Imperial Brands - Tobacco Max Webinar Q&A

Monday, 2nd July 2018

Q&A

Operator: Thank you. If you would like to ask a question please signal by pressing star one. We will take our first question from Owen Bennett from Jefferies. Your line is now open. Please go ahead.

Owen Bennett (Jefferies): Good afternoon guys, a couple of questions please. First of all on the UK you speak about how the challenging market was reset. I was just wondering if you could give an idea of the profit performance during the challenging years and what you see as a possible and new norm from here.

And then secondly just on the strategy, it seems to me it's kind of evolved a little bit from what was communicated a few years ago. Before it was returns markets and growth markets, where kind of returns was just main focus on profitability, which includes likes of the UK and France. And then growth markets was where you were hoping to take share. And now it appears to be the ten priority markets where the focus is taking share. Then you've got the key markets with more limited investment, and then the partner markets. So I was just wondering if you could comment on that and if it has evolved somewhat since what was communicated a few years ago. Thanks very much.

Alison Cooper: Okay I'll hand over to Melvin in a second just to talk a bit about some of the work we did in the UK to really reshape the market over the last couple of years, following the war games that you referenced. In terms of the overall evolution, it's been – the profit pool has had some pressure over the last couple of years, but as Melvin alluded to, we see that improving and on a moderately growing trend going forward.

But I think the other dynamic, which is interesting as well, is we're seeing nicotine consumption growth in the UK, and therefore also, as we move on to talking about our NGP strategy more in September, there's very much an additive opportunity for us there as well. But maybe you could just give a little bit more colour to the work we did to reset the market, Melvin.

Melvin Ruigrok: Yeah, so I think about two years before EUTPD becoming at play, we engaged in a war-gaming session, which clearly articulated the need for us and the opportunity for us to leverage our equity at different price points in the UK. And as a result of that, we positioned core brands in both FMC and FCT, which has driven share momentum over the last two, three years. The share momentum is continuing at the moment and whilst we see a recovery of the profit pool and our positive outlook of the profit pool in the coming years, we are very positive about UK market now and in the near future.

Alison Cooper: And I think it's clear from what Melvin was saying earlier, is our out-and-out focus on the right portfolio which has been a huge focus as well on leveraging the distribution retailer capabilities we have in the market. In terms the market environment and some of the work on how excise is managed within the UK has been helpful too.

In terms of strategy overall, in reality, there's not a significant evolution of the strategy. But as I've been highlighting today, it is all about choices. And as we looked at the priority markets, we saw opportunities with the work we've done on the portfolio and the additional investment we put in 2017 to really improve our share position in a number of those markets. And you're right, there is a distinction. Returns markets, we tend to have larger shares, and therefore we're balancing the share and profit priorities, but in a number of those markets we had been losing some share for a period of time.

So it was right that we put the focus into rectifying that and there are growth opportunities for us there. Those will never be as significant share growth opportunities when compared to the opportunities we have in the growth markets, where we have much smaller shares and therefore see more we can deliver from those markets in terms of uplift in share over time with the right assets.

So yes, it's evolved a little bit in terms of some of the choices, but the prime focus is still there. And then within the overall portfolio clearly we have some different ways of managing the less relevant markets to our growth within the business in terms of prioritising investment and focus.

Owen Bennett: Okay, thank you very much.

Alison Cooper: Thank you.

Operator: Thank you. We will take our next question from Vivien Azer. Please go ahead. Your line is open.

Vivien Azer (COWEN): Thank you. Good afternoon. I was hoping you could expand please, either Alison or Amal, on the pricing dynamics in Russia. You noted that as you see things are stabilising. But could you expand on that it in terms of pricing, the rate pricing? Has it improved and/or is there less down-trading activity? Thanks.

Alison Cooper: So focusing in on Russia, sorry, the line wasn't very good at that point in time. I think the question around the pricing and what we're seeing from our perspective in terms of pricing in the Russian market, just to confirm?

Vivien Azer: Yes, please, thank you.

Alison Cooper: Yes, okay, thank you. Actually Dominic is probably best placed to answer this one. So I'm going to pass over to him. But the dynamics we've seen definitely is improving the situation in the current year.

Dominic Brisby: That's right. We have seen significant improvements this year, particularly versus what was experienced in Russia last year, which was quite a difficult pricing environment. And of course, we had two benefits this year in Russia. One of them is better pricing. The other one is a really significant improvement in our market share in Russia. Key accounts have been growing very significantly in the Russian markets.

And as key accounts have been growing, we've been growing with them. So we've significantly strengthened our position in key accounts, which has also given us a very good share trajectory in addition to the pricing.

Vivien Azer: Thank you. I would like to ask another separate question. Alison, can you comment at all on your net stake in Oxford Cannabinoid Technologies, please?

Alison Cooper: Yeah, I think it's just to reinforce the messaging that we delivered on the day. So clearly there's a lot happening in the cannabis space at the moment. That's something we continue to monitor. And we saw this as a very good opportunity to really improve our understanding in this space and make a small investment. And really that's something we'll just continue to monitor as things progress.

Vivien Azer: Thank you.

Alison Cooper: Thank you.

Operator: Thank you. We will take our next question from Gaurav Jain from Barclays. Please go ahead. Your line is open.

Gaurav Jain (Barclays): Thank you. So I have one question for Dan on the US cigar business. So while Imperial's revenue growth has accelerated, I think north of 20% in the US cigar business, the overall industry has also accelerated to 10%. What is driving that growth and is that sustainable as you look out over the next two years? That's my first question and then I will have a follow-up. Thank you.

Alison Cooper: So we've been seeing very good growth in our mass-market cigar business, but clearly it's also a growing category as well.

Dan Carr: We've seen the category grow over the last couple of years double digits, which has been very promising and we expect that to continue. I think what's driving that is a little bit of better retail, better merchandising from the market and kind of structure in the way that they've the assortment range sets up. And in addition, I think the consumer is finding more occasions to utilise the product and that's adding a lot of value overall.

Gaurav Jain: Thank you. And my next question is on the traction with myblu. So I believe that for the second half the guidance or the indication has been that price mix would be +8%, of which about 3% is driven by vaping products launch for which there is no associated volume. Based on the trends or your success over the last few months, do you think you are trending in the right direction or you are above trend, below trend? If there can be any comments that would be very helpful.

Alison Cooper: We're focusing really, with this webinar, more on the Tobacco Max side of the business. We have had a number of successful launches at myblu in recent months and the US market, which is significant importance for myblu, continues to trend well.

Gaurav Jain: Thank you.

Operator: Thank you. We will take our next question from Michael Lavery from Piper Jaffrey.

Michael Lavery (Piper Jaffrey): Thank you. I just wanted to get a little more colour on the US. You mentioned, I think you might have used the word repositioning with Montclair and Sonoma. Can you just talk about what's different there? Is it a geographical expansion or is it a price cut or how is that evolved? And then also could you just touch a little bit on the price point for Winston Black? Is that below, is that parity with the rest of Winston or less? Just a little bit of that dynamic.

Dan Carr: Yeah, sure Michael. I think when you look at the discount, deep discount market, it was a relatively stable segment for a bunch of years. It's still a relatively small segment. It's 9% of the total, but it's picked up a share point over the last year. And due to that we took a strategic decision to take a couple of our non-strategic brands that quite honestly were declining and repositioned them into the deep discount segment so that we could compete now. That's a segment we didn't currently have in our portfolio and we made the change.

Second question?

Alison Cooper: Winston Black.

Dan Carr: So on Winston Black, it will be price parity across the market. But we've also identified some markets where we will have it below the Winston line, around $0.15.

Michael Lavery: And just to follow-up related to those, in the US, you had strong, I'd say first half especially, 2018 margin and price mix momentum, That's been the shifts in within your portfolio where Winston and Kool have outperformed. How long a runway is there? How much for that and how much do some of these moves maybe offset it? Or what do you expect as far as how would you think about that to look ahead?

Dan Carr: Obviously, we're doing a lot of equity work as well. I mean, we're – the first step when we did the acquisition was to kind of get our pricing where we want to price the brands in the marketplace, and that takes time in the FMC category. So we're seeing nice development. I think it's progressing sequentially. And then at the same time we're doing a lot of work around positioning and building equities, and working really on consideration and trial and the conversion. So our shares, we're basically looking at kind of two share brands. We see there's a lot of upside opportunity, but it will take time.

Alison Cooper: I think is also fair to say in 70% of the market, the EDLP stores, we're in share growth, so the dynamic we're really sorting with this portfolio shift in terms of the deep discount is really looking to get a share of that, which would be very positive for our overall developments in the market.

Michael Lavery: Okay, thank you very much.

Alison Cooper: Thank you.

Operator: As a reminder, if you would like to ask a question please press star one. We'll take our next question from Mr Adam Spielman from Citi. Your line is open. Please go ahead.

Adam Spielman (Citi): Thank you. I have two questions. My first one is a broad one about how the cost savings programmes play into what you've done in terms of restructuring because obviously, you sort of presented very impressively on your core tobacco business. But I was wondering to what extent this is either enabled by the cost savings programmes or somehow they have slowed you down to some degree and it would have gone even faster without them. And sort of where that whole restructuring is going next. So that would be my first question please.

Alison Cooper: Oliver?

Oliver Tant: Adam, thank you for the question. It's Oliver here. Well, the things are all interlinked. The restructuring has been part of what's been driving our overall cost savings across the business. They've been part of what's been delivering our simplification across our business and the ability for us to respond in a more agile fashion to market circumstance and events.

And what we've been focused on in terms of that programme is aspects of simplifying our manufacturing cost base, restructuring, creating lean environments both across manufacturing and across our overhead base. And that has led to both reduced overall cost, but it has also given us the tailwind to invest behind those brands more fully to drive top-line performance, as well as enable topline performance improvement by creating much stronger focus on the brands that matter in markets that are critical to us.

So it is very much a circular process where the restructuring has been supporting the cost programmes that have been driving elements of our ability to perform by increasing the focus both around our brands and around SKU and market focus.

Adam Spielman: What does it really amount to? Some people talk about putting in SAP or some other systems, often very expensive. So should I think, in your case, is really question of taking headcount out in areas you don't want to focus on and that gives you the ability to invest in areas you do? And I guess by having fewer people, necessarily they focus a bit more sharply.

Oliver Tant: That is certainly a strong element of it. It is about simplification which just means removing activities in large part, and by so doing removing the people. There is always the great danger that if you just take the people out, you end up with the bag bursting at the seams as a smaller number of people have to do the same activities. So hence the focus on simplification creating agility, so that we're not essentially overloading a smaller number of people with a more complicated activity.

There's often a great temptation to believe that process enablement is facilitated by big IT spend. And we don't believe that journey at all is the right way to progress and we've seen plenty of examples of organisations who've been able to simplify what they do to drive benefits. And that's what we've been doing at Imperial.

Alison Cooper: I think it's also a question of daily challenge of spend as well around making sure what we're doing is really focused behind spend that really supports the sales agenda, and a very critical eye over spend that doesn't directly do that. And we've adopted quite strong principles in terms of daily cost management with cross-functional challenges, all those sorts of things going on, to really keep us honest around that and keep the focus on a daily basis. So this isn't just about the big scale restructurings. It's a mindset as well.

Adam Spielman: So, I mean, to really concrete about this, there's always a department – and I'm making this up here – focusing on trying to grow a brand like, let's say, Moon in a market, let's say, like Morocco. You would just say it's a complete waste of time, that that activity is going and if there are some people involved in that activity saying, well, look to redeploy them elsewhere or if not, sort of let them go. I mean, is that how I should be thinking about it?

Alison Cooper: Yes, though the specific example doesn't quite exist. But what you're trying to illustrate, absolutely. Dominic, do you want to comment?

Dominic Brisby: It's exactly what we do. So we're very clear about which markets we focus on. We are very clear about which brands we focus on. And in turn that means we de-focus on other things. So if there were a small local brand, it's very likely that in almost every case we'd stop focusing on that. And if there were a department that focused on that brand we'd probably get rid of that department or deploy them to something that would be more beneficial to us.

Adam Spielman: Thank you. It's very helpful. My example was purposefully absurd so I hope that's clear.

Alison Cooper: It wasn't entirely absurd.

Adam Spielman: I'm intrigued to what extent you believe NGPs are affecting the core existing tobacco market. So this isn't a question about NGPs your growth opportunities. Is to what extent – I mean clearly iQOS has had a big effect on volumes in Japan. There’s no getting away from that. And I was wondering to what extent you also feel that's been the case, either in the US with JUUl, or is potentially the case in Europe or elsewhere? And also I suppose what your feelings are about – we've just heard that JUUL is going overseas – what your feelings are about that? Thank you.

Alison Cooper: Okay, in terms of the – Japan accepted in terms of the heated tobacco growth in Japan. But in other markets, as we've looked at them and we're looking at across our planning horizon at the moment, we still don't see – it's much more of a gradual shift in terms of the shift into NGP. And actually a lot of the time it's actually also adding to the nicotine consumption in the market. So it's not a question of shifting to NGP, then that comes straight out of combustible tobacco consumption because we are seeing nicotine market growth in the UK, for example. And therefore not only an additive opportunity for Imperial, but has an additive opportunity there full stop as well.

So I still say it's quite small in terms of those overall dynamics. Dan can comment specifically on JUUL in the US and the impact we think that's having, maybe just to put a bit of colour from that perspective.

Dan Carr: California is the number one market. We think the contribution to the category decline was close to 2.5% of it. You had some reduced promotion volume in there, about 1.3% of it. I mean, JUUL, based on the modelling we've done, we see that at around 0.5% - 1% of the category. So that's kind of how we're looking at it. And you can imagine that the gasoline impact in the US, it's gone from $2 to $3 for a gallon of gas. That has really impacted the consumer and we see a direct correlation.

But I can tell you that since we've passed over the California comps, we've seen a much better category where the last 13 weeks is around – it's declined to 2.2%. And if you look at the latest 13 weeks, it's down 4.4%. So there's definitely been a change in the category.

Adam Spielman: Thank you. And that’s MSAI data you’re giving there i.e. the 2.2% and the 4.4%?

Alison Cooper: That's right. And in terms of JUUL coming to Europe, clearly it's quite a different dynamic in Europe compared to the US. I think specifically if you look at the nature of the product delivery, which as you know is a 5% nicotine level in the US and the maximum ceiling is 2% in Europe. So that's going to be very different proposition from a consumer perspective, accepting that they’re used to weaker cigarettes anyway, but even so it's not the hit that JUUL has been in the US in that sense.

I think also as well, one of our learning so far as we've been working with myblu is really the importance of retail and that retail consumer strength that we have in our markets. And that’s a very important part of our model, and clearly that's something that Juul will need to take time to build and to get to grips with, from a European perspective. So I think it's clearly something we're going to be monitoring, clearly something we're aware and prepared for.

But the feedback we're getting from the test we do with consumers with myblu comparing that as well head-to-head with JUUL as well, very positive in terms of the way myblu is perceived. And as you know we've got a significant innovation pipeline as well that we can build on that. But as we said earlier, September's about blu so we'll do that then.

Adam Spielman: Thank you very much.

Alison Cooper: Thank you.

Operator: We will take our next question from Nico von Stackelberg from Liberum.

Nico von Stackelberg (Liberum): Hello yes. I just wanted to ask a quick question on driving cost optimisation. And as you are continuing to go through your cost optimisation programmes, do you have any call-outs in terms of regions where margins could significantly increase due to planned, whether it's restructuring or cost optimisation, generally speaking that which we should be mindful of? Thanks.

Alison Cooper: I think a lot of cost optimisation opportunities are the ones that kind of benefit most parts of the business. But I'll let Oliver comment.

Oliver Tant: As Alison says, I mean we've got a relatively strong focus on a number of principles, which I think you heard Dominic talk about in terms of the MRM around portfolio simplification and that applies across the whole of our footprint. That, to some degree, has a strong influence over both the cost of manufacture and overhead. So it's relatively widely shared across our geographic territories and I wouldn't single one out specifically.

Nico von Stackelberg: Okay, not for example the US, there's nothing you can do there in particular?

Oliver Tant: Well, the US is a key part of our footprint. We're constantly working on it and you've seen we've performed very strongly in terms of profit performance in the US over the last couple of years. I'm sure Dan, who is smiling next to me, would confirm he's felt the cost pressure.

Dan Carr: Yes

Alison Cooper: And probably the more we grow Backwoods, that’s going to be the biggest impact on our margins probably. So I think it's a lot of levers that drive the US margin, but cost focus is clearly one of them as well.

Nico von Stackelberg: Okay. And I have a quick follow-up on just migrations in general and how the cleaning up process goes. I get the sort of feel that it's easy to tackle the low lying fruit, but as you continue through the years to migrate brands and to strengthen the right portfolio, it becomes incrementally a bit more difficult. Is that a fair assessment? Why or why not? Thanks.

Alison Cooper: No, it's not really. We did try and tackle some of the really difficult ones upfront as well. And I think there's only one migration I can think of that we're rewinding to some degree currently that hasn't been successful. 95% conversion of all the other migrations which have been very successful for us.

I think if I remember we've now migrated over 40 billion sticks over the last few years so it's a significant chunk of the portfolio. So we tackle difficult ones along the way. We've highlighted one – Dominic highlighted one today which was migrating Balkan Star with Russian heritage into Parker & Simpson, which wasn't a straight forward one to get our heads around. But we successfully implemented that with I think over 100% conversion of consumers, if you can get your head around that one.

I know we do focus on the fact that we're generating organic growth here as well, but you shouldn't overlook I think the success of those migrations in themselves has been very important.

Nico von Stackelberg: Thank you so much.

Operator: We will take our next question from Chas Manso from Societe Generale. Please go ahead.

Chas Manso (Societe Generale): Yes, good afternoon everyone.

Alison Cooper: Good afternoon.

Chas Manso: Could you give us your level of confidence that the Tobacco Max strategy will enable you to maintain the improving market share momentum that you've enjoyed recently? And maybe more importantly, could you talk about translating that improving market share into an improving organic sales growth dynamic? Is there any reason why it shouldn't translate directly? Are you sacrificing anything on price mix to deliver on the volume market share? So some words, basically, on the top-line part of your growth algorithm, the 1% to 4% not really met in recent times. Are you expecting to get in there, into that range and with this Tobacco Max strategy to get towards the higher end of that range?

Alison Cooper: So, the guidance we've given back at the half year results was we very much saw ourselves back in the 1% to 4% range in terms of the overall model that we're driving. From a market share perspective we really are generating some really good improvements in market share in the priority markets. So I think it's important to stress that the focus is on the right markets and the right brands for that quality share growth, and overall that will support the overall development of the business. But it's not just about a focus on growing share per se; it has to be the right sort of share growth.

And from a net revenue perspective that's clearly supportive of net revenue, but as we highlighted at the half year, there has been a number of things in terms of the price mix environment in the first quarter in particular that held back the numbers. And as we've alluded to, we've seen that improving with a number of price increases we've achieved over the last quarter or so. So, definitely an improving environment as Amal highlighted earlier. And we see very positive dynamics from the work that we're doing from a Tobacco Max focus perspective.

Chas Manso: Can I throw in a specific one on Germany? I think in the script it was mentioned that you are sort of turning your focus on to the FMC part of the German portfolio. Could you just give us a bit more colour on that and how successful those changes are being?

Alison Cooper: Yeah, so overall in Germany, as you saw at the half year in share growth, that's the prime driver of that has really been our fine cut performance. But just to emphasise before Michael answers, the fine cut delivers better profitability than the cheaper end of the cigarette portfolio. So actually it's really important share growth that we are delivering here in terms of the overall progress in Germany. But maybe talk about how we're doing in FMC and the actions we're taking there.

Michael Kaib: Yeah, what we've done is the quality upgrade on Gauloise, which we are supporting by an equity campaign through the line. This is the first one. The second point is that we focused on demand shifts very much. The first demand shift is larger packs in FMC where we just launched a Gauloise €10 pack, a West €10 pack and a JPS €9 pack. And what we've done as well, with the recent price increase, we repositioned West in a bigger pack - it's about value for money.

So, we are well positioned now in the growing value-for-money segment. That gives us confidence to grow share and to improve our position and share growth in FMC.

Alison Cooper: Thank you.

Chas Manso: Thank you.

Operator: Thank you. Our next question is from Jon Leinster of Berenberg. Please go ahead.

Jon Leinster (Berenberg): I was just wondering, with regards to the restructuring, clearly the cash cost of expenditure or restructuring seemed to be rising both this year and potentially next year as well, which after five or six years of restructuring and considerable number of the brand migrations having been done, seems a bit sort of counter-intuitive. Could you explain why the cash cost restructuring seems to be continuing to rise rather than decline?

Alison Cooper: I think I'll let Oliver pick up on it, but I think we got a distinction here between how the P&L is handled and the cash flows work, which is I suspect going to be the essence of his answer.

Oliver Tant: To start with, Jon, we've had two legs to our cost optimisation programme. So we announced one back in 2012, which was a £300 million saving at the cash cost of £600 million, and then we moved last year into announcing a further cost optimisation programme to add to that. And with the timeframe of those programmes that are over through to 2020, so the second one is actually being conducted over a shorter period of time. And we see in the current year or next year the vast majority of the expenditure on that second programme taking place, which is why you see those levels rising over these two years because we've done that programme very quickly.

There is, as Alison highlights, a difference between the cash cost and the P&L cost. There will be certain items which don't have a cash impact, which form part of any restructuring that we undertake so there may be losses arising on the assets disposed of, things of that nature. The cash timing isn't always consistent with the point of time of announcement either. So on occasions we may announce something that we then accrue into the P&L the cost for, but the cash expenditure goes out over longer periods of time so you do end up with timing differences.

Alison Cooper: So the second programme was slightly more expensive than the first. It was £300 million of savings, but it was going to cost us £750 million to achieve those rather than the £600 million for the first programme. But as Oliver highlighted it's really around the phasing of that cash going out the door. The programmes are very much on track in terms of the benefits they're delivering and the spend associated with them.

Jon Leinster: But just to be clear, the actual, the vast bulk of the cash cost of the second programme will have sort of come out in 2018?

Oliver Tant: 2018 and 2019.

Jon Leinster: Right. And just, if the brand migrations have been done, is there's something obvious that I'm missing that is on the agenda? Is there significant factory rationalisation yet to do?

Alison Cooper: There's a number of things that still drive behind that programme. But as you might imagine with the migrations, but also the broader simplification agenda in terms of the SKUs in the portfolio. There's a little bit of a lag in terms of how we then look at how we manage supply and any decisions associated with that. So it's not something you can necessarily always enact immediately. There's a bit of a lag while we actually then restructure to realise those benefits. But there is still a migration ongoing as well. By the way we haven't stopped. There's still some further migrations that we're continuing to progress.

Jon Leinster: Right, okay, thank you very much.

Alison Cooper: Thank you.

Operator: Thank you. Our next question comes from Fulvio Cazzol of Goldman Sachs. Please go ahead.

Fulvio Cazzol (Goldman Sachs): Yes, thank you for taking my question and good afternoon to everyone. My first one is on France. I think you've mentioned that Australia and the UK are examples of where you've been able to do well on the back of regulatory changes. Presumably, you also meant plain packaging. So can you give us an update on what you're seeing in France? I know that share for you was up ten basis points on slide 17. So can you give a bit more colour on the latest there please? And then I have a follow-up question.

Alison Cooper: Yeah, in France, our share is still overall up year on year. We're anticipating, as I highlighted at the half year, for it to come under a bit more pressure because we've taken a decision to pass on the excise on to consumers on most of the portfolio, contrary to some of our competition. Having said that, though, we have seen some price moves from competition in recent weeks so that may be shifting a little bit.

There's no doubt in France that this is a pretty tough time for both the tobacconists and the consumers. I think for us therefore our focus on NGP and other opportunities in that market is also very pertinent at this point in time in terms of the total consumer portfolio that we're promoting. So it's nothing very significant to update on since the half year, apart from the fact that it's a challenging market dynamic, as I highlighted at the time. And Dominic took you through 'always on price strategy' earlier around the price parity that we look to focus on with our branders. It's a market where we've chosen to come off at and actually move our brands up regardless of the competitive set because of the dynamics in the market.

Fulvio Cazzol: Great, thank you. And my second question is on the fact that 70% of your profits are coming from priority markets and it sounds like these markets could become more important, particularly considering that up to €2 billion of disposals that you have planned. So how should we think about your dependence to just these ten markets, considering that in the future we could have significant changes to regulation or tax as we've had? What impact could that have on your business i.e. that were still like limited diversification if you like geographically? Could that be a problem?

Alison Cooper: With more perspective, we have been very focused about the investments we're making in the markets. And I think that focus is absolutely right in an evolving consumer environment, as we've talked about today. I think in these markets as well, as we've highlighted, we're seeing nicotine consumption growing. Overall, we only have a 14% share from a combustible perspective over our footprint, and therefore there's a significant amount of consumers that aren't ours, in terms of additive opportunity both from a tobacco perspective, but also clearly from an NGP perspective as well.

So I think our positioning in those markets, combined with the choices we've made around why we want to focus there and the dynamics that we're seeing, I think very much underpins what we're looking to deliver from a growth perspective. So I do think focus is important in this environment, not necessarily just going after a broad church of markets.

Fulvio Cazzol: Okay clear, thank you.

Operator: Thank you. We will take our final question from Adam Spielman of Citi. Please go ahead sir.

Adam Spielman: Thank you very much. I was just wondering if whether you could talk a little bit more about the up to €2 billion of disposals. Whether we should think of this as something that basically allows another round of cost saves, if you like, or is more sort of necessary part of the cost saves you've already announced? Thank you.

Alison Cooper: It's very much around our focus for growth rather than a cost saving agenda item. It's around – as we focus behind the assets, the brands, the markets, the products that we see as being critical to our growth going forward, naturally other things are defocused. So that's really the prime driver for what we’re looking at here. Will there be opportunities for increased agility, maybe some increased efficiency and focus as a result of these disposals? Yes, I'm sure there will be, but it's not the prime driver of why we're doing it. It will allow us to focus even more rigorously behind the things that matter most to our growth going forward, both into tobacco but also in next generation products.

Adam Spielman: Okay thank you very much.

Alison Cooper: Thank you. Okay, well thank you everybody for joining us this afternoon and for the questions, and I look forward also to catching up with you, if not before, when we do our NGP event towards the end of September as well. Thank you.

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