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Response to Company Feedback

TOBACCO TRANSFORMATION INDEX

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Introduction

Background

The 2020 Tobacco Transformation Index represents the first comprehensive effort to evaluate tobacco companies' commitments and actions as they relate to tobacco harm reduction. Specifically, the 2020 Index assesses tobacco companies' activities concerning:

1. Phasing out high-risk tobacco products;
2. Developing and responsibly offering reduced-risk alternatives to support current users to move away from high-risk products;
3. Preventing access and marketing of such alternatives to all non-smokers and non-users of high-risk products, especially youth; and,
4. Ensuring consistency of tobacco harm reduction activities across all markets of operation, within regulatory guidelines.

Industry Consultation

Development of the Index began with extensive engagement with non-industry stakeholders. This process was established to ensure that these stakeholders could express their views openly and free from any concern about industry bias or influence. Through a subsequent process, and in accordance with best practice demonstrated by other index initiatives, the Index team approached the companies to inform them about the Index program, obtain their feedback on proposed indicators, and invite them to share data to be evaluated by the Index.

An extensive list of contacts was assembled for each company by reviewing company websites and leveraging networks in the tobacco industry. Following an introductory email from the Foundation for a Smoke-Free World, Euromonitor International reached out to companies via an Index-specific email address (tobaccotransformationindex@euromonitor.com). Each company received an introductory email and Index Design (November 11), Preliminary Methodology (March 9), multiple follow-up emails, and phone calls to confirm addresses and receipt of the messages. For companies located in non-English speaking countries, Euromonitor International leveraged its network of in-country researchers working on the project to reach out to companies via phone.

An additional consultancy was engaged to contact China National Tobacco Corp (CNTC). However, due to the evolving COVID-19 situation in China, they were unable to fulfill their role. As such, Euromonitor International took over consultation with CNTC and contacted the company in April 2020.

Half of the companies contacted replied to the invitation to engage with the Tobacco Transformation Index. Four companies shared feedback on the Preliminary Index Methodology, three of whom accepted further engagement via conference call. Each company had separate calls with the Index team to discuss the schedule for consultation; feedback on categories, subcategories, and indicators; and any specific questions about the Index program. All conference calls resulted in an open and productive discussion; companies shared inputs beyond the initial feedback and noted the constructive spirit of the consultation. The company feedback process was facilitated by Euromonitor International on an individual basis, allowing for no interaction among companies. Given the strict principles of transparency and accountability, the Index team communicated to tobacco companies that the timing, nature, and content of interactions with companies would be publicly disclosed. Consultation summaries were shared with participating companies after the conference calls and have been included in the Industry Consultation Summary available at tobaccotransformationindex.org.

All companies, whether participating or not, continued to receive follow-up emails and updated material such as the Preliminary Index Methodology and preliminary data set, in order to ensure that all companies were provided with relevant information and had equal opportunity to respond.

Response to Industry Feedback

This document consolidates and responds to written questions and comments the Index team received from companies. Company questions and comments are grouped by topic. The consolidated response covers several areas of interest, including product classification, index design, and methodology. In the spirit of transparency that guided all stakeholder engagements concerning the Index, this document was shared with all companies that provided feedback and is accessible to all stakeholders via the Index website.

Questions and comments are not attributed to any single company and may in some cases represent combined commentary from potentially several companies. While certain companies voluntarily and independently provided feedback regarding the Index, this process was not indicative of actual or intended coordination. The Index development process included safeguards to ensure that data were not shared between competitors.

Feedback on Product Classification

1. Company Feedback/Question

Companies inquired about the extent to which available research and existing consensus was utilized to determine product classifications:

- The classification of open vaping systems, closed vaping systems, heated tobacco products (HTPs), and snus as reduced-risk products was discussed, with the argument that it could lead to misrepresentation. Feedback quoted as supporting evidence the World Health Organization's (WHO) conclusion that: "Currently, there is no evidence to demonstrate that HTPs are less harmful than conventional tobacco products."
- Concern was raised that the language and focus of the Index was centered on cigarettes, and it failed to capture a wide range of high-risk tobacco products such as bidi, cheroot, cigar, chuttah, hookah, pipe, chillum, hookli, dhumti, illicit cigarettes, gutkha, chewing tobacco, betel-quid, khaini, zarda, snuff, dokta, quimam, mishri, mawa, and pan masala.
- Additional feedback highlighted that there is considerable epidemiological analysis from the US illustrating that the use of moist snuff is less risky than cigarette smoking, but no epidemiological analysis of products that have been introduced in recent years, including vaping and heated tobacco products. As such, it was argued that moist snuff should be regarded as a reduced-risk product. However, other companies considered it a high-risk product category.

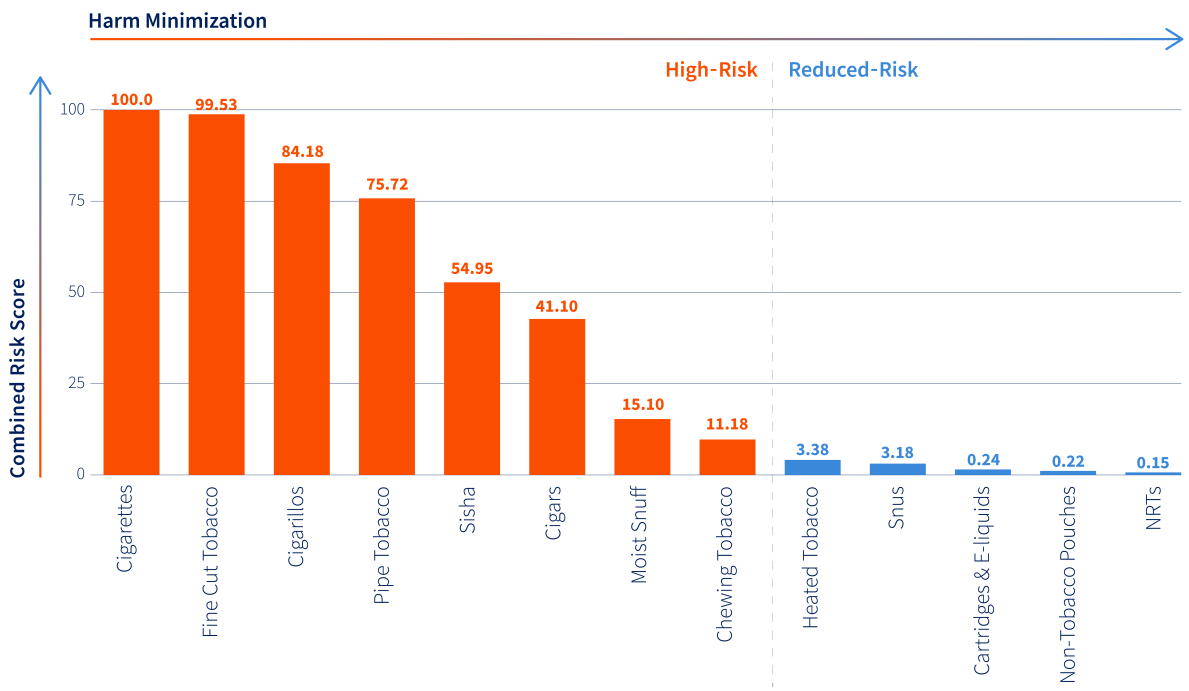
Response. The index referenced Abrams et al "Harm Minimization and Tobacco Control: Reframing Societal Views of Nicotine Use to Rapidly Save Lives" as an important source of scientific research used to identify a framework across the spectrum of high-risk and reduced-risk products.

During the consultation process, stakeholders accepted Abrams et al as a useful framework; however, many suggested that, while the framework is representative in principle, the availability of even newer products and information means this picture was likely to be incomplete, or that the order of some of the products on the continuum could be rearranged slightly over time.

Given the feedback, the Foundation for a Smoke-Free World commissioned an independent literature review of the scientific research pertaining to the relative level of risk of tobacco product categories. The Index team acknowledged that a clearer reference to the underlying evidence related to reduced-risk products would enhance the Index's value and justify the boundaries between different levels of product risk. The body of scientific research in this area will develop over time and can be expected to inform future iterations of the Index.

The relative risk hierarchy developed is based on a systematic review of previous scientific studies of the health risk associated with nicotine products. A total of 320 studies were reviewed in detail to extract risk data and assess the level of risk for each product type. The products were analyzed in terms of their toxin emissions and epidemiological data, which were combined on a scale from 0 to 100 (low to high risk) to derive a combined risk score for each product. Additional details on the relative risk assessment are available in the publication "Nicotine Products Relative Risk Assessment: A Systematic Review and Meta-analysis."[1]

The relative risk assessment, summarized in the adjoining figure, was leveraged to effectively evaluate was leveraged to evaluate companies' offerings and sales of reduced-risk products, and to further compare these according to their relative risk. To do so, the relative risk by product was used as a multiplier for each company's sales and offer in the high-risk and reduced-risk categories.[2] For example, volume sale of cigarettes was multiplied by the relative risk of cigarettes (100), while volume sale of chewing tobacco was multiplied by its relative risk (11.18), in order to reflect the different level of risk associated to each company's product sales and offer.[3]



[1] Murkett, R., Rugh, M. & Ding, B. (2020). Nicotine Products Relative Risk Assessment: A Systematic Review and Meta-Analysis.

[2] The relative risk assessment applied to the indicators in the following sub-categories: 2A Volume Sales of Tobacco Products; 2B Value Sales of Tobacco Products; 4A Product Portfolio (only for indicators 23 Ratio of Product Portfolio (Reduced vs High-Risk Products) and 24 Ratio of Product Portfolio (Reduced vs High-Risk Products) – Rate of Change).

[3] Please note that in the calculation of the ratio Reduced vs High-Risk Products, while the denominator (High-Risk Products) represents the aggregation of values for each High-Risk Product multiplied by its relative risk, the numerator (Reduced-Risk Product) represents the aggregation of values for each RRP multiplied by "risk spectrum operator" (100/ relative risk) to reflect the risk proportion between the different products classified as High and Reduced-Risk Products.

Cigarettes overwhelmingly constitute the largest category within high-risk products, accounting for approximately 95% of volume sales globally.[4] The categorization of high-risk and reduced-risk products used by the index is informed by the harm minimization continuum and can be found in the 2020 Index Methodology. Moist snuff is categorized as a high-risk product, although it resides at the lower end of the high-risk classification. Snus is categorized as a reduced-risk product. The Index team will continue to revisit this categorization as more research becomes available.

2. Company Feedback/Question

Companies mentioned that several countries had imposed bans on reduced-risk products. They highlighted that an underlying factor supporting e-cigarette bans is the uptake of electronic products by youth.

Response. Concerns over youth uptake have also been at the forefront of the public debate around reduced-risk products, and a key legislative focus. The index acknowledges the importance of robust measures to prevent youth access to both high- and reduced-risk tobacco products, and measured company behavior in this regard. The index holds that companies, while supporting current users in transitioning away from high-risk tobacco products, must mitigate potential unintended consequences of new alternatives, with a focus on avoiding non-smoker adoption and underage use, and an emphasis on clear health-risk communication and non-misleading advertising.

3. Company Feedback/Question

Company feedback on the product classification:

- Differentiation between US and European chewing tobacco and Asian-style chewing tobacco. It was argued that US and European chewing tobacco should be classified as reduced-risk.
- Classification of vaping products into “open systems” and “closed systems” is preferable than the classification into cartridges, e-liquids and single-use cig-a-like products.

Response. The Index team recognizes the difference in risk between US/European chewing tobacco and Asian-style chewing tobacco. Gutkha, which is produced in India and widely used throughout

[4] Estimate from Tobacco Transformation Index research.

Asia, is classified as a high-risk product. Gutkha is not in the scope of the 2020 Index since none of the ranked companies offer this product.

Vaping products are classified as cartridges and e-liquids rather than open systems and closed systems as sales of devices are not considered in the analysis of the sales volume transition from high- to reduced-risk products.

Feedback on Preliminary Index Methodology

Company feedback and corresponding responses from the Index team are organized by topic categories of measurement of the index.

Scope and Scoring

4. Company Feedback/Question
Companies suggested to simplify the index by removing some of the indicators.

Response. The indicators selected support the analysis of varied facets of company behavior and are thus considered necessary to monitor the relative progress of tobacco companies toward tobacco harm reduction. However, as the index methodology was refined and finalized in mid-2020, several indicators were eliminated or restructured.

The Supply Chain Transition category was excluded from the first edition of the Tobacco Transformation Index. The number of companies with public commitments to supply chain transition was extremely limited. As a result, the Index team judged that scoring the 15 companies in the category provided little value in establishing an effective relative ranking. The Index team considers the commitment to assessing the impact of the shift away from high-risk products on the entire supply chain, and programs to support farmers to transition, as a best practice from companies that pursue tobacco harm reduction. The Index team is committed to further evaluate the topic for potential inclusion in future iterations of the index.

Indicators in the Product Sales and Product Offer categories addressing the consistency of performance between low-medium and high-medium income countries were replaced by the LMIC vs HMIC multiplier. In the preliminary design, companies which do not currently operate in low-medium income countries were effectively penalized through the application of these indicators as their score would have equaled zero. To avoid this misevaluation, the indicators were replaced by the multiplier applied only to companies operating in LMICs through their high-risk product offer. Details on the LMIC vs HMIC multiplier is provided in the 2020 Index Methodology.

5. Company Feedback/Question

Companies sought clarification on whether the same weighting criteria would apply to all companies and how it would account for companies already focused on reduced-risk products. It was also highlighted that the evolution over three years might penalize companies that started the path to transformation before others.

Response. Each technical category, subcategory, and indicator is assigned a relative weight which represents its significance toward the goal of accelerating tobacco harm reduction. The weightings are applied equally for all the companies assessed in the index.

The index recognizes the importance of continuous improvement and the acceleration of change over time. Therefore, where applicable, performance is assessed on the basis of both point-in-time and rate of change indicators. The combination of the two provides a clear picture on where each company stands in the path toward tobacco harm reduction. Rate of change indicators and point-in-time indicators are equally weighted as both aspects are considered equally important in relation to harm reduction.

6. Company Feedback/Question

It was suggested that Scandinavian countries should be included in the scope of the index given the success in transitioning smokers to reduced-risk products, notably snus. The addition of countries where reduced-risk products are not banned was also suggested.

Response. Countries were identified considering three criteria:

- Largest countries by cigarette volume sales
- Largest countries by smoking population
- Representation of different world regions and low-medium income countries (LMICs)

While Scandinavian countries represent an interesting and important case study regarding tobacco harm reduction, current resources limit the selection to 36 countries identified according to the criteria described above. Future iterations of the Index may consider expanding the geographic scope to include more countries.

7. Company Feedback/Question

Companies argued that different attitudes and regulations in different countries would impact company activity, and therefore that scoring could be influenced by a given company's geographic footprint. This is particularly relevant in markets where certain reduced-risk products are banned, such as India and Australia. It was also asked whether the index would consider a company's migration to other industries as part of industry transformation.

Response. The Index team recognizes that the context in which companies operate varies significantly from country to country, and this affects individual companies' strategies, performance, and ultimate pathways to tobacco harm reduction. For this reason, the complementary country fact sheets provide information on the local context in which the companies operate. This includes relevant regulation, the prevalence and influence of the tobacco industry, and the state of smoking and public health in 36 countries as a mechanism to contextualize each company's score.

It is also envisioned that, in future iterations, the Index will provide a ranking of the companies at the country level, in order to support full cross-comparability in terms of regulations and the state of smoking and public health.

The Index seeks transformation not only of individual tobacco companies but of the entire tobacco industry. It is therefore focused on how companies are (or are not) operating, investing, and managing to help bring this about. Therefore, the Index does not consider companies' interests in sectors other than tobacco.

8. Company Feedback/Question

Companies suggested that the notion of low-middle income countries (LMICs) and high-medium income countries (HMICs) is difficult to establish and recognize. A recommendation was made to use OECD and non-OECD countries as the tiers to better map revenues.

Response. During the global consultation process, stakeholders strongly endorsed the Index's intention to differentiate between company behavior in low-middle income versus high-medium income countries. The index has adopted World Bank definitions, as they are focused on consumer income, which affects purchasing choice between reduced-risk and high-risk products. In particular, the World Bank currently divides economies into four income groupings: low, lower-middle, upper-middle, and high. For the scope of the index, two main income groups have been identified: LMIC

(low-medium income country), which corresponds to low- and low-middle income groups as per the World bank definitions: Gross National Income (GNI) per capita of USD12,375 or less; and HMIC (high-medium income country), which corresponds to upper-middle and high-income groups as per World Bank definitions : GNI per capita of USD12,376 or more.

Strategy and Management

9. Company Feedback/Question

Companies highlighted that indicators under the Strategy and Management category are subjective and as such should carry a lower weighting.

Response. The index considers that a company's commitment to tobacco harm reduction, embedding such commitment in business strategies and management systems as well as engaging with stakeholders, is the first step to achieve relevant results. Strategy and management are facets of company behavior that need to be addressed to evaluate a company's progress toward harm reduction. However, the index recognizes that these are qualitative indicators and therefore are subjective. As such, the identification of these indicators has emerged through a consensus of stakeholder views. Details on the metrics for each indicator are available in the 2020 Index Methodology, which provides details on the aspects considered. Reflecting these considerations, the Index team weighted this category lower than the performance categories such as Product Sales and Capital Allocation.

Product Sales

10. Company Feedback/Question

Companies noted that different products under review come in different forms and concentrations, and that a common measurement criterion would have to be established to cross-compare categories.

Response. In order to consider comparable volume sales figures, the Index team developed an estimated conversion rate for all the product categories under scope: per cigarette stick equivalent. Detailed information on the process, considerations, and proposed ratios for all product categories is available in the 2020 Index Methodology published in conjunction with the 2020 Index Ranking Report.

11. Company Feedback/Question

Companies queried whether tracking product sales in the latest financial year for one indicator and capturing them in the last three years in another indicator would be repetitive. Other companies highlighted that rate of change indicators are more appropriate, as larger companies will be penalized when considering only 2019 volume sales for high-risk products.

Response. Including indicators capturing static 2019 data and evolution over the past three financial years allows the index to score both the static indicator as well as the company's rate of change. By scoring both indicators, the index addresses both the state of play in 2019 as well as the pace at which companies are contributing to tobacco harm reduction. Regardless of company size, the premise of the index is companies that sell a higher volume of high-risk products are impeding tobacco harm reduction and an associated phase-out of these products. The index, therefore, considers static 2019 data as a measure in evaluating company's progress towards tobacco harm reduction.

12. Company Feedback/Question

Companies suggested that only net revenues should be considered, with all taxes and duty removed. Furthermore, revenues should not incorporate sales of products not related to the tobacco industry. The importance of comparability was highlighted and, as such, it was recommended that reported sales be viewed through international accounting standards, such as US-GAAP.

Response. Only net value sales of high- and reduced-risk tobacco products are considered. Net value sales refer to gross sales minus applicable sales returns, allowances, and discounts. Gross sales do not include cost of goods sold, operating expenses, excise tax expenses, or other charges. Devices for consumption of e-liquids and heated tobacco are part of the comprehensive analysis of companies but not considered in the Product Sales category score, in order to allow comparison of consumption volumes between high- and reduced-risk products. Other non-tobacco/nicotine product revenues are considered outside of the scope of the index.

The Index team acknowledges that companies might use different accounting standards in their financial reporting. Data collected from company reports and other financial databases were reviewed as part of the multi-faceted methodology that includes primary and secondary research, ensuring that a robust process of checks and balances is adhered to, and delivers a well-rounded and comparable analysis.

13. Company Feedback/Question

Companies suggested that volume sales indicators should be phrased as a "share of total nicotine volume sales" (not "share of total tobacco volume sales") as current wording favors companies which are active in heated tobacco products and potentially discounts the efforts of those involved in vapor products and other non-tobacco reduced-risk products.

Response. The index considers both tobacco and non-tobacco reduced-risk products. The language of the indicators was revised and reflected in the 2020 Index Methodology. For example, the indicator highlighted in the question above was updated to ratio of volume sales of reduced-risk alternatives to those of high-risk tobacco products.

14. Company Feedback/Question

Companies suggested that value sales should be removed, with a sole focus on volume, the rationale being that revenue is not relevant as it is dictated by the value of a brand, and a company will gain higher revenue from high-value brands. Furthermore, a company with high-value brands could gain higher revenue from fewer sales than a company selling more of a lower value brand.

Response. Volume sales of high-risk products are the result of a company's commitment and actions towards harm reduction and its contribution to phasing out high-risk tobacco products. Therefore, it is recognized that volume sales have a higher importance compared to value sales, which are influenced by other aspects, such as pricing and the effects of taxation. This is reflected in the indicator weighting. However, value sales indicate the reliance of a company on sales of high-risk products, which is useful context to understand its efforts towards tobacco harm reduction. Companies that are less reliant on high-risk product revenues demonstrate greater progress toward tobacco harm reduction and, in turn, the capacity to make a greater impact on overall harm reduction.

15. Company Feedback/Question

Companies highlighted that the index does not consider the reasons for decline in high-risk product sales, ie whether this decline is driven by the tobacco manufacturer itself or is simply the result of market forces.

Response. The index recognizes that all companies do not have the same scope of market coverage and is, therefore, developing the country fact sheets to offer context for individual markets and the companies active within them. While this context is not incorporated into the scoring criteria, it enables stakeholders to understand the forces contributing to company performance. The Index team recognizes the limitations of this approach and it is envisioned that future iterations of the Index will provide a ranking of the companies at country level, which will better mitigate this issue.

16. Company Feedback/Question

Companies highlighted indicators on the Ratio of Volume Sales (Reduced vs High-Risk Products) in 2019 and rate of change are the most important and therefore should have a higher weighting compared to indicators covering Volume Sales of High-Risk Products only.

Response. The Index team agrees that indicators focused on the relative sales of reduced- and high-risk products should be weighted higher compared to indicators solely focused on high-risk products. As such, the Index team followed such a principle in finalizing the weighting for each indicator. Core to the Index is making companies accountable for the harm caused by their products and responsible for supporting consumers to transition away from high-risk products by responsibly offering accessible reduced-risk alternatives.

Product Offer

17. Company Feedback/Question

The value of tracking the number of reduced-risk product categories was questioned, as it is likely to vary widely across the countries being studied due to regulations and public health attitudes, both to smoking and tobacco harm reduction. An alternative indicator was suggested focused on "corporate intent" as captured by the number of innovations brought to market. For example, a company that had placed a first-generation cig-a-like product on the market and not innovated further is likely to have less corporate intent with respect to tobacco harm reduction than one that has a demonstrable track record of innovation.

Response. The index measures the number of reduced-risk product categories relative to the number of high-risk product categories as a mechanism to evaluate efforts to shift consumers away from high-risk tobacco products and responsibly offer reduced-risk alternatives to current smokers and high-risk

tobacco users. A presence across a wider range of reduced-risk categories could indicate the intention to offer current smokers a breadth of choices when supporting them to transition away from high-risk products. Whether a company is a first mover or follower is not necessarily indicative of greater commitment, but rather company strategy. Companies that drive product innovation are also likely to have higher research and development (R&D) and capital expenditure on reduced-risk products. This aspect is captured in the Capital Allocation category.

18. Company Feedback/Question

Questions were raised over the practicalities of capturing pricing information:

- Concerns over competition law infringements led to some suggesting that pricing analysis be removed.
- It was suggested that using value sales and volume sales data shared by a company would allow the Index team to calculate an average price, thus not requiring company input on price.
- Specific questions were raised as to whether list price, maximum price, or retail selling price, including average discount, were to be used.
- It was highlighted that the relative pricing of high- versus reduced-risk products does not consider the difference in cost structures of the category and does not include any consideration for markets with high levels of illicit trade, where there is unfair pricing competition for cigarettes.
- It was also stated that pricing movements will be dictated significantly by excise increases, given the low excise incidence of the reduced-risk products versus cigarettes.
- It was also suggested to reduce the weighting for this category.

Response. The Index team believes that accessibility and affordability of reduced-risk alternatives is key to transitioning existing tobacco consumers away from high-risk products. This was highlighted across several stakeholder engagement sessions. As such, the price of a reduced-risk alternative should not necessarily create a barrier to transition. The value considered in the pricing indicators is the average retail price to consumers, including excise and sales tax, which gives a more complete indication of the affordability level. The Index team used a range of data inputs for the pricing indicators, including in-country data collected during store audits, average price derived from value and volume sales by category, and data shared by companies. This ensures a robust triangulation of data to support a more accurate view of pricing. On the other hand, the Index team understands that taxation comprises a sizable portion of the average retail price to consumers and varies widely by market. Therefore, with regard to weighting, the index recognizes the limitation of pricing indicators

and as such assigns a relatively low weighting compared to other performance categories such as Product Sales and Capital Allocation.

Regarding the anti-trust/competition law concerns, the index did not request or in any way attempt to assess future pricing strategies. Rather, it focuses solely on the lowest priced products by category in the 2017-2019 period.

19. Company Feedback/Question
It was highlighted that marketing costs are allocated for different reasons and not always straightforward to classify: *"It is important to note that revenue recognition standards in certain jurisdictions require that certain 'marketing-related costs' be classified as a reduction to sales. In that regard, the classification of true marketing efforts may not be captured by this metric. In general, there is no obvious difference from a corporate social responsibility (CSR) perspective between 'spending' on an everyday low price or discounts. Also, certain marketing costs are incurred for regulatory purposes (e.g. changes to packaging and labeling). Should these costs be included in the marketing costs for purposes of this metric?"* **It was also noted that marketing costs will depend on the specific geographical footprint of each company and do not necessarily indicate whether a company is transforming or not. It was suggested that it is important to capture how much a company spends on marketing of reduced-risk products.**

Response. The Index team acknowledges that capturing marketing spend effectively is a complicated process and depends on the manner in which companies report and share data. During the data request process, the Index team specified the types of marketing expenses under scope and requested the highest level of detail and clarification from participating companies. As none of the companies shared data, the Index team relied on publicly available data for marketing spend. Marketing expenditure includes but is not limited to funds invested in programs such as advertising, trade promotions, and consumer engagements.

The objective of the indicators focusing on marketing costs is to identify whether a company continues to encourage consumption of its high-risk product portfolio by investing in marketing and promoting these products. In order to capture how companies have reallocated resources to reduced-risk products, a new indicator - Ratio of marketing spend on reduced-risk alternatives to high-risk

tobacco products - was added. This indicator measures company investment in marketing reduced-risk alternatives to support current users to move away from high-risk products.

20. Company Feedback/Question
Clarity was requested on whether within the Product Offer category companies would be required to share information about each of their brands and stock keeping units (SKUs). While some companies suggested to evaluate product portfolio to a deeper level of granularity including SKUs.

Response. The index aims to ascertain the number of product categories a company is active in rather than collecting brand and SKU level data for each product category. The Index team considers that a presence across a wider range of reduced-risk product categories could indicate the intention to offer current smokers the breadth of choice when supporting them to transition away from high-risk products. Different SKUs within a similar product category are considered a relatively minor diversification of the product portfolio. A greater level of detail on what 'product' refers to is available in the definitions and was provided alongside the formal request for data.

Capital Allocation

21. Company Feedback/Question
Companies argued that a more effective analysis of the impact of capital allocation on tobacco industry transformation would be a comparison of the investment in high- versus reduced-risk products. It was also mentioned that: *"a simple measure of spend, headcount, and new product development could be supplemented with R&D output related to demonstrating an intent to determine the reduced-risk potential of each of the reduced-risk product categories, which could include peer-reviewed scientific publications and presentations at scientific conferences."* **It was also noted that an organic/pro forma view should be considered for company data within the Capital Allocation category.**

Response. The indicators for Capital Allocation were revised so that comparable expenditure on reduced-risk products is evaluated. Ratios have been introduced that capture spend on high- versus reduced-risk products for both R&D and capital expenditure. These indicators measure company

performance in structurally shifting from high- to reduced-risk products. The Index team recognizes that R&D output, such as the publication of scientific research in peer reviewed publications, could offer an additional view on R&D that is not solely cost-focused and, as such, will be considered for future iterations of the Index.

The index uses pro forma results depending on the reporting structure of the companies under review.

22. Company Feedback/Question

Companies questioned the relevance of absolute figures for capital allocation and suggested the relative measure of high- and reduced-risk products would suffice. In particular, it has been suggested to remove indicators covering share of mergers and acquisitions (M&A), R&D and capital investment to net revenues and keep only indicators covering the ratio of reduced- vs high-risk products.

Response. As with product volumes, the index considers indicators focused only on high-risk products to be useful to spotlight whether a company is shifting its business away from or continues to invest in high-risk products while also developing its reduced-risk portfolio. The index portrays continued investment in high-risk products as impeding progress toward tobacco harm reduction. Capital allocation indicators focused only on high-risk products carry less weight than the indicators that compare capital allocation on high- vs reduced-risk products.

23. Company Feedback/Question

Companies suggested that the M&A indicator might privilege large deals rather than the potential for high returns from smaller deals.

Response. The index considers three types of long-term investments essential to achieve tobacco harm reduction: M&A, capital expenditure, and R&D. The diversification of indicators across the three types also reflects the uncertainty with regard to outcomes and effectiveness. In the case of M&A, it is possible that an acquisition could lead to the elimination of a potentially competitive product, rather than the advancement thereof. Similarly, there is no guarantee that investments in M&A, capital expenditure, and R&D will have the anticipated effect.

Others

24. Company Feedback/Question

An additional indicator was suggested that would assess the commitment and progress of a company in identifying alternative uses for tobacco. For tobacco farmers in many parts of the world, there is not another crop that will bring in the same levels of revenue and, therefore, support livelihoods that tobacco does.

It was suggested that rather than focusing solely on reducing farmers' dependence on tobacco, the Index should also assess efforts to identify high-revenue alternative uses and associated markets for tobacco.

Response. Indicators for Supply Chain Transition were designed to evaluate a company's commitment to ensuring that members of the tobacco supply chain are not left behind as a company undergoes transformation away from high-risk tobacco products, and any programs it has implemented to this end. This could encompass a range of initiatives, including support in finding alternative crops or alternative uses of the same crop.

The Supply Chain Transition category was excluded for the first edition of the Tobacco Transformation Index. The number of companies with public commitments to supply chain transition was extremely limited. As a result, the Index team judged that scoring the 15 companies in the category provided little value in establishing an effective relative ranking, The Index team is committed to include relevant indicators on supply chain transition in the next iterations of the Index.

25. Company Feedback/Question

An important aspect of reduced-risk product categories is likely to be the development of consensus product standards, especially for emerging technologies such as vaping and heated tobacco products. Demonstration of contributions to national and international product standards for reduced-risk products could be a useful indicator of corporate intent.

Response. Although difficult to quantify, these actions are covered within the Lobbying and Advocacy category if publicly disclosed by the company. Future iterations of the Index will look to further

incorporate companies' contribution to developing product standards for the evolving reduced-risk products market.

26. Company Feedback/Question

One company suggested the inclusion of an indicator capturing companies' commitment to combat illicit trade.

Response. Although the index recognizes how the presence of illicit trade might impede the ultimate elimination of high-risk tobacco products, companies' actions aiming to tackle illicit trade are not captured by the first version of the Index.

27. Company Feedback/Question

Companies suggested to include indicators on the number of countries where the company is offering reduced-risk products. In particular, additional indicators were suggested:

- % of countries in which a company operates and where reduced-risk products are allowed.
- % of countries where reduced-risk products are allowed in which the company commercializes reduced-risk products.
- Number of countries where reduced-risk products generate more than 10% of company revenue.
- Number of countries where reduced-risk products generate more than 50% of company revenue.

Response. The index considers harm reduction a global endeavor and intends to highlight geographic discrepancies or inconsistencies in the efforts made by tobacco companies toward this objective. In this regard, the index recognizes that offering reduced-risk product alternatives in a higher number of countries represents a support to the progress toward tobacco harm reduction globally. As such, the index includes indicators on the number of countries where reduced-risk products are currently available as a percentage of total number of markets in operation.

28. Company Feedback/Question

Companies sought clarification on the weight threshold for cigarillos which affects the per stick equivalent conversion for both cigars and cigarillos. Other companies suggested a higher conversion for moist snuff and cartridges as well as a necessary separation between snus and moist snuff.

Response. The index acknowledges that there is not currently broad consensus on threshold to identify cigars and cigarillos. Initially the Index team defined the maximum size of a cigarillo as 3g, however it was acknowledged that in the US, the largest cigarillos market, the highest selling brands were commonly 4g. For this reason, 4g was used as the per stick equivalent factor for cigarillos. For cigars, the market is even more diverse and to create a single per stick equivalent conversion factor the Index team defined small cigars as 3g, medium cigars as 8.5g, and large cigars as 14g. An average weight of 6g was then established once these defined sizes were applied to Euromonitor International's market size splits for small, medium, and large cigars.[5]

Snus and moist snuff have similar conversion rates as consumption habits are considered to be similar and they contain a similar nicotine per gram rate, as highlighted by a study from the University of Minnesota Cancer Center.[6] The Index team reviewed the per stick equivalent conversion rate with snus by re-assessing the average number of portions in a can. Keeping the same average consumption of 3.8 cans a week but reducing the average portion per can, leading to an average consumption level lower than 13 portions per day. The conversion rate of moist snuff and snus is then 1g and equals more than 1.4 cigarettes. Any research or evidence supporting a different conversion is welcomed by the Index team for future iterations of the Index.

Conversion rate for vapor cartridges was identified through the analysis of puff per ml given figures provided by the most relevant players in the category. Similarly, research available on non-tobacco nicotine pouches is limited and the Index team relied only on similar consumption pattern with snus. The conversion rate of non-tobacco nicotine pouches was therefore adjusted given changes on the conversion for snus. The team welcomes any suggestion on different per stick equivalent conversion for non-tobacco nicotine pouches as long as it is substantiated by research in future iterations of the Index.

[5] Cigar size split estimated from Euromonitor International's Passport Tobacco Database.

[6] Stepanov, I. et al. (2008). New and Traditional Smokeless Tobacco: Comparison of Toxicant and Carcinogen Levels. Nicotine Tob Res. 2008 December. Volume 10 (12): 1773-1782. doi: 10.1080/14622200802443544

29. Company Feedback/Question

Companies asked how exchange rate fluctuations would be incorporated, as many of the 15 tobacco companies sell products in countries other than their reporting currency.

Response. The index determined and used a single 2019 exchange rate to convert currency values for each year in US dollars. Differences in sales across countries and years therefore do not reflect currency fluctuations.

Appendix

Definitions

High-medium income country (HMIC) - As defined by the World Bank (as of July 1 2019), a country with a national income per person (GNI per capita) of USD12,376 or more in 2018.

High-risk products (HRPs) - Combustible or other high-risk nicotine products, which includes cigarettes, cigarillos, cigars, pipe tobacco, fine cut tobacco, shisha, as well as traditional smokeless tobacco, such as chewing tobacco and moist snuff.

Low-medium income country (LMIC) - As defined by the World Bank (as of July 1 2019), a country with a national income per person (GNI per capita) of up to USD12,375 in 2018.

Reduced-risk products (RRPs) - Nicotine products that are considered to be less harmful than combustible cigarettes and/or other traditional products. Products that are potentially reduced-risk include vapor products (cartridges, e-liquids, and heated tobacco), snus, NRT products, and non-tobacco nicotine pouches.