

# *GAINING TRACTION IN THE US MARKET*

25 MARCH 2022



**IMPERIAL  
BRANDS**

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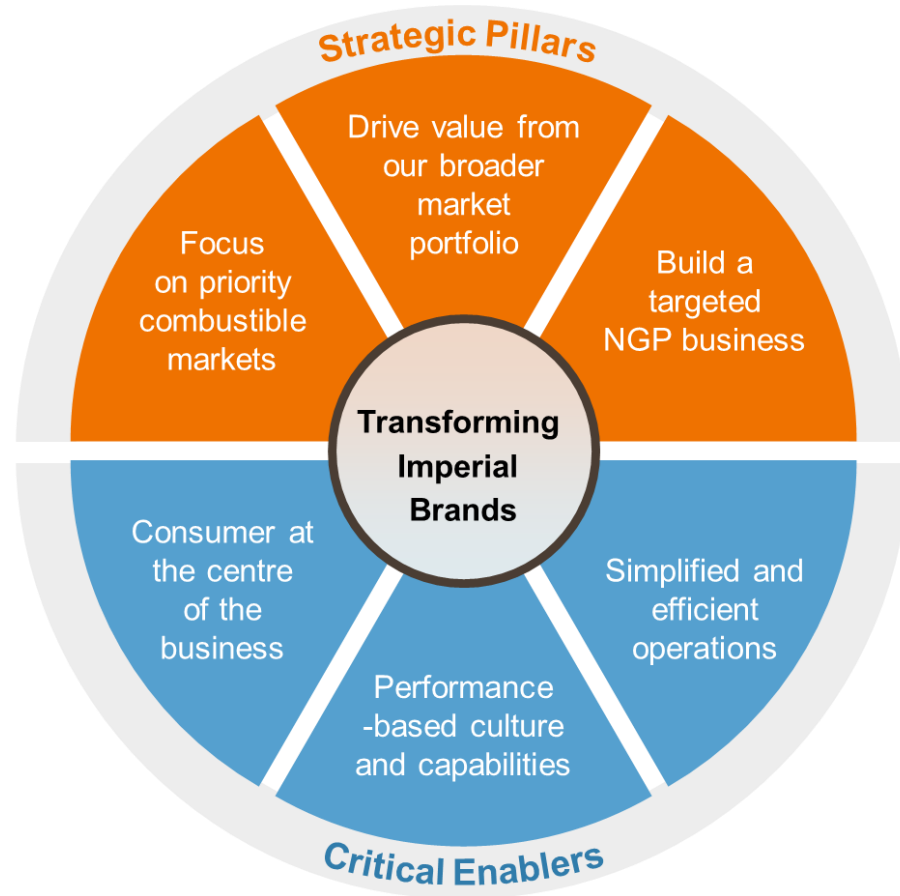
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# A Clear Strategy to Enhance Performance

DEMONSTRATING PROGRESS AGAINST OUR STRATEGY



## TODAY WE WILL...

Introduce you to our strengthened US team

Show how we are well-positioned in this market

Showcase our investment activities in US market

Demonstrate progress against our strategy

# Our US Business

WE ARE WELL POSITIONED IN THE US MARKET



## OUR US BUSINESS

**£2.5bn**

Net revenue

33% of net revenue

**£1bn**

Adjusted operating profit

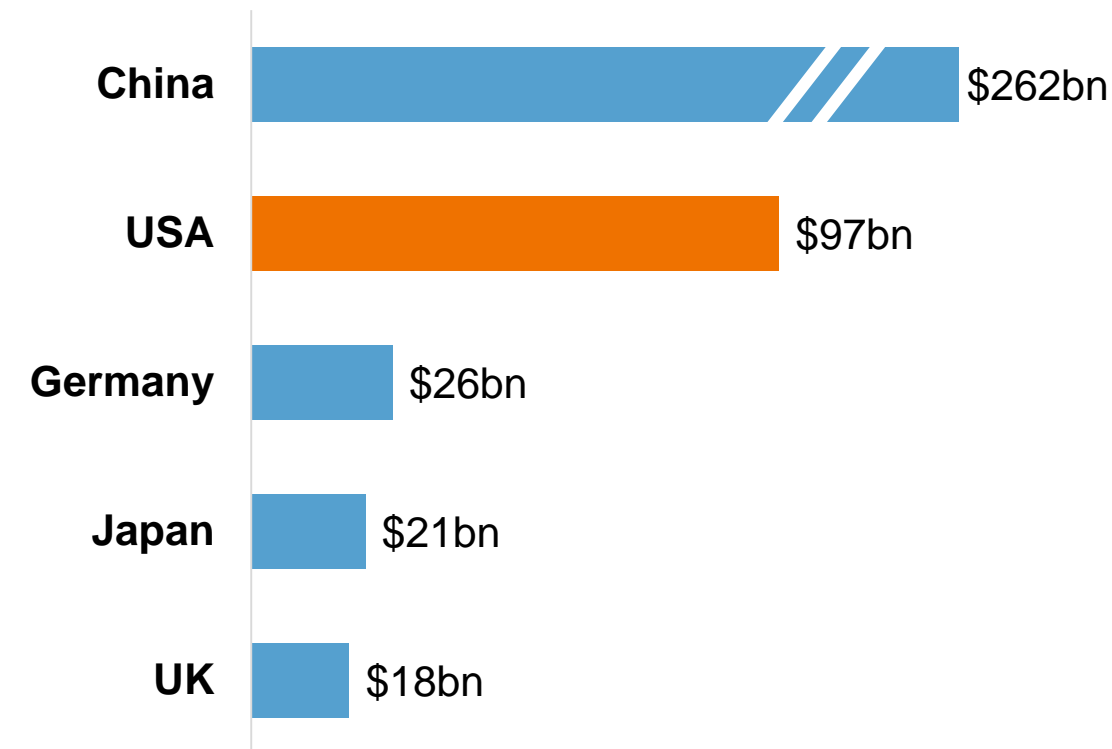
**41%**

Operating margin

## Strong cash flows


- Attractive market characteristics
- Coherent portfolio – well-placed for growth
- Clear plan to enhance performance through targeted investment in operational levers

## A LARGE MARKET WITH AN ATTRACTIVE OUTLOOK



# Agenda

## GAINING TRACTION IN THE US MARKET

An American flag is visible in the background on the right side of the slide, waving in the wind. The flag is partially obscured by the table structure.

ITG Brands overview and strategy	<b>Kim Reed</b>	<i>President ITG Brands</i>
Market environment	<b>Alex Mueller</b>	<i>SVP Insights &amp; Intelligence</i>
Gaining traction with our brands	<b>Rishi Dhingra</b>	<i>Executive VP Marketing</i>
Gaining traction with our sales force	<b>Shane Sgambelluri</b>	<i>Executive VP Sales</i>
Q&A	<b>All</b>	

# ***Gaining Traction in the USA***

*A CLEAR PLAN TO REALISE VALUE IN THE USA MARKET*



Well-positioned in a highly attractive market

Multi-year transformation plan with clear self-help opportunities

Proven track record to perform

Targeted investment plan behind multiple brand and sales initiatives

Plan will deliver consistent growth in revenue, profit and cash



# We are Well-Positioned: Our US Assets

SOLID FOUNDATION TO DRIVE CONSISTENT GROWTH

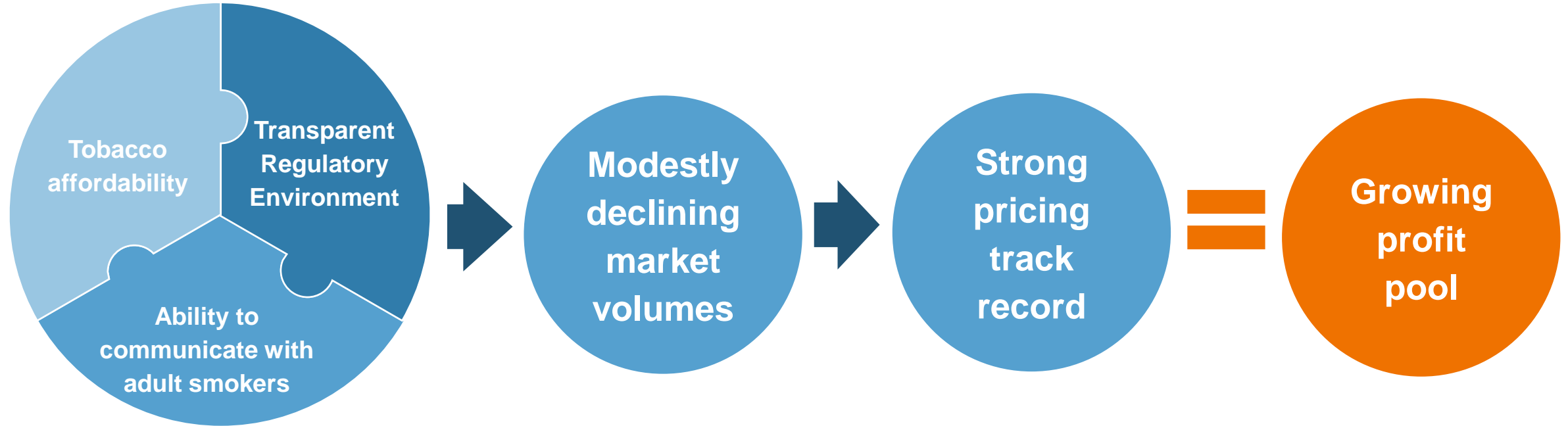


# Realising Value in the USA

WHY THE USA IS AN ATTRACTIVE OPPORTUNITY



## ATTRACTIVE MARKET DYNAMICS



## OUR PLAN WILL

- 1** Further strengthen our US business
- 2** Drive consistent performance
- 3** Deliver growth in revenue, profit and cash



# Strengthened Leadership Team

*STRONG FMCG EXPERIENCE BLENDED WITH DEEP INDUSTRY KNOWLEDGE*



**Kim Reed**

President and Chief  
Executive Officer



**Andrew Clarke**

Chief Financial  
Officer



**Rob Wilkey**

Executive VP  
Legal, Regulatory  
and External Affairs



**Rishi Dhingra**

Executive VP  
Marketing



**Shane  
Sgambelluri**

Executive VP  
Sales



**Antonio  
Gutierrez**

Executive VP  
Operations



**Gert Schrijver**

Senior VP  
People and Culture



**Alex Mueller**

Senior VP  
Business Insights &  
Intelligence



**Tanisha Sanders**

Senior VP,  
Corporate &  
Legislative Affairs



**Glen Tibbits**

Senior VP  
Cigarette Marketing



**Antoine Blonde**

Senior VP  
MMC and EVP  
Marketing

# Creating an Agile and Performance-Driven Culture

## BUILDING A CONNECTED AND HIGH-PERFORMING ORGANISATION



Start with the  
**Consumer**



Collaborate  
with **Purpose**



Take Accountability  
with **Confidence**



Be Authentic,  
**Inclusive to all**



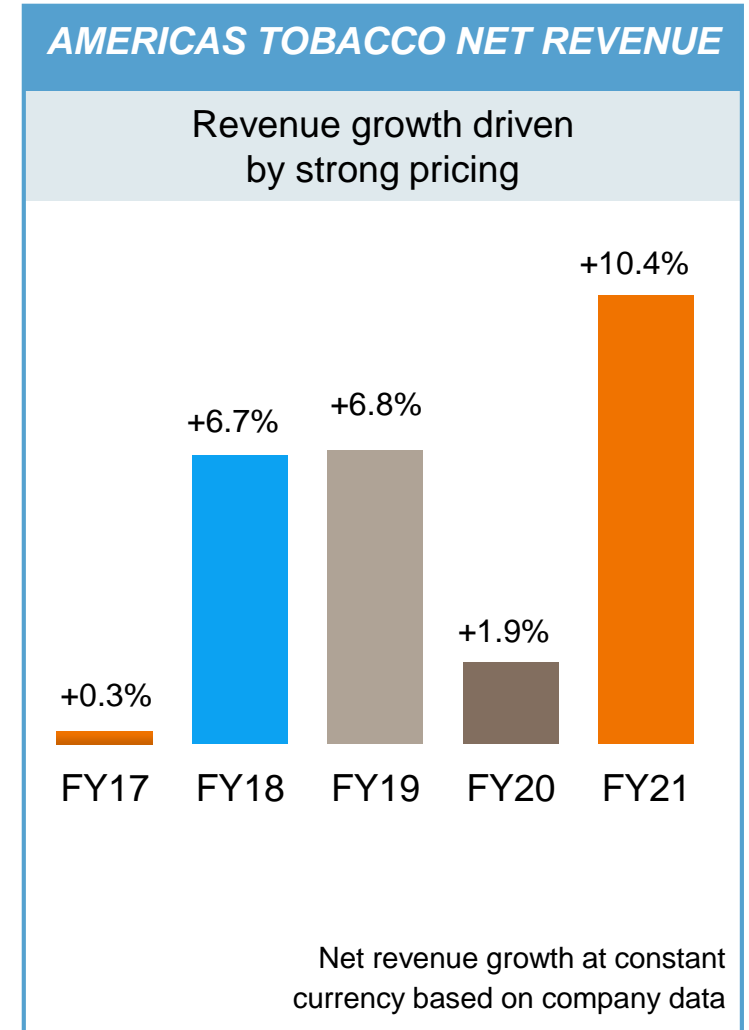
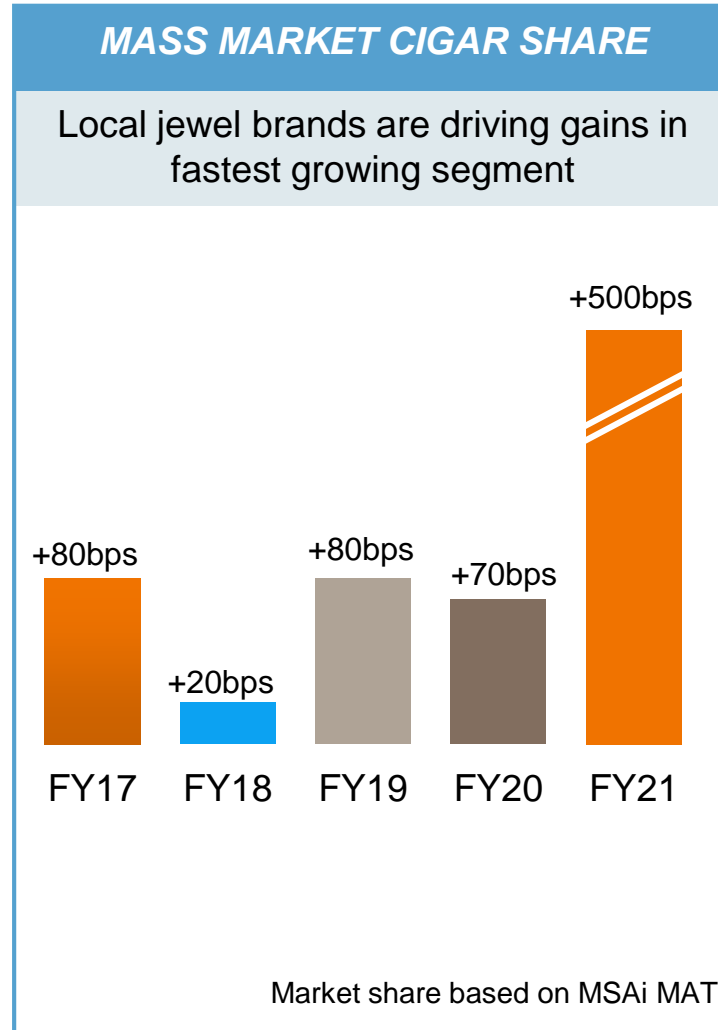
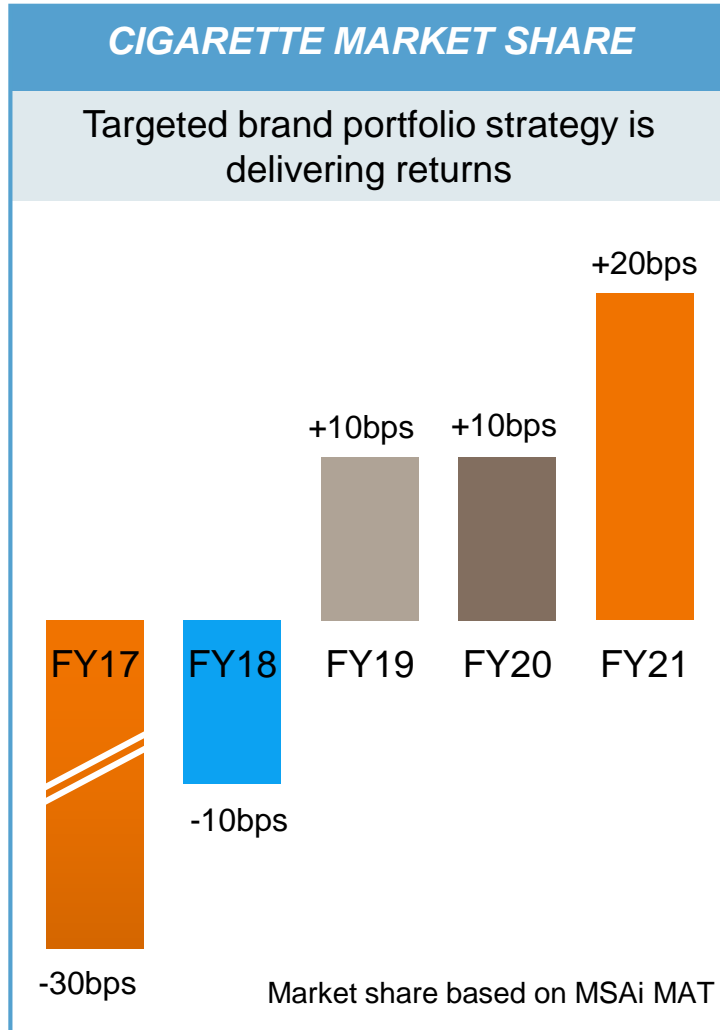
Build  
**our Future**

**60** senior US managers have invested a total of **1,200** hours on new behaviours

Programme to be rolled out to whole organisation by the end of this year

# Proven Track Record of Delivery

DELIVERING TOBACCO MARKET SHARE GAINS AND REVENUE GROWTH

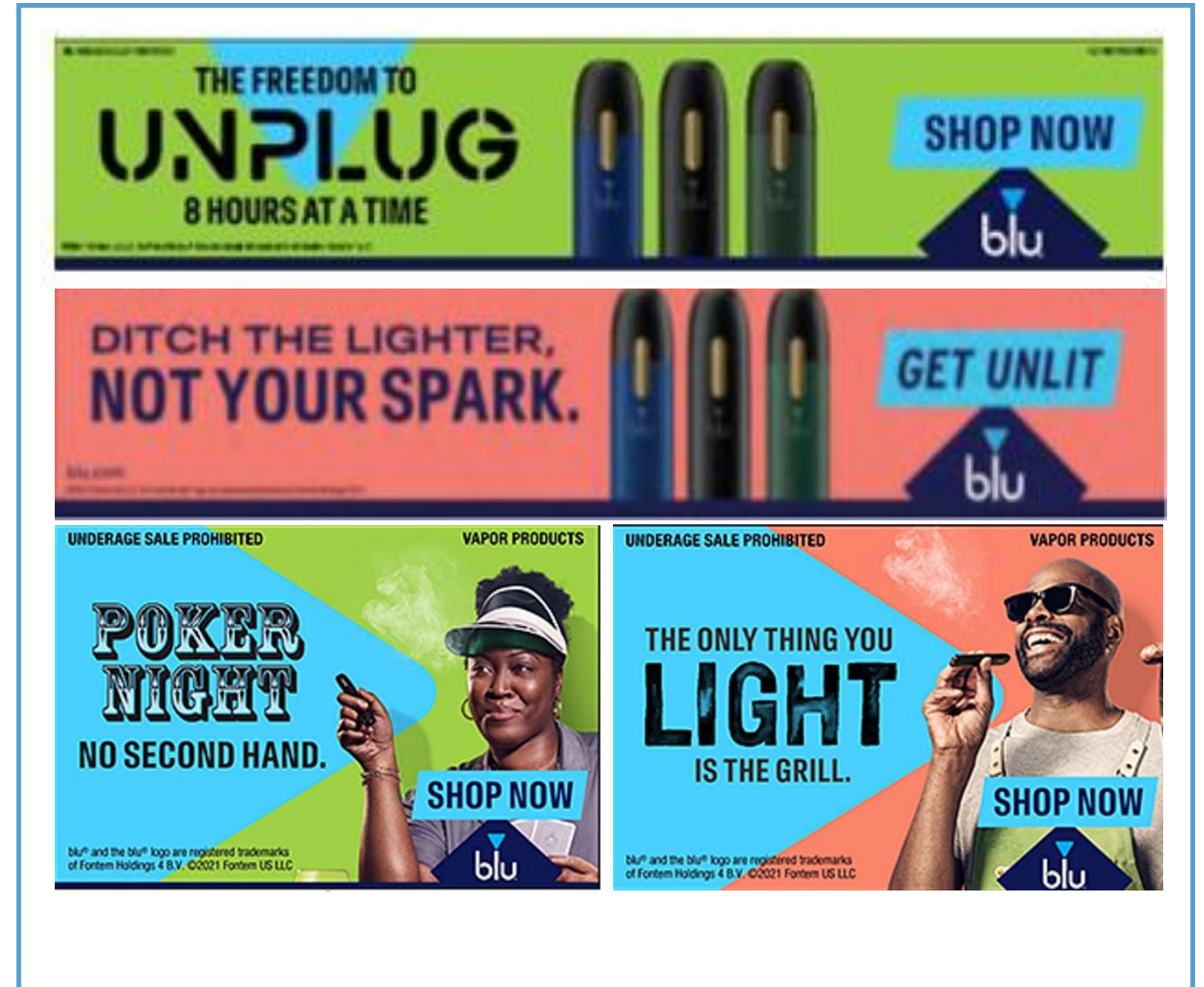


# US Consumer Trial of Refreshed blu Offer Underway



GOOD INITIAL PROGRESS; DATA GATHERING STILL UNDERWAY

- Trial underway in Charlotte, North Carolina
- New consumer marketing approach includes:
  - Refreshed packaging
  - New marketing campaign
  - Enhanced point of sale presence
  - New on-line sales platform
- Encouraging initial results
- Will provide further update on trial at interim results



# ***US Regulation Evidence-Based***

*REGULATORY CHANGE SUPPORTED BY SCIENCE AND DATA*



- Well established rulemaking process
- Structured and consultative approach – evidence and science-led
- Considers risks and benefits to whole population
- Requires input from all stakeholders
- Thorough and orderly process



**Current focus: PMTA for vapour; plans for menthol cigarettes and flavoured cigars**

# A Clear Plan to Enhance Performance

FOCUSING BEHIND THE OPERATIONAL LEVERS



## SIX OPERATIONAL LEVERS IN OUR FIVE PRIORITY MARKETS

<b>Cigarettes</b>	<b>1</b> Increase participation in premium value segment		} <b>Rishi</b>
	<b>2</b> Drive and rejuvenate local jewel brands		
	<b>3</b> Optimise our approach to the value segment		
<b>Fine-cut</b>	<b>4</b> Maximise the potential of fine-cut tobacco category	N/A	
<b>All Combustibles</b>	<b>5</b> Drive performance in under-penetrated channels and regions		} <b>Shane</b>
	<b>6</b> Maximise value creation through Key Accounts		

# *MARKET ENVIRONMENT*

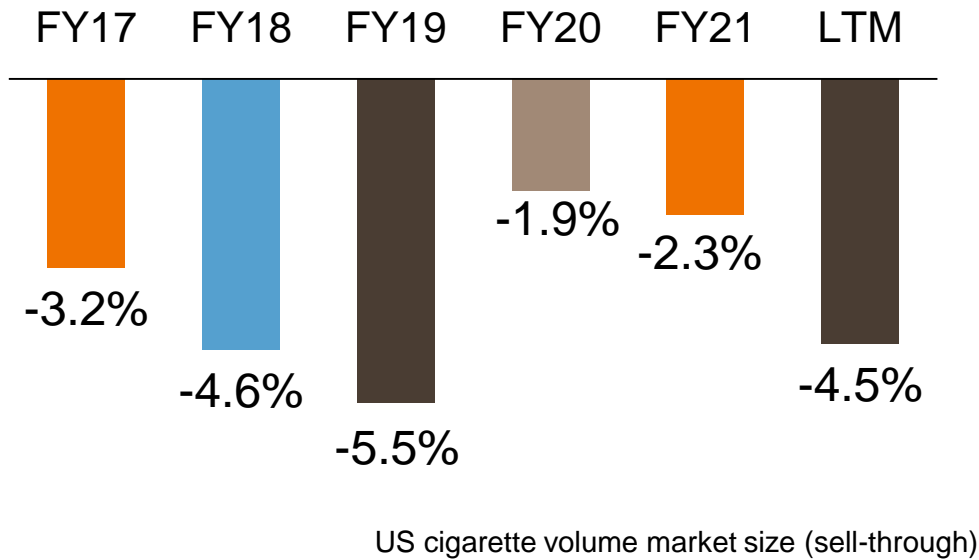


# Tobacco Fundamentals Remain Strong



ROBUSTNESS OF TOBACCO DEMONSTRATED IN RECENT YEARS

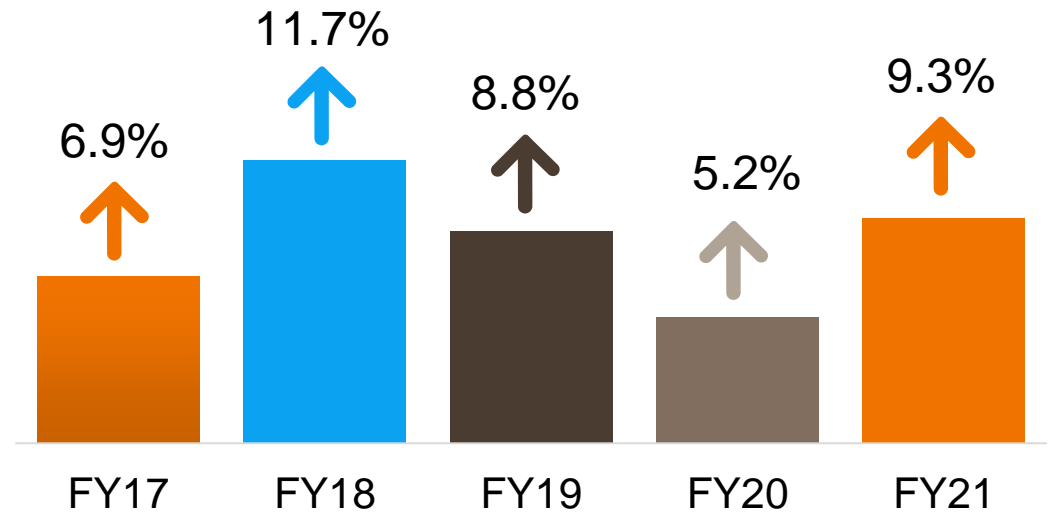
## COVID-19 AFFECTED MARKET DYNAMICS



US industry volumes are beginning to revert to historical norms

## STRONG PRICING REMAINS KEY VALUE DRIVER

Imperial US tobacco price/mix



With scope to continue based on good levels of affordability

## Medium term outlook: industry volume declines more than offset by price/mix

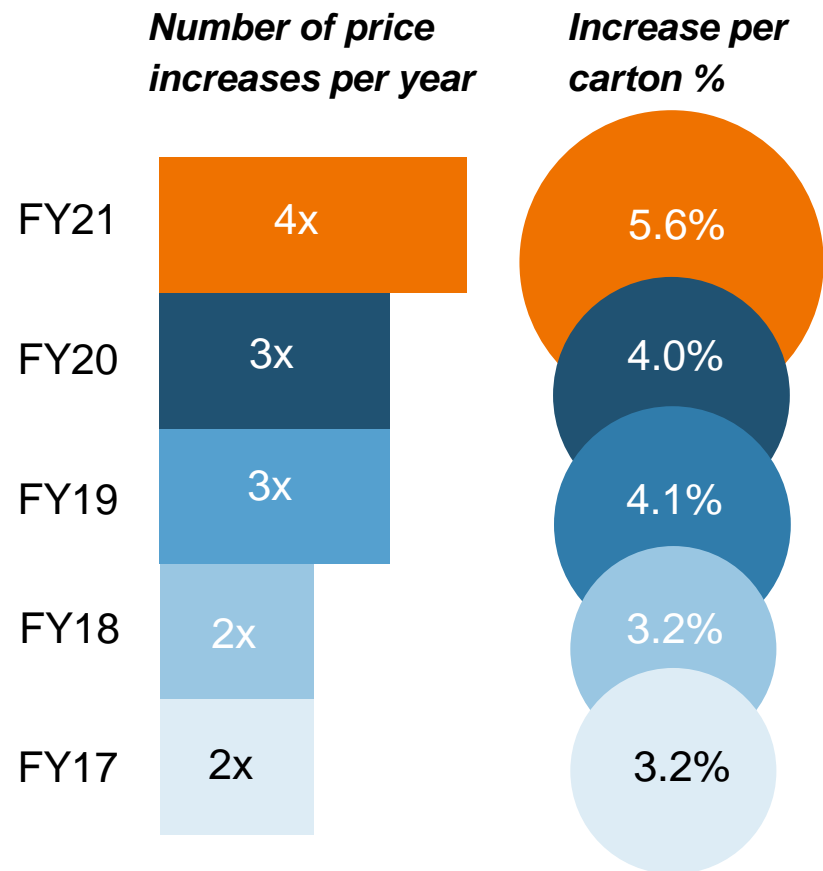


# Pricing Achievement has been Strong

HIGHER AND MORE FREQUENT INCREASES



## PRICING HAS BEEN STRONG



Source: company data; US market list price increases

## MANAGING PORTFOLIO BALANCE IS KEY

- Consistent price rises on premium and traditional value
- Market share determines shelf-space
- Being active in deep-discount meets demand
- Creating opportunities to drive whole brand portfolio

# US Cigarette Affordability Remains High

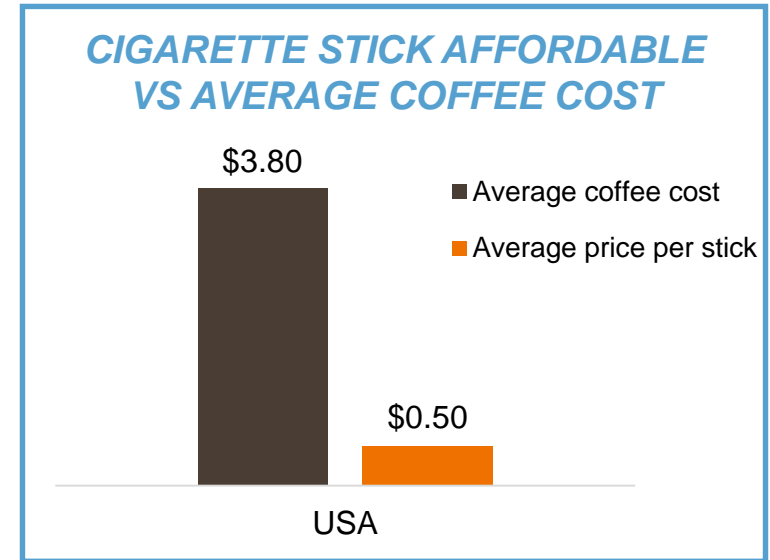
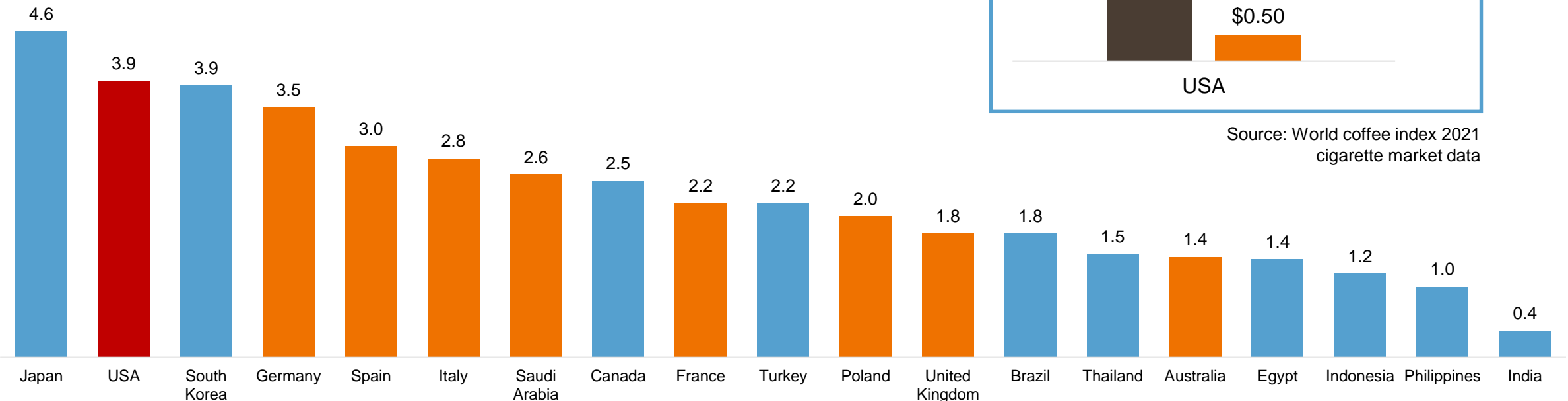
## WHEN COMPARED TO AVERAGE EMPLOYEE EARNINGS



### AFFORDABILITY OF TOBACCO

(# Packs earned per hour of work at average salary)

- USA
- Imperial significant presence (>5% volume share)



Source: World coffee index 2021  
cigarette market data

1. Top 20 countries in terms of Cigarettes Retail Sales Value in 2019 – excluding China  
Affordability = est. hourly wage / price per 20 sticks – based on 2019 data  
Source: Euromonitor, Imperial Internal Estimate

# Well-Placed to Capitalise on Consumer Trends

## TOBACCO SHORT-TERM OUTLOOK



### Outlook for US Consumer

#### *Headwinds on consumer wallet*

- ↓ Inflation pressures
- ↓ Rising gas prices
- ↓ Post lockdown re-opening

#### *Mitigating factors*

- ↑ High US employment rates
- ↑ Consumer finances have improved



### Imperial is well-placed

- Our tobacco portfolio offers consumers choice at different price points
- Well-placed to meet needs of value-oriented consumers/ downtrading
- Clear growth plan supported by self-help initiatives and increased investment

*“By tailoring our offering, state by state, store by store, we aim to provide consumers with the best choice to meet their unique needs”*

# 3.5%

20-year average cigarette volume decline rate

# Market is in Flux, Creating Growth Opportunities



SEVERAL FACTORS ARE INFLUENCING CONSUMER BUYING PATTERNS



**DEMOGRAPHIC  
SHIFTS**



**NEW CATEGORY  
SHIFTS**



**CUSTOMER/  
CHANNEL SHIFTS**



**REGULATORY  
SHIFTS**



**POST-PANDEMIC  
SHIFTS**

# US Market has Many Nuances

WHICH CREATE UNTAPPED GROWTH OPPORTUNITIES



## ADULT CONSUMER TYPES



Leveraging a detailed understanding of different consumer types

## REGIONAL PRESENCE

**300,000** nicotine outlets

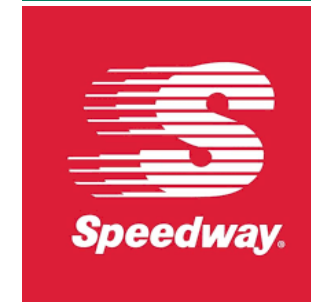
**#1 or #2** IMB ranked in 10% of cigarette volume stores

**Growing share**

in counties that represent 72% of industry volumes

Optimising our distribution....

## TRADE PARTNERS



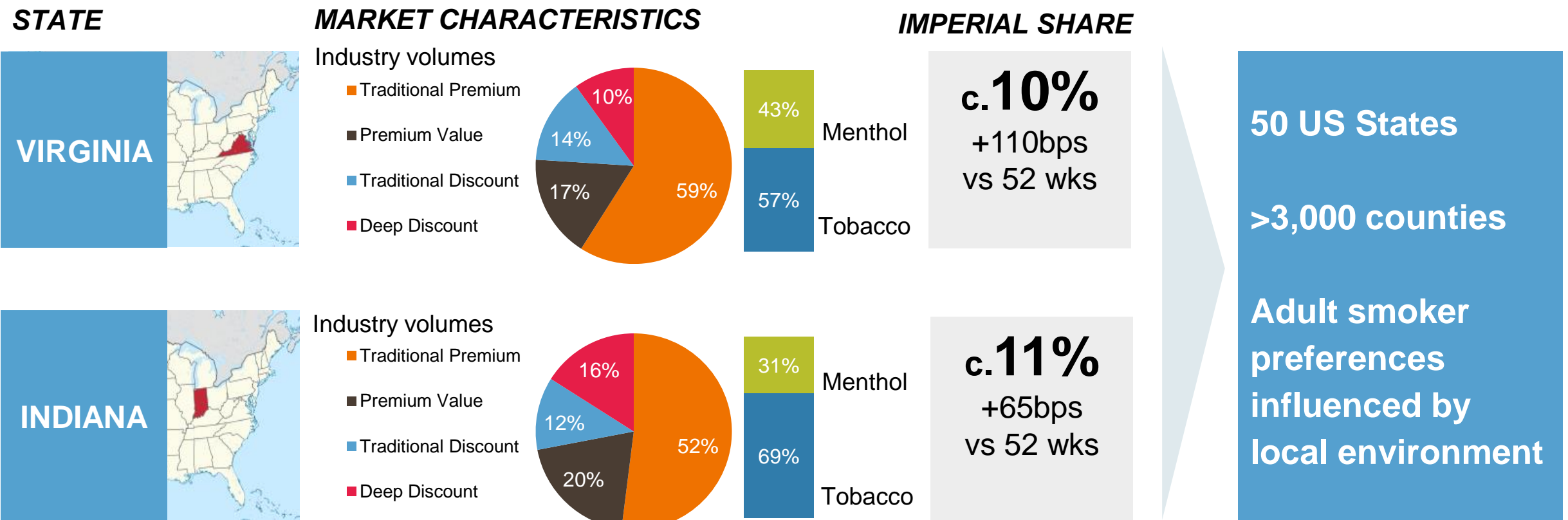
Recognising the roles of different channels to reach specific target consumers

# Getting Closer to Consumers to Drive Sales

TAILORING OUR APPROACH TO TARGET CONSUMER PREFERENCES



## Detailed data-driven approach



# Detailed Data and Consumer Insights

DRIVING SALES WITH A TARGETED APPROACH



## Leveraging data capabilities to win in local growth pockets

STATE	COUNTY	SIZE	LOCAL MARKET	SALES ACTIVITY
VIRGINIA	VIRGINIA BEACH	450k inhabitants 300M cigarettes ~300 stores IMB SOM 8.4%	<p>Tr. Premium 16%                      Premium Val.                      Tr. Discount 84%                      Deep discount                      Independents                      Key accounts</p>	Assortment optimisation beyond core range Targeted coupon offers for Winston & Kool Range of multi-packs, key a/c focus
INDIANA	ALLEN	385k inhabitants 300M cigarettes ~300 stores IMB SOM 16.3%	<p>Tr. Premium 50%                      Premium Val.                      Tr. Discount 50%                      Deep discount                      Independents                      Key accounts</p>	Assortment optimisation beyond core range Store targeted specially marked packs Wholesaler programmes supporting independents

# GAINING TRACTION WITH OUR BRANDS

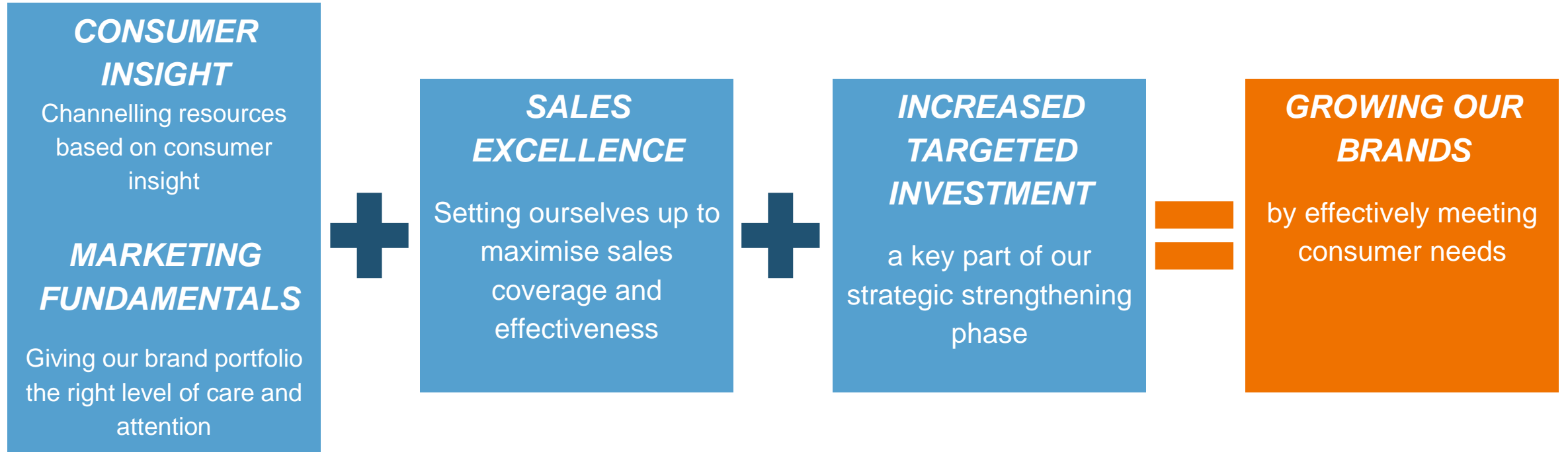


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BRANDS



# Applying a Simple Formula to Grow our Brands

GETTING THE BASICS RIGHT COMBINED WITH FOCUSED INVESTMENT



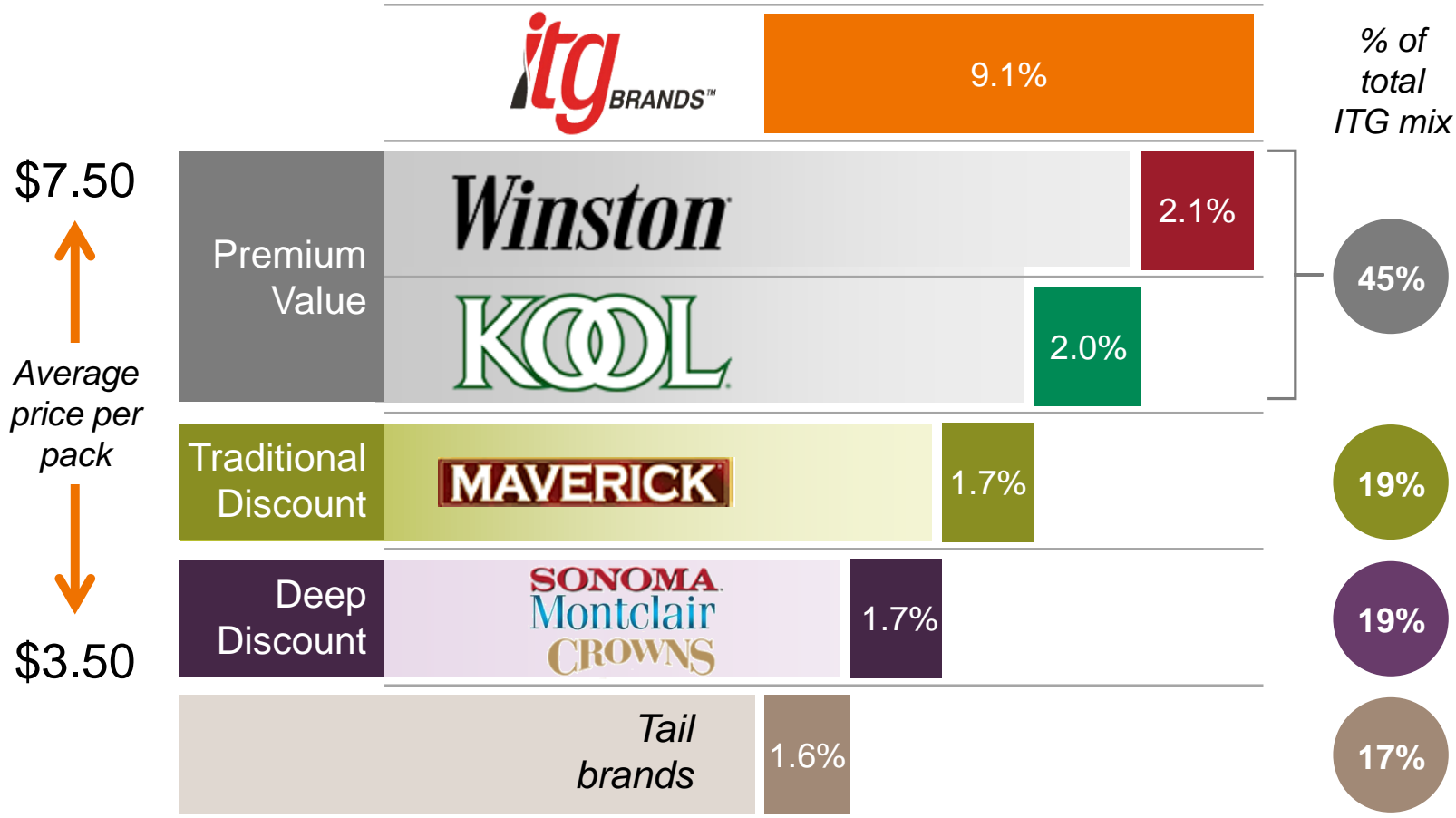
Creating a strong alignment across the whole team to a common goal

# A Brand Portfolio to Meet a Range of Consumer Needs

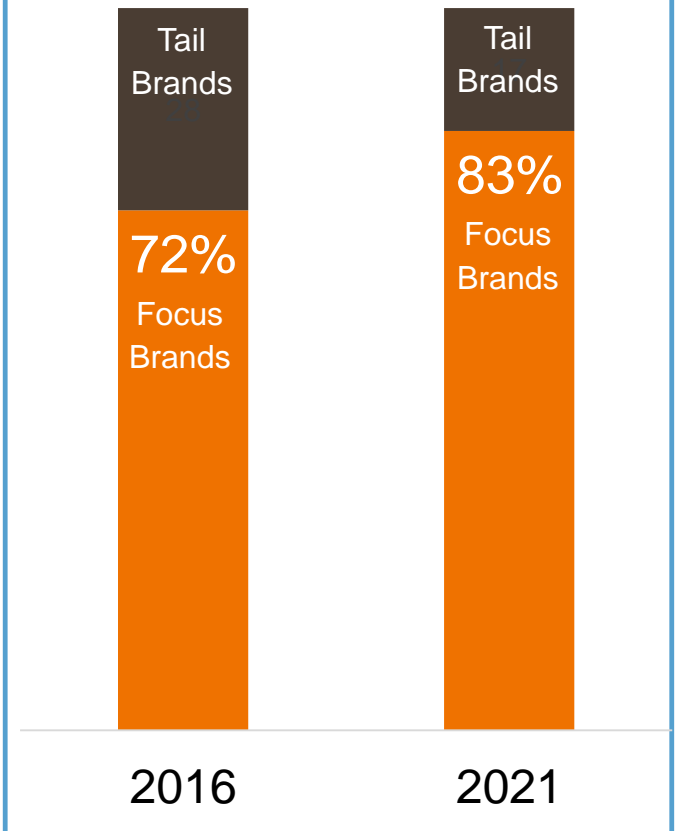
WE HAVE SIMPLIFIED OUR BRAND PORTFOLIO SINCE ACQUISITION



## OUR CIGARETTE BRAND PORTFOLIO



## FOCUS BRANDS % OF CIGARETTE VOLUMES

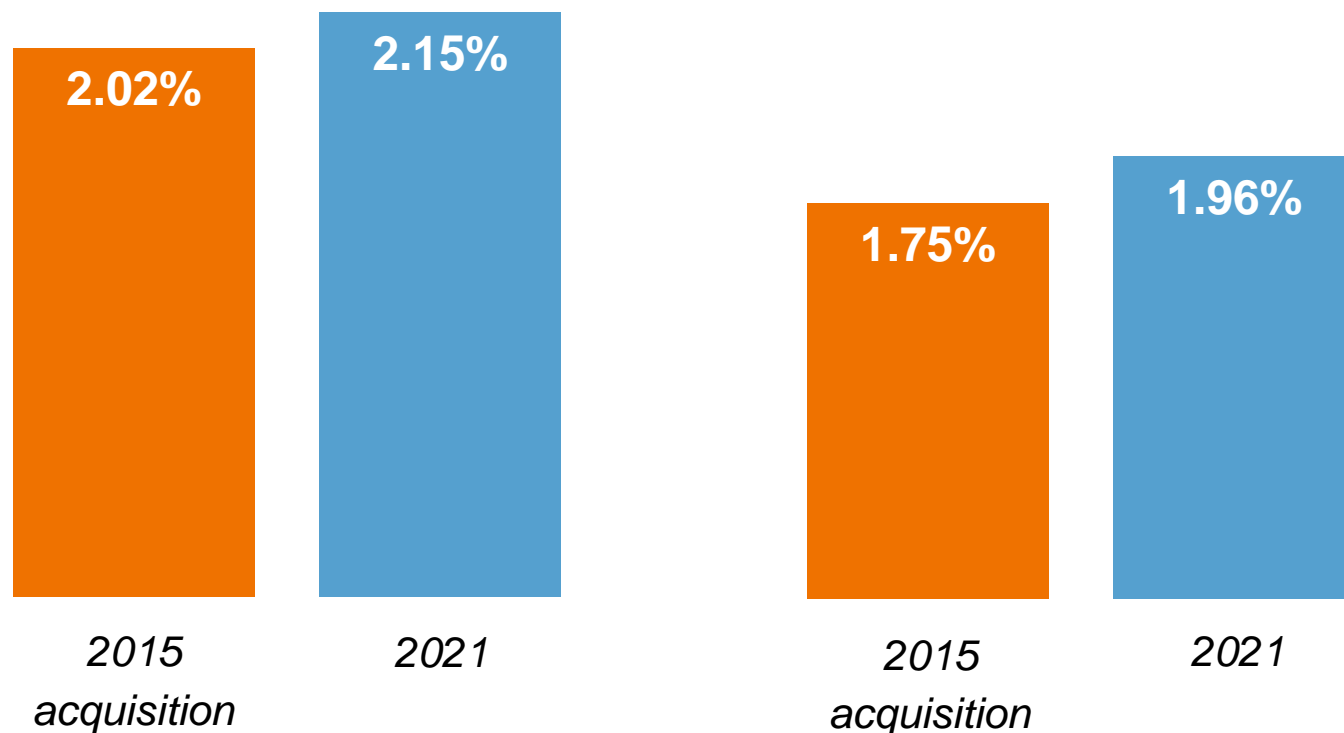


# Winston & Kool Share has Stabilised Under Our Ownership IMPERIAL BRANDS

THESE ICONIC BRANDS ARE AN IMPORTANT PART OF OUR PORTFOLIO

## Winston

## KOOL



### LATENT EQUITY WITH STRONG POTENTIAL

- After decades of decline we have stabilised market shares
- Strong heritage supports good consumer recognition
- Key part of our portfolio
- Consumer feedback provides clear drivers to address

# Our Approach: Starts with the Consumer

CONSUMER PROFILING DRIVES OUR TARGETED BRAND MARKETING



## Common but not exclusive consumer profiles...

	Winston	KOOL
 <p>WHO</p>		
 <p>WHAT</p>	 <p>Suburban</p>  <p>Deeply patriotic</p>	 <p>City dwelling</p>  <p>Thrill seeking</p>
 <p>HOW WE SHOW UP IN THEIR WORLD</p>	<p>Believes in living in the moment and having fun; passionate about outdoors, cars</p>	<p>From fashion, to music, to nightlife, they always knows what's new and next</p>

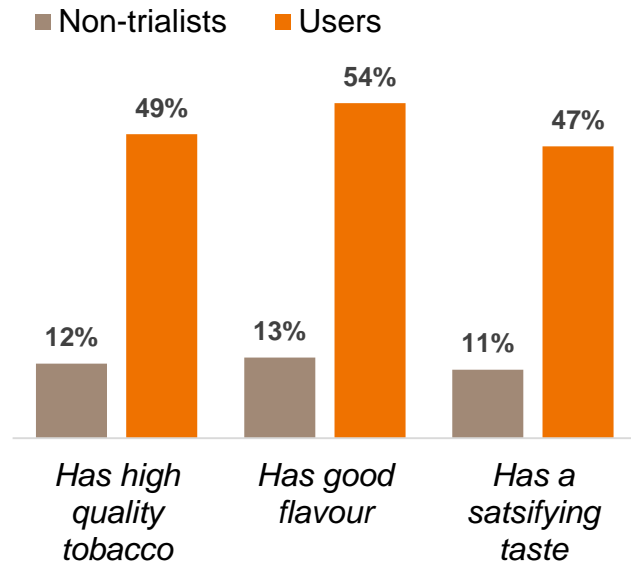
# Addressing Winston Opportunities

KEY DRIVERS TO REIGNITE THE WINSTON BRAND WITH TARGET CONSUMERS



## CONSUMER FEEDBACK

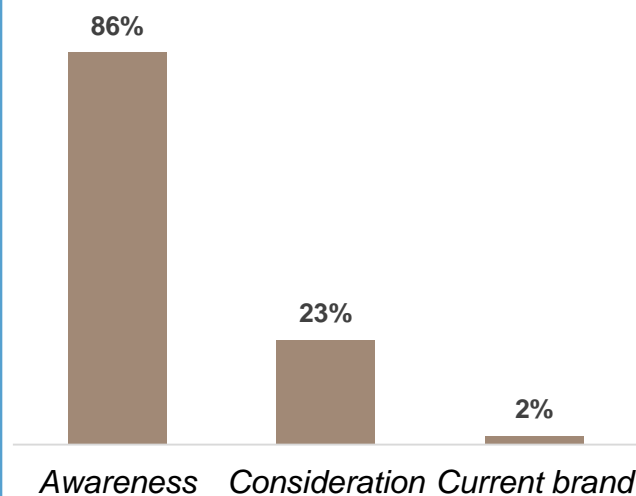
### 1 QUALITY AND TASTE PERCEPTION



**PURCHASE INTENT**

Source: 2,645 Adult Winston Aware Non-Triers

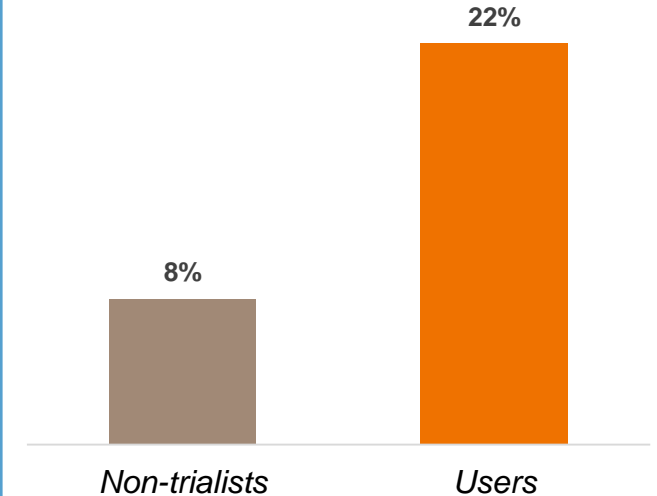
### 2 BRAND FOR SOMEONE LIKE ME



**CONSIDERATION**

Source: GFK/MRI November 2020 Smoker Structure

### 3 PREMIUM QUALITY AT AFFORDABLE COST



**VALUE FOR MONEY**

Source: 2,645 Adult Winston Aware Non-Triers

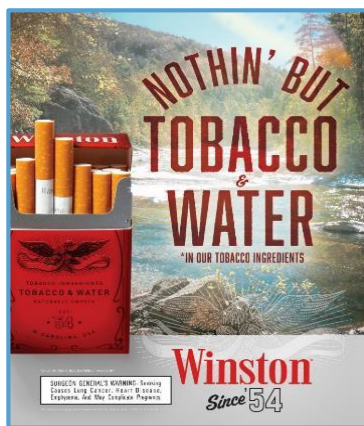
DRIVER FOR

# Targeted Winston Investment

ADDRESSING KEY DRIVERS WITH FOCUSED BRAND INITIATIVES



## 1 QUALITY AND TASTE PERCEPTION



Scores highly once in consumers hands

## 2 BRAND FOR SOMEONE LIKE ME



Contemporary advertisement campaign with national roll-out of refreshed pack design



## 3 PREMIUM QUALITY AT AFFORDABLE COST



Clear pricing strategy linked to brand equity and quality perception

**Winston A&P +70% vs FY20**

# Hearing the Consumers Voice

OUR ACTIONS ARE RESONATING WITH OUR TARGETED CONSUMER



## EXPANDING NATIONALLY

- Positive consumer feedback validated the trial of Winston's new pack design
- The pack met its objective to resonate with consumers
- But don't just take our word for it...



*“Winston is appearing to be a much more premium brand than it used to be”*

*“They are classic and high-quality American made.”*

*“I think this product is premium quality and would satisfy my needs as a customer.”*

*It has a unique art-deco style packaging print that is more eye-catching than typical packages of cigarettes.”*

# Reigniting KOOL with Adult Smokers

INCREASING INVESTMENT BEHIND A CONSISTENT CONSUMER PROPOSITION



**KOOL**  
**FEEDBACK**

KOOL scores highly with consumers across purchase intent metrics

Key challenge is historical brand under-investment

## CLEAR PLATFORMS TO CONNECT

Festivals and music



Fashion and art



Social and lifestyle





# Increasing Investment behind Targeted Kool Initiatives

FOCUSED ACTIVATION AND INITIATIVE STRATEGY TO BUILD CONNECTION



## PRODUCT MESSAGE



Reiterating product quality and taste messaging

## CONNECTING VIA SOCIAL AND DIGITAL PLATFORMS



Meeting them where and when they are most receptive to our brands

## LEVERAGING KOOL'S HERITAGE IN MUSIC AND FASHION



Tapping into the brands rich heritage and association with music and fashion

# Winning with Value Consumers

OUR VALUE PORTFOLIO PLAYS AN IMPORTANT ROLE



## CLEAR ROLE OF BRANDS IN DEEP DISCOUNT SEGMENT

- Meet adult smoker demand in this fastest growing segment
- Provide margin contribution and overhead recovery
- Share gains secure valuable shelf space to provide visibility for focus brands: Winston and Kool
- Objective to gain fair share; with price gains over time
- Agile and co-ordinated team response to KT&G exit secured share

*Differentiated strategy with clear objectives to support wider portfolio growth*



# Mass Market Cigars: Our Iconic Brand Portfolio

FOCUSED TO MEET THE DIFFERENT NEEDS OF MMC CONSUMERS



## STRONG 2021 DELIVERY

>20% share of market

#1 in natural leaf segment

#2 volume manufacturer

+500bps share growth

+45% volume growth

\$1.25 - \$1.50

Average  
price  
per MMC

\$0.40 - \$0.50

**BACKWOODS**

SINCE 1912  
**Dutch  
Masters**

**Dutch**  
BY DUTCH MASTERS

NATURAL LEAF WRAPPER  
**Dutch**  
BY DUTCH MASTERS

% IMB MMC VOLUME

51%

31%

2%

12%

\*Residual 4% in Phillies & Other

# Driving Growth through our Brand Initiatives

## KEY LEVERS OF OUR SUCCESS



### PORTFOLIO & INNOVATION

*More choices and excitement*

Pipeline driving sustainable equity, increased value and trial



### ACTIVATION & PARTNERSHIPS

*Building long term relationships*

Reinforcing the sense of community at relevant venues and 250 events



### TRADE & DIGITAL

*Amplify and resonate genuinely*

Branded websites with exclusive content



# *GAINING TRACTION WITH OUR SALES FORCE*



**IMPERIAL  
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# Clear Opportunities to Enhance Performance

PLAN INFORMED BY DETAILED STRATEGIC ASSESSMENT



## STRATEGIC REVIEW FINDINGS

- Sales force undersized
- Lacked store opportunity segmentation
- No routing optimisation
- Lacked perfect store standardisation
- No key account management
- Lack of consistency of approach

## IDENTIFICATION OF OPERATIONAL LEVERS

**5** Drive performance in under-penetrated channels and regions

**6** Maximise value creation through Key Accounts

Targeted investment in areas that will deliver the greatest improvement

# Enhancing Sales Coverage & Effectiveness

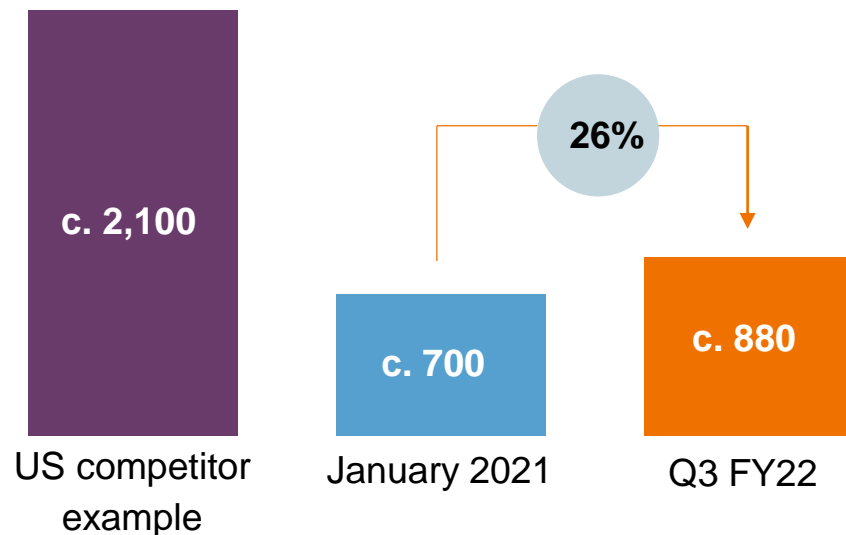


DRIVE GROWTH THROUGH FIELD FORCE EXPANSION

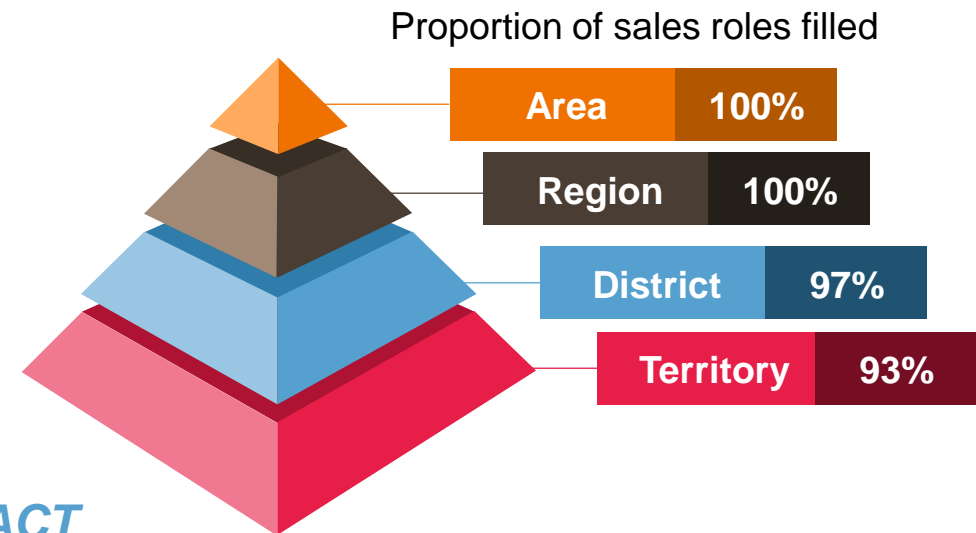
## INCREASING SALES FORCE

Today, we're driving performance through an expanded sales team, improved frequency and an optimised routing plan

Focused on increasing capacity for total visit frequency and % of industry covered



## STAFFING PROGRESS



## IMPACT

### Increased Visits

**+700k**  
more visits  
per year

### Improved Coverage

**+5pp**  
to 95% of  
industry  
FMC

**+3pp**  
to 98% of  
industry  
MMC

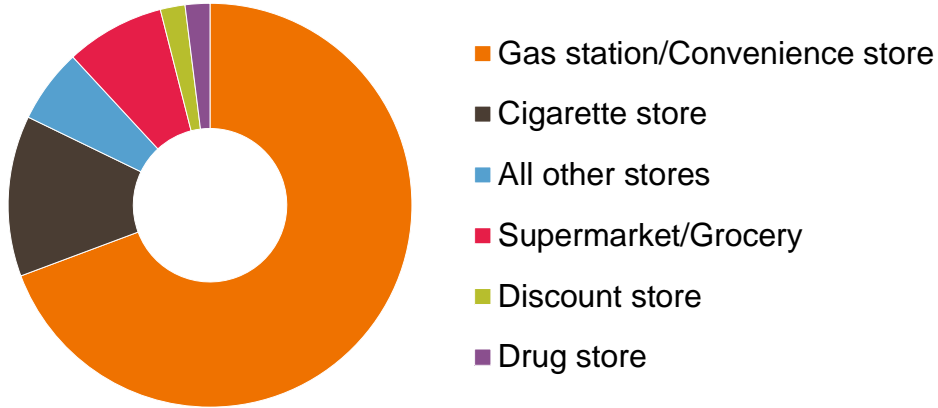
# Challenging the Status Quo

DISCOVERING WHERE WE HAVE A RIGHT TO WIN WITH OUR CUSTOMERS



Convenience stores is the largest FMC route to market by volume

Split of IMB sales volume by channel



6<sup>th</sup>

largest packaged goods supplier by \$bn sales

Source: IRI RSD 52w Feb 2021

9.2%

we have our fair share of this route to market

Source: IRI RSD 52w Mar 2022

Our growth track record underscores our relevance in this channel

Building stronger routes to our consumers and costumers

Retail excellence with the perfect store



Elevated partnerships with key accounts



Strategic solutions with new events





# Enhancing our Technology and Capabilities

DRIVE GROWTH THROUGH SALES FORCE ENABLERS AND OPTIMISATION



Tomorrow, we're wiring the business to unlock further value...

## ENHANCING TECHNOLOGY

- CRM platform upgrade
- Continued route optimisation
- Assortment optimisation
- Customer segmentation

## BUILDING CAPABILITIES

- Perfect call procedure
- Perfect store education
- Coaching and development through visit frequency



## MEASURING PROGRESS

- Monthly frequency and coverage targets by sales reps
- Monthly segregation share Measurement
- Customer level distribution, pricing, shelving merchandising
- Perfect visit scorecard dashboard in development

# Delivering the Perfect Store

DRIVE GROWTH THROUGH FOCUSED SALES APPROACH



*In process of building and implementing perfect store visit*



Assortment  
optimisation

Right SKUs  
on shelf

Merchandising  
off-shelf

POS  
strategically  
placed

Focus on  
strategic  
brands

Elements of  
brand  
awareness,  
promotion

# Elevating our Key Accounts

DRIVE MUTUAL GROWTH THROUGH CREATING FLEXIBLE SOLUTIONS



## STRUCTURE AND COVERAGE OPTIMISATION

2020: Dedicated National Account Team Created

Headcount

14

Chain coverage

23

FMC vol. coverage

26%

Key Account Coverage Enhancement

Retail Coverage

56%

76%

FY20

FY21

Frequency  
Monthly visits

13%

41%

FY20

FY21

## PROCESS OPTIMISATION

Retail Excellence



Joint Business Planning

Elevated partnerships



Strategic solutions



## PARTNERSHIP OPTIMISATION



# *GAINING TRACTION*



# ***Gaining Traction in the USA***

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