



IMPERIAL
BRANDS

Delivering our Growth Strategy

March 2017

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Delivering our Growth Strategy

Agenda



Progress so Far



Assessing our
Strategy



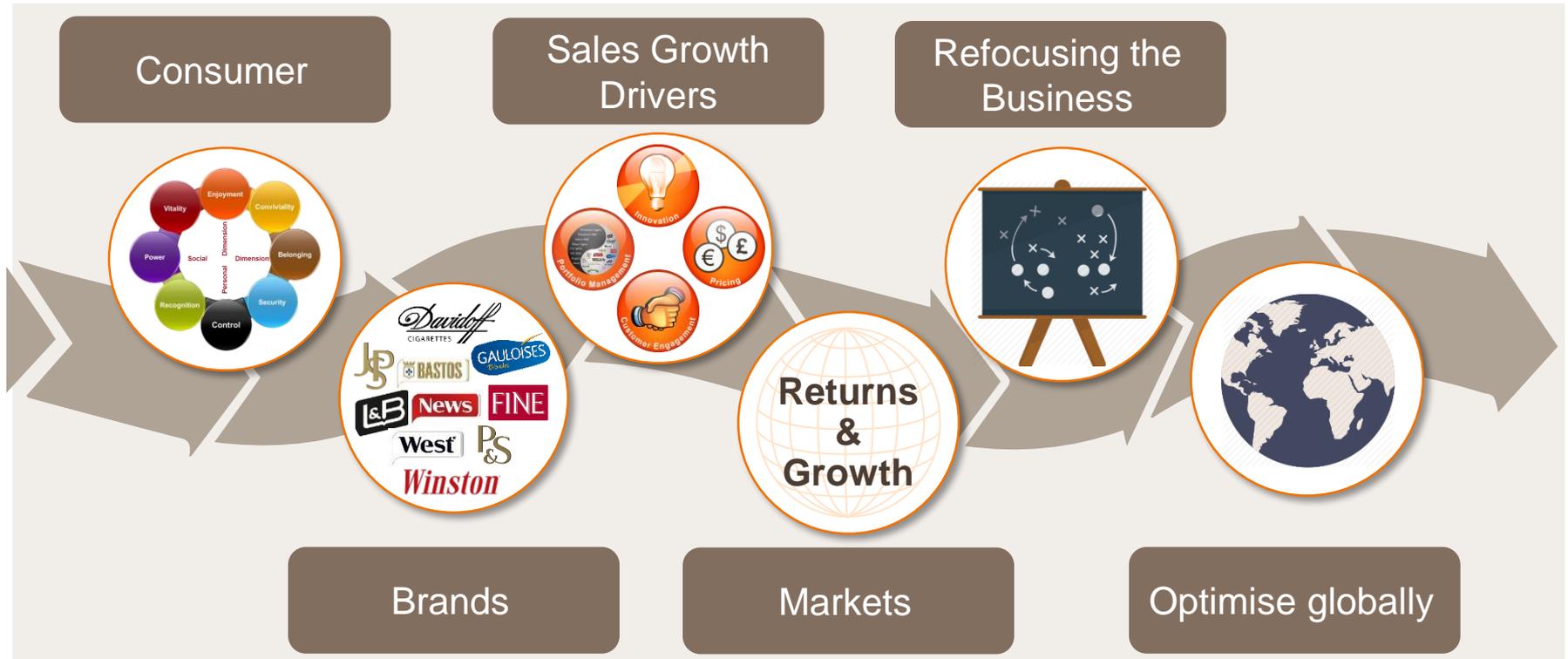
Going Forward



Progress so Far

Our Journey so Far

Maximising returns on our assets



Our Strategy

Focusing on Quality Growth



Maximise sustainable shareholder returns



Strengthen Portfolio

- Portfolio simplification
- Investment in Growth & Specialist Brands
- e-vapour development and other adjacencies



Develop Footprint

- Maintain momentum in ITG Brands
- Opportunities in Growth Markets
- Balanced approach in Returns Markets



Drive Cost Optimisation

- Operating model
- Lean manufacturing
- Overhead control



Embed Capital Discipline

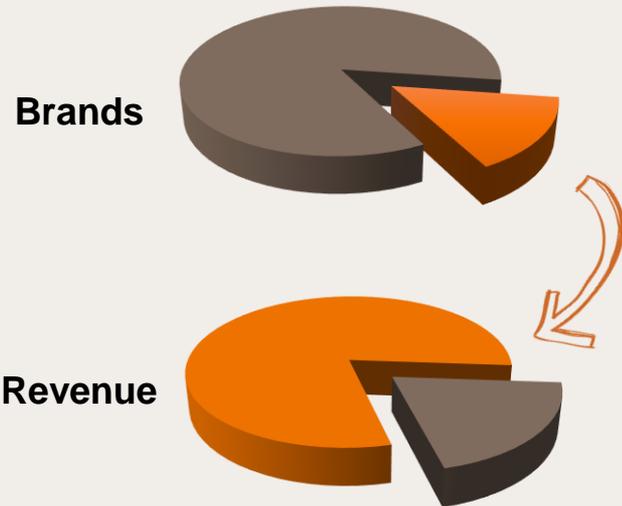
- Cash conversion
- Capital allocation: investment, dividend and debt repayment

Strengthen Portfolio: Growing Quality of Revenue

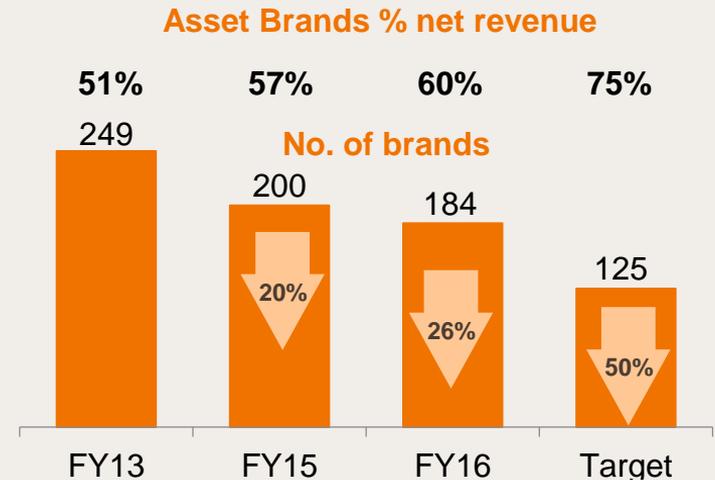
Growing % of revenue from strongest brands



High % revenue from relatively few brands
'Tail' brands limit growth potential



Simplify portfolio; 'asset brand' focus
Growing with the strongest equities

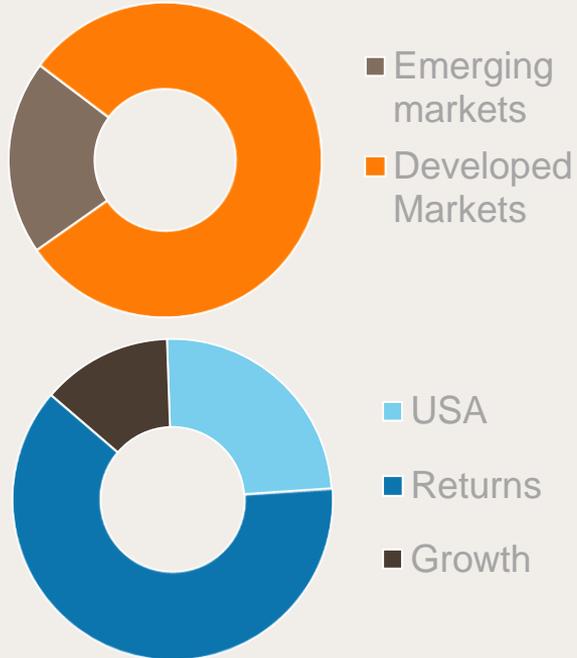


Develop Footprint

Investing in the right markets



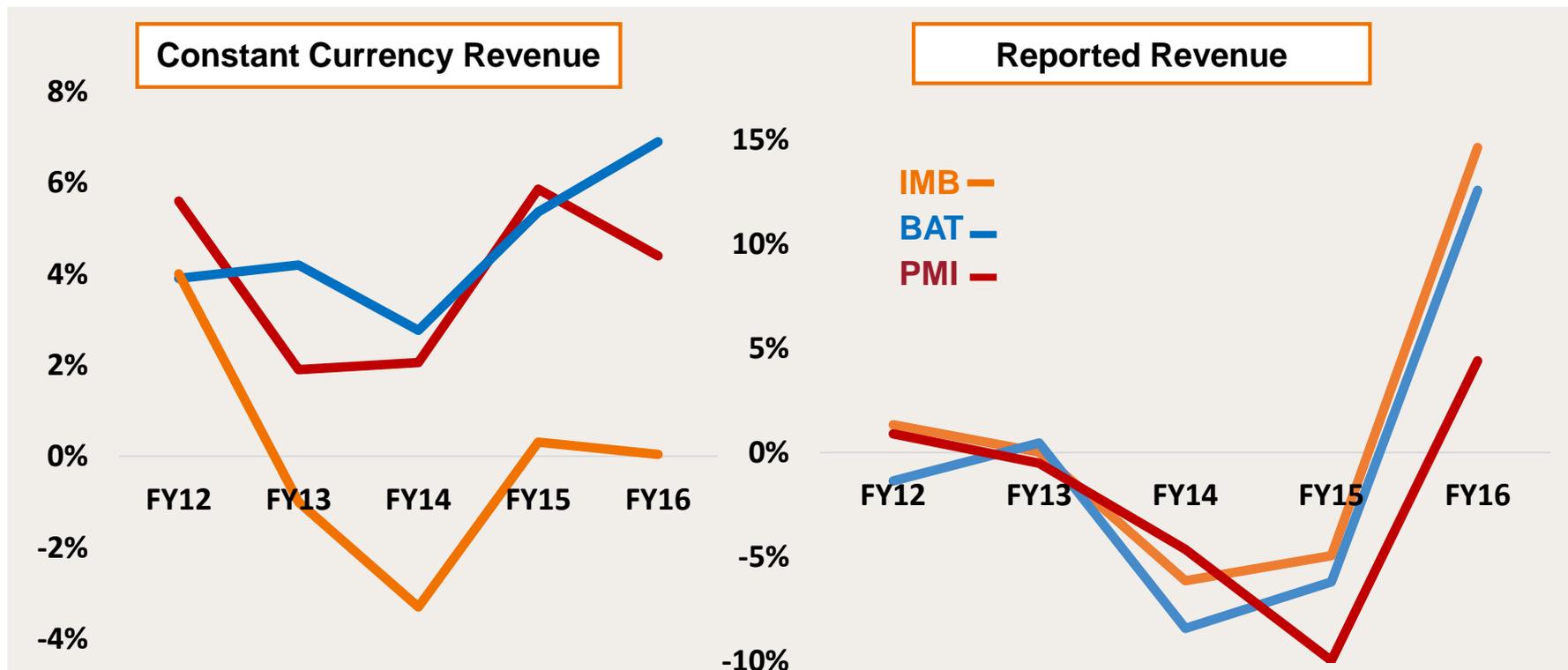
Split of FY16 operating profit



- Developed markets bias
- Investment focus on 'stable' markets
- Lower exposure to currency volatility and to above average inflation

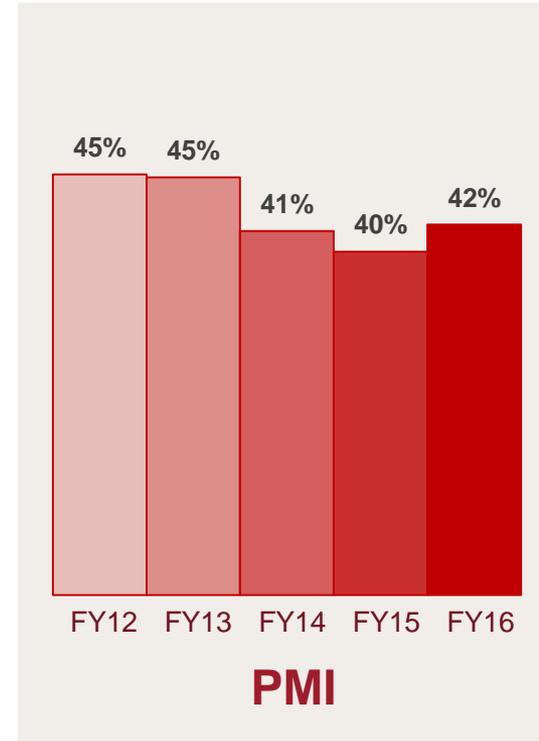
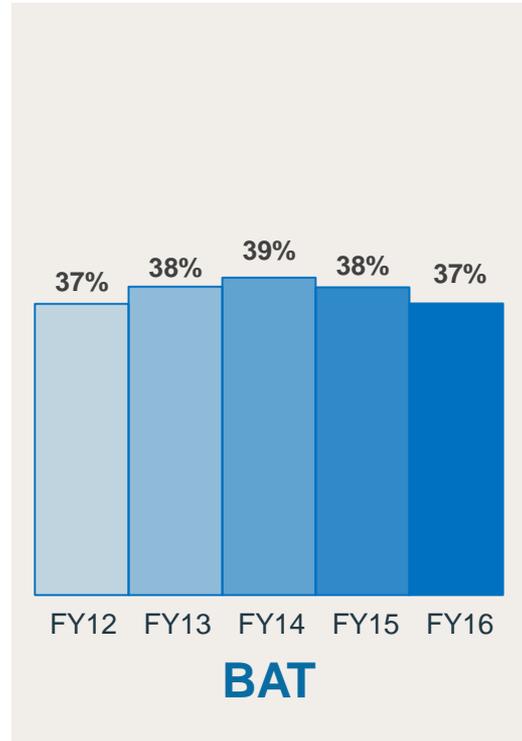
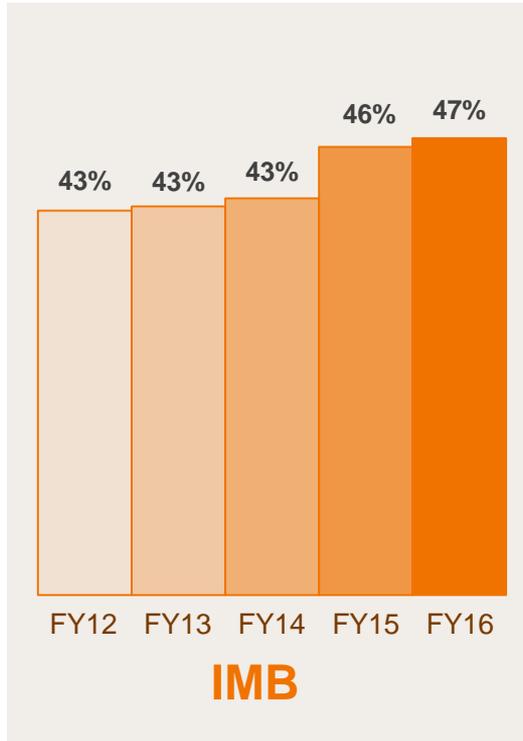
Develop Footprint: Reported Sales Performance

Driven by developed market footprint and M&A



Cost Optimisation: Best in Class Tobacco Margins

Enhanced through efficiency gains and footprint choices

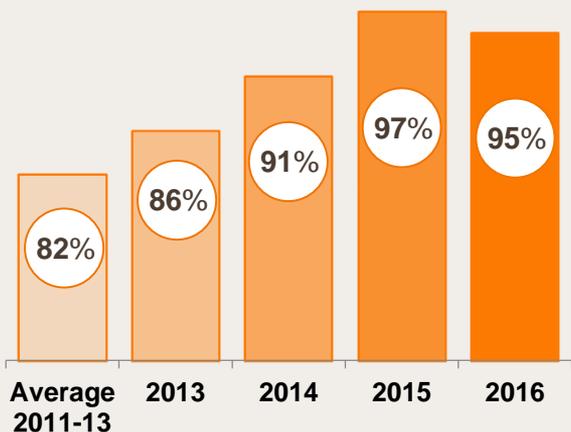


Capital Discipline: Best in Class Cash Conversion

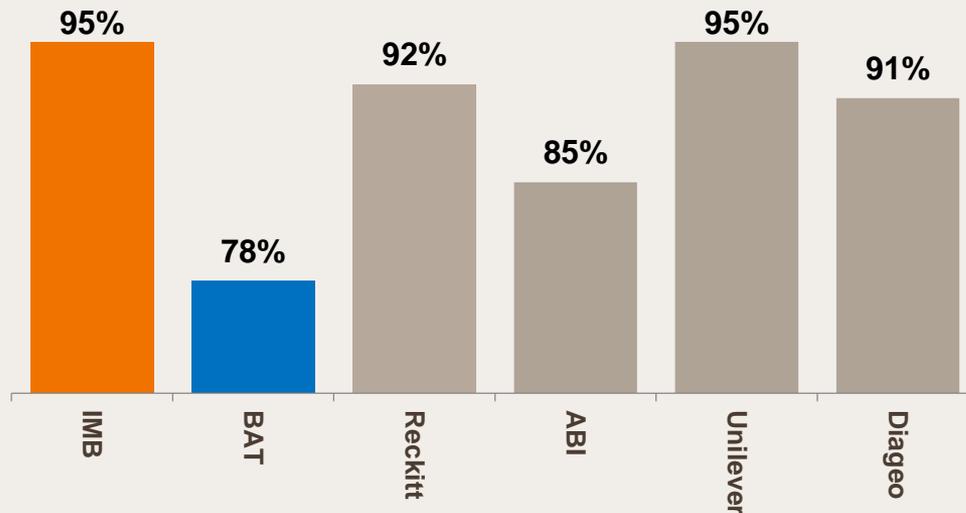
Consistent improvement in cash conversion



Past 5 years cash performance



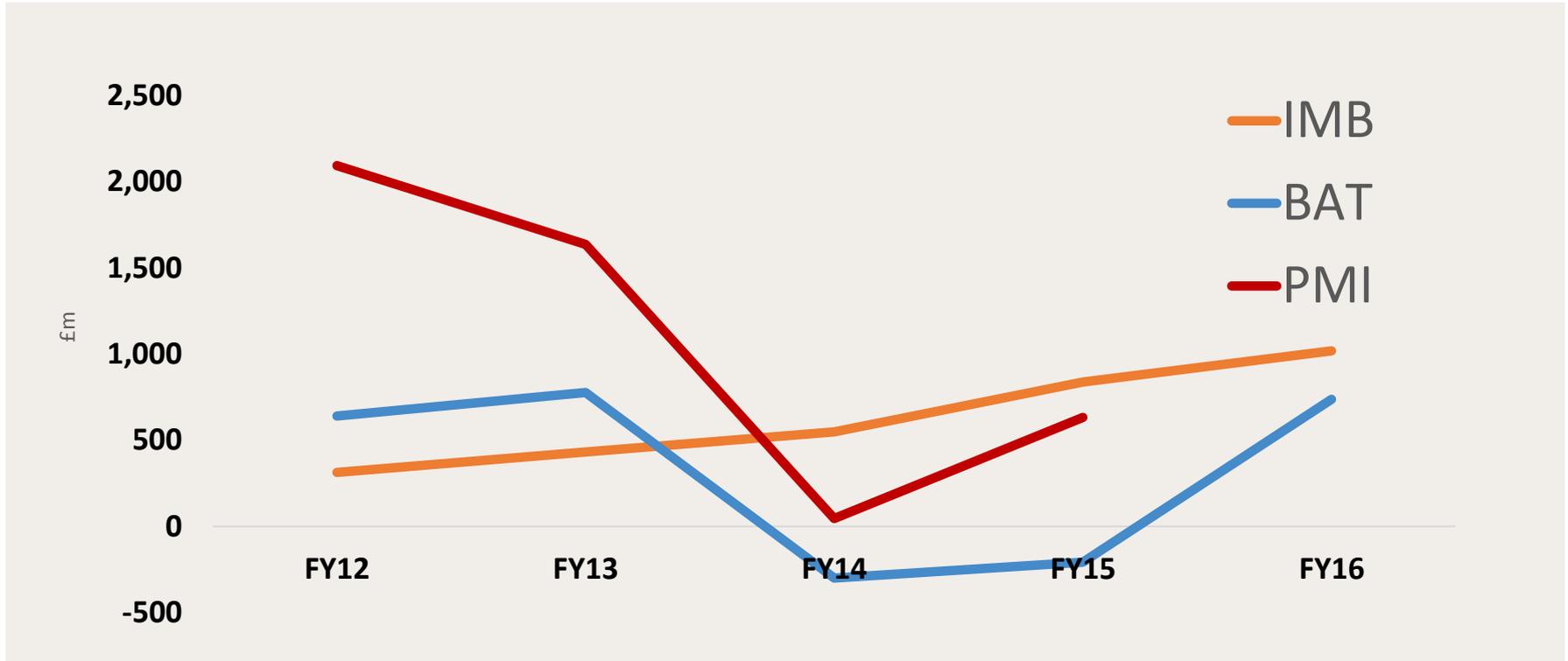
Cash Conversion* – FY16



* Based on latest disclosures for all companies. Percentage calculated on consistent basis across peers on IMB basis - equals net cash from operations less restructuring, post capex, divided by adjusted operating profit.

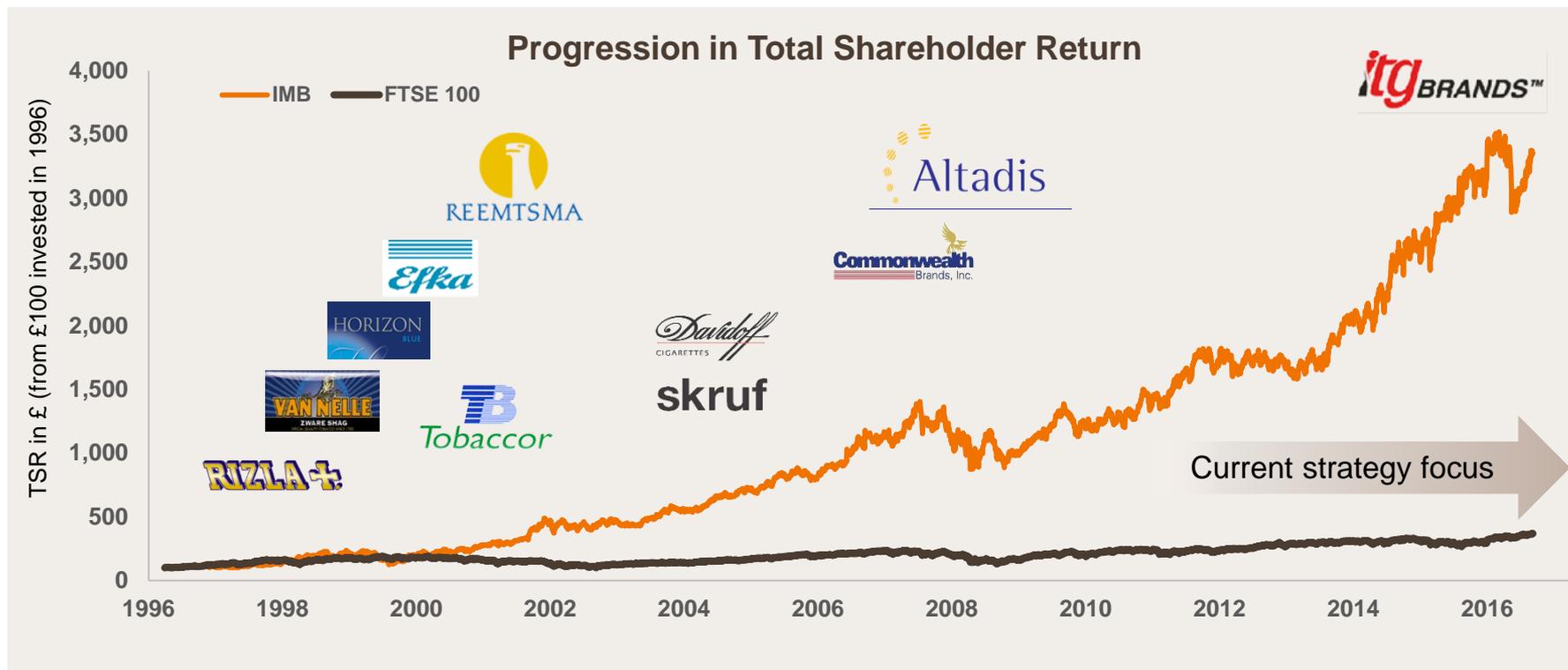
Capital Discipline: Strong Cash Delivery

Available cash-flow after dividend



Consistent Returns to Shareholders

Driven by 10% dividend and capital growth





Assessing our Strategy

Strategy Evaluation

Key inputs



Core capabilities



Profit pool analysis



M&A



Top-down ambition



Bottom-up opportunities



Market Repeatable Model

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



Going Forward

Tobacco Maximisation

Footprint Evaluation

How we evaluate growth opportunities



Attractiveness

Where to invest

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

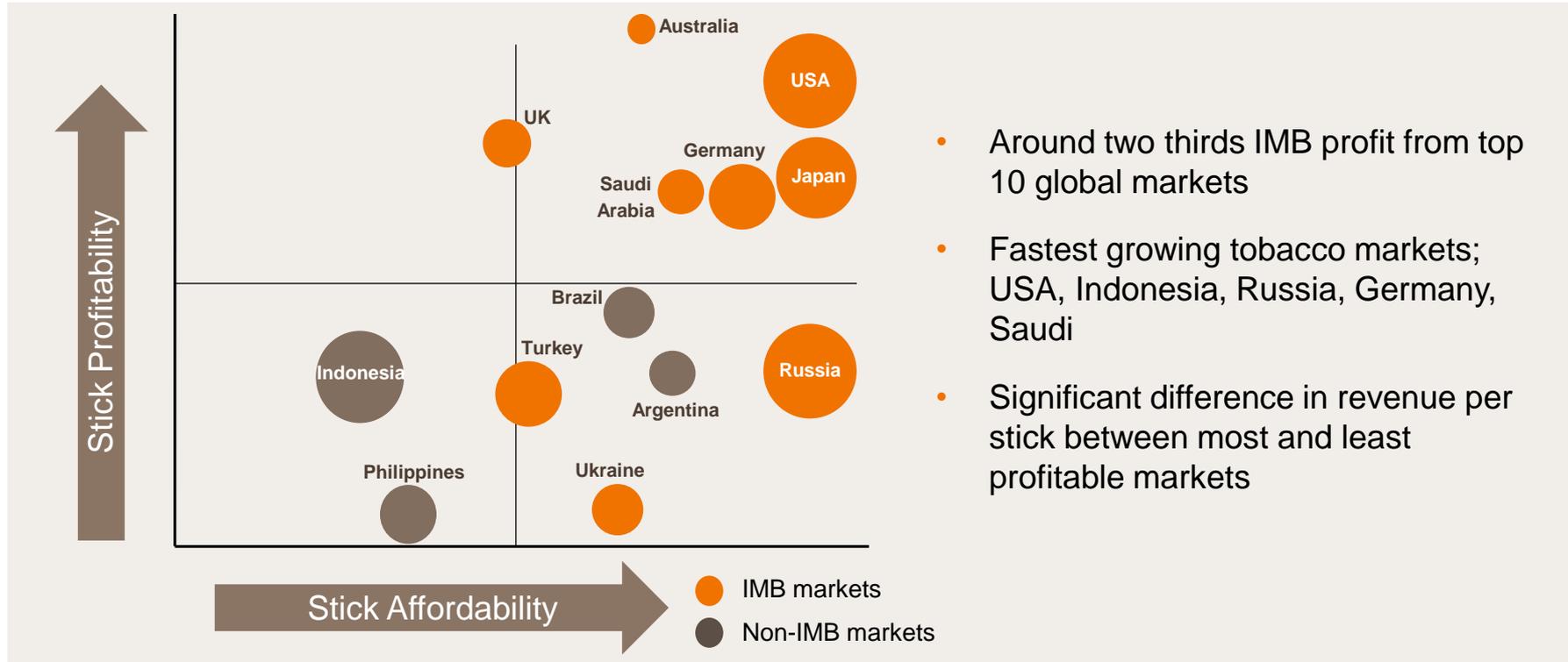
Attainability

How to win

- Strength of portfolio
- Customer relationships
- Distribution capabilities

Where to Invest

Market affordability supports future growth



- Around two thirds IMB profit from top 10 global markets
- Fastest growing tobacco markets; USA, Indonesia, Russia, Germany, Saudi
- Significant difference in revenue per stick between most and least profitable markets

How to Win?

Market Repeatable Model



MRM – Simple Market-Focused Portfolio

Optimal range



Brand migrations

- 65 migrations to date
- 95% retention rate

SKU rationalisation

- Significantly reducing tail
- 50% SKU reduction e.g. Russia, France, Italy
- Maximise focus on top SKUs
- Revenue and cost benefits

MRM – Sustained Brand Investments

Investing in our strongest equities



New brand launches



Changing trends



Brand Activations

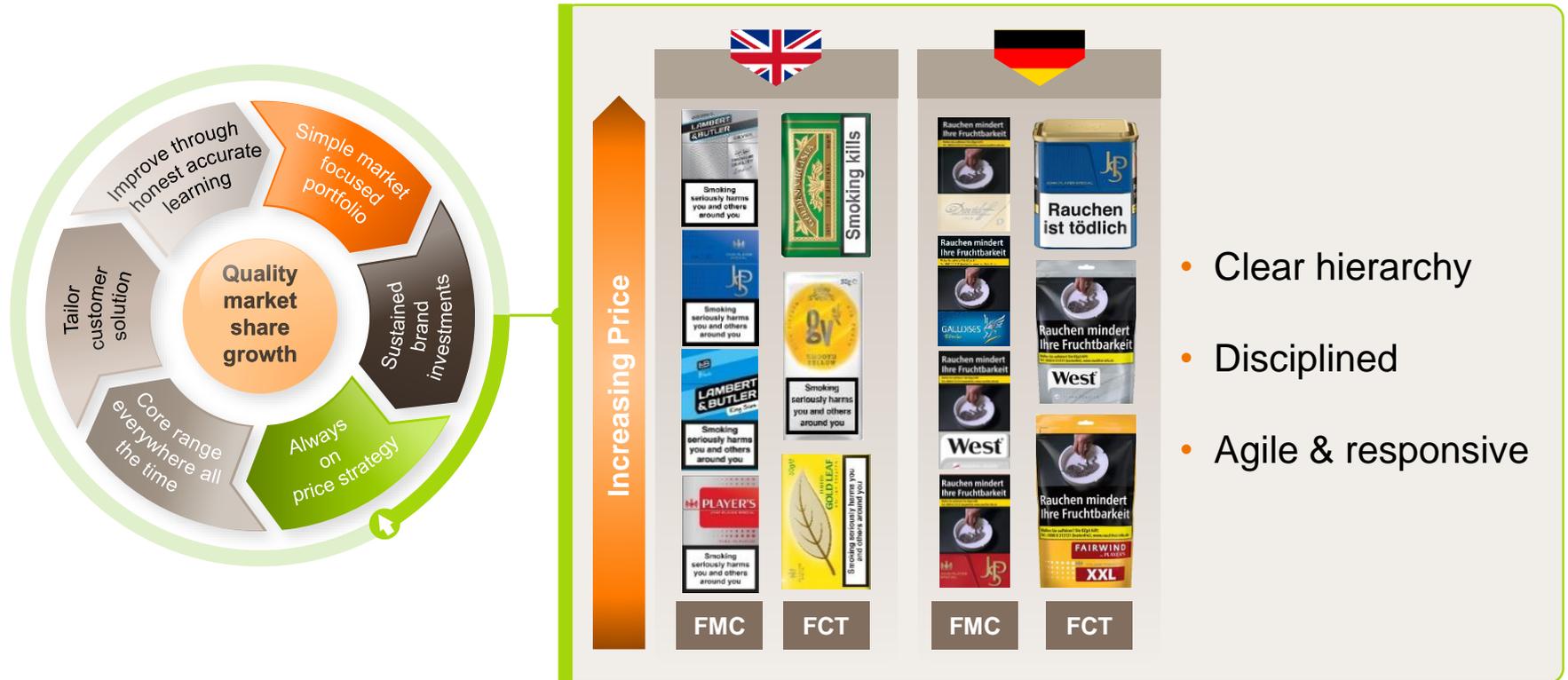


Leverage chassis benefits

- Building brand equity
- Meeting changing consumer demands
- Sustained & consistent investment

MRM – Always on Price Strategy

Consistent price positioning



- Clear hierarchy
- Disciplined
- Agile & responsive

MRM – Core Range Everywhere All the Time

Investments in distribution and availability



- Increasing sales teams



- Expanding call coverage and frequency



- Optimal range distributed everywhere



+13k outlets
+30% daily calls
+61k SKU listings



+30k outlets
+1-2 outlets per rep per day

MRM – Tailor Customer Solutions

Strong customer engagement capabilities



- Increasing sales force effectiveness
- CRM technology: 360 Connect live in 25 markets
- Investing in key account relationships

MRM – Honest Accurate Learning

Focus on learning



- Continuous improvement through learning



- Measuring MRM delivery

- Consistent and shared learning

- Supported by a 'challenger' culture



Building a Growth Mindset

Incremental Investment of £300m

Where is the investment going?



Right Markets

- Expanding sales teams
- Key accounts
- Customer engagement
- Technology



Right Brands

- Radical SKU rationalisation
- Consistent equity building
- Consumer activations
- Innovation for changing consumer demand
- Consistent price strategy

Cost Optimisation

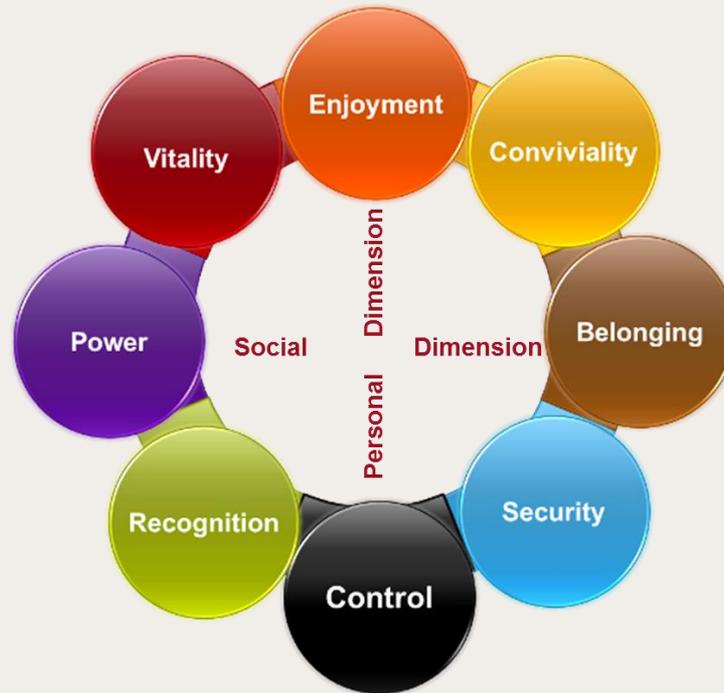
Effectiveness and efficiency fund investment



Investing in Consumer Adjacencies

Consumer Adjacencies

More consumers, more occasions

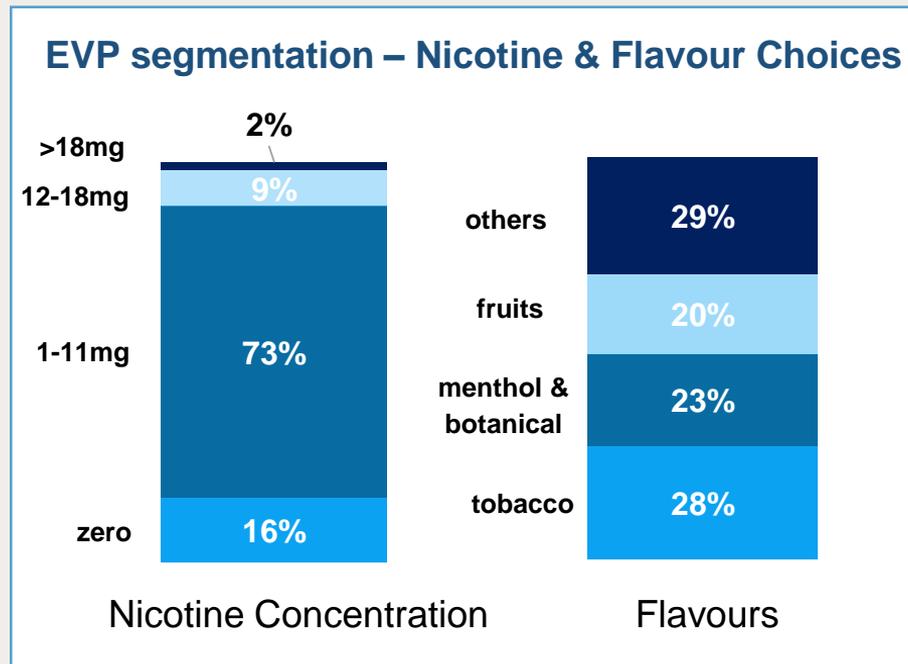


Investing in Consumer Adjacencies

EVP: largest commercial opportunity & broadest choice

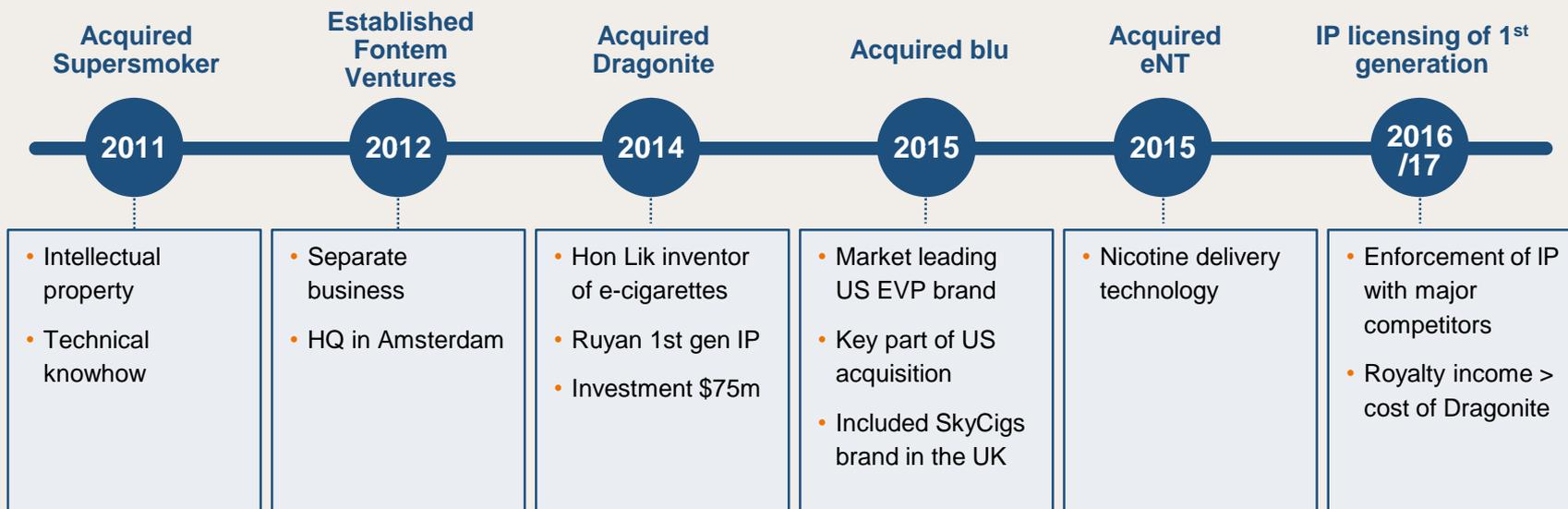


- EVP around 85% of total NGP market
- 2016 EVP sales \$6bn up 300% post 2012
- Est. c.\$30bn by 2025
- Greater optionality; device, flavour, nic
- Tobacco free



Investing in Consumer Adjacencies

Strong technology and brand credentials



Investing in Consumer Adjacencies

Focus on winning



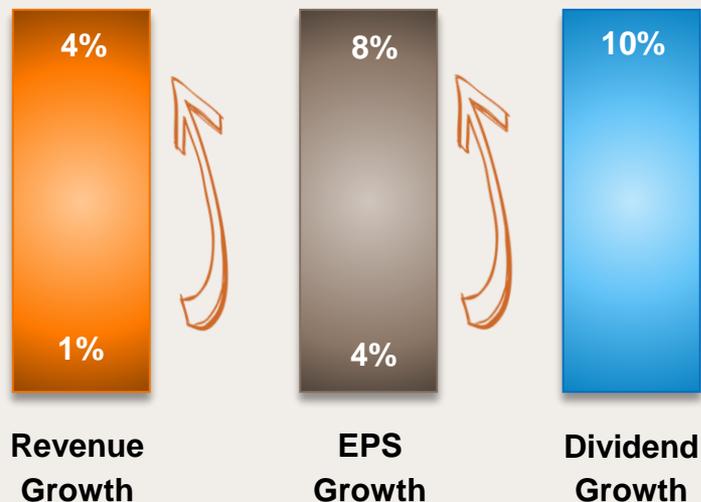
- Disciplined investment, capacity to step up
 - Technology and brands
- Strong brand in most significant EVP markets
- Premium positioning
- 3rd gen 'blu MAX' in test - responsive draw technology

The Growth 'Algorithm'

Increased investment adds to dividend sustainability



Medium-term guidance



What does the investment deliver?

- Investment supports higher revenue growth
- Higher % of EPS growth from top-line
- Sustains higher level of EPS growth
- Reinforces commitment to 10% dividend

Maximise sustainable shareholder returns

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