



BRITISH AMERICAN  
TOBACCO

# Investor Day | 14 March 2019



BRITISH AMERICAN  
TOBACCO

# ACCELERATING GROWTH IN THE NEW NICOTINE WORLD

KINGSLEY WHEATON | CHIEF MARKETING OFFICER

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This presentation does not constitute an invitation to underwrite, subscribe for, or otherwise acquire or dispose of any BAT shares or other securities. This presentation contains certain forward-looking statements, made within the meaning of Section 21E of the United States Securities Exchange Act of 1934, regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the Group operates.

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It is believed that the expectations reflected in this presentation are reasonable but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated.

The forward-looking statements reflect knowledge and information available at the date of preparation of this presentation and BAT undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Among the key factors that could cause actual results to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; changes in domestic or international tax laws and rates; adverse litigation and dispute outcomes and the effect of such outcomes on the Group’s financial condition; changes or differences in domestic or international economic or political conditions; adverse decisions by domestic or international regulatory bodies; the impact of market size reduction and consumer down-trading; translational and transactional foreign exchange rate exposure; the impact of serious injury, illness or death in the workplace; the ability to maintain credit ratings and to fund the business under the current capital structure; the inability to develop, commercialise and roll-out Potentially Reduced-Risk Products; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group.

# Important Information

## Forward-looking Statements (continued)

Additional information concerning these and other factors can be found in BAT's filings with the U.S. Securities and Exchange Commission ("SEC"), including the Annual Report on Form 20-F to be filed on 15 March 2019 and Current Reports on Form 6-K, which may be obtained free of charge at the SEC's website, <http://www.sec.gov>, and BAT's Annual Reports, which may be obtained free of charge from the British American Tobacco website [www.bat.com](http://www.bat.com).

Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. Readers are cautioned not to place undue reliance on such forward-looking statements.

## No Profit or Earnings Per Share Forecasts

No statement in this presentation is intended to be a profit forecast and no statement in this presentation should be interpreted to mean that earnings per share of BAT for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT.

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## Additional Information

All financial statements and financial information provided by or with respect to the US or Reynolds American Inc. ("RAI") are initially prepared on the basis of U.S. GAAP and constitute the primary financial statements or financial records of the US business/RAI. This financial information is then converted to International Financial Reporting Standards as issued by the IASB and as adopted by the European Union (IFRS) for the purpose of consolidation within the results of the BAT Group. To the extent any such financial information provided in this presentation relates to the US or RAI it is provided as an explanation of, or supplement to, RAI's primary U.S. GAAP based financial statements and information.

Our vapour product Vuse, and oral products Grizzly, Camel Snus and Kodiak, which are only sold in the US, are subject to FDA regulation and no reduced-risk claims will be made to these products without agency clearance.

## Revision

For presentation purposes within this presentation, all prior periods have been revised to be consistent with the current reporting structure. All of the information in this presentation is in respect to continuing operations, revised for the fully retrospective adoption of IFRS 15.

# KINGSLEY WHEATON

CHIEF MARKETING OFFICER



BRITISH AMERICAN  
TOBACCO

**23** Yrs  
BAT

Europe  
Middle East  
Americas  
Africa

General  
Manager  
Russia

MANAGEMENT BOARD SINCE 2012

Director  
Corporate &  
Regulatory  
Affairs

Director  
Next  
Generation  
Products

Regional  
Director  
AMSSA



# Key Messages

**Driving value from combustibles as we continue to outperform the industry**

**The tobacco & nicotine industry is growing & fragmenting**

**Powerful consumer insights inform our multi-category strategy**

**A step-change in New Categories - both pipeline & building global brands**

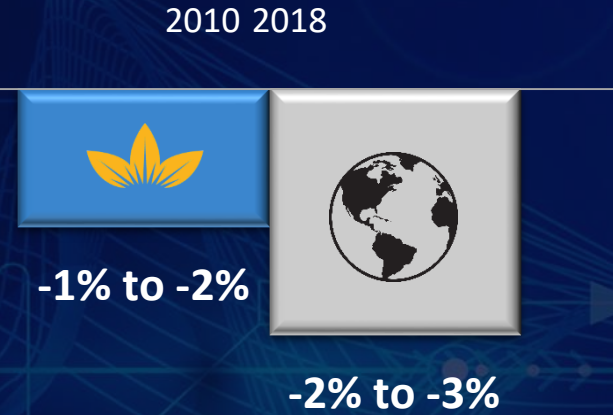
**Ambition for revenue growth: mid/upper-end of our range**

# Strong Historical Performance

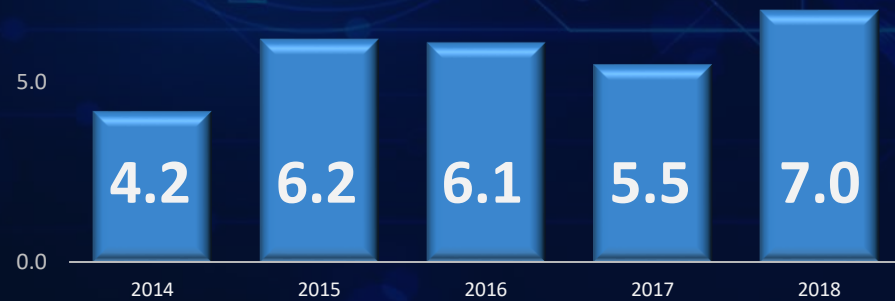
SHARE



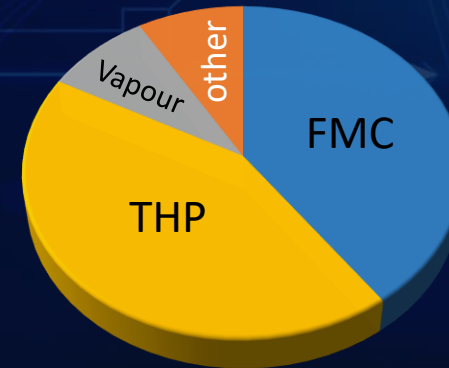
VOLUME



PRICE MIX %



REVENUE



Source of  
BAT Revenue  
Growth 2018

Key Market offtake share: as independently measured by retail audit agencies (including Nielsen), shipment share estimates, and share of retail for the US business, based upon the latest available validated data

Source: Internal Data T40 Markets (volume and Revenue)  
Price Mix: Group Headline Organic @ Constant FX

# Built On Outstanding Capabilities & Global Reach



**11mn**  
OUTLETS  
REACHED

**150mn**  
CONSUMERS  
DAILY



**30**  
PRRP MARKETS

**8mn**  
PRRP CONSUMERS

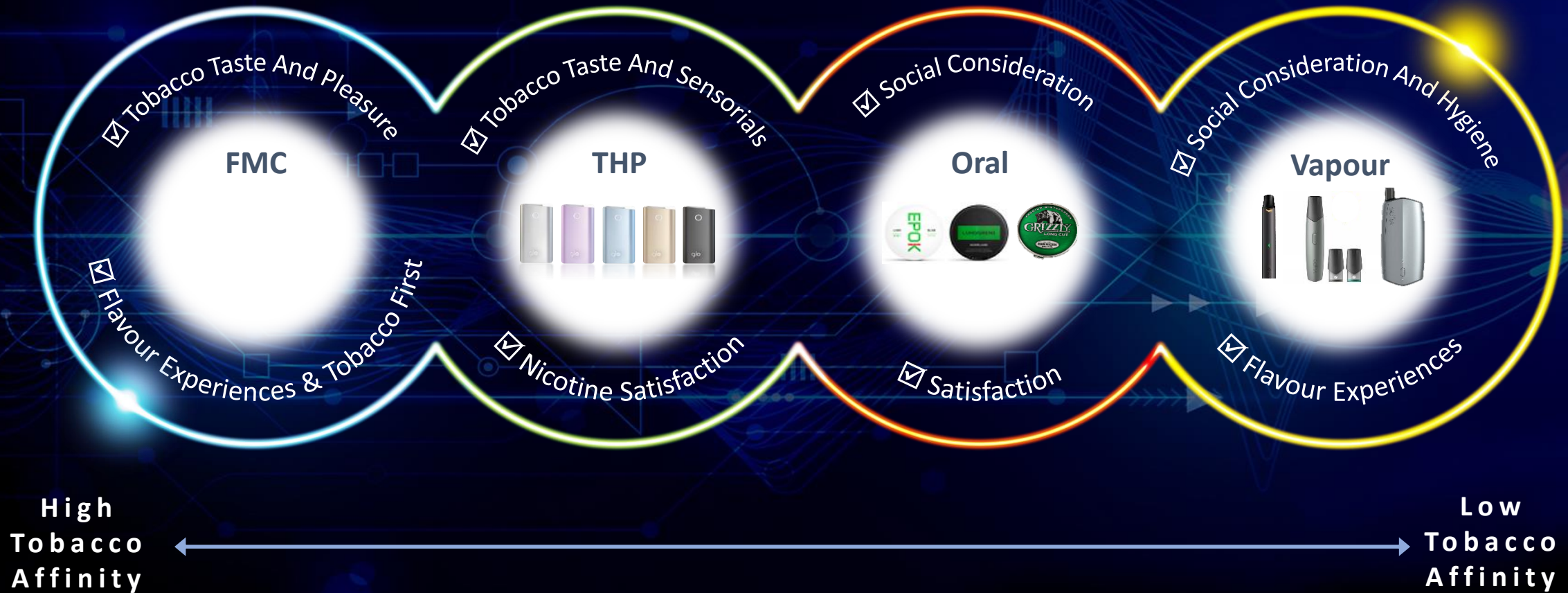


Source: Internal Data

ACCELERATING DELIVERY

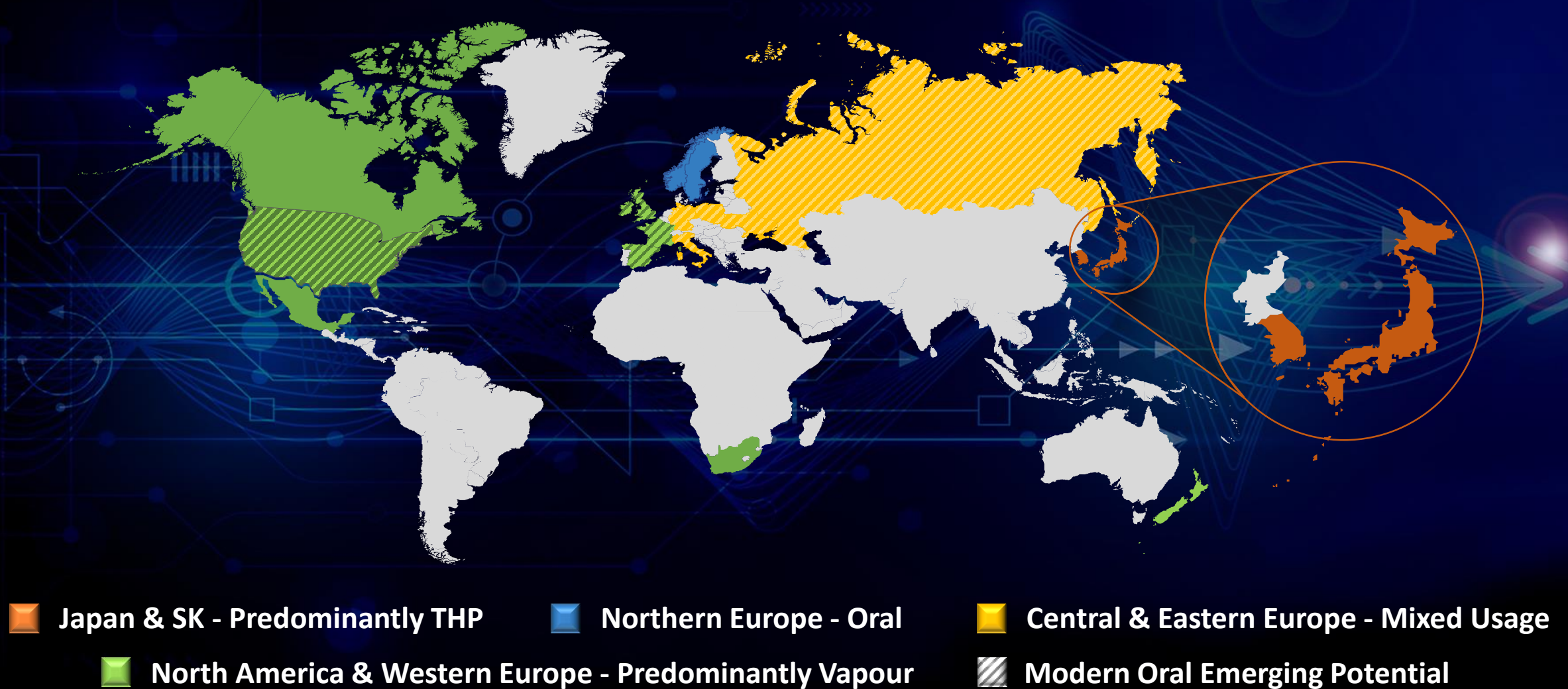


# Diverse Consumers, Differing Needs



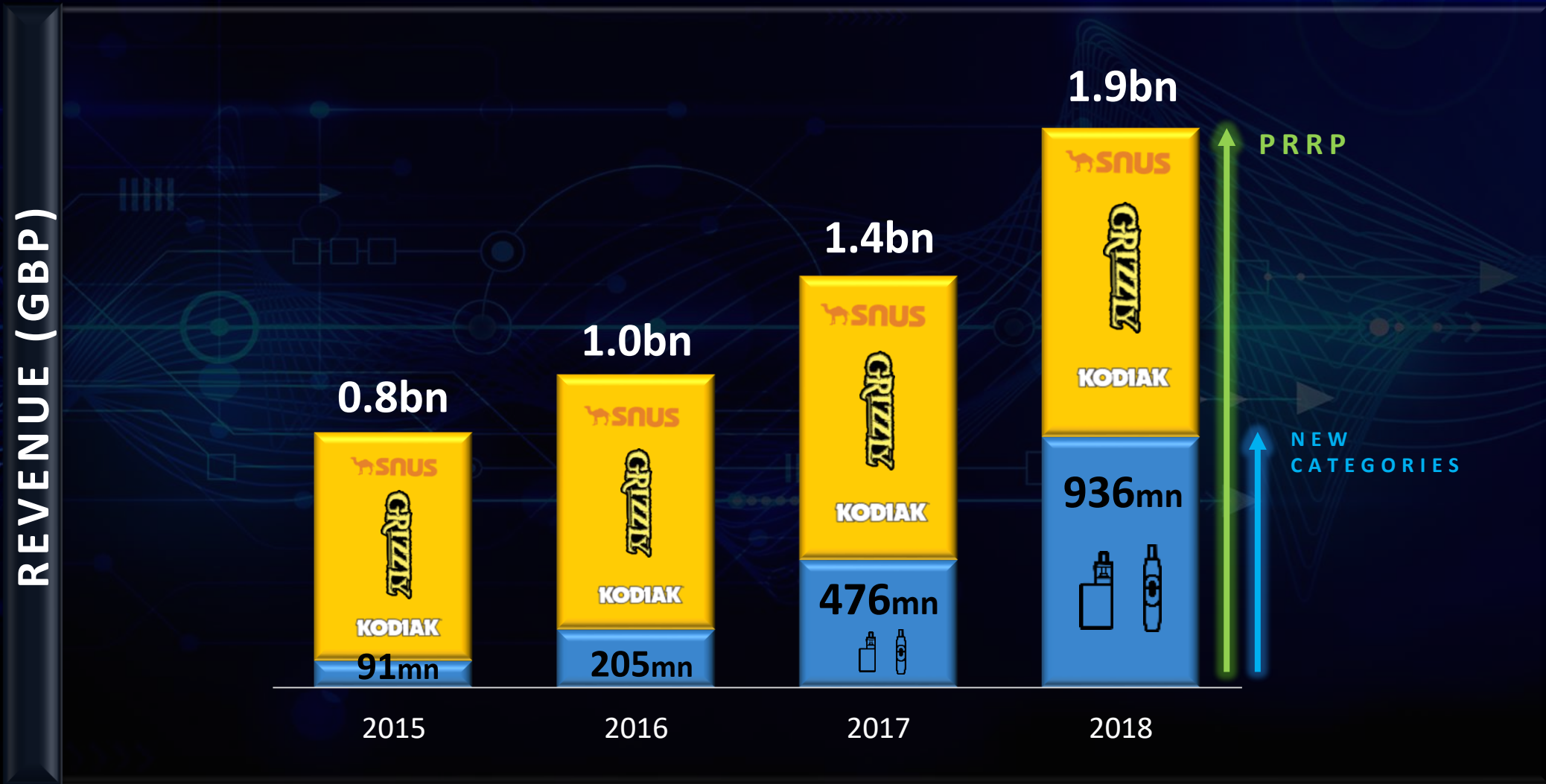
**Our Ambition is Leadership**

# With a Clear View on Where to Win



Source: Kantar & Internal Forecasts

# PRRP ~£2bn, New Categories Approaching £1Bn in 4 Years



Group Revenue Presented on a representative basis as though the group has owned the acquisitions made in 2017 for the whole period

Source: Internal Sales Data @2018 constant rates

# Our Ambition is Leadership

~**20** bps pa

Share of FMC



**25-35%**

Share of THP



**12-18%**

Share of Vapour



**>50%**

Share of Modern Oral

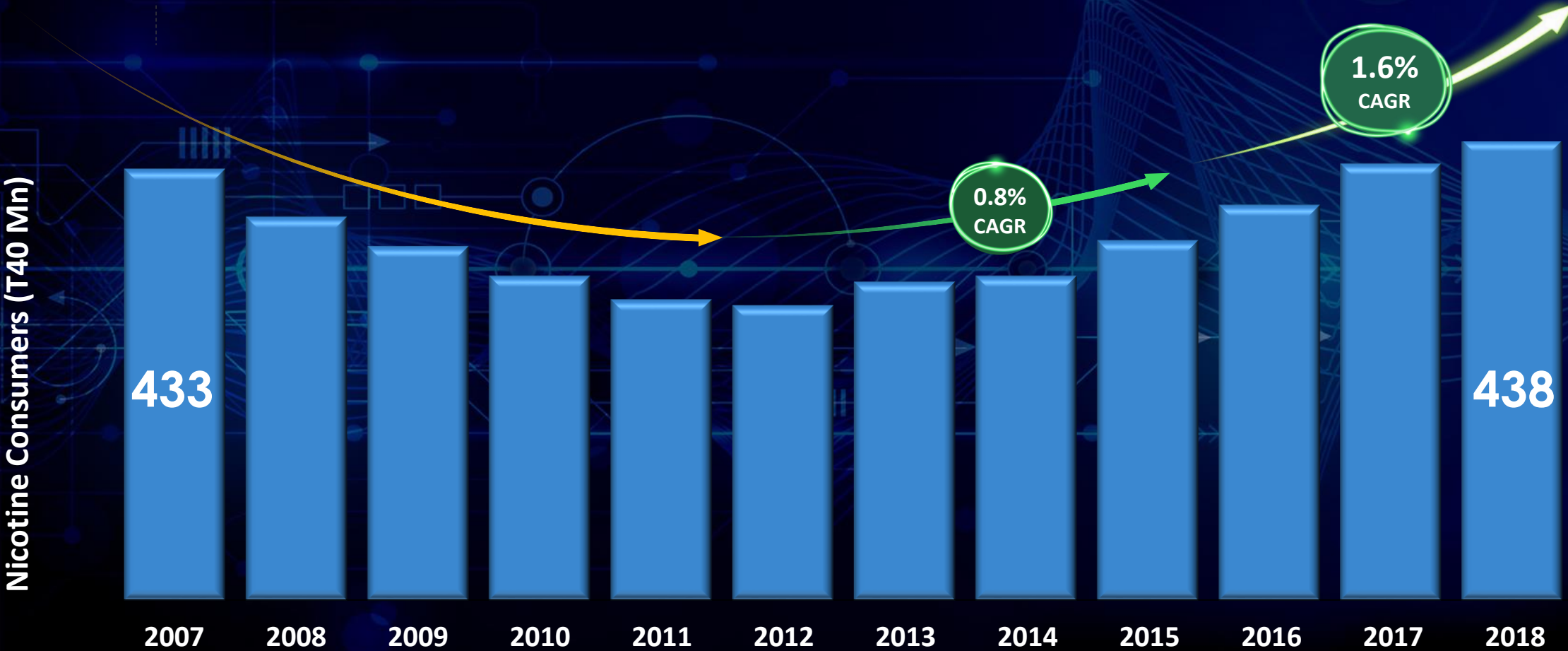


Source Internal Estimate: 2023/24. Share refers to Global Value Share.



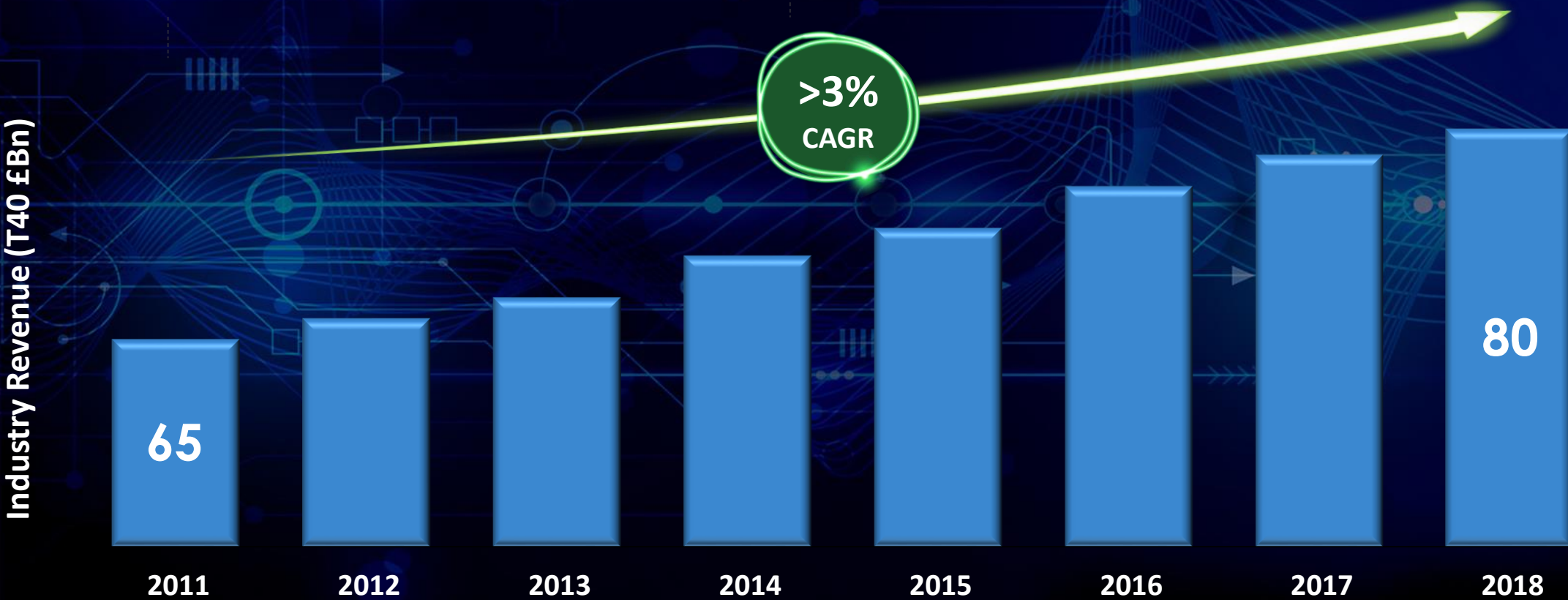
# DYNAMICS OF THE NEW NICOTINE WORLD

# Tobacco & Nicotine Consumers in Growth



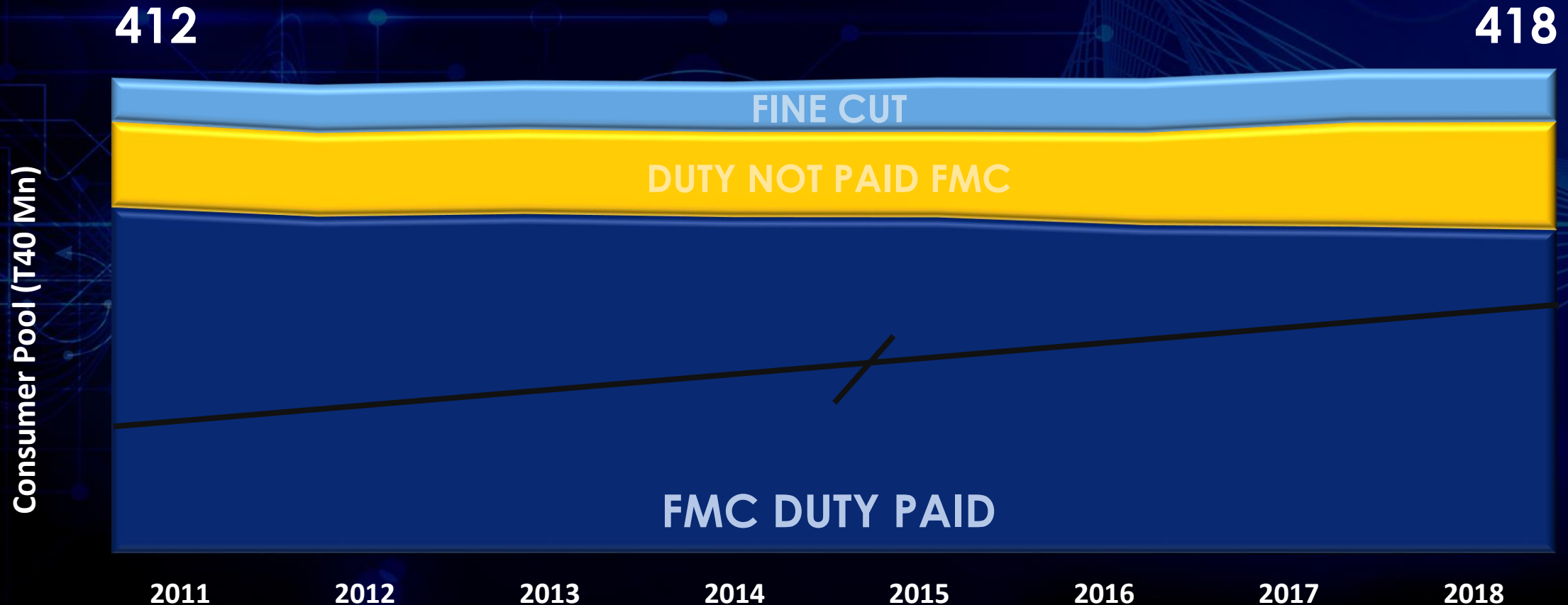
Source: T40 Incidence Study & BAT Internal Estimates

# Tobacco & Nicotine Value is Growing



Source: T40 Incidence Study & BAT Internal Estimates

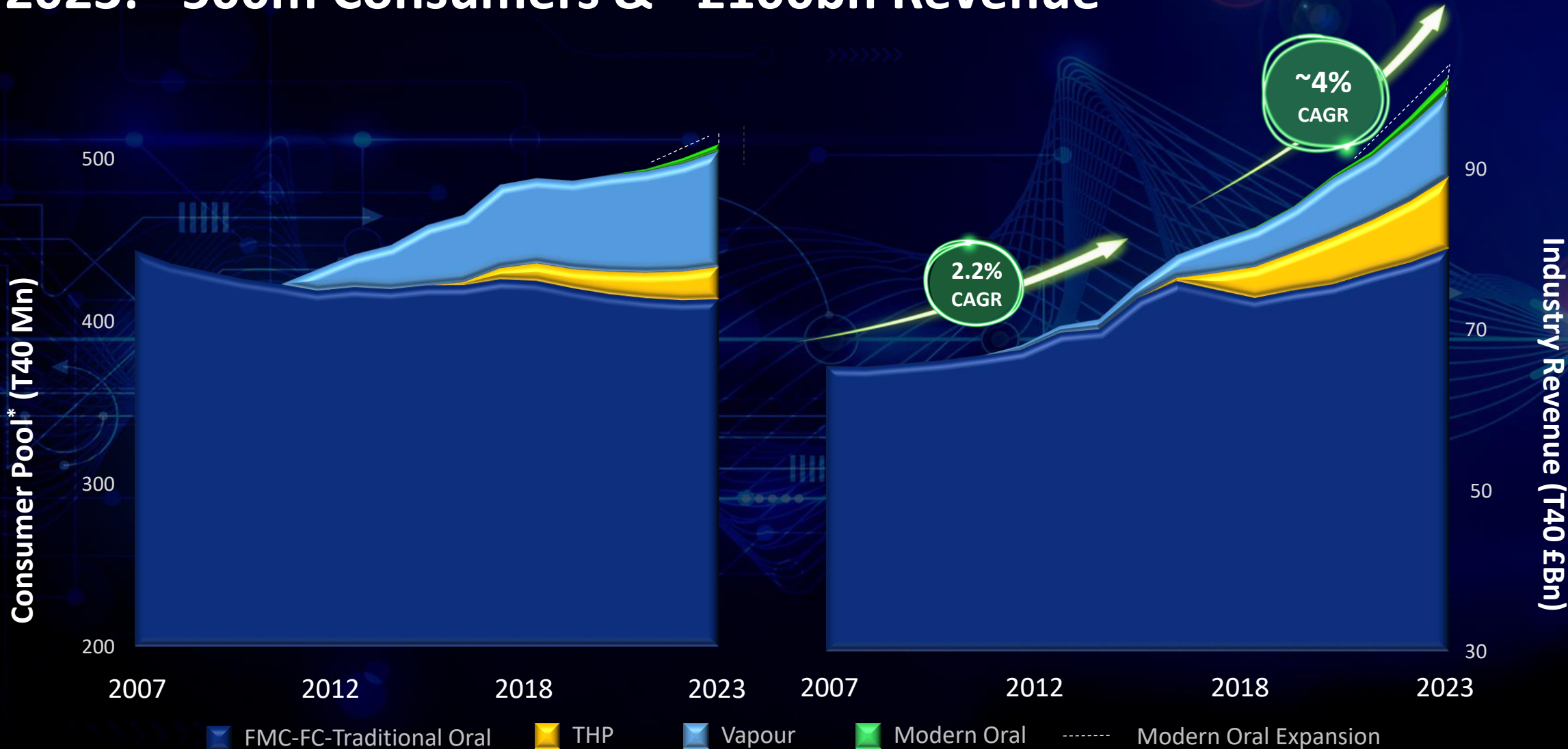
# Combustible: Consumer Base Broadly Stable



Source: T40 Incidence Study & BAT Internal Estimates



# 2023: ~500m Consumers & ~£100bn Revenue

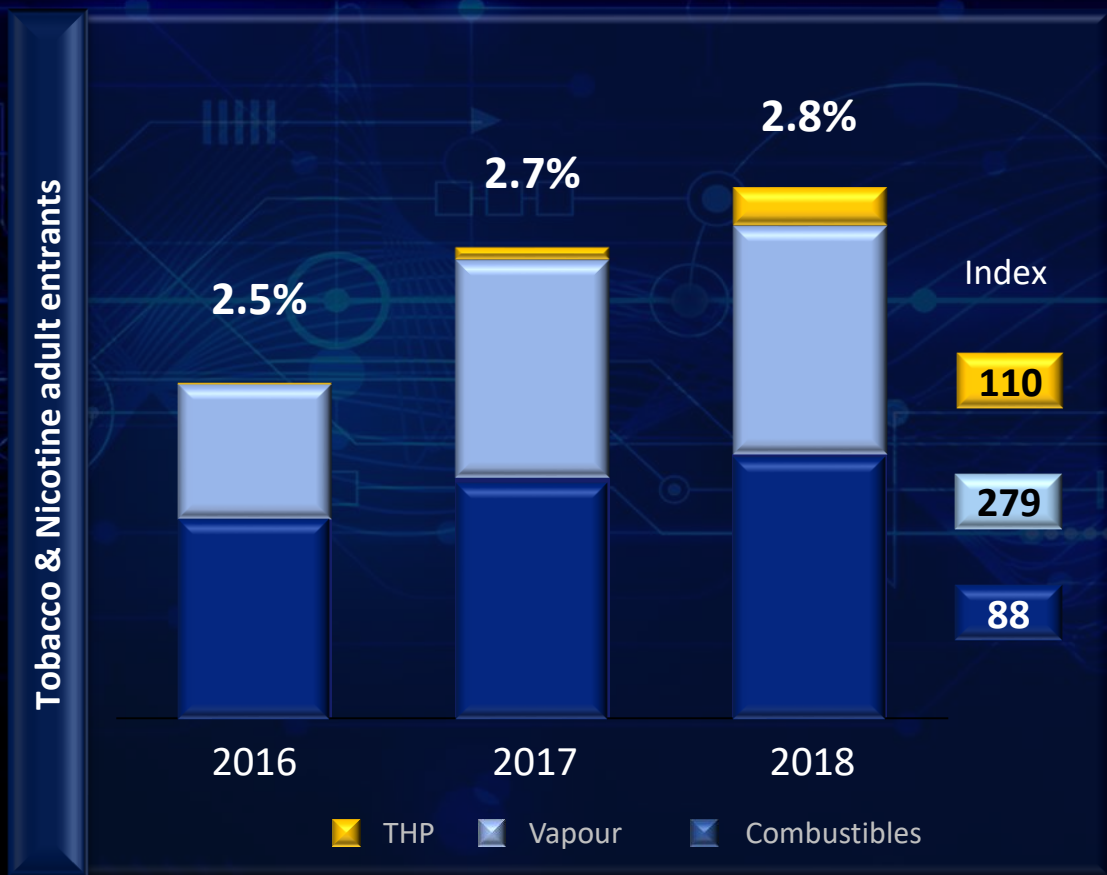


\* Consumer Pool: Gross User Data by Categories (includes poly usage)

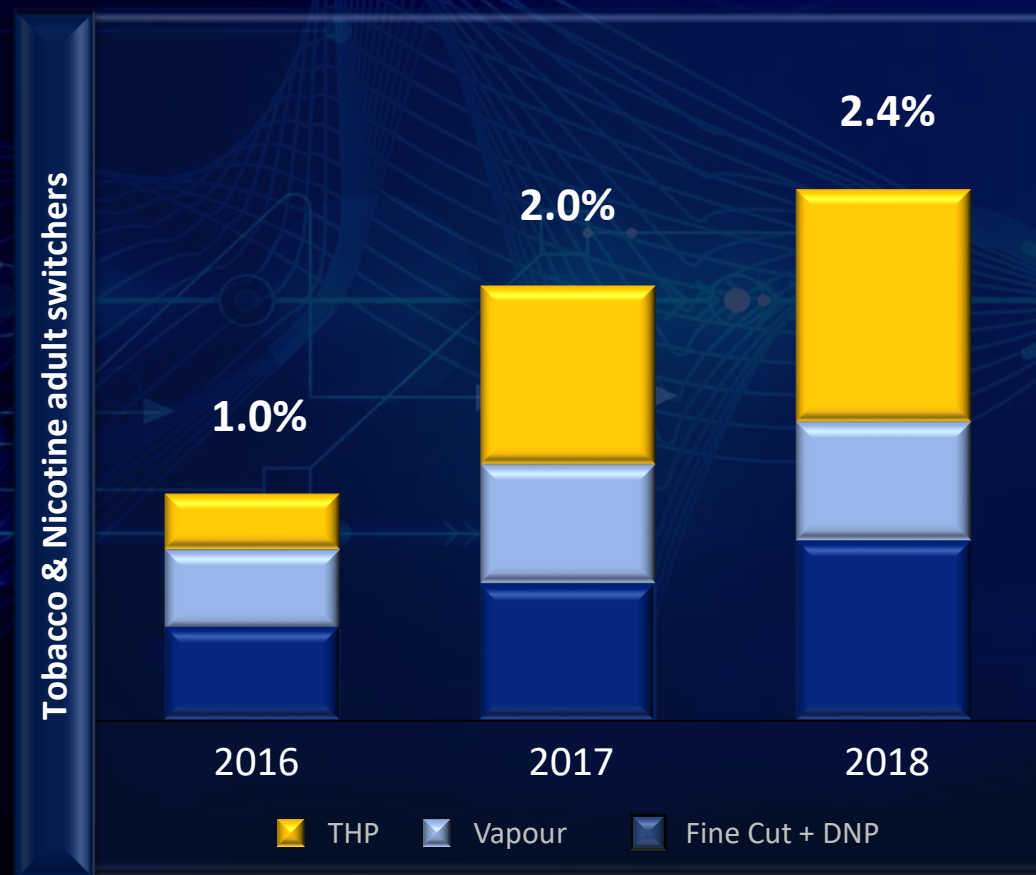
Source: T40 Incidence Study & BAT Internal Estimates

# Dynamics of Vapour & THP Differ

## Vapour over-indexes entrants



## THP driven by switchers



Source: Incidence Study and Consumer Tracker Study

# Compelling New Category Gross Margins

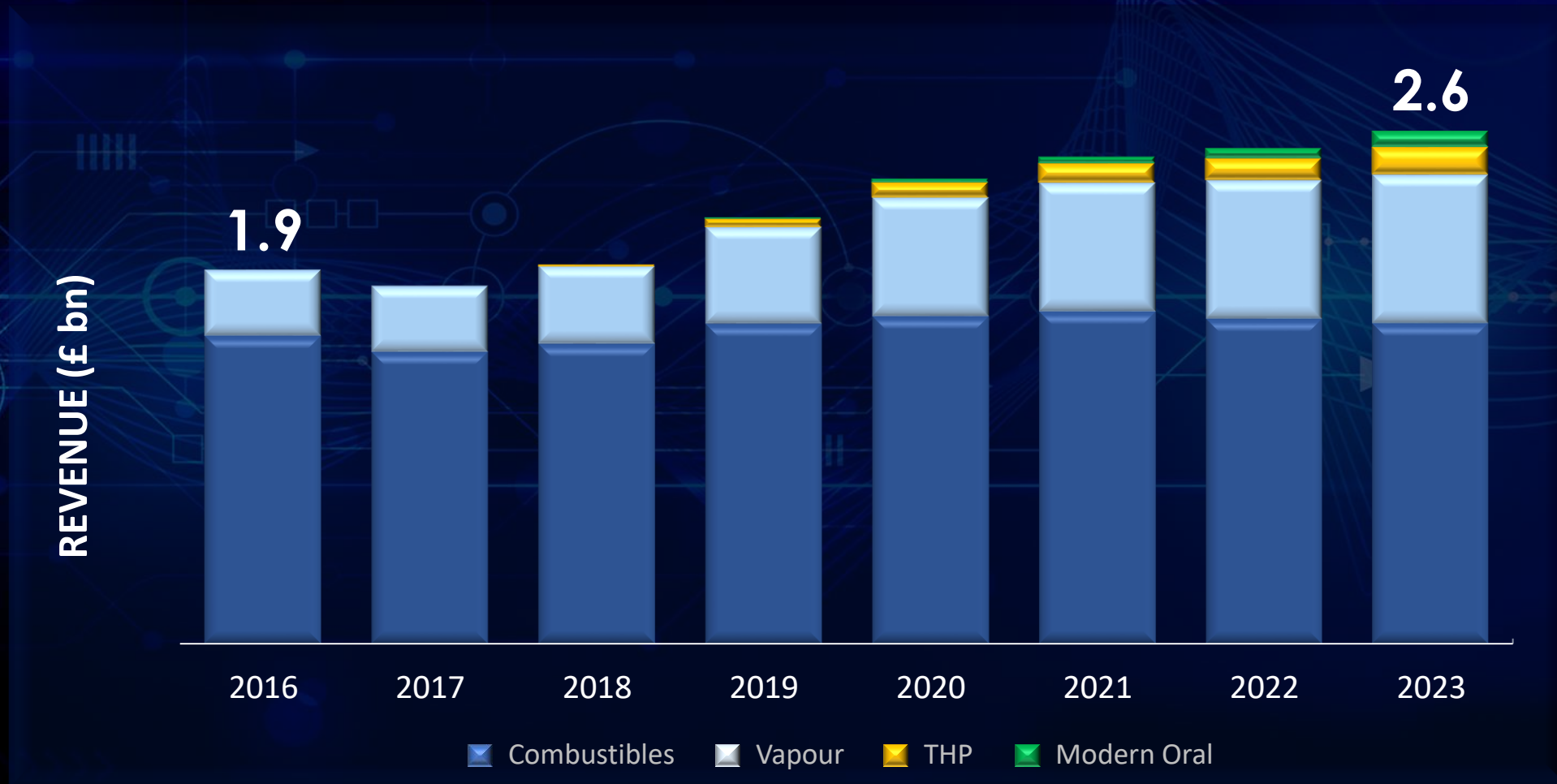
Category Gross Margin % of Revenue\*  
Excluding Devices

	2017	2018	Projection
<b>FMC</b>	64%	65%	+ ve
THP Consumables	83%	81%	- ve
VAPING Consumables	29%	42%	+++ ve
MODERN ORAL	59%	66%	++ ve
TRADITIONAL ORAL	75%	78%	+ ve
<b>PRRPs</b>	67%	72%	+ ve
<b>Average GM &gt; FMC</b>			

\* Adjusted, representative and constant rate basis. See Appendix, notes A1, A2 and A3.

Source: Internal Data

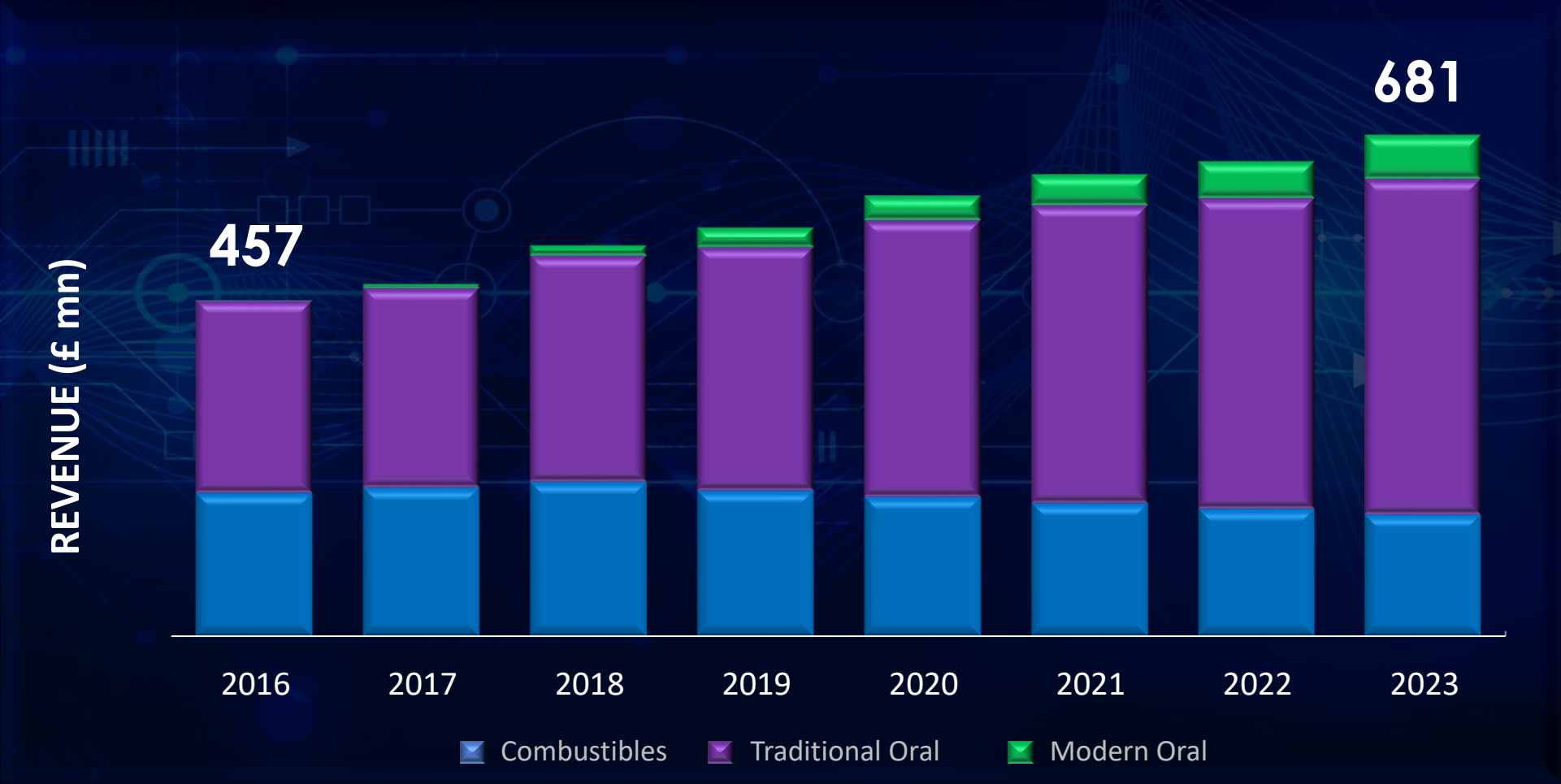
# UK: Total Nicotine Revenue Accelerating



2019-2023 Estimates on a constant currency basis

Source: Incidence Study & BAT Internal Estimates

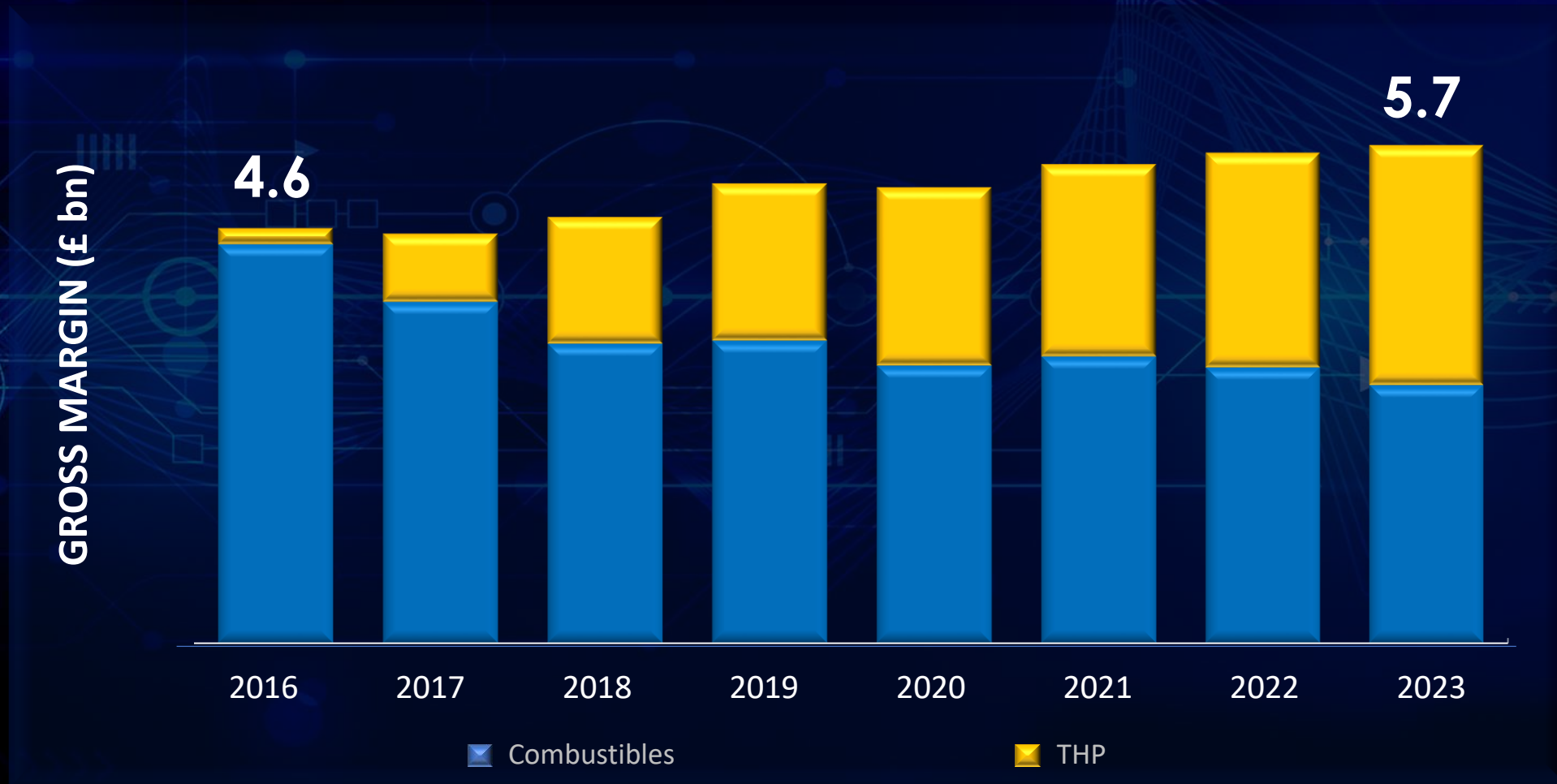
# Sweden: Total Nicotine Revenue Accelerating



2019-2023 Estimates on a constant currency basis

Source: Incidence Study & BAT Internal Estimates

# Japan: Industry Margin set to Grow



2019-2023 Estimates on a constant currency basis

Source: Incidence Study & BAT Internal Estimates

# Story so far

Track record of  
**Delivering**

Founded in  
**Reach &  
Capabilities**

Consumer Base  
**Growing &  
Fragmentating**

BAT Price Mix  
Average  
**5.8%**

Industry Revenue  
Accelerates to  
**~4% CAGR**

New Category  
Gross Margin  
**Accretive**

**~£100bn**  
Industry Revenue  
Est 2023

Source: BAT Internal Data & Estimates T40 Markets

# Our Marketing Mission

## CREATING A BETTER TOMORROW

*Delivering pleasure through  
rewarding consumer experiences;  
powered by leading-edge innovation,  
technology and dynamic brands.*



# Marketing 2.0

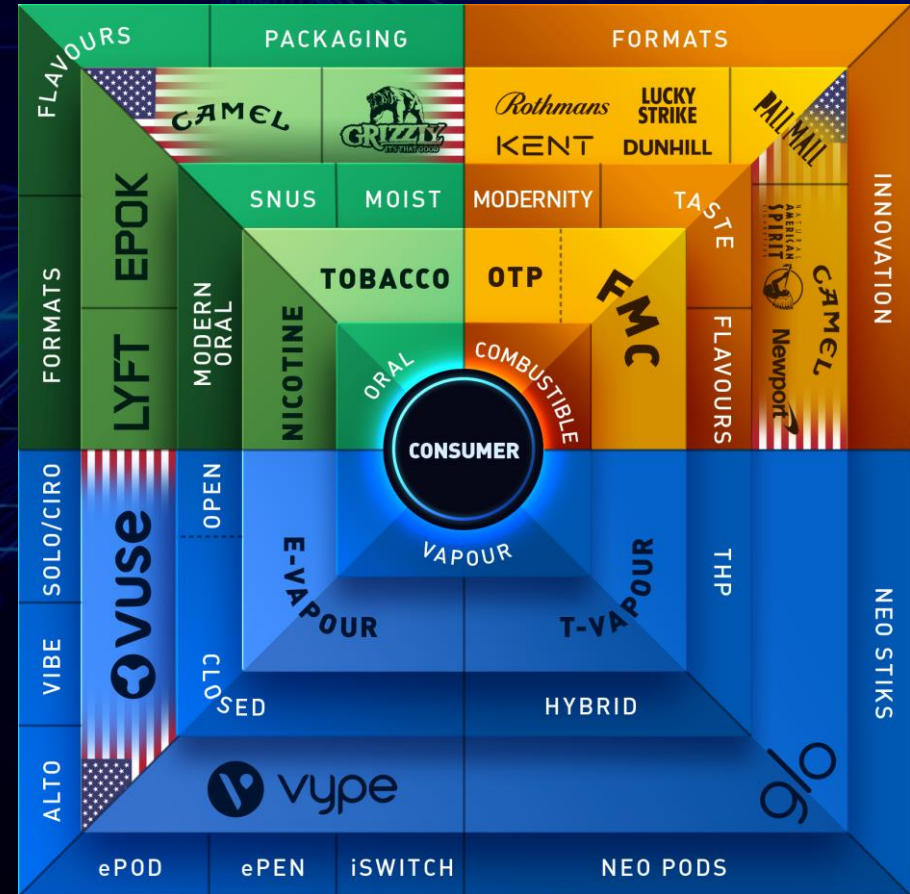


# Portfolio Eco-System, Inspired by Insights

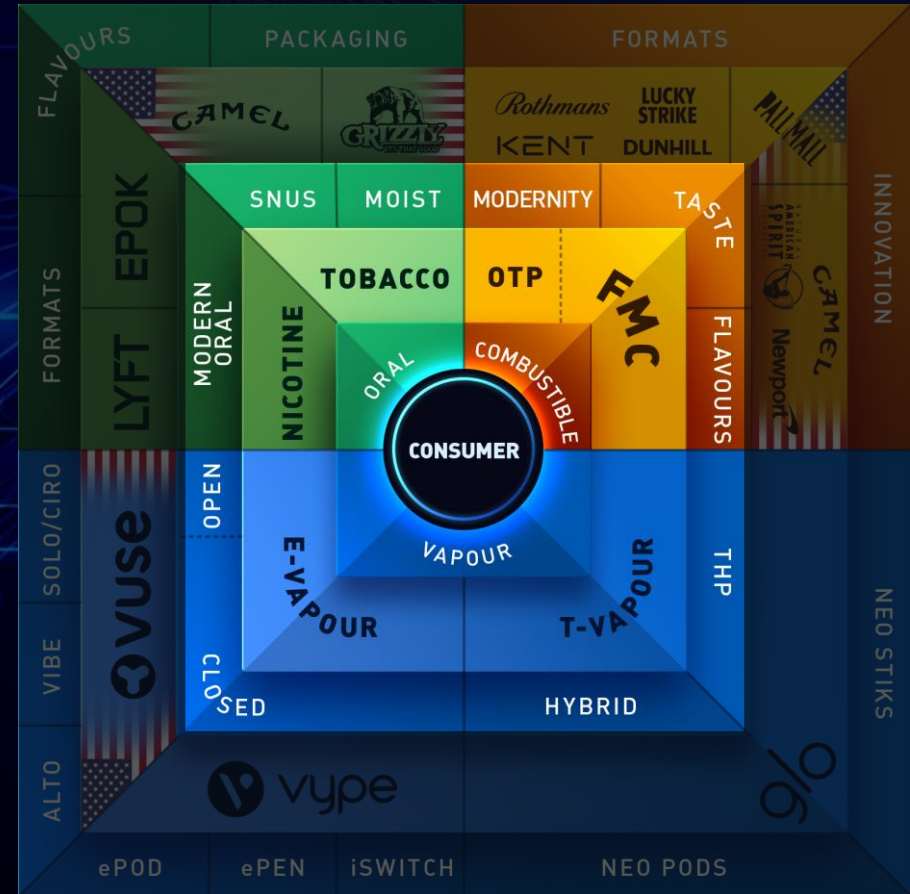
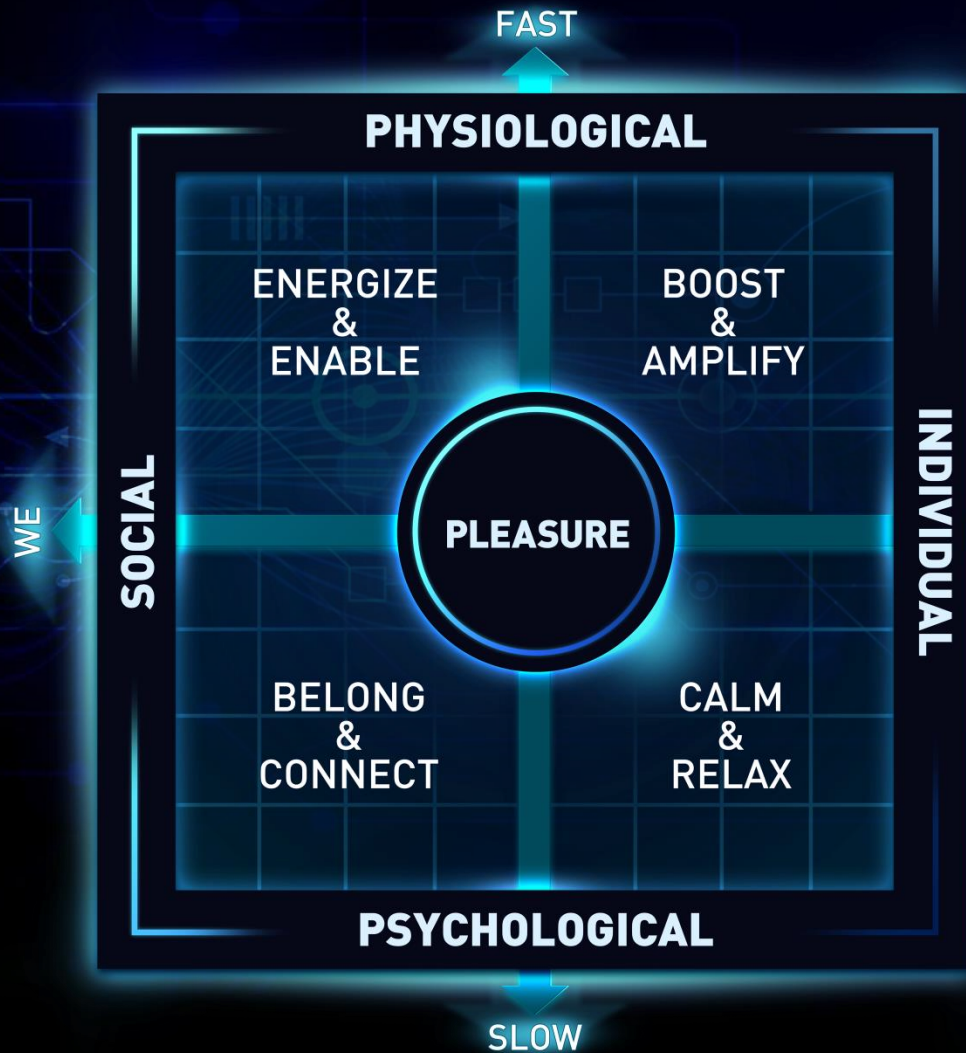


**PRISM**

Proprietary Intelligence  
Segmentation Methodology

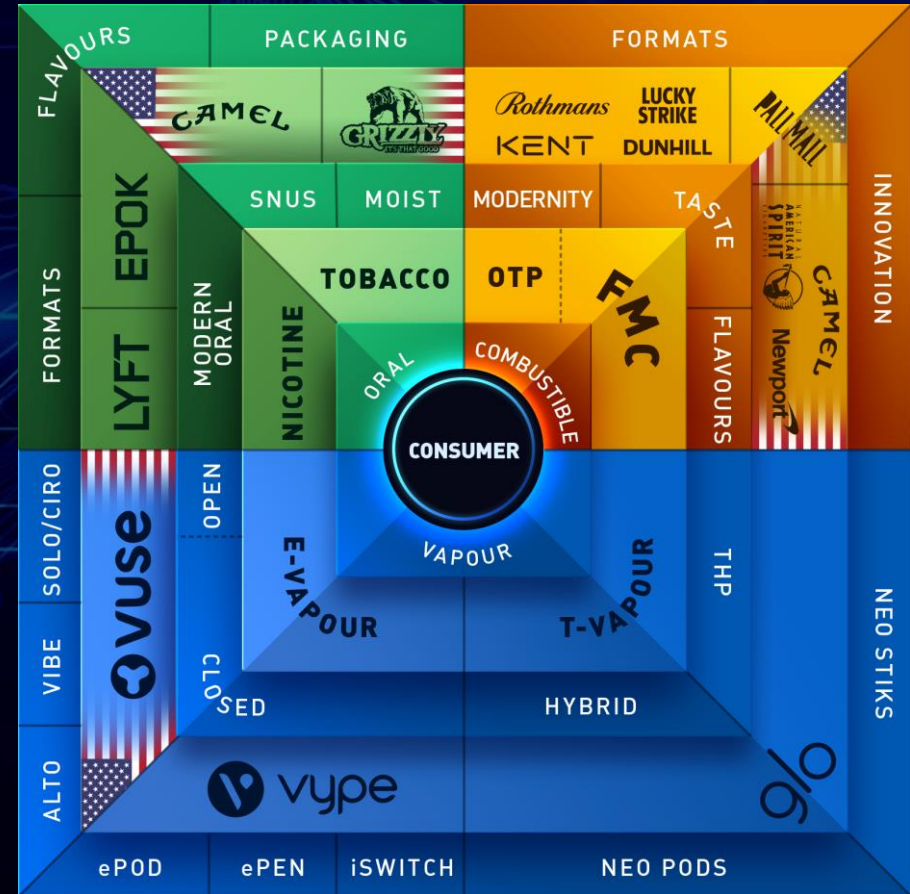


# Consumer Pleasure Drivers Inspire Primary Choices



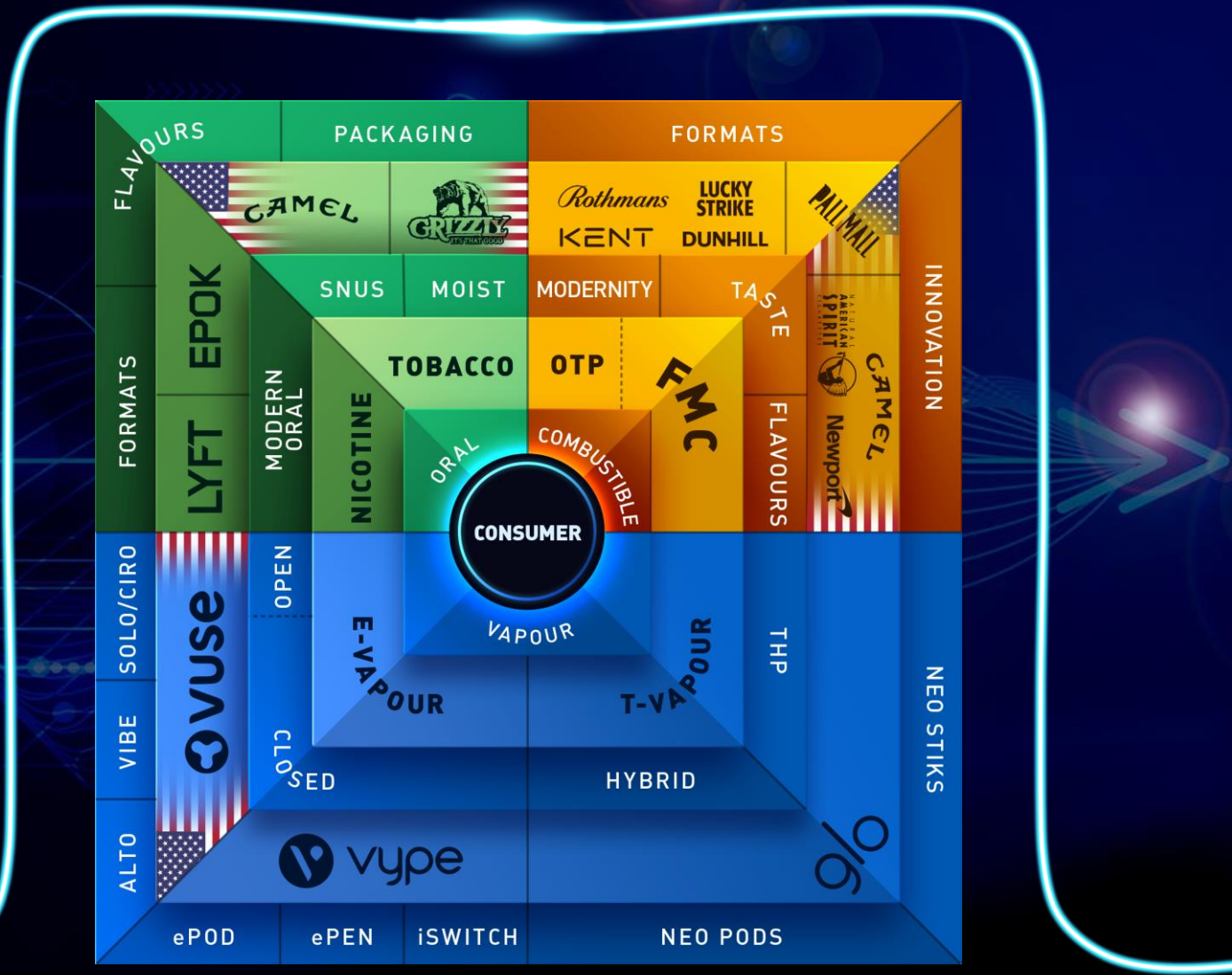
Source: KANTAR and BAT Proprietary Methodology

# Brand & Variant Maps to Consumer Segmentation



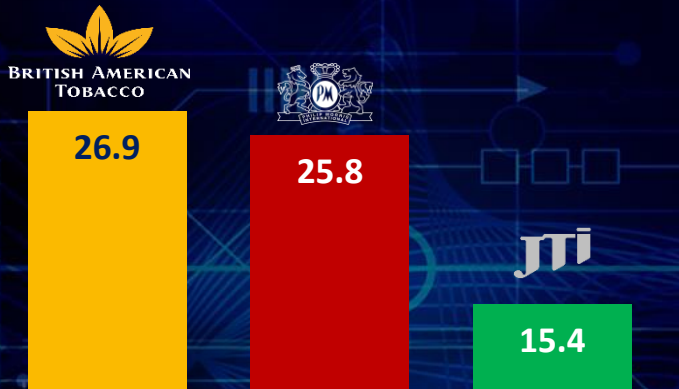
Source: KANTAR and BAT Proprietary Methodology

# Activating Our Portfolio System to Accelerate Growth

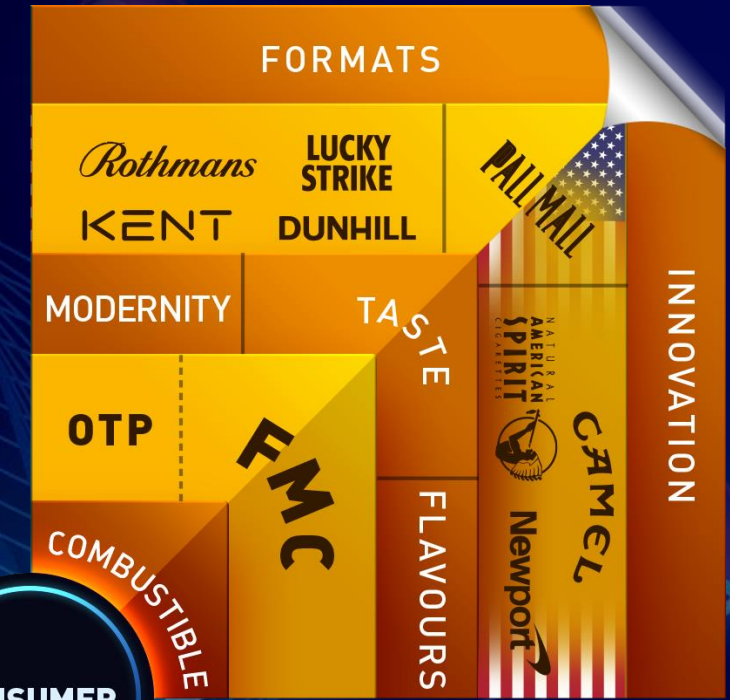
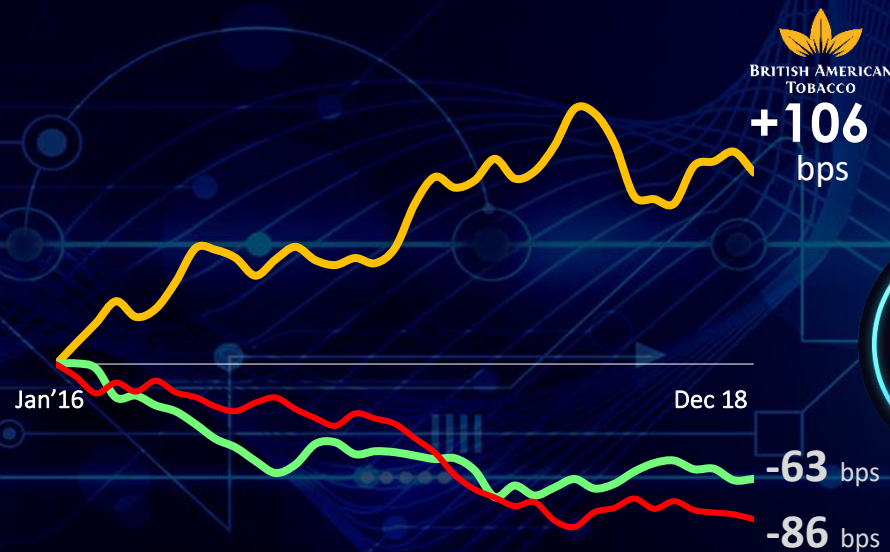


# Combustible Portfolio Drives Growth

SHARE OF MARKET (%) FY'18  
(T40 incl US FMC only)



SHARE OF MARKET (%) Jan'16 vs Dec'18  
(T40 incl US FMC only)



2018  
Brand Revenue



BAT owns the Camel & Natural American Spirit brands only in the US

Source: Group Financials @ 2018 Constant FX Rate. Share: T40 Nielsen and Internal Estimates



ACCELERATING DELIVERY

STRONGER  
EUROPEAN  
POSITIONS

DEVICE &  
CONSUMABLE  
PIPELINE

JAPAN  
MARKET  
SHARE  
GROWTH

KEY PRIORITIES

BRAND  
BUILDING

CONSUMER

# Accelerating Our T-Vapour Journey

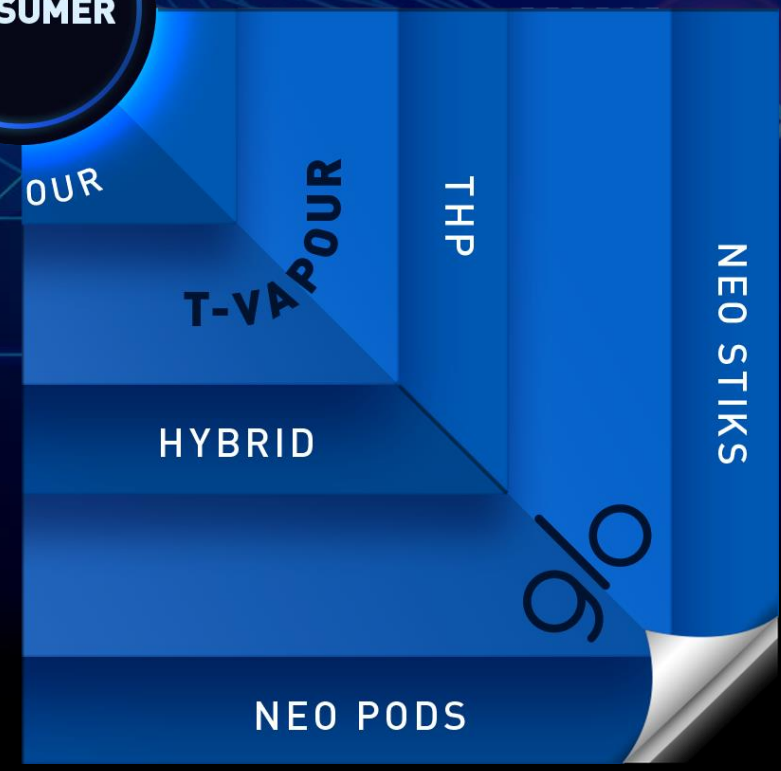
INDUSTRY  
LEADING  
CONSUMABLES

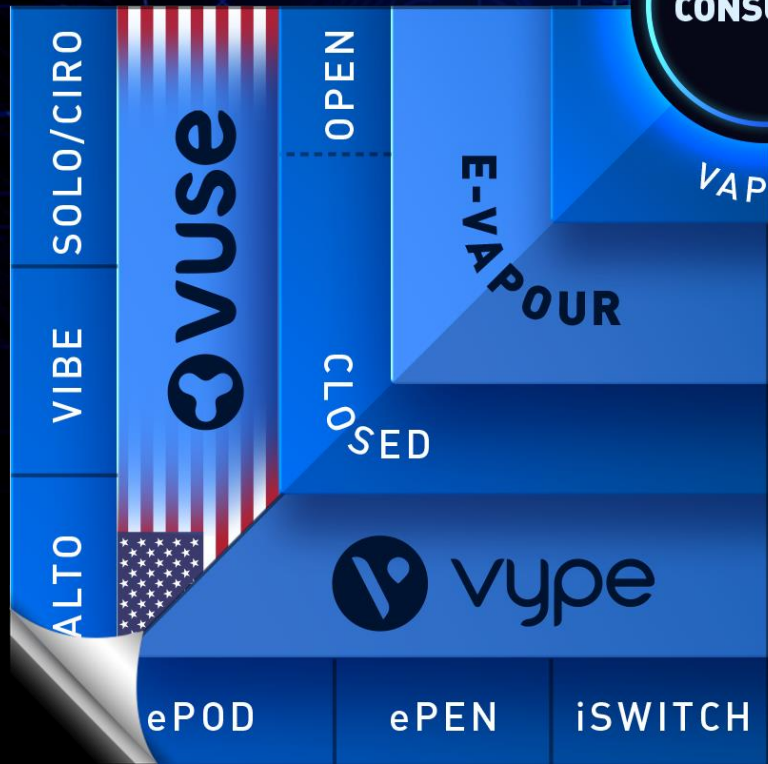
CORPORATE STRENGTHS

LEADING  
AMONG  
CONSIDERATES\*

CAPSULE  
INNOVATION

BLEND  
SENSORY  
PERFORMANCE





**CONSUMER**

**REGAIN USA LEADERSHIP**

**ACCELERATE IN EUROPE & CANADA**

**RAPID INNOVATION DEPLOYMENT**

**BRAND BUILDING**

# Accelerating Our Must-Win E-Vapour Markets

KEY PRIORITIES

**NO 1 IN UK & FRANCE\***

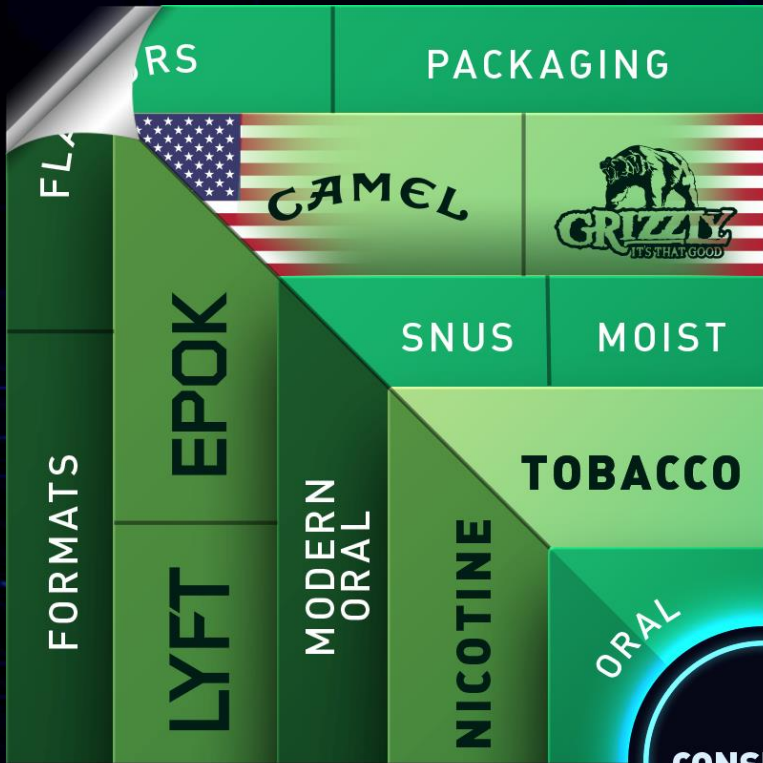
CORPORATE STRENGTHS

**US SCALE & EXECUTION CAPABILITIES**

**WINNING CLOSED SYSTEM PORTFOLIO**

**PURETECH BLADE TECHNOLOGY**





**CONSUMER**

CONTINUE  
NORDICS  
GROWTH

NEW  
TEST  
MARKETS

LAUNCH  
USA

KEY PRIORITIES

BRAND  
BUILDING

# Accelerating Modern Oral

PRODUCT  
SUPERIORITY

CORPORATE STRENGTHS

MARGINS  
2 3x  
FMC

EXCELLENT  
EU US  
CAPABILITIES

RAPID  
PROGRESS  
IN EUROPE



# CAPABILITIES TO ACCELERATE GROWTH

# Our Digital Marketing Eco-System



# Our Digital Transformation is Progressing at Speed

## B2B

**Retail** Engagement & Loyalty

**36** markets **6000+** reps



eCommerce

**£2.8bn** online sales

to trade partners

**370k+**

mobile orders per month

**13** Markets with a

360° View of Consumer



## B2C

**20mn+** actively engaged consumers in **Leading Markets**

**20 markets** with direct online sales to consumers

**Advanced consumer analytics** supporting marketing decision making & investment

**Connected devices**

Vype & Glo ecosystems

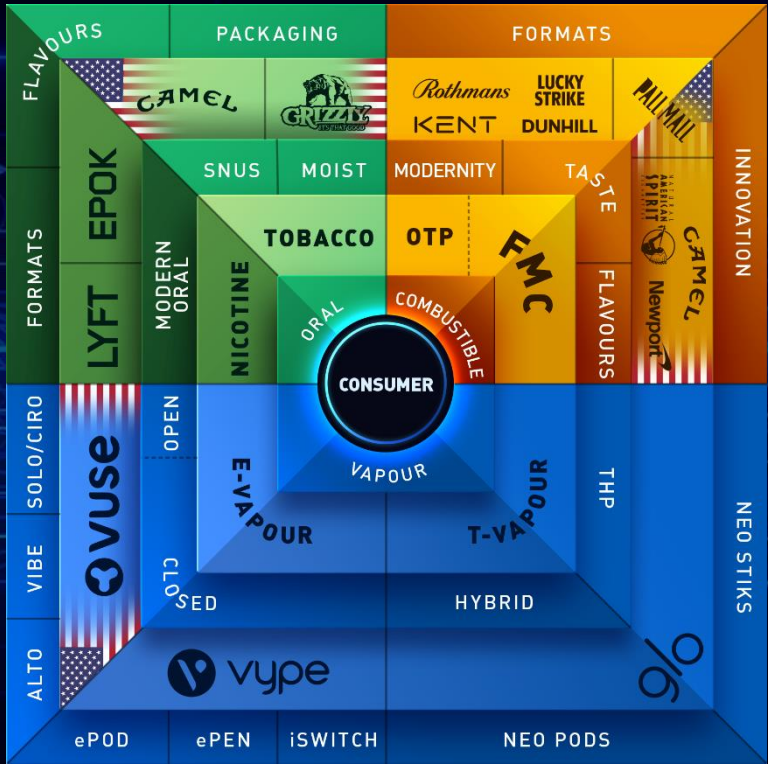


Source: Internal Data



“We’re extremely proud and excited about this new partnership, further enabling us to accelerate the pace at which we innovate and transform ourselves.

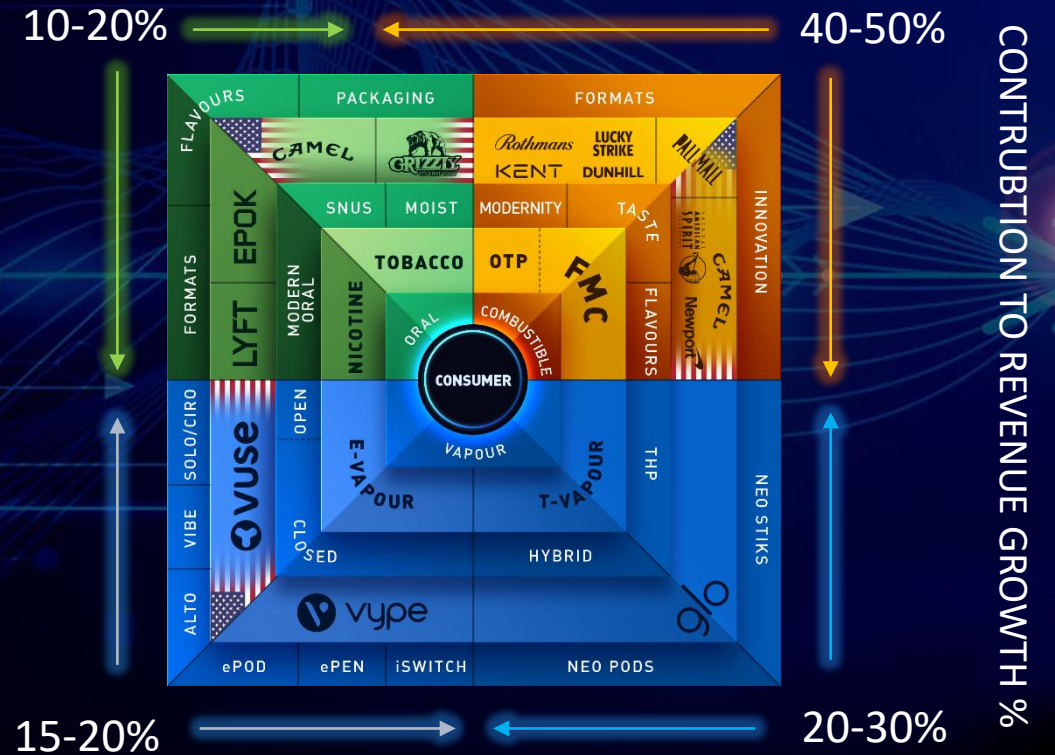
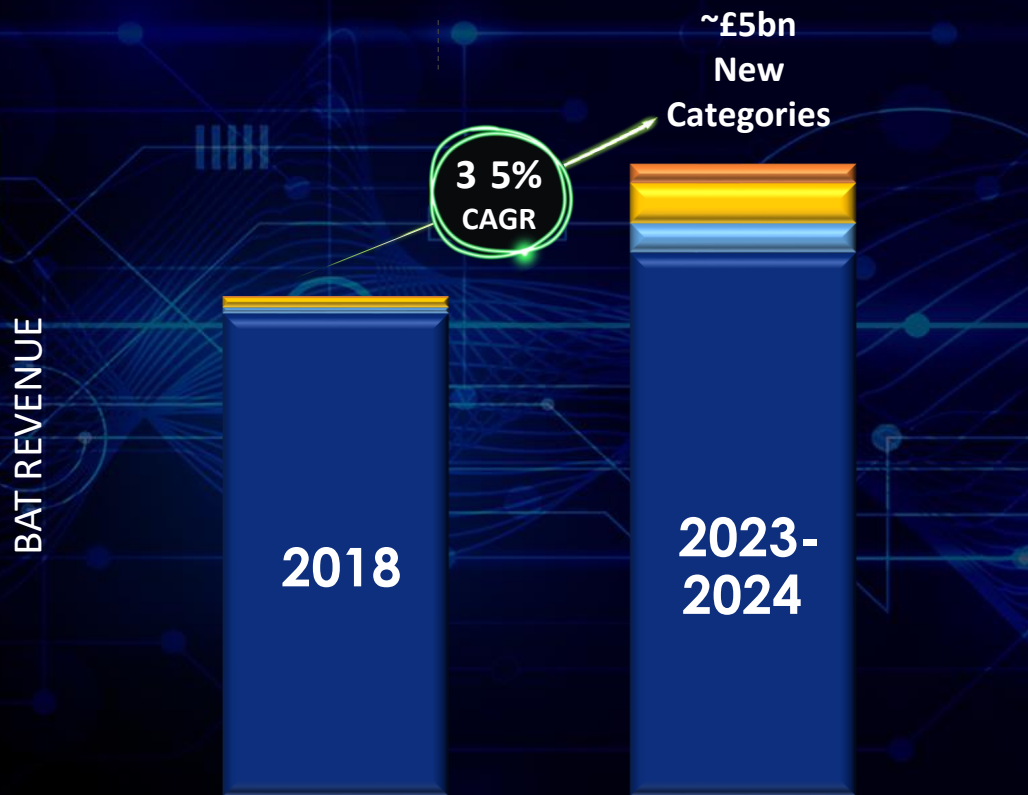
It gives us a truly global platform with which to drive greater resonance of our potentially reduced-risk products.”



**CREATING A BETTER TOMORROW**

Delivering pleasure through rewarding consumer experiences; powered by leading-edge innovation, technology and dynamic brands.

# Strong Revenue Growth at Mid/Upper-End of our Range



■ Combustibles + Traditional Oral
 ■ Vapour
 ■ THP
 ■ Modern Oral

Source: BAT Internal Estimates

# Key Messages

**Driving value from combustibles as we continue to outperform the industry**

**The tobacco & nicotine industry is growing & fragmenting**

**Powerful consumer insights inform our multi-category strategy**

**A step-change in New Categories - both pipeline & building global brands**

**Ambition for revenue growth: mid/upper-end of our range**





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TOBACCO

THANK YOU

KINGSLEY WHEATON | CHIEF MARKETING OFFICER

# Appendix

## **A1: Representative basis**

Where appropriate, the Group is also presenting (as a supplement to the results) the 2018 performance against 2017, as though the Group had owned the acquisitions made in 2017 for the whole of that year. Comparison of results on this basis are termed “on a representative basis” and provide shareholders with a results comparison representative of the position as if the Group had owned the acquisitions throughout 2017 and 2018.

## **A2: Adjusting/Adjusted (Adj.)**

Adjusting items are significant items of certain financial measures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group’s underlying financial performance because of their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance.

## **A3: Constant currency**

Movements in foreign exchange rates have impacted the Group's financial results. Measures are calculated based on a retranslation, at prior year’s exchange rates, of the current year’s results of the Group and where, applicable, its segments. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group management board does believe that such results excluding the impact of currency fluctuations year on year provide additional useful information to investors regarding the Group's operating performance on a local currency basis.