IMPERIAL BRANDS PLC

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Pre-close trading update: Imperial Brands on track to meet full-year guidance

- Robust tobacco pricing and stable aggregate market share across top-five combustible markets – against a strong comparator
- Product launches across vapour, heated tobacco and modern oral drive NGP net revenue growth
- First-half adjusted Group operating profit similar to H1 2022 on constant currency basis, reflecting impact of COVID-19 unwind on volumes, higher NGP investment, and last year's Russia exit
- On track to meet full-year expectations and our guidance of growing revenue and operating profit
- Completed £523m of the FY23 £1bn share buyback, as part of ongoing programme of capital returns

We continue to make good progress implementing our five-year strategy to transform the business. We are on track to deliver full-year results in line with expectations and our guidance of low single-digit constant currency net revenue growth. Over the next three years, we continue to expect operating profit growth to accelerate to a mid-single digit CAGR at constant currency.

Focused investment in our priority combustible markets continues to support the stabilisation of market share. We are consolidating the strong gains achieved last year with aggregate share in our top-five markets at the half year expected to be at a similar level to the prior period. The US, Spain and Australia are expected to show growing or stable market share, offsetting declines in Germany and the UK. This resilient performance has been achieved while maintaining strong pricing discipline across all five markets. These results now complete two years of stable market share delivery following several years of decline.

In all categories of next generation products (NGP), we have delivered a step-up in product and market launches. This follows the validation of our new more agile and consumer-focused approach. Our heated tobacco proposition, Pulze and iD, is now available in seven European markets. In vapour, we have launched our blu 2.0 product in the UK, Spain, France, Czech Republic and Portugal. Zone X, our modern oral product, continues to perform well, supported by new flavour launches and marketing initiatives. First-half NGP revenues are expected to be ahead of the prior period, driven by strong growth in Europe, more than offsetting declines in the US, driven by uncertainty caused by the marketing denial order for myblu.

Excluding the impact of our exit from Russia last year, our first-half Group net revenue is expected to be at a similar level to last year at constant currency, with strong combustible pricing offset by temporarily increased volume declines against a prior period which benefited from COVID-related changes in buying patterns. We expect a stronger net revenue performance in the second half, supported by a normalisation of volume trends and price increases taken during the first half. As expected, our exit from Russia will result in first-half Group net revenue being slightly below last year on a constant currency basis. Details of the contribution from Russia last year are provided below.

As previously guided, first-half Group adjusted operating profit is expected to be at a similar level to last year on a constant currency basis. Tobacco & NGP adjusted operating profit has been impacted by the planned increase in NGP investment, the impact of our exit from Russia, and the continued unwind of COVID-19. Growth in Distribution adjusted operating profit has helped to mitigate these headwinds.

At current exchange rates, translation foreign exchange is expected to be a c. 6.5 per cent tailwind on first-half earnings per share and a c. 2.5-3.5 per cent tailwind on full-year earnings per share.

Our first-half leverage (adjusted net debt to EBITDA) is expected to improve year on year, on a 12-month basis. We expect our full-year leverage to remain at the lower end of our 2.0-2.5 range for net debt to EBITDA.

To date, we have completed £523m of our £1bn share buyback for this year, representing approximately 2.7% of the issued share capital. We remain committed to delivering a material reduction in the share capital base. This buyback programme represents an ongoing source of shareholder returns alongside our progressive dividend policy.

The interim results for the six months ended 31 March 2023 will be announced on 16 May 2023.

Central & Eastern Europe transferred to AAA to support wider market portfolio initiatives
To provide a greater focus on 'driving value from our broader market portfolio', which is one of our strategic pillars, we have transferred the management of our Central and Eastern Europe cluster from our Europe region to the Africa, Asia and Australasia (AAA) region. Under the leadership of Paola Pocci, we have been enhancing our capabilities and expertise in managing our smaller markets, many of which have attractive margins and the potential to become platforms for future growth in combustible tobacco and NGP. The AAA region will now be known as AAACE.

We will make the change in our regional reporting for the interim results for the six months to 31 March 2023 and the annual results for the year to 30 September 2023 and we have provided below the key regional metrics for HY22 and FY22 restated for the new reporting basis. The affected markets are Poland, Czech Republic, Ukraine, Slovakia, Hungary, Azerbaijan, Armenia, Georgia, Moldova, Croatia and Slovenia. The Americas region is unaffected by the change.

HY22 restatement		**Europe (existing)**	**AAA (existing)**	**CEE**	**Europe (new)**	**AAACE (new)**
Tobacco volume	bn SE	57.8	42.4	11.6	46.2	54.0
Total net revenue	£m	1,569	766	199	1,370	965
Tobacco net revenue	£m	1,492	766	196	1,296	962
NGP net revenue	£m	77	0	3	74	3
Adjusted operating profit	£m	671	357	50	621	407

FY22 restatement		**Europe (existing)**	**AAA (existing)**	**CEE**	**Europe (new)**	**AAACE (new)**
Tobacco volume	bn SE	121.5	77.5	23.6	97.9	101.1
Total net revenue	£m	3,472	1,495	433	3,039	1,928
Tobacco net revenue	£m	3,306	1,495	423	2,883	1,918
NGP net revenue	£m	166	0	10	156	10
Adjusted operating profit	£m	1,562	700	115	1,447	815

Impact of Russia Exit
On 20 April 2022, we announced the transfer of our Russian business to local investors. We provide below the contribution from our Russian business in HY22 for key metrics to assist with the modelling the year-on-year impact.

HY22 Russia contribution		**Russia**
Tobacco volume	bn SE	6.9
Total net revenue	£m	54
Tobacco net revenue	£m	54
NGP net revenue	£m	-
Adjusted operating profit	£m	7

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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