IMPERIAL BRANDS

25 March 2022 - US Webinar – Gaining Tractions in the US Market

Stefan

Slide – Disclaimer

Hello everyone… and thank you for joining our webinar today.

Slide – A Clear Strategy to Enhance Performance

It is 14 months since we set out our strategy, and today we would like to give you a progress update on our largest priority market.

You will recall we have three strategic pillars and our focus today is primarily on how we are strengthening the business by investing behind our number one priority combustible market to drive growth.

You will hear how we are investing behind the three critical enablers in the US market which are the foundations that support the strategy.

You will see how we are changing our culture to create an organisation that is consumer-focused, one that has a performance-driven culture, and one that has increasingly simplified and efficient operations.

Today, we aim to bring these aspects of our strategy to life by showcasing what we are doing in the US market to meet consumer needs.

I am delighted to have this opportunity to introduce you to some of our US team who are leading this transformation. You will hear how we have significantly strengthened the team through key hires, adding talent from other consumer goods companies.

We will illustrate how we are well placed to succeed in this highly attractive market.

And we'll demonstrate the additional investment initiatives we have underway in the US. These are delivering some encouraging initial results, which are evidence that the strengthening phase of our five-year plan is working.

Overall, we will demonstrate progress against the strategy we set out 14 months ago.

Slide – Our US Business

There are three themes you'll hear today that support our overall investment case.

First, the US is our largest single market contributing more than a billion of adjusted operating profit, providing healthy margins and strong cash flows.

It is also an attractive market due its affordability, our ability to communicate with consumers and transparent regulation.

Second, our US business has been built piecemeal over 15 years through three separate acquisitions. Now, for the first time, it is being operated as a coherent portfolio of brands, well positioned for all economic weathers and with attractive opportunities for growth.

Finally… in the US, putting the consumer first is about affordable, tried-and-tested and low-risk improvements in insights, marketing and sales which will take us to FMCG best practice – executed by a strengthened team with a clear plan.

It is a great example of how under the new strategy we are embracing our smaller size to differentiate our approach and to leverage our strengths, to deliver consistent growth.

Let me now introduce you to Kim Reed who will lead you through the rest of today's presentation. After that there will of course be plenty of time to take your questions.

Kim has a wealth of experience from a 30-year career in consumer goods in a variety for sales and executive leadership roles at blue chip consumer goods companies such as Kelloggs and the Pepsi Bottling Group.

Kim joined us three years ago as Executive Vice President of Sales and began the transformation of the sales team, which you'll learn more about today.

I am delighted she stepped up to lead our US business almost a year ago at the same time as becoming a member of my Executive Leadership Team.

Kim, over to you.

Kim

Slide – Agenda

Hello everyone and thank you Stefan. It's great to have this opportunity to share with you the progress we are making here.

I'll start by giving you an overview of our US business and our strategy.

I will then hand over to Alex Mueller our head of Insights and Intelligence, who can provide some views on the US market and how we are getting closer to consumers through our insights work.

We will then focus the rest of the presentation on how we are stepping up our investment in two key areas…

Rishi Dhingra, who leads our brand marketing, will talk about how we manage our portfolio and our brand investment initiatives.

Shane Sgambelluri, who succeeded me as Executive VP of Sales, will cover the additional investments we have made into expanding our sales force and enhancing their coverage and capabilities.

I will then conclude the formal presentation before we take your questions.

Slide – Gaining Traction in the USA

I want to highlight a few themes that you will see running through today's presentation.

First, the US is a highly attractive market and we are well-placed to capitalise on consumer trends.

Second, we have begun a multi-year transformation plan that will strengthen our performance by leveraging self-help opportunities across our business.

Third, the good news is we already have momentum in the business – with a track record of delivering good results. This is all about maintaining that edge in a highly competitive market.

Fourth, we have a clear and detailed investment plan that rests on multiple initiatives behind our brands and sales activities. These have been developed in conjunction with the wider Imperial leadership team.

Finally, this plan will drive growth in revenue, profit and cash.

Slide – We are Well-Positioned: Our US Assets

We are starting with a solid foundation of multiple assets on which to build our business.

We are number three in cigarettes with a portfolio of established brands that enjoy strong recognition among adult smokers. We have a diverse portfolio across all price segments that we are able to leverage to meet the needs of our consumers.

Four of these brands – Winston, Kool, Maverick and Salem – were acquired in 2015.

One of our key assets is our portfolio of mass market cigar brands – these came with the Altadis acquisition in 2008. We're ranked number two with strong heritage brands that resonate well with consumers in the fast growing cigar category..

We also have blu – which has great consumer recognition among US consumers, though we recognise in the past we have not managed to connect with consumers as well as we should.

And this is why we are testing a new consumer proposition with blu for the US – which I will come back to in a moment.

Our other key asset is our people. You will hear today how we've undertaken our biggest sales recruitment drives… with a commitment to ensure our employee base represents our consumers and communities that we serve.

The most exciting thing is our people are absolutely up for it. They are inspired about where we are heading and feel there is an opportunity to truly make a difference.

Slide – Realising Value in the USA

In our view, the US is a highly attractive market… characterised by:

- Good affordability with smokers;
- Relative marketing freedoms, enabling us to communicate directly with adult smokers; and
- A transparent, rules-based regulatory environment supporting future visibility.

Although market volumes are declining modestly over the medium-term, there is strong pricing to support an attractive and growing profit pool.

Against that background, the goal of our strategy is to strengthen the business so it is able to deliver consistent growth in revenue, profit and cash over the long-term.

Slide – Strengthened Leadership Team

A great demonstration of our pace of change is how we have strengthened the leadership team with six new hires or promotions in the past 12 months.

I am particularly pleased we have attracted Rishi, Shane and Tanisha, three great people from blue chip consumer goods companies including Kellogg's, Kimberly Clark, and Gillette, to lead our transformation.

These hires bring expertise and best practices from consumer-led, sales and marketing organisations outside tobacco to help sharpen our new ways of working in several areas including consumer insights, brand equity building and sales excellence.

And this expertise, combined with the balance of talented key team members who have a deep knowledge of the tobacco and nicotine sector, will continue to enhance our US performance.

We are committed to ensuring the diversity of our employee base represents our consumers and this diversity is already bringing fresh perspectives and enabling change.

Slide – Creating an Agile, Performance-Driven Culture

We are driving a performance-driven culture right down through the organisation.

It's an important investment where our top 60 leaders have already spent 1,200 hours on an immersion in our new corporate behaviours to underpin our strategy. This programme will be rolled out across our whole organisation by the end of the year.

In the US, as the number three in tobacco, the only way we will truly win is to be more agile, spotting value pools that play to our competitive strengths, acting as a fast follower, and creating competition and choice in the market.

This is about having a deep understanding of our consumers and customers – and harnessing the energy and passion our people have for them and our brands.

Slide – Proven Track Record of Delivery

The good news is that we already have momentum in the business –so we are building on a proven track record of delivery.

Over the past three years we managed to stabilise and then start to grow our cigarette volume <u>and value</u> share for the first time since our acquisition in 2015.

We have achieved very strong share growth in our mass market cigar portfolio, driven by our unique heritage brands and our hard work to build relevance with our target consumer.

We have benefited from our strong positioning in the natural leaf segment and the investments to secure high quality leaf supply to meet consumer demand.

These share gains have been supported by a clear pricing strategy in a market where consumer affordability relative to incomes remains favourable.

Setting aside 2020, when net revenue was affected by pandemic-driven inventory movements, the revenue and pricing delivery has been consistent and stronger today than our assumptions when we bought the US assets in 2015.

Slide – US Consumer Trial of Refreshed blu Offer Underway

Just a word about blu before we move on… The US is, and is expected to continue to be, the world's largest vapour market.

Currently we are focused on a refreshed consumer marketing proposition for blu in Charlotte, North Carolina.

Since this is the US, we have not changed the product because of the PMTA constraints.

Rather our focus is how to improve the overall consumer proposition with a focus on everything we can change … which includes the packaging, a new marketing campaign, working with the trade on the point of sale presence and developing a new on-line sales platform.

This has been developed in partnership with our Chief Consumer Officer, Andy Dasgupta and his team, as we begin to leverage our global capabilities.

We've made encouraging progress with the test so far, and while I'm sure you are keen to see the full results, we still need to wait to see the longer-run consumer feedback and repurchase rates.

Stefan and Lukas are planning to give you an update at our half year results.

Slide – US Regulation Evidence-Based

Regulation is an integral part of how we operate and here in the US there's a very clear and well-established framework that sits behind the regulatory process.

The FDA rulemaking process is evidence-based and grounded in science; needing to demonstrate the efficacy of any proposals on the wider population.

This type of rulemaking results in considered regulation but it takes time as it provides opportunities for engagement and challenge, with a much more rational approach than in many other markets.

The regulatory agenda of the FDA is well known – with their focus on menthol cigarettes, flavoured cigars and the PMTA process for vapour products.

We continue to prepare for the FDA decisions so at this stage there is not much more I can say on the topic today.

I'd like to focus now on the steps we taking to strengthen our business…

Slide – A Clear Plan to Enhance Performance

You will recall that under our strategy, we have multiple operational levers to strengthen performance in each of our priority combustible markets.

In the case of the US, we are focused on five, which is where we'll spend most of our time today.

Rishi will take you through some examples against the first three… outlining how we are increasing participation in the premium category through brand building work with Winston and Kool.

And how we are driving the performance of our local jewel cigar brands.

We will also cover how we are optimising our approach to the value segment in the US – and how this supports our overall portfolio and can drive growth as well.

We do not have a fine-cut portfolio in the US – so lever four does not apply to us.

Shane will then cover the last two – and take you through how we are enhancing our sales force coverage execution and capabilities.

I'll now hand over to Alex to provide some context on our market environment before we look at how we are applying the operational levers in our US market.

Slide – Market Environment

Alex

Thanks Kim and hello everyone.

I'm Alex Mueller… I have 18 years of tobacco experience, having held several different roles at Imperial in business development and planning, marketing and global strategy & insights.

I joined the US team four years ago to support the transformation of our then newly formed business.

Slide – Tobacco Fundamentals Remain Strong

The fundamentals of the US tobacco industry remain strong with price growth outstripping volume declines and we expect that to continue.

Looking back, cigarette industry volumes have continued to decline even during the last couple of years in which consumer buying patterns were positively impacted by COVID.

You can see the volumes on a last twelve-month basis are reverting to more normal historic trends – and we expect slightly larger declines this financial year as the COVID impacts recede, against a strong comparator.

But tobacco price mix remains robust… and if anything, has strengthened in the past year or so, with higher overall price increases taken more frequently.

Slide – Pricing Achievement Has Been Strong

For example, last year we increased price four times, achieving a higher total annual increase.

We have consistently taken price across the premium and traditional discount segments. However, it has been harder to take price within the highly competitive deep discount segment.

These deep discount brands provide a valuable role in appealing to the growing body of value consumers and, importantly for us, in maintaining relevance with retailers – where market share determines shelf space.

Rishi will cover this later.

Slide – US Cigarette Affordability Remains High

Looking ahead, we believe consumer affordability is a key pre-requisite to underpin future pricing.

This chart shows affordability across a wide range of tobacco markets.

It’s an important reminder that US cigarettes remain highly affordable relative to local incomes – and to other products, such as a coffee shop espresso.

Slide – Well-Placed to Capitalise on Consumer Trends

We operate in an uncertain world – with multiple pressures on consumers.

For example, currently inflation is high and rising gas prices have affected US cigarette consumption in the past.

Additionally, as the economy opens up from lockdowns, other spending opportunities are increasing, such as travel.

On the other hand, employment rates remain high in the US and consumer finances have improved for many as they curtailed spending during lockdowns.

We think we are well-placed… our tobacco portfolio offers consumers choice at a range of price points to suit their wallets, particularly if there is downtrading in the market.

We also have a growth plan supported by multiple self-help initiatives, which will provide some benefit over the next few years.

Slide – Market is in Flux, Creating Growth Opportunities

There are some important shifts in the market, which can create growth opportunities for us.

First, as the population grows, it is becoming more diverse … with minorities increasingly shaping the broader US culture, and income bifurcation continuing to grow the divide between groups and geographies.

Second, we are paying close attention to the channel shifts. Convenience stores have always played a dominant role in tobacco distribution but now key accounts are becoming ever more organised.

At the same time, some outlets are now focusing on specific segments such as deep discount, or specialising in categories, such as mass market cigars.

Third, there is the emergence of new categories driven by consumers looking for alternative or complementary options for different consumption occasions.

Fourth, there are always new regulations coming into the market, which shape consumer behaviours. In addition to the FDA there are state and city level regulatory changes that require a more granular or local approach.

While regulation continues to evolve we are focusing on building out the one-to-one communication with verified adult nicotine users.

Finally, COVID has changed consumer behaviours as people have worked from home and travelled less, resulting in more consumption occasions, fewer shopping trips and bigger baskets.

We have responded by placing the right incentives in the right outlets, such as targeted multibuys and rewards programmes, to meet consumer needs.

In summary, these multiple moving parts create opportunities, and as a smaller player, we can respond to these shifts, adapting our portfolio and go-to-market models rapidly to meet changing demands.

Slide – US Market Has Many Nuances

While changes always offer opportunities for growth, existing nuances in the current landscape also help targeted effort and spending. Here are three examples…

Consumers vary considerably, with different needs, attitudes and behaviours that we can address: premium consumers, value consumers or natural leaf consumers are just a few examples.

Our largest individual cigarette brands, Winston and Kool, have 2% national market shares – so we can focus on growing our share in a segment that may only be 8 or 10% of the market. This can represent material growth for us… and we are not aiming for 50% of the market like the larger US brands

Another nuance to highlight is the regional differences in our presence across the US. There are roughly 300,000 nicotine outlets, and 200,000 represent well over 95% of industry volume. For example, in some regions, we are strong and we are ranked number one or two in stores covering 10% of cigarette volumes and 20% of mass market cigars industry.

And we're gaining share in around half of the cigarette outlets where we're visiting.

We are targeting our investment at a very local level – which I'll come on to…

Finally, there are important differences between our trade partners. For example, independent retailers and key accounts play different roles, determining how we engage and where we invest.

Independents are the most important channel for our mass market cigars, representing around two thirds of industry volume, and requiring a local approach through our sales team.

In contrast, the key accounts tend to play a bigger role in cigarettes and vapour, whereas the independents are more important in the deep discount segment.

Our smaller size means we have to be more targeted and focused than the larger players – and so we deliberately have a different strategy and approach from them.

Putting this into practice… it starts with the consumer and we have significantly built out our big data capabilities… and are applying new analytical tools and data sources to create highly targeted activation and promotion initiatives.

For example, we have significantly stepped up our data infrastructure and advanced analytics capabilities in using SKU level data from more than 250,000 stores that we get on a weekly basis to support agile decision making.

We are using AI machine learning to process and gain insights from instore pictures we continuously get from over 100,000 stores to help ensure our sales teams are delivering the right value to adult consumers in each and every store.

Slide – Getting Closer to Consumers to Drive Sales

Let's take Virginia and Indiana as an example… both roughly the same size in industry volumes and our share is similar in both.

But there are key differences… menthol is bigger in Virginia… whereas the deep discount segment is bigger Indiana.

However, our analysis goes deeper, down into the 3,000 counties and beyond to individual stores.

Slide – Detailed Data and Consumer Insights

So let's take Virginia Beach county in Virginia and Allen county in Indiana as examples. Both are roughly the same size in terms of inhabitants, industry volumes and number of stores.

But there are key differences… Allen county is mainly urban, while Virginia Beach is more rural.

Virginia Beach overindexes towards the premium segment which has held pretty steady – and over 80% of industry volumes is through key accounts.

In contrast, Allen county is under-represented in the premium segment and the traditional discount segment is under pressure… and the channel in Allen county is split evenly between key accounts and independents.

So we are tailoring our approach in each store and chain, which becomes evident when you look at our approach in each county…

We adapt our assortment optimisation to ensure the right SKUs are on shelf in individual outlets, which means the shelf presence will look different in each county, beyond our core range of Winston and Kool. This is further supported by the custom mix of point of sale material, based on perfect store guidance.

In Virginia Beach, we are able to use a full range of promotional mechanisms such as multipacks, coupons, etc.

However, multipacks are not permitted in Indiana, so in Allen county, we're focused on every-day shelf prices especially in the independents, where we will have store targeted special marked packs.

In Allen county, we are much more focused on the wholesaler channel and the influence of our field sales team with independents.

Whereas in Virginia Beach, which is weighted towards premium, we are targeting adult smokers with specific coupon offers for Winston and Kool.

In summary, we are diving far deeper into the data on a very local basis, getting us closer to the shifting market trends and the needs of our consumers and customers to drive growth opportunities.

Rishi and Shane will show how we are applying these insights to our brands and sales organisation…

Slide – Gaining Traction with our US Brands

Rishi

Thanks Alex. I'm Rishi Dhingra, Executive Vice President of Marketing at ITG Brands.

I joined Imperial seven months ago, having spent over 20 years with a number of CPG organisations, such as Gillette, Proctor & Gamble and Kimberly-Clark, working with brands that have a rich heritage.

I was attracted by the opportunity to join Imperial at such a pivotal time, with a new consumer centric strategy, focused on unleashing the power of our brand portfolio to satisfy consumer needs.

As a marketeer, I'm excited we're deepening our focus on the consumer. The iconic and contemporary brands we have in our portfolio provide a strong platform to build future growth.

Slide – Applying a Simple Formula to Grow our Brands

To meet consumer needs and grow our brands, requires application of a simple formula. It is all about getting the basics right and focusing investment.

With the new team, we are bringing a greater rigour to how all these key elements come together – consumer insight, effective sales execution, with increased investment.

I'm excited to have the opportunity to demonstrate how we are working on each of these elements to drive growth in our brand portfolio.

Slide – Our Brand Portfolio to Meet a Range of Consumer Needs

But first, our portfolio… Since the acquisition in 2015 bought together our 12 cigarette brands, we have already made good progress in refocusing the portfolio.

This has included making clear strategic choices about which brands are best placed to meet the needs of today's adult smokers.

We have managed our tail brands to maximise value and release funds for investment in our focus brands.

As a result, our focus brands now represent almost 83% of our portfolio, up from 72%, post-acquisition – as shown on the right here.

Today, our 9% market share is driven primarily by six brands, serving consumers across the price ladder… with Winston and Kool representing almost half our market presence at the premium end. Maverick serves the traditional discount segment and Sonoma, Montclair and Crowns are in the deep discount.

For us, it's focus over scale.

Slide – Winston and Kool have Latent Equity

The two largest brands, Winston and Kool, used to have a much stronger presence in the US market, and as a result, still command a strong recognition with adult smokers today.

The brands declined under prior ownership where investment priorities were behind other brands.

However, they are now part of a portfolio where they represent almost half our cigarette share – so they are important to us.

This increased focus within our smaller portfolio, together with good blocking and tackling by our sales team, improved instore visibility and targeted investment has already helped to stabilise the long-term declines of these brands.

Under our new market strategy, we now have the opportunity to do more.

We're realistic that turning round decades of underinvestment will not be straightforward. There are many parallels with another iconic brand turnaround story I was involved in previously at P&G with Old Spice, which gives me the confidence that much can be done.

We have many marketing levers available to us, to build new connections with younger adult smokers.

Slide – Our Approach: Starts with the consumer

Under our new strategy, we are placing an even greater emphasis on consumer insights and data to inform our marketing approach and investment.

As a newcomer to the industry, I have been amazed by the deep relationship our consumers have with the category. There are very few consumer categories where the users consume the product nearly 10-12 times a day, and are purchasing their brands nearly every other day. Their brand becomes an extension of their own identity, their own persona. So starting with a deep consumer understanding is critical.

Through segmentation research and a consumer immersion exercise, we have identified different consumer segments based on their attitudes, motivation and beliefs.

Different brands from our portfolio align with those segments, and we have seen Winston target consumers are mostly suburban, deeply patriotic and enjoy active outdoor pursuits such as racing and cars.

A Kool consumer is more city dwelling, enjoys intense experiences and thrill, with a passion for music, fashion and nightlife.

We also know that these target consumer pool sizes are much bigger than the current user base, and that gives us the confidence to meaningfully growth both Winston and KOOL as our key brands.

In the US, we are able to use a range of tools to improve awareness, such as visible pack design, point of sale, and the ability to connect directly with verified adult smokers to have a meaningful dialogue.

Slide – Addressing Winston Opportunities

So what do our consumer insights tell us about the Winston brand?

We have identified three clear feedback themes that we can address.

First, taste and quality are key attributes that drive purchase intent. Our current users rate Winston highly on these attributes, however, non-users who are aware of Winston, have a very low product quality perception. We need to address this misperception.

Second, we want to ensure the brand is seen as relevant for our target consumer. Winston's iconic heritage means that in younger adult smokers, it is often perceived as the brand of my father, which we need to address. However, awareness is high so the area we're working on is consideration.

Third, our prospect pool wants a high quality brand at a great price. By making the brand relevant to them, reinforcing our product quality, and using the right pricing and promotion strategy, we can improve our value for money perception.

Slide – Targeted Winston Investment

So here is how we are addressing those three areas…

Winston has a strong product quality story… when our "nothing but tobacco and water" message was tested on adult smokers, 26% of them found it very persuasive and believable. This messaging enables us to promote the product's smooth taste and quality.

With our deep understanding of these consumers and their passion points, we have developed, "the America we love" advertising campaign, which we are using with age-verified smokers.

To reinforce these points, and following a successful trial in Texas, we are today launching a completely new packaging refresh for the first time in several years with a new look and design.

From a value-for-money perspective, we are forming key trade partnerships, making sure our pricing and promotional plans are centred around the values that matter to them, to meet the right consumers at the right moment.

Behind these plans we have increased the Winston A&P by 70% since 2020.

Slide – Hearing the Consumers' Voice

And we're not taking these actions in isolation. We're really keeping our finger on the pulse with our consumers and gaining both inspiration and validation of our actions.

For example, here is some consumer feedback we received from our trials of the new Winston pack and campaign, which gave us confidence to roll out nationally.

They liked the premium look and feel of the design, and they're recognising the high quality American-made credentials, which are very important for this consumer, reinforcing their patriotic feeling and values.

Slide – Reigniting Kool with Adult Smokers

Turning to Kool, our consumers tell us we have a good product and the fundamentals are sound.

Our research suggests that the brand resonates with consumers on many levels, with the core challenge being historical brand under-investment.

That is why we are stepping up investment behind a series of initiatives to reconnect with our consumer base.

The key is to make sure we connect with consumers in the right places and put the right investment behind it. For KOOL, the key touchpoints for adult smokers is around festivals and music, fashion and art; and lifestyle.

Slide – Targeted Kool investment

We are targeting our Kool initiatives around three distinct areas to build connection and awareness.

First, similar to Winston, it is about reiterating the product quality and taste messaging, which scores highly in consumer trials.

Second, from a lifestyle perspective we are ensuring we stay connected with current and prospective KOOL adult smokers where and when they are most receptive to our brands through social and digital platforms. In early May, our digital rewards currency, KOOL Coins, will be launched to connect with age-verified smokers.

And finally, we are using Kool's historical association with music and fashion to tap into the brand's rich heritage. For example, we are building on Kool's successful partnership with jazz music to connect with our consumers via brand activated live events, which will also serve as content source for our digital portal.

Slide – Winning with Value Consumers

Turning to our value portfolio…

We address the deep discount segment through three brands: Sonoma, Monclair and Crowns.

These play an important role in our brand strategy, which is a key point of differentiation from our peers.

First, there is a sizeable adult consumer base attracted to this fast-growing segment. We are well placed to capture consumers as they trade down.

Second, these brands provide a margin contribution through a careful management of the cost base, while at the same time paying close attention to our overall net mix contribution.

Third, these brands help to ensure we retain relevance with retailers and support our overall market share.

Market share is critical to securing valuable shelf space and visibility, which we can then use for our focus brand portfolio, particularly Winston and Kool – our two largest brands.

Fourth, our objective is not to grow the deep discount segment, it is to gain our fair share and, over time, take pricing.

Finally, a great example of all our teams working together recently, was when KT&G decided to exit the market and we successfully secured a material portion of their share, providing incremental profit contribution, albeit at a lower margin.

Slide – Mass Market Cigars: our Iconic Brand Portfolio

Turning to cigars…we've had fantastic success with Backwoods and mass market cigars, delivering strong growth in 2021, as Kim showed earlier, and providing a solid platform for the future.

We have a strong portfolio of heritage brands at different price points to meet consumer needs. It's clear from the performance that our strategy is working, but we are not stopping here.

We want to keep feeding our recipe of success, evolving to stay on top of consumer needs, and we have a series of initiatives to ensure this happens..

Slide – Driving growth through our brand initiatives

We are going to continue to service our consumer base and look to grow it with activations across three distinct areas.

First, in innovation we have a pipeline of initiatives to build equity, increase value and trial.

Second, is about the activations that reinforce the sense of community. Backwoods is all about authentic experiences that are shared in the social world.

Part of Backwoods success has been to connect with adult consumers through the 250 music and comedy events we sponsor each year, as well as initiatives such as the Backwoods Studio to support music artists.

We have plans for more that 350 events this year as the restrictions ease.

These have really transformed the brand – alongside the work with our partners, cultivating long term relationships, and delivering engaging events and podcasts.

And finally, from a social perspective we will continue to amplify our brands to authentically resonate with our consumer base.

So to summarise, we are stepping up investment behind a clear plan of brand initiatives to build brand equity and growth. What we call remaining authentic and never settling.

Now let me hand over to Shane to talk about our sales force.

Slide – Gaining Traction with our Sales Force

Shane

Many thanks, Rishi.

I'm going to set out some of the significant changes we are making to strengthen our US sales activities.

First, a bit about myself. I joined Imperial in July 2021, to build on work that Kim had started in her previous role.

I was attracted by the opportunity to make a difference by implementing best practice from other CPG businesses.

I bring plenty of experience of these from my background in the food industry, most recently at Kellogg's, where I was responsible for $2.5bn of annual sales.

I oversaw Kellogg's entire grocery portfolio, and had the opportunity to serve national, regional and independent customers throughout every region of the US.

I also had the opportunity to lead the strategic planning partnerships with some of the most significant accounts across each class of trade.

Coming to Imperial, the big opportunity is to professionalise our sales function, bringing in best-practices and greater discipline and consistency to these important customer partnerships.

These changes also reinforce the brand investment Rishi spoke about earlier.

Slide – Clear Opportunities to Enhance Performance

As part of the strategic review, we assessed the strengths, weaknesses and investment opportunities of our sales operations here in the US.

The most notable conclusion was that our sales force was undersized, reflecting an historic cost focus over effectiveness.

In addition, we identified several other areas for improvement… through a better sales structure, improved store segmentation, enhanced capabilities and to address the lack of route optimisation and key account management. There was simply a lack of consistency in our approach.

We determined that targeted investment in two key operational levers – driving performance in under-penetrated channels and maximising value creation through better key account management – had the greatest potential to create value.

Slide – Enhancing Sales Coverage & Effectiveness

As I mentioned, one of our key levers has been to invest in expanding our sales force.

We have already made very good progress here and are on track to fully meet our targets in terms of feet on the ground by the end of this financial year.

We filled all the roles at area and regional levels and are 97% and 93% towards our target at a district and territory level, respectively.

This closes the gap vs peers, but it's not just about having a larger sales force.

As a smaller player, we will always be some distance behind our top two competitors, and the effective prioritisation of our resources is critical to enable us to punch above our weight.

To this end, we've implemented a far more detailed customer segmentation, which prioritises what accounts we cover.

We've leveraged an optimised route planning system, to drive efficiency in how we cover these stores, and we've enhanced our visit frequencies towards the outlets with the best opportunities.

These tactics are something many of our competitors have been doing for a while, but the implementation at Imperial has enabled us to add nearly 20,000 stores to our coverage model, and deliver over 700,000 more visits a year than we were previously able to accomplish.

Slide – Challenging the Status Quo

Clearly we have strong competitors in the US, and while Imperial isn't the largest player in the industry, we do have significant size and scale.

For example, when I joined Imperial, I was surprised to find that we were already the number six packaged goods supplier to the convenience store channel… in the mix with the likes of Coke, Pepsi, InBev, and our two industry competitors.

For perspective, the top 10 suppliers are responsible for 67% of the dollar share of the entire channel. Additionally, Imperial's growth over the previous year outpaced brands such as Pepsi and Coke.

This means we are important and can play a significant role for our customers.

Upon reviewing the data, we recognised our growth track record in this channel underscored our relevance – with three key areas, where we could also make a real step change:

- Retail Excellence, through levers such as "Perfect Store principles";
- Elevated Customer Partnerships, through process improvement in areas such as Joint Business Planning;
- And by developing strategic solutions to create value.

The focus on these areas is not new to the industry, although they challenge the status quo at Imperial, creating real opportunities to improve performance over time.

Slide – Enhancing our Technology and Capabilities

In addition to more feet on the ground… we are now investing in the enhancement of our technology to create enabling tools for our field force.

Our CRM platform is 15 years old and by the end of 2022, we will have significantly overhauled it, creating a critical hub of information used on each store call.

While significant, this is a low-risk strategy. We will be putting in place systems and technology that are already industry standard.

The upgrade will improve the efficiency of each customer visit, by streamlining the data systems and processes into one platform.

It will also improve the effectiveness of each store call, through the improvement of data access and delivery… enabling our reps to provide more insights and solutions to our retail partners.

Finally, the system will prioritise clear objectives for each visit, based on established concepts such as the 'perfect visit' and the 'perfect store', which I will touch on in a moment.

We are also investing in tools to measure our progress. It will be critical to understand what's working and what critical opportunities still exist.

Slide – Delivering the Perfect Store

As I mentioned, our sales teams are adopting the concept of the 'perfect store'…

This is about delivering retail excellence.

It is a set of standards meant to deliver the optimal outcome of each visit, standardising the most effective store call, as well as defining critical deliverables within a store… for example, merchandising guidelines, shelf principles, assortment optimisation, and shopper activation.

While the concept and process is new to Imperial, it is an Industry standard in most organisations.

Kim launched the initiative in the latter half of 2021, and we are currently focused on training and educating the salesforce with processes to drive consistency throughout the US. This approach will increase the effectiveness of the salesforce, creating another incremental gain.

Slide – Elevating our Key Accounts

The other key investment lever is the opportunity to elevate our key accounts.

Before 2020, we did not have a dedicated key account team.

In 2020, Kim created our first key account team focused directly on the headquarter relationships for our larger customers, and built to improve capability, best-practice sharing and results.

Our field force coverage at store level was also adjusted to drive growth in coverage of Key Accounts from 56% to 76%, and frequency from 13% to 41%.

Today, my role is to leverage the improved structure, and drive continued capability increases across the team. This includes improvement in our Joint Business Planning Process, customer engagement, and ultimately – delivering joint value initiatives.

We are early in our journey but to date the team is making tremendous progress.

In recent months, we've secured first-time activation partnerships with multiple top-10 c-store chains.

A first for Imperial, and a testament to the effective collaboration between this key account team and Rishi's organisation to support the Winston brand plans. A real example of partnership optimisation.

Thank you. I'll now hand back to Kim.

Kim

Slide – Gaining Traction in the USA

Thank you Shane and all our presenters today.

I want to end by reminding you of the main themes you've heard running through today's presentation.

Imperial is well positioned in this highly attractive US market. We have begun a multi-year transformation plan that will strengthen performance, much of which are self-help opportunities that are within our own control.

We have existing momentum in the business, with a track record of delivering good results. We are now applying a clear investment plan based on multiple initiatives behind our brands and our sales activities.

Put simply, the goal of our strategy is to strengthen the business so it is able to deliver consistent growth in revenue, profit and cash over the long-term.

Thank you for listening to us today…

We would now like to take your questions.

Thank you.

Question and Answer Session

Operator: Thank you. I would now like to hand the conference over to Stefan Bomhard, Chief Executive Officer. Please, go ahead, sir.

Stefan Bomhard: Hello everyone and thank you for joining us today, and I hope the presentations you have just seen from the US team give you some insight how we are implementing our strategy in this market.

Now, we have very similar initiatives underway in our four other priority markets tailored to the specific market opportunities. And just like in the US, we are stepping up investments in brand equity building and in enhancing our sales execution. We're also investing in our people to ensure our culture is aligned to deliver our new strategy. And Kim, the team in the US, and now I would like to take your questions on the US business.

And as a reminder, we won't be commenting on current global trading or the wider business ahead of our trading update on 6 April.

I will now hand it back to the Operator.

Operator: Thank you. As a reminder to ask a question you will need to press *1 on your telephone keypad. To withdraw your question, press the # or hash key. Once again, please press * and 1 on your telephone keypad. Ladies and gentlemen, if you would like to ask a question, please press * and 1 on your telephone keypad. * and 1 to ask a question.

There are currently no questions, sir. I will hand the call back to you for now.

Stefan Bomhard: Okay. I mean, first, thank you. Hopefully, today's session gave you some good insight into the US business. Yeah. And I also want to thank Kim and her team, because for us as a company this is the first time we are actually doing this. And, hopefully, gave you some great insight in our US market. And as I just said a few minutes again, we're looking forward to providing you with a further update at the trading update as well as at our half-year results that we will publish in May. Yeah. Thank you.

Operator: Thank you, sir. There are still no questions. But as a reminder, if you'd like to ask a question, please press * and 1.

We have one question come in, sir. Your question comes from the line of Richard Felton of Goldman Sachs. Please go ahead your line is open.

Richard Felton (Goldman Sachs): Hello. Thank you very much for the presentation. There was lots of interesting stuff to – for us to work through. My question is on the use of data and how you're using that to drive insight. So you gave us some very clear examples of what you're doing in key states, in Virginia and Indiana. My question is, how different is this to what you were doing in the past. Is it new data? Is it new ways of analysing data and incorporating that into your decision-making process and how you go to market? Any sort of additional colour you could provide on how this is maybe different to Imperial's approach in the past? Thank you.

Alex Mueller: Yeah. Thank you, Richard. This is Alex speaking. Great question. So in the past, I mean, the US business is generally rich in data, especially when it comes to SKU-level data across the nearly 300,000 outlets. What we've done over the last one or two years is really to amp up a couple of things.

One is actually integrating new sources, most notably actually taking on the scan data from around 60,000 outlets across the US, so giving us more visibility around consumer – adult consumer behaviour right at the point-of-sale. And there's other data sources that we're starting to integrate across a variety of different data sources whether that's macro-economic factors or other things like that.

Secondly, we actually build out the – the backbone is the whole infrastructure around how we utilise data, with a data leg and advanced analytics tools of which there are many, obviously, in the market, and we've chosen a couple of them to actually use, and actually build out the capabilities inside with data scientists joining the team most recently as well to build out that part of the business. So really trying to make the best use of the data to come as close as we can to the adult consumers and their behaviour to support both Rishi and Shane's endeavour in helping us to strengthen our portfolio and build out the business.

Richard Felton: Thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question, it will be * and 1 on your telephone keypad.

Your next question comes from the line of Gaurav Jain from Barclays. Please go ahead your line is open.

Gaurav Jain (Barclays): Hi. Good afternoon. Thanks a lot for this presentation. You know, there was a comment made that you have been able to secure your fair share post KT&G exit. So would you be able to quantify what that means? Because I think KT&G had around a three percentage point share. If you have been able to secure one-third of that, that's like quite a meaningful jump that can happen to your volumes this year. So will you be able to –

Kim Reed: Excuse me. Yes, thank you for the question. I will start off and then I will turn it over to Rishi to talk a little bit more about our specific portfolio.

This for us was a wonderful opportunity to be able to capture some additional share in the marketplace. We are focused against our portfolio from premium all the way to deep discount. And what this KT&G exit gave us – the opportunity – was to demonstrate a couple of things.

One, level of agility in this marketplace. As a third-tier player in the market, we pride ourselves in being able to be agile and come together as a collaborative team to capture any opportunities that are in front of us. So, this is a great example where sales, marketing, insights & intelligence came together. Alex's team was able to dig into the data to understand where the specific stores were that we can actually capture additional space. Rishi's team was able to come together and really lay out a very clear brand plan in terms of which brands made the most sense to take over the space when KT&G was exiting. And then Shane's team was then able to take that data, both from Alex's team as well as Rishi's team and lay out a very clear blitz in terms of going after the stores where KT&G was exiting.

So what I was most proud of is the level of agility and collaboration that this team came together to be able to capture that opportunity.

The second thing I would note, is as we continue to lay out and execute our portfolio, which again is goes across all price segments, as we start to go into our fiscal year of 2023, we will start to have conversations with our customers about merchandising agreements. And the more we can grow the entire portfolio it gives us the opportunity to actually ask for additional shelf space in-store. And typically, where we would then drive that incremental space would be on our two largest brands – Winston and Kool.

You heard in the presentation Rishi speak a lot about the investments that we're making on our two largest brands now that we've stabilised those brands in the marketplace. And it puts us now in a position as we are able to take on opportunities like the KT&G exit to grow our overall portfolio and leverage that with retailers to gain incremental space in-store.

So, bottom line, it gave us a great opportunity to be able to leverage an opportunity that was put in front of us and demonstrate a level of agility in the marketplace.

Just ask Rishi just to say a couple of other things about our portfolio in that space.

Rishi Dhingra: Yeah. Thanks, Kim. I think obviously with the KT&G exit, we went back to looking at the whole market from a consumer lens and recognise there is a sizeable pool of consumers who really want good quality products at a great price. And with that opportunity, because we have a full portfolio right from the premium to a traditional discount and a deep discount, we went to work as a cross-functional team as Kim alluded to.

Now, as we are securing some of the share, it's important for us, because this in turn helps us gain critical shelf space which we can then use to fuel more behind our investment brands of Winston and Kool.

Of course, we are number three player. And adding with this share, we also kind of stay relevant with our retailers.

So, overall, I think it was a good opportunity where we work quickly and agility as a team. But we're still very focused on, with a consumer lens, on what that opportunity is.

Gaurav Jain: Thank you. And if I could ask a follow-up question on your cigar portfolio? One of your competitors have received denials for 3% of their portfolio from there, and could you just remind us, like what percentage of your portfolio's is already grandfathered and if you have received any market denial orders from them so far?

Kim Reed: You know, I apologise. Is there a way that you could repeat the question, it's a little bit hard to hear you?

Gaurav Jain: Sure. So, one of your competitors recently received a few denials for 3% of their cigar portfolio. So what I wanted to ask you is what percentage of your portfolio is already grandfathered or has valid SE applications and have you received any denials for anything?

Kim Reed: Okay. Thank you so much for repeating the question. I'll start with the first part.

We have not received any denials on our portfolio at this point. We have a significant part of our portfolio that was already grandfathered in within the pre-2007, so we are in a very good position at standpoint. For the balance of portfolio that was not grandfathered in, we have leveraged the other method, which is to go to the substantial equivalent process to ensure that our portfolio is compliant. And ultimately, we feel like we have a high confidence that the FDA will come back and say that our overall portfolio is within the frame work that they have laid out for us.

I think we're in a very good position across the entire portfolio and look forward to the final decisions.

Gaurav Jain: Thank you. If I can squeeze in one last question on, you know, whatever is happening macro-wise in the US right now? So, we have a massive increase in oil prices and other commodities and volumes are supposed to be quite correlated to that in the US. So have you started observing anything in the last month which we should be thinking about?

Kim Reed: Yeah. It's a great question. I mean, we are not immune to the inflation pressures that other companies are going through. But specifically let's talk a little bit about our consumer. They are also going through some significant inflationary trends as well in their day-to-day lives. We all know the gas prices are at a very high rate right now. They're also dealing is they're buying food in grocery stores with higher food cost. You know, housing is also increasing. So when you think about those dynamics and how those specifically impact our business, we see a direct correlation to softer industry volumes as well for us.

If you reference back to Alex's part of the presentation, you saw when you looked at industry trends, the last few years as we've been in COVID, we were down about 1%-2%. That's our comparator. If you were to go back to previous years before that, we were back closer to down to anywhere from 4%-7%. So what we're recently seen is reverting back to those historical levels.

I think there's a couple of factors that I would note in terms of those trends.

The first one, is we are seeing consumers now start to return to work. So if you look at unemployment in the US, it's anywhere from 3%-3.5%. What that means for us, is that means consumers have less opportunity to consumer our products. So that's the first thing that I would note.

The second thing from a behavioural standpoint, and again you heard Alex talk really about how we're using the data. This is one example. We're not seeing consumers walk away from the category. If anything they're just consuming anywhere from 1-2 less sticks less per week. And the goal of that is just to stretch their dollar further. But I think what's interesting is they're not walking away from the category.

I think the third thing, and again you reference this back to Alex's part of the presentation, this is still a very affordable category. And we made the comparison in the presentation on cigarettes versus coffee, that's just one example. But it's a choice that consumers are needing to continue to make and there's still a lot of affordability in this category.

So those are some of the trends that we are seeing today. I think we still operate in a very high-margin business with fairly low-cost bids and we feel overall that we still have a portfolio that plays very nicely with the consumer. They are facing many of these inflationary pressures. So if they have the choice to choose a premium product, we have Winston and Kool available to do that. If they choose to – because they're looking more for a value brand – then we have a part of our portfolio that's in the deep discount section as well.

So bottom line, we actually think this is actually a point of difference from the rest of the marketplace that we compete with, the advantage of our portfolio in terms of providing the consumer different needs.

So that's – those are some of the different trends that we've seen most recently and thank you for the question.

Gaurav Jain: Thanks a lot.

Operator: Thank you. As a reminder, if you would like to ask a question, please press * and 1 on your telephone keypad. As a reminder for those listening via the webcast, please dial in if you wish to ask a question using the phone details provided.

Your next question comes from the line of John Leinster from Societe Generale. Please go ahead your line is open.

John Leinster (Societe Generale): Thank you. Good afternoon or good morning. I was just – couple of questions. First one is, on the Kool brand, do you actually have a non-menthol version of Kool, and if so, is that any – is that a significant part of the brand or not really?

Kim Reed: Yeah. So, Rishi, will take that one please, if you would.

Rishi Dhingra: Yeah. So Kool is predominantly or completely menthol right now in the market.

John Leinster: So there's no –

Rishi Dhingra: No.

John Leinster: – there's no registered –

Rishi Dhingra: Right.

John Leinster: Right. There's no registered non-menthol. Okay, fine.

Secondly, I don't know whether it's possible but could you give us a, sort of, if premium cigarettes are 100 in terms of, sort of, unit profitability, do you think you could give a rough estimate as to what discount and deep discount would be?

Kim Reed: Yeah. We're not going to be able to give that level of detail on this call at this point. And I'm sure you would appreciate that, you know, we're not able to talk really about specifics on pricing, forward-pricing or on future margins. But I appreciate the question.

John Leinster: Okay. And then maybe with the deep discount segment you've clearly got three brands down there. Is there a major point of difference between them given that it's primarily sold as a sort of price value proposition? Why have three brands?

Kim Reed: Before I turn it over to Rishi to talk a little bit about that, I do want to remind you that although deep discount is a part of our portfolio, again, for us, it's about the total consumer. And so that's why we have an offering that goes from premium to traditional discount to deep discount. So just as a reminder, deep discount is one part of that. But as you heard earlier in the presentation our goal is to make sure that Winston and Kool, which is almost 50% of our portfolio, is in a position. We've stabilised those two brands and now it's all about moving to growth and that's a big part of why we're making those investments there.

That said, deep discount also plays a role in our portfolio as well for those that are looking for a value price. As we talked about earlier all of that puts us in a position as we then start to go and talk to retailers and customers on gaining incremental shelf space which again would mainly be focused against Winston and Kool.

So just wanted to at least give that overarching in terms of our consumer engagement and how we think our portfolio plays in engaging with that consumer.

With that, Rishi, there's more you'd like to say about those brands in deep discount, please?

Rishi Dhingra: Yes. Thanks, Kim. And John, to your question, I think these deep discount brands have a footprint that is strong in some regions and channels. So they have a legacy in those places and we want to really kind of continue by servicing the consumers and the customer needs in those regions by really celebrating the regional and channel difference.

John Leinster: Okay. Well, thank you very much.

Operator: Thank you. Your next question comes from the line of Jared Dinges from JP Morgan. Please go ahead your line is open.

Jared Dinges (JP Morgan): Hi guy, I just wanted to ask what do you see as the medium-term growth algorithm for you guys in the US, that being, kind of, volume versus pricing versus mix? And related to that, you know, how should we think about margins in the US going forward, you know, given the growing contribution of deep discount and your increased investments in A&P? Thanks.

Kim Reed: Yeah. So I'll take the first part of this. You know, I want to first of all remind you that the US not only is an attractive marketplace but it's a very competitive marketplace as well. And as Imperial's largest market you heard Stefan earlier talked about, we're one of five – one of the top five priority markets. So, clearly, there's a responsibility that we have both to deliver – continue to deliver profitability both in terms of the financials as well as the share performance.

You also heard me talk a bit about the headwinds on inflation. And although I think we're very poised to participate and be able to handle and absorb that inflation based on our portfolio from premium all the way to deep discount it is a headwind for us. You know, we also shared with you some of our historical trends. And so although we have a down 1-2% comparator from an industry volume standpoint, we do – we are starting to see ourselves get back closer to historical trends.

So as I think about the outlook going forward, I would expect those similar trends, similar historical trends to be similar as we finish out the balance of this year. And then from a financial and share standpoint, I would say very similar to what you saw earlier in terms of mid-single-digit net revenue and profit performance, I would expect us to continue in that space and still continue to see sequential share growth. That would be the outlook going forward.

Stefan Bomhard: And Jared let me – it's Stefan speaking – let me just build on the comment from Kim. In principle as you will know our strategy has two phases. When we end in fiscal 2023 as of October, the second phase – the delivery phase – we have committed to you that we will deliver mid-single-digit adjusted operating profit growth. Yeah. And as we picked the US as our lead market to share with you, but it's roughly a third of our profitability. So, we are as a team counting on the US to make a meaningful contribution to that enabled by – to be clear – the fact that the US has received a significant level of investment in marketing and sales behind our new strategy to enable them.

So, we do feel confident that the US will be an attractive market overall, that the US will also be a very attractive for us as Imperial, yeah, and making positive contributions on top-line as well as bottom-line growth opportunity. Yeah.

Jared Dinges: Got it. Thanks, guys.

Operator: Thank you. There are no further questions. I will hand the call back to Stefan Bomhard. Please go ahead, sir.

Stefan Bomhard: Okay. Now let me thank you for your questions. And, hopefully, today gave you a sense of all the things that are happening in Imperial since we launched the strategy 14 months ago. So from my side a big thank-you to Kim and the whole team. It's a first time for them that they get this kind of exposure. But hopefully, you get the sense of the work that's happening at the market level whether that's in the sales area the level of detail that's happening there, in the marketing area in the level of consumer understanding.

So, hopefully, today gave you a lot more insights what's happening. And Lukas and myself are looking forward to seeing all of you and hear your questions at the half-year results. Thank you.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.