

British American Tobacco PLC Sponsored ADR (BTI)

Value Fit 8 / 10

University of Wisconsin–Milwaukee | Lubar College of Business | Investment Management Certificate Program

Philosophy Fit 4 / 5

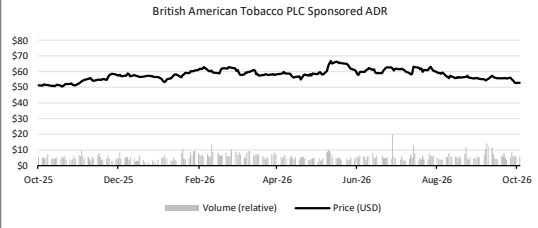
Analyst: Elizabeth Christenson

Recommendation: BUY

As of: 10/06/2026

WISCONSIN VALUE FUND LENS — Maximize return by buying improving companies at reasonable valuations.

Performance level — ROIC (FY2026E) vs. ke	9.0% vs 8.5% → Above ke
Change in performance — ΔROIC	+1.1 pts, FY2026E vs FY2025A → Improving
Lifecycle phase	Phase III — highest expectations
Valuation gap — target vs. price	+11.6% → Price below our value



The ROIC change compares adjusted FY2026E with reported FY2025A; on the same basis it is about +0.2 points.

BUSINESS DESCRIPTION

British American Tobacco plc is a holding company, which engages in the manufacture and distribution of tobacco products. Its brands include Kent, Dunhill, Lucky Strike, and Pall Mall. It operates through the following geographical segments: United States, Americas and Europe (AME), and Asia-Pacific, Middle East, and Africa (APMEA). The company was founded by James Buchanan Duke on September 29, 1902 and is headquartered in London, the United Kingdom.

INVESTMENT THESIS

British American Tobacco, the maker of Lucky Strike, Vuse and Velo, is moving steadily toward smokeless products: smokeless reached 19.8% of revenue in H1 2026, U.S. revenue grew 8.5% at constant currency, and management expects FY2026 adjusted EPS growth toward the middle of its 5% to 8% range. Leverage should fall inside BAT's 2.0x to 2.5x target range by year-end, freeing cash for buybacks, and at about 11.3x FY2026E model EPS with a 6.2% dividend yield, our \$59 target (+11.6%) plus the dividend gives a total return of about 18%.

MARKET SNAPSHOT

Current Price	\$52.88	Market Cap (\$B)	\$113.7	Beta	0.28
52-Week Range	\$50 – \$67	Inst. Ownership	68.0%	Insider Own.	13.7%
Shares Out. (mm)	2,187.0	Short Interest (% float)	0.1%	Dividend Yield	6.2%
Consensus L-T Growth	6.4%	Payout Ratio	68.2%	Cost of Equity	8.5%
Price Target	\$59.00	Upside to Target	11.6%	Value Range	\$57 – \$65

VALUATION SUMMARY — equity DCF, FCFE discounted at ke

Method	Value / Share	Upside	Terminal Assumption
Equity DCF – terminal P/E	\$57.99	9.7%	11.0x P/E
Equity DCF – terminal P/S	\$57.01	7.8%	3.2x P/S
Equity DCF – terminal P/B	\$56.94	7.7%	1.7x P/B
Equity DCF – constant growth	\$65.30	23.5%	1.0% g, 8.5% ke
Average of methods	\$59.31	12.2%	Equal-weighted
Analyst price target	\$59.00	11.6%	Average of methods, rounded

PHILOSOPHY FIT — Five pillars · Score: 4 / 5

		Fit?
1. Fundamental improvement & valuation discipline	ΔROIC +1.1 pts; price is 0.89x our average value	No
2. Investing through company cycles	Phase III; adj. EBIT margin 43.8% (FY2026E) → 44.4% (FY2028E)	Yes
3. Initial position sizing & risk limits	Sized within fund limits; review if leverage stays above 2.5x	Yes
4. Capital allocation discipline	Net debt/invested capital 31.8%; net debt/EBIT 3.1x	Yes
5. Identifiable catalysts & conservative underwriting	Three drivers, each with a watch item; ITC stake left out of the target	Yes

VALUE CRITERIA — 10-Point Checklist · Score: 8 / 10

		Pass?
1. Catalyst / Investment Drivers		Yes
Driver 1 — Smokeless Mix Rises	Smokeless products (vapor, heated tobacco and modern oral) reached 19.8% of revenue in Q1 2026, up from 18.2% in FY2025. New Categories profit margin rose 3.3 points to 13.3%, but that is still below the peer margins.	
Driver 2 — Lower Debt Funds Buybacks	Leverage was 2.55x adjusted net debt to EBITDA at FY2025 The 2026 buyback is £1.3 billion.	
Driver 3 — U.S. Pricing Offsets Volume	U.S. revenue grew 8.5% in Q1 2026 as cigarette prices rose 10.2%, helped by an excise duty refund and inventory timing, offsetting a 5.2% volume decline. Velo Plus lifted U.S. modern oral volume share 11.6 points to 29.8%, and Vuse holds 55.9% of U.S. vapor value share.	
What does management say?	Management expects FY2026 adjusted EPS growth toward the middle of its 5% to 8% range.	

2. Low P/E Ratio							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
EPS (model)	-\$8.04	\$1.75	\$4.63	\$4.70	\$4.92	\$5.18	
P/E at current price	NM	30.3x	11.4x	11.3x	10.7x	10.2x	
Peer median P/E (FactSet, subject excl.)	24.8x	FY2026E P/E vs. peer median		(55%)			
Actual years are reported EPS; forecasts are BAT's adjusted EPS (as adjusted for Canada). FY2023 reported EPS was negative after the U.S. brand write-down, so its P/E is not meaningful.							
3. Low Price / Cash Flow							No
FCFE / share	\$4.50	\$3.72	\$2.18	\$4.45	\$4.60	\$4.74	
Price / FCFE	11.8x	14.2x	24.3x	11.9x	11.5x	11.1x	
Peer median P/CF (FactSet, subject excl.)	12.0x	Price / FCFE (today) vs. peer median		+102%			
4. Low Price / Book Value							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Book value / share	\$30.06	\$28.08	\$29.48	\$30.53	\$31.65	\$32.65	
Price / Book	1.8x	1.9x	1.8x	1.7x	1.7x	1.6x	
ROE (EOY book)	-26.7%	6.2%	15.7%	15.4%	15.5%	15.2%	
Peer median P/B (FactSet, subject excl.)	2.7x	Price / book (today) vs. peer median		(33%)			

British American Tobacco PLC Sponsored ADR (BTI) — Value Criteria, continued

5. Financial Soundness							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Total debt (\$mm)	50,648	46,276	47,171	46,771	45,671	44,571	
Net debt (\$mm)	43,942	39,000	42,002	40,762	39,626	38,568	
Total debt / equity (gross)	75.6%	74.4%	73.2%	71.0%	68.0%	65.2%	
Total debt / assets (gross)	33.5%	31.1%	32.1%	31.5%	30.7%	29.9%	
Net debt / invested capital	32.3%	30.0%	31.8%	30.7%	29.8%	28.9%	
Net debt / EBIT	2.8x	8.1x	3.1x	2.7x	2.6x	2.4x	
Tax rate	25.6%	Book equity (\$mm)	64,463				
6. Positive Earnings Dynamics							Yes
	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	
Sales growth	(0.3%)	(2.6%)	2.1%	1.8%	2.0%	2.0%	
EBIT margin	45.9%	14.5%	39.8%	43.8%	44.1%	44.4%	
EPS growth	NM	NM	164.9%	1.5%	4.8%	5.2%	
7. Business Strategy & Segment Mix							Yes
Strategy	Use cigarette cash to fund smokeless brands (Vuse, Velo, glo), raise cigarette prices ahead of volume declines, and reach 50% smokeless revenue by 2035.						
Segment / geography mix	U.S. 46%, AME 36%, APMEA 18% smokeless 20%						
8. Capable Management & Insider Ownership							No
Insider ownership	13.7%	Inst. ownership	68.0%	Div. + buybacks, % of NOPAT (FY1E)		76.8%	
Insider activity / governance	13.70%						
9. Valuation — Value Creation (ROIC vs. ke)							Yes
ROIC (FY1E)	9.0%	Cost of equity (ke)	8.5%	EVA spread (ROIC – ke)		0.5%	
Price target / upside	\$59.00	11.6%		Value / share range (low–high)		\$57 – \$65	
10. Uses of Capital — allocation discipline							Yes
Reinvestment 1% of NOPAT, dividends + buybacks 77% in FY2026E; pays a dividend, buys back stock and repays debt — full detail in the Uses of Capital table below.							
VALUE FIT SCORE — criteria met							8 / 10

FINANCIAL SUMMARY (\$mm except per share)

	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	CAGR 2023–2028
Sales	33,978	33,095	33,789	34,404	35,082	35,773	1.0%
Gross margin	70.0%	63.2%	62.6%	62.5%	62.5%	62.5%	
EBIT	15,595	4,805	13,445	15,069	15,471	15,883	0.4%
Net income	-17,915	3,867	10,117	10,131	10,438	10,767	NM
EPS (basic)	-\$8.04	\$1.75	\$4.63	\$4.70	\$4.92	\$5.18	NM
Dividend / share	\$2.82	\$3.01	\$3.16	\$3.25	\$3.32	\$3.39	
FCFE / share	\$4.50	\$3.72	\$2.18	\$4.45	\$4.60	\$4.74	1.1%
Invested capital	136,105	130,193	131,966	132,962	133,136	133,231	(0.4%)
ROIC	10.0%	3.0%	7.9%	9.0%	9.2%	9.4%	
NOPAT margin	38.4%	11.4%	29.6%	33.1%	33.3%	33.5%	
Sales / NWC	-11.00x	-4.44x	-10.82x	-10.87x	-10.87x	-10.87x	
Sales / NFA	0.25x	0.25x	0.26x	0.26x	0.27x	0.27x	
Sales / invested capital (ex cash)	0.26x	0.27x	0.27x	0.27x	0.28x	0.28x	

USES OF CAPITAL — full range, as % of cash generated (NOPAT)

	FY2023A	FY2024A	FY2025A	FY2026E	FY2027E	FY2028E	Avg 2023–2028
NOPAT before reinvestment (\$mm)	13,057	3,757	10,002	11,377	11,681	11,992	
Uses, as % of NOPAT							
CapEx, R&D & content (Δ NFA)	(252.0%)	(59.8%)	(10.7%)	1.8%	1.7%	1.7%	(52.9%)
Working capital (Δ NWC)	34.6%	(116.0%)	43.3%	(0.4%)	(0.5%)	(0.5%)	(6.6%)
Dividends	48.1%	177.3%	69.0%	61.6%	60.3%	58.8%	79.2%
Share buybacks	(4.2%)	54.4%	9.2%	15.1%	18.1%	21.0%	18.9%
Debt repaid (neg. = borrowing)	(29.8%)	116.3%	(8.9%)	3.5%	9.4%	9.2%	16.6%
Cash & securities build	14.3%	15.2%	(21.1%)	7.4%	0.3%	(0.3%)	2.6%
Interest & other (residual)	289.0%	(87.4%)	19.2%	11.0%	10.6%	10.2%	42.1%
Total uses of capital	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Discipline — reinvestment, % of NOPAT	(217.4%)	(175.8%)	32.6%	1.4%	1.2%	1.1%	(59.5%)
Dividends + buybacks, % of NOPAT	43.9%	231.7%	78.3%	76.8%	78.5%	79.8%	98.1%

Framework: the full range of capital allocation — CapEx/R&D/brand, dividends, buybacks, cash and debt. Cautious at the top of the cycle; invest for the future at the bottom, without over-levering. Total ties to 100% by construction, with interest and unallocated items in the residual.

COMPS OVERVIEW (current multiples, FactSet)

Ticker	Company	P/E	P/S	P/B	P/CF	EV/EBIT
BTI	British American Tobacco PLC Sponsored	13.5x	3.3x	1.8x	14.2x	12.4x
PM	Philip Morris International Inc.	27.2x	7.0x		20.7x	17.4x
MO	Altria Group, Inc.	14.3x	5.5x		12.0x	7.9x
IMBBY	Imperial Brands PLC Sponsored ADR	11.3x	1.0x	4.7x	6.2x	9.8x
TPB	Turning Point Brands Inc	24.8x	2.3x	2.7x	36.1x	20.2x
UVV	Universal Corp	56.2x	0.4x	0.8x	4.9x	10.6x
Median	Peer median (subject excluded)	24.8x	2.3x	2.7x	12.0x	10.6x
BTI	Subject, at current price	11.4x	3.4x	1.8x	24.3x	11.7x
Premium / (discount) to peer median		(54%)	+49%	(33%)	+102%	+11%

Note: BTI appears in its own peer list (AutoTearSheet-5PageID4:DI9). It is excluded from the median, but replace that slot with a real peer to use all six.

KEY RISKS

1. U.S. cigarette volume falls faster — U.S. volume fell 5.2% in Q1 2026 and pricing increases carried revenue. 2. Regulation and litigation; the UK generational sales ban starts in January 2027, the FDA's proposed nicotine cap is not final, and about 85% of the Canadian unit's net income goes to settlement claimants for about 20 years. 3. Rates and valuation spread 10-year Treasury a watchlist item, a 9.0% cost of equity cuts value to about \$57 Exit discipline if smokeless is below 19% of revenue at FY2026, if leverage (Canada-adjusted) is above 2.5x at FY2026.