



**TOBACCO
TRANSFORMATION
INDEX**

Program Update

June 7, 2022

Program Update: Agenda (*EDT*)

9:00-9:05 Welcome & Introductions

9:05-9:15 Program Update

9:15-9:25 Preliminary Index Methodology

9:25-9:40 Comments & Questions

9:40-9:45 Closing & Next Steps

Chatham House Rule

Participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

Antitrust Disclaimer

- We want discussions to proceed in line with everyone's respective antitrust obligations.
- As a general matter, international antitrust laws prohibit competitors from agreeing on the prices they will charge, the products they will offer, the customers they will serve, the suppliers they will use, what is negotiated with either upstream or downstream market suppliers/distributors, and the markets in which they will compete.
- Both “vertical” and “horizontal” antitrust discussions are not allowed, with a vertical scheme up and down a supply line and a horizontal scheme between direct competitors (or their representatives).
- Therefore, there should be **no discussion or disclosure of**

competitively sensitive information, including but not limited to:

- Profits, premiums, prices, surcharges, rebates or discounts
- Specific customers or classes of customers or whether you will or will not do business with them (unless legal class, such as a person under the age limit for tobacco products)
- Strategic plans
- Employee compensation
- Allocation of geographic or product markets
- Any refusal to deal with a customer or supplier
- How to deal with the market behavior of a competitor

Introductions and Background



The Foundation for a Smoke-Free World

is an independent, nonprofit organization with the purpose of improving global health by ending smoking in this generation.



EUROMONITOR INTERNATIONAL

Euromonitor International is an independent third-party advisor assisting with development of the Index.

Euromonitor is responsible for Index process design, research and analysis, and reporting

Key Index Resources

Foundation for a Smoke-Free World

- David Janazzo, Program Manager, Tobacco Transformation Index

Euromonitor

- Amir Ali – Global Project Manager
- Shane MacGuill – Senior Project Support, Tobacco Expertise
- Varun Batra – Senior Project Support

Since we last met...

Developing the Index research platform

- Released Patent Landscape Report – Jul 2021
- Published Stakeholder Dialogue Report – Sep 2021
- Enhanced Index website – Dec 2021
- Released Global Trends in Nicotine Report – Dec 2021
- Expanding Company-Country Analysis – Mar 2022
- Added Technical Committee to Project Management – Apr 2022
- *Preliminary Index Methodology for Public Comment – May 2022*
- Half- and Full-Year Company reports – ongoing
- Relative Risk Hierarchy update – in progress
- Marketing Study: Phase 1 – in development

July 2021



Today

2022 Preliminary Methodology

2020 Index Methodology / Summary

Category	Weight	Sub-Category	Weight
1	10%	1A	80%
		1B	20%
2	35%	2A	80%
		2B	20%
3	25%	3A	100%
4	10%	4A	80%
		4B	20%
5	15%	5A	55%
		5B	30%
		5C	15%
6	5%	6A	100%

2022 Methodology / Summary of proposed changes

Category	Feedback to address	Proposed impact on methodology
High-Risk Product (HRP) vs Reduced-Risk Product (RRP) classification	Several stakeholders challenged the current classification (see Relative Risk Assessment) of US-Style Snuff (“Dip”) and Chewing Tobacco as High-Risk Products	Research is commissioned (and currently in progress) to assess the latest findings on harm profiles for relevant product categories to inform classification. A revised Relative Risk Spectrum will be published as part of the <u>final</u> Index Methodology in September 2022.
Marketing Expenditure classification and weighting	In the 2020 Index, marketing expenditure was captured within the wider “Marketing” category. The other indicators in this category dealt with marketing policies, and it was observed that expenditure, as a financial indicator, would be better analyzed elsewhere.	Marketing expenditure will be captured as an indicator within the “Capital Allocation” category (now renamed “Capital Allocation & Expenditure” to encapsulate the new indicators). Given its importance, its weighting in relation to the overall Index total will increase from 2.25% to 5%. To accommodate, the weightings of other “Capital Allocation & Expenditure” (previously “Capital Allocation”) indicators have been correspondingly reduced.
Product Offer	The indicator “Ratio of Product Portfolio (Reduced-Risk vs High-Risk Products)” within the “Product Offer” category was challenged. While it was acknowledged that measuring breadth of portfolio is valid, it was considered inferior to actual sales. As such, the weighting of the “Ratio of Product Portfolio” indicator was placed under review.	The “Product Offer” category weighting is to be kept relatively low at 10%, while its sub-categories will be adjusted. Sub-category “Product Portfolio”, which contains the indicator “Ratio of Product Portfolio (Reduced-Risk vs High-Risk Products)”, will be reduced from 80% to 60%. Sub-category “Pricing” will be increased from 20% to 40%.

Proposed Changes / Back test results 2020

Company	2020 Ranking: Original (published)	2020 Ranking: Adjusted for back-test	2020 Score: Change vs original following back-test
Swedish Match AB	1	1	+0.1
Philip Morris International Inc	2	2	0.0
British American Tobacco Plc	3	3	-0.1
Altria Group Inc	4	4	0.0
Imperial Brands Plc	5	5	0.0
Japan Tobacco Inc	6	6	-0.1
KT&G Corp	7	7	-0.1
ITC Ltd	8	8	0.0
Swisher International Group Inc	9	9	0.0
Tobacco Authority of Thailand	10	10	0.0
Vietnam National Tobacco Corp (Vinataba)	11	11	0.0
Gudang Garam Tbk PT	12	12	0.0
Djarum PT	13	14	0.0
Eastern Co SAE	14	13	0.0
China National Tobacco Corp (CNTC)	15	15	0.0

Proposed Changes / Rationale

- **Strengthening:** The first Index reflected the culmination of a *two-year development* and research program, with the final stage being a *comprehensive post publication review*, capturing feedback from stakeholders across the investment and research communities. The *feedback was positive* regarding the breadth and depth of the 2020 Index. Suggestions primarily focused on *adjustments* to bring *incremental value* to the Index.
- **Comparability:** As the back-test exercise on the 2020 results demonstrates, planned adjustments to the 2022 Index, while adding incremental value, will ensure comparability with 2020 results. This will enable the Index to fulfil its stated goal of measuring industry transformation progress over time.

Comments & Questions

Next Steps...

- Finalize 2022 Index Methodology – Jun 2021
- Marketing Study: Phase 1 for Public Comment – Jun 2022
- Relative Risk Hierarchy update – Jun 2022
- Complete Company-Country Analysis – Jun/Jul 2022
- Release 2ND Tobacco Transformation Index – Sep 2022
- Webinar and Stakeholder dialogue – 4Q 2022
- 3RD Index cycle – 2023/24

Today



Dec 2022

Thank you!
comments@tobaccotransformationindex.org

Preliminary Plans for 2021 / 2022

Presented July 7, 2021

Plans for 2022 Index

1 Country / Company Deep Dive ✓
Integrate company and country datasets to create more accurate comparison of companies' performance in individual markets in the context of regulation, consumer preferences, and other factors shaping the character of individual markets

2 Marketing Study ✓
Understand the tactics being employed by each company in priority countries, with regard to their policies and actions, to analyze discrepancies between company marketing commitment and actual behavior, particularly for *youth*

3 Global Trends in Nicotine ✓
Update and analysis of the nicotine ecosystem by leveraging country fact sheet data and current reports developed by the Foundation

4 Country Fact Sheet Data Update ✓
Update country level data, which is otherwise not easily accessible, to support stakeholders and drive traffic to the website

5 Newsflow ✓
Keep the Index platform up to date with articles published in response to press releases and earnings presentations by analyzing the potential impact of the new information on company index performance

6 Website Redesign ✓
Publish material directly on the website, making it more easily searchable and allowing for cross-linking to enable users to navigate more easily between related ideas and topics

Plans for 2022 Index Research Platform

- 1 Global Patent Landscape ✓**

Patent landscape of heated tobacco, nicotine vapour and smokeless tobacco technologies for 2010 through 2020 – linking R&D to reduced risk
- 2 Expand Beyond 15 Largest Companies**

Identify and research selected companies outside the 15 currently covered by the Index (Smoores, RLX)
- 3 Develop Theory of Change for State Monopolies & Privately-Owned Actors**

Develop series of working papers that will lead to a consolidated publication, tentatively titled “A theory of change for state-owned tobacco enterprises”
- 4 Iterate Stakeholder Dialogues**

Multiple stakeholder dialogue sessions are planned, gathering feedback from investors, grantees, public health and other interested parties
- 5 Improve Incorporation into Relevant Investing Formats**

Expand the utilization of the Tobacco Transformation Index into other formats, such as ESG benchmarks and ratings, analyst research, etc.
- 6 Increase Level of Dialogue with Company Managements**

Encourage discussion around the Index as a potential roadmap for tobacco companies on the path toward sustainable harm reduction