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## Reynolds American, Inc. Q2 2008 Earnings Call

### Question-and-Answer Session

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Certainly. [Operator Instructions]. We'll pause for just a moment. We will go to Philippe Goossens of Credit Suisse First.

#### **Unidentified Analyst**

Good morning, Susan and Thomas it's actually Tilo Valetis [ph] in for Felipe. Question on the cigarette volumes. It looks to me like there is some significant downturn going on in cigarettes given that the price volume segment or the discount segment had much better performance than the premium segment. Is that a fair assessment or do we see something wrong here?

#### **Susan M. Ivey - Chairman, President and Chief Executive Officer**

We have seen... we have seen growth in the non-big three in that deep discount sector in the second quarter. Actually, it kind of, it's sequentially accelerated, June was actually a big month for that non-big three area. It looks now like it's flattening out a little bit. I think it's worth saying that there are economic pressures on tobacco users and if you think about what's going on in the total tobacco category, moist is growing at an accelerated rate. Moist grew at 7.7% in the quarter. We continue to see growth in roll-your-own. We see growth in deep-discount. And so, we are seeing tobacco users making some trade-offs but across total tobacco, the sector is relatively, economically it is not challenged from the economy on a total sector basis. But we will continue to watch this growth of the deep-discount, and watch how it affects the pricing and promotion environment for the large competitors.

#### **Unidentified Analyst**

I think in the past you have told us that the down trading wouldn't necessarily benefit you given that your smokers are probably more economically pinched than smokers of your two big cigarette competitors. Do this quarters results change that opinion a little bit?

#### **Susan M. Ivey - Chairman, President and Chief Executive Officer**

No, they don't change that opinion. Our consumers are more price sensitive. We have sort of the?an older brand portfolio, and we have talked about that over the last number of years. So, we would stay with that opinion.

#### **Thomas R. Adams - Executive Vice President and Chief Financial Officer**

And as I said, we also feel we also captured some of that in Pall Mall. We caught some of that down trading there. So we're?but on balance, you are right. I mean, I think there was more down trading.

**Unidentified Analyst**

Okay, fair enough. And then one last question on this topic on Conwood. How much of the Conwood Grizzly performance was driven by this down trading we just talked about? How much of it was promotion driven? And if it was promotion, was it more a one-time opportunity that you saw? Or was it?is it something that changed in your strategy with promotions for Grizzly?

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