



E-cigarettes: Market developments

21st October 2015

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www.ECigIntelligence.com

Agenda

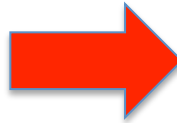
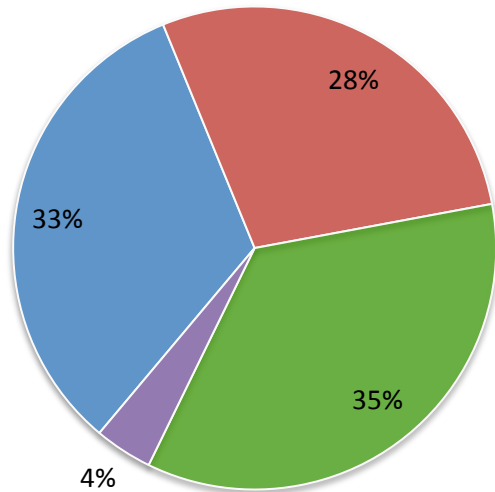
- Introduction
- ECF Survey results: e-cig consumption patterns
- Decline in C-store sales
- Pricing pressure
- Growth through other channels – vape store / online
- Regulation and the TPD
- Outlook



ECF Survey analysis 2015: primary device usage

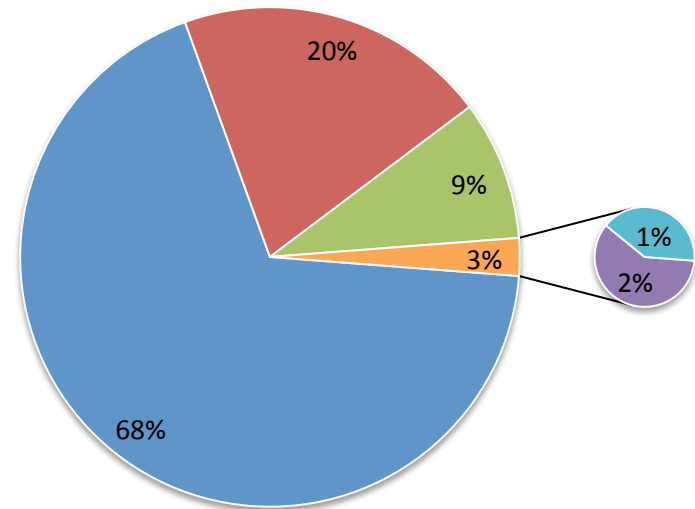
2014

■ Mod-Style ■ Mechanical ■ eGo-Style ■ Cigalike



2015

■ Mod-Style ■ Mechanical ■ eGo-Style ■ Disposable Cigalike ■ Rechargeable Cigalike

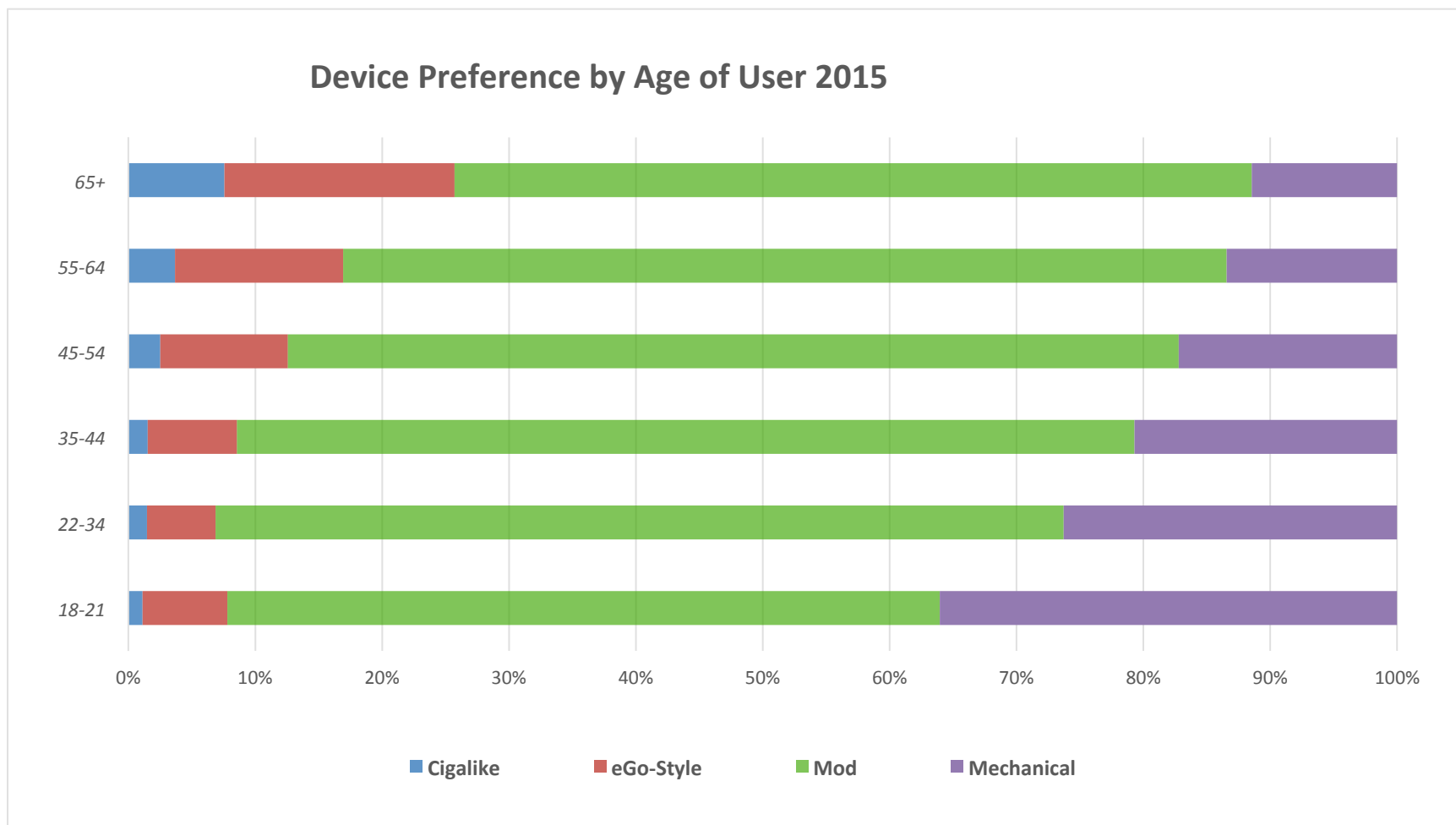


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Regulatory and Market Intelligence for the E-Cigarette Sector

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/>

Primary device by age of user

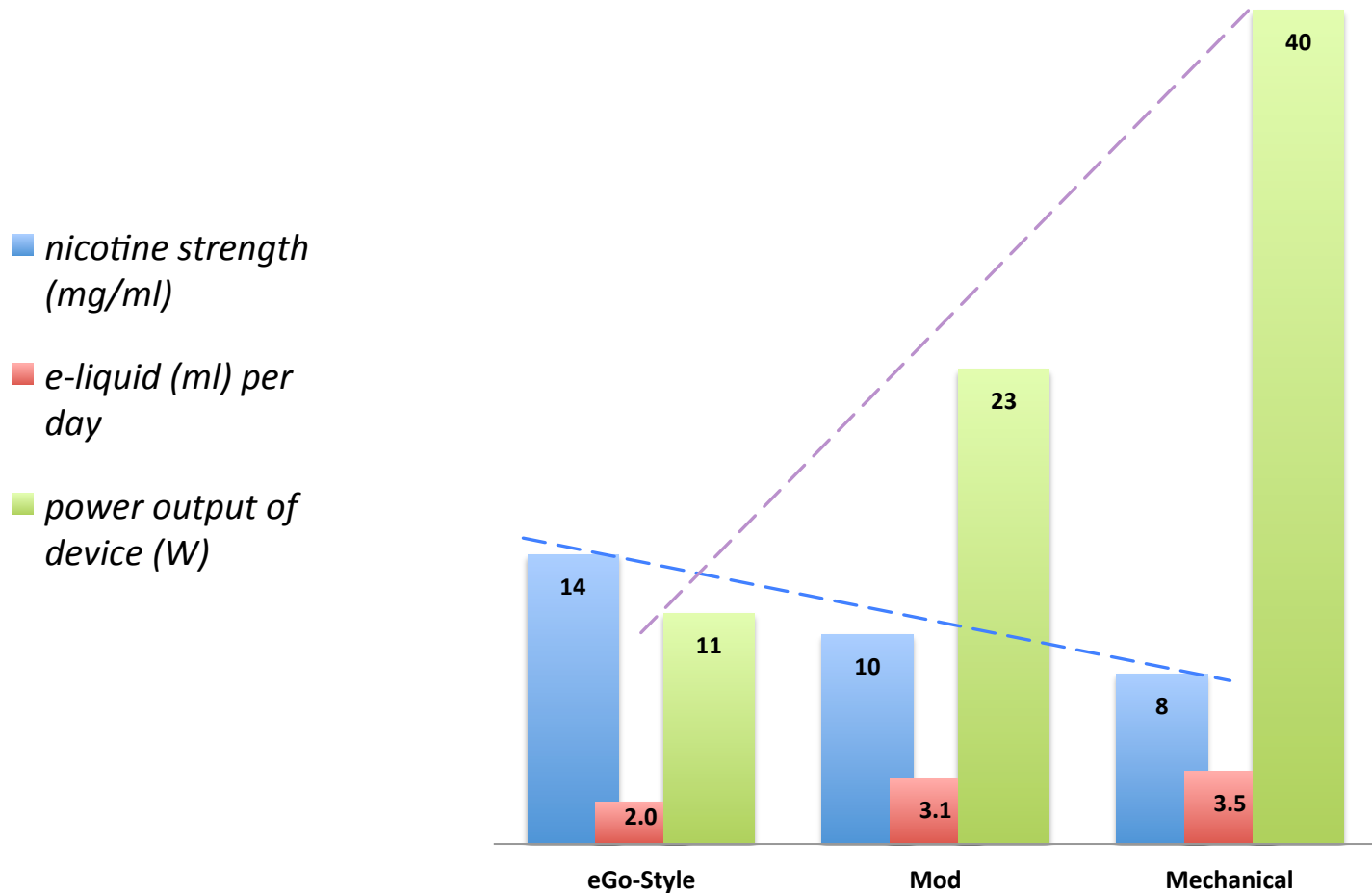


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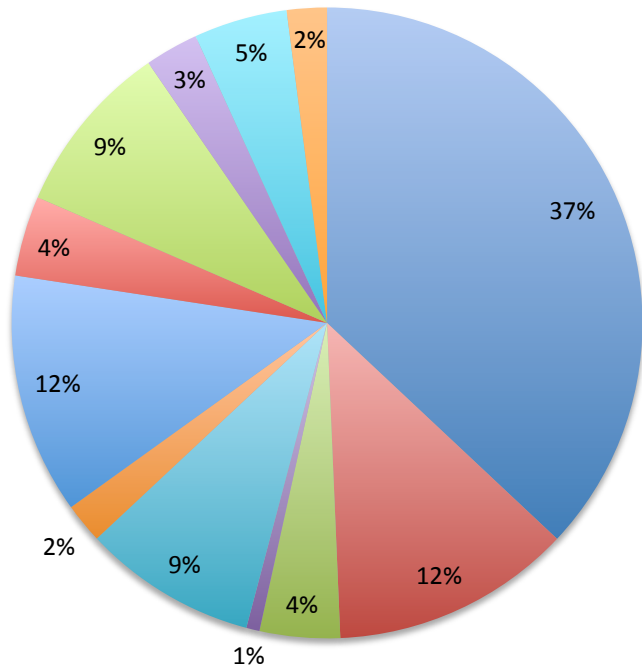
Source: E-Cigarette Forum survey of 7,000+ US vapers from the forum carried out in Spring 2015

Consumption by device

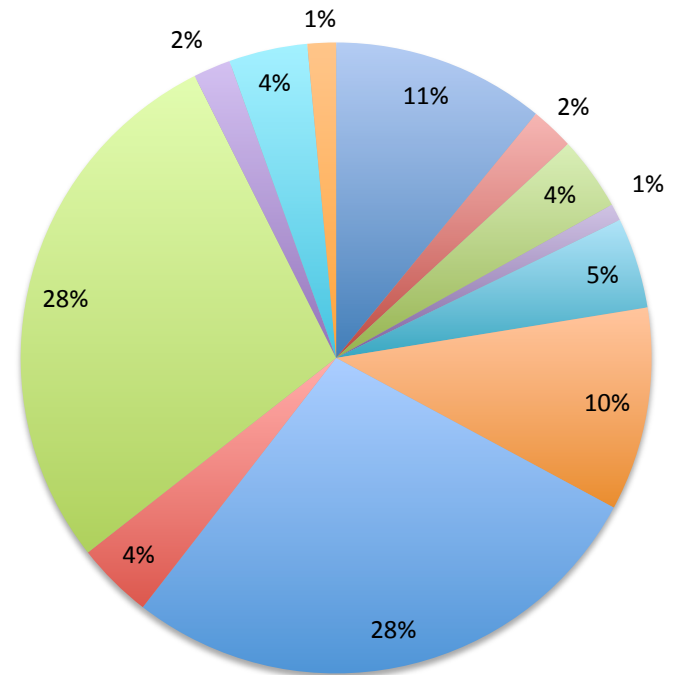


Flavour preferences 2015

Cigalike



Mod



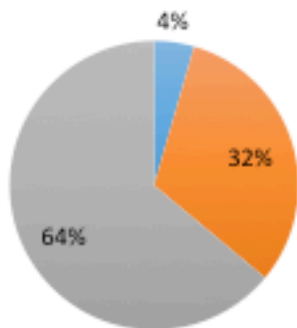
- tobacco
- menthol tobacco
- fruit tobacco
- unflavored
- mint / peppermint
- complex premium blends
- fruit
- candy
- bakery / dessert
- savory / spice
- beverage
- natural extract of tobacco



US distribution channels: liquids move online

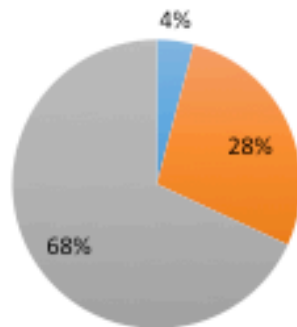
Hardware: 2015

■ traditional retail ■ specialized vape store ■ online retailer



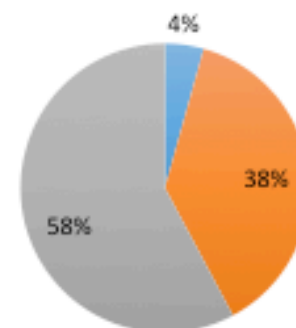
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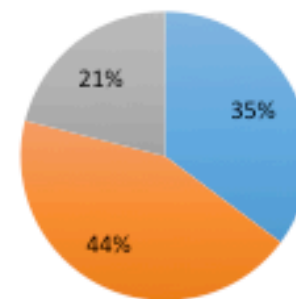
E-liquid: 2015

■ traditional retail ■ specialized vape store ■ online retailer



E-liquid: 2014

■ traditional retail ■ specialized vape store ■ online retailer



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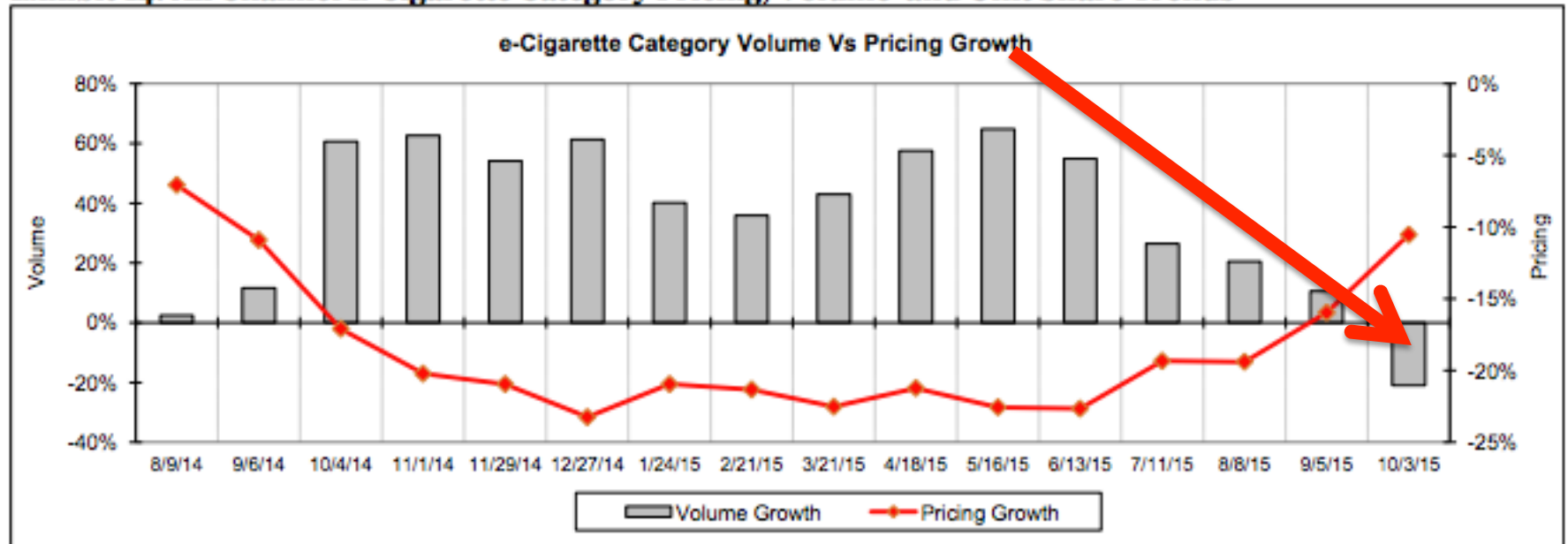
Regulatory and Market Intelligence for the E-Cigarette Sector

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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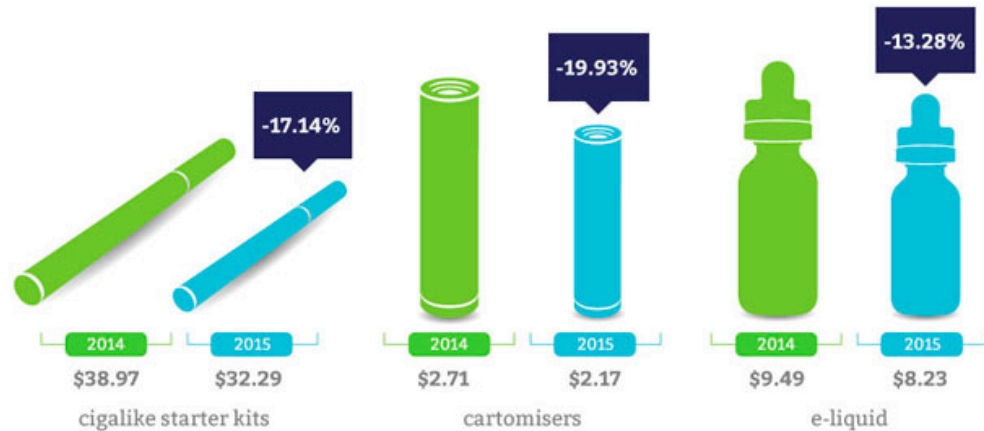
Regulatory and Market Intelligence for the E-Cigarette Sector

Source: Wells Fargo/Nielsen October 2015

US pricing pressure

Down, down, down

There has been a significant downward trend in U.S. online prices for rechargeable cigalike starter kits, cartomisers, and e-liquid over the last 12 months.

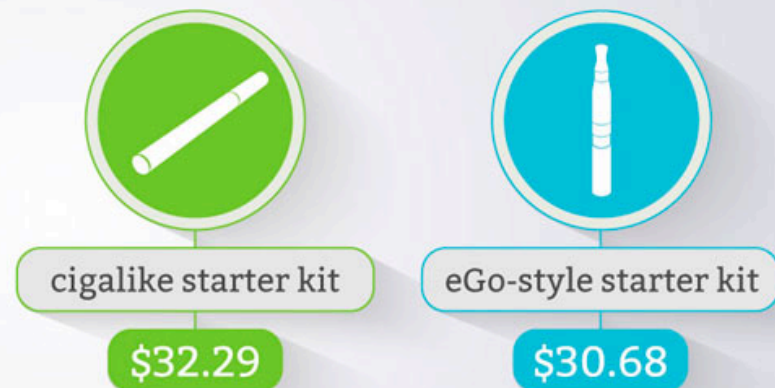


The budget buy?

Once, vaping on a budget seemed a no-brainer: cigalikes cost much less than the other options. But by mid-2015, the average price of eGo-style starter kits had slipped below the average of rechargeable cigalike starter kits for the first time.

Does this really make the eGo devices cheaper, though? It's a tougher question than some shoppers may realise.

True, a first purchase of e-liquid costs about another \$10 on top of the eGo kit, which drives up the initial investment. But over the longer term, the eGo approach offers more cost-effective vaping. So the consumer's choice is more complex now than simply comparing price tags.



US: hardware price resilience

No pressure

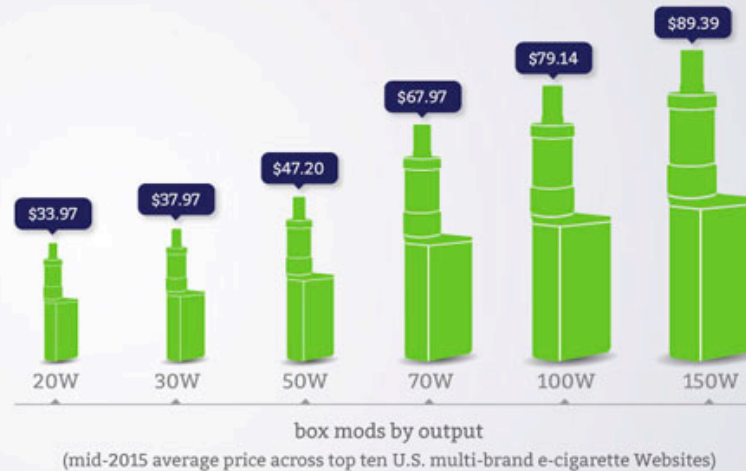
Prices vary dramatically for identical box mods sold by the top ten multi-brand sites. This suggests there is little competitive pressure on prices in the U.S. online e-cigarette market for these products.

- 1 Eleaf iStick 30W
- 2 Kanger SUBOX Mini 50W KIT
- 3 Innokin iTaste MVP 3.0 PRO 60W KIT
- 4 Joyetech eVic-TC 60W KIT
- 5 Pioneer4you IPV Mini II 70W
- 6 Sigelei 150W



Bang for the buck

Despite the wild price variations shown above, box mods do – unsurprisingly – become consistently more expensive as their power output increases.

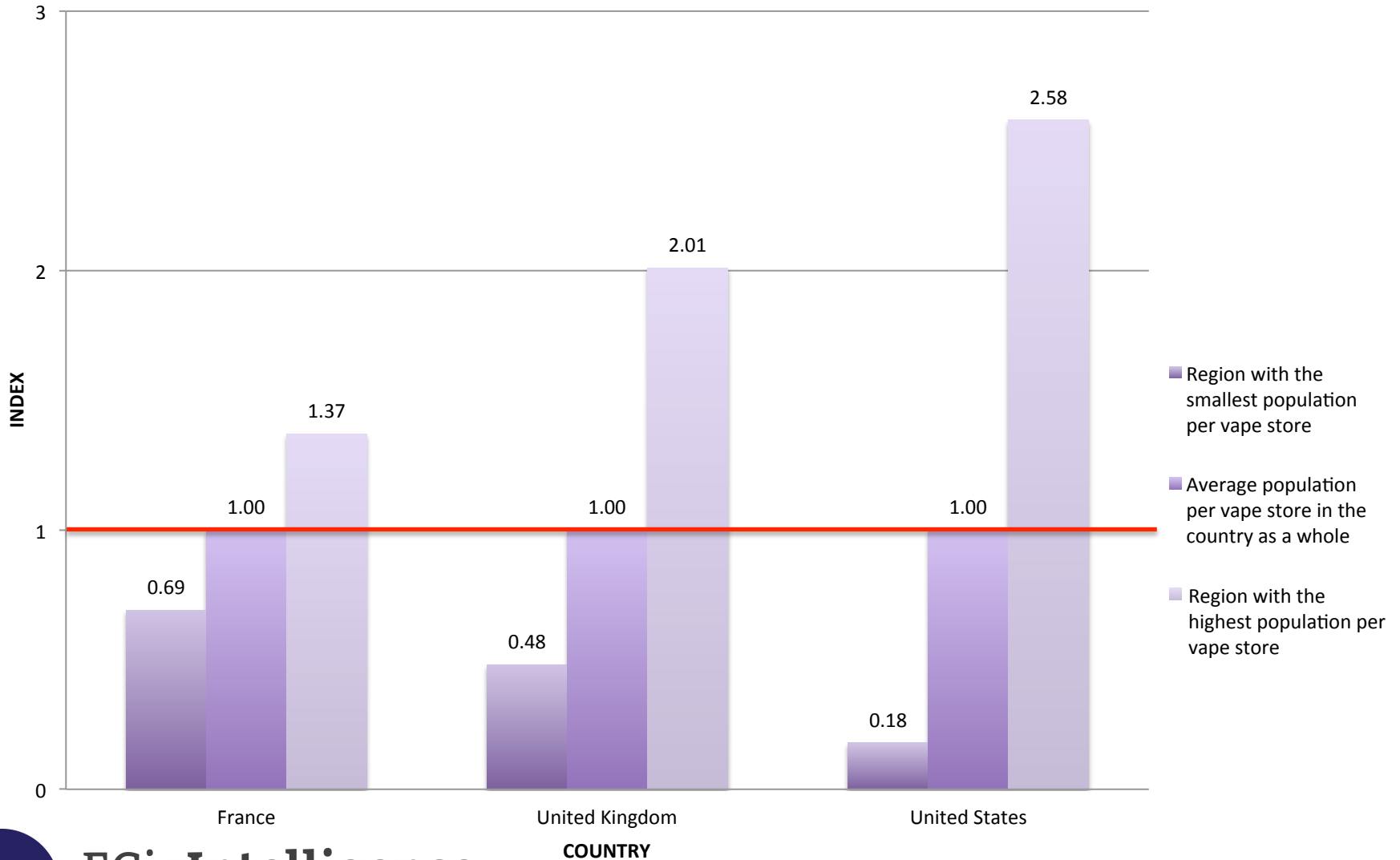


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Source: ECigIntelligence US online pricing analysis, Sept 2015
www.ecigintelligence.com

Vape store distribution: UK, France, and the US



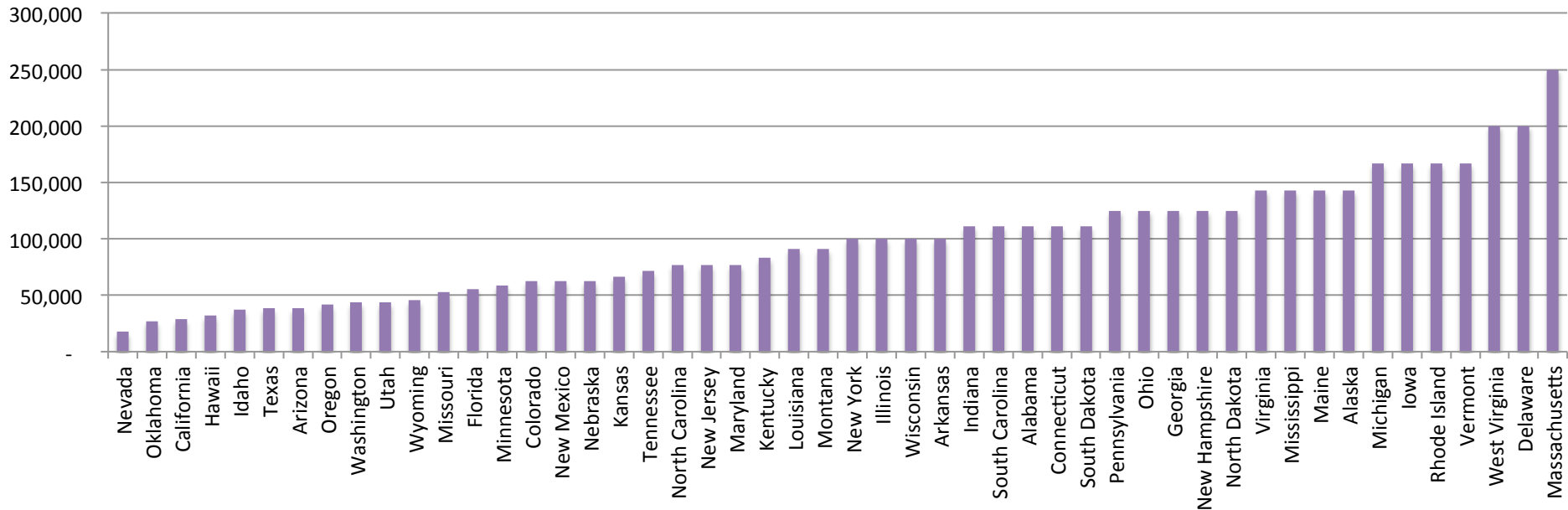
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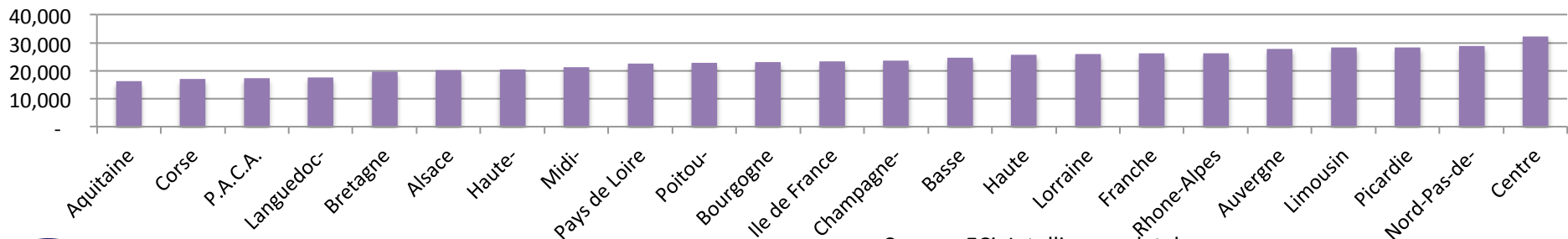
Source : ECigIntelligence Note: base of 1 represents the average “population per vape store” in the country as a whole

Vape store distribution: US vs France

US: Population per vape store



France: Population per vape shop



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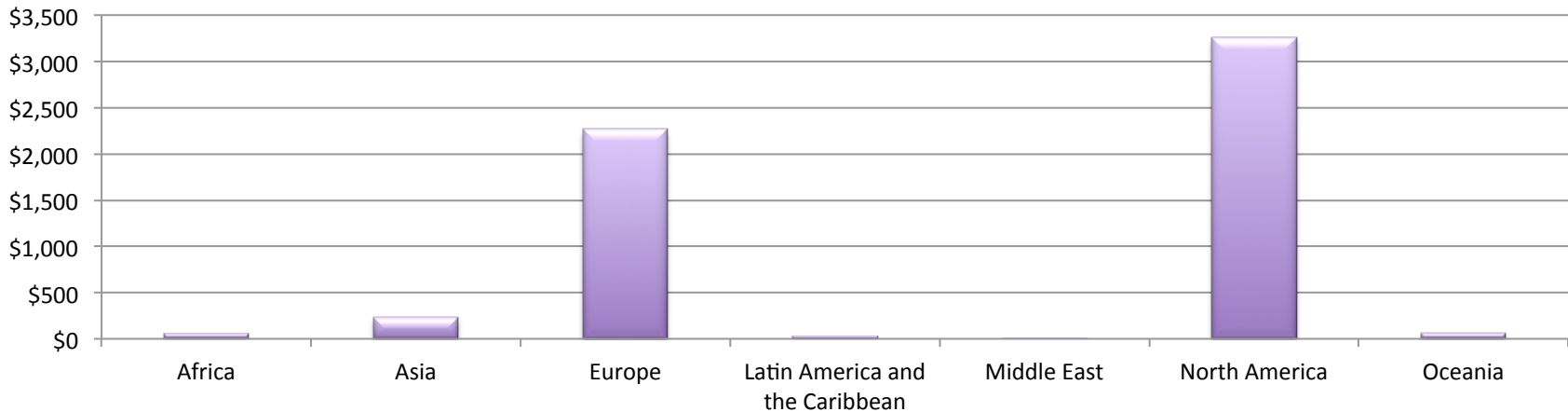
Source: ECigIntelligence databases;

France: Population: as at 1 Jan 2014 INSEE

Vape shop numbers: as at 15 Feb 2015, PGVG magazine - dedicated vape shops receiving PGVG magazine

Global E-cigarette Market Size

2015, \$USD million



- 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?



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Source: ECigIntelligence 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)

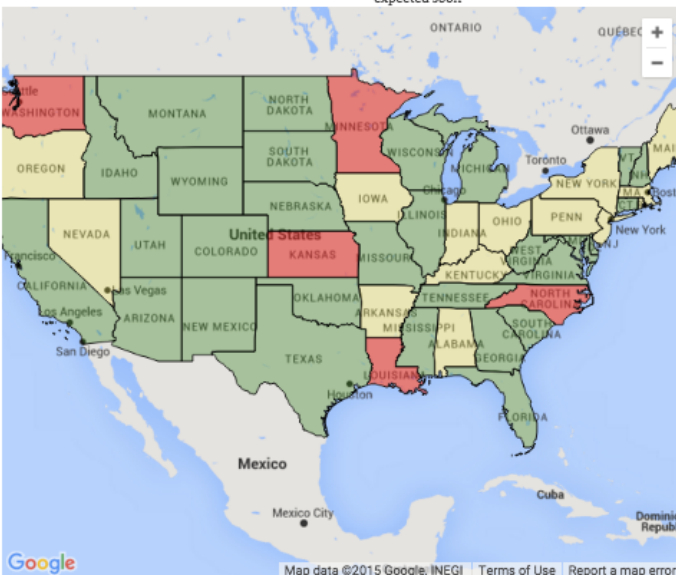
Regulation: International Patchwork

E-cigarette regulation: US

Time period:



Policy area:



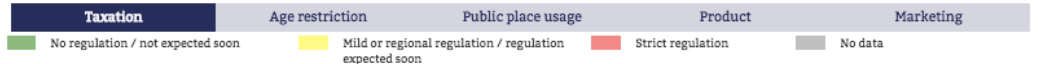
click on a state for more detail.

E-cigarette regulation: EU/EEA

Time period:



Policy area:



Taxation - current Italy

Legislative decree of 10th November 2014 introduced an excise tax of €0.373 (\$0.43) per millilitre - regardless of concentration and retail price, it is applied on all e-liquid and hardware products containing nicotine, but not on hardware without e-liquid. Recent court decision from the Administrative Court of the Italian region of Lazio (TAR Lazio) suspended taxation on zero nicotine e-liquid until November 4th when it will give a full decision

Click [here](#) to see our latest in-depth report on Italy and click [here](#) to see our latest market report

Click [here](#) to see all content on ECigIntelligence for Italy



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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.)

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- **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 distributors



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?)

