

Our Transformation to Unlock Value

CAGNY

18 February 2021



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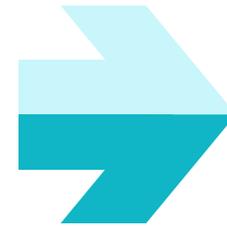
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Strategic review: a new approach



Defined by Imperial for Imperial

- Detailed review with broader leadership team
- Fact-based (market, consumer, competitor)
- Learning from the past
- Considered all options to create value
- Tailored to Imperial's strengths
- Identifying where we have competitive advantage



Clear areas of future focus
where **we have a
right to win**

We are Imperial Brands PLC



**A global
consumer
business**

120
markets

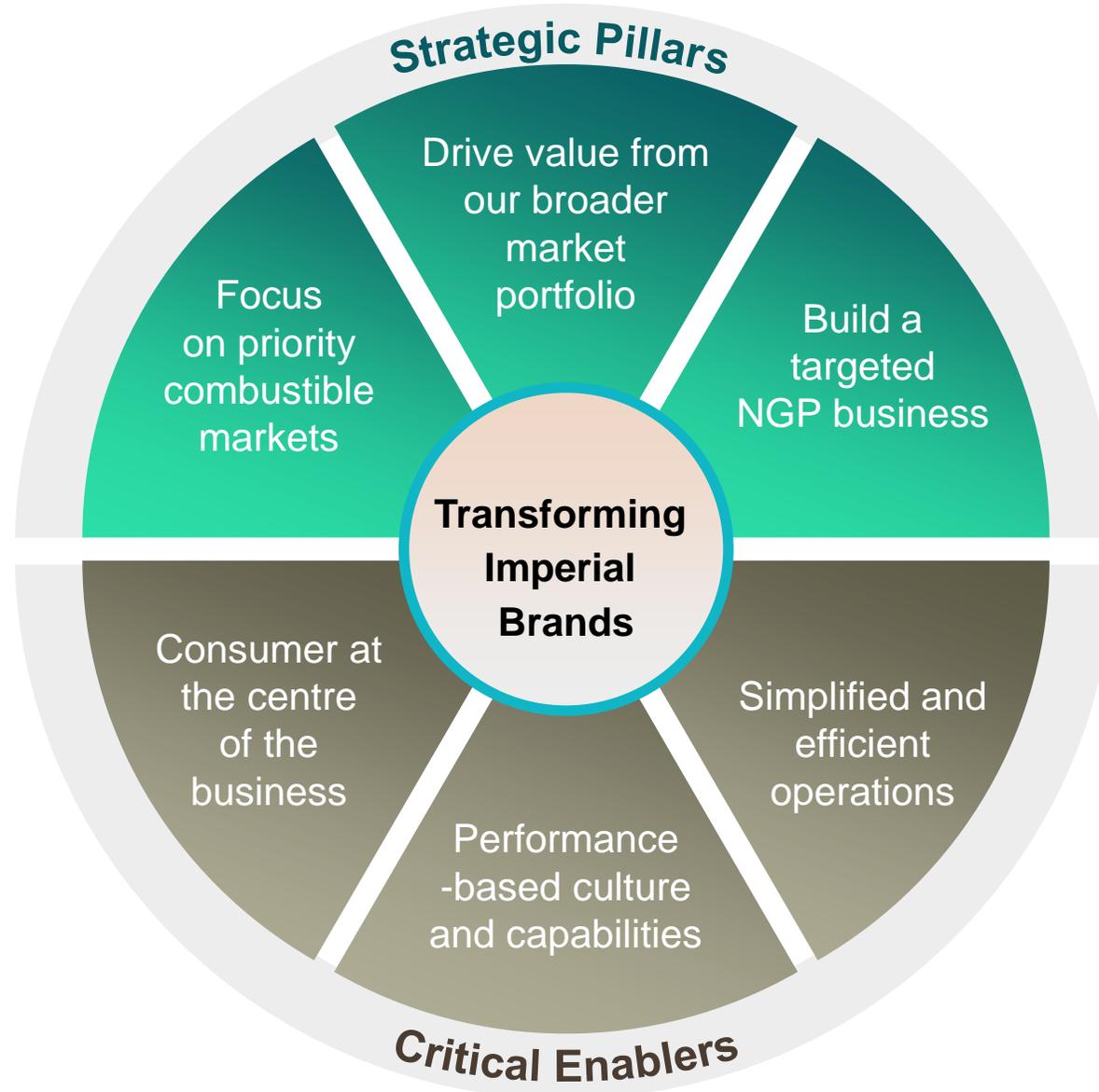
27,500
employees

Net revenue
£8bn

Adjusted
operating margin
44%



Our new strategy



Focus for Today's Session

- Strategy overview
- Combustibles review with a deep-dive on the US
- Our new approach to brand portfolio management
- Outline our new disciplined approach to NGP
- Financial framework and capital allocation

What our strategy will deliver



Stronger business in our five priority combustible markets

Clearly defined role for the broader market portfolio to optimise value creation

A targeted and more disciplined NGP business committed to harm reduction

New ways of working and culture that reinforce focus on consumer and delivery



Sustainable low-single digit revenue growth

Mid-single digit operating profit growth

Robust and reliable cash generation

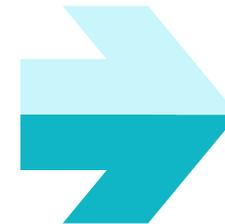
Strong and efficient balance sheet

Enhanced cash returns

Opportunity to differentiate our approach

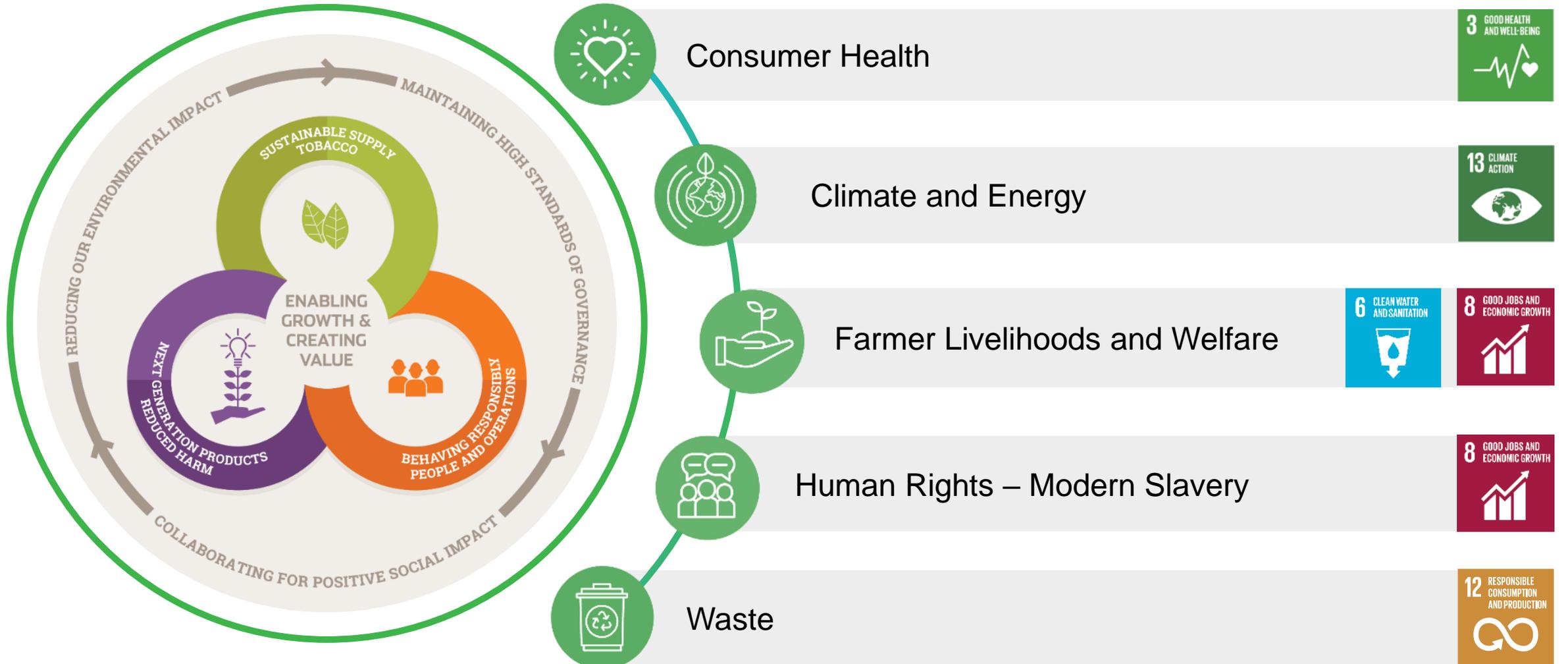


-  Focus on selected battlegrounds
-  More targeted with our investment
-  A strong retail partner
-  Relentlessly consumer focused
-  A differentiated fast follower
-  Faster, more agile decision-making



Execute with a clear
**challenger
mindset**

Clear sustainability agenda aligned with our strategy





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Combustibles

Driving Value from our
Core Business



Combustibles: value creation model remains strong with reliable profit growth and high cash returns



- Tobacco value creation model still robust
- Affordability is good supporting continued pricing power
- Strong brand loyalty
- Regulatory risks ongoing but are manageable
- Transition to NGP is happening but at a modest pace



Our new combustibles approach



Clarity on strategic choices

Increased focus on priority markets

Disciplined investment in key operational levers

Clear role for each individual market

Targeted investment in capabilities/resources

Improved Operational Excellence

Upgraded competitor and consumer insights

Consumer-centric and data-led investment in brands and innovation

More proactive and rigorous performance management

Simplified organisation supporting delivery

Increased focus on priority markets; driving value from broader market portfolio



Focus on Priority Combustible Markets



Manage Broader Market Portfolio to
Optimise Value Creation

Other
European
Markets

Africa

Rest of
World

Profit
contribution*

c. 72%

c. 15%

c. 8%

c. 5%

* % of FY20 Tobacco operating profit, excluding one-offs, after allocation of central costs

Source: Company Data

Priority markets: six operational levers to improve combustibles performance



Operational levers to improve combustible performance

FMC

- 1 Increase participation in sub-premium
- 2 Drive and rejuvenate local jewel brands
- 3 Optimise our approach to the value segment

FCT

- 4 Maximise the potential of FCT category

**All
Combustibles**

- 5 Drive performance in under-penetrated channels and regions
- 6 Maximise value creation through Key Accounts

We identified 25+ growth initiatives across 6 operational levers in our 5 priority markets

US deep dive: attractive market environment with strong Imperial positioning



Attractive market environment

- 2nd largest combustibles market
- High affordability, strong headroom for continued pricing growth
- Attractive market outlook – pricing continuing to offset volume decline
- Growing mass market cigars category

Strong brands

Share growth opportunity

Strong Imperial portfolio across all products and price tiers

FMC (c.80% OP)

MMC (c.20% OP)

Traditional Premium **SALEM**

Traditional Value **KOOL Winston**

Traditional Discount **USA GOLD MAVERICK**

Deep Discount **SONOMA Montclair**

BACKWOODS

SINCE 1912

Dutch Masters

#3 player in FMC
(9% share¹)

#2 player in MMC
(21% share²)
#1 player in Natural Leaf³

1. Volume share, 2020
 2. Cigar volume share includes cigarillos, excludes private label and hand-made cigars
 3. 45% volume share of mass market natural leaf category

US deep dive: growth strategy focused on key brands and route to market



Example Levers

- 1 Increase participation in sub-premium 
- 2 Drive and rejuvenate local jewel brands
- 3 Optimise our approach to the value segment
- 4 Maximise the potential of FCT category
- 5 Drive performance in under-penetrated channels & regions 
- 6 Maximise value creation through Key Accounts

Grow share in MMC with Backwoods

- Step up proven advertising approach
- Multiply trial opportunities (e.g., smaller pack sizes)
- Drive brand desirability (e.g., flavoured variations)
- Continue to invest in product leaf quality

Drive Salesforce Coverage and Effectiveness

- Expand salesforce from c.700 to c.900 reps to drive greater coverage (only 63% of outlets covered today)
- Increase visit frequency for top accounts
- Improve effectiveness through better tools and processes

US deep dive: Backwoods to expand availability by region and channel



Regional expansion



- ★ Existing strongholds
- ★ Proposed stronghold expansion

Planned Activation

Festivals, music, and comedy events

Booths at age-verified festivals and music events



Co-branded concerts

Brand influencers and product placement

Referenced by major music artists



Apparel featured by celebrities on Instagram

Alternative Distribution Network

Branded partnerships at nightlife venues and cultural institutions



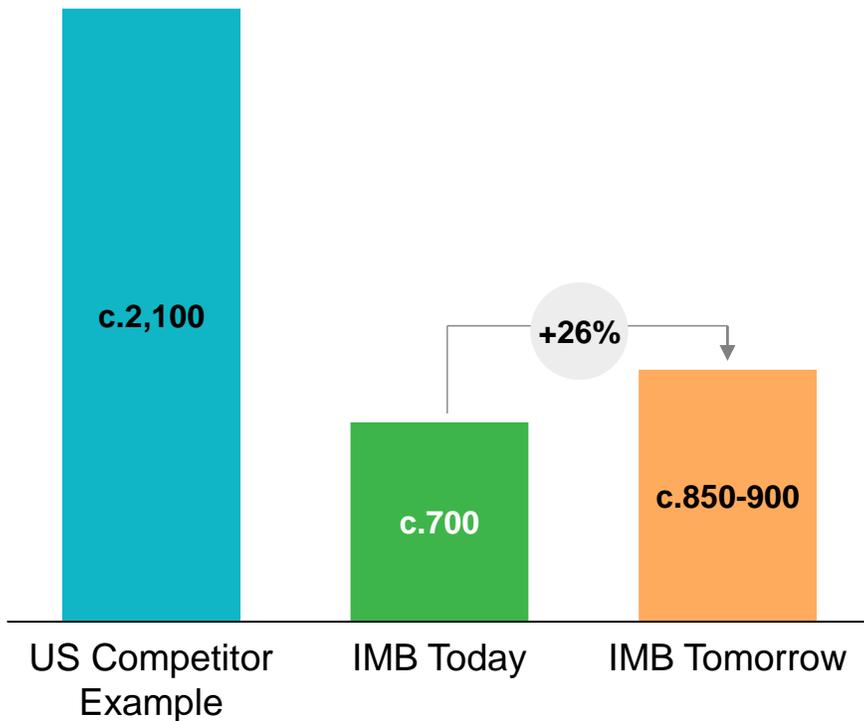
Brand ambassadors

US deep dive: driving salesforce coverage and effectiveness



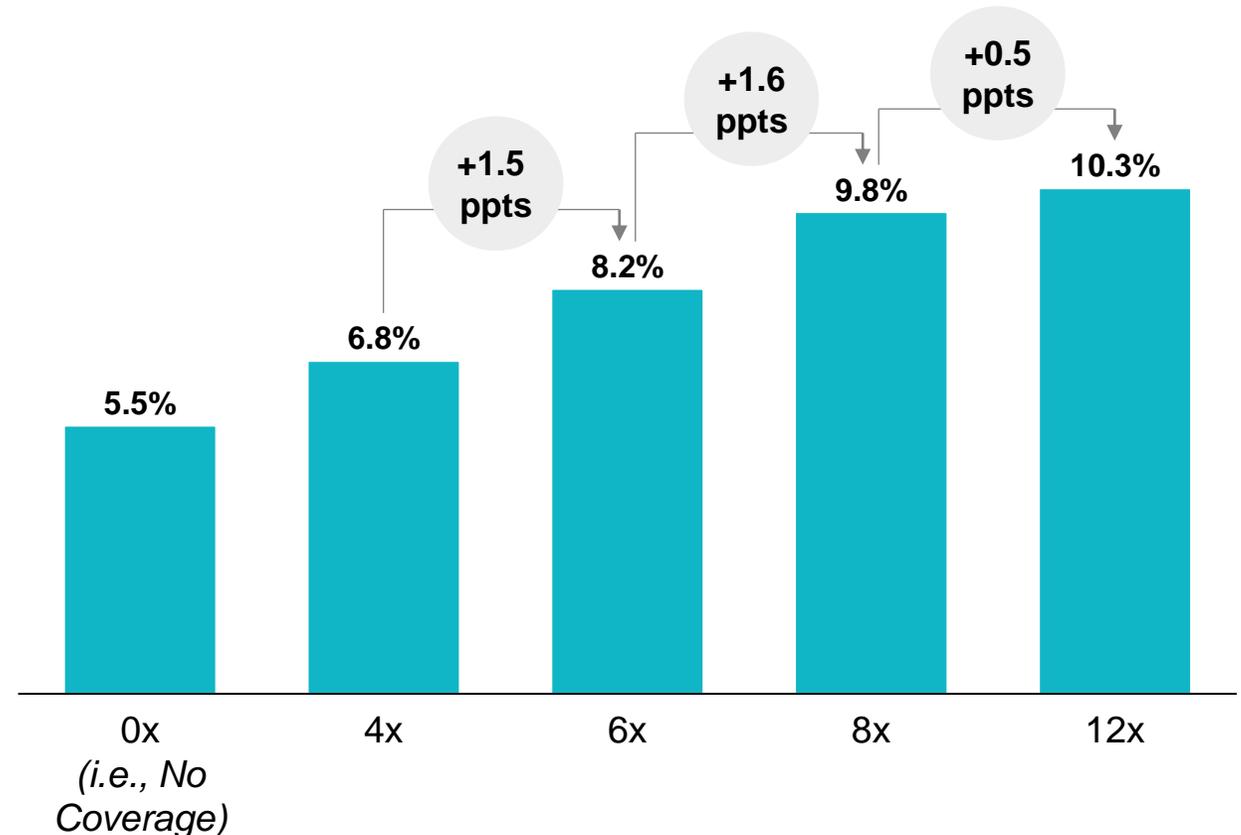
Current salesforce vs. competition

Size of Field Sales Force by Company (# reps)



Market share strongly correlated with no. of sales reps visits

IMB Market Share by Frequency of Salesforce Visits
(% FMC Share in Segment, visit frequency per annum)



Broader market portfolio: opportunities to deliver attractive returns



- Small compared to top five priority markets but with attractive margins
- Limited investment and resource requirements
- Benefit from leveraging scale in manufacturing and distribution
- Potential platforms for further growth (e.g., key markets in Africa)
- Attractive wider portfolio with opportunities to run more efficiently
- Selectively trim tail markets where economics less attractive



New approach to brand portfolio management



Previous strategy

- Acquisition-led diverse portfolio
- Steps to rationalise portfolio through brand migrations
- Management incentivised to grow international brands
- Replicate brand portfolio strategy of peers

Outcome

- Some migration success but...
- Often led to market share losses
- Consumer not at centre of decision
- Did not recognise heritage and high margins of local jewels

New approach

- Apply holistic brand portfolio approach
- Serve consumers with our full portfolio
- Better leverage our strong local jewel brands
- Brand portfolio decisions made at local level

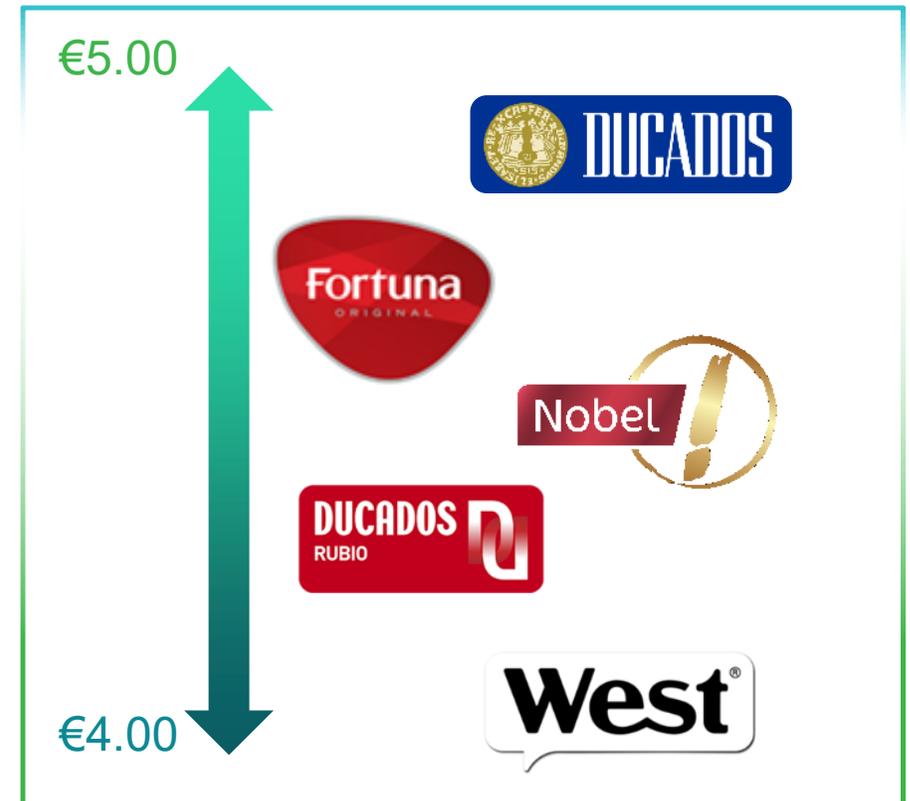
Spain: rejuvenate local jewel brands



Strategy Aligned to Imperial's Strengths

- Strong heritage of local jewel brands; with mid to premium positioning
- Reversed previous brand migrations e.g., Nobel, Ducados
- Investing to build brand equity and awareness
- Innovation through packaging and formats
- Supporting recent share gains; +10 bps

Market Price Ladder



Next Generation Products

Resetting Our Strategy
Through Focus &
Consumer Understanding



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NGP: a growth opportunity for Imperial Brands



Leveraging our Existing Assets and Capabilities

- Growing segment within nicotine consumption
- Meeting consumer need for potentially less harmful products
- No NGP product fully meets needs of adult smokers today
- Opportunity to leverage:
 - our deep understanding of smoker needs
 - NGP assets (e.g., brands, R&D, IP)
 - existing route to market
 - regulatory capabilities
- Supports our ESG agenda



 PULZE



Our new NGP approach



	Historical approach	New strategy
Vapour	NGP focus almost entirely on vapour	Turnaround our US vapour business Core European market focus Exit least attractive markets
Heated tobacco	Japan market trial only	European market focus through two targeted pilots Scaled on successful consumer validation
Modern oral nicotine	Nordics with Germany, Austria, Switzerland trials	Nordics and selective Germany, Austria and Switzerland markets
Capabilities	Product development focus	Full consumer proposition: brand, communications, features, route to market

Realistic ambition with a challenger mindset



A Focused and Differentiated Approach

Focused category market combinations

- Significantly increase focus on heated tobacco in Europe
- Vapour investment focused on US
- Oral nicotine to remain focused on existing markets only

Disciplined and more effective investment

- Modest investment levels and measured expansion pace
- Pilot-based approach
- Ability to act rapidly/ scale-up fast

A differentiated fast follower

- Invest in markets where an initial consumer demand is evident
- Highly targeted and differentiated approach
- Providing greater choice in specific consumer segments

Right ways of working

- Refine ways of working and partnership approach to leverage internal and external capabilities
- Accelerate development and deployment

Summary: clear plan to enhance our NGP delivery



Revised category prioritisation

- Significantly increasing our focus on heated tobacco
- More concentrated market approach to vapour and oral nicotine

Limited category market combinations

- Selective choice of NGP offering per market based on local consumer and market needs

More consumer and data-led

- Grounded in consumer insights with clear consumer segments targeted rather than one-size fits all approach

More disciplined investment and expansion

- Stage-gated approach to investment and expansion pace based on testing to reduce overall risk profile



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Financial Framework

Strengthening the balance
sheet and delivering
enhanced returns



Delivering a stronger financial outlook



Phase 1 - Strengthening FY21 to FY22

- Increased investment in operational growth drivers
- New ways of working deliver efficiencies
- Implement operational excellence improvements

Phase 2 – Improving Returns FY23 to FY25

- Investment and operational improvements enhance financial delivery
- Refine investment to consolidate delivery
- Leveraging efficiency benefits

Strategic Focus

Net revenue

Gradually improving trajectory with 5-year CAGR of 1-2%

Adjusted operating profit

- FY21 – In-line with guidance
- FY22 – Flat on FY21 – with no margin reset

- Delivering improving profit growth
- 3-year CAGR of mid-single digits

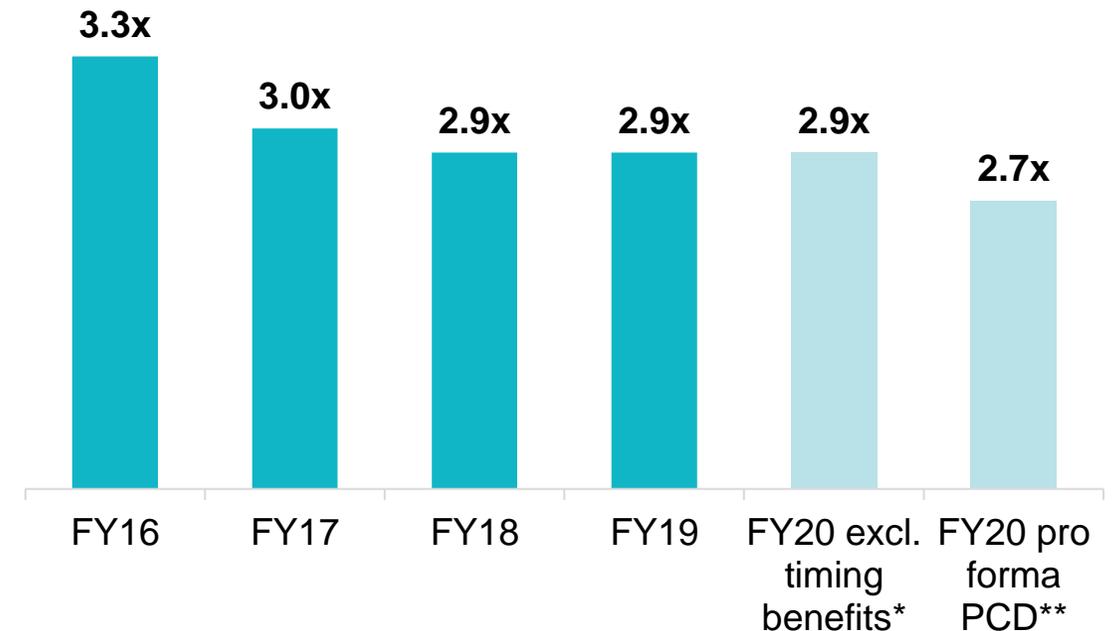
Deleverage priority to strengthen investment grade credit rating



Debt repayment to strengthen balance sheet

- Strong cash generation and high margins
- However, limited deleverage in recent years
- Currently lowest credit rating of tobacco peers
- Important to maintain investment grade rating
- Lower end of leverage target 2-2.5x will increase headroom within financial credit metrics
- Support a strong and efficient balance sheet to fund shareholder returns

Historical net debt/EBITDA progress



Target leverage: Lower end of 2-2.5 times

*FY20 reported net debt/EBITDA 2.7x; excl. working capital temporary timing benefit it is 2.9x

**Pro forma reduces year end net debt by €1.1bn for post balance sheet sale of PCD

Clear capital allocation framework: priorities



Strong cash generation

Investing in the strategy

- Targeted investment in operational levers
- New ways of working to deliver efficiencies

Strong and efficient balance sheet

- Committed to investment grade credit rating
- Priority to reduce debt to lower end of 2.0-2.5x

Progressive dividend policy

- Growth reflecting underlying performance
- Consistent, reliable cash returns

Surplus capital returns

- Considered once target leverage achieved
- Via share buyback or special dividend

Imperial Brands: an attractive investment case



Clear strategy to rebuild credibility and create value

Revitalised tobacco business will be key driver of value creation

A disciplined NGP business committed to harm reduction and providing options for growth

Self-help initiatives deliver operational improvement and strengthen performance

Strong sustainable cash flow generated from a high-quality portfolio

Progressive dividend supplemented by capital returns over time