



British American Tobacco plc | dbAccess Global Consumer Conference | June 4, 2025

Damian McNeela:

Okay. Good morning everybody. Welcome to this fireside chat. Welcoming on stage Tadeu Marroco, Chief Executive of BAT. I'm Damian McNeela, Analyst at Deutsche Bank. I think we'll start off today, if you don't mind, you've been in your role for a couple of years now, and a great deal has happened over that time. Could you sort of give us some insight into the key areas of progress that BAT has made in that time, and, particularly, over the last 12 months?

Tadeu Marroco:

Yeah, sure. So thank you for having me here, first. Yeah, we have covered a huge amount of progress over the last couple of years and, basically, backed by a new management team, and the refreshed strategy. So when I came in as a CEO, I was very clear that we need to sharpen the execution and focus in key areas. We refreshed the strategy with the three pillars. The first one is quality growth and within the quality growth, we were able to rebuild the whole innovation ecosystem, leveraging very exclusive external partners' knowledge that allows us to be, now, in the verge of being launching a breakthrough platform in HP as well as Views Ultra that we have just started to roll out. And we have now very strong innovation pipeline for the medium long term. We also managed to get new categories' profitability back on track, two years earlier than the target that we had, originally. And, obviously, we brought back US business to growth after three years, and after a series of commercial plans and drive, also, by Villa Plus's launch, that was and has been a success.

So this on the quality growth on the sustainable future, we launched Omni, which is basically a manifesto to promote the debate around tobacco harm reduction, based on scientific evidence. And this has been a very strong tool to open up doors with different stakeholders, policymakers, private and public sector, and media in general. And finally, on the dynamic business, we enhance our financial flexibility at the back of very strong cash generation. We also make a divestment of our small minority shares in ITC, and then we have reestablished the buyback program, last year, with 700 million pounds. We have just announced a revised number for this year of 1.1 billion. And we got our leverage back to the corridor that we were aiming for, between two and two and a half, at the back of last year. And after the Canadian double CWA settlement, we expect to be within this range by the end of next year.

All in all, very good progress that creates the laid the foundation for us to be able to deliver per guidance in 2025 as we just confirmed yesterday in the trade updates and in 2026 at the back of US growth back to growth at the back of VILO doing exceptionally well, not just in the US but outside the US. AME continue to perform well and lapping some difficult markets that we have this year, like Bangladesh plus a cost agenda that we have put in place, a new one that's starting next year, 2 billion between 2026, 2030. We were well on track to be able to deliver our mid-term guidance of three to five percent revenue and four to six percent operating profit.

Damian McNeela:

Okay. I think you mentioned that obviously the US has been a challenge, but yesterday you did announce that pretty decent results in US combustibles. Can you talk about the backdrop that you are seeing at the minute for the general combustible space in the US but also driving? What's underpinning that sort of improved performance that you're delivering?

Tadeu Marroco:

Yeah. US is a truly multicategory market today we have a approximately 55, 57% of smokers [inaudible 00:04:35] using and is one third of the nicotine value pool, global value pool. So it's the cornerstone of the group at the end. So what we have done over the last 80 months is basically putting place a number of commercial plans to tackle our competitiveness in combustible. We have to correct some price index, we have to ladder some brands like SoftCup in Newport to support our consumers. We had to increase our coverage at the back of a 10% increase in sales force. So we moved from 80% to 88% coverage. We have investing data so we could do proper an enhanced revenue growth management but also direct to consumer with loyalty and award programs. So all that translates into a stable slightly growth market share value share like we announced yesterday.

If you strip out the deeper discount where we are not present actually we have a very sound growth in terms of share of 60 base points and we are very pleased with that. Obviously, being now a truly multicategory is important to be competitive in the other categories as well. So modern auto with the launch of Villa Plus, we are very satisfied now that we have a product that we can fight in that segment. And the product is doing extremely well and the levels of trial and retention are very high. And we saw in a very short period of time a lot of traction and this is quite important 'cause it's the fastest nicotine category growth in the US today. So to be competitive and having an offer like Villa Plus in that market is quite important. Obviously, the Vapor is not a neglectful business, it's a 9 billion pounds revenue business.

And the problem in that segment in particular is the illegal flavor disposables, which account for something like 7%. So we had a headwinds on that because all the growth is happening in that space where we cannot compete. So there is no level playing field at the moment in that. So views is leading in track channels, but in the legal markets that if anything is shrinking, which represents a headwind for us. But we are cautiously optimistic with the new administration that there will be some levels of enforcement at the federal level. That's our expectation and probably the FDA will be addressing that 'cause we have now a new leadership at HHS, but also FDA-CTP and they are talking about tackling the problem in a more effective way. So we look to that with more optimism, but also we are seeing movement from the states. We have now 17 states that have passed legislation in terms of established directories and enforcements. And when you look to states like Louisiana and Kentucky, we can see clearly a reduction in legal products and as a consequence resurgence of the legal products and views in leading that.

All in all, we are well established in the three categories between combustible vapor and modern oral and vapor. As soon as we have some meaningful impact on enforcement will be a big boost for us.

Damian McNeela:

On that point, on enforcement, I think there's been a shift in language, I think from FDA and government agencies, but have you seen any real evidence of any change in the level of enforcement that's going on at the minute or is that something that's still to come do you think?

Tadeu Marroco:

It's still to come 'cause they are all very new in their new roles. I think that is natural that are taking some time even to understand the dynamic. I don't think that the FDA alone can do much. There will be a need to have a multi-agency task force on that. They need to work with customs because a lot of these products comes from the ports where they are all imported mainly from China. They need to work with DOJ to address, for example, very specific distributors. There are not many that are responsible for all the distribution across the country. And also they probably need to address the approval system that they have today that clearly is not working because the US consumers today is the less you experience all these innovative products, which would be exactly the opposite.

Damian McNeela:

And views outside the US is performing pretty well. Can you talk about some of the market dynamics that are happening outside the US for Vuse?

Tadeu Marroco:

Yes. Outside the US what we have seen is that rechargeable device back to growth and these positions Vuse very well because with the latest innovations that we have introduced at the back end of last year. We are now very competitive also in the rechargeable segment and our market share, for example in rechargeable in France is 57%, in the UK is 35%. Vuse is doing extremely well in place like Poland, especially like Spain. And we have just launched Vuse Ultra in Canada, which is our attempt to create a more-

Tadeu Marroco:

...in Canada, which is our attempt to create a more premium subcategory within vapor. There is a lot to go still, but we believe that we are well-positioned outside the West to keep growing and keep leading the market.

Damian McNeela:

Yeah. I think at the CMD last year you highlighted the depth of the innovation that is happening across the entire organization. In particular, one of the areas that's been one of your focuses is improving the heated tobacco offer. Can you talk about the advances that you've made in the new HILO product and what the expectations are for the second half when you go to market more broadly?

Tadeu Marroco:

Yeah. HILO is clearly a breakthrough for glo, and for the first time, we have an offer to be able to address the AWAP, the above-weighted average price, subcategory within heated product, which accounts for 8% of the value. So far, we haven't developed any platform in glo that could allow us to participate of this more, I'll say, premium part of the category. We have, now, a new platform with a completely renewed heating mechanism. We have renewed consumables that translate into much more satisfaction. Actually, I think that is the closest you can get from moving from cigarettes to us, this category of heated products.

We also have a new display that is very interactive and a connected device that will be very unique to the market. When you put all this together, we think that we have a very strong offer/competitive offer that we have been testing in Serbia since the end of last year with very good results/encouraging results. We have 50% more consumers to the glo franchise, a lot of them coming from FMC cigarettes. That's

what we want, to promote the conversion from smokers throughout these products because of the profile of risk but also from competition. We will be rolling out in the main key value pools starting now, in June, throughout the second half of the year. Our expectation is to be able to make inroads in that premium side of the category, where 80% of the value sits.

Damian McNeela:

You mentioned in your opening answer the importance of the pouch category. VELO is the market leader outside of the US. Can you just talk about some of the key dynamics in perhaps the traditional markets where VELO is obviously very strong, but some of the newer markets as well outside the US for VELO?

Tadeu Marroco:

Yeah. We are seeing nicotine pouches growing not just in traditional oral market but also in markets that has no oral tradition at all. Today, 20% of the volume sits outside of the oral traditional markets. The levels of everyday consumption and incidence are still growing. You have place like, for example, US, where because of the lack of satisfaction of current offers, and VELO Plus... That should change this dynamic with a product with more moisture, that we see that resonates well outside the US. The everyday consumption is still 2.5 pouches. There is a massive space to grow when you consider that the UK... There is a known oral tradition. It's between five to six pouches. When you go to the Nordics, which is a more traditional oral market, it's nine to 11 pouches. You can see how much potential there is in the US as soon as the consumers will get a more satisfying product.

This is a category that we are seeing, and we are very satisfied with that because it's the closest you can get from a nicotine replacement therapy in terms of risk profile. There is no inhalation. It's very affordable because you have a number of markets in the world today, for example, that you sell cigarette by stick because of affordability. They don't need to pay the device. You can sell a sachet with a few pouches, for example. That's the reason why we have launched in a place like Pakistan. South Africa is getting also a lot of traction. You can socialize the tobacco harm reduction agenda even for markets where affordability might have been a problem.

Damian McNeela:

And can you talk a little bit about the profit profile that you are seeing from your next-gen products and how that contributes into your medium-term growth ambitions?

Tadeu Marroco:

Yeah. The final objective is to replicate the levels of profitability you have in cigarette in these new products. Modern order in nicotine products... If anything, the levels of profitability are even higher than the ones that we have in cigarettes. In HP, when you are dealing with the more premium segments that I was referring to, is, again, you can easily replicate the margins that you see in cigarettes. Vapor is not as much as the cigarettes at this point in time. That's the reason why we are trying to create more this premium subcategory within vapor, even though we are in that category not to compete with a very volume low price offers, but we want to differentiate ourselves. VELO Ultra is exactly an attempt in that direction.

Damian McNeela:

You mentioned again the launch of Omni. It does feel that BAT is changing the way it approaches the narrative around who the organization wants to be. Can you just talk a little bit more about what Omni

is trying to do and perhaps give us a few examples of where that really resonated with some key stakeholders?

Tadeu Marroco:

Yeah. Omni is an attempt for us, first of all, to be a bit more proactive in the way that we engage in terms of tobacco harm reduction, and, B, it's an attempt to avoid the bias between... That's what BAT is saying because what we do with Omni is basically public. A number of research done not just by BAT but also third-party research that confirm, in a scientific basis, the evidence that the non-combustion has a much different level of risk profile/much lower risk profile compared with combustion because there is a lot of misunderstanding around the nicotine and because the culprit of the health problems generated... It sits on the combustion of the product. When you move this towards offering those consumers that want to keep using nicotine an alternative without combustion, then you really reduce substantially the risk profile.

That's what Omni tries to achieve and trigger, in that sense, a debate with regulators and different stakeholders around that. The fact is that regulators that don't embrace the tobacco harm reduction... In essence, what they're doing is postponing the conversion of cigarette smokers towards these new products and also open up the door for illegal products because we still see a number of markets today where none of these products, unfortunately, can be commercialized but is inundated by illegal products. We also showcase those case in the Omni where examples of markets that has done this properly... For example, Sweden is the one that's in Europe, has embraced oral two decades ago, and will be the first one probably to achieve what they call smoke-free country with a level of incidence today sitting at 5.3%. Thus, following WHO, if you are 5% or lower, you are considered a smoke-free country. As a consequence of that, for example, lung cancer per capita is the lowest in Europe.

If you translate that into Europe statistics, it's three and a half million lives that could be saved in 10 years' time. In the opposite of the spectrum, you have countries like Australia that ignore all that, basically ban vapor, where 9% of the population is vaping. It's basically all illicit. At the same time, they are making inroads in the legal market of combustible with new regulations and massive ad hoc tech size that just move consumption away from the legal market towards the illegal markets. Today, 75% of nicotine consumption in Australia is illegal. That's a good example of how not to do things.

We are trying to illustrate all those in Omni. We launched in the UK last year. We have just rolled out in places like Pakistan, Italy, Croatia, Japan. Whenever we launch in those particular local markets, we see a lot of interest from private/public sector policyholders and also media, in general, which is exactly what we want.

Damian McNeela:

Yeah. I guess it does lead onto the next question I was going to ask, which was around regulation. My question would be around... Obviously, you've highlighted Australia has been a way of not to do it. Are there any...

Damian McNeela:

Obviously, you've highlighted Australia's been a way of not to do it. Are there any examples of where you think the regulators have got it right and which provide the blueprint for other companies or countries to follow?

Tadeu Marroco:

Yes, we spoke about Sweden, that clearly it's working nicely and you don't need epidemiological studies. Like I said, the evidence is there. And we have even markets like UK, for example, that has been adopting a very progressive way of stimulating the conversion from cigarette to vapor. There is an issue about enforcement there that they are trying to address now, because I think that things like retail license, for example, to avoid minimal age participation in that category is important to be implemented with the proper enforcements. We have place like New Zealand that have adopt legislation that has reduced substantially the incidence of smokers in the market in supporting vapor, for example. And Japan, half of their consumption today is in heated products, which has again a very, very lower risk profile compared with cigarettes. And we have here in Europe, markets like Italy that has embraced it, for example, the multi category with proper regulation, regulating nicotine pouch properly, stipulating, for example, maximum level of nicotine, minimal age to purchase, and they have a proper retail license system as well.

And so there are more and more examples. We have been, since Chile now open up for vapor, because they saw that has been inundated by illegal market in Chile. And even the US when we see the FDA, they always are very supportive of the tobacco harm reduction. And they have publicly said that nicotine is not the culprit of the health hazards that a cigarette brings and they believe on the risk continuing. So there are more and more evidence that support in the adoption of tobacco harm reduction, in a way to address the problems related to cigarettes.

Damian McNeela:

And just if we look at the combustibles business, clearly at the start of the year we had Bangladesh and the new excise increases there, and you've touched on the high levels of excise and the reforms in Australia, can you just talk about the impact that they've had on the combustibles business, but also then talk about the areas where the combustibles business is performing well outside the US?

Tadeu Marroco:

Yeah, Bangladesh was a very unique situation, because they have not just increased massively the excise and the minimum price in cigarettes, but they have increased duties and VAT in a number of other items. And as you could imagine with the affordability of population, and this is translating into a massive volume decline and we expect something like 15 billion sticks reduction and because we see this consumption migrate towards areas that probably the government will be very keen to do something about, which is illegal products and so on. So Bangladesh is one of these.

We spoke about Australia because of these ill- thought measures that they have been implementing. They are about to introduce another ad hoc increase in September that's on top of a very Draconian regulation that they have implemented since 2012. Consumption though is pretty much the same, 14% consuming cigarettes. They have just moving from legal markets towards the illegal markets. But we also have markets where consumption and the businesses is still in a very favorable way. For example, Brazil has been addressing the problem with the illicit for some time. At a certain stage, the illegal market in Brazil went up more than 50%. Today is well below 40%, so it's in the 35s and this translates into the legal markets being supported by that. And we see some other markets as well in Europe with very stable levels of consumption of cigarette.

Damian McNeela:

Last week you announced a small sell down in the stake of ITC. And I guess you were asked on the call yesterday, but I think it's a worthwhile question to repeat is, is the stake in ITC a strategic stake or is it a financial stake?

Tadeu Marroco:

We consider this as a strategic stake, because first of all it's India. So it's India because of the size of the markets, because of the demographics, because the socioeconomic expectation that we're having in India when we project, for example, GDP per capita growth, and the fact that ITC is a brilliant, outstanding company in India. They have a massive distribution power. They are leader in cigarettes. So we have a multilayer, multi years, multi decades relationship with ITC. We have commercial relationship with them in the Leaf Bar in department. We have in the IT side as well. And we are very optimistic that in that certain stage, we'll open up for new categories. And we'd like to preserve them a relevant stake in ITC as a consequence of that, to work with them with having the products that we have developed outside India, at certain stage in India, in partnership with ITC. So that's why I mentioned that the board will be making decisions about our stake in ITC, but clearly we see this more strategic and we want our desires to continue to be a relevant shareholder in ITC.

Damian McNeela:

Okay. And one of the things that sell down aided you to do is to increase the buyback, as you mentioned. Can you just talk a little bit more about the moving parts of getting the net debt into the two to two and a half times range and then what we should expect in terms of shareholder returns when you get there?

Tadeu Marroco:

Yeah. I think, first of all, is what you highlight that from 2023, by the time we get to the end of 2025, there'll be more than 17 billion pounds returned back to shareholders from BAT. And this is a combination of a progressive dividend policy and we reaffirmed that. So we carry on, continue to increase our dividend in [inaudible 00:26:56] terms. It's a consequence for also the buyback that we have just restarted in 2024 and we are now moving to 1.1 billion, and we said that will be a sustainable buyback moving forward. Now, we also want to have flexibility to pay down debts and to do some bolt-on acquisitions like Velo Plus that we had done last year. So any particular year when we establish back our midterm algorithm of three to 5% revenue four to six months rating profit, you would expect on our free cash flow to be around 80 billion pounds.

So five and a half of that will be paid around dividends. And then you'll have the balance, which will be a combination of the buyback and continuing to pay down debts and having the flexibility to do some M&A acquisitions, bolt-ons, mainly on the patent side, to strengthen our position in the new category space. So we believe that we have always needed to preserve the corridor of two and a half to two by the end of next year. And remembering that we have a headwind to face in terms of this ratio as soon as the Canadian settlement is being signed, which we expect to be the case in the second half of this year. And the reason why we sold the stake in, we did an extra divestment, is exactly to support that and to support this flexibility. So I think that's where we get to next year, probably the leverage will not be a major issue anymore for us.

Damian McNeela:

Okay. That's very clear. If we just turn a bit to current trading, yesterday, obviously we had a good update from you. You're expecting revenue to grow slightly faster, think underpinned by the good US performance, but you kept your adjusted operating profit growth guidance the same, consistent as it was previously. Can you just talk a bit about some of those moving pieces within that, why that stayed the same?

Tadeu Marroco:

Basically because, today, this is deployment year that we set. So we had an investment year in 2024. We have this year the opportunity to start rolling out innovations that we have never had the chance before, the premium vapor product, a breakthrough device in EHP, Velo Plus that is doing extremely well. We didn't want to compromise that. So that's the only reason. So we have a more supportive revenue, but we want to keep investing for the long and medium-long term of the business. So that's basically the reason.

Damian McNeela:

And then given the investments that you're making and the acceleration you're expecting in the second half, can you talk about the confidence you've got in being able to get back to the medium term...

Damian McNeela:

Confidence you've got in being able to get back to the medium term growth ambitions that you've set?

Tadeu Marroco:

Yeah. When you go to 2026, we expect to build on this revamp of the US situation that we have managed to get you. So to us, like I said, we expect to go back to after three years, go back to profits and the top line, positive top line in 2025. So we want to build on that in '26. There is no reason why not to expect that AME continues the excellent performance that they have demonstrated over the last few years. We will be lapping problematic markets like Bangladesh, for example, for next year. We have this with the cost agenda that will, with a new intention of an additional two billion of savings from '26 to [inaudible 00:30:55] that kicks off next year. And obviously we expect VILU to continue to grow in the US and outside the US. And VILU, by the end of this year will be a red very material for our numbers as well by the time you close the year.

Damian McNeela:

And is it worth sort of just clarifying your expectations for the improvement in US illicit backdrop within that sort of achieving that target?

Tadeu Marroco:

Yes. This is not factoring in, but like I said, I'm cautiously optimistic that in between the states' legislation now, that we are seeing now, the 17 states that I refer to as equivalent to one third of the vapor market in the US that has some sort of legislation in terms of directories and enforcement with different various degrees. I would say the blueprint is the Louisiana, Kentucky, where you already seeing a various meaningful impact in illicit and the counter balance to that, an increase in legal vapor. So we expect this to carry on in other states, and we expect to see some federal actions on that. If that happens, will be a

plus for us to be build on, but we cannot rely necessarily on that, and that's why we are trying to guide without necessarily counting on those initiatives.

Damian McNeela:

Yeah, no that's pretty understandable. And in terms of ... I think as you said, '24 was an investment year, this year's a deployment year, we should start to see the benefits in '26. How do you feel about the business, or the shape of the business as we move beyond '26, 2030, moving towards that 2035 ambition?

Tadeu Marroco:

I think that we are, with this innovation ecosystem that I just referred to, and our positions in key geographies because we are really a truly global company with a very strong presence in the US, when you, for example, launch a product like we did in December with VeloPlus and few months later you are in more than a hundred thousand outlets, just demonstrate how powerful is the distribution from Reynolds in the US. So we have a very strong presence in the US, we have a global presence across the world, and we have a presence even in India through our associates.

So we'll be building on that geography to mitigate eventually some headwinds that is natural to our happening in one point in time. But we'll be building on that and with this renewed innovation pipeline and the strengths that we are now trying to get to in heated product, that is a nine billion category in which we have just won, so there is a lot of wide space for us to go. Plus having, in my view, the best product in the fastest growing new category that is out there, which is nicotine pouch with Velo and build on that, plus our vapor business, that is a leading brands that also have at the back of a proper enforcement, a lot of opportunities to grow. So we see completely feasible our possibility to get a decade to the 50%.

Damian McNeela:

And in terms of I think at the CMD, one of the things that I took away from it was that you are trying to be a much broader consumer type business with things like Ride and some of the investments you're making elsewhere. Can you talk about how they fit into that sort of longer term vision for the organization?

Tadeu Marroco:

Yes, it is important also to not shut the doors to beyond nicotine space for us, because at the end of the day you should be thinking about BAT as a kind of stimulant company where nicotine is one of those. Obviously for the next three, four years, the focus will always be nicotine because there's so much business opportunity there. But we are trying to learn, basically. We are trying to learn in the space of well-being stimulation. We are trying to learn the space of cannabis. That's why we make the investments in Organigram, and Organigram as a company's moving out of combustible to non-combustible use of cannabis as well. And we are learning a lot from them. So I think that those investment at this point in time is basically for us to build an optionality and learn more for the future. But the middle term is pretty much focused on the nicotine space.

Damian McNeela:

And is there anything that you see out there that would be interesting that isn't currently in the portfolio?

Tadeu Marroco:

Well look, we keep looking but the fact is that the size of the price us, in all fronts, in pursuing our purpose of converting smokers out of cigarettes, towards these products that we have now the possibility to offer them, that we didn't have in the past, because today we have the technology to do it and we have a consumer's mindset pretty much supporting that movement, and you see this in a number of other industries as well. And we cannot give up that. So the focus really for us is that how we convert them making them, making this massive positive impact on society, at the same time increase the sustainability of the company moving forward. And this is resonating nicely with our major stakeholders, which is our employees as well. They are all arriving the office and excited about being able to make a change and a positive impact as well.

Damian McNeela:

One of the questions I get asked a lot is how is the nicotine space going to look in five to 10 years time? And I find it very difficult to answer with any real conviction. Have you got a better answer for people?

Tadeu Marroco:

Look, nicotine is highly addictive and is not without risk. Because if you have cardiovascular issues, blood pressure, you shouldn't be using, like you shouldn't be using other type of stimulants. So that's the reason why it should be sold for adults. It's not a product that should be in the hands of underage, but clearly it's a stimulant that attracts a lot of consumers. And today the good news on that is that with the caveat of the risk that I was referring, and they should be aware of all that so they can make their mind, there are clearly ways to use it in a much safer way than before, which we have never done before. So this is create a space for nicotine in the future that probably you'll be seeing more and more because is a stimulant that has been used now for decades, and will be the case moving forward.

Damian McNeela:

Yeah. So you are not indicating that pouches are going to be the biggest, most important category. It's going to be multi-category that across ... It depends on the market.

Tadeu Marroco:

Yeah, look, I think personally that pouches can be a highlight of this future. Like I said before is affordable, it's the lowest risk of all of those categories where there is no inhalation, it's the closest you can get from nicotine replacement therapy. And I think that this can resonate, and we are seeing that with the number of consumer even in non-traditional oral markets.

So if I have to make a kind of a prediction, I would say that the relevance of nicotine pouch is will be much higher than the others. And the good news is that we are very well positioned, BAT is very well positioned in that space.

Damian McNeela:

Yeah. Well I think on that positive note about the strength of Velo and your place in pouches, I think we'll leave it there. Thank you very much. Thank you very much everybody.

Tadeu Marroco:

Thank you.