

## Introduction – Quality, Agility and Discipline

**Alison Cooper, Chief Executive**

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**Alison Cooper:** Good morning everyone. Thank you for joining us today in Bristol. I'm really looking forward to spending some time to explore and share the strategy of Imperial with you.

Just to key us in a little bit, some context, we are now Imperial Brands. We've lost the burgundy and we've reverted to orange, which is a bit fresher. It's the umbrella company for our five key operating companies. So, Imperial Tobacco, very much exists within our tobacco operations, the lion's share of our business, and that's where we're sitting at the moment, within Imperial Tobacco UK. ITG brands, our US business, Tabacalera, the premium cigar business, Fontem Ventures, new consumer experiences, and Logista.

Also, I thought I'd better just throw up a few dimensions of the business just as a refresher, in terms of the number of employees and markets, the top five markets of this business, a bit of a sizing on our profits, but also the TSR, 125% increase in TSR over the last five years.

Today, we're going to focus on three of these businesses, Imperial Tobacco, ITG Brands and Fontem Ventures. We're not covering Logista, and we thought for premium cigar we'd just go for an experience yesterday evening. But Fernando, our premium cigar Director, is here today. Would you wave, Fernando? Thank you. So if you've got any questions about our premium cigar business, the lifting of the Cuban embargo, anything like that, you can ask Fernando during a break.

So you had the invite for today, and the invite highlighted three themes: quality, agility and discipline. A reasonable question would be: why? The answer lies in the journey of Imperial over its recent history over the last five years. These themes, as I look out, are also going to be very relevant for the business going forward. When I took over as CEO, we'd had a very successful track record of M&A. We bought a

lot of businesses, and we generated significant initial returns from those acquisitions, through cost synergies and cost savings that we delivered.

But when I took over as CEO it was also the beginning of a new chapter for Imperial, and that was going to be about delivering the real returns on these businesses. Not just the cost savings, but the top line opportunities, the organic growth from the businesses that we'd acquired. To start that journey, it was clear to me that we had to put the consumer at the heart of our business. To make the right choices, to make the right investment decisions for the business going forward, we had to put the consumer at the centre of our thinking. That's when we introduced and embedded the consumer needs wheel into the business. I'm sure I've been in meetings with many of you, when my hands have started doing this, and you've wondered if I've been honing my Laotian hand dancing skills, but actually I've been talking about this, it's about conviviality, about connection for consumers, this is about enjoyment for consumers, as we've immediately started navigating around the needs wheel.

That consumer understanding has been really important for us, and it's been very important initially for evaluating our portfolio. What are the key equities? Which are the key brands that we should back, going forward? Also, thinking about the positioning of those key brands in relation to those consumer needs. We'll come onto it later, but this needs wheel has also been very influential in us understanding where we should back new consumer experiences, adjacencies that make sense for Imperial Brands.

So that was the starting point with the brands and it drove our focus and simplification agenda. An agenda that has continued over recent years and will continue into the future as well, and we'll talk about that more today.

Portfolio was clearly also central to our choices to drive sales growth. We did some extensive work deciding what were the things we needed to excel at to drive sales growth, and we concluded on four sales growth drivers, portfolio being one, innovation, pricing and excise, and customer engagement. These sales growth drives are very much alive and relevant in our business today, and again, you'll hear more about the application of those within the business and how that continues, later.

Then we looked at our markets, and our footprint, and had a think about the strategic role that each of our markets play within our footprint, and we made some clear choices around the strategic roles of the markets, some classified for returns, some classified for growth. We took a slightly unusual step of clustering our markets aligned with those strategic roles. We saw opportunities to drive synergistic thinking around the growth strategies, and also to focus our investment behind the real opportunities within the business.

Okay, so that was the sales and marketing aspect. We also needed to get the whole business behind the agenda, and the right portfolio decisions drove a programme in the business that we called 'Right Moves', driven by the right portfolio. It's the programme externally that we talk about around the £300m savings, but it's very much still going on in the business today and continues to be optimised, getting the whole business aligned behind the agenda.

We keep optimising, we keep looking for opportunities to improve the business, to continuously improve across our operations, and we'll come onto more of those opportunities as we see them going forward today, as we look at how we globally take the business forward, rather than locally optimise.

So, some key themes, as I evaluated that journey. Themes of quality, themes of agility, and of discipline.

Quality – about clear brand, market and product choices. Looking to back the right brands, in the right markets, and back the right new consumer experiences.

Agility – a focus on simplification, but on building change muscle. Consumer goods companies, to succeed, need to be able to change, and change successfully. A business focused on supporting the agenda along continuous improvement.

Thirdly, discipline – making clear choices, making clear prioritisations, what was important to back within the business.

Quality, agility and discipline are critical in a changing environment. We pinched a word from the American military: VUCA. Volatile, uncertain, complex and ambiguous. In fact, in some projects in Imperial, they even talk about 'VUCA re-loaded'.

We operate in a changing world. We build VUCA thinking into our leadership programmes, and we need to set ourselves up to thrive in a changing world. In fact, one of our values, our definition of enjoyment in Imperial is around thriving on challenge, and making it fun.

So if I look at over the next five years – and I'm going to give a very brief context here, there is a huge amount of work that has gone behind our thinking as we look at the environment over the next five years. But I'm going to touch on some of the key outputs from that work.

Macro environment. We're all familiar with the view of modest growth. There is also a view of reduced volatility, although I put a question mark by that; as I look at some of the geopolitical dynamics, I'm really not sure we're going to be seeing a much reduced volatile world going forward.

Regulation – two simple words: further regulation. We've dealt with an enormous amount of regulation over the last five years at Imperial. I'm sure over the next five years we'll be dealing with an enormous amount of regulation. It's something we're used to doing; we have the muscles to deal with it.

From a profit-pool perspective, again, a huge amount of modelling on work, looking at the key tobacco profit pools across the world going forward, to evaluate where the opportunities are. Now, there are clearly some big existing profit pools that we're not in, or not in to any great degree, and we're looking to build our presence in those profit pools, and we're highlighting a couple of examples later.

Over the next five years it's going to be a very critical horizon for next generation products, and how that category evolves. So as I look at the context over the next five years, and look at our focus on maximising shareholder returns, I'm very much convinced that the strategy we're pursuing is the right one. Our strategy has been confirmed. We articulate it to you in these four buckets around strengthening our portfolio, developing our footprint, driving cost optimisation, and embedding capital discipline.

I'm sure you see, quite straightforwardly, that the first two boxes there are about quality, cost and cash are about discipline, and actually inherent in the whole focus of the business is agility. The whole business supporting the growth agenda to deliver sustainable shareholder returns.

The next five years, I'd probably characterise in a rather naff 1970s song, with a title of 'More, More, More', except I'd add an extra 'more' or two on the end. The next five years is about more; it's about more work on strengthening the portfolio, more simplification, more focus, and more investment, as we see the right time to invest further behind e-vapour.

From a footprint perspective, more prioritisation. The profit pool work we've updated has given us some key insights again into where we should prioritise yet further behind our growth opportunities. From a cost perspective, more; and what we're driving is looking more and more at how we focus the sales growth in market, how everything needs to drive behind the support of the sales rep at the point of sale,

making the sale happen. From a capital perspective, again, more discipline, more choices, more prioritisation, and delivering more returns.

Here I've just translated the strategy into our investment case; about quality growth, about a focus on value creation, to drive cash and support our 10% dividend commitment.

Everything I'm talking about is enabled by our people, and we have a strong culture in Imperial. We have a strong attitude. We have a strong set of values. Here, I've articulated the values on this slide. We have a very simple articulation within the business, that everyone across the world gets hold of, and lives by. "We can," about everything being possible. Together, we win. "I own", about accountability. "I am," about individual contribution. "Engagement," to make things happen across the business. And I've already mentioned, "We enjoy," we thrive on challenge, and make it fun.

And, "We surprise." I want to just mention this one briefly. We had a lot of debate about this one, internally, when we put the values together, particularly from some of our French colleagues, who didn't necessarily see surprise as a good thing. So we dealt with that by putting some more words underneath the 'We surprise' headline to articulate that this was good surprises.

The surprises we're talking about are about thinking about things differently, and about doing things differently. So not accepting dominant logic, the way it's always been done, looking for alternatives.

I suppose one further theme that you'll see through the presentations today is where we've been thinking about things differently, and doing things differently, and I've highlighted a few things on the slide here.

How we've approached portfolio simplification, the depth of the work that we've done on that, and where we're going to take that, going forward. The way we're looking at new consumer experiences. Leaf purchasing; you'll see how we approach leaf purchasing, a significant amount of our input costs, and we have significantly lower costs than our competition. How we're looking at ways of working on our operating model, how we're applying lean – amongst other consumer goods companies, more common, but new in tobacco, and very much making a difference in Imperial.

Overarchingly, you'll see with our people, with our approach, with our 'We surprise' thinking, a shareholder mind-set, focused on value creation across the business, and a very evident 'can do' attitude. I'll demonstrate this in a video shortly because every year I have a values award, a CEO values award, where I get the business units across the world to submit a video of no more than a minute, and costing no more than €1,000 – discipline – to actually demonstrate how they've been living the values and delivering for the business that year. This is one of the winners from a couple of years ago, and for me, it absolutely epitomises the attitude in this business.

***Video shown here***

**Alison Cooper:** Get the idea? (Laughter) That leads me nicely into our agenda for the day.

So the themes are quality, agility and discipline. I have to say, as we've worked on the presentations, we started off trying to segregate them, actually you will see the themes flow through each of the presentations. So quality is clearly a focus on the markets and brands and new consumer experiences. But you'll see when Walter presents on manufacturing, quality is throughout his presentation too, in terms of how manufacturing and delivering, but a focus there on agility and supporting the business, the operating model that we'll kick off with shortly as well.

On discipline, again, threads through all the presentations, but Oliver will pull that together towards the back end of the day as well. And the breakout sessions will very much support the messages that you're seeing within the main presentation sessions.

So now we're going to kick off. We're going to kick off, actually, with the operating mode, because you'll see that pulls together a lot of the strands of what we've been doing across the business, and ways of working.

Just for two seconds, though, Helen Clatworthy is here, would you just say, "Hi," Helen? Helen heads up the whole business transformation agenda, but as we're focusing specifically on operating model today, John Jackson is going to come up to present to us. He's been a great addition to the business over the last couple of years, because we pinched him from Accenture, where he had already implemented operating models for the likes of Reckitt Benckiser, Coca-Cola, Diageo, over a 20 year period. So we have his expertise in house, and he's very much helped us take our operating model forward, and helped us learn from the mistakes of other as well, which has been quite nice. So, John, thank you.