



Tobacco 10 2018

The annual report on the world's most valuable tobacco brands
November 2018

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. Sceptical 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 marketing and finance. 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 marketing 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 branded business valuations to help answer these questions.

Brand Finance’s research revealed the compelling link between strong brands and stock market performance. It was found that investing in 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.

About Brand Finance.

Brand Finance is the world’s leading independent brand valuation and strategy consultancy.

Brand Finance was set up in 1996 with the aim of ‘bridging the gap between marketing and finance’. For more than 20 years, we have helped companies and organisations of all types to connect their brands to the bottom line.

We pride ourselves on four key strengths:

- Independence
- Technical Credibility
- Transparency
- Expertise.

Brand Finance puts thousands of the world’s biggest brands to the test every year, evaluating which are the strongest and most valuable.

For more information, please visit our website:
www.brandfinance.com



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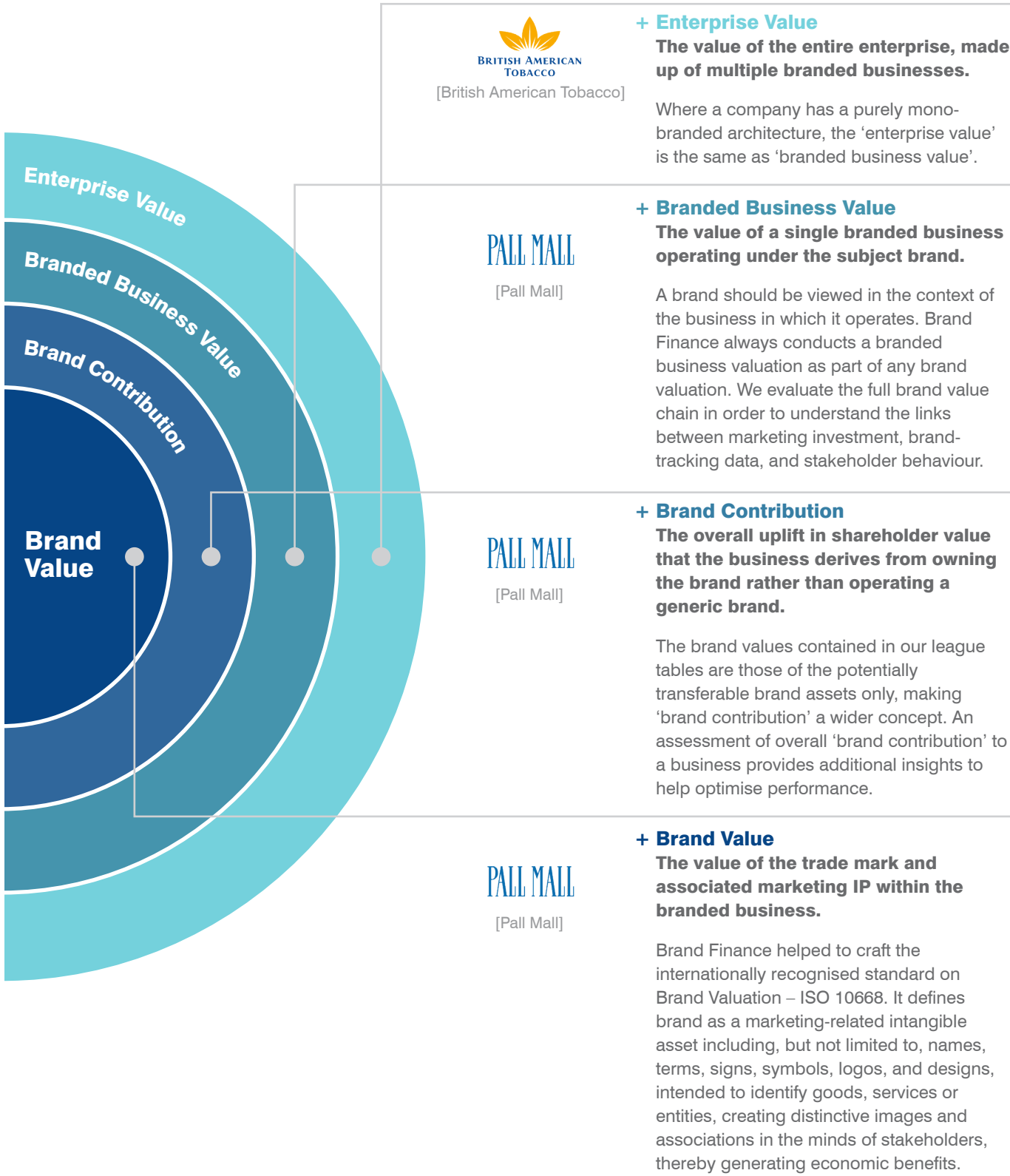
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Definitions.

Brand Value



Brand Strength

Brand Strength is the efficacy of a brand's performance on intangible measures, relative to its competitors.

Each brand is assigned a Brand Strength Index (BSI) score out of 100, which feeds into the brand value calculation. Based on the score, each brand is assigned a corresponding rating up to AAA+ in a format similar to a credit rating.

In order to determine the strength of a brand, we look at Marketing Investment, Stakeholder Equity, and the impact of those on Business Performance.

Analysing the three brand strength measures helps inform managers of a brand's potential for future success.

Brand Strength Index	Marketing Investment	Widely recognised factors deployed by marketers to create brand loyalty and market share.
	Stakeholder Equity	Perceptions of the brand among different stakeholder groups, with customers being the most important.
	Business Performance	Quantitative market and financial measures representing the success of the brand in achieving price and volume premium.



Executive Summary.



Brand values go up in smoke

The majority of the world’s biggest tobacco brands have lost brand value year on year, as increasing regulatory challenges and new product offerings are taking their toll on the traditional tobacco industry. Seeing an average 6% reduction of brand value since 2017, tobacco brands are visibly behind brands from other sectors, with a global average growth rate of 13%.

Philip Morris International, the owner of the Marlboro brand, are making significant efforts to protect their brand in the future by investing in non-combustible tobacco products, such as the IQOS (which stands for I Quit Ordinary Smoking) device to heat, rather than burn, tobacco. As tobacco brands look to alternatives from traditional cigarettes, campaigns, such as the “Hold my Light” initiative from Philip Morris International to encourage people to quit smoking, are growing in popularity.

Migrating its customer base away from cigarettes and encouraging smokers to move across to other Philip Morris-branded alternatives such as its IQOS heated tobacco offering or the newly launched e-cig product

In recent years, the tobacco industry has faced tidal waves of change, with many countries introducing plain packaging rules or higher taxes. Now, with the rise of vaping and e-cigarette alternatives to traditional cigarette smoking, big tobacco brands have an opportunity to offset short-term financial losses by adjusting their offering, thus averting the crisis in the long run.

David Haigh
CEO, Brand Finance

IQOS Mesh is a double win for Phillip Morris. The company can be seen to be doing good by encouraging people to smoke less, but also cleverly captures our attention and introduces us to the variety of other products being actively marketed.

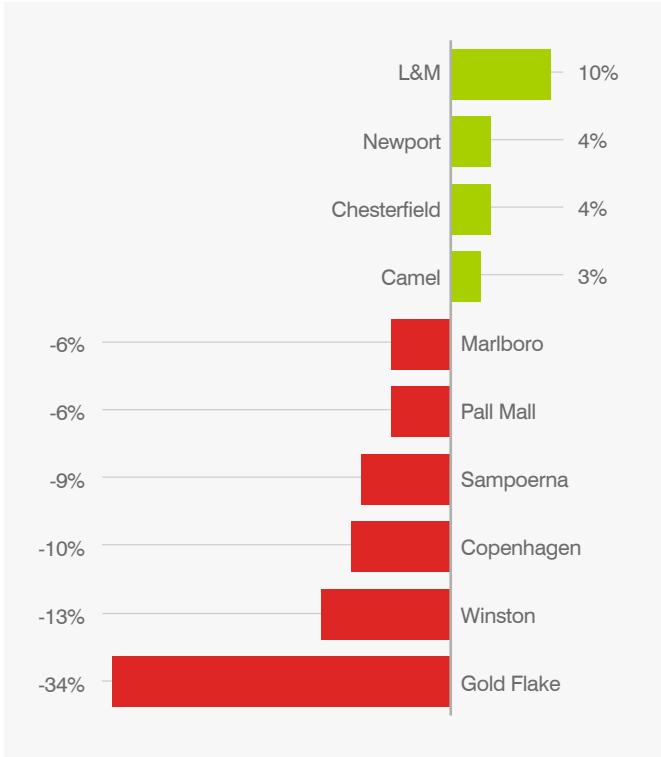
Marlboro tops the ranking

Valued at US\$30.5 billion, Marlboro continues to dominate as the world’s most valuable tobacco brand. Effectively tied for second place, Pall Mall (brand value down 6% to US\$6.0 billion) and L&M (brand value up 10% to US\$6.0 billion) remain a long-way behind Marlboro, but just ahead of Camel (brand value up 3% to US\$5.9 billion) and Newport (brand value up 5% to US\$5.5 billion).

Gold Flake loses shine

Further down the table, Winston (down 13% to US\$3.8 billion), Sampoerna (down 9% to US\$3.5 billion), and Copenhagen (down 10% to US\$2.5 billion) have each recorded a decrease to their brand value. However, the most drastic fall comes from India’s Gold Flake (down

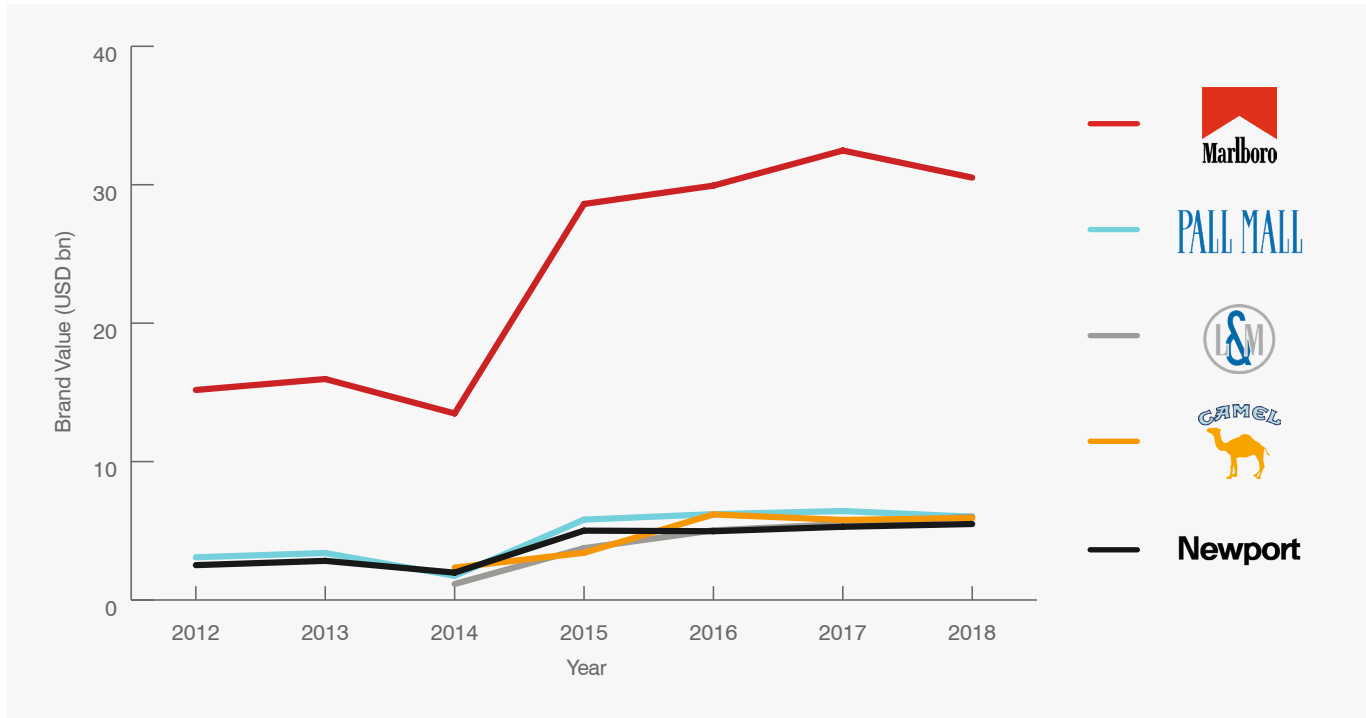
Brand Value Change 2017-2018 (%)



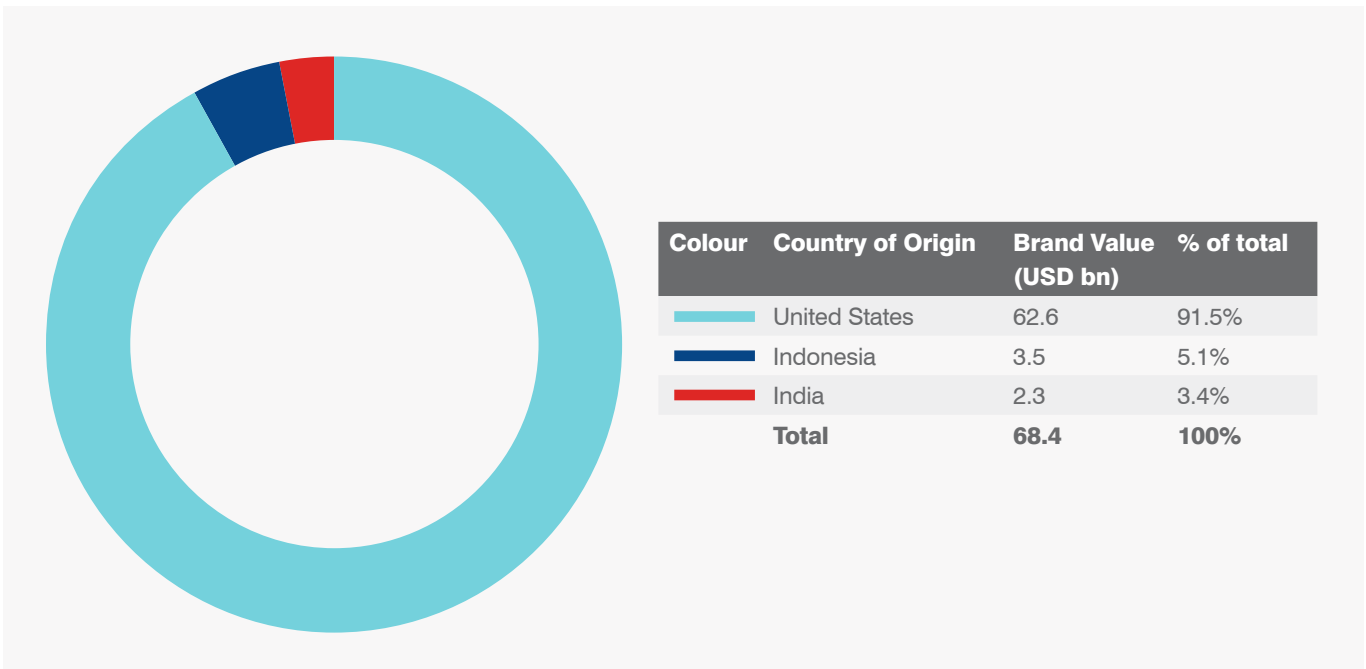
Top 10 Most Valuable Brands

	1	Rank 2018: 1 2017: 1 → BV 2018: \$30,513m BV 2017: \$32,471m -6% Brand Rating: AA+
	2	Rank 2018: 2 2017: 2 → BV 2018: \$6,016m BV 2017: \$6,427m -6% Brand Rating: AA-
	3	Rank 2018: 3 2017: 4 ↑ BV 2018: \$6,016m BV 2017: \$5,481m +10% Brand Rating: AA+
	4	Rank 2018: 4 2017: 3 ↓ BV 2018: \$5,928m BV 2017: \$5,781m +3% Brand Rating: AA+
	5	Rank 2018: 5 2017: 5 → BV 2018: \$5,490m BV 2017: \$5,290m +4% Brand Rating: AA-
	6	Rank 2018: 6 2017: 6 → BV 2018: \$3,835m BV 2017: \$4,406m -13% Brand Rating: AA-
	7	Rank 2018: 7 2017: 7 → BV 2018: \$3,460m BV 2017: \$3,813m -9% Brand Rating: AA-
	8	Rank 2018: 8 2017: 9 ↑ BV 2018: \$2,493m BV 2017: \$2,766m -10% Brand Rating: A+
	9	Rank 2018: 9 2017: 8 ↓ BV 2018: \$2,339m BV 2017: \$3,535m -34% Brand Rating: AA+
	10	Rank 2018: 10 2017: 14 ↑ BV 2018: \$2,330m BV 2017: \$2,249m +4% Brand Rating: AA

Brand Value Over Time



Brand Value by Country of Origin



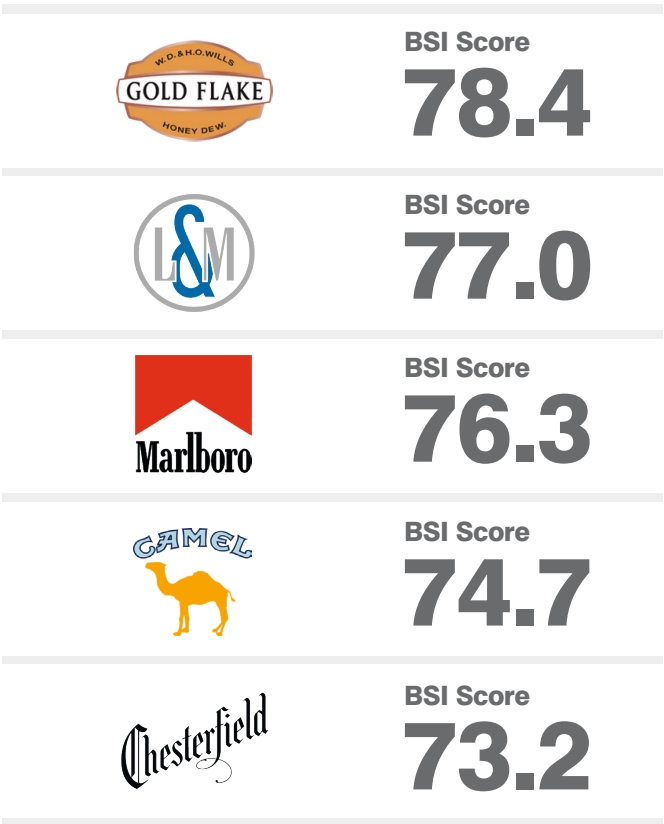
34% to US\$2.3 billion), a result of the Indian government increasing taxes on cigarettes under its goods and services tax. Under this legislation, cigarettes are taxed as a luxury good, at 28 per cent with an extra 5 per cent sin tax, plus an additional rate on top of that depending on their length and whether they are filtered or unfiltered.

Regulatory restrictions

With OECD countries imposing harsh restrictions on tobacco marketing, according to the World Health Organisation, 80% of the world's 1 billion smokers are now in low- and middle-income countries, where marketing of tobacco products is much more widespread. However, with the rise of anti-smoking policies in developing economies, such as India, big tobacco brands now also need to adjust their brand management strategies there.

At the same time, the spread of plain packaging may further reduce the strength and value of big tobacco brands. Combined with existing advertising restrictions, removing even packaging differentiation will unavoidably cause further harm to tobacco brands in the future.

Top 5 Strongest Brands



Methodology.

Brand Finance calculates the values of the brands in its league tables using the Royalty Relief approach – a brand valuation method compliant with the industry standards set in ISO 10668.

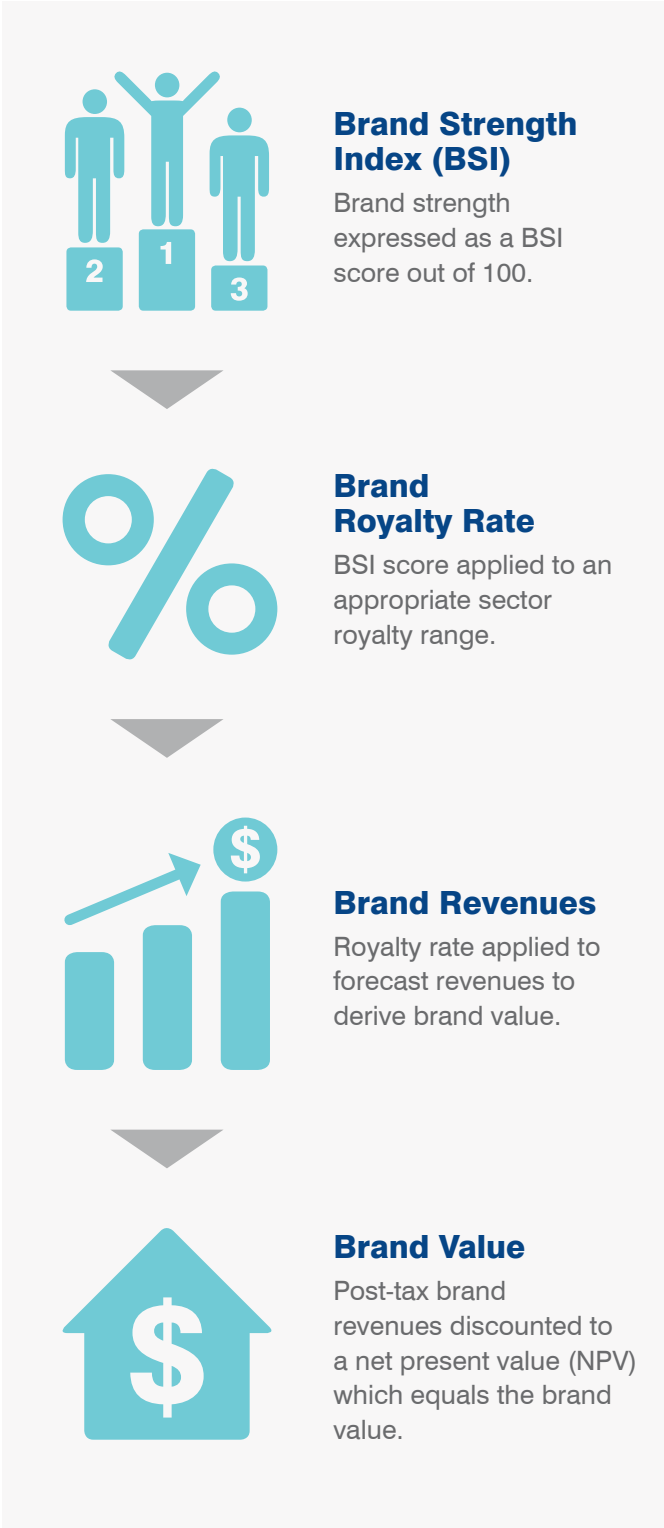
This involves estimating the likely future revenues that are attributable to a brand by calculating a royalty rate that would be charged for its use, to arrive at a ‘brand value’ understood as a net economic benefit that a licensor would achieve by licensing the brand in the open market.

The steps in this process are as follows:

- 1 Calculate brand strength using a balanced scorecard of metrics assessing Marketing Investment, Stakeholder Equity, and Business Performance. Brand strength is expressed as a Brand Strength Index (BSI) score on a scale of 0 to 100.
- 2 Determine royalty range for each industry, reflecting the importance of brand to purchasing decisions. In luxury, the maximum percentage is high, in extractive industry, where goods are often commoditised, it is lower. This is done by reviewing comparable licensing agreements sourced from Brand Finance’s extensive database.
- 3 Calculate royalty rate. The BSI score is applied to the royalty range to arrive at a royalty rate. For example, if the royalty range in a sector is 0-5% and a brand has a BSI score of 80 out of 100, then an appropriate royalty rate for the use of this brand in the given sector will be 4%.
- 4 Determine brand-specific revenues by estimating a proportion of parent company revenues attributable to a brand.
- 5 Determine forecast 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.

Disclaimer

Brand Finance has produced this study with an independent and unbiased analysis. The values derived and opinions produced in this study are based only on publicly available information and certain assumptions that Brand Finance used where such data was deficient or unclear. Brand Finance accepts no responsibility and will not be liable in the event that the publicly available information relied upon is subsequently found to be inaccurate. The opinions and financial analysis expressed in the report are not to be construed as providing investment or business advice. Brand Finance does not intend the report to be relied upon for any reason and excludes all liability to any body, government or organisation.



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.

What is a Brand Value Report?

Brand Valuation Summary

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

Brand Strength Index

- + Brand strength tracking
- + Brand strength analysis
- + Management KPIs
- + Competitor benchmarking

Royalty Rates

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

Cost of Capital

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

Customer Research

- + Utilities
- + Insurance
- + Banks
- + Telecoms

For more information regarding our Brand Value Reports, please contact:

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What are the benefits of a Brand Value Report?



Insight

Provide insight as to how the brand is performing vs. key competitors on underlying measures and drivers of brand value and brand strength.



Strategy

Understand where brand value is being generated by region and channel in order to identify areas of opportunity that warrant further investigation.



Benchmarking

Track year-on-year changes to brand value and set long-term objectives against which high-level brand performance can be benchmarked.



Education

Provide a platform of understanding which the company can use to educate employees on the importance of the brand.



Communication

Communicate your brand’s success to shareholders, customers, and other strategically selected audiences.



Understanding

Understand and appreciate the value of your brand as an asset of the business.

Consulting Services.



Communications Services.

We offer a variety of services to help communicate your brand's success.





Brand Finance[®]

Strongest Global Brand 2018

Your Brand

Example digital endorsement stamp for use on your website as well as in investor relations and advertising, to recognise your brand's performance.

Contact us.

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