6 April 2022

Pre-close trading update

- Good progress in delivering on our strategic objectives
- Growth in aggregate market share in top-five priority markets
- First-half adjusted Group operating profit ahead of last year on constant currency basis
- Full-year outlook in line with revised guidance issued on 15 March
- NGP trials progressing well, further update on next steps to be given at the interim results
- Cash conversion remains strong supporting year-on-year deleverage

Imperial Brands continues to perform in line with its five-year strategy launched in 2021. Focused investment in our top-five combustible markets, which account for around 70 per cent of adjusted operating profit, has driven an increase in aggregate market share for those markets. Gains in the US, UK and Australia more than offset declines in Germany and Spain. These share gains were achieved while maintaining strong pricing discipline, and overall tobacco volumes are in line with expectations.

Consumers have responded positively to the pilots of our Pulze heated tobacco system in Greece and the Czech Republic and an improved consumer marketing proposition for our blu vapour product in the US. We are making good progress against our strategic objective of building a sustainable, consumer-centric Next Generation Product (NGP) business and we will provide an update on our next steps at the interim results. First-half NGP revenues are expected to be slightly ahead of the prior period, driven by growth in Europe.

We are on track to deliver full-year results in line with our revised guidance issued on 15 March, with expected full-year net revenue growth of around 0-1 per cent on a constant currency basis and adjusted operating profit growth of around 1 per cent.

First-half Group net revenue is expected to be broadly flat on last year on a constant currency basis, in line with our expectations. This reflects a weaker tobacco performance in Europe, which offsets growth in other regions. Europe's performance has been driven by the return to pre-COVID purchasing patterns as Northern Europeans resume international travel, as well as price phasing in some markets. However, price increases during the latter part of the first half will support a stronger revenue performance in the second half.

First-half Group adjusted operating profit is expected to grow by around 2 per cent on a constant currency basis, benefiting primarily from reduced losses in NGP. As expected, tobacco performance will be weighted to the second half. First-half tobacco operating profit will be broadly flat on last year on a constant currency basis, with increased investment behind our strategy offsetting the benefit of reduced US litigation costs compared to last year.

At current exchange rates, translation foreign exchange is expected to be a c. 2 per cent headwind on first-half earnings per share and a 1 per cent headwind on full year earnings per share.

Our adjusted operating cash conversion remains strong on a 12-month basis and we are on track to deliver in line with expectations at the half and full year. Our first-half leverage (adjusted net debt to EBITDA) will improve year on year, with 12-month leverage expected to be c. 2.4 times at the half year (HY21: 2.6x), reflecting the usual seasonal variations in cash flow. We expect to deliver a further year-on-year improvement in leverage at the full year.

We continue negotiations with a local third party about an orderly transfer of our Russian assets and operations as a going concern. Meanwhile, we also continue to support our Ukrainian colleagues and their families, including with transport and accommodation to enable them to escape the areas most severely hit by conflict, as well as resettlement assistance for those who have left Ukraine.

The interim results for the six months ended 31 March 2022 will be announced on 17 May 2022.

ENDS

Notes:
The Group uses 'adjusted' (non-GAAP) measures as we believe they provide a better comparison between reporting periods. The definition of our adjusted measures is unchanged from our full-year results. We also use the term 'constant currency', which removes the effect of exchange rate movements on the translation of the results of our overseas operations.

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