

Interim Results 2024

Prepared Remarks

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CORPORATE PARTICIPANTS

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Tadeu Marroco – Chief Executive

Slide 1

Good morning everyone. I am delighted to welcome you to our 2024 Interim Results presentation. With me this morning is Soraya Benchikh, our new CFO, and Victoria Buxton, Group Head of Investor Relations.

I will begin with our transformation highlights and the progress we have made against our key areas of focus over the last 12 months.

Soraya will then take you through our financial performance in more detail.

I will then return to talk more about our performance outlook, before we move to the Q&A session.

With that, I would like to draw your attention to the disclaimers on slides 2 and 3.

(Slide 2 & Slide 3 - disclaimers)

Slide 4

Let's begin by looking at the way forward...

Slide 5

Our first half performance is in line with expectations, and we are on track to deliver our full-year guidance.

In the first half of this year, we have continued to transform our business.

We added 1.4 million smokeless consumers, reaching 26.4 million. Smokeless now accounts for 18% of Group revenue, up 1.4 percentage points versus Full Year 23.

Our focus on Quality Growth, balancing top and bottom-line delivery, has driven a 165 million pound increase in New Category contribution, and close to a 10 percentage point increase in our category contribution margin.

Building on this momentum, we expect another good increase in New Category contribution for the full year.

We are committed to rewarding shareholders with strong cash returns... and I am pleased with our progress in enhancing financial flexibility, enabling the initiation of a sustainable share buy-back.

This year is a key moment in our transformation journey, as we sharpen our execution, enabling us to navigate near-term market challenges, and drive our sustainable transformation.

Slide 6

Turning to the drivers of 2024 delivery...

As we previously guided, 2024 is an investment year for BAT.

In the first half, we have invested to strengthen our U.S. business, accelerate innovation momentum, and enhance capabilities that support our strategic delivery.

This, together with lapping a tough comparator in APMEA, means we expect an acceleration in our second-half performance.

I am encouraged that our New Category launches and our first-half U.S. investments are gaining traction.

Together with the expected unwind of U.S. wholesaler inventory movements, related to the year-on-year timing of our first half price increases, I am confident that we are on track to deliver our full-year guidance.

Slide 7

This time last year, I shared a clear set of objectives to sharpen our execution and build a more modern and agile BAT.

Slide 8

Over the last 12 months, working together with our broader teams, we have made good progress across these six areas of focus.

We will touch on some of these highlights in more detail as we go through today's presentation.

While there is still more to do, we are making good progress, and I am confident that the choices we have made, and actions we are taking, are the right way forward for BAT...

And with that, I will hand over to Soraya, to take you through the detail of our results.

Slide 9

Soraya Benchikh – Chief Financial Officer

Slide 10

Thank you Tadeu and good morning everyone.

I'm Soraya Benchikh, CFO of BAT.

Before I take you through the results I would like to introduce myself.

I'm Lebanese, having started my career in finance at Gillette and General Electric.... I then spent many years working at BAT across Europe, Russia, Africa, and the Middle East...

I have spent the last 12 years in general management...and my last four years have been at Diageo, culminating in my role as President for Europe.

Now, after two months back at BAT, I'm excited to join Tadeu and the team to work on the next stage of our transformation.

As CFO, my focus will be on supporting BAT's transformation, with financial stability and effective resource allocation.

This includes driving quality growth, by balancing top and bottom line performance, and targeting investments to deliver better returns and consistent cash generation.

I will do so by prioritizing... understanding market trends and consumer needs, investing in innovation and R&D, streamlining operations for efficiency, while managing organizational change effectively, and aligning with sustainability goals.

I am passionate about transformative leadership, and committed to fostering creative, inclusive and empowered teams.

Maintaining transparent and consistent communication with stakeholders is also key for me.

I look forward to sharing insights into our performance and future outlook.

Now, moving to First-Half results...

Slide 11

Our reported results reflect the impact of 1) our exit from Russia and Belarus in September last year, 2) higher amortisation and impairment charges, following the decision to start amortising the U.S. acquired Combustibles brands from January 2024 and 3) a gain recognised in respect of the partial sale of the Group's investment in ITC.

To better understand the underlying performance of the business, and present a like-for-like comparison excluding Russia and Belarus, we will focus today on organic, adjusted, constant currency results, unless otherwise stated.

Our Group revenue was down 0.8%, while New Category revenue grew over 7%. Profit from operations was down 0.9%, and diluted EPS was up 1.3%.

While our Group results have been impacted by continued macro-economic headwinds in the U.S, we have also made targeted investment choices. And these have included...

Continued investment in our U.S. commercial plans, with related wholesaler inventory movements, and investment in New Category launches globally, in order to strengthen our portfolio and drive sustainable growth and value creation.

Slide 12

As you can see, our wholesaler inventory movements in the U.S. significantly impacted our first half delivery. Excluding these, our Group revenue was flat and profit from operations was up 0.5%.

We expect these movements to unwind in the second half, and have no material impact on our full-year delivery.

Slide 13

Diving into some of the key drivers of our performance...

We delivered 4.3% Combustibles price / mix, with pricing up 7.2%, offset by a negative geographic mix, mainly driven by the U.S.

In addition, we achieved a flat operating margin, driven by the improvement in New Category contribution, and our continued focus on efficiencies, despite the absorbing a 1.8% transactional FX headwind.

Excluding the U.S., which I will discuss in more detail later, in the rest of the world, we delivered 4% revenue and 4.6% profit from operations growth, in line with our medium-term guidance.

This reflects the resilience of our multi-category portfolio, and the benefit of our global footprint.

Slide 14

Our New Category revenue growth in the first half was driven by an excellent performance from Velo in all three regions.

We expect an acceleration in New Category performance in the second half, driven by the phasing of innovation launches, which we will touch on in more detail later in the presentation.

I will now share more detail on our key category drivers. As usual, market shares for our top markets are all available in the appendix.

Slide 15

The fundamentals of the Vapour category are strongly positive.

The total number of Vapour consumers is accelerating...and Vapour is the largest contributor to active New Category usage, capturing around 65% of consumers.

Vuse revenue was up nearly 3%, delivering a continued positive category contribution.

Strong revenue growth in Europe and APMEA, was partly offset by the impact of illicit single-use vapour products in the U.S. and Canada.

Vuse maintained global value share leadership, and also remains the No. 1 brand in the U.S.

While we are losing share in the U.S., due to the continued proliferation of illicit products, we are actively working to drive more effective regulation and enforcement at the state and federal levels.

In June, we submitted the age-gated Vuse Pro PMTA...

And last week we received a Marketing Granted Order for our Vuse Alto device and tobacco flavours, confirming that the continued marketing of these products is appropriate for the protection of public health....

Outside the U.S., we maintained value share leadership in AME at 32%. Although our regional performance was impacted by the flavour ban in Quebec province in Canada, where volume has shifted to the illegal market due to lack of enforcement, our value share in Europe grew 120 basis points.

We are excited about the developing opportunity in APMEA, with our revenue growing 48%, driven by South Korea, New Zealand and Indonesia.

Slide 16

In Heated Products, industry growth is slowing with growing poly-usage*.

glo's revenue was down 4%, mainly impacted by price repositioning in Japan and Italy in mid-2023, and veo pipeline build at the end of 2023 in certain AME markets, ahead of the flavour ban on tobacco consumables.

glo has started to deliver sequential category volume share improvement in key markets since December and is stabilising share, being down 20 basis points year-to-date at 16.8%, versus down 110 basis points in 2023.

This has been driven by the encouraging early consumer response to our new innovations, Hyper Pro and improved consumables.

As part of our innovation pipeline, Hyper Pro is an important first step in the premium HP segment. As a result, we are seeing an improving performance, with our June volume share up 60 basis points in Japan, and up 70 basis points in Italyversus December.

This is especially encouraging as we also raised consumables pricing in both markets during the period. Altogether, we drove a strong improvement in total category contribution.

With the majority of Hyper Pro roll-outs completed, and veo, our tobacco-free consumables range, now launched in 19 markets and outperforming competing products, we expect an acceleration in our second-half performance.

Slide 17

Moving to Modern Oral, the fastest growing New Category, where new markets** with no oral tradition now account for one quarter of industry volume.

In H1, revenue was up 49%, with growth across all regions and a growing category contribution.

Our market share continued to grow, with our volume share of Modern Oral up 30 basis points.

In AME, we maintained clear leadership of the Modern Oral category, with 65% volume share, and Velo capturing the majority of the category growth.

Velo's continued strong performance is driven by achieving the highest consumer acquisition and conversion scores, and the strongest brand power in key markets.

Importantly, in AME Velo's gross margin per mille is over 2 times that of combustibles, driving a strong increase in category contribution.

In the U.S, we are encouraged by results from our New York pilot, featuring a refreshed Velo brand expression. In H1, we rolled out nationally, returning our U.S. performance to strong growth, with revenue up over 120%, and reaching 7.6% volume share in June, up 3.0 percentage points versus December.

In addition, following positive consumer testing, we started the U.S. national roll-out of Grizzly Modern Oral in June.

Slide 18

One of my key priorities is to ensure that as we transform, we balance top and bottom-line delivery.

This is demonstrated with our New Category contribution now driving our contribution margin up, while continuing to invest for our future growth.

New Categories are meaningfully contributing to Group results, as we benefit from increased scale and efficiencies.

Building on this momentum, we expect to deliver a strong year-on-year improvement in New Category profitability in 2024.

Slide 19

Now turning to Combustibles...

Volumes declined by 6.9% on an organic basis. This was driven by 1) wholesaler inventory movements in the U.S., 2) 2023 market exits, and 3) supply chain disruptions in Sudan. Excluding these one-offs, our volume was down 4.7%.

Our volume share was up 30 basis points, driven by strong momentum in key Combustibles markets, such as Brazil, Bangladesh, and Pakistan.

Value Share decreased by 10 basis points, with the impact of our commercial actions in the U.S. more than offsetting value Share gains in AME and APMEA, which delivered a combined increase of 20 basis points.

Revenue was down 2.6%, driven by the U.S, partially offset by a resilient performance in AME and APMEA, delivering combined revenue growth of 2.2%.

Slide 20

Turning to our Regions...

In the U.S., total revenue was down 7%, mainly driven by our Combustibles performance, and the impact of illicit products on the vapour category.

As previously discussed, we have continued to actively invest in strengthening our portfolio, with the majority of our previously announced investment in commercial initiatives completed in the first half. Tadeu will share more detail on this later in the presentation.

Adjusted profit from operations was down 5%, driven by declining revenue, partially offset by efficiency gains, enabling us to expand our margins by 100 basis points.

Adjusting for wholesaler inventory movements, revenue was down less than 5% and adjusted profit from operations was down 2.6%.

Slide 21

U.S. combustibles industry volume was down 10%, or 9.5% on a sales-to-retail basis, excluding inventory movements.

Beyond secular market decline, industry volume was mostly impacted by a combination of macro-economic headwinds, and increased poly-usage*, particularly driven by the growth of illicit single-use vapes.

Our combustibles volume declined by 13.7%, ahead of industry decline, mainly driven by wholesaler inventory movements.

If we exclude the deep discount segment, where we are not present, industry decline was nearly 11%, in line with our volume decline when adjusted for inventory movements at 11.4%.

Slide 22

While our volume share is down year-to-date by 10 basis points and value share is down 30 basis points...I am pleased that our commercial plans are delivering signs of volume and value share recovery.

Our volume share is up 10 basis points since the last half-year, driven by a 90 basis points increase in the premium segment.

In addition, we have started to recover value share with a 20 basis point decline since last half-year led by a 20 basis point increase in our premium share, reaching our highest level in four years.

Driven by this progress, and adjusted for inventory moves, our Combustibles contribution has recovered versus last half year.

Slide 23

Looking outside the U.S...

AME is a truly multi-category region. Smokeless products now represent 25% of regional revenue in markets where we are present, and over 50% of revenue in 11 markets.

This drove continued strong regional delivery.

Revenue grew 5%, driven by higher revenue from Combustibles, reflecting a resilient volume performance and pricing, alongside continued New Category revenue growth, driven by an excellent Modern Oral performance, up 47%.

Excluding Canada, Vapour revenue was up 15%.

Adjusted profit from operations was up 5%, as we continue to offset the impact of inflation with continued efficiency gains.

Slide 24

In APMEA, we saw a resilient performance against a very strong prior year comparator.

Total revenue was up 2%, with combustibles revenue up 1%, driven by good pricing, partly offset by the industry decline in Australia, and supply chain disruptions in Sudan.

Vapour and Modern Oral revenue were both up strongly, driven by geographic expansion and continued progress in emerging markets.

HP revenue was impacted by our price repositioning in Japan last year.

Smokeless products now represent 18% of regional revenue in markets where we are present.

Adjusted profit from operations was up 4%, driven by strong pricing and continued efficiency gains.

Slide 25

Returning to Group performance...

Our operating margin was flat, as we successfully offset high single figure inflation, and a nearly 2% transactional FX headwind, with improving New Category profitability and continued efficiency gains.

Inflation was mainly related to leaf, which we expect to ease in the second half.

Slide 26

Turning now to EPS, we delivered organic, constant currency, adjusted diluted EPS, up 1.3%.

Our performance benefitted from lower net finance costs, tax, and share count... which was partially offset by our reduced share of ITC profits.

The underlying tax rate was 24.4%. And we continue to expect a rate of around 25% for the full year, with existing tax rates.

Slide 27

BAT is a highly cash generative company.

Our cash flow conversion of 78% in the first half puts us well on track for another year of cash conversion in excess of 90% enabled by our continuous improvement mindset and further resource optimisation.

Due to the timing of leaf purchases and MSA payments, our cash flow is always second-half weighted.

We now expect full-year gross capex of around 600 million pounds, below adjusted depreciation and amortisation.

This is above our previous guidance of 550 million pounds, as we expand production capacity in the fast-growing Modern Oral category.

We are making good progress on deleverage and expect to be within our narrowed target range of 2 to 2.5 times at year-end.

We have seen some improvement in the interest rate environment, with lower rates and tightening credit spreads. This, together with the cash we received from the ITC asset sale, has resulted in lower than expected net finance costs.

As a result, we now expect full-year net finance costs to be around 1.7 billion pounds, subject to both FX and interest rate volatility.

Slide 28

As we continue our transformation journey, we are focused on the importance of disciplined capital allocation and strong shareholder returns.

We are committed to a progressive dividend and we are making good progress on deleverage.

We are committed to a sustainable share buyback, and in March, we re-initiated a share buyback, starting with £700 million in 2024 and £900 million in 2025, enabled by the monetisation of a portion of our ITC stake.

Slide 29

Looking forward, we are making targeted investment choices to drive our medium-term sustainable growth algorithm.

As expected, our first-half performance was impacted by continued macro-economic pressures, and investment in our commercial actions.

We are confident that our second-half will accelerate, and we remain on track to deliver low-single digit organic revenue and adjusted profit from operations growth, including a 2% transactional FX headwind, for the full-year.

Extrapolating current spot rates, we anticipate currency translation to be a 4% headwind on full-year adjusted profit from operations growth.

Beyond 2024, we expect to progressively improve our delivery to 3 to 5% organic revenue growth, and mid-single figure adjusted profit from operations growth, on an organic, constant currency basis by 2026.

With that, I will hand back to Tadeu.

Tadeu Marroco – Chief Executive

Slide 30

Thank you Soraya.

I would now like to spend a few moments outlining the opportunity and pathway ahead for BAT. And, why we are confident we can deliver an acceleration in our second-half performance.

Slide 31

There are four clear accelerators that we expect to drive our second half delivery... improving U.S. performance, innovations in all three New Categories driving double digit revenue growth for the full year.

In addition, we are lapping a softer comparator in APMEA, and expect a continued strong performance in AME.

As a result, we remain confident in delivering our guidance for 2024.

Slide 32

Looking at the U.S. premium segment, we can see a clear correlation between consumer sentiment and premium segment volume trends.

Historic macro-economic shocks have had a significant impact on consumer sentiment, and this in turn has driven an accelerated decline in premium volumes.

However, over time as consumer confidence levels improve, premium volume decline typically stabilises, returning to a more normalised level.

Although the U.S. market continues to evolve, we believe this further supports our outlook for improving U.S. delivery over the medium-term.

Slide 33

A key feature of our industry in recent years has been the strength of the deep discount segment, as consumers looked to make their dollars stretch further.

We are now starting to see deep discount volume growth slow dramatically, with market share remaining broadly flat since the third quarter of last year.

At the same time, the branded value segment has grown volume share, with BAT increasing its segment share, led by Lucky Strike.

While we have not assumed a macro improvement in our full-year guidance, we believe this early indication of low-end consumer recovery could provide a tailwind in the medium-term.

Slide 34

I want to share some more colour on the portfolio actions we have taken, and why we are confident these will drive an improving performance moving forward.

In premium, we have invested in Newport soft-pack in key investment states, creating a ladder portfolio, which has driven a recovery in Newport's share of the total premium segment.

This has enabled us to drive a thirty percent reduction in smokers switching out of the Newport brand family... resulting in an eighty percent reduction in low-end growth in the 19 states where Newport soft-pack has been deployed.

Slide 35

Taking a step back, we have a balanced portfolio of brands across all price points.

Through our commercial initiatives, we have driven consistent value share gains in both the premium segment with Natural American Spirit, and in the branded value segment with Lucky Strike.

Natural American Spirit's distinctive brand positioning in the super premium segment benefits from a highly loyal consumer base.

While Lucky Strike, relaunched 3 years ago, remains the fastest growing cigarette brand in the market.

Slide 36

A key element of our commercial investment has been expanding our contracted distribution universe over the last 12 months to reach 88% coverage.

This has significantly improved our competitive position, by offering more of our retail partners increased salesforce support.

This has driven a 2.3 percentage points increase in volume share in these newly contracted outlets, with share gains across our brands. In addition, this has led to a 1.6 percent decline in the deep discount segment in these outlets.

Altogether, with these previously announced commercial initiatives now in place, we are confident that our actions will drive a better second-half performance in the U.S., and further strengthen our portfolio over the medium to long-term.

Slide 37

Turning to regulation...

We continue to advocate for more appropriate regulation and enforcement of New Categories, especially in U.S. Vapour.

During the first half, we saw an increase in enforcement action from FDA, with increasing fines, import refusals and seizures.

In addition, the U.S. Justice Department and FDA recently announced the creation of a task force, designed to harness the enforcement capabilities of multiple federal agencies to combat illicit products.

However, the success of legal products is dependent on FDA doing more to tackle illicit vapour.

To support this, we continue to advocate for the publication of a PMTA list, which would provide clarity to all market participants.

I am pleased that just last week, the U.S. International Trade Commission announced it will investigate our patent infringement complaint against the manufacturers, distributors and retailers of single-use illicit products.

In addition, the ITC continues its investigation of our complaint against the unfair import of these illicit products.

Clearly the pressure for enforcement is building. However, much more needs to be done to drive a meaningful impact over the medium-term.

Slide 38

At the state level, Vapour directory or enforcement legislation has now been passed in 13 states, meaning, once implemented, 31% of the tracked vapour industry volume will be covered by state directories.

In Louisiana, the first state to implement a vapour directory with significant enforcement in October 2023... we are starting to see illicit product volume decline, with Vuse Alto capturing the majority of the volume flow back into the legal segment.

As a blueprint, Louisiana is a powerful example of what can be achieved. However, it is important to note that the scope of Vapour directories and regulation differs materially by state, and that much more needs to be done to ensure effective enforcement of these regulations.

Slide 39

Turning now to Heated Products....

As Soraya shared, we are starting to see a turnaround in glo performance, driven by hyper Pro.

With the majority of our launches now in place in the first half, we are confident we can build on this momentum through the rest of the year.

The step change in performance is clear, with volume share gains in key HP markets, Japan, Italy and Poland.

Our Pro device has a premium price positioning, and the launch of our upgraded consumables has enabled us to take price increases in key markets.

Importantly, since December, our value share in these key markets is now growing faster than volume share, reflecting the strength of our innovations and commercial actions.

Slide 40

So what has driven this turnaround?

I have been very transparent that we needed to do more to strengthen our HP performance, and this all begins with better products.

Leveraging our consumer-insights, glo Hyper Pro and consumables are resonating strongly with consumers across key attributes such as brand equity and perception. This is also driving an increase in average daily consumption amongst glo consumers.

These launches are the first step in our enhanced innovation pipeline for Heated Products, and are a significant driver in the progress we are making to improve glo's category contribution.

Slide 41

In Vapour, we have started to roll-out exciting innovations, with significant launch plans for the second half.

Vuse Go 2.0, our newest single-use vape, delivers improved sensorials, with superior heating technology.

Importantly, this is our first device with a removable battery, which together with a device lock, directly addresses key sustainability and safety concerns.

Slide 42

We continue to upgrade our rechargeables experience with our new Vuse Go Reload device, which pairs with our improved Vuse flavours.

Vuse Go Reload provides the flexibility and convenience of single-use products, with a rechargeable device.

And earlier this month, in the U.S., we entered the emerging zero nicotine space with the launch of Sensa.

Putting all this together, we are confident these innovations can drive an improved Vuse performance in the second half.

Slide 43

In Modern Oral, we are re-invigorating our U.S. portfolio.

I am delighted by the performance of our refreshed Velo brand expression in our New York pilot, which has driven volume share up 7.2 percentage points to June, versus pre-pilot levels, reaching 16.5%.

As a result of this success, earlier this year, we commenced a national roll-out of refreshed Velo.

Slide 44

Utilising our consumer insights, we continue to innovate, to broaden our offering and appeal to both traditional Oral consumers through Grizzly Modern Oral... and internationally by enhancing our flavour ranges.

As you can see, we have exciting new innovations in-market, in each New Category, to drive our second-half acceleration.

Slide 45

I am encouraged that our New Category launches, and our first-half commercial investments to strengthen our U.S. Combustibles portfolio, are gaining traction which together with the unwinding of U.S. wholesaler inventory movements, I am confident will drive an acceleration in our Group performance in the second half.

As a result, we are on track to deliver our full-year guidance.

Slide 46

In conclusion, 2024 is an investment year for BAT.

We are sharpening our execution to navigate near-term market challenges, and set the business up for a stronger future.

We will continue to reward shareholders throughout our transformation, driven by consistent cash flows, disciplined capital allocation and strong shareholder returns.

While there is more to do, our focus on quality growth is building momentum.

I am confident this is the right approach to ensure we deliver long-term growth and value creation.

Thank you for listening.

Slide 47

We will now be joined on stage by Victoria for the question-and-answer session.

Q&A SESSION



Closing Remarks

Tadeu Marroco – Chief Executive

Thank you for listening today and for your questions. I hope you can all see this year is a key moment in our transformation journey.

I am confident that the targeted investment choices we are making are the right decisions to deliver long-term growth and value creation.

I look forward to keeping you updated on our progress. And I hope to see many of you at our Capital Markets Day being held at our Innovation Centre in Southampton, on 16th October. Here, you will have the opportunity to see first-hand, how our teams are focused on reducing the health impact of our business, and enabling BAT to deliver long-term sustainable value for all our stakeholders.

Thank you very much.

(END)

* Poly-usage: Refers to a transitional period for smokers towards complete switching to potentially reduced risk nicotine products during which period such smokers reduce cigarette consumption and choose to consume one or more New Category products.

** New Modern Oral markets outside the U.S. and Scandinavia.