



## **President's Report Nine Months 2020**

LT Group, Inc.'s (LTG) attributable net income for the first nine months of 2020 amounted to Php16.10 billion, Php1.38 billion or 9% more than the Php14.72 billion reported for the same period in 2019.

The tobacco business accounted for Php12.12 billion or 75% of total attributable income. Philippine National Bank (PNB) contributed Php2.24 billion or 14%. Tanduay Distillers, Inc. (TDI) added Php1.09 billion or 7%. Eton Properties Philippines, Inc. (Eton) accounted for Php630 million. Asia Brewery, Inc. (ABI) contributed Php4 million or less than 1%. The 30.9% stake in Victorias Milling Company, Inc. (VMC) accounted for Php148 million, also less than 1%.

In September, LTG paid a special cash dividend of Php0.23 per share or a total of Php2.49 billion. Including the dividends paid in June of Php0.43 per share or a total of Php4.65 billion, the Company has paid out Php0.66 per share or a total of Php7.14 billion, or 30.9% of 2019's attributable net income of Php23.12 billion, higher than the dividend policy of 20%.

LTG's balance sheet remains strong. Debt-to-Equity Ratio was at 3.58:1 with the Bank, and at 0.17:1 without the Bank.

LTG redeemed in September the remaining Php1.439 billion preferred shares issued in 2013 and 2014 for the acquisition of PNB. This brings to Php8.539 billion the preferred shares redeemed in 2020.

As of the end of September 2020, the cash balance of the parent company stood at Php215 million.

### **Tobacco**

The tobacco business had a net income of Php12.17 billion for 9M20, Php2.56 billion or 27% more than the Php9.61 billion reported in 9M19.

Equity in net earnings from LTG's 49.6% stake in PMFTC was Php12.24 billion, Php2.87 billion or 31% more than 9M19's Php9.37 billion.

In 9M20, PMFTC's shipment volume was 32.2 billion sticks, 13.7% lower than 9M19's 37.2 billion sticks. The drop in volume is attributed to the price increase in end-August 2019, coupled with the impact of the enhanced community quarantine (ECQ) implemented in Luzon starting March

17 and in other select cities thereafter up to end-May 2020, as well as the reinstatement of the Modified ECQ in NCR and select provinces for two weeks in August 2020.

*Marlboro* accounted for 60% of volume in 9M20 reflecting up-trading resulting from a narrowed price gap with *Fortune*, compared to 55% of total volume in 9M19. Based on Nielsen estimates, PMFTC's market share was at 68.4% for 9M20, lower than the 70.7% in 9M19.

The industry's volume was estimated at 47.0 billion sticks in 9M20, 10.8% lower than 9M19's 52.7 billion sticks.

The Government continued its efforts against the illicit trade which included smuggled and locally produced products. In 9M20, there were 112 enforcements, compared to 9M19's 97 enforcements. A total of 150 machines were seized from illegal factories, 70 more than the 80 machines seized in 9M19. The 150 machines can form 24 lines, with each line estimated to produce as much as 3 million sticks per day.

On July 25, 2019, President Duterte signed Republic Act (RA) 11346 which increased further the excise tax on tobacco starting January 2020. From Php35 per pack in 2019, it increased to Php45 per pack in 2020, and will increase by Php5 per pack annually from 2021 to 2023, then increasing by 5% annually thereafter.

In early October 2020, PMFTC implemented price increases across all brands at Php1 per stick. Currently, the recommended retail price per stick of premium *Marlboro* is at Php7 (from Php6), mid-priced *Fortune* at Php6 (from Php5) and low-end *Jackpot* at Php5 (from Php4). Prior to this increase, the previous one was in late August 2019. Subsequently in early November, PMFTC's main competitor raised prices and the recommended retail price of their brands are at par with PMFTC's products.

### **Philippine National Bank (PNB)**

PNB's net income under the pooling method was Php4.00 billion for the first nine months of 2020, Php2.52 billion or 39% lower than the same period in 2019. The lower net income was primarily due to the Php9.03 billion provision for credit losses that the bank booked in 9M20, significantly higher compared to Php1.43 billion in 9M19, largely due to the ongoing COVID-19 pandemic that has resulted in a downturn in the economy.

Net Interest Income was 12% higher at Php26.16 billion from Php23.45 billion as Net Interest Margin improved to 3.5% from 3.1%. Loans and receivables were 11% lower year-on-year (y-o-y) to Php577 billion.

Net Service Fees and Commission Income were lower by 11% at Php2.55 billion. Trading and Foreign Exchange Gains were 123% higher at Php4.17 billion.

Operating Expenses were Php7.55 billion or 34% higher at Php29.48 billion from Php21.93 billion, largely due to the increase in provisioning.

Net Non-Performing Loans (NPL) ratio was at 3.6% as of September 2020, higher than the 0.5% as of September 2019. NPL cover stood at 60%, from 134% as of September 2019.

### **Tanduay Distillers, Inc. (TDI)**

TDI's net income for the first nine months of 2020 was Php1.09 billion, Php572 million or 110% higher than 9M19's Php518 million.

The higher income is due to the higher volume of liquor sales and a 36% decrease in selling and marketing expenses from PHP1.14 billion to Php725 million.

Total revenues were Php17.35 billion, Php3.53 billion or 26% higher than the Php13.83 billion in the same period last year. Liquor volume was 12% higher y-o-y, and selling prices were also higher as an average Php160 per case price increase was implemented in January to pass on the higher excise taxes. Revenues from liquor were Php14.68 billion, 29% higher than 9M19's Php11.37 billion. Revenues from bioethanol were 28% lower at Php1.35 billion from Php1.88 billion as higher prices were able to partially offset the 34% drop in volume. Rectified alcohol contributed the balance of revenues at Php1.32 billion, from Php577 million in 9M19.

As of end-September 2020, TDI's nationwide market share for distilled spirits was at 25.8%, compared to September 2019's 29.0%. In the Visayas and Mindanao regions where most of TDI's sales are generated, market share was at 62.2% and 77.6%, respectively, as of September 2020, compared to 64.7% and 72.6%, respectively, as of September 2019.

Gross Profit Margin (GPM) was slightly lower at 16% from 17%, due to higher alcohol costs. Operating expenses were 24% lower at Php1.25 billion due to lower selling and marketing expenses.

### **Eton Properties Philippines, Inc. (Eton)**

Eton's net income for 9M20 was at Php633 million, 1% or Php4 million higher than the Php629 million reported for the same period in 2019. The higher net income is attributed to the increase in rental income.

Total revenues were at Php1.88 billion, 20% lower than the Php2.34 billion of 9M19. Real estate sales amounted to Php520 million, 53% lower than 9M19's Php1.10 billion. Leasing revenues were 10% higher at Php1.36 billion due to the escalation rates of existing leases as well as additional space that came on stream.

Additions to the leasing portfolio came from Eton WestEnd Square in Makati City during 2Q19. Its retail component, eWestMall, has two floors of retail spaces with a total leasable area of

approximately 3,600 square meters. The office component, eWestPod, has over 13,000 square meters of office space. Five Cyberpod Centris in Quezon City with close to 43,000 square meters came on stream starting 3Q19.

At the end of September 2020, Eton Properties had a leasing portfolio of approximately 181,000 square meters of office space and over 43,000 square meters of retail space.

Projects in the pipeline include the 36-storey Blakes Tower in Makati City which will have 10,500 square meters of office space and 14,000 square meters of residential space. Others are the 4.3-hectare Eton City Square in Sta. Rosa, Laguna, with the first phase having 6,900 square meters of commercial space and NXTower I, an office building along Emerald Avenue and Ruby Road in Ortigas with 21,000 square meters of gross leasable area.

### **Asia Brewery, Inc. (ABI)**

ABI's net income for 9M20 was Php4 million, 98% or Php250 million lower than 9M19's Php254 million. The lower net income was primarily due to lower volumes across all products as the ECQ from mid-March to end-May, and the reinstatement of MECQ for two weeks in August in Metro Manila and other provinces affected sales in sari-sari and convenience stores as well as in supermarkets.

Revenues were at Php9.96 billion, 17% lower than 9M19's Php12.01 billion. Overall GPM was lower at 26% from 27% due to sales mix. Operating expenses were 9% lower at Php1.73 billion as the Company spent less on advertising and promotions.

Cobra energy drink continues to account for the largest share of revenues at 41% of total. It remains the market leader with a share of 71% for 9M20.

Our bottled water brands, Absolute and Summit, continue to have the second largest share in this segment at 25%. Bottled water accounted for 24% of revenues.

Soymilk Vitamilk's market share was at 75% for 9M20. However, like our other beverages, its volume was affected by the ECQ and MECQ.

The packaging business' revenues were 17% lower due to lower demand from third parties. ABI supplies the glass bottle and other packaging requirements of TDI and ABI and also sells to third parties. Packaging accounted for 16% of revenues in 9M20.

**LT GROUP, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED BALANCE SHEETS**  
(Amounts in Thousands)

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	P197,058,376	P184,913,132
Financial assets at fair value through profit or loss	11,277,837	13,469,380
Financial assets at fair value through other comprehensive income (FVTOCI)	13,348,763	16,968,590
Financial assets at amortized cost	41,657,413	25,252,670
Loans and receivables	235,483,110	260,926,594
Inventories	13,191,421	12,196,871
Due from related parties	1,955,306	2,029,436
Other current assets	10,980,463	11,379,265
<b>Total Current Assets</b>	<b>524,952,689</b>	<b>527,135,938</b>
<b>Noncurrent Assets</b>		
Loans and receivables-net of current portion	358,108,311	411,253,754
Financial assets at FVTOCI	75,933,287	110,549,031
Financial assets at amortized cost	55,147,095	75,212,087
Investment in associates and joint ventures	22,830,479	27,254,278
Property, plant and equipment:		
At appraised values	58,981,040	59,811,911
At cost	11,687,115	12,087,216
Investment properties	32,380,485	32,631,441
Deferred income tax assets	4,366,902	2,386,671
Other noncurrent assets	6,700,367	7,508,226
<b>Total Noncurrent Assets</b>	<b>626,135,081</b>	<b>738,694,615</b>
<b>TOTAL ASSETS</b>	<b>P1,151,087,770</b>	<b>P1,265,830,553</b>

**LIABILITIES AND EQUITY**

<b>Current Liabilities</b>		
Deposit liabilities	P671,434,274	P772,143,072
Financial liabilities at fair value through profit or loss	748,007	245,619
Bills and acceptances payable	27,715,747	51,821,601
Accounts payable and accrued expenses	24,187,712	26,700,462
Income tax payable	915,776	690,518
Short-term debts	3,040,000	5,150,000
Current portion of long-term debts	15,105,926	1,002,593
Due to related parties	65,325	65,325
Other current liabilities	13,215,593	18,842,433
<b>Total Current Liabilities (Carried Forward)</b>	<b>756,428,360</b>	<b>876,661,623</b>

	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)
<b>Total Current Liabilities (Brought Forward)</b>	<b>₱756,428,360</b>	<b>₱876,661,623</b>
<b>Noncurrent Liabilities</b>		
Deposit liabilities - net of current portion	58,896,906	46,095,883
Bills and acceptances payable	14,281,638	4,141,689
Long-term debts - net of current portion	55,021,697	71,566,863
Net retirement benefits liabilities	1,634,365	1,699,743
Deferred income tax liabilities	8,584,054	8,510,128
Other noncurrent liabilities	4,727,984	3,147,053
<b>Total Noncurrent Liabilities</b>	<b>143,146,644</b>	<b>135,161,359</b>
<b>Total Liabilities</b>	<b>899,575,004</b>	<b>1,011,822,982</b>
<b>Equity</b>		
Attributable to equity holders of the Company:		
Capital stock	10,821,389	10,821,389
Capital in excess of par	35,906,231	35,906,231
Preferred shares of subsidiaries issued to Parent Company	—	8,538,837
Other equity reserves	1,024,653	1,024,653
Other comprehensive income, net of deferred income tax effect	11,619,041	18,038,315
Retained earnings	122,184,737	112,604,635
Shares of the Company held by subsidiaries	(12,519)	(12,519)
	<b>181,543,532</b>	<b>186,921,541</b>
Non-controlling interests	69,969,234	67,086,030
<b>Total Equity</b>	<b>251,512,766</b>	<b>254,007,571</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,151,087,770</b>	<b>₱1,265,830,553</b>

**LT GROUP, INC. AND SUBSIDIARIES**  
**INTERIM CONSOLIDATED STATEMENTS OF INCOME**  
(Amounts in Thousands, Except for Basic/Diluted Earnings Per Share)

	Nine Months Ended September 30		For the Quarter Ended September 30	
	2020 (Unaudited)	2019 (Unaudited)	2020 (Unaudited)	2019 (Unaudited)
<b>REVENUE</b>				
Banking	P41,769,565	P41,631,997	P12,000,016	P14,721,473
Beverage	9,170,028	11,144,987	2,854,231	3,545,306
Distilled spirits	17,317,092	13,813,803	7,335,187	4,306,801
Property development	1,877,626	2,336,484	681,303	943,933
	70,134,311	68,927,271	22,870,737	23,517,513
<b>COST OF SALES AND SERVICES</b>	31,417,833	34,285,849	10,702,978	11,377,036
<b>GROSS INCOME</b>	38,716,478	34,641,422	12,167,759	12,140,477
<b>EQUITY IN NET EARNINGS OF ASSOCIATES AND JOINT VENTURES</b>	12,052,252	8,897,081	3,980,343	3,507,750
	50,768,730	43,538,503	16,148,102	15,648,227
<b>OPERATING EXPENSES</b>				
Selling expenses	1,462,988	2,200,939	518,323	695,236
General and administrative expenses	31,861,509	24,226,747	8,077,449	8,408,488
	33,324,497	26,427,686	8,595,772	9,103,724
<b>OPERATING INCOME</b>	17,444,233	17,110,817	7,552,330	6,544,503
<b>OTHER INCOME (CHARGES)</b>				
Finance costs	(268,632)	(239,540)	(65,869)	(113,802)
Finance income	32,782	126,001	927	49,943
Foreign exchange gains - net	787,781	834,558	268,452	201,096
Others – net	2,041,947	2,842,981	631,809	1,073,027
	2,593,878	3,564,000	835,319	1,210,264
<b>INCOME BEFORE INCOME TAX</b>	20,038,111	20,674,817	8,387,649	7,754,767
<b>PROVISION FOR INCOME TAX</b>				
Current	4,091,529	3,020,428	1,299,338	1,115,474
Deferred	(1,975,658)	5,762	(121,370)	52,760
	2,115,871	3,026,190	1,177,968	1,168,234
<b>NET INCOME</b>	P17,922,240	P17,648,627	P7,209,681	P6,586,533
<b>NET INCOME ATTRIBUTABLE TO:</b>				
Equity holders of the Company	P16,102,940	P14,717,623	P6,075,713	P5,480,478
Non-controlling interests	1,819,300	2,931,004	1,133,968	1,106,055
	P17,922,240	P17,648,627	P7,209,681	P6,586,533
<b>Basic/Diluted Earnings Per Share</b>	P1.49	P1.36	P0.56	P0.51