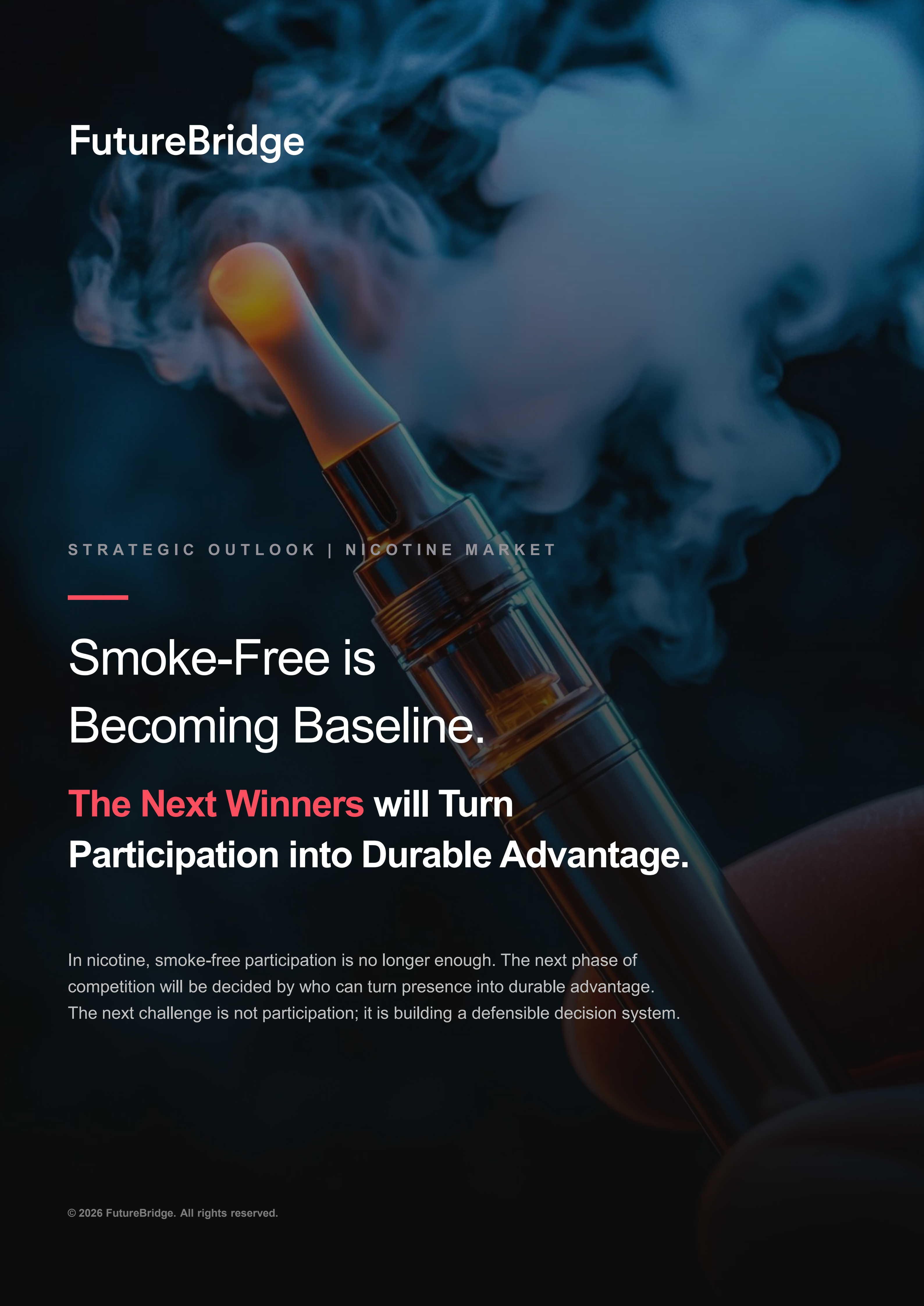

FutureBridge

STRATEGIC OUTLOOK | NICOTINE MARKET

Smoke-Free is Becoming Baseline.

The Next Winners will Turn Participation into Durable Advantage.

In nicotine, smoke-free participation is no longer enough. The next phase of competition will be decided by who can turn presence into durable advantage. The next challenge is not participation; it is building a defensible decision system.

THE SHIFT

Smoke-Free Participation is Becoming Baseline

The most important shift in nicotine is no longer the move beyond cigarettes. It is the fact that, by year-end 2025, smoke-free participation has become baseline across the major players. The strategic question has shifted from whether companies can participate in smoke-free to whether they can build a defensible multi-format system.

For much of the past decade, the strategic question was whether the major tobacco companies could build credible reduced-risk businesses before combustible decline eroded the model. PMI's 2025 results - 41.5% of net revenues from smoke-free, with products in 106 markets and 43M+ adult consumers - show that question has been answered.

41.5%

PMI SMOKE-FREE REVENUE

Philip Morris International smoke-free products share of total net revenues in 2025 (PMI FY2025 results)

18.2%

BAT SMOKELESS REVENUE

British American Tobacco smokeless share of group revenue in 2025 (BAT FY2025 preliminary results)

34.1M

BAT ADULT CONSUMERS

Smokeless consumers reached by British American Tobacco at year-end 2025, up 4.7M YoY

38.6%

JT GROUP HT GROWTH

JT Group heated tobacco volume growth in 2025 to 11.3B units, with RRP revenue up 24% (JT FY2025 results)

> Once the leading companies are all materially present in reduced-risk products, participation stops being the differentiator. What matters next is who can build the most durable advantage around it.

Sources: PMI Q4 & FY2025 Results, 6 Feb 2026 (pmi.com); BAT Preliminary Results FY2025, 12 Feb 2026 (bat.com); JT Group FY2025 Results, 12 Feb 2026 (tobaccojournal.com).

WHAT CHANGED

The Growth isn't Linear Anymore

The old narrative was linear: cigarettes would decline, one alternative would rise, and the companies that moved fastest would win. The market has not unfolded that way.

Global Reach of Safer Nicotine

Global State of Tobacco Harm Reduction estimates that at least one safer nicotine product is now legally available in nearly 130 countries, covering more than two-thirds of the world's adult population.

The number of vapers reached an estimated **129 million** adult users in 2025 (Jerzynski et al., Global Epidemiology).

A Coexistence Story, Not Substitution

FY2025 results from PMI, BAT and JT show cigarette volumes broadly flat globally while reduced-risk volumes continue to grow - PMI smoke-free shipments up 12.8% and JT heated up 38.6%, with modern oral (BAT Velo) revenue up 47% in 2025.

Reduced-risk categories are expanding simultaneously, under different regulatory regimes, with different economics, and for different consumer occasions.

> The numbers above tell a coexistence story, not a substitution story. Cigarette volumes are flat while smoke-free, heated, and modern oral all grow at once, each under its own regulatory regime and its own economics. PMI, BAT, and JT aren't betting on one format to win. They're managing a portfolio, because the right strategy depends on the specific market, format, and regulation, not a single winning bet.

Sources: GSTHR 2024 Situation Report (gsthr.org); Jerzynski, Mzhavanadze & Stimson, Global Epidemiology, Apr 2026 – estimated 129M adult vapers in 2025; PMI, BAT and JT Group FY2025 results.

PORTFOLIO LOGIC

From Single-Format Decline to Multi-Format Coexistence

The nicotine market is no longer following one replacement path. It is becoming a portfolio game in which multiple categories coexist and compete across different consumer needs and regulatory environments. The implication is not that one format will win everywhere, but that companies need market-by-market portfolio logic that accounts for regulation, economics, consumer behavior, and route-to-market readiness.

Cigarettes

More resilient in 2025 than the legacy thesis assumed – PMI cigarette shipments down just 1.5% and BAT combustibles still funding the transformation – even as long-term structural pressure continues to build.

Heated Tobacco

The clearest 2025 winner inside the smoke-free shift – IQOS already commands ~76% of global category volume, and Ploom's runway shows the format's retention economics are now category-defining.

Vapes

The largest installed reduced-risk user base, yet the hardest to monetize – illicit disposables continue to drag Vuse and BAT's vapor revenue fell ~10% in 2025, keeping the category structurally uncertain for long-term capital.

Nicotine Pouches

The category making the biggest 2025 step-change – Zyn shipped 794M cans for the year and Velo reached the U.S. #2 share within twelve months of launch, signaling oral as the most capital-efficient growth pocket.

The Contest is now Between Systems, not Formats

PMI's smoke-free revenue is up 24.7% and now 43% of total revenue, while combustible volumes fell 5.1%. BAT's new categories grew 18% and JT's heated tobacco volumes rose 43.5% in H1 2026. In Japan, reduced-risk products now make up 48.7% of shipments, shifting the fight from adoption to brand share within a single connected portfolio.

Sources: PMI Q4 & FY2025 Results, 6 Feb 2026 (pmi.com); BAT Preliminary Results FY2025, 12 Feb 2026 (bat.com); JT Group FY2025 Results, 12 Feb 2026.

PORTFOLIO LOGIC (CONT'D)

Why the Smoke-Free Story is Incomplete

Smoke-free participation is now necessary, but it is not sufficient proof of strategic success.

The transition is uneven. Cigarettes remain financially important in many markets and continue to fund investment in reduced-risk categories. At the same time, consumer switching is neither linear nor universal: heated tobacco, vapor and oral nicotine can coexist with cigarettes, with dual use often persisting for longer than corporate transition narratives suggest.

The result is a more difficult leadership challenge. Companies need to manage a portfolio under divergent consumer demand, format economics and regulation, not simply scale a smoke-free category.

Sources: PMI Q4 & FY2025 Results, 6 Feb 2026 (pmi.com); BAT Preliminary Results FY2025, 12 Feb 2026 (bat.com); JT Group FY2025 Results, 12 Feb 2026.

IMPLICATIONS

Beyond the Revenue mix

- Combustible resilience can finance transformation but can also delay hard portfolio choices.
- Reduced-risk growth is market-specific, not a uniform global progression.
- The number of smoke-free launches matters less than the quality of consumer migration, margin delivery and regulatory access behind them.
- Companies that treat smoke-free revenue mix as the end goal risk confusing participation with defensibility.

THE STRATEGIC SHIFT

The question is no longer: “How quickly can we grow smoke-free?”

The question is: “Which portfolio choices will still create value when regulation tightens, consumer behavior shifts and category economics mature?”

NOW WHAT

Leadership Teams Need to Optimize for Durability, not Participation

Smoke-free has moved from strategic ambition to operating reality. The next challenge is to judge performance through consumer migration, economics and market access–not category presence alone.

THE EARLIER LENS	THE INVESTMENT LENS NOW
Are we present in reduced-risk products?	Can we defend our economics over time?
How many categories do we participate in?	Are we improving retention across the portfolio?
Are we growing smoke-free volumes?	Can we shape regulatory access faster than rivals?
How many markets have we launched in?	Are we scaling insight across formats?

> This changes the investment test: from reach and launch activity to evidence that a portfolio can retain value as markets mature, regulation changes and competition intensifies.

SCORECARD

Durable Advantage: The Five-Dimension Scorecard

Durable advantage is not one metric. It is the combined ability to retain consumers, defend economics, secure access, reach the market efficiently and learn faster than competitors.

01 Retention and Migration

Not simply acquiring adult consumers, but keeping them within the portfolio across time, price tiers and occasions. The strongest portfolios make switching easier, reduce churn and create logical paths between formats where consumer needs change.

02 Portfolio Economics

Not just revenue mix, but contribution margin, cost-to-serve, pricing power and capital intensity. A fast-growing format is not automatically a value-creating format if its route-to-market costs, regulatory burden or retention profile weaken the economics.

03 Regulatory Access

Not only compliance, but an ability to anticipate standards, generate credible evidence and secure reliable market access. In nicotine, the ability to operate is increasingly a source of competitive advantage.

04 Route-to-Market Strength

Not just distribution reach, but the quality of access to adult consumers, retail execution, channel incentives and compliant engagement. The winning portfolio must be commercially available where and when demand can compound.

05 Learning Speed

The ability to translate consumer, market and regulatory insight into better decisions faster than rivals. The advantage comes from connecting evidence across formats, not managing each category as a separate business.

> A portfolio becomes durable when retention improves, economics strengthen, capital choices focus, regulatory friction falls and insight changes decisions before the market makes them irreversible.

OPERATING MODEL

What Changes Once Smoke-Free is Established

When formats coexist, growth in one category cannot be managed in isolation. Capital allocation, consumer migration and market access need to work together.

1

Concentrate capital where the portfolio works

Leadership teams should decide which formats deserve capital by market, which should be maintained defensively, and which should be exited or deprioritized. The goal is not to be everywhere, it is to build a portfolio that fits regulation, consumer behavior, and route-to-market realities market by market.

2

Manage migration, not just acquisition

Many companies still organize around conversion into a product. The stronger model is to organize around keeping consumers within the portfolio across time, price tiers, and usage occasions. That requires better consumer data, clearer switching pathways, and more deliberate portfolio architecture.

3

Make regulatory access part of the commercial model

In nicotine, regulation is not a background condition. It shapes category access, product viability, and speed to scale. Companies should treat regulatory capability as a source of advantage by linking market prioritization, scientific evidence, external engagement, and launch planning much more tightly.

> Together, these choices determine whether smoke-free participation creates a stronger business–or simply a broader one.

FORMAT ECONOMICS

Where Value can Compound

Each format has a distinct role in the portfolio. The issue is not which category grows fastest, but where consumer relevance, margin potential, access and capital intensity support a defensible position.

CIGARETTES

Strategic role: Cash generation and transition funding.

What matters: Pricing power, affordability, illicit-trade exposure and disciplined capital allocation.

Risk: Treating continued resilience as evidence that transition can be delayed indefinitely.

HEATED TOBACCO

Strategic role: High-retention, premium ecosystem where regulatory access and device-consumable economics are favorable.

What matters: Consumer switching persistence, device adoption, consumable recurrence, premiumization and market-specific regulatory legitimacy.

Risk: Overextending the format into markets where consumer fit, affordability or regulation is not supportive.

VAPOR

Strategic role: Large installed adult-user base and potential switching pathway, but with a highly disrupted commercial environment.

What matters: Product compliance, trusted brands, adult-consumer access, enforcement and the economics of disposable versus closed-system formats.

Risk: Illicit products and uneven enforcement undermine compliant players' pricing, share and investment case.

NICOTINE POUCHES

Strategic role: Potentially efficient growth format with low consumer friction and strong convenience appeal.

What matters: Consumer education, responsible positioning, flavour and nicotine-strength regulation, pricing architecture and retail execution.

Risk: Assuming early category growth automatically translates into long-term defensibility as regulations, private labels and new entrants' scale.

CAPABILITIES

The Capabilities Behind Better Portfolio Choices

The key information gap is not whether a category is growing. It is where growth becomes repeatable, profitable and defensible. That requires visibility on consumer behaviour, portfolio economics and viable market access.

Read consumer migration, not just category demand

Invest in systems that show where adoption begins, where switching stalls, and where retention breaks down. Without that visibility, strategy remains too generic to guide capital allocation effectively.

Design the portfolio as a connected system

Invest in formats, price ladders, consumer journeys, and route-to-market design that work together rather than compete. A multi-format market needs deliberate orchestration, not a collection of disconnected bets.

Build access before committing to scale

Invest early. In many markets, advantage will go not to the company with the most products, but to the company best able to secure access, build credibility, and sustain category participation over time.

> Together, these capabilities provide the evidence base for deciding where to scale, protect value or remain selective.

GEOGRAPHY

Geography Determines the Portfolio

A global smoke-free strategy cannot be executed through one product template. The optimal portfolio depends on local regulation, consumer readiness, affordability, retail access and the size and durability of the profit pool.

STRATEGIC MARKET POSITION	WHAT IT MEANS	STRATEGIC EMPHASIS	WHAT THIS LOOKS LIKE IN PRACTICE
Scale proven smoke-free categories	Smoke-free formats are established, consumers understand the category and the commercial model is sufficiently proven to shift the priority from market entry to retention and value creation.	Invest in consumer lifetime value, premiumization, brand preference and ecosystem economics, not simply volume growth.	**Japan:** Heated tobacco is established; competitive advantage increasingly comes from retaining users and improving value per consumer.
Selectively build high-potential formats	Consumer interest and category headroom may be substantial, but product authorization, enforcement, illicit trade or limited adult-consumer access can prevent potential from translating into sustainable profit.	Back compliant formats, strengthen regulatory credibility and expand only where legal access and channel economics are durable.	**United States:** Oral nicotine and compliant vapour offer potential, but regulatory pathways and illicit disposable competition shape the pace and quality of growth.
Tailor portfolios country by country	A region may appear attractive overall, yet differences in taxation, flavours, product rules, advertising limits and consumer behaviour make a standardized regional portfolio ineffective.	Set country-level format, pricing, investment and regulatory scenarios; do not assume a format that works in one market will travel.	**Europe:** The same smoke-free format can have very different economics and compliance requirements across markets.
Stage transition while preserving options	Combustibles may remain the most accessible and affordable category in the near term, while smoke-free demand, distribution capability and regulatory direction develop unevenly.	Protect the current profit pool, build targeted smoke-free pilots and sequence investment as affordability, access and regulation improve.	**Emerging markets:** Rapid, wholesale conversion is unlikely; a staged multi-format pathway preserves growth and future optionality.

GEOGRAPHY (CONT'D)

Emerging Markets

Smoke-free growth is likely to develop selectively, alongside a resilient combustible base. The pace of transition will be shaped less by global category momentum than by local affordability, distribution readiness and regulatory access.

EMERGING-MARKET DYNAMIC	PORTFOLIO CONSIDERATION
Combustibles remain economically important	Protect the existing profit pool while avoiding the assumption that every consumer segment will transition at the same pace.
Smoke-free adoption will be selective	Focus early investment on markets, channels and consumer segments where affordability, access and regulatory conditions can support repeatable demand.
Readiness will vary materially by market	Use a staged, multi-format portfolio rather than a single conversion pathway or uniform rollout model.

WARNING SIGNS

Three Signs that Growth is not yet Value Creation

A business can appear to be progressing while the underlying portfolio weakens. These are the warning signs that expansion is not translating into a more valuable position.

01

Revenue mix can overstate progress

Presence alone is no longer enough in 2025. Once revenue mix crosses the leaders' thresholds, the smoke-free line itself stops being a strategy signal – it can mask weak economics, poor retention, and a portfolio that is not becoming more defensible over time.

02

Fragmented category management erodes value

Attaching reduced-risk categories to the cigarette model creates fragmented investment, weaker retention, and slower learning across the portfolio. These categories need to be managed as the core of the business, not an appendage.

03

Launches and acquisition do not show durability

Metrics like launch counts, isolated share gains, or short-term consumer acquisition can flatter activity without showing whether the business is becoming more defensible. The measurement framework needs to change.

> These signals do not invalidate growth; they show where growth needs a stronger economic, consumer and access foundation.

Sources: PMI Q4 & FY2025 Results, 6 Feb 2026 (pmi.com); BAT Preliminary Results FY2025, 12 Feb 2026 (bat.com); JT Group FY2025 Results, 12 Feb 2026.

MARKET ACCESS

Where Nicotine Regulation Actually Creates Value

A regulated category is commercially attractive only when legal permission is matched by credible market protection.

REGULATORY PERMISSION	MARKET PROTECTION
Product authorization	**Credible enforcement**
Product standards	**Control of illicit supply**
Legal sales channels	**Viable compliant-channel economics**
Tax and marketing rules	**Limited arbitrage and price distortion**

Authorization and standards create permission. Enforcement, tax integrity, legal-channel reach and control of illicit supply determine whether that permission has economic value.

The practical test is whether a compliant brand can reach adult consumers, hold an economically viable price and compete against non-compliant supply. Where the answer is no, headline demand can mislead. Regulatory capability therefore shapes market selection, format choice and capital confidence.

THE TEST

How to Know if Advantage is Becoming Durable

Durable advantage in nicotine should show up in five measurable ways. These are the real indicators that a company is building something that compounds across cigarettes, heated, vapor, and oral, not just growing one category in the short term.

Retention Improves

Adult consumers stay within the portfolio, moving between formats like heated tobacco and pouches instead of leaving the brand.

Economics Strengthen

Margins on heated tobacco, vapor, and modern oral improve as each category matures.

Regulatory Access Expands

Authorizations and compliant-channel access compound into faster entry across new markets.

Portfolio Choices Focus

Capital concentrates behind the formats and markets with real regulatory and consumer traction.

Consumer Insight Leads

Flavor, format, and price decisions are shaped by consumer data faster than competitors can react.

Building that system comes down to five decisions: where to play, where to invest, what to stop, what to measure, and how to build the system.

> This is the real test for the next phase of nicotine competition. FY2025 closed the participation chapter, the leaders are all past the threshold; the question now is the quality of the system behind it. Durable advantage will belong to the companies that turn these durability indicators into a repeatable decision system that compounds. That is where FutureBridge can help.

Sources: PMI Q4 & FY2025 Results, 6 Feb 2026 (pmi.com); BAT Preliminary Results FY2025, 12 Feb 2026 (bat.com); JT Group FY2025 Results, 12 Feb 2026.

WATCHPOINTS

The Uncertainties that will Shape Durable Advantage

The market will not follow a single transition path through 2030. The task is not to predict one winning format, but to monitor the uncertainties that determine whether portfolio economics, consumer retention and regulatory access can compound.

WHAT TO MONITOR	WHY IT MATTERS	WHAT TO ASSESS
Oral nicotine: acceleration or normalization	Strong adult adoption, broader regulatory clarity and effective retail execution could accelerate the category; restrictions, price pressure or lower repeat rates could slow it.	Consumer insight, retention, portfolio focus and unit economics
Vapor: regulated growth or structural constraint	Credible enforcement and compliant retail ecosystems could restore sustainable growth; illicit disposable supply and tighter restrictions could keep the category fragmented and margin-dilutive.	Regulatory access, portfolio discipline and economics
Heated tobacco: global expansion or mature-market consolidation	Device-consumable economics, regulatory recognition and consumer retention could extend its runway; slower market access or weaker conversion could concentrate value in established markets.	Retention, economics, regulatory access and portfolio architecture
Combustibles: faster erosion or continued resilience	Tax, regulation, affordability and consumer behaviour will determine whether combustible demand declines steadily or remains a significant funding source for longer.	Capital allocation, portfolio movement and profit-pool resilience
Market access: permission or protection	Formal product approval may not create a viable market without credible enforcement, legal-channel strength and control of illicit supply.	Regulatory access, pricing power and ability to sustain compliant returns

These watchpoints determine where a multi-format portfolio can build lasting consumer value and sustainable returns.

Does Durable Advantage Come Down to the Five Decisions…

If smoke-free participation is now the baseline, how do leadership teams turn it into durable advantage? Not by moving fastest, but by making five decisions well - and making them together.

THE ANSWER

The Five Decisions that Build a Durable Advantage

1 **Where to play - which formats and markets**

Decide which formats to back in each market - heated, vapor, or modern oral - and concentrate capital where reduced-risk demand can actually compound rather than spreading bets evenly.

2 **What to fund and build vs. partner**

Direct capital to the capabilities, channels, and evidence systems that build retention and defensibility - and decide which to build in-house versus partner for.

3 **What to stop or redirect capital from**

Redirect capital away from launches, markets, and formats that generate activity without durable advantage - before sunk cost hardens into commitment.

4 **What to measure and which metrics to retire**

Retire legacy volume and share metrics that create false confidence; track retention, unit economics, portfolio movement, and regulatory access instead.

5 **How to build the system**

Connect market foresight, consumer behavior mapping, portfolio economics, and regulatory foresight into one repeatable operating model - not five disconnected initiatives.

THE BOTTOM LINE

Durable advantage belongs to the teams that make these five decisions well and keep making them as the market shifts. Building that system is what FutureBridge does with leadership teams, and it is a conversation worth having before the next planning cycle rather than after it.

FutureBridge | Market foresight, consumer intelligence, portfolio prioritization, and regulatory & scientific capability for nicotine leaders.

FUTUREBRIDGE

The Path Forward, Together

Those indicators only improve if the underlying capability exists. We have spent 25 years building exactly these - measuring consumer behavior, grounding portfolio choices in evidence, and designing regulatory access in early.

Behavioral Measurement

We score what actually drives adoption, switching and habit in a category - market by market and occasion by occasion - rather than relying on what consumers say they intend to do.

Portfolio Architecture

Reading patent and innovation activity across major jurisdictions in real time shows where competitors are genuinely investing, which positions are defensible, and where open ground remains.

Regulatory & Scientific Capability

We work as one integrated team across consulting, legal, scientific and trade-policy expertise, so market access is planned into the strategy rather than discovered after launch.

> None of this replaces leadership judgement. It is the evidence base that makes the decisions ahead defensible.

MEET THE

Minds Behind the Insights

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Continue the conversation →

ABOUT

FutureBridge

FutureBridge is a global innovation and strategy consulting firm that helps companies anticipate disruption, decode emerging markets and technologies, and convert future signals into growth decisions. The firm works with leadership teams across food and nutrition, life sciences, energy, chemicals, mobility and industrial sectors to support innovation strategy, market intelligence, technology scouting, portfolio prioritization and future ready growth planning.

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