E-cigarettes: Market developments

21st October 2015

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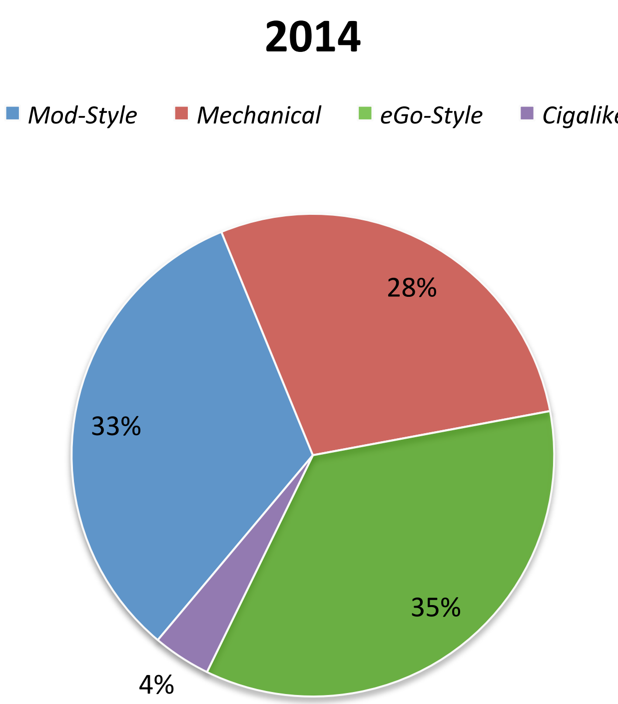
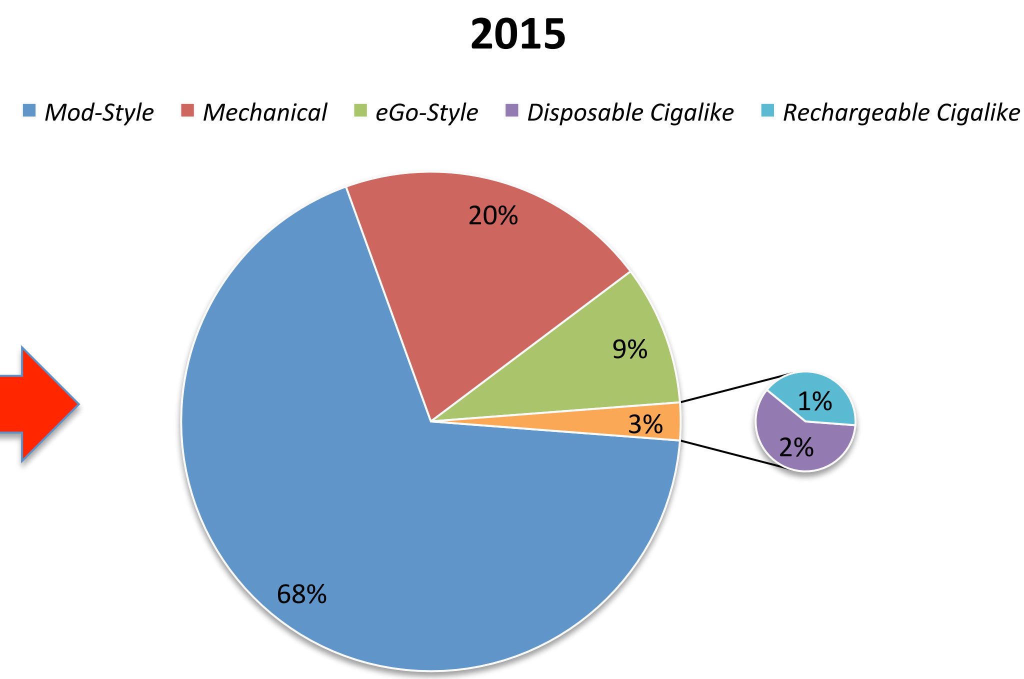
www.ECigIntelligence.com

Agenda

- Introduction
- ECF Survey results: e-cig consumption patterns
- Decline in C-store sales
- Pricing pressure
- Growth through other channels – vape store / online
- Regulation and the TPD
- Outlook

ECF Survey analysis 2015: primary device usage





Source: E-Cigarette Forum survey of 7,000+ US vapers from the forum carried out in Spring 2015 compared to results of same survey in 2014; Report published Oct 2015 available http://ecigintelligence.com/product-category/premium-reports/

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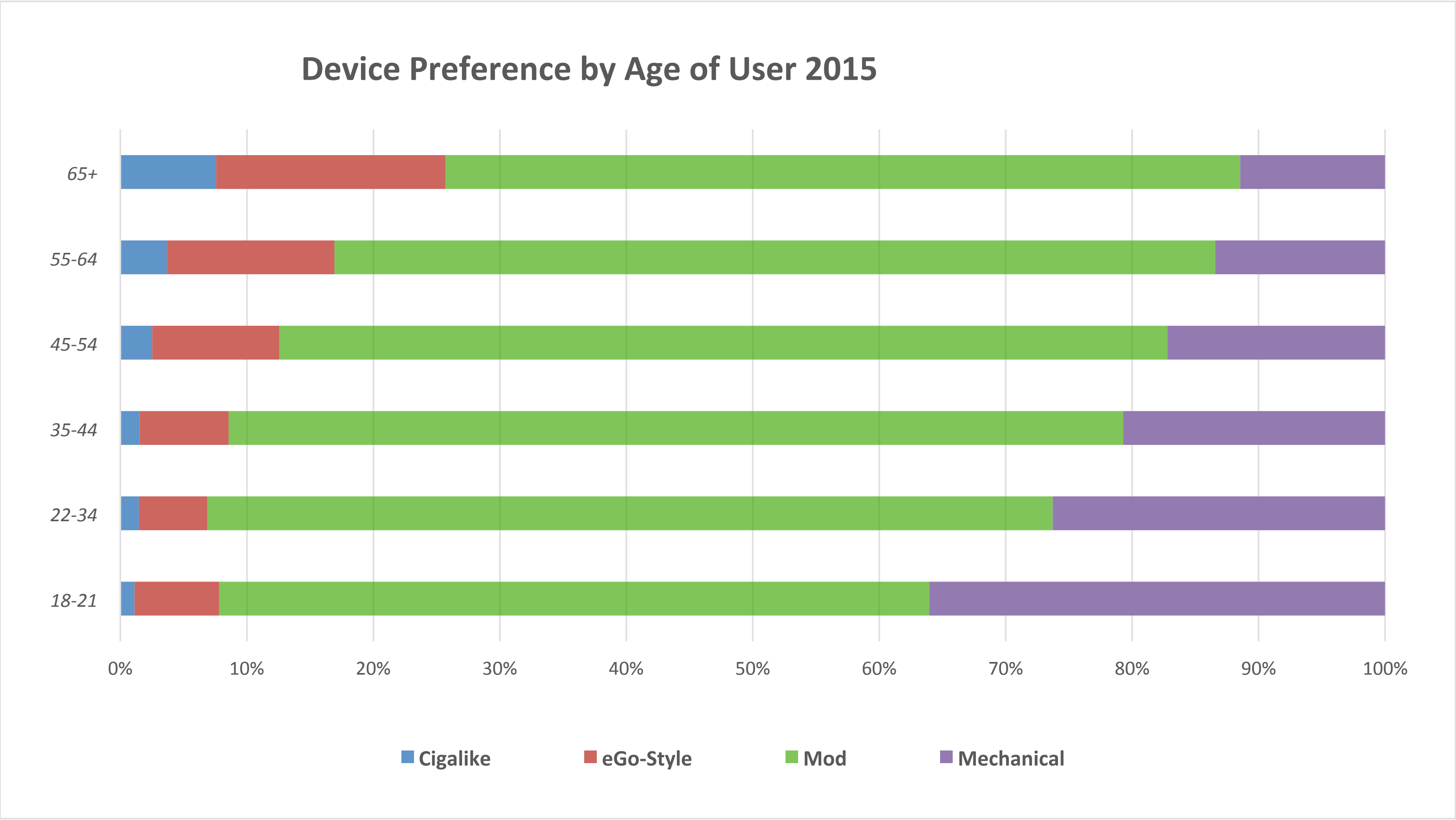
Primary device by age of user



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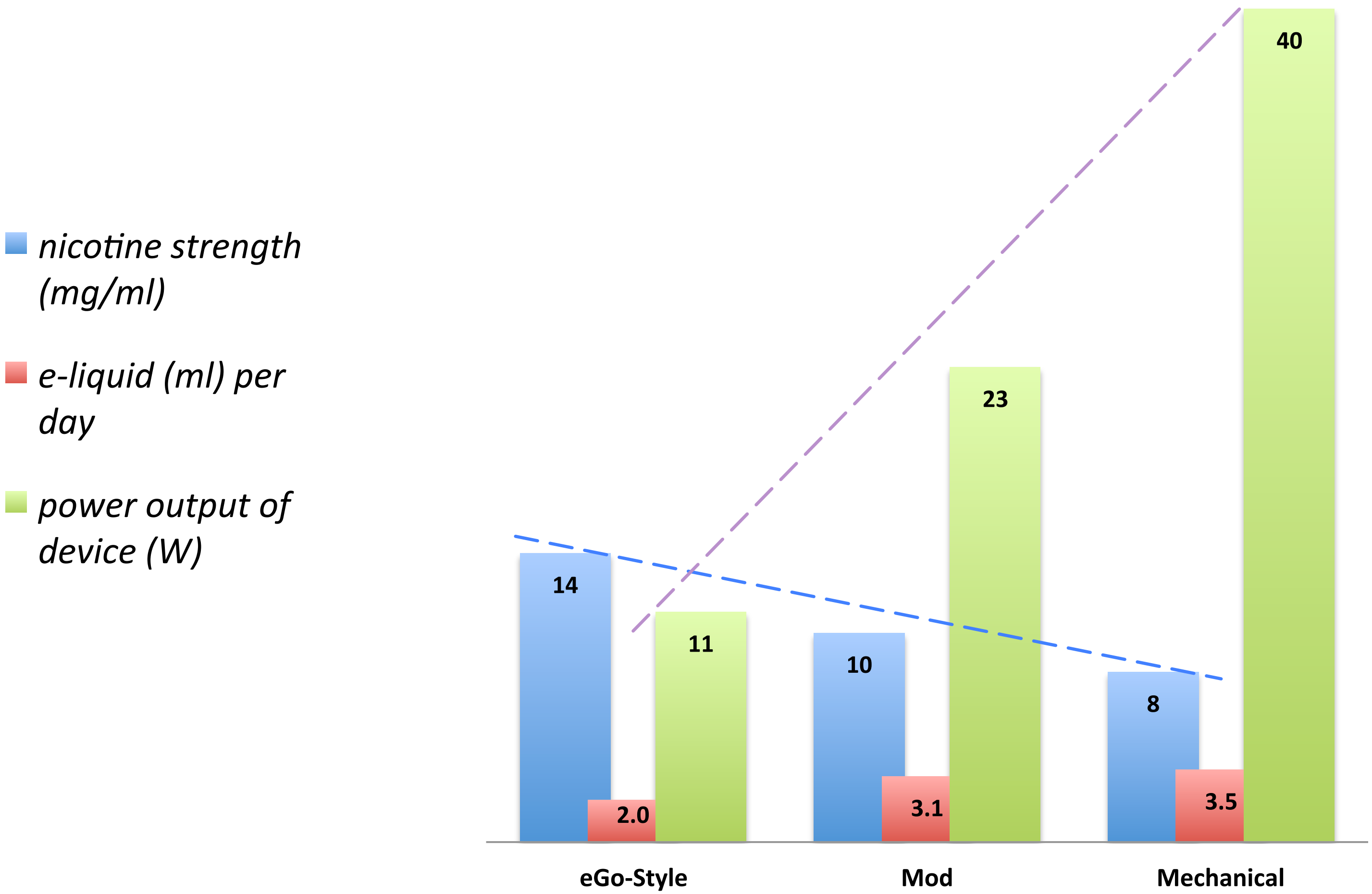
Source: E-Cigarette Forum survey of 7,000+ US vapers from the forum carried out in Spring 2015

Consumption by device



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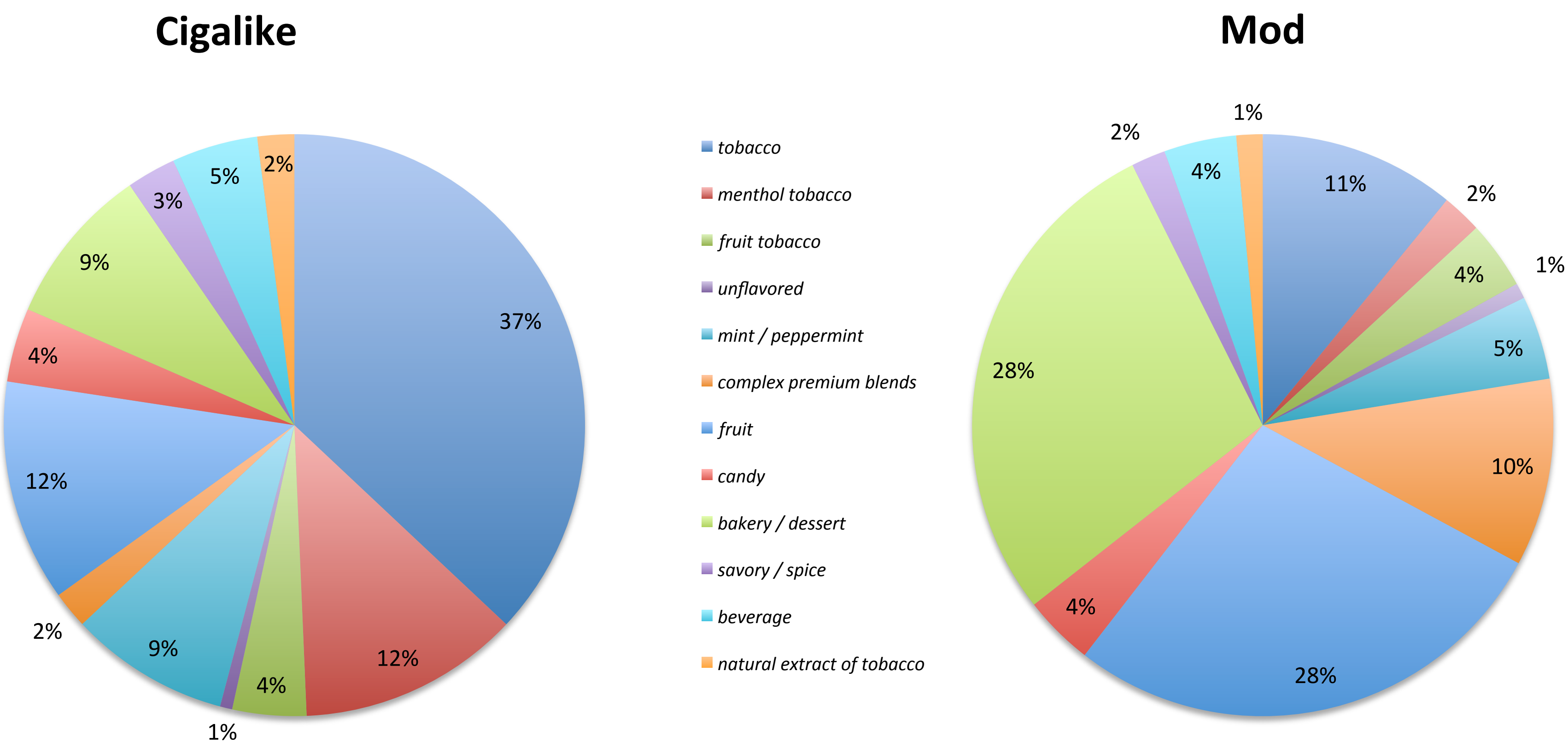
Source: E-Cigarette Forum survey of 7,000+ US vapers from the forum carried out in Spring 2015; Device-Specific Consumption Trends (Solus & Dual Users, 2015)

Flavour preferences 2015



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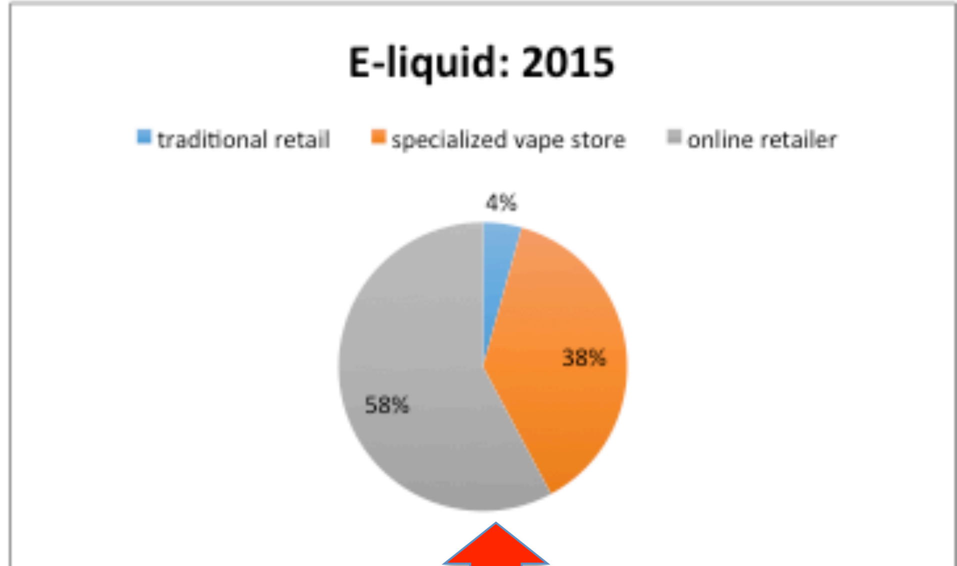
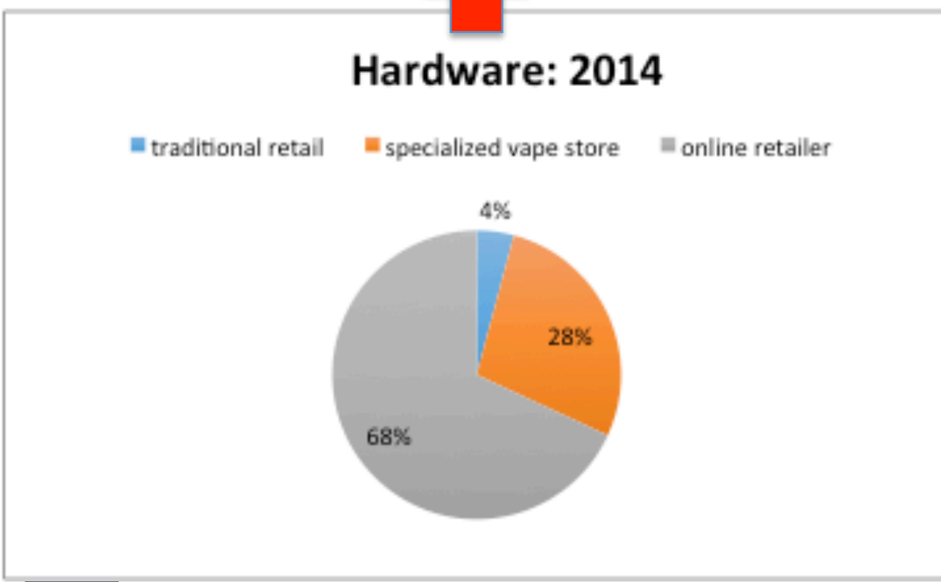
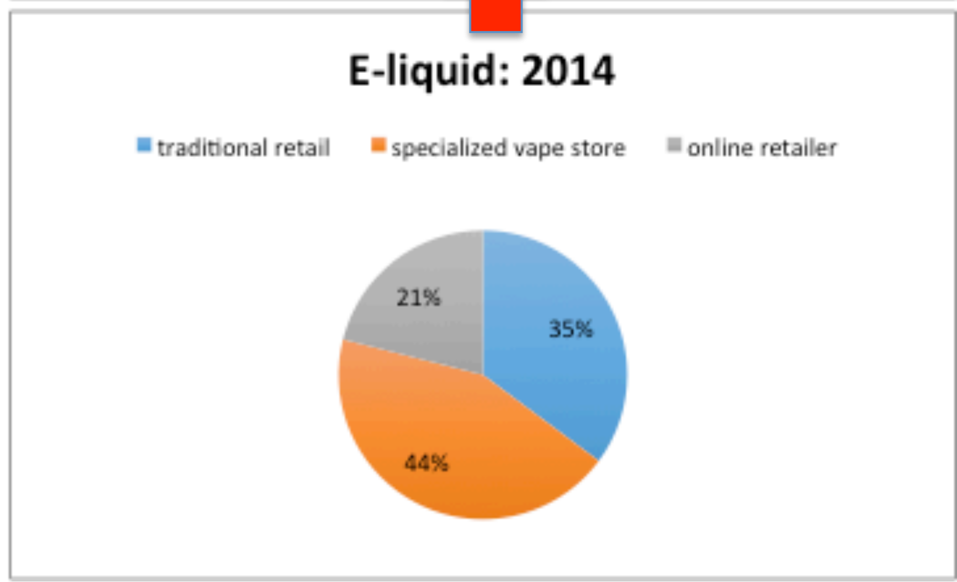
Source: E-Cigarette Forum survey of 7,000+ US vapers from the forum carried out in Spring 2015

US distribution channels: liquids move online







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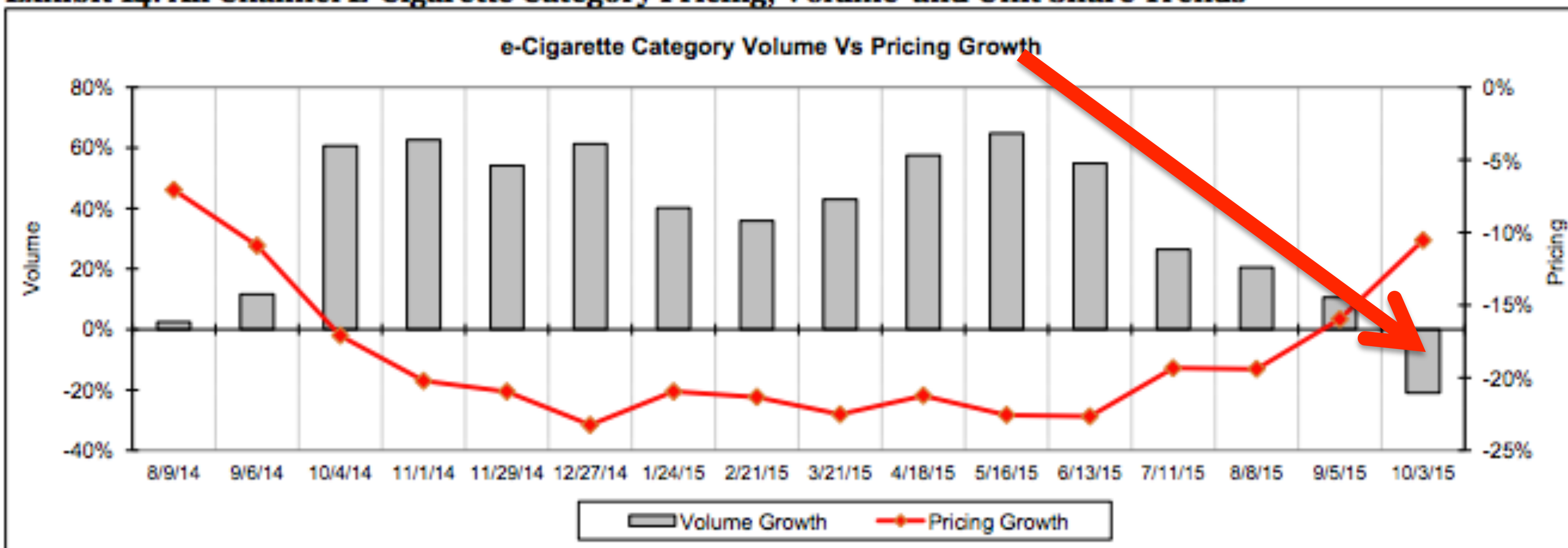
Source: E-Cigarette Forum survey of 7,000+ US vapers from the forum carried out in Spring 2015 compared to results of same survey in 2014

C-store decline

- c. -30% $ value yr on yr
- Price: -10% ; Volume: -20%
- C-store only now represents c.1/3rd of total US market distribution

Exhibit 14. All Channel E-Cigarette Category Pricing, Volume and Unit Share Trends



Source: Nielsen Total US xAOC Including Convenience Database and Wells Fargo Securities, LLC

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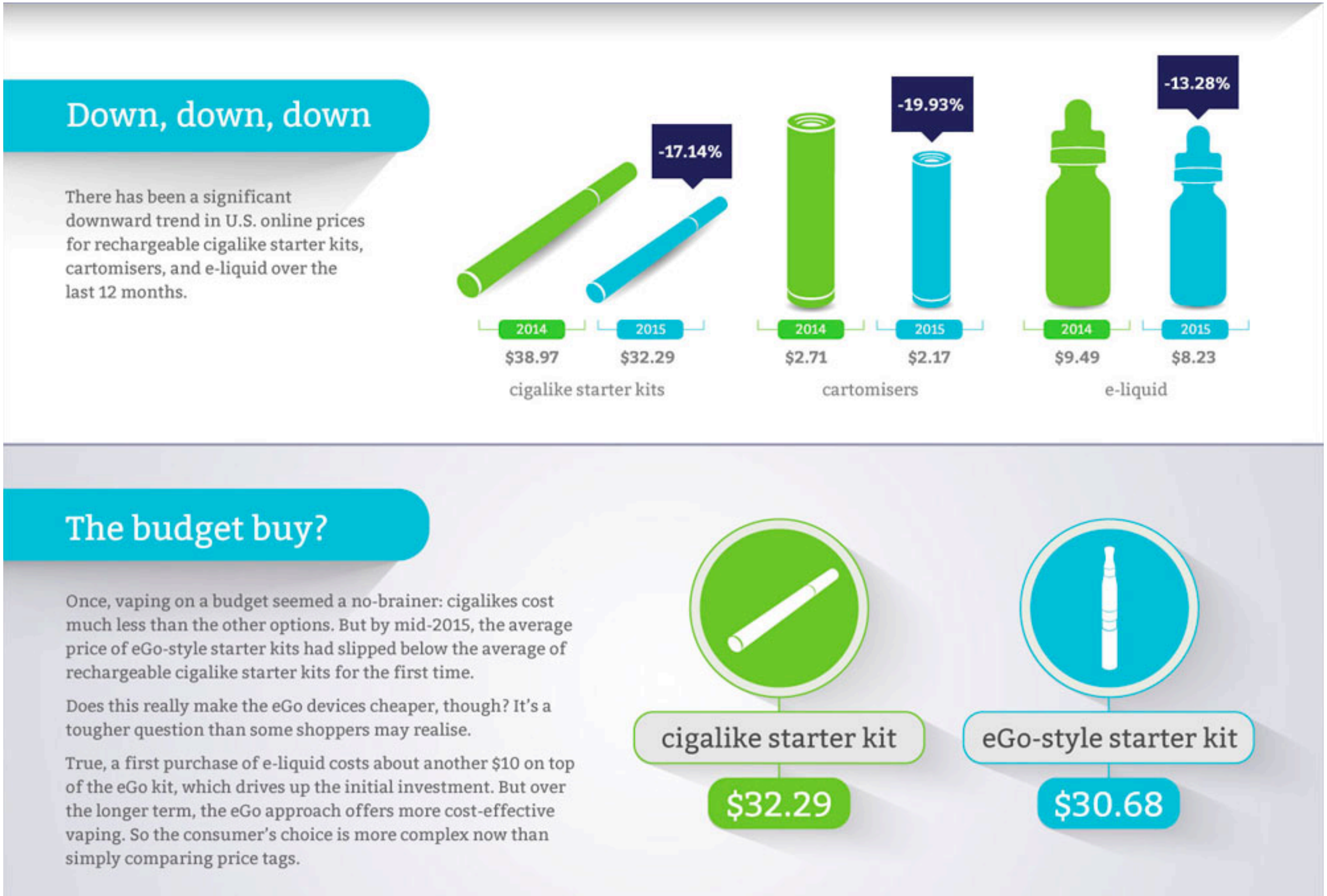
Source: Wells Fargo/Nielsen October 2015

US pricing pressure



Source: ECigIntelligence US online pricing analysis, Sept 2015 vs Sept 2014 www.ecigintelligence.com

US: hardware price resilience

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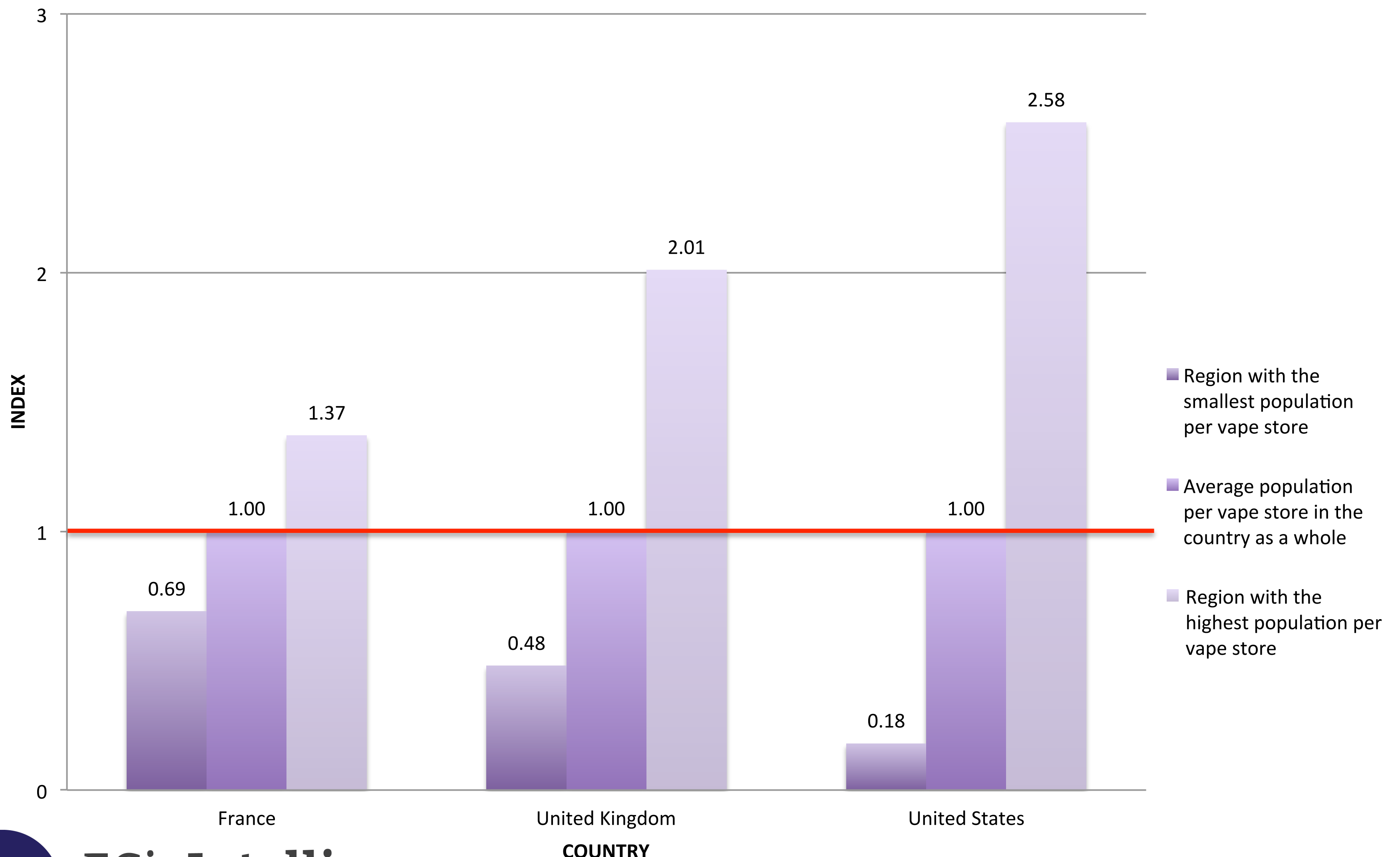
Source: ECigIntelligence US online pricing analysis, Sept 2015
www.ecigintelligence.com

Vape store distribution: UK, France, and the US



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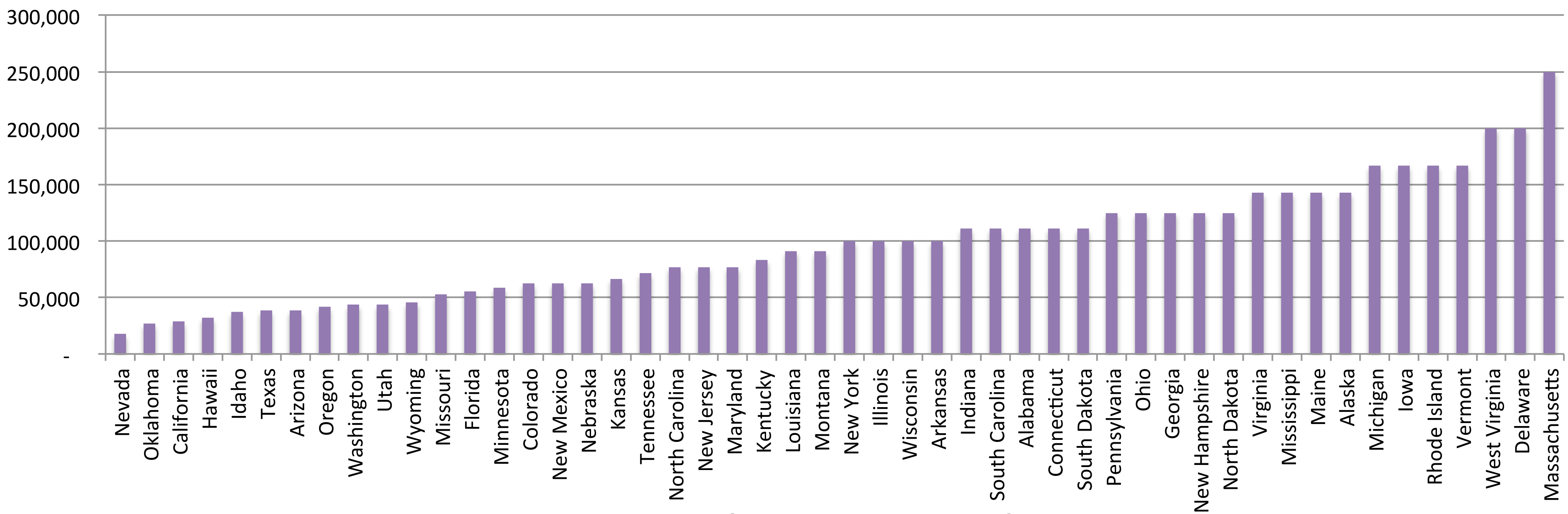
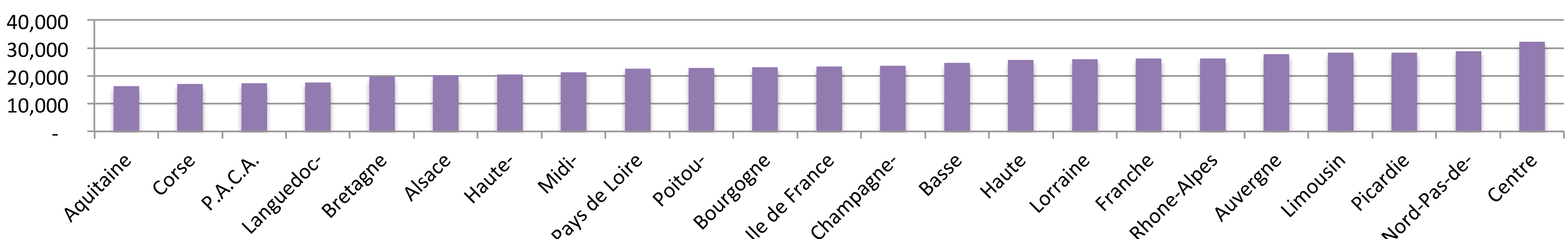
Source : ECigIntelligence Note: base of 1 represents the average "population per vape store" in the country as a whole

Vape store distribution: US vs France

US: Population per vape store



France: Population per vape shop



Source: ECigIntelligence databases;
France: Population: as at 1 Jan 2014 INSEE
Vape shop numbers: as at 15 Feb 2015, PGVG magazine - dedicated vape shops receiving PGVG magazine

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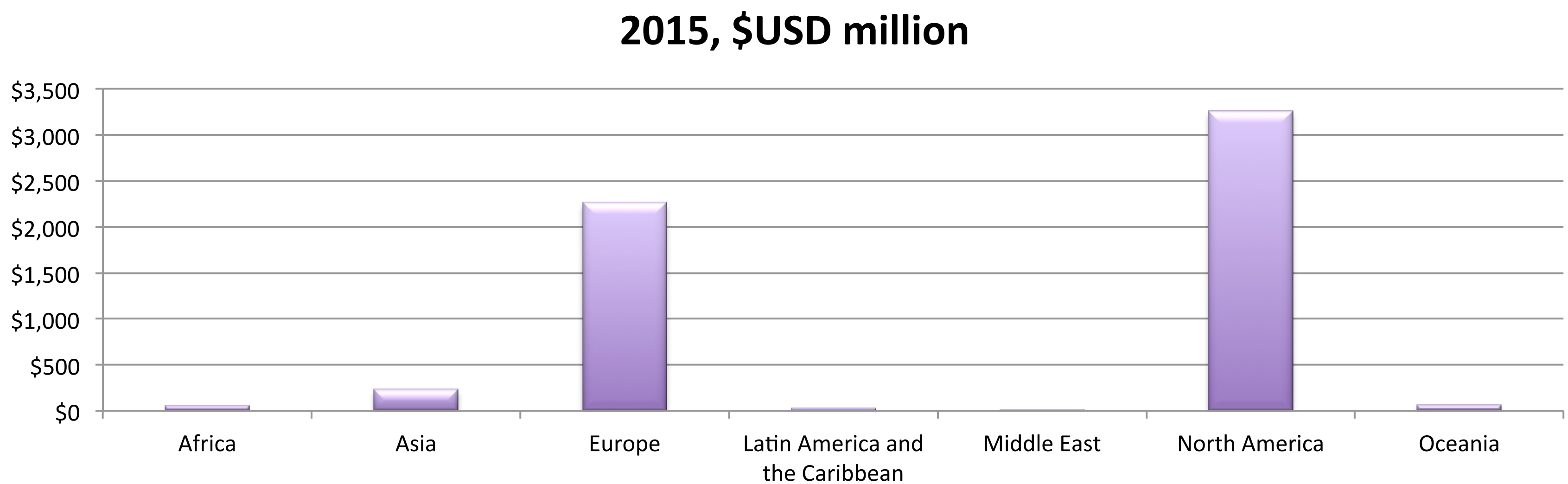
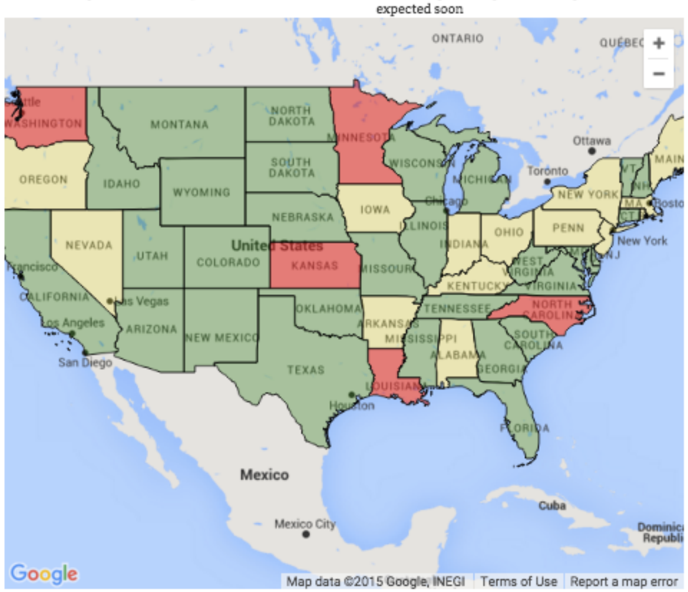
Global E-cigarette Market Size



- Europe and U.S. markets dominate globally
- High growth expected in Asia and other markets over next 5 years
- China and India to open up?

Source: ECigIntellligence proprietary market sizing models and database September 2015; Europe is based on the UN descriptions: Europe includes EU28, Russia and Eastern Europe; North America: USA and Canada; other regional groupings based on UN descriptions (2015)

Regulation: International Patchwork



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Source: ECigIntelligence Interactive Regulatory Tracker September 2015

Impact of TPD on EU market

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• **Level playing field**: companies and investors understand "rules of the game" • **Consumer confidence**: regulated products give customers much-needed security, particularly new users • **Speed to market**: notification rather than pre-approval (cf. US deeming regs.)	• **Lack of harmonization**: the TPD gives EU member states huge scope to adopt different restrictions from one another • **Product restrictions**: unnecessary limits on product characteristics • **Marketing restrictions**: likely widespread advertising bans • **Costs**: heavy regulatory burden, particularly on small manufacturers and distributers

Outlook

- More pre-TPD restrictions implemented
- Vape shop consolidation/professionalization
- Heat-not-burn and other nicotine products – further innovation and variation
- Tax
- New markets (e.g. Germany, Russia, Asia?)