



# JT Group 2019 First-Quarter Results

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\*Please be reminded that the figures shown on these slides may differ from those shown in the financial statements as they are intended to facilitate the reader's understanding of individual businesses.

\*For details of each term, please refer to annotations on slide 11 and 12.

# FORWARD-LOOKING STATEMENTS

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This presentation contains forward-looking statements. These statements appear in a number of places in this document and include statements regarding the intent, belief, or current and future expectations of our management with respect to our business, financial condition and results of operations. In some cases, you can identify forward-looking statements by terms such as “may”, “will”, “should”, “would”, “expect”, “intend”, “project”, “plan”, “aim”, “seek”, “target”, “anticipate”, “believe”, “estimate”, “predict”, “potential” or the negative of these terms or other similar terminology. These statements are not guarantees of future performance and are subject to various risks and uncertainties. Actual results, performance or achievements, or those of the industries in which we operate, may differ materially from any future results, performance or achievements expressed or implied by these forward-looking statements. In addition, these forward-looking statements are necessarily dependent upon assumptions, estimates and data that may be incorrect or imprecise and involve known and unknown risks and uncertainties. Forward-looking statements regarding operating results are particularly subject to a variety of assumptions, some or all of which may not be realized.

Risks, uncertainties or other factors that could cause actual results to differ materially from those expressed in any forward-looking statement include, without limitation:

- (1) increase in awareness of health concerns related to smoking;
- (2) regulatory developments; including, without limitation, tax increases and restrictions on sales, marketing, packaging, labeling and use of tobacco products, privately imposed restrictions and governmental investigations;
- (3) litigation around the world alleging adverse health and financial effects resulting from, or relating to, tobacco products;
- (4) our ability to further diversify our business beyond the traditional tobacco industry;
- (5) our ability to successfully expand internationally and make investments outside Japan;
- (6) competition and changing consumer preferences;
- (7) our ability to manage impacts derived from business diversification or business expansion;
- (8) economic, regulatory and political changes, such as nationalization, terrorism, wars and civil unrest, in countries in which we operate;
- (9) fluctuations in foreign exchange rates and the costs of raw materials; and
- (10) catastrophes, including natural disasters.

**Consolidated Results**

# Strong adjusted operating profit growth at constant FX

**Adjusted Operating Profit at constant FX**

- International Tobacco : Solid profit growth driven by pricing gains
- Japanese Domestic Tobacco : Profit increased due to pricing gains and RRP top-line growth

**Adjusted Operating Profit**

- Decreased due to the negative impact of FX

**Operating Profit and Profit**

- Increased mainly due to a one-time compensation gain from the pharmaceutical business, partly offset by :
  - a decline in profit from sale of real estate and an increase in intangible amortization related to acquisitions
  - higher financial costs

(JPY BN)

	19Q1	vs.PY
<b><u>At constant FX</u></b>		
Adjusted Operating Profit	158.7	+7.2%
<b><u>Reported</u></b>		
Revenue	505.4	-1.9%
Adjusted Operating Profit	138.8	-6.3%
Operating Profit	182.6	+24.4%
Profit	120.8	+16.2%

# Strive to improve total share while keeping initial assumptions

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### Industry Volume

- Cigarettes : Declined due to the price increase and RRP expansion
- RRP : Grew market size to c. 23%\* of total tobacco industry
- Total Industry volume : Declined by around 5%\* year on year \*Shipment base

### JT Performance

- Cigarettes : Total JT brands showed solid performance
- RRP : Sales volume increased significantly vs. previous year, but decreased vs. previous quarter  
JT market share in the RRP category in 19Q1 is estimated c. 8%\*\* \*\*Offtake base
- Total share : Declined vs. previous year and previous quarter

## Progress as planned, aim to achieve our full-year AOP target

### Adjusted OP grew +4.2%

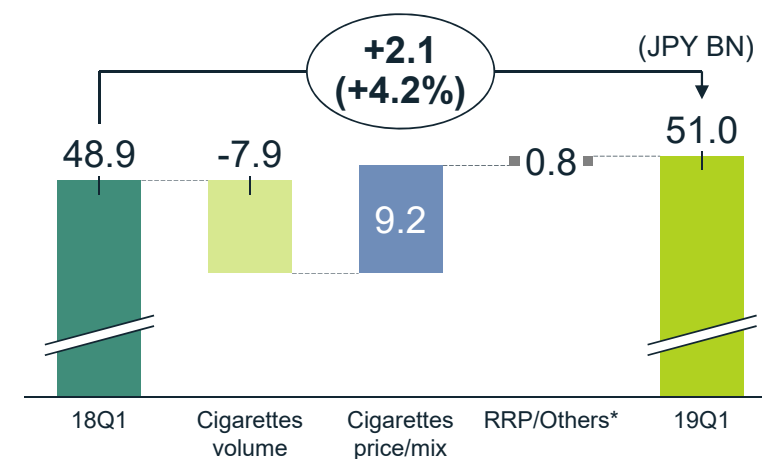
- RRP Top-line growth
- Cigarette pricing gains

### To achieve our full-year AOP target

- Strengthen the top-line growth
- Appropriately manage costs

	(JPY BN)	
	19Q1	vs. PY
Core Revenue	133.5	+3.2%
Adjusted OP	51.0	+4.2%

### Adjusted Operating Profit



\*Include product cost, marketing investment and SG&A

RRP: products with potential to reduce the risks associated with smoking

## With the launch of new RRP, expand market share by leveraging the portfolio

### RRP sales volume increasing after expansion of Ploom TECH+ in 6 pref. from April

- Purchased by various tobacco product users - cigarettes, JT and competitors' RRP
- Fulfilling consumers' needs by offering a new choice
- Launching nationwide from mid-June

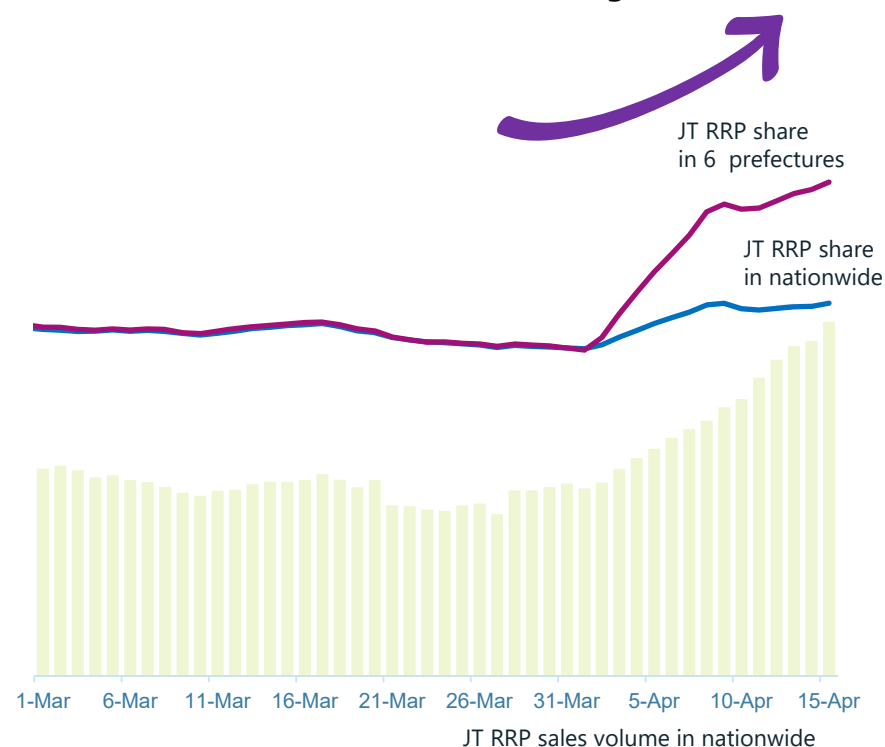
### Strive to increase the awareness of Ploom S

- Launching in 6 pref. in July and nationwide in September

### Communicate benefits unique to Ploom TECH

- Implement efficient marketing programs focusing on targeted consumers

JT RRP sales volume\* and Share of Segment\*



\*JT estimate : Offtake volume and share, 7days moving average

RRP: products with potential to reduce the risks associated with smoking

# Solid pricing benefits

## Strong volume growth of +6.5% led by acquisitions and share gains

- Acquisitions in Bangladesh and Russia
- Share increased across most key markets

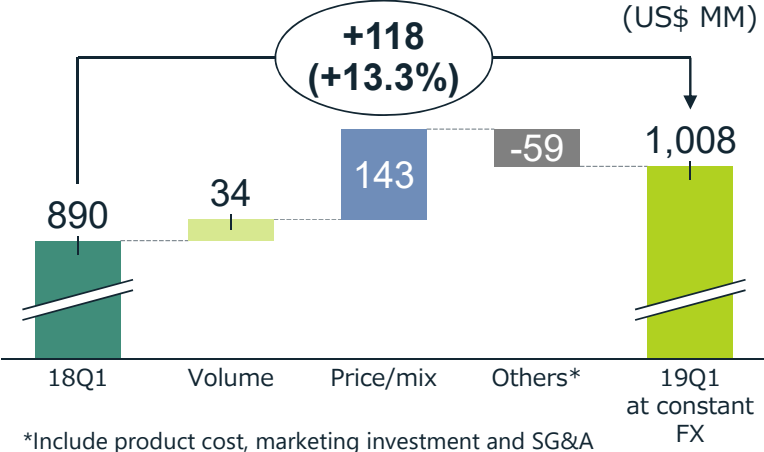
## Adjusted operating profit growth driven by pricing

- Gains notably in Canada, Germany, Iran, the Philippines, Russia and the UK
- Continued investments, notably in RRP

(US\$ MM)

Constant FX	19Q1	vs. PY
Core Revenue	2,940	+7.9%
Adjusted OP	1,008	+13.3%

### Adjusted OP at constant FX



## Reported profit decreased due to unfavorable currencies

### Negative FX impact more than offset solid business performance

- Mainly due to weak IRR and RUB
- FX impact expected to be lower in the second half

### Change in FX rate

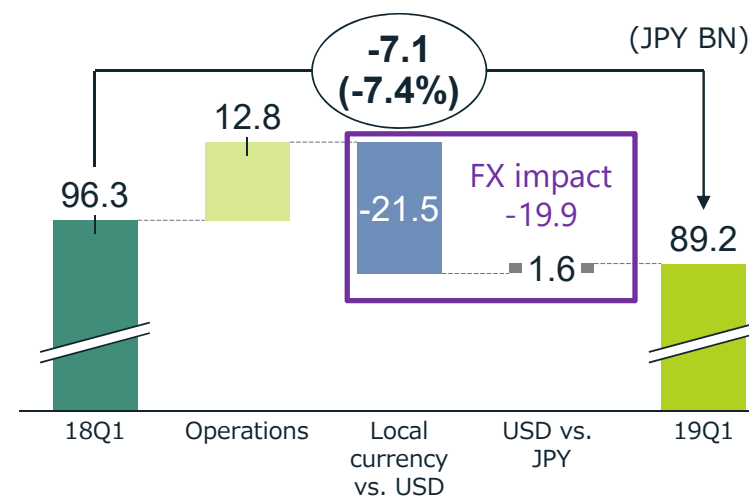
	18Q1	19Q1	Var.
\$/IRR	46,583	88,454	-47.3%
\$/RUB	56.88	66.12	-14.0%
\$/TRY	3.81	5.36	-28.9%
\$/JPY	108.22	110.22	+1.8%

EUR/IRR is converted to \$/IRR in table by using cross rate.

(JPY BN)

Reported	19Q1	vs. PY
Core Revenue	286.8	-2.7%
Adjusted OP	89.2	-7.4%

### JPY Adjusted OP reported basis





## Pharmaceutical and Processed Food businesses performance

### Pharmaceutical Business

- Decrease in Revenue and Adjusted OP mainly due to the termination of the exclusive license agreements for anti-HIV drugs in Japan

	(JPY BN)	
	<u>19Q1</u>	<u>vs. PY</u>
Revenue	22.8	-3.9
Adjusted OP	4.5	-3.2

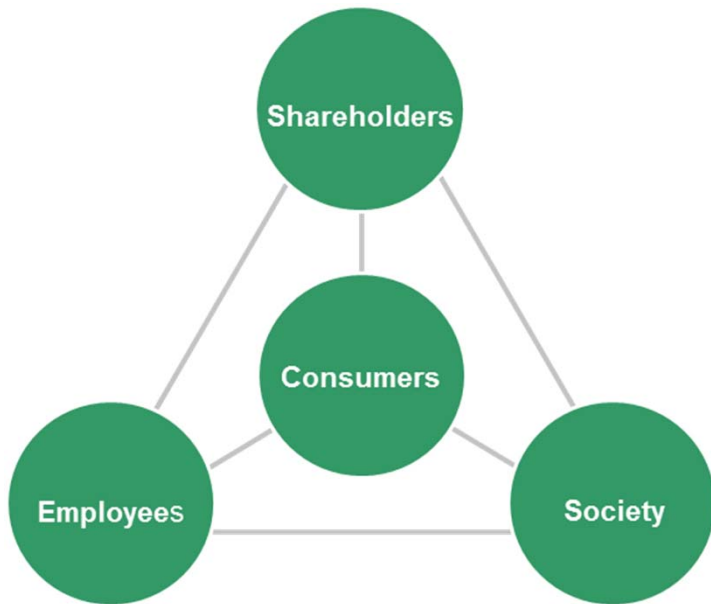
### Processed Food Business

- Despite the positive performance of staple food products, Revenue and Adjusted OP both declined

	(JPY BN)	
	<u>19Q1</u>	<u>vs. PY</u>
Revenue	36.0	-1.7
Adjusted OP	0.3	-0.4

# Closing remarks

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## **Fully prepared to address various risks surrounding our business**

- Brexit
- Litigation in Canada
- Geopolitical risks

## **Completion of Share Buybacks**

- Period : February 8, 2019 to March 18, 2019
- Size : c. JPY 50BN for c. 18 million shares

**Based on a solid performance in Q1, aim to achieve full-year target**

## <Definitions>

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Adjusted operating profit:  
Adjusted OP:  
AOP:

Adjusted operating profit = operating profit + amortization cost of acquired intangibles arising from business acquisitions + adjusted items (income and costs)\*  
\* Adjusted items (income and costs) = impairment losses on goodwill ± restructuring income and costs ± others

Consolidated adjusted operating profit at constant FX:

For International tobacco business, the same foreign exchange rates between local currencies vs USD and JPY vs USD as same period in previous fiscal year are applied

Profit:

Profit attributable to owners of the parent company

Reduced-Risk Products (RRP):

Products with potential to reduce the risks associated with smoking

GFB:

Global Flagship Brands: Winston, Camel, MEVIUS and LD (4 brands)

Shipment volume:  
(International tobacco business)

Includes fine cut, cigars, pipe tobacco, snus and kretek but excludes contract manufactured products, waterpipe tobacco and Reduced-Risk Products

Core revenue:  
(International tobacco business)

Includes revenue from waterpipe tobacco and Reduced-Risk Products, but excludes revenues from distribution, contract manufacturing and other peripheral businesses.

## <Definitions>

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Core revenue / Adjusted operating profit at constant FX (International tobacco business)	The same foreign exchange rates between local currencies vs USD as same period in previous fiscal year are applied
Industry volume: (Japanese domestic tobacco business)	Industry volume of tobacco products in Japan market (including Reduced-Risk Products, etc.)
Cigarette industry volume: (Japanese domestic tobacco business)	Industry volume of cigarettes in Japan market (excluding Reduced-Risk Products, etc.)
Cigarette sales volume: (Japanese domestic tobacco business)	Excludes sales volume of domestic duty free, the China business and Reduced-Risk Products
RRP sales volume: (Japanese domestic tobacco business)	1 pack corresponds to 20 cigarettes. (excluding RRP devices, RRP related accessories, etc.)
Core revenue: (Japanese domestic tobacco business)	Excluding revenue from distribution of imported tobacco in the Japanese Domestic Tobacco Business, among others, but including revenue from domestic duty free and the China business, as well as RRP related revenue.
RRP related revenue: (Japanese domestic tobacco business)	RRP related revenue, as a part of core revenue, represents the sale of RRP including principally the device and the related accessories.