

## Business

### The Monday Interview Alison Cooper

# 'We will be in conventional tobacco for a while yet'

The tobacco industry is facing huge change but the boss of Imperial Brands is relishing the challenge, she tells *Bradley Gerrard*

**B**ig tobacco has been hit with blows that less addictive industries would struggle to recover from. It suffered the largest civil litigation settlement against it in US history, brazen advertising adorning F1 cars has been eradicated and replaced by plain packaging, and an emboldened health lobby has helped knock hundreds of millions off the number of cigarettes being smoked.

Having emerged from each of these though, the industry is now facing the biggest consumer shift in its history. It's no longer good enough to manage the decline of regular cigarettes, and chief executives of tobacco majors are furiously working on new products that some believe will replace the old-fashioned smoke.

"It's slightly premature to have that ambition," says Alison Cooper, boss of the world's fourth largest tobacco company, Imperial Brands. "I think we will be in conventional tobacco for a while yet."

That said, the JPS, West and Gauloises maker is stepping up its charm offensive with investors to convince them its efforts to develop the latest iteration of its e-cigarette brand blu, which it bought as part of the 2015 merger between rivals Reynolds American and Lorillard, will set it apart from the competition.

Dressed in navy blue, Cooper cuts a relaxed but determined figure in the swanky King's Cross bar her firm hired out for an evening this month to show off its wares. There's cocktail pairings to complement the newly developed e-cigarette flavours, which Cooper

quips she "might try later" after she has delivered her speech. And there are several over-sized, simplified models of its latest innovation to help visually describe the company's technological "leap forward".

"The blu brand was the first brand recognised as being anything other than just a functional device," she says enthusiastically. "We're now showing the opportunities we have to keep improving the consumer experience in this space and to convert customers to e-vapour."

The boss of the £25bn firm – which changed its name in 2016 from Imperial Tobacco to reflect a new world where tobacco-makers no

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longer just make cigarettes – concedes there is a "feeling we are behind".

A pledge to invest £300m in 2016, including on new products, was taken as a negative by some investors, who perceived it as an acknowledgement of weakness in the wake of the then proposed marriage of two major rivals British American Tobacco (BAT) and Reynolds American.

A subsequent joint venture deal with China Tobacco in January last year, and a rowing back on a proposal that could have seen Cooper's pay leap from £5.5m to £8.5m with bonuses, restored faith temporarily.

Yet even the promise to plough hundreds of millions into next-



Alison Cooper, chief executive of Imperial Brands, believes the company's blu brand is a technological leap forward in the burgeoning e-vapour market

generation products hasn't improved sentiment, with the company's shares languishing at lows not seen for more than three years.

Cooper is combative though. "Investors will see that we are at the forefront of e-vapour [electronic cigarettes that mimic the sensation of heated tobacco [devices that create a vapour not smoke], we chose not to play there," she says.

The firm entered the e-vapour market in 2013 with the purchase of a series of global patents belonging to Hon Lik, the Chinese pharmacist widely credited as the inventor of the e-cigarette. It paid \$75m (£53.7m) for Hon's "vapour technology" patents and now heads up all of Imperial's activities in the burgeoning "next generation product" market.

Imperial further beefed up its innovation credentials last year with the purchase of Liverpool-based Nerudia. Now Cooper, who joined Imperial in 1999, is hoping to put clear blue water between her and rivals. Its experts have been working to recreate the experience of smoking a cigarette by manipulating the size of the nicotine and flavour molecules in the new brand. More importantly though, Cooper says design advances mean it is now far cheaper to produce, so the profit margins are much nearer to the famously high ones for normal cigarettes. "It's transformational,"

Cooper enthuses. "With the new product, which is made up of just three components compared with 10 in the old one, we can automate the manufacturing process and access markets where it would not have been profitable to have done so before."

With this comes bold ambitions. Its e-cigarette is used by roughly half a million people now across the US, UK, France and Italy – the four core markets that make up 70pc of global e-vapour sales. But it is still just a small fraction of the 65m smokers in those countries, which is the prize Cooper is aiming for. By the end of this year, Imperial hopes that 1.5m people will be using blu in at least 10 markets (which have a combined 125m

smokers), and 8m "vapers" in more than 20 markets by the end of 2020. Hitting these targets will be crucial to Imperial's prospects. Sales of its cigarettes have sunk almost a quarter in just seven years from 348bn cigarettes in 2010 to 265bn in 2017.

With no sign of this industry-wide trend reversing, the company needs its customers to quickly develop a habit for alternative products such as blu.

It is also fighting a much larger nemesis in BAT. Its biggest rival bought out the rest of Reynolds American in a \$47bn deal. With a £98bn market capitalisation, BAT is now roughly four times the size of Imperial.

Cooper will be facing up against this new beast in the e-vapour market. BAT's Vype is already present in nine countries and its Ten Motives brand is growing quickly in the UK.

While winning the new products race is crucial, smoking isn't finished yet. Imperial has an estimated 42m existing customers based on its 6pc share of the 700m-strong global smoking population, excluding China, which is served entirely by state-backed China Tobacco.

In spite of the decline, sector profits have continued to rise as addicted consumers continue to swallow price hikes rather than kick the habit.

Imperial's profits have gone from £2.5bn in 2010 to £3.3bn in 2017, figures that strip out the large

currency swings the firm is exposed to. "We do lots of work on relative affordability versus how much incomes are growing by, and in most markets there is significant headroom for prices to rise," she claims. The amount of cigarettes smoked in the US, a key market, dipped 4pc in 2017 but price gains of 6pc compensated.

But this doesn't mean conventional smoking doesn't face other challenges. The US Food and Drug Administration last year suggested it was considering regulating the levels of nicotine in cigarettes and curbing the addictive ingredient that has kept consumers hooked and firms in profit.

How Cooper navigates the decline in cigarettes and the switch to so-called reduced-harm products could define her legacy. She has been at the top of Imperial since 2010.

By FTSE 100 standards, eight years in the hot seat is a long time but Cooper says she doesn't plan to go anywhere soon. "It's a fascinating time in the industry and, given the opportunity Imperial has, I'm really excited to be leading it," she says.

It won't be easy though. Its e-vapour product has plenty of competition and it is trailing BAT and Philip Morris International in heated tobacco.

"We have a huge opportunity with blu. How big and how quickly that is realised will play out over the next few years but we have got really big ambitions."

### CV

**1988:** Graduated from Bristol University with a degree in mathematics and statistics  
**1988:** Joined Haskins & Sells, which went on to become part of PwC  
**1999:** Joined Imperial Tobacco as group finance manager  
**2001:** Group financial controller  
**2005:** Sales and marketing regional director for Western Europe  
**2007:** Appointed to the board as corporate development director  
**2009:** Chief operating officer  
**2010:** Chief executive officer  
♦ Married with two children. Lives in Bristol  
♦ Hobbies: Swimming, singing

JULIAN SIMMONDS FOR THE TELEGRAPH

### Attack of the vapers How Imperial is fighting back

**4** The number of core markets – the US, the UK, France and Italy – that it operates in with e-cigarettes

**\$75m** The amount

**Imperial Brands paid for a series of global patents for vapour technology**

**265bn** Number of cigarettes it sold in 2017, a fall of almost a quarter from 348bn in 2010