Capital Markets Event Transcript – 27 January 2021

Slide – Our Transformation to Unlock Value

Slide – Disclaimer

Slide – Driving Change to Strengthen Performance

Thérèse Esperdy, Chair

Hello and welcome to today's event. I hope you are all keeping safe and well.

I know the team would much prefer to be doing this in person but we are taking our health and safety responsibilities seriously.

We felt it was important to continue with the event, which has meant that all of us are participating remotely from our homes – as I suspect many of you are.

I was appointed Chair of Imperial Brands a year ago and since then, the Board has been taking decisive action to strengthen our leadership capabilities and performance.

We recruited a new CEO, Stefan Bomhard, and made a number of other Executive Committee and Non-Executive Board appointments, providing us with fresh thinking and a leadership team with the broader skills and experience needed to best position Imperial for long-term success.

From a Board perspective, Pierre-Jean, Bob and Alan bring a wealth of new expertise that will be invaluable to Imperial going forward, significantly strengthening our operational and financial, marketing, retail and consumer capabilities

With Stefan at the helm, this new team has been leading a strategic review of the business, assessing all aspects of our strategy, business model, ways of working and culture.

Some elements of the review are ongoing. Our purpose, for instance, is being updated in line with new strategy and will be co-created with employees.

This more inclusive, collaborative approach highlights the way we have already begun to change our ways of working and culture.

Engagement and communication with employees has been open and honest about the strengths and weaknesses of Imperial, and their feedback has helped shape the new strategic direction.

Though some elements of the new strategy are a work in progress, the fundamental building blocks of how we will transform Imperial over the coming years have been clearly established.

Stefan and the team will take you through each of these building blocks today.

Our aim is to create a stronger, more agile, consumer-centric company and we have a clear plan of action for delivering better and more consistent results over time.

The Board is supporting and overseeing the execution of this plan with an acute attention to risk management, performance metrics, our ESG agenda and stakeholder engagement.

We're optimistic about the future and very focused on continuing to make the necessary changes to unlock value for our stakeholders.

Thank you – I'll now handover to Stefan.

STEFAN

Slide – Transforming our Business

Thanks Thérèse and hello, everyone. It's a pleasure to be able to spend the next few hours taking you through our new strategy.

As Thérèse mentioned… all of us are presenting from our homes today via our laptops. This is the right approach… given the current circumstances… and this is an important presentation for Imperial and for our shareholders, which we did not want to delay.

We hope the technology works for us but please bear with us if there are any technical hiccups.

I've been CEO now for seven months and my time with Imperial so far has only reinforced my initial observations about the business.

This is a company with huge potential and I'm excited about the future.

Yes, Imperial has not delivered on its potential in recent years and a number of things need to change. But it also has some clear strengths that we are going to be building on as we embed the new strategy.

This is our agenda for today. We will take you through all aspects of the strategic review: how it was conducted and what it means for our combustible and NGP operations.

We will also explain how new ways of working and a re-shaped culture support the strategy, and will set out how transforming Imperial will strengthen our financial delivery over time.

We will take a ten minute break after the combustibles section.

And there will be plenty of time to put your questions to the Executive Team at the end of the session. If you wish to ask a question, you will need to dial-in on the conference call numbers provided.

Slide – Strengthened Executive Committee

As Thérèse said, we have a rejuvenated Executive Committee and you will hear from all of them today, with the exception of Group Manufacturing and Supply Chain Director Walter Prinz, who is retiring after an outstanding career with the company.

Walter's successor, Javier Huerta, joins us next week from Unilever - where he was Executive Vice President Supply Chain for Foods and Refreshment – and we look forward to welcoming him on board.

Many of you know CFO Oliver Tant and Divisional Directors Dominic Brisby and Joerg Biebernick.

Murray McGowan, Group Strategy and Transformation Director, joined Imperial last July and has a strong background in strategy, having worked as a consultant at McKinsey and held senior strategic and operational roles in companies such as Costa Coffee, Yum! Brands and Cadbury.

Alison Clarke joined four months ago in the newly created role of Chief People and Culture Officer. This is an area that has not previously been represented at Executive Committee level. I worked with Alison at Inchcape, where she was Chief HR Officer; prior to that, she held senior roles at companies such as Whitbread, A.S. Watson and United Utilities.

There will be further changes to the Executive Committee, including the appointment of a new CFO – following Oliver's decision to retire – and the creation of another new role: Chief Consumer Officer, which you will hear more about later.

The steps we're taking to strengthen the Executive leadership team illustrate our focus on ensuring we have the right expertise and capabilities to be able to take Imperial into a new era of growth.

Slide– We are Imperial Brands

This is a snapshot of who we are. Imperial is a global consumer organisation and the fourth largest international tobacco company in the world, operating across 120 markets.

Following the sale of our premium cigar business, we have around 27,000 employees… who continue to do a truly great job in keeping the business going during the challenges of the coronavirus.

My thanks to them all for all their hard work and support.

Despite recent results and the obvious need for change, the fundamental financials of the business are sound, with annual revenues of eight billion pounds, high operating margins and strong cash flows.

And we have strength and breadth in our portfolio, with notable brands in all key tobacco and NGP segments.

So, as I've said many times – Imperial has solid foundations on which we can build with our new strategic approach.

Slide – Transforming Imperial Brands

Over time, our aim is to transform Imperial Brands to unlock value for our shareholders, employees and all other key stakeholders.

The new strategy will have a renewed emphasis on a more focused group of priority tobacco markets and a more disciplined execution in NGP.

Strategic decisions will be informed by consumer data and insights.

Our ways of working and culture are already changing to create a challenger mindset, which will strengthen delivery.

And everything will be underpinned by a clear and compelling capital allocation framework that has been designed to create long-term sustainable value.

This is the essence of the new strategy we will be taking you through today and we are excited about what it will deliver.

Slide – Strategic Review – Approach

Before getting into the detail, let me share some background on our strategy work.

The first point to make is that this strategy has been defined by Imperial for Imperial.

In other words, the approach has been rigorous and internally driven, making the most of the fresh perspectives and expertise I have already mentioned – and only using targeted external specialist support in specific areas.

It's a credit to the team that we've been able to do this while also managing the issues and challenges presented by the ongoing pandemic.

We also consulted extensively with other stakeholders, particularly shareholders, employees and customers, as part of this strategy process.

It has been fact-based, with decisions underpinned by data and consumer insights.

And throughout, we adhered to four clear guiding principles.

First, co-creation - the strategy has been developed with the senior leadership team and reflects feedback from our employees; this is not something that's been purely borne out of Executive Committee thinking.

Second, we have focused on how to leverage our strengths.

Third, acknowledging the mistakes of the past and how we can learn from them and not repeat them.

And finally, we have evaluated ALL options to create value.

Ultimately, this has enabled us to clearly define our future focus, areas where we have a right to win – something we'll talk more about later.

Slide – Strategic Review – Solid Foundations for the Future

I mentioned Imperial's strengths earlier and here you see the business has a number of attractive qualities.

We have a diverse market footprint, with solid share positions in Europe and the US, and strong leadership in some key African territories.

We have some good brands that provide opportunities across multiple categories although historically, investments have been somewhat limited.

Our approach to customer engagement is also a real strength – particularly as customers like to partner with us as our position as number two or three in a market reinforces a beneficial competitive tension on-shelf.

I've previously spoken about our manufacturing and supply chain capabilities – this is an area of real strength for Imperial, which has coped well with the challenges of the global pandemic.

We know that NGP has so far not delivered; nevertheless, we have a promising heated tobacco proposition with Pulze and in blu, we have a vapour offering that has strength in the US and Europe.

Our people have really impressed me from the beginning. There is an energy and passion about them that will help us unlock value: they are ready for change and willing to embrace it.

We briefly touched on the financials earlier: we have high operating margins and the strong cash flows we generate are a longstanding hallmark of the Company.

As much as the strategic review identified these solid business foundations, it also clearly highlights areas for improvement.

Slide – Strategic Review – Areas for Improvement

I won't dwell on this slide too much, as I've touched on these points before and many of them will be familiar to you.

Needless to say, tobacco share performance has been disappointing for a number of years, with a lack of focus on our most valuable markets.

NGP has also disappointed: the vapour business expanded too quickly and too broadly, with little consumer validation and poor investment decisions. There was also insufficient focus on heated tobacco.

Performance management was limited, which led to a lack of agility and responsiveness to market dynamics. Also, data and consumer insights were not fully leveraged.

Unsurprisingly, this created a weakness in the company's capabilities and culture, and our ability to deliver.

There's also been little focus on the consumer… and central marketing expertise is underinvested. And again, I have not observed in my first months in the business a consistency in utilising data and insights to underpin decisions.

So, some very clear areas to target as part of our drive to transform Imperial. As you will appreciate, given some of the issues identified, this will take time but we have developed a compelling five year plan, centred around three strategic pillars…

Slide – 5-year plan: compelling plan with three strategic pillars

….first, a focus on priority combustible markets, second, driving value from our broader market portfolio and, third, building a targeted NGP business.

We'll take you through the detail shortly but let me first make some headline comments.

For our priority combustible markets we will increase investment in our most appealing profit pools, with a focus on clearly defined strategic levers to unlock value.

For the broader portfolio, we will manage markets more efficiently, implementing global processes and sharing best practice.

Through this approach, we will identify markets that offer the best growth potential and selectively rationalise those that offer limited value.

In NGP, we will be taking a different approach: more targeted and disciplined driven by local consumer preferences.

We will focus investment on heated tobacco in Europe and on vapour in the US.

Slide – 5-year plan: new ways of working

In order to deliver this plan, we are changing our ways of working and culture.

We will become a truly consumer-centric company, putting the consumer at the centre of all our decisions - and to achieve this we will need to develop new capabilities and address consumer needs.

We are embedding a performance-based culture, one that holds our teams to account and rewards teamwork.

Our ways of working will be fact-based and collaborative, driven by a challenger mindset to motivate our people to deliver a higher level of performance.

We will invest in talent and create a more diverse and inclusive environment for employees to do their best work.

Finally, we will simplify our operations, driven by efficient global processes, underpinned by technology, with a performance management framework that demands accountability at all times.

Slide – Opportunity to differentiate our approach

This is a comprehensive plan for change that provides the opportunity for Imperial to differentiate its approach from both its past and from its peers.

There is a theme of focus running throughout this slide.

I want us to focus on selective battlegrounds and be more targeted with our investment.

As I mentioned, we already have strong retail partnerships where our customers want us to succeed and provide good competitive tension.

Becoming truly consumer-centric requires us to relentlessly focus on the consumer and ensure we meet their needs at all times.

And by virtue of our size versus our peers, we can become a successful fast follower – providing consumers with quality and choice in established categories.

We are embracing our smaller size to become faster, more agile and responsive in our decision making, and we are beginning to create a culture that is very different from the past.

A culture that challenges and does not tolerate siloed behaviour and is open to change and collaboration.

These changes to our culture and ways of working underpin my confidence in our ability to deliver a step change in performance.

Slide – What our strategy will deliver

The strategy will deliver a stronger business with a sharper focus behind tobacco and with clearly defined roles for its markets.

Our commitment to harm reduction will be evident through our new targeted and more disciplined NGP business.

We will have an energised and motivated organisation that is focused on meeting consumer needs with a culture that is collaborative, agile and focused on delivery.

We will deliver stronger, more consistent revenue growth and generate sustainable profit growth that does not require a margin reset in the short term.

And our continued strong cash generation will provide funds to support the implementation of the strategy, debt reduction and returns to shareholders.

Slide - Clear Sustainability Agenda Aligned with our Strategy

Before moving on to a more detailed look at the plan, I want to assure our stakeholders that throughout the strategic review, we have considered our sustainability and ESG responsibilities and have concluded that both are aligned to – and underpin – our new business strategy.

Our sustainability strategy remains focused on tobacco, NGP and behaving responsibly. These three pillars of our strategy are designed to enable growth and create value; they also define the approach we take to managing our ESG priorities.

We have clearly defined ESG priorities that have been validated with our stakeholders and are aligned with the UN Sustainable Development Goals – as shown on the slide.

Slide – ESG Focus for FY21

As much as we believe we now have a compelling strategy and are focused on the right issues, there is more we can do to help stakeholders measure our performance going forward.

With that in mind there will be greater transparency, with additional publicly available KPIs for climate and energy, farmer livelihoods, human rights and waste.

KPIs for consumer health will come later once we have reset our NGP business and they will be fully aligned with the new NGP focus.

We need to deliver a stronger NGP performance in order to realise our consumer health and harm reduction ambitions - and that will take time

I want us to make a more meaningful contribution to harm reduction by building a targeted NGP business that meets consumer needs and is managed in a disciplined manner.

I also passionately believe in diversity and inclusion and want to see this become a key foundation of the new culture we are creating to deliver the strategy… and Alison will talk more about this later.

I look forward to sharing more about our sustainability agenda later in the year when we relaunch our series of ESG webinars, starting with a deep dive on climate and energy.

Slide – Climate and Energy

This is an area where we are performing well.

We have carbon targets validated by the Science Based Targets Initiative and are focused on implementing the recommendations from the Task Force on Climate-related Financial Disclosures.

Our environmental credentials have been externally recognised by securing a place on the CDP's prestigious 'A List' for tackling climate change.

CDP also awarded Imperial an A-minus rating for minimising water use, up from last year's B rating.

As much as we are performing well against existing KPIs, there is room for improvement and as part of that greater transparency I mentioned, we now have an additional renewable energy KPI.

So, as I say: clearly defined priorities that support the business and we look forward to telling you more at a later date.

STEFAN

Slide – Combustibles

Let's now move onto our combustibles business, which to be honest, has been neglected in recent years, as Imperial became overly focused on NGP.

A key part of our plan involves refocusing on driving profitable growth from our tobacco portfolio, which is where we see the greatest opportunity for value creation.

This will come from making some clear strategic choices to focus on our biggest profit contributing markets.

However, I should stress there is also a big opportunity in simply running our combustibles business better – and we are already implementing a series of operational improvement measures.

Slide – Combustibles: value creation model remains strong

The outlook for the tobacco value creation model remains very positive.

Overall, we expect pricing to continue to more than offset volume declines.

Affordability is still good across our footprint reinforcing a positive pricing outlook – and we continue to benefit from strong brand loyalty.

There are, of course, ongoing regulatory risks but this is something we are well used to managing.

Consumers are also continuing to trial NGP alternatives but the overall level of penetration is still relatively low.

Slide – Combustibles remain attractive going forward

This slide puts some data around our forecasts for the key regions… and demonstrates the value creation potential for combustibles.

Volumes are expected to decline in most regions – except for Africa.

Europe is a mixed picture with declines in Western Europe offsetting better trends in Eastern Europe.

The pricing outlook underpins the opportunity for low single-digit revenue growth with the exception of Australia, where cigarettes are relatively more expensive and there is strong growth in the illicit trade.

We will come on to explain how we are adapting our approach for these markets.

Slide – High combustible affordability across Imperial markets

Since pricing is such an important value lever… we have looked carefully at the data behind affordability and price elasticities.

Across our footprint, which is biased to developed markets, affordability remains very attractive… particularly in our two largest profit contributors of US and Germany.

So the overall outlook for combustible tobacco remains attractive.

Slide – But disappointing historic performance

Turning to Imperial… we recognise our performance has fallen short of expectations with relatively modest revenue and profit growth, coupled with share losses in nearly all of our largest and most profitable markets.

This has been caused by underinvestment in the larger markets and brands – with too often, in markets like Germany, a focus on short-term profit delivery at the expense of longer term market performance.

In recent years, this has been compounded by an increased focus on NGP and a lack of detailed performance management.

Slide – Market share losses across nearly all larger markets

You can see we have lost volume share across our five largest markets by profit contribution – with the exception of the US, which has shown very modest growth.

This has been made worse by the focus on short-term profitability and as we have fallen behind on some critical capabilities such as consumer insight, innovation and marketing.

Slide – Multiple reasons for historic share losses

There are multiple reasons for the recent share losses but they can be grouped into four key themes:

One, we have often underinvested in key brands – such as in Germany with JPS, West and Gauloises.

Two, we have often priced ahead of competition – for example, in the UK and Germany – with too much emphasis on short-term profit optimisation of the top brands.

Three, we have neglected some of our ‘local jewel’ brands – in favour of international brands – resulting in the subsequent need to reverse of brand migrations in markets like Spain.

This has hurt our share performance, given our relatively higher exposure to local brands following our acquisition history.

Four, we have often been too slow in responding to consumer trends such as crushball, menthol or new pack formats.

Slide – Detailed review informed our strategy

As I mentioned earlier, we have reviewed all of our combustible markets with really deep data dives on the larger ones – assessing all major brands and price points, our presence in all channels and reviewed consumer trends and our competitive positioning.

This new strategy is built on a highly detailed and rigorous assessment of the market potential, our assets and capabilities – and ultimately our right to win.

Slide – Summary: combustibles approach and ambition

So what will be different under the new plan?

There are two key aspects:

First, it is about making some very clear strategic choices to direct more investment to our five priority markets… where we will also allocate our resources and capabilities in areas such as marketing and regulatory affairs.

For each priority market, we have a detailed plan with very clear operational levers. We have also defined a clear role for each market in the portfolio to optimise resource allocation.

Second, it is about improved operational excellence. This is a 'catch up' opportunity for Imperial vs its peers – where in my view, many of these activities and initiatives are already embedded.

It is about having better consumer insights, using data to inform decisions and driving a far more pro-active and rigorous approach to performance management. I have already implemented this through monthly performance reviews for the divisions and top five markets – with all the key individuals from the division and market in the room to speed-up decision making.

These are all simple things, but they have not been happening on a consistent basis at Imperial. It is a theme we will return to later when we talk about our new ways of working and culture.

Slide – New approach to brand portfolio management

We are also taking a different approach to brand management. Imperial has an attractive portfolio of local jewel brands – which has been neglected in favour of more international brands.

In the past, many of these brands were migrated into international brands, resulting in share losses overall.

One of the important changes is that brand portfolio decisions will be made at a local level based on clearly identified consumer need-states – and the markets can ensure they have the most appropriate brands to suit local needs – whether they are international or local.

This puts the consumer at the centre of the decision – rather than it being led from a manufacturing efficiency viewpoint.

In addition, the level and variation of tobacco regulations by different markets means that product and packaging synergies are far more limited in our industry than in many other consumer categories that I have worked in.

Slide – Summary: increase focus on priority markets

So let's first explore the strategic choices we are making in our combustible markets.

We will drive disproportionate investment focus on our five priority markets: US, Germany, UK, Australia and Spain

These markets are our biggest profit contributors, representing 72% of tobacco profit.

They have the greatest potential for value creation, given their relative contribution – and I am confident that there is attractive revenue and profit growth potential for us.

Naturally, there will be less focus on the rest of the portfolio. However, we have also reviewed all our other markets and identified clear roles for them.

I would like to highlight an important difference about tobacco here… because tobacco is so highly profitable, it means that many of our smaller markets still contribute profit and cash.

For the market portfolio outside the top five, this will be about more efficient resource allocation between the markets.

Although their smaller scale means the profit upside is more limited – many are well positioned and provide an attractive base to build on.

Slide – Five priority markets account for 72% of operating profit

But first, a little more on the five priority markets…

As these markets generate around three quarters of our operating profit… managing these five markets better through some clear strategic investments and operational excellence generates the best opportunities for value creation – following a period of underperformance.

For the US, Germany and Spain – these are attractive and growing profit pools where we have scope to take a better share.

The market outlook for the profit pools in the UK and Australia is more challenging. However, these are highly profitable markets where we can drive a better operational performance to protect and even grow our position.

Slide – Priority markets: six operational levers

For our top five markets, we have identified six operational levers to strengthen performance.

This is not about a single 'silver bullet'… there are multiple clearly defined levers at a very local level, which we have grouped into these six themes.

In cigarettes, our priority will be to increase our participation in the sub-premium segment, which has great margins and is a relatively stable segment.

However, we typically under-index in this segment and we have several brands that could play a better role here.

We also see opportunities to rejuvenate our local jewel brands where we can capitalise on the strength of our local brand equity.

At the same time, we will optimise our approach to the value segment in cigarettes and maximise our potential in the fine cut tobacco category.

Both of these can be used effectively to address downtrading in certain markets – while also meeting consumer demand for roll-your-own.

We have good brands and a strong right to win in these segments but have lost share due to a lack of investment, inconsistent pricing and being slow to react to consumer trends.

The final two levers will enhance our channel and geographic coverage and also improve our Key Account management.

We have identified areas where our sales force coverage is underrepresented, given the attractive margins.

Our data demonstrates how increasing our sales force coverage and visits is correlated to improved market share performance. In parallel, we are equipping the salesforce with the right tools and capabilities.

We also often under-index in Key Accounts so we see a good opportunity to play a larger role there with the right investment.

These ‘route to market’ levers are expected to payback quite quickly… typically within a year… whereas the brand-related investments require a little longer.

We will give you some examples of these six levers and refer back to them as we look at specific markets.

Across these five markets we have identified more than 25 growth initiatives and even more sub-initiatives using these six operational levers.

It is a highly detailed plan so it is not possible to go into the full details today so we will just give you some examples for each of the five markets.

And I am going to ask Dominic to present on the US and Australia and Joerg to present on Germany, UK and Spain for Europe.

So first, Dominic… over to you.

DOMINIC

Slide – US: attractive market with strong Imperial positioning

Thanks Stefan… and hello everyone.

Let me start with the US.

This is an attractive major market… second only in size to China and with very high affordability supporting future pricing and value growth. And for Imperial, the US is our largest single market.

It also has the highly attractive mass market cigars segment, which has strong volume and price growth.

In cigarettes, we are the number three with a 9% share and with a brand representation across the price tiers… with some strong brands such as Winston and Kool.

Overall, our portfolio has a bias to the value end – and we have presence in the fast growing deep discount segment with Sonoma and Montclair.

In cigars, we are number two overall with a good portfolio of brands addressing the different segments. However, we are number one in the fastest growing natural leaf segment with Backwoods very well-positioned as the market leader.

Slide – US: growth strategy focused on key brands and route to market

Here… you see our framework of the six operational levers and I am going to give just two examples from our US plans.

First, is about how we will increase participation in the sub-premium segment by leveraging the unique brand equity and positioning of Backwoods.

Second, is about driving performance in under-penetrated channels and regions by enhancing salesforce coverage and effectiveness.

Slide – US: Backwoods to expand availability by region and channel

Taking Backwoods first… we have a great opportunity to build on its differentiated premium position in the natural leaf segment.

We have identified potential to extend Backwoods' regional presence into underpenetrated areas.

Our investment programme includes advertising at age-verified musical festivals and comedy events; the use of brand influencers and product placement, as well as developing branded partnerships in alternative outlets, such as bars and night clubs with brand ambassadors.

These initiatives are building on a tried and tested engagement programme, which has successfully enhanced equity and awareness with its target consumer.

We will also drive trial with smaller pack sizes and maintain interest with flavour extensions. Backwoods' reputation for quality will be reinforced through investment in leaf supply.

Overall, we expect continued strong top and bottom-line growth with Backwoods.

Slide – US: Driving sales force coverage and effectiveness

We have also identified an opportunity to enhance our US sales force coverage and effectiveness.

Our analysis shows we lag behind peers in terms of size and coverage – even after taking into account our smaller market share.

Perhaps not surprisingly, we have been able to demonstrate that there is a strong correlation between the number of visits and market share achievement.

Therefore, we have already begun recruiting and training sales reps to increase our sales force by around 25%.

This will deliver a higher penetration more in line with our relative market position.

In addition, we have improved our outlet segmentation ensuring all the salesforce are targeting the right outlets with the right service levels.

We're improving their effectiveness through "value-adding" activities to help our reps become trusted consultants to our trade partners.

We expect this to support our share position and with a financial payback within a year.

As a result, we have already begun hiring reps before fully completing the strategy so we can get this initiative underway as quickly as possible.

Slide – Australia: growth initiatives to reduce structural market decline

Let's now turn to Australia… which has a more challenging market environment.

Significant excise increases have resulted in one of the highest price points per pack globally – and a highly profitable market.

However, the downside is this has caused increased downtrading – and relatively lower brand loyalty – as well as a rapidly growing illicit trade.

The downtrading has led to the introduction of a new price tier – what we call the fifth price tier – which has impacted on the margins. Although this has been offset in the short term by some duty windfall profits.

Despite these challenges, we are well placed as a strong number two with a 33% market share – and a strong presence in the lower price points, where we can benefit from the downtrading dynamic.

Again, we have identified multiple operational levers to strengthen performance – and protect our strong market position.

One of the key operational levers here is the opportunity to work our fine cut portfolio harder to capture the growing trend towards roll-your-own.

We are reviewing the pricing and positioning of the portfolio and identifying opportunities for new brand launches and new pack formats and other innovations.

This will build on the success of our Riverstone fine cut brand, which we launched a couple of years ago.

While the outlook remains challenging, I see attractive opportunities in our new plan to improve our market position.

Let me hand over to Joerg to take you through his three priority markets of Germany, UK and Spain.

Joerg…

JOERG

Slide – Germany: attractive market environment with strong Imperial position

Thank you Dominic… and hello everyone.

Germany is our second largest market with an attractive outlook. It has relatively light regulation – with fewer restrictions on tobacco than many other European markets, and with very high levels of affordability and a relatively stable consumer base.

As in many markets, there is some downtrading although we are relatively well-positioned to meet this consumer trend.

Our market position is good… as the number two in cigarettes and the market leader in branded fine cut. We have three key brands across the price ladder, as you know, with Gauloises, JPS and West.

Slide – Germany: growth focused on brand equity and sales excellence

We have multiple levers to pull in Germany but I am just going to cover a brand investment example and two route to market examples.

First, on brand equity… we have not invested consistently or competitively behind our German brands as we have often pushed for profit over building a sustainable, longer term business.

As a result, our share in Germany has suffered – and I will talk through an example of how we plan to reposition JPS.

Second, on the route to market examples, we have identified areas where we are under-represented in terms of channel and geography. This has been informed through a detailed analysis of where we have been losing share.

There are opportunities to leverage our salesforce better to increase our coverage of the retail universe.

Our ability to connect to consumers through strong retailer partnerships will become even more important following the upcoming ‘out of home’ advertising ban.

Slide – Germany: Rejuvenate JPS as leading brand

Let's start with our JPS example, where we have undertaken extensive consumer research.

For JPS to grow share, we will have to broaden the brand appeal to slightly younger, adult smokers as the current franchise user group skews to older smokers.

The work on a new brand positioning, campaign, pack design and logo are already well advanced – all thoroughly tested with detailed consumer studies. Examples of the new campaign are shown here.

Stefan mentioned also that we were historically slow to react to demand shifts. We are about to change this and lead – bringing out the first double-pack of its kind to serve the trend for larger pack formats in a convenient way.

Before the launch of our new brand proposition, we are currently leveraging JPS's 50th anniversary in the market.

All this brand work will be underpinned by several commercial enforcements covering our field force effectiveness, the key account arena and regional opportunities with additional investments. Let me highlight some examples next.

Slide – Germany: Enhance retailer partnerships to gain efficiency

As such, we plan to leverage our customer relationships better through a direct retailer incentivisation programme and by stepping up the scale and effectiveness of our sales force.

In this example, we have already piloted a new partnership programme in a test area, which introduced clearer common goals and supported simple, pay for performance contracts.

The pilot achieved a 20% average improvement in market share– with the best results in stores where we have a relatively lower starting presence.

We plan to roll this out nationally over the next six months – combined with the previously mentioned improved sales force coverage and operational excellence step-up.

Slide – Germany: Improve performance in East Germany

Our analysis has demonstrated that we have typically been under-represented in East Germany – as we have focused more on defending our presence in West Germany – and we know regional differences are quite common in tobacco.

However, looking over the past three years, the combustibles market in East Germany – and even South Germany – has outperformed Imperial's West German stronghold.

Furthermore, consumers in the East are more value-focused than anywhere else so we would be well placed to leverage our value portfolio.

We have already launched an initial activation programme in FY20 in the East – which has delivered some encouraging results in key channels.

Our data indicates we have a right to win and there is a real potential for a further uplift to allow us to reach our fair share in the East.

Slide – UK: Strategic initiatives to offset market headwind

Turning now to an example from the UK…

As Stefan showed earlier, the UK has a more challenging outlook because cigarettes are relatively more expensive because of the history of above inflation excise increases.

This has then led to an illicit trade that normally represents around 20% of the market.

However, the market is highly profitable – and we have a strong market presence with a 40% share and with an excellent portfolio of heritage brands, such as JPS, L&B and Golden Virginia.

So here we have also developed six clear operational levers to improve performance – and I am going to outline just one of these.

Although we have a 40% share nationally – this varies significantly by region – and we typically have a weaker presence in the South.

Our objective is to target these regions to drive consumer trial and increase consumer advocacy. We will do this by leveraging our existing trade incentive programmes, which have been independently recognised as 'best in class'.

Some of our brands have already tested well during consumer trials reinforcing our view there is good potential to drive performance.

Slide – Spain: drive growth in a stable market environment

Moving now to Spain… where the market outlook is stable with low single-digit value increases.

Cigarettes are highly affordable as there has been very limited excise increases in recent years. As a result, volumes are relatively stable offset by modest pricing.

We are well-positioned as the number two player with strong local jewel brands such as Fortuna and Nobel.

These have been neglected in recent years in favour of international brands, contributing to our share losses.

So one of operational levers in Spain is to leverage the full potential of these local jewel brands.

As an example, we have already reversed the migration of Ducados into JPS – and since stabilised that share.

We are also increasing our investment behind Nobel, which has strong equity and national coverage.

The investment will focus on brand building and awareness. This is already being supported by improved packaging… such as the limited edition packs for Nobel that you can see here, designed by a well-known Spanish artist to reinforce the 'local jewel' theme

I should stress these are only a few examples of the detailed growth initiatives for these priority markets in Europe… and we believe this more focused and data-driven approach will strengthen our performance in Europe.

Thank you…

I'll now hand back to Stefan.

STEFAN

Slide – Priority markets: six operational levers

Thank you Joerg and Dominic.

I hope that gives you some insight into the plans for the top five markets.

We have developed highly detailed plans for all five and we have a range of operational levers and sub-initiatives to improve performance.

We cannot share all the details but you have heard examples of all six operational levers. We will provide performance updates on progress in our results meetings and other events going forward.

The common theme is focus – a greater focus on the top five markets to deliver a stronger performance.

By focusing our investment here, we will also free-up resources from the rest of the portfolio.

However, while smaller, the rest of the portfolio has an important role to play.

Slide – Broader market portfolio: opportunities to deliver attractive returns

Many of these smaller markets have highly attractive margins and cash characteristics. They also have more limited resource requirements – with some operated through distributor arrangements.

There are also significant benefits from being able to leverage our scale in manufacturing.

Within this group, there also some attractive markets positions which we can leverage better to create future platforms for growth.

For example, Africa where there is growth potential with a supportive market backdrop.

Going forward, it is about defining the role of the individual markets and optimising the value creation in these markets.

We will do this by ensuring our resources are effectively allocated, sharing best practice across markets, preparing future growth engines and selectively rationalising the portfolio if there is no case for value creation.

Slide 42 – Africa: strong platform for future growth

Let me start with Africa where we see a strong platform for future growth.

Africa currently accounts for about 8% of combustible operating profit.

The market environment is supportive and with improving affordability as incomes increase.

We also have a leadership position across four of our top five markets – and with strong brands and unparalleled route to market capabilities.

Imperial has overlooked the region in the past – resulting in underinvestment and a performance that has not matched the market potential.

As a result, we have now identified opportunities to drive growth in the region with a focus on the top five markets.

Again, we have multiple levers available: through the better application of our global brands in more premium price tiers, leveraging our local jewel brands, filling gaps in the price ladder and closing our sales coverage gaps.

Our ambition is to turn Africa from an unloved asset to a platform for future growth.

Slide – Other European markets: clear plans to optimise value creation

Similarly, looking at our other top ten European markets outside Germany, UK and Spain, we plan to assign clear roles depending on the market outlook and assessment of our right to win.

For example, we see a more attractive outlook for Eastern Europe than for the West – and so we will adopt a focused approach targeting our investment and resources more tightly.

Slide – Potential to selectively trim our tail

Finally, we have also considered the role of the broader tail markets and their contribution to the Group. These are about 80 markets, which typically each generate less than £25m of operating profit per market.

In aggregate, they represent around 8% of our combustible profit.

They are spread across Europe, Africa and the Rest of the World.

As I mentioned earlier, although these markets are small – they still generate profits and cash because of the very high margins in tobacco.

In practice, many of them are very light touch from an Imperial perspective because they're purely distributor markets with no in-market Imperial overheads.

We've carefully evaluated these markets and for the significant majority we see greater upside from managing them more effectively to optimise profit and cash generation, rather than getting out.

Clearly, we will always keep an open mind about whether we are the right owner for any of our assets – with a very clear priority to optimise our returns on capital.

We've also assessed the opportunities for realising value from selling parts of our portfolio, but in practice the pool of buyers is limited. In addition, the significant anti-trust constraints make divestments difficult or at valuations that are unattractive.

We have identified a small number of markets where the economics are not so attractive and we shall selectively trim these over time through market exits.

However, for the majority of our smaller markets, we see more value to be obtained from managing the assets better and a more rigorous allocation of resources.

Slide – Summary: combustibles approach and ambition

To summarise, we have undertaken a detailed assessment of our combustible business and developed a comprehensive plan that will significantly improve our combustibles performance over time.

The level of detail and data-led analysis gives me a high level of confidence in our plan

It is not a one size fits all approach but we have multiple initiatives in place across the various markets; so even if some of them don't deliver – we will still have other options.

There are two elements to our approach…

First, we have clarity on our strategic choices, informing our focus on our priority markets where we see good profit potential.

We have a clear set of initiatives across these markets – with disciplined and targeted investment in value drivers and resources... as Dominic and Joerg have demonstrated.

There is also a clear role for each individual market across the portfolio.

Second, we have underperformed and therefore there is a real opportunity to deliver improved operational excellence by becoming more consumer-led, more data driven and managing performance more proactively and rigorously.

These are all themes we will come back to a little later.

We will now take a 10 minute break before we move on to talk about our plans for NGP…

Slide – Break

Slide – Next Generation Products

STEFAN

Welcome back!

I would now like to turn to NGP – which absolutely has a role to play within Imperial.

I want us to have a successful NGP business, one that delivers stronger returns and can make a meaningful contribution to harm reduction.

We have product offerings across all NGP categories – vapour, heated tobacco and oral nicotine.

In the past our primary worldwide focus was on closed system vapour where in many markets we invested and tried to create the market – with hindsight an unusual and high risk proposition for a No 4 industry player with limited marketing skills and track record of creating new market segments.

We will take a different and more prudent approach going forward – one that is also more closely aligned with our capabilities.

The NGP format we offer in an individual market will be much more consumer and data-led and driven by what NGP sector already exists in each individual country. Markets will be prioritised based on the strength of our existing route to market and our ability to create a meaningful NGP business.

As a result we will dial up the focus on heated tobacco in Europe, where we see untapped growth opportunities to meet consumer demand.

The focus for vapour will be the US, the world's largest vape market.

And for modern oral, we will continue to concentrate on selected European markets with a tradition of oral nicotine consumption.

We will take a measured and disciplined approach that creates value over time which is built around the consumer's preference in an individual country and our ability to offer consumers an attractive NGP choice.

I will now handover to Group Strategy and Transformation Director, Murray McGowan, to take you through the detail.

MURRAY

Thank you Stefan and hello everyone.

Slide – Growing demand across all NGP categories

As you have heard, NGP has been a key component of our strategic review.

We believe NGP presents considerable growth opportunities for our business in the years ahead, based…as Stefan says…on a measured and disciplined approach.

We expect to see strong growth across all NGP categories over the next five years…

…and by 2025, expect NGP to have a sizeable presence, accounting for around 20 per cent of the total nicotine market.

Looking across the different NGP categories, heated tobacco in particular, offers very attractive growth prospects and appealing margins.

When you look at NGP growth rates in recent years…

Slide – Historic NGP growth rates

….as this slide clearly shows… heated tobacco has been the key driver of NGP category growth and is by far the strongest category.

This is where we see the greatest value creation opportunities for Imperial.

Whilst we have a good heated tobacco product in Pulze….our historic focus on vaping has meant that we have missed opportunities to benefit from the growth of this segment of NGP.

Slide – Significant uptake of NGP across our major markets

In the years ahead, we expect NGP to make up a sizeable part of four of our five priority markets…

…although the dynamics will be very different across these territories.

As we look out to 2025, we expect NGP consumers in US and UK to continue to be heavily weighted towards vapour, whilst consumers in Spain and Germany will move more towards heated tobacco.

Globally, we see heated gaining slightly greater traction over the next few years.

Slide – Fast growing NGP profit pools

In terms of profit pools…we see considerable growth opportunities across both our core NGP categories of vapour and heated.

Vapour will be concentrated in the US…with the majority of NGP growth and value coming from heated tobacco in Europe.

In terms of growth in global profit pools…by 2025 we expect heated to add 4.8 billion pounds… compared to 1.2 billion pounds from vapour.

This polarisation is driven by specific market, consumer, and regulatory differences across regions.

As we know, the US has been a turbulent market for vapour in recent times…but is now starting to stabilise…and is once again on a growth path.

Heated tobacco, on the other hand, is expected to see a much lower growth trajectory in the US……at least for the next two to three years due in part, to the regulatory hurdles of introducing new products and the comparatively slow current uptake of existing offerings.

Slide – Clear consumer needs for potentially less harmful alternatives

The driving force behind the growth in NGP is the consumer and their desire to reduce their cigarette consumption by seeking potentially less harmful alternatives to tobacco.

The key challenge, however, is that current NGP solutions do not adequately address the needs of adult smokers today.

With key reasons for churn from the category including lack of satisfaction, inadequate experience and cost.

Slide – NGP: a growth opportunity for Imperial Brands

We see NGP as a great opportunity for our business and a key part of our ESG agenda.

Consumers want potentially less harmful products and we want to provide them with quality offerings.

And we have the size….the scale…and the capabilities to be able to deliver.

We understand the needs of adult smokers…and have a good portfolio of NGP assets.

We also have strong routes to market…and benefit from close partnerships with retailers in all our priority markets.

Our regulatory capabilities are also strong and widely spread.

The key point for me to stress is that this will be a very…different….NGP business. One that has realistic and achievable objectives… and one that will support the long-term growth aspirations of Imperial.

Slide – Imperial NGP starting point

As part of our strategic review…. we looked back…and learnt the lessons from the past.

Our business was focused almost entirely on vapour, where it launched too quickly across too many markets and without sufficient consumer validation.

This resulted in poor investment returns.

However, in vaping we have some good brand equity and engagement in blu to build on.

In heated, although this has received only limited investment and roll-out to date, we have a promising product and technology in Pulze, which I will talk more about shortly.

And in modern oral, we have established a good position in Europe.

We've often focused too much on the product and its features… and not enough on the whole proposition for consumers – such as the brand or the consumer communications.

In practice, we have some promising products to work with… and we can do better at the brand building and the way we connect with our target consumers.

These are areas we are addressing through the changes we are making.

Slide – Detailed review of NGP strategy

In defining our new NGP strategy we have completed an in-depth analysis of consumer needs, of category drivers and economics.

We now have a much more realistic assessment of our NGP capabilities - both where we are today - and where we can get to tomorrow.

This has helped us define a clear ambition that the business can get behind.

It's about being a challenger….not a leader and re-defining our category focus with significantly greater emphasis on heated tobacco.

Slide – A new approach: realistic ambition with a challenger mindset

Our challenger mindset will be founded on four principles.

First, we will define very clear category market combinations. These will be based on consumer insights, a clear understanding of demand outlook and the strength of our existing route to market.

Our priority focus for heated tobacco will be our existing stronghold markets across Europe.

Vapour will be concentrated on the US… with oral nicotine focused on Europe.

Second, we will have a much more disciplined approach to investment.

Initial investment levels will be modest as we drive targeted trials of our offer.

Any category or market expansions will be grounded in research and consumer understanding

The success of our pilot initiatives will determine whether operations are scaled and only if we are satisfied a growth opportunity exists, we will rapidly scale

Third, we will no longer aim to create categories where demand does not exist today. Instead, we will take a fast follower approach in a consumer-centric manner and in markets where proven demand already exists.

This is about providing greater consumer choice through a differentiated approach in those markets we choose to target.

And fourth - we will refine our ways of working - and you'll hear more on that shortly.

Being a challenger requires a different approach and different capabilities.

As an example, rather than trying to do everything in-house, we will better leverage new and existing partnerships to accelerate and enhance our innovation and route-to-market capabilities.

Slide – Rationale for increasing focus on heated tobacco

I am conscious that the increased focus on heated tobacco is a departure from the past…and I want to spend time explaining the rationale.

This is a strategic shift grounded in data, consumer insights, and a clear understanding of both our assets and capabilities.

The reality is that heated tobacco is the largest, fastest growing and economically most attractive category.

It has already surpassed the size of the closed vapour category and is expected to continue demonstrating strong growth.

Whilst the largest market today is Japan….followed by Korea, going forward, the majority of the growth is expected to come from Europe

This is where we have both a strong presence and route to market in our combustibles business, which we can leverage to drive our heated tobacco offer.

Levels of consumer satisfaction experience are higher in heated, brand loyalty is higher, longer-term consumer retention is higher, re-purchase rates are higher, and churn rates are lower

The category also shows significantly more attractive economic potential with average gross margins of between 70 and 80 per cent, compared to around 50 per cent in vapour.

In addition, our strong tobacco heritage and expertise in areas such as manufacturing and supply chain and route to market are ideally suited to the heated category.

In Pulze, we also have a good product proposition that has already been extensively tested with consumers in a number of our European markets.

Slide – Heated tobacco: positive initial consumer feedback

Feedback from these market research tests has been very promising. It is clear that consumers are responding well to our product differentiators.

These include the ability to provide up to 20 consecutive smokes without recharging, the simplicity, touch and feel of the Pulze device and the faster heat up and charging times.

Consumers also tell us that they like the taste and flavour profiles of our iD sticks…and their lower odour levels.

Feedback on purchase intent was also encouraging. All of which gives us confidence and underpin our share and growth aspirations for the coming years.

Slide – Heated tobacco: our new, focused approach

So, in essence we believe we have defined a realistic and feasible ambition for our heated tobacco future.

We have a clear path forward…aimed at building our market share in Europe over time.

And by 2025, we expect the category to be delivering a meaningful amount of Group revenue and profit.

Our confidence is underpinned by our scale and infrastructure in Europe, which we can leverage to drive growth.

And as previously mentioned, we will take a pilot-based approach, with the initial aim of launching in two European markets this year. The results of which will be used to inform the scale and pace of rollout thereafter.

Now…let me move on to vapour…

Slide – Vapour: US is expected to remain single largest market

This slide illustrates the importance of the US vapour market…a key driver of our decision to sharpen our focus here.

The vapour category experienced substantial growth between 2017 and 2019, followed by quite a pronounced decline due to EVALI and regulatory changes including the flavour ban.

More recently, however, the market is recovering, which again gives us confidence.

We expect to see a far more stable and sustainable growth trajectory over the coming years with the US remaining the largest vapour profit pool, accounting for two thirds of the global market.

Slide – Vapour: clear plan to improve performance in the US

To make the most of these growth opportunities… we clearly need to improve performance.

Results and returns have been disappointing, with a lack of focus behind A&P spend, challenged levels of distribution and poor in-store visibility of blu.

We must address these issues…and continue to enhance our product over time.

The good news is that blu has strong brand equity, which I'll come onto.

We must drive clearer targeting of our consumers, supported by more efficient and effective A&P spend, improved distribution and greater visibility at the point of sale.

We now have a stronger go-to-market strategy…that will receive closer management attention driving stronger execution.

Again, we will take a pilot approach and then scale up based on learnings.

Planning for our pilot is already underway….and will begin in a defined area within the US later this year, with national roll out to follow.

As in the case of heated…this is all about taking a more measured and disciplined approach…so that we do not repeat the mistakes of the past.

Slide – Vapour: good blu brand foundations in the US

As I mentioned, the blu brand equity still very much resonates with consumers, as you can see from this slide.

Awareness levels are the second highest in the market and initial conversion rates are promising.

However, blu's relevance significantly declines when it comes to being the preferred brand for consumers.

This tells us that…although we have a strong brand proposition, we need to start deploying the new strategy to deliver an enhanced consumer experience, which in turn will drive higher long-term conversion rates.

Slide – Vapour: clear strategic market choices globally

While we focus on turning our US business around, we will also drive performance in our core European markets.

The US will provide learnings and insights that we can apply to improve our wider operations.

The priorities in Europe will be the UK and France…our core vapour markets…where we already have strong positions today.

Other markets have a role to play, but some existing markets are simply not delivering sufficient value.

We will exit these, as part of the new focused and disciplined approach that we are embedding within NGP.

Turning to oral nicotine…

Slide – Oral nicotine: strong position in Europe

…we are pleased with the results that we are generating from our European portfolio.

Traditional.. tobacco-based oral nicotine…is only available in a small number of European territories.

Modern OND, which doesn't contain tobacco, is more widely available.

We are well placed in traditional OND, we are the clear number two in Europe, with a 20 per cent share in the largest market, Sweden, and a 40 per cent share in the second largest market, Norway.

Our growth has been strong and steady since we entered the category through the acquisition of the skruf business… and we are confident in our ability to build on this track record in the years ahead.

Slide – Significant future growth potential from modern OND

Modern OND is expected to grow rapidly and, as you can see from the slide, we have established some promising share positions that we can continue to build over time.

Imperial will continue to focus on OND within Europe, where we will target both traditional and modern OND categories.

The US is a large and attractive market for OND, but we have no current plans to enter… and we will not seek to expand into any other markets at this stage.

This reflects the measured and disciplined approach we are now taking across NGP.

Slide – Summary: clear plan to enhance our NGP delivery

So…in summary, we have a clear plan for significantly enhancing our NGP performance driven by consumer insights, a realistic ambition, a clearer focus and stronger discipline.

We have revised our category prioritisation… based on market, category, consumer and competitor insights. In addition to a review of our own assets, capabilities and market footprint.

We will significantly increase our focus on heated tobacco within Europe.

Vapour will be driven by the US and core European markets and we will selectively exit markets that do not deliver value.

OND will continue to be concentrated in Europe… with no current plans for geographic expansion.

Our NGP operations will be much more consumer and data-led……and going forward…we will carefully select which categories and markets to target.

There will be more precision and discipline around investment… and in the general way in which we manage our NGP operations.

In short, this is a new strategic approach designed to turnaround our NGP business, using a much more focused and disciplined approach to address the needs of consumers and create long term value.

Thank you.

I will now hand back to Stefan.

Slide - Ways of Working and Culture

STEFAN

Thank you, Murray

Slide – Our three strategic pillars

Having taken you through our three strategic pillars, you hopefully have a deeper insight into how we are going to enhance growth in our priority combustible markets, extract value from the broader market portfolio and build a targeted and more disciplined NGP business.

Now, we will look at how we are changing our ways of working and culture.

Slide – New ways of working build on three critical enablers

As you heard earlier, the new strategy is underpinned by three critical enablers: putting the consumer at the centre of the business, embedding performance-based culture and capabilities and ensuring our operations are simplified and efficient.

These are all absolutely critical to the successful execution of our five-year plan. My experience across the consumer goods sector has taught me how critical these factors are for sustainable success.

Having now spent seven months inside the business working with our people and observing past behaviours and processes… I am more convinced than ever that driving change in this area is really critical for our company to achieve sustainable success.

I'll now handover to Chief People and Culture Officer Alison Clarke for a more detailed look at all three areas.

Alison…

Slide – Placing the consumer at the centre of our business

ALISON

Thanks, Stefan and hello, everyone.

I'll start by talking about consumers…..

It's clear that there has been an insufficient focus on the consumer at Imperial – and that will need to change.

Historically, the business has operated in siloes and has not had the right level of focus on the consumer.

Consumer insights and market intelligence have not been represented or had a voice at Executive level for the last four years and therefore innovation has not been grounded in consumer needs.

Going forward – as you have heard several times today – the consumer will dictate everything: decisions made will be truly consumer centric and the consumer will become part of the fabric of what we do – at the centre of our culture.

We are starting to invest in capabilities that will provide significantly deeper insights into brand and portfolio management and marketing and innovation.

You've already heard about the realignment of our NGP teams: this realignment will be built around clearly defined goals that will be based on consumer and competitor insights.

We will no longer pursue any new opportunities unless they have been validated by data and consumer insights.

Slide – Chief Consumer Officer to drive the new agenda

The appointment of a Chief Consumer Officer – a newly created Executive Committee role reporting to Stefan; this really shows how serious we are about placing the consumer at the centre of everything we do.

Recruitment for this position is progressing well and we will let you know when an appointment's been made.

The three core responsibilities of the Chief Consumer Officer are clearly defined on the slide.

First, the CCO will oversee the company's drive to bring a far more co-ordinated approach to how we collect and use consumer and competitor insights and data. This will inform and enable better and faster decisions.

Second, the role will ensure we have the right marketing, brand and portfolio management capabilities to support growth.

And third, the CCO will also be accountable for a newly defined innovation programme, making sure we have a pipeline of combustible and NGP products that our consumer desires..

Slide – Examples of culture change underway

As you have heard, the strategic review has been examining the culture of the organisation.

Our insights on culture have been framed by employee feedback from a series of engagement surveys and Stefan's onboarding programme, in which he hosted 300 meetings, connecting with thousands of our employees around the world.

These CEO engagement sessions were open, honest and transparent – and employee feedback has told us that this has not always been the case in the past.

So, we encouraged employees to be as direct as possible about what it's like to be at Imperial and what works well and what doesn't. Their feedback has been instrumental in shaping our transformation plans.

We are already taking that feedback and using it to design and embed performance-based culture and capabilities throughout the business.

Slide – Embedding performance-based culture and capabilities

To achieve this, we need to build on the Imperial's strengths, which we've already covered.

The good news is employees are really open to embracing change and with them we have identified the key areas for improvement.

We are building a more integrated organisation that will break down the silos and create a more efficient and effective business.

A recent survey tells us employees had lost trust in their leaders because of the way the business was previously managed - they feel disconnected from the strategy and our relationship with the consumer.

On the right hand side of the slide, you see the actions we're taking to start to embed performance-based culture and capabilities.

These are built around new behaviours, co-creation, teamwork, collaboration and accountability.

Employees will have a voice throughout the journey.

One of the first things Therese did when she was appointed Chair was to reinstate global engagement surveys.

Among the first things I instated was Imperial's first ever global diversity and inclusion survey.

This illustrates how serious we are about driving cultural change - and for the first time, change will be co-created with our people, to really motivate them to deliver the strategy.

Another key element of performance-based culture is reward and incentives framework to drive the right behaviours.

We have already made two important changes to the annual bonus.

First, is to create a greater alignment to Group objectives so 80% of the annual bonus is now on Group metrics. This is important to create integration and break down silos.

Second, is to change the market share metrics for the bonus to a weighted average for the five priority markets. This will ensure we are growing share in the markets that drive profit and value.

We are also changing the LTIP metrics to reinforce the delivery of sustainable earnings growth, a strong balance sheet, improving returns on capital and total shareholder returns.

Now the strategy is in place, we will continue to assess our incentives to improve accountability and align them with performance delivery.

So that's culture; let's now look at our ways of working….

Slide – Simplified and efficient ways of working

The essence here is to develop simplified and efficient ways of working, in particular building the right capabilities in our enabling functions to support the new strategy.

Combustibles will now have the right level of resource and capabilities, we will invest in assets that create the best value.

A big change is that we have now already brought together for the first time our different NGP activities for vapour, heated tobacco and modern oral within one distinct organisation.

Unifying our NGP operations will deliver leaner, more agile ways of working, built on a true entrepreneurial spirit, focused on meeting the needs of consumers, encouraging them to make the transition from tobacco.

Slide – Integrated NGP organisation

This integrated NGP organisation will ensure a sharper emphasis on delivery; a different business with a clearer focus.

We will innovate faster, driving growth with a start-up mindset and greater agility, and we will embed the right capabilities and culture to deliver this critical agenda.

A key point to stress is that although this will be a separate integrated organisation with all of the benefits of focus and enterprise this brings, it will not be detached from the wider Group. It will be an integral part of Imperial with clear interfaces with the broader business.

Slide – Leveraging strengths of wider Imperial Brands

In this way, the new NGP organisation will be able to draw on the strengths of the wider business.

This slide gives a flavour of that, highlighting consumer insights, R&D, supply chain/logistics, marketing and advertising and route to market.

The key takeout here is the need for the current disparate elements of our NGP operations to come together as one and leverage the capabilities of our global organisation to enable us to compete effectively.

Slide – Invest in organisation and capabilities through efficiencies

Realising this ambition will clearly require investment in a number of key areas, namely: sales force, consumer and marketing and upskilling market support teams – these skills will need to be enabled through developing lean process that will be underpinned by technology.

This slide gives an indication of cost and how this investment will be funded through efficiencies, generating annualised net savings of 40 to 100 million pounds a year.

So, that's an overview of how we are changing our ways of working and culture to ensure the successful execution of our new strategy. It's a big, exciting agenda and we are looking forward to making it happen.

Thank you. I'll now hand back to Stefan to introduce the financial section.

Slide – Financial Framework

STEFAN

So I'd now like to turn to the financial aspects of our new five-year plan.

What has struck me coming fresh to this sector is the strength of the margins and cash flows, albeit with a slower growth rate than some other consumer sectors.

This reflects tobacco's strong pricing power, the relatively low marketing costs and modest capex requirements.

As a result, Imperial has the capacity to deliver highly attractive cash returns to shareholders over time, through a combination of ordinary dividends, special dividends and by shrinking the capital base through share buybacks, as appropriate.

I'm confident that Imperial has significant potential to deliver growing cash returns for shareholders over many years.

You've already heard today how our five-year plan will deliver the necessary changes to strengthen delivery – and Oliver will provide further details on the restructuring costs and savings.

The key message I want to leave you with from this part of the presentation is that we will be far more disciplined in how we allocate capital and manage returns.

At the same time our reporting and disclosure will be more transparent to make it easier to assess our performance and model Imperial going forward.

This will all be set within a clear capital allocation framework, which I will outline shortly. But before that we will now go to Oliver to take you through the details.

Oliver… over to you.

OLIVER

Slide – Investments to support the new strategy

Thank you, Stefan.

In combustibles, you have heard from the team about how we will prioritise our investment more tightly behind our top five markets.

The big difference from the past is the level of detail underpinning our approach and the six operational levers through which we will direct investment to improve performance .

In NGP, you've heard how we are now taking a very different approach. From a financial perspective, near-term investment will be more targeted and disciplined behind specific market trials. Further investment will be carefully stage-gated, and only increased on evidence of progress through clear consumer validation and data.

We will be measured in our approach, applying more rigorous qualification techniques.

As Stefan said, there will be no major margin reset because the additional investment in our top five markets and in NGP will be funded through underlying performance improvement, resource reallocation and cost savings.

Slide – Investment to support new ways of working - savings

Alison has set out how we will be changing our ways of working to create the right organisation to deliver our five-year plan.

We will remove duplication and streamline the organisation, thereby speeding up our decision-making, creating a leaner, more agile business.

These actions are expected to realise annualised savings of between £100-150m by the end of FY23 – with the bulk of the efficiency benefits landing in the next two years.

Slide – Investment to support new ways of working – restructuring costs

To reshape the business behind our new strategy and deliver these savings for reinvestment we need to invest…

And we expect total cash costs of between £245m and £275m over a three year period as you can see on the slide. The majority of the spend will be in FY22, although some of the cash outflows will extend into the next financial year.

In addition, we also expect to incur associated non-cash restructuring charges. We currently anticipate these will be around £150m, and we will be transparent in updating you on these as we report to you.

We intend to implement all the initiatives by the end of FY22 although as I have said there will be some cash costs that extend into FY23.

I should stress this programme is different from those of the past in that it is highly specific and time-limited to deliver a step-change in organisational capabilities.

As a result, we intend to treat these costs as an adjusting item to aid comparisons of our performance over time.

Any additional restructuring charges beyond FY22 and those outside this defined programme will not be treated as an adjusting item, and will be reported within our adjusted operating profit.

These programmes we are announcing today exclude operational restructuring activities, such as factory closures, which will be reviewed by Javier who will arrive at the beginning of February.

Javier's review is not part of the programme we are announcing today and the cost of any future right sizing of our factory footprint over time will now be included as a charge within our adjusted operating profit – and be highlighted as an impact.

Slide – Delivering a stronger financial outlook

So what do we expect the five-year plan to deliver?

We see two distinct phases.

The first two years are about investing to strengthen the business, to underpin delivery of our new strategy and realise efficiencies.

During this period, adjusted operating profit progress will be limited – as there will be additional investment, which will only in part be funded by reallocating resources and cost savings.

In the second phase, you will see the benefit of the investment returns and we expect to deliver a profit growth CAGR over the three years in mid-single digits. And the combustibles business will be the main contributor to this profit growth.

Revenue will improve gradually over the five years as the initiatives bear fruit and overall, we expect to deliver a CAGR of 1-2% over that period.

Slide - FY21 guidance remains unchanged

I should stress at this point that our guidance for the current year is unchanged as shown on this slide, which we have lifted from our results presentation in November.

On an organic basis, excluding the impact of the premium cigar business sale, we expect to deliver a low to mid-single digit growth in adjusted operating profit at constant currency.

I won't go through the details as they are unchanged. I should say, however, COVID continues to impose restrictions across our markets although the business continues to perform within our original guidance.

In addition, please remember for your models that we have assumed a higher tax rate with a c. 2% impact on earnings, with constant currency organic earnings per share expected to be slightly ahead of the prior year.

We expect there is likely to be further upward pressure on the tax rate in FY22 – although less significant than the current year.

Slide – Continued strong cash outlook

The cash characteristics of our business remain highly attractive, with low capex needs supporting annual operating cash flows of more than £3bn a year… so over the next five years, this could generate around £18bn.

Looking ahead, we will be disciplined in our use of capital with a continued focus on working capital and this will support cash conversion over the medium term of 90-100% which is consistent with that delivered in recent years.

Slide – Logista

Moving onto Logista…

This is the Spanish-listed European logistics business where we have a 50.1% stake.

As the major distributor of tobacco products for the industry in Southern Europe, this is a relationship which is managed on an arm's length arrangement.

Logista plays an important role in collecting excise duty payments in Spain, France and Italy.

Therefore, depending on timing, Logista can often have a significant duty creditor and positive cash balance.

We have a commercial loan agreement in place with Logista that allows us to benefit through a daily cash pooling arrangement.

For example, if we take this past year, the daily average cash balance from the cash pooling arrangement was £1.9 billion, with the figure varying from a high of £3.9 billion to a low of £0.5 billion.

At the year end, the cash balance from the Logista loan was £2.4 billion.

As a result, our investment in Logista provides an attractive cash benefit to the Group, as well as an exciting opportunity for growth.

Slide – Deleverage priority to strengthen investment grade credit rating

Turning to our balance sheet… our disappointing financial performance over recent years has slowed the pace of debt reduction… as shown here.

This led to the Board's decision last year to cut the dividend in order to accelerate deleverage.

Debt reduction will remain a priority for the time being in order to achieve our target leverage which is towards the lower end of a net debt to EBITDA range of 2-2.5 times.

We believe a stronger balance sheet will provide the business with greater flexibility for the future, improving resilience to manage uncertainties, increase our headroom within our credit metrics and further underscore the defensive characteristics of our business.

Deleverage is also necessary to our investment grade rating – to which we remain fully committed.

Slide - Committed to an investment grade credit rating

An investment grade rating brings many benefits including cost effective access to an established debt investor base via the capital markets, better terms for our RCF, as well as reducing other costs such as those related to pensions.

The rating agencies assess companies on the basis of both commercial considerations and financial profiles.

As I mentioned, our pace of debt reduction has slowed, the business has lagged behind others in areas such as a NGP and we have seen persistent profit downgrades in recent years.

This combination of factors has limited our ability to create headroom within our current rating.

In addition, it is worth remembering that over the last two decades, we have run our balance sheet at the efficient end of the credit metrics, which has placed us at the bottom end of our rating.

The new five-year plan, together with a focus on deleverage, will help to strengthen business performance and our financial profile over time, resulting in a stronger balance sheet with less debt and more headroom with our credit metrics.

Thank you… let me now hand back to Stefan.

STEFAN

Slide – Clear capital allocation framework: priorities

Thank you Oliver.

In talking to shareholders in recent months, I am aware we need to provide clarity over both our strategy, which we covered earlier, and our capital allocation.

As part of our review, we have thoroughly explored and evaluated all aspects of capital allocation.

My objective is to give you a clear and transparent framework that sets out our priorities for the coming years.

My first priority is to strengthen the business by investing behind the new strategy. This is critical if we are to deliver the necessary performance improvements and rebuild trust and credibility.

This will ensure the ongoing long-term success and viability of Imperial.

Our second priority is to strengthen the balance sheet, to reduce leverage to the lower end of our target range to underpin our investment grade credit rating.

Third, we remain committed to a progressive ordinary dividend policy to provide a reliable, consistent cash return to shareholders.

The dividend will grow annually from last year's rebased level, taking into account underlying business performance.

Fourth and finally, I see the opportunity for returning surplus cash to shareholders.

This will be considered once our target leverage has been achieved. Our strong cash characteristics will support additional returns via share buybacks or special dividends.

Given the modest rating of our shares, we recognise that some of you would like to see a share buy-back sooner than this.

We have explored the options here and concluded that at present we do not have the headroom to take on the necessary additional debt for a meaningful buy-back without risking a credit rating downgrade.

And a downgrade would seriously reduce future financial flexibility to implement our strategy and lead to significantly higher costs.

This is why we are committed to an investment grade credit rating and will be reducing our leverage further to reach our target level.

I also want to emphasise our dividend pay-out ratio of around 54% is relatively low compared to peers, which will give us significant flexibility around the nature of future surplus cash returns.

I can assure you we will be disciplined in how we optimise these returns, based on market conditions and the share price at the time.

Slide – Our new strategy

So to summarise… we have set out a clear strategy that will strengthen the business through strong execution and consistent delivery.

The strategy will unlock value for our shareholders, employees and all other key stakeholders, supported by three clear strategic pillars.

A renewed emphasis on our five priority tobacco markets, a clear plan to drive value from our broader market portfolio and more disciplined execution in NGP… with an increased focus on heated tobacco.

These strategic pillars are underpinned by our new critical enablers.

Placing the consumer back at the centre of Imperial's business, embedding a challenger mindset that embodies a performance-based culture and implementing new ways of working to support an efficient and simplified organisation.

These will be exciting times for Imperial Brands as we transform and focus the company to strengthen our delivery in the years ahead.

Slide – What our strategy will deliver

We also have a clear view of what our strategy will deliver over the five years.

A stronger business with a sharper focus behind tobacco and clearly defined roles for our major combustible markets.

Our commitment to harm reduction will be evident through our new targeted and more disciplined NGP business.

We will have an energised and motivated organisation that is focused on meeting consumer needs with a culture that is smart, agile and focused on delivery.

We will be a stronger business… capable of delivering sustainable growth in revenue and profit, with continued robust cash flows and a strong and efficient balance sheet.

This will support a progressive dividend policy delivering consistent reliable cash returns to shareholders… while excess cash can be returned to shrink the capital base over time.

Slide – Investment case

So what does this mean for shareholders?

This creates a very different investment case for Imperial Brands…

Our revitalised tobacco business will be the most significant contributor to value creation over the next five years.

Our NGP business provides an additional opportunity for growth – and with better prospects for success.

We have a significant upside from self-help initiatives through operational excellence and performance improvement… and this is just doing the basics better.

And we have a motivated team of employees, who are ready and willing to embrace these changes to make this a successful business we can all be proud of.

Most importantly, the business remains highly profitable and cash generative… underpinning enhanced returns for shareholders over time.

Thank you for listening to the team and me… and giving us the opportunity to share our excitement about the future of Imperial.

We would now like to take a short 10 minute break before taking your questions.

If you would like to ask a question… please dial in to the conference call numbers provided – and we look forward to speaking to you shortly.

Thank you.