## Business Update

Reynolds American Inc.

## Overview

Susan Cameron
President and CEO, RAI

## Forward-looking information

This presentation contains forward-looking information. Future results or events can be impacted by a number of factors that could cause actual results to be materially different from our projections. These factors are listed in RAl's full-year 2015 earnings release and in the company's SEC filings. Except as provided by federal securities laws, RAI is not required to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## Web and Social Media Disclosure

RAl's website, www.reynoldsamerican.com, is the primary source of publicly disclosed news, including our quarterly earnings, about RAI and its operating companies. RAI also uses Twitter to publicly disseminate company news via @RAI News. It is possible that the information we post could be deemed to be material information. We encourage investors and others to register at www.reynoldsamerican.com to receive alerts when news about the company has been posted, and to follow RAI on Twitter at @RAI News.

## Adjusted vs. GAAP

RAI management uses 'adjusted' (non-GAAP) measurements to set performance goals and to measure the performance of the overall company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these metrics. 'Adjusted' (non-GAAP) results are not, and should not be viewed as, substitutes for 'reported' (GAAP) results. A reconciliation of GAAP to Adjusted results is at the end of this presentation.

## Agenda

- Overview
- Susan Cameron - President and Chief Executive Officer, RAI
- Operating companies' business and brand highlights
- Debra Crew - President and Chief Operating Officer, R.J. Reynolds Tobacco
- Financial and integration update
- Andrew Gilchrist - Chief Financial Officer, RAI
- Closing comments / Q\&A
- Susan Cameron



## Successfully integrating Newport

Delivered strong 2015 performance
Increased dividend twice in past 6 months
Reduced debt, initiated tender offer for
further repayment of outstanding debt
On track in capturing synergies

## Other key developments

- Sale of Natural American Spirit business outside U.S. to JT Group
- Tender offer / redemption of RAI debt
- Creation of RAI Innovations Company
- R.J. Reynolds / BAT vapor collaboration agreement


## Our vision and strategy, current environment performance drivers



## An all-star lineup

Brands positioned to win in key categories

- Cigarettes
- Moist
- Snus
- NRTs
- Vapor



Strong brands in key categories
Leaders in developing innovations
Efficiency and productivity gains
Superior consumer and trade marketing
Highly engaged talent base

## Delivering excellent total shareholder return

Since 2004 ...


## Business \& brand highlights

Debra Crew
President and COO
R.J. Reynolds

## Agenda

- Industry dynamics
- RAI operating companies update
- Innovation review
- Summary


## Competitive landscape

New ‘Big 3’ represent:
90\% of combustibles

- Altria

90\% of moist snuff
85\% of snus
35\% of e-cigarettes

## Cigarette industry dynamics

- Macroeconomic factors are positive for industry - Stronger volume trend in 2015: less than 1\% decline
- Adult smokers' preference for menthol
- Migration and poly-use more prevalent
- Moderate up-trading


## Positive macroenvironment

## Retail Gasoline Prices

(National avg. price - regular unleaded)


[^0]Unemployment Rates


## Menthol share poised for long-term growth



## Operating companies update

## Cigarette portfolio



## Cigarette portfolio strength



## Enhanced growth profile

RAI Operating Companies' Portfolio Market Share


## Complementary geographic strengths and momentum

RAI Operating Companies' Cigarette Share of Market


## Commercial strength across all key areas



Unique brand proposition, on trend with growing consumer sentiment

## Premium

## Value

Menthol


High menthol credibility Diverse, loyal buyer base
Unique product
Deep cultural connection


Highly differentiated Increasing menthol credibility

A great value and experience for the money

## R.J. Reynolds 2015 performance

## Volume <br> 71.3 <br> (BN) <br> +17.0\%

Retail Market Share
32.1\%
-0.1 ppt.

Adjusted
GAAP
Adjusted
2015 vs. 2014
Operating Income
$\$ 3.4$ (BN)
\$3.8
(BN)
$+43.1^{\%}$

Operating margin
38.9\%
44.4\%
+4.8ppt.

## Newport growth momentum

## Share of Market




CIGARETTES

## Trade-marketing impact



## Current



## Enhanced equity programming



- National consumer engagement
- Enhanced database reach
- Strong, relevant programming


## Demographics aligned with future



ASU30 Indices
200

0


## Newport menthol portfolio opportunity

Awareness
Adult Smokers 21+


## Newport non-menthol

Share of Market
1.6


## Camel

Share of Market


## Camel Menthol

Share of Market


## Powerful promotional programs

## m IN FOCUS PROJECT

- Most engaging Camel promotion to date
- Submit mobile-device photos for prizes
- More than 76,000 photos uploaded
- Over 2.5 million visits to www.Camel.com



## Favorable demographic profile



ASU30 Indices


## Camel SNUS

Share of Market


## Pall Mall

Share of Market



10


## Pall Mall performance

- Stable market share
- Growing financial contribution
- Unique and appealing brand equity


## Santa Fe 2015 performance

## Volume 4.8 (BN)

Retail Market Share
1.9\%

Adjusted
2015 vs. 2014

## Operating Income

\$449
(Mn)
$\$ 448$
(Mm)
+33.1\%

Operating margin
54.9\%
54.8\%
+3.6ppt.

## Natural American Spirit

Share of Market



Moist snuff

## American Snuff 2015 performance

## Volume

499.1
(MM)

Retail Market Share
33.5\%

## +0.6ppt.

GAAP
Adjusted
2015 vs. 2014

## Operating Income

\$502
(Mn)
\$503
(MM)
+13.9\%

Operating margin
58.7\%
58.8\%
+2.4ppt.


## Grizzly leads moist snuff

## Share of Market


$\pm \pm 1 / \mathrm{R}\| \| \mathrm{H}$


LONG CUT $_{46}$

## Grizzly's competitive advantage



Preferred Wintergreen - No. 1 SKU in fastest growth area
Superior Pouch - Better mouth feel and convenience
Broader range - More Pouch and Wintergreen offerings
Consumer advantages - Positive switching, driven by ATU30

## Innovation review

## Innovation essential for category growth

Usage of Vapor Products

| Adult Smokers 21+ | 2012 | 2013 | 2014 | 2015 |
| :--- | :--- | :--- | :--- | :--- |
| Trial - Vapor | $37 \%$ | $49 \%$ | $58 \%$ | $62 \%$ |
| Loyal (Vapor Only) | $3 \%$ | $5 \%$ | $6 \%$ | $7 \%$ |



Vapors are looking for performance of a tank with simplicity of a cig-a-like

## VUSE evolution and innovation

Superior products
Superior performance Trusted brand

Cig-A-Like Platform


## VUSE expanding market leadership



## R.J. Reynolds / BAT vapor tech-sharing

- Marriage of world-class vapor expertise and capability
- Competitive advantage in tobacco transformation
- Agreement signed Dec. 1, 2015
- Collaboration / IP licensing of vapor technologies
- Agreement runs through 2022



## ZONNIC \& Heat-not-Burn - Truly innovative products

Leveraging consumer desire for alternative products

Continue learnings from marketplace

Aligns with tobacco harm reduction


## ZONNIC highlights

National distribution in more than 30,000 outlets

Building the NRT category in convenience / gas

Supported by merchandizing \& TV advertising

1 in 5 purchases of NRT-coated gum is ZONNIC

## Strongest portfolio dynamics in the industry

Newport

- No. 1 menthol brand in the U.S.

C尹MEL

## PALL MALL


©VUSE

- No. 1 vapor brand
- Superior technology
- No. 3 brand in the U.S.
- No. 1 value brand in the U.S.
- No. 1 super-premium brand
- Fastest growing brand in the U.S.

$$
\text { - No. } 1 \text { brand in the moist-snuff industry }
$$

- Leading total tobacco brand



## Financial update

Andrew Gilchrist EVP \& CFO, RAI



Focused on cost management

Strong balance sheet, cash flow
Commitment to investment-grade rating
Leveraging value-enhancing opportunities
Returning value to shareholders


De-leveraging is priority focus

Target dividend payout ratio of 75\%

Consistent operating income, EPS and dividend growth

## Strong 2015 RAI performance

Adjusted
2015 vs. 2014
GAAP
\$6,953
Adjusted
$\$ 4,438$
+42.9\%
Net income
\$3,253
\$2,509
+37.0\%
EPS
$\$ 2.57$
\$1.98
+15.8\%
Operating margin
65.1\%
41.6\%
+4.9ppt.

## EPS has doubled since 2004



Reconciliation of GAAP to Adjusted results is in Appendix 1

## Returning value

- $\$ 12$ billion in dividends paid since 2004
- $\$ 2.7$ billion in share repurchases since 2004
~\$15 Billion



## Attractive dividend

- Annualized split-adjusted $\$ 1.68$ per share
- Up 35 percent in last three years, 250 percent since 2004


| Corillard | \$27B purchase price, closed on 6/12/2015 |
| :---: | :---: |
|  | \$7.1B divestiture package to Imperial Tobacco |
|  | \$800M of identified synergies, \$500M on Day 1 |
| upda | 18-month period to achieve synergy run-rate |

Revenue synergies being realized

## Proven track record of capturing cost savings



## Intense focus on efficiency

Continued productivity improvements

Results reflected in strong adjusted operating margin improvement

Future impacts from international sale of Natural American Spirit
\$5B sale of NAS business outside U.S.

Approximately \$3.2B proceeds, net of tax

Minimal impact to ongoing operating income

1. Balance sheet metrics

Financial priorities for use of excess
cash
2. Dividend payout
3. Share repurchases


Tender offer for outstanding debt underway

Reach targeted leverage range by year-end

Evaluate share repurchases and dividend payout target after de-leveraging


## 2016 earnings guidance

- Adjusted EPS of $\$ 2.25$ to $\$ 2.35$
- Adjusted EPS growth of 13.6\% to 18.7\%


## Summary



Solid balance sheet, cash flow

Strong and growing margins
Consistent earnings growth
Strategic transactions driving transformation
Compelling shareholder value creation

## Excellent total shareholder return

Outpacing S\&P 500 over the long term


## Closing comments

Susan Cameron



Now a bigger business, stronger competitor

Leader in key growth categories

Bold, innovative, driving change in our industry
Continuing focus on shareholder value


RAl management uses "adjusted" (non-GAAP) measurements to set performance goals and to measure the performance of the overall company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these metrics. "Adjusted" (non-GAAP) results are not, and should not, be viewed as, substitutes for "reported" (GAAP) results.

|  | $\underline{20041,2}$ | $\underline{2005}{ }^{2}$ | $\underline{2006}{ }^{2}$ |  |  | $\underline{2009}$ |  |  |  |  |  | $\underline{2015}$ |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| GAAP Operating Income: | \$882 | \$1,459 | \$1,930 | \$2,418 | \$567 | \$1,763 | \$2,432 | \$2,399 | \$2,214 | \$3,132 | \$2,531 | \$6,953 |
| The GAAP results include the following expense (income): |  |  |  |  |  |  |  |  |  |  |  |  |
| B\&W/Lane GAAP results | 328 |  |  |  |  |  |  |  |  |  |  |  |
| Proforma adjustments | (128) |  |  |  |  |  |  |  |  |  |  |  |
| Premerger B\&W integration costs | 35 |  |  |  |  |  |  |  |  |  |  |  |
| Goodwill and trademark impairment charges | 199 | 200 | 90 | 65 | 318 | 567 | 32 | 48 | 129 | 32 |  |  |
| Restructuring charge | 5 | 2 | 1 |  | 90 | 56 |  |  | 149 |  |  |  |
| Merger integration costs | 130 | 107 | 45 |  |  |  |  |  |  |  |  |  |
| RAI settlements | 50 |  |  |  |  |  |  |  |  |  |  |  |
| Phase II growers'trust offset | (69) | (27) |  |  |  |  |  |  |  |  |  |  |
| RAI returned goods reserve adjustment | 38 |  |  |  |  |  |  |  |  |  |  |  |
| Federal tobacco buyout assessment |  | 81 | (9) |  |  |  |  |  |  |  |  |  |
| Loss on sale of assets |  | 24 |  |  |  |  |  |  |  |  |  |  |
| Implementation costs |  |  |  |  |  |  | 60 | 23 |  | 24 | 16 | 223 |
| Scott lawsuit |  |  |  |  |  |  |  | 139 |  |  |  |  |
| Engle progeny lawsuits |  |  |  |  |  |  |  | 64 | 37 | 18 | 100 | 127 |
| Other tobacco-related litigation charges |  |  |  |  |  |  |  |  | 5 | 34 | 2 | 25 |
| Asset impairment and exit charges |  |  |  |  |  |  | 38 |  |  |  |  | 99 |
| Gain on divestiture |  |  |  |  |  |  |  |  |  |  |  | $(3,181)$ |
| Benefits from NPM Settlement and 2003 claim |  |  |  |  |  |  |  |  |  | (219) | (34) | (108) |
| Transaction-related costs |  |  |  |  |  |  |  |  |  |  | 38 | 54 |
| MTM pension/postretirement adjustment | - | - | - | (43) | 1,527 | $\underline{49}$ | $\underline{110}$ | $\underline{145}$ | 329 | - | $-$ | 246 |
| Total adjustments | 588 | 387 | 127 | $\underline{22}$ | 1,935 | 672 | 240 | 419 | 649 | (111) | 574 | $(2,515)$ |
| Adjusted operating income | \$1,470 | \$1,846 | \$2,057 | \$2,440 | \$2,502 | \$2,435 | \$2,672 | \$2,818 | \$2,863 | \$3,021 | \$3,105 | \$4,438 |
| Net income per diluted share: |  |  |  |  |  |  |  |  |  |  |  |  |
| Reported GAAP | \$0.69 | \$0.89 | \$1.03 | \$1.18 | \$0.38 | \$0.82 | \$0.96 | \$1.20 | \$1.12 | \$1.57 | \$1.37 | \$2.57 |
| Non-GAAP adjusted | \$0.83 | \$0.98 | \$1.02 | \$1.19 | \$1.20 | \$1.32 | \$1.32 | \$1.41 | \$1.49 | \$1.59 | \$1.71 | \$1.98 |
| Net Sales | \$8,323 | \$8,256 | \$8,510 | \$9,023 | \$8,845 | \$8,419 | \$8,551 | \$8,541 | \$8,304 | \$8,236 | \$8,471 | \$10,675 |
| Operating margins: |  |  |  |  |  |  |  |  |  |  |  |  |
| GAAP | 10.6\% | 17.7\% | 22.7\% | 26.8\% | 6.4\% | 20.9\% | 28.4\% | 28.1\% | 26.7\% | 38.0\% | 29.9\% | 65.1\% |
| Adjusted | 17.7\% | 22.4\% | 24.2\% | 27.0\% | 28.3\% | 28.9\% | 31.2\% | 33.0\% | 34.5\% | 36.6\% | 36.7\% | 41.6\% |

[^1]
## REYNOLDS AMERICAN INC

Reconciliation of GAAP to Adjusted Operating Income by Segmen
(Doliars in Milions)
(Unaudited)
The R.J. Reynolds segment consists of the primary operations of R.J. Reynolds Tobacco Company, the second-largest tobacco company in the United States and which also manages a contract manufacturing business.
The Santa Fe segment consists of the primary operations of Santa Fe Natural Tobacco Company, Inc., which manufactures Natural American Spirit cigarettes and other additive-free tobacco products.
The American Snuff segment consists of the primary operations of American Snuff Company, LLC, the second-largest smokeless tobacco products manufacturer in the United States.
Management uses "adjusted" (non-GAAP) measurements to set performance goals and to measure the performance of the company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these metrics.

GAAP operating income

| 2015 |  |  |  |  | 2014 |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| R.J. Reynolds |  | Santa Fe | American Snuff |  |  | Reynolds | Santa Fe |  | American Snuff |  |
| \$ 3,359 | \$ | 449 | \$ | 502 | \$ | 2,173 | \$ | 337 | \$ | 438 |

The GAAP results include the following:
Mark-to-market pension/postretirement adjustments ${ }^{(6)}$
Implementation costs ${ }^{(2)}$

| 229 |  |
| :---: | :---: |
| 198 |  |
| $(93)$ |  |
| $(14)$ |  |
| 127 |  |
|  |  |
|  | 472 |
|  | 3,831 |

2003 NPM Adjustment Claim
One-time benefit from the NPM Settlement
Engle Progeny cases
Tobacco Related and Other Litigation
Total adjustments ${ }^{(1) ;}$; 3 ) (4); (5)
Adjusted operating income

422
16

For the twelve months ended Dec 31,2015 , RAl and its operating companies recorded aggregate transaction related cost adjustments of $\$ 54$ million which are included in corporate costs.
${ }^{22}$ For the three and twelve months ended Dec 31,2015 , RAA and its operating companies recorded aggregate implementation cost adjustments of $\$ 26$ million and $\$ 223$ million, respectively, including $\$ 16$ million and $\$ 25$ million, respectively, in the corporate and all other segment.
${ }^{(3)}$ For the twelve months ended Dec 31,2015 , RAI and its operating companies recorded aggregate ajustments of $\$ 99$ million in asset impairment and exit charges which are included in the all other segment:
${ }^{(4)}$ For the twelve months ended Dec 31 , 2014, RAA and its operating companies recorded aggregate adjustments of $\$ 2$ million in tobacco related and other litigation charges which is included in corporate costs
${ }^{(5)}$ For the three and twelve months ended Dee 31,2014 , RAI and its operating companies recorded aggregate adjustments of $\$ 15$ million and $\$ 38$ million, respectively, in transaction related costs which are included in corporate costs
${ }^{(5)}$ For the three and twelve months ended Dec 31,2015 , and Dec 31,2014 , RAl and its operating companies recorded aggregate mark-to-market adiustments of $\$ 246$ million and $\$ 452$ million, respecively, including $\$ 16$ million and $\$ 26$ million, respecively, in the corporate and all other segment.


[^0]:    Source: Bloomberg

[^1]:    (1) Includes proforma GAAP adjustments as if the merger of B\&W/Lane had been completed on January 1,2004
    (2) Not adjusted to reflect change in accounting for pension and postretirement.

