

GROWTH MARKETS AND USA



“We achieved a good set of results in Growth Markets and the USA as we continued to drive the performance of our strongest brand equities, while increasing investment in NGP.”

DOMINIC BRISBY

Division Director, Growth

GROWTH MARKETS

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	73.5	74.8	-1.7%	
Net revenue	£m	1,795	1,768	+1.5%	+5.6%
Adjusted operating profit	£m	364	411	-11.3%	-4.4%
Growth Brand % of net revenue	%	45.8	49.1	-330 bps	
Growth Brand volume	bn SE	50.9	49.9	+2.2%	
Growth Brand market share	%	4.7	4.3	+40 bps	

Growth markets delivered strong revenue growth of 5.6 per cent at constant currency, driven primarily by the significant step up in our blu sales and a stronger performance in Russia, where we continue to gain share and have achieved price/mix gains. This has more than offset revenue pressures from Saudi Arabia and Taiwan, where tax increases have affected volumes and mix.

All blu revenue is currently reported in Growth Markets. From our next financial year our blu results will be reported in the markets and segments where they occur, following our segmental reporting changes.

Growth Brand volumes grew 2.2 per cent as we strengthened our quality of growth through further migrations and more focused investment. However, the overall percentage of Growth Brand net revenue declined, materially due to the significant increases in blu revenues, which are currently still categorised as a Specialist Brand, as well as revenue pressure in Saudi Arabia and Taiwan.

Our continued focus on Growth Brands, supported by sustained investment, has driven improved share performances in Russia, Saudi Arabia, Italy and Japan.

Adjusted operating profit fell 4.4 per cent at constant currency, mainly driven by the increased investment in blu and the negative mix in Middle Eastern markets, which was partially offset by a stronger profit performance in Russia, particularly in the second half.

Country	Performance
Russia	We delivered a strong performance, growing revenue, profit and market share, driven by Parker & Simpson and supported by the launch of Davidoff Reach. The stabilisation of Maxim's share and growth in Jade also added to our overall performance.
Saudi Arabia	Last year's significant tax increases doubled retail sale prices, leading to a significant reduction in market size and a marked reduction of the premium segment. This adversely affected Davidoff and our financial delivery. We successfully refocused investment behind West and grew market share.
Italy	Our share continues to grow in Italy, reaching another record high, driven by the continued excellent performance from JPS.
Sweden and Norway	We have grown net revenue in Norway, with Skruf maintaining its status as the leading snus brand in the market. In Sweden we launched Skruf Super White into the rapidly growing tobacco-free segment.
Japan	The Japanese tobacco market continues to decline due to the success of Next Generation Products. Against this backdrop, our share and volume continue to grow, driven by West.
Taiwan	Our portfolio performed well, with share growth from Davidoff and West. However, the market continues to be affected by last year's excise increase leading to reduced revenues and profit.

USA MARKET

		Full Year Result		Change	
		2018	2017	Actual	Constant Currency
Volume	bn SE	22.1	23.3	-5.0%	
Net revenue	£m	1,671	1,665	+0.4%	+6.7%
Adjusted operating profit	£m	1,040	1,013	+2.7%	+9.5%
Asset Brand % of net revenue	%	50.2	44.5	+570 bps	
Asset Brand volume	bn SE	11.1	11.1	+0.0%	
Growth Brand market share	%	2.5	2.4	+10 bps	

Our USA strategy continues to focus on growing our strongest brand equities: Winston, Kool and Maverick in cigarettes and Backwoods in mass market cigars. We grew net revenue 6.7 per cent at constant currency reflecting cigarette revenue growth and continued strong growth in our mass market cigar business.

The percentage of tobacco & NGP net revenue generated by Asset Brands increased to 50.2 per cent as we continued to reshape the portfolio. Winston benefitted from the launch of Winston Black in August. Kool and Maverick also gained share in the period, with Kool growing strongly to a 2 per cent spot market share and Maverick back into growth for the year.

Although our overall cigarette market share was down slightly, we achieved an improving share trajectory and our fourth quarter share was up year-on-year. Results included higher Growth Brand share, as we continued to realign the portfolio around our strongest brand equities.

In mass market cigars, investment in our key brands and the changes we have made in our route to market continue to deliver excellent results, including further share gains and strong growth in revenue and profit. The mass market cigar business now represents just over 20 per cent of our USA net revenues.

Adjusted operating profit grew 9.5 per cent at constant currency, despite increases in brand and market investment, which has been more than offset by the benefit of additional revenue growth and cost efficiencies.