

PRELIMINARY RESULTS 2019

Imperial Brands PLC

5 November 2019



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Positioning Imperial for a Stronger Future

Good results in tobacco, NGP below our expectations



Resilient tobacco value creation model

US tobacco growth strong, resilient in Europe, tough year in AAA

NGP delivery below expectations

Resetting NGP; learnings inform investment reset

Evolving our NGP approach

Resetting investment to support sustainable growth



- Growing EVP revenue; remains significant additive opportunity
- Lower & more targeted investment; priority market/category combinations
- Build consumer connections; differentiate blu experience & build loyalty
- Establish the right regulatory framework for vapour
- Continue multi-category approach; building out Pulze & oral-nicotine

Moderating growth expectations to build a sustainable, profitable business

Summary Financials

Net revenue growth; profit reflects NGP investment

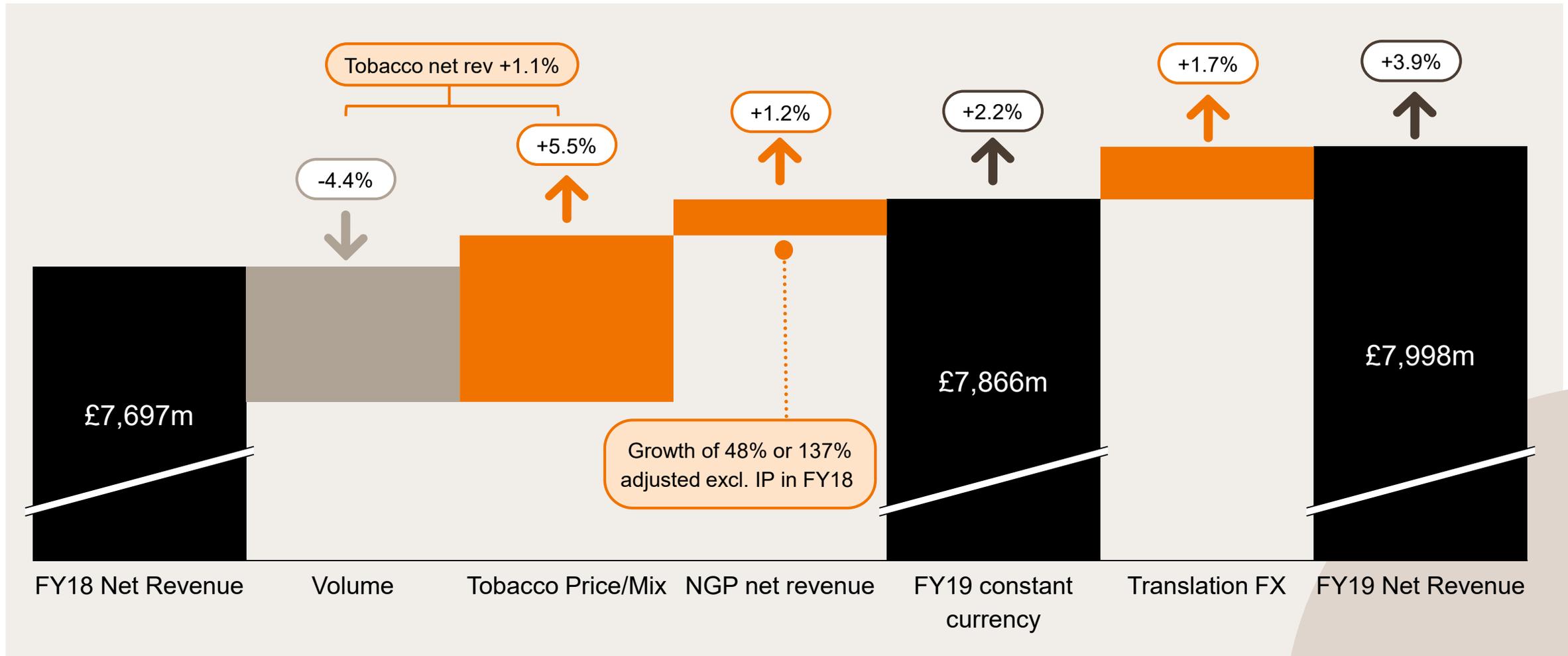


	£m	% change	% constant currency
Tobacco Volumes (SE)	244.2	-4.4%	-4.4%
NGP net revenue (£m)	285	52%	48%
Tobacco net revenue (£m)	7,713	2.7%	1.1%
Total adjusted AOP (£m)	3,749	-0.5%	-2.4%
Adjusted EPS (pence)	273.3	0.4%	-1.6%
Cash conversion	95%		
Net debt movement* (£bn)	(£0.3bn)		

- Movements post trading update;
 - Crystallisation of supply chain termination costs
 - lower than expected 'other income'
 - + slightly lower effective tax rate

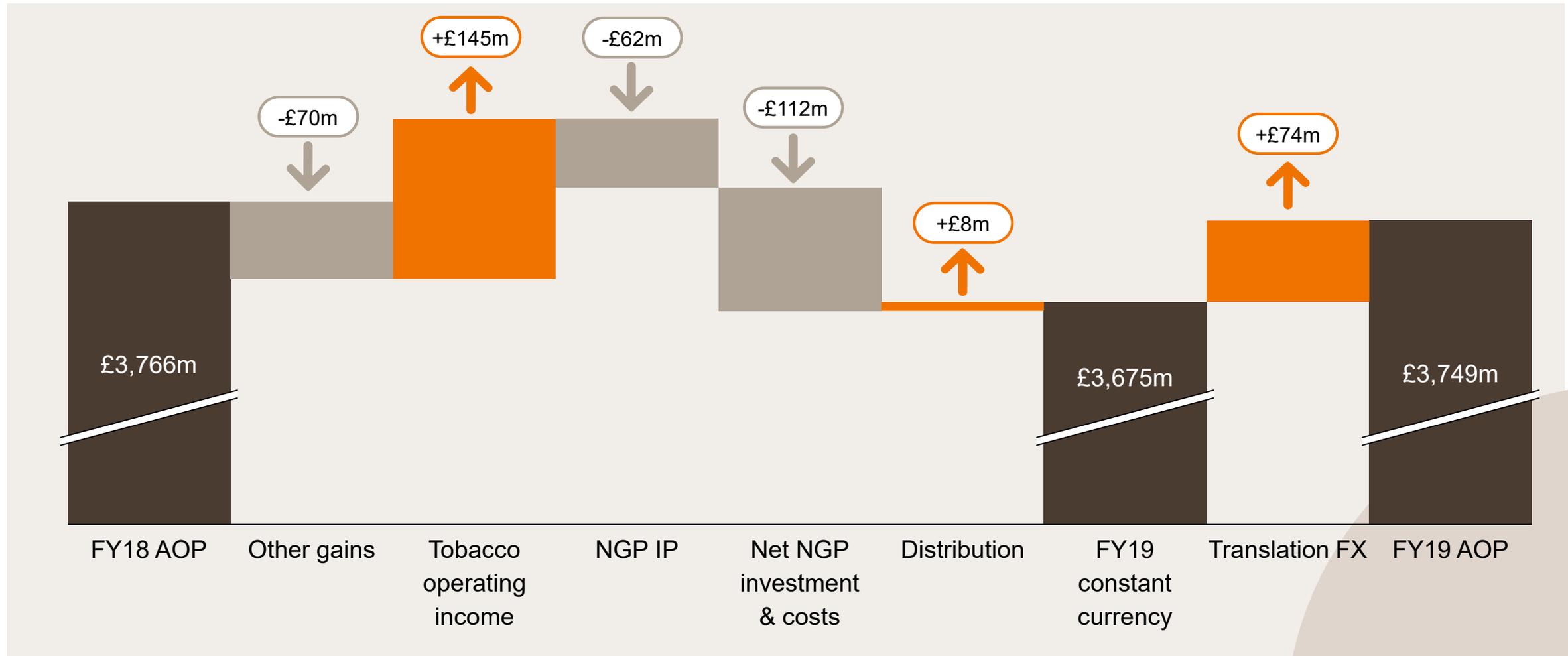
FY19 Net Revenue

Strong tobacco price/mix and additive NGP revenue



FY19 Adjusted Operating Profit

Tobacco profitability funded increased NGP investment



NGP Incremental Investment

Stock provision & supply contract costs impact FY19



		vs FY18
Investment	<ul style="list-style-type: none">• A&P to build blu brand equity• Consumer promotions• Overheads	£(122)m
Gross margin	<ul style="list-style-type: none">• c35% margin on incremental sales (excl. IP)	+£54m
Supply contract	<ul style="list-style-type: none">• NGP supply contract termination costs	£(20)m
NGP stock	<ul style="list-style-type: none">• Inventory provision	£(34)m
Auxly	<ul style="list-style-type: none">• Fair value of minority interest	+£10m
Total OP impact	<ul style="list-style-type: none">• Net year-on-year operating profit impact *	£(112)m

Operating Profit

Reconciliation of adjusted to reported



Total Adjusted Operating Profit	3,749
Amortisation of acquired intangibles	(615)
Goodwill impairment and disposal costs (Premium Cigars)	(525)
Restructuring costs	(144)
Fair value adjustment to acquisition consideration (Von Erl)	(129)
Russian excise tax provision	(139)
Adjusting items total	(1,552)
Reported Operating Profit	2,197

- Higher amortisation charge driven by impairment of PCD, net of lower ongoing charges post roll-off of Altadis goodwill
- Impairment will be largely offset on sale completion of PCD through FX gains in reserves of £300-400m
- Von Erl acquisition consideration
- Provision for Russian excise tax

Proposed Changes to Disclosure

Improving quality of adjusted profit measures



'Operating' EBIT

Other Income

- e.g. profit on sale of assets
- e.g. revaluation of balance sheet items
- e.g. pension credit

Adjusted EBIT

Restructuring costs

Amortisation of acquired intangibles

Movement in fair value of derivatives

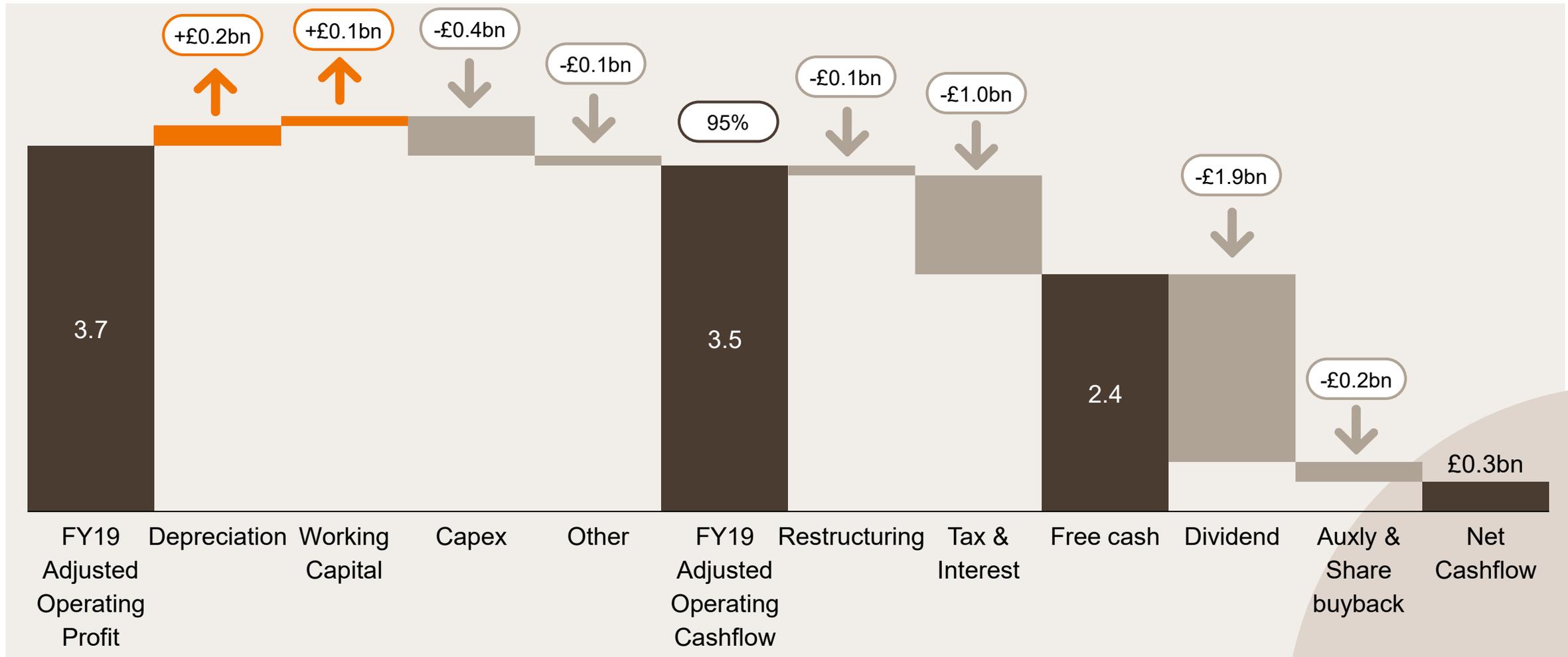
Reported EBIT



- Non-operating or 'other income' items to be treated as adjusting from FY20
- Restructuring costs remain as adjusting item
- Treatment to be revisited on completion of current cost optimisation programme
- No change to current treatment of derivatives or amortisation of intangibles

FY19 Net Cash Flow

Cash flows supports dividend, buyback & Auxly investment



Cash and Tax for FY20

Cash expectations and future tax rate



Cash

- Free cash post dividend expected to be lower than FY19
 - Acquisition of remaining stake in Von Erl (£129m) paid in October
 - Settlement of Russian tax; £139m provided for in FY19
- Expect a stronger cash delivery in 2021
- Remainder of existing £200m share repurchase (FY19 spend £108m)

Tax

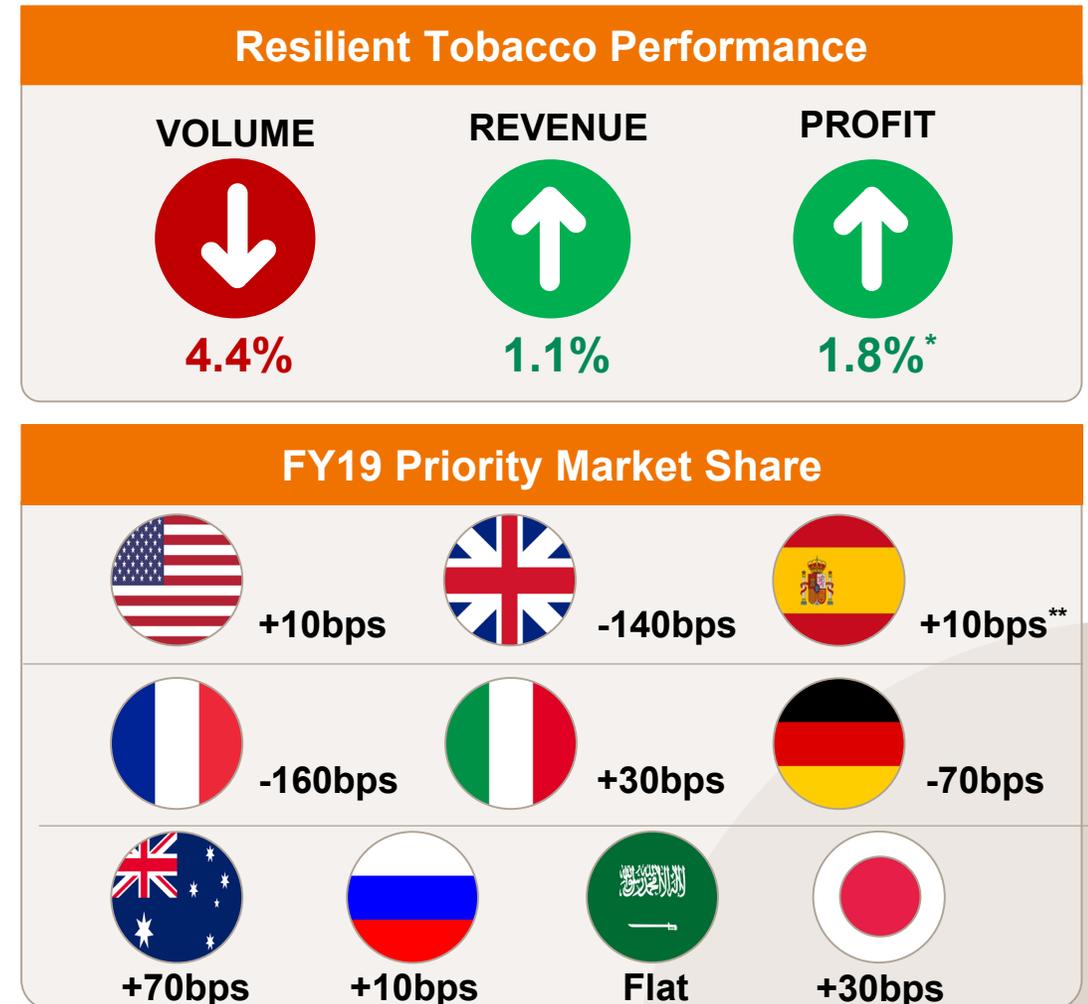
- FY19 rate of 19.1% (FY18: 19.5%) driven by favourable mix of profits in the year
- FY20 rate of c. 21%: reforms in several jurisdictions; expiry of certain tax agreements

Tobacco Maximisation

Resilient value creation model



- 6 of 10 priority markets in share growth
- Price/mix continues to offset volume
- Asset Brand net revenue +4.4%
- Continued growth in profit
- Strong cash generation



* Adjusted to exclude non-operating gains of £80m in FY18 profit up 4.0%

** Blond tobacco share +10 bps; share including dark tobacco segment -10bps YOY

Next Generation Products

Strengthening portfolio supports future development



- *myblu* competitive; now in 16 markets
- Leading retail share positions in Europe & Japan
- Improved key account execution & brand investment support share improvement in US
- Successful multi-category launches in oral nicotine and heated tobacco

How We Differentiate in an Evolving Environment

Reshaping investment focus in FY20



	Product, Brand & Consumer	Market & Channel Focus	Category Strategy	Regulatory Environment
Current	<ul style="list-style-type: none"> Product competitive Trial focused promotion Undifferentiated experience 	<ul style="list-style-type: none"> Largest vape markets Leverage tobacco distribution Retail 'pay to play' 	<ul style="list-style-type: none"> blu established Trial launch of HT Nascent oral nic offer 	<ul style="list-style-type: none"> Inconsistent approach Regulatory ambiguity Consumer confusion
Focus	<p>Product enhancement</p> <p>Brand engagement</p>	<p>Target markets</p> <p>More online focus</p>	<p>Expanding Pulze & modern snus rollouts</p>	<p>Establish clear regulatory framework</p>
Future	<ul style="list-style-type: none"> 'Premium' device Brand aligned to consumer insight Lower churn, higher loyalty 	<ul style="list-style-type: none"> Markets with closed device potential Selective trade spend Building consumer relationships 	<ul style="list-style-type: none"> Selective product approach according to market 	<ul style="list-style-type: none"> Highest standards enable right to play Improved ROI

Heated Tobacco & Modern Oral Nicotine

Building out distribution in FY20



- 80% indicate intention to continue using Pulze
- National launch in Japan - convenience key accounts
- Increasing production capacity to support further market launches



- Growing strongly from low base; net revenue +400%
- Modern formats launched in Germany, Austria and others
- Further geographic expansion planned

Americas: Strong Tobacco Performance

Share growth in cigarettes, NGP more challenging



Tobacco Net Revenue	6.8%	↑	NGP Net Revenue	30.5%*	↓	EBIT**	2.6%	↓
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Cigarettes

Cigars

NGP

- Cigarette share growth +10bps
- Portfolio strategy supports share & revenue
- Volumes +0.7bn SE from wholesale shipment timing
- Leading cigar growth; Backwoods revenue +25%
- Increased churn, competitor discounting & regulatory uncertainty impacting NGP

* NGP net revenue growth +5% excluding IP income in FY18 (£51m)
 ** EBIT growth of 6.7% excluding FY18 profit on sale of OTP and IP income

	Product, Brand & Consumer	Market & Channel Focus	Regulatory Environment
FY20 Focus	<p>Continue to refine brand & align to smoker insights</p> <p>Reduce & reshape A&P</p> <p>Focus on brand experience; reduce churn</p>	<p>New online platform; better service and aftercare</p> <p>Better planning around salesforce execution</p>	<p>Promote enforcement of clear & proportionate legislative framework</p> <p>Secure successful PMTA application</p>

AAA: Tough FY19 trading environment

Priority market share gains create stronger future platform



Tobacco Net Revenue	4.8%	↓	NGP Net Revenue	880%	↑	EBIT	8.1%	↓
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Tobacco



New P&S and Davidoff launches have supported share growth in priority markets

NGP



Pulze launched in Japan

Further rollout of nic-free myblu in Japan

Pulze & myblu both being rolled out nationally

- Australia mix challenges from growing sub-economy price segment
- P&S successful launch in Australian dark market
- Market share gains in Australia, Russia & Japan
- Russia impacted by competitor price discounting
- GCC transit volumes impact Saudi mix
- Strong NGP performance in Japan
- Pulze and myblu now rolling out nationally

Europe: Resilient Tobacco & additive NGP growth

Tobacco financials driven by strong pricing



Tobacco Net Revenue	0.8%	↑	NGP Net Revenue	309%	↑	EBIT	0.3%	↓
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Tobacco

JPS growing share in Italy

Davidoff Evolved launched in Germany

Rauchen verursacht Herzanfälle

Horizon leading fine-cut share growth in Spain

NGP

Building myblu sales across division

Super white market expansion

- Resilient tobacco performance
- Balanced financial returns with optimised share positions
- Share up in Italy and Spain*. Pricing in Germany & UK supports revenue, action to address share
- Tobacco profit growth broadly offsets NGP loss
- Leading retail share positions for myblu in competitive markets
- Modern oral tested in multiple markets; strong launches in Austria and Germany

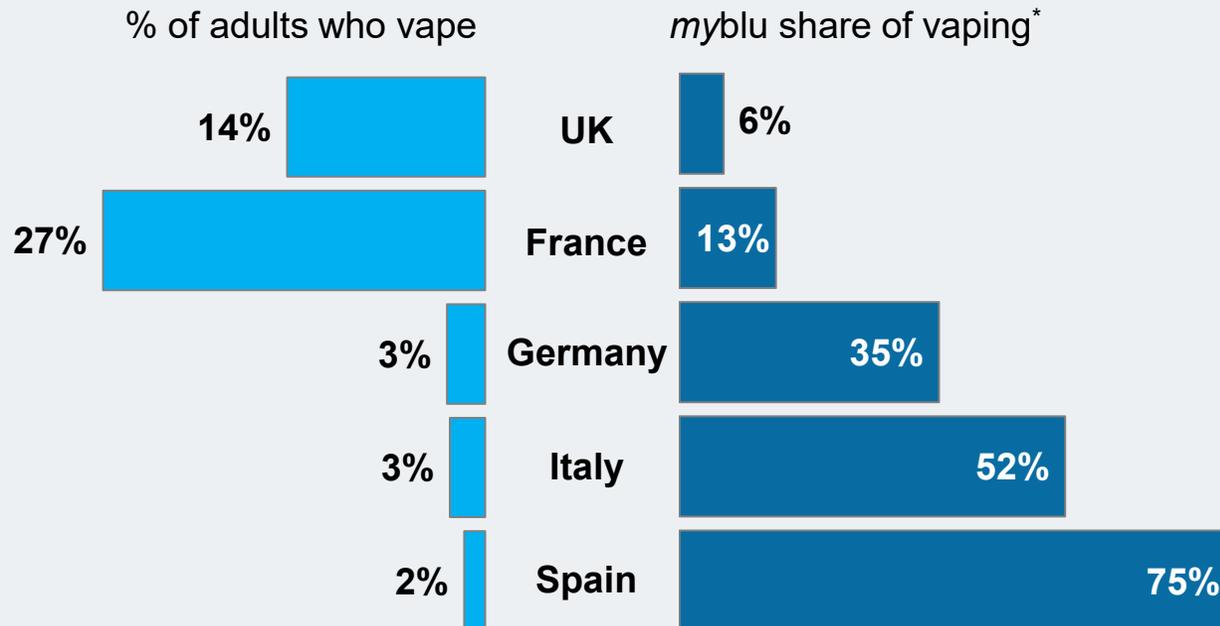
* Blond tobacco share +10 bps; share including dark tobacco segment -10bps YOY

NGP Learnings: Europe

Strong share positions in markets with low vape penetration



Total vape penetration versus *myblu* share



- Consumer adoption of closed system devices slower in established vape markets
- Strong value proposition in open system category
- Leading *myblu* share position in Germany, Italy & Spain

NGP Europe

Reshaping investment focus in FY20



	Product, Brand & Consumer	Market & Channel Focus	Category Strategy	Regulatory Environment
FY20 Focus	<p>Refresh of branding & enhanced <i>myblu</i> device</p> <p>Activity focused more on building brand loyalty</p>	<p>Investing to grow in Germany, Italy & Spain</p> <p>Strategy to improve returns in UK & France</p> <p>Closer consumer relationships online</p>	<p>Targeting growing demand for modern oral nicotine in non-traditional snus markets</p>	<p>Advocate for adoption of clear manufacturing and marketing standards in all markets</p>

FY20 Outlook

Resilient tobacco value creation & sustainable NGP growth



- Tobacco to deliver revenue growth, high margins & cash flow
- NGP investment reset; focus on sustainable growth & returns
- Low single-digit revenue & EPS growth (cc) in FY20*
- Progressive dividend supporting shareholder returns
- Focus on driving stronger performance in FY20

Appendices

Group financials



Group Adjusted Results



		FY18	Foreign Exchange	Constant Currency Growth	FY19	Actual Δ	Constant Currency Δ
Tobacco & NGP net revenue *	£m	7,697	132	169	7,998	3.9%	2.2%
Tobacco & NGP operating profit	£m	3,557	74	(100)	3,531	-0.7%	-2.8%
<i>Tobacco operating margin</i>	%	46.2			44.1	-210bps	-230bps
Logistics distribution fees	£m	989	(1)	27	1,015	2.6%	2.7%
Logistics operating profit	£m	212	(1)	21	232	9.4%	9.9%
<i>Logistics margin</i>	%	21.4			22.9	+150bps	+150bps
Eliminations	£m	(3)	2	(13)	(14)	366.7%	433.3%
Adjusted operating profit	£m	3,766	73	(90)	3,749	-0.5%	-2.4%

* Net revenue for FY18 restated for the impact of IFRS15

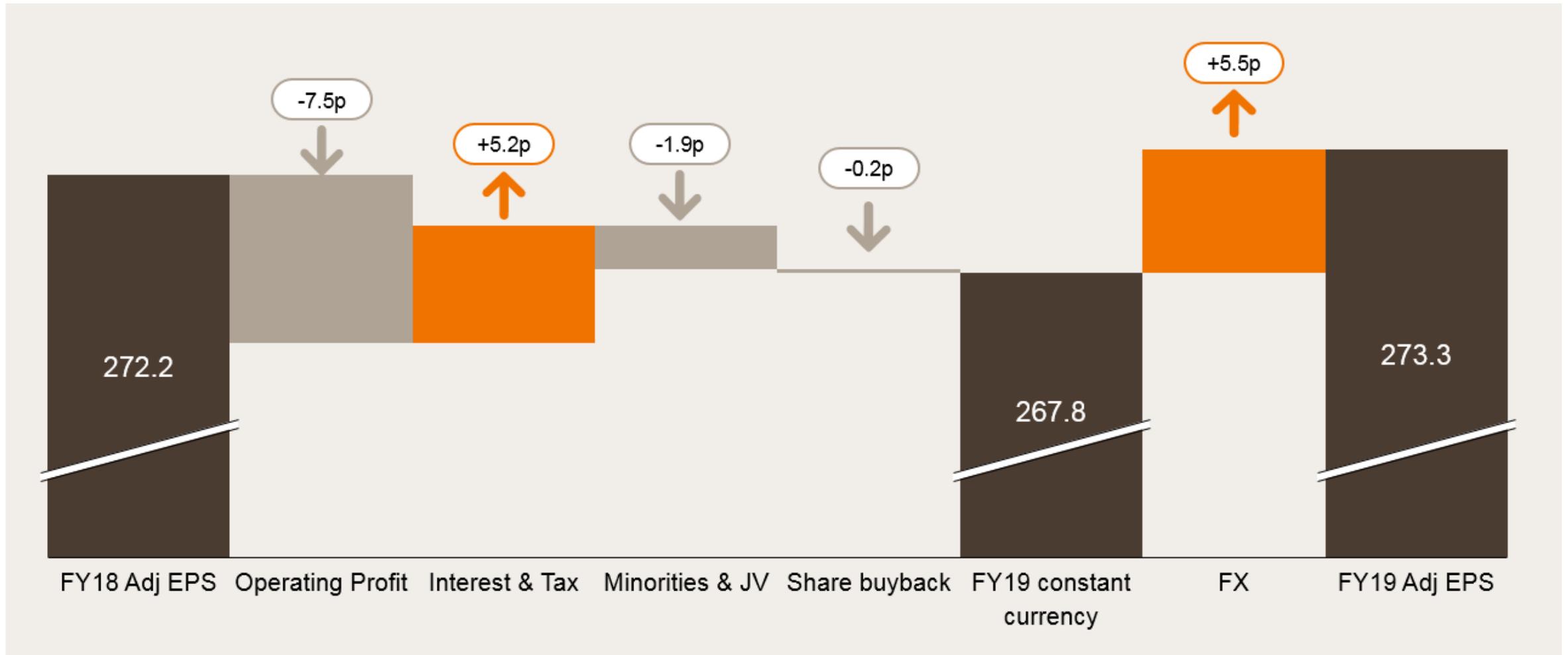
Group Adjusted Results



		FY19	FY18
Adjusted operating profit	£m	3,749	3,766
Interest	£m	(450)	(487)
Share of profit of JVs	£m	55	42
Profit before tax	£m	3,354	3,321
Tax rate	%	19.1	19.5
Adjusted EPS	pence	273.3	272.2
DPS	pence	206.6	187.8
Cash conversion	%	95	97
Adjusted net debt	£m	(11,376)	(11,474)

FY19 EPS Growth

Operating profit decline partly offset by tax & interest



Reconciliation: Reported to Adjusted



£m (unless otherwise stated)	Reported FY19	Amortisation and impairment of acquired intangibles	Fair value gains on financial instruments	Post employment net financing	Acquisition and disposal costs	Restructuring costs	FV adjustment to acquisition consideration	Tax on unrecognised losses	Excise tax provision	Adjusted non-controlling interests	Adjusted FY19
Operating profit	2,197	1,118			22	144	129		139		3,749
Share of profit of JV	55										55
Finance costs	(562)		107	5							(450)
Profit before tax	1,690	1,118	107	5	22	144	129		139		3,354
Tax	(609)	(9)	(31)	(4)		(35)		61	(15)		(642)
Profit after tax	1,081	1,109	76	1	22	109	129	61	124		2,712
Minority interest	(71)									(36)	(107)
Earnings attributable	1,010	1,109	76	1	22	109	129	61	124	(36)	2,605
Basic EPS (pence)	106.0p	116.4p	8.0p	0.1p	2.3p	11.4p	13.5p	6.4p	13.0p	(3.8)p	273.3p

Income Statement



£m (unless otherwise stated)	FY19	FY18 restated *
Revenue	31,594	30,066
Adjusted operating profit	3,749	3,766
Acquisition and disposal costs	(22)	-
Amortisation and impairment of acquired intangibles	(1,118)	(1,053)
Restructuring costs	(144)	(196)
Excise tax provision	(139)	-
Fair value adjustment of acquisition consideration	(129)	-
Administration of UK distributor	-	(110)
Share of profit of investments accounted for using the equity method	55	42
Net finance costs **	(562)	(626)
Profit before tax	1,690	1,823
Tax	(609)	(396)
Profit after tax	1,081	1,427
Minority interests	(71)	(59)
Basic EPS (pence)	106.0	143.6
Adjusted EPS (pence)	273.3	272.2

Balance Sheet



£m	FY19	FY18
Non-current assets: tangible	4,046	4,478
intangible	18,596	19,117
Current assets: inventories	4,082	3,692
other	7,006	3,561
Current liabilities	(12,382)	(11,237)
Non-current liabilities	(15,764)	(13,166)
Net assets	5,584	6,445

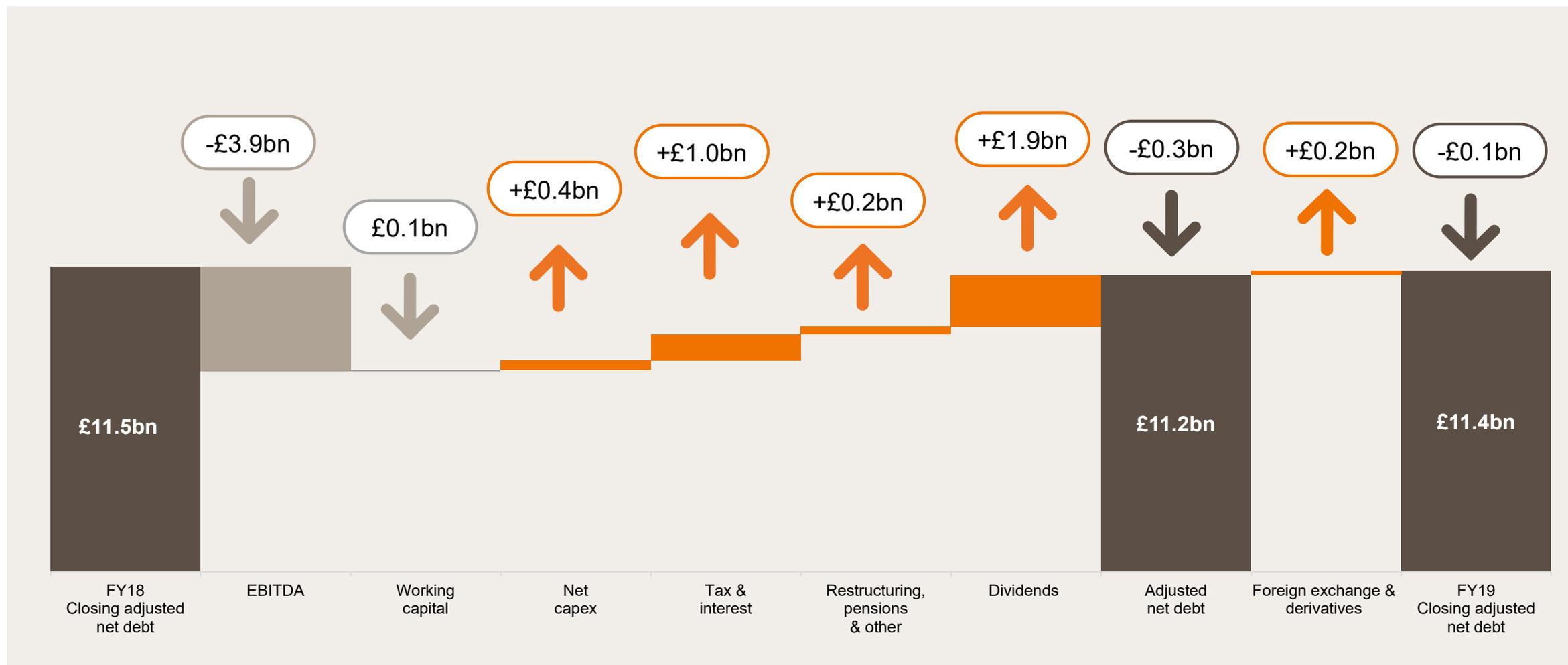
Cash Flow



£m	FY19	FY18
Cash flows from operating activities pre tax	3,758	3,494
Tax paid	(522)	(407)
Cash flows from operating activities	3,236	3,087
Net capex	(352)	(193)
Logista Share Sale/Purchase of Shares	(108)	193
Purchase of IP	(17)	(75)
Employee Share Ownership Trust	1	2
Loans to JV/Third Parties	(71)	28
Dividends paid (inc. minority interests)	(1,928)	(1,747)
Net interest paid	(473)	(491)
Net cash flow	288	804
Opening net debt	(11,899)	(12,490)
Closing net debt before non-cash movements	(11,611)	(11,686)
Non-cash movements		
Exchange movement	(204)	(152)
Interest accretion and derivative fair value adjustments	(141)	(61)
Transferred to assets held for disposal	(14)	-
Closing net debt after non-cash adjustments	(11,970)	(11,899)

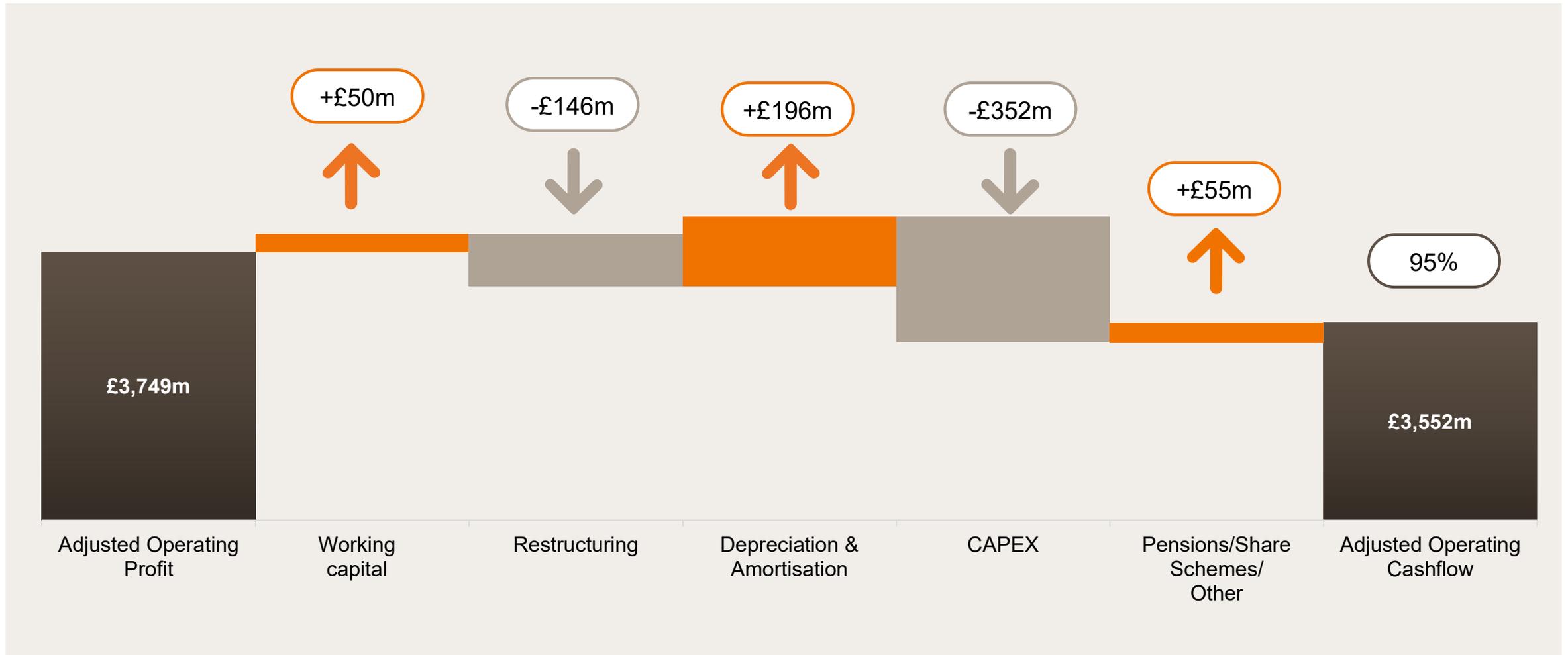
Strengthening Balance Sheet

£0.1bn reduction in Net Debt



Capital Discipline

Cash conversion 95% for FY19



12 Month Cash Conversion



£m (unless otherwise stated)	FY19	FY18
Net cash flow from operating activities	3,236	3,087
Administration of UK distributor	-	110
Provision in respect of loan to third party	-	(4)
Tax	522	407
Net capex	(352)	(193)
Restructuring cash spend	146	241
Cash flow post capex pre interest and tax	3,552	3,648
Adjusted operating profit	3,749	3,766
Cash conversion (%)	95	97
Working capital movement	50	(11)

Net Finance Costs



£m	FY19	FY18
Net finance costs	562	626
Adjusted for:		
- interest income on net defined benefit assets	142	129
- interest cost on net defined benefit liabilities	(147)	(142)
- exchange losses	(107)	(126)
Adjusted net finance costs	450	487

Net Debt Reconciliation



£m	Reported FY19	Accrued interest	Fair value of derivatives	Adjusted FY19
Opening net debt	(11,899)	197	228	(11,474)
Free cash flow	2,216			2,216
Dividends	(1,928)			(1,928)
Accretion of interest	33	(35)		(2)
Change in fair values	(174)		204	30
Exchange movements	(204)			(204)
Transfer to assets held for disposal	(14)			(14)
Closing net debt	(11,970)	162	432	(11,376)

Foreign Exchange



	Average			Closing		
	FY18	FY19	Δ	FY18	FY19	Δ
USD \$	1.346	1.277	-5%	1.305	1.229	-6%
EURO €	1.130	1.132	-	1.127	1.129	-
AUD \$	1.770	1.814	2%	1.809	1.821	1%
Russian Rouble	81.682	83.533	2%	85.813	79.887	-7%

Divisional Market Share

MAT market share data



	FY19	FY18	△
Europe	19.5%	20.2%	-70bps
Americas	8.8%	8.7%	+10bps
AAA	10.2%	10.3%	-10bps
Total Group	13.6%	13.8%	-30bps

Market Share Calculation

Market share is presented as a 12 month average (MAT). Aggregate market share is a weighted average across markets within our footprint. The sources of market share information by market are continually reviewed to ensure the most accurate data available. Where any changes have been made we have restated (as denoted ^R) the PY number to ensure comparability.

Foreign Currency

Divisional currency exposure



<u>Approximate</u> weight of currency in Tobacco Net Revenue	GBP £	EUR / EUR Linked	USD \$	AU D \$	Other Currencies	Other includes
Europe	20%	75%			5%	Polish Zloty
Americas			100%			
AAA		25%	30%	20%	25%	Russian Rouble, Taiwan \$ & Moroccan Dirham

€0.01 (1 cent) movement in the € Euro has a c. £27m impact on net revenue.

\$0.01 (1 cent) movement in the \$ USD has a c. £25m impact on net revenue.

<u>Approximate</u> weight of currency in Operating Profit	GB P £	EUR / EUR Linked	USD \$	AUD \$	Other Currencies	Other includes
Europe	25%	75%				
Americas			100%			
AAA		5%	40%	45%	10%	Taiwan \$ & Moroccan Dirham
Logistics		100%				

€0.01 (1 cent) movement in the € Euro has a c. £14m impact on PBT.

\$0.01 (1 cent) movement in the \$ USD has a c. £11m impact on PBT

Non-Operating or Other Income

To be treated as adjusting or exceptional items from FY20



	FY17	FY18	FY19
Total adjusted EBIT	3,761	3,766	3,749
Net 'other income'	(114)	(80)	(10)
Revised adjusted EBIT	3,647	3,686	3,739
Adjusted EPS (pence)	267.0	272.2	273.3
Revised adjusted EPS (p)	257.4	265.4	272.5

Non-operating or 'other income' items will be treated as adjusting from FY20 & therefore not included in adjusted profit measures

FY20 Guidance

Other financial items



Financing & Cost of Debt

- Average all-in cost of net debt expected to be similar to this year
- Similar overall finance charge to FY19

Tax Rate

- Expected to be c. 21%

Cash Conversion

- Expect to be around 90%

Foreign Exchange

- Translation FX: c.2% EPS headwind at prevailing exchange rates on 4 November

Cost Optimisation

- Expecting c.£60m savings from ongoing optimisation programmes

Restructuring costs

- FY20 cash cost expected at around £200m (FY19: £146m)

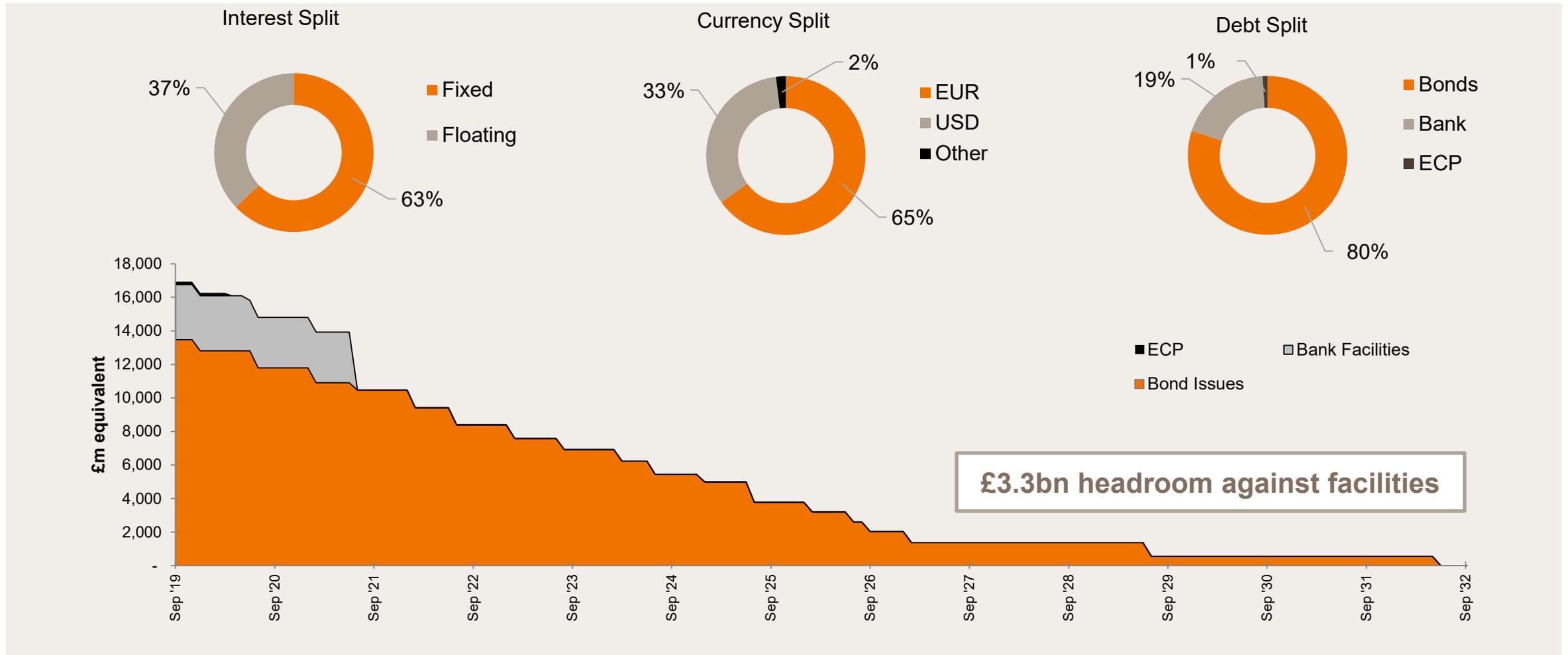
APPENDICES

Financing



FINANCIAL PROFILE

30 September 2019



COMMITTED BANK FACILITIES

30 September 2019



Description	Maturity date	Amount	£m equiv.
Committed 5-year Revolving Credit Facility			
EUR tranche	15 Jul 2021	€2,835m	£2,511m
GBP tranche	15 Jul 2021	£500m	£500m
Committed 2-year Revolving Credit Facilities			
EUR 300m	15 Jun 2020	€300m	£266m
Total			£3,277m

BOND ISSUES

30 September 2019



Amount	Issuer	Coupon	Issue Date	Maturity Date	£m equiv.	Margin
€750m	Imperial Brands Finance PLC	5.000%	Dec-11	Dec-19	£664m	2.6%
\$1,250m	Imperial Brands Finance PLC	2.950%	Jul-15	Jul-20	£1,017m	1.4%
€1,000m	Imperial Brands Finance PLC	2.250%	Feb-14	Feb-21	£886m	1.1%
€500m	Imperial Brands Finance PLC	0.500%	Jan-17	Jul-21	£443m	0.7%
£1,000m	Imperial Brands Finance PLC	9.000%	Feb-09	Feb-22	£1,056m ¹	4.8% ¹
\$1,250m	Imperial Brands Finance PLC	3.750%	Jul-15	Jul-22	£1,017m	1.8%
\$1,000m	Imperial Brands Finance PLC	3.500%	Feb-13	Feb-23	£813m	1.1%
€750m	Imperial Brands Finance PLC	1.125%	Feb-19	Aug-23	£664m	1.2%
£600m	Imperial Brands Finance PLC	8.125%	Sep-08	Mar-24	£683m	3.1% ¹
\$1,000m	Imperial Brands Finance PLC	3.125%	Jul-19	Jul-24	£796m ¹	1.2% ¹
€500m	Imperial Brands Finance PLC	1.375%	Jan-17	Jan-25	£443m	1.0%
\$1,500m	Imperial Brands Finance PLC	4.250%	Jul-15	Jul-25	£1,220m	2.2%
€650m	Imperial Brands Finance PLC	3.750%	Feb-14	Feb-26	£576m	1.5%
\$750m	Imperial Brands Finance PLC	3.500%	Jul-19	Jul-26	£597m ¹	1.5% ¹
£500m	Imperial Brands Finance PLC	5.500%	Sep-11	Sep-26	£570m	2.7% ¹
€750m	Imperial Brands Finance PLC	2.125%	Feb-19	Feb-27	£664m	1.8%
\$1,000m	Imperial Brands Finance PLC	3.875%	Jul-19	Jul-29	£813m ¹	2.0% ¹
£500m	Imperial Brands Finance PLC	4.875%	Feb-14	Jun-32	£554m ¹	2.1% ¹
Total/Weighted Average Margin					£13,476m¹	2.0%¹

Asset Brands



Asset Brands



Asset Brands*

We continue to reshape our brand portfolio, prioritising our high-quality Asset Brands to drive growth.

Portfolio Brands

The remainder of our portfolio consists of local and regional brands.

Divisions

Main markets

