



# Strong Brands Drive New Category Acceleration

Interim Results 2021

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

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In particular, among other statements: (i) certain statements in the opening section (slide 6 and 19); (ii) certain statements in Tadeu Marroco's section (slides 21, 34 and 37); and (iii) certain statements in Jack Bowles' section (slide 40).

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# Important Information



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

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# Strong Brands Drive New Category Acceleration

Interim Results 2021

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

# Building A Better Tomorrow™



## Our Purpose

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



## Our Commitment

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

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

# Delivering Our Purpose is Transforming BAT

From

To



## Creating value for all our stakeholders



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



£5bn New Category Revenue by 2025



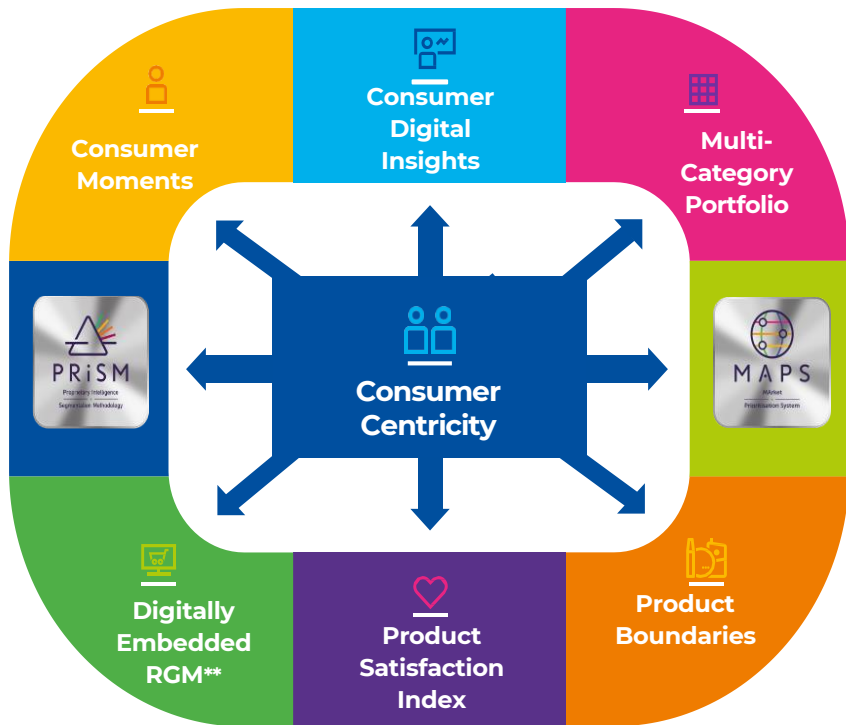
Carbon neutral by 2030\*\*\*



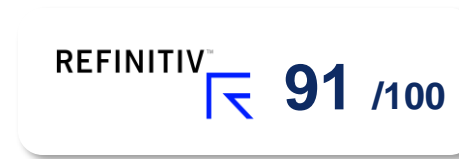
Eliminate unnecessary single-use plastic & all plastic packaging recyclable^ by 2025\*\*\*

\* Beyond refers to Wellbeing & Stimulation Beyond Nicotine. Target market for consumer acquisition is existing adult smokers/nicotine/beyond nicotine users. \*\* Consumers of Non-combustible products definition. See Appendix A6. \*\*\* Environmental targets, carbon neutral is scope 1 & 2. See Appendix A5. ^ Reusable, recyclable or compostable.

# HY 2021: Consumer-Centric Multi-Category Strategy Delivering Strong Growth



- Strong New Category momentum, revenue\* up +50%
- Building strong brands - leveraging digital
- Continued progress on ESG



\* Constant currency growth. See Appendix A2. \*\* RGM: Revenue Growth Management tool.

# HY 2021: Strong New Category Momentum

**New Category Revenue\* up +50%**  
**Record H1 NC Consumer Acquisition\*\*, up +2.6m to 16.1m**



**Global  
Leadership**  
*ambition*

**Revenue\* up +59%**



**Fastest Growing  
THP Brand**  
*ambition*

**Revenue\* up +38%**

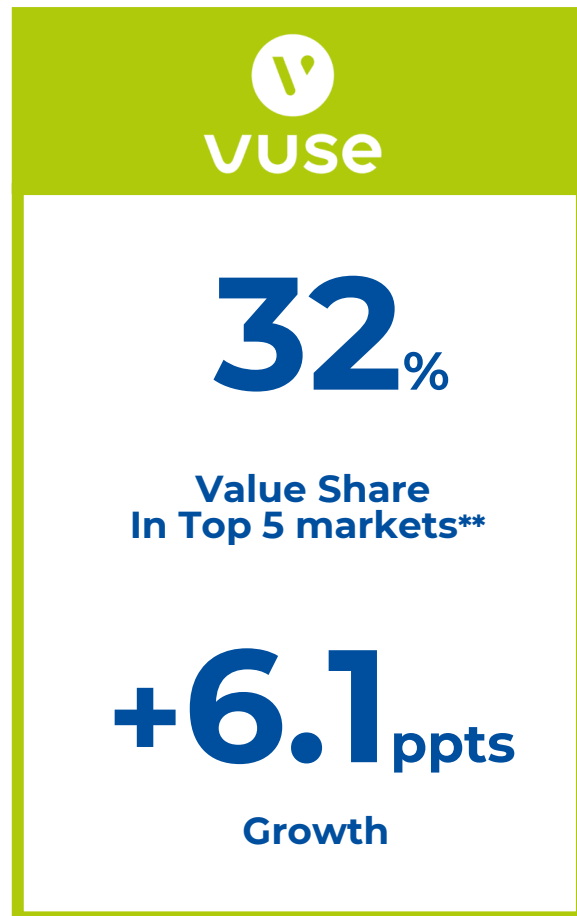


**Global  
Leadership**  
*ambition*

**Revenue\* up +63%**

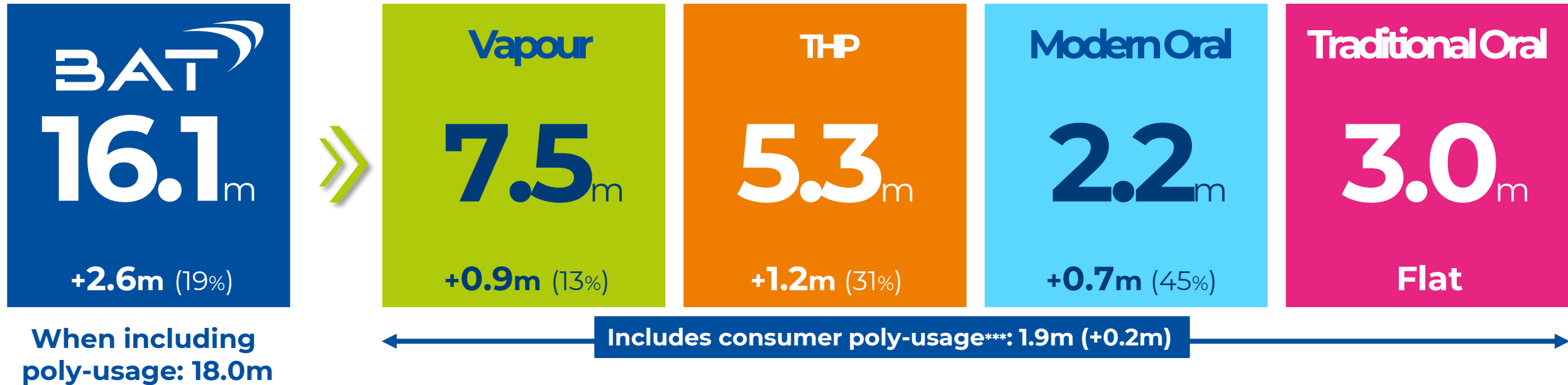


# HY 2021: Building A Better Tomorrow™



# HY 2021 - Accelerating Consumer Acquisition\* Across All Three Categories

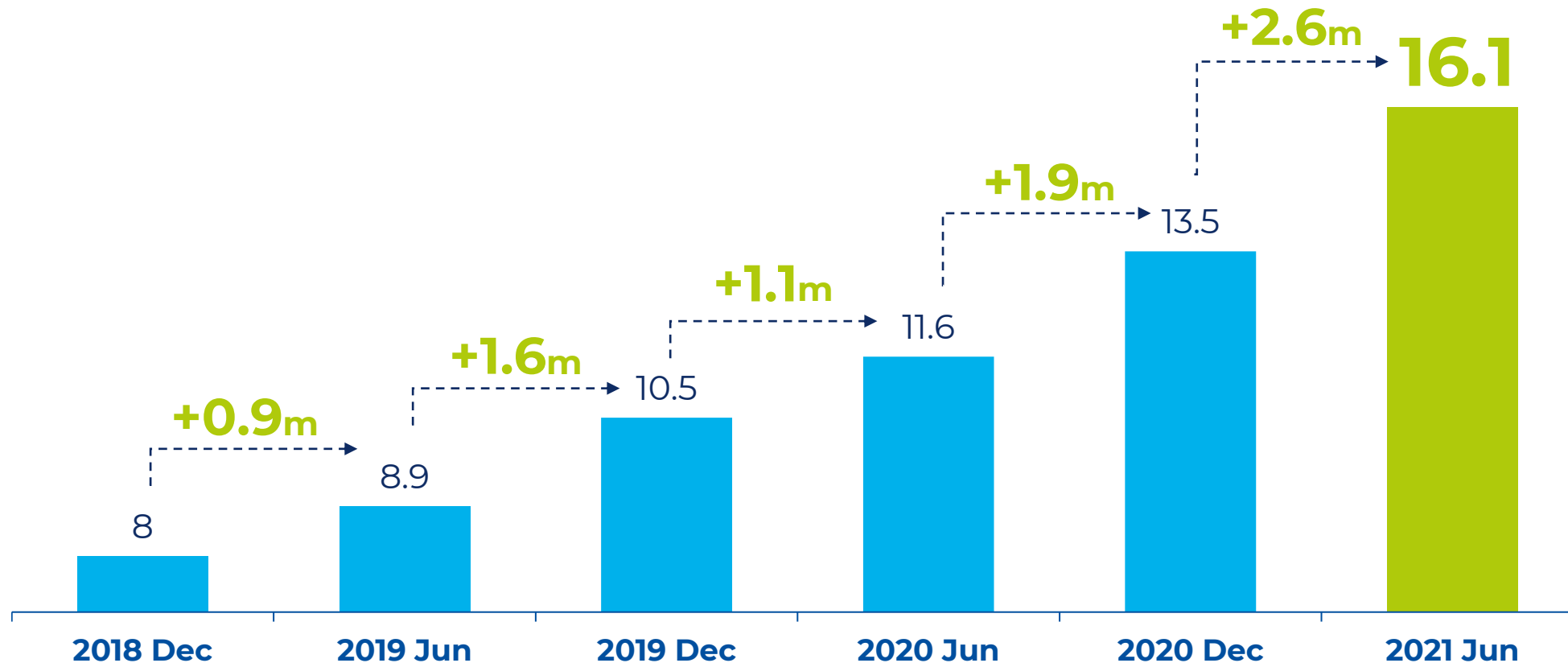
Number of consumers of Non-Combustible\*\* products



**Growth driven by true multi-category performance**

# HY 2021: Accelerating Consumer Acquisition\*

Record 1H21 Performance: **+2.6m vs. Dec 20 (c. 2.5X vs. 1 year ago); +4.5m vs. Jun 20**



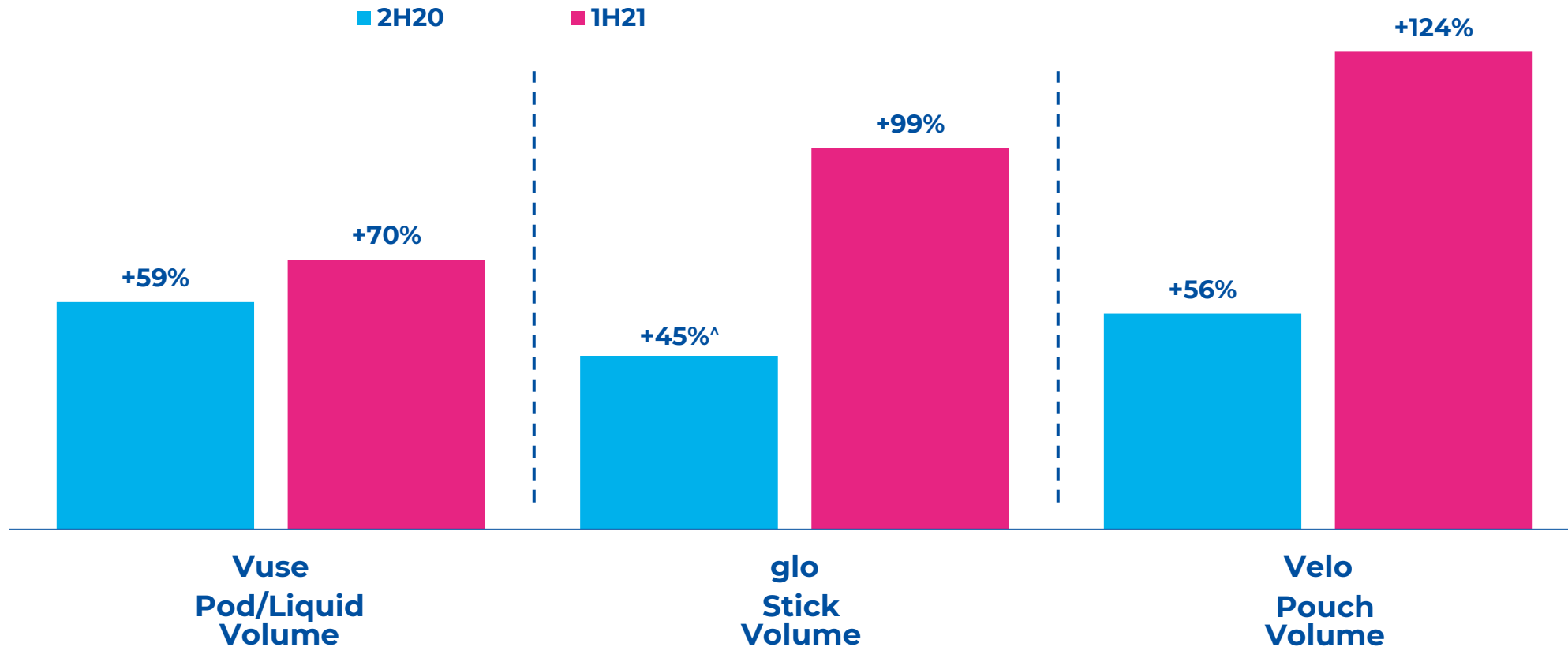
**Accelerating & Highest ever 6-monthly growth**

**c.85% of FY 2020 growth already achieved in 1H21**

**Growth of consumers of Non-Combustible\*\* products**

Growth versus prior period unless otherwise stated. Source: Company data. \* Target market for acquisition is existing adult smokers/nicotine users. \*\* See Appendix A6.

# HY 2021: Consumer Conversion\* Driving Strong Consumable Volume Growth\*\*



\* Consumer conversion from cigarettes to New Categories. \*\* Growth versus same period last year. ^ Excluding glo Sens growth in H2 2020. Volume growth of Vapour consumables, THP sticks, and Modern Oral pouches. Vuse brand represents c.90% of HY21 vapour revenue. Velo brand represents over 50% of HY21 Modern Oral markets. Continue to migrate remaining brands during 2021.

# We are Building Brands of the Future



**#1 Value Share** in 4 of T5\*\*  
& fastest growing\*\*\* in all T5\*\*

**1<sup>ST</sup> Carbon Neutral**  
**Global vape brand**<sup>^</sup>

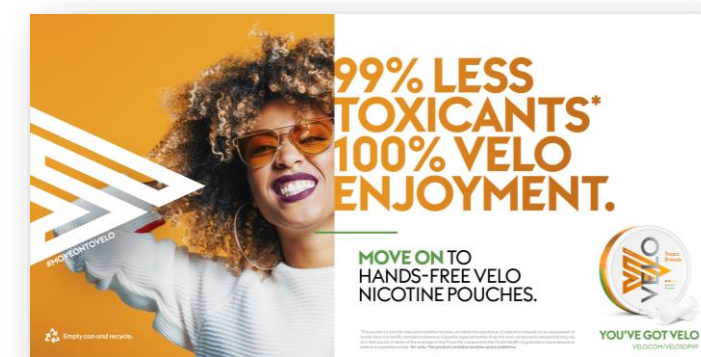
**Strengthening Brand Power**  
Globally **+12%** vs. 1H20



Ambition to become **Fastest Growing**\*\* THP Brand

**Record glo category share**  
in key markets

**Strengthening Brand Power**  
Globally **+19%** vs. 1H20



**Fastest Awareness Growth** in  
the US

**Strongest Brand** in the Nordics

**Strengthening Brand Power**  
Globally **+13%** vs. 1H20

# Powered by Consumer-Focused Digitalisation

**c.1.9 Bn**

Potential media reach from Strategic partnerships (1H21)

**#1** in Branded search traffic across T5\* for Vuse



**+142%**

Increase in social followers vs 1H20



**12.1M**

Contactable Adult New Category Consumers



**29M**

Total own e-comm visits



**+63%** vs 1H20

Subscriptions

37% of Vuse own e-comm revenue



**+58%** vs 1H20

Strategic\*\* own e-comm revenue



Innovative deployment of dynamic branding

\* Top 5 vapour markets : US, Canada, UK, France, Germany. T5 represent c.75% of Vapour industry revenue (closed-systems). Growth metrics versus 1H20. Vuse brand represents c.90% of HY21 vapour revenue. Velo brand represents over 50% of HY21 Modern Oral markets. Continue to migrate remaining brands during 2021. \*\* Strategic revenue relates to the revenue from the Group's strategic brands.

# Building a Consumer-led Ecosystem Beyond Nicotine

## Target Consumer Areas

Boost & Energy

Clarity & Focus

Calm & Relax



13 investments closed to date

### Target areas:



Health and Wellness



Functional products – e.g. Focus, Energize & Relax



Science



Sustainability



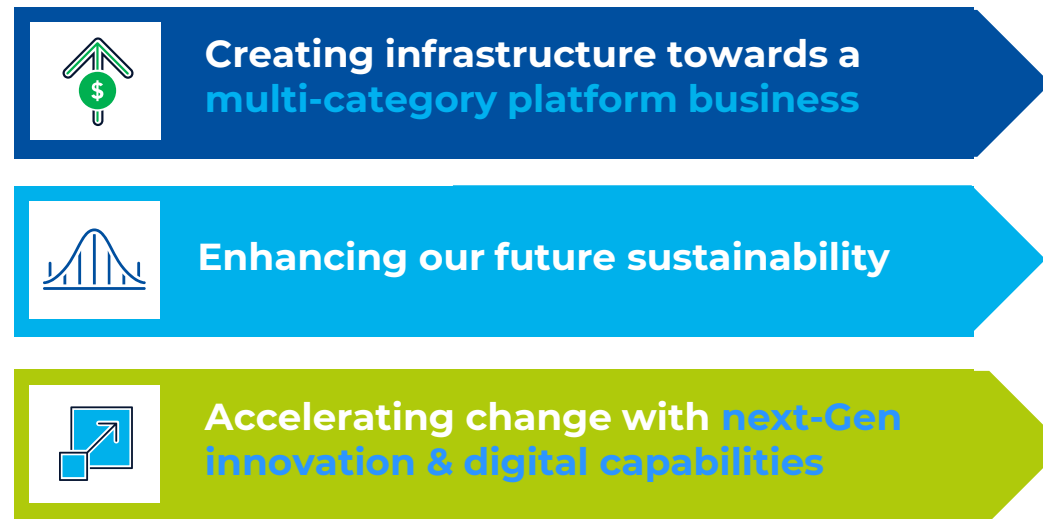
Technology



- R&D collaboration
- c.20% associate investment



# Quest: Accelerating Our Transformation



## Enabling The Enterprise of the Future

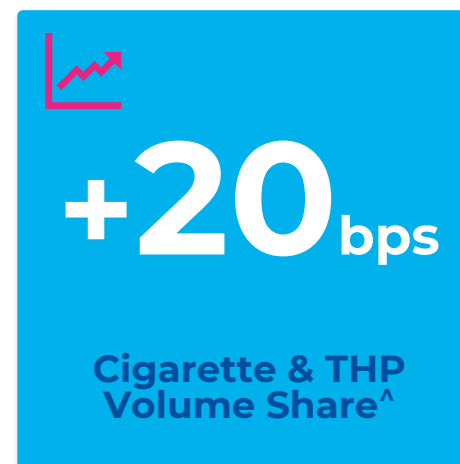
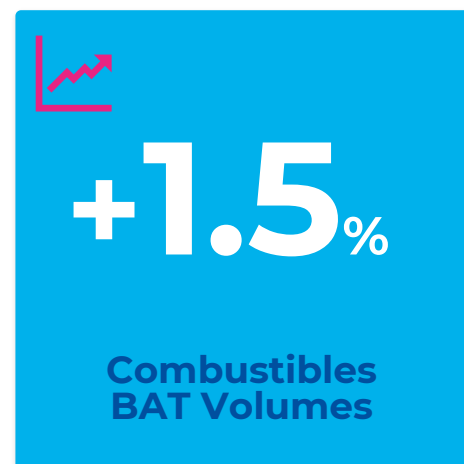
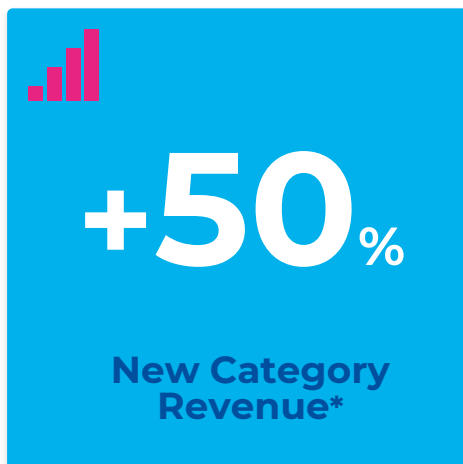


# HY 2021: Currency Translation Masks Strong Growth

	REPORTED HY 2021 @ Current rates	ADJUSTED HY 2021 @ Constant rates*
Revenue	-0.8%	+8.1%**
New Category Revenue	+40.4%	+50.0%**
Operating Margin	-120 bps	-70 bps***
Profit From Operations	-3.7%	+5.4%
Diluted EPS	-6.0%	+6.1%

\* On an adjusted, constant rate basis. See Appendix A1 & A2. \*\* On a reported, constant rate basis. See Appendix A2. \*\*\* Current rate growth.

# HY 2021: Strong Results



# HY 2021: Accelerating our Transformation

## Clear Operational Priorities

**STEP-CHANGE IN  
NEW CATEGORIES**

**COMBUSTIBLE  
VALUE  
GROWTH**

**SIMPLIFY  
THE COMPANY**

## Strong results in H1 2021

- ✓ Accelerating New Category growth\*
- ✓ Non-Combustible\*\* Consumers +2.6m to 16.1m
- ✓ Building strong brands and leveraging digital
- ✓ c.£350m increased\*\*\* NC investment
- ✓ Group Revenue^ up +8.1%
- ✓ Combustible value share^^ +10bps
- ✓ Quantum savings of £1bn expected 12mths early
- ✓ Quantum target raised to £1.5bn by 2022



# Tadeu Marroco

Finance and Transformation Director

# Accelerating our Transformation

## Strong progress against financial focus areas



### 1. Releasing funds to support growth agenda

- £0.9bn total Quantum savings delivered to date
- Value through combustibles, revenue\* up +5.8%

### 2. Maximising marketing spend effectiveness

- c.£350m incremental\*\* investment driving accelerated New Category revenue growth

### 3. Generating cash to continue to de-lever the balance sheet

- On track for c.3x adj. net debt/adj. EBITDA\*\*\* and >90% cash conversion for FY21

# Revenue: Strong Growth and New Category Momentum

## Revenue growth\* +8.1%

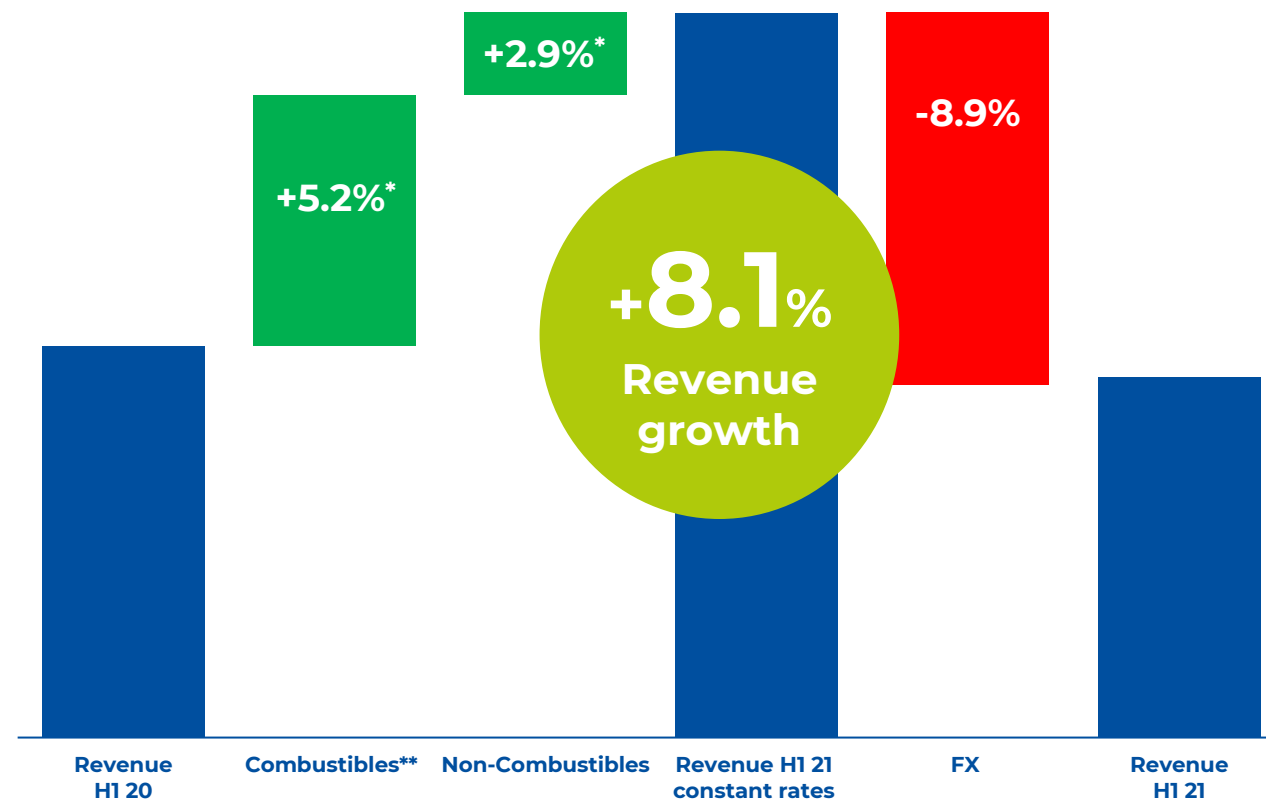
- Combustible revenue\* +5.8%
- New Category revenue\* +50%
  - Vapour +59%
  - THP +38%
  - Modern Oral +63%

## Strong volume performance

- Accelerating NC volumes
- Combustibles +10bps volume share\*\*\*

## Driving value from Combustibles

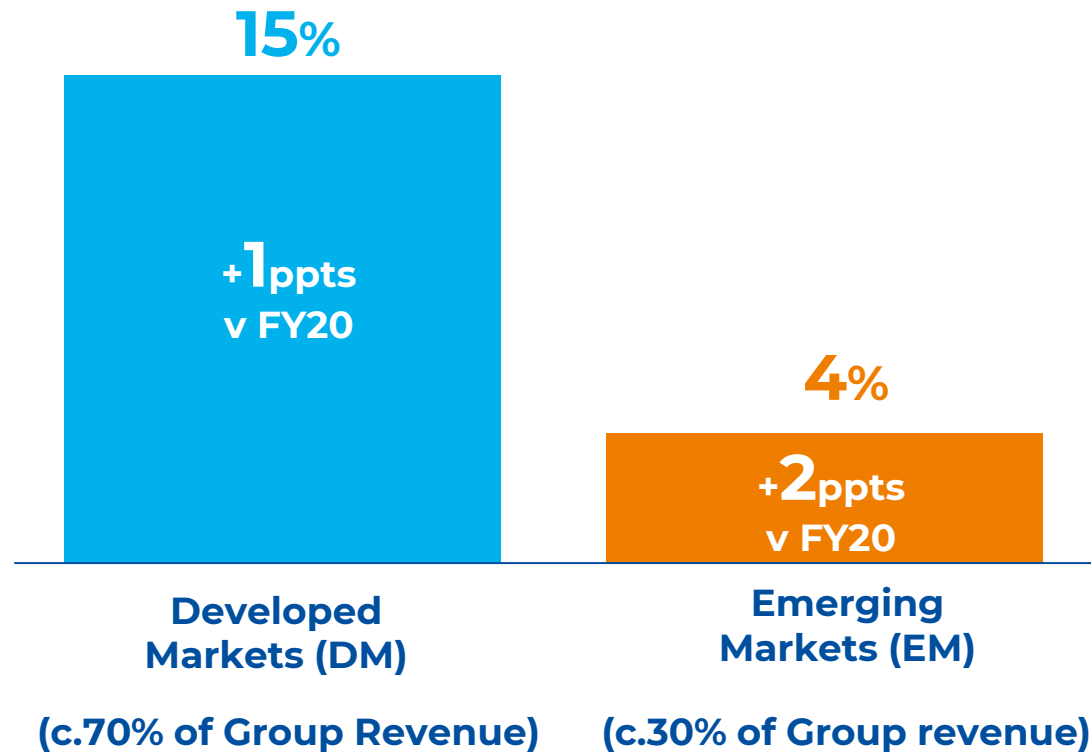
- Value share\*\*\* +10bps
- +4.3% price/mix<sup>^</sup>, absorbing geographic mix impact



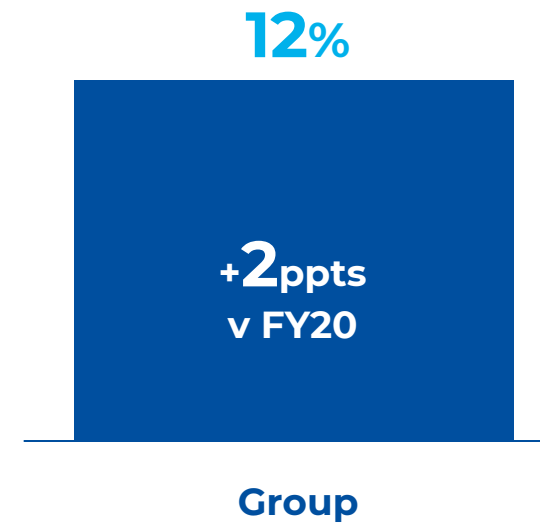
\* Growth at constant rates. For definition see Appendix A3. \*\* Combustibles revenue contribution net of other revenue growth. \*\*\* Cigarette volume and value share. See Appendix A3. ^ Price/mix defined in Appendix A4.

# Accelerating Portfolio Transformation

% of H1 DM/EM revenue in non-combustibles

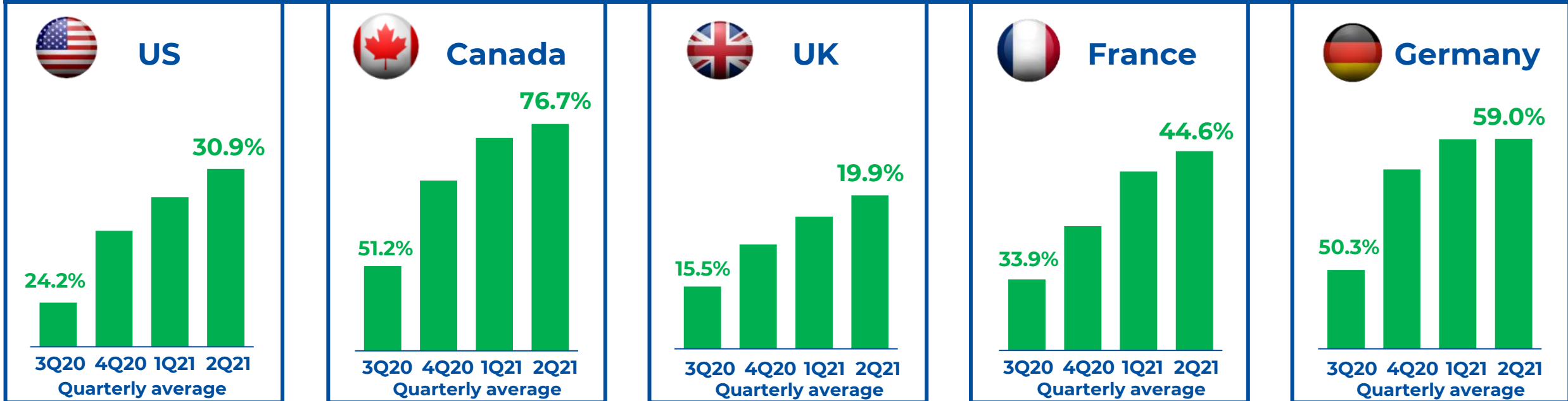


% of H1 Group revenue in non-combustibles



# Vuse: Approaching Global Category Leadership

## Continued strong value share\* across T5\*\* Markets (c.75% of Industry Revenue)



**First global carbon neutral  
vape brand\*\*\***

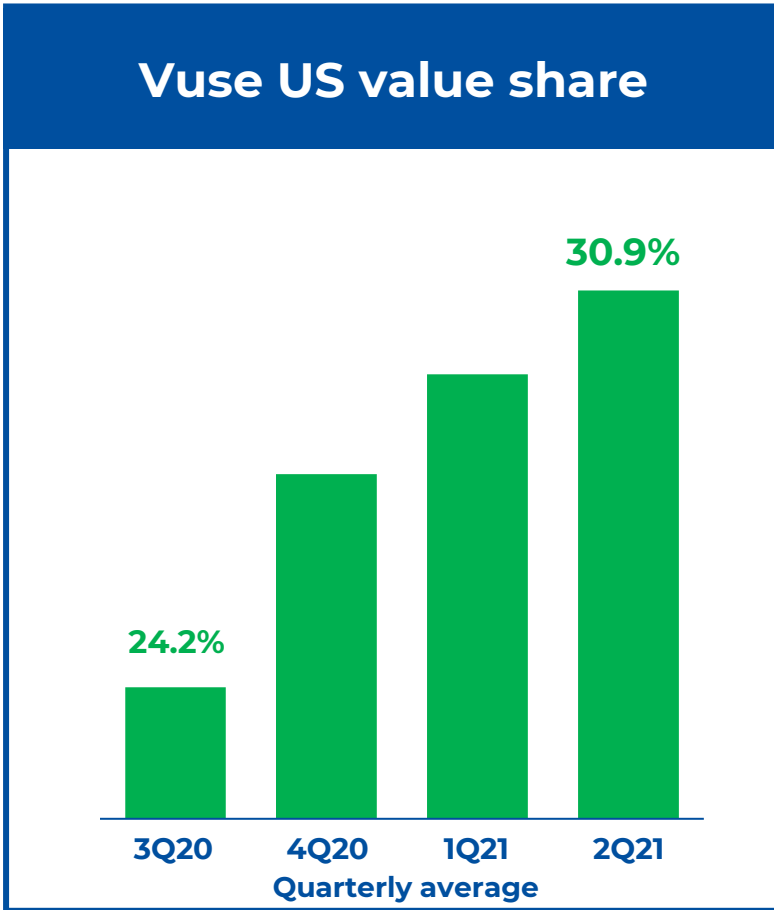
**Continued device share^  
leadership in T5\*\***





# Vuse: Approaching Leadership in the US

## Vuse US value share



- Vuse value share up 5.1ppts reaching 30.0% May YTD
- Number 1 device share, with 60.4% May YTD
- Vuse consumable volume up 97%
- Vuse key brand attributes\* ahead of main peer
  - Brand I Love, High Quality, Advanced Technology
- US Vapour Industry returning to growth, up c.30%

## Vuse value share leadership in 20 states in June 2021

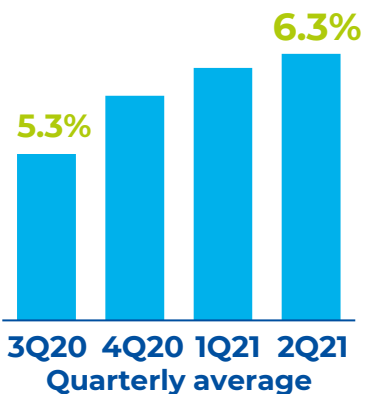
# glo: Hyper Continues to Accelerate Share Growth



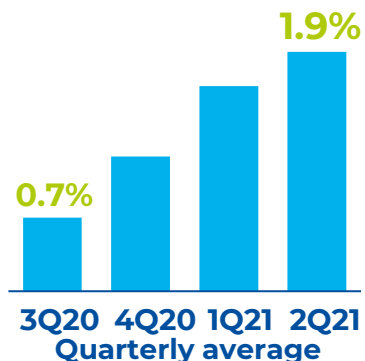
## Record glo Nicotine\* Share across key markets (c.80% of Industry Revenue)



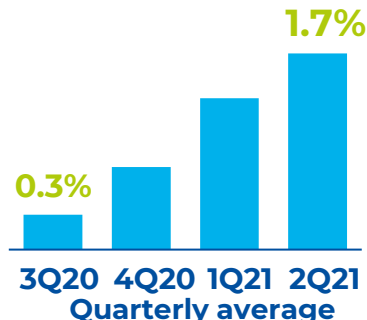
Japan



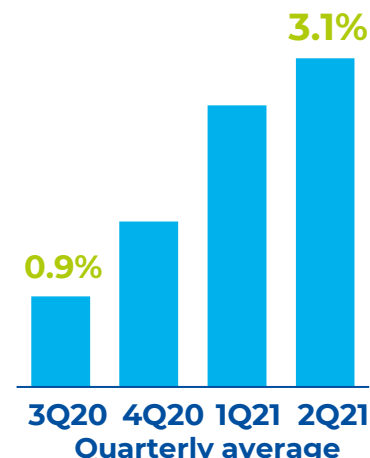
Russia



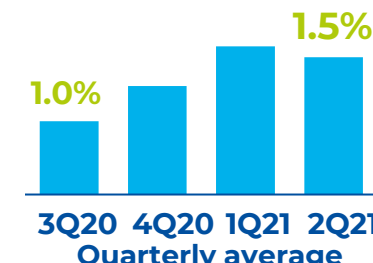
Italy



Ukraine



Romania



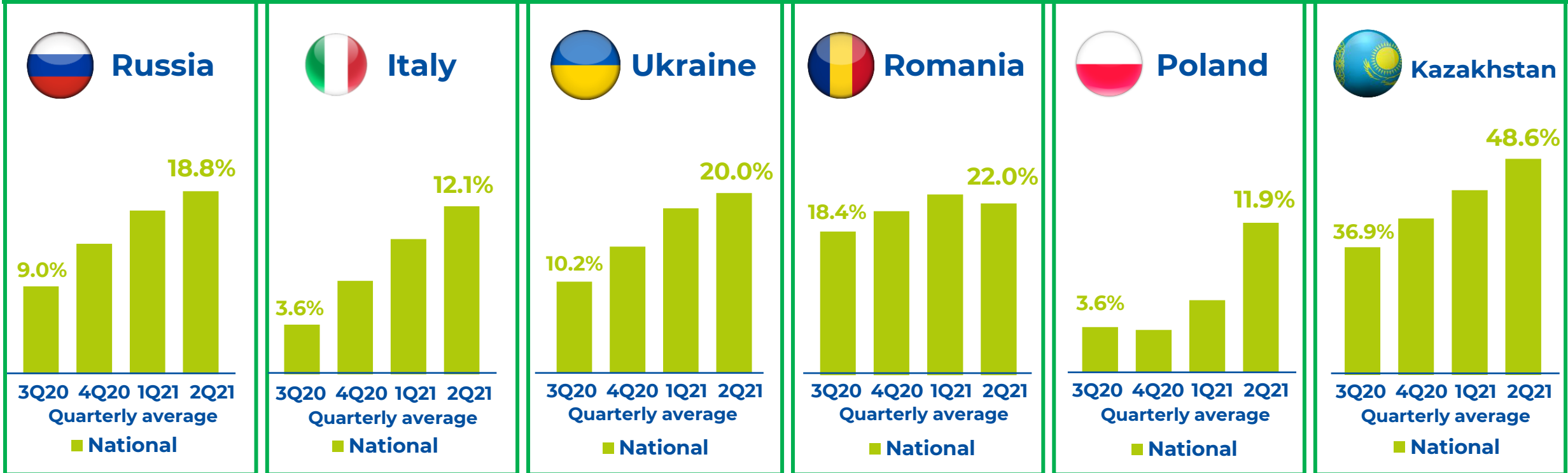
**c.60% Japan volume in Hyper in H1**

**Consumables average price index >90 vs. peer\*\***

\* Share of Cigarette + THP nicotine volume – monthly average of quarter share to May 2021. 2Q21 share reflects average of April and May 21. Japan – CVS-BC Vol. Share of FMC+THP+Hybrid; Russia – IMS (BAT+PMI) est. Vol. Share of FMC+THP; Italy and Ukraine – Nielsen Vol. Share of FMC+THP; Romania – Nielsen KA Vol. share of FMC+THP. See Appendix A3 for Volume share definition. \*\* Weighted average consumables pricing across Japan, Russia, Italy, Ukraine and Romania, accounting for c.85% of glo volume.

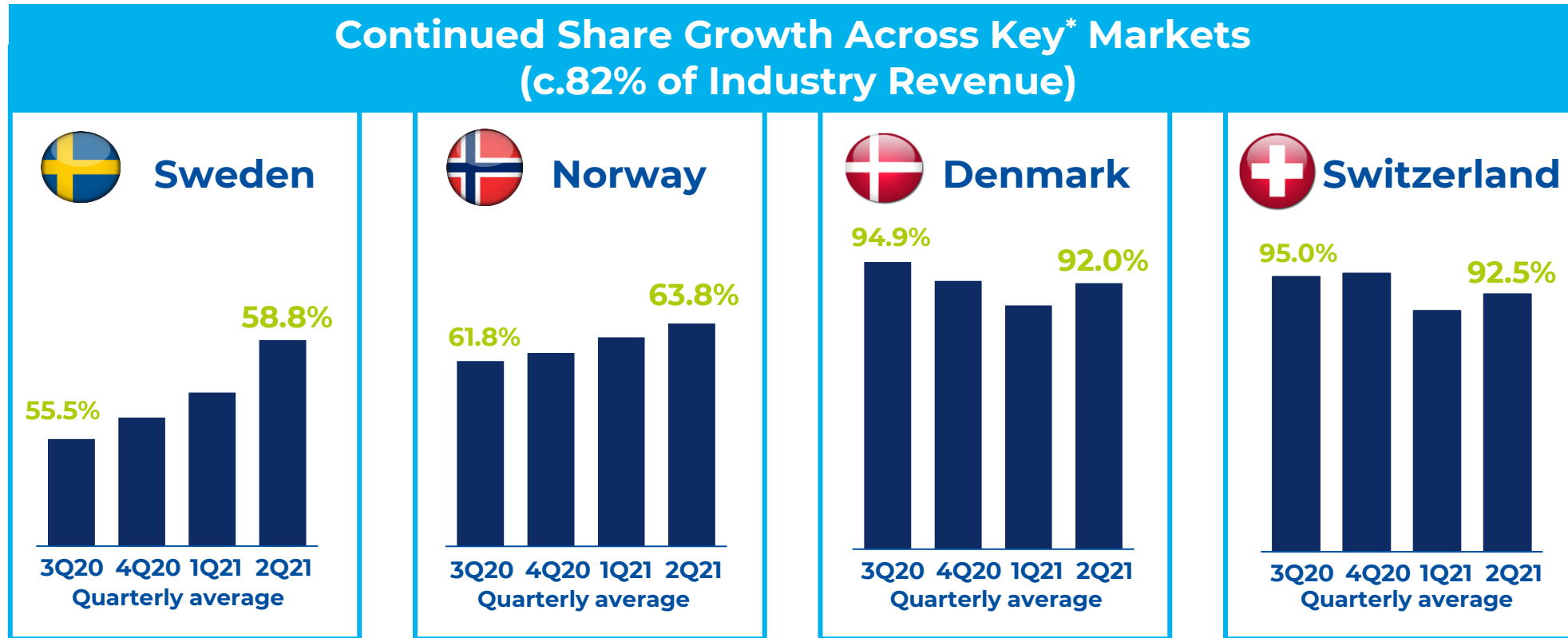
# glo: Hyper Strong Category Share Growth in ENA

## glo driving national THP Category Share



**H1 glo volume growth rate 6x THP category growth rate**

# Velo: Maintaining International Leadership



**Accelerating global volume growth, up 124%**

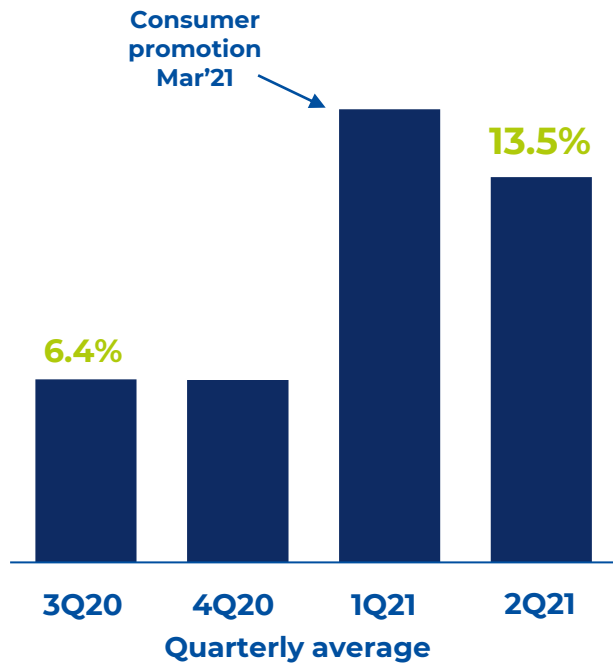
**Gathering insights and learnings from emerging market tests**

\* Key markets: Sweden, Norway, Denmark, Switzerland, US and now excludes Germany. Volume share of Modern Oral category – monthly average of quarter share to May 2021, 2Q21 share reflects average of April and May 21. Includes EPOK/LYFT brands in ENA. Velo brand represents over 50% of HY21 Modern Oral markets.



# Velo: Establishing a National Brand in the US

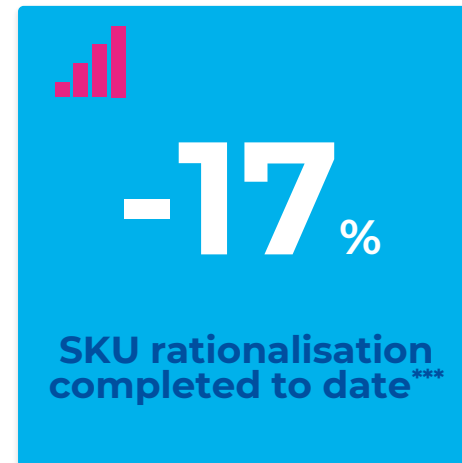
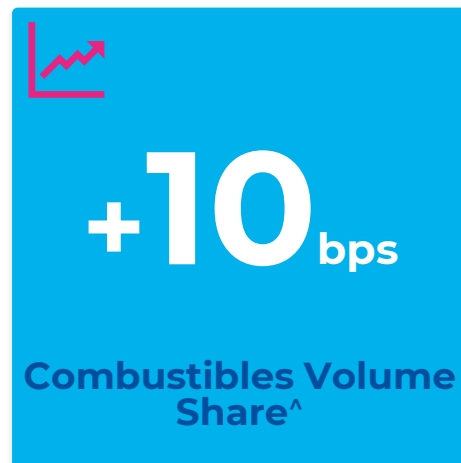
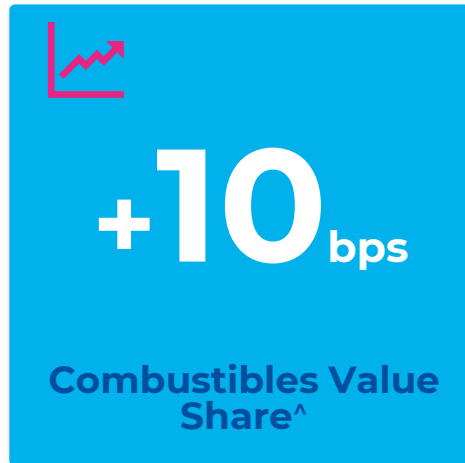
## Velo US volume share



- Velo portfolio - 100% coverage of nicotine segments
- Distribution expanded to c.80k outlets, with distribution continuing to build
- Over 60% of consumers see Velo as Modern and Innovative\*

**Velo volume share up 2x in 32 states since Nov 2020 rollout**

# Combustibles: Delivering Value Growth



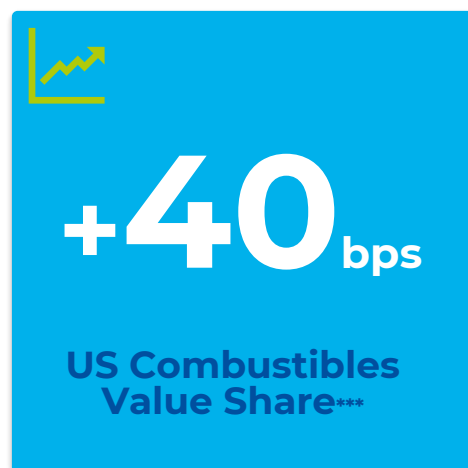
# Regions: Over 5% Revenue Growth\* in Every Region **BAT** A BETTER TOMORROW

	Revenue*	Cigarette Value Share**	Adjusted Profit from Operations*
US	+9.1%	+40bps	+9.7%
ENA	+5.9%	-10bps	-3.7%
APME	+5.8%	-10bps	+2.8%
AMSSA	+11.5%	-30bps	+4.2%
<b>Group</b>	<b>+8.1%</b>	<b>+10bps</b>	<b>+5.4%</b>

\* Constant rate basis. See Appendix A1-A2. \*\* Value share of cigarettes v FY20. See Appendix A3.  
Source: Company data.



# US: Continued Strong Performance

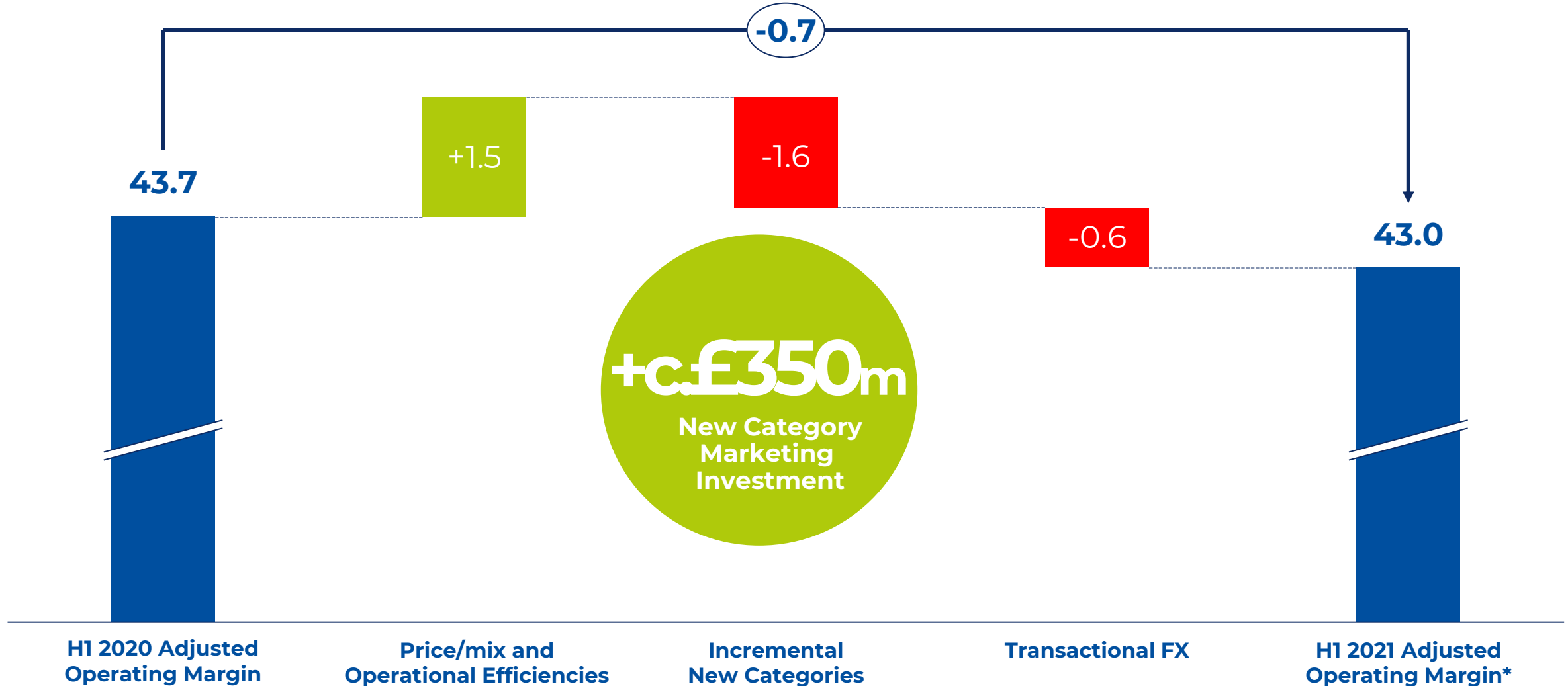


- Total Nicotine value share now 36.5% May YTD
- Vuse approaching value share leadership
- Strong value growth from combustibles enabled by Revenue Growth Management
- Strong growth in premium brands Newport and Natural American Spirit

\* On a constant rate basis. See Appendix A2 \*\* Share growth versus FY20. Total nicotine value share covers: combustibles, vapour and total oral. Source: Marlin. See Appendix A3 for share definitions. \*\*\* Combustible cigarette share. Source: Marlin. Share growth versus FY20. See Appendix A3 for share definitions. ^ Price/mix defined in Appendix A4. Source: Company data. ^^ On an adjusted, constant rate basis. See Appendix A1 & A2.

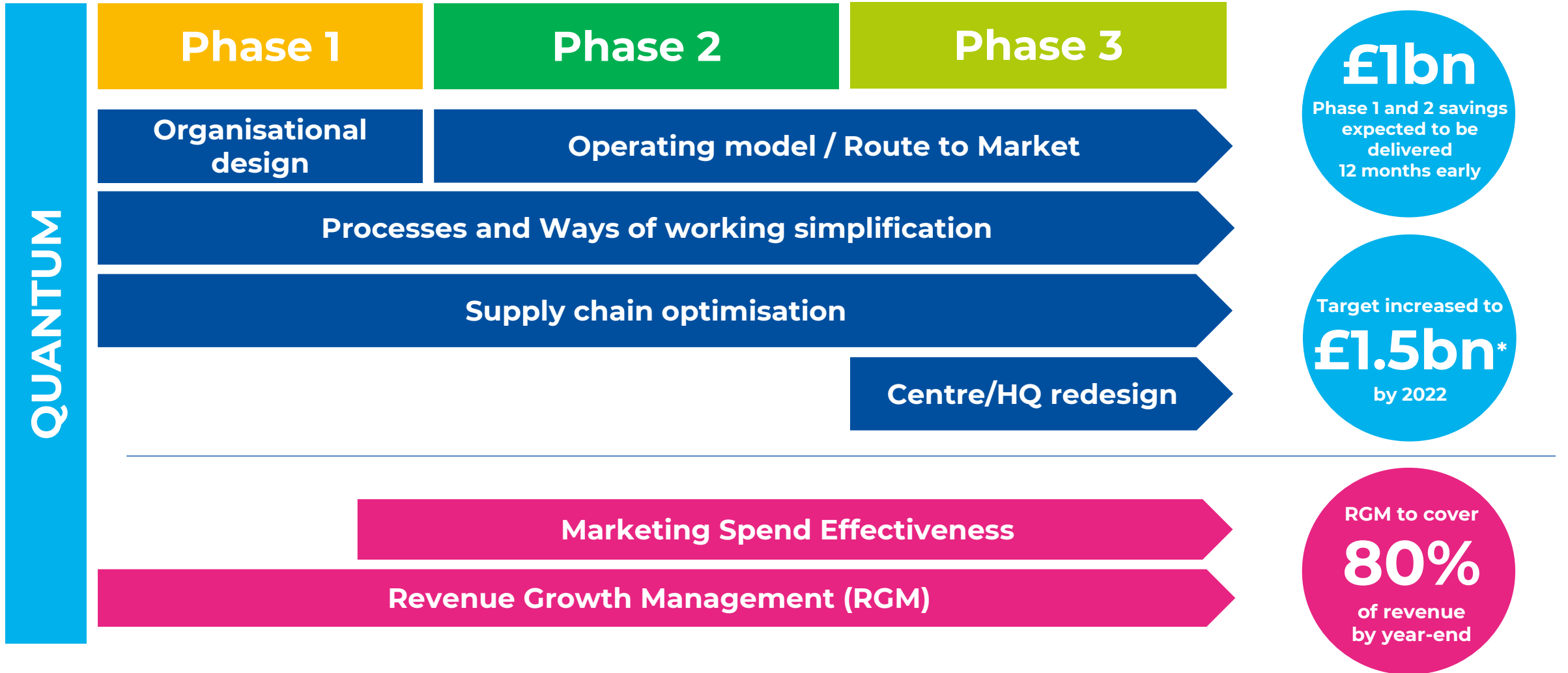


# Group Operating Margin: Strong Operational Performance Funding New Category Investment



\* On an adjusted current rate basis. See Appendix A1.

# Quantum: Over £900m Total Savings Delivered



\* 2020-2022 target.

# EPS\*: Growth up +6.1%

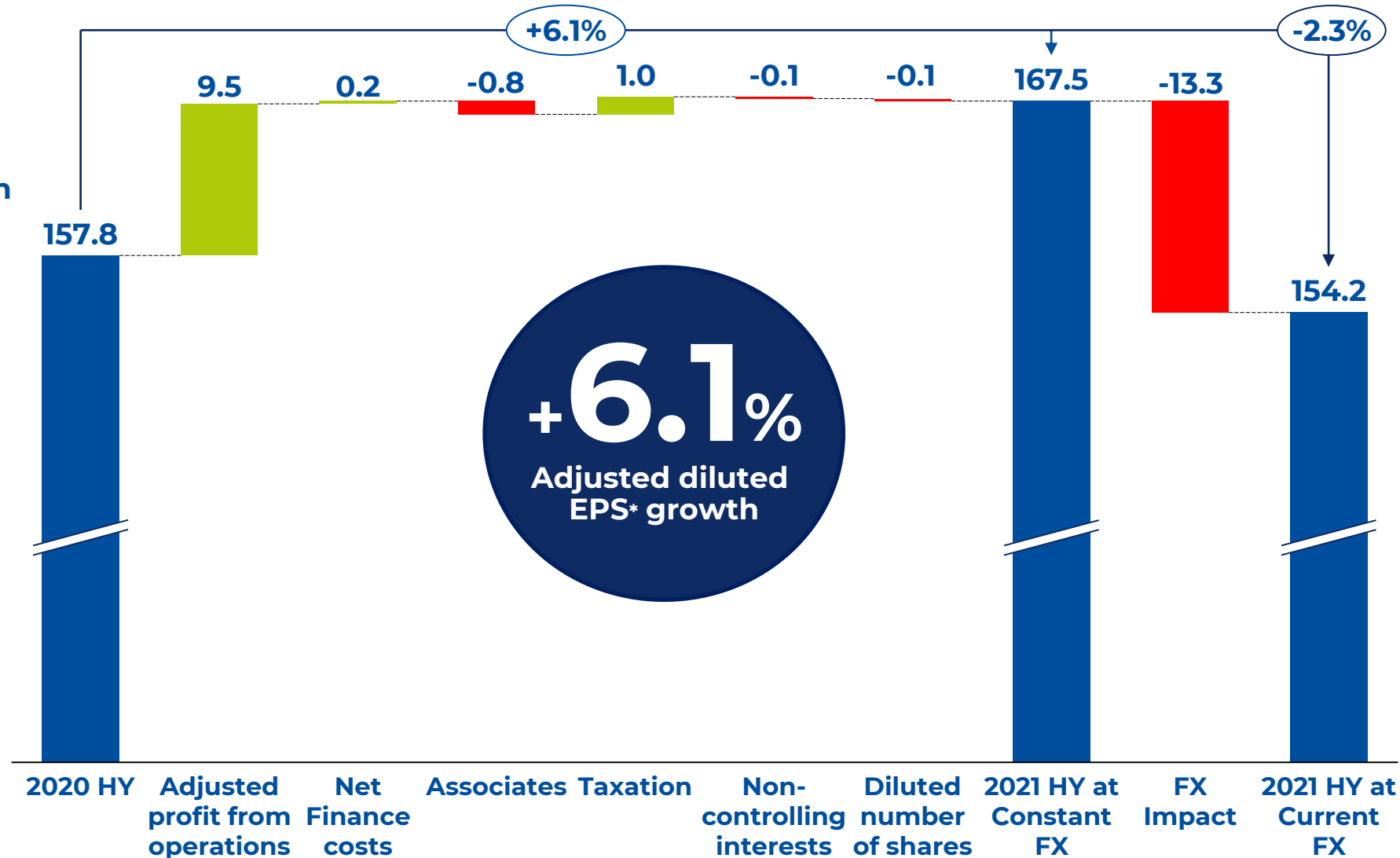
HY EPS\* growth benefitting from:

- > Operational performance growth
- > Reduction in underlying tax rate to 24.8%

Partially offset by:

- > Reduced income from Associates

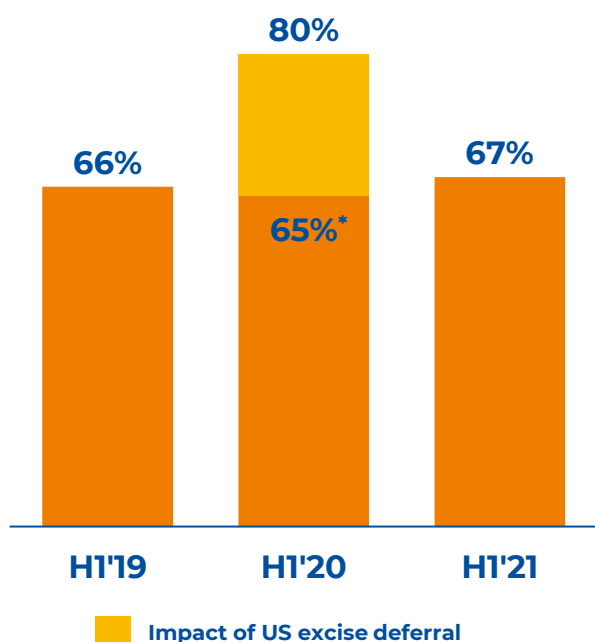
FX translation headwind -8.4%



\* Adjusted, diluted, EPS at constant rates. See Appendix A1 & A2.

# Cash: Continued Cash Flow Delivery

## H1 Operating Cash Flow Conversion



Cash generation driven by  
**Combustibles**

- **Further strong cash flow delivery:**
  - **Combustibles price/mix growth**
  - **New ways of working releasing cash from business**
- **Year-on-year comparison largely impacted by the deferral of excise in the US in H1'20**
- **Cash flow weighted to H2, as in previous years**
- **On track to deliver:**
  - **Another year of strong operating cash conversion >90%**
  - **De-leverage to c.3x adj. net debt to adj. EBITDA\*\***

# FY 2021 Guidance: Strong Operational Momentum and Cash flow



**>5%**  
Revenue Growth\*

- Continued strong New Category revenue growth\*
- Improved global combustibles volume outlook, driven by Emerging Market recovery
- H2 to reflect geographic & portfolio mix and strong comparator



**Mid Single Figure**  
EPS Growth\*\*

- Further incremental New Category investment
- Australia excise change (£170m) and highly competitive pricing
- -2% transactional FX headwind on Adj. Profit from Operations
- Continued COVID impact on GTR and associates



**Capital Allocation**  
**Priorities**  
Flexibility increasing at year-end

- On track for >90% operating cash conversion\*\*\*
- On track to deliver c.£40bn 5 Year Cumulative Free Cash Flow<sup>^</sup>
- Adjusted net debt/Adjusted EBITDA c.3x by year-end<sup>^^</sup>
- Committed to 65% dividend pay-out ratio and growth in GBP terms<sup>\*\*\*</sup>



# Jack Bowles

Chief Executive

# 2021 - A Pivotal Year

## STEP-CHANGE IN NEW CATEGORIES

COMBUSTIBLE  
VALUE  
GROWTH

SIMPLIFY  
THE COMPANY

- ✓ **New Category revenue\* +50%; share gains in all 3 categories**
- ✓ **16.1m non-combustible product consumers\*\*, up 2.6m**
- ✓ **FY New Category losses expected to reduce**
- ✓ **On track to reach c.3x Adj. Net Debt/Adj. EBITDA\*\*\***
- ✓ **Delivering on our 3 operational priorities**

# Delivering our Purpose to Create Shared Stakeholder & Shareholder Value

From

To



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



£5bn New Category Revenue by 2025



Carbon neutral by 2030\*\*\*



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



# Our Transformation is Accelerating



- ✓ **Our established multi-category strategy is working**
- ✓ **We are building strong global brands**
- ✓ **Continuing the digitalisation of the whole business at speed**
- ✓ **BAT is changing rapidly – bold, agile, innovative, digitally enabled, diverse and inclusive, powered by our ethos**

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**Creating the Enterprise of the Future**



# Interim Results 2021: Q&A

**Jack Bowles** – Chief Executive | **Tadeu Marroco** – Finance and Transformation 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 the prior year's exchange rate, removing the potentially distorting effect of translational foreign exchange on the Group's results. The Group does not adjust for normal transactional gains or losses in profit from operations which are generated by exchange rate movements.

## 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). Except when referencing particular markets, volume share is based on our key markets (representing over 80% of the Group's cigarette volume).

Value share: The retail value of units bought by consumers of a particular brand or combination of brands, as a proportion of the total retail value of units bought by consumers in the industry, category or other sub-categorisation in discussion.

Nicotine share: The retail sales volume/value of the nicotine product sold as a proportion of total specified nicotine product volume/value in that market. In the US covers: Combustibles, vapour and total oral.

## 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\\_2020.pdf?open&v=1](https://www.bat.com/group/sites/UK_9D9KCY.nsf/vwPagesWebLive/DOAWWEKR/$file/BAT_ESG_Report_2020.pdf?open&v=1)

## A6: Consumers of Non-Combustible Products

The number of consumers of Non-Combustible products is defined as the estimated number of Legal Age (minimum 18 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 adult consumer tracking (utilising studies conducted by third parties including Kantar). The number of consumers is adjusted for those identified (as part of the consumer tracking studies undertaken) as using more than one BAT Brand - referred to as "poly users".

The number of consumers of Non-Combustible products is used by management to assess the number of consumers using the Group's New Categories 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.

## A7: Velo advertisement disclaimer (slide 13)

This product is not risk-free and contains nicotine, an addictive substance. Comparison based on an assessment of smoke from a scientific standard reference cigarette (approx. 9mg tar) and components released during use of a Velo pouch, in terms of the average of the 9 harmful components the WHO recommends to reduce in cigarette smoke. 18+ only. This product contains nicotine and is addictive.