

## Quality Growth

## Our Modern Oral Products

## In recent years, a new category of Modern Oral products<sup>\*†</sup> has emerged.

These come in the form of tobacco-free nicotine pouches that are placed under the lip so that nicotine can be effectively absorbed.

### Modern Oral Top markets \*\*

the U.S., Sweden,  
Norway, Denmark,  
Switzerland, Poland  
and the UK



### Overview

The Modern Oral category has a clear trajectory for growth in markets with established oral nicotine consumption. The U.S. and the Nordics are prime examples of such markets, as adult consumers already have the experience of Traditional Oral products.

However, the key challenge in unlocking the category's potential in new markets relates to how the oral nicotine product is used, which is different to how nicotine has previously been consumed, typically through inhalation.

Building a portfolio of strong brands and products/ranges to accelerate adult consumer adoption is essential to establishing a leading, global Modern Oral business.

### The Scientific Evidence\*

Modern Oral nicotine pouches build upon the extensive scientific evidence available for snus, including long-term studies<sup>1,2</sup> which demonstrate that snus use is associated with less risk of many diseases compared with cigarette smoking.

Modern Oral products, however, are designed to offer adult consumers an improved, reduced-risk<sup>\*†</sup> alternative, with many Modern Oral products manufactured as tobacco-free.

Laboratory scientific studies for our Modern Oral products show they produce less than 1% of the toxicants found in cigarette smoke<sup>3</sup> and lower levels than snus<sup>4</sup> – a Traditional Oral tobacco product which is already regarded as a reduced-risk<sup>†</sup> alternative to smoking.

Toxicology tests assessing the biological effects of our Modern Oral products also show they have reduced effects relative to cigarettes and snus<sup>5</sup>.

## Highlights

Continued strong global volume growth (up 55.0%), with adult consumer numbers up 2.6 million to 7.4 million.

Category volume share in Top markets was 28.4%, up 1.3 ppts, driven by an increase in the highly competitive U.S. market.

Strong volume and revenue growth in the U.S., led by Velo and Grizzly Modern Oral.

Volume share leadership in Modern Oral in AME at 64.7%, with continued market leadership (through Velo) in 21 European markets.

AME revenue up 40.3%, with volume up 50.2%.

# 44

Number of markets where the Group's **Modern Oral** Products are sold

### Notes:

- Ramström L, Borland R, Wikmans T. Patterns of Smoking and Snus Use in Sweden: Implications for Public Health. *Int J Environ Res Public Health*. 2016 Nov 9;13(11):1110. doi: 10.3390/ijerph13111110. PMID: 27834883; PMCID: PMC5129320.
- Sohlberg, T., Wennberg, P. Snus cessation patterns - a long-term follow-up of snus users in Sweden. *Harm Reduct J* 17, 62 (2020). doi.org/10.1186/s12954-020-00405-z
- Gaca, Marianna, et al. "Bridging: accelerating regulatory acceptance of reduced-risk tobacco and nicotine products." *Nicotine and Tobacco Research* 24.9 (2022): 1371-1378.
- Azzopardi, David, Chuan Liu, and James Murphy. "Chemical characterization of tobacco-free 'modern' oral nicotine pouches and their position on the toxicant and risk continuums." *Drug and chemical toxicology* 45.5 (2022): 2246-2254.
- East, N., et al. "A screening approach for the evaluation of tobacco-free 'modern oral' nicotine products using Real Time Cell Analysis." *Toxicology Reports* 8 (2021): 481-488, and Bishop, E., et al. "An approach for the extract generation and toxicological assessment of tobacco-free 'modern' oral nicotine pouches." *Food and chemical toxicology* 145 (2020): 111713.

\* Based upon the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive.

\*\* Top Oral and Modern Oral markets are defined as the Top markets by industry revenue, being the U.S., Sweden, Norway, Denmark, Switzerland, Poland and the UK and accounting for c. 90% of global industry Modern Oral revenue in 2023. The Top markets were updated in 2024, with a revision in 2023 volume share to 27.1% (Group) and 64.7% (AME). Also in 2024, the Group changed from Marlin to Retail Scan Data for the U.S. Modern Oral market, with the Group's Modern Oral volume share in 2023 rebased to 4.5%.

\*\*\* Source: based on NielsenIQ volume share of Total Oral.

† Our products as sold in the U.S., including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

Published in 2022, results from our innovative cross-sectional clinical study showed that exclusive Velo users had substantially lower exposure to tobacco toxicants, and significantly better results for indicators linked to smoking-related diseases, compared with smokers. In 2023, in a study where daily smokers were provided with Velo, the majority of participants significantly reduced their daily cigarette use.

On the basis of our evidence and informed by the wealth of independent evidence regarding snus, switching completely to Modern Oral products can be expected to reduce the risk of smoking related disease when compared to continued smoking.<sup>†</sup>

### Our Products

Our Modern Oral products are white in colour and contain high-purity nicotine, water and other high-quality food-grade ingredients, including plant-based fibres, flavouring and sweeteners.

Originating in Scandinavia, Velo is now a leading global brand of nicotine pouches. These typically appeal to a broader audience than Traditional Oral tobacco because of their attractive price positioning. With comparatively lower excise rates (versus Traditional Oral and combustibles), Modern Oral generally has higher margins than Traditional Oral.

Our Velo product range spans across tobacco, mint and fruit flavours and are sold in various nicotine strengths, from 3mg to 17mg of nicotine per pouch.

Building on the growing trend of Traditional Oral consumers moving to Modern Oral, we launched Grizzly Modern Oral in the U.S. in 2024.

We are also delivering a step change in Modern Oral manufacturing. Truly living our ethos, our Modern Oral factory in Pécs, Hungary, put together a bold plan to implement food industry standards for Modern Oral manufacturing.

With a cross-functional team across quality, production, engineering and EHS teams delivering technical changes and process improvements, Pécs became the first site in BAT's history to obtain the ISO 22000 certification for food safety management systems.

We have also built and commissioned a new facility in Trieste, Italy that will further enhance our capabilities and provide additional capacity (in Modern Oral and Heated Products).

In line with the Group's sustainability ambitions, Velo plastic cans are being upgraded to use single polymer plastics, with the use of bio-based materials also being trialled to achieve International Sustainability and Carbon Certification.

### Performance Summary

2024 maintained the momentum from 2023 with growth in volume and value. Volume was up 55.0% to 8.3 billion pouches, having grown 33.6% to 5.4 billion pouches in 2023.

Revenue increased 46.6% to £790 million (2023: up 35% to £539 million). Excluding the impact of foreign exchange, this was an increase of 51% in 2024 and 39% in 2023, as price/mix was down 2.9%, after the increase of 5.4% in 2023.

Volume share of the Modern Oral category in our Top markets was 28.4%, up 1.3 ppts compared to 2023. This was driven by the U.S. where our volume share of Modern Oral increased by 2.1 ppts with volume up 234% to 991 million pouches (2023: down 1.3% to 297 million pouches).

Revenue in the U.S. increased in 2024 to £80 million, an increase of 223% (or 232% at constant rates), driven by the traction of our refreshed Velo brand expression and Grizzly Modern Oral roll-out.

While we await the outcome of our PMTA submission for our successful European product, Velo 2.0, we are encouraged that we have started to reinvigorate our performance in 2024.

The Group reinvested in trade activation in 2023, leading to a decline in net pricing of 30.5% and revenue down to £25 million in that year.

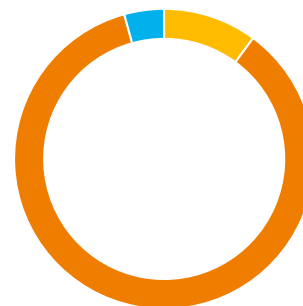
In our Top markets outside the U.S., we maintained volume share leadership, which was down 10 bps at 64.7%.

In AME, we maintained volume share leadership in 21 European markets. Revenue increased by 40.3% (2023: up 41.5%) or 44.4% (2023: up 44.6%) at constant rates of exchange. Price/mix was a negative drag of 4.6% in 2024 having been positive by 8.1% in 2023. The higher revenue was therefore largely driven by volume growth (up 50.2% in 2024 and 36.5% in 2023), with Sweden, the UK, Norway, Austria and Finland all performing well as the Modern Oral category continued to grow.

As the Modern Oral category continues to grow and becomes more established in Europe, we continue to see strong growth in adult consumer numbers. In Sweden, Velo is the largest (by volume share) of any snus or Modern Oral nicotine pouch brand<sup>\*\*\*</sup>.

### Proportion of Modern Oral revenue by region in 2024

(£m)



	2024 £m	2023 £m
U.S.	80	25
AME	676	482
APMEA	34	32
<b>Total</b>	<b>790</b>	<b>539</b>

In APMEA our volume grew 16.8% and our revenue grew 5.7% (being 10.0% at constant rates), fuelled by robust growth from Global Travel Retail and continued strong Emerging Market volume performance in Pakistan (up 27.3%). Our insights and foresights in these markets give us confidence in our ability to unlock the Emerging Markets opportunity for Modern Oral going forward.

We continue to seek opportunities and develop the category in other markets as we believe that Modern Oral is an exciting longer-term opportunity to commercialise reduced-risk products<sup>†</sup>.



Switching from cigarettes to nicotine pouches could represent a reduction in health risks for a person who smokes.



German Federal Institute for Risk Assessment (BfR)<sup>1</sup>

#### Note:

1. Bundesinstitut für Risikobewertung, 2022. Health Risk Assessment of Nicotine Pouches: Updated BfR Opinion No. 023/2022 of 7 October 2022, BfR-Stellungnahmen. Bundesinst. für Risikobewertung. [www.doi.org/10.17590/20220204-105615](https://www.doi.org/10.17590/20220204-105615)