	20.0	-0.1	99.5%
	Adjustments	-11.5	-22.3	-20.0	+2.3	—	-16.0	-4.0	—
	<b>Total</b>	305.9	350.3	378.3	+28.0	108.0%	420.0	-41.7	90.1%
Consolidated operating income	Food and Beverages (Japan)	11.0	9.7	13.8	+4.1	142.3%	12.0	+1.8	115.0%
	Food and Beverages (Overseas)	12.9	27.8	36.1	+8.3	129.9%	34.0	+2.1	106.2%
	Pharmaceuticals	10.2	8.5	2.8	-5.7	32.9%	13.0	-10.2	21.5%
	Others (Cosmetics, etc.)	-0.6	1.3	0.9	-0.4	69.2%	1.0	-0.1	90.0%
	Adjustments	-13.1	-15.5	-16.4	-0.9	—	-17.0	+0.6	—
	<b>Total</b>	20.4	32.0	37.2	+5.2	116.3%	43.0	-5.8	86.5%



## (1) Phase II Results



## ◆ Management benchmarks

	FY2010 (Start)	FY2013 (Phase I)	FY2016 (Phase II)			
			Results	vs. FY2013	Plan	vs. Plan
Operating income margin	6.7%	9.1%	9.9%	+0.8%	10.2%	-0.3%
ROE	5.9%	8.4%	8.9%	+0.5%	9.0%	-0.1%
ROA	6.6%	8.3%	8.5%	+0.2%	9.0%	-0.5%
Equity ratio	57.5%	52.9%	58.6%	+5.7%	57.0%	+1.6%

## (Reference)

Number of bottles of dairy products sold worldwide (million bottles/day)		27.50	32.37	37.37	+5.00	37.10	+0.27
	Japan	8.77	8.96	9.37	+0.41	9.60	-0.23
	Overseas	18.73	23.41	28.00	+4.59	27.50	+0.50
Population ratio *1	Japan	6.9%	7.0%	7.3%	+0.3%	7.5%	-0.2%
	Overseas	1.4%	1.5%	1.6%	+0.1%	1.5%	+0.1%
	Marketing population*2	1.45 billion	1.70 billion	1.92 billion	+0.22 billion	1.96 billion	-0.04 billion

\*1 Population ratio = Number of bottles of dairy products sold per day / Marketing population

\*2 Marketing population = Total of marketing population in Japan and overseas

## (2) Phase II Initiatives



## ◆ By Segment (Content of main initiatives)

	Main initiatives in the three years	
Company-wide	<ul style="list-style-type: none"> <li>-Completed the new Yakult Central Institute (April 2016)</li> <li>-Driving forward joint research with JAXA</li> </ul>	
Food and Beverages (Japan)	<p><b>Expand the number of bottles sold, sales in the dairy product business</b></p> <ul style="list-style-type: none"> <li>-Price revision of core dairy products (Joie, Sofuhl, Mil-Mil, Yakult 400 series)</li> <li>-Reinforcement of advertisements (Yakult series, Yakult Ladies, research and development competency, Joie)</li> <li>-Measures for strengthening the Yakult Lady organization (improvement of treatment and work environment, through education)</li> <li>-Aggressive approach to the growth markets (GMS, SM, Convenience stores, meal service, etc.)</li> </ul>	
Food and Beverages (Overseas)	<p><b>Expansion into new countries and increase of marketing population and population ratio</b></p> <ul style="list-style-type: none"> <li>- Expand sales areas in China and the U.S.</li> <li>- Introduction of low calorie products such as Yakult Light</li> <li>- Establishment of Yakult Middle East and Yakult Myanmar</li> </ul> <p><b>Enhancement of production bases: 26 factories with a capacity of 43.4 million bottles per day</b></p> <ul style="list-style-type: none"> <li>- Production started at a plant in the U.S., at second plants in Guangzhou, Tianjin, and Indonesia, and a plant in Wuxi</li> </ul>	
Pharmaceuticals	<p><b>Brand-name drugs</b></p> <ul style="list-style-type: none"> <li>- Spread of Elplat's adjuvant treatment and additional approval for treating gastric cancer</li> <li>- Maintaining sales of existing brand-name drugs including Campto, etc.</li> <li>- Promotion of sales and joint sales alliance of new drugs by other companies</li> </ul> <p><b>Generic drugs</b></p> <ul style="list-style-type: none"> <li>- Maintaining and expansion of sales of existing generic drugs, introduction of new generic drugs (2 products)</li> </ul>	
Others (Cosmetics, etc.)	<p><b>Cosmetics</b> – Full-scale re-launch of the key brand Parabio series</p> <p><b>Professional baseball team operation</b></p> <ul style="list-style-type: none"> <li>– Tokyo Yakult Swallows won the league title (2015)</li> </ul>	

## (2) Phase II Initiatives



### ◆ Examination of results (compared with Phase I)

#### Company-wide

-Compared to the Phase I results (FY2013), the Phase II results (FY2016) grew, with the number of bottles of dairy products sold worldwide increasing by 5.0 million bottles, consolidated sales growing by 28.0 billion yen (up 8.0%) and consolidated operating income rising by 5.2 billion yen (up 16.3%).

#### Status by segment

##### ■ Food and Beverages (Japan)

-We were able to increase the number of bottles of dairy products sold by 410,000 bottles, as the group worked together in carrying out price revisions of key products (especially Yakult 400 series) and we reinforced advertisements.

-Moreover, the profit margin improved due to the growth in the number of bottles of dairy products sold, as sales increased by 3.7 billion yen (up 1.8%) and operating income rose by 4.1 billion yen (up 42.3%).

##### ■ Food and Beverages (Overseas)

-The number of bottles of dairy products sold increased by 4.59 million bottles, sales grew by 27.6 billion yen (up 23.2%) and operating income rose by 8.3 billion yen (up 29.9%), as we cultivated the markets in the countries we have already entered (especially in Asia) and expanded the sales area and marketing population.

##### ■ Pharmaceuticals

-While we implemented measures including receiving approval for additional indications of the mainstay Elplat, sales declined by 7.5 billion yen (down 21.2%) and operating income fell by 5.7 billion yen (down 67.1%) due to the impact of the NHI drug price revision and a decline in the market share of Elplat as generic versions eroded the market.

# Phase III Plan (2017-2020)

# (1) Concept of Phase III Plan-1

## Concepts behind the plan formation

### 1. Realization of the corporate philosophy

With the completion of the new and improved Yakult Central Institute, we will work to realize our corporate philosophy of “We contribute to the health and happiness of people around the world through pursuit of excellence in life science in general and our research and experience in microorganisms in particular.” by responding even better to customer expectations through such means as enhancing our research, development, and technological capabilities; creating products that are safe, offer peace of mind, and contribute to people’s health; and offering high quality service.

### 2. Realization of improved corporate value

We will improve our corporate value, aiming to be a company that is needed by the stakeholders by working on solving social issues such as the realization of a healthy society and creation of job opportunities for women through Yakult’s business activities and social contribution activities.

### 3. Realization of continuous growth

As a probiotics pioneer, we will realize continuous growth as we promote the scientific evidence of useful bacteria throughout the world and work as one Yakult Group to offer products and services that only Yakult can provide.

# (1) Concept of Phase III Plan-2

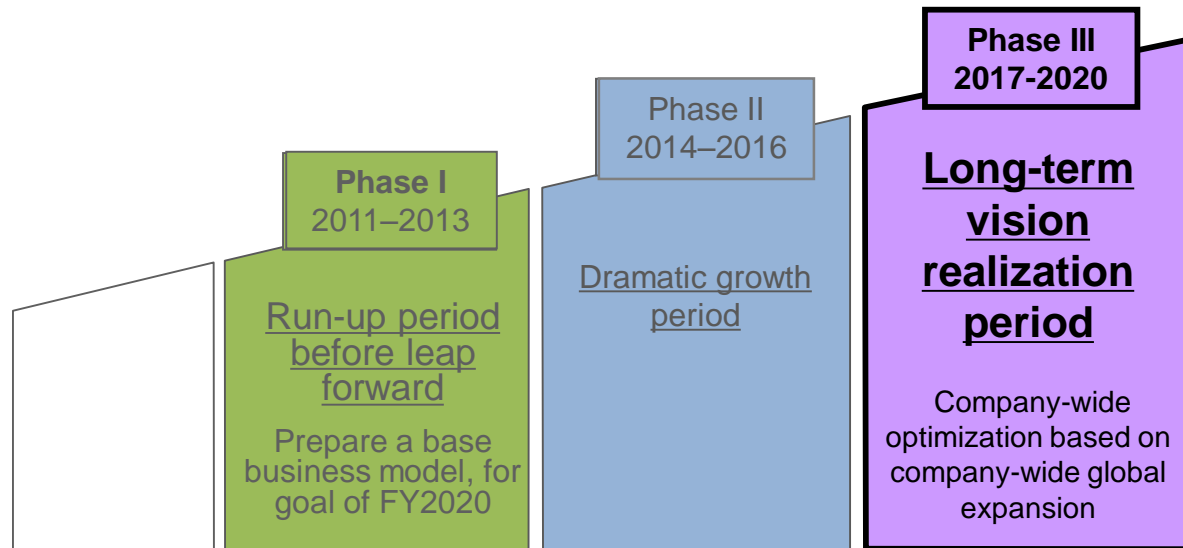


## Significance of Phase III Plan

### -Transformation period for enabling continued growth-

We have positioned it as a transformation period for us to continue growing to FY2020 and onwards by working on solving social issues through business activities to meet customer expectations more than ever and improve our corporate value by realizing our corporate philosophy.

#### Plan at time of formation of Yakult Vision 2020



#### New significance of Phase III plan

**Phase III**  
2017–2020  
Transformation period for enabling continued growth

## (1) Concept of Phase III Plan-3

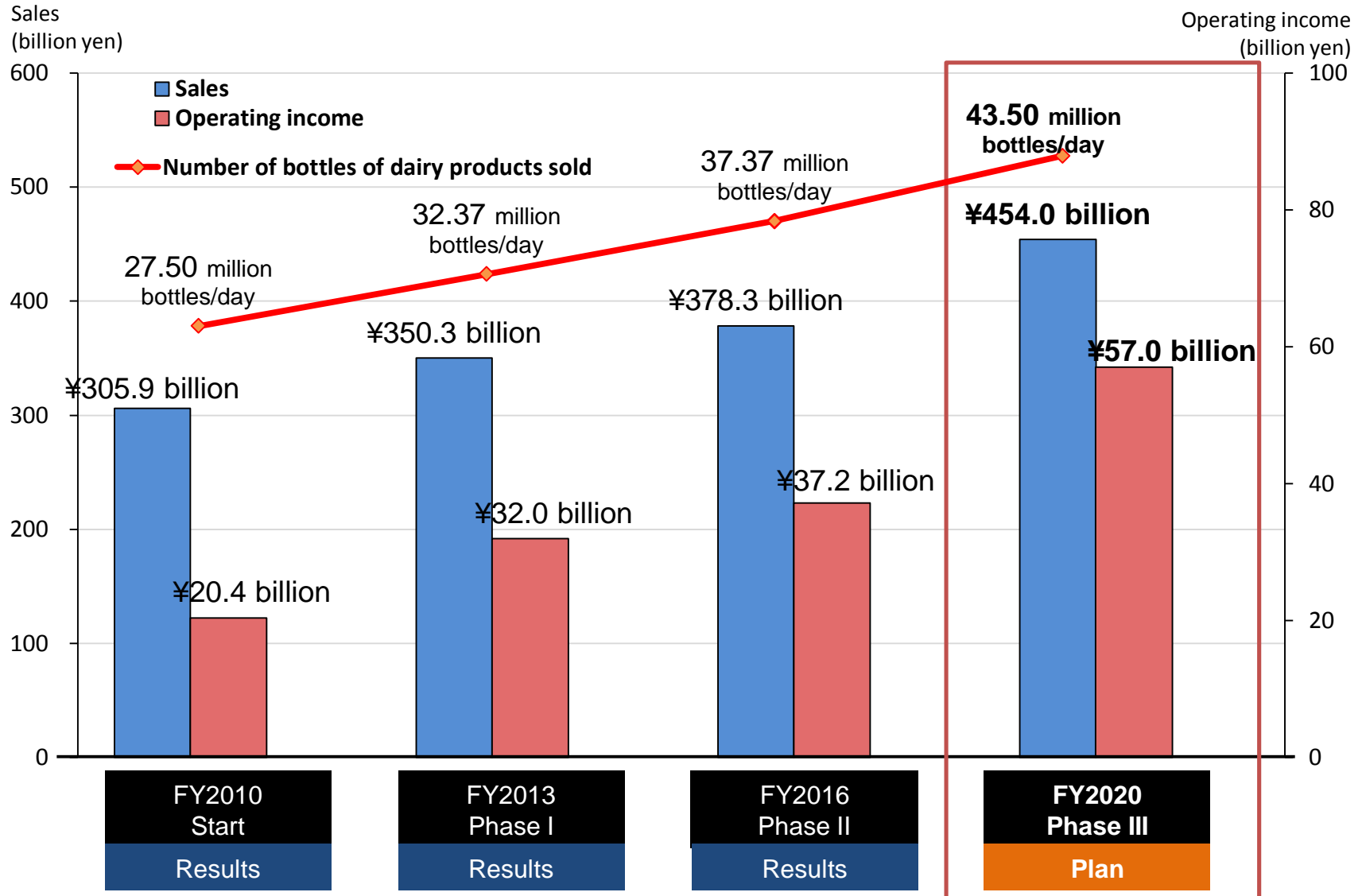
## Phase III Plan

	Phase III Plan	vs. FY2016	Rate of increase
Number of bottles of dairy products sold worldwide	<b>43.50 million bottles/day</b>	+6.13 million bottles/day	+16.4%
Consolidated sales	<b>454 billion yen</b>	+75.7 billion yen	+20.0%
Consolidated operating income	<b>57 billion yen</b>	+19.8 billion yen	+53.2%

- The Food and Beverages (Overseas) segment will continue to drive the Phase III plan to increase the number of bottles of dairy products sold worldwide, consolidated sales and consolidated operating income in comparison with FY2016.
- The Food and Beverages (Japan) segment will increase operating income at a rate that is more than the growth of sales by means of improving its profit margin by introducing high value added products.
- The operating income margin is to improve significantly, as we will improve the profitability of Food and Beverages (Japan) and continue to grow Food and Beverage (Overseas), which has a high profit margin.
- With the above, we aim to realize continuous growth to FY2020 and onwards.

## (2) Quantitative Goals

## ◆ Company-wide





## (2) Quantitative Goals



## ◆ By segment

(billion yen)

		FY2010 (Start)	FY2013 (Phase I)	FY2016 (Phase II)	FY2020 (Phase III)		
					Plan	Change vs. FY2016	Ratio
Consolidated sales	Food and Beverages (Japan)	189.7	200.4	204.1	234.0	+29.9	114.6%
	Food and Beverages (Overseas)	71.6	118.8	146.4	*190.0	+43.6	129.8%
	Pharmaceuticals	38.8	35.3	27.8	29.0	+1.2	104.3%
	Others (Cosmetics, etc.)	17.1	18.0	19.9	24.0	+4.1	120.6%
	Adjustments	-11.5	-22.3	-20.0	-23.0	-3.0	—
	<b>Total</b>	305.9	350.3	378.3	454.0	+75.7	120.0%
Consolidated operating income	Food and Beverages (Japan)	11.0	9.7	13.8	25.0	+11.2	181.2%
	Food and Beverages (Overseas)	12.9	27.8	36.1	*46.0	+9.9	127.4%
	Pharmaceuticals	10.2	8.5	2.8	2.0	-0.8	71.4%
	Others (Cosmetics, etc.)	-0.6	1.3	0.9	2.0	+1.1	222.2%
	Adjustments	-13.1	-15.5	-16.4	-18.0	-1.6	—
	<b>Total</b>	20.4	32.0	37.2	57.0	+19.8	153.2%

\*Average foreign exchange rate for Jan-Mar 2017 (US\$1=¥112.82)

\*When the average foreign exchange rate for 2013-2016 (US\$1=¥108.73) is used: sales 206.6 billion yen, operating income 49.6 billion yen

## (2) Quantitative Goals

### ◆ Management benchmarks

	FY2010 (Start)	FY2013 (Phase I)	FY2016 (Phase II)	FY2020 (Phase III)	
				Plan	Change vs. FY2016
Operating income margin	6.7%	9.1%	9.9%	12.6%	+2.7%
ROE	5.9%	8.4%	8.9%	9.8%	+0.9%
ROA	6.6%	8.3%	8.5%	9.7%	+1.2%
Equity ratio	57.5%	52.9%	58.6%	64.2%	+5.6%

### (Reference)

Number of bottles of dairy products sold worldwide (million bottles/day)		27.50	32.37	37.37	43.50	+6.13
	Japan	8.77	8.96	9.37	10.50	+1.13
	Overseas	18.73	23.41	28.00	33.00	+5.00
Population ratio *1	Japan	6.9%	7.0%	7.3%	8.2%	+0.9%
	Overseas	1.4%	1.5%	1.6%	1.4%	-0.2%
	Marketing population *2	1.45 billion	1.70 billion	1.92 billion	2.42 billion	+0.5 billion

\*1 Population ratio = Number of bottles of dairy products sold per day / Marketing population

\*2 Marketing population = Total of marketing population in Japan and overseas

### (3) Segment-based Strategy: Market Environment Outlook and Internal Environment



	Market environment outlook (○ opportunity, ● threat)	Internal environment (○ strength, ● issue)
Food and Beverages (Japan)	<ul style="list-style-type: none"> <li>○ Continued growth of probiotics market</li> <li>○ Expansion of awareness of Foods with Function Claims system and its market</li> <li>○ Diversification of lifestyles</li> <li>○ Growing awareness of preventive medicine</li> <li>● Intensifying competition with probiotics products by other companies</li> <li>● Intensifying competition to acquire female workforce</li> <li>● Other companies entering into home delivery business</li> </ul>	<ul style="list-style-type: none"> <li>○ Research and development technological competency (abundant scientific evidence)</li> <li>○ Structure of community-based value dissemination with area franchise system and Yakult Lady organization</li> <li>● Response to diverse lifestyles</li> <li>● Enhancement of touch points with customers in urban markets</li> <li>● Strengthening of Yakult Lady organization</li> </ul>
Food and Beverages (Overseas)	<ul style="list-style-type: none"> <li>○ Increasing health-consciousness in emerging countries</li> <li>● Tightening of regulations regarding health claims, etc.</li> <li>● Intensifying competition with other companies</li> </ul>	<ul style="list-style-type: none"> <li>○ Community-based communication and value dissemination leveraging Yakult Ladies</li> <li>● Expansion into countries and areas where we have not sold our products, cultivating the areas where we already have presence</li> <li>● Securing internal human resources who would drive forward the international business</li> </ul>
Pharmaceuticals	<ul style="list-style-type: none"> <li>○ Increasing drug needs in the field of oncology</li> <li>● Acceleration of measures to curb medical expenses (drastic reform of drug price system, promotion of generic drugs)</li> <li>● Intensifying competition with other companies due to M&amp;As</li> <li>● Further increase of risks in new drug development</li> </ul>	<ul style="list-style-type: none"> <li>○ Sales competency, experience and track record in the field of oncology.</li> <li>○ Relationship of trust with doctors and medical institutes</li> <li>● Elplat sales decline due to drug price revision</li> <li>● Strengthening of internal ability of drug development</li> </ul>
Others (Cosmetics, etc.)	<ul style="list-style-type: none"> <li>○ Rising demand for home delivery business reflecting aging of society, etc.</li> <li>○ Increasing demand for safe and secure products</li> <li>● Intensifying price competition given by active drugstore business</li> <li>● Intensifying competition in online market due to the impact of major brands and new entries</li> </ul>	<ul style="list-style-type: none"> <li>○ Research and development technological competency (original ingredients)</li> <li>○ Contact between existing door-to-door sales organization and dairy product users</li> <li>● Approach to customers who cannot be covered by door-to-door sales</li> <li>● Strengthening of cosmetics business organization (employees, door-to-door sales organization)</li> </ul>

## Basic policy

## Continuous strengthening of foundation, rebuilding business model and creating new framework

- Expand market share by nurturing and enhancing brands and products with scientific evidence
- Improve sales and profits by boosting the ratio of high unit price, high gross profit products
- Enhance the structure through transformation of Yakult Lady operations to make it worker-friendly
- Review the mechanism of the “direct sales\*” business and reinforce the structure
- Promote activities for strategic PR, advertising and area value dissemination
- Promote modernization of the domestic business (business, function, organization)

\*We define all sales modes other than home delivery as “direct sales”.



# (3) Segment-based Strategy-1 Food and Beverages (Japan)



## Quantitative goals

	FY2020 target	Change vs. FY2016
Number of bottles of dairy products sold	10.50 million bottles/day	+1.13 million bottles/day
Consolidated sales	234.0 billion yen	+29.9 billion yen
Consolidated operating income	25.0 billion yen	+11.2 billion yen

## Qualitative goal

Domestic business reconstruction that shines light on the next generation

-Strengthen and expand as the “No. 1 probiotics beverage”-

## Pillars of the strategy

### Strengthen of current initiatives

- Concentrate business resources on key products
- Enhance home delivery organization
- Promote value dissemination activities led by the company
- Continue growing in the markets where people gather
- Improve management quality of marketing companies

### Take on new challenges

- Build competitive superiority in probiotics market by introducing new products and enhance products tailored for markets and channels
- Create systems and mechanisms corresponding to the diverse workforce
- Rebuild organization and functions to further cultivate markets where people gather

# (3) Segment-based Strategy-2 Food and Beverages (Overseas)



## Basic policy

### Promote business expansion of current operations and foray into new countries

- Business expansion of existing operations, strengthen management foundation and support growth strategy
- Promote further cultivation of market, expansion of population covered, and strengthening of home delivery
- Expand foray into new countries
- Response to food product-related rules and regulations, health claims, etc. in countries and regions
- Strengthen organizational structure  
(function strengthening and expansion based on a three region structure, continuous nurturing of international staff, etc.)



## (3) Segment-based Strategy-2 Food and Beverages (Overseas)



## Quantitative goals

	FY2020 target	Change vs. FY2016
Number of bottles of dairy products sold	33.00 million bottles/day	+5.0 million bottles/day
Consolidated sales	190.0 billion yen	+43.6 billion yen
Consolidated operating income	46.0 billion yen	+9.9 billion yen

## Qualitative goals

Deliver Yakult to people waiting for it and also to those who have not heard of it yet around the world

## Pillars of the strategy

## Strengthen current initiatives

- Expansion of current business
- Create an environment to sell
- Value dissemination based on scientific evidence
- Secure and nurture human resources who can drive forward the international business

## Take on new challenges

- Expand lineup of products (low-calorie, low-sugar, functional products, etc.)
- Foray into new countries (32 countries and regions in 2016 → 40 in 2020)

## Basic policy

## Secure a firm position in the field of oncology

- Secure Elplat sales
- Maximize and maintain sales of existing branded products and generics, and improve margin
- Marketing tie-up for products developed and manufactured by other companies
- Promote own discovery and development of drug candidates
- Promote introduction and joint development of new anti-cancer drugs
- Bring new generic drugs continuously to market





## (3) Segment-based Strategy-3 Pharmaceuticals



## Quantitative goals

	FY2020 target	Change vs. FY2016
Consolidated sales	29.0 billion yen	+1.2 billion yen
Consolidated operating income	2.0 billion yen	-0.8 billion yen

## Qualitative goals

Contribute to the health of people around the world by making innovations in the field of oncology

## Pillars of the strategy

## Strengthen current initiatives

- Protect Elplat accounts and expand market
- Protect Campto accounts and maintain sales
- Secure and maintain top share in key generics
- Improve margin in existing branded products and existing generics

## Take on new challenges

- Marketing tie-up for products developed and manufactured by other companies
- Bring generic drugs continuously to market
- Promote introduction and joint development of new anti-cancer drugs
- Promote own discovery/development of new drug candidates
- Expand into business and R&D in peripheral fields

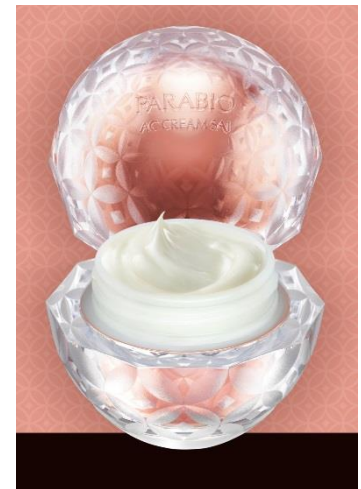
### (3) Segment-based Strategy-4 Others (Cosmetics, Etc.)



#### Basic policy

**Strengthen product development function and promote business expansion of marketing companies**

- Promote product policy specializing in basic skin care based on two pillars of “lactic acid bacteria science” and “skin structure science”
- Support and invest in business expansion of group marketing companies
- Promote development of cosmetics customers by introducing products to dairy customers
- Approach customers who cannot be covered through door-to-door sales channel



## (3) Segment-based Strategy-4 Others (Cosmetics, Etc.)



### Quantitative goals (Total for Others)



	FY2020 target	Change vs. FY2016
Consolidated sales	24.0 billion yen	+4.1 billion yen
Consolidated operating income	2.0 billion yen	+1.1 billion yen

### Qualitative goals (Cosmetics)

Ensuring “customer first principle” to raise customer satisfaction and expand the cosmetics business

### Pillars of the strategy (Cosmetics)

#### Strengthen current initiatives

- Develop high value-added products by adding original ingredients
- Expand business of marketing companies
- Enhance education and environment
- Promote online sales (domestic)

#### Take on new challenges

- Promote online sales (consider overseas foray)





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