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# KT&G FY2024 First Quarter Results

2024. 5. 9 | Investor Relations



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# 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 discussions 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.

New Leadership Launched

# Global Trust .Origin .Professional KT&G

Drive behind 『Structural Innovation』 to support the leap towards a 『Global TOP-tier』  
based on 3 core growth businesses (NGP/Global CC/HFF)

## Innovation in Organizational Structure

to establish a responsible management structure that supports business performance



- **CIC and Production Hub system for global regions**
  - Established bases for rapid growth in key regions of APAC and Eurasia with **CIC Presidents and core leaders in the frontlines**
  - **Strengthening cost-competitiveness with early stabilization of global manufacturing footprint**
- **Responsible Management led by new Division Chiefs**
  - Improved speed and efficiency with newly-established **Strategy/Marketing/Manufacturing Divisions**
  - Higher operational efficiency for the organization with **function-based restructuring and streamlining**



## Innovation in Business Management Structure

focusing on management efficiency and profitability enhancement



### ▪ Group ROE Enhancement Project

- 10 key goals set for each Division

Profitability (Marketing Division)	Efficiency (Manufacturing Division)	Stability (Strategy Division)
<ul style="list-style-type: none"><li>• <b>M/S</b> ↑</li><li>• <b>M</b>ark-Up(Pricing)</li><li>• <b>M</b>arket expansion</li><li>• <b>M</b>&amp;A</li></ul>	<ul style="list-style-type: none"><li>• <b>C</b>ost down</li><li>• <b>C</b>ash flow (Inventory↓ Receivables↓)</li><li>• <b>C</b>apa optimization</li></ul>	<ul style="list-style-type: none"><li>• <b>aS</b>set efficiency</li><li>• <b>riS</b>k mgmt.</li><li>• <b>S</b>ubsidiary (subsidiary/Investment)</li></ul>

- Established and executing detailed tasks for each Division focusing on :  
『① Profitability enhancement, ② Asset efficiency,  
③ Capital policy sophistication』

**Earnings Turnaround**

**expected to take off in**

**Second Half**

**supported by**

**structural innovation**

# KEY TAKEAWAYS

**New CEO leadership launched in end March aiming 「(H1) Structural Innovation · Improving Fundamentals」<sub>(30/60/90 Project)</sub>**  
⇒ **(H2) Creating Innovative Value**<sub>(earnings turnaround)」</sub>

Initiatives ongoing in H1 for structural change and fundamentals innovation to enable mid-to-long term performance led by new leadership, paving the road for earnings turnaround in H2

**Domestic and global NGP sticks continuing 「Growth Trifecta」<sub>(volume-revenue-profit)</sub> serving as core growth driver**

Combined growth of 9.9% in volume, 6.3% in revenue and 5.8% in operating profit across domestic and global sticks  
Especially, global NGP sticks grew by 14.7% in volume and 19.2% in operating profit, driving profit enhancement

**Global cigarettes showed 10.1% growth in revenue as pricing takes effect**

Direct business excels recording triple growth of 7.3% volume, 30% revenue and 8.4% profit\* in major subsidiaries including Indonesia and Russia

**However, consolidated revenues and operating profits sluggish in Q1**

Impact from slow real estate and HFF businesses, reduced cigarette volumes, and higher COGS and one-off costs

While headwinds from completion of real estate development and COGS are expected to continue, the focus on

「**① Accelerating growth in NGP sticks and global cigarettes + ② Revitalizing HFF revenue**」 to improve earnings in Q2

\* After adjusting for one-off effects including allowances for bad debts

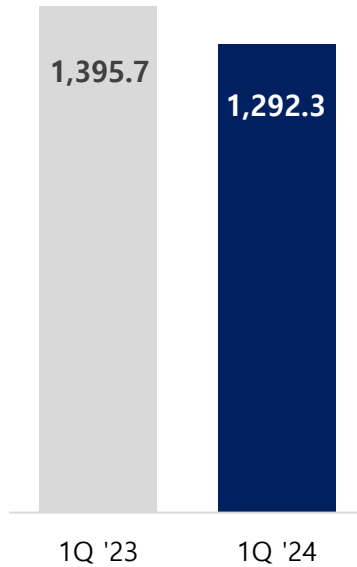
1. 2024 Q1 Performance Highlights

# Consolidated Results

## Revenue (KRW bn)

**KRW 1.29 trn**

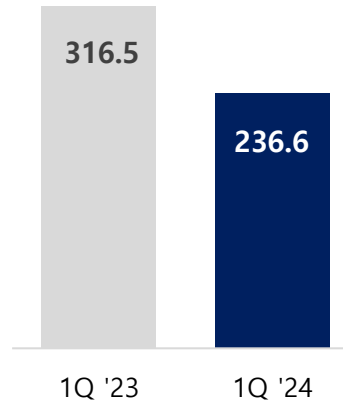
YoY -7.4%



## Operating Profit (KRW bn)

**KRW 236.6 bn**

YoY -25.2%



## Net Income

**KRW 285.6 bn**

YoY +4.2%

## EPS

**KRW 2,478**

YoY +6.5%

## EBITDA / EBITDA Margin

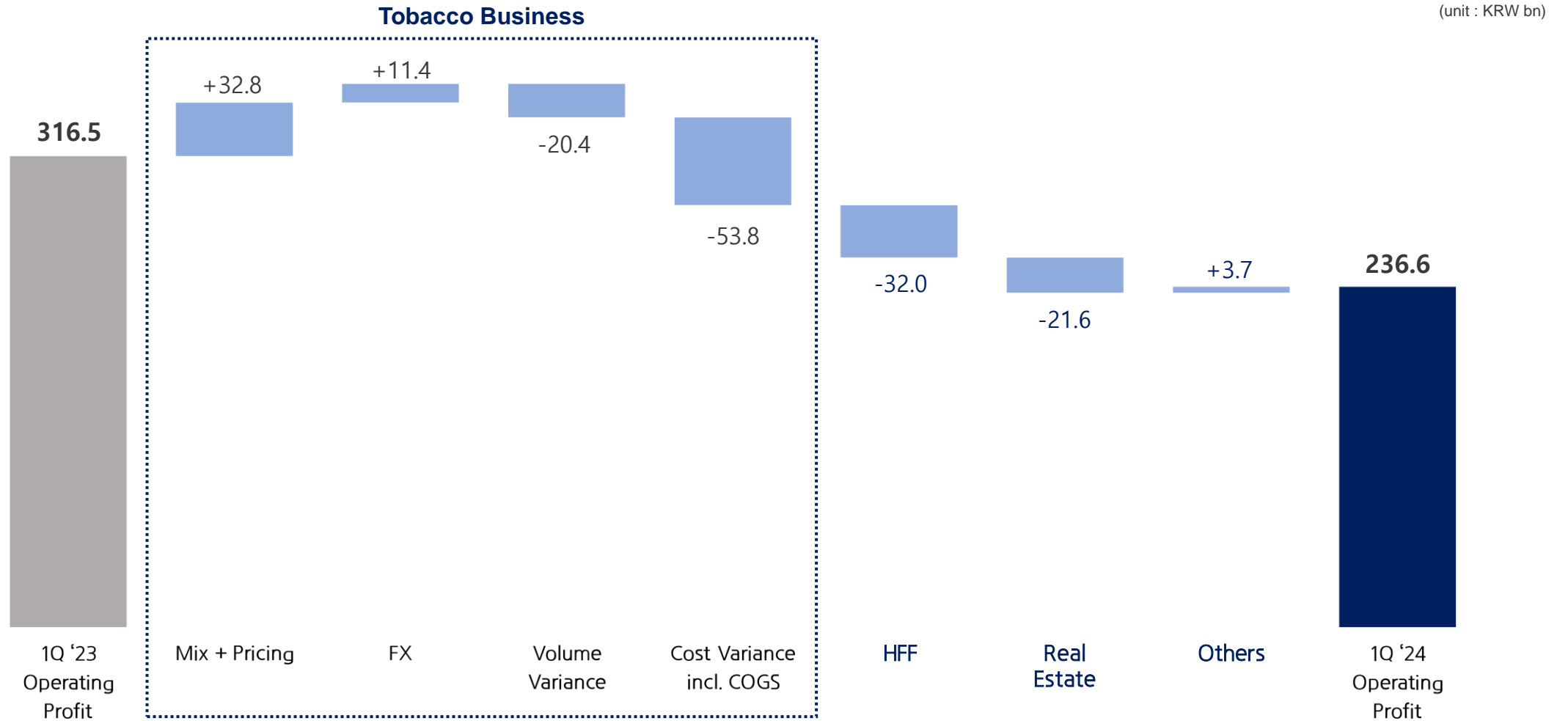
**KRW 297.4 bn / 23.0%**

YoY -20.8%

YoY -3.9%p

1. 2024 Q1 Performance Highlights

# Movement in Earnings

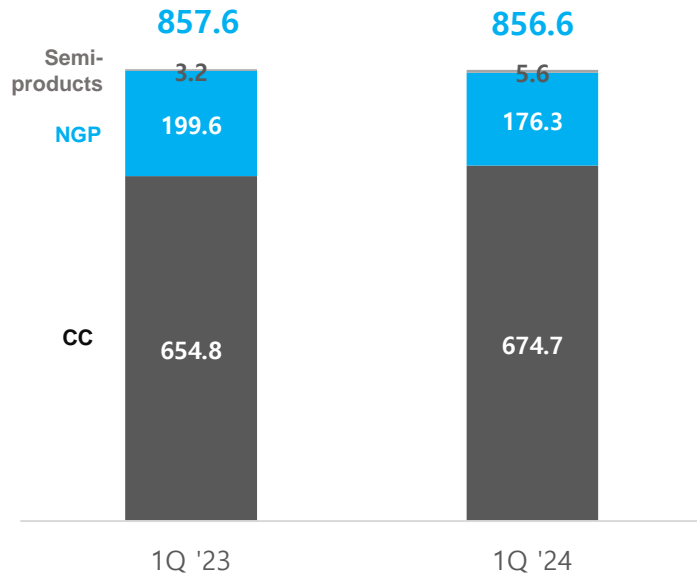


## 2. Performance by Business

# Tobacco

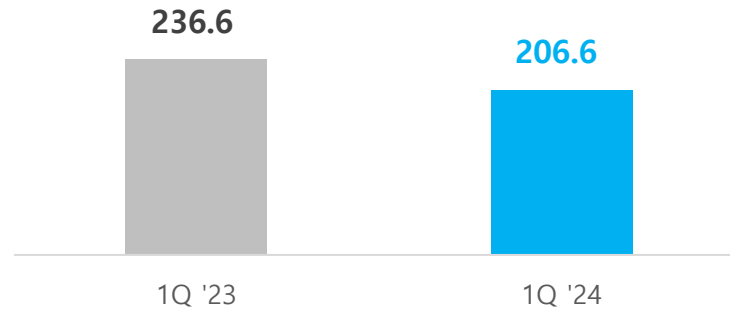
### Revenue (KRW bn)

- Sustained revenue growth in global CC (YoY +10%) and global NGP sticks (YoY +14%)
- But, lower revenue from domestic CC and overseas devices, a high-ASP product



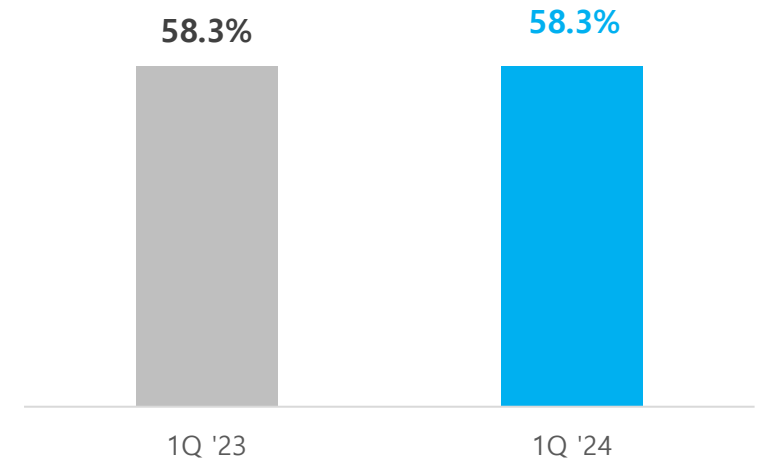
### Operating Profit (KRW bn)

- Expanding profitability in global NGP thanks to growing stick volumes
- But, impact from added cost-pressure and higher one-off costs including bad debt expenses from global CC



### Share of Global Sales (volume)

- Despite strong growth in NGP stick volumes, share of global sales similar to previous year due to decline in export to certain regions including APAC and Africa

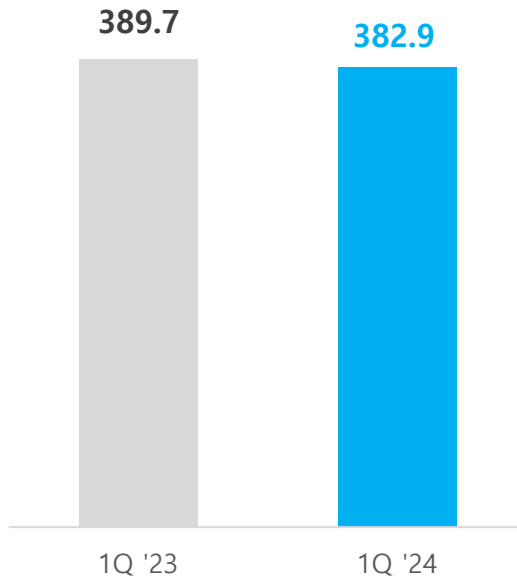


## 2. Performance by Business

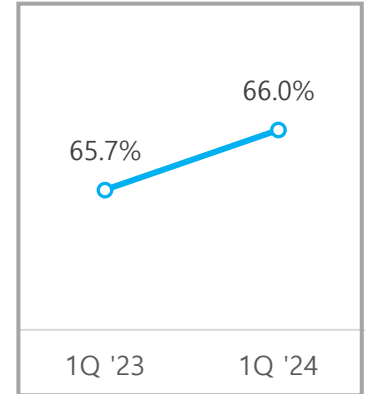
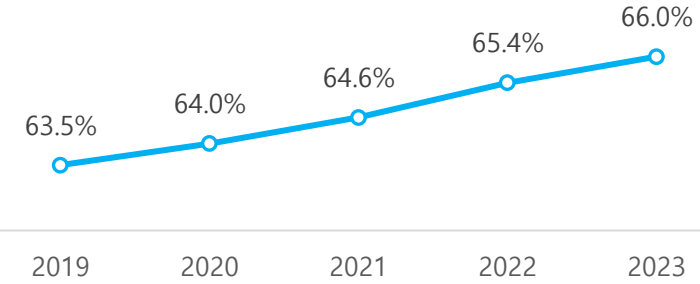
# Tobacco\_Domestic CC

- SoM grew by **0.3%p** despite **reduced volumes (YoY -3.1%)** due to a **contracted CC market (YoY -3.5%)**
- Revenue decline partially offset by **stronger ASP (YoY +1.4%)** from **higher DFS revenue (YoY +29.3%)**

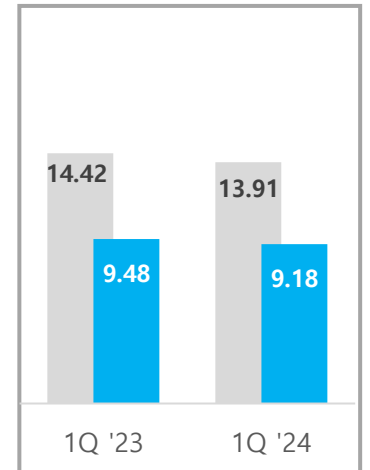
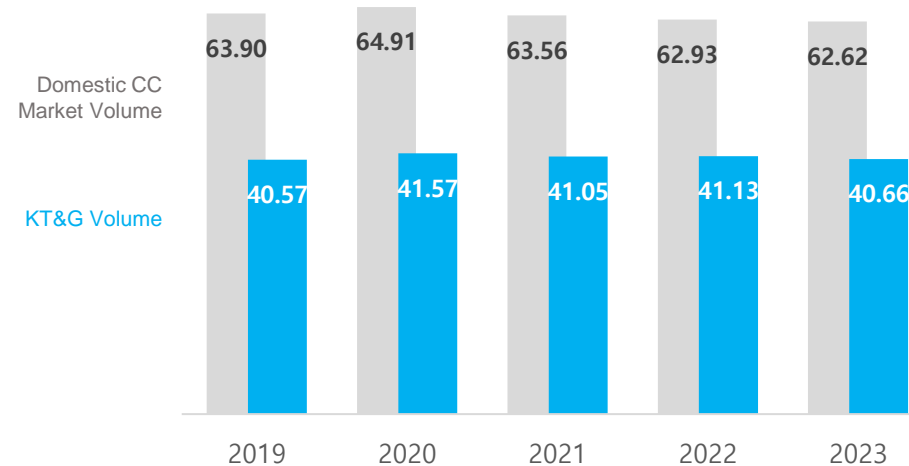
### Revenue (KRW bn)



### KT&G SoM<sup>1)</sup>



### Total Market Volume / KT&G Volume<sup>1)</sup> (bn sticks)



1) Source : Korea Tobacco Association data based on shipment volumes to general store, centralized logistics, specialized channels, etc.

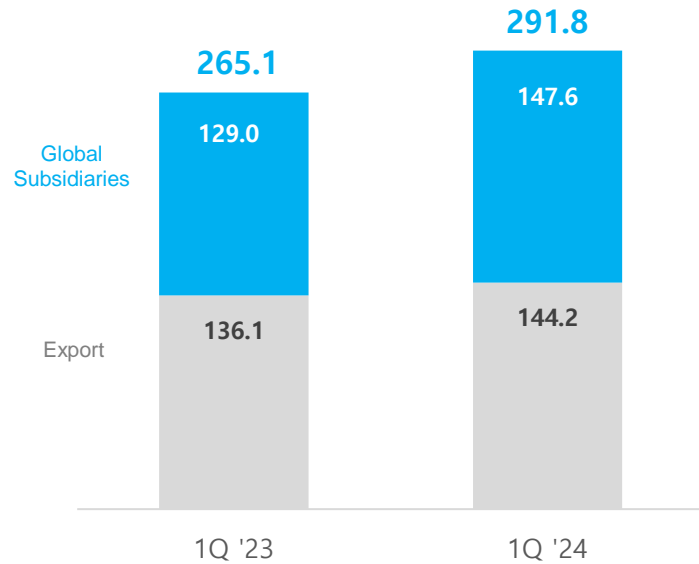


## 2. Performance by Business

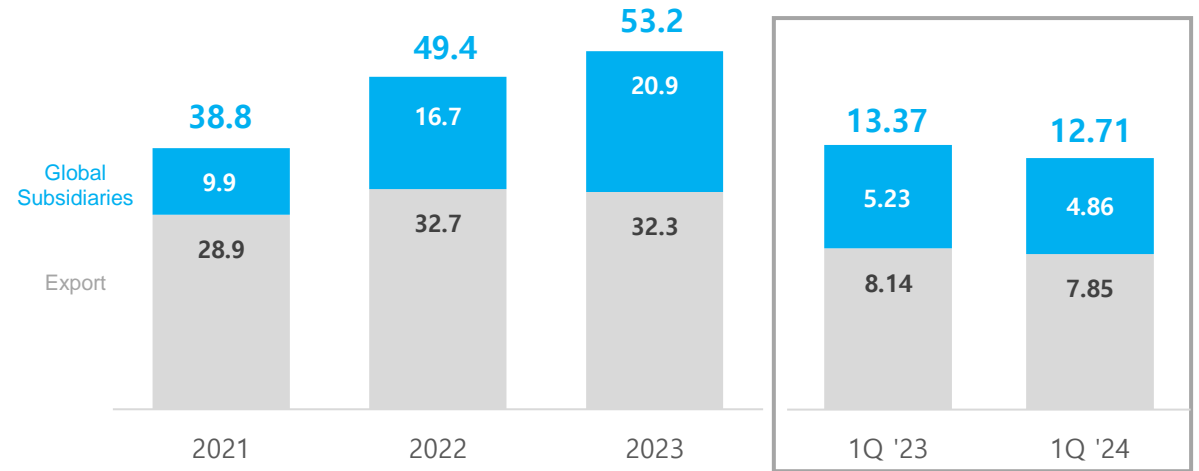
# Tobacco\_Global CC

- (Subsidiary) While volumes are slightly down YoY due to change in revenue recognition in Türkiye, **pricing in key regions including Indonesia and Russia/CIS** led to higher revenue (YoY +14.4%)
- (Export) Higher revenues (YoY +6.0%) thanks to **pricing in key regions and strong volumes in the Middle East**, but lower overall volumes due to **unstable FX in major African markets and inventory adjustments in APAC**

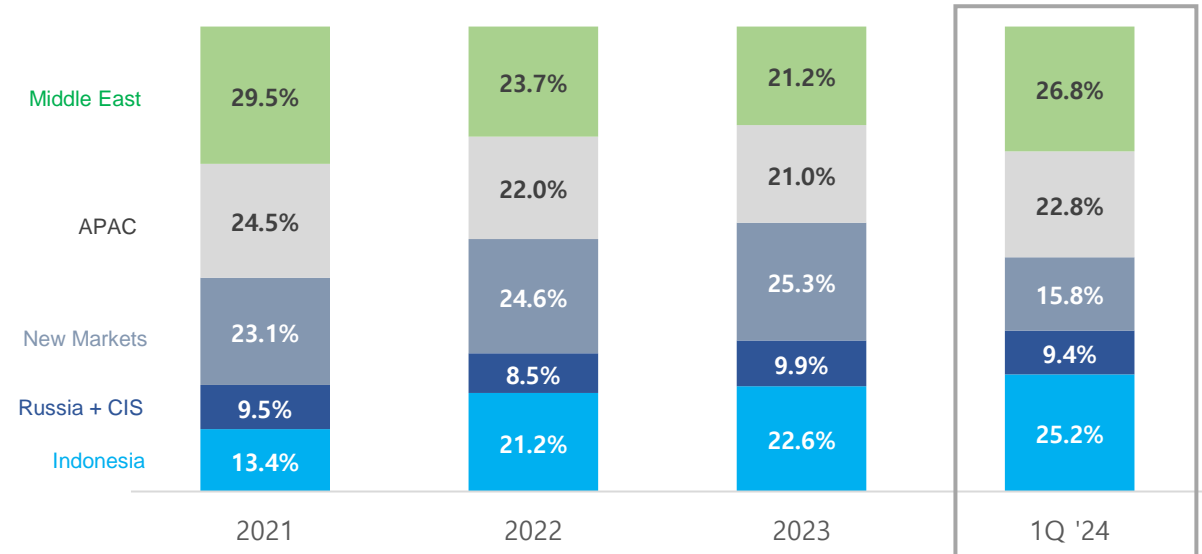
### Revenue (KRW bn)



### Volume (bn sticks)



### Volume Share per Region

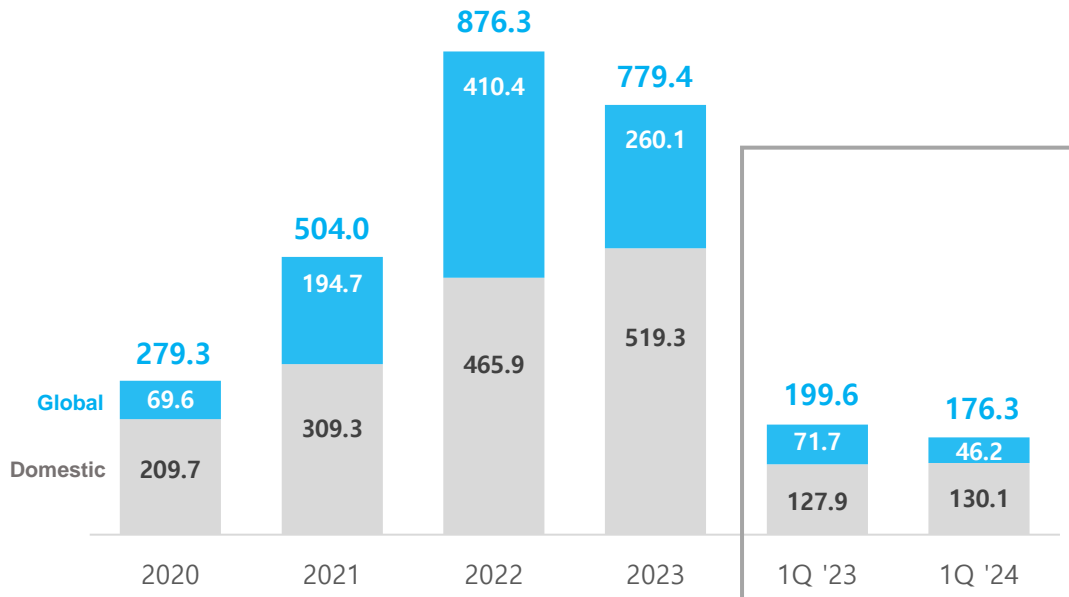


## 2. Performance by Business

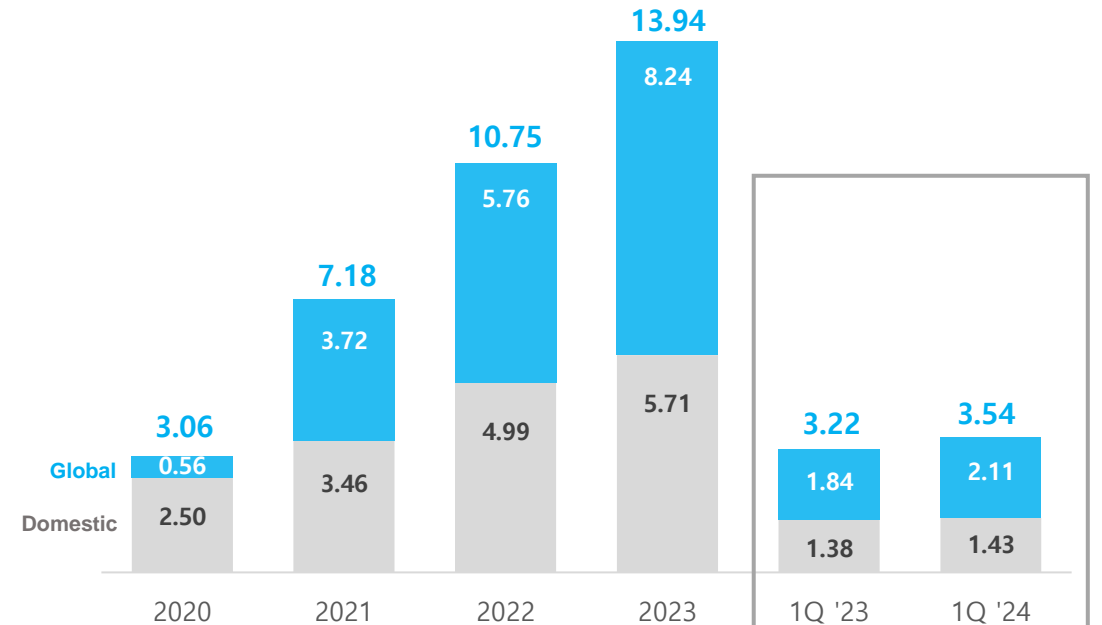
# Tobacco\_NGP (Next Generation Products)

- **Stick volumes, the key driver of business growth, grew by 9.9% YoY**, supported by higher overseas demand
- (Domestic) Continued revenue growth with higher stick volumes as market expands
- (Global) While **stick volumes show sustained growth (YoY +14.7%)**, revenue down YoY due to **lower export volumes in devices, a high ASP product, caused by inventory adjustment**

Revenue (KRW bn)



Stick Volume (bn sticks)

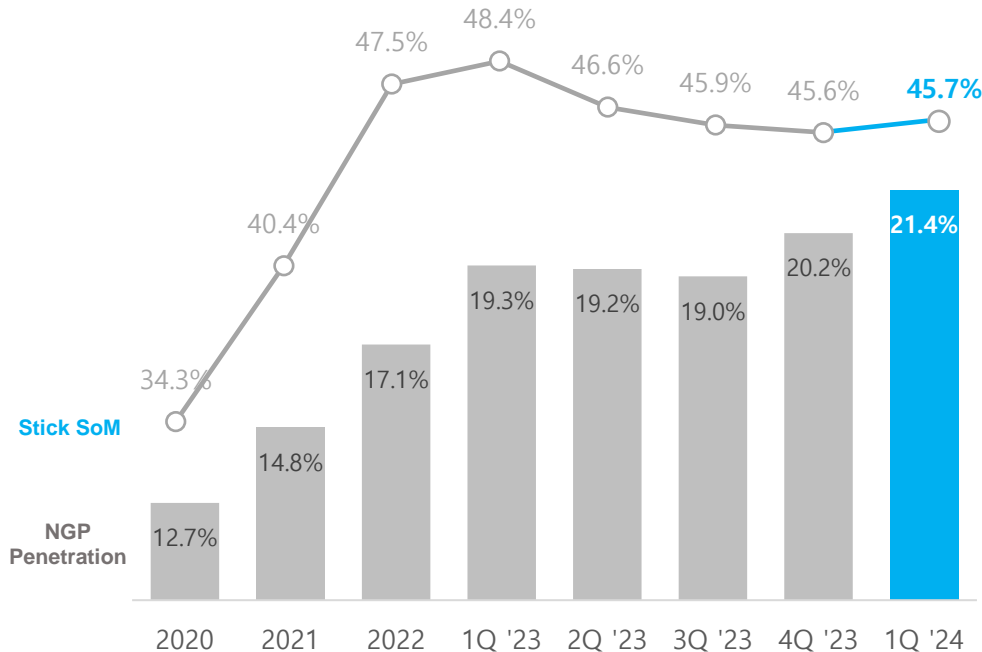


## 2. Performance by Business

# Tobacco\_NGP (Next Generation Products)

### Domestic Operation

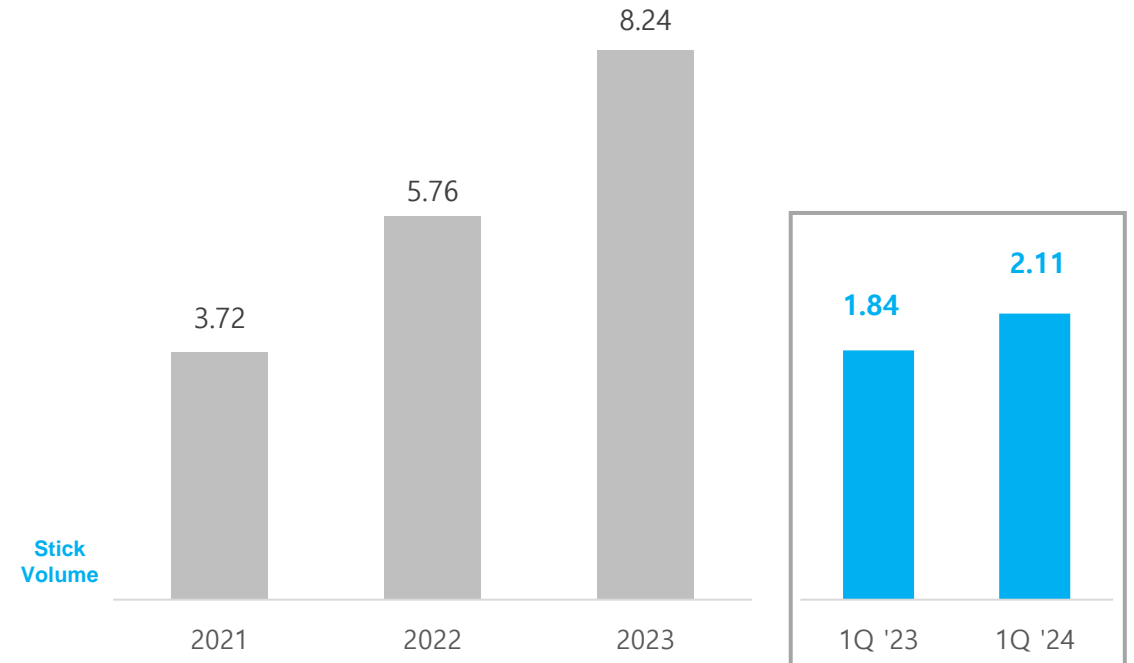
- **NGP category continues to penetrate (YoY +2.1%p)** as demand for NGP grows
- Despite an intensified competitive environment with **cut-throat competition of aggressive device discounts**, KT&G **maintained market leadership** as **market share rebounded** with new launches in device versions and sticks



1) CVS offtake data

### Global Operation (bn sticks)

- **Continued growth in stick sales (YoY +14.7%)**, a core growth driver, as penetration within launched markets continue
- **Operating profits expand as sales of NGP sticks, the main source of profit in the business, continues to grow**

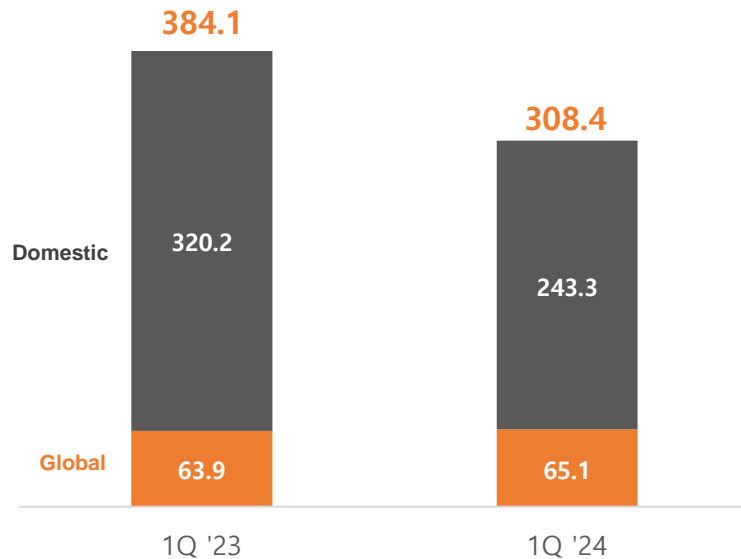


## 2. Performance by Business

# Health-Functional Food

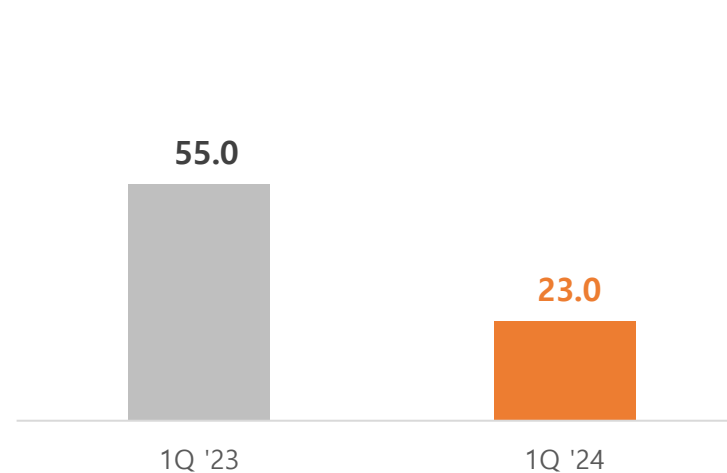
### Revenue (KRW bn)

- Lower HFF revenue (YoY -19.7%) with a reduced domestic business due to **subdued market demand and strategic downsizing of the low-profit teleshopping channel**



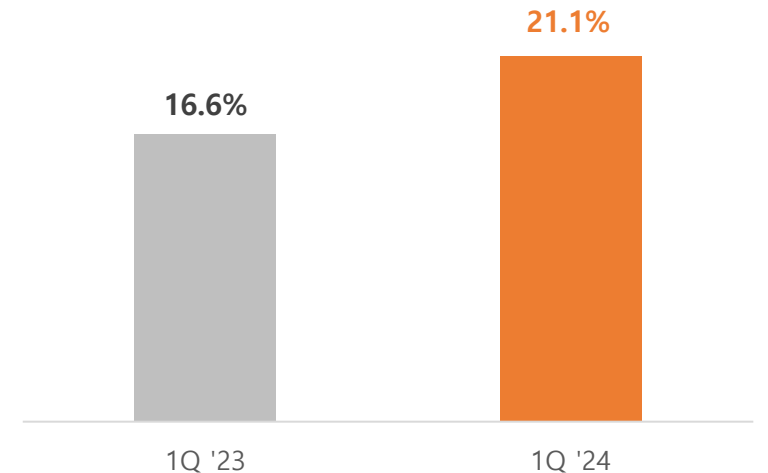
### Operating Profit (KRW bn)

- Profits were up versus previous quarter (QoQ +90.1%), but down on an YoY basis (-58.2%) due to impact from sluggish sales in high-margin channels, stronger contribution from high-cost products and increased marketing investments domestically and globally**



### Share of Global Sales (revenue)

- Share of global business in HFF expanded by 4.5%p YoY to 21.1% as a result of the **drive behind global operations**

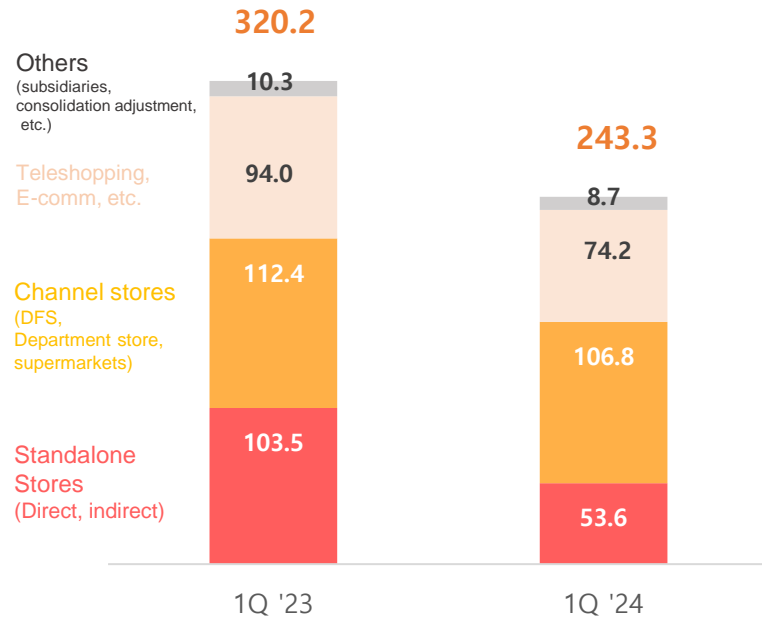


## 2. Performance by Business

# Health-Functional Food

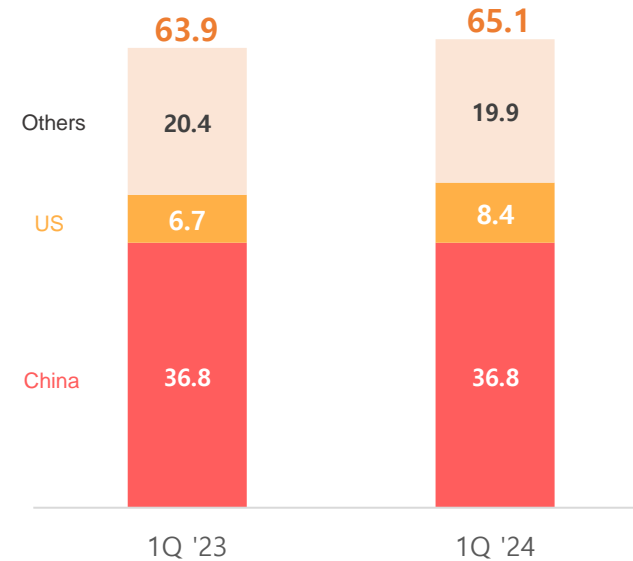
### Domestic Revenue by Channel (KRW bn)

- **Slower Lunar New Year promotion sales across all channels** including high-profit standalone stores due to **inflation-induced contraction in the market**
- **Strategic reduction of inefficient teleshopping channel** (targeting 60.5% lower vs. PY) to boost profits
- **Continued growth in DFS** (YoY +25%) with more inbound and outbound tourists



### Global Revenue by Market (KRW bn)

- (US) 25.4% growth over previous year as **revenue from offline channels** (standalone stores, supermarkets, etc.) **RECOVER**
- (China) **Revenue maintained despite suppressed market demand** with robust sales of Every Time (YoY +187%) and Hong Sam Won (YoY +123%) products

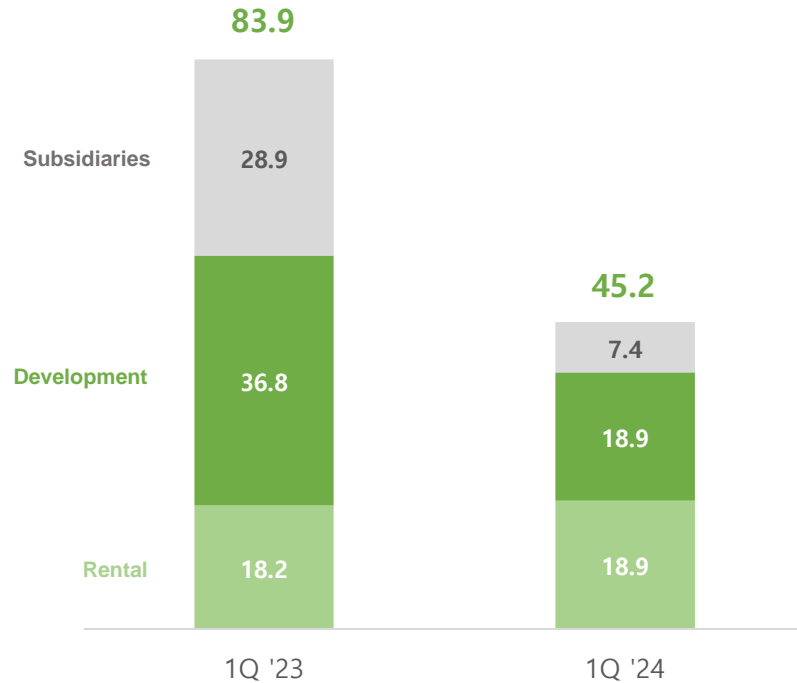


## 2. Performance by Business

# Real Estate

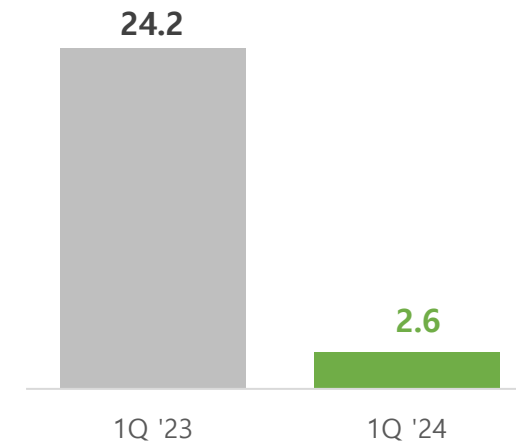
### Revenue (KRW bn)

- Lower revenue (YoY -46.2%) due to continued impact from the **completion of Suwon and subsidiary development projects including Gwacheon SangSang PFV**



### Operating Profit (KRW bn)

- Despite rebound from loss in the previous quarter with turnaround to profit in new development projects, profits saw YoY decline (-89.3%) due to the **completion of Suwon and subsidiary development projects including Gwacheon SangSang PFV**



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# Q&A

# Appendix. Income Status by Business Segment

(units : KRW bn, sticks bn)		1Q '23	2Q '23	3Q '23	4Q '23	1Q '24
Tobacco	<b>Volume</b>	<b>26.06</b>	<b>27.16</b>	<b>29.12</b>	<b>25.40</b>	<b>25.43</b>
	NGP	3.22	3.63	3.48	3.62	3.54
	Domestic	1.38	1.42	1.45	1.46	1.43
	Global	1.84	2.21	2.03	2.17	2.11
	CC	22.85	23.54	25.64	21.78	21.89
	Domestic	9.48	10.37	10.82	9.99	9.18
	Global	13.37	13.17	14.82	11.79	12.71
	<b>Revenue</b>	<b>857.6</b>	<b>888.1</b>	<b>972.7</b>	<b>893.9</b>	<b>856.6</b>
	NGP	199.6	190.0	194.8	195.0	176.3
	Domestic	127.9	123.8	135.9	131.7	130.1
	Global	71.7	66.2	58.9	63.3	46.2
	CC	654.8	692.1	769.7	694.1	674.7
	Domestic	389.7	426.6	448.1	413.6	382.9
	Global	265.1	265.5	321.6	280.6	291.8
Semi-products	3.2	6.0	8.2	4.8	5.6	
<b>Operating Profit</b>	<b>236.6</b>	<b>242.6</b>	<b>269.4</b>	<b>228.4</b>	<b>206.6</b>	
OP Margin	27.6%	27.3%	27.7%	25.6%	24.1%	
Health-Functional Food	<b>Revenue</b>	<b>384.1</b>	<b>260.8</b>	<b>412.8</b>	<b>335.8</b>	<b>308.4</b>
	Domestic	320.2	193.9	349.9	192.2	243.3
	Global	63.9	66.9	62.9	143.6	65.1
	<b>Operating Profit</b>	<b>55.0</b>	<b>-10.7</b>	<b>60.7</b>	<b>12.1</b>	<b>23.0</b>
OP Margin	14.3%	-	14.7%	3.6%	7.5%	
Real Estate	<b>Revenue</b>	<b>83.9</b>	<b>113.7</b>	<b>224.9</b>	<b>127.7</b>	<b>45.2</b>
	Development	36.8	44.4	100.4	135.7	18.9
	Rental Properties	18.2	17.6	17.0	18.1	18.9
	Subsidiaries	28.9	51.7	107.5	-26.2	7.4
	<b>Operating Profit</b>	<b>24.2</b>	<b>14.2</b>	<b>76.3</b>	<b>-45.6</b>	<b>2.6</b>
OP Margin	28.8%	12.5%	33.9%	-	5.8%	
Others	<b>Revenue</b>	<b>70.1</b>	<b>73.4</b>	<b>79.1</b>	<b>84.1</b>	<b>82.1</b>
	Pharmaceutical	54.0	57.0	59.1	63.8	64.2
	Cosmetics	16.1	16.4	20.0	20.3	17.9
	<b>Operating Profit</b>	<b>0.7</b>	<b>0</b>	<b>0.3</b>	<b>3.0</b>	<b>4.4</b>
	OP Margin	1.0%	-	0.4%	3.6%	5.4%



# Appendix. KT&G Condensed Balance Sheet

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

## Consolidated

(unit : KRW bn)	1Q '24	4Q '23
<b>Current assets<sup>(a)</sup></b>	<b>6,873.1</b>	<b>6,418.4</b>
Cash <sup>(*)</sup>	1,923.4	1,669.0
Trade and other receivables	1,427.5	1,506.5
Inventories	2,897.1	2,763.8
Others	625.1	479.1
<b>Non-current assets</b>	<b>6,342.2</b>	<b>6,354.1</b>
Property, plant, and equipment	2,154.6	2,096.5
Investment property	882.2	1,018.4
Others	3,305.4	3,239.2
<b>Total assets</b>	<b>13,215.3</b>	<b>12,772.5</b>
Current liabilities <sup>(b)</sup>	3,260.2	2,672.4
Non-current liabilities	811.6	805.1
<b>Total liabilities<sup>(c)</sup></b>	<b>4,071.8</b>	<b>3,477.5</b>
<b>Total equity<sup>(d)</sup></b>	<b>9,143.5</b>	<b>9,295.0</b>
Current ratio <sup>(a/b)</sup>	210.8%	240.2%
Debt-to-equity ratio <sup>(c/d)</sup>	44.5%	37.4%

## Standalone

(unit : KRW bn)	1Q '24	4Q '23
<b>Current assets<sup>(a)</sup></b>	<b>3,852.5</b>	<b>3,554.3</b>
Cash <sup>(*)</sup>	812.6	655.7
Trade and other receivables	1,435.9	1,433.9
Inventories	1,353.1	1,222.8
Others	250.9	241.9
<b>Non-current assets</b>	<b>6,837.3</b>	<b>6,819.6</b>
Property, plant, and equipment	1,314.7	1,282.1
Investment property	851.1	992.5
Others	4,671.5	4,545.0
<b>Total assets</b>	<b>10,689.8</b>	<b>10,373.9</b>
Current liabilities <sup>(b)</sup>	2,628.2	2,164.2
Non-current liabilities	383.2	377.2
<b>Total liabilities<sup>(c)</sup></b>	<b>3,011.4</b>	<b>2,541.4</b>
<b>Total equity<sup>(d)</sup></b>	<b>7,678.4</b>	<b>7,832.5</b>
Current ratio <sup>(a/b)</sup>	146.6%	164.2%
Debt-to-equity ratio <sup>(c/d)</sup>	39.2%	32.4%

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

# Appendix. KT&G Condensed Income Statement

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

## Consolidated <sup>1)</sup>

(units KRW bn)	1Q '24	1Q '23
<b>Revenue</b>	<b>1,292.3</b>	<b>1,395.7</b>
Cost of goods sold	648.1	687.4
<b>Gross profit</b>	<b>644.2</b>	<b>708.3</b>
Selling, general and administrative expense	407.6	391.8
<b>Operating profit</b>	<b>236.6</b>	<b>316.5</b>
Other income/expenses	102.5	62.3
Financial gain/loss	27.0	17.4
Net income from continuing operations	287.6	276.8
Net income from discontinued operations	(2.0)	(2.6)
<b>Net income</b>	<b>285.6</b>	<b>274.2</b>
<b>Gross profit margin</b>	<b>49.9%</b>	<b>50.7%</b>
<b>Operating profit margin</b>	<b>18.3%</b>	<b>22.7%</b>
<b>Net income margin</b>	<b>22.1%</b>	<b>19.6%</b>

## Standalone

(units KRW bn)	1Q '24	1Q '23
<b>Revenue</b>	<b>791.8</b>	<b>821.0</b>
Cost of goods sold	388.1	401.2
<b>Gross profit</b>	<b>403.7</b>	<b>419.8</b>
Selling, general and administrative expense	195.0	189.6
<b>Operating profit</b>	<b>208.7</b>	<b>230.3</b>
Other income/expenses	95.1	52.5
Financial gain/loss	41.5	72.6
<b>Net income</b>	<b>278.1</b>	<b>255.7</b>
<b>Gross profit margin</b>	<b>51.0%</b>	<b>51.1%</b>
<b>Operating profit margin</b>	<b>26.4%</b>	<b>28.1%</b>
<b>Net income margin</b>	<b>35.1%</b>	<b>31.1%</b>

1) Due to the temporary suspension of US cigarette sales in '21. 4Q, the financial items of the US cigarette business (US subsidiary) has been segregated from net income from continuing operations and reclassified as a separate account of 'net income from discontinued operations' for comparison with previous income statement.

# Appendix. KT&G Condensed Cash Flow

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## Consolidated

(units KRW bn)	1Q '24	1Q '23
<b>Cash and cash equivalents at Jan. 1</b>	<b>1,032.0</b>	<b>1,401.0</b>
<b>Cash flows from operating activities</b>	<b>293.0</b>	<b>(150.4)</b>
Cash generated from operations	356.8	(61.5)
Income tax paid	(63.8)	(88.9)
<b>Cash flows from investing activities</b>	<b>(298.2)</b>	<b>59.1</b>
Acquisition of property, plant and equipment	(116.5)	(95.8)
<b>Cash flows from financing activities</b>	<b>29.3</b>	<b>(3.8)</b>
Net increase in cash and cash equivalents	24.1	(95.1)
<b>Changes in consolidation scope etc.</b>	<b>-</b>	<b>21.0</b>
<b>Effect of exchange rate fluctuation</b>	<b>(11.1)</b>	<b>6.5</b>
<b>Cash and cash equivalents at Mar. 31</b>	<b>1,045.0</b>	<b>1,333.4</b>

## Standalone

(units KRW bn)	1Q '24	1Q '23
<b>Cash and cash equivalents at Jan. 1</b>	<b>210.4</b>	<b>939.5</b>
<b>Cash flows from operating activities</b>	<b>230.5</b>	<b>(236.5)</b>
Cash generated from operations	283.4	(155.6)
Income tax paid	(52.9)	(80.9)
<b>Cash flows from investing activities</b>	<b>(296.4)</b>	<b>(108.7)</b>
Acquisition of property, plant and equipment	(75.2)	(72.3)
<b>Cash flows from financing activities</b>	<b>43.3</b>	<b>(2.4)</b>
Net increase in cash and cash equivalents	(22.6)	(347.6)
<b>Effect of exchange rate fluctuation</b>	<b>5.2</b>	<b>1.5</b>
<b>Cash and cash equivalents at Mar. 31</b>	<b>193.0</b>	<b>593.4</b>

# Appendix. KGC Condensed Financial Statement (standalone)

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

## Balance Sheet

(units KRW bn)	1Q '24	4Q '23
<b>Current assets</b>	<b>1,679.4</b>	<b>1,687.0</b>
Inventories	1,065.7	1,119.5
Cash and cash equivalents	227.5	177.2
Others	386.2	390.3
<b>Non-current assets</b>	<b>817.1</b>	<b>836.6</b>
Property, plant and equipment	350.7	355.3
Intangible assets	25.7	26.2
Others	440.7	455.1
<b>Total assets</b>	<b>2,496.5</b>	<b>2,523.6</b>
Current liabilities	105.5	136.3
Non-current liabilities	91.2	90.0
<b>Total liabilities</b>	<b>196.7</b>	<b>226.3</b>
<b>Total equity</b>	<b>2,299.8</b>	<b>2,297.3</b>

## Income Statement

(units KRW bn)	1Q '24	1Q '23
<b>Revenue</b>	<b>265.3</b>	<b>362.3</b>
Cost of goods sold	130.8	177.4
<b>Gross profit</b>	<b>134.5</b>	<b>184.9</b>
SG&A	119.6	134.8
<b>Operating profit</b>	<b>14.9</b>	<b>50.1</b>
Other income/expense	3.5	2.3
Financial gain/loss	2.7	3.9
<b>Net income</b>	<b>12.7</b>	<b>44.0</b>

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**Thank you**