



Tobacco 50 2017

The annual report on the world's most valuable tobacco brands
March 2017

Foreword



David Haigh, CEO, Brand Finance

What is the purpose of a strong brand; to attract customers, to build loyalty, to motivate staff? All true, but for a commercial brand at least, the first answer must always be ‘to make money’. Huge investments are made in the design, launch and ongoing promotion of brands. Given their potential financial value, this makes sense. Unfortunately, most organisations fail to go beyond that, missing huge opportunities to effectively make use of what are often their most important assets. Monitoring of brand performance should be the next step, but is often sporadic. Where it does take place it frequently lacks financial rigour and is heavily reliant on qualitative measures poorly understood by non-marketers. As a result, marketing teams struggle to communicate the value of their work and boards then underestimate the significance of their brands to the business. Skeptical finance teams, unconvinced by what they perceive as marketing mumbo jumbo may fail to agree necessary investments. What marketing spend there is can end up poorly directed as marketers are left to operate with insufficient financial guidance or accountability. The end result can be a slow but steady downward spiral of poor communication,

wasted resources and a negative impact on the bottom line.

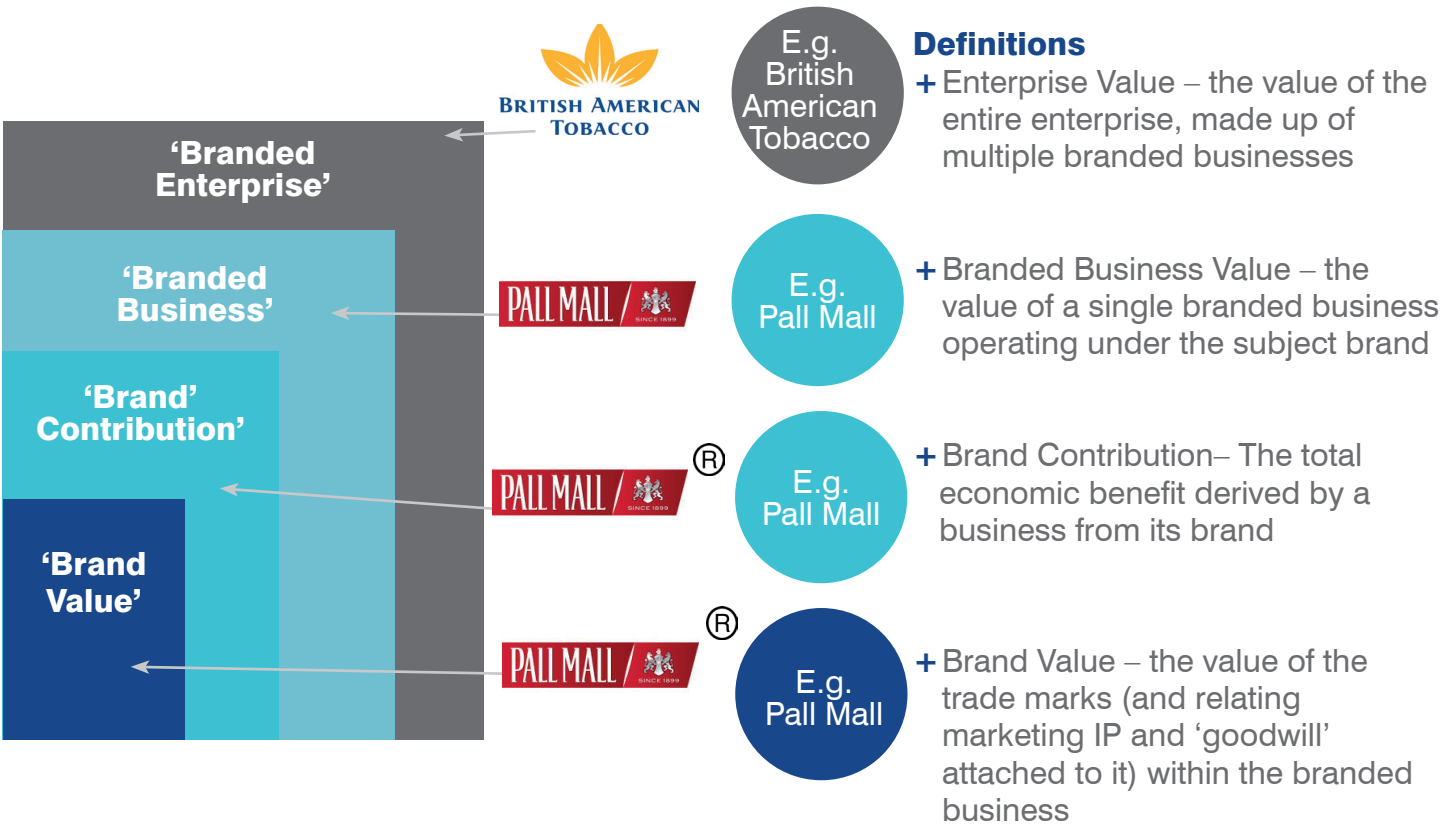
Brand Finance bridges the gap between the marketing and financial worlds. Our teams have experience across a wide range of disciplines from market research and visual identity to tax and accounting. We understand the importance of design, advertising and marketing, but we also believe that the ultimate and overriding purpose of brands is to make money. That is why we connect brands to the bottom line. By valuing brands, we provide a mutually intelligible language for marketers and finance teams. Marketers then have the ability to communicate the significance of what they do and boards can use the information to chart a course that maximises profits. Without knowing the precise, financial value of an asset, how can you know if you are maximising your returns? If you are intending to license a brand, how can you know you are getting a fair price? If you are intending to sell, how do you know what the right time is? How do you decide which brands to discontinue, whether to rebrand and how to arrange your brand architecture? Brand Finance has conducted thousands of brand and brandedbusiness valuations to help answer these questions.

Brand Finance’s recently conducted share price study revealed the compelling link between strong brands and stock market performance. It was found that investing in the most highly branded companies would lead to a return almost double that of the average for the S&P 500 as a whole. Acknowledging and managing a company’s intangible assets taps into the hidden value that lies within it. The following report is a first step to understanding more about brands, how to value them and how to use that information to benefit the business. The team and I look forward to continuing the conversation with you.

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Definitions



Branded Business Value

A brand should be viewed in the context of the business in which it operates. For this reason Brand Finance always conducts a Branded Business Valuation as part of any brand valuation. Where a company has a purely mono-branded architecture, the business value is the same as the overall company value or ‘enterprise value’.

In the more usual situation where a company owns multiple brands, business value refers to the value of the assets and revenue stream of the business line attached to that brand specifically. We evaluate the full brand value chain in order to understand the links between marketing investment, brand tracking data, stakeholder behaviour and business value to maximise the returns business owners can obtain from their brands.

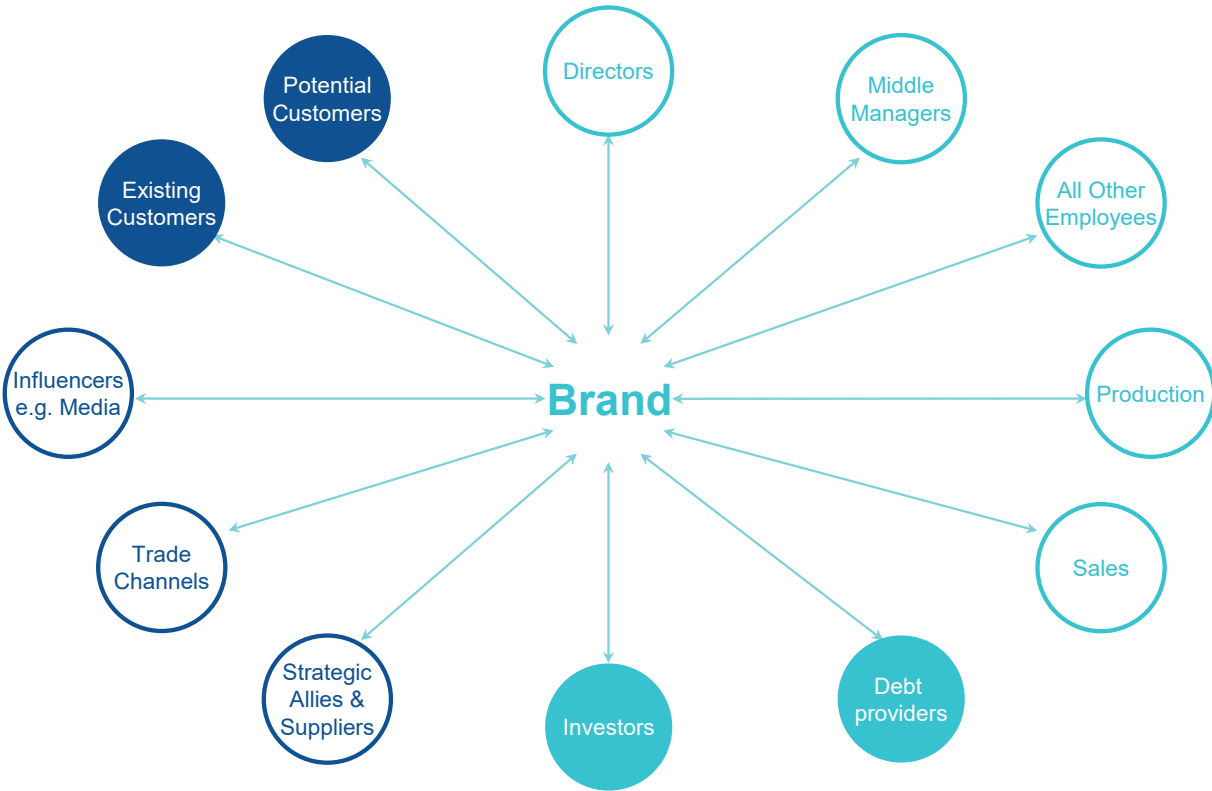
Brand Contribution

The brand values contained in our league tables are those of the potentially transferable brand asset only, but for marketers and managers alike. An assessment of overall brand contribution to a business provides powerful insights to help optimise performance.

Brand Contribution represents the overall uplift in shareholder value that the business derives from owning the brand rather than operating a generic brand.

Brands affect a variety of stakeholders, not just customers but also staff, strategic partners, regulators, investors and more, having a significant impact on financial value beyond what can be bought or sold in a transaction.

Effect of a Brand on Stakeholders



Brand Value

In the very broadest sense, a brand is the focus for all the expectations and opinions held by customers, staff and other stakeholders about an organisation and its products and services. However, when looking at brands as business assets that can be bought, sold and licensed, a more technical definition is required.

Brand Finance helped to craft the internationally recognised standard on Brand Valuation, ISO 10668. That defines a brand as “a marketing-related intangible asset including, but not limited to, names, terms, signs, symbols, logos and designs, or a combination of these, intended to identify goods, services or entities, or a combination of these, creating distinctive images and associations in the minds of stakeholders, thereby generating economic benefits/value”

Brand Strength

Brand Strength is the part of our analysis most directly and easily influenced by those responsible for marketing and brand management. In order to determine the strength of a brand we have developed the Brand Strength Index (BSI). We analyse marketing investment, brand equity (the goodwill accumulated with customers, staff and other stakeholders) and finally the impact of those on business performance.

Following this analysis, each brand is assigned a BSI score out of 100, which is fed into the brand value calculation. Based on the score, each brand in the league table is assigned a rating between AAA+ and D in a format similar to a credit rating. AAA+ brands are exceptionally strong and well managed while a failing brand would be assigned a D grade.

Methodology

League Table Valuation Methodology

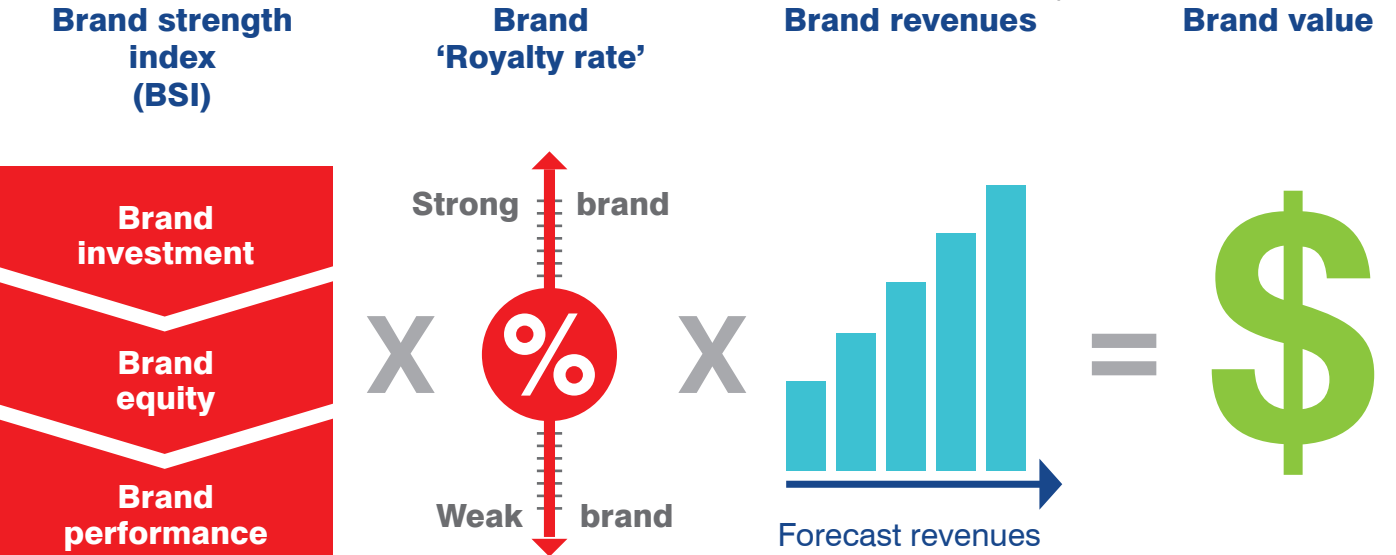
Brand Finance calculates the values of the brands in its league tables using the ‘Royalty Relief approach’. This approach involves estimating the likely future sales that are attributable to a brand and calculating a royalty rate that would be charged for the use of the brand, i.e. what the owner would have to pay for the use of the brand—assuming it were not already owned.

The steps in this process are as follows:

1 Calculate brand strength on a scale of 0 to 100 based on a number of attributes such as emotional connection, financial performance and sustainability, among others. This score is known as the Brand Strength Index, and is calculated using brand data from the BrandAsset® Valuator database, the world’s largest database of brands, which measures brand equity, consideration and emotional imagery attributes to assess brand personality in a category agnostic manner.

- 2 Determine the royalty rate range for the respective brand sectors. This is done by reviewing comparable licensing agreements sourced from Brand Finance’s extensive database of license agreements and other online databases.
- 3 Calculate royalty rate. The brand strength score is applied to the royalty rate range to arrive at a royalty rate. For example, if the royalty rate range in a brand’s sector is 1-5% and a brand has a brand strength score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4.2%.
- 4 Determine brand specific revenues estimating a proportion of parent company revenues attributable to a specific brand.
- 5 Determine forecast brand specific revenues using a function of historic revenues, equity analyst forecasts and economic growth rates.
- 6 Apply the royalty rate to the forecast revenues to derive brand revenues.
- 7 Brand revenues are discounted post tax to a net present value which equals the brand value.

Brand revenues Brand value



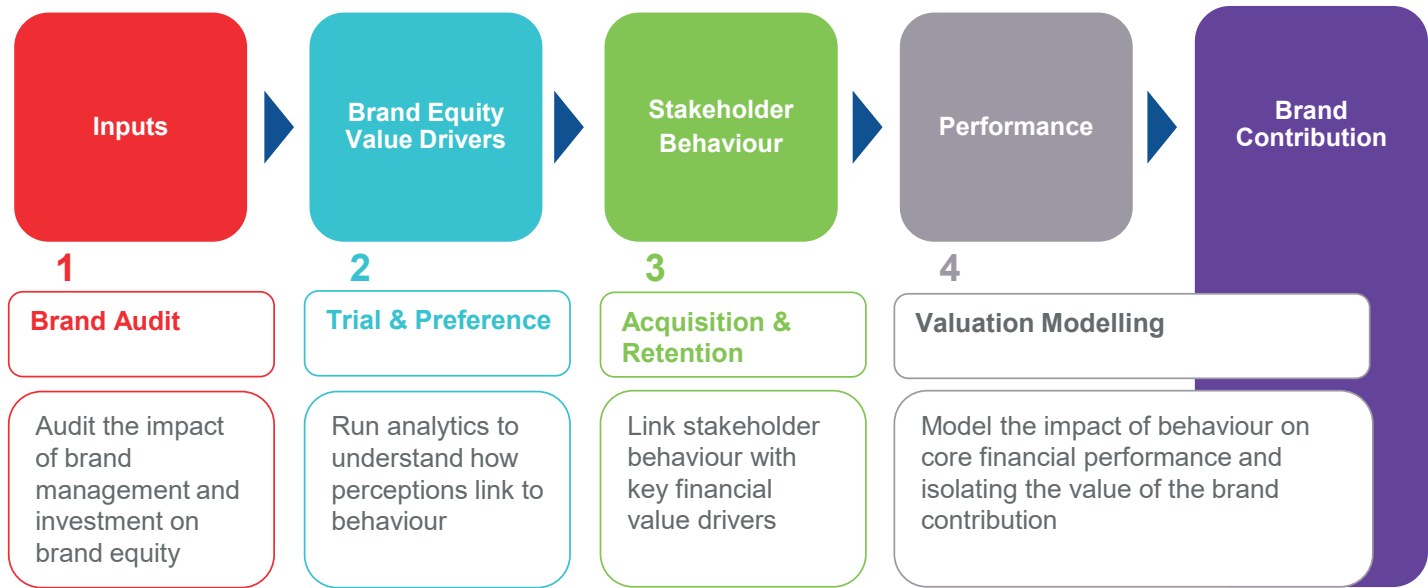
Brand strength expressed as a BSI score out of 100.

BSI score applied to an appropriate sector royalty rate range.

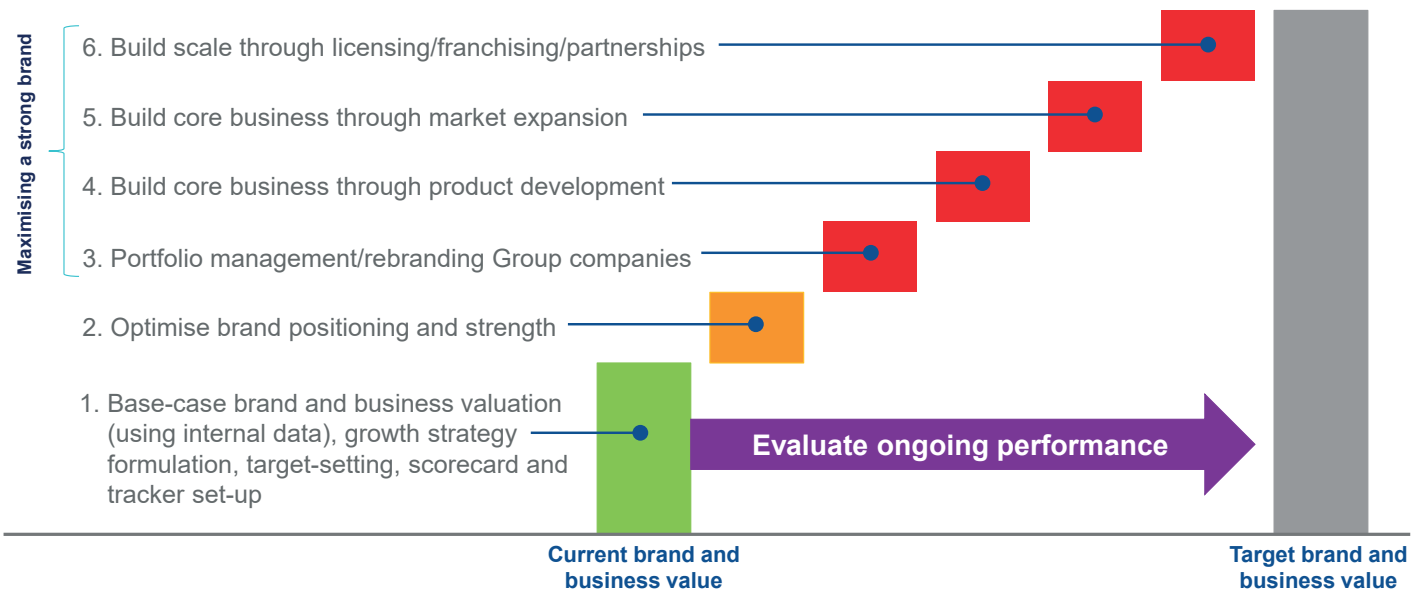
Royalty rate applied to forecast revenues to derive brand values.

Post-tax brand revenues are discounted to a net present value (NPV) which equals the brand value.

Brand Finance Typical Project Approach



How We Help to Maximise Value



Executive Summary

Tobacco 50

































Particularly in the last 15 years, an accelerating tide of regulation has swept over the tobacco industry. There are now with significant restrictions on when and where consumers can buy and use cigarettes in most of the OECD and many other markets too. The advent of plain packaging is an even more fundamental threat, putting the very existence of tobacco firms’ brands at risk. In its strictest form, it will prevent companies from differentiating themselves and from identifying quality and unique features to consumers. This would ultimately commodify the product, leading to a race to the bottom in terms of price and quality.

Yet despite the apparently existential threat of this regulation, the world’s top tobacco firms are managing to increase the value of their brands. Marlboro, the world’s most valuable tobacco brand, has achieved an all-time record brand value of US\$32.4 billion. A decline in Western markets is being offset by growth in other parts of

the world such as China, Indonesia and Africa where regulation remains weaker.

However, Marlboro is also successfully extending its brand into new products. Many of the major tobacco brands were slow off the mark to embrace e-cigarettes however Marlboro’s iQOS system and Heatsticks are now proving hugely popular, demonstrating the brand’s power.

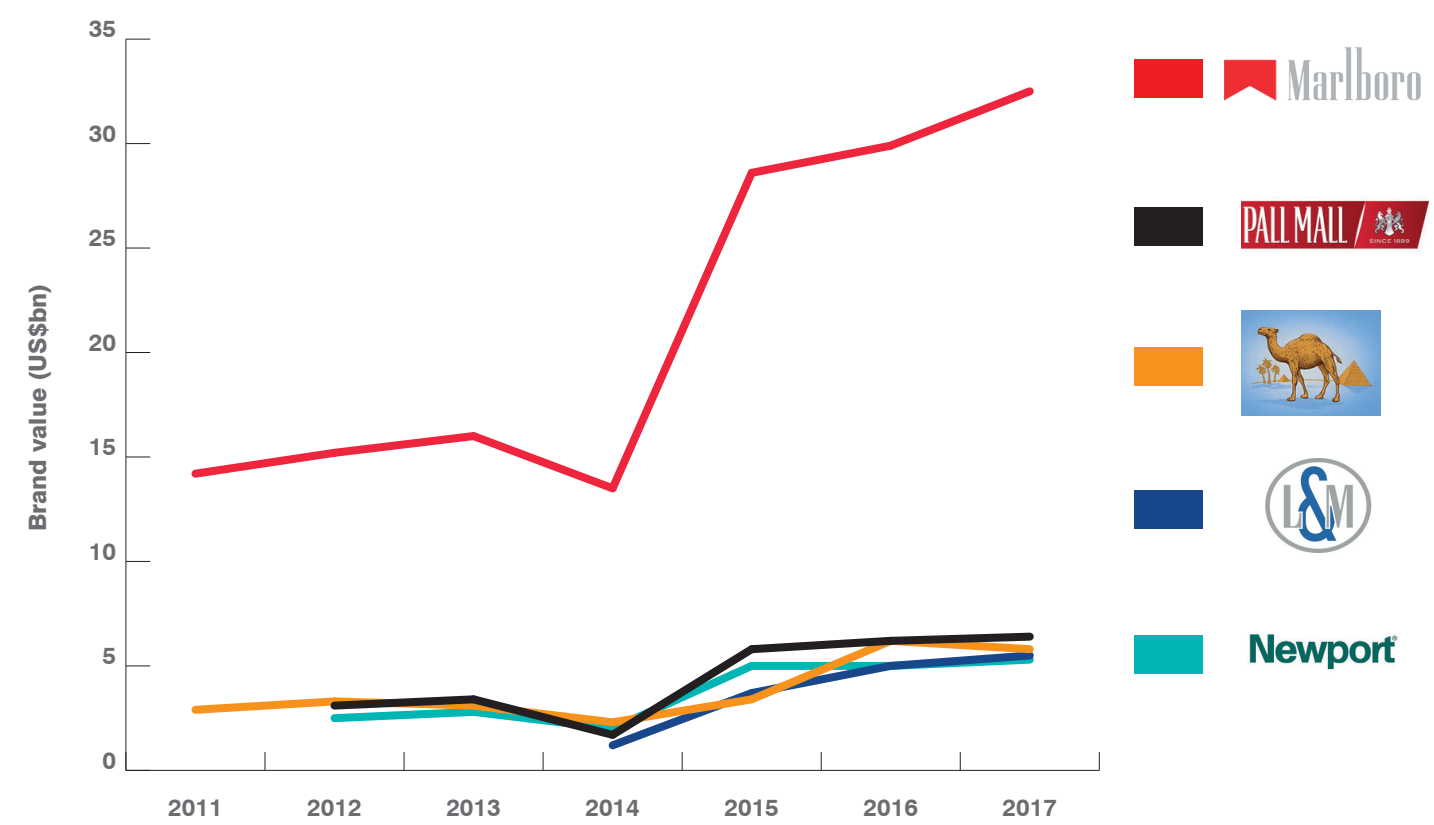
Brand Finance’s CEO David Haigh comments, “Marlboro’s success is by no means an isolated case, with the brand values of major names such as Pall Mall, L&M, Newport and Winston all growing this year and the likes of Parliament, Sampoerna and Chesterfield enjoying double digit growth. Despite the well-founded health concerns and mounting regulation, the value of these brands for their owners and investors remains robust. The day when the value of tobacco brands goes up in smoke is a long way off.”

	1 Rank 2017: 1 2016: 1  BV 2017: \$ 32,471m  BV 2016: \$ 29,935m Brand Rating: AA+		6 Rank 2017: 6 2016: 6  BV 2017: \$ 4,406m  BV 2016: \$ 4,224m Brand Rating: AA-
	2 Rank 2017: 2 2016: 2  BV 2017: \$ 6,427m  BV 2016: \$ 6,201m Brand Rating: AA		7 Rank 2017: 7 2016: 8  BV 2017: \$ 3,813m  BV 2016: \$ 2,868m Brand Rating: AA
	3 Rank 2017: 3 2016: 3  BV 2017: \$ 5,781m  BV 2016: \$ 6,182m Brand Rating: AA		8 Rank 2017: 8 2016: 7  BV 2017: \$ 3,535m  BV 2016: \$ 3,413m Brand Rating: AA+
	4 Rank 2017: 4 2016: 4  BV 2017: \$ 5,481m  BV 2016: \$ 5,032m Brand Rating: AA+		9 Rank 2017: 9 2016: 10  BV 2017: \$ 2,766m  BV 2016: \$ 2,334m Brand Rating: AA-
	5 Rank 2017: 5 2016: 5  BV 2017: \$ 5,290m  BV 2016: \$ 4,968m Brand Rating: AA		10 Rank 2017: 10 2016: 9  BV 2017: \$ 2,740m  BV 2016: \$ 2,602m Brand Rating: AA

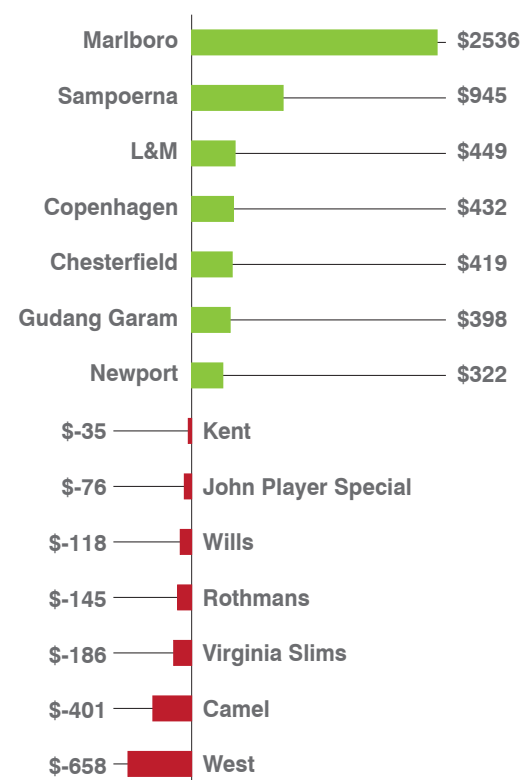


Executive Summary

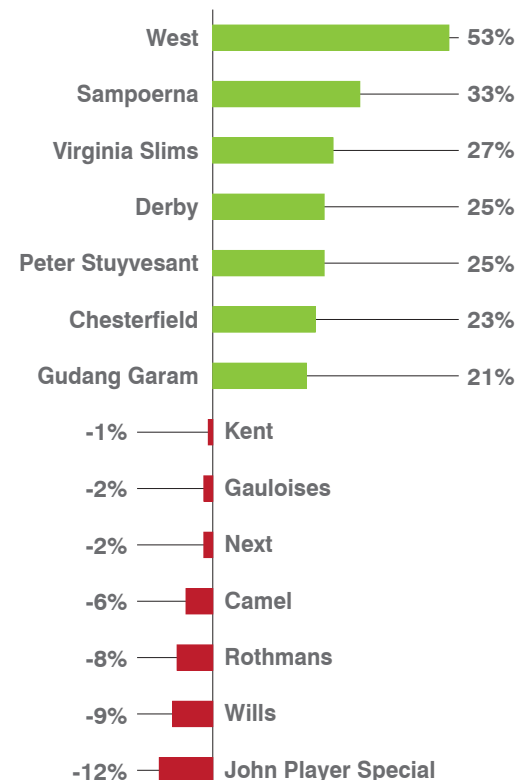
Brand Value Over Time



Brand Value Change 2016-2017 (USDm)



Brand Value Change 2016-2017 (%)

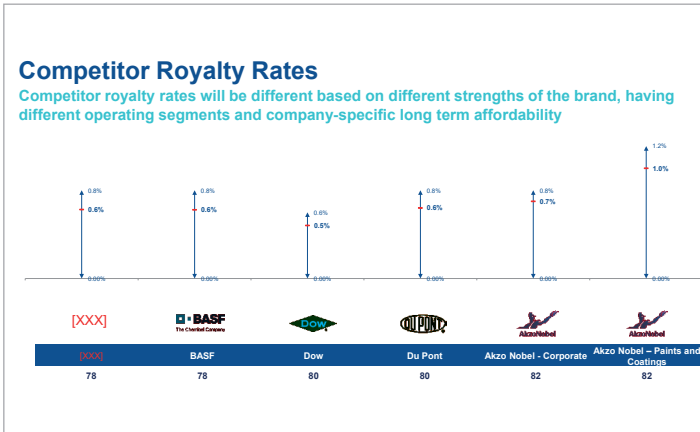
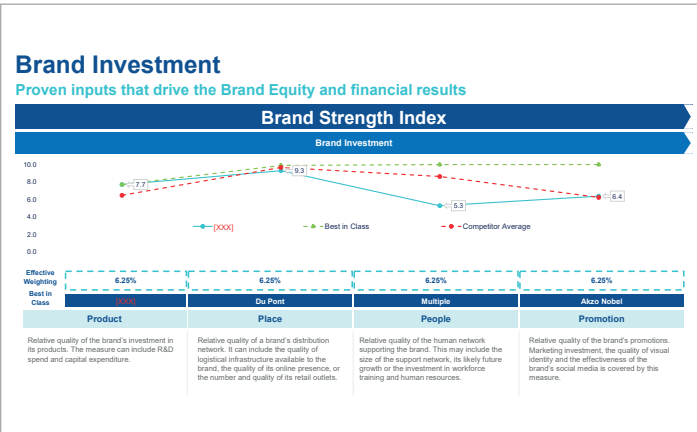
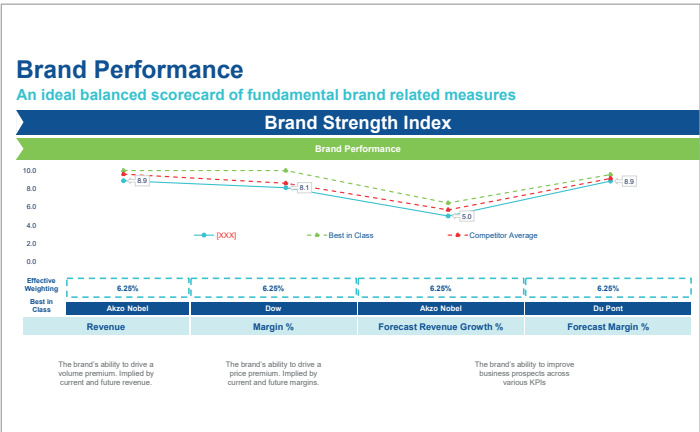
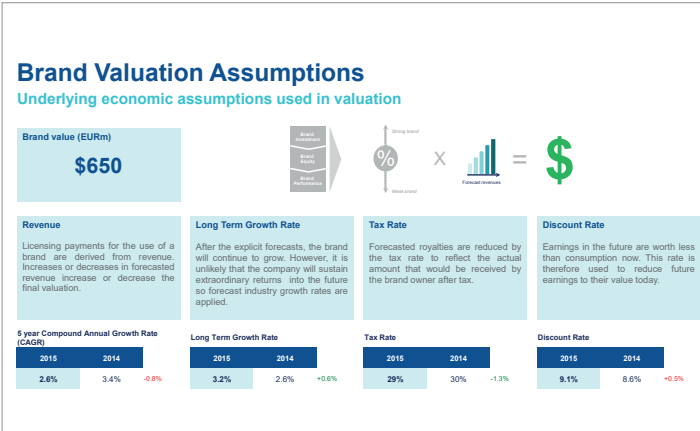
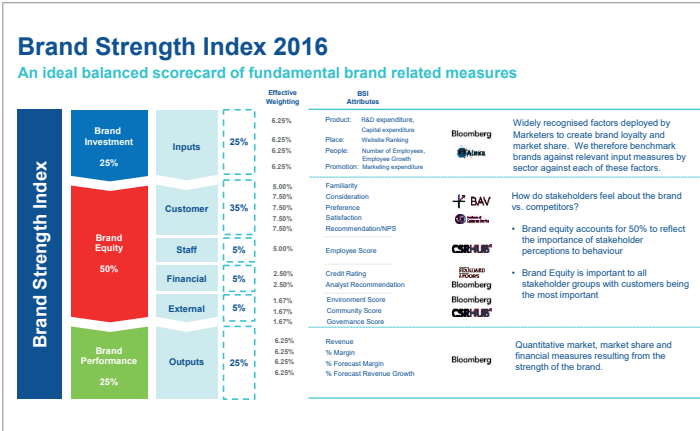
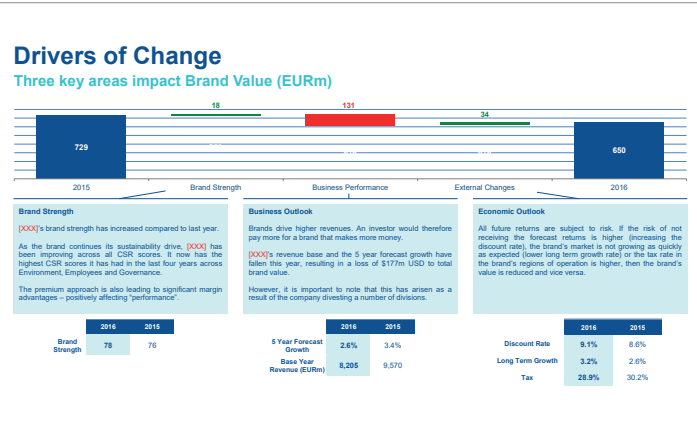
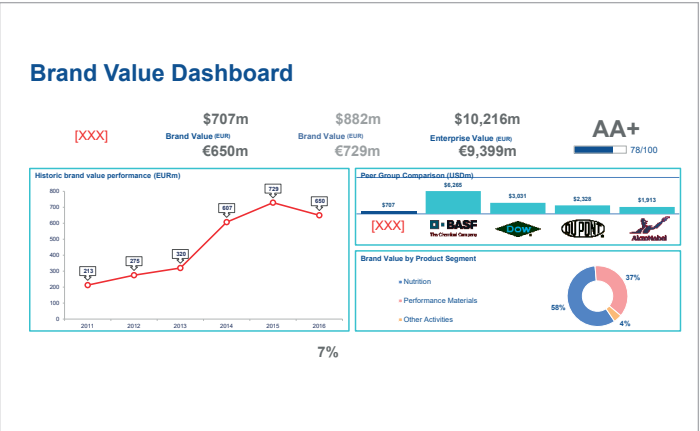


Brand Finance Tobacco 50 (USDm)

Top 50 most valuable tobacco brands 1 - 50.

Rank 2017	Rank 2016	Brand name	Domicile	Brand value (USDm) 2017	% change	Brand value(USDm) 2016	Brand rating 2017	Brand rating 2016
1	1	Marlboro	United States	32,471	8%	29,935	AA+	AAA-
2	2	Pall Mall	United Kingdom	6,427	4%	6,201	AA	AA
3	3	Camel	United States	5,781	-6%	6,182	AA	AA
4	4	L&M	United States	5,481	9%	5,032	AA+	AA
5	5	Newport	United States	5,290	6%	4,968	AA	AA
6	6	Winston	United States	4,406	4%	4,224	AA-	AA
7	8	Sampoerna	Indonesia	3,813	33%	2,868	AA	AA-
8	7	Gold Flake	India	3,535	4%	3,413	AA+	AA+
9	10	Copenhagen	United States	2,766	19%	2,334	AA-	AA+
10	9	Mevius	Japan	2,740	5%	2,602	AA	AA+
11	13	Parliament						
12	11	Kent						
13	15	Gudang Garam						
14	16	Chesterfield						
15	12	Dunhill						
16	14	Grizzly						
17	19	Philip Morris						
18	18	Bond Street						
19	17	Rothmans						
20	21	Esse						
21	23	Skoal						
22	22	Lucky Strike						
23	28	Fortune International						
24	26	Viceroy						
25	27	Next						
26	25	Wills						
27	32	LD						
28	35	Lark						
29	34	Dji Sam Soe						
30	41	Derby						
31	33	Natural American Spirit						
32	36	Alliance						
33	49	Peter Stuyvesant						
34	46	Morven Gold						
35	31	U Mild						
36	New	West						
37	42	John Player Special						
38	48	Gauloises						
39	New	Davidoff						
40	New	Free						
41	New	Doral						
42	40	Virginia Slims						
43	New	Hollywood						
44	New	MS						
45	New	Scissors						
46	New	Yava						
47	New	Seven Stars						
48	39	Benson & Hedges						
49	New	Pryluky						
50	New	Vogue						

Understand Your Brand's Value



A Brand Value Report provides a complete breakdown of the assumptions, data sources and calculations used to arrive at your brand's value. Each report includes expert recommendations for growing brand value to drive business performance and offers a cost-effective way to gaining a better understanding of your position against competitors.

A full report includes the following sections which can also be purchased individually.

Brand Valuation Summary

Overview of the brand valuation including executive summary, explanation of changes in brand value and historic and peer group comparisons.

- + Internal understanding of brand
- + Brand value tracking
- + Competitor benchmarking
- + Historical brand value

Brand Strength Index

A breakdown of how the brand performed on various metrics of brand strength, benchmarked against competitor brands in a balanced scorecard framework.

- + Brand strength tracking
- + Brand strength analysis
- + Management KPI's
- + Competitor benchmarking

Royalty Rates

Analysis of competitor royalty rates, industry royalty rate ranges and margin analysis used to determine brand specific royalty rate.

- + Transfer pricing
- + Licensing/ franchising negotiation
- + International licensing
- + Competitor benchmarking

Cost of Capital

A breakdown of the cost of capital calculation, including risk free rates, brand debt risk premiums and the cost of equity through CAPM.

- + Independent view of cost of capital for internal valuations and project appraisal exercises

Trademark Audit

Analysis of the current level of protection for the brands word marks and trademark iconography highlighting areas where the marks are in need of protection.

- + Highlight unprotected marks
- + Spot potential infringement
- + Trademark registration strategy

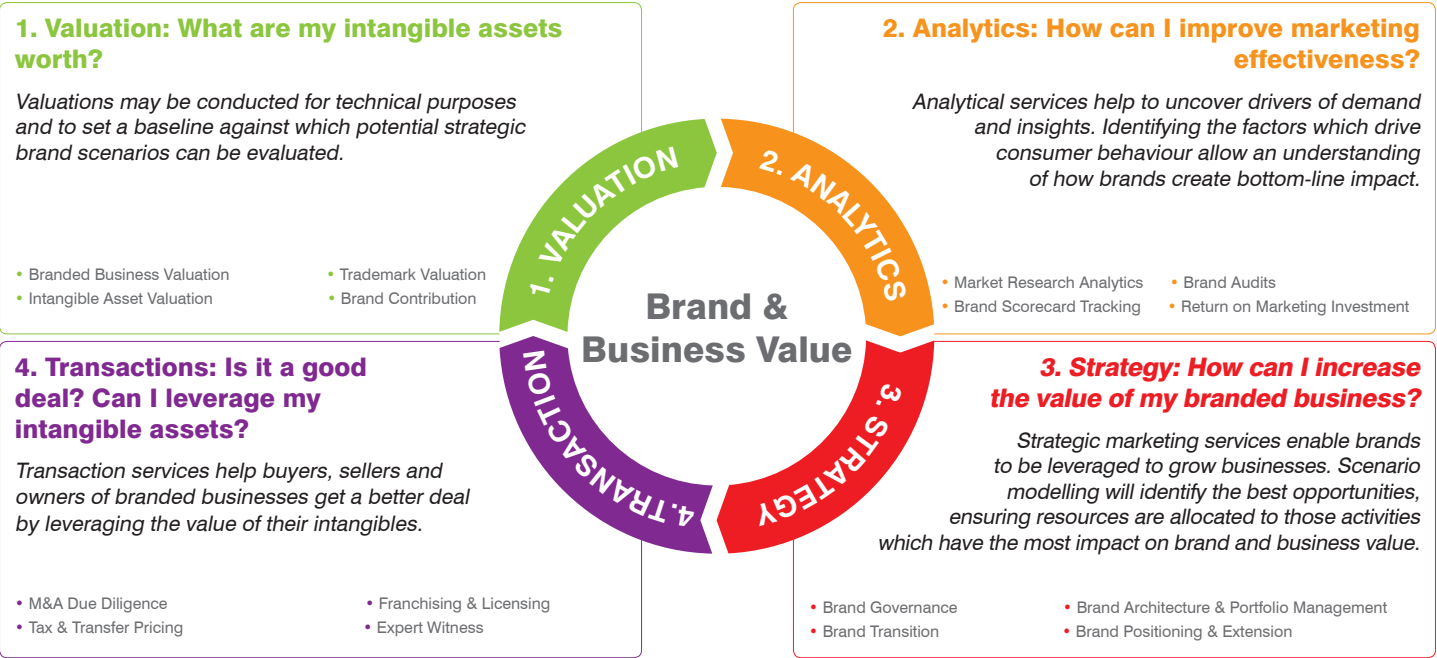
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How we can help



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