

**5 February 2020**

## **AGM Update**

Imperial Brands PLC today issues the following AGM trading update:

Tobacco trading remains in line with expectations, with a weighting to the second half as previously guided. However, following the US FDA's ban on certain flavours of cartridge-based vapour devices and weaker than expected consumer demand for vapour, we now expect constant currency full year Group net revenue to be at a similar level to last year and adjusted earnings per share to be slightly lower than last year.

First half adjusted earnings per share is expected to be down c. 10% at constant currency, due to the phasing of inventory write-downs, primarily relating to the US flavour ban.

### **Next Generation Products (NGP)**

Regulatory uncertainty and adverse news flow continues to affect vapour demand in the US and Europe. We estimate this will result in significantly lower year-on-year NGP net revenue as well as increased provisions for slow-moving stock. We are implementing a further cost savings programme to mitigate some of these short-term headwinds, which will result in a full year net impact on adjusted operating profit of c. £40m.

In addition, the FDA ban, which comes into force tomorrow, has resulted in a write-down of our flavoured inventory with a first half adjusted operating profit impact of c. £45m; in line with our previous estimates.

We believe that NGP provides consumers with potentially less harmful alternatives to combustible tobacco and offers a significant growth opportunity over the medium term to complement our Tobacco business. We support regulation that enforces higher product and marketing standards, which are critical for creating a stable and orderly vapour market that we can invest behind.

### **Tobacco**

Our Tobacco business has had a good start in the first three months of the year with market share growth across the majority of our priority markets. The Europe division has benefited from price/mix gains, which have largely offset weaker volume trends. Our US business remains strong, although financial delivery has been temporarily affected, as anticipated, by wholesaler destocking following the year end price increase. The Africa, Asia and Australasia division has delivered revenue growth reflecting a strong volume performance and the sell-through of the Australian duty paid inventory.

### **Financial guidance**

Our effective adjusted tax rate for the year is expected to be around 21% (2019: 19.1%).

At current exchange rates, we expect a currency translation headwind on net revenue and adjusted earnings per share of c. 1% at the half year and c. 3% at the full year.

As previously guided, free cash-flow in FY20 will be affected by some one-off cash outflows in relation to Russian excise tax liabilities (c. £100m) and the final deferred consideration for the Von Erl acquisition (c. £120m).

### Potential divestments

Negotiations on the potential divestment of our Premium Cigar Division remain ongoing. We continue to consider the potential divestment of other non-core operations.

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