



Tobacco Max Webinar

Imperial Brands PLC

2 July 2018



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Our Strategy

Focus on quality growth

Maximise sustainable shareholder returns

Tobacco Maximisation and NGP Growth

Strengthen Portfolio right brands

- Simplify tobacco portfolio
- Invest in Asset Brands
- Proprietary innovation in NGP



Develop Footprint right markets

- Prioritise growth opportunities
- Quality share focus
- Sustained investment

Drive Cost Optimisation

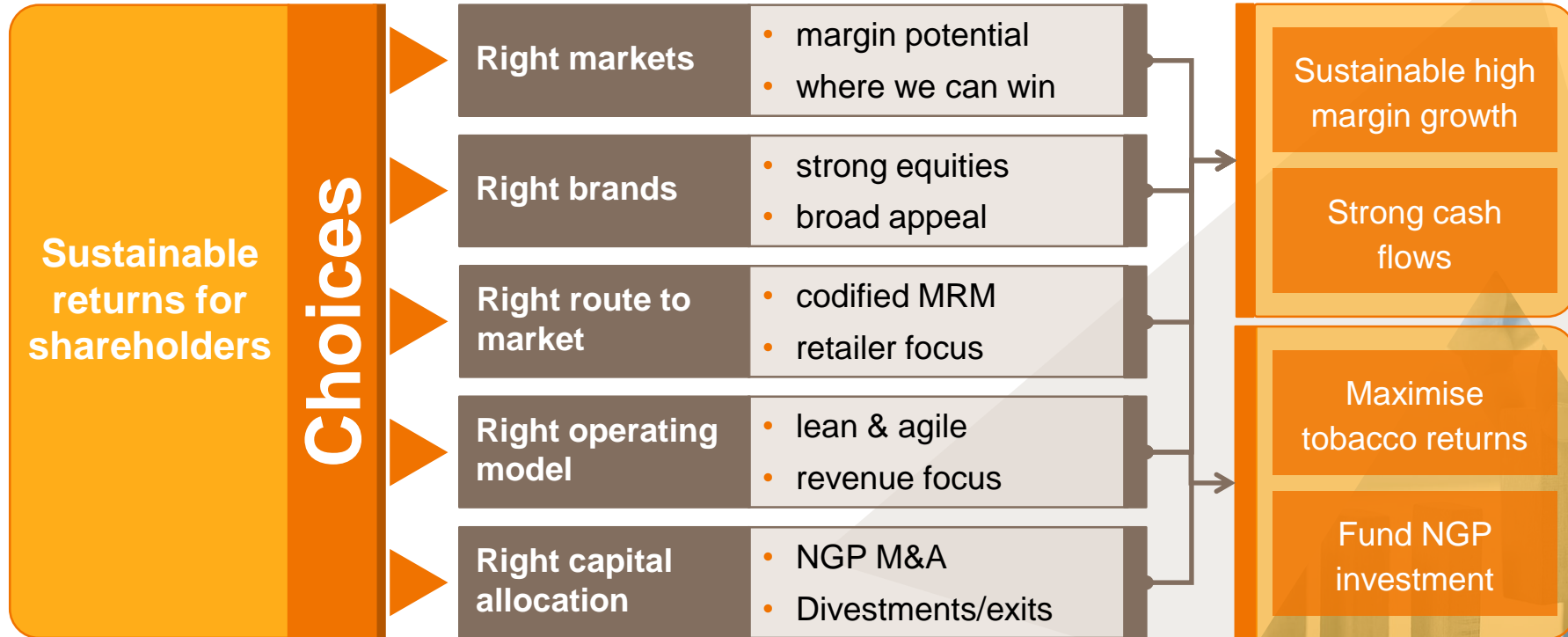
- Simplify operating model
- Lean manufacturing
- Control of overheads

Embed Capital Discipline

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

Strategic Focus; Informed Choices

Tobacco model resilient within evolving consumer environment





Informed Choices Delivering...

Invest in Right Markets

Strengthened footprint through **investment**

Volumes outperforming wider market

+20bps share H1

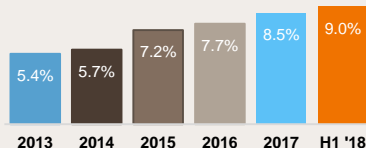
share gains in priority markets



Invest in Right Brands

65% | revenue from Asset Brands

35% | reduction in brands



+360 bps | Growth Brand share

blu | Innovative pipeline of NGP products

Right Operating Model

£370m | savings to date

£600m | savings by 2020

▼15% | of existing cost base by 2020

Industry-leading margins

Right Capital Allocation

Consistent cash conversion **90% to 95%**

Active capital discipline







£0.9bn | debt reduction p.a.

Focus on value creation

Up to **£2bn** | divestments over next 2 yrs

Agenda



 Industry Context & Where to Invest	Amal Pramanik Director of Strategy
 MRM & How to Win	Dominic Brisby Director, Growth Division
 Markets: USA	Dan Carr President & CEO, ITG Brands
 Markets: Germany	Michael Kaib General Manager, Germany
 Markets: UK	Melvin Ruigrok General Manager, UK
 Lean Operating Model	Oliver Tant Chief Financial Officer

Tobacco Value Creation Model Intact

Long term resilience; recent short term variation

Tobacco Market	Prior 5 years	FY16	FY17	FY18
Footprint Volume	-3-4%	-0.9%	-4.4%	Improving volume trend
Footprint Price/Mix	+5-6%	+4.0%	+2.3%	Stronger price/mix

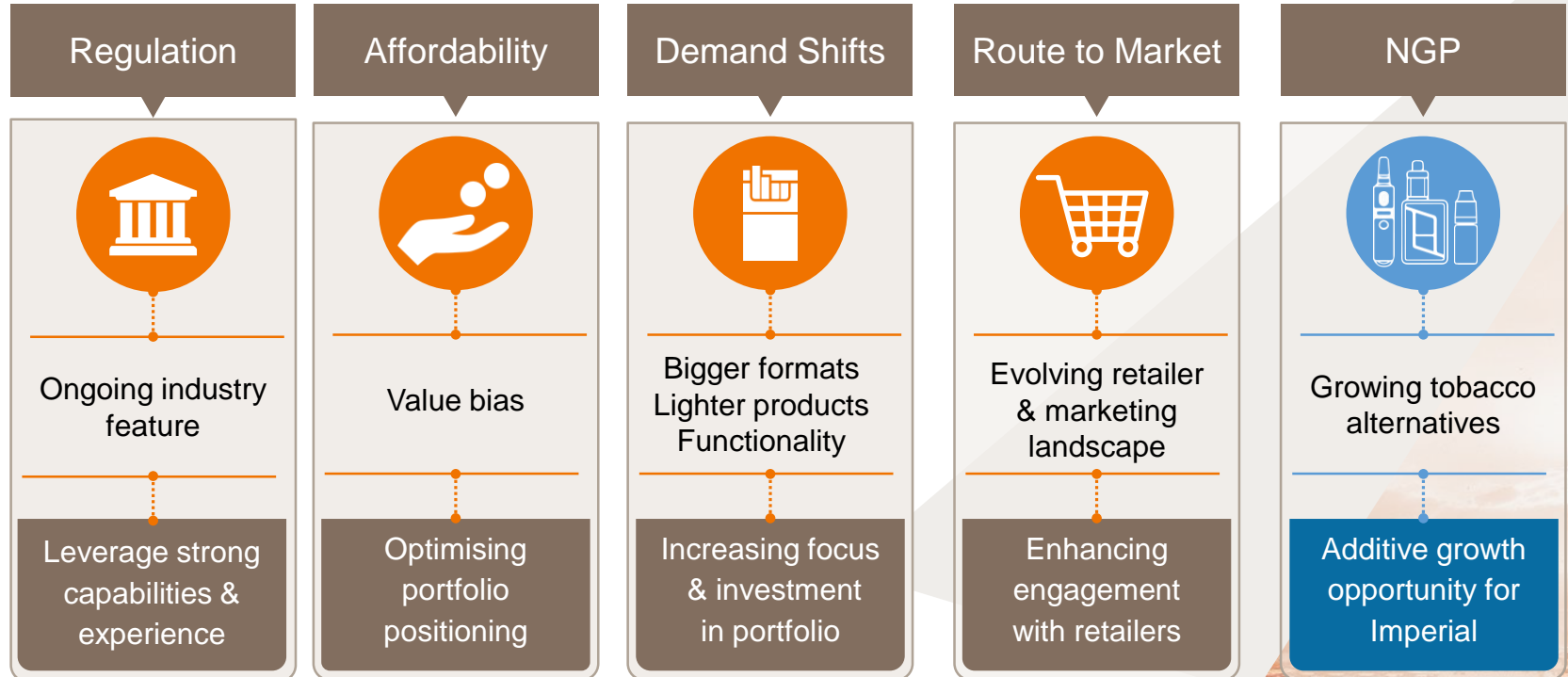
2016 | Benign environment: limited regulatory and excise disruption; supportive macro drivers

2017 | EUTPD regulation; greater excise shocks; more limited pricing opportunity and mix pressures

Industry Context

Well-positioned in an evolving environment

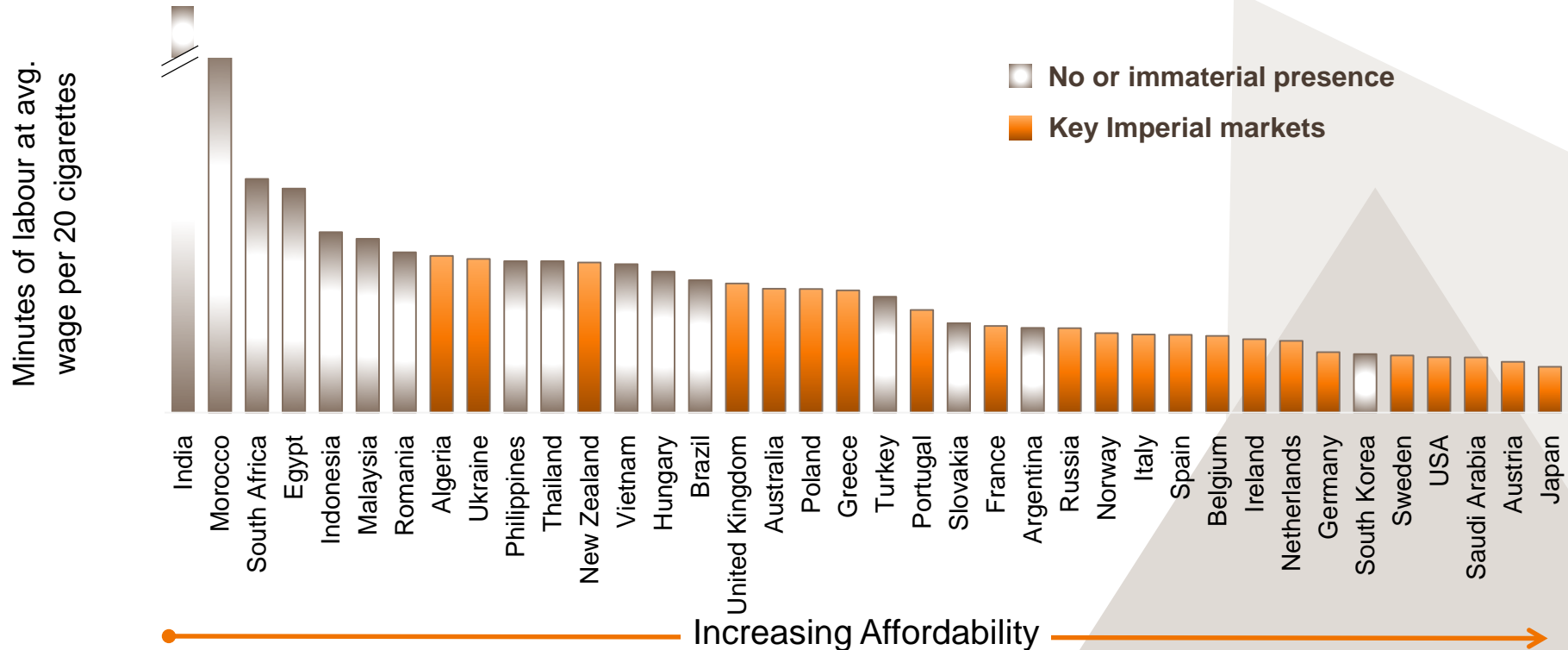
Tobacco environment resilient within evolving consumer environment





Right Markets: Market Prioritisation

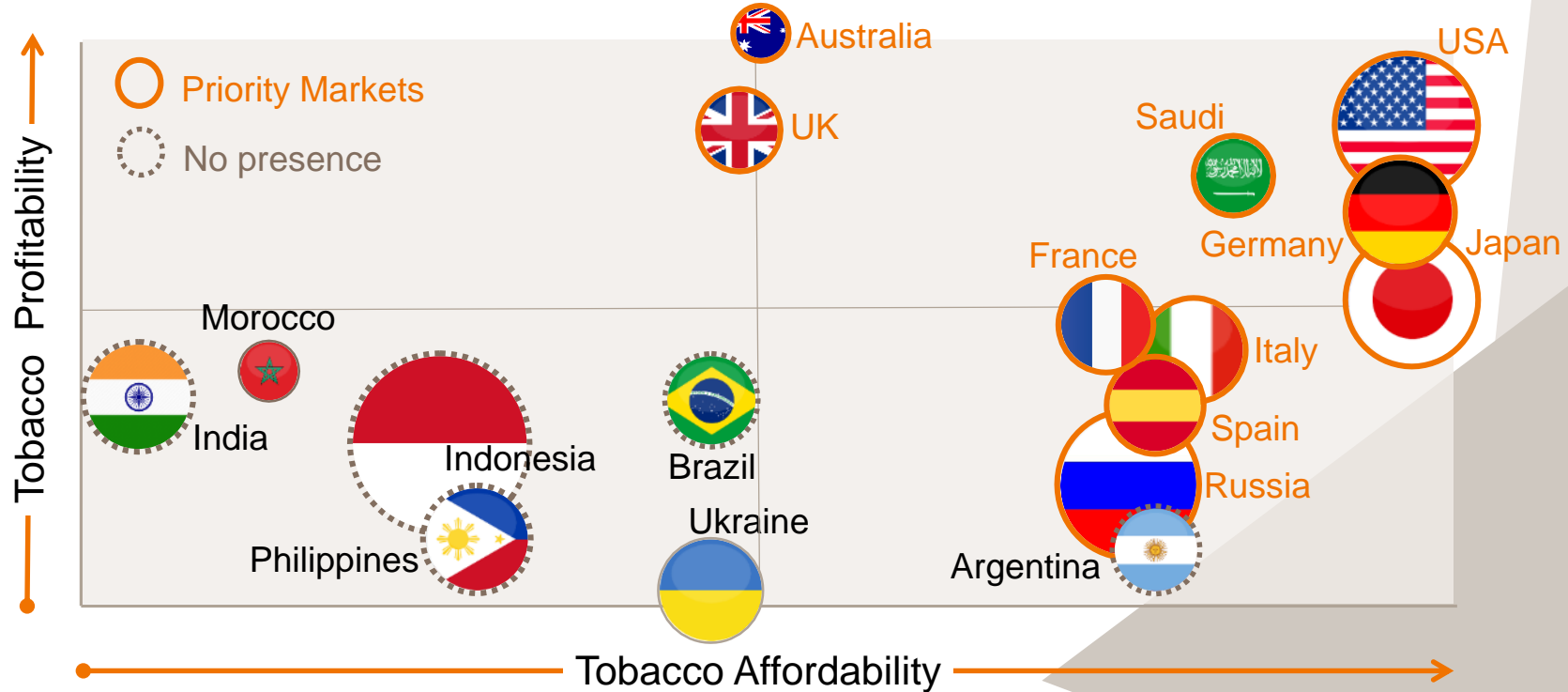
Affordability supports future pricing opportunities





Right Markets: Profit Pool Analysis

Market profile supports future growth





Right Brands: Strongest Equities, Broadest Appeal

Focus on fewer brands supporting outperformance

Growth Brands

Davidoff
CIGARETTES

West

P&S

PARKER & SIMPSON

J&S

FINE

GAULOISES

News

BASTOS

L&B

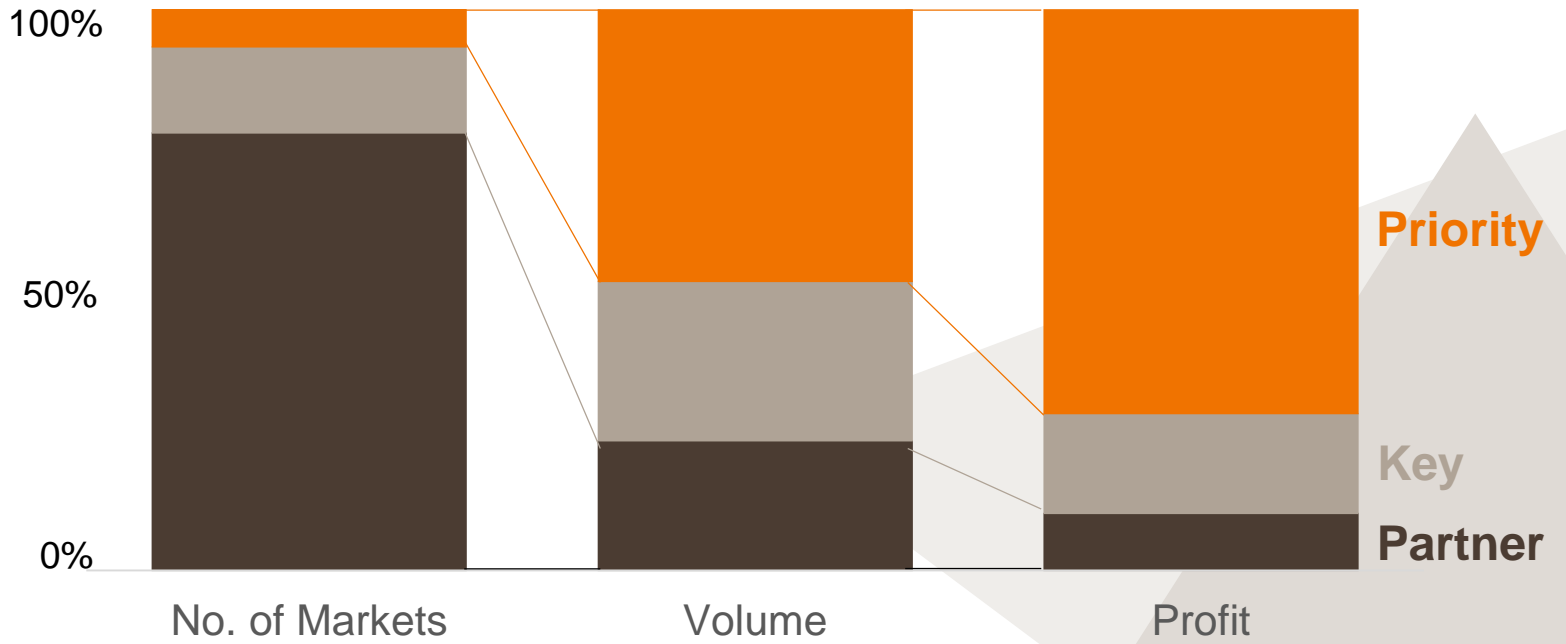
Winston

- Growing quality of revenue by investing in strongest equities
- Successful migration process supporting simplification
- Organic volume growth (ex. migrations)
- Outperforming and gaining share



Right Markets: Prioritisation

Priority markets over 70% of profit





Right Markets: Prioritisation

Focusing resources behind market potential

10 | Priority Markets

23 | Key Markets

100+ | Partner Markets

Objective

Profitably growing share
Driving to full potential

Lean portfolio
Cost focus

Minimise complexity
Maintain profit

Execution & Support

Market-led/tailored initiatives
Group & divisional support

Standard business tools & initiatives
Divisional support

Divisional oversight

Investment

Majority of investment

Some new investment

Limited investment

Right Route to Market: Market Repeatable Model

Consistent framework - successful execution



Market Repeatable Model in Practice



Poland



Portfolio simplification supports P&S, now c.10% share




Germany



Investment driving JPS equity

Global Demand Shifts

Investment prioritised towards growth in changing consumer trends



- VALUE
- LOW TAR
- QUEEN SIZE
- CRUSHBALL
- RECESS/BORE FILTER



Market Repeatable Model in Practice



* Market by market implementation of this global strategy on price will vary

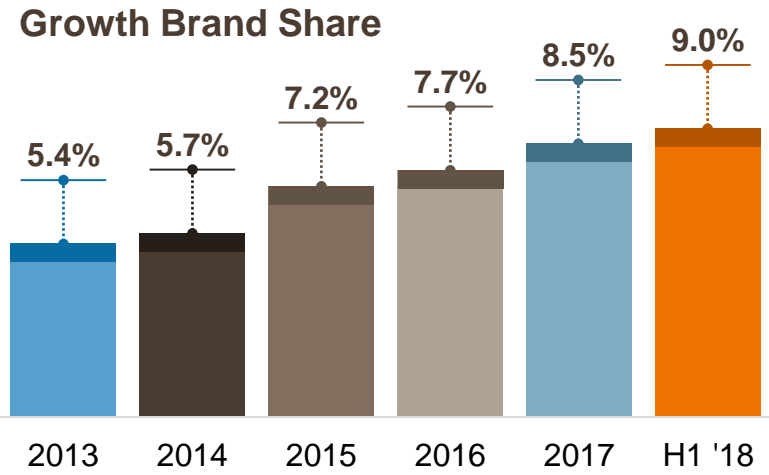


Leveraging the Market Repeatable Model Investment delivering share gains

Simplification & focused investment driving consistent improvement in Growth Brands



Quality growth with improving share in our Priority Markets



+10bps		-20bps	
+50bps		+60bps	
-100bps		+490bps	
-80bps		+20bps	
+10bps		+20bps	





USA: Exceeding Acquisition Expectations

Strong financial performance

Expanded US Business



- Broad national coverage
- Experienced salesforce
- Growing retail influence
- Stronger brand portfolio

Strategic Objectives

- Rejuvenate latent brand equity: Winston & Kool
- Reverse MMC decline
- Realise synergies
- Deliver financial return

Delivering

- Asset Brand share | **+50bps**
- MMC share | **+150bps**
- Margin growth | **+15%**
- Return on investment exceeding deal model

USA: Positive Growth Outlook

Attractive and growing tobacco & NGP market



Market Attractiveness



Predictable excise
Rational regulatory framework ✓



Affordability offers long
term pricing opportunity ✓



25% of world tobacco profit
Strong future growth ✓



Focus to Win

- Strong portfolio: cigarettes, MMC, premium cigars, NGP
- Growing key brand equities
- Experienced salesforce
- Strong retailer network
- Further efficiency opportunities

USA Cigarette: Focused Portfolio Strategy

Investment prioritised behind Winston & Kool



Brand Investments: Demand Shifts



+2% share of market in past 2 years



Deep discount 9% of industry **+1.3%** since 2015





USA MMC: Strong Portfolio and Business Model

Consumer-led approach driving share

Core range in stores



Focused Portfolio



49% SKU reduction

210

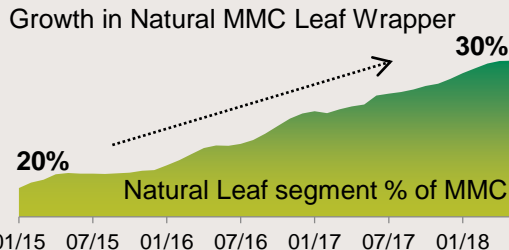
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2015

2018



Brand Investments: Demand Shifts



Brand marketing



Lifestyle Events



Influencers



Instagram

Organic Social



WARNING: Ciger smoking can cause lung cancer and heart disease.

BACKWOODS ALWAYS

RITWAYS

Retail

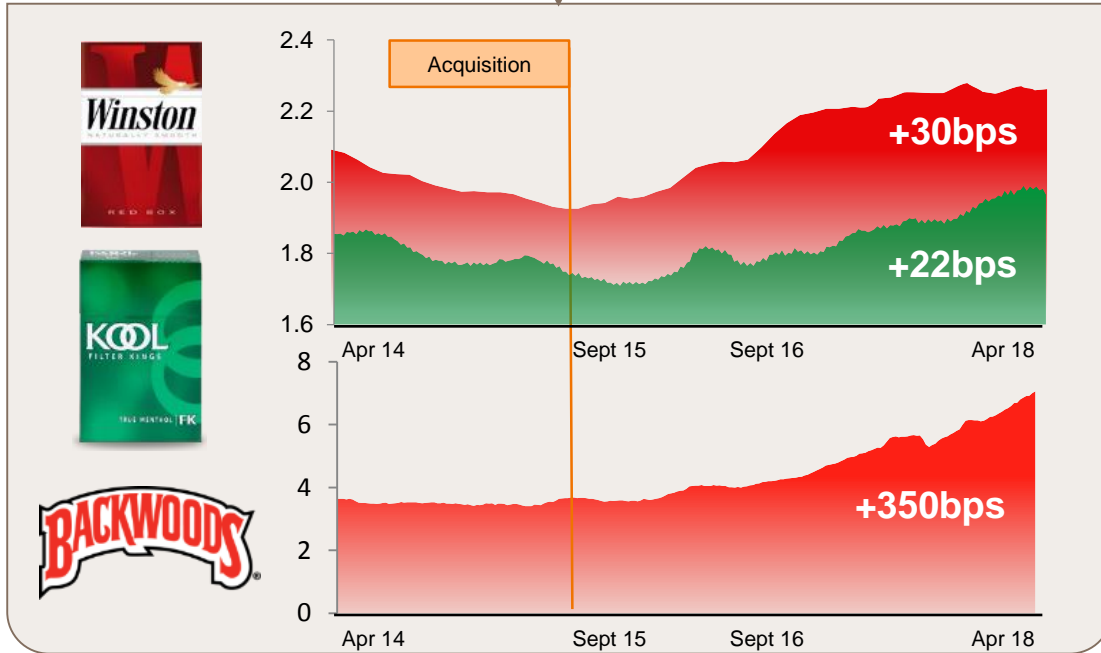
4 Layer Consumer Engagement Ecosystem



USA: Share Growth in Asset Brands

Asset brands building quality revenue

Growing Asset Brand Share



H1 MAT Shares

FMC: 8.8% -10 bps
 MMC: 14.4% +27 bps

Winston + 13 bps
 KOOL + 10 bps
 BACKWOODS + 160 bps

Asset Brand Net Rev
 48% +490bps



Germany: Consistent & Growing Profit Pool

Macro stability & supportive regulatory framework



Market Attractiveness



Clear excise structure
Relative marketing flexibility ✓



Very affordable
Seen consistent pricing ✓



Profit pool +3% CAGR 2011-17
Expected to continue ✓



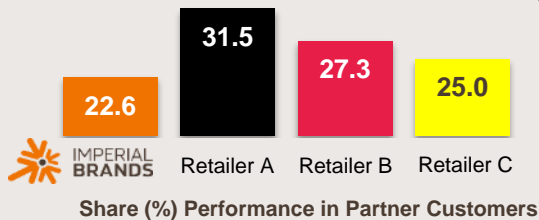
Focus to Win

- No 2 in market; leader in fine cut
- Focus brand portfolio
- Partnership approach in Key Accounts
- Differentiated customer solutions
- Effective corporate affairs engagement

Germany: Investment in Brand Equity and Distribution

Focus on demand shifts & tailored customer solutions

Tailor Customer Solutions



Share (%) Performance in Partner Customers

- Partnerships support share growth

Capturing Demand Shifts



- Bigger formats in both FMC & FCT
- JPS Blue Stream & Gauloises L'Autre

Core Range Everywhere

- +10%** increase in distribution points since 2016

Brand Investment

- Gauloises equity campaign supports recent quality upgrade





Germany: Targeted Consumer Messaging

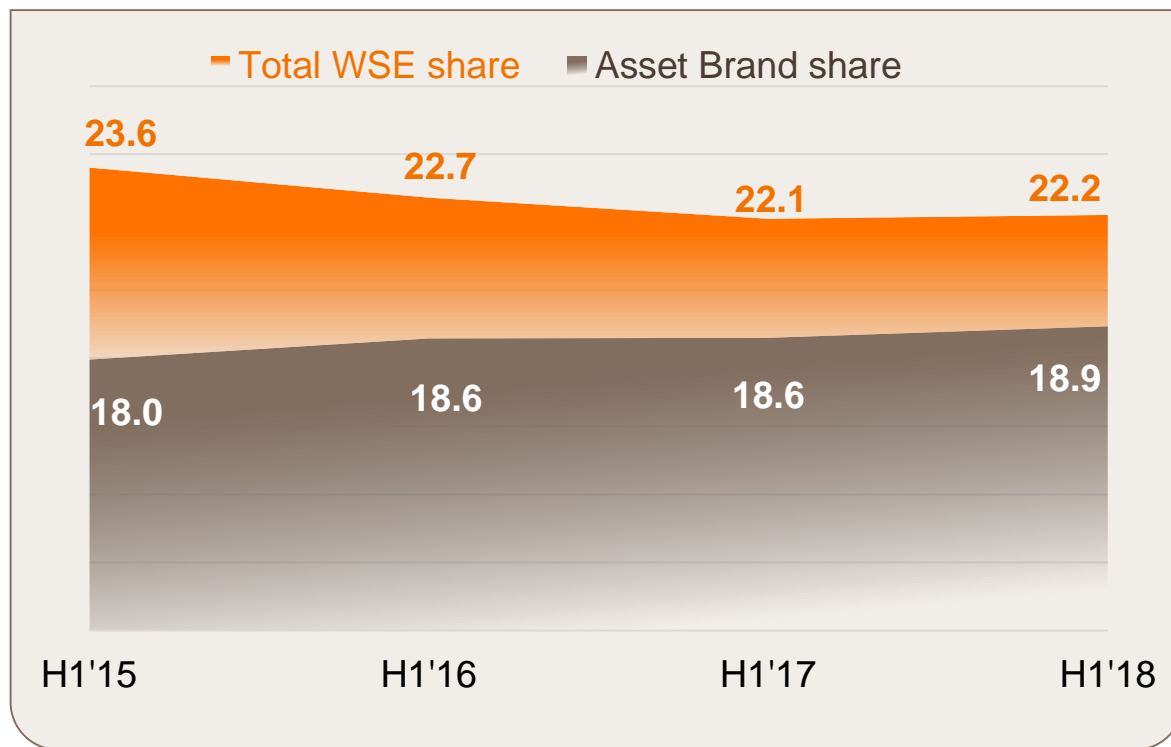
Digital POS enables tailored communication





Germany: Asset Brands Driving Performance

Gains in fine cut driving improved trajectory



H1 MAT Shares

Total WSE share
22.2% +12bps

Asset Brands share
18.9% +33bps

Asset Brand Net Rev
82%

UK: Leading in a Challenging Environment

Strong market position in large profit pool



Market Attractiveness



Predictable excise
Dark tobacco market



Average affordability
Positive recent pricing



Challenging market recently
'Reset' post EUTPD



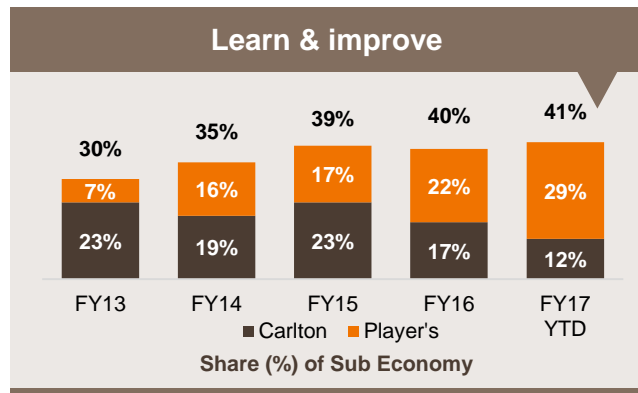
Focus to Win

- Market-leading position: JPS Players
No.1 FMC brand
- Award winning retailer engagement
programme
- Effective distribution network
- Regulatory expertise



UK: Targeted Investment

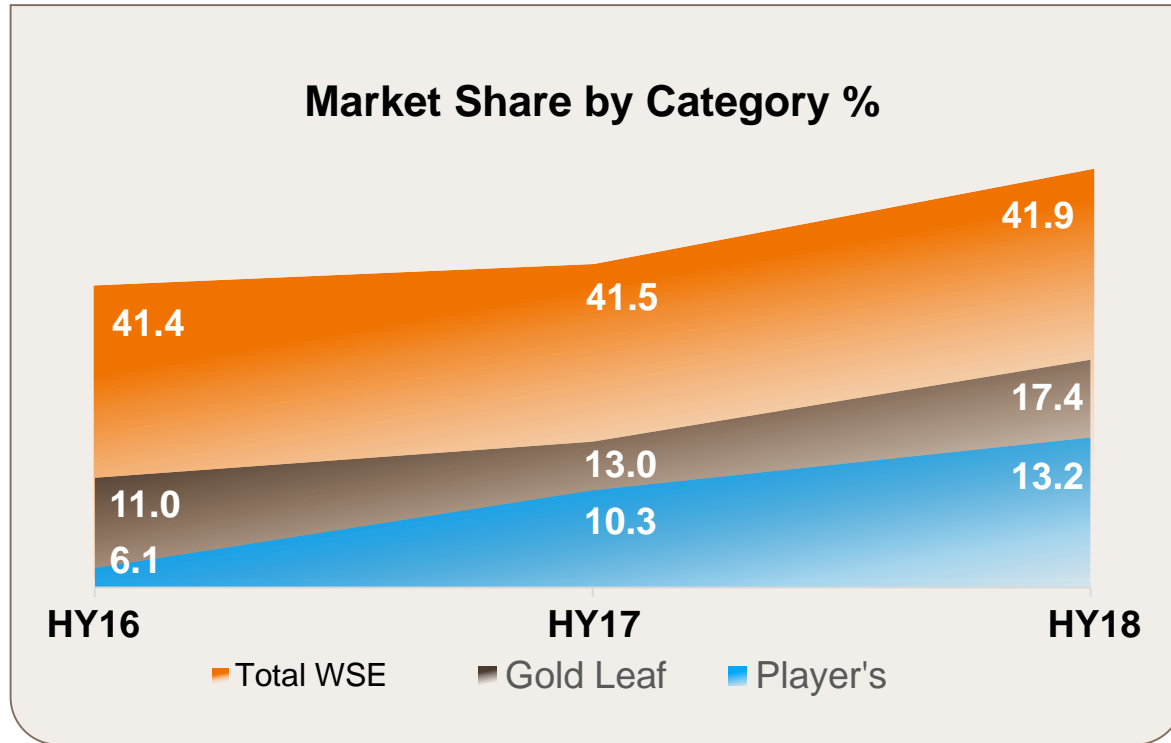
Prioritising portfolio & strong customer engagement





UK: Achieving Share Gains

Portfolio choices & retail partnering key to share recovery



H1 MAT Shares

MAT share
41.9% +50bps

PLAYER'S **↑ 287 bps**
GOLD LEAF **↑ 444 bps**

Asset Brand Net Rev
74%

Right Operating Model

Aligned to strategic focus



Right Cost of Goods

Industry-leading manufacturing cost base

Leaf complexity reduction

47% reduction in grades purchased
20% reduction in suppliers and origins

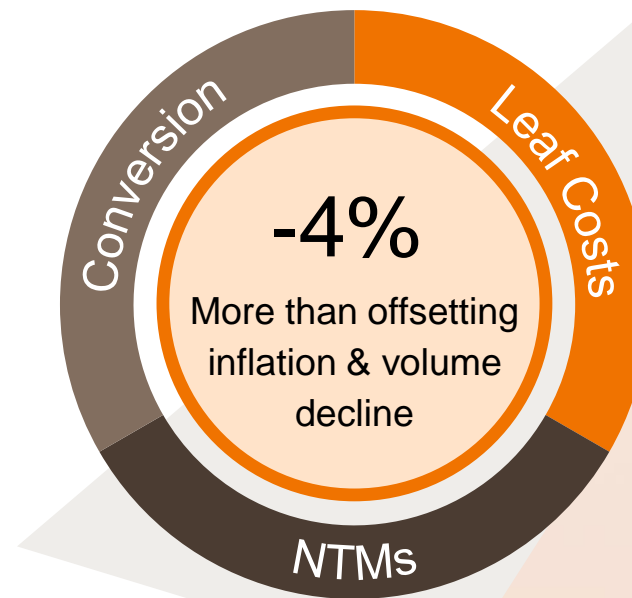
NTM complexity reduction

>20% reduction in suppliers

Factory cost reduction

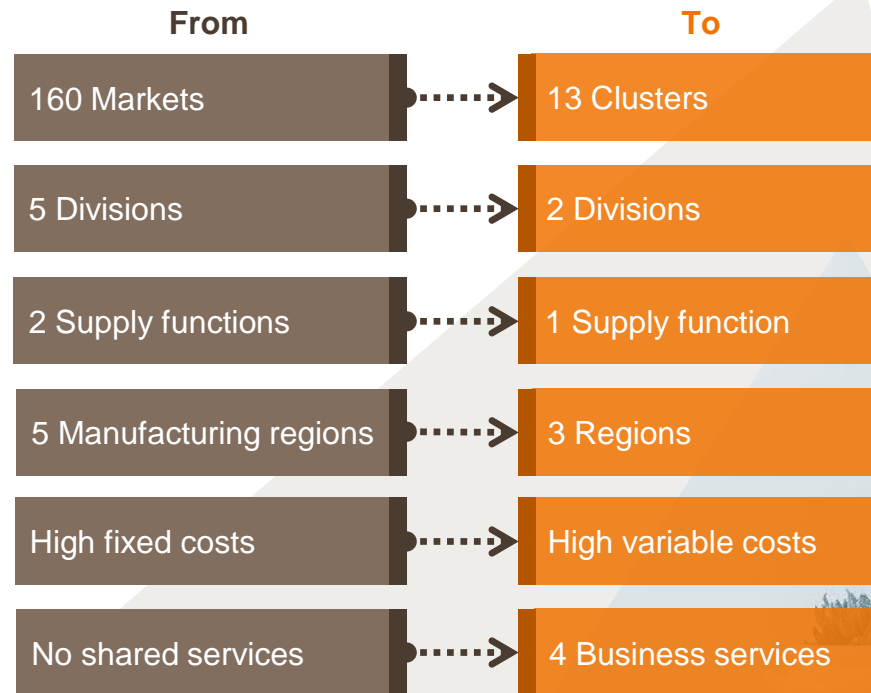
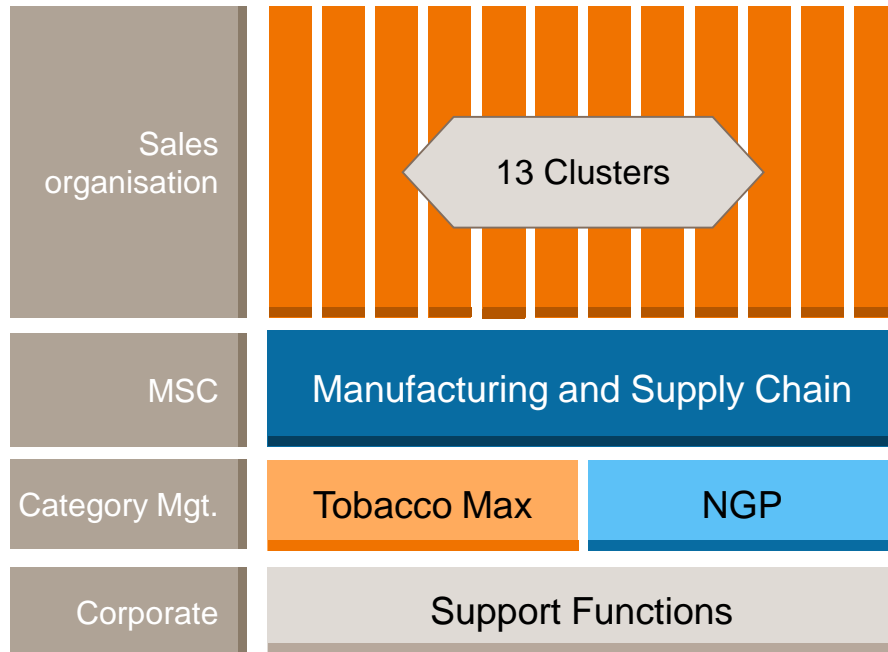
23 sites reduced over 8 years
Production locations optimised

COGs Analysis



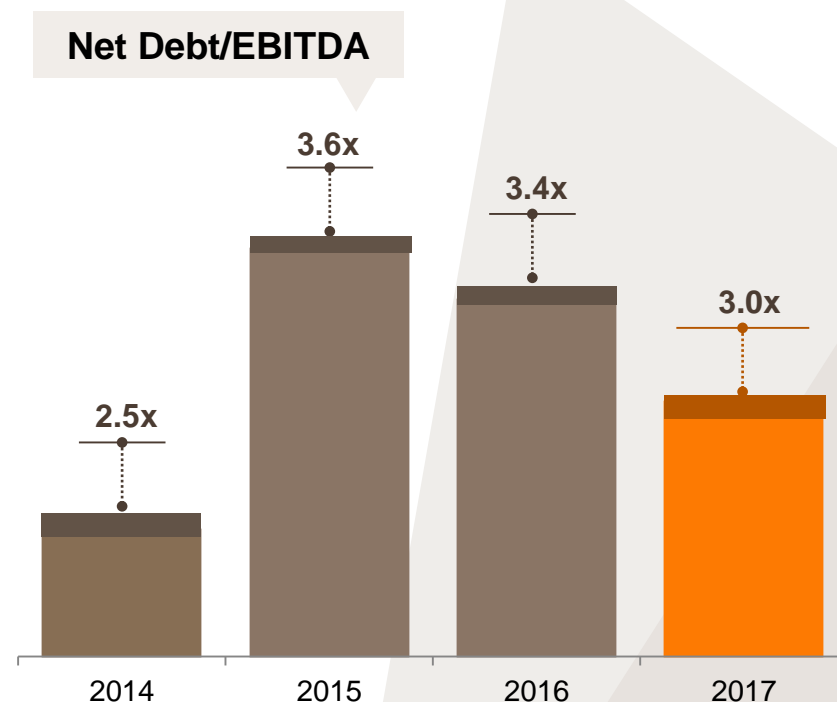
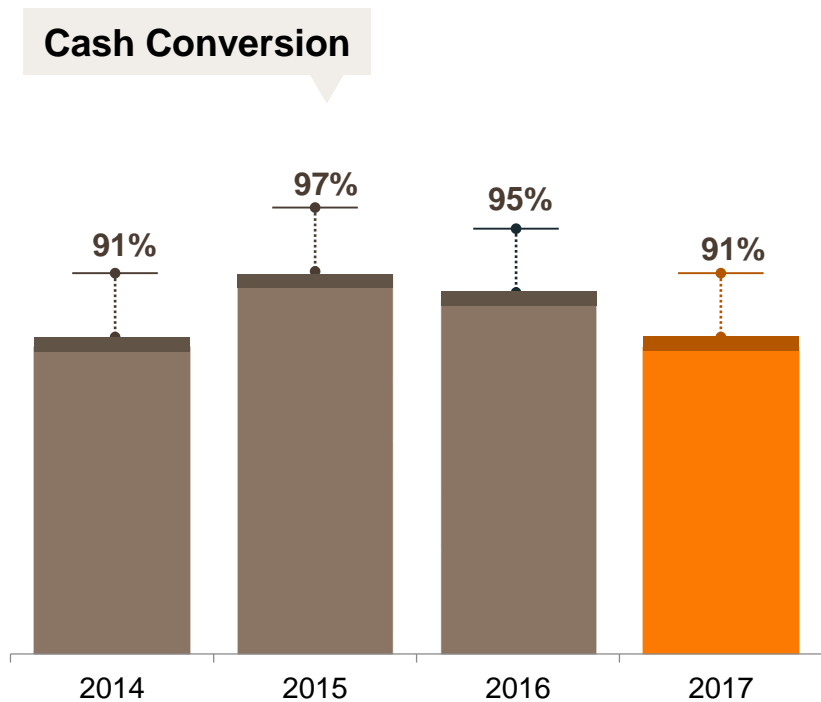
Right Operating Model

Improving agility & efficiency

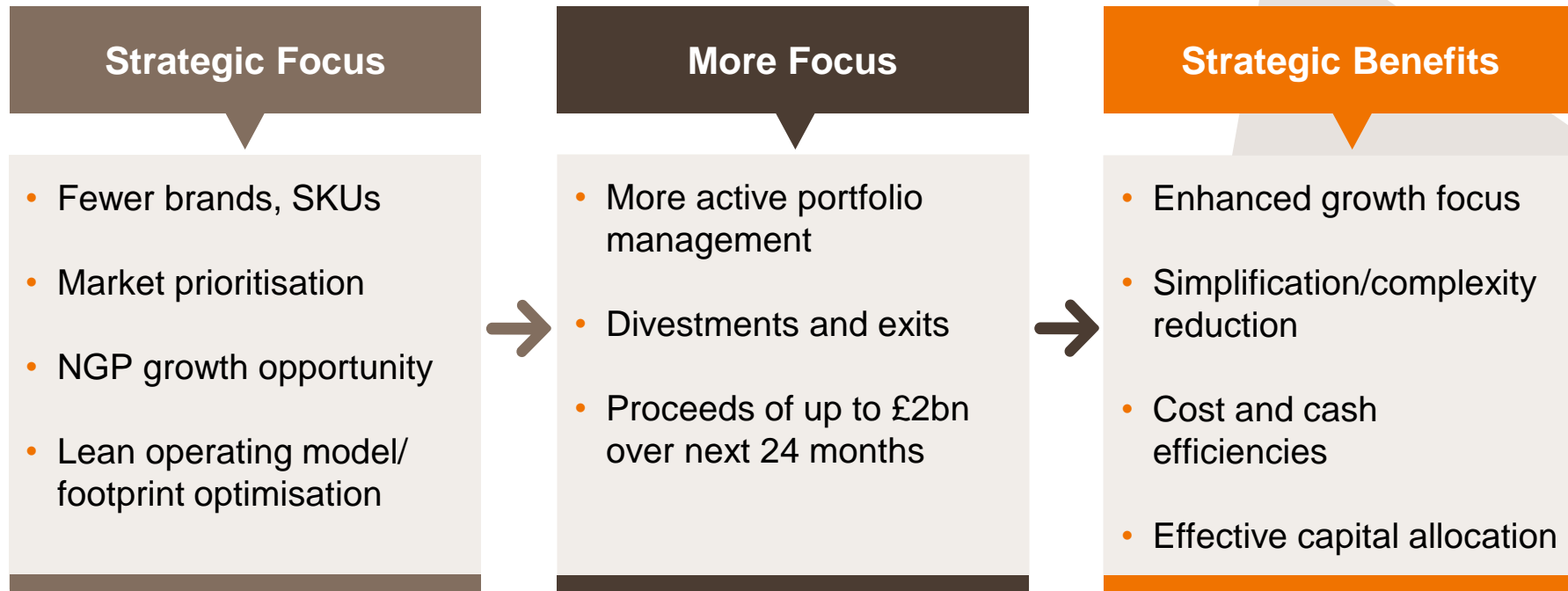


Strong Cash Delivery

Enables deleverage, investment & dividend increases

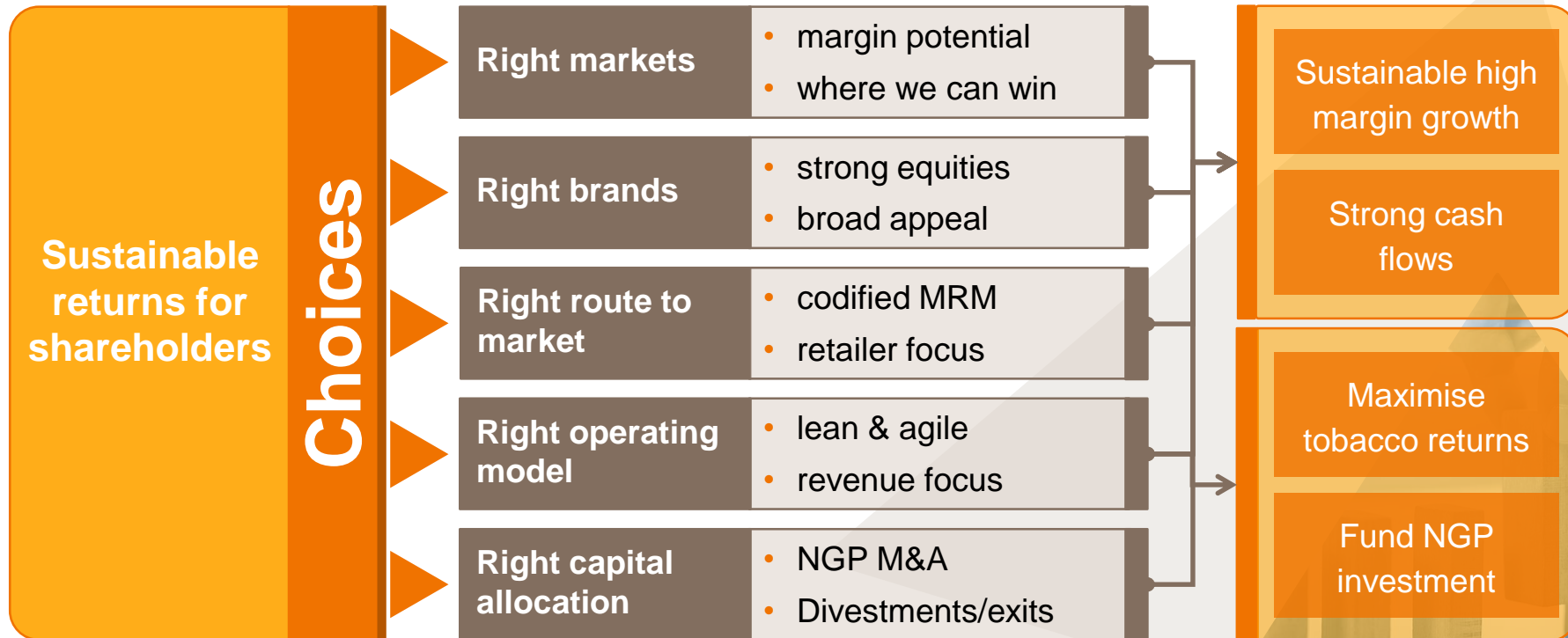


Right Capital Allocation



Strategic Focus; Informed Choices

Tobacco model resilient within evolving consumer environment



Tobacco Max Webinar: Q&A

