IMPERIAL BRANDS PLC

6 October 2021

Pre-close trading update

- Delivering in line with guidance and on track to meet full year expectations
- Focus on top five priority markets beginning to arrest long-term share declines
- Market trials underway with heated tobacco in Czech Republic and Greece, and blu in the US
- Significant new hires to strengthen capabilities across the Group
- Continued strong cash generation supporting our planned investment behind the new strategy

Chief Executive Stefan Bomhard commented "*We have made good progress in implementing our strategy through a sharper management focus, greater investment behind our priority combustible tobacco markets and new market trials in heated tobacco and vapour. We are building a high-performance culture with the introduction of new more consumer-focused ways of working, and have made a significant number of new hires to enhance our capabilities in key areas. I am pleased to report the business continues to perform well and we remain on track to deliver our full-year results in line with expectations.*"

Group net revenue is expected to grow by around 1 per cent on an organic, constant currency basis, driven by continued strong pricing in tobacco.

In our combustibles business, greater focus on our five priority markets is beginning to stabilise the long-term aggregate market share performances in these markets with share expected to be slightly lower by around 2-3 basis points, compared with a 17 basis point decline in the prior year. We are stepping up our investment behind our strategic initiatives in each of these priority markets to drive performance improvements. Overall tobacco volumes are in line with expectations and total Group cigarette market share is expected to grow by c. 20 basis points. The net effect of the COVID-19 travel restrictions and changes in consumer buying patterns has been a small mix benefit, although this is beginning to reduce as restrictions are lifted and is likely to unwind further in FY22.

In Next Generation Products (NGP), we are committed through our new strategy to make a meaningful contribution to harm reduction, led by consumer needs. As anticipated, second-half NGP revenue is expected to be at a similar level to the first half, reflecting the impact of market exits as we focus on the categories and markets with the best potential for sustainable growth. We have taken steps this year to strengthen our capabilities and performance to create a solid foundation for future growth. In line with our strategy, we have launched market trials for our heated tobacco proposition in the Czech Republic and Greece, as well as a trial of an improved consumer marketing proposition for our vapour product, blu, in Charlotte, North Carolina. We will be monitoring the consumer response to these trials over the coming months and will update on progress during 2022.

Group adjusted organic operating profit growth is expected to be in line with our guidance of low to mid-single digit constant currency growth, reflecting significantly reduced losses in NGP and increased Distribution profit. The tobacco business has performed well although adjusted operating profit will be slightly lower than last year, as previously guided, as a result of the planned increased investment to support our strategic plan as well as lower stock revenue/profit in Australia (c. £90m) and US state litigation settlement costs (c. £50m).

At current exchange rates, translation foreign exchange is expected to be c. 3 per cent headwind to full year earnings per share. As previously announced, the adjusted effective tax rate is expected to increase this year from 21 per cent to around 23 per cent.

Full-year adjusted operating cash conversion is expected to be in line with expectations with the unwind of the temporary Logista cash benefits in FY20 resulting in a working capital outflow. We remain focused on strengthening the balance sheet and continue to make progress towards achieving our target leverage of the lower end of our 2-2.5 times net debt to EBITDA range on a sustainable basis.

The annual results for the 12 months ended 30 September 2021 will be announced on 16 November 2021.

ENDS

Notes:
The Group uses 'adjusted' (non-GAAP) measures as we believe they provide a better comparison between reporting periods. The definition of our adjusted measures is unchanged from our half-year results. We also use the term 'constant currency', which removes the effect of exchange rate movements on the translation of the results of our overseas operations. The term 'organic' excludes the impact of the Premium Cigar divestment, which completed on 29 October 2020. This excludes the contribution of the Premium Cigar business from both FY20 and FY21 results. The table below sets out the contribution of the Premium Cigar business to FY20 results:

	FY20	**Premium Cigars**	**FY20 organic**
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
Adjusted profit before tax (£m)	3,143	(75)	3,068
Adjusted earnings (£m)	2,403	(68)	2,335
Adjusted EPS (p)	254.4	(7.2)	247.2

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