

## Deutsche Bank Conference (Paris)

19 June 2012

### Roberto Funari, Group Marketing Director

#### Title slide

Hello and welcome to the Imperial Tobacco Group presentation at this year's Deutsche Bank Conference.

#### Disclaimer

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#### Driving sustainable sales growth

I am Roberto Funari, Group Marketing Director of Imperial Tobacco, and I am joined today by our Director of Investor Communications, Gerry Gallagher, and our Global Strategic Brand Manager for Davidoff, Florence Greep.

I would like to talk to you today about how we are driving sustainable growth by attracting more consumers, on more occasions across our total tobacco portfolio. I will also give you some colour on our innovation pipeline and discuss a key portfolio initiative for our iconic Davidoff brand.

#### Our strategy

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

Our four key assets are supported by our four growth drivers and whilst all four growth drivers working together delivers maximum results, I will focus my presentation on two of the four growth drivers and how they are optimising the value of our Total Tobacco and brand equity assets. I'll also talk about our approach to building consumer insights, a key focus across all of our growth drivers

Imperial's unique asset is our Total Tobacco portfolio. We have some of the world's most respected cigarette brands. We are global leaders in fine cut tobacco, we exclusively sell all the luxurious Cuban cigar brands around the world, we have a very successful smokeless business and we lead the industry in papers and tubes.

Such category expertise and breadth gives us a competitive advantage in that our portfolio is robust whilst also being positioned for growth. It also allows us a greater interaction with tobacco consumers and this is very important in developing our understanding of consumers as I will come to shortly.

But first, I would like to show a video that illustrates what I mean by Total Tobacco.

#### Total Tobacco brands video

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#### HY12 sales growth momentum

Before I talk about our work with consumers, let me first revisit our results from the first half of this financial year.

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You can see how several specific factors external to the business impacted our first quarter performance, but with only the sanction ban in Syria having an effect in Q2, we delivered volumes down only -1 per cent and our tobacco net revenue increased by 8 per cent – a very good result and one that better reflects the excellent sales momentum within the business.

### HY12 sales growth momentum (2)

Our second quarter growth was generated by strong results right across our Total Tobacco portfolio, particularly within our key strategic brands, which delivered combined stick equivalent volume growth of over 6 per cent and revenue growth of 15 per cent against the same period last year.

This was a very pleasing performance and later I'll be talking about why we are confident of building on this sales momentum in the remainder of the year.

### Consumers ahead of industry

The current momentum gives us confidence and reassurance but this is not enough. Our ambition is to accelerate growth and enhance sustainability.

So let me know talk to you about consumers and explain how we see them as being "ahead of the industry".

By this I mean that consumers' demands are evolving at a fast pace, driven by their untranslated needs. Consumers are expanding their repertoire of brands, experimenting with more formats and developing rituals to enhance their experience and it is our challenge to translate consumer motivations into innovations and to manage our brand portfolio to deliver product experiences to the consumers that are relevant and exciting.

### Translate the consumer voice

When analysing consumer motivations, we make use of a simple model which we refer to as the Untranslated Needs model. Essentially, this model looks at needs of consumers on different consumption occasions and we see two broad types of consumer rituals.

The first is 'enhancing rituals', these are behaviours designed to heighten pleasure from the smoking occasion. The second type is 'coping rituals' which are designed to fulfil a more basic desire to enjoy smoking.

Even though most consumers don't consciously acknowledge it, both of these rituals are designed to satisfy one or more needs. It is these needs, indicated on the slide in green, that are central to consumer decision making, and given the complexity of these needs, we refer to them as 'untranslated' needs. By translating, or decoding, these needs, we can focus our brands and total tobacco portfolio on offering the existing consumer new choices that act as the catalysts between their rituals and needs. If we do this successfully, we will drive sustainable sales growth.

You'll see in the coming video some examples of what our consumers are doing, how they are talking about their smoking rituals and how we decode them.

### Consumer insights video

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### Consumer needs framework

You can see how different consumers have different rituals to satisfy their various needs. By analysing this on a much larger scale, we decode this into strategies that will ensure our portfolio is relevant to these needs across multiple smoking occasions.

Using the untranslated needs model I have talked about we aim to clearly define strategies to build a portfolio of brands and categories that increase our share of consumers, occasions and consumption.

To assist us in identifying, classifying and sizing consumer needs and matching these to consumer purchase decisions, we use the Censydian model, or 'needs wheel' as we say internally, which has been used for a while within the FMCG industry. The model pictured on the slide is a generic version and we have adapted this model to our specific category.

Looking at the generic version you can see there are two axes.

The first is the 'social dimension', this runs horizontally and captures how consumers make purchase decisions in order to influence social occasions. To the left of the axis is the 'power' circle, which highlights how some consumers choose brands to convey a strong, bold, powerful image, whilst to the right of the axis is the 'belonging' circle, where consumers are more influenced by popularity and peers to feel a comforting sensation in making their brand choice.

The vertical axis represents 'personal dimension', this ignores the image portrayed to others and is more indicative of how a consumer feels when experiencing a brand. A good example is the top circle in the model 'enjoyment'. Here a consumer chooses brands that they think are fun. This contrasts to the 'control' circle at the bottom of the model, which would suggest a consumer wants to feel they govern their routine perhaps, to use a non-tobacco example, a low calorie food or drink.

### Sales growth drivers

Armed with this increasing amount of consumer insights, we have a tremendous opportunity to leverage our Total Tobacco portfolio. Our challenge is to think about how we can explore the possibilities within our portfolio to maximise the brand equity of each of our brands. To do so, we apply the needs approach consistently across our four sales growth drivers.

So, let me first give an overview of what each of these sales growth drivers actually means within Imperial.

The first driver is 'portfolio management'. This is about utilising our Total Tobacco asset to maximise our share of consumers and consumption – more consumers enjoying our brands on more occasions.

The next driver is 'innovation' – creating a pipeline of scalable needs-based products, focusing only on those initiatives that will expand our portfolio and accelerate our sales growth.

Third is 'pricing', where we aim to maximise revenue growth by enhancing how we

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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 a basis for customer management whilst at the same time optimising the availability and advocacy of our brands and products, critical in order to succeed in dark markets.

The four drivers are complementary and by focussing on all four drivers in each market, we will maximise our ability to drive our top line.

I would now like to move on to how we have brought this to life within the two sales growth drivers that most impact my area being 'innovation' and 'portfolio management'. How we invest in building the portfolio of tomorrow and how we manage the portfolio of today.

### More consumers, more occasions

Let's focus on innovation first and see how we use the needs model to build our innovations.

#### Innovation pipeline

Consumers are expanding their repertoire of brands, experimenting with more formats and developing rituals to enhance their experience and the tobacco industry innovation intensity is low, especially compared to other FMCG categories.

Our innovation approach is to build a disproportionate pipeline of concepts and ideas that are consumer insights-led. These insights are based on our translation of consumer needs and rituals.

Our approach is develop, validate with consumers and select fewer, bigger, better innovations that will be scaled up and, as you can see, we are making solid progress.

For us, this consumer insights-led model is scalable and delivers a high return. The technology will follow and we will not take a scatter gun approach to rolling this out.

Let me give you some visibility on our new innovations that are being rolled out across our portfolio.

### High growth segments innovation

First, we are expanding our brand offers in order to enter high growth innovative segments with the right needs-based concepts.

We've been launching smaller modern formats such as king size super slims and queen size cigarettes, as well as new filter technologies, including crushball variants, and we've entered into the popular additive free segment.

And as you can see, we apply those innovations across our portfolio of key strategic brands.

### Breakthrough innovation

But we are also developing more breakthrough innovations.

We have talked about GlideTec in previous presentations. This represents a significant innovation delivery for Imperial and we believe it has excellent growth

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potential. To illustrate this, let's now look at how GlideTec has supported our share in the UK.

As the market-leading brand, positioned in the sub-premium price tier in a market experiencing downtrading, Lambert & Butler's share had been in long-term decline but, as the chart shows, GlideTec's appeal to existing smokers has successfully stabilised Lambert & Butler's share and is contributing to our overall share growth in the UK.

GlideTec now accounts for almost one third of all Lambert & Butler sales, highlighting the overwhelmingly positive consumer response to this innovation.

### **GlideTec: A scalable initiative**

Beyond the Lambert & Butler success, GlideTec is a real life example of how consumer insight is translated into multiple brand concepts across multiple markets. The pack is now in France with Gauloises, Spain with Fortuna and will be launched next month in Germany with JPS.

We aim to launch the pack in a further six markets this year thanks, in part, to our new Davidoff proposition that I will introduce shortly, with a full international roll out to continue over the next few years.

GlideTec is an innovation that resonates with smokers because it was created by working directly with them. It's another example of how we engage with consumers. We listened and observed and then we translated and created and the result is a pack that has already enhanced some of our key strategic brands in key markets. GlideTec is attracting smokers away from competitor brands and our patent protection ensures there is a lot more potential growth still to come.

GlideTec is one example and we're currently working on other innovative platforms to address more needs. More initiatives are underway as we continue to focus on building a pipeline of fewer, bigger, better innovations that are scalable and will deliver high returns.

### **More consumers, more occasions**

Beyond innovation, we believe that by applying the consumer needs model across all of our Total Tobacco products, we have a competitive advantage. We can harness our knowledge of consumers and their behaviours and use this to capture more consumption occasions by effectively managing and developing our portfolio to meet these consumer needs.

We already have the portfolio and we have brands with successful growth records across a number of markets, both developed and emerging. The opportunity now is to take a fresh look at our portfolio; to identify those brands that are capable of expand by attracting more consumers in more occasions.

We are doing it in a systematic and consistent way across our Total Tobacco portfolio. And, as an example, let me share with you one of the key initiatives we are in the process of launching behind our flagship brand Davidoff.

### **Growing Davidoff**

Davidoff is a key brand within our portfolio and one where we have achieved strong sales growth, particularly in emerging markets, where disposable incomes and

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consumer preferences for luxury brands are increasing.

In the first six months of this financial year, we grew the brand's volumes by 2 per cent, with further gains in Asia and the Middle East, but we grew second quarter volumes by 5 per cent reflecting the brand's positive growth momentum and this second quarter growth is more in line with the six per cent compounded annual growth rate we have achieved with Davidoff since 2008.

Part of the recent success of Davidoff has come from volume gains in profitable high growth segments such as king size superslims and queen size but, as you will see from today's presentation, we are focussed on unlocking the true potential of this brand.

### Davidoff

As I said earlier, the current momentum gives us confidence and reassurance but this is not enough.

Whilst we have expanded the portfolio of Davidoff cigarettes, can we say that we have truly exhausted this brand's ability to meet consumers' untranslated needs? Is there more that we can be doing with this brand?

Davidoff's full potential is still to be unlocked.

Applying the needs approach, we have completed a 'deep dive' needs analysis on premium brand adult consumers and we have discovered that they are focused on four main ones, while the brand currently exploits only two.

Our playground is bigger, our opportunities greater and we will exploit this by stretching to new needs while ensuring equity consistency.

We want to drive more smoking occasions by innovating through expanding Davidoff's consumption occasions through an innovative proposition which will nicely complement the current offer.

### Decode rituals, understand needs

Through our work with consumers, we believe we have identified and developed what will be a successful new platform for this iconic brand.

### Welcome to iDeas

Welcome to Davidoff iD.

### Introducing new Davidoff iD

Davidoff iD is an exciting new king size range that will fuel further growth by making Davidoff accessible to a wider range of premium consumers.

The innovative iD concept is the result of our passion to translate the voice of the consumer into the smoking experience; Davidoff iD surprises the consumer every time they open the pack by revealing a new stylish, modern design.

Davidoff iD offers the consumer an exclusive new blend to enrich the smooth smoking

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experience and will be available in standard king size and GlideTec packs, both of which feature fresh iDeas whilst retaining Davidoff's unrivalled reputation for quality.

### Discover iDeas everyday

Davidoff iD is a needs-based range which continuously excites consumer interest and enhances the opening ritual by revealing a new artistic discovery each time you open your pack, whilst incorporating a GlideTec one-handed opening in its portfolio.

### Creating new rituals

Davidoff iD is not just about opening rituals. It's about engaging more with consumers all along their journey with the brand: when they see it, when they buy it and when they experience it.

iD was unveiled at a prestigious international duty free and travel retail event in Singapore in May this year and received a tremendous reception. It will initially be rolled out in Duty Free as well as in Spain, Ukraine and Taiwan.

Davidoff iD will be instrumental in creating further momentum behind our sustainable sales growth strategy.

### Total Tobacco portfolio

As I told you previously, this is not just about Davidoff, or innovation. We are applying the needs approach in a systematic and consistent way across our total tobacco portfolio to generate sustainable momentum behind the top line.

Our portfolio has tremendous potential; we have been very active across our brands and products and have a number of exciting initiatives in hand that will further fuel growth:

- On Gauloises, we're introducing queen size variants across various territories. We've entered the additive-free market in Germany and launched Tactil, a GlideTec variant, in France
- With West, we've been active on filter technologies and more particularly crushball filter technology with the launch of West Duo in Russia and Poland
- We have revitalized the JPS and Fortuna families and have added GlideTec variants in Germany and Spain respectively

And this is not just about cigarettes. We explore consumer needs on other tobacco products the same way and deliver new offers for our fine cut tobacco, cigars and smokeless consumers:

- We have had great success developing some of our successful cigarette brands into successful fine cut tobacco brands as well as expanding our premium fine cut brands Drum and Golden Virginia into additive-free variants, all of which extends the appeal of our fine cut portfolio across a broader set of consumer needs.
- We have built on our global leadership and good understanding on cigar smokers' needs, launching ultra mini (Niñas) in France and large filter cigars (Phillies) in the USA, as well as re-sealable fresh packs in the growing resalable segment in the USA.

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- In smokeless tobacco, our snus volumes continue to enjoy double digit growth and we are developing new products within this fast growing category.

The launch of Davidoff iD is something I am particularly passionate about. It represents a key milestone in realising Davidoff's global potential and we are confident it will make a valuable contribution to driving our sustainable sales growth.

Our Total Tobacco portfolio, combined with our focus on consumer-led innovation, gives Imperial unique opportunities.

### Maximising shareholder returns

To summarise, I have talked about our desire to fully understand what motivates consumers to make their choices. We will continue to develop our expertise in consumer needs and rituals, and this expertise will act as a key enabler in driving growth in our existing brand and product portfolio as well as shaping our innovation pipeline. It will also support our other two growth drivers, pricing and customer engagement, as we focus on excelling at all four drivers to maximise our share of consumption occasions.

Our recent results demonstrate how our focus on all four sales growth drivers is delivering benefit to our top line growth and, as can be seen on this slide, this feeds directly into our operational model, generating high margin profits that drives strong cash flow that we return to shareholders or re-invest back into the business to ensure growth is sustainable.

Thank you and I would now like to take any questions you may have.