



PT HM SAMPOERNA Tbk.

## *Public Expose*

*September 18, 2020*

# Forward-Looking and Cautionary Statements

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- HMS' business risks include: significant increases in cigarette-related taxes; the imposition of discriminatory excise tax structures; fluctuations in customer inventory levels due to increases in product taxes and prices; increasing marketing and regulatory restrictions, often with the goal of reducing or preventing the use of tobacco products; health concerns relating to the use of tobacco products and exposure to environmental tobacco smoke; litigation related to tobacco use; intense competition; regulatory and political developments; changes in adult smoker behavior; lost revenues as a result of counterfeiting, contraband and cross-border purchases; governmental investigations; unfavorable currency exchange rates and currency devaluations; adverse changes in applicable corporate tax laws; adverse changes in the cost and quality of tobacco and other agricultural products and raw materials; and the integrity of its information systems. HMS' future profitability may also be adversely affected should it be unsuccessful in its attempts to produce products with the potential to reduce exposure to harmful constituents in smoke, individual risk and population harm; if it is unable to successfully introduce new products, promote brand equity or improve its margins through increased prices and productivity gains; if it is unable to expand its brand portfolio internally and the development of strategic business relationships; or if it is unable to attract and retain the best global talent.
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## ***Forward-Looking and Cautionary Statements (COVID-19)***

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- The COVID-19 pandemic has created significant societal and economic disruption, and resulted in closures of stores, factories and offices, and restrictions on manufacturing, distribution and travel, all of which will adversely impact our business, results of operations, cash flows and financial position during the continuation of the pandemic
- Our business continuity plans and other safeguards in place may not be effective to mitigate the impact of the pandemic. Currently, significant risks include our diminished ability to convert adult smokers to our RRPs, significant volume declines in our duty-free business and certain other key markets, disruptions or delays in our manufacturing and supply chain, increased currency volatility, and delays in certain cost saving, transformation and restructuring initiatives. Our business could also be adversely impacted if key personnel or a significant number of employees or business partners become unavailable due to the COVID-19 outbreak. The significant adverse impact of COVID-19 on the economic or political conditions in markets in which we operate could result in changes to the preferences of our adult consumers and lower demand for our products, particularly for our mid-price or premium-price brands. Continuation of the pandemic could disrupt our access to the credit markets or increase our borrowing costs. Governments may temporarily be unable to focus on the development of science-based regulatory frameworks for the development and commercialization of RRPs or on the enforcement or implementation of regulations that are significant to our business. In addition, messaging about the potential negative impacts of the use of our products on COVID-19 risks may lead to increasingly restrictive regulatory measures on the sale and use of our products, negatively impact demand for our products, the willingness of adult consumers to switch to our RRPs and our efforts to advocate for the development of science-based regulatory frameworks for the development and commercialization of RRPs
- The impact of these risks also depends on factors beyond our knowledge or control, including the duration and severity of the outbreak, its recurrence in our key markets, actions taken to contain its spread and to mitigate its public health effects, and the ultimate economic consequences thereof

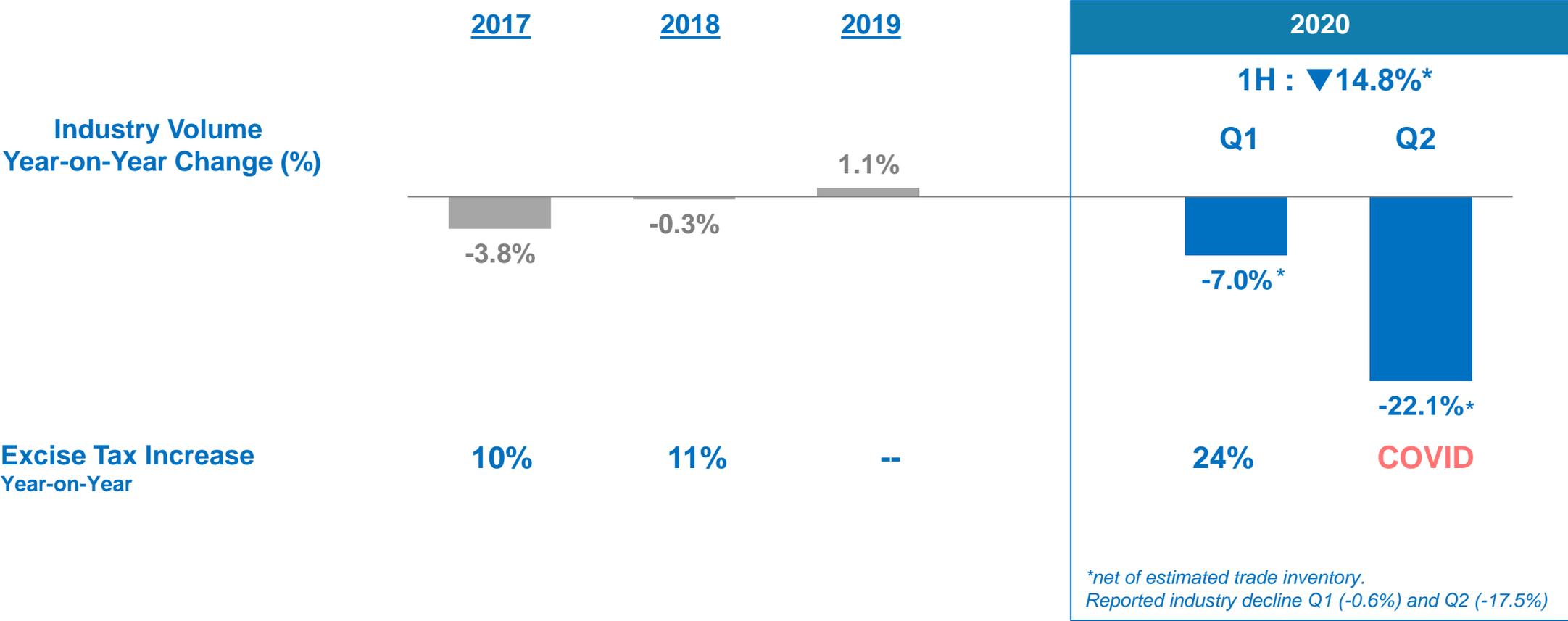
## ***Key highlights***

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- Significant impact in the cigarette industry from **excise tax-driven price increases** coupled with **COVID pandemic**
- Economic impact of the pandemic translated into further **affordability issues**, given large number of daily workers
- Resulting in recent market trends : up-taring, growth of smaller packs and accelerated growth of Below-Volume Tier 1
- Performance unfavorably impacted from **downtrading to Below-Volume Tier 1** and **public restriction** during COVID
- We are **Investing to Protect** labor intensive the **Hand-rolled Kretek** or **SKT** segment
- We are adapting to the New Normal, the **New Ways of Working**, and supporting government, employees and communities through the COVID-19 Pandemic

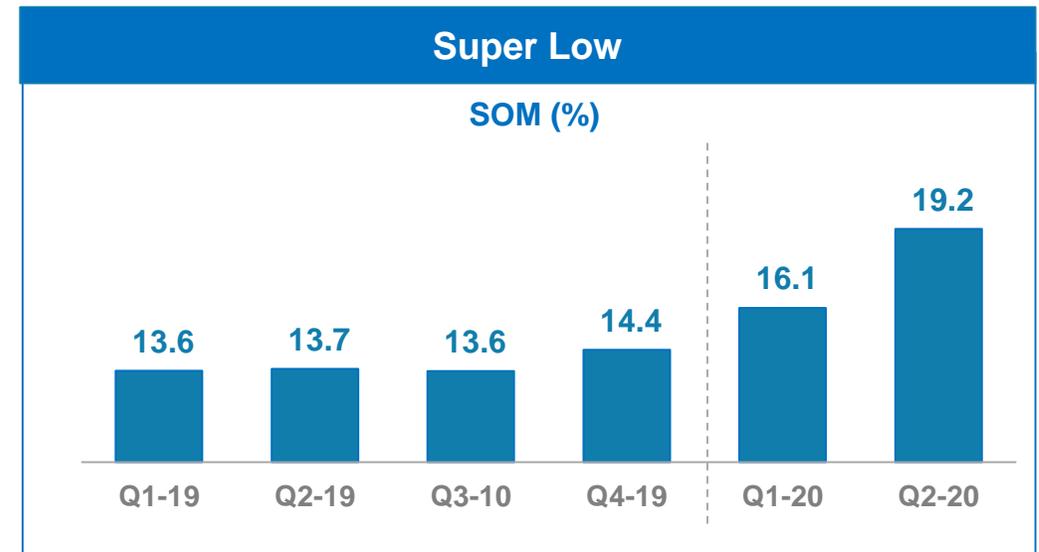
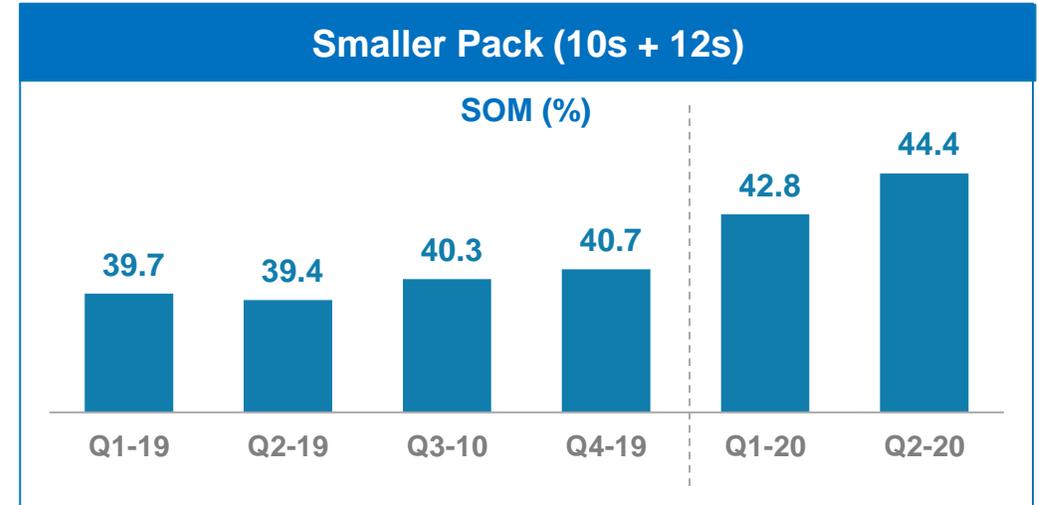
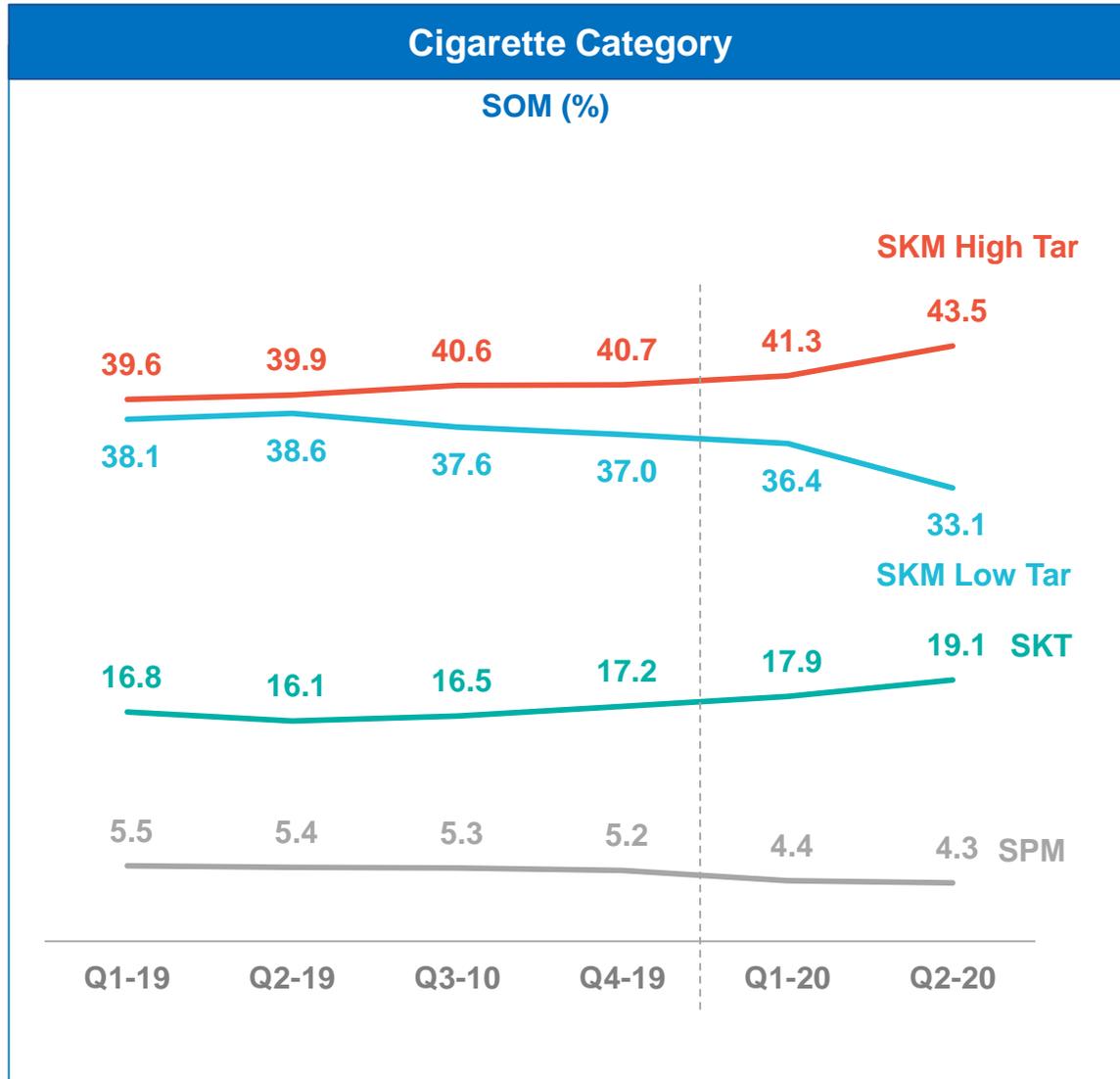
# 2020: headwinds to cigarette industry

Unfavorably impacted by significant excise tax increases, coupled with impact from COVID Pandemic



Source: Company estimate. Note: Excise Tax Increase is weighted average industry increase

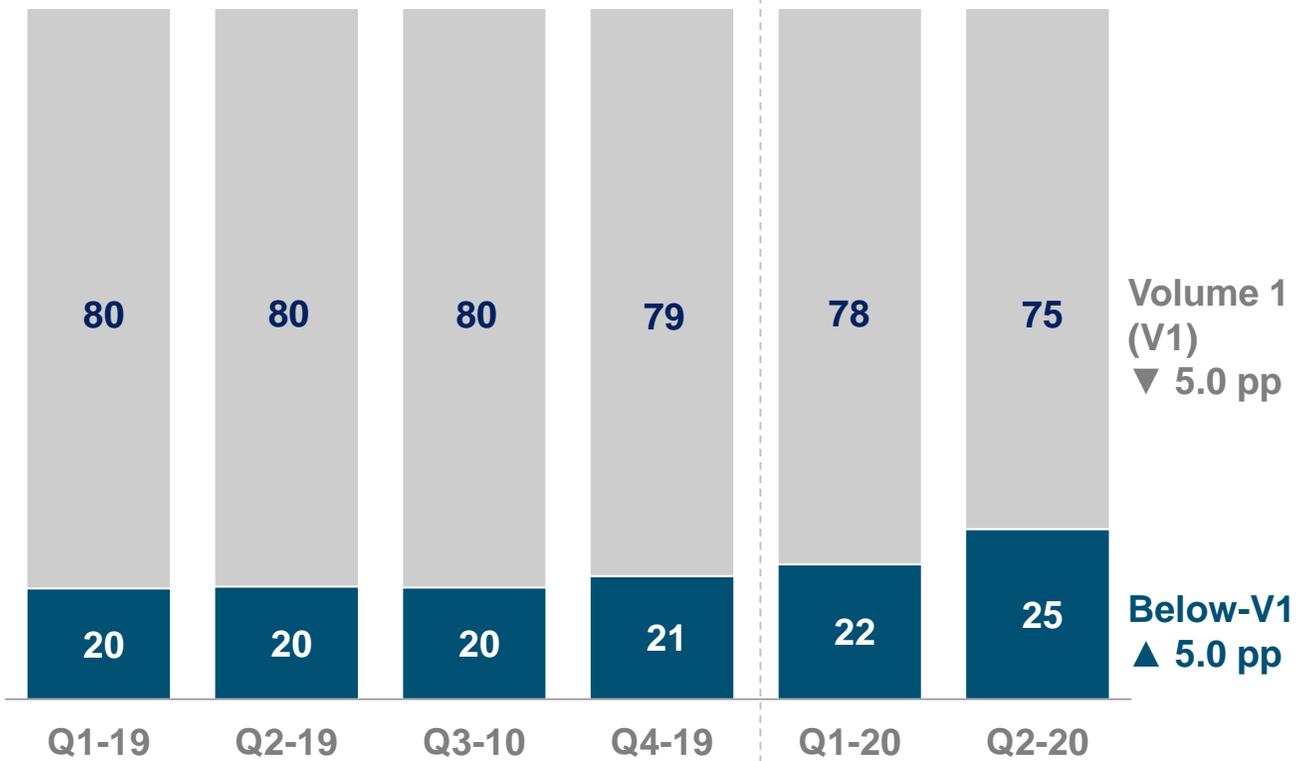
# Market trends: affordability leads to up-taring, growing smaller pack size and down-trading



# Accelerated growth of Below-Volume Tax Tier 1

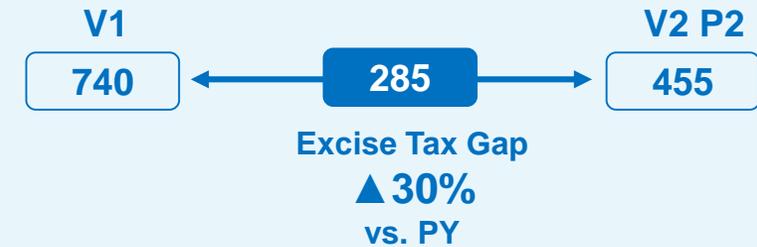
## Growth driven by new brands

SOM by Tax Tier (%)



## Widening tax gap and price gap

### Excise Tax – SKM (IDR/stick)

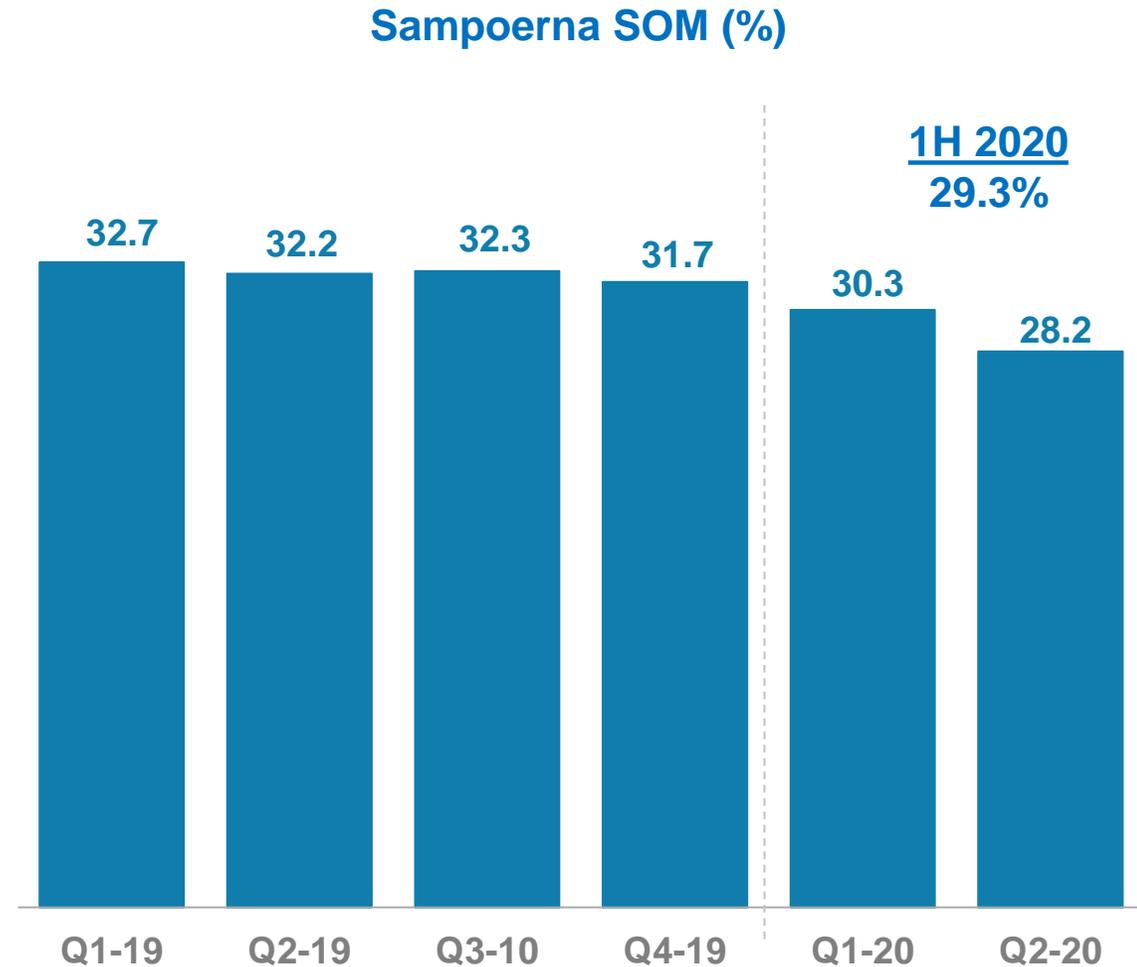


### Minimum HJE – SKM (IDR/stick)



## Sampoerna performance unfavorably impacted by...

- Down-trading to Below-V1 Tax products
- Elevated price gaps in V1 segment due to the delay in minimum price enforcement

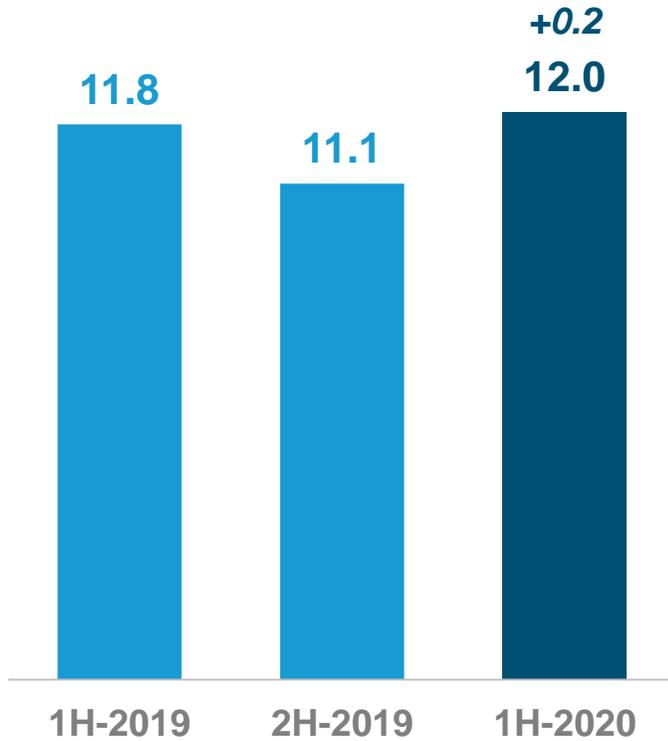


## However we have gained market share in higher margin products



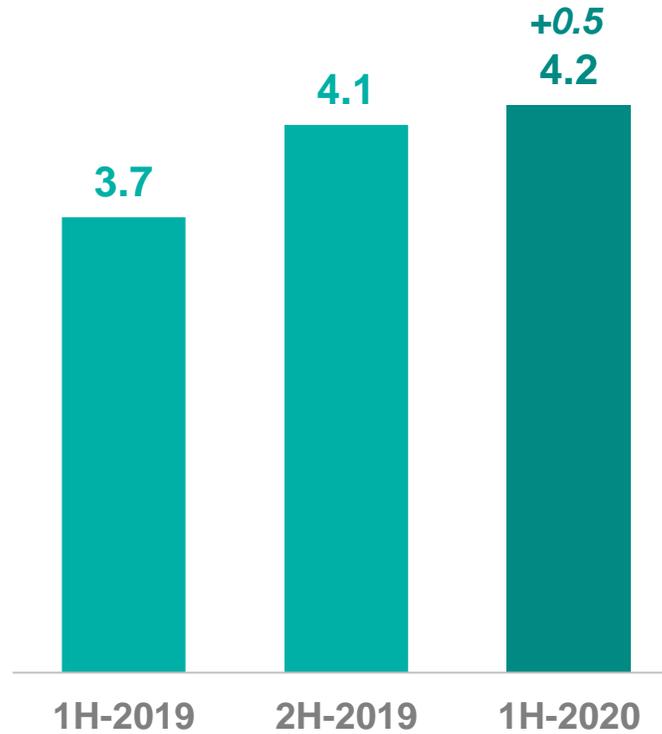
### Sampoerna A

Share of Market (%)



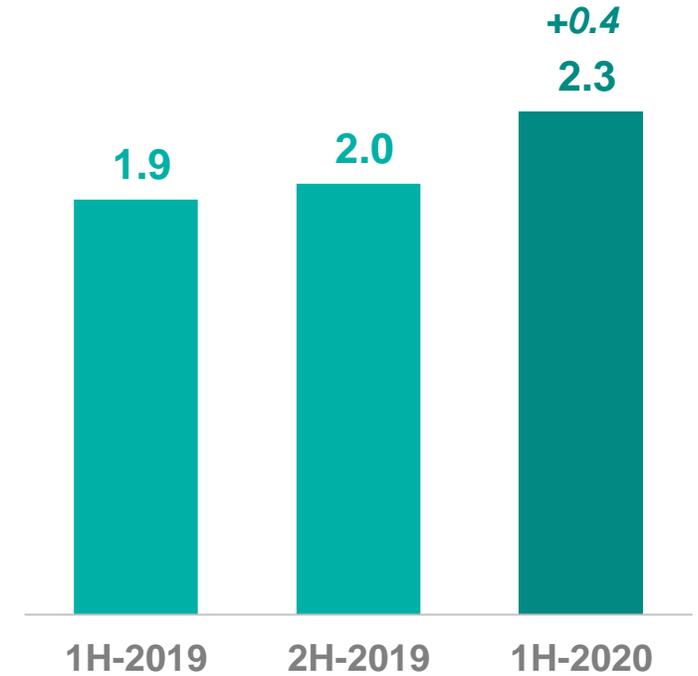
### Dji Sam Soe (SKT)

Share of Market (%)



### Sampoerna Kretek

Share of Market (%)



+xx pp variance vs. 1H 2019

Source: company estimates

# We are Investing to Protect labor intensive SKT segment

## New: Sampoerna 234 12s (March)



## Commercial Support for SKT Products



*Three hands philosophy guides our decisions*

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**Adult smokers**

**Employee and Business Partners**

**Society at Large**



# Commitment to highest quality and brand integrity of our products

Additional levels of hygiene in factories, warehouses and supply chain:

- Mandatory use of personal protective equipment (masks and hand sanitizers)
- Restricting access to production facilities to essential workers
- Product quarantines for at least 5 days from manufacturer to consumer

## Adapting to the New Normal

### HOUSE



- **Disinfectant**
- **Personal thermometer**
- **Self Declaration Form**

### TRANSPORT



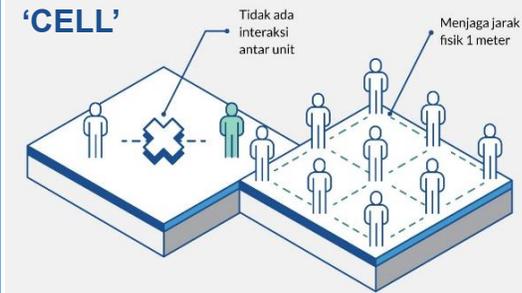
- Avoid public transportation
- **Disinfecting vehicles**
- **Physical distancing**
- **No shared helmets**

### FACTORY ENTRANCE



### WORKPLACE

#### 'CELL'



- **Compulsory 4 masks a day**
- **Intensive education**
- **In-house co-operative (Koperasi) providing fresh food at affordable price to avoid crowded wet market**

# Commitment to keep employees safe whilst ensuring business continuity

## A Hybrid Engagement



- Hybrid engagement model (physical, virtual, and digital)
- Provision of supporting tools for effective trade engagement

## B Field & Office Safety Protocol



- Office re-arrangement
- Reinforcement of safety protocol
- Usage of Personal Protective Equipment (PPE) in office and field

## C Support for Trade Partners



- Provide safety assistance & support for trade partners to ensure safe business practices

# Supporting trade partners

## Increased hygiene



Pemilik pakai masker



Partisi kasir



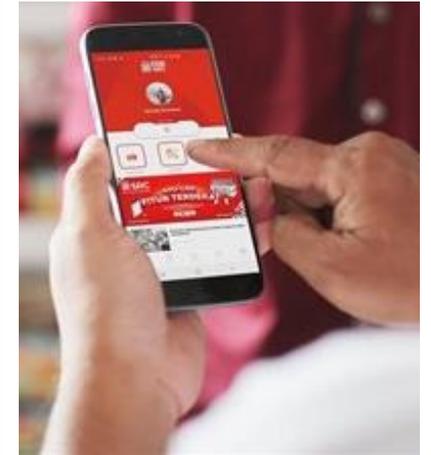
Sedia tempat cuci tangan



Sedia hand sanitizer

## Digital Adoption

**Hindari Kerumunan, belanja melalui AYO SRC saja**  
 dan pastikan stok produk di SRC kita tetap terjaga ya!  
 Jadi Lebih Baik #BersamaSRC  
[www.src.id](http://www.src.id)



## Community Support and Distributing Gov't Assistance

**PAGUYUBAN SRC KENDAL PEDULI**  
 Jangan ragu untuk berbuat baik  
 Sisihkan sebagian rezeki kita untuk para pekerja yg terdampak Corona

Paguyuban SRC Kab. Kendal mengajak kita semua untuk berbagi melalui donasi yang akan disalurkan untuk para :

- Driver Ojek Online/tidak akan disalurkan dalam bentuk Sembako senilai @50.000
- Tukang Becak
- Tukang Parkir
- Sopir Taksi
- Pedagang Keliling

Periodé Dónasi SENIN s/d MINGGU (30 Maret s/d 5 April 2020)

Salurkan donasi anda melalui rekening

- No. Rekening : 0864406009
- Rekening : BNI
- Atas Nama : Umi Latifah

Konfirmasi Dónasi CP Bu Umi : 08122926638

#BantuSesamaHadapiCorona  
 #SRCKendalPeduli  
 #JadiLebihBaikBersamaSRC



## ... and supporting the government on national recovery programs

### Tobacco Farmers

#### Integrated Production System

- 27,400 farmers
- In 2019, HMS distributed 42,900 PPE & 700 cultivators and provided training and waste bank program with a combined beneficiaries of over 20,000

#### Covid-19 related program

Putting in place preventive measures against Covid-19, including distributing hygiene kits to farmers in tobacco growing areas.



### Contributing towards Industry 4.0

#### Sampoerna Entrepreneurship Training Center

In 2019, SETC has trained 52,500 MSMEs and received around 114,000 visitors



### Support MSMEs - Sampoerna Retail Community (SRC)

#### SRC Revenue

IDR **69.3** trillion

Equivalent to **4.1%** of Indonesia's Retail GDP 2019E\*

#### Women Empowering

**57%** of SRC owners

With **52%** of them is family backbone

## Our commitment to sustainability



**5 solar panels** installation in production facilities to produce renewable energy 1,775 MWh/year



**Alliance for Water Stewardship certification** for Sukorejo production facility



**CDP Climate A list** since 2014



Implementing an **internal carbon pricing policy** of USD 65 per tonne of CO<sub>2</sub>e, aligned with the 1.5 degree target and helps strengthen corporate climate leadership



**Green Proper award** for Sukorejo production facility 2019



**2 Most Improved PLCs (Indonesia) award** by ASEAN Corporate Governance and ASEAN Capital Market Forum

## Call for action to protect labor intensive SKT product category



- The segment has been **declining** historically
- **Labor intensive** with approx. 70%\* of total tobacco industry workers involve in SKT production process

*\*Ministry of Industry, 2018*

### Policy recommendation

**Excise policy that supports industry recovery post COVID-19, provide predictability and level playing field**

#### **Protection of labor intensive SKT segment:**

- No excise tariff and banderole increase on SKT
- Maintain current volume threshold for SKT V2 and V3
- Support SKT competitiveness by expanding excise tariff gap between SKT and the lowest machine-made cigarette

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# **Glossary of Key Terms and Definitions**

# *Glossary of Key Terms and Definitions*

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- Trademarks are italicized
- Comparisons are made to the same prior-year period unless otherwise stated
- “SKM HT” is Machine Made Kretek High Tar
- “SKM LT” is Machine Made Kretek Low Tar
- “SKT” is Hand Rolled Kretek
- “SPM” is White cigarette
- “HJE” stands for *Harga Jual Eceran* is the minimum banderole or tax stamps price
- "RSP" stands for retail selling price
- "SoM" stands for share of market
- “V1” stands for Volume Tier 1 as per regulation 152/PMK.010/2019 defined as annual production volume per cigarette category of more than 3 billion units (for SKM and SPM) and 2 billion units (for SKT) for total company and affiliated companies
- “Below-V1” stands for Below-Volume Tier 1 as per regulation 152/PMK.010/2019 defined as annual production volume per cigarette category of less than 3 billion units (for SKM and SPM) and 2 billion units (for SKT) for total company and affiliated companies