

# KT&G Earnings Release

## 4Q 2019

Investor Relations

February 13<sup>th</sup>, 2020



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## KT&G Separate Results



## KGC Separate Results



## FY2020 Business Target



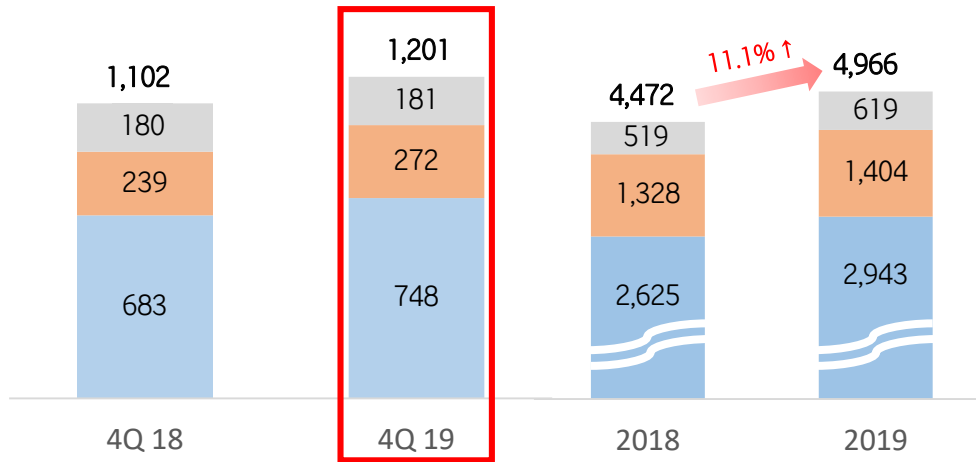
## KT&G-PMI Global Collaboration Agreement



# I. Consolidated Results Overview

## ◆ Sales

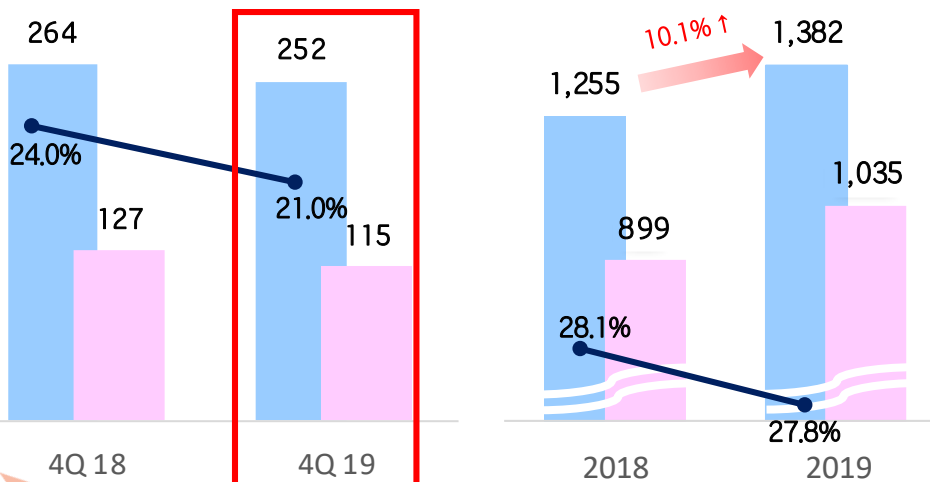
■ KT&G ■ KGC ■ Others / Unit : bil won



- (4Q Sales) 1.2 tril won / YoY +9.0%
- (FY19 Sales) 4.97tril won/ YoY +11.1%
  - Overseas cigarette subsidiaries record sales and overall business growth

## ◆ OP/NI

■ Operating Profit ■ Net Income ■ OP Margin / Unit : bil won, %

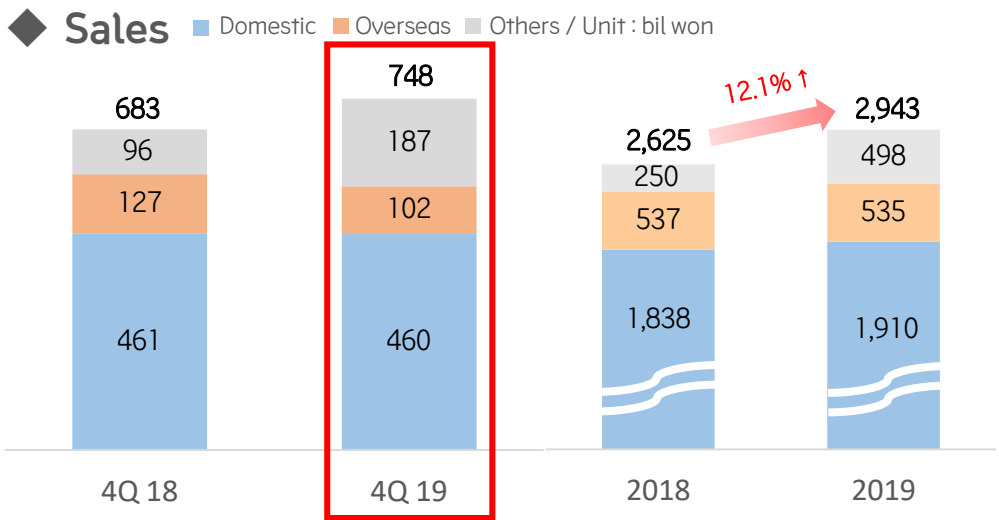


- (4Q OP) 252 bil won / YoY -4.6%
- (FY19 OP) 1,382 bil won / YoY +10.1%
- (4Q NI) 115 bil won / YoY -9.5%
- (FY19 NI) 1,035 bil won / YoY +15.2%

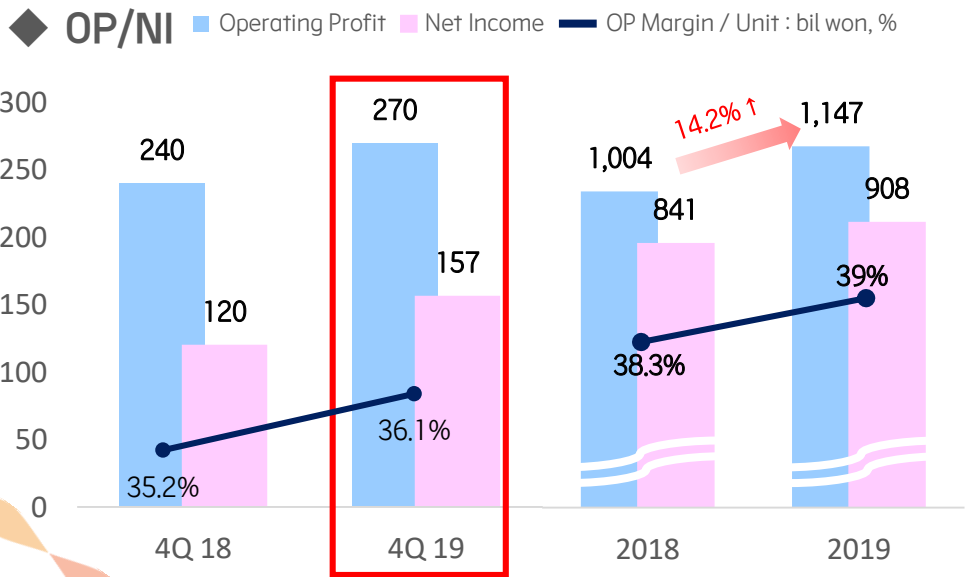




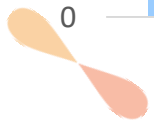
# II - 1. KT&G Separate Results



- (4Q Sales) 748 bil won / YoY +9.5%
- (FY19 Sales) 2,943 bil won / YoY +12.1%
  - New domestic combustible products' success, NGP MS growth and Suwon real estate sales increase



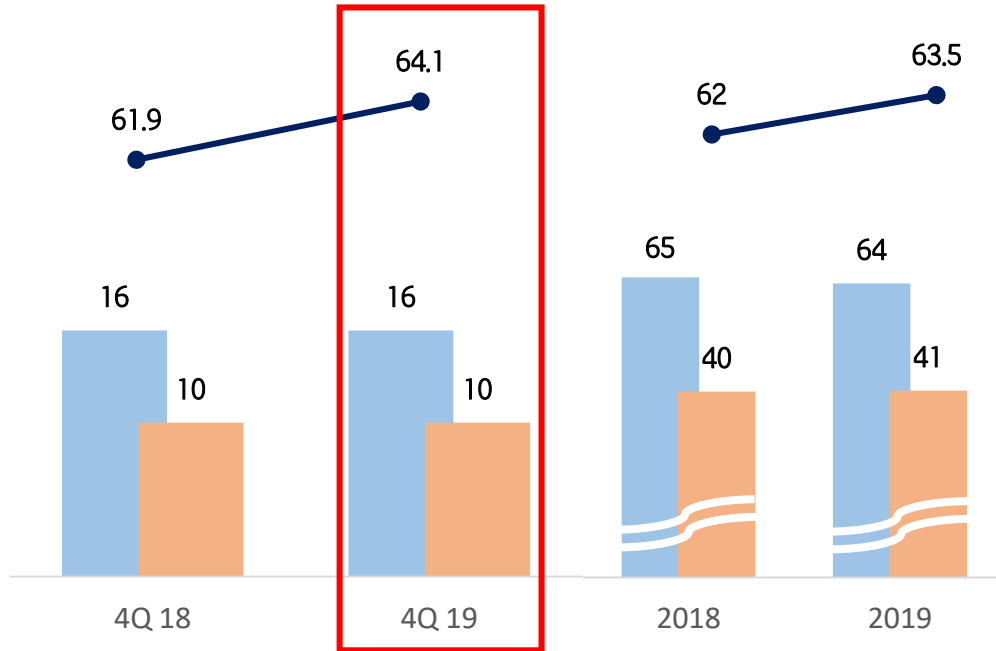
- (4Q OP) 270 bil won / YoY +12.4%
- (FY19 OP) 1,147 bil won / YoY +14.2%
- (4Q NI) 157 bil won / YoY +30.3%
- (FY19 NI) 908 bil won / YoY +7.9%





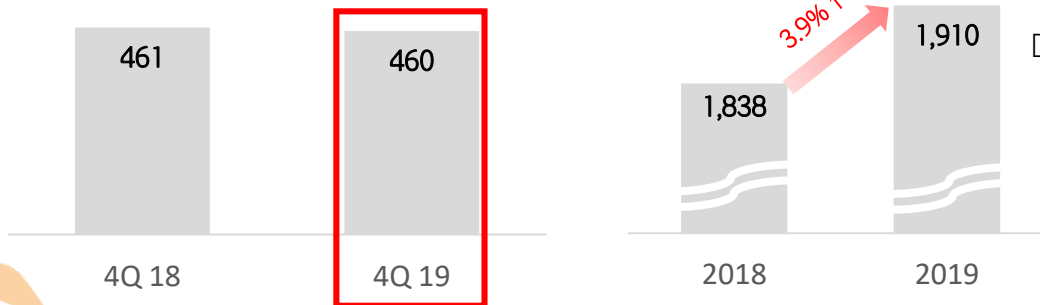
# II -2. KT&G Business Result \_Domestic Cigarette

## ◆ Market Volume and Sales(Combustible Cigarette) ■ Market Volume ■ KT&G Volume / Unit : bil sticks, bil won, %



- (4Q Market) 16 bil sticks / YoY +0.6%
- (4Q Sales) 10 bil sticks / YoY +4.1%
- (4Q M/S) 64.1% / YoY +2.2%p
- (FY19 Market) 64 bil sticks / YoY -2.0%
- (FY19 Sales) 41 bil sticks / YoY +0.5%
- (FY19 M/S) 63.5% / YoY +1.5%p
  - Exceed FY19 goal through successful new combustible products

## ◆ Sales (NGP included) ■ Sales / Unit : bil sticks, bil won, %



- (4Q Sales) 460 bil won / YoY -0.2%
- (FY19 Sales) 1,910 bil won / YoY +3.9%
  - Stick volume sales increase and Duty Free ASP improvement result in sales increase



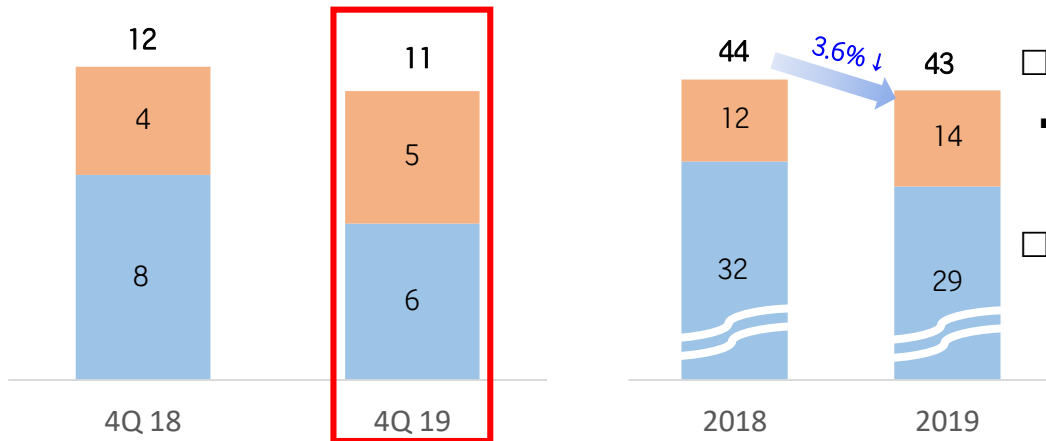


# II -3. KT&G Business Result \_Overseas Cigarette



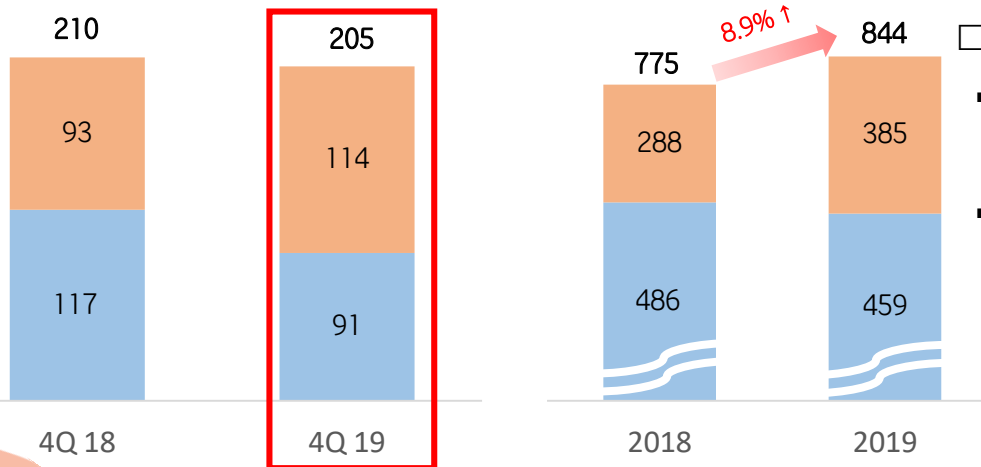
## (Export and Overseas subsidiaries)

◆ **Volume** ■ Export(US Excluded) ■ Overseas subsidiaries(US included) / Unit : bil sticks



- (4Q Volume) 11 bil sticks / YoY -7.8%
  - Main market export volume decrease offset by new market growth
- (FY19 Volume) 43bil sticks / YoY -3.6%

◆ **Sales** ■ Export(US Excluded) ■ Overseas subsidiaries(US included) / Unit : bil won

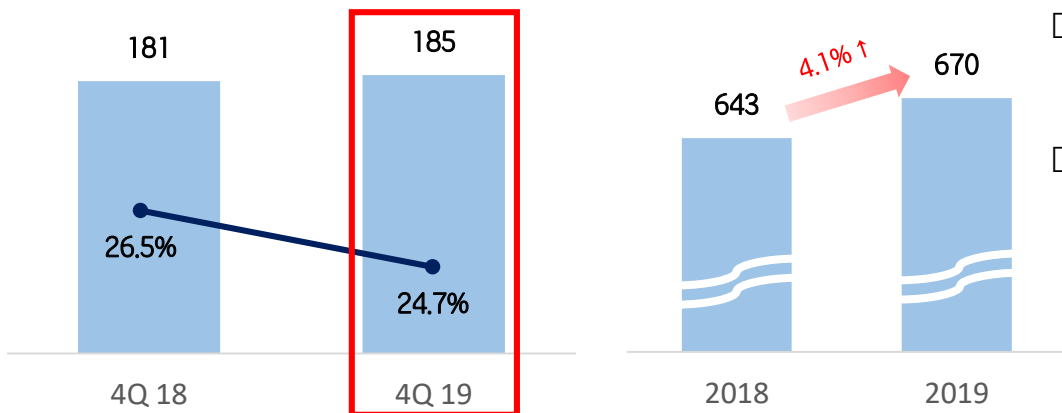


- (4Q Sales) 205 bil won / YoY -2.6%
- (FY19 Sales) 844 bil won / YoY +8.9%
  - New market ASP mix improvement, overseas subsidiaries(Indonesia/US) record sales
  - Currency exchange increase base effect yoy



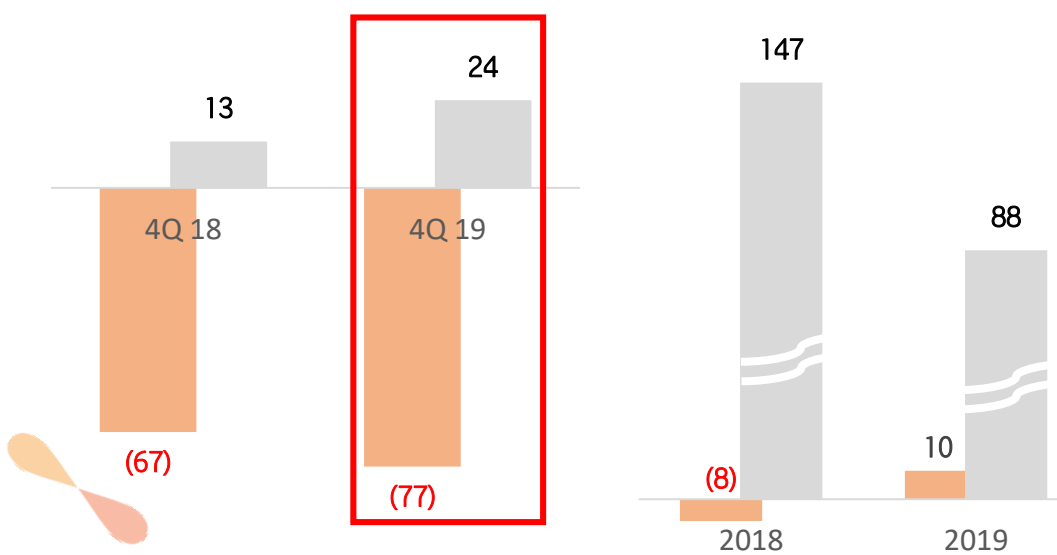
# II -4. KT&G Profitability Analysis

◆ **SG&A** ■ SG&A — SG&A Ratio / Unit : bil won



- (4Q SG&A) 185 bil won / YoY +2.0%
- (FY19 SG&A) 670 bil won / YoY +4.1%

◆ **Other/Financial Profit and Loss** ■ Other profit/loss ■ Financial profit/loss / Unit : bil won

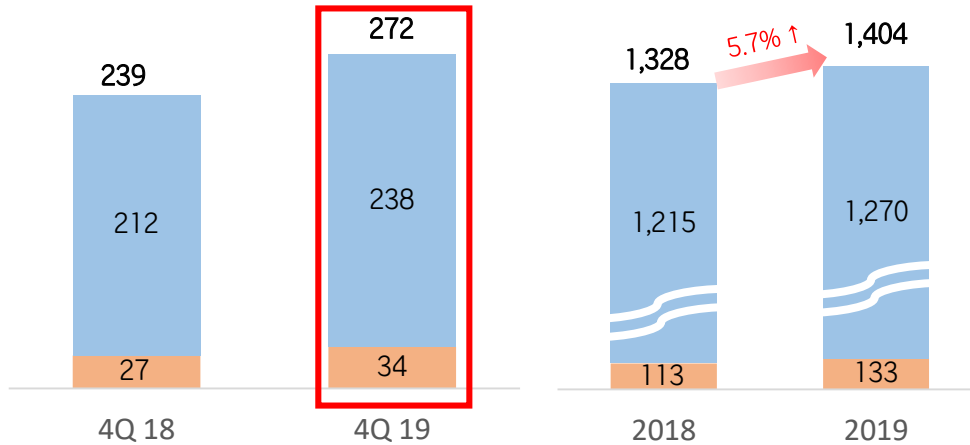


- (4Q) Other profit/loss -77 bil won, Financial profit/loss 24 bil won
  - Donation cost increased and FX related income decreased yoy
- (FY19) Other profit/loss 10 bil won, Financial profit/loss 88 bil won
  - Investment asset impairment cost decrease
  - KGC dividend payment('18.1Q) base effect yoy



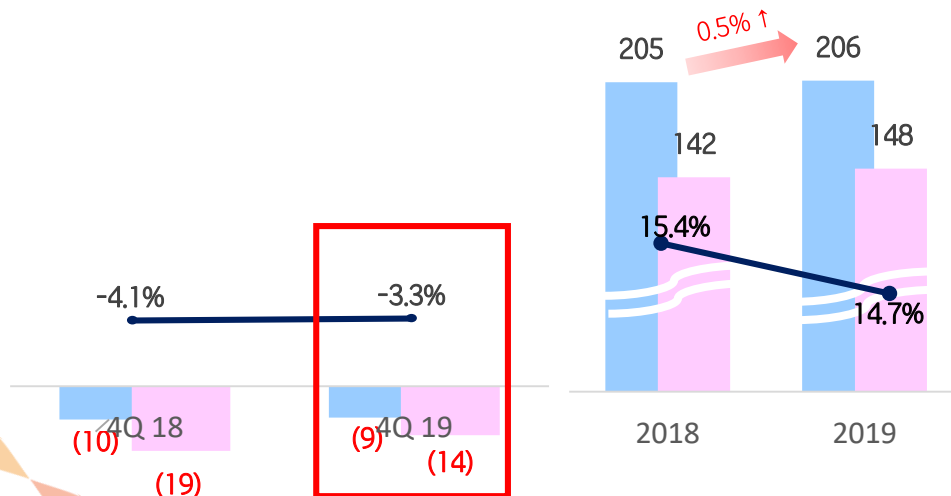
# III - 1. KGC Separate Results

## ◆ Sales ■ Domestic ■ Export / unit : bil. won

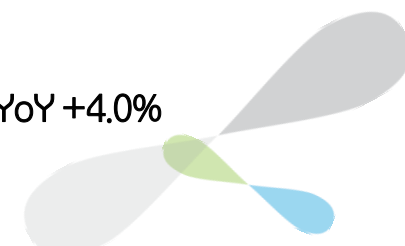


- (4Q Sales) 272 bil won / YoY +14.0%
- (FY19 Sales) 1 tril 404 bil won / YoY +5.7%

## ◆ OP/NI ■ OP ■ NI — OPM / unit : bil. won, %

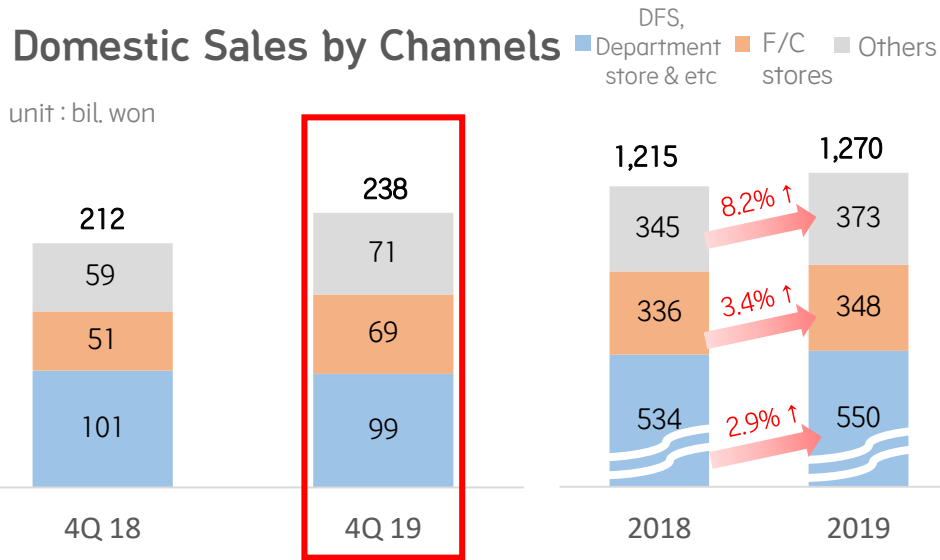


- (4Q OP) - 9 bil won
  - Due to business structure, cost payment is focused in 4Q (Fresh ginseng, etc)
- (FY19 OP) 206 bil won / YoY +0.5%
- (4Q NI) -14 bil won
- (FY19 NI) 148 bil won / YoY +4.0%



# III-2. KGC Sales Analysis

## ◆ Domestic Sales by Channels



### □ (4Q) All improved except DFS, Department, Etc

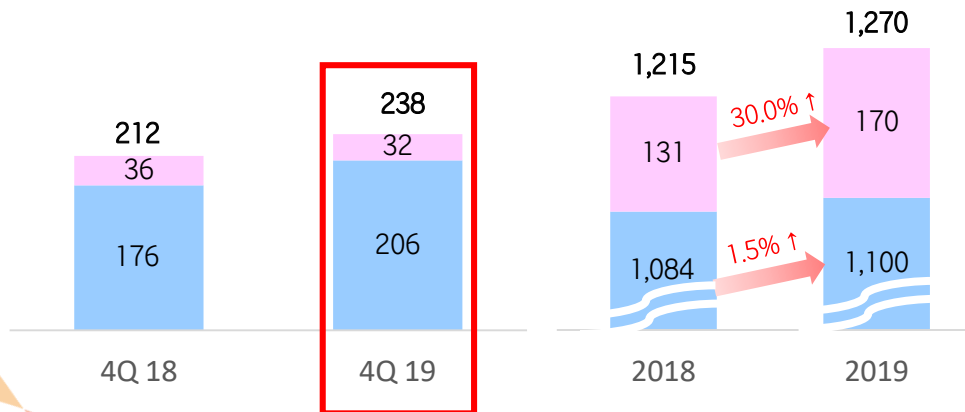
- (DFS/Department/Etc) 99 bil won / YoY -2.7%
- (F/C Store) 69 bil won/ YoY +33.9%
- (Others) 71 bil won / YoY +20.0%

### □ (FY19) All of channels showed increased

- (DFS/Department/Etc) 550 bil won / YoY +2.9%
- (F/C Store) 348 bil won/ YoY +3.4%
- (Others) 373 bil won / YoY +8.2%

## ◆ Domestic Sales by Ginseng/Non-ginseng

Ginseng Non-ginseng / unit : bil.won



### □ (4Q Ginseng) 206 bil won / YoY +17.3%

- Sales increased due to the effect of 120<sup>th</sup> anniversary and early Lunar New Year events with enhanced marketing

### □ (4Q Non-ginseng) 32 bil won / YoY -10.9%

- Goodbase 'pomegranate' flavor sitck sales base effect yoy

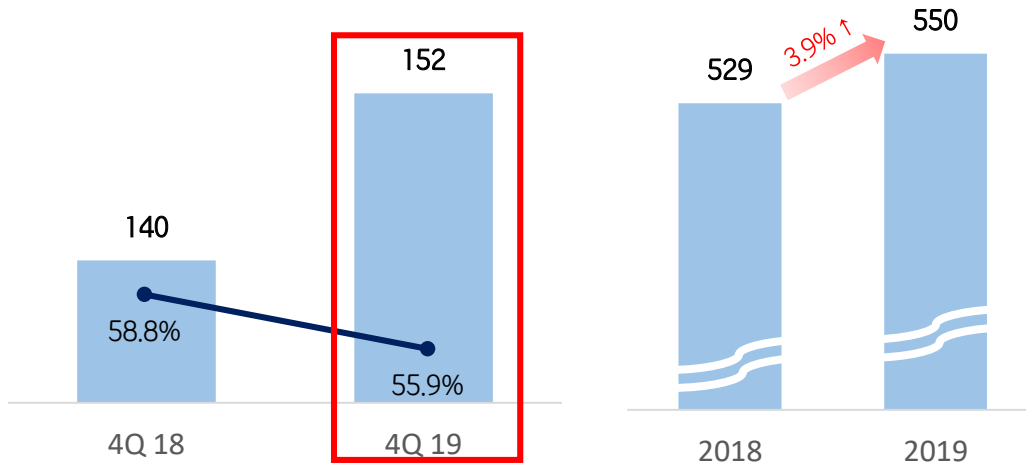
### □ (FY19 Ginseng) 1,100 bil won / YoY +1.5%

### □ (FY19 Non-Ginseng) 170 bil won / YoY +30.0%

# III - 3. KGC Profitability Analysis

## ◆ SG&A

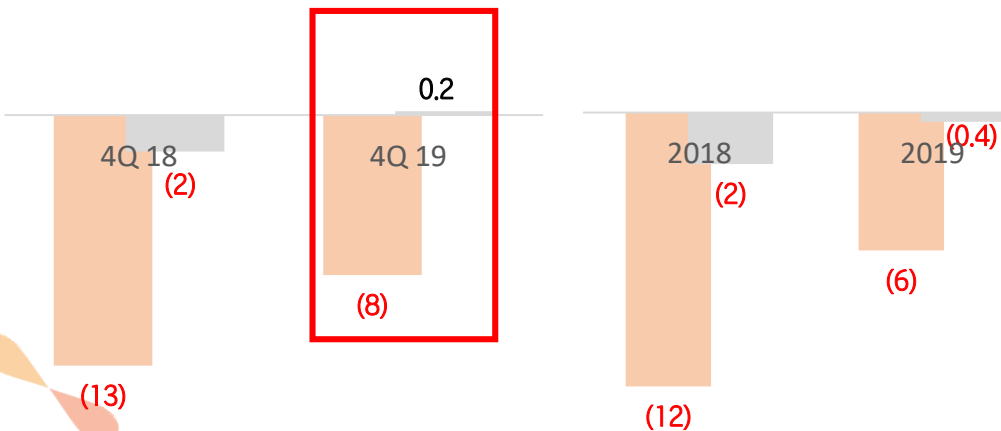
■ SG&A    — SG&A ratio / unit : bil.won



- (4Q SG&A) 152 bil won / YoY +8.6%
  - Due to Sales increase, sales commission & transportation/storage cost increased
- (FY19 SG&A) 550 bil won / YoY +3.9%

## ◆ Other/Financial

■ Other income/expense    ■ Financial gain/loss / unit : bil.won



- (4Q) Other expense 8 bil won, Financial gain 0.2 bil won
- (FY19) Other expense 6 bil won, Financial loss 0.4 bil won



## IV. FY2020 Business Target

### ◆ KT&G >>>> Sales 3 tril. 269 bil. won / OP 1 tril. 157 bil. won

- (Domestic Cigarette) Volume 39.5 bil. sticks, M/S 63.3%
  - Utilize current market trend technology, 'less smell /health conscious', to gain combustible market dominance
- (Overseas Cigarette) Volume 52.7 bil. sticks, Sales(consolidated) 956.6 bil. won
  - New market/Overseas Subsidiary : Strengthen business competitiveness and expand investment to gain business growth momentum
  - Main market : Recover export sales and achieve business target through new contract agreement
- (Real Estate) Sales 612.9 bil. won(Suwon Project 542 bil. won)
  - Expand sustainable revenue generation and improve business competitiveness

### ◆ K G C >>>> Sales 1 tril 470 bil. won / OP 208 bil. won

- (Domestic Business) Sales 1 tril 312 bil. won
  - Strengthen health functional food market control and promote non-ginseng/cosmetic as next generation business
- (Overseas Business) Sales 158 bil. won
  - Strengthen localization and substantialize business structure for self sufficient operation basis

# KT&G-PMI Global Collaboration Agreement\_① Background

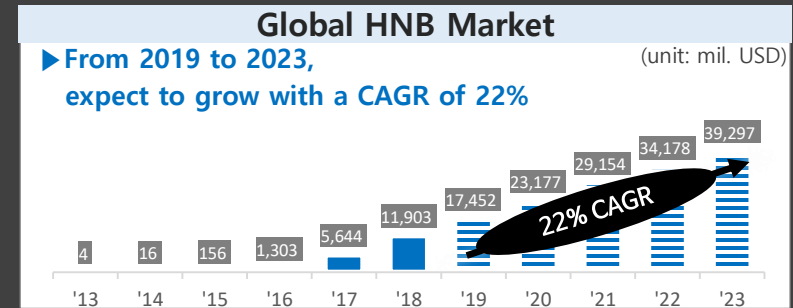
## High Growth potential for Global NGP Market

(Resource : 2018 Euromonitor)

- Global NGP Sales Expected to reach \$84 billion by 2023 growing at a CAGR of 35% from 2013 to 2023
- From 2019 to 2023, Global HNB Sales Expected to grow at a CAGR of 22%



\* NGP : E-vapor, HNB



## 'lil' Series with Innovative technology and Global Competitiveness recognized by global leading company

- Proving differentiated technology process globally by high speed development power and successful launch in the domestic market
- 'lil Hybrid', as a innovative platform that combines HNB and e-vapor technology, is creating new paradigm in domestic NGP market

## Market with high barriers to entry

- Need to enter the new market before tightening regulations and requirements for global NGP market
- Utilizing accumulated global competencies to go beyond the existing barriers

IQOS is available for sale in 52 markets worldwide in 2019, and estimated M/S of NGP market is 57% in 2018

(China/US excluded, Resource : PMI Investor Information October 2019)



# KT&G-PMI Global Collaboration Agreement\_ ② Details

**KT&G will penetrate global market at a rapid pace and expand the market base effectively by using PMI's marketing and distribution infrastructure which will enhance the brand value of lil**

- Seperate Roles** ■ KT&G : manufacture and supply / PMI : market, distribute and sell  
Including the articles of contract about sales of 'lil'
- brand** ■ Existing brand 'lil', in addition under discussion about brand endorsement with 'IQOS'  
Maintaining the brand name of fiit, miix and siid
- Territory** ■ Outside Korea
- Product** ■ KT&G's existing HNB and E-vapor Products, and new versions of the products  
Including devices, e-liquid cartridges, accessories for lil Plus, lil Mini, lil Hybrid, lil Vapor
- Period** ■ Three years  
The start of the three-year term may vary depending on certain conditions
- intitial launch** ■ Launching products in numbers of international markets as soon as possible  
within this year (PMI announcement)
- Sales structure** ■ Under the agreement, PMI will pay cost of supply and royalty to KT&G
- Cost bearing** ■ Marketing, distribution and sales related cost will be covered by PMI



# KT&G-PMI Global Collaboration Agreement\_ ③ Vision

## Creating and Expanding New Values

- Continuing the success story of 'lil' brand in the global smoke-free tobacco market and strengthening the brand value and power of 'lil' as a global brand
- Reserve the resource s spent in entering new markets, and focus on further development while the collaboration will enhance production efficiency and cost competitiveness

## Maximizing Synergy of Collaboration

- Strong synergy between KT&G's unprecedented speed of R&D and PMI's global distribution network will lead to the expansion of global NGP market
- Broadly use and utilize the accumulated know-how in the global smoke-free tobacco market and meet the different needs of consumers in the ever-changing tobacco industry

**Accomplishing the vision of 『Global outstanding Company』 through balanced growth between combustible and NGP Business**

# KT&G\_Condensed Balance Sheet

## ☐ Consolidated

Accounts (unit: hundred mil. KRW)	18.4Q	19.3Q	19.4Q
<b>Current Asset<sup>(a)</sup></b>	<b>64,134</b>	<b>64,352</b>	<b>64,246</b>
Cash and cash equivalents, Etc <sup>(*)</sup>	26,573	26,171	25,285
Trade and other receivables	9,759	11,663	10,260
Inventories	24,613	22,482	24,515
<b>Non-current assets</b>	<b>37,417</b>	<b>41,962</b>	<b>42,816</b>
Property, plant, and equipment	18,188	17,323	17,529
Investment property	4,950	8,073	8,853
<b>Total assets</b>	<b>101,551</b>	<b>106,314</b>	<b>107,062</b>
Current liabilities <sup>(b)</sup>	16,407	16,101	15,944
Non-current liabilities	3,813	4,590	4,097
<b>Total liabilities<sup>(c)</sup></b>	<b>20,220</b>	<b>20,691</b>	<b>20,041</b>
<b>Total equity<sup>(d)</sup></b>	<b>81,331</b>	<b>85,623</b>	<b>87,021</b>
Current ratio <sup>(a/b)</sup>	390.89%	399.68%	402.95%
Debt ratio <sup>(c/d)</sup>	24.86%	24.17%	23.03%

## ☐ KT&G Separate

Accounts (unit: hundred mil. KRW)	18.4Q	19.3Q	19.4Q
<b>Current Asset<sup>(a)</sup></b>	<b>44,186</b>	<b>42,998</b>	<b>43,343</b>
Cash and cash equivalents, Etc <sup>(*)</sup>	24,578	22,552	22,734
Trade and other receivables	7,309	8,469	7,940
Inventories	9,547	9,162	9,744
<b>Non-current assets</b>	<b>43,113</b>	<b>47,257</b>	<b>47,901</b>
Property, plant, and equipment	12,009	11,082	11,159
Investment property	6,067	9,243	9,991
<b>Total assets</b>	<b>87,299</b>	<b>90,255</b>	<b>91,244</b>
Current liabilities <sup>(b)</sup>	12,890	12,957	12,456
Non-current liabilities	757	1,289	826
<b>Total liabilities<sup>(c)</sup></b>	<b>13,647</b>	<b>14,246</b>	<b>13,282</b>
<b>Total equity<sup>(d)</sup></b>	<b>73,652</b>	<b>76,009</b>	<b>77,962</b>
Current ratio <sup>(a/b)</sup>	342.79%	331.86%	347.97%
Debt ratio <sup>(c/d)</sup>	18.53%	18.74%	17.04%

(\*) Cash and cash equivalents, Etc : Cash and cash equivalents, Current other financial assets, Current fair value through profit or loss



# KT&G\_Financial Summary(4Q)

## ☐ Consolidated

Accounts (unit: hundred mil. KRW)	18.4Q	19.3Q	19.4Q
<b>Sales</b>	<b>11,017</b>	<b>13,222</b>	<b>12,007</b>
Cost of sales	4,600	5,608	5,150
<b>Gross profit</b>	<b>6,417</b>	<b>7,614</b>	<b>6,856</b>
Selling, general and administrative expense	3,778	3,790	4,338
<b>Operating profit</b>	<b>2,639</b>	<b>3,825</b>	<b>2,518</b>
Other income/expenses	(601)	492	(915)
Financial gain/loss	111	170	208
<b>Net income</b>	<b>1,268</b>	<b>3,221</b>	<b>1,147</b>
Gross profit margin	58.25%	57.59%	57.11%
Operating profit margin	23.96%	28.93%	20.97%
Net income margin	11.51%	24.36%	9.55%

## ☐ KT&G Separate

Accounts (unit: hundred mil. KRW)	18.4Q	19.3Q	19.4Q
<b>Sales</b>	<b>6,829</b>	<b>7,234</b>	<b>7,479</b>
Cost of sales	2,618	2,710	2,933
<b>Gross profit</b>	<b>4,211</b>	<b>4,524</b>	<b>4,546</b>
Selling, general and administrative expense	1,811	1,675	1,848
<b>Operating profit</b>	<b>2,401</b>	<b>2,849</b>	<b>2,698</b>
Other income/expenses	(671)	401	(766)
Financial gain/loss	128	178	241
<b>Net income</b>	<b>1,203</b>	<b>2,505</b>	<b>1,567</b>
Gross profit margin	61.67%	62.54%	60.78%
Operating profit margin	35.16%	39.38%	36.07%
Net income margin	17.61%	34.63%	20.96%

# KT&G\_Financial Summary(FY19)

## Consolidated

Accounts (unit: hundred mil. KRW)	2018	2019
<b>Sales</b>	<b>44,715</b>	<b>49,657</b>
Cost of sales	18,360	20,896
<b>Gross profit</b>	<b>26,355</b>	<b>28,761</b>
Selling, general and administrative expense	13,804	14,946
<b>Operating profit</b>	<b>12,551</b>	<b>13,815</b>
Other income/expenses	(303)	(34)
Financial gain/loss	846	826
<b>Net income</b>	<b>8,987</b>	<b>10,351</b>
Gross profit margin	58.94%	57.92%
Operating profit margin	28.07%	27.82%
Net income margin	20.10%	20.84%

## KT&G Separate

Accounts (unit: hundred mil. KRW)	2018	2019
<b>Sales</b>	<b>26,246</b>	<b>29,426</b>
Cost of sales	9,774	11,259
<b>Gross profit</b>	<b>16,473</b>	<b>18,167</b>
Selling, general and administrative expense	6,428	6,695
<b>Operating profit</b>	<b>10,044</b>	<b>11,472</b>
Other income/expenses	(77)	100
Financial gain/loss	1,472	880
<b>Net income</b>	<b>8,409</b>	<b>9,075</b>
Gross profit margin	62.8%	61.7%
Operating profit margin	38.3%	39.0%
Net income margin	32.0%	30.8%



# KT&G\_Summary of Cash Flow

## Consolidated Summary of Cash Flow

Accounts (unit: hundred mil. KRW)	2018	2019
<b>Cash flows from operating activities</b>	<b>8,217</b>	<b>10,615</b>
Cash generated from operations	11,619	14,831
Income tax paid	(3,402)	(4,216)
<b>Cash flows from investing activities</b>	<b>(463)</b>	<b>(4,599)</b>
Acquisition of property, plant and equipment	(3,533)	(4,125)
<b>Cash flows from financing activities</b>	<b>(5,498)</b>	<b>(6,336)</b>
Payment of dividends	(5,051)	(5,051)
<b>Net increase in cash and cash equivalents</b>	<b>2,260</b>	<b>(320)</b>
<b>Cash and cash equivalents at Jan, 1</b>	<b>7,151</b>	<b>9,330</b>
Effect of exchange rate fluctuation	(82)	(97)
<b>Cash and cash equivalents at Dec, 31</b>	<b>9,330</b>	<b>8,913</b>

## (KT&G) Separate Summary of Cash Flow

Accounts (unit: hundred mil. KRW)	2018	2019
<b>Cash flows from operating activities</b>	<b>6,583</b>	<b>7,713</b>
Cash generated from operations	9,424	11,234
Income tax paid	(2,841)	(3,521)
<b>Cash flows from investing activities</b>	<b>55</b>	<b>(3,501)</b>
Acquisition of property, plant and equipment	(3,037)	(3,578)
<b>Cash flows from financing activities</b>	<b>(5,051)</b>	<b>(5,114)</b>
Payment of dividends	(5,051)	(5,051)
<b>Net increase in cash and cash equivalents</b>	<b>1,588</b>	<b>(902)</b>
<b>Cash and cash equivalents at Jan, 1</b>	<b>5,898</b>	<b>7,481</b>
Effect of exchange rate fluctuation	(4)	(11)
<b>Cash and cash equivalents at Dec, 31</b>	<b>7,481</b>	<b>6,568</b>



# KGC\_Separate Financial Statement(4Q)

## □ Condensed Balance Sheet

Accounts (unit: hundred mil. KRW)	18.4Q	19.3Q	19.4Q
<b>Non-current Assets</b>	<b>5,093</b>	<b>5,919</b>	<b>6,022</b>
Property, plant and equipment	2,949	2,860	2,944
Intangible assets	154	226	248
Others	1,990	2,833	2,830
<b>Current assets</b>	<b>14,978</b>	<b>15,713</b>	<b>15,273</b>
Inventories	13,111	11,121	12,902
Cash and cash equivalents	20	1,346	357
Others	1,847	3,246	2,014
<b>Total assets</b>	<b>20,071</b>	<b>21,632</b>	<b>21,296</b>
Non-current liabilities	668	825	838
Current liabilities	2,295	1,631	1,474
<b>Total liabilities</b>	<b>2,963</b>	<b>2,455</b>	<b>2,312</b>
<b>Total equities</b>	<b>17,108</b>	<b>19,177</b>	<b>18,983</b>
<b>Total liabilities and equities</b>	<b>20,071</b>	<b>21,632</b>	<b>21,296</b>

## □ Condensed Statement of Comprehensive Income

Accounts (unit: hundred mil. KRW)	18.4Q	19.3Q	19.4Q
<b>Net sales</b>	<b>2,386</b>	<b>4,266</b>	<b>2,721</b>
Red ginseng roots	130	244	245
Red ginseng products	2,251	4,015	2,468
(Ratio)	(94.3%)	(94.1%)	(90.7%)
Others	5	7	8
COGS	1,082	1,984	1,290
<b>Gross profit</b>	<b>1,304</b>	<b>2,282</b>	<b>1,431</b>
SG&A	1,402	1,480	1,522
<b>Operating profit</b>	<b>-97</b>	<b>801</b>	<b>-91</b>
Other Income and expense	-130	25	-83
Financial gain/loss	-19	1	2
<b>Pre-tax income</b>	<b>-246</b>	<b>827</b>	<b>-172</b>
Income tax	-58	213	-29
<b>Net income</b>	<b>-188</b>	<b>614</b>	<b>-143</b>
<b>Comprehensive income</b>	<b>-227</b>	<b>610</b>	<b>-193</b>



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