



**IMPERIAL
BRANDS**

Our Transformation to Unlock Value

Capital Markets Event
27 January 2021



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Driving change to strengthen performance



Introduction from Chair



- Decisive Board action to strengthen leadership capabilities and performance
- Three Non-Executive hires with deep experience:
 - Pierre-Jean Sivignon – Finance; retail/technology
 - Bob Kunze-Concewitz – CEO; consumer goods
 - Alan Johnson – Finance; consumer goods/retail
- Undertaken a comprehensive strategic review
- Established building blocks for transforming Imperial
- Clear plan for delivering stronger, more consistent results

Transforming our Business



14:00

Summary: Strategy Review & Priority Areas

Stefan Bomhard – Chief Executive

Combustibles: Driving Value from our Core Business

Stefan Bomhard; Joerg Biebernick (Europe); Dominic Brisby (AAAA)

14:55

10-minute break

NGP: Resetting our Strategy

Murray McGowan – Group Strategy & Transformation Director

Ways of Working and Culture

Alison Clarke – Chief People & Culture Officer

Financial Framework

Oliver Tant – Chief Financial Officer

Summary

Stefan Bomhard – Chief Executive

16:00

Q&As

Strengthened management team



Stefan Bomhard
Chief Executive Officer



Oliver Tant
Chief Financial Officer



Dominic Brisby
Division Director, Americas,
Africa, Asia & Australasia



Joerg Biebernick
Division Director, Europe



Murray McGowan
Group Strategy &
Transformation Director



Alison Clarke
Chief People & Culture Officer



Javier Huerta
Group Manufacturing & Supply
Chain Director



TBC
Chief Consumer Officer

We are Imperial Brands PLC



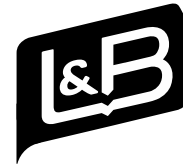
A global
consumer
business

120
markets

27,500
employees

Net revenue
£8bn

Adjusted
operating margin
44%



Transforming Imperial Brands: a clear and compelling strategy to strengthen performance



Greater focus on priority tobacco markets with clear operational improvement drivers

More disciplined execution in NGP; category strategy tailored to key markets

Consumer-centric and data-led approach strengthens our confidence in delivery

Changing our ways of working and our culture to embrace our challenger position

Underpinned by a capital allocation framework to create long-term sustainable value

Strategic review: strategy defined by Imperial for Imperial



Rigorous Approach

- Fresh perspectives and expertise
- Fact-based (market, consumer, competitor)

Guiding Principles

- Developed with broader leadership team
- Leveraging our strongholds
- Learning from what went wrong in the past
- Considering all options to create value



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

Strategic review: solid foundations for the future



Solid share positions in Europe and US; leadership in several African markets

Encouraging brand performances despite limited investment; strong local jewels

Solid customer partnerships as #2 or #3 in market

Competitive manufacturing and supply chain operations

Promising heated tobacco proposition with Pulze

blu vapour brand strength in US and Europe

Talented workforce willing to embrace change

High margins and strong operating cash flow

Strategic review: areas for improvement



Tobacco Delivery

- Share performance has been poor
- Insufficient focus on markets that drive greatest value
- Distracted by smaller markets

NGP Underperformance

- Scaling of vapour too rapid and too broad
- Lack of consumer validation
- Investment decisions lacked robust data
- Insufficient focus on heated tobacco

Performance Management

- Limited rigour in performance management
- Lack of agility and responsiveness
- Data and consumer insight not fully leveraged

Capabilities and Culture

- Not sufficiently focused on consumer needs
- Limited central marketing capabilities
- Inconsistent approach to market data and insight
- Siloed thinking, fragmented organisation

Five-year plan overview: compelling plan centred around three strategic pillars



Focus on Priority Combustible Markets

- Target increased investment in our most appealing profit pools
- Focus on defined key operational levers to unlock value

Drive Value From Our Broader Market Portfolio

- Efficiently manage broader market portfolio
- Create global processes and drive best practice sharing
- Prepare future growth engines
- Selectively rationalise portfolio

Build A Targeted NGP Business

- Focus on heated tobacco in Europe as primary growth engine
- Turnaround vapour business with focus on the US
- Oral nicotine focus on existing markets

Five-year plan overview: new ways of working to enable plan delivery



Consumer at the Centre of our Business

- Strengthen critical capabilities: marketing, innovation, digital and consumer insight
- Leverage relevant brand portfolio to address key consumer needs

Performance-based Culture and Capabilities







- Embed fact-based and collaborative ways of working
- Build a challenger mindset throughout organisation
- Invest in talent and embrace diversity and inclusivity

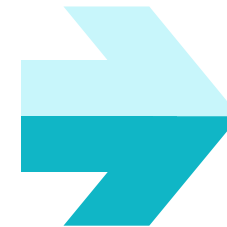
Simplified and Efficient Operations

- Simplify the organisation through global processes underpinned by technology
- Create and embed clear performance management framework that will drive agility and accountability in decision making

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**

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

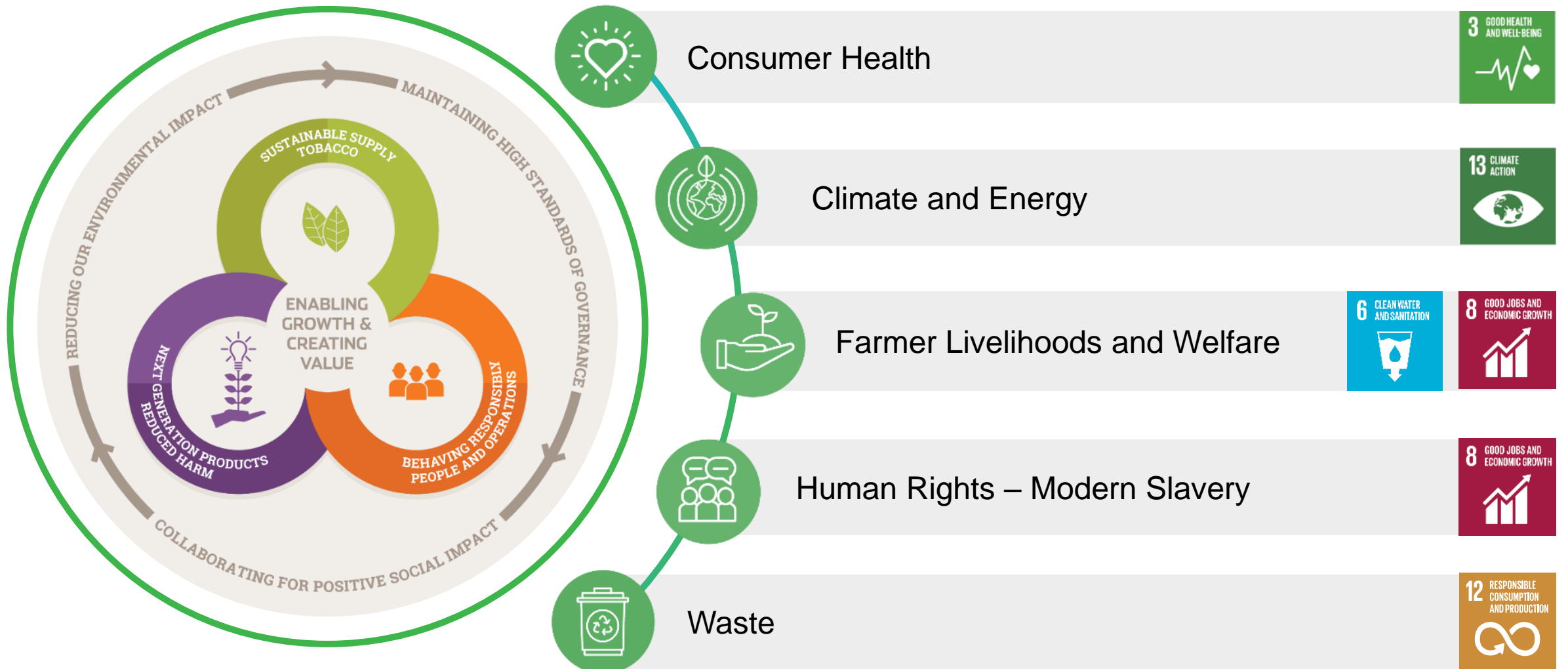
Mid-single digit operating profit growth

Robust and reliable cash generation

Strong and efficient balance sheet

Enhanced cash returns

Clear sustainability agenda aligned with our strategy



ESG Focus for FY21



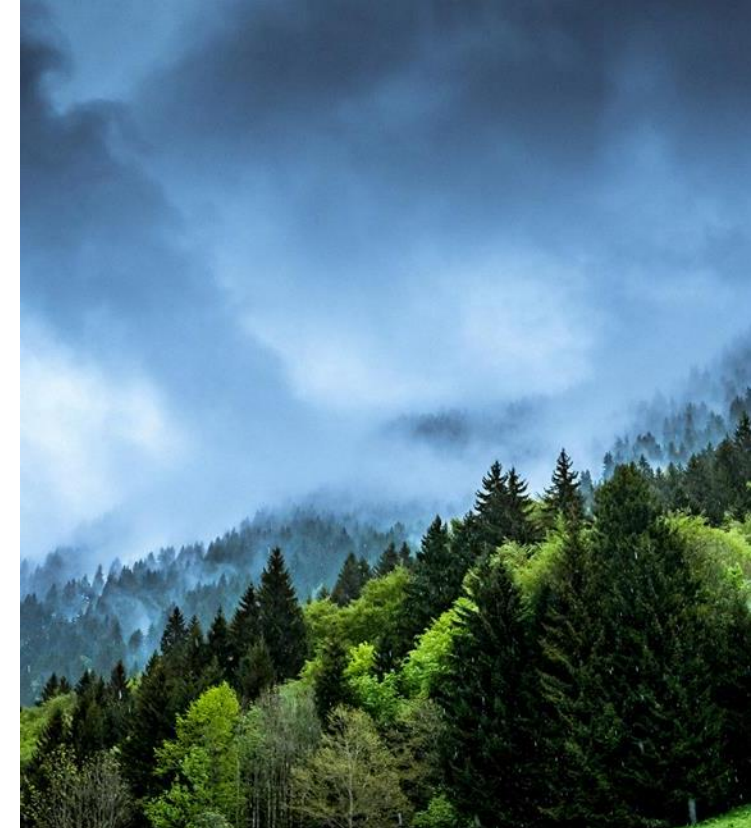
- 1 Greater transparency on performance measurement
- 2 Additional KPIs for priority ESG issues
- 3 Consumer Health KPIs in FY22 following business reset
- 4 Diversity and Inclusion underpins new culture
- 5 ESG webinars: climate and energy later this year



Climate and Energy



- 1 Long-term Science Based Targets
- 2 Implementing TFCO recommendations
- 3 CDP A rating retained for focus on climate change
- 4 CDP A- rating for water security
- 5 New KPI: renewable as % of total direct energy use





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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



Combustibles remain attractive going forward



2020-25 Combustibles Outlook
for Key Geographies*

	Volume Outlook*	Pricing Outlook*	Value Outlook*
USA	↓ - 3-4%	↑ + 4-5%	↑ + 0-1%
Europe ¹	↓ - 2-3%	↑ + 3-4%	↑ + 0-1%
Australia	↓ - 4-5%	→ 0%	↓ - 4-5%
Africa ²	↑ + 1-2%	↑ + 1-2%	↑ + 2-3%

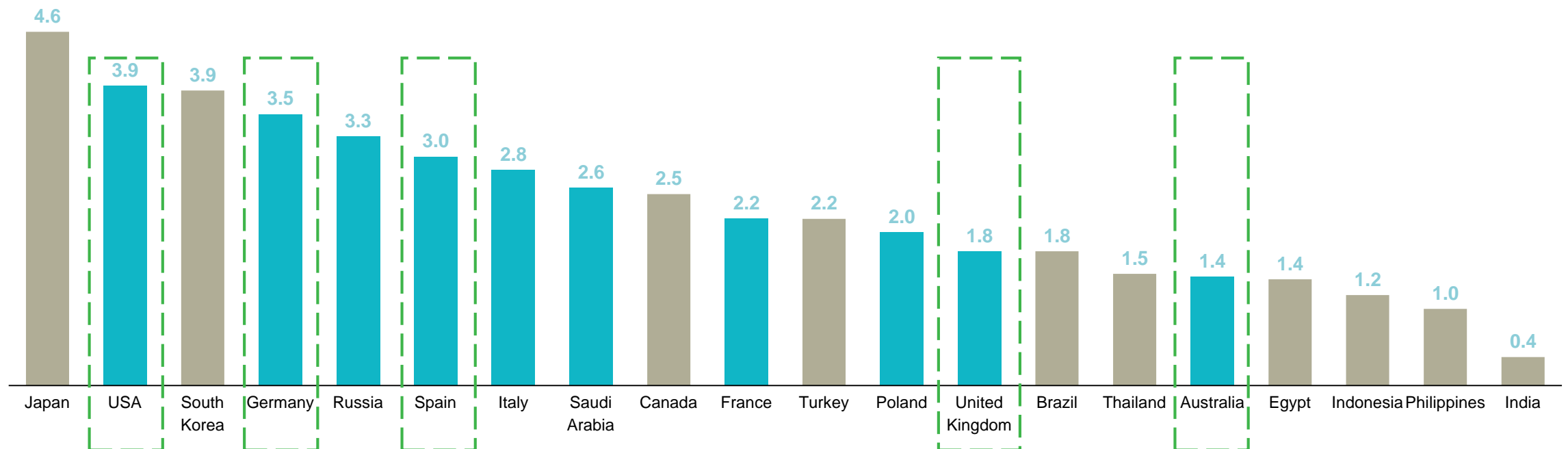
* 2020-25 Forecasted CAGR for FMC, FCT and Cigars
 1. Top 10 Imperial European markets – excluding Russia
 2. Top 5 Imperial African markets

High combustible affordability across Imperial markets supports continued pricing



Affordability for 20 largest countries¹
 (# Packs earned per hour of work at average salary)

■ Imperial significant presence (>5% volume share - 2019)
 □ Imperial top 5 markets



1. Top 20 countries in terms of Cigarettes Retail Sales Value in 2019 – excluding China
 Affordability = est. hourly wage / price per 20 sticks – based on 2019 data
 Source: Euromonitor, Imperial Internal Estimate

But disappointing historic performance: marginal revenue and profit growth



Historically achieved marginal revenue and profit growth in combustibles...

...whilst losing share to competitors

...and with limited investment in our key markets and brands

...driven by a lack of active performance management and a focus on short-term profit delivery

Market share losses across nearly all larger markets



IMB's FMC Market Share Change, Top 5 Markets, FY17-20

Share Change (%pts)



+ 0.1%pts



- 2.3%pts



- 1.0%pts



- 1.3%pts



- 0.9%pts

Source: Imperial Internal Estimate
Volume market share

Multiple reasons for historic share losses: examples



- Under-investment has limited top 3 brand building (JPS, West, Gauloises)
- Limited penetration in growing channels and regions
- Excessive pricing ahead of competition



- Limited brand investment across the portfolio
- Prioritised profit growth over share performance
- Slow response to consumer trends (e.g., crushball, downtrading)



- Neglect of local jewel brands
- Unsuccessful brand migration into global brands
- Ongoing decline of the dark tobacco segment



- Too much focus on profit optimisation with JPS
- Stepping out of price war in the value segment
- Slow response to consumer trends (e.g., crushball, FCT)

Detailed review informed our new strategy



Reviewed **all** markets with a deep-dive on our largest markets



Looked at evolution and performance of **all major brands** and **price tiers**



Analysed **different channels and regions** within markets



Assessed **consumer trends** and our **competitive position** within markets



Engaged with **local market teams** to set up ambition at country level



Summary: combustibles approach and ambition



Our new 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

New approach to brand portfolio management



Move away from investment focus on international brands **towards a more holistic brand portfolio approach...**

... with a reinforced focus on serving consumers with our full portfolio – a **mixture of global and local brands...**

... better **leveraging our strong and margin attractive local jewel brands**

Brand portfolio decisions at local level will be **based on** globally identified and managed **consumer need-states**

... **with the most appropriate brands aligned to them – international or local**

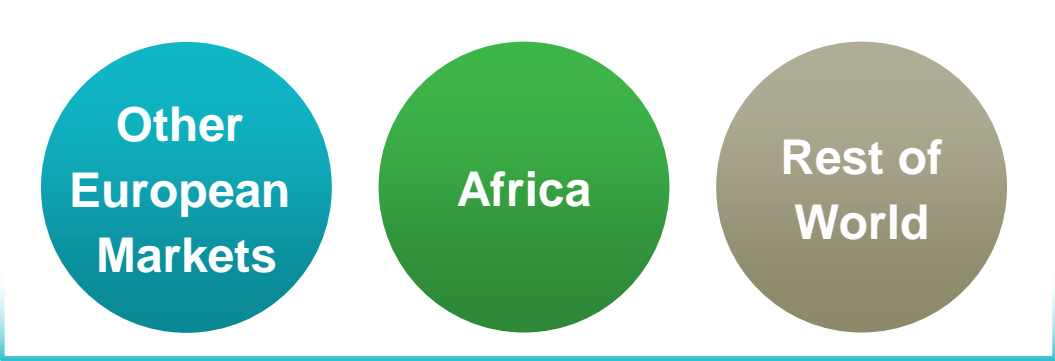


Summary: increase focus on priority markets; driving value from others



Focus on Priority Combustible Markets

Manage Broader Market Portfolio to Optimise Value Creation



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

Five priority markets account for 72% of operating profit



	% of Combustible OP	FY20 Market Size ¹	Market Value Outlook ²	Imperial Share ³	Gross Margin/'000 SE <i>(Relative to Imperial Average)</i>
USA	c.49%	£26.1bn	↑ + 0-1%	c.9%	High
Germany		£4.7bn	↑ + 1-2%	c.22%	High
UK	c.23%	£1.9bn	↓ - 2-3%	c.41%	High
Spain		£1.2bn	↑ + 0-1%	c.29%	Average
Australia		£0.8bn	↓ - 4-5%	c.28%	High

1.FMC, FCT and cigars manufacturer sales value
 2.Manufacturer sales value 2020-25 forecasted CAGR
 3.FMC volume share
 Source: Imperial Internal Estimate

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

5 Drive performance in under-penetrated channels and regions

All
Combustibles

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



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



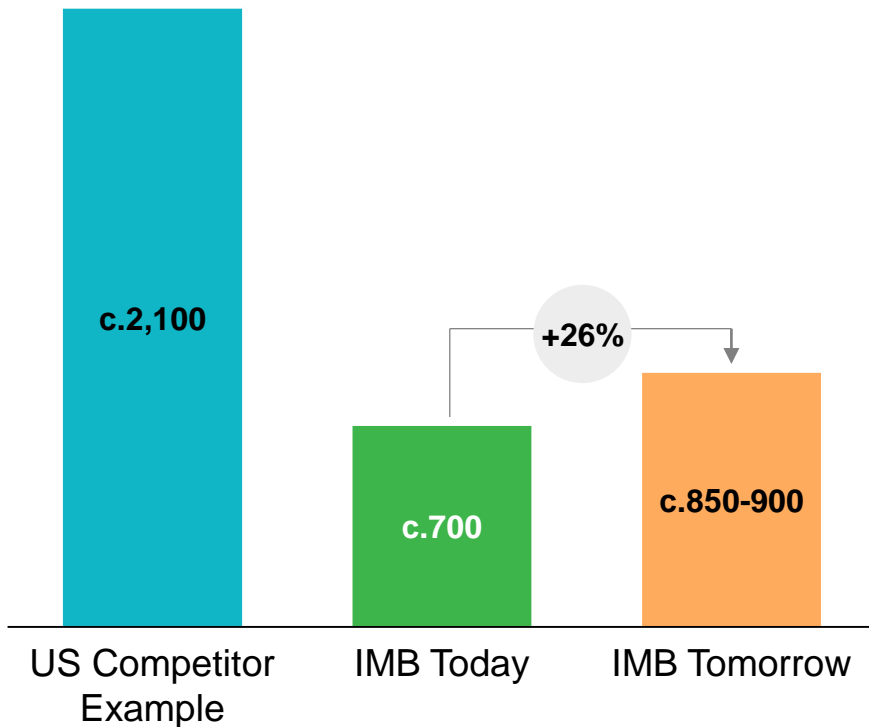
Brand ambassadors

US deep dive: driving salesforce coverage and effectiveness



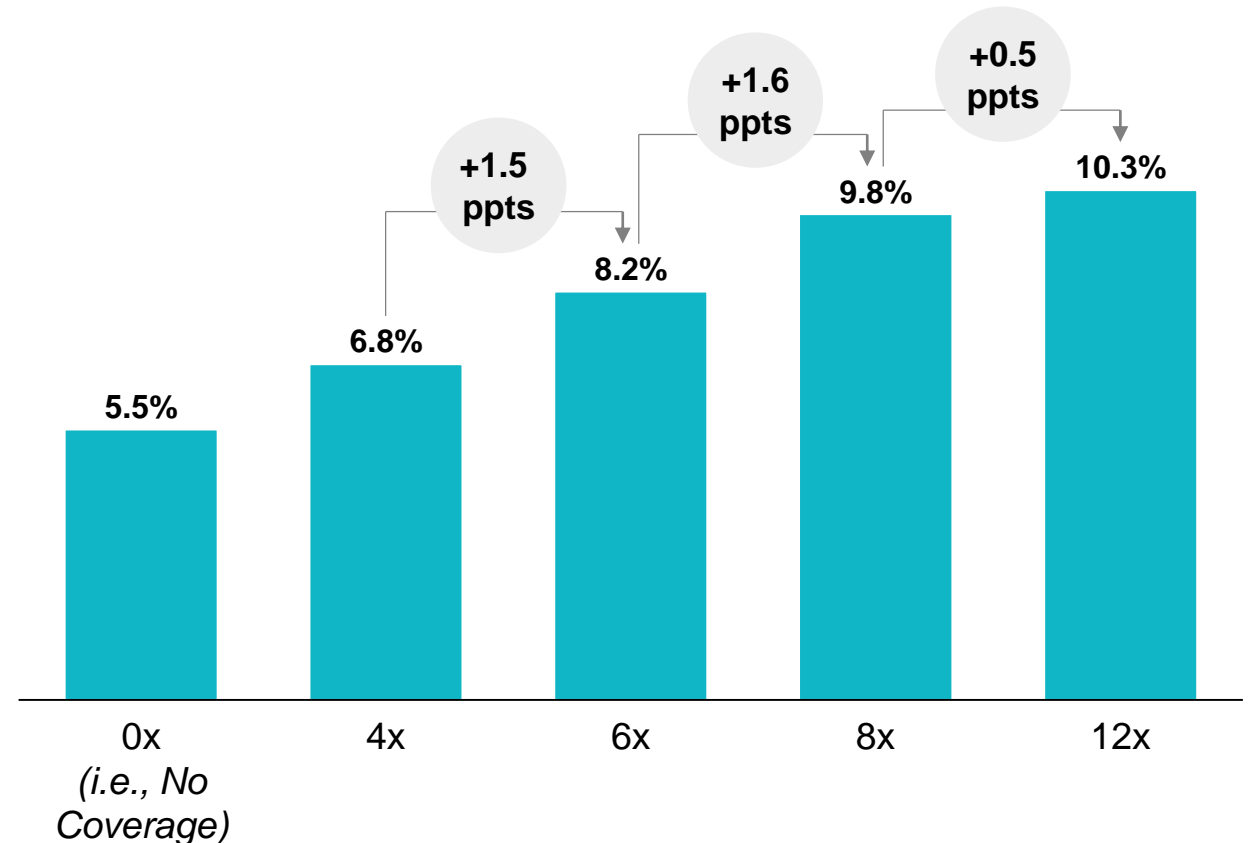
Current salesforce vs. competition

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)



Australia deep dive: growth initiatives to somewhat reduce structural market decline



Example Levers

#2 position in challenging market environment



- Highly regulated and heavily taxed
- Low affordability due to consecutive accelerated excise increases
- Resulting in significant volume decline, growth of illicit, and downtrading
- Challenging outlook with price increases only partially offsetting volume decline
- Imperial strong #2 with 33% share¹, over-indexing in lower price points

4 Maximise the potential of FCT category

Drive Growth in FCT

- Review pricing and positioning of FCT portfolio
- Potential new brand and product opportunities to address consumer needs
- Implement series of pack innovations (e.g., packaging innovation, smaller formats, etc.)

Germany deep dive: attractive market environment with strong Imperial position



Attractive market environment

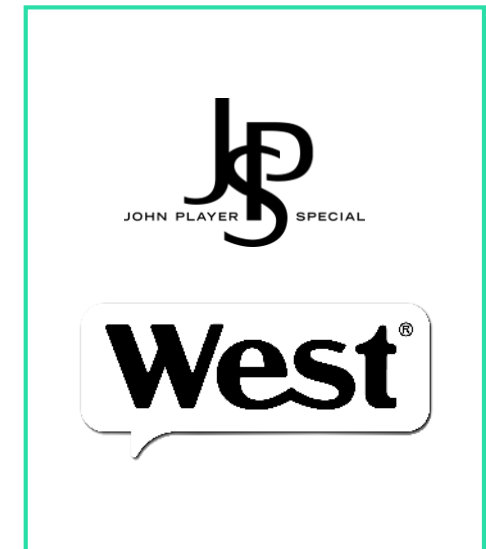
- Large profit pool with relatively light regulation
- High affordability and stable consumer base
- Attractive market outlook – pricing continuing to offset volume decline
- Increasing downtrading towards lower tiers and FCT where Imperial is well positioned

Strong Imperial Positioning across FMC and FCT

FMC (c.85% OP)

FCT (c.15% OP)

Strong Portfolio



Significant player

#2 player
(22% share¹)

#1 branded player
(17% share¹)

Germany deep dive: growth focused on brand equity and sales excellence



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

Invest in Key Growth Brands

- Invest in driving target-relevant awareness for key growth brands like JPS
- Rejuvenate JPS as leading brand to recruit attractive demographics...
- ... building on clear heritage and placing it into popular culture of urban smokers

Drive Salesforce Excellence & Effectiveness

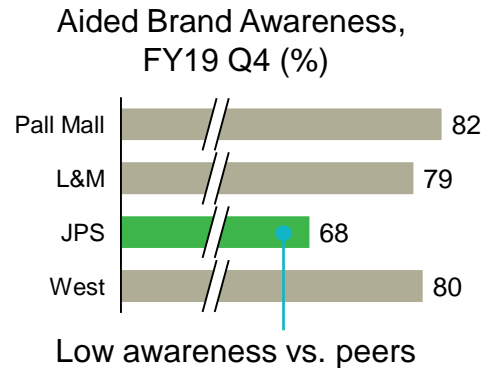
- Increase coverage to 80%+ of total outlets
- Leverage the growing discounter Key Account channel
- Improve performance in underdeveloped regions (e.g., East Germany)
- Enhance retailer partnerships and extend customer engagement platform to drive sales depth

Germany deep dive: rejuvenate JPS as leading brand to recruit attractive demographics



JPS Poorly Positioned today

- Older age groups with limited growth potential
- Full flavour only while market is moving towards light-flavour
- More price-sensitive consumers



Select Examples of Planned Changes

Enhance Awareness

Optimise logo re-design and increase communication to target group

Drive Brand Loyalty

Innovate regularly to stay relevant (e.g., special editions) and increase communication of brand story / heritage

Address Demand Shifts

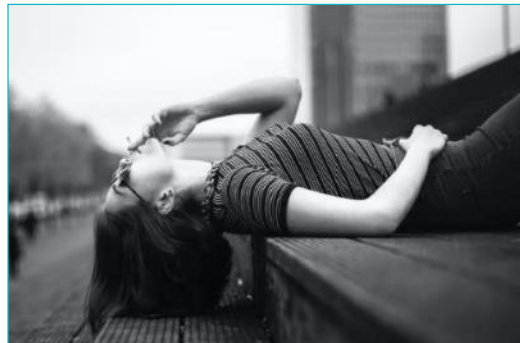
Leverage market trends including offering a range of lighter flavours and new pack sizes

Raise Perceived Quality

Avoid showcasing large packs and price in advertisement to raise perceived quality

JPS' Future Ambition

- Age group 25-45 years
- Full + non-full flavour
- Lower price-sensitivity



JPS New Equity Campaigns



JPS New Duo Pack Offer



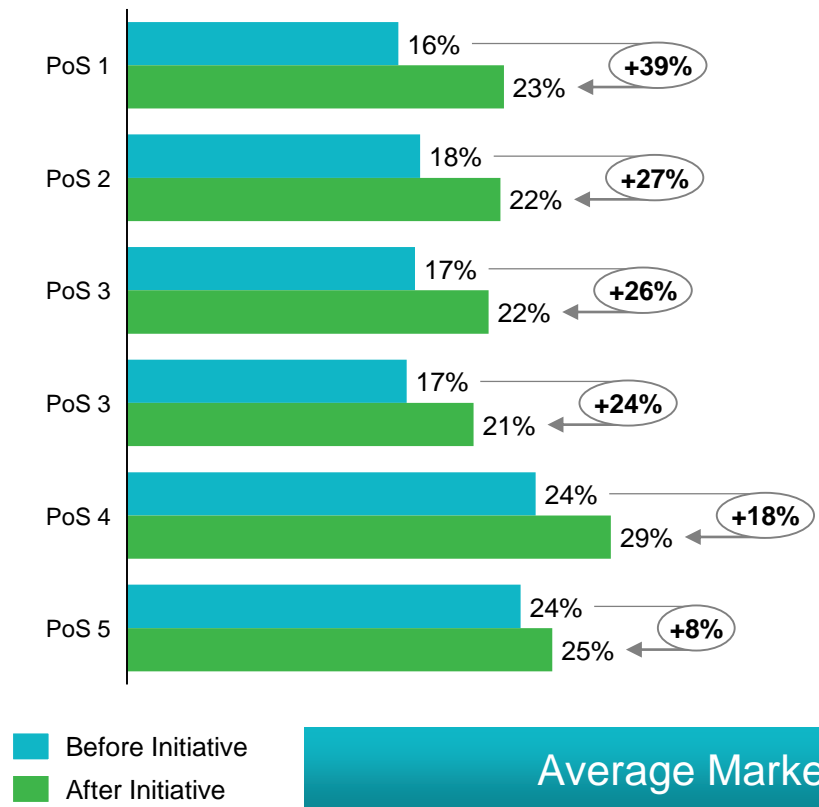
Germany deep dive: enhance retailer partnerships to gain efficiency



Enhanced partnerships with retailers drove share gains

National roll-out over next six months

Imperial Market Share in Test Area – Before vs. After Initiative (%)



We successfully launched a **retailer incentive programme**, which resulted in **significant market share gain**

Average Market Share Gain = +20%

Engaging retailer staff to connect with adult smokers on our products using:

- **Common goals:** to create shared connection to the brand goals
- **Simplicity:** simple communications supported by frequent catch-ups with retailers

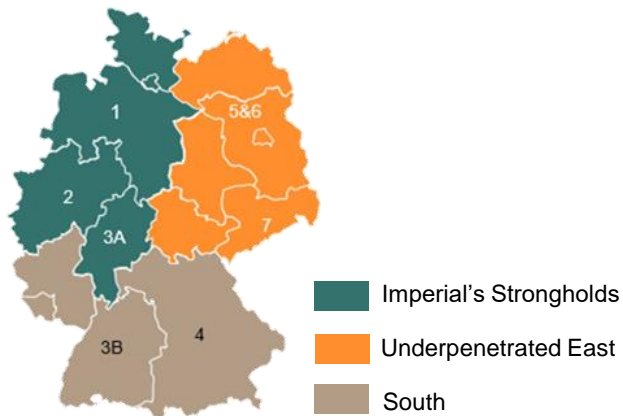
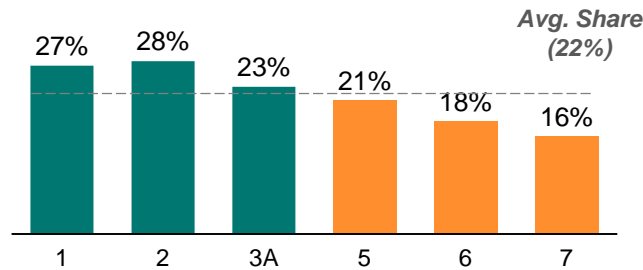


Germany deep dive: improve performance in East Germany - historically under-developed region



Low Share in East Germany...

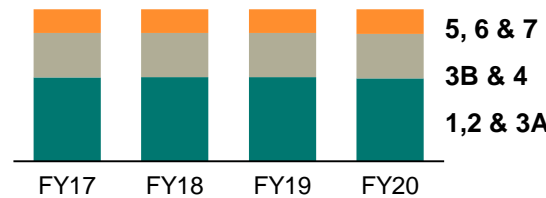
Imperial Share by Nielsen Region (FMC, FY20, % Volume)



Historically deprioritised Region

... while East is showing share growth...

Market Split by Region (FMC, FY17-20, % of Volume)

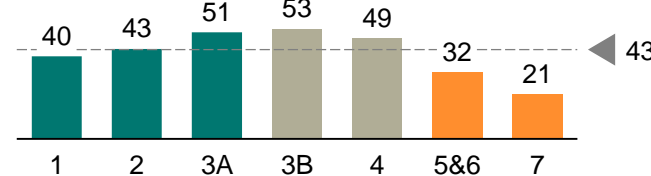


Share change (FY17-20)

5, 6 & 7 **+0.5%pts**
 3B & 4 **+0.2%pts**
 1, 2 & 3A **-0.7%pts**

... and consumers in the East are value-focused

Premium, High and Medium Tier Proportion of Total Volume (FMC, FY20, %¹)

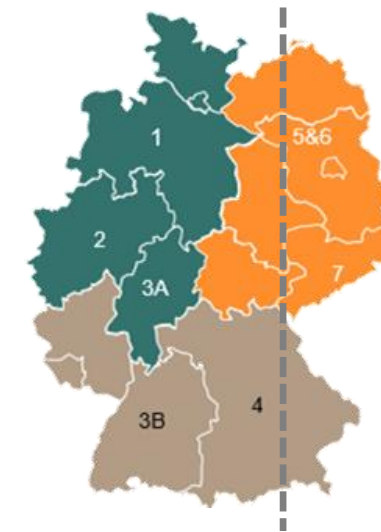


Potential to increase penetration in the East by leveraging our value portfolio

1. Based on select brands covering top c.85% of market

Recent share gain suggests further uplift is possible

FY20 FMC Activation Plan for Petrol and Grocery Channels



Focus region
 > 100 km to border

Period
 April 2020 – September 2020

Approach
 Stepwise approach with support of all market forces

+30bp in FMC in 3 months... suggesting potential for further uplift

Source: SMART, Nielsen, Imperial Internal Estimate

UK deep dive: strategic initiatives expected to offset market headwind



Strong #2 in challenging market environment



- Slight market value decline expected as price increases only partially offset smoker penetration and decline in consumption
- Significant illicit trade driven by high price/lower affordability
- Imperial well positioned as #2 player (41% share¹)
- Several strong heritage brands (JPS, L&B, Golden Virginia)...
- ...in particular in growing low price tiers as consumers trade down

Example Levers

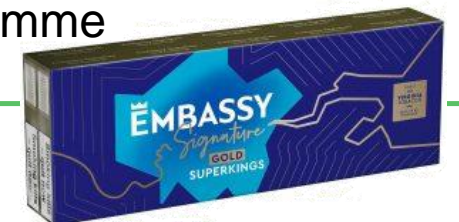
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Drive performance in under-penetrated channels & regions



Unlock further share in the South

- Defend FCT and FMC super king size where we have fair share today
- Launch right product for the right local typology, e.g., Embassy Signature
- Drive trial with adult smokers, e.g., through brand ambassadors
- Drive retailer advocacy, leverage existing best in class trade incentive programme



Spain deep dive: drive growth in a stable market environment



Example Levers

#2 position in stable market environment



- Stable market – tax driven price increases going forward likely to offset volume decline
- Low absolute price points, no excise increases for many years
- Imperial well positioned as #2 player with 29% share¹
- Several strong local brands (Fortuna, Nobel, Ducados) that have been neglected in favour of international brands

2

Drive and rejuvenate local jewel brands

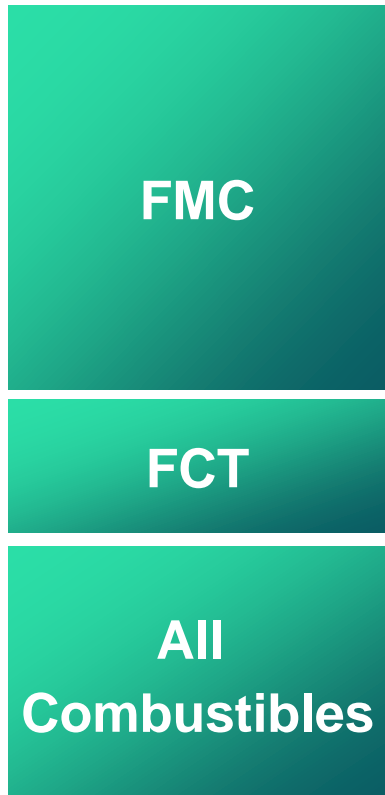


Invest behind local jewels

- Increase focus on local brands, e.g., Nobel, which has significant local equity and broad national coverage
- Increase brand investment, building brand equity and awareness to drive share
- Drive innovation in packaging and formats



Priority markets: six operational levers to improve combustibles performance



- 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 and regions
- 6 Maximise value creation through Key Accounts

We will share frequent performance updates on progress in upcoming sessions

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
- Selective attractive leadership positions (e.g., key markets in Africa)
- Benefit from broad brand portfolio
- Potential platforms for further growth



Africa: strong platform for future growth

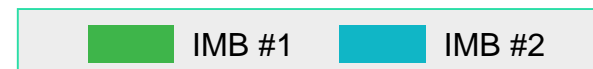


Reappraised as a platform for future growth

- Accounts c. 8% of operating profit
- Some further pricing potential
- Strong IMB brand portfolio
- Strong route to market in markets with leadership position
- Strong local manufacturing footprint

IMB #1 in several sizeable markets*

Algeria	29%
Morocco	57%
Ivory Coast	76%
Burkina Faso	93%
Madagascar	98%



Our new approach

- Leverage strong local and global brands to drive pricing
- Fill in gaps in price ladder
- Close remaining coverage gaps
- Increased ambition as future growth engine

Other European markets: clear plans to optimise value creation



	Imperial Market Position	Market Outlook (Value)*	Our new approach
Eastern Europe (Top 5 markets) ¹	#4	↑ + 3-4%	<ul style="list-style-type: none">• Define clear role for individual markets, based on our starting point and market outlook• Adopt focused approach, with targeted effort and investment• Manage markets more efficiently using best practice sharing
Western Europe (Top 5 excl. Germany, UK & Spain) ²	#4	↓ - 2-3%	

1. Eastern Europe includes: Top 5 countries in terms of volume: *Poland, Ukraine, Romania, Czech Republic, Hungary*

2. Western Europe includes: Top 5 countries in terms of volume (excluding Germany, UK & Spain): *Italy, France, Netherlands, Belgium, Greece*

Source: Company Data

* Forecasted 2020-25 CAGR in Market value

Source: Imperial Internal Estimate

Potential to selectively trim our tail



Tail Markets Today : An Attractive Part of our Business



c. 80 markets with operating profit less than £25m¹ per market



Attractive gross margins



Account for c. 8%² of combustible operating profit



Variety of operating models in tail markets, many light touch (e.g., distributor-led)

Future Value Optimisation

Drive to run more efficiently whilst still realising significant value for Imperial

Selectively trim over time (but acknowledging there is a limited universe of buyers)

Summary: combustibles approach and ambition



Our new 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



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Break

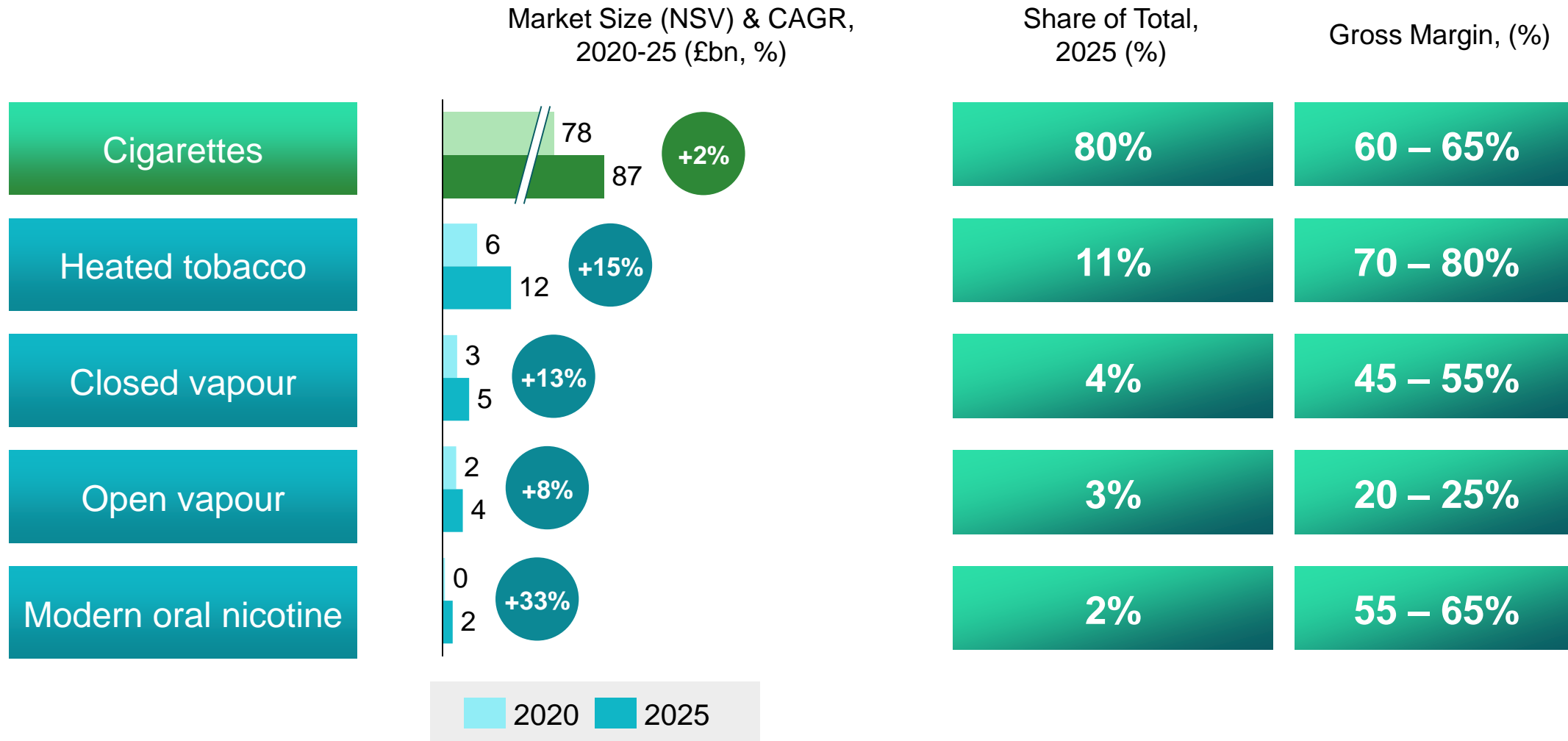


**IMPERIAL
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Next Generation Products

Resetting Our Strategy Through
Focus & Consumer Understanding

Growing demand across all NGP categories

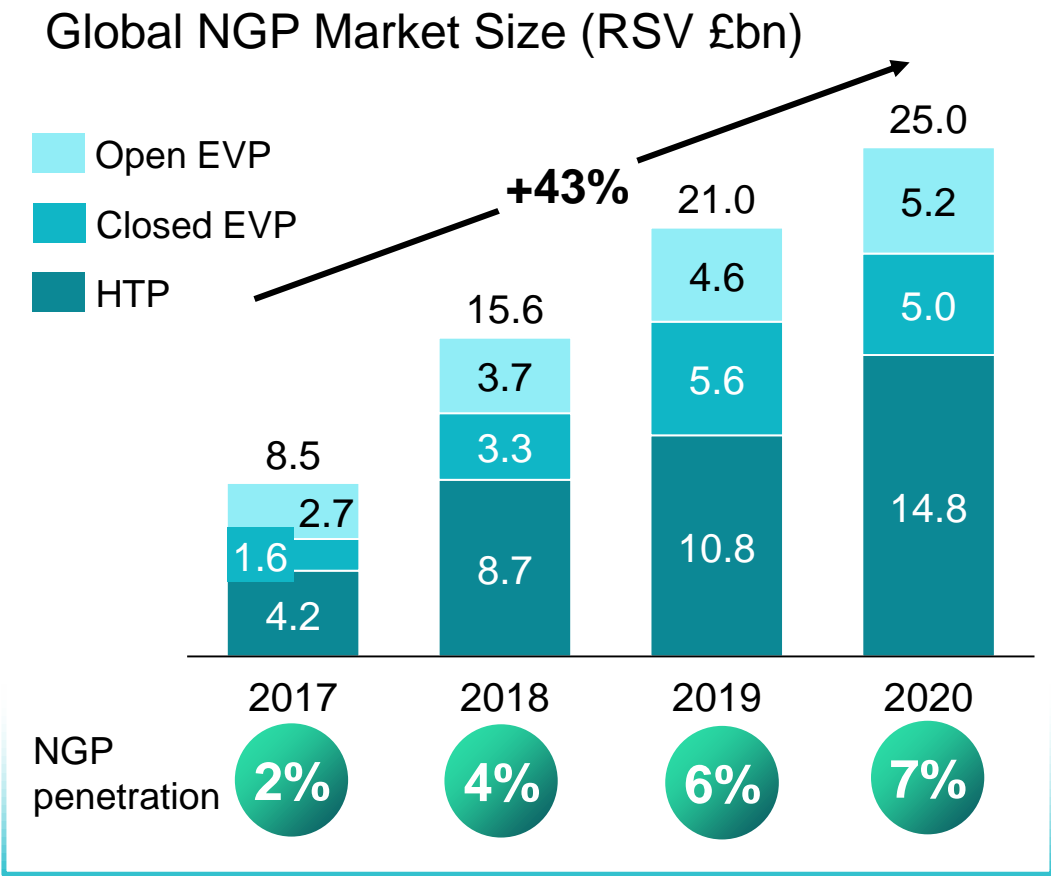


Source: Imperial Internal Estimate (NSV shown for market size (excl. VAT, excise and TM, FMC includes all markets except China, NGP includes top 70 Combustible markets except China))

High historic NGP growth rates although with relatively low penetration



Historical NGP category growth



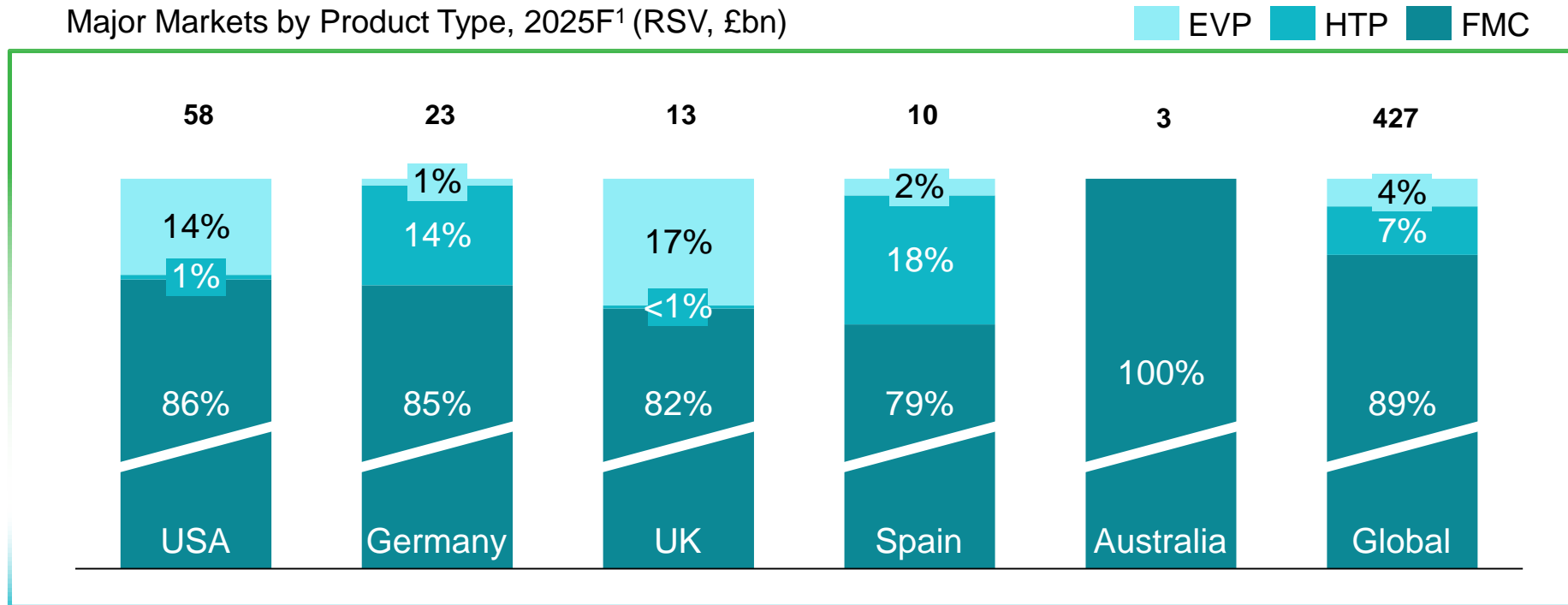
Mixed category growth

- Whilst high global NGP growth:
- Historical category penetration has been mixed within Imperial’s priority markets
- US strongly dominated by closed vapour
- Germany nascent NGP but heated tobacco focus
- UK skew to open vapour

Significant uptake of NGP across our major markets



Major Markets by Product Type, 2025F¹ (RSV, £bn)



NGP Penetration 2020 (%)	9%	3%	9%	4%	-	7%
NGP Penetration 2025 (%)	14%	15%	18%	21%	-	11%
Delta (%pts)	+5	+12	+9	+17	-	+4

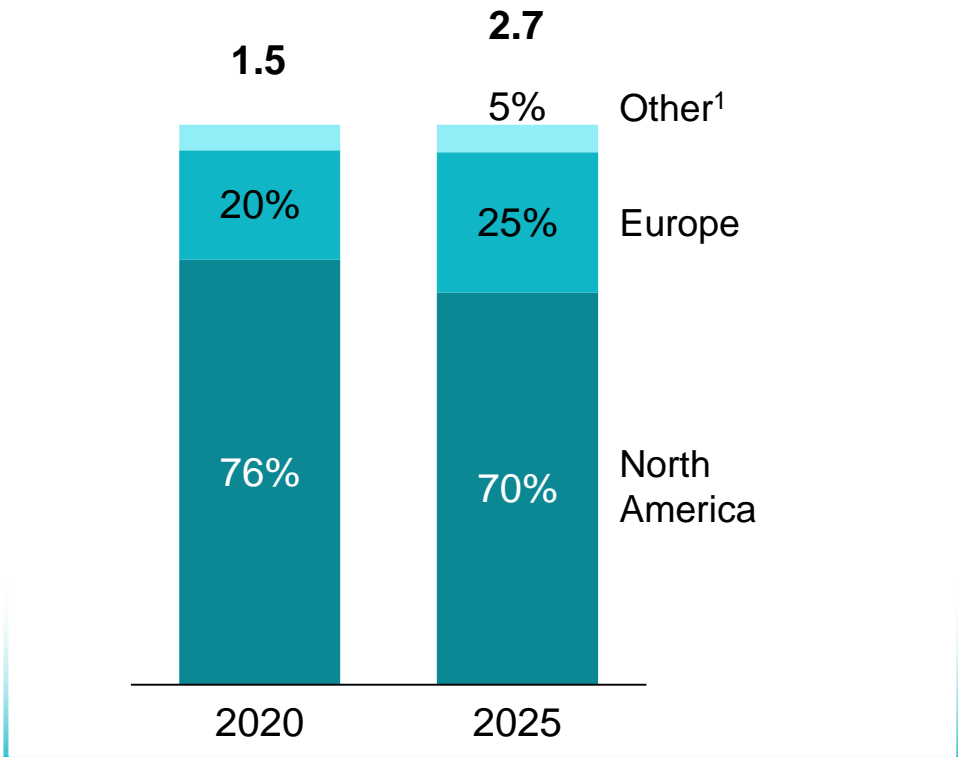
Illicit trade NGP (EVP) in Australia is estimated to account for c.4% of total NSV in 2019

Fast growing NGP profit pools



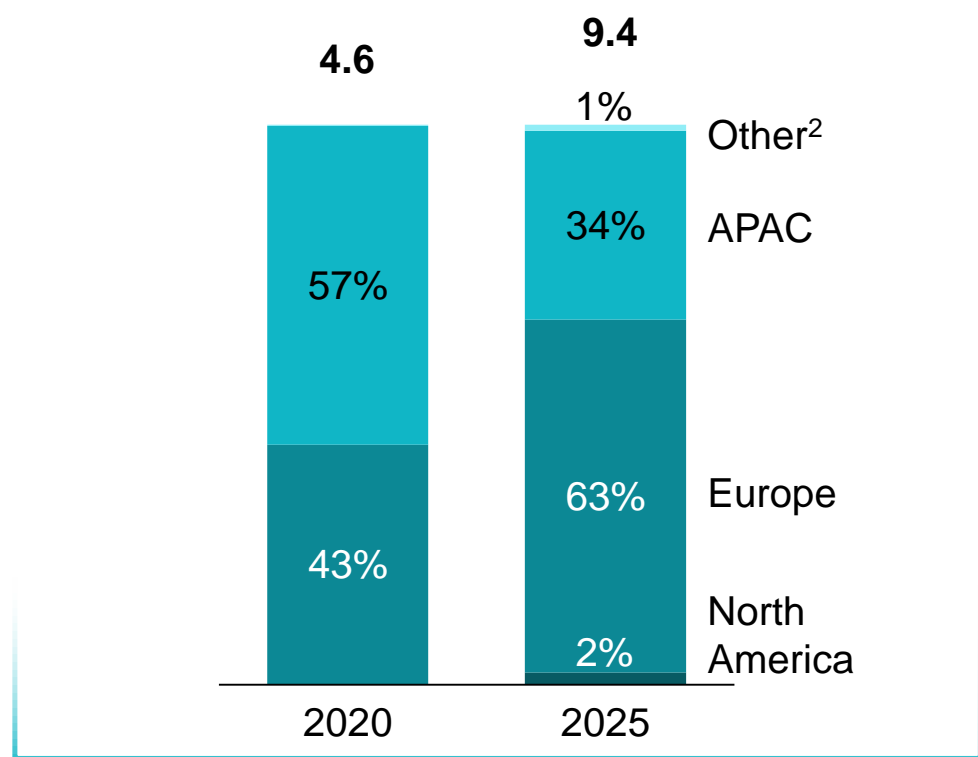
Vapour concentrated in the US

Closed Vapour GM Potential by Region (£bn, %)



Heated Tobacco growing in Europe

Heated Tobacco GM Potential by Region (£bn, %)



1. Includes APAC, South America, the Middle East and Africa; Excludes China

2. Includes South America, the Middle East and Africa; Excludes China

Source: Imperial Internal Estimate

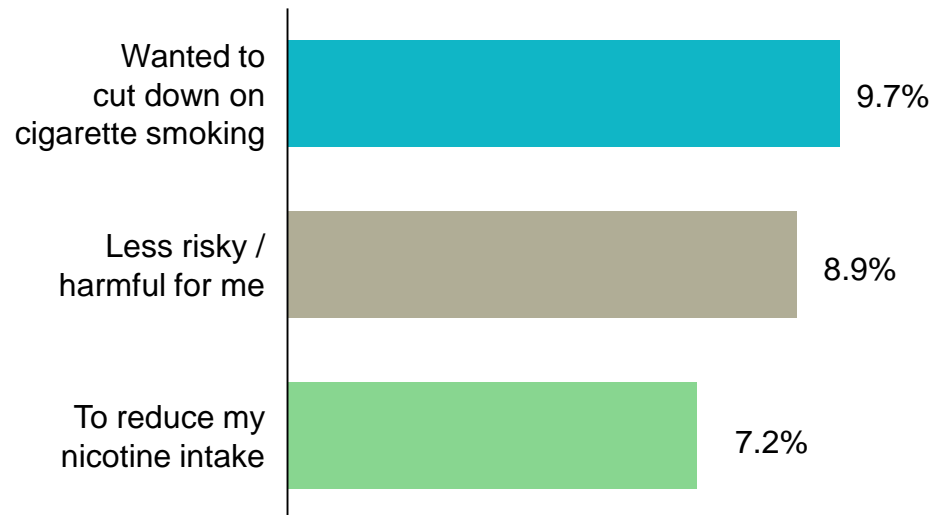
Clear consumer needs for potentially less harmful alternatives



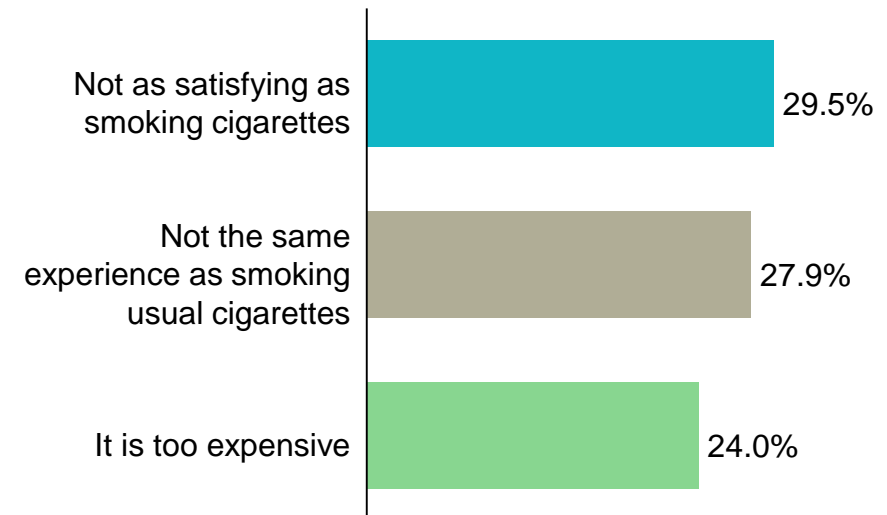
Despite clear consumer demand for potentially less harmful products...

...there still remains a lack of full consumer satisfaction

Top 3 reasons to choose NGPs
(% of NGP consumers¹, N=919)



Top 3 reasons to churn from NGP
(% of consumers who churned NGP¹, N=183)



1. Includes Heated Tobacco and Closed Vapour Users

Source: Consumer Survey (conducted in September/ October 2020 across the US, Germany, UK, Italy, Japan, Russia and Czech Republic)

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



Imperial NGP starting point



Disappointing market performance with primary focus on vapour

- **Vapour:** Historic focus almost entirely on vapour
 - Good position in Europe, losing share in the US
 - Product and proposition challenges
 - Poor return on investments
 - However, good brand equity and engagement to build on
- **Heated tobacco:** Investment to date focused on delivering a limited market trial
- **Oral nicotine:** Good position in European modern oral nicotine



Detailed review of NGP strategy



In-depth analysis
of consumer
needs, category
drivers and
economics...

...and a realistic
assessment of
our NGP
capabilities

Defined clear
ambition to be
the NGP
challenger with
increased focus
on heated
tobacco

Measured and realistic approach to reset our chosen NGP offering,
investment profile and ambition

A new approach: realistic ambition with a challenger mindset



Challenger Mindset

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

Rationale for increasing focus on heated tobacco



Market Tailwinds

Fast-growing, sizeable markets

- Heated tobacco as single largest NGP category currently...
- ...with strong growth prospect, and strong absolute growth expected across Europe...
- ...given higher consumer retention for those looking to reduce their cigarette consumption

Economically most attractive NGP category

- Attractive unit economics with strong GM potential (70-80% GM in top 3 markets), and large share of NGP profit pool by 2025

Internal Capabilities

Plays to our strengths

- Leverages existing tobacco expertise, including manufacturing cost efficiency experience and route to market

Promising product proposition

- Competitive device and stick developed with promising consumer feedback from initial testing

Clear target consumer

- Positive feedback in distinct consumer segments
- Differentiated approach to competitors

Heated tobacco: positive initial consumer feedback



Promising product

- Pulze device
 - ✓ 20 Consecutive smokes
 - ✓ All-in-one 'pocket-ability'
 - ✓ Faster heat up time and charging
- iD sticks
 - ✓ Ideal nicotine strength intensity
 - ✓ High Mint/ Menthol/ Crush-ball flavour intensity
 - ✓ Lower levels of heated tobacco odour

“The device is better, much easier to carry one piece and not having to wait for the battery to recharge.”

“The smell was more discrete which is important.. so at a better price of course I would change!”



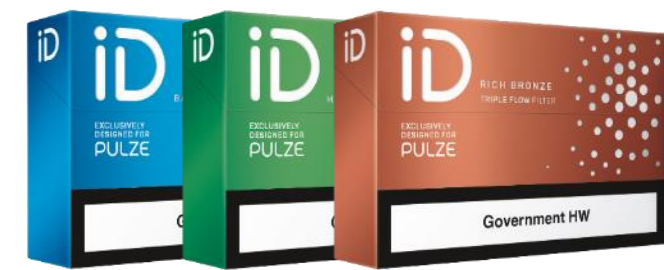
“I loved the long battery duration and the consecutive smokes because it made me feel safe that I can use it whenever I have the urge to smoke”

“The mint was much more intense and I loved it!”

Specific target segment

Purchase Intent

25-30% of existing heated tobacco consumers in European test markets are “likely to purchase Pulze and ID”



Heated tobacco: our new, focused approach



Our Ambition

- 1 Reaching a fair market share positioning
- 2 Enabling a meaningful contribution to net revenue
- 3 Positive returns over the course of our 5-year strategy



Realistic approach for our heated tobacco business



Re-focus our heated tobacco efforts

in our stronghold markets in Europe, where we have a strong combustibles business and good route to market/ retail partnerships



Launch in a few European markets first...

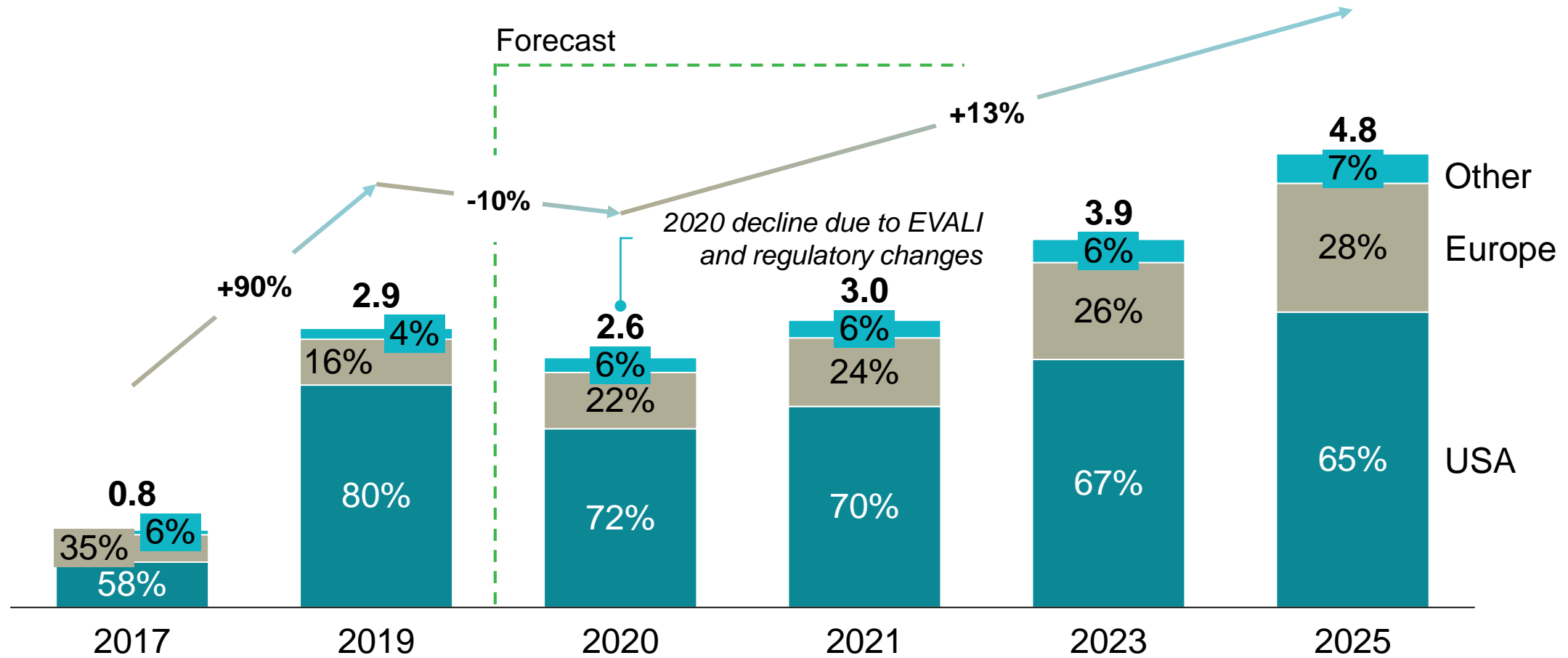
... scaling subsequently with finetuned proposition

Vapour: US is expected to remain single largest market



Closed Vapour Market Size, NSV, in bn GBP

Forecast



Vapour: clear plan to improve performance in the US



Historically disappointing returns

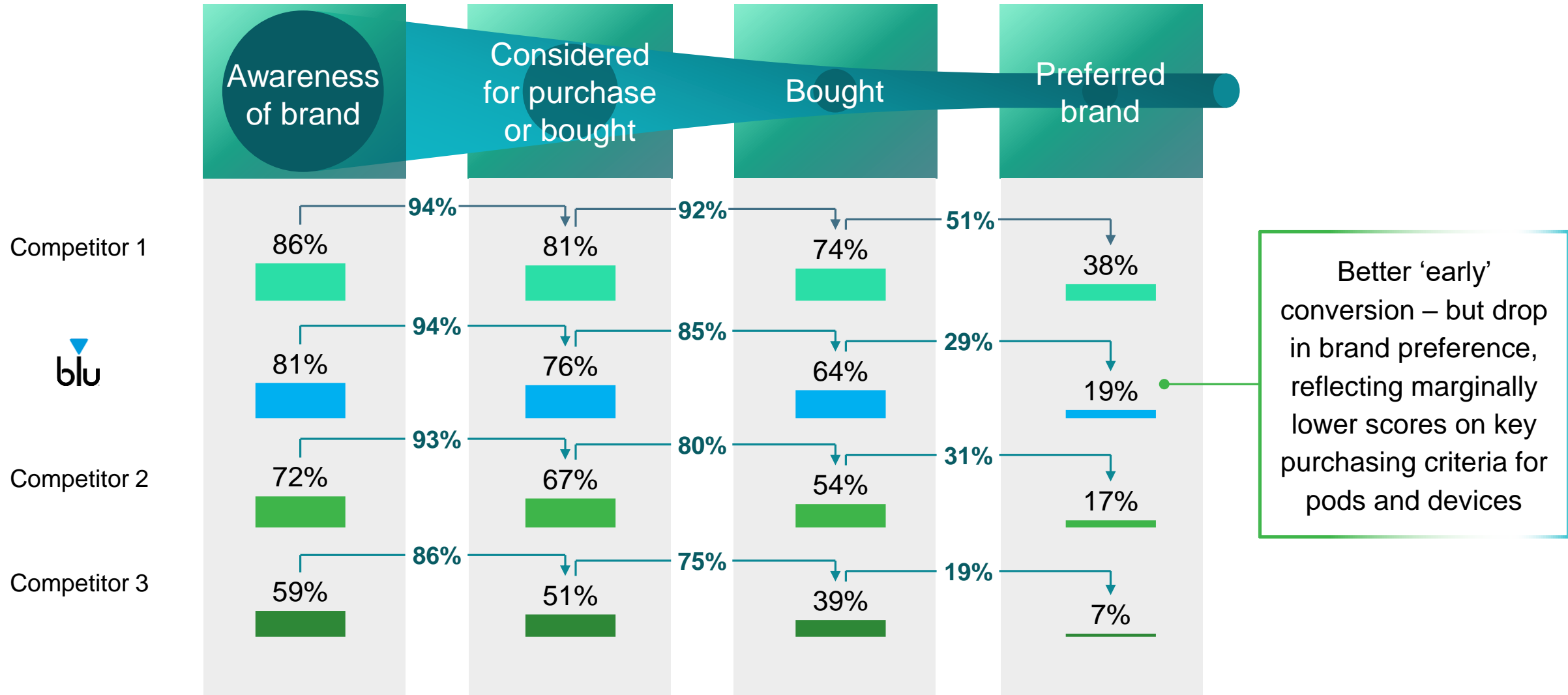
- Ineffective, untargeted A&P Spend
 - Lacked clear consumer target
 - Promotions not linked to brand, positioning or consumer journey
- Poor Distribution and Visibility
 - Insufficient Points of Sale coverage
 - Poor in-store visibility



Clear ambition to return to share growth

- Improved product proposition
- Clearer targeting
 - Focused target consumer
 - More efficient and effective A&P
 - Improved distribution
 - Enhanced execution at point of sale
- Upgraded go-to-market strategy
- Supported by stronger execution and increased management focus
- Initial pilot phase in 2021, with future scale-up subject to positive results in FY22 – supporting a reduced investment and risk profile

Vapour: good blu brand foundations in the US



Source: Consumer Survey (conducted in September/ October 2020 across the US), Includes closed vapour users in USA only; N=942

Vapour: clear strategic market choices globally



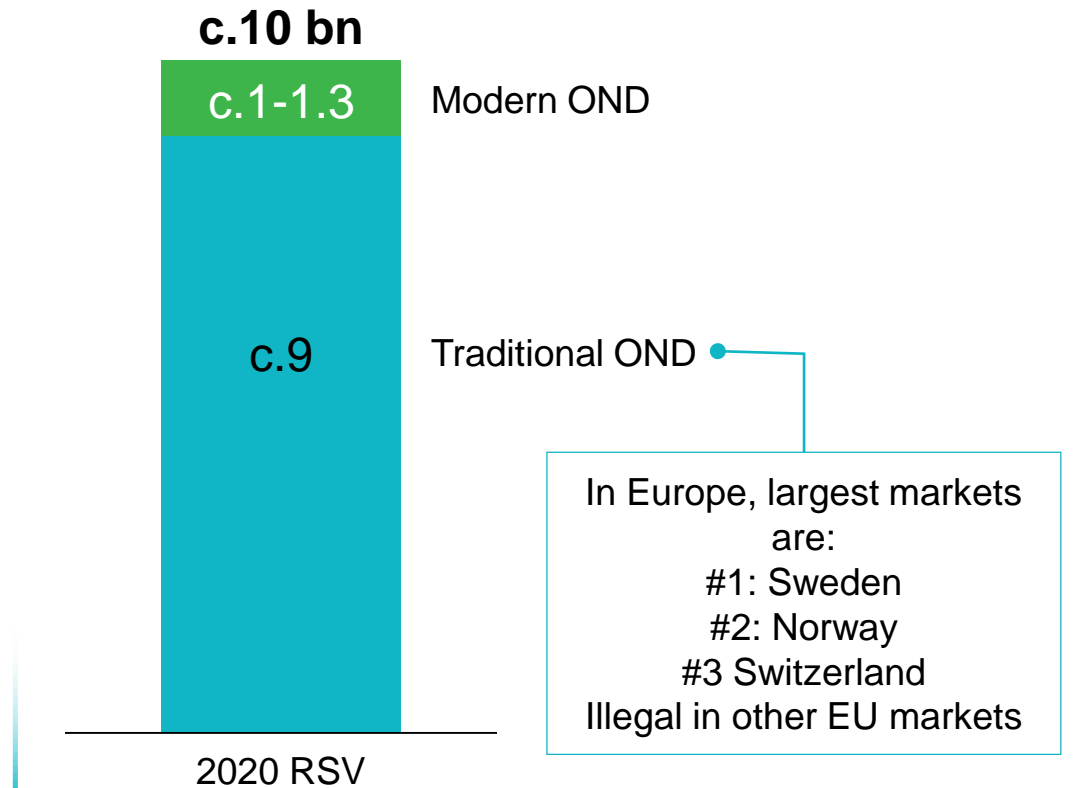
- Turnaround our vapour business in the US
 - Maintain levels of investment at significantly improved returns
 - Stage-gated approach, with future scale-up dependent on FY22
- Maintain our presence and good share position in core European markets
 - Learn from US turnaround
 - Focus on UK and France as core vapour markets in Europe
- Exit least attractive markets that do not drive value



Oral nicotine: strong position in Europe



Traditional OND is c.90% of oral category



Imperial is well-positioned to maintain category share in Europe

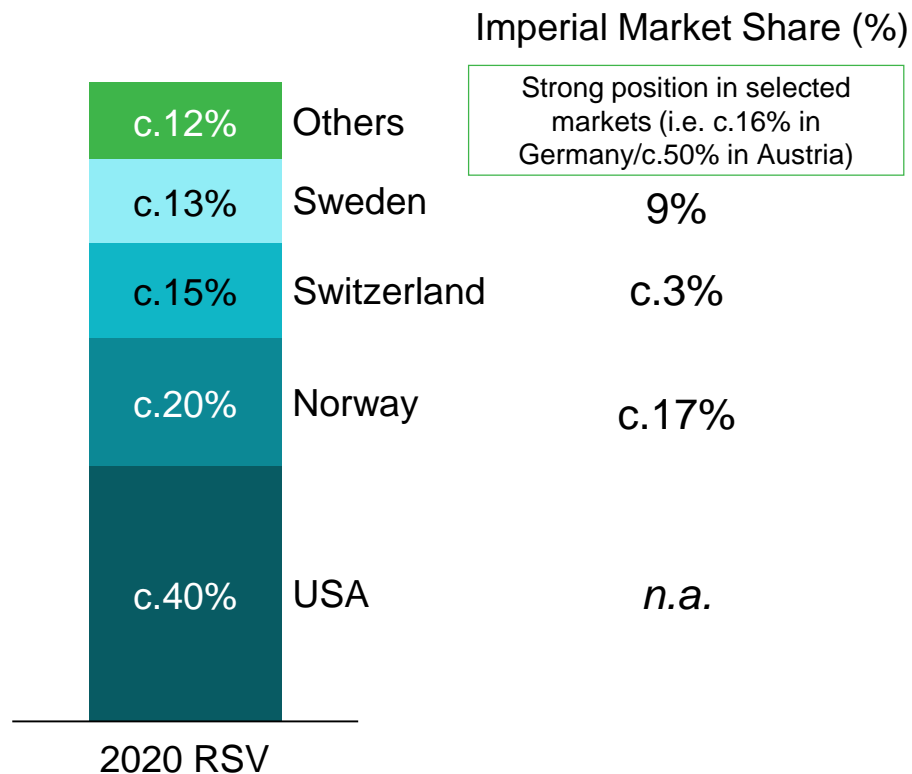
- We are the #2 player in traditional OND in Europe
 - 20% market share in Sweden
 - 40% market share in Norway
- Strong growth since entering market in 2005 via acquisition of Skruf AB
- Strong basis to maintain share and retain consumers switching to modern OND

Significant future growth potential from modern oral



Nordics and Europe comprise half of Modern OND market today

Strategy for Modern OND focussed on Europe



- Continue to drive our OND business in existing Nordics and selective DACH markets
 - Leveraging our traditional OND share in Nordics
- No current plans for US market entry
- No ambition to build category in greenfield markets – but maintain watching brief on category development

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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Ways of Working and Culture

Transforming our Business

Our three strategic pillars



**Focus on
Priority
Combustible
Markets**

**Drive Value
From Our
Broader
Market
Portfolio**

**Build a
Targeted NGP
Business**

New ways of working build on three critical enablers



Consumer at the
centre of the
business



Performance-
based culture and
capabilities



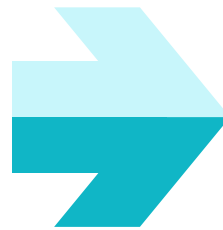
Simplified and
efficient operations

Placing the consumer at the centre of our business



From: historical lack of consumer centricity...

- Siloed brand or market-led approach across our combustibles business
- Lack of focus within our NGP business on solving specific consumer needs
- Consumer insight and market intelligence not represented at ExCom level since March 2017
- Innovation often not grounded in consumer needs



... To: our decisions are consumer centric

- Investment in consumer insight brand and portfolio management marketing and innovation capabilities
- Leadership through Chief Consumer Officer
- Realignment of our NGP teams against focused goals informed by consumer and competitor insight
- New opportunities and execution plans defined through consumer insight

Chief Consumer Officer to drive the new agenda across both combustibles and NGP



Consumer and Competitor Insight

Enabling markets to make better, faster decisions based on consumer and competitor insight and market data

Marketing, Brand & Portfolio Management

Enhancing our marketing and brand management capabilities to strengthen growth opportunities

Innovation for Combustibles and NGP

Delivering a focused pipeline of new products and solutions based on consumer needs

Delivers a co-ordinated approach under single leadership

Examples of culture change underway



300 CEO Meetings

6,000 Employees

Embedding performance-based culture and capabilities



Building on current strengths...

- Manufacturing and Supply Chain
- Customer engagement
- Energised and passionate employees
- Willingness to embrace change

...with areas for improvement...

- Siloed thinking; fragmented organisation
- Rebuild trust in leaders
- Reconnect consumers and strategy



... to embed a performance-based culture and capabilities

- Co-create clear vision and purpose
- Build a challenger mindset
- Drive teamwork and collaboration
- Consumer-led decision making derived from strategy
- Rewards and incentives to enhance accountability and drive winning behaviours
 - Greater alignment on shared Group objectives – 80% of bonus
 - Weighted ave. market share of top markets
 - Revised LTIP metrics

Simplified and efficient ways of working



Greater focus on our priority combustibles markets

Ensuring the right level of resource and capabilities across our footprint
Investing behind our most attractive assets

Unifying our NGP organisation and capabilities

Bringing our NGP operations together into a unified, entrepreneurial organisation
Leaner, more agile ways of working as a differentiated fast follower

Simplified and efficient enabling functions

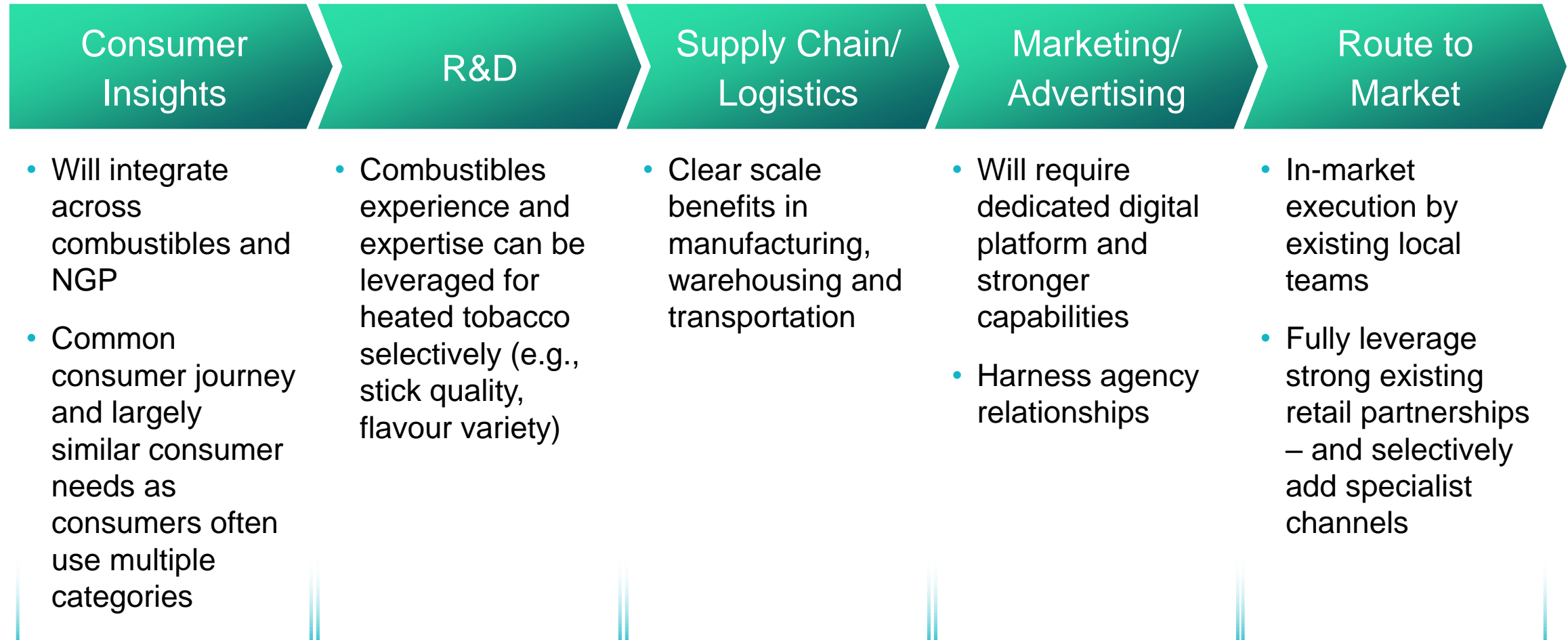
Building the right capability and focus in our enabling functions to support the new strategy
Ensuring more efficient allocation of resource and service

Integrated NGP organisation to ensure focus



Interfaces integrated with the broader business to create shared accountability

NGP: Leveraging the strengths of wider Imperial set-up



Invest in organisation and capabilities through efficiency



Investing in Organisation and Capabilities

- Investing in core capabilities
 - Sales force: Key Account Management
 - Consumer and marketing
 - Upskilling market support teams
- Enabled through lean process underpinned by technology

c. £50-60m per year

Funded Through Efficiency

- Through leaner, more agile operations
- Global processes underpinned by technology
- Unified and focused NGP organisation
- Simplified and efficient enabling functions

c. £100-150m per year



Annualised net savings of c. £40-£100m

(c.6-14% of addressable cost base)



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Financial Framework

Strengthening the balance sheet
and delivering enhanced returns

Investments to support new strategy



Tobacco Investment

- Strategic levers in top five markets
- Selective increase in brand investment and innovation
- Targeted expansion of sales force
- Enhance consumer insights capabilities

NGP Investment

- Resetting and refocusing investment
- Market trials for heated tobacco
- Targeted investment in vapour and oral
- Consumer-led innovation
- Measured approach – only scaled following consumer validation

No major margin reset required
Funded through resource allocation and cost savings through new ways of working

Investment to support new ways of working: savings



Cost Savings

- Simplify organisation to remove duplication
- Clarification of accountability and decision rights
- Flattened reporting structure to speed up decision making
- Creating a leaner, more agile business
- Delivering sustainable cost savings for investment

Phasing

FY21	FY22	FY23
£10 - £20m	£60 - £80m	£30 - £50m



Annual cost savings
of c. **£100-£150m**

Investment to support new ways of working: restructuring costs



Restructuring Cash Costs

- Specific, time-bound restructuring programme to deliver the new ways of working and efficiencies
- One-off costs of reshaping business to support the new strategy
- Programme excludes factory closures
- Treated as an adjusting item to support comparison of performance over time

Phasing

FY21	FY22	FY23
£45 - £50m	£155 - £180m	£45 - £50m



Total cash costs of
c. £245m-£275m

Associated non-cash restructuring P&L charges of c. £150m

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

FY21 guidance remains unchanged



Tobacco

- Strong underlying pricing though continued mix headwind; lower stock profits

NGP

- Action to stabilise business; expect moderated losses will continue

COVID-19

- Expect unwind of temporary consumption benefit; more normal tobacco declines
- Not expecting significant recovery in duty free during the year

Tax Rate

- Upward pressure as previously guided; 2% headwind to EPS in 2021

Low-mid single digit organic operating profit growth & organic EPS slightly ahead at constant currency

Continued strong cash outlook: capital discipline will be a key priority



Strong cash fundamentals

- Business remains highly cash generative
- Low capital intensity
- Growing adjusted operating cash flow (>£3bn)
- Group cash flows optimised through pooling arrangements

High cash conversion

- Working capital focus
- Disciplined capex; net capex below depreciation
- More effective capital controls
- Will continue to support cash conversion of 90-100%

Logista: continuing to deliver valuable contribution to Group cash performance



- 2008: acquired as part of Altadis
- Distributes for the tobacco industry in Spain, France and Italy
- Group benefits from cash pooling in excess of equity stake value
- Imperial supporting Logista management with their strategy

Logista contribution to the Group

£0.2bn Operating profit contribution p.a.

£1.9bn FY20 daily average working capital benefit

Daily Working Capital Benefit to Group

£2.4bn FY20 year end benefit

£0.5bn FY20 minimum

↕
£3.9bn FY20 maximum

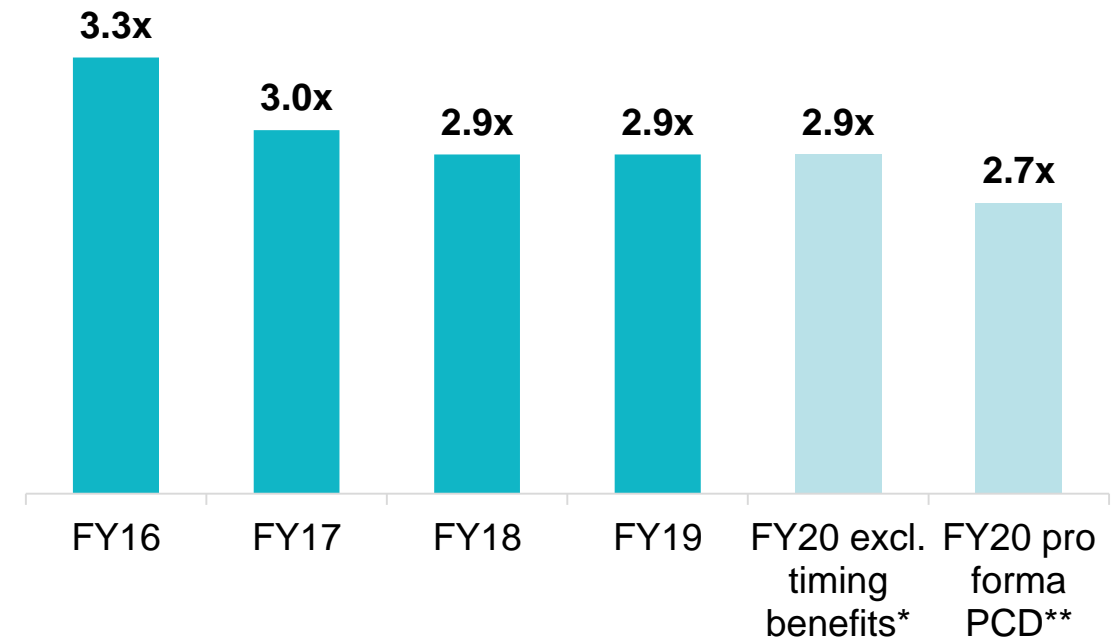
Deleverage priority to strengthen investment grade credit rating



Debt repayment to strengthen balance sheet

- Accelerate pace of deleverage following limited progress in recent years
- Increase headroom within financial credit metrics
- Create future flexibility by deleveraging to lower end of target 2-2.5x range
- Support a strong and efficient balance sheet

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

Committed to an investment grade credit rating



Current credit ratings

	Short-term	Long-term
MOODY'S INVESTORS SERVICE	-	Baa3 (stable outlook)
S&P Global Ratings	A-2	BBB (stable outlook)
Fitch Ratings	F3	BBB (negative outlook)

Benefits of maintaining investment grade

Better access to capital markets

Established debt investor base

Lower coupon / interest cost

Lower financing fees and other costs

In line with peers and FTSE 100 companies

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

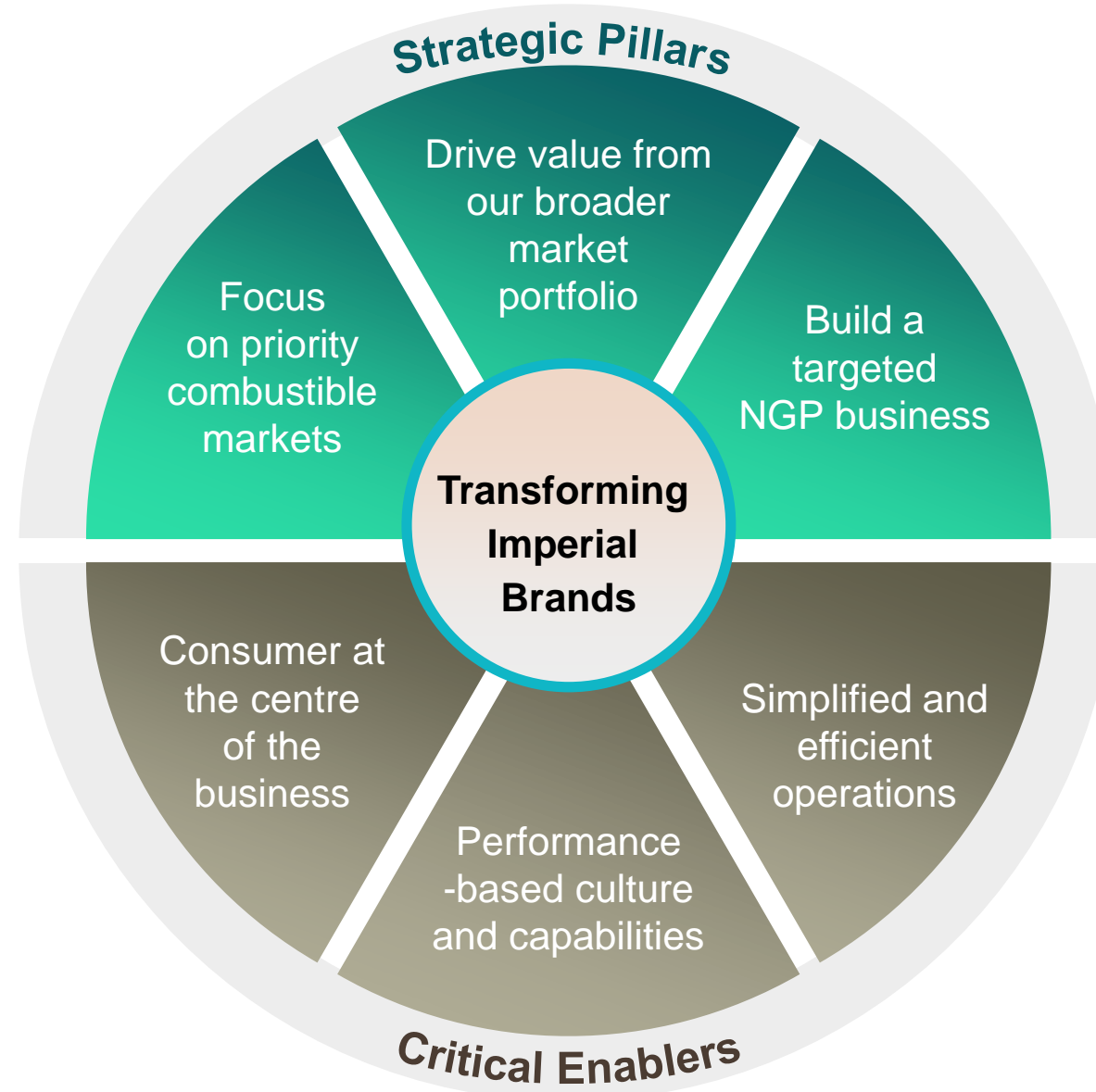
- Considered once target leverage achieved
- Via share buyback or special dividend



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Summary

Our new strategy



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

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



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Questions & Answers

Capital Markets Event
27 January 2021



Glossary



AOP	Adjusted operating profit which excludes the effects of adjusting items. Further details are provided in note 1 to the Annual Report & Accounts.
Constant currency	Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations
EVP	E-vapour
EVALI	Acronym used by the US Center for Disease Control and Prevention for 'e-cigarette or vaping product use-associated lung injury'
FCT	Fine cut tobacco
FMC	Factory made cigarettes
HTP	Heated tobacco
Logista	Logista is a 50.1% owned subsidiary and publicly listed on the Spanish stock exchanges. It is a logistics business in Europe, with operations extending across Spain, France, Italy, Portugal and Poland.
OND	Oral nicotine delivery are pouches which typically contain no tobacco
Organic	Organic movements exclude the effect of acquisitions and disposals, e.g. the sale of the premium cigar business
MMC	Mass market cigar (in contrast to the premium cigar business, which has now been sold)
MPI	Manufacturer's price increase
Net revenue	Net revenue comprises the Tobacco & NGP revenue less associated duty and similar items less revenue from the sale of peripheral and non-tobacco related products.
NGP	Next Generation Products which provide potentially reduced harm benefits to adult smokers
NSV	Net sale value
RSV	Retail sales value
RTM	Route to market
SE	Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.