And You Thought They Only Made Cigarettes…

Salman Khan & Deepak Sabiki

KRAFT
Food

Philip Morris Capital Corporation
Financial Services

Tobacco

SAB Miller
Beer
1854: 1st cigarette

Mid 1800s: Opened shop in London

1919: Coronet logo introduced

Mid 1960s: Surgeon general health report; warning Label act is passed

1970: Acquires Miller Brewing

1971: TV & radio cigarette advertising ban

1980: Revenues hit $10 billion

1985: Acquires General Foods for $5.6 billion

1988: Acquires Kraft for $12.9 billion

1989: Kraft + General Foods = Kraft General Foods

1990s to current: Acquires over 20 brands
Revenue Breakdown

Tobacco

- Accounted for 57% of total company revenue
- Retail share: 51% in the United States
- 13 brands each generated $1 billion or more in revenues
- 92 brands each generated $100 Million or more in revenue
- Internationally, sales volume is higher than the next seven competitors combined
- 4 of every 10 cigarettes sold in the United States is a Marlboro
- Major competitors: RJ Reynolds, Brown and Williamson, Lorillard
## Tobacco

<table>
<thead>
<tr>
<th>Philip Morris Brands</th>
<th>Competing brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Marlboro</td>
<td>• Davidoff</td>
</tr>
<tr>
<td>• Basic</td>
<td>• Kool</td>
</tr>
<tr>
<td>• B&amp;H</td>
<td>• Camel</td>
</tr>
<tr>
<td>• Virginia Slims</td>
<td>• Newport</td>
</tr>
<tr>
<td>• Parliament</td>
<td>• Salem</td>
</tr>
<tr>
<td>• Merit</td>
<td>• Winston</td>
</tr>
</tbody>
</table>

## Food

- Accounted for 38% of revenues in 2001
- Acquired General Foods / Kraft / Nabisco
- Grew an average 5.6% over past 5 years – 36% past year alone
- Kraft is the 2nd largest food company internationally
- Kraft is the largest food company in North America
- Strong brand portfolio
- Competitors: ConAgra, Sara Lee
**Beer**

- SABMiller is the world’s 2nd largest brewer
- Philip Morris owns a 36% interest in SABMiller
- Miller’s 2001 market share in US beer sales was 20%
- Growth is stable (approx 1-2%)


**Global Beer Industry Leaders 2001 volume**

<table>
<thead>
<tr>
<th>Company</th>
<th>Volume (mllion hl)</th>
<th>Barrels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aheuser-Busch</td>
<td>15.6</td>
<td>15,984</td>
</tr>
<tr>
<td>Miller</td>
<td>13.7</td>
<td>14,692</td>
</tr>
<tr>
<td>Heineken</td>
<td>13.2</td>
<td>13,974</td>
</tr>
<tr>
<td>Molson Coors</td>
<td>9.1</td>
<td>9,970</td>
</tr>
<tr>
<td>Constellation</td>
<td>8.1</td>
<td>8,530</td>
</tr>
</tbody>
</table>

*Based on Canadean and heinekenreport.com. Sales include products - excludes contract brewing.

**Financial Services**

- Philip Morris Capital Corporation is primarily engaged in leasing activities
- 14th Largest lessor of assets in the US
- Not a major source of revenue or income
- Fairly “new” division created in 1982
- Huge growth potential
- Possibility for future acquisitions
- Highest margin division 68%
Litigation May Result in Potential Bankruptcy

- Industry lost the Engle Class Action Lawsuit worth $145 billion
- Philip Morris was a target of $74 billion
- Tobacco companies have appealed
- 1998 Settlement: Industry must pay $206 billion over next 25 years

Revenue Growth

Average Revenue Growth = 5%
Net Earnings Growth

Dollars (in billions)

Year


EPS Growth

Dollars

Year

Dividends

• One of highest dividend paying companies
• Historical growth/strength
• Grew at 284% over last 10 years
  – Adjusted for inflation

Financially Stronger Than Comparables

<table>
<thead>
<tr>
<th></th>
<th>MO</th>
<th>RJR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>$38.59</td>
<td>$39.66</td>
</tr>
<tr>
<td>Revenue (2001)</td>
<td>89,924M</td>
<td>6,898M</td>
</tr>
<tr>
<td>Market Cap</td>
<td>79,125M</td>
<td>3,336M</td>
</tr>
<tr>
<td>52 Week High</td>
<td>$57.79</td>
<td>$71.90</td>
</tr>
<tr>
<td>52 Week Low</td>
<td>$35.40</td>
<td>$38.20</td>
</tr>
<tr>
<td>Price to Sales</td>
<td>0.91</td>
<td>.49</td>
</tr>
<tr>
<td>Price to Book</td>
<td>3.94</td>
<td>.46</td>
</tr>
<tr>
<td>Price to Earnings Ratio</td>
<td>7.18</td>
<td>5.87</td>
</tr>
<tr>
<td>Return on Equity</td>
<td>56.88%</td>
<td>8.10%</td>
</tr>
<tr>
<td>Return on Assets</td>
<td>14.30%</td>
<td>3.90%</td>
</tr>
<tr>
<td>Earnings per Share</td>
<td>2.56</td>
<td>3.80</td>
</tr>
<tr>
<td>Current Ratio</td>
<td>0.86</td>
<td>1.18</td>
</tr>
<tr>
<td>Debt to Equity</td>
<td>0.75</td>
<td>0.24</td>
</tr>
</tbody>
</table>
Growth Drivers

• Acquisitions
• Domestic Tobacco
• Expansion in Financial Services

Valuation: Dividend Discount Model

• Risk Free Rate = 4.96%
• Risk Premium = 4.5%
• Required Rate of Return = 9.46%
• Dividend per Share = 2.56
• Growth Rate + Inflation = 4.5%
• Stock Price = $53.94
Good Time to Buy Philip Morris

Bollinger Bands + RSI