

27 January 2021 – Capital Markets Webcast

Our Transformation To Unlock Value

- **New strategy and five-year plan to transform the business**
- **Revitalised tobacco business will be the key driver of value creation**
- **Increased focus on our top five markets representing c. 72% of combustible operating profit**
- **Disciplined NGP business committed to harm reduction and providing options for growth**
- **Reshaping our culture and ways of working to place the consumer at the centre of our business**
- **Delivering a stronger, more consistent performance without a margin reset**
- **A clear capital allocation framework to underpin the strategy and enhance returns**

Imperial Brands plc will today host a virtual capital markets event for analysts and investors. Chief Executive, Stefan Bomhard, and members of the executive team, will provide details of their new strategy to transform Imperial Brands and create long-term value.

Stefan Bomhard said: "We have undertaken a comprehensive strategic review, examining all opportunities for unlocking value. This process has reinforced my view that the Group has solid foundations on which we can build a better and stronger business. Our new detailed five-year plan sets out clear strategic priorities, which will drive targeted investment behind those markets and brands with the greatest opportunities for value creation. We have put the consumer at the centre of everything we do and are beginning to reshape our culture to support the new strategy. This will improve our ways of working and create an agile, collaborative and performance-based business that will deliver a stronger, more consistent performance."

Strategic priorities

The new strategy is founded on three pillars:

Focus on priority combustible markets: We will focus our investment and resources around our five most important markets of USA, Germany, UK, Australia and Spain, which represent c. 72 per cent of our combustible operating profit. We have developed highly detailed brand and market plans to support this approach and will increase investment behind a focused set of operational levers to strengthen performance and unlock value.

Drive value from our broader market portfolio: Our review of our broader market portfolio has identified additional opportunities to drive future growth whilst realising efficiencies in how we operate these markets. Although these markets are smaller, they benefit from attractive margins and relatively limited investment requirements. We will selectively build those where we have attractive leadership positions, such as Africa and other European markets, and will selectively exit a small number of others where we have a relatively weaker presence.

Build a targeted NGP business: We are resetting our NGP strategy with a significantly different approach, informed by consumer insights and validation. We will focus our investment behind heated tobacco opportunities in Europe, and in selective market opportunities in vapour, particularly in the USA. Our oral nicotine business will remain focused on its existing markets within Europe. Our investment will be disciplined and based on detailed market testing. Our aim is to develop a sustainable NGP business that supports our ESG agenda by making a meaningful contribution to harm reduction.

Improving our ways of working

To support the delivery of our strategic priorities, we are changing how we operate to embrace new ways of working and to enhance our culture. We have identified three critical enablers to drive these changes:

Consumer at the centre of the business: Too often our decisions in the past have not been sufficiently informed by consumer insights and data. This is changing and we are investing to support a consistent approach to consumer insight, including better capabilities in brand and trade marketing, portfolio management, innovation and sales excellence. This transformation will be overseen by the appointment of a new Chief Consumer Officer.

Performance-based culture and capabilities: We are embedding a performance-based culture to enhance accountability, improve our agility and support teamwork and collaboration throughout the business. Rewards and incentives will be aligned to reinforce performance and delivery of the Group objectives. This is already being reinforced through senior monthly performance reviews.

Simplified and efficient operations: We will ensure resources and capabilities are focused on our most important combustibles markets. Our NGP operations have been brought together within a unified, entrepreneurial business unit to more effectively leverage capabilities and resources. Our global enabling functions, such as Finance and HR, will be aligned to support delivery of the new strategy and ensure efficient allocation of resources.

As a result of these changes, we will be increasing our investment in core capabilities, such as sales and marketing, by c. £50-60m per year. This additional investment will be funded by efficiency savings as we reorganise and simplify the business, generating annualised savings of c. £100-150m by the end of FY23. To deliver these efficiencies, we will embed new ways of working, which are expected to be fully implemented by the end of FY22. The anticipated cash costs of the initiatives are c. £245-£275m, with the majority of the spend occurring in FY22. In addition, we also expect to incur associated non-cash restructuring charges, which we currently expect to be around £150m. This programme is necessary to reshape the business and support delivery of the strategy. As a one-off and time-bound programme, we intend to treat the costs as an adjusting item to aid comparison of performance over time. Any additional restructuring charges beyond FY22 will not be treated as an adjusting item.

Delivering a stronger and more consistent performance

Over time, this new strategic plan will deliver a stronger and more consistent performance in both combustibles and NGP.

Our outlook for FY21 remains in line with the statement provided at the preliminary results on 17 November 2020 and there will be no further update on current trading.

We expect the new plan will deliver a gradually improving trajectory in net revenue over the five years with a CAGR of c. 1-2% for FY20 to FY25.

Our increased investment will be funded through a reallocation of resources and the realisation of cost savings over time. As a result, no major reset to operating profit will be necessary over the first two years of the plan, with relatively flat organic operating profit expected in FY22 at constant currencies against FY21. Adjusted operating profit is expected to improve to deliver a mid-single digit organic CAGR over the three year period FY23 to FY25.

Capital allocation framework

The new strategy will be supported by a clear capital allocation framework, which will optimise returns for all stakeholders.

The business benefits from high margins and strong cash generation, which will underpin the following capital priorities:

- **Investment behind the new strategy** to deliver the targeted organic growth initiatives in combustibles and NGP. We will also invest in strengthening capabilities, new ways of working and a streamlined organisation to improve effectiveness and realise efficiencies. Investment decisions will be rigorously evaluated and monitored within a more disciplined, returns-focused framework.
- **A strong and efficient balance sheet** to support our investment grade credit rating. To begin with, debt reduction will remain a priority to deliver our target leverage towards the lower end of our net debt to EBITDA range of 2-2.5 times. We believe a stronger balance sheet will provide the business with greater flexibility for the future, improving resilience to manage uncertainties and further underscoring the defensive characteristics of our business.
- **A progressive dividend policy** to provide a reliable, consistent cash return to shareholders. The dividend will grow annually from the current rebased level taking into account underlying business performance.
- **Surplus capital returns to shareholders** to be considered once target leverage has been achieved. Our strong cash characteristics support additional capital returns via share buybacks and/or special dividends. We will adopt a disciplined approach to optimising these surplus returns subject to market conditions such as valuation at that time.

Webcast and Conference Call Details

A live webcast will be available via www.imperialbrandspkc.com on 27 January at 14:00 GMT. The presentation slides will also be available via the website.

If you wish to ask questions at the end of the presentations, please dial-in via the details below. You will be asked to provide the conference ID number.

Conference ID No: 6896572

United Kingdom: 44 (0) 20 7192 8338 or toll free: 0800 279 6619

USA: +1 646 741 3167 or toll free: +1 877 870 9135

Please dial-in at least 15 minutes before the Q&A session commences to avoid any delays connecting to the call.

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