



PRELIMINARY RESULTS

2020

Imperial Brands PLC



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Stefan Bomhard

Chief Executive



Agenda



Introduction & initial observations

Stefan Bomhard

Financial Review

Oliver Tant

Outlook and priorities

Stefan Bomhard

Priorities: First Four Months



Visit markets & meet key stakeholders



Gathering data & insight



Strengthening performance management



Beginning the culture change



Leading strategic review



Strengthening the executive team



Adding New External Perspectives & Skills



Javier Huerta
Group Manufacturing &
Supply Chain Director



Alison Clarke
Chief People & Culture
Officer



Murray McGowen
Group Strategy &
Transformation Director

Initial Observations

Solid foundations for the future



Resilient tobacco sector which will support growing returns



High margins and strong cash flows



Manufacturing & supply chain provide solid foundation in tobacco



Solid customer partnerships



Committed and passionate employees

Initial Observations

Areas for improvement



Tobacco

- More consistent results
- Share performance has been mixed
- Scope for greater consumer insight

Performance Management

- Regular & detailed performance engagement
- More agile and responsive
- Informed by data & consumer insight

NGP

- Must be driven by consumer need
- Scaled too quickly across markets
- In an uncertain regulatory environment

Culture

- Accountability & delivery
- Lack of discipline around returns
- Need for transparency & openness with all stakeholders

Strategic Review – Scope and Approach



Scope

Tobacco
Brands & Markets

NGP
Brands & Markets

Organisation & Capabilities

Capital Allocation

Approach

Open-minded

Consumer-centric

Rigorous & data-led

Returns-focused

Transparent

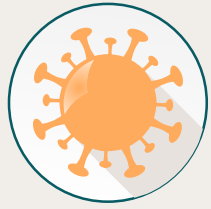
Collaborative

Capital Markets Event 27th January

Business Overview



Resilient tobacco performance & reduced NGP losses



Business continues to adapt to COVID-19 challenges, with priority to protect well-being of our people



Underlying durability of tobacco category; supported by COVID-19 related changes to consumer behaviour

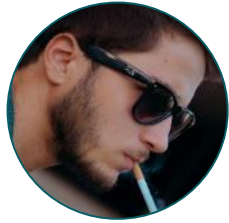


More disciplined & returns focused approach is stemming NGP losses



Completed sale of Premium Cigars with proceeds supporting deleverage of balance sheet

Managing the Business During Coronavirus



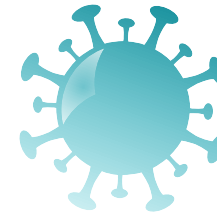
Impact on Consumers

- More time at home; more opportunities to smoke
- Fewer leisure spend opportunities
- Fiscal support benefits e.g. US



Impact on Markets & Channels

- Reduction in Duty Free & Horeca sales
- Volume shift from S Europe holiday destinations to N Europe
- Lower level of illicit



Impact on our Business


- Evolving operations to ensure safety of our people
- Some disruption to supply chain
- Environment remains uncertain
- Ongoing financial impact


Strengthening Governance & ESG




Latest ESG Indices

MSCI  'A' rating (Aug 2020)

 **SUSTAINALYTICS** Rated **medium** (Jun 2020)

vigeo  **eiris** **Co. Reporting Rate 86%** - sector ave. 78% (Sept 2020)

 **CDP** **'A' rating** (CDP 2019)
DRIVING SUSTAINABLE ECONOMIES

- Continuing to make progress in all priority areas
- Chairman leading new ESG Steering Committee
- New KPIs to be validated & aligned to strategy





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Financial Review

Oliver Tant

Summary Financials

FY20 constant currency performance



Market Share

+50bps Total
7 of 10 priority
markets

Volumes

-2.1%

Tobacco Net Revenue

+1.8%

NGP Net Revenue

-27%

Adjusted EPS

-5.6%

Dividend per Share

137.7p

Cash Conversion¹

127%
107%

Net Debt Reduction²

£(1.1)bn

¹ Underlying cash conversion of 107% which excludes 20% benefit from change in timing of excise payments in UK & Logista

² Change in adjusted net debt before FX and changes in fair value of derivatives – full reconciliation in appendices

FY20 Volumes

Better than expected volume trends



Europe

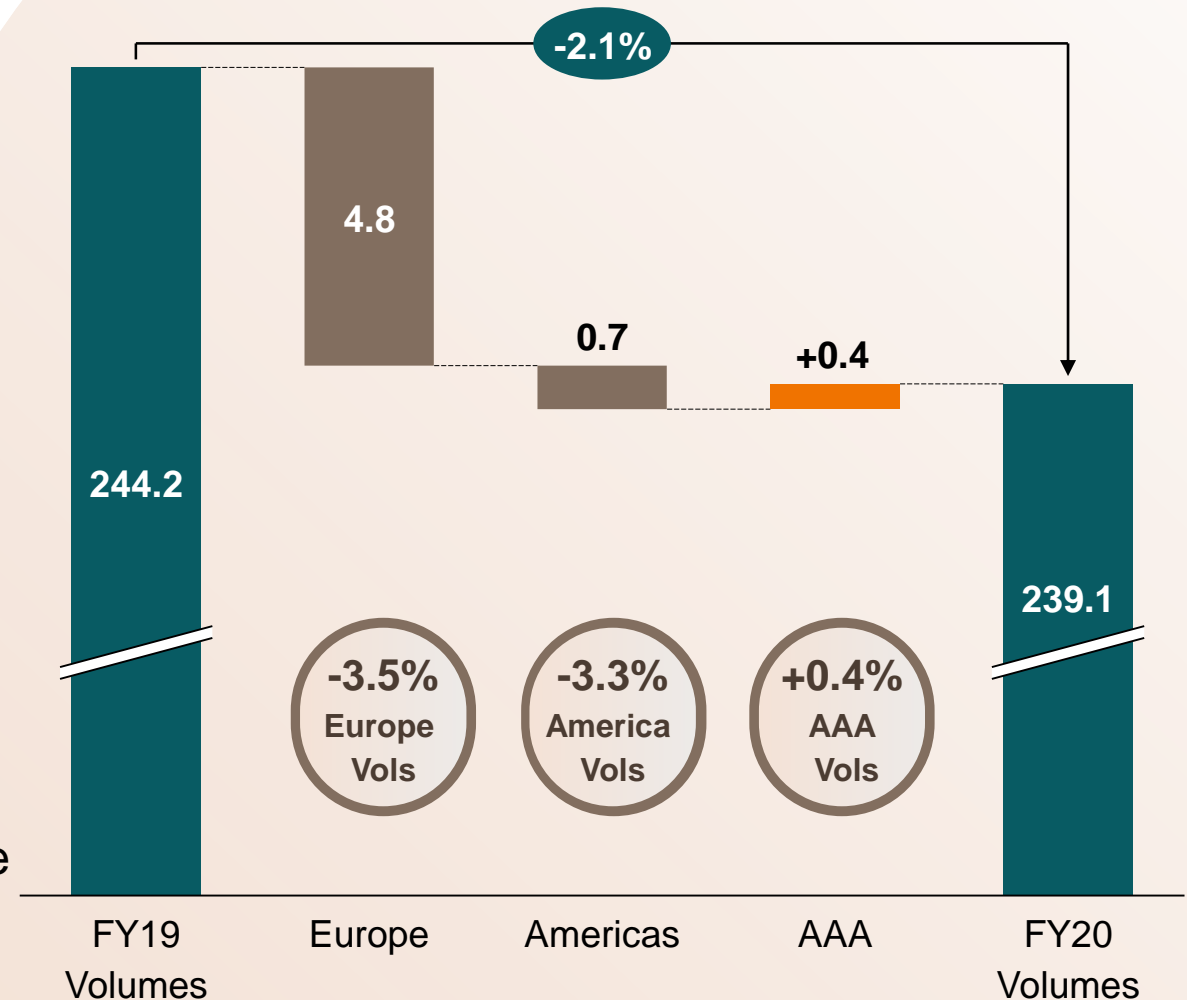
- Better duty paid market size
- N. Europe upside, duty free & S. Europe down
- Lower levels of illicit

Americas

- Slower market size decline in US
- Cigarette share growth for second year
- Inventory headwind c. 0.7bn SE

AAA

- Share gains in Saudi support growth in Middle East
- Volume down in Aus; growing illicit & market decline

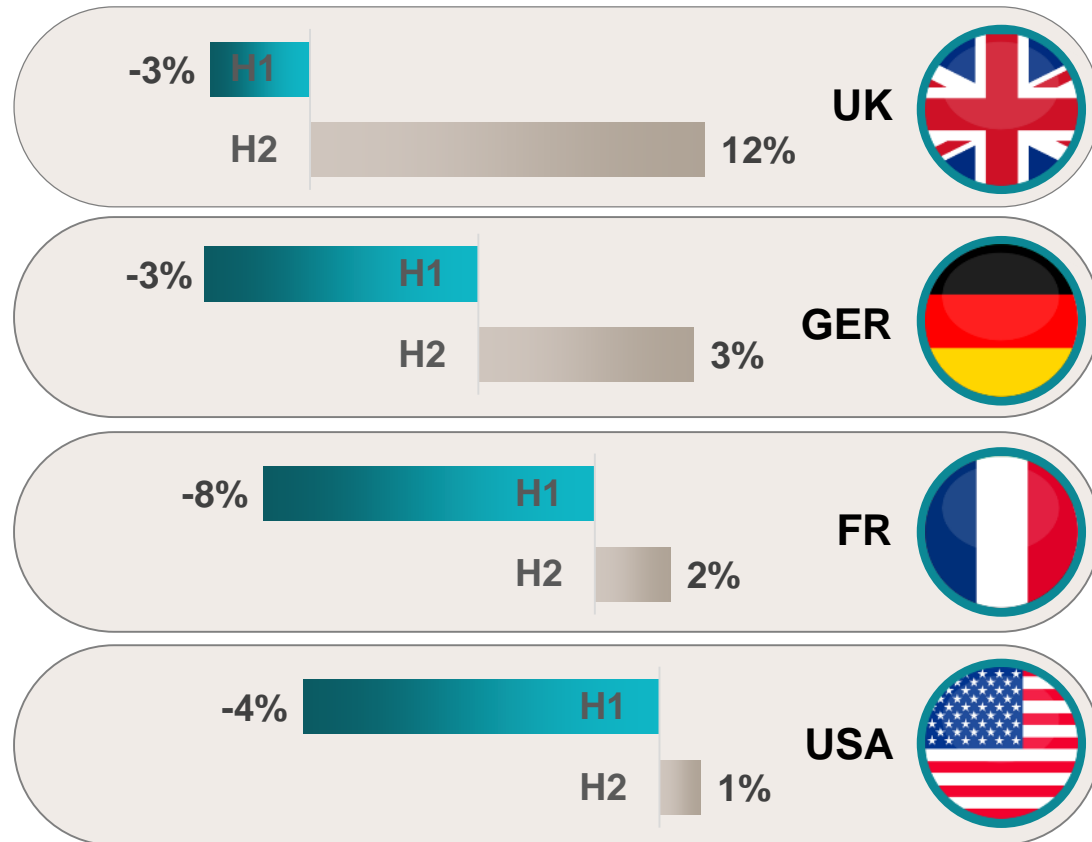


How COVID-19 has Impacted Market Size

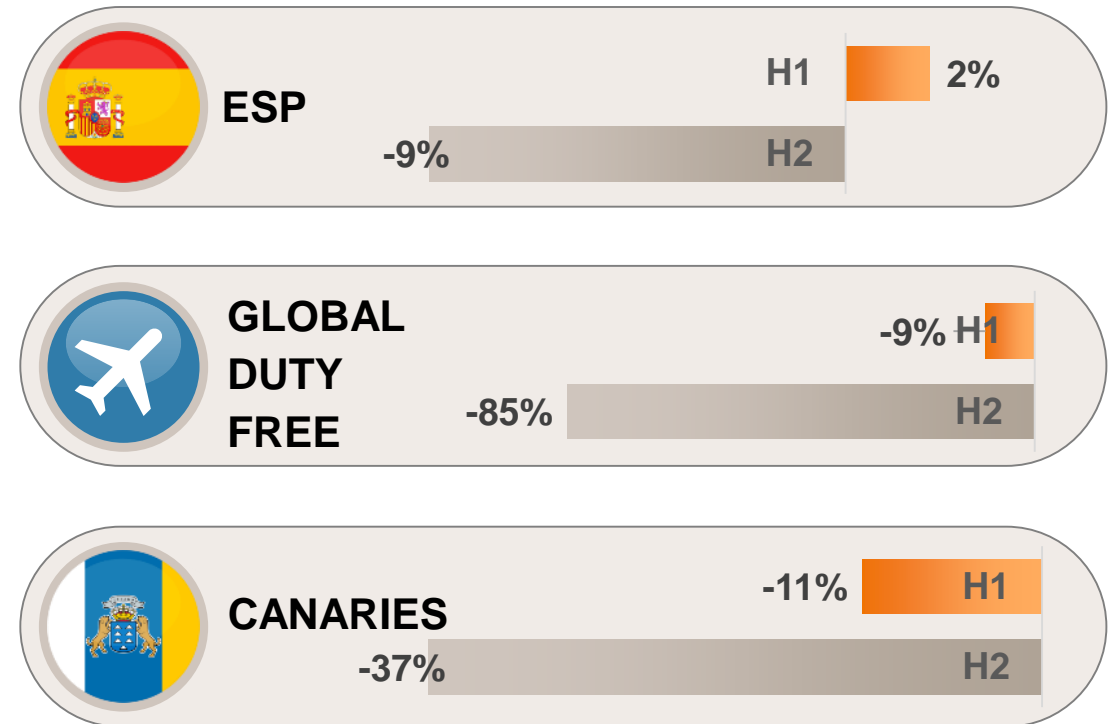
Contrasting impact across markets and channels



+VE impact on market



-VE impact on market

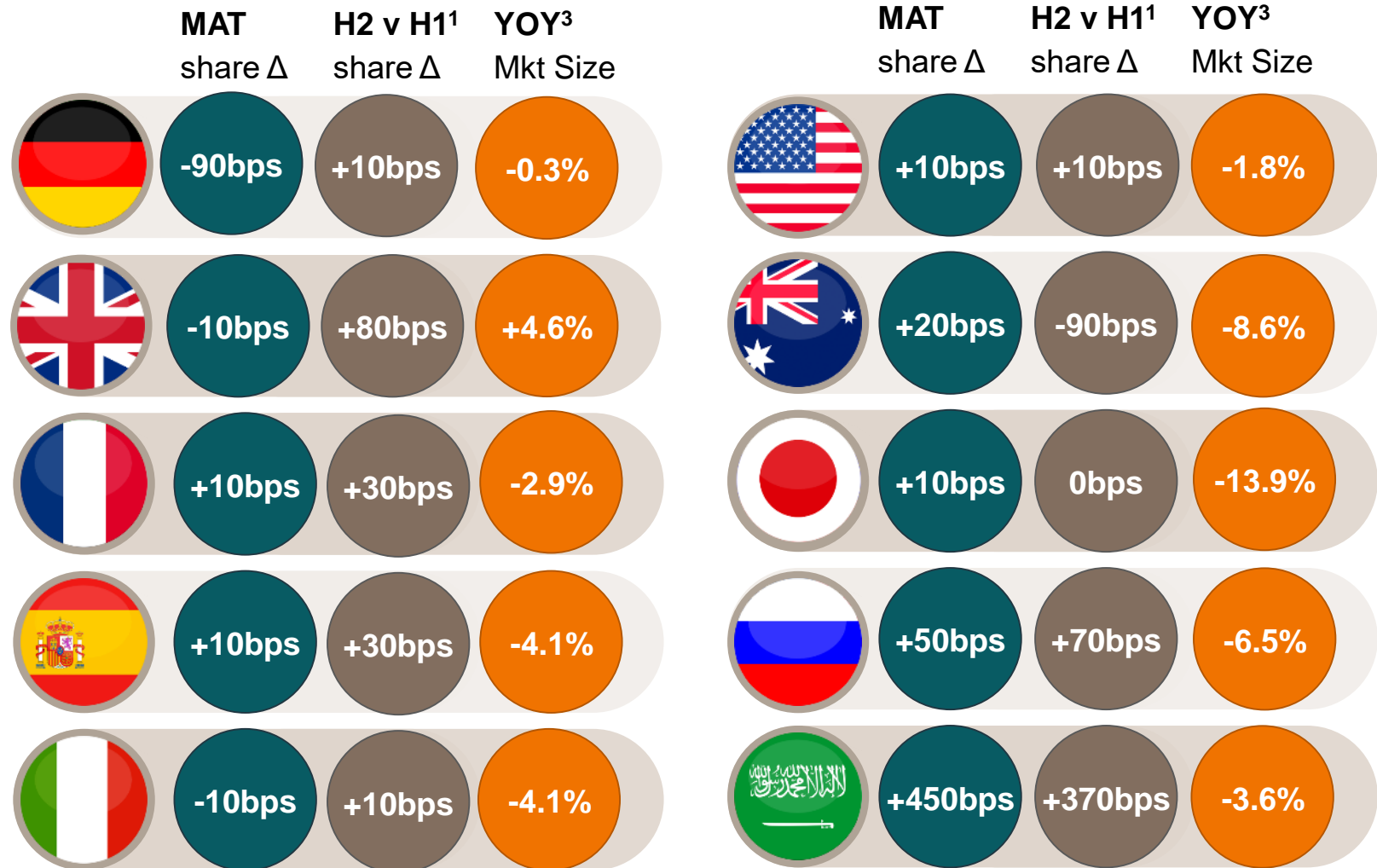


Priority Market Share & Market Size

Improving share & size in several key markets



- Improving sequential share in Germany and UK
- Share gains in US cigarettes
- US mass market cigars² also growing share by 70bps
- Strong relative market size in UK, US & Germany
- Accelerated market decline in Australia

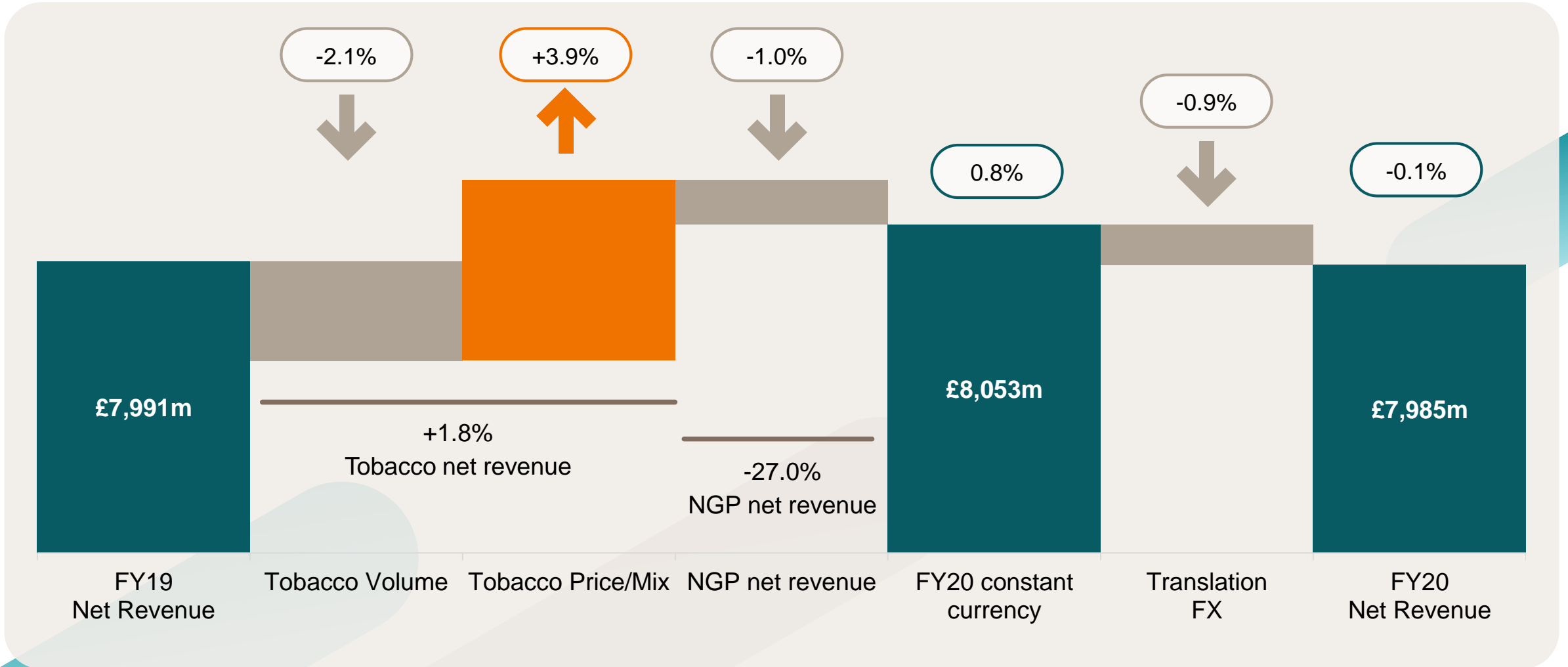


¹ FY20 H2 6 months versus FY20 H1 6 months. ² Cigars not included in US share data which cover cigarettes only.

³ Market size movement measures cigarette volume for 12 months to August versus same period last year

Net Revenue

Tobacco resilience, right sizing NGP



Tobacco Price Mix

Lower than average due to negative mix

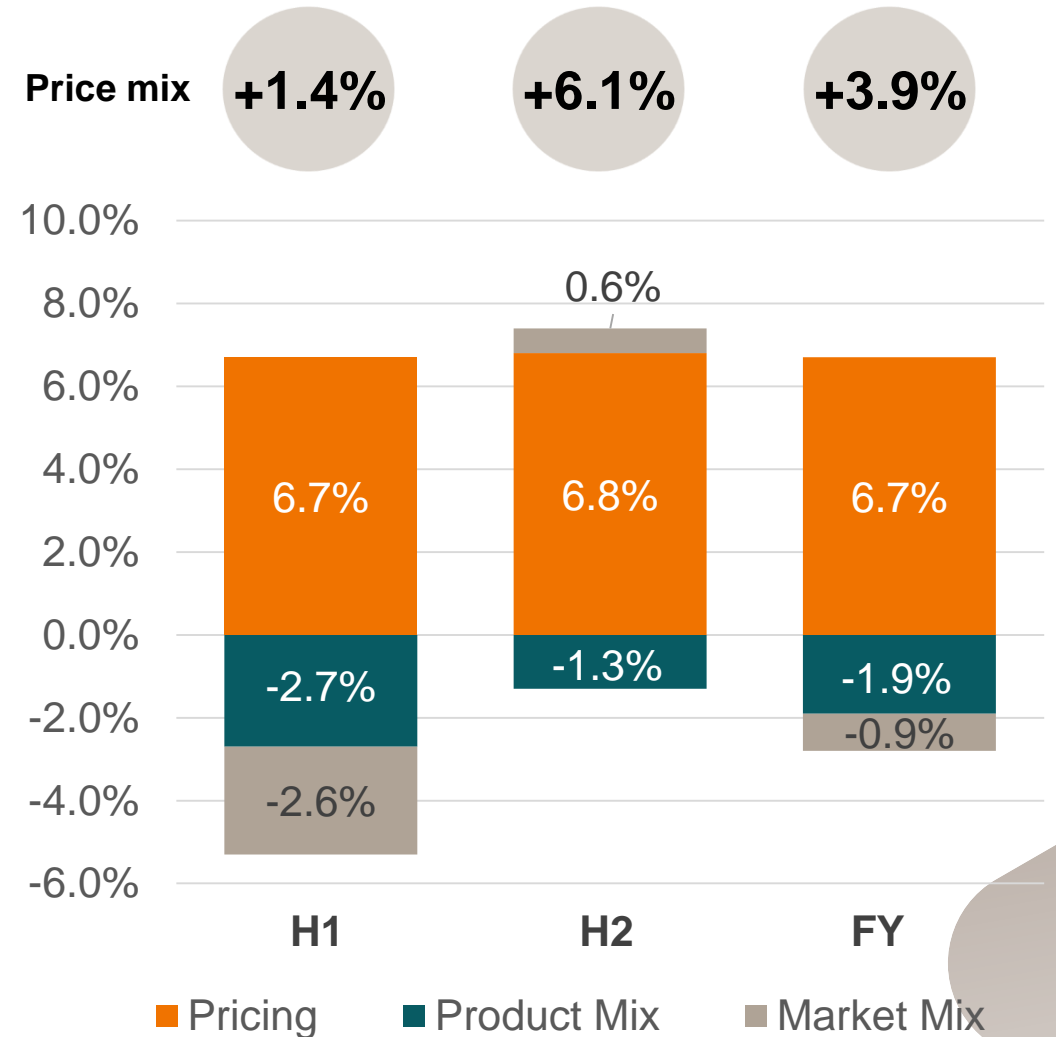


MARKET MIX

- Drag in H1 predominantly due to AAA growth
- Positive in H2 due to strength in N. Europe & normalisation of AAA

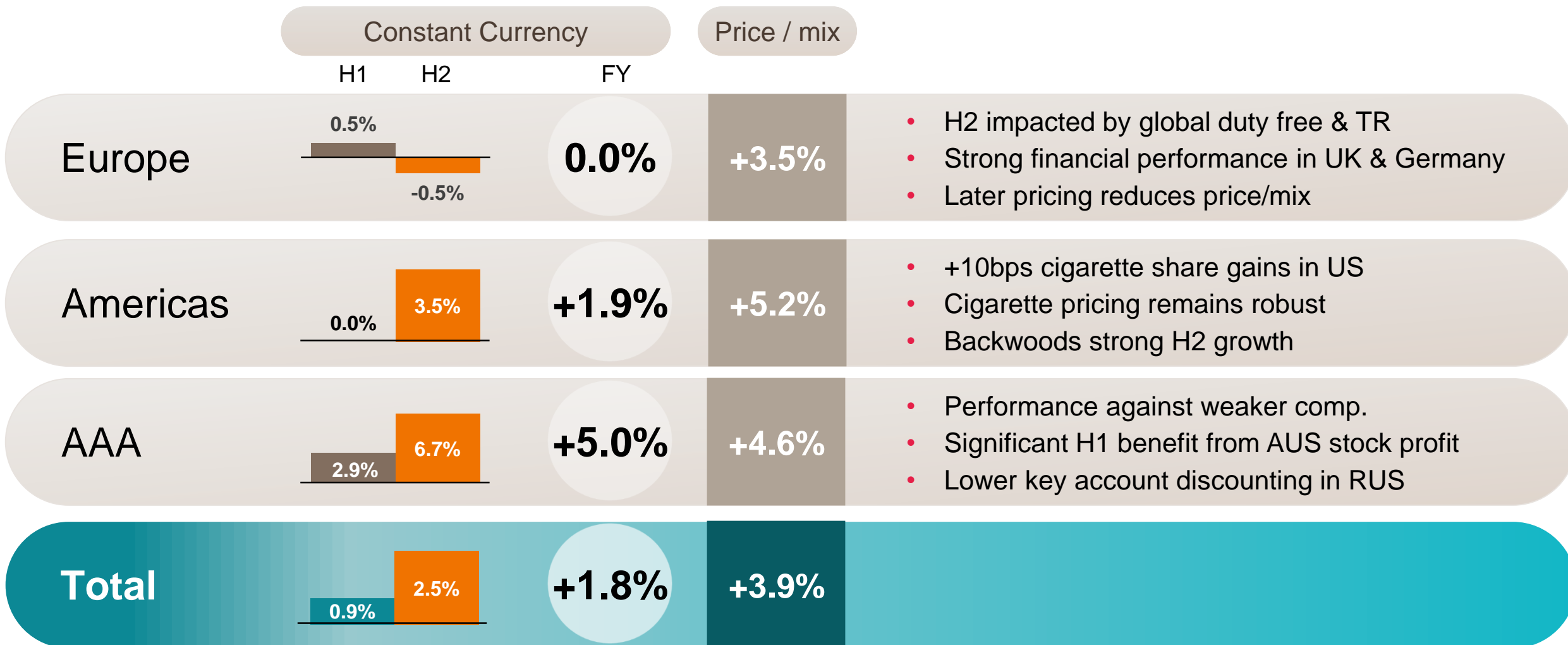
PORTFOLIO MIX

- UK, Australia & German private label volumes key to headwind
- Key movement H1 to H2 is return to growth of Backwoods in US



Tobacco Net Revenue

Resilient total tobacco & strong AAA against soft comparator



NGP Net Revenue

Sales down but with improving sequential trend

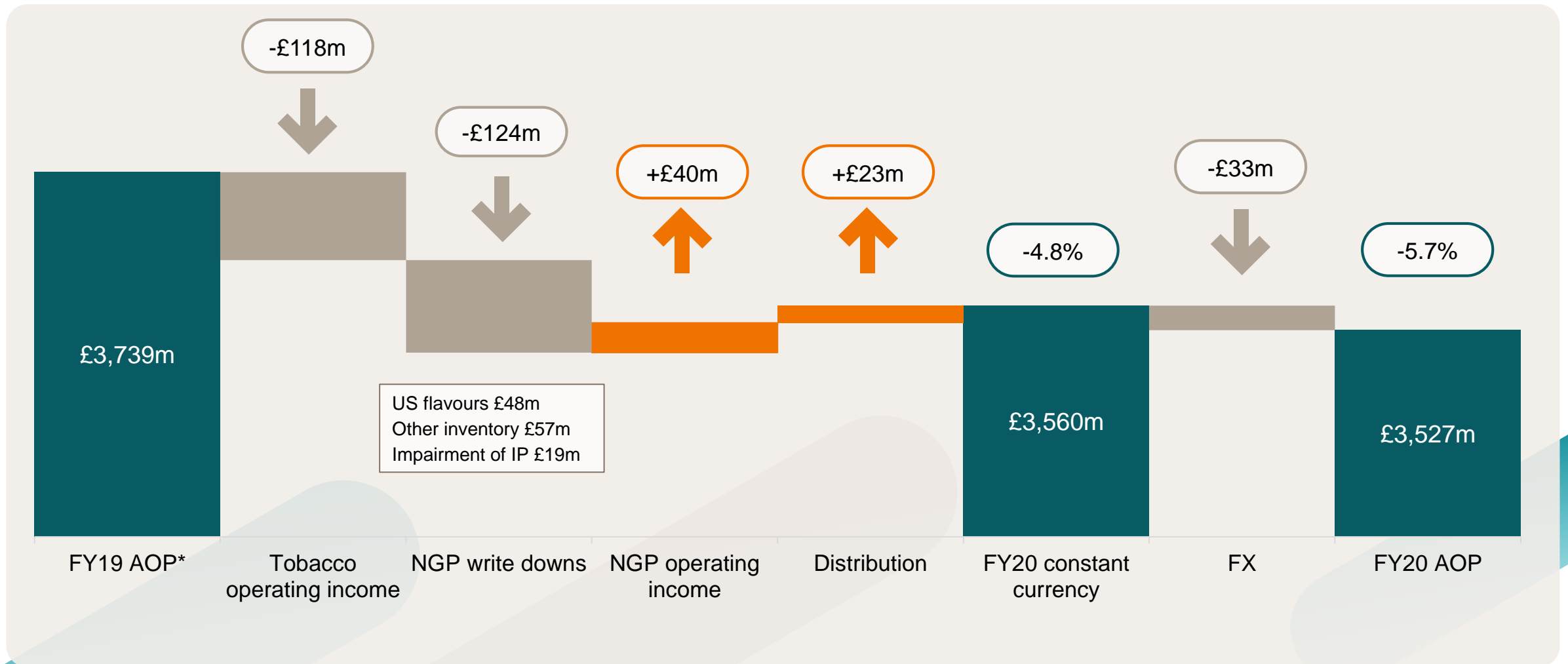


	Net Revenue		FY		H2 vs H1
Europe	£98m	↓	-21.9%	↑	+80%
Americas	£71m	↓	-34.3%	↑	+38%
AAA	£32m	↓	-23.8%	↓	-121%
Total	£201m	↓	-27.0%	↑	+35%

- Sales impacted by trade inventory destocking and lower investment levels
- Despite reduced investment, blu share in Europe has held up well
- AAA affected by pause in roll-out of Pulze and myblu

Adjusted Operating Profit

Lower H1 tobacco price/mix & one-off tobacco & NGP costs



Tobacco Operating Profit Drivers

Profits impacted by lower H1 price/mix & H2 costs



Tobacco drivers

Tobacco trading

- Weak H1 price/mix from market & product mix
- Underlying trading profit stronger in H2

COVID-19 related costs

- Manufacturing inefficiencies
- Stock & debtor provisions

Regulation costs

- Industry fines
- EUTPD II track & trace
- Inventory write-downs post menthol ban

Overheads

- Increased investment in sales force

FY20 Tobacco Profits vs FY19

£m	FY
Tobacco trading (reduced by adverse mix)	£48m
COVID-19 costs including provisions	£(90)m
Regulation	£(50)m
Overheads	£(26)m
Total	£(118)m

NGP Operating Profit Drivers

Write-downs and trade destock offset overhead savings



NGP drivers

NGP write-downs

- Inventory write-offs
- US flavours ban
- Impairment of intangible assets

NGP operating income

- H1 impacted by trade destock
- H2 benefited from:
 - more normalised trade levels
 - cost savings
 - lower investment benefit H2

FY20 NGP Profits

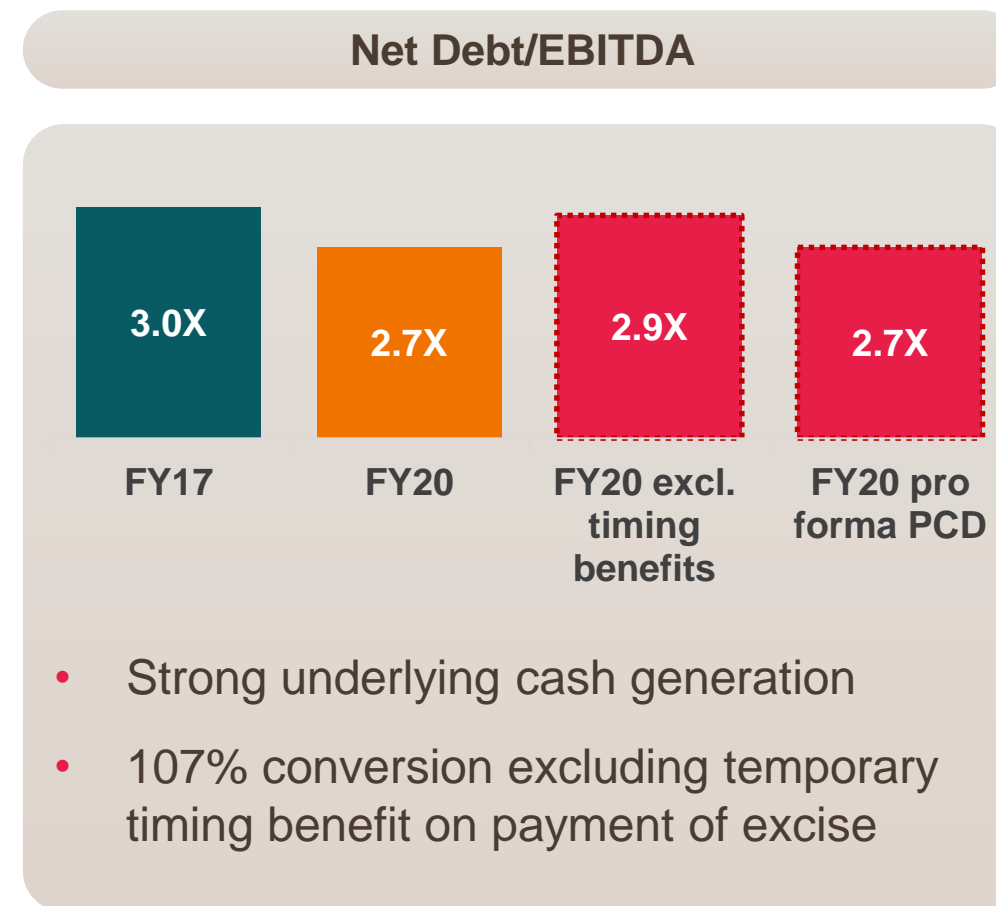
£m	H1	H2	FY
Write-downs	£(95)m	£(29)m	£(124)m
Operating loss	£(128)m	£(76)m	£(204)m
NGP operating profit	£(223)m	£(105)m	£(328)m
vs FY19	£(118)m	+£34m	£(84)m

Cash Performance

Strong reported & underlying cash delivery



£bn	FY20	FY19	Cash delivery
Adj. operating profit	3.5	3.7	(0.2) ↓
Working capital	1.0	0.1	1.0 ↑
Depreciation & amortisation	0.3	0.2	0.1 ↑
Capex	(0.3)	(0.4)	0.1 ↑
Pensions/Share schemes/Other	(0.1)	(0.1)	(0.1) ↓
Adj. operating cashflow	4.5	3.6	0.9 ↑
Cash conversion	127%	95%	



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



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Outlook and Priorities

Stefan Bomhard

Outlook

Expect a stronger financial performance in 2021



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
- Capacity constraints causing ongoing manufacturing inefficiencies

Tax Rate

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

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

Priorities for 2021

A decorative graphic on the left side of the slide, consisting of a large teal circle partially overlapping a smaller grey circle, with a red line and three red dots curving from the top left towards the right.

Right Strategy

Conclude review & implement revised strategy

Right Team

Combine existing strengths & fresh perspectives

Right Performance

Strengthen performance management

Appendices

Group financials



Group Adjusted Results



		FY19	Foreign Exchange	Constant Currency Growth	FY20	Actual Δ	Constant Currency Δ
Tobacco & NGP net revenue *	£m	7,991	(68)	62	7,985	-0.1%	+0.8%
Tobacco & NGP operating profit *	£m	3,521	(31)	(202)	3,288	-6.6%	-5.7%
<i>Tobacco & NGP operating margin</i>	%	<i>44.1</i>			41.2	<i>-290bps</i>	<i>-290bps</i>
Logistics distribution fees	£m	1,015	(7)	7	1,015	+0.0%	+0.7%
Logistics operating profit	£m	232	(2)	(4)	226	-2.6%	-1.9%
<i>Logistics margin</i>	%	<i>22.9</i>			22.3%	<i>-60bps</i>	<i>-60bps</i>
Eliminations	£m	(14)	-	27	13	>100%	>100%
Adjusted operating profit *	£m	3,739	(33)	(179)	3,527	-5.7%	-4.8%

* FY19 restated for prior year re-statement of adjusted measures

Group Adjusted Results



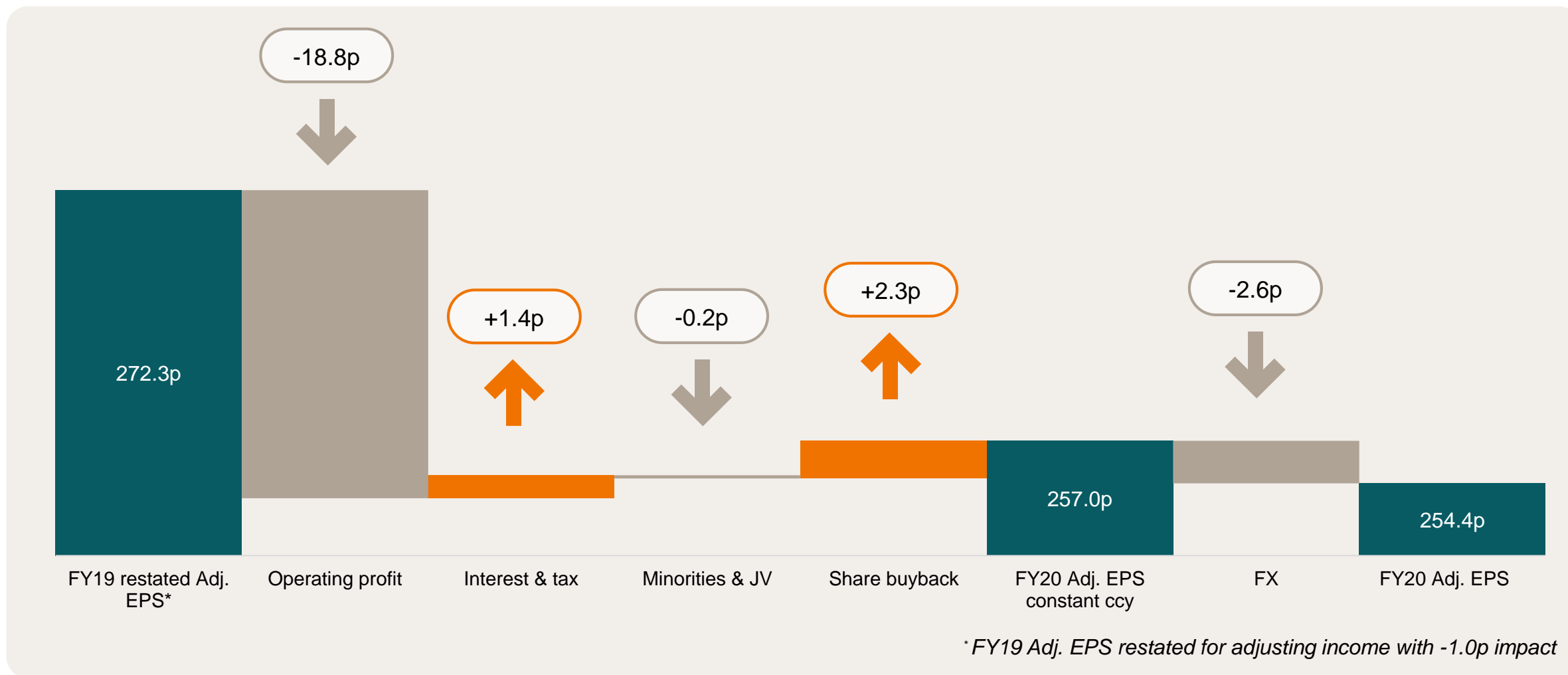
		FY20	FY19
Adjusted operating profit *	£m	3,527	3,739
Interest	£m	(429)	(450)
Share of profit of JVs	£m	45	55
Profit before tax *	£m	3,143	3,344
Tax rate *	%	20.7	19.2
Adjusted EPS *	pence	254.4	272.3
DPS	pence	137.7	187.8
Cash conversion	%	127	95
Adjusted net debt	£m	(10,299)	(11,376)

* FY19 restated for prior year re-statement of adjusted measures

FY20 EPS



Operating profit decline partly offset by share buyback



Reconciliation: Reported to Adjusted



£m (unless otherwise stated)	Reported FY20	Amort and impair of acquired intangibles	Fair value gains on financial instruments	Post employment net financing	Acqn and disposal costs	Restructuring costs	FV adjustment of loan receivable	Tax on unrecognised losses	Excise tax provision	Tax on disposal of PCD	Previously unrecognised tax losses	Uncertain tax positions	Adjusted non-controlling interests	Adjusted FY20
Operating profit	2,371	523			26	205	62		(20)					3,527
Share of profit of JV	45													45
Finance costs	(610)		176	5										(429)
Profit before tax	2,166	523	176	5	26	205	62	-	(20)				-	3,143
Tax	(608)	(57)	63	(1)		(31)		(41)	4	19	(67)	77		(642)
Profit after tax	1,558	466	239	4	26	174	62	(41)	(16)	19	(67)	77	-	2,501
Minority interest	(63)												(35)	(98)
Earnings attributable	1,495	466	239	4	26	174	62	(41)	(16)	19	(67)	77	(35)	2,403
Basic EPS (pence)	158.3	49.2	25.3	0.4	2.8	18.4	6.6	(4.3)	(1.7)	2.0	(7.1)	8.2	(3.7)	254.4

Income Statement



£m (unless otherwise stated)	FY20	FY19
Revenue	32,562	31,594
Adjusted operating profit *	3,527	3,739
Acquisition and disposal costs	(26)	(22)
Amortisation and impairment of acquired intangibles	(523)	(1,118)
Restructuring costs	(205)	(144)
Excise tax provision	20	(139)
Fair value adjustment of acquisition consideration	-	(129)
Fair value adjustment of loan receivable *	(62)	3
Sale of intellectual property income *	-	7
Share of profit of investments accounted for using the equity method	45	55
Net finance costs **	(610)	(562)
Profit before tax	2,166	1,690
Tax	(608)	(609)
Profit after tax	1,558	1,081
Minority interests	(63)	(71)
Basic EPS (pence)	158.3	106.0
Adjusted EPS (pence)	254.4	272.3

Balance Sheet



£m	FY20	FY19
Non-current assets: tangible	4,500	3,821
intangible	18,160	18,596
Current assets: inventories	4,065	4,082
other	5,585	6,575
Current liabilities	(12,325)	(11,951)
Non-current liabilities	(14,467)	(15,539)
Net assets	5,518	5,584

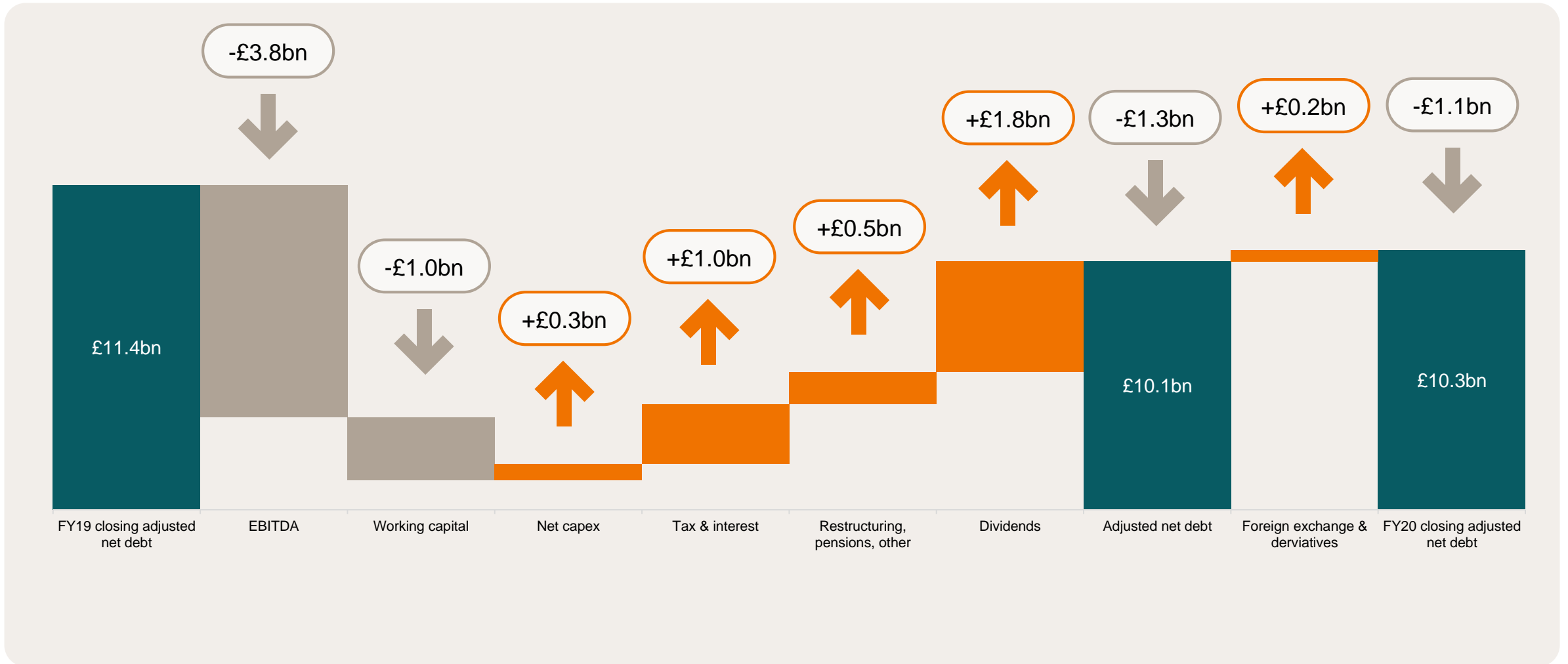
Cash Flow



£m	FY20	FY19
Cash flows from operating activities pre tax	4,598	3,758
Tax paid	(568)	(522)
Cash flows from operating activities	4,030	3,236
Net capex	(274)	(352)
Logista Share Sale/Purchase of Shares	(92)	(108)
Purchase of IP	(146)	(17)
Employee Share Ownership Trust	-	1
Loans to JV/Third Parties	(3)	(71)
Deposit received from sale of asset held for sale	83	-
Dividends paid (inc. minority interests)	(1,838)	(1,928)
Net interest paid	(420)	(473)
Net cash flow	1,340	288
Opening net debt	(11,970)	(11,899)
Closing net debt before non-cash movements	(10,630)	(11,611)
Non-cash movements		
Exchange movement	(168)	(204)
Interest accretion and derivative fair value adjustments	45	(141)
Adoption of IFRS 16	(326)	-
Transferred to assets held for disposal	(62)	(14)
Closing net debt after non-cash adjustments	(11,141)	(11,970)

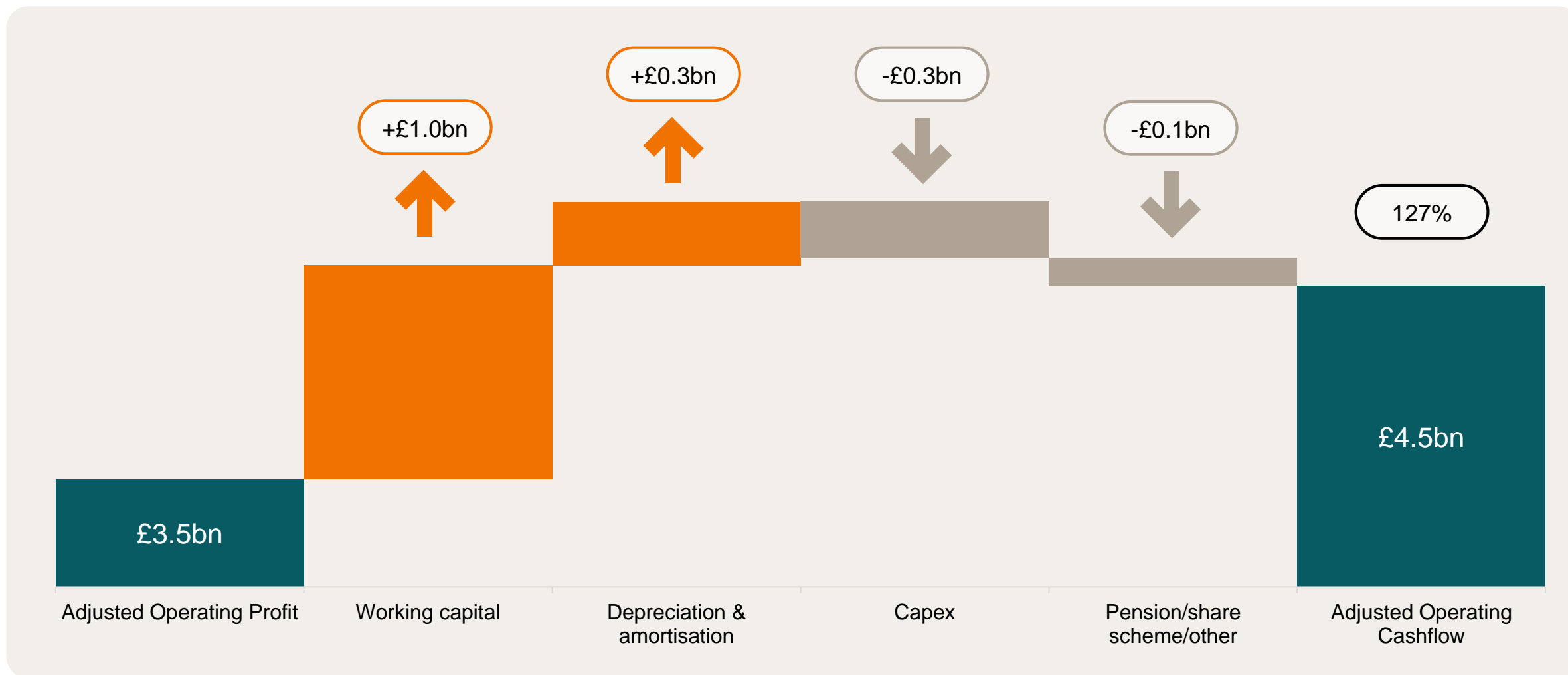
Strengthening Balance Sheet

£1.1bn reduction in Net Debt



Capital Discipline

Cash conversion 127% for FY20



12 Month Cash Conversion



£m (unless otherwise stated)	FY20	FY19
Net cash flow from operating activities	4,030	3,236
Tax	568	522
Net capex	(274)	(352)
Restructuring cash spend	145	146
Cash flow post capex pre interest and tax	4,469	3,552
Adjusted operating profit	3,527	3,749
Cash conversion (%)	127	95
Working capital movement	1,042	50

Net Finance Costs



£m	FY20	FY19
Net finance costs	610	562
Adjusted for:		
- interest income on net defined benefit assets	99	142
- interest cost on net defined benefit liabilities	(104)	(147)
- exchange losses	(176)	(107)
Adjusted net finance costs	429	450

Net Debt Reconciliation



£m	Reported FY20	Accrued interest	IFRS 16	Fair value of derivatives	Adjusted FY20
Opening net debt	(11,970)	162	-	432	(11,376)
Free cash flow	3,178				3,178
Dividends	(1,838)				(1,838)
Accretion of interest	(4)	(6)			(10)
IFRS 16 transition	(326)		299		(27)
New leases and modifications	(32)				(32)
Change in fair values	81			(45)	36
Exchange movements	(168)				(168)
Transfer to assets held for disposal	(62)				(62)
Closing net debt	(11,141)	156	299	387	(10,299)

Foreign Exchange



	Average			Closing		
	FY19	FY20	Δ	FY19	FY20	Δ
USD \$	1.277	1.275	0%	1.229	1.283	+4%
EURO €	1.132	1.139	+1%	1.129	1.096	-3%
AUD \$	1.814	1.882	+4%	1.821	1.802	-1%
Russian Rouble	83.533	88.152	+6%	79.887	100.588	+26%

Divisional Market Share

MAT market share data



	FY20	FY19	△
Europe	19.4%	19.5%	-10 bps
Americas	8.9%	8.8%	+10 bps
AAA	10.7	9.7% ^R	+100 bps
Total Group	13.8%	13.3% ^R	+50 bps

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	15%	70%			15%	Polish Zloty
Americas			100%			
AAA		35%	15%	25%	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. £19m 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%				Polish Zloty
Americas			100%			
AAA		40%		45%	15%	Taiwan \$ & Moroccan Dirham
Logistics		100%				

€0.01 (1 cent) movement in the € Euro has a c. £15m impact on PBT.

\$0.01 (1 cent) movement in the \$ USD has a c. £6m impact on PBT

FY21 Guidance

Other financial items



Impact of premium cigar divestment

- EPS dilution of 2.8% on FY20 (see slide 18 for full pro-forma)

Financing & Cost of Debt

- Finance charge for FY21 expected to be similar to FY20

Tax Rate

- Expected to be c. 23%

Capex

- Expect similar level of net capex spend year on year (FY20: £274m)

Cash Conversion

- Expect high 90% range before allowing for reversal of 20% benefit from excise timing in FY20

Foreign Exchange

- Translation FX: broadly FLAT at prevailing FX rates (USD \$1.32, EUR €1.11, AUD 1.81)

Restructuring costs

- FY21 cash cost expected at around £130m (FY20: £145m)

FY20 Results Pro-Forma

Removing the impact of the premium cigar divestment



	FY20 reported	Premium cigars	FY20 restated
Volume (Bn SE)	239.1	(0.3)	238.8
Tobacco net revenue (£m)	7,784	(247)	7,537
Adjusted operating profit (£m)	3,527	(31)	3,496
Share of JV profits (£m)	45	(44)	1
Profit before tax (£m)	3,143	(75)	3,068
Earnings (£m)	2,403	(68)	2,335
EPS (p)	254.4	(7.2)	247.2

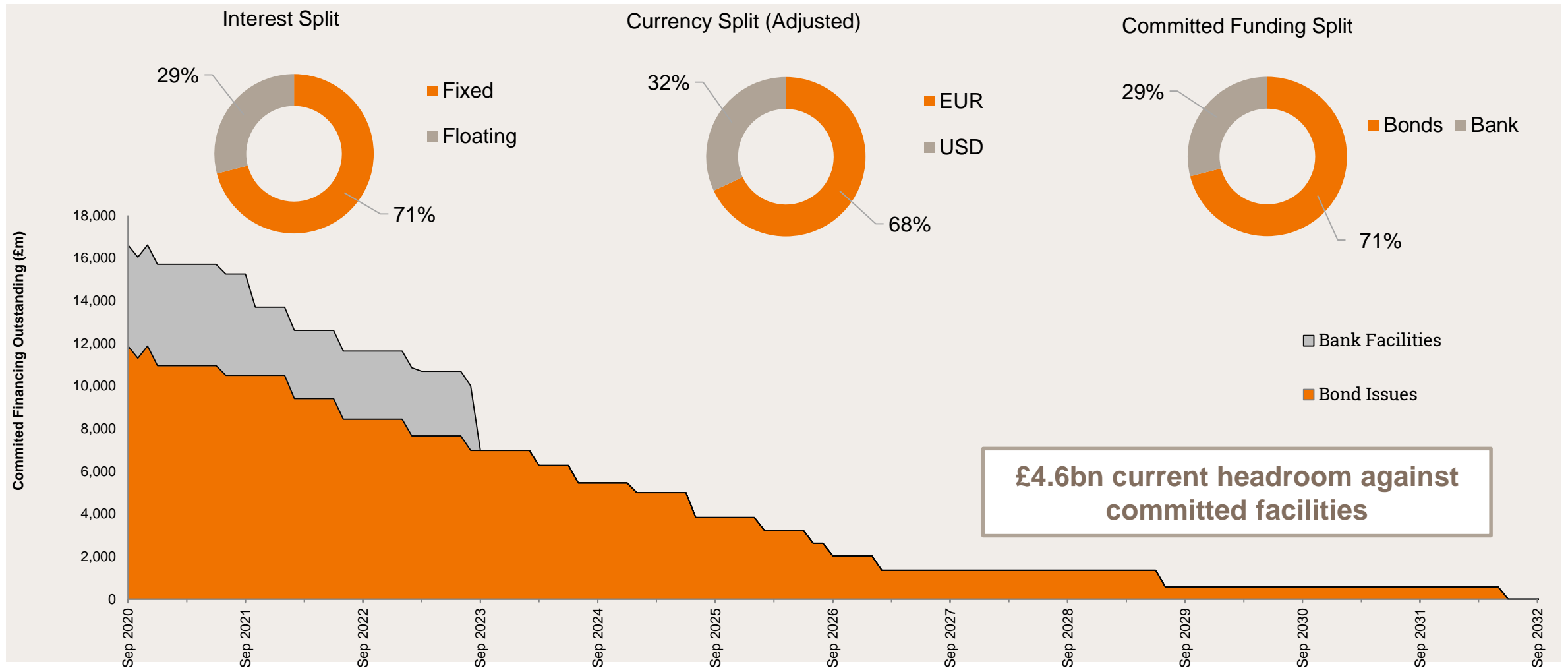
Appendices

Financing



Financial Profile

30 September 2020



Committed Bank Facilities

30 September 2020



Description	Maturity date	Amount (€m)	£m equiv.
Committed 3-year Revolving Credit Facility			
Extending	30 September 2023	3,316	3,026
Non-Extending	30 March 2023	184	168
Committed 1.5-year Revolving Credit Facilities			
4 x EUR 300m	31 October 2021	1,200	1,095
EUR 300m	31 October 2021*	300	274
EUR 200m	31 October 2021	200	183
Total			4,745

*Subject to the Borrower's 6-month extension option being exercised and an extension fee being paid.

Bonds Outstanding

30 September 2020



Issue CCY	Amount (CCYm)	Issuer	Coupon	Issue Date	Maturity Date	£m equiv.	Margin*
EUR	1,000	Imperial Brands Finance PLC	2.25%	Feb-14	Feb-21**	912	1.1%
EUR	500	Imperial Brands Finance PLC	0.50%	Jan-17	Jul-21	456	0.7%
GBP	1,000	Imperial Brands Finance PLC	9.00%	Feb-09	Feb-22	1,088	4.8%
USD	1,250	Imperial Brands Finance PLC	3.75%	Jul-15	Jul-22	974	1.8%
USD	1,000	Imperial Brands Finance PLC	3.50%	Feb-13	Feb-23	779	1.1%
EUR	750	Imperial Brands Finance PLC	1.13%	Feb-19	Aug-23	684	1.2%
GBP	600	Imperial Brands Finance PLC	8.13%	Sep-08	Mar-24	704	3.1%
USD	1,000	Imperial Brands Finance PLC	3.13%	Jul-19	Jul-24	820	1.2%
EUR	500	Imperial Brands Finance PLC	1.38%	Jan-17	Jan-25	456	1.0%
USD	1,500	Imperial Brands Finance PLC	4.25%	Jul-15	Jul-25	1,169	2.2%
EUR	650	Imperial Brands Finance PLC	3.75%	Feb-14	Feb-26	593	1.5%
USD	750	Imperial Brands Finance PLC	3.50%	Jul-19	Jul-26	615	1.5%
GBP	500	Imperial Brands Finance PLC	5.50%	Sep-11	Sep-26	587	2.7%
EUR	750	Imperial Brands Finance PLC	2.13%	Feb-19	Feb-27	684	1.8%
USD	1,000	Imperial Brands Finance PLC	3.88%	Jul-19	Jul-29	779	2.0%
GBP	500	Imperial Brands Finance PLC	4.88%	Feb-14	Jun-32	571	2.1%
Total / weighted average margin						11,873	2.0%

* Above respective final currency IBOR rate after the effects of related interest rate derivative transactions

** Called effective 30 November 2020

Glossary



SE Stick Equivalent (SE) volumes reflect our combined cigarette, fine cut tobacco, cigar and snus volumes.

Constant Currency Change at constant currency removes the effect of exchange rate movements on the translation of the results of our overseas operations.

Tobacco Total Tobacco includes cigarettes, fine cut tobacco, cigar, traditional snus and other tobacco products.

NGP NGP includes vapour products, next generation oral nicotine including all-white oral snus

Logista Logista is a 50.01% owned subsidiary and publicly listed on the Spanish stock exchanges. It is one of the largest logistics businesses in Europe, with operations extending across Spain, France, Italy, Portugal and Poland.
