



News Release

Half-Year Report to 30 June 2021
28 July 2021

STRONG BRANDS DRIVE NEW CATEGORY ACCELERATION

Jack Bowles, Chief Executive:

“This has been an exciting period of growth in New Categories, with New Category constant currency revenue up by 50% in the first half. We added 2.6m consumers, our highest ever increase, to our non-combustible product consumer base, to reach 16.1m. This demonstrates our accelerating transformation driven by our multi-category portfolio, with continued key market share gains in all three New Categories.

“We are building strong, global brands of the future with Vuse, Velo and glo. These are underpinned by industry leading multi-category consumer insights and science, with increasing digitalisation. We have invested a further incremental £346m in the first half, funded by continued value growth from combustibles and expect to reach our £1bn Quantum savings target 12 months early. We have now increased our savings target to £1.5bn by 2022.

“Our rapid growth in New Categories is driving significant scale benefits and 2021 is shaping up to be a pivotal year in our journey towards A Better Tomorrow.

“Our focus on New Categories growth and business sustainability puts ESG at the core of our strategy. There is great momentum across the business and we are well on track to meet our targets of £5bn of New Category revenue by 2025 and 50m non-combustible product consumers by 2030.

“We are committed to reducing the health impact of our business. Our ambition remains a sustainable, high growth, multi-category, consumer products business. I am excited about the future for BAT.”

Performance highlights

	REPORTED		ADJUSTED	
	Current rates	Vs 2020	Current rates	Vs 2020 (constant)
Cigarette and THP volume share		+20 bps		
Cigarette and THP value share		+10 bps		
Consumers of non-combustible products ¹	16.1m	+2.6m		
Revenue (£m)	£12,175m	-0.8%	£12,175m	+8.1%
Revenue from New Categories (£m)	£883m	+40.4%	£883m	+50.0%
Profit from operations (£m)	£4,907m	-3.7%	£5,235m	+5.4%
Operating margin (%)	40.3%	-120 bps	43.0%	-70 bps ²
Diluted EPS (pence)	141.6p	-6.0%	154.2p	+6.1%
Net cash generated from operating activities (£m)	£2,254m	-35.3%		
Free cash flow after dividends (£m)			(£1,163)m	Not meaningful
Cash conversion (%) ²	45.9%	-22.5 ppts	66.7%	-13.5 ppts
Borrowings ³ (£m)	£45,010m	-10.8%		
Adjusted Net Debt (£m)			£40,490m	-7.6%

The use of non-GAAP measures, including adjusting items and constant currencies, are further discussed on pages 54 to 58 of the full 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.

Accelerating our Transformation

- New Categories revenue up 50% to £942m*
- Our highest ever non-combustible product consumer acquisition +2.6m to 16.1m in H1, with 11.8% of Group revenue delivered by non-combustible products
- Vapour revenue up 59%*, Vuse approaching global category value share leadership
- glo revenue up 38%*, with glo Hyper volume share gains in ENA and Japan
- Velo revenue up 63%*, with our T5 volume share of the Modern Oral category at 39.5% up 280 bps
- Further incremental increase of £346m investment in H1, capitalising on strong momentum in all three New Categories
- Full Year New Category losses expected to reduce

Strong H1 Results

- Revenue up 8.1%* led by New Category growth and a partial recovery from prior-year COVID-19 impacts
- Combustible revenue up 5.8%* with price/mix of 4.3%, reflecting Emerging Market (EM) recovery
- Cigarette value share up 10 bps, and volume share up 10 bps reflecting strong EM performance
- Further £256m cost savings, driven by Quantum, target increased to £1.5bn (previously £1bn) by 2022
- Adjusted profit from operations up 5.4%* includes a transactional FX impact of 2%
- Adjusted operating margin down 70 bps, driven by increased New Category investment, geographic mix and transactional FX
- Adjusted diluted EPS up 6.1%*
- Operating cashflow conversion of 67%, reflecting phasing of excise payments in the US in 2020

* at constant rates of exchange

On track for FULL YEAR 2021 guidance:

- Global tobacco industry volume now expected to be down c.-1.5% (from c.-3%), driven by strong EM recovery.
- US industry volume expected to be down c.-5.5%, given continuing macro-economic uncertainties and a strong comparator.
- Constant currency revenue growth above 5% and continued strong progress towards £5bn New Categories revenue in 2025.
- Mid-single figure constant currency adjusted EPS growth, including continued expectation of c.2% transactional FX headwind.
- Expected translational FX headwind of c.7% on full year adjusted diluted EPS growth.
- Operating cashflow conversion in excess of 90%, Adjusted Net debt/Adjusted EBITDA around three times.
- Commitment to 65% dividend pay-out ratio and growth in sterling terms.

[Half-Year Report to 30 June 2021 \(1.4 mb\)](#)

Forward looking statements and other matters

This announcement contains certain forward-looking statements, including "forward-looking" statements made within the meaning of the U.S. Private Securities Litigation Reform Act of 1995.

In particular, these forward-looking statements include, among other statements, statements regarding the Group's future financial performance, planned product launches and future regulatory developments, as well as: (i) certain statements in the Strong Brands Drive New Category Acceleration section and in the Chief Executive commentary (pages 1 to 2 of the full announcement); (ii) certain statements in the Finance and Transformation Director's Statement (page 2 of the full announcement); (iii) certain statements in the Category Performance Review (pages 4 to 8 of the full announcement); (iv) certain statements in the Regional Review section (pages 9 to 13 of the full announcement); (v) certain statements in the Other Financial Information section (pages 14 to 17 of the full announcement); (vi) certain statements in the Other Information section (pages 18 to 23 of the full announcement); (vii) certain statements in the Notes to the Unaudited Interim Financial Statements section (pages 32 to 49 of the full announcement), including the Liquidity and Contingent Liabilities and Financial Commitments sections; and (viii) certain statements in the Other Information section (pages 50 to 62 of the full announcement), including the Non-GAAP Measures sections and under the heading "Dividends".

These statements are often, but not always, made through the use of words or phrases such as "believe," "anticipate," "could," "may," "would," "should," "intend," "plan," "potential," "predict," "will," "expect," "estimate," "project," "positioned," "strategy," "outlook", "target" and similar expressions. These include statements regarding our intentions, beliefs or current expectations concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the economic and business circumstances occurring from time to time in the countries and markets in which the British American Tobacco Group (the "Group") operates, including the projected future financial and operating impacts of the COVID-19 pandemic.

All such forward-looking statements involve estimates and assumptions that are subject to risks, uncertainties and other factors. It is believed that the expectations reflected in this announcement are reasonable, but they may be affected by a wide range of variables that could cause actual results to differ materially from those currently anticipated. Among the key factors that could cause actual results

to differ materially from those projected in the forward-looking statements are uncertainties related to the following: the impact of competition from illicit trade; the impact of adverse domestic or international legislation and regulation; the inability to develop, commercialise and deliver the Group's New Categories strategy; adverse litigation and dispute outcomes and the effect of such outcomes on the Group's financial condition; the impact of significant increases or structural changes in tobacco, nicotine and New Categories related taxes; translational and transactional foreign exchange rate exposure; changes or differences in domestic or international economic or political conditions; the ability to maintain credit ratings and to fund the business under the current capital structure; the impact of serious injury, illness or death in the workplace; adverse decisions by domestic or international regulatory bodies; and changes in the market position, businesses, financial condition, results of operations or prospects of the Group.

A review of the reasons why actual results and developments may differ materially from the expectations disclosed or implied within forward-looking statements can be found by referring to the information contained under the headings "Cautionary statement", "Group Principal Risks" and "Group Risk Factors" in the 2020 Annual Report and Form 20-F of British American Tobacco p.l.c. (BAT). Additional information concerning these and other factors can be found in BAT's filings with the U.S. Securities and Exchange Commission ("SEC"), including the Annual Report on Form 20-F and Current Reports on Form 6-K, which may be obtained free of charge at the SEC's website, <http://www.sec.gov> and BAT's Annual Reports, which may be obtained free of charge from the British American Tobacco website www.bat.com.

No statement in this announcement is intended to be a profit forecast and no statement in this communication 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. Past performance is no guide to future performance and persons needing advice should consult an independent financial adviser. The forward-looking statements reflect knowledge and information available at the date of preparation of this announcement and BAT undertakes no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise. Readers are cautioned not to place undue reliance on such forward-looking statements.

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

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

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