

Building a Smokeless World

The U.S. Market Opportunity

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Capital
Markets
Day

2024

U.S. market opportunity overview

- U.S. market is the cornerstone of BAT's strategy & at the forefront of industry transformation
- U.S. represents the largest & most valuable nicotine market*
- Over 60 million adult consumers using nicotine across product formats
- Multi-category portfolio well-positioned to capture value and deliver growth
- Signs of Combustibles recovery in an affordable marketplace
- Vuse leadership in the legal U.S. Vapour segment
- Successful reintroduction of Velo & Grizzly Modern Oral in 2024 with robust 2025 plans
- Illegal single-use Vapour estimated to be c.£6bn** of U.S. market revenue pool
- Investments increasing resilience of portfolio & there are signs of progress on enforcement

Biggest nicotine revenue pool globally

2024 U.S. Estimated nicotine industry revenue pool

£41bn



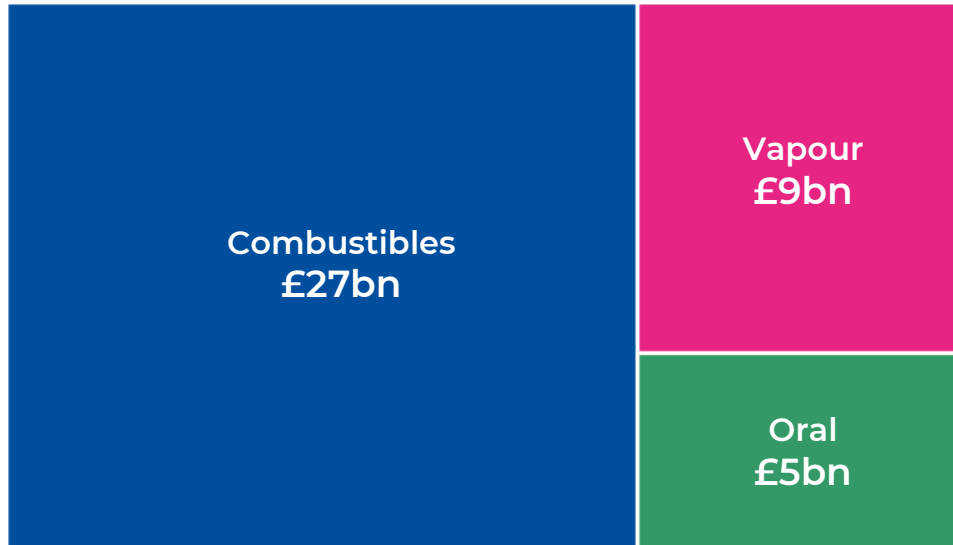
The U.S. opportunity

- Consumer landscape changing rapidly
- Sizable & growing contestable space
- One-third of the global nicotine value pool

Biggest nicotine revenue pool globally

2024 U.S. Estimated nicotine industry revenue pool

£41bn



Transformation since Reynolds acquisition (2017)

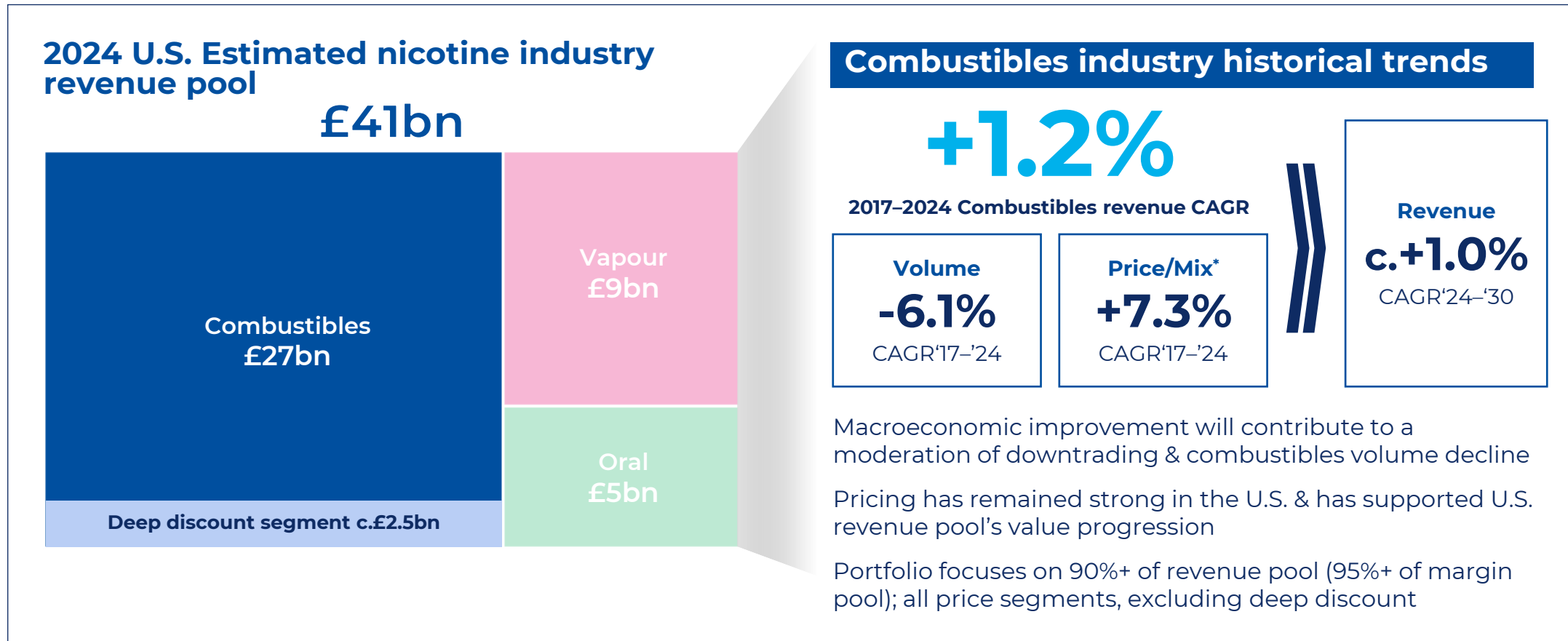
+40%

Nicotine revenue pool growth

+280%

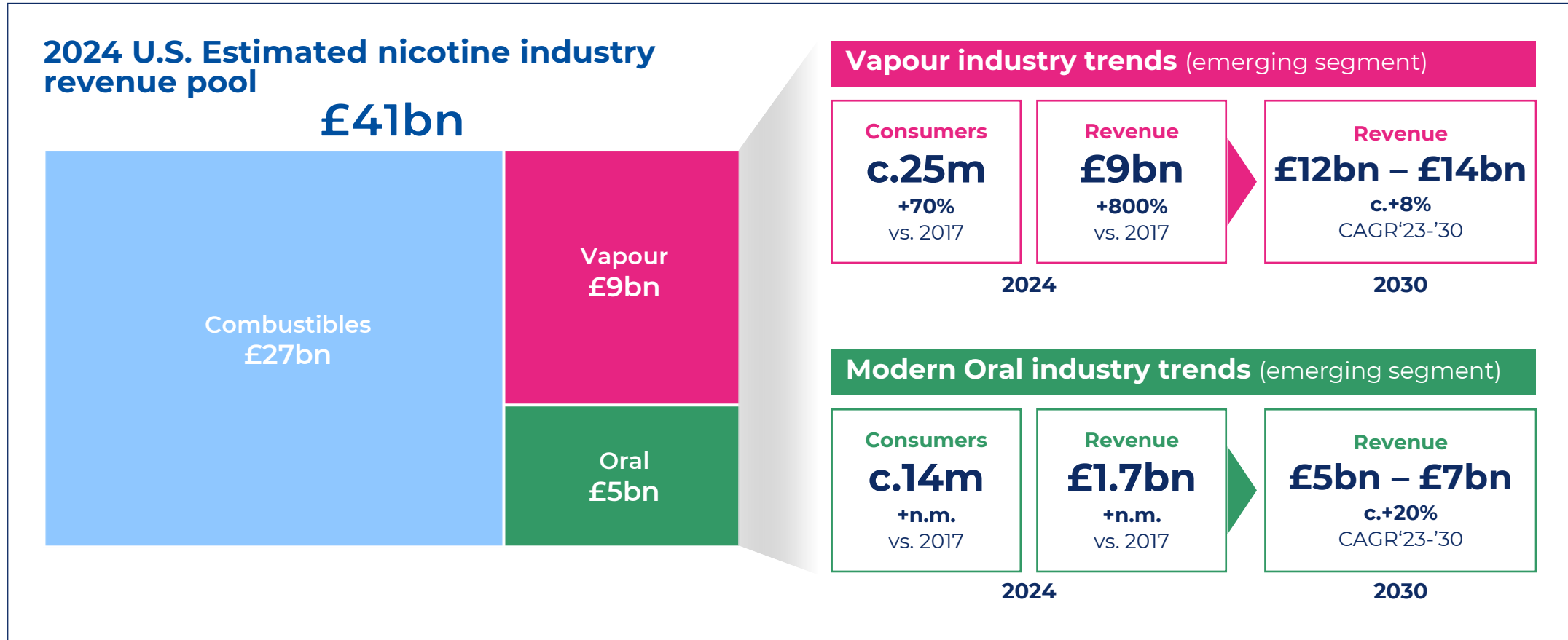
Smokeless revenue pool growth

U.S. Combustibles value pool



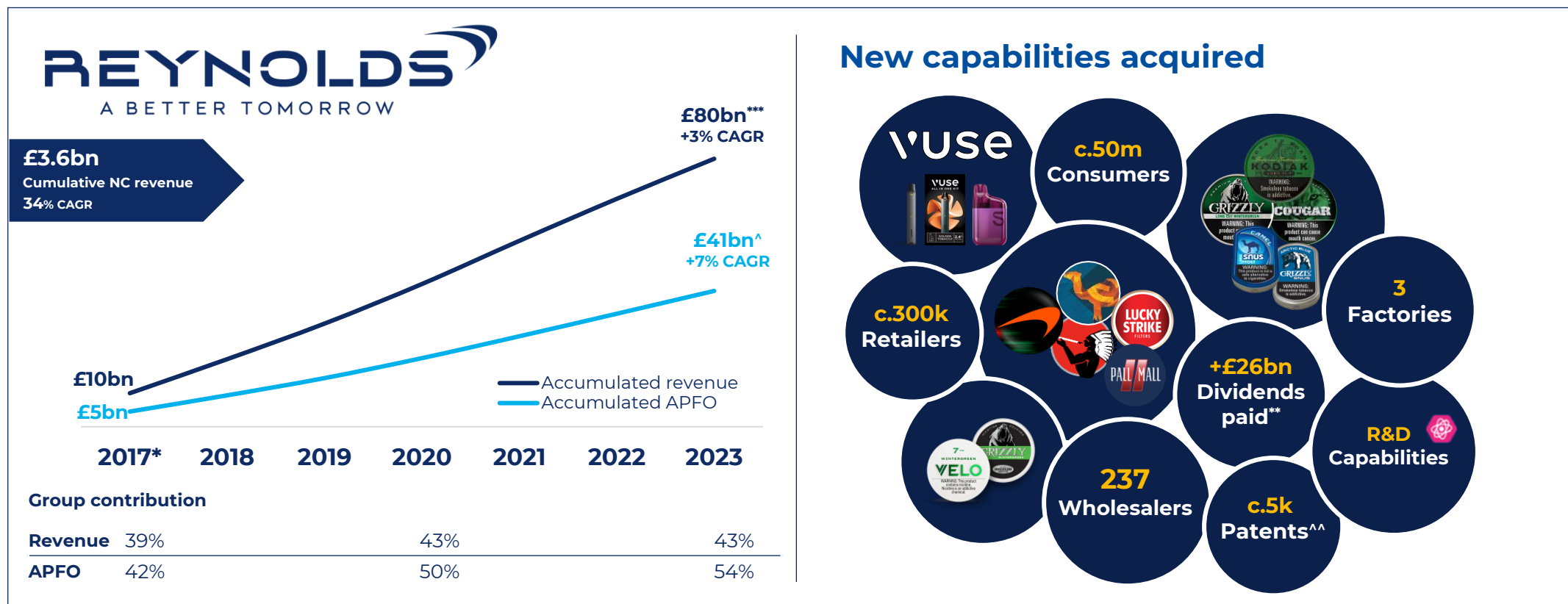
Source: internal estimates; Vapour includes tracked & estimated untracked channels. * See Appendix A4.

Significant Vapour & Modern Oral growth opportunity



Source: Internal estimates; Vapour includes tracked & estimated untracked channels

Delivering strong financial returns alongside significant new capabilities



*Assuming full year 2017 proforma on a representative basis. **Total dividends paid '17-'23 from Reynolds to the Group. *** on constant currency of respective year basis. See Appendix A2.^ On adjusted constant currency of respective year basis. See Appendix A1 & A2. ^^Patents and pending applications.

Established multi-category portfolio for growth

U.S. Combustibles poly-user* consumers **52%**

U.S. nicotine consumers interacting or migrated to New Categories **64%**



Strong Combustibles brands

Newport Market leader in menthol



Fastest growing in premium



Fastest growing in the market

Leader in legal Vapour market

vuse
sensa

Transforming Oral brands



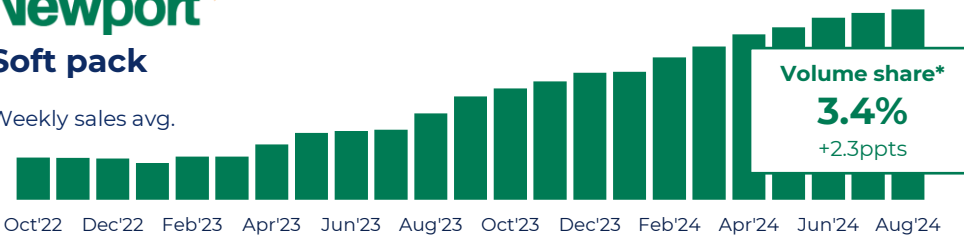
Strengthening our U.S. Combustibles business

Strengthening affordability through laddering



Soft pack

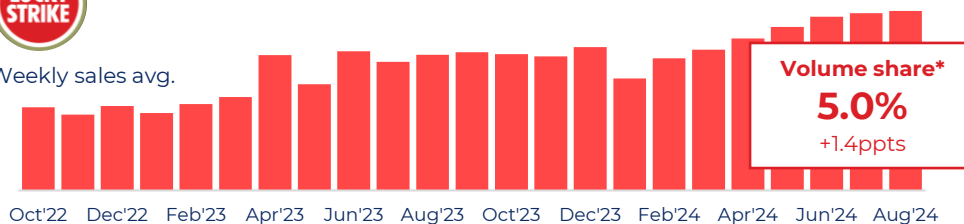
Weekly sales avg.



Protecting from deep discount brands



Weekly sales avg.



Re-establishing trade capabilities with our retail partners

82%
Sales coverage
Q3'23



88%
Sales coverage
Q2'24

Volume share**
+2.5ppts
in newly contracted outlets

Uplift digital capabilities

Data & Analytics



For RGM strategies deployment

Digital engagers



Retail connectivity for our reward programmes

Ready for regulation strengthened



* Marlin volume share Aug'24. Change in share Aug'24 vs. Aug'23. See Appendix 3. ** Marlin volume share in new outlets Aug'24 vs. Dec'23. See Appendix A3.

Delivering improved performance through our commercial actions in 2024



Premium segment volume share*



Total Combustibles volume share excl. deep discount*



Total Combustibles volume share*



Jan Feb Mar Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar Apr May Jun Jul Aug
2023 2024

Continued signs of volume and value share recovery*

Volume share bps

Total U.S. Combustibles
Excl. deep discount
Premium segment

FY23 vs. FY22 YTD24 vs. FY23

Total U.S. Combustibles	-10	-10
Excl. deep discount	+30	+20
Premium segment	+60	+50

Value share bps

Total U.S. Combustibles
Excl. deep discount
Premium segment

Total U.S. Combustibles	-60	-30
Excl. deep discount	-40	-20
Premium segment	-50	-10

*Source: Marlin Combustibles share. See Appendix A3. YTD share through Aug'24.

Vapour leadership in U.S.

Leadership in U.S.*
National leader

50.8%

YTD Aug'24
value share



■ Leadership in 40 states

Enhanced proposition
PRISMATIC series

1.2%

Aug'24 national value share**
Launched July



Brand premiumisation

Innovative launch
SENSA

2.9%

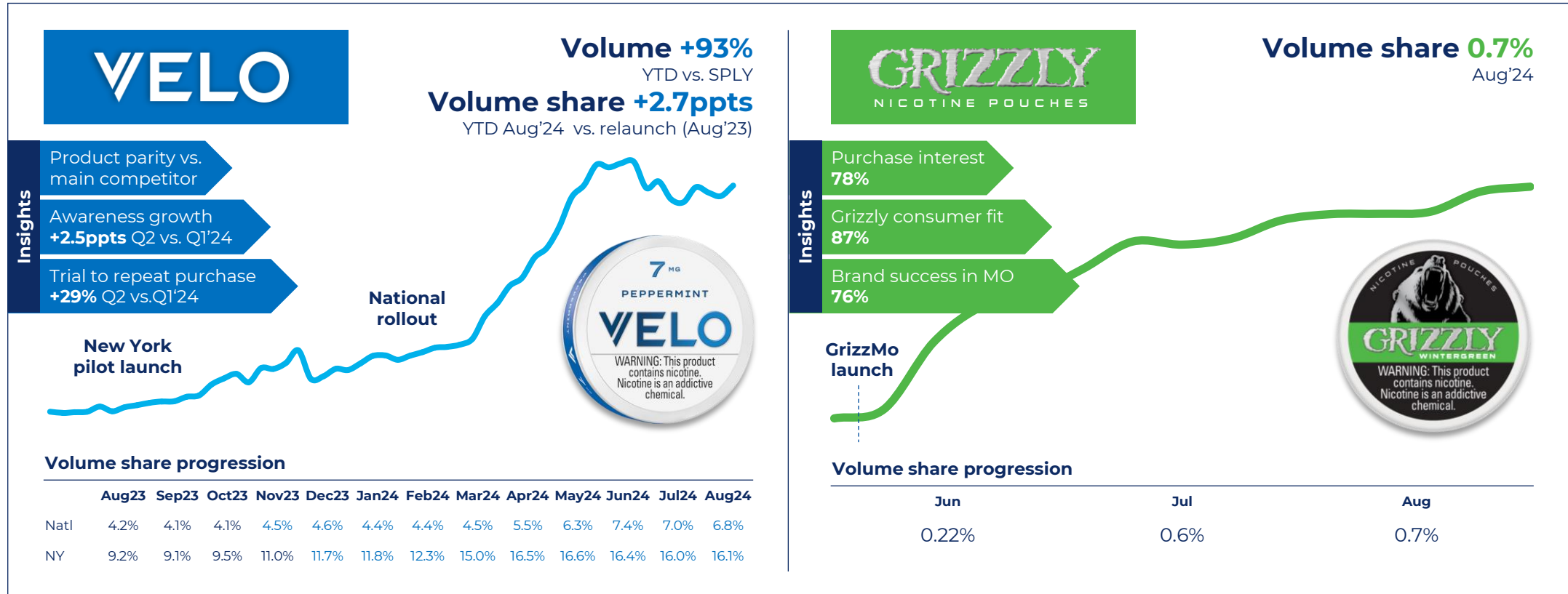
Aug'24 volume share^
Launched July



**Differentiation
through innovation**

Source: Retail scan data value share for RCS. *Leader in legal U.S. Vapour market. See Appendix 3. **Rechargeable closed systems. See Appendix 3 ^Retail scan data milliliter-based volume share of outlets that carry Sensa in stock. See Appendix A3.

Reinvigorating our Modern Oral performance



Enhancing our future portfolio through innovation



Modern Oral portfolio expansion to deliver on adult consumer preferences

Actively supporting more effective U.S. Vapour enforcement

Illegal 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 & civil penalties



FDA Full co-operation to blueprint fair & transparent market environment



Act together to scrutinise unfair acts of the single-use vape sales in the country

Science prevails

Alto tobacco Marketing Granted Order



FDA Authorizes Marketing of Vuse Alto Tobacco-Flavored E-Cigarette Pods and Accompanying Power Unit

Vapour

50

Pending BAT PMTAs

PMTA approved

22

60% more than closest competitor

Much more needs to be done to drive a meaningful impact against illicit

Enforcement media pressure mounts on FDA

95% REDUCED **99% REJECTED** **ILLICIT MARKET EXPLODES**



House Energy & Commerce Hearing
Sep 10, 2024

The US Is Being Flooded by Chinese Vapes

Dave Bondy
Posted by David Thomas
4m · 🌐

The FDA has lost control of the vape market, leaving our communities flooded with illegal & unregulated products from China. The threat posed to teenagers' health & safety from these products is MASSIVE. In 2023, over 2.1 million U.S. teens reported using e-cigarettes.



apnews.com
Thousands of unauthorized vapes are pouring into the US despite the FDA crackdown on fruity flavors



US seizes more illegal e-cigarettes, but thousands of new ones are launching

AP

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

"The illicit market has been enabled by the Center for Tobacco Products' lack of action ... the fact is, the inefficiency of CTP has driven an illicit market that has been filled by China."



Senate Judiciary Hearing
Jun 11, 2024

Senators slam the FDA's new vape enforcement plan: 'What in the hell have you been waiting for?'



House Oversight Hearing
Apr 11, 2024

Rep. James Comer Questions FDA Director Califf On Delayed Tobacco Product Authorizations and Illegal Chinese Vapes

Other actions

International Trade Commission (ITC)



Investigating unfair acts in the importation & sale of single-use vapes

- Accepted our complaints in 2023

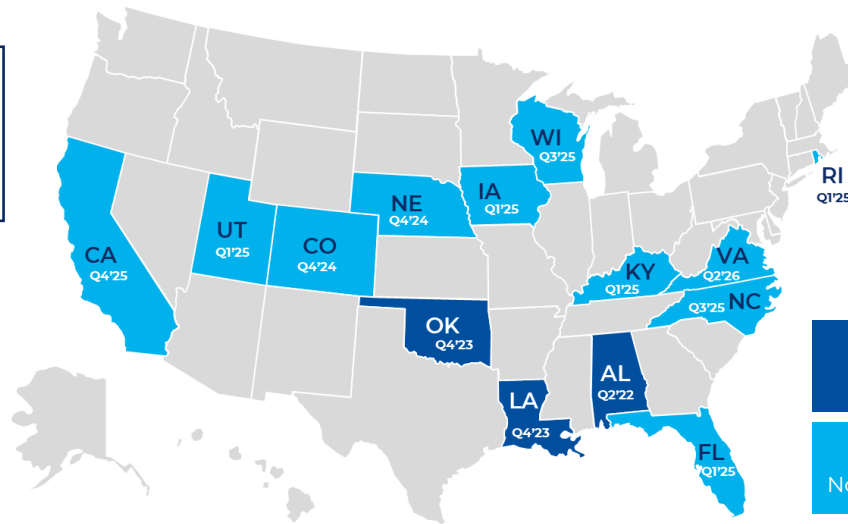
Investigating foreign manufacturers, importers, & distributors of single-use illicit products for patent infringement

- Accepted our complaint in HY'24

State enforcement is gaining traction

14 state Vapour enforcement bills
to be enacted in the next 3-18 months

c.£6bn
Illegal single-use
Vapour revenue



Existing directory

Enacted
Not yet implemented

c.30% of Vapour industry enacted & passed directory/enforcement legislation

Louisiana blueprint



Comprehensive regulation with dedicated funding

- Proof of filed PMTA
- Online sales ban
- Mfg Directory Fee
- Funding
- Licensed suppliers
- Penalties

Enforcement community engaged with consumers, media & marketplace

Louisiana enforcement is driving encouraging results

Louisiana effective enforcement results



Vapour industry

+28%

Legal Vapour volume post enforcement

-91%

Tracked single-use Vapour volume post enforcement



Vuse

+34% **+2.1ppts**

Vuse volume post enforcement

Vuse market share post enforcement

With effective enforcement Vuse is set up to win

Louisiana blueprint



Comprehensive regulation with dedicated funding



Proof of filed PMTA



Online sales ban



Mfg Directory Fee



Funding



Licensed suppliers



Penalties

Enforcement community engaged with consumers, media & marketplace

The U.S. opportunity: the size of the prize

<h3>The opportunity today</h3> <p>2024 U.S. developing segments revenue pool estimates</p> <p>£14bn</p> <div style="display: flex; justify-content: space-around;"> <div style="background-color: #e91e63; color: white; padding: 10px; text-align: center;"> Vapour £9bn </div> <div style="background-color: #2e7d32; color: white; padding: 10px; text-align: center;"> Oral £5bn </div> </div> <p> c.40m dynamic adult consumer base</p> <p> c.64% consumer interaction / migration</p>	<h3>Reasons to believe</h3> <p> Effective & efficient regulatory process</p> <p> Effective enforcement</p> <p> Vuse leadership in U.S.* & rest of world</p> <p> Modern Oral innovation to replicate rest of the world success</p>	<h3>The size of the prize by 2030</h3> <p>2030 U.S. developing segments revenue pool estimates</p> <p>£19bn – £24bn</p> <div style="display: flex; justify-content: space-around;"> <div style="background-color: #e91e63; color: white; padding: 10px; text-align: center;"> Vapour £12bn – £14bn </div> <div style="background-color: #2e7d32; color: white; padding: 10px; text-align: center;"> Oral £8bn – £10bn </div> </div> <p>Significant share of revenue pool by 2030</p> <div style="display: flex; justify-content: space-around;"> <div style="border: 1px solid black; padding: 10px; text-align: center;"> Brands </div> <div style="border: 1px solid black; padding: 10px; text-align: center;"> Capabilities </div> <div style="border: 1px solid black; padding: 10px; text-align: center;"> Scale </div> </div>
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Resilient Combustibles value pool

Source: Internal estimates; Vapour includes tracked & estimated untracked channels. *Leader in legal U.S. Vapour market by value share. See Appendix A3.

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.