

Nielsen: Tobacco All Channel BiWeekly Data Thru 11/17

Tobacco

Cig Category Vol Declines Cont. to Mystify Us

- Our View** – While we are pleased to see Marlboro continuing to show signs of share stabilization in the latest Nielsen 1-wk data (+70bps y/y & +36bps sequentially to 48.1% \$ share), **we are disappointed and somewhat mystified by the magnitude of cig category vol deterioration reported by Nielsen (another neg. 8+ handle).** This is at odds with results from our latest Tobacco Talk survey (here), which we remain comfortable with given that our survey reflects ~55,000 c-stores vs Nielsen's base of ~25,000 (from which Nielsen extrapolates) & takes into account retailer expectations that vol pressure could ease should gas prices continue to moderate (see Exhibit 5).
- Cig Industry Vol Remains Pressured** (see Exhibits 1-2) – Nielsen data show cig industry vol continues to decelerate with the latest 1-wk data for the period ended 11/17 reflecting vol decline of -8.7% (vs -8.0%/-6.8% for 4-wks/12-wks). This is at odds with the improving trends that some of our retailer contacts are seeing, as discussed in our recent Tobacco Talk survey, as well as what we hear anecdotally about trends in IRI data which is weighted toward chains (vs independents for Nielsen) and is relied upon more by manufacturers for internal reporting purposes. Regardless, we doubt the magnitude of the decline can be attributed entirely to e-cig/vapor conversion and continue to suspect there could be some discrepancies in Nielsen's algorithm given the recent c-store additions.* In terms of other metrics, overall industry cig \$ sales declined -5.7% in the 1-wk (vs -4.8%/-4.0% for 4-wks/12-wks) led by weaker vol, partially offset by cig pricing of +3.4% (vs +3.5%/+3.1% for 4-wks/12-wks). For 2018, we expect cig industry vol to decline ~4.4%, slightly below the low-end of the historic range of -3-4%.
- MO \$ Share Trends Continue to Improve Despite Vol Pressure** – MO cig \$ sales were down -5.3% (-8.2% vol & +3.2% pricing). Importantly, Marlboro trends continued to show signs of stabilization in the latest 1-wk period with Marlboro's retail \$ share increasing 70bps y/y to 48.1%. This is despite a notable deceleration in Marlboro's cig vol to -6.9% (vs -6.4%/-4.7% for 4-wks/12-wks), albeit better than the industry's -8.7%/-8.0%/-6.8% for 1-wk/4-wks/12-wks. Marlboro's share improvements remain encouraging especially in light of the volume data and indicate the brand is stabilizing. Overall, we believe MO's consumer engagement/promo strategy is continuing to pay off.
- E-Cigs \$ Sales Surged +197.1% Led By JUUL** (see Exhibits 3-4) – As expected, the e-cig category continues to show robust performance (+40.5%/+111.4% pricing/vol for the 1-wk period ended 11/17) led by JUUL (76.1% \$ share, up 125bps vs 2-wks ago) as it continues to take share from No.2 VUSE (9.1% \$ share, down 58bps vs 2-wks ago) & others. Since the FDA announced on 11/15 its action plan to restrict certain e-cig flavors, we wouldn't expect to see any material impact from that just yet. We expect the FDA to finalize its policy by mid-February (90 days from the FDA's announcement), which gives e-cig manufactures & retailers time to adjust marketing & sales practices around flavored e-cig products.

Please see page 5 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 11/27/18 unless otherwise stated. 11/27/18 11:28:38 ET

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Together we'll go far



*We note Nielsen revised its database to include 4,000 additional c-stores in its ConvenienceTrack system, resulting in a restatement of past periods last month but fully captured in our tables and charts below. Nielsen believes the additional store coverage enhances its projection methodology, providing further granularity and improving the accuracy of the data presented. However, given the continued precipitous cig vol declines including at the category level and DD declines continuing at Winston, we believe there could also be an accuracy issue with Nielsen's new methodology.

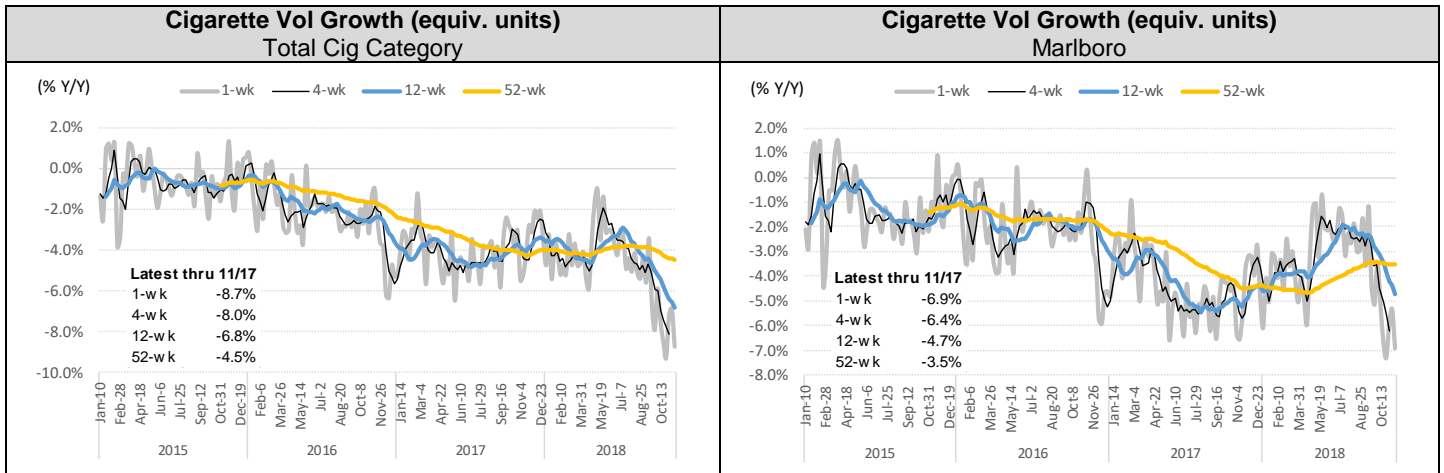
Select Nielsen Tables & Charts

Exhibit 1 - Cigarette All Channel Scanner Data Summary

CIGARETTES - All Channel Scanner Data Summary																	
CIG CATEGORY	Retail \$ Sales Last 52 w ks (\$MM)	Dollar Sales Δ/y				EQ Unit Sales Δ/y				Avg. EQ Price Δ/y				Dollar Share			
		Period Ended 11/17/18				Period Ended 11/17/18				Period Ended 11/17/18				Period Ended 11/17/18			
		1-Wk	4-Wk	12-Wk	52-Wk	1-Wk	4-Wk	12-Wk	52-Wk	1-Wk	4-Wk	12-Wk	52-Wk	1-Wk	4-Wk	12-Wk	52-Wk
CIG CATEGORY	\$59,875	-5.7%	-4.8%	-4.0%	-1.8%	-8.7%	-8.0%	-6.8%	-4.5%	3.4%	3.5%	3.1%	2.8%				
ALTRIA GROUP INC	\$32,993	-5.3%	-4.6%	-3.8%	-2.8%	-8.2%	-7.6%	-5.9%	-4.5%	3.2%	3.3%	2.3%	1.8%	55.1%	55.0%	55.2%	55.1%
MARLBORO	\$28,662	-4.3%	-3.6%	-2.9%	-2.2%	-6.9%	-6.4%	-4.7%	-3.5%	2.8%	2.9%	1.9%	1.4%	48.1%	48.0%	48.1%	47.9%
L & M	\$2,508	-12.7%	-12.1%	-10.2%	-6.5%	-17.3%	-16.6%	-14.5%	-11.2%	5.6%	5.3%	5.1%	5.4%	4.0%	4.0%	4.1%	4.2%
VIRGINIA SLIMS	\$760	-9.7%	-6.4%	-5.8%	-4.9%	-13.3%	-10.0%	-9.3%	-8.5%	4.2%	4.0%	3.9%	3.9%	1.3%	1.3%	1.3%	1.3%
PARLIAMENT	\$718	-10.2%	-9.4%	-8.9%	-7.3%	-12.5%	-11.7%	-11.0%	-10.0%	2.6%	2.6%	2.4%	3.1%	1.2%	1.2%	1.2%	1.2%
BRITISH AMERICAN TOBACCO PLC	\$20,335	-6.5%	-5.3%	-4.5%	-0.4%	-10.5%	-9.4%	-8.6%	-4.7%	4.5%	4.5%	4.5%	4.6%	33.9%	34.1%	34.0%	34.0%
NEWPORT	\$7,626	-4.8%	-3.7%	-3.5%	2.0%	-9.1%	-8.0%	-7.5%	-1.2%	4.7%	4.7%	4.3%	3.2%	13.0%	13.1%	12.8%	12.7%
CAMEL	\$5,434	-8.2%	-6.8%	-4.9%	-0.2%	-11.5%	-9.8%	-8.2%	-4.1%	3.7%	3.4%	3.6%	4.2%	8.9%	8.9%	9.0%	9.1%
PALL MALL	\$3,963	-5.6%	-5.1%	-5.1%	-3.9%	-8.0%	-7.8%	-7.9%	-7.4%	2.6%	2.9%	3.0%	3.8%	6.6%	6.6%	6.6%	6.6%
NATURAL AMERICAN SPIRIT	\$1,981	0.5%	1.6%	1.9%	6.9%	-1.4%	-0.4%	-0.3%	3.1%	1.9%	2.0%	2.2%	3.8%	3.4%	3.4%	3.4%	3.3%
IMPERIAL TOBACCO GROUP PLC	\$4,380	-8.2%	-8.0%	-7.2%	-3.7%	-11.3%	-11.5%	-11.7%	-7.3%	3.5%	4.0%	5.1%	3.9%	7.3%	7.2%	7.2%	7.3%
WINSTON	\$1,292	-12.1%	-11.3%	-10.5%	-3.3%	-15.4%	-14.8%	-16.4%	-8.6%	3.9%	4.0%	7.0%	5.9%	2.1%	2.1%	2.1%	2.2%
MAVERICK	\$949	-6.5%	-5.8%	-3.6%	-0.4%	-9.7%	-8.5%	-6.4%	-2.5%	3.5%	3.0%	3.0%	2.2%	1.5%	1.6%	1.6%	1.6%
KOOL	\$950	-7.2%	-6.4%	-4.3%	-0.2%	-11.8%	-10.9%	-9.0%	-4.1%	5.2%	5.0%	5.1%	4.1%	1.6%	1.6%	1.6%	1.6%
SALEM	\$593	-10.0%	-10.1%	-8.7%	-6.8%	-14.6%	-19.4%	-18.1%	-11.5%	5.3%	10.7%	10.8%	5.1%	1.0%	1.0%	1.0%	1.0%
VECTOR GROUP LTD.	\$1,074	0.3%	2.3%	2.3%	2.1%	-2.3%	-0.7%	0.1%	0.2%	2.6%	3.0%	2.2%	1.9%	1.8%	1.8%	1.8%	1.8%
PRIVATE LABEL	\$221	24.1%	25.2%	25.1%	24.7%	28.2%	28.9%	28.4%	23.5%	-3.2%	-2.8%	-2.5%	0.9%	0.4%	0.4%	0.4%	0.4%
ALL OTHER MANUFACTURERS	\$872	0.6%	0.0%	1.7%	0.1%	0.1%	-0.7%	0.8%	-1.3%	n/a	n/a	n/a	n/a	1.5%	1.5%	1.5%	1.5%

Source: Nielsen XAOC Including C-Store and Wells Fargo Securities, LLC

Exhibit 2 - All Channel Cigarette Volume Performance: Category & Marlboro



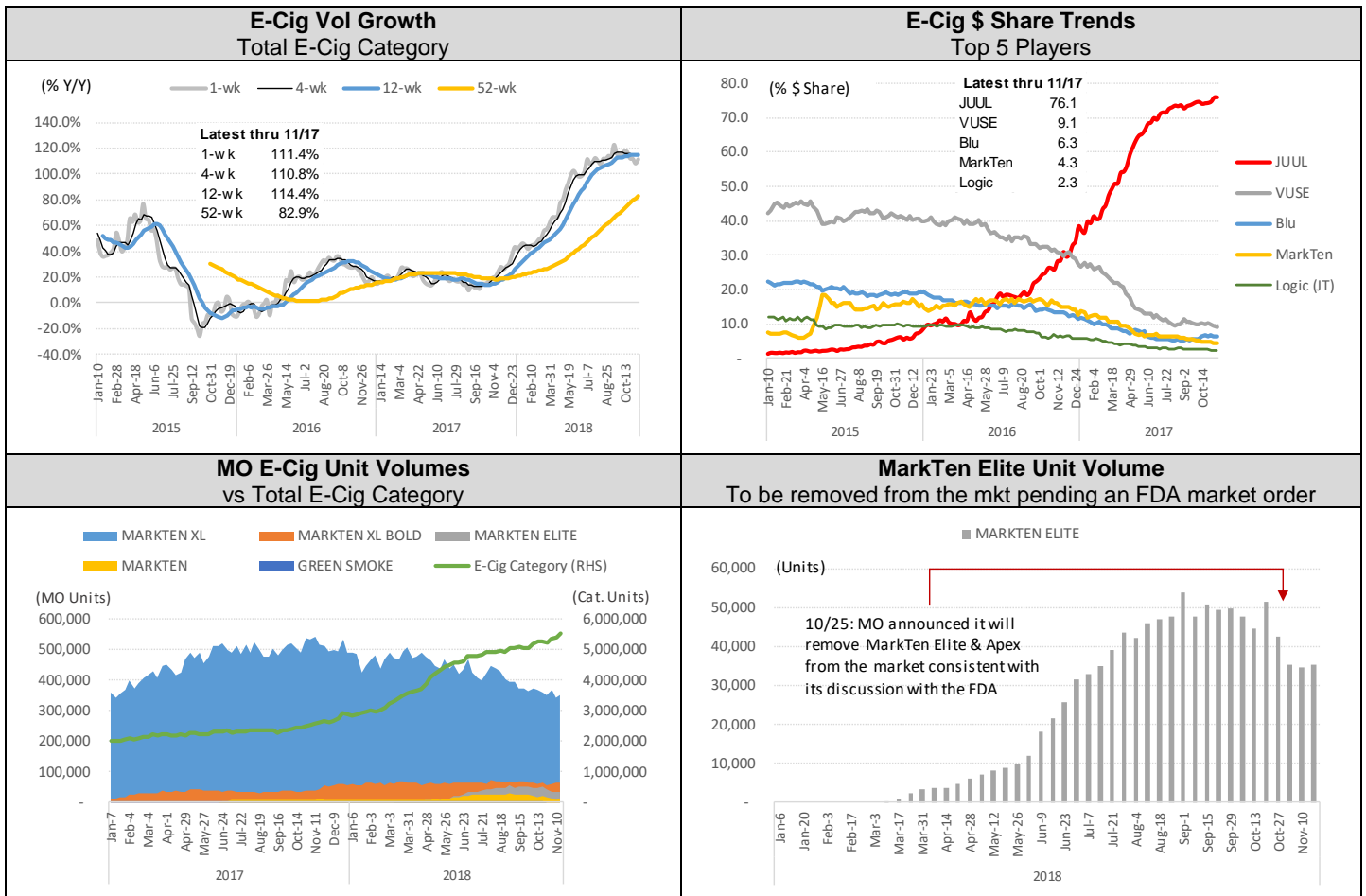
Source: Nielsen XAOC Including C-Store and Wells Fargo Securities, LLC

Exhibit 3 – E-Cigarette All Channel Scanner Data Summary

E-CIGARETTES - All Channel Scanner Data Summary																	
	Retail \$ Sales Last 52 wks (SMM)	Dollar Sales Δ/y				EQ Unit Sales Δ/y				Avg. EQ Price Δ/y				Dollar Share			
		Period Ended 11/17/18				Period Ended 11/17/18				Period Ended 11/17/18				Period Ended 11/17/18			
		1-Wk	4-Wk	12-Wk	52-Wk	1-Wk	4-Wk	12-Wk	52-Wk	1-Wk	4-Wk	12-Wk	52-Wk	1-Wk	4-Wk	12-Wk	52-Wk
E-CIG CATEGORY	\$2,844	197.1%	198.7%	203.6%	157.4%	111.4%	110.8%	114.4%	82.9%	40.5%	41.7%	41.6%	38.1%				
JUUL LABS INC	\$1,808	699.3%	730.9%	837.8%	941.3%	878.6%	911.4%	1026.6%	1081.8%	-18.3%	-17.8%	-16.5%	-8.0%	76.1%	75.3%	74.4%	58.7%
JUUL	\$1,807	698.4%	729.9%	837.2%	941.0%	875.6%	908.3%	1024.5%	1080.7%	-18.2%	-17.7%	-16.4%	-8.0%	76.0%	75.2%	74.4%	58.7%
BRITISH AMERICAN TOB	\$430	-10.7%	-7.3%	-5.5%	6.4%	-22.3%	-19.2%	-16.0%	-3.7%	14.9%	14.8%	12.7%	10.6%	9.1%	9.6%	10.1%	17.5%
VUSE	\$224	-37.8%	-32.9%	-30.8%	-26.7%	-39.8%	-35.2%	-31.5%	-30.0%	3.4%	3.4%	1.1%	4.2%	3.8%	4.2%	4.6%	9.2%
VUSE CIRO	\$110	884.1%	1534.6%	5938.8%	17382.8%	762.0%	1403.4%	5574.2%	19045.8%	14.2%	6.7%	148.1%	900.7%	2.6%	3.2%	4.2%	3.4%
VUSE VIBE	\$86	-84.2%	-90.5%	-96.6%	-12.8%	-81.9%	-89.5%	-96.2%	-5.6%	-12.5%	-9.4%	-10.1%	-11.9%	0.6%	0.4%	0.1%	4.5%
VUSE ALTO	\$11	--	--	--	--	--	--	--	--	--	--	--	--	2.2%	1.9%	1.1%	0.3%
IMPERIAL TOBACCO	\$206	42.3%	42.2%	27.7%	18.0%	28.4%	26.8%	18.9%	20.4%	10.8%	12.2%	7.0%	-1.4%	6.3%	6.4%	5.9%	8.0%
BLU	\$157	-40.3%	-38.7%	-33.6%	-10.2%	-39.0%	-37.4%	-31.7%	-10.1%	-2.1%	-2.0%	-2.8%	-0.4%	2.7%	2.7%	3.1%	6.5%
MY BLU	\$49	--	--	--	--	--	--	--	--	--	--	--	--	3.7%	3.6%	2.8%	1.4%
ALTRIA GROUP	\$216	-15.5%	-17.0%	-7.7%	21.4%	-18.7%	-20.5%	-11.1%	8.3%	3.9%	4.4%	3.8%	12.5%	4.3%	4.4%	5.0%	8.6%
MARKTEN XL	\$175	-30.4%	-31.9%	-26.1%	7.0%	-32.0%	-33.9%	-28.1%	-4.1%	2.4%	2.9%	2.8%	12.0%	3.2%	3.3%	3.6%	7.1%
MARKTEN XL BOLD	\$25	64.6%	70.3%	82.0%	117.6%	56.4%	61.9%	76.0%	105.8%	5.3%	5.2%	3.5%	6.2%	0.6%	0.6%	0.6%	1.0%
MARKTEN ELITE	\$9	--	--	--	--	--	--	--	--	--	--	--	--	0.3%	0.4%	0.5%	0.2%
MARKTEN	\$7	37.9%	65.1%	176.4%	450.8%	16.1%	35.7%	130.4%	328.2%	18.8%	22.2%	19.6%	25.2%	0.1%	0.1%	0.2%	0.2%
GREEN SMOKE	\$1	-68.6%	-71.3%	-58.6%	-49.3%	-75.0%	-76.7%	-64.7%	-56.2%	25.5%	23.1%	18.1%	17.0%	0.0%	0.0%	0.0%	0.0%
JAPAN TOBACCO	\$98	4.5%	8.7%	11.8%	6.8%	14.0%	20.9%	40.5%	48.5%	-8.4%	-10.3%	-21.0%	-28.2%	2.3%	2.3%	2.5%	3.9%
LOGIC	\$98	4.5%	8.7%	11.8%	6.7%	14.0%	20.9%	40.5%	48.5%	-8.4%	-10.3%	-21.0%	-28.2%	2.3%	2.3%	2.5%	3.9%
NJOY, INC	\$42	6.6%	33.5%	48.6%	66.4%	9.7%	25.3%	45.5%	77.9%	-2.9%	6.9%	1.4%	-7.5%	1.0%	1.1%	1.2%	1.6%
NJOY	\$42	6.6%	33.5%	48.6%	66.4%	9.7%	25.3%	45.5%	77.9%	-2.9%	6.9%	1.4%	-7.5%	1.0%	1.1%	1.2%	1.6%
ALL OTHER MFRS	\$43	-30.5%	-33.6%	-30.1%	-23.8%	17.3%	14.1%	9.2%	9.9%								

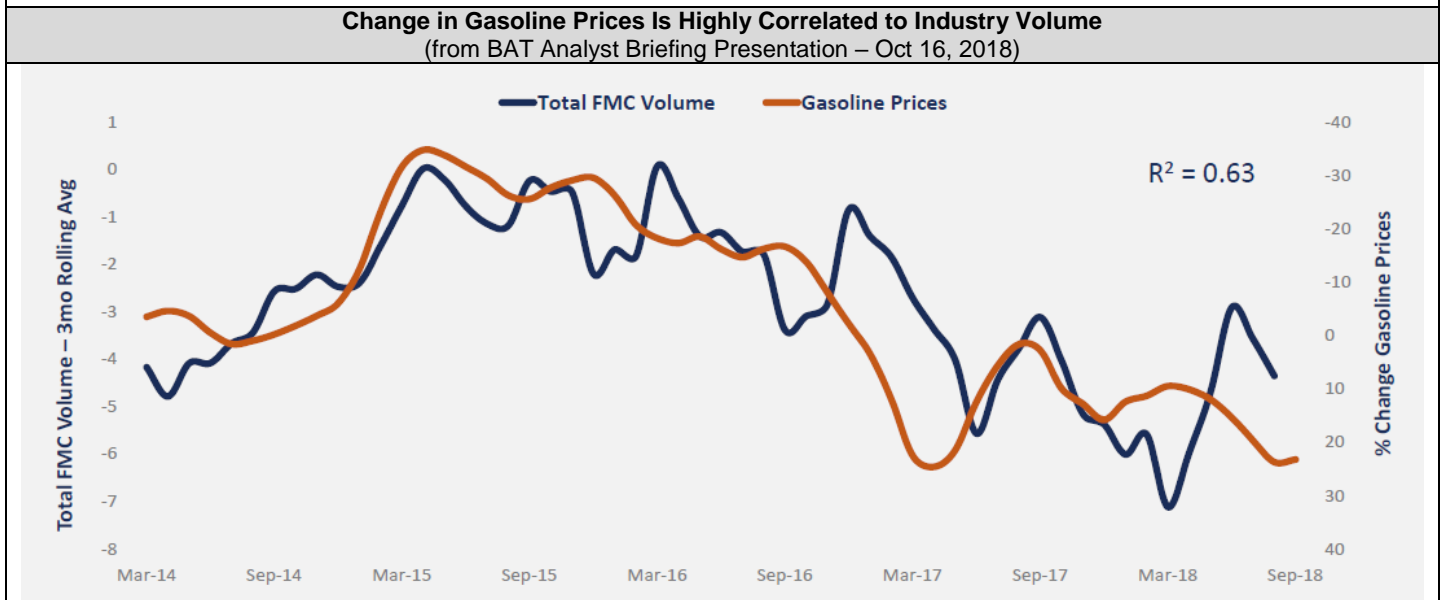
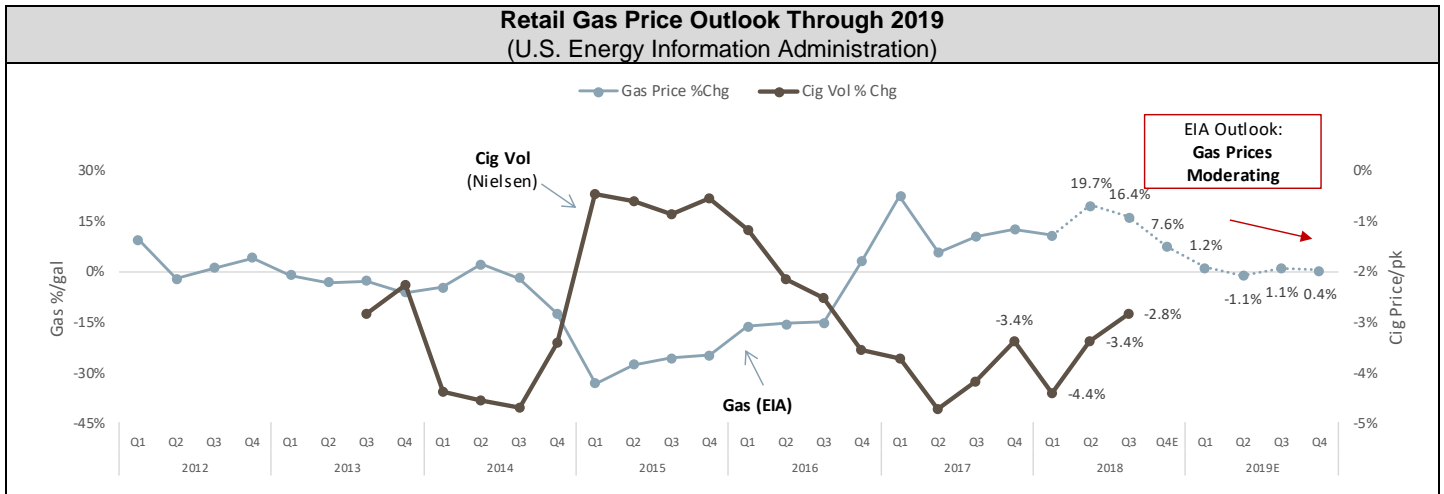
Source: Nielsen XAOC Including C-Store and Wells Fargo Securities, LLC

Exhibit 4 - All Channel E-Cig Volume & \$ Share Performance of Top 5 E-Cig Players



Source: Nielsen XAOC Including C-Store and Wells Fargo Securities, LLC

Exhibit 5 – Cigarette Industry Volumes & Gas Prices



Source: U.S. Energy Information Administration (EIA); British American Tobacco presentation; Wells Fargo Securities, LLC

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