



Imperial Brands – Maximising Category Opportunities

CAGNY 2019

21 February 2019



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Our Investment Case



Sustainable Shareholder Returns

Guidance Corridor (cc): Net Revenue Growth 1-4% and EPS Growth 4-8%



**Quality Growth
From Tobacco**



**Significant
Additive Growth
from NGP**



**Simplification
& Cost
Efficiencies**



**Capital Discipline
and Cash
Generation**

Strong Governance and Sustainability Agenda

Introducing Imperial Brands



Net revenue
£7.7bn

Op. margin
46%

36,400
employees

160
markets

Top 5 markets
US
Germany
UK
Australia
Spain

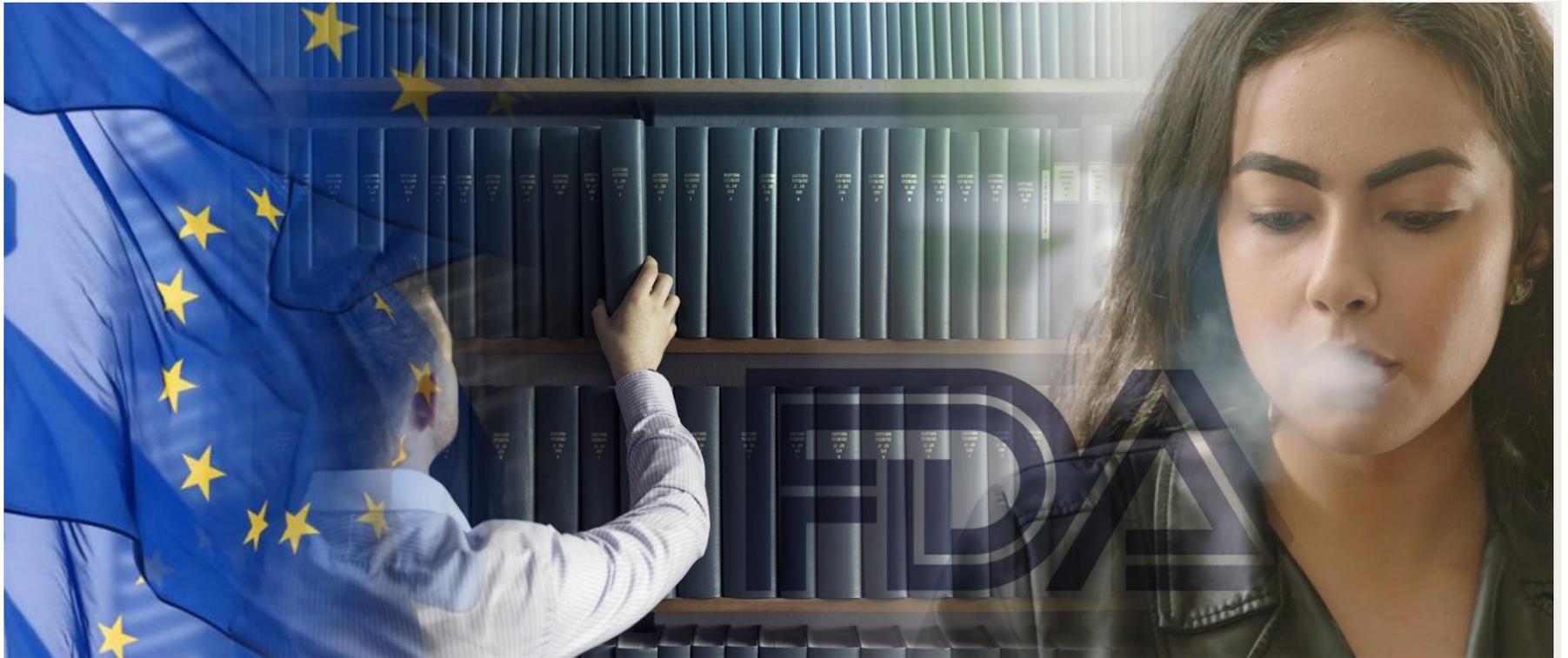
Cash conversion
95%
Debt reduction
£0.8bn pa

Ten years
+10%pa
dividend
growth



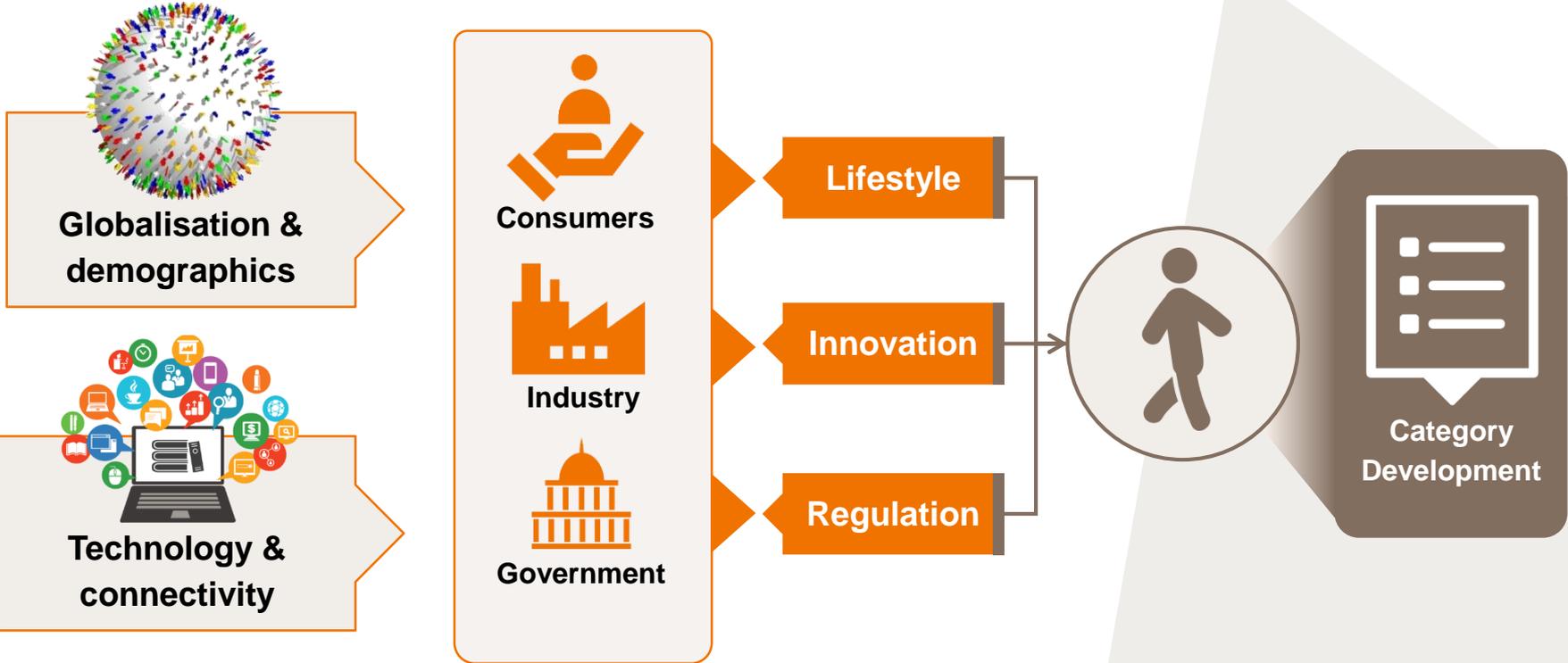
Imperial Brands introductory video

Consumer & Regulatory Context



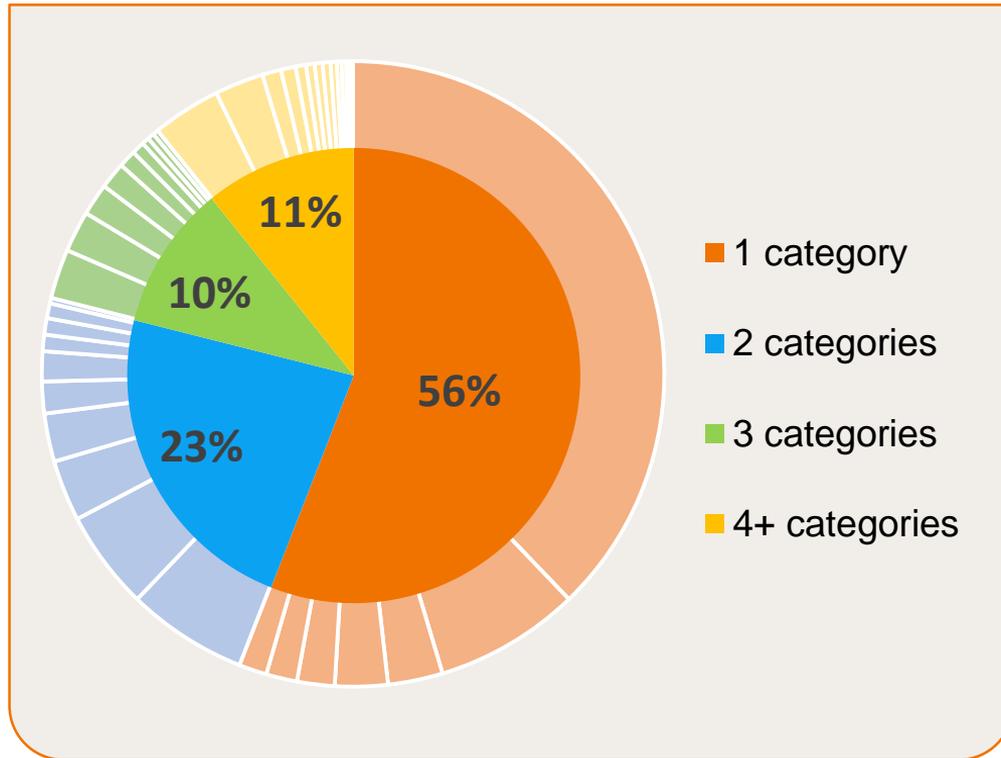
Changing Landscape Shaping Category Developments

Consumption evolving



Nicotine Consumption Evolving to Reduced Risk Products

Growing consumer repertoire



**Multi category
usage increasing**

**20% of smokers
also vape**

Clear Drivers for Vaping

Increasing smoker choice



Harm reduction

→ 76%

Better value than cigarettes

→ 71%

Social acceptability

→ 67%

Relaxation

→ 67%

- **c.36m** vapers in 2018
- **30%** CAGR since 2011

Source: Millward Brown Global Tracker, UK and US blended

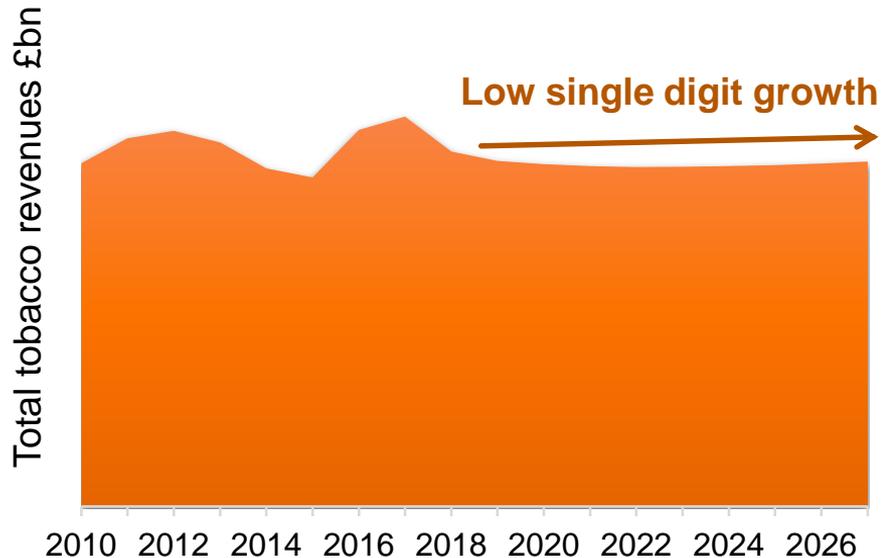
Source: Euromonitor October 2018

Tobacco Market Overview

Profit pool in IMB footprint relatively resilient



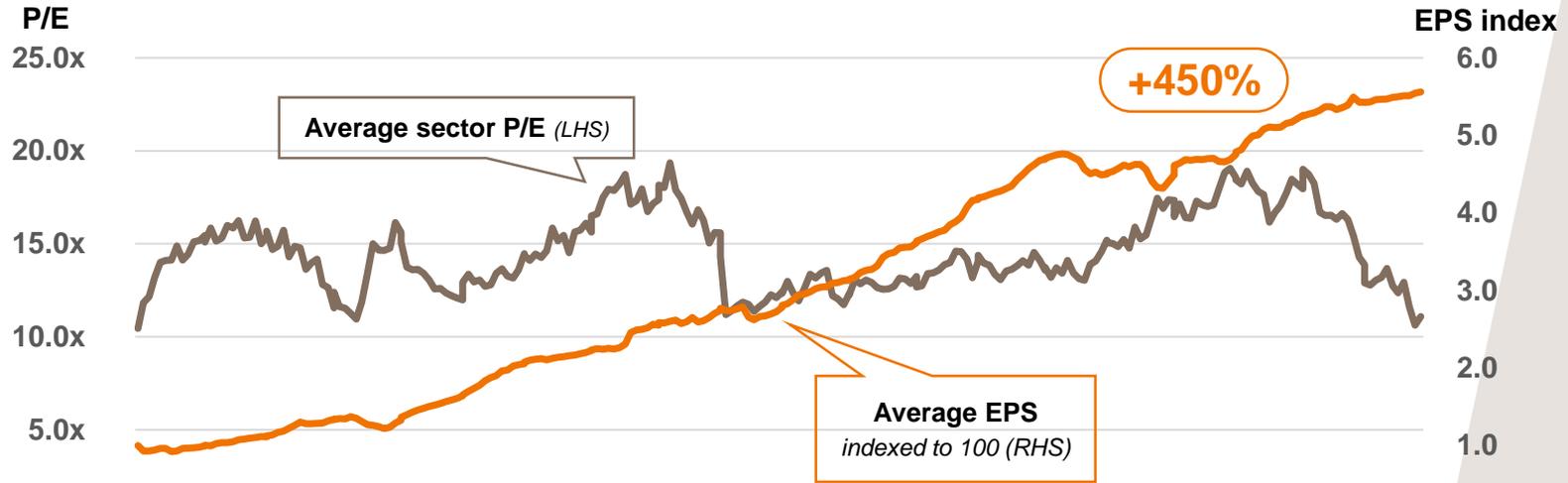
Tobacco Market Revenue: IMB Footprint



- Tobacco remains relatively affordable
- Pricing supports resilient revenue development
- Additive vapour opportunity

Resilient Earnings Growth in Regulated Industry

History of managing regulatory & excise changes



Broad Regulatory Approach in Priority Markets

Managing Regulation in all environments



**Less
Restricted**

Advertising
restrictions

Public smoking
restrictions

Display bans

Standardised
packaging

**Most
Restricted**

US Regulation Evidence-Based

Regulatory change supported by science & data



- Well established rulemaking process
- Structured approach – evidence & science-led
- Considers risks & benefits to whole population
- Requires input from all stakeholders
- Takes time to enact changes



US Regulation Update

Engaged & supportive of evidence based regulation



Tobacco Regulation

- Lengthy regulatory process for both menthol & low nicotine
- Multiple stakeholder input; scientific, legal, law enforcement, public health, industry and budgetary stakeholders
- Risk of unintended consequences
- Track record of managing regulatory change



NGP Regulation

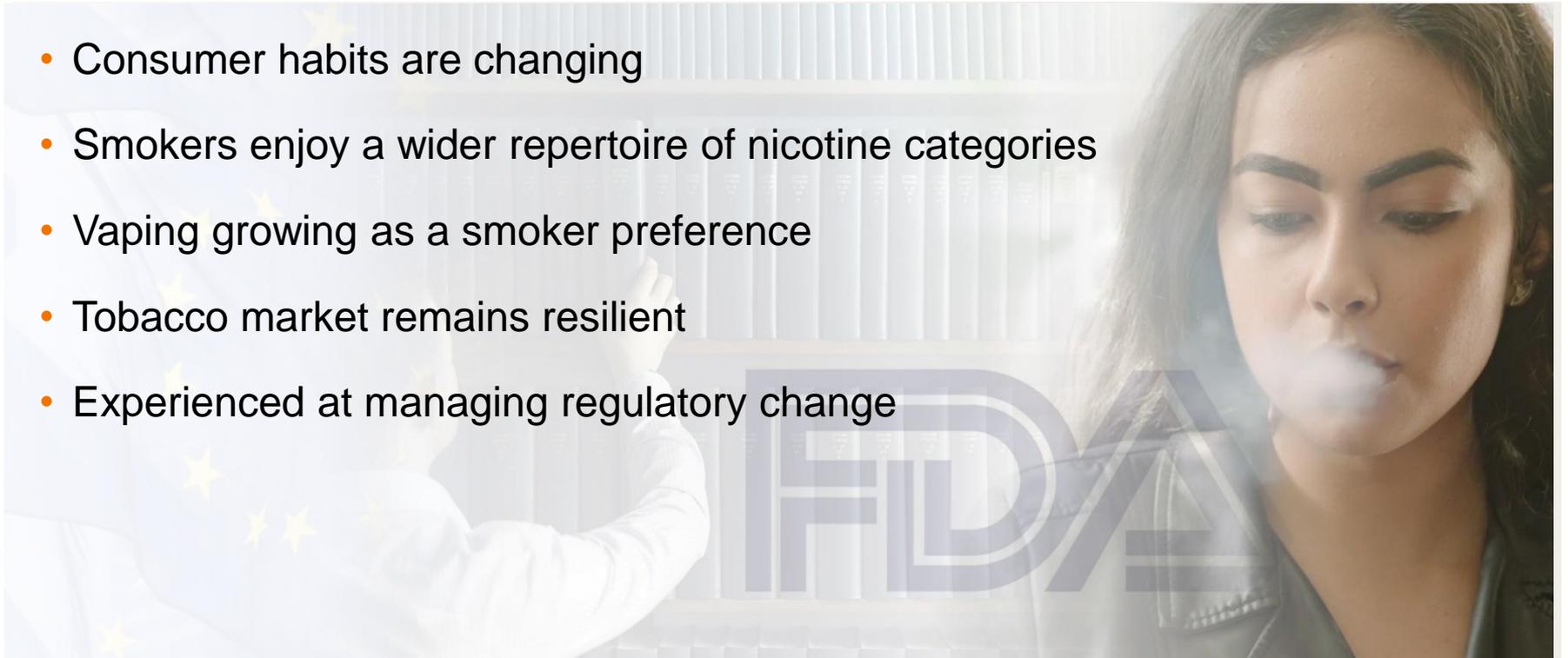
- Aligned on strict youth access prevention measures
- Aligned on role of NGP to support harm reduction
- Positive recent meetings with FDA
- Supporting tighter regulation

Consumer & Regulatory Context

Key takeaways



- Consumer habits are changing
- Smokers enjoy a wider repertoire of nicotine categories
- Vaping growing as a smoker preference
- Tobacco market remains resilient
- Experienced at managing regulatory change

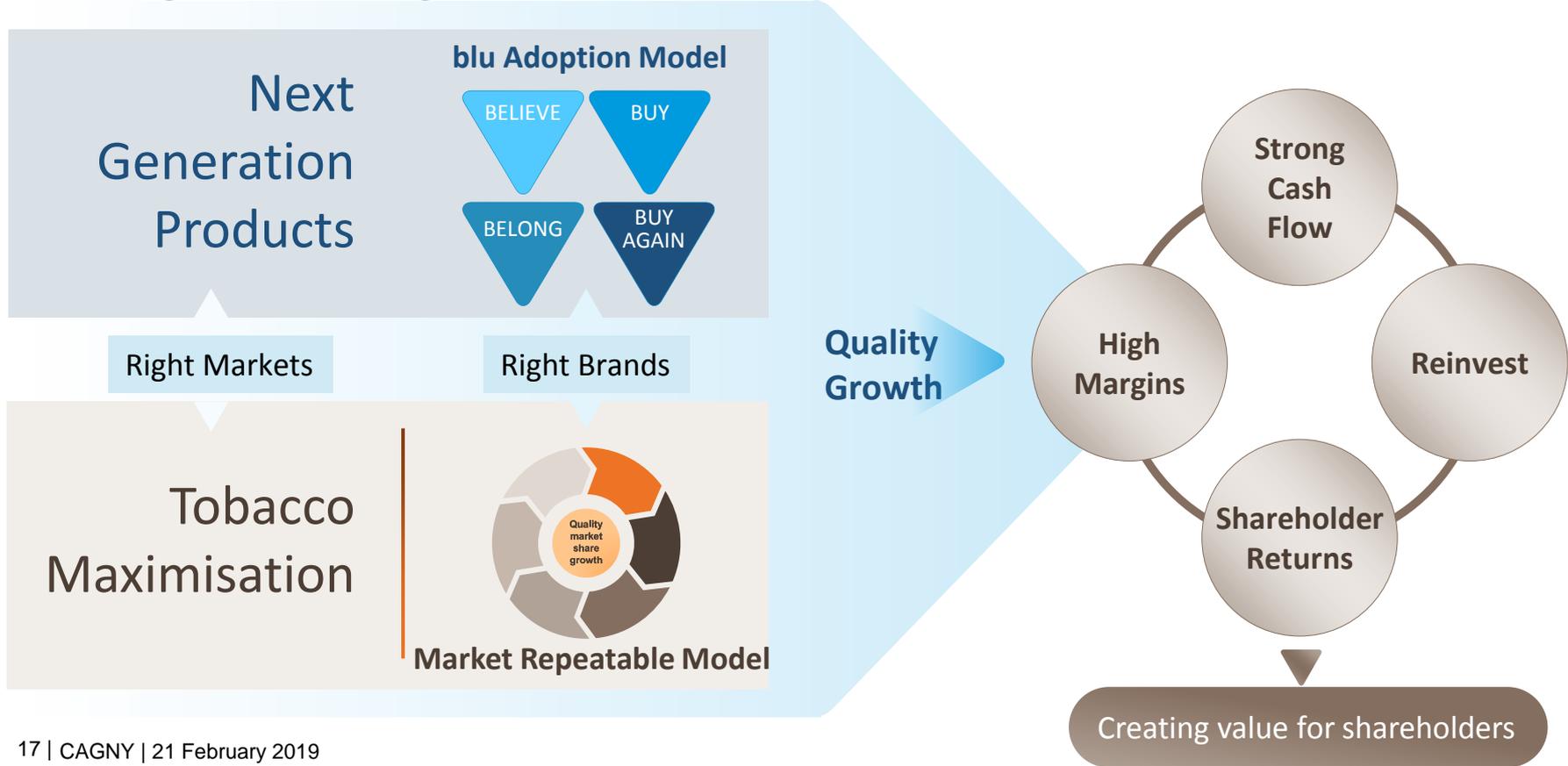


Imperial Brands: Strategy & Choices



Our Strategy

Creating Something Better for the World's Smokers



TobMax Strategic Focus: Informed Choices

Assets and capabilities aligned to growth opportunities



Focus on fewer brands



Invest in priority markets



Consistent market execution



Lean & agile organisation



- Clear investment choices for growth
- Prioritised strongest brands & invested in main demand shifts
- Focused on key tobacco profit pools where we can win
- MRM; our codified RTM model
- Lean operating model supports growth agenda

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
% of Profits	70%	20%	10%

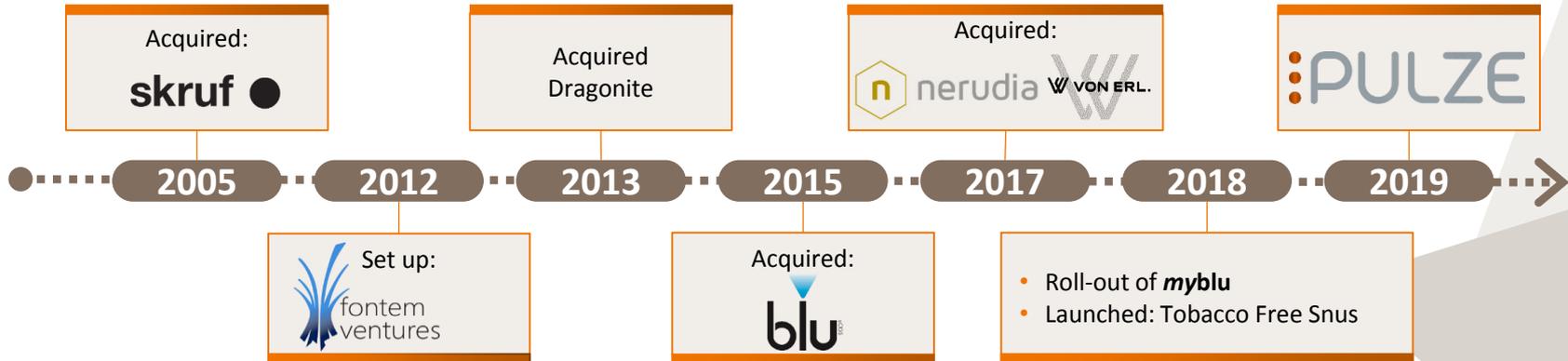
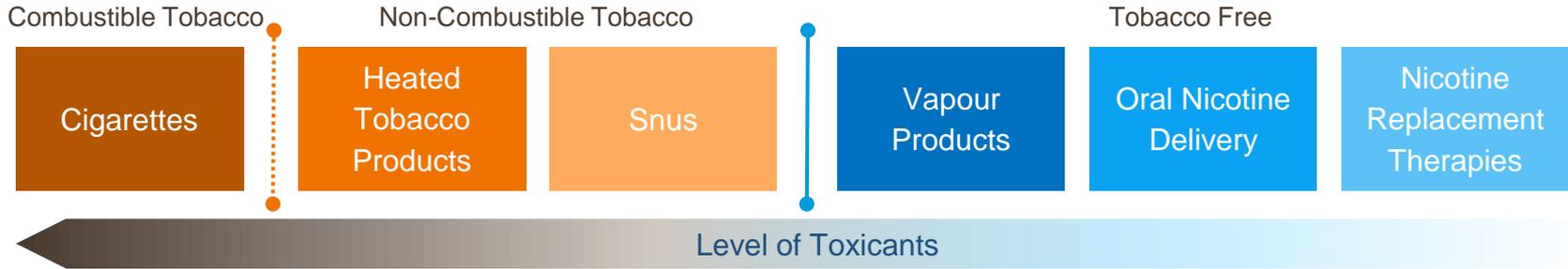
Consistent Market Execution

Codified go-to-market model



Focused Portfolio Across the Risk Continuum

Resources allocated behind product potential

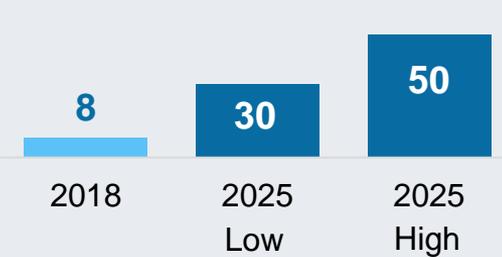


Vapour: Additive Growth Opportunity for Imperial

Growing category

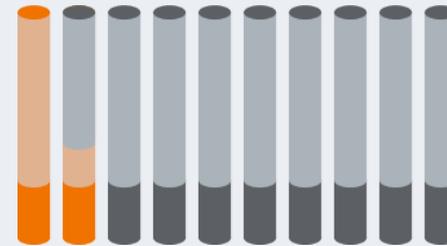


Global vaping market RSP (£bn)



Retail value of vaping market **growing between 300% and 500%**

Imperial 14% tobacco footprint share



with **limited impact** on our combustible revenue...

USA



36m smokers **10m vapers**

IMB tobacco share **9%**

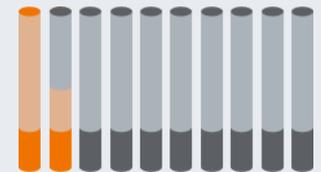


Europe



145m smokers **16m vapers**

IMB tobacco share **16%**



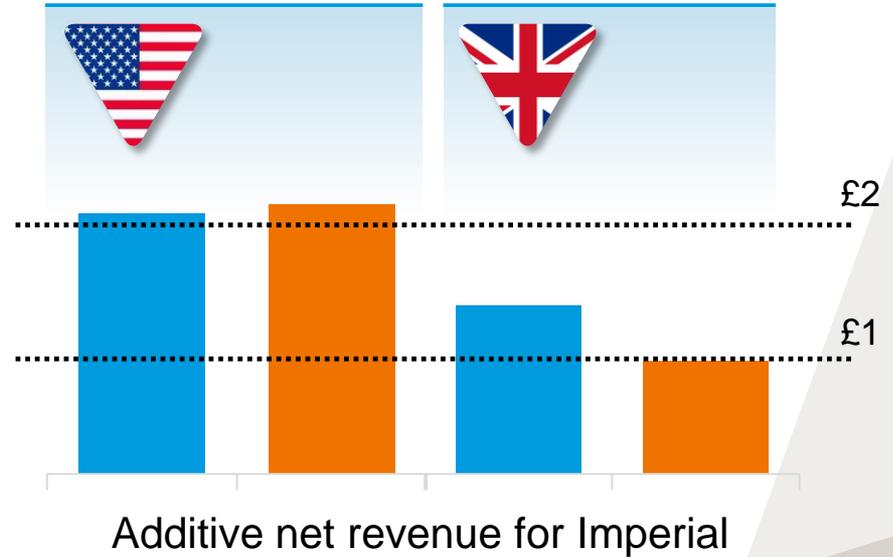
Positive Economics for Smokers and Imperial



Retail Selling Price



IMB Net Revenue



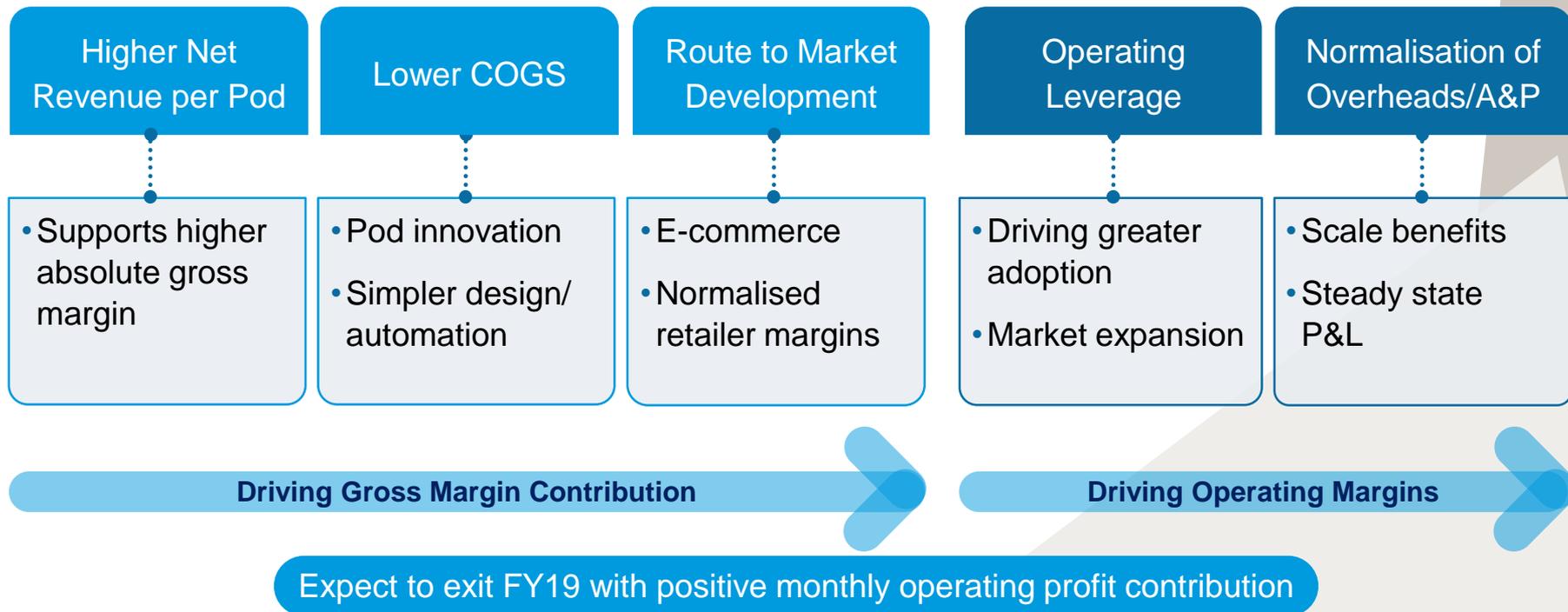
■ myblu pod ■ 20 cigarettes

Based on RSP per pod (1.5ml) versus pack of 20 FMC

Based on net revenue per pod (1.5ml) versus pack of 20 FMC

Driving Profitability in Vapour

Clear levers being addressed



Clear Proposition for Smokers & Shareholders

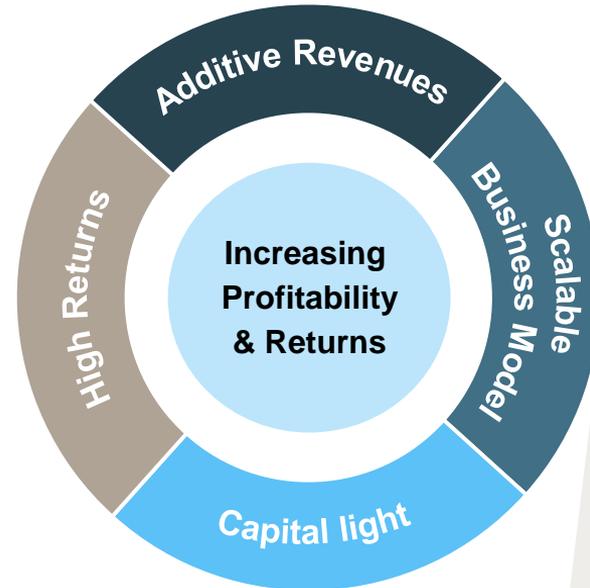
Unique set of assets & competencies to deliver growth



Delivering to Smokers



Delivering to Shareholders



Delivering Against Our Strategy



Delivering Against Our Strategy

Building growth momentum in FY18



Growth Brand share	Net Revenue	EPS	Cash conversion	Dividend
+70bps	+2%	+5%	97%	+10%



Tobacco Maximisation

Volumes outperforming market

+10 bps | share FY18

67% | Revenue % from Asset Brands

+50 bps | Priority mkt share since FY17 investment



Next Gen Products



Step-up in FY18

- ▼ FY18: £200m net revenue
- ▼ Additive revenue opportunity
- ▼ Innovative R&D pipeline
- ▼ Investment driving consumer offtake



Capital Discipline

£110m | cost savings in FY18

£0.8bn | further net debt reduction

15.5% | post-tax returns on US acquisition

Active capital management through divestments

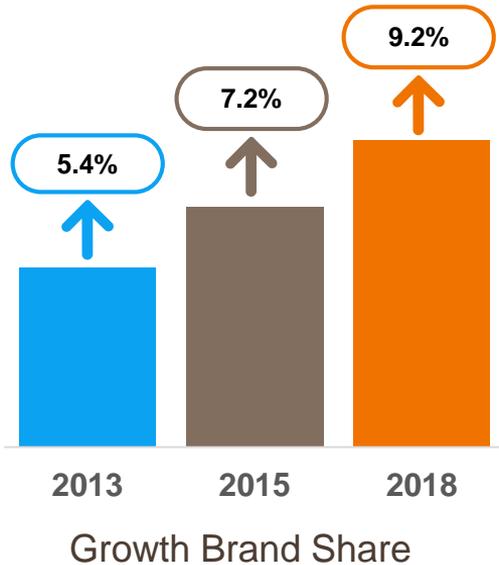


Tobacco Max: Growth Brand Focus

Investment delivering share gains



Driving sustained share gains in Growth Brands



Growing revenue from our strongest equities



- Driving quality revenue
- Share gains in priority markets
- Improved tobacco revenue delivery

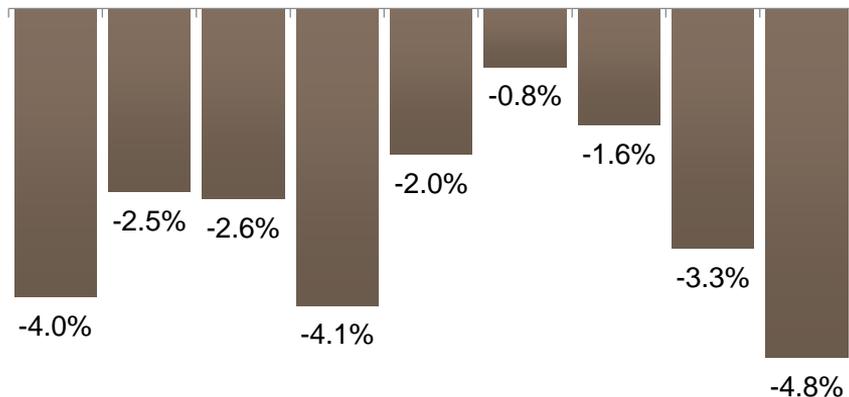


USA: Resilient Tobacco Market

Acquisition strengthened our market position



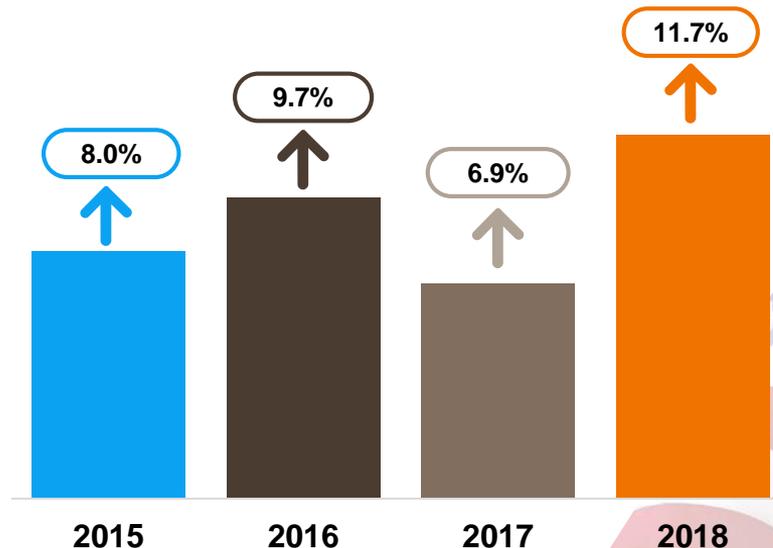
Industry volume



Volumes average c. 3% declines

FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18

Imperial price/mix



Medium term outlook: industry volume declines more than offset by price/mix



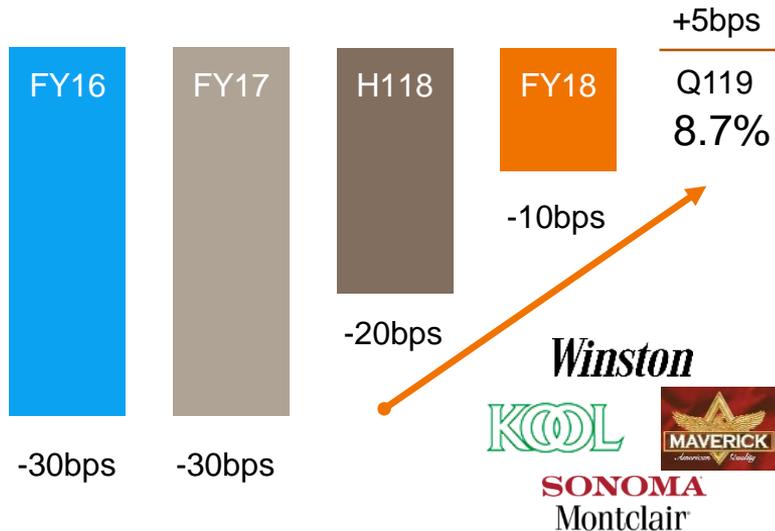
USA: Portfolio Strategy Driving Share Improvements

Investment in focus brands and segments

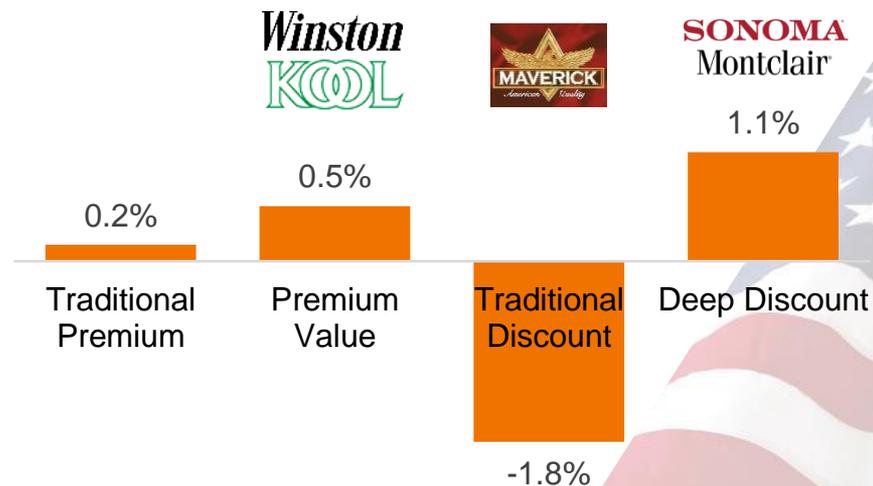


IMPERIAL
BRANDS

Market Share Progression



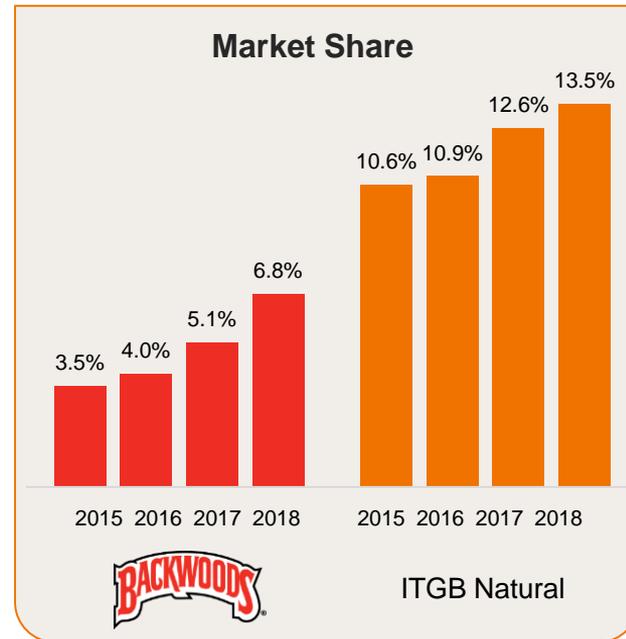
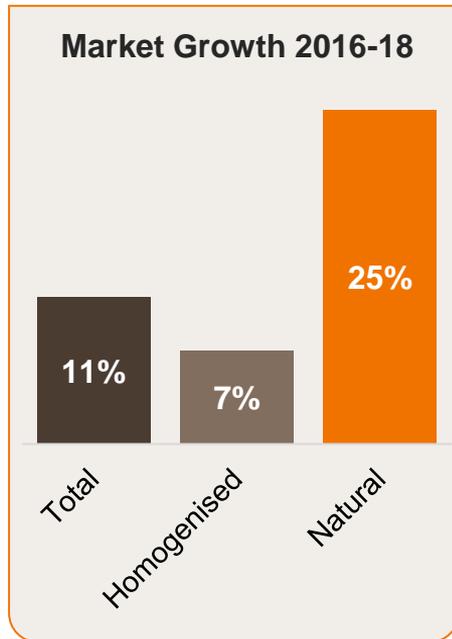
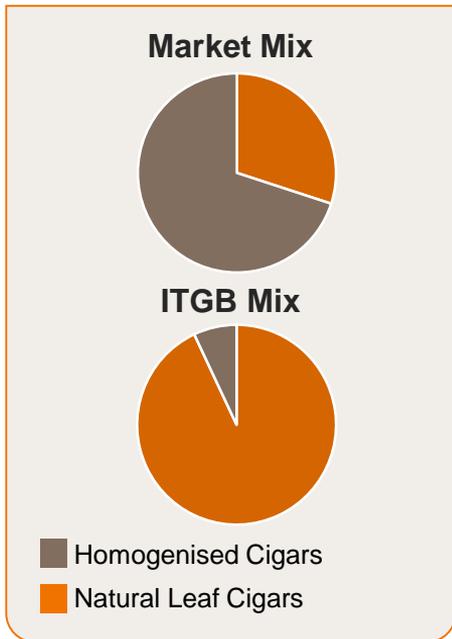
Cigarette Price Segment Development* 2018 v 2015





USA: Mass Market Cigars Success

Strong portfolio growing faster than market



Mass Market Cigar revenue +38% since 2016



Focus on Priority Markets

Increased investment strengthens share position



+90bps

Investment supporting share gains



Flat

Consistent financial delivery; managing share



-130bps*

Value share growth; excise & pricing affect volume



-80bps*

Focus on blonde share; trajectory improving



+100bps

Building market presence and share gains



-110bps

Strong share position balanced with returns focus



+310bps

Share gains in a difficult excise environment



+100bps

Simplified portfolio drives profitable share growth



+40bps

Strong share gains with West in value segment

Our blu Adoption Model

Omnichannel market execution



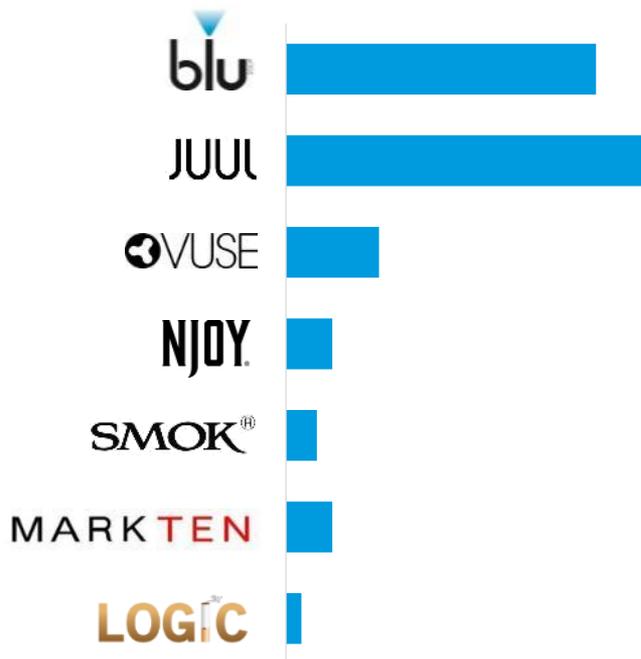


Strong Consumer Awareness for blu

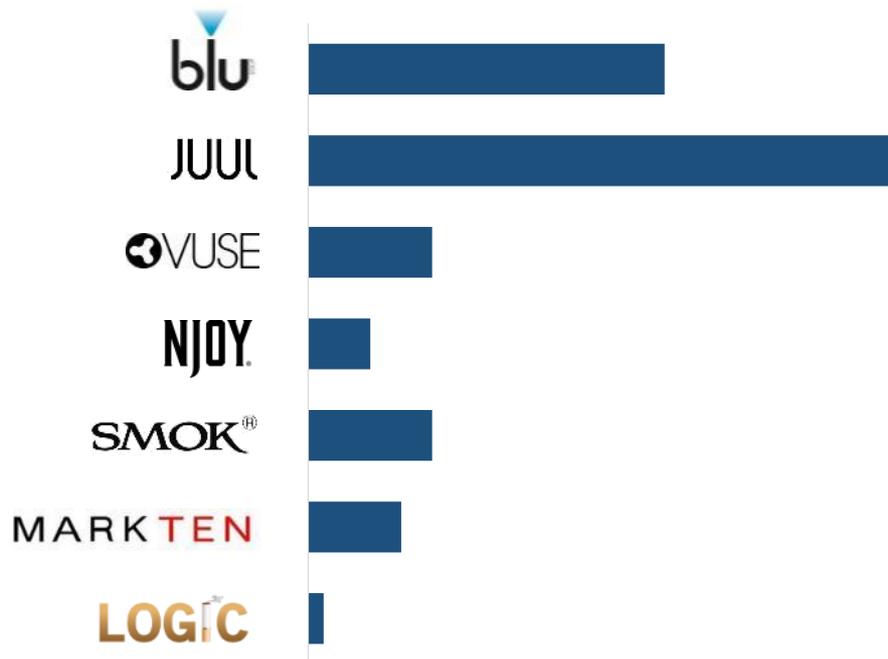
blu resonating strongly with smokers & vapers



Unaided awareness: Smokers



Unaided awareness: Vapers





The Pledge by blu

Inspiring adult smokers to make a change



Engaging
Adult Smokers
& Vapers

Results after
7 weeks...



Video Views
8,597,649



Conversation
+2,100%



Positive
Sentiment +54%



Imperial Brands: blu Pledge video

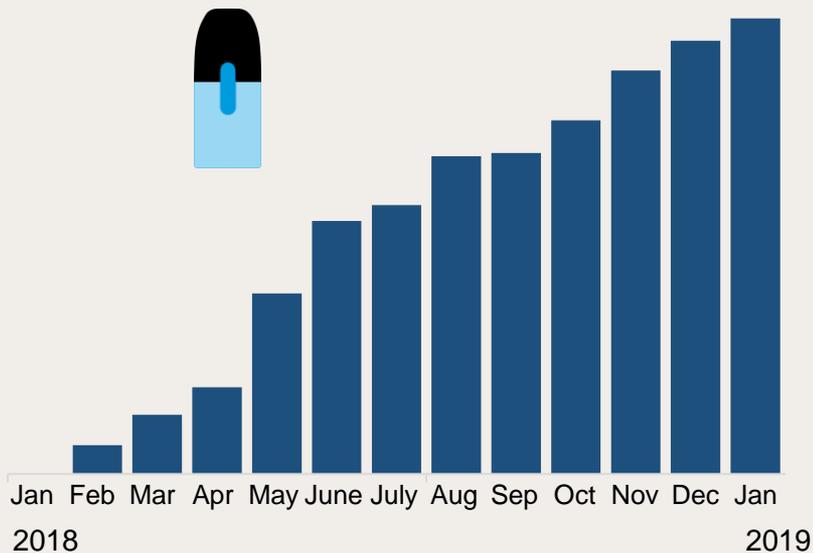


USA: *myblu* building presence in retail

Consumer off-take growing



Pods: Consumer off-take



- Retail presence building
- Growing consumer off-take
- Category has slowed in recent months
- Increasing blu adoption

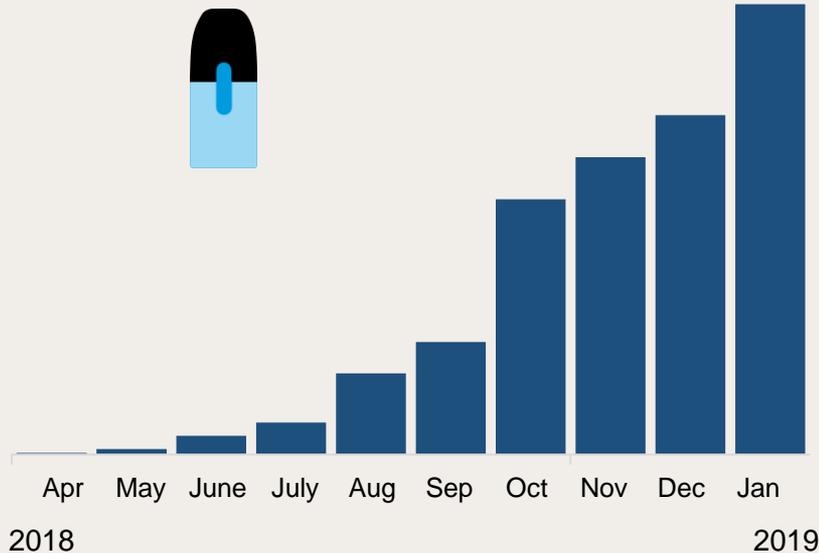


UK: *myblu* building presence in retail

Consumer offtake growing



Pods: Consumer offtake



- Creating the pod category in the UK
- Distribution building
- Leading unaided awareness
- Consumer off-take growing
- #2 market share



myblu building retail presence in priority markets

Leading retail share and driving category growth



Successful market roll-outs

Germany



- #1 in retail
- 3 months post national launch

Italy



- #1 in retail
- Category doubled

Japan



- #1 in retail
- Leading in distribution

Russia



- #2 in retail
- Following recent launch

France



- #1 in retail
- Leading device sales

Also launched in..

Spain



Austria



Canada



Clear Innovation Thinking

Driving portfolio evolution



Consumer focus



Flavour



Design



Satisfaction



Convenience

Other focus

Safety



Cost



IP



Dynamic Innovation Supports Smoker Conversion

Further rollouts in FY19



Vapour



Nicotine salts



Connectivity



3D Flavour



Next gen pod

Other
NGP



Tobacco Free
Snus



Heated Tobacco



Imperial Brands: Video on 3D Flavour and Connected Device

PULZE – Heated Tobacco Launch



- Better tobacco taste
- Consecutive smokes
- Easy to use & clean
- Options to personalise the experience
- Tested well with consumers

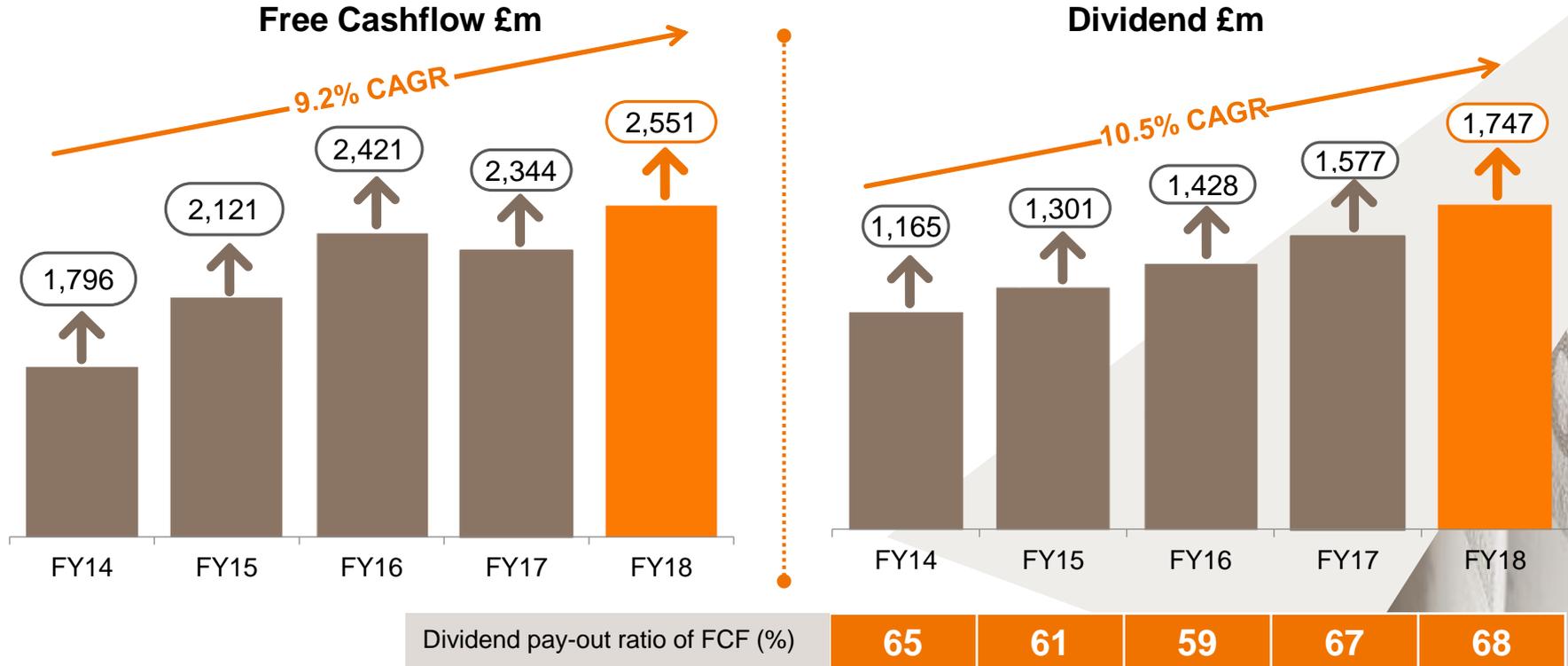


Imperial Brands: Video on Pulze



Strong Cash Delivery

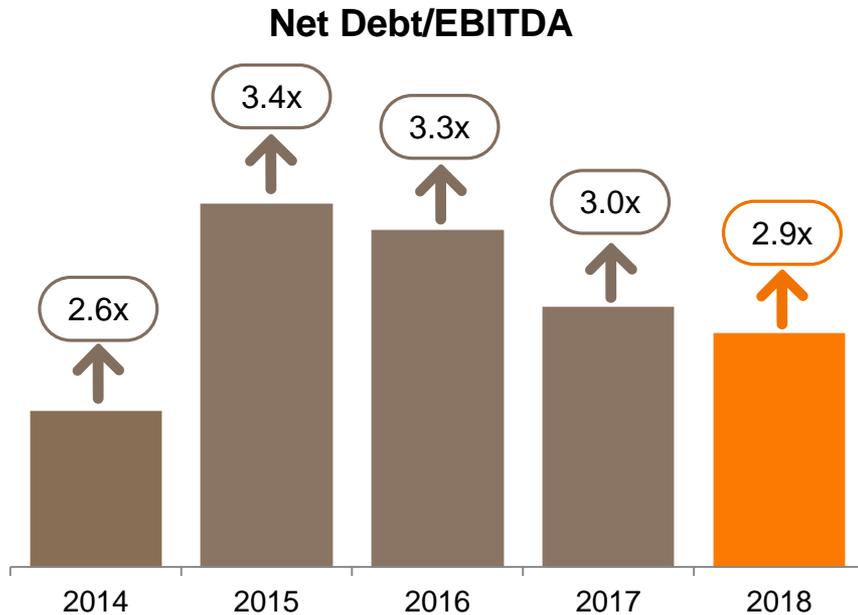
Debt repayment of c£0.8bn pa over 5 years





Strong Capital Discipline

Drives returns on assets and deleverage



Return on Invested Capital

- >14% post tax ROIC
- Growing despite M&A & investments
- Rigorous returns criteria for M&A
- Capital light NGP model
- Active management of capital

£4bn of debt repaid over 5 years



Strategic Focus: Right Markets, Brands & Products

More active capital allocation



Strategic Focus



- Fewer brands, SKUs
- Market prioritisation
- NGP growth opportunity
- Lean operating model/ footprint optimisation

Cost & Capital Discipline



- More active portfolio management
- Divestments and exits
- Proceeds of up to £2bn over next c. 12 months

Capital Priorities



- Ongoing debt reduction
- Investment in growth opportunities
- Shareholder returns

Our Investment Case



Sustainable Shareholder Returns

Guidance Corridor (cc): Net Revenue Growth 1-4% and EPS Growth 4-8%



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