

Press Release: For Immediate Release

Tobacco Brand Values Hit New Highs In Spite of Regulation

- **Marlboro brand value hits record high of US\$32.4 billion**
- **The world's most tobacco brand is successfully extending its brand**
- **Over 80% of tobacco brands growing in value**

Every year, leading valuation and strategy consultancy [Brand Finance](#) values the brands of thousands of the world's biggest companies. Brands are first evaluated to determine their power / strength (based on factors such as marketing investment, familiarity, loyalty, staff satisfaction and corporate reputation) and given a corresponding letter grade up to AAA+. Brand strength is used to determine what proportion of a business's revenue is contributed by the brand, which is projected into perpetuity to determine the brand's value. The world's most valuable tobacco brands are ranked and included in the Brand Finance Tobacco 50 2017.

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."

ENDS

Note to Editors

Brand values are reported in USD. For precise conversions into local currency values, please confirm rates with the Brand Finance team.

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About Brand Finance

[Brand Finance](#) is the world's leading brand valuation and strategy consultancy, with offices in over 15 countries. We provide clarity to marketers, brand owners and investors by quantifying the financial value of brands. Drawing on expertise in strategy, branding, market research, visual identity, finance, tax and intellectual property, Brand Finance helps clients make the right decisions to maximise brand and business value and bridges the gap between marketing and finance.

Methodology

Definition of Brand

When looking at brands as business assets that can be bought, sold and licensed, a 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.”

However, a brand makes a contribution to a company beyond that which can be sold to a third party. ‘Brand Contribution’ refers to the total economic benefit that a business derives from its brand, from volume and price premiums over generic products to cost savings over less well-branded competitors.

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.

Approach

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:

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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 0-5% 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%.

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.