# Jinan Acetate Chemical

## 4763 TT

## Investor Presentation

**January 2021**

# The Little Giant in a Global Oligopoly Industry

- ✓ Jinan Acetate is a fully-integrated, independent manufacturer of **superior quality acetate tows and flakes** in an **oligopoly market**. Acetate tows are the key raw material used in making cigarette filters. Acetate flakes are primarily used in the production of acetate tows and optical frames.

- ✓ The industry has **very high entry barriers**, particularly in securing raw materials and customers. Jinan Acetate has successfully built **strategic alliances to align its interests** with key suppliers and customers. Advanced R&D and production expertise keep our **costs significantly lower than our global peers**, who are reducing and repurposing their capacity while we target **double digit annual capacity growth** over the next 5 years.

- ✓ **We continue to invest while producing robust cash flows**. In order to stay ahead of industry trends, we are developing new biodegradable products and new applications for existing products. We have also been investing in cost-saving equipment to maintain our cost advantage.

- ✓ We aim to **double our market share** for acetate tows within 5 years from 1.6% currently (2019). Our focus clients are **mid-to-small sized brands located in emerging market countries**, which have greater growth potential than the established global brands. We also hope to gain business from one or more Tier-1 Tobacco players within the next 12-24 months.

- ✓ We aim to maintain a cash dividend payout ratio between 60-80% and ROE in excess of 20%.

# Jinan Acetate Chemical @ a Glance

- **Ticker:** 4763 TT
- **Market Cap – 31 December 2020**: US$222 mn
- **2020 Revenue**: US$80 mn
- **ROE**: Averaged 21% in 2015 through 2019
- **2019 Cash Dividend**: NT$4.75 per share
- **Business Scope**: Exports to more than 50 countries
- **Client Diversification**: Top 5 are less than 40% of sales

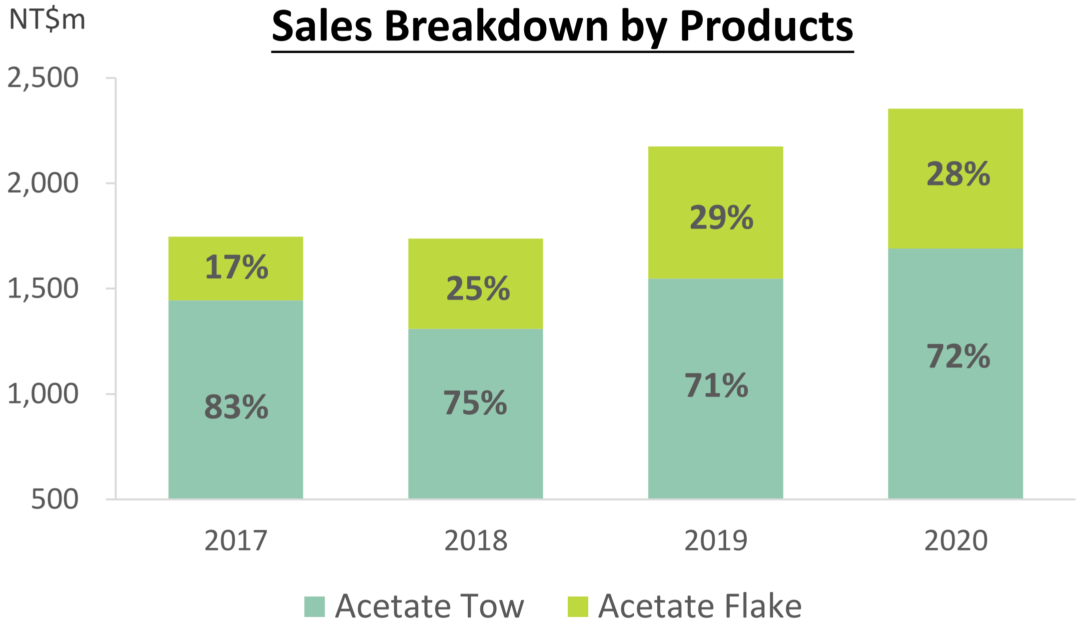
### Jinan Acetate

- Jinan, Shandong
- Acetate Tow Production
- Employees: 170

### Acetek Material

- Zaozhung, Shandong
- Acetate Flake Production
- Employees: 100

## Sales Breakdown by Products




## Products - Applications

Fiber Grade Diacetate Flake → Acetate Tow →  Cigarette Filter

Plastic Grade Diacetate Flake →  Optical Frames

# 3Q20 Performance

## Key 3Q20 Performance Metrics

- ✓ 1-3Q20 sales grew 8% YoY to NT$1,689m.
- ✓ Revenue from acetate tows rose 11% YoY, while acetate flake revenue fell by 1% YoY.
- ✓ Key Performance Highlights were:
- Gross margin was 33.4% versus 29.3% in 1-3Q19.
- Operating margin was 21.1% vs 16.5% in 1-3Q19.
- Net Income adjusting out the MTM effect of Acetek's CB was NT$336m, up 45% YoY.[1]
- EPS adjusted for CB MTM effect was NT$6.70.[1]

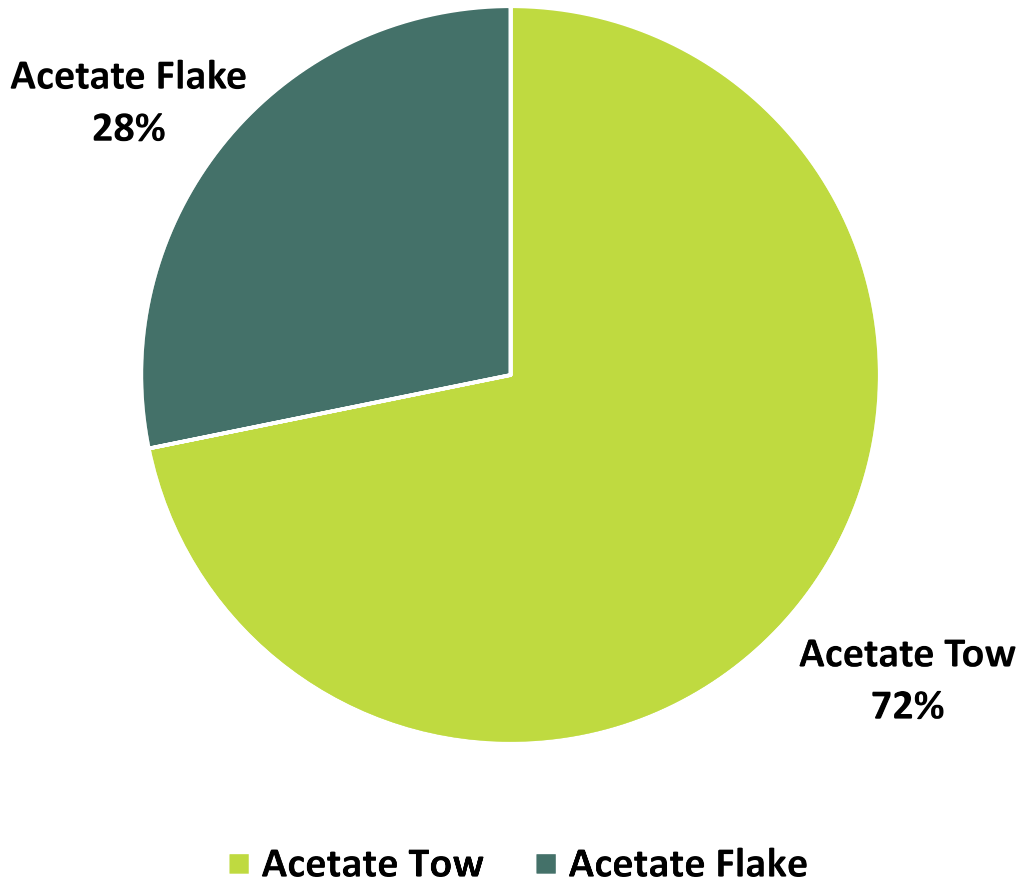
## What Factors Affected Profitability?

- ✓ 3Q20 revenue hit a record high as acetate tow and flake revenue grew 9% and 14% YoY respectively.
- ✓ Within acetate flakes, plastic grade sales were roughly 60% of 3Q19 levels due to the negative impact of COVID-19 but rose 30% QoQ as peak season for eyewear-use flakes began in September. Fiber grade flake sales grew strongly YoY off a low base last year.
- ✓ Overall, the product mix changes benefited profitability, as tows are most profitable, followed by plastic flakes, then fiber flakes.
- ✓ RM prices were favorable, with wood pulp down YoY and the acetic anhydride average price below RMB $5,500/tonne.

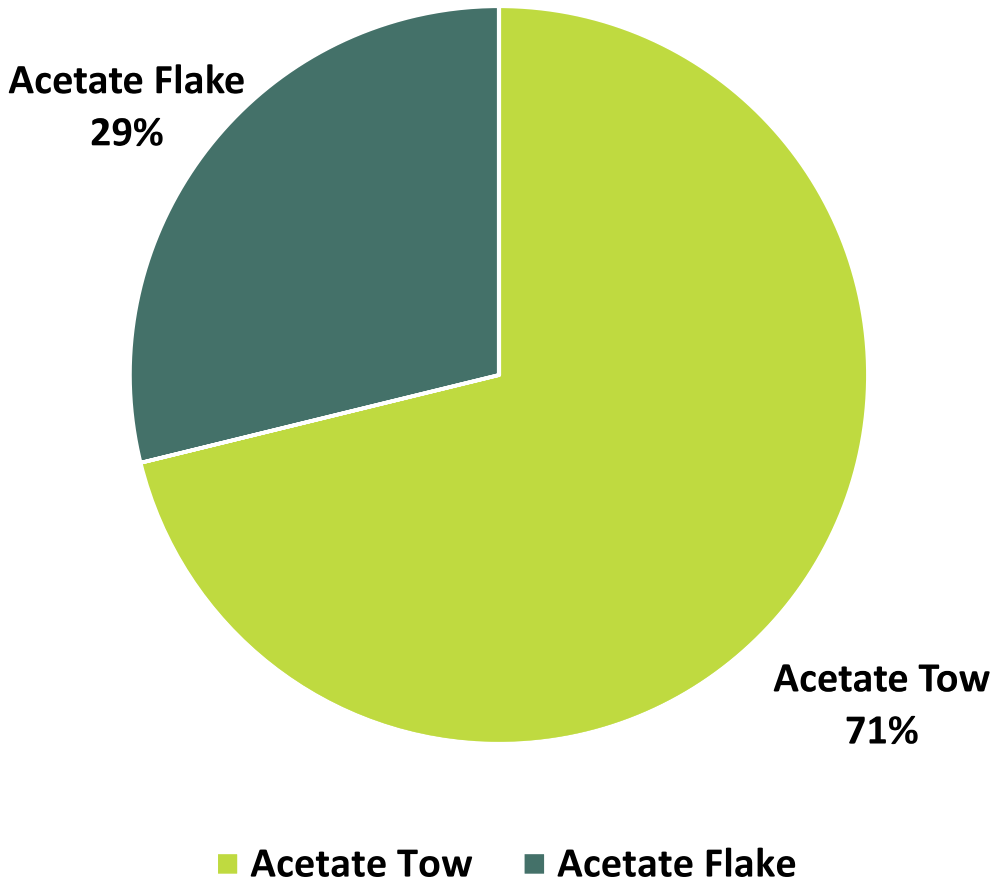
Note 1: Mark-to-market paper gain/loss from the 2Q17 and 3Q20 CB issue are not included in these calculations, to better reflect core earning capability.

# Sales Breakdown

## January through December 2020




## January through December 2019



# Capacity Utilization Remained High in 1-3Q20

## Secure Demand from Key Customers

- ✓ Since 2015, our utilization rate for acetate tows has averaged above 90%. During that time, our capacity increased by 44%.
- ✓ Strategic alliances with key customers have secured a market niche in South America and stable business from downstream suppliers to Tier 1 eyeglass frame makers Luxottica and Safilo.

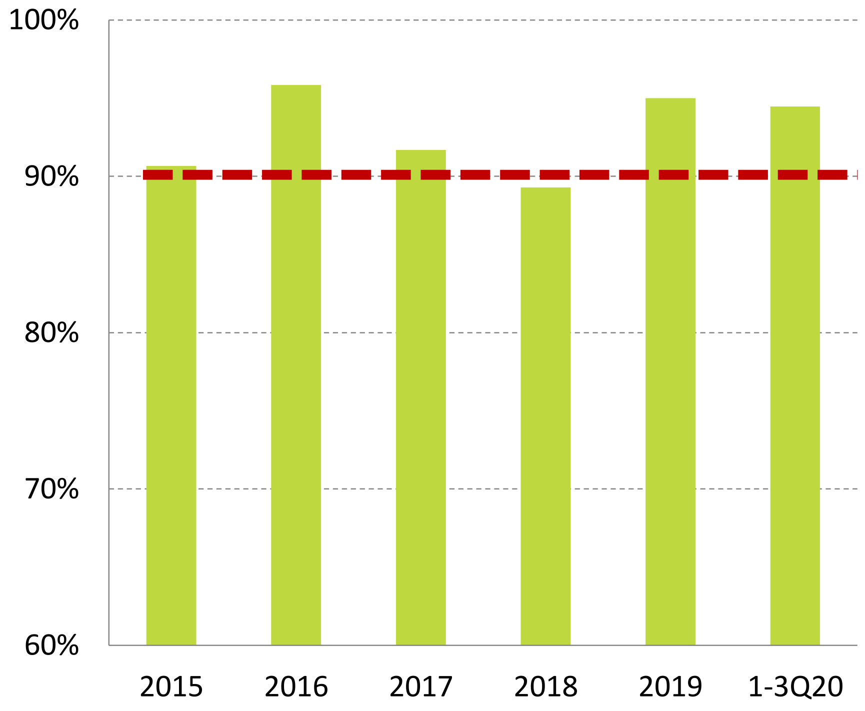
## Self-sufficient in Acetate Flake Production

- ✓ Access to key raw materials is one of the most difficult barriers to entry and survival in this industry.
- ✓ Acetate flakes account for almost 90% of acetate tow raw material cost. We completed the construction and ramp up of our acetate flake plant in 2017-2018.

## Our Plant Construction Cost is 50% Lower than Peers

- ✓ Vertical integration has enhanced our cost competitiveness, especially since our construction costs are 50% lower than peers.

**Acetate Tow Utilization Rate Averages above 90%**



# Investing in our Future Through R&D

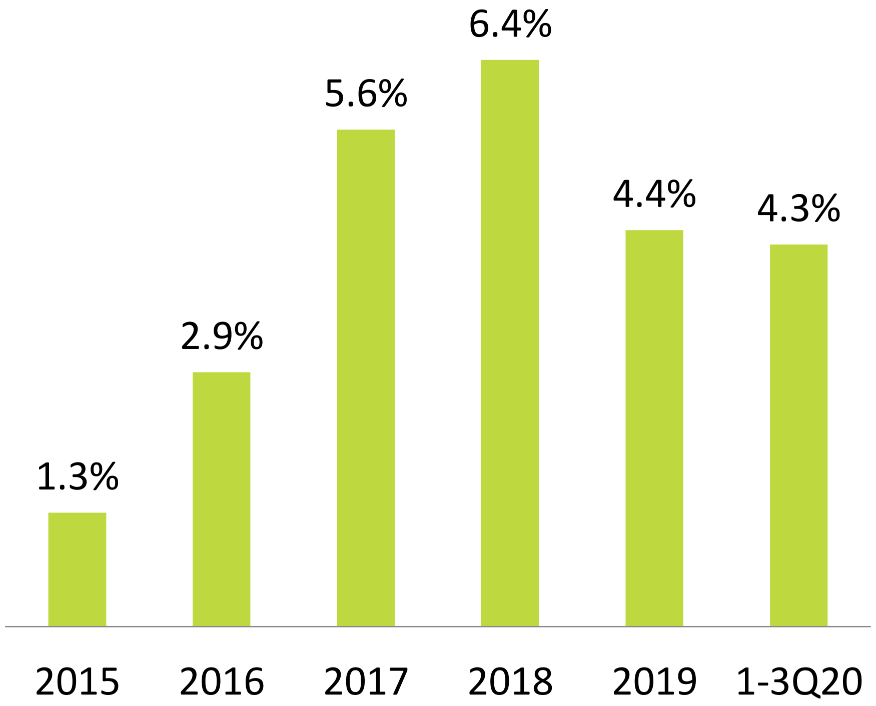
**The Current Focus of our R&D spending is biodegradable products**

- ✓ R&D spending was roughly 4.3% of sales in 1-3Q20. We have been developing several types of biodegradable products, including tows, non-woven material and straws.
- ✓ We expect R&D spending to rise in 2021, as we gear up for initial mass production of our green products.

**It takes 12 to 24 months for R&D spending to create earnings growth**

- ✓ R&D as a percent of sales was 5-6% of sales in 2017 and 2018 as we built, tested, debugged and began production of acetate flakes.
- ✓ In 2019 and 1-3Q20, R&D spending has remained close to peak levels in absolute terms, while falling as a percent of sales.

**R&D Expense as % of Revenue (%)**



# Outlook for 4Q20

3Q20 cumulative sales were NT$621m, up 11% YoY. As the peak season for plastic grade acetate flakes for eyewear use is from September to December and demand for tows is robust, we expect our growth momentum to continue.

| | |
|---|---|
| **Tows** | 3Q20 tow sales grew 9% YoY. We added 1k tonnes of acetate tow capacity in April, amounting to an 8% increase in capacity. 3Q20 utilization continued to be around 95%. Tow selling prices were flat but are expected to trend gradually upwards in 4Q20. **On Oct 6th, Celanese announced it will raise the prices of all acetate tow product grades by up to 5%, effective for orders shipped on or after Jan 1, 2021.** Demand for acetate tows remains strong, and order visibility is extremely robust. |
| **Flakes** | Flake sales grew 14% YoY in 3Q20, as a 2k metric tonne order for fiber grade flakes was shipped between May to August, and shipments of plastic grade flakes for eyewear frames began to recover. We believe that 4Q20 shipments for this product could approach, and potentially even reach, pre-COVID 19 peak season levels. We added 5k tonnes of acetate flake capacity in June/July, amounting to a 25% increase in flake capacity, and mass production began in October, following the receipt of all necessary regulatory approvals. |
| **Sales Growth & RM Pricing** | Prospects for continued top line sales growth are good in 4Q20, due to the recovery in plastic grade flake shipments for eyewear and continued robust tow demand. RM pricing should continue to be favorable as wood pulp costs were locked in early in the year and acetic anhydride pricing has softened thus far in 4Q20. |

# Vertical Integration into the Production of Acetic Anhydride

We have decided to integrate upstream into the production of acetic anhydride.

We expect to spend roughly NT$213m to build 60,000 tonnes of design capacity.

We estimate it will reduce our cost of production by about 4-5%. * More importantly, we expect that it will make our profits more stable, greatly reducing the effect acetic anhydride spot price movements.

The factory site is big enough to provide for future expansion.

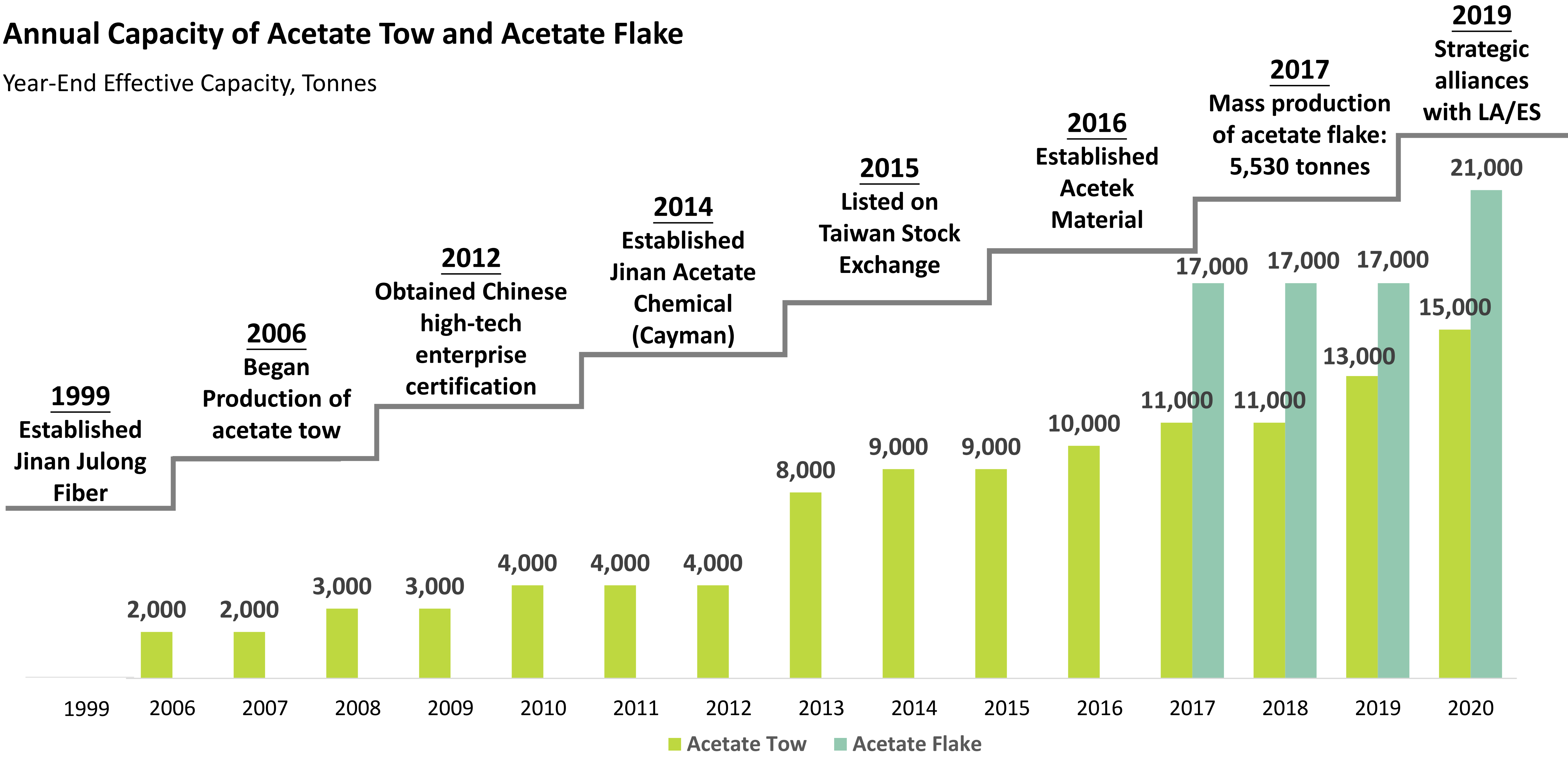
| Item | Details |
| --- | --- |
| Land Area | 100 Chinese Mu |
| Leasing Cost, Land | NT$38m |
| Plant and Equipment | NT$175m |
| Est. Annual Depreciation | About NT$14m |
| Est. Cost Savings | 4-5% per tonne of flakes* |
| Construction Begins | 2020 Q4 |
| Completion Date | 2021 Q2 |
| Design Capacity | 60,000 tonnes |
| Current Internal Use | 35,000 tonnes |

*Based on a spot price of $5,250 RMB per tonne of acetic anhydride

# Company Milestones

## Annual Capacity of Acetate Tow and Acetate Flake

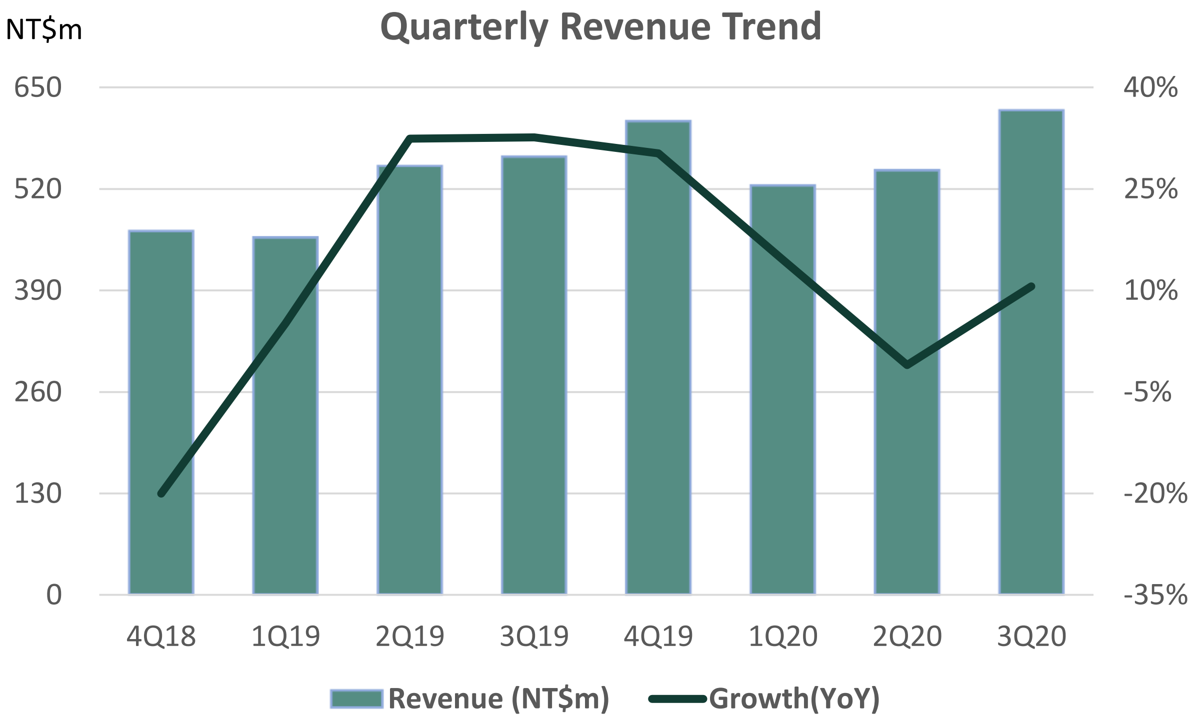
Year-End Effective Capacity, Tonnes




Note: Tow capacity on this slide is design capacity. Flake capacity is stated in terms of effective capacity because roughly 70% of our production is fiber grade flakes for tows and 30% is plastic grade which consumes more capacity. Design capacity for 100% fiber grade flake production was 25k tonnes at y/e 2020.

# Revenue and Margin Trend

- 3Q20 revenue increased 11% YoY and 14% QoQ to NT$621m.
- Gross margin reached 32.0%, surpassing 30% for the sixth quarter in a row, while operating margin was 20.8%. Gross and operating margins have been trending up since 2Q18, on production efficiency improvements, vertical integration into acetate flakes, strong top line growth, and stabilization in raw material prices.
- Net margin reached 21.3%, the highest level we've achieved since 4Q16.

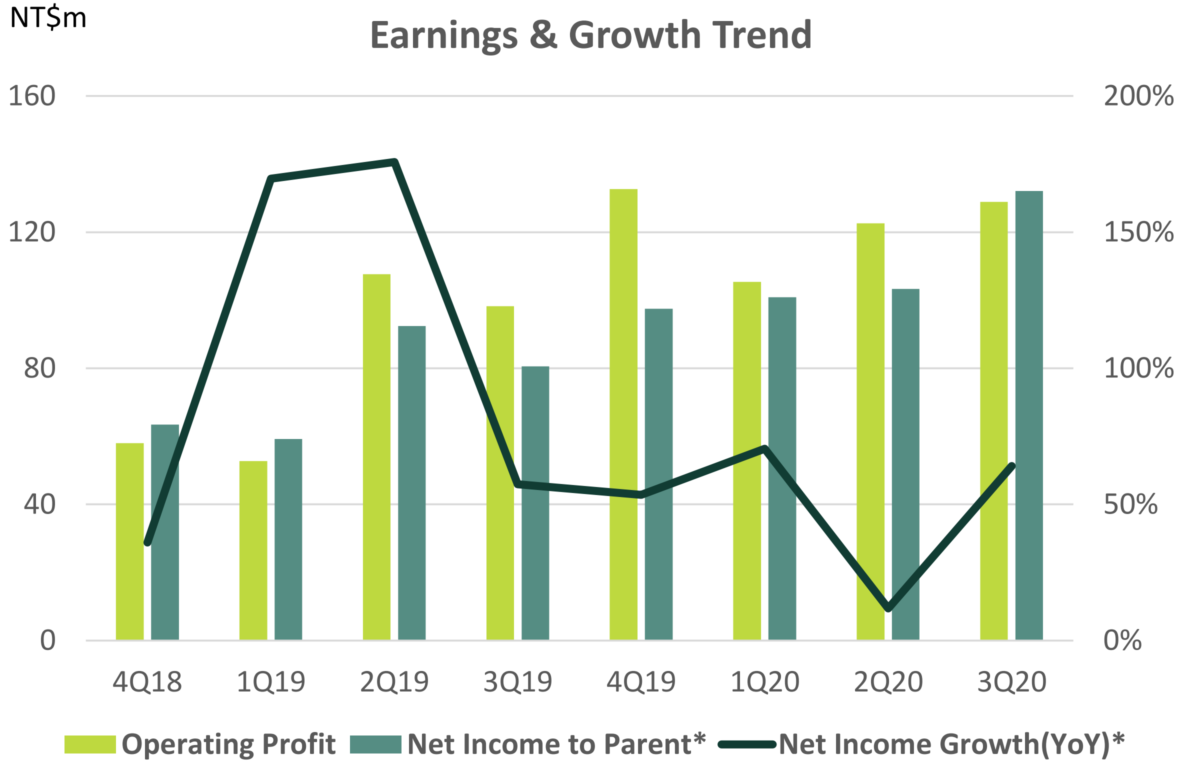


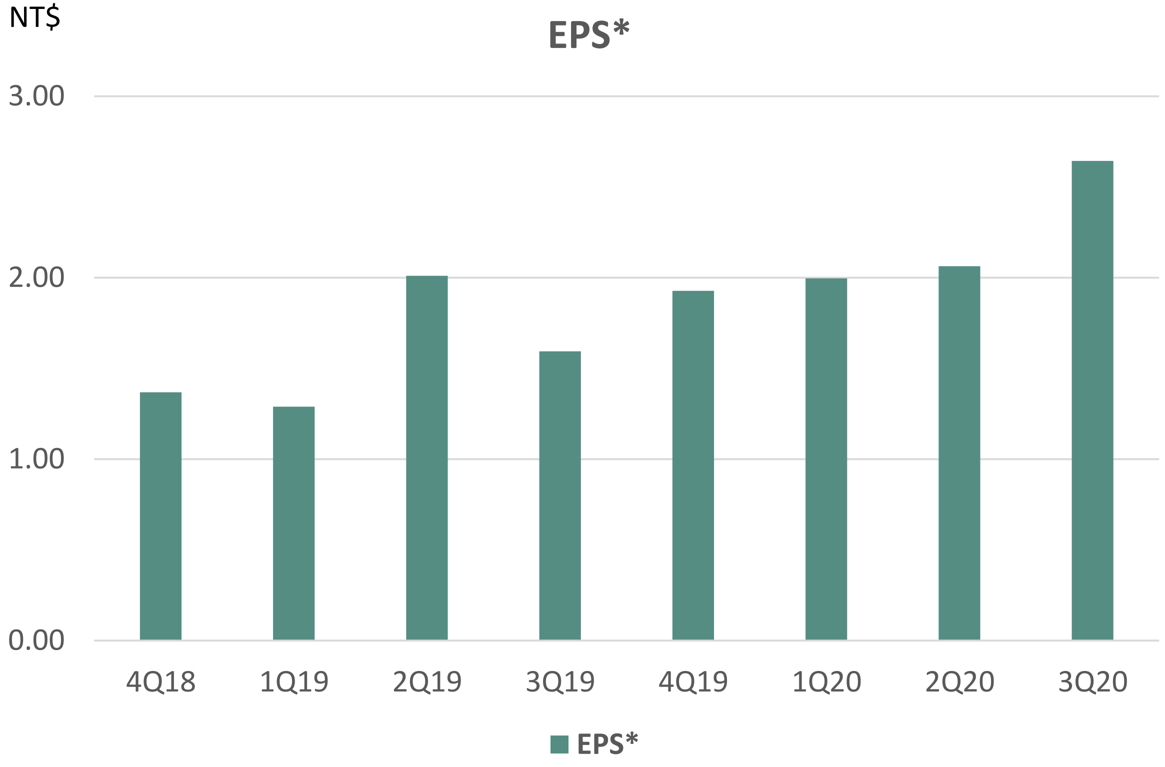


* Note: On this page, Net Margin numbers exclude the mark-to-market paper gain/loss from the 2Q17 and 3Q20 CB issue.

# Earnings and Growth Trend

- 3Q20 Operating Income rose 31% YoY to NT$129m.
- 3Q20 Net Income rose 64% YoY to NT$132m. 3Q20 EPS was NT$2.64. Net Income and EPS both reached a record high and have shown positive YoY growth for 9 consecutive quarters.




* Note: On this page, all Net Income & EPS numbers, as well as related growth calculations, exclude the mark-to-market paper gain/loss from the 2Q17 and 3Q20 CB issue.

# Consolidated Statements of Income - Quarterly

| Unit: NTD million | 3Q20 | 2Q20 | 3Q19 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| **Net Revenue** | 621 | 544 | 561 | 14 | 11 |
| Gross Profit | 199 | 192 | 171 | 4 | 17 |
| Gross Margin | 32.0% | 35.2% | 30.4% | | |
| Operating Expenses | 70 | 69 | 72 | 1 | -3 |
| OPEX/Sales | 11.3% | 12.7% | 12.9% | | |
| **Operating Income** | 129 | 123 | 98 | 5 | 31 |
| Operating Margin | 20.8% | 22.5% | 17.5% | | |
| MTM Gain (Loss) on CB (non-cash) | (51) | (5) | 21 | | |
| Other Non-Operating Income (Loss), Net | 17 | (9) | (9) | | |
| Pre-Tax Income | 95 | 108 | 110 | -12 | -14 |
| Income Tax Expense | 10 | 11 | 5 | | |
| Minority Interest | 3 | (1) | 4 | | |
| **Net Income to Parent** | 81 | 98 | 102 | -17 | -20 |
| Net Margin | 13.1% | 18.0% | 18.1% | | |
| **EPS (NT$)** | 1.62 | 1.96 | 2.01 | -17 | -19 |
| ROE – not annualized | 6.7% | 7.9% | 8.9% | | |
| Depreciation | 27 | 25 | 25 | | |
| CAPEX | 36 | 36 | 33 | | |

# Consolidated Statements of Income – 1-3Q20 vs 1-3Q19

| Unit: NTD million | 1-3Q20 | 1-3Q19 | YoY(%) |
|---|---|---|---|
| **Net Revenue** | 1,689 | 1,568 | 8 |
| Gross Profit | 564 | 460 | 23 |
| Gross Margin | 33.4% | 29.3% | |
| Operating Expenses | 207 | 201 | 3 |
| OPEX/Sales | 12.3% | 12.8% | |
| **Operating Income** | 357 | 258 | 38 |
| Operating Margin | 21.1% | 16.5% | |
| MTM Gain (Loss) on CB (non-cash) | (31) | (5) | |
| Other Non-Operating Income (Loss), Net | 16 | (9) | |
| Pre-Tax Income | 342 | 245 | 39 |
| Income Tax Expense | 32 | 16 | |
| Minority Interest | 5 | 2 | |
| **Net Income to Parent** | 305 | 228 | 34 |
| Net Margin | 18.1% | 14.5% | |
| **EPS (NT$)** | 6.09 | 4.50 | 35 |
| ROE | 24.3% | 19.3% | |
| Depreciation | 78 | 73 | |
| CAPEX | 89 | 67 | |

# Consolidated Balance Sheet – 1-3Q20

| Unit: NT$ million | 2020/09/30 | | 2020/06/30 | | 2019/09/30 | |
|---|---|---|---|---|---|---|
| | **$** | **%** | **$** | **%** | **$** | **%** |
| Cash and Cash Equivalents | 1,020 | 33 | 655 | 25 | 408 | 17 |
| Notes and Accounts Receivable, Net | 571 | 19 | 548 | 21 | 444 | 18 |
| Inventories | 207 | 7 | 263 | 10 | 272 | 11 |
| Other Current Assets | 135 | 4 | 117 | 4 | 241 | 10 |
| Fixed Assets | 851 | 28 | 818 | 31 | 842 | 34 |
| Other Long-term Assets | 276 | 9 | 239 | 9 | 238 | 10 |
| **Total Assets** | **3,061** | **100** | **2,640** | **100** | **2,445** | **100** |
| | | | | | | |
| Current CB Payable | 469 | 15 | 465 | 18 | 452 | 18 |
| Other Current Liabilities | 600 | 20 | 900 | 34 | 698 | 29 |
| Non-Current CB Payable | 509 | 17 | 0 | 0 | 0 | 0 |
| Other Non-Current Liabilities | 109 | 3 | 9 | 0 | 10 | 0 |
| **Total Liabilities** | **1,688** | **55** | **1,375** | **52** | **1,160** | **47** |
| Common Stock | 511 | | 511 | | 511 | |
| **Total Equity** | **1,373** | **45** | **1,266** | **48** | **1,285** | **53** |
| Book Value per Share (NT$) | 25.1 | | 23.1 | | 23.1 | |
| **Key Indices** | | | | | | |
| Current Ratio ( Current Assets / Current Liabilities) | 181% | | 116% | | 119% | |
| Net Cash (Debt) to Equity | 1% | | -10% | | -6% | |

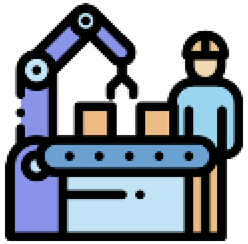
# Jinan Acetate Formula for Success

## Building a Better Moat

- ✓ R&D and Production Team have strong technical skills, extensive industry experience
- ✓ Lowest production cost in the industry
- ✓ Securing a stable market position through industry alliances

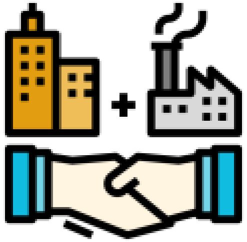
## Targeting an Attractive Market Niche

- ✓ The cellulose acetate tow market is an oligopoly market with a favorable pricing environment
- ✓ Demand is stable, and improves in hard economic times due to the ‘lipstick and cigarettes‘ effect
- ✓ Larger players have been rationalizing capacity, opening up opportunities for Acetek



## New Markets and Capacity Expansion

- ✓ We expand in line with new order visibility and have historically maintained capacity utilization of 90% or above.
- ✓ We are developing new market opportunities in the Middle East and Africa



## Strategic Alliances

- ✓ Marketing & Distribution
- ✓ Vertical Integration
- ✓ Plastic Acetate Flake and the Plastic Eyeglass Frame Market

# Building a Better Moat

# Building a Better Moat

Strategic Alliances

Vertical Integration

Emerging Market Focus

Advanced R&D Skills

Experienced Technical Team

- ✓ Secure Customers
- ✓ Secure Raw Materials
- ✓ The Low-Cost Producer
- ✓ Better Growth Prospects

# Emerging Markets Focus

## Better growth prospects

- ✓ Many of our customers are reliant on Acetek for supply of tows. We help them get bigger so we can grow bigger.
- ✓ Our target customers are mostly mid-to-small sized brands located in emerging market countries. They have greater growth potential than international brands.
- ✓ Regulations on tobacco use are more relaxed in our target markets. Other vice products may be prohibited.

## Offering customized products

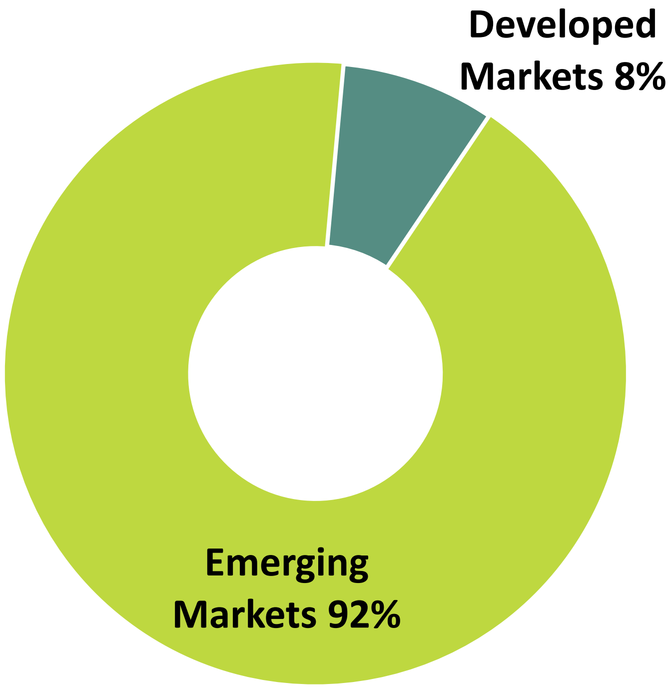
- ✓ We offer products in small quantity and with specialized packaging based on customer requirements, creating a strong bond with our clients.

## A Dedicated Acetate Flake and Tow Producer

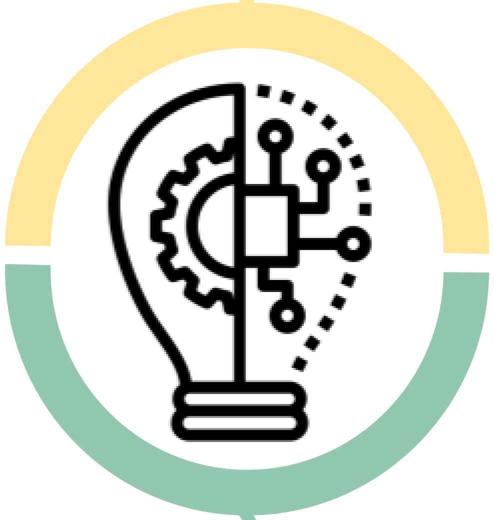
- ✓ Acetate tow is only a fraction of our peers' revenues.
- ✓ The payoff to them of driving us out of the market – with measures such as price cuts – are not worth the cost.

**Over 90% of Our Tow Shipments are to Emerging Markets**

% of shipments by volume



# Chemical Fiber Production Expertise Drives Our Competitive Edge



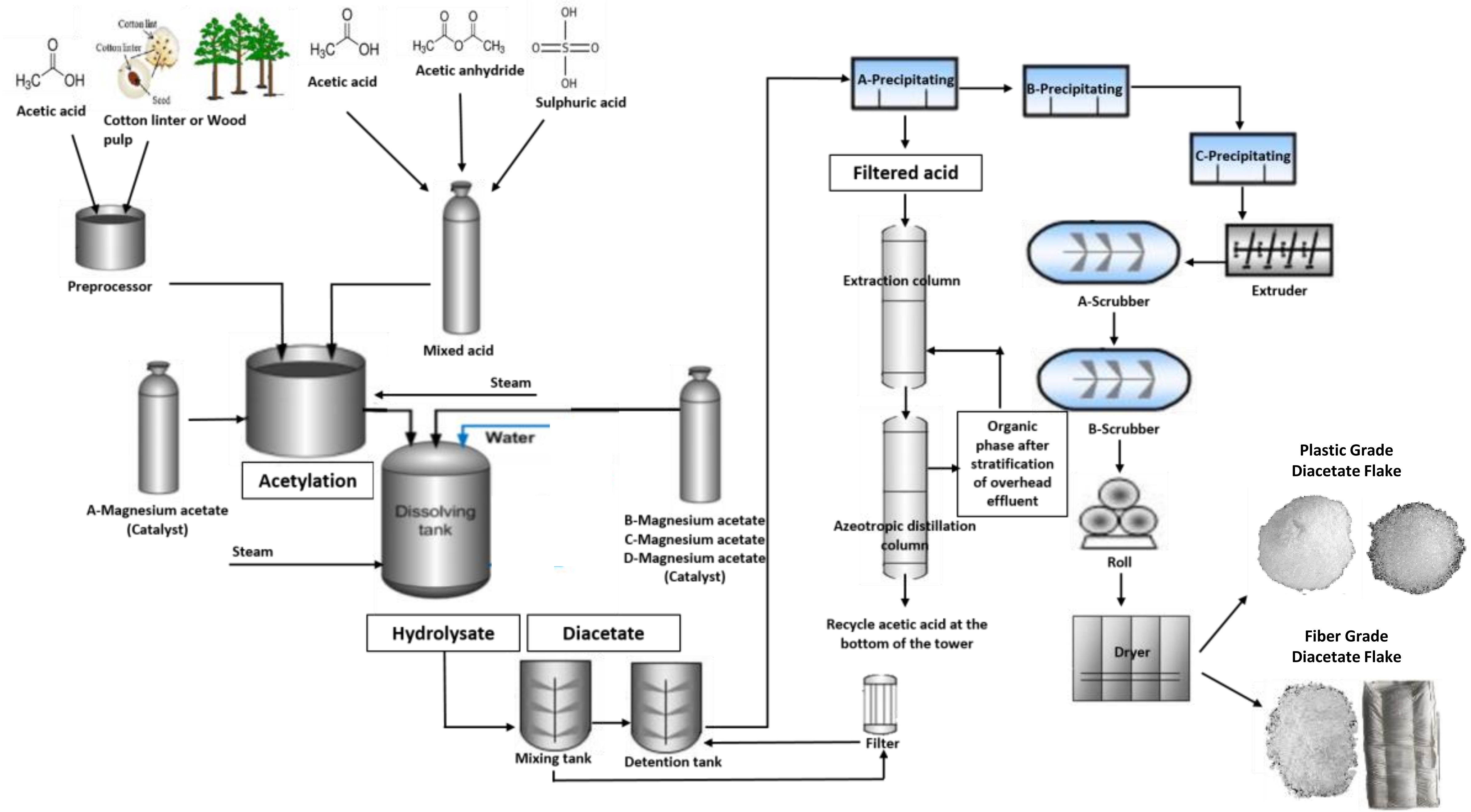
## Patented Technology

- ✓ Acetek Founder and President Wang Ke-Zhang is a formally trained chemical fiber engineer with **over 35 years** of technical production experience.
- ✓ Acetek is the only fully-integrated, independent manufacturer of superior quality acetate tows and flakes with proprietary intellectual property rights in China.

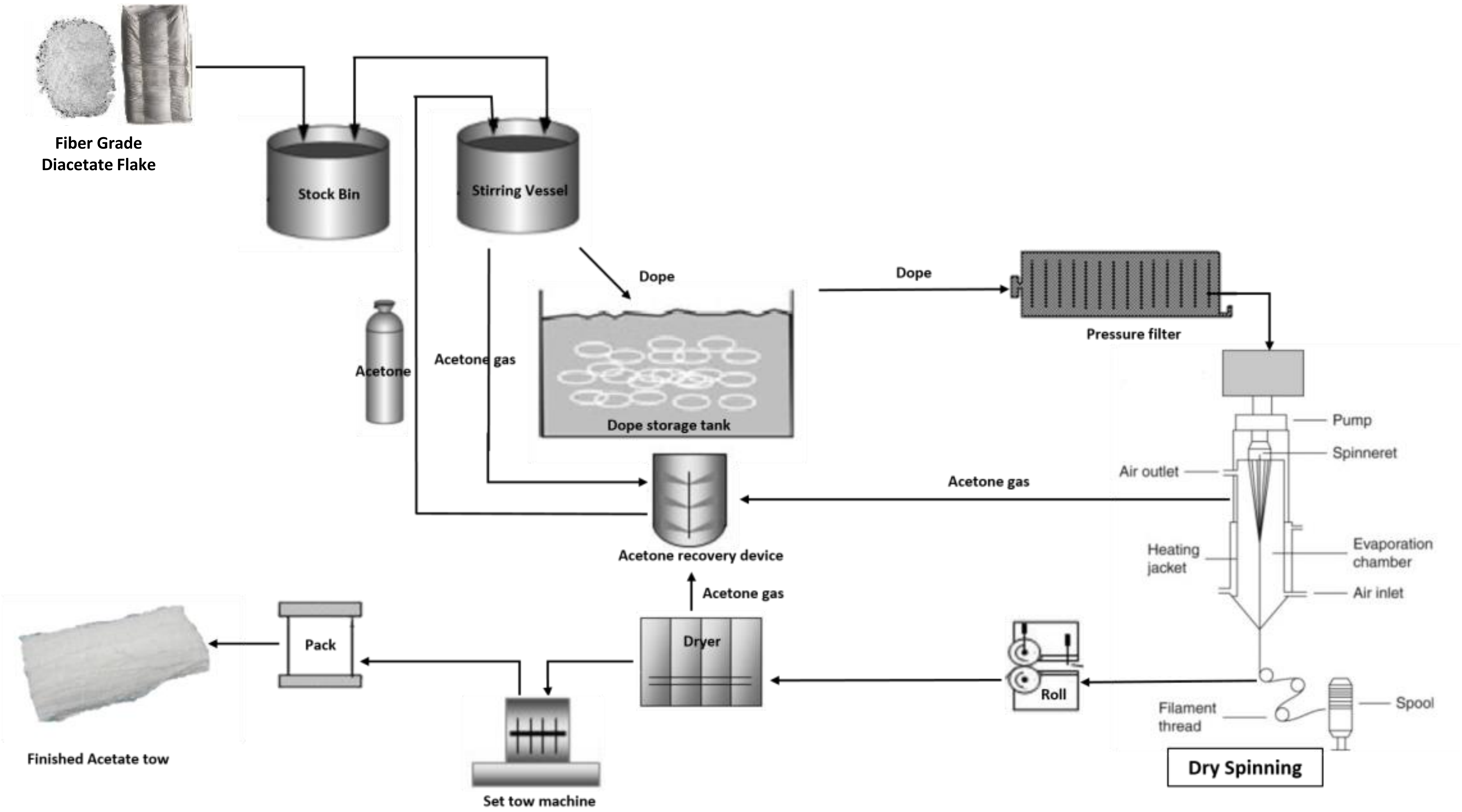
## Industry Leader in Cost Competitiveness

- ✓ The ability to design the plant and machines ourselves results in at least 50% cost-saving in building a new plant.
- ✓ We continue to improve our production process through measures such as reducing steam usage and improving water treatment & RM recovery techniques. We expect to achieve further cost reductions over the next 2-3 years.

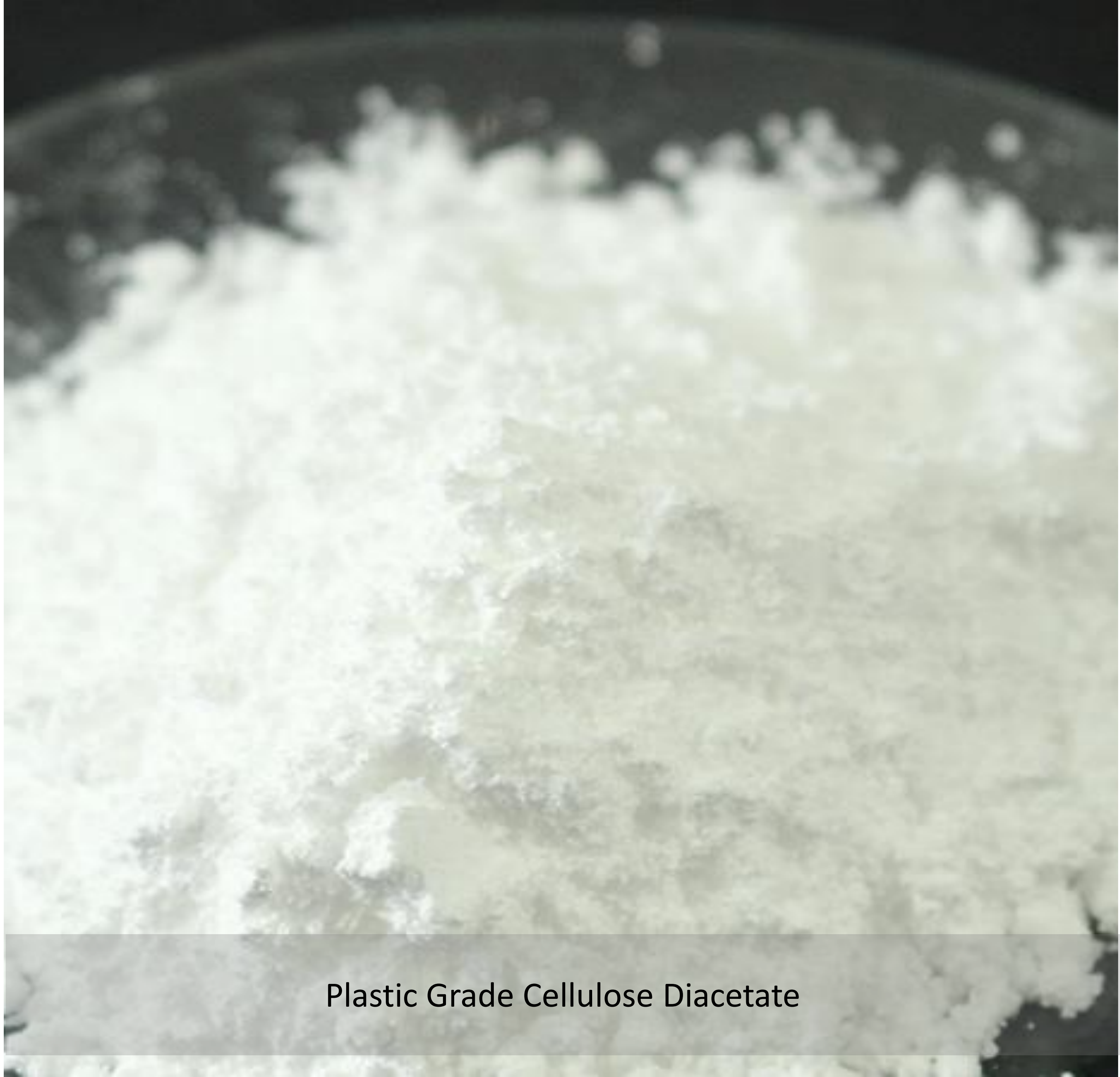
# Production Process for Acetate Flakes



# Production Process for Acetate Tows



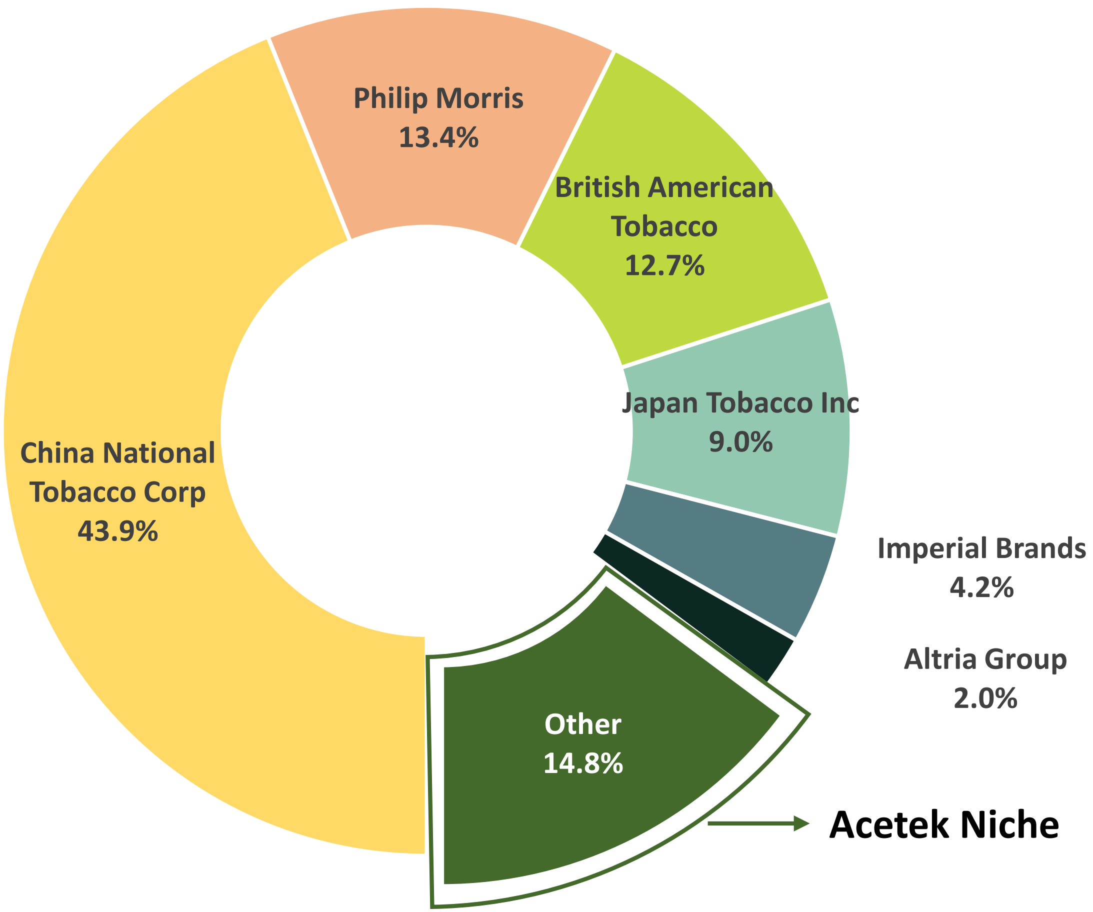
# Targeting an Attractive Market Niche


Plastic Grade Cellulose Diacetate

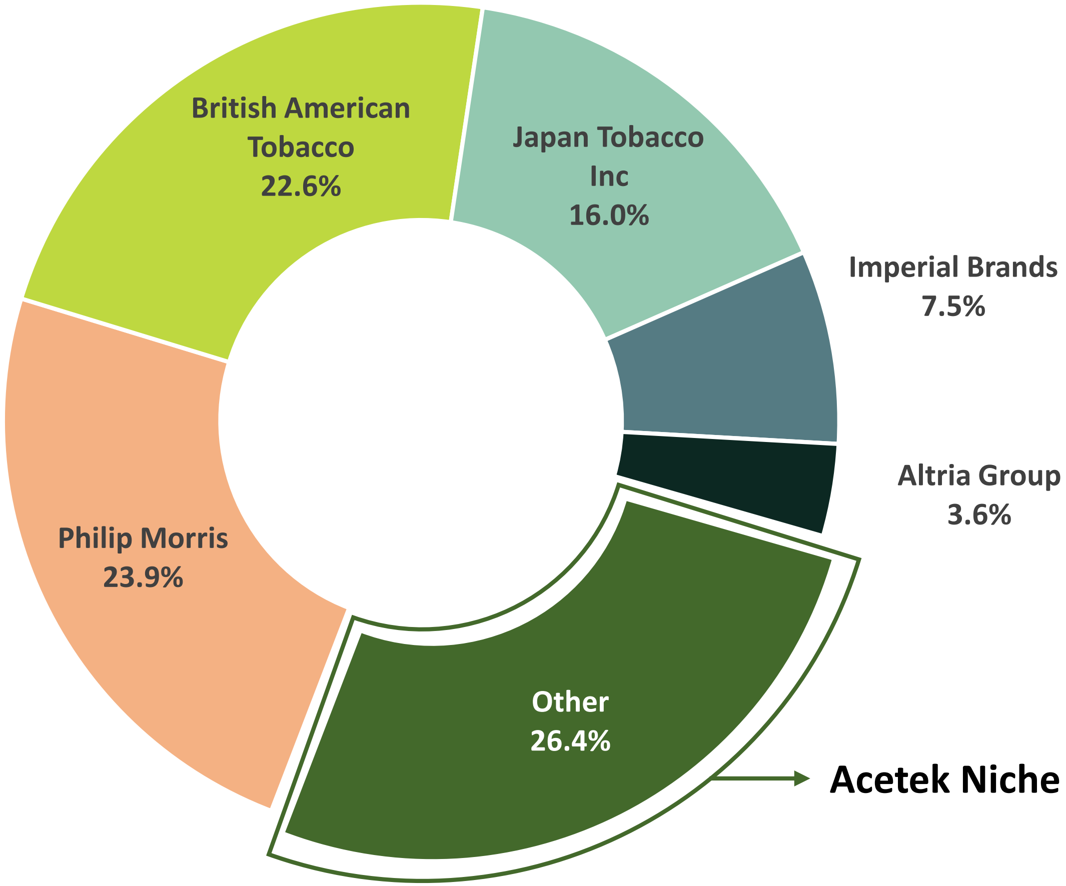
# The Structure of the Global Cigarette Market

## We Partner with Emerging Market Brands

### Cigarette Market Share - World



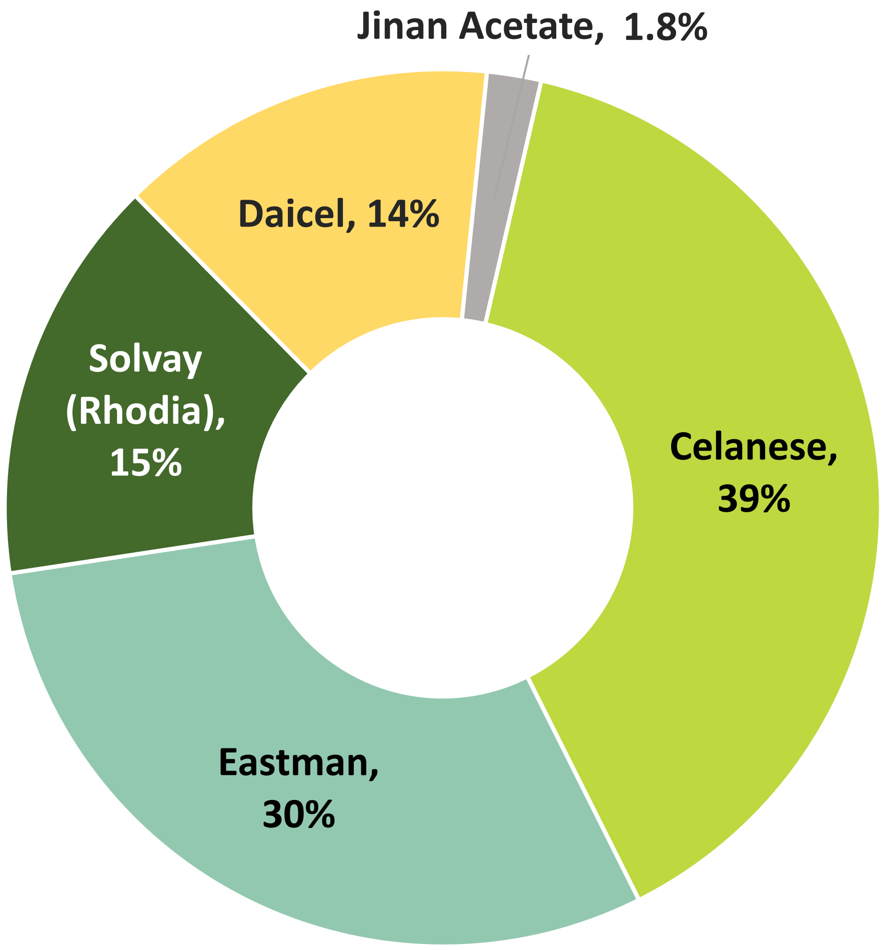

### Cigarette Market Share - World ex-China




Source: Tobacco Merchants Association & Bloomberg

# Acetate Tow Industry – An Oligopoly Market

## 2020 Acetate Tow Industry Market Share




### 01 Profitable Industry

The very profitable acetate fiber industry has consolidated to six major companies.

### 02 Entry Barriers

New entrants are deterred by barriers, such as technology, raw materials, legal complexity, etc.

### 03 Rising Operating Rates

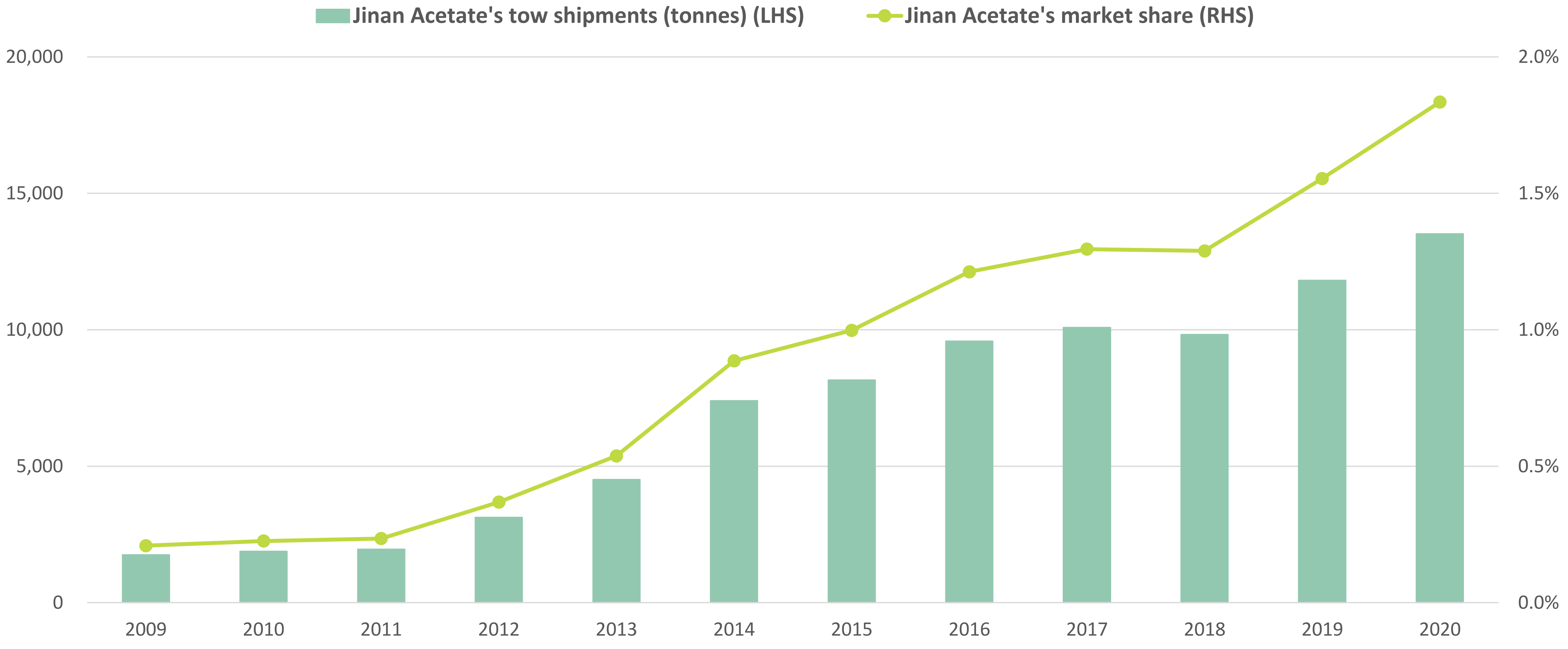
Driven by the closure of higher cost Western facilities.

*The sixth major company is China Tobacco who has Joint Venture plants in China with Celanese, Eastman and Daicel.

Source: Company data

# The Acetate Tow Industry’s Little Giant – Market Share Increased Further in 2020

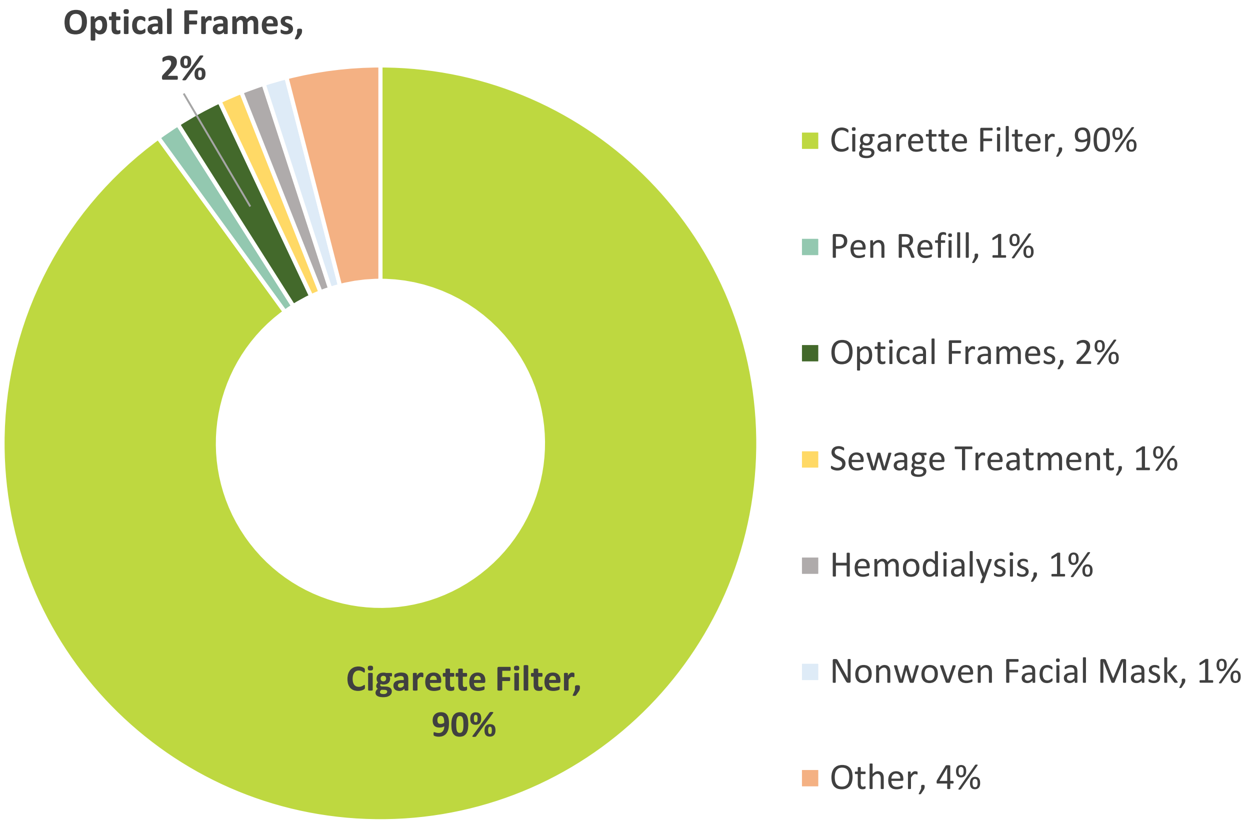
✓ Acetek has rapidly increased its market share, and is now undeniably a ‘member of the club’




Source: Tobacco Merchants Association & Bloomberg

# Acetate Flake Market

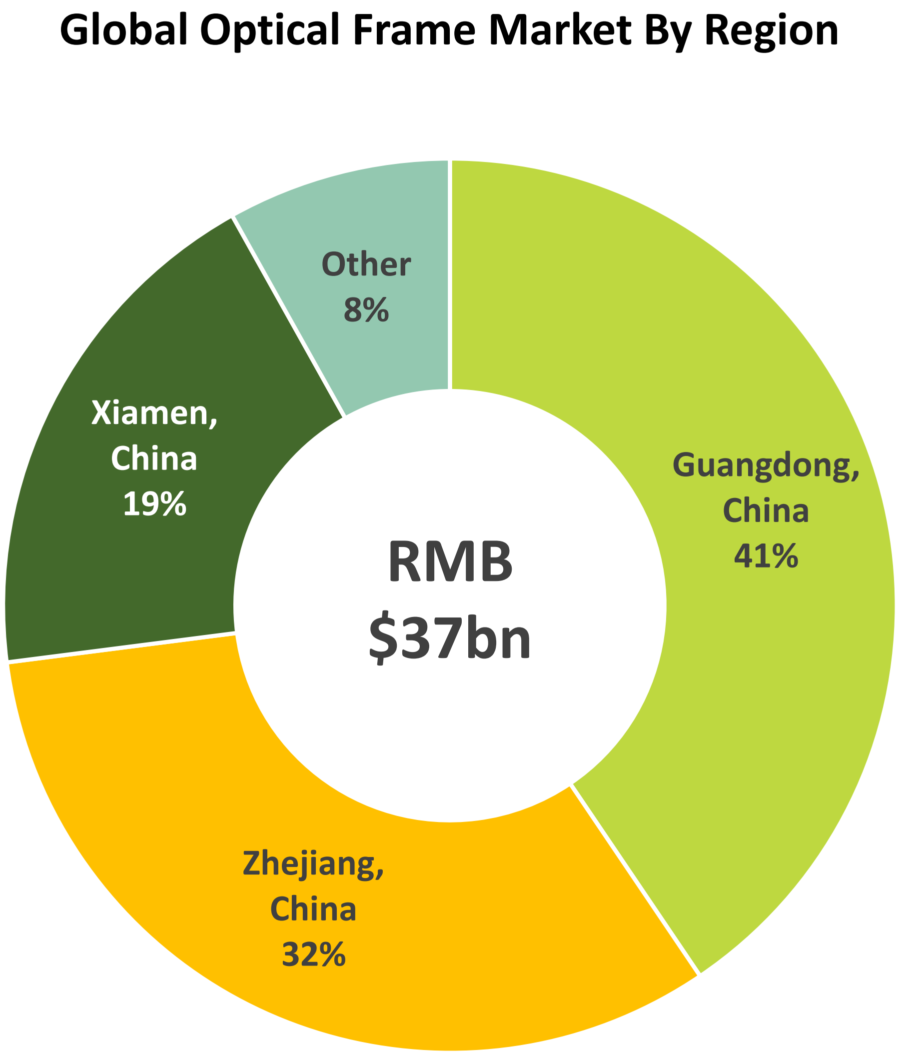
## Acetate Flakes Industry Products Applications

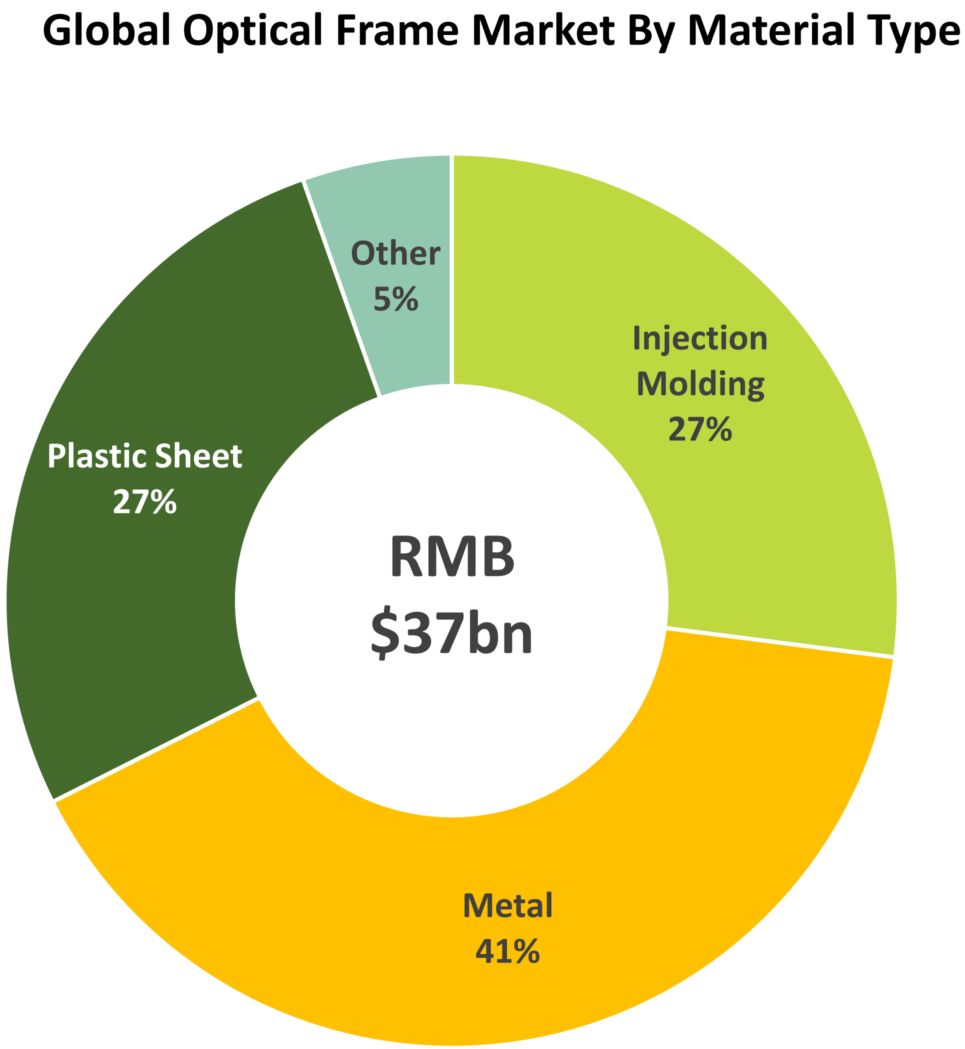



**01** **The major acetate flake producers are expanding their product scope**

**02** **Optical frames are the top non-cigarette application for acetate flakes**

# Global Optical Frame Market




* Plastic grade acetate flakes are used to produce injection-molded and plastic sheet optical frames.

Source: Company Estimates

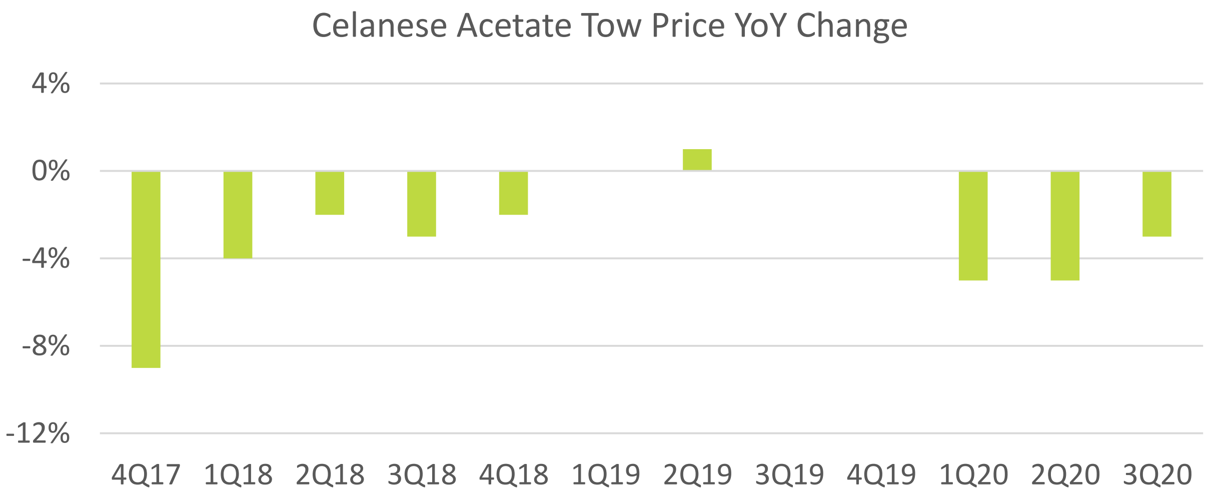
# Celanese announced on 6 Oct 2020 that it would raise prices of all acetate tow grades by up to 5%, effective for orders shipped on or after 1 Jan 2021.

## Capacity Rationalization

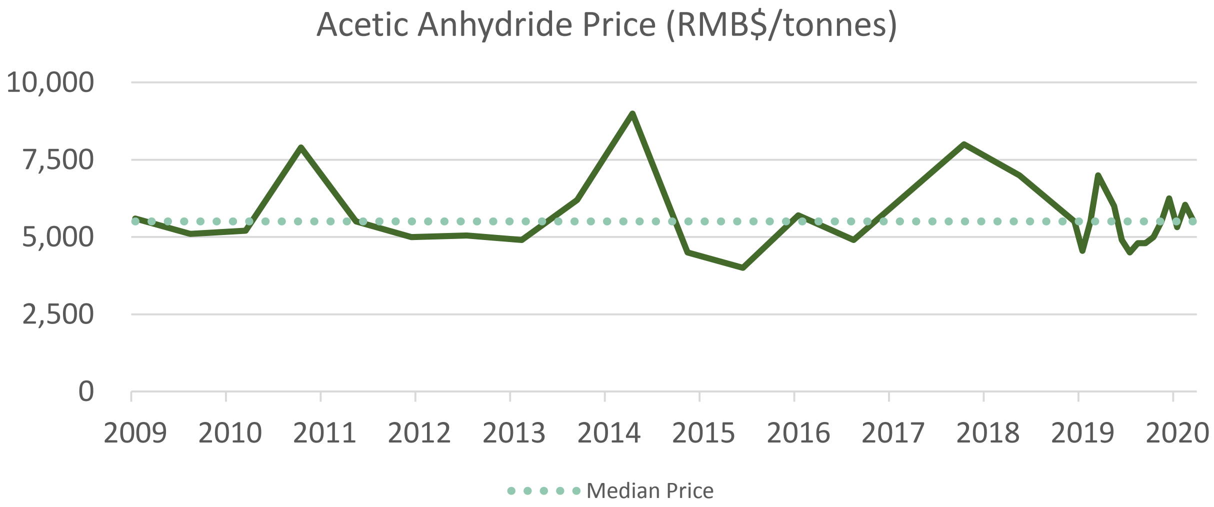
- ✓ From 2014 to 2018, the industry utilization rate dropped from nearly 100% to around 80%.
- ✓ In March 2015, Eastman announced the closing of its UK acetate tow manufacturing site.
- ✓ June 2018, Celanese announced plans to discontinue acetate tow production at its Mexico facility.

## Asset Repurposing

- ✓ Celanese and Eastman are repurposing manufacturing capacity from acetate tow to new products.
- ✓ Celanese and Eastman are also pursuing growth opportunities in textile and nonwoven applications.



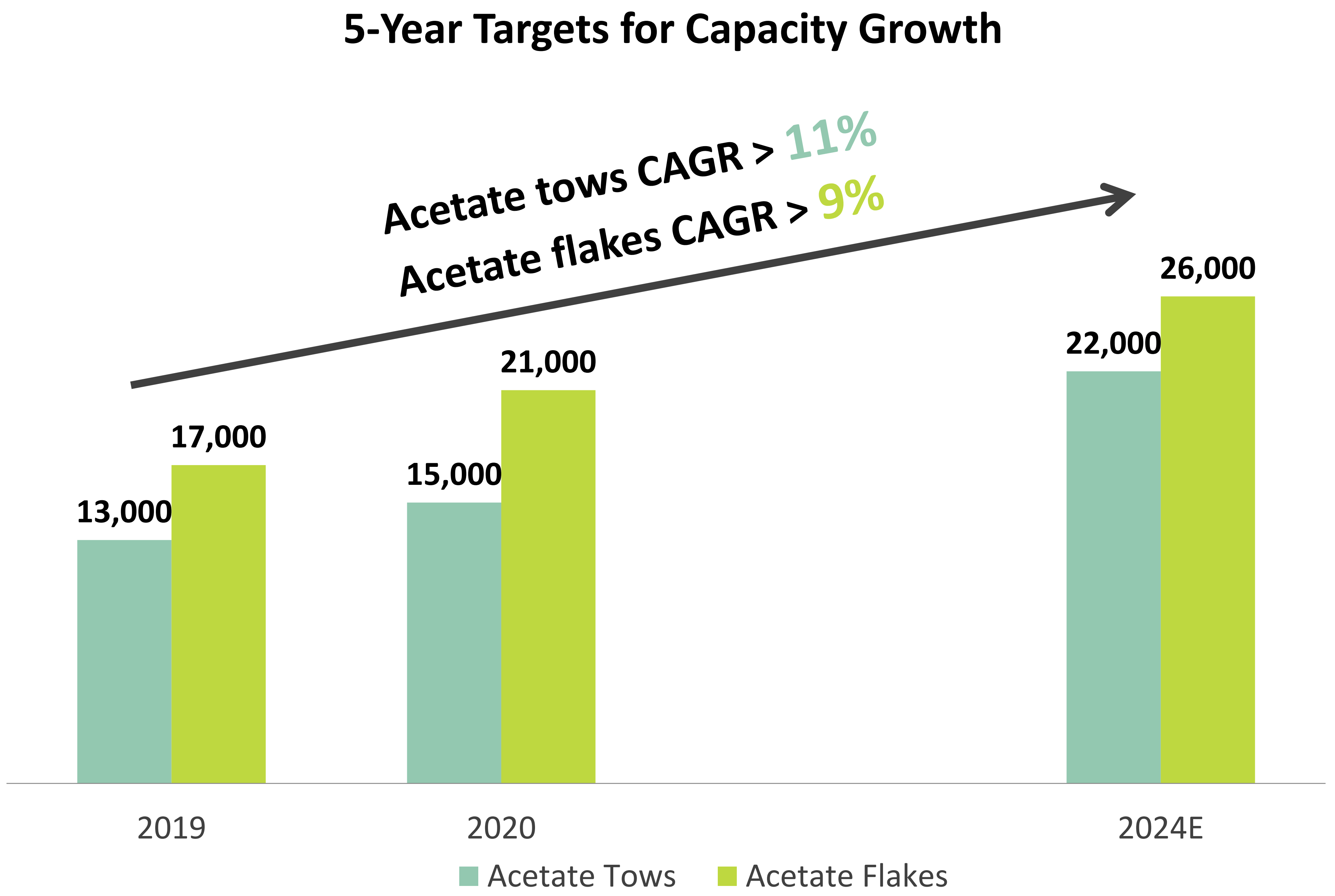

## Acetic Anhydride Prices have Normalized




Source: Celanese Quarterly Reports & Company Data

# Claiming More Market Share

# Capacity Expansion to Support Our Growth



# Gain Share by Developing New Markets

## Key Target Markets

- Middle East, North Africa and South East Asia
- The China market is an important new market for acetate flakes. We target new orders this year.

## Taking Advantage of One Belt, One Road

- We are expanding in sync with China's One Belt, One Road initiative.
- Yankuang Lunan Chemical, strategic shareholder in Acetek Material and supplier of upstream RM, is a State-Owned Enterprise in China.

## Breaking into Tier-1

- We hope to gain business from one or more Tier-1 Tobacco players within 12-24 months.
- Until now, Big Tobacco has mostly partnered with the 'Big Four' filter acetate tow producers. This would be a huge milestone, opening up opportunities for rapid growth.

## One Belt, One Road

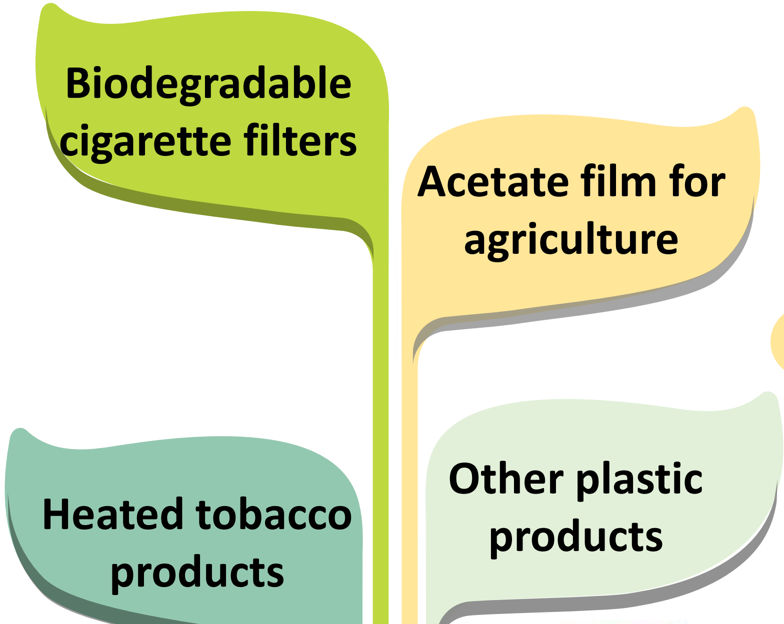
# Staying ahead of Industry Trends and Developing New Revenue Sources

**Biodegradable cigarette filters**

By 2025 all cigarettes sold in the EU will be required to have filters that will biodegrade within 45 days after use.

**Heated tobacco products**

Acetate tow for heated tobacco products, such as IQOS, GLO, and Ploom Tech.




**Biodegradable cellulose acetate film**

- Sun houses for agriculture
- Agricultural and consumer packaging to meet EU requirements
- Diaphragm membranes for lithium batteries.

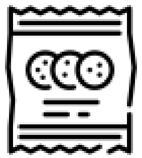
**Biodegradable flakes for other products**

- Recyclable straws
- Recyclable Facial Masks
- Other Non-Woven Products
- Hair Dye and Hair Color Products

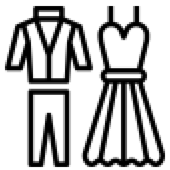
# Biodegradable Cellulose Acetate Products Markets Are Growing Rapidly

- ✓ We estimate the annual market for biodegradable cellulose acetate products is **US$250m – US$300m**
- ✓ The applications of biodegradable cellulose acetate products are:

**Cellulose Acetate Film**
**Food Packaging**



**Cellulose Acetate Fiber**
**Apparel**



**Cellulose Acetate Sheet**
**Premium Eyewear**

**Spherical Cellulose Acetate Particles**
**Personal Care Products**

- ✓ Although TAM is relatively low, green and biodegradable products have become a global trend.

**Actual Market Size of Target Segments**

**Global Polyester Staple Fiber Market**
**US$27bn**

**Global Polyester Filament Yarn Market**
**US$89bn**

**Global Food Plastic Packaging Market**
**US$125bn**

**Microplastics in Personal Care Products:**
**Toothpaste, Shower Gel, Shampoo, Cleanser, Facial Masks, Sunscreen, Lipsticks, Mascara, Hair Dye, Blush, Conditioner, Nail Polish**

* TechSci Research, Fior Markets, Mordor Intelligence, Peer company IR presentations

# Examples of Some of the Industry's Most Innovative Biodegradable Cellulose Acetate Products


## Eastman - Naia

The Naia portfolio of cellulosic acetate fibers includes cellulosic staple fiber and cellulosic filament yarn. These sustainable fibers transform into luxurious, comfortable, and easy-to-care-for fabrics with supreme softness, improved dry rates, and reduced pilling.

## Daicel - BELLOCEA

BELLOCEA, spherical cellulose acetate, elicits a feeling of softness and smoothness from fine particles, and gives a moist and smooth feeling to makeup products such as foundation and skin care products.


## Celanese - Clarifoil

Clarifoil is a sustainable and highly aesthetic cellulose acetate film. Applications include carton windows, anti-fog film, print lamination, labels, tape.

# Our 5-Year Targets

01 Double our share of the acetate tow market and increase our share of the acetate flake market by 50%

02 Be an industry leader in the development of biodegradable acetate flakes

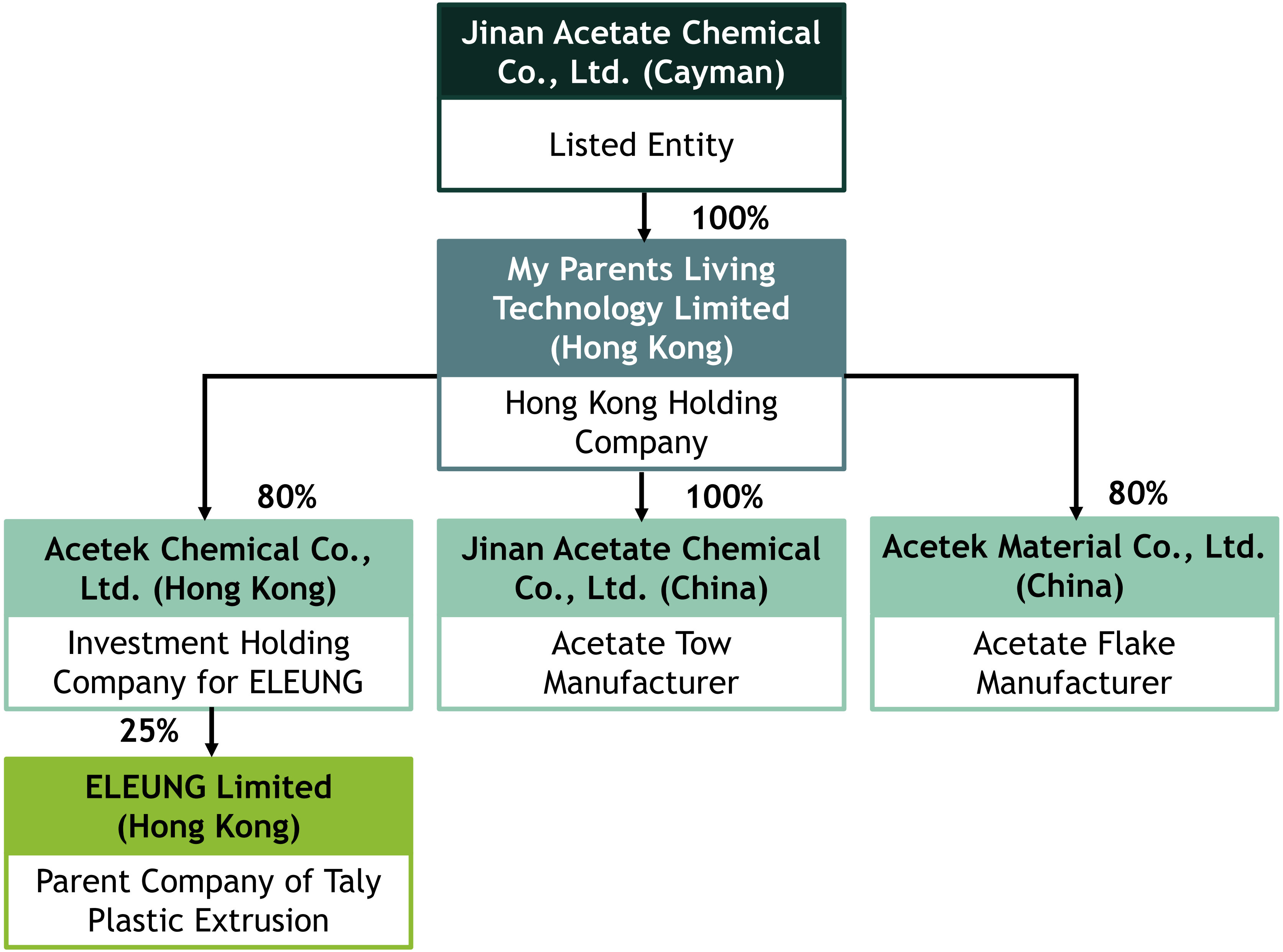
03 We aim to maintain a cash dividend payout ratio between 60-80%

04 Sustain ROE in excess of 20%

# Strategic Alliances

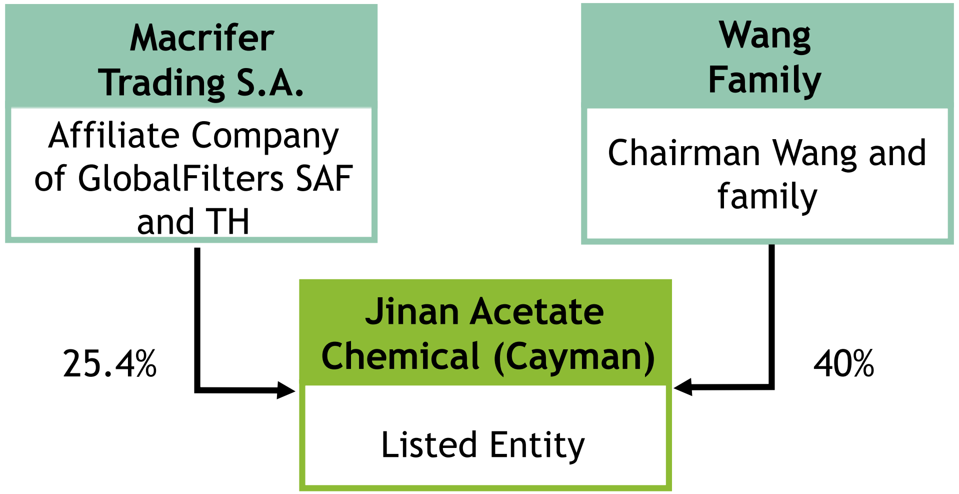
## Planting a Flag and Staking Our Claim

# Jinan Acetate Chemical Corporate Structure



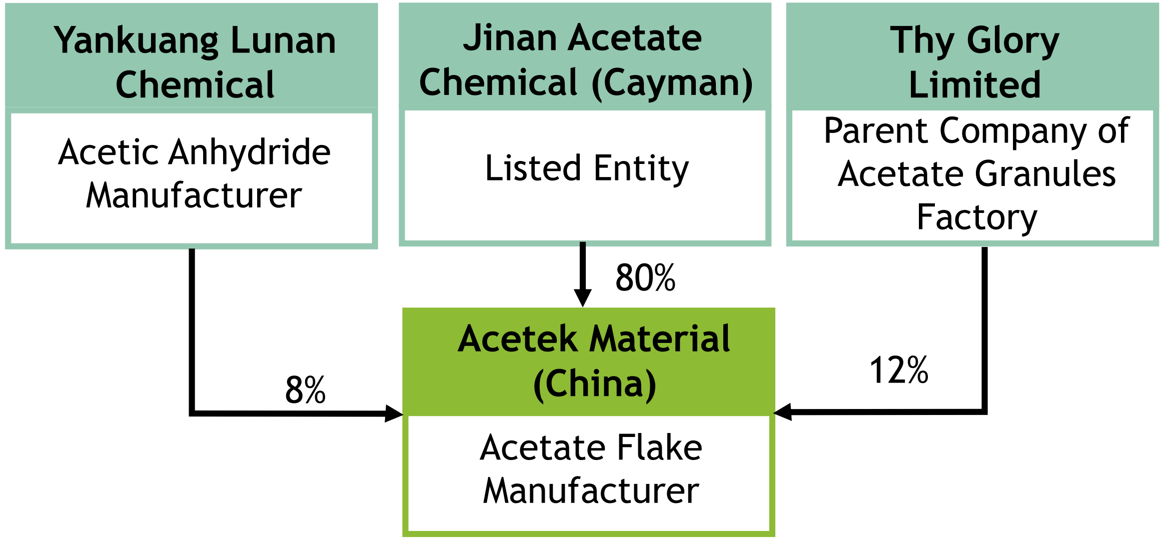
# Acetate Tow Strategic Alliances

## Marketing & Distribution Strategic Alliances




- **South America Market:**
  The owner of Macrifer owns GlobalFilters and Tabacalera Hernandarias (TH). GlobalFilters is the largest cigarette filter producer in South America. TH is a Top 5, branded cigarette producer in South America. Both are customers of Acetek.
- **Market Expansion:**
  GlobalFilters is expanding geographically and will begin production in Argentina and Miami, Florida (USA) in 2020. TH is developing products for Asia and the Middle East.

## Vertical Integration Strategic Alliances




- **Upstream:**
  Yankuang Lunan, an upstream supplier of acetic anhydride, contributed the land on which Acetek Material is built.
- **Downstream:**
  Thy Glory owns an acetate granules factory which is Acetek's customer.
- **Vertical Integration – 100% self-sufficient in flakes for tow:**
  70% of the acetate flake that Acetek Material produces is supplied to Jinan Acetate for production of acetate tow.

# Plastic Grade Flake Strategic Alliances

## ✓ Strike Alliances with Downstream Acetate Granule and Plate Manufacturers

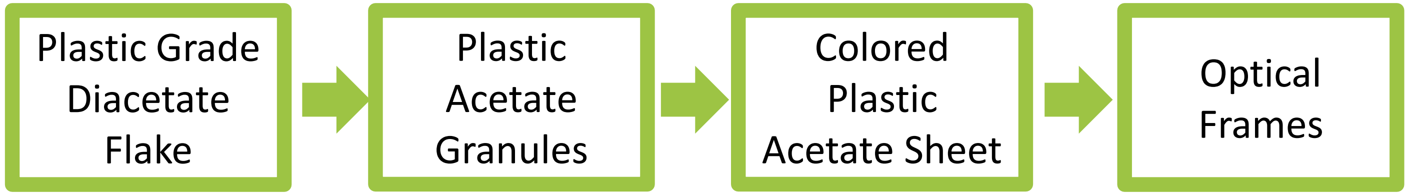
Thy Glory, JINLIANG, and TALY are cellulose acetate plate and granules manufacturers. All are downstream customers of Acetek's plastic grade acetate flake.

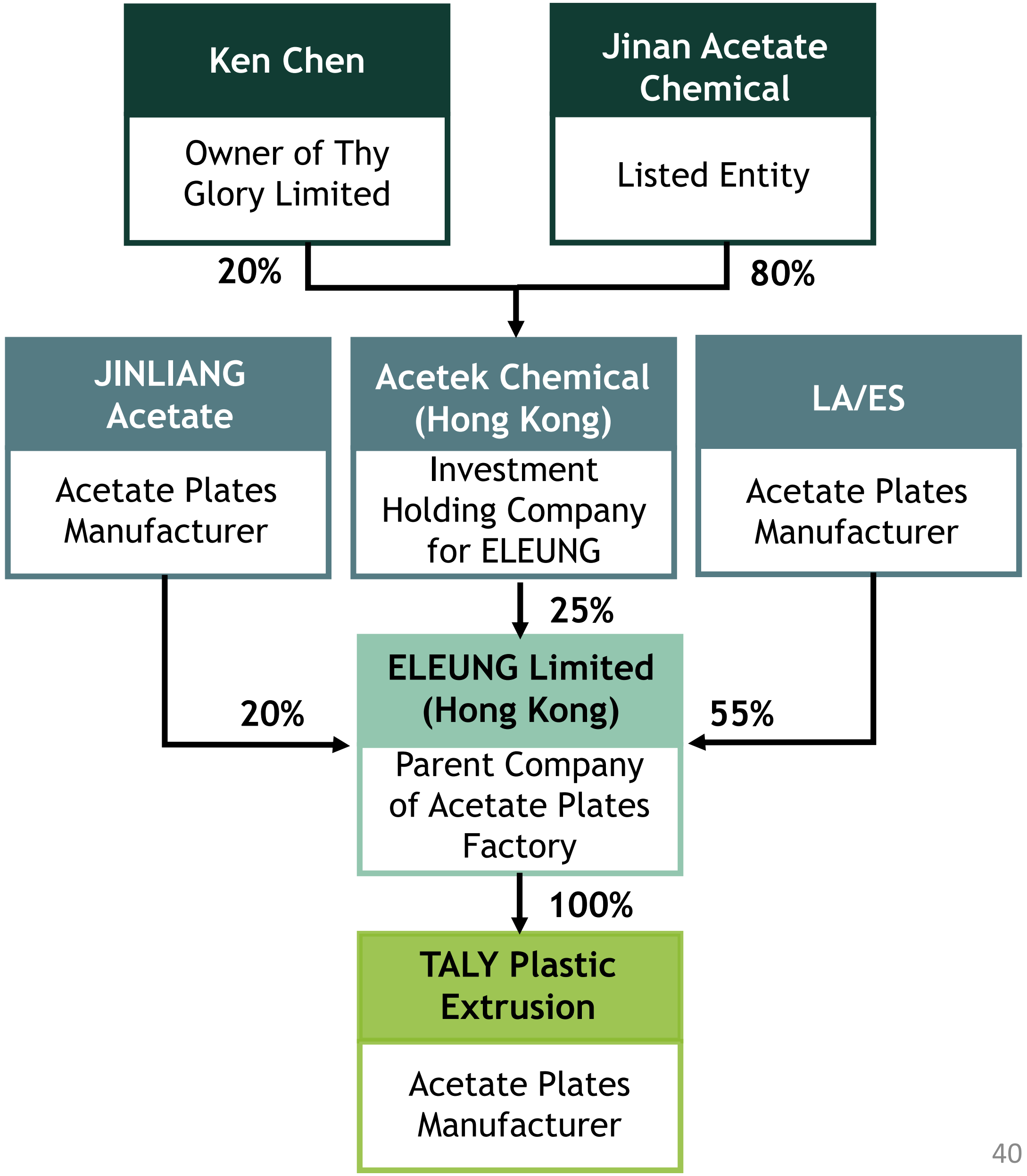
## ✓ Access to Tier 1 Suppliers to Luxury Optical Frame Brands

LA/ES is a strategic partner of Acetek. It supplies cellulose acetate plates to Luxottica and Safilo, who between them hold a dominant market share for all luxury optical frame brands. Luxottica's share amongst luxury optical frame and sunglass brands is 80%. Safilo is the No. 2 player.

## ✓ Order Commitments

70% of granules Taly buys are made from Acetek flake.



# ESG

# Raw Material Reuse & Recycling, Developing Greener Products


## 1 Developing Eco-Friendly Products

- Biodegradable products
- Recyclable products

## 2 Improving Waste Management

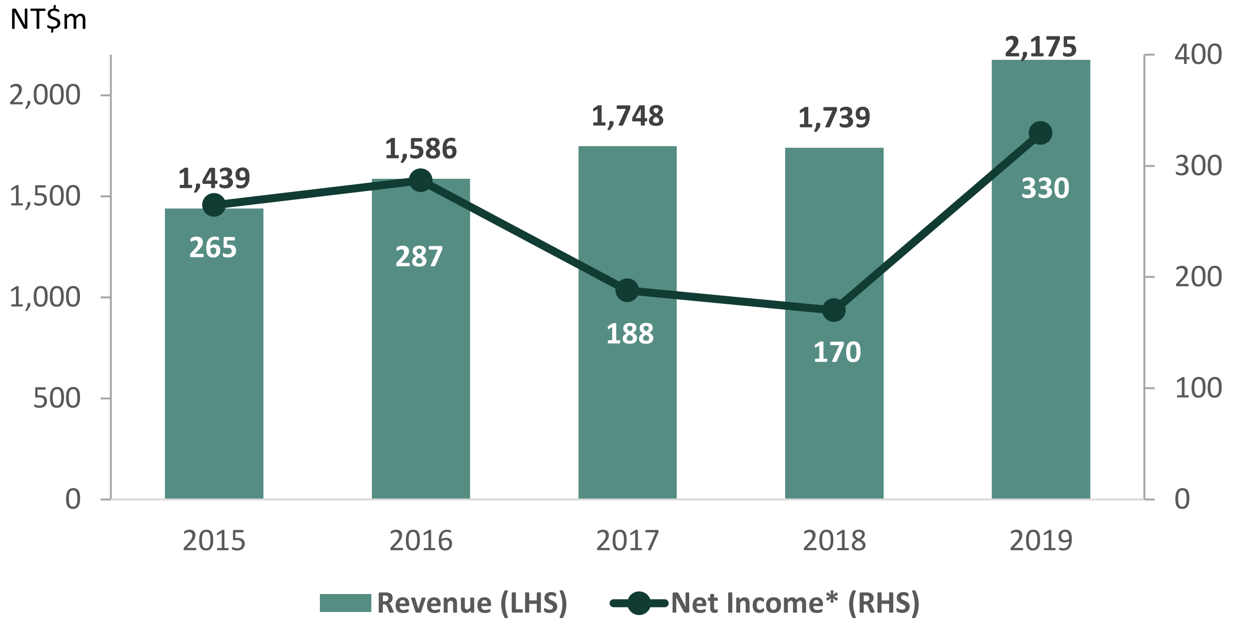
- Enhancing our sewage treatment and water recycling processes.

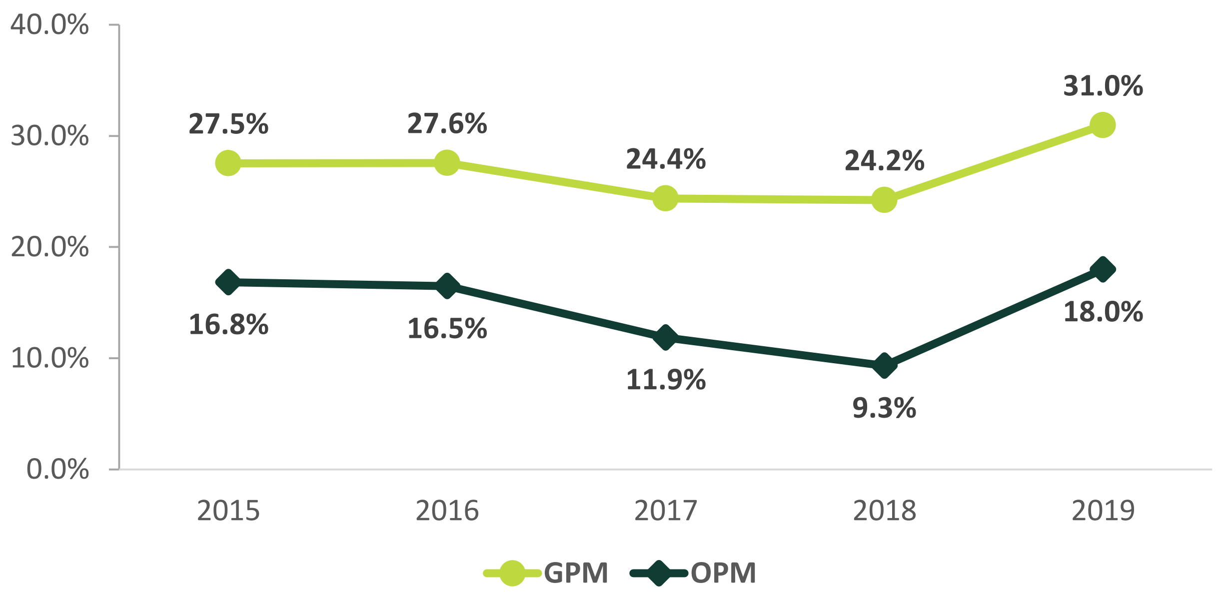
## 3 Increasing Reuse of Manufacturing Inputs

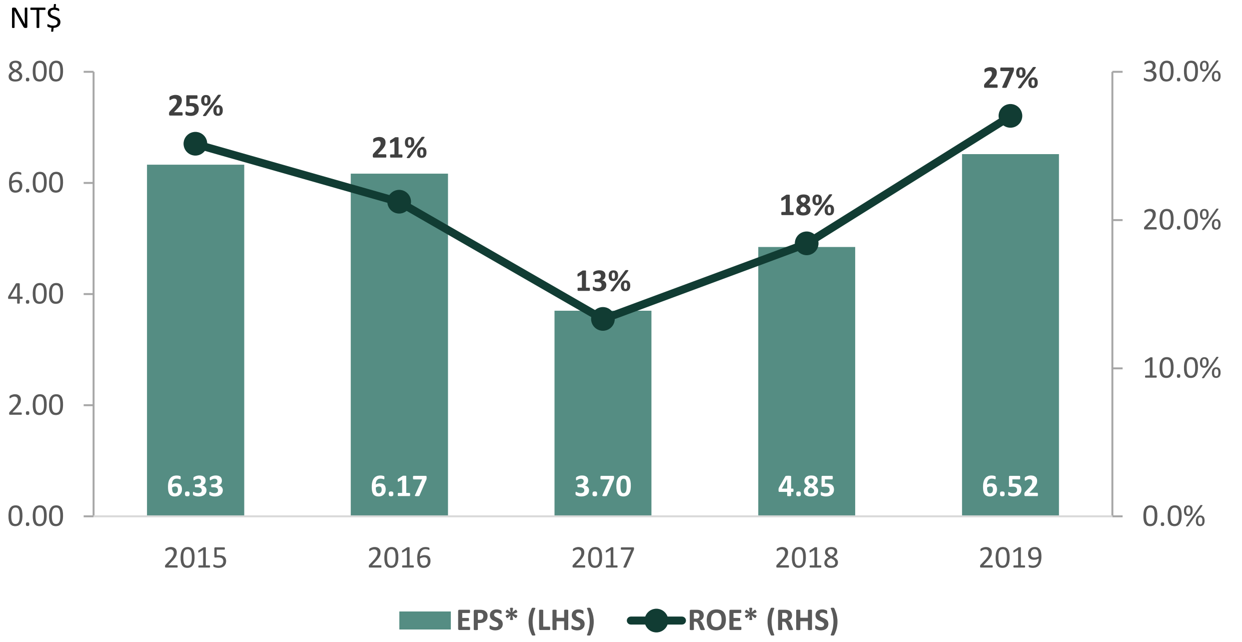
- Improving the efficiency of our acetone and acetic acid regeneration processes.

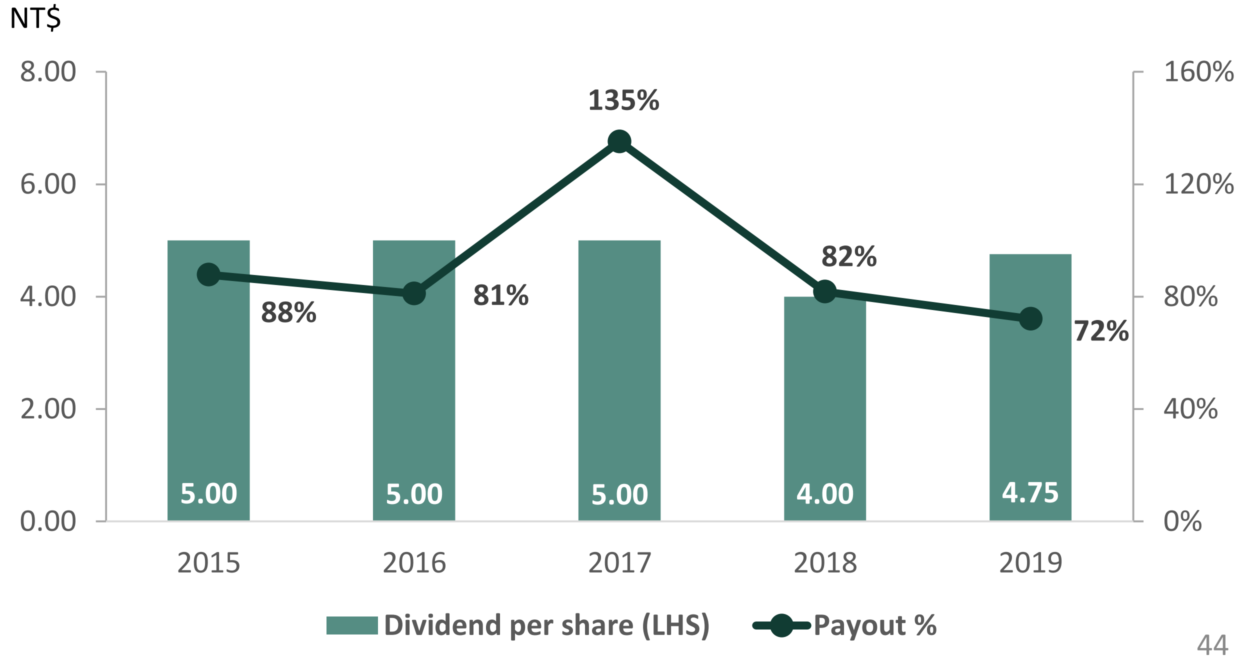
# Financial Performance

# Key Financial Performance Metrics




* Excludes the mark-to-market impact from the convertible bond issued in 2Q17.

# Income Statement Highlights

| NT$ million | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **Sales Revenue** | **1,439** | **1,586** | **1,748** | **1,739** | **2,175** |
| **Gross Profit** | **396** | **437** | **426** | **421** | **673** |
| **Operating Profit** | **242** | **261** | **207** | **162** | **391** |
| MTM Gain (Loss) on CB | 0 | 0 | (16) | 55 | 0 |
| Other Non-Operating Income (Loss), Net | 61 | 58 | (23) | (7) | (13) |
| **Pretax Income** | **303** | **319** | **169** | **210** | **378** |
| **Net Income to Parent** | **265** | **287** | **172** | **225** | **330** |
| **EPS (NT$)** | **$6.33** | **$6.17** | **$3.70** | **$4.85** | **$6.52** |

| | | | | | |
|---|---|---|---|---|---|
| **Gross Margin** | **27.5%** | **27.6%** | **24.4%** | **24.2%** | **31.0%** |
| **Operating Margin** | **16.8%** | **16.5%** | **11.9%** | **9.3%** | **18.0%** |
| **Net Margin** | **18.4%** | **18.1%** | **9.8%** | **12.9%** | **15.2%** |
| **ROE** | **25.1%** | **21.2%** | **13.3%** | **18.4%** | **27.0%** |

| YoY (%) | | | | | |
|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Sales Revenue | **5** | **10** | **10** | **(1)** | **25** |
| Gross Profit | **7** | **10** | **(3)** | **(1)** | **60** |
| Operating Profit | **(8)** | **8** | **(21)** | **(22)** | **141** |
| MTM Gain (Loss) on CB | - | - | - | - | (100) |
| Other Non-Operating Income (Loss), Net | - | (5) | (140) | - | - |
| Pretax Income | **15** | **5** | **(47)** | **25** | **80** |
| Net Income to Parent | **18** | **8** | **(40)** | **31** | **46** |
| EPS (NT$) | **13** | **(3)** | **(40)** | **31** | **34** |

# Balance Sheet Highlights

| NT$ million | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| **TOTAL ASSETS** | **1,858** | **1,604** | **2,437** | **2,317** | **2,586** |
| Cash | 623 | 364 | 206 | 369 | 589 |
| NR & AR | 289 | 128 | 378 | 312 | 438 |
| Inventory | 220 | 375 | 416 | 321 | 243 |
| Fixed Assets | 261 | 320 | 832 | 864 | 827 |
| **TOTAL LIABILITIES** | **477** | **235** | **1,062** | **1,025** | **1,214** |
| CB Payable | 0 | 0 | 424 | 440 | 457 |
| NP&AP | 346 | 85 | 289 | 245 | 222 |
| **TOTAL EQUITY** | **1,381** | **1,368** | **1,375** | **1,291** | **1,373** |

| Percent of Total Assets (%) | | | | |
|---|---|---|---|---|
| 2015 | 2016 | 2017 | 2018 | 2019 |
| **100** | **100** | **100** | **100** | **100** |
| 34 | 23 | 8 | 16 | 23 |
| 16 | 8 | 16 | 13 | 17 |
| 12 | 23 | 17 | 14 | 9 |
| 14 | 20 | 34 | 37 | 32 |
| **26** | **15** | **44** | **44** | **47** |
| 0 | 0 | 17 | 19 | 18 |
| 19 | 5 | 12 | 11 | 9 |
| **74** | **85** | **56** | **56** | **53** |

| | | | | | |
|---|---|---|---|---|---|
| **A/R turnover days** | **59** | **48** | **53** | **72** | **63** |
| **Inventory turnover days** | **62** | **95** | **109** | **102** | **68** |
| **A/P turnover days** | **75** | **69** | **52** | **74** | **57** |
| **Cash conversion cycle** | **46** | **74** | **110** | **100** | **75** |

# Dividend Payout & Capex

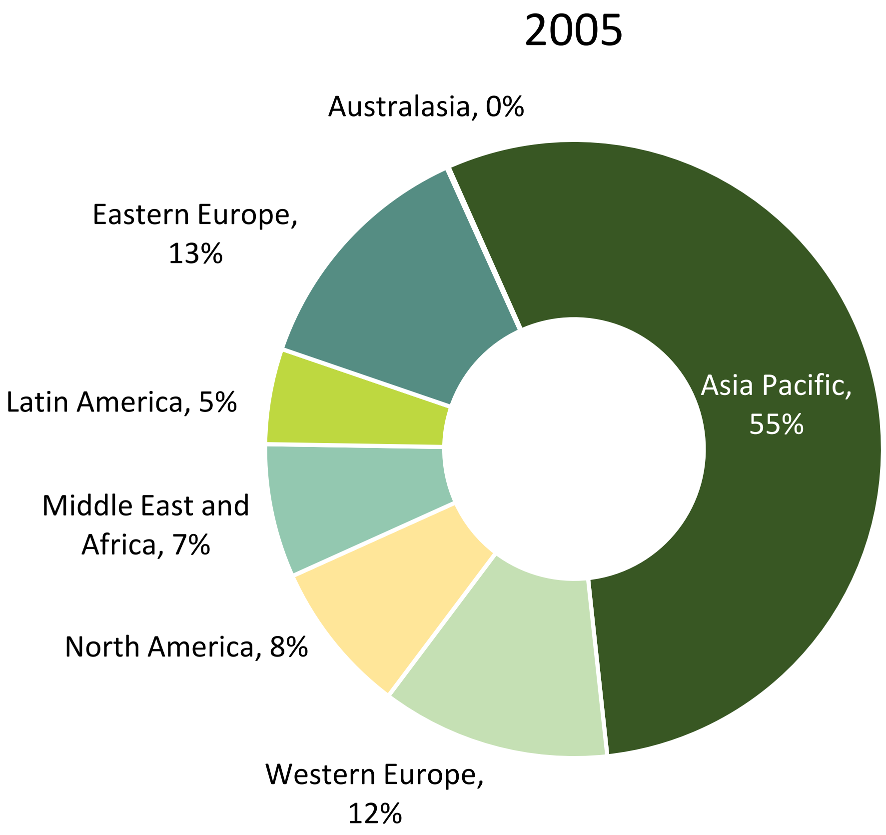
| (NT$m) | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Net Income to Parent | 265 | 287 | 172 | 225 | 330 |
| Dividend Paid | 232 | 232 | 232 | 184 | 238 |
| DPS (NT$) | 5.00 | 5.00 | 5.00 | 4.00 | 4.75 |
| Payout ratio | 88% | 81% | 135% | 82% | 72% |
| Dividend yield | 4.2% | 2.8% | 3.9% | 2.7% | 3.6% |
| Capex | 27 | 356 | 261 | 190 | 128 |
| Capex/Sales | 1.9% | 22.4% | 14.9% | 10.9% | 5.9% |

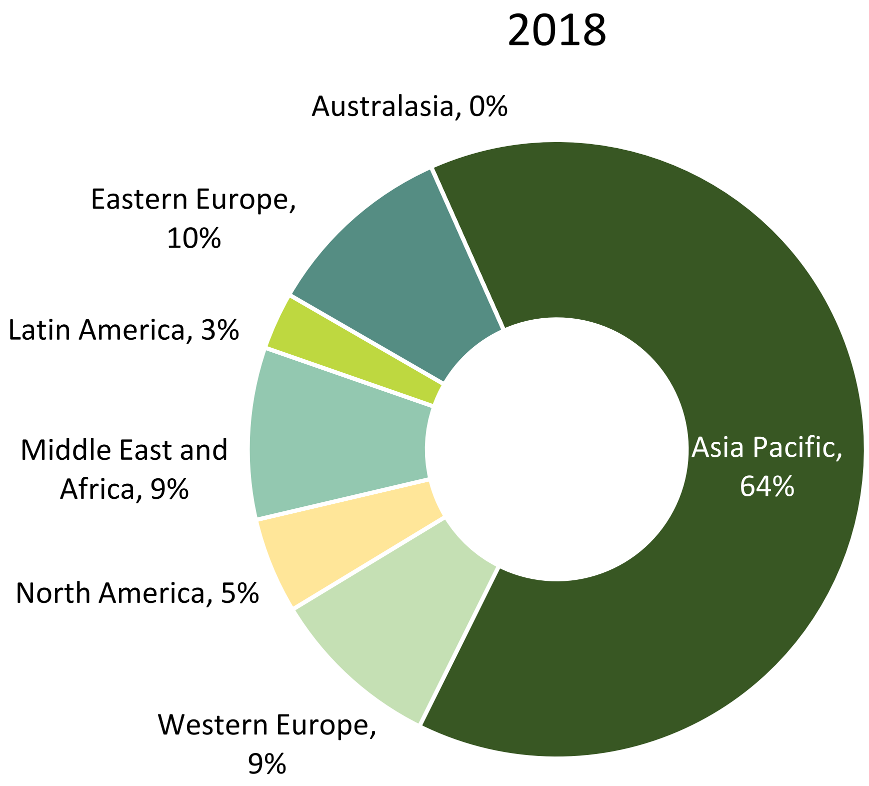
Note: Yield calculated using market cap on the day prior to ex-dividend date for all years.

# Appendix

# Cigarette Markets

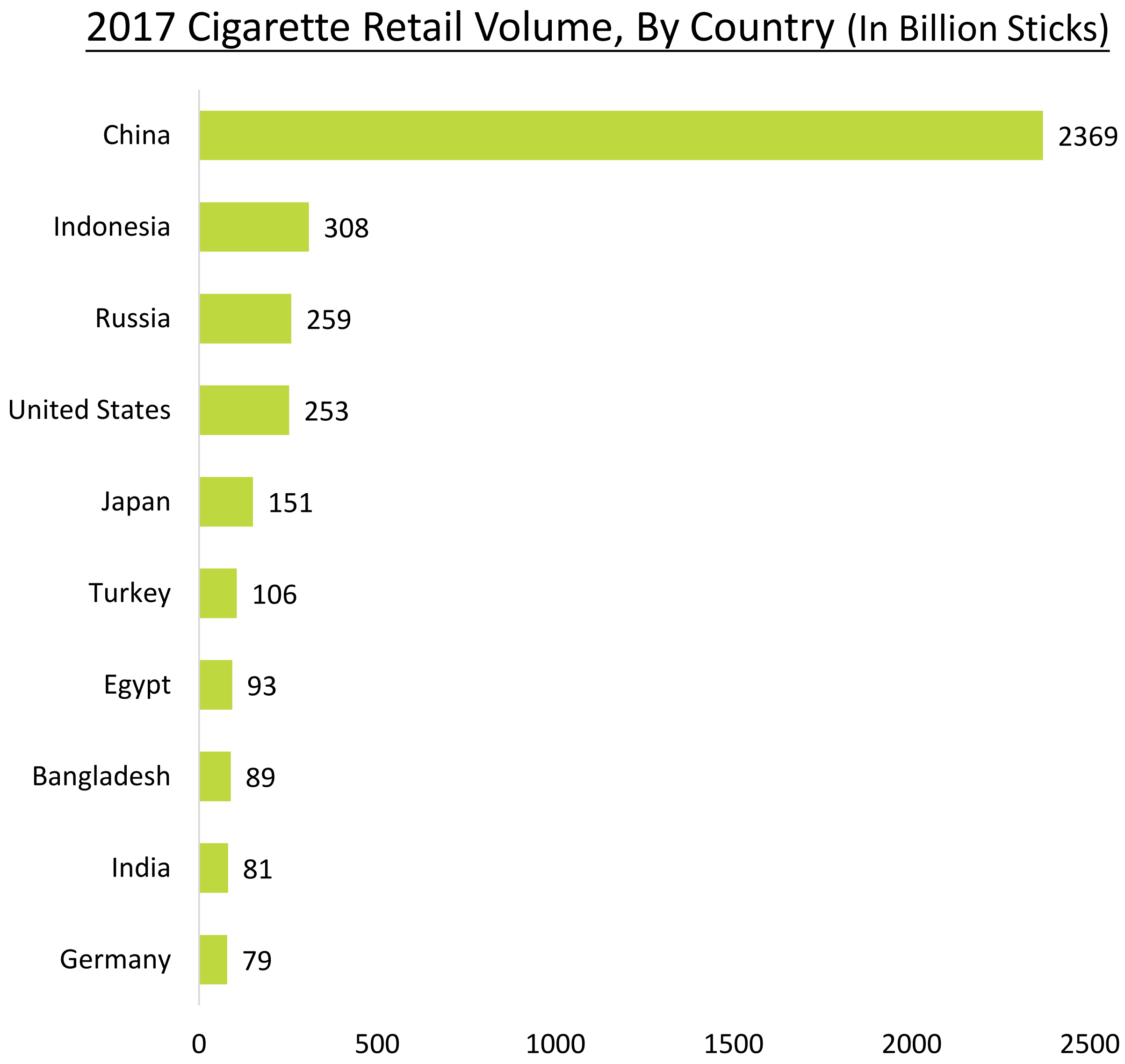
## Global Cigarette Market By Region

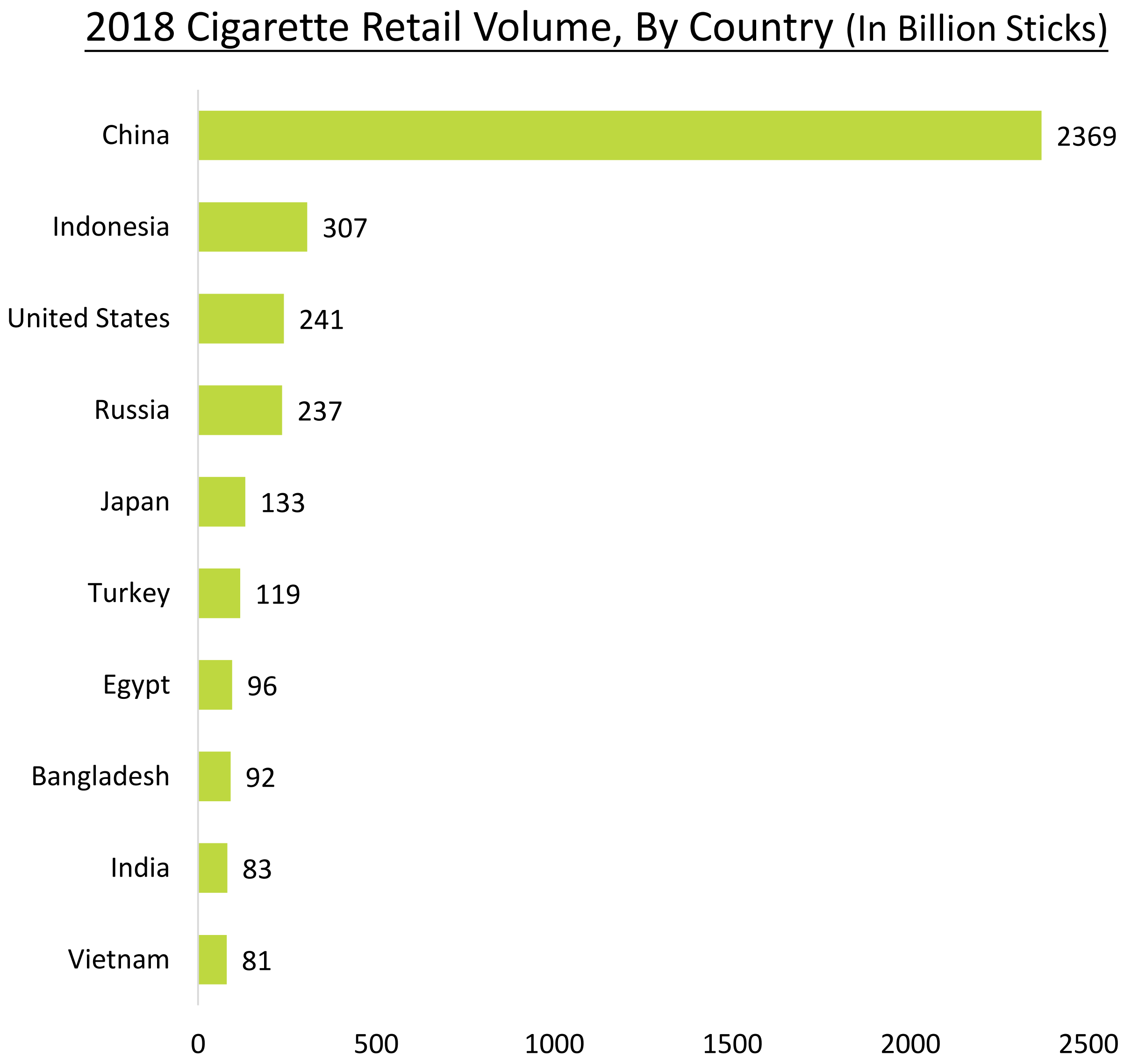



Source: Euromonitor

# Cigarette Markets




Source: Euromonitor

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