

Preliminary Results 2019

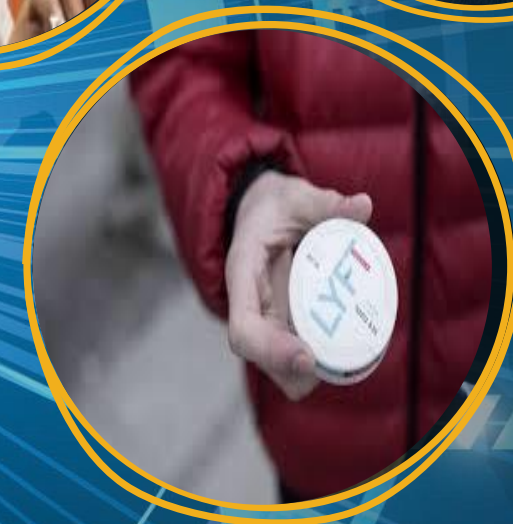
27 February 2020

Jack Bowles

Chief Executive

Tadeu Marroco

Finance Director



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Important Information

Forward-looking Statements (continued)

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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 US, are subject to FDA regulation and no reduced-risk claims will be made as to these products without agency clearance.

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Delivering a stronger, simpler, faster organisation

COMBUSTIBLE VALUE GROWTH

STEP-CHANGE IN NEW CATEGORIES

SIMPLIFY THE COMPANY

Reported results impacted by adjusting items

	REPORTED FY 2019 @ Current rates	
Revenue	+5.7%	<u>Adjusting items incl:</u> <ul style="list-style-type: none">• Canada (Quebec)• Quantum (simplification)• Other litigation (including Engle)• Russia (excise dispute)• Indonesia (Goodwill impairment)
New Category Revenue	+36.9%	
Operating Margin	-320 bps	
Profit From Operations	-3.2%	
Diluted EPS	-5.4%	
Leverage	-	

A strong operational performance drives deleveraging

- ✓ Strong adj revenue and profit at upper end of guidance*
- ✓ Group value share up +30bps in key markets, volume up +20bps
- ✓ New Category revenue growth* +32%
- ✓ De-leveraging of 0.4x (ex currency) and 0.5x (current rates)
- ✓ Dividend up 3.6% to 210.4p; 65% pay-out ratio**

High Single Figure constant currency earnings growth**

* constant rate basis. Profit: Adjusted profit from operations. See Appendix A1-A2.

**Adjusted diluted earnings per share at constant rates. See Appendix A1-A2.

Delivered on our commitments

	2019 Guidance	ADJUSTED FY 2019 @ Constant rates	
Revenue	Mid-Upper end +3-5%* of range	+5.6%	✓
New Category Revenue	+30-50%*	+32.4%	✓
Operating Margin	+50-100 bps	+50 bps Current rates	✓
Profit From Operations	Upper end of +5-7%* range	+6.6%	✓
Diluted EPS	High Single Figure*	+8.4%	✓
Leverage	-0.4x ex-currency	-0.4x	✓

* Adjusted and constant rate basis. See Appendix A1-A2. Source: Company data

Creating value



EXCELLENCE IN ENVIRONMENTAL MANAGEMENT



24% reduction in CO2e scope 1&2 emissions v 2010



60% reduction in waste to landfill v 2010



34% reduction in water withdrawn v 2010



DELIVERING A POSITIVE SOCIAL IMPACT



Supplier code of conduct defines minimum standards



~11m consumers using non-combustibles in 45 markets



Policy of 100% suppliers subject to Human Rights due diligence



ROBUST CORPORATE GOVERNANCE



100%* adherence to our Youth Access Prevention guidelines



Global Speak Up line: +35% cases v FY18



100% employees completed annual SoBC sign-off

... in a sustainable way

A STRONG APPROACH TO ESG*

COMMITMENT TO TOBACCO HARM REDUCTION



CREATING VALUE



Shareholders

Consumers



Employees



Society



EXTERNAL RECOGNITION FOR PROGRESS TO DATE



Delivering on our priority areas...

COMBUSTIBLE VALUE
GROWTH

STEP-CHANGE
IN NEW CATEGORIES

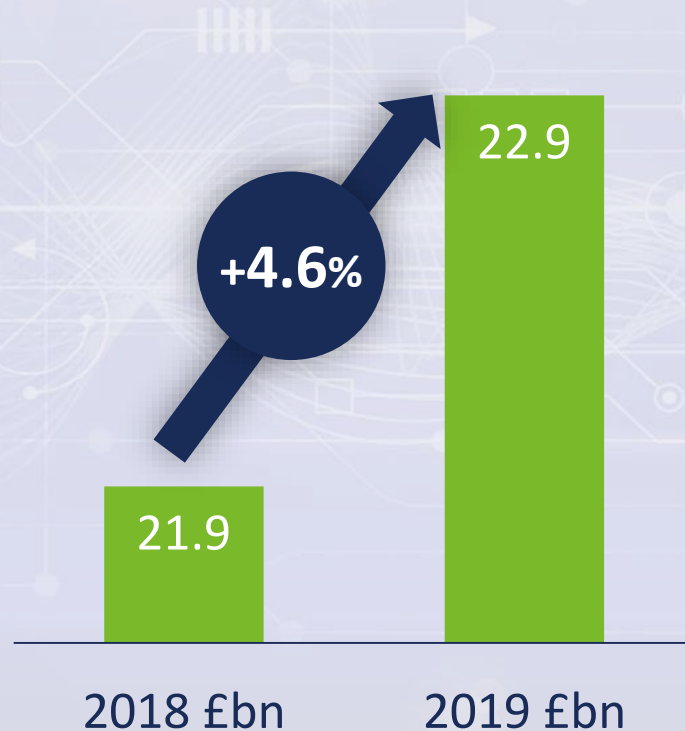
SIMPLIFY THE
COMPANY



- › **+4.6% Revenue growth* from combustibles**
- › **Product roll-outs across New Categories**
- › **Simpler, faster, more agile organisation**

** Adjusted and constant rate basis. See Appendix A1-A2.*

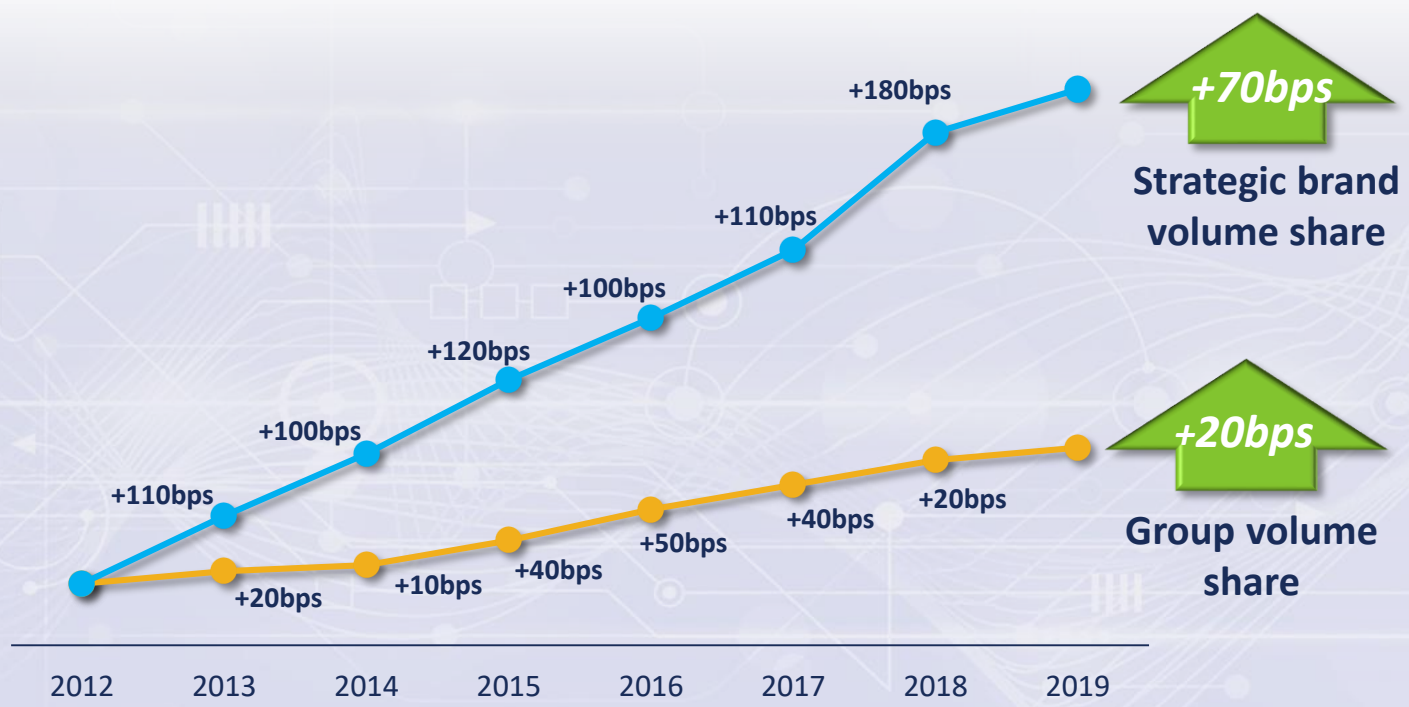
Revenue* from Combustibles



Growth drivers:

- Value share growth
- Strong brands
- Cigarette Price/Mix** 9%
- Improved geographic mix

Combustibles | Value growth driven by strong brands



Combustible Strategic Brands
Value share

+40bps

Volume share

+70bps
+30bps Excl. migrations

Group Combustibles

Value share

+20bps

Volume share

+20bps

Share growth versus FY18. Source: Company data
The BAT Group does not own all brands referred to in this presentation in all markets e.g. BAT is the owner of the Camel and Natural American Spirit brands in the United States only

US Combustibles | Value growth and share gains



+30bps

Value share

36.8%

+50bps

Strategic Brands

value share

34.6%

+50bps

Premium share

34.5%

-10bps

Volume share

34.6%

+20bps

Strategic Brands

volume share

33.0%

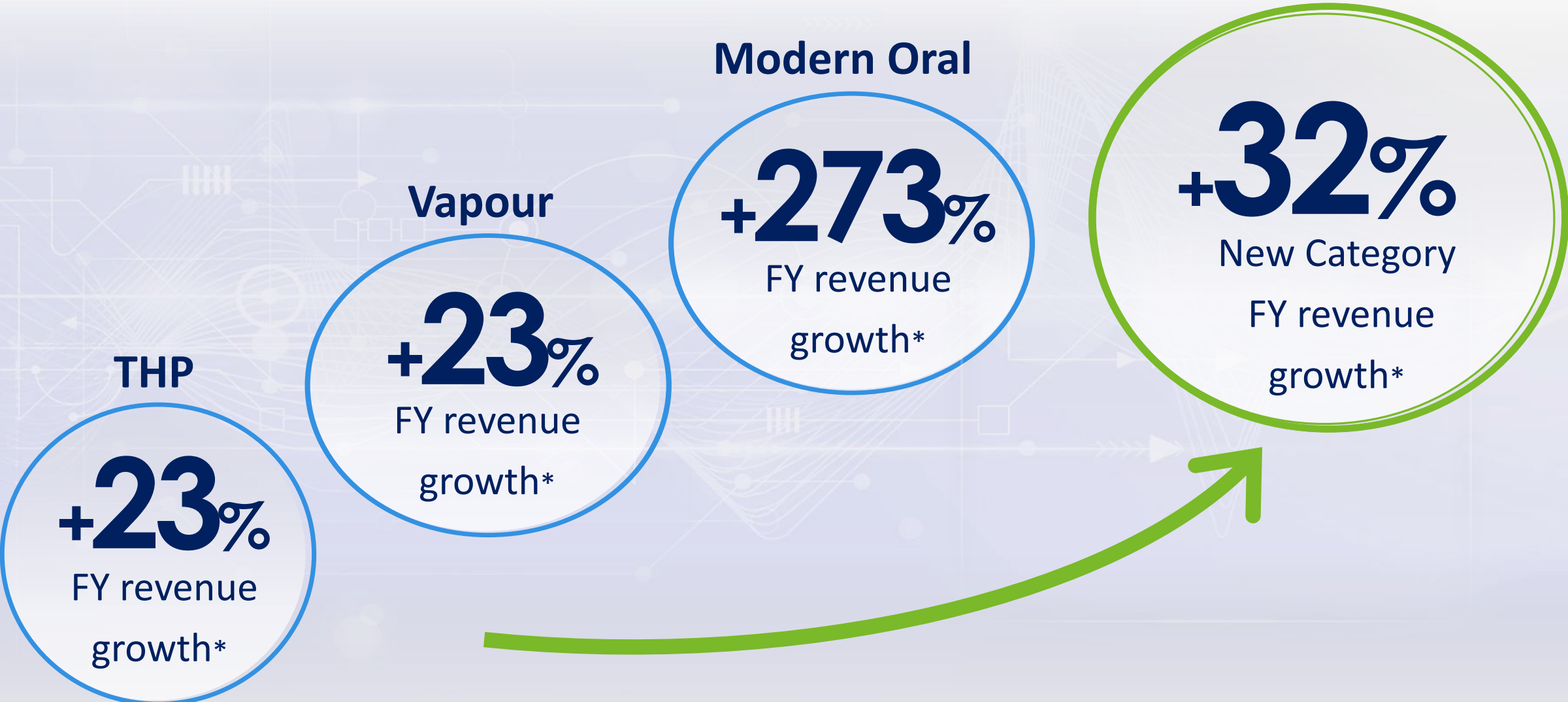
+30bps

ASU30 share

44.1%



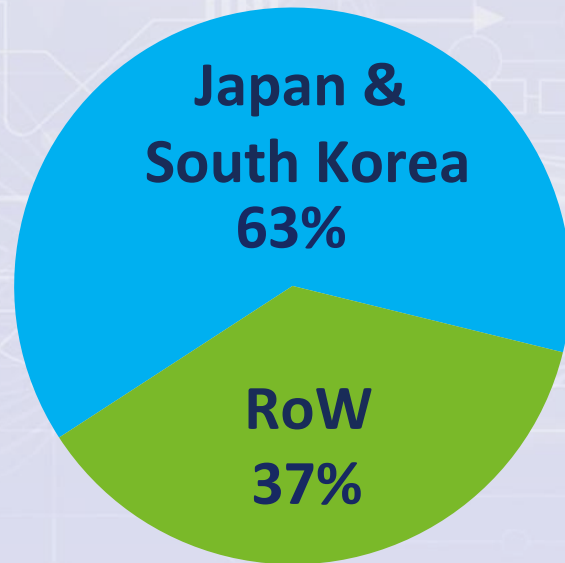
Step-change in New Categories | Strong progress



*Adjusted and constant rate basis. See Appendix A1-A2.

- › **Category returning to sequential growth in all key markets in Q4 following the US vapour slowdown**
- › **Growing volume and value share across all markets including US through H2**
- › **Well placed to meet PMTA May deadline**

Industry volume split

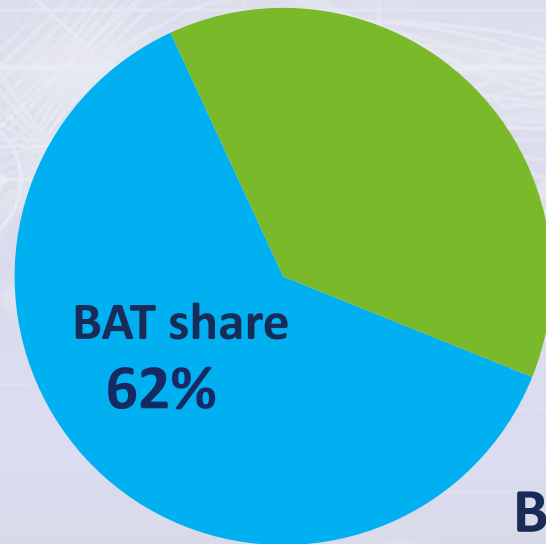


- › Opportunity is correlated with a unique set of characteristics:
 - › Fewer potentially reduced risk* alternative products
 - › Lower cigarette strength delivery levels
- › Our focus:
 - › Targeted geographic expansion (ENA)
 - › Increasing consumer satisfaction

Modern Oral | Global category leader

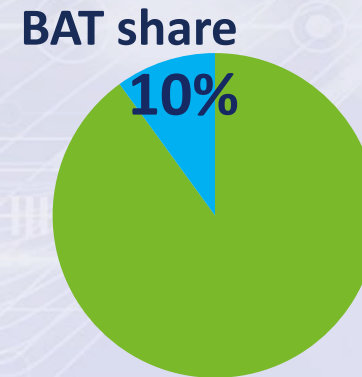
ENA Modern Oral Category

1,728m pouches



US Modern Oral Category

794m pouches



BAT Global volume share
47%

Delivering sustainable High Single Figure EPS growth

- › **Dynamic New Category regulation**
- › **Agile and responsive**
- › **Retain flexibility to invest**

Guidance

3-5% Revenue growth*

£5bn New Category Revenue[^] in 2023/24

Increased New Category Investment

Continued margin growth

Cash generation

Continued deleveraging

65% Dividend pay-out ratio

High Single Figure EPS Growth**

- › Vapour markets yet to return to previous levels
- › Modern Oral sales suspension in Russia; Vapour ban in Mexico
- › First signs of Coronavirus impact

Guidance

3-5% Revenue growth*

£5bn New Category Revenue[^] in 2023/24

Increased New Category Investment

Continued margin growth

Cash generation

Continued deleveraging

65% Dividend pay-out ratio

High Single Figure EPS Growth**

Long-term sustainable growth

- › **Delivering on our three priorities**
- › **Investment in expanding New Category business**
- › **Quantum provides the efficiencies and capabilities**
- › **Creating a Better Tomorrow**

High Single Figure constant currency earnings growth**

Delivering today while investing in the future

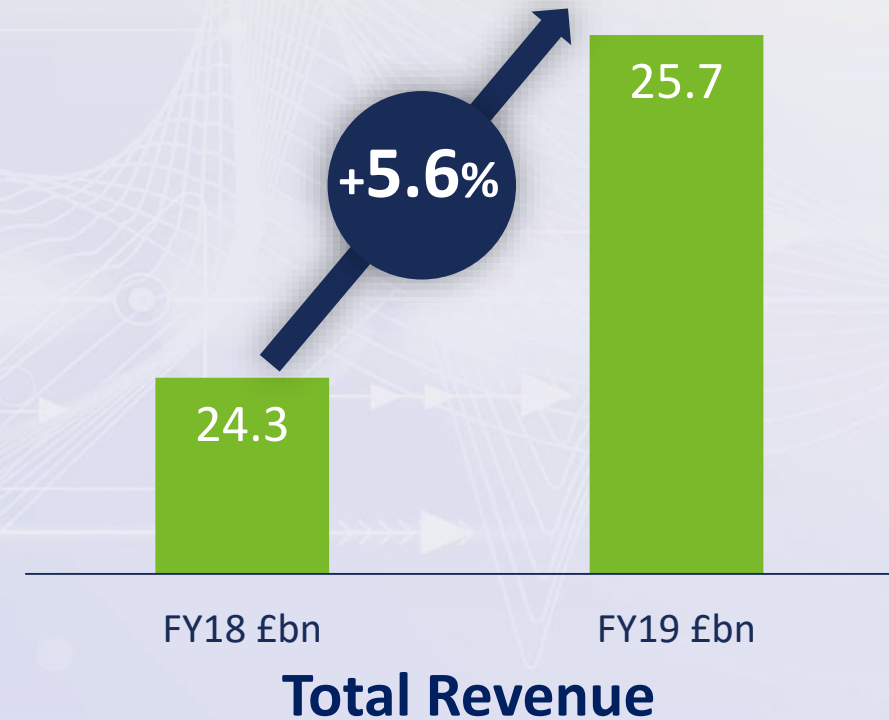
- ✓ **Margin growth*** +50bps
- ✓ **Investment** £500m incremental marketing investment
- ✓ **Strong Cash-Flow** £1.9bn free cashflow after dividends
- ✓ **De-leveraging on track** 0.4 x (constant rates)
- ✓ **Dividend** 65% pay-out ratio

Strong revenue growth

Strategic Combustible
revenue up +5.6%*

Improved pricing

Good progress on New
Categories growth

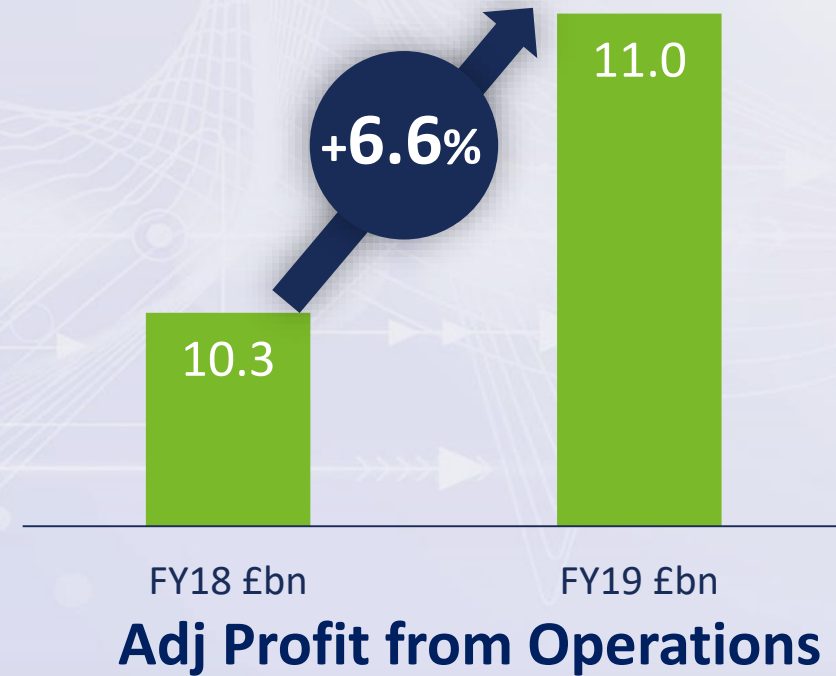


Strong profit* growth

Strong profit* growth
across all regions

Pricing and cost
management focus

Significantly increased
investment
in New Categories



Strong financial results* across each region

	Adjusted Revenue*	Value Share	Adjusted Profit from operations*
APME	+5.6%	+30bps	+7.9%
AMSSA	+9.2%	+20bps	+10.0%
ENA	+5.0%	Flat	+3.3%
US	+4.4%	+30bps	+6.4%

*Adjusted and constant rate basis. See Appendix A1-A2.

Value share of cigarettes (APME: cigs+THP).

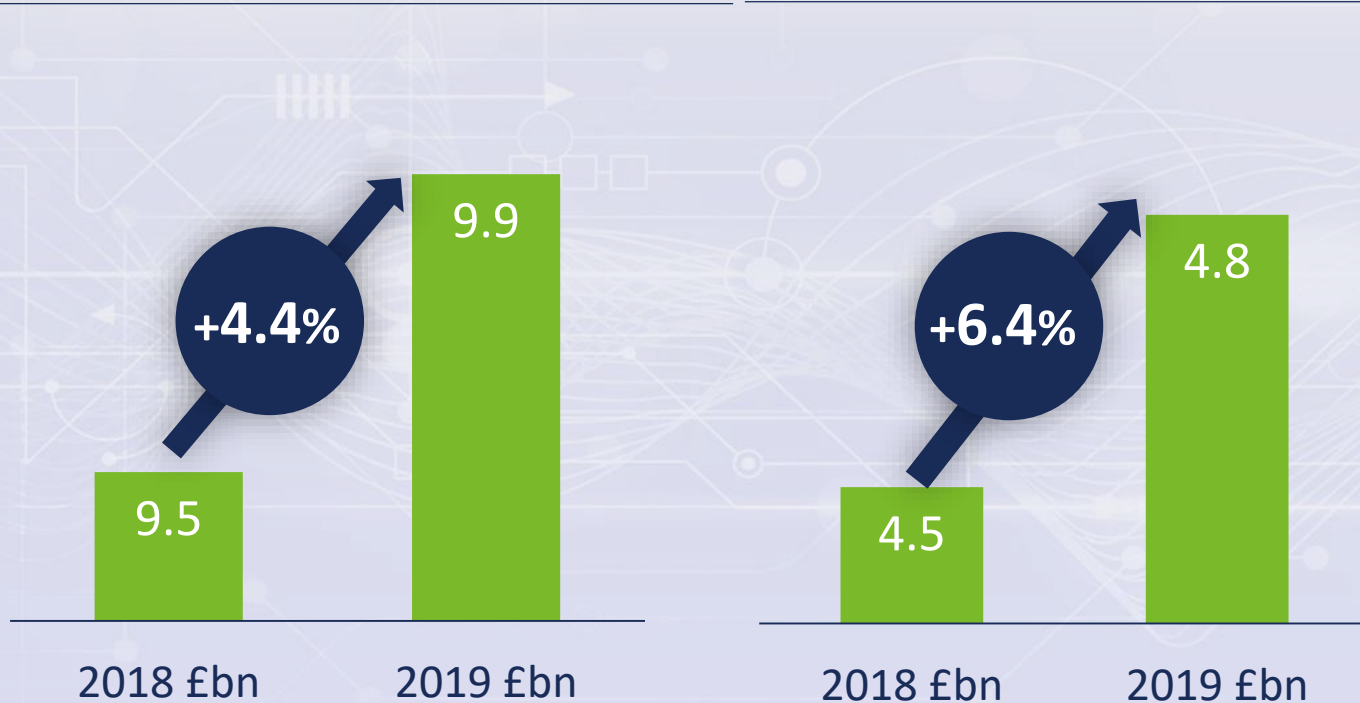
Source: Company data

US | Strong results in the US



Revenue*

Adj. Profits from Ops.*



Driven By:

- Improved Pricing
- Reduced discounting
- Strong brands
- Efficiency savings

2020 Estimates:

~5%

Volume Decline

Source: Internal Estimates

*2019 Adjusted and constant rate basis V 2018 adjusted and current rate basis. See Appendix A1-A2. Source: Company data

US Vapour | Strong growth in Vuse value share



Vuse value share

+8.7 ppts

Vuse Alto value share

+12.7 ppts



Market leaders in ENA



ePen3 reached 10.3% Value share;
2nd product of the year win for Vype with ePOD



Vype is market leader in closed systems;
fastest growing brand with 23.3% Value share



Vype reached 17% share of total vapour
consumers

Building momentum in AMSSA



ePOD driving Vype's value share recovery
to 28.2%



Twisp acquisition: National distribution,
70 dedicated stores and e-commerce

glo Pro – good initial results

Encouraging
consumer
response



Boost function
Induction heating
Faster ramp up



glo Sens – work to do

- › Consumer interest in the hybrid category
- › Limited traction for our offer to date

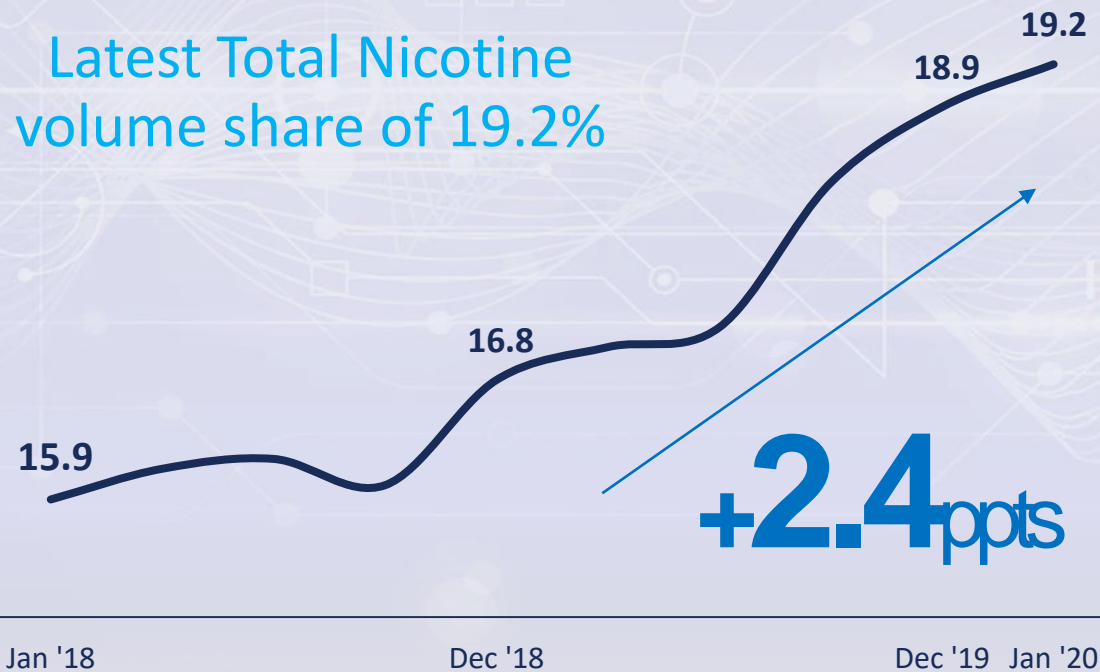


THP | Growing share of total nicotine in Japan



Latest weekly share of glo of 5.2%

>1% volume share of FMC+THP



Russia
(Moscow)

+1.5 ppts
1.9% volume share



Kazakhstan
(Nur-Sultan)

+1.5 ppts
1.9% volume share



Ukraine
(Kiev)

+1.2 ppts
1.5% volume share

Modern Oral | Global leadership achieved

Traditional Oral Markets



Sweden

+1.8ppts

3.2% volume share



Norway

+5.2ppts

14% volume share



Denmark

+75ppts

75% volume share

New Modern Oral Markets



Switzerland

+15.5ppts

41% volume share



Russia

+27ppts

27% volume share



Kenya



Pakistan

Encouraging early results
from city tests



VELO



10.1%
Volume share
of Modern Oral



- › Over-indexing* share in key states
- › National distribution at >100k outlets
- › Top 5 Velo share in states approximating 13% of US total nicotine volumes
- › <6mg strength segment grew 6% to 34% of the Modern oral category

Top 5** Velo shares

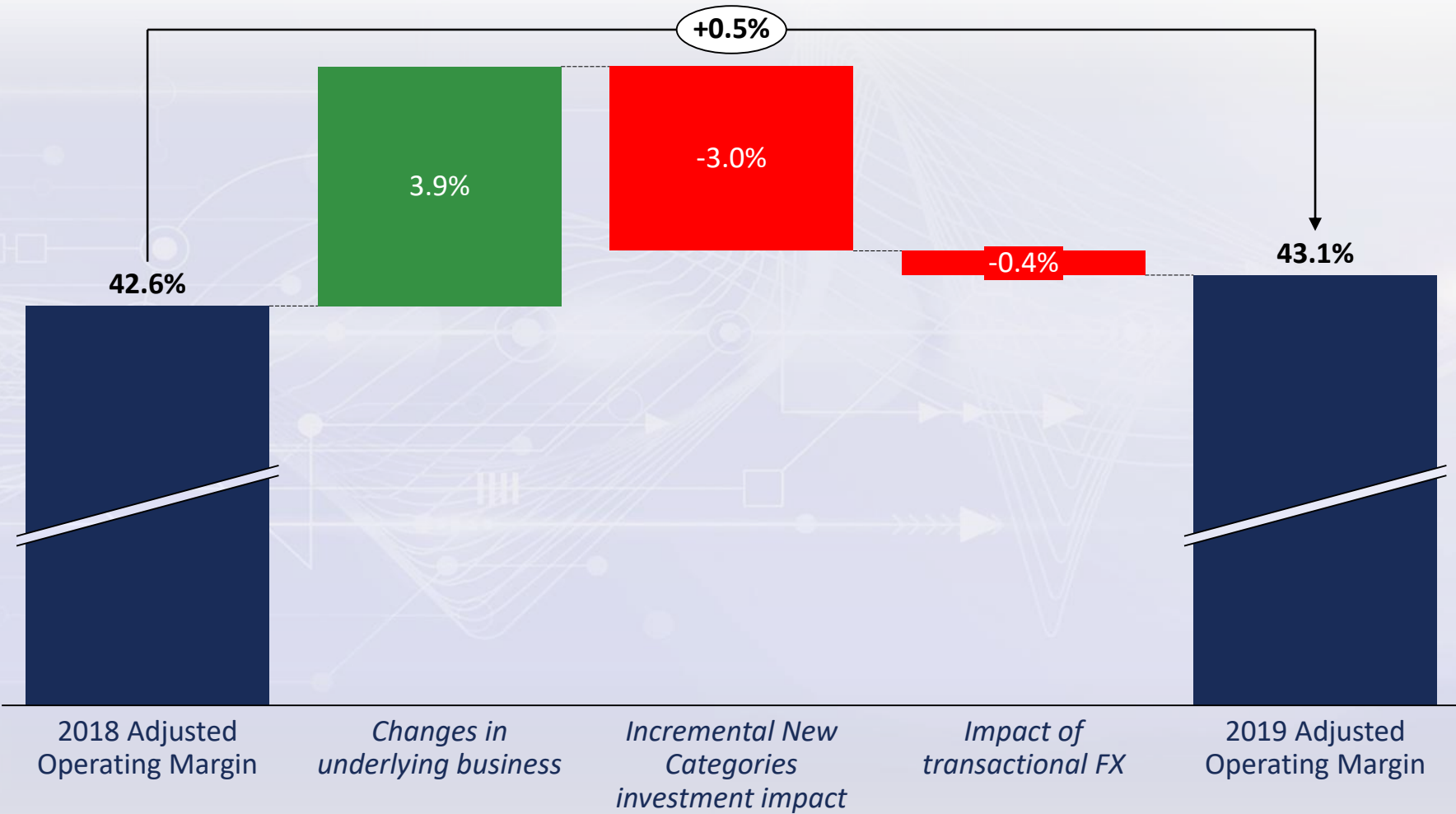


Source: Company data. * Key states ranked in terms of total nicotine volume being: Texas, California & Florida. Velo share is growing at a higher rate than the National average growth.

** Velo volume share of Modern Oral by US state Jan 20

Increasing investment and growing margin

+50bps
growth v FY18

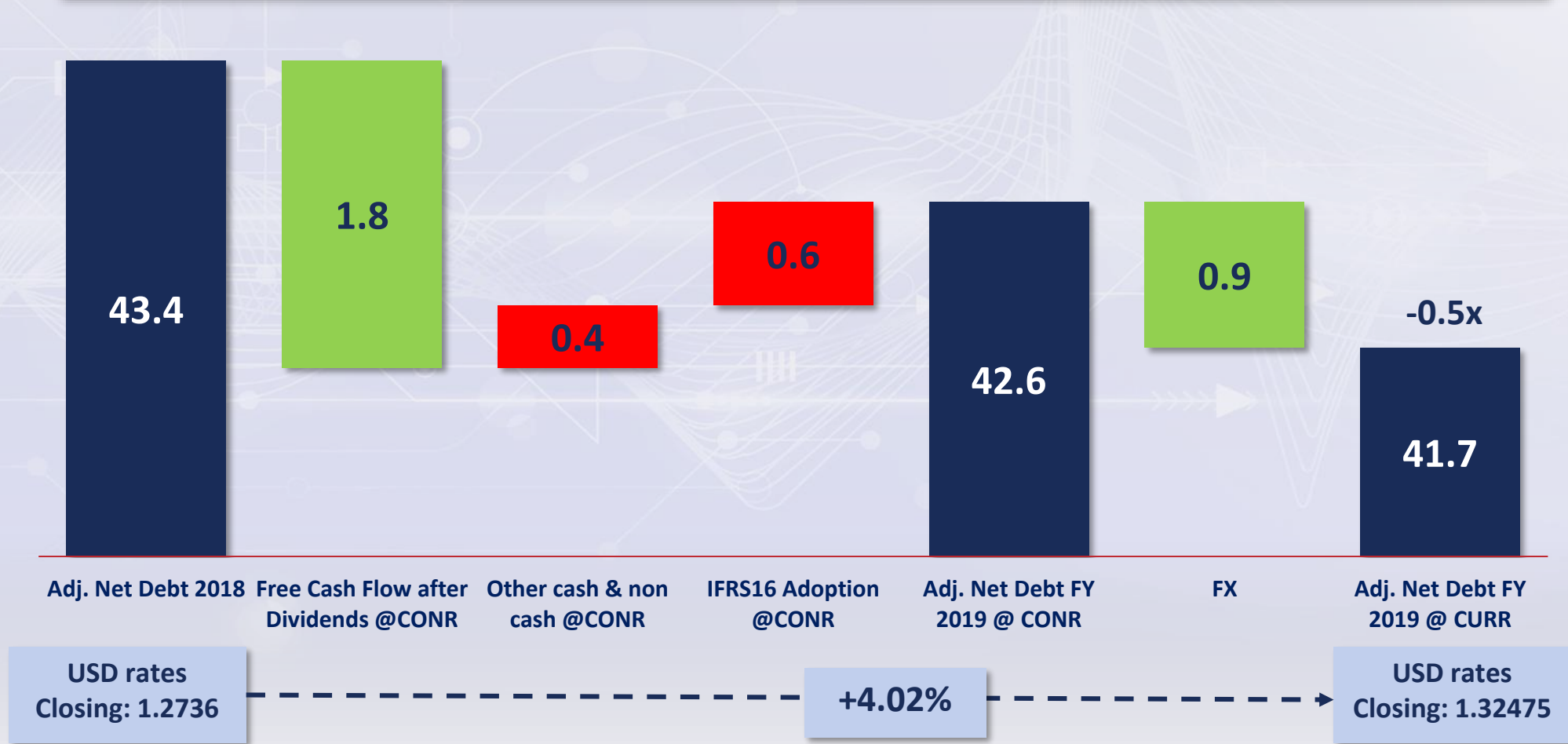


Strong cash generation driving de-leveraging

Adj. Net Debt
/ Adj. EBITDA



£bn



Committed to de-lever to below 3.0x by end of 2021

Adj Net Debt*/Adj EBITDA**



2020 Guidance

FY Operating cash
conversion target above
90%

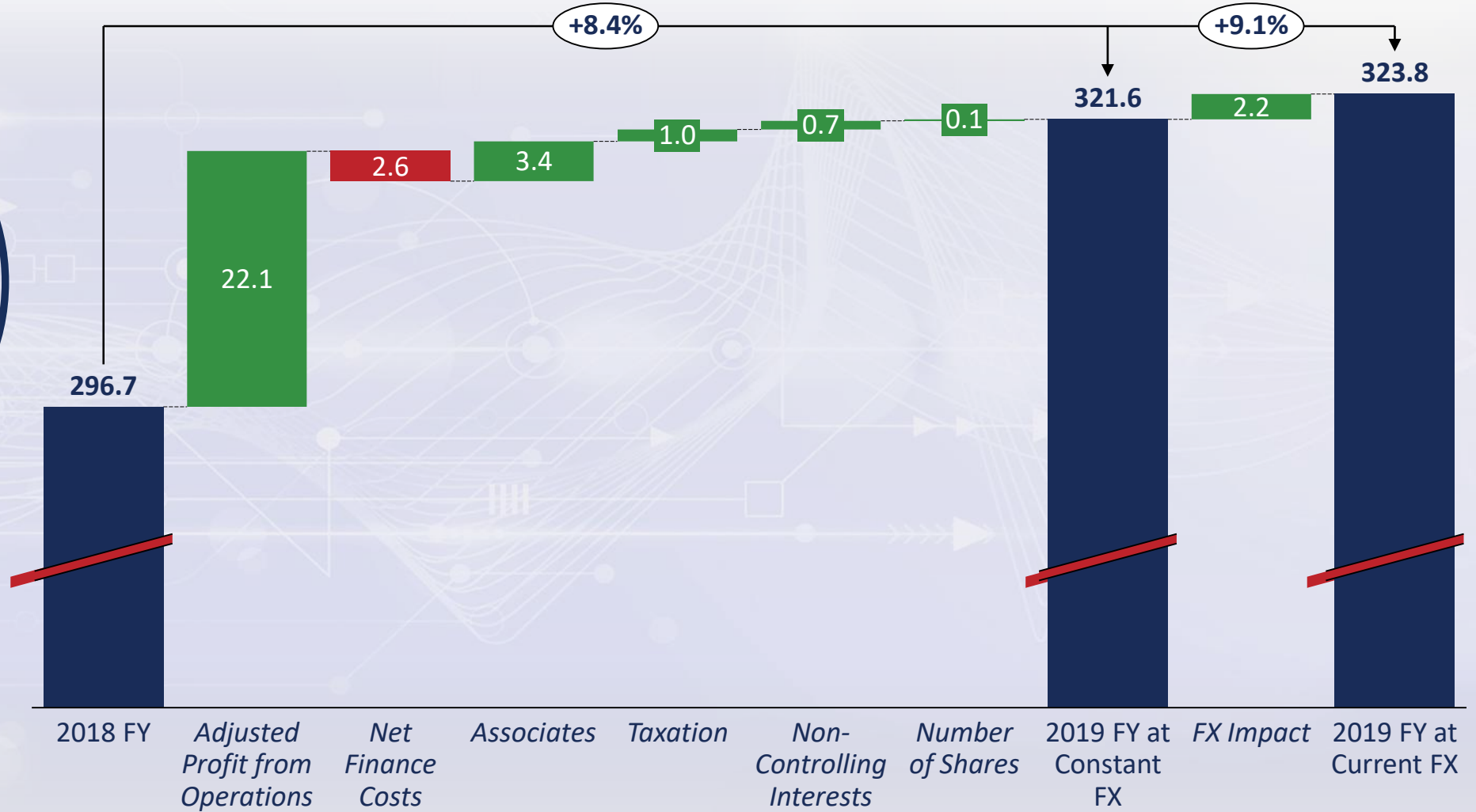
Dividend – 65% pay-out
ratio /
growth in GBP terms

**Adjusted Net Debt is total borrowings, including related derivatives, less cash and cash equivalents and current available-for-sale investments, excluding the impact of the revaluation of RAI acquired debt arising as part of the purchase price allocation process.*

***Adjusted EBITDA is not a measure defined by IFRS. Adjusted EBITDA is defined as profit for the year (earnings) before net finance costs, taxation on ordinary activities, share of post-tax results of associates and joint ventures, depreciation, amortisation, impairment costs and adjusting items.*

Continued High Single Figure earnings growth*

+8.4%*



*FY18 Adjusted basis. FY19 Adjusted and constant rate basis. See Appendix A1-A2. Source: Company data

A strong year of delivery

COMBUSTIBLE VALUE
GROWTH

STEP-CHANGE
IN NEW CATEGORIES

SIMPLIFY THE
COMPANY

- › Continued strong combustibles performance
- › Delivering earnings and dividend growth for shareholders
- › Good progress on our priority areas, with more to come
- › Capital Markets Day on March 18th

Q&A

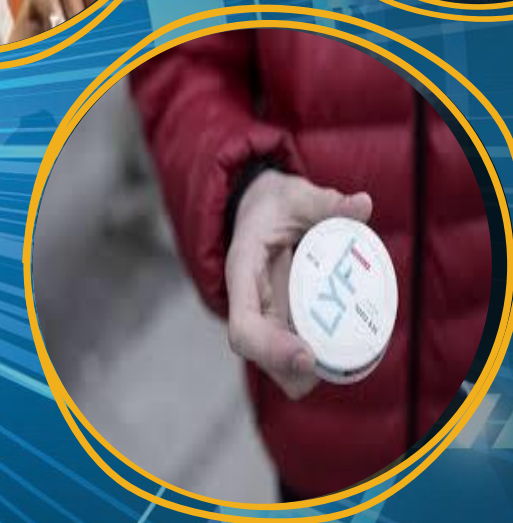
27 February 2020

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Chief Executive

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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.

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.

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).

Top BAT Market Share Movements (1)

Market	SOM FY19 (%)	Movement (ppt)
Argentina	23.3	0.0
Australia	41.5	0.4
Bangladesh	68.4	1.1
Belgium	24.8	(0.5)
Brazil	75.8	(1.4)
Bulgaria	37.8	(1.8)
Canada	48.7	0.3
Chile	97.4	(0.1)
Colombia	52.3	1.7
Czech Republic	21.9	0.0
Denmark	71.6	(0.5)

Market	SOM FY19 (%)	Movement (ppt)
France	17.4	0.1
Germany	20.0	(0.4)
Indonesia	7.9	(0.2)
Italy	18.9	0.2
Japan	17.9	1.7
Kazakhstan	15.9	(1.0)
KSA	36.8	(2.0)
Malaysia	54.4	(1.8)
Mexico	35.0	1.0
Netherlands	22.5	(1.1)

Top BAT Market Share Movements (2)

Market	SOM FY19 (%)	Movement (ppt)
New Zealand	72.1	0.4
Pakistan	74.9	1.6
Poland	28.6	0.3
Romania	58.9	0.2
Russia	23.8	0.4
South Africa	77.2	(0.2)
South Korea	12.0	(0.4)

Market	SOM FY19 (%)	Movement (ppt)
Spain	11.9	0.4
Switzerland	35.0	(0.5)
Taiwan	10.0	0.0
Turkey	22.9	(0.1)
UK	9.3	(0.1)
Ukraine	28.1	0.4
Vietnam	28.0	0.9

Source: Retail Audit except for New Zealand, Switzerland and Vietnam