Imperial Brands
Half-Year Results 2020

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Welcome and Results Overview

Dominic Brisby

Joint Interim CEO, Imperial Brands PLC

Welcome

Good morning. Welcome to our 2020 interim results presentation. I'm Dominic Brisby, Joint Interim CEO together with Joerg Biebernick, who will also be presenting today, along with our CFO, Oliver Tant.

Key focus areas

Since Joerg and I were asked by the board to lead Imperial in early February, we have been working with Oliver on five key areas: protecting the health, safety and wellbeing of our people; maintaining supply to customers; enhancing our focus on our tobacco performance; right-sizing investment behind our next-generation products and strengthening the balance sheet.

Over the course of the presentation, we will outline the progress we've made in each of these areas. Joerg and I will provide an initial overview, before handing over to Oliver to take you through the financials, our revised approach to capital allocation and the outlook. We will then cover our divisional performance before taking questions.

Let me start by talking about how we have managed the business through the coronavirus - starting with how we have protected the health, safety and wellbeing of our people.

Managing the business during the coronavirus

We employ more than 32,000 people around the world; they are the lifeblood of the business and we value everything they've been doing in these challenging times. In all our markets, we have scrupulously followed the advice of governments and public health bodies and we will continue to do so.

Large swathes of the business have been working remotely for some time. Where our employees have to work on site, such as our manufacturing facilities, they are doing so in such a way that prioritises their health and wellbeing, with social distance and hygiene guidelines strictly adhered to.

Our manufacturing and supply chain have benefited from its diversified nature. We operate 38 factories and it is a credit to the manufacturing teams they have kept the vast majority operating throughout the crisis. We have had temporary closures of some smaller factories, mainly in cigars, but they are now back online, although operating with a reduced capacity, which may affect future supply. To date, we've still been able to supply customers and we typically have 8–10 weeks of finished goods across most key product lines.

Our people have done a remarkable job and I know many of them will be listening in today. On behalf of the board, Joerg, Oliver and myself, I would like to say that we are immensely proud to lead you at this time; thank you for your incredible support and dedication.

Turning to our customers and consumers, sales of tobacco in the first half have been pretty stable. International travel restrictions have adversely affected duty-free and travel retail sales, although this has been more than offset by some temporary stockpiling we saw in March, with a net upside to revenue and profit of around 1% for the half.

Looking forward, it seems inevitable that we'll continue to see a significant reduction in international and cross-border travel for the rest of this year, so we're very unlikely to see this part of the business improve in the second half.

We've also outlined a number of risks associated to COVID-19 in the RNS, including the impact on consumer trends and regulation and we will continue to actively monitor them.

Let's now look at how we have reshaped our focus in the first half and I will hand over to Joerg.

Reshaping Focus in the First Half

Joerg Biebernick

Joint Interim CEO, Imperial Brands PLC

Focused on strengthening performance

Thanks Dominic. Although we delivered against our revised expectations in the first half, the results are clearly disappointing. However, what the numbers fail to show is the progress we're making in refocusing the business, in particular through adopting a back to basics approach to tobacco.

Our enhanced focus on in-market executions has delivered growth in tobacco share for the group overall and in seven of our ten priority markets. Underlying pricing has remained strong, although this has been partly offset by some temporary adverse market mix and the impact of downtrading. The fundamentals of the tobacco business are sound and we expect it to continue to grow over the medium term, with high margins and strong cash flows.

In NGP, we've been taking action to right-size our investment and resources to take account for the uncertain environment and last year's disappointing performance. We've reset our plans, which has involved focusing on the most effective investment behind blu and reducing it in areas which weren't working as well as we would have liked in both the US and Europe.

Last month, we submitted PMTAs to the FDA for a range of myblu products. We continue to believe that myblu has a key role to play in realising our goal of providing adult smokers with a range of potentially less harmful products. Our priority for this year is to improve returns, to strengthen the foundations of our NGP business and to maintain a range of options for future growth. We've also taken steps to strengthen the business and its balance sheet, rigorously challenging the cost base around all aspects of discretionary spend to improve profitability. We have taken a similar approach to improve cash delivery.

In March we announced a new three-year credit facility and last month we agreed the sale of our premium cigar business, a major achievement under the current circumstances. The disposal further simplifies the business, with proceeds being used to accelerate debt reduction.

Faster deleverage of the balance sheet will also be supported by today's announcement that we are rebasing the dividend by a third. The board recognises the importance of growing dividends for shareholders and we are committed to a progressive policy, growing from the revised base while strengthening the business for the future and underscoring its defensive characteristics. Oliver will provide some further colour later.

Progress against our ESG priorities

Before handing over to Oliver I'd like to briefly touch on our sustainability strategy, which focuses on three key areas that define the approach we take to managing our environmental, social and governance responsibilities: maintaining a sustainable tobacco supply; developing NGPs that are potentially less harmful to health and running our operations responsibly, keeping our people safe and providing them with a rewarding environment.

Within the current environment, our focus on our people and operations is clearly, especially relevant and we continue to ensure that all our people are able to work safely. We are monitoring government guidelines closely across all our markets, making certain that as lockdown conditions ease, our people are fully supported with any return to their normal place of work, whether that's in the field, an office or factory.

As we stand today, the coronavirus has not affected delivery against our ESG KPIs. However, some specific initiatives we had planned for the year have inevitably been affected, including progress on the independent environmental assessment of a blu device. This work is ongoing and we will do our best to get it completed this financial year.

We remain fully committed to our ESG agenda and are currently in the process of developing KPIs for all five of our priority ESG issues. Our intention is to get these finalised with the new CEO, Stefan Bomhard, in the summer and implemented in the new financial year.

Thank you. I'll now handover to Oliver.

Financial Results

Oliver Tant

Chief Financial Officer, Imperial Brands PLC

Thank you Joerg and good morning everyone.

Summary financials

From an earnings perspective, these results reflect actions we're taking in 2020 to mitigate the poor returns from the NGP business in 2019.

Over 6% of the 8.5% decline in operating profit during the half relates to one-off charges from the write-down of flavoured pods in the US, slow moving inventory more generally and an impairment of some vapour intellectual property assets. However, our performance is also starting to reflect the renewed emphasis that we're placing on our tobacco business.

Volumes in tobacco benefited from a better performance in the AAA division against a weak comparator but also reflect the continuing improvement we're making, from a share perspective, across many of our priority markets. Towards the end of the period we experienced some COVID-19-related inventory build, though this is expected to fully unwind during the second half.

Share for the group as a whole was up 15 basis points over the 12 months to February and 40 basis points in the last six months.

Tobacco revenues were 0.9% higher, supported by a relatively strong volume performance and pricing, although this was partially offset by some adverse mix that I will explain in a moment.

A decline in NGP revenues reflects destocking and the category slowdown in the US and Europe, although sell-out rates have proved relatively resilient, with blu maintaining share in several markets. Overall, revenues declined by 0.9% for the period.

EPS came in slightly better than we expected and I will outline the drivers shortly.

Cash conversion of 103% over a 12-month period was higher than expected, driven by NGP write-downs which impact profit but not cash and a benefit from working capital inflows which will unwind in the second half.

Earnings versus guidance

The decline in constant-currency EPS for the half year of just over 9% was slightly better than guidance. This was driven by a 2% improvement from trading, partially offset by a 1% headwind from a £19 million impairment of NGP intellectual property assets, which was not included in our original guidance. This arose from a review of our IP against our updated product launch plans.

We believe that around 1% of the trading benefit in the first half was COVID-19-related, being the net of a decline in duty-free and travel retail, offset by some consumer and customer stockpiling in March.

HY2020 volumes and price/mix

Tobacco volumes declined by only 0.5% in the half. This was largely driven by the recovery in the Middle East and South-East Asia, both of which had a weak first half last year, due to the timing of regulatory changes and distributor disruption. As a result, tobacco volumes in AAA grew by 4%.

US volumes were better than expected, with strong promotional activity in Q2, which supported share gains, as well as some COVID-19-related trade pull and the timing of normal industry inventory movements.

Europe was broadly in line with the wider market, with an increase in German private label volumes and some stockpiling in March, broadly offset by a double-digit decline in the Ukraine, though this latter point had little impact on revenues or profit.

Although underlying pricing was strong, it has been partially offset by several discrete temporary mix headwinds, which I will explain. Good pricing was driven predominantly by MPIs in the second half of 2019 in key markets, notably the US, UK and Germany. We also benefited from a carry-over of Australian stock profit, which wasn't realised at the end of last year.

Market mix has been a negative in the period. We grew volumes strongly in the Middle East against a weak comparator, where revenue per thousand is significantly lower than the group average. Conversely, lower volumes in Australia, one of the highest-value markets, has been driven by the growth of illicit trade, which has more than offset the benefit of our recent share growth.

We also suffered from a product mix headwind during the half. This was predominantly due to down-trading in Australia, with the expansion of the fifth price tier and a decline in sales of Backwoods in the US, with the latter already seeing some pick up in the early part of H2.

HY2020 net revenue

We grew tobacco net revenue by just under 1% for the half. NGP net revenue declined by 43% reflecting destocking in Europe and the US, partly offset by growth in heated tobacco in Japan. Overall, at constant currency, revenue was down by 0.9% and 1.7% at actual rates after a 0.8% currency headwind.

HY2020 adjusted operating profit

Tobacco profits fell by £12 million, or 0.7% in the half, driven predominantly by cost phasing, something I'll come back to in more detail on the next slide.

NGP-related write-downs of inventory and IP assets impacted profit by £95 million. Just over half of this relates to the value of flavoured pods in the US, with a further £28 million provided against slow-moving inventory, reflecting our revised growth expectations for the vapour category and our business. We also had the £19 million impairment of intangible assets I mentioned earlier.

Reduced trading income from NGP reflects lower sales and gross profit following destocking. This impact is partly offset by A&P and overheads, which are lower, both year-over-year and sequentially versus the second half of last year as we reduced less effective investment. This reduction was more significant during the second quarter, as we worked through the drag of spend which was committed to at the end of last year

The growth of the Logista's operating profit contribution to the group reflects the reduction in eliminations as a result of cycling the NGP inventory build in the first half of 2019 in support of market launch activity.

Group adjusted operating profit, including logistics, was down 7.7% in constant currencies and 9.3% at actual rates.

Tobacco operating profit

I've already talked through the drivers of the growth in tobacco net revenue, which supported an increase in gross profit of 1.3%. This increase hasn't translated into improved operating profit because of an increase in operating costs, which was predominantly timing-related.

In line with our increased focus on tobacco, we have revisited our investment plans and refocused some initiatives. As a result, we've seen a rephasing of promotional activity into the latter part of H1, particularly in Europe, resulting in a greater proportion of trade spend in this half compared to last year.

Overheads attributable to the tobacco business have also been more first-half-weighted this year, reflecting the increased emphasis that's been placed on this part of the business by the sales force as we right-size NGP. Production costs related to EUTPD2 and the new regulations around track and trace have also contributed to this cost profile.

Finally, while finished goods stocks meant our ability to supply has been largely unaffected, the disruption to our supply chain caused by government-enforced closures of our cigar sites in Honduras, Puerto Rico and the Dominican Republic has meant some under-recovery of production costs during H1. All three sites reopened after only a few weeks, though are unlikely to return to full capacity while new COVID-related safety procedures remain in place.

Cash

We've further increased our focus on optimising cost and cash opportunities across the business with even greater emphasis on managing investment and working capital.

In addition to reducing NGP investment and overhead expenditure, we've also initiated an even greater attention to cost reduction initiatives to improve returns and mitigate the profit impact from inventory write-downs. This has included travel restrictions, recruitment freezes, cancellation of discretionary expenditure and postponement of non-essential capital expenditure.

Alongside this, we are continuing to target a more efficient use of working capital to further improve cash generation. Cash conversion for the trailing 12 months benefited from temporary working capital inflows related to changes in production schedules.

Looking forward, the COVID-19 situation has caused some temporary changes in working capital, as we build contingency stocks to support the supply chain, which we expect to unwind in the second half.

We are continuing to closely monitor all aspects of working capital, including the timing of excise payments, which are a fundamental part of the positive working capital inflow we benefit from as part of our cash-pooling arrangement with Logista.

Liquidity

Although the effect of COVID-19 in H1 was limited, the situation continues to evolve and we've therefore undertaken extensive stress-testing of our liquidity needs and financial resources.

We have modelled a range of situations including recessions, with different profit impacts over a span of time periods, as well as temporary and permanent reductions in our manufacturing capacity. Our testing demonstrates that we have the ability, from a solvency perspective, to absorb significant systemic shock.

We recently agreed a new €3.5 billion multi-currency revolving credit facility, which is undrawn and have taken further steps to improve liquidity by securing an additional €1.7 billion of committed 18-month bank facilities, of which €1.1 billion was secured after the COVID-19 lockdowns. We've also agreed funding through the Bank of England's COVID Corporate Financing Facility.

The liquidity of our business is underpinned by strong operating cash flows from tobacco, within our business directly and through our cash-pooling arrangement with Logista. We also have a strong committed financing position, with no immediate funding requirements and the actions we've taken to ensure efficient cost and cash management and to improve liquidity have strengthened the resilience of the group.

Sale of premium cigars division

The premium cigars transaction was complex and we're very grateful for the hard work and persistence of our teams which ensured we got it over the line, an even greater achievement in the current environment.

The multiple of just under 12 times EBITDA recognises the luxury nature of the business and its international growth profile. The sale moves us further towards our ambition of becoming a leaner, more agile organisation.

Cash proceeds will be used to strengthen the balance sheet, reducing net debt to EBITDA by around 0.2 times, with full-year dilution of around £0.06, equivalent to 2% of full-year 2019 earnings.

With the transaction now expected to complete in July, I expect dilution in FY2020 of around 0.3%. We also expect to realise a non-cash credit to our foreign exchange reserves which will partly offset the non-cash impairment charge we've taken to date. In accordance with accounting requirements, this will be recognised on completion.

Rebalancing shareholder returns and deleverage

We have been focused on a deleverage plan for some time and while the premium cigar sale moves us closer to our target range for net debt to EBITDA of between two and 2.5 times, we've not been able to pay down debt quite as quickly as we'd have liked over the past couple of years. We also recognise investor appetite for debt has reduced over the past year or so.

Therefore, while our tobacco business model remains strongly cash-generative, we have modified our priorities for capital allocation to rebalance, deleverage and shareholder returns, thereby providing greater balance sheet resilience and flexibility. This is not – and I repeat not – a decision driven by a concern over future cash flows or by COVID-19, although the uncertainties created by COVID-19 reinforce the importance of a strong balance sheet. This is about accelerating the pace of debt reduction.

In that context, the board has decided to rebase the dividend by one third, meaning that the total dividend for this financial year will be £1.377 per share. We will retain a progressive dividend policy, as outlined last year, which will see the dividend grow annually from the rebased level, taking into account the underlying performance of the business.

The reduction in dividend amounts to about £650 million per annum, which will be used to accelerate debt repayment. Our intention is to reduce gearing towards the lower end of our two to 2.5 times target range, which we expect to achieve by the end of 2022.

The revised policy also enables a more flexible approach to shareholder distributions, with the potential return of surplus cash flows through share buybacks or special dividends, once our target leverage has been achieved.

Our overall objective is unchanged. We will continue to invest in the business to support the delivery of strong and sustainable operating cash flows. This investment will be within clear returns hurdles with a greater emphasis on risk evaluation and mitigation.

As a result, we expect any investment to be prioritised behind tobacco in the short term, where the investment risk profile is lower. We will also actively manage the capital base, seeking opportunities to realise value and streamline the business.

We will update the market on our investment priorities once our new CEO, Stefan Bomhard, has arrived and had the opportunity to assess his strategic priorities and set out a vision for the future of the business.

Our revised priorities for capital allocation continue to recognise the importance of growing dividends for shareholders with a rebased pay-out level providing the business with greater financial flexibility to strengthen the balance sheet.

Outlook for FY2020

Following our updated guidance in our AGM statement in February, analyst consensus for the full year currently shows EPS declines of 2% at constant currency, excluding an FX headwind of around 3%.

While our underlying business remains broadly stable, given the defensive qualities of tobacco, we have identified downside risks to trading in H2. Although the effects of COVID-19 were relatively limited in our first half, we've started to see more significant impacts develop over recent weeks. This is particularly noticeable in our duty-free and travel retail operations, where severe restrictions on cross-border and international movement have resulted in a material decline in the business. With only a small proportion of volume being repatriated into domestic markets and with the curtailment of both business and leisure travel likely to persist for some time, we’re currently not assuming any recovery during the second half.

We have also seen some change in consumption and buying patterns. For example, we saw some downtrading during the first half since the lockdowns took effect. This trend has accelerated, with a greater demand for value formats, such as fine cut tobacco and big-box products. Recessionary pressures may exacerbate this effect, though we’re relatively well placed, with a lower exposure to premium products in our portfolio.

Although all of our cigar sites are now reopen, following government enforced closures during the first half, social distancing measures and other COVID-related restrictions have led to cost inefficiencies and temporarily-reduced production capacities. We’ve assumed a return to full capacity for our cigar facilities by the end of June. We expect to incur increased manufacturing costs driven by the disruptions. We have also assumed there is no second spike in COVID infection rates, which would further disrupt other areas of our manufacturing and supply chain.

Although, at this early stage, it is difficult to assess the extent to which these factors will affect our business, we are currently assuming a low-single-digit impact to EPS. In addition, our full-year results will now also reflect the impact of the intellectual property asset impairment of £19 million, a 0.6% impact to EPS, which has been recognised in the first half but was not included in our previous guidance. We also expect around 0.3% dilution from the disposal of premium cigars. At current rates, we also expect currency to have a neutral impact on our earnings per share.

Thank you, now back to Dominic to take you through divisional performance for the Americas and AAA division.

Americas and AAA Divisional Performance

Dominic Brisby

Joint Interim CEO, Imperial Brands PLC

Americas

Thanks Oliver.

We delivered cigarette share growth in the US, as we continued to manage our portfolio to actively participate across all price segments.

We achieved good pricing across the portfolio, with cigarette price mix of a little over 5%. However, this upside was offset by cigars, with lower Backwoods revenue and higher sales of lower-priced Dutch, which has driven negative portfolio mix.

Backwoods sales have continued to be affected by supply constraints and growing competition in the natural leaf wrapper segment. We are already addressing this and have already seen a marked improvement in H2, supported by greater promotional activity, more limited editions and increased distribution.

The well-known NGP challenges inevitably impacted NGP revenue and profit. We've significantly reduced our vaping investment, shifting away from nationwide, above-the-line, out-of-home advertising to much more targeted spend with selected high-value distributors and retailers.

As you heard, our PMTA applications for myblu have been submitted and we now look forward to working with the FDA as it develops and enforces an evidence-based regulatory policy.

Excluding the one-off charges in the period for inventory write down on vapour, underlying profit growth was 1.4%.

AAA: share growth in priority markets

In AAA, our sales performance benefited from the normalisation of shipment timings in the Middle East following the regulatory changes last year. The results also reflected – reflect the expected upside in Australia from last year’s sell-through of duty-paid inventory ahead of the September price increase. Net revenue delivery was partly offset by adverse geographic mix, driven by increasing volumes of lower margin product in the Middle East and by growth in the Australian economy segment.

We continued to invest behind NGP in Japan, growing sales in both nicotine-free vapour and heated tobacco, with increased distribution of Pulze via two nationwide convenience chains.

Adjusted operating profit was impacted by the geographic mix and the increased investment in Pulze following its launch in May last year.

Priority market performance (Americas & AAA)

We grew share in all priority markets across the division, actively shaping the portfolio to meet shifting demand to value formats in brands like West and P&S, as well as premium brands like Davidoff.

In the US, portfolio simplification has enabled us to enhance investment behind our core brands with a lessening drag from the tail.

In Australia and Japan, we are responding to rising consumer demand for value offerings through P&S and West.

In Russia and Saudi, share performance has been driven by optimising our sales force activities and increasing line extensions to meet demand in the king and queen-size ranges for Davidoff.

Thank you. I'll now handover to Joerg.

Europe Divisional Performance

Joerg Biebernick

Joint Interim CEO, Imperial Brands PLC

Europe: focus on tobacco delivery

Thanks Dominic.

Results in Europe were affected by lower NGP revenues and associated write-downs which more than offset growth in tobacco revenues. We have continued to balance our priority market share positions with optimising financial returns, ensuring that we deliver quality growth in the right markets, with the right brands.

We achieved share gains in Italy and Spain, where growth in blonde tobacco is now offsetting the drag from dark formats and have improved sequential share in the UK and France.

Tobacco volumes decreased by 3%. This largely mirrors the trend across the broader market, with some benefit from accelerated buying around COVID-19 and strong sales of private label products in Germany offsetting declines in Ukraine.

Tobacco revenues grew by 0.5%, with positive pricing in several markets including a carry-over of pricing in Germany and the UK from last year. This offset the impact of lower global duty-free and travel retail sales as a result of virus-related travel restrictions.

Overall divisional net revenue was down 2%, driven by a 56% decline in NGP sales to £30 million, reflecting the destocking of the supply chain and category weakness.

Encouragingly, our blu share in several markets, such as UK, France and Italy proved to be relatively stable, reinforcing our view that the blu proposition is competitive. The decline in sales is driven primarily by destocking and some weakness in the category size. We also extended the distribution of our modern oral nicotine products, following initial launches in 2019, achieving good growth in Germany and Austria.

Operating profit was lower by 6.7%. This reflects lower NGP revenues and the impact of write downs but also the different half-on-half phasing of A&P in key European markets including the UK and Germany, where promotional activity has been much more H1-weighted than it was last year.

Priority market performance (Europe)

In the UK, we launched Lambert and Butler-branded fine-cut tobacco, which, together with several larger value offerings, has had a great start and is contributing to sequential share growth versus the second half of 2019. However, share is still down on a MAT basis following the declines last year.

In Germany, we are making further investments to reshape our portfolio, led by JPS and West, with a focus on value formats.

In France, our share is also showing sequential growth versus the second half of fiscal year 2019, supported by a greater sales team focus on tobacco and increased asset brand distribution.

In Spain, we have gained share in blonde cigarettes and fine-cut following the successful launch last year of Horizon and good progress in West, Ducados and Fortuna.

Italy's share gains have been driven with the continued success of JPS.

Focused on strengthening performance

In summary, it's clear that from a purely financial perspective this has been a six-month period with obvious challenges and although we lowered our expectations for the year to reflect the potential impact of COVID-19, we are making progress and continue to focus on strengthening performance.

An increase in market share for the group as a whole reflects our back-to-basics approach and a renewed drive for growth in tobacco, which is the bedrock of our business and provides the foundation for long-term growth opportunities.

The decisive action we're taking to right-size our NGP operations and ensure optionality going forward is providing a stronger platform for growth and we have enhanced that optionality with our recent PMTA filing in the US.

The sale of premium cigars reinforces our focus on simplifying the business and realising value for shareholders, with proceeds accelerating deleverage and strengthening the resilience of our balance sheet.

The fact that our business has continued to manufacture, distribute and sell our products largely unimpeded by coronavirus is down to the hard work, flexibility and commitment of all our people; we're immensely proud of their ongoing efforts.

Thank you very much for listening. We would now like to take questions. As we are in different locations, Peter Durman, our Director of IR, will help to facilitate the question-and-answer session.

Q&A

Owen Bennett (Jefferies): Morning guys, hope all is well. Just the one question from me relating to the COVID guidance. There you talk about downtrading and flag you have little premium exposure but how do you see the risk of downtrading from value into illicit, which we have seen before, post-2008? Thank you.

Peter Durman: Thanks Owen. What I'll do is I'll try and facilitate the questions by passing them out to – because we're in different locations, just so you're aware, so on that one I'm going to ask Dominic to give a view on that.

Dominic Brisby: Yeah, hi Owen. We haven't – interestingly, during the COVID time, we have, if anything, seen a reduction in illicit, just because of the fact that so many borders have been closed. So, so far, it hasn't had a major impact and most of our modelling suggests it's unlikely to have a major impact going forward, once the lockdown is less extreme.

It is worth saying, though, that downtrading is occurring and as far as possible, we're trying to take advantage of that, which is one of the reasons – and our success in doing so is one of the reasons why we've been able to grow share in seven out of our ten priority markets, as we make sure that we adapt our offerings to consumer demands and as consumers are focusing more on this area, it's been essential that we have a sufficient offering for them, which is one of the reasons why we've been able to grow.

Owen Bennett: Perfect. Thanks very much.

Gaurav Jain (Barclays): Good morning guys, hope everything is alright. I have three questions. So, my first question is on US volume guidance, which you had given at CAGNY, of -5% to -6% for FY2020. Now, your H1 volumes are -2% and this had, probably, some reversal of the inventory build which had happened at the end of 2019. So, how are you looking at your FY2020 US volumes? That's question one.

Question two is on your NGP losses, which were quite big in the first half. So, you know, you are outlining a lot of ways in which you will be controlling those losses but you still are, you know, talking of investing in NGPs and you have three categories: you know, blu, Pulze and oral nicotine pouches. So, which of those categories would you be investing in?

And thirdly, just on the volume and price mix dynamics, where volumes were much better, price mix was much worse but COVID hit only in March. So, when we look at H2, should we expect even a worse price mix? Thank you.

Peter Durman: Thanks Gaurav, that's – what I'll do is I'll ask Dominic to answer the first one, on the US volume guidance and I'll ask Oliver to answer the second two, which were on the NGP and the investment side and the losses and also around the volume, price mix dynamics.

Dominic Brisby: Hi Gaurav. Thanks for the question. So, in terms of the US, you're right, we said at CAGNY we expect the total market to be down something like 5% or 6% but this is still broadly the case and in fact, if anything, we'd probably slightly refine that to say that we'd expect the total market to be down around 5% and it's essential, when talking about the US, to be clear that we're very focused on growing market share in that market. We grew market share in FY2019 in the USA, with that collection of brands, for the first time in decades. We've grown market share at the half year and this is something we're continuing to focus on going forward.

Oliver Tant: Good morning Gaurav. So, let me start with the NGP question. So, obviously, we've got three categories that we're focused on: OND, heated tobacco and EVP. I think it would be fair to say that the focus, in terms of investment on OND, hasn't really changed. We have been driven, in the heated tobacco and EVP, by two considerations, the first of which is we are moderating some of our longer-term investment decision-making to focus on things that give shorter-term paybacks and that is limiting the level of investments in both heated and EVP. We've also reviewed, in particular, in relation to EVP, the returns from differing consumer groups. We see a very clear community, within EVP, of loyal consumer who we're continuing to focus on and support but there's a group of less loyal consumers who are more fickle in their consumption patterns, where the economics at the moment simply don't make sense for us. So we are curtailing investment, in particular, in EVP around that second group.

Just in relation to guidance, I mean, you can see from our numbers that, in the first half, we incurred a loss of around about £220 million, of which £95 million was write-down but principally relates to decisions that were made in FY2019. The underlying performance, therefore, in the first half was around about £125 million loss. We're driving through both the impact of increasing sales, as we come out of a period where we have destocked the trade around a number of products, particularly EVP and improvement in sales performance in the second half that will generate additional gross profit for us. We're also, with the investment refocus that I've talked about, reducing levels of A&P and overhead. I think you can broadly look to that having around about a sort of £75 million impact on our overall numbers to the benefit in the context of the second half. So, if you take £125 million and do the arithmetic from that base, you'll get a sense of what we're expecting in the second half, which I think is slightly different from the numbers you had in your note this morning.

Then on the value and price mix impacts, I mean we experienced, I think pretty pricing in the first half gross pricing; it was about 6.7%. That was driven by price increases that happened in the last part of last year, which obviously, when rounding against H1 2019, gives a benefit in H1 2020. We're expecting some price activity in the second half, less market-driven mix issues than we had. We had a very strong performance in terms of a recovery in our Middle Eastern and North African volumes in the first half. By the time we get to the second half, we're largely rounding a relatively consistent performance, so the impact of market mix is much lower in the second half.

Clearly, from what we've said around COVID, one of the risks that we will have, in the second half, to manage is potential downtrading in the context of product mix but we're largely assuming levels that were similar to the first half, based on an expectation of slightly stronger performance in Backwoods, which we witnessed and you'll have seen from some of the third-party commentary on our MMC volumes in the US market in April.

Gaurav Jain: Sure. Oliver, if I can just ask a follow-up on that reduction in NGP losses, so you are saying that losses will be down £75 million in H2 on an underlying basis.

Oliver Tant: On an underlying basis.

Gaurav Jain: So your H2 losses will be around £50 million, which, if I then take it as a run rate for next year – so you are essentially saying that NGP losses next year will be about £100 million in FY2021?

Oliver Tant: No, I think that's probably a step too far to go. I mean we're seeing, over the course of the next six months, the performance in that business get stronger. So, you know, I think we'll have to wait and see how it progresses over the six months and it's a little early to start giving guidance around what FY 2021 will involve. We'll do that later on in the year and clearly we'll have Stefan's direct input at that stage as well, around the priorities that he wants to establish.

But what we're saying is, you know, broadly speaking, you're looking at that level of curtailment. We've seen a strong reduction in Q2 of H1 and we expect that trend to continue in Q3 and Q4, with better performance in Q4 than Q3 and that, you know, if you, in your modelling were to – if I were modelling, I would, broadly speaking, that that's the sort of magnitude of what we're expecting in NGP in the second half.

Gaurav Jain: That's very clear, thank you.

Michael Lavery (Piper Sandler): Good morning, thank you. Can you touch on – when you say that, with the dividend reduction you'll prioritise debt reduction, what, if any, room should we expect for something like buyback? Is that just going to be opportunistic? Is that off the table? Is it just a more modest piece? Just a little bit more context there.

And then, on the outlook for the second half, how much can you quantify some of how to think about duty-free, or downtrading and what, if any, margin impact there is from a transition from a duty-free sale to one in a local market?

Peter Durman: Thanks Michael. What I'll do is I'll get, I think, Oliver to answer both those, so the one on the dividend and the one on the outlook, around duty-free and downtrading.

Oliver Tant: So I think, if I start with the dividend question, very clear we've had a focus on deleverage over a period of time and notwithstanding the disposal of PCD, which will give us about a 20-basis-point improvement in our net debt to EBITDA numbers, we have not achieved the level of deleverage over the past couple of years that we would have liked.

The board very clearly believes that our priority should be to address balance sheet risk issues and create the flexibility for the business as we move forwards and that that is our priority. And therefore, for the next couple of years, the priority will be debt pay down and not share buyback. So, obviously, as we get to the end of the period that we anticipate it will take to get to those revised ambitions around net debt to EBITDA, i.e. at the lower end of that range, other options, in terms of shareholder returns, will be open to us. We clearly will want to continue to invest behind the business and support the strategy that Stefan develops over that period of time but we'll revisit shareholder returns when we get to 2022.

I think the challenge with share buybacks is that, from a broad perspective – and we've seen a greater level of shareholder sensitivity around balance sheet risk emerge pre-COVID. Obviously, it's been exacerbated by COVID but we certainly saw it evidenced pre-COVID. The problem with buybacks is that they don't address that concern and the board were clear in the view that we believe that that should be our priority in the short term.

As regards your second question, around the price mix dynamics and I'm just – that was specifically –

Peter Durman: Yeah, it's around duty-free –

Oliver Tant: Around duty-free.

Peter Durman: – downtrading and what – how that –

Oliver Tant: Yeah.

Peter Durman: – plays into outlook for H2.

Oliver Tant: Yeah, I mean clearly the challenge here is sizing this in terms of both the length of period during which international travel is disrupted by the current crisis – now, we, in giving the guidance of the higher end of that range, are assuming that actually we don't see a recovery before the end of September, i.e. the whole of the rest of this year is impacted. Clearly, to the extent that that actually unwinds sooner, actually the impact of the disruption will be proportionately lower and in fact, you know, a very quick recovery would be, relatively, much, much more limited.

The other feature that one needs to reflect upon when trying to assess the impact of it is that we don't expect those consumers not to purchase. They just won't purchase through their international travel, they'll buy in their home markets, where in many cases the margins to us may be higher because, naturally, the incentive to buy on duty-free, or in travel environments, is driven by a value dynamic.

For us, the challenge in part is being very clearly able to size the level of that repatriation of purchase. But in overall terms, if we look at the more negative scenario of this impacting our business through to the end of September, the overall impact, we would imagine, would be about a little north of 1%. Its impact on price mix, perversely, may well be slightly positive because, although it'll be a lower volume, the net revenue at which its sold is, in all probability, likely to be slightly higher.

Michael Lavery: Okay, thank you very much.

Nico von Stackelberg (Liberum): Hi everyone, thanks for the questions. Just a quick question on Germany, it seems like there was some investment going into that market, you guys commented on that and yet the performance wasn't quite up to expectations and I was just wondering: why was that and is there any comment? Is it just too early to really tell?

And in a related question, it sounds like there was some investment going into the UK, year over year and that's a bit confusing to me because I thought this was more of a market that's being run for cash, broadly speaking. You know, we've seen the share declines and the pricing be supportive, that suggests it's being run for cash and so why the investment there?

I have a quick question on cash flow for the full year, please. Last year the free cash flow was £2.4 billion. There are a few one-offs that have been called out before which takes this number to around £2.1 billion on a steady state. Is this sort of level, of £2.1 billion of free cash flow, achievable for FY2020?

And then I had, I guess, two smaller questions but we can – maybe I'll go back in the queue.

Peter Durman: Okay, thanks Nico. What I'll do is I'll ask Joerg to answer the first two of those, on Germany and the UK and I'll ask Oliver to deal with the one on cash flow. Thanks.

Nico von Stackelberg: Thanks.

Joerg Biebernick: Okay, hi Nico, good morning. Yeah, Germany had a number of years of very strong financial performance and it's true that we had stronger expectations going into the year from a share performance as well. You may recall that we had said that we want to launch Davidoff and exploit it and that, unfortunately, hasn't turned out to be a success.

We then saw a continued pressure on JPS, which we're now rectifying with some portfolio choices and they're launching at this stage, so we're expecting, actually, JPS will stabilise and regrow. And finally, you may know that Germany is a very strong footprint of ours for FCT and we have refocused our sales force on FCT and that has also started to stabilise and most recently actually delivered a quarter-on-quarter share growth in Q2, versus Q1, in Germany. So we believe that, actually, those choices are starting to pay dividends.

And in the UK, it hasn't been a cash cow market in the sense that we've been growing share in the UK since 2017, continuously. We did, though, take unilateral pricing in the spring of 2019 and took a share hit. That is now reversing and we're seeing, again, sequential share growth. H1 was above H2 2019 and now we're lapping a lower base. The key drivers for that were actually a couple of launches on the FCT side, which are off to a great side. I'll leave it there, so actually quite a decent performance, especially sequentially, in both markets.

Nico von Stackelberg: So, I guess, just a quick questions as a follow-up on the UK. This is a market that you should expect profit growth out of tobacco and it warrants the investment, broadly speaking?

Joerg Biebernick: Yeah, exactly and we've been growing top and bottom line, also, in H1 versus a year ago in the UK, you're absolutely right, so this is profitable growth.

Nico von Stackelberg: Okay, thanks.

Oliver Tant: In relation to your cash flow question, Nico, yeah, £2.1 billion free cash flow is perfectly achievable in the context of the current year outturn but what I wanted to do is maybe just reflect on some of the things that are happening, the certain of which is, at this point of time, probably subject to slightly greater forecasting risk. So, we clearly, in the first half and we will continue in the second half, made greater strides in terms of the underlying levels of working capital that we're utilising through more effective inventory management, credit control management and making sure that we are in line with our accounts payable related policies in dealing with our supplier base but there's no doubt that COVID has had an impact in terms of working capital deployment, so in order to secure supply, for example, we've acquired more non-tobacco material stocks in our factories so that, in the event of disruption in our supply chain, we are capable of standing, through those buffer stocks, greater periods of interruption to our supplier manufacturing capabilities.

We've also, in a number of markets, actually increased the level of finished goods stock in case we have disruptions in terms of our ability to supply into market. So, in general, our inventories have risen.

Obviously, the degree to which COVID unwinds and the speed over which the lockdowns release will influence the degree to which we hold on to those additional buffer stocks and the extent to which they unwind moving forward and there is clearly opportunity for us in the context of a greater level of unwind, if the lockdown finishes earlier.

The second thing I would say is that we are also influenced, in terms of our working capital, by government policy on excise duty and there are two elements to this. As excise duties rise, we usually collect from our customers before we pay to customs and excise. So rising duties usually have a positive impact on our overall working capital position. Whereas, if governments choose to recover that duty earlier, then that has a negative impact on working capital.

Depending on how those two factors pay out – play out through the rest of the year and whether governments use that to impact their overall excise duty receipts, we could see a differing impact on our working capital, which clearly is beyond our control, which could range to the – either the positive or to the slightly negative, in the context of the latter point I was making, around just collecting earlier.

What we're doing in terms of CAPEX: we clearly haven't been able to spend as much CAPEX through the lockdown as we would ordinarily have spent. We've deferred some of that and I think that will cause a reduced CAPEX outflow over the course of the year and obviously we are not intending to spend any significant money in any form of investment activity between now and the year end. So I think that the £2.1 billion, from my perspective, at the moment, subject to those cautions around COVID, looks a pretty probably outturn.

Nico von Stackelberg: Thank you Oliver, I appreciate that.

Alicia Forry (Investec): Hi, good morning Dominic, Joerg and Oliver. Three questions, please, if I may? First, I'd like to hear more about trends in the non-priority emerging markets, which we didn't hear too much about but just if you could discuss, briefly, what's been happening over the last six months and how they've traded through the crisis so far?

Secondly, I wanted to build on Michael's question about duty-free. I think you were saying that duty-free, as a whole, is possibly lower margin than the group average. Could you confirm whether it's more profitable or less profitable, in its entirety, vis-à-vis the group?

And then, finally, the changes to the dividend and debt policy: was the new CEO consulted about this or did the board take this step independently? Thank you.

Peter Durman: Okay, thanks very much Alicia. What I'll do is I'll ask Oliver – sorry, I'll ask Dominic to deal with the question on the non-priority emerging market performances and then I'll ask Oliver to cover off the one on the duty-free profitability and the dividend and the new CEO.

Dominic Brisby: Yeah, hi, so in terms of non-priority emerging markets, I guess the most important to focus on are probably in Africa. And overall, as usual for our African business, particularly our sub-Saharan African business, we've seen the performance to be very, very resilient and very strong, both in trading and in market share terms.

There's one slight watch-out here, which is in certain markets, as we've seen greater degrees of lockdown during the coronavirus, in very recent times, we've seen an impact on market size, particularly given that's combined with Ramadan as well, so I think that's something to watch out for in some of these African markets but so far this year our performance has been very satisfactory.

Oliver Tant: So, on the duty-free margins, on average our duty-free margins are slightly better than the average for the business as a whole. I just want to spend a – just go in a bit of detail around the earlier comment.

So, our travel business is obviously comprised of two components, one of which is duty-free, which is the shops we see in airports, on planes, ferries, where people are travelling and they're outside the excise duty environment. The other element is travel retail, where people are crossing border to buy duty-paid products in an environment where there's actually a price advantage to that trade.

The – both categories are impacted by repatriation, which is to the extent that that opportunity isn't available, the consumer may purchase – and does, to some degree purchase – within the country from which they are travelling. And the impact of the loss of duty free therefore needs to be, in margin terms, considered in the context of the fact that that consumer will then buy in a market where, in all probability, the margin for us is higher than the margin in the market where they would be purchasing, or the environment where they would be purchasing, whether that's through the airport or whether that's from their home market.

Your – my expectation is that, you know, on the more positive, the repatriation could largely compensate for the impacts of the travel restrictions. On the more negative, we could see a dilution from a gross profit perspective but I think, you know, the margin is, in all probability, to be there or thereabouts, probably slightly higher than we would expect if they were purchasing whilst they were travelling.

As regards the Stefan question, we have been keeping Stefan informed and been in dialogue with him through the discussions that we've been having as a board. It's worthwhile noting Stefan is not yet on the board. He is still a full-time Chief Executive at Inchcape and you know, that's where his responsibilities currently sit but we have been aligning with him in relation to any of the material decisions that we've been making to ensure that he's comfortable.

Jonathan Leinster (Société Générale): Thank you. Yeah, actually, I've got a couple of – a few questions, please. First of all, just to follow up on an earlier one, given the downgrading and the focus on improving market shares, this seems a bit incongruous that you will be taking some notable price increases in the second half. And, do you think, just to be clear, that overall price mix on the tobacco side will be negative, flat or negative in the second half? That’s the first question.

The second question, although clearly you have stated your debt sales of NGP in terms of, you know, clearly there has been de-stocking and so on, what do you think the broad trend in terms of your consumer sales for NGP is likely to have been in the first half? Because clearly it will have been somewhat different given the de-stocking levels?

And, lastly, given that you have a focus on costs, and that the cost reduction programme, the restructuring programme previously announced pretty much comes to an end in 2020, should we expect further announcements with regards to cost reductions and restructurings?

Peter Durman: Thanks John. I think what I will do is I will ask Oliver to deal with the first one around the down-trading and the outlook around tobacco mix piece that was there. What

I'll do I think is ask Dominic and Joerg to talk a little bit about the consumer trends across their respective markets to give you some flavour on that one. And then on the final one, on the cost programme, I'll ask Oliver to deal with that. So, perhaps to start off with, I'll ask Dominic and Joerg to deal with the consumer trends one first.

Dominic Brisby: Yes, sure. So, it's probably worth talking about the USA to start with as it's the most important market for vapour. In absolute terms we have lost share on blu in the US in the first half. However, the broad numbers are slightly more complex, so it is probably worth picking them apart slightly. So blu, in absolute terms, has declined in share. What is interesting is that *my*blu has had slight growth in year-on-year; so, half-year versus half-year it has grown by 54 basis points but, overall, we've declined due to the legacy SKUs, which were in long-term terminal decline.

This is interesting since, in spite of the fact that we have significantly reduced investment, and we have taken a very strict approach, both in the USA and the AA division and in Europe, that we are only going to invest behind areas in NGP where get a quick and satisfactory payback. That has meant that we have diverted or cut large amounts of A&P to put it in the areas where we believe we get the best return.

One of the areas in the USA where we've done that, which has worked quite successfully has been in making sure that we really focus on our online sales. Interestingly the online sales of *my*blu are not reflected in any of the IRI or Nielsen data, which you will pick up, because this is store data. But I can tell you that, in the first half, our online sales of *my*blu increased by 58% versus last year and now represents about 25% of our total sales. Joerg?

Joerg Biebernick: Thank you Dominic. And when it comes to Europe, let me cover both vape and oral nicotine, but starting with vape as the priority category. First of all, the category globally has been impacted by the negative news coming out of the US last summer and that had an impact on the European category growth, which was very strong up until then. That category took a dip up until, I would say, the November/December months and that had an impact on our sell-out rate.

The positive news is that our leadership market shares that we have built over the last 18 months were actually by-and-large intact in places like Spain, Italy and also in Germany, where we are closely fighting for market leadership. So, we have 50% share in Italy and that hasn't changed much, in Spain above 50%, so that was actually helping us. And the second thing we saw was that when the category came down, loyalty went up. So, we have now, I think, more loyal consumers that are continuing to buy our products and helping our share performance. And, overall, actually, probably slightly better than anticipated given the investment retrenching we've done.

On OND, it is quite a positive story because the category is in strong growth in Austria and in Germany and in the Nordic countries, which are the priority markets, and we are performing very well. We are market leaders in Austria since we launched there the test market and we have a 20% plus share in Germany; so, quite a healthy performance and quite profitable.

Oliver Tant: John, so I think your third question was around the trend in price mix; and we are expecting pricing in the second half of this year. In fact, if we look at the first half, the gross pricing benefit was substantially driven by pricing that happened in the second half of last year and we are expecting that to occur, to repeat itself in H2. So, we are expecting some underlying price momentum and that will more than compensate for any price mix pressures based on our current forecast. So, we are expecting that to provide a contribution to our net revenue trajectory.

As regards the cost of restructuring, I mean I think the first point probably to make is that some of the activities that we would have looked to have undertaken in FY2020 have probably been delayed slightly by the current crisis and therefore, at least in terms of cash cost, a number of the initiatives that we would have advanced will probably now spill over into FY21.

As regards any additional restructuring programmes beyond our previous initiative; we currently don't have any plans for anything but, obviously, we will be reviewing with Stefan the strategy focus and really it is a bit too early to comment on whether, as a consequence of that, because we haven't had those discussions yet, there might be anything forthcoming.

Jonathan Leinster: Okay, thanks, sorry, just to be clear, Oliver you were indicating that price mix probably is going to be positive in the second half of this year?

Oliver Tant: I am not indicating, I am saying it is likely to be positive. We expect it to be positive, we do not expect negative price mix. We don't expect impact of the down-trading to offset materially the gross price benefit that we will have in the second half.

Jonathan Leinster: Great, okay, thank you very much.

Adam Spielman (Citi): Thank you very much for the question. I want to make sure that I have understood really what you have been saying, particularly Oliver. In terms of the investment priorities and, sort of, if I think back, you know, it was a pretty clear set of investment priorities. You had the returns markets where you weren't particularly investing in and the growth markets where you were hoping to gain market share and NGPs. And, you know, following, let's say, mixed results at best of that, it seems to me, and I just want to make sure I've got this crystal clear, that your focus now on investment is priority in the top ten tobacco markets, with a skew, if anything, to lower-end products in tobacco. And then in NGPs, basically, you are very focussed on short-term benefits from whatever you do, with a slight emphasis on what is happening in heated tobacco in Japan and also the oral nicotine products in Germany and Austria. I mean is that – and that has been, to some degree, aligned with Stefan, is that a fair summary of what I've heard or have I, sort of, picked things up wrongly somehow?

Oliver Tant: I think we might need to recalibrate it to some degree, Adam. So, I mean, actually in top max we've not materially changed our strategy. So, our strategy has been to focus on our priority markets and our priority brands and those, you know, we've had ten markets where, we've always been clear on, represent the majority of our profitability. And, inevitably, therefore, they draw the majority of the investment. We have a number of brands who tend to out-perform the market average and our average and we focus on those brands.

What we've clearly done, and I think Dominic referred to this earlier on, is that we have had, over the last couple of years, a significant focus on our NGP business with sales forces, elements of our marketing teams, being focussed on the opportunity in EVP. We have, to some degree, we are re-focussing that capability on our tobacco business to drive further and better performance out of that business.

As regards, and otherwise, you know, not a lot has changed other than the operational and tactical decisions that we are making on a day-to-day basis around the types of initiatives that we are progressing.

In terms of NGP, we had a focus with, I think the market was praised in the context of wanting to lead in the context of EVP and to be a fast-follower in the other two categories. As far as OND is concerned, our investment hypothesis hasn't changed. That is a business, which is progressing well for us, and the category is performing strongly.

In the context of heated, the investment profile is clearly a much longer-term profile and we applying some degree of moderation to that investment until we have had the chance to talk through with Stefan, and he has had a chance to get into the business and understand performance and assess his own priorities rather better, we are moderating the level of investment in heated tobacco.

And, exactly the same, but to a slightly greater degree, is the case with our EVP business. EVP consumers also include a group that we have, over time, been recruiting, whose loyalty has been relatively poor and we are deprioritising focus on essentially recruiting those consumers onto the franchise in the short term, in favour of a group whose performance contribution is much stronger as regards our results.

So, the combination of those things mean that we are pulling back investment in aggregate in the current year, and in answer to the question earlier on, I gave you a sense of the scale of that in terms of second half performance.

As regards Stefan, Stefan has yet to arrive, yet to develop his strategy. We are continuing with a recalibrated version of our focus in the past, preparing the ground. We don't want to lose our position materially in any of the environments that we are in until we have had the ability to discuss with Stefan and he has outlined his focus and strategy, from which we will then move forward in the months and year to come.

Dominic Brisby: And sorry, maybe I will just add a point to that. You asked about the brand portfolio and the focus on tobacco at the value end. I think it is important to realise that, actually, one of the strongest performing brands this year is actually Davidoff and we have done quite a lot of work around the Davidoff brand and so a lot of our market share growth has been Davidoff, so not just the other.

But clearly given, particularly what we've said about down-trading and so on, we are also opportunistically looking at how we can position our portfolio for the current circumstances. So, that is at the moment looking also more at the value end.

Adam Spielman: Okay, thank you. And if I can ask a second one; you have obviously given, is it guidance about what you think the impact will be from the Corona crisis and the recession that we are all expecting; and, if you had to guess where the bounce of risk lies, do you think it is equally skewed to the downside and to the upside of that low-single digit impact? Or do you think there's sort of – I mean, clearly, that is what you think is most likely to happen. But would you say the chances of it – of you doing better from that is greater or less than you doing worse than that, if you see what I mean? I mean, there's clearly quite a lot of forecast risk here.

Dominic Brisby: I think it would be fair to say, Adam, that inevitably there is forecast risk. I mean what we've not assumed is a second peak. We've not assumed a whole series of government interventions that are driven by a second peak in a large number of markets and therefore there is that risk that we could experience a second peak. We could see some individual initiatives that could have an effect; although, we have looked at a number of those and we have considered them to be quite remote.

We have tried, in terms of the bottom end of that range, to be pretty conservative in our judgements. I mean, actually assuming, for example, that the travel environment remains shut till the end of September, well, the more recent noise over, I guess, the last few days, suggests that we might see a little more tolerance towards modest levels of travel taking place. But it is, you know, it is difficult to be confident around how governments are going to react to the crisis at this point in time.

And, from our perspective, we felt it was important to range what we see; we believe we can range what we see. We believe we can do that on the basis of what most people would regard as a sensible set of assumptions. And you can see that the impact is within a manageable and tolerable range. Many of the issues we are talking about we wouldn't expect to have permanency in terms of the medium-term prognosis for the business.

Adam Spielman: Okay, thank you.

Sanath Sudarsan (Morgan Stanley): Hello good morning all, I hope you are all well. I just wanted to pick up from Adam in terms of your NGP strategy. From what I understand, a lot of your new strategy seems to be revolving around limiting investments and prioritising certain markets where you can generate faster cash flow. Can you perhaps give us more sense about how that has also changed your approach to work on product development, branding and approach to work in certain categories within that?

And also, while we are at it, can you also please give me colour on your approach to tobacco that you said you are going back to basics approach to tobacco? And what does that reflect in terms of operational performance, in terms of numbers? If you could give us some colour that would be great.

And my second question is, in terms of your path to deleverage; operationally it seems that you are about two years away from getting to the lower end of your 2 – 2.5 turns of net debt to EBITDA; and, of course, more volatility now in the market. Do you have any thoughts about more strategic asset sales that you might be willing to do to accelerate this deleveraging process? Thank you.

Peter Durman: Thanks very much Sanath. What I think I will do is, I will ask Dominic to comment on the NGP aspects of that, the sort of strategy around the approach there and, also, perhaps to comment on the back-to-basics approach to tobacco. Although, perhaps Joerg, you might want to also just add in about your, you know, in your markets about what you are seeing about a back-to-basics approach around tobacco.

And then on the final one, on deleverage, et cetera, I will ask Oliver to respond.

Dominic Brisby: Yeah, thank you. So, on NGP strategy, it is worth saying we are not adopting a new strategy on NGP but what we are doing is refining an existing strategy. And this means we need to be particularly conscious, and, since Joerg and I took over in February, we have been particularly conscious that we gain a better return on investment for the money that we put into NGP than perhaps we have done previously.

This has meant that we have been very conscious about where we put our investment, making sure that we get an acceptable return on that and making sure that that return comes through reasonably quickly. That is in terms of our in-market activities and how we execute NGP in markets.

Having said that, as you rightly pointed out, there are some activities, which take much longer and which are still essential to carry on with, around long-term brand building, around product development and around innovation. We have taken a look at all of those activities and, where we think they are important, and where we believe they can give us a good return in future, we have continued with those. So, we are still having significant focus on innovating our product portfolio, which we believe is essential, given the nature of this category, so that is continuing.

In terms of the back-to-basics approach on tobacco; really this is very simple. It is about making sure that we give the consumer what the consumer wants in the way that the consumer wants it. It is about making sure that we occupy the price points where the consumer is moving. It is about making sure that we have very coherent brand identities and it is also about making sure that we are fully distributed in the places where the consumer wants to buy. And this is doubly important in the Corona virus situation at the moment.

This has resulted in, I think, a better overall tobacco strategy but also better in market execution as well. And the outcome of this is we have managed to grow in seven out of ten of our priority markets for the half-year, which is something that I think we've never done before. So, it does appear to be bearing fruit.

Joerg Biebernick: Yeah, and I want to echo what Dominic has said. I think the same applies to Europe. We essentially want to participate actively where the consumer is going and that meant in a number of markets an increased focus on SCT from a portfolio point of view. So, we launched brands, Horizon in Spain. We invested in France, but also in the UK with the Lambert & Butler launch in SCP. We rectified price points and hit those more consistently in places like France again.

And also, the in-market execution was focussing more on tobacco, frankly, away from a focus that was more skewed towards vape in the last year and that also paid its dividends. And, as a result of that, we've now grown, I think for the first time ever, or in a long time, total market share in Spain, even despite the drag on the dark side. We have started to grow again share in France sequentially. Q2 share in Germany was ahead of Q1. And, in the UK, already you have mentioned that we are also growing sequential share on top of the performance we had in Italy already for a while.

So, overall, all those, in the end, simple moves, are helping to drive performance.

Oliver Tant: So then, on the deleverage trajectory; I mean, we have talked earlier on in the conversation about the level of free cash flow that we believe we can generate. And, in fact, in the 12 months to the half-year, we generated broadly around £2.4 to £2.5 billion in cash flow. We invested, including the share buy-back, around £450 million in that 12-month period. Now, based on where we are today, the fact that Stefan will need some time to review his strategy and establish his focus, we certainly don't envisage in the shorter to medium term that we will be repeating that level of investment in the context of M&A and share buy-back activity. And we are also reducing dividends by £650 million on an annualised basis and we have the benefit of roughly a billion of cash inflow from the sale of PCD.

So, from my perspective, I think we would expect to see, potentially, over a two-year period £500 - £600 million reduction in the level of investment outflow, against the trend we have seen over the last 12 months, around £650 million a year of reduced dividend outflow. Obviously, we have the benefit of increased operational cash inflow and we have the benefit of the PCD disposal and the billion that is in-flowing. I think it is – I would expect that deleverage, assuming that we don't get any further interruptions to our cash flow enforced exogenously, to largely enable us to reach that objective over the two-year period and hence the statement that we've made in the R&S. I am not anticipating that we would need to engage in any form of realisation activity in order to drive that trajectory.

Sanath Sudarsan: Right, thank you very much.

Patrick Folan (Redburn): Hi, thank you. Good morning. Just two questions from me. First you mentioned down-trading in the US; can you provide some colour on the deep dish down segment and how has that evolved over the last few months? And any colour on how the Sonoma brand has performed relative to the segment?

And then, on the up-coming menthol ban, which kicks in tomorrow, are you doing a buy-back scheme for any of the menthol cigarettes on vend; and, if so, what impact does this have on margin?

Peter Durman: Okay, thanks very much Patrick. What I'll do is I'll ask Dominic to talk about the down-trading dynamics in the US and the performance of the Sonoma brand within that. And then I will ask Joerg to talk about the menthol ban in Europe. Over to you, Dominic.

Dominic Brisby: Yeah, thanks for that. So, there does continue to be down-trading in the US, which has continued during this coronavirus period, but I wouldn't say that is has changed or dramatically exacerbated the overall trend, which was present before. Sonoma has performed particularly well; it is up 20% and it is growing share within the segment, and, of course, within a growing segment, which has been one of the contributors to our share growth in absolute terms at the half-year in the US.

It is also worth saying though that a number of our brands, including those at the higher priced segment such as Cool, even though some of them are declining share in absolute terms, within their price segment they are growing. So, the action and the decisive work that we have taken on our brand propositions and our distribution has meant that, overall, our US portfolio is in pretty good shape, as well as achieving a cigarette price mix of 5%. So, we are quite satisfied with our US performance.

Joerg Biebernick: Thanks Dominic. And, as far as menthol is concerned, it is a relatively small part of our business in Europe. It is about 3 – 4% of our volumes. We don't really expect the ban to have a significant impact as people leave; the majority of consumers are likely to stay in tobacco and with their current brands. To that degree we have launched a number of variants in our major brands to help their transition from menthol to a future. And, beyond that, obviously, we have a keen interest in transitioning consumers also to potentially risk-reduced product; and blu is available in menthol flavours. As much as we have launched, especially in the UK also, our Rizla flavour cards, so consumers can adjust their experience using those high-quality products. And in net/net we don't expect a significant impact.

Nico von Stackelberg (Liberum): Thanks for that final question. There was a comment before about, I guess it was NGP optionality and that made me think about you are potentially thinking about selling some or all of the NGP, and I don't think that is necessarily the case because there was another comment there at the end that you don't feel the need to sell assets to reach the target. And, I guess, the question is, taking a step back, you know, you were able to offload the premium cigar business at a reasonable multiple; certainly, higher than the group's multiple and, is there scope for Imperial to revisit the overall divestment programme or is this getting ahead of any ideas that Stefan may have? Thanks.

Peter Durman: Thanks, Nico, I will ask Oliver to address those.

Oliver Tant: Yeah, I mean, I think, look, we need to sit down with Stefan and talk about where his focus and priorities are after he has had a chance to get a better understanding of the business as a whole. What we can say at the moment is that, in the short term, we have no intention of any further divestitures. Clearly when we've agreed that focus and we have had the broader capital allocation discussions we will update you at that point in time. But it is not appropriate really at this stage to update. We can't because we – we are still in the process of transition and will be for a while in terms of on-boarding Stefan, determining the strategy and then considering the consequences of that in capital allocation terms.

What I think I can say is that the programme that we talked about in May of 2018, with the disposal of PCD, has essentially been brought to an end now; our gross proceeds were about £1.5 billion as compared to up to £2 billion, which is the statement we made at the time.

Nico von Stackelberg: All right, thank you, appreciate it.

Alicia Forry (Investec): Hi, thanks so much for just a quick follow-up here. You talk about Stefan being in a transition process for a while. Is there anything you can say about the expected timetable for him to present his new strategy and vision? I think perhaps the market had been assuming this might come at the full-year results presentation in November, but that seems perhaps a bit early based on your comments. But, equally, waiting until this time next year seems too long; so, is there a plan for a sort of Capital Markets Day or some event whereby he can communicate his new vision to all of us?

Peter Durman: I'll ask Dominic to respond on that, thanks Alisha.

Dominic Brisby: Hi, I think it is premature to speculate on when Stefan might choose to do that. So, bear in mind, Stefan is still an active CEO of Inchcape, we are looking forward to welcoming him to the business on 1st July but, like any incoming CEO, Stefan is going to need a bit of time to decide what his strategic priorities are and how he wants to run the business. So, I think it will be up to Stefan to update you on the timing around that after he has joined at some point.

Peter Durman: Great, well it just leave me to thank you all for joining the call today and thank you for your questions and, obviously, the IR Team will be around during the rest of the day if you have anything further. But thank you.

[END OF TRANSCRIPT]