Regional review continued

Europe and North Africa

“PRRPs are gaining a strong foothold with THP now present in 12 markets, while oral volumes have grown 45%”

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Key markets
Austria, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, Norway, Poland, Russia, Spain, Sweden, Switzerland, Turkey, Ukraine

Volume and Market Share
In 2018, volume declined 4.7% to 246 billion sticks, which was a reduction of 5.3% on a representative basis, as volume from assets acquired (from Bulgartabac and FDS) in 2017 combined with growth in Turkey, Egypt, Poland and Romania was more than offset by Russia (partly due to inventory movements and the growth of illicit trade), Ukraine (due to market contraction following the excise-led price increase, leading to an increase in illicit trade), Italy (partly due to impact of higher prices) and France (following the excise-led price increase).

Market share was flat as increases in Kent, led by Ukraine, Turkey, Kazakhstan and regaining premium segment leadership in Russia, and Rothmans (Ukraine, Russia, Poland, Spain, Bulgaria and Italy) was offset by both the continued reduction in Pall Mall (Poland, Germany and Belgium) and a decline in the low-priced portfolio in Russia. Total market share in Russia returned to growth in the second half of 2018, as the effects of the trade inventory movements normalised.

Our THP and vapour portfolio continued to expand, with glo now present in 12 countries in ENA, including Russia, Switzerland, Romania, Italy, Poland and Ukraine. Volume of vapour (devices and consumables) grew, notably in the UK (driven by Vype, Ten Motives and VIP), with market share up (in traditional retail) in France and Vype remaining the leading vapour brand in Germany. In November 2018, the Group further enhanced its capabilities with the acquisition of Germany’s leading vapour retail chain, Quantus Beteiligungs-und Beratungsgesellschaft mbH. Further launches and product developments are planned across the portfolio during 2019.

In oral, volume grew 44%, mainly driven by EPOK which is the fastest growing premium oral brand in both Norway (reaching 8% total oral market share in December 2018) and in Switzerland (achieving 17% total oral market share in December 2018). In Sweden, the Group launched Lyft, a tobacco-free product, achieving a 4.5% share of the total oral market in handlers.

In 2017, volume was 258 billion, 1.9% down on 2016. This was due to the contribution from the tobacco assets of Bulgartac and FDS acquired in the year, and higher volume in Spain, Romania, Portugal, Poland and Hungary, which was more than offset by lower volume in Russia, Ukraine, Italy and Greece. On an organic basis, volume fell 3.1%. Market share was up 20 bps, driven by Russia, Turkey, Germany, Spain, Romania and Poland.

Revenue
In 2018, revenue was down 1.7% against 2017 at £6,004 million as pricing across the region (notably in Romania, Russia, Germany and Ukraine) was more than offset by the impact of lower regional volume, continued excise absorption in France and the translational foreign exchange headwinds of approximately 5%.

Adjusted revenue, at constant rates, was £6,112 million, an increase of 3.5% on a representative basis. This excludes excise on bought-in goods, acquired and sold under short-term contract manufacturing arrangements which distorts revenue and operating margin on a temporary basis, and the impact of foreign exchange movements on revenue.

Revenue, in 2017, grew by 14.7% to £6,108 million, as the positive effect of acquisitions in the year and higher revenue in Germany, Romania and Spain offset a decline in the UK due to aggressive pricing in the market, lower revenue in Italy and France, and the down-trading in Russia. Excluding excise on goods acquired under short-term contract manufacturing arrangements, on an adjusted, constant rate basis, revenue was up 3.4% or 1.6% on an organic basis.

Profit from operations
In 2018, profit from operations grew 12.3% to £1,905 million. This was due to an improvement in the operating performance in Germany, Romania and Ukraine and a one-off charge of £69 million in 2017 in relation to a third party in Croatia that does not repeat in 2018. This more than offset a reduction in profit from operations in Russia (largely due to the impact of lower volume), the impact of excise absorption in France, restructuring costs incurred (largely in Germany related to the factory closure), significantly increased investment in PRRPs and the impact of foreign exchange on the reported results. Excluding adjusting items (related to the factory closure in Germany, amortisation of acquired brands, other costs related to the Group’s ongoing restructuring programme and the 2017 impairment in Croatia) and the impact of the foreign currency headwind, adjusted profit from operations at constant rates, on a representative basis was up 0.8%, at £2,217 million.

Profit from operations grew 14.7% in 2017 to £1,697 million, due to improved revenue and devaluation in sterling, with profit from operations up in Germany, Romania, Denmark and Spain. This was partly offset by the costs of the ongoing closure of the factory in Germany and impairment of certain assets related to a third-party distributor (Agrokor) in Croatia, the partial absorption of excise in France, investment behind NGP in the UK, lower profit from operations in Belgium and the Netherlands and the impact of down-trading in Russia. Excluding the acquisitions, adjusting items (including Agrokor, factory closure costs and trademark amortisation) and the impact of foreign exchange, adjusted organic profit from operations at constant rates of exchange increased by 8.6% to £1,981 million.