

TOBACCO TRANSFORMATION INDEX

Underlying Score and
Score Change Drivers of
the Next Eight

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Pieter Vorster, Managing Director of Idwala Research Limited, served on the Index Technical Committee for the 2022 Tobacco Transformation Index.

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O1

OVERVIEW



This report is the third in a series that takes an in-depth look at the 2022 Tobacco Transformation Index¹.

- Underlying Score and Score Change Drivers of the Top Seven.
- Peer Comparison of Top-Ranked Companies.
- Underlying Score and Score Change Drivers of the Next Eight.

Alongside the reports, we have developed MS Excel analysis tools that enable users to interrogate the Index data quickly and easily. These tools have been utilised throughout the reports and [can be downloaded here](#).

The Tobacco Transformation Index was first published in September 2020 and is a biennial Index that ranks the top 15 global tobacco companies on their relative progress toward harm reduction. It works to accelerate the reduction of the harm caused by tobacco use and is predicated on the forces of competition, differentiation, and constructive engagement.

- The Index aims to stimulate competition among companies to deliver the necessary transformation of the tobacco industry for the benefit of public health.
- The Index highlights differences across companies within the industry based on their actions, enabling stakeholders to become better informed and able to drive change.
- Through constructive engagement, investors and others can more clearly articulate their expectations and influence companies to change. Further isolating the companies likely preserves the status quo.

For the Index to have its desired effect, tobacco companies must perceive value from improving their Index ranking. For investors, it needs to provide the tools to engage more effectively with the industry to bring about change. We believe both could be achieved.

The three reports and Excel tools aim to help investors and companies navigate the large dataset underlying the 2022 Tobacco Transformation Index to gain insight at a granular level into:

- why a company attained the score and ranking that it did,
- how these changed from the 2020 Index publication,
- and where the most feasible opportunities for score and ranking improvement and, by implication, transformation are.

A clearer understanding of the underlying drivers of the Index rankings and scores should lay the groundwork for more robust engagement between companies and investors on the topic of transformation based on objective data. Furthermore, increased and well-informed engagement with the Index will ultimately improve its utility for all stakeholders and help accelerate Tobacco Transformation and its underlying goal, Tobacco Harm Reduction.

How are the Next Eight different?

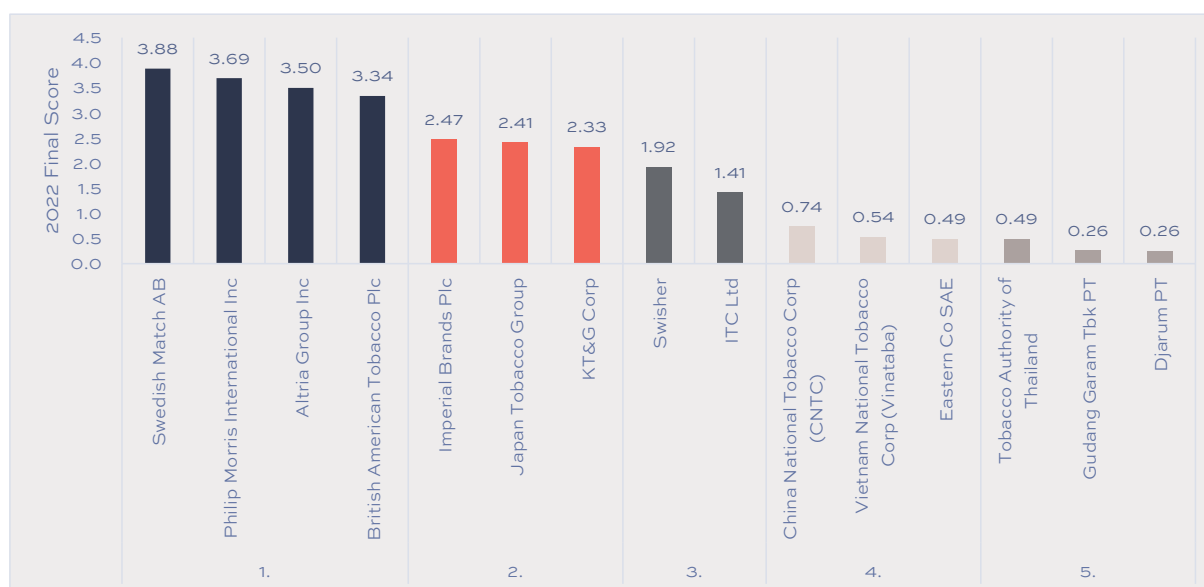
There are marked differences between the Top Seven Index companies, which were analysed in the first of this series of reports and the Next Eight, which we cover in this report.

¹ <https://tobaccotransformationindex.org/2022-index-results/>

The 2022 Tobacco Transformation Index identified five broad behavioural pattern clusters around which the 15 Index Companies appear to be grouped² (Figure 1)

1. Strategic commitment & execution: Swedish Match, Philip Morris International (PMI), Altria, and British American Tobacco (BAT).
2. Limited strategic commitment & execution: Imperial, Japan Tobacco Group (JT), and KT&G.
3. No strategic commitment but limited execution: Swisher and ITC.
4. Potential for change: China National Tobacco Corp (CNTC), Vietnam National Tobacco Corp (Vinataba) and Eastern Co SAE (Eastern).
5. No indication of change: Tobacco Authority of Thailand (TOAT), Djarum PT (Djarum) and Gudang Garam Tbk PT (Gudang Garam).

Figure 1: Index Company Behavioural Pattern Clusters



Source: Tobacco Transformation Index

The Top Seven Index Companies are all publicly listed. They are grouped in the top two behavioural clusters identified by the Index and shown above: “Strategic commitment & execution” and “Limited strategic commitment & execution”. Their behaviour has largely been driven by fewer consumers willing to consume harmful combustible tobacco products and a robust and ongoing regulatory response aimed at significantly curtailing consumption. Furthermore, the investment community has increasingly shunned them on ESG grounds, with remaining investors valuing combustible tobacco as an industry in terminal decline.

The significant growth of reduced-risk tobacco products (RRPs) over the past decade has introduced both a disruptive threat and a growth opportunity to the industry. Those who invest in it have increasingly differentiated industry participants based on the extent to which they have introduced RRP into their businesses. **Figure 2** shows the P/E valuation multiples of the Top Seven Index Companies against the contribution from RRP to 2021 sales revenues. There has been a clear incentive for these companies to embrace RRP and transformation and for investors to encourage them to accelerate the process.

² <https://tobaccotransformationindex.org/key-findings>

Figure 2: 12-month forward P/E v. RRP contribution to 2021 sales value



Source: Tobacco Transformation Index, Idwala Research. Priced as of close 10 February 2023. Swedish Match share price and estimates as of 30 December 2022

The ownership and geographical structures of the Next Eight Index Companies differ markedly, not only from the Top Seven, but also from one another.

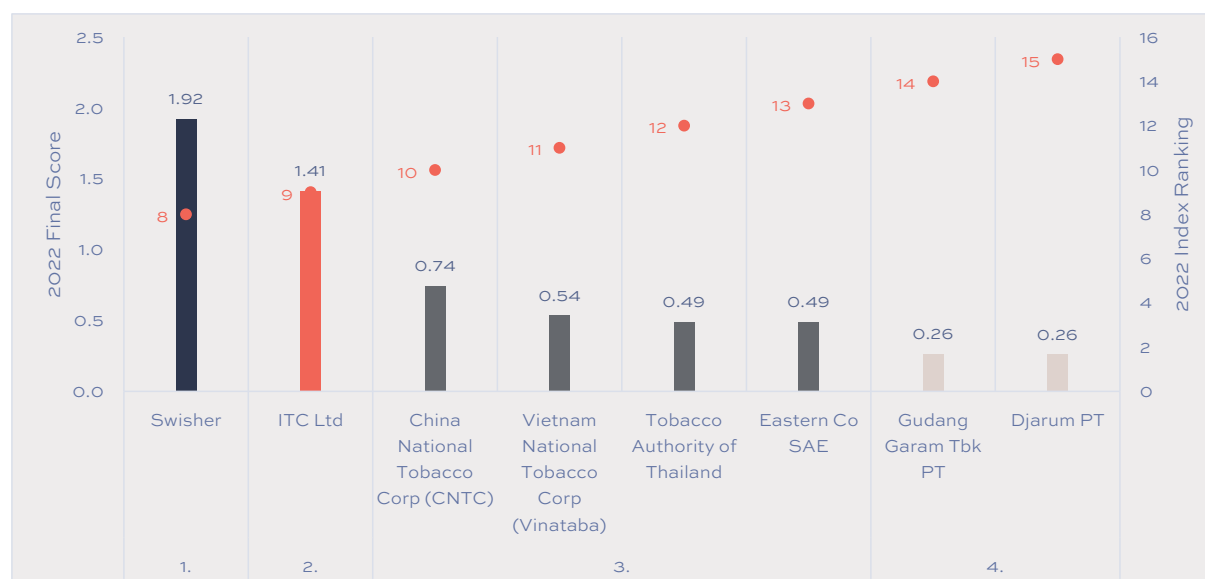
- Seven of the eight companies operate primarily in one country (predominantly Low-Medium Income Countries (LMICs)),
- four are state-owned or controlled,
- three are listed (including Gudang Garam, which is privately controlled and Eastern, which is state-controlled)
- three are privately owned or controlled,
- and only one can be regarded as a multinational.

We have identified four broad categories of ownership and geographic exposure (**Figure 3**) :

1. Private – Multinational: Swisher (18 of the 36 Index countries – top five markets are the US, South Africa, Japan, the UK and India).
2. Listed - Predominantly single country: ITC (India)
3. State-owned/controlled - Predominantly single country: CNTC (China), Vinataba (Vietnam), TOAT (Thailand) and Eastern (Egypt).
4. Privately owned/controlled - Predominantly single country: Gudang Garam³ (Indonesia) and Djarum (Indonesia)

³ Although Gudang Garam is listed, 75.9% of its stock is held by its founding family

Figure 3: Next Eight Ownership and Geographical Exposure Categories



Source: Tobacco Transformation Index, Idwala Research

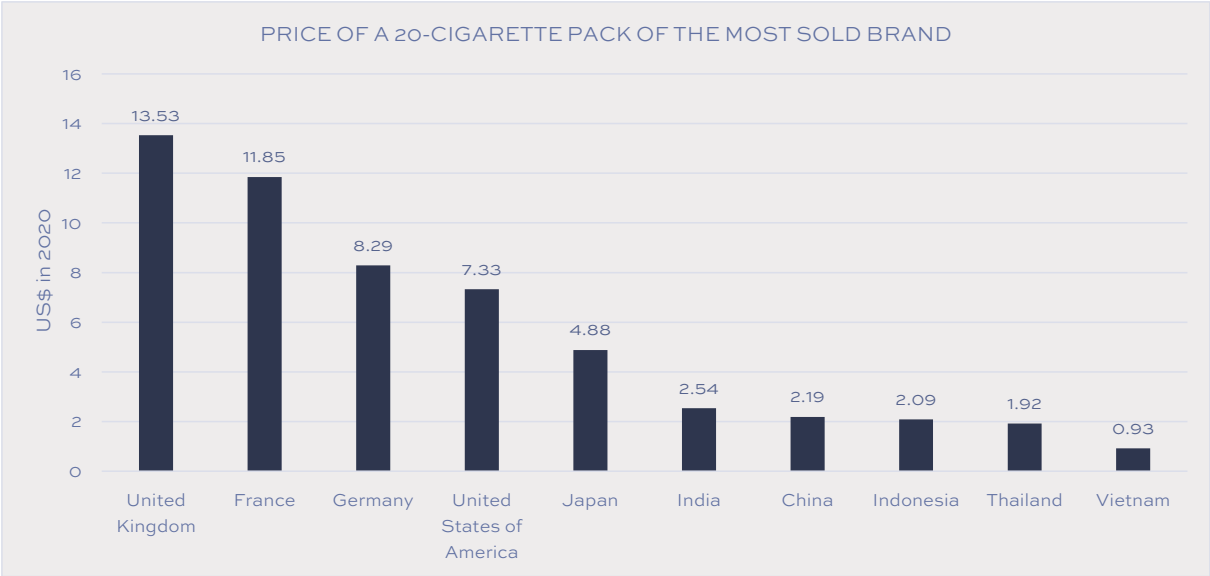
In our view, several, often interlinked, factors affect the ability and motivation of the Next Eight to transform: ownership, regulation, relative product pricing and market structure. The Index website provides comprehensive information on company ownership, regulation and market structure of the 15 companies and 36 countries covered by the Index.⁴

- Many LMICs have adopted the WHO's prohibitionist approach to tobacco control/harm reduction and have either banned or placed severely restrictive regulations on RRP. Heated tobacco and vaping products are banned in India and Thailand, and according to press reports⁵, Vietnam's Ministry of Health has proposed a ban on all "new tobacco products".
- The WHO's stance on RRP has, in our view, enabled governments with significant ownership of their tobacco industries to protect these businesses against the disruptive threat posed by RRP.
- One of the most significant barriers to harm reduction in developing countries is the cost of RRP compared to cigarettes. **Figure 4** shows the 2020 prices of the most popular cigarette brand in US\$ for selected countries. Low cigarette prices make RRP uncompetitive owing to their relatively high manufacturing costs.
- Privately owned companies are not exposed to the scrutiny of and valuation by public markets and may not introduce transformation with the same sense of urgency as the listed peers. However, their businesses will ultimately be subject to the same valuation criteria.

⁴ <https://tobaccotransformationindex.org/country-comparison/>

⁵ <https://en.vietnamplus.vn/youth-hospitalisations-rise-due-to-increasing-popularity-of-vaping/246774.vnp>

Figure 4: Selected 2020 cigarette price comparisons



Source: WHO

Whilst the Next Eight Index companies may currently be less inclined or able to embrace tobacco harm reduction, increased awareness of the health risks associated with smoking will ultimately impact the sustainability of their business models, regardless of their ownership, regulatory or market structures. Being scored and ranked publicly on their harm reduction progress should provide incremental motivation, at least for some.

Report Structure

This report, Underlying Score and Score Change Drivers of the Next Eight, analyses the underlying score drivers of the eight Index companies that make up the bottom three behavioural clusters of the 2022 Tobacco Transformation Index and how these changed from 2020 to 2022. We look at the following:

- The category contributions to each company’s Final Score, change in Final Score and rankings, and
- The indicator contributions to weighted scores, score changes and rankings for each category and company.

02

SCORE & CHANGE DRIVERS



We analyse the underlying score drivers of the bottom eight ranked companies that make up the lower three clusters of the 2022 Tobacco Transformation Index and how these changed from 2020 to 2022. We include a further theoretical “Maximum Score” company for comparison purposes. This company would have been ranked first in each of the 35 indicators on which the Index companies are scored rather than being “fully transformed”.

Index Companies are scored on 35 indicators, grouped into 11 Sub-categories and six categories. Each indicator is scored between zero and five, weighted and added together, producing a final score for each company. For each indicator, the top-ranked company is awarded five and the bottom-ranked one, zero. The remaining Index Companies’ scores are normalised between zero and five⁶.

Understanding the relative nature of how Index scores are calculated is essential. For each indicator, a company’s score is a function of how its metrics for that indicator compare with the other 14 Index companies. Perhaps more importantly, the change in a company’s score from the 2020 Index is a function of the change in its own underlying metrics AND how that compares with the change in the underlying metrics of its peers. For example, owing to the scale of BAT’s acquisition of Reynolds American, its 2020 Index RRP/HRP (High-Risk-Products) M&A ratio metric was particularly low, resulting in BAT scoring zero and many of its peers being awarded relatively high scores for the indicator. The absence of a similar-sized HRP acquisition in the 2022 Index not only improves BAT’s metric and score but negatively impacts the comparative scores of its peers, even if BAT still ranked last on this indicator and scored zero (which it didn’t).

This report focuses on each category’s contribution to each Index constituent’s final score and how this is further broken down at the indicator level rather than the unweighted scores between zero and five.

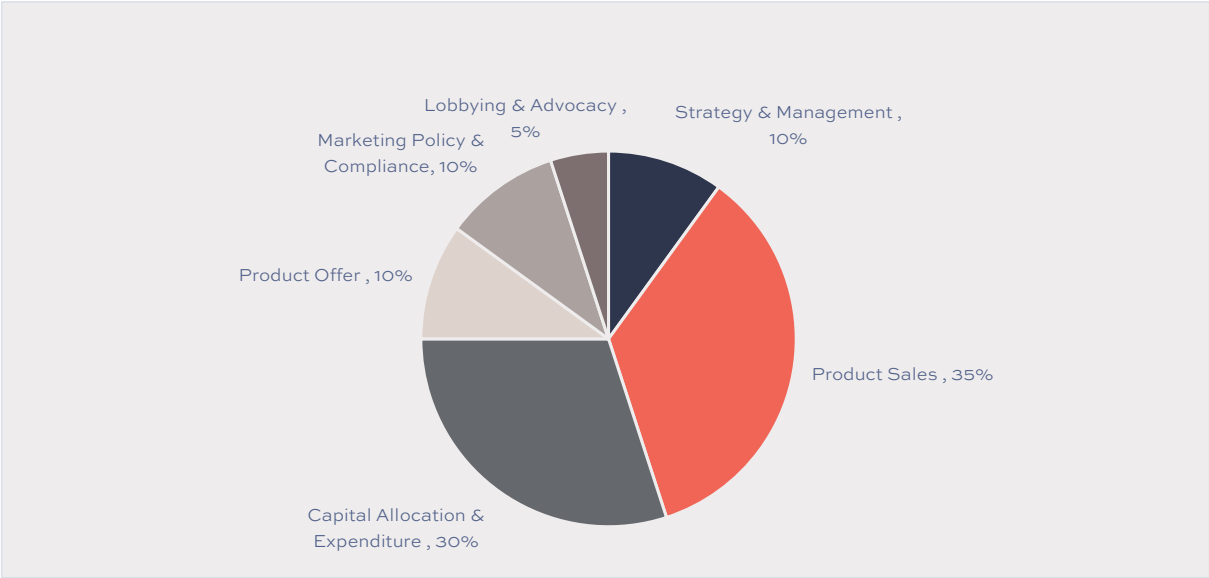
Index Weightings

At 35%, Product Sales carries the highest weight in the Index, followed by Capital Allocation & Expenditure at 30%. Strategy & Management, Product Offer and Marketing Policy & Compliance each account for 10%, and Lobbying & Advocacy, 5%.

Strategy & Management, Marketing Policy & Compliance and Lobbying & Advocacy are qualitative categories, and indicator scores are primarily binary. As a result, companies often achieve identical scores and rankings at the indicator level and, in many instances, at the category level.

⁶ <https://tobaccotransformationindex.org/about-the-data/methodology/>

Figure 5: Category Index Weightings

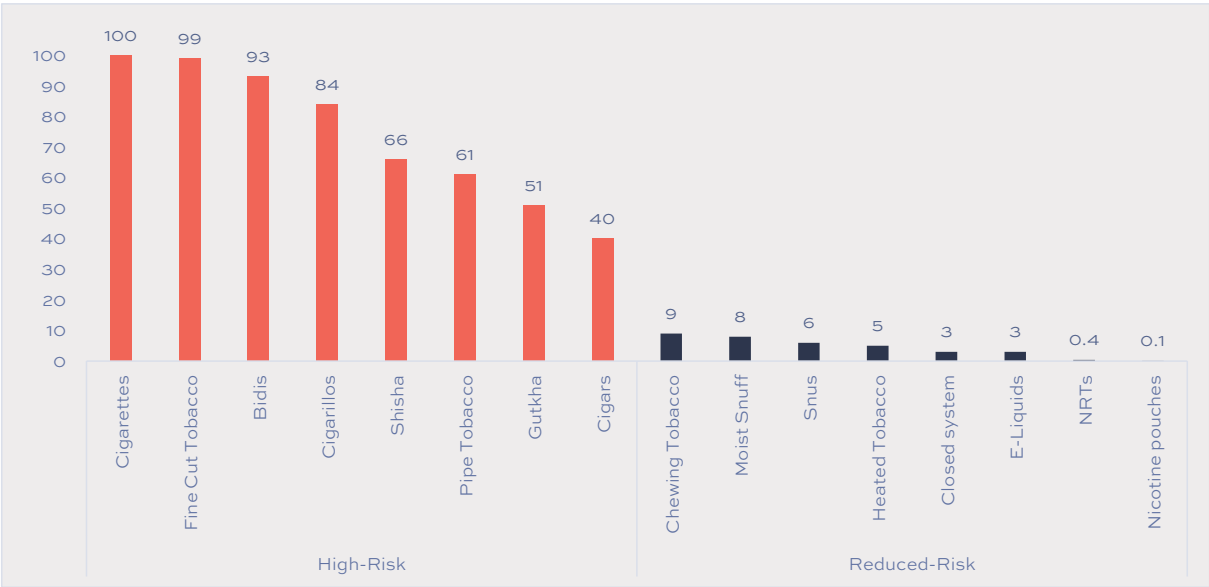


Source: Tobacco Transformation Index

Relative Risk

Index Company products are classified as either High-Risk Products (HRPs) or Reduced-Risk Products (RRPs) based on a literature review commissioned by the Foundation for a Smoke-Free World to assess the relative health risk of these products. The combined risk scores and HRP/RRP classifications are shown in Figure 6.

Figure 6: Relative Risk Assessment 2022

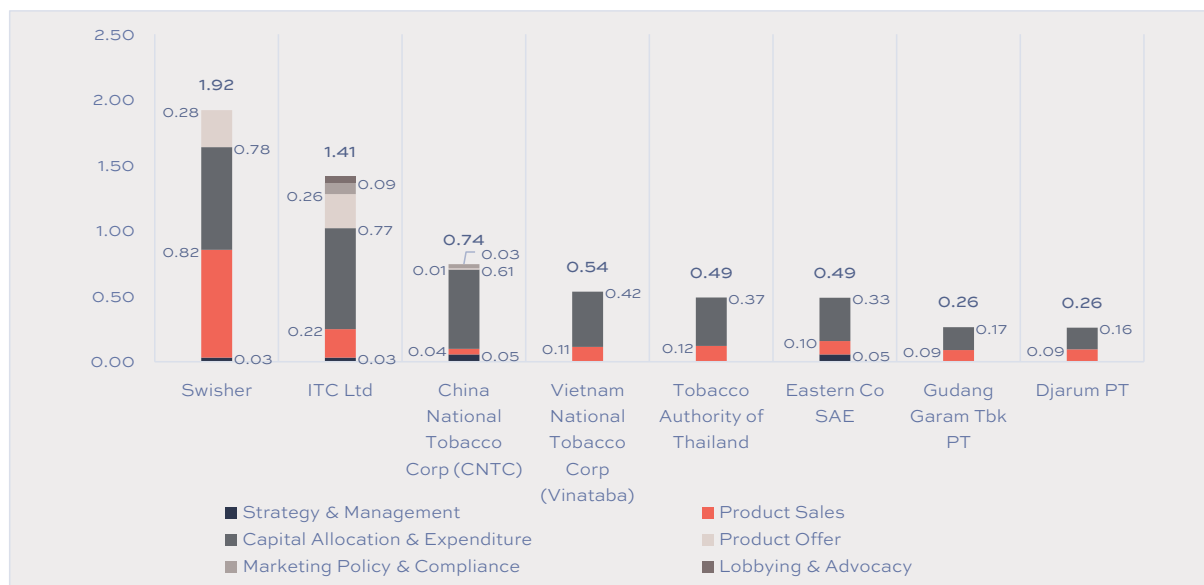


Source: Murkett, R., Rugh, M. & Ding, B. (2022). Nicotine Products Relative Risk Assessment: An Updated Systematic Review and Meta-Analysis.

Category Contributions to Final Score

Figure 7 shows the category contributions to the Final Scores of the Next Eight Index companies. In the following sections, we look into the underlying drivers of each company’s Final Score, what drove the movement from 2020 and try to explain apparent anomalies and outliers.

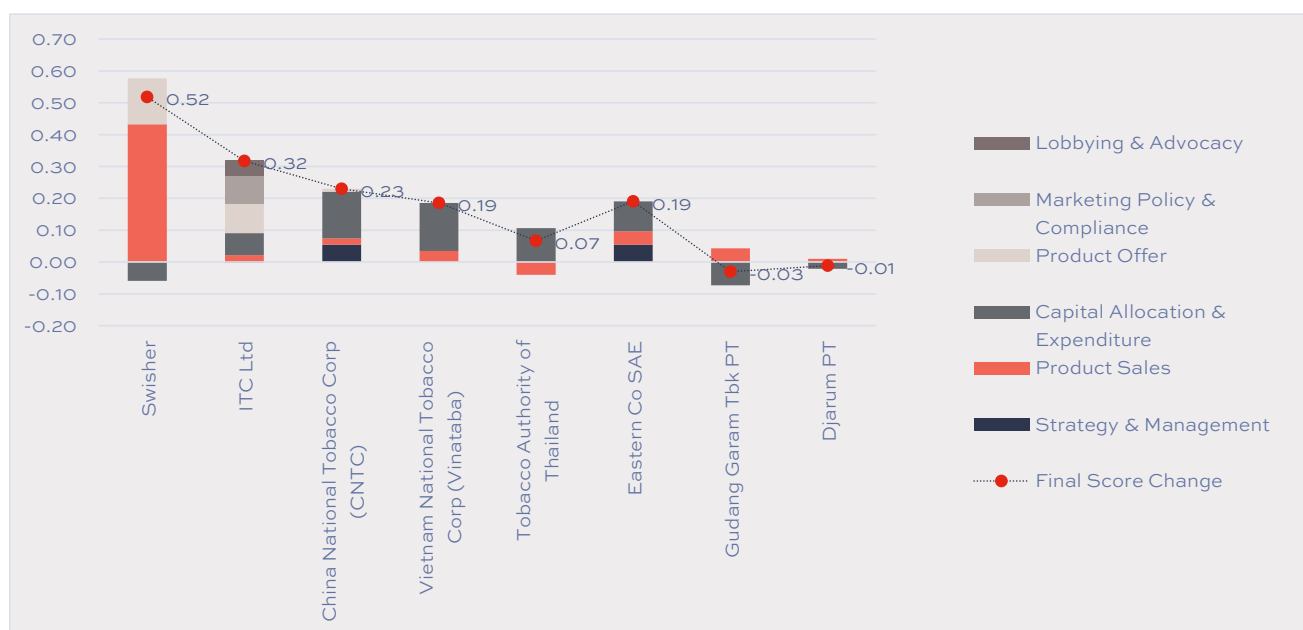
Figure 7: Category contributions to Final Score



Source: Tobacco Transformation Index

Swisher recorded the highest score increase of all 15 Index companies at 0.52, driven by the Product Sales and Product Offer Categories. ITC's 0.32 score improvement compared with 2020⁷ was second in the eight companies covered in this report and fourth overall. Other notable score increases were CNTC at 0.23 and Vinataba and Eastern at 0.19, with the Capital Allocation & Expenditure Category being the main contributor from a low base in the 2020 Index (Figure 8).

Figure 8: Category Contribution to Final Score Change



Source: Tobacco Transformation Index

Figure 9 shows the overall and category scores of the Next Eight Index companies, expressed as a percentage of a theoretical Maximum Score. The percentages represent the weighted average of a company's individual indicator scores relative to the number one ranked company in each indicator within a category or, in the case of the Final Score, all 35 indicators.

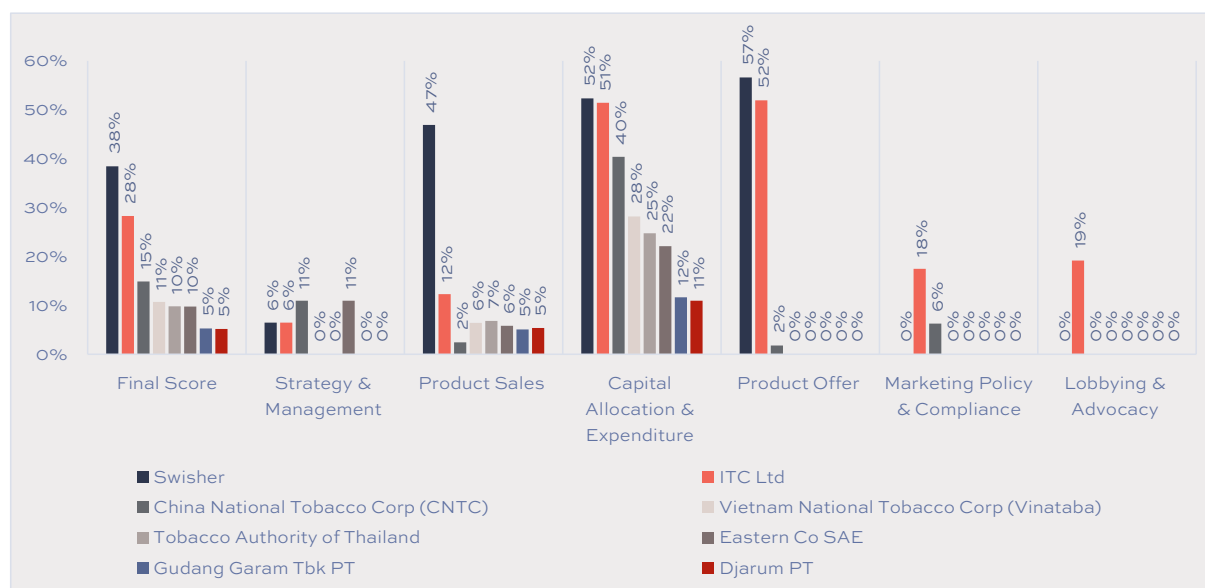
⁷ 2020 Index score and rank restated based on 2022 Index methodology changes. See [Index Methodology](#).

The distribution and aggregate level of scores within a category can indicate the degree of differentiation among the Index companies. There are also clear differences between the qualitative (Strategy & Management, Marketing Policy & Compliance and Lobbying & Advocacy) and quantitative (Product Sales, Capital Allocation & Expenditure and Product Offer) categories, with the qualitative categories generating a higher level of similar scores owing the binary nature of most indicators.

There is a clear delineation between Swisher and ITC, the companies that make up the third behavioural cluster, and the remaining six companies covered in this report, which is particularly evident in the Product Offer category scores.

Furthermore, Capital Allocation & Expenditure stands out as a category where the group achieved relatively high scores partly due to the lower category scores of some higher-ranked peers.

Figure 9: % of Maximum Score by Category



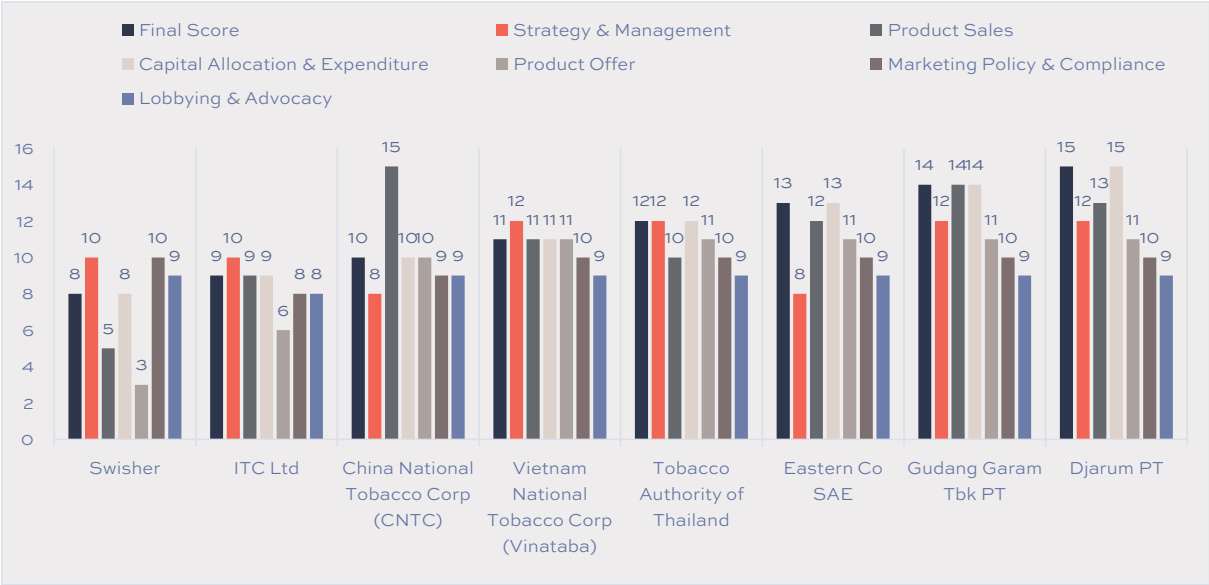
Source: Tobacco Transformation Index, Idwala Research

Index Ranking

Several Next Eight Index constituents displayed significant variance regarding their relative category performances and how category scores were made up at the indicator level. We show the overall and category rankings in Figure 10.

- **Swisher** was ranked eighth overall, fifth in Product Sales and third in Product Offer, helped by several rate of change indicators, potentially indicative of an acceleration in transformation.
- **ITC Ltd (ITC)** ranked ninth in the Index and sixth in Product Offer.
- **China National Tobacco Corp (CNTC)** ranked fifteenth in Product Sales, compared with tenth overall.
- **Eastern Co SAE (Eastern)**'s eighth position in Strategy & Management compares favourably with its Index ranking at thirteenth.

Figure 10: Overall (Final Score) and Category Rankings of the Lower 8 Index Constituents

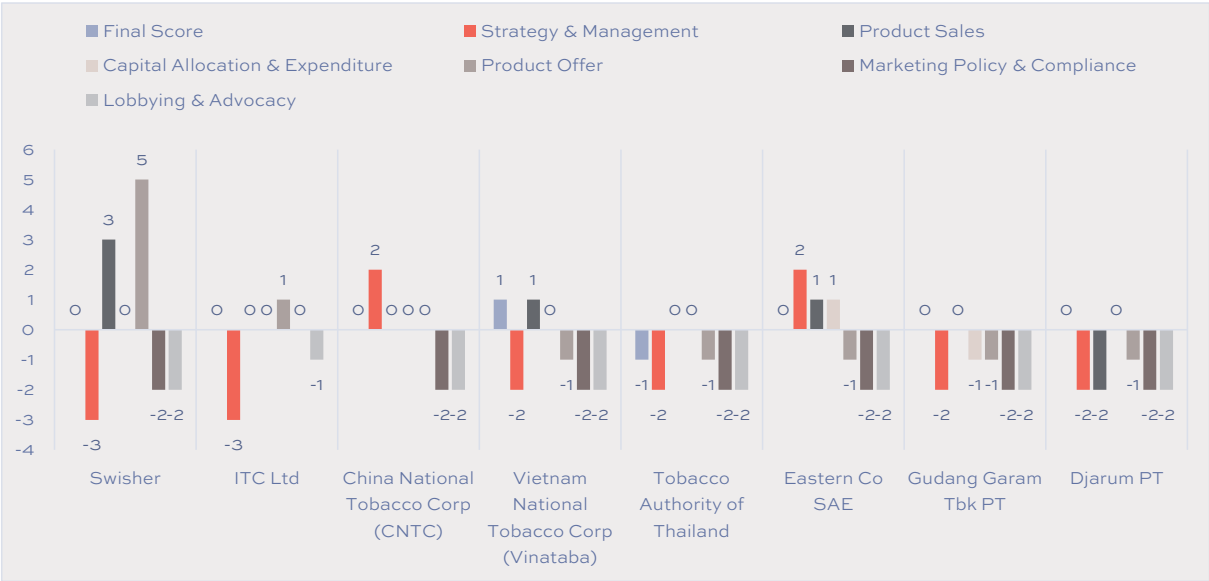


Source: Tobacco Transformation Index

The only change in the overall rankings of the Next Eight from the restated⁷ 2020 Index was Vinataba moving from twelfth to eleventh and TOAT from eleventh to twelfth. The most significant other change was Swisher gaining three places in Product Sales and five in Product Offer (Figure 11).

We explore the underlying drivers of the ranking changes in the sections that follow.

Figure 11: Rank improvement (deterioration) of the Lower 8 Index Constituents



Source: Tobacco Transformation Index

China National Tobacco Corp (CNTC)

CNTC is the world’s biggest tobacco company and has a virtual monopoly in the Chinese tobacco market. It is 100% owned by the Chinese government and is regulated by the State Monopoly Administration (STMA). The Chinese government’s overarching tobacco policy, which includes the establishment of cigarette production quotas and pricing, is determined by the STMA and CNTC, and implemented by CNTC.

It operates in two Index Regions, and in five of the 36 Index Countries (Bangladesh, China, the Philippines, Poland, South Korea). 99% of CNTC’s total Volume Sales are in China. Its product portfolio consists of cigarettes, cigars, cigarillos, heated tobacco and fine-cut tobacco⁸.

The company’s overall tenth ranking remained unchanged, but it gained two places in Strategy & Management and lost two in Marketing Policy & Compliance and Lobbying & Advocacy on stable scores.

Figure 12: CNTC Rank improvement (deterioration) 2020-2022

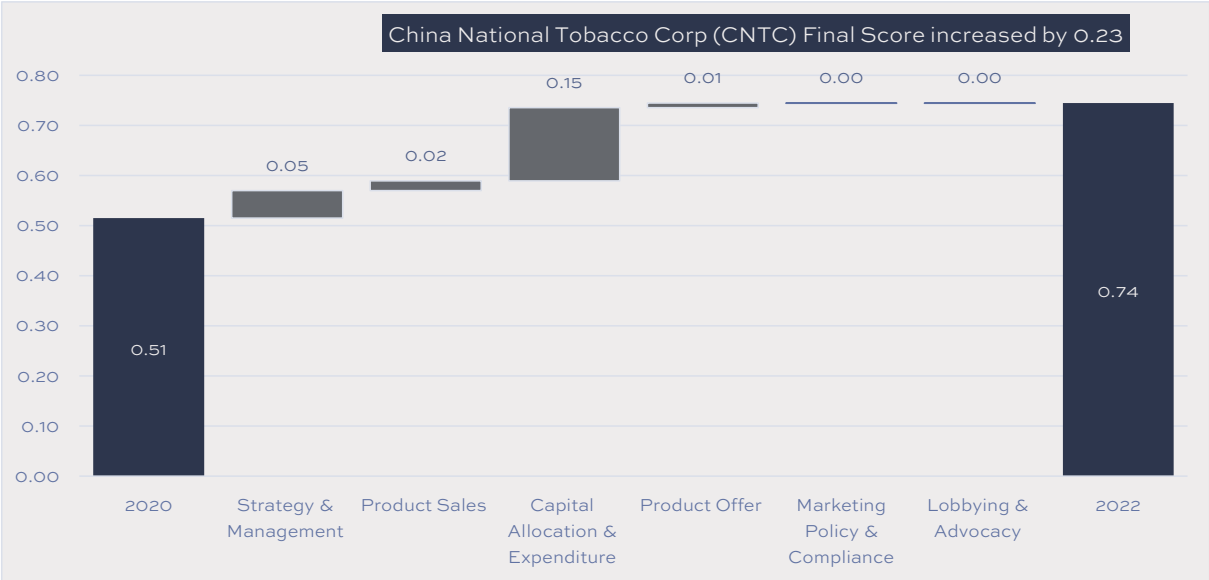


Source: Tobacco Transformation Index

Capital Allocation & Expenditure accounted for most of CNTC’s 0.23 Final Score improvement from 2020 to 2022, followed by Strategy & Management and Product Sales. We explore the drivers of these changes in more detail in the relevant category sections of this report.

⁸ <https://tobaccotransformationindex.org/companies/china-national-tobacco-corp/>

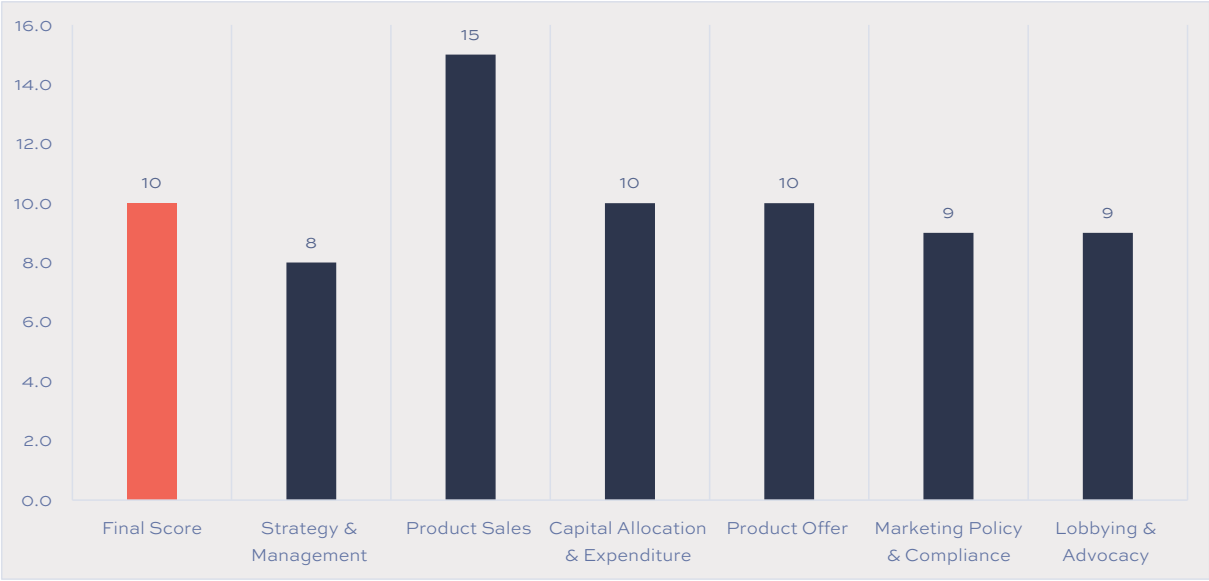
Figure 13: Category contribution to CNTC Final Score change



Source: Tobacco Transformation Index, Idwala Research. Score change doesn't match displayed figures due to rounding.

Compared with its tenth overall ranking, CNTC underperformed in the most heavily weighted category, Product Sales, where it was ranked fifteenth, owing to its status as the largest cigarette producer in the world.

Figure 14: CNTC 2022 TTI ranking by Category



Source: Tobacco Transformation Index

CNTC's Final Score of 0.74 was 85% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted) 85% lower than the company that ranked first in each indicator. The same applies at the category level (Figure 15).

Figure 15: Category Score difference: CNTC % lower than Maximum Score

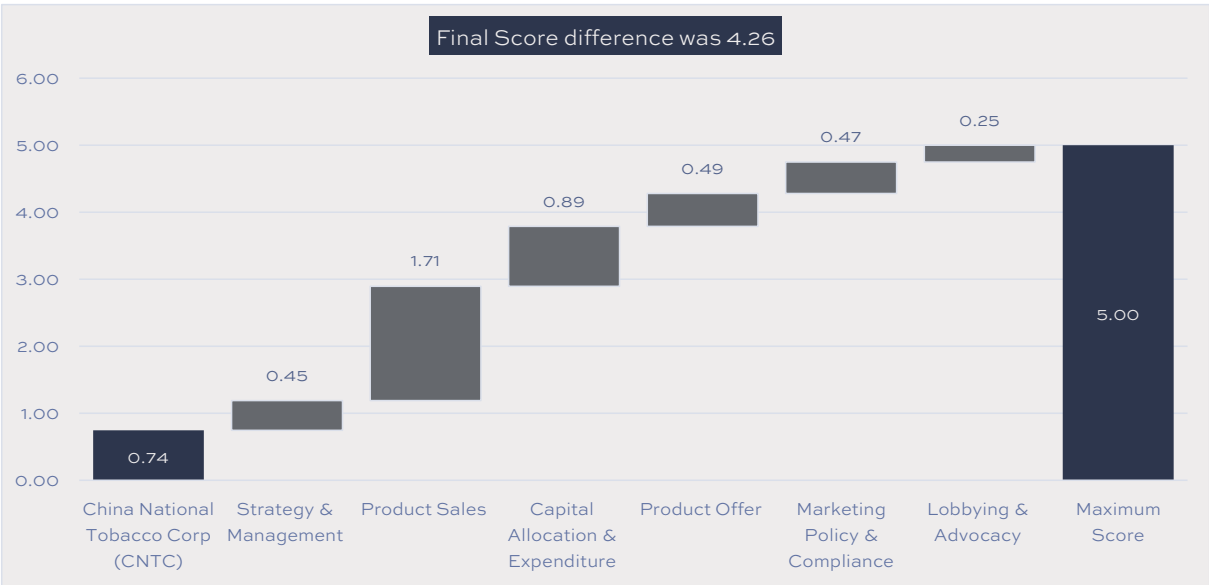


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 15 above shows how achieving a Maximum Score in each category will contribute to CNTC’s Final Score (Figure 16).

The gaps highlighted in the chart are a function of how far below a Maximum Score CNTC measured in the 2022 Index and the category’s weighting.

Figure 16: Category contribution to Final Score difference: CNTC & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

Djarum PT

Djarum PT is an independent, family-run Indonesian kretek (clove cigarette) manufacturer and is Indonesia’s third biggest tobacco producer.

It operates in three of the four Index Regions and six of the 36 Index Countries (Brazil, Indonesia, Poland, Turkey, Ukraine, USA). 96% of Djarum’s total Volume Sales are in Indonesia. Its product portfolio consists of cigarettes, cigarillos and cigars.⁹

The company’s ranking remained unchanged at fifteen, but its category rankings declined in all but one category.

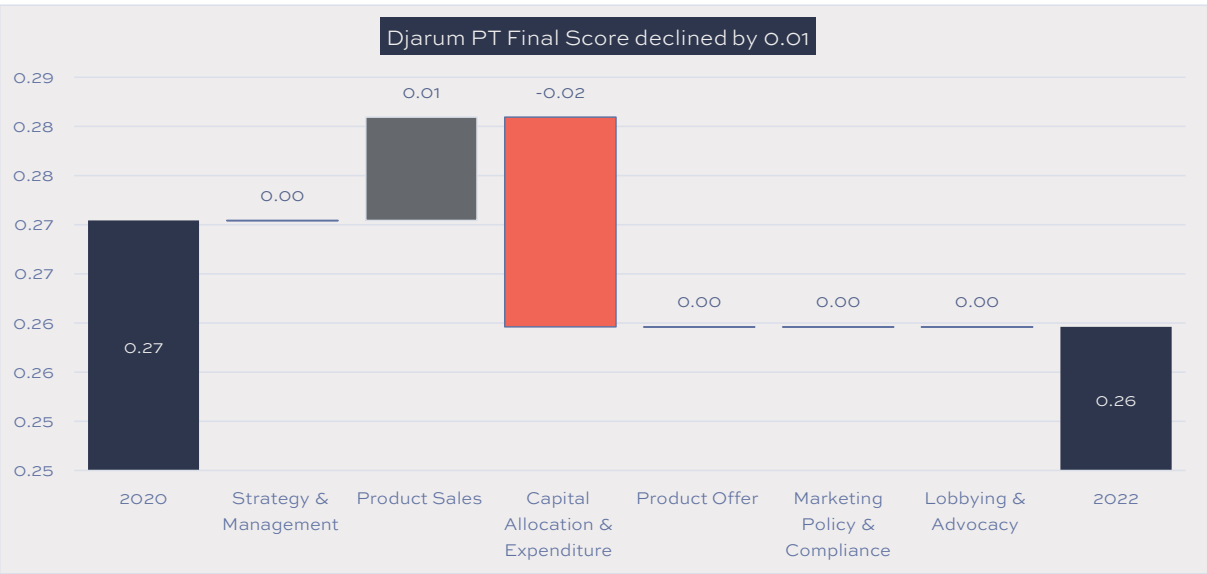
Figure 17: Djarum PT Rank improvement (deterioration) 2020-2022



Source: Tobacco Transformation Index

There were no meaningful changes to Djarum’s overall or category scores.

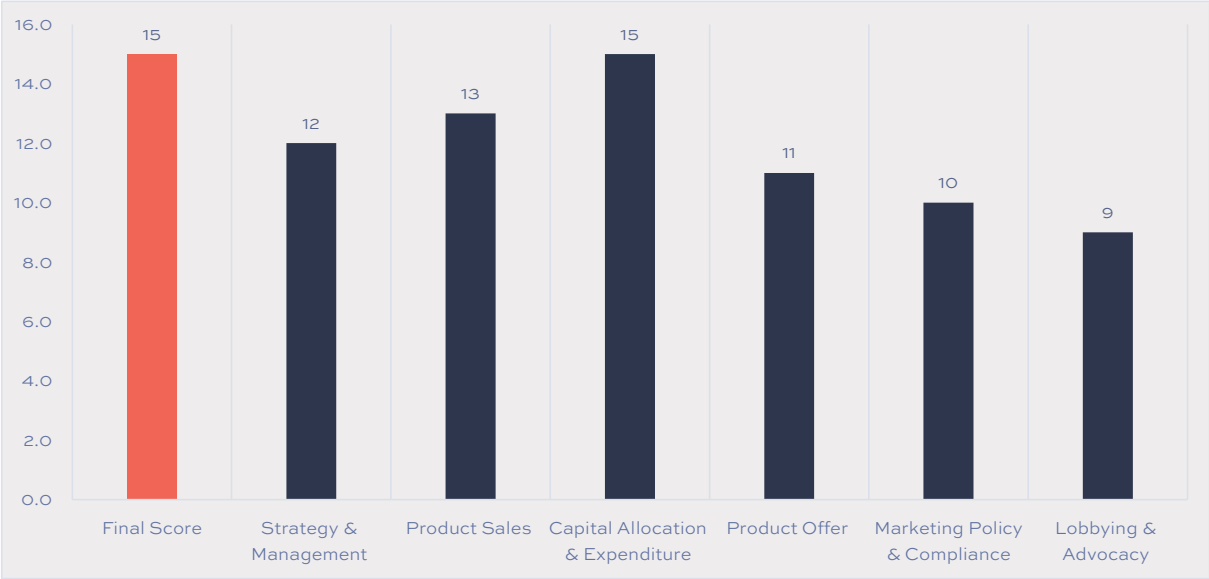
Figure 18: Category contribution to Djarum PT Final Score change



Source: Tobacco Transformation Index, Idwala Research

⁹ <https://tobaccotransformationindex.org/companies/djarum-pt/>

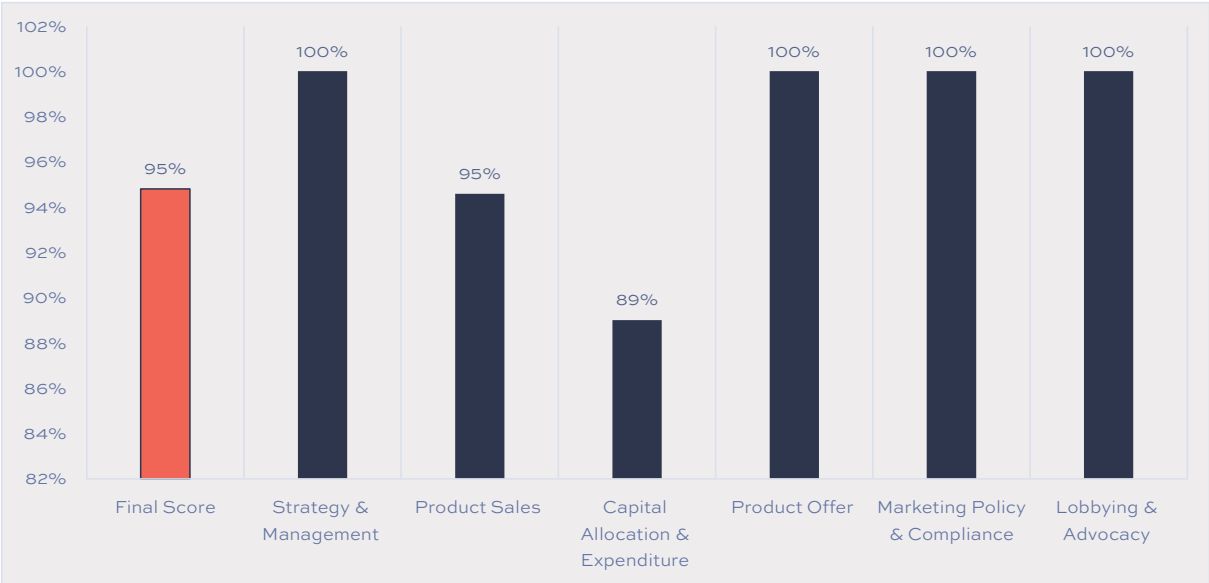
Figure 19: Djarum PT 2022 TTI ranking by Category



Source: Tobacco Transformation Index

Djarum’s Final Score of 0.26 was 95% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted) 95% lower than the company that ranked first in each indicator. The same applies at the category level (Figure 20). Djarum scored zero in 4/6 categories.

Figure 20: Category Score difference: Djarum PT % lower than Maximum Score

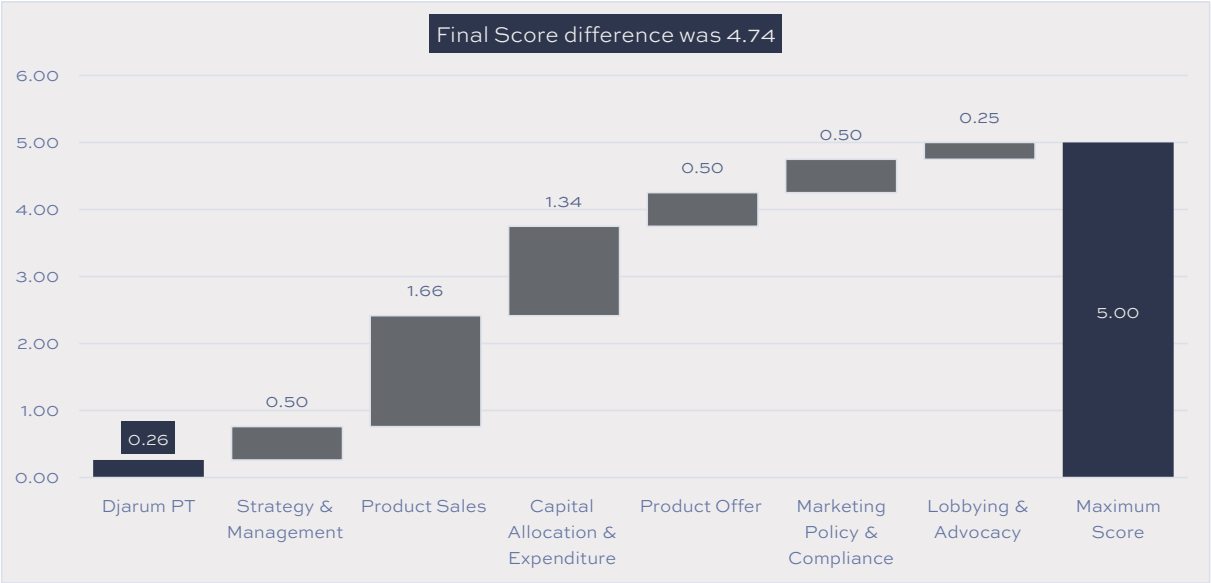


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 20 above shows how achieving a Maximum Score in each category will contribute to Djarum’s’s Final Score (Figure 21).

The gaps highlighted in the chart are a function of how far below a Maximum Score Djarum measured in the 2022 Index and the category’s weighting.

Figure 21: Category contribution to Final Score difference: Djarum PT & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

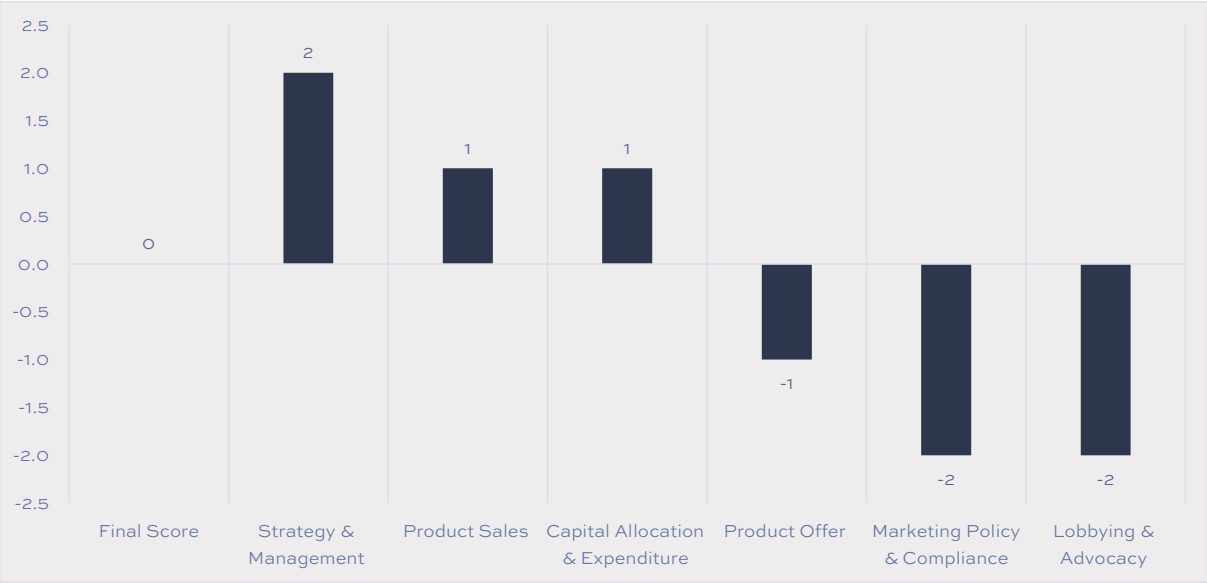
Eastern Co SAE

Eastern is the largest tobacco producer in Egypt. It is 51% owned by the Egyptian government and is listed on Egyptian Exchange.

It operates in one Index Region (Middle East & Africa) and one of the 36 Index Countries (Egypt). Its product portfolio consists of cigarettes, cigarillos and cigars ¹⁰.

Eastern’s overall ranking remained unchanged at thirteen, but it saw improved positions in Strategy & Management, Product Sales and Capital Allocation & Expenditure, and lower rankings, albeit unchanged scores, in Product Offer, Marketing Policy & Compliance and Lobbying & Advocacy.

Figure 22: Eastern Co SAE Rank improvement (deterioration) 2020-2022

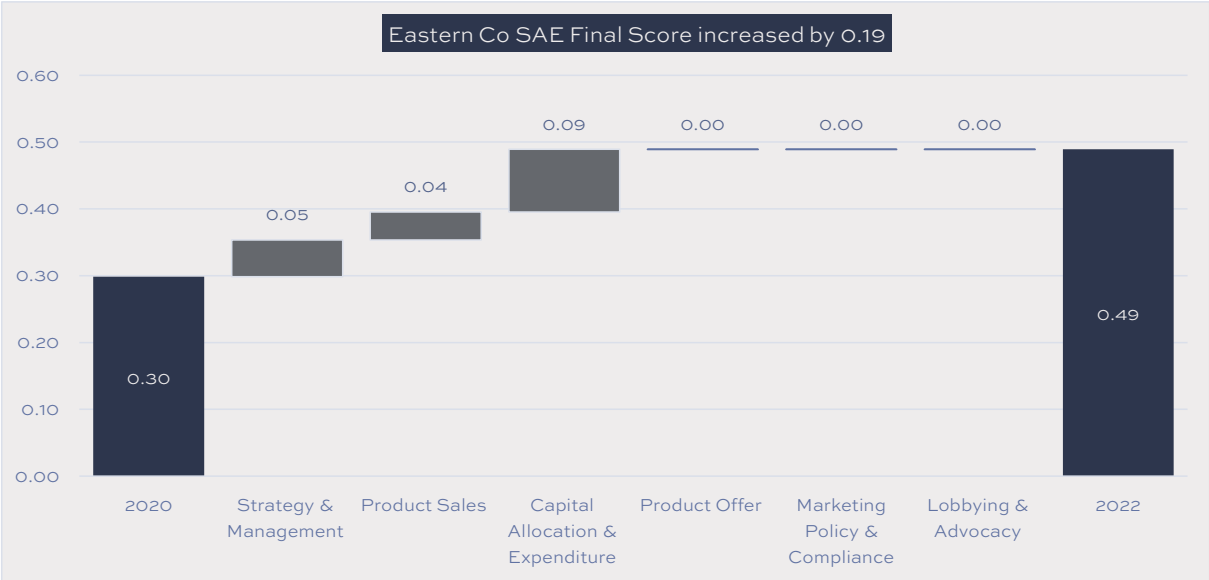


Source: Tobacco Transformation Index

The company recorded a meaningful 0.19 Final Score increase to 0.49, driven by Product Sales, Strategy & Management and Capital Allocation & Expenditure.

¹⁰ <https://tobaccotransformationindex.org/companies/eastern-co-sae/>

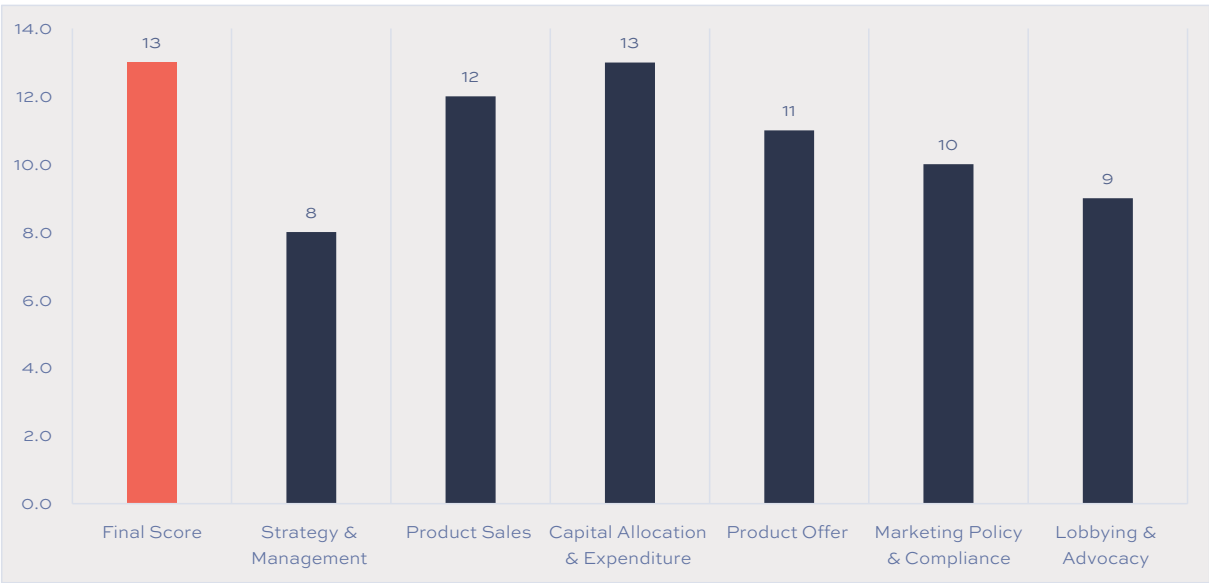
Figure 23: Category contribution to Eastern Co SAE Final Score change



Source: Tobacco Transformation Index, Idwala Research

Compared with its overall ranking, Eastern’s eighth position in Strategy & Management stands out.

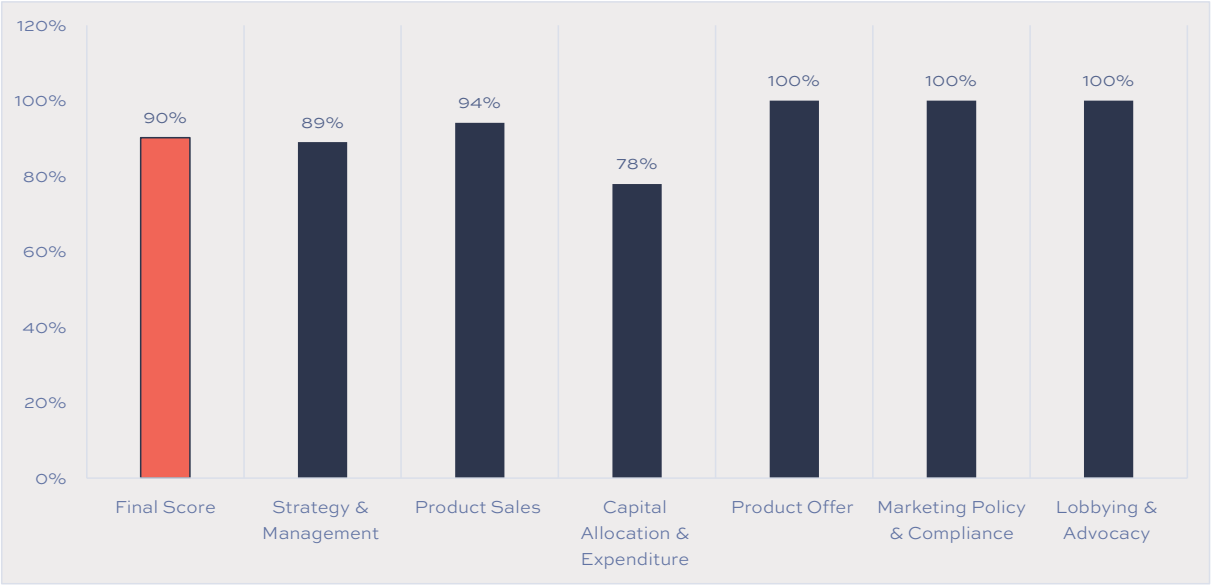
Figure 24: Eastern Co SAE 2022 TTI ranking by Category



Source: Tobacco Transformation Index

Eastern’s Final Score of 0.49 was 90% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted) 90% lower than the company that ranked first in each indicator. The same applies at the category level (Figure 25). Eastern scored zero in Product Offer, Marketing Policy & Compliance and Lobbying & Advocacy.

Figure 25: Category Score difference: Eastern Co SAE % lower than Maximum Score

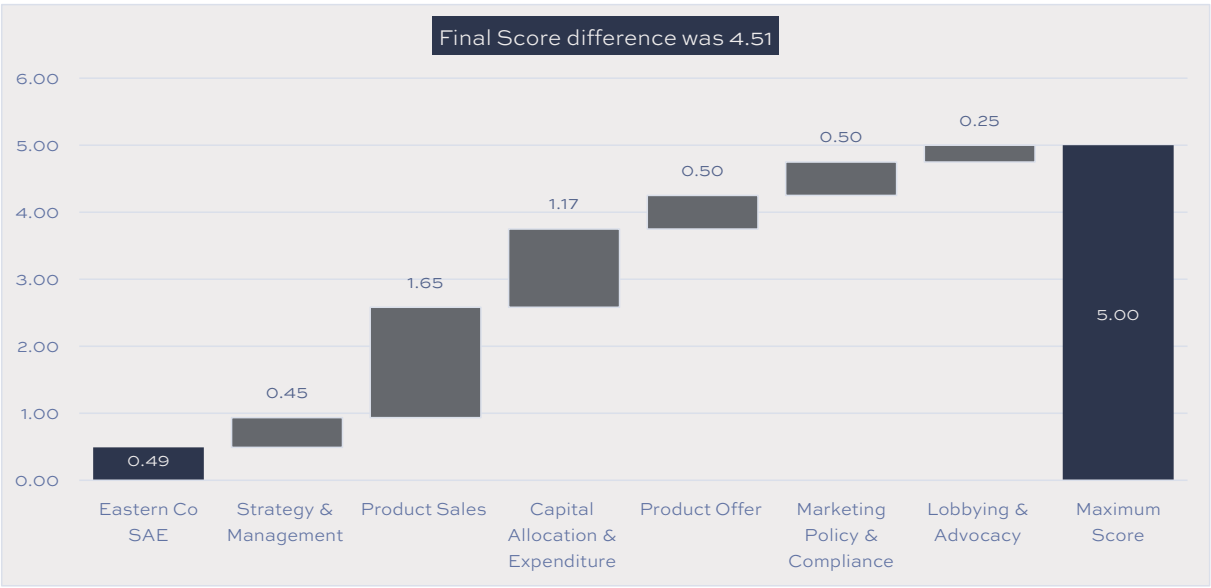


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 25 above shows how achieving a Maximum Score in each category will contribute to Eastern’s Final Score (Figure 26).

The gaps highlighted in the chart are a function of how far below a Maximum Score Eastern measured in the 2022 Index and the category’s weighting.

Figure 26: Category contribution to Final Score difference: Eastern Co SAE & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

Gudang Garam Tbk PT

Gudang Garam is a family-controlled, listed kretek (clove cigarette) and is the largest tobacco producer in Indonesia.

It operates in one Index Region (Asia Pacific) and five of the 36 Index Countries (Bangladesh, India, Indonesia, the Philippines, and Singapore). 98% of Gudang Garam’s total Volume Sales are in Indonesia. Its product portfolio consists exclusively of cigarettes¹¹.

Gudang Garam’s position was unchanged at fourteen, but it saw lower rankings in five categories, of which only Capital Allocation & Expenditure was accompanied by a lower category score.

Figure 27: Gudang Garam Tbk PT Rank improvement (deterioration) 2020-2022

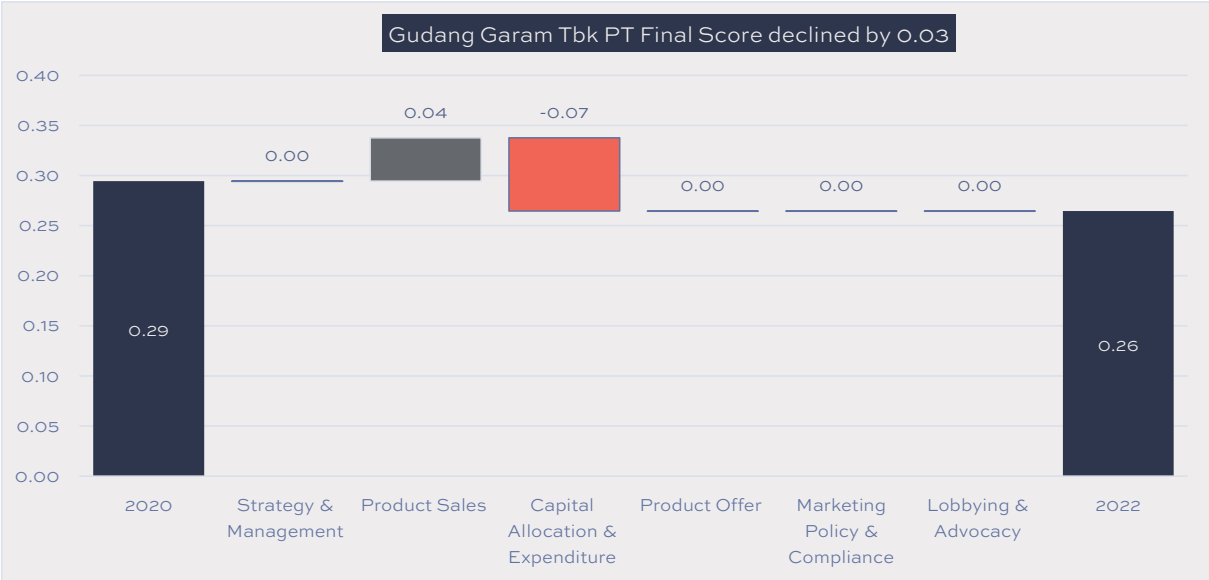


Source: Tobacco Transformation Index

A 0.07 decline in the contribution from Capital Allocation & Expenditure was partly offset by a 0.04 increase in Product Sales, leaving Gudang Garam’s Final Score essentially unchanged at 0.03 lower. We explore the drivers of these changes in more detail in the relevant category sections of this report.

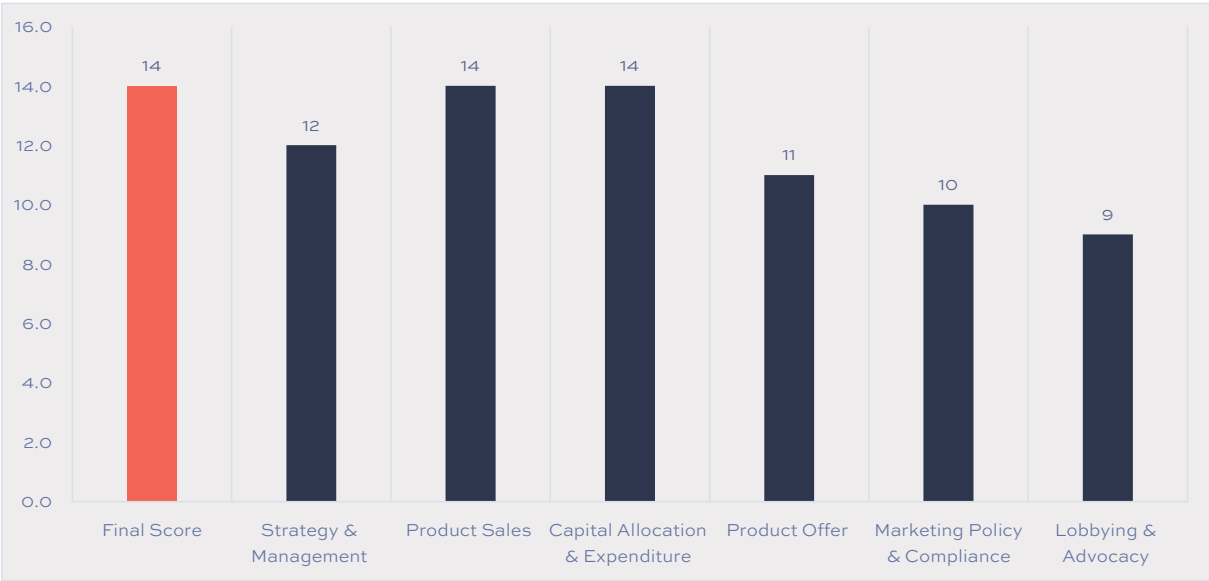
¹¹ <https://tobaccotransformationindex.org/companies/gudang-garam-tbk-pt/>

Figure 28: Category contribution to Gudang Garam Tbk PT Final Score change



Source: Tobacco Transformation Index, Idwala Research

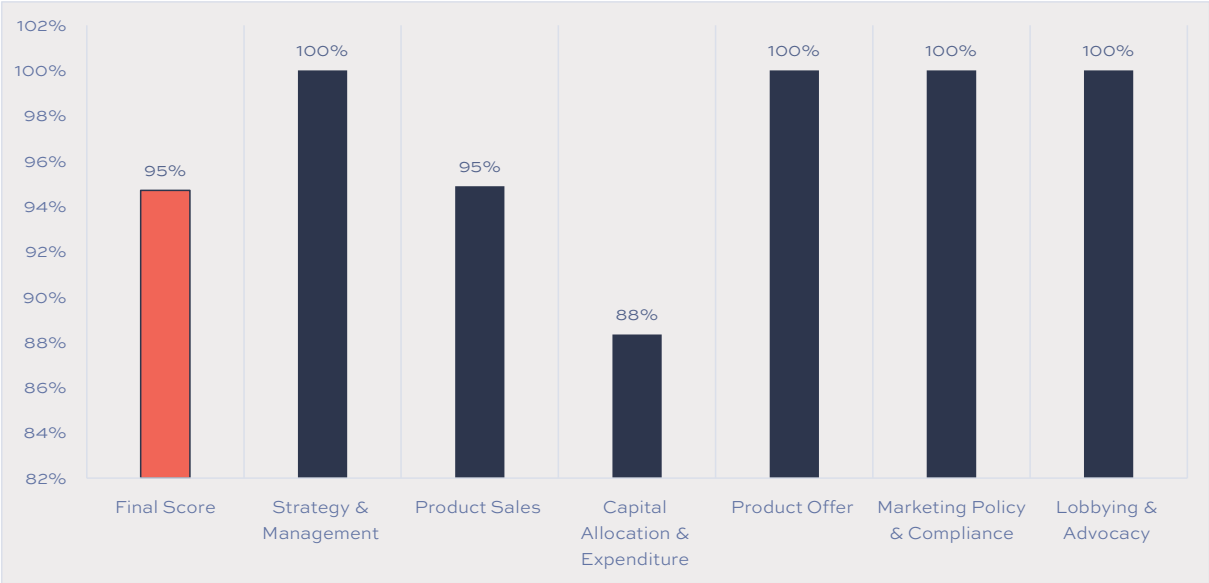
Figure 29: Gudang Garam Tbk PT 2022 TTI ranking by Category



Source: Tobacco Transformation Index

Gudang Garam’s Final Score of 0.26 was 95% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted), 95% lower than the company that ranked first in each indicator. The same applies at the category level (Figure 30). The company score zero in four categories.

Figure 30: Category Score difference: Gudang Garam Tbk PT % lower than Maximum Score

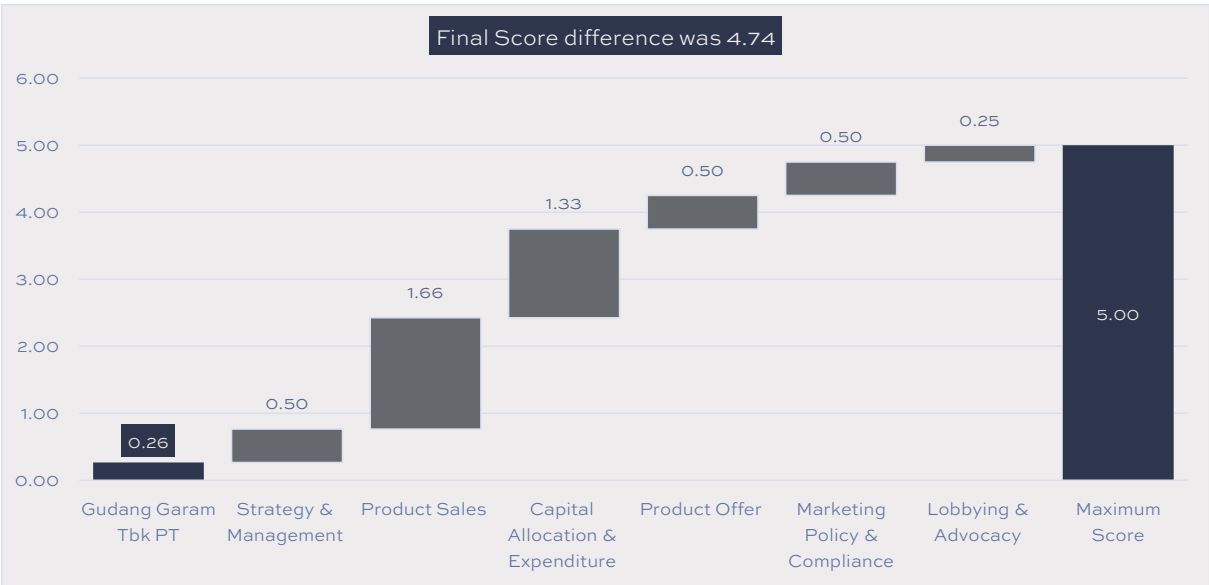


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 30 above shows how achieving a Maximum Score in each category will contribute to Gudang Garam’s Final Score (Figure 31).

The gaps highlighted in the chart are a function of how far below a Maximum Score Gudang Garam measured in the 2022 Index and the category’s weighting.

Figure 31: Category contribution to Final Score difference: Gudang Garam Tbk PT & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

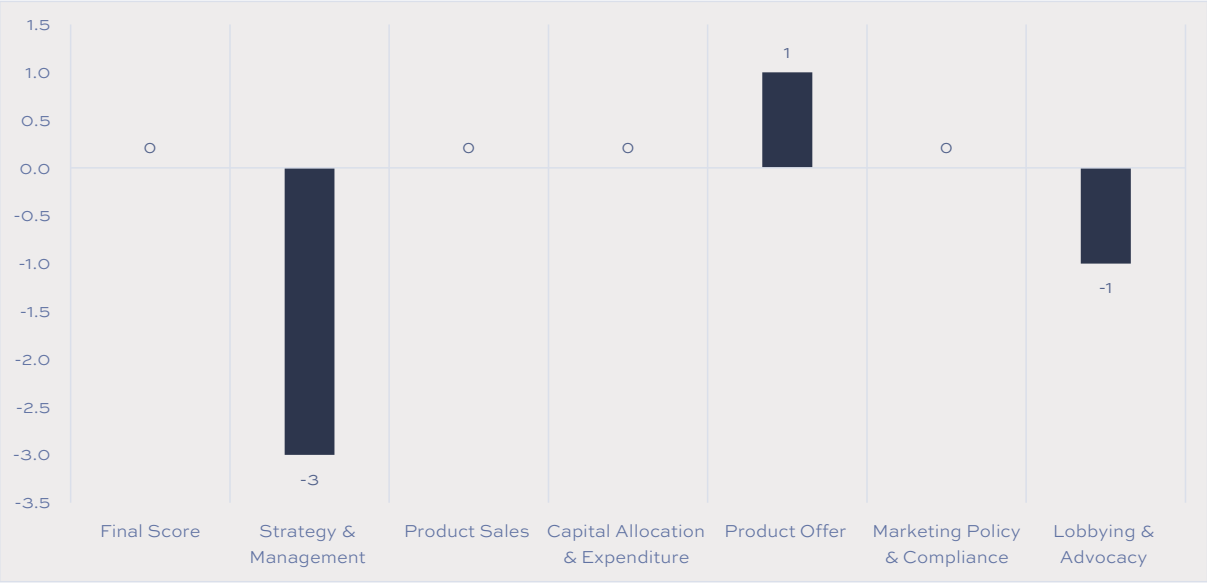
ITC Ltd

ITC is a listed conglomerate and the largest cigarette producer in India. BAT owns 29% of ITC.

It operates in one Index Region (Asia Pacific) and one of the 36 Index Countries (India), and its product portfolio consists of cigarettes, cigars, and NRT products¹².

The company’s overall ranking remained unchanged at ninth, but it lost three places in Strategy & Management on an unchanged score, one in Lobbying & Advocacy on an increased score, and gained one Product Offer where it also increased its score.

Figure 32: ITC Ltd Rank improvement (deterioration) 2020-2022

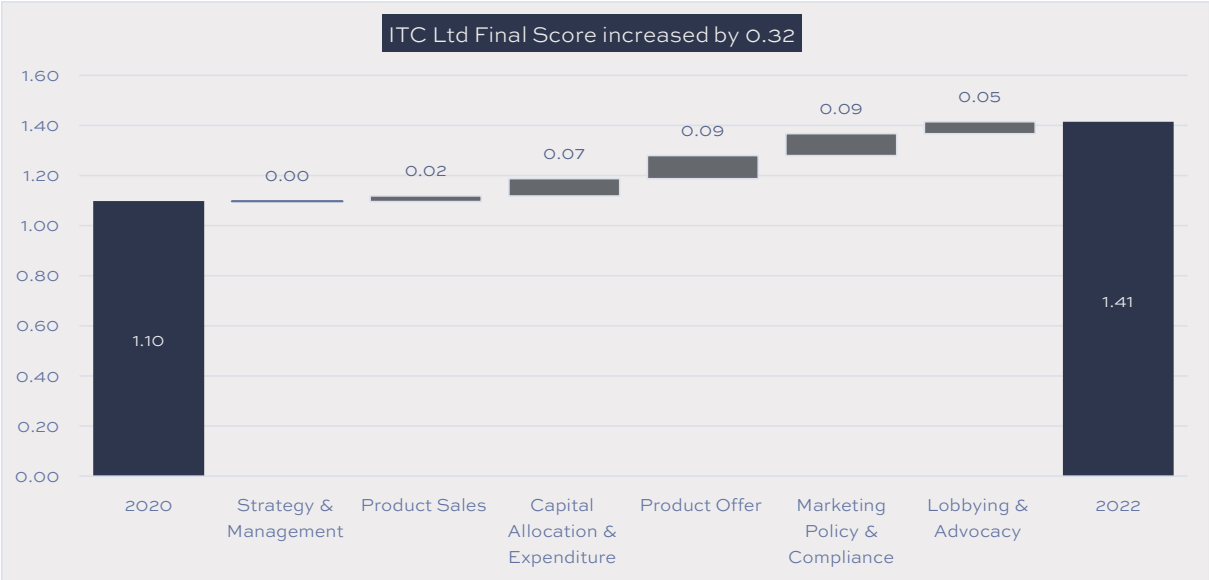


Source: Tobacco Transformation Index

The most significant contributions to ITC’s 0.32 Final Score increase came from Product Offer and Marketing Policy & Compliance (+0.09 each), followed by Capital Allocation & Expenditure (+0.07) and Lobbying & Advocacy (+0.05) (Figure 33). We explore the drivers of these changes in more detail in the relevant category sections of this report.

¹² <https://tobaccotransformationindex.org/companies/itc-ltd/>

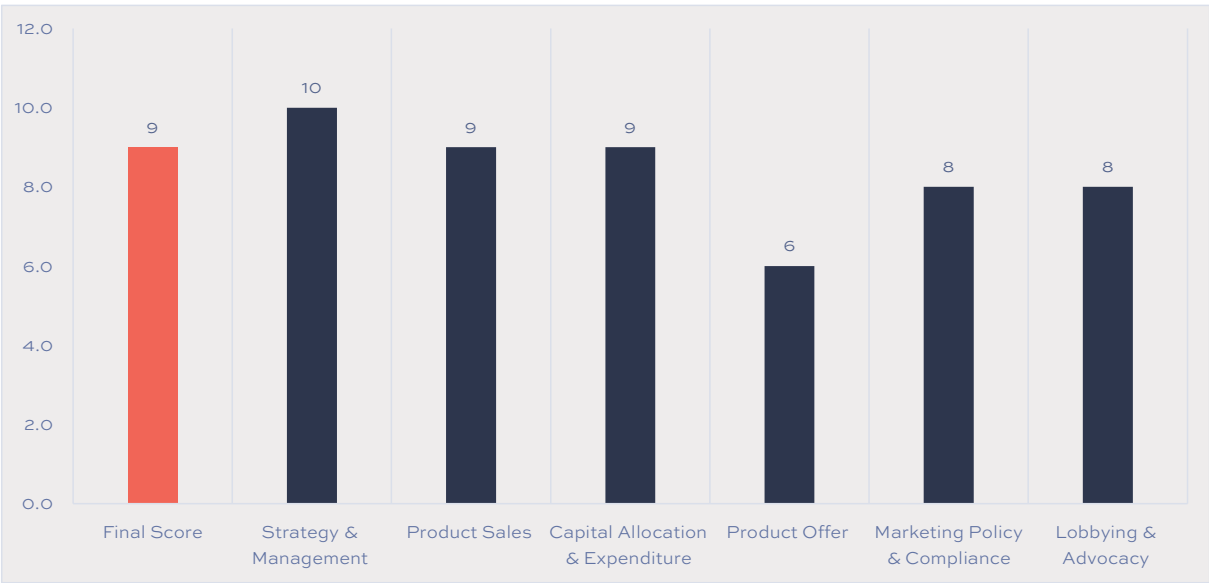
Figure 33: Category contribution to ITC Ltd Final Score change



Source: Tobacco Transformation Index, Idwala Research

Relative to its ninth overall ranking, ITC outperformed in Product Offer, ranking sixth (Figure 34).

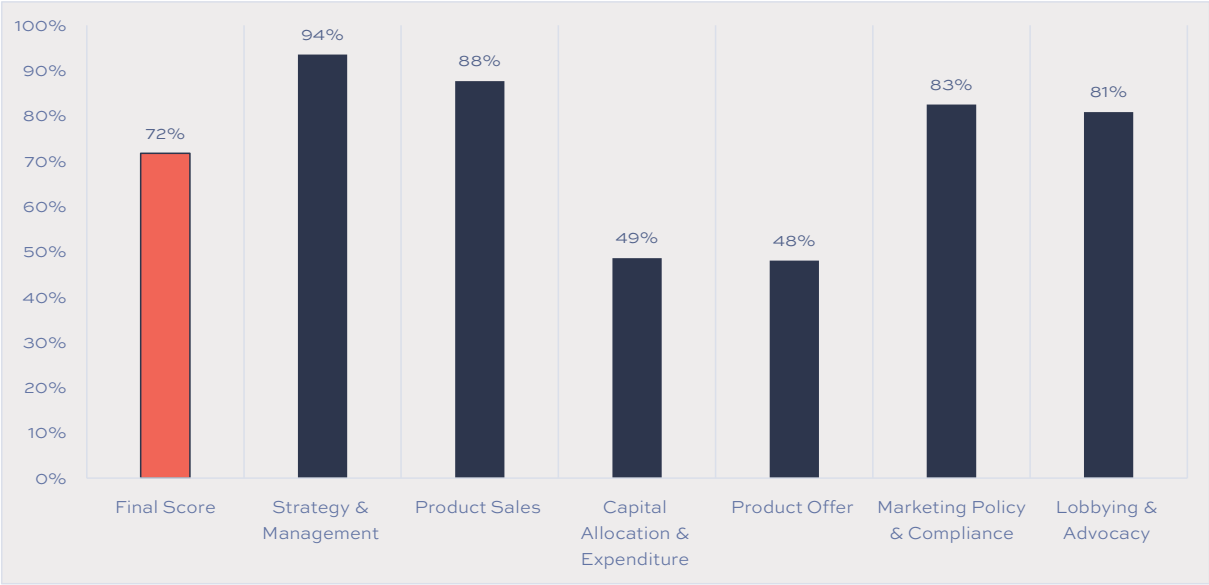
Figure 34: ITC Ltd 2022 TTI ranking by Category



Source: Tobacco Transformation Index

ITC’s Final Score of 1.41 was 72% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted) 72% lower than the company that ranked first in each indicator. The same applies at the category level (Figure 35). ITC scored in all categories and did best in Product Offer and Capital Allocation & Expenditure.

Figure 35: Category Score difference: ITC Ltd % lower than Maximum Score

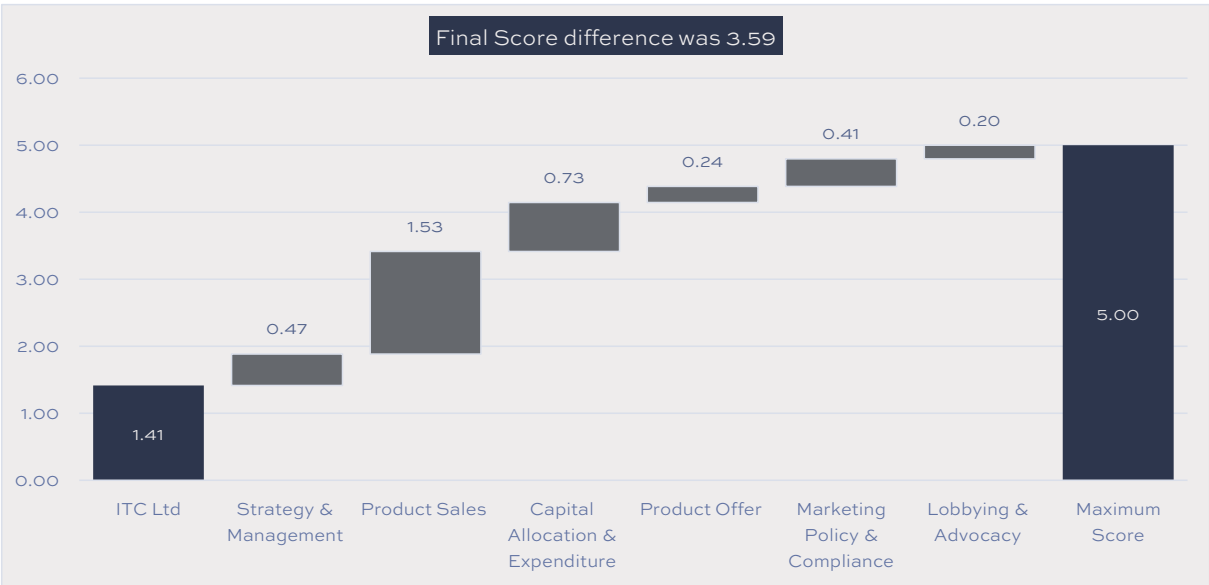


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 35 above shows how achieving a Maximum Score in each category will contribute to ITC’s Final Score (Figure 36).

The gaps highlighted in the chart are a function of how far below a Maximum Score ITC measured in the 2022 Index and the category’s weighting.

Figure 36: Category contribution to Final Score difference: ITC Ltd & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

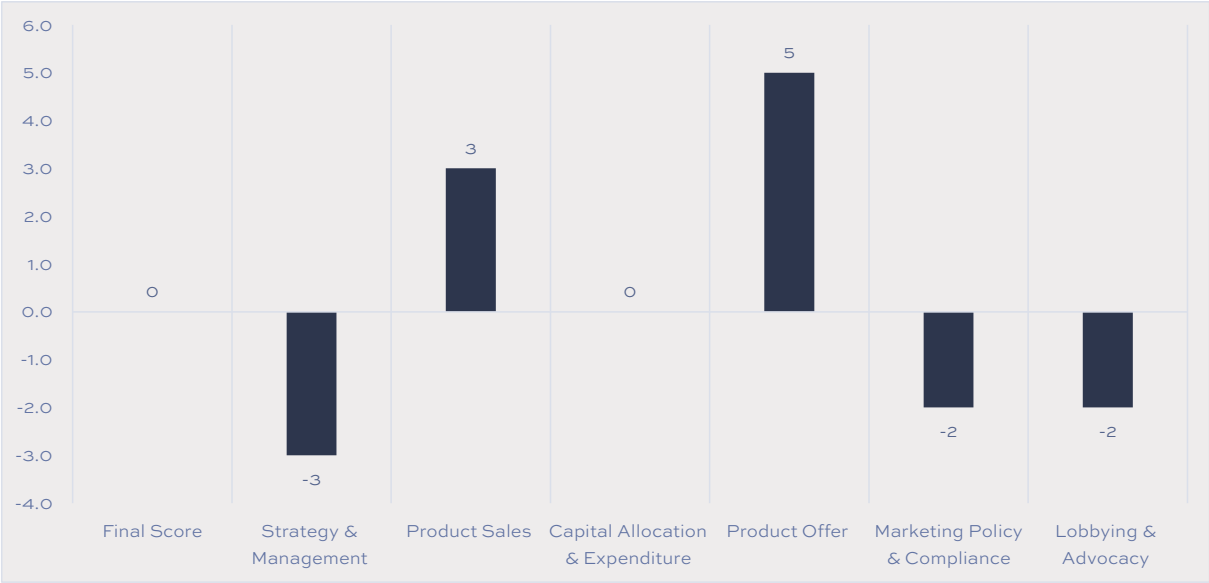
Swisher

Swisher is a privately-held cigar and tobacco company and a leading player in the US cigar market.

It operates in all four Index Regions and 18 of the 36 Index Countries, and its top five countries by Volume Sales are the USA, South Africa, Japan, the UK and India. Its product portfolio consists of cigars, cigarillos, chewing tobacco, moist snuff, pipe tobacco and non-tobacco nicotine pouches¹³.

The company’s overall ranking was unchanged in the 2022 Index, but its position improved by three in Product Sales and five in Product Offer. On stable scores, it achieved lower rankings in Strategy & Management, Marketing Policy & Compliance and Lobbying & Advocacy.

Figure 37: Swisher Rank improvement (deterioration) 2020-2022

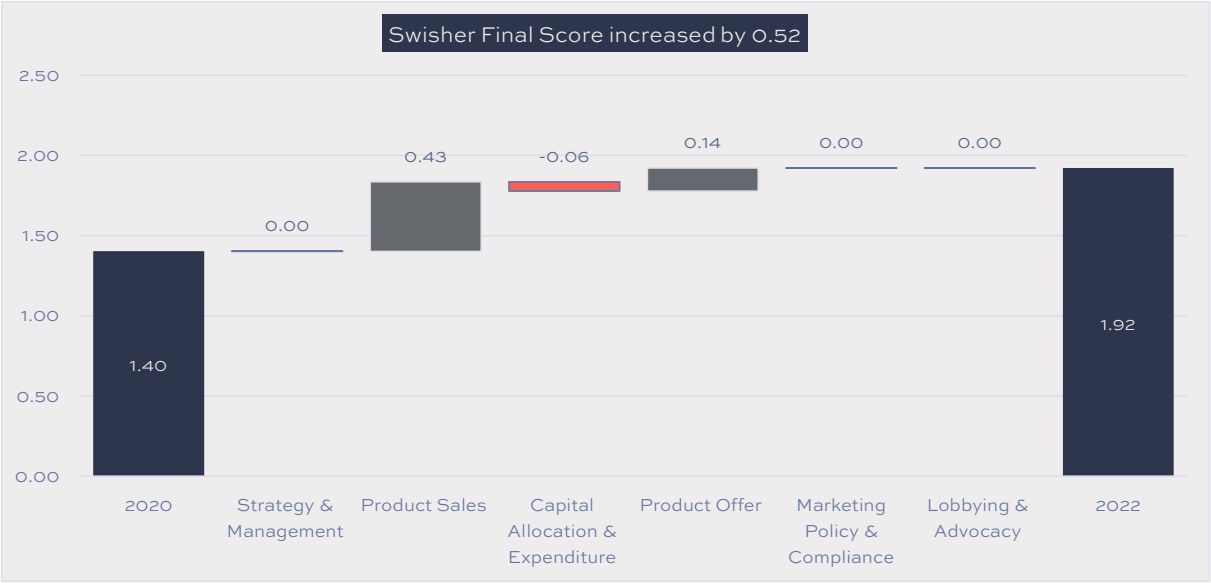


Source: Tobacco Transformation Index

Products Sales made the most significant contribution (+0.43) to Swisher’s 0.52 Final Score increases, followed by Product Offer at 0.14. These were partly offset by a 0.06 reduced contribution from Capital Allocation & Expenditure. We explore the drivers of these changes in more detail in the relevant category sections of this report.

¹³ <https://tobaccotransformationindex.org/companies/swisher/>

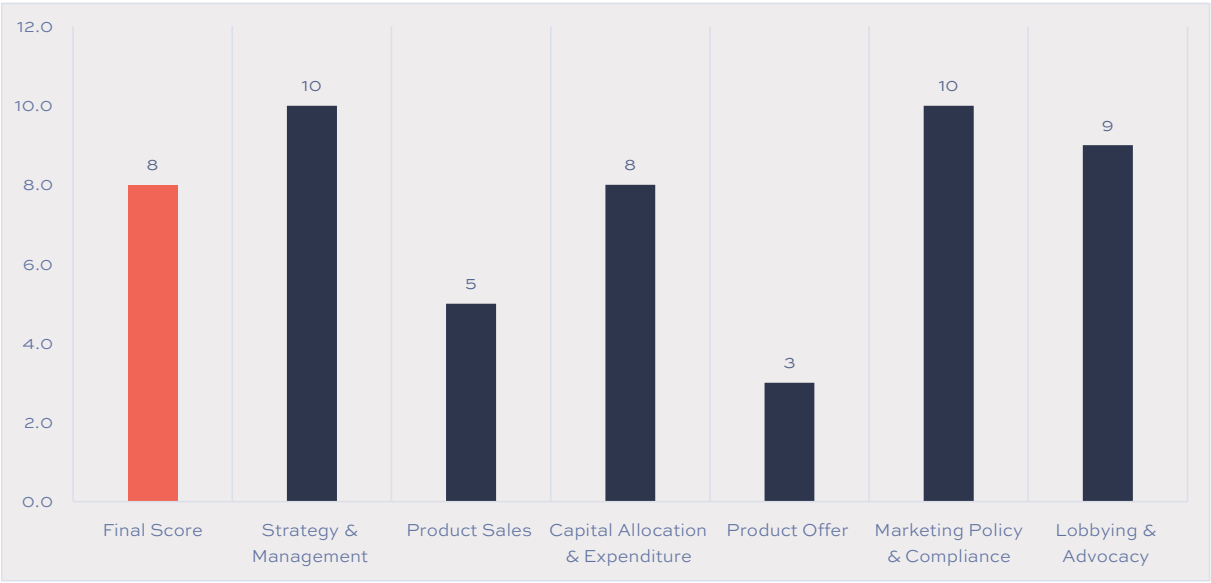
Figure 38: Category contribution to Swisher Final Score change



Source: Tobacco Transformation Index, Idwala Research

Swisher was ranked eighth overall, but third in Product Offer and fifth in Product Sales.

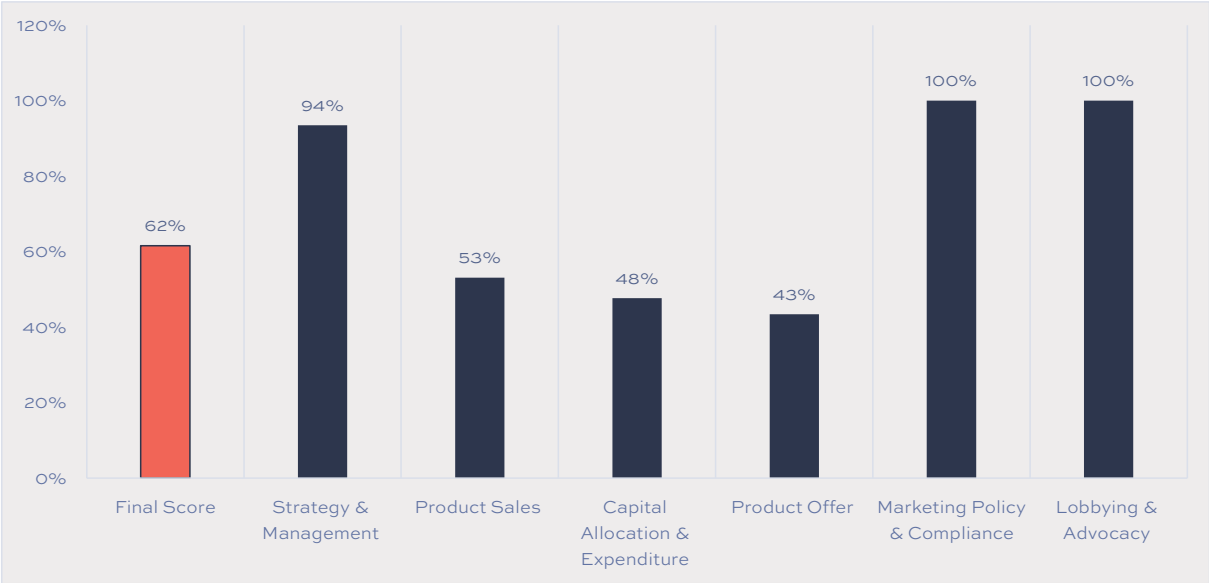
Figure 39: Swisher 2022 TTI ranking by Category



Source: Tobacco Transformation Index

Swisher’s Final Score of 1.92 was 62% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted) 62% lower than the company that ranked first in each indicator. The same applies at the category level Figure 40). Swisher score zero in Marketing Policy & Compliance and Lobbying & Advocacy.

Figure 40: Category Score difference: Swisher % lower than Maximum Score

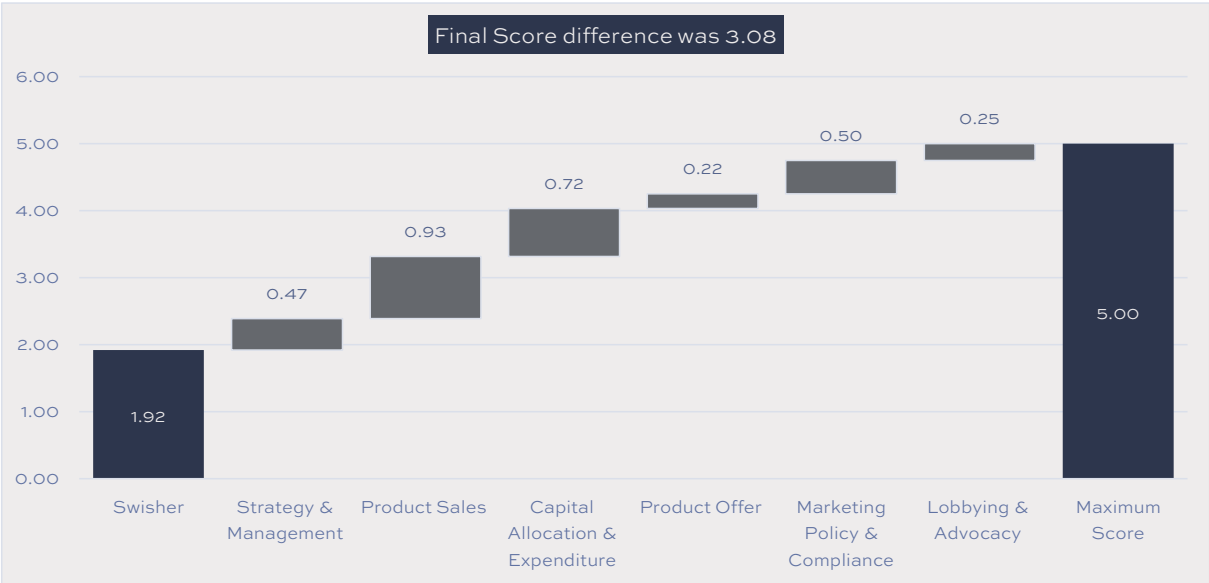


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 40 above shows how achieving a Maximum Score in each category will contribute to Swisher’s Final Score (Figure 41).

The gaps highlighted in the chart are a function of how far below a Maximum Score Swisher measured in the 2022 Index and the category’s weighting. The qualitative categories are clear opportunities for improvement for Swisher.

Figure 41: Category contribution to Final Score difference: Swisher & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

Tobacco Authority of Thailand

TOAT is a state-owned enterprise and the sole legal entity permitted to produce tobacco products in Thailand.

It operates in one Index Region (Asia Pacific), and one of the 36 Index Countries (Thailand), and its product portfolio consists exclusively of cigarettes¹⁴.

The company declined by one position to twelve, although its overall score improved. It saw ranking declines in four categories, albeit on stable scores.

Figure 42: Tobacco Authority of Thailand Rank improvement (deterioration) 2020-2022

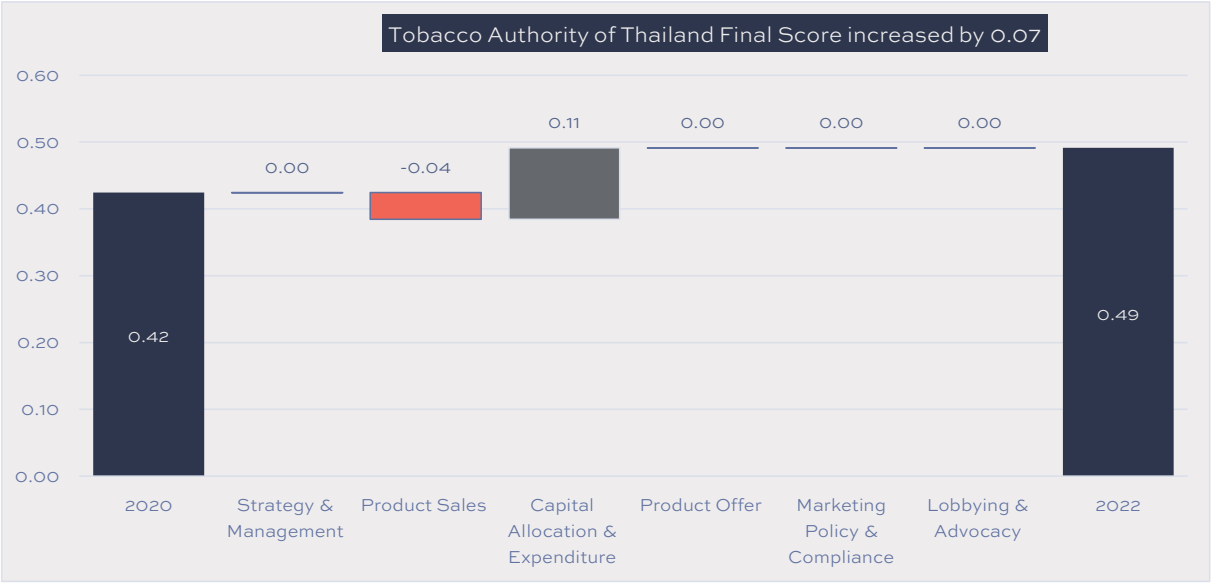


Source: Tobacco Transformation Index

Its Final Score increased by 0.07 to 0.49, with the most significant category changes recorded in Capital Allocation & Expenditure (+0.11) and Product Sales (-0.04). We explore the drivers of these changes in more detail in the relevant category sections of this report.

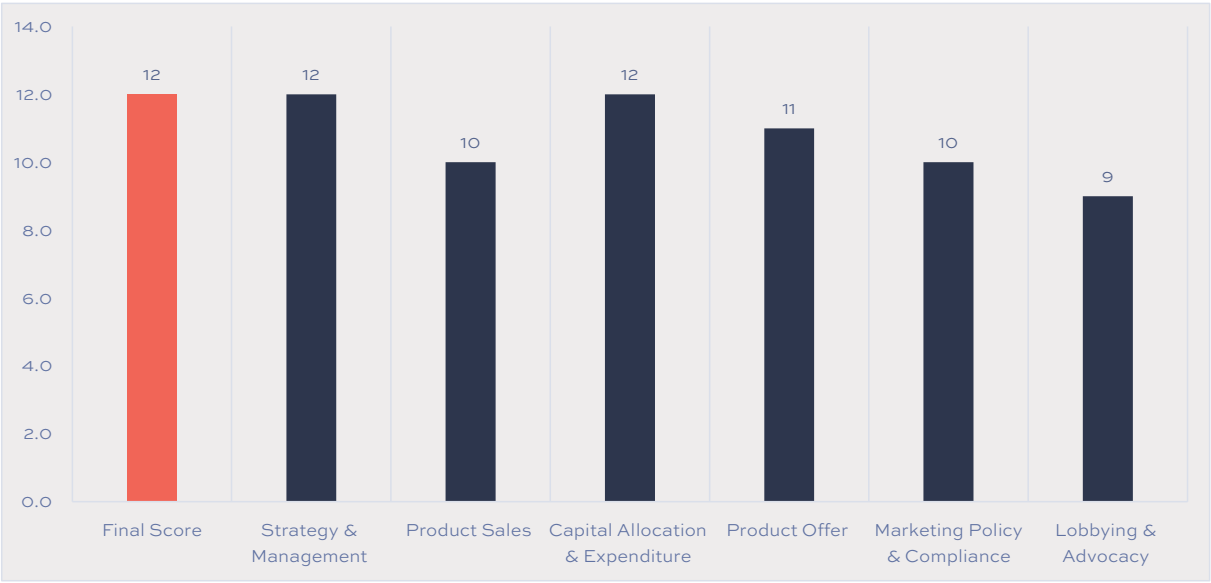
¹⁴ <https://tobaccotransformationindex.org/companies/tobacco-authority-of-thailand/>

Figure 43: Category contribution to Tobacco Authority of Thailand Final Score change



Source: Tobacco Transformation Index, Idwala Research

Figure 44: Tobacco Authority of Thailand TTI ranking by Category



Source: Tobacco Transformation Index

TOAT’s Final Score of 0.49 was 90% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted) 90% lower than the company that ranked first in each indicator. The same applies at the category level Figure 45). TOAT only scored in two categories.

Figure 45: Category Score difference: Tobacco Authority of Thailand % lower than Maximum Score

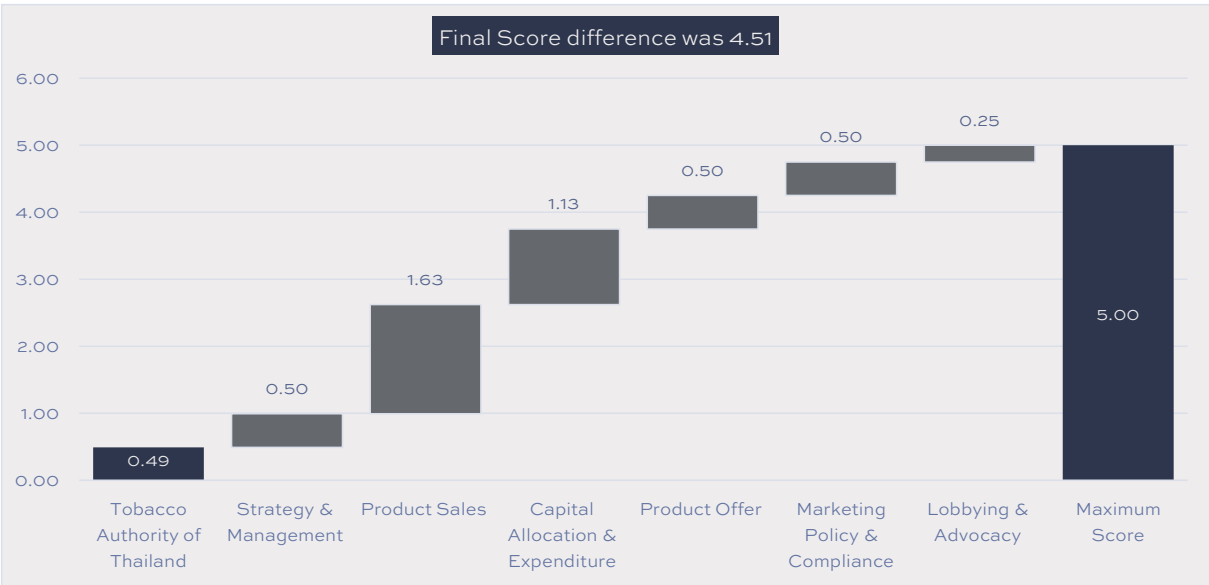


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 45 above shows how achieving a Maximum Score in each category will contribute to TOAT’s Final Score (Figure 46).

The gaps highlighted in the chart are a function of how far below a Maximum Score TOAT measured in the 2022 Index and the category’s weighting.

Figure 46: Category contribution to Final Score difference: Tobacco Authority of Thailand & Max. Score



Source: Tobacco Transformation Index, Idwala Research

Vietnam National Tobacco Corp (Vinataba)

Vinataba is 100% owned by the Vietnamese government and is the largest tobacco producer in Vietnam. It operates in one Index Region (Asia Pacific) and one of the 36 Index Countries (Vietnam), and its product portfolio consists of cigarettes, cigars and cigarillos¹⁵. The company’s overall ranking improved by one to eleven, also reflected in the Product Sales category. It saw ranking declines in four categories, albeit on stable scores.

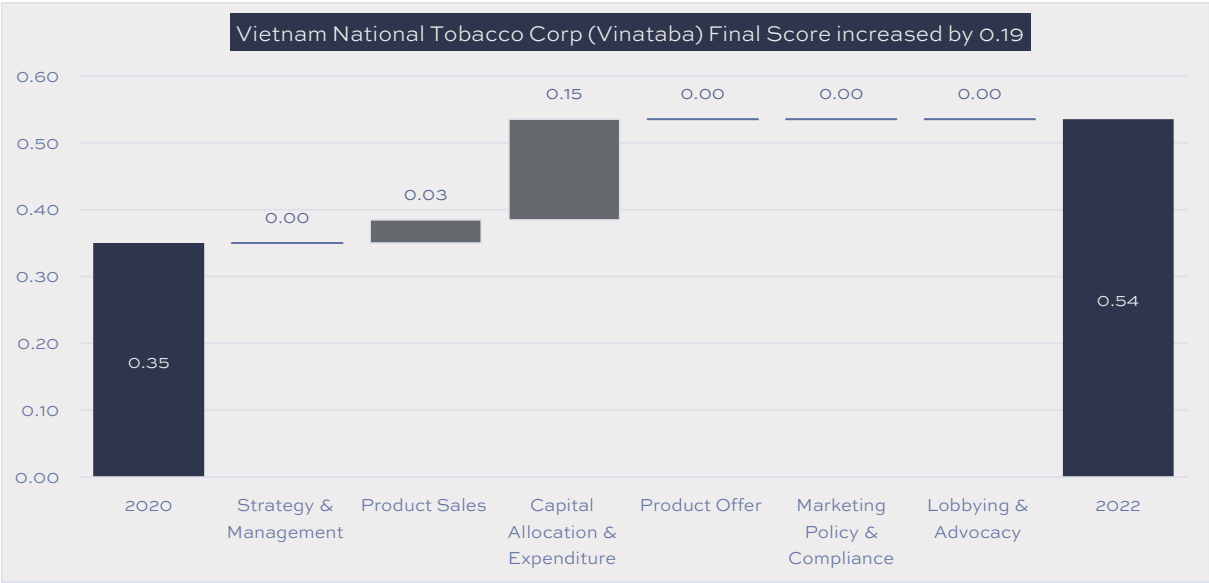
Figure 47: Vinataba Rank improvement (deterioration) 2020-2022



Source: Tobacco Transformation Index

Its Final Score increased by a meaningful 0.19 to 0.54, driven mainly by Capital Allocation & Expenditure at 0.15. We explore the drivers of the changes in more detail in the relevant category sections of this report.

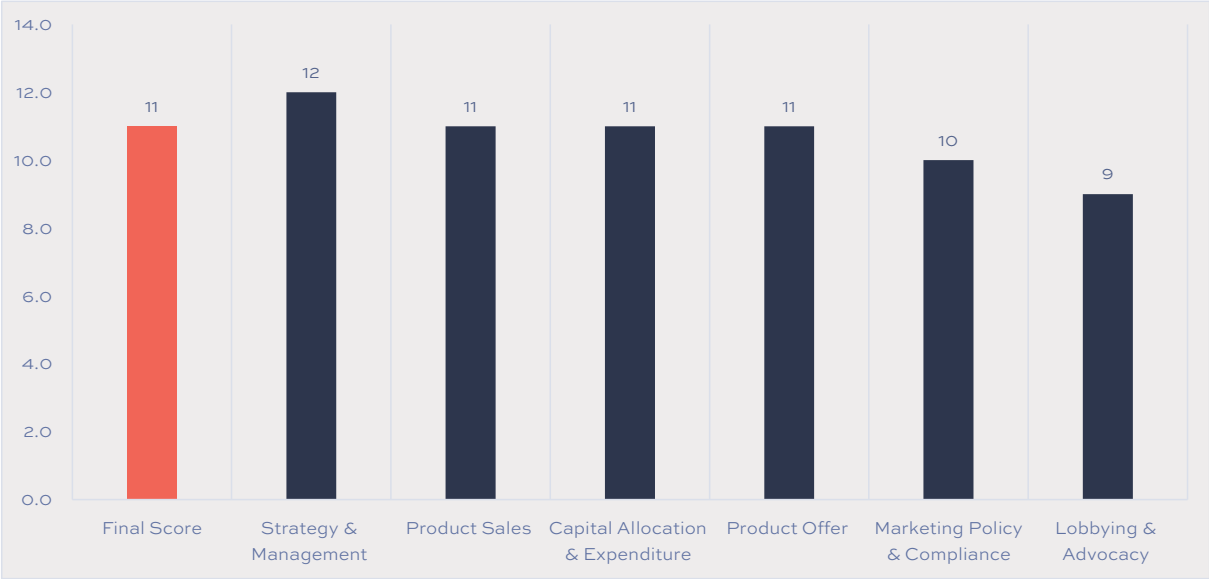
Figure 48: Category contribution to Vinataba Final Score change



Source: Tobacco Transformation Index, Idwala Research

¹⁵ <https://tobaccotransformationindex.org/companies/vietnam-national-tobacco-corp/>

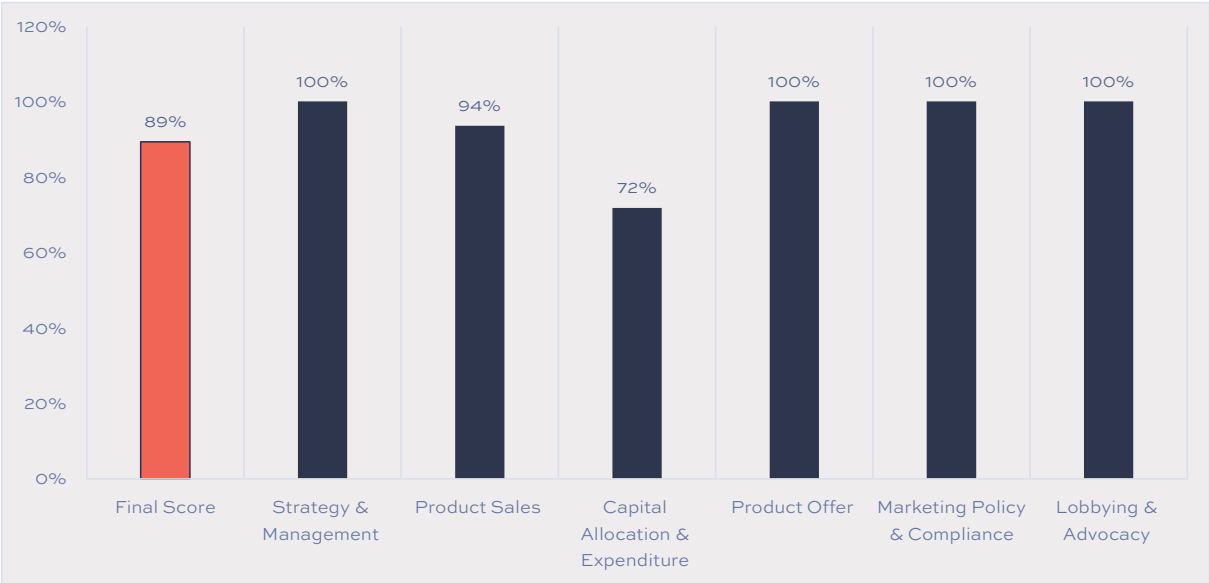
Figure 49: Vinataba TTI ranking by Category



Source: Tobacco Transformation Index

Vinataba’s Final Score of 0.54 was 89% lower than a theoretical maximum score of 5.00, which means that its indicator scores were, on average (weighted) 89% lower than the company that ranked first in each indicator. The same applies at the category level Figure 50). The company only scored in two categories.

Figure 50: Category Score difference: Vinataba % lower than Maximum Score

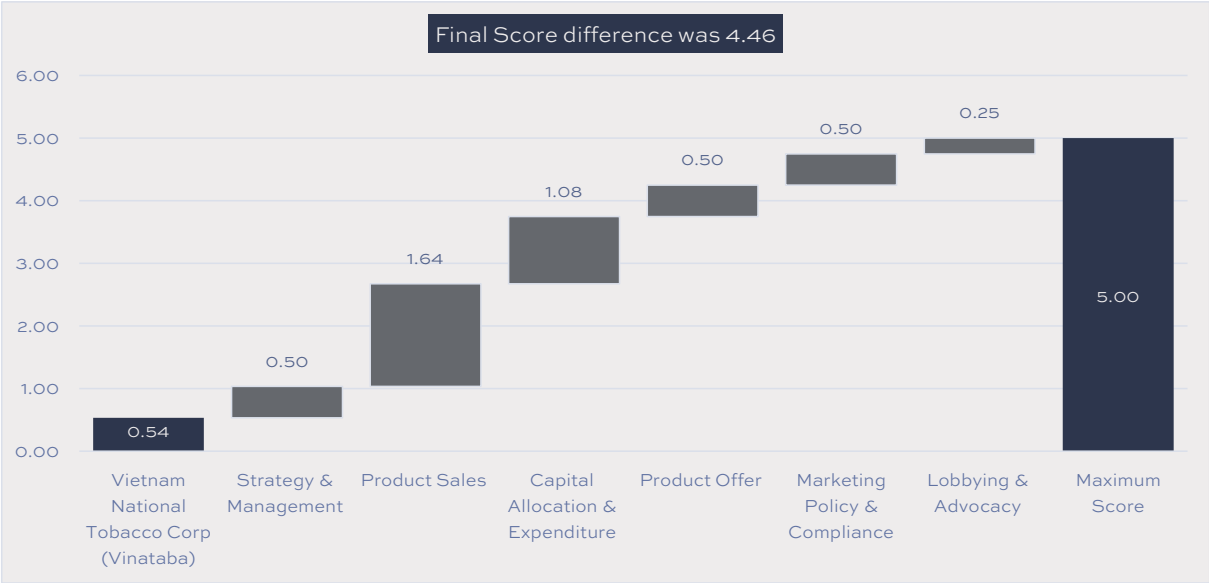


Source: Tobacco Transformation Index, Idwala Research

Applying the category weightings to the score differences shown in Figure 50 above shows how achieving a Maximum Score in each category will contribute to Vinataba’s Final Score (Figure 51).

The gaps highlighted in the chart are a function of how far below a Maximum Score Vinataba measured in the 2022 Index and the category’s weighting.

Figure 51: Category contribution to Final Score difference: Vinataba & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

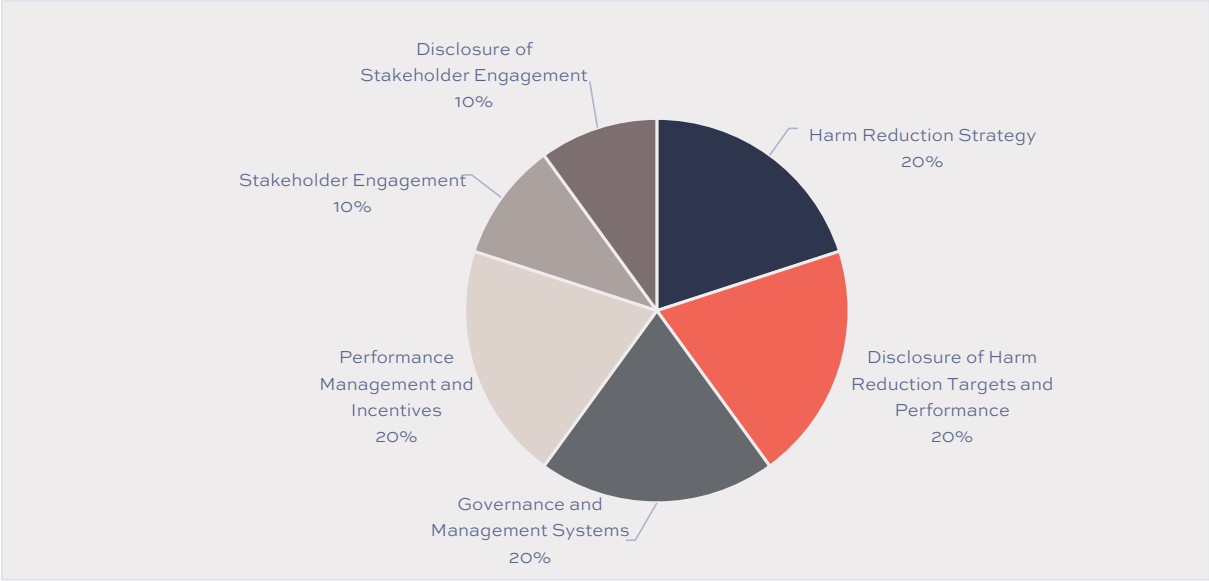
03

STRATEGY & MANAGEMENT



This category carries a 10% weighting in the Index and comprises six indicators grouped into two sub-categories: Vision and Management Systems (80%) and Stakeholder Engagement (20%). We show the indicator weightings in Figure 52 below.

Figure 52: % of Strategy & Management



Source: Tobacco Transformation Index

CNTC and Eastern were awarded points in the Harm Reduction indicator, increasing their weighted category scores from zero to 0.05 and improving their rankings from tenth to eighth. As a result, the Index companies whose category scores remain at zero saw their rankings decline from joint tenth to joint twelfth.

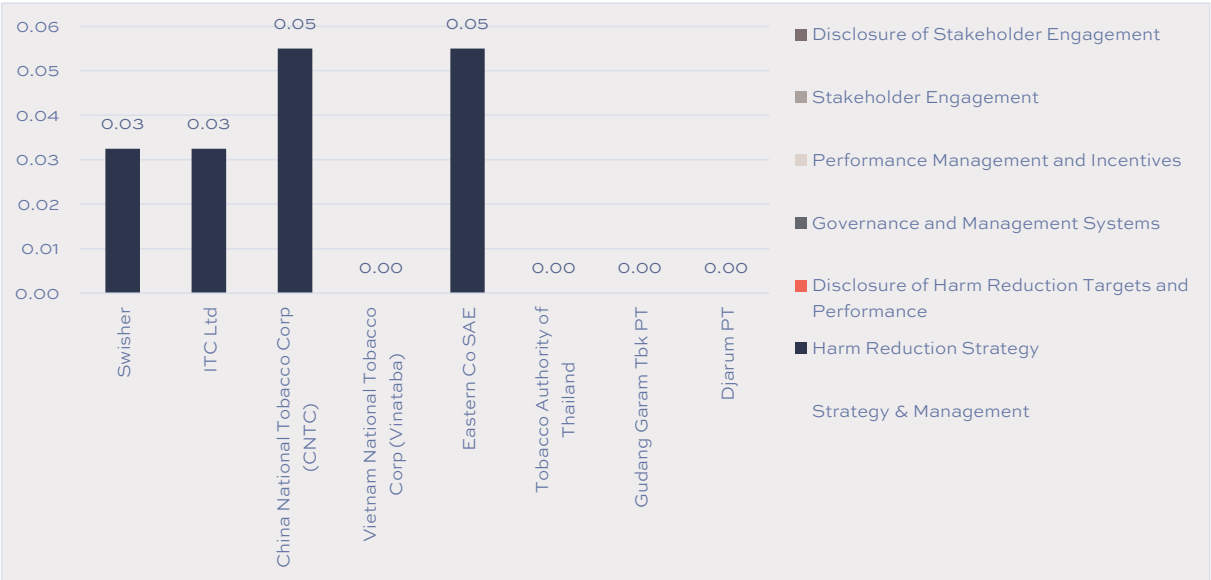
ITC and Swisher, the only remaining Next Eight Index companies to score in this category, maintained their weighted scores at 0.03, but declined three positions to joint tenth in the category.

Figure 53: Strategy & Management ranking and ranking change by company



Source: Tobacco Transformation Index

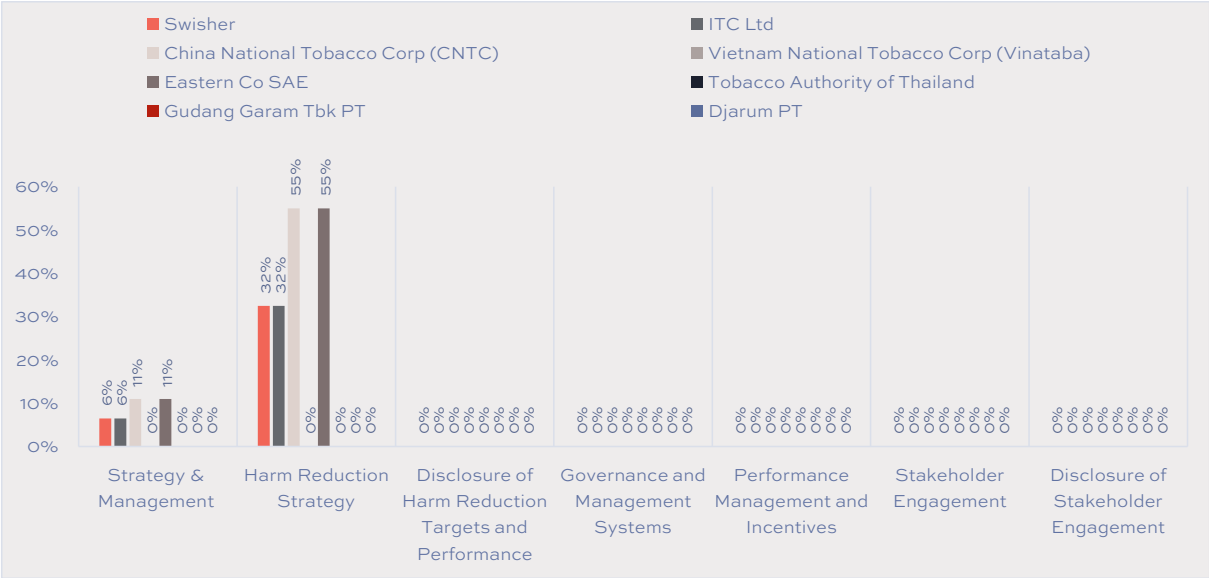
Figure 54: Contribution to Strategy & Management weighted score



Source: Tobacco Transformation Index

A common characteristic of the qualitative Index categories, Strategy & Management, Marketing Policy & Compliance and Lobbying & Advocacy, is a high proportion of equal scores and rankings due to the binary nature of qualitative indicators. This is because the scores depend on the degree to which companies satisfy the scoring criteria in each indicator (Figure 55).

Figure 55: Strategy & Management % of Maximum Score by Indicator



Source: Tobacco Transformation Index, Idwala Research

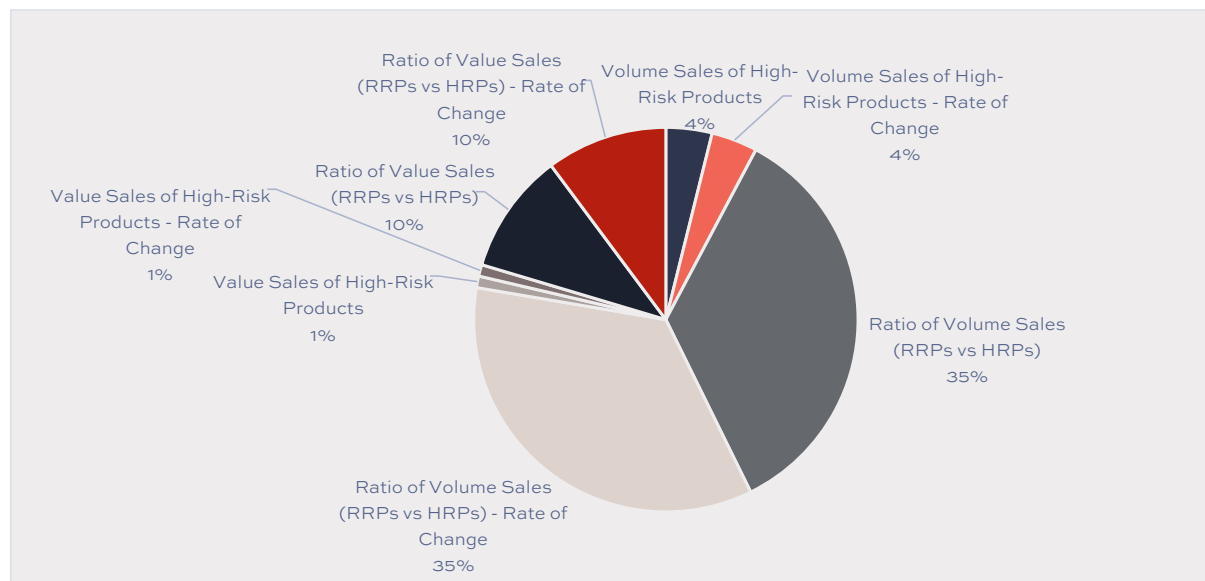
04

PRODUCT SALES



At 35%, the Product Sales category has the highest weighting in the Index. Eight indicators are measured within two sub-categories: Volume Sales of Tobacco Products (80%) and Value Sales of Tobacco Products (20%). We show the indicator weightings in Figure 56 below.

Figure 56: % of Product Sales



Source: Tobacco Transformation Index

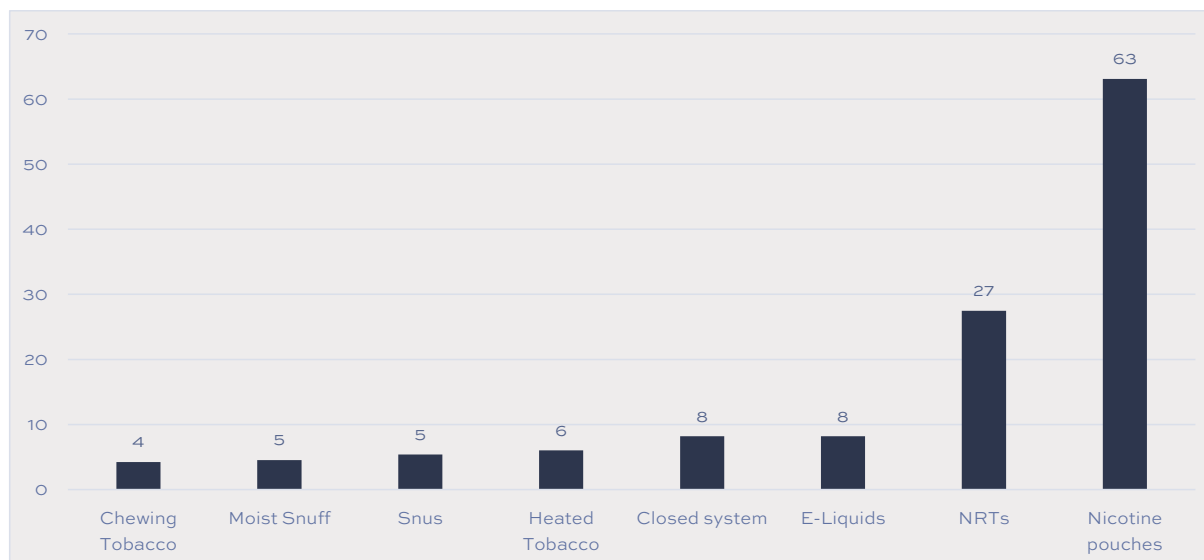
Two indicators account for over 70% of the category's score. The first, Ratio of Volume Sales (RRPs vs HRPs), measures the volume of Reduced-Risk Products (RRPs) in the last financial year (2021), converted to per-stick equivalents (PSEs) and adjusted for risk relative to cigarettes, expressed as a ratio of the volume of High-Risk Products (HRPs), converted to PSEs and adjusted for relative risk. The second, Ratio of Volume Sales (RRPs vs HRPs) - Rate of Change, represents the absolute difference between the RRP/HRP ratios of the 2021 and 2019 financial years. Two additional indicators, Ratio of Value Sales (RRPs vs HRPs) and Ratio of Value Sales (RRPs vs HRPs) - Rate of Change, account for over 20% of the Product Sales category. The RRP/HRP value ratios are also adjusted for relative risk. As a direct indication of harm/harm reduction, sales volume carries a significantly higher weight than sales value.

The relative risk adjustment is an attempt to account for each product's unique health risks and is made by applying a Risk Spectrum Operator to the PSE volume and USD value figures (Figure 57). The Risk Spectrum Operators are derived from the Relative Risk Assessment figures shown in Figure 6. For the sales ratio calculations, nicotine pouch PSE volumes and sales values, for example, are multiplied by 63.

In addition to the relative risk adjustment and PSE volume conversion, an LMIC vs HMIC multiplier is applied to the four indicators mentioned above, as well as to the volume and value sales of HRPs rate of change indicators (see methodology¹⁶). The LMIC versus HMIC multiplier applies only to Index Companies with a presence in both LMICs and HMICs. When an Index Company has positive tobacco harm reduction performance only in HMICs, a multiplier of 0.75 is applied to the indicator score to reflect the lack of consistency across different income markets.

¹⁶ <https://tobaccotransformationindex.org/about-the-data/methodology/>

Figure 57: RRP Risk Spectrum Operators

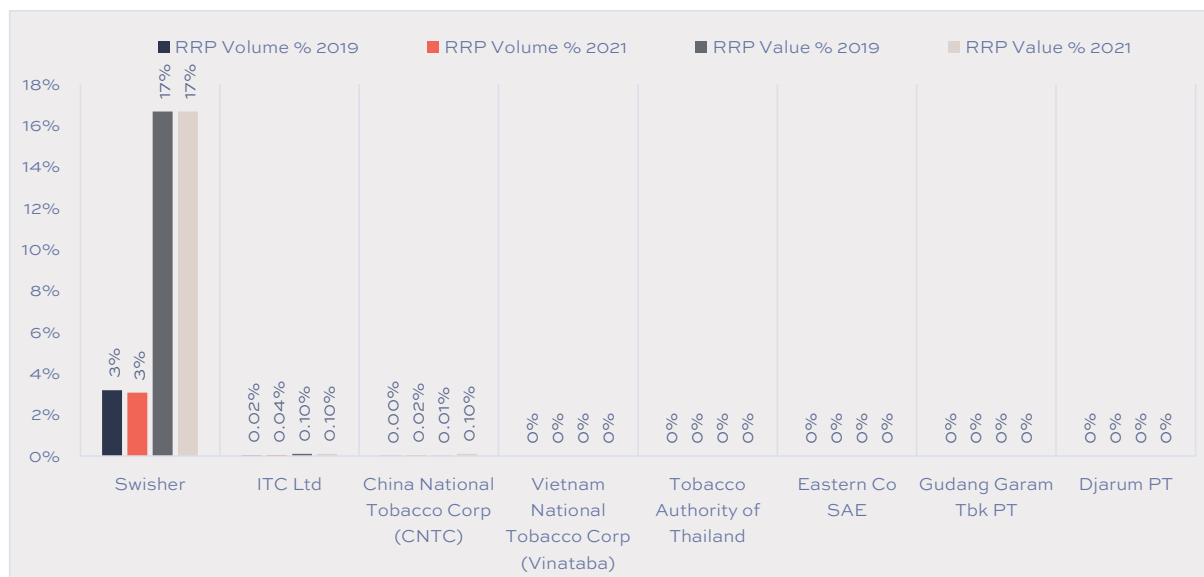


Source: Tobacco Transformation Index

Figure 58 shows RRP volume and value percentages of total sales in 2019 and 2021 for the Next Eight-ranked Index Companies before adjusting for relative risk. Volume figures have been converted to PSEs.

Only Swisher registered meaningful RRP sales at 3% of volumes and 17% of value. ITC and CNTC recorded marginal (0.04% and 0.02% of volume) RRP contributions. ITC's RRP contribution comprises nicotine replacement therapy products (NRTs) in India, whereas vaping and heated tobacco products are currently banned in that market. CNTC produces heated tobacco products for sale in selected international markets. More detail can be found on the Index website companies¹⁷ and country comparison¹⁸ pages.

Figure 58: Reduced-Risk Product % of Sales 2019 and 2021



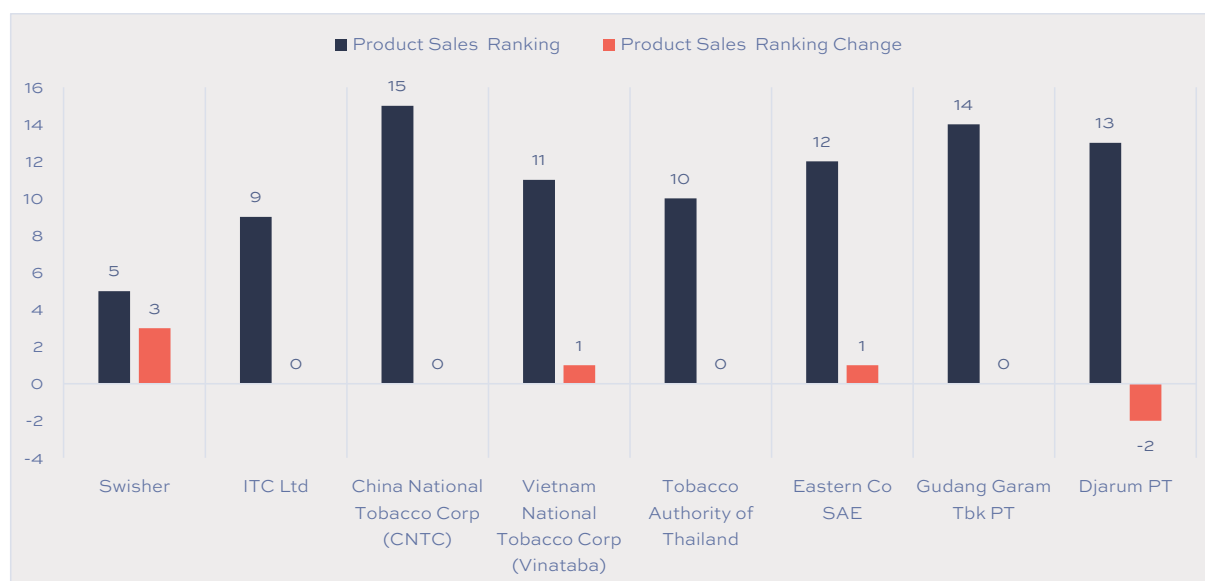
Source: Tobacco Transformation Index Accompanying Data Set

Figure 59 shows the 2022 Product Sales rankings and ranking changes from 2020 for our universe of companies.

¹⁷ <https://tobaccotransformationindex.org/company-comparison/>

¹⁸ <https://tobaccotransformationindex.org/country-comparison/>

Figure 59: Product Sales ranking and ranking change by company

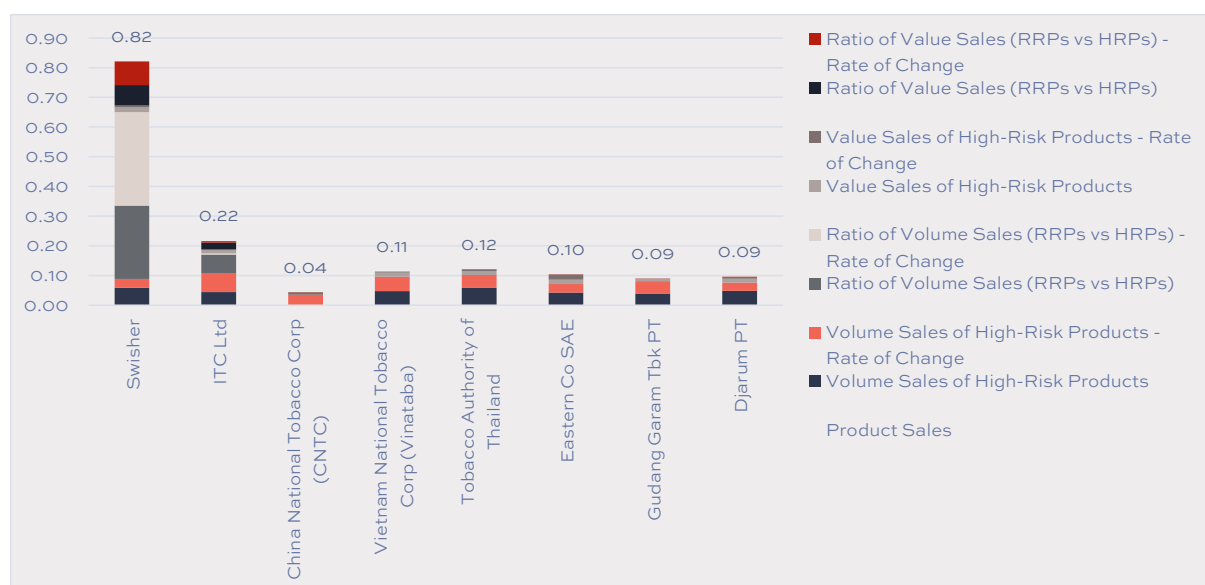


Source: Tobacco Transformation Index

The most meaningful ranking change was Swisher gaining three places to fifth, benefitting from the first-time inclusion of non-tobacco nicotine pouches.

Swisher achieved the highest score in the group, followed by ITC (Figure 60). CNTC achieved the lowest score and was ranked last in the category owing to the scale of its cigarette sales. The remaining Index companies in this group achieved relatively similar scores - the absence of RRP sales means the size and rate of change of HRP sales differentiate them.

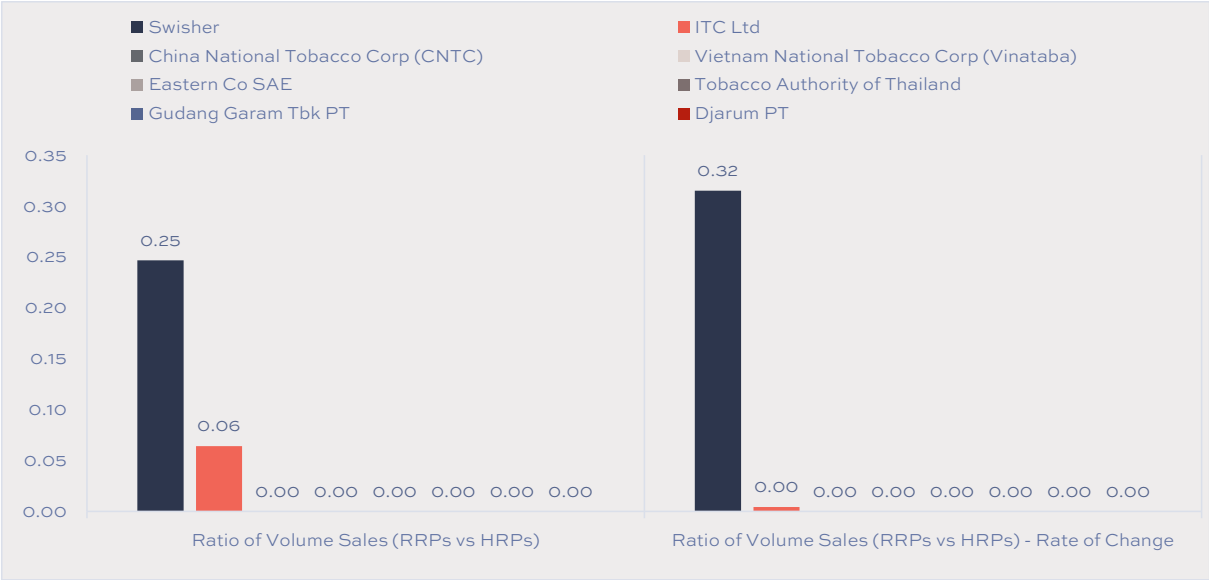
Figure 60: Contribution to Product Sales weighted score



Source: Tobacco Transformation Index, Idwala Research

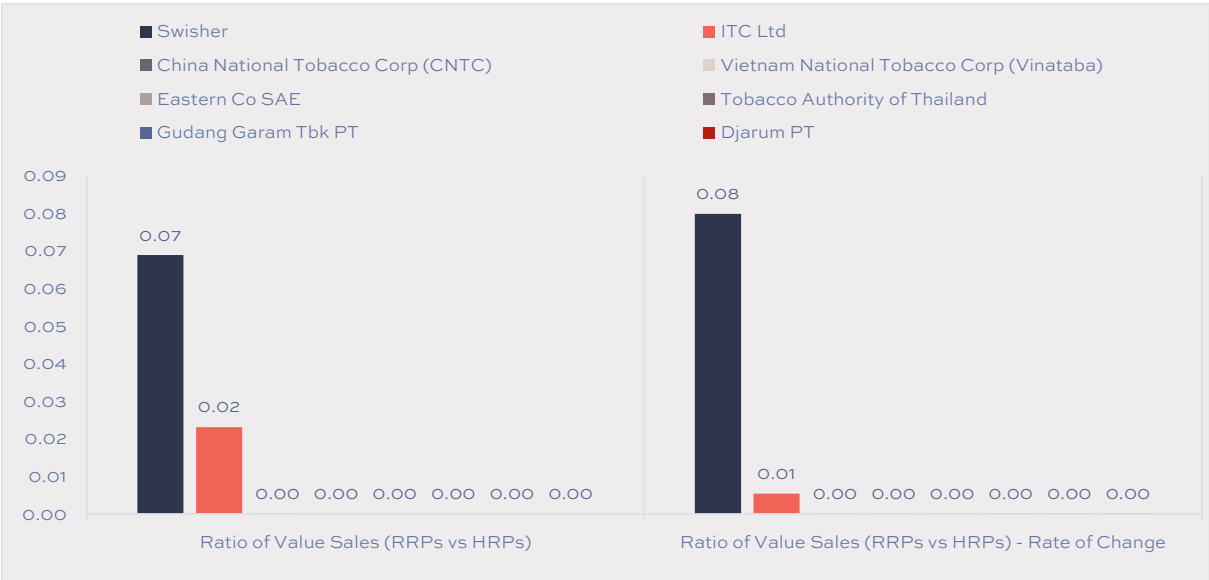
Figure 61 and Figure 62 show the contributions to the Product Sales weighted score of the four RRP/HRP sales ratio indicators that account for over 90% of the category.

Figure 61: Contribution to Product Sales weighted score: Volume ratio indicators



Source: Tobacco Transformation Index, Idwala Research

Figure 62: Contribution to Product Sales weighted score: Value ratio indicators



Source: Tobacco Transformation Index, Idwala Research

Changes in the weighted scores from the 2020 Index (Figure 63) provide further insights into the relative performances within the category. The emphasis is on relative rather than absolute performance. Since the scores are normalised, an increase in a company’s score can imply a deterioration in its peers’ metrics rather than an improvement in its own.

Figure 63: Contribution to Product Sales weighted score change



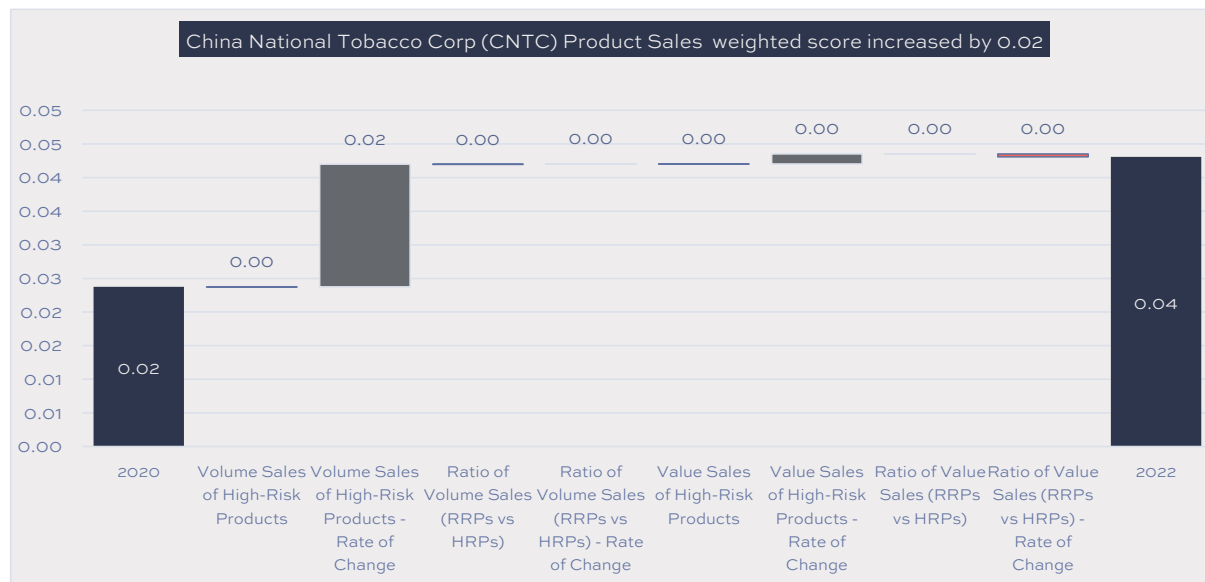
Source: Tobacco Transformation Index

Swisher recorded the highest increase of all fifteen Index Companies in its weighted Product Sales score (0.43) from a low base. We discuss the score changes in more detail in the following individual company sections.

China National Tobacco Corp (CNTC)

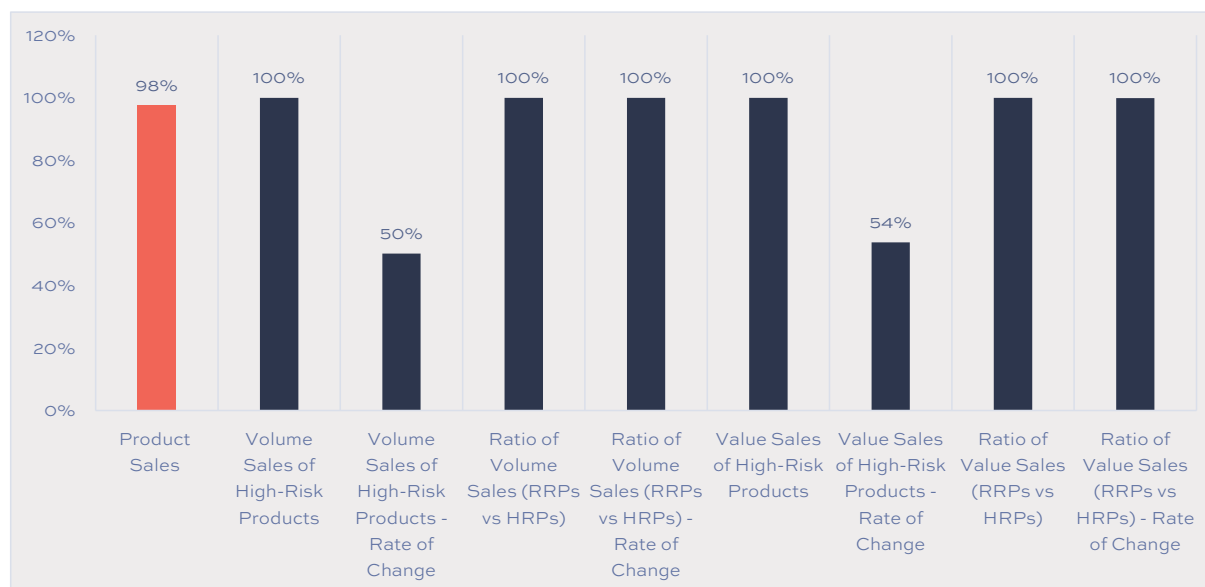
CNTC is the largest cigarette producer in the world by some margin. In 2021 it sold some 2.5 trillion per stick equivalent HRPs, not far off the 2.7 trillion sold by all of the other 14 Index companies¹⁹. As such, CNTC ranks last in the Product Sales category and only scores in the two HRP rate of change indicators. Over the review period (2019-2021), its PSE HRP volumes increased at a CAGR of 1.6%.

Figure 64: Indicator contribution to CNTC Product Sales weighted score change



Source: Tobacco Transformation Index, Idwala Research

Figure 65: Product Sales score difference: CNTC % lower than Maximum Score



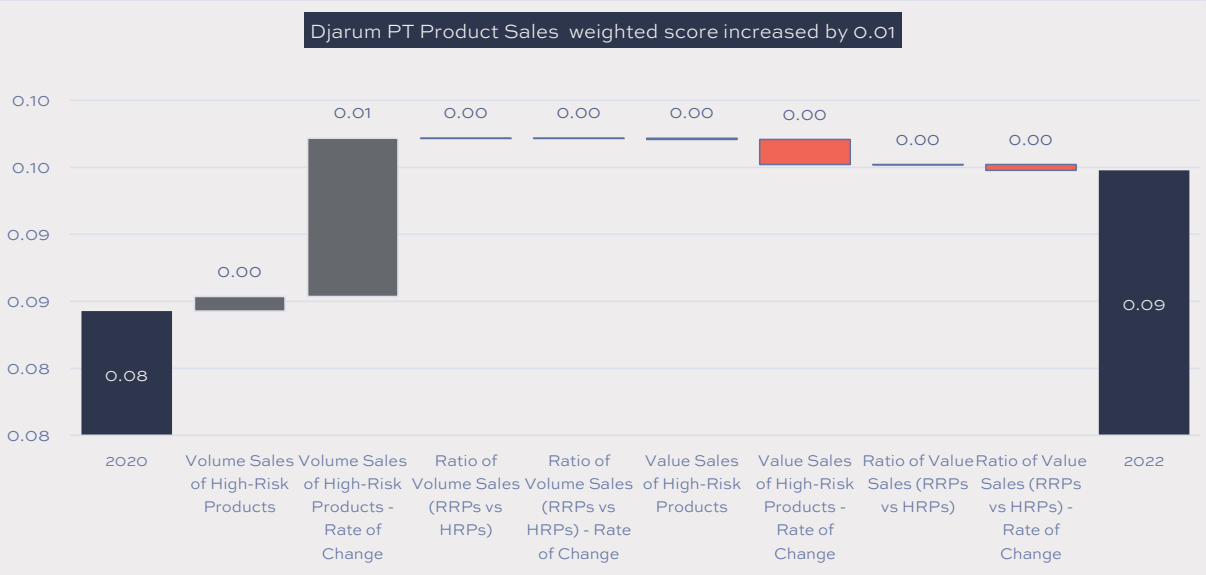
Source: Tobacco Transformation Index, Idwala Research

¹⁹ <https://tobaccotransformationindex.org/wp-content/uploads/2023/02/2022-Index-Ranking-Report-Accompanying-Data-Updated-February-2023.xlsx>

Djarum PT

Djarum’s position in the category declined by two to thirteen due to peer score and ranking improvements. Over the review period (2019-2021), its PSE HRP volumes increased at a CAGR of 1.1%. Higher HRP volumes negatively impact tobacco harm reduction and are a relative negative in the Index methodology.

Figure 66: Indicator contribution to Djarum PT Product Sales weighted score change



Source: Tobacco Transformation Index

Djarum scored comparatively well in the volume and value HRP sales indicators (Figure 67), owing to its relatively modest HRP sales compared with Index peers.

Figure 67: Product Sales weighted score difference: Djarum PT % below Maximum Score



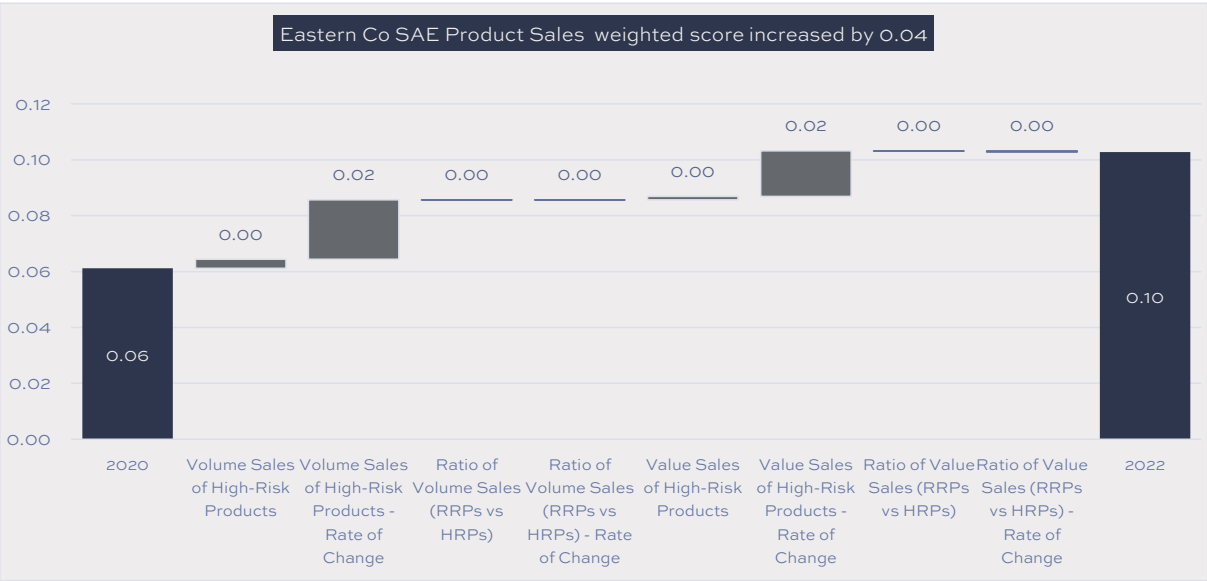
Source: Tobacco Transformation Index, Idwala Research

Eastern Co SAE

Eastern improved its category position by one to twelve, benefitting from a decline in cigarette sales value and shisha volumes. Over the review period (2019-2021), its PSE HRP volumes increased at a CAGR of 2.1%, but its HRP sales value declined at a CAGR of 5.7%. Lower HRP sales are a relative positive in the Index methodology.

Improvements in the HRP rate of change indicators were the main contributors to the company’s 0.04 score increase.

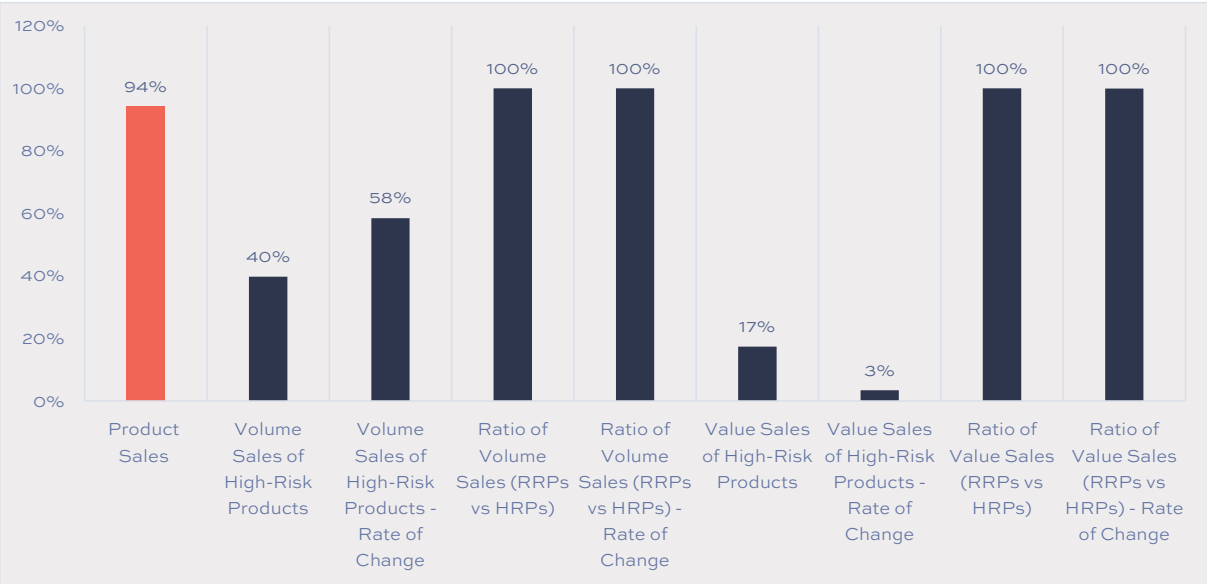
Figure 68: Indicator contribution to Eastern Co SAE Product Sales weighted score change



Source: Tobacco Transformation Index

Eastern achieved relatively high scores in HRP value indicators, with Value Sales of High-Risk Products - Rate of Change, where it ranked third, at only 3% below the Maximum indicator score (Figure 69) due to lower sales.

Figure 69: Product Sales weighted score difference: Eastern Co SAE % lower than Maximum Score

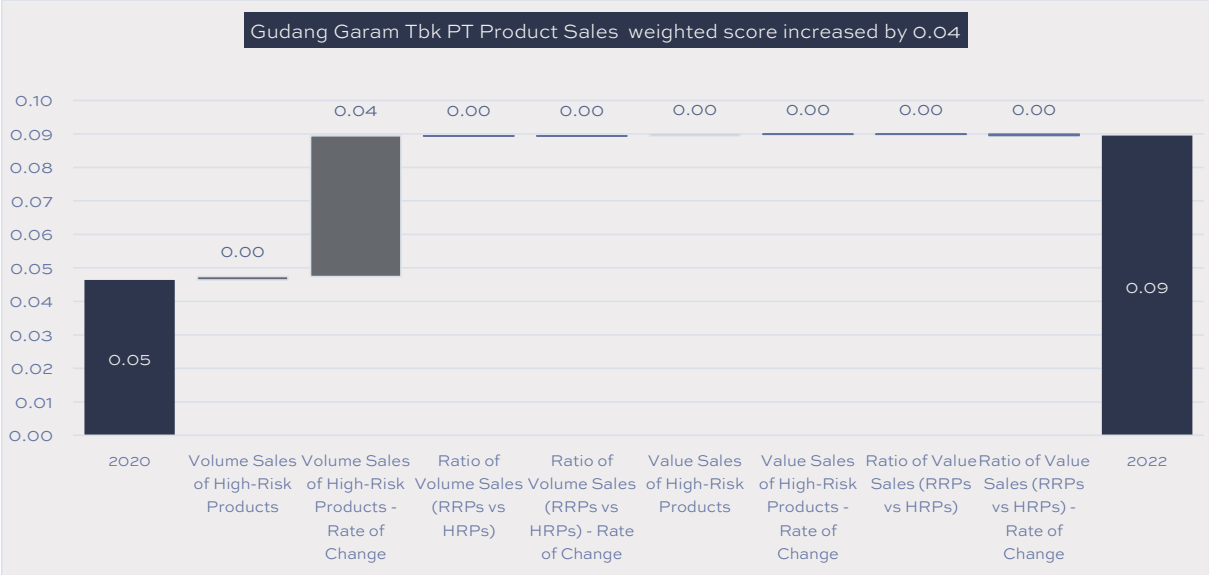


Source: Tobacco Transformation Index, Idwala Research

Gudang Garam Tbk PT

Gudang Garam’s Product Sales ranking remained unchanged at fourteen, although its score increased by 0.04 to 0.09, driven by an improved score in Volume Sales of High-Risk Products - Rate of Change. Over the review period (2019-2021), its PSE HRP volumes declined at a CAGR of 1.7%.

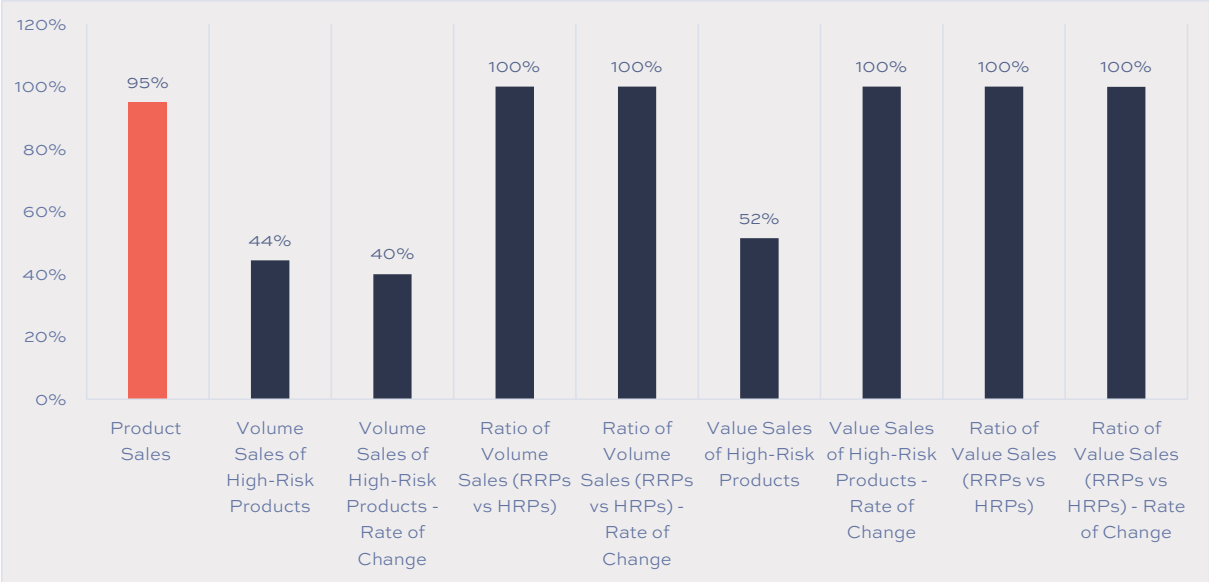
Figure 70: Indicator contribution to Gudang Garam Tbk PT Product Sales weighted score change



Source: Tobacco Transformation Index

The company only scored in three indicators, with its best relative score in Volume Sales of High-Risk Products - Rate of Change (Figure 71).

Figure 71: Product Sales score difference: Gudang Garam Tbk PT % lower than Maximum Score

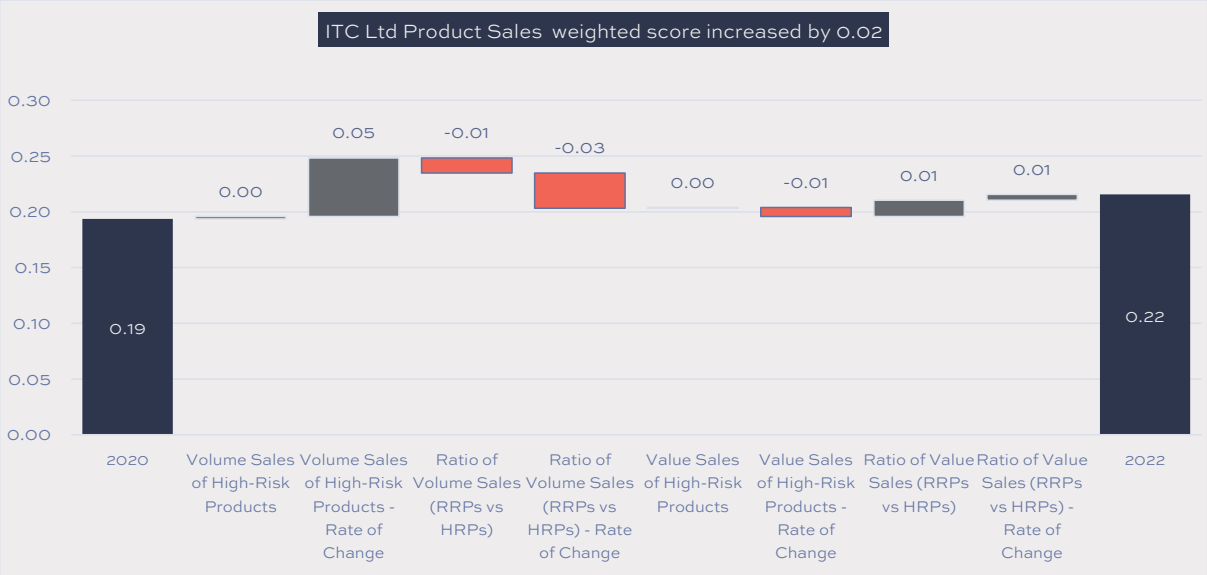


Source: Tobacco Transformation Index, Idwala Research

ITC Ltd

ITC’s ranking was stable at ninth, with a modest score increase of 0.02. Over the review period (2019-2021), ITC’s PSE HRP volumes declined at a CAGR of 2.7%, and it was ranked third in Volume Sales of High-Risk Products - Rate of Change, the most significant contributor to its score increase.

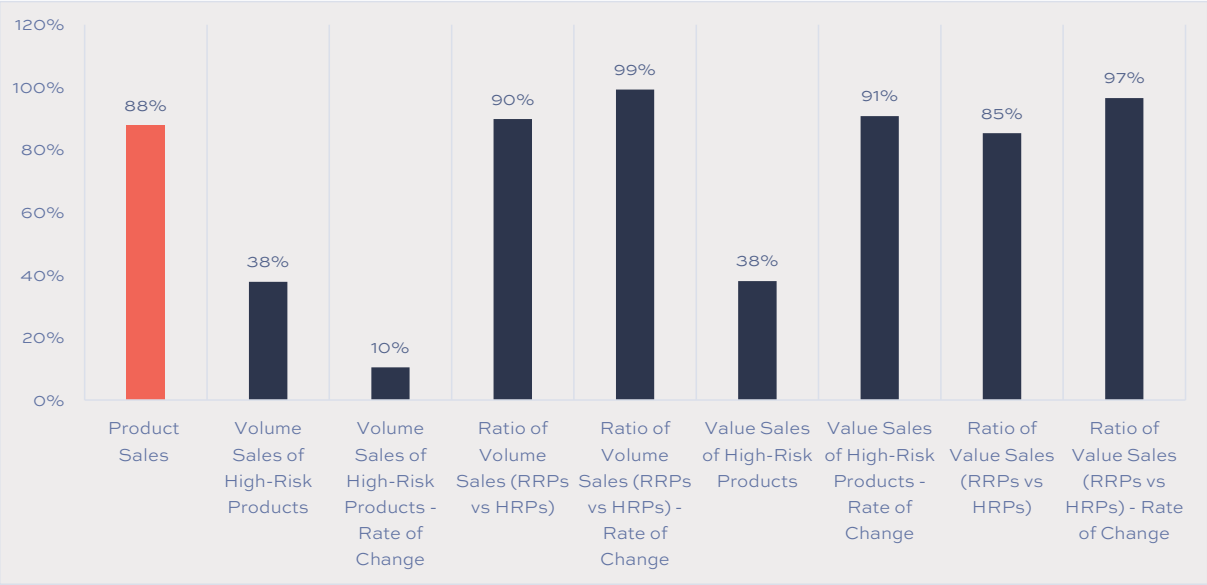
Figure 72: Indicator contribution to ITC Ltd Product Sales weighted score change



Source: Tobacco Transformation Index

ITC’s small sales contribution from NRTs (Vaping and heated tobacco products are currently banned in India) enabled it to score in the RRP indicators, albeit modestly (Figure 73). The company achieved its best relative score in Volume Sales of High-Risk Products - Rate of Change.

Figure 73: Product Sales score difference: ITC Ltd % lower than Maximum Score

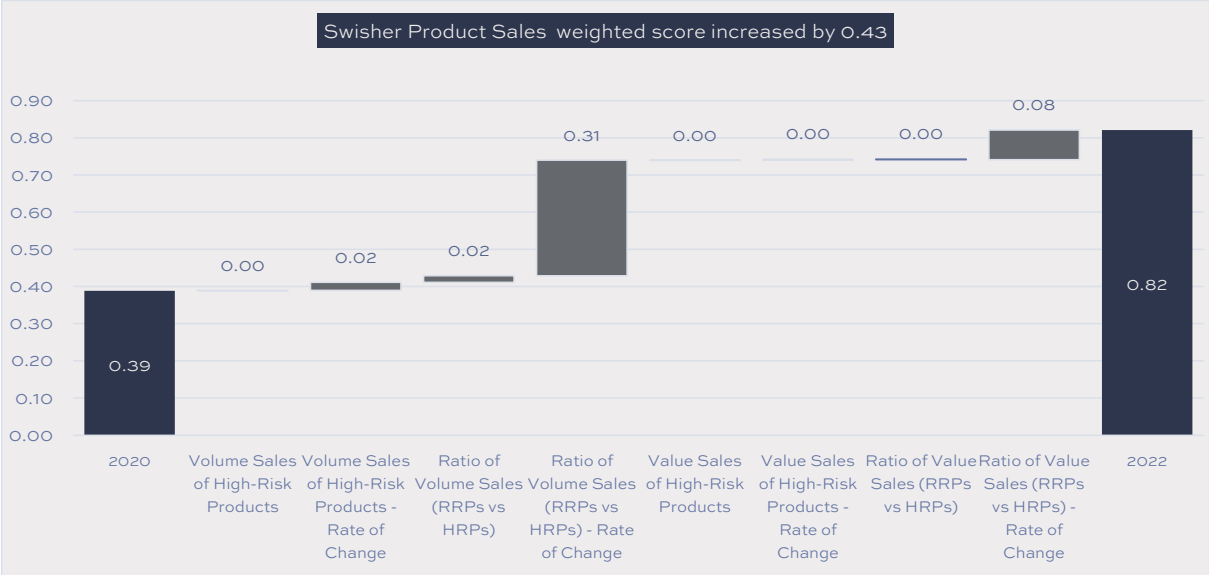


Source: Tobacco Transformation Index, Idwala Research

Swisher

Swisher’s category ranking improved by three to fifth, driven by significant score and ranking increases in the RRP/HRP rate of change indicators. (Figure 74). The company benefitted from the first-time inclusion of Rogue nicotine pouch volumes and the low relative risk attached to these products. Over the review period (2019-2021), its PSE HRP volumes increased at a CAGR of 10.2%.

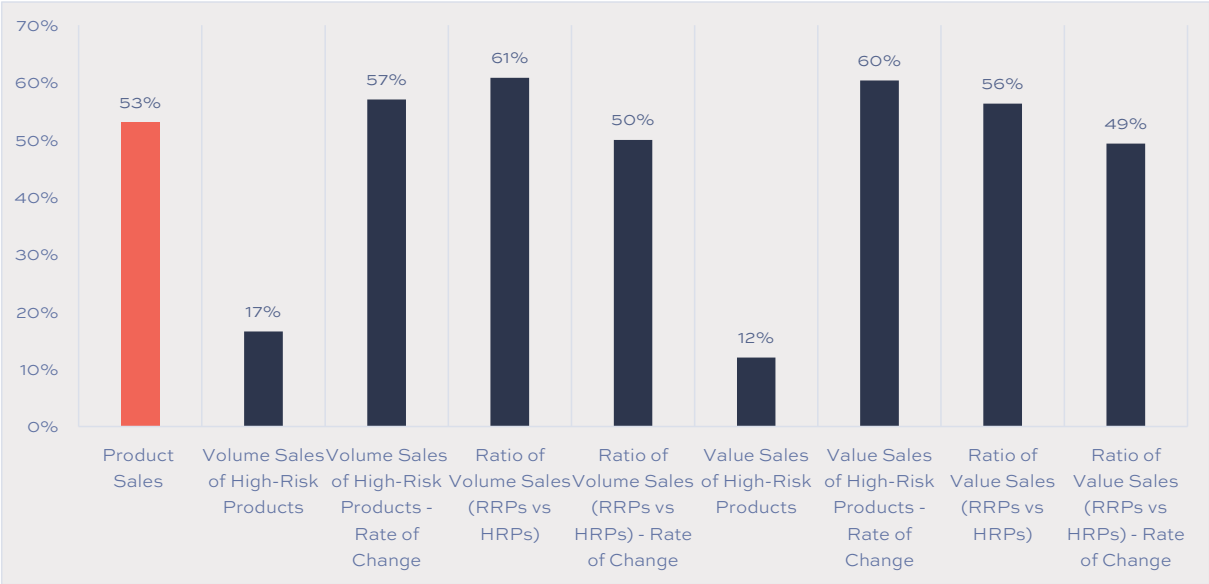
Figure 74: Indicator contribution to Swisher Product Sales weighted score change



Source: Tobacco Transformation Index

Swisher’s Product Sales weighted score of 0.82 was 53% lower than the 1.75 it would have been if it was ranked first in all indicators related to this category. The volume and value sales of HRP were significantly better owing to Swisher’s size relative to peers (Figure 75).

Figure 75: Product Sales score difference: Swisher % lower than Maximum Score

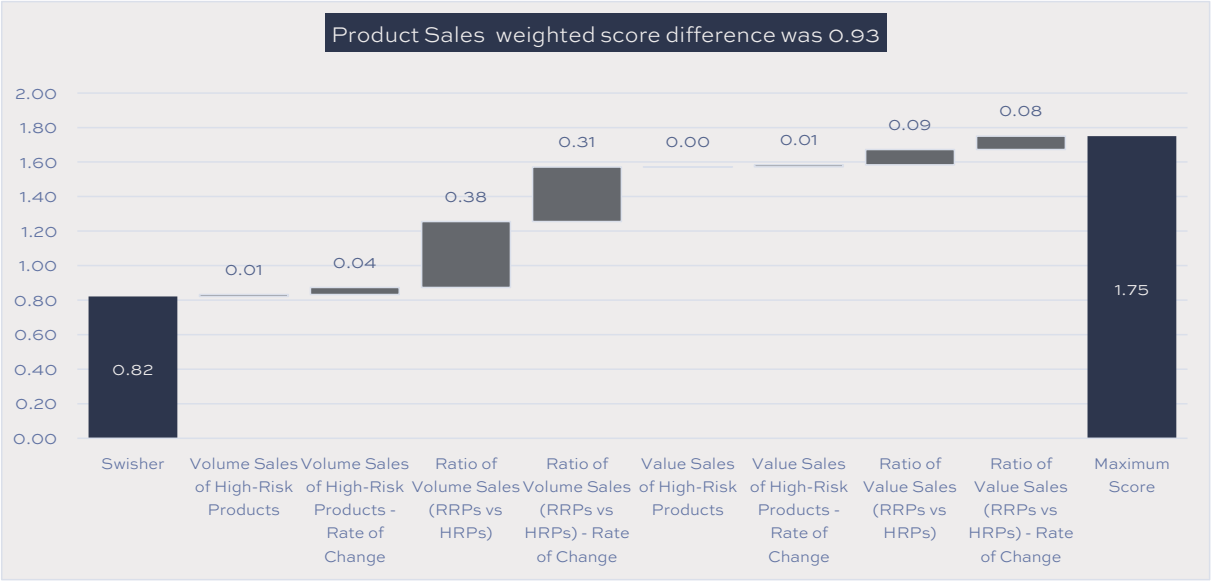


Source: Tobacco Transformation Index, Idwala Research

Considering both absolute score differences and indicator weightings shows Ratio of Volume Sales (RRPs vs HRP) as the most significant opportunity for improvement, followed by Ratio of Volume Sales (RRPs vs

HRPs) - Rate of Change. Both Ratio of Value Sales indicators also hold meaningful opportunities for improving Swisher’s Product Sales category score (Figure 76).

Figure 76: Contribution to Product Sales score difference: Swisher & Maximum Score

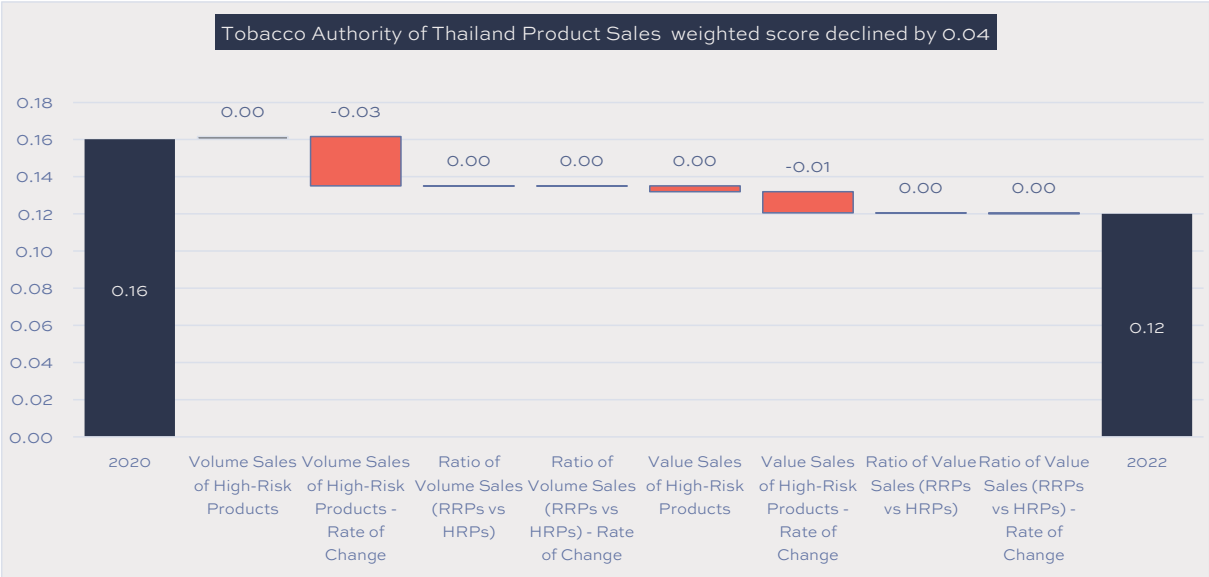


Source: Tobacco Transformation Index, Idwala Research

Tobacco Authority of Thailand

TOAT’s Product Sales ranking was unchanged at ten, but its score declined by 0.04 owing to lower scores in the HRP rate of change indicators. Over the review period (2019-2021), its PSE HRP volumes increased at a CAGR of 0.1%.

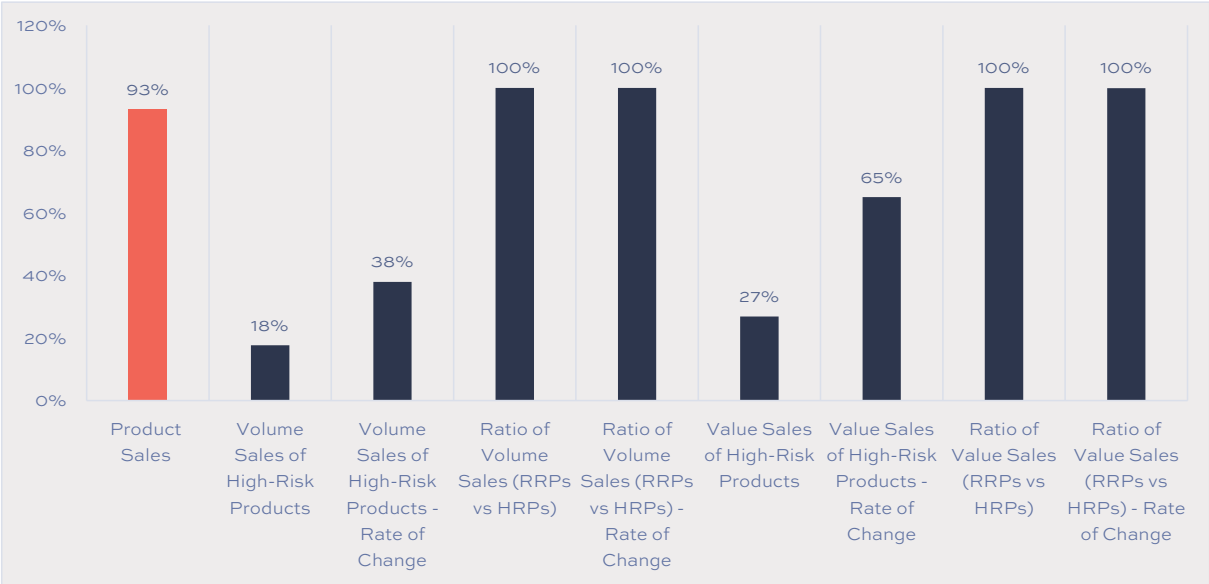
Figure 77: Indicator contribution to Tobacco Authority of Thailand Product Sales weighted score change



Source: Tobacco Transformation Index

The company only scored in the HRP indicators, with its best relative score in Volume Sales of High-Risk Products. (Figure 78).

Figure 78: Product Sales score difference: Tobacco Authority of Thailand % lower than Maximum Score

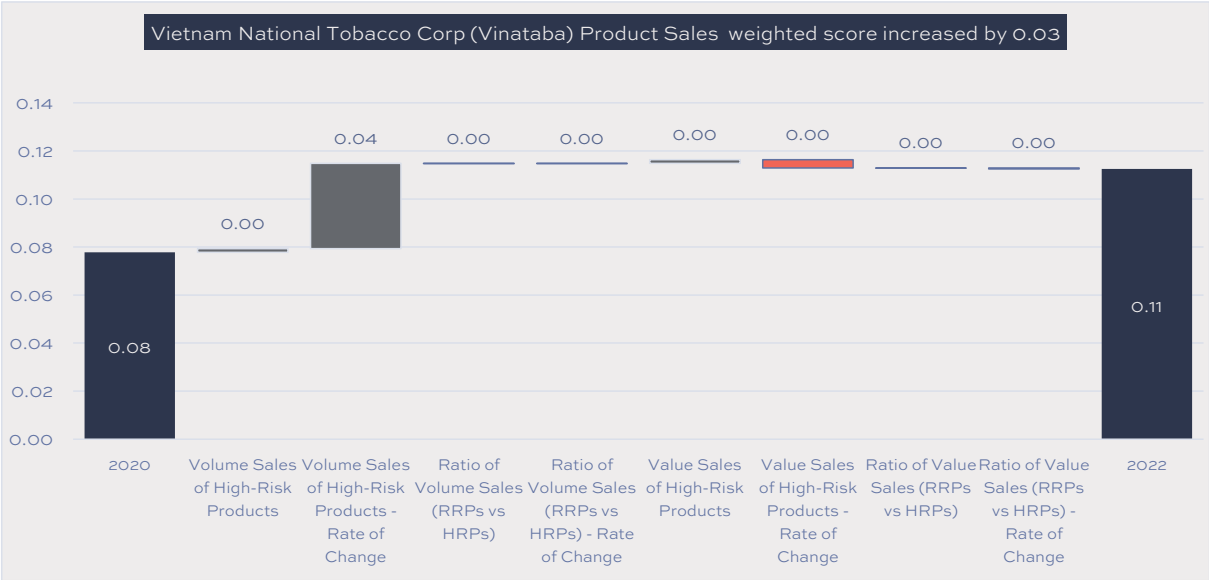


Source: Tobacco Transformation Index, Idwala Research

Vietnam National Tobacco Corp (Vinataba)

Vinataba’s ranking improved from twelfth to eleventh, driven by a higher score and ranking in Volume Sales of High-Risk Products - Rate of Change (Figure 79). Over the review period (2019-2021), its PSE HRP volumes declined at a CAGR of 0.7%.

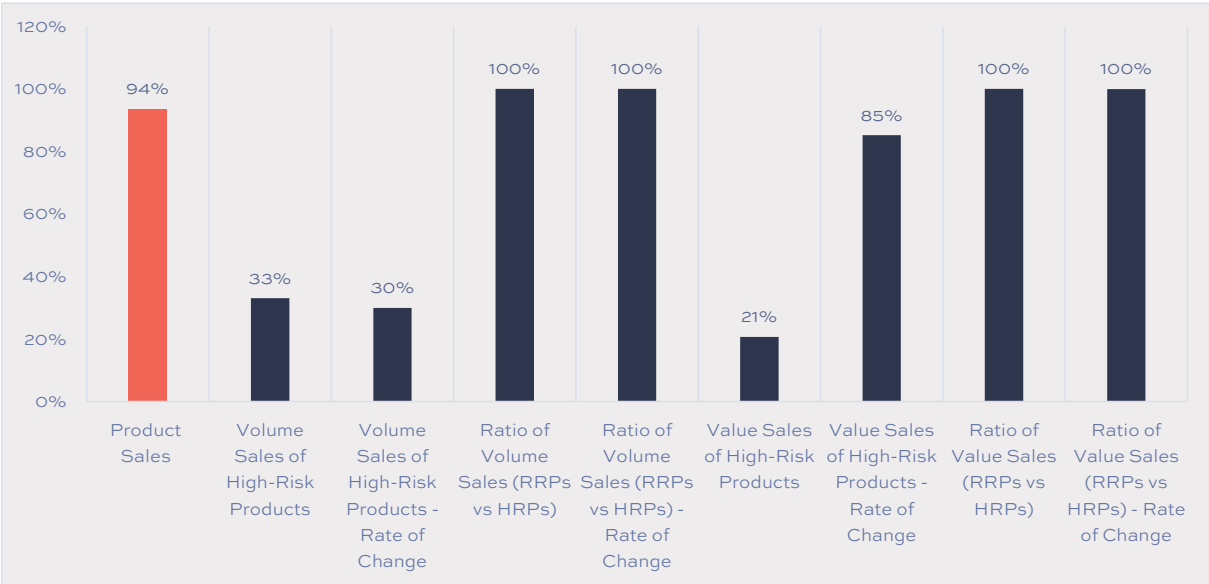
Figure 79: Indicator contribution to Vinataba Product Sales weighted score change



Source: Tobacco Transformation Index

The company scored only in the HRP indicators, with its best relative score in Value Sales of High-Risk Products (Figure 80).

Figure 80: Product Sales score difference: Vinataba % lower than Maximum Score



Source: Tobacco Transformation Index, Idwala Research

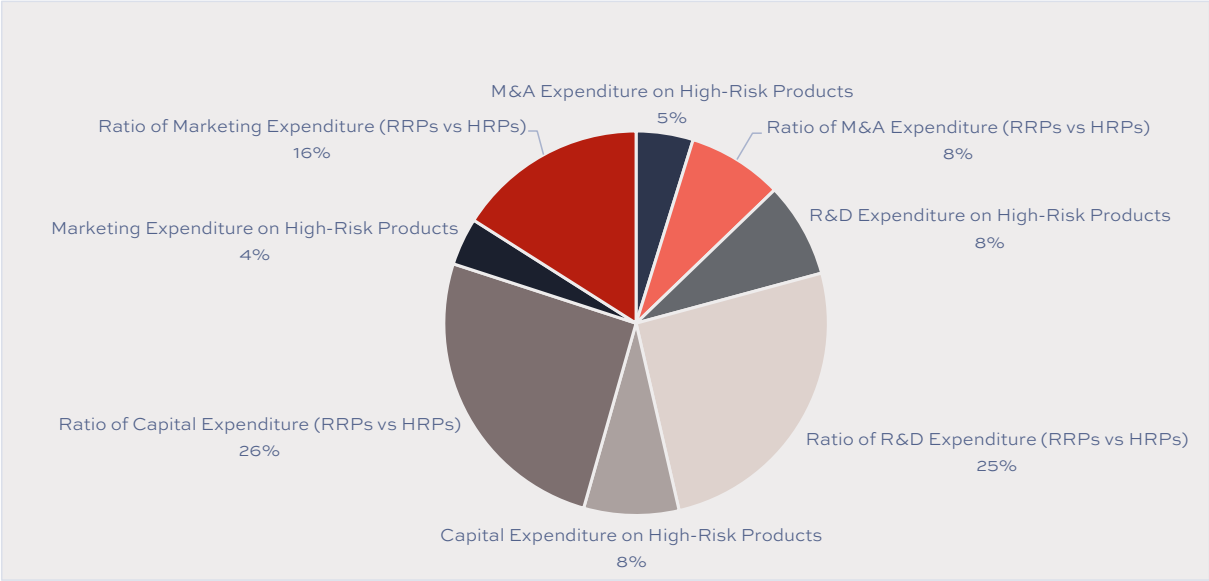
05

CAPITAL ALLOCATION & EXPENDITURE



Capital Allocation & Expenditure has the second highest weighting in the Index, accounting for some 30% of a company’s Final Score. It consists of eight indicators grouped into two sub-categories: Capital Allocation (80%) and Marketing Expenditure (20%). We show the indicator contributions to the category in Figure 81.

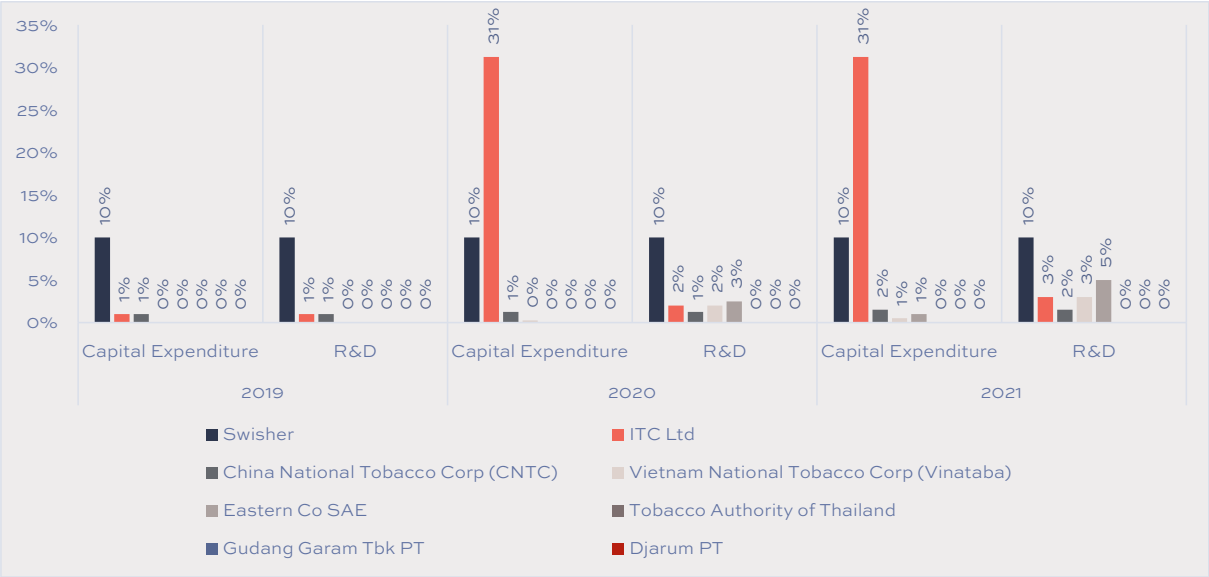
Figure 81: % of Capital Allocation & Expenditure



Source: Tobacco Transformation Index

Figure 82 shows each company’s proportion of Capital Expenditure and R&D allocated to RRP’s from 2019 to 2021. These data form the basis of the two indicators with the highest category weightings - Ratio of R&D Expenditure (RRPs vs HRPs) and Ratio of Capital Expenditure (RRPs vs HRPs) each account for 26%.

Figure 82: % of Expenditure on Reduced-Risk Products (RRPs)

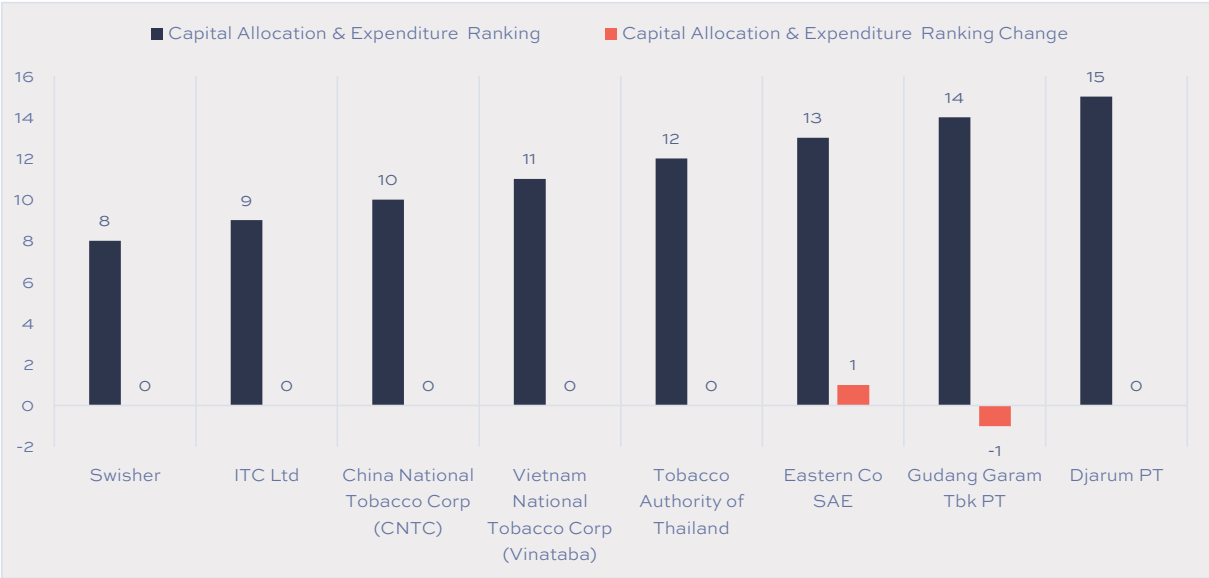


Source: Tobacco Transformation Index Accompanying Data Set

In 2021, Euromonitor, the Index Research Partner, estimates that ITC allocated 31% of its capital expenditure to RRP, followed by Swisher at 10%, CNTC at 2% and Vinataba and Eastern at 1%. Swisher’s estimated R&D expenditure on RRP accounted for 10% of total R&D, Eastern 5%, ITC and Vinataba 3%, and CNTC 2%. TOAT, Gudang Garam and Djarum did not allocate any capital expenditure or R&D to RRP.

The group’s rankings in the Capital Allocation & Expenditure category matched their overall rankings. The only ranking changes were Eastern gaining one position to thirteen at the expense of Gudang Garam. (Figure 83).

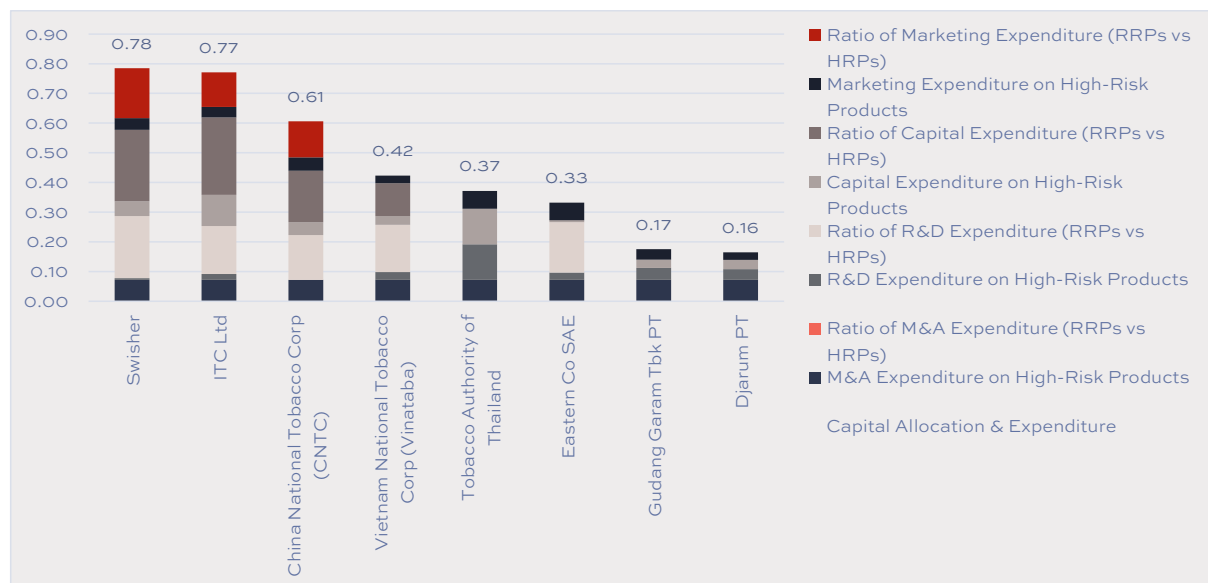
Figure 83: Capital Allocation & Expenditure ranking and ranking change by company



Source: Tobacco Transformation Index

We show the contributions to the weighted scores in Capital Allocation & Expenditure in Figure 84.

Figure 84: Contribution to Capital Allocation & Expenditure weighted score

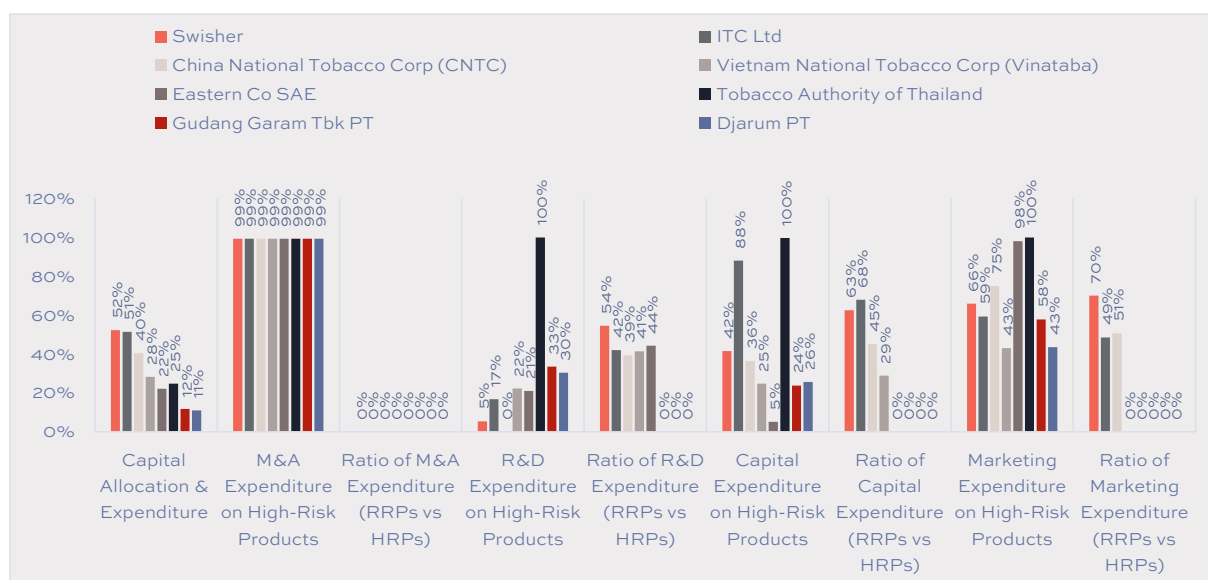


Source: Tobacco Transformation Index

We make a number of observations on the indicators based on how the companies scored in each (Figure 85):

- All scored highly in M&A Expenditure on High-Risk Products, owing to BAT being the only Index company to acquire HRPs, which is considered a negative for harm reduction.
- None of the eight scored in Ratio of M&A Expenditure (RRPs vs HRPs), implying no investment in RRP or divestment from HRPs.
- TOAT, Gudang Garam and Djarum did not score in any of the ratio indicators
- Only Swisher, ITC and CNTC scored in Ratio of Marketing Expenditure (RRPs vs HRPs).

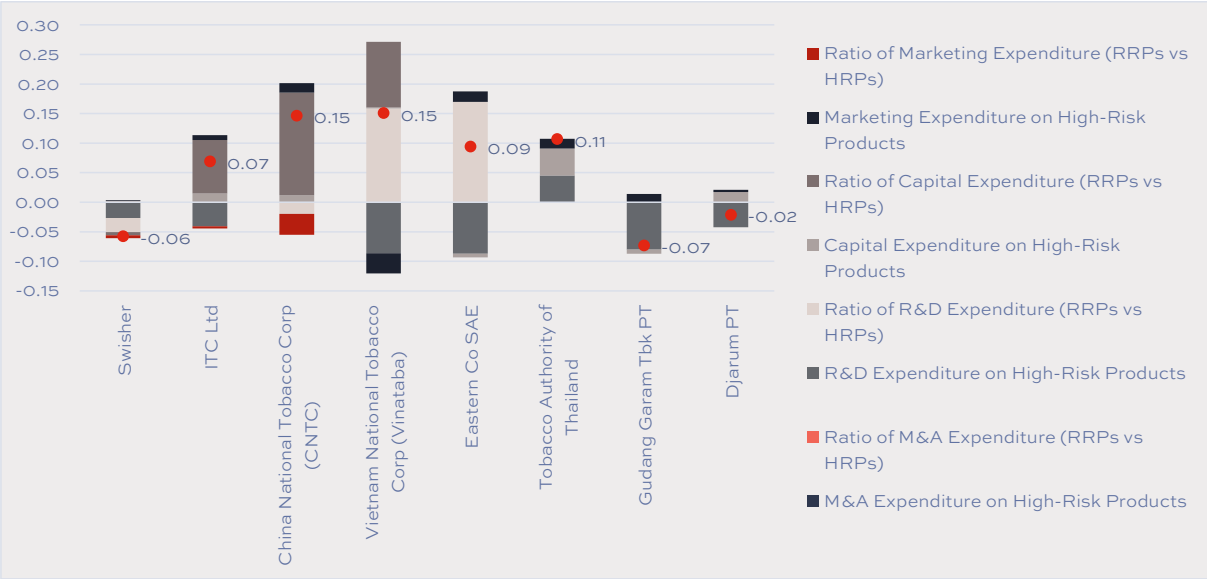
Figure 85: Capital Allocation & Expenditure % of Maximum Score by Indicator



Source: Tobacco Transformation Index, Idwala Research

Changes in the weighted scores from the 2020 Index (Figure 86) provide further insights into the relative performances within the category. The emphasis is on relative rather than absolute performance. Since the scores are normalised, an increase in a company's score can imply a deterioration in its peers' metrics rather than an improvement in its own.

Figure 86: Contribution to Capital Allocation & Expenditure weighted score change



Source: Tobacco Transformation Index

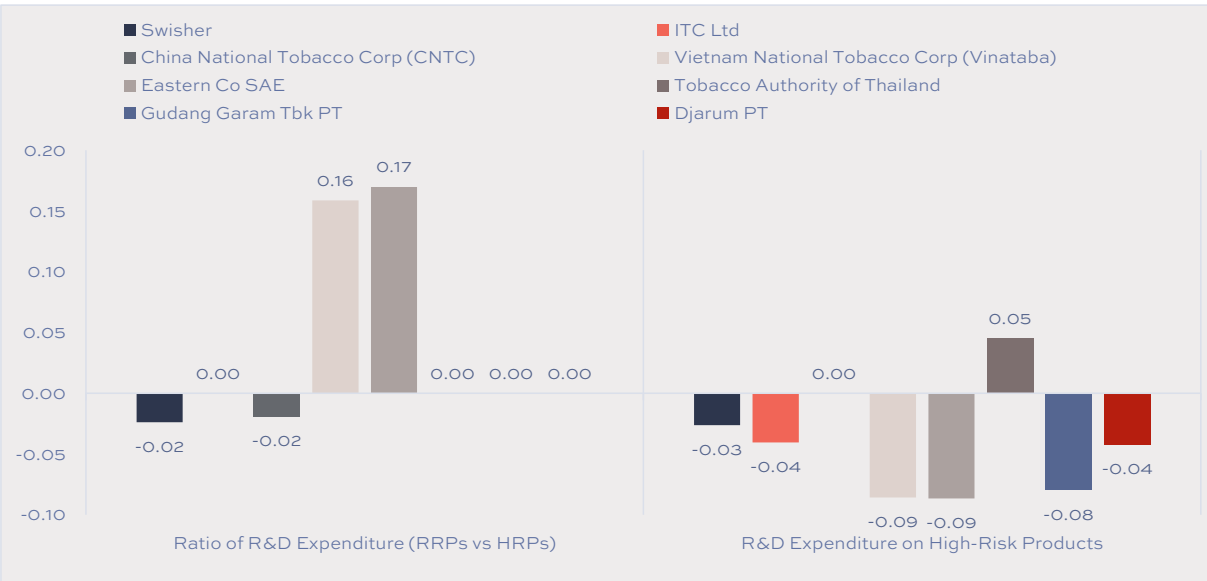
CNTC and Vinataba showed the highest weighted score increases of all 15 Index companies at 0.15, followed by TOAT at 0.11. Eastern and ITC also recorded meaningful increases at 0.09 and 0.07, respectively. We discuss these changes in more detail in the individual company sections.

Four indicators appear to have had the most significant impact on score changes in the category:

- R&D Expenditure on High-Risk Products
- Ratio of Capital Expenditure (RRPs vs HRPs)
- Capital Expenditure on High-Risk Products
- Ratio of Capital Expenditure (RRPs vs HRPs)

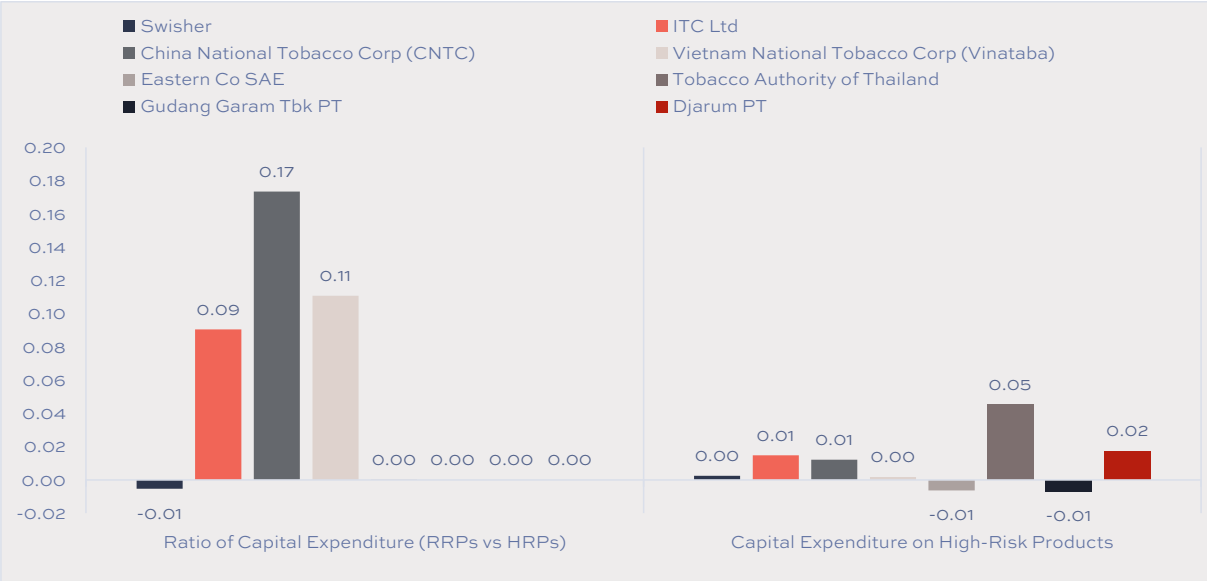
We note that, for the companies in this universe, the score changes within each indicator were generally in the same direction (Figure 87 and Figure 88).

Figure 87: Contribution to Capital Allocation & Expenditure weighted score change: R&D indicators



Source: Tobacco Transformation Index

Figure 88: Contribution to Capital Allocation & Expenditure weighted score change: Capex indicators

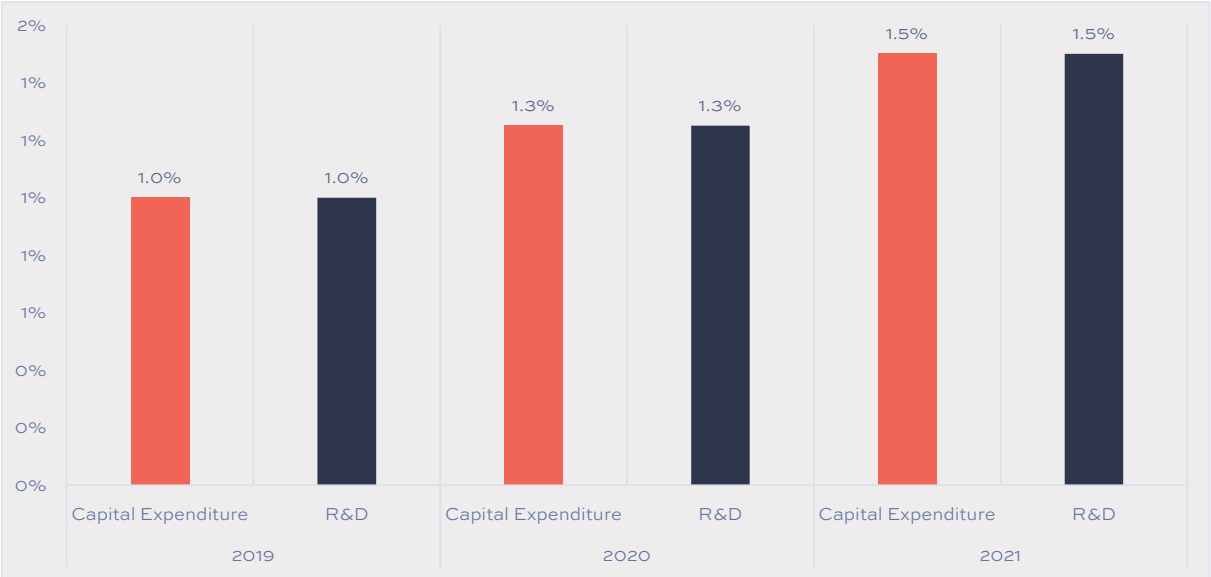


Source: Tobacco Transformation Index

China National Tobacco Corp (CNTC)

CNTC’s ranking remained unchanged at tenth, but recorded a significant 0.15 weighted score increase. Over the Index review period (2019-2021), Euromonitor, the Index Research Partner, estimates that it increased the percentage of capital expenditure and R&D allocated to RRP’s from 1.0% to 1.5% (Figure 89).

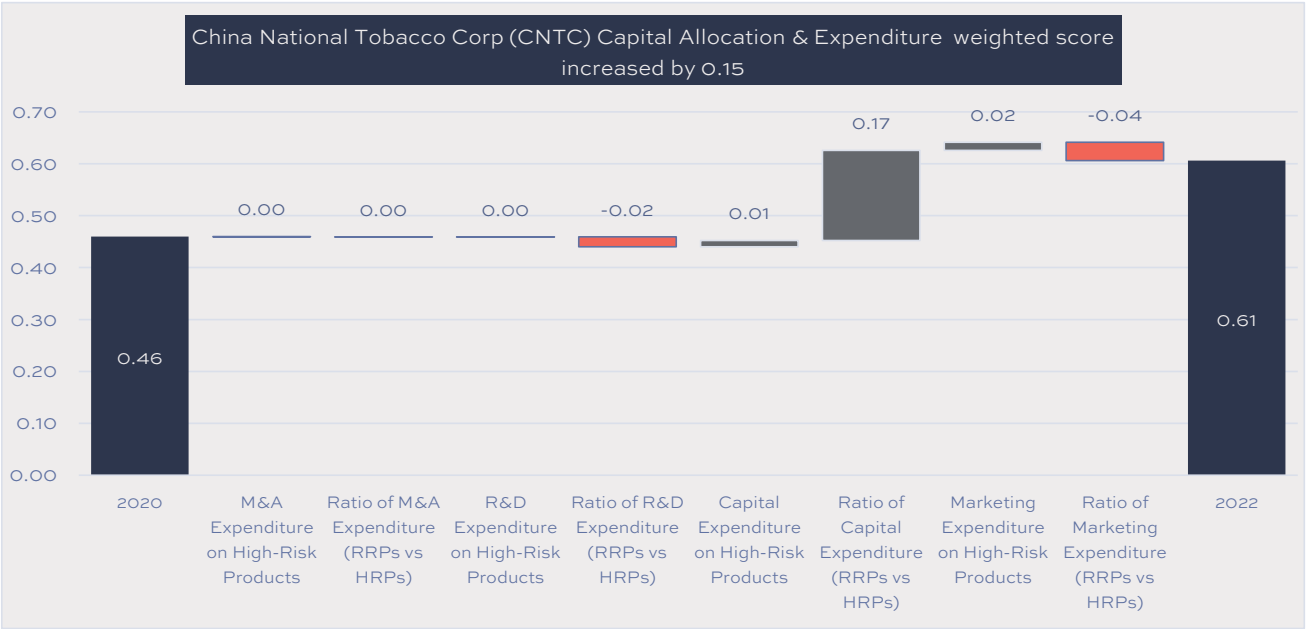
Figure 89: % of Expenditure on Reduced-Risk Products (RRPs): CNTC



Source: Tobacco Transformation Index Accompanying Data Set

The main driver of CNTC’s 0.15 weighted category score increase was a 0.17 higher contribution from Ratio of Capital Expenditure (RRPs vs HRP’s) (Figure 90):

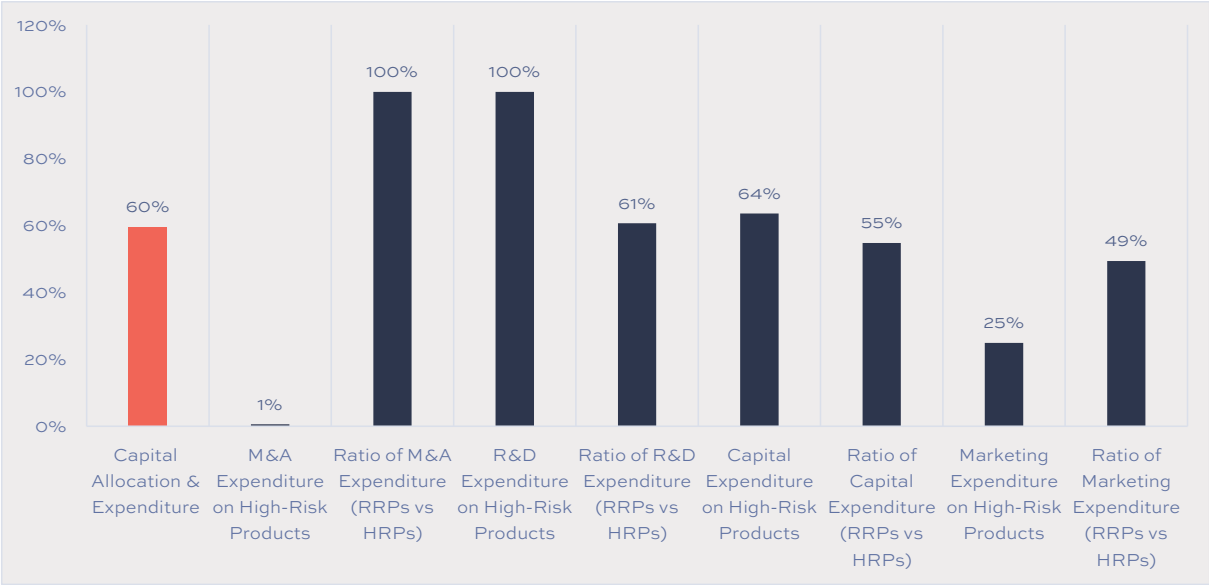
Figure 90: Indicator contribution to CNTC Capital Allocation & Expenditure weighted score change



Source: Tobacco Transformation Index, Idwala Research

Besides M&A expenditure on HRP’s, where all Index companies, except BAT, scored well, CNTC achieved the best relative score in Marketing Expenditure on High-Risk Products due to a relatively low estimated percentage of sale expenditure (Figure 91).

Figure 91: Capital Allocation & Expenditure score difference: CNTC % lower than Maximum Score



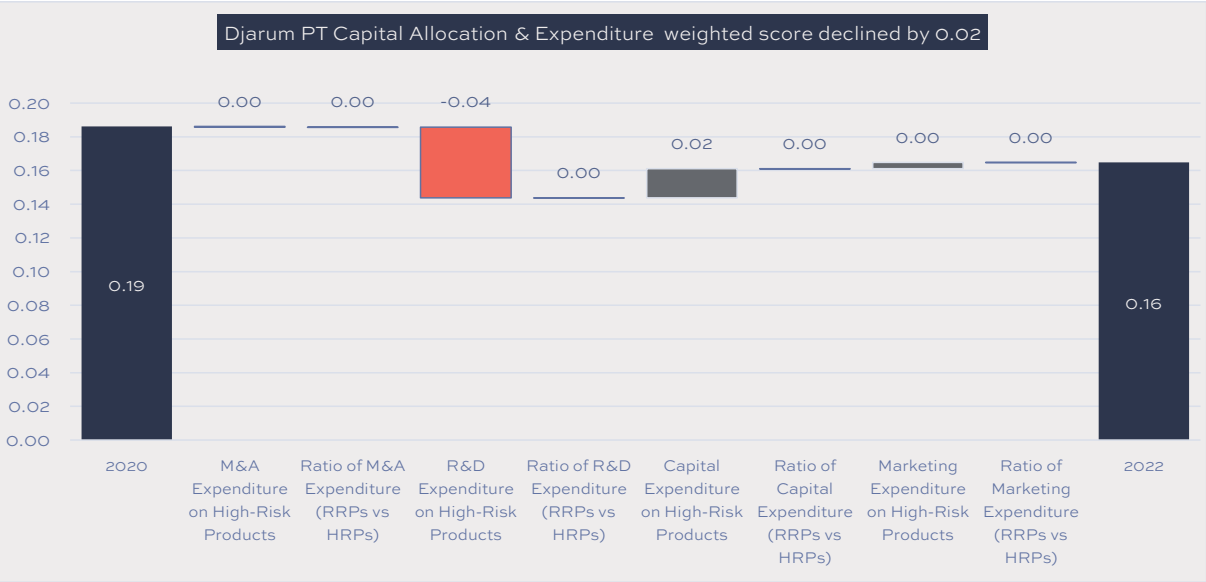
Source: Tobacco Transformation Index, Idwala Research

Djarum PT

Djarum’s ranking remained at fifteen and recorded a modest score decline. The company does not allocate any expenditure to RRP’s, scoring zero in all the RRP/HRP expenditure ratio indicators.

The company’s 0.02 weighted score decline resulted from a 0.04 reduction in the contribution from R&D Expenditure on High-Risk Products (-0.04), partly offset by an increased contribution from Capital Expenditure on High-RiÁsk Products (Figure 92).

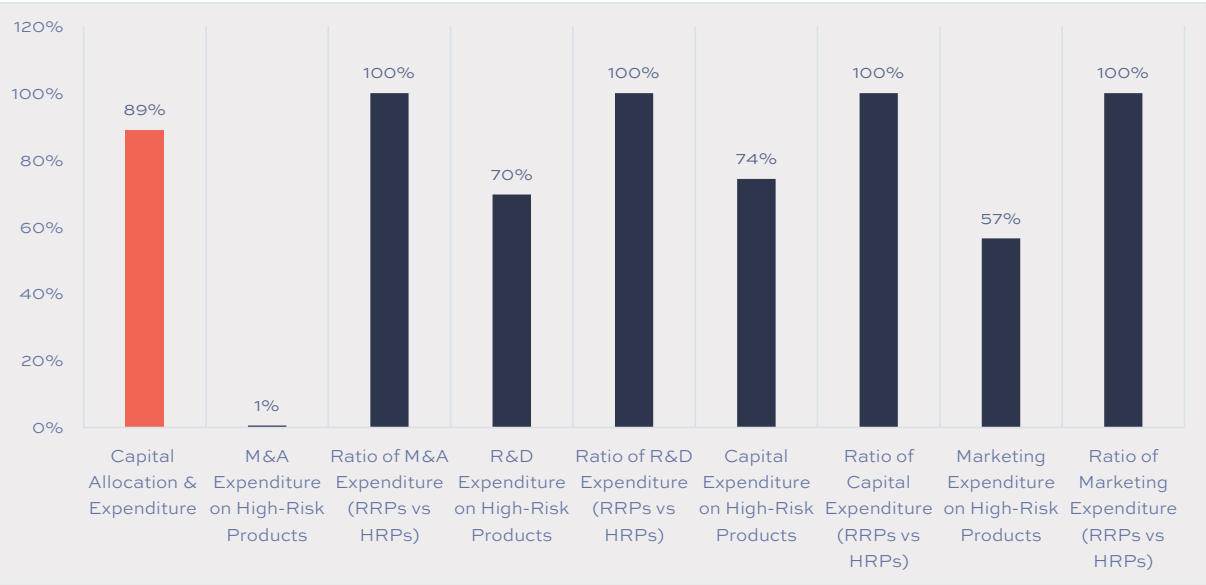
Figure 92: Indicator contribution to Djarum PT Capital Allocation & Expenditure weighted score change



Source: Tobacco Transformation Index, Idwala Research

Djarum only scored in the HRP indicators as no expenditure was allocated to RRP’s. It scored highly in M&A Expenditure on High-Risk Products, owing to BAT being the only Index company to acquire HRPs, which is considered a negative for harm reduction (Figure 93).

Figure 93: Capital Allocation & Expenditure score difference: Djarum PT % lower than Maximum Score

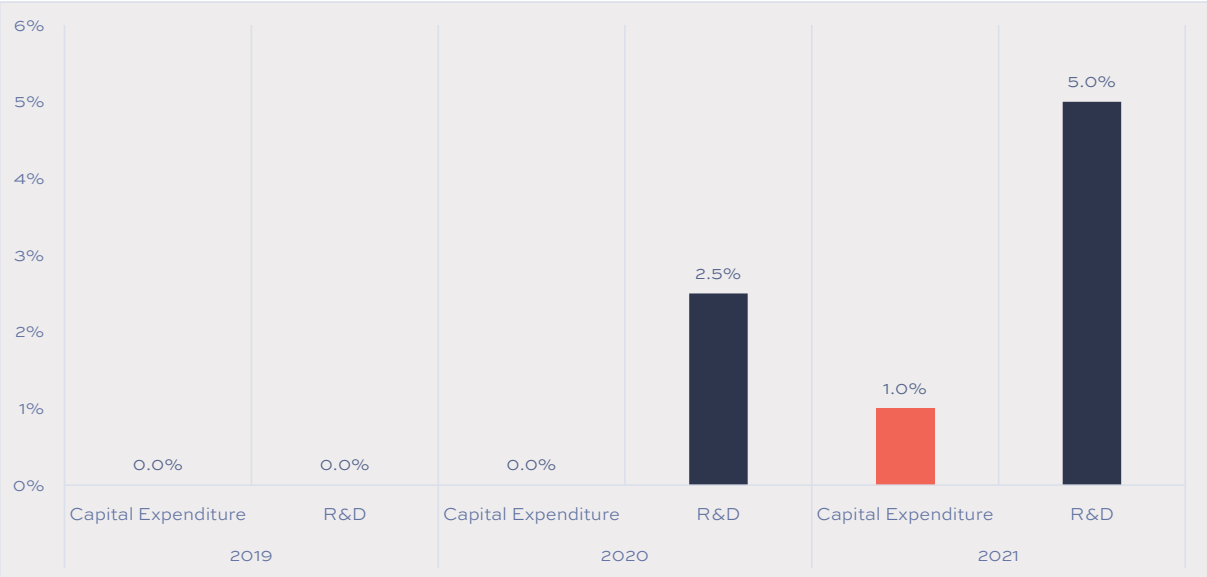


Source: Tobacco Transformation Index, Idwala Research

Eastern Co SAE

Eastern’s category ranking improved by one to thirteen. Over the Index review period (2019-2021), Euromonitor, the Index Research Partner, estimates its capital expenditure allocation to RRP’s increased from zero to 1%, and R&D spending on RRP’s from zero to 5% of total R&D (Figure 94).

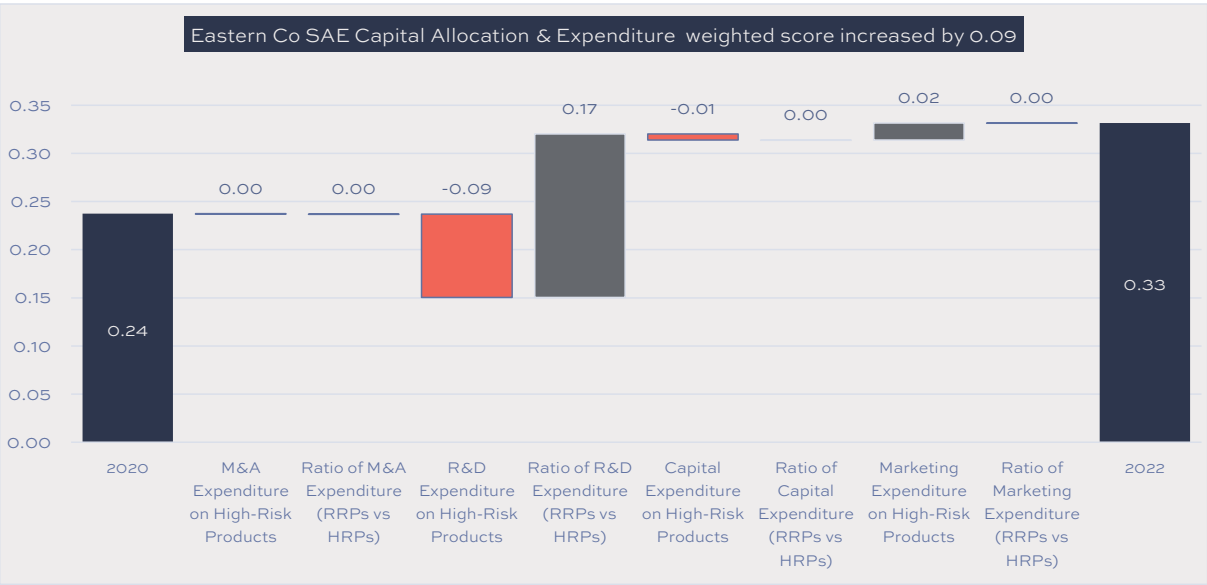
Figure 94: % of Expenditure on Reduced-Risk Products (RRPs): Eastern Co SAE



Source: Tobacco Transformation Index Accompanying Data Set

The most significant driver of Eastern’s 0.09 weighted category score increase was Ratio of R&D Expenditure (RRPs vs HRP’s), which contributed 0.17. This was partly offset by a 0.09 reduction in the contribution from R&D Expenditure on High-Risk Products (Figure 95).

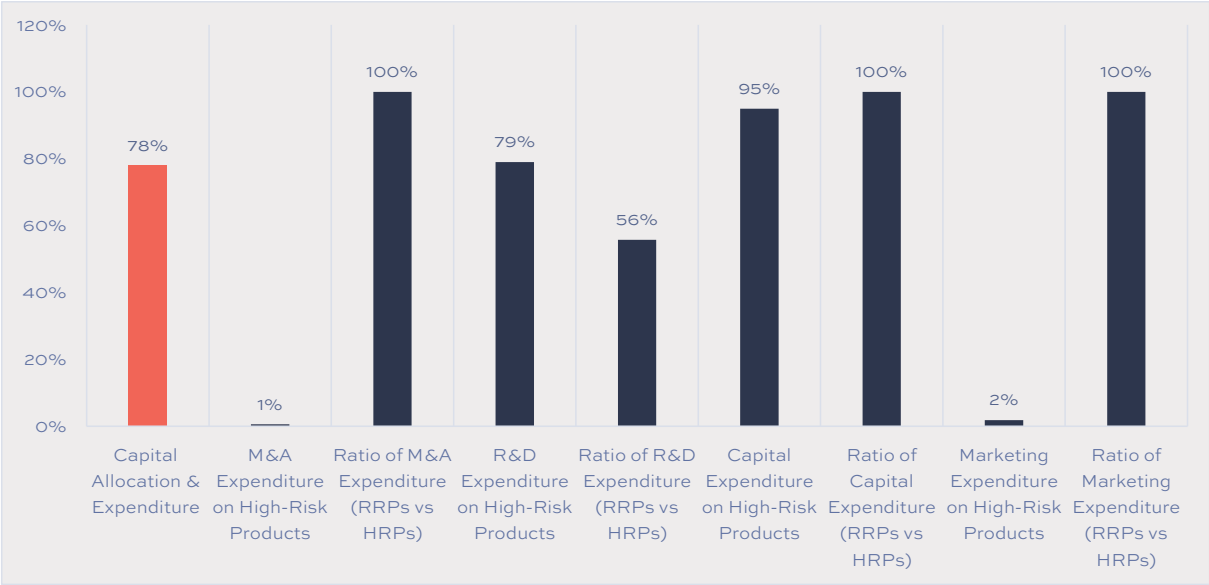
Figure 95: Indicator contribution to Eastern Co Capital Allocation & Expenditure weighted score change



Source: Tobacco Transformation Index, Idwala Research

Besides M&A expenditure on HRP’s, where all Index companies, except BAT, scored well, Eastern achieved the best relative scores in Marketing Expenditure on High-Risk Products and Ratio of R&D Expenditure (RRPs vs HRP’s) (Figure 96).

Figure 96: Capital Allocation & Expenditure score difference: Eastern lower than Maximum Score

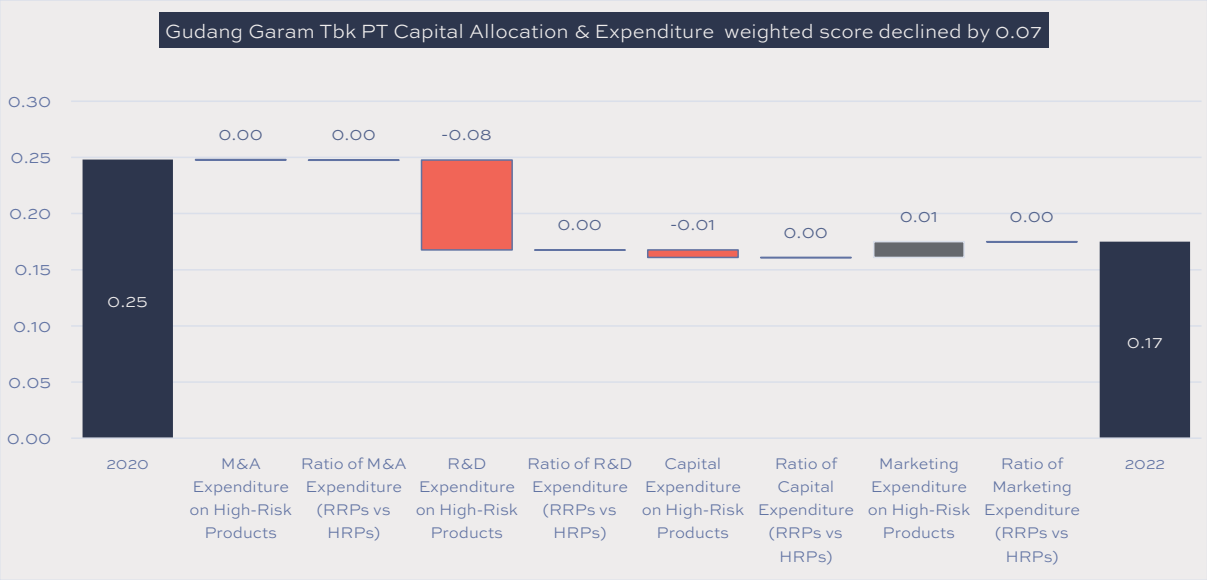


Source: Tobacco Transformation Index, Idwala Research

Gudang Garam Tbk PT

Gudang Garan’s ranking declined by one position to fourteen, and its weighted category score was 0.08 lower, driven by R&D Expenditure on High-Risk Products (Figure 97).

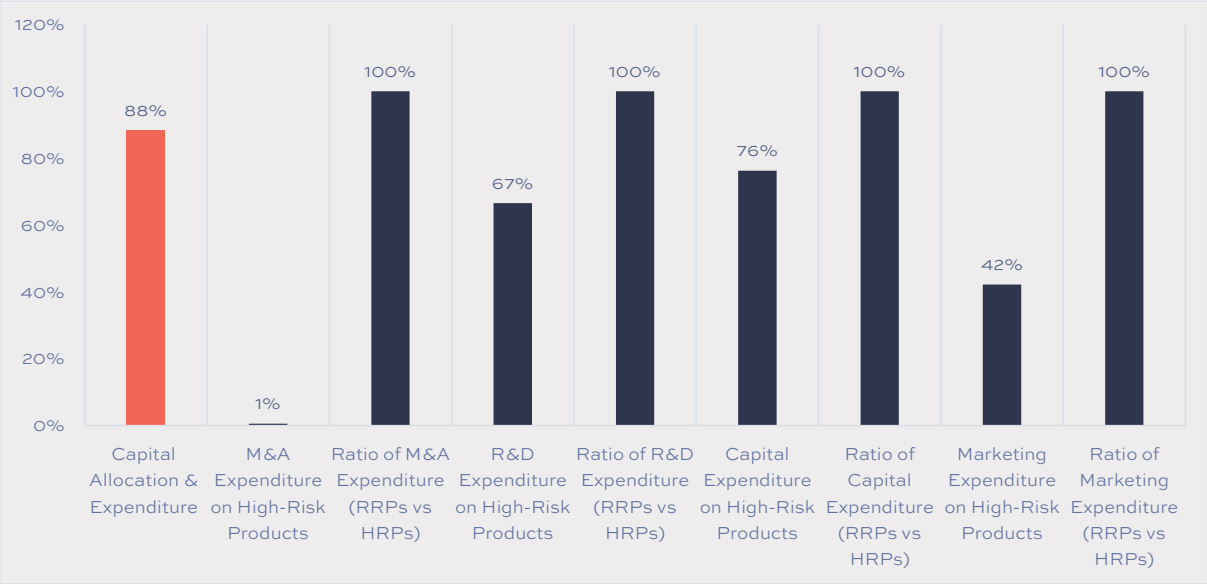
Figure 97: Indicator contribution to Gudang Garam Capital Allocation & Expenditure weighted score change



Source: Tobacco Transformation Index, Idwala Research

The company does not allocate any expenditure to RRP, scoring zero in all the RRP/HRP expenditure ratio indicators. It scored highly in M&A Expenditure on High-Risk Products, owing to BAT being the only Index company to acquire HRP, which is considered a negative for harm reduction (Figure 98).

Figure 98: Capital Allocation & Expenditure score difference: Gudang Garam % lower than Maximum Score

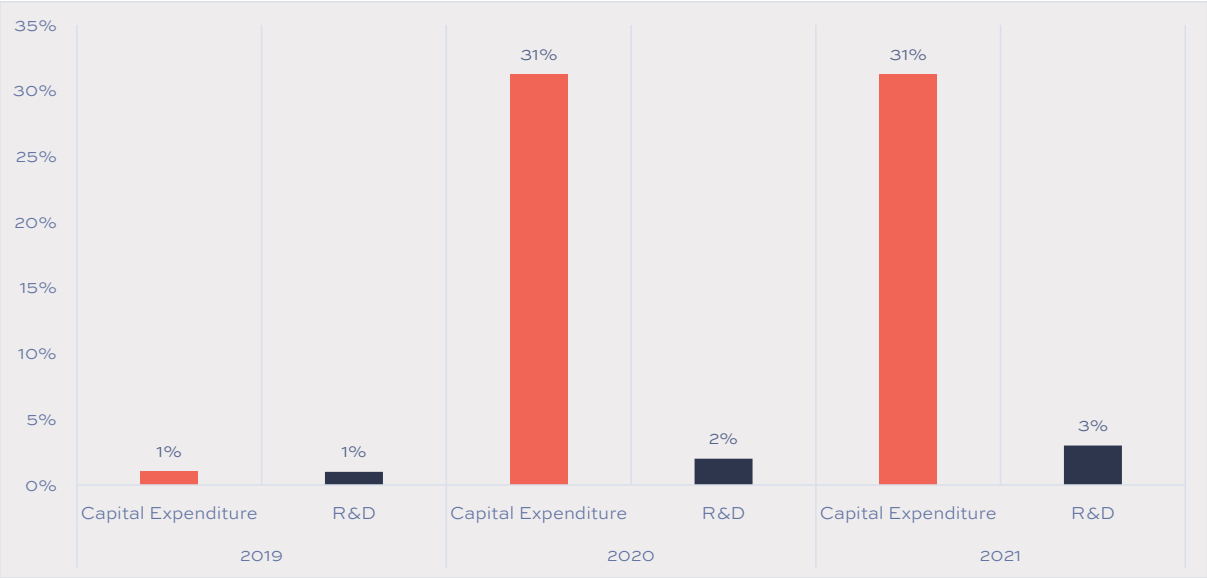


Source: Tobacco Transformation Index, Idwala Research

ITC Ltd

ITC maintained its category ranking at ninth and improved its weighted score by 0.07. Over the Index review period (2019-2021), Euromonitor, the Index Research Partner, estimates that its capital expenditure allocation to RRP's increased from 1% to 31%, whereas R&D spending on RRP's increased from 1% to 3% of total R&D (Figure 99). The RRP capital expenditure relates to the construction of a manufacturing facility for the manufacture and export of nicotine and nicotine derivative products.

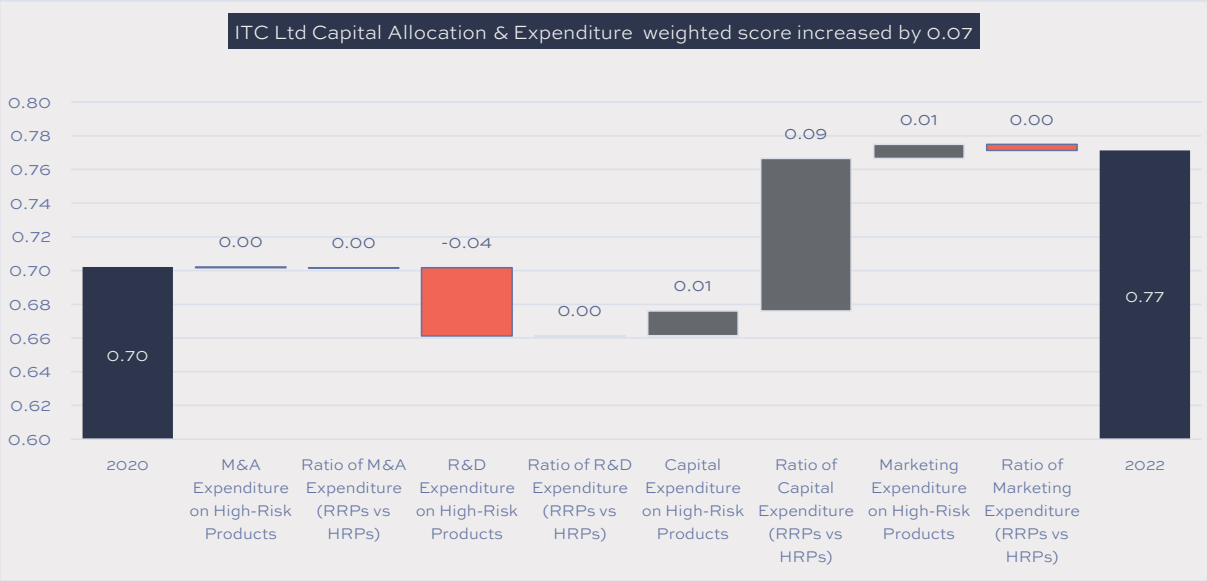
Figure 99: % of Expenditure on Reduced-Risk Products (RRPs): ITC Ltd



Source: Tobacco Transformation Index Accompanying Data Set

The most significant driver of ITC's 0.07 weighted category score increase was Ratio of Capital Expenditure (RRPs vs HRP's), contributing 0.09. This was partly offset by a 0.04 reduction in the contribution from R&D Expenditure on High-Risk Products (Figure 100).

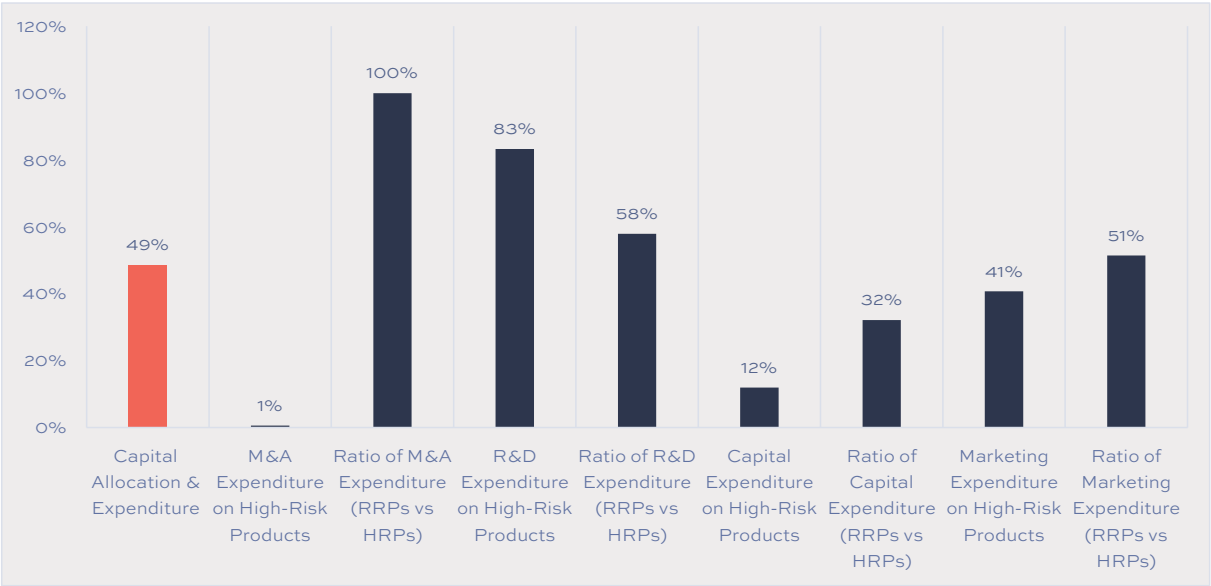
Figure 100: Indicator contribution to ITC Ltd Capital Allocation & Expenditure weighted score change



Source: Tobacco Transformation Index, Idwala Research

Besides M&A expenditure on HRPs, where all Index companies, except BAT, scored well, ITC achieved the best relative scores in Capital Expenditure on High-Risk Products and Ratio of Capital Expenditure (RRPs vs HRPs) (Figure 101):

Figure 101: Capital Allocation & Expenditure score difference: ITC Ltd % lower than Maximum Score

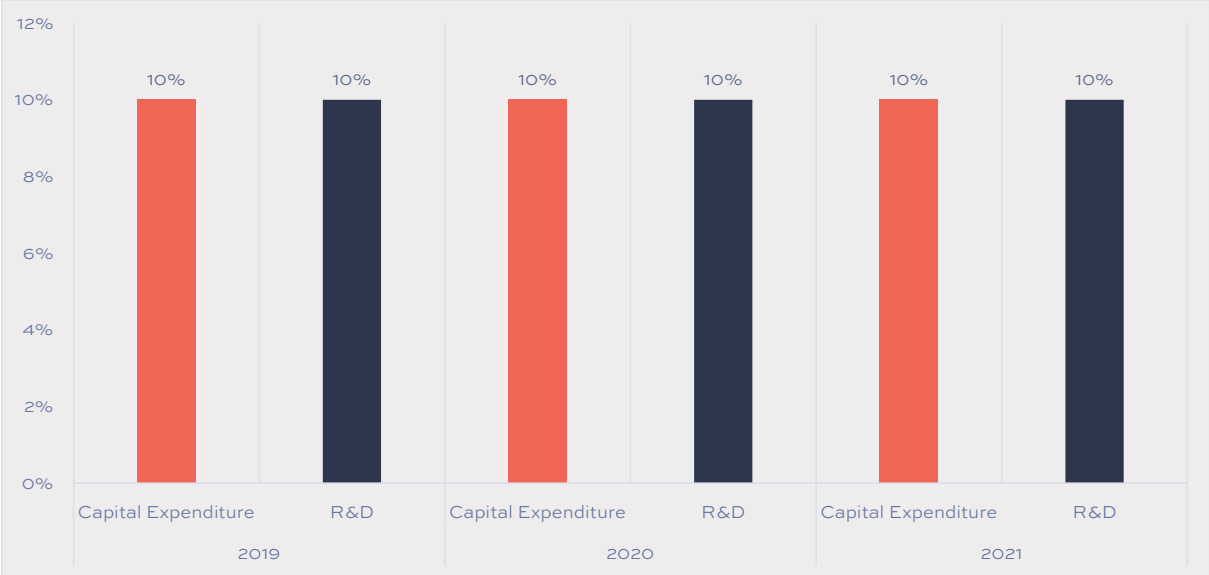


Source: Tobacco Transformation Index, Idwala Research

Swisher

Swisher’s ranking was unchanged at eighth. Over the Index review period (2019-2021), Euromonitor, the Index Research Partner, estimated that Swisher’s capital expenditure and R&D allocations to RRP’s remained unchanged at 10% (Figure 102).

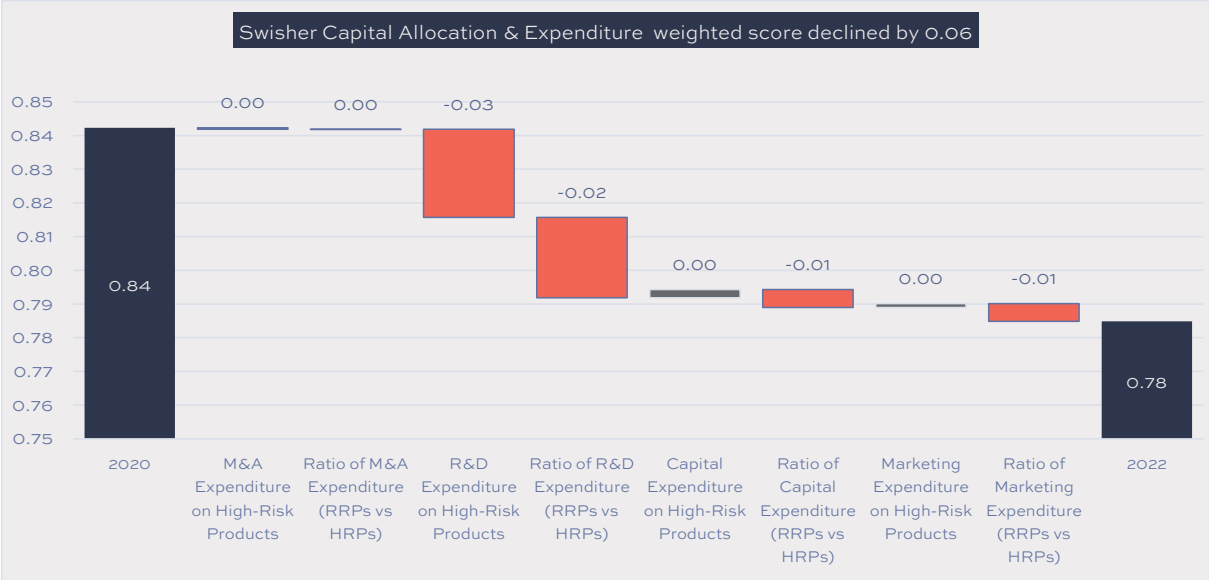
Figure 102: % of Expenditure on Reduced-Risk Products (RRPs): Swisher



Source: Tobacco Transformation Index Accompanying Data Set

The most significant contributors to Swisher’s 0.06 weighted category score decline were the R&D expenditure indicators, which contributed a 0.05 score reduction (Figure 103).

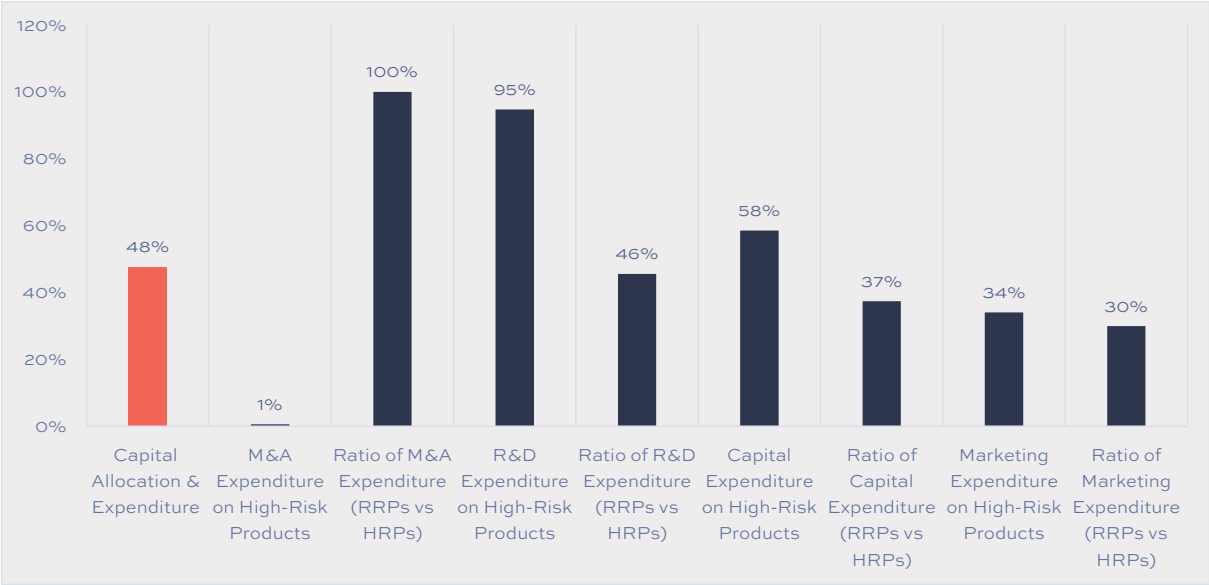
Figure 103: Indicator contribution to Swisher Capital Allocation & Expenditure weighted score change



Source: Tobacco Transformation Index, Idwala Research

Besides M&A expenditure on HRP's, where all Index companies, except BAT, scored well, Swisher achieved the best relative scores in the marketing expenditure indicators and the worst in R&D Expenditure on High-Risk Products (Figure 104).

Figure 104: Capital Allocation & Expenditure score difference: Swisher % lower than Maximum Score

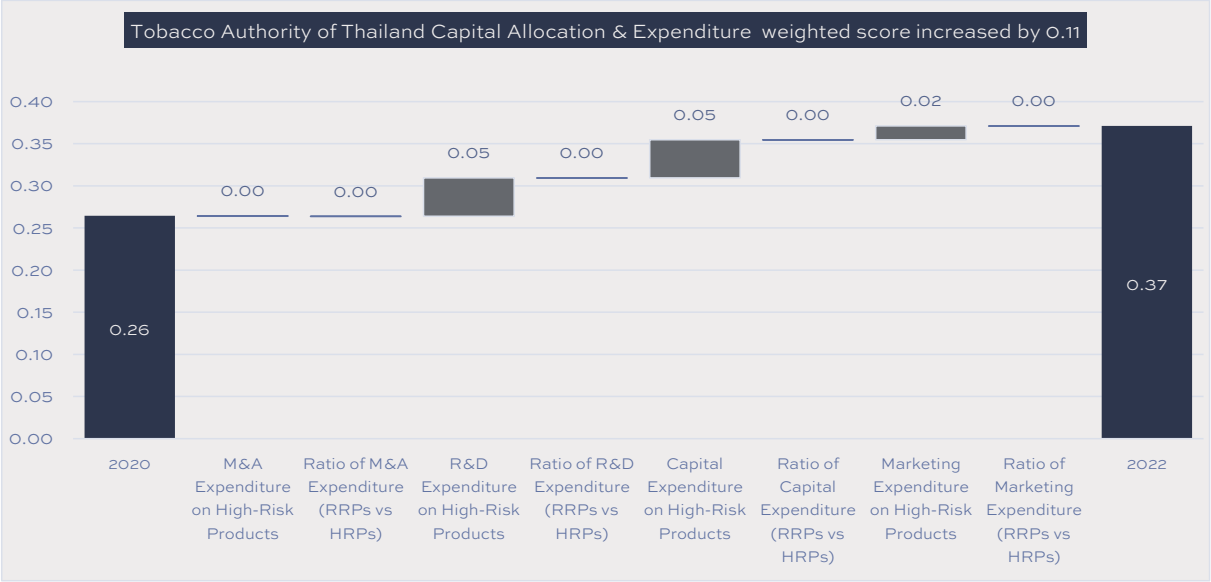


Source: Tobacco Transformation Index, Idwala Research

Tobacco Authority of Thailand

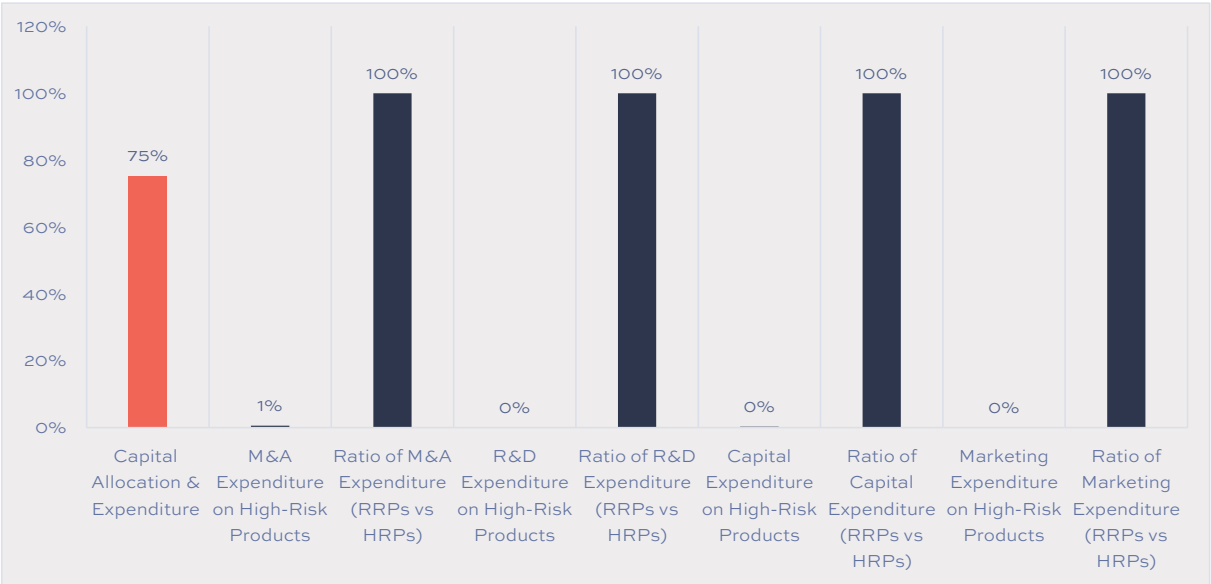
TOAT retained its twelfth ranking, but recorded a meaningful 0.11 weighted category score increase. The company does not allocate any expenditure to RRP, scoring zero in all the RRP/HRP expenditure ratio indicators.

Figure 105: Indicator contribution to Tobacco Authority of Thailand Capital Allocation & Exp. weighted score change



Source: Tobacco Transformation Index, Idwala Research

Figure 106: Capital Allocation & Expenditure score difference: Tobacco Authority of Thailand % lower than Maximum Score

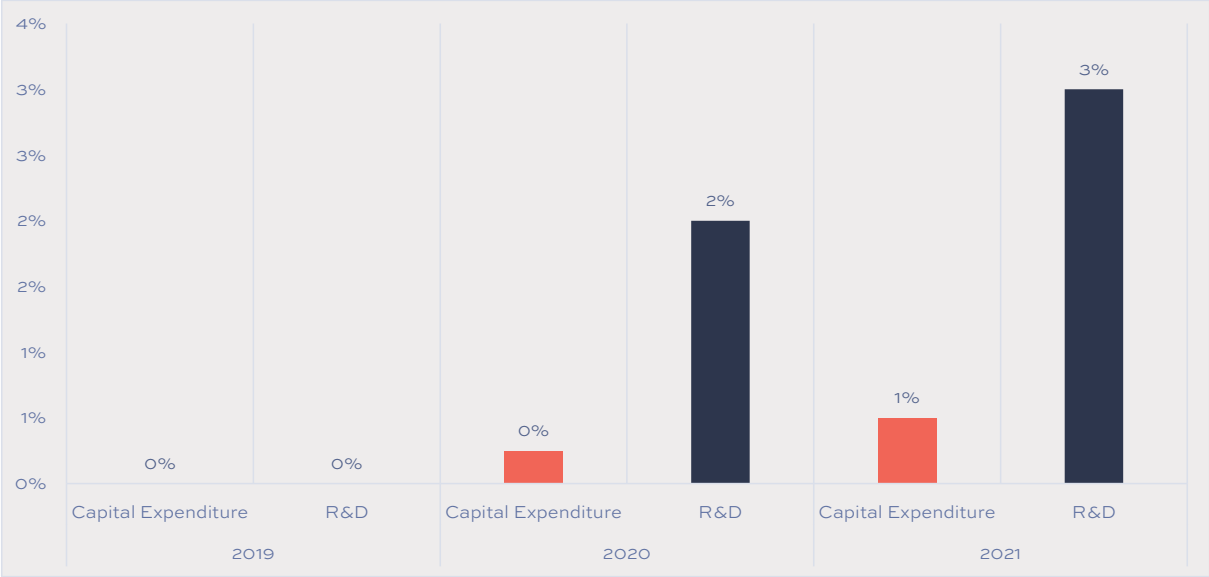


Source: Tobacco Transformation Index, Idwala Research

Vietnam National Tobacco Corp (Vinataba)

Vinataba’s category ranking was unchanged at eleven, but its weighted score increased significantly by 0.15. Over the Index review period (2019-2021), Euromonitor, the Index Research Partner, estimates its capital expenditure allocation to RRP’s rose from zero to 1%, and R&D spending on RRP’s from zero to 3% of total R&D based on statements made by the company. (Figure 107).

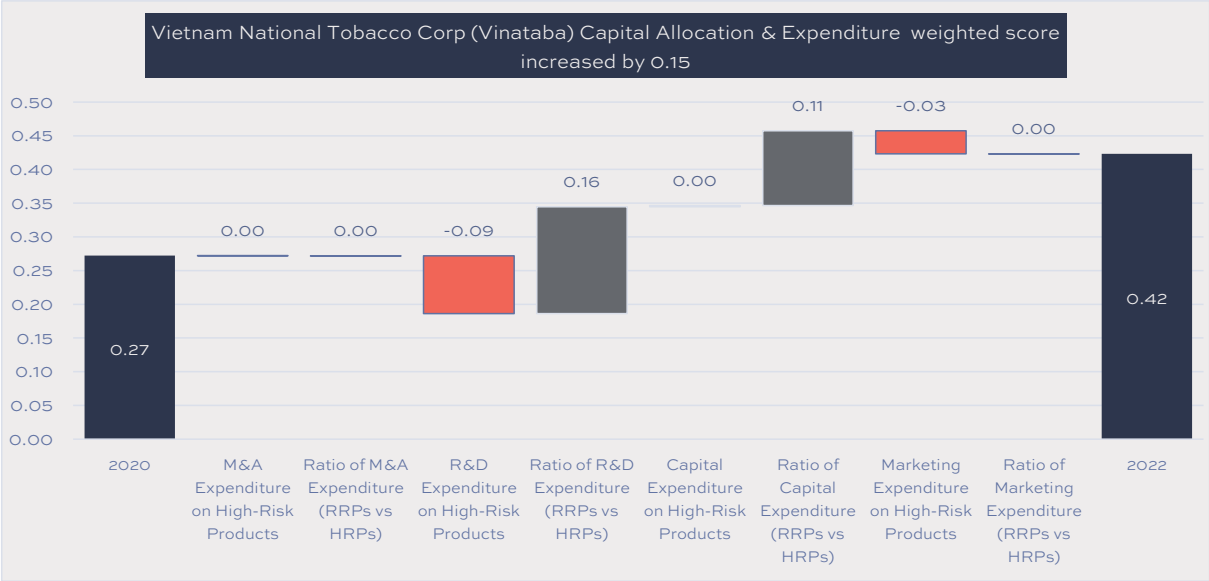
Figure 107: % of Expenditure on Reduced-Risk Products (RRPs): Vinataba



Source: Tobacco Transformation Index Accompanying Data Set

The most significant contributors to Vinataba’s 0.15 weighted category score increase were Ratio of R&D Expenditure (RRPs vs HRP’s) (0.16) and Ratio of Capital Expenditure (RRPs vs HRP’s) (0.11). These were partly offset by reductions in the contributions from R&D Expenditure on High-Risk Products (-0.09) and Marketing Expenditure on High-Risk Products (-0.03) (Figure 108).

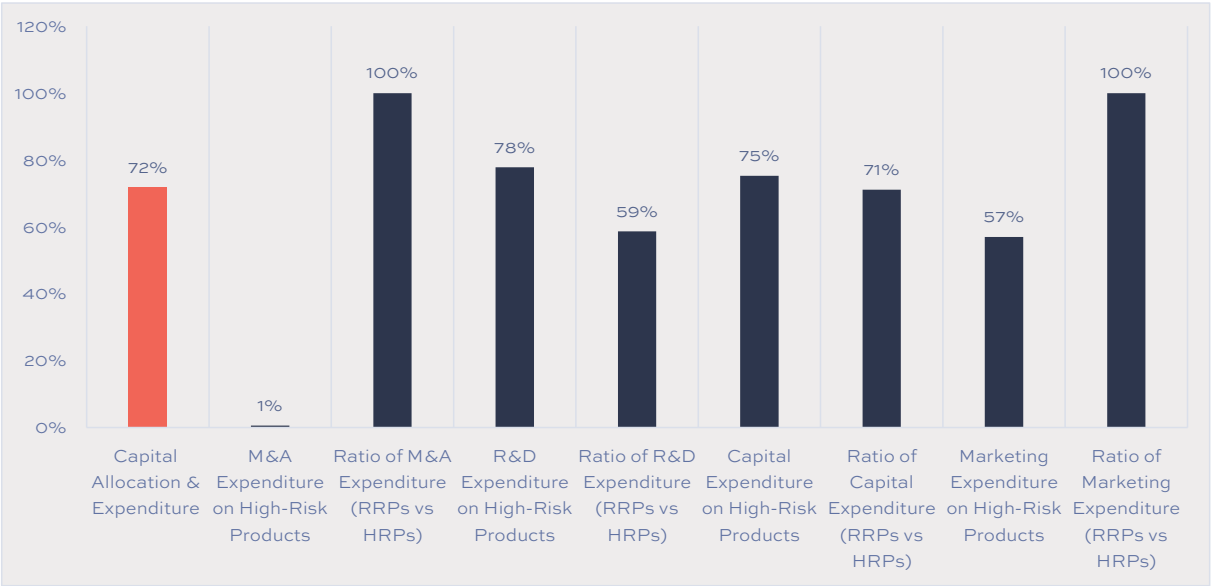
Figure 108: Indicator contribution to Vinataba Capital Allocation & Exp. weighted score change



Source: Tobacco Transformation Index, Idwala Research

Besides M&A expenditure on HRPs, where all Index companies, except BAT, scored well, Vinataba achieved the best relative scores in Ratio of R&D Expenditure (RRPs vs HRPs) and Marketing Expenditure on High-Risk Products (Figure 109). It scored zero in Ratio of Marketing Expenditure (RRPs vs HRPs).

Figure 109: Capital Allocation & Expenditure score difference: Vinataba % lower than Maximum Score



Source: Tobacco Transformation Index, Idwala Research

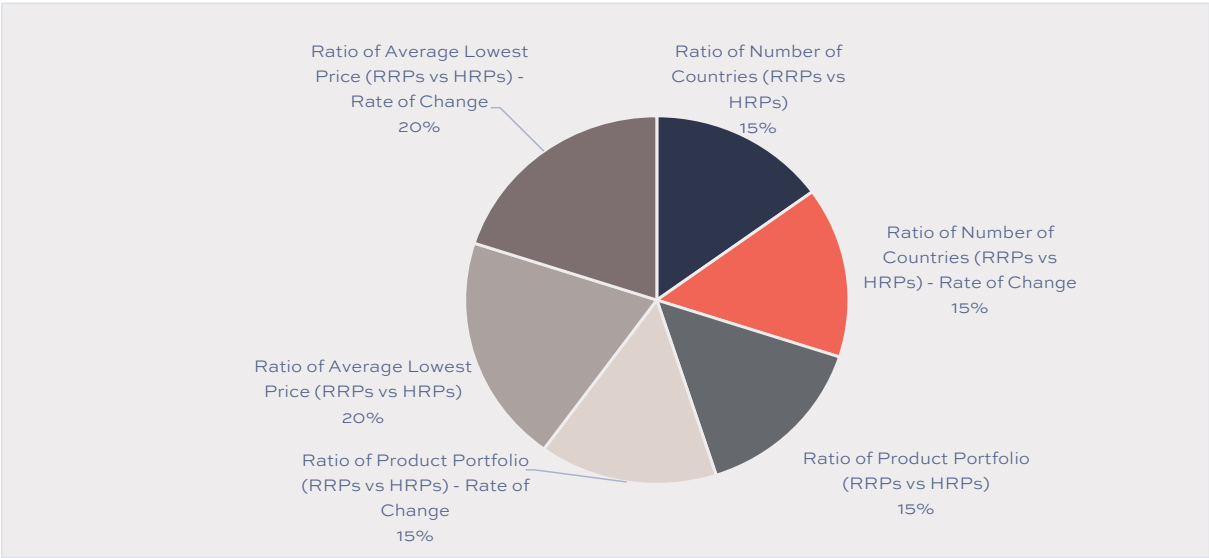
06

PRODUCT OFFER



This category has a 10% Index weighting with six indicators grouped into two sub-categories: Product Portfolio (60%) and Pricing (40%). Whilst the category reflects current period product offers, it serves as a potential lead indicator of future product sales performance. We show the indicator contributions to the Product Offer category in Figure 110.

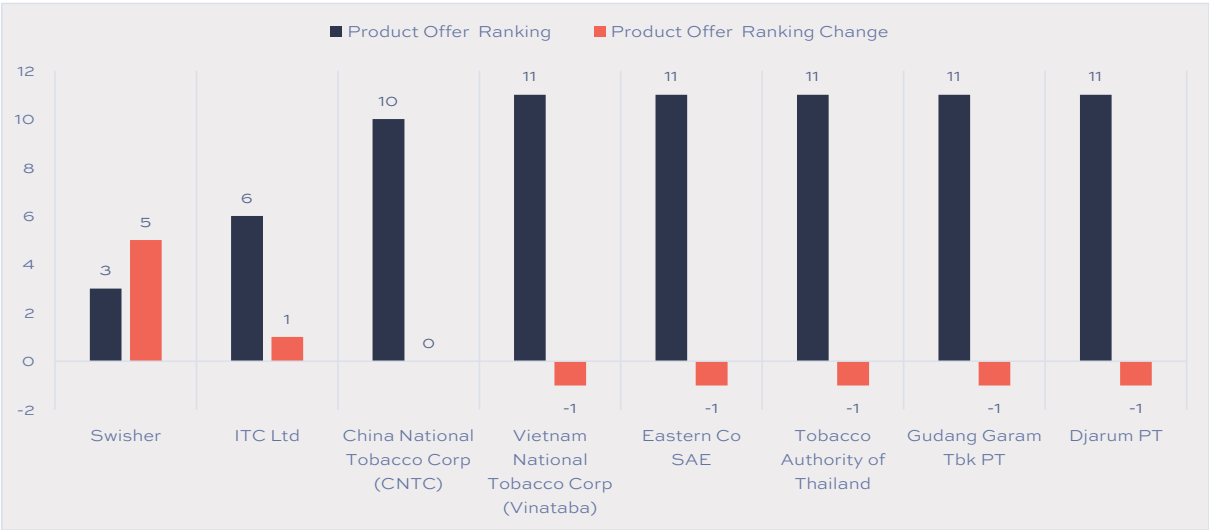
Figure 110: % of Product Offer



Source: Tobacco Transformation Index

Only Swisher, ITC and CNTC scored in this category because the remaining five companies do not offer any RRP. Swisher’s ranking improved by five positions to third, benefitting from adding Rogue nicotine pouches to its portfolio. ITC’s ranking improved by one place (NRTs), and CNTC’s first-time score (heated tobacco in international markets), albeit modest, led to the ranking of the remaining companies falling by one position to joint eleventh (Figure 111).

Figure 111: Product Offer ranking and ranking change by company



Source: Tobacco Transformation Index

CNTC’s weighted category score of 0.1 (Figure 112) reflects that its international division now has a “New Tobacco Product Export Business”, which includes heat-not-burn products. Furthermore, some of its provincial subsidiaries manufacture heated tobacco for export markets.

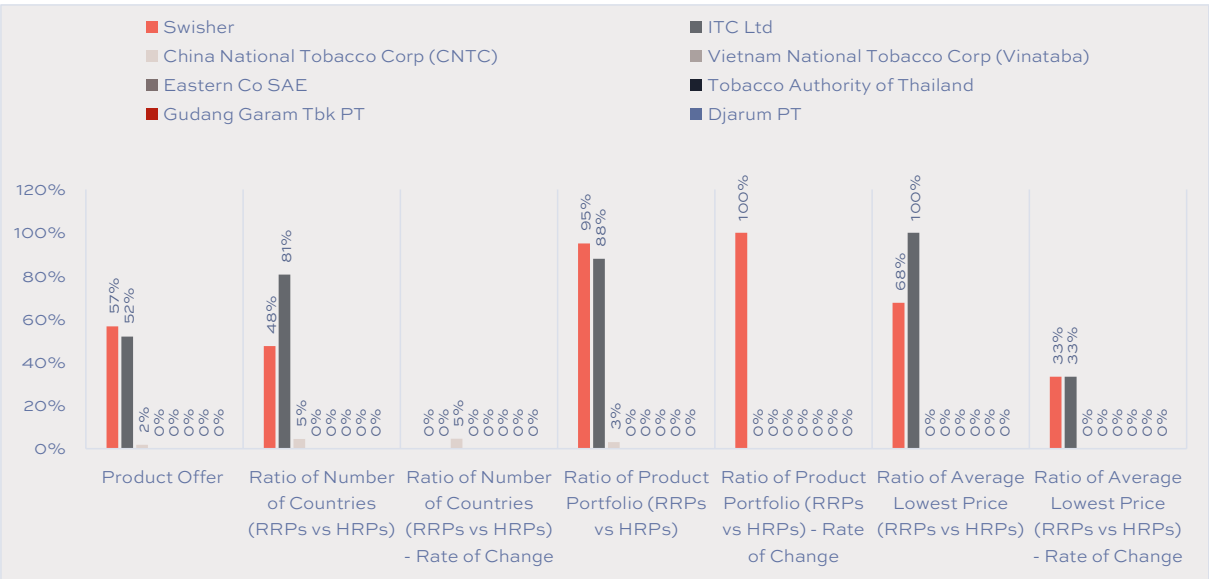
Figure 112: Contribution to Product Offer weighted score



Source: Tobacco Transformation Index

Swisher ranked first in Ratio of Product Portfolio (RRPs vs HRPs) - Rate of Change, earning it the maximum indicator score, whereas ITC ranked first in Ratio of Average Lowest Price (RRPs vs HRPs). (Figure 113).

Figure 113: Product Offer % of Maximum Score by Indicator



Source: Tobacco Transformation Index, Idwala Research

Changes in the weighted scores from the 2020 Index (Figure 114) provide further insights into the relative performances within the category. The emphasis is on relative rather than absolute performance. Since the scores are normalised, an increase in a company’s score can imply a deterioration in its peers’ metrics rather than an improvement in its own.

Figure 114: Contribution to Product Offer weighted score change

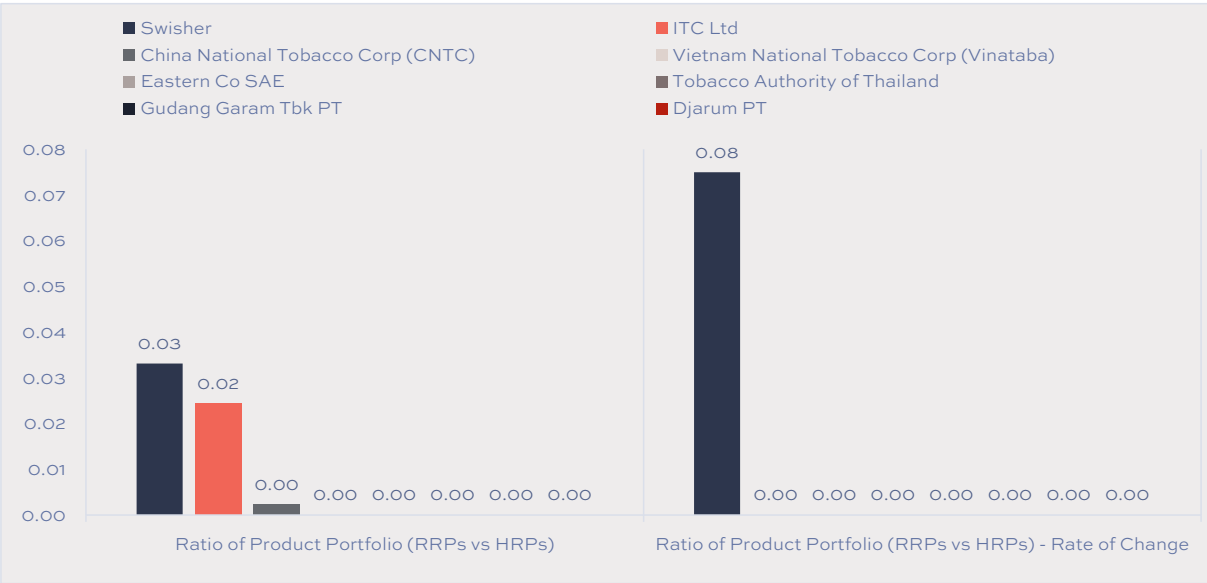


Source: Tobacco Transformation Index

- Swisher and ITC’s weighted score changes were material, considering that the category only has a 10% weighting in the Index.
- The most significant score changes were in:
- Ratio of Product Portfolio (RRPs vs HRPs) - Rate of Change
- Ratio of Number of Countries (RRPs vs HRPs) - Rate of Change
- Ratio of Product Portfolio (RRPs vs HRPs)
- Ratio of Average Lowest Price (RRPs vs HRPs)

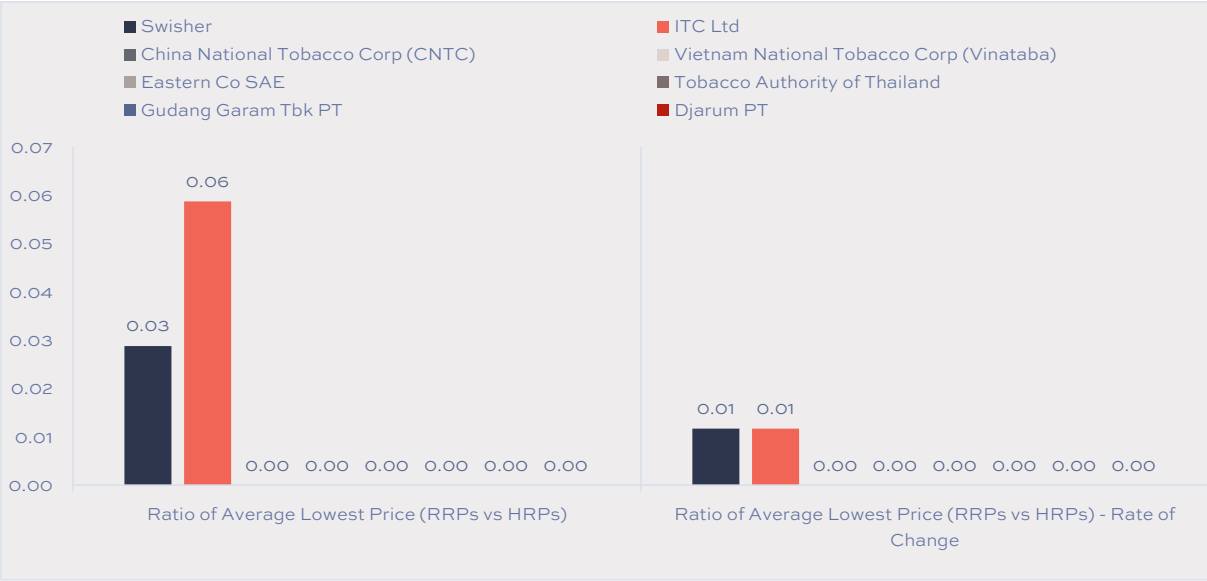
We show the most significant indicator contributions to the weighted score changes in the Product Offer category in Figure 115 and Figure 116.

Figure 115: Contribution to Product Offer weighted score change: 2 indicators



Source: Tobacco Transformation Index

Figure 116: Contribution to Product Offer weighted score change: 2 indicators

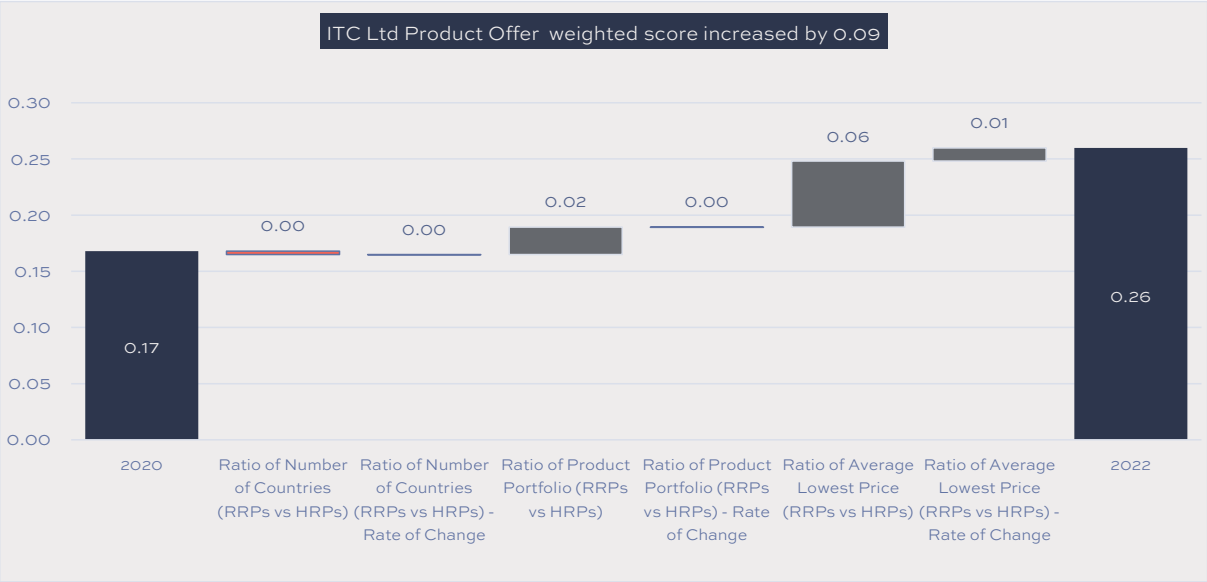


Source: Tobacco Transformation Index

ITC Ltd

ITC’s ranking in this category improved by one to sixth, mainly driven by an improved score and ranking in the Ratio of Average Lowest Price (RRPs vs HRPs) indicator (Figure 117).

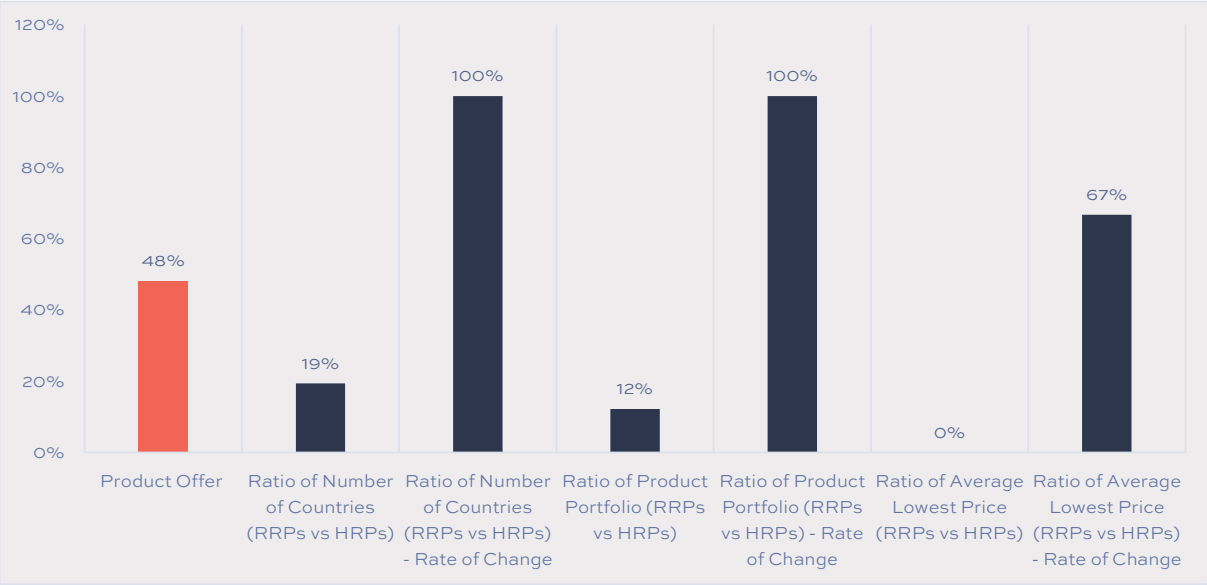
Figure 117: Indicator contribution to ITC Ltd Product Offer weighted score change



Source: Tobacco Transformation Index, Idwala Research

ITC’s Product Offer score contribution of 0.26 to its Final Score was 48% lower than the 0.50 it would have been if it was ranked first in all indicators related to this category. It ranked first in Ratio of Average Lowest Price (RRPs vs HRPs), earning the maximum score. At 100% lower, Ratio of Number of Countries (RRPs vs HRPs) - Rate of Change and Ratio of Product Portfolio (RRPs vs HRPs) - Rate of Change stood out, as did Ratio of Average Lowest Price (RRPs vs HRPs) - Rate of Change (67% lower) (Figure 118).

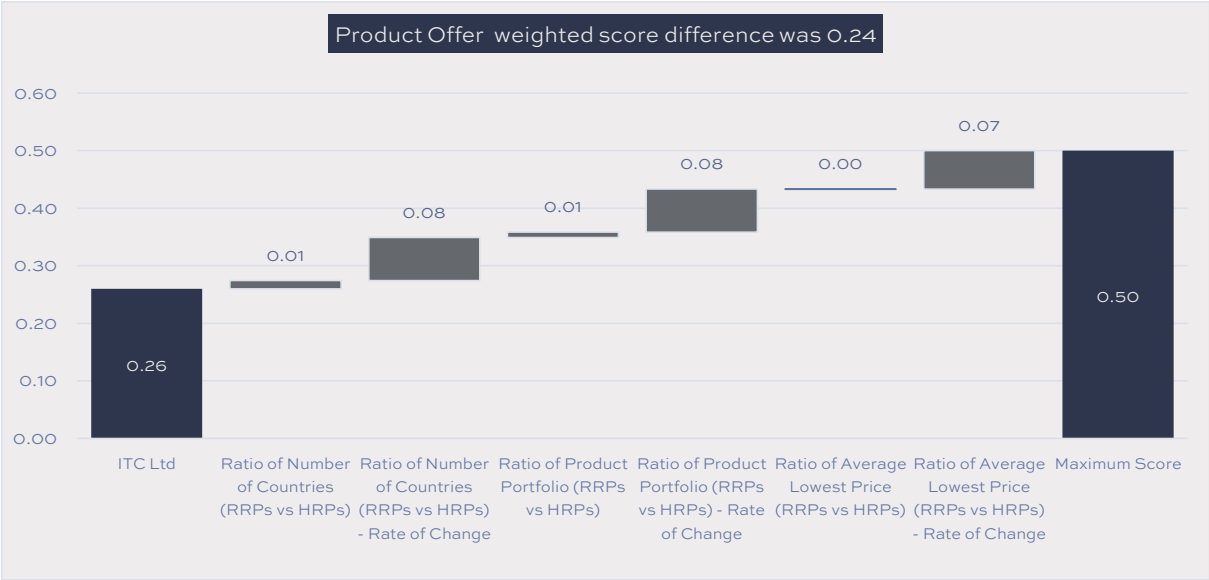
Figure 118: Product Offer weighted score difference: ITC Ltd % lower than Maximum Score



Source: Tobacco Transformation Index, Idwala Research

These three indicators also offer the most significant opportunities for score improvement in this category (Figure 119).

Figure 119: Contribution to Product Offer weighted score difference: ITC Ltd & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

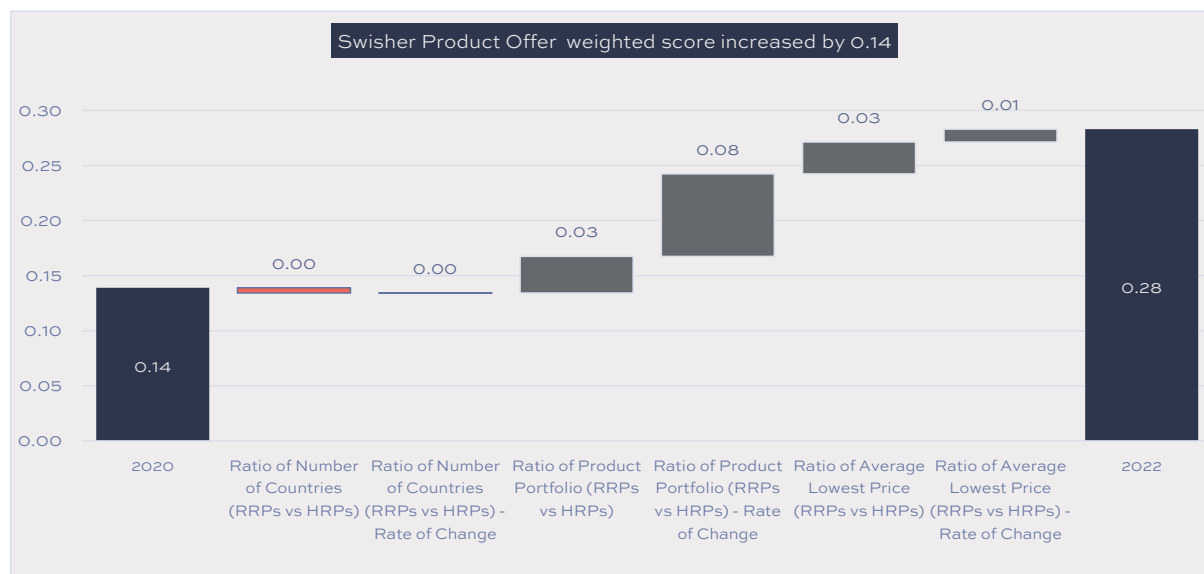
Swisher

Swisher recorded the highest score increase in the Index, and its ranking improved by five places to third, benefitting from the addition of Rogue nicotine pouches to its portfolio.

Three indicators were the main contributors to Swisher's 0.14 weighted category score increase:

- Ratio of Product Portfolio (RRPs vs HRPs) (+0.03))
- Ratio of Product Portfolio (RRPs vs HRPs) - Rate of Change (+0.08)
- Ratio of Average Lowest Price (RRPs vs HRPs) (+0.03)

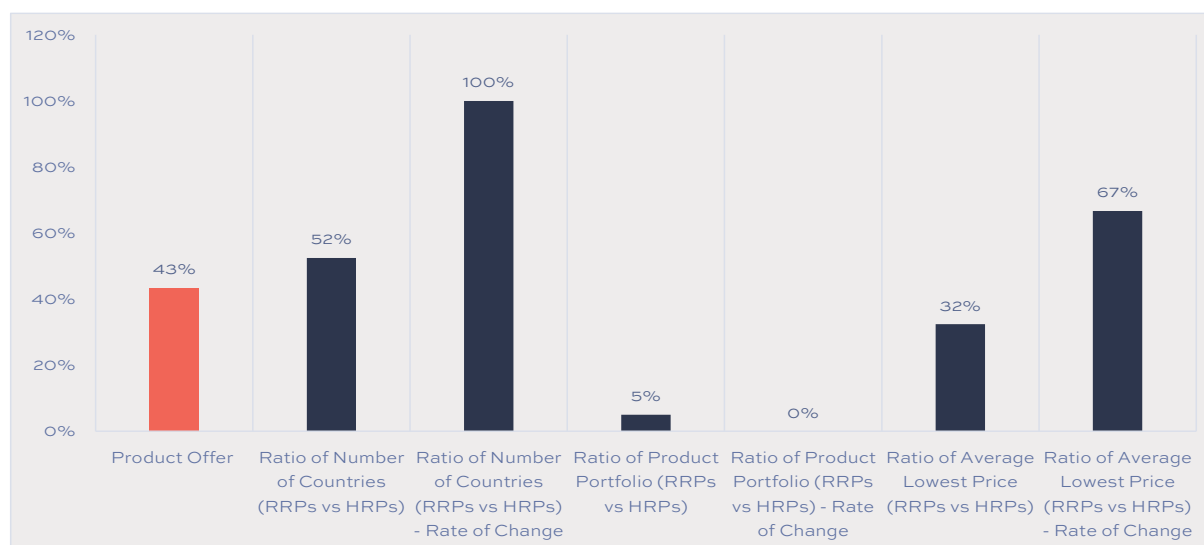
Figure 120: Indicator contribution to Swisher Product Offer weighted score change



Source: Tobacco Transformation Index, Idwala Research

Swisher's Product Offer score contribution of 0.28 to its Final Score was 43% lower than the 0.50 it would have been if it was ranked first in all indicators related to this category. It ranked first in Ratio of Product Portfolio (RRPs vs HRPs) - Rate of Change, earning the maximum score from a low base. At 100% lower, Ratio of Number of Countries (RRPs vs HRPs) - Rate of Change stood out, as did Ratio of Average Lowest Price (RRPs vs HRPs) - Rate of Change (67% lower) (Figure 121).

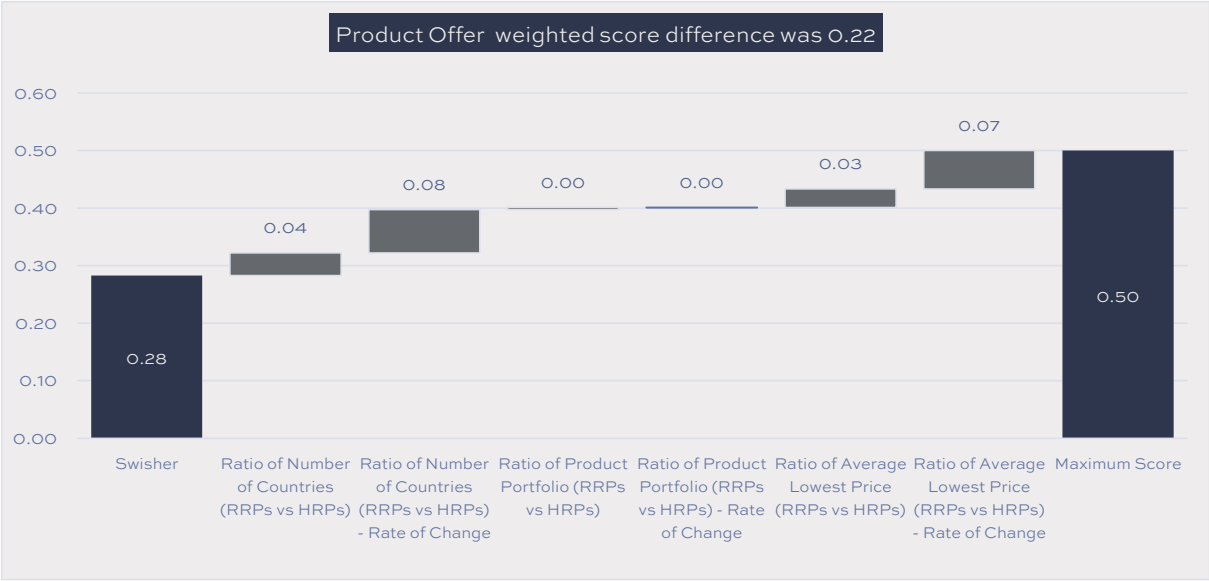
Figure 121: Product Offer weighted score difference: Swisher % lower than Maximum Score



Source: Tobacco Transformation Index, Idwala Research

These two indicators, along with Ratio of Number of Countries (RRPs vs HRPs), also offer the most significant opportunities for score improvement in this category (Figure 122).

Figure 122: Contribution to Product Offer weighted score difference: Swisher & Maximum Score



Source: Tobacco Transformation Index, Idwala Research

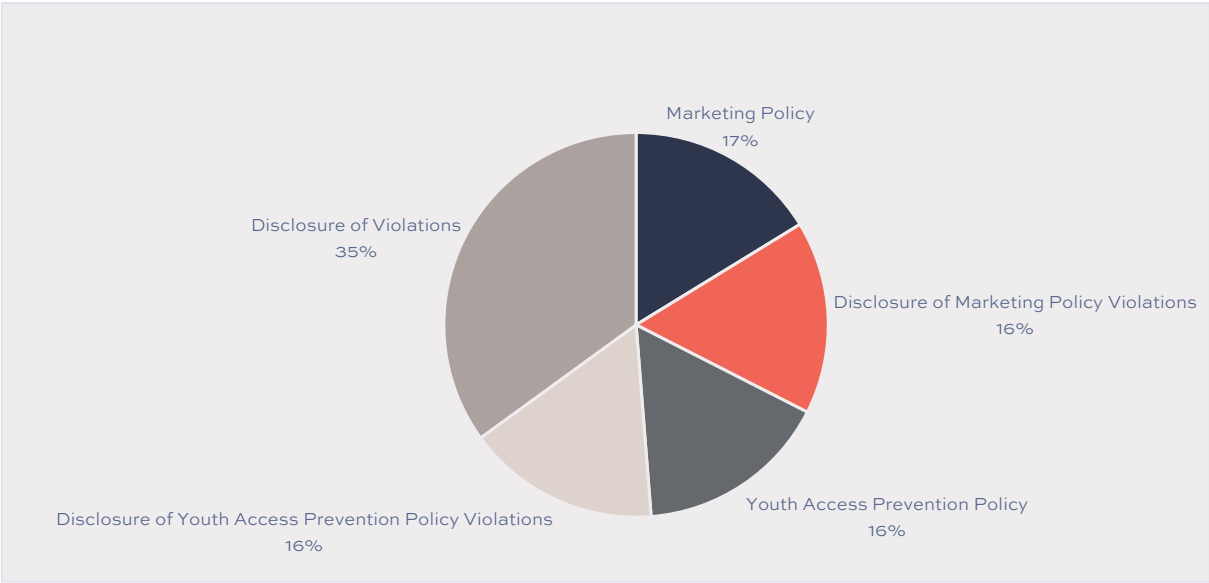
07

MARKETING POLICY & COMPLIANCE



This category has a 10% Index weighting with five indicators grouped into two sub-categories: Marketing Policy (65%) and Marketing Compliance (35%). Disclosure of Violations is the only indicator in the Marketing Compliance sub-category. We show the indicator contributions to the Product Offer category in Figure 123.

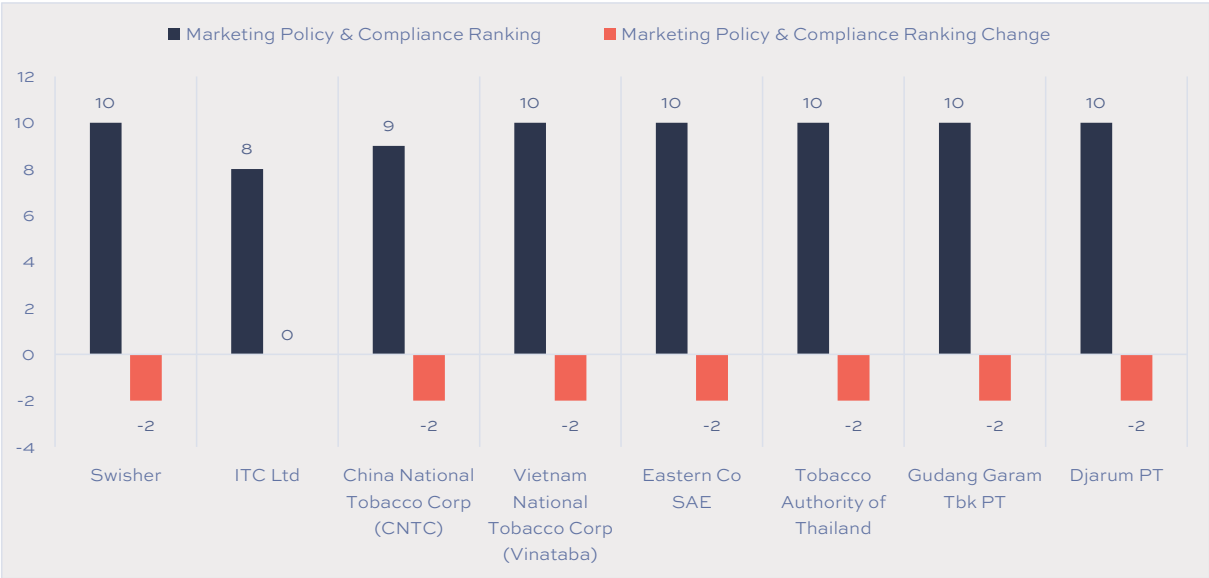
Figure 123: % of Marketing Policy & Compliance



Source: Tobacco Transformation Index

Of the Next Eight Index companies, only CNTC didn't score zero in this category in the 2020 Index publication and was ranked seventh. The remaining seven were tied for eighth. In 2022, ITC's first-time score surpassed CNTC, which, combined with ranking shifts in the top seven, meant that ITC's ranking remained at eighth, CNTC dropped to ninth, and the remaining companies to tenth (Figure 124).

Figure 124: Marketing Policy & Compliance ranking

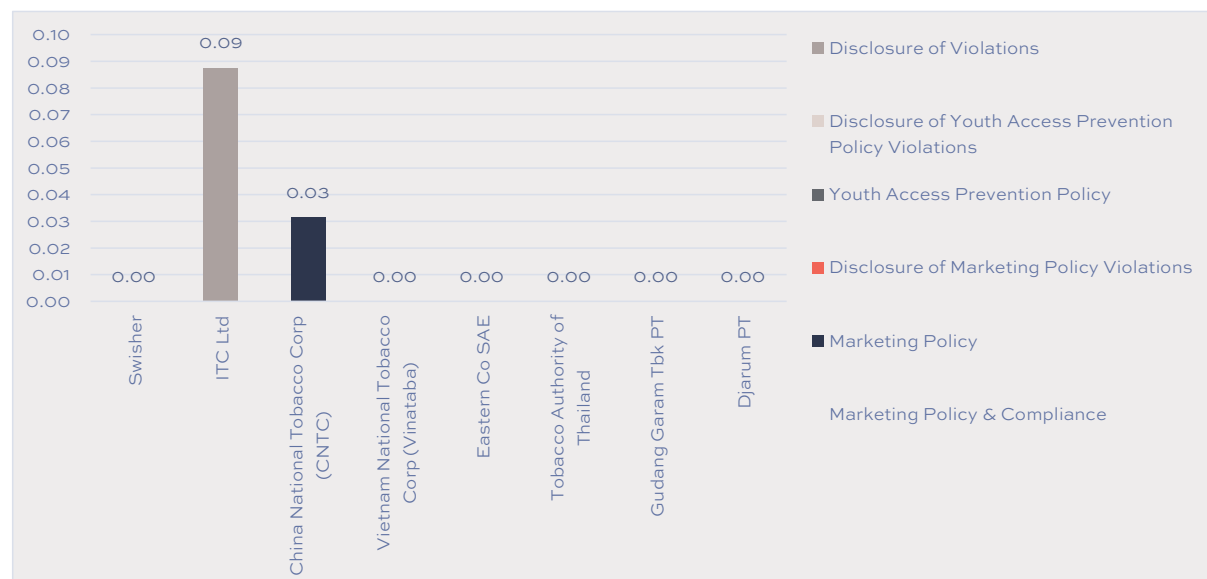


Source: Tobacco Transformation Index

ITC was deemed to have met the standards in half of the metrics²⁰ required for the Disclosure of Violations indicator after stating in its annual report that there were no recorded violations of marketing laws.

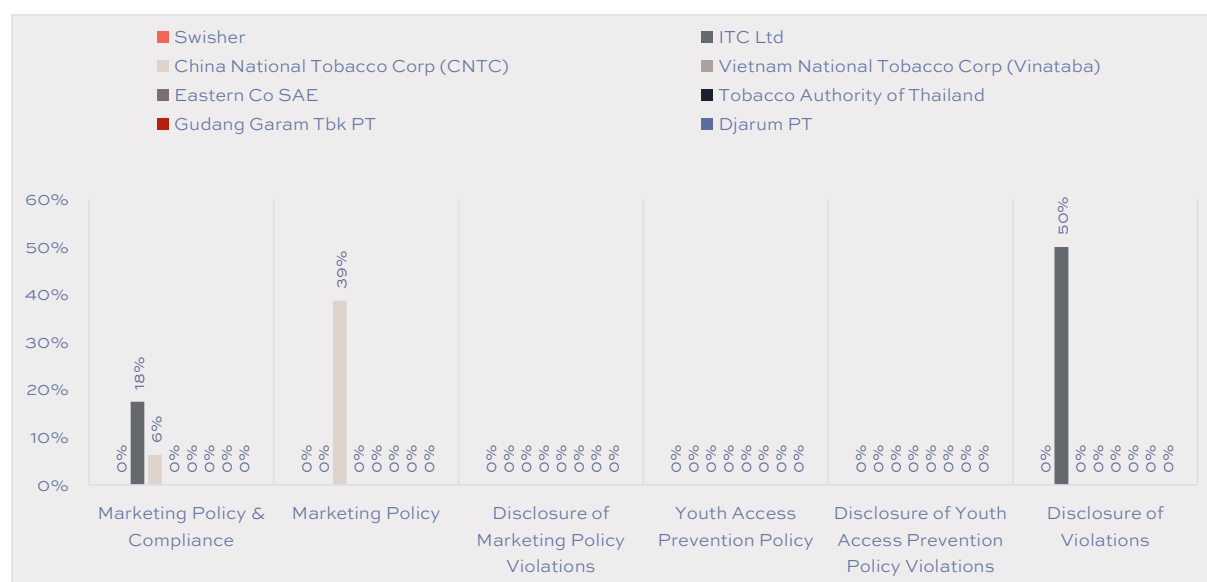
CNTC outlines procedures for monitoring marketing policy violations, for which it was awarded 39% of the available score in the Marketing Policy indicator.

Figure 125: Contribution to Marketing Policy & Compliance



Source: Tobacco Transformation Index

Figure 126: Marketing Policy & Compliance % of Maximum Score by Indicator



Source: Tobacco Transformation Index, Idwala Research

ITC scored for the first time in 2022, and CNTC's score was unchanged from 2020 (Figure 127).

²⁰ <https://tobacotransformationindex.org/about-the-data/methodology/>

Figure 127: Contribution to Marketing Policy & Complianceweighted score change



Source: Tobacco Transformation Index

08

LOBBYING & ADVOCACY

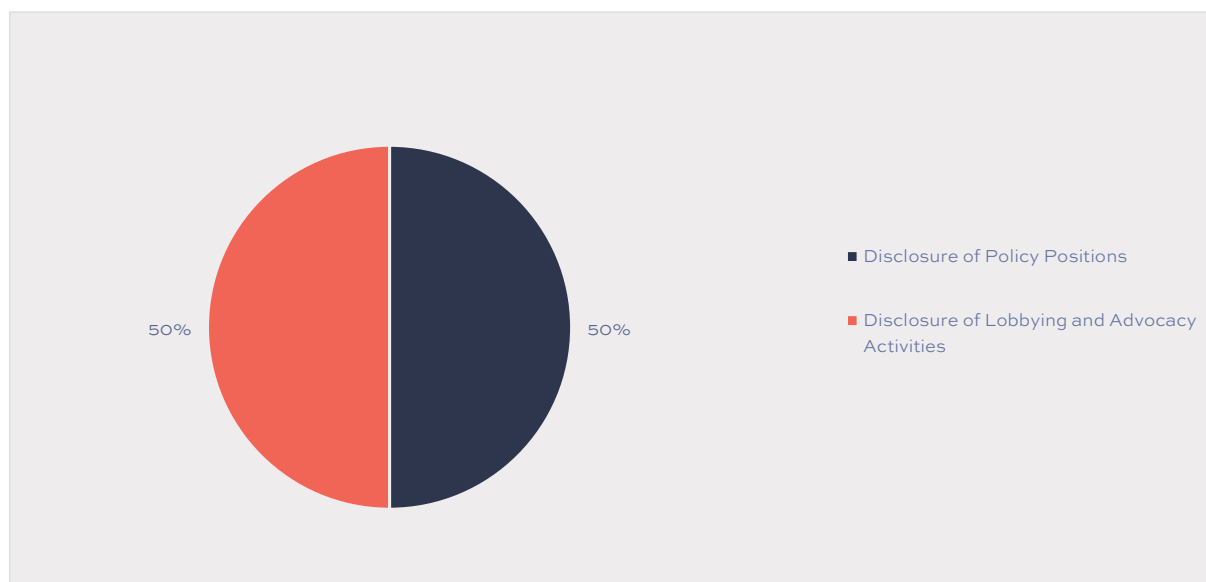


This category has a 5% Index weighting and consists of only two indicators:

- Disclosure of Policy Positions relates to company disclosures on its harm reduction policy and policy on lobbying/engagement on public policy activities
- Disclosure of Lobbying and Advocacy Activities requires companies to disclose the specifics of their lobbying activities **and** the outcomes sought in all jurisdictions where they operate.

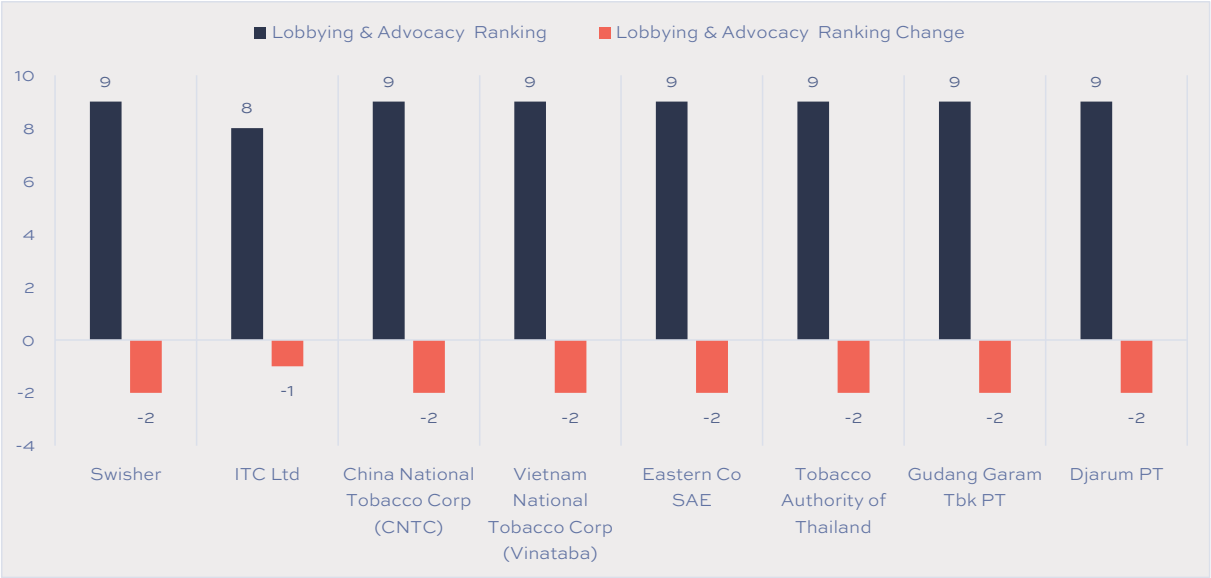
ITC, which scored zero in 2020, was the only company of the Next Eight Index companies not to score zero in this category in 2022. The ranking changes shown in Figure 129 are a function of ITC no longer being at zero and ranking shifts among the top seven Index companies.

Figure 128: % of Lobbying & Advocacy



Source: Tobacco Transformation Index

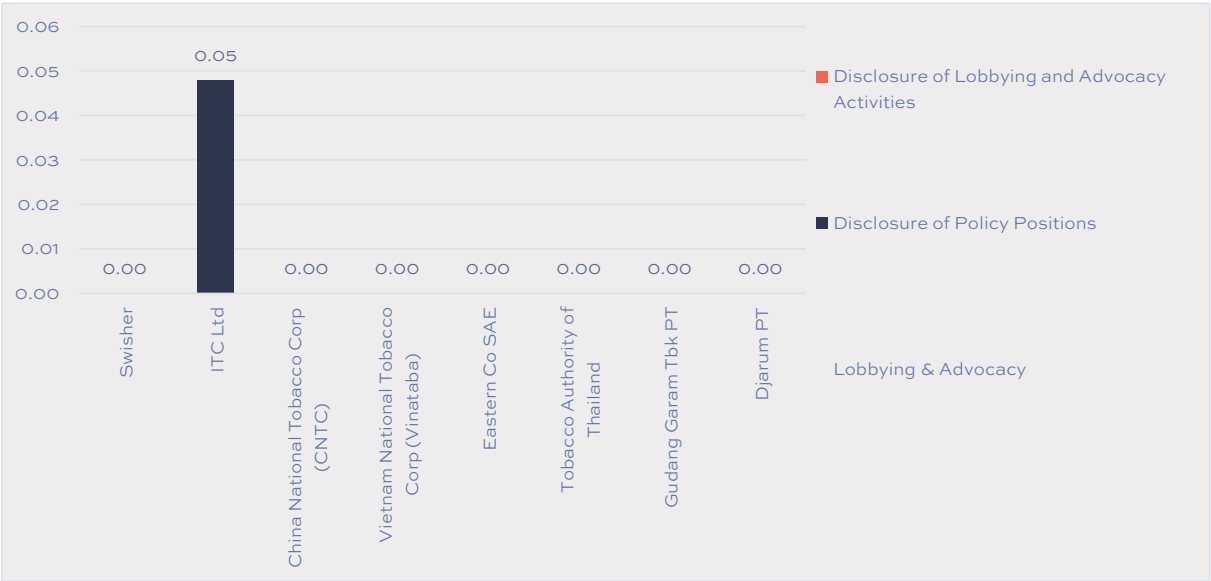
Figure 129: Lobbying & Advocacy ranking



Source: Tobacco Transformation Index

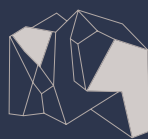
ITC was awarded points on one qualitative metric, “Company has a policy on lobbying/engaging on public policy issues, AND it applies to lobbyists and third parties paid by the company²¹”, after adding a policy on responsible advocacy to its website.

Figure 130: Contribution to Lobbying & Advocacy weighted scores



Source: Tobacco Transformation Index

²¹ <https://tobaccotransformationindex.org/about-the-data/methodology/>



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