2021 Full Year Results Script –16 November 2021

Slide – Full Year Results 2021

Stefan

Slide – Disclaimer

Good morning everyone… and welcome to our full-year results presentation.

It has been great to meet many of you in person this morning after such a long time of communicating virtually.

And, of course, a very warm welcome to everyone viewing us online.

Slide – Agenda

I'm with our Chief Financial Officer Lukas Paravicini and Peter Durman, Head of Investor Relations.

Today I will start by explaining how we are working at pace to implement our new strategy and how this is beginning to translate into operational and financial performance.

Lukas will then take you through the financial results.

I'll then return with some insights into the very significant positive change that's now underway… through multiple initiatives at all levels of the business.

I'll conclude with our priorities for 2022… and, after that, we look forward to taking your questions.

Slide – 2021 Highlights

Put simply, the goal of our strategy is the transformation of Imperial into a business capable of delivering reliable, attractive returns, year in, year out, over the long-term.

A business that's built to last – just like a building – needs strong *foundations*.

And this is what 2021 has been about – digging deep and firm foundations to support future growth.

This is our strategy wheel from the capital markets day in January.

Understandably, the focus back then was on the top three segments – what we called the pillars.

However, just as important are the bottom three segments, the enablers. These are the hidden foundations that will support the strategic pillars.

In the past year we have made progress in putting the consumer at the centre, with the appointment of our first Chief Consumer Officer and the creation of a Group Consumer Office.

This structural upgrade leverages the full marketing, insights and innovation capabilities of our global organisation and have already enabled improvements to our decision making.

We have completed a refresh of our leadership, which I'll come to in a moment. This has introduced a much more rigorous performance management process, and, in turn, more targeted allocation of scarce resources.

And we have introduced a simpler structure, for example, by reducing the number of market clusters, which is delivering efficiencies in line with our plans.

Taken together, these new foundations are already helping us execute on the three priorities we laid out in January.

You will all have heard of the 80-20 rule. Well, our first priority at Imperial is more of a 70-30 rule. This is our new, laser-like focus on the five combustible markets - out of our 120 - which deliver around 70 per cent of our profit.

These big-five markets also generate the highest profitability per stick or point of share. Therefore losing share in these markets weakens our financial performance and undermines our sustainability. Conversely any market share gains create a positive multiplier effect.

Later, I will explain how this new strategic focus is being operationalised on the ground. The early signs are encouraging, but there's lots still to do.

Our second priority is the creation of a focused next generation products business, led by consumer preferences and needs.

To be clear, we are more committed than ever to making a meaningful contribution to harm reduction over time. However, as the smallest of the global tobacco businesses, our approach needs to be focused, sustainable and built on firm foundations. I will talk later in more detail later about our progress here.

The third priority, creating value from our wider portfolio, is one you will hear more about in future presentations. Here, we have built the foundations. This includes the creation of a new "Triple A" region with a strong emerging markets focus led by Paola Pocci, who joined us from P&G's China business.

Slide – Strengthened Leadership Team

A great demonstration of our pace of change is how we have strengthened the leadership team with eight new hires in the past 18 months.

We have attracted high-quality talent from blue chip organisations to lead our transformation.

We've filled important gaps in strategy and in people and culture, while adding deep FMCG experience to strengthen our sales, marketing and consumer insights to blend with our existing strong tobacco expertise.

It is a truly diverse team with no fewer than eight different nationalities represented. This diversity is already bringing fresh perspectives - critical for industries and businesses facing change.

Slide – Improving Share Trajectory in Priority Markets

These foundations are leading to encouraging improvements in operational performance.

In particular, our sharper focus on our top-five markets is beginning to stabilise aggregate market share.

This follows consecutive years of double-digit basis-point decline.

In an industry like ours where volume is declining, long-term market share is perhaps the best indicator of underlying sustainability.

And for Imperial the key measure is the top-five share, as a *portfolio* of businesses.

Our ambition is not to necessarily grow share in all these markets. Our first priority is to *stop being the number one share donor*.

In any given year, you may continue to see one or more of these markets report temporary declines because of factors beyond our control, such as regulation, excise or unexpected competitor behaviour.

There is no single explanation for this encouraging progress.

This is about many different conscious management actions – and, of course, the hard work of our 28,000 colleagues who have been mobilised behind a new focused strategy. And who have performed brilliantly in a year still characterised by COVID restrictions.

As I said, these are encouraging early signs. But we take nothing for granted.

Slide – Successful Year of Delivery

Turning to our financial performance…

We now manage this business using a balanced dashboard which measures revenues, cash generation, financial flexibility and the effectiveness of our capital allocation.

It's great to be able to report to you that on this year's dashboard all lights are green and all arrows point in the right direction.

There are of course some one-offs as you would expect any business of our size and complexity.

However, what's really pleasing is that positive evolution of our financials is, in large measure, linked to strategic management decisions and the underlying performance of the business.

The increase in tobacco revenue reflects our strong pricing – maintained while at the same time working hard to arrest market share declines.

The increase in adjusted operating profit reflects both this strength in tobacco and our strategic decision to reboot our NGP business on a more sustainable footing.

Growth in EPS would have more closely followed the percentage gain in adjusted operating profit were it not for an increased tax rate, as previously guided.

And all of this has translated into strong cash generation, enabling a reduction in leverage which increases our future financial flexibility and underpins a 1 per cent growth in the dividend.

Finally our more focused strategy is already leading to an improvement in return on invested capital.

This is reassurance, I hope, of our extremely disciplined approach to the way we put your money to work.

I will now hand over to Lukas to take you through the financials.

Slide – Financial Review

Lukas

Slide – Initial Observations

Thank you Stefan and good morning everyone.

Since joining in May, I have been busy getting to know the business and I thought I might start by sharing my observations after my first six months.

I am pleased to report that what attracted me initially to the opportunity at Imperial has been validated by my time within the business.

Imperial is a high-quality company with some good brands with attractive market positions and the potential to leverage its strong retail partnerships.

However, what excites me is the opportunity to transform the business and I believe the plan the team has set out can unlock significant value in the coming years.

It is also a highly cash generative business – which can support investment in improving the business as well as attractive shareholder returns.

My priorities are clear… and they start with cash. My role will be to optimise the sustainable free cash flow generation from the business.

The Finance team can play a larger role in supporting the delivery of our strategy.

Like other support functions at Imperial, we have an opportunity to modernise our ways of working.

This will support more effective decision making.

This is not rocket science: it is about adopting new working practices and being a more effective business partner.

I am also committed to promoting a transparent engagement with all our stakeholders. To this end, we have today provided you with the full financial statements to the accounts so they are available as we meet investors over the next few weeks.

So these are key priorities for me as CFO as I work myself into the role.

Slide – Successful Year of Delivery

So to come back to the key metrics that Stefan outlined… our business has performed well in 2021 with solid growth driven by strong tobacco pricing.

These financial results are after absorbing some adverse events this year, such as a settlement for US state litigation and the changes in the Australian excise regime.

We have delivered slightly ahead of guidance despite these factors and while undergoing a significant change programme.

We have grown organic revenue, profit and return on invested capital.

The improvement in ROIC was driven by the increased profit and a more rigorous approach to managing our capital base – helped by the sale of the Premium Cigar Division.

Our free cash flow of £1.5 billion was after the unwind of favourable working capital movements last year of £0.7 billion and we made good progress in reducing debt towards the lower end of our target gearing range.

Slide – Net Revenue Growth Driven by Tobacco Pricing

Overall, net revenue grew by 1.4 per cent at constant currency.

Total volumes declined by 2.9 per cent, slightly better than the level we've been used to in recent years.

COVID continues to affect market size with changes to buying patterns across channels and markets. We have provided some market level colour in the appendices.

Tobacco net revenue grew by 1.5 per cent, with price mix of 4.4 per cent, driven by strong tobacco pricing and strong growth in our US mass market cigar business.

Overall tobacco delivery was impacted by the excise changes in Australia – so excluding these, our tobacco net revenue grew 2.7% and with an underlying price mix of 5.6%.

Our NGP net revenue was broadly stable driven by our decisions to withdraw from certain markets as we reset our NGP business. Excluding the market exits, our NGP net revenue grew 8.6 per cent.

Slide – Delivering Organic Adjusted Profit Growth

Adjusted operating profit grew by 4.8 per cent at constant currency, with our performance impacted by four main areas.

Our underlying delivery was solid, supported by strong tobacco pricing, market share gains and growth in our US mass market cigar business.

We absorbed an £88 million headwind from lower Australia stock profits and £52 million from the US state litigation charge.

At the same time, we stepped up investment by £40 million behind our five priority markets and in new ways of working. This is about building the foundations for the future.

In NGP, we reduced costs as we focused our investment more tightly and versus a comparator that was adversely affected by inventory write-downs.

Logista also made a positive contribution.

Slide – Operating Profit: Adjusting Items as Guided

Like other businesses, we make certain adjustments to our IFRS numbers to aid performance comparisons over time. I want to be very open about how we approach these adjustments.

First, on restructuring, we have announced a restructuring programme to deliver our new strategy. The actions we have already taken this year will drive the savings in line with our plans – with a full annualised savings of almost £70m by the end of FY22.

We have further initiatives planned for the coming year to realise the balance of savings in line with our plans.

Our overall restructuring costs are also in line... and we have completed our legacy cost optimisation programmes this year.

Our NGP strategy included a comprehensive review of our NGP business and its assets. This has led to £118m of NGP intangible asset impairments, with £73m included in restructuring costs and £45m included in amortisation and impairment.

We will continue to provide transparency of adjusting items and seek a greater alignment between reported and adjusted operating profit, where appropriate.

Slide – EPS Up 2.8% Driven by Higher Operating Profit

We grew EPS by 2.8 per cent at constant currency, reflecting our profit delivery and lower interest charge as we reduced debt levels.

Our confidence in our strong cash flows provided us with the opportunity to proactively repay early the $1.25 billion July 22 bond.

This reduces our gross debt and has no impact on our net debt.

As outlined previously, we have continued to face upward pressure on our tax rate and expect this to continue into FY22.

Slide – Continued Robust Cash Delivery

Our cash performance remains strong, with £1.5 billion of free cash flow generated in 2021. This does not include the proceeds from the Premium Cigar sale.

As expected, our cash delivery was impacted by the unwind of last year's £0.7 billion working capital upside, largely due to duty collection timings at Logista and the UK.

Our underlying cash conversion remained strong with good progress on working capital management.

Our capex was reduced last year as we paused some projects pending our strategic review. I expect capex will return this year to our usual levels of around £300 million per annum.

As I mentioned earlier, cash will be one of my key priorities.

Slide – Good Progress Towards Target Leverage

At the end of 2021, our gearing ratio was 2.2 times, or 0.5 times lower, than the start of the year.

This has been driven by three factors as shown here… with about 40% of the improvement driven by our underlying cash generation.

Capital allocation is important to me and the Company – just as I know it is to our equity and debt investors. It is *an essential driver of value*.

And our four capital allocation priorities are designed to do just that.

Our first priority is to invest in the strategy to create a sustainable business with growing cash flows.

Second, it is to strengthen the balance sheet. And I met recently with our credit rating agencies who reinforced the importance of debt reduction to underpin our investment grade rating.

Third, we are committed to providing reliable cash returns through the dividend… And, fourth, we will return surplus capital once the balance sheet is sufficiently robust.

We are making good progress as you can see here and we will provide more colour on capital returns as soon as we move closer to our target leverage.

Slide – FY22 Outlook

2022 will be the second year of our two year strengthening phase, where we will step up investment behind our priority combustible markets, in our NGP trials and our new ways of working.

And our outlook for this year is consistent with this five-year plan.

At constant currency, we expect to deliver net revenue growth at a similar rate to the 1.4% we achieved this year. This reflects some mix pressure as COVID-19 restrictions are lifted.

Adjusted operating profit is expected to grow slightly slower than net revenue, as the US state litigation settlement costs will not be repeated this year… and with the underlying margin held flat by the step up in investment in line with our plans.

We expect performance will be weighted to the second half reflecting the phasing of investment, the prior year comparator and timing of the COVID unwind.

While there is a risk of inflationary cost pressures, as a tobacco company, we are very well placed to manage them through our purchasing strategy, high gross margins and pricing.

A higher tax rate of around 24% will be offset by a lower finance charge.

Slide – Strong Performance in FY21 Creates Momentum

As I have reflected on 2021, I would summarise three main areas of progress this year.

First, we have made a good start to building the foundations for the second phase of our plan, accelerating returns from 2023.

Second, we have undertaken work to strengthen our performance, with initial promising signs but more to do.

And third, we have made good progress in strengthening our balance sheet, which will give us greater flexibility and a stronger future footing.

Thank you. I'll hand you back to Stefan.

Stefan

Slide – Building Foundations for Future Growth

Thank you, Lukas.

In this section of the presentation I want to give you a more granular feel for the distinctive culture we are building at Imperial and *how* our people are implementing our strategy.

Slide – A Clear Five-Year Plan with Two Phases

First, I would like to remind you we are now approaching the end of year one in a five-year strategic plan.

As you know, it is a strategy of two unequal halves. The first two years are about foundation building – creating the consumer mindset, enhancing our performance management processes and creating a simplified efficient structure.

We anticipate the acceleration in returns to start in earnest during the subsequent three-year period from 2023.

Slide – A Year of Building Connections

Across Imperial, it has felt like an extremely busy and purposeful period.

Since I last presented to you in May, COVID travel restrictions have been easing in many markets.

I have taken every opportunity to meet face-to-face with consumers, customers and our people on the ground both in some of our key combustible markets and in the trial markets for Pulze and the new blu proposition.

This is something I have found incredibly energising.

I love hearing the passion of our consumers for our products.

I love hearing from our customers about how Imperial is supporting them.

And I love to hear from our people about their new ideas and their efforts for the business – in what, thanks to the pandemic, has been a difficult time for many people.

Our people have a huge energy and hunger to win.

One of our key priorities as a leadership team is to develop a stronger common culture - which will enable our people to become even more successful.

Slide – New Purpose and Vision

An important fact about Imperial is that while its brands have a deep heritage, as a global force in tobacco, we are actually a fairly young company.

Imperial became an independent listed company only 25 years ago and all our acquisitions have taken place even more recently.

This means that Imperial has not had the time to develop a deep common corporate culture.

Creating the right culture is for me an essential part of this foundation-building phase of our strategy.

A shared purpose and value set will make a reality of the critical enablers I discussed earlier: consumer-centricity, simplified operations and a performance-driven way of working.

When we set out our strategy in January, we said we were developing refreshed purpose and vision statements, and behaviours.

During the year we have had conversations with people in the business at all levels and all regions to gather their thoughts.

We got some really great ideas and insights.

And last month at Imperial's first ever all-staff conference, we launched our new purpose, vision and behaviours, which taken together are our new guiding principles.

The conference was highly interactive and we received really encouraging feedback.

In the coming year we will be putting in place a variety of activities to start properly embedding this new culture.

On our website and in our communications we now describe our purpose as "Forging a path to a healthier future for moments of relaxation and pleasure".

And our vision is "to build a strong challenger business powered by responsibility, focus and choice".

I think there are some important ideas contained in these statements and I am really happy to discuss this further in Q&A.

For now, I would highlight one concept that is particularly important to me: our vision to become a "strong challenger business".

I strongly believe that, as the smallest of the big four tobacco players, the only way we will be regarded as the highest quality of the four players is by operating as a challenger.

This means being agile, spotting value pools that play to our competitive strengths, acting as a fast follower, and creating competition and choice in markets.

Being a challenger business means challenging on behalf of our consumers.

There are one billion adult smokers in the world and I think it is important that they are appreciated as active citizens, diverse individuals and informed consumers who deserve better choices.

In a moment I am going to talk about some of the newer choices we are offering consumers – both in combustibles and NGP.

Being a challenger is also about challenging on behalf of our customers – from the multinational key accounts to the small family-run tobacconists. I know from my visits in the past few months they want a strong challenger to provide choice.

Finally, being a challenger means being willing to challenge our own business model. We know that we are never going to be number one in the *quantity* of our in-house R&D spend.

But where I think Imperial can be number one is in the *quality* of our third-party relationships as we build a sustainable NGP ecosystem.

This is an area where I intend to provide more colour at future presentations.

Slide – ESG: Foundations for a Responsible Business

ESG is another area where we are building new foundations.

Turning our aspiration of a healthier future into reality is really important to me. We are committed to providing adult smokers with potentially reduced harm products.

We will do this by creating an NGP business, which is targeted and consumer-centric, and is therefore able to grow sustainably. I will outline our new approach in a moment.

We are going to be careful about issuing bold-round number targets in this area.

The NGP market has surprised on the downside in terms of growth rates and as the number four player the absolute size of the market is not something we can define.

We will also develop our NGP business responsibly. Pulze and blu are designed exclusively with the existing adult smoker in mind – and are only ever marketed to that community. We will continue to work hard to restrict youth access.

Our ESG priorities are aligned to the UN Sustainable Development Goals… And, we have already achieved much in the important social and environmental areas, such as energy efficiency, farmer livelihoods and reducing waste.

However, we recognise the world around us is changing fast. The climate crisis is no longer something we speak about in the future tense – it's with us here and now.

When we speak about forging a healthier future, we have in mind not just the health of our consumers but also the wider health of our people, as well as the health of the planet we all share.

As a result, we have accelerated our commitment to be net zero by 2040.

We have also recruited a new head of ESG to lead a strengthened team who are taking a fresh look at our strategy and priorities.

They are identifying the areas where we can make the strongest positive contributions… as well as assessing how we measure and report success in this area.

We will provide a more detailed update this year.

Slide – Priority Markets: Clear Levers to Improve Performance

Turning now to our strategic pillars… a key pillar of our new strategy is our greater focus on strengthening performance in our five priority combustible markets.

As a reminder, we've identified multiple detailed growth initiatives in each of these markets, which we have grouped together into six categories as you see here.

Let's look at how we are applying these in our priority markets…

Slide – USA: Delivering Share Growth and Strong Financials

The USA represents about 35 per cent of our tobacco profit… we also significantly stepped up investment in sales & marketing behind the growth initiatives.

We have recruited 200 extra sales people, expanding our team by around a quarter.

Their training is well advanced and a detailed assessment of sales force coverage by geography and by store is informing how and where they're deployed.

As part of our plans to improve our participation in the sub-premium category, we have begun trials of some new packaging for Winston in Texas, consistent with our consumer-led approach.

Our actions delivered another 20 basis points of share: the strongest performance in recent years and a third consecutive year of share growth.

This has been achieved with Winston and Kool holding share in their sub-premium segment, while we have continued to grow our share of the deep discount segment through Sonoma and Monclair.

Pricing remains strong over the past year, delivering growth in revenue and profit.

Slide – USA: Mass Market Cigar Significant Growth

US mass market cigars is a great example of Imperial operating as a strong challenger – building brands that give consumers exciting choices and executing with creativity and pace.

We have achieved an excellent set of results with volumes up over 45 per cent. Growth has been driven primarily by the fast-growing natural leaf segment.

Backwoods is the main driver of our success. We have been leveraging this iconic heritage brand through a complete consumer engagement programme, including point of sale promotion, events and special edition flavours.

These initiatives have delivered more than 500 basis points of share gains, helping us become the number two in mass market cigars, up from number four a year ago.

Looking ahead, we have made investments which will improve the sustainability and quality of leaf supply… so we are well-placed for further growth in the mass market cigar segment.

Slide – Germany: Investing to Arrest Long-Term Declines

Turning to Germany, we lost share again here this year – but encouragingly our share performance did improve over the last four months.

We are investing more here too, although we are realistic it may take time for our initiatives to stabilise the trend following nearly 10 consecutive years of share declines.

Like the US, we've upgraded the effectiveness of our sales team through new hires and by optimising their distribution across under-represented channels and geographies.

We have also strengthened our key account management capabilities, which have lagged behind peers.

The sales initiatives are starting to deliver results, while we know our investment in brand building initiatives will take longer.

However, we have stepped up investment here too… Initially with our flagship brand, JPS, where we have launched a new campaign under the banner: "let the players play".

It is an encouraging start… but it remains a highly competitive market. By investing smartly and executing well, we have much more we can do here.

Slide – Australia: Actions Are Improving Performance

In Australia, we made a deliberate choice to prioritise financial delivery by putting through price increases in September last year. This had a significant impact on market share in the first half.

We have since taken steps to address this decline, consistent with our value-led approach in this market. We adjusted prices on specific product lines to ensure their price point reflected their brand equity and competitive positioning on the price ladder.

We refocused on building key account relationships and improving trade advocacy, which had been a strength in the past – but had lost focus recently.

We invested in new crushball formats with Parker & Simpson in the fifth price tier, and behind our Riverstone brand in the fine-cut segment to deliver share gains in the second half.

Again, encouraging progress in a highly competitive market.

Slide – UK and Spain: Targeted Brands Strategy Drives Growth

We delivered share gains in the UK and Spain, which have both been supported by our focus on local jewel brands.

This is an important change in strategy. Across many markets, we are now re-focusing on local brands, our national champions which have historically been neglected in favour of their international stablemates.

This neglect has contributed to our share losses over many years. And these same local brands are now key to our long-term recovery.

In the UK, we re-launched Embassy Signature, This has tapped into the latent consumer connection with Embassy, while at the same time leveraging our strong trade partnerships and filling regional gaps in distribution, particularly in the South.

We achieved a 1.8 per cent share in its first year. A great result in a dark market.

In Spain, our three largest brands are all local.

Nobel, Fortuna and Ducados had all struggled in recent years through a lack of investment.

Nobel has strong equity with national coverage, and we have revitalised interest through a successful programme of limited edition packs.

We have also invested in new pack formats with Fortuna, which have performed well.

I have highlighted just a few of our investment initiatives in these priority markets.

This early progress is encouraging and I look forward to updating you in the coming year.

Slide – Driving Value From Our Broader Market Portfolio

While our greater focus is on the five priority markets, we have other attractive markets and regions with the potential to be future growth engines.

Looking at the overall tobacco portfolio, we grew tobacco share by 20 basis points.

We have already highlighted the potential of Africa which, as a region, represents 8 per cent of our tobacco operating profit.

In several francophone markets, we are the number one player with strong brands and unparalleled routes to market.

The region has been overlooked in the past – resulting in underinvestment and a performance that has not matched the market potential.

Again, we are using multiple levers:

- the better application of our global brands, such as Gauloises in more premium price tiers,
- leveraging a renewed focus on our local jewel brands,
- filling gaps in the price ladder, and
- closing our sales coverage gaps.

Encouragingly, these initiatives delivered an 8 per cent growth in revenue and 20 per cent increase in profit for the region.

Slide – Our New NGP Approach Plays to Our Strengths

Turning now to NGP…

As I said earlier, we have an opportunity to build a successful NGP business that can make a meaningful contribution to harm reduction - one that plays to our strengths and is centred on meeting consumer needs.

Our new approach is different from the past and from our larger competitors.

And it is another good example of our challenger mindset in action.

We will be focused on the markets where an NGP category already has an established presence and where we can leverage our existing combustible routes to market. These will be in our strongholds in the US and Europe.

Our role in these markets will be to provide greater consumer choice with a differentiated product offering that meets an untapped consumer need.

It is not about having a market-leading product – just one that captures the interest of our target consumers.

We have often focused too much on the product and its features… at the expense the total consumer offering. It is now much more about the branding, the consumer communications and the role of our trade partners in providing consumers with a compelling offer.

This is also a cost effective approach, which will be disciplined and measured… and most importantly plays to our strengths, our smaller size and our ambitions.

Slide – Heated Tobacco Trials: Czech Republic and Greece

I am pleased to report we launched Pulze, our heated tobacco proposition, in the Czech Republic and Greece in line with our plans.

This allows us to start bringing our NGP strategy to life… and demonstrate what we mean.

Our choice of pilots was made after careful consideration of available data and based on an assessment of the need for consumer – and customer – choice.

Heated tobacco has become well established in both markets, having been launched several years ago. In each country, the category now represents at least 10 per cent of the total nicotine market and continues to grow well.

And in each country, Imperial has a well-established route to market, with a 15 per cent share of the combustible market in the Czech Republic and a 12 per cent share in Greece.

The compact nature of both markets allows a national launch – so we can fully test our proposition.

Slide – Delivering our Heated Tobacco Trials

It is still early days and we have had an encouraging initial response from both trials.

So how do I define an encouraging response?

First, we have achieved our target distribution in both markets very quickly.

Our customers have welcomed the opportunity to offer consumers an alternative offering in this space.

I saw this first-hand when I visited both markets in the past month and met trade partners in 30 different outlets.

While we have achieved good trial rates with consumers, the key test will be the consumer feedback and repurchase rates over the coming months.

This will be critical in informing our next steps – and will be a good test of our new approach. I look forward to updating you at the interim results.

Slide – US Consumer Trial of Refreshed blu Offer Underway

I am also pleased we began trials of a refreshed consumer marketing proposition for blu in Charlotte, North Carolina.

Since this is the US, we have not changed the product because of the PMTA constraints.

The focus is again on the overall consumer offer: the packaging, a new marketing campaign, working with the trade on the point of sale presence and developing a new on-line sales platform.

This has been developed with the oversight of Andy Dasgupta and his team, where we are starting to leverage their capabilities.

Again, this is early days. We've made encouraging progress but we will wait to see the consumer feedback.

Slide –2022 Will Enhance Our Investment Case

So overall, I am pleased with our progress in this first year.

We are starting to see green shoots emerging as a result of the actions we are taking.

Looking ahead to 2022… we will continue to focus on building on these foundations and to strengthen the key areas of our investment case.

2022 is a further step-up year in investment in our priority markets to support the revitalisation of our tobacco business.

Our NGP trials will allow us to test our NGP approach and inform our next steps towards making a meaningful contribution to harm reduction and provide options for growth.

We're rolling out new ways of working, which will drive operational improvements and strengthen performance.

Our focus on strong cash flow will remain a key priority – and we will remain highly disciplined in our capital allocation, which we fully recognise as key part of our investment case.

Back in January, we set out a clear five-year plan. Today, we have been able to confirm we have delivered on our first year objectives. This, I hope, gives you confidence in our ability to continue delivering for you and to realise the full potential of this business.

The new team is in place to lead the transformation and deliver a stronger and more consistent performance. And unlock long-term value for shareholders.

Thank you for joining us today…

We would now like to take your questions.

Thank you.

Questions and answers

Peter Durman: Thanks, Stefan. So, as Stefan said, we'd now like to take your questions. So we'll start by taking questions from the room first, and then we'll take questions from those who've dialled in over the telephone. And after that, we'll come back to the room and so on as required. So the dial-in details are available in today's press release.

And if you're on the telephone and you'd like to ask a question, please press star and one on your keypad. So, let's now take the first question from the room, please.

Jon Leinster (Société Générale): Sorry. Jon Leinster, Société Générale. Given the COVID unwind, can you give us an outlook in terms of the major – some of the major markets, notably the US, UK and Germany, in terms of what do you think the volume outlook will be given that unwind and indeed given the tax increases in the UK and the proposals in Germany?

Stefan Bomhard: Sure. Jon, let me answer your question. I think one thing is, as you would expect, it's quite difficult yet to forecast at this point in time the impact of COVID in fiscal year '22, also that it's still a fluid situation. But I think what you will see, and in our European markets specifically, you will see a certain headwind in the UK and Germany because they have been two of our key markets that have benefited from repatriation of volumes that would have historically, especially in the summer months, would have gone into our Southern European businesses.

You will see some of that, but I don't think it would be a huge effect. I think, in reality, in the US, it's much more difficult to predict at this point in time because you would not have had the repatriation volume. You just saw a change of consumer behaviour to a certain extent. So I do believe it will be a slight headwind in the business as we go into fiscal year '22, but we shouldn't forget they're also part of the business, primarily our Spanish business but also our global travel retail business that actually will be a beneficiary of the repatriation of these volumes into other parts of the world.

Peter Durman: So there's question here.

Jon Leinster (Société Générale): Going on clearly on the losses on the NGP side reduced significantly in 2021. Are you expecting those losses to continue to decline in 2022 or with greater investment and obviously ignoring the write-offs? Do you expect the losses to continue to decline in that operation, or do you think with greater investment coming in that actually will start to widen out again?

Stefan Bomhard: Yeah. I think, here, the answer is: think about fiscal year '22 for recorded losses or investments to continue at the level what you would have seen in fiscal year '21. And that's a reality is a combination also as the testing and the trials and the pilot markets I talk about. You will have a full-year effect of these tests, where they only were a small part of our investment in fiscal year '21.

So the underlying, the remaining of the business sees an improvement, but we're reinvesting some of that back into our test markets.

Gaurav Jain (Barclays): Hi. Good morning. Gaurav Jain from Barclays. So just focusing on your guidance for beyond FY22 of a mid-single-digit EBIT growth. So if we go into the history of Imperial, earlier there used to be a guidance of 4% to 8% EPS growth, which Imperial really used to struggle to meet. And if we look at just what you are guiding for this year and what you did in FY21, if I look at essentially the last five years, you wouldn't have done a mid-single-digit EBIT growth. So what would change from FY22 because the mix of the markets is pretty much the same over the last five years? So what gives you the confidence that between FY23 to FY25, you could do a mid-single-digit growth?

Stefan Bomhard: Gaurav, I think number one, I think what gives us confidence, if – that focus on the top five markets, because when you compare this strategic plan, there's a very significant focus on the key value drivers of this company because what you're comparing is a period of time in the past where we actually consistently lost market share in the five key markets of this camp of the highest value creation. So that is the key driver of the delta between the two.

And the good news is that we developed the strategy and presented it in January. Now, we have a new Finance Director onboard as well, who has clearly scrutinised the numbers as well. Clearly, we feel quite confident when you look at the level of detail that we've put. So what you see the guidance that we provided in January, was built on a bottom-up plan, market-by-market, that it gives us the confidence and that it is deliverable.

I think what is exciting for me is sitting here with you is that, in year one, we've delivered that ramp-up that we were looking for. We're seeing that improvement in the market shares that is a key part of actually our strategy going forward. In the past, we were the number one share donor in these markets. We're not any longer after year one. And that gives me the confidence that the guidance we've provided for the outer years is imminently deliverable.

Gaurav Jain: Then a follow-up question on that is that how confident are you that the market share improvement that you have delivered so far, it will stick as we go ahead, because clearly there have been market moves related to COVID and maybe there was a lot of low-hanging fruit around maybe having better coverage with sales people and which probably is already now in the base. So how confident are you that these market share gains would stick as we look ahead?

Stefan Bomhard: Yeah. Gaurav, I think the – I'm quite confident. Simple reason is: A, this doesn't – it's not sitting on one pillar. When you look at – when you would see the details of the execution of plans in place in all these top five markets and also in the markets beyond, there is a level of attention of detail that gives me the confidence. It's not one pillar. It's an investment on the sales side. It's the investment in the brand equity of our core brands. And we now have a performance management process that the executive teams that you saw in the charts is involved now on a monthly basis. So the agility that we need as a challenger company is now clearly set.

Now, to be clear, that is helped by the fact that Imperial, if you focus on five markets, you've capped 70% of the value creation in tobacco. Now, at the same time, I think you shouldn't take away is that we will consistently gaining share across all five. That's not realistic in a highly competitive industry.

But the reality is we have started to turn the direction and have that inflection from being a very significant loser of market share in these markets into actually at this point in time being flat on an aggregate basis. And having achieved that less than a year into the strategy gives me a confidence that we can achieve this going forward with a lot of the investments on the brand equity building only happening for a full year in fiscal year ‘22.

Gaurav Jain: If I could ask one last question on e-cigarettes in the UK. So recently, I think there was a notification that e-cigarettes could now be introduced in the medicinal channel and through the pharmacy channel. Is that something that you would like to explore for blu?

Stefan Bomhard: I mean, number one, as you would know, we are a meaningful player in the UK market with blu in the vaping segment. And number one, we definitely encourage the UK government's focus now as vaping as a smoking cessation tool, and we feel that it's absolutely the right direction.

Now, we will evaluate once it becomes clear what—there are specific rules and regulations around this, whether this is something that makes sense for us to participate. But I want to reiterate the point that actually we're very encouraged that the UK government is one of the most active governments actually recognising the role of vaping and NGP products play in helping consumers on their journey to a smoke-free future.

Gaurav Jain: Thank you.

Patrick Folan (Redburn): Thank you. Patrick Folan from Redburn here. I know in the presentation you talked about FY22 priorities, the progressive dividend policy. Is that something you guys might move away from in FY23 or ‘24 once you have leverage kind of in a comfortable robust position?

Lukas Paravicini: Could you just repeat the question, please?

Patrick Folan: Just progressive dividend policy, it seems to be a priority for FY22. Is that something you move away from in FY23 once you feel comfortable with the leverage?

Lukas Paravicini: I think what – as I mentioned before, thanks for the question, is the capital allocation is essential for us. It's essential value driver for us. And it was actually crafted together with the strategy. So it's not disassociated from that. And trust me, one of the first thing Stefan asked me is to feel comfortable and look at that capital allocation, and I do feel very comfortable. And I know it is important to you and to us.

The capital allocation, though, is an end policy, which drives multiple things behind investing, behind a strategy, strong robust balance sheet, the dividend and surplus capital return. So this – the dividend – the progressive dividend was implemented last year as part of that capital allocation, and we strive to maintain that progressive dividend at 1% growth or the underlying growth that we have in the business.

So for us, it is not about benefiting one or the other stakeholders. It is delivering all of them, but we have to do it sustainably. We don't want to debate it now. Yeah, we are at 2.2 times, but if you look at forex, we actually at 2.3 times. So we're almost there, but we want to get it right.

And I took time out to speak to all the credit ratings and it was very clear is that what they expect us to keep a disciplined approach to the balance sheet. We've got the poorest rating of all the peers, and we just need to get that in order. Once we get that in order and that is at the lower end of 2 to 2.5 times, we will come back with the capital allocation, maintaining a progressive dividend policy.

Patrick Folan: I suppose my question really is about would you move towards a stable dividend payout policy once you feel like capital returns become maybe more of a priority?

Lukas Paravicini: I would say that – we would probably would want to maintain the progressive dividend policy rather than the stable one at this stage.

Stefan Bomhard: Yeah. I think the only thing I would add to it to look at it is let's also keep things in perspective. I mean, you see a 1% increase in the dividend. I mean, that is £12 million, I think. Yeah? So in principle, that's not going to make a difference to a share buyback programme. I think it is an element. As Lukas says, it's an end-to-end policy. And I think that's something our shareholder are looking for, and I think therefore you probably will see a continued progressive dividend policy.

Patrick Folan: Just one more question on the AAA strategy. I know you guys said you're looking to focus on emerging markets. Can you provide a bit more colour there? I suppose that's going to revolve around North Africa and the strong year you had this year. How will that look going forward? And will that become a bit more priority under the new leadership?

Stefan Bomhard: Absolutely. I think – and I appreciate the question because we focus a lot on the top five markets because I think there – a lot of value creation sits in there. Priority number one is to turn around share performance. But the reality is, as part of our overall portfolio, we are actually in quite a number of attractive markets. We singled out Africa because that's the most visible to you, and it's probably the big – a significant chunk of it.

But the big decision we've taken in fiscal year '21, our AAA business, our emerging markets business was grouped together with our US business. So clearly, from a priority perspective, the US would always get priority with that team. We've now created a dedicated division or region that focuses on our emerging markets portfolio largely with a new leader who has deep experience in emerging markets.

And Africa is, in our opinion, just the beginning. So we do see that as growth engines for this coming down the road. Yeah. So I think that is one of the things the investment in Imperial isn't just about the top five markets. That's where a lot of opportunity lies. But there's a lot of opportunities also beyond the top five.

Patrick Folan: Thank you.

Peter Durman: Okay. I think what we'll do now is we'll just move to calls on the telephone. So I'll just now hand over to the operator to line up the first caller, if you may.

Operator: Thank you. As a reminder, if you wish to ask a question, please press star and one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, to ask a question, please press star and one on your telephone keypads. And your first question comes from the line of Alicia Forry from Investec.

Alicia Forry (Investec): Hi. Good morning, everyone. I was wondering if we could talk a little bit about Australia and what's going on there. Obviously, it's been a market disrupted by down trading, and I was wondering if you have a view as to how far along we are in that process? What your sort of assumptions are for that market over the medium term, given it's a top five priority market?

Stefan Bomhard: Sure. Very happy to take this. You're absolutely right. I think with some of the highest pricing for cigarettes in the world, you would have seen consumers drift in the value change downwards. That's why the fixed price has created itself over the last couple of years.

At the same time, to be clear, we're not seeing an acceleration in this. And one thing we shouldn't forget and you saw it in Lukas' numbers in the financial negative way, but the Australian government has paused its duty accelerator for the first time in a long period of time, which in reality means cigarettes are not becoming as more expensive as they would have been in the past. So that's something we'll need to observe what is the impact on the market.

The other thing I think as we're having this discussion in our context of Imperial, as you will know, we have a good portfolio of value brands in the Australian market. So a market that actually grows more value is actually a market that actually favours our portfolio of brands. Yeah? I think the important piece, as we did in fiscal year '21, therefore, getting pricing right is an important step. But actually, we feel good about the Australian market overall as consumers make their choices, I think we've seen, especially also in the second half of the year, a marked improvement in our share performance.

Alicia Forry: Thank you. My second question is on NGPs. Obviously, there's a lot of noise in that part of the business. But I was wondering if you could touch on the performance of your NGP portfolio in markets where you have not been exiting. I think you said ex the exiting it was up 8% and 8.6% or something, which is clearly slower than historically. So just curious what is going on with the underlying NGP category for you? Thank you.

Lukas Paravicini: Absolutely.

Stefan Bomhard: I mean, number one, I appreciate you mentioning the market exits. If you take the market exits out of the numbers and make it a real like-for-like comparison, our NGP business in this year grew 9%. That's number one. And it's important because you would have seen there was a very significant reduction in marketing support to a much more realistic level of our NGP business, but the business did still grow, yeah?

Overall, we did hold our market share positions in all our core markets roughly in the right place. So we haven't seen a very significant erosion of our market share despite a very meaningful reduction of investments from the marketing side.

The only place exception would be the US, because in the US, as many of you would be aware, there has been a very aggressive pricing drive with $1 devices being a permanent feature of the US markets, which we have not – where we decided not to participate aggressively in the marketplace, and therefore we have seen a stronger erosion of our market share in the US. But that's again where our market test in the US is coming in with a new proposition, a remarketing of it to see what is the opportunities that we have in the US market.

But, in summary, I'm actually quite happy with the performance we've achieved in our NGP business, even independent of the test markets.

Alicia Forry: Thank you so much.

Peter Durman: Okay. I think there's no other in the queue at the moment online. Are there any other further questions from the room?

Jared Dinges (JP Morgan): Hi. Jared Dinges, JP Morgan. So I wanted to ask coming back to the leverage target. I guess, 2.2 times is kind of the low-end. I know you guys did mention that you had a FX benefit in there. Given your guidance for next year, would you consider buybacks at the half-year stage? Or is this something that you want to take very conservatively, kind of wait for the full year, so you're really towards kind of 2 times net debt to EBITDA before you would consider buybacks?

Lukas Paravicini: I think, like I said before, we are very committed to that capital buyback, so capital surplus buyback, or a share buyback, but we want to make it sustainable, okay? I get that 2.3 is a technicality, but what is more important for us is it has to be sustainable. And the starting point is a strong balance sheet or a balance sheet that can support that and not getting in and out.

We've given a clear guidance where we believe there, where we get there, and we've given you metrics to model our cash flow, net revenue, profit, cash flow. And, I think, when we get there, we'll go public and we'll announce it and we'll give more flavour. We’ll not go into this discussion at this stage of what is the time, okay?

Don't remember – and don't forget, this is a critical year for us. This is a five years’ plan, and we're focusing on one element. For us, the second year of building the foundation, we've got lots on. So that's the other element why we want to really be sure that when we go out there, it is sustainable, and we will come back when the time is right.

Jared Dinges: Very clear. Thank you. Just on the sales force and the investments in Germany and the US in particular, you obviously mentioned that you’ve increased sales force 25%, 200 extra sales, say the training is advanced. And in Germany, you started to make some investments. Can you give us sort of timeline on that as to when we should expect the additional US sales force to become active and see some results on that and indeed on the German investments as well, please?

Stefan Bomhard: Very happy to do. I mean, US is a large investment, to be clear. I mean, as I stated, the number was about the extra 200 people represents an upweight of 25% to our US sales force. So it's a very meaningful increase. Yeah? That sales force is now largely hired, yeah, and it's in training. Virtually, the – because we want to make sure that they're properly trained up. So virtually, you will see the effect in increased coverage in fiscal year '22.

So as we speak, these new colleagues are actually now going out on the road working on our distribution out in the marketplace. So you should see – we will expect an increase. Now, they won't be as effective on day one, to be clear, as they will be down in six months' time. But we should see that increase coming through in our numbers in fiscal year '22.

Now, to be clear also the expense of that will also come through. That's part of the investment that we talked about earlier. But I'm quite excited because we've done a very deep analysis where's our coverage versus our competitors in the US market, which outlets, what off-take differences have we seen with consumers based on the investments there.

And the German story is very similar. Here, is there's more of that is a redeployment of our sales force towards outlets that were less in our coverage than before. So there is more about reflecting that our shoppers have shifted their shopping behaviour in the last five years. Think about the discount channels, for example, in Germany that we hadn't fully replicated in our sales force, but they're also making selective hires to improve our capacity in our German sales force.

That would take longer, yeah, to a certain extent, and that is also a market that's more driven by key accounts than the US market. But also there, we should see an increasing effect during fiscal year '22.

Jon Leinster (Société Générale): Right. Just on the US, when you say its coverage, does that mean you're not – those geographic areas, I mean, clearly, the [inaudible] business was tend to be focused quite geographically. Is it an issue that you're actually going out into West Coast a lot more? Is it an issue that within the areas in which you have significant presence, that you're actually just increasing the level of concentration?

Stefan Bomhard: Now, I think it's good because you mentioned the [inaudible]. We shouldn't forget, we're a nine-share company and we have two key competitors who have significant high shares. So what we've done – so historically, that was reflected. We had a sales force of a nine-share player, yeah, and below. So what we've done, we've now gone out and about, let them gone through with the US team the detailed numbers.

So what you see is a combination of – it doesn't mean we're going to primarily as a key focus into areas where the brands haven't been represented before. The key sweet spot for us are areas where the brands are actually already quite strong, but they haven't been represented in all outlets in that area where our shoppers go. Yeah?

The other thing what you will observe, and just to give you another detail, it can mean also an increase in the frequency of visits because in our industry on-shelf presence drives consumer preference. So when you have an out-of-stock because your salesperson hasn’t been there and your competitor has been there, that will also drive share.

To your final point, yes, there are certain areas, especially as part of our five-year area. We have identified parts of the country where we do believe we’re underrepresented, which we will strategically now invest into. But again, this is a reiterative process. We’ll have a look whether we get the results we want to get because this is very performance-driven approach. We will put sales force in.

We don't see the return, we redeploy the sales force. That overall should give you the confidence in our strategic plan of delivering that share improvement versus the past that we're looking for. And I have been out there in the US with the team understanding what that sales force coverage means, what they do on a daily basis.

Peter Durman: Great. We have another question online. I’ll just hand back to the operator, if we could.

Operator: And just before I introduce the question, another reminder. Please press star and one if you wish to ask a question. Your next question comes from the line of Simon Hales from Citi.

Simon Hales (Citi): Thank you. Morning. Thanks for taking the question. Just one, really. Stefan, you highlighted the importance of cultural change in the organisation in your presentation with regards to be able to deliver that sustainable mid-term sort of growth story. Clearly, you've had lots of senior personnel changes in the year that are clearly bought into that cultural change agenda. But what can you say about broader employee engagement in this cultural change? Is there any metrics you can point to at this point in time, and how things are improving there?

Stefan Bomhard: I think, Simon, a great question. I think the number one, we're just in the process of conducting a global employee engagement survey, which will include now all employees, not just office-based employees. So I think we'll get our read in the next couple of weeks on this one. But I can tell you also the feedback from the conference that I mentioned to you before, we've gotten some fantastic feedback.

And to be clear, the majority of people that participated there that wasn’t a leadership team, it's all the employees throughout the organisation. And I think, the sense of clarity about direction, where we’re going – and I don't have to tell you the majority of our people work in the core combustible business in our company, and we’ve clearly put some very clear priorities there. So there’s actually quite a strong support for where we’re going as a culture.

The other thing I shared with you, the purpose, the behaviour and the vision and the behaviours was now co-developed. And I think, that's for me the key piece that was co-developed with all our employees represented in there. So we are getting some very strong feedback about the overall direction where we're going, yeah?

So when I'm out in the markets, I have done now with the COVID restrictions gone. I do hold town halls in all of them, yeah, and the questions I get give me really a sense that the people are onboard and they really believe we're going in the right direction.

Simon Hales: Got it. Thanks.

Operator: Your next question comes from the line of Nik Oliver from UBS.

Nik Oliver (UBS): Hi. Good morning. Thank you for the question and sorry to come back to cash returns again. But could you just remind us in terms of the credit agencies, just any criteria that the Imperial need to deliver just when we think about the potential cash returns going forward?

Lukas Paravicini: So they are – thanks, Nik, for the question. I think there are multiple buckets. They have different models, credit rating, and they go beyond just the financial metrics. But when it comes to the financial metrics, the balance sheet strength is the most important one to manage. It's not the sole one. So it's way more diverse and multi-layered.

But we believe that when we are at the lower end of that 2 to 2.5, then we are in a place where we can sustainably deliver the full capital allocation not just elements of it.

Nik Oliver: Okay. Sure. And that is just net-net debt. That's not including pension liabilities, or do some of the agency take that into account as well?

Lukas Paravicini: So credit rating will take a gross, and they will take some of the pension funds into account as well. And I'll probably have to come back to you in more detail on the pension treatment.

Nik Oliver: Okay. No, that's perfect. Thank you very much.

Operator: We have no further questions from the phone lines. Please continue.

Gaurav Jain: Hi. Lukas, on that last question that was asked, so I have a follow-up. So if I look at the last bond you issued, it is a 12-year bond you have issued at 1.75%. Now, we have seen your key competitor or the other company which is listed in the UK, they have recently tapped the high-yield market using a preferred equity issuance, which is not considered debt by the rating agencies, and I think they have issued it at 3.5% or 4%. So your equity free cash flow yield is, whatever, 16%, 17%. Your bond yield is 1.75%. So why wouldn't you also try to tap into the high-yield market at 4% and retire some of the debt and use it to buyback shares faster?

Lukas Paravicini: Thank you very much. I think we are fully aware of that activity of the competitors. We look in our treasury policy. I think what is right for Imperial is not going through the hybrid mechanism. We have looked into this recently again. The combination of higher cost and actually not the benefit that you would expect those in the credit rating does not warrant us to go down the hybrid route.

Gaurav Jain: Thank you.

Peter Durman: Okay. I think if there are no further questions – so, I'll hand back to Stefan.

Stefan Bomhard: First, I thank you, especially the people who joined us here physically in London, but also to everybody online. Look, hopefully, today gave you the opportunity to get a sense about the progress we're making on building the foundations of the business and the first green shoots that are now really appearing in the business. That should hopefully give you the confidence, that we are well on track on our strategic plan for the company that will deliver really sustainable returns to our shareholders over time.

So thank you for that. And Lukas and we are hopefully looking forward to see you at the half year time, again, a face-to-face and give the opportunity to update you on the progress we're making on our strategy. Thank you.