Quality Growth – New Consumer Experiences
Matthew Phillips, Chief Development Officer
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Consumer Needs
More consumers, more occasions

Vitality  Enjoyment  Conviviality
Power     Social     Dimension
Recognition  Personal
Control  Security  Belonging
Future Opportunity
Nicotine without tobacco

Consumers have enjoyed nicotine in different formats for centuries
Consumers
The experience and rituals of smoking but without tobacco

Tobacco
- Combustible tobacco products
- Heated and hybrid tobacco products

Non-Tobacco
- e-vapour
- Nicotine replacement therapy
Fontem Ventures

- Established Fontem Ventures
- Built our know-how
- Acquired and developed IP
- Acquired blu
- Assembling the technology roadmap
Quality, Agility, Discipline
E-vapour

- Best brand in blu
- Pursuing best experience through technology

- Lean and scalable operating model
- Science and regulation will shape category

- Build presence in 4 key markets then scale
- Licensing 1st generation technology
Quality Growth – Our Assets and Strategy in E-vapour
Arthur Van Benthem, CEO, Fontem Ventures
E-vapour does not Fully Satisfy Smokers …Yet

- 85% of US smokers are aware of EVPs
- 57% of US smokers have tried
- Only 6.5% are loyal users
- 80% of regular vapers continue to smoke

- Low conversion rates, despite high awareness and availability
- Reflecting smoker dissatisfaction with EVP performance
- “an eVape is just not a cigarette”
Endorsement is Building in Europe

Public Health England

• “e-cigarettes are 95% less harmful to your health than normal cigarettes”
• “helps most smokers to quit tobacco altogether”

Royal College of Physicians

• “regulation should not be allowed to significantly inhibit the development and use of EVPs”

Haut Conseil de la Santé Publique

• “today the work of the HCSP shows that e-cigarettes can be considered as a tool for tobacco cessation for smokers… and constitutes a harm reduction tool”
FDA Deeming Regulations

• Near term - compliance and costs will push out least reputable suppliers

• Longer term:
  – quality of EVP products will improve
  – sales through legitimate retailers
  – positive impact on our market share and margins

• Concern - product authorisation process slows innovation
Expected Growth of E-vapour?

80% in 4 markets today
US, UK, France & Italy

90% in 7 markets by 2020
Plus: China, Poland & Germany

Technology & Science
Unlocks growth

Growth
Not linear

\$34B Wells Fargo
\$21B Canaccord Technavio

Quality Growth – Science of E-vapour
Joe Thompson, Director Product Science
Answers to the 4 Big Science Questions

1. What impact do EVPs have on consumers?
2. What impact do EVPs have on bystanders?
3. Do EVPs re-normalise or act as a gateway to tobacco?
4. What is the addictiveness and health impact of nicotine?
Impact of EVP on Consumers?

>98% reduction of harmful chemicals

Impact of EVP on Consumers?
Reduced toxicity in vitro

Supported by Clinical Trials

Source: D’Ruiz, C. Evaluation of biomarkers of smoke exposure in adult smokers following dual use and complete substitution of cigarettes with electronic cigarettes. Tobacco Science Research Conference 2015.
Impact Of EVP On Bystanders?

80% reduction
At background level

Conventional Cigarettes

EVP
Air

Source: Grant O'Connell, Stéphane Colard, Xavier Cahours and John D. Pritchard; An Assessment of Indoor Air Quality before, during and after Unrestricted Use of E-Cigarettes in a Small Room. International journal of environmental research and public health 2015, 12, 4889-4907.
Q3 EVP Act as a Gateway to Tobacco?

- EVP being a gateway to smoking is not evidence based
- Two behavioural studies by the UK Centre for Substance Use Research*

**US study**
- Investigating EVPs and smoking initiation, relapse and dependency on nicotine
- 30,000 vapers enrolled

**UK study**
- EVPs are a roadblock to smoking initiation, not a gateway
- EVPs de-normalise smoking, rather than re-normalise it

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*Studies funded by Fontem Ventures*
**Q4 Addictiveness and Health Impact of Nicotine?**

<table>
<thead>
<tr>
<th>Nicotine is regarded addictive</th>
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<tbody>
<tr>
<td>• Nicotine is regarded as addictive</td>
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<tr>
<td>• EVPs meet consumers smoking-ritual needs</td>
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<td>• Growing evidence that EVPs support smoking cessation</td>
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<th>No toxicity concern</th>
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<td>• No toxicity concern with nicotine in the small doses in an EVP</td>
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<th>Long term health risks?</th>
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<tr>
<td>• USSG: Science is inadequate to conclude either way on nicotine and cancer</td>
</tr>
<tr>
<td>• Any long term risks are unknown</td>
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<tr>
<td>• Further long term research is required</td>
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Answers to the 4 Big Science Questions

1. What impact do EVPs have on consumers?
2. What impact do EVPs have on bystanders?
3. Do EVPs re-normalise or act as a gateway to tobacco?
4. What is the addictiveness and health impact of nicotine?

Consumer perception and behaviour assessment
Post-market surveillance
Quality Growth – Our Strategy in E-vapour
Arthur Van Benthem, CEO, Fontem Ventures
blu Strategy

Global
- blu
- Product range

Invest
- Brand
- Innovation
- Digital

Build
- Lean and scalable operating model

Profitability
- 4 markets
- IP licensing
blu is the Best Brand

- The consumer preferred e-vapour brand
- Enjoy your moment, your truth, and make it matter!
Quality Growth

- Market
- Conversion
- Growth momentum
- Best product, best brand
- Consumer loyalty

Source: Nielsen retail audit
Daily gross margin earned with cigarettes and blu from an average consumer in the USA

- Cigarettes: £0.50
- blu G2: £0.58
- blu G3: £0.67
Sources Mainly from Lower Tar and Menthol
Four Levers to Drive Quality Profit Growth

- Pricing
- Trade margin
- Economies of scale
- Online
Roadmap to a ‘Better than a Cigarette’ Consumer Experience

Vape

Kick

Draw

Hit

Vaping

Flavour

Design

Accessories
Convince Yourself…

G3 works like a cigarette

- Responsive
- Choice
- Style
- Familiarity
- Simplicity
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