2022 Second Half Pre-Close Conference Call Transcript

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Telephone Operator
Hello and welcome to the BAT Full Year 2022 Pre-Close conference call. Please note this call is being recorded.

You will be in a listen only mode throughout the call and have the opportunity to ask questions at the end. This can be done by pressing *1 on your telephone keypad.

I will now hand you over to Victoria Buxton, Group Head of Investor Relations, to begin today's conference. Please go ahead.

Victoria Buxton, Group Head of Investor Relations
Good morning everyone, I'm Victoria Buxton, Head of Investor Relations and with me this morning is Tadeu Marroco, our Finance and Transformation Director. Welcome to our 2022 second half Pre-Close conference call. I hope you are all well and I would like to thank you for taking the time to join us this morning.

Before we begin, I need to draw your attention to the cautionary statement regarding Forward-Looking Statements, as well as the notes and disclaimer contained in the trading update.

I will now hand you over to Tadeu who will say a few words on current trading, before opening it up to questions. Unless stated otherwise, our comments will focus on constant currency adjusted measures, and all share data is year-to-date average, to September 2022.

Tadeu Marroco, Finance and Transformation Director
Thank you, Victoria.
Good morning everyone and welcome.

We are delighted to report this morning that we continue to accelerate our transformation at pace towards A Better Tomorrow.

There are three key messages we would like to highlight to you.

First, our New Category business is becoming a significant contributor to Group performance and is driving our faster transformation.

Second, we are navigating growing macro-economic pressures in the second half, enabled by our increased agility, resilience and Quantum savings and expect to deliver strong adjusted operating margin improvement in 2022.

And third, we are confident in delivering our full year guidance.

Starting with our New Category business…

We added a further 1.1 million adult consumers of non-combustible products[1] in Q3, to reach 21.5 million, and continue to grow. Our New Category products are now available in over 60 countries globally, with around 90 category market combinations. This is driving strong revenue and volume growth, supported by continued market share gains in key markets.

We are also making excellent progress reducing New Category losses, and expect a growing contribution across all New Categories and Regions for the full year.

Our progress is driven by increasing scale leading to operating leverage, and further automation reducing cost of goods sold. In addition, our growing brand equity has enabled us to increase pricing on both devices and consumables.

We are confident in delivering on our targets of £5bn New Category revenue, and profitability by 2025, and 50m adult consumers of our non-combustible products by 2030.

We continue to expand and invest in our New Category business with exciting innovations and further geographic expansion in the second half.

Our new glo device Hyper X2 is now rolling out in 19 markets following a nationwide launch in Japan in October.

Glo Hyper X2 is a further step towards delivering enhanced product experience with a smaller, lighter device and dedicated boost button for maximum taste satisfaction, and is delivering positive early results.

In Vapour, we have been rapidly rolling out our new disposable product, Vuse Go. In our early launch markets, the UK and France, Vuse Go is already number 2 in the disposables segment, with premium price positioning and volumes which are accretive to our ePod platform.

We have been rapidly rolling out Vuse Go over the second half, through our broad distribution footprint and consumer reach. It is clear that the disposables segment is accelerating the growth of the Vapour category overall, with its convenient and flexible format to encourage further switching for existing smokers.

Our well embedded responsible marketing practices remain as important as ever, with strict age verification processes, embedded through training and monitoring, alongside take back schemes and recycling solutions.

As our organisation continues to transform at speed, driven by New Categories, we continue to embed ESG across the organisation and we are accelerating our ESG ambitions and targets.

I am delighted that in September, we appointed Mike Nightingale, who many of you will know, as our first Chief Sustainability Officer to lead our sustainability and ESG agenda.

Recent highlights include:

- Our Race to Zero commitment which is embodied in our Low-Carbon Transition Plan, published in September, and further demonstrating our commitment to halve absolute emissions across the value chain by 2030[2] and to be net zero by 2050 at the latest.
- And, achieving another 'Alliance for Water Stewardship' certification at our largest US manufacturing facility, as we progress towards 100% group certification by 2025.

Moving onto Group performance…

We expect to deliver strong adjusted operating margin improvement for the full year, despite increasing inflation in our supply chain through the second half.

This has been made possible through the scale of our brands and increasingly focusing our marketing investments supported by robust pricing. In addition, the annualised savings of our three year Quantum programme are expected to be in excess of £1.5 billion by the year end.

Looking forward, we expect the growing impact of inflation on our supply chain to continue. We will focus on mitigating this through our scale and supply chain agility, in addition to our ongoing focus on driving efficiency gains throughout the business.

Our business remains highly cash generative, and we expect another year of operating cash conversion well ahead of our 90% target. While expecting net finance costs to increase given the recent speed and significance of global interest rate rises and currency volatility, we will benefit from a 90% fixed debt profile and an average maturity of over 10 years.

Altogether, our business transformation is accelerating, and, although not immune to growing macro-economic pressures, we believe we are well-placed to navigate these, and are confident in delivering on our full year guidance.

In line with our active capital allocation framework, we are on track to return £2 billion to shareholders through our share buyback programme in 2022, demonstrating our commitment to delivering enhanced long-term value for shareholders.

Alongside share buybacks, our framework also includes:

- Our progressive dividend policy with growth in Sterling terms and a medium to long term pay-out ratio target of 65%
- Maintaining our leverage within our target corridor of 2-3 times adjusted Net Debt[3] / adjusted EBITDA[4]
- Whilst also considering potential bolt-on M&A opportunities.

As we said in February, the Board will review these capital allocation opportunities annually, while taking into account the macro-economic environment and potential regulatory and litigation outcomes.

Applying current exchange rates[5] to the year end, we expect our leverage to be within our 2-3 times adjusted net debt/adjusted EBITDA corridor, albeit at the higher end.

Moving forward, given the significance of global interest rate rises and currency volatility, we will aim to reduce leverage towards the middle of this corridor over the medium term, to further support the long-term strength of our business.

Turning now to our category performance in detail, as a reminder, all markets shares are average year to date September versus full year 2021.

Our transformation is accelerating, with Vuse continuing to extend leadership globally[6] in the fast-growing vapour category, achieving 35.7% value share in key vapour markets[7], up 2.2 percentage points.

In the US, the largest global vapour market, Vuse continues to strengthen its No.1 position[8] reaching 39.3% value share, up 6.8 percentage points, with leadership in 35 states.

In addition to our rapid geographic roll-out of Vuse Go, Vuse ePod2+, our first connected device, is performing very well in Canada, where it now represents 72% of all sales in tracked channels.

In THP, the continued momentum of glo Hyper in Europe drove category volume share in key THP markets[9] up 1.6 percentage points to reach 19.5%.

In Japan, glo's volume share of the total nicotine market reached 7.3%, up 50 basis points, as smokers continue to switch to THP. In a highly competitive market, our THP category volume share was 20.2%, down 1.0 percentage point in September. This was ahead of the national roll out of Hyper X2 in October, which is delivering positive early results.

glo continued to grow category volume share across all key European markets, with aggregate category share in key THP markets[10] reaching 20.4%, up 4.0 percentage points.

Turning to Modern Oral. In Europe, we remain the clear market leaders in 15 Modern Oral markets, with aggregate European volume share broadly stable at 69.1%.

Our European leadership is driven by Velo's brand equity and the success of our innovation pipeline including Mini pouches and Max ranges. As the Modern Oral category continues to grow and become more established in Europe, we are seeing strong growth in average daily consumption.

In the US we have submitted a PMTA for a superior Velo product.

We are particularly proud of Velo's performance in Pakistan, now our third largest Modern Oral market, where we have rapidly achieved national coverage. Enabled by powerful, consumer centric digital activations, Velo has reached a monthly volume of over 40 million pouches.

This progress demonstrates our ability to unlock the significant opportunity for Modern Oral in emerging markets.

In combustibles, Full Year global tobacco industry volume is now expected to be down around 2% versus our previous guidance of around 3%, driven by continued post COVID recovery in emerging markets.

Group value share is flat, with gains in the US and APME offset by declines in AMSSA and Europe.

We expect our targeted portfolio of brands across price tiers to deliver a robust financial performance across APME, AMSSA and Europe, driven by resilient volumes.

While our APME performance will also reflect the impact of the sale of our business in Iran in August last year.

In the US, industry volumes remain under pressure in the second half due to growing macro-economic headwinds and post-Covid normalisation of consumption patterns. In addition, our revenue performance will reflect the unwind of the prior year inventory of around £200 million.

In order to offset early signs of accelerated downtrading in the US industry in the second half, we have recently activated commercial plans across specific brands, channels and states.

Overall, pricing has remained strong partially offset by mainly geographic mix.

In conclusion, it's clear that we are building strong momentum and our A Better Tomorrow transformation is accelerating, which will support a sustainable, growing business.

We are delivering on our three strategic priorities, driving:

- A step change in New Categories
- Value through combustibles, and
- Simplifying the business through Quantum

Leveraging our increasing agility and resilience, to combat growing macro-economic pressures in the second half, we are confident in delivering our full year guidance of:

- 2-4% constant currency revenue growth, and
- mid-single-figure adjusted diluted EPS growth while absorbing a transactional FX headwind of around 2%

Thank you, and I will now open the call to questions.

Telephone Operator

Thank you. As a reminder, if you would like to ask a question or make a contribution on today's call, please press *1 on your telephone keypad. That is *1 for questions.

And our first question today comes from Nik Oliver of UBS. Please go ahead.

Nik Oliver, sell-side analyst, UBS

Hey. Good morning, Tadeu and Victoria. Thank you for the questions. Just two from me. I guess one on US volumes, as we're now coming out of the COVID comps, I guess, as we look into 2023, is there any reason that we shouldn't expect industry volumes to, you know, move back to the old, kind of, down 4% to 5% trajectory? So, that was question one.

And then question two, and, Tadeu, you, sort of, touched on this on capital allocation, but it's a question that we get asked a lot, and, obviously, the buyback, you know, this year was taken very well. As we move into next year, just any thoughts you can give investors on how you're thinking about, you know, capital allocation into next year. I mean, looking at the visible alpha, I think most people have about £2bn of a buyback in their forecasts, but, you know, anything that you could share around that would be super helpful as well, so thank you.

Tadeu Marroco, Finance and Transformation Director
Okay, Nik. Thank you for the questions. Good morning. We'll start with the US; I think that we had to take a step back and make an assessment of what's happened in the US over the last few years. If go back to 2020, we had actually an increase in volumes in the US, clearly, as a consequence of the change in consumer patterns at the back of COVID.

We had a more normalised '21 and a more depressed '22. If you take an average, at least at the middle of this year, it wouldn't be much dissimilar of this secular decline of 4% to 5% in the US market when you average out that three periods.

But what we have seen more recently, in the second part of the year, is, basically, a bit more pressure due to this continued post-COVID normalisation of consumer patterns and the growing macroeconomic pressures is starting to impact consumers' disposable incomes.

So, you saw, for example, gas prices have reached a peak, and we know that there is a big correlation between that and the sales of cigarettes in the US. And, as a result, we saw also some consumers shift to specific channels, like discount and dollars in some states, with early signs of a down trade at industry level.

On the other hand, we note that the US market has a very high level of employment, so very low unemployment rates. The gas price that I mentioned before, that has reached a peak now, starting to level off, and, as we mentioned in our trade update today, we have recently activated commercial plans with much more continuous deployment of revenue growth management capabilities, and a more increase of targets in a granular way, more targeted discount problems.

So, we are placed to navigate through that, but the US market, as you saw up to the mid of the year, will not be that much dissimilar for the full year. We'll not provide any guidance. It's difficult to talk about '23 because of these contradictory dynamics from one side, the macroeconomic pressures from the other side, consumers in full employment, gas pricing coming down, but we expect, in the industry volumes to improve in 2023.

So, this, combined with the combination of our commercial activity, will probably improve our performance next year from the second half of the year, so our performance will probably be more weighted in the second half of the year.

Looking in the long term, we are not seeing any material change in terms of medium term elasticity in the US. We believe that the US remains very profitable, highly profitable and attractive reference market with the elasticity well below the average at the group level, in the global level, and affordability is the second highest globally, and this puts us in a very strong position to continue to drive value in Combustibles to follow our transformation.

The other point that I would like to highlight about the US is our excellent performance in Vapour. This has really become more and more significant, not just at the Group level, like I mentioned before, but also in the US in particular, all the inroads that we are making, not just on the top line of our Vapour business in the US but also in the bottom line with achieving all the levels that we had mentioned before in terms of COGs, through automation, through change in footprints that we're reducing [audio jumps], that we have taken less discount, taking more pricing, more of the revenue growth management being deployed also in Vapour.

So, there's a lot of initiatives being put in place, which we are very pleased with, that has resulted in very improved margins and enhanced profitability in our Vapour business in the US, so it puts us in a very strong position moving forward.

In terms of your second question, which is around, sort of, capital allocation, well, we clearly laid out that our new active capital allocation framework will always be about, first, defining very early stage in the year between the four, basically, priorities to deploy our free cash flow.

The first one is a growing dividend with this medium to long-term pay-out ratio target of 65%. The second one is paying down debts to reduce our leverage and be in the corridor and, if anything, the fact that now we have higher global interest rates, that is a change in what happened since the beginning of the year. We will be in any, like I said in my statement, to get us through, in the medium term, to the middle of this range, of 3% to 2%.

And we also want to do some small bolt-on M&A. We are not expecting any more significant in that space. It will be pretty much what you have already seen over the last couple of years, using our corporate venture capital and creating some foundations, mainly on the Beyond Nicotine space, and we have the share buyback that, I agree with you, was very successful. The reintroduction of share buyback, the team has always saw value on that, and that's the reason why it's part of our active capital allocation.

So, the Board will evaluate this capital allocation priorities at the beginning of new year, as it will be doing on an annual basis, and we will take into consideration future potential regulatory impacts. For instance, from time to time, some of you ask me about a various case, like DOJ, you note that we have provided for that, so it's difficult. I don't have any update at the point in time, but, clearly, you have to take into consideration, at a certain stage, that there will be some cash outlay, so that will see the CCWAs the same. I'm not saying that anything's coming in the short term, but these are the factors that we had to take into consideration together with macroeconomics and making a final call, and we will be doing that the beginning of the year, and then we are going to stipulate clearly what will be the priorities for next year.

Nik Oliver, UBS
Good. Great. Thank you so much, Tadeu. That's really clear. Thank you.

Telephone Operator
Thank you. We now move on to our next question, which is from Richard Felton of Goldman Sachs. Please go ahead.

Richard Felton, Goldman Sachs
Good morning, Tadeu, Victoria. My first question is you reiterated your guidance to mid-single-digit constant currency EPS growth this year. Could you just remind us how much impact you're expecting from Russia within that? And look, I appreciate there's lots of complexity involved in transferring your Russia business, but can you, perhaps, give us an update on where you are in that process? You know, should we still have Russia in our estimates for FY23? That's my first question.

My second one, I mean, you're talking to the accelerated downtrading trends that you're seeing in the US, does that change the way that you're thinking about your overall pricing strategy in the US in the near term? And then, secondly, you've called out, you know, some of the activations and specific things you're doing on certain brands and at the state level, so if you could maybe give us a little bit more colour on, sort of, what that actually means and that is in practice? Thank you.

Tadeu Marroco, Finance and Transformation Director
Yeah. Thank you, Richard. Look, starting with the US, we, as I said, we see a lot of pricing potential in the US. I don't think necessarily that we'll be seeing change in the pricing, but we will need to be much more targeted in terms of how we deploy revenue growth management. So, we have a portfolio which is pretty skewed towards the premium, so we get a bit more, subject to these movements of consumers, and we have to act accordingly.

So, I think the point is less about ability to take price, it's more about we're taking price and being able to recognise some consumer shift in patterns, like these stores of discounts of some states, and having a, kind of, product that would cope with that, somewhat targeted discount in some individual places so we can support our brands better in that environment.

……, it's difficult to understand exactly the dynamic. Like I said, and you've probably followed this very closely as well, there is speculation that the inflation has already peaked, then the question is how fast we'll take it to bring it down, the fact that we have the oil price now coming to more reasonable levels than earlier in the year. So, all those things, the full employment, that would be very helpful, would be supported for consumer purchase power, and we'll, accordingly, adjust our activities in the market accordingly. The pricing power of the US is massive, and I don't think that this will necessarily change as a consequence of that. So, that’s the US view.

On Russia, this is difficult and complex process with many moving parts, as you can imagine. We are working as fast as possible to ensure that transfer a viable business, and why I'm saying that is we have a massive operation in Russia, we have not just a head office in Moscow but we have 75 regional offices, manufacturing facilities in St Petersburg which employs around 2,500 people, and we are, for sure, focused on supporting our employees and safeguarding their employment.

So, prior the conflict, you know that we have a rollout which is the SAP systems that we have across the Group, and our Russian operations were fully integrated into the Group across all areas of the business's systems, including supply chain and any marketing reporting and IT. So, what is this? This means that we have now to extract in Russia as a standalone business, and this is incredibly complex. On the IT side, you can imagine how long it takes. And we are in negotiations to get the best deal for different stakeholders, including the employees of the company.

So, difficult to predict the final timing on that, and I think that when we spoke before when she announced the relevance of Russia in our numbers in terms of 3% of revenue and 1% in terms of profits, and I just want to remind you, until we transfer the business, we need to continue accounting for that in our numbers, consolidating in line with our IFRS accounting rules. And that's the reason why, when we provide the guidance more earlier in the year, we set the guidance irrespective of the timing of Russia because it's something that is not completely under our control, but there are a lot of moving parts at this point in time. Okay?

Richard Felton, Goldman Sachs
Great. Thank you, Tadeu.

Telephone Operator
Thank you. And up next, we have got Gaurav Jain of Barclays. Please go ahead.

Gaurav Jain, Barclays
Hi. Good morning, Tadeu. Good morning, Victoria. So, I've got three questions from me. One is on this mid-term leverage ambition of 2.5 takes. Is that an ambition for it by '23 or is that '25?

And if you also just remind me that any of risk calculation you do not really put ITC as equity and common dividend in the denominator rate.

Tadeu Marroco, Finance and Transformation Director
The medium term is basically the next couple of years. I'm not providing a '23 target here, that's why we consider this as a mid-term. We need to consistently continue deleveraging the company, and we believe that, with the scenario that we have currently with the higher interest rates, that we'll be better placed in the middle of the corridor than we are now, at the high end of the range, like we spoke before, because this puts us in a very volatile position because you'll know the timing of exchange rates, 31st December, when you get translating from out there, the translation of your debt in a single period of time. So, we want to be in a more comfortable position, and we want to reduce the levels of debts as well because of the high levels of interest rates now.

So, when we calculate that, yeah, you are right, we are not taking that. The ITC is part of our assets in a way, but we are not making any further deconsolidation of ITC in this calculation.

Gaurav Jain, Barclays
Sure. I think S&P actually put, sort of, a denominator, so that's something which I did provide, highlight.

And then the second thing I had is on this, you know, on the California flavour ban, which will come in two weeks, how should we think about it?

Tadeu Marroco, Finance and Transformation Director
Well, look, the California flavour ban will be, if anything, an interesting experience, I would say, because there is always this question about the menthol ban coming through in the US, what happens and with the level of exposure BAT has in the US. We always try to quote back and make analogies of what has happened in other markets in terms of Canada, in terms of Turkey I think more recently, but also Europe, and what we have seen in all those markets is that consumers, they smoke first, and they are very loyal to their brands, and not necessarily for a menthol or non-menthol.

So, the level of retention in those markets that have implemented a menthol ban is still very high, and that's why we were not always in agreement towards this view of levels of exposure's too high and so on and so forth.

So, I think that the California experience, given the fact that it's a large state, different from other small states that have already implemented a menthol ban in the US, but California is large enough for us to have a meaningful reading. So, I think that, in a way, this could be an experience to go through.

I think BAT is well-settled for that and, between the cigarettes and the fact that we are now more and more present and dominant in the Vapour market, gives also some flex whenever those policies come through.

We still believe that's not the right policy for the government to pursue because, based on the experience that we saw in other markets that I just referred to, this is not addressing the purpose that the government had in mind when they put this in place, and the tobacco harm reduction agenda is much more effective and efficient to deal with that, and other than to implement those types of policies. So, I think that what we will see in California will be pretty much confirmation of what we have seen in other parts of the world.

Gaurav Jain, Barclays
Sure. And then the last question is on the US. So, clearly, into it, you will have quite a meaningful volume decline in cigarettes, but then your e cigarette profitability will also be growing, so it's a very interesting in crossover point which potentially can answer the question can NGP offset the decline Combustibles. So, my question is that into which '22 will your US EBIT be growing over US '21?

Tadeu Marroco, Finance and Transformation Director
If the US be the same?

Gaurav Jain, Barclays
Yeah, the profits in the US. Will you still be growing your US EBIT 2H '22 over 2H '21 because the e-cigarette growth offsets cigarette decline?

Tadeu Marroco, Finance and Transformation Director
Yeah, look, we haven't finished the year, Gaurav, so we don't want to talk specifically about markets there. But the point I make about the Vapour category in the US is because it's really getting more meaningful in terms of contribution. And I am talking about the US, but I'm making reference to the whole group, and that's why start with my first point about the comments of the statements and the message that I want to give to all of you, is that New Categories, and as we said before, it's getting more and more meaningful in terms of the Group performance. And when I mean Group performance, I include, definitely, the Group financials, the revenue and the bottom line. But the reduction of losses in the case of the total Group, and they have been following this closely, it is accretive for the Group.

So, since 2021, it was the first year that is why we call it a pivotal where we had a reduction of £100m in terms of loss, and we presented the numbers in the Half Year of 2022. You saw that we could progress even further. And what I'm telling you now that, for the Full Year, we're expecting this trend to continue and will be a strong part of our Group performance moving forwards as we said, and we have always said, in the past.

Gaurav Jain, Barclays
Sure. Thank you so much.

Tadeu Marroco, Finance and Transformation Director
Thank you.

Telephone Operator
Thank you. Another brief reminder that it's *1 to pose your questions today. We're now moving on to a question from Rashad Kawan of Morgan Stanley. Please go ahead.

Rashad Kawan, Morgan Stanley
Yeah. Good morning, Tadeu and Victoria. Thanks for your time this morning. Just a couple of quick questions from me. The first one, there was news a few weeks ago that you withdrew MRTP applications for some of your smokeless portfolio in the US. Can you give more detail as to what happened there and your thought process going forward?

And then the second question is do you have an outlook for US industry, cigarette industry volumes for this year? Thank you.

Tadeu Marroco, Finance and Transformation Director
Yeah. US industry volumes for this year, we are not providing guidance for the industry itself. What I can tell you is, when we came to the Half Year, we had a decline, I think it was around 9%, at that time, and we were having expectations that the situation would get better in the second half because of the more benign comparator. And what we have seen so far is that, despite the fact that we have a more benign comparator, we have this macroeconomic weighted more in the second half of the year. So, I would leave it there, okay.
So, we are not providing any guidance on that, but this gives you a kind of reference as what we have been seeing in terms of tracking size markets and so on.

Withdrawal, it's basically on those products, and this is basically related to portfolio prioritisation.

Rashad Kawan, Morgan Stanley
Thank you very much.

Telephone Operator
Thank you. And we move to a further question now from Simon Hales of Citi. Please go ahead.

Simon Hales, Citi
Thank you. Hi, Tadeu. Hi, Victoria. Just a couple of points of clarification, please. Sorry to labour the point and come back to

the buyback and medium-term leverage targets again, but I just want to make sure I'm clear on the go forward messaging there. If I look at consensus, Tadeu, the consensus has your net debt/EBITDA ratio getting into that middle of the target range by 2024, and that's despite an ongoing £2bn a year of share buyback assumption. It sounds, from what you've said today, you're comfortable with that timeframe. So, the first question is am I reading that correctly?

And just secondly, to clarify, when you calculate your leverage ratio, are you basing it on year end FX rates, i.e. spot, or are you making any adjust for average moves in FX during the year?

Tadeu Marroco, Finance and Transformation Director
Okay. So, just quickly on the ratio, we calculate all the debt in the balance sheet based on the 31st of December rate on all the earnings throughout the year. So, if there is a mismatch between the average rates, FX, throughout the year, end of 31st December, you reflect this in the rate. That's why we are so subject to this FX position.

So, when I talk about our expectation be in the high end of the range this year, it's assuming the current FX position, and FX here, it doesn't matter for the debt side, it's more the dollar to the pound because 7% of our debt is dollar-denominated. So, I just want to make this point quite clear for those that are in doubt about it.

So, in terms of the consensus, I cannot comment much on consensus. The point that I'm making here is that, every single year, the Board will make an assessment about all the macroeconomics that we have been and the litigation cases that we have to consider when we make assessments in terms of how we prioritise the allocation of our free cash flow.

So, a lot of you ask me about, for example, the DOJ case. We provide for the DOJ case. I don't have any news on that case, but at least you have a number ready to have as a reference in terms of provision, and these are the types of things that we have to consider. the Canada, the CCWA. You also had the positions of cash that we have, basically, trapped in Canada, which part of those ratios at this point in time. We had to made consideration in terms of what is the likely scenario for us to have to come a settlement and what happen with that.

So, these are things that, on a yearly basis, will be sitting with the Board and making further considerations. So, the fact that we want to get to the middle of the range is more assertive now given the change in terms of the circumstance of the interest rate. The interest rate, you know, as you know, has increased at an unprecedented level of pace over the last six months, and we had to take these into consideration and hence our determination to get to the middle of the range.

So, that's more or less what I'm trying to convey as a message, and I'm not trying to make any type of anticipations of what the outlook is, but these are the discussions that we are due to have anywhere in the Year End Results announcement in February.

Simon Hales, Citi
Brilliant. Very helpful. Thanks for the colour.

Telephone Operator
Thank you. As there are currently no further questions, I would now like to hand the call back over to you, Tadeu, for any additional or closing remarks.

Tadeu Marroco, Finance and Transformation Director
So, thank you, all, for listening and for your questions. I would like to leave you with a few final comments.

We are now in a period of fast transformation with our well-established multi category strategy, strong portfolio of global brands, and our resilient highly cash generative business. This will enable us to further invest in an accelerated transformation of our business as we continue to Build a Better Tomorrow.

And with that, I look forward to updating you on our transformation at our Full Year 2022 Results presentation on 9th February. Thank you very much.

Telephone Operator

Thank you for joining today's call. You may now disconnect.

[END]

Market share and volume data (unless otherwise stated) YTD Sept 2022.

[1] Non-Combustible Consumer Definition: 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). Target market for acquisition is existing adult smokers/nicotine users.

The number of Non-Combustible product 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.

[2] Compared to 2020 baseline. Comprises 50% reduction in Scope 1, 2 & 3 greenhouse gas emissions. Where Scope 3 emissions include purchased goods & services, upstream transportation & distribution, use of sold products, and end-of-life treatment of sold products; which collectively comprised >90% of BAT's Scope 3 emissions in 2020.

[3] Adjusted net debt is not a measure defined by IFRS. Adjusted net debt is total borrowings, including related derivatives, less cash and cash equivalents and current investments held at fair value, excluding the impact of the revaluation of Reynolds American Inc. acquired debt arising as part of the purchase price allocation process.

[4] Adjusted EBITDA is not a measure defined by IFRS. Adjusted EBITDA is profit for the year before net finance costs/income, taxation on ordinary activities, depreciation, amortisation,

impairment costs, the Group's share of post-tax results of associates and joint ventures, and other adjusting items.

[5] Current exchange rates of USD/GBP 1.26 as at 7 December 2022

[6] Based on Vuse estimated value share from RRP in measured retail for Vapour (i.e., total Vapour category value in retail sales) in the USA, Canada, France, UK, Germany. These 5 markets cover an estimated c.80% of global closed system revenue.

[7] ***Top 5 Vapour markets:*** *US - Marlin, Canada - Scan Data, UK - Nielsen, France - Strator, Germany - Nielsen.*

[8] Based on US Marlin Value Share of Total Vapor (Feb. 2022 – Sept. 2022).

[9] ***Top 9 THP markets:*** *Japan - CVS-BC, South Korea - CVS, Italy - Nielsen, Hungary - Nielsen, Greece - Nielsen, Ukraine - Nielsen, Poland - Nielsen, Russia - Nielsen, Czech Republic - Nielsen. Russia will remain in the T9 THP markets until the transfer of the Russian business is complete. The THP T9 markets were adjusted in H2 2022, with Greece and Hungary introduced, replacing Germany and Romania. Accordingly, glo's category volume share for 2021 was rebased on the new definition from 18.1% to 17.9%. The T9 THP markets account for c.80% of total industry THP revenue.*

Category volume share 18.8% Sept YTD excluding Russia, up 1.2 ppts

[10] ***Top 7 THP markets:*** *Italy – Nielsen, Hungary – Nielsen, Greece – Nielsen, Ukraine – Nielsen, Poland – Nielsen, Russia – Nielsen, Czech Republic – Nielsen.*

In Europe, excluding Russia glo's volume share reached 18.8%, up 4.8ppts.

Share growth refers to volume share for THP and Modern Oral and value share for Vapour
As used herein, volume share refers to the estimated retail sales volume of the product sold as a proportion of total estimated retail sales volume in that category and value share refers to the estimated retail sales value of the product sold as a proportion of total estimated retail sales value in that category. Please refer to the 2021 Annual Report on Form 20-F for a full description of these measures, together with a description of other Key Performance Indicators (KPIs), on pages 302 and 303.

New Categories comprises Tobacco Heating Products (THP), Vapour and Modern Oral. Our products as sold in the US, including Vuse, Velo, Grizzly, Kodiak, and Camel Snus, are subject to Food and Drug Administration (FDA) regulation and no reduced-risk claims will be made as to these products without FDA clearance.