

# Building a Smokeless World

Tadeu Marroco, Chief Executive

Capital  
Markets  
Day

2024

(Opening Video)

**An inspiring  
ambition**



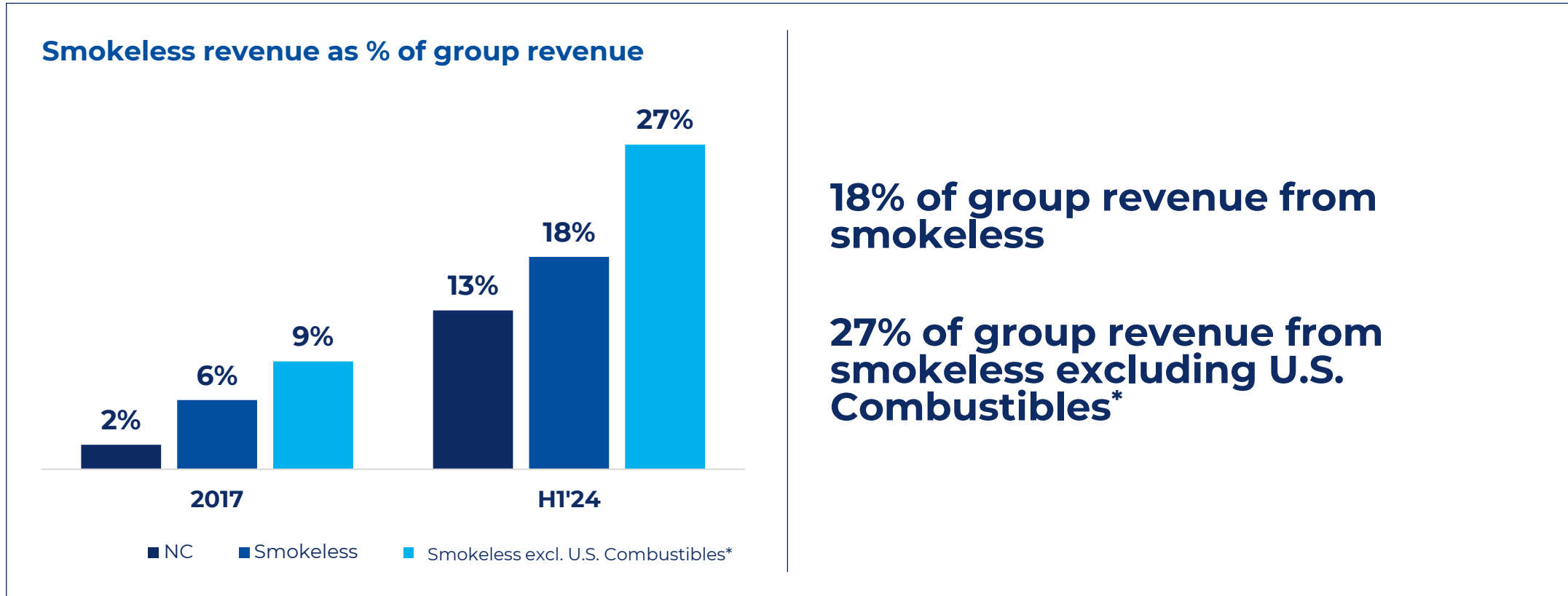
**A predominantly  
Smokeless  
Business by 2035**

Driven by...

# Our refreshed strategy, which becomes our executional compass



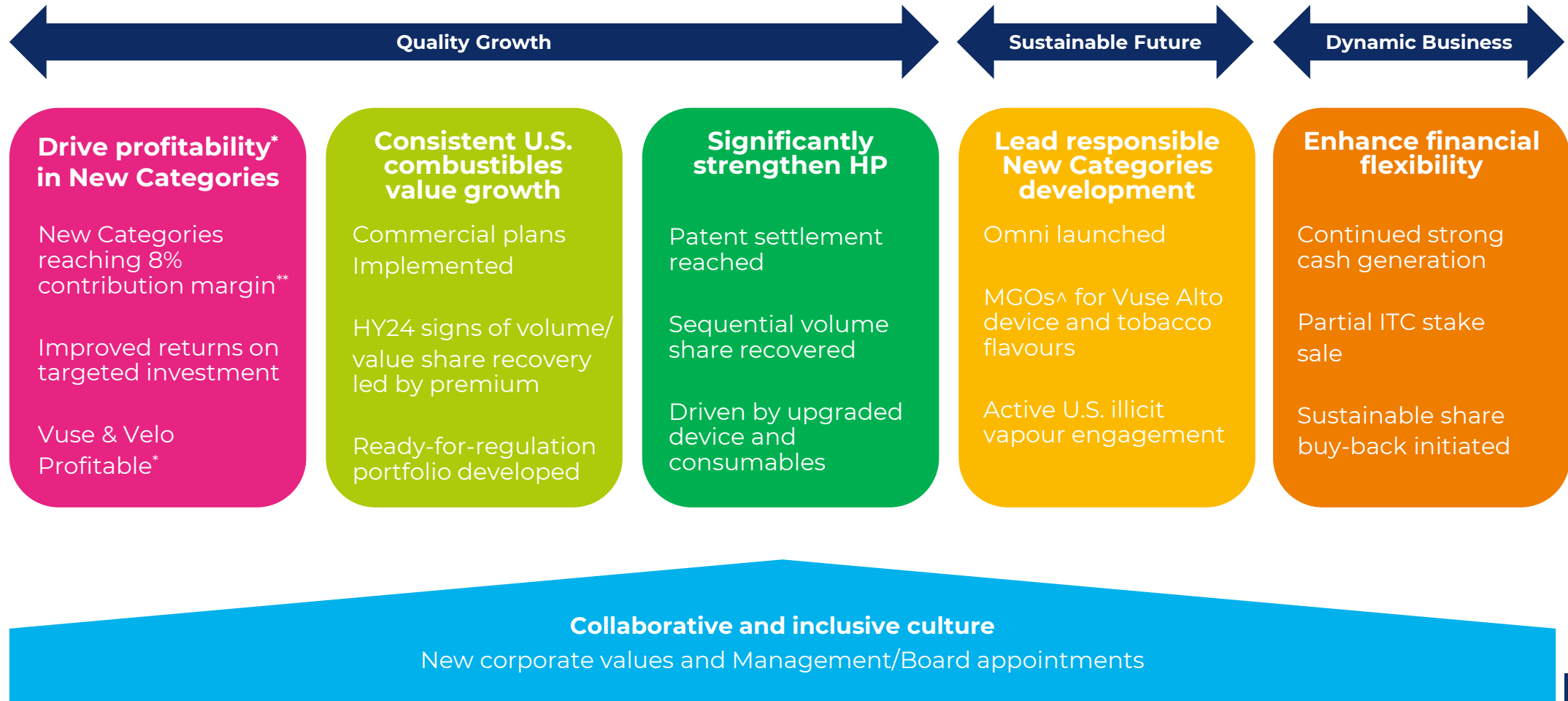
# Well on the way to transforming BAT



# Focus on executional discipline & culture were immediate top priorities



# Progress made over last 12 months

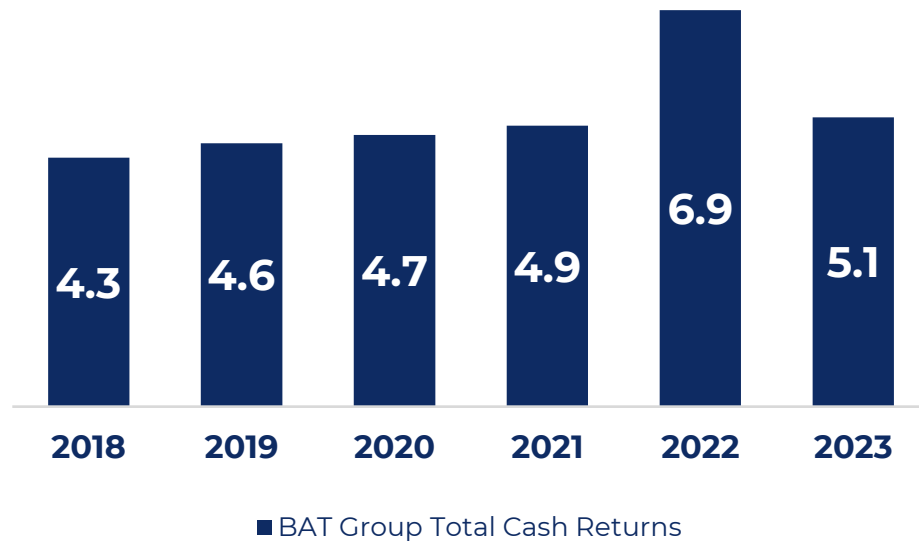


\* Category contribution level: Profit from operations before the impact of adjusting items and translational foreign exchange, having allocated costs that are directly attributable to New Categories. On an organic, constant rate basis. See Appendices A1, A2 & A7. \*\* Margin refers to New Category contribution as a percentage of New Category revenue. ^MGOs refers to Marketing Granted Orders in the U.S.

# Commitment to strong cash returns

## Over £30bn cash returned to shareholders since 2018

(£bn)



**Committed to progressive dividend policy**

**Sustainable share buy-backs starting with:**

- 2024: £700m; 2025: £900m

# 10 key reasons to believe in BAT's future

**1.**

Industry transformation will deliver **long-term nicotine value growth**

**2.**

Multi-category is a reality: **positioned for success in all attractive value pools**

**3.**

Transformed insights & foresights capabilities **to address future consumer preferences**

**4.**

**Enhanced innovation ecosystem** delivering a step change in our product portfolio

**5.**

Our Quality Growth strategic imperative is **driving prioritisation & focus**

**6.**

The U.S. remains the **cornerstone of our future**

**7.**

Front-footed approach to **shape the regulatory landscape**

**8.**

Extending **foundations in Beyond Nicotine** will support future growth

**9.**

Unique global footprint & multi-category focus drives our **Sustainable Growth Algorithm**

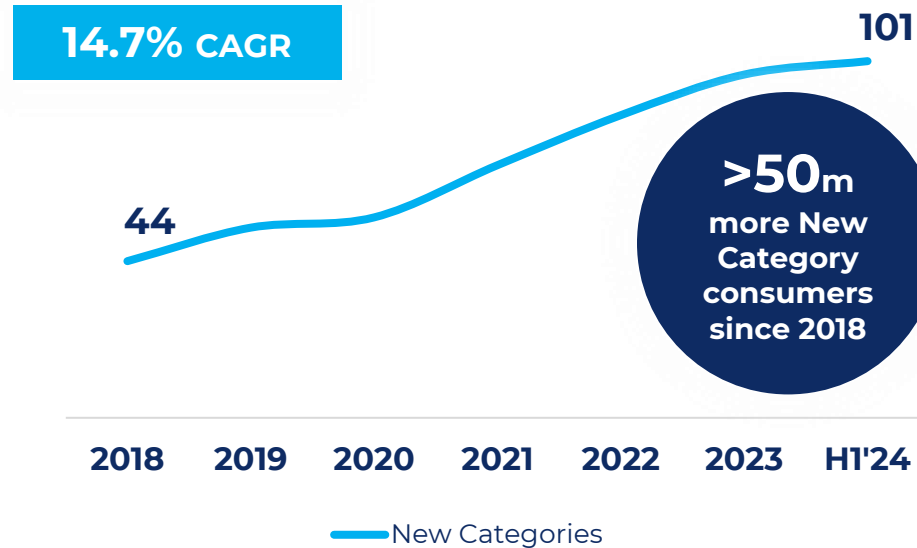
**10.**

A proud & responsible company. Our people make us **'Stronger Together'**

1.  
Industry transformation will deliver long-term nicotine value growth

# The nicotine industry is rapidly transforming as adult consumers move to New Categories

Industry\* adult New Category consumers (m)



New Category consumers have more than doubled since 2018

c.1bn smokers remain globally – a huge opportunity

1.  
Industry  
transformation will  
deliver long-term  
nicotine value  
growth

# Industry transformation is accelerating nicotine value growth



Nicotine revenue CAGR is outpacing the pre-transformation era

2017-2023\*

~3.8%

CAGR

2024-2035\*\*

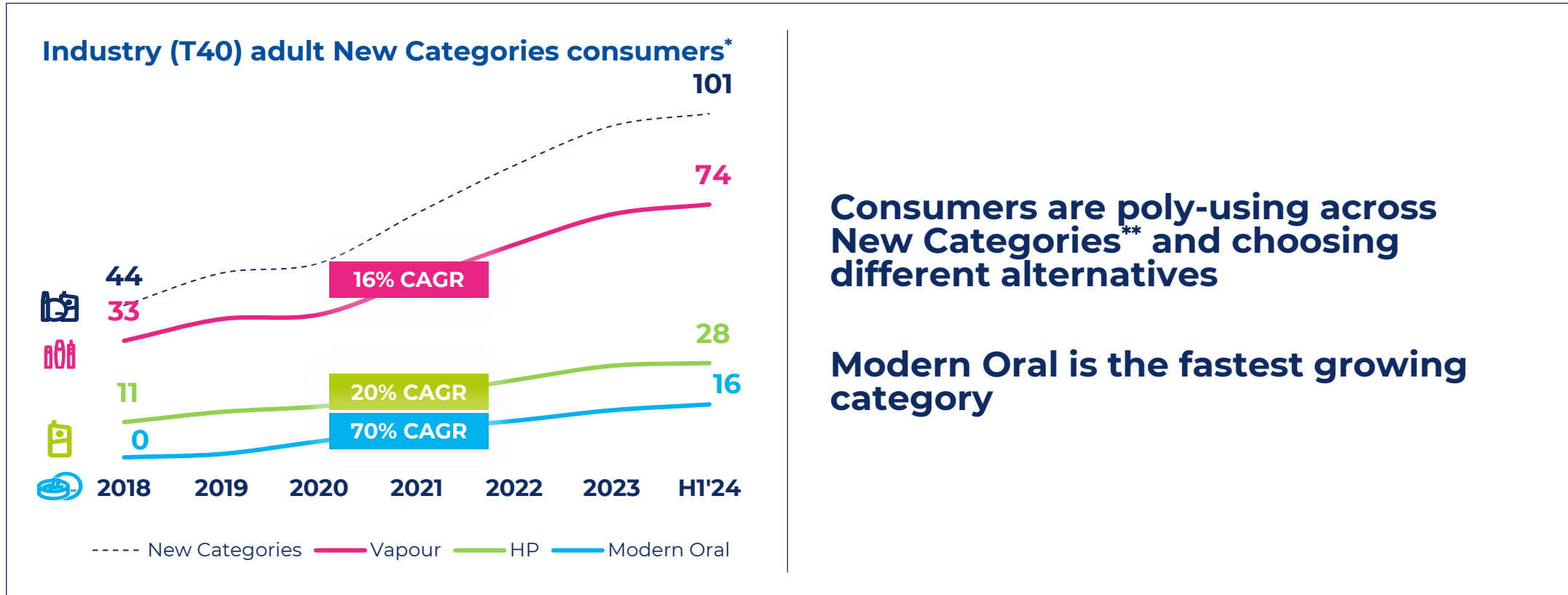
~4.6%

CAGR

2.

Multi-category is a reality, positioned for success in all attractive value pools

# Only a multi-category portfolio can deliver full value potential



Consumers are poly-using across New Categories\*\* and choosing different alternatives

Modern Oral is the fastest growing category

2.

Multi-category is a reality, positioned for success in all attractive value pools

# We have built a competitive multi-category portfolio

|  |   |  |   |              |              |              |             |  |  |               |               |               |               |
|--|---|--|---|--------------|--------------|--------------|-------------|--|--|---------------|---------------|---------------|---------------|
|  |   |  |   |              |              |              |             |  |  |               |               |               |               |
| <p><b>Combustibles revenue*</b></p> <p><b>+1.3%</b><br/>CAGR</p> <p>2020      2023</p> | <table border="0"> <tr> <td> <b>57.5%</b></td> <td> <b>63.4%</b></td> </tr> <tr> <td> <b>88.5%</b></td> <td> <b>55.2%</b></td> </tr> <tr> <td> <b>94.0%</b></td> <td> <b>7.5%</b></td> </tr> </table> | <b>57.5%</b>   | <b>63.4%</b>  | <b>88.5%</b> | <b>55.2%</b> | <b>94.0%</b> | <b>7.5%</b> | <p><b>40.4%</b><br/>YTD Aug'24<br/>share of top<br/>markets***</p> | <p><b>glo HP category share****</b></p> <p>Aug'24 vs. Dec'23</p> <table border="0"> <tr> <td> <b>+0.3pp</b></td> <td> <b>+1.6pp</b></td> </tr> <tr> <td> <b>+1.4pp</b></td> <td> <b>+0.5pp</b></td> </tr> </table> | <b>+0.3pp</b> | <b>+1.6pp</b> | <b>+1.4pp</b> | <b>+0.5pp</b> |
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| <b>+1.4pp</b>  | <b>+0.5pp</b>   |  |   |              |              |              |             |  |  |               |               |               |               |
| <p>Sustainable revenue</p> <p>Solid price/mix^</p> <p>Resilient portfolio</p>          | <p>Clear leader outside U.S.**</p> <p><b>c.45%</b> volume outside<br/>Traditional Oral markets</p>  | <p>Global value share leader</p> <p>Strong innovation pipeline</p> | <p>Global #2</p> <p>Improved performance<br/>since glo Pro launch</p> |              |              |              |             |  |  |               |               |               |               |

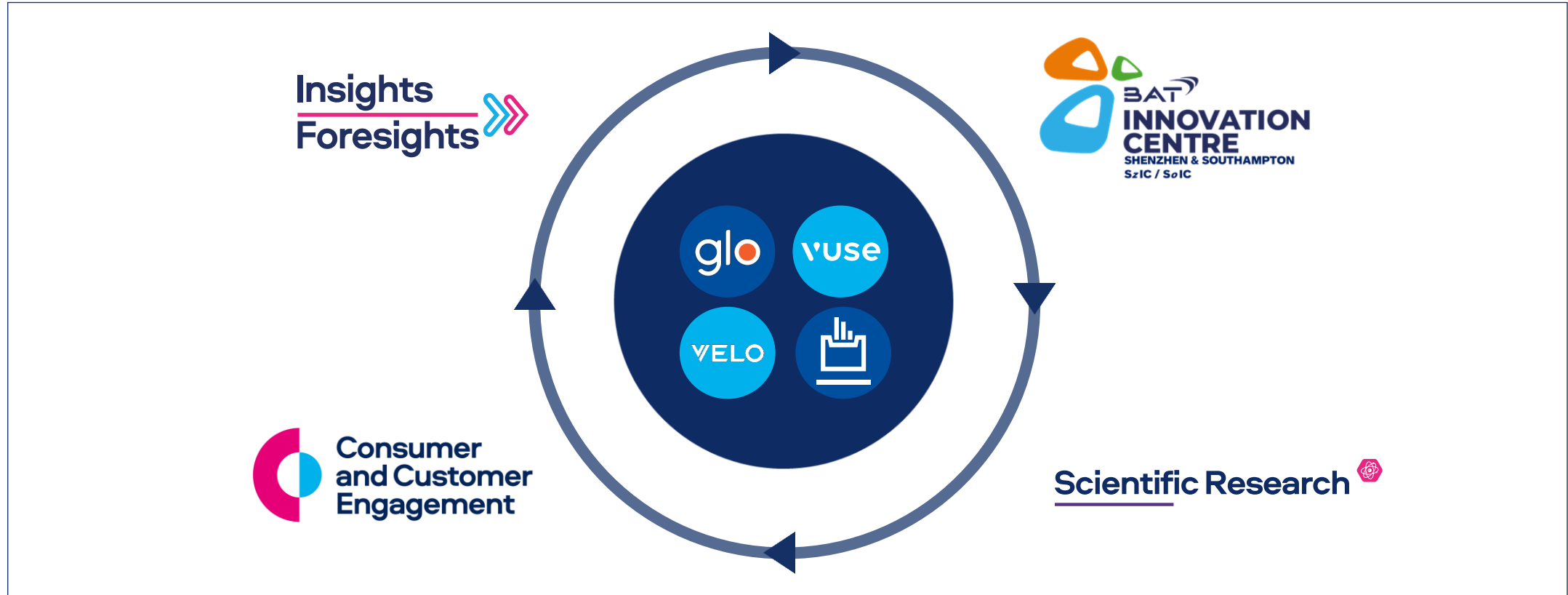
## BAT is well positioned to benefit from New Category growth

\* Figures based on constant rates of FX for respective year. See Appendix A2. 22-23 on an organic basis. See Appendix A7. \*\* Aug'24 Volume Share for Velo in Retail Audit. \*\*\* YTD Aug'24 Value Share in Retail Audit for Vapour Closed Systems. See Appendix A3. \*\*\*\* Volume Share Retail Measurement (suppliers different by market). Dec'23 vs. Aug'24. Japan glo share relates to demi-slim excl. super-slim consumables. Demi-slim consumables are used with glo Hyper Pro. See Appendix A3. ^ See Appendix A4.

2.

Multi-category is a reality; positioned for success in all attractive value pools

# Driven by strong New Category capabilities



3.

Transformed insights & foresights capabilities to address future consumer preferences

# Insights & Foresights model has been substantially upgraded



4.

Enhanced innovation ecosystem delivering a step change in our product portfolio

# Substantial improvement in our innovation ecosystem



Fully Upgraded Infrastructure

3 Innovation Centres



Strategic Partners  
+50 Development partners



Open Innovation Partners



2 First mover Manufacturing Sites



- Global access to multiple levers
- Proximity to network in Asia

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5.

Our Quality growth strategic imperative is driving prioritisation & focus

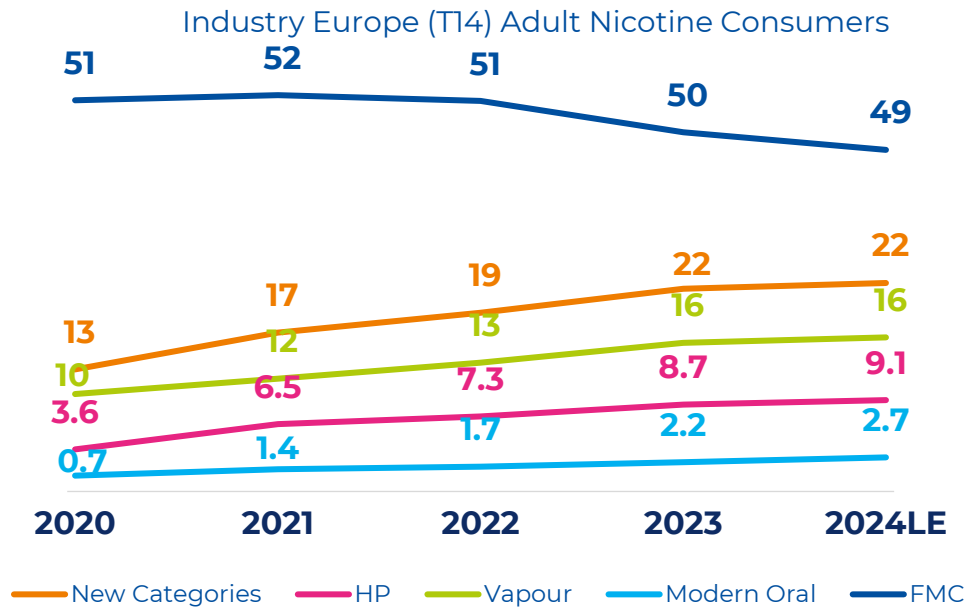
# Case study: Quality Growth imperative in action



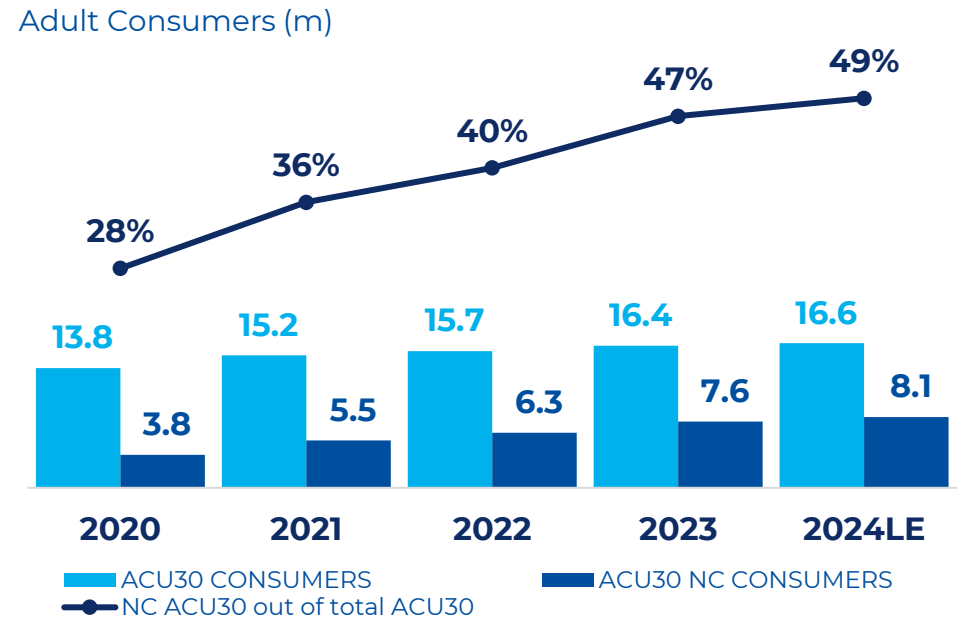
## A focus on transformation in Europe

# Growth of nicotine consumers in Europe fuelled by New Categories

**New Categories represent 36% of total adult nicotine consumers (+14ppts vs. '20)**



**Growth is driven by Adult Consumers Under 30 (+21ppts vs. '20), confirming future potential\***



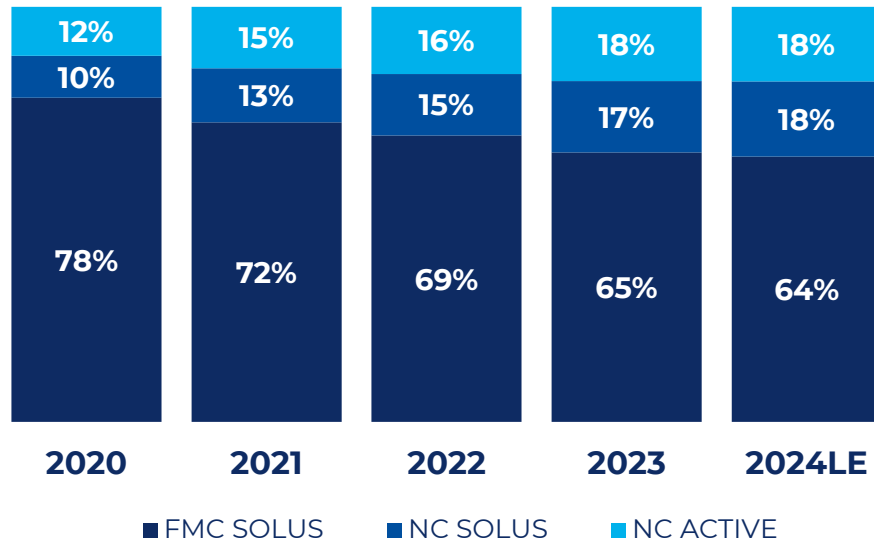
\* Source: Company data based on single Consumer View, NC total net of NC poly-use. See Appendix A8.  
 Top 14 markets Europe (BEL, BUL, CZE, DEN, FRA, GER, HUN, ITA, NET, POL, ROM, SWE, SWI, UK)  
 ACU30 = Adult Consumers under 30  
 LE = Latest Estimate

# More than 1/3<sup>rd</sup> of nicotine consumers are actively using New Categories

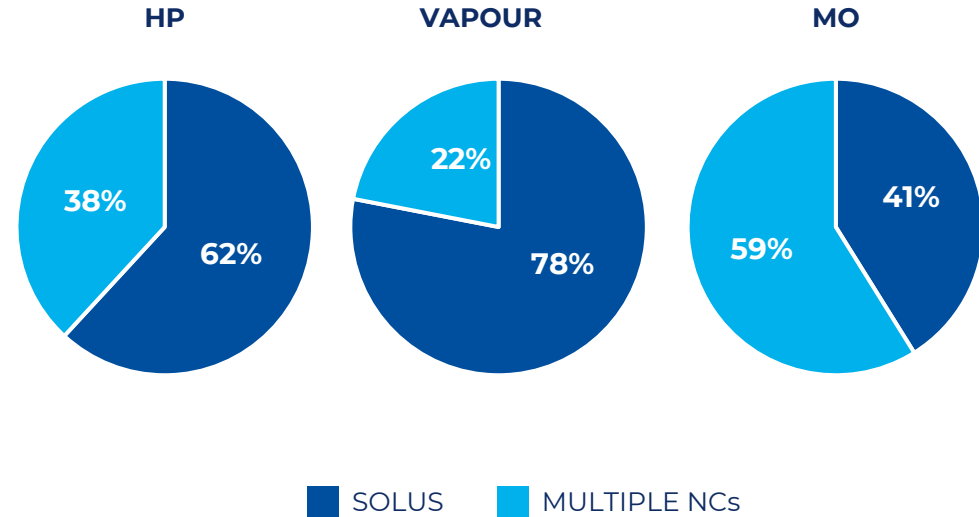


## 36% of adult nicotine consumers are actively using New Categories (NC)

Industry Europe (T14) Adult Nicotine Consumers



## Vapour has the most solus consumers



Source: Company data. Single Consumer View, Top 14 markets Europe (BEL, BUL, CZE, DEN, FRA, GER, HUN, ITA, NET, POL, ROM, SWE, SWI, UK)  
 LE = Latest Estimate  
 New Categories usage by Category – H1'24 Single Consumer View

5.

Our Quality growth strategic imperative is driving prioritisation & focus

# BAT's New Categories footprint expansion in Europe



## 44 markets

Covering 97% of Industry Gross Margin (GM) pool

| HP      | VAPOUR  | MO      |
|---------|---------|---------|
| 27      | 35      | 36      |
| Markets | Markets | Markets |
| 93%     | 98%     | 100%    |

5.

Our Quality growth strategic imperative is driving prioritisation & focus

# New Categories margins are accretive

## Europe View



### BAT New Categories gross profit/mille vs. Combustibles

Stick equivalent basis

#### Heated Products

Consumables

**x1.9**

1 stick = 1 stick

#### Vapour

MoDI & RCS consumables

**x1.6**

1.2ml = 20 stick pack

#### Modern Oral

**x4.1**

1 pouch = 1 stick

5.

Our Quality growth strategic imperative is driving prioritisation & focus

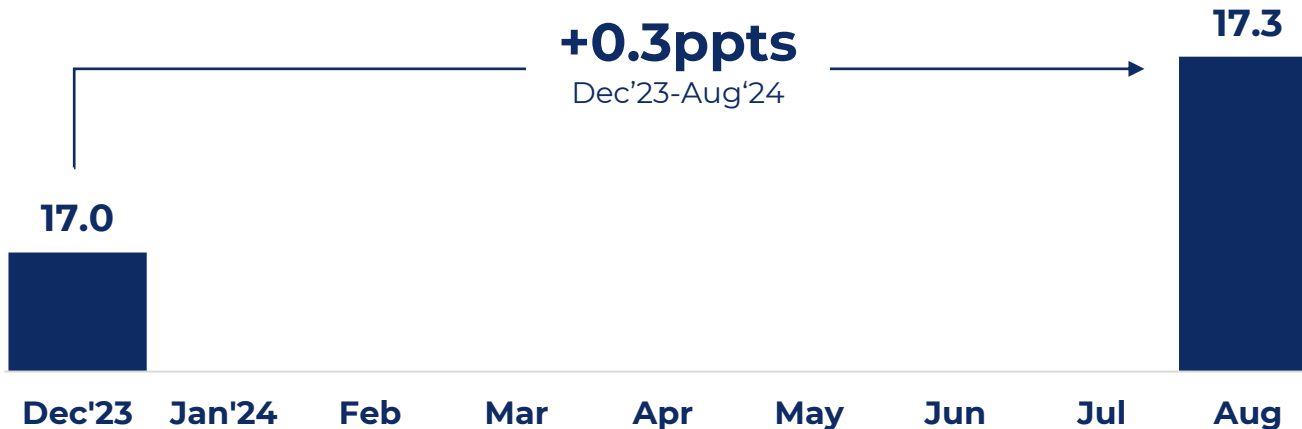
# HP: glo strong #2 and growing share in key markets



### BAT share of category, %, AME T7



T7 c.70% of total Europe HP GM pool



### Improved performance in key markets



ITA

**12.7%**  
**+0.3ppts**  
Dec-Aug'24



POL

**34.9%**  
**+1.6ppts**  
Dec-Aug'24



CZE

**19.1%**  
**+1.4ppts**  
Dec-Aug'24

Source: Retail Audit , volume share. See Appendix A3.  
Source: Retail Audit Aug'24 compared to Dec'23. See Appendix A3.

5.

Our Quality growth strategic imperative is driving prioritisation & focus

# Vapour: Vuse leads in strategic segment, over-indexed amongst premium consumers

## Leader in rechargeable closed system\*



UK

41.3%



FRA

67.9%



SPA

34.5%

## Vuse over-indexed among affluent consumers\*\*



Premium

Index among premium consumers vs the rest



UK

188%



FRA

112%

\* Source: Retail Audit, YTD Aug'24. See Appendix A3.

\*\* Source: Track, UK H2'23; FR Q1'24

5.

Our Quality growth strategic imperative is driving prioritisation & focus

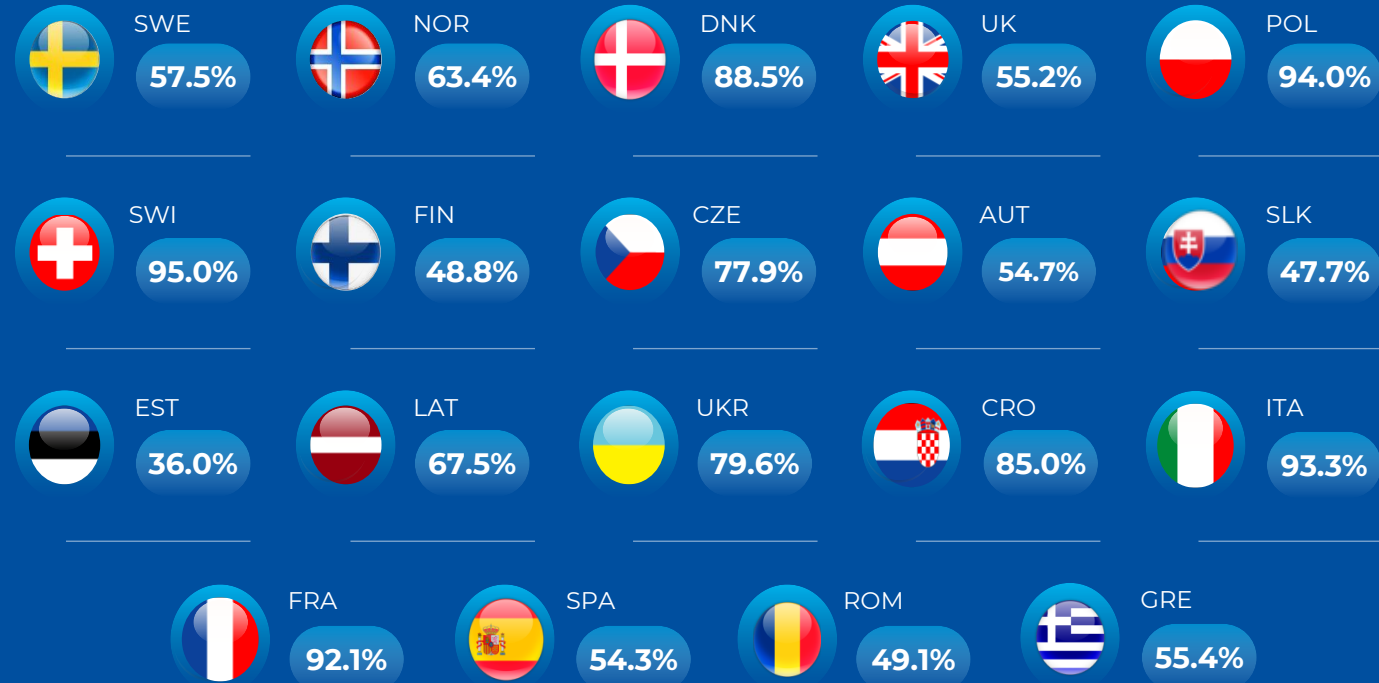
# Velo clear leader in Modern Oral

## Share of segment leader in all markets\* where present

# #1

# 64.8%

Europe T6, Aug 2024

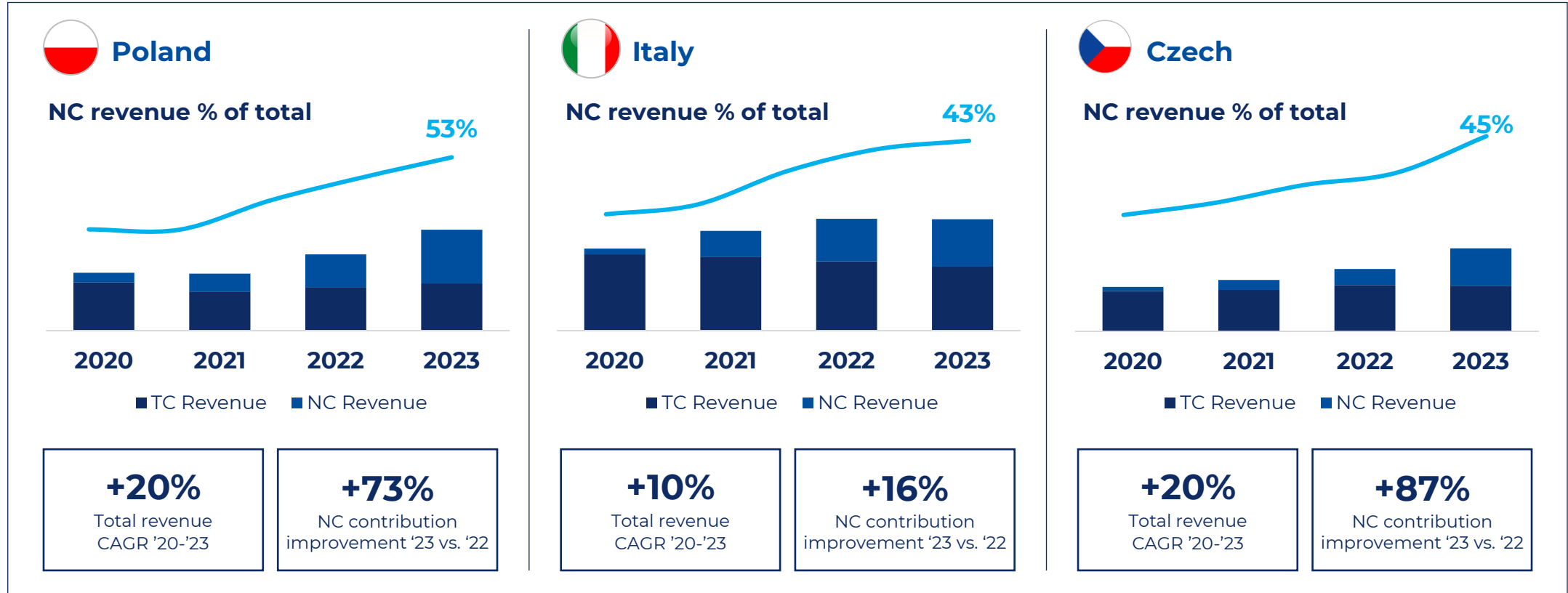


Source: Retail Audit Aug'24 for all except FR (Jul'24), volume share of MO. See Appendix A3.  
Europe Top 6 Markets: SWE, NOR, DNK, UK, POL, CH  
\* except Hungary newly launched

5.

Our Quality growth strategic imperative is driving prioritisation & focus

# New Categories a game changer in key markets



Source: Company data. Total Category (TC) and New Category (NC). 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.

5.

Our Quality growth strategic imperative is driving prioritisation & focus

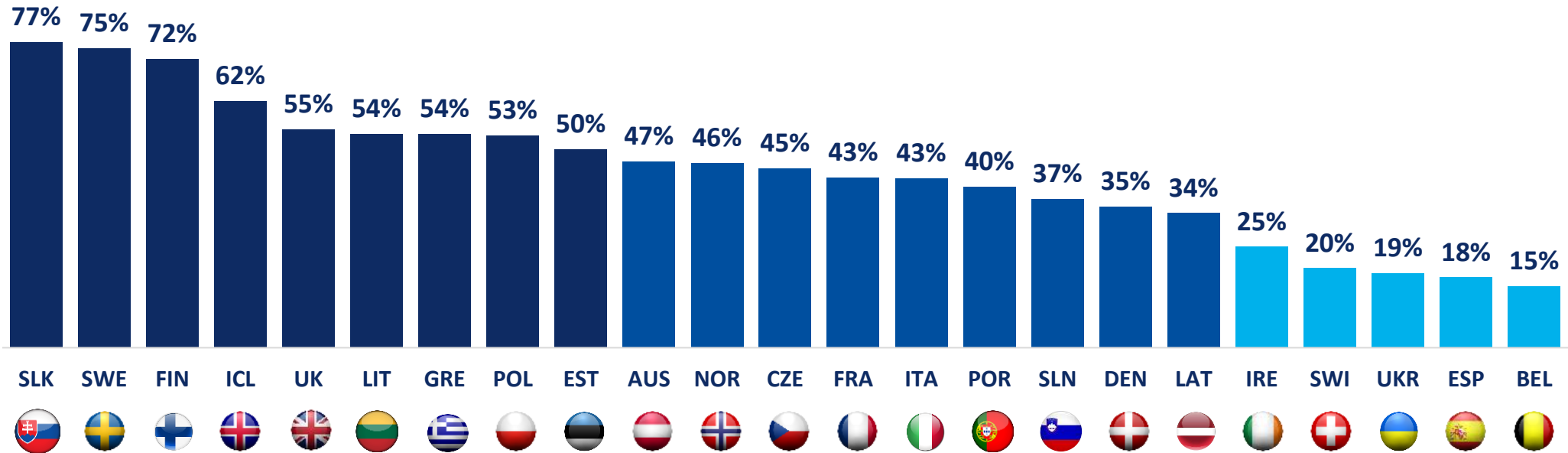
# A continuously transforming business

## Europe view



### 18 markets reaching 30%+ share of Smokeless in total business

2023 share of Smokeless revenue by market (%)



6.

The U.S. remains the cornerstone of our future

# The U.S. remains the cornerstone of our future



## Biggest nicotine revenue pool globally

2024 U.S. nicotine revenue pool

£41bn



Transformation since Reynolds acquisition (2017)

**+40%**

Nicotine revenue pool growth

**+280%**

Smokeless revenue pool growth

Consumer landscape changing rapidly - sizeable contestable space

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Source: Company data. Vapour includes Tracked and estimated Untracked channels. See Smokeless definition in Appendix A11.

6.

The U.S. remains the cornerstone of our future

# Early results of our investments in U.S.



## Combustibles

Strong Combustibles brands with improved momentum

**Newport** Market leader in menthol



Fastest growing in premium



Fastest growing in the market

Share of premium

Share of total U.S. Combustibles

## Vapour\*

National leader

# 50.8%

YTD value share



Leadership in 40 states

## Modern Oral\*\*

Reinvigorating Our Modern Oral performance



4.2%

Jun'23

7.5%

Aug'24

\* Source: RSD / Leader in legal U.S. vapour market.

\*\* RSD Volume Share. See Appendix A3.

6.

The U.S. remains the cornerstone of our future

# More effective U.S. Vapour enforcement will be critical



## Size of illegal Vapour

# c.£6bn

Illegal flavour single-use revenue



More than **11,500** unique vaping products are being sold in U.S. stores, **up 27%** from 9,000 products in **June'23**

## BAT actively supporting more effective U.S. Vapour enforcement



**Proposed rule requiring submission of tracking numbers at import for Vapour products**

**Federal multi-agency task force formed to curb illegal Vapour**

**Increased FDA warning letters, seizures and civil penalties**

7.

Front-footed approach to shape the regulatory landscape

# Front-footed to shape the regulatory landscape



Review the evidence.  
**Join the conversation.**



Online

[asmokelessworld.com](https://asmokelessworld.com)



On social media

[@smokelessworld](https://twitter.com/smokelessworld)

**Focus on opening new markets and improve regulatory & enforcement frameworks where New Categories are present**

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8.

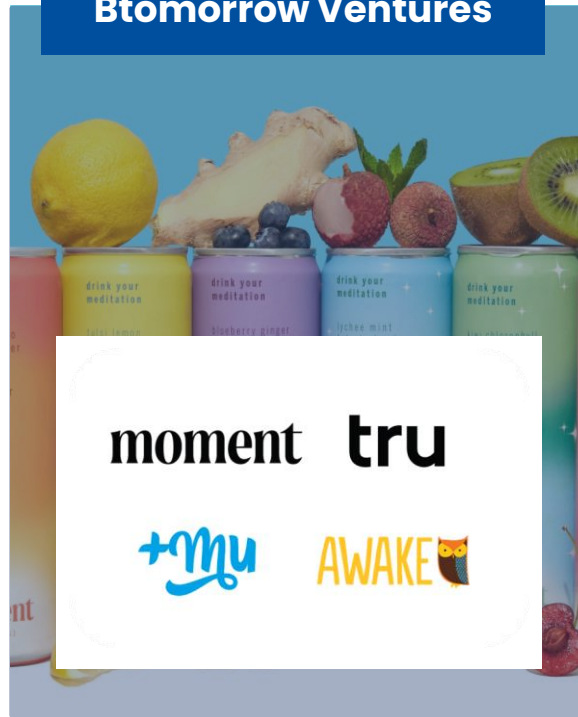
Extending foundations in Beyond Nicotine will support future growth

# Credible foundations in Beyond Nicotine as a future boost to growth

## Build organically



## Btomorrow Ventures



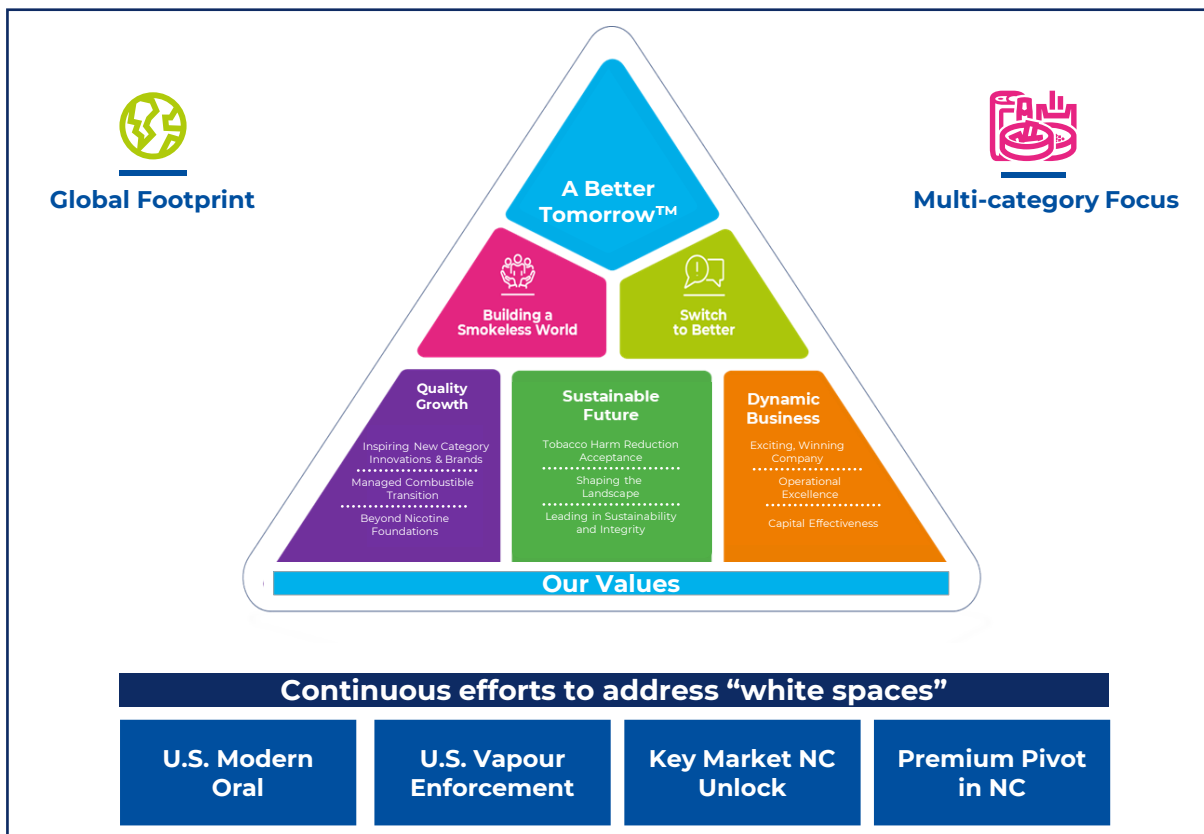
## Cannabis



9.

Unique global footprint & multi-category focus drives our Sustainable Growth Algorithm

# Unique global footprint & multi-category focus drives our sustainable growth algorithm



**Medium-term guidance**

**3% to 5% Revenue\***

**4% to 6% APFO\*\***

\* On an organic, constant rate basis. See Appendices A2 & A7. \*\* On an adjusted, organic, constant rate basis. See Appendices A1, A2 & A7.

# A proud & responsible company, our people make us "Stronger Together"



**Inclusion & Diversity are integral to both**

10.

A proud & responsible company. Our people make us "Stronger Together"

# Bringing together strategy, people, & a "Passion to Win"



# 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.