



**BRITISH AMERICAN  
TOBACCO**

# **British American Tobacco**

**Ben Stevens – Finance Director**

**Deutsche Bank Conference, June 2014**

# Winning strategy with proven track record



- Consistently executed strategy
- Challenging trading conditions in recent years
- High single figure constant earnings growth delivered
- Sustainable business model
- Well positioned for continued success

# A winning formula



**Developing markets driving growth**

**Strong brands driven by innovation**

**Continuous margin improvement**

**Commitment to shareholder returns**

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## A strong geographic footprint

	Volume split %	NTO/Mille (relative)	NTO CAGR (08-13)
Developing	71%	1.0x	+7.5%
Developed	29%	1.8x	+3.2%

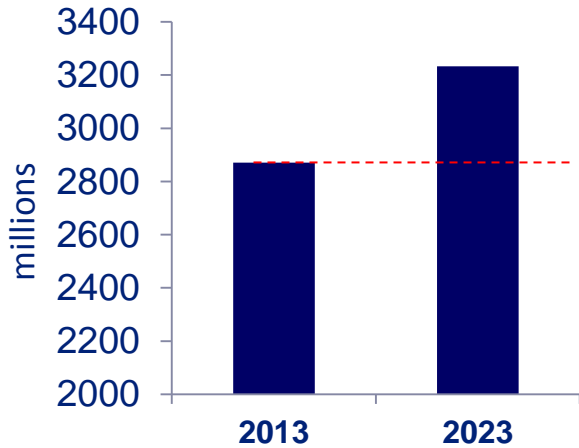
**Developed markets – source of current profits**

**Developing markets – driver of future profits**

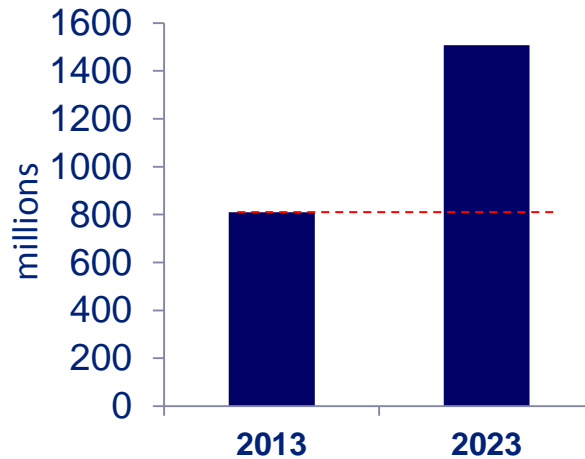
# Developing markets - long term growth opportunity



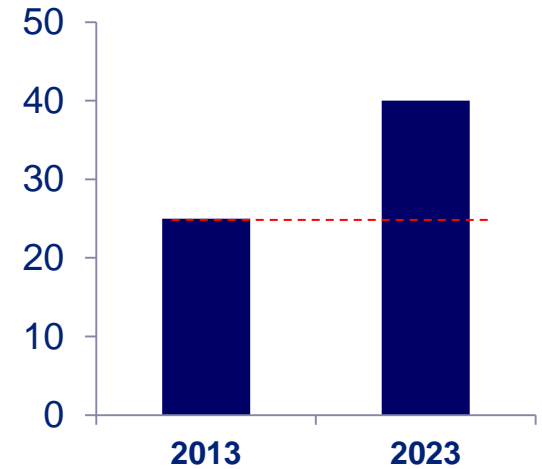
### Adult Population



### Adult Middle Class



### % of World Consumption Spend



## By 2023

+350m adults

Adult Middle Class  
doubles +700m adults

Consumption spend  
grows to 40% of world  
+ £12,000bn

2+ x Russia

4+ x Russia

2 x North America

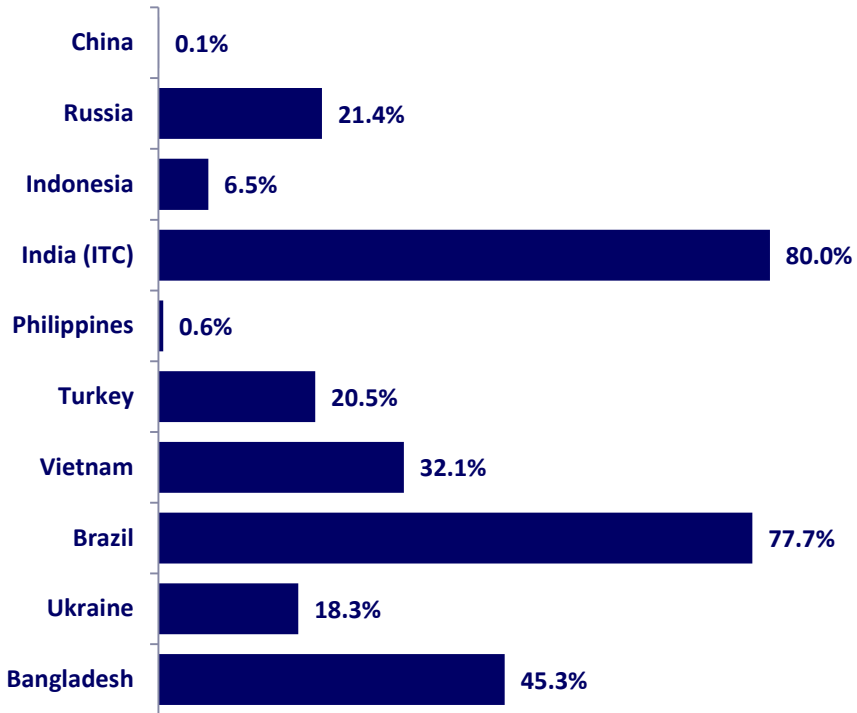
# ... and BAT is well positioned for the future



**Strong, growing positions in key developing markets**

**Investing in new opportunities**

**BAT Market Share in Top 10 Developing Markets by volume**



**Philippines**



**China**



**Indonesia**



**Morocco**



**Myanmar**



# A winning formula

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# A strong, growing international brand portfolio...

Global Drive Brands  
(including Rothmans)

+7.8% p.a.

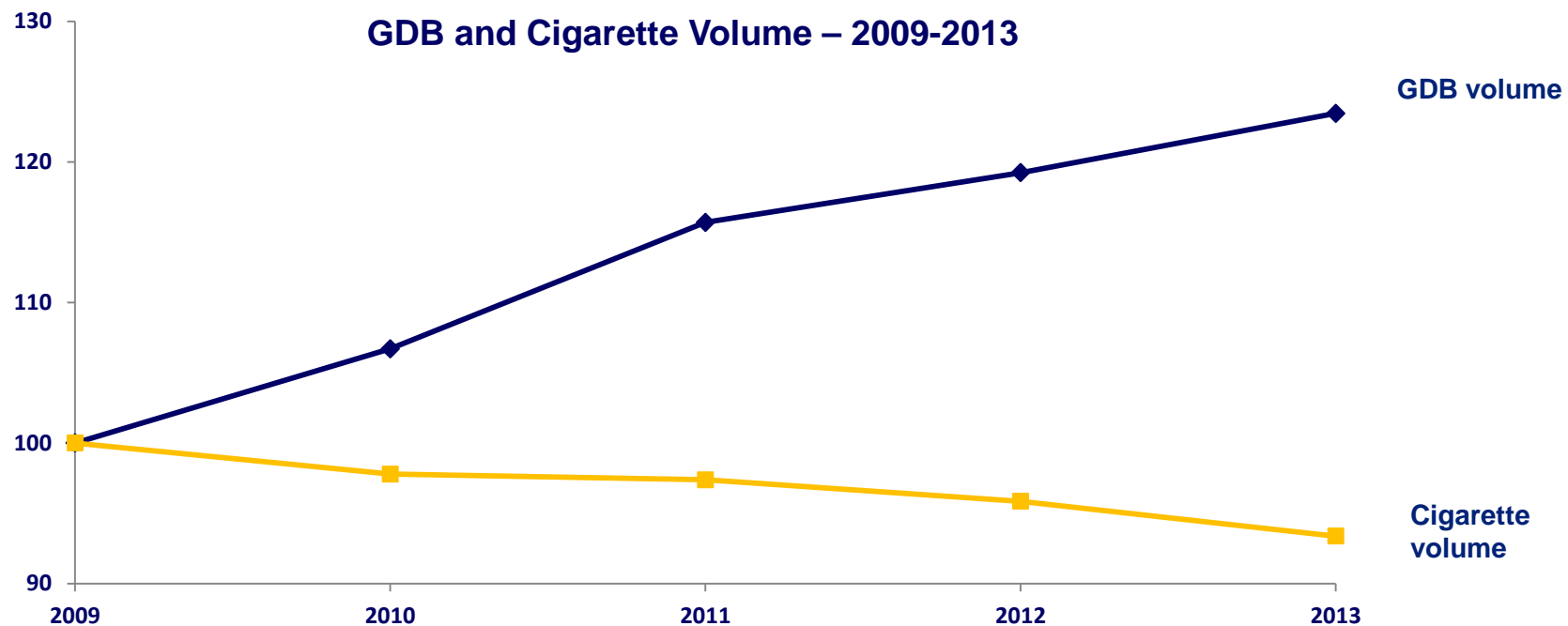
International Brands

+1.8% p.a.

GDB+IBs

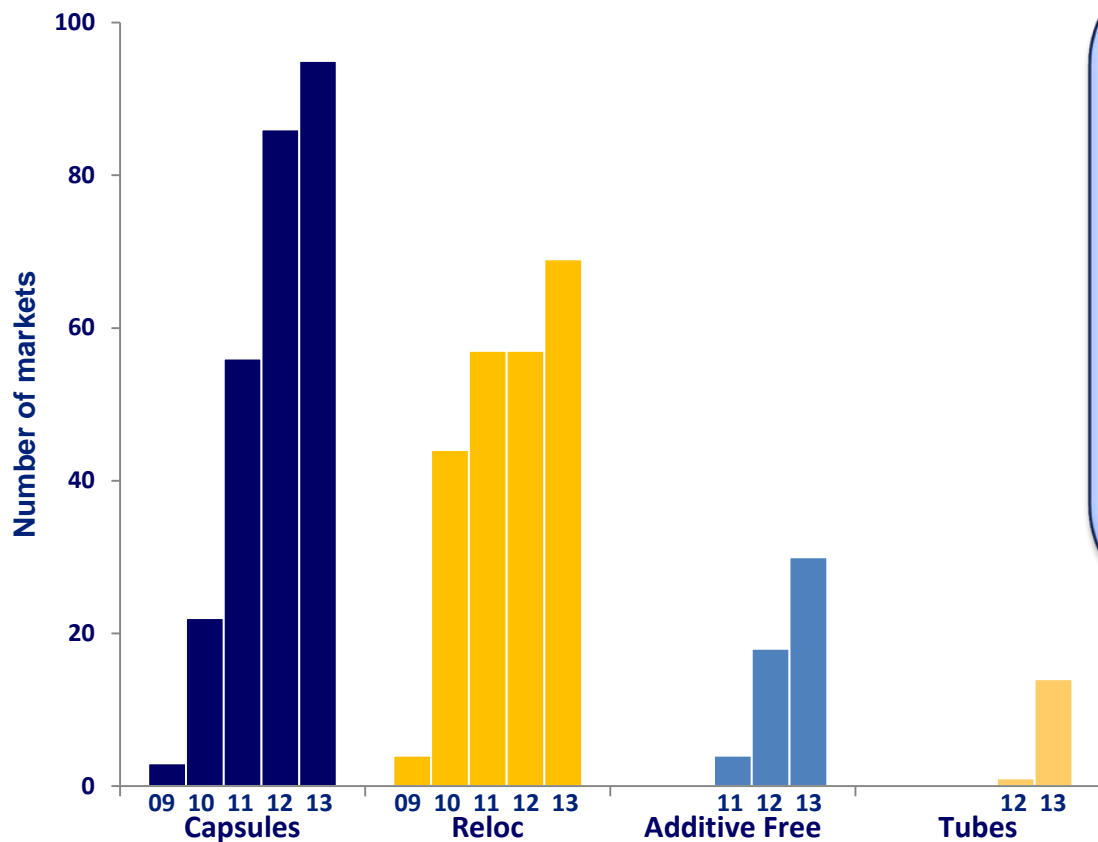
+5.4% p.a.

CAGR 2002-2013



# ... driven by Innovations...

## Innovations rollout since 2009



**GDB share growth**  
(including Rothmans)  
Jan 12 – Dec 13 Exit Shares

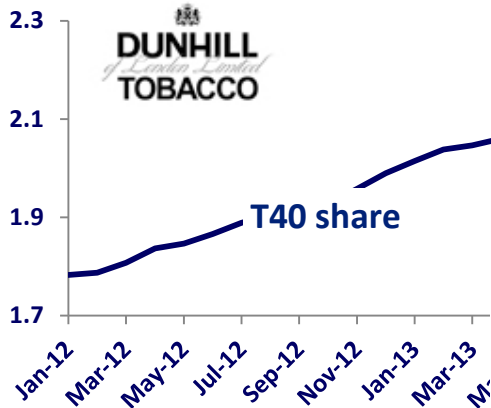
AsPac	↑	+110bps
Americas	↑	+460bps
W Europe	↑	+ 80bps
EEMEA	↑	+170bps
<b>Group</b>	↑	<b>+150bps</b>

Source: AC Nielsen Retail Audit

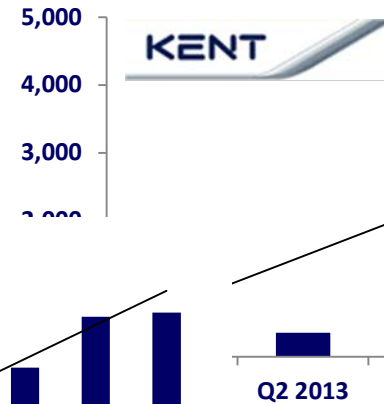
# ... which deliver results...



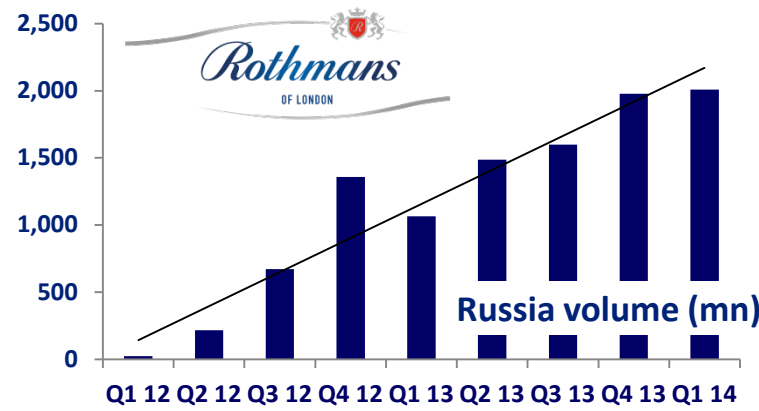
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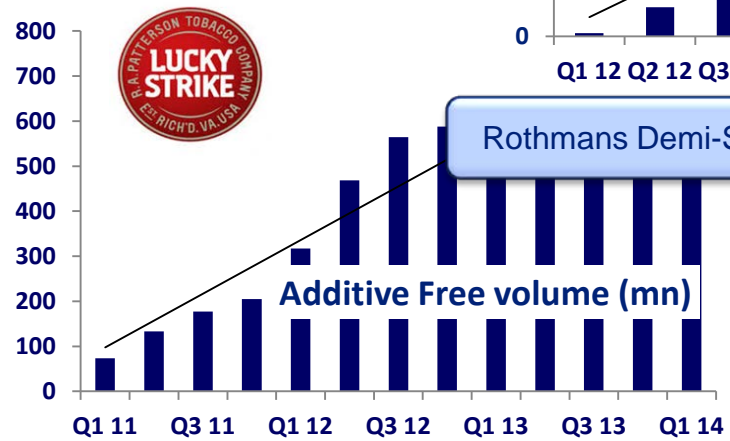
Strong global share growth d



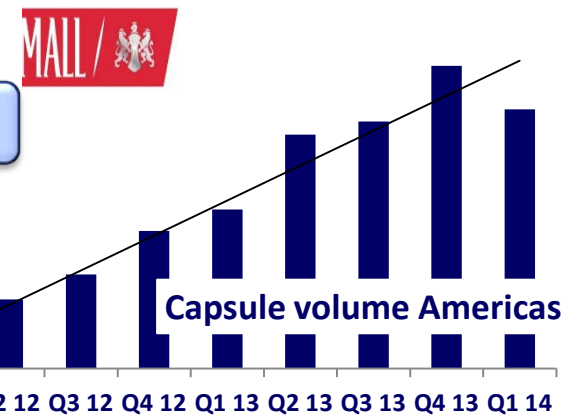
es launched in 14 markets



Rothmans Demi-Slims growing strongly in Russia

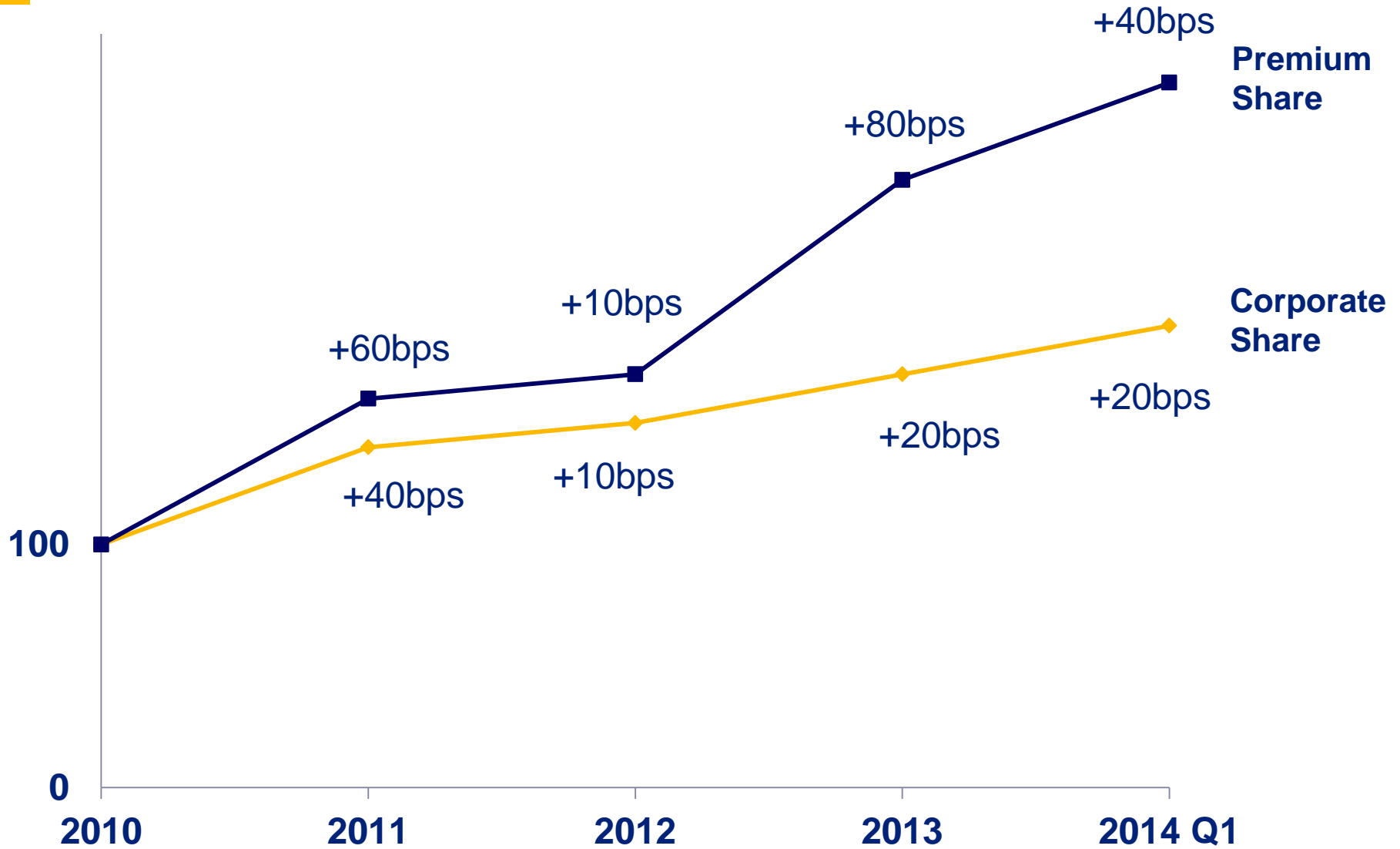


Global market leader in Additive Free  
Recent launches: Brazil and Mexico



Pall Mall Capsules driving growth in the Americas

# ... and strong share growth



## Product innovation is sustainable

- Quality products (44% superior, 97% parity or better)
  - Better products taste better, consumers will pay more
- Differentiated taste and flavour will become increasingly important
- Visibly differentiated innovations with consumer USP

- Vertically integrated business a competitive advantage
  - 75% of leaf needs purchased directly from our contracted farmers
  - Relationships with farmers enable us to grow the leaf we require
- BAT well placed given likely future regulatory trends
  - More standardised packaging
  - Ingredients restrictions

## And further growth opportunities exist in NGPs

- Volume remains <1% of WE consumption
- Industry growth rates have slowed
- Consumer behaviour evolving rapidly
- Products in development – eCigs, medicinal and HnB

Category is a growth opportunity

# A winning formula

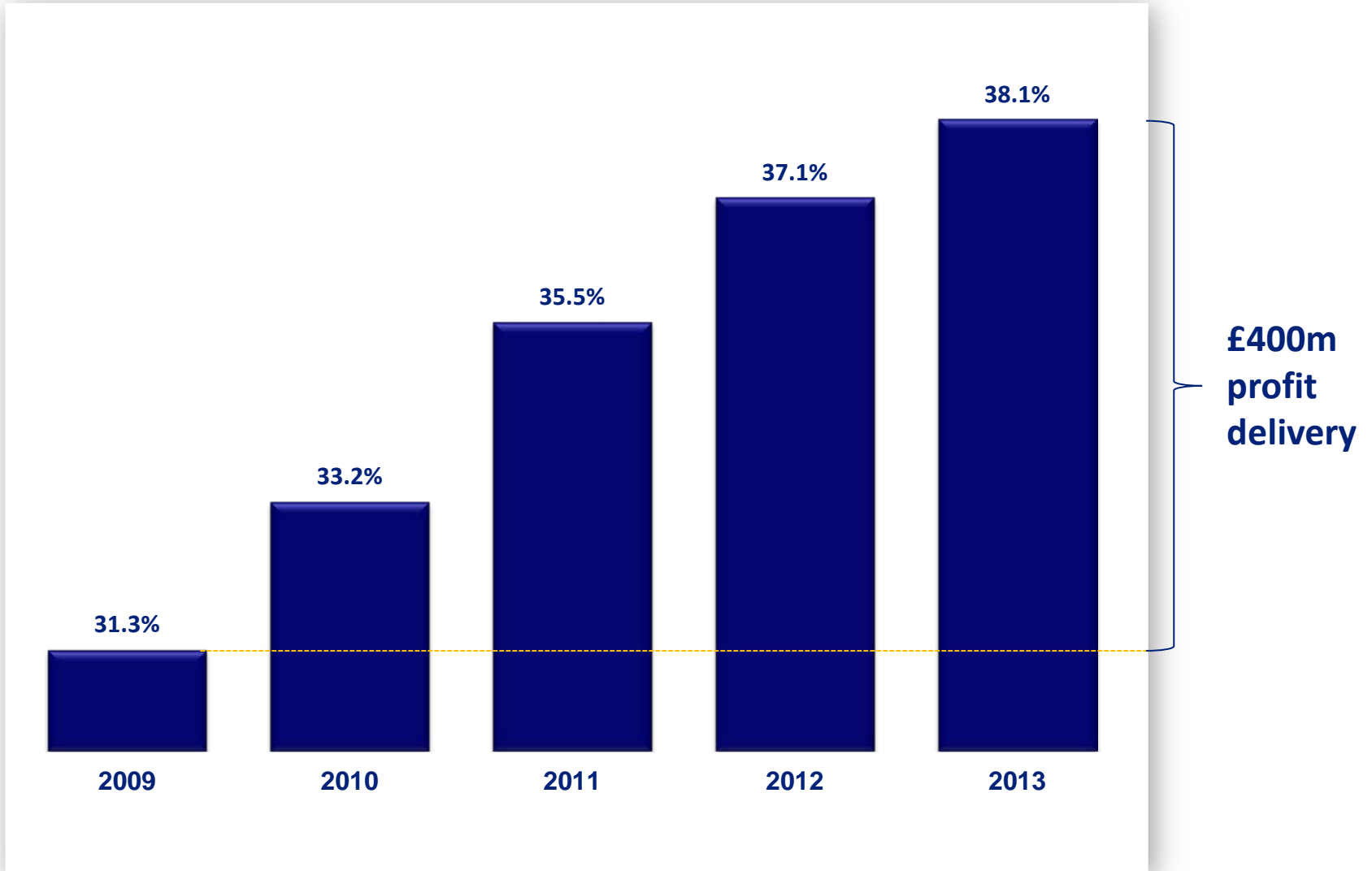
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# Excellent margin progression...





## ... with continuing opportunities for growth

- Factory Footprint – 67 factories closed since 2000
- Complexity reduction – packaging rationalisation and standardisation, reduced pack formats
- Pricing – price mix in the range of 5-8%, premium share growth (+150 bps since 2010)
- OneSAP / TaO

Confident of improving margin by 50-100 bps per year

## Driven by a single global operating model

### OneSAP driving margin

- Single instance of SAP drives standardisation of operating model
- Shared Services and Centres of Expertise:
  - Increased value added activities
  - Enable End Markets to focus on Brands, Trade, Regulation and Talent

### OneSAP rollout progress

- Asia complete June 2014 - 28% of our volume on TaO
  - Malaysia: September 2012
  - Australasia: October 2013
  - South Asia: January 2014
- Next: Western Europe / Centre ➡ EEMEA ➡ Americas
- Complete by 2017

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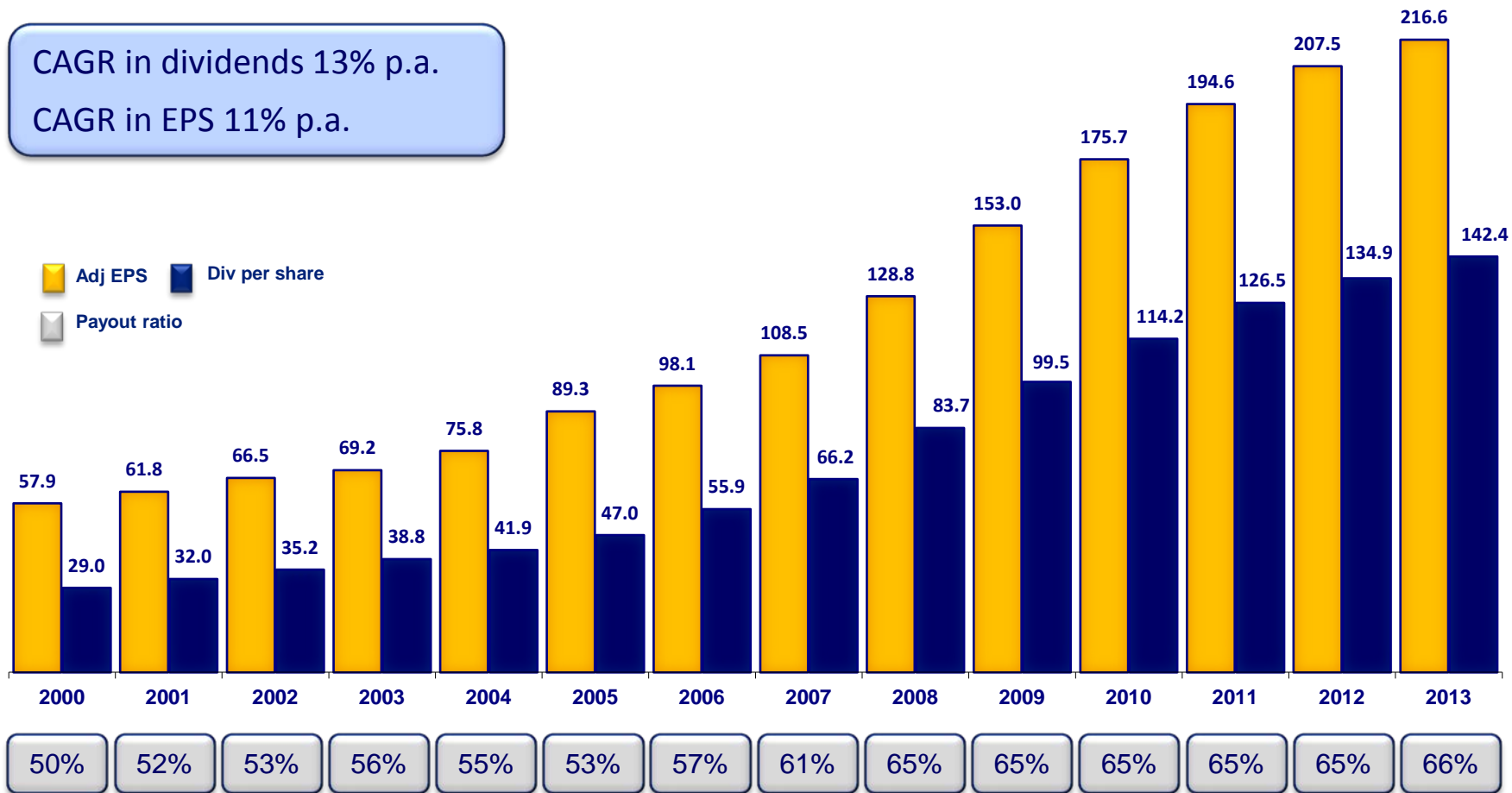
**Continuous margin improvement**

**Commitment to shareholder returns**

# Committed to growing earnings and dividends...



CAGR in dividends 13% p.a.  
CAGR in EPS 11% p.a.



**Commitment to raising dividend in Sterling terms**

## ... and returning cash to shareholders



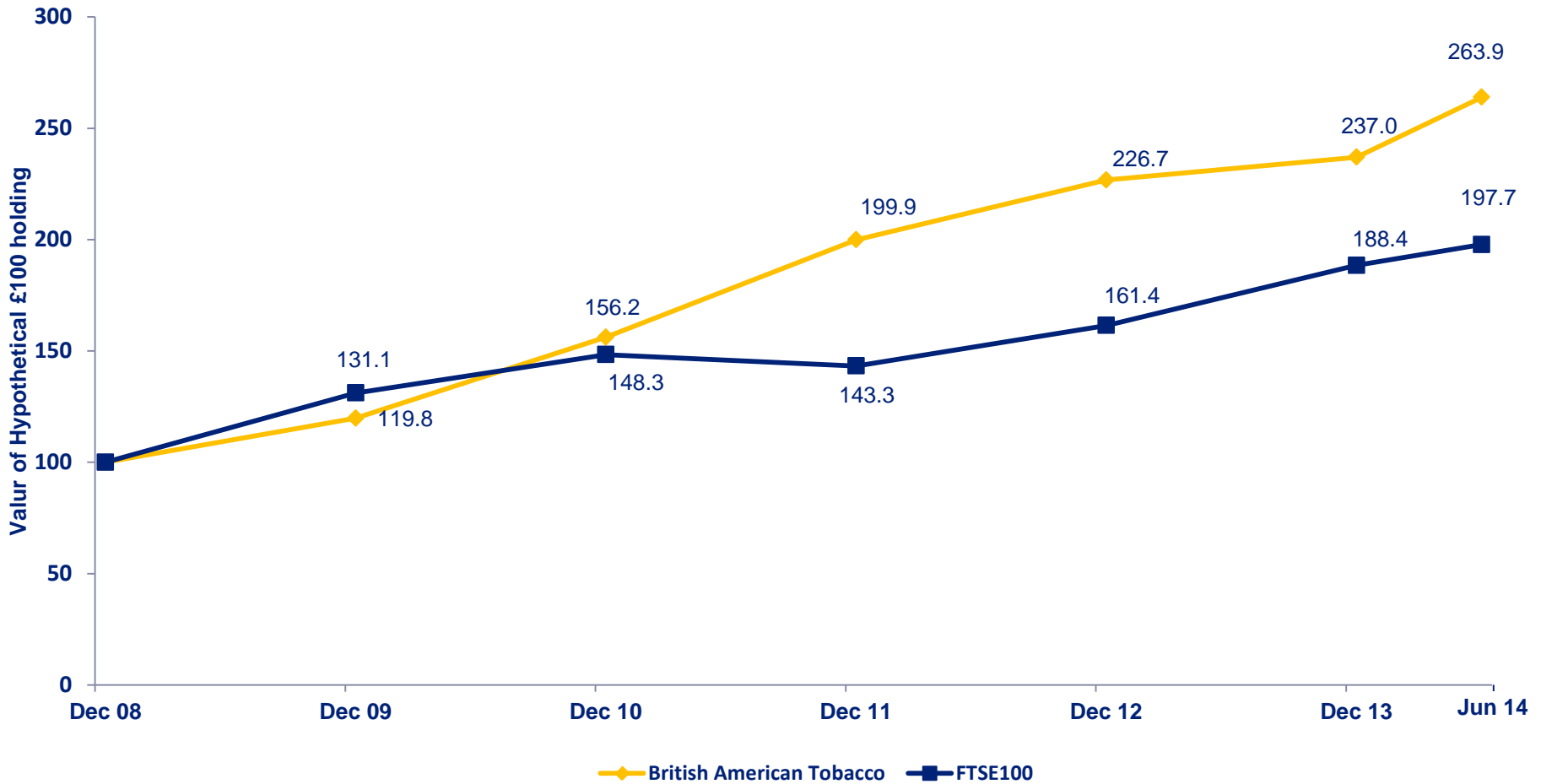
£bn, Current FX	2009	2010	2011	2012	2013	Total
Free Cash Flow	2.6	3.2	3.3	3.3	3.4	15.8
Dividends Paid	1.8	2.1	2.4	2.5	2.6	11.4
Share Buy-Back	0.0	0.0	0.8	1.3	1.5	3.6
Total Shareholder Returns	1.8	2.1	3.2	3.8	4.1	15.0
Total Shareholder Returns as % of FCF	69%	66%	97%	115%	121%	95%

**£15bn returned to shareholders since 2009**

# Driving a strong TSR performance



**Growth in the value of a hypothetical £100 holding over 5 years**



## Q1 Trading

- Volume improving
- Pricing on track
- Continued good share growth
  - Premium share again grew faster than corporate share
- GDBs continued to perform well
- Innovations double digit volume growth
- Adverse FX – translational and transactional
- Remain confident of high single figure earnings growth on a constant currency basis

**Business is performing well**

# A winning strategy



- A powerful brand portfolio
- World leading innovations
- Geographic diversity
- Fully integrated supply chain
- Margin growth opportunities
- Committed to shareholder returns

**Proven strategy continues to deliver**





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