Barclays Global Consumer Staples Conference

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Gaurav Jain:	Thank you. Good morning, everyone. It's great to be back here in Boston for the first time in three years and to see a lot of familiar faces again and a lot of new ones, including Stefan and Lukas. Thank you for being here. I'm Gaurav Jain, Barclays' global tobacco and consumer analyst, and today we have Imperial Brands here with us. The last time we had Imperial with us was in the 2019 conference, and clearly, a lot has changed since that time. So, Stefan, you joined the company in early or mid-20 --
Stefan Bomhard:	July 2020.
Gaurav Jain:	-- July 2020, and it has been two years now into your strategy. And you set out an investment case for Imperial based around five main areas. So, they were, first, revitalizing your tobacco business; second, building your NGP business for harm reduction and to provide growth opportunities; third, deliver self-help initiatives to drive operational improvements; fourth, drive strong and sustainable cash flows; and finally, delivering shareholder return through a progressive dividend and buybacks. So, what I would like to do is focus on each of these areas, and we will start first with how you are revitalizing the tobacco business.
Stefan Bomhard:	Sure.
Gaurav Jain:	So, you have five priority markets, US, UK, Spain, Germany, and Australia. Can you elaborate on the operational levers that are driving market share growth in your priority combustible markets?
Stefan Bomhard:	Absolutely. I mean, first, Gaurav, great to be here. As you rightly say, a lot has changed at Imperial in the last two and a half years since we, as a company, were here present last time. To your question, I think if you look at the core five markets, there are two key levers that are consistently being pulled in all five, and the one is clearly better sales execution, which is a very important part in our category. And the other one is the reinvestment and rejuvenation of our brand portfolio. These are the two key pillars you will find in all five of them. Now, each one of the five markets has some very specific plans. Some are more focused on sales, some are more focused on brands, but it's a combination of these two that is driving performance improvement in all five.
Gaurav Jain:	Sure. And we will get into each of these five markets individually, but one thing that you also highlighted just now is your salesforce expansion plan, which -- and also, hiring talent. And can you just talk specifically about the US and German markets, because as a reminder, US is one-third of your EBIT; Germany is about 17 percent of your EBIT, so in total, that's almost 50 percent of your company. So, can you talk specifically about these two markets and how the performance of brand has changed in the last two years?

Stefan Bomhard: Sure, because you're absolutely right, these are the two most important ones of the top five, and I'm very happy to speak about salesforce expansion. Look, it's something where I've spent now nearly 30 years of my professional career on, and why is it simple, and why is it such a driver of our performance improvement in the last two years and for the years to come?

We are the smallest global tobacco player. And the reality of what we did with the new strategy, we looked at, what is the right-sized salesforce, so quantity, but also quality. Have we gotten the right sales tools, the right capabilities, the right targeting of sales channels? So, what we've done in these first two years in the five-year strategy -- two years of strengthening, three years of delivery -- in the first two years of strengthening, we've looked specifically at all top five. And in the US, for example, we have made the decision to expand, increase the size of our salesforce by 25 percent. Because, well, we only, where we are, have roughly a share of earned 10 percent of the combustible market. Our salesforce did not reflect that. And also, we weren't specific enough which channels we wanted to go in, based on our product portfolio, and what are the regional areas we wanted to focus in upon. So, a very detailed plan, down to a county level, by account.

And similar situation in Germany. In Germany, it was less about increasing the quantity of our salesforce. It was more about the targeting of our sales, so which sales channels? Just to give you one example, when you look at the German shopper in our category, it's very clear there are two channels that have grown significantly. The one, like in the rest of the world, is the convenience channel, petrol stations, where we have historically underinvested into, where we have made some very clear decisions about salesforce coverage, but also key account capabilities. And the other one is the discount channel, where we have now stepped up our game, because clearly, German shoppers have changed their habits over the last couple of years and we have now a much stronger presence over there.

Gaurav Jain: Sure. So, Lukas, if we just focus on the US side of things right now, and this year, clearly, Imperial have won a lot of market share, which is linked to the exit of KT&G from the US market. Now, it has helped your volumes. It hasn't really helped your price mix out much, because those volume wins are coming at the deep discount segment of the market. So, if you project out 12 months, 24 months, how does this volume share gain translate into EBIT growth?

Lukas Paravicini: Thank you very much, Gaurav. I think the KT&G example in the US is actually a very good example of what we mean with a challenger mindset, of agility and how we would like to see our organization act in the future.

Remember, this was something that, thanks to our closeness to the customer, the CEO of the US, Kim, got wind of very quickly, and overnight, basically, worked together with our team and the customers in finding a solution to what is a very hasty and rapid exit of KT&G of the US. And we did very well there. We found a solution for our customers, and therefore, that was well received. Yes, you're right; in comparison to the peers, when it comes to price mix, we would -- especially those peers who do not have a presence in that segment -- we will probably accelerate on the volume and be lower on the mix.

Now, having said that, for us what is relevant is that we have, actually, incremental margins and cash coming through the door, while keeping Kool and Winston at a good level. And it also improved the relevance we have with our customers, because when we go to the customer, it's not just about the value segment, it's about the whole range. The more we have, the more relevant we are with customers. That's why this KT&G example is very important on the way we want to work in the future and how we can generate more cash.

Gaurav Jain: Sure. Thank you. And, Stefan, coming now to Germany, now you have done a lot of investment in Germany, as you just explained. But still, you're continuing to lose market share in Germany. So, when can we expect an inflection, especially like what we have seen in the US?

Stefan Bomhard: Sure. I mean, Gaurav, let me start with an observation. When we laid out our strategy, we said in our top five markets together, we do not want to be the number one share donor, which we have been before. So, the assumption always was, you have to look at the share aggregate between these five. Very important piece. We're operating in a super-competitive environment. The likelihood that we, as a global player, will gain share in one year in all five is very low. There's always going to be one or two markets -- hopefully not more -- that hang behind. But it is a very mature shift versus where we've been before, losing in four or five out of five, year in, year out.

Coming to Germany, when I came into the business in July 2020, it was very clear when I looked at the track record that Germany probably would be the hardest one to turn. Why is that? A, this was the market where we'd been losing share for more than 10 years, year in, year out. We used to have a 25 share of the German market. We were down to a 19 share. That's a very material loss of share. And also, the share losses were primarily driven by us not investing in our brands, less so like the comparison we just did for the US, it was less by a reduction of our salesforce. It was more about reduction of marketing investments. And if there’s a lesson I've learned as being a marketeer starting 30 years ago is turning brand equities around takes longer than actually going after salesforce rejuvenations. So, not a surprise that Germany would be the slowest one to turn. Two years later, that is the reality.

But what fills me with confidence? A, the impact of the salesforce readjustment that was done -- right channels, right coverage, reinvesting with customers -- I can see the benefits of that work already. At the same time, on the brand side, our German portfolio, the majority of our share comes from three brands. One of these three brands is Gauloises. This is probably the one that was in best shape. And after quite a number of years of share decline in Gauloises, fiscal year '22, we will actually increase share on Gauloises. So, on the first of the three main brands, I see the green shoots.

But I want to be realistic. It will take the longest, and it's a highly competitive marketplace. But if I go back to bigger picture, you can see two years into the strategy, we're not the number one share donor in our industry any longer. That is a major step forward.

Gaurav Jain: Sure. And now, if you could go to your next two markets, which I think are UK and Spain could you talk a bit about what is happening there? I know UK had -- I guess market had a big growth during COVID time. This year, it announced seeing a difficult comp, market volumes are down around 15, which is concerning for investors. And then, Spain is seeing growth as well, the market growth, because UK customers are traveling to Spain again. So, can you just talk about the macro dynamics, and also, how you are working in these two countries?

Stefan Bomhard: I mean, consistent with the prior question, let me start with market share first, and let me come to macroeconomics in a second. Market share wise, UK and Spain are great examples of the strategy, and for investors, easy to see the impact. Again, UK and Spain were also markets -- especially UK -- where we had lost market share for a number of years. Behind the new strategy, we stepped back and said, what is our market positions? In the UK, there were two key areas that we identified. Number one, in the past we've focused all on our global brands. Behind our new strategy, given the history and what are our brands, we have more of a local portfolio than many of our competitors, and we have strong local brands. And in the UK, that meant we were focusing, again, on local brands, like Embassy and Richmond, which are pure UK brands, but very powerful brands.

So, we relaunched the Embassy brand, that has been the number one driver of market share gain. The other thing is that the level of scrutiny and detail, we also clearly identified that our market share performance is quite inconsistent across the UK, with the size of the UK having a much lower share for Imperial. So, what the local team did is focus on, A, the relaunch of the Embassy brand, and addressing our share underperformance in the south of the country. And the result is the best share performance in the UK in quite a number of years.

Let me deal with market share in Spain as well, because it's quite consistent. In Spain, our number one, number two, and number three brands are all local brands, which has to come with where this company came from, which we hadn't invested in the past. And as a result, we lost share year on year on year. Now, in the new strategy, we've reinvested in our top three brands, which are local brands, with the right level of support from the centre, and we see a very meaningfully improved performance of these brands. So that's the market share picture.

If you talk, then, about the macro picture, the reality is that we shouldn’t forget. UK clearly has, in fiscal year '22, our numbers, a very significant headwind. In simple terms, this is a country where you will -- the market size is still impacted by the COVID return. In simple terms, this year was the first year -- anybody based in the UK will for sure agree with me -- where finally, we could all travel out again, and UK consumers have done that in droves, especially going to the Spanish market. So, it's more a return back to normal, which is reflected in the market size. That is the number one driver in the UK, because the price difference of a pack of cigarettes in the UK versus Spain is a massive one. The flip side is, you would have seen volume growth in Spain, and the key driver of that is that return of the holiday travel.

Gaurav Jain: Great. And let's now go to the last of these top five markets, which is Australia, where I think it was a reason why Imperial had profit warned two years ago because of the excise tax dynamic which happened, and you couldn't capture as much inventory gain as you thought you could. And now, Australia hasn't had much of an excise tax hike over the last 12 months. So, can you just help us understand how we should think about Australia going in the next 12 to 24 months? And if excise taxes are not going up, does it mean that affordability is improving, so cigarette volumes will improve?

Lukas Paravicini: So, I think it's a very good point. And indeed, in 2021, the Australian government put away what was called the excise tax accelerator of an annual increase of 12.5 percent, on top of everything else. And I think they got to that conclusion because they realized also that the interest of getting the smoker out of the category was actually not being achieved. They drove them into illicit, which is really in nobody's interest to do that.

And so, this more constant approach to excise tax increases which we have today is what we are geared up to, and which is also helpful to your point on the affordability. So, clearly, that will help with the affordability. And it took almost a year to get the comparable’s smoothed out. I think we're not getting to the point where we will not be influenced by that change, and we also will avoid, in the future, any big swings in profit and net revenue due to this excise tax or changes to the excise tax.

We remain both cautious and optimistic on Australia. It is a profitable market. It is an important market to us. But clearly, it is a profit pool that is, over time, going to continue to shrink. And therefore, we will optimize profit in that market going forward.

Gaurav Jain: Sure. And coming to a market which have like some of the smaller markets, are there any markets that excite you, maybe in Asia or Africa? Morocco, I think you had mentioned recently. So, how should we think about this long tail of markets that you have?

Stefan Bomhard: Yeah, I mean, Gaurav, there are lots of markets I'm excited about. And I think what's important, there was -- the model we are deploying against the top five markets about this very rigorous approach about looking brand by brand, region by region, salesforce by salesforce, that doesn't stop at the top five. They were priority number one. That same process is being deployed across all our other markets. That's number one, so the same plans exist for the other markets.

And we do clearly see some exciting opportunities (indiscernible), as you mentioned, Africa. Africa is around 8 percent of our global profitability. We hold some very good positions in these markets. We haven't really spoken a lot at Imperial in the past about the African opportunity, but it's clearly an opportunity there. I was there with -- we made some structural changes. As you will know, we reorganized our regions. One of the side benefits is there's a lot more focus on these markets beyond the top five with what we call the AAA division now, under Paola Pocci's leadership. She's driving very hard, market by market, looking at the opportunity, so that's super exciting.

But I think what's also important to mention in this context. We talked about discipline. We talked about laser-like focus about where's the opportunity for us as a company. It also meant we made the decision to leave the Japanese market, where we have invested for a long period of time with, actually, despite great efforts, not a lot of return, and it was a loss-making market for us. So, we're actually exiting Japan as a market, which should give investors the confidence this is a management team which is going to be guided by the numbers. That means every single market in Imperial now makes money and is cash generative.

Gaurav Jain: Sure. And on the Japanese exit, can you just tell us, what were the size of the losses in Japan?

Stefan Bomhard: I mean, we didn't break out the size of losses. It's just about a question of discipline as well. We did hold a share of 1.2 for a long period of time, where despite great efforts, we were trying to build a stronger position where I looked at the business, saying, what gives us the right to believe we'll get to a profitable business and a meaningfully profitable business? So, I'd rather have my management team focused on markets where we can move the needle, and that was the key driver behind that. So, it won't make a material difference to your forecasts, Gaurav --

Gaurav Jain: Sure.

Stefan Bomhard: -- I think if that's the question. I think the important piece is more about demonstrating to investors the discipline that we'll go through. We'll look at every single market, all the key levers we're into. And we'll also take the hard decisions that might mean leaving a market.

Gaurav Jain: Sure. Now, you laid out a five-year plan in which you had the first two years you would be building up to growth, and then you'll start growing that mid-single digit. And a lot of people have questions around what, exactly, is that mid-single digit? First of all, is it every year, or is it a CAGR? And is 2 percent mid-single digit, or 3 percent mid-single digit, or 7 percent mid-single digit? So can you just help us understand what, exactly?

Lukas Paravicini: Sure. I'm more than happy to help you. I think to start off, very important, yes, we believe that we will, throughout the five years probably, now that the strengthening phase has finished, accelerate the growth of our adjusted operating profit. There is no doubt about that, and our commitment remains very firm on this point.

And I think it goes back to, we have invested significantly in the last two years, as Stefan just pointed out, in sales, in brand, in culture, in a global consumer office, and that will inevitably bring those benefits in the next three years. And those benefits, be that the initiatives that take effect, be that the savings that will come through, will be over time. And I think what is important is, when we looked at the Capital Markets Day, the acceleration that we put out there was always in the range of a CAGR. It was a three-year CAGR that would come through.

And despite today having quite a different economic backdrop than we had then, with obviously higher inflation uncertain, we are still very committed to this being a growth around the mid-single digit.

Now, to your point, a 2 to 3 percent we would regard as a low-single digit, not a mid-single digit. And so, let's be clear. If you ask me, Lukas, where would you think, what is a mid-single digit? And you know this is always a difficult sort of judgment for a CFO. At the end of the day, I would put it somewhere around 3.5 and 6.5 percent of growth over those three-years period.

Gaurav Jain: And this CAGR, it's not for each year, so it is it possible that next year it is below mid-single digits?

Lukas Paravicini: Well, the possibility -- I mean, you know, the notion of our five years program was we invest two years for it to accelerate in the second three years. It is incredible, or not very credible, to believe that just after the second year, suddenly, we would switch and have a separate profit. So, absolutely, you will see a progression and a CAGR of that range in the next three years.

Gaurav Jain: Sure. And just to now think of the risks which could happen to this sort of focused guidance, because there is a lot of macro weakness, which you just mentioned. So, are you seeing already some signs in the US, and especially Europe, of consumers pulling back, on downtrading happening, which you could tell us about?

Lukas Paravicini: So, clearly, I mean, listen. I mean, nobody's immune to the inflation that is out there. Now, our business, our industry has always been much more resilient. So far in 2022, we see little coming through that in our business, but it is inevitable to see that the consumer will have to make choices going forward and there will be some elements of downtrading.

Having said that, with our range of products that target all the value chain of all the desire of our customers, we are well positioned. So, our firm commitment to that acceleration, to that mid-single digit growth over the next three years is in full knowledge of that inflation pressure out there.

Gaurav Jain: Sure. Now let's talk about your NGP business, which there's a big topic of discussion amongst investors because that does impact how people think of the terminal multiple that they're ascribing to Imperial. And you have had some success with Pulze in Greece and Czech. And then, you have spoken of new market launches that you could do faster than what you were thinking previously. So, is Poland one of these markets that you have been thinking of launching, given your market share and the attractive dynamics in that market?

Stefan Bomhard: Gaurav, let me give you another one, yeah? In simple terms as you rightly said. What's changed it? What's changed in NGP, if we look at the broader picture, is with the new strategy, we clearly made a commitment to sustainable NGP growth. It's a key part of Imperial as well. But one thing we said, we will properly test that proposition. We learn from our own failures of the past. That's why we launched the Pulze heated tobacco device into the Czech and Greek markets, which are both markets where heated tobacco is more than 10 percent of total nicotine consumption, highly competitive marketplaces, and we have achieved our objectives -- overachieved our objectives.

We have made the decision -- I was just two weeks ago in Italy with the whole Italian team. We're launching Pulze, as we speak, into Italy. Italy is the biggest heated tobacco market in Western Europe. So, take that as a signal how confident we are behind our strategy. And, will we look at markets to come? Is Italy the only one we want to roll out this year? Probably not. But what I think is going to be important is, I wouldn't think about there's going to be one big wave of launches now. It's going to be a staggered approach.

But I think what's important, we're moving from a position where it was all about vaping, all behind the Blu. Behind the new strategy, we have said, we’ve three propositions, and they were driven by consumers. We start with the consumers that, in a market like Italy, where we do have the Blu brand there and it's a very strong brand, it's a small segment. We are now launching the right propositions in the market, and that's where the launch is now coming to.

Gaurav Jain: And in terms of data you will share with investors, because you have shared the market share within some of the markets, but how do investors judge your success? And how will you, yourself, judge your success to put more money behind NGP?

Stefan Bomhard: Absolutely. We will share the right level of knowledge for investors we have made this comment, so allow investors also to track the progress we're making in this area. Sure.

Gaurav Jain: Okay. Now let's focus on the e-cigarette side of things and talk about Blu, which has just received an MDO from the FDA. So, what are the next steps in this process, and how do you actually invest behind a brand which might very well be off the market in six months or a year, whatever time it takes?

Stefan Bomhard: Sure. I mean, Gaurav, as you say, it's a live process. I think an important piece is that our confidence level, that we will be able to continue to build and grow the Blu brand in the US is very high. If you step back, in principle, we are now in the administrative appeal process. I'm not a lawyer, so it's not -- if we look at the bigger picture, we got the MDO, which was about the insufficient data in our submission. We're now addressing that via the appeals process.

What I say is important, which should give investors the confidence, number one, there has not been any enforcement order against our brand and our product from the FDA. That should give you a signal about the level of interaction we have with the FDA. And equally important, we continue to invest behind the Blu brand in the US, so that should give you confidence about our commitment and our assessment of what the situation looks like in the US.

Gaurav Jain: And now moving to e-cigarettes in Europe, where you have launched -- I think you launched one new device in France.

Stefan Bomhard: Yes.

Gaurav Jain: But you haven't really launched any disposable yet, and I think the market, based on whatever we are hearing from your competitors and also just looking around in the UK, it seems like the market is switching to disposables. So, what are your plans on?

Stefan Bomhard: Sure. I'd say, number one, as you make the point, Gaurav, what we are observing is not that the market is switching from pod systems into disposables. The disposable growth goes on top of the pod-based systems. And just to deal with this point, yes, we're also testing a completely new Blu 2.0 approach with a very different technology versus the device we have in the US today and most of Europe that should give investors a sense, despite our smaller scale, in the partnership with third parties, we're very capable of developing new products in this space. But again, we're going to properly test them, and France is one of the top vaping markets in Europe.

On disposables, we are clearly watching this market very clearly, a new segment has appeared, and that we are clearly going to watch whether that is an opportunity that we see, long term, being part of the proposition.

Gaurav Jain: Now, Lukas, coming to the NGP losses, which I think your damage lies at £150 million per annum, is this the way we should keep forecasting it forever, or there will be a point where you will break even on NGPs? Or could the NGP losses expand if you are, for example, expanding further?

Lukas Paravicini: Yeah, let me here just step back and explain how we think around how these losses are generated and what will happen in the path. Clearly, we are very committed to the NGP business. And as you've seen from Stefan's explanation before and in the past, we have done this in a different way, focusing on the consumer insight, building on our challenge -- challenger mindset, building on where that product or that category exists and we can build on our strength in that market, meaning are presence. So, that is a very effective way of building an NGP business going forward, but also, and this is very helpful for a CFO, a very cost efficient one.

So, you know, that cost efficiency has allowed us to focus us on making sure that we invest the right amount in the right way, but also start reducing the losses. So, you're right, we sort of targeted -- we had last year roughly £140 million in losses. We are guiding the market this year with about £100 million losses, so a clear progression towards that. And we remain with our commitment that the losses will be zeroed out, if not slightly positive, by the end of the five years program, which is in 2025.

Now, this might not be a linear progression. As you have seen from Stefan, after some very successful trials, we are now starting to roll those products in different markets. And hence, probably next year, you will see a slight increase in our investment to support that accordingly. But that should not change our commitment at all to actually making this a positive contribution as of 2025 onwards.

Gaurav Jain: Sure. Now coming to the modern oral category, and you have a business, and modestly, a snus business which is there. Do you plan to invest more behind it or to expand it to other markets like the US? You will have to file a PMTA for that, so how are you are thinking about that?

Lukas Paravicini: Well, let me take you back again a bit to our strategy. You know, our strategies, we focus our offering based on the consumer insights, where we have a presence, and where there is an established market. When you take that back to modern oral nicotine, that is basically the Nordics, Estonia, Switzerland, Austria where we are market leaders and where the habits are based on oral tobacco. And so, we believe that there is plenty of opportunity in those markets without us having to go and trade other markets, for which we as a challenger are not ready.

So, we will focus on continuously working in those markets where we are present, optimize, grow the business there. And whenever there is another market that has opened, we will be ready with our very good understanding of the markets to follow. And therefore, you know, things like Zyn, or Velo, the more successful they are, the better for us, because we will come in as a challenger to carve out some of that market. And that is how we will approach every NGP business, including the oral nicotine.

Gaurav Jain: Sure. And a last question on Pulze, because it is not clearly in the US right now, and you will have to file a PMTA. Is that the plan, to file a PMTA for Pulze?

Stefan Bomhard: No, and it's simple. It goes back to Lukas' point. It's, we are always led by the data. We are the challenger in our industry. The US, it's very clear the biggest category, by far, is the vaping category, which we operate in. Then would come oral nicotine. And then, today, you have a very small heated tobacco opportunity. It's far too early for us. I think let's see whether one of our competitors succeeds of building a heated tobacco business in the US. If that would be the case, hopefully with all the knowledge that we're gaining with European consumers at this point in time, we'll be in a good place -- but not the priority for us at this point in time.

Gaurav Jain: Sure. And moving to the next topic, which is self-help initiatives and driving operational improvements. So, could you talk about what exactly those opportunities were and what difference could you make?

Lukas Paravicini: So, I think we have in the past focused also in making sure that we can improve our operating model, making sure that the ways of working, the attitude we have in everyday working are changed. We have changed the front side of our -- you know, Stefan addressed how we do the sales effectiveness, the salesforce organization. We believe behind there, there is also a huge opportunity in the back office in terms of how we operate more efficient and more focused on what the consumer needs are and how we could support the market. So, those are what we mean with the self-help, making sure that our operating model, including some of our cultural aspects where we have invested heavily, is aligned to the needs of the strategy in that sense.

Stefan Bomhard: And I think to build on Lukas' point, Gaurav, I'm very excited about this. Because if you look at the big picture, there's a lot more self-help opportunity at Imperial versus some of our competitors. In a humble way, I think there's more opportunity to become more efficient as an organization. I mean, we are only a year ago establishing a global marketing organization, as an example, which also drives. We're only now as a business building a global ERP platform. So, the opportunity for us, especially when the outside climate, macroeconomic, becomes more difficult, there's a lot more things we can do as Imperial ourselves to put us financially in a better position. And we're creating the culture that Lukas referred to about collaboration with each other that allows a matrix organization to work, something that we haven't done in the past.

So, I'm very excited. There's real opportunity here that I think bodes well, and it's one of the key drivers of the acceleration of the profitability in the phase two of our strategy.

Gaurav Jain: Sure. Now coming to cash generation and capital allocation, which is the immediate topic of focus for investors right now, so your leverage will be 2x by the end of this month, and you have clearly committed to a share repurchase, and you have your fiscal year results in November this year. So, what's the likely number? Like, is £1 billion a good number to work with? And how do you think of dividend growth in context of share repurchase?

Lukas Paravicini: So, again, you know, we've mentioned this multiple times, and I think it is really important. We are very committed to the capital allocation we have set out there. We believe it is a key value driver to the Imperial share price. And the capital allocation, as you right now very well know, has four pillars of it, which is we make sure that we have enough cash for growing the business, we have a strong balance sheet, which is important to us, we believe in a steady flow of cash going through dividends policy, and a share buyback. You're right; at the time when we get to the lower end of 2 to 2.5 times the leverage, we will hopefully be announcing a significant and constant share buyback, and we are very close.

To your point, you know, I have not said when we'll get there, but we are very close, and we will get there. And it will be meaningful. I don't want to be drawn into a discussion of the size they are, you know, consensus out there, which give you an indication where we're heading. But what I will commit to is that it is meaningful and it will be systematic, because we do understand how important that is.

Now, to your question on the dividend and what happens to the dividend, we are what we call an and company. Now, we want to revitalize tobacco and build an NGP business. And we believe there are shareholders who are interested and that it's important that we continue to deliver a progressive dividend policy -- progressive meaning that we will build it up in line with our underlying operating profit or operational performance -- and we want to deliver a share buyback. So, you would expect us to do both, as it has been very clearly explained in the capital allocation.

Gaurav Jain: Sure. But if your dividend growth is in line with operating growth which is 5 percent and your EPS growth is 10, once I put in share repurchases, then in two years' time, your dividend pay-out per share will be declining. That's the way I should be thinking about --

Lukas Paravicini: I think, you know, what -- we had this discussion internally multiple times. I think what we are trying to help the market is with the capital allocation, having a clear framework of what we are trying to do. You know, the business is first, strong balance sheets, and then, how do we return the capital in the best, most efficient way to the shareholders. Now, we will be constantly revisiting this in what is the right way to look at dividends versus share buybacks. I think right now, our first focus is to get to the share buyback in the short term.

Gaurav Jain: Sure. And you know, if your business is growing and your leverage is constant at 2x, then that implies that you could actually return more than 100 percent of free cash flow to shareholders. But --

Lukas Paravicini: Gaurav. I think that what we always said is we want to return excess capital. And again, within the framework of the capital allocation, maintaining sufficient headroom for our business to grow and to have also the context of where we live in, we want to make sure that that is there first. That is our management's responsibility. We will keep a strong balance sheet. We have defined that around 2 times. There is no point in going further down in an excessive way. That's not what we said in the capital allocation. Therefore, we will, if the EBITDA continues to accelerate, continue to return capital, which most likely will be in excess of free cash flow at some stage.

Stefan Bomhard: And I think, Gaurav, if I build on Lukas' point, I think when I look at it holistically, I think what is exciting, two years into the strategy, I think it's become so much more visible for everybody, we are achieving -- we're not the number one share donor in top markets this year, it looks highly likely we'll report share gains for the aggregate. We now have an NGP strategy that I think you can see the outline why this should be a sustainable, and over time, profitable business. And we see the cultural levers coming into place that actually should underpin that capital allocation discussion that we were just having, which should mean this company, based on its strategy, should be capable of returning cash and buying back a very meaningful part of its equity base over time, while you're doing operationally, all the right things. And I think that makes Imperial a very attractive investment proposition.

Gaurav Jain: Sure. And one last question before we move to the breakout session for all the investors' questions. What is clearly a component of M&A in this entire free cash flow and capital return sort of narrative. And one thing that struck me has always been your US cigar business, which has been fantastic. It has grown share. It is almost a quarter of the US business right now, and there is a deal happening elsewhere between Philip Morris and Swedish Match. And while they haven't said anything about divesting that business. If you had an opportunity to consolidate the US cigar market, which has 20-20 percent share spread across four companies, is that something that you would be interested in pursuing?

Stefan Bomhard: I would start with our own business first. And as you say, the takeover of Swedish Match by PMI is a live process as we speak. I look at it our own capabilities. I think what is super exciting, behind the new strategy, our mass market cigar business, we used to be the number four, two years ago. We're number two now. We've overtaken several players in the marketplace. We have, with the Backwoods brand and the Dutch brand, some of the brands, especially Backwoods brand, is the strongest brand equity in the marketplace that has now proven that we can grow in a very organic way.

So, for me, the question would always have to be, what would additional brands bring to the portfolio for Imperial that we don't have in house? That's the way I would look at it.

Gaurav Jain: Sure. Well, we have run out of time here, so we'll move to the breakout sessions for all the investor questions. Thanks a lot --

Stefan Bomhard: Thank you.

Gaurav Jain: -- Stefan; thanks a lot, Lukas. It was really insightful for us, and thanks a lot, everyone.