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TOBACCO
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Hiding Behind Novel Products

Slides from British American Tobacco's February 17, 2021, Preliminary
Results 2020 presentation, reproduced with comments

[Original slides](#) and [transcript](#)

Tobacco Control Research Group, University of Bath

"A Better Tomorrow"... for BAT



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With Clear Points of Difference



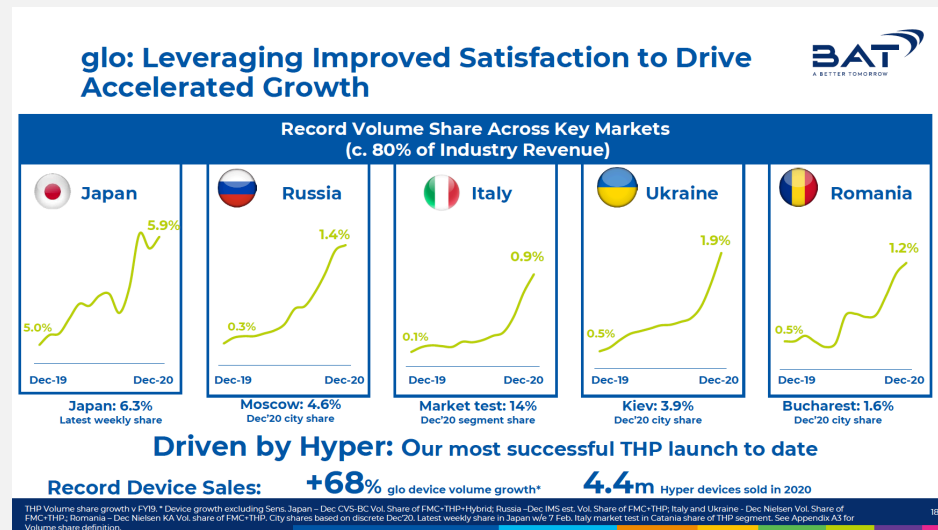
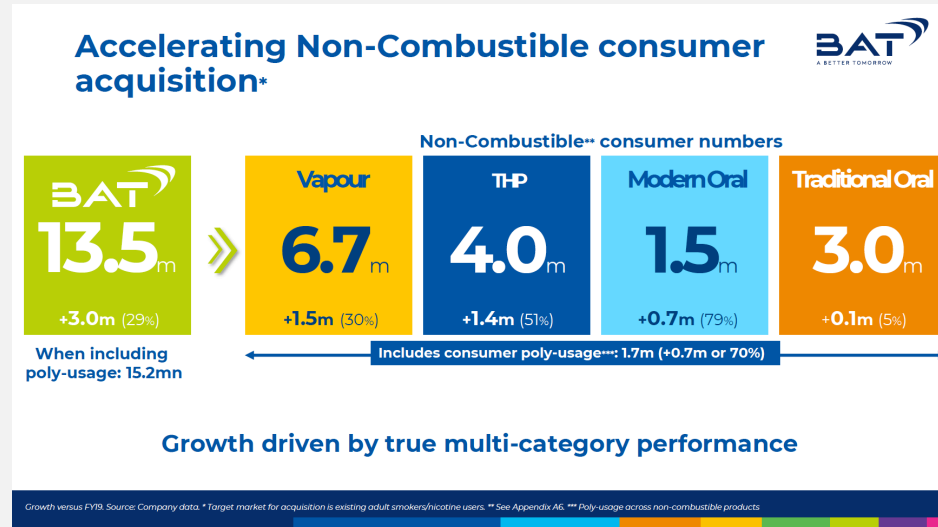
- 1** • The largest and only truly global tobacco and nicotine company
 - Present in over 180 markets
 - Including the US – 40% of global industry value and creating trends across our multi-categories
- 2** • The only truly consumer-centric, multi-category company
 - With the global scale to leverage 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

— In what sets BAT apart, the company emphasized new categories (i.e., novel products), brand recognition and a brief mention of diversity of employees.

— The “better tomorrow” it promotes seems to be for the corporation—not health.

BAT emphasizes its non-combustibles...



— BAT highlighted growth of non-combustibles, yet they remain a small share of the market, even in countries BAT identifies as having strong growth (as seen in the Glo examples).

— These estimates are based on sales volumes, which does not necessarily equal number of consumers.

— BAT states: “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.”* This does not account for the number of potential underage users and remains only an estimate.

*See Appendix of slide deck

...while calling combustibles the true "engine growth" of the business.

REVENUE: Growth in a Challenging Environment



Resilient Combustible volumes

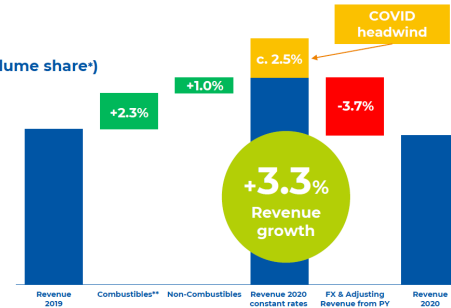
- Outperforming the industry (+30bps volume share*)
- Strong performance in DMs

Robust pricing

- Robust pricing environment
- No accelerated downtrading
- +7.6% 3 year average price/mix

Revenue growth*** +3.3%

- Absorbing c.-2.5% COVID headwind
- Combustible revenue*** +2.8%
- New Category revenue*** +15.4%



Strong revenue and share momentum into 2021

*FMC**TIP volume share. For definition see Appendix A3. **Combustibles revenue contribution net of other revenue growth. ***On an adjusted, constant rate basis. See Appendix A1 & A2.

COMBUSTIBLES: Delivering Value Growth



Share growth versus PY19, FMC share. * See Appendix A3 for share definitions. Source: Company data. ** On an adjusted, constant rate basis. See Appendix A1 & A2. *** Price/mix defined in Appendix A4. The BAT Group does not own all brands featured in this presentation in all markets, e.g. BAT is the owner of Newport, Camel and Natural American Spirit in US only.

Combustible is the engine growth of the business and it is in great shape and we remain global leaders in volume and revenue.

— BAT assures investors its combustible business is in “great shape” and celebrates being a leader in the number of cigarettes sold, going against the industry narrative of so-called transformation.

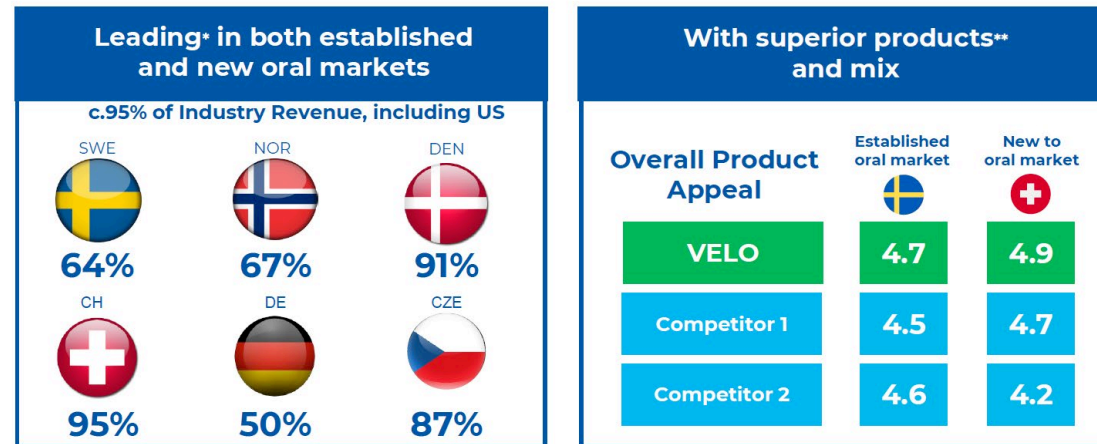
—“Resilient” translates to BAT still selling cigarettes despite a “challenging environment” (perhaps referring to declining smoking rates and tobacco control policies).

—“Robust pricing environment” refers to BAT maintaining profitable prices, yet with no mention of the common industry argument that high prices lead to increased illicit trade.

Quote from Tadeu Marroco, BAT Finance and Transformation Director, from transcript of 2020 Preliminary Results Presentation Webcast and Q&A Conference Call

BAT seeks to addict users in LMICs with cheaper nicotine products.

Velo: International Leadership Driven by Superior Product



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

19

Beyond Europe we see very exciting prospects for Modern Oral globally. In many emerging markets consumers are familiar with other similar oral products, with no electronic device to buy this is an attractive, affordable product for consumers.

- The highlighted success of Velo in this slide does not include BAT's efforts to grow “modern oral” in low- and middle-income countries (LMICs), including selling smaller packages with fewer sachets to “make it very affordable” and “democratize the journey.”
- With evidence suggesting that Velo is sometimes targeted to young people, the “journey” BAT refers to may be the journey to addiction.

Quote from Tadeu Marroco, BAT Finance and Transformation Director, from transcript of 2020 Preliminary Results Presentation Webcast and Q&A Conference Call

BAT highlights success in maintaining nicotine addiction.

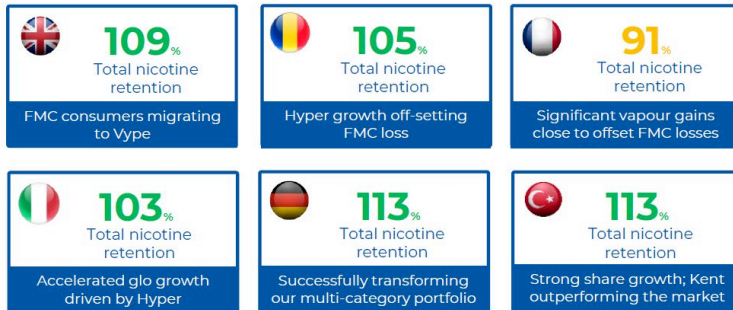
Successfully Navigating Regulation



EU & Turkey Menthol Ban BAT nicotine consumer retention

91% - EU Menthol Industry volume retained in **FMC**

70% - **Vapour** capture of EU menthol volume outflow



110% BAT total nicotine consumers retention post Menthol Bans

Source: Company data. % Retention figures reflect the number of consumers following the ban compared to the number of total nicotine consumers prior to the ban

22

— BAT claims success in maintaining nicotine addiction amidst tobacco control measures, such as menthol bans.

— BAT portrays its business as not having been affected by menthol bans, while the bans' true impacts on business and health will likely be longer-term.

BAT needs high-income countries for revenue.

REGIONS: Resilient performance across the Group

	Adjusted Revenue*	Value Share**	Adjusted Profit from Operations*
US	+11.2%	+45bps	+15.5%
ENA	+2.1%	Flat	-2.4%
APME	-9.9%	+10bps	-7.3%
AMSSA	+1.4%	+30bps	-2.5%
Group	+3.3%	+20bps	+4.8%

*Adjusted and constant rate basis. See Appendix A3-A2. **Value share of cigarettes v FY19. See Appendix A3. Source: Company data.

23

United States (US), Europe and North Africa (ENA), Asia-Pacific and Middle East (APME), Americas and Sub-Saharan Africa (AMSSA)

In ENA we invested strongly behind New Categories to drive 50% revenue growth, led by a doubling of THP revenue from the successful launch of Hyper. And Vuse also performed strongly, as mentioned, we grew our share of total nicotine through the menthol bans.

In APME, glo volume growth from Hyper was more than offset by the Japanese excise increase and the withdrawal of Sens, our hybrid proposition. Yet we continued to take market share across the region and in the second half of the year benefited from the gradual market recovery as lockdown restrictions eased.

While emerging markets represent around 70% of our volume, they are 25% of revenue. Despite COVID restrictions impacting consumers' ability to access the product in many emerging markets consumption remained resilient, although impacted by global travel retail, our developed markets remained resilient throughout the pandemic.

— This slide suggests BAT needs high-income countries for revenue and LMICs as future investments on revenue (see next slide on market share movement).

— This supports the notion that implementing strong tobacco control measures should remain a global effort.

Quotes from Tadeu Marroco, BAT Finance and Transformation Director, from transcript of 2020 Preliminary Results Presentation Webcast and Q&A Conference Call

Market share movements show BAT has its sights set on LMICs.

Top BAT Market Share Movements (1)



Market	SOM FY20 (%)	Movement (ppt)
Argentina	23.4	0.1
Australia	41.9	0.4
Bangladesh	78.3	9.9
Belgium	25.0	0.2
Brazil	74.9	(0.8)
Bulgaria	37.8	0.0
Canada	48.1	(0.5)
Chile	96.7	(0.7)
Colombia	54.6	2.3
Czech Republic	20.0	(0.9)
Denmark	69.5	(2.0)

Market	SOM FY20 (%)	Movement (ppt)
France	16.0	(1.4)
Germany	20.1	0.1
Indonesia	4.0	(1.7)
Italy	17.7	(0.3)
Japan	18.8	0.9
Kazakhstan	15.9	0.0
KSA	31.7	(5.2)
Malaysia	51.7	1.1
Mexico	37.1	2.1
Netherlands	21.4	(1.1)

Top BAT Market Share Movements (2)



Market	SOM FY20 (%)	Movement (ppt)
New Zealand	70.8	(1.3)
Pakistan	76.3	1.4
Poland	27.8	(0.8)
Romania	58.5	(0.4)
Russia	24.5	0.8
South Africa	76.2	(1.0)
South Korea	12.2	0.1

Market	SOM FY20 (%)	Movement (ppt)
Spain	10.4	(1.5)
Switzerland	33.4	(1.6)
Taiwan	10.8	0.8
Turkey	25.8	2.6
UK	8.6	(0.8)
Ukraine	27.8	(0.3)
Vietnam	29.5	1.1

We are already seeing encouraging results from markets including Pakistan and Bangladesh. And we will continue to invest in its roll-out.

Quote from Tadeu Marroco, BAT Finance and Transformation Director,
from transcript of 2020 Preliminary Results Presentation Webcast and Q&A Conference Call

Health impacts are left out of "A Better Tomorrow."

Committed to Building A Better Tomorrow™



To reduce the
health impact
of our business^

- ✓ Today, we have a significant CPTO* base of c.90bn
- ✓ With a strong growing base of 10% Non-Combustibles** Revenue and already 13.5mn consumers
- ✓ £5bn New Category Revenue by 2025
- ✓ 50mn Non-Combustible Consumers** by 2030
- ✓ Carbon Neutral by 2030***

On track for our 2025 targets

*Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive. * Estimated consumer price turnover (CPTO) FY20.
** See Appendix A6.*** ESG ambition. See Appendix A5.

- Nothing on this slide indicates that there will be a reduction in the health impact of BAT's business.
- "A Better Tomorrow" appears to be about growing revenue, not reducing health harms.

In the end, it's still about selling cigarettes.



The price environment remains strong and we have seen no acceleration in downtrading in developed markets. And with our Revenue Growth Management tool we are now able to precision targets with the strong level pricing to further enhance combustibles value.

Tadeu Marroco, BAT Finance and Transformation Director

Jack Bowles, Chief Executive

Yeah, I think that you have always to go back to what we said in terms of the way we look at the full portfolio in terms of New Categories. There are some markets where we will emphasise on one category and then reduce the investment on the other categories. Because the consumers are different from geographies, but also taxation, but also regulation.

So we will have an expanded footprint in terms of THP, but we will not put THP everywhere. We will have an expanded footprint on THP where we feel that the category has legs for the future, i.e. the current markets plus others that we determine as additional markets for THP. So it's an approach by category because we have these three categories that we can navigate.

— Quotes from the presentation's transcript show that BAT's main focus is still its cigarette business.

— In other words, BAT will sell what it can, where it can and is making no meaningful commitment to stop selling combustibles.