



# **BAT CAGNY 2022 – Prepared Remarks**

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## **CORPORATE PARTICIPANTS**

**Jack Bowles**  
*Chief Executive*

**Tadeu Marroco**  
*Group Finance and Transformation Director*

**Kingsley Wheaton**  
*Chief Marketing Officer*

## **Jack Bowles, Chief Executive**

Hello everyone, I am Jack Bowles, Chief Executive of BAT.

Joining me today are Kingsley Wheaton, our Chief Marketing Officer, and Tadeu Marroco, our Group Finance and Transformation Director.

We are delighted to be here with you again at CAGNY.

We would like to update you on our transformation journey to build A Better Tomorrow.

A journey that we are all very passionate about.

Today Kingsley, Tadeu and I will show you:  
First, that in just a few short years we have successfully built a high growth, £2billion revenue, multi-category business.

Second, that we have created a strong portfolio of New Category Global Drive Brands and with our proven capabilities, we are confident of delivering against our 2025 targets.

And finally, that we are fully committed to generating shareholder returns, driven by our continued financial discipline and strong cash delivery.

Having delivered on our pivotal year in 2021, we now begin the next phase of our journey - Faster Transformation - towards A Better Tomorrow.

When I took over as Chief Executive three years ago, I made a commitment to transform BAT

- by changing our portfolio,
- our structure,
- our culture,
- and our ways of working.

And in doing so, transform the nature of our relationship with society.

To achieve this, I set out three very clear priorities.

To drive:

- a step change in New Categories,
- combustible value growth,
- and to simplify the company.

In the last three years we have grown New Category revenue at a 32% CAGR:

- With growth accelerating to over 50% in 2021.
- We have more than doubled the number of consumers of our non-combustible products - adding 10 million to over 18 million consumers.
- We added 4.8million in 2021 alone, our highest ever increase.

This has doubled the proportion of group revenue from Non-Combustibles to over 12%.

Whilst we still have some way to go this has been driven by a real step change in the development of our New Category business.

This has been supported by strong value growth from our combustibles business over the last three years growing revenue at a CAGR of over 3%, with our brands growing value share at an average of 20bps each year.

This has been a significant driver of our group revenue CAGR, which is in excess of 5%.

Finally, through the Quantum programme we have successfully simplified the organisation and delivered £1.3billion cumulative cost savings by the end of 2021 - well ahead of our original target.

Quantum has made BAT:

- faster,
- simpler
- and more agile.

Our focus on our 3 priorities has driven strong financial performance and successfully taken us through the first phase of our transformation journey to build A Better Tomorrow.

12 months ago, we said that 2021 would be a pivotal year in this journey, as we would:

- accelerate New Category Revenue growth,
- begin to reduce New Category losses,
- and de-lever the balance sheet to around 3 times net debt / EBITDA.

And as you will have seen from our full year results, we have delivered on all three areas, with:

- over 50% New Category Revenue Growth,
- close to a 10% reduction in New Category losses,
- and leverage just below 3 times.

As we said, this has given us the flexibility to be more active in our capital allocation.

As a first step we have announced a dividend increase and commenced a £2billion share buyback for 2022.

Tadeu will talk more about this later.

With these strong foundations, we enter the next phase of our journey - Faster Transformation.

New Category contribution to group revenue will continue to grow and is expected to more than double from £2 billion to £5 billion by 2025 as we continue to encourage more adult smokers to switch to our reduced risk products.

Leveraging our increasing scale and reducing losses, we

expect New Category contribution to group profit growth to accelerate.

And with our new, more active capital allocation framework, we are committed to delivering enhanced long-term value for shareholders.

With our strong momentum, we are confident in delivering on our £5billion New Category revenue - and profitability - targets by 2025.

We have built powerful Global Drive Brands in each category. Vuse is the No.1 vapour brand globally with a 34% category value share.

After the successful launch of glo hyper we now have an 18% category volume share in THP.

Velo remains the clear leader outside the US with a 35% global volume share of Modern Oral.

And our transformation has accelerated.

In these markets, which represent over half of our group revenue, our transformation is significant and further accelerated in 2021.

While our focus remains on New Categories we see significant opportunities Beyond Nicotine, leveraging our existing strengths and capabilities as consumers increasingly seek products offering wellbeing and stimulation.

We are building an ecosystem of capabilities in Beyond Nicotine.

In March last year, we entered a strategic R&D collaboration with Canadian cannabis licensed producer Organigram, alongside an associate investment.

In addition, our corporate venturing unit, B Tomorrow Ventures has now completed 17 investments since launch.

We will continue to invest through strategic collaborations, partnerships and bolt-on M&A to develop further opportunities Beyond Nicotine.

As we transform, we must deliver value to all our stakeholders.

We have a long track record of progress in ESG.

Our DJSI inclusion over the last 20 years is recognition of our performance - with BAT the only tobacco company in the World Index again this year.

And in 2021, we signed up to the UN-backed Race to Zero campaign, committing to net zero value chain emissions by 2050.

So, ESG is already deeply embedded across our organisation, in our ways of working, and in our culture.

We are well on our way to building A Better Tomorrow.

With our multi-category strategy and portfolio, we are uniquely positioned to drive the transformation of the industry - by reducing the health impact of our business.

This sits at the heart of our strategy, and is a deeply embedded commitment to society.

So if we win, society wins.

Thank you, and I will now hand you over to Kingsley

**Kingsley Wheaton, Chief Marketing Officer**

Thank you Jack.

Our unique, multi-category model is centred on the consumer, and leverages our established strengths and capabilities.

It is founded on our:

- cross-category consumer insights,
- deep understanding of product satisfaction,
- detailed market opportunity mapping,
- whilst being supported by digital tools and data analytics.

We believe that this gives us a significant competitive advantage, whilst offering the greatest opportunity to deliver tobacco harm reduction.

And why is that?

First, Consumers are not homogeneous they are different, with different preferences by geography, and even at different times of the day that is why we witness a lot of poly-usage between new categories.

Second, cigarette taste strengths differ by country we have talked in the past about the satisfaction gap between cigarettes and New Category products this means varying cigarette alternatives will have different appeal to smokers from country to country.

Lastly, regulation is not homogeneous across countries which affects which products are legal, how easy it is to communicate with consumers, and whether excise is levied and if so, at what level.

This is why we embarked on our multi-category approach from the outset.

As a result, we offer smokers the widest range of alternatives, providing the greatest opportunity to switch and therefore:

- the greatest opportunity for harm reduction,
- the largest commercial opportunity
- and the highest resilience to regulatory change.

And it is because of our multi-category approach that we have a unique view of the consumer.

We understand the key drivers of a consumer's choice to switch from cigarettes to New Categories products.

There are three primary drivers which account for well over half of this decision:

- First, it is essential that brands fit with their identity and values.
- Second, they want highly satisfying products.
- And third, consumers are looking for high quality products that they can trust, to reduce risk to themselves and others.

Taking insights one level deeper, we know that the relative importance of these drivers vary by category.

This well demonstrates the need for a multi-category approach, one that recognises that there is not just one product that satisfies all consumers.

Put simply – one size does not fit all.

Which is why, we have 3 global New Category drive brands

- Vuse,
- glo,
- and Velo

In these brands, we have built three powerful global drive brands, and a strong portfolio of satisfying products, that leverage these insights.



It is worth noting that both glo and Vuse have grown to become billion dollar brands in just a few short years.

And each of our brands has a clear ESG focus, which is important to our consumers and is also actively contributing to our group sustainability targets.

For example:

- We have already reduced plastic in our Vuse packaging saving 250 tonnes globally.
- We are transitioning from air to sea freight aiming to deliver 80% of all Vuse shipments by sea in 2022.
- And we have commenced take back schemes on New Category devices and vapour cartridges.

Finally, we are particularly proud that in May last year Vuse became the world's first global carbon neutral vape brand.

This is fully in line with consumers' evolving expectations of global brands – brands with purpose

And we are driving sustainability through the business with tangible progress across E, S and G.

In a few weeks we will release our 20th consecutive annual ESG Report... demonstrating our long-standing commitment to openness and transparency.

We are working through our value chain in our Race to Net Zero by 2050:

- from our work with farmers and wider supply chain on driving down carbon emissions
- to substantial changes in our own operations.

We are focused on delivering a positive social impact in our supply chain:

- with over 350,000 attendances at human rights training sessions,
- and support for our contracted farmers to diversify their crops.

And we are committed to robust corporate governance with tight controls and regular training around:

- Youth Access Prevention
- and the responsible marketing of our products.

We are incredibly proud that our efforts and performance in ESG have received much external recognition.

As Jack mentioned, this is our 20th consecutive year in the DJSI, and we are again the only tobacco company to be included in the prestigious DJSI World Index.

We were also recently named on CDP's Supplier Engagement Leaderboard, which rates how effectively companies are working with their suppliers on climate change – reflecting:

- governance
- targets
- scope 3 emissions
- and overall value chain engagement.

Turning now to science. Based on over 100 of our own studies, and 3rd party data across:

- Emissions
- Toxicology
- And the growing body of clinical and population studies

We believe our products are scientifically substantiated as reduced risk and that this science supports the role and use of these products in Tobacco Harm Reduction

The science shows, that for Vuse and glo:

- emissions are 90-99% below cigarettes
- with toxicology between 95% to 99% below.

And for Velo, similar studies show that it is even less harmful than snus.

And there is momentum building behind the acceptance of the reduced risk nature of New Category products.

More leading governments and institutions from around the world are recognising Tobacco Harm reduction.

And we are actively engaging with a broad range of stakeholders including Governments, Regulators and Public Health bodies, to promote responsible, science-backed and effective regulation.

So, through our multi-category approach, we are building consumer led brands with purpose, based on:

- Our deep understanding of consumers
- and our scientific and R&D capabilities.

We are leveraging our established strengths, including:

- our unrivalled distribution reach
- giving us direct consumer contact in 11 million outlets, every day.

And, the exceptional people we have right across the globe...with over 1,000 new hires at management level since 2019 in areas including:

- Science
- Innovation
- and ESG.

And we are fully embracing our digital transformation too, which is being leveraged across all our New Category Drive Brands, through social media and e-commerce.

Our media reach through strategic partnerships increased significantly to over 3 billion adult consumers driven by three major activations during 2021.

We now have more than 14 million contactable adult New Category consumers in our databases.

As just one example, Vuse is now number one in branded search traffic across the Top 5 vapour markets.

Our e-commerce business delivers three times more profitability per consumer than the same consumer in traditional retail – and they are more brand loyal.

Overall, we are blending our existing strengths and new capabilities to accelerate our transformation and create a unique competitive advantage.

With strong brands and great products, we are seeing a significant year on year improvement in adult consumer conversion rates

While there are a number of ways of assessing consumer conversion; we use 3rd party Kantar tracker data based on a randomised sample of between 500 to 1,000 adult consumers per month.

We believe that this method is both statistically robust and market representative.

In THP the launch of glo Hyper has been a game changer. Our conversion rates in our top 5 markets, which represent over 80% of BAT's volume, improved by 8 percentage points. Glo is

now at parity with the category average as weighted by peer volume.

In vapour, Vuse conversion rates further improved by 6 percentage points and widened the gap with the category average. This was achieved whilst successfully migrating Vype to Vuse in 3 of our top 5 markets.

These conversion rates demonstrate the success of our products with adult consumers, and also the excellent progress made by reduced risk products more broadly in encouraging smokers to switch.

As a result, we have continued to drive strong share gains across all three categories in our largest markets.

In deploying our multi-category portfolio and significant investment, we rigorously prioritise across categories and geographies taking into consideration:

- Our understanding of the consumer

As well as how:

- regulatory frameworks,
- excise structures
- and the distribution landscape, differ across our global markets.

This ensures we allocate our resources behind the greatest opportunities to switch smokers and generate returns.

As a result, Vuse has been the focus of our New Category strategy and investment in the US.

Vapour is the largest US New Category by far, both in terms of consumer numbers and value and is forecast to be the key driver of New Category value growth over the next 5 years.

Vuse has performed particularly well, closing a 27 percentage point value share gap in just 2 years and reaching a value share of 35.9% in December, just point-one percentage point away from overall category leadership.

In 2021 Vuse was comfortably the fastest growing vapour brand in the US by both value and volume share – a growth powered by bringing together locally relevant execution capability with Vuse’s global creative expression and positioning.

Vuse has continued to build scale through strong revenue and share growth, and in the second half of 2021 became profitable at the category contribution level for the first time.

This was driven by:

- Improved trade margins, including the benefits of our RGM digital pricing tool,
- Increased automation driving a reduction in cost of goods,
- Improved consumer acquisition costs enabled by our marketing spend effectiveness tools,
- And higher pricing.

The growing strength of Vuse’s brand equity has allowed us to increase prices on both devices and consumables during the year, while maintaining strong share momentum

This is an important milestone on our pathway to New Category profitability at a group level by 2025.

Turning now to our ENA region, where our transformation is well underway.

New Category revenue already represents over 25% of total revenue in ten markets, with many well ahead of this.

ENA is a superb example of our multi-category strategy in action, with all three categories contributing to our transformation each growing revenue by over 40% in 2021.

In Vapour, Vuse is the clear value share leader in ENA, and is the No.1 brand in 7 markets, which together represent the vast majority of the total vapour industry in the region.

We successfully completed the migration of Vype to Vuse across the region, achieving an average 99% retention rate across our priority markets.

ePod has been the main engine for growth, with limited edition products customised to local markets and digital connectivity being piloted in the UK.

With our enhanced capabilities we continue to expand our digital consumer engagement, with

- Our 12 e-commerce sites driving 3.5 million visits
- And exclusive digital services including subscriptions, loyalty programmes and greater customisation.

ENA has become our THP growth engine, with revenue up 167 percent, driven by the success of Hyper.

Our consumable volume almost tripled to reach nearly 10 billion sticks, driving glo's category volume share to over 20% in 5 key markets.

In addition, glo's city volume shares are above national shares in key markets including in Moscow, where at 5% share of total nicotine, it is more than double its national share in Russia.

ENA now represents more than 50% of total BAT THP volume.

Given that glo's category volume share is fast approaching our share of cigarettes, and its higher gross margin per stick, we expect glo to be a key driver of profit growth in the region.

And in Modern Oral, we are the category leader in 15 of 17 markets in ENA, in both established oral markets in Scandinavia and more broadly in new oral markets across Europe.

In 2021 we continued to extend our leadership with strong volume and revenue growth, both up close to 50%.

Lyft Lab in Sweden is a great example of where we have co-created with consumers, to better meet their specific taste preferences.

In conclusion, we are uniquely positioned with our multi-category portfolio to offer smokers the greatest opportunity to switch to reduced risk products.

And it is not only working but accelerating.

We are leveraging our established strengths, new capabilities and global New Category drive brands to transform our business.

This transformation is well underway, and we are confident in delivering our £5billion New Category revenue and profitability targets by 2025 as we enter the next phase of our journey – a phase that is all about Faster Transformation.

Thank you and I will now hand over to Tadeu.

**Tadeu Marroco, Finance and Transformation Director**

Thank you Kingsley.



As Jack and Kingsley have both demonstrated, we are passionate about our transformation - which will create value for all our stakeholders and we are committed to generating superior shareholder returns by building A Better Tomorrow.

And as we have already set out, in 2021 we delivered a pivotal year in our journey to transform BAT:

- We have accelerated New Category revenue growth,
- New Category losses reduced for the first time,
- And we reduced leverage to below 3 times Net Debt / EBITDA - giving us the flexibility to commence a buyback.

Our pivotal year was delivered alongside robust results in 2021.

Strong constant currency group revenue growth - up nearly 7% - was driven by:

- accelerated New Category Revenue growth up over 50%,
- and continued value growth from combustibles.

At constant rates, adjusted profit from operations grew by over 5% and EPS growth of 6.6% was at the top end of our mid-single figure growth guidance for 2021 - having absorbed the net impact of a number of one-off factors.

Our New Category loss reduction of circa £100m was delivered alongside a further almost £500m increase in investment in our transformation.

Our New Category profitability improvement was driven by:

- improved trade margins, with a 31% improvement in vapour
- over £220m productivity savings through increased automation and reduced cost of goods sold
- and a significant improvement in our cost of consumer acquisition across all three brands - leveraging our Marketing Spend Effectiveness tools.

With Vuse now profitable in the US, driven by progress on all

three levers, we have reached an important milestone - demonstrating our confidence in our pathway to New Category profitability by 2025.

Through Quest we will accelerate the delivery of A Better Tomorrow.

Quest is our organisational and business transformation programme, with five pillars.

Quantum is simplifying the Organisation and generating the resources to be reinvested in our New Categories.

Over the past 2 years, we have delivered around £1.3 billion of total savings - reaching our £1 billion target, 12 months ahead of plan.

We now expect to deliver at least £1.5 billion by end of 2022.

Innovation is a key driver of our transformation, with our strong IP and faster speed to market.

We have reduced headcount by around 10,000, while at the same time adding new roles - bringing additional capabilities for the future.

Accelerating our ESG performance remains a key focus for the Group as we continue our journey to build A Better Tomorrow.

Finally, Technology & Digital underpin our transformation.

Through Digital Marketing initiatives, we are increasing engagement with adult consumers - and we are leveraging digital tools and capabilities across the business.

We have delivered an average cash conversion in excess of 100% over the last 4 years and have successfully driven deleverage at an average rate of 0.4 turns per year - at

constant currency.

As a result, we reached our year end leverage target, with Net Debt to EBITDA of 2.99 times.

With strong profitability, cash conversion in excess of 90% and leverage within our 2-3 times target Net Debt / EBITDA corridor we now have the flexibility to be more active in our capital allocation - to deliver long-term value for shareholders.

This will include:

- continuing to grow the dividend,
- and maintaining leverage within our target corridor of 2-3 times.
- Whilst also considering potential bolt-on M&A opportunities,
- and share buybacks to enhance shareholder returns.

The Board will prioritise these capital allocation opportunities, while taking into account macro and fiscal factors, and potential regulatory and litigation outcomes.

As a first step, we have announced a dividend increase of 1% and commenced a £2billion share buyback for 2022.

With these strong foundations, we are now embarking on the next phase of our journey towards building A Better Tomorrow - Faster Transformation.

We have accelerated our progress towards our New Category targets of £5billion revenue - and profitability - by 2025.

We are building an ecosystem of capabilities in Beyond Nicotine.

And as we return to our medium-term outlook for:

- Revenue growth of 3-5%
- And High-Single Figure EPS growth, we will deliver robust

financial returns.

With our continued focus on cash, we expect to generate around £40billion of cumulative free cash flow over the next 5 years a substantial proportion of our current market capitalisation.

I hope you can see for yourselves how passionate we are about this journey.

As we have shown, our transformation is well underway. BAT is changing rapidly, powered by our:

- unique consumer insights,
- strong brands,
- established capabilities,
- and great people.

We are committed to transforming BAT:

- To a high growth
- Multi-category
- Consumer led, CPG
- With a reduced impact on public health
- and ESG at its core.

Creating value for all our stakeholders.

Thank you very much for listening - and we now look forward to taking your questions.