



Imperial Brands

CAGNY Script – 22 February 2023

Tim Gamache (CAGNY)

Slide – A Challenger Mindset

Good afternoon. Next up we have Imperial Brands represented by Chief Executive Officer Stefan Bomhard, Chief Financial Officer, Lukas Paravicini -- I think I got that right -- and Director of Investor Relations, Peter Durman. Though Stefan and Lukas are not new to Imperial, or investors anymore, they are both new to the CAGNY stage, having arrived at Imperial with their broad CPG experience within the past three years. Welcome to you both.

Their impact over that short time has been meaningful. Two years into a five-year strategy, Imperial has turned around market share performance in its key tobacco markets and its next generation products business is back to growth.

These efforts have been rewarded by shareholders. Imperial was the 10th best performing stock in the FTSE 100 last year, but still trades in attractive valuation. With that, Stefan, I will turn it over to you to hear more about your efforts.

Stefan Bomhard

Slide – Disclaimer

Thank you Tim, for your introduction and good afternoon, everyone...

It's a real pleasure to present Imperial Brands to you today.

Slide – CAGNY 2021: Outlined a New Five-Year Strategy

The last time I presented at CAGNY was in 2021. At that point our new five-year strategy was just three weeks old.

The team had done a lot of work with detailed bottom-up plans to strengthen our performance in tobacco and next generation products.

But, we still had to prove this strategy would translate from a conceptual plan into real world success!

Well, I'm pleased to report today that the strategy is working.

We've turned around our core combustible business.

We've successfully rebooted our next generation products.

And we've delivered a step-up in returns to shareholders.

But what is most exciting for me is that we've still barely scratched the surface of what our business can achieve.

As you'll hear today, across every link in the value chain, we have plenty of self-help opportunities that will drive further value creation.

While I'm really proud of our achievements over the past two years, in an important sense, the journey has just begun.

I'll provide some more colour on the business, what makes us distinctive, how we are delivering and where we are going next.

Lukas Paravicini, our CFO, will explain in more detail how we are creating shareholder value.

Slide – Imperial Brands is a Global Consumer Business

So, let's start by zooming right out and giving you a broad overview of the business.

A key fact is that we are the smallest of the four global tobacco companies.

And, while, of course, we admire our larger rivals, we are really comfortable in our own skin.

Everything we do is tailored towards maximising the advantages of our footprint.

We operate in 120 markets, and we love our people and our consumers everywhere.

But, from a value creation perspective, we focus tightly on the five markets which account for 70 percent of our profit... but more about that in a moment.

Slide – A Range of Tobacco and Nicotine Offerings

A second fact you should know is that we are passionate about brands.

Tobacco and nicotine products do, of course, operate under tight regulatory restrictions.

And we never shy away from the simple truth that smoking causes serious harm to people's health.

That said, consumers tell us that they value our products for the moments of relaxation and pleasure they provide – and they form very close relationships with our brands.

We have a stable of iconic international brands, such as JPS, Gauloises, Davidoff and West.

But what's distinctive about Imperial is the strength of our local jewel brands, such as Fortuna in Spain, Embassy in the UK and Fine in West Africa.

And, as we will discuss later, we are taking a differentiated approach to developing our portfolio of next generation products – with a step up in the pace of our innovation.

Slide – Strategy overview

So let me first remind you of our strategy...

Slide – Our New Strategy, Purpose and Vision

I showed this strategy wheel to you for the first time two years ago. And it has appeared in every single investor presentation since.

And the wheel is still rolling!

Today I'll highlight our progress and prospects, not only in our strategic priorities to build our combustible and NGP positions, but also in our critical enablers – the crucial foundations of our success.

You'll see we have clear plans to become more consumer-centric, to drive positive culture change, and to upgrade our structures and data capabilities.

Alongside our strategy, we developed a new 'purpose'.

Of course, we're not the only tobacco company to be working towards a "healthier future".

We're committed to playing our role in the long-term, industry-wide transformation that is creating an ever stronger choice of potentially reduced harm options for the world's 1 billion smokers.

Accompanying our purpose is our new vision – and at the heart of this is our ambition to be the strong challenger in our industry.

Slide – Differentiated Approach Plays to Our Strengths

Throughout my career, some of my most engaging and interesting roles have been in businesses, which have been distant number twos, or threes in their sectors, such as Burger King and Bacardi.

It's easy to make bold declarations about being an "agile challenger".

But they need to be backed up by the plans, capabilities, and data that empower people to act with agility and seize opportunities others miss.

And this is exactly what we've been doing at Imperial – giving our people the tools to become true challengers.

Being a challenger is about focus. We focus on the markets where we have a right to win.

Being a challenger is about choice. Our role is to provide a differentiated offering and strong competition when others have built a category. This plays to our heritage as the industry challenger.

Being a challenger is about being very close to our customers... and our retail partners want a strong smaller player to provide competitive tension.

And being a challenger is about having reliable, actionable data. This is why we're investing to enhance our consumer data and insights and in a new ERP system.

Slide – On Track with Our Five-Year Transformation

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

The bottom line shows the critical enablers... such as a strengthened leadership team, a refreshed approach to ESG, and enhanced consumer capabilities under the leadership of our Global Consumer Office.

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

While delivering our long-term strategy, our teams have also responded nimbly to unexpected events, such as our exit from Russia in April last year. And today, we are still the only global tobacco player to have exited the market.

Slide – Building our Capabilities

So, a critical part of our strategic transformation is how we are changing our culture and building stronger capabilities.

Slide – Strengthened Leadership Team

Given the transformation our sector is undergoing, I believe we can really benefit from having a diverse leadership team that brings fresh perspectives and capabilities.

With this in mind, we've strengthened our leadership team so that we now have the broadest FMCG experience of any global tobacco company.

We're successfully blending deep tobacco knowledge with best practice from the wider consumer goods sector.

Another important shift is how we're attracting top international talent.

No fewer than eight different nationalities – and four different continents – are now represented on our 10-strong executive leadership team.

Slide – Putting the Consumer at the Centre

One of the most profound shifts in our culture and capabilities is how we are placing the consumer at the centre of the business.

An early action under the new strategy was to establish a Global Consumer Office and appoint a Chief Consumer Officer, Andy Dasgupta.

Andy's role has been to introduce the global FMCG best practices into our business – and embed them in our markets.

Only last month, I joined Andy in London for Imperial's first ever global consumer conference.

What struck me was both the great work being done by our new global centres of expertise and the way they were already adding clear value for our people on the front line.

We saw how our new revenue growth management team was helping Australia, one of our priority markets, more effectively price its portfolio, driving share and profit.

We saw how our new insights programme looking at demand spaces – the individual moments when consumers enjoy our products – was informing brand building in the US.

Our approach to innovation has changed as well with a new partnership model – embracing the talents and capabilities of trusted experts in key areas such as device technology and flavours.

We've also established an innovation hub in Shenzhen where we can truly collaborate.

Another key change is how our new consumer insights are being fully integrated into the innovation process with our partners.

This model suits our smaller size and is enabling us to be faster and more agile, as you'll hear later.

It's exciting to see this investment starting to bear fruit. But we are only at the start of the harvest!

Slide – Building a Performance-Based Culture

We're also building a performance-based culture...

I know this isn't unique and there are, no doubt, many companies here at CAGNY all talking about culture and behaviours.

What I think is a little unusual about Imperial is:

- First, the scale of the opportunity to create a stronger business through culture change, and
- Second, the rigour with which we have been approaching this process.

Imperial grew rapidly through acquisition over the past 25 years. This meant we lacked a single common culture, which led to blurred lines of accountability and a lack of collaboration.

At the heart of our culture change agenda has been an immersive programme, involving all 26,000 of our colleagues.

This initial cascade was completed at the end of last year.

But don't take my word for it... we've started to see this translate into very positive employee engagement scores, as shown here.

We achieved a very good participation rate at 81%... and our global engagement score is now exceeding global benchmarks.

And there is evidence of our people really getting behind our new strategy and behaviours.

But building cultures takes time... So, this is just the start of our journey.

Slide – Simplified and Efficient Operations

We also see a big opportunity to drive value by simplifying operations, adopting new ways of working, and unlocking better data.

Imperial's acquisitive history resulted not only in a fragmented culture but also fragmented systems and processes with limited integration of back-office functions.

We're now well into a global transformation programme.

We've already simplified the regional and cluster structures to align to the new strategy.

And we're changing our ways of working... and we're on track to deliver the promised £150m of cost savings by the end of this year.

And we've now begun to reshape our enabling functions – finance, supply chain, human resources – to create global centres of expertise.

We're making good progress but the biggest upsides from this work are still to be felt.

For example, we're investing £300 million in a new group-wide ERP to replace 60 legacy systems.

The benefits of this investment – faster, more actionable data, leading to sharper insights and better informed decision making – will emerge in the next two to three years.

Slide – Building our ESG Capabilities

We've also invested to build our ESG capabilities to support our strategy, purpose and vision.

We established a new ESG function under new leadership with practical end-to-end operational expertise and supply chain management at Unilever.

We've upgraded our governance framework, creating an ESG executive committee, which I chair, and we ensure there are regular opportunities for the Board to scrutinise our progress.

Our recent ESG webinar, which you can find on our website, gives further details.

Our most two important areas of focus are consumer health and climate change. I will cover consumer health later.

On climate change, we've committed to be net zero across our operations by 2030 and across our supply chain by 2040.

We now have detailed bottom-up plans for decarbonising our factories and working with our suppliers.

And these plans give me confidence that we can deliver a further very material reduction in our carbon footprint within our target dates.

Slide – Stronger Tobacco Performance

So let's look at how these capabilities are driving a stronger tobacco performance...

Slide – Focus on Priority Markets

You all know the 80-20 rule. At Imperial, we have the 70-30 rule!

As I mentioned earlier, in our core combustible business, we focus on the five markets that make up the 70 per cent of profits.

This footprint is a consequence of our long heritage in the UK and our acquisitive history that expanded our international presence.

And I have to say I am extremely happy with this inheritance.

Our top two markets, the US and Germany, account for more than half our profit.

And in both markets the affordability of tobacco – perhaps the strongest indicator of future market sustainability – remains high.

In Spain too, tobacco is highly affordable.

In the UK, where affordability is stretched, we see the opportunity to use our existing routes to market to build a successful NGP business.

While Australia is one of the world's least affordable and most restrictive markets, the team there have deep experience in maximising value.

Alongside the top five markets we have some attractive medium sized and smaller markets, which we run efficiently on a cluster basis.

We have defined a clear role for every market... and some have the potential to be our future platforms for growth.

For example, we have some strong market positions in Africa, such as Morocco and Cote d'Ivoire.

And we've some very good franchises in central and eastern Europe, where we see exciting opportunities to transition consumers to NGP.

Slide – Operational Levers in our Priority Markets

Today, I'll focus on our five priority markets, where we identified six operational levers to strengthen performance.

Rather than a single 'silver bullet'... there were multiple clearly defined levers at a local level, which we grouped into these six themes.

These are focused across two broad areas: brand equity investment and sales force investment.

The good news is that two years on... we can demonstrate how this focused investment is driving a stronger operational performance. And I'll now give some examples...

Slide – Priority Markets: Premium Brand Investment

Take Winston here in the USA...

While the brand had declined under prior ownership, Winston still commands a strong recognition with adult smokers today.

By starting with the consumer... we developed an investment plan to revitalise the brand...

First, we recognised that taste and quality are key attributes that drive purchase intent.

So we refocused the story on a simple quality message, "*nothing but tobacco and water*", which was echoed in a new pack design.

Second, we've tapped into Winston's iconic heritage with a new advertising campaign, to improve relevance with our target consumer.

Third, we developed an innovative retail partnership programme that leverages Winston's deep heritage in motor racing.

We can no longer sponsor motor racing but, by working closely with selected retailers we developed a programme that benefits our consumers and retail partners... while enabling us to get closer to consumers through age-verified consumer data.

This helped Winston grow share last year in the premium value segment and contribute to our overall US performance.

Slide –Priority Markets: Jewel Brand Investment

Another important shift of our strategy has been our local jewel brands.

Imperial has a rich portfolio of these local national champions, which had historically been neglected in favour of their international stablemates.

For example, in Spain, Nobel is one of three large local brands that we own.

Nobel had struggled in recent years through a lack of investment. We leveraged the brand's strong local heritage through a successful programme of limited-edition packs, using artwork created by Spanish street artists that resonated with the brand's urban story.

Similarly, in the UK, we revitalised Embassy Signature, a strong local brand with deep heritage. We invested to support the brand and leveraged our strong trade partnerships to fill regional gaps in distribution, particularly in the South of England, where we've historically been underweight.

Both brands have been gaining share and the exciting thing is that we are just at the start...

We're identifying opportunities for other brands, which have been gathering dust in our proverbial jewellery box.

Slide – Priority Markets: Brand Investment

As well as investing in our premium brands, we've also ensured our portfolio is well-placed to meet the needs of different consumers across different price points.

For example, in Australia, the development of a new price tier at the bottom of the market meant that Parker & Simpson was stretched across too many price segments.

Our launch of Lambert & Butler provided a clear price segmentation for consumers between the two brands, and has driven share growth.

We've also been investing to leverage our presence in the fine cut segment, which tends to grow in markets where affordability of factory-made cigarettes is being squeezed.

This is an important segment in the UK where we've invested behind new brand activations for Riverstone and limited editions for Rizla, the world's most iconic rolling paper brand.

Slide – Priority Markets: Sales Force Investment

The other key investment lever has been to expand and leverage our sales forces in the priority markets.

The best examples are in our two largest markets, the US and Germany.

In the US, our analysis showed we had historically underinvested in our sales force in terms of both headcount, tools and capabilities.

We expanded our headcount by 25% to deliver improved store coverage, while investing to equip and train the team with much better in-store technology to help customers. We've also established a key account capability, which previously had been lacking.

In Germany, it's a similar story where we have refocused our sales team to increase coverage in under-penetrated regions and accounts.

We're now looking sharing best practice in sales excellence across all our markets through stronger collaboration.

Slide – Stabilising our Priority Market Share

So, two years on... these individual growth initiatives have helped turnaround the performance of our most profitable tobacco markets.

In FY22, we increased our aggregate market share by 35 basis points... following several years where we have been the number one share donor. And we've achieved this while maintaining our pricing discipline.

We have more work to do in Germany... but, as I've said before, it's unrealistic to expect growth in all five markets in any given year.

But we've moved from losing share in four out of five markets, to gaining share in four out of five.

And it remains our objective to no longer be the largest share donor.

Slide – Stronger NGP Delivery

Another important shift in our strategy has been to completely reset our approach to NGP...

Slide – Our Purpose: Forging a Path to a Healthier Future for Moments of Relaxation and Pleasure

This is a really critical strategic pillar, which also underpins our purpose of "forging a path to a healthier future for moments of relaxation and pleasure".

No nicotine product is risk free, but by far the riskiest product for people's health is the combustible cigarette – shown here on the left side of the scale.

The greatest risk of smoking comes from the combustion of tobacco and inhaling the smoke (not, as people sometimes assume, the nicotine).

None of the next generation products shown here involve combustion or smoke.

Scientific evidence indicates these products have the potential to significantly reduce harm, relative to continuing to smoke cigarettes.

However, for many consumers, NGPs are not yet adequate substitutes for cigarettes and they choose to continue smoking.

This is why innovation and consumer acceptance is so important...

Slide – Consumer Adoption Varies by Market

However, consumer acceptance is not straightforward... It is not just about selling potentially reduced harm products... it is about the individual journeys of each of the world's one billion adult smokers.

As you see here, the level of penetration varies by market.

You can see that Europe is the largest NGP region in our market footprint and that NGP penetration in both Europe and the US is similar at around 8%.

However, the chart on the right shows that category preference varies between our priority markets. Vapour and modern oral are prevalent in the US, while it is mainly heated tobacco and vapour in the UK, Germany and Spain.

These variations can be driven by consumer preferences, social attitudes to smoking, or by government policy.

For instance, in Australia, NGP products are not part of the formal market, unless under prescription.

This is why it is so important to focus on consumer need and experience, and to adopt a multi-category approach to drive consumer acceptance.

It also shows that consumers are still exploring – and for us that is good news.

There is still a long way to go and a lot to play for.

Slide – Our Differentiated Approach Plays to Our Strengths

This consumer need for NGP led us to reset our NGP strategy... it's a new approach that plays to our strengths and role as a challenger.

This is an important point of difference from how we operated in the past and from our larger competitors.

As the smallest of the global players, we do not think it is our role to create new categories in markets. At this stage, we're focused on markets where an NGP category has an established presence and where we can leverage our existing combustible routes to market and our consumer insight.

Having clearly understood the consumer dynamics, our role in these markets is to provide greater consumer choice with a differentiated product offering that meets an untapped consumer need. This allows us to offer something unique versus our competition.

Another key change is how we're focusing our investment on brand building and consumer communications by working closely with trade partners. We know which consumer touchpoints provide us with the highest ROI – and that's where we focus.

As I mentioned earlier, our innovation model is based on partnership. This is a cost-effective model that has enhanced our speed and agility in new product launches.

Ultimately, we believe this approach, which is grounded in consumer insight and data – and which plays to our strengths – will be more successful, creating more opportunities to make a meaningful contribution to harm reduction.

Slide – NGP: Differentiated, Challenger Approach

The first two years of our NGP strategy has been about validating this new approach through consumer trials in carefully selected markets.

For example, in heated tobacco, we initially trialled Pulze and iD in Greece and the Czech Republic where it received a positive response from both the trade and consumers.

Its performance exceeded our expectations and we've now rolled out to four further markets in Italy, Portugal, Hungary and Poland – with further market launches this year.

With vapour, we started by focusing our footprint on markets where we had a right to play. We have enhanced our consumer proposition and product portfolio with new flavours.

In modern oral, we've focused on existing European markets and have delivered new flavours to improve consumer choice and drive growth. Net revenue grew 37% last year.

I mentioned earlier that our new partnership approach to innovation is delivering a notable step change in new product development and launches.

We're now delivering more new products faster to market than ever before.

One example is the launch last year of our new, Blu 2.0 vapour device... this short video outlines the key innovations.

Video – Blu 2.0

Slide – NGP: EVP Innovation Delivers Upgraded Pod Device

Blu 2.0 is the first product to be delivered from our refocused innovation pipeline, providing some key enhancements to consumers.

We trialled blu 2.0 in four cities in France last year and achieved a 7% share in just six months.

Following this success, it's now been rolled out nationally in France, UK and Spain.

We've also revamped our online consumer experience, which includes a new brand identity and simplified navigation to deliver a better buying experience.

These changes should allow us to support our consumer throughout their journey from initial acquisition to conversion through to retention

Slide – NGP: Innovation Delivers All-New Vapour Device

As some of you will be aware, the emergence of disposables has added a new dynamic to the vapour category.

Disposables have driven significant category growth in Europe and we have been working diligently to understand how we can play responsibly within this sub-category.

Following extensive adult consumer research, our teams have developed the all-new blu Bar.

The product has now been launched nationally in the UK, France and Spain, and, although it is too early to assess its performance, it has a good initial reception from consumers and retailers.

Turning to heated tobacco, we also launched just last month an all-new Pulze 2.0 device with upgraded features... as this video shows...

Video – Pulze 2.0

Slide – NGP: Heated Tobacco Innovation

In developing Pulze 2.0, our innovation teams focused on four key areas: the nicotine delivery, product quality, a simple design and, finally, the sensory experience.

The result is one of the smallest all-in-one devices on the market, which now delivers more sessions from a single charge vs. our first-generation product.

This appeals to smokers who want the convenience of having one device that can operate all day and being able to have consecutive sessions without the need to recharge.

We've added new tobacco flavours as well. Pulze 2.0 is already available in four markets and we expect to add more in the coming months.

Slide – NGP: Modern Oral Nicotine Innovation

The modern oral segment has also seen considerable growth, with the category growing nearly 80% since 2019.

We've been looking to build on the initial success of our brand, Zone X, through portfolio innovation.

These initiatives have been focused on expanding the flavour range with the launch of seven new flavours last year, and two further launches already in the current year.

These new flavours are stimulating consumer interest and have driven strong growth for Zone X.

Slide – Accelerating Our Pace of Innovation

So hopefully you can see our new innovation model is delivering a real step change in the pace, agility and effectiveness of our new product launches...

This slide helps to demonstrate the acceleration in activity across all of our NGP categories with new device launches, range extensions and flavour enhancements.

We will continue to be disciplined and keep the consumer at the centre of all that we do.

I look forward to providing you with further updates on our innovation activity in the future.

I'll now hand over to Lukas to explain how we're delivering a stronger financial performance.

Lukas Paravicini

Slide – Stronger Financial Performance

Thanks Stefan and hi everyone.

Our stronger operational delivery is translating into stronger financial outcomes...

Slide – A Clear Five-Year Plan with Two Phases

We've now concluded the first two-year strengthening – or foundation building – phase of our five-year strategy.

And we're exactly where we hoped we would be at this time.

We've delivered on both our net revenue and profit growth expectations and are well positioned for the next phase of our strategy when shareholders can expect to see enhanced returns.

Slide – Strategy Stabilised Financial Delivery

Our financial delivery has improved with net revenue growth increasing each year as we enhance our tobacco performance and build out a sustainable NGP business.

Our focus on value creation is enhancing our operating margins consistently each year despite increased investment in our five priority markets and in NGP.

This strong delivery combined with the high cash conversion characteristics of our business, has enabled us to generate strong cash flow.

Slide – Cash Generation Supports Capital Returns

Therefore, having a clear capital allocation framework is a really important value lever alongside our strategy – and we have set out four capital allocation priorities:

First, to invest in the business to support the delivery of the strategy. Since our strategy is largely organic, and we work with innovation partners, our capital expenditure needs are relatively light and any M&A is likely to be small.

Second, has been to strengthen the balance sheet by reducing our leverage to the low end of the range of 2 to 2.5x net debt to EBITDA.

At the end of last year, we achieved that objective and we're guiding that we'll maintain our leverage around this level going forward.

Third, we've a progressive dividend policy, with a commitment to grow it every year, taking into account underlying business performance.

And finally, having now achieved our leverage target, we committed last October to an ongoing share buyback with an initial £1 billion in the first year.

To put this in context... this represents a return of around 5% of our share capital at current share prices.

Our improving operational performance and our confidence in our ability to continue to generate strong cash flows supports growing shareholder returns and a meaningful reduction in the capital base over time.

Slide – Attractive Valuation

For investors, Imperial offers the opportunity to invest in a global consumer goods business with an attractive valuation.

The business is currently trading at a free cash flow yield of over 14% and a dividend yield of around 7% – both of which are around twice the global consumer sector average – as shown here.

And our dividend remains very well covered at 1.9 times, or a 53% pay-out ratio.

So to spell this out... taking our dividend yield and share buyback together represents a 12% return on today's share price.

And we've committed to both an ongoing dividend and share buyback programme, driven by our strong cash flows.

Slide – In Summary

So, to conclude... we're delivering against the strategy we set out two years ago by being relentlessly focused on the consumer, by harnessing our challenger mindset and embracing our self-help opportunities.

I hope you can see how our actions are building stronger capabilities, which in turn is delivering a stronger performance in both our tobacco and NGP businesses.

This is now translating into a stronger financial delivery and enhanced capital returns.

And we're just two years into our transformation... we have more to go after.

So, Imperial represents an attractive opportunity to invest in a global consumer goods business, which is committed to making a difference by forging a path to a healthier future.

Thank you.

We'd be happy to take any questions you have.

Q&A

Gaurav Jain (Barclays)

Hi. Thank you. Gaurav from Barclays. So, I have a question on your heated tobacco launches. You know, you're launching in a number of countries in Europe. There are already established players in Europe. And then you might have, and you probably will have a new competitor in the US next year.

So, when the category recruits smokers, does it recruit from premium cigarettes or discount cigarettes. And you have a discount cigarette business in Germany. So, do you see more share losses to heated tobacco or less share losses?

Stefan Bomhard

Yes. Gaurav, it's - in principle, some of the - as you mentioned, Germany, the heated tobacco category is very small in Germany, so it's quite difficult to identify where the specific consumers come from. But where we see evidence, we would normally - the data that we have does suggest it accrues more from premium cigarettes, yes, which in reality, is only a part our portfolio. But one of the players, when you look at our top five markets, one of the differentiated features for our business is that we virtually in every market, have a brand at every price point. And I think in the current environment that helps us. That also does mean when you look at the impact of some of the NGP launches, our observation would be they're more impacting premium brands.

Vivien Azer

Thank you. Vivien Azer from Cowen. Just to follow up on that question, we have the upcoming implementation of a characterizing flavour ban. With Pulze 2 you noted the broad portfolio with ten different flavours. So, can you just remind us, what percentage of the current Pulze offering sits within characterizing flavours in the EU, and how you're thinking about the implications of that...regulatory change?

Stefan Bomhard

Absolutely. (Vivien), if you look at heated tobacco, I mean, it's a business that we just entered in Europe, so it's a relatively small base, yes?

In principle, today we believe it's important like the market leaders in these segments, to offer a wide range of variants to the consumers. However, our observation is, it's much more important what you offer overall as a package to consumers.

The device that we talked about the smallest device, the smallest all-in-one device, the opportunity to have two different flavour variants that we see as a feature, because that works with flavoured products but also with pure tobacco flavours.

So in principle, we want to use the opportunity that is given to the industry, until the flavour ban comes into place, to give our consumers and competitive users the best range. But the moment this opportunity goes away we feel very confident that the offer that we have will allow us to gain share in the marketplace. Any more questions, yes? Okay.

Vivien Azer

Thank you for the follow-up. Just turning to the US, some of your competitors have been a little bit more optimistic, some have been a little bit more cautious about the volume outlook for the category. Clearly you guys have been very successful in capturing share in premium value, as you pointed out...with Winston as well as with deep value. So can you apprise us of your outlook for 2023?

Stefan Bomhard

I mean as you say, the one thing we feel very comfortable with in the US, we - despite only having a ten share, I think one of the distinguishing features of our business in the US, we do have a brand at every single price point.

The reality in a volatile market where we heard from (unintelligible) where consumers are looking for value, we do have a portfolio for consumers. So, in principle, the broader question is we do see that consumers are being squeezed, we do see that consumers are making different choices.

At the same time, we do see some of the movements you see lately have to do with a return to a pre-COVID world, yes? But at the same time, we feel very comfortable having a rejuvenated premium/sub-premium portfolio like shared in Winston. But at

the same time at the discount and deep discount segment brands that have been gaining share for quite a while.

Man

I just wanted to come back to the Germany question from Gaurav earlier, because I think your big competitor in Germany that - the market leader in heated tobacco, said that their product gained 440 basis points of market share in Germany in 2022. So maybe I can just sort of reiterate the question of if it's gained 440 basis points of share, it must be coming from somewhere. And maybe sort of push you a little bit further to, you know, explain is that, do you think, coming from your brands, or not?

Stefan Bomhard

I mean, in principle, we do not see that we have a more than fair share loss to heated tobacco. And I think I would put it in the broader context. And Germany is a good example. Heated tobacco has existed in the German market for a very long period of time.

You've seen the numbers of the level of penetration of heated tobacco. So, I think that is one of the things when we - we always start with the consumer. And we are clearly seeing that it takes a long time for a German consumer with the pricing situation in Germany, which makes cigarettes, are still very affordable, with the regulatory environment in Germany.

The conversion rate in Germany, when you look at the facts, is one of the slower ones towards over to NGP, yes? But in principle, the opportunity - if the opportunity in Germany is large enough, what you hopefully have a sense now different to the past, Imperial now has an offer in every single segment of NGP. So, we feel, in a much better way, prepared than we would've been in the past.

Tim Gamache (CAGNY)

All right. So, with that, we're just about out of time. I'd suggest we move the conversation over to the breakout room. As we do, please join me in thanking Stefan, Lukas, and Peter for a great presentation. Thank you, guys.