2024 Results Script – 19 November 2024

Stefan

Slide – Full Year Results

Good morning, everyone… and welcome to our results presentation today.

Thanks to all of you joining us in person – it's great to see you.

And, of course, a warm welcome to those viewing online.

Slide – Disclaimer

I would like to draw your attention to this disclaimer, before I introduce the team and outline our agenda.

Slide – Agenda

I'm joined by Lukas Paravicini, our CFO, and Peter Durman, Head of Investor Relations.

I will start by highlighting some key points from today's strong results.

Lukas will outline our financial performance and give our outlook for the coming year.

I will then update you on how we are delivering operationally and continuing our strategic transformation.

Finally, we look forward to taking your questions.

Slide – Delivering the Acceleration Phase of our Plan

These results demonstrate further strong delivery in the acceleration phase of our five-year plan.

Let's start with the operational headlines.

In tobacco, we grew aggregate market share in our five priority markets.

Encouragingly, this has been supported by a turnaround in Germany, where our actions are now gaining traction.

Across the Group, strengthened brands and improved sales execution have helped deliver strong pricing – with price mix up almost 8%.

In next generation products, we have delivered another year of strong and broad-based growth.

Revenue was up in all three regions and all three categories.

And in all three categories, market share was also up.

Gross margins have increased.

Losses have significantly reduced.

And we continue to invest in new launches, such as Zone in the US.

This is all further evidence our challenger approach, focus on the consumer and disciplined investments are creating a sustainable and growing business.

These results also demonstrate the benefits of our broader transformation to build a performance-based culture and harness new ways of working.

Slide – 2024 – Successful Year of Delivery

And here you can see how this operational performance is translating into improved financial delivery and enhanced shareholder returns.

This is the same dashboard we have shown in previous results presentations over the last three years.

Once again there is a tick in every box and all the lights are green.

You will recall our five-year strategy was divided into an initial foundation-building phase, followed by a period of accelerating returns.

Here, there are two metrics that really demonstrate this acceleration in action:

First is the 4.6% growth in net revenue.

This has been driven by a strong performance in both tobacco and NGP.

Second is the 10.9% growth in earnings per share, underpinned by rising profit growth and the powerful compounding effect of our ongoing share buyback.

Since starting the buyback in 2022 we have retired 11% of our share capital.

And, taking the longer view, over the five years of this strategy, we are on course to make cumulative capital returns – through buybacks and dividends – of £10 billion.

I will now hand over to Lukas to take you through the financial results in more detail.

Lukas

Slide – Financial Review and Outlook

Thanks, Stefan, and good morning, everyone.

Slide – Continued Financial Delivery

Once again, I am pleased to show you positive financials and another year of strong delivery.

As Stefan said, we grew aggregate share in our five priority markets, while delivering strong pricing.

We again had double-digit net revenue growth in NGP with improving margins.

Our operational success has improved our Group adjusted operating profit by 4.6%.

This has been boosted by the share buyback to deliver double-digit EPS growth.

Leverage of 1.8 times is slightly better than our target range.

This has been driven by better-than-expected cash delivery and favourable FX translation on the balance sheet.

These results are further evidence of consistent financial delivery against our plans and our disciplined use of capital.

Slide – Strong Tobacco Price Mix Across Footprint

We can see here the strength of the tobacco value model in action.

Our strengthened brands and improved sales execution enabled strong pricing across our footprint – shown in orange on the chart.

Price/mix has more than offset volume declines – shown in blue – to deliver an acceleration in tobacco net revenue growth to 3.8%.

Pricing in Europe has been strong, while volume declines have returned to historical rates. This has driven net revenue growth of 4.5%.

As widely reported, the US has been more challenging in terms of market volumes.

That said, we more than offset these volume declines with pricing of 12%.

In our AAACE region, the shipment timing challenges in the first half abated, and we had a stronger second half.

Slide – Strong Adjusted Operating Profit Growth

Let's move now from volume and revenue to operating profit.

Once again… all three parts of the business - tobacco, NGP and Logista – have contributed to overall growth.

In tobacco, the strong pricing I just described has dropped through to the bottom line

In NGP, we reduced our losses in line with plan – and we are on the path to a sustainable and profitable business.

Logista also contributed to our growth, helped by pricing in its tobacco business.

Slide – Accelerating Adjusted EPS Growth

This strong adjusted operating profit, coupled with the share count reduction, has driven a double-digit increase in earnings per share.

This is the first year that we have seen the full compounding effect of the buyback.

We repurchased 6% of our share capital last year… and 11% since we started the buyback.

Our adjusted effective tax rate at 22.7% was slightly better than we originally expected.

Slide – Delivering Our Capital Allocation Priorities

Turning to cash and capital allocation…

Our free cash flow remained strong, generating £2.4 billion last year.

Operating cash conversion at 100%, was at the top end of our guidance range.

The way we deploy your cash continues to be governed by our four capital allocation priorities…

BUILD
Our first priority is organic investment in the business, alongside small bolt-ons to develop our NGP capabilities.

Second, leverage is around the lower end of our 2 to 2.5 times range.

Third, with our trading update, we announced dividends up 4.5%, in line with our progressive dividend policy

And fourth, we are committed to returning surplus capital to shareholders.

Our confidence in our cash generation means that we have provided shareholders with visibility of both buyback and dividend payments for FY25.

This is part of a move to equalise the quarterly dividend payments, by bringing forward around 32 pence per share into FY25 from FY26.

And we have increased the buyback by almost 14% to 1.25 billion pounds for FY25.

As Stefan said, we are on track to return 10 billion pounds to shareholders since the start of the strategy.

This represents two thirds of our market value at the point when we launched the strategy in January 2021.

Slide – FY25 Outlook

As we enter the final year of our plan, we are taking nothing for granted.

But we are confident we can continue to execute against the strategy and deliver in line with our commitments.

The investments we've made mean we can again expect to grow tobacco and NGP net revenue by low single digits.

This will include another double-digit growth contribution from NGP.

We expect to grow adjusted operating profit at a similar rate to FY24 – in our mid-single digit range.

This will be driven by continued profit growth from our combustible business and a further reduction in operating losses in our NGP portfolio.

Given the strong momentum in our NGP business, we will continue to invest to drive net revenue growth, while balancing our objective to build a sustainable and profitable business.

In line with previous years, because of the phasing of pricing and investment, performance will be weighted to the second half.

As a result, first-half Group adjusted operating profit is expected to grow at low single digits.

We expect another year of at least high-single digit EPS growth, after slightly increased tax and finance costs.

At current rates, we expect foreign exchange translation to be a 1 to 2% headwind to profit.

As usual, there is a slide in the appendices with guidance on specific items.

All in all, our strategic transformation and disciplined capital allocation means we are well placed to generate long-term value for shareholders.

Thank you.

I'll now hand back to Stefan.

Stefan

Slide – Transforming Imperial Brands

Thank you, Lukas.

Slide – Our Purpose, Vision and Strategy

In a moment, I will update you on how we are delivering against the three priorities and the three enablers, which together make up this strategy wheel.

But first I briefly want to discuss our progress against the two big ideas which animate that strategy.

The first flows from our purpose – Forging a path to a healthier future for moments of relaxation and pleasure.

It's the idea that if we do our job well, then we will make a meaningful contribution to the global transition of adult smokers to potentially less harmful products.

After several years of strong, compounding growth we have increased the scale of our NGP business by almost two thirds.

As we explained in the recent ESG webinar, we now have science showing our new products are effective at attracting smokers away from cigarettes - and keeping them away.

We are growing across all categories and all regions.

Financially, this business is also more sustainable.

And yet, even now, as a percentage of overall net revenue our NGP business is still in single digit territory – significantly lower than some of our larger competitors.

This is a simple fact which is humbling – and yet also exciting and energising.

It is a reminder that the full benefits of our transformation are still to come and a reminder too of the progress we can make as we continue to play catch-up.

The second idea is one you have heard me discuss many times at results presentations – and it comes from our vision.

This is the idea that as the smallest of the global players we can only outperform if we act as a challenger.

So how are we doing on that front?

Well, in the next slide I will update you on some of the inputs – the efforts we are making to build our consumer capabilities, our culture and our ways of working.

But for the moment, let's consider again the outputs – our operational and financial delivery, which Lukas just covered.

Smaller businesses can be more vulnerable to external shocks and competitor behaviour.

But a challenger business is one which, despite its relative size, can deliver consistent performance.

In a volatile market environment, Imperial Brands has now reported four years of stable share, revenue growth and cash delivery – all evidence we have become a successful challenger.

But I do think the full benefits our challenger mindset are yet to be felt.

Slide – Transforming Imperial Brands

And I think this slide helps to explain why.

A feature of all successful challengers is that they are close to their consumers.

We are smarter and more ambitious in how we listen to our consumers – we have held 220,000 interviews with them over the past year.

These insights are helping to drive innovation in both NGP and combustible products.

After three years of external recruitment and training of existing people, our Global Consumer Office is now at full strength with around 1,000 insights experts, innovators, marketers and portfolio managers.

And, as I visit our businesses, I can see that this amazing group of individuals is now really starting to operate as a seamless team and achieve its full potential, which gives me great hope for the future progress of the business.

A second feature of a strong challenger business is its performance culture.

As I have shared with you before, we have taken a structured approach to becoming a more accountable, collaborative and inclusive organisation.

This is a multi-year programme of activities underpinned by our five core behaviours.

We have now reached the point where three quarters of our senior leaders have completed Connected Leadership, a seven-day course which helps them become better coaches to their teams.

This is the broadest and most intensive leadership programme ever attempted by this company.

And what's great is that activities like these are starting to have a positive and measurable impact on our people's experience at work.

In our most recent global survey conducted in September, I was pleased to see that 90% of people said they felt they were treated with respect by their leader.

More broadly, we held our engagement score at 74% - above the global benchmark.

This is a strong figure for a business of our global scale going through such massive change.

And, over the past year, our transformation has continued at pace.

We reached an important milestone last month when the UK went live with our five-year project to create a unified enterprise resource planning system.

This is more than an ERP system… it will simplify our operations through standardised processes, harmonised data and by unifying the systems that connect us globally.

And this brings me to a final point about being a challenger business.

Successful challengers need good data to enable their people to make fast, insightful decisions.

We have work still to do in this area. But the good news is we have a plan, we are now even more confident it will work, and we can see the benefits it will bring.

Slide – Good Progress Against Out ESG Priority Areas

We continue to make good progress with our ESG agenda – or People and Planet as we call it internally.

In our recent ESG webinar, we updated you on our progress and a replay is available on our website.

I will pull out some highlights here.

In consumer health, as I mentioned just now, under our current strategy, we have grown NGP revenue by 64% since 2020.

In climate, we have reduced our direct carbon emissions by 69% since 2017 and absolute waste is down 32% since the same benchmark year.

But while we are pleased with our progress so far, we are also realistic.

Our ambitions to make a material difference to consumer health and to achieve zero carbon and zero waste are big, long-term goals.

And we know they will not be easy to achieve.

Slide – Maintaining our Priority Market Share

Let me turn to our strategic priorities, starting with our commitment to drive value from our priority combustible markets.

Over the past four years, we have achieved our objective of stabilising aggregate market share across our five largest markets – so we are no longer the number one share donor.

We can now report four years of stable or growing share – after a long period of steady decline.

Let me remind you once again, our objective is to maintain aggregate share. We never expect all five markets to grow simultaneously.

Now let me take you through our performance in our priority markets starting with the US…

Slide – US: Delivering Further Cigarette Share Gains

The US is a really great example of our challenger mindset in action.

We are the clear number three in the market.

Yet, by getting close to the consumer, identifying new opportunities and executing with discipline, we have steadily created value and grown share.

In FY24, despite the volume pressures Lukas mentioned, strong price mix means we have once again grown both revenue and profits.

We delivered further growth in cigarette share, up 15 basis points – our sixth consecutive year of market share growth.

In mass market cigars, the events that impacted last year's performance are now behind us.

While market size remains under pressure, we have delivered an improved performance - with our flagship brand Backwoods gaining share.

Slide – Priority Markets: Managing Share and Value

Our other four priority markets continue to perform well.

This year, we are particularly encouraged by our market share performance in Germany.

As many of you will know, this has been a tougher market to turn around.

However, after a sustained period of share losses, we have now delivered share gains for the first time under our strategy.

I visited the market during the year and I could see how our new sales force initiatives are starting to build stronger relationships with key customers.

But, at the same time, we recognise there is much still to do before we can declare victory.

In the UK, we chose to increase prices twice in the year with the clear expectation that this would have an impact on share.

But we're confident this was the correct decision for long-term value creation.

And our cumulative UK share is still up over the past four years of our plan.

In Spain, we delivered market share growth for the sixth successive year through innovative brand extensions.

This share improvement was accompanied by price increases for the third consecutive year, following a period of price stability.

In Australia, the high-excise environment has driven an increase in the illicit trade – and this means the size of the legal market is under pressure.

That said, our team in Australia has done a great job in optimising value from the portfolio while also delivering share gains.

Slide – Broader Market Portfolio: Driving Value

In a similar way to how we have focused investment in our five priority markets, we have an equally rigorous approach across our broader portfolio of markets.

Our African cluster accounts for around 10% of Group operating profit and here we grew net revenue by 5%.

We have used our unique portfolio of local jewels and international brands to meet the diverse preferences of our consumers.

Meanwhile, Central & Eastern Europe is emerging as an important market cluster for our new heated tobacco proposition – helping drive growth in this cluster.

Slide – Delivering NGP Net Revenue Growth

Our challenger approach to NGP is now building a track record of strong growth across all three categories – vape, heated products and oral nicotine pouches.

Looking at all European markets, NGP now makes up more than 8% of net revenue – up from just 3% four years ago.

In eight of these markets, NGP now accounts for 20% or more of total revenue.

In Greece, one of our star performers which I visited last month, we have the number one vaping brand and a strong presence in heated products.

We have also delivered strong NGP growth in larger markets, such as the UK, Germany and the US.

As we said, within our footprint, we are building scale, and this has enhanced gross margins by more than 500 basis points and reduced operating losses.

Slide – Vapour: Product Innovation Driving Growth

Our vapour business has grown strongly again this year, with revenue up 14%, driven by an acceleration in our new product delivery.

Here, you can now see the agility and speed of our partnership approach to innovation – and the benefit of bringing together consumers, our innovation partners and our own science and innovation teams.

Our challenger approach is not about being a fast follower… but it is about getting close to consumers and providing differentiated offers at pace.

This means we can sometimes take the lead.

For example, we were the first tobacco player to offer a disposable with 1,000 puffs in a single device.

Since then, we have launched a new rechargeable format: blu bar kit.

It provides the same form, function and flavours as our disposable blu bar – and we are getting great feedback from consumers.

Slide – Heated Tobacco: Consolidating Market Launches

Turning to heated…

FY24 was about consolidating our position in existing markets. Pulze 2.0 is present in eight European markets, which represent more than 60% of the addressable European market.

Our goal this year was to be even more tightly focused on our target consumer, who value the differentiated offer of our Pulze and iD sticks.

These are consumers who enjoy consecutive sessions and appreciate the convenience of this all-in-one device.

We also expanded the roll-out of iSenzia, our flavoured non-tobacco heat sticks.

These helped to drive share growth across our footprint, and delivered very strong revenue growth.

Slide – Modern Oral: Building Scale in Footprint

In modern oral nicotine, we grew our category share and increased net revenue by more than 60%.

This was driven by innovation and flavour launches in Europe to meet evolving consumer needs.

Our results also benefited from the launch in February of Zone in the fast-growing US market.

Slide – Modern Oral: Zone Launched in the US

In line with our disciplined approach in NGP, this product has been trialled in 12 metropolitan areas.

Our ‘zone’ pouches are differentiated by being more moist than others on the market and this provides a better mouth feel.

The early results are promising.

26-week data shows we have gained 1.6% share nationally… increasing to a 4.3% share in our trial footprint.

The shorter-term data shows an encouraging trajectory.

As a result, we have begun to roll out to new areas and we will update you on progress at future meetings.

Slide – Priorities for FY25

Looking ahead… we will remain focused on delivering the final year of the current five-year strategy.

FY25 for us is about continuing to drive forward our tried-and-tested approach – honed over the past four years.

In combustibles, we will maintain our focus on our five priority markets, seeking to maintain our aggregate share.

In NGP, we will continue to deliver strong growth.

In the coming year, you will see a further reduction in operating losses

However, we will continue to balance short-term margin improvement with targeted investment to support long-term, sustainable growth.

Cash delivery will continue to be a key priority.

And, of course, we will continue to drive our transformation to become a stronger challenger business.

While our first priority is to deliver for you the best possible results over the next 12 months, we are also working hard on the next phase of the strategy.

And we look forward to updating you on our plans for the five years up to 2030 at a Capital Markets Day in London next March.

I do hope you will join us in person for that session.

Slide – FY25 Priorities Underpin Investment Case

So, to conclude…

I believe these results provide further data points evidencing our growing track record, future upside potential and overall investment case.

We have built a stronger tobacco business.

We have developed a sustainable NGP business operating at scale.

And I hope we have shown you how we are becoming more consumer-centric, improving our culture and embracing new ways of working.

All these support our medium-term financial delivery.

And our growing, ongoing shareholder returns… underlined this year by our 4.5% increase in the dividend and 14% increase in the buyback.

Annually, our dividend and buyback together now represent around 14% of our current valuation.

If you are invested… we thank you for your support.

And if you are still sitting on the fence… well we hope you will commit to joining us on this journey.

It's a journey with attractive returns and it's a journey to a healthier future.

Thank you for joining us today…

We would now like to take your questions.

Slide - Q&A

Peter Durman: Thank you, Stefan. So, we'd now like to take your questions. As usual, we'll take questions from the room first, and then we'll take questions from the telephone for those of you on the telephone. If you are remote today, if you'd like to ask a question, you need to register to receive the dial in details and you can do that by clicking on the phone details on the menu at the top hand side of the webcast window. And if you would like to ask a question on the telephone, please press star and one-one on your keypad. So that's star and one-one on the keypad to ask a telephone. But we'll take questions from the room first. And so, please wait for the microphone and state your name and organisation before posing your question. So, we'll go to Richard first.

Richard Felton (Goldman Sachs): Thank you very much. Richard Felton from Goldman Sachs. Two questions for me, please. First of all, congratulations on improving the operational performance of the business. But as you reflect on the drivers of the improvement of mid-single-digit organic EBIT growth, how do you see those – their sustainability and the durability of those drivers between the performance culture, between sort of the productivity savings, etc.? I'd be very interested to hear your views on the sustainability of those drivers?

And then the second question is focusing on NGP. So obviously, a nice acceleration in the second half of the year. Can you maybe comment on what drove that acceleration, particularly in HT, and whether we should think about the second half performance as a good indicator of run rate into FY'25? Thank you.

Stefan Bomhard: Sure. Richard, let me deal with the first question. Lukas will answer the second question. Sustainability of performance overall with the different performance drivers.

Now it's very difficult to – especially as you mentioned performance culture as an example – very difficult to isolate the impact of the individual ones. But I think what you've seen with the fiscal year '24 results, building on '23, '22, they are all making a contribution. And so what I'm quite excited about the delivery of 4.6% net revenue growth and 4.6% operating profit growth is underpinned by several elements driving performance.

So, I do feel, and the team I think, feels very good that our performance delivery is quite broad-based. And I think that will also carry the business going forward. We can't see that any of them will suddenly ran out of steam.

Lukas Paravicini: I think in general, to the underlying levers that we have always mentioned that drive this business is the operational gearing, number one. So, pricing ahead of volumes. You've seen that in the second half. You have had very good pricing also in the second half, which, by the way, will carry on into fiscal year '25 to a large extent. So that's to your second question.

So operational gearing is very important to us, and that is the one lever. The other lever, as we always said, is NGP. We have continued to reduce our losses. This year, we reduced it by 50%. Again, there – we always have a bit of more weighting towards the second half. Hence, you have a second half impact on that. But very proud to see how we grow out of these losses with a double-digit growth and that's reducing significant losses.

And we have our self-help. We continue, to Stefan's point, to launch better processes, more shared services, etc., will give and support that journey going forward. And then finally, more specific to the second half in Imperial this year, which, as you said, in the first half, we had a disruption, especially in AAACE in terms of Middle East shipments, etc, that has abated in the second half. So that has really helped in the second half as well. And that will carry us forward into the next fiscal year.

Faham Baig (UBS): Thanks guys. Faham Baig from UBS. Two questions from me as well. Stefan, I think you've mentioned that the strategy doesn't require share growth in the top five priority markets. But you've delivered 48 basis points over the last four years, and you point to FY'25 also seeing aggregate share growth.

What – which markets give you confidence to deliver aggregate market share growth? And maybe you can spend a bit of time on Germany and the acceleration in share performance there, which is quite unique when you look at the other tobacco markets – tobacco companies in that market? And how sustainable do you believe that is?

And the second question is on Zone in the US. You highlighted some initial success in the presence in 42,000 stores. Your US tobacco footprint is much larger. What stores – what number of stores are you targeting for Zone to reach by the end of FY'25? And maybe whilst you're at it, could you please remind us of the PMTA status of this product and whether it was in the market prior to 2022? Thank you.

Stefan Bomhard: Sure. All right. I count four questions here, Faham. And please remind me if I miss one.

On market share across our top five markets. The strategic ambition is, as you rightly say, it's about holding share. After a period of time, where we were the number one share donor. We have achieved this in four out of four years and that would be the ambition for year five of our strategy. But it's a highly competitive marketplace in all these five markets.

What I think I would take away from – as an investor and analyst – from this, market share is an expression about how many consumers are choosing our brands. So, what I would look at? I wouldn't get too hung up on one market. It just tells us that our brands today are more healthy than they were four years ago because more consumers are choosing them in a highly competitive marketplace. That's the way we look at it. That should give you the confidence that the pricing that Lukas talked about in his part is underpinned.

So, because you can take a lot of pricing and lose market share. What you see here, we've taken prices and we've held market share, actually, we've taken – we have actually gained market share. That should fill me with confidence that we're building the right business or we're reinvesting in our brands, we're understanding our consumers better, yeah? So that's overall top five markets should give you confidence in the underlying sustainability of what are 70% of our profits on the tobacco side.

On your second question about Germany, yes, logically, I do remember being the German as running as a CEO, it was always a hard one sit in this meeting have now report another 80 basis points loss. So, it's exciting to sit in front of you, as I told you so many times; the playbook would work in Germany as well, it would just take longer. And reality is it's exactly the same playbook that we've deployed in the other markets.

I think the highlights would say, for fiscal year '24 as we went from minus 80 basis points to plus 2, how the expansion of our sales force. So the quantity of people that we deploy to talk with our German customers has significantly increased. You see the benefit of that now, now that they're all fully trained, they're all fully on the street.

The other thing you see here is the agility of our teams now to actually go after the opportunities in the right channels, in the right regions of the country. And also, what we've done now with regional sales plans about what brands are most important and what part of the country. So, I'm really excited because you now can finally see the progress we're making.

Now as I said earlier, we don't take it for granted. It's a highly competitive market, as you rightly picked up. It is a very attractive market. The margins of the German market are very attractive. So, we don't take it for granted, but we'll finally be able after many years of losing share in Germany to report that we've actually held our shares stable.

On your third question, Zone rollout in the US. For sure, fiscal year '25 will benefit in NGP from a further rollout because you're very right to pick up. We started in February of this year. It feels a long time ago, but it's a bit more than six months, and our distribution has come from when we started around 12,000 stores to 42,000 stores when we exited the year.

Now the US has a lot more than 42,000 attractive stores for modern oral nicotine. We are expanding these. 42,000 stores were primarily in the 12 metropolitan areas. There were some national distribution like 7-Eleven. But what you will see is in fiscal year '25 go much more for a lot other metropolitan areas that are highly relevant for modern oral nicotine. So that should be replicating the success we had in these 12 metropolitan areas at closer to a national level is one of the priorities for fiscal year '25.

And on your fourth question, PMTA, on Zone, our – absolutely, our PMTA for Zone, as you know, you might remember, we acquired this portfolio of brands, was one of the bolt-on acquisitions that Lukas referred in his presentation. The PMTA was submitted before the deadline and has been accepted by the FDA. And we're now there with everybody else who's selling modern oral nicotine in the US for waiting for the feedback from the FDA.

Peter Durman: We'll take from Rashad here. Thanks.

Rashad Kawan (Morgan Stanley): Morning, guys. Rashad Kawan from Morgan Stanley. Thanks for taking my questions. Two for me, please. One – first one on tobacco pricing. Obviously, I would say Europe and AAACE, in particular, the moderation in volume declines was pleasant to see. I guess the question then becomes how much more can you push pricing going forward? Is high single-digit pricing sustainable? Is it slightly lower now that volumes are coming back to more normalised levels?

And then the second question, Stefan. I mean, year four of five now done, in terms of the strategy, laid out plans for the fifth year. I mean, as you look back now, I mean you've been – you guys have been remarkably consistent around delivery versus the strategy. I mean what would you say has been really the one or two things that have been the most surprising to you over the last four years?

Lukas Paravicini: Okay. I'll take pricing quickly. So yeah, we are – as Stefan said, the good thing here is that our pricing is underpinned by the investment we do in our brands and also our work we do with the sales force and sales force execution to position our products.

Well, you're absolutely right. For us, pricing is not an absolute term, an absolute goal. For us, pricing is a function of volume decrease market share and inflation. With inflation still there, but the rate of increase having come down significantly, you should expect across the board, some easing of headwinds, including the US, by the way, with improving macroeconomics, hopefully better enforcement of illicit or against illicit vape. All these things will tend to ease headwinds and tend to ease the need for us to price in the US or any region, by the way.

Now having said that, the US is still a very attractive profitable business also from a value point of view and pricing. So even should the volume decrease still stay for another couple of years at a more elevated level, we do not see this going to be an issue at all.

Stefan Bomhard: And I had a bit more time to think about your second question. I give you three surprises or observations four years into the strategy.

I mean number one for me, what was truly exciting to see how our brands into combustible side have reacted to proper consumer research, reinvestment back in the brands because they have been losing share for quite a number of years. So as an ex-marketeer by training, I wasn't really sure how quickly they would react to reinvestments, proper brand essences behind it. So, it was a positive surprise because there could have been more Germanies around in reality. So, seeing that the programme worked relatively quickly was quite encouraging.

Number two, I still remember when we had our Capital Markets Day in January '21, I think there was a healthy dose of scepticism around NGP was a kind of we, as a company, being the smallest, could we actually compete here? And the reality four years on, when you look at the performance, it's now two-thirds larger after what has been a complete reboot of the business.

And to be able to say to you today, we're growing net revenue in every single one of the three regions, and we're growing net revenue in all three categories, and we're growing market share in all three categories, I think is for me one of the positive surprise, because this was clearly the part where people were the most sceptical, given how far we're coming from behind. To be clear, there's a lot more room to go, but I think being here today feels pleasing.

And the final point I'd talk about the people. Because logically, look, the organisation was eager for change. But you never know how eager it is to take that desire for change into real change. And the ability to, number one, also attract people from the outside into Imperial and into the industry into what at that point in time was quite a mixed performance business and mix that together with a rejuvenated colleague group in Imperial who wanted to drive forward that actually is for me and how fast that happened and how successful we've been on that one, that would be the third surprise.

Peter Durman: Take a question from Gaurav.

Gaurav Jain (Barclays): Hi. Thank you. So, three questions from me. One is, can you just talk about the capacity of Zone and how you think about not only next year, but the next few years, your CAPEX numbers didn't change. But is there a need to own your own manufacturing in Zone? So that's one.

Second, just continuing on the PMTA of Zone. So, there is a distinction between PMTA process for tobacco products and for synthetic nicotine products in that if you had some – if manufacturers had submitted applications with September 20, they can continue to sell pending authorisation or denial from the FDA. But if it is a synthetic nicotine product, then if the FDA hadn't responded by July ’22, you have to stop selling. So, you could argue that – and Altria was saying that in their call that they would want the FDA to clarify and take away the enforcement discretion on synthetic nicotine. So, can you just talk about that?

And then finally, on your overall revenue growth, which is low single digits which I'm assuming means 1% to 2%. So, if NGP’s growing, let's say, next year as well at the rate at which you grew this year, then that itself is 1% incremental to revenue growth. So, then you're talking very low growth for the cigarette for the rest of the combustible business. So, are you being too pessimistic? Or is there some risk next year that there is a disposable e-cigarette ban so that can impact your business? So, can you just clarify on that?

Stefan Bomhard: Gaurav, I'll take the first, and Lukas will take your third question. Your first question on Zone capacity. We're quite confident that we have the right capacity -- we were from the day one, we said let’s rather invest into extra capacity just in case, and that has served us well.

The important point also to know is that we have a lot of in-house capabilities around modern oral nicotine having our own factories in Europe on this one. So, working with our co-packer in the US where the companies that we bought the portfolio of brands from, has served us well in this context. So, we feel very comfortable with the capacity situation that we have around our business worldwide on modern oral nicotine, whether that is in the US or whether that is in Europe.

On your question on the PMTA process and so on, we feel very comfortable with our approach. I mean fundamentally, we have always followed the rules as they were laid out by the FDA in this context. And as you know, this was a key part of the purchase when we came to the marketplace.

Lukas Paravicini: Good. Thanks for, yes, the revenue question. So, you're absolutely right. We always forecast a low single-digit revenue growth because that's how our model works. We look at what is our volume decreases and then we tailor the pricing according to that because that's how – what we need to make sure that we get the operational gearing going. So that is the base of our model that works that results in the operating profit we need, and more importantly, the cash we require.

What's very pleasing to see, though, is that we see more and more of that net revenue growth being added by NGP. We have given guidance of another double-digit. That will be the third in a row where we do an NGP growth, which will more and more build up on top of that net revenue.

Now I also want to point out if you look at this year, you had a very good performance on net revenue also helped because we have had a strong pricing. And at the same time, volumes have normalised in some of the markets faster ahead of what we expect. And then hence, you have that combination of strong pricing that rolls over and that volume that comes down faster. So, you have to look at those things and you might get those benefits in one year. And we go back to the planning of that low single-digit, maybe a bit more than one, but it's around that number.

Peter Durman: Thank you. From Damian here.

Damian McNeela (Deutsche Bank): Morning, everybody. Damian McNeela from Deutsche Bank. I'll try three as well, please. Just on NGP gross margins, they were up 565 basis points, if I heard correctly. I was just wondering if you could quantify or sort of qualify which – where the growth was strongest in each of the three categories, please?

And then Stefan, you mentioned that there's been a sort of a high degree of recruitment into Imperial across all aspects of the business, but particularly around NGP capabilities. Just wondering what your pipeline looks like for the next sort of 12 to 24 months, if there's anything in particular to call out?

And then just finally, CMD next March in London. I assume that you're planning on thinking about that imminently. Are there any teasers you can give us today, please?

Stefan Bomhard: Okay. Damian, happy to answer your three questions. NGP gross margins. I think as you rightly referred to, I mean, we grew gross margin by more than 500 basis points. So that was a very significant driver of the improved profitability and the reduction of losses on NGP. So, you see the double positive effect, larger volumes, larger net revenue, and every case we sell, it's more profitable than it was a year ago, benefiting from the scale.

If you look at the three categories, they all moved forward. That's, I think, an important piece. We've seen a gross margin improvement across all three categories. We don't break out the individual ones but I think what you can clearly see is logically, we are benefiting across all three of them from the scale effects that we're seeing in the business. That gives us the confidence that we are building a sustainable and profitable business because otherwise we wouldn't do it.

On your second question, NGP capabilities, what's in the pipeline for the year to come. Now one thing I think I would say is an important distinction. We've said from day one of our NGP strategy that we would take a partnering approach. We've always said we believe as the smallest of the big four global players, we will rely more heavily on strategic partners than some other players. And I think it has served us well.

I mean the example I gave you was the blu bar 1,000. We were the first one of the established players in the marketplace that was done in collaboration with one of our partners. And I just was – two months ago, I was whole week with our Chinese partners, and they showed me their pipeline with our R&D team, and I can't say what's coming. But I think what you can see now, our pipeline because with more partners, we're clear about briefing them based on the 220,000 consumer interviews. Now they're not all NGP interviews, but a substantial amount of them are interviews with NGP consumers. They give us a better insight in what consumers need and allows us to work better with our partners. So, expect that there will continue to be a good pipeline across the categories.

And on your final question on the Capital Markets Day. Yes, I mean, hopefully, you're all pleased that you have a date now which is less than six months away from now. But I want to be clear, as we're sitting today in the room, our priority number one is to finish our current strategic plan, and that's fiscal year '25.

As a teaser, look, we're still working on it. That's – the good news that we are working on it. The principles – if there's any teaser I can give you, think about the principles that guided this company in the last four years. We are starting with the consumers that would be very unusual if we suddenly go for something else. I think you hopefully see we're very data-driven in our approach. That's unlikely going to change.

You will see that concept of a challenger company has served us well. I think it's a concept that we probably will take forward. And as we're sitting today in the room, we also know that our capital allocation policy is a key element of our strategy. So also, things that would be a key part of it going forward.

So look, as you would expect, I can't say anything more at this point in time, but that hopefully is enough of a teaser for you to come and join us in March.

Peter Durman: In the front row, Rae, please?

Rae Maile (Panmure Liberum): Rae Maile, Panmure Liberum. Just following on from that then, Stefan, as you start a new five-year plan, are you as committed to seeing out all of those five years as you were five years ago?

Stefan Bomhard: Yeah. Look, you hopefully see me here sitting very excited, Rae, because I think it's rewarding to see the work coming through and really making a difference to the company. And as I said before, Lukas and me really feel and the rest of the ELT really feels there is a significant upside potential in this company.

There's clearly lots of self-help opportunities still there. I think in NGP, we now have proof that we can operate in this one. And I think also, as I'm sure we both agree there's still a lot more to go on the combustible side. So, it truly feels an exciting time. The business feels in a different place to where it was four years ago. But at the same time, we also believe there's more to come in the future.

Peter Durman: Great. I think that's in the room. We had to have something on the line online. So I'm going to hand over to you, Sharon, our operator, to take any questions online.

Operator: Thank you, Peter. As a reminder, if you'd like to ask a question via the telephone, please press star one-one on your telephone keypad. We will now go to your first question. One moment, please. And your question comes from the line of Philip Spain from JP Morgan. Please go ahead.

Philip Spain (JP Morgan): Hi. Good morning, everyone. Thank you very much for taking my questions. I had two, please. First one is just on some of the recent data on the US cigarette market has indicated that maybe the rate of decline is lessening a bit in terms of cigarette volumes. Is that something you're seeing in the market as well? And do you expect that improvement to continue through fiscal '25?

And then my second question was just on some of the upcoming disposable vape bans that are taking place in some European markets next year. Do you see that as an opportunity for you, or is it more of a threat to your vapour side of the business? Thank you.

Lukas Paravicini: Thanks, Philip. We obviously see the same data as you in terms of the US. And I think what we've always been indicating is that the driver for this elevated volume decrease were twofold. One was the difficulty in the macroeconomics or the inflation still hitting, especially the lower income segment in the US, but also then the switchover to illicit vape.

We've always indicated that those headwinds would ease with improvement of the macroeconomics and improvement of the enforcement. So, it's early stages. You might see some of these improvements come. The rate of improvements in the year to come really is hard to forecast for us. So, I wouldn't want to lean out here and give a number, but we would expect that we hope this better enforcement, better improvement of our economics to continue.

Having said that, our forecast is rather conservative. We build on what we see today. So, we don't need a lower volume decrease for fiscal year '25 to deliver.

Stefan Bomhard: And Philip, it's a good bridge over as Lukas touched on the impact of illicit in the US to your question about disposal of the ban, the potential ban of disposable vaping products in some European markets. The reality is, look, we even with the existence of a lot of the illicit of disposables in the European market, we've done very well in fiscal year '24. So that should give us the confidence, whatever the market circumstances, we can deliver our NGP strategy.

But you're right, should – today, there is a significant chunk of the vaping market in Europe that is being satisfied by illicit vapes fundamentally because they are too high nicotine or overfills or products that have never been passed any registration. So should the regulators in certain European markets truly remove these products from the shelves, they would be up a larger legal market that we, for sure, could participate in.

But I'm using the line that Lukas said about prudency. Our plans don't anticipate this point in time. If it happens, that would be great because I think it would be the right thing for consumers to protect their interest and making sure that the products end up in the right hands of the right consumers, but that's not in our plan at this point in time.

Philip Spain: Thanks very much.

Operator Thank you. There are currently no further phone questions. I will hand back to Peter.

Peter Durman: Great. Thanks, Sharon. Any further questions in the room at all? Well, good. Okay. I'll hand back to Stefan.

Stefan Bomhard: Sure. Thank you for joining us today and for your questions.

Sure. I mean, look, hopefully, what you can see from today's presentation is that a really pleasing performance around our five combustible markets.

We have gained share in our five priority markets – with an encouraging turnaround in Germany for the first time

We delivered another year of strong and broad-based growth in our NGP business

And we continue to build our capabilities and embrace new ways of working to support our strategy

And if you will excuse the marketing pitch!... I believe we have an attractive investment case…

We are driving consistent growth in both tobacco and NGP

This is generating strong cash flows

Which underpin growing returns for shareholders through a dividend and an ongoing buyback

And all at an attractive valuation.

We look forward to updating you on the next phase of our strategy in March.

Thank you and have a good day.

[END OF TRANSCRIPT]