



## Investing for Growth

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**Oliver Tant**

Chief Financial Officer

# Quality Growth Supports Shareholder Returns

Investing to drive quality growth



Investment driving improved share trends across priority markets



Underpinned by success of Market Repeatable Model



Ongoing cost efficiencies support investment



Supports stronger medium-term growth



Underpins 10% growth in dividend

## Maximise sustainable shareholder returns



### Quality Growth from Tobacco Maximisation and Consumer Adjacencies

#### Strengthen Portfolio right brands

- Radically simplify
- Invest in Asset Brands
- Develop blu & e-vapour technologies
- New adjacencies



#### Develop Footprint right markets

- Prioritise growth opportunities
- Quality share focus
- Sustain investment

#### Drive Cost Optimisation

- Simplify operating model
- Lean manufacturing
- Control of overheads

#### Embed Capital Discipline

- Maximise cash conversion
- Robust capital allocation
  - Investment
  - Dividend
  - Debt repayment

# Delivering Against our Strategy



## Ninth consecutive year of 10% dividend growth

### Strengthen Portfolio

**33%** reduction in SKUs

**60%** net revenue from Asset Brands

Strong e-vapour brand



### Develop Footprint

**Quality growth**

Strengthened footprint through **investment**

**+ve share trends** in key markets

### Drive Cost Optimisation

**£300m** savings to date

**£600m** p.a. by 2020

**Industry-leading** margins

### Embed Capital Discipline

Cash conversion **>94%** for last 3 yrs\*

**£1bn** debt reduction p.a.

## Solid Foundation for Next Chapter of Growth

# Footprint Evaluation

How we evaluate growth opportunities



## Attractiveness

### Where to invest

- Market size & profitability
- Affordability & pricing
- Macro environment
- Regulation

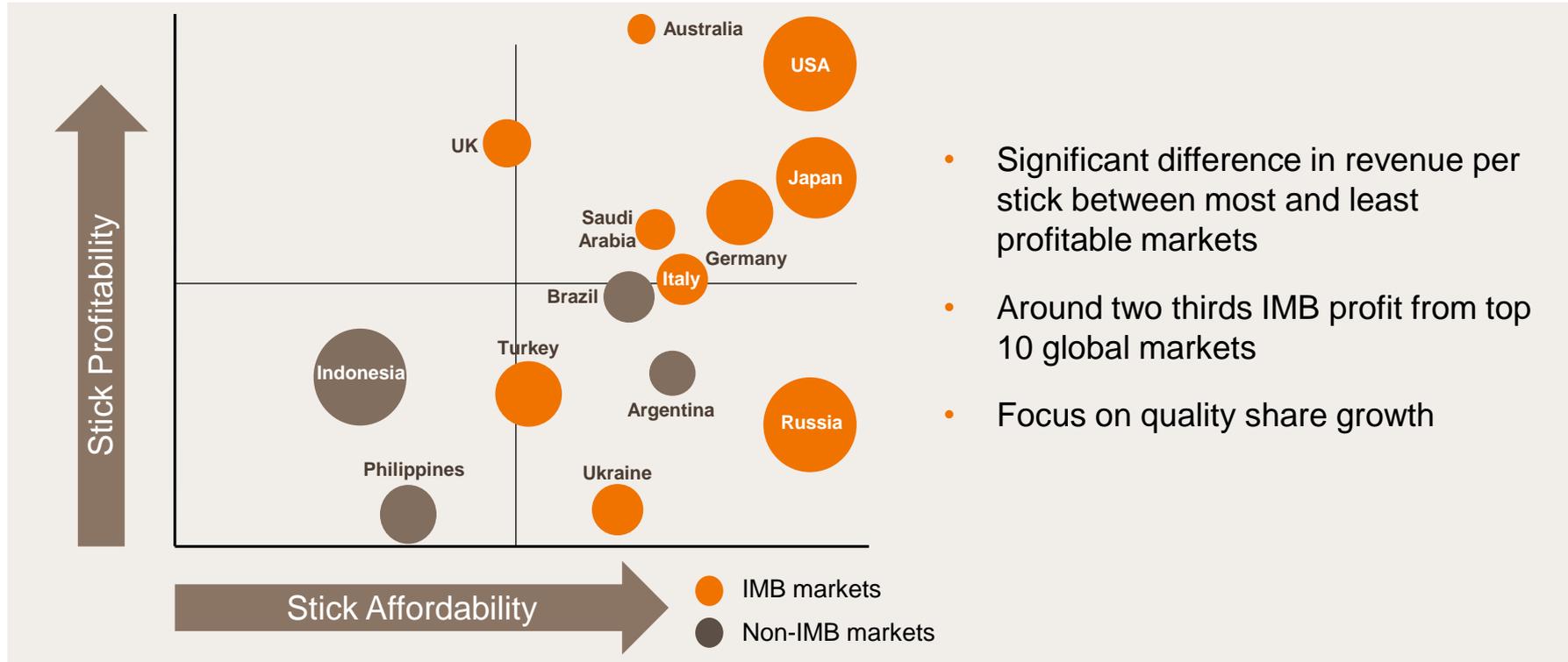
## Attainability

### How to win

- Strength of portfolio
- Customer relationships
- Distribution capabilities

# Where to Invest...

Investing in markets that matter



## How to Win...

MRM provides framework for investment choices



- £300m additional investment in FY17
- Investing to grow quality share
- Simple and consistent framework
- Clear investment hurdle rates



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**Amal Pramanik**

Divisional Director: Growth

# Clear Footprint Strategy

## The role of Growth and Returns Markets



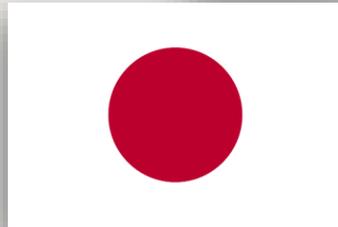
|                |   | Market share |
|----------------|---|--------------|
| <b>Growth</b>  | Prioritise driving long-term share and profit growth                                    | <15%         |
| <b>Returns</b> | Focus on sustainable profit performance, while actively managing strong share positions | >15%         |

# Focused investments

Supporting key markets with targeted investment



## Strategic Choices



## How





Italy

One of the largest European volume pools



- Attractive profit pool
- One of Europe's largest volume pools
- Good affordability



- EUTPD implementation
- New formats for consumers



- Value seeking consumers
- Growing e-cigarette category



Italy

Investment focused on activation and distribution



### Davidoff Consumer Activation

+30  
Cities



### Channel Expansion

+1,000  
Outlets



### Weighted Distribution

92%

OCT

97%

MAR

### JPS Distribution Build

13,000  
Outlets

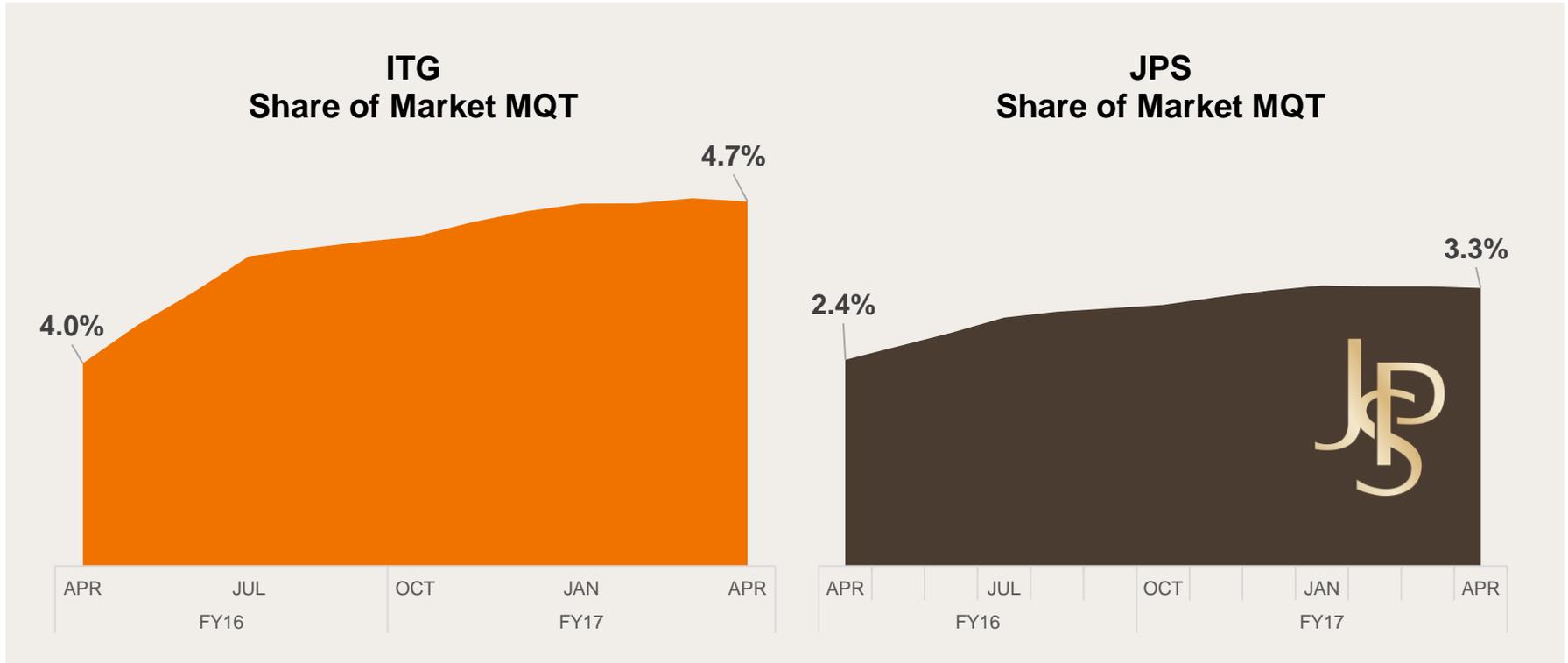


### Growing Blu



Italy

# Growing Share of Market with JPS





## Japan

One of the largest tobacco markets globally



- Large volume and profit pool
- Attractive opportunity



- Value to become largest price segment
- Yet premium segment to remain sizeable



- Value-seeking consumer
- Innovation driven market
- Sizeable and growing menthol and crush-ball segments



Japan

Continuous growth with focused investments



### Field Force Expansion

Headcount



FY16



FY17

### Targeted Distribution



55% of market in 5 regions



Consumer Centric Portfolio

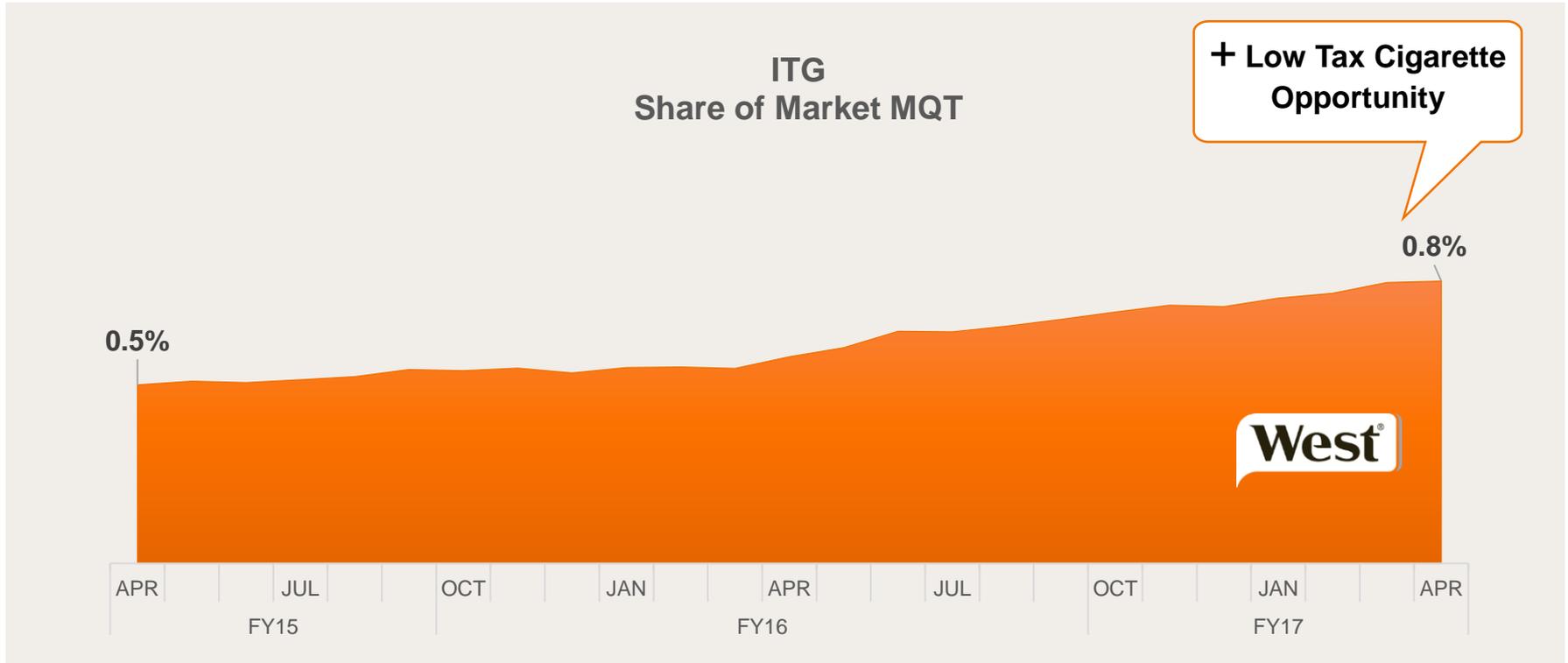


Digital Activation



Japan

Investments driving consistent share growth





## Russia

One of the largest profit and volume pools globally



- Large volume and profit pool
- Affordable despite regular historical pricing
- Headroom for growth

- Diverse consumers preferences
- Changing channel landscape



- Value segment is large & growing
- Growing Queensize and Crushball segments



# Russia

## Better Brand Focus and Portfolio Quality



### Past



### Present



Russia

Planning for a sustainable future



### Capitalise On Demand Shifts

P&S QS  
Share of Market Spot 0.7%

Jul 2016      Oct 2016      Jan 2017      Apr 2017



### International Offer



2.2 bn sticks

### Large Migrations

IMB exposure  
to Big Box

=

25% SoS  
2bn sticks

### Resilient Post Big Box Ban



# Russia

## Strategic investments to deliver growth



### Key Account Investment

KA share of volume



### Portfolio Simplification



**+200 Reps**

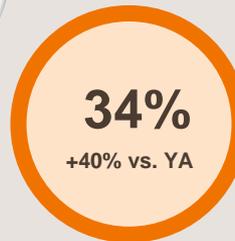


**+30% outlets**



**+17k POS**

### New Coverage Model



### Growth Brand Volume Contribution

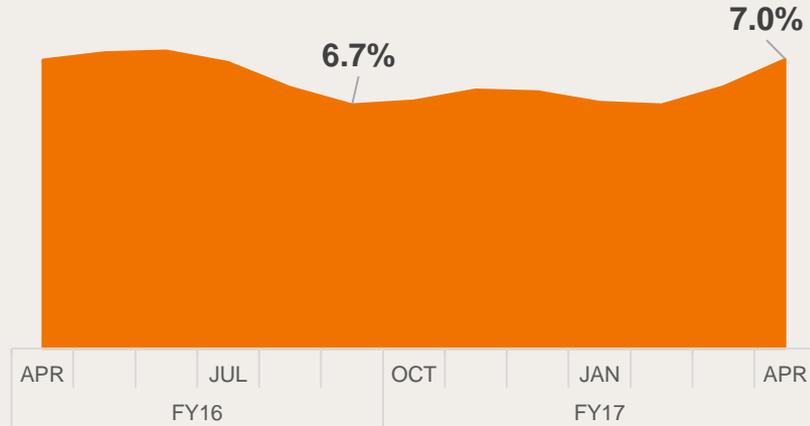


# Russia

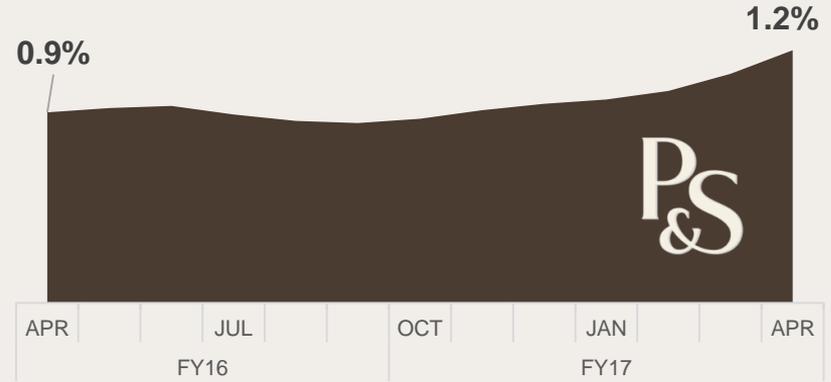
Delivering share performance despite headwinds



### ITG Share of Market MQT



### Parker & Simpson Share of Market MQT



# MRM within the Growth Division

Further opportunity to grow





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Chief Financial Officer

# Investment Driving Quality Share Growth

## Positive share trends across all divisions



### Volume Share Trend

|  |  |   |
|--|--|---|
|  |  | Continued growth in Winston, Kool                         |
|  |  | Fine Cut driving share; FMC improving                     |
|  |  | Investment around MRM supports share growth               |
|  |  | Continued JPS growth                                      |
|  |  | Rationalisation; News growth; price investment            |
|  |  | Share of FMC stabilising, FCT remains to be addressed     |
|  |  | West growing share; excise & macro challenges             |
|  |  | Rationalisation & distribution benefits; price investment |
|  |  | JPS growth & benefits from broader distribution           |

### Volume Share Trend

|  |  |   |
|--|--|---|
|  |  | Growing share of convenience channel                          |
|  |  | Cambodia health warnings impact market & Fine share           |
|  |  | Azerbaijan price repositioning and cash sales ban             |
|  |  | Davidoff continued growth – share up to 7%                    |
|  |  | Success of JPS driving FMC & FCT; JPS Black No.1 SKU          |
|  |  | Skruf share up strongly to c.45%, driven by slim segment      |
|  |  | Growth of share in Gauloises decelerating in Algeria          |
|  |  | Ukraine stabilising price; share up, size down                |
|  |  | Ivory Coast disruption post intro of new pack design for Fine |



Markets growing volume share in the 6 mths YTD or where the 6 mths YTD trend has improved versus 12 mths MAT



Markets with declining share and trend

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