



# Creating Something Better for the World's Smokers

## Imperial Brands PLC: CAGNY 2020

20 February 2020



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**Dominic Brisby**  
Joint Interim CEO

# Introduction & Strategy for Growth

# Creating Something Better for the World's Smokers

Resilient tobacco growth and attractive NGP opportunity



**Dominic Brisby**  
Joint Interim Chief  
Executive Officer

Clear strategy for growth in nicotine:  
tobacco and NGP

**Neil Southey**  
Global Brands  
Director

Adapting to consumer behaviour change

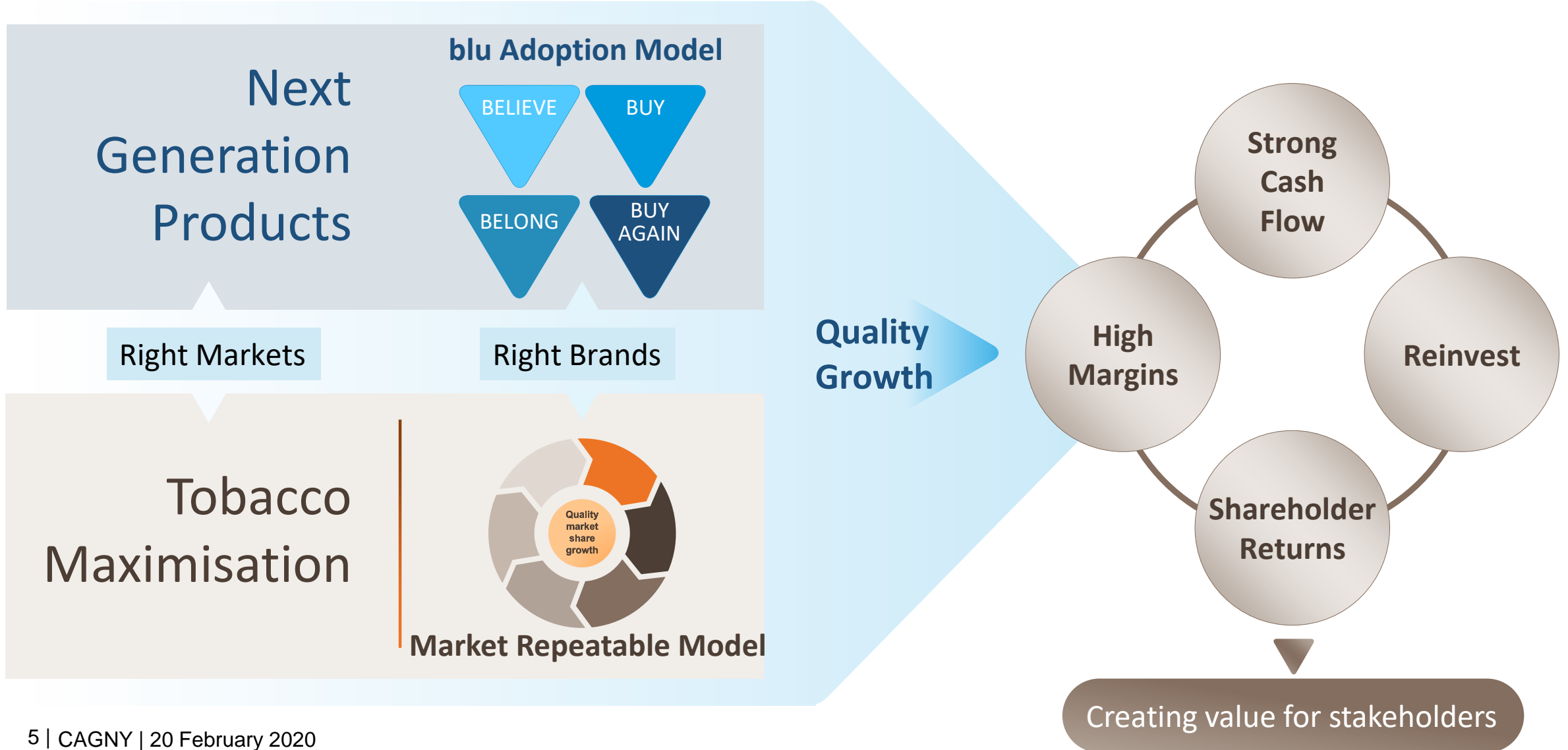
**Dominic Brisby**  
Joint Interim Chief  
Executive Officer

USA remains an attractive market;  
Imperial well placed for growth  
Imperial Brands investment proposition



# Our Strategy

Creating Something Better for the World's Smokers



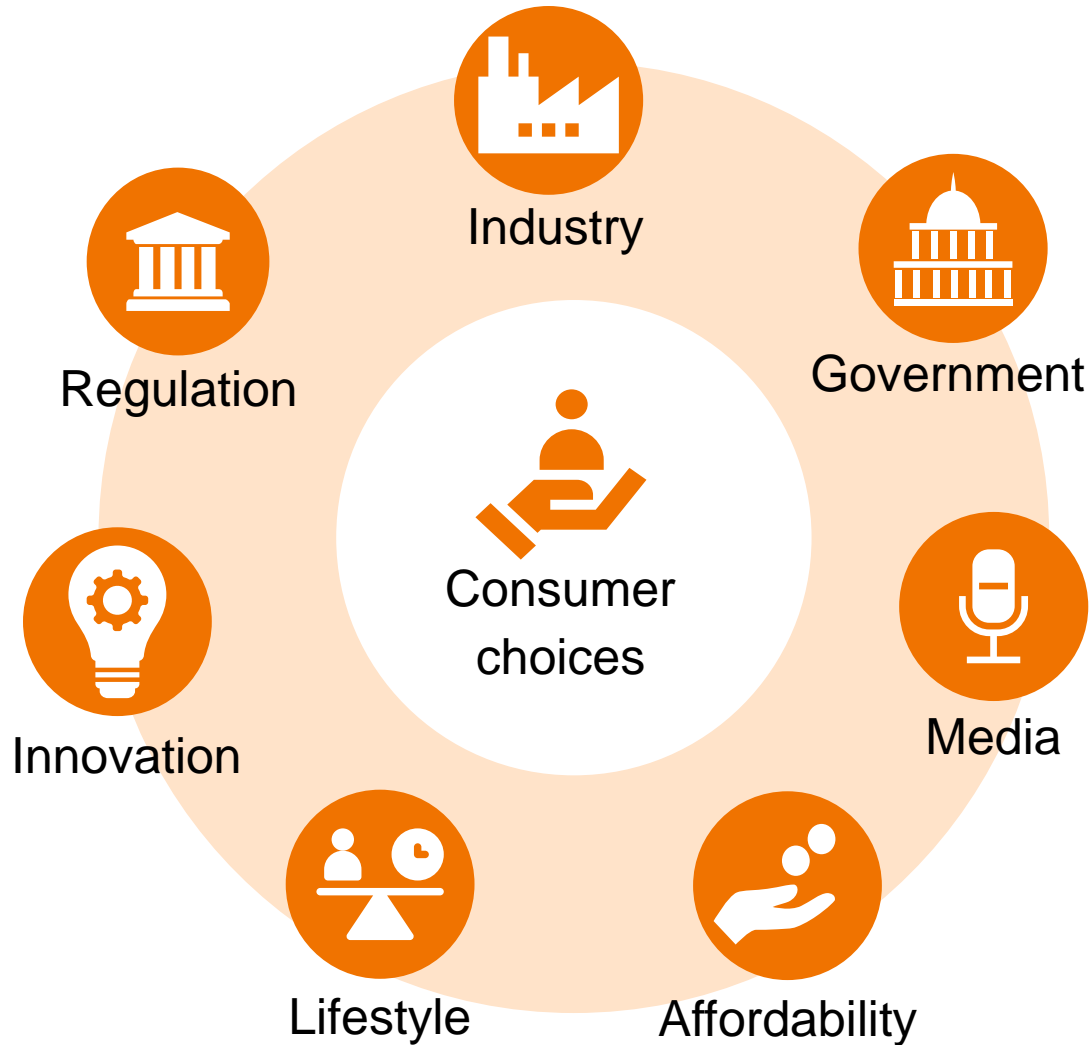
# Our Sustainability Strategy



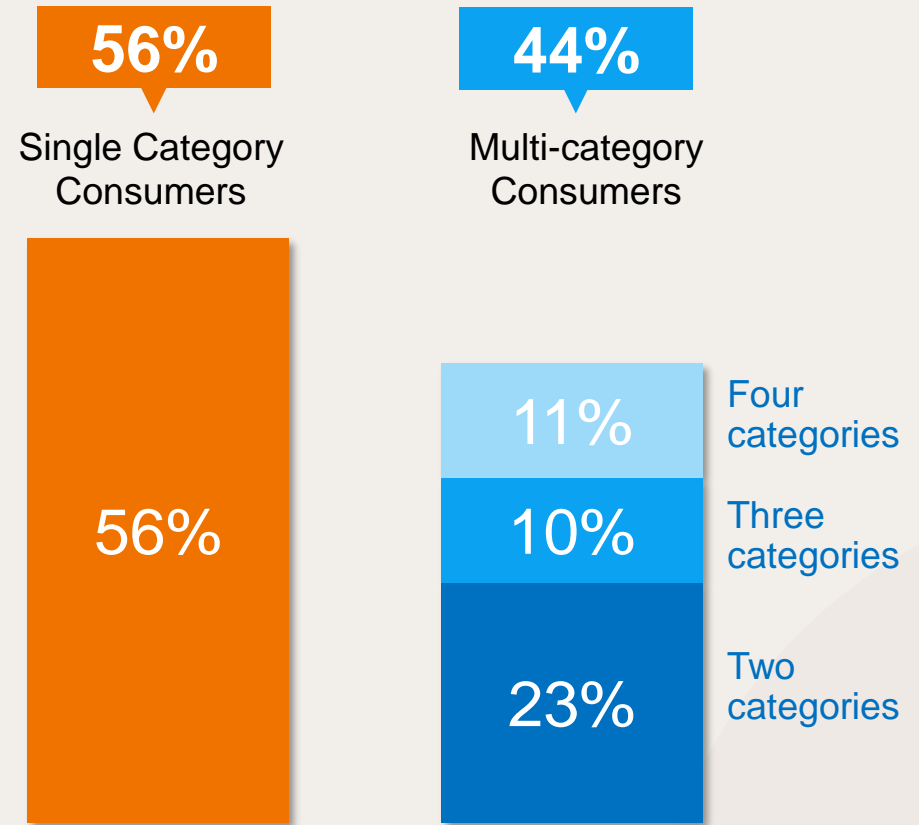
- maintaining sustainable agricultural practices to ensure a consistent, quality supply of tobacco
- developing alternative products that are potentially less harmful to health
- behaving responsibly at all times and providing a safe and rewarding work environment for our employees

# Nicotine Consumption is Evolving

## Environment shaping developments

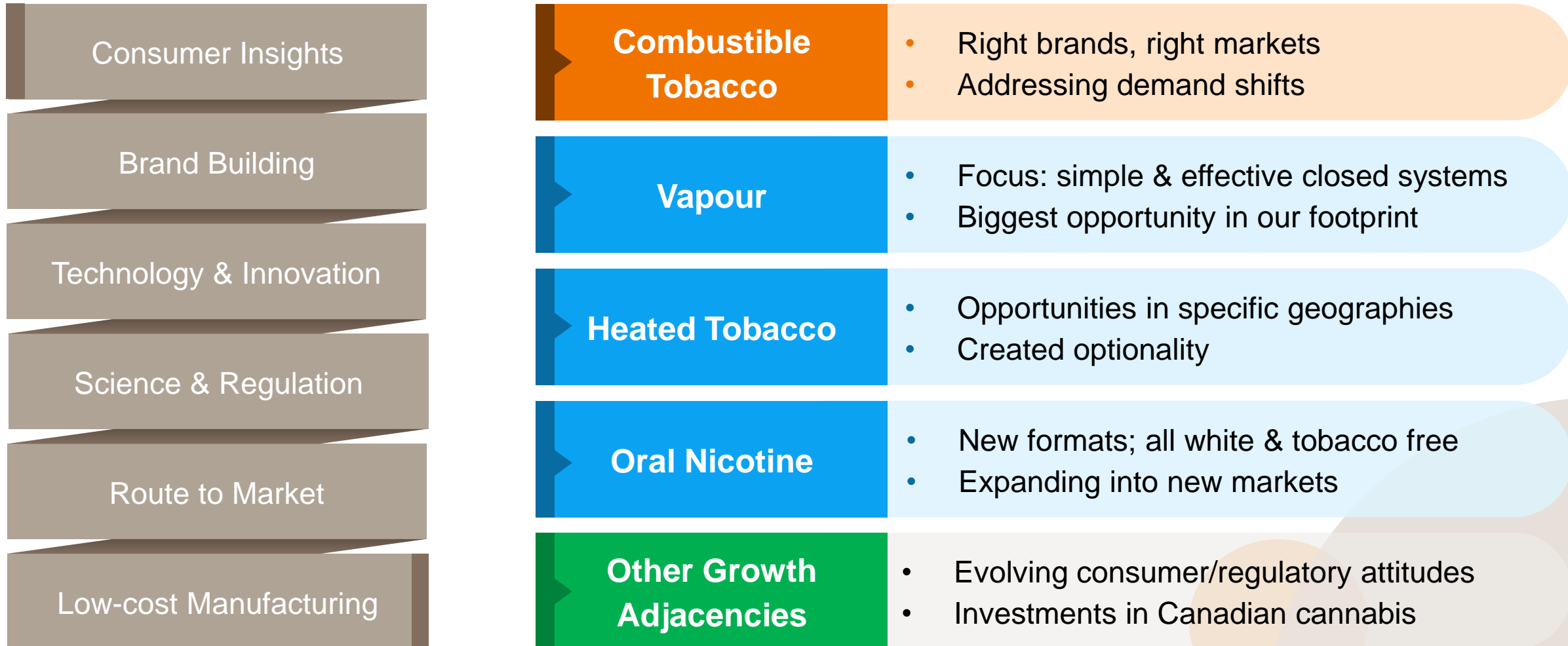


### Multi-category nicotine usage increasing



# Leveraging our Capabilities Across Categories

Consumption evolving; addressing category opportunities





# Focused Product Portfolio Across the Nicotine Categories

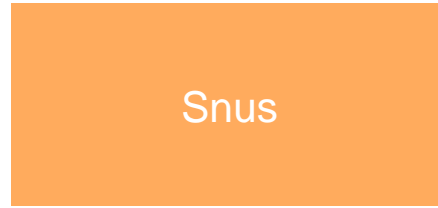
Providing smokers with potentially reduced risk options



Combustible Tobacco

Non-Combustible Tobacco

Tobacco Free



Level of Toxicants

# Tobacco Strategic Focus: Informed Choices

Assets and capabilities aligned to growth opportunities



Clear Capital Allocation  
Priorities:  
Brands/Markets

Investment Focus on Asset Brands in Priority Markets



Lean Ways of Working

Execution Focus by a Lean and Agile Organisation



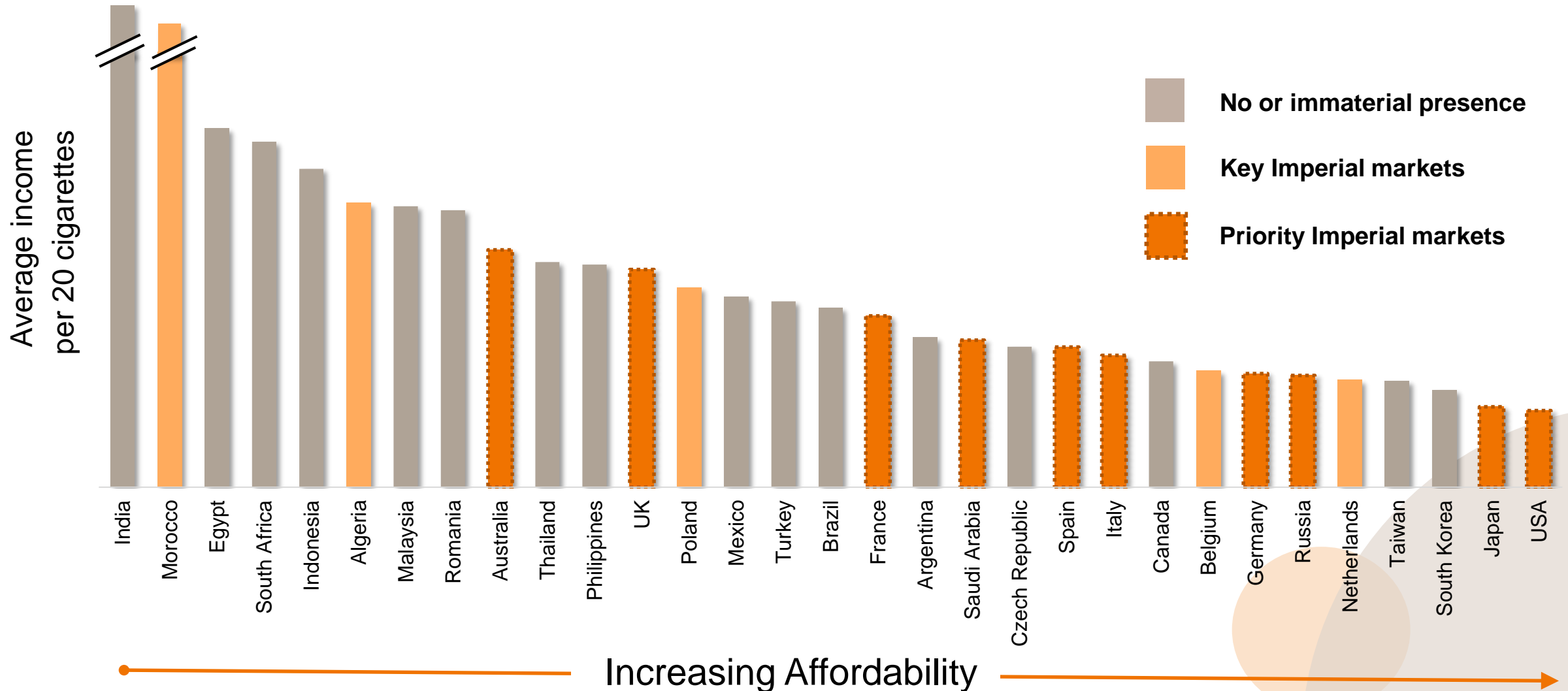
Codified Route to Market Model



Simple Operating Model

# Right Markets: Affordability Supports Pricing

Focus on the tobacco profit pools with best pricing outlook



# Imperial Brands PLC

## Recent Trading Update – 5 February



Tobacco remains in line with expectations; weighted to H2

Lowered vapour expectations: slower demand and US flavour ban

Cost programme to partly mitigate short-term impacts

NGP remains an attractive medium-term growth opportunity

Regulation critical for creating a stable, orderly, investable market

# 2020: Focus on Delivering Against Strategy

## Tobacco delivering



- Tobacco strategy is delivering
  - Investment prioritised on Asset Brands and priority markets
  - Tobacco economics remain attractive
- NGP provides growth opportunity for Imperial
  - But NGP investment right-sized to reflect current challenges
  - Refining our investment model
- Meeting changing consumer needs



**Neil Southey**  
Global Brands Director

A pair of hands holding a white paper cutout of a human head profile. The cutout is split vertically down the middle. The left side is a solid black silhouette, and the right side is a white silhouette. The background is a blurred crowd of people.

# Adapting to consumer behaviour change

# Consumer Behaviours are Changing



## 1999 CONSUMER

## 2019 CONSUMER

CATEGORIES CONSUMED

92% soloists



56% soloists



INTERACTION WITH NGP

Tobacco only

25% of smokers also use NGP

AVERAGE DAILY CONSUMPTION

20 sticks



Soloist:

14 sticks



Dualist:

12 sticks +

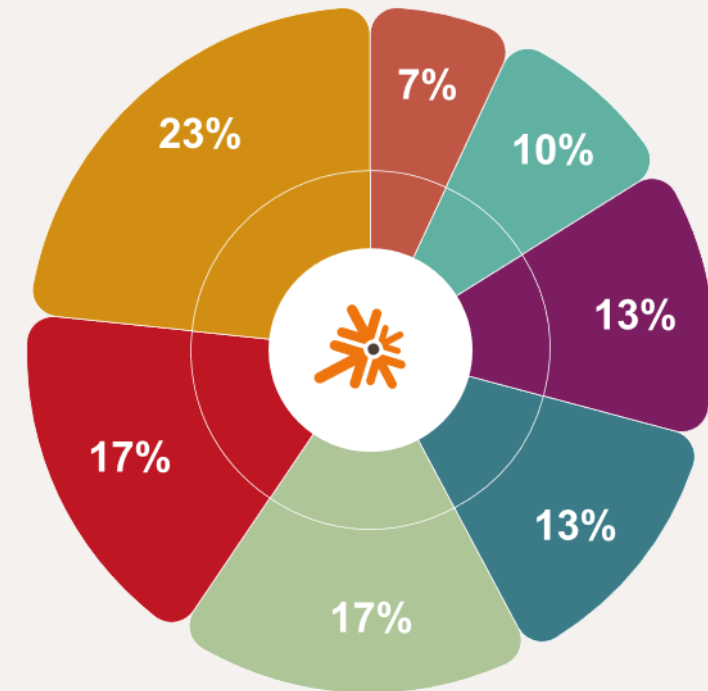
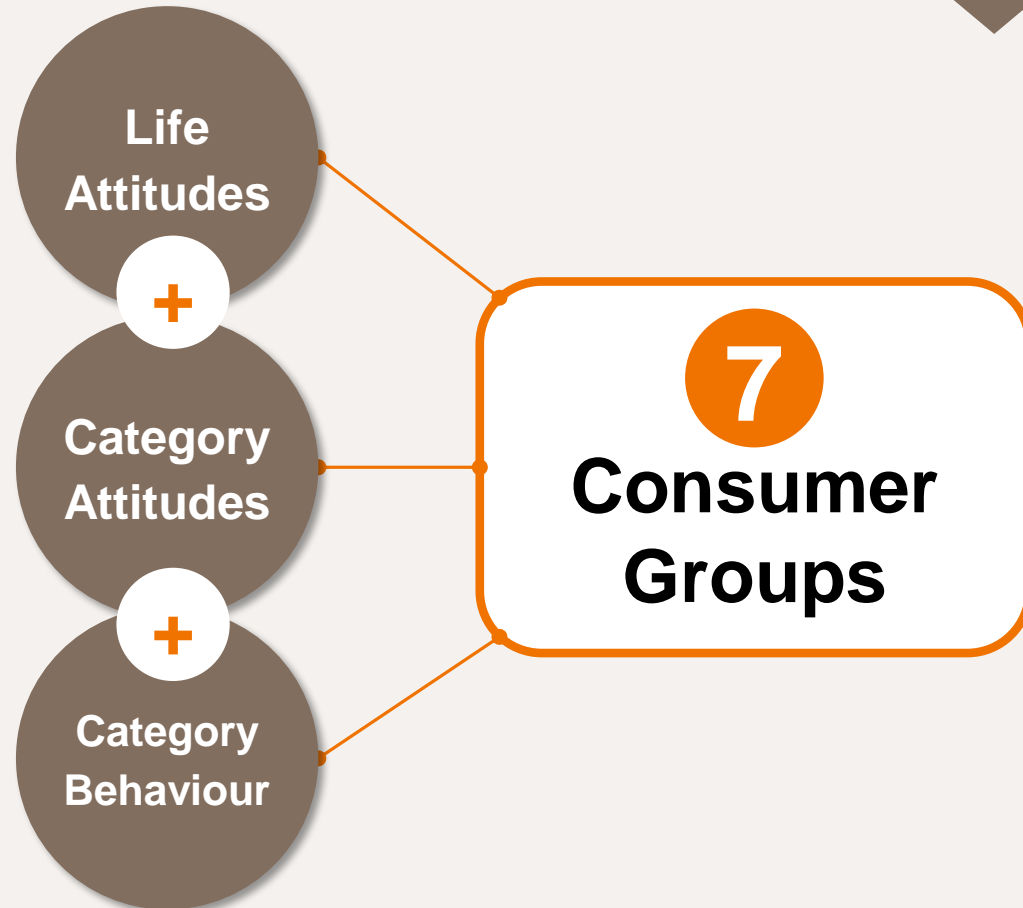
FORMATS



# A New Global Consumer Segmentation



## Enhancing our Knowledge

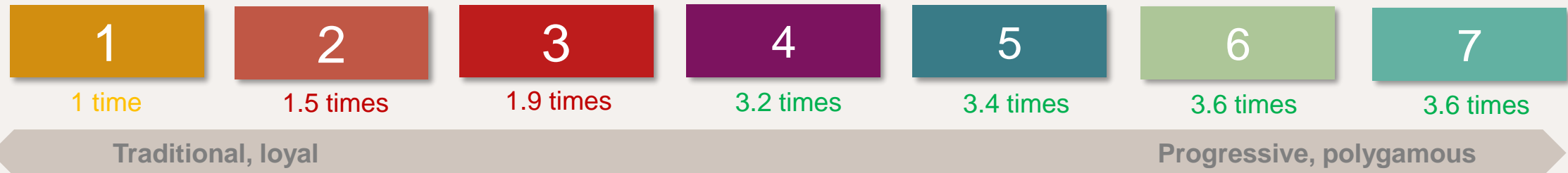




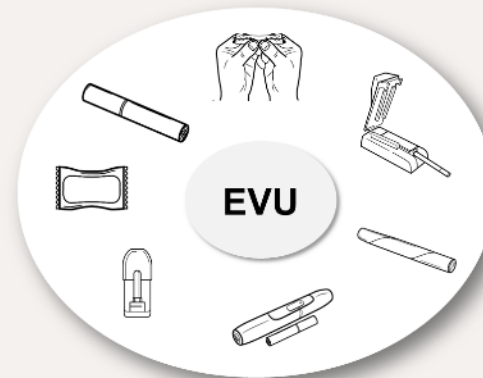
# Our Multi Category Brand Portfolio



## Targeting Different Category Attitudes and Behaviours



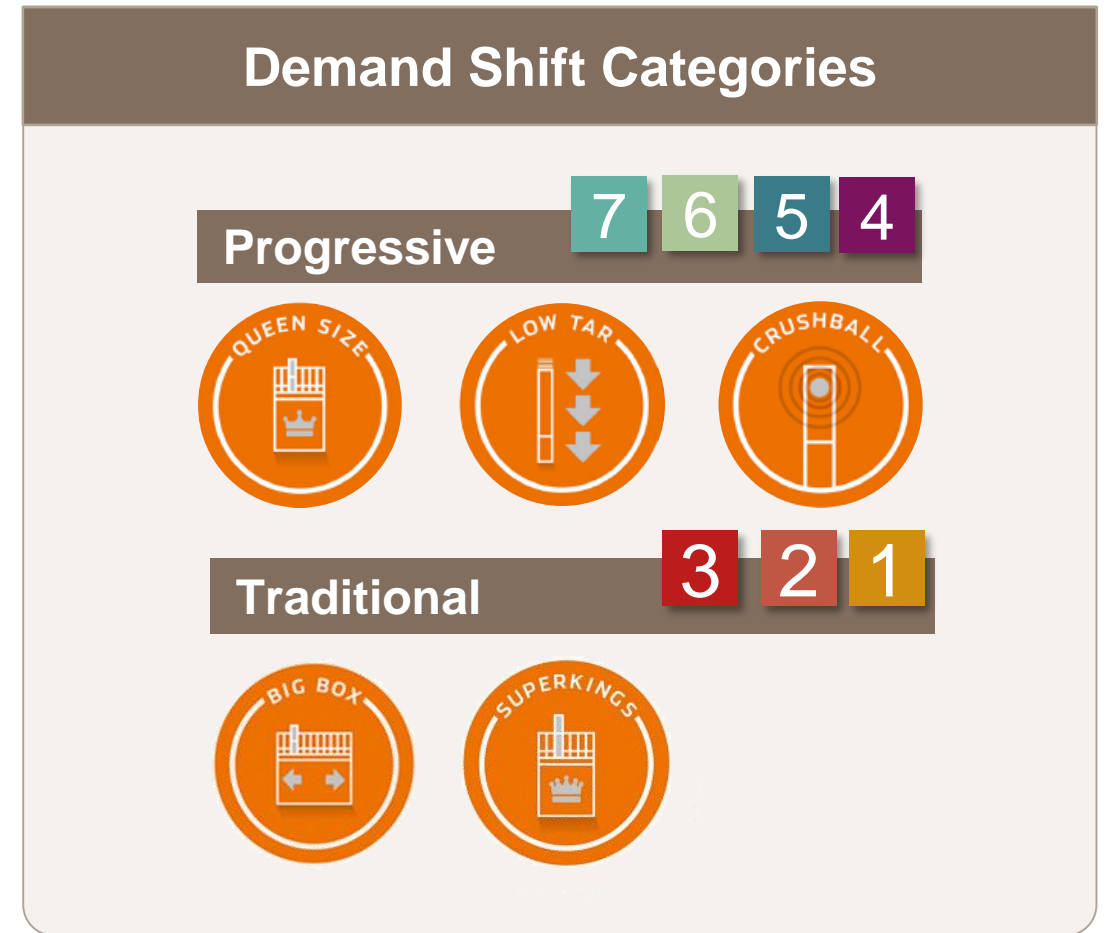
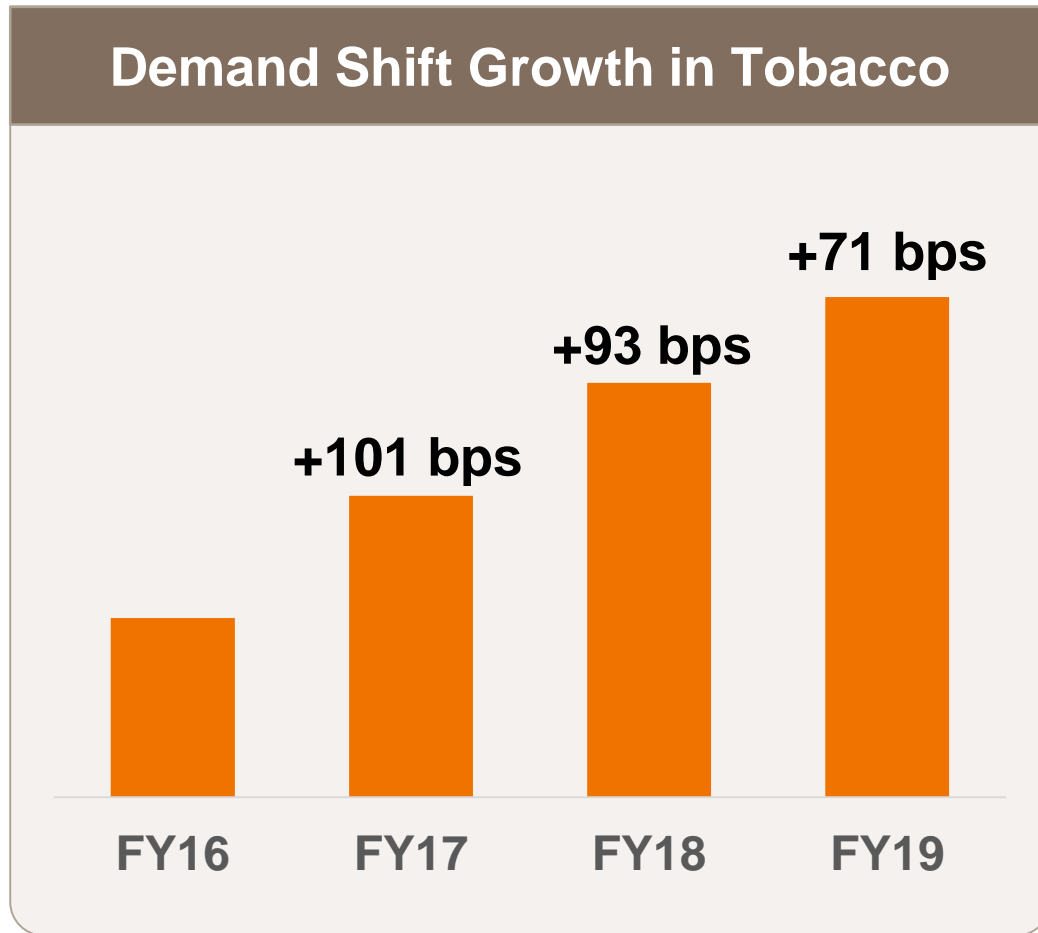
## With our Multi Category Brands and consistent KPIs



**Strong** multi category brands

**EVU** multi-category metric

# Tobacco Demand Shift Growth



# A Consumer-led Brand focus



Quality growth from **progressive** demand shifts

**Davidoff** CIGARETTES ▶ **+24bps**



KEY DEMAND SHIFTS



Quality growth from **traditional** demand shifts

**West** ▶ **+12bps**



KEY DEMAND SHIFTS



**Total Market Share Stable**

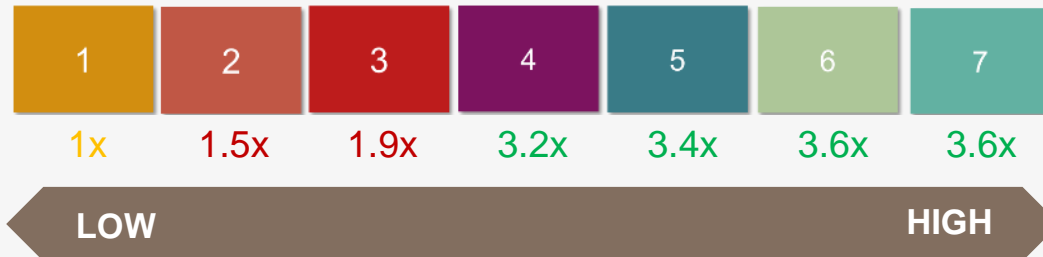
# Applying Consumer Learnings to NGP



 TARGET relevant consumer groups

 FOCUS on relevant NGP brands

Attitudes and Behaviours



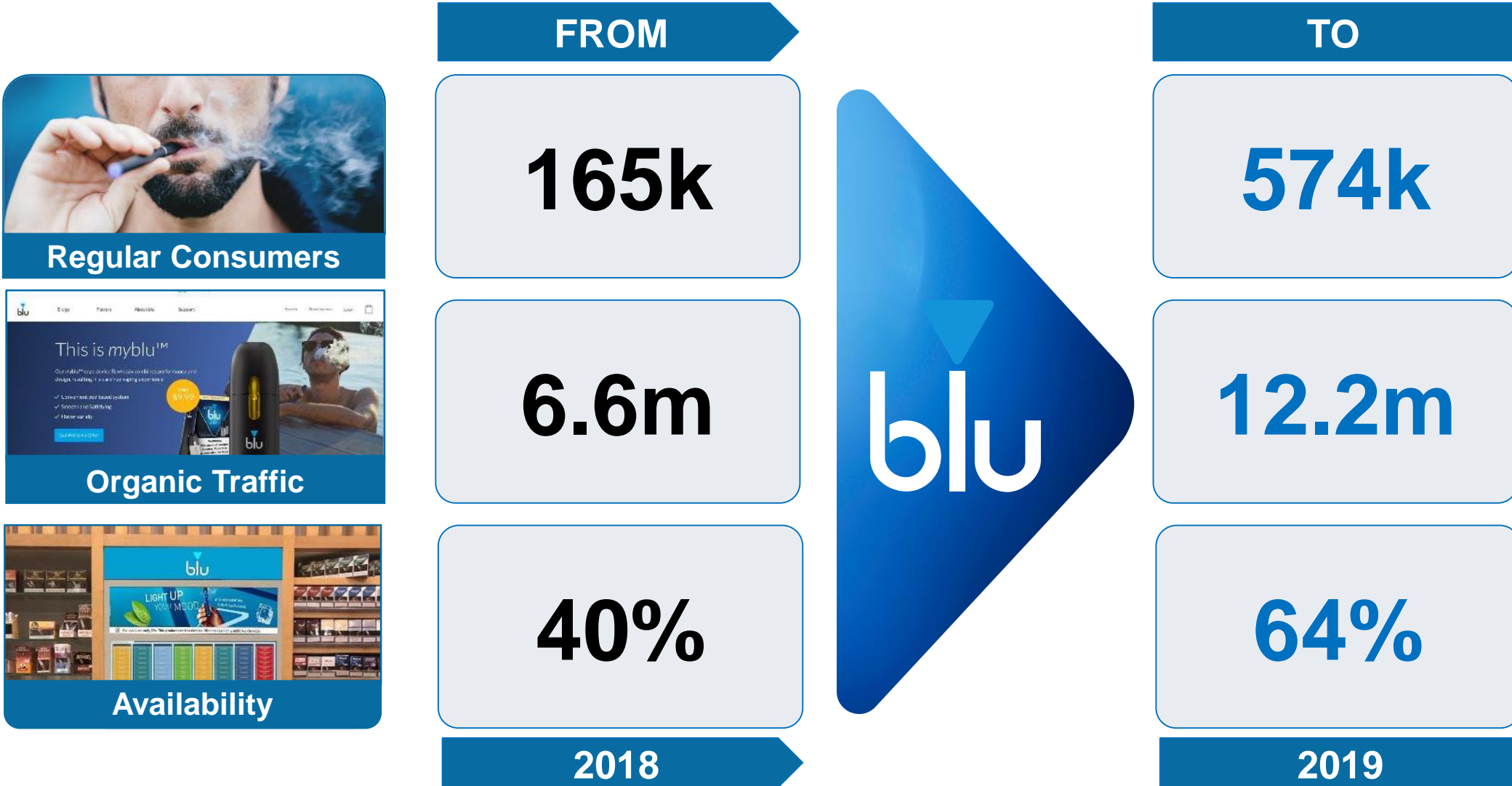






Growth Opportunities

# Strengthening blu



# Market Tests for new NGP



Heated Tobacco

This block features a white background with a Japanese flag in the top right corner. On the left, there are three heated tobacco devices in gold, silver, and black. To their right are two packs of iD PULZE heated tobacco, one in blue and one in gold. A dark blue banner at the bottom contains the text "Heated Tobacco" in white.

Modern Oral Nicotine

This block features a white background with a UK flag in the top right corner. The "ZONE X" logo is prominently displayed in the center, with a blue brushstroke effect over the "X". A dark blue banner at the bottom contains the text "Modern Oral Nicotine" in white.

### LEARNINGS



LEARNINGS

This block is titled "LEARNINGS" in blue text at the top. It contains two images: the top one shows a man in a hat and a woman in a yellow sweater using heated tobacco devices in an outdoor setting; the bottom one is a ZONE X advertisement showing silhouettes of people at a party with the text "WHEN YOU ARE HERE AND YOU WANT TO STAY. THE ZONE IS HERE". A large blue arrow points from the left towards this block.

### BUILDING AVAILABILITY



BUILDING AVAILABILITY

This block is titled "BUILDING AVAILABILITY" in blue text at the top. It features a large globe in the background. Overlaid on the globe are the "PULZE" logo (with a blue triangle) and the "ZONE X" logo (with a blue brushstroke). The word "blu" is written in a large, black, lowercase font on the right side of the globe. A large blue arrow points from the left towards this block.

# Adapting to Consumer Behaviour Change



- Some consumers are extending their repertoire
- Strong multi-category portfolio in place
- Tobacco remains resilient and stable
- Strengthening NGP Portfolio
- Strong foundations for the future





**Dominic Brisby**  
Joint Interim CEO

# USA: Growing Share, Revenue & Profit





# USA: Total Market Cigarette Volumes

2019 volume impacted by pricing & NGP development



## USA Industry

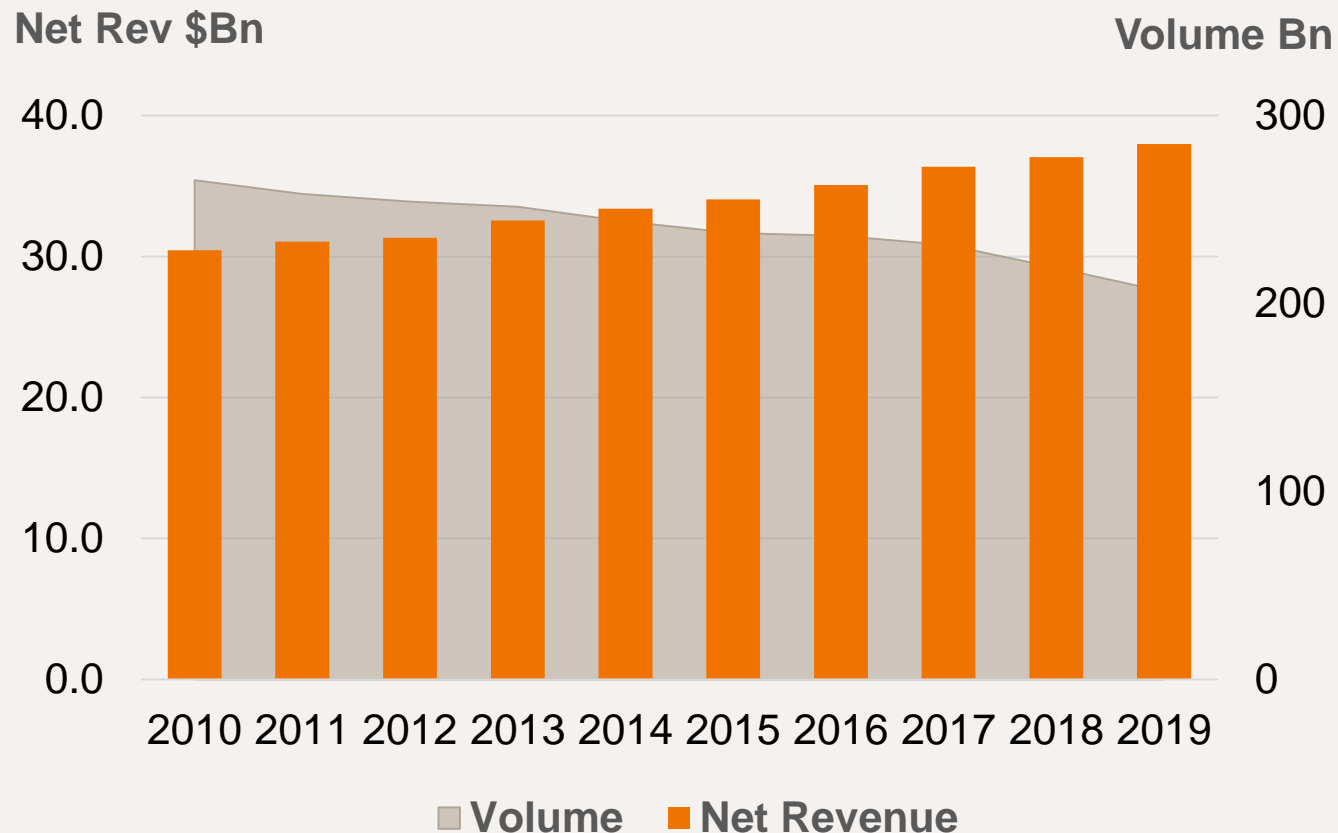
	2017	2018	2019	Drivers
<b>Market Size</b>	-4.0%	-4.7%	-5.6%	Increased size decline driven by growth of Next Generation Products (vape, oral)
<b>Secular</b>	← -2.6% →			Historic decline in smoking prevalence
<b>NGPs</b>	-0.2%	-0.4%	-1.3%	Evolving regulation will shape future impact
<b>Macro</b>	+0.1%	-0.7%	-0.2%	Macroeconomic factors e.g. economic growth, political climate
<b>Price/SET*</b>	-1.2%	-1.0%	-1.5%	Pricing & tax impact between 1% to 1.5%

# Total Tobacco Market Resilient & Growing

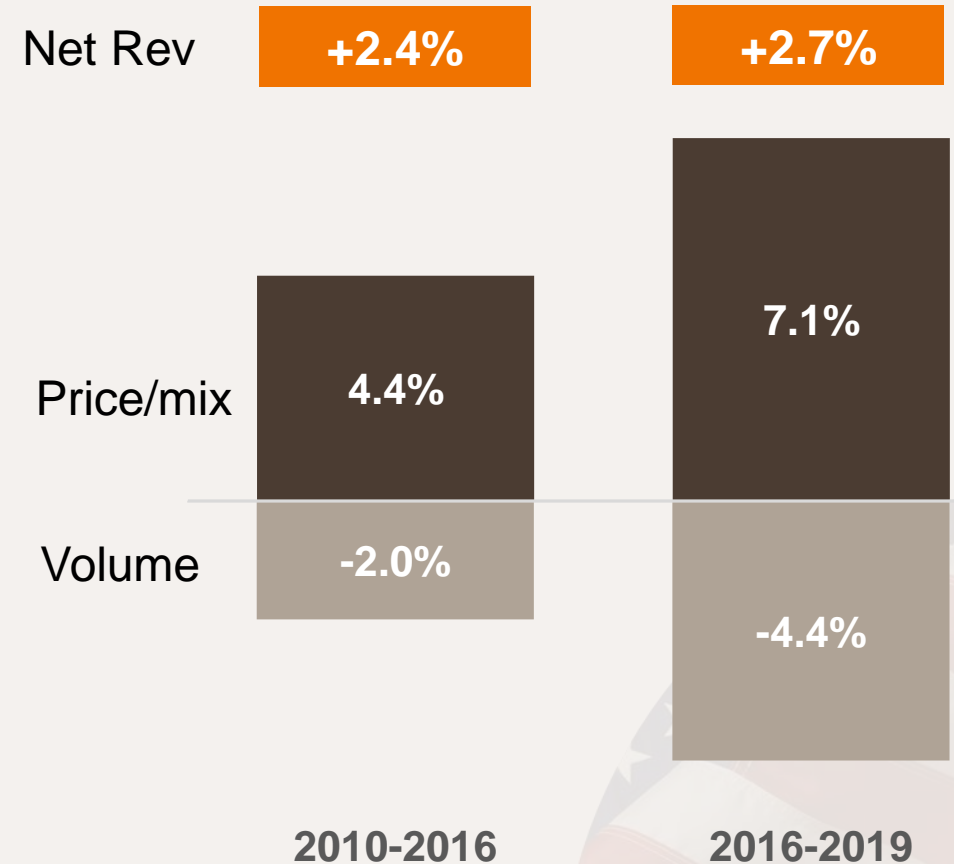
Affordability continues to support growing revenue



## Industry revenue +25% over past 10yrs



## Price more than offsets volume



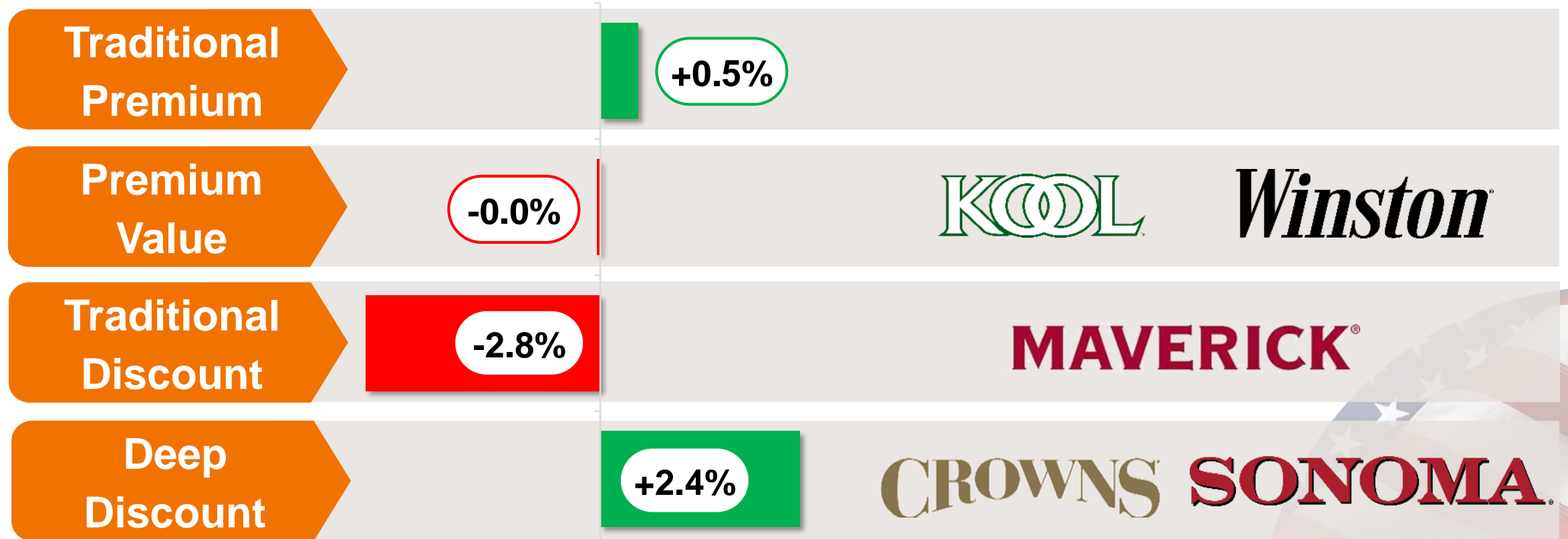
# Strong Position in Growing Segments

Investment in focus brands and segments



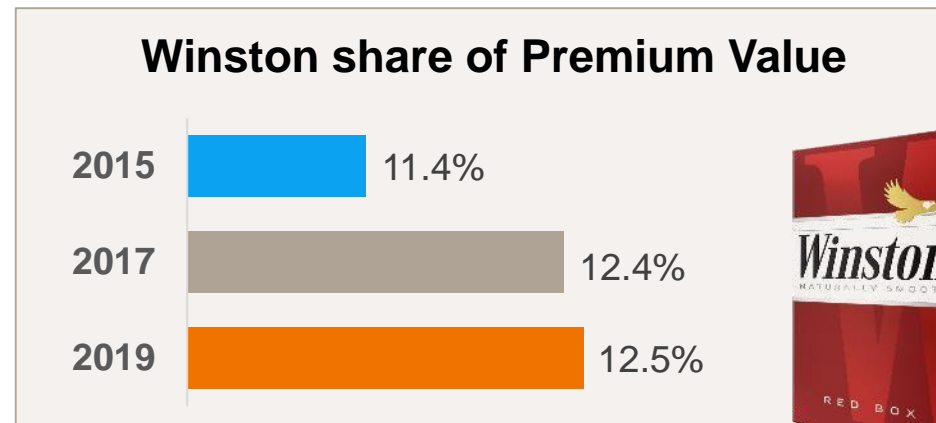
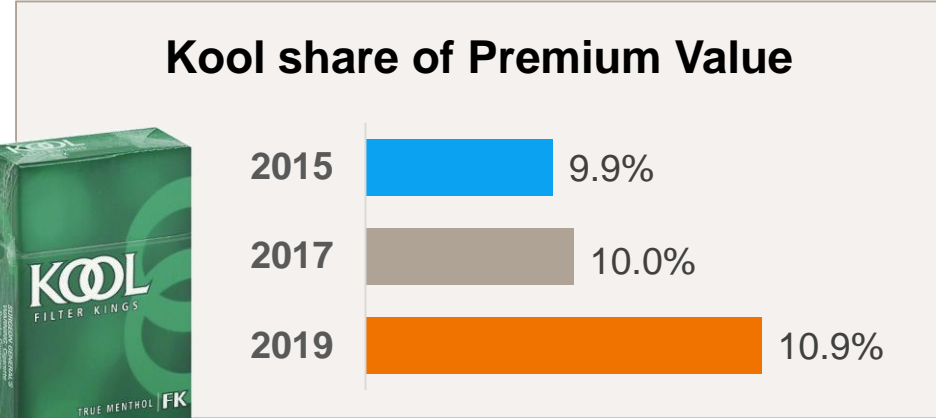
Industry Price Segments  
% of Total 2019 v 2015 \*

Imperial Brand  
Positioning



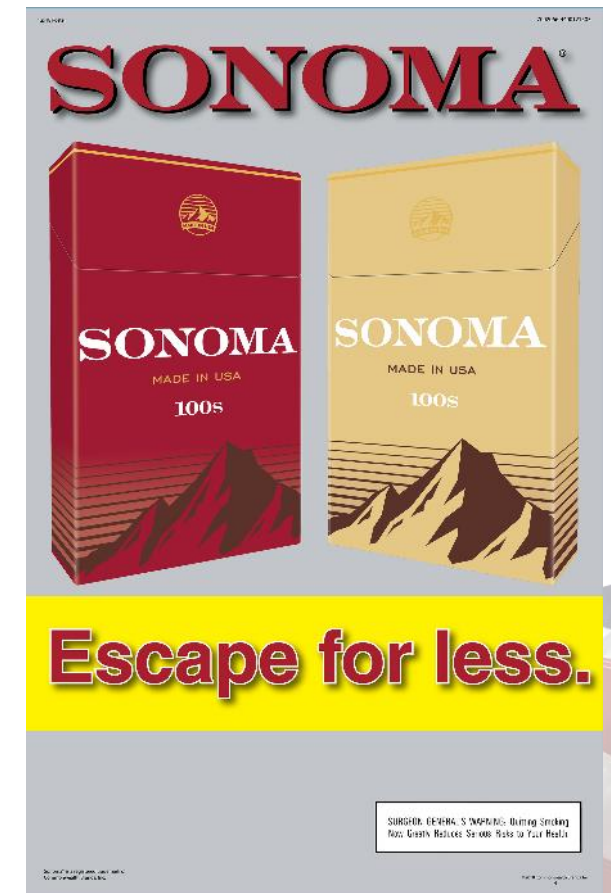
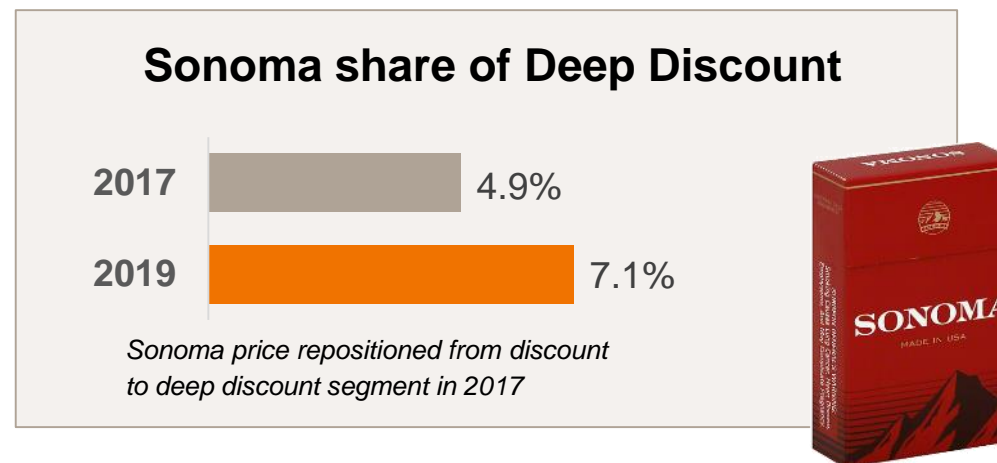
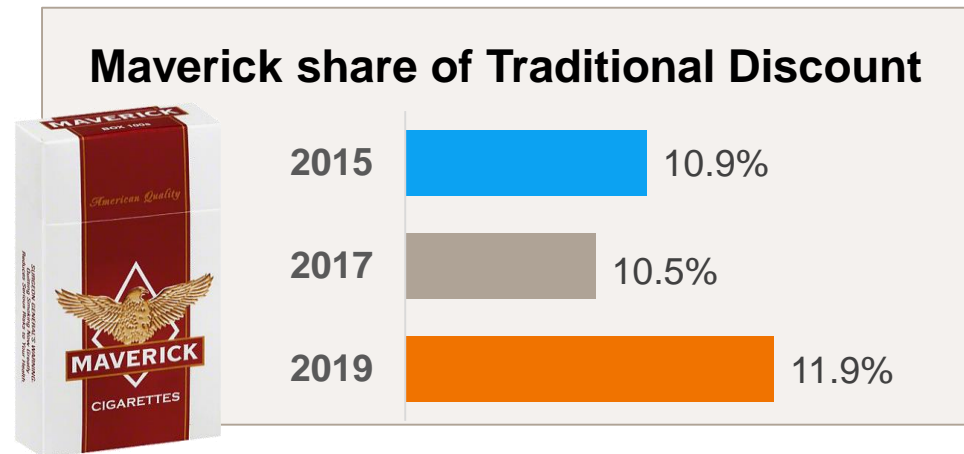
# Managing Portfolio in Key Segments

## Investing behind core brands



# Managing Portfolio in Key Segments

## Growing segment share in discount segments



# Simplification of Cigarette Portfolio

Enhances focus behind core brands



**SALEM**



**Fortuna**

**FY16**

**FY19**

**Tail brand % of total volumes**

**28%**

**21%**

**Profitability index**

**100**

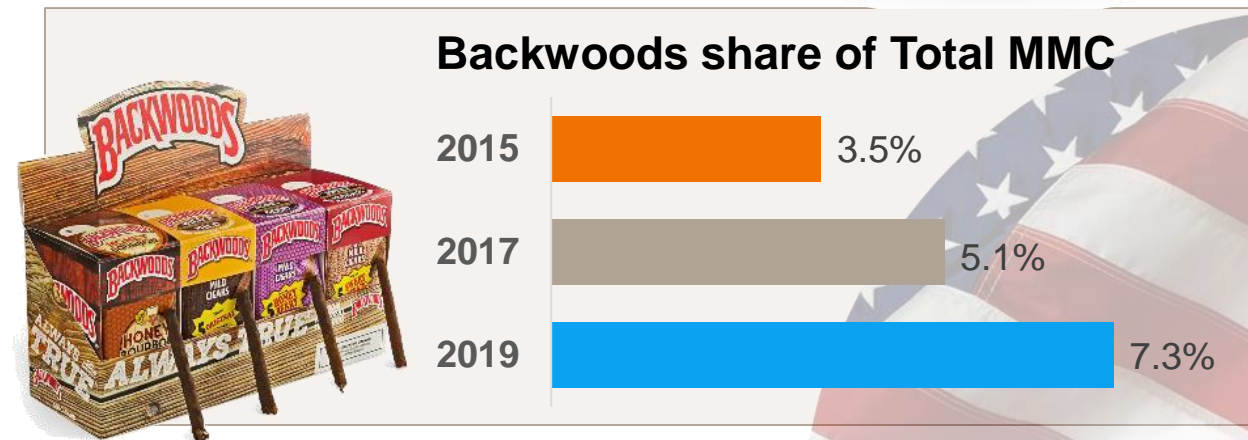
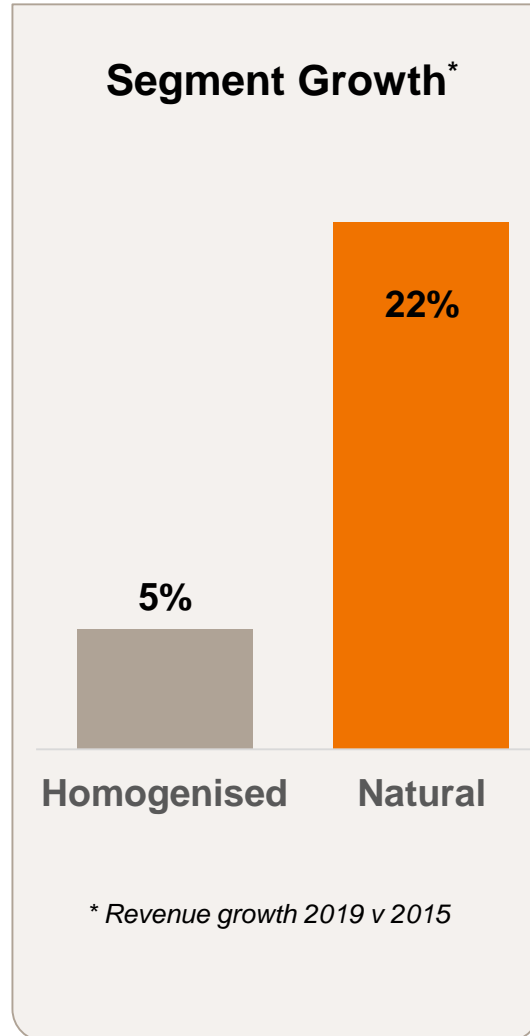
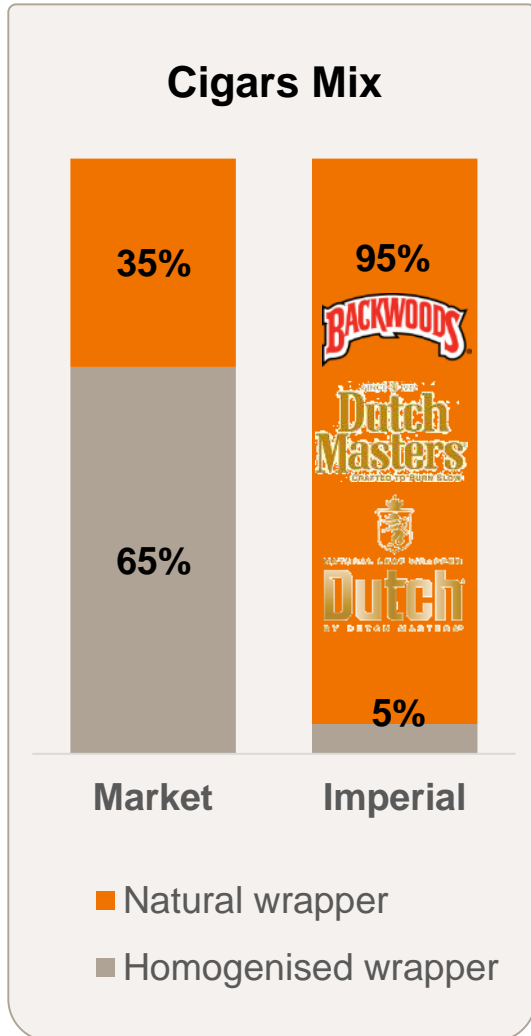
**156**

More efficient management of tail brands supports re-investment in core

# Mass Market Cigars: Growing Share of Natural Segment



Backwoods growing from strength to strength

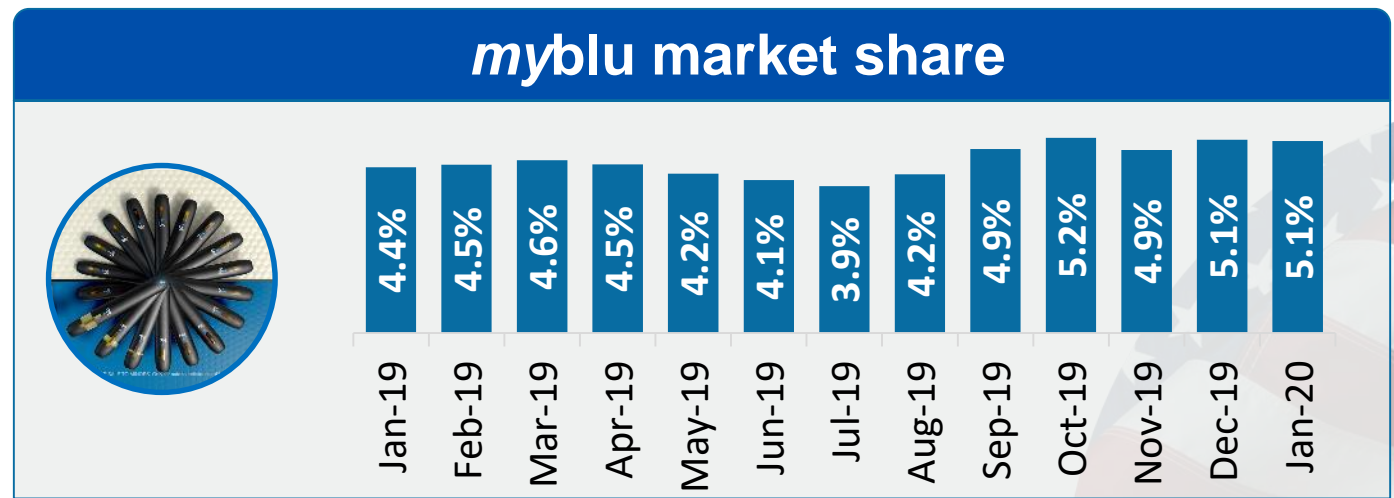
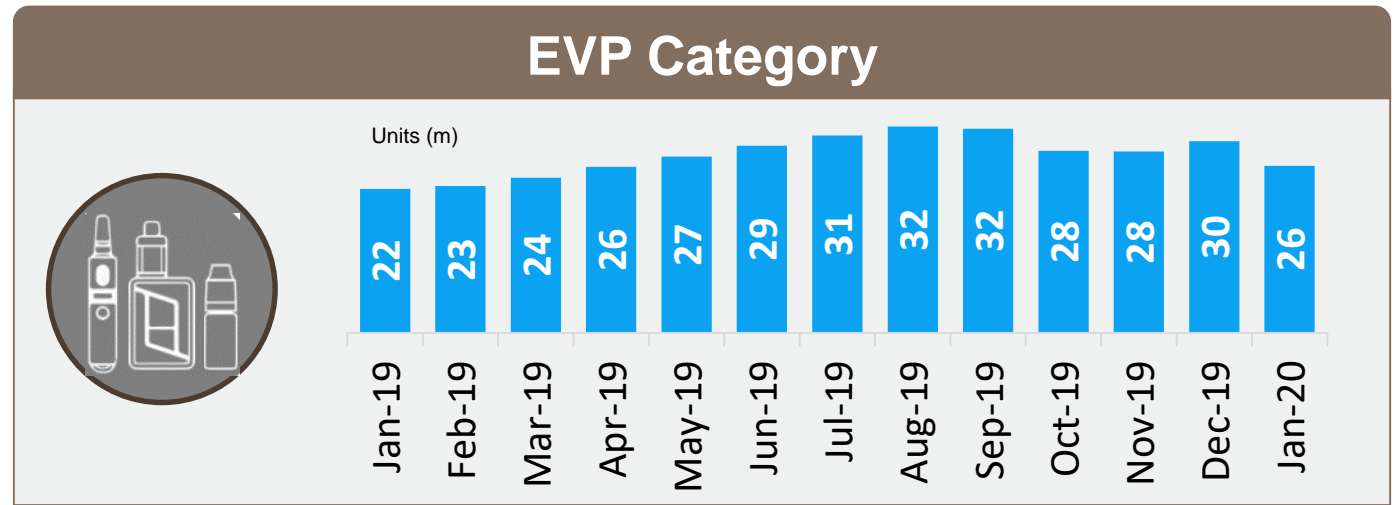


# EVP: Sector Growth Stalled

Regulatory clarity to provide stability & growth



- Category growth impacted by volatile regulatory environment
- Flavour ban & minimum age '21' now in force
- Investment reprioritised; greater focus on Online
- Regulatory engagement to encourage higher product and marketing standards



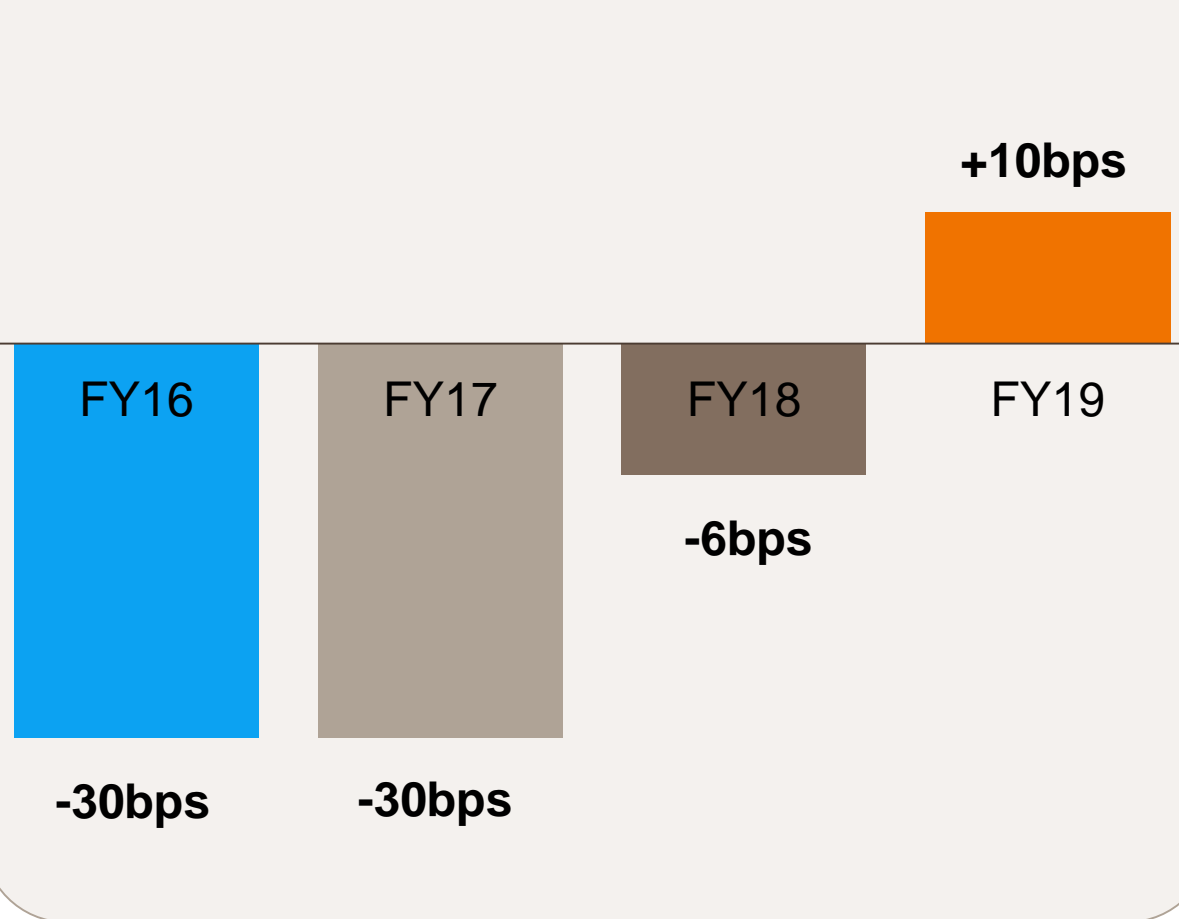


# Market Share

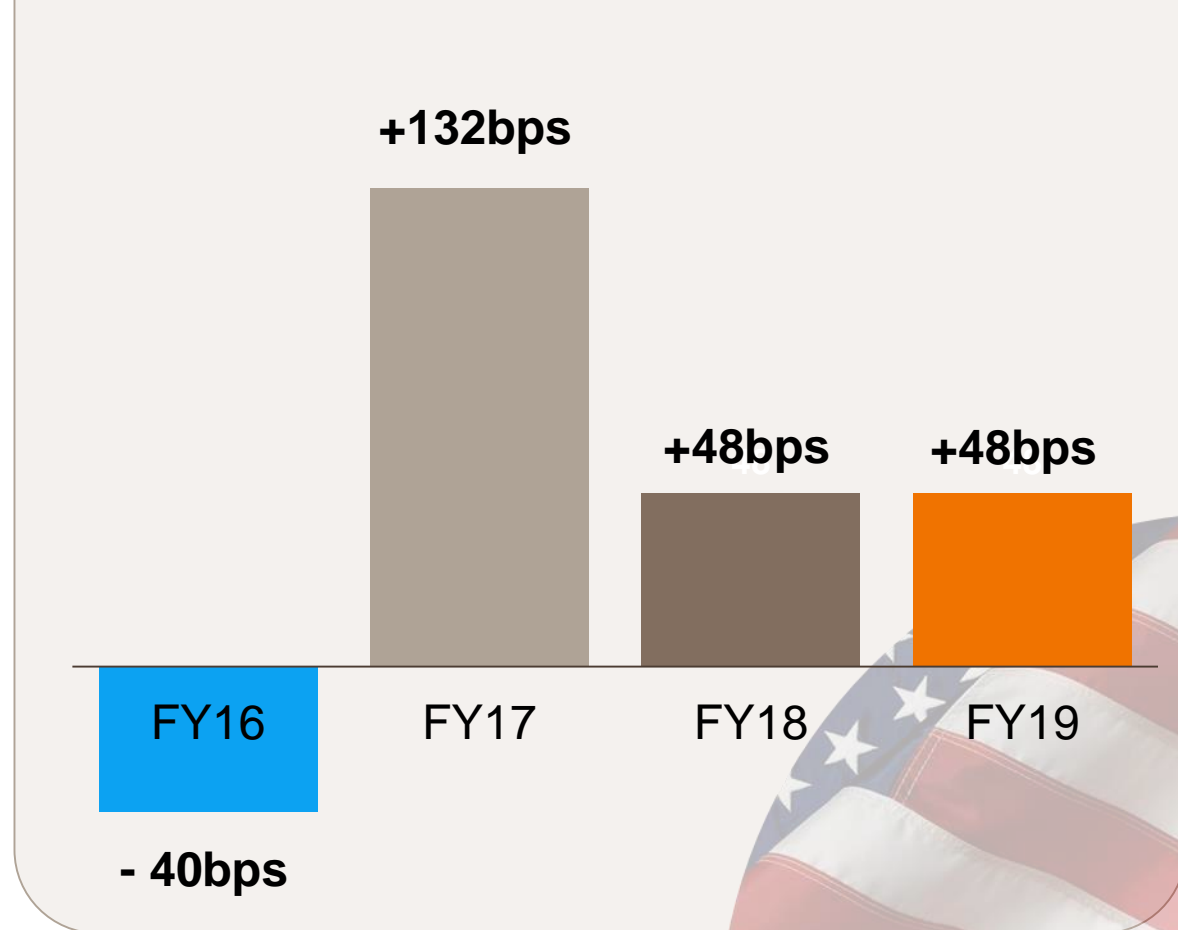
Portfolio strategy supports growth in cigarettes & MMC



### Cigarette Market Share %



### MMC Market Share %



# USA Delivering Strong Returns

Well positioned to drive continued growth and returns



## USA acquisition investment

\$1.5bn 2007 Commonwealth Brands

\$7.1bn 2015 USA assets acquisition

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**\$8.6bn** direct USA acquisition

## USA financial delivery

**\$3.0bn** net revenue a year

**\$1.3bn** operating profit a year

**30%** of total Group revenue & profit

**+6%** profit CAGR since 2016

Robust USA performance, growing:

- Cigarette and MMC share
- Revenue
- Profit and cash

Cigarette portfolio positioned to meet demand

MMC underpinned by Backwoods



# Investor proposition

## Creating Something Better for the World's Smokers



Quality growth from tobacco



NGP additive opportunity



Driving cost efficiencies



Responsible behaviour

Strong governance & sustainability agenda



Capital discipline & cash generation

Rigorous capital allocation & strong cash generation



Sustainable shareholder returns

Undemanding valuation and progressive dividend growth

