Imperial Brands
CAGNY Presentation and Q&A: 20 February 2020

Slide – Title Slide

DOMINIC

Good morning everyone.

Slide – Disclaimer

And welcome to our presentation… It is a real pleasure to be here today to present Imperial Brands to you.

Slide – Dominic Brisby

As Jonathan mentioned… I'm Dominic Brisby, Joint Interim CEO and Director of our Americas and Africa, Asia and Australasia divisions.

Two weeks ago we were delighted to announce our new CEO, Stefan Bomhard. Stefan is currently CEO at Inchcape and brings significant experience across multiple consumer sectors from several large multinational companies. He also has a strong track record of delivering successful transformational change, which will be particularly valued as Imperial navigates the evolving dynamics of the nicotine sector.

Stefan will join us in due course and in the meantime, myself and Joerg Biebernick, Divisional Director for Europe, have assumed the role of Joint Interim CEOs.

Slide – Creating Something Better for the World's Smokers

Today… I'm going to provide a brief overview of how nicotine consumption is evolving. I'll set out how our strategy is aligned to these changes in consumer behaviours and how it informs our brand and market investment priorities.

I'm also joined today by Neil Southey, our Global Brand Marketing Director. Neil will provide more insight into how we are responding to these evolving consumer dynamics.

I'll then spend some time looking at the US, explaining how we've been able to drive consistent value growth from the world's second largest tobacco market.

Throughout this presentation we'll demonstrate why we believe Imperial is a compelling investment proposition, with an undemanding valuation…..and I'll conclude by summarising these points.

Slide – Our Growth Strategy - Creating Something Better for the World's Smokers

Our growth strategy is aligned to our purpose to create something better for the world's smokers… and drives our focus on tobacco and Next Generation Products. It embraces our desire to deliver continuous improvement in Tobacco – to provide better experiences for smokers with an evolving high-quality tobacco portfolio.

Through our NGP portfolio, we provide smokers with alternative products with potentially lower health risks, that deliver a great experience, underpinned by leading-edge science.

Our growth strategy is about high margins and strong capital discipline, supporting investment and growing shareholder returns.

Slide – Our Sustainability Strategy

Our sustainability strategy is central to our growth aspirations. It's fully aligned with our commercial ambitions and supports the business by enabling growth and creating value.

The strategy focuses on three key areas:

- sustainable agricultural practices that deliver a consistent, quality supply of tobacco;
- reduced harm Next Generation Products, which is about developing alternative products that are potentially less harmful to health;
- and responsible operations and people: this means behaving responsibly at all times, and providing a safe and rewarding work environment for our employees.

These three pillars define the approach we take to managing our environmental, social and governance responsibilities.

Slide - Nicotine Consumption is Evolving to Reduced Risk Products

One of the biggest developments in tobacco is that smokers today are increasingly moving away from consuming only one product type.

Evolving lifestyle choices, changing regulation and increasing innovation continue to shape what consumers buy, where they buy it and how often.

Last year we completed a major study involving 10 thousand nicotine consumers across seven of our largest markets. One of the findings shows consumers are increasingly enjoying a repertoire of nicotine products. Just under half of consumers regularly choose two or more products, be they cigarettes, rolling tobacco, cigars or potentially reduced risk products such as vapour and heated tobacco.

This is a significant change from 20 years ago when over 90% of smokers were cigarette soloists and Neil will give you more colour later.

Slide – Leveraging our Capabilities Across Categories

This slide shows how we are leveraging our capabilities – set out on the left-hand side – across our multi-category portfolio.

The starting point, as ever, is the consumer and our insights work is central to our understanding of adult smokers and vapers, their preferences and, importantly what drives those preferences.

In tobacco, we have clear brand and market priorities to deliver modest and sustainable growth in our footprint.

In NGP, we have focused mainly on vaping to date, but we have expanded our portfolio to include heated tobacco and oral nicotine.

The strength of our capabilities also enables us to explore targeted adjacencies, leading to two very small investments in the cannabis arena. These investments are enabling us to assess potential future growth opportunities in what is a rapidly evolving sector.

Slide – Focused Product Portfolio Across the Nicotine Categories

This next slide demonstrates the significant work we have undertaken to broaden our product offering across a wider range of nicotine categories – and thereby support a wider range of consumer occasions.

This chart also shows the risk continuum, with combustible tobacco on the left… through to potentially reduced risk products on the right.

We've built a portfolio of assets and capabilities to meet evolving consumer preferences.

In heated tobacco, we successfully launched Pulze last year in Japan and are currently assessing other potential market launches.

We've developed a great snus business through the Skruf brand, which continues to perform extremely well. Our vapour focus has been on pod-based closed systems with our iconic brand blu and we've also developed a tobacco-free oral nicotine brand with Zone X.

Slide – Tobacco Strategic Focus; Informed Choices

However, the core of our business is tobacco and before I hand over to Neil – I want to demonstrate how we're making clear investment choices to optimise performance and deliver the best returns.

We are a business that grew rapidly through acquisitions and this created huge complexity in terms of the size of our portfolio. In 2013, we began a programme of brand migrations, SKU reductions and delistings to simplify and strengthen the portfolio.

Since 2017, we stepped up investment behind our Asset Brands in our priority markets. These are the strongest brands in our portfolio and now account for two thirds of our total revenue.

In parallel, we developed a simplified route to market model that is consistently executed across our footprint. This is supported by lean ways of working and an efficient operating model.

Slide – Right Markets: Prioritisation and Affordability Supports Pricing

We focus on generating results with the right brands in the right markets.

We operate across 160 markets and have prioritised them to differentiate how we invest our resources and support them.

This is informed by a detailed profit pool analysis that has identified where we have the best opportunities, capabilities and assets to deliver sustainable value creation. We take into account the market size, potential growth, affordability, regulatory environment and our ability to win.

Affordability is key to our pricing power… and this chart shows affordability of cigarettes based on local prices and average local incomes. Cigarettes are most affordable in markets on the right – such as the US and Japan. In contrast, cigarettes in the markets on the left are relatively expensive, so the scope for pricing is more limited.

We allocate most of our investment behind our ten priority markets as shown here. These account for around 50% of our volume and 70% of our operating profit.

Slide – Imperial Brands PLC – Recent Trading Update

Before summing up, I'll cover off our trading update for our first quarter, which we issued a couple of weeks ago.

Tobacco trading remains in line with expectations, with a weighting to the second half in line with our previous guidance.

However, in light of the FDA's recent ban on certain vapour flavours, as well as weakening demand for vapour in the US and Europe, we have taken a more cautious approach to our forecasts for the year.

As a result, we now expect constant currency full year Group net revenue to be at a similar level to last year and adjusted earnings per share to be slightly lower than last year.

I should stress that this all relates to changing expectations in the short-term outlook for vapour. We have already begun moderating our investment behind the right category and market combinations, while also implementing a cost programme to mitigate the profit impact.

We still believe that NGP offers an attractive growth opportunity over the medium term to complement our Tobacco business. And we support regulation that enforces higher product and marketing standards, which are critical for creating a stable and orderly vapour market that we can invest behind.

Slide - 2020: Focus on Delivering Against Strategy

So in summary, before I hand over to Neil…

Our focus for this year is on delivering against expectations.

Our tobacco business continues to perform well and the outlook for tobacco economics remains attractive, with pricing continuing to outpace volume declines.

In NGP, we've moderated our ambitions and investment in the short-term. Over the medium-term, we see growth opportunities as consumers increasingly adopt a multi-category approach to nicotine consumption.

I'll now hand over to Neil to give more colour on how we are managing changing consumer preferences.

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NEIL

Slide – Adapting to Consumer Behaviour Change
Thanks Dominic and good morning everyone. It's clear that over the last 20 years our industry has evolved considerably as consumer behaviour has changed in light of technical, regulatory and societal movements.

This short video gives a flavour of how things were twenty years ago, in 1999.

Slide - (PLAY VIDEO 1)
We went to a retail store to rent a movie.
Mobile phones included a couple of games, changeable covers and customisable ringtones.
People smoked in a wide array of public places and typically smoked factory made cigarettes.

Now let's take a look at 2019.

Slide - (PLAY VIDEO 2)
We now download films and stream music.

Internet and social media is part of everyday life.

Phones have facial recognition, 12 mega pixel camera, video capture and editing capability with a HD display.

Over these 20 years we have seen the attitudes and behaviours of our traditional tobacco consumers changing too.

Slide – Consumer Behaviours are Changing
Here we highlight some of the key changes.

As you can see, consumer preferences have evolved significantly in the last two decades.

As Dominic mentioned, consumers are using an increasingly wider array of nicotine categories. So the number of soloists has fallen and a quarter of tobacco consumers now also use NGPs. While average daily consumption of cigarettes has fallen, there are now a multitude of different formats and categories available. There are around 12 distinct choices within traditional tobacco and 3 core NGP offerings in oral, vape and heated tobacco.

Slide - A New Global Consumer Segmentation
Given this behaviour change we have been reviewing our approach to understanding consumers and have produced a new global consumer segmentation based on over 60,000 respondents.

When it comes to our industry, there are a wide range of consumer attitudes and behaviours.

We know that attitudes are the main driver of choice. So what a consumer might think about a certain topic is the primary influence on what a consumer might do. We therefore needed to better understand the different mindsets that exist to be able to talk to consumers about what is most relevant to them. This analysis, which we ran together with Kantar has identified seven different consumer groups, each with similar attitudes and behaviours. These groups are further profiled by demographics, needs & occasions to add further depth & understanding.

Slide – Our Multi-Category Brand Portfolio
As an example of the learnings and insights we can draw from this study, you can see here different levels of experimentation and new brand consideration and how they vary across our consumer groups. We have used an index score to demonstrate this here. A traditional consumer is indexed at 1 times; in contrast to a consumer in group 7, which is 3 and a half times more likely to be experimenting with multiple categories and/or brands than a consumer in group 1.

These findings support what we are seeing in the different categories. Consumer attitudes in tobacco are well established and evolutionary. Attitudes to NGP are still at a relatively early stage and remain volatile demonstrated by high experimentation levels.

As a result of this we have reclassified and defined more distinct roles for our most valuable brands to better reflect these changing consumer behaviours and our multi category growth focus. We have also introduced a new volume metric 'Equivalent Volume Unit' (or EVU) which includes volumes of all consumable products across our tobacco and NGP portfolio.

Slide – Tobacco Demand Shift Growth
Whilst overall the tobacco category continues to moderately decline, there are pockets of growth where consumers are choosing demand shifts that tap into their evolving attitudes and needs.

Seen through the lens of our new consumer groups these can be split into the more progressive choices including low tar and slimmer formats on one hand; and the more traditional value driven options such as bigger packs and longer cigarettes on the other. These so-called demand shifts consistently deliver growth year on year and we target these with our strongest brand equities.

Slide – A Consumer-Led Brand Focus
To illustrate the model, here we show Davidoff and West and the different targeting principles. Davidoff is a brand which addresses more progressive consumer attitudes, delivering growth through modern demand shifts that are highly relevant in its footprint. New ranges are driving the performance of the brand including Davidoff Reach, a queen size variant. This has been launched in 25 markets, achieving sizeable share gains in a number including Russia, Ukraine and the Balkans.

West's performance has been driven by growth in conventional value formats such as super kingsize, fine cut tobacco and big boxes, resulting in share growth in Spain, Germany, Russia and Japan.

This is strengthening our overall tobacco share, which is now stable and an improvement on last year's performance – which was a 26 basis point decline.

Now let's take a look at our NGP portfolio…

Slide – Applying Consumer Learnings to NGP
To support consumers changing attitudes and behaviours we are focused on a small number of distinct brands in NGP.

Our priority is blu. Building blu as a trusted vapour brand, supported by our blu adoption model and targeted investment to drive growth.

For NGP, it's about providing smokers with alternative products, delivering different experiences underpinned by leading-edge science. Of course, more recently the vapour category has come under pressure as negative news flow generated confusion in consumers' minds. NGP consumers overall are more likely to be influenced by external factors, but equally the desire to embrace new technologies and products is strong, which will show through in the mid-term.

Slide – Strengthening blu
Whilst short term volatility occurs, it is important to establish core foundations for the future. We are driving consumer engagement and brand distribution to support further growth. We are also continuing to invest in our core brand proposition to meet the changing needs of our consumers. Here on the slide you can see how this is building across some key metrics.

The next evolution of '*my*blu' will be introduced into a wide range of markets over the coming months, here's a short clip….

Slide - (SHOW blu device video)

Slide – Market Tests for New NGP
Turning to other areas of our NGP portfolio, we launched our Pulze heated tobacco device and ID heat sticks in the Japanese city of Fukuoka in 2019. The product and brand received positive consumer feedback and we have started to roll out nationally. In 2020, our production capacity will also be increased to support further expansion.

Zone X is our new modern oral nicotine brand, and in the UK we have been testing the proposition prior to scaling. We will continue to expand our distribution in 2020, with further market roll-outs planned which will embed learnings generated from the market test.

Slide – Adapting to Consumer Behaviour Change
To summarise, whilst consumer behaviour is changing, Imperial is also changing(!)
We have the consumer knowledge and the brand assets to succeed in both tobacco and NGP. Our tobacco performance remains strong and we are continuing to learn and build compelling NGP brands that are fit for the future.

Thank you for your time… I will now hand back to Dominic.

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Thanks Neil.

Slide – USA: Growing Share, Revenue & Profit
I would now like to turn our attention to our largest market, the US. It's a market that has provided significant returns for Imperial since we expanded our US business and assets in 2015 and where we continue to see attractive growth opportunities.

Slide – USA: Total Market Cigarette Volumes
The recent volume trend for cigarettes in the US has attracted a lot of commentary. The increased volume decline in 2019 has been driven primarily by a rise in cross category nicotine usage, including oral tobacco and NGPs. The influence from pricing and excise, underlying structural and macroeconomic factors have been similar to those of recent years.

The volatility in the development of the US vapour category is making it difficult to predict the impact on US cigarette volumes. Our current plans continue to assume that US industry volumes in 2020 will decline within the range of 5 to 6%, although it is too early to understand how the recent NGP flavours ban may affect tobacco consumption.

Slide – USA: Total Tobacco Market Resilient & Growing
The industry tobacco market remains resilient, with the revenue pool continuing to grow, driven by strong price/mix. Over the last 10 years, industry revenue has grown by 25% with the recent increased trend in tobacco volumes being more than offset by higher industry pricing.

[BUILD]

As you can see here, there has been an increase in recent volume declines, which some have viewed as a signal that the traditional tobacco value creation model is broken.

[BUILD]

However, the change in volume trend has been accompanied by an increase in price/mix, which has continued to more than offset the volume decline.

[BUILD]

This increase has led to continued robust growth in industry revenue.

We announced last week a price increase. This will support our overall 2020 financial delivery although, as ever, changes in the timing of price increases can impact trade buying patterns.

Slide – USA: Strong position in Growing Segments
Consumer cigarette choices are evolving, leading to changes in industry price segment demand. This has been most notable with the shift from traditional discount into deep discount.

We have actively managed our portfolio to take advantage of these changing demand shifts, focusing our investment and resources behind core brands and segments to drive future sales growth.

This portfolio strategy has driven growth in total cigarette share for the first time since our US acquisition in 2015.

Slide – USA: Managing Portfolio in Key Segments
Within the Premium Value segment, our investment has been channelled behind two core brands of Kool and Winston.

Let me just show you some of the work we have been doing with these two brands.

[VIDEO]

With Kool, through database and internet marketing, we have used highly targeted direct to consumer communication, supported by retailer merchandising and building our key account capabilities. These activities have enabled us to grow Kool's share to 10.9% of the premium value segment.

Our new Winston marketing campaign has centred on the product and lifestyles of its adult consumers, with a focused message around Winston's key ingredients of Tobacco, Water and Attitude. Supported by specialised print media and brand events targeted at the consumer experience, this has driven Winston's share growth within the premium value segment.

Slide – USA: Managing Portfolio in Key Segments
In the discount segments, our Maverick brand in traditional discount and Sonoma in the deep discount have both performed strongly.

Focused on retailer merchandising supported by price promotions, Maverick's share performance has been turned around since we acquired it in 2015 and it now holds 11.9% of the traditional discount segment.

We repositioned Sonoma two years ago into the growing deep discount segment, focusing on both distribution into non-EDLP stores and retailer merchandising. These actions have delivered strong share performance in the fastest growing price segment.

Slide – USA: Simplification of Cigarette Portfolio
Our portfolio strategy has also provided opportunities to simplify and reduce complexity of our tail brands. This has delivered increased financial returns, enabling us to enhance our investment and focus behind our core brand strategies.

In 2019, the percentage of volume contribution from our tail brands had fallen by 7% against 2016, as our core brands have become a larger proportion of our total volume mix. At the same time we have significantly increased our profit contribution from these tail brands, growing by 56% since 2016.

Slide – Mass Market Cigars: Growing Share of Natural Segment
Our mass market cigar portfolio is primarily focused on the fastest growing natural wrapper segment, where industry revenues have grown by 22% since 2015.

Applying the same disciplined principles as for our cigarette portfolio, the natural segment is led by our Backwoods and Dutch Master brands.

Backwoods underpins our mass market cigar strategy and we have doubled our market share since 2015, supported by leveraging our sales force across a much broader store base. As we have mentioned previously, the huge success of Backwoods has created supply constraints, an unusual problem to have in tobacco.

Slide – Vapour Sector Growth Stalled

The 2019 challenges within the vapour are well known and as you can see here, following strong growth, the category has slowed.

This decline has been a result of adverse news-flow and increased regulatory uncertainty. Despite this, since August we have delivered an improvement in blu share.

As a result of the volatility we have taken a decision to reset our investment across vapour, reflecting these short-term uncertainties.

We still believe vapour provides an attractive opportunity over the medium to long term. As I mentioned earlier, the investment case for vapour will be supported by a regulatory framework that reinforces high product and marketing standards.

Slide – Market Share

Since our investment in 2015, the actions we've taken across our cigarette and mass market cigar portfolios have delivered strong sales growth.

In 2019 we grew cigarette share for the first time since 2015, driven by the performance of our core brands and our investment choices.

In mass market cigars our clear portfolio strategy, centred around Backwoods has continued to deliver strong share returns.

Our product portfolios are well positioned to meet evolving consumer demand and drive continued sales growth.

Slide – USA Delivering Strong Returns

We've invested a combined $8.6 billion in the US market, through two acquisitions and today we're generating operating profit of around $1.3 billion.

So in summary, our focused investment behind our portfolio strategy means we're well positioned to continue to drive strong growth and returns from the resilient US market.

Slide – Our Investment Case

Turning to the Group as a whole, we believe we have a compelling proposition for investors.

We have a strategy and business model with a strong track record of sustainable shareholder returns.

We expect price/mix to continue to offset volume declines enabling us to deliver sustainable quality low single digit revenue growth.

We have a great portfolio of assets and capabilities in our NGP business, which will complement our tobacco growth over the medium-term. Our short-term focus is on right-sizing our investment to reflect the current uncertainties.

Our focus on business simplification continues to support cost efficiencies and agility.

Our culture is grounded in responsible behaviour. The tobacco products we sell may be controversial but the way we run our business is not. As you saw earlier, our sustainability strategy supports the business by enabling growth and creating value, and is integral to our future success.

We remain a highly profitable and cash generative business, which underpins an attractive investment case for a stock with an undemanding valuation.

Thank you. I'd now like to take any questions that you may have. Yes, please. Wait for the microphone.

Michael Lavery – Piper Sandler
Thanks. Michael Lavery, Piper Sandler. Just two, one on Pulze and one on blu. On Pulze, can you just give a little detail on the expansion? Is it fully national in Japan? Any limited -- Is it limited by geography or channel? And what are some of the learnings from Fukuoka that you can translate there?

And then on blu, the flavor ban obviously limits your options. Are you looking more closely at disposables or open systems, and what is your approach for the PMTA applications in terms of what range of products you would approach with?

Dominic Brisby
Yes, thank you very much for the question. So it's worth saying that in terms of Pulze, we've consciously chosen to have a limited test and a limited geographical area. So we're having full activation in Fukuoka in the south of Japan.

We have slightly broader distribution in some of the key accounts, but our main activation is in Fukuoka. And we've taken a rather different approach with Pulze, versus, for example, the approach that we may have taken traditionally with e-vapor.

So we're not betting the farm on Pulze. We're very clear that we want to have a limited test, and we have an amount of time in which we can make mistakes and get things wrong, and we're only going to scale up this proposition when we know we have a product that works with consumers and when we know we have a brand that works with consumers. So we're taking a very measured approach, but also an approach that's scalable.

It's worth saying that some of the hypotheses that we started off with when we entered the market in Fukuoka have proved to be incorrect; both around the consumer proposition and around the product as well. So because we're looking at it in this limited area, we have the time to adapt these and make sure that we get the proposition fully correct, both before we have a national activation in Japan and before we roll it out to other markets.

In terms of blu, we'll, of course, submit the PMTA in time for the deadline, so that's clear. Disposables, we do see more of an opportunity for disposables. Having said that, overall, we do think longer term, the bigger bet needs to be placed on closed systems.

Although, as I said, we're taking a rather more balanced approach to investment in this whole category now due to the regulatory uncertainty and the consumer uncertainty that this is generating. So we do believe that for the medium term there are great opportunities here. However, for the short term, we're taking a bit of a breather and getting through this rather uncertain period and helping our consumers get through that.

Yes, please.

Nik Modi – RBC
Hi, Nik Modi from RBC Capital Markets. You spoke about the pricing opportunity and obviously a key driver of what's been going on in terms of margins and the top line. Can you talk about the delineation between actually taking a price increase versus being more efficient with promotions as, you know, technology evolves to the point to give you more information on where you should promote, where you should not promote? Any color on that would be helpful.

Dominic Brisby
Yes, absolutely. So, as you saw from one of the charts I showed earlier, there are certain markets where we operate where there's an issue of affordability for consumers. And actually, the level of price elasticity in those markets, it is pretty high. So actually, the benefit of taking those price increases can be limited, particularly if we're talking about markets where there's a high level of ad valorem taxation. And, of course, if we take a price increase, the government often gets more benefit than we do. In the markets which have high levels of specific taxation, we have a number of quite sophisticated consumer models, which both allow us to determine what the absolute price increase needs to be, but also where we have other tools to make sure that we can either retain the more price-elastic consumers that we have already and also target the price-elastic consumers of others.

In a market like the U.S., one of the primary mechanisms to do this is via buydown, but we also have increasingly sophisticated couponing mechanisms both online and via direct mail, so that we can make sure that, where the consumers are very price-driven, we have an offer that can suit them. And I think central to that, particularly when we're looking at the U.S. market, and this is true of probably the majority of other very mature tobacco markets, is to ensure that if the consumer is going somewhere, even if the consumer is going somewhere with a lower margin than we would ideally like, we can't close our ears and pretend that this is not going to happen.

So in the U.S., a couple of years ago, we saw that a number of consumers were going to the deep-discount segments. This is happening whether we like it or not, even though we'd much rather they would smoke Winston or Kool at a very high margin. But because consumers are going there, we need to have a presence there. We're still making a decent margin at the bottom end, but this is also allowing us to grow our share in absolute terms.

Yes, please.

Vivien Azer - Cowen
Hi. Vivien Azer from Cowen. Just to follow up on Nik's question, you did reposition a couple of brands in the U.S. in the deep discount. One of your leading competitors in the market had historically characterized some of the down trading is turn. I think they've acknowledged now that the deep-discount category is fundamentally gaining share, and you are well positioned to do that. So I'd love to hear your comments in terms of your outlook for the deep-discount category in the U.S. and what you think is driving that. Thank you.

Dominic Brisby
Yes, -- thanks for the question. So in the U.S., again, and this is not a phenomenon unique to the U.S., it's the case in most mature tobacco markets. Prices are going up continuously, both through manufacturers' price increases and through continual federal outsize tax increase, as well as state tax size increases.

So it's inevitable in this environment, that consumers are more willing than they may have been historically to look for other options. And one of those options is actually if I can get something, which, if I can get a pack of good value cigarettes, which is very, very similar to my expensive pack of cigarettes, why don't I look for a good value proposition?

There's nothing new in this dynamic, either in the U.S. or anywhere else. What we do appear to be seeing though, is the willingness of consumers to consider switching to brands both within the discount segment and the deep-discount segments, is rather greater than it was before. Which is why two years ago, when we undertook a very comprehensive assessment of consumers' pricing behavior in the markets, what we expected to happen over the coming years, it became fairly clear to us that it was essential that we had a meaningful and strong proposition in the deep-discount segment. We carried that out.

I think this positions us well for the future, and I think looking at the consumer data that we have and the quite in-depth consumer insights that we have, it does seem likely that this segment is going to continue to grow. And we're pretty comfortable with our position in it. And this, of course, has been one of the main drivers of our absolute share growth. And it's worth saying, by the way, that, of course, we acquired these brands in 2015, and we're very happy that in 2019 we grew share in the U.S. in absolute terms for the first time since the acquisition. If you took these brands, they haven't really grown share for decades since at least the 1970s, so we're very satisfied with that performance. But that performance can only continue if we're absolutely on top of the consumer proposition, and we have the far more refined brand propositions that we put in place rather than the more generic ones we had historically; combined with making sure that we're present in the price segments where consumers want to go. And if we keep doing those things successfully, then we think we'll be quite well positioned. Thanks.

Yes, please.

Gaurav Jain – Barclays
Gaurav Jain from Barclays. I have two questions. One is on your success with the Snus in the Scandinavian market, I believe that your business has been growing high single digits, slow double digits for probably the last decade. It's now £150 million pound business. Do you have any plans to enter the U.S. market and file PMTA, especially for your oral nicotine product? That's number one.

And number two is, on your cigar business in U.S., it has done pretty well, and we have a PMTA/SE deadline, which is May 12th. So how are you approaching that, and how do you think industry structure might change, and how would you like to participate in that? Thank you.

Dominic Brisby
Yes, thank you for the question. So, you're right, we've had great success in northern Europe with our Snus products. And I think it's fair to say that the success has been driven by having

very deep consumer insight around what the consumers want, around having a brand proposition that works particularly well with Scandinavian consumers and the attributes that they're looking at.

That business is growing very well from almost nothing a decade ago. I think that any tobacco company is bound to be looking at the oral nicotine business in the U.S. because it's achieving such tremendous levels of growth at the moment. So, of course, a PMTA is one of the things we're considering. We're also considering other ways that we may enter the market. But as you can imagine, this is something that we're extremely interested and very focused on without giving much more detail beyond that.

In terms of the cigar business in the U.S., I mean, as you saw, we've had tremendous success in the cigar business, particularly in terms of Backwoods. In terms of where we are, I mean, we think a large majority of our cigar portfolio is already grandfathered actually, so we consider ourselves in a very good position as far as that's concerned. Where that's not the case, we consider that if there are issues there that consumers -- they tend to place the value of the brand higher than the value of the flavor. So in the case of Backwoods, for example, all the research that we've done has suggested that consumers are so loyal to this brand that the strong likelihood is that even if there were certain changes, they would be keen to stay within that brand. Thanks.

Adam…

Adam Spielman – Citi
Can I talk about a couple of elephants in the room?

Dominic Brisby
Of course.

Adam Spielman – Citi
So the first elephant, I think, is that your market share in Europe has been very volatile in recent years. Do you need to sort of reposition your portfolio a bit like you have in the U.S. to try and get this into sustainable market share stability, growth even?

And the second elephant is iQOS. I guess, you know, listening to PMI, they say it's an accelerating trend. Am I -- So I suppose the question is: How worried are you about it? What can you do about it? Does it matter to you? Thank you.

Dominic Brisby
Thank you for the question. It's, you're right, if you look at the market share points, and we've identified 10 markets across the world, which we call core markets, where we try to grow market share. Last year six of those ten markets were in growth, including the U.S. for the first time, which, of course, is by far the most important market for us. But you're right that there were a couple of markets, particularly Germany and the U.K., for example, where we declined share.

It's not true to say this was a decline across the whole of Europe. So say, for example, Italy we've grown share for a few years, but there is an issue in Germany and the U.K. Now it's interesting because if you look at the case of Germany, we've ceded some market share, but have actually delivered a very, very strong financial performance. And so, actually, if you look at the kind of overall health of the business, of course, what we'd love is to have a situation where we're growing net revenue, operating profit and market share.

In the case of Germany, we've grown the first two very strongly, but we've declined in the other one. In the case of the U.K., the U.K. is a tough market, and there's more we're doing, but we are aiming this year to see if we can get at least some sequential share growth in the U.K.

Whether this requires an absolute reset -- I mean, of course, we -- you know, we've got a new CEO coming in soon, and this is one of the things that he's likely to be looking at, among other things. Having said that, I think within the actions we're carrying out now, we at least can grow share in the majority of markets in which we're intending to grow share with, whether they're in Europe or outside Europe.

In the case of iQOS, it's clear Philip Morris have done a very good job at iQOS, and there's some very clear trends of iQOS growth across a number of places. I think what's interesting though, when we're looking at the heated tobacco categories, if, in order to create a category from nothing, which is what PMI have done, it's a very expensive thing to do, to get consumers to switch and do something totally different versus what they were doing before.

I think that where we do see opportunities is in being a fast follower. So once the category has been created, and being a fast follower in creating propositions that can appeal to some of those existing consumers, whether that's through an improved price or a different price proposition, or through some technological advance, we do see opportunities there. And it comes back to the point, when we were talking about Fukuoka earlier, that it's essential that during this test phase, we take a very measured approach, but also scalable approach. So that, when we decide to launch the number of other markets, we have a proposition that we can be comfortable -- can compete against iQOS. And that's really the approach we're taking to this.

Yes, please.

Chris Corelli – Stifel

Thank you. Chris Corelli from Stifel. I have a question for you on your cross-category model for the U.S., had a little less cross-category movement than what Altria has shown, but it came to the same conclusion.

I guess I'd be curious, as you look at 2020, a year in which there's probably a lot of change in that e-vapor category that's caused that cross-category movement, what you expect for the element of the equation in 2020? Do you think e-vapor is going to be down, and do you think closed systems actually could gain market share, given some of the PMTA requirements?

And if I could add on to that, just a separate question about the global e-vapor category, what you see there. And heated tobacco is doing well. Is global e-vapor still in a position of growth, as you see it?

Dominic Brisby

Yes, thank you. So, the question of what's going to happen to the different categories in the U.S. in 2020, has been one of the most difficult things we've been trying to struggle with. And I mean, particularly with some recent data points which would suggest that the vapor category is declining, what effect that's going to have on cigarettes, and so on.

For our planning purposes, which may ultimately be incorrect, but for our planning purposes, we're still sticking with the view that we expect the cigarette market to decline by between 5 and 6 percent. And we don't see much growth coming from the vapor market, if any at all, when we look at it at the moment.

The interesting question is, what's going to happen post-PMTA? At the moment there are a lot of things. I mean, if we look at the combustible tobacco market, there are a lot of things about the combustible tobacco market which we love, in terms of the high barriers to entry, many other things about it, which at the moment don't really apply to the e-vapor category, either in the U.S. or elsewhere.

Now, one could surmise that post-PMTA, because of the difficulties of getting through the PMTA, because one has to be a certain size of business in order to do that, it may become a more attractive category once that's occurred. That's a hypothesis we have, although it's as yet unproven, and there are all sorts of things that could happen in that environment. But that's the hypothesis that we have. In terms of the prognosis for e-vapor for the rest of the world, it's interesting. Since the kind of adverse news flow has become very, very prevalent in the U.S., that's also had an element of contagion elsewhere.

So if you look to part -- kind of the early part of 2019, we saw very significant levels of growth in Europe and certain other markets. That's really tailed off quite a lot since then and in some ways has declined. So I think a lot of consumers are saying to themselves, you know, I'm not quite sure I can trust this category yet. I need more proof. You know, I'm not sure if this is the right way to go or not.

I think once a number of products get through the PMTA process and once they've been verified by the FDA, that ought to have an impact, both in terms of sanity in the market but also in terms of consumer behavior and the level of trust that a consumer can put behind these products. And that would apply both to the U.S. and to the rest of the world.

ENDS