Tobacco
10
2018

The annual report on the world’s most valuable tobacco brands
November 2018
Foreword.

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.

David Haigh
CEO, Brand Finance
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

Contact Details.

For business enquiries, please contact:
Richard Haigh
Managing Director
rd.haigh@brandfinance.com

For media enquiries, please contact:
Konrad Jagodziński
Communications Director
k.jagodzinski@brandfinance.com

For all other enquiries, please contact:
enquiries@brandfinance.com
+44 (0)207 389 9400

linkedin.com/company/brand-finance
facebook.com/brandfinance
twitter.com/brandfinance

For further information on Brand Finance®'s services and valuation experience, please contact your local representative:

<table>
<thead>
<tr>
<th>Country</th>
<th>Contact</th>
<th>Email Address</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td>Sumeet Dixit</td>
<td><a href="mailto:s.dixit@brandfinance.com">s.dixit@brandfinance.com</a></td>
<td>+65 906 68 651</td>
</tr>
<tr>
<td>Australia</td>
<td>Mark Crowe</td>
<td><a href="mailto:m.crowe@brandfinance.com">m.crowe@brandfinance.com</a></td>
<td>+61 282 498 300</td>
</tr>
<tr>
<td>Canada</td>
<td>Charles Scarlett-Smith</td>
<td><a href="mailto:c.scarlett-smith@brandfinance.com">c.scarlett-smith@brandfinance.com</a></td>
<td>+1 647 347 366</td>
</tr>
<tr>
<td>Caribbean</td>
<td>Nigel Cooper</td>
<td><a href="mailto:n.cooper@brandfinance.com">n.cooper@brandfinance.com</a></td>
<td>+1 978 828 598</td>
</tr>
<tr>
<td>China</td>
<td>Scott Chen</td>
<td><a href="mailto:s.chen@brandfinance.com">s.chen@brandfinance.com</a></td>
<td>+86 1500 118 821</td>
</tr>
<tr>
<td>East Africa</td>
<td>Jazad Jaffer</td>
<td><a href="mailto:j.jaffer@brandfinance.com">j.jaffer@brandfinance.com</a></td>
<td>+254 294 440 050</td>
</tr>
<tr>
<td>Germany</td>
<td>Holger Mühlbauer</td>
<td><a href="mailto:h.muehlbauer@brandfinance.com">h.muehlbauer@brandfinance.com</a></td>
<td>+49 1515 474 9634</td>
</tr>
<tr>
<td>India</td>
<td>Suresh D’Souza</td>
<td><a href="mailto:s.dssouza@brandfinance.com">s.dssouza@brandfinance.com</a></td>
<td>+91 215 379 3400</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Jimmy Heim</td>
<td><a href="mailto:j.heim@brandfinance.com">j.heim@brandfinance.com</a></td>
<td>+62 215 378 506</td>
</tr>
<tr>
<td>Ireland</td>
<td>Simon Haigh</td>
<td><a href="mailto:s.haigh@brandfinance.com">s.haigh@brandfinance.com</a></td>
<td>+353 087 900 9851</td>
</tr>
<tr>
<td>Italy</td>
<td>Matteo Pizzuto</td>
<td><a href="mailto:m.pizzuto@brandfinance.com">m.pizzuto@brandfinance.com</a></td>
<td>+39 02 303 125 105</td>
</tr>
<tr>
<td>Japan</td>
<td>Jun Tanaka</td>
<td><a href="mailto:j.tanaka@brandfinance.com">j.tanaka@brandfinance.com</a></td>
<td>+81 90 7106 1801</td>
</tr>
<tr>
<td>Mexico &amp; LatAm</td>
<td>Lawrence Newell</td>
<td><a href="mailto:l.newell@brandfinance.com">l.newell@brandfinance.com</a></td>
<td>+52 1559 597 1925</td>
</tr>
<tr>
<td>Middle East</td>
<td>Andrew Campbell</td>
<td><a href="mailto:a.campbell@brandfinance.com">a.campbell@brandfinance.com</a></td>
<td>+971 568 113 341</td>
</tr>
<tr>
<td>Nigeria</td>
<td>Babatunde Oduomo</td>
<td><a href="mailto:b.oduomo@brandfinance.com">b.oduomo@brandfinance.com</a></td>
<td>+234 012 311 988</td>
</tr>
<tr>
<td>Romania</td>
<td>Mihai Bogdan</td>
<td><a href="mailto:m.bogdan@brandfinance.com">m.bogdan@brandfinance.com</a></td>
<td>+40 728 702 705</td>
</tr>
<tr>
<td>Spain</td>
<td>Teresa de Lemos</td>
<td><a href="mailto:t.delemos@brandfinance.com">t.delemos@brandfinance.com</a></td>
<td>+34 654 431 043</td>
</tr>
<tr>
<td>South Africa</td>
<td>Jeremy Sampson</td>
<td><a href="mailto:j.sampson@brandfinance.com">j.sampson@brandfinance.com</a></td>
<td>+27 828 857 300</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>Rushi Gunewardene</td>
<td><a href="mailto:r.gunewardene@brandfinance.com">r.gunewardene@brandfinance.com</a></td>
<td>+94 114 941 670</td>
</tr>
<tr>
<td>Turkey</td>
<td>Mahiren Singh</td>
<td><a href="mailto:m.singh@brandfinance.com">m.singh@brandfinance.com</a></td>
<td>+90 216 332 720</td>
</tr>
<tr>
<td>UK</td>
<td>Richard Haigh</td>
<td><a href="mailto:r.haigh@brandfinance.com">r.haigh@brandfinance.com</a></td>
<td>+44 207 393 9430</td>
</tr>
<tr>
<td>USA</td>
<td>Lawrence Newell</td>
<td><a href="mailto:l.newell@brandfinance.com">l.newell@brandfinance.com</a></td>
<td>+1 917 794 3249</td>
</tr>
<tr>
<td>Vietnam</td>
<td>Le Van Minh</td>
<td><a href="mailto:l.v.minh@brandfinance.com">l.v.minh@brandfinance.com</a></td>
<td>+84 471 004 466</td>
</tr>
</tbody>
</table>

Contents.

Foreword 3
About Brand Finance 4
Contact Details 4
Definitions 6
Executive Summary 8
Methodology 12
Understand Your Brand’s Value 13
Consulting Services 14
Communications Services 15
Definitions.

**Brand Value**

- **Enterprise Value**
  The value of the entire enterprise, made up of multiple branded businesses.

  Where a company has a purely mono-branded architecture, the 'enterprise value' is the same as 'branded business value'.

- **Branded Business Value**
  The value of a single branded business operating under the subject brand.

  A brand should be viewed in the context of the business in which it operates. Brand Finance always conducts a branded business valuation as part of any brand valuation. We evaluate the full brand value chain in order to understand the links between marketing investment, brand-tracking data, and stakeholder behaviour.

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

  The brand values contained in our league tables are those of the potentially transferable brand assets only, making 'brand contribution' a wider concept. An assessment of overall 'brand contribution' to a business provides additional insights to help optimise performance.

- **Brand Value**
  The value of the trade mark and associated marketing IP within the branded business.

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

**Brand Strength**

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

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

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.

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

- **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.

**Brand Strength Index**

- **Marketing Investment**
  • A brand that has high Marketing Investment but low Stakeholder Equity may be on a path to growth. High investment is likely to lead to future performance in Stakeholder Equity which would in turn lead to better Business Performance in the future.
  • However, high Marketing Investment over an extended period with little improvement in Stakeholder Equity would imply that the brand is unable to shape customers’ preference.

- **Stakeholder Equity**
  • The same is true for Stakeholder Equity. If a company has high Stakeholder Equity, it is likely that Business Performance will improve in the future.
  • However, if the brand’s poor Business Performance persists, it would suggest that the brand is inefficient compared to its competitors in transferring stakeholder sentiment to a volume or price premium.

- **Business Performance**
  • Finally, if a brand has a strong Business Performance but scores poorly on Stakeholder Equity, it would imply that, in the future, the brand’s ability to drive value will diminish.
  • However, if it is able to sustain these higher outputs, it shows that the brand is particularly efficient at creating value from sentiment compared to its competitors.
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 IQOS Mesh is a double win for Philip 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 34% to US$2.2 billion).

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
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.

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<th>% of total</th>
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<td>91.9%</td>
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<td>India</td>
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<td>3.4%</td>
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</tr>
<tr>
<td>Total</td>
<td>68.4</td>
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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 on publicly available information and certain assumptions that Brand Finance used where such data was not available or provided. 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.

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:

Richard Haigh
Managing Director, Brand Finance
rd.haigh@brandfinance.com

What are the benefits of a Brand Value Report?

Insight
Provide insight as to how the brand is performing versus 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.

1. Valuation: What are my intangible assets worth?
Valuations may be conducted for technical purposes and to set a baseline against which potential strategic brand scenarios can be evaluated.
- Branded Business Valuation
- Trademark Valuation
- Intangible Asset Valuation
- Brand Contribution

2. Analytics: How can I improve marketing effectiveness?
Analytical services help to uncover drivers of demand and insights. Identifying the factors which drive consumer behaviour allows an understanding of how brands create bottom-line impact.
- Market Research Analytics
- Return on Marketing Investment
- Brand Audits
- Brand Scorecard Tracking

3. Strategy: How can I increase the value of my branded business?
Strategic marketing services enable brands to be leveraged to grow businesses. Scenario modelling will identify the best opportunities, ensuring resources are allocated to those activities which have the most impact on brand and business value.
- Brand Governance
- Brand Architecture & Portfolio Management
- Brand Transition
- Brand Positioning & Extension

4. Transactions: Is it a good deal? Can I leverage my intangible assets?
Transaction services help buyers, sellers, and owners of branded businesses get a better deal by leveraging the value of their intangibles.
- M&A Due Diligence
- Franchising & Licensing
- Tax & Transfer Pricing
- Expert Witness

We help marketers to connect their brands to business performance by evaluating the return on investment (ROI) of brand-based decisions and strategies.
We provide financiers and auditors with an independent assessment on all forms of brand and intangible asset valuations.
We help brand owners and fiscal authorities to understand the implications of different tax, transfer pricing, and brand ownership arrangements.
We help clients to enforce and exploit their intellectual property rights by providing independent expert advice in- and outside of the courtroom.

Communications Services.

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

- Press Release: Assist with the creation of a press release communicating your brand’s success.
- CEO Quote: Supply a quote in recognition of your brand’s performance for you to use in external and internal communications.
- Social Media: Coordinate with your social media activity to communicate your brand’s success more effectively.
- Awards: Produce an accolade plaque and handwritten certificates, personally signed by our CEO, to recognise your brand’s performance.
- Advertising: Allow full use of the Brand Finance logo on your ad designs and create a bespoke digital endorsement stamp for your website and investor relations use.

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