

## Consumer Analyst Group of Europe Conference

20 March 2012

### Alison Cooper, Chief Executive

#### Consumer Analyst Group of Europe Conference

Good morning ladies and gentlemen.

I am pleased to have the opportunity to present Imperial to you today.

#### Disclaimer

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#### Driving Sales Growth

I'm Alison Cooper, Chief Executive and with me today is Arthur van Benthem, our Group Sales Director, and Gerry Gallagher, our Director of Investor Communications.

I've called this morning's presentation "Driving Sales Growth" and I want to spend the next 30 minutes or so looking at how we have changed our approach to learning about consumers and how this is closely aligned to our four growth drivers. These are our areas of focus in order to accelerate our sales growth and realise our potential.

#### Our Strategy

Our strategy, which is familiar to most of you by now, at its simplest it's about sales growth, cost optimisation and cash utilisation all driving to deliver sustainable shareholder returns.

Sales growth is at the heart of the strategy – it leverages our four core assets.

Supporting these assets are our four growth drivers and the focus of today's presentation will be about how our strategy optimises the value of these assets through the growth drivers, which are underpinned by three key enablers.

Cost continues to be a focus, but from an investment perspective, our big opportunities are in relation to sales and cash.

#### Our Unique Total Tobacco Portfolio

Our Total Tobacco portfolio – a unique asset that gives us a competitive advantage.

We have expertise in cigarette, fine cut tobacco, cigar, smokeless, papers and tubes – allowing us to capture more consumers and consumer occasions and we have been delivering across this portfolio.

In the premium and luxury segment, we have significantly grown Davidoff volumes and have strong momentum in Habanos sales, particularly within emerging markets.

At the value end of our portfolio, we have had outstanding success with JPS and our fine cut tobacco portfolio, of which JPS is a key component.

Lastly snus, where our brands continue to gain share and grow volumes and we are confident this strong momentum will continue.

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### Realising Our Potential – sales growth drivers

Our topic for today – our sales growth drivers. These are areas in which our team are focused in order to accelerate our sales growth.

The first is portfolio management – this is about utilising our total tobacco asset to maximise our share of consumers and consumption.

The next driver is innovation – creating a pipeline of scalable needs-based products to accelerate our sales growth.

Pricing, where we aim to maximise revenue growth by enhancing how we model pricing strategies; investigating opportunities on a brand, pack, price and channel basis and effectively managing changes in excise.

And lastly, customer engagement. This is about developing a deeper understanding of customer and shopper needs as well as optimising the availability and advocacy of our brands and products.

You'll hear more on each of these drivers from Arthur later in the presentation.

### Realising Our Potential – key enablers

Our three key enablers are: consumer insight and foresight, which is key to leveraging our total tobacco portfolio and brands; alignment of our operations with our supply chain; and shaping our environment in what is a highly regulated industry.

Together these guide our efforts to focus on the growth drivers.

### Decode Rituals, Understand Motivations

Clearly engaging with consumers to build insight is nothing new but we have radically revised our approach over the past year.

We have rapidly embedded a needs-based approach in the business – looking at decoding consumer rituals and understanding frustrations in order to get behind underlying motivations that drive this behaviour.

To do this, we need to listen and observe their real motivations and decode this information to learn what core needs exist.

### Consumer Needs Framework - examining the driving motivation

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### Using the Framework – different needs on different occasions

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I would now like to hand you over to Arthur.

### Arthur van Benthem, Group Sales Director

### Driver 1: Portfolio Management – systematically strengthening our portfolio

Thank you Alison.

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Whilst we will start this presentation by looking at the drivers one by one, they are most effective in practice when taken as one whole process, as I will come on to later.

Firstly portfolio management. As you will recall this driver is about matching brands to consumer needs to gain share of smoking occasions and create a portfolio of brands to cover all aspects of the needs sets.

We are systematically reviewing market analysis to see gaps and opportunities, as well as developing brand propositions linked to our innovation approach that meets these needs sets Alison mentioned earlier.

Our total tobacco portfolio is unique and we see more opportunities to leverage this with consumers and retailers.

### **Bringing the Drivers to Life – more consumers, more occasions**

A good example of effective portfolio management is in Germany, where we used our global leadership and expertise in fine cut tobacco to gain a greater share of consumers and consumer occasions with a combined cigarette and fine cut tobacco approach on JPS.

From 2006 until now we have consistently grown our JPS cigarette share, whilst establishing JPS as Germany's second favourite fine cut tobacco brand and consolidating our overall fine cut leadership within this very profitable market.

We understand the relationship between price and value for a consumer and we are meeting consumer needs with specific brand propositions and product formats at relevant price points.

We have rolled out this model in various markets across Central Europe with Route 66 and Paramount and more recently very successfully in Spain with Ducados – now Spain's number one fine cut brand.

### **Bringing the Drivers to Life – Morocco: balancing local with global**

Another example of portfolio management is Morocco, where we can see multiple growth drivers working together.

Largely as a result of the end of the monopoly in 2010, the Moroccan consumer is changing and is increasingly open to international brands.

In addition to our work on distribution and customer engagement, we have just completed the re-launch of the local Marquise leadership brand, and we have been building the Gauloises Blondes brand and we have now started to build a premium offer with Davidoff.

As a result, we are holding share at 83 per cent in the face of significant competition; Marquise share stable at 62 per cent, whilst Gauloises has established itself as number three brand in the market.

We have replicated this approach in Algeria and grown share from 3 per cent in 2010 to 12 per cent.

### **Driver 2: Innovation – build pipeline and deliver scalable initiatives**

We believe there is significant potential for innovation in the tobacco industry.

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For us it's about a model that is consumer insights-led, scalable and delivers a high return.

Our approach is develop, learn and scale. We are building a pipeline of Fewer, Bigger, Better propositions and as you can see we are making solid progress.

### **Bringing the Drivers to Life - GlideTec success supporting UK share**

We have shown you our GlideTec innovation before, which has become a resounding success in the UK.

We developed this innovation by talking to consumers and observing their rituals. As the chart shows, GlideTec has successfully stabilised Lambert & Butler's share and is contributing to our overall share growth in the UK as we are winning in the UK economy segment as well. GlideTec now accounts for more than a fifth of all L&B sales. We own the patents for the GlideTec pack technology and on the machinery required to produce commercially viable volumes of this pack, giving us great confidence for future growth potential.

### **Bringing the Drivers to Life – GlideTec portfolio is evolving**

We expanded L&B GlideTec packs across all UK national accounts late last year, and recently added a range of formats, including Menthol and Lights to capture more consumer needs and more consumer occasions.

Last month we launched GlideTec in France with Gauloises Tactil and have had a very positive consumer and trade response.

We are launching in Spain in April and more new markets to come this fiscal year.

### **Driver 3: Pricing – maximise revenue growth**

Pricing continues to be major driver of our business model.

We see exciting opportunities to significantly enhance the internal capabilities across our footprint.

By sharing best practice around price research and scenario modelling, we can optimise BPPC (brand price, pack per channel) offers that drive profit or share by gaining more consumers in more occasions.

Also, we intend to further improve on engaging with governments, continuing to promote awareness of the relationship between excise and illicit trade, and providing proposals on rational excise regulation and optimal fiscal policy.

### **Bringing the Drivers to Life – German maxi pack price model a success**

A great example of our BPPC strategy is in Germany, where the Big Box and maxi pack segment now accounts for more than 50 per cent of the total cigarette market.

Our detailed modelling led us to leverage the strength of JPS to expand the portfolio into bigger boxes to give consumers more choice.

As a result, JPS has outperformed this segment in the past five years – growing its Big Box and maxi pack share well above its fair share to 17 per cent in FY11.

We have seen similar success in Australia, and our systematic review should see this model applied to other markets such as Spain with Fortuna.

### **Bringing the Drivers to Life – winning in Spain**

Spain is a good example of winning in a tough environment.

We applied our growth driver focus during last year's industry price war in Spain, with a particular emphasis on pricing.

The result was that we successfully increased prices after a downward spiral for several months, with the market quickly returning to pricing levels at or above preprice war.

Additionally, we strengthened our portfolio, we tested and refined our growth driver frameworks and enhanced our engagement with the Spanish government.

### **Driver 4: Customer Engagement**

The importance of effective customer engagement is growing in increasingly regulated markets and becoming the frontline in building brands and influencing shopper behaviour.

We focus on:

- customer advocacy - preferential partnerships to create Imperial brand advocates
- activation - transforming our mindset from to cost efficiency and driving higher ROIs
- product availability – reducing out of stocks and ridding the distribution network of inefficiency

Our approach is based on understanding shopper and retailer needs, and developing an FMCG added value strategy.

### **Bringing the Drivers to Life**

Customer Advocacy: we have completed the integration of cigarette and mass cigar unit in the USA and have implemented a new operating model designed to match the needs of our retailers and wholesalers.

Activation: we significantly re-allocated in-market investment across our top 15 markets as a result of a review of all spend and use of a new toolset. The results have been excellent and this methodology is now firmly embedded in our business.

Availability: we completed a similar review of the UK to that in the USA and a number of areas on which we need to focus to deliver benefits to our trade customers and wholesalers.

### **Bringing the Drivers to Life – the drivers working together in Turkey**

In Turkey our team has made some big changes to their approach recently.

On portfolio management, the two main categories in growth are premium and value – and hence we are now focused on Davidoff and West only.

On customer engagement, we have significantly reduced our costs for the DSD system in the market by restructuring our route to market based on this portfolio strategy. We are now applying this new route to market approach to different parts of the country based on business potential and geographic spread.

The results just a few months into it are tremendous – route to market costs have

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reduced by 32 per cent and market share is increasing significantly.

### Case Study – Australia – success through growth driver focus

An excellent example of where we are actively applying all four drivers in unison is Australia, where we continue to gain share and grow profitability:

- Portfolio management: investing behind a relevant brand portfolio with focus on Horizon, JPS and our market leading FCT brand Champion, whilst growing in the premium cigarette segment with Peter Stuyvesant, which is now bigger than Marlboro.
- Innovation: new brand development accounts for almost one fifth of cigarette volume growth in the past 15 months.
- Customer engagement: success of preferred retailer program is creating retailer brand advocates and our 'No Nanny State' campaign strengthened our relationships with key customers.
- Pricing: growing share and profitability consistently in a downtrading market.

### Case Study - Australia - delivering share gains across portfolio

Our cigarette share grew from 16.3 per cent in September 2009 to 19.4 per cent in January 2012. In fact, we were the only manufacturer in Australia to deliver absolute growth in 2011.

Our FCT portfolio share has grown above 60 per cent in January 2012 despite increasing competition in this popular category.

### Capabilities – training and development

The sales growth drivers are gaining momentum in our business as we are building capability in our organisation.

Pockets of best practice exist across all sales growth drivers, across all markets.

We are developing centres of excellence to accelerate knowledge transfer.

We have commenced a rapid roll out of drivers through business planning, deep dive training and development, with clear metrics to measure success.

I'll now hand you back to Alison.

### Alison Cooper, Chief Executive

#### Creating Value

Here you can see how the elements come together to create sustainable shareholder value.

The four growth drivers, supported by the key enablers, are the foundation for our sales growth strategy.

The capital requirements of the group remain low, even with some innovation



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investment, and we continue to closely manage our working capital.

As a result, generating sales growth at high margins delivers strong cashflow that we use to support the development of the business and maximise value to our shareholders.

Our big opportunities from an investment perspective lie in growing our sales and optimising the use of our cash.

### **Our Values**

Finally, to finish on a more people-oriented note. Our values and our culture, driven and defined by our quality people and this gives me great confidence in our ability to realise our potential.

Thank you...I'll now invite any questions?