



BRITISH AMERICAN
TOBACCO

Investor Day | 14 March 2019



BRITISH AMERICAN
TOBACCO

U.S. | A GROWING BUSINESS FOR AN EXCITING FUTURE

RICARDO OBERLANDER | **PRESIDENT AND CEO U.S.**

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Important Information

Forward-looking Statements (continued)

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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.

RICARDO OBERLANDER

PRESIDENT & CEO - RAI



BRITISH AMERICAN
TOBACCO



28 Yrs
Industry
experience

*Americas
Europe &
Asia Focus*

*Regional
Director
Americas*

*General
Manager,
France*

*Head of
GDB
Brand
Portfolio*

*Multi-
Regional
Marketing*

Our way forward

- 1** We are confident in our multi-category strategy and brand portfolio
- 2** Our combustible market will remain large and profitable
- 3** The Oral Tobacco market is highly profitable and beginning to transform
- 4** We are excited about Vuse, Alto, and the evolving Vapour category
- 5** Next phase of integration into the global enterprise has commenced

Our Strategy for Growth

Key trends are driving adult tobacco consumer (ATC) choice



Changing Demographics

The demographic profile of the smoking population is evolving and diversifying



Value and Values

ATCs increasingly care about origin and quality of products, as well as strong brand values



Seeking Alternatives

ATCs are looking for alternatives and are willing to try new products, to find what works best for them



Freshness and Flavour

Across tobacco, flavour tastes continue to evolve as ATCs look for alternatives and new experiences



Digital Connectivity

Connected devices, IoT and digital interactions are changing how consumers engage with the category

Source: Company data

Our sustainable strategy is underpinned by our choices

Ensuring our
**SUSTAINABLE
LEADERSHIP
POSITION:**



A business
BUILT ON VALUE



A winning
ATC PROFILE



A focus on
WINNING BRANDS

With a
**MULTI-
CATEGORY
portfolio:**



Maximising profitability in
COMBUSTIBLES



Innovating in
SMOKELESS



Accelerating growth in
VAPING

Supported by
world class
ENABLERS:



REGULATORY EXPERTISE



GROUP R&D CAPABILITY

Our winning multi-category portfolio

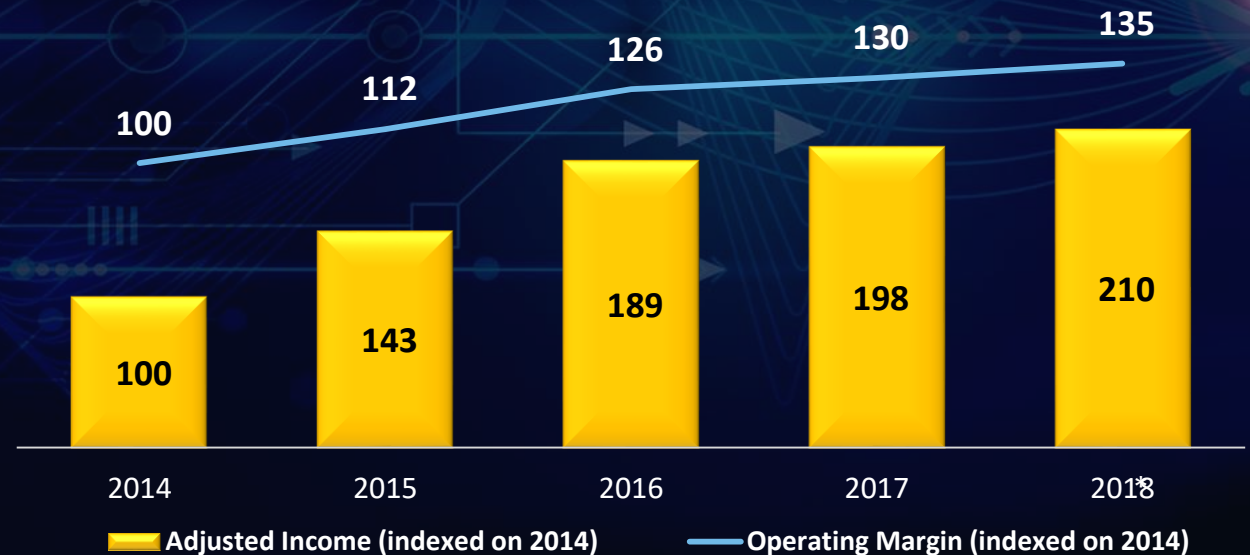


Our results prove the success of our multi-category strategy

Goal: Lead the overall tobacco products market over the long term and deliver sustainable value growth to BAT's shareholders



GROWTH METRICS



Note: Adjusted Operating Income indexed to 2014 value. Source: Company data
* 2018 Op Income adjusted to create like-for-like comparison to previous years

The U.S. Tobacco Products Market

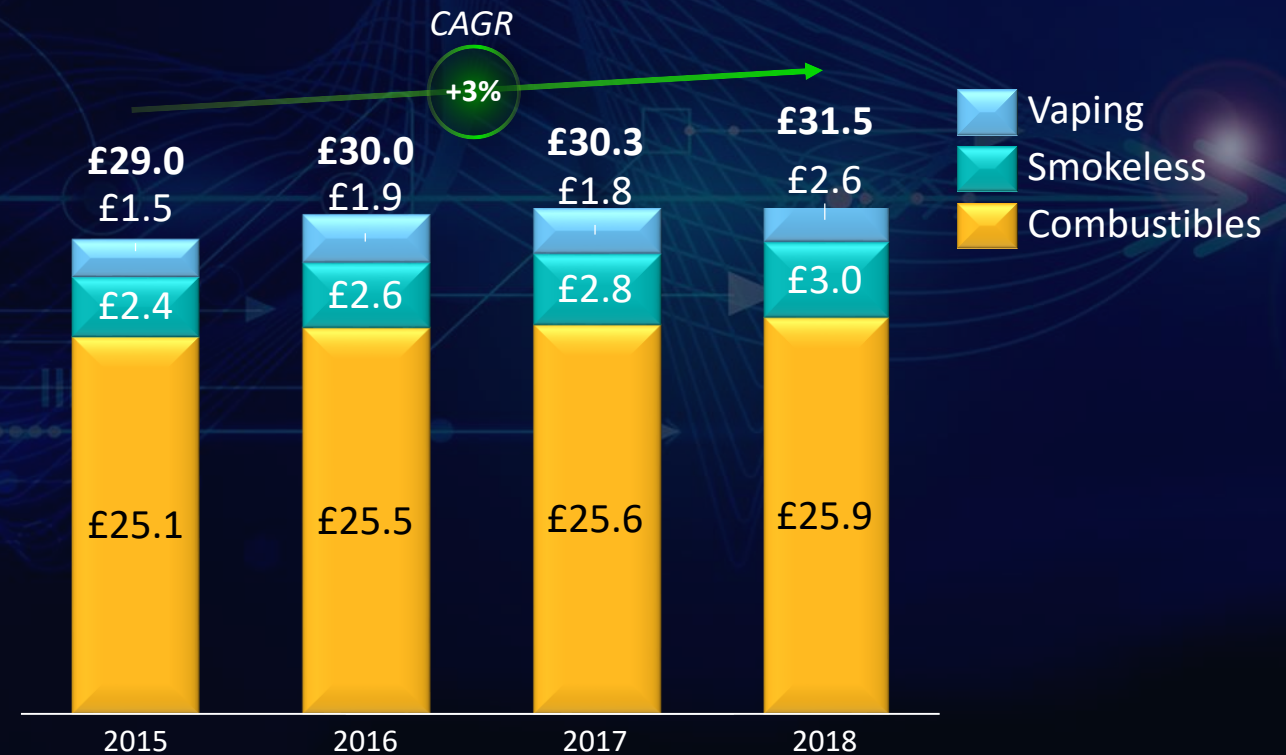
A substantial, dynamic and growing multi-category market

TOBACCO PRODUCTS IS A **£32bn MARKET**

U.S. Tobacco Revenue Category Breakdown, 2018



U.S. Tobacco Market Revenue (bn)



Source: Company data

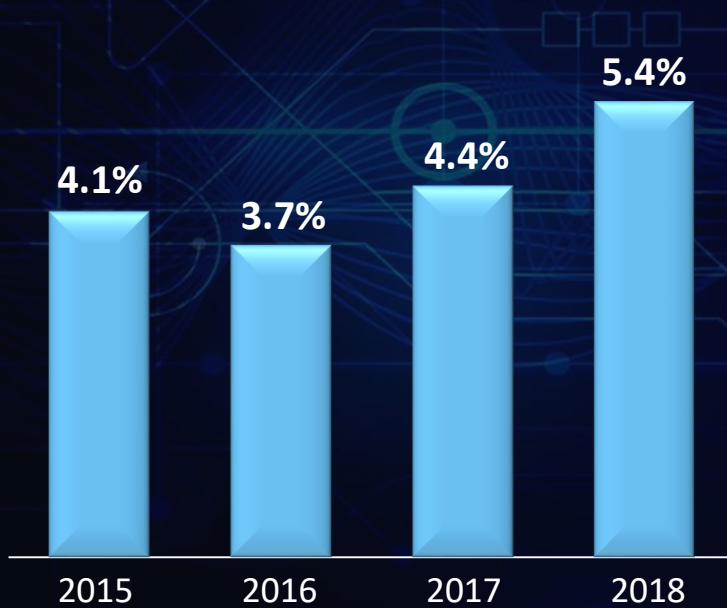
Category Review

COMBUSTIBLES

Despite a continued and slow decline in volumes, the U.S. combustibles market remains large and highly profitable

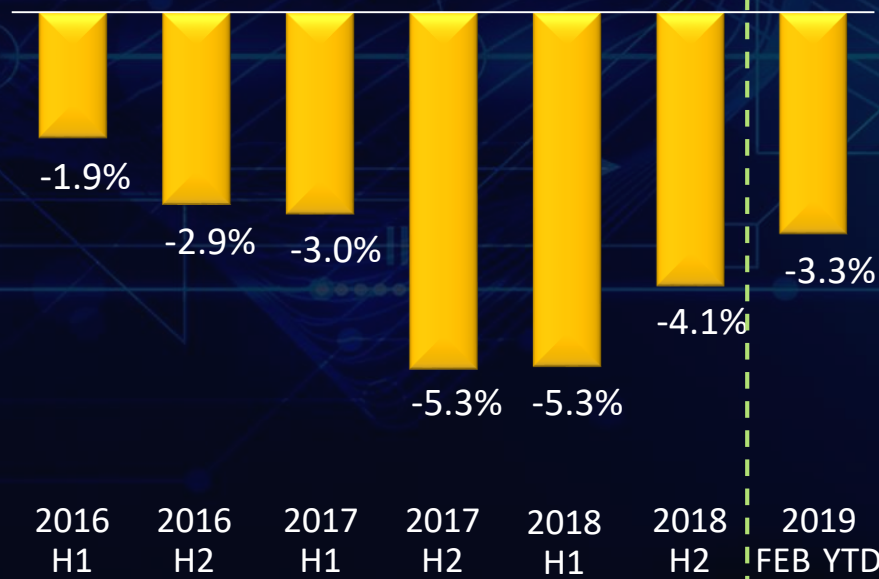
VALUE HAS REMAINED STRONG:

Combustibles Industry Price Mix



DECLINES EXPECTED TO STABLISE:

% Combustibles Industry Volume Decline (shipments to wholesale)



THE DRIVERS ARE KNOWN:

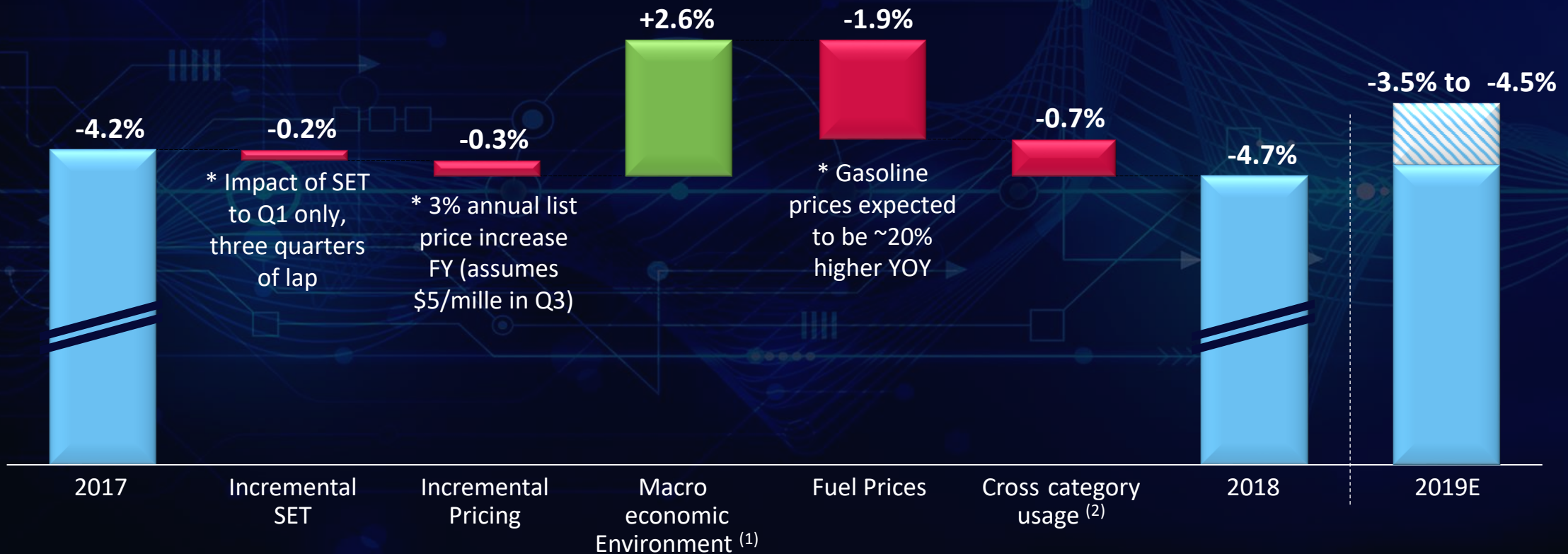
Drivers of YoY Decline

- > Secular decline
- > Macro economic factors
- > Cross category usage
- > State excise changes
- > Industry pricing

Source: Company data

We have a clear understanding of the drivers of volume change

U.S. CIGARETTE INDUSTRY VOLUME DRIVERS, 2018

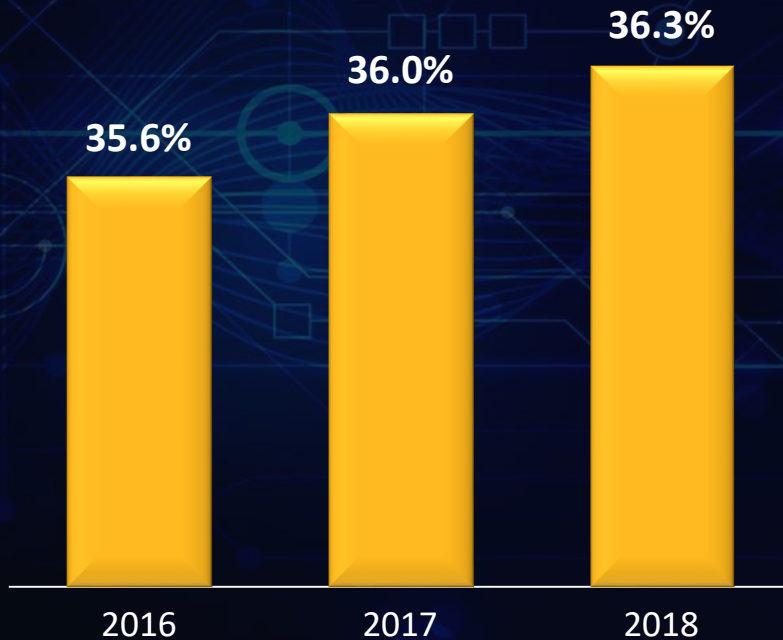


Notes: (1) Macroeconomic factor model components include unemployment measures, Used Goods Demand, CPI, HH Disposable Income, Real Wage Growth, CPG Factory Output and other factors. (2) Estimated impact based on expected vapour category volume growth and 25% cigarette cannibalisation rate. Source: Company data

Our combustibles brand portfolio is ideally configured to compete and capture value in the U.S.

U.S. BUSINESS IS WINNING IN VALUE:

U.S. DB Value Share of Total Combustibles



Source: Company data, (STR)

VALUE GROWTH ACROSS U.S. DRIVE BRANDS:



NAS has shown impressive market share gains, growing in 49 states, with a 162 ASU35 share index

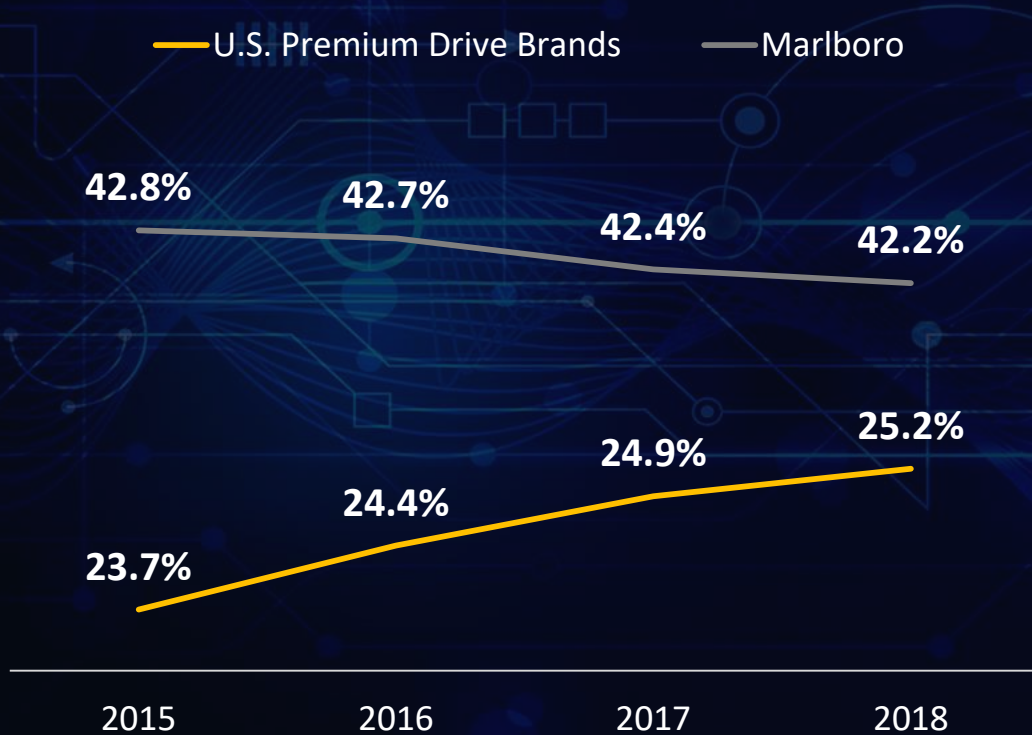
Newport has consistent YOY growth, grew in 43 states and significant ASU35 share increase

Camel has strong momentum with Camel Capsule (+18 bps) and a 160 ASU35 share index

Pall Mall continues to perform well in Branded Value, and is working effectively to support premium brands

Our Drive Brands continue to gain in market share

STR SHARE OF MARKET



Source: Company data, (STR)

STR SHARE OF MARKET CHANGE, 2017 18

	2017	2018	Change
AMERICAN SPIRIT	2.4%	2.6%	+20 bps
Newport	14.2%	14.3%	+10 bps
CAMEL	8.3%	8.3%	0 bps
Marlboro	42.4%	42.2%	-15 bps

Across the portfolio, our brands index favourably in both margin and price mix

PREMIUM POSITIONING OF OUR BRANDS:

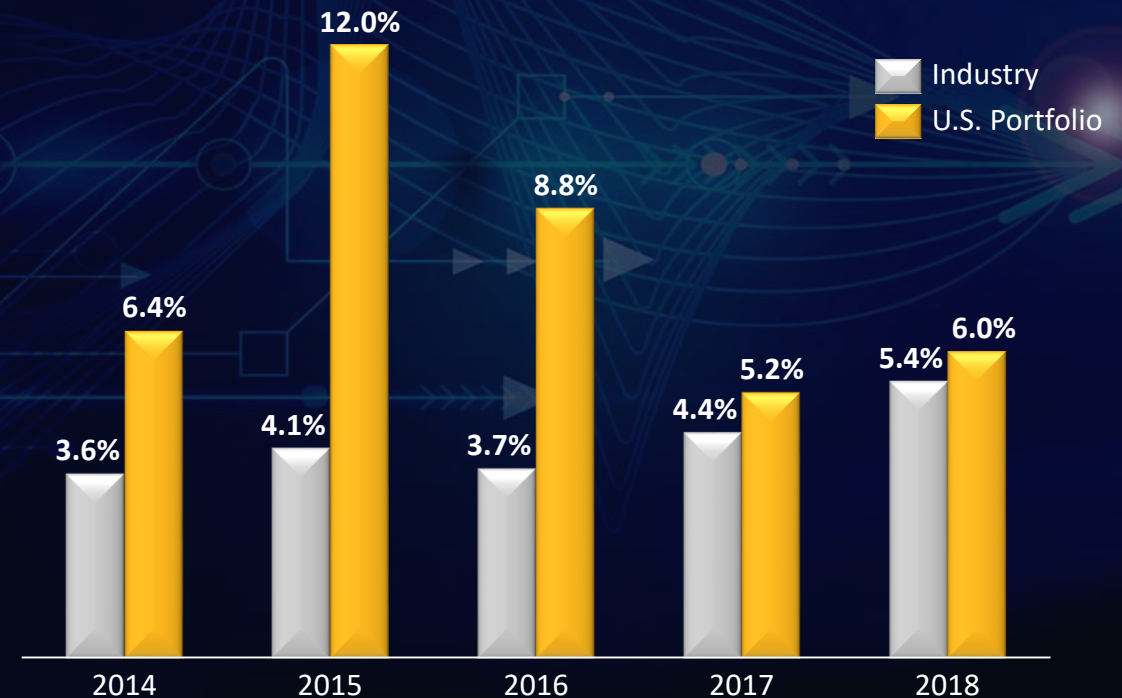
U.S. Drive Brands Average Pack Price, 2018



Source: Company data

ROBUST PRICE MIX VS INDUSTRY

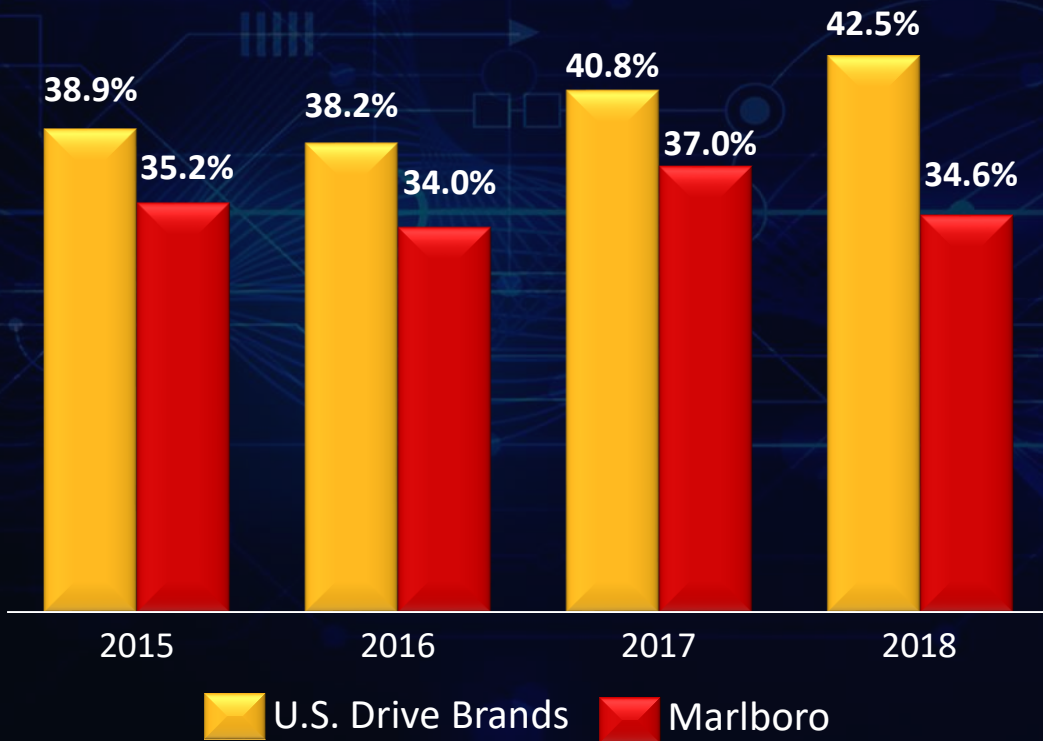
Combustibles Price Mix



And favourably in adult tobacco consumer demographics

HIGH ASU35 SHARE OF U.S. BRANDS:

We grew 170 bps over the last year



Source: Company data

DIVERSE ETHNIC PROFILE:

Ethnic Profile of ATCs, 2018

	Caucasian	African American	Hispanic	Other
Industry	64%	13%	16%	7%
AMERICAN SPIRIT	68%	5%	17%	9%
Newport	33%	42%	19%	6%
CAMEL	67%	5%	20%	8%
Premium Drive Brands	49%	24%	19%	7%
Marlboro	71%	4%	17%	7%

We continue to strengthen relevance among ASU35



More about menthol...

A **STRONG** POSITION:

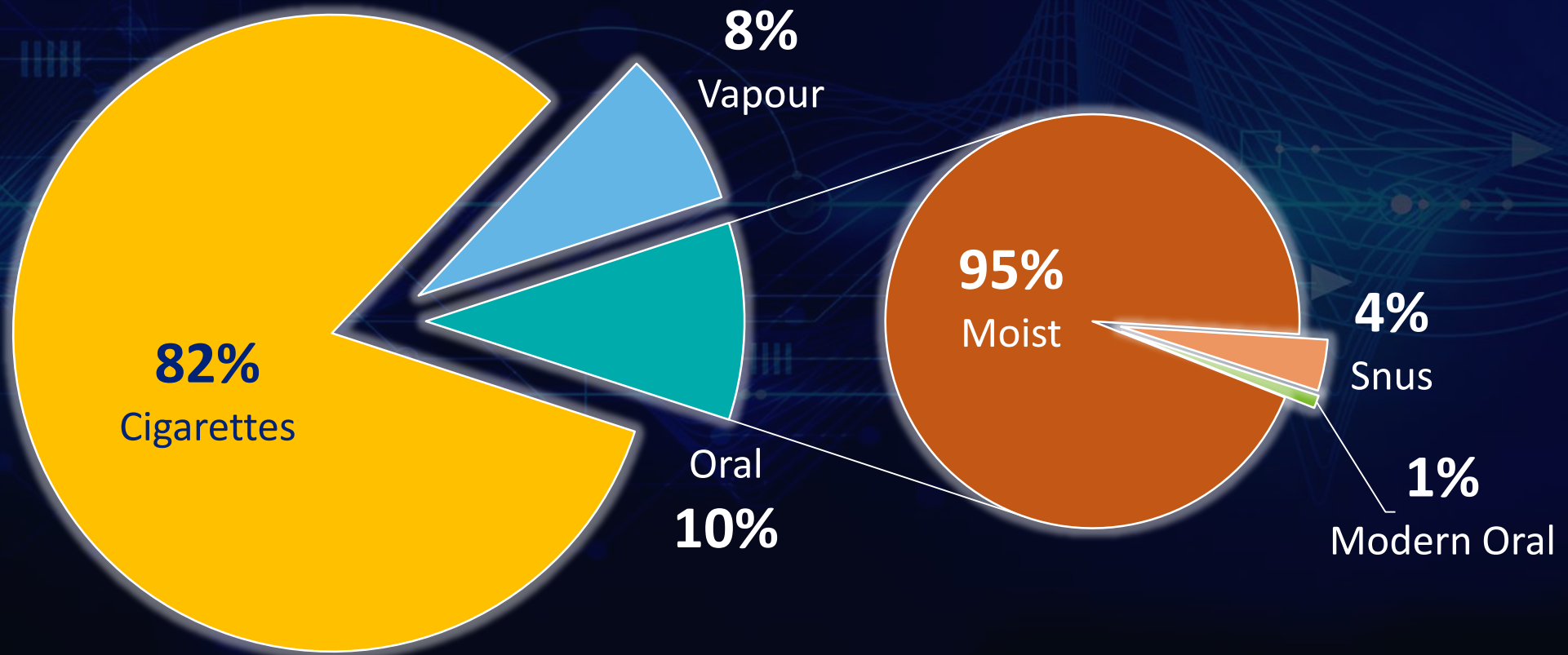
-  Superior adult smoker understanding
-  Strong brand equity and differentiation
-  High brand loyalty among core franchise
-  Lower menthol loading on best selling styles
-  Highly ASU35 relevant destination portfolio
-  Strong marketing capabilities
-  Experience from other countries
-  Believe in science-based regulation
-  Against discriminatory actions

Category Review

ORAL

The Oral segment is 10% of the U.S. tobacco market

U.S. ORAL SEGMENT BREAKDOWN, 2018

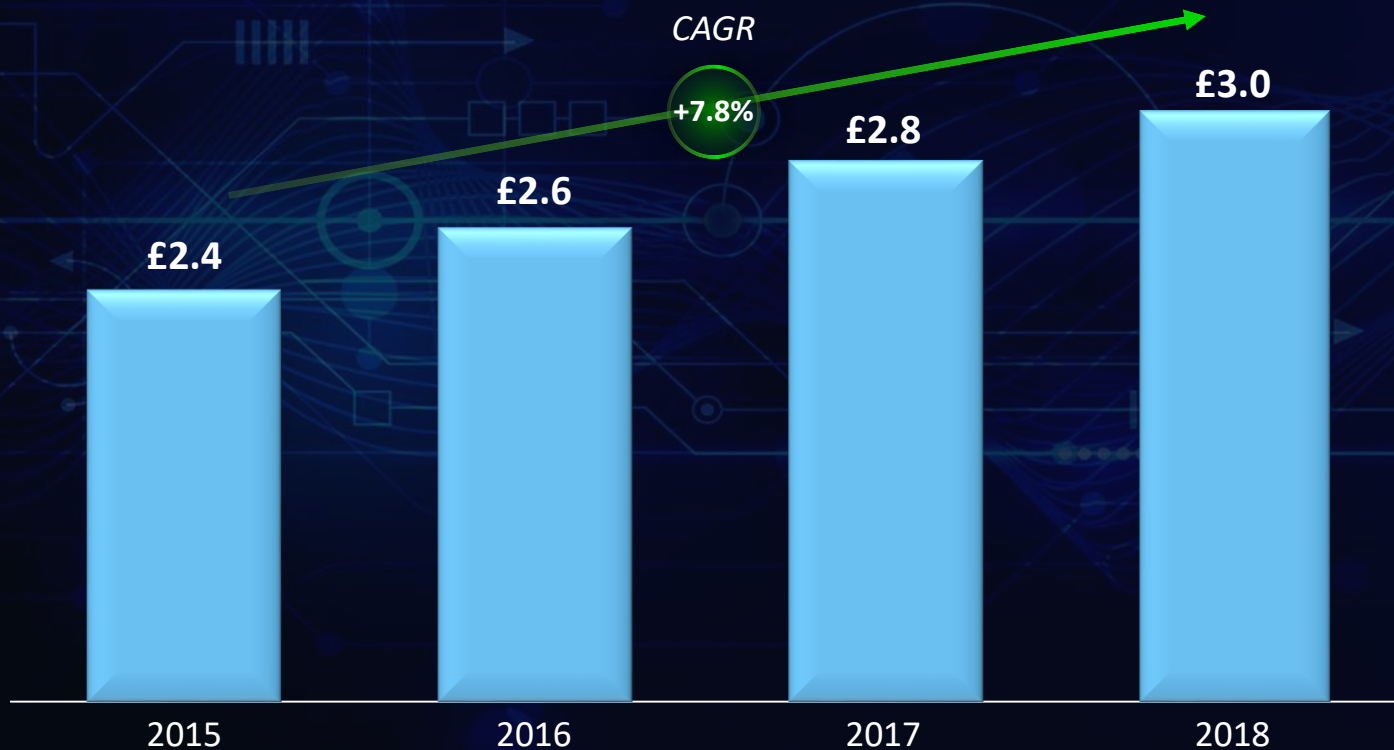


Source: Company data

Oral tobacco is well-established and continues to grow

STRONG GROWTH IN THE CATEGORY:




Oral Tobacco Industry Revenue (bn)



Source: Company data

WITH AN ATTRACTIVE ATC PROFILE:

Adult Oral Tobacco Consumers Index to Adult Smokers

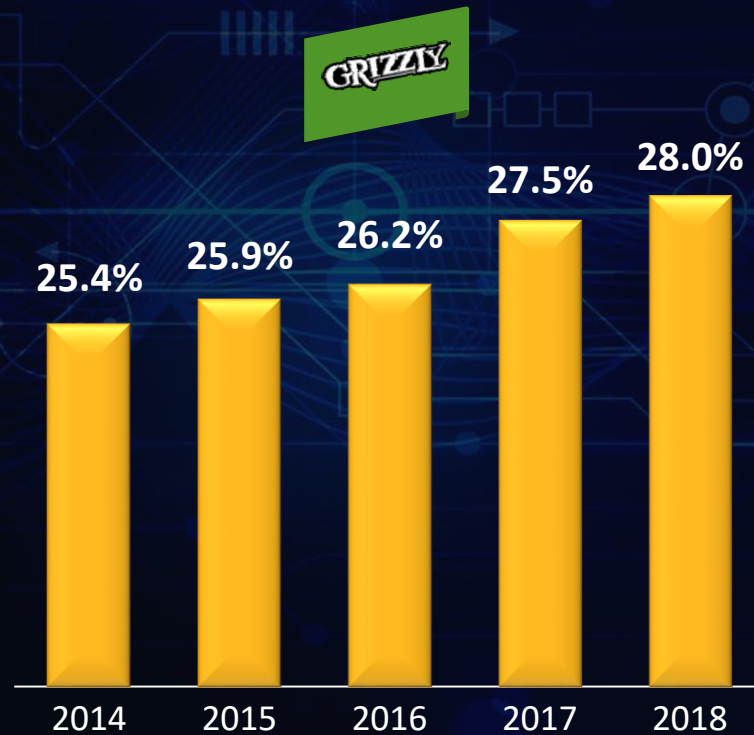
	Age	85
	Income	150
	College	135

- › ASU35
- › More Affluent
- › More Educated
- › Growing in urban centers

In traditional oral, we continue to see share gains

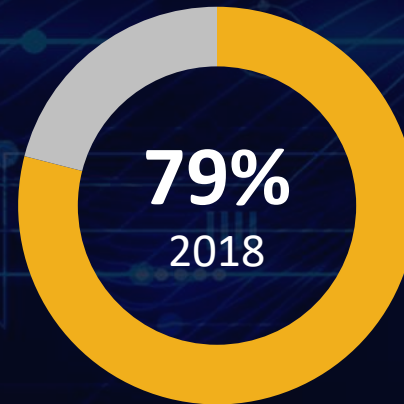
GRIZZLY GROWING SHARE:

Grizzly Value Share of Moist



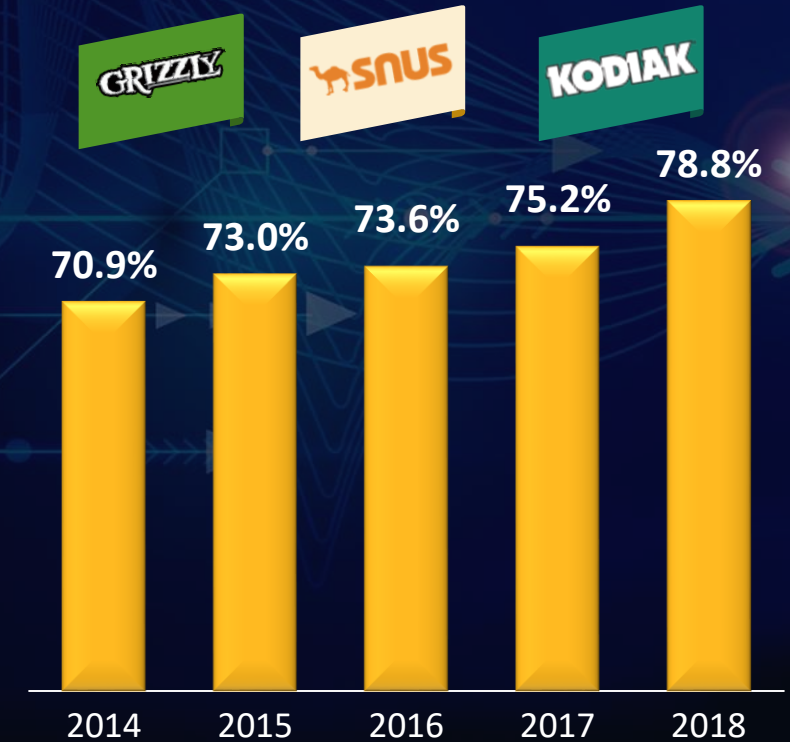
A HIGH MARGIN BUSINESS:

Gross Profit Margin, U.S. Oral Portfolio



TOTAL ORAL CONTRIBUTING STRONG PROFIT:

U.S. Oral Gross Profit Margin



Source: Company data

Shifting trends and adult tobacco consumer preferences are creating new oral category market opportunities



TRADITIONAL ORAL

- › Homogenous Demographics
- › Skews Rural & Blue Collar
- › Visceral Masculinity
- › Rooted in Tradition



EXPANDING ORAL BOUNDARIES

- › Multiculturalism
- › Rise of Female Work Force
- › Masculinity Redefined
- › Shifting to Urban Areas
- › Open to Experimentation

Source: Company data

Our expanding product pipeline positions us as a leading innovator in the oral category

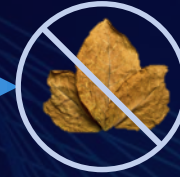


EXISTING Segment

INCLUDES TOBACCO LEAF



TOBACCO POUCHES



EMERGING Segment

LEAF FREE



NICOTINE POUCHES

Camel SNUS | Reinforcing our category leadership



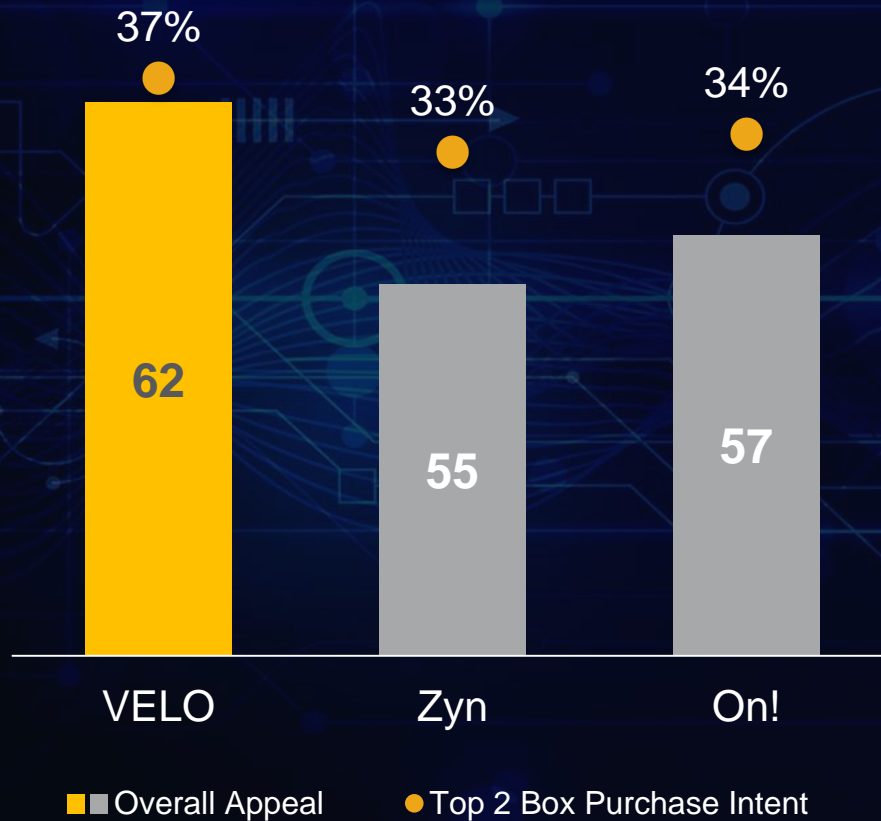
- › Potential to launch first MRTP advertising in the category to add a relative risk benefit for adult smoker consideration
- › Contemporized retail and brand activation campaign to increase awareness and trial



Potentially Reduced Risk Product Communication (pending FDA decision)

High confidence in our Modern Oral products

OVERALL LIKING AND PURCHASE INTENT

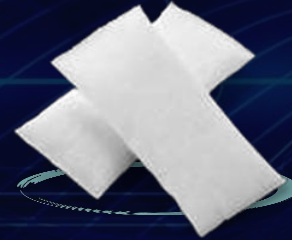


KEY PRODUCT MEASURES

	VELO	Zyn	On!
Appearance <i>(%T2B)</i>	36%	28%	34%
Uniqueness <i>(%T2B)</i>	51%	42%	41%
Expectations <i>(%Exceeded)</i>	36%	24%	26%
Satisfying Experience <i>(%T2B)</i>	69%	57%	56%
Recommend to ATCs <i>(%T2B)</i>	55%	42%	50%

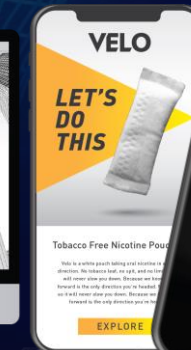
Source: Company data, ATC market research

VELO | White Nicotine Pouch Offering Neat & Unique Choice



Available in a 4mg and 2mg Pouch

- › Product testing validated superior performance versus competitors, including current market leader
- › Planned summer geographic rollout with disruptive campaign, digital activation, and ATC engagement platforms to build awareness and trial



Source: ATC market research (Zyn, On!)

Category Review

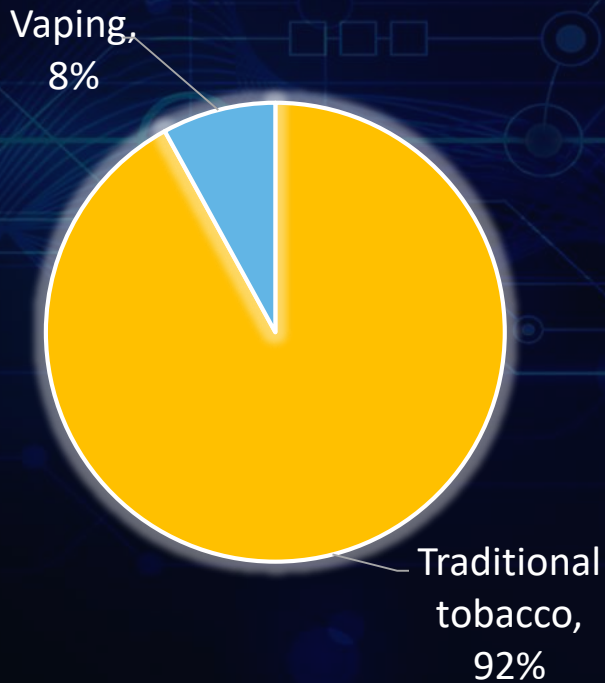
VAPING

The U.S. vaping market is still forming

A FORMING CATEGORY...

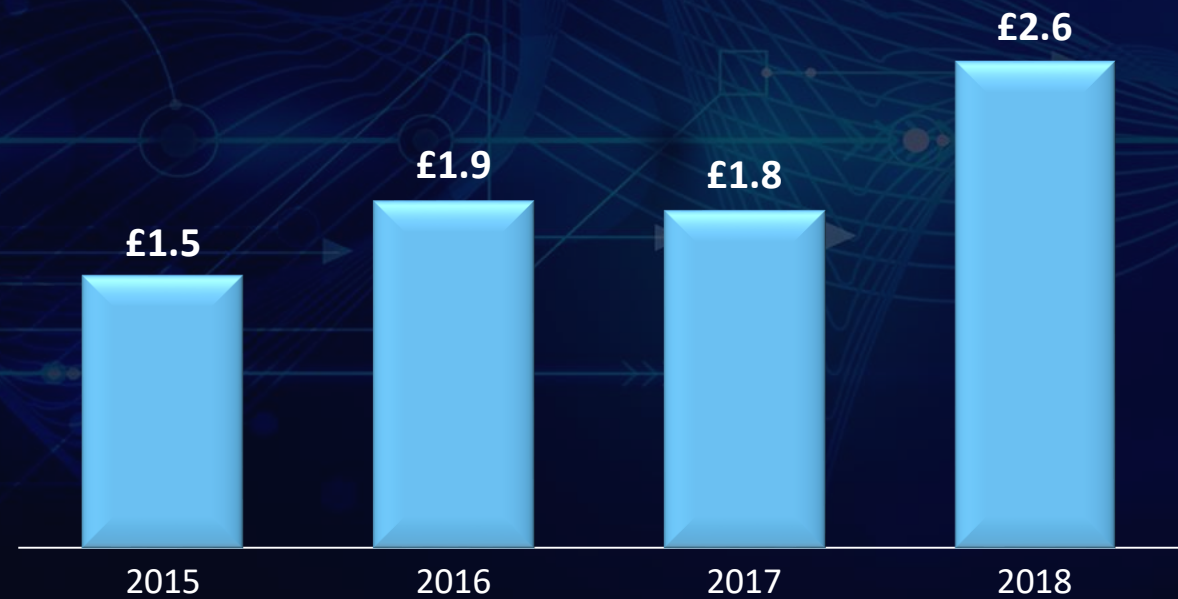
... WITH CLEAR OPPORTUNITY FOR GROWTH:

Vapour Value Share of Total U.S. Tobacco Products Market, 2018



Source: Company data

Vapour Industry Revenue (bn)



During the last 5 years, there have been 3 clear leaders of the category

We anticipate consolidation of the market due to the PMTA deadline

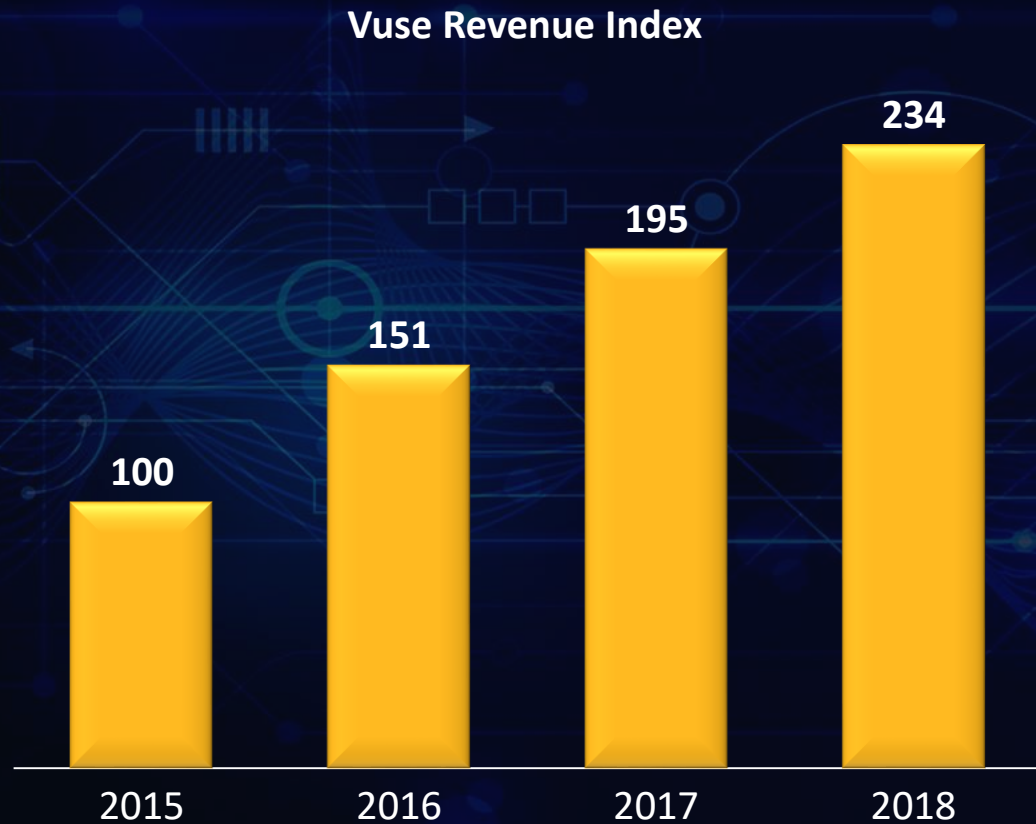
~\$1.0bn CONTESTABLE SPACE GOING FORWARD:



- › We anticipate PMTA will be a significant hurdle for many current players, opening up contestable space
- › We have a strong track record of successful management of regulatory affairs
- › Therefore, we are confident we will continue to deliver strong results as vaping regulation evolves

In vaping, Vuse continues to grow contribution

STRONG REVENUE GROWTH YEAR-ON-YEAR:

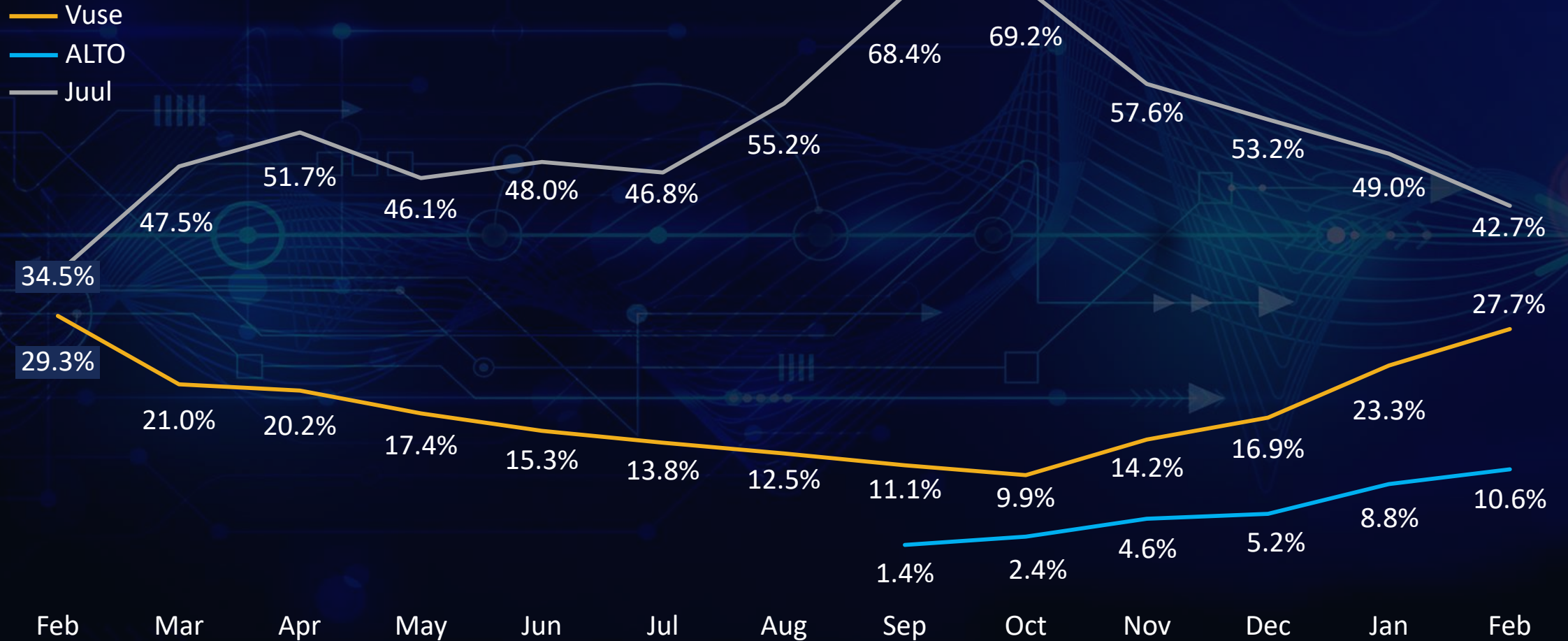


Note: Vuse Revenue indexed to 2015 value. Source: Company data

- › **Consistent revenue growth**
- › **+19% volume growth** despite Vibe market withdrawal and competitive moves
- › Alto phased **expansion began in Sep-18**
- › **Vibe market re-entry** began in Oct-18, after 7 months of being out of distribution
- › **FDA announcements** created confusion among retailers and adult tobacco consumers

We are confident in the future potential for Vuse

Share of Consumable Kits (Monthly), 2018-19



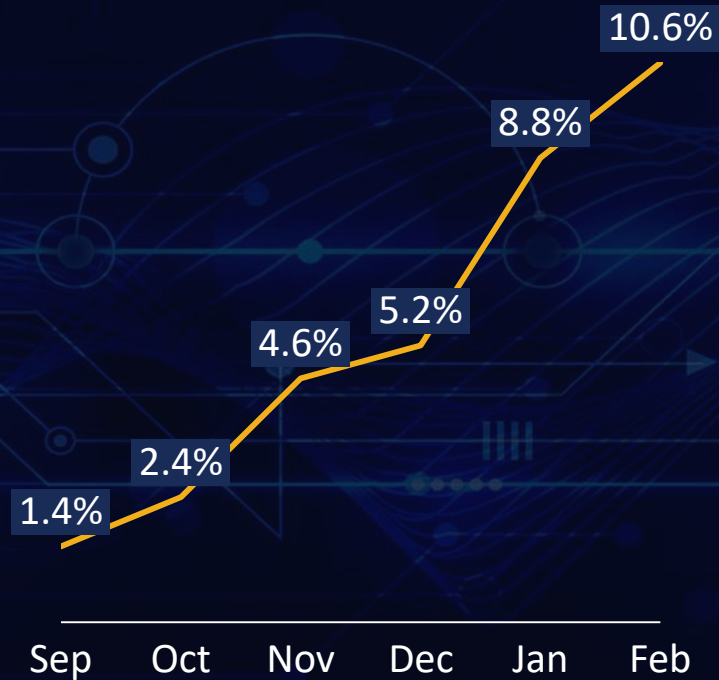
Source: Company off take data

Strong early performance for Alto

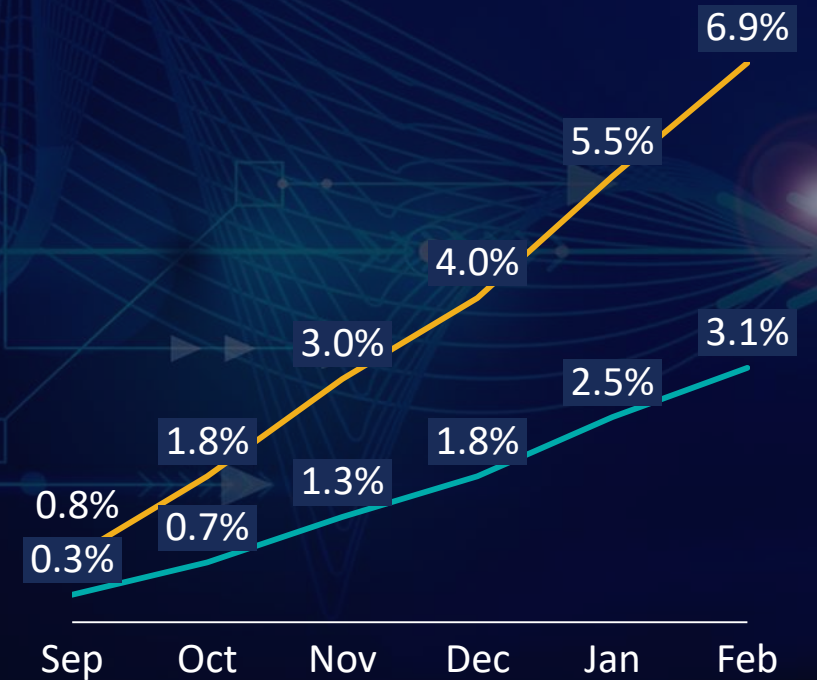
CONSISTENT OFF TAKE GROWTH THROUGH DISTRIBUTION EXPANSION:



ALTO Share of Consumable Kits, 2018-19



ALTO Share of Cartridges and ml, 2018-19

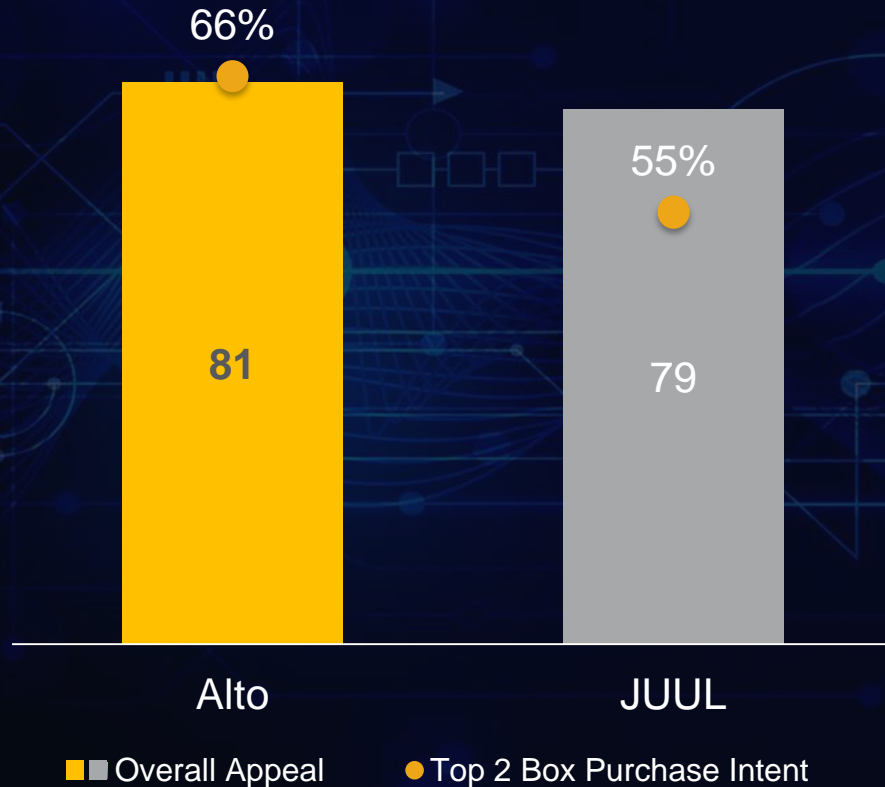


— Share of millilitres (off take)
— Share of cartridge (off take)

Source: Company off take data

Alto's product testing results indicate its competitive strength

OVERALL LIKING AND PURCHASE INTENT



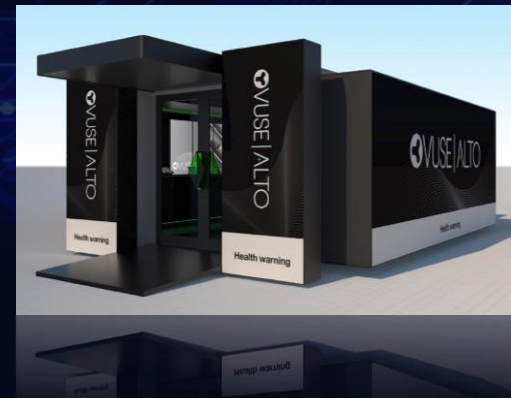
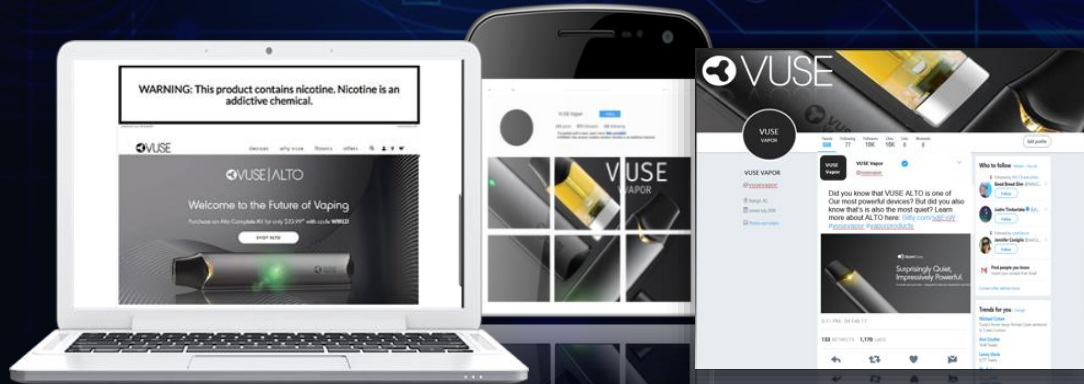
PERFORMANCE AND DERIVED IMPORTANCE

	Alto	JUUL
Very consistent vapour	77%	56%
Cartridges are long lasting	92%	75%
Long lasting battery	84%	77%
A quiet draw	88%	70%
Latest in vaping technology	82%	77%
Definitely would recommend to another adult tobacco consumer	65%	55%

Source: Company data, ATC market research

We have exciting marketing plans to engage adult tobacco consumers

Pack Inserts



Summary and Outlook for the U.S.

Next phase of integration into the global enterprise has commenced

- 1** \$400M synergies are well on track
- 2** We are aligning strategic agendas across the Group
- 3** We are establishing global Centers of Excellence in the U.S.
- 4** Marketing practices, insights, R&D, and product pipeline are being aligned

Our outlook is strong

A TRACK RECORD OF SUCCESS

- #1** in Premium Growth
- #1** in Menthol
- #1** in ASU30 Share
- #1** in Growing Moist Segments
- #1** in Snus
- #2** in Vapour

CONFIDENCE IN THE FUTURE

- £** Profitability of the U.S. Market
- ▲** Continued Growth in Vapour
- 📊** Innovative Modern Oral Products Ready to Expand
- 🔗** Exciting Pipeline of new PRRP's
- ⚙️** Exceptional Sales and Marketing Capabilities
- 💬** Strong R&D and Regulatory Engagement

We will be a leader in the transformation of the U.S. market into the future

