

2025 Interim Results Presentation Webcast

Transcript

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Tadeu Marroco, Chief Executive

Good morning, everyone. I'm delighted to welcome you to our 2025 Interim Results presentation. With me this morning is Soraya Benchikh, CFO, and Victoria Buxton, Group Head of Investor Relations. I will begin with our transformation highlights and the progress we have made against our 2025 priorities. Soraya will then take you through our financial results in more detail before I return to talk more about our performance outlook and why we are confident in the pathway ahead. We will then take your questions. With that, I would like to draw your attention to the disclaimers on slides two and three.

Let's begin by looking at the positive transformation momentum we are driving. Starting with some highlights. We have delivered group results slightly ahead of expectations, which Soraya will talk about in more detail. Smokeless now accounts for 18.2% of group revenue, up 70 basis points versus last year. And we added 1.4 million Smokeless consumers, reaching 30.5 million, mainly driven by our continued success in Modern Oral. Our focus on quality growth, balancing top and bottom-line delivery, has driven a further improvement in new category contribution margin up 280 basis points to 10.6% at constant rates.

We continue to enhance our financial flexibility, enabling us to make progress on de-leverage and reward shareholders with strong cash returns. Alongside our progressive dividends, we recently increased our 2025 share buyback by £200 million to £1.1 billion. I'm proud that we have delivered what we said we would in the first half against our 2025 priorities, as we continue to build a track record of delivery. Our quality growth focus is central to our New Categories execution, to ensure we roll out new innovations in a targeted way while continuing to improve our contribution margin.

Driving value from our Combustibles business is essential to funding our transformation, and the U.S. is a key driver of this. I'm delighted with our return to both revenue and profit growth in the U.S. for the first time since 2022, driven by Combustibles and Modern Oral. We remain focused on our proactive approach to regulatory affairs and continue to advocate for science-led level playing fields with robust enforcement for Smokeless alternatives. In the first half, we activated Omni in 13 markets globally, with further launches planned for the second half of the year. Importantly, all of this is executed with a strong focus on cash generation, enabling us to continue to de-leverage and reward shareholders with strong cash returns. I'm pleased to report a notable increase in energy and momentum across the group. And I would like to thank all our teams around the world who are driving these encouraging results.

And with that, I will hand over to Soraya to take you through our H1 performance in more detail.

Soraya Benchikh, Chief Financial Officer

Thank you, Tadeu. And good morning, everyone. I'm pleased to share that our results on a constant currency basis came in slightly ahead of expectations. Our reported numbers include some adjusting items such as a £575 million reduction in our Canadian provision following an update of the forecasted market performance, and the £900 million gain from the partial sale of our ITC investment. To give you a clear picture of our underlying performance I'll focus on constant currency-adjusted metrics, and you can find more detail on the adjusting items and market share data in the appendix.

In H1 we delivered a strong performance ahead of our original guidance at the upper end of our 1 to 2% revenue growth range. Group revenue was up 1.8%. Adjusted gross profit rose by 3%. And adjusted profit from operations grew 1.9%, with adjusted diluted EPS increasing by 1.7%. With a stronger than expected H1, we now anticipate full year revenue at the top end of our 1-2% guidance. We maintain our APFO guidance of 1.5-2.5%, reflecting increased investment in New Categories and a stronger U.S. combustibles comparator in H2.

Let's now turn to New Categories. Revenue was up 2.4%, driven by an outstanding growth in Modern Oral which was up over 40%, and Heated Products which rose by more than 3%. This was partly offset by a 13% decline in Vapour, mainly due to illicit trade in the U.S. and Canada. We are delivering quality growth, with gross margin up 250 basis points and contribution margin up 280 basis points, reaching 10.6%. This reflects our targeted investments in high value markets, a disciplined approach to ROI, and the benefits of scale. And I'm really proud of the progress we've made, and we expect momentum to build in H2 with new category revenue growth moving into the mid-single digits for the full year.

Modern Oral in AME is a fantastic example of quality growth in action. We are clear category leaders in the region, with 63% volume share in top markets. And over the last four years consumer numbers, volume, and revenue have more than tripled, making Modern Oral our largest new category in the region by both revenue and contribution, with a gross margin already 10 percentage points above Combustibles, together with the fastest payback period of just over one year. Looking forward, I am confident that Modern Oral will continue to be a key driver of our sustainable growth and profitability, both in AME and globally.

Now, turning to Combustibles. Revenue increased 0.8% with volume decline more than offset by strong pricing across the globe, driving a healthy price mix uplift. We delivered quality growth here too. Gross profit increased by 2.4% and contribution rose 2.2%, helped by a strong performance in the US, favourable price mix, and ongoing productivity and simplification gains. I'm especially pleased to see our U.S. Combustibles business return to growth for the first time since 2022. This demonstrates the resilience of our Combustibles portfolio and strengthens our confidence in hitting our mid-term targets.

Now looking at the US, I'm delighted to say we've returned to both the revenue and profit growth. In Combustibles our improved portfolio and stronger execution, including enhanced revenue growth management, delivered 3.8% increase in revenue as we lapped last year's investment cycle. Volume share rose by 10 basis points, and value share by 20.

And excluding the deep discount segment, where we are not present, our volume share was up 60 basis points. In New Categories, revenue grew by 3.9%, driven by the successful launch of Velo Plus, which delivered over 380% growth in Modern Oral revenue. This was partly offset by a 12.3% decline in Vapour, impacted by ongoing illicit single use products. Overall, U.S. revenue grew 3.7% and adjusted profit rose 3.2%, led by Combustibles, though partially offset by Vuse headwinds and investment in Velo Plus. Tadeu will share more on the U.S. shortly.

AME had another solid half. Revenue rose 3.5%, with Combustibles up nearly 3%, thanks to strong volumes in Brazil, Turkey with solid pricing. New category revenue grew by 1.3%, including nearly 17% growth in Modern Oral, where we hold a 63% volume share. Offsets came from illicit Vapour in Canada and evolving market dynamics post single use Vapour bans in some large markets. Heated Products growth in Poland and Portugal was more than offset by the impact of resource allocation decisions in the Czech Republic, Germany, and Romania. Adjusted operating profit grew by over 10%, well ahead of revenue, driven by operating leverage and efficiency gains in Combustibles, scale benefits and resource allocation in New Categories, and our accounting treatment for Canada. AME is a true multi-category region, delivering quality growth.

In APMEA fiscal and regulatory headwinds in Bangladesh and Australia outweighed good performances in Pakistan and Nigeria. Total revenue was down 4.8%, with Combustibles down 7.9%. New category revenue increased 2.5%, driven by Heated Products growth in Japan and Modern Oral gains in emerging markets, partially offset by Vapour, which was impacted by strategic market exits as we shifted our focus to more profitable opportunities. Adjusted operating profit was down 12.3%, mainly due to the challenges in Bangladesh and Australia.

Operating margin held steady as we offset inflation and FX pressures, with a strong performance in the US, higher profitability in New Categories, and continued cost savings. At current rates, operating margin grew 20 basis points.

BAT has a strong track record of cost savings, and we continue to build on it. Since 2023, we've delivered nearly £900 million in productivity savings and are on track to exceed £1.2 billion by year end. These savings help us manage inflation and foreign exchange impacts while funding innovation in New Categories. In H1, we absorbed £166 million in inflation related costs and a 1% transactional FX headwind on adjusted operating profit. Looking beyond 2025, we remain focused on simplifying Combustibles and scaling New Categories, targeting an extra £2 billion in cost of goods sold savings by 2030.

And to further drive agility and savings, I'm excited to introduce our new Fit2Win programme. Fit2Win is a three-year programme designed to simplify the way we work, increasing agility and embedding digital decision making. While we're still in the planning phase, we're confident it will generate around £500 million in annualised savings by the end of 2028. These savings will support our growth algorithm and fund investments that drive

long-term profit and cash flow. Importantly, this is incremental to the £2 billion cost of goods sold target that we announced at our Capital Markets Day last year. We expect associated costs of £500 million over the next two years. And as a one-time investment £350 million of that will be treated as adjusting, starting in 2025 and ending in 2027. I'll share more at our full year results in February.

Earnings per share rose by 1.7%. While lower share count supported growth, it was offset by our reduced share of ITC profits and higher net finance costs. Our underlying tax rate was 24.4% and we expect a full year rate of around 25%, assuming no major changes in prevailing tax rates. Translational FX was driven by Sterling strength against most major global currencies, with weakening U.S. dollar contributing around 50% of this headwind.

Our strong cash generation continues to enhance our financial flexibility. We are on track to deliver more than £50 billion in free cash flow by the end of 2030. And we remain focused on our capital allocation priorities, which are investing in transformation, balancing deleveraging with progressive dividends and sustainable share buybacks, and selective bolt-on M&A to support our transformation. In May, we increased our 2025 buyback by £200 million to £1.1 billion, with £650 million allocated for the second half.

To summarize, H1 was ahead of expectations. And the momentum we're building through this deployment year gives us confidence in delivering our full year guidance. Key growth drivers include continued strength in the US, led by Combustibles and Velo Plus, acceleration in new category revenue as glo Hilo and Vuse Ultra rollout and Velo maintains strong global momentum, and further gains in new category contribution. With a stronger than expected H1, we now anticipate full year revenue at the top end of our 1 to 2% guidance. We maintain our APFO guidance of 1.5 to 2.5%, reflecting increased investment in New Categories, a stronger U.S. Combustibles comparator in H2, and the 1 to 1.5% transactional FX headwind. All of this enables us to invest more in innovation while staying firmly on track for 2026.

Our H1 results shows strong progress across multiple drivers, reinforcing my confidence in returning to our midterm algorithm of 3 to 5% revenue growth and 4 to 6% operating profit growth. If we exclude the regulatory and fiscal headwinds in Bangladesh and Australia, we're already hitting the lower end of our mid-term targets, with 3% revenue growth and 4.5% operating profit growth. In addition, I'm also encouraged by the early signs of our premium innovation rollout, which Tadeu will now talk about in more detail.

Tadeu Marroco, Chief Executive

Thank you, Soraya. I would like to outline our confidence in the pathway ahead. The nicotine industry is rapidly transforming and growing, as adult consumers around the world are increasingly switch to New Categories. We have pursued a multi-category strategy from the outset, which means we are well-placed to benefit from these consumer trends. Leveraging our world-class insights, innovation ecosystem, brand building and distribution capabilities.

We have invested to build a well-established portfolio of global brands across all three New Categories. In addition, given our global footprint and with a number of our key markets still closed to Smokeless alternatives, we recognise that we must continue to invest to drive value from Combustibles with a well-balanced portfolio of brands across price tiers. Let me now share more detail on our New Category launches. Starting with Modern Oral, the fastest growing New Category by far, which is already reaching global scale. It's position on the risk continuum* was supported by a recent study which demonstrated that smokers who switch completely to oral nicotine products are exposed to lower levels of toxicants similar to those who quit.

Modern Oral is highly successful in both traditional oral markets and new markets with no existing oral nicotine tradition and is also highly profitable with a fast payback, as Soraya mentioned. Following our successful launches in Pakistan and South Africa, we continue to see an exciting opportunity for Modern Oral in emerging markets, given its adaptability and affordability. Modern Oral is becoming a meaningful contributor to our group delivery. As Velo continues to grow from strength to strength, we are clear leaders in AME, close to six times the size of our closest competitor and capturing around 60% of category growth, which highlights the further opportunity ahead. Velo is a premium product over-indexing on value and strongly outperforming our peers across the region.

Given BAT's European Modern Oral leadership position, we have applied our know-how and capabilities to the US. We were already confident that with the right product we could make performance inroads in the US, and that is now being realized with Velo Plus. In the US, the Modern Oral category value of around £2 billion has already overtaken the size of the legal Vapour market and is expected to almost double over the next two years.

With the successful launch of Velo Plus, we have step changed our US performance and are now the fastest growing Modern Oral brand. Velo Plus is driving triple-digit revenue growth and strong volume share gains. In May, Velo had gained almost nine percentage points of share since launch. Encouragingly, the latest volume share read from July is above 17%. These results are a testament to the quality of the product, the improved strength and speed of our distribution capabilities and our sharper execution enabled by RGM. We are excited about the opportunity ahead, and Velo Plus is already number two in volume share in 11 states, including New York and Texas, which together represent around 10% of the total US category. And importantly, after investment in the initial launch and rollout phase, we expect Velo Plus to deliver a positive category contribution for the full year 2025.

In Heated Products, glo Hilo is a breakthrough innovation that we believe will reshape the way glo is positioned in the premium segment, which represents over 80% of industry value. glo Hilo has several new and innovative features including fast ramp up, heating in just five seconds, a personalised LED screen and connectivity with the myglo app, enabling customized sessions, find myglo and remote locking, alongside new upgraded consumables with enhanced taste and satisfaction, the closest to replicating cigarettes we have ever achieved.

At the end of 2024, we launched glo Hilo in Serbia. We integrated the insights and critical learnings into our rollout approach beginning with our June city launch in Sendai. While very early days, I'm encouraged that both the consumables and device are resonating well with consumers. go Hilo is driving improvements in consumer perception of glo including brand equity and appealing design. In addition, we have captured 1.5 percentage points of volume share in just a few weeks at a premium price point. Importantly, Hilo, is the first time glo will also offer a two-piece device launching as part of the national rollout in Japan this September. We will continue to roll out glo Hilo in a targeted way in the largest heated value pools through the second half.

It's our belief that premium modern done right is an untapped opportunity, offering greater differentiation and value generation potential. Vuse Ultra is our initial step, delivering a high quality and satisfying experience alongside a connected and highly customisable offering. Key features include new smart pods, which automatically adjust the device to consumers' preferred flavour settings, a ClearView display to easily track battery and liquid levels, connectivity, enabling find my Vape and the device lock further reinforce Vuse's position as a brand consumer can trust.

Vuse Ultra was launched online in Canada at the end of Q1 with a nationwide rollout from June. Initial consumer feedback has been positive. Vuse Ultra is driving a strong improvement in key attributes including premium, innovative and easy to use, capturing over two percentage points of value share since the nationwide launch. We have recently launched in the UK and Germany, and we will continue to roll out in a targeted way through the second half.

Moving to the US, the largest nicotine profit pool globally and the cornerstone of our business. This is why returning to growth here has been a key focus area for me. We have invested in strengthening our portfolio, readdressing price gaps and indexation. We have also sharpened our execution, expanding contract coverage, increasing our sales force, and improving revenue growth management and our reward programs through enhanced digital capabilities. I'm delighted we are beginning to see value being created by the actions we have taken to strengthen our portfolio and execution. Our total volume share grew 10 basis points and value share was up 20 basis points. We are seeing broad-based value share improvement across the portfolio. Our value for money brand Lucky Strike continues to be the fastest growing U.S. combustibles brand with value share up 60 basis points.

Value share in our super-premium brand Natural American Spirit is up 10 basis points despite pressure on consumer wallets. And the targeted introduction of a soft pack variant has led to stabilisation of the Newport brand family. I believe we have turned an important corner in the U.S. After significant investment, we are well positioned to build on this recovery and deliver sustained contribution to the group performance in 2025 and beyond.

Turning to regulation, we are encouraged that at the state level, Vapour directory and enforcement legislation has now passed in 18 U.S. states, and we look forward to the

implementation of these and more robust enforcement. A number of states are now demonstrating that well-constructed regulation can be effective in tackling illicit Vapour with Vuse volume returning to growth. In addition, we remain cautiously optimistic about a more proactive approach to illicit Vapour enforcement at the federal level. The new administration has been clear that tackling illicit Vapour is a key priority, and the FDA has already taken some important first steps, updating product classifications, closing loopholes for small shipments and seizing illicit product. While these actions have recently driven more than a 40% reduction in Vapour related shipments to the US, due to the long supply chain, we are yet to see any meaningful impact on the ground. As a result, we are not assuming any improvement in the legal Vapour market in our 2025 guidance.

As mentioned earlier, we continue to focus on sharpening execution, and our digital transformation is a key enabler. Thanks to the strong strategic partnerships, BAT is ahead of the curve. Let me share four key highlights. First, we are a global leader in cloud adoption with 85% cloud hosting through strategic partnerships. Second, our pioneering partnership with Microsoft enabled the rapid build of our enterprise data platform, advancing our global data infrastructures through MS Fabric and NextGen technologies. This empowers a data first, agile organisation enhancing tools like RGM and marketing spend effectiveness. Third, this year, we launched our GenAI lab in Dubai, making BAT the first CPG company in the region's AI hub. We've already deployed use cases like Ask OMNI™, AI powered sustainability bots and advanced consumer insight tools.

And finally, we have streamlined our strategic technology partnerships, reducing IT run costs by 40% while maintaining 99.9% uptime. We will continue to drive BAT's digital transformation with our partners, fuelling growth, enabling productivity, and building a more sustainable business.

Our recently announced strategic partnership with Accenture is a clear example of our digital transformation in action. We are transitioning our global shared services to Accenture. This partnership gives BAT access to Accenture's cutting-edge technology ecosystem, including agentic AI solutions and the strategic collaboration with world leading technology companies. These capabilities will help us further to simplify our processes, accelerate speed to market, upskill talent, and reduce costs over the medium to long term.

In return, BAT's industry-leading expertise in supply networks, we will strengthen Accenture's global supply chain and operations. This is a key step in making BAT a future-ready, digitally-enabled organisation powered by strategic partnerships. In conclusion, as Soraya highlighted, we are on track to deliver our full year guidance. And looking into 2026, I'm confident that we will build on our underlying momentum with the key growth drivers, including the continuing momentum in the US, AME and Velo, lapping Bangladesh Combustibles headwinds, a further increase in New Category contribution and a step up in efficiencies with our new Fit2Win programme to deliver 3-5% revenue growth and 4-6% adjusted profit from operations growth.

And finally, I would like to share a few key takeaways from our results. We have returned to revenue and profit growth in the US, a critical milestone. Velo is the fastest growing brand in the fastest growing new category with momentum in the U.S. and globally. And we are increasing profitability across our New Category portfolio. Our R&D eco-system is delivering exciting premium innovations, and we continue to amplify our proactive approach to regulatory affairs to unlock new markets and create a sustainable level competitive playing field. At the same time, our digital transformation is accelerating, enhancing execution and unlocking further efficiencies and agility. All of this is executed with a cash focus, returning £17 billion to shareholders over the last three years while continuing to deleverage. While there is more to do, I'm confident that we have the right strategy, capabilities and people to deliver a profitable transformation. I'm excited about the future for BAT, and I believe we will deliver long-term sustainable growth and value for all our stakeholders.

Thank you for listening. We'll now be joined on the stage by Victoria for the question and answer session.

Victoria Buxton, Group Head of Investor Relations

Thank you, Tadeu and Soraya, and good morning, everyone. If you joined us via the webcast, you can type your questions directly into the online question box or if you have joined us on the call, you can press star one on your telephone keypad. Tadeu and Soraya will be very happy to take your questions, and I will now hand over to the operator.

Operator

Thank you. And our first question today comes from Simon Hales with Citi. Please go ahead.

Simon Hales, Citi

Thank you. Morning Tadeu, Soraya and VB. Two or three for me if possible, please.

Tadeu, can we just talk a little bit more about the early performance that you're seeing from the glo Hilo launch into Japan? Obviously, you referenced it in your presentation in terms of the recent share gain you're seeing. Qualitatively, what is the feedback you're getting on the ground from those Japanese consumers? How does it vary at all from what you saw in the test market in Serbia? And how should we think about the scale of the rollout into other key markets through the rest of the year? What percentage of your key heated tobacco markets do you expect to be in by the end of the year?

And then secondly, on Modern Oral, clearly very strong performance coming through from Velo Plus in the U.S. and you referenced the further share gain that you've seen coming through into July as well. Have you seen any change in momentum for the brand as you exited the quarter and came into July given that the biggest competitor on the ground is

now back on shelf and perhaps being a little bit more aggressive in its point-of-sale promotional activity?

And then finally, just really a clarification for Soraya around the Fit2Win programme. I think you said that there won't be any upfront costs until 2026 for that programme. There's nothing in the second half of the year. Am I right on that? And I assume the £500 million target over three years is a gross savings target and we should expect a chunk of that to be reinvested back into the business.

Tadeu Marroco, Chief Executive

Okay. Okay. Simon, thank you for your questions. In terms of glo Hilo Japan, the feedback has been really positive from consumers. Its portfolio was much more tailor made from the one that we have launched in Serbia for the Japanese consumers. We have done a lot of work to get to very competitive offers because it's not just about the device. The device is clearly a massive step change from what we have been offering so far in the Japanese market and also anywhere else in the group. But the consumables are also very important, and we do believe that we have a new technology on the consumables that combined with the device heating mechanism is offering, like I mentioned in my presentation, the closest that you can get from smoking a cigarette in a HP product. And this been resonating well with consumers. You have to remember that in Sendai we don't have yet the two-piece device and yet we have achieved in a few weeks, 1.5% at a premium level that we have never been able to compete with glo before in terms of consumables pricing. So, it's quite exciting about that. In terms of rollout for the rest of the year, we'll just start. Because, like I said, September - Japan. And we'll be hitting the highest profit pools in the HP category until December, but this will be just the early stage. We'll be probably seeing the impact of that throughout 2026.

Now in terms of Modern Oral, we are extremely excited with Velo Plus. The brand is keeping its momentum. When we launch the brand, as any new launch in the US, we have a price list. We apply some discounts to get consumer trial. We see that once they trial, the level of retention is still being kept at a very, very high level at 70% of retention. We have been reducing the discounts since the launch. Despite that, we carry on seeing increasing in market share and the repurchase at the point of sale.

So, all in all, we are very, very supportive of the future growth of Velo Plus in the US. Today, in terms of pricing, if you strip out the leading brand, we are at over-index to what is left in the market. In terms of value share based on the trend that we are seeing, we are very close to achieving the number two position, and we'll be going back to positive contribution already in 2025, which is a testament that this is a category with the right product, with the right focus and execution, we can have a very short payback. So, all in all, very exciting about that. All right.

Soraya Benchikh, Chief Financial Officer

Hi, Simon. Thank you for the question. Just let me give a little bit of background on Fit2Win. I think over the years we've been very good at taking out costs from the business. Fit2Win is slightly different. It's really aimed at making the organisation future fit. We are basically reviewing a lot of our key work processes in the organisation and embedding digital decision-making basically into our processes. We're doing a full review of indirects, we're also looking at our routes to market to ensure that they're transformed in line with business transformation that we're going through. So, in answer to your question, in terms of the costs, we will have some costs in 2025, but this is fully included in our guidance, and the £500 million will be an annualised saving that we will reach at the end of 2028. And yes, we will be looking to reinvest basically to fuel the growth behind our innovations.

Simon Hales, Citi

Thanks very much.

Operator

Thank you. Our next question comes from the line of Damian McNeela from Deutsche Numis. Please go ahead.

Damian McNeela, Deutsche Numis

Hi. Morning, everybody. Thank you for taking the questions. The first question really is on whether you could provide us a little bit more colour on the performance of the Vape business in the AME region. I think you sort of flagged some challenges in Canada and also the transition that's happening in some of the bigger markets, like the UK. I was just wondering if you could provide some thoughts on what's happening on the ground and your expectations for Vape in those markets over the medium term.

And then just on the U.S. Vape and just some clarification on the 40% reduction in shipments that you've seen. I guess it's very difficult to have any accurate number, but can you provide us with a sense of what that means in terms of when we might expect to see a change on the ground in terms of illicit availability, please?

Tadeu Marroco, Chief Executive

Okay, Damien. Look, the performance of Vape in AME has been heavily impacted by Canada. The situation in Canada Quebec, the largest province and where most of the sales is happening has introduced regulations banning all flavours. But the level of enforcement is basically none, and we see inundation of illegal products and top of that with these big tanks, big disposable brands, which, due to duty of care, we cannot even offer anything

similar to that. So as a consequence, we had a strong business. We still perform quite nicely on the tracked channels, but there is a hidden market that is not showing up in the tracked channels that is inundating the market and making it very hard for responsible companies to compete in a level playing field. So, as a consequence, the headline numbers of AME get impacted.

But one thing that is interesting happening in Europe is that the trend moving from MODI (Modern Disposals) to closed systems, and as you imagine when you are in MODI you are selling a device, so the NTO (net turnover) per unit is higher when you are selling pods in the closed system. So, this will translate an impact in the first moment in the top line of the business. On the other hand, this transition actually is positive for BAT in the long run. You take UK, for example. We have an overall share just over 10% of the Vapour business, including MODI and when you zoom in into the closed system, we have a 33% share. So, as this transition consolidates, and you know that the UK has just banned MODI and the expectations that we're going to see more and more closed systems replacing MODI over time, we should be seeing a return to growth in those markets.

The same is happening in France, although France, the closed system was already a big chunk of the market, and we have a very strong position in France with some close to 60% of market share. The same happened in Germany. Despite the fact there is no ban there, the consumers are naturally migrating from MODI to closed system as the closed system gets better in terms of satisfaction and there's a better economic and financial equation for consumers because you don't need to buy a device, you just buy pods over time.

Another interesting point that we are seeing is the fact that as we said before, our idea was to explore the introduction of a premium segment, like we have in HP, like we have in cigarettes across Vapour that is not really there. And the Vuse Ultra was our first attempt and we are really encouraged to see the results that we are getting on the ground. It's early days, but we got more than 2% of value share in Canada with all these convoluted situations that I was referring to you. And we also be seeing a very strong traction in Germany where we have just launched few weeks ago and we have just launched in the UK and we're going to continue to roll out. So that's what is happening in AME and Vapour.

In the U.S. it's very difficult to predict because what we are seeing on the ground is that some of these key brands, they are not being found anymore in some point of sales, they are running out of the shelves. But there is so many other offers of these type of products, illegal Vapour products that basically target youth with flavours like bubble gum, rainbow candy, things that absolutely shouldn't be in the market in the first place. And we are still seeing those products there. The encouraging factor on this is that the new administration, the new secretary of HHS, the new chair of the FDA has been very vocal about putting as a priority the annihilation if you want, of these non-responsible and non-conform brands. And not just the narrative, but what we start seeing on the ground, the forty percent reduction in shipment is one of the data points. And because we know that some of those manufacturers, they mis-declare what they are bringing, they undervalue their shipments.

So, they are well aware of that. They are taking initiatives to cope with that. It's a question of consistency.

So, from the first angle to your question, we need to see a consistently multi-agency work on that, which for the time being seems to be the case. And at the same time, we need to wait because there is a long supply chain in the U.S. to see a meaningful for impact. But this is one side of the equation. The other side of the equation is eventually to get the FDA addressing the approval process. Because the root cause of all this illegality is the fact that the U.S. consumers don't get enough Smokeless products and that's something else that we hope that the FDA will address over time.

Damian McNeela, Deutsche Numis

That's great. Thank you very much, Tadeu.

Operator

Thank you. Our next question comes from the line of Rey Wium with Anchor Stockbrokers. Please go ahead.

Rey Wium, Anchor Stockbrokers

Hi, good morning, Tadeu, Soraya and Victoria. If I can just start off with the U.S. on the combustible side, it's quite shocking I think to see that the volume decline has sort of now eased to 7.6%. I just want to know whether, I mean what is your sort of indication for the remainder of the year? Is there chances of this rate of decline to ease further, or is that pretty much where we are going to stabilise?

The other question that I have is just on, I mean very strong performance from Velo Plus in the U.S., now I just want to know, obviously you are still waiting approval for Velo 2.0, if you can give us any update on that. And given that Velo Plus is already doing so well, I mean, what are you thinking around Velo 2.0 when that becomes available?

My last question is just a clarification, because honestly, I'm a bit confused in terms of your adjusted EPS number. You show it as 162, but I also see a number that I can't find anywhere in the release, which is the 155.5 which excludes or makes the adjustment for Canada, including currency. So, I mean, maybe if you could just help us understand what is the real number that you are looking at and what you want us to focus on? Because, I mean, the adjusted EPS on that base is actually down 2.4% and not up. So that will be very helpful, just to get some understanding of how we need to think of this one.

Tadeu Marroco, Chief Executive

Thank you, Rey, for the question. Soraya will cover the point on the adjusted EPS.

In terms of volume, industry-wise we are seeing a slight improvement compared with the previous year. It is not meaningful. Previous year at this point in time was overall 8.5% decline. This year it's more on the 8%. I don't think that we'll be seeing a meaningful variance to that until the end of the year. The consumers are still very stretched. The level of confidence is still low. But obviously this has been offset partially by the fact the gas price has been reduced. And we note that there is an inverse correlation between gas price and sales of cigarettes in the U.S., which has been supportive of volumes more recently.

The other big question mark is in terms of how much more enforcement in the illegal Vapour disposable products they can do in the U.S. Plus, we also know that some of the weakness that we see in the combustible business are related with the availability of these products in the market. And obviously, if you expect some enforcement, at least the switch out of combustibles to these products will probably be reduced.

In terms of Reynolds, we are very pleased with our performance. It shows that all the commercial plans that we put in place in the last two years is resonating with a strong performance on the ground. You can see that by the market share increase, the value share increase, our price mix has been very robust. Obviously, we have taken some decisions and mainly pricing-related in 2023, 2024 that makes this half year a bit more softer comparator. That's why we call attention that the second half will be a bit more stronger, the comparator for the U.S. Combustibles, in general. But, overall, we feel very, very confident about keeping the momentum. And remember that we have always said, for us to go back to the 3-5% Group algorithm in terms of revenue, what we need is combustibles as a group to deliver between 1-2%. The U.S. in that equation will come between 0 -1%. So we are tracking well ahead of that.

In the medium long run, if we are able to at least deliver 0- 1%, we have all the possibilities with the complement of the other two regions, which now we expect to lap Bangladesh from the next year onwards. And hence it's going back to the likes of 2%. Plus New Categories should get back to the algorithm. So that's the combustibles side.

The Velo Plus. The biggest differentiation of Velo Plus, obviously the execution, the way that Reynolds was able to launch a product from scratch to 135,000 outlets, that's the case today, in six months is something remarkable. But on top of that is the product that brings more moisture to the market and the Velo 2.0 that you're referring to and that's how we refer here as well. It brings even more moisture its the ones that we have in Europe that is very successful. That's why we were highlighting the case.

We don't talk much about ex the U.S., but the fact is that our Velo brand is almost six times higher in volume than the second place in that particular region. So, this product will be complementary to the Velo Plus because Velo Plus has been so successful that this product will be complementary. It's very hard to predict when this gets approved. And it's back to the point that I just made recently in the previous answer. This is one area that the FDA needs to address is the rhythm of approval. Because there was millions of submissions done

over the last five years with a handful of 25 MGOs given, which is basically not enough to address all the consumer needs in the U.S. because we are seeing more and more poly-users in the U.S. So, hopefully, the FDA can address that. We can speed that some of this process. And this guarantees that the success that we are seeing today in Velo Plus can be maintained with a pipeline of Velo that we have outside the U.S.

Soraya Benchikh, Chief Financial Officer

On the EPS, basically, you're looking at 162.1, which is on the constant basis. The 155.5 that you see is on current basis. There is an adjusting item, which is our Canadian adjustment, but Victoria and her team are happy to provide you with a full reconciliation. But the number you should be looking at is 162.1.

Rey Wium, Anchor Stockbrokers

Okay. Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Gaurav Jain with Barclays. Please, go ahead.

Gaurav Jain, Barclays

Hi, good morning, Tadeu. Good morning, Soraya. Three questions from me.

So, first, on your U.S. cigarette pricing, which was almost 12% ahead of your big competitor, and there was clearly a lot of discussion around double drawbacks in the U.S. market and in the press releases or in all these newspaper articles, you know, it was mentioned a lot. Could you talk about how double drawback is impacting the U.S. business, how much it has changed on a YoY basis in terms of contribution to your portfolio? So that's my question number one.

And question number two is on your overall e-cigarette strategy, it seems you have exited a few markets, especially in AMPEA, like Malaysia, called out. So, is something bigger happening in your overall global e-cigarette sort of portfolio, the way you think about it?

And then the last question I have is on your Velo Plus, you know, amazing growth in the U.S.; 1.1 billion pouches in H1. And if we just extrapolate these market share trends, what you are highlighting and what we see in the scanner data, you could be doing like six times this volume next year assuming the market keeps growing and you get your fair share. So, do you have that kind of capacity or will you run into capacity shortages at some point in time?

Thank you.

Tadeu Marroco, Chief Executive

Okay. So let me start with the drawback.

This is a long standing legal framework to incentivise manufacturing in the U.S. and generate employment. And that's exactly what Reynolds is doing. So, there is a positive impact on the top line coming from this legal framework, but we would be growing anyway independent of the duty drawback because there are three major drivers behind that.

The first one, it's the more important one, is the performance itself; is the fact that we are growing market share, value share, our price mix is very robust, the fact that we have outperformed the market in terms of volume. If you see the overall industry, like I said, it's more in the 8.0 to 8.5% decline. We decline less than that. So all this combined, which I call performance, is better, and this is the major driver.

We are also giving... what I said more recently in the previous question, we are lapping a more softer comparator, because we took some decisions in 2023, 2024 that resulted in some inventory moves, and this also contributes to the very high growth rates that you saw on the combustible level.

And finally, you have the drawback that is Reynolds at the back of that balancing out all these structural decline that we have in volumes in the US, compensating that through more export from the U.S. to other markets, generate more employment, and more importantly, buy more leaf as well that is supportive of the farmers in the U.S.

So that's about the first question. I'm going to skip to the Velo Plus because I need your help to understand better the second.

But the Velo Plus question is all these shares that we are referring to are consumer off-take shares, not shipment shares. So, you are right, we are growing fast and... because we need to remember that we came from a very small position back end of last year. We barely have something like 6, 7% of the market. Like I said, our latest number in July is already in the 17% mark.

And as I said, when we launched Velo Plus, the fact that we have been so entrenched in this category outside the U.S. allow us to migrate machinery and shortcut the leading time to produce those machines. So, we are very well-equipped to the pace of growth that we are seeing in Velo Plus, so we are not expecting any type of difficulty in that sense in the U.S.

And the second question is-

Soraya Benchikh, Chief Financial Officer

Let me try and help a little bit, Gaurav, with the second question. I think you're referring, if I understood correctly, about some of the APMEA resource allocation decisions that we took.

Basically, what we've had to do is prioritise, given that we're rolling out innovations in all three categories. And we have a lot of innovations this year with Velo Plus in the U.S., Velo that continues globally, Vuse Ultra, and glo, glo Hilo, which requires a lot of investment.

So, we've made some purely resource allocation prioritisation basically to fund the investments in the largest profit pools. That's what it is. It's not really detracting from these markets, it's just a question of focusing our resources so we can fuel growth across all our innovations.

Tadeu Marroco, Chief Executive

And part of that is eventually moving out of... So, I think that you were referring to Malaysia Vapour? Yes, we had to move out of Malaysia Vapour because it's another market that lost completely the possibility of enforcement, and when there is no enforcement, it's very hard to compete. So, if you don't have a level playing field and then you align to that, they need to be smart in the way we deploy our resource, and we will make some decisions if that's the case. We try to engage with the government as soon as we can to address the regulatory environment. If we're not able to do, we have to make our calls, and Malaysia Vapour is one of those.

Gaurav Jain, Barclays

Thank you so much.

Operator

Thank you. Our next question comes from Faham Baig with UBS. Please go ahead.

Faham Baig, UBS

Good morning, team. Thank you for the thorough presentation, as well as the Q&A. A couple from me if I may.

Firstly, you have now raised top-line guidance twice in the past two months, but the EBIT outlook continues to be reiterated. Can you dive a bit deeper in where the incremental investments are being spent, which you did not budget for at the start of the year, and how you expect these investments to pay back in 2026?

And the second question, just can you remind us where we are on ITC Hotels? I know you've given your view on this asset previously, but where are we in the process of divesting that stake please? Thank you.

Soraya Benchikh, Chief Financial Officer

Okay. Shall I try and take this?

Tadeu Marroco, Chief Executive

Yeah, go ahead.

Soraya Benchikh, Chief Financial Officer

Yeah?

Tadeu Marroco, Chief Executive

That's fine.

Soraya Benchikh, Chief Financial Officer

Okay, thank you for that, Faham.

Firstly, I think let's say we're very, very pleased with the H1 performance, but I think let me take it from the top line and then talk about the EBIT guidance.

The top line, if we look at the 1.8% growth, it's important to remember that we're lapping the investment in H1 in the U.S. So, if we looked at the 1.8%, it really equates to 1.4% growth. And that means that we are second half weighted, because we've got quite a lot of innovations rolling out, as we've mentioned in the presentation.

I think it's also important to note that the 1.5-2.5% guidance in EBIT that we haven't changed, even though we're at the top line of our NTO growth, we have these innovations and we're funding the rollouts there. It's not that we didn't anticipate it, but we would like to retain the flexibility to increase the funding to further fuel the growth going into 2026.

It's also important to bear in mind that we have had some tariff impact. It hasn't been significant, but we have absorbed it into our guidance. But the main reason is really us to preserve the ability to increase our investments behind the innovations. And the innovations, as you know, are the Vuse Ultra rollout, glo Hilo that we're rolling out the second half of this year, and obviously the continued momentum behind Velo Plus in the U.S. and Velo globally.

Tadeu Marroco, Chief Executive

Yeah.

Soraya Benchikh, Chief Financial Officer

I don't know if you want to add something.

Tadeu Marroco, Chief Executive

No, I think that is right. I would just say that we are in a position that we have never been in the past. As a company, we have now very, very competitive products in every single category. It's very exciting. We spoke about that in the CMD October last year, all the efforts, all the strategic partners we were leveraging, and we are seeing some of those products now hitting the market. Soraya just referred to them. And it's a very strong position to be. Very pleased with that. But obviously this requires more discipline in terms of investing, and they will translate in future for future drivers of growth for the company, which is supportive of our guidance moving forward in terms of top line and bottom line as well.

On the hotels, on ITC Hotels, I have said before, I continue saying that strategically speaking, we don't intend to be shareholders in a hotel chain in India, or outside India. But the fact is that there are some bureaucratic steps that needs to go through in terms of the way that our shareholding of that dates back to early 1900s. And I gave this explanation before; sometimes things take longer for us to be able to unlock those shares, get the right approvals in the right forums, in this case it's Central Bank in India, in order to be able to transact. And once we are in this position, we'll be thinking about that, because this will be supportive for us going back to the corridor of 2.5 - 2x (Adj. ND/EBITDA) by the end of 2026. So, we intend to use the proceeds of the hotel to deleverage further the company.

Faham Baig, UBS

Thank you guys.

Operator

Thank you. Our final question comes from Andrei Andon with Jefferies. Please go ahead.

Andrei Andon-Ionita, Jefferies

Hi, good morning, Tadeu and Soraya and VB, and thank you for taking my questions. A couple from me please.

First, in Modern Oral in Europe you are the beneficiary of a majority of category growth in H1. Could you perhaps tell us more about the actions you've taken to preserve this

advantage in Europe given a competitor has been increasingly assertive on growth outside the U.S.?

And then second, on U.S. Modern Oral, I noticed Velo Plus is already in 135,000 outlets, which I think is ahead of the previous target for fiscal '25. Are there any incremental distribution gains still to come in H2 or are you happy with the current distribution base? Thank you.

Tadeu Marroco, Chief Executive

Okay, thank you, Andrei, for the question.

In terms of Velo Plus, I will start from the second one, in 135,000 outlets, we are in more than a bit more than 90% of the value of the category. So, we don't really need to go much beyond that. But what we are seeing is there is a lot of retailers that are buying from wholesalers where they want to have the product and not necessarily is being supported directly by us. So it wouldn't be a surprise to see this number going further, but it is already what we consider optimum number.

Our focus now is actually to improve awareness of the brand because it's still low, which also demonstrates a further potential for the brand, and activate trial. Because once the consumer tries the product, like I said, the level of retention is very high.

And you have to remember that Modern Oral in the U.S., average daily consumption is 3 pouches, whilst in AME as a region is 6 pouches, and Sweden, which is a very mature market, is 12 pouches. So there is a lot of potential growth in terms of the category provided that you give them a satisfying product, which Velo Plus seems to be addressing this right now as we speak. And that's the reason why we consider the category has a potential to almost double in the next couple of years.

In terms of Modern Oral outside the U.S., yes, there is a lot of new competitors coming in; the more established one, but also new ones, because as I said, it's the fastest growing category, New Category. It's also the one that ticks the box in a number of areas. In terms of risk continuum, it's probably one of the lowest risks involved. It is very close to a nicotine replacement therapy. There is no inhalation. In terms of affordability, you can address the likes of emerging markets, for example, because there is no device involved on that. And in terms of margins, if anything, even higher than cigarettes. So obviously there is a lot of attraction there.

So, what we are doing, you just saw one of the shots that I presented in my presentation; I was covering one of the innovations of Velo that we are launching in the market in the next couple of months. And this is about us keeping the momentum and being able to offer consumers more innovative products around that; and also expand behind the brand building, and we have been doing that diligently through a number of years now. And some



of the resource allocation decisions that we have spoken about is exactly to support the growth of Velo that is going from strength to strength.

Victoria Buxton

Okay. Well, thank you very much for your questions. I'm afraid that's all we've got time for today. The IR team will answer any outstanding questions that will remain on the web.

And with that, I'll hand back to Tadeu for closing remarks.

Tadeu Marroco, Chief Executive

Okay. Thank you all for listening today and for your questions.

To close, we are on track for our full year guidance, having delivered H1 Results slightly ahead of expectations, and looking to 2026, I'm confident we have the right building blocks in place to deliver our midterm algorithm. We will continue to reward our shareholders through strong cash returns, including our progressive dividend and sustainable share buy back, and deliver long-term growth and value creation.

Thank you again for joining us.

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* Based on the weight of evidence, in relation to certain toxicants, and assuming a complete switch from cigarette smoking. These products are not risk free and addictive. † Our products as sold in the U.S., including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.