

# Enterprise of the Future

## Transformation and Growth

**Jack Bowles** | Chief Executive   **Tadeu Marroco** | Finance and Transformation Director

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# Important information



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Our vapour product Vuse (including Alto and Vibe), and certain products including Grizzly, Granit, Camel Snus, Velo and Kodiak, which are sold in the U.S., are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

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# Building A Better Tomorrow™



**1**

We are committed to transforming BAT to reduce our health impact



**2**

We are uniquely positioned with our consumer-centric multi-category portfolio



**3**

We have the strengths, new capabilities, brands and resources to succeed



**4**

We are on a journey: transformation is happening. The opportunity is huge



**5**

We are confident in delivering our targets and building A Better Tomorrow™



1

**We are committed to transforming BAT to reduce our health impact**

# Committed to Building **A Better Tomorrow™**



## Our Purpose

**To reduce the health impact\* of our business**



## Our Commitment

**To provide *adult consumers* with a wide range of enjoyable and *less risky products*\***

**To encourage *smokers* to *switch completely* to *scientifically-substantiated reduced-risk alternatives*\***

# Creating the Enterprise of the Future is Key

**From**

**Cigarettes**

**And**

**Declining Volume  
Growing Value**



**To**

**Multi-category CPG  
Nicotine & Beyond\***

**And**

**Growing Volume  
& Value**

**Building A Better Tomorrow™**

# Delivering Value for all Our Stakeholders



## ...with stretching targets



50 million consumers of non-combustible\* products by 2030



£5bn New Category Revenue in 2025



Carbon neutral by 2030\*\*



Eliminate unnecessary single-use plastic & all plastic packaging recyclable^ by 2025\*\*

\* Non-combustible consumer definition. See Appendix A6 \*\* Environmental targets. See Appendix A5 ^ Reusable, recyclable or compostable



# Delivering for all Stakeholders in 2020

2020  
REVENUE  
GROWTH\*  
**+3.3%**

2020  
PROFIT  
GROWTH\*  
FROM OPERATIONS  
**+4.8%**

2020  
EPS  
GROWTH\*\*  
**+5.5%**

CONSUMERS  
of Non-Combustibles  
**13.5m +3.0m**

ESG INDICES  
MSCI: **BBB**  
Sustainalytics: **27.8%**

DIVERSITY  
FT Index & Global Top Employer



OPERATING CASH  
CONVERSION  
**103%**

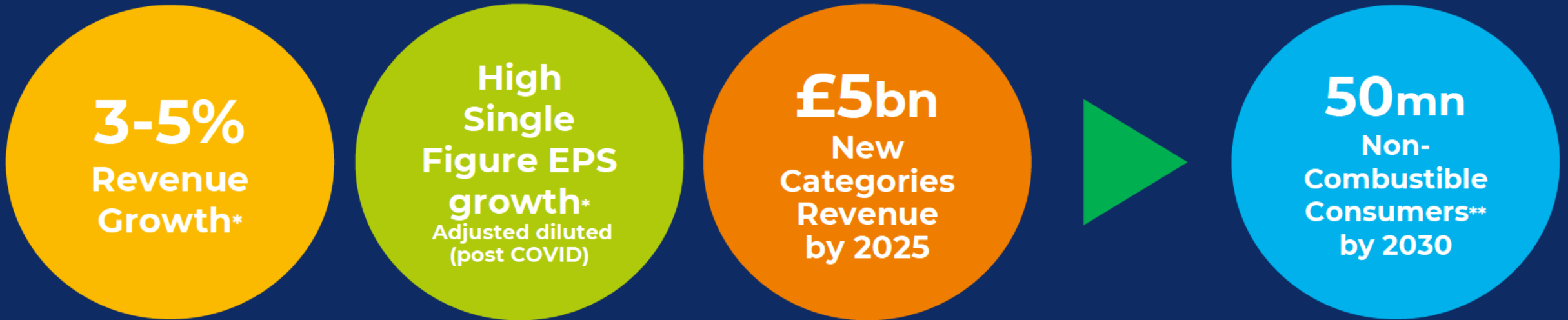
LEVERAGE  
REDUCTION  
**-0.3x**

DIVIDEND  
PAY-OUT\*\*\*  
**65%**

**A £26bn revenue, consumer-centric multi-category CPG with ESG at the centre**

# Shared Stakeholder & Shareholder Value

## Our Targets:

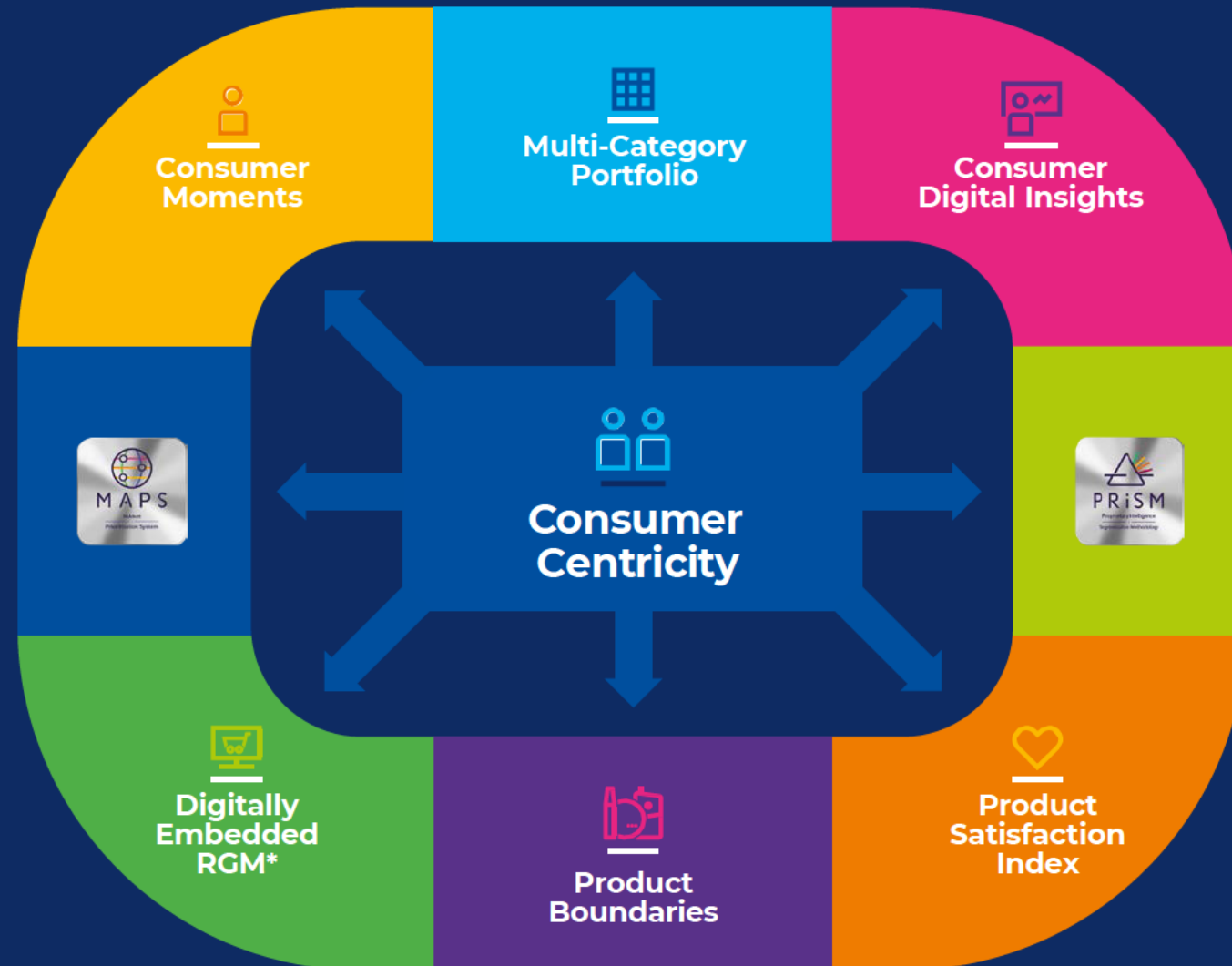


**Growth and Transformation enabling A Better Tomorrow™**

2

**We are uniquely positioned  
with our consumer-centric  
multi-category portfolio**

# Consumer-Centric Multi-Category model



Beyond multi-category... we are Consumer-Centric Multi-Category

# Our well-established Multi-Category Brand Portfolio



**VAPOUR**



#1    

#2 

**THP**



#2        

**MODERN ORAL**

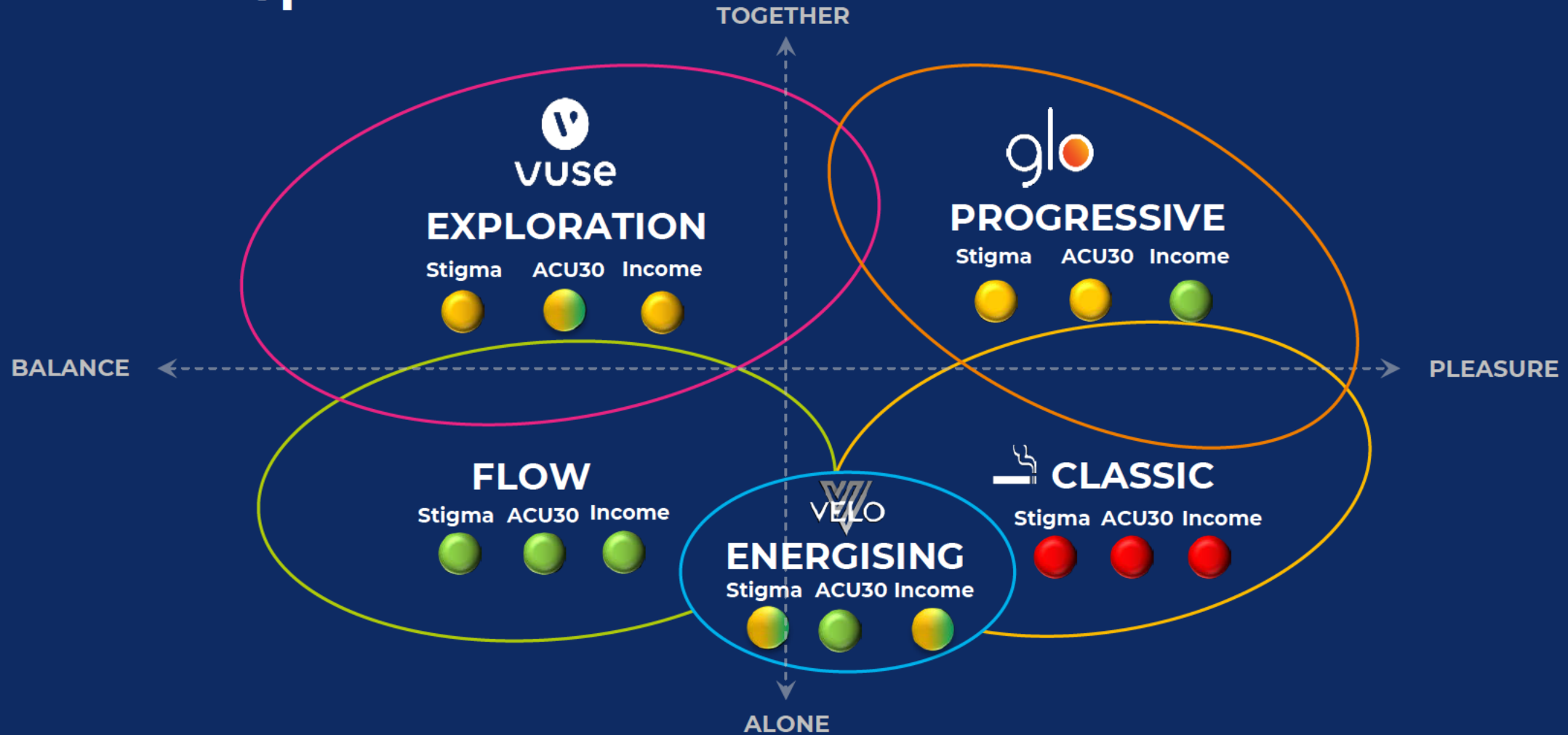


#1     

#3 

Share positions based on value share of vapour and volume share of THP and Modern oral. Vuse brand represents c. 80% of FY20 vapour revenue. Continue to migrate remaining Vype brands during 2021. Velo brand represents over 50% of FY20 Modern Oral markets. Continue to migrate remaining EPOK, LYFT brands during 2021.

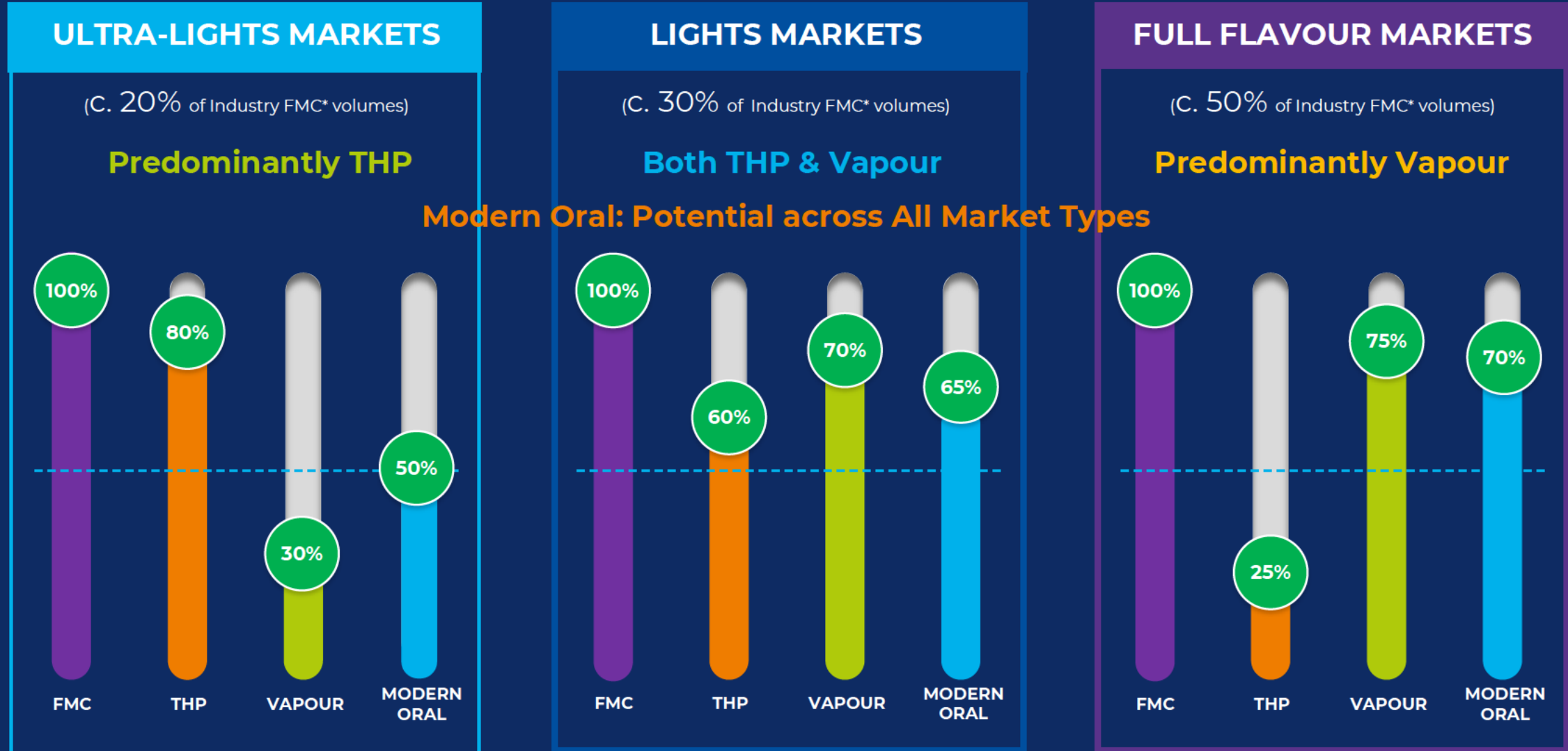
# Deep Consumer Insights to Target Distinct Consumer Spaces



One size does not fit all..

# Unique Multi-Category Consumer Insights Driven Portfolio

PRODUCT SATISFACTION INDEX (PSI)



\* FMC: Factory Made Cigarette. Source: Volumes split based on BAT internal estimates of industry (Top 40 markets, excluding China, India) Index based on external consumer track data. For purpose of this slide, the terms "Full-flavour", "ultra-light" and "light" refer to global consumer taste and sensorial preferences. "Ultra-light" or "light" should not be interpreted as a representation of product's risk profile.

# Targeting: Globally Capable, Locally Relevant



**1** Consumer & Commercial Opportunity

**2** Product Satisfaction Index (PSI)

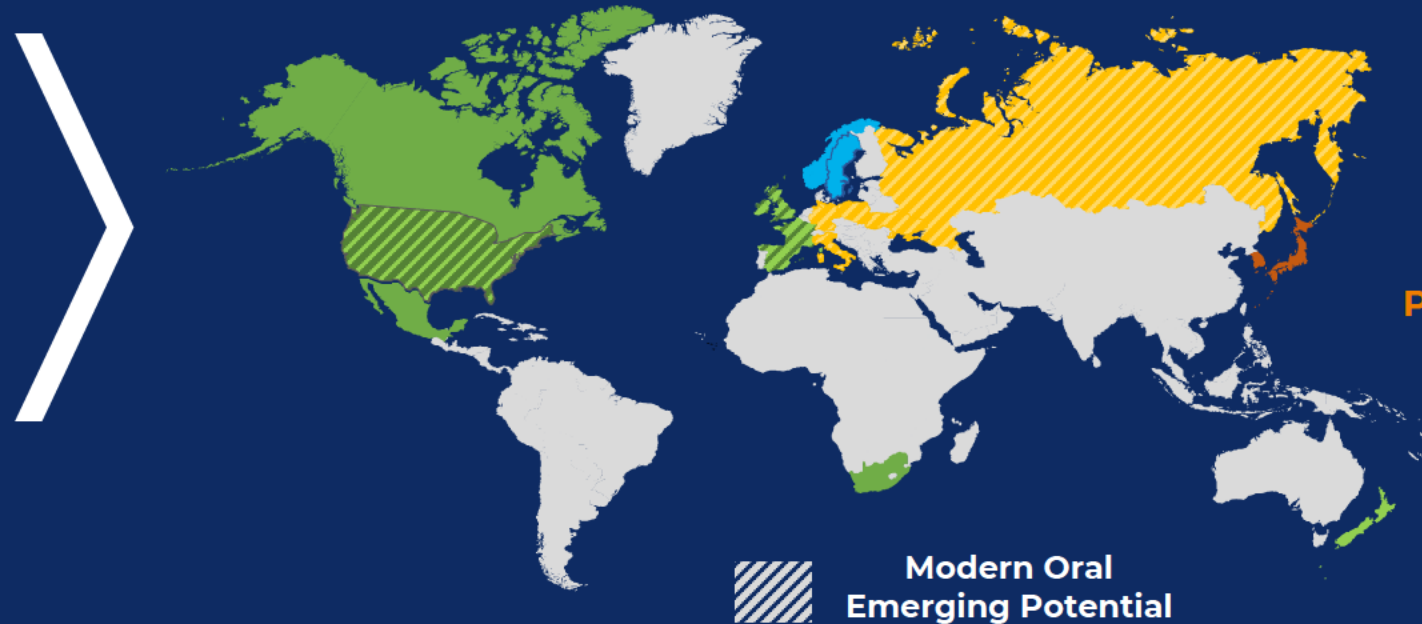
**3** Regulatory & Tax/Excise Environment

**4** Distribution & Channel Landscape

N. America & W. Europe  
Predominantly Vapour

Northern Europe  
Oral

Central & Eastern Europe  
Mixed Usage\*



Japan & SK  
Predominantly  
THP

Modern Oral  
Emerging Potential



# A Large, Growing New Category Opportunity

2020

2025\*



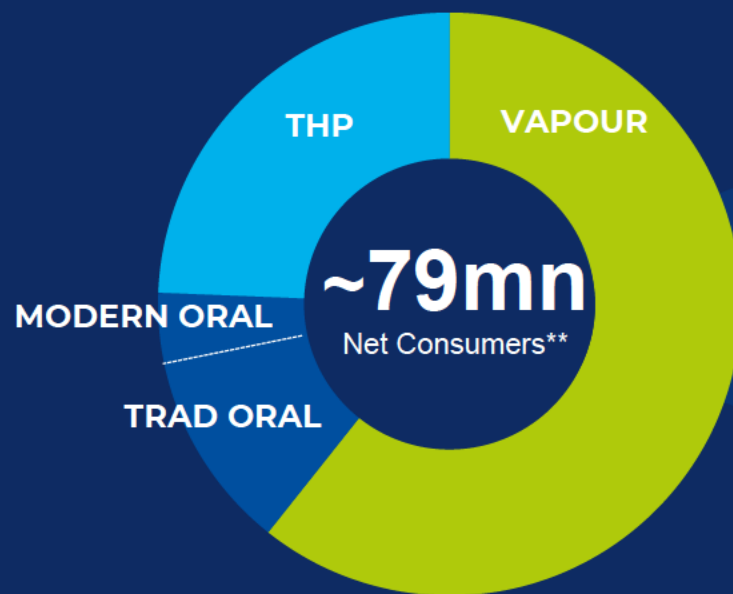
Non-Combustibles\*\*\*

13.5mn

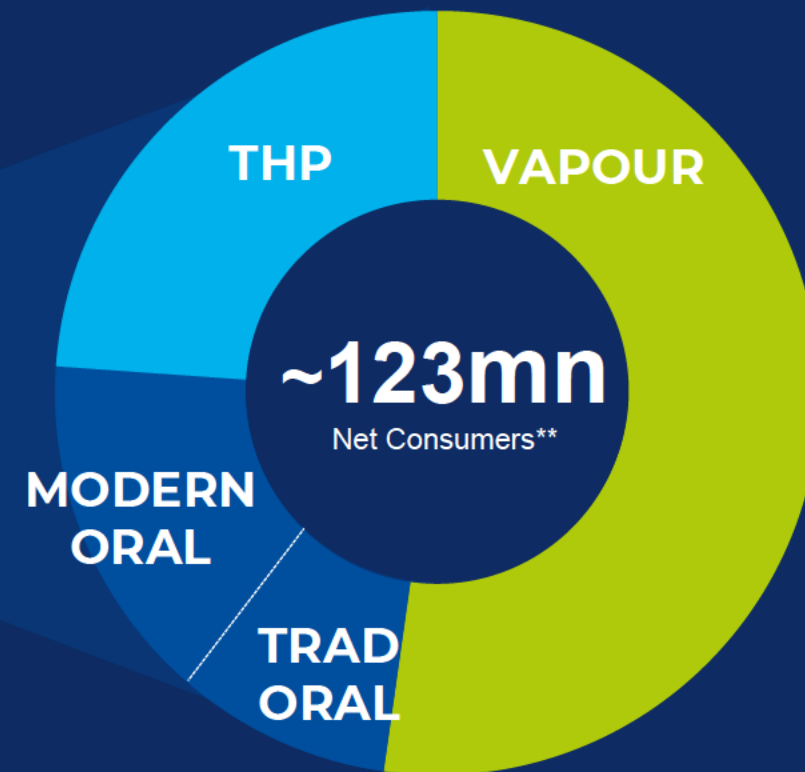
Consumers\*\*\*

17%

Revenue & Consumers Share^



~£16bn revenue



~£29bn revenue

2025 estimate based on company data, Industry Incidence Study & BAT internal estimates, excluding India and China. \*\*Total Non-Combustibles Net Consumers excludes-Poly users. Poly-usage across non-combustible products.

\*\*\* Non-Combustible consumer definition. See Appendix A6. ^ BAT share of revenue and consumers as a % of 2020 industry estimates

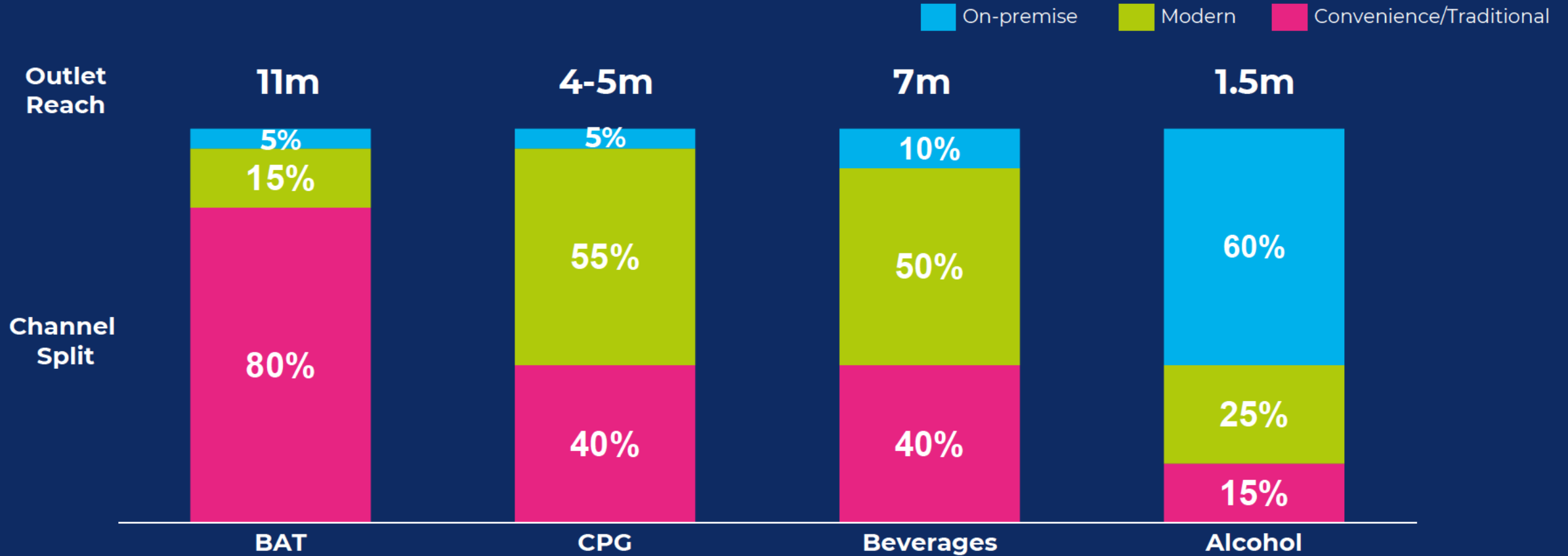
3

**We have the strengths,  
new capabilities, brands  
& resources to succeed**



# Unrivalled Outlet Reach in Our Top 40\* Markets

Double the retail reach of large-cap CPGs



Distribution power:

>180 Markets

>11m Retail Outlets

>150m daily consumer touchpoints

Note: Company share of retail sales estimated based on category channel breakdown; for 2020 where available, otherwise 2019; numbers rounded for simplicity Channel classification: On-premise includes Bars, Restaurants, Hotels. Modern includes Super/Hypermarkets, Other Grocers, Discounters, Drug, Mixed Retailers (e.g. (department stores); Convenience includes Convenience (traditional/convenience), Forecourt, Food/Drink/Tobacco Specialists, Independent Grocers; Source: Euromonitor; company financials; desk research; BCG analysis \*T40 Top 40 markets representing c. 90% group revenue

# World-Class Capability in Science and R&D

**2x**  
R&D spend  
since 2017

**1,500**  
R&D  
specialists

**£4.1bn**  
New Category  
revenue  
since 2017\*

**1st**  
Launch of e-cig,  
nicotine salts,  
CBD vaping\*\*

**Phase I**  
COVID & Flu  
vaccine studies

# Developing a New World of Digital Insights

## Digital Hubs



## Digital expertise & external partnerships

- Agile
- Design Thinking
- Storytelling
- Innovation
- Data Sciences
- Disruptive Technology



Customers & Consumers

1:1 engagement with New Category consumers

c.10m NC consumers in database +40%  
2.4X strategic brands in own e-commerce revenue



Supply chain

Zero-touch Factories

Virtual Experts in >50% factories  
End-to-end automation >5,000 SKUs



Finance, HR, Legal

Bot Enabled Workforce

+100% work hours saved

**Faster, Forward Looking, New Capabilities**

# Our People Delivering the Enterprise of the Future

## New Capabilities

D2C  
e-commerce

Revenue  
Growth

Design &  
Product

Consumer  
Analytics

### Accelerating transformation

- 400+ management hires bringing new capabilities
- Learning and development at speed and scale via 100% virtual delivery

## Bold & Empowered



### Purpose driven organisation

- With new Ethos and leadership capability
- 80+ awards and certifications

## Stronger, Simpler, Faster



### Digitally enabled workforce

- Simpler, faster organisation
- Connected and empowered workforce

Our Ethos:



Bold



Fast



Empowered



Diverse



Responsible

4

We are on a journey:  
Transformation is happening.  
The opportunity is huge



# We Have Made a Strong Start



Strong growth in  
New Categories

Non-Combustible  
Consumers\*

**13.5m** +29%  
2020 CAGR

New Category  
Revenue

**£1.4bn** +43%  
2020 CAGR

New Category  
Incremental  
Investment\*\*

**+c.£430m**  
2020

Powered by  
combustibles and  
simplification

Combustible  
Volume Reduction

**-4.5%** -4.5%  
2020 CAGR

Combustible Revenue  
Growth

**+2.8%** +3.1%  
2020 CAGR

Quantum  
Savings

**+£660m**  
2020

Continued strong  
financial delivery

EPS Growth\*\*\*

**+5.5%** +8.5%  
2020 CAGR

Free Cash Flow  
Generated

**£7.3bn** +14%  
2020 CAGR

Dividend  
Paid

**£4.7bn**  
2020

CAGR over last three years ending FY20. \* Non-Combustible consumer definition: See Appendix A6.

\*\* Total New Category Investment, \*\*\* Adjusted EPS @ Constant rates of exchange



# Delivered by Our 3 Operational Priorities

## Step-Change In New Categories

Delivering accelerated growth in New Categories

### Combustible Value Growth

Generating the investment  
resources and cash flow

### Simplify the Company

Building the  
capabilities to succeed

# Our Transformation Journey is Accelerating

## Non-Combustible products revenue %



**63%**



**42%**



**28%**



**27%**



**13%**

**c.15% of our developed market\* revenue**

# Accelerating New Category Growth and Profitability

## Vapour



*Establishing Vuse as the **global leader\*** in Vapour, with a clear pathway to **profitability***

## THP



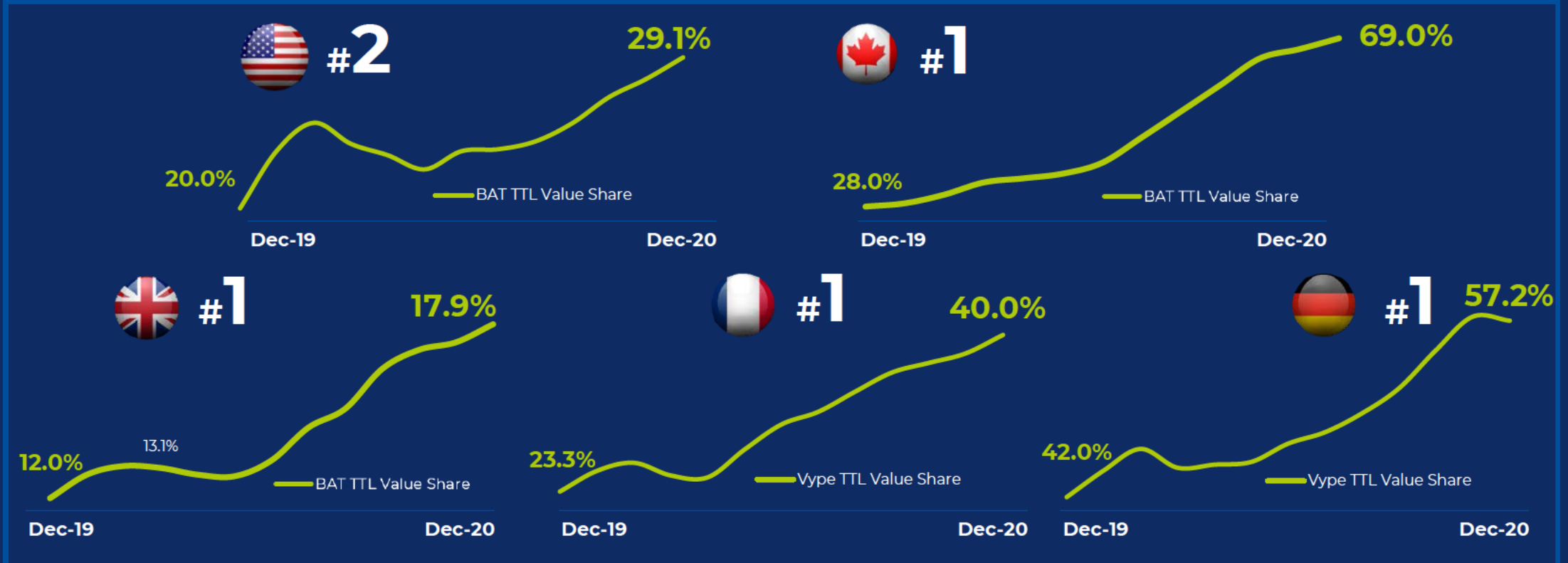
*Leveraging improved consumer **satisfaction** & **innovation** pipeline to be the **fastest growing\*\*** THP brand*

## Modern Oral



*Leveraging **superior international products** & **accelerate US growth** for **global leadership\*\*** in Modern Oral*

## X2 value share\* in T5\*\* Markets c.75% of Industry Revenue



## Strong performance from Alto, ePod and ePen3

Source: BAT value share of total Vapour - US Dec Marlin, Canada Dec Scan, UK Dec Nielsen, France Dec stator & Germany Dec Nielsen. \* See Appendix A3 for Value share definition.  
 \*\* T5 represent c. 75% of Vapour industry revenue (closed-system)

Vuse brand represents 80% of FY20 vapour revenue. Continue to migrate remaining Vype brands during 2021.

## Improved Trade Margin

- Channel shift away from high cost vape stores
- Front margin\* already reduced significantly in France and Canada
- E-Commerce expansion
- Subscription sales

## Reduced Cost of Goods

- c. £100m productivity savings\*\* delivered in 2020
- Design for automation
- Further scale benefits

## Marketing Spend Effectiveness

- Global deployment of MSE Model (Marketing Spend Effectiveness)
- Vuse migration and global brand benefits
- Scale benefits



# Leveraging Improved Satisfaction to Drive Accelerated Growth



## Record Volume Share Across Key Markets (c.80% of Industry Revenue)



**Japan: 6.3%**  
Latest weekly share

**Moscow: 4.6%**  
Dec '20 city share

**Market test: 14%**  
Dec '20 segment share

**Kiev: 3.9%**  
Dec '20 city share

**Bucharest: 1.6%**  
Dec '20 city share

## Driven by Hyper: Our most successful THP launch to date

**Record Device Sales: +68%** glo device volume growth\*

**4.4m** Hyper devices sold in 2020

THP Volume share growth v FY19. \* Device growth excluding Sens. Japan - Dec CVS-BC Vol. Share of FMC+THP+Hybrid; Russia - Dec IMS est. Vol. Share of FMC+THP; Italy and Ukraine - Dec Nielsen Vol. Share of FMC+THP; Romania - Dec Nielsen KA Vol. share of FMC+THP. City shares based on discrete Dec 20. Latest weekly share in Japan is week ending 7<sup>th</sup> Feb. Italy market test in Catania share of THP segment. See Appendix A3 for Volume share definition.



# Insight Driven Innovation to be the Fastest Growing THP Brand



## Further Improvement in Device Appeal & Sensorials

- Device miniaturisation
- Enhanced Boost Function
- Personalisation
- Stick Format
- Flavour Pipeline

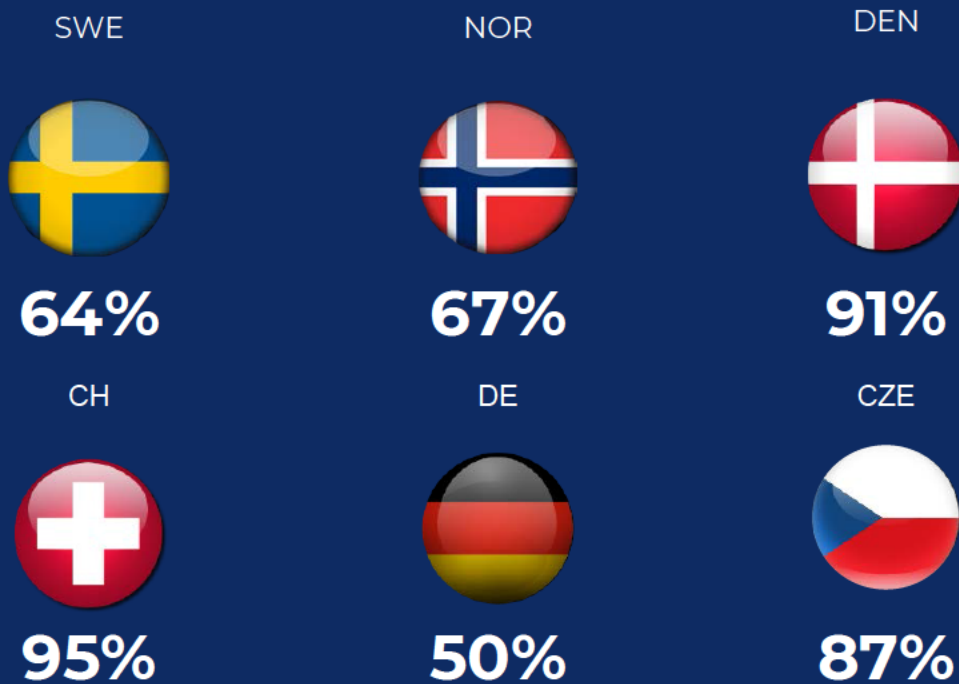


# Leverage Superior International Product and Leadership\* Position



## Leading\* in both established and new oral markets

c.95% of Industry Revenue, including US



## With superior products and mix

Overall Product Appeal**	Established oral market	New to oral market
VELO	4.7	4.9
Competitor 1	4.5	4.7
Competitor 2	4.6	4.2

\* Volume share. Includes EPOK/LYFT brands in ENA. Share of Modern oral category: Dec 2020. The US accounts for c.50% of Modern Oral industry revenue.

\*\* Product appeal based on 2020 Consumer Quantitative Product Research, Sweden & Switzerland. Velo brand represents over 50% of FY20 Modern Oral markets. Continue to migrate remaining EPOK, LYFT brands during 2021.





## Portfolio strengthened by Dryft acquisition

	Initial portfolio	Expanded portfolio
Nicotine strength (mg)	2 & 4	2, 4 & 7
Flavours	2	10
SKUs	4	28



**Nov'20**

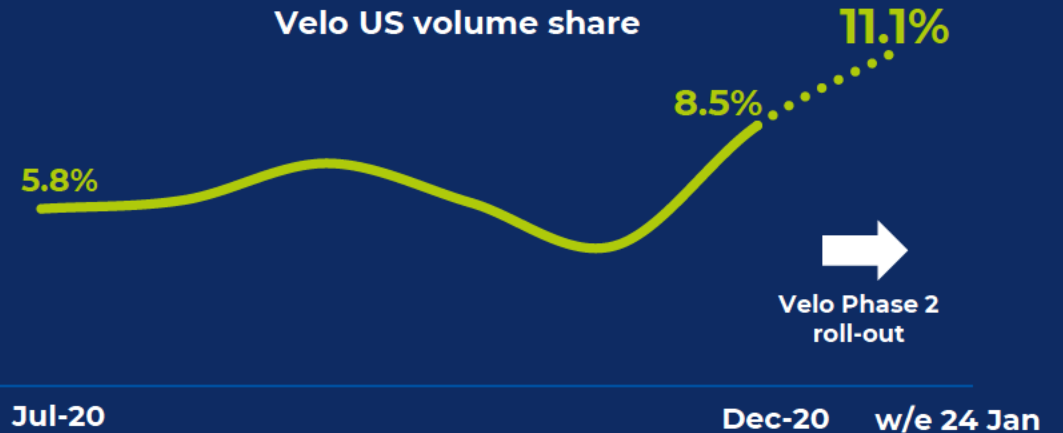
**6K** outlets  
Circle K  
Exclusivity



**Mar'21**

**c.80K**  
outlets  
Nationwide\*

## Encouraging early results, with distribution building



\* Expected

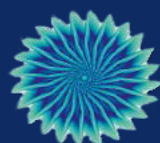
# Exciting Product Innovation Pipelines



**ePod / Alto  
superiority\***



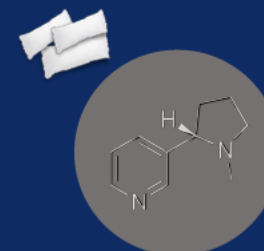
**CBD & Zero\*\*  
City tests**



**Hyper+  
upgrade**



**Superior neo  
sensorials**

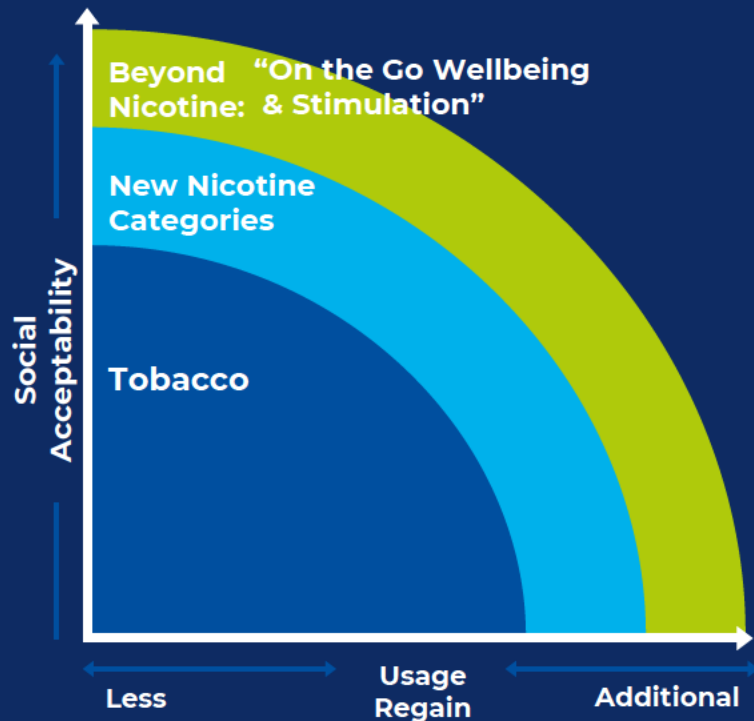


**Patented  
nicotine delivery  
system**

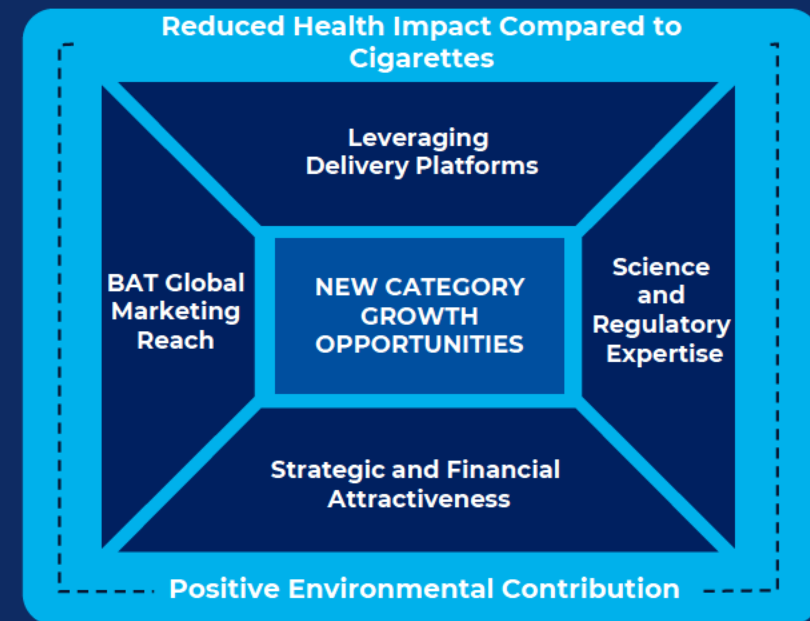
**New strengths,  
flavours and formats**



# Beyond Nicotine: Exploring New Opportunities

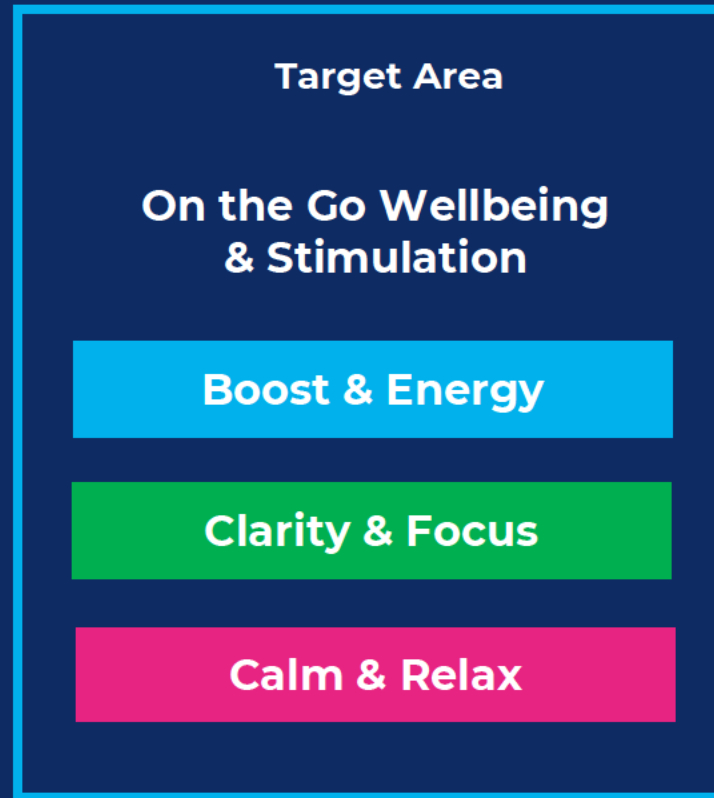


## Clear portfolio expansion boundaries



\* Indicative assessment – assessment of Social Acceptance will be product specific

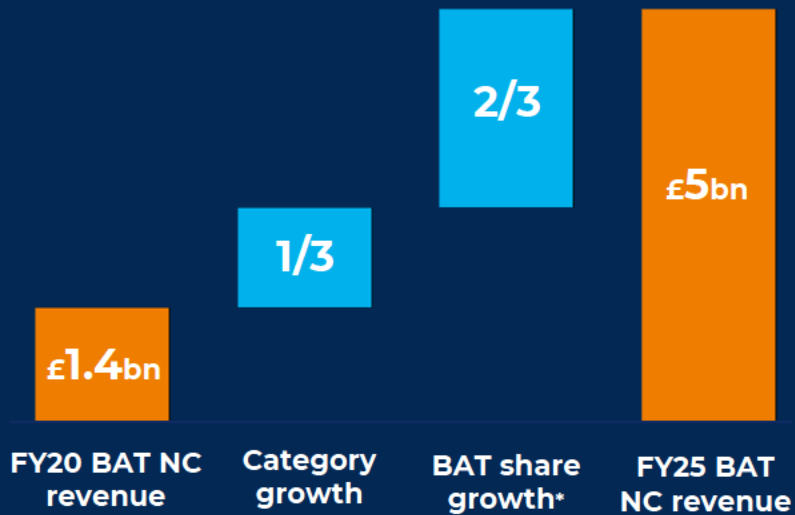
# Beyond Nicotine: Leveraging our Strengths to Explore “On The Go Wellbeing & Stimulation”



9 new Better Tomorrow Ventures investments closed to date

# £5bn Revenue: Clear Pathway to Profitability

## New Category Revenue



## Marketing Investment



## New Category Profitability

**New Categories to be profitable\*\* by 2025**

5

**We are confident in delivering  
our targets and building  
A Better Tomorrow™**



# Combustibles Value Growth: Sustainable Investment Resources and Cashflows

## Well positioned Strategic brands

Premium  
36%<sup>^</sup>



Mid priced  
19%



Value For Money  
45%



## Driving value growth

Value Share\*\*



Volume Share\*\*



## Global Leader with #1 Position

29.8%

Global Market Share\*

## Brand & SKU rationalisation

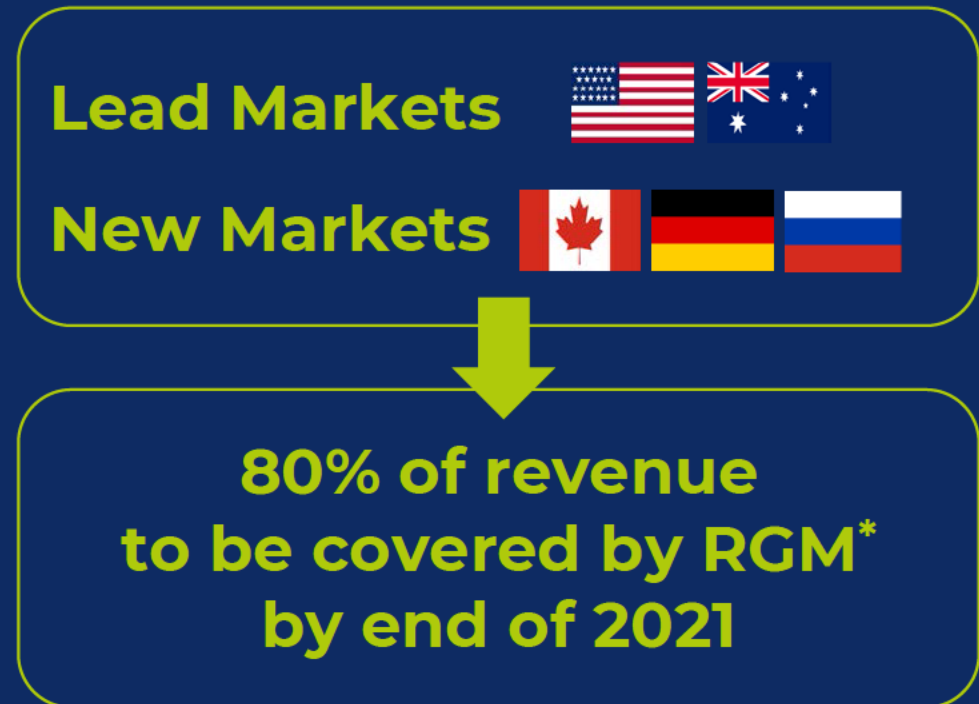


SKU Reduction Over Last 2 years<sup>^^</sup>

## Targeted pricing with RGM<sup>^^^</sup>

# RGM\* driving sustainable value creation

RGM\* powered by a data science-led approach



**Key driver of our 2-3% Combustible revenue growth\*\***

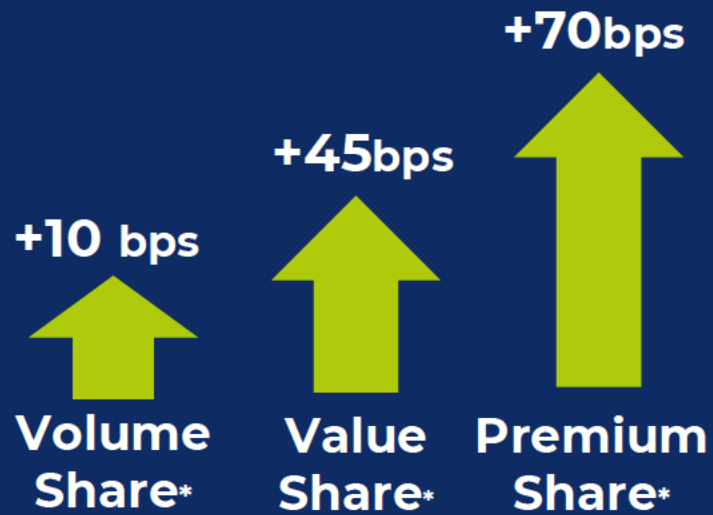




# US Combustibles: a Source of Value Growth



## Strong Results



## Strong Brands

### Newport

**Highest share\* & value share\* growth** in market  
(+50bps vs FY'19)

### NATURAL AMERICAN SPIRIT

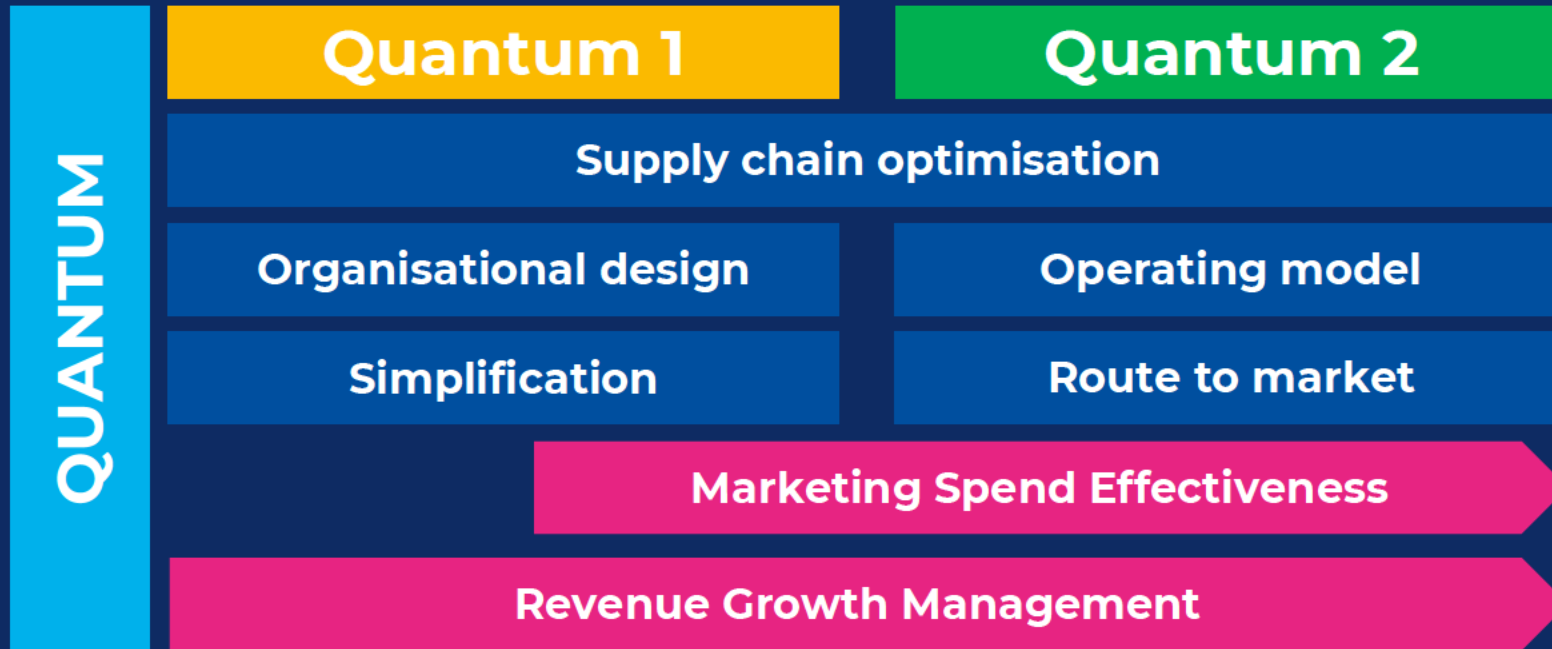
**Fastest growing\* brand** in the market  
(+5% volumes vs FY'19)

## Low cigarette prices relative to income\*\*



Share growth versus FY19. \*For share definitions, See Appendix A3. \*\* Income defined as GDP per capita ('000) / average pack price (£)  
Source: Euromonitor, Oxford economics, Company internal data

# Quantum: Significant Additional Resources



## KEY BENEFITS

**Generate resources**  
Fund investments and capabilities

**Stronger, simpler, faster organisation**  
Agility to operate, increased efficiency, new capabilities

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On track for **£1bn\*** benefit by 2022

# FY20: Strong Results in a Challenging Year

## 2020 Results

- ✓ **Non-Combustibles 10% of revenue**
- ✓ **Accelerating New Category:**
  - Consumer acquisition\*
  - Revenue and share\*\* growth
- ✓ **Good New Category revenue and share\* growth momentum entering 2021**

## 2021 outlook

- ✓ **3-5% revenue growth<sup>^</sup>**
- ✓ **Retaining mid-single digit EPS growth<sup>^^</sup> guidance given COVID uncertainties**

**Well positioned for continued strong delivery in 2021**

# Continued Financial Delivery: confident in our medium-term financial algorithm post-COVID



**+3% to +5%  
Revenue  
Growth\***

- ✓ **+2% to +3% Combustibles Revenue Growth\***
- ✓ **-3% to -4% Duty Paid Industry Cigarette Volume**
- ✓ **Continued robust price mix\*\*\* (7.6% 3 year average)**
- ✓ **New Category Revenue Growth towards £5bn 2025 target**

**High Single  
Figure EPS  
growth\*\***

- ✓ **Progressive operating margin**
- ✓ **Improving profitability from New Categories**
- ✓ **Reducing Net Finance Charge as Leverage reduces**
- ✓ **Contribution from Associates**

# Continued Financial Delivery: confident in our medium-term financial algorithm post-COVID

## Drivers of cash generation

- ✓ Combustible value growth
- ✓ Working capital efficiencies
- ✓ Capex = Depreciation\*
- ✓ £1bn Quantum savings 2020-2022
- ✓ >90% operating cash flow conversion\*\*

**c.£40bn**  
**5 Year**  
**Cumulative**  
**Free Cash**  
**Flow<sup>^</sup>**

## Capital Allocation priorities

- ✓ 65% Dividend pay-out
- ✓ Continued investment in New Categories
- ✓ Deleverage to between 2-3x Adj net debt / Adj EBITDA<sup>^^</sup>

# Our Responsibility to Transform



**1**

- **The largest and only truly global tobacco and nicotine company**

- Present in > 180 markets
- Including the US – 40% of global industry value and creating trends across our multi-categories

**2**

- **The only truly consumer-centric, multi-category company**

- Global scale to leverage our insights on consumer satisfaction and taste preference

**3**

- **The only global company present in all four New Categories\***

- From tobacco to nicotine and beyond

**4**

- **Building strong, unique and recognised brands of the future, specifically positioned in each category**

**Underpinned by the quality and diversity of our people and strong corporate ethos**

\* Includes Beyond Nicotine exploration with existing Vapour, THP and Modern Oral presence.

# A Clear Framework to Accelerate Transformation

## **Quest** Creating the Enterprise of the Future



Five 'accelerators' to enable The Enterprise of the Future

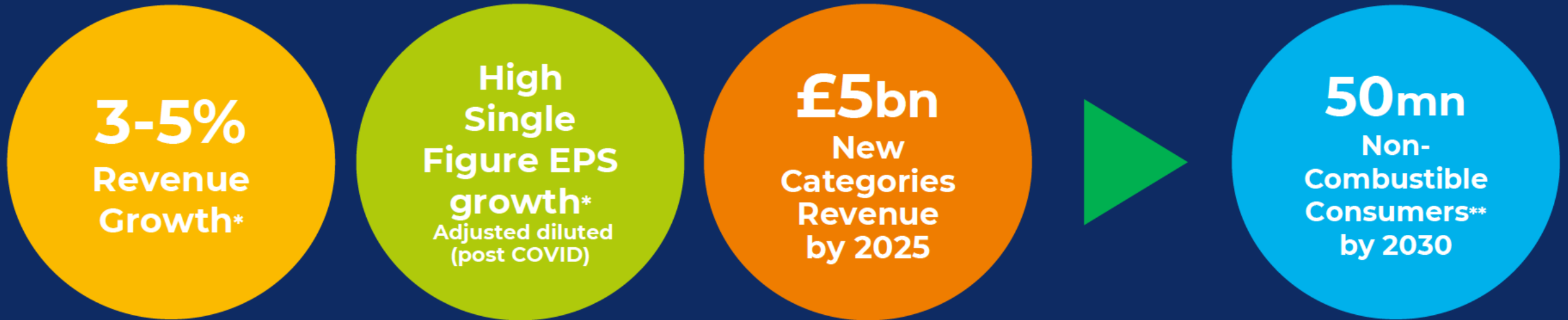
# Our Strategic Journey

<b>Building the Foundations</b> 2019 - 2020	<b>Accelerating our Transformation</b> 2020 - 2021	<b>Enterprise of the Future</b> 2021 - 2025
<ul style="list-style-type: none"><li>• <b>Strategy</b></li><li>• <b>3 Clear Priorities</b></li></ul>	<ul style="list-style-type: none"><li>• <b>QUANTUM</b></li><li>• <b>Operational Delivery</b></li></ul>	<ul style="list-style-type: none"><li>• <b>QUEST</b></li><li>• <b>Enterprise of the Future</b></li></ul>
<ul style="list-style-type: none"><li>• <b>Capability Building</b></li><li>• <b>Science and R&amp;D</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Innovation Pipeline</b></li><li>• <b>2030 Ambitions</b></li></ul>	<ul style="list-style-type: none"><li>• <b>Nicotine &amp; Beyond</b></li><li>• <b>Societal Contribution</b></li></ul>
<ul style="list-style-type: none"><li>• <b>Digital Agenda</b></li><li>• <b>Financial Delivery</b></li></ul>	<ul style="list-style-type: none"><li>• <b>New Ways of Working</b></li><li>• <b>Financial Delivery</b></li></ul>	<ul style="list-style-type: none"><li>• <b>£5 Billion NC Revenue*</b></li><li>• <b>Financial Delivery</b></li></ul>

**On Track for a Pivotal Year in 2021**

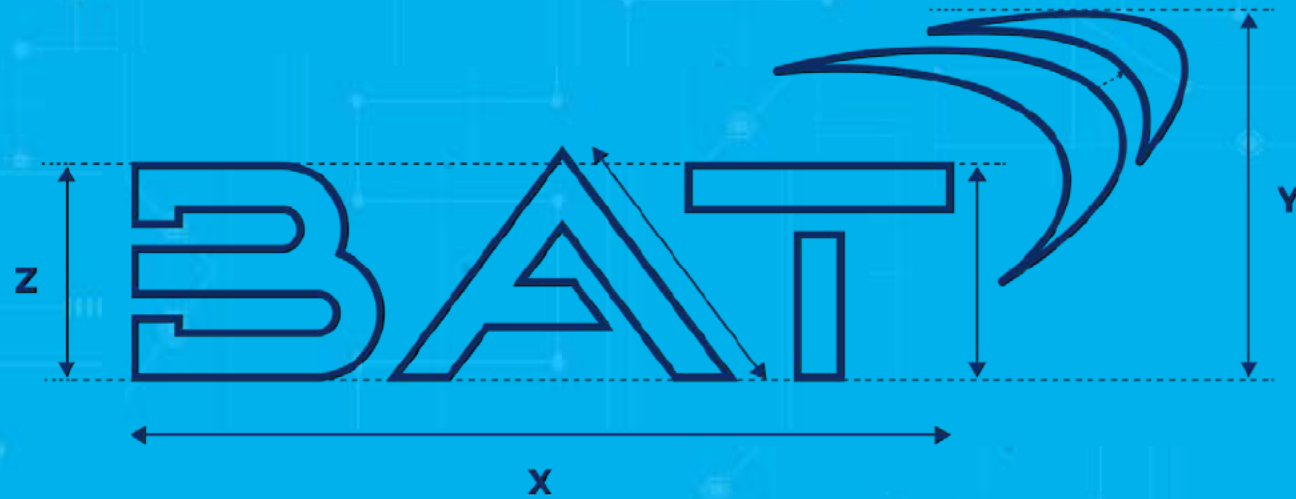


# Confident in delivering A Better Tomorrow™



**Creating shared Stakeholder and Shareholder value**

\* Medium-term growth targets. On a constant rate basis. See Appendix A2. \*\* Non-Combustible consumer definition: see Appendix A6.



# Enterprise of the Future

## Transformation & Growth

**Jack Bowles** | Chief Executive   **Tadeu Marroco** | Finance Director

# 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: Share metrics**

Volume share: The number of units bought by consumers of a specific brand or combination of brands, as a proportion of the total units bought by consumers in the industry, category or other sub-categorisation. Sub-categories include, but are not limited to, the total nicotine category, modern oral, vapour, traditional oral or cigarette. Corporate volume share is the share held by BAT Group/Reynolds (US region).

Value share: The retail sales value of the product sold as a proportion of total retail sales value in that category.

Premium share: The retail sales volume of the premium product sold as a proportion of total retail sales volume of premium products in that category.

Nicotine share: The retail sales volume of the nicotine product sold as a proportion of total nicotine product volume in that category.

Exit share: The retail sales volume of the product sold as a proportion of total retail sales volume in that category at a specific period point in time.

## **A4: 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).

## **A5: Environmental Targets**

Targets cover: climate change, water and waste, sustainable agriculture. Full details are available from the ESG Report

[https://www.bat.com/group/sites/UK\\_9D9KCY.nsf/vwPagesWebLive/DOAWWEKR/\\$file/BAT ESG Report 2019.pdf](https://www.bat.com/group/sites/UK_9D9KCY.nsf/vwPagesWebLive/DOAWWEKR/$file/BAT_ESG_Report_2019.pdf).

## **A6: Non-Combustible consumers**

The number of consumers of Non-Combustible products is defined as the estimated number of Legal Age (minimum 18 years, US: 21 years) consumers of the Group's Non-Combustible products. In markets where regular consumer tracking is in place, this estimate is obtained from adult consumer tracking studies conducted by third parties (including Kantar). In markets where regular consumer tracking is not in place, the number of consumers of Non-Combustible products is derived from volume sales of consumables and devices in such markets, using consumption patterns obtained from other similar markets with consumer tracking (utilising studies conducted by third parties including Kantar).

The number of Non-Combustible products consumers is used by management to assess the number of consumers regularly using the Group's New Category products as the increase in Non-Combustible products is a key pillar of the Group's ESG Ambition and is integral to the sustainability of our business.

The Group's management believes that this measure is useful to investors given the Group's ESG ambition and alignment to the sustainability of the business with respect to the Non-Combustibles portfolio.