# Q&A

**Nico von Stackelberg (Liberum):** Hi, Nico von Stackelberg from Liberum, just a few quick questions here. I was wondering, for the premium cigar business, it's quite a rare asset and I expect this to fetch pretty high multiples. Would you commit to a floor in regards to multiples, where you'd walk away from a deal? And also is a spin-off a potential option on the table for that?

And then another question: maybe you could remind me on some of the options you have for getting Pulze and your ID sticks on the US market. Putting Pulze aside and just thinking about the ID sticks, is there any way you could file for substantial equivalence in relation to your current cigarette businesses, or cigarettes, for the ID sticks, so that you could get the ID sticks on the market before Pulze? Is that a possibility? Thanks.

**Alison Cooper:** Okay. On the premium cigar division, it would be inappropriate for me to comment, given the process we're in now, on any expectations as to the value, as you would understand.

**Matthew Phillips:** As you know from the PMTA that Philip Morris have just received, the comparison was done to cigarettes and so it absolutely does open up the opportunity for substantial equivalence, so it's something we're looking at.

**Gaurav Jain (Barclays):** I have a few questions on the NGP business because I think that is a key focus of investors today, especially the sequential decline in the US business, in a market which has grown quite significantly, if I just compare H1 2019 over H2 2018. So is there any way you can give us any clarity on your sell-in trends, versus sell-through trends in the US? And then the follow-up question is that you have seen a strong growth internationally; is there another phase of inventory building happening internationally which might run into similar issues as what we are seeing in the US right now?

**Alison Cooper:** I'll make a couple of over-arching comments and then I think, Richard, maybe some colour on the second half would be helpful as well in terms of US and where we're going from here.

The half-on-half-year trends in the US are not very easy to read in terms of the actual sale data, partly because – actually mainly because there's a chunk of IP that sits within there that we haven't been able to disclose for commercially confidential reasons. But we are seeing, half on half, from a building-of-the-business perspective, progression in terms of the overall consumer offtake and you saw the chart as well behind me, just now, that showed the continuing increase from an IRI perspective in terms of the uptake of blu pods in the US. So the business is growing.

We flagged back as early as CAGNY that we saw a slow down in that growth rate versus our original expectations and that clearly, when you're building a new business, has some impacts in terms of when you're building distribution in the market and how quickly that distribution then pulls through the market. So that's something you have to manage with a new business and we're managing that actively, both from a US perspective but also as we launch in new markets as well, to make sure we balance that correctly. But actually, from a US perspective, we are building momentum. I think it's important that Richard comments on how we see that feeding through from a second-half perspective and how that's building in the market.

**Richard Hill:** Thanks Alison. I think the first thing is to go back to November 2018 and think of the impact on the market when the FDA started to announce all these access prevention measures. The market just kind of froze; the trade didn't know what was happening, there were producers withdrawing stock, making declarations and then changing their minds and I think what you saw in that November to February period was a decline in the whole category. Now, the good news was that blu was growing every week through that period. Look at IRI and you look at over the last six months and three months and you see this month-on-month, week-on-week growth of blu pods. Based on our IRI scan data blu pods were growing at around 7% month on month and that was pretty consistent, while the rest of the category was doing that. Our expectation going into the second half is that will accelerate. And the reason is, as Alison mentioned on the chart earlier, we have a very important programme in the US retail. One of the issues around NGP is there are no category rules for how it's merchandised and so what we've done is to go through and we've spoken to the top 22 accounts and we've said, 'Look, here's the deal: we want real visibility for the product, we want the hero range, we want public displays,' and based on that, then, there'll be performance bonuses. And the good news is over the last three months we've had, so far, 90% of the customers saying, 'We want it,' we've had half of them signing up and already we've got nine accounts already with the new merchandising on shelf. So I think the impact of going into store and being able to see the product and being able to pick it up will have a massive impact on blu. So actually we're pretty confident going into the second half.

**Gaurav Jain (Barclays):** So, if I can just follow up on that, so can we use the H1 2019 US revenue as a good base, in which there is no IP revenue, there is no inventory, or nothing like that and this is the base from which we can forecast growth going forward?

**Richard Hill:** I think the half-one US base is relatively clean. It obviously depends on the rotation rates over the next two or three months. I don't know how the stocks in trade versus sales out equalise but it feels to me a much more natural base.

**Gaurav Jain (Barclays):** And one last question: can you disclose or in anyway suggest what's the split of device versus pods in these sales?

**Richard Hill:** It does depend massively on how the devices are promoted. Look across a category and what you're tending to see is people promoting devices one month, then you get this big spike in devices, then the next month it goes away. What we have seen, half on half and that's half two 2018 to half one 2019 is the pod-to-device ratio has roughly doubled across the US and the UK but I think it's really misleading to give actual numbers because it does depend very much on the denominator.

**Adam Spielman (Citi):** Can I ask you a series of questions? Probably the most minor one is you showed a series of market shares for blu, they were sort of typically 16%, something like that, in different countries; what was that market share of? Was that of all vapour in the packs or was that just closed system or was it retail? Just a housekeeping point.

**Alison Cooper:** I think it's in retail but it's of all vapour.

**Adam Spielman:** All vapour in mainstream stores. And if you have to sort of try and guess what that means as a percentage of all vapour including other channels, I mean roughly what – my guess is that mainstream stores are maybe a third of total vapour. Is that rule of thumb-ish?

**Alison Cooper:** That's our rough estimate from historic data but you know in some markets there's actually a lot more going through retail. So, for example, in the US, that's nearer 60% in the US for example, from our estimates but these are all estimated because the data on online and on vape channel is pretty poor in most markets.

**Adam Spielman:** Thank you. Can we turn to the forecast? So the forecast is still around 4-ish percent organic sales growth. Now, my understanding of how that was made up was it was about +1% from tobacco and about 3%, let's say £400 million, from new products and I was just wondering: is that – does that still stand? Is Pulze contributing, perhaps, now that – maybe not? And equally, can you break down sort of how you expect volume – cigarette volumes to play out in the second half? So I really want to get more confident – essentially, cutting to the chase, I was disappointed by the first half organic sales growth and it seems a big stretch to me to get to 4%. And the more detail you can give on that, the better but if you could just start off by breaking it down, Alison? Thank you.

**Alison Cooper:** I think one of the key things to point to in the first half that maybe helps your thinking is that both in the Americas and Europe in the first half we delivered 4% net revenue growth, so I think that's an indication of how tobacco is performing, despite the fact that, as we've highlighted, this impact of the earlier price increase in the US clearly had a slight drag on the first half but also how the NGP is providing that additive opportunity. And also, the funds we're generating in tobacco, that's helping to fund this investment as well, so that we're not actually getting a significant impact on the bottom line from this.

So, in terms of going into the second half, we've got the momentum behind blu; we've got about – roughly £150 million of sales in the first half. We're not anticipating significant contribution from ID and Pulze, in the second half of this year and therefore it is all around the building on that blu momentum to deliver the second half. I think Richard has given you a good insight into how we're thinking about the US and building our momentum there. I mean clearly we've also got some good positions in Europe where we've got good shares, we're growing the category, really focusing where smokers are going in terms of growing the category but also now one of our learnings from the first half has been the vape channel has not been as easy to crack as we thought it would be. We've done a lot of work on that and therefore we've got some good initiatives going into the second half with the vape channel as well to grow the business more in that channel beyond retail.

So I think US performance and Europe performance are very good indicators and really line of sight on volume in tobacco is very clear. We've had shipment timings, largely Middle East, a bit of South East Asia related. We have visibility to their reversal and as you can see, we've got 90% of pricing embedded going into the second half, so the Tobacco Max performance is looking good.

**Adam Spielman:** And just to kind of follow up on that, so in Europe you recorded £73 million this half just gone, so how much of that should we think of as being underlying demand and how much was pipeline filling? Because – and how should we project the European bit forward?

**Alison Cooper:** There's strong consumer offtake in Europe – I'm going to let Joerg pick up on this in a second – but as I was trying to say earlier, there's always going to be an element of pipeline into the trade and assumptions around how that offtake is going to then develop and sometimes you'll underestimate that, sometimes you'll overestimate it, sometimes you'll get it spot on. So there's always going to be an element of that when you're building a business but there's good underlying momentum, as you can see by the retail offtake in Europe.

Sorry, I've answered it all, have I?

**Joerg Biebernick:** I think you've answered.

**Robert Rampton (UBS):** Hi, three questions please. The first is looking at that £94 million gross investment. Can you give us a bit of colour on which markets that was invested in and what exactly – what kind of spend that was and why you think the sales growth associated with that spend will recur? That's the first question.

**Alison Cooper:** Okay. I will let Joerg talk now. In terms of the split of investment, clearly across Europe, across the US but also Japan. We've not given a specific breakdown its very much behind the blu adoption model is – you've been hearing a bit about the initiatives in the US currently from Richard, maybe you could talk about Europe a bit and how we focus that spend, Joerg?

**Joerg Biebernick:** Thank you very much. Essentially, it's all about building a sustainable brand, investing in the consumer funnel all the way from awareness, consideration, trial, repurchase and loyalty. And we measure those over time every month and the good thing is that we're building a very strong funnel for blu across all the markets that we're tracking.

The key activities have been on the awareness-building side: earned and paid media, not surprisingly; Alison mentioned, then, direct engagement, brand ambassadors. We do those where smokers – adult smokers are shopping, predominantly but also in HORECA. Then, on the repeat purchase, we have certain loyalty programmes at the point of sale in place and we're creating a bonding experience as well so that people never want to leave the franchise. So it's really an omnichannel approach and going all the way through the consumer journey. And you have seen that those shares, obviously, are all offtake measures, albeit in retail, so we're quite confident that the momentum continues. What's more difficult to say is how the category growth is developing because these categories are still relatively small. You've seen the growth rates there, they're very, very strong.

**Alison Cooper:** Maybe, Dominic, a quick comment on Japan and how we're building in Japan?

**Dominic Brisby:** Japan, I mean we've taken a similar approach in terms of making sure we're activating throughout the funnel. Interestingly in Japan, because it's a non-nicotine proposition, we have far more freedom in terms of how we can communicate to the consumer versus some European or the US market, for example. So we've done a lot of TV advertising in Japan, very targeted TV advertising, which has been highly successful and then has been disseminated through social media and combined with very strong displays at the point of sale and activation at the point of sale. And really – so it's been a set of activities which have worked strongly together and as a result of this in Japan so far the sales of blu are exceeding our expectations.

**Robert Rampton (UBS): :** A follow-up question: in terms of the momentum behind blu, so all the comments you've made about the trajectory in the US have been of pod sales, month-on-month pod sales but obviously the overall revenue is unchanged. It's a similar story in the UK, where your retail share has increased because of pods but overall is unchanged. So it looks like blu is – myblu is cannibalising blu. Is there a reason we should expect that to change over time and what does that mean for the overall revenue contribution of the segment?

**Alison Cooper:** I think with the UK you've got to think about the fact the category is growing and our share is modestly growing as well, so that is additive growth for us in the UK as we're moving it forward. And also, myblu is a very different proposition in terms of the profitability that can deliver us over time as well. So, from a UK perspective – and it's something we found, actually, interestingly enough, in markets where vapour is already significantly established, particularly the UK, a little bit France as well, the progression isn't as fast as some of the areas where we're really establishing the category a lot more substantially.

In the US, we're very much continuing to grow the pod sales, as you can see from the IRI data and that's very much growing the business for us. I don't know if there's anything else you'd add to that, Richard?

**Richard Hill:** In the US we have a very loyal consumer base on disposables and we see disposables as quite separate, really, from pod. We don't see much crossover between the two and the focus is to drive the pod systems. That's where we think the growth will come from. That's the natural landing point for a smoker and so we'll keep the disposables business but we don't see any cannibalisation, really, between the two

**Nico von Stackelberg (Liberum):** I just wanted to follow up on the medium-term guidance for EPS. Could you discuss some of the drivers that would allow you to get to the mid – even to the high point of the range? What are some of the moving parts there that you see for the second half? And also, as we look out to 2020 and beyond, again, can you discuss some of the moving parts there? That might give us a little bit more upside and in fact downside as well, if you could just be a bit more candid about some of those moving parts, please? Thanks.

**Oliver Tant:** I think we've alluded in this results announcement and it reflects, I think, the experience, since we began our strategic investment and started to drive growth in market share in our tobacco business, that actually the tobacco model for us actually generates healthy operating profit and cash flow generation. So, I mean at its simplistic – we are – we're seeing declining volumes but we're getting, in the current period, 6% price/mix benefit, plus and a lot of that is dropping through to our AOP. And as you'll have seen from the slide that I presented, the underlying growth in tobacco profitability was about 4.9% in terms of the AOP number.

Now, we see, as we look forward, a gradual reduction in overall levels of reliance on the profitability of our tobacco business as the NGP category establishes itself and we've talked about the prospect of that entering into a profitable situation by the end of this year and we expect, as we move forward, as we outlined in our December presentations, that the improving margin and the improving volume and size of that business will begin to be significantly additive to our bottom-line performance. So we go through a journey where we've got improved confidence around the underlying profitability of tobacco, which provides good, strong cash generation and we will have the added fillip as the NGP begins to grow, where we will supplement that and drive towards the upper end of our earnings range.

**Nico von Stackelberg (Liberum):** Can I just also ask have you spoken to investors about augmenting the full-year dividend with a buy-back, maybe that you still reach as a combined basis, something around 10% growth if you were to assume it would be all dividend but to also buy back your stock at this period, given where the share price is today? And also, could you comment whether or not you think the shares are undervalued today? Thanks.

**Oliver Tant:** I'm happy to pick up on those, so just to sort of finish off because you did ask me the question around what are the 'watch outs' in terms of that earnings development, I mean clearly the nature of the development of the NGP category and some of the areas that we're going into probably provide the variability. How much we would want to invest, how quickly we would develop various markets may change the momentum in that space and we're clearly also looking at the various regulatory initiatives that are taking place. So I think probably, in terms of the risk to the trajectory, it's principally around the development of that additive component.

I mean as regards our sort of shareholder return strategy, I mean we clearly do a lot of work in terms of understanding what our investor appetite is and there's been a clear direction from investors, which has principally focused on the desire to see us reduce debt and then invest either organically or inorganically in driving the operating performance of the business. So that's been a very clear and strong steer. That's not to say there aren't some who would like to see a supplement by way of buy-back but certainly the desire to increase the dividend or introduce a buy-back has not been strongly advocated by our shareholder base.

From a dividend perspective, we obviously, as a board, discuss dividend strategy on a pretty regular basis and that's something which we review at least annually, if not bi-annually, around what it is that we need to do. Now, if you look at the underlying dynamic of our two businesses, we've got which is very stable, products good, strong cash flows, is naturally supportive of an annuity-style return to shareholders. We've got another one where we're investing in the growth of the category and the growth of our business, where the equity contribution at various stages in the early development of that may differ and therefore actually the balance between return to shareholders and the need to invest will, to some large degree, depend on how that trajectory evolves over time, which is part of the reason why, as a board, we keep a constant eye on it and reaffirm, or look at, what we're proposing to do from a dividend perspective.

**Adam Spielman:** If no one else wants to ask a question, I'll ask another couple. So can you say what impact you think e-vapour is having on cigarette volumes in the US at the moment? What do you sort of see the underlying rate of cigarette decline is in the US at the moment? And then are there any markets where you're seeing, in Europe, any impact from e-vapour on the cigarette market? So that's one set of questions. And another one: Oliver, in the past I think you were very clear in saying you definitely expected NGPs to be sort of profit positive at the end of this fiscal year and I just detect a slight greater hesitancy now, a slightly more vague language. Is that right?

**Alison Cooper:** So first of all, on the impact on the US market, we're still very much around that sort of a bit over 0.5% impact from vaping in the market, which I think you'd expect given the category slow-down we saw as well. It's still around that sort of number in terms of the impact on the market and we're very much, I think, aligned with other industry views on the market, that it's down 4–5% – at the moment we're seeing about 4.5% in terms of the overall market decline in the US, so it's that sort of level.

Europe – I don't think we've seen anything much in the way of impact currently. Joerg, comment if you want?

**Joerg Biebernick:** I think there's other factors that have a much higher impact on the tobacco volume in Europe. Like in France we see tobacco volumes under extreme pressure because of the excise increases but our vape category is probably a minor point. Italy a good example where, actually, volumes are up in the category despite 100% category growth in vape in retail, so it's very tough to draw any conclusions between the two. Yeah, that's what I can say. In Germany it's another good example: we have been doubling the category in retail, yet tobacco volumes are I think down 2.5% only, so quite healthy. And we know from our own usage that a lot of the smokers we convert are initially dualists, so they don't fully switch in the beginning at least, so the impact on tobacco consumption initially is rather limited.

**Oliver Tant:** I think in relation, Adam, to the issue around when we believe the NGP business will become profitable, I mean I think we still strongly are of the view that we should get there by the end of this year. I think we talked a little about the impact of the FDA and Richard mentioned some of the uncertainty that created through distribution in the first quarter. Actually, the development of the category has slowed a little, although we see it recovering strongly in the second quarter and that's probably changed the underlying momentum in that sector of the business, which, versus where we were when we stood up at the prelims, is probably slightly more – a slightly lower level of expectation than we had at that point of time. So I think it's there or thereabouts, to be honest with you but I'd say that the slowing in the US in the first quarter has probably reduced an element of the upside that we thought we might have by the time it got to the end of this year.

**Alison Cooper:** But going into 2020 we're looking in good shape.

**Adam Spielman:** What happens if the FDA clamps down much harder? I mean you've said again and again the various tweets that Scott Gottlieb put out in November have sort of disrupted the business; we could have much worse or much more effective regulation than talk, which is what we've had up to now, coming later this year. Does that – what – I suppose it's hard for you to say, precisely but could that throw your sales growth off track, if there is a proper clamp down on pod-based vapour in the US?

**Matthew Phillips:** The difficulty with this whole topic is that one is responding to an awful lot of rumour and speculation and it's not particularly fact-based. I mean a lot of the things around pod systems in particular all rely on the FDA's enforcement capabilities, rather than rule-making and you all know the difference between those two things. And the enforcement capabilities are straying into uncharted territories which are a legal minefield and so therefore there is the potential for the FDA to keep pushing into those sorts of territories but, as I say, the legal consequences of that are yet to be played out. So personally I think the chances of a pod system being banned are extremely low for a whole variety of different reasons.

**Richard Hill:** Could I just add on that that I met Commissioner Gottlieb in November, along with Director Zeller. We've met them twice since. The nature of the conversations has been incredibly constructive; these are not confrontational meetings at all, very much like minds in terms of we stand very much aligned with the FDA on the importance of ensuring youth access doesn't happen with vaping and we found them to be incredibly sensible in listening to the science and the fact behind it and those meetings give me more confidence that we will see sensible and practical regulation going forward.

**Chas Manso (Societe Generale):** Maybe you could just give your latest take on the regulatory thing, seeing as we touched on it. Clearly regulatory risk remains a huge issue for the sector and for investors in the sector. On the minimum purchasing age of 21, what impact might that have on consumption and initiation of consumption and stuff like that and any kind of timings that you may now know about, when the FDA may pronounce things?

Moving on from that, generally on your combustible shares in your priority markets, you've always said you want to balance the market share with the profitability. It feels as if that's shifted a bit away from market share and more towards profitability. And just wondering how fluid that is, or whether that's kind of a new priority, less on market share.

And then, finally, on your US retail programme for blu that's starting now, could you say whether there's something similar in Europe? But in the US there's this feeling that there are bigger players around that have their own strong retailer programmes. What happens if the larger players come in and simply outspend you on retailer programmes? Thank you.

**Alison Cooper:** Let's kick off with the regulatory question, which I think Matt will pick up but I think, from a contextual perspective, it's interesting the way you framed the question around this huge regulatory risk, which is clearly how people are seeing it and I have to say, if you look at the FDA as a regulator, particularly from a rule perspective, it's, to my mind, a much better environment than we face in most of the rest of the world. But we've already spoken a bit about rule and enforcement activities but let's just work our way through those a little bit.

**Matthew Phillips:** There are so many, as you well know, different things being talked and to just give you a flavour of some of the questions that it opens up: so if you look at mass-market cigar, as an example, can the FDA treat – deem products differently. Can the FDA ban flavours in one product but not in another product? When you start looking at pods, can you solve for the main problem that you're trying to solve for, which is really the conduct of a very limited number of players in the US market, by bringing forward category solutions which also impact players that have not participated at all in the problem that you're trying to solve? Tobacco 21, as an example, the level of population – I forget what it is – 4–5% or something is 18–20, from memory and so therefore the likely impact on the tobacco side of that equation is pretty limited but if you look at does 21 make a difference on the alcohol side, for example, to the problem that you're actually trying to solve, which is youth access, I think the argument would be no. So, from our perspective, we're not supporters of the whole idea of 21 on principle because it's using an instrument to try and solve a different problem that has been caused by a different set of behaviours. So we're far more about dealing with the causation of the problem through the enforcement powers that the FDA have, rather than these big, sweeping blanket attempts, which stray into all sorts of legal areas. So it's really hard to give you a prognosis in terms of how it's all going to play out but I think litigation is very likely, would be my – is my gut feel on an awful lot of these different topics, which means that the impact of these things are going to be decided down the line. And the other big ones would be nicotine reduction in menthol, which are rule-making, as you know, which are – there's a long, long way to go on those sorts of topics as well. So, in terms of imminent threats, I'm not sitting here feeling that there are imminent threats. I think the FDA will keep trying to move the debate forward and then it will go into a different forum to be resolved.

**Alison Cooper:** On the market share profitability, we very much do – and it's not one dimension in terms of the metrics we focus on in the markets – look to balance those metrics and it's still very much a balance. And I tried to pick out in the presentation some of the current dynamics that we're looking at. The UK in particular, we've had some really good share growth in the UK; we did take a price increase. We know when we take a price increase there's a share impact from that temporarily and we rebuild back up from that again. I think Germany is the only one I would call out currently where we've got some things to sort in terms of the portfolio and we're working on that. But the others, I mean I think it's always managing a share within a corridor and making sure we don't fall below that but also making sure we balance – particularly in Australia, for example, which has got quite price-competitive, we make sure we balance the whole profitability and share piece. But there's been no change in the terms of the MRM, our focus on making sure our brands are price-competitive in market, as we set out a few years ago.

**Oliver Tant:** And it's worthwhile saying in the half-year we grew our market share in aggregate across our priority markets –

**Chas Manso (Societe Generale):** US retail programme?

**Alison Cooper:** I've not forgotten. US retail programme, I'll just comment a little bit in terms of the competitive environment. I think just finishing off on the Europe one quite quickly, we've got some strong retailer programmes in Europe which we're already executing against I think is the short answer on that one.

**Dominic Brisby:** I think one point it's important to note in terms of our retail partnership programme was it was designed at the point in which we knew that Altria were buying into Juul. We also knew that iQOS was coming onto the market at some point, we didn't know when and so we knew it was really, really important for us to get a strong position. The trade also wants alternatives, they don't want to have two big players dominating the category and so what we've done is to sign up long-term programmes with retailers designed for the future of the category, rather than where we came from and the fact that Altria tied up for Juul, that was a window of opportunity for us to open up earlier conversations with retailers than we would have otherwise had, so it was an opportunity we took and moved quickly.

**Nico von Stackelberg (Liberum):** Just a final question, please, thanks for all your time today. I understand around 20% of your US business is cigars; is that roughly right? And on your latest estimate, what percentage of your cigars business in the US might be subject to a characterising flavour ban? And in the event that ban does come through, how do you plan to mitigate that? What can you do? Thanks.

**Dominic Brisby:** I mean a large percentage of the entire US MMC business of all players has a flavour element. As I was saying earlier on, whether actually it is possible to treat it the way that they are at the moment. Because if you look at youth usage of mass-market cigar, the FDA have been saying recently, 'Okay, there's no health benefit to mass-market cigars and we can see big uptake in youth usage of mass-market cigars,' and frankly that is not the data that we see in terms of – it's actually declining in terms of levels of youth usage. So the fundamental basis and premise for bringing forward a ban like that needs to play out. And if it does, it will go to who has got the grandfathered products, both flavoured and non-flavoured that they're able to rely on. We do, we've got a very strong portfolio of both. It will clear out the market in terms of an awful lot of the proliferation that is there. It brings pricing opportunities, a whole bunch of different things. So it's manageable, in terms of a dynamic, providing you've got the portfolio, which not many do.

**Alison Cooper:** We see, ultimately, a stronger position for us in the market, particularly with iconic brands such as Dutch Masters and Backwoods, which are – as you've seen earlier, continue to grow strongly in that market.

Maybe last question.

**Gaurav Jain (Barclays):** There was a comment made that – when the FDA came out with its proposals around e-cigarette flavour bans, the market froze in November. Now there has been, I guess, the flavoured cigar ban was first put earlier this year and we have seen cigar sales taper off throughout this year. So is the retail cigar trade already seeing the impact of the proposed flavoured cigar ban?

**Alison Cooper:** Okay, the MMC category decline is what you're saying?

**Gaurav Jain (Barclays):** Yes.

**Alison Cooper:** I think we continue to see growth in MMC and particularly growth in our portfolio so I don't think there's been the same read across because it was a different type of proposal to the one around e-vapor but we still see strong growth in MMC.

**Matthew Phillips:** I'll just add to it. I mean I think one of the differences between the two is the FDA, in terms of their enforcement, on the vapor side, actually started going after retailers and calling out retailers that they felt had misbehaved. So I think that introduces a different psychology in terms of the two categories as well.

**Gaurav Jain (Barclays):** Sure and then a follow-up on US cigarettes. Do you have any plans of implementing in-pack inserts for blu in your cigarette portfolio, like what Juul and Altria have spoken about? So that's one. And do you have any plans to launch a loyalty programme around your cigarette brands in the US, like some of your competitors have done? Thank you.

**Alison Cooper:** Okay, we have no current plans in terms of pack inserts on blu in cigarettes. Loyalty programmes on cigarettes – not significantly, I don't think but we've got a few things we've been working on, I think, in terms of the app side of it.

**Dominic Brisby:** There are a number of areas we're working on in terms of creating even greater consumer loyalty behind our cigarette brands. Loyalty programmes is one of those that we're always considering. Having said that, if you look at what we've done so far, we've tended to focus on other activities. It's worth pointing out, though, that the activities we've taken, particularly this year, have meant that we've taken a US business that we acquired which was – the brands that we acquired were declining at about – between 30–50 basis points per year before we acquired them. Having acquired them, they were declining at about 30 basis points per year and now for the first time they're growing. So we've got quite a comprehensive set of activities behind our US brands to ensure market share growth. We've always got loyalty programmes on the radar but we've seen other activities that we're carrying out have been even more efficient than that.

**Alison Cooper:** Right, well thank you for your questions. No doubt we'll pick up with you if there are any further ones to pick up on after the session but thank you. Have a good day.

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