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Reynolds American Inc. Q3 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). We'll take our first question from Judy Hong, Goldman Sachs.

Judy Hong - Goldman Sachs

First, was there any impact on your volume from any trade inventory movement, both on the cigarette side as well on the Conwood side?

Tom Adams

Yes, our trade inventories came down slightly. I would expect that in the third quarter on an adjusted basis, we were probably about a 10% decline.

Judy Hong - Goldman Sachs

I was hoping to get a bit more perspective on Pall Mall promotions that you just started in October and just compare that to what you did in April after the FET driven price increases. Is the depth and breadth of the current promotion similar to what we saw in April?

Susan Ivey

I would say it's not the depth, Judy, on a national basis. It is a national promotion, but it doesn't have the depth that we had in the FET. I think we were very pleased with Pall Mall's performance in that early pulse this year as we talked about in the release, we have retained, we say about half of the consumers that try Pall Mall.

I think as consumers in this sort of macro-environment continue to look for better value, Pall Mall with its high quality product and its longer-lasting benefit truly stands out as the leading value brand. To close the third quarter with five share points on Pall Mall is very significant and we continue to be encouraged about its potential.

Judy Hong - Goldman Sachs

Then on the Camel franchise, it looks like the share for the total franchise is up, but on the cigarette side, it looks like it was down slightly. I was just hoping to get your perspective on sort of the trade-off in terms of the gains that you are getting from the non-cigarette or nontraditional cigarette Camel product versus the traditional the Camel product and how we should think about sort of that trade-off?

Susan Ivey

I think as you pointed out year-over-year Camel's down a tenth, quarter-over-quarter, it's sequentially up. I'm not concerned about the tenth and I think the 3/10th incremental in terms of Camel Snus which has just been launched this year is significant for the brand. Now this year of course we have high-launch expenses. But over time the margins on Snus are significantly higher than those on cigarettes and therefore we believe that we are expanding the Camel franchise and over time enhancing its margins.

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