Half year results 2017

Ben Stevens, Finance Director

Financial Performance

Q: What are the key financial highlights to these half year results? And is the business performing as expected?

A: Yes, I think these are a very good set of results against a strong volume comparator last year, and very much in line with what we said at the prelims. So, revenue was up in constant terms at 2.5%, profit was up over 3%. We had a growth in operating margin. It's nice to see operating margin growing again after a couple of years of reporting declines.

We had a very strong performance from our associates both Reynolds American and ITC. And that means that our EPS is up over 6% in constant currency terms and a very good 21% at reported level. So I think these are a very strong set of results and we are very pleased with them.

Q: Can you outline the transactional and translational impact in the light of sterling's continued weakness against major currencies?

A: We faced a transactional headwind of 3% in the first half of the year. It moderates slightly in the second half, but we still expect to see a transactional FX headwind of about 2% for the full year.

On the translation it was slightly different. We had a 13% translation tailwind in the first half of the year. Obviously that moderates as we lap the Brexit decline in sterling. And if we include Reynolds American going forward then we'll see a tailwind, if exchange rates stay where they are today, of about 9% favourable on operating profit and about 8% on earnings per share.

Margins

Q: Will the underlying margin improvement continued to be delivered in this current environment? And will the further investment in NGP undermine your margin delivery? Put another way is margin guidance going to have to change in any way?

A: No, I remain confident we can continue to grow operating margin 50 to 100 basis points a year. We don't give operating margin guidance for any particular year. But over time we continue to expect operating margin to grow. And we are doing things today that will deliver operating margin growth in the future.

So despite the 2% transactional FX headwinds that we expect to face this year I'm still expecting to grow operating margin. We'll get a one-off leg up with operating margin from Reynolds American, of course. And we'll be focusing on delivering the synergy benefits as a way of delivering operating margin growth in Reynolds going forward. But, yes, over time I'd confidently expect us to be able to continue to grow operating margin 50 to 100 basis points a year.

Financial outlook

Q: How should we think about the addition of Reynolds American for the full year?

A: We'll be reporting the USA as a separate division of BAT, so you'll be able to see the performance of Reynolds American going forward. We expect to achieve at least $400 million per year of synergy benefits. We'd expect the cost of achieving those will be about $350 million. Synergy benefits will start flowing through from the start of next year. And we expect the deal to be accretive from its first full year of operation, but accretion will be limited this year obviously because we are quite close to the end of the year.

Q: So what's your financial outlook for the full year?

A: We've delivered a very good set of results I think at the half year. It remains tough out there. We've got some markets with quite tough pricing competition in there. But the success, the strength of the Global Drive Brands, the strength of the innovation program that will come through in terms of our results for the year. So I'm confident that we are going to deliver another good set of results this year.

[end]

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