

Guidelines for Inasco : July 1987

General

1. Inasco's central objective should be the achievement of returns and sustained rates of growth in dividends and earnings per share which compare favourably with other leading businesses in Canada.
2. To support this growth, it is suggested that, in addition to Tobacco, Inasco should develop a portfolio of businesses in leadership positions in growth markets or market segments capable of providing sustained organic growth in sales and profits. B.A.T Industries would prefer the main emphasis to be on developments in Canada rather than the USA and centred on the Group's main activities of Tobacco, Retailing, Financial Services and Pulp/Paper.
3. In evaluating Inasco's strategies and plans, B.A.T Industries will apply the same criteria as are applied to the other businesses within the Group. In particular, it will be important to ensure that each of the businesses within Inasco is operating efficiently and is producing a cash flow which, after covering central overheads, dividends and interest payments, is sufficient either to fund sales growth at real rates of at least 6 per cent per annum or to produce an equivalent cash surplus for investment in other activities.

Financial Guidelines

- Dividends:*
4. ~~Based on the~~ current B.A.T Industries Group shareholding, the dividends expected from Inasco (gross of ~~the~~ Withholding Tax) are as follows:-

	<u>Years to 31st December</u>					
	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
C\$M	46	56	63	73	83	94

For 1988 onwards, the proposed dividends are based on a payout ratio of 40 per cent which is considered an appropriate long-term payout ratio for a company such as Inasco.

- Return:*
5. It is recommended that Inasco seek to achieve an historic cost return on net assets (on a B.A.T Industries' basis) of 26 per cent for its commercial activities, with a priority being to produce a satisfactory return for People's Drug. The target for Canada TrustCo. should be to achieve a sustained increase in after-tax profits of 15% per annum.

Specific Priorities

6. The first priority for Inasco should be the development of plans for re-building the strength of the balance sheet and for ensuring that each of the individual businesses make an appropriate contribution to Inasco's profits, cash flow and dividends.
7. For Tobacco, the priority should be to re-build and consolidate profitability both through price increases and through further improvements in efficiency which will ensure that the position of lowest-cost producer of quality cigarettes is maintained.

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8. In addition, Imasco should continue to pursue improvements in market share, ~~particularly in the full-price segment~~ both in existing brands and by developing and marketing innovative new products, making full use of developments available from elsewhere within the B.A.T Industries Group.
  9. Imasco should continue to support industry representations to both Federal and State Governments on taxation and smoking issues and to play an active role in opposing the anti-smoking lobby.
  10. For Financial Services, the priority should be to develop plans for the expansion of Canada TrustCo. In particular, consideration should be given to ensuring that the projected short-term levels of performance are met and to identifying how growth in after-tax earnings of at least 15 per cent a year will be achieved over the longer term.
  11. Imasco should also develop plans for the addition of complementary activities to extend the Group's operations in financial services in Canada.
  12. Imasco should continue to play an active part in influencing the proposed regulations covering financial services' activities in Canada.
  13. Plans should be established concerning the possible reduction of Imasco's shareholding in Canada TrustCo. to 65 per cent.
  14. For the Retailing businesses, the first priority must be to improve the performance in People's Drug, after which it will be necessary to review all the retail operations to ensure that they meet the Group's criteria for being self-supporting in terms of cash at appropriate real rates of growth.
  15. In addition to resolving the problems in those businesses which are not performing satisfactorily at present, Imasco should identify opportunities for profitable growth once satisfactory bases have been established.
  16. For Hardee's, the primary emphasis should be on improving profit growth and ensuring that the business makes a suitable contribution to Imasco's shareholders before pursuing opportunities to extend and consolidate Hardee's geographic coverage and product range.
  17. For People's Drug, the immediate priority should be to concentrate on improving the performance of the core business.
  18. Imasco should continue to seek opportunities for the development of Shoppers Drug, both through organic growth and, where appropriate, acquisition. The business should, however, aim to fund its own growth, after making an appropriate contribution to Imasco for overheads, etc.
  19. It is suggested that Imasco should consider the divestment of the UCS Group.

RS/DJA  
20th July 1987

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