UBS Global Consumer and Retail Conference

Fireside Chat with Chief Executive, Tadeu Marroco

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CORPORATE PARTICIPANTS

Tadeu Marroco
Chief Executive

UBS HOST

Faham Baig
Sell-side analyst, UBS

Faham Baig, sell-side analyst, UBS

I'm the global tobacco analyst at UBS, and I'm very pleased to welcome BAT's CEO, Tadeu Marroco, to this year's Global Consumer and Retail Conference in New York. Tadeu, thank you for joining us.

Tadeu Marroco, Chief Executive

It's a pleasure.

Faham Baig, sell-side analyst, UBS

The format of this session will begin with a brief introductory presentation by Tadeu, followed by questions from myself, before we open it up for Q&A from the audience. You can enter your questions on the application.

Tadeu, I'll hand it over to you.

Tadeu Marroco, Chief Executive

Okay. Thank you, Faham. So, good morning, everyone. Faham, thank you very much for inviting me here and have the opportunity to talk to you and the audience about our, BAT's, journey on our transformation.

So, I have some slides here to go to go through. First, I would like to call your attention for the disclaimers, and if I can move this forward?

Well, yes, on Slide 2, on Slide 3.

Anyway, look, in 2023, BAT performed in line with our guidance, and this is basically a year where we showcase the resilience of our group in terms of our global footprint and also the multi-category portfolio that we have in the group.

Our new categories are now profitable, two years ahead of the original target. We have made very good progress across all the key focus areas, and I'm sure that we'll have time to talk this through during the next few minutes. And what we are trying to do is basically to deliver the right balance between growth and sustainable returns for shareholders.

We have strong cash flows, and we are committed to reward shareholders through enhanced financial flexibility.

So, in 2023, our revenue was above 3%. We have an organic adjusted operating profit of almost 12%, with an adjusted EPS reported at 4%, organically at 5.2%. I would like to call the attention that, in our case, we don't adjust for transaction FX. And in 2023, we had a 2.5% headwind on transaction FX, which is included in those numbers that you are seeing there.

Our new category revenue grew by 21% last year, and we have a very strong performance in markets in the regions outside the U.S., with APMEA and AME, the other two regions, delivering combined and double-digit revenue growth and high-single-digit adjusted profit growth.

We are now reaching almost 17% of group revenue in the smokeless side of the business. We have grew 170 basis points against the previous year. And more interesting, when you deep-dive into the markets where we are present – we are present today in 76 markets selling new categories products – one-third of those markets, around 24 markets, we have achieved more than 30% of revenues in smokeless products.

If you see here in the right of this chart, we managed to move from a loss position in new categories from £1.1 billion in 2020 to slightly profitable last year. Last year, 2023, we contribute with £400 million in the P&L of the group coming from the new categories. So, this is a testament that new categories become more and more relevant for the group outlook (ph) in terms of revenue growth and operating profit growth.

We have defined what are the priorities when I took over the CEO in order to sharpen our execution. So, you can see here in this slide some of the latest developments in those priorities. The first one I spoke about in terms of profitability of the new categories. This is all about being more focused not just on the revenue growth, but also on the bottom line and the impact on the profitability of the group.

We have clearly done some exercise in terms of improving our resilience in the U.S. in terms of our U.S. combustible business through economic cycles and regulatory changes, and we have put in place commercial plans. And as a consequence, we're already seeing very good early signs on that growing something like 40 basis points of market share since January 2023 to December 2023 and 20 basis points of value share in the same period.

In THP or HP space, we have concluded settlement in terms of our patent, which bring in more focus for our execution. We also have enhanced our previous device and previous consumables, and we are now in line in – we are now on track to deploy all those new innovations across the different markets.

We were the first to introduce a known tobacco product, our herbal tobacco-heated product. And this is an important feature to deal with flavors ban that came in place from the end of last year in Europe. And some of the markets are now in the process of rolling these out. So, this has been well-received by consumers. And these, together with the improved device, enhance our level of competitiveness compared with what we had before.

The other focus area is around to be much more foot-fronted in the way that we want to advocate for tobacco harm reduction agenda and being basically much more proactive based on the science evidence that we have currently to prove that these products have a much lower risk profile compared with combustibles.

And finally, we have been doing a lot of exercise in order to create flexibility, capital flexibility for the group. You probably have heard about some divestments that we have done recently in ITC, which result in us reestablishing our buyback program and on top of our progressive dividend.

And we are focused also on achieving operational and data excellence. We have a very successful track record in terms of taking cost out of the group. We made big improvements already in 2023, with something like £0.5 billion pounds in cost savings last year. And we are well on track to deliver another £1 billion of savings for the three years between 2023 and 2025.

And all of that underpinned by a more collaborative and inclusive culture, which has been reinforced by the relaunch of the values of the group.

In terms of our cash generation, we have for the fourth consecutive year converted 100% of profit into cash. This means that over the last four years, we have been able to return back £26 billion in cash to our shareholders via dividend, and some of that in buybacks. And also, we expect to generate another £40 billion of free cash flow over the next five years.

We have a very cash-generative company. You saw last year we generated above £8 billion in free cash flow. And we use that to manage the leverage. And now that's reaching 2.6x.

For sure that we don't want to compromise in the short term in terms of the investments to reach our midterm goal to provide sustainability for the company. So, as a consequence of that, we note that the macroeconomic situation in the U.S. is difficult. So, we have now provided a three-year guidance reflecting this difficult year in 2024 and improving as we go along this three-year period towards our guidance of 3% to 5% organic revenue growth and mid-single-digit adjusted profit operating growth by the end of the period.

And finally, in the February year-end results announcement I presented the revised strategy for the group, where we clearly indicate the vision to reach a 50% smokeless revenue vision by 2035 via switching the smokers towards a better choice of these potentially risk products that we have in offer today.

And this strategy, this purpose, this vision, this mission is supported by three defined pillars – quality growth, sustainable future, dynamic business – and all underpinned by the values that I was referring to. What it does for the group is to create a line of sight. So, every single employee in BAT will be aligned in terms of what we want to achieve and how it reflects in terms of our key performance indicators that we are setting for different parts of the business. All those measures or initiatives that you see in this chart here will be followed by clear performance indicators so we can track our performance, moving forward.

And with that, I'm sure that we can reach out to sustainable returns for our shareholders in the medium term.

So, that's what I had to say as an introduction. I think that I'm going to stop here and have more time to answer questions.

Faham Baig, sell-side analyst, UBS

Thanks, Tadeu, for the in-depth presentation. My questions are going to focus on the six areas you highlighted last year to evolve and accelerate BAT's transformation.

Before we go into these, Tadeu, you suggested that the transformation will need to be supported by a more collaborative and inclusive culture. How would you describe the previous efforts and culture at BAT? And how are you looking to evolve this for a better tomorrow?

Tadeu Marroco, Chief Executive

Look, we have to recognize that the world today is much more complex than before. We have geopolitics challenge. We have technological challenge, climate challenge. In our case, we also have regulatory challenge. So, we need really the strength of every single employee in the company in terms of giving them the space to speak their minds and bring ideas and try to collaborate. So, that's the first point.

The second point, we are going through a very comprehensive transformation as a business. We came from 100 years where, for example, innovation was not a feature. If you see the combustibles business, we had an innovation back in the '50s, we have capsules introduced in the early 2000s, and that's it. And all of a sudden, we have to create a business that is innovation obsessive, just to give an example.

This means that we have to create new capabilities and bring more talent from outside, talent that could enhance our skill sets in areas like, for example, intellectual property, in terms of science, in terms of innovations, and so on. So, we need to create a culture that could embrace them. And again, that they can contribute and speak their minds.

So, that's exactly what we are trying to do restating the values of the company, because I'm of the view that together we can be much stronger than work in isolation.

So, I think that that's, I would say, the major difference in terms of focus of the group, moving forward.

Faham Baig, sell-side analyst, UBS

Very good to hear. You've suggested that BAT's multi-category strategy is right, but the company needs to sharpen execution. From the outside, to execute behind four or five categories across several markets simultaneously does not sound straightforward. How are you looking to set those priorities and incentivize employees to ensure better results?

Tadeu Marroco, Chief Executive

First of all, we were the company that on the onset of this ambition to transform into a more less-reliant company on the combustibles, to adopt the idea that these needs should be done through a multi-category, as opposed to one category, one size fits all. And we knew that since the beginning, because we knew that consumers were different, they have different tastes. And also, the regulatory environment is different across the different markets.

Now we proved to be correct, and we have seen more and more consumers poly-using this product. We've seen the different markets for consumers using tobacco-heated products, at the same time using vapor or using nicotine pouches and so on.

So, we were right in adopting this strategy. But clearly, the strategy was more complex, was more costly, and more lengthy. That's why we came to a point in time that we were reaching £1.1 billion loss in the P&L, because we were trying to develop those three global brands at the same time and creating all these new capabilities that I was referring to before.

So, clearly, that is and was the right strategy for us to go for.

At the end of the day, I don't think that looks very much complicated as you suggest, because the consumers are the same. We are dealing with consumers that want to use nicotine. But there are clearly new ways of using this that is potentially much less risky.

So, what is important is for the markets to know the role that they have on this transformation. Because as I said before, regulatory environment is still very incipient. It is still evolving. So, you have clearly markets today that we cannot sell any of these products, and we have markets that are truly embracing the tobacco harm reduction. You take Sweden, for example. They are about to be nominated the first European market to reach risk-free, with an incidence of cigarettes around 5%. They have currently something like 5.6%, at the back of a massive reduction in terms of lung cancers in Sweden and being the lowest incidence of male cancer in Europe.

So, what we have done is creating a kind of market archetype, where we define exactly within BAT what are the roles that each market has, and we have created key performance indicators so everyone understands that if their role, for example, is to extract as much value as possible from combustibles or if their role, in the other extreme, is pretty much focused truly fully on the categories that we are now deploying.

So, that's a way to minimize the complexity.

Faham Baig, sell-side analyst, UBS

Good. Now, the reduction in new category losses was two years ahead of the original target. What areas of investments or savings surprised more positively compared to the original plan?

Tadeu Marroco, Chief Executive

There's no doubt that when you start gaining more scale, you have massive improvements on your cost side. So, we managed, for example, to move a lot of manual tasks into automation, with big improvements on the cost side.

Also, something that we have observed, as you get more relevant in the market with your brands, you have more negotiation power with the trade, for example. And then you can move from percentage of revenue to pay for performance, with some improvements in trade margins.

Surely, when you have more years deploying those and activating those brands, you learn more. So, marketing spend effectiveness is another area.

And finally, I think that I would like to highlight the revenue growth management that we were already using in combustibles that we start using also in those new categories, giving more chance to optimize pricing in those areas that we saw opportunities.

So, when you pull all these together, these are, I would say, the major vectors behind the drive on those categories.

Now, in any single moment – these are consolidated numbers. In any single moment, you'll be seeing markets where those categories has already been deployed two or three years and, hence, are in a positive territory, and some that we have just started. So, out of the 76 markets that I was referring to, we have already more than 20 markets in a profitable position in the group. And if you see the top 10 markets that account for 75% of our revenue, we have moved in terms of a contribution, category contribution, which is equivalent to operating margin, from minus 20% to plus 25% and the gross margin getting very close to 6%. As you know, the gross margin on cigarette is around the 6% to 8%.

Ultimately, what we want is to make indifferent, financially speaking, to sell any of these products vis-à-vis what we have today in cigarette, and that is the ultimate goal. And I think that we can get there.

Faham Baig, sell-side analyst, UBS

Okay. Now, a third area of focus is the highly talked about U.S. market. Over the past five to six years, the industry has passed through significant price increases and witnessed rising returns. What do you see as the volume pricing and operating profit outlook for the U.S. combustibles business over the medium term?

Tadeu Marroco, Chief Executive

We need to put the movement in the U.S. into perspective, because probably it was a very unique situation around the world in terms of a massive U-turn from the consumer point of view and where consumers were fully supported at federal and state level at the time of COVID, without being able to spend much. So, a lot of, in our case, consumer moments to use the product. And all of a sudden, a market that usually has a secular decline around 45% was flattish to actually improving in 2020.

And this whole thing make a massive U-turn with all this support being withdrawn in the same time and at the same time that we were seeing a massive spike in terms of inflation, which makes their purchase baskets much more difficult or challenging for them. And also, interest rates impacting credit card use, impacting mortgage.

And so, we are still facing that moment where salary inflation hasn't catched up yet for these higher levels of price, and the interest rate is still being impacting in terms of discretionary expense that they have. So, we expect these macroeconomics – and macroeconomics is the major reason why we are seeing the increased level of decline in cigarettes.

The other element that we are aware of is the illicit, more than disposable, in vapors, products that hasn't been properly regulated and today represent 60%

of the vapor market in the U.S.; clearly, something that we expect the regulators to be much more active and proactive on this space specifically.

But these are the two major drivers behind what you see.

If you ask me what is the new norm – because both of them, I think that we'll be seeing improvements as we go along – first, the macroeconomics normally works in cycles. So, today is a difficult one. As soon as the interest rates starting coming down – we can speculate when it will be, probably more towards the second half of the year – the consumer confidence starts to rebound. We know that there is a correlation between consumer confidence and sales of cigarettes, and the whole thing starts moving in the right direction.

And we are also expecting in the different agencies of the government – the FDA and the states – and what we have seen more recently, state legislation, that the enforcement around these illegal products in vapor should start to be more relevant and more impactful in the market, which we haven't seen so far.

So, when we have all these more in the medium term, I would expect the market to normalize, maybe not the 4% to 5%, something like 5% to 6% decline, as a recognition that we have more and more consumers of cigarettes poly-using in the U.S.

Faham Baig, sell-side analyst, UBS

That's helpful. And to BAT specific, there's been a lot of buydown activities in the U.S. in the near term. But if we think about it for the next 12 months, what key indicators are you focusing on as BAT rebuilds competitiveness in the U.S.?

Tadeu Marroco, Chief Executive

We are making some adjustments in terms of the combustibles business on our commercial plans. We have done most of it already in 2023. We have – what we noticed when the economic cycle turned into a much more challenging environment, that some of our brands were not resilient enough to that. Our portfolio, the portfolio range is fantastic in terms of the key brands that we have. We don't have any issues in the extreme of the portfolio. Natural American Spirit, we actually laddered up and continue to grow share. It's the only brand in the U.S. market that has never seen any discount. And it's now reaching 3.2% of the market share.

We also see Lucky Strike, one of the most successful launches in the U.S. market, reaching above 4% of market share.

And then we have brands like Newport, that is a very important and successful market in the U.S., that has no laddering. So, we have introduced some laddering in Newport, and also support some channels where we notice consumers migrating to.

So, as a consequence of that, we have increased our sales force and we increased coverage. And those plans has resulted in us having already making good strikes in terms of value and market share since January of last year.

So, these are basically – what we want to do in 2024 is basically consolidate this program so we can get out of this macroeconomic downturn in a better way than we're getting.

Faham Baig, sell-side analyst, UBS

Okay. And the U.S. vapor business was an important contributor to the £5 billion new categories revenue target. Do you believe the business can grow without enforcement on the disposables?

Tadeu Marroco, Chief Executive

Definitely, it will make it much challenged for the U.S. vapor, legal vapor, to grow without enforcement. Because if you think about the total size of the vapor business in the U.S., it's around $10 billion, in which we are participating $2 billion out of the $10 billion, and we have a bit more than half of that. These are the legal closed systems. The 60% I was referring to is this illegal product that actually is the only part of the vapor segment now growing, and the other 20% is open systems that also needs to go through PMTA to get final approval on that.

So, this definitely makes the £5 billion target for the end of next year much more challenging, not to mention the fact that we pulled out from Russia, which was an important market for us in terms of new categories. That makes, if anything, the target of £5 billion even more challenging to be achieved.

Now, we have a good prospect outside the U.S. in tobacco-heated products. I just mentioned that our level of competitiveness is increasing, which gives us much more better prospectives in that category. We are doing extremely well in modern oral, mainly outside the U.S. again. And we have high hopes that the authorities, mainly when the FDA starts concluding the vapor process in terms of PMTAs, to have a kind of step-change in terms of enforcement, not to mention the fact that we are seeing some states taking the matter in their own hands and passing legislation that could have an interesting impact in the medium term.

For me, more relevant than a specific number in a specific period of time is to have the brands growing in a sustainable way and in a profitable way. Not just about the top line, like I said before, it's also about the bottom line. And this is part of the refined strategy. When we talk about high growth, it's exactly that.

Faham Baig, sell-side analyst, UBS

Okay. Moving to the heated tobacco category, you highlighted category growth slowed in 2023. What markets and consumer dynamics are behind the slowdown? And what are your forecasts for category growth over the next couple of years?

Tadeu Marroco, Chief Executive

We saw the whole category reducing the pace of growth from 20% to 13%, and I think that there are two components there.

In a less extent, surely the introduction of flavor ban in Europe is not helpful. Although, like I said, we have introduced a new product there which is performing quite nicely. We have something like 45% of the consumption of tobacco-heated product in Europe that is flavored. And as the market starts introducing the legislation that was approved in October last year, we will see a bit of a challenge.

In our case, in all those markets that has introduced the flavor ban in Europe, our Veo product, which is this herbal, non-tobacco product, managed to keep all the shareholding that we had, and we were overexposed to that. So, our share of flavors in Europe was more than 50%, above 50%. So, we kept all that. And in some markets, we actually are seeing some overall increase in shares.

But this could be a potential driver for slowing down the category. But I think that more important than that is the poly-users that we are seeing in different markets. Consumers that use tobacco-heated product, but at the same time they use modern disposables or vapor in general or start using modern oral, because modern oral is gaining actually traction in a number of markets without even tradition in oral tobacco. In markets like U.K. and Poland, for example, that there was no tradition, today something between 1% to 2% of total nicotine in those markets is already at modern oral.

So, we are seeing more and more poly-users, and this could be behind the fact that the category is slowing down the growth. But it is still a very important category.

Faham Baig, sell-side analyst, UBS

And within this, BAT's recent efforts have included price laddering, launch of glo Hyper Pro, Veo consumables, and the patent settlement. Just taking a couple of these in turn, are pricing decisions helping to recover share? Or could this entice increased competitiveness, as we see in Japan today?

Tadeu Marroco, Chief Executive

Japan is a very particular situation. We decided to reduce our price in tobacco-heated products because we see a lot of price competitiveness happen on the combustibles side and we didn't want to participate on that on the combustibles side, because actually our objective is to migrate smokers out of cigarettes, and not make cigarettes even more accessible, towards tobacco-heated products. So, you have to understand the price movement in Japan through this lens.

But obviously, we are in a position that we need to create a more competitive proposition, and we are doing exactly that. I'm quite optimistic in terms of the infrastructure and foundations that we have been creating. We have just opened up a new innovation hub in Southampton last week with state-of-the-art facilities, with the possibility to make much more agile developments of product and working in tandem with the Shenzhen hub that we created last year. We have something like 300 people in China now and working very closely to some very strategic third-party partners. And this is important because we can reach out to their own technology R&D and create together IPs that could even leapfrog what we have currently in the market.

So, that's our medium-term objective. We are already seeing some improvements in our competitive landscape. And for sure, this will allow us to participate in different parts of the portfolio in tobacco-heated products, because we are today more concentrated on the BWAP (ph), the below weighted-average price. So, there is still a lot of opportunities for us to go in different parts of the portfolio as we mature some of these innovations.

Faham Baig, sell-side analyst, UBS

The fifth area of focus you highlighted was increased engagement with stakeholders, particularly regulators. The question I have here is more on the combustibles business. There have been several large excise tax increases in BAT markets – Pakistan, Brazil, Nigeria, and the possibility of Bangladesh this year – which has resulted in the growth of illicit. How do you see the excise tax environment, going forward? And is there an opportunity to work with governments so that they take a more measured approach on the excise tax?

Tadeu Marroco, Chief Executive

We are not against the excise to increase. We just advocate for it being a balanced increase. Some of these markets you quoted – for example, Pakistan – create a massive disruption in the market. So, we had to price up. We end up recovering financially all the volume reduction, but this resulted in basically the market, illegal market, now being more than 50% of the total consumption in Pakistan. So, I think that the governments have to learn from those experiences and being sensible when they decide in doing that.

In reality, we are not seeing these widespread movements across. But more important for us also is to advocate tobacco harm reduction as an alternative to move consumers out of cigarettes, as opposed to create an illegal market of cigarettes. The extreme case, I think that happened when we were in the middle of the pandemic in South Africa, where the government decided to ban the sales of cigarettes for six months. And I'll tell you, the level of consumption was exactly the same. They all revert from duty-paid to non-duty-paid cigarettes.

So, we know that this is a ill-thought (ph) measure to provoke excise shocks. And we can see – and I quote the example of Sweden, and there are others, in the U.K., for example, that is very progressive in terms of vapor use and all that – that advocating a proper tobacco harm reduction agenda is the best way to migrate consumers out of cigarettes towards these new products.

Faham Baig, sell-side analyst, UBS

Now, the final area, and currently the most pertinent, is financial flexibility. BAT's cash conversion, as you highlighted, has been very strong in recent years, but the deleveraging has been impacted by external factors. One of those factors still outstanding is the Canadian litigation. What is your base-case assumption on a settlement? And should we be looking at BAT's leverage, excluding Canada, when thinking about the revised 2x to 2.5x target?

Tadeu Marroco, Chief Executive

It's difficult for me to make comments around the CCAA process, as you would imagine. It's a process that has been going on now since 2019, and hopefully we can expect some resolution over the next couple of years.

My objective – and you have just seen that we decided to narrow our leverage corridor from 3x to 2x to 2.5x to 2x – our objective is to get to a position where by the end of this three-year guidance, into 2026, we get to this new corridor, with Canada already being excluded of our numbers. Just as a reminder for everyone, when we decided to apply for CCAA, we could not divest Canada from our numbers. Because under IFRS, if we are managing the business, which we do, because we decide for pricing, we decide to hire people, dismiss people, we decide to launch products – so, we clearly manage the business in Canada – you cannot under IFRS rules deconsolidate the business. That's why you still have in BAT numbers the cash, equivalents, and the earnings of Canada as part of our numbers.

The credit ratings agencies, though, as soon as we enter in CCAA, they have already stripped out the whole Canada business from BAT numbers. And they have their own metrics and targets for us. That's the reason why, from their perspective, our leverage is higher than the 2.6x. But we have also made progress on their own way to measure our leverage, to the point that S&P more recently upgraded us from a negative outlook to stable. The other two agencies actually moved us to a positive outlook, which proves that our capital strategy has been the right one.

So, we have been providing more and more visibility in terms of the cash and cash equivalent positions that we have today in Canada, which is around £2.4 billion by the end of last year. And also, all the earnings is in our prelims (ph), in order to make sure that investors has all the information. Because the best way to treat this potential outcome is through what the credit ratings agencies does, which is basically taking the whole numbers of Canada out. In doing that, we'll probably have to face a headwind today, but this varies a lot as well. But today would be around 0.3x.

So, what I'm saying to you is that with these numbers being already incorporated in our numbers, my objective is to get to the 2.5x to 2x by the end of 2026.

Faham Baig, sell-side analyst, UBS

Clear. You've announced the stake sale in ITC. Congratulations. What were some of the factors under consideration when deciding between the buyback and accelerating debt reductions?

Tadeu Marroco, Chief Executive

First of all, ITC is a company that we are very satisfied to be a very relevant shareholder. It's based in India. India, the most popular country in the world, has a great demographics. The economy is growing and has a massive positive prospect. And it's a very strong company. It performs extremely well. High growth in a very good economic environment. So, it has been important for BAT results. It has a very generous dividend payout policy. So, we are very happy with the shareholding.

We want to keep a level of influence, as veto rights in the board. That's why when we trimmed some of the shareholding, we decide to keep above the 25%. There are some share dilution happening from some executive share programs that were established years ago. We want to make sure that we keep above the 25%.

And we have used these proceeds as a buyback, just as a reflection in terms of the valuation of the company. Because if you compare the intrinsic value of BAT and the market value, there is a massive discrepancy today. So, in our view, it's a no-brainer that we start to retire some of the shares that have a very high dividend yield, and that's exactly what we did.

We are doing that for the next couple of years in order to give the chance for us to continue organically deleveraging the company. Because like you saw, basically, in '23, in any given year, we can be able to deleverage around 0.2x; in better years, even more than that. But on average, you would imagine something like 0.2x. And this will be enough for us to get to this new corridor with Canada already being stripped out of the numbers, like I was referring before, and, at the same time, re-establishing the share buyback on a sustainable base.

So, capital allocation for BAT, moving forward, is about a sustainable buyback; is about dividend, a progressive dividend; is about deleveraging towards the narrow range; and continued investment in the transformation of the company.

Faham Baig, sell-side analyst, UBS

Very good. The second question on that is, do you see the remaining 25.5% holding in ITC as a strategic investment? Or could this be an asset you look to further monetize over the medium term?

Tadeu Marroco, Chief Executive

We are satisfied to have the influence on the board, as I was referring to. ITC is a company that has also transformed themselves. They are making a number of investments. They have decided more recently to divest the hotel business, which we supported, and we want to have a say in those decisions. So, that's why we are very happy to keep the shareholding on that level. And I think that we create now a possibility to create the capital flexibility that we need to satisfy our shareholders, at the same time that we press ahead with the transformation of the company.

Faham Baig, sell-side analyst, UBS

Now, this year will be an investment year, and you highlight it will see a 2% transactional headwind. The guidance therefore implies continued strong growth in the Americas and Europe region. Could you highlight the combustibles environment and the NGP opportunity in this region?

Tadeu Marroco, Chief Executive

For...? Sorry.

Faham Baig, sell-side analyst, UBS

For Americas and Europe?

Tadeu Marroco, Chief Executive

Americas and Europe. Look, if you strip out the U.S. already in 2023, like I said before, we had a spectacular year in America and Europe. And also in Asia and Africa, we had very strong years. And combustibles is performing quite nicely.

So, we have – the headline numbers of BAT has been impacted by the Pakistan case that I was referring, because we are market leaders in Pakistan. If you adjust for Pakistan, our decline in cigarettes is even better than the industry. It's around a 2.2% decline, in adjusting for Pakistan. So, the combustibles business is in a very solid state.

And the price mix of combustibles actually was 6%, despite all the problems that we have faced and that just had to do in the U.S. Overall, worldwide, it was 6% price mix.

And for sure, 2024 will be depressed because of the macroeconomics. And any type of improvement on macroeconomics and enforcement in illegal vapes that I was referring to, we are not expecting to happen in 2024. Hence, a more depressive guidance in 2024.

But the state of the business outside, even on the combustibles side, is quite healthy. There is no issue at all in terms of the fundamentals of the company. And I'm quite positive that this situation in the U.S. will be a transitory one. And hence, our assertiveness in terms of '25, '26, in terms of recovering back the financials delivered in that period of time.

Faham Baig, sell-side analyst, UBS

A number of countries are looking to enforce disposable bans, vaping regulations when it comes to tax. How do you see this impacting the total tobacco industry?

Tadeu Marroco, Chief Executive

Clearly, I don't like bans. I think bans are a knee-jerk solution for something that someone has already given up to come up with better ideas. Bans has always this possibility to generate a kind of illicit market.

There are two major issues related to vape, in particular, that we need to address. One is environmental impact. The other one is the youth access. I think that we have solutions on the regulatory front to address both of them, be it through a modern disposable or a refilled device. Because we have seen, for example, in some countries applying license to sell alcohol. So, we can have something like that and restrict where you can sell these products, force them to have an age verification. We have even age verification technology in the device today that is available, if necessary. We have a number of flavors, nomenclature, the content of flavors in terms of sweetness and all that, that could be addressed and regulated properly.

And so, there are many, many areas that the governments could be thinking to do before getting to bans.

But more important is to regulate and enforce. So, for example, France has decided to ban some of these products. And from September this year, I think, the latest. And they have imposed a fine – will impose a fine of €100,000 in case the products are caught being sold that shouldn't be. Which is a positive to have strong penalties as well. Because what we need to is to create a level playing field so responsible players can be in the markets and helping smokers out of cigarettes for those that want to quit, as opposed to create another problem in terms of youth or of the environment.

Faham Baig, sell-side analyst, UBS

Fantastic. Well, that is great timing. Thank you very much for joining us today, Tadeu.

Tadeu Marroco, Chief Executive

It's a pleasure. Thanks for having me here.

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