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Corporate Participants

* Pierre de **Labouchere Japan Tobacco** International - President & CEO * Roland Kostantos **Japan Tobacco** International - CFO

Presentation

PIERRE DE **LABOUCHERE,** PRESIDENT & CEO, **JAPAN TOBACCO** INTERNATIONAL: Thank you. (Spoken in Japanese). It's a pleasure to be back in Tokyo. Good afternoon, ladies and gentlemen, and welcome to our 2010 full-year results presentation.

I am joined today by Roland Kostantos, our Chief Financial Officer, and he will provide you with further details on our financial performance. And I'm also joined by Yasushi Shingai, our Deputy CEO, who will join us in answering the questions that you may have at the end of my presentation.

And I would like to begin now by highlighting our key achievements for the year 2010. I am pleased to report that once again JTI delivered a solid performance in the face of particularly difficult conditions. Our EBITDA increased 10.6% in 2010, or 7.7% at constant rates of exchange. This strong result exceeds the guidance that we communicated to you last year.

In 2010, pricing remained robust despite the recession, and drove the earnings performance. We continued to invest in our business and once again, we achieved a share in market growth in most of our key markets, confirming our competitiveness.

In the second half of the year, we saw some encouraging signs of recovery, with stabilizing industry contraction and resumption of up-trading in some of our key markets.

Looking into 2011, we are, I would say, cautiously optimistic. The economic recovery is still fragile, and on the regulatory front, pressure is mounting. But we will remain focused on growing the top line, through continued investment in our business, to ensure that we keep delivering the strong results that have been our hallmark.

Now let's take a look at our 2010 performance, beginning with volumes. Though total volumes declined 1.5%, there was an improvement in the second half of the year. Furthermore, our GFBs grew 2.7% in 2010. This was a result of an improved business environment and, as I mentioned, share gains in a number of our key markets.

By remaining focused on our top line growth strategy, we achieved core net sales and EBITDA growth of 5.6% and 10.6% respectively. At constant rates of exchange, our core net sales and EBITDA grew 4.8% and 7.7% respectively.

Pricing was once again the key contributor to our top and bottom line growth. As you know, in our industry, pricing is mostly driven by excise tax increases, and as a general principle, we seek to pass on tax increases to consumers.

We believe this is the responsible approach, and it is what governments expect from us. Failure to do so reduces our credibility as governments' fiscal objectives are not achieved. And for these reasons, I must say we were surprised and a bit disappointed when some of our competitors in certain key markets chose not to pass on tax increases, presumably for tactical share gains.

Now let me show you our market share performance in our key markets. This year, we continued our strong record of share growth in all key markets, with the exception of the UK, where we experienced a slight loss as a result of a period of price disadvantage, following a price increase that we led in the UK market.

The growth was driven by our strength in the Sub-Premium and Mid-Price segments, as well as our capabilities in trade marketing. This shows the strength of our business fundamentals and the effectiveness of our continued investment in our brands.

In Turkey, we grew our share by an impressive 3.6 share points; in France we grew our market share by 1.2 percentage points. JTI was the fastest growing manufacturer in the market, and achieved for the first time the number three position by share in the French market. In Italy, we gained 1.2 percentage point share in 2010. In addition, our market share leadership in Russia was once again reinforced.

It is our firm belief that our strong brand equity, which we are constantly strengthening, will continue to be a driver of our performance in the future.

Now I mentioned at the start of this presentation that we were seeing encouraging signs that the economic recession may be leveling out. This is, I believe, best illustrated by the sequential improvement of our headline results in the first and second half of the year.

Total volumes rebounded by 7.4 percentage points over this period, substantially helped by the slowing of industry contraction in some of our key markets. The rebound as you can see in GFBs is even stronger at 10.3 percentage points.

This positive evolution, volume evolution, the stabilization of down-trading in markets such as Russia and Kazakhstan, and our pricing discipline, drove core net sales and EBITDA growth which remained positive throughout the year, and accelerated further in the second half.

Looking now at our geographic footprint, our business is, I believe, well balanced between emerging and mature markets. Emerging markets currently represents 66% of total volumes and 43% of earnings of EBITDA, with the strongest presence in markets such as Russia, Turkey, and Ukraine.

Emerging markets provide attractive top line growth opportunities, thanks to improving economies, and opportunities for margin improvement through pricing. Mature markets provide us both predictability and a solid platform.

In 2010, emerging markets drove our EBITDA growth through both resilient volumes and favorable pricing. We are continuing our efforts to broaden our market base for future growth in a significant number of markets not covered specifically in this presentation today.

Since the creation of JTI, we have continually focused on driving quality top line growth. This focus has allowed us to consistently deliver strong results, even in the midst of difficult economic conditions. After a temporary setback in 2009 when exchange rates fluctuations, as you know, negatively impacted our results, our EBITDA margin is once again growing to reach 32% in 2010.

Now looking to the year ahead, to 2011, despite the lingering economic uncertainty, I am confident that with our strong brand portfolio and our focused strategy of growing the top line through investment in our business, we will continue to deliver strong results. And on a constant currency basis, we expect to grow EBITDA by 10% in the year 2011.

Now I would like to hand over to Roland Kostantos for the financial review and I'll be back in a few minutes. Roland?

ROLAND KOSTANTOS, CFO, **JAPAN TOBACCO** INTERNATIONAL: Thank you, Pierre. Good afternoon, ladies and gentlemen. It's a pleasure to be in Tokyo and to have the opportunity to provide you with an overview of our 2010 financial results.

Before beginning the financial overview, I would like to highlight an important fact regarding the financial results which you will see today. In concert with our auditors, we have effectively accelerated our reporting time lines, and for the first time at such an early stage in the year, the financials reflected in this presentation are based on fully audited results.

Now let's turn to the presentation.

As Pierre mentioned, over the course of the year, especially in the latter half, we started to achieve notable improvements in our business performance. These improvements in turn have supported our ability to deliver the strong financial results that you will see on the next several slides.

In 2010, total shipment volume reached 428.4 billion units, and in comparison to 2009, this represents a decline of 6.5 billion units, or minus 1.5%. Importantly, however, despite the total volume decline, in 2010 we continued to see our global flagship brands grow, up by 6.5 billion units, or 2.7%, to reach nearly 250 billion units.

The solid growth of our GFB volumes, coupled with considerable pricing improvements from our markets such as Russia, the United Kingdom, Ukraine, Spain and Taiwan, are the primary drivers of our reported core net sales growth and EBITDA growth of 5.6% and of 10.6% respectively.

Core net sales and EBITDA, when measured in constant rates of exchange, which exclude the benefits of the strengthening local currencies versus the US dollar, continued to show positive year-on-year growth of 4.8% and 7.7% respectively.

Now like many other companies during 2010, JTI was also impacted by the lingering recession. However, our business performance over the second half of the year was encouraging.

Let me turn to the next slide which will provide you more insight into our half-year results.

As you can see on this slide, volumes improved significantly in the second half of 2010 and grew 2.2% as compared to the 5.2% decline in the first half of the year, with most key markets returning to growth in the second half. The strong equity of our brands, along with gradually improving economic conditions, drove GFB growth of 7.8% in the second half of 2010.

We're very pleased to see this significant increase, especially when placed within the context of our first half performance.

On a reported basis, core net sales and EBITDA growth rates were stronger over the first half of the year, thanks to higher FX benefits. In the second half of 2010, core net sales and EBITDA, at constant rates of exchange, also showed signs of improvement and grew by nearly 6% and 9% respectively versus 2009.

Our performance during the second half of 2010 represents notable improvements in the underlying fundamentals of our business, and is a positive and encouraging sign heading into 2011.

Now let's turn to the next slide for more details on our results and insight into total shipment volume evolution.

Against a global industry backdrop of a weak first half and a recovering second half, our total volume declined 1.5%, primarily due to the effects of a slower paced economic recovery within the CIS cluster.

That said, it's worthwhile to point out that the rate at which volumes declined in the CIS cluster decelerated considerably over the second half, with volumes in Russia stabilizing versus the same period in 2009. Furthermore, in this cluster, this decline only affected our non-GFB volumes.

Volumes in South and West Europe cluster declined by 1.3 billion units, despite growth in France, primarily due to the industry contraction in Spain. Over the second half of 2010, this cluster's volumes improved, and actually grew by 2.3% when compared to the same period of 2009.

North and Central Europe cluster volumes grew by 1.5 billion units, driven by strong momentum in Poland, Hungary and Czech Republic. Together, these markets grew volumes by 1.2 billion units, or 14% versus 2009.

Lastly, we come to the Rest of the World cluster, where volumes grew by 4.3 billion units as a result of solid momentum across a variety of markets, including Turkey, Korea, Syria, Jordan and Saudi Arabia, to name a few.

Continuing with more details on the performance of our clusters, let's now turn to GFB volume evolution.

Three of our four business clusters contributed to GFB volume growth of 6.5 billion units in 2010, and this was against the backdrop of relatively weak economic conditions. Despite share of market gains, GFB volumes declined by 400 million units in South and Western Europe cluster. This was due to industry contraction in Spain, coupled with continuing crisis in Greece, but partly offset by growth in France.

Within North and Central Europe, markets such as Poland, Hungary and the Czech Republic delivered strong GFB growth of 2 billion units. Although total volumes declined in the CIS cluster for reasons I mentioned earlier, our GFB volume grew by 400 million units, as Winston performed well in the Caucasus, Belarus and Kazakhstan.

Winston, Camel and Mild Seven grew within Turkey, the Middle East and Korea respectively, and contributed to the Rest of the World cluster, growing GFB by 4.6 billion units. As a result, the Rest of the World cluster represents 70% of JTI's total GFB growth in 2010.

As I mentioned, our global flagship brand volume grew 2.7% in 2010, and this was a result of our continued top line focus and the strength of our portfolio. The Mid/Value segment grew by 2.1 billion units. LD posted the fastest growth in our GFB portfolio, with a 6.1% year-on-year increase as a result of strong performances in Poland, Turkey and Hungary.

Sub-Premium, the largest segment in our GFB portfolio, also registered the largest absolute level of volume growth with an additional 3.3 billion units, largely thanks to Winston performance in the Middle East.

Our GFB in the Premium and above segments grew 1.1 billion units, or 1.4%, in markets such as Korea, Turkey, France and Portugal. As a result of this performance, GFB now represents 58.3% of our total volume, up 2.4 percentage points since 2009, reaching nearly 250 billion units.

Now before moving on, I would like to highlight the fact that our top 20 markets, when taken together, deliver 80% of our total GFB volume. Within this collective group, our GFB volumes were up by nearly 8% in the second half of 2010 on a year-over-year basis.

As we can see from this next slide, core net sales evolution benefits from the continued price and mix improvements. The benefits of pricing taken in markets such as Russia, the United Kingdom and Ukraine, along with GFB volume gains, were the key drivers of our core net sales growth in 2010.

More specifically, pricing and mix improvements contributed some $589 million to our reported top line growth, which was also complemented by foreign exchange benefits of $79 million.

The benefit of pricing, mix and foreign exchange, as you can see, more than offset the negative impact of $128 million arising from the decline in total volumes.

At constant rates of exchange, core net sales grew by 4.8%. And on a reported basis, with the aid of foreign exchange, core net sales grew 5.6%.

Now let's turn to EBITDA evolution. Our 2010 reported EBITDA grew by 10.6%. And this growth was primarily driven by the solid performance of our GFB volumes, along with the benefits realized from considerable pricing actions in key markets.

Pricing and the mix benefits realized in our top line growth translated into $552 million at the EBITDA level.

These pricing and mix benefits more than offset the negative impacts arising from the decline in volumes, essentially non-GFB, as well as the increase in our year-over-year cost base as a result of higher leaf costs, along with investments in our brands and global infrastructure.

From an FX standpoint, as you can see, we experienced an EBITDA benefit of 3% or some $88 million as a result of local currencies strengthening against the US dollar.

Now before I hand over to Pierre, let me briefly touch on the topic of foreign exchange.

Foreign currency markets have shown less volatility in 2010 than in 2009. And key local currencies, in particular the Russian ruble, have appreciated and provided a tailwind to reported results.

At the same time, in 2010, we were not overly impacted by the appreciation of the US dollar against the euro, as a significant part of our costs are also incurred in euro, providing a natural offset.

January 2011, average rates for three of our major currencies are broadly in line with those of 2010. Should these rates continue throughout the remainder of 2011, we would not expect to benefit significantly from currency gains.

Now this concludes my financial overview. Thank you for your attention and for taking the time to be here today. Pierre now will continue on and he will provide you with a business overview.

PIERRE DE **LABOUCHERE:** Thank you Roland. What I'd like to do now is to give you an overview of our performance in our geographic clusters and some of our key markets.

For your guidance and information, you will find in the back-up section of your package the contribution of each cluster in terms of volume, net sales and, for the first time, EBITA. And we believe this will be useful for you.

Now moving to our first cluster, which is what we call the CIS plus.

This cluster continued to be affected by the economic crisis, with our volume declining 5.1% for the full year, mostly due to industry contractions in Russia, where we estimate the industry was down 2.7% for the year; Ukraine down 14.2%; and Romania down 18.3%.

This was partially offset by growth in smaller markets like Belarus and the Caucasus, as a result of successfully broadening our base in this region.

In the latter part of 2010, we saw initial signs of improvement, with industry contraction slowing in Russia and Romania, as well as a return of what we call up-trading in Russia and Kazakhstan.

Despite the encouraging signs I have mentioned, recovery remains fragile, for example in Ukraine, where the industry volumes contracted 14.2% after losing already 11.1% the year before in 2009. This was due to a series of very steep excise tax-led price increases, which resulted in the price of Winston increasing by a factor of 2.4 times since 2008.

Nevertheless, our GFB showed positive performance with volumes, as you can see, rebounding by 5.6% in the second half of 2010, driven by both Winston and LD.

Pricing remained robust and this more than offset volume decline and drove core net sales and EBITA growth of 6% and 10.7% respectively at constant rates of exchange. The slightly slower growth rate of EBITA for the second half of the year was due to the phasing of expenses.

Now let's take a closer look at Russia. In Russia, the economic situation seems to be slowly improving. As I mentioned, overall market contraction slowed to 2.7% in 2010, resulting in an estimated 380 billion sticks industry size, following a 3.6% decline in 2009.

In the second quarter of the year, we saw resumption of growth in the Sub-Premium segment. And we expect this trend to continue in 2011, as the economy progressively recovers.

Over the past 18 months, we have consistently led industry pricing ahead of excise increases, resulting in increased profitability for the industry.

Our volumes for the full year in Russia declined by 4.4%, although the decline is somewhat overstated when taking into account inventory adjustments.

We strengthened our leadership in the Russian market, our share now standing at 37%, up 0.2 share points since 2009, in spite of a slight decline in the fourth quarter of 2010, which was due to tactical pricing moves by competitors in the summer.

We continue to focus on building equity and optimizing our portfolio through new launches and innovation.

Winston is the number one brand in the Russian market, with a 10.5% share of market and this is up 0.3 share points from the previous year. LD is the number three brand in the market, with a share of market of 5.2%. And it is our strongest proposition in the Mid-Price segment. And we've reinforced LD by a number of initiatives.

We're also pursuing the opportunity for growth in the Premium and above segments in Russia. We already hold a strong number two position in Premium with Camel and a brand called Russian Style, with a 32% share of segment. Also, we're developing our capability in the Prestige segment of Russia with Mild Seven and Sobranie.

Turning now to South and West Europe; in this region consumption has continued to decline in 2010, a result of ongoing economic difficulties and increasing austerity measures by governments.

Notably, in Spain the ready-made cigarette industry volume contracted 11.5%. This is the second consecutive year of double digit decline in Spain.

In Greece, the market was disrupted by sudden excise-led price increases and changes to the excise tax structure, forcing us to absorb part of the tax increases to maintain our competitiveness.

As a result of this, shipment volumes declined 2% for the full year in this region, in spite of strong growth in the French market. Yet there are encouraging signs with volume rebounding in the second half of 2010, mainly in the important Italian market.

JTI gained market share in all key markets in South and West Europe, both in ready-made cigarettes and in roll your own/make your own category.

Pricing remained favorable, driving core net sales and EBITDA growth of 1.7% and 4.5% respectively for the full year at constant rates of exchange.

Let's take a closer look at Italy, our largest market in South and West Europe. In Italy, ready-made cigarette industry volumes contracted 2.5% in 2010, at a slower rate than that of the previous year.

The Sub-Premium and Popular segments, as well as the roll your own category have grown, as a result of down-trading, and competition in both segments has intensified.

When we look at JTI performance, JTI outperformed the market, as our volumes in Italy only declined by 0.9% in 2010. Our market share gain of 1.2 share points in 2010 reinforced our number three position by market share. Our performance was mainly driven by growth in Winston, thanks to extensive brand activation programs.

Camel, our biggest brand in the market, also gained 0.2 share points in share of market, as it maintains its leadership in the Sub-Premium segment, in spite of increased pressure within this segment and from the Popular segment. The Benson & Hedges American Blend share of market stabilized in 2010.

Let's now move to North and Central Europe, where in 2010, we achieved growth in both total and GFB volumes over the full year.

We performed strongly in many markets in this cluster, including Sweden, where we strengthened our leadership in ready-made cigarettes; as well as Poland, Germany and Hungary, where we grew both volumes and market share; and the Czech Republic, where we reached an all-time high market share of 9.1%.

Volumes in the second half of 2010 were affected by the reversal of a trade inventory build-up in the UK but I will speak more about the UK in just a moment.

Pricing was strong across the region, especially in the UK, Austria and Ireland, driving core net sales growth of 6.4% and what I believe is a remarkable EBITA growth of 9.7% at constant rates of exchange.

Let's take a look at the UK market. The United Kingdom is our largest market in this cluster and it continued to be affected by the economic recession.

The ready-made cigarette industry size contracted 2.5%, as a consequence of tax-led price increases in January and March and the additional price increase that we took last November to compensate for volume decline.

In 2010, the non-UK duty paid volumes reached a historical low point at an estimated 13% of the ready-made cigarettes consumption, thanks in part to lower international travel.

However, we believe this proportion could increase again in the future, as a result of the Government's announced intention of resuming the so-called duty escalator policy, combined with the resumption of international travel as the economy recovers.

Down-trading continued in the UK to accelerate, with the Value segment now representing 22.9% of the ready-made cigarette market. The roll your own segment also continued to grow, reaching 23% of the total duty paid market.

Our total volumes declined 0.4% in 2010 in the UK, in part due to our market share loss of 0.2 share points on a full-year basis. This loss was mainly due to intensifying price competition in the Value segment, but you can see, we have been actively regaining share throughout the year and we've maintained our position as the strong number two manufacturer by market share in the United Kingdom.

In the Value ready-made cigarette segment, Sterling benefited from the down-trading trend and maintained its segment leadership, thanks to a rejuvenation of the brand programs.

We are also gaining share in the rapidly growing roll your own category, thanks to Amber Leaf and a recently launched innovative small portion pouch, with paper and filter in a cigarette box format for consumer convenience. And you can find a sample of this product in the little bag that was on your desk.

The Premium segment, though contracting, remains a significant driver of our profit in the UK. As a result, we're actively investing in Benson & Hedges and Silk Cut. A good example is the recent rejuvenation of Benson & Hedges Gold with a beveled pack that offers a modernized look and feel. This investment is paying off as both Benson & Hedges and Silk Cut have increased their share of the Premium segment in 2010.

Lastly, the Rest of the World cluster showed the strongest volume growth in 2010. This was driven by good momentum in the Middle East and Korea.

In the Middle East, our volumes grew 20.7% for the full year, thanks to strong market share gains in markets like Iraq, Syria, Jordan, the Gulf. Shipment volumes grew 10.7% in Korea, led by Mild Seven momentum.

As was the case in the other clusters, our GFB volumes performed ahead of the total portfolio, reaching 7.3% growth for the full year in this region.

And in addition to this growth momentum, volumes rebounded strongly in Turkey and Taiwan in the second half of 2010. I'll discuss Turkey in a minute but in Taiwan, our volumes grew 20.6% in the second half of 2010, as the price disadvantage we had, following a JTI-led price increase in June 2009, disappeared and we started to regain market share.

Volume growth in many markets across the cluster drove core net sales and EBITA growth of 4.8% and 3% respectively at constant rates of exchange. Earnings growth in this cluster was negatively impacted by the operating environment in Iran, which continued to deteriorate.

Let's take a closer look at Turkey now. 2010 started on a difficult note in Turkey, with a significant excise tax increase, which caused the price of Winston, for example, to increase 28%. This followed an already considerable excise increase in July 2009 that had raised the price of Winston by 10% already.

As a consequence, the industry volumes in Turkey contracted 9.6%, although contraction has slowed down over the past few months. Industry contraction was accentuated by a significant increase in illicit trade in the first half of the year.

Down-trading also accelerated, as a result of these price increases, with a strong growth in the Popular price segment. This trend is compounded by competition repositioning brands from Mid-Price to Popular during the fourth quarter of 2010.

There have been recent declarations by the Turkish Government that would indicate that no further excise tax increases are planned in 2011. This is a good hint that the operating environment should stabilize in Turkey in 2011.

Now in spite of significant industry contraction as I mentioned, our volumes increased 4.9% in 2010 and GFB volumes increased 10.3%, resulting in a market share of 22.6%, up 3.6 share points.

The shipment growth was particularly strong in the second half of the year, thanks to stabilizing industry volumes and thanks to our share of market growth momentum.

In spite of intensifying competition from the Value segment, Winston remained both the largest and the fastest growing brand in the Turkish market, while maintaining strict pricing discipline. This remarkable performance is a testimony to Winston's strong consumer relevance, reinforced by new initiatives, such as Winston Cold, a proposition with a recessed charcoal filter.

Camel, our Premium offering in Turkey enjoyed strong volume and share growth, thanks to its increasing consumer appeal and growing brand equity, as well as new launches such as Camel Black & White.

And in the competitive Popular and Value segments, we maintained our position capturing down-trading consumers; so all in all, a very good performance in Turkey.

Now in closing this presentation, I would like to emphasize that JTI once again achieved a strong set of results, in spite of the ongoing economic difficulties and in spite of the challenging operating environment.

We have further reinforced our position in our key markets by gaining market share. And also there are encouraging signs that the impact of the economic recession may be leveling out in many of our key markets.

We have a strong commitment to product innovation, both in our existing product lines and in future areas for growth, for example, with Zerostyle.

Our approach includes seeking and maintaining open dialog with regulatory authorities, whose approval is critical to any product launch in the area of what we call potentially reduced exposure products.

I firmly believe that by continuing to invest in our business, in our people and by staying focused on growing the top line and through continued focus on disciplined cost management, we will continue delivering strong results in the years to come.

So on this note, I want to thank you for your interest in JTI and we will now be available to take any questions that you may have. Thank you.

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