

FINANCIAL TIMES

COMPANIES & MARKETS

TUESDAY APRIL 5 2011

BAT aims to smoke out nicotine lovers who find cigarettes a drag

By Clive Cookson in London

British American Tobacco is setting up a business to commercialise non-tobacco nicotine products that could help wean smokers off its cigarettes.

BAT's Nicovenures subsidiary aims to build a substantial consumer business whose earnings could compensate for declining tobacco sales.

In a statement to be released on Tuesday BAT says Nicovenures will offer smokers "a range of alternative products, currently unavailable on the market, that

offer them the experience they expect to get from a cigarette but without the real and serious health risks of smoking".

Adrian Marshall, Nicovenures chief executive, said the first products, which are being developed externally, would not be like existing cigarette substitutes, such as electronic cigarettes, nicotine patches and gums.

Yet, Mr Marshall would not say how the products worked.

In 2009 Reynolds American, a US company in which BAT has a 42 per cent stake, bought an established

Swedish company called Niconovum, which makes products for nicotine replacement therapy including gum, mouth spray and pouches.

However, Mr Marshall said: "Nothing on the market meets the sensorial, emotional and physiological needs of smokers ... In the UK there are about 10m smokers – and only 150,000 of them buy nicotine products, so something is not working."

David O'Reilly, head of research and development at BAT, the world's second-largest tobacco company, said one reason why existing

nicotine replacement products did not work well was that they did not deliver nicotine fast enough or in high enough doses.

"The [UK] Medicine and Healthcare Products Regulatory Agency [MHRA] has pointed out it is the tobacco smoke not the nicotine that produces the diseases and premature deaths associated with smoking," he said.

The success of Nicovenures will depend on the attitude of regulators such as the MHRA, which will be asked to license its products.

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Not yet fagged out



Jonathan Guthrie
LOMBARD

The business conundrum confronting tobacco companies is that they only have one core product – cigarettes – with a regrettable tendency to kill a proportion of users. As a result, diversification is out of reach and the companies face eventual demise themselves as people wise up to the health consequences of smoking.

Nicovenures, a new arm of British

American Tobacco, aims to solve both problems by purveying nicotine in forms that do not trigger horrible diseases. One of the difficulties it faces should be surmountable – the health risks of smoking, chewing or swallowing tobacco are mostly blamed on other chemicals.

That leaves marketers rather than biochemists to wrestle with a much more intractable problem: creating aspirational cultural baggage around new nicotine products. The remaining shreds of credibility attached to smoking were created over centuries of unabashed tobacco use by famous figures ranging from Sir Francis Drake to Humphrey Bogart. Seeing a

contemporary star puffing on a nicotine inhaler might not have the same resonance.

Moreover, as many ex-smokers attest, keeping the nicotine monkey off one's back becomes a dreary obligation rather than a pleasure. That limits Nicovenures' value to BAT as a Get out of Jail Free card. Investors will continue to take comfort in the group's (unhealthily) healthy pipeline of new customers in emerging markets. This justifies a forward earnings multiple for shares of 13.2 times, well ahead of rival Imperial Tobacco.