Imperial Tobacco full-year results 2012 – 30 Oct 2012

Interview with Alison Cooper, CEO and Robert Dyrbus, FD

Results - Alison Cooper, CEO

So, what for you are the key headlines from today's results?

Overall I'm very pleased with the results. But, what's particularly pleasing is the quality of growth that's coming through and seeing our strategy really coming alive in these results.

If I look at the overall results, volumes were down 2.7%, due to factors that we've previously flagged around the softness in the Ukraine, softness in the Polish fine cut market, and also compliance with sanctions in Syria. And if you exclude those factors, volumes were actually up, just very slightly in the year. So that's a good volume performance. But, off the back of that we've grown revenues by 4%. So that's the overall picture.

But then if you look at the quality beneath that overall headline, what's great to see are the key strategic brands coming through very strongly with 7% volume growth and 13% revenue growth. Added to that we've done very well in fine cut, in make your own in particular, which is up 20% if you exclude the Polish effect, with revenues overall for fine cut up 13%.

Also, across our total tobacco portfolio, clearly premium cigars had a fantastic year, up 11% in volumes and 10% in revenue. And snus, again, 46% revenue growth. So that total tobacco strength, the quality of our growth, really coming through in these 2012 results.

But beyond volumes and revenues, what are the other key numbers that you'd pick out from this set of results?

Well we've been investing for growth behind the top line with roughly a £200m additional investment this year. But despite that additional investment we still got margins broadly held at around 42%, growth in operating profit of 4% and earnings growth of 8%. So some very nice growth rates with the additional investment we've put into the business as well.

And that's translated into some great returns for shareholders. A 40% increase in the overall returns this year, with £0.5bn bought back in shares, and an 11% increase in the dividend, growing ahead of adjusted earnings per share, in line with our policy.

Key strategic brands - Alison Cooper, CEO

Your strategic brands seem to have put in another strong performance. So, can you give us some more colour around that?

Yes, I think it's a fantastic performance from our key strategic brands, and it is real evidence to me of how our business model is working. We put additional investment behind those this year, 26% increased investment in A&P behind those brands. But, also, investment into the product through our innovation pipeline through different formats, so lots of initiatives to support their growth.

You can see, therefore, that coming through with revenue growth of 13% for those brands. But even with the additional investment, 13% net brand contribution growth. So a really strong performance and that's across the overall brand portfolio. So, we've had Davidoff up by 9%, supported by the launch of Davidoff iD in the second half of the year. Gauloises, again a very strong performance, particularly in the Middle East, up 11%. And West and JPS up 5% and 3% respectively, with growth not only in the cigarette portfolio, but also with a strong fine cut performance there to.

So, overall an industry leading performance from these brands. Really, really strong performances - these brands now account for 30% of our portfolio, up from only 26% two years ago. With a lot more to come from these brands and other key focus brands in the business.

Geographic performance - Alison Cooper, CEO

What are you seeing across your geographic footprint, if we could start perhaps with the EU?

The EU is tough. It's tough for all industries currently, but we're growing. We grew revenues by 3% and profits by 4% in 2012.

You can dwell on the challenges, but I prefer to look at the EU through an opportunity set of lenses. That's where our strategy really comes into play. Right from the beginning we have put consumers at the heart of our growth strategy. It is getting that consumer understanding right, and then applying that to our total tobacco portfolio that's really giving us opportunities for growth in the EU.

If I take Spain as an example, we grew profits by 6% this year. That is absolutely about getting the consumer understanding right, applying that understanding in cigarettes, in fine cut and cigar, where we're growing share, and combined with our pricing strategies and our customer engagement that's really what's supporting the growth in that market and realising opportunities in other EU markets in 2012 and looking forward.

Now, the USA is another tough environment and the results there have clearly been a drag on your performance. What's your assessment of the situation?

We have got a new team in the USA who are focused on turning around that business. And remember, it's a total tobacco business in the US, it's not only cigarette, but we have a big position in mass market cigars and also in the premium cigar segment as well in the States.

Again, it is around those sales growth drivers that we're focusing. We have been working on pricing strategies, on our customer engagements, on the portfolio and innovation. So encouraging progress and improvements coming through at the back end of the second half in the US.

Maybe just one highlight, which gets lost in the overall total of our US performance and that's our premium cigar business, which is performing exceptionally well, with volumes up 10% and sales up 11% in 2012.

So what about the rest of the world? What are you seeing there in terms of performance and what's the scale of the opportunity going forwards?

Well there are lots of opportunities for us in the rest of the world. We've got great brands with which to realise those opportunities, and that's what you can see coming through in 2012. We grew revenues by 10% and profits by 7%, and that's with growth across our regions.

If I look at Asia, Asia Pacific, we've had strong performances in Taiwan, in Vietnam and also in Australia. If I look at Eastern Europe we've had strong performances in Russia. In Africa, Middle East, markets like Algeria and Saudi Arabia have performed particularly well for us.

Our key strategic brands have been an important element of that. Overall, our key strategic brands grew by 14% in our rest of world region. So, really encouraging, fantastic performances, and more to come.

Regulation - Alison Cooper, CEO

Regulation has certainly been a hot topic this year and we'll shortly see the introduction of plain packaging into the Australian market. So what's your reaction to all this?

There's a lot of noise around regulation. It's most important that we understand the reality of regulation, and particularly extreme regulation, how quickly that gets implemented.

If you take something like display bans, over the last decade only two markets a year have actually introduced a display ban across the globe. If you then look at plain packaging, where the legislative hurdles are a lot higher, that's going to be a lot slower in terms of its progress globally.

There are a few countries that drive this extreme regulatory agenda, countries like Australia, countries like Canada, Brazil, Ireland, South Africa, and Imperial's exposure to those markets is comparatively low. Yes, we've got a good business in Australia and we've been growing that business, growing share in Australia despite the extreme regulation, most recently display bans. I am confident that in a plain pack environment we have the strategies, the consumer understanding, the sales growth driver, focus and approach that means that we can succeed in this environment as well.

Strategy - Alison Cooper, CEO

You've been CEO now for two years. So are you satisfied with the progress of your strategy?

Absolutely, yes. We have made the right choices around how we drive sales growth in Imperial. We have put consumers at the heart of our strategy and that understanding of their motivations applied to our total tobacco portfolio is a key differentiator for us. It is a fantastic portfolio - with cigarette, with fine cut tobacco, cigars, snus - we really do have the brands, the products to provide the best consumer tobacco experiences.

But it is not just about the consumers and the portfolio, it is about also how the people have really risen to taking this agenda forward. It has been fantastic to see how the organisation has responded to the agenda, how people have adopted our values, how they are living our values to really make our sales growth happen across the world. And that's really the essence of our differentiated approach; consumers, total tobacco, but a very different 'how', a really unique culture in Imperial.

I've been reflecting with the top team on our progress in the last year and what comes through strongly is that growth theme. We are growing. We are growing sales, we are growing brands, and that growth is coming through high quality. And it is that quality and sustainability of the growth we are generating that really gives me confidence in our ongoing success.

Non-cash impairment - Robert Dyrbus, FD

Can you start by talking us through the impairment charge that you've announced today?

Continued deterioration in the Spanish economy means that under IFRS we have taken a reduction of the intangibles previously allocated to Spain back in 2008, by £1.2bn. This is a non-cash item, an accounting requirement that has been excluded from our adjusted results, as is our policy. This has no impact on our view of what our Spanish operations can deliver in the future. Altadis has been performing as expected since its acquisition in 2008.

Spain remains a very important market for us and the team there are doing a great job. This year, against a difficult economic backdrop they have increased cigarette share, improved fine cut volumes and increased profits by 6%. Going forward we see many opportunities in Spain to continue to build on this momentum to improve our significant and market leading positions.

Net debt - Robert Dyrbus, FD

Now net debt's remained stable over the course of this year. So what's behind that?

We are a strong cash generator and there are two reasons behind the net debt remaining stable this year.

First of all, working capital increased by £500m. This is due to a timing difference in our Italian logistics business which benefitted last year, and strategic decisions we made, such as increasing lease stock durations and investment behind our growth agenda. Cash remains a very high priority for us and going forward we will actively manage our cash position.

The second thing was we increased returns to our shareholders by £400m. Dividends paid in the year were £100m higher than last year. This was the first full year of the share buy back programme at £500m, which was £300m higher than last year.

Dividend - Robert Dyrbus

And the dividend has seen another healthy increase today. So, how does that fit into your overall thinking around returns to shareholders?

Well, we are committed to maximising returns to shareholders. The dividend this year increased by 11%, which was ahead of adjusted earnings per share growth, and the payout increased to 52.5%. The Board's reiterated its intention to increase dividends per share ahead of earnings per share for the foreseeable future and this will also increase the payout ratio over time.