CAGNY Presentation Script – 18 February 2021

Slide – Our Transformation to Unlock Value

Good morning everyone. I hope you are all keeping safe and well.

It is a real pleasure to be here today to present Imperial Brands to you.

I will just draw your attention to our disclaimer, which is available in the slide pack.

[PAUSE]

I joined Imperial in July last year and one of my first priorities has been to undertake a comprehensive strategic review of the business.

Slide – Strategic review: a new approach

We announced our new strategy three weeks ago and full details are available on our website.

Today I will highlight some key elements of this strategy and then be happy to take your questions.

This has been an opportunity to understand what has worked and what has not worked at Imperial in recent years and to consider all options to create value.

We have developed a strategy that is truly tailored to Imperial's strengths and focuses on those areas where we have competitive advantage. In other words, it taps into the roots that made Imperial successful in the past.

It is a strategy developed by Imperial for Imperial. Too often in the past Imperial has been a follower… adopting strategies because they have worked for others… but they may not have always been right for us.

We can certainly learn from others but this strategy is about ensuring we focus our investment and resources in the areas that play to our strengths and make sense for our target consumers and our shareholders.

Slide– We are Imperial Brands

So first… this is a snapshot of who we are. Imperial is a global consumer organisation and the fourth largest international tobacco company… operating across 120 markets with around 27,000 employees.

The fundamental financials are sound, with annual revenues of eight billion pounds, high operating margins and strong cash flows.

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

So, we have some solid foundations to build on…

Slide – Our new strategy

Let me turn now to our new strategy to transform Imperial Brands… we have developed a compelling five year plan, centred around three strategic pillars… and three critical enablers.

Starting with the strategic pillars...

First, a very clear focus on our priority combustible markets where we will increase investment in our largest and most attractive profit pools, through clearly defined operational levers to unlock value.

Second, we will drive value from our broader market portfolio by managing these markets more efficiently, through implementing global processes and sharing best practice.

And, third, in NGP, we will be taking a very different approach, much more targeted and disciplined… driven by local consumer preferences. We will focus investment on heated tobacco in selected markets in Europe and on vapour in the US.

In order to deliver this plan, we are changing our ways of working and culture through three critical enablers…

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

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

Third, we will simplify our operations, which will realise savings to fund our investment plans.

We provided lot of detail at our capital markets presentation so today, after briefly setting out what our strategy will deliver…

I am going to focus primarily on the changes we are making to our combustibles business, particularly with the new focus on our priority markets… as well as demonstrating our new approach to managing our brand portfolio.

I will also outline briefly our new, disciplined approach to NGP.

I will then conclude by outlining the expected financial outputs and our capital allocation framework.

Slide – What our strategy will deliver

So what will our new plan deliver?

This is a highly detailed plan that will significantly strengthen our business with a sharper focus behind tobacco and with clearly defined roles for our markets.

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

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

Over time this will lead to stronger, more consistent revenue growth and generate sustainable profit growth without requiring a margin reset in the meantime.

And our continued strong cash generation, which is such an important feature of this industry, will provide the funds to support implementation of the strategy, debt reduction and enhanced returns to shareholders through dividends and buybacks.

Slide – Opportunity to differentiate our approach

This is a comprehensive plan for change… providing the opportunity to differentiate our approach from both our most recent past and from our peers… to become a true challenger.

Focus is the key theme running throughout our strategy.

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

As the number two or three in many markets, we already have strong retail partnerships where our customers want us to succeed and provide good competitive tension.

Becoming truly consumer-centric requires us to relentlessly focus on consumer needs at all times.

And by virtue of our size versus our peers, I believe we can be a differentiated fast follower – providing consumers with greater choice in established categories.

We are embracing our smaller size to become faster, more agile and more responsive in our decision making.

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

Slide - Clear Sustainability Agenda Aligned with our Strategy

Throughout the strategic review, we have considered our sustainability and ESG responsibilities and have concluded that both are aligned to our new strategy.

Our sustainability strategy remains focused on tobacco, NGP and behaving responsibly.

We have five ESG priority areas that have been validated with our stakeholders and are aligned with the UN Sustainable Development Goals.

Some have questioned whether our more measured approach to NGP will deliver the improvements to consumer health.

I firmly believe the answer is yes… because our disciplined approach will create a more successful NGP business… better able to attract adult smokers and thereby make a meaningful contribution to harm reduction.

[PAUSE]

Let's now move onto our combustibles business, which will be the biggest contributor to value creation over the next five-years.

Slide – Combustibles: value creation model remains strong

The outlook for the tobacco value creation model remains positive.

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

Affordability is still good across our geographic footprint reinforcing a positive pricing outlook.

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

Consumers are continuing to trial NGP alternatives and we have an NGP offering to meet those needs.

Slide – Our new combustibles approach and ambition

So what will be different under the new plan?

There are two key areas:

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

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

Second, it is about improved operational excellence.

There is a significant ‘catch up’ opportunity for Imperial vs its peers.

I don’t believe the scale of this opportunity has yet been fully recognised by the investment community.

This is about having better consumer insights, using data to inform decisions and driving a far more pro-active and rigorous approach to performance management.

I have already implemented monthly performance reviews for the divisions and top five markets to speed-up decision making.

These are all straightforward initiatives but they have not been implemented on a consistent basis at Imperial in recent times, creating an important opportunity.

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

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

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

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

The UK and Australia are highly profitable markets where we can drive a better operational performance to protect and even grow our positions.

For the rest of the combustible portfolio, this will be about more efficient resource allocation between the markets – with a clear role defined for each one of them.

Slide – Priority markets: six operational levers

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

This plan does not rely on a single 'silver bullet'… but has multiple clearly defined levers at a local level, which we have grouped into these six themes.

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

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

We also see opportunities to rejuvenate our local jewel brands and capitalise on the strength of our local brand equity and I'll come back to this later.

At the same time, we will optimise our approach to the value segment in cigarettes and in fine cut tobacco… addressing the consumer trend for downtrading in certain markets.

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

These two 'route to market' levers are expected to payback within a year… whereas the brand-related investments will require a little longer.

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

The plan is highly detailed and so today I will just home in on some examples from the US.

Slide – US: attractive market with strong Imperial positioning

The US is an attractive major market… and our largest single market with very high affordability supporting future pricing and value growth.

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

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

We are number two in cigars overall with a good portfolio of brands.

Although we are number one in the fastest growing natural leaf segment with Backwoods very well-positioned as market leader.

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

Here… you see our framework of the six operational levers and I am going to share with you two great examples.

First, is about how leverage the unique brand equity and positioning of Backwoods.

The second, is about driving performance by enhancing salesforce coverage and effectiveness.

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

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

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

Our investment programme includes advertising at age-verified musical festivals and comedy events; the use of brand influencers and product placement in bars and nightclubs.

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

We will support trial with smaller pack sizes and flavour extensions.

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

Slide – US: Driving sales force coverage and effectiveness

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

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

There is a strong correlation between sales visits and market share.. so, we have already begun recruiting and training sales reps to increase our sales force by around 25%.

This will deliver a higher penetration more in line with our relative market position… while also improving our outlet segmentation ensuring the salesforce are targeting the right outlets with the right service levels.

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

[PAUSE]

So… by focusing our investment in priority markets like the US, we will also free-up resources from the rest of the portfolio while recognising that these markets have an important role to play going forward.

Slide – Broader market portfolio: opportunities to deliver attractive returns

Many of these smaller markets have highly attractive margins and cash characteristics – something that is unique to the tobacco sector.

They also have more limited resource requirements – with some operated through distributor arrangements.

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

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

Going forward, we have defined a clear role for all markets to optimise value creation.

We will do this by ensuring our resources are effectively allocated, sharing best practice across markets and developing future growth engines.

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

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

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

Slide – New approach to brand portfolio management

We are also taking a very different approach to brand management – one which is more suited to the strengths of Imperial's portfolio.

Imperial's acquisitive history has created an attractive portfolio of international and local jewel brands.

However, we have often neglected the jewel brands in favour of more international brands – and we embarked on a strategy of portfolio rationalisation through brand migrations.

To be clear… some of our migrations made sense but in many cases, they did not recognise the strength and value of these local jewels in our portfolio.

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

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

In addition, the variation of tobacco regulations by market means that product and packaging synergies are far more limited in our industry than in other consumer categories.

Let me give you some examples of our new approach from Spain…

Slide – Spain – drive and rejuvenate local jewel brands

Here we are the number two player with some strong local jewel brands in our portfolio, such as Nobel, Fortuna and Ducados, which have good positions across the upper half of the price ladder.

These brands have been neglected in recent years in favour of their international counterparts and this has contributed to overall share losses for us in the market.

So we are now beginning to leverage the full potential of these local jewel brands.

For example, we have reversed the migration of Ducados into JPS – which has already delivered share improvements.

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

[PAUSE]

So for combustibles, we have developed a comprehensive plan to strengthen performance over time.

I would now like to turn to NGP, where again we are taking a different and more prudent approach going forward… one that plays to our strengths.

Slide – NGP: a growth opportunity for Imperial Brands

Our starting point is the consumer… who is looking for potentially less harmful products. Our research shows that no product out there today fully meets their requirements consistently.

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

I believe we have the scale…and capabilities to deliver.

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

We also have strong routes to market…and benefit from close partnerships with retailers in all our priority markets, where we can also leverage our regulatory capabilities.

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

Slide – Our new NGP focus

So how are we changing our approach?

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

This resulted in poor investment returns.

However, in vaping we have some good brand equity and engagement in blu to build on… so we will focus on the US – the world's largest vapour market and certain European markets such as the UK and France.

We will withdraw from markets where the market opportunity for vapour is less clear.

In heated, although this has received only limited investment and roll-out to date, we have a promising product and technology in Pulze.

Our market research supports our decision to dial up the focus on heated tobacco in Europe, where we see untapped growth opportunities to meet consumer demand.

And in modern oral, we will continue to build on our established a good position in Scandinavia and in selected European markets with a tradition of oral nicotine consumption.

So in summary we have undertaken a realistic assessment of our NGP capabilities - both where we are today - and where we can get to tomorrow.

Imperial has often focused too much on the product and its features… and not enough on the whole proposition for consumers – such as branding or consumer communications.

The reality is that we have some promising products … but we can do much better at brand building and the way we connect with our target consumers.

Slide – Realistic ambition with a challenger mindset

This has helped us define a clear ambition that is right for Imperial.

For us it's about being a challenger… not a leader… with a differentiated approach founded on four principles.

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

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

Initial investment levels will be modest as we drive targeted trials of our offer, grounded in research and consumer understanding.

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

Third, we will no longer aim to create categories where demand does not exist today. Instead, we will adopt a fast follower approach in markets where proven demand already exists.

This is about providing greater consumer choice through a differentiated approach in those markets we choose to target. This is very consistent with what Imperial has been good at in the past.

And fourth - we will refine our ways of working.

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

Slide – Summary: clear plan to enhance our NGP delivery

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

We have revised our category prioritisation… based on market, category, consumer and competitor insights… as well as a review of our assets, capabilities and market footprint.

Overall, our NGP operations will be much more consumer and data-led and with more precision and discipline around investment.

[PAUSE]

So I'd now like to turn to what we expect our five-year plan will deliver financially.

Slide – Delivering a stronger financial outlook

We see two distinct phases.

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

During this period, the additional investment, which will be partly funded by reallocating resources and the cost savings that are an important part of the plan, will limit our growth in adjusted operating profit.

In the second phase, you will see the benefit of the investment supporting improving profit delivery with mid-single digit growth in CAGR over the three years.

And the combustibles business will be the main contributor to this profit growth.

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

Slide – Deleverage priority to strengthen investment credit rating

The cash characteristics of our business remain highly attractive, with low capex needs supporting annual operating cash flows of more than £3bn a year.

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

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

Our credit rating with Moody's today is one notch above investment grade – the lowest among our major tobacco peers. We remain fully committed to maintaining an investment grade rating.

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

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

Slide – Clear capital allocation framework: priorities

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

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

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

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

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

Fourth and finally, our priority will be to return surplus cash to shareholders through buybacks.

Given our current valuation, we looked carefully at whether we could deliver a buyback with leverage <u>higher</u> than our target gearing… but we have concluded that, <u>at present</u>, we do not have the headroom to fund a meaningful buy-back without risking a credit rating downgrade.

A downgrade would seriously reduce future financial flexibility to implement our strategy and lead to significantly higher costs, significantly reducing the returns from any buyback.

However, we will commence buybacks just as soon as our balance sheet and credit metrics allow.

Slide – Investment case

So what does this mean for investors in Imperial Brands?

We now have a clear plan that will rebuild credibility and create value for shareholders…

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

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

We have a significant upside from self-help initiatives through operational excellence and performance improvement… in other words, just doing the basics better.

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

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

Thank you for your interest.

I look forward to taking your questions shortly.

Thank you.