

# Multi-Category strategy delivers growth in difficult times

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## Fixed Income Debt Investor Update Call

**Tadeu Marroco** – Finance Director | **Neil Wadey** – Group Head of Treasury

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# Important Information



## Forward-looking Statements (continued)

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# Building A Better Tomorrow

## A Defining Corporate Purpose



To reduce the **health impact** of our business by offering a **greater choice** of enjoyable and **less risky** products for our consumers

## Good Progress in 2020

- ✓ Non-Combustibles now 10% of revenue
- ✓ Additional 2.7m\* Non-Combustibles consumers
- ✓ Invested additional £250m\*\* in New Categories
- ✓ Set ambitious 2025 environmental targets
- ✓ Set ambitious 2030 Carbon Neutrality target

# Delivering for Today & Investing in the Future

## Clear Commercial Priorities

**STEP-CHANGE IN  
NEW CATEGORIES**

**COMBUSTIBLE VALUE  
GROWTH**

**SIMPLIFY THE COMPANY**

## Good Progress in 2020

- ✓ Growing share\* in New Categories
- ✓ New Category revenue\*\* +12.7%
- ✓ Cigarette price/mix\*\*\* +8.5%
- ✓ Group revenue\*\* +2.4%
- ✓ Quantum savings c.£240m YTD
- ✓ Navigating COVID with agility

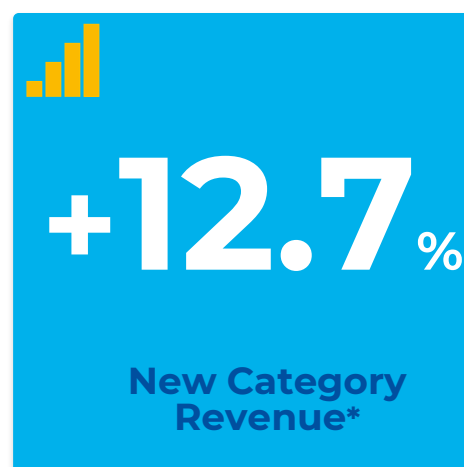
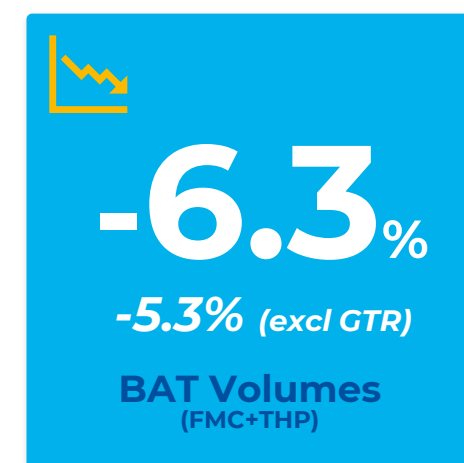
**Stronger, Simpler, Faster**  
**Commitment to Deliver**



**Our people have gone above and  
beyond to deliver growth**

# H1 2020 RESULTS:

## A strong performance in a challenging environment



# Successfully navigating a challenging environment

**COVID revenue\* headwind c.4% H1; c.3% expected FY**



## Developed Markets (c.75% of Group revenue)

**Consumption resilient;  
stable to slightly higher**

- › Good pricing
- › Little evidence of accelerated downtrading

**Volume share +30bps**

## Emerging Markets (c.25% of Group revenue)

**Volume impacted by  
lockdown severity & duration**

- › Deeper lockdown in some markets
- › Reduced illicit trade in others
- › South Africa sales ban

**Volume share +70bps**

## New Categories

**Category growth slowed;  
now recovering**

- › Face-to-face consumer activation restricted
- › Switch to Digital comms
- › E-commerce revenue up >2x

**Growing share\*\***

**Global Travel Retail (GTR) substantially impacted**

# H2: COVID uncertainty remains

## Navigating COVID with Agility

- Little evidence of accelerated downtrading to date in DMs
- Lockdown restrictions slowly easing
- All factories now fully reopened
- BCPs maintain supply continuity



## GTR Substantially Impacted

- Planning for some recovery end Q4

## South Africa Sales Ban Maintained

- Court hearing delayed to August
- We have a strong case
- Planning for a positive outcome

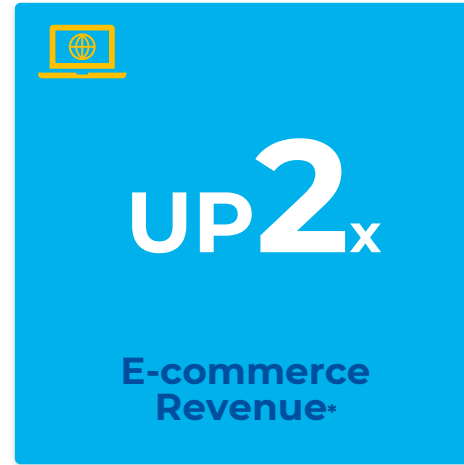
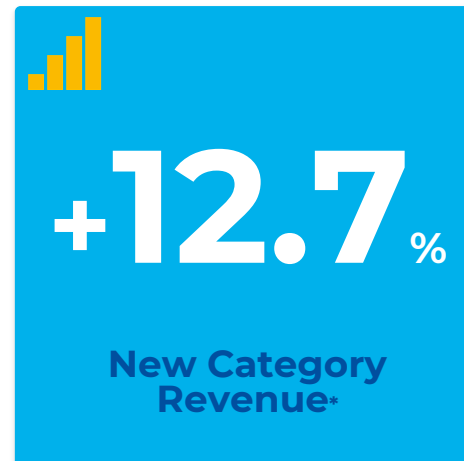
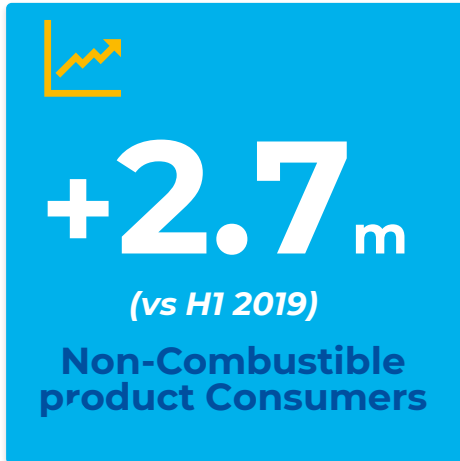


## COVID Uncertainty Remains

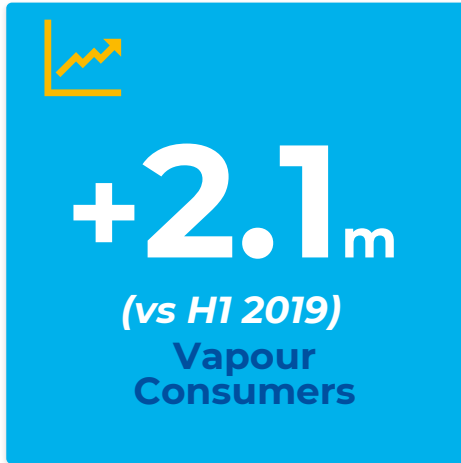
- Planning for sequential recovery through H2
- Environment remains uncertain




# New Categories: Consumer acquisition drives growth




# Vapour: Vuse/Vype driving strong growth











# THP: Growing volume share in Japan and ENA

 **+70** bps  
to 18.9%  
Japan Total Nicotine  
Volume Share

 **5.4%**  
glo Japan  
June Share

 **0.7%**  
glo Hyper Japan  
June Share

 **2.8%**  
glo Moscow  
June Share

	Jun YTD	YTD vs. FY 19*
	5.3%	 +0.3pp
 Moscow	2.3%	 +1.3pp
	0.2%	 +0.1pp
	0.7%	 +0.5pp

**THP revenue down -12%\* due to:**

- > Japan excise harmonisation
- > glo Sens underperformance



# Modern Oral: 71% growth\* in an exciting category

**#1**  
Scandinavia  
Volume Share

**+3.6** pts  
-300bps L3Mths  
US Modern Oral  
Share

**+71%**  
Modern Oral  
Revenue\*

Portfolio gaps limiting share growth in US

Encouraging pilots in APME & AMSSA

› COVID impacting activations

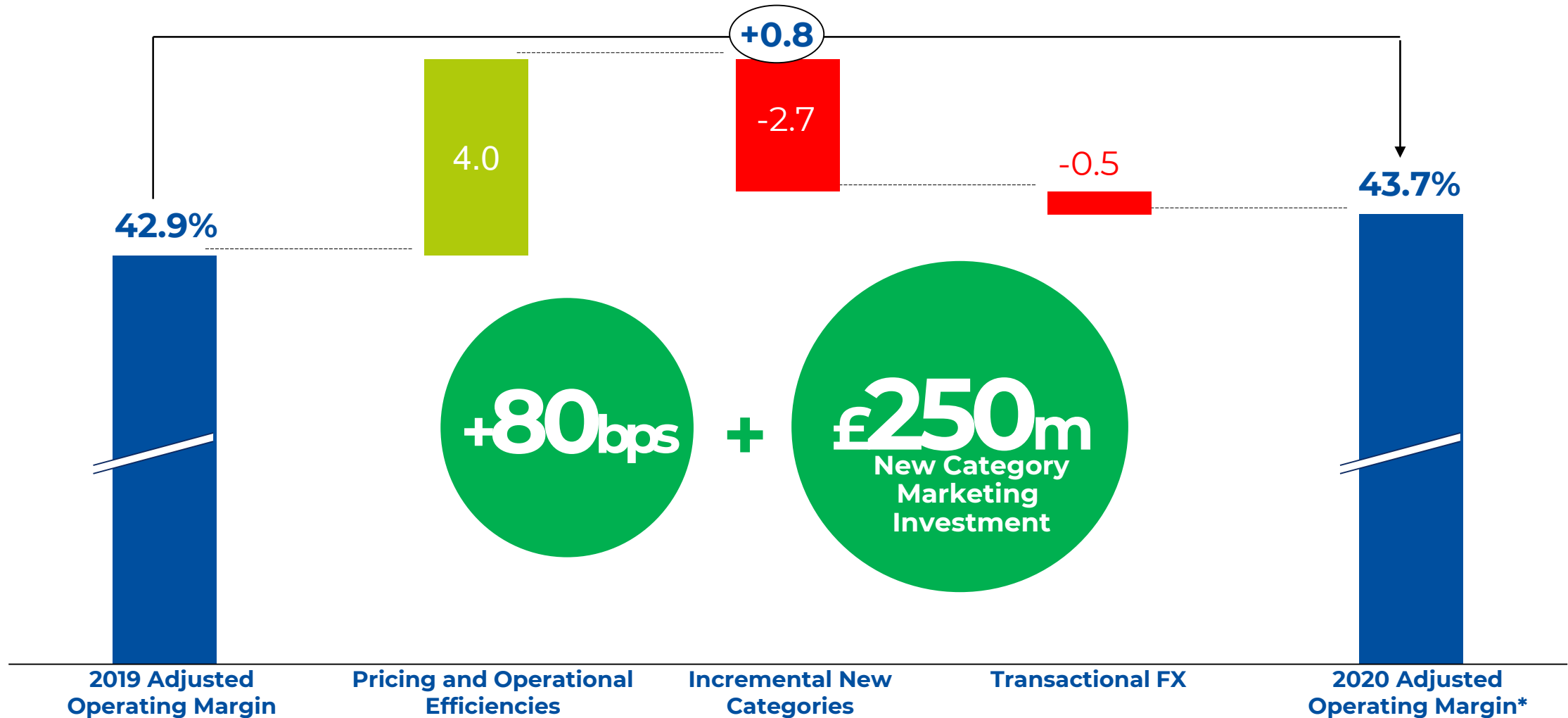
	Volume share Jun YTD		YTD vs. FY 19**
	9.3%		+3.6pp
	3.9%		+1.7pp
	72.6%		+17.1pp
	53.4%		+7.1pp
	14.2%		+3.1pp



\* Constant currency revenue growth. Volume Share growth YTD share v FY19. See Appendix A1, A2. Scandinavian volume share relates to EPOK and LYFT brands. \*\* Volume share v FY19. US(MO) – Jun Marlin Vol. Share of Total Modern Oral; Sweden - Jun Nielsen Vol. Share of Total Oral; Denmark - Jun Nielsen Vol. Share of Total Oral; Switzerland - Jun Scan Data excl. Co-op Vol. Share of Total Oral (SPAR & Top CC data missing from Jun); Norway - Jun Nielsen Vol. Share of Total Oral;

# OPERATING MARGIN: Releasing funds to support the growth agenda

New Categories investment +c.£250m; margin +80bps



\* On an adjusted current rate basis. See Appendix A1.

# 2020 H1 RESULTS:

## Our Multi-Category strategy delivers growth in difficult times



**Delivering revenue, profit and earnings growth\* in exceptional circumstances**



**Multi-Category consumer acquisition drives revenue and share growth\*\***



**Excellent Combustibles value and volume share growth**



**Navigating COVID supported by our diverse geographic footprint**

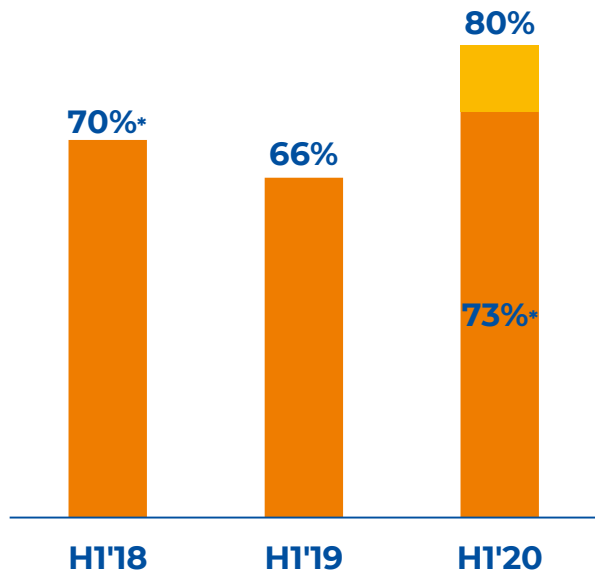


**Committed to delivery and our 65% dividend pay-out ratio**

# CASH AND DELEVERAGE:

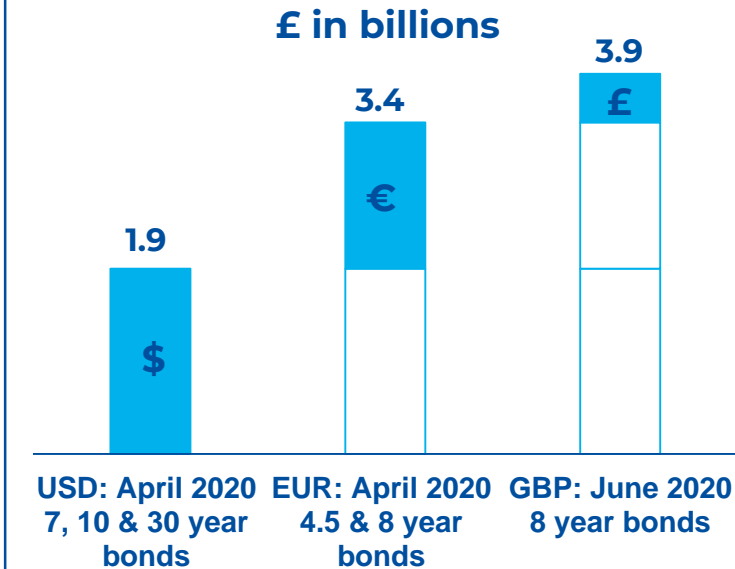
Strong liquidity position >90% operating cash conversion

## Strong H1 Operating Cash Flow Conversion



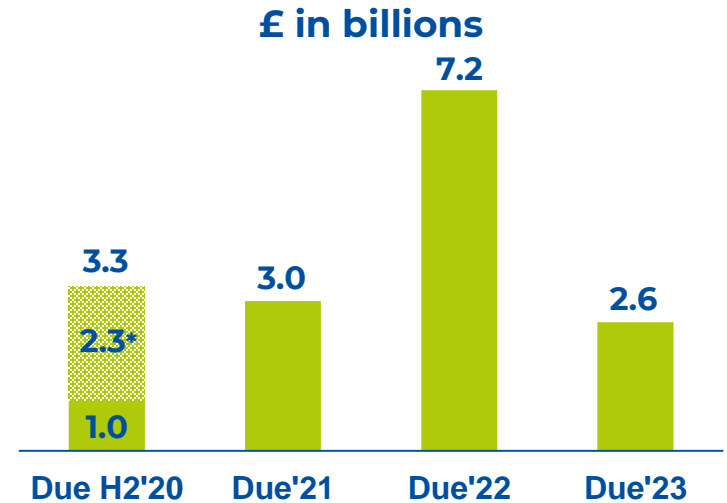
Cash generation led by **Combustibles**

## Strengthened Liquidity in H1



**£3.9bn** Bond issuance  
**£4.8bn** 12-18 month Bi-laterals  
**£6.0bn** Renewed RCF: 1 & 5 year term  
 21 banks; No financial covenants

## Manageable Maturity Profile



**8.9yr** Average Maturity  
**88:12** Fixed:Floating  
**59:24:11:6** \$:£:€:Other

\* Repaid in July 2020

\* H1 2018 normalised for MSA impact in 2018. H1 2020 normalized for US excise deferral and COVID related inventories.

# Committed to dividend growth & 65% pay-out ratio



➡➡ **c.£650m Capex = Depreciation\***

➡➡ **Working Capital efficiencies**

➡➡ **£1bn Quantum savings expected 2020-2022**

➡➡ **Deleverage (Adj Net debt/Adj EBITDA\*\*)**

- Around 3x expected by end 2021
- 1.5x-2.5x long term corridor

➡➡ **Dividend**

- 65% pay-out ratio growth in GBP

➡➡ **BAT Ventures; partnerships/small scale M&A**



# Appendix

# Appendix

## **A1: Adjusting (Adj.)**

Adjusting items represent certain items which the Group considers distinctive based upon their size, nature or incidence.

## **A2: Constant currency**

Constant currency – measures are calculated based on a re-translation, at the prior year's exchange rates, of the current year's results of the Group and, where applicable, its segments.

## **A3: Price/Mix**

Price mix is a term used by management and investors to explain the movement in revenue between periods. Revenue is affected by the volume (how many units are sold) and the value (how much is each unit sold for). Price mix is used to explain the value component of the sales as the Group sells each unit for a value (price) but may also achieve a movement in revenue due to the relative proportions of higher value volume sold compared to lower value volume sold (mix).