

# Interim Results 2019

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# Important Information

## Forward-looking Statements (continued)

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All financial statements and financial information provided by or with respect to the US or Reynolds American Inc. ("RAI") are initially prepared on the basis of U.S. GAAP and constitute the primary financial statements or financial records of the US business/RAI. This financial information is then converted to International Financial Reporting Standards as issued by the IASB and as adopted by the European Union (IFRS) for the purpose of consolidation within the results of the BAT Group. To the extent any such financial information provided in this presentation relates to the US or RAI it is provided as an explanation of, or supplement to, RAI's primary U.S. GAAP based financial statements and information.

Our vapour product Vuse, and oral products Grizzly, Camel Snus, Velo and Kodiak, which are only sold in the US, are subject to FDA regulation and no reduced-risk claims will be made to these products without agency clearance.

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No statement in this presentation is intended to be a profit forecast and no statement in this presentation should be interpreted to mean that earnings per share of BAT for the current or future financial years would necessarily match or exceed the historical published earnings per share of BAT.

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# Delivering a stronger, simpler, faster organisation

COMBUSTIBLE VALUE GROWTH

STEP-CHANGE IN NEW CATEGORIES

SIMPLIFY THE COMPANY



# Strong H1 results | on track for a good year



**STRONG COMBUSTIBLES  
PERFORMANCE**

**NEW CATEGORY REVENUE  
GROWTH ON TRACK FOR  
FULL YEAR**

**DELIVERING OUR  
FINANCIAL OBJECTIVES**

# Delivering on our financial objectives

	REPORTED HY 2019 @ Current rates	2019 Guidance	ADJUSTED HY 2019 @ Constant rates
Revenue	+4.6%	Mid-Upper end <b>+3-5%*</b> of range	<b>+4.1%</b>
New Category Revenue	<b>+31.3%</b>	<b>+30-50%*</b>	<b>+27.3%</b>
Operating Margin	<b>-210 bps</b>	<b>+50-100 bps</b>	<b>+110 bps</b> Current rates
Profit From Operations	<b>-1.3%</b>	Upper end of <b>+5-7%*</b> range	<b>+5.9%</b>
Diluted EPS	<b>+4.6%</b>	<b>High Single Figure*</b>	<b>+7.1%</b>
Leverage	-	<b>-0.4x ex-currency</b>	<b>on track</b>

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

Source: Internal Estimates

# A strong performance in combustibles

**+7.0%**  
Cig Price  
mix

**+10**bps  
Corporate Value  
Share YTD growth

**+50**bps  
Strategic Brand Value  
Share YTD growth

**-3.5%**  
**Volume**  
H1 BAT  
(Cigs+THP)

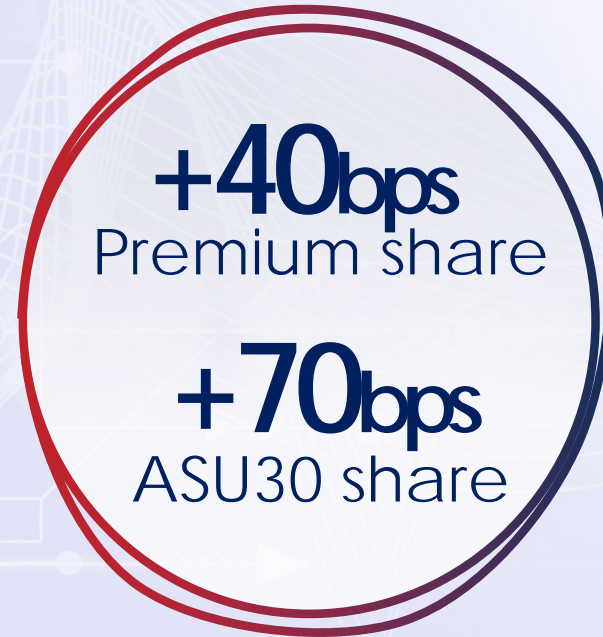
**Flat**  
Corporate Volume  
Share YTD growth

**+60**bps  
Strategic Brand Volume  
Share YTD growth

source: Company data. Share growth versus FY18.



# Winning in the US where it matters



Industry volume	HY	-5.4%**
	FY estimate c.	-5.5%

\*Adjusted and constant rate basis. See Appendix A1-A2. Share growth versus FY18. \*\* STW: Shipments to wholesale. Source: Company data



# New Category revenue growth on track for FY guidance

**+27%**  
H1 growth\*



Around the middle of  
**+30-50%**  
FY19 growth\* ~

**+58%**  
H1 Vapour growth\*

**+284%**  
H1 Modern Oral growth\*

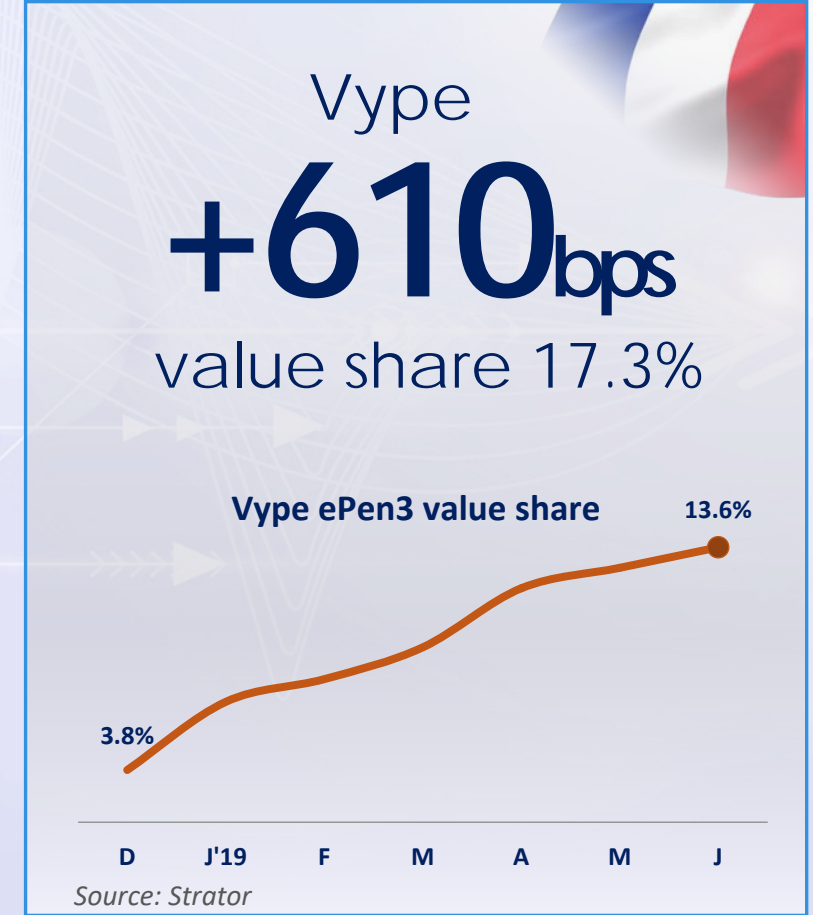
**+4%**  
H1 THP growth\*

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

# Focus on fewer stronger brands



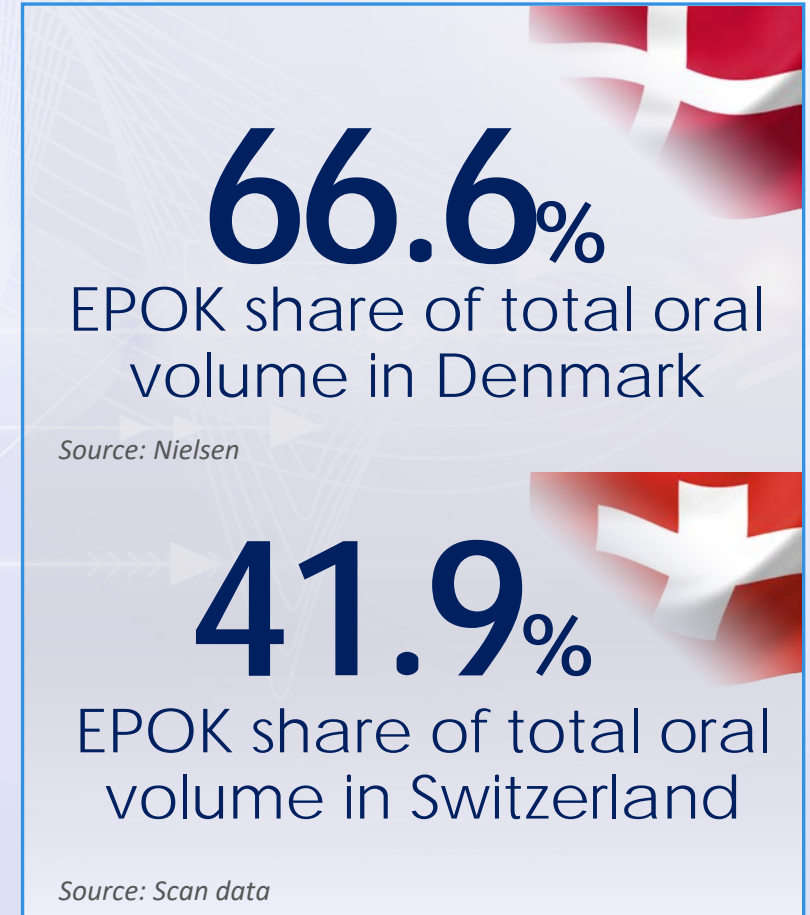
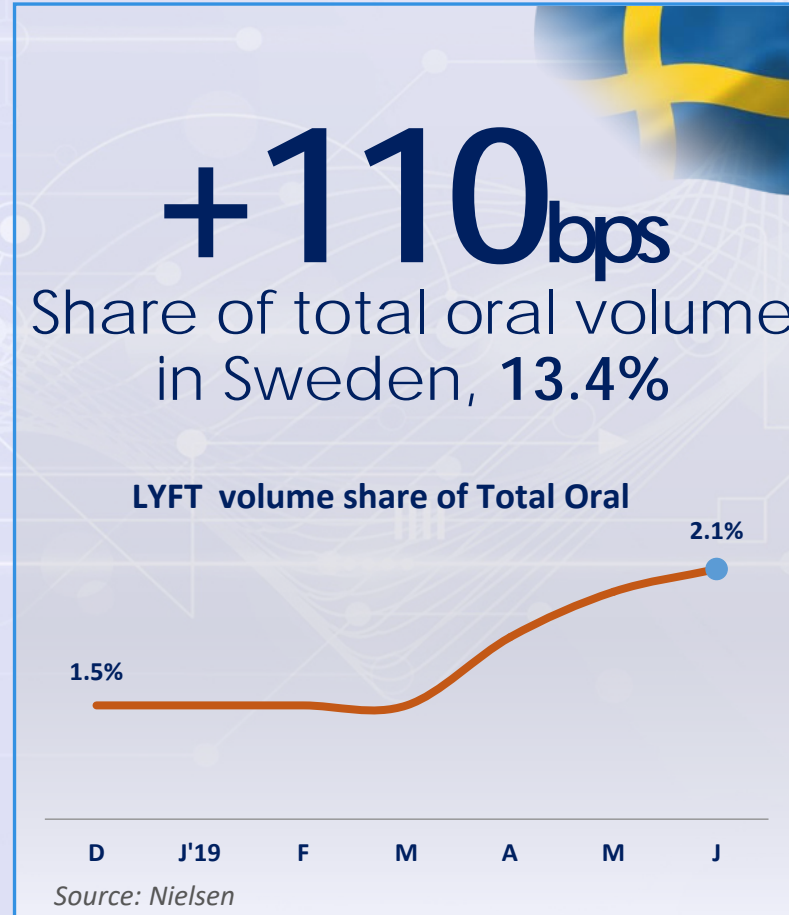
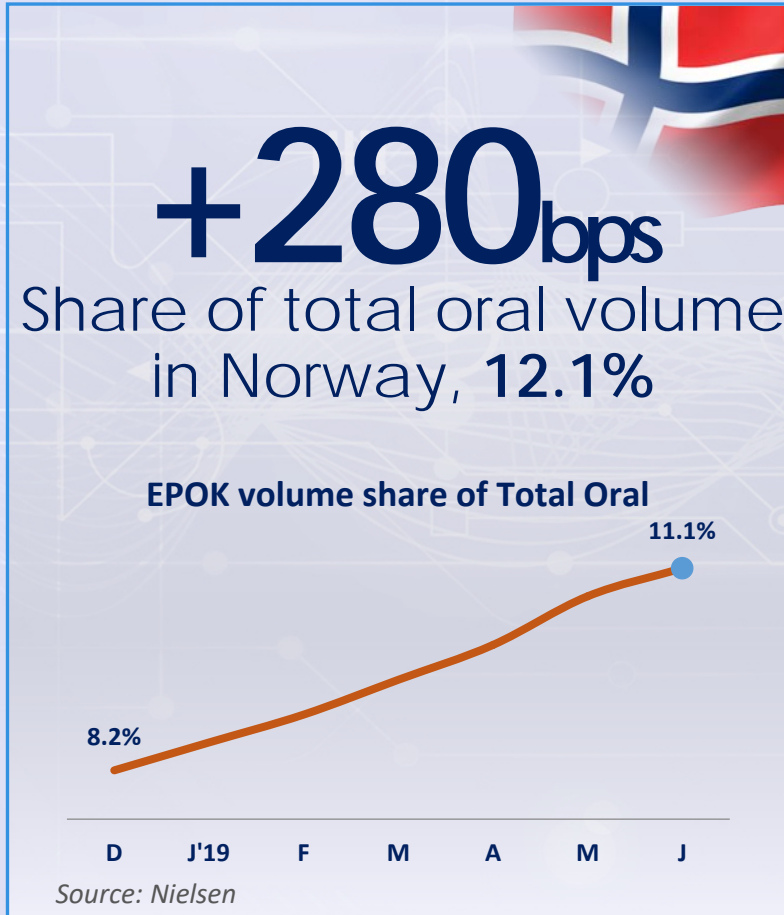
# Vapour | Great products driving growth



Source: Retail value share data Jun 19 with growth v Dec 18




# Modern Oral products EPOK & LYFT continue to drive category growth in Europe



Source: Share data based on Jun 19 with growth v Dec 18

# THP | Total nicotine volume share growth continues in Japan





**+30bps**  
glo share in Japan 5%

**+80bps**  
Total nicotine volume share in Japan 17.5%

Source: CVS BC

Share of category

>10%	5-10%	
 Romania	 Serbia	National
	 Poland	
 Kazakhstan	 Russia	Key cities
	 Ukraine	
	 Bulgaria	

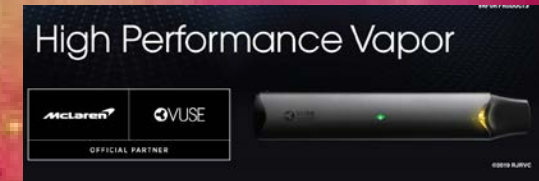
Source: Share data based on Jun 19 with growth v Dec 18







# H2 New Category activity expected to accelerate growth



# H2 New Category activity expected to accelerate growth

# VELO

- › US manufactured
- › 4 SKUs offering Mint/Citrus flavours
- › Nationwide US distribution to 75k outlets planned by year end
- › Brand building campaign with direct consumer engagement set to:
  - Reach over 25m adult tobacco consumers
  - Deliver nearly 2bn impressions

+ New  
ENA market  
Modern Oral  
launches  
planned





# Delivering a stronger, simpler, faster organisation

COMBUSTIBLE VALUE  
GROWTH

STEP-CHANGE  
IN NEW CATEGORIES

SIMPLIFY THE  
COMPANY

- › **Deliver 50-100bps of margin improvement pa**
- › **Release funds for growth**
- › **Focus on investment returns**
- › **Generate cash to de-lever the balance sheet**



# Strong revenue growth

**+4.1%**

Revenue  
growth\* v H1 18

Strategic Combustible  
revenue up +5.2%\*

Strong pricing

New Categories  
growth

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

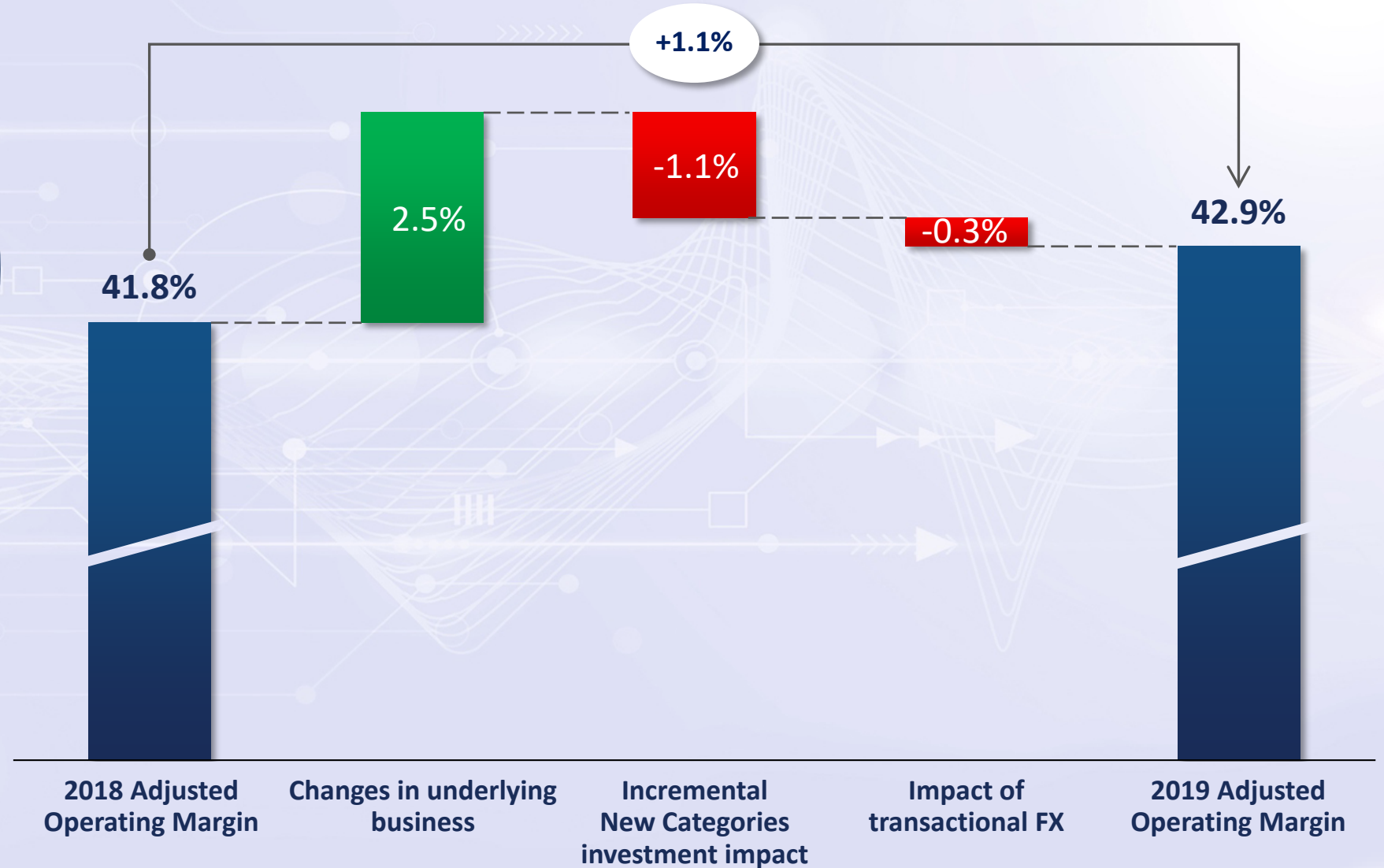
# Good growth across the regions

	Adjusted Revenue*	Value Share	Adjusted Profit from operations*	Volume
APME	+1.6%	+20bps	+4.6%	-2.3%
AMSSA	+7.5%	Flat	+0.8%	-3.5%
ENA	+4.6%	-10bps	+0.1%	-4.0%
US	+3.7%	+30bps	+11.2%	-6.0%

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

# Increasing investment and growing margin

**+110bps**  
growth v H1 18





# Strong profit growth

**+5.9%**

Adjusted Profit from  
Operations  
growth\* v H1 18

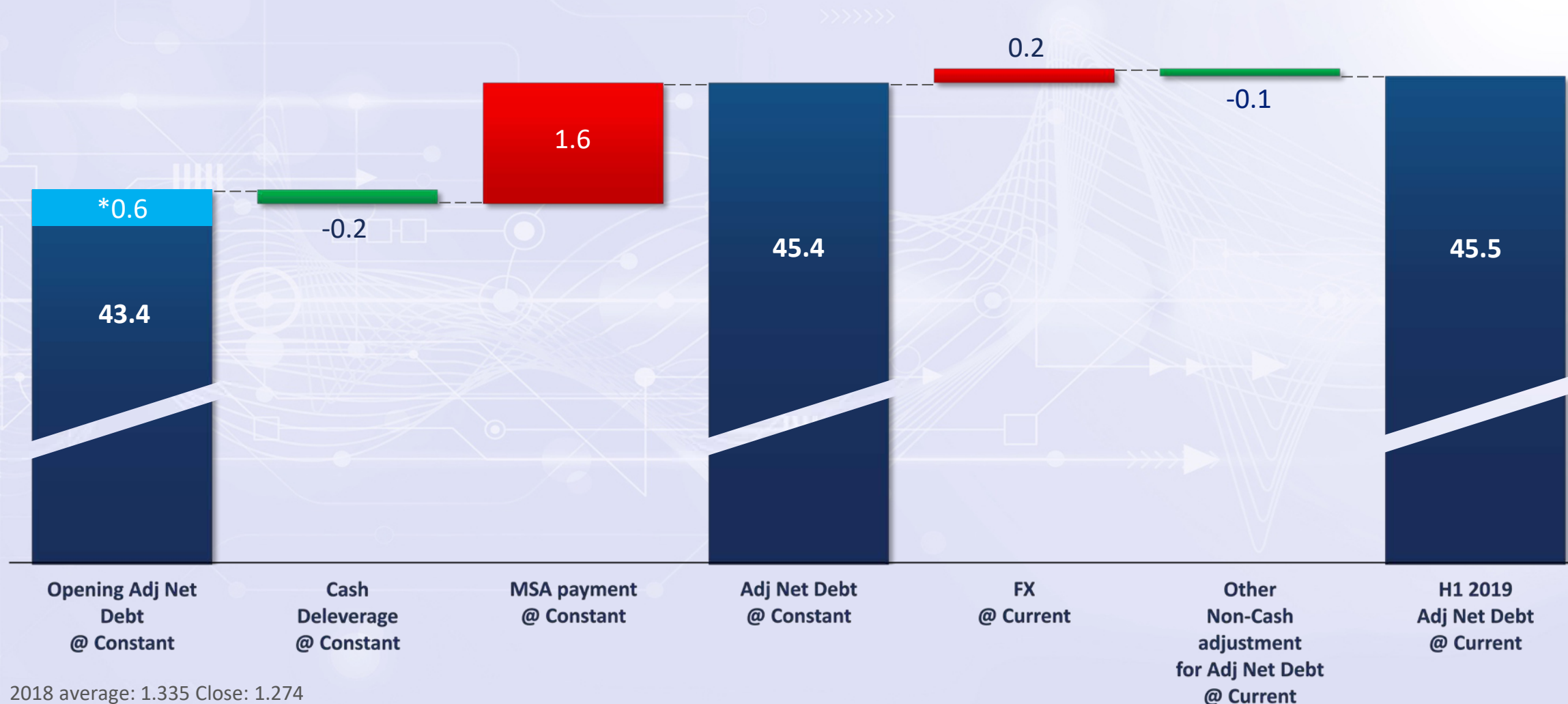
Strong revenue growth\*  
driven by pricing

Continued drive for  
efficiency gains

Increased investment  
in New Categories

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

# Adjusted Net Debt higher due to MSA payment timing and IFRS 16



2018 average: 1.335 Close: 1.274

2019 H1 average: 1.294 Close: 1.273

\*Opening Net Debt includes IFRS16 impact £0.6bn

# On track to de-lever at 0.4x ex-currency

Adj Net Debt\* /  
Adj EBITDA\*

## FY19 guidance



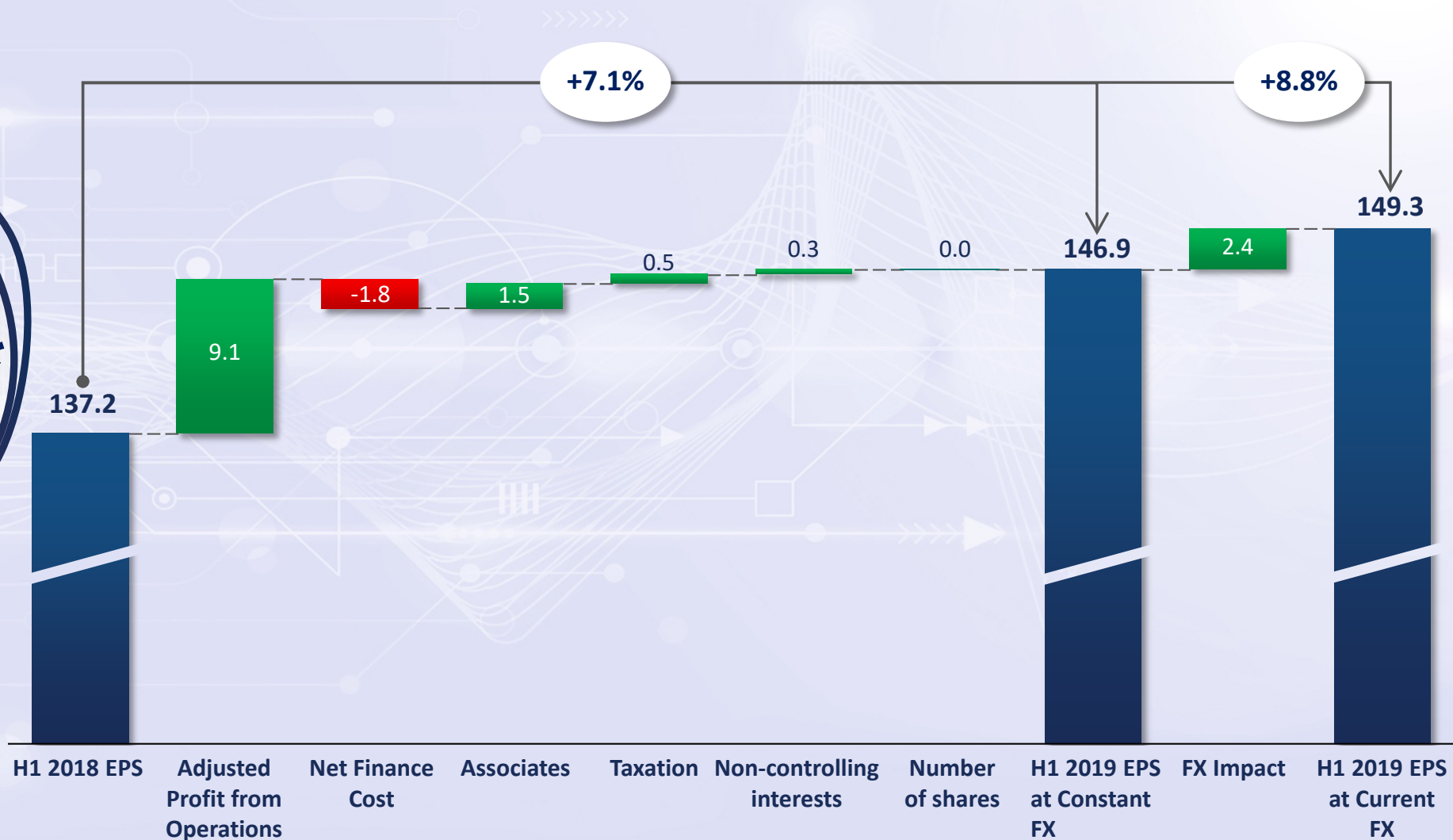
*\*Adjusted Net Debt is total borrowings, including related derivatives, less cash and cash equivalents and current available-for-sale investments, excluding the impact of the revaluation of RAI acquired debt arising as part of the purchase price allocation process.*

*Adjusted EBITDA is not a measure defined by IFRS. Adjusted EBITDA is 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.*



# High Single Figure earnings growth\*

**+7.1%\***



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

# Strong H1 results



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

# On track for a good year

COMBUSTIBLE VALUE  
GROWTH

STEP-CHANGE  
IN NEW CATEGORIES

SIMPLIFY THE  
COMPANY

- › On track for the full year guidance
- › New Category revenue expected around the middle of 30-50% range
- › Building a stronger, simpler, faster organisation
- › Delivering high single figure EPS growth







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# Appendix

## A1: Adjusting (Adj.)

Adjusting items are significant items of certain financial measures which individually or, if of a similar type, in aggregate, are relevant to an understanding of the Group's underlying financial performance because of their size, nature or incidence. In identifying and quantifying adjusting items, the Group consistently applies a policy that defines criteria that are required to be met for an item to be classified as adjusting. The Group believes that these additional measures, which are used internally, are useful to users of the financial information in helping them understand the underlying business performance.

## A2: Constant currency

Movements in foreign exchange rates have impacted the Group's financial results. Measures are calculated based on a retranslation, at prior year's exchange rates, of the current year's results of the Group and where, applicable, its segments. Although the Group does not believe that these measures are a substitute for IFRS measures, the Group management board does believe that such results excluding the impact of currency fluctuations year on year provide additional useful information to investors regarding the Group's operating performance on a local currency basis.

## A3: Share metrics

Volume share: The retail sales volume of the product sold as a proportion of total retail sales volume in that category.

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.