

Building a Smokeless World

**Capital Effectiveness & Our
Growth Algorithm**

Soraya Benchikh, Chief Financial Officer

**Capital
Markets
Day**

2024



My areas of focus

1

Fuelling transformation

- Drive Combustibles value
- Leverage efficiencies to release cash

2

Disciplined targeted capital deployment

- Smart investment focused on largest NC profit pools
- Laser focus on spend effectiveness

3

Strengthen financial resilience

- Strong balance sheet
- Maintain leverage 2x-2.5x*

4

Balanced capital allocation

- Progressive dividend
- Sustainable share buy-back
- Bolt-on M&A to accelerate transformation

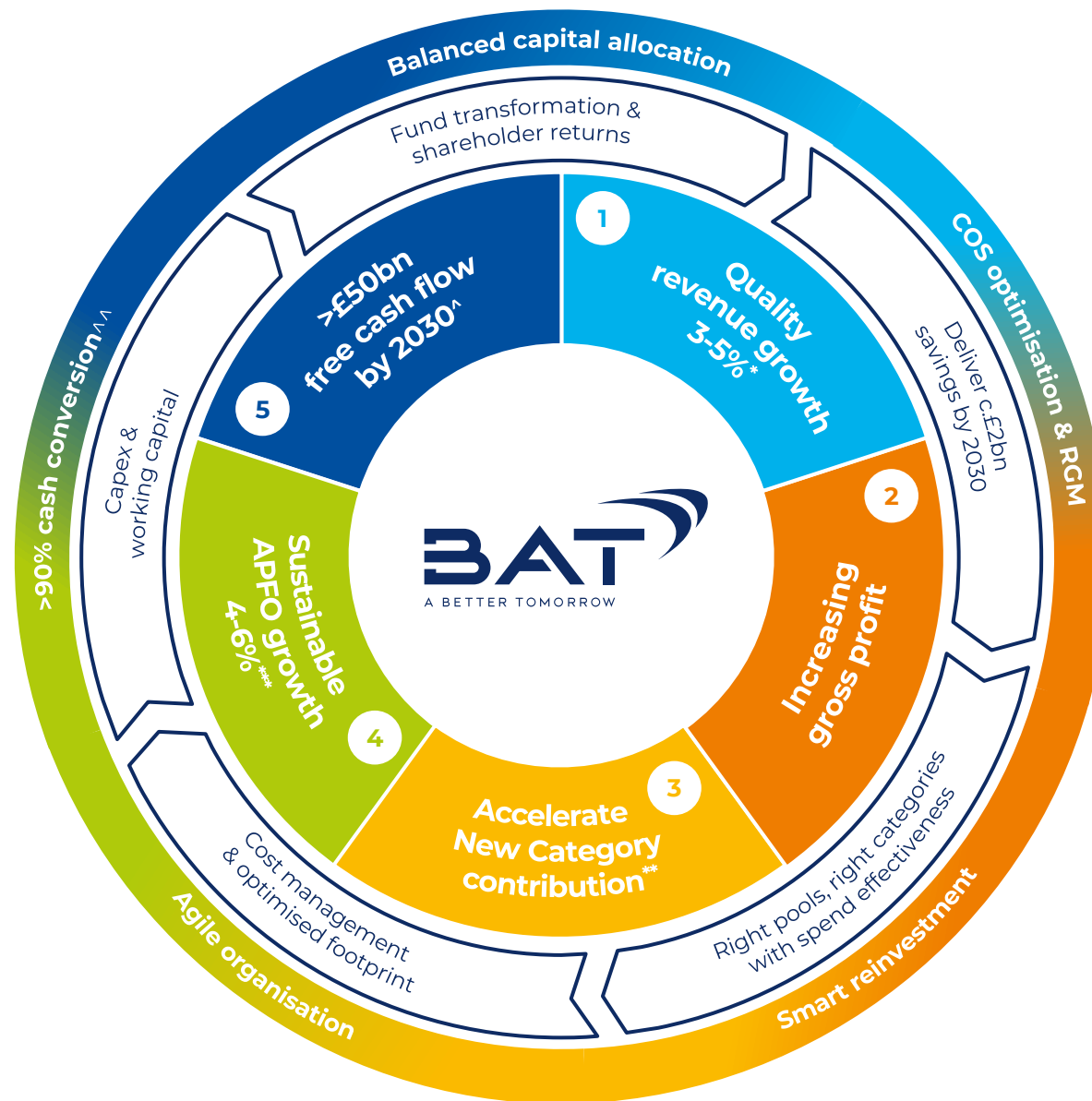
Drive performance with KPIs

Creating value for shareholders:

Sustainable +4% to +6% mid-term APFO** growth

Maximise cash generation

Our Mid-Term Growth Algorithm



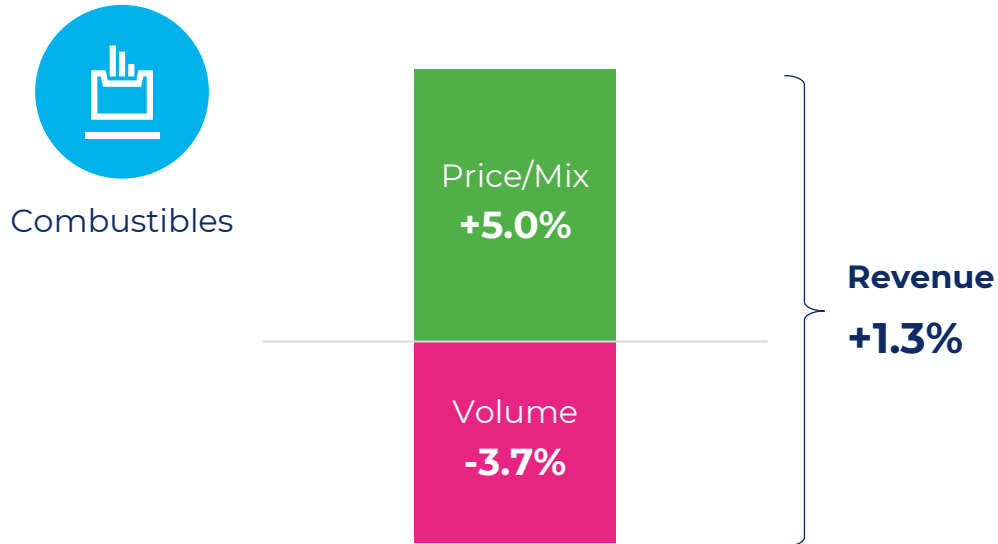
* On an organic, constant rate basis. See Appendices A2 & A7. **Profitability at category contribution level: Profit from operations before the impact of adjusting items and translational foreign exchange, having allocated costs that are directly attributable to New Categories. See Appendices A1, A2 & A7. *** On an adjusted, organic, constant rate basis. See Appendices A1, A2 & A7. ^ See Appendices A1 & A5. ^^ See Appendices A1 & A6.

Quality revenue growth

Sustainable Combustibles revenue growth

Recent Combustibles volume & price/mix

2020-2023 CAGR (%)



Combustibles mid-term outlook

Industry volume*: -3% to -4%

BAT volume: -3% to -4%

Price/Mix: +4% to +5%

Revenue:** 0% to +2%
(constant currency basis)

Supported by a diverse geographic footprint and disciplined revenue growth management

Quality revenue growth

Incremental New Category revenue growth

Recent NC volume & price/mix performance

2020-2023 CAGR (%)



New
Categories



New Categories mid-term outlook

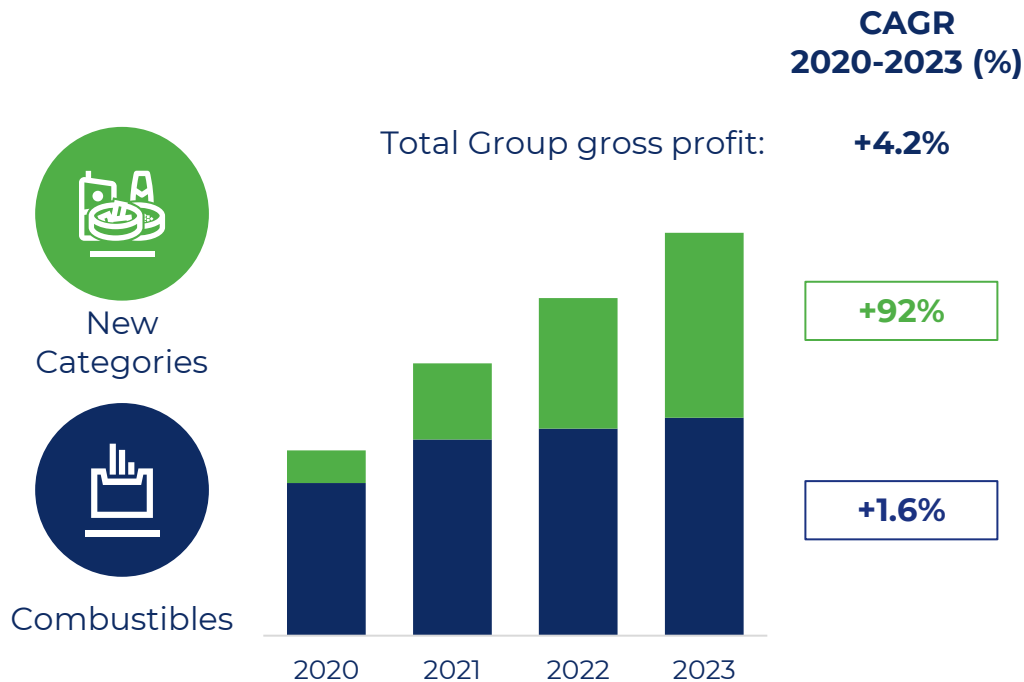
- **Volume growth driven by**
 - Strong multi-category industry growth
 - Share gains
- **Enhanced price/mix* driven by**
 - Premium innovations
 - Revenue Growth Management (RGM)
- **Double-digit revenue growth**

Enabled by targeted investment in right categories and right geographic pools

Increasing gross profit

New Category driving gross profit growth

Gross profit evolution 2020-2023



- **Resilient Combustibles gross profit**

- Pricing
- RGM
- COS efficiencies

- **Rapidly growing New Categories gross profit**

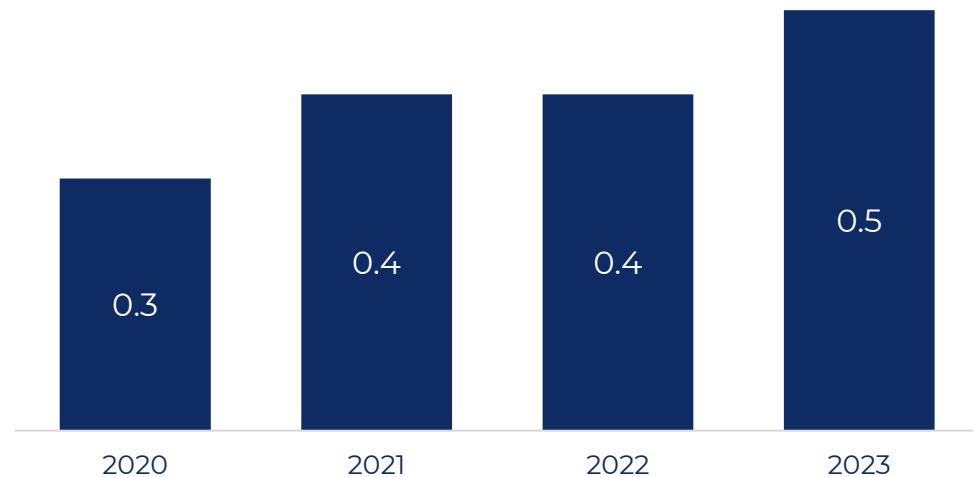
- Volume and scale efficiencies
- Premiumisation

Gross profit

Cost of sales optimisation

Consistently delivered strong productivity savings

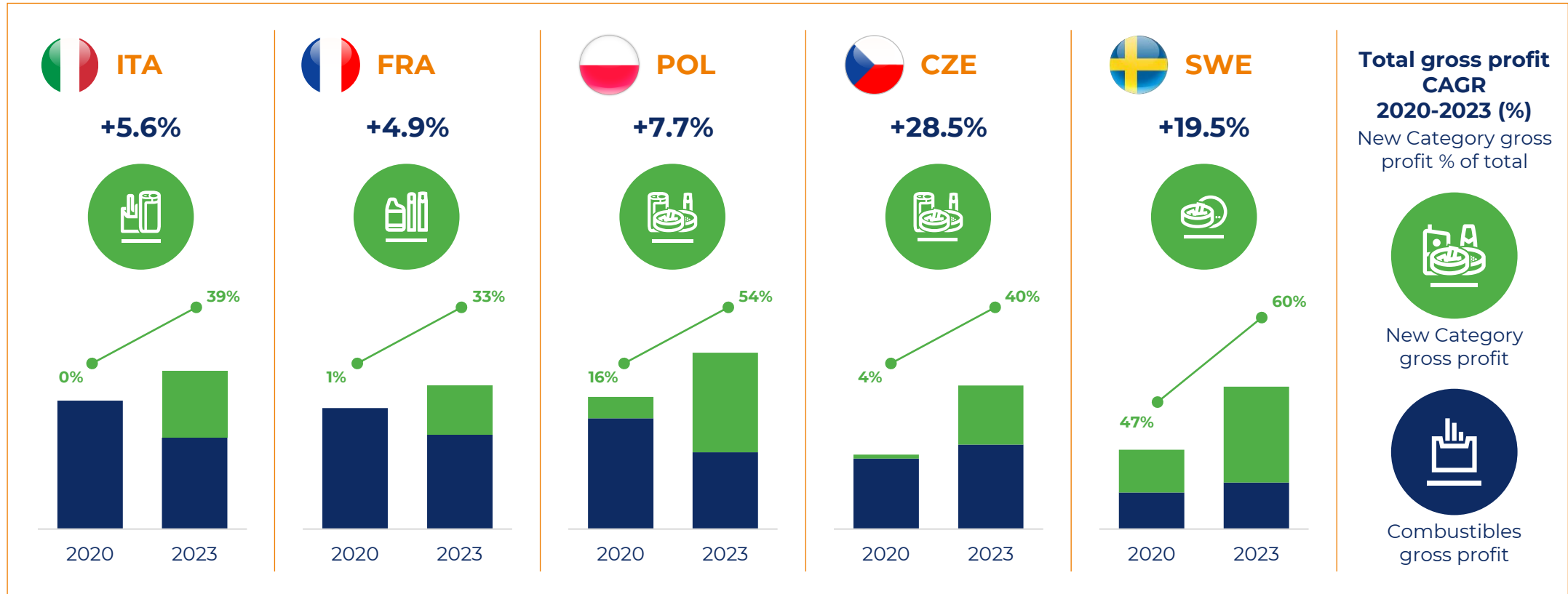
Cost of sales savings (£bn)



- **Further productivity savings expected via:**
 - Combustibles product simplification
 - New Category optimisation and scale benefits
- **2023-2025 original productivity target of £1bn:**
 - Now on track to deliver over £1.2bn
- **Additional c.£2bn of savings expected 2026-2030**

Increasing gross profit

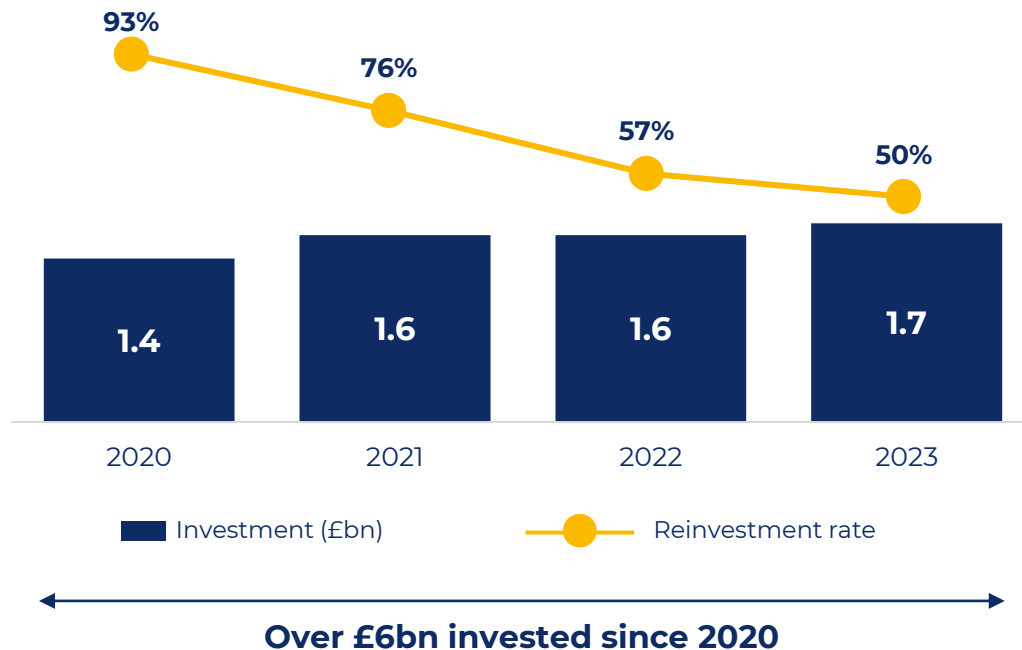
Significant improvement in key markets



Accelerate New Category contribution

Smart reinvestment

New Categories investment 2020-2023



- **Smart and targeted investment** to fuel growth and contribution
- **Improving reinvestment rates** as we grow
- **Releasing additional resources** to fuel growth and **drive incremental profit**

Accelerate New Category contribution

Profitability achieved 2 years ahead of expectations

New Category contribution 2020-2023

(£bn)

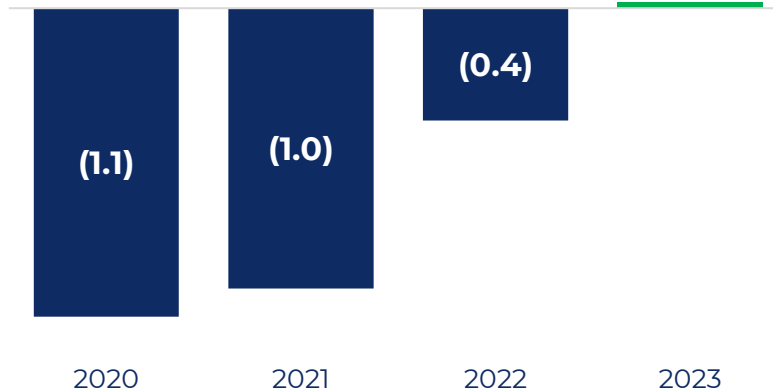
Contribution margin* (%)

-77%

-46%

-13%

0%



Key drivers of category contribution growth:

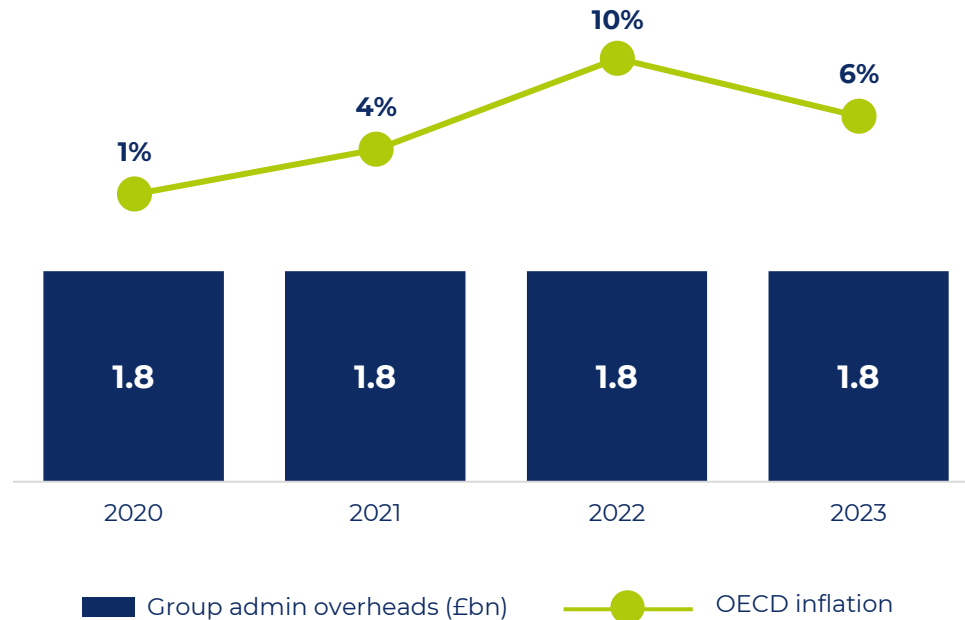
- Revenue growth driven by:
 - Volume and price/mix
 - Category mix
- Scale benefits optimising cost of sales
- Increased spend effectiveness focus

Sustainable APFO Growth

Robust management of administrative overheads*

Group admin overheads*

(£bn)



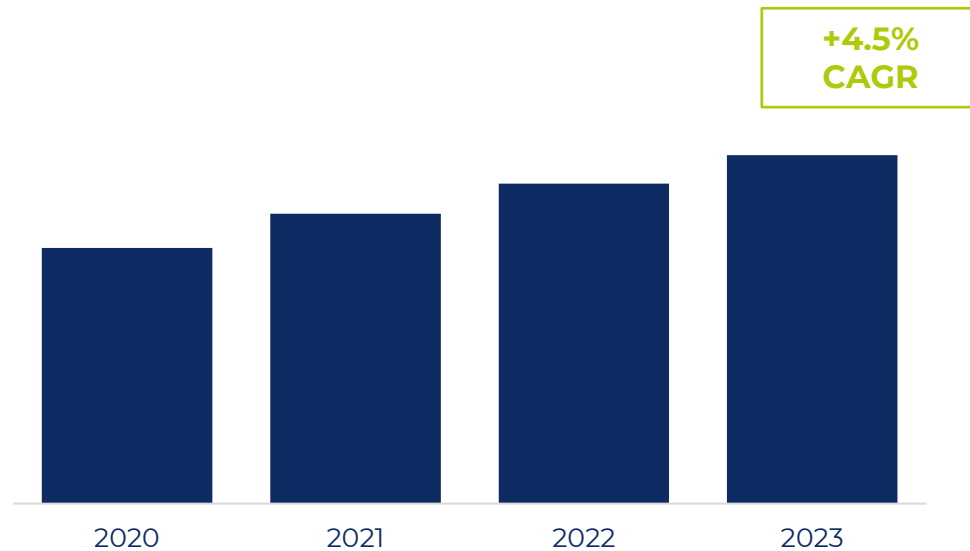
- **Proven track record of disciplined cost management**
 - Broadly flat 2023 vs. 2020 in absolute terms
 - Managed 20%+ cumulative inflation over 2020-2023
 - Successfully offsetting a c.£300m cost headwind
- **Committed to maintaining overheads* at c.7% revenue going forward**

Sustainable APFO Growth

Building blocks in place for sustainable growth

Group APFO 2020–2023

(£bn)



Mid-term outlook*

- **Improvement in APFO growth in 2025**
- **Return to sustainable APFO growth of +4% to +6% by 2026**

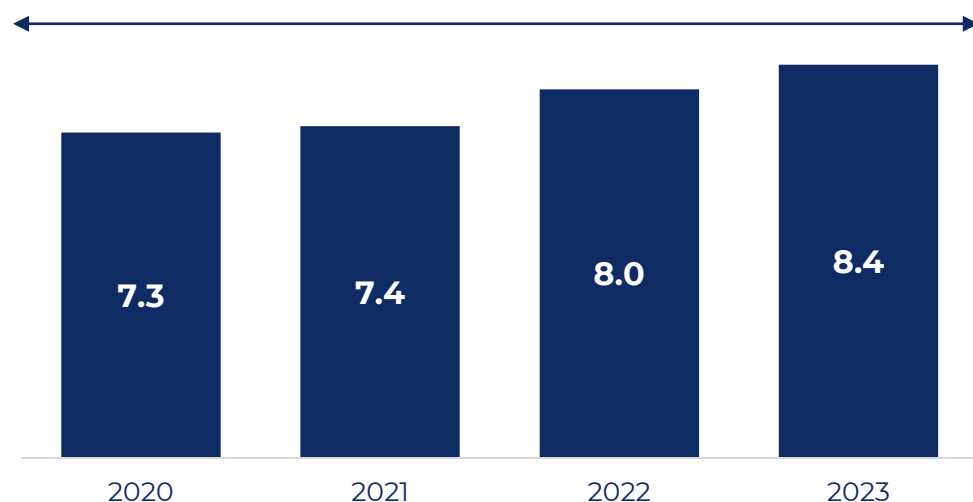
Cash delivery

Rigorous focus on cash delivery

Free cash flow generation 2020-2023

(£bn)

>100% operating cash flow conversion*



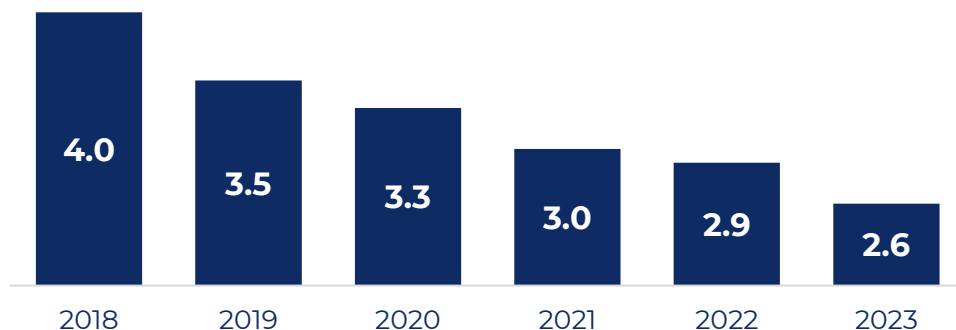
- **2024-2025 cash delivery impacted by:**
 - Timing of potential settlement payments**
 - FX headwinds
- **Expect >£8bn annual free cash flow from 2026**
 - Growing in line with APFO***

Disciplined capital allocation

Balancing cash returns and deleveraging

Consistent deleveraging

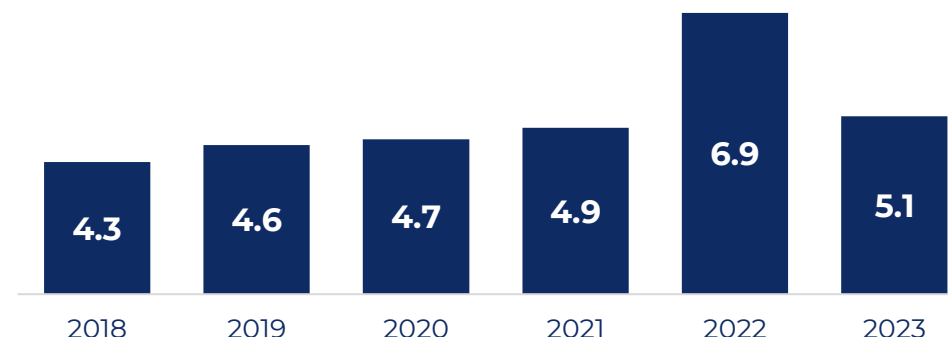
Adjusted net debt to adjusted EBITDA*



- **Operate within our 2.0-2.5x target range***

£30bn cash returned to shareholders since 2018

Cash returns to shareholders**



- **Committed to progressive dividend policy**
- **Sustainable share buy-back starting with:**
 - 2024: £700m; 2025: £900m

Capital allocation priorities

Cash generation

Generate in excess of £50bn* Free Cash Flow** by 2030

Deliver business transformation

Targeted investment in business transformation

Optimise portfolio

Continuously review our footprint and drive cash flows

**Progressive
dividend**

**Within 2.0-2.5x
leverage corridor*****

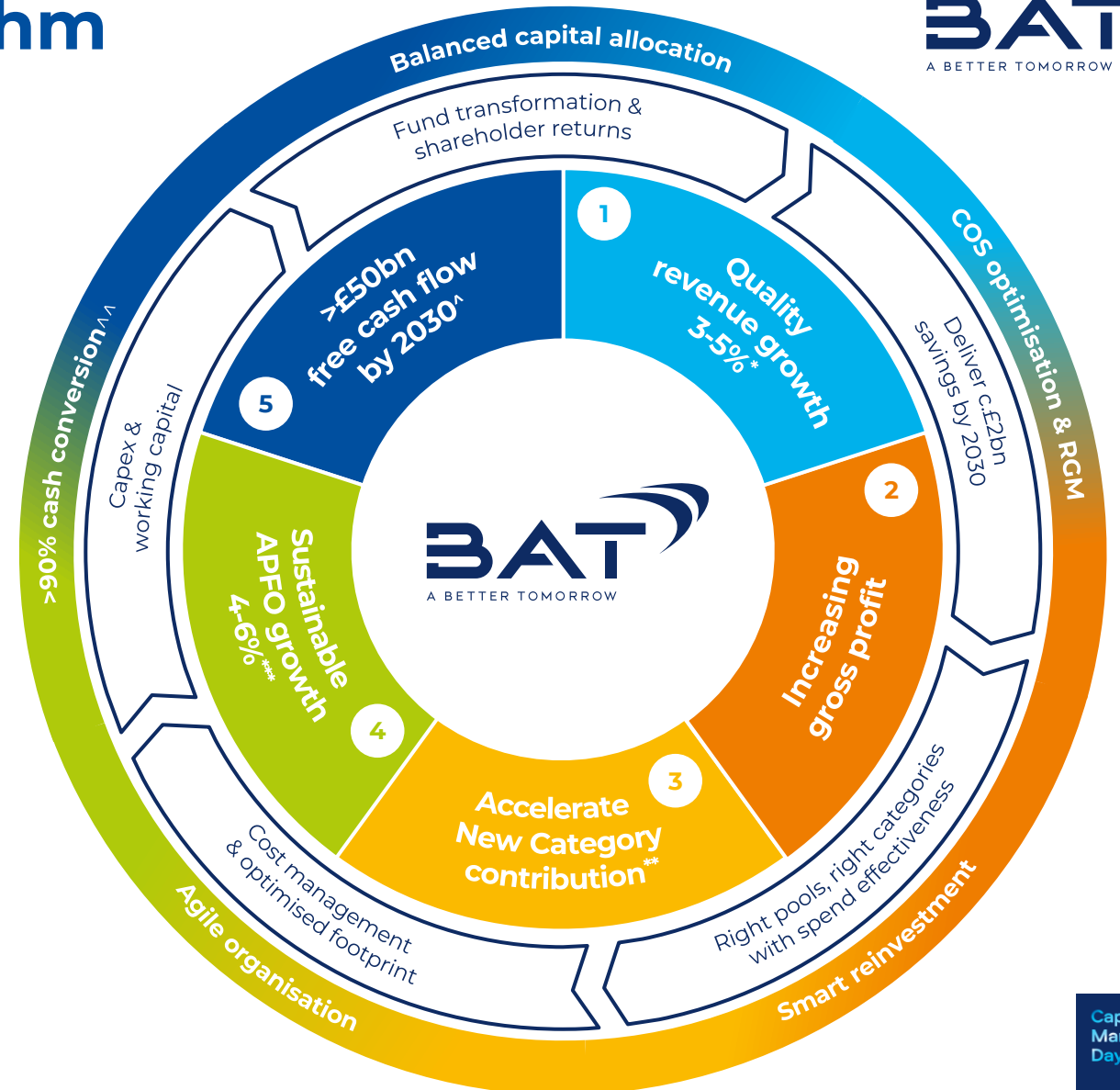
**Assess bolt-on M&A
opportunities**

**Sustainable
share buy-back**

Our 2026 Growth Algorithm supported by metrics

Metrics:

1	Revenue growth* (%)
1	Smokeless revenue/total revenue ¹ (%)
2	Gross profit growth* (%)
3	New Category contribution margin ² (%)
3	New Category spend effectiveness ³ (% of cc)
4	Return on capital employed ⁴ (%)
5	Free cash flow pre-dividend ⁵ (£m)
5	Adjusted net debt to adjusted EBITDA ⁵ (ratio)



* On an organic, constant rate basis. See Appendices A2 & A7. ** Profitability at category contribution level: Profit from operations before the impact of adjusting items and translational foreign exchange, having allocated costs that are directly attributable to New Categories. See Appendices A1, A2 & A7. *** On an adjusted, organic, constant rate basis. See Appendices A1, A2 & A7. ^ See Appendices A1 & A5. ^^ See Appendices A1 & A6. 1) See Smokeless definition in Appendix A11. 2) Profit from operations before the impact of adjusting items and translational foreign exchange, having allocated costs that are directly attributable to New Categories. On an organic, constant rate basis. See Appendices A1, A2 & A7. Margin refers to New Category contribution as a percentage of New Category revenue. 3) Calculated as Marketing Investments + Research and Development Costs as a % of New Category contribution. 4) Return on capital employed is the adjusted profit from operations, divided by the average total assets (less investment in associates and joint ventures) net of average current liabilities. See appendix A1. 5) See Appendix A9. All P&L metrics based on constant rates of FX for respective year. See Appendix A2. ROCE/FCF/ND/EBITDA based on current rates.

Transformation scorecard

Metric	2020	2021	2022	2023
Revenue growth ¹ (%)	+3.3%	+6.9%	+2.3%	+3.1%
Smokeless revenue/total revenue ² (%)	10.1%	12.3%	14.8%	16.5%
Gross profit growth ¹ (%)	+2.8%	+6.0%	+4.0%	+2.8%
New Category contribution margin ³ (%)	-77%	-46%	-13%	0%
New Category spend effectiveness ⁴ (% of cc)	-83%	-60%	-23%	+1%
Return on capital employed ⁵ (%)	9.6%	9.4%	9.9%	10.9%
Free cash flow pre-dividend ⁶ (£m)	7,295	7,447	8,049	8,360
Adjusted net debt to adjusted EBITDA ⁷ (ratio)	3.26x	2.99x	2.89x	2.61x

1) On constant FX rates of respective year basis See Appendix A2. 2020-22 on adjusted basis. See Appendix A1. 2022-'23 on an organic basis. See Appendix A7. 2) See Smokeless definition in Appendix A11. 2020-22 on adjusted basis. See Appendix A1. 2022-'23 on an adjusted organic basis. See Appendix A7. 3) Profitability at category contribution level as % of New Category Revenue on constant rates of FX for respective year. See Appendix A2. 2020-22 on adjusted basis. See Appendix A1. 2022-'23 on an adjusted organic basis. See Appendix A7. 4) Calculated as Marketing Investments + Research & Development Costs as a % of New Category contribution on a constant rate of FX for respective year. See Appendix A2. 2020-22 on adjusted basis. See Appendix A1. 2022-'23 on an adjusted organic basis. See Appendix A7. 5) Return on capital employed is the adjusted profit from operations, divided by the average total assets (less investment in associates and joint ventures) net of average current liabilities. See Appendix A1. 6) See Appendices A1 & A5. 7) See Appendix A9. FY23 on an organic basis. See Appendix A7. All P&L metrics based on constant rates of FX for respective year. See Appendix A2. Smokeless Revenue/ROCE/FCF/ND/EBITDA based on current rates.

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Appendix

A1: Adjusting (Adj.)

Adjusting items represent certain items which the Group considers distinctive based upon their size, nature or incidence.

A2: Constant currency

Constant currency – measures are calculated based on the prior year's exchange rate, removing the potentially distorting effect of translational foreign exchange on the Group's results. The Group does not adjust for normal transactional gains or losses in profit from operations which are generated by exchange rate movements.

A3: Share metrics

Through Aug 2024 unless otherwise stated.

Volume share: The estimated number of units bought by consumers of a specific brand or combination of brands, as a proportion of the total estimated units bought by consumers in the industry, category or other sub-categorisation. Sub-categories include, but are not limited to, the total nicotine category, Modern Oral, Vapour, Traditional Oral or cigarettes. Corporate volume share is the share held by BAT Group. Except when referencing particular markets, volume share is based on our top markets.

Value share: The estimated retail value of units bought by consumers of a particular brand or combination of brands, as a proportion of the total estimated retail value of units bought by consumers in the industry, category or other sub-categorisation in discussion.

A4: Price/Mix

Price mix is a term used by management and investors to explain the movement in revenue between periods. Revenue is affected by the volume (how many units are sold) and the value (how much is each unit sold for). Price mix is used to explain the value component of the sales as the Group sells each unit for a value (price) but may also achieve a movement in revenue due to the relative proportions of higher value volume sold compared to lower value volume sold (mix).

A5: Free Cash Flow

Net cash generated from operating activities before the impact of trading loans provided to a third party and after dividends paid to non-controlling interests, net interest paid and net capital expenditure.

A6: Operating Cash Conversion

Net cash generated from operating activities before the impact of adjusting items and dividends from associates and excluding trading loans to third parties, pension short fall funding, taxes paid and net capital expenditure, as a proportion of adjusted profit from operations.

A7: Organic

To supplement the Group's results presented in accordance with International Financial Reporting Standards (IFRS), the Group's Management Board, as the chief operating decision maker, reviews certain of its results, including revenue and adjusted profit from operations, at constant rates of exchange, prior to the impact of businesses sold or held-for-sale. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group does believe that such results excluding the impact of businesses sold or to be held-for-sale provide additional useful information to investors regarding the underlying performance of the business on a comparable basis and in the case of the divestment of the Group's businesses in Russia and Belarus, the impact these businesses had on revenue and profit from operations. Accordingly, the organic financial measures appearing in this document should be read in conjunction with the Group's results as reported under IFRS. The exits referred to in respect of other markets, including in Africa, are not deemed significant to the users' understanding.

A8: Poly-usage

- **Combustibles Poly-use** – refers to the use by an adult* consumer of both Combustibles products and potentially reduced risk tobacco and nicotine products which for many smokers is part of a transitional period where those consumers move towards a complete switch to potentially reduced-risk products by reducing the consumption of combustible tobacco products and replacing them with one or more potentially reduced-risk products.
- **New Categories Poly-use (“NC Poly-use”)** – refers to the consumption of two or more potentially reduced-risk tobacco or nicotine product categories by adult* consumers who do not consume any Combustibles products.
- **Total Poly-use** – total number of adult* consumers consuming two or more tobacco and/or nicotine products, which may or may not include Combustibles products. * As defined by the relevant local law but shall in no circumstance refer to any person under the age of 18; and shall in no circumstance refer to any person under the age of 21 in the U.S.

A9: Adjusted net debt to adjusted EBITDA

Net debt, excluding the impact of the revaluation of Reynolds American Inc. acquired debt arising as part of the purchase price allocation process, as a proportion of profit for the year (earnings) before net finance costs (interest), tax, depreciation, amortisation, impairment, associates and adjusting items

A10: Consumers of Smokeless Products

The number of consumers of Smokeless products is defined as the estimated number of Legal Age (minimum 18 years) consumers of the Group's Smokeless products - which does not necessarily mean these users are solus consumers of these products. In markets where regular consumer tracking is in place, this estimate is obtained from adult consumer tracking studies conducted by third parties (including Kantar). In markets where regular consumer tracking is not in place, the number of consumers of Smokeless products is derived from volume sales of consumables and devices in such markets, using consumption patterns obtained from other similar markets with adult consumer tracking (utilising studies conducted by third parties, including Kantar). The number of consumers is adjusted for those identified (as part of the consumer tracking studies undertaken) as using more than one BAT Brand – referred to as “poly users”.

The number of Smokeless products consumers is used by management to assess the number of consumers using the Group's New Categories products as the increase in Smokeless products is a key pillar of the Group's ESG ambition and is integral to the sustainability of our business.

A11: Smokeless Products

Refers to Non-Combustibles, including Vapour products, Heated Products, Modern Oral and Traditional Oral.