KT&G 1Q '20 Earnings Release

2020. 5. 13 | Investor Relations

KT&G

Disclaimer

This presentation is prepared and provided for the convenience of investors and shareholders prior to the completion of the external audit. Therefore certain contents are subject to change during the auditing process.

The financial information in this presentation is based on K-IFRS standards.

This presentation and related discussion contain certain forward-looking statements related to expected future business, financial performance and/or the industry forecasts which are uncertain. Therefore, the recipients of this presentation shall be aware of that the forward-looking statements set forth herein may not correspond to the actual results.

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1. Consolidated Results

(Unit : bil won)	1Q '20	4Q '19	1Q '19	QoQ	YoY
Sales	1,178.4	1,198.2	1,185.0	-1.7%	-0.6%
KT&G[1)]	661.3	747.9	658.7	-11.6%	0.4%
KGC[1)]	391.1	272.1	398.7	43.7%	-1.9%
Others and adjustments[2)]	126.0	178.2	127.6	-29.3%	-1.3%
Operating Profit	315.0	252.3	348.2	24.9%	-9.5%
Net Income	293.9	118.3	273.8	148.4%	7.3%

1) Sales of KT&G and KGC are the amounts before eliminating internal transactions

2) Others and adjusted amounts are the figures after adjusting or eliminating internal transactions among other subsidiaries sales

☐ **(Sales) 1.2 tril won YoY -0.6%**

- Despite upswing in domestic combustible cigarette and real estate, sales slowed YoY due to domestic NGP market decline and COVID 19 outbreak

☐ **(OP) 315.0 bil won YoY -9.5%**

- Duty free sales decrease caused by COVID19, export cigarette base effect from 2019, KGC Lunar New Year sales-cost recognition period difference and others

☐ **(NI) 293.9 bil won YoY +7.3%**

- YoY growth thanks to other income increase 24 bil won and financial income increase 32 bil won

2. KT&G Performance ① Overview

(Unit : bil won)	1Q '20	4Q '19	1Q '19	QoQ	YoY
Sales	661.3	747.9	658.7	-11.6%	0.4%
Domestic	435.0	459.6	447.6	-5.4%	-2.8%
Export[1)]	116.9	101.6	131.4	15.1%	-11.0%
Real Estate and Others	109.4	186.7	79.7	-41.4%	37.3%
SG&A	164.3	191.2	154.7	-14.1%	6.2%
Operating Profit	249.9	257.1	252.7	-2.8%	-1.1%
Net Income	260.8	140.6	214.1	85.5%	21.8%

☐ **(Sales) 661.3 bil won YoY +0.4%**

- YoY growth on the back of domestic combustible cigarette and Suwon real estate sales increase

☐ **(OP) 249.9 bil won YoY -1.1%**

- Mainly due to duty-free sales decrease caused by COVID19 outbreak and SG&A increase

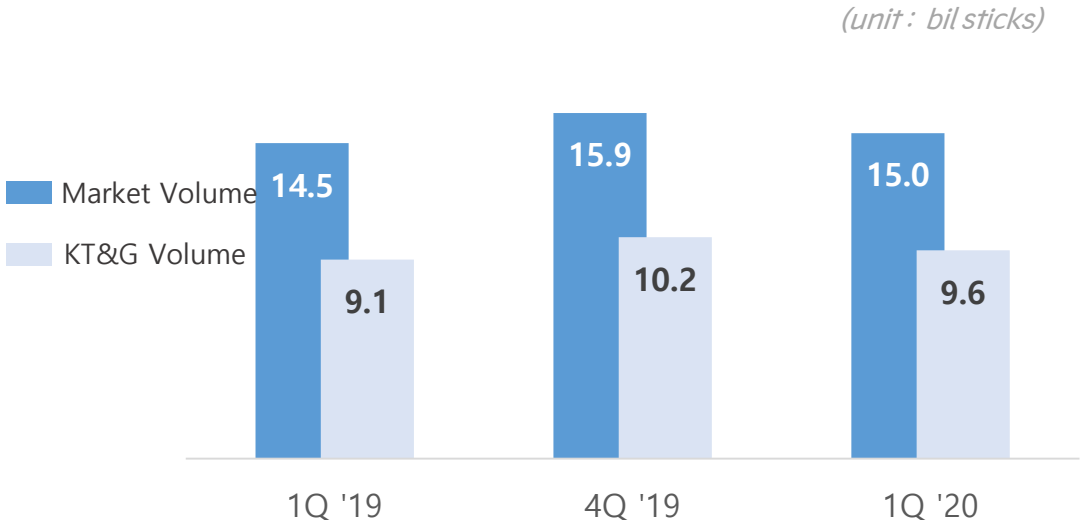
☐ **(NI) 260.8 bil won YoY +21.8%**

- YoY growth thanks to foreign currency related gain 24.0 bil won and disposal of long-term deposit 29.0 bil won increase

1) Export : Separate result standard, prior to the consolidation removal of US subsidiary sales

2. KT&G Performance ② Domestic Combustible Cigarette

[Market/KT&G Volume]



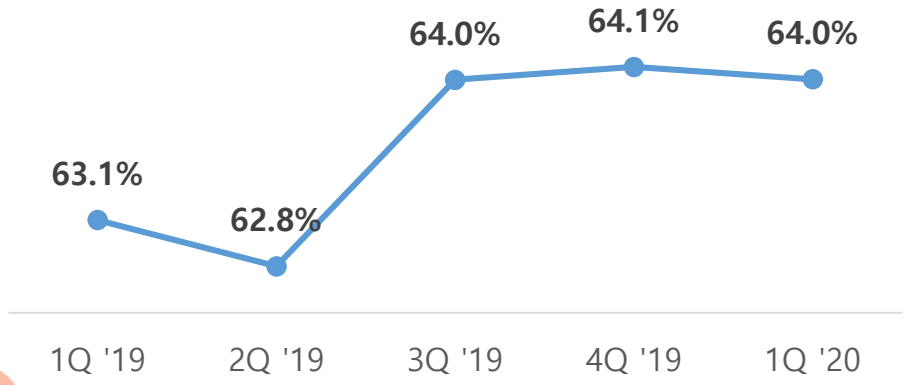
☐ (Market Volume) 15.0 bil sticks YoY +3.4%

- Domestic market volume growth despite COVID19 outbreak

☐ (KT&G Volume) 9.6 bil sticks YoY +5.5%

- YoY growth on the back of strengthened market management, adopting the new consumer trend changes caused by COVID19

[KT&G M/S]

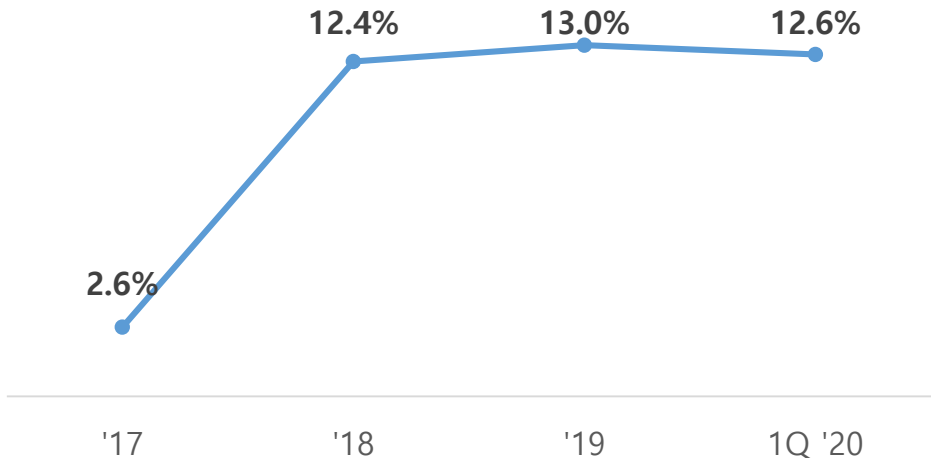


☐ (KT&G M/S) 64.0% YoY +0.9%p

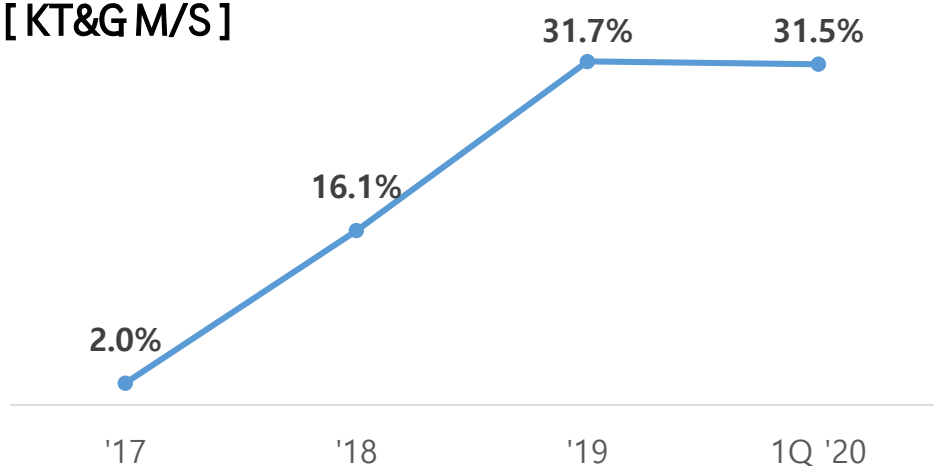
- YoY growth thanks to increase of inflow into 'low-stimulation'/'less-smell' products

2. KT&G Performance ③ Domestic HNB Cigarette[1)]

[Domestic HNB Market Penetration]



[KT&G M/S]



□ (Domestic HNB Penetration) 1Q 12.6%

- HNB market growth stagnation due to new CSV type product release('19.2Q) and 'less-smell' combustible cigarette M/S increase

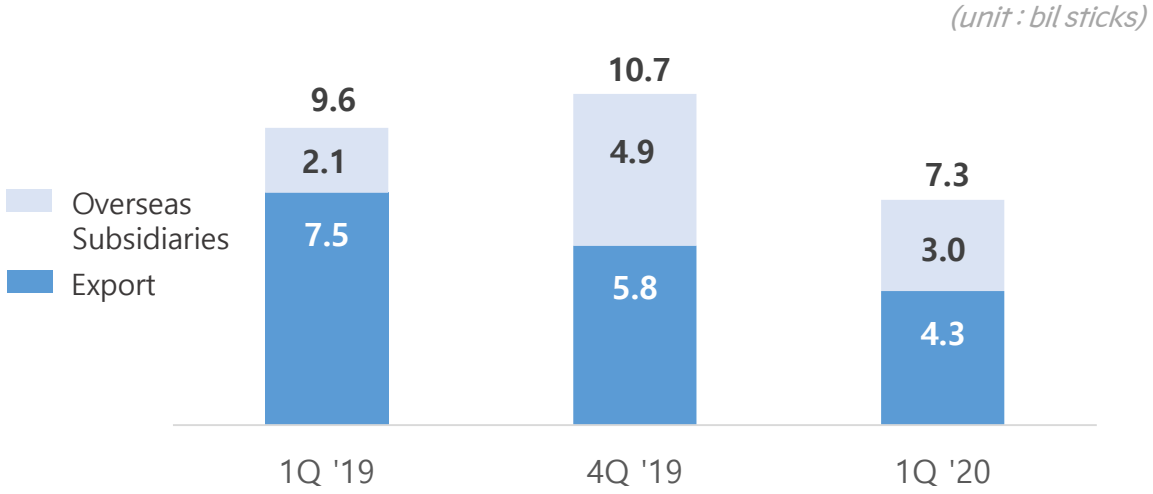
□ (KT&G M/S) 1Q 31.5%

- Continued M/S increase thanks to stick product portfolio expansion and new P2 2.0 device release

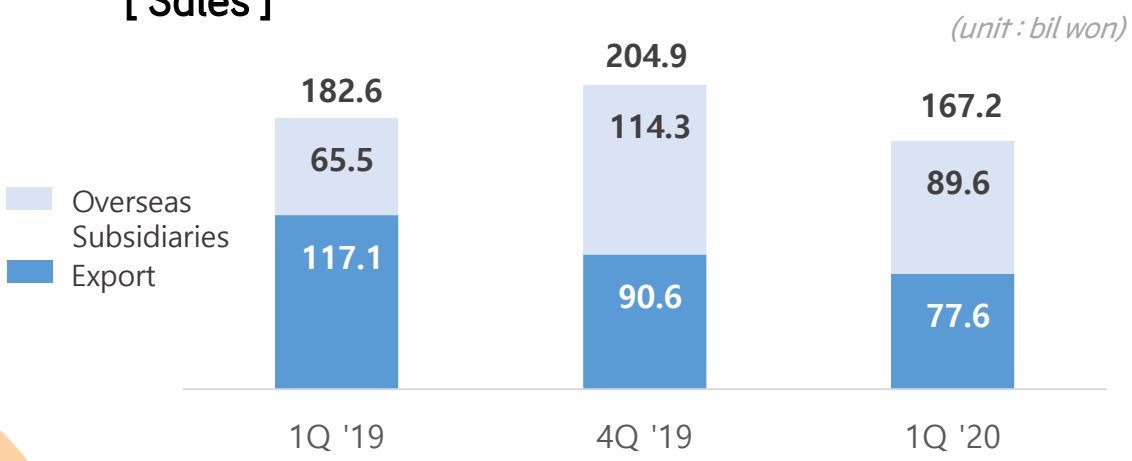
1) POS sales standard, CSV type products((ex) lil vapor) excluded

2. KT&G Performance ④ Overseas Cigarette(Export[1] and Overseas Subsidiaires[2])

[Volume]



[Sales]



□ (Volume) 7.3 bil sticks YoY -24.0%

- (Overseas) Despite COVID 19, US/Indonesia subsidiaries volume increased
- (Export) Main market base effect from 2019, however 2Q and yearly export volume expect to grow

□ (Sales) 167.2 bil won YoY -8.4%

- (Overseas) YoY growth thanks to ASP increase and product mix improvement
- (Export) Sales expect to recover in 2Q through strategic product export

1) Export : KT&G US results excluded

2) Overseas subsidiaries : Indonesia, US, Russia, Turkey, Iran subsidiaries

3. KGC Performance ① Overview

(unit : bil won)	1Q '20	4Q '19	1Q '19	QoQ	YoY
Sales	391.1	272.1	398.7	43.7%	-1.9%
Domestic	355.2	238.1	365.0	49.2%	-2.7%
Export	35.9	34.0	33.7	5.6%	6.5%
SG&A	139.2	152.2	127.0	-8.5%	9.6%
Operating Profit	71.1	-9.1	91.2	-	-22.0%
Net Income	55.3	-14.3	69.3	-	-20.2%

☐ **(Sales) 391.1 bil won YoY -1.9%**

- COVID19 outbreak negatively impacted on duty-free sales

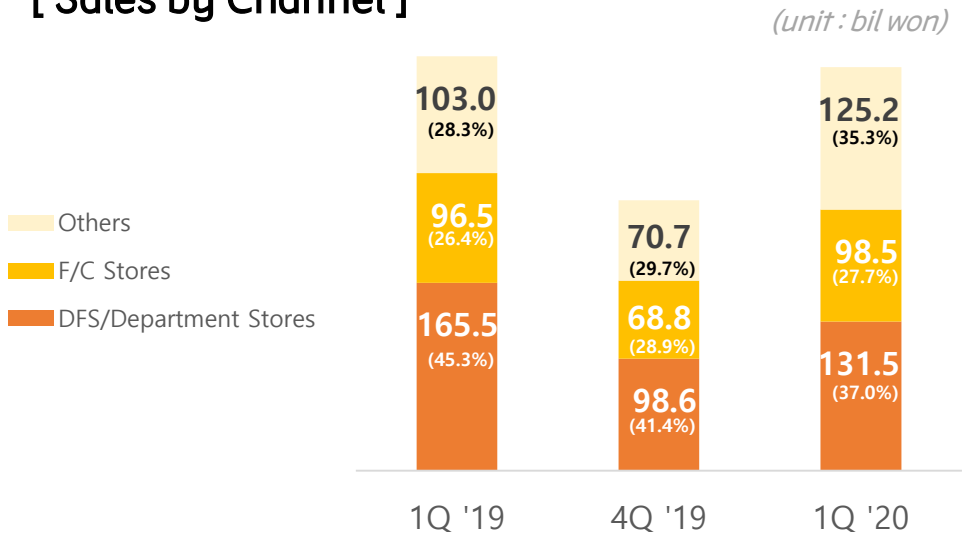
☐ **(OP) 71.1 bil won YoY -22.0%**

- Expense increase thanks to untact channel(Home shopping and others) sales growth

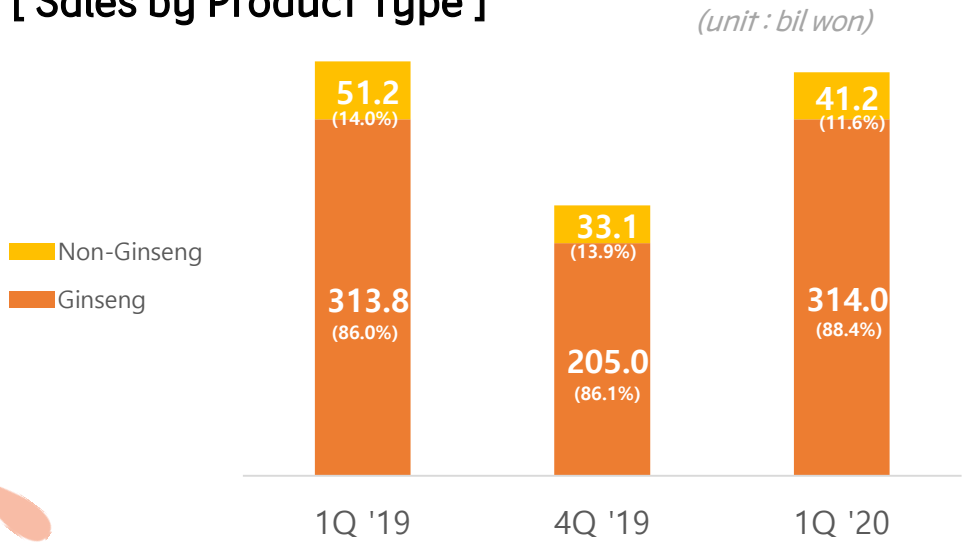
☐ **(NI) 55.3 bil won YoY -20.2%**

3. KGC Performance ② Domestic Sales Analysis

[Sales by Channel]



[Sales by Product Type]



□ (Sales by Channel) 355.2 bil won YoY -2.7%

- (DFS/Department stores) 131.5 bil won YoY -20.5%
  - Sales decrease due to COVID19 outbreak
- (F/C Stores) 98.5 bil won YoY 2.1%
- (Others) 125.2 bil won YoY 21.6%
  - YoY home shopping and on-line sales growth on the back of growing preference of untact channels

□ (Sales by Product Type) Ginseng 88.4% YoY 2.4%p

- Sales of 'Goodbase'(non-ginseng), which is one of the main product in duty-free channel hugely decreased

※ The results above are still under audit by the outside auditors and may be subject to change.

4. Appendix ① KT&G Condensed Balance Sheet

[Consolidated]

Accounts (unit: hundred mil. KRW)	1Q '20	4Q '19	1Q '19
Current Asset[a]	65,579	64,172	69,281
Cash and cash equivalents, Etc[*]	27,135	25,285	32,223
Trade and other receivables	10,161	10,234	10,457
Inventories	24,143	24,472	23,832
Non-current assets	43,015	42,949	38,487
Property, plant, and equipment	17,044	17,534	18,275
Investment property	9,357	8,853	5,196
Total assets	**108,594**	**107,121**	**107,768**
Current liabilities[b]	20,886	16,001	24,094
Non-current liabilities	3,976	4,061	4,381
Total liabilities[c]	**24,862**	**20,062**	**28,475**
Total equity[d]	**83,732**	**87,059**	**79,293**
Current ratio[a/b]	**314.0%**	**401.1%**	**287.5%**
Debt ratio[c/d]	**29.7%**	**23.0%**	**35.9%**

[Separate]

Accounts (unit: hundred mil. KRW)	1Q '20	4Q '19	1Q '19
Current Asset[a]	44,533	43,142	48,950
Cash and cash equivalents, Etc[*]	23,345	22,734	29,568
Trade and other receivables	8,354	7,802	7,997
Inventories	9,993	9,681	9,477
Non-current assets	48,254	47,986	43,763
Property, plant, and equipment	10,799	11,163	12,049
Investment property	10,482	9,991	6,313
Total assets	**92,787**	**91,128**	**92,713**
Current liabilities[b]	17,567	12,515	20,939
Non-current liabilities	834	812	958
Total liabilities[c]	**18,401**	**13,327**	**21,897**
Total equity[d]	**74,386**	**77,801**	**70,816**
Current ratio[a/b]	**253.5%**	**344.7%**	**233.8%**
Debt ratio[c/d]	**24.7%**	**17.1%**	**30.9%**

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

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4. Appendix ② KT&G Condensed Income Statement

[Consolidated]

Accounts (unit: hundred mil. KRW)	1Q '20	4Q '19	1Q '19
Sales	**11,784**	**11,982**	**11,850**
Cost of sales	4,976	5,140	4,984
Gross profit	6,808	6,842	6,866
Selling, general and administrative expense	3,657	4,318	3,384
Operating profit	**3,150**	**2,523**	**3,482**
Other income/expenses	392	(920)	148
Financial gain/loss	568	211	252
Net income	**2,939**	**1,183**	**2,738**
Gross profit margin	57.8%	57.1%	57.9%
Operating profit margin	26.7%	21.1%	29.4%
Net income margin	24.9%	9.9%	23.1%

[Separate]

Accounts (unit: hundred mil. KRW)	1Q '20	4Q '19	1Q '19
Sales	**6,613**	**7,479**	**6,587**
Cost of sales	2,471	2,996	2,513
Gross profit	4,142	4,483	4,074
Selling, general and administrative expense	1,643	1,912	1,547
Operating profit	**2,499**	**2,571**	**2,527**
Other income/expenses	481	(838)	160
Financial gain/loss	568	244	256
Net income	**2,608**	**1,406**	**2,141**
Gross profit margin	62.6%	59.9%	61.8%
Operating profit margin	37.8%	34.4%	38.4%
Net income margin	39.4%	18.8%	32.5%

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4. Appendix ③ KT&G Condensed Cash Flow

[Consolidated]

Accounts (unit: hundred mil. KRW)	1Q '20	1Q '19
Cash flows from operating activities	**2,262**	**7,223**
Cash generated from operations	3,192	7,256
Income tax paid	(929)	(33)
Cash flows from investing activities	**(1,318)**	**(2,130)**
Acquisition of property, plant and equipment	(335)	(389)
Cash flows from financing activities	**(86)**	**(944)**
Net increase in cash and cash equivalents	**858**	**4,150**
Cash and cash equivalents at Jan, 1	**8,913**	**9,330**
Effect of exchange rate fluctuation	(76)	30
Cash and cash equivalents at March, 31	**9,695**	**13,510**

[Separate]

Accounts (unit: hundred mil. KRW)	1Q '20	1Q '19
Cash flows from operating activities	**686**	**5,583**
Cash generated from operations	1,417	5,597
Income tax paid	(731)	(15)
Cash flows from investing activities	**(58)**	**(1,993)**
Acquisition of property, plant and equipment	(209)	(316)
Cash flows from financing activities	**(20)**	**(16)**
Net increase in cash and cash equivalents	**609**	**3,574**
Cash and cash equivalents at Jan, 1	**6,568**	**7,481**
Effect of exchange rate fluctuation	(15)	6
Cash and cash equivalents at March, 31	**7,162**	**11,062**

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4. Appendix ④ KGC Condensed Financial Statement

[Condensed Balance Sheet]

Accounts (unit: hundred mil. KRW)	1Q '20	4Q '19	1Q '19
Non-current Assets	**5,956**	**6,003**	**5,144**
Property, plant and equipment	2,925	2,944	2,895
Intangible assets	261	248	156
Others	2,770	2,811	2,093
Current assets	**15,608**	**15,274**	**14,968**
Inventories	12,026	12,902	12,219
Cash and cash equivalents	701	357	654
Others	2,881	2,015	2,095
Total assets	**21,564**	**21,277**	**20,112**
Non-current liabilities	755	826	761
Current liabilities	1,309	1,467	1,550
Total liabilities	**2,064**	**2,293**	**2,311**
Total equities	**19,500**	**18,984**	**17,801**
Total liabilities and equities	**21,564**	**21,277**	**20,112**

[Condensed Statement of Comprehensive Income]

Accounts (unit: hundred mil. KRW)	1Q '20	4Q '19	1Q '19
Net sales	**3,911**	**2,721**	**3,987**
Red ginseng roots	256	245	317
Red ginseng products	3,649	2,468	3,664
(Ratio)	(93.3%)	(90.7%)	(91.9%)
Others	6	8	6
COGS	1,808	1,290	1,805
Gross profit	**2,103**	**1,431**	**2,182**
SG&A	1,392	1,522	1,270
Operating profit	**711**	**(91)**	**912**
Other Income and expense	14	(83)	11
Financial gain/loss	0	2	(5)
Pre-tax income	**725**	**(172)**	**918**
Income tax	173	(29	225
Net income	**553**	**(143)**	**693**
Comprehensive income	**516**	**(193)**	**692**

Thank You

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