

17 February 2021

ACCELERATING TRANSFORMATION Growth in New Categories and Group earnings despite COVID-19

Jack Bowles, Chief Executive:

“As the largest, and only truly global company in our industry, we take seriously our role to transform ourselves and demonstrate thought leadership. We have a clear purpose to reduce the harm footprint of our business. We are uniquely positioned to encourage the switch to reduced risk products**.

We operate worldwide, including the US, which represents 40% of the global industry’s value. Our well-embedded consumer-centric, multi-category strategy is activated on a global scale, leveraging our insights on consumer satisfaction, innovation needs and taste preference. We are building the brands of the future – strong, global brands, specifically positioned in each target consumer segment.

Last year we increased the number of consumers of our non-combustible products by 3m to 13.5m, doubling the rate of consumer adoption in the second half of 2020. We have excellent momentum in New Categories, with accelerating volume and value share gains.

Our investment behind New Categories has increased by a further £426m compared to 2019, enabled by a 5th consecutive year of value share growth in combustibles. Enabled by Project Quantum, we continued to simplify the company and drive efficiencies, delivering £660m of cost savings (being well on track to deliver our ambitious £1bn of savings by 2022), further supporting new capabilities investment.

Our ESG targets are transformational and support our A Better Tomorrow ambition. We will track and share our progress. We are committed to reducing the health impact of our business, whilst delivering sustainable results that create long-term multi-stakeholder value”.

Performance highlights

	REPORTED		ADJUSTED	
	Current rates	Vs 2019	Current rates	Vs 2019 (constant)
Cigarette and THP volume share	+30 bps			

	REPORTED		ADJUSTED	
	Current rates	Vs 2019	Current rates	Vs 2019 (constant)
Cigarette and THP value share		+20 bps		
Non-Combustibles consumers¹	13.5m	+3.0m		
Revenue (£m)	£25,776m	-0.4%	£25,776m	+3.3%
Profit from operations (£m)	£9,962m	+10.5%	£11,365m	+4.8%
Operating margin (%)	+38.6%	+380 bps	+44.1%	+100 bps²
Diluted EPS (pence)	278.9p	+12.0%	331.7p	+5.5%
Net cash generated from operating activities (£m)	£9,786m	+8.8%		
Free cash flow after dividends (£m)			£2,550m	+32.7%
Cash conversion (%)²	98.2%	-160 bps	103.0%	+650 bps
Borrowings³ (£m)	£43,968m	-3.1%		
Adjusted Net Debt (£m)			£39,451m	-5.3%
Dividend per share (pence)	215.6p	+2.5%		

The use of non-GAAP measures, including adjusting items and constant currencies, are further discussed on pages 48 to 53 in the preliminary announcement, with reconciliations from the most comparable IFRS measure provided.

Note

1. Internal estimate.
2. Movement in adjusted operating margin and operating cash conversion are provided at current rates.
3. Borrowings includes lease liabilities.

Delivering today

- Revenue, profit from operations and earnings growth* absorbing estimated 2.5% COVID-19 revenue headwind
- Combustible revenue up 2.8%* with volume down 4.5% offset by strong price/mix of 7.3%
- Cigarette value share up 20 bps driven by the Strategic portfolio up 40 bps
- £660m annualised cost savings, driven by Quantum
- Adjusted profit from operations up 4.8%*
- Adjusted operating margin up 100 bps
- Adjusted diluted EPS up 5.5%*
- Operating cashflow conversion of 103%, >90% target.
- £2.6bn FCF generation driving deleverage to 3.3x adjusted net debt / adjusted EBITDA
- Full Year dividend 215.6p up 2.5%
- 65% dividend pay-out ratio

Building A Better Tomorrow™

- 13.5m consumers of our non-combustible products¹, adding 3m in 2020. On track to 50m by 2030
- New Categories revenue up 15%*, accelerating through the second half
- Incremental £426m New Categories investment in 2020
- Volume (of consumables) up 52% in Vapour
- Volume (of consumables) up 19% in THP (or 29% excluding glo Sens withdrawal)
- Volume up 62% in Modern Oral
- Acquisition of Dryft assets in the US expanding our US portfolio from 4 to 28 product variants
- Ahead of schedule to deliver £1bn annualised savings by 2022 to fund investment in New Categories and in developing new operational capabilities

* at constant rates of exchange

2021 outlook:

- Global tobacco industry volume expected to be down around 3%. US market dependent on COVID-19 uncertainties.
- Constant currency revenue growth of 3%-5%, and continued progress towards our New Categories revenue target of £5bn in 2025.

- Mid-single figure constant currency adjusted EPS growth reflecting continued COVID-19 impacts. Expected FX headwind of around 7% on full year adjusted EPS growth.
- Operating cashflow conversion in excess of 90%, Adj Net debt/Adj EBITDA around 3.0x.

Post COVID-19, confident in our guidance of 3-5% revenue and high single-figure adjusted diluted EPS growth at constant currency.

** Based on the weight of evidence and assuming a complete switch from cigarette smoking. These products are not risk free and are addictive