

2022 Full Year Results Transcript – 15 November 2022

Slide – Full Year Results 2022

Stefan

Slide – Stefan Bomhard

Good morning, everyone... and welcome to our full-year results presentation.

Thank you to all of you who have come along to join us in person today - it's great to see you.

And, of course, a warm welcome to those viewing online.

Slide – Disclaimer

I will just draw your attention to this disclaimer, before I introduce you to the rest of the team and outline the agenda.

Slide - Agenda

I'm here with our Chief Financial Officer Lukas Paravicini and Peter Durman, Head of Investor Relations.

I will first outline some headlines and key achievements from today's results.

Lukas will then explain how our strategy is delivering positive financial outcomes.

I will then return with some further colour on how we are delivering in our key markets and categories.

Finally, we look forward to taking your questions at the end.

Slide – 2022 Highlights

I am pleased to report that we are well positioned to deliver on our five-year plan to transform Imperial.

And today's results demonstrate good progress against that strategy so far.

The key headlines are these:

First. Our targeted investments are delivering operational improvements both in our combustible tobacco business and in NGP.

In combustibles, the actions we have taken in our top-five markets have driven a 35-basis point improvement in aggregate market share.

This follows at least five years of consecutive decline and it's further evidence that we have now stabilised our core combustible business.

In NGP, our trials over the past year have validated our approach and, here, we are back in growth, with more targeted and effective investment delivering reduced losses.

We now have a clear plan to build momentum in existing markets, launch in additional markets and introduce all-new products.

Second. This operational progress is now visible in our financial delivery. We grew Group adjusted operating profit by 1.8%, slightly ahead of guidance, and we grew EPS by 4.9%.

Strong cash generation has led to reduced debt. And we reached our target leverage at the end of September.

Third. Confidence in the sustainability of our cash flows has enabled us to recommend a dividend increase – on top of the £1 billion share buyback now underway.

This is just the start of an ongoing programme to meaningfully reduce the share capital and drive shareholder value over the medium term.

Slide – Stronger Foundations in Place

These results and our confidence in the future are both a consequence of how our five-year strategic plan is beginning to bear fruit.

We have now concluded the two-year strengthening – or foundation building – phase.

And we are exactly where we hoped we would be at this time.

We are well positioned for the next phase of our strategy, when shareholders can expect to see improved returns.

This timeline conveys only a fraction of the transformation activity over the past two years.

The bottom line illustrates how we have strengthened the foundations of the company.

These outputs include a new senior leadership team, a refreshed approach to ESG, new consumer capabilities under the leadership of our Global Consumer Office.

Along the top line you can see how these foundations are driving tangible outcomes: the stabilisation of the core tobacco business, growth in NGP, and greater clarity on the role of our broader market portfolio.

What's even more pleasing is that while delivering our long-term strategy, our teams have also responded nimbly to unexpected events, such as our exit from Russia in April 2022.

Slide – Adapting to Evolving Consumer Behaviours

Before I hand over to Lukas... I want to take a step back and look at how changes in the broader environment are affecting our consumers – and set out how we are managing the business to meet their evolving behaviours and needs.

I highlighted these three big trends at our half-year results – and they are still relevant today.

First, as lockdown restrictions eased this year, consumers are back on the move and buying habits have returned to pre-pandemic patterns.

As expected, market volumes have weakened in Northern Europe and strengthened in travel and tourist destinations.

And in these locations, we are working hard with our retailers to make sure consumers can easily find the brands and the formats they expect.

Second, we are all aware of the high levels of inflation – and its potential impact on consumer spending. This trend is still at an early stage and there is no material impact on today's results.

While the future impact of this potential headwind is uncertain, we have been actively managing the business to ensure we are as well prepared as possible.

In particular, across our major markets we have been developing our brand portfolios to ensure that we have quality products available at whatever price points consumers ultimately choose. And we will continue to adapt our offerings.

Third, consumers continue to seek products which bring them relaxation and pleasure while having the potential to reduce the risk to their health.

This is a long-term trend, and we are committed to playing our part by building a sustainable NGP business led by consumer insights.

And, over the past year, we have made tangible progress on this journey.

I will now hand over to Lukas to take you through the financial results.

Slide – Financial Review

Lukas

Thank you, Stefan and good morning, everyone.

Slide – Resilient Tobacco and Strong Cash Delivery

As Stefan outlined, over the last two years we've strengthened the business and our financial delivery.

Once again, I am pleased to show a positive trajectory for each of the key metrics on our financial dashboard – with all the signals green and pointing in the right direction.

Tobacco is a resilient, if low growth business, but even with low single digit revenue growth, we are able to generate substantial free cash flow and returns for shareholders.

Our earnings per share growth exceeded expectations. This was driven by our increased operating profit and lower finance costs due to an early repayment of debt last year.

Our focus on cash generation supported the delivery of £2.6 billion of free cash flow, £1 billion more than last year.

This led to a year-on-year improvement in our leverage to 2.0 times – the lower end of our target gearing range.

And, in line with our capital allocation framework, this enabled us to start an ongoing share buyback with an initial £1 billion to be returned this year.

Capital allocation will remain a key value lever as we move into our next phase.

Slide – Further Unwind of COVID-19 Market Trends

As Stefan mentioned, the lifting of COVID-19 restrictions has affected consumer buying patterns.

As expected, year-on-year percentage changes are magnified by the strong growth recorded in the comparator periods when restrictions were in place.

With open borders and a relaxation of travel restrictions, particularly in the second half of the year, we have seen consumers in Northern Europe travelling again and taking advantage of lower pricing in destination markets.

This is most notable in the UK where local cigarette prices mean there is a greater incentive to purchase cheaper products overseas or through the illicit market.

Similarly, for Germany, while tobacco products remain affordable, the ease of travel to lower cost markets such as Poland weigh on German market size.

US market declines have been impacted by the removal of temporary fiscal stimulus payments as well as consumers having fewer opportunities to smoke, now they have returned to their workplace.

On the positive side, we have seen growth in our traditional tourist markets such as Spain and Global Duty Free.

Slide – Net Revenue Growth Driven by Tobacco Pricing

Starting with net revenue... there are a couple of additional moving parts I want to draw out for you here: the exit from Russia and the H1/H2 phasing.

Overall, net revenue grew by 1.5 per cent at constant currency, and 2.3%, excluding Russia.

Tobacco volume declines of 4.7% for the year, accelerated into the second half reflecting the COVID unwind and our exit from Russia in April. Excluding Russia, volumes fell just 1.2%.

Tobacco price mix was up 6.0%, or 3.4% excluding Russia.

As signalled at the half year, tobacco price mix improved in the second half, up 10.7% due to price phasing and a positive market mix with our exit from Russia. This was somewhat offset by an adverse product mix in the US as we grew our share of the deep discount segment.

Overall gross pricing was 4.8% and mix was positive at 1.2% driven by market mix.

A good NGP performance in Europe was supported by growth in all three categories.

Slide – Performance Driven by Americas and AAA

Now looking at the drivers by region... and starting with volume trends.

Europe volumes reflected a return to more normal decline rates, due to the COVID unwind.

In the US, volumes grew 2%, driven by market share gains in a declining market. We also experienced a trade pull of around 180 million sticks, ahead of anticipated price rises and as the trade built contingency stocks for Hurricane Ian. Excluding this trade inventory pull, US volumes still grew by 1%.

The Triple-A volumes were impacted by our exit from Russia. Excluding this impact, volumes in the region grew 3.2%, benefiting from the removal of COVID-related travel restrictions, particularly in the Middle East.

Europe's tobacco performance is driven mainly by the adverse market mix from the unwind of COVID and delayed pricing in the first half.

Tobacco net revenue grew 5.2% in the Americas, driven by strong pricing, partially offset by product mix due to share gains in the growing deep discount segment, including the benefit from the KT&G exit.

Excluding Russia, underlying tobacco net revenue growth in Triple A was 3.9%, reflecting strong price mix in Africa and the Middle East.

NGP net revenue grew 10.8 per cent at constant currency, driven by a strong performance in Europe, which more than offset the decline in the Americas.

We continue to sell myblu in the US, but its performance has been affected by the uncertainty caused by the FDA's Marketing Denial Order issued in early April. We continue to work on overturning this order.

Slide – Delivering Adjusted Profit Growth

Adjusted operating profit grew by 1.8 per cent at constant currency, driven by an improved performance in both tobacco and NGP.

Tobacco profitability benefited from the non-repeat of the litigation settlement in Minnesota and Texas in the prior year.

This was more than offset by increased investment behind our strategy and new ways of working, which Stefan will cover later.

Excluding these effects, underlying tobacco profit improved by £76 million or 2.2%.

The reduction in NGP losses reflects our decision to exit certain triple-A markets last year, partially offset by increased investment to support growth in Europe.

Logista's contribution declined slightly as its restructuring charges were expensed. This is consistent with our policy to avoid adjustments for restructuring costs outside our current strategic programme.

Slide – Operating Profit: Adjusting Items as Guided

Like other businesses, we make certain adjustments to our IFRS numbers to aid performance comparisons over time. We will always be transparent about these adjustments.

First, our decision to exit Russia and associated markets triggered a £399 million charge, which includes £190 million of accumulated FX losses that were recognised in the second half of the year. These are largely non-cash charges.

Second, the lower annual amortisation in this period is from certain assets now being fully amortised.

Third, the restructuring charges have supported further reorganisation and new ways of working to unlock efficiency savings and enable increased investment behind our five-year plan.

This concludes the P&L charges for this programme in line with our plans, and we expect further cash charges of about £120 million in FY23.

We have already taken action to deliver £120 million of savings in FY23... out of the total £150 million expected savings. And we are on track to deliver all the savings by the end of FY23.

In summary, around half of these charges, the Russian exit and the restructuring costs, will not be repeated next year.

Slide – Driving Stronger EPS Growth

Adjusted earnings per share growth has been driven by both our increased operating profit and lower finance costs due to lower average debt levels and the early repayment of a US bond at the end of last year.

Going forward we anticipate interest costs to slowly increase as we continue our refinancing into a rising interest rate environment.

However, earlier this year our Treasury Committee decided to increase the proportion of fixed rate debt from around two thirds to an expected average of 85% for FY23.

More details of our financing are in the Appendix.

During the year we received favourable decisions in several tax jurisdictions, which reduced uncertainty for the current financial year... and resulted in a slightly lower adjusted tax rate year on year.

We anticipate a tax rate of around 22% in FY23, with upward pressure thereafter over the medium term.

Slide – Resilient Cash Delivery

Turning to cash... our priority is to optimise the sustainable free cash flow generation from the business.

As you can see for the year, our cash delivery remains strong with cash conversion of 102%, helped in part by the timing of duty payments at Logista.

Free cash flow improved by around a billion to £2.6 billion.

We increased the dividend by 1.5 per cent, with net cash flow after dividends of £1.3 billion to drive debt reduction.

This focus on strong cash generation underpins our ability to deliver our four capital allocation priorities.

Slide – Target Leverage Achieved

Active capital discipline remains a key value lever.

As a reminder... our first priority is to invest in the strategy to create a sustainable business with growing cash flows.

Second, it is to strengthen the balance sheet. Strong cash generation enabled a reduction in adjusted net debt of almost £0.6bn to £8.1bn.

Third, we are committed to providing reliable cash returns through the dividend.

And, fourth, having now reached our target leverage, we have now committed to an ongoing buyback. And we expect to maintain our leverage around the current level.

This good progress in capital allocation has been supported by the delivery of our strategy.

Slide – FY23 Outlook

We are now at the start of the next phase of our strategy, and we're well placed to deliver against our five-year plan.

The additional investment and actions we have taken during the initial two-year strengthening phase have built strong foundations for the next three-year phase of our plan to deliver improving returns.

As we move into this next phase, we do continue to expect constant currency net revenue to grow in the low single digits.

And constant currency adjusted operating profit growth is expected to accelerate to a mid-single-digit CAGR.

During the course of this three-year period, as our investments and initiatives gain greater traction, we anticipate an improvement in the growth rate of our adjusted operating profit within this mid-single digit range.

In FY23, the acceleration will be driven by:

- pricing and operational gearing,
- improved geographic mix from our priority market focus and
- cost savings...

Partially offset by cost inflation and increased NGP investment in FY23.

Although NGP losses will increase to a similar level to FY21 to support new product and market launches, we still expect to reach breakeven by the end of our five-year plan.

Performance will be weighted to the second half of the year due to the phasing of NGP investment, our exit from Russia in April this year and the continued unwind of COVID, which will all affect the first half. As a result, the first half adjusted operating profit is expected to be at a similar level to last year at constant currency.

At current rates, foreign exchange translation is expected to be a 5-6% tailwind to net revenue, adjusted operating profit and EPS.

As usual, there is a slide in the appendices with guidance on specific items.

Our strategy and investment has strengthened the business as we face into current macro-economic challenges.

We remain well placed to generate long-term value for shareholders.

Thank you. I'll hand you back to Stefan.

Slide – Transforming Imperial Brands

Stefan

Thank you, Lukas.

I want now to give you a deeper insight into the changes we have been making to align our culture to our strategy and *how* our people are driving forward that strategy.

Slide – Transforming Imperial Brands

We have been building our capabilities with new teams with new skills and new ways of working – all with a laser-like focus on the consumer.

We also launched a new company purpose and vision, defining why we are here and what we are trying to achieve.

The simple objective of all this activity is to transform Imperial into a business better able to deliver sustainable growth year in, year out.

As a reminder, this strategy was built around the six concepts contained in our strategy wheel, which will hopefully be familiar to many of you by now.

I will start by looking at how we have built our critical enablers – the essential foundations of future success – shown here as the blue segments.

But first on ESG...we have taken the time this year to understand how our ESG agenda fully integrates with our five-year plan – and our purpose, vision and behaviours.

Slide – New ESG Framework and Priorities Established

During the year, we used a materiality assessment to listen to our key stakeholders and inform our priority focus areas.

The resultant ESG strategy and associated metrics have been signed off by the Board.

We have begun socialising this strategy with our people in order to build broad support for our new objectives.

And we are integrating ESG metrics for consumer health and climate into our executive remuneration.

In September, we held an investor webinar to set out our approach and I would encourage you to watch this online, if you have not already had the chance.

I see this as the opening exchange in an ongoing conversation with all of you – and we look forward to further discussions on our progress.

So, turning now to the steps we have taken to transform our culture...

Slide – Strengthening Our Consumer Focus

Our strategy is underpinned by three critical enablers which define how we are changing our ways of working.

And I will start with how we are placing the consumer at the centre of the business.

Our approach in the past was often fragmented and we lacked some of the capabilities that you would typically find in today's consumer goods companies.

So, last year we established the Group Consumer Office to provide common leadership and to strengthen our capabilities in key areas.

I am very pleased that we have been able to attract top talent from a wide range of blue-chip consumer goods companies, as shown here.

Our approach blends the capabilities of these new hires with our pre-existing deep tobacco expertise and local market knowledge.

This powerful combination is creating a more consistent approach in key areas, such as consumer insights, innovation, marketing, brand portfolio management and revenue growth management.

Slide – Building a performance-based culture

Our second critical enabler is building a performance-based culture

Here we have focused on providing training and development to ensure all our people have a strong understanding of our purpose, vision and our behaviours, which internally we call *Connections*.

This has been a big investment. Our 1,500 most senior leaders have experienced a 15-hour programme where they have had the time to think deeply about what the behaviours mean to them and how they operate.

It has been rolled out in waves cascading through the Group: starting with the Executive Leadership Team and, by the end of this calendar year, every one of our employees will have completed *Connections*.

A recent survey conducted with our top 500 leaders shows the culture change programme is exceeding every single external benchmark, with 93 per cent understanding what our behaviours mean for them in their roles.

The next phase is to embed our behaviours into management incentives, with the bonuses of senior leaders now being awarded against both “*what they deliver*” and “*how they deliver*”.

Slide – Simplified and Efficient Operations

Our third enabler is the opportunity we have to simplify our operations by adopting new ways of working.

Imperial's acquisitive history has resulted in fragmented systems and processes with limited integration of back-office functions.

We have embarked on a global transformation programme, that will simplify these operations with the primary objective of freeing up our people's time and equipping them with the right skills so they can focus on supporting the consumer and market-facing organisation.

This will be supported by a digital transformation over the next five years where a new ERP platform will replace 60 legacy systems. Let me reassure you, this is all within the scope of our existing capex guidance.

So, turning now to our three strategic pillars and starting with our focus on the priority combustible markets...

Slide – Stabilising our Priority Market Share

Over the past two years, we have revitalised our five largest combustible markets by focusing on a tailored set of growth initiatives in each market.

I am pleased to report we increased aggregate market share by 35 basis points... this follows several years where we have been the number one share donor. And we've achieved this while maintaining our pricing discipline.

As I've said before, it's unrealistic to expect growth in all five markets in any given year.

But, we have achieved our objective of stabilising our share, with some encouraging outperformance this year.

Now, let's now review our performance in each of the markets starting with the US...

Slide – Americas: Strong Market Share Growth

We delivered a strong combustible tobacco performance in the US, benefiting from focused investment in our brands and sales execution.

In cigarettes, we grew share in each of the three price segments where we focus.

We performed strongly in the deep discount segment with Sonoma and Crowns, as consumers continue to seek value offers.

In the next tier up, Maverick grew share in the traditional discount segment.

And in premium value – our largest segment – Winston and Kool enjoyed share growth increases... thanks to investment in brand equity and some innovative retailer initiatives to raise awareness.

We achieved these share gains while delivering four price increases during the year.

In mass market cigars, we have strengthened our position as the second largest manufacturer in the US with further share gains, supported by activation and innovation initiatives.

However, overall industry volumes declined against the prior period of strong growth, which had benefited from COVID.

Investment in sales capability has enabled us to increase our coverage in under-penetrated channels and regions – all of which is supporting our delivery across the portfolio.

Slide – Germany: Investing in Our Operational Levers

Turning to Germany...

We have delivered the first annual share growth in Gauloises for six years, and stabilised share in West after brand investment.

With consumers increasingly seeking value offers, we have responded by repositioning one of our heritage brands within the lower-tier value segment in fine cut tobacco.

We continue to work on turning round our brand equity on JPS through a more contemporary brand positioning with a new pack design and retail advocacy programmes.

I was in Germany just two weeks ago and I was encouraged to see the key brand equity indicators are starting to turn.

But, given the lack of a clear positioning over many years, it is taking time before this translates into improved share.

I firmly believe we are focused on the right initiatives to make a difference over time.

Slide – UK: Share Growth Driven by Strategic Initiatives

In the UK, we delivered a strong market share performance, driven by investment in our local jewel brands and effective supply management.

Price mix improved in the second half of the year reflecting the price increases taken in the first half of the year.

Our success in using the refreshed Embassy brand to improve our position in under-penetrated regions of the UK continues. At the same time, our Players Easy Rolling and Riverstone brands continued to gain share in fine-cut.

Our on-shelf availability benefited from a strong collaboration between our teams in sales & marketing and manufacturing as we adapted the portfolio to meet new regulatory standards for filters.

Availability was also enhanced by an agile response to the delivery driver shortage in the UK in the first half of the year.

Slide – Spain: Delivering Another Year of Share Growth

In Spain, we put through the first price increases in five years across key product lines, which temporarily impacted our share. The good news is that we have been able to recover these losses in the second half, to report growth for the full year.

This has been driven by our continued investment in our local jewel brands, Fortuna, Nobel and Ducados. These initiatives are targeted at building equity and reinforcing their national heritage connections.

This is a distinctive strategy compared to our competitors, who are focused on global brands.

We are also leveraging our own international brand West to meet consumer demand for value propositions, with targeted super king-size price promotions and relaunching a fine-cut range.

Slide – Australia: Delivering Share and Profit Growth

Turning to Australia... where our initiatives and brand portfolio investment are now helping us to deliver share growth in this high-margin market.

The launch of Lambert & Butler in the fifth price tier in the first half of the year created clear brand offerings in each of the different price segments, enabling clear differentiation between Parker & Simpson and JPS in the fourth and third price tiers.

Our performance in JPS was further supported by launching new pack size variants in roll your own.

Our whole approach here is about providing better choices for consumers and enhancing our resilience - particularly in times like these, when consumers' wallets are feeling the pinch.

This is a great example of the type of careful segmentation work we are doing across all our major markets.

In Australia, our share recovery was also supported by investment in improving our sales force effectiveness and strengthening our supply chain to ensure on-shelf availability.

Slide – Driving Value from Our Broader Market Portfolio

The second pillar of our strategy is to drive value from our broader market portfolio.

Here, we have defined a clear role for each of our markets. This has meant a greater focus for some clusters like Africa and Central and Eastern Europe... while we have also decided to exit two markets this year with Russia and Japan.

Our African portfolio of markets continues to perform strongly driven by a clear brand focus, tailoring our portfolio of local jewel and key international brands to meet local consumer demand.

For instance, in the Côte d'Ivoire, consumer activation and increased distribution of our brand, Fine, has led to strong share gains.

In Central and Eastern Europe, we have adopted a new brand portfolio strategy, increasing our focus on the sub-premium segment with Davidoff and leveraging our West and Parker & Simpson brands in fine cut.

Our broader market portfolio has also benefited as COVID-related travel restrictions were removed during the year, with our Global Duty Free performance reflecting increased travel.

Slide – NGP: Continued Validation of Heated Tobacco Approach

Our third key pillar is to build a targeted NGP business – and we have made encouraging progress.

One year after the launch of our heated tobacco proposition, Pulze and iD in the Czech Republic and Greece, we continue to receive a positive response from both consumers and the trade.

Further market share gains in the Czech Republic were supported by the launch of new flavours to our iD range, an agile response to clear consumer feedback. And we held our share in Greece despite new product launches from competitors.

Distribution levels remain high, as we continue to leverage our established tobacco sales force to satisfy nationwide trade demand and as retail partners are keen to have competing supplier offers in this segment.

The position we have established demonstrates that our heated tobacco proposition in these initial test markets is meeting consumer demand in the category, with all our key indicators remaining positive.

Slide – NGP: Heated Tobacco Progress Initiates New Launches

Consumer endorsement in our test markets of our heated tobacco products has provided us with the confidence to initiate new market launches.

Today, Pulze and iD are now available in five European markets including Italy, which is Europe's largest heated tobacco market.

Our new market launches were selected using the same strict criteria as our initial trials.

First, the heated tobacco category needs to be a well-established segment of the total nicotine pool. And second, we need to be able to leverage our existing tobacco-based route to market and distribute our products.

Learnings from our initial market trials have been used to inform our new roll-outs and guide interaction with the trade and consumers.

We continue to take a measured approach to expanding our heated tobacco offering, with our confidence reinforced by our achievements in 2022.

Slide – NGP: Successful blu 2.0 Pilot Endorses UK Launch

Our city trial of our all-new Blu 2.0 pod-based vape device in France has been positively received by consumers.

Sales and consumer data demonstrates good consumer retention, with the pods in just six months achieving a 6.9 per cent share of the pod market, where they are sold. Our sales were supported by point-of-sale activation and brand ambassadors.

Blu 2.0 was the first product to be delivered from our refocused innovation pipeline.

Following the successful pilot in France in four cities, blu 2.0 has now also been launched in the UK market this month.

I am also pleased to report that another output from our innovation pipeline is that we will be adding a disposable offering to our European blu brand portfolio, with the launch of blu bar in the UK later this month.

This follows extensive adult consumer research, and a development process through our partnership approach to innovation.

Slide – NGP: Stronger Performance in Modern Oral Nicotine

Meanwhile in modern oral, we have achieved strong growth with net revenue up 37% and share gains in Sweden and Norway.

We continue to evolve our offerings to meet consumer preferences and attract consumers to our Zone X brand franchise.

The launch of new flavours in response to consumer demand has enabled us to increase awareness of Zone X, and driving strong growth in Sweden, Norway and Austria, against well-established larger competitors – proving our challenger model works.

Standing back for a moment, probably one of the most exciting things for me this year has been the validation of our ecosystem approach to innovation.

We now have an established network of more than 20 third-party innovation partners.

This is allowing us to innovate faster across targeted projects, particularly in NGP.

Having now met several of these partners, I know how excited and committed they are to working with us on these joint development projects.

Slide – Strengthening Phase in Place

So, to summarise, the strengthening phase of our strategy is now drawing to a close.

We have built the foundations to support the ‘improving returns’ phase of our strategy over the next three years.

We continue to see the benefit of the actions we are taking to strengthen the key areas of our investment case.

We have also delivered on our capital allocation priorities to strengthen the balance sheet and deliver the step-up in shareholder returns.

Slide – Priorities for FY23

Looking to our priorities for the new financial year...

We will continue to build our critical enablers - stronger consumer capabilities, an embedded performance culture, and a simpler organisation.

In combustibles, we are focused on consolidating this year’s significant gains in our priority market share.

We need to ensure we never again become the number one share donor in aggregate across these top-five markets.

So, we will continue our disciplined investment approach behind the key operational levers.

And, of course, in future presentations, we look forward to showcasing more of the exciting work taking place in our broader market portfolio.

In NGP, consumer feedback has validated our approach, providing confidence to increase investment to build momentum in existing markets and through new product and market launches.

Our overarching priority will be to deliver the improvement in returns for the next phase of our plan.

We have a clear view on the levers to realise this acceleration.

We will also remain highly disciplined in our capital allocation, which we fully recognise is a key part of the investment case.

We're very conscious these are increasingly challenging times for all businesses.

However, I am convinced that our actions are creating a stronger business better able to navigate these uncertainties.

We remain committed to delivering our plan and unlocking long-term value for shareholders.

Thank you for joining us today...

We would now like to take your questions.

QUESTION & ANSWER SESSION

Peter Durman: Great. Thanks, Stefan. So, as Stefan said, we'd like to take your questions now. And as before, what we'll do is we'll take them in the room and then we'll take questions on the telephone. So, we'll take first the questions from the room. And for those of you who joined remotely, you will need to have registered to ask a question. You will find the details for the registration on the press release. And if you register on there, you will get the dial-in details and a unique PIN to access. So those are all in today's press release. And if you're on the telephone and you want to ask a question, please press star and one on your keypad.

So, we'll now take the first question from the room. Please wait for the microphone and please state your name and organisation before posing your question. Thanks very much.

We'll take a question from John and then Richard.

Jonathan Leinster (Societe Generale): Hi. So, Jon Leinster from Societe Generale. The – if you're expecting losses – NGP losses to be similar to FY21, total EBIT to grow by, sort of, low-end of mid-single-digit, I mean, that implies a fairly dramatic growth in tobacco profitability by my rough calculation sort of 4-5%, or sort of double the absolute underline increase you achieved in – this year. How can you outline given the ongoing volume declines certainly in the first half, how that's going to be achieved?

Lukas Paravicini: So again, I think – good morning and thanks for the question. I think as we pointed out, there are a few key levers, being the most important one the operational gearing. You know, with the indicated growth of net value of roughly 1-2% and a volume decrease, that will generate an upside on the – on the operating profit. This is what we call the operational gearing and this is the biggest lever. It will also contribute that we are focusing on the top-five markets, especially the US inside there as well, which have obviously a geographic mix effect on that. And the savings programme that we have pointed out, which we expect to deliver £120 million for the full FY23 will be another driver of that acceleration phase.

And yes, we are committed to that lower end to a mid-single-digit growth for next year. It will happen, as you pointed out, Jon, in the second half, due to more of the NGP investment being upfront, Russia exit, and the COVID unwind. But those are the levers that we point out.

Stefan Bomhard: And to a certain extent, to build on Lukas's point, you've already seen Lukas's presentation. When we look at the underlying performance, if you take the investments and the core tobacco business out in the FY22 results, you can already see that strength in the portfolio amidst the fact of logically helped by us gaining share or holding our share in our top-five markets, which clearly, as Lukas touched upon, are the most profitable markets for us. That gives us the confidence in the delivery for FY23.

Peter Durman: Thanks. Moving to Richard.

Richard Felton (Goldman Sachs): Good morning, Richard Felton from Goldman Sachs. Two questions for me, please. First of all, on the US, I was wondering first of all, if you could call out how much of the share gains this year was linked to the KT&G share that you gained when they left the market? And then secondly, on the US, I'd love to hear a bit more about your outlook for FY23. And overall, the markets are under a little bit of pressure at the moment. You've got a tough comp from a market share perspective. So what kind of scenario for the US have you got embedded in your FY23 guidance?

Stefan Bomhard: Richard, I mean, the – if you – on the US, on your first question the – we gained 90 basis points in the US. We're actually now a ten-share player in FMC, which we've never been since the business got acquired. So that gives us really nice scale with the trade, yeah. Are we happy about the exit of KT&G? Yes. Did it help in the numbers, on this 90 basis points? Yes, it did. It's probably around 30 basis points. And it's difficult to say because you don't where the consumers really switched and what did they do. But I think what is very important which gives us great confidence as we go into next year, we gained share in every single of the three segments that we operate in. And I think the important piece was when you look at Winston and Kool, which is in the premium segment, which is still our largest segment, it's our largest part of the business where we've lost share for more than – more than five years, this is the first year we've actually gained share in that segment. Yeah.

So that gives us the confidence. While we're happy to take the benefit from the exit of KT&G, FY22 actually saw the right level of renovation, our brands plans and all segments actually delivered. Yeah.

Now, outlook for next year, our overall outlook assessing, we will now leave the COVID effect behind us. Yeah. So, I think you will see the US return more back to its normal market development of decline. That is what we put into our plan. The same time, we will always be agile. And I think one thing that will benefit us as a company, we operate in every single segment that exists in the US, and that will make – that will enable us to have an offer for any consumer out there, whatever price point they will choose. That puts us in a good place, we believe, in the US.

Richard Felton: Great. Thank you. And then my follow-up. So you finish the strengthening phase, your five-year plan. Now you're into the accelerating returns phase. I'm very clear about what that means for the financial performance of the business. But I'd love to hear a bit more detail on, sort of, the mind shift in the organisation and maybe the KPIs that you want your team to be more focused on, as you make this shift from strengthening to the accelerating returns phase.

Stefan Bomhard: Yeah. I think the interesting thing, the KPIs are probably relatively similar because we've trained them in, in the last two years. So a lot of the performance-based cultural elements that we have kind of worked on in the last two years, like monthly performance calls, paying attention to market share, not just overall but by brand per SKU, all these things are there. Yeah.

I think what is exciting is that the teams can see the benefit and the rewards from focusing on these things. And the results of FY22 give also the entire organisation the confidence we are on track to deliver these results. Yeah. I mean the exciting thing I heard yesterday, the entire European Leadership Team, the top 80 together in the office, and they are super excited to making the difference. But what is important, we've a very clearly defined strategy. Each one of them knows where they're supposed to make a contribution. And I think that clarity, that focus that is embedded in the wheel is very helpful.

Richard Felton: Thank you.

Peter Durman: Next question, Alicia. Thanks.

Alicia Forry (Investec): Thanks. It's Alicia Forry with Investec. The price mix excluding Russia is a little bit below trend for tobacco historically. So, I was just wondering if you could elaborate on what's been going on and with the inflationary pressures that are coming through around the world, you know, what's your outlook for pricing in that part of the business going forward?

Lukas Paravicini: So let's perhaps take, Alicia, these – this question in two. First of all, our pricing. If you look at the full-year of 6% price mix and 4.8-4.9% of pricing is actually within the range of the longer-term pricing trend that we have. It's within the range. I think it is though, important that you can separate them in two halves. We indicated at half-year that the first half was a more difficult one in terms of the European-facing. And we had indicated then that the second quarter actually had a much stronger pricing, even though the pricing in the first half was 1.2%, it was actually skewed to the second quarter. The second half of this year with a price mix of 10.7% is very strong. And the underlying pricing to be very clear is around 8-9%. That is a strong pricing in the second half if you take all the mix away from that. And you can see that carrying into this year.

So, I would say, you know, and this is important because that is relative to other industries why tobacco is in a better position. We have a track record of being much more better prepared for inflation due to that pricing power that we have just shown. And you know, again, also to your question before, in the US, we have just taken other pricing in September. So, we had four pricing in the US last year. We'll continue that rhythm. We had good pricing in Europe by the way as well.

So, we're going to continue with that strong pricing. The other thing which I highlight always when it comes to inflation is the gross margin, that we have a strong gross margin. And a third of our cost – these – are booked a year in advance, so we have some security about that inflation there.

So, we are not immune. I would be very careful to that. Clearly, not immune. But we are well-prepared as an industry to weather the inflation also in FY22.

Peter Durman: I'll just repeat. For anyone who's on the telephone, if you want to ask a question, please press star and one one. And otherwise, we'll take a question. We'll take a question from Gaurav, please.

Gaurav Jain (Barclays): Hi, Gaurav Jain from Barclays. So, I'm quite intrigued by your decision to launch heated tobacco in new markets where the market share can reach 3-4%. So wouldn't it be better to put more money in those markets and take your market share to let's say 10%? You know, some number which shows, you know, a level of market share that you can breakeven and then launch into new markets rather than launching into new markets?

Stefan Bomhard: Sure. Let me take that question. Gaurav, number one, I think you can do both. Yeah. I think there is not a trade-off decision you have to make between them. But I think one thing what we've always said, we take a measured approach to our NGP strategy. And we go back to our business plan that we wrote before we enter Greece and Czech Republic, we were very clear internally these are the KPIs we need to meet – goes back to Richard's question. Very clear KPIs, this is the market share we want to achieve as part of our long-term growth plans. And the shares that I shared with you are absolutely in line – actually ahead of where we wanted to be at this point in time.

One of the observations is it's a gradual building of share over time and therefore, we felt very confident to move on into additional markets. Yeah. What goes without saying, that there will be continuous focus on the original launch markets like the Czech Republic and Greece. That's so we will continue to drive all of them forward. Yeah. So it's not a trade-off decision we have to make. Yeah.

Gaurav Jain: My final question is on allocation. So, look, on our model your leverage will now continue to decline to 1.8-1.7% because EBITDA growth is higher than the number share – the capital returns and total across share repurchases and dividends. So if – and I'm sure you will look at acquisitions and that actually the envelope is quite big, it could be as much as GBP400-500 million and still your leverage will be within 2.0x. So where all could you invest? Like will it all be acquisitions in NGPs, or could you also look at tobacco-specific acquisitions?

Lukas Paravicini: So, Gaurav, thank you very much. And you know, I was waiting for this question about capital allocation. Just to remind you how important that is for us and the value driver it is, and it is really an important strategy piece for us. We celebrate with you also that we actually receive now, you know, we are able to do the share buyback. This is an important milestone for us because it completes the capital allocation and it is a direct benefit of the lower leverage that we have now achieved, okay. And you know, we have committed to a multi-year share buyback

with the first year being GBP1 billion of share buyback. And we will take it step by step, okay.

So, we are very keen to take things step by step, especially in this uncertain environment. GBP1 billion is a significant share buyback. It's 5% of our share capital, which on top of – is on top of the dividend. And you know, we'll come back in a years' time of what else – what is the next share buyback amount we will do.

Just to remind you also, that our five years plan is organic by and large. It has some element of M&A on Logista. And you can see for next year roughly GBP150-170 million already committed in M&A for the Logista. But I would keep it at that, it's smaller bolt-ons. There is no large M&A included or foreseen in our organic plan. And so I understand your modelling. And we'll see when we get to the next year how is the best way to return share capital once we've satisfied the needs of the business.

Stefan Bomhard: And the only thing I would add, Gaurav, is I think when I talked earlier about the partnerships, that we have not more than 20 partners in the space of NGP. Yeah. That gives me the confidence that the organic strategy that we – that Lukas touched upon, is something we can deliver and won't stop us from if there is a need in certain areas to make a small inorganic acquisition and bolt-on to the business. But I have the confidence now from what I've seen in the last two years that we can deliver against our ambition in the core business as well as in the NGP business to deliver what we promised you as part of the strategic plan.

Gaurav Jain: If I could sneak in one last question? So there is a M&A happening right now in the industry, and one of your key competitors, and this is now in the US, will now be owned by another company which probably is focused more on NGPs than on cigars. So if there is a dislocation in the US cigar market, do you think that's an opportunity for you now to really scale up your cigar business in the US?

Stefan Bomhard: Gaurav, I think to us the most important thing, and you saw it in the results, I mean, we've come from being number four in mass-market cigars in the US two years ago, to being number two. And FY22 saw another share gain from us. So at this point in time, I feel we have the right portfolio for our US consumers in the marketplace with some very strong brands. So our focus has to be build out further our brand strength in these markets. So that's where we would be at this point in time.

Gaurav Jain: Sure. Thank you.

Peter Durman: No further questions.

Stefan Bomhard: Yeah. Okay. So I mean, well, first, thank you to all of you being here with us in the room. And hopefully what the presentation got across to you is the progress we're making on the transformation of the company. Yeah. I think you can see the operational progress we're making, not just in the core business, but also in the NGP business, and also the beginning of the culture of transformation that we've talked about.

So, really excited where we are today. I think we're well-prepared for the future into uncertain times that all companies will enter now. And we'll keep updating you at the half-year results.

Thank you for coming today and listening to this call. Thank you.

Lukas Paravicini: Thank you very much.

Stefan Bomhard: Thank you.

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