

Interview with Eddy Pirard, the Belgian CEO of Japan Tobacco International

Eddy Pirard is the CEO of the world's third largest tobacco producer, Eddy Pirard is the most powerful Belgian in the industry. Marsel Paraev interviewed him from his office, located in Geneva, near Lake Lemman.

By *Marsel Paraev*, Senior Portfolio Manager

JTI (Japan Tobacco International) was established in 1999 following the acquisition of the non-US operations of RJ Reynolds by the JT Group. 2021 marked the company's 23rd consecutive year of sustainable profit generation at constant currency. On a reported basis, JTI generated over USD 13 billion in core revenue (up 10.6% since 2020), and USD 4.1 billion in adjusted operating profit (up 29.6% over the same period).

In January 2022, the JT Group implemented a structural change by consolidating its Japanese Domestic and International tobacco businesses into a single business segment, under the same management team and with the JTI name. As a result, the JT Group is now divided into three businesses: Tobacco, Food, and Pharmaceutical.

The tobacco business, which represents over 90% of the Group's revenue, employs 48,000 people from nearly 120 different nationalities, working in 425 offices and 8 R&D centers across more than 70 countries. Today, its products are available in over 130 markets.

JTI, headquartered in Geneva, Switzerland, is the Group's profit growth driver with its global footprint, strong brand equity, and people. The company has been awarded Global Top Employer nine times in a row and was one of the first companies in the world to receive EY's new Global Equality Standard certificate, which measures equal opportunities and equal pay in the workplace.

The Company has over one hundred brands worldwide, including some of the world's best known tobacco brands, such as Winston, Camel, Mevius and LD – its global flagship brands. JTI's reduced-risk products (RRP), which are products with the potential to reduce the risks associated with smoking, include its heated tobacco sticks (HTS) under the Ploom brand, range of Logic e-cigarettes, and Nordic Spirit nicotine pouches.



Eddy Pirard, CEO Japan Tobacco International

In numbers

Over **48,000 employees** in more than **70 countries**

Over **100 million people** work in tobacco, including scientists, shopkeepers, and **40 million farmers**.

JTI owns **39 cigarette production factories and tobacco processing centers**, with **8 R&D centers**

In **2021**, JT Group's Full Year tobacco revenue was **JPY 2,002 billion**.

JTI's ARISE program has directly helped educate over **64,000 children** to date.

Since 2015, over **USD 400 million** and **164,000 volunteer hours** invested to support community initiatives across the world

As head of JTI, I expect us to be a place where everyone receives support and compassion, no matter who they are. It is non-negotiable for me. Freedom is at the heart of everything we believe in: the freedom to choose, freedom of thought and expression, and the freedom to be yourself.



Ploom-X ©Japan Tobacco International

Today, JTI has over **48,000 employees** in more than **70 countries**. It owns **39 cigarette production factories and tobacco processing centers**, with **8 R&D centers**. Would you like to expand further abroad?

Eddy Pirard: We are ambitious as a company and want to continue growing, both in terms of our product offering and our global footprint. Thanks to the hard-working and dedicated JTI family around the world, our brands are already available in more than 130 markets. Our success comes because we always put our consumers at the heart of everything we do.

Leveraging our long, rich history, and our three key strengths – a solid financial base, superior brand equity, and a diverse workforce – we continue to expand organically in existing markets, to enter into new markets to enhance our global presence, and leverage M&A opportunities, to realize long-term sustainable growth.

What is your growth strategy?

Predicting the future is always a challenge in any industry; this is also true for tobacco. That said, we've always believed that the best way to navigate the future is to provide our adult consumers with a wide range of quality products to choose from, including those with the potential to reduce risk, as well as all the necessary information for them to make an informed choice.

Based on what our consumers are demanding, we see combustibles (i.e., cigarettes and fine cut), heated tobacco sticks (HTS), and other RRP coexisting for the foreseeable future.

Our three-year business plan, which we set out in 2022, focuses on our continuing pursuit of sustainable profit growth and shareholder returns. Key to achieving this are the investments we are making. Within the wider RRP category, HTS offers the largest potential as anticipated demand increases. In the coming three years we are investing JPY 300 billion in our flagship brand, Ploom, and to increase our consumer base. This is JPY 100 billion more than the investments made over the last three years.

Our newest HTS device, Ploom X, was launched in 2021 in Japan and initial consumer feedback has been positive; we are now planning to roll it out to more international markets, following the rollout in the UK near the end of 2022. Our e-cigarette brand, Logic, remains popular with consumers in

key markets, including the UK, and our range of tobacco-free nicotine pouches, Nordic Spirit, has seen remarkable growth in a short amount of time, including in the UK, Switzerland, and Sweden.

As the main profit generator of our tobacco business, and as part of our mission to ensure that our consumers have the freedom to choose to use the products they want, we will continue investing in combustibles, where necessary, to drive returns.

What is your turnover?

In 2021, JT Group's Full Year tobacco revenue was JPY 2,002 billion.

At a time when ESG is becoming more important for many companies, whilst the criteria are also being increasingly scrutinized, how do you reflect this as the CEO of a tobacco company?

As CEO, I very much believe that a key part of my role is to set the standard for all that we do as a company.

Businesses around the world are looking at their values and practices through the lens of ESG. I have always felt that selling tobacco products does not remove us from our obligations as a company to operate responsibly and sustainably, minimizing our environmental impact, and contributing positively to the communities in which we operate.

Since taking the lead at JTI in 2017, I have been inspired by the commitment shown by colleagues across the business. So much incredible work has been done already, resulting in transformational and positive change internally and within the communities where we operate.

Delivering on our ESG commitments makes good business sense, and it is the right thing to do. However, the job's not done, and we continue to find ways to improve the way we work.

How do ESG standards fit within the company?

Consumers, investors, and society are increasingly interested in environment, social, and governance issues, and the topic of sustainability more broadly. To ensure we are playing our part, we have set 12 sustainability targets, which span from social to environmental issues, to minimize our impact. These include our greenhouse gas emissions, as well as our use of water and waste, and forestry. We have been recognized for our efforts by the Dow Jones Sustainability Asia Pacific Index, as well as by CDP, for our work around climate change and water security.



PLOOM store, Ginza, Tokyo ©Japan Tobacco International

Equally important are the social values to which we hold ourselves. As head of JTI, I expect us to be a place where everyone receives support and compassion, no matter who they are. It is non-negotiable for me. Freedom is at the heart of everything we believe in: the freedom to choose, freedom of thought and expression, and the freedom to be yourself.

Our new global family leave policy is a perfect illustration of our values and is a great milestone in our diversity and equality journey. It supports all families, regardless of who they are and how they become parents. The policy gives parents across the world equal opportunity to spend a minimum of 20 weeks' fully paid leave with their children.

How we conduct ourselves around the world is highly important to us. Our Human Rights Report outlines our initiatives and goals in this key area. One example is our ARISE program which is a core part of our work to eliminate child labor and is active in countries where we source many of our tobacco leaves. It has directly helped educate over 64,000 children to date.

We also partner with charities to support community investment initiatives across the world. Since 2015, we have invested over USD 400 million, and over 164,000 hours volunteer hours.

As a custodian of JTI, I look ahead with optimism. Not only are we brimming with talent, but we have, collectively, chartered a sustainable course. RRP are part of our continuing evolution, and together, with the investments we are making, I am confident about the future of our business.

What is your net zero strategy for 2050?

JTI has its part to play in supporting global efforts to safeguard the environment. We are committed to being carbon neutral in our own operations by 2030 and achieving Net-Zero greenhouse gas emissions across our entire value chain by 2050. These commitments form the basis of our Destination Zero strategy and are supported by ambitious emissions reduction targets, in-line with current climate science and the Global Net-Zero Standard set by the Science Based Targets initiative (SBTi), a respected independent body that drives ambitious climate action.

We are reducing the amount of energy we use and increasing the proportion of renewable energy. About 30% of our electricity now comes from renewable sources, such as solar, wind and water. Many of our factories, warehouses, and offices have implemented energy efficiency measures, including more efficient lighting and increased natural light

usage, which have, to date, helped reduce our emissions by over 5,000 tons of CO² per year. But it isn't just about electricity. Our tobacco factory in Jordan became the first in the world to use direct solar steam generation, reducing its CO² emissions by over 100 tons a year – the equivalent of over 100 round-trip flights from Paris to New York.

The road to Net-Zero is long, challenging, and unpredictable. However, JTI employees have actively contributed to getting us to where we are today and are helping us navigate where we need to go.

What do you see as the challenges for cigarettes and electronic cigarettes?

We are one of the most highly regulated industries in the world which can lead to the growth of illegal trade, as we frequently see.

Illegal trade has negative consequences for the public, adult consumers, and government revenues, as well as law-abiding businesses. As part of our commitment to contribute to the UN's Sustainable Development Goals, JTI supports law enforcement agencies all over the world to tackle illegal trade through programs such as counterfeit awareness initiatives, the provision of intelligence on all aspects of the illegal trade, and monitoring of customers and suppliers to ensure a secure supply chain.



Headquarters Geneva ©JTI

Our tobacco factory in Jordan became the first in the world to use direct solar steam generation, reducing its CO² emissions by over 100 tons a year



Solar steam system Jordan ©JTI

In the RRP space, the main challenge is the lack of a universal desire to pursue harm reduction worldwide. This is despite ever growing evidence around the products' potential to reduce harm, and promising independent scientific studies. In countries like the UK, the US, and recent converts the Philippines, the reduced-risk potential of HTS and e-cigarettes has been embraced. However, in other jurisdictions, these products are banned or their potential to reduce harm cannot be communicated to the public.

Due to pressure from tobacco control advocates, we are often wrongly prevented from contributing to debates about our industry, including on increasingly important issues such as RRP and illegal trade. Over 100 million people work in tobacco, including scientists, shopkeepers, and 40 million farmers. They are frequently excluded from policy conversations and public private partnerships. While of course no 'vested interest' should dominate, many of these experts would bring balance, valuable knowledge, and experience into the conversation, ensuring all the implications of policy proposals are understood.

How has JTI managed through the pandemic, and the geopolitical events of 2022?

I don't think that any of us, at the end of 2019, could have predicted how the impact of Covid would unfold. It profoundly changed the way people live their lives, including the way they work. Few of us had heard of Zoom meetings back then, and "WFH" was a concept still alien to many businesses. Over

the last two years, I have been impressed with the way that colleagues across JTI remained focused and motivated, ensuring that we continued to support our consumers, the communities in which we operate, and each other.

Employees are at the center of everything we do. Even before the pandemic hit, achieving more of a work/life balance was a priority. In 2021, we made the decision to leave the traditional office-based culture of presenteeism behind to give our employees the flexibility to work up to 50% of their time away from the office, benefit from flexible core hours, and work up to 10 days abroad. Due to the pandemic, our New Ways of Working (NWOW) officially started in September 2022 at our HQ. However, some of our markets had the opportunity to introduce NWOW before this date and those who have not will do so in the near future. These measures are allowing us to redefine where and how we work.

What is happening in Ukraine has shocked us all, and I join colleagues from across the Company in hoping that peace will return soon. I have been greatly moved by the huge outpouring of compassion and support from JTI employees around the world, particularly to the innocent victims caught up in the war. In addition to all the incredible efforts of JTI staff, many of whom have established humanitarian programs themselves and are volunteering their own time to provide direct support, the Company has, to date, committed around USD 7 million in humanitarian aid.

How does JTI see the role of digital for the company in the future?

We currently see three developments driving the need to link our business and technology strategies more closely: ever-demanding consumers for personalized experiences; quickly evolving technology demands or faster-evolving preferences; and increased value of data and data technologies. We need to act on these developments by becoming stronger in digital capabilities. Our IT strategy will provide the best digital experience and capabilities to our stakeholders to reach our business objectives. Our mission builds on three elements: outcomes – what the business is trying to achieve for our stakeholders; enablers – tools and capabilities that we need to deliver the outcomes; and foundational elements and guiding principles – overall, foundational enterprise capabilities necessary to reach our goal.

Does inflation have an impact on the tobacco trade? If so, how do you deal with it?

Like any business, JTI is not immune to the recent challenges of the global economy. However, we have developed robust business models, plans, and structures, which have proven successful in mitigating global and local challenges over many years.

We put the highest priority on stable cash generation from top-line business growth, and are undertaking initiatives to reduce foreign exchange impacts and optimize operating capital.

Top-line growth is made possible by pricing that takes into consideration tax hikes and inflation, and market share gains built on the strength of our brands, and geo-expansions.

We continue to refine our ways of working, learning from our experience. In 2020, we completed an important transformation to implement a number of Global Business Services centers as hubs, increasing efficiency, speed, and agility by removing layers of decision making and duplication of efforts. This new approach is now bearing fruit and helping us successfully manage the current global challenges affecting many businesses and industries.

How do you stand out from your competitors?

Being consumer-centric is embedded within our culture, and it sets the direction for where we want to go: providing choice. Understanding our consumers' needs is key, particularly at a time when they are increasingly demanding, whether it be on the environment, RRP, digitalization, or human rights. Consumers are more information-hungry than ever. They want to know more about the products they use and the companies that make them. It is our job to meet their demands in the most efficient way with quality products and transparent information.

As a company, we do not push adult consumers to one product over another, and all the products we provide are of the highest quality, no matter whether they are traditional combustibles or RRP. We believe that adult consumers should be treated as such: whilst they should be informed about the risks associated

with tobacco products, they should not be told what they can and cannot do. Through understanding their lifestyles, needs, and providing them with choice, we help our adult consumers make the best decisions for them.

Does JTI sponsor events? How has JTI's sponsoring evolved with regards to the regulatory, business environments?

I have always felt that we have a responsibility beyond our tax obligations to support the communities where we operate. Like many companies, we provide sponsorship to cultural institutions and events where appropriate, and we encourage our local charity and cultural partners to work together to foster greater access to the arts for everyone, particularly those from disadvantaged backgrounds or those who are disabled. Our contributions are outside of our commercial operations and not, in any way, related to the promotion of our products. We provide support because it is the right thing to do – we never expect anything in return.

Providing wider access to arts and culture is just one of the many ways we support social inclusion in the communities where we operate. Through our community investment programs, we contribute to four of the United Nations Sustainable Development Goals: Reduced Inequalities; Sustainable Cities and Communities; Life on Land; and Partnerships for the Goals. We work in partnership with small charities as well as global institutions that share our vision to help make communities more inclusive and resilient. We also provide volunteering opportunities for our employees who can develop their skills for the benefit of their communities, including during working hours. Between 2015 and 2030, we will invest USD 600 million in community programs, with our employees contributing 300,000 volunteer hours. I am proud to say that we are well on track to achieving these targets, with over USD 400 million invested in our communities so far, and already 164,000 hours volunteered by employees on company time from 2015 to 2021.

When it comes to advertising and promotional activities, we follow stringent guidelines and fully abide by the law. Our marketing

is only ever directed towards existing adult users of tobacco and vaping products, and we do not sponsor events or activities to promote products to consumers, unless the applicable event guarantees there is no access and appeal to minors.

We strongly believe in openness and transparency of our engagement; this is why our marketing principles, and several of our community investment activities are readily available on our website.

What is your "best success story"?

I have been blessed with many opportunities that, growing up, I did not think I would have. I am privileged and humbled to lead JTI, an organization that continues to go from strength to strength. Whilst the industry faces some challenges, there are also many opportunities, and it really energizes me to see how engaged and committed JTI colleagues are around the world as we strive to achieve our goals together.

What advice would you give to young entrepreneurs starting out?

Work hard with passion. Be curious and patient. And be focused. Ask many questions to as many people as possible; that curiosity will help you refine your own project/idea and give you confidence that you are heading in the right direction.

What are your hobbies? What is your favorite vacation destination? What is your favorite cuisine?

I love to travel and discover the world with my wife and two daughters. On breaks, I always happily return to our summer house close to Boston, on the Cape, where we have built many good memories over the years with family and friends. As to cuisine? It is a hard one... Italian and Thai are on a par for me. •



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