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Transcript

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Gaurav Jain, Barclays
Good morning, everyone. Thank you for being here. I'm Gaurav Jain, Barclays' global tobacco and cannabis analyst. With me is Tadeu Marroco, CFO of BAT. Thank you, Tadeu, for being here. I really appreciate it.
We will start with some comments from Tadeu, before turning to questions. Tadeu?

Tadeu Marroco, Finance and Transformation Director
Okay. Thank you, Gaurav. Good morning, everyone. It's a great pleasure to be here today and be able to share with you our new category's growth and how it's helping the group to transform.

So, we will take some Q&A afterwards. But before we go there, I would like just to reiterate some of the highlights of the H1 results that we have announced more recently, just to put into perspective where we stand in terms of our journey. And then, we'll move on to the Q&A.

So, I will just call your attention, draw your attention for the slideshow and three disclaimers.

Basically, we are very proud to be transforming our business and delivering robust financial results. So, why are we doing that? We are trying successfully to navigate through a very challenging macroeconomic environment and delivering superior shareholder returns with our growing dividend policy and the restatement of our buyback plan in 2022.

Just to dwell a bit into those three different boxes, there is definitely from the H1 results a clearly demonstration that the strategy, the multi-category strategy, is working. And it's working and it's helping the group to transform faster. So, at the back of a very strong innovation pipeline and the build of a strong global brands in each of those categories, we'll be very successfully able to offer smokers a different alternative, a much less risky alternative to cigarettes. And on top of that, we are very committed to our other ESG priorities, as well.

So, in terms of the business transformation, we have achieved the milestones of 20 million non-combustible consumers in the H1 of this year. This is more than two million since the start of the year. If you go back 12 months, more than four million. If you go back the last three years, we have been growing at a compound annual growth rate of more than 30% in terms of the numbers of non-combustible consumers.

And this is leading to a very strong growth in terms of the revenue coming from these new categories. We achieved 45%. This is at the back of a 51% growth that we have in 2021. So, we clearly kept the momentum of last year into 2022.

We have invested £1.1 billion in the first half alone in these new products, and we have managed to reduce the losses by 50% in that same period.

So, basically, we are now today number one in terms of global vaping products, with Vuse. We have leadership in the international market, ex-U.S, in our modern oral product, Velo. And we are one of the fastest growing brands in terms of THP, as well. So, we are doing extremely well in every single of those three categories.

At the same time, we are delivering very robust financial results. Our revenue was close to 4% in terms of constant FX, and an EPS close to 6% in terms of FX – adjusted EPS of 6% in terms of constant FX. Here, I would like to call your attention. BAT numbers does include transactional FX. So, we were hit by 1.5% equivalents in the first six months of the year. This is part of our numbers. So, every time we disclose a constant FX number, within it there is a transactional hit there. Okay? Just to make the point clearly.

And we are delivering on the cash side. Half year, we converted 77% of our profits into cash. Usually, the conversion of the first half of the year is not as strong as the full year, because we are paying MSA here in the U.S., but also we are buying the leaf. But this is 10 points percent higher than the previous year, which is a demonstration of how much emphasis and focus we are providing now behind this cash generation.

And we are successfully navigating the macroeconomic environment. For sure, our business is not immune for inflation, for consumer purchasing power deterioration, and the fact that we are seeing more and more interest rates increase. But the fact is that we have some levers to pull here.

One of them is related to the fact that we have a very high growth margin business, and also the fact that we have initiated a cost reduction, a very robust cost reduction, program back in 2020. We were aiming to achieve over the three years up to the end of 2022, £1 billion in saving. We have already achieved up to the middle of this year £1.5 billion. Now we want to exceed that for the full year. So, as you can imagine, we are trying to leverage as much as possible on this program to try to mitigate some of the pressures that we are seeing coming from the inflation in our cost base.

And we have a very resilient product, in cigarettes, that has already demonstrated over the previous cycles of recession with a tremendous pricing power. And we are very well on track to deliver the planned pricing that we have for this year, with 90% already achieved so far.

So, we have a very good progress up to half of the year. For sure, there is still a lot to go in the transformation itself. What to expect for the full year? Well, we are continuing to expect the new category growth momentum to continue. We have bold plans now to launch new innovations in the market in the second half of this year.

We have our product, glo hyper, in THP, that we are now introducing a new revamped device – it's called X2 – with new functionalities. It's lighter. It's smaller. And at the same time, we are also introducing new consumables, which is much more satisfying for the consumers. So, the increased satisfaction plus a much more attractive device will give us the assurance that we are going to keep this momentum on THP going.

We are also introducing in the vapor space our first disposable – modern disposable – product. It's called Vuse Go. We have rolled it out in France, Ireland, Spain, and Germany, and we have both plans to go even beyond Europe until the end of the year.

And in terms of the modern oral (inaudible), we have introduced a new recycle cans. Also, mini pouch, that makes it much more comfortable for the users to use it. And also, different levels of strength of nicotine.

So, you're going to see a lot of innovation coming through in the second half of the year from those three categories. At the same time, we're going to continue expanding geographically.

And doing all that, we expect still to continue reducing the loss for the rest of the year in terms of the P&L impact.

So, in terms of the guidance, we expect to deliver the revenue between 2% to 4%. So, we are sticking to what we said earlier in the year. Mid-single-digit EPS growth. And a continued strong cash generation, which translates here into well above the 9% targets that we usually have in terms of conversion of profit into cash.

We note that the environment is getting very tougher out there. But like I said, we have a much more agile organization, after we have done a lot of initiatives in Quantum in terms of how we are structured as a business. And also, with the resilience that we have in our own products.

So, we are clearly committed to deliver long-term sustainable shareholder value, and we're very well positioned to do that.

That's my final slide. If I want to summarize, we are trying to create this Better Tomorrow, which is aligned with the purpose of the group: moving from one category, a cigarettes product company, to (inaudible) multi-category, consumer-centric, high-growth category of products in nicotine and, at a certain stage, in the beyond-nicotine space; moving from a declining volume and growing value, towards a growing volume and value. And this is quite important.

The quality of the revenue that we are now generating BAT is much improved compared to what it used to be. We all know that cigarette is declining, has a secular decline, and we try to more than compensate the declines through pricing. But these new categories, actually, we have a lot of volume generation while the category is growing. So, we have an opportunity to grow our market share within the category and the category itself is growing, which means that we are much less reliant on pricing, as we do in combustible. So, the quality of the growth in the revenue of the group will be much improved.

At the same time, you have here in the slide some of the key priorities in terms of ESG. Health is the first one, for sure. That's why we want to achieve the 50 million consumables of these non-combustible products. We are well on track of that, with 20 million.

We also have the expectation to achieve the £5 billion revenue by 2025, on a profitable basis. And we are again well on track with the sorts of growth rates that you are seeing more recently.

We want to achieve the Scope 1 and 2 carbon neutrality by 2030. We are already talking with 30 suppliers in terms of raw materials that account to 70% of everything that is generated in terms of to achieve our zero value chain, if not before the 2050 targets. And also, single-use plastics, we want to eliminate by 2025. So, just to give some examples.

So, this is just a snapshot of the group. Very committed and very well positioned to continue delivering a strong value return for our stakeholders and making a positive impact on society in the same time.

So, I want to stop here, and then I go join you, Gaurav, for the Q&A.

Gaurav Jain, Barclays
So, Tadeu, let me actually start with some of the comments you made around your EPS growth and how transaction FX works. So, just as a reminder, U.S. is about 55% of your business. And if the U.S. dollar depreciates, then you don't see any transaction impact because your U.S. dollar revenue and U.S. dollar costs. But on the international business, which is the rest, 45%, you take the dollar hit from – because dollar costs have gone up.

So, actually, dollar appreciation negatively impacts your constant currency FX growth, which then you more than make up in the translation FX benefit. But it's a very convoluted way, I would argue, in which you present your EPS growth. Because even this year, when you're saying it's 5.7% constant currency EPS growth, if I were to remove that transaction FX, it's actually 7% EPS growth, plus the dollar benefit, which is another 2%.

Tadeu Marroco, Finance and Transformation Director
That's right. Absolutely.

Gaurav Jain, Barclays
So, is there any way for us to actually realize that dollar appreciation is actually good for your company, rather than bad for your company?

Tadeu Marroco, Finance and Transformation Director
We are exposed to dollars, as you said. And in terms of our debt, we have a good match between the level of debt and the level of revenues, which is also very positive for us.

For sure, the difficult (inaudible) is facing right now – not just against the dollar, but against the major currencies in the world – is giving a massive tailwind in terms of translation for the year. We quoted a number close to 6% by half-year, and this is a reflection of that.

The transactional FX, like you said, we believe that it's right to be incorporated in the numbers because I consider transactional FX as any other type of inflationary pressure that you see in the raw material. And it's like, for example, you are in emerging markets, you are buying leaf in dollars, and all of a sudden in local currency this cost is higher because of the devaluation against the dollar, and you have to pass on to pricing, but eventually, not necessarily happens in the first moment.

But overall, I think that the balance between the debt, the revenues, and the balance between the translation and transaction, we are well positioned where we stand today..

Gaurav Jain, Barclays
Sure. Now, coming to the share repurchase, which earlier this year you said it is £2 billion for the year, but that was when dollar was at a different level and pound was at a different level. And we saw that in 1H you did £1.3 billion of share repurchase. And if I put the entire translation benefit at spot FX, then your this year EPS is higher than consensus and next year is another 5% higher than consensus. So, does it mean that we should model a much higher share repurchase in pounds? Because there is clearly an FX benefit on that.

Tadeu Marroco, Finance and Transformation Director
Look, the problem with – you'll note that we are trying to keep the leverage of the company between this range of 3x to 2x. After the acquisition of Reynolds, the company was very high leverage, and we have been working on that since then. And we managed to get to this corridor of 3x to 2x, at the high end of the range. So, this is one of the considerations.

And that's the reason why we haven't announced any multiyear buybacks, because we want to have a look in any given year where we stand in terms of the business performance, the macroeconomic environment, but also some specifics in terms of litigation – for example, CCAA in Canada could be a factor – or regulation, the fiscal implications.

And then, we're going to make a call in terms of the best capital allocation for the group, which involves – there's no doubt – share buyback. We see a lot of value coming from the share buyback, mainly given the level of valuation of the company, that we believe that merits the consideration of a buyback. But also, we have aspiration to do eventually some M&A bolt-ons, mainly on the beyond-nicotine space, at a certain point in time, and continue to deleverage the company more towards the middle of that range of 3x to 2x, and continue paying the dividends that we have committed ourselves to grow dividend in sterling terms.

So, that's why we avoid to do any further multiyear commitments of buyback at this point.

And by the way, just to complement on that, the net debt-to-EBITDA suffers from this depreciation, as well. That's another – because as you know, in this ratio of net debt to EBITDA, the net debt is translated the 31st of December, while they earnings get translated throughout the year. So, this can bring some disconnection. And we saw that in previous years. So, we have to bear this in mind whenever, because we want to – everything I just said about our choice and capital allocation, we want to preserve the corridor between 3x to 2x.

Gaurav Jain, Barclays
Sure. Now, your EPS growth, let's say, constant currency without share repurchases, it can be 6%, 7%. And then we layer in share repurchases on top of it. So, it's very easy to create a scenario where your EPS growth is accelerating to high-single digits. And then if NGP losses are also reducing and your NGP business is scaling up, then we could have that as a double-digit EPS growth company – not next year, but maybe by FY25. Is that sort of a valid sort of long-term North Star?

Tadeu Marroco, Finance and Transformation Director
Let's have a look on more recent past. 2021, we said that would be – was a pivotal year for us. And why it was a pivotal year? Because all the focus of the group has been on accelerating the

growth of new categories. And we ended up developing 51% of revenue growth for that year. Because we have choose maybe the most more difficult path to tackle the categories, all three at once, from the onset. Some others has decided differently. They decide to focus on one category, develop it, and then move on to other categories. We haven't done that.

What we did was we understand that the consumers pretty much are the same. The regulatory environment is also different. So, there were merits for us to tackle and create these three global brands.
But this was very costly, as well, because we had to create a lot of new capabilities that we didn't have at that time and generate losses up to a point of reaching around £1 billion loss in the P&L.

So, 2021 was a year that we are seeing the benefit of these coming through. And the fact that we have now leadership in vapor, like I said. A very strong position in modern oral. And leadership in international markets. A very strong offer now in THP, growing. And this is helping us to accelerate the growth. So, this was one element.

The second element is that we believe that in '21, we revert the curve about the losses. Instead of accumulating loss, we start reducing. And this is accretive to the growth.

So, you're absolutely right. Moving forward, the new category, despite the fact that it's 15% of our group revenue, will be more and more meaningful in terms of the impact on the group; not just revenue growth, but also operating profit growth, with a reduction of losses.

And the third element of the pivotal year was us being able to achieve the 3x – 2.99x, to be precise – in terms of the net debt to EBITDA. This allowed us to restart the buyback and be able to do a more meaningful capital allocation.

So, that was 2021.

2022, what we are seeing? A lot of challenges around, as we all know. We also had to lap the sale of our business (inaudible), that we haven't – treat as organic. So, we pulled out of (inaudible). So, there was some some weakness in the market, many here in the U.S. Some inventory change. So, we are keeping the mid-single digit.

And moving forward, what we are seeing is that the new categories will be more and more relevant to the business; you're absolutely right. The combustible and the value – the focus of BAT has been on valuing combustible, and this is a very strong business. And we are well positioned not just in the U.S., but outside, in combustible. So, this will be accretive also for us.

And we're going to face some headwinds, eventually – for example, coming from net finance costs because of the interest rates are increasing – and that could be tried to be offset by eventually share buybacks.

So, I'm sure that you are not asking about 2023, because I wouldn't provide any guidance for 2023. But in the long term, there is nothing to prevent us to have a very robust set of value creation, not just on the EPS side, but also in terms of capital allocation.

Gaurav Jain, Barclays
Sure. Now, coming to – you often mention market weakness in the U.S. So, let's focus on the U.S., which is your biggest market, 55% of EBIT. So, volumes in (inaudible) '22 were down almost 9%, and a lot of it can be attributed to maybe some of it was difficult COVID comps, plus also oil prices increased a lot (inaudible). But recently, they have started declining, as well. So, have you started seeing an improvement in U.S. cigarette volumes over the last month?

Tadeu Marroco, Finance and Transformation Director
Well, what we – I think that we need to look to the volume in the U.S. on an average basis. If you go back to 2020, we grew volume

– the industry grew volume in the U.S. We also have a very good strong 2021. So, when you take the average of those three years, there is clearly in 2022. on top of the macroeconomics that you just referred to, a post-COVID consumer return in terms of consumer demand patterns.

So, if you take the three years, it's not that much dissimilar of a secular decline. So, you would expect in any given year a decline around 4% to 5% in the U.S. market, and we stick to that assumption, moving forward. Because what we have seen today has been aggravated by this return of a post-pandemic pattern; as well as, like you said, macroeconomics, like gas price reaching all-time high – and we know the correlation on that.

So, that's one point.

The second point, we cannot forget that in terms of value the U.S. is the most valuable market in the world. And it's very affordable, very affordable. It's is the second-highest affordable market when you take the consumer income as compared with the cigarette income. It's second to Japan. In reality, that's the first affordable market in the world.

So, there is still a lot of value coming out from cigarettes in the U.S. So, that's the second point.

Now, what we are seeing – and some industry data is already starting showing that – is that the inflationary pressure on the consumer disposition income is actually starting to move some consumer patterns in terms of acquisition to different channels in certain states; like, for example, discounts and dollar accounts. So, we are seeing that.

But the fact is that we are very well positioned to tackle that. We have launched Lucky Strike almost two years ago in the very low end of the range. We continue to see very strong growth from Newport and American Spirits in the premium segment. And as a consequence of that, we have generated 30 basis points more of value share over 2022, despite all this difficulty. And in terms of value share, month after month we have been growing since January, as well.

We have introduced the additional tool, a revenue growth management tool, back some years ago that we have been improving over time. That is allowing us today to be very granular in terms of how we deploy discounts or change trade terms. So, we can be very, very granular in terms of what are the states where discount brands, for example, can be taking more ground as a consequence of all this macroeconomic pressures and act on that.

And so, a very well balanced portfolio of brands, very well set of data analytics, is allowing us actually to be ahead of the game in terms of dealing with these pressures.

Gaurav Jain, Barclays
Sure. Now, coming to the e-cigarette business in the U.S., which, as you pointed out here, now become the industry leader in the U.S. in terms of value share. And what to us has been quite amazing is how much pricing you are now taking on e-cigarettes. And I think your e-cigarette pricing is up almost 20% on a Y-o-Y basis. And when I do the math, then your e-cigarette losses in the U.S. have – last year, you were losing almost $300 million, and this year you will probably make almost $300 million to $400 million in the U.S. on your e-cigarette business.

So, I think there are a number of questions which emerge from this. How much pricing can you really push on e-cigarettes? Because do you think in terms of cigarette pricing versus e-cigarette pricing? Or there is no connection between these two categories? Could consumers downgrade from cigarettes to e-cigarettes because of the macro pressure that you mentioned?

Tadeu Marroco, Finance and Transformation Director
I think it's important to understand this journey of e-cigarettes. Because like three, four years ago, no one could believe that we could take the leaders of the market in terms of share. And we came as a second player. And then, a lot of people didn't

understand our strategy for discounts on device. And this is the same kind of questions that we face today in terms of THPs; more or less, the same type.

The strategy was very simple. We need consumer trial. We were up to a very dominant player at that time. So, we discount on device. We always knew that the offer that we had was very competitive and more compelling than the current leader. And at the same time, we started building the brands.

And so, this has translated into our ability to attract more and more consumers. And as we go along, we have reduced the levels of discount on device and we have increased the price on the consumables.

Today, we have a very well established #1 brand in the market, like you said, and we are 130 price-index to the second one. And I think that the U.S. vapor market has opportunity still on pricing, but I would say that the biggest opportunity we have is for the FDA to create a level playing field. Because we still see 30% of the market under these disposables, synthetic nicotine. As you know, the FDA was given the mandate early in the year to look after that, as they do for nicotine and tobacco products. And they have already started action on that. It's a question now of enforcement. We know that they are sending a lot of letters to 200 different manufacturers in terms of asking them to withdraw the products out of the market, and I think that this will make a massive difference for us in terms of occupying that space once this level playing field is created.

Gaurav Jain, Barclays
Sure. So, you mentioned your (inaudible) strategy right now that you're discounting devices and what you're trying to do is consumer trial. And what you have shared in your presentations is that your consumable index, I think, is about 90% of the industry leader; but clearly, you're discounting devices heavily. And the question becomes that, does it imply that your terminal margins will be much lower than what your competitor, which

is Philip Morris, is doing with its high-cost product? Because finally, your pricing will be set low, and if in the minds of consumers it's a discount product, then it's very hard to change that price position.

Tadeu Marroco, Finance and Transformation Director
We have to bear in mind that all these products are very new. Like, back 2016, that it was just starting. It's like you take the iPhone of today, that they're basically announcing a new one, and compare with the 2007 to see how different they are. And it will be the same for these products. So, if you go forward two, three years' time, they will look very different.

So, what you see today is not necessarily what will persevere over time. That's why we invest so much in terms of innovation. We have just created a new center in Xinjiang, in China, a global device center, to improve our connection with third parties and be able to generate the new generation of device, not just for THP, but also vapor as well.

So, what we are trying to do on the device is exactly the same strategy we applied in vaping in the U.S. The consumers, we are trying to create different tier points in the different markets. On average, it's 90%. But we are taking price. As a consequence, you see the revenue in the first six months of the year is already ahead of the volume increase, which means that we are working on pricing in THP, as well, in the right direction.

And we expect now to continue growing and continue to add to the margins. Because one thing that people sometimes miss, in Europe, in particular, for example, BAT cigarette business is pretty much focused on the value-for-money, low end. And when we migrate smokers out of cigarettes to THP, on top of making a massive health impact, positive health impact, financially it's fantastic, it's very accretive. And even if you imagine that this level of excise in THP will increase over time, that is still a lot of opportunity in terms of scale and reducing COGS.

So, I have no doubt that we're going to end up with a business that has higher margins than the current one that we have in that space. So, that's where we are focused on.

Gaurav Jain, Barclays
Sure. And given a 2025 target, £5 billion, from NGPs and also that that's when you will break even. And I guess you haven't given the individual breakup between THP, e-cigarettes, and modern oral, but if we just assume based on what you report what are the growth rate assumptions around different segments, then it would suggest that your THP revenue needs to be almost $3 billion – I'm talking dollars now; I cannot (inaudible); but £5 billion is a pound number – it almost needs to be a $3 billion kind of number before you will break even. Is that the right sort of revenue number you need on THP?

Tadeu Marroco, Finance and Transformation Director
We haven't disclosed this by category, because the regulatory environment also changes. But we are clearly well positioned to get to the £5 billion. We have rather two fantastic brands in vapor and THP that is getting even better now. We will be getting from the £2 billion 2021 numbers to the £5 billion 2025 with a combination of share growth within the category and the category growing. I would say 60/40. That's, more or less, what we have in our models.

So, we expect 60% of our growth from the £2 billion to £5 billion coming from us growing, continuing to grow share within the category. And remember, THP, we are adjusting 20%. So, there is plenty of white space for us there. Even in vaping, that we are reaching something like close to 35%, there is still plenty of space for us to grow there.

And the other 40% is the categories growing, because we are seeing an acceleration in terms of consumers' more and more interest. And as the products get better, it becomes easier for them to not just move from cigarettes to those products, but move in a single basis – not as a dual user, but as a single user –

because they are satisfied with what they can find on the other side.

So, this gives us all the reassurance that we need when we pull together all the new platforms and innovations that we have put in place, the pipeline that we have built, plus the plans that we have to (inaudible) expansion to get there.

Gaurav Jain, Barclays

Sure. Now, if I look at what Philip Morris is saying with the IQOS and the new device launch, and they are making now a device for emerging markets, and when I look at they keep sharing market share data in some of these countries like South Africa, Malaysia, Romania, these are all what would be considered as BAT countries because of a very high market share, and yet it seems you haven't either launched glo aggressively in these markets, or you're large but not sharing with us. So, how do you –? What would be your plan for markets like these, where you have a dominant market share and IQOS has been launched? Will you launch glo? Will you launch e-cigarettes?

Tadeu Marroco, Finance and Transformation Director

The point that is important to notice here is that consumers are different. The tastes, cigarette tastes, are completely different. If you go to a place like Japan, for example, the level of tar and nicotine is three milligrams. And so, it's very easy to see why THP got a lot of traction in Japan, got the level of satisfaction was not that much dissimilar. If you go to a place like Canada, that was one of the highest tar and nicotine, you see that THP struggled a lot to get traction in Canada.

So, first of all, consumers are different. Tastes of cigarettes are different. And the regulatory environment is different, as well. In Japan, I cannot sell anything related to nicotine with liquids, for example. So, vapor is banned completely.

And that's the reason why we decided to go at the onset to a multi-category. And this allows us to have a very strong competitive advantage in terms of consumer insights, because we can have consumer insights based on all these different categories. The three categories (inaudible). And we use that in order to make decision in terms of capital allocation, in terms of resource allocation, not just for basing what we believe that will be more successful to migrate smokers towards these products, and also financial return.

So, we will take South Africa, for example. We are very happy with the performance of vaping. Our vaping volumes in the first half of this year is three times more than was the same period last year. We are also testing – are now going for the second pilots of Velo in Johannesburg in some specific channels. So, in specific accounts, we have finished the first pilot. Very successful. We are going now for the second pilot. So, we believe that vaping and modern oral, for example, is getting a lot of traction in South Africa, specifically.

Romania, different. I think we all agree that THP is a strong category there. We have tried vapor before. We know why it's not a winning category at this point in time. So, we are – and we have something like 20% of the category share.

Malaysia, I will not disclose our commercial plans, but there is still a lot of movements in the regulatory environment there. So, we are waiting for that, as well.

But more important, the message here is that the fact that we have moved category and consumer insights that was generated based on this experience allow us to have a very, very specific criteria in terms of resource allocation that could be successful in terms of transforming the company, in terms of moving smokers out, and financially as a consequence of that.

So, that, for me, is the key message, and we are being using this activity, moving forward. One-size-fits-all has never been our playbook. People believe, "You are in the three categories. So, you have to be in every geography." No, that's not the case. We never thought that would be the case, and I think that our experience so far is proving that.

Gaurav Jain, Barclays
Sure. I will like to open it up to the floor if there are any questions.

So, I will continue, and let's go to the last NGP category, which is modern oral. And you have been enormously successful in Scandinavia. In U.S., you have not been successful. And then you also have spoken about launching in different markets. You mentioned Indonesia, Pakistan, some of these markets, in the past. So, which of the international markets do you think can become big enough in the next couple of years to, let's say, rival Scandinavia?

Tadeu Marroco, Finance and Transformation Director
We are seeing traction in a lot of European markets, first of all, not just the Nordics. Nordics, as you know, has a very strong tradition in terms of oral tobacco. By the way, that's one of the most successful examples of tobacco harm reduction that we can find in the world. In Sweden, they have been incentivizing oral tobacco for a while. And the incidence of cigarette today is 6% in Sweden. When you reach the 5%, you're basically considered smoke-free. So, that's why we believe that the most effective way to migrate smokers out of cigarettes toward those products is actually from the regulatory stance, which means communications, availability, and so on.

But we are also seeing traction in places like Europe, in general. So, U.K., for example, the incidence of modern oral is already 1.5% of the total nicotine, which from scratch a couple of years ago. We have just took leadership, with 50% of market share in Velo. We were just awarded the Product of the Year in terms of modern oral in the U.K. So, it's another example.

And we are seeing the same in Switzerland. We are seeing the same in different places in Europe, in general.

So, clearly, there, there is a lot of space, white space. And what we are now trying – and I just mentioned to you the pilot in South Africa. The same is happening in Pakistan. So, we believe that the modern oral – because of affordability, as well – has a lot of potential in those markets, in emerging markets, in general. And we believe that will be the case.

Now, the U.S. I just want to make a comment in the U.S., because the market in the U.S. is regulated by the FDA, as you know. And the products that exist in the U.S. today were deemed regulator-approved back in August 2016. So, just the products that were in August 2016 are allowed to stay in the market.

And that's the reason that the category here is very different, as a whole. It's not just BAT products. The category here, the level of moisture, for example, is much lower than the ones that you find outside. And this translates into a very high incidence of multi-users, a very high incidence of low average daily consumption. The daily consumption in the U.S. is between two to three pouches, as opposed to six, seven pouches that you'll find, for example, in places where you have the other type of product.

So, what we have done in the U.S. is apply for a PMTA of our international product, which is not the one that we sell currently, and bring it here and try to transform the category here, moving from 90%-plus of multi-users, (inaudible) users, towards a more solo-users category as the product improves. So, that would be our strategy. And meanwhile, we'll continue to explore this white space that I just referred to outside.

Gaurav Jain, Barclays
Sure. Well, I think we have run out of time here, Tadeu.

Tadeu Marroco, Finance and Transformation Director
Okay.

Gaurav Jain, Barclays
Thanks a lot for your time. We are moving to a breakout room just around the corner. So, please feel free to (inaudible).

Tadeu Marroco, Finance and Transformation Director
Okay. Thank you very much for your time.

Gaurav Jain, Barclays
Thank you.

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