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Trends & Insights in the Nicotine Delivery Category

Convenience Distribution Association

Don Burke
Senior Vice President

November 13, 2018



Notice

This presentation is based solely on an analysis conducted by Management Science Associates Inc. (MSAi) and does not necessarily reflect the opinion of any client. The definitions and analysis used in the presentation are based on general industry knowledge and typically represent the way a tobacco retailer may refer to the broad tobacco and nicotine delivery industry. Further, this presentation refers to tobacco and non-tobacco categories, that are often reported as cigarette only, cigars and pipe tobacco only, loose leaf only and electronic and other delivery systems only.

For purposes of this presentation, all of these categories are often referred to as one category using the phrase “nicotine delivery systems”, as that is a category grouping, that in MSAi’s experience, is used by most retail establishments. This presentation’s reference to “nicotine delivery systems” is in that context of the broadest retailer categorization of these various items.

Agenda

- ◆ Total US Nicotine Trends
- ◆ Growth & Decline of Nicotine Categories
- ◆ Trade Channel Analysis
- ◆ Google Trends
- ◆ Potential Menthol Ban Impact
- ◆ Distributor Summary

Terminology

Disposables

Closed non-refillable single use atomizer.



Cartridges

Closed non-refillable cartridges that are used with an atomizer.



e-Liquid

Bottles which are used to refill mods, vaporizers, or other vaping system.



Kits

Selling unit that contains multiple items such as charging unit or accessory as well as a cartridge or e-liquid bottle.

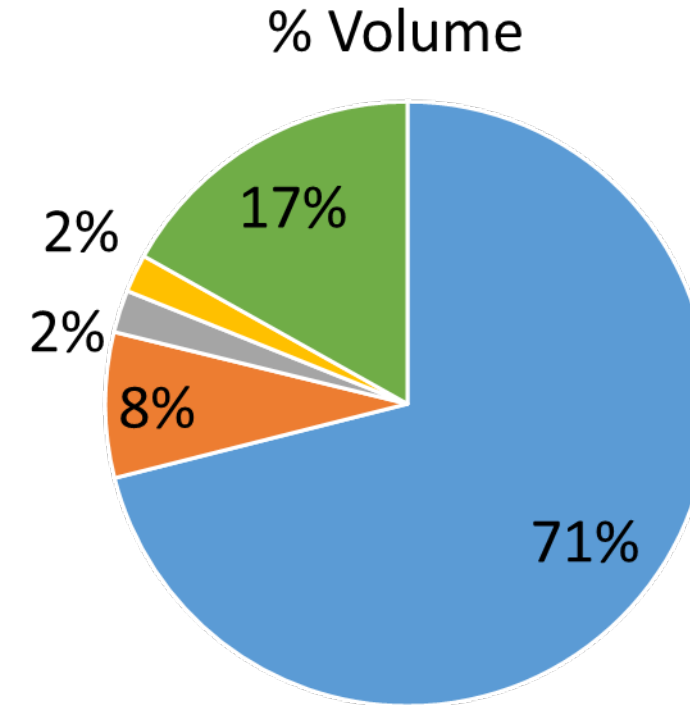
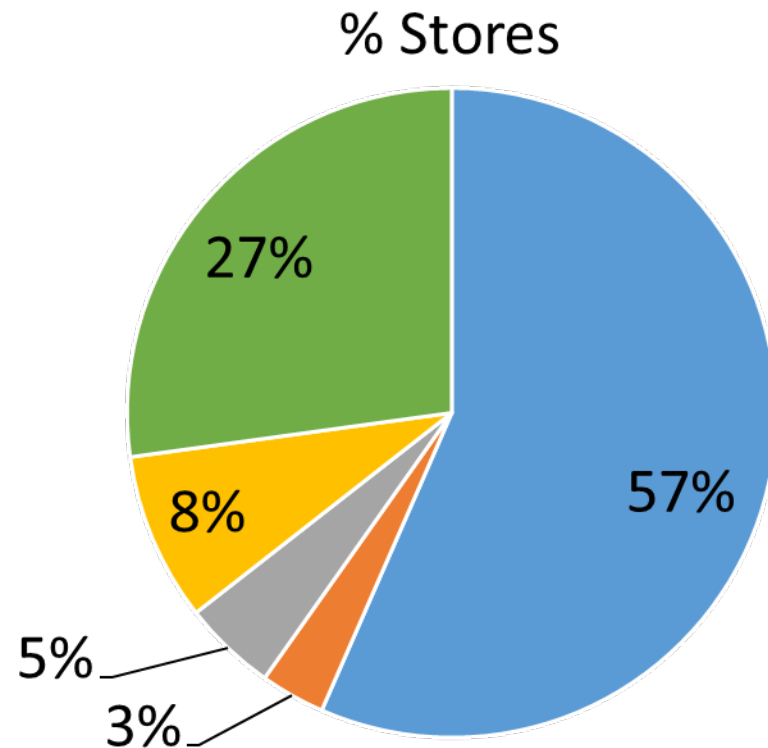




TOTAL US NICOTINE TRENDS

Nicotine Distribution By Trade Class for Total US

39 Weeks Ending Q3-2018



■ Convenience Gas ■ Tobacco Outlet ■ Drug Store ■ Dollar Store ■ All Other Trade

Note: "All Other Trade" includes Grocery, Mass Merchandiser, Liquor Stores, Club, Military, Vending, and Bars/Nightclubs/Dining.

Total US Nicotine Trends



% Change 39 Weeks Ending Q3-2018 vs. YAGO

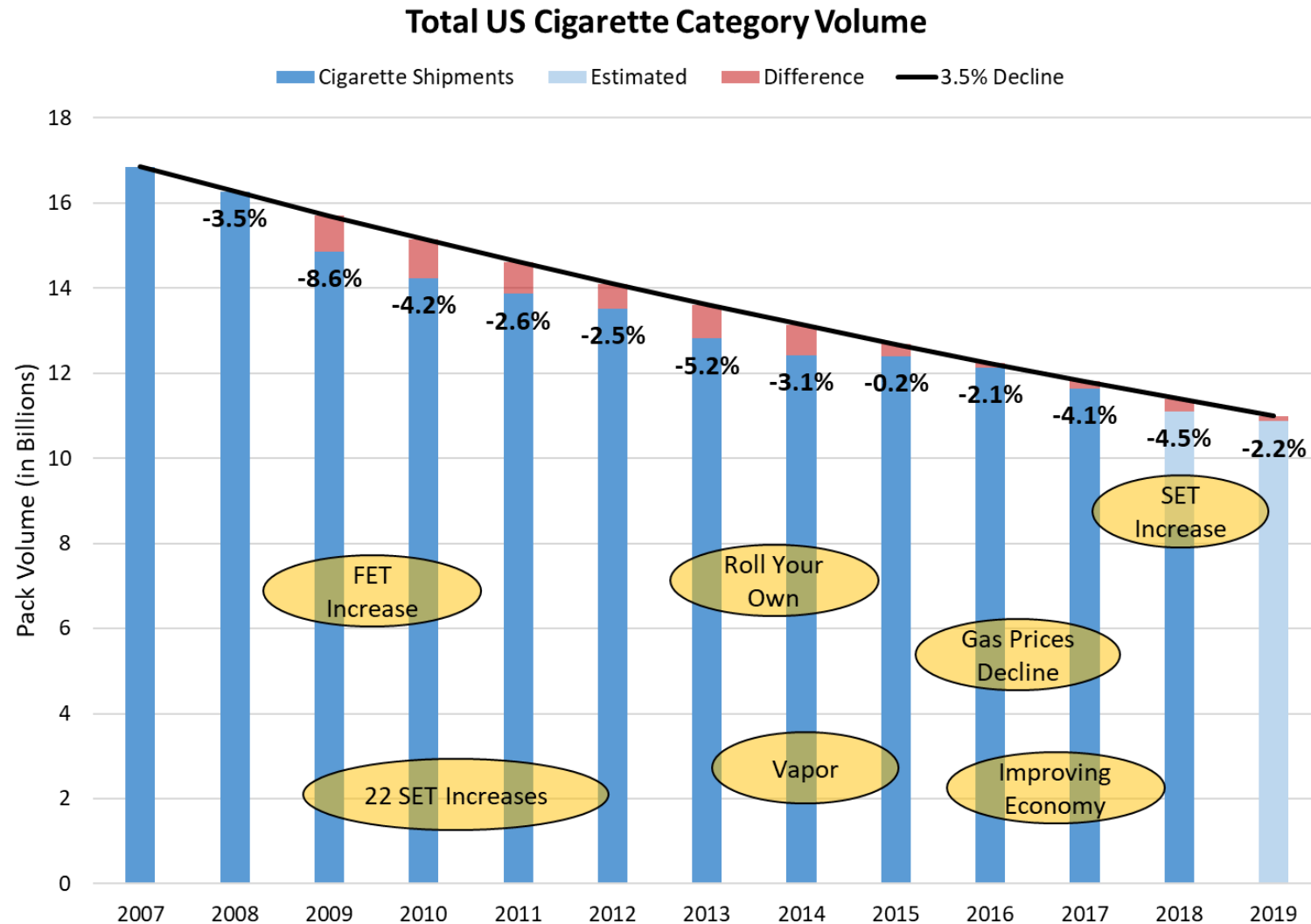
	All Outlets	Convenience Gas	Tobacco Outlets	Drug Stores	Dollar Stores	All Other Outlets
Volume	-1.9%	-1.4%	-2.2%	-13.0%	11.1%	-3.9%
Distribution	0.7%	0.8%	1.3%	-5.2%	21.0%	-4.2%
Item Count	-5.9%	-5.3%	-4.1%	-3.6%	-4.0%	-3.3%

Total US Nicotine Share

% Change 39 Weeks Ending Q3-2018 vs. YAGO
Overall Total Nicotine Volume down 1.9%

	Q3-2017	Q3-2018	Change
Cigarettes	69.6%	67.5%	-4.9%
Large Cigars	17.7%	19.3%	7.1%
Little/Filtered Cigars	1.1%	1.1%	-2.7%
Moist	8.9%	9.0%	-0.3%
Papers/Tubes/Wraps	1.5%	1.5%	1.5%
Pipe Tobacco	0.3%	0.3%	-5.5%
Roll Your Own	0.2%	0.1%	-23.4%
Snus	0.3%	0.3%	3.5%
Vapor	0.6%	0.9%	57.3%

Overall Total US Cigarette Trends



Source: Shipment to Retail Data through 43374

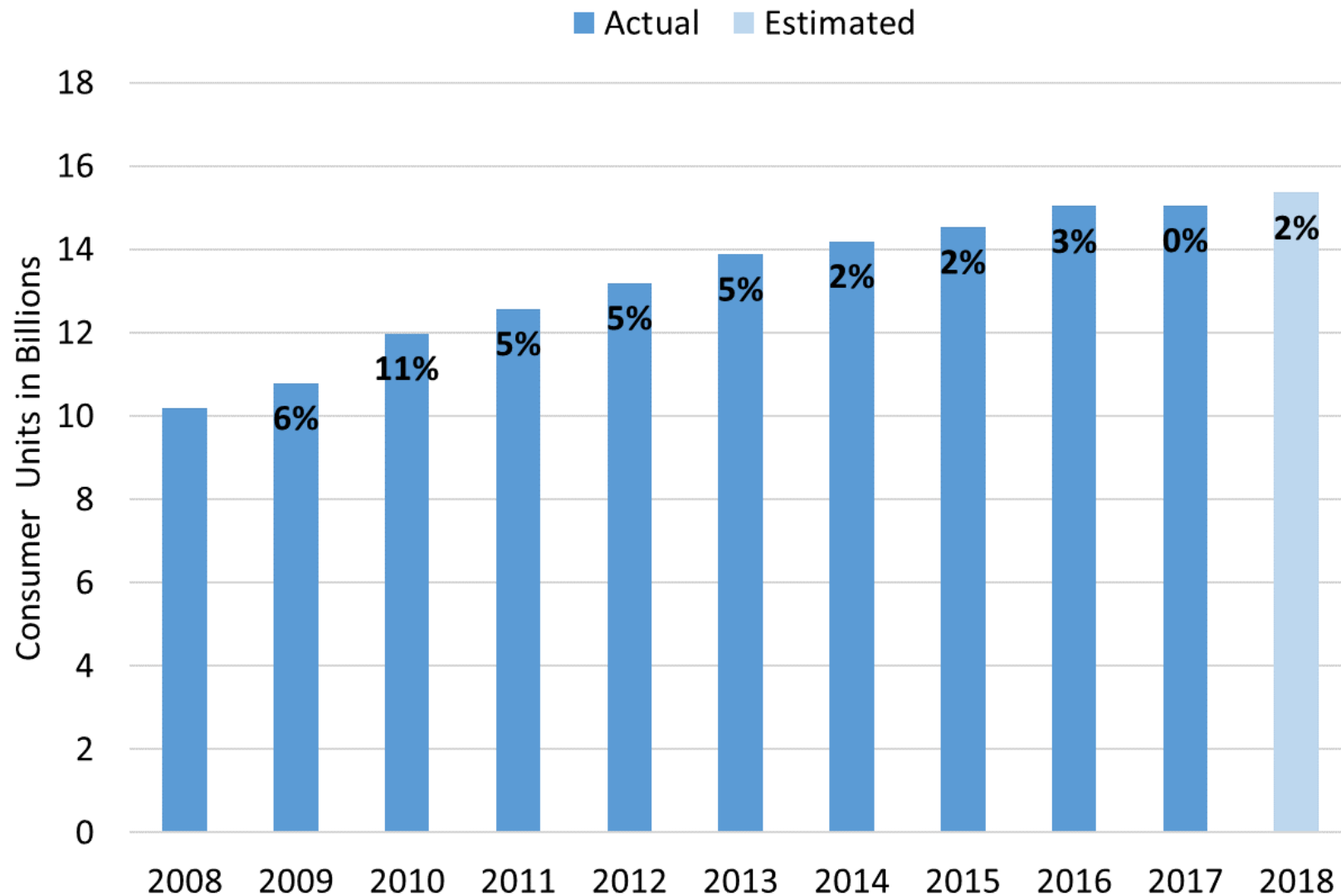


Overall Total US Cigar Trends

% Change 39 Weeks Ending Q3-2018 vs. YAGO

	All Outlets	Convenience Gas	Tobacco Outlets	Drug Stores	Dollar Stores	All Other Outlets
Volume						
Large Cigars	7.1%	9.6%	10.2%	-1.6%	38.3%	0.4%
Little/Filtered Cigars	-2.7%	-3.5%	-4.0%	-1.9%	39.3%	-5.3%
Distribution						
Large Cigars	2.8%	2.8%	4.5%	0.5%	19.8%	-3.6%
Little/Filtered Cigars	0.5%	-1.4%	0.5%	1.8%	26.4%	-7.3%
Items						
Large Cigars	0.3%	-0.5%	-0.3%	-5.2%	-19.5%	-1.2%
Little/Filtered Cigars	-4.0%	-3.9%	-4.9%	-9.7%	6.9%	-3.6%

Overall Total US Moist Trends



Overall Total US OTP Trends

% Change 39 Weeks Ending Q3-2018 vs. YAGO

	All Outlets	Convenience Gas	Tobacco Outlets	Drug Stores	Dollar Stores	All Other Outlets
Volume						
Moist	-0.3%	0.2%	-2.9%	-11.2%	55.1%	-2.3%
Snus	3.5%	3.5%	5.6%	-18.2%	-6.4%	2.1%
Roll Your Own	-23.4%	-13.6%	-11.0%	2.1%	305.4%	-34.4%
Pipe Tobacco	-5.5%	-4.6%	-4.4%	-14.8%	42.4%	-10.6%
Papers/Tubes/Wraps	1.5%	1.3%	1.5%	-4.5%	122.2%	-1.8%
Distribution						
Moist	0.0%	-0.5%	-0.2%	-6.5%	29.4%	-2.6%
Snus	2.1%	1.8%	1.0%	-12.7%	-30.4%	7.4%
Roll Your Own	-8.6%	-9.9%	-4.3%	-5.3%	197.6%	-18.2%
Pipe Tobacco	2.6%	0.9%	1.4%	-22.7%	58.3%	-6.6%
Papers/Tubes/Wraps	4.0%	2.2%	2.4%	-2.4%	71.8%	-5.0%
Items						
Moist	-2.3%	-1.9%	-1.4%	-1.6%	1.8%	-2.9%
Snus	-8.2%	-4.7%	-14.0%	-4.4%	-28.1%	-10.2%
Roll Your Own	-4.8%	-9.0%	-6.8%	-19.6%	-31.5%	-8.5%
Pipe Tobacco	-2.0%	-2.4%	-2.3%	-2.6%	13.7%	-4.2%
Papers/Tubes/Wraps	10.3%	10.1%	11.7%	-1.7%	6.0%	9.2%

Overall Total US Vapor Trends

% Change 39 Weeks Ending Q3-2018 vs. YAGO

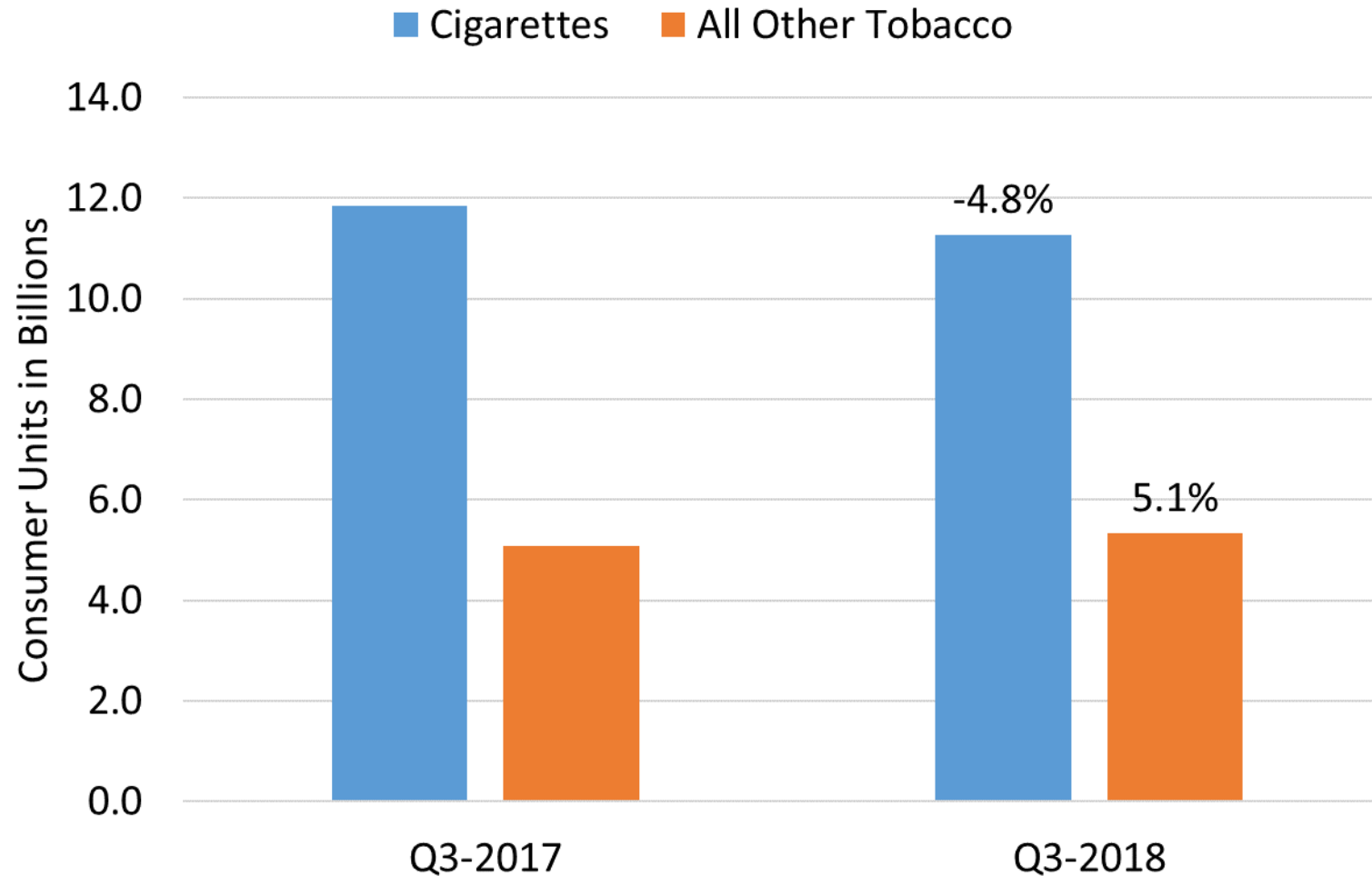
	All Outlets	Convenience Gas	Tobacco Outlets	Drug Stores	Dollar Stores	All Other Outlets
Volume						
Cartridges	70.9%	78.4%	69.6%	23.1%	-85.7%	40.9%
Disposables	0.6%	-9.7%	-12.4%	32.9%	627.0%	-23.3%
Kits	66.2%	67.2%	133.4%	18.6%	-81.6%	35.7%
e-Liquid	-42.0%	-45.8%	-8.8%	-71.2%	0.0%	-75.4%
Distribution						
Cartridges	8.2%	10.6%	13.0%	8.0%	-79.7%	-7.7%
Disposables	12.9%	15.1%	-3.2%	17.5%	-86.3%	-5.6%
Kits	31.1%	34.7%	42.5%	19.2%	-85.4%	-3.3%
e-Liquid	-50.8%	-56.3%	-13.7%	-58.9%	-60.3%	-57.6%
Items						
Cartridges	12.4%	22.2%	15.1%	16.7%	-44.1%	10.2%
Disposables	-30.5%	-29.4%	-29.2%	3.3%	-28.5%	-30.2%
Kits	-1.6%	-2.2%	-4.3%	0.0%	-35.7%	-3.2%
e-Liquid	-19.7%	-30.4%	-14.8%	-25.3%	-61.6%	-24.3%



GROWTH AND DECLINE OF NICOTINE CATEGORIES

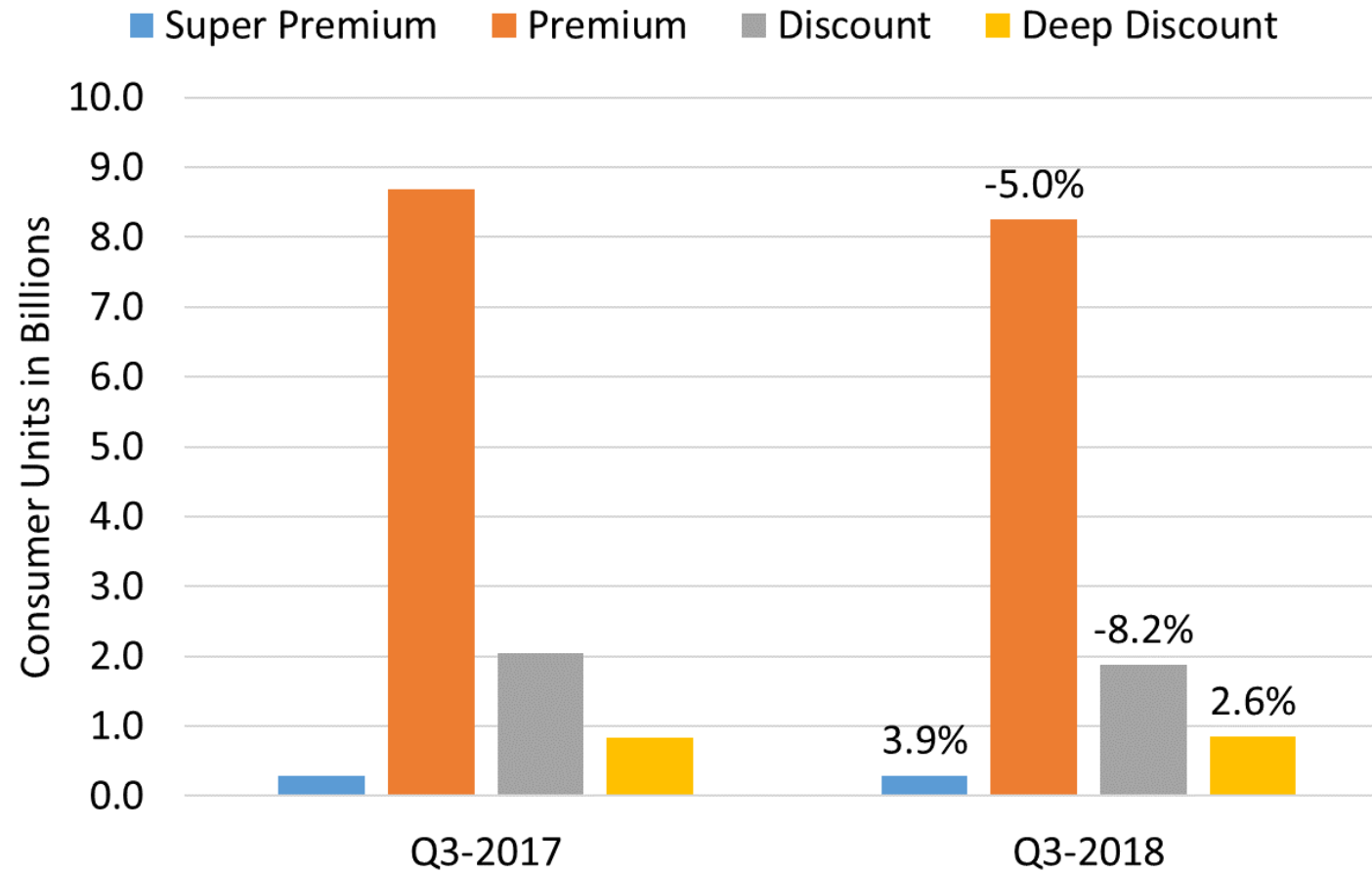
Cigarettes vs. All Other Tobacco

52 Weeks Ending Q3-2018 vs. YAGO



Price Tiers within Cigarettes

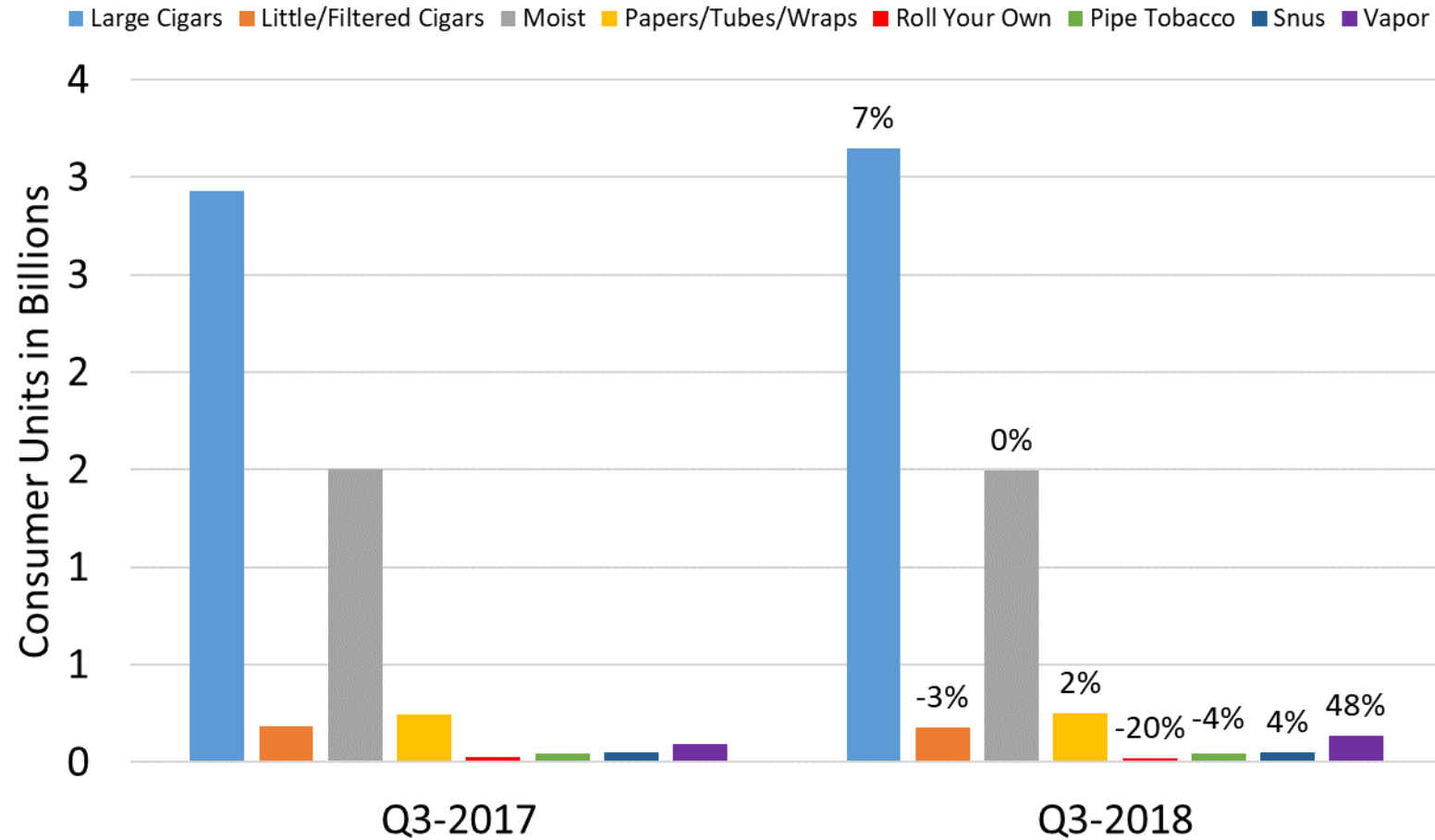
52 Weeks Ending Q3-2018 vs. YAGO



Overall Cigarettes down 4.8%%

Breakdown of All Other Tobacco

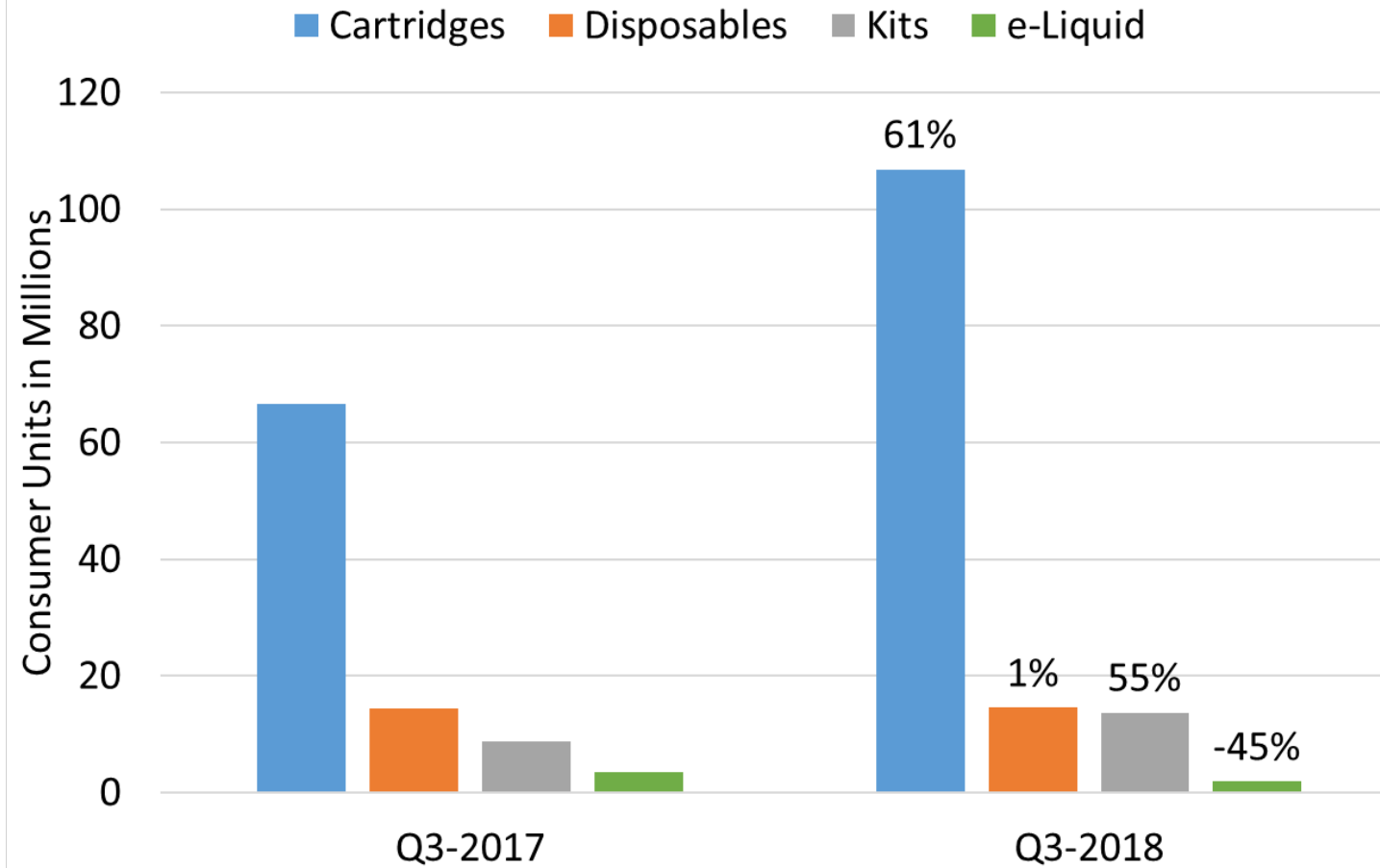
52 Weeks Ending Q3-2018 vs. YAGO



Overall All Other Tobacco up 5.3%

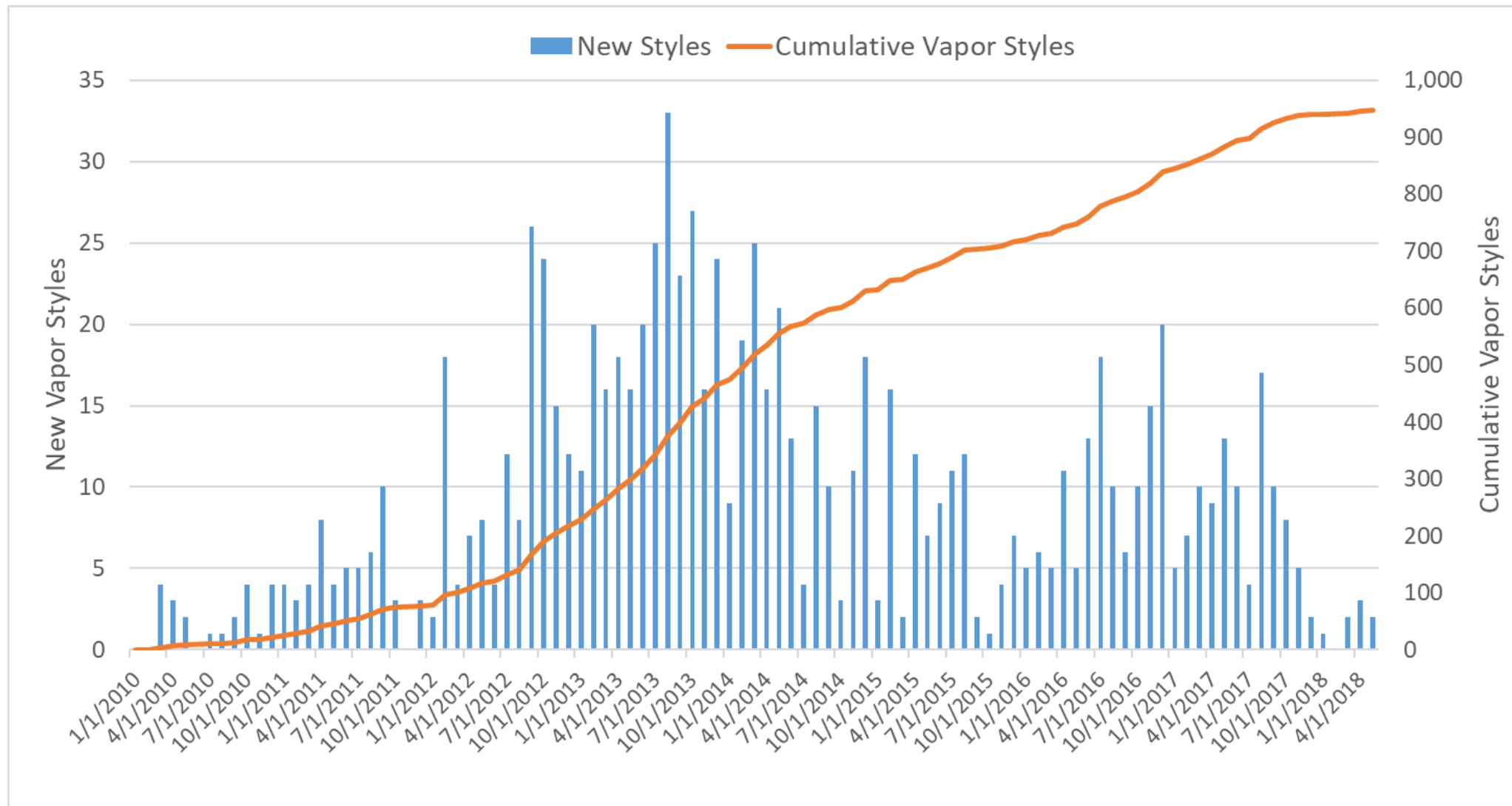
Overview of Vapor Category

52 Weeks Ending Q3-2018 vs. YAGO



Overall Vapor up 48%%

New Vapor Styles By Month

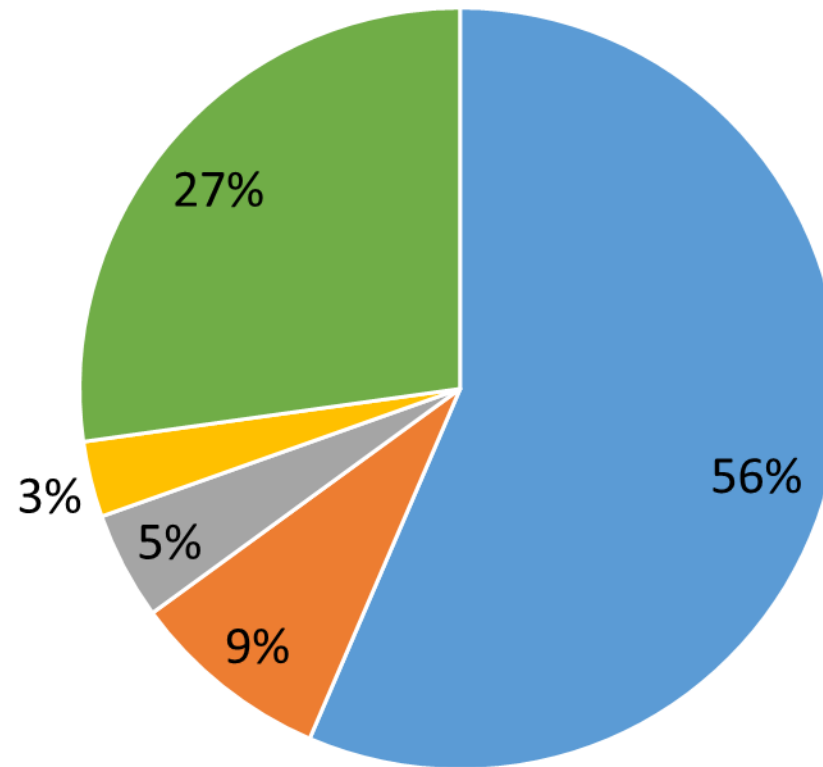




TRADE CHANNEL ANALYSIS

Cigarette Distribution

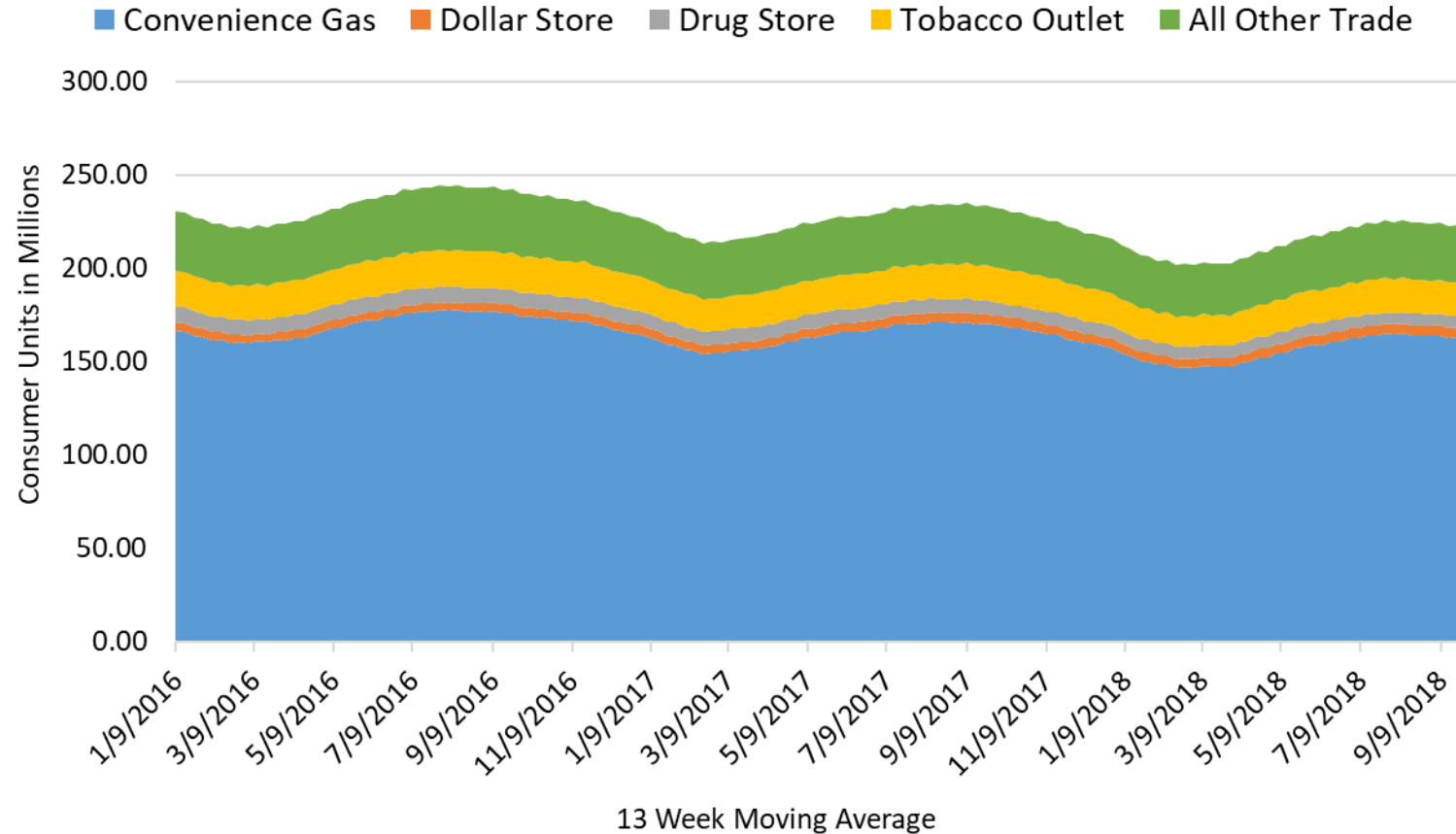
■ Convenience Gas ■ Dollar Store ■ Drug Store ■ Tobacco Outlet ■ All Other Trade



13 Weeks Ending Q3-2018

Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-35,308	-3,598	-3,325	-1,903	-18,710
% Change	-24%	-17%	-27%	-23%	-26%

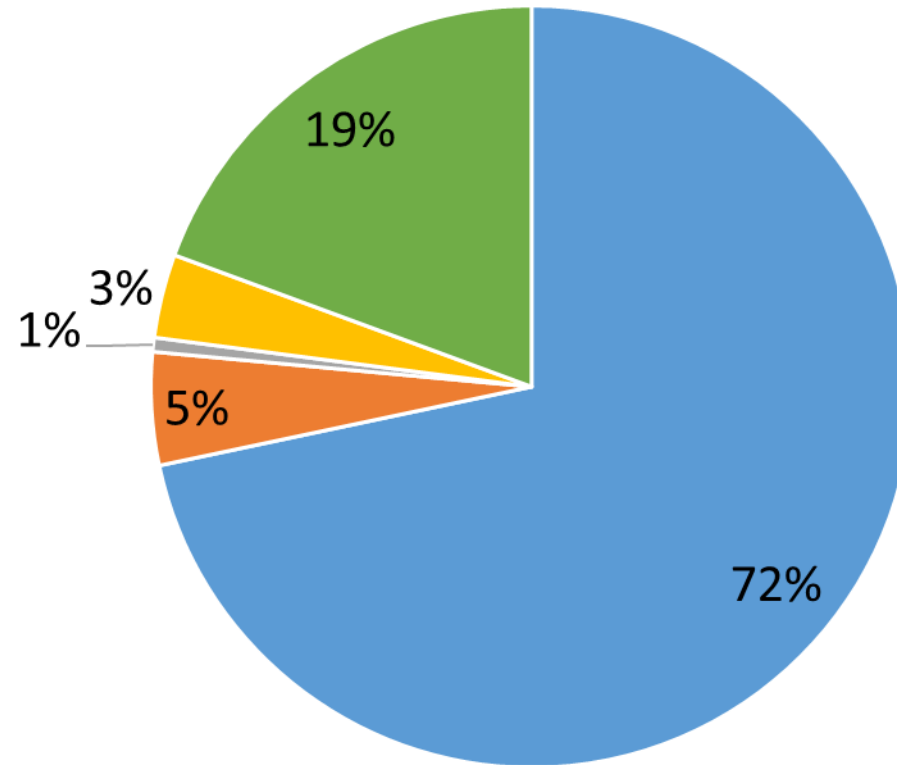
Cigarette Volume



Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-86,390,897	1,136,455	-13,430,895	-4,775,600	-18,742,786
% Change	-4%	2%	-14%	-2%	-5%

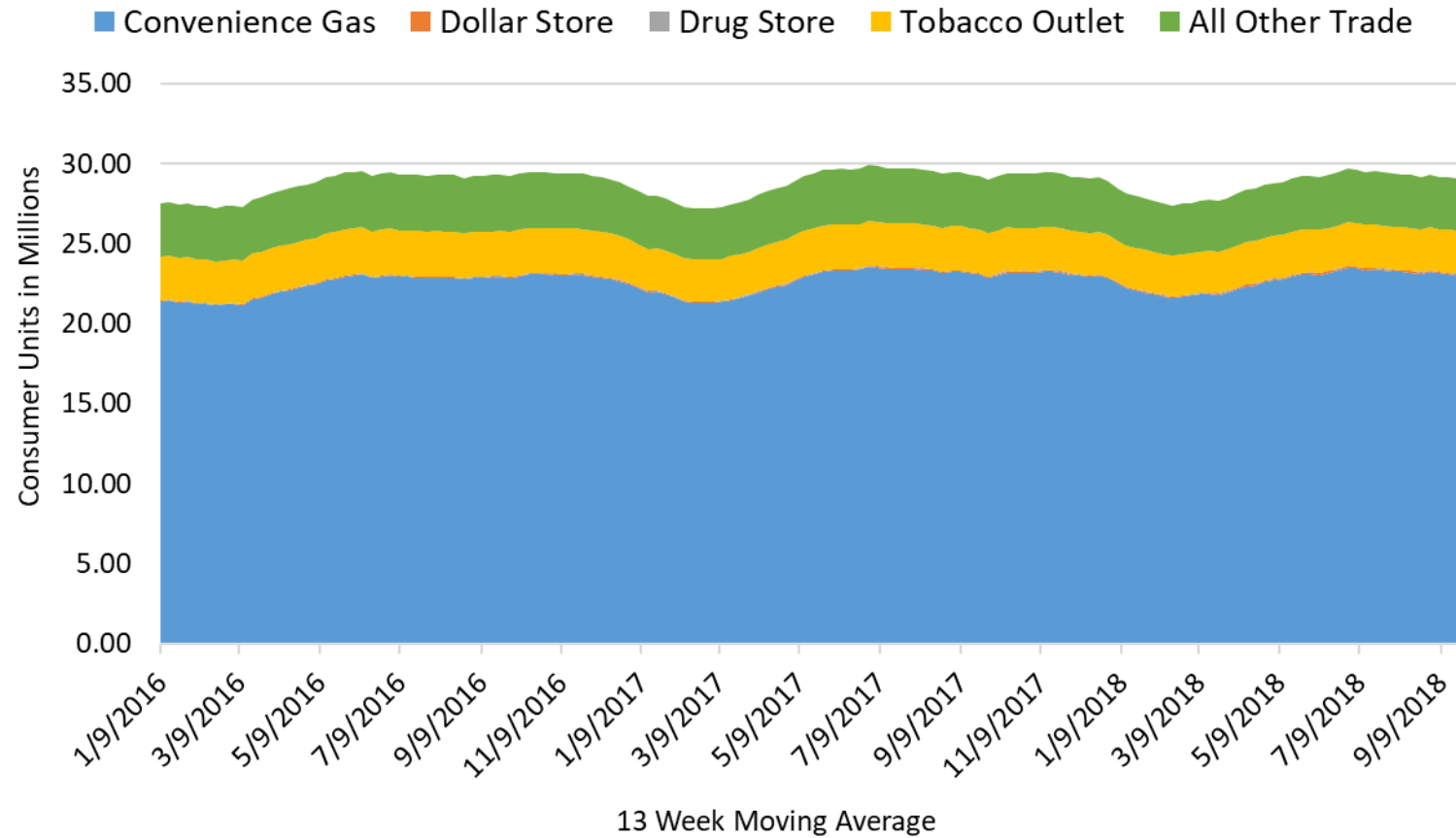
Moist Distribution

■ Convenience Gas ■ Dollar Store ■ Drug Store ■ Tobacco Outlet ■ All Other Trade



	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-28,372	436	-288	-1,356	-8,272
% Change	-23%	8%	-27%	-23%	-25%

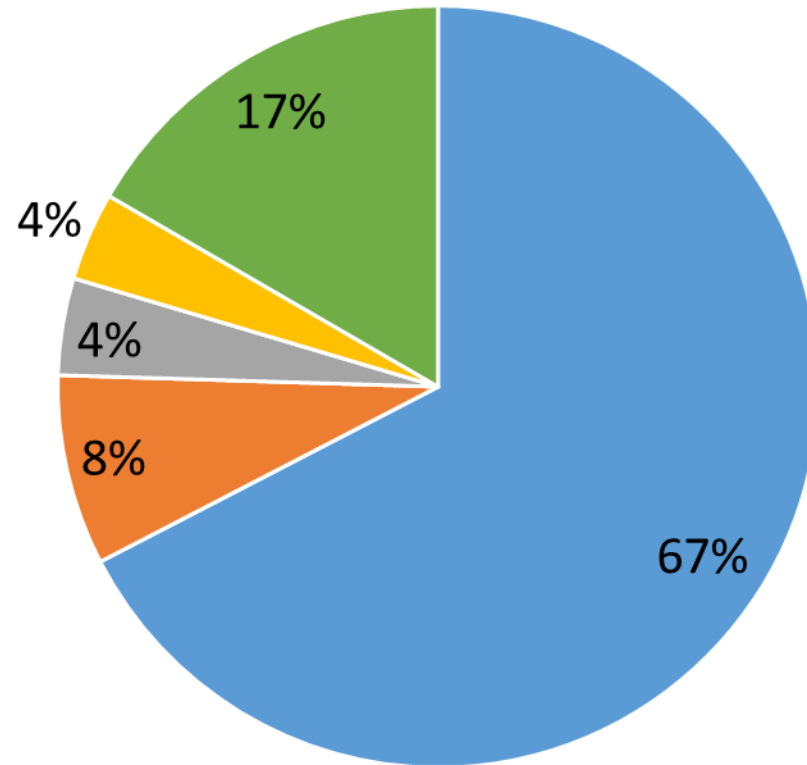
Moist Volume



Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-1,091,898	504,461	-50,067	-987,942	-1,198,350
% Change	0%	61%	-13%	-3%	-3%

Large Cigar Distribution

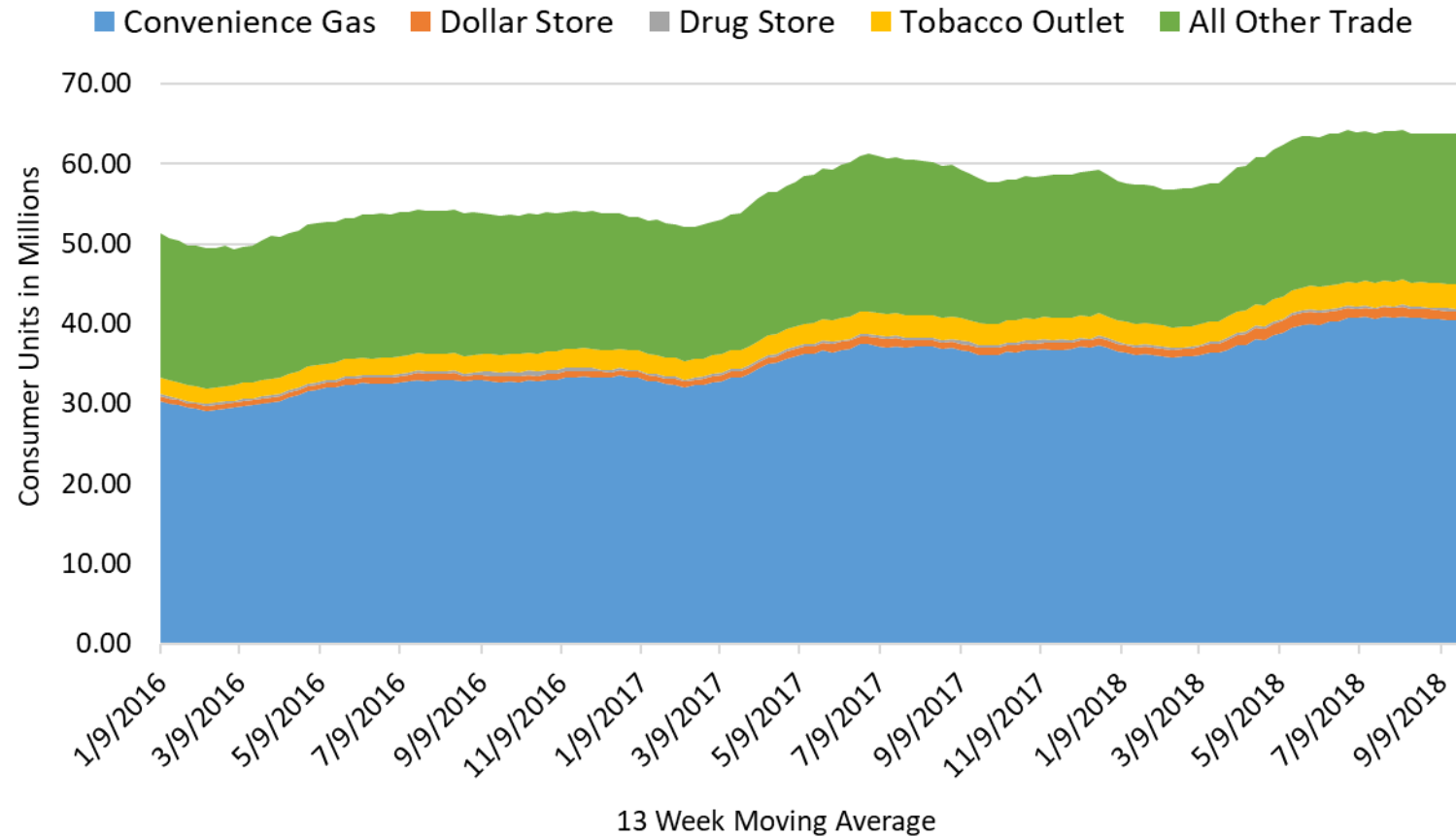
■ Convenience Gas ■ Dollar Store ■ Drug Store ■ Tobacco Outlet ■ All Other Trade



13 Weeks Ending Q3-2018

	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-22,596	-817	-1,582	-1,127	-7,065
% Change	-20%	-7%	-22%	-19%	-24%

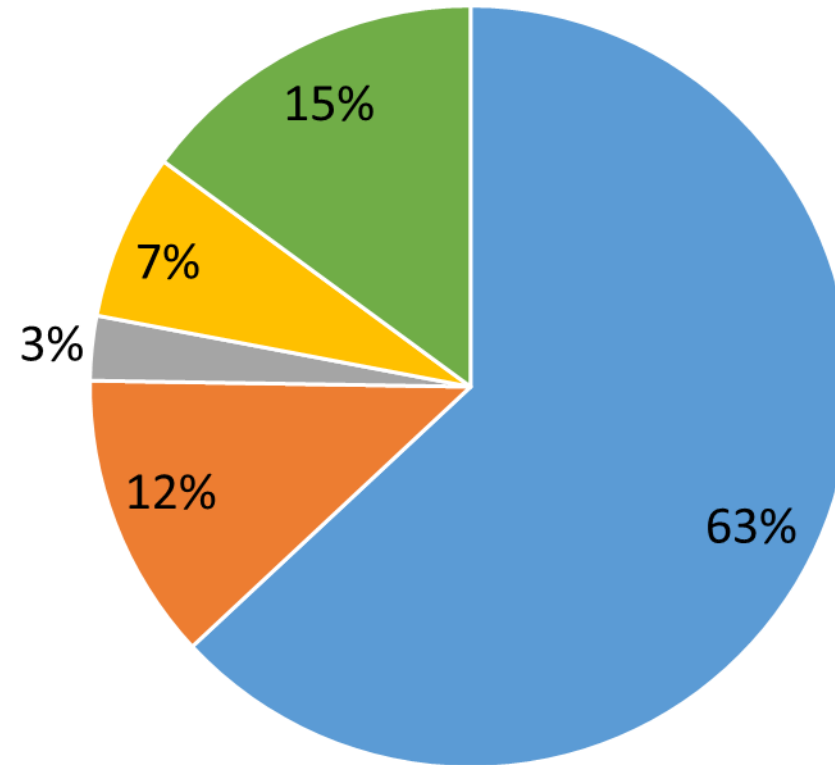
Large Cigar Volume



Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	49,645,407	3,199,117	-283,062	3,513,857	-2,902,838
% Change	10%	28%	-7%	10%	-1%

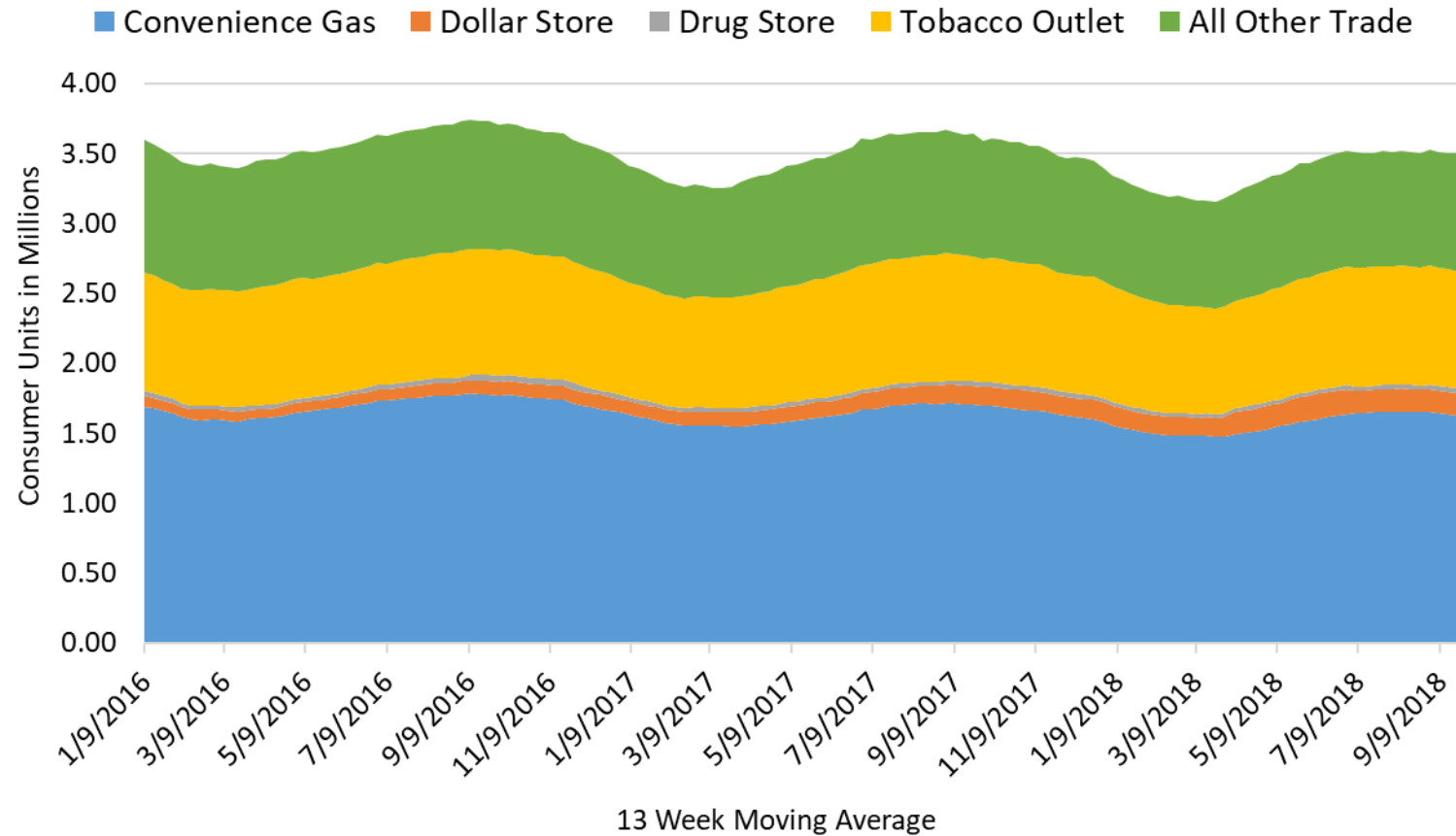
Little/Filtered Cigar Distribution

■ Convenience Gas ■ Dollar Store ■ Drug Store ■ Tobacco Outlet ■ All Other Trade



	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-10,388	-622	-420	-1,077	-2,933
% Change	-24%	-9%	-22%	-23%	-27%

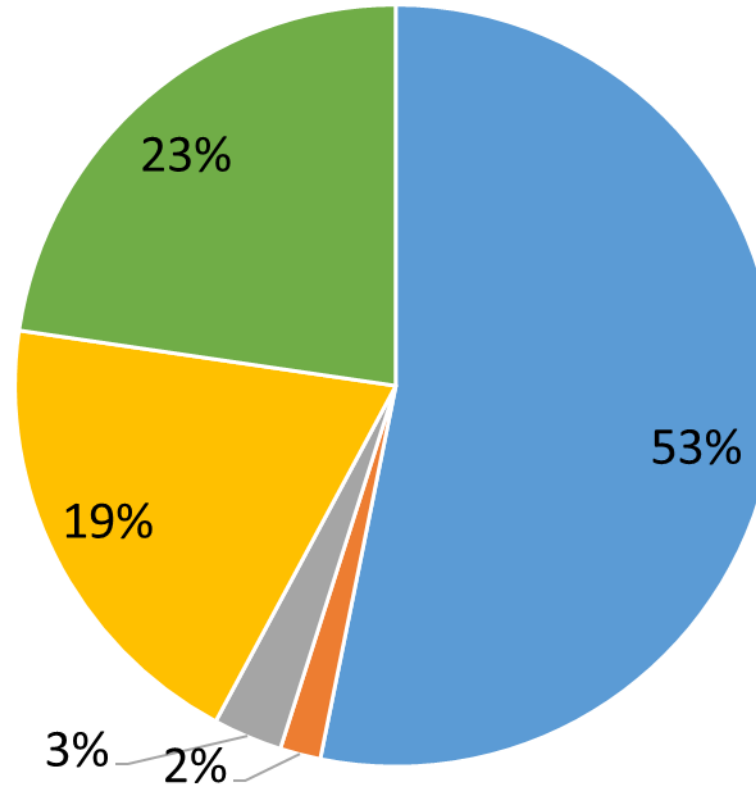
Little/Filtered Cigar Volume



Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-745,136	446,222	-1,947	-658,126	-723,586
% Change	-3%	27%	0%	-6%	-6%

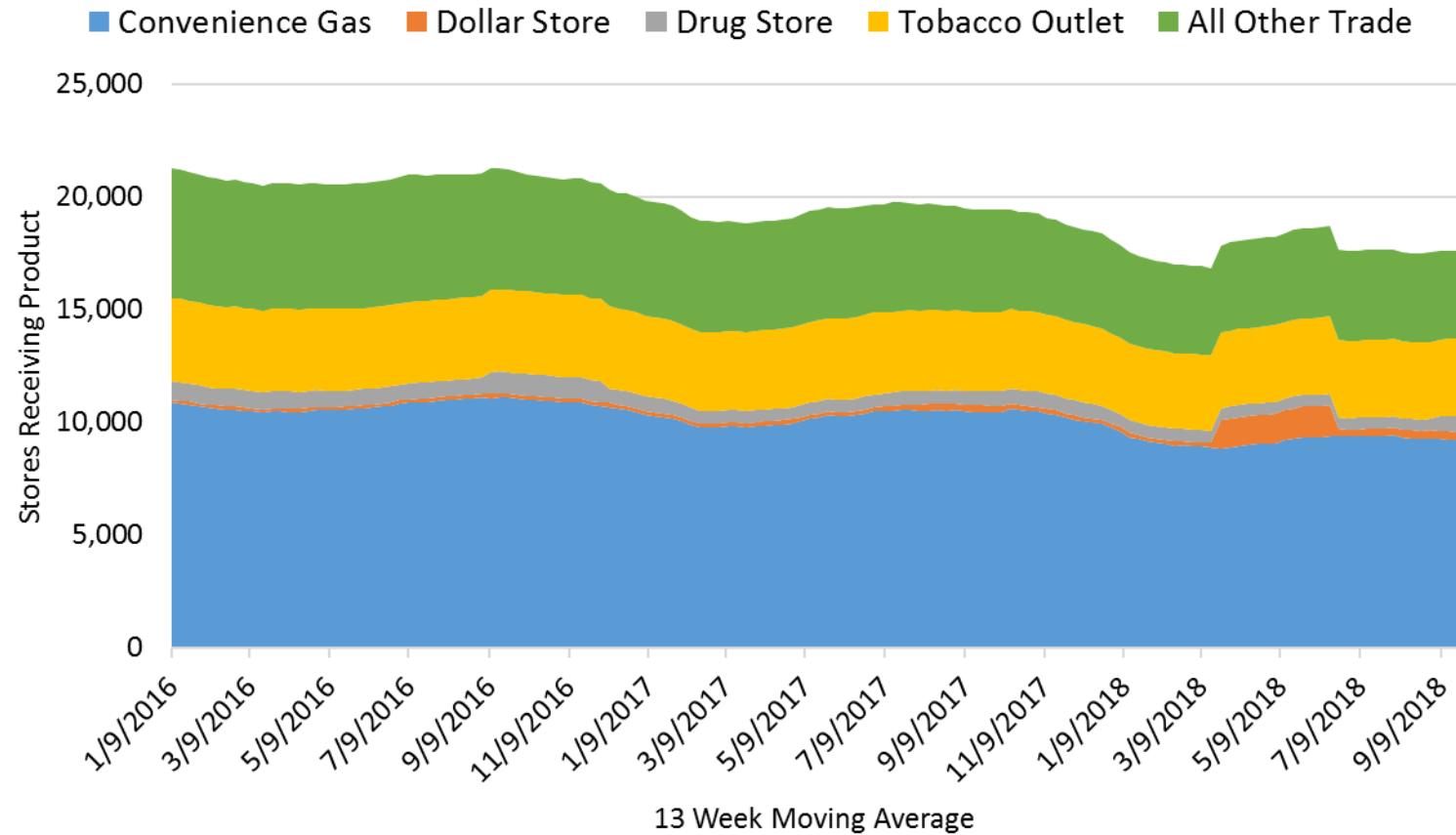
Roll Your Own Distribution

■ Convenience Gas ■ Dollar Store ■ Drug Store ■ Tobacco Outlet ■ All Other Trade



	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-3,315	-23	-192	-930	-1,618
% Change	-32%	-8%	-32%	-26%	-35%

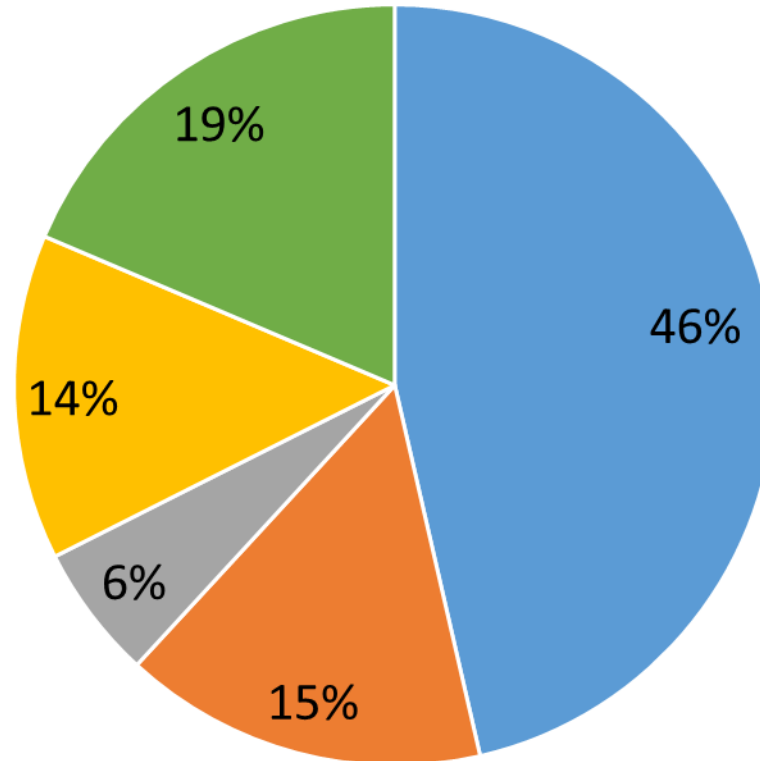
Roll Your Own Volume



Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-318,889	35,615	-3,023	-102,133	-1,761,501
% Change	-16%	204%	-4%	-10%	-43%

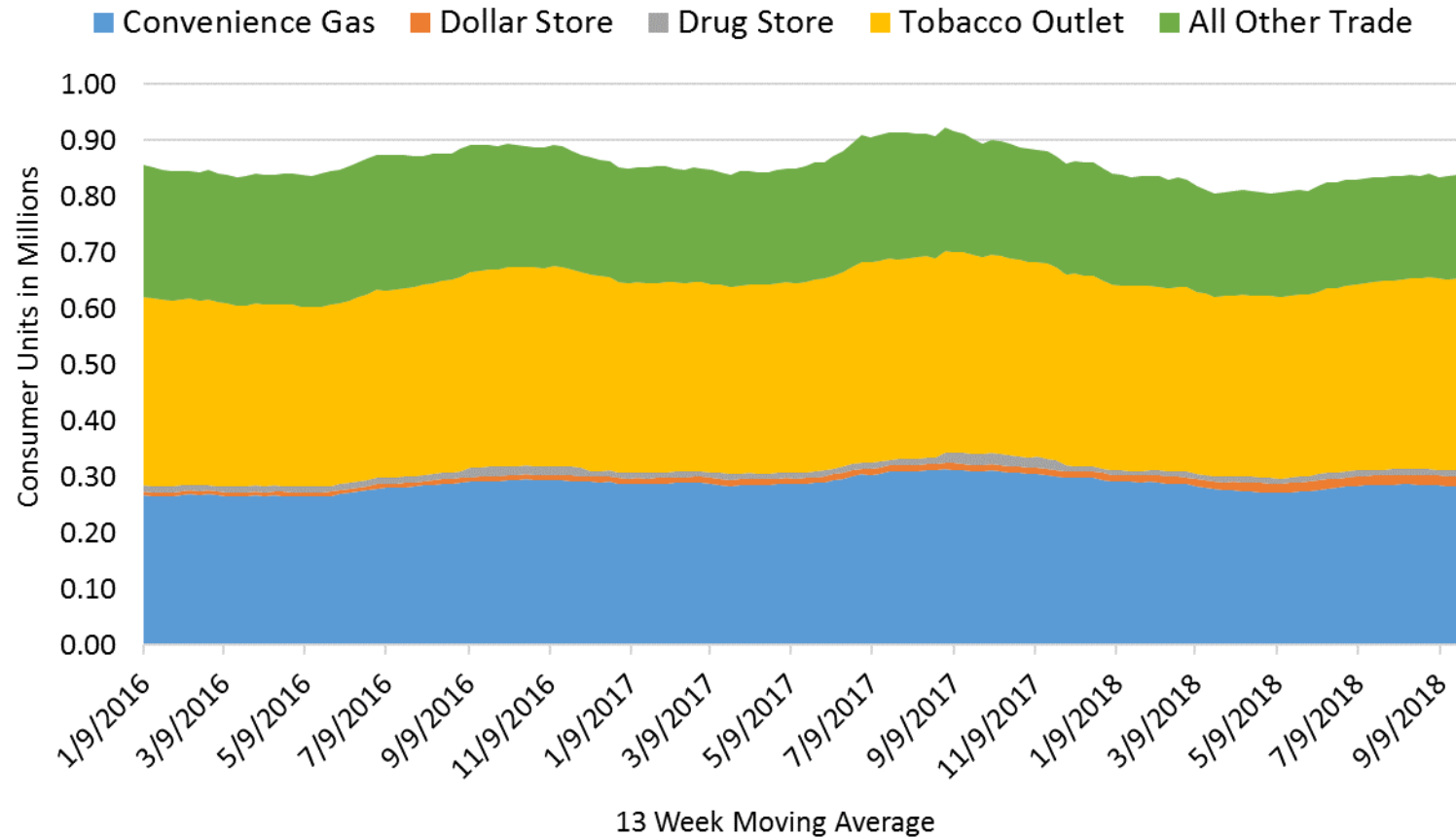
Pipe Tobacco Distribution

■ Convenience Gas
 ■ Dollar Store
 ■ Drug Store
 ■ Tobacco Outlet
 ■ All Other Trade



	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-3,849	891	-1,149	-1,083	-2,038
% Change	-23%	30%	-42%	-22%	-29%

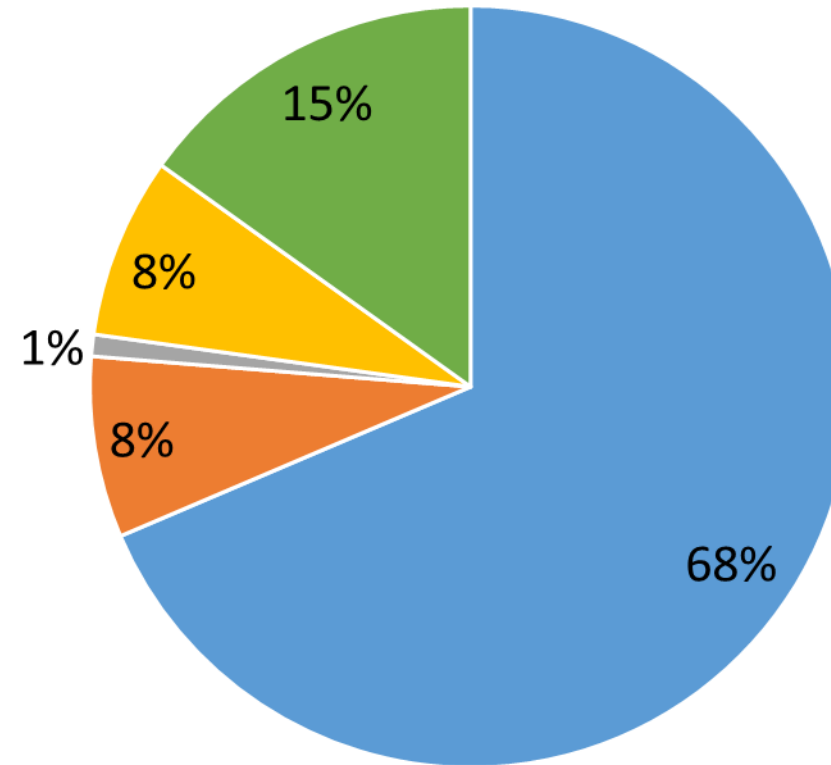
Pipe Tobacco Volume



Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-321,940	71,481	-48,438	-239,733	-432,692
% Change	-8%	49%	-26%	-5%	-15%

Papers/Tubes/Wraps Distribution

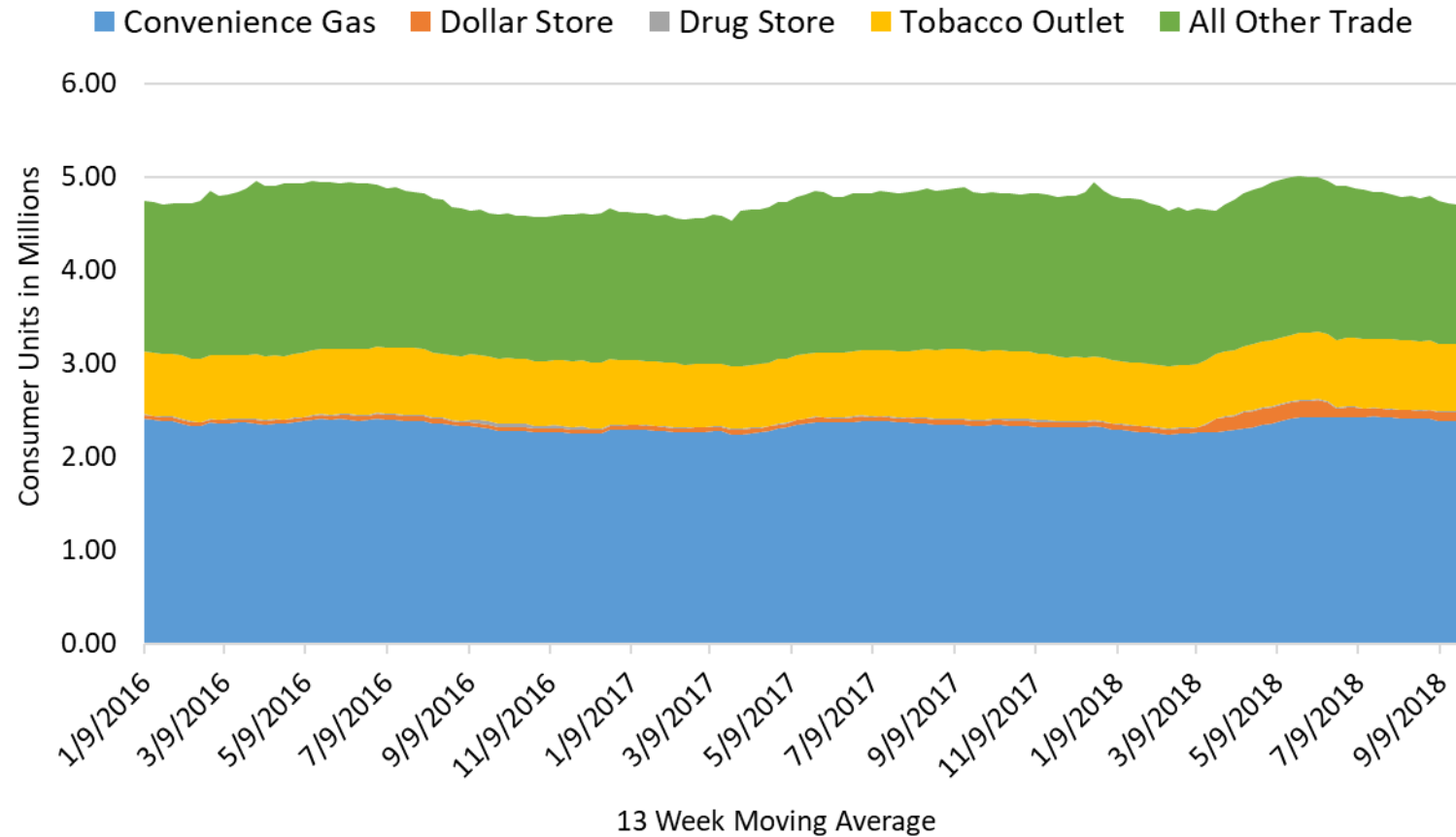
■ Convenience Gas ■ Dollar Store ■ Drug Store ■ Tobacco Outlet ■ All Other Trade



13 Weeks Ending Q3-2018

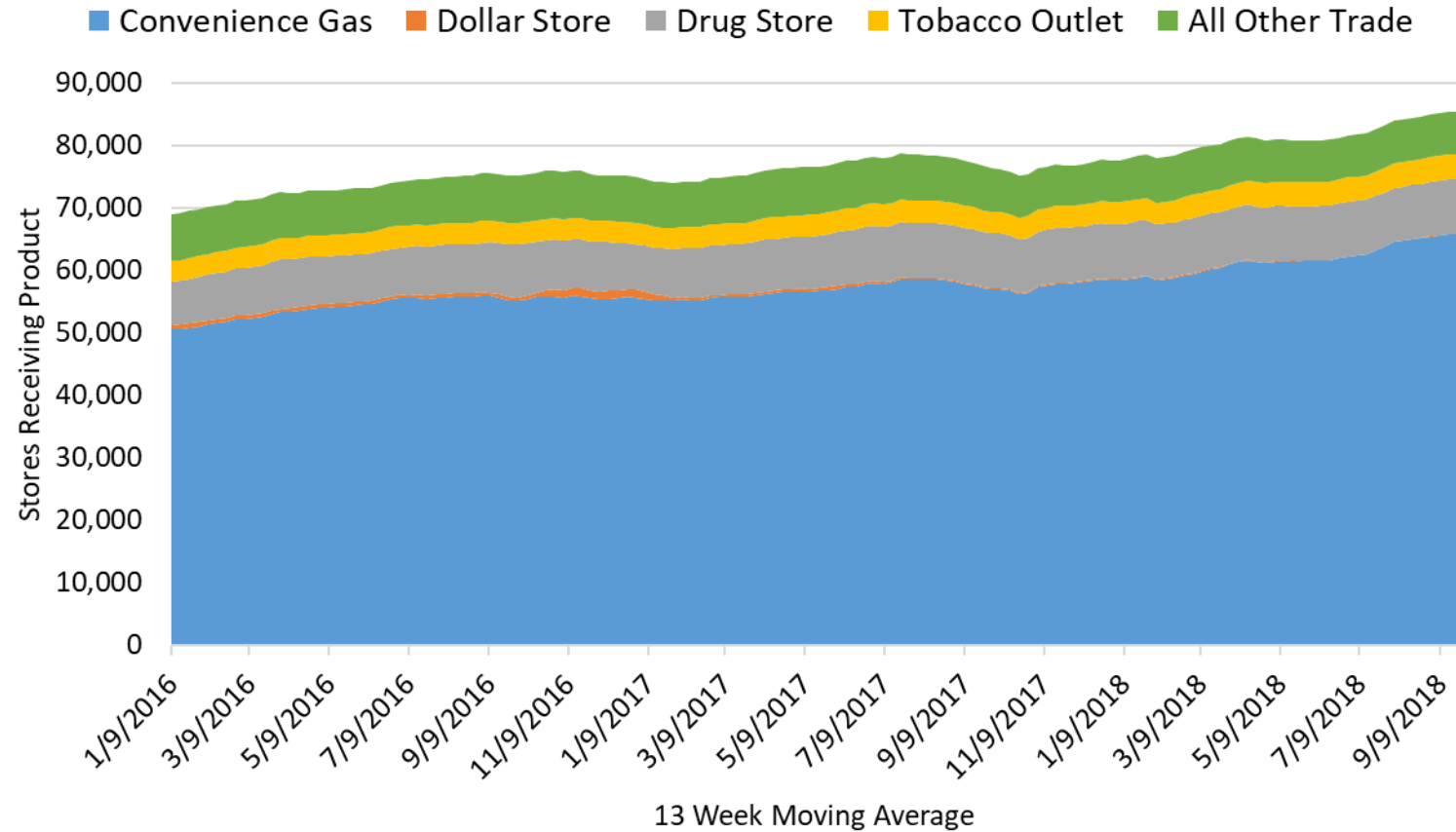
	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-9,046	609	-205	-1,008	-2,558
% Change	-22%	23%	-31%	-21%	-26%

Papers/Tubes/Wraps Volume



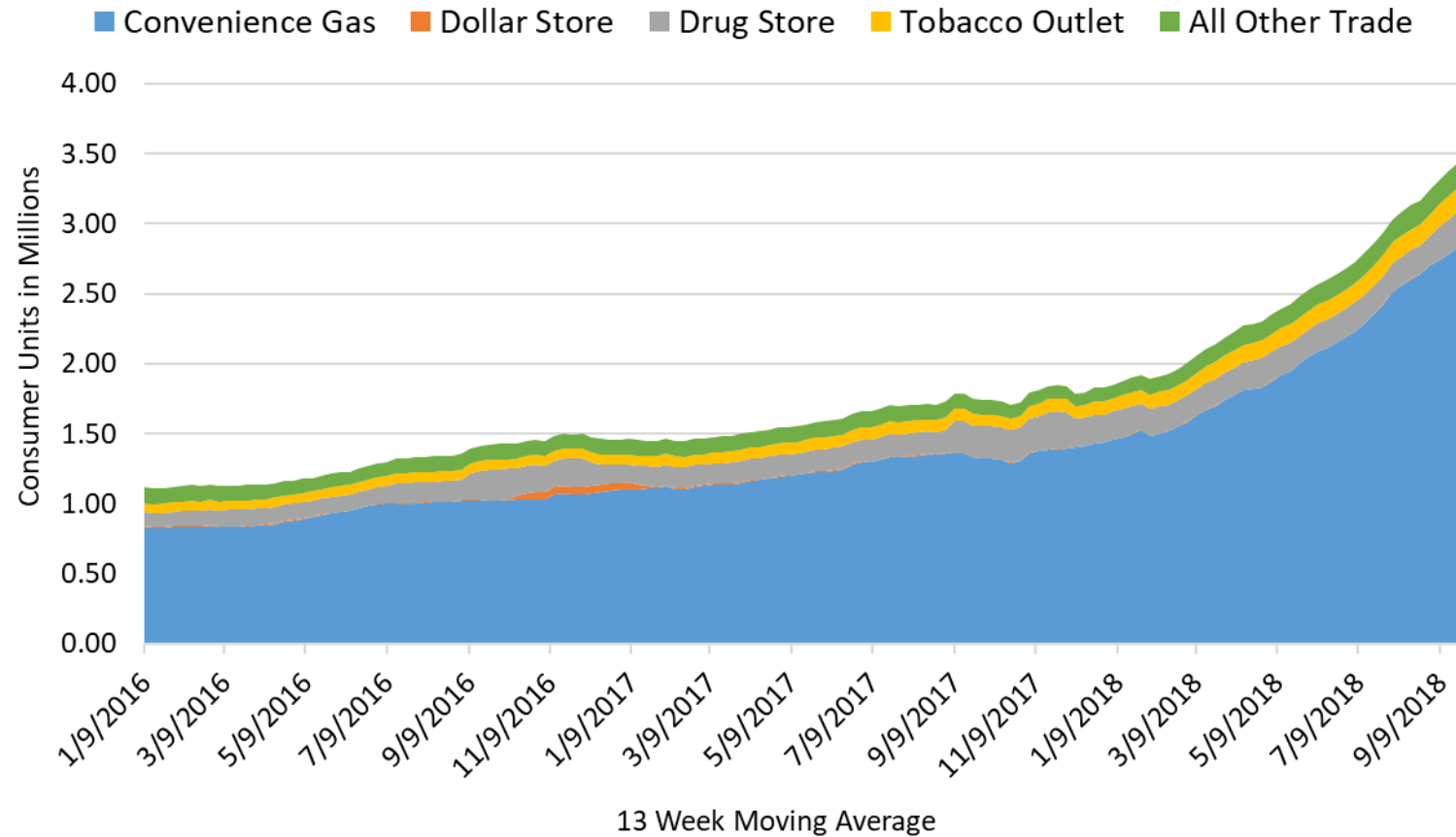
Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	688,153	483,145	-11,030	85,756	-2,091,332
% Change	2%	72%	-7%	1%	-9%

Closed Vapor System Distribution



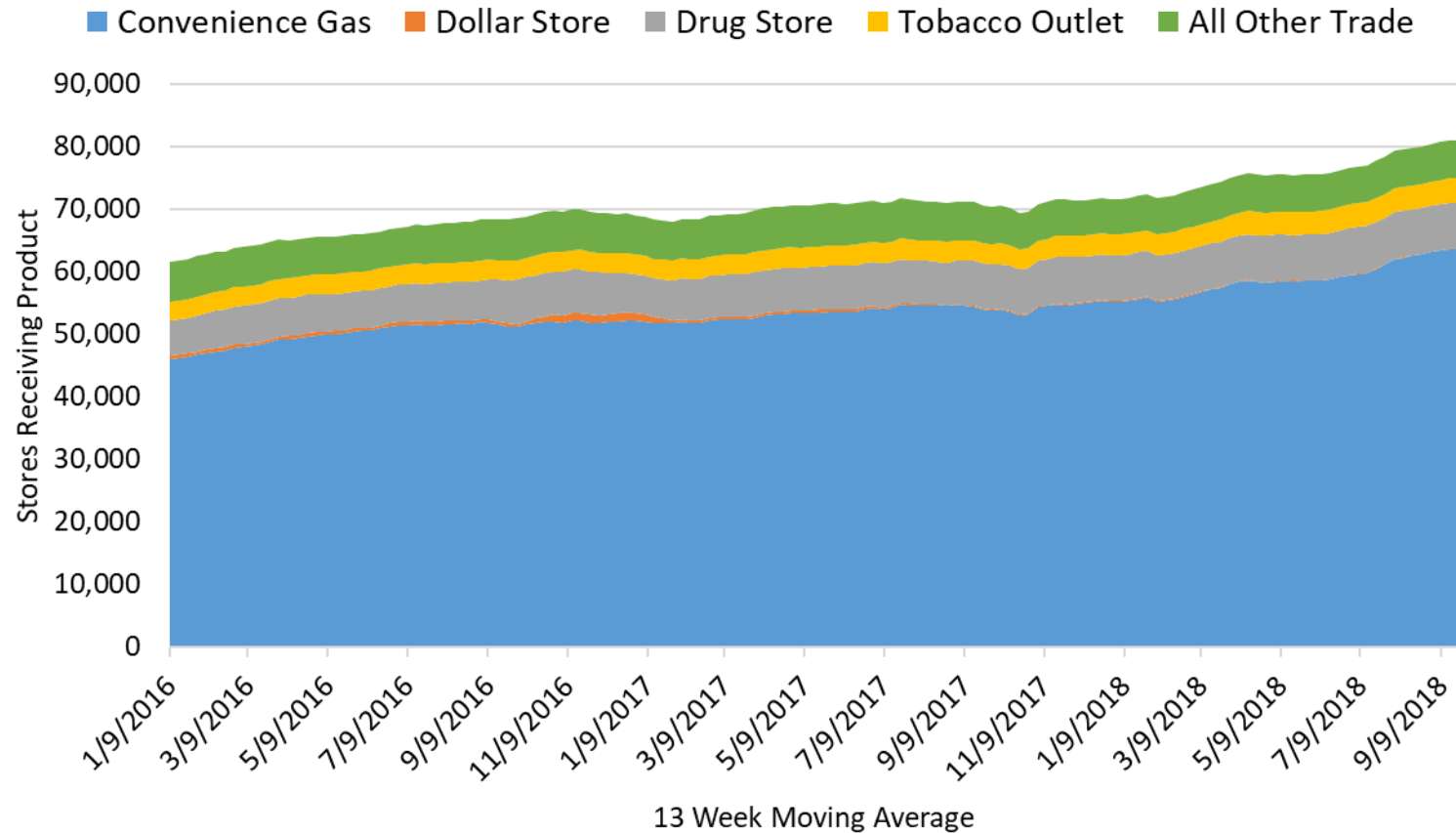
	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-8,652	-208	-2,145	-478	-2,046
% Change	-15%	-88%	-24%	-14%	-28%

Closed Vapor System Volume



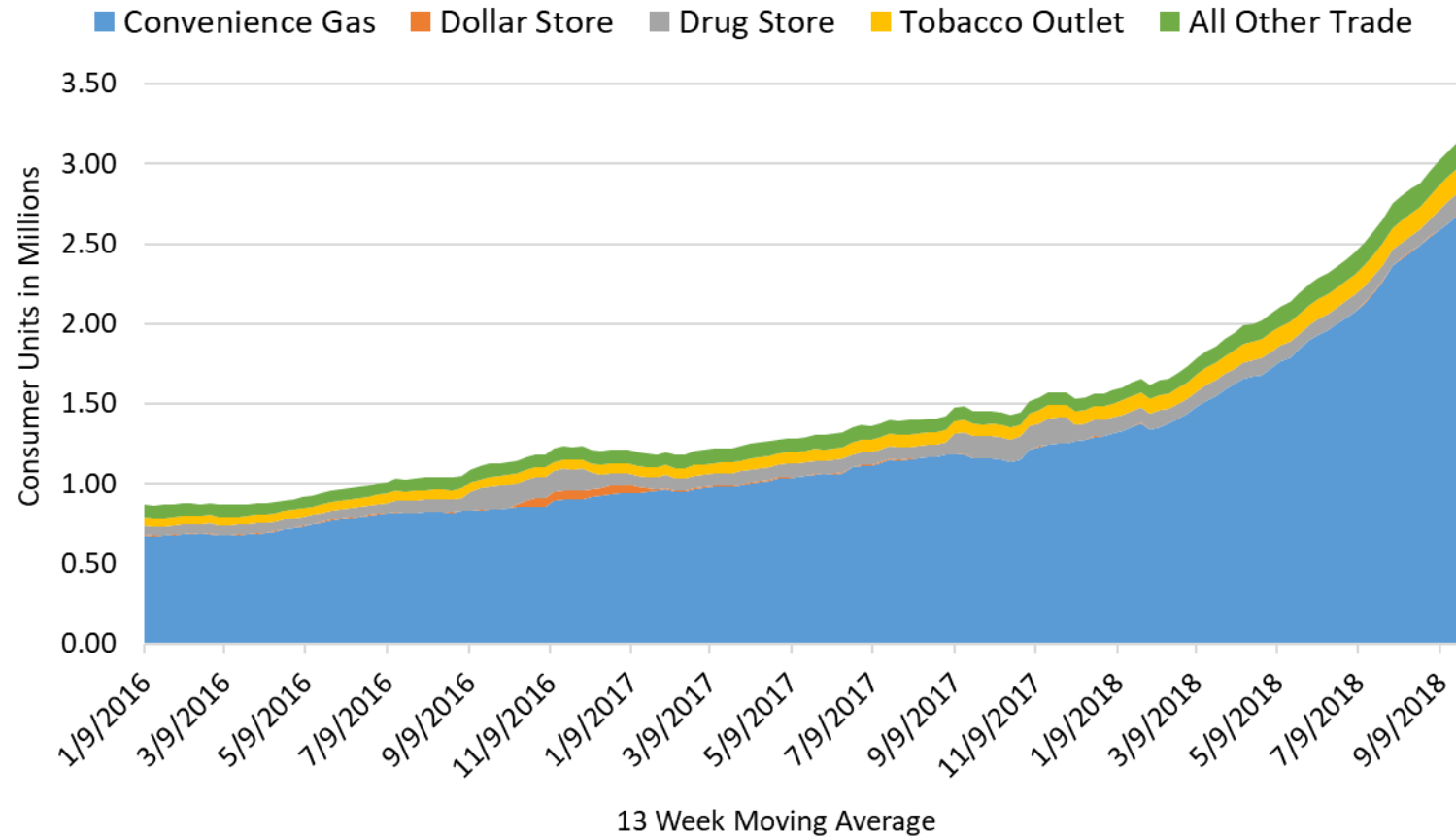
Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	16,132,804	-25,373	495,418	832,047	744,095
% Change	93%	-66%	21%	73%	51%

Cartridge Distribution



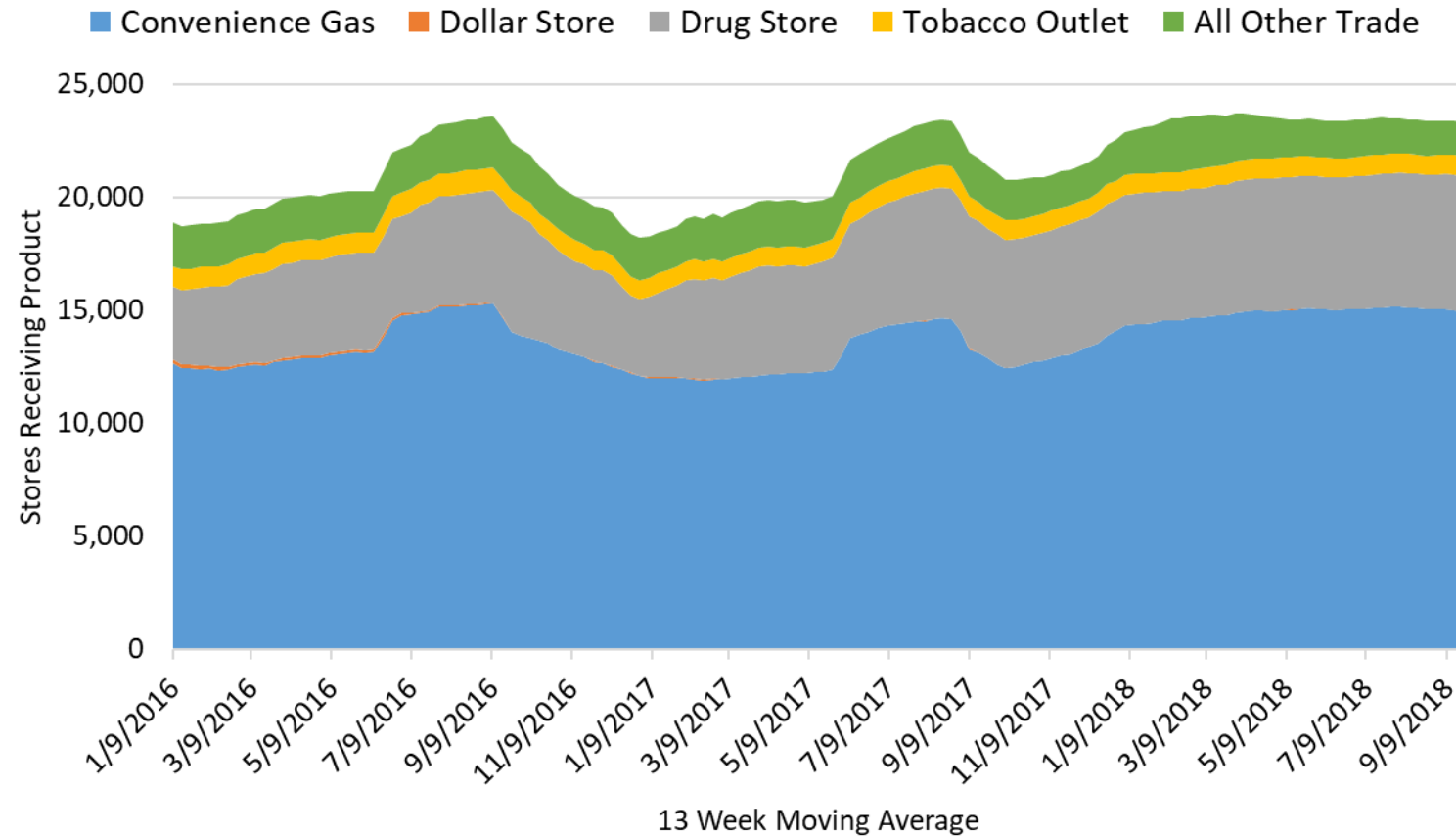
	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-6,922	-204	-1,264	-360	-1,645
% Change	-13%	-88%	-18%	-11%	-26%

Cartridge Volume



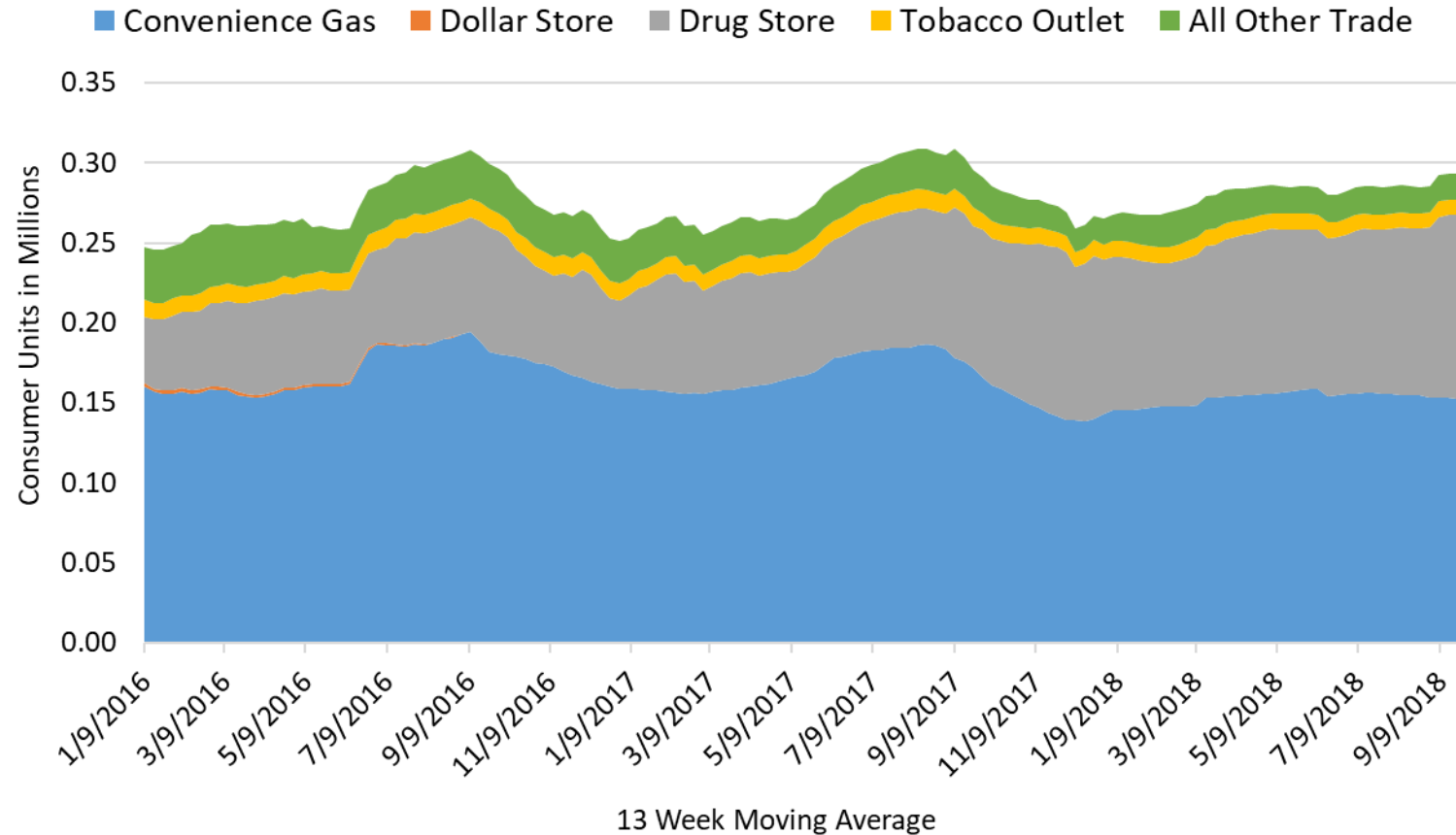
Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	16,476,804	-26,006	230,150	860,620	838,942
% Change	110%	-67%	19%	87%	74%

Disposable Distribution



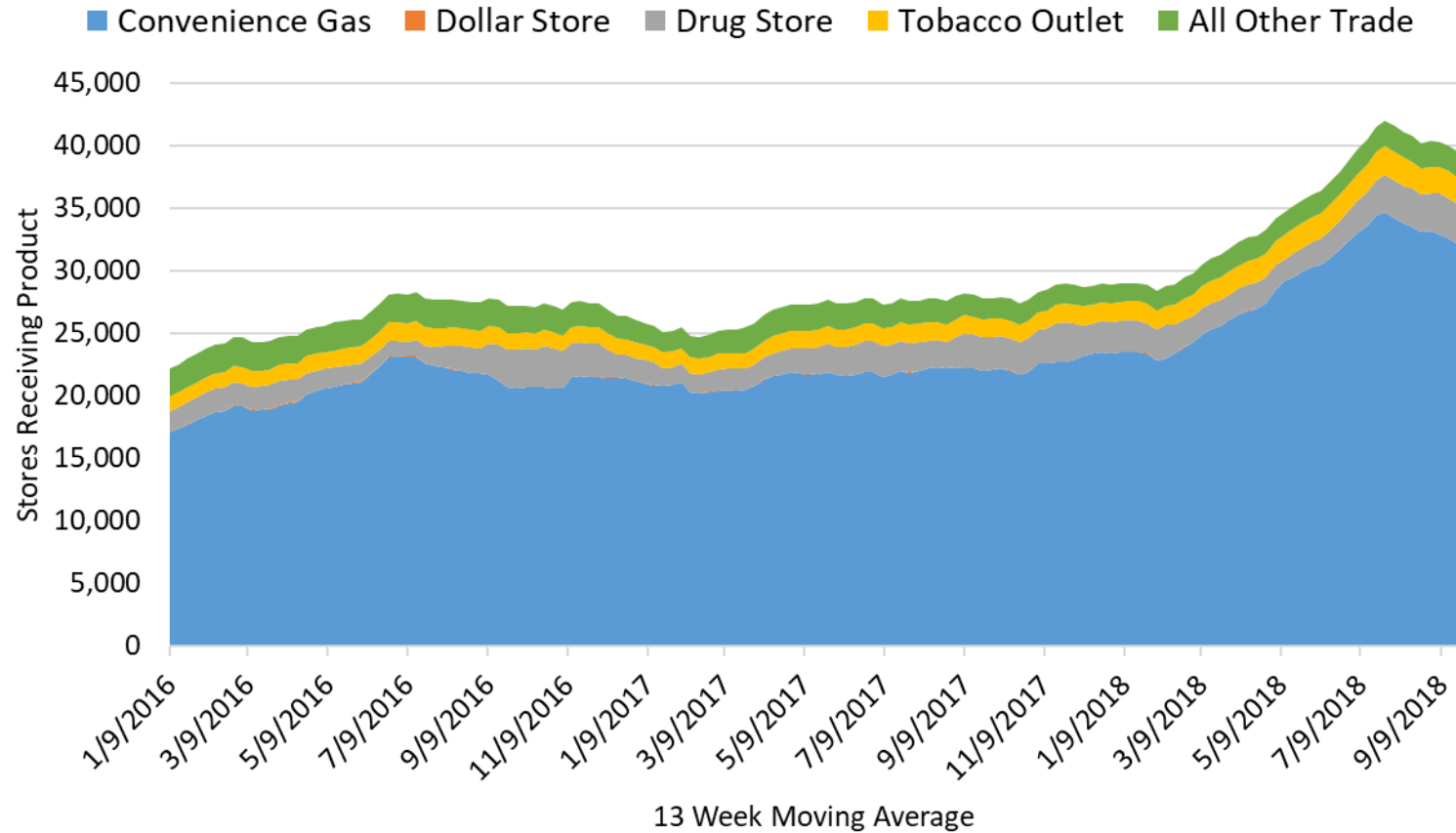
	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-2,384	-3	-1,149	-278	-758
% Change	-17%	-68%	-20%	-30%	-39%

Disposable Volume



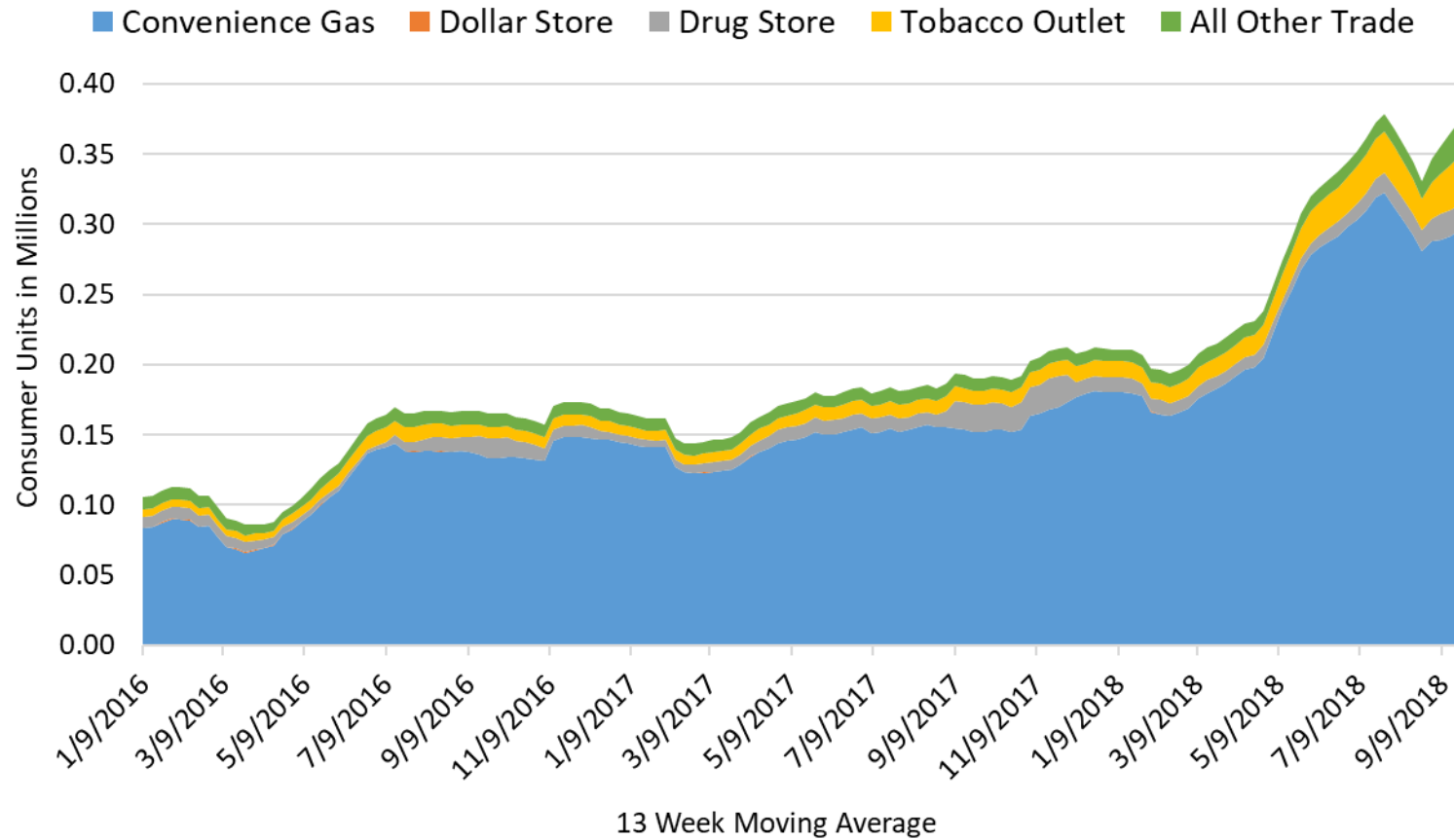
Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-344,001	7	265,268	-28,573	-94,848
% Change	-15%	429%	24%	-19%	-30%

Kits Distribution



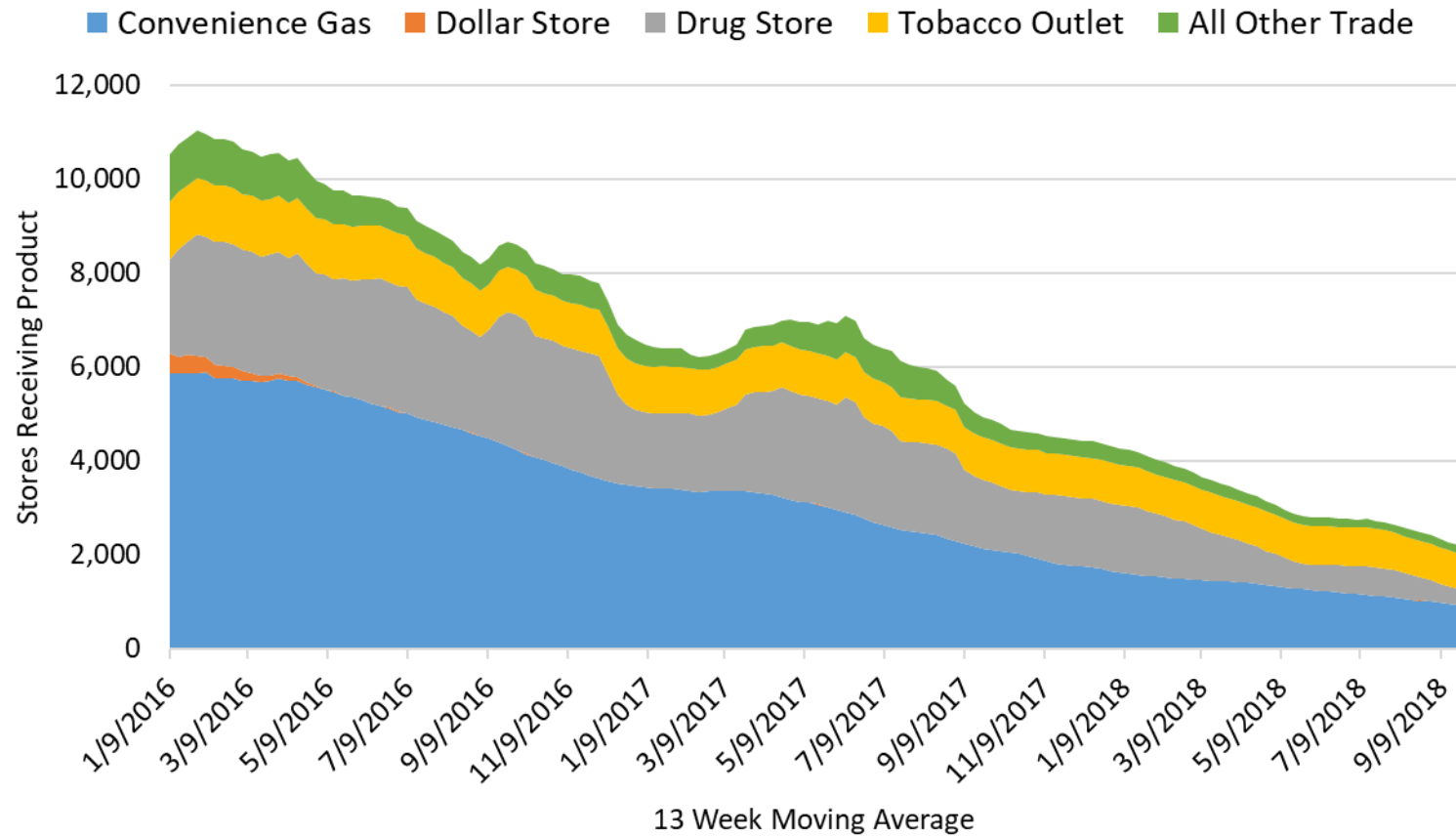
	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	3,856	-7	-187	257	-285
% Change	18%	-89%	-8%	18%	-16%

Kits Volume



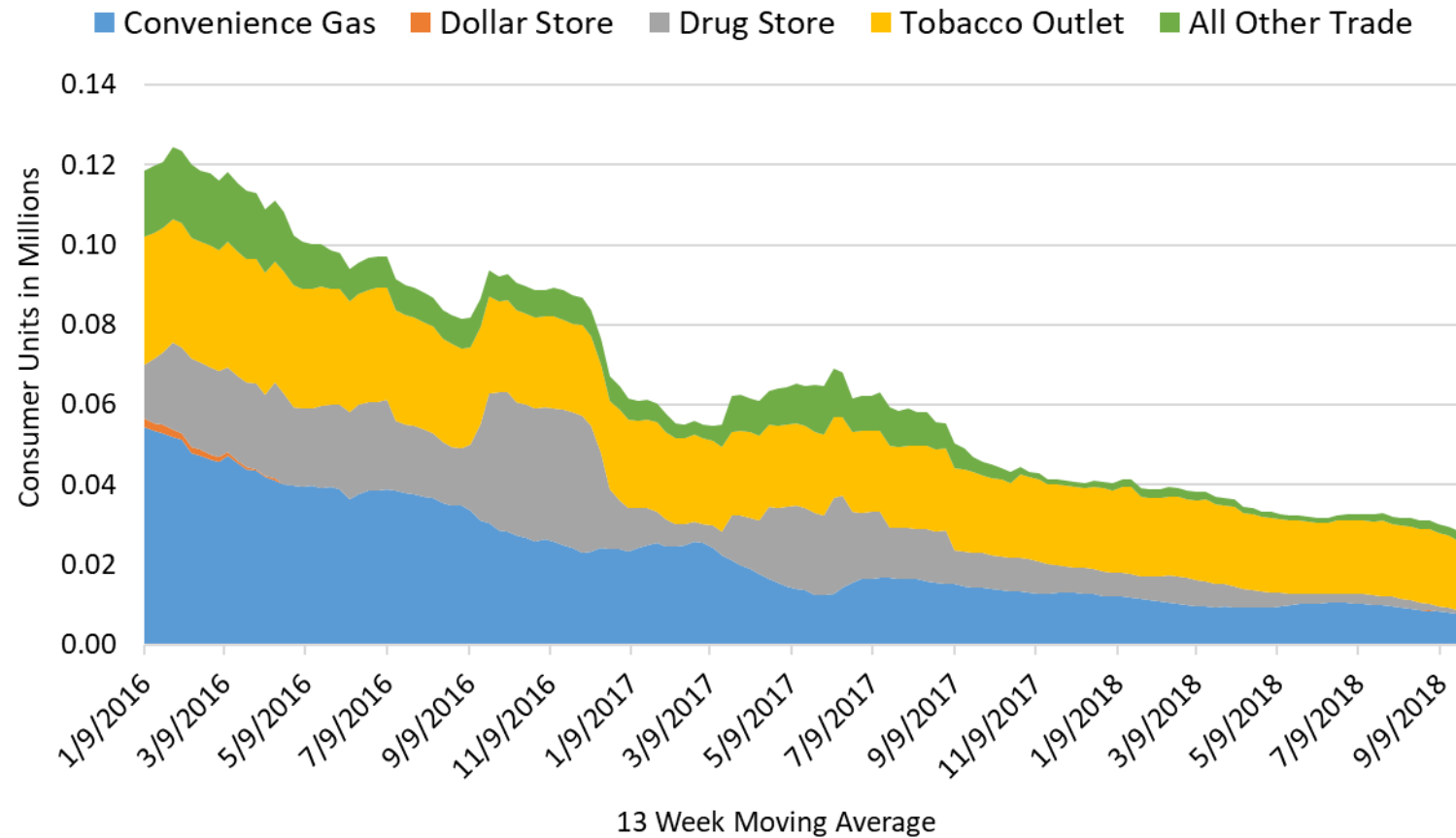
Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	1,904,903	-426	35,278	242,870	86,258
% Change	95%	-98%	21%	189%	71%

e-Liquid Distribution



	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-1,549	0	-1,389	-306	-472
% Change	-65%	0%	-77%	-33%	-78%

e-Liquid Volume

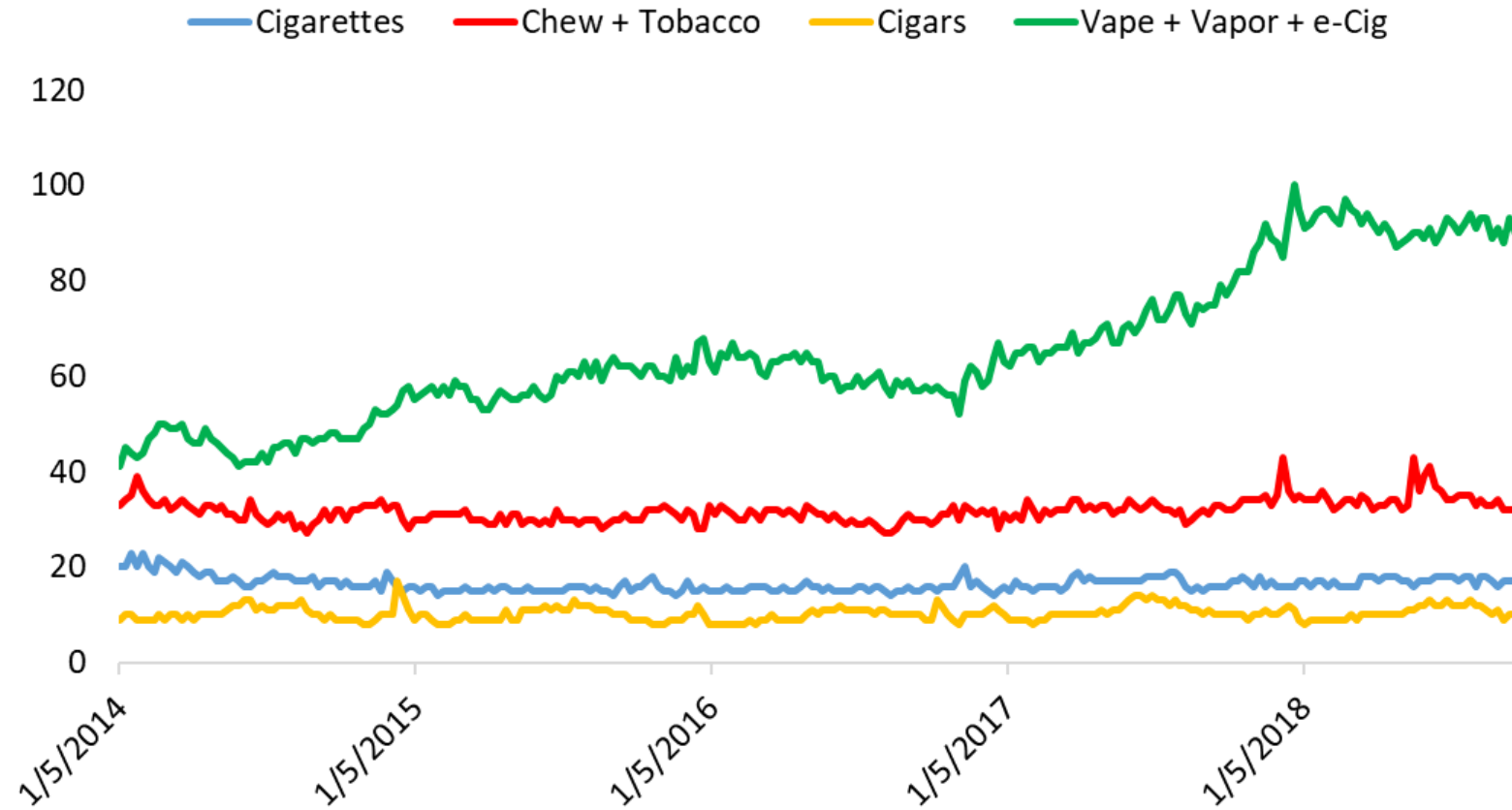
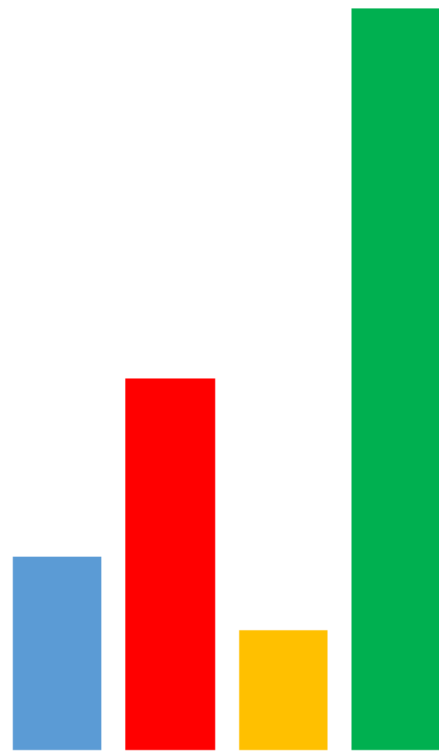


Q3 '18 vs YAGO	Convenience Gas	Dollar Store	Drug Store	Tobacco Outlet	All Other Trade
Change	-86,864	49	-134,911	-27,358	-68,520
% Change	-42%	0%	-85%	-10%	-72%

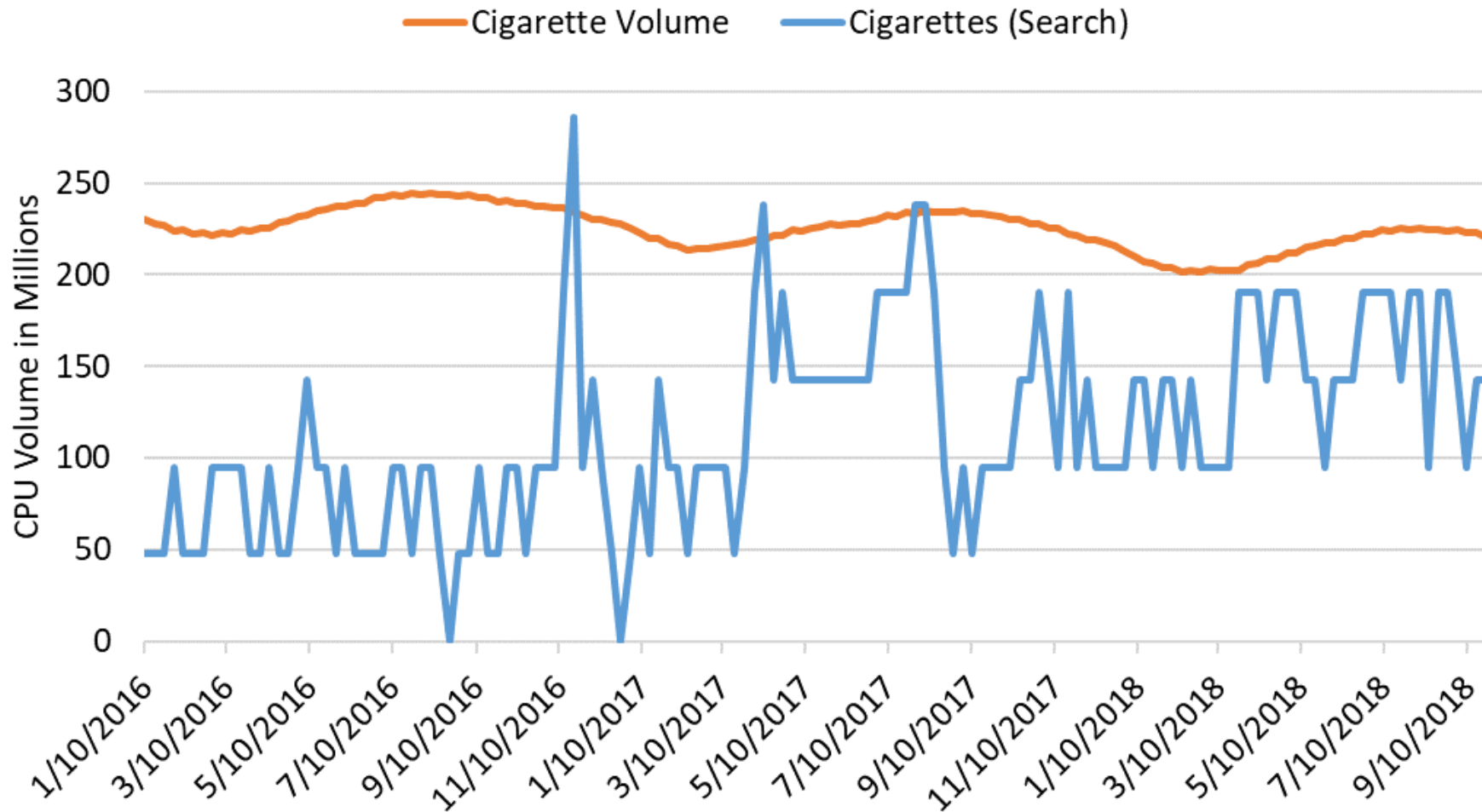


GOOGLE TRENDS

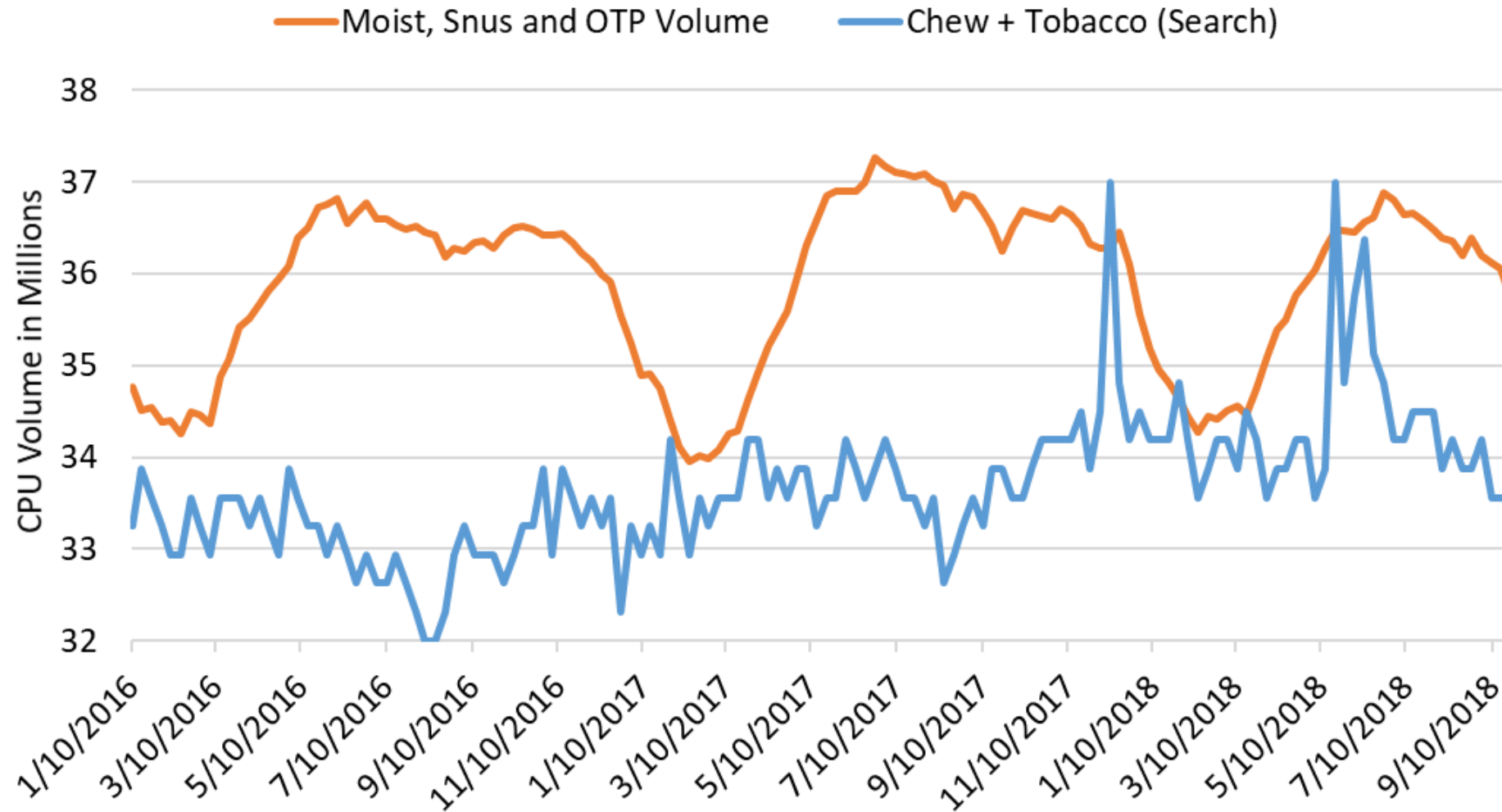
Google Trends of Nicotine Products



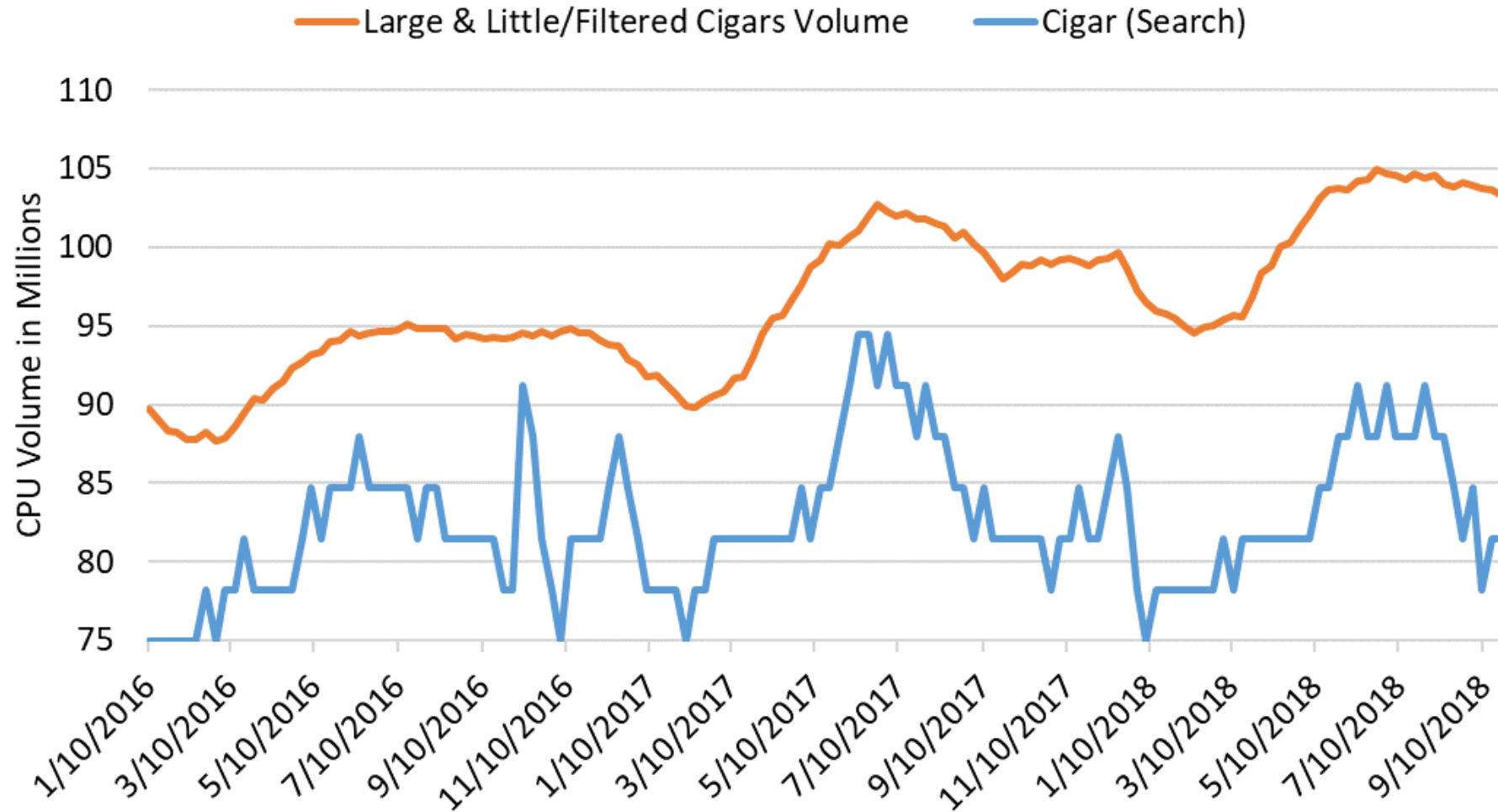
Google Trends of Cigarettes



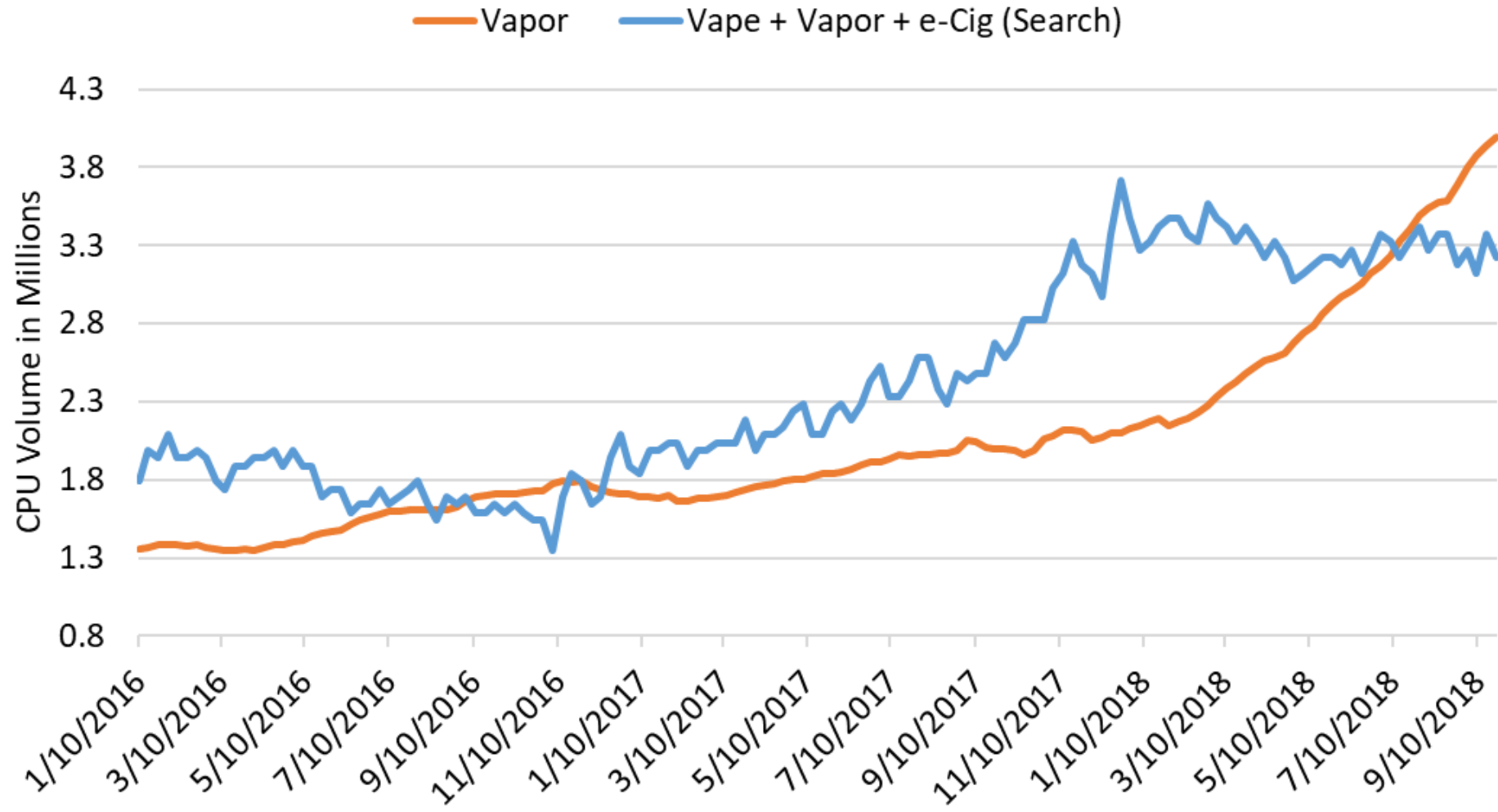
Google Trends of Moist, Snus & OTP



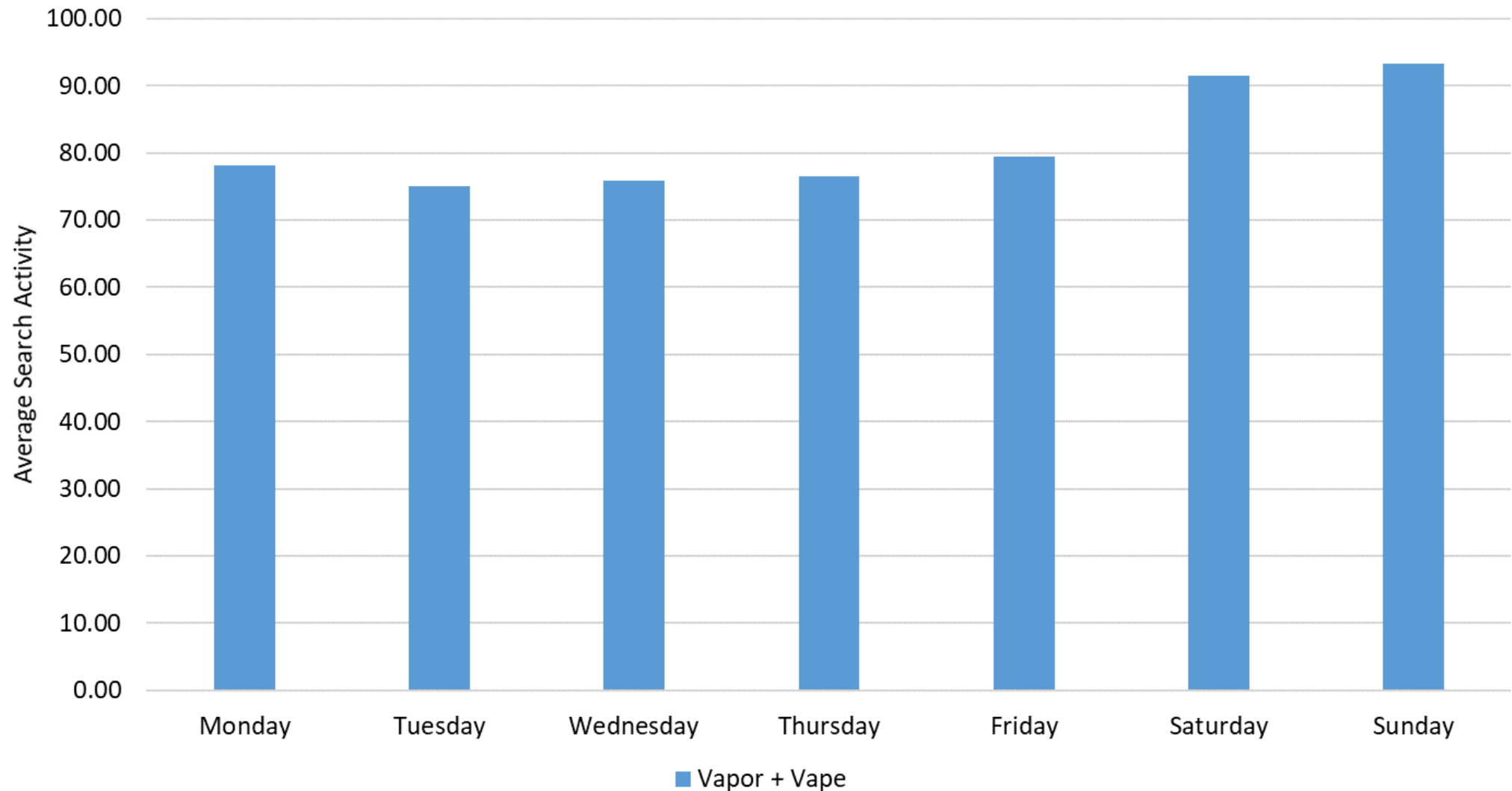
Google Trends of Large & Little/Filtered Cigars



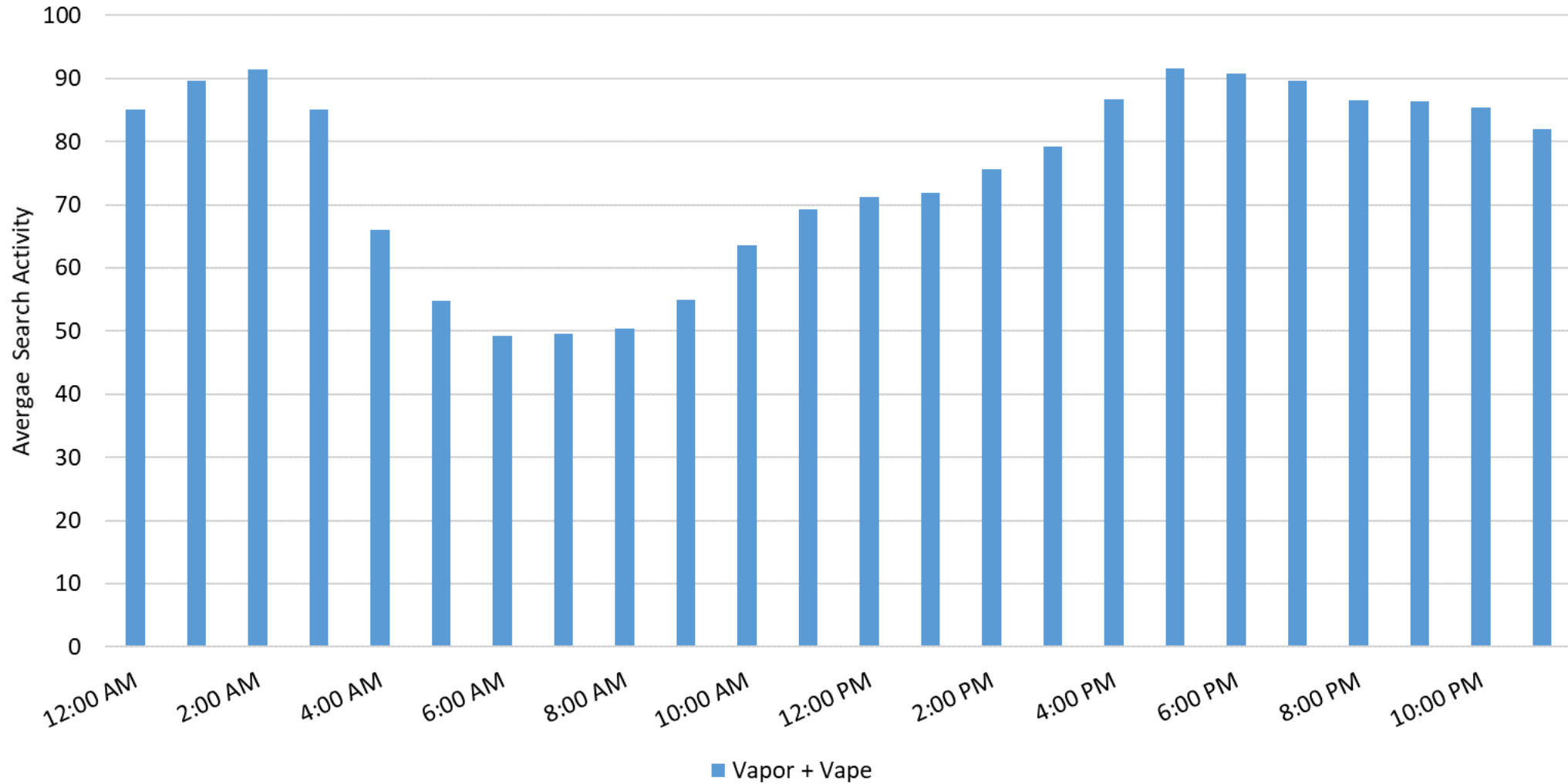
Google Trends of Vapor



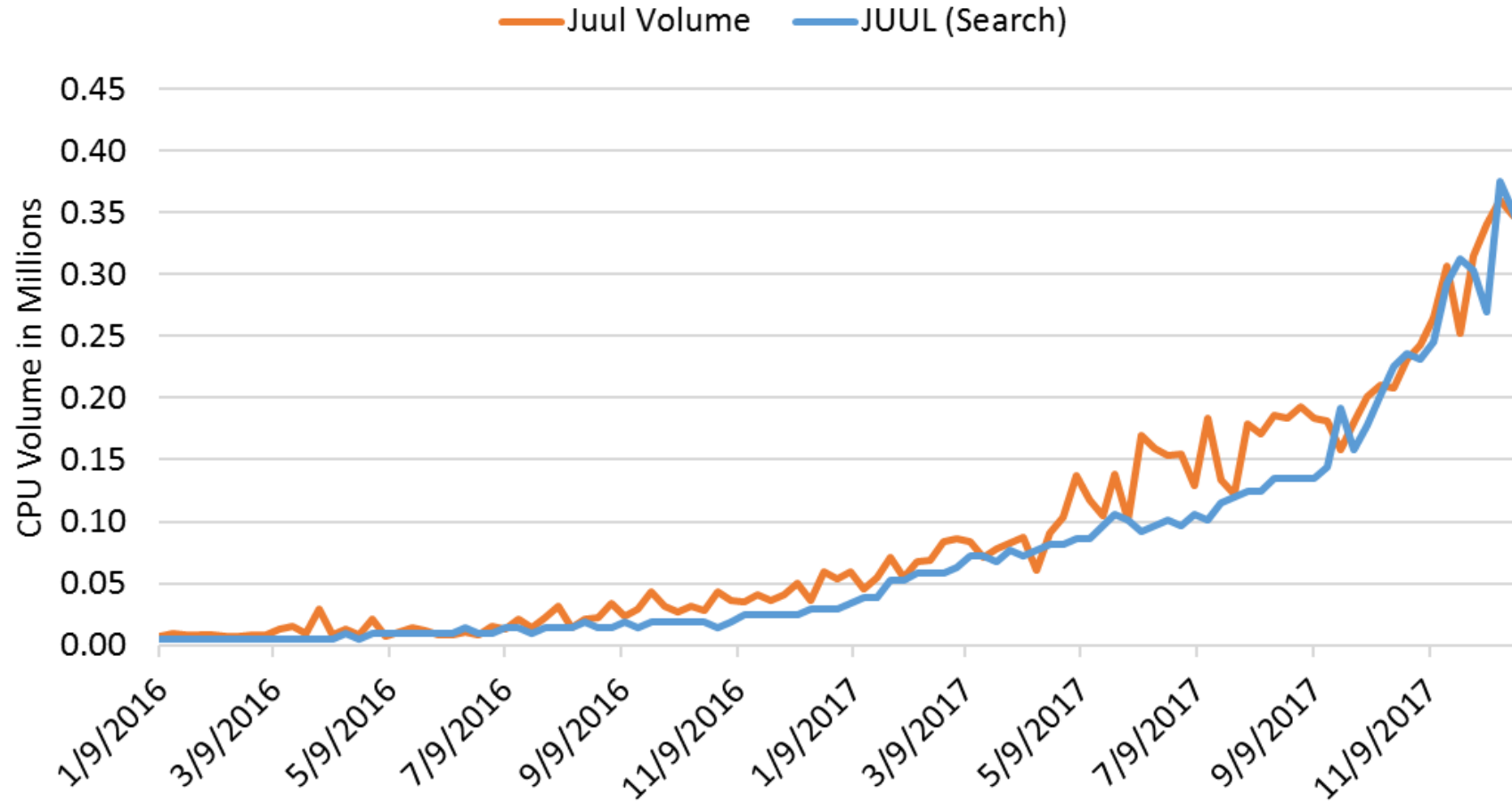
Google Trends of Vapor



Google Trends of Vapor



Google Trends of JUUL





FDA MENTHOL ANNOUNCEMENT

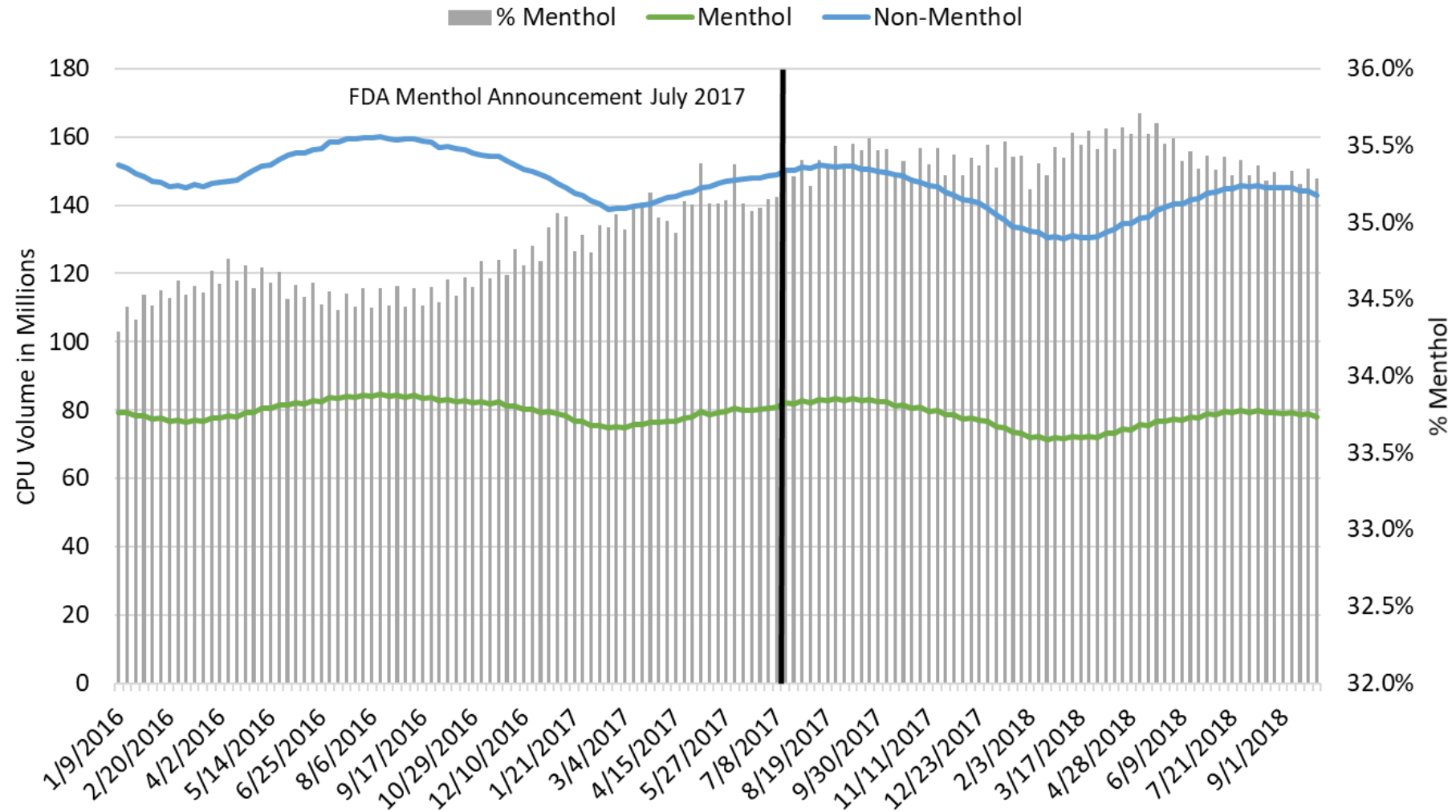
Menthol Cigarette Summary

52 Weeks Ending Q4-2017

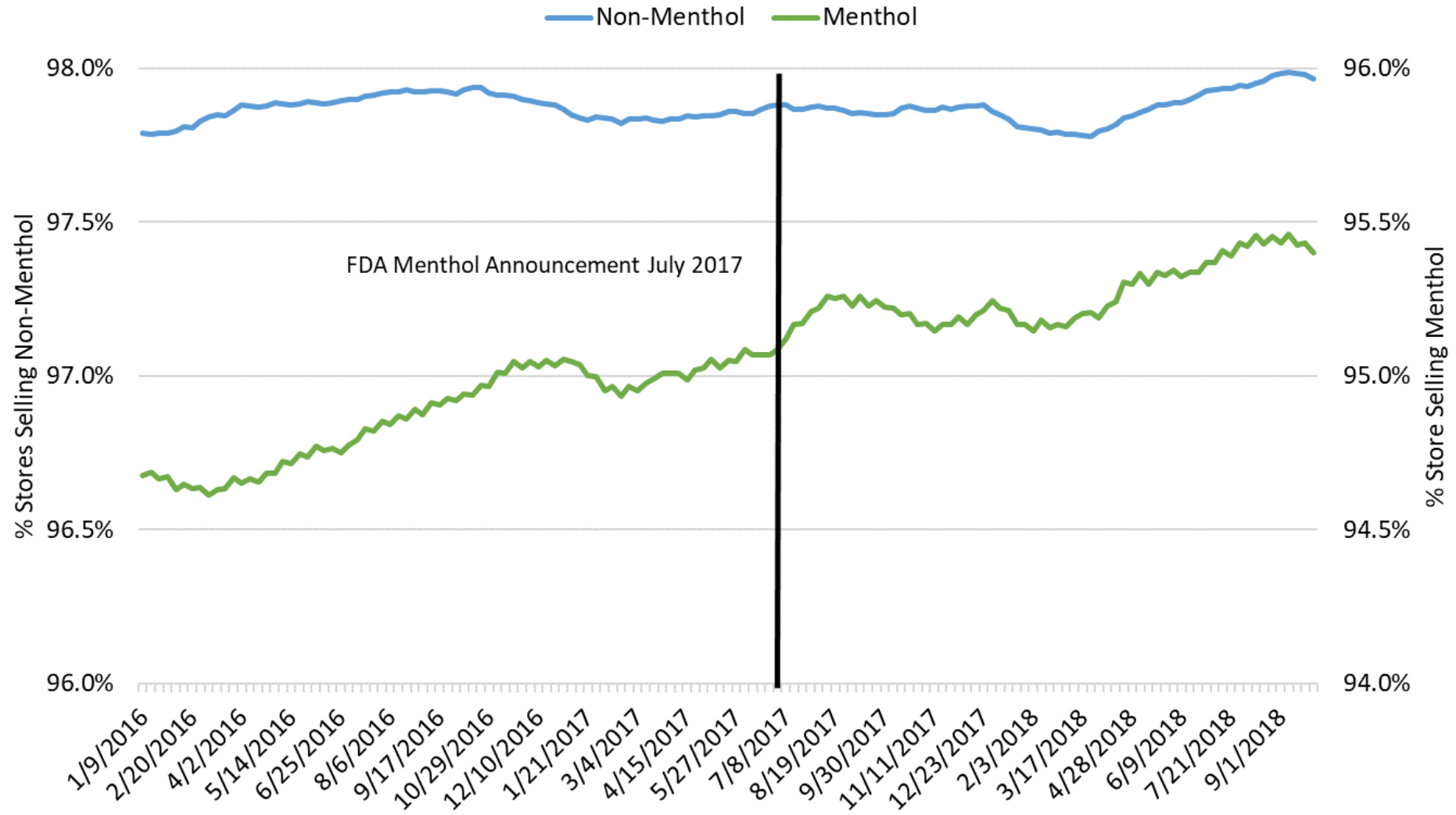
Overall 35% of Cigarette Volume is Menthol

	% Menthol within Trade Channel	% Menthol By Trade Channel
Convenience Gas	36%	74%
Tobacco Outlets	32%	7%
Dollar Stores	33%	2%
Drug Stores	35%	3%
All Other Outlets	34%	13%

Menthol Cigarette Volume



Stores Selling Menthol Cigarettes



Menthol / Non-Menthol Comparison

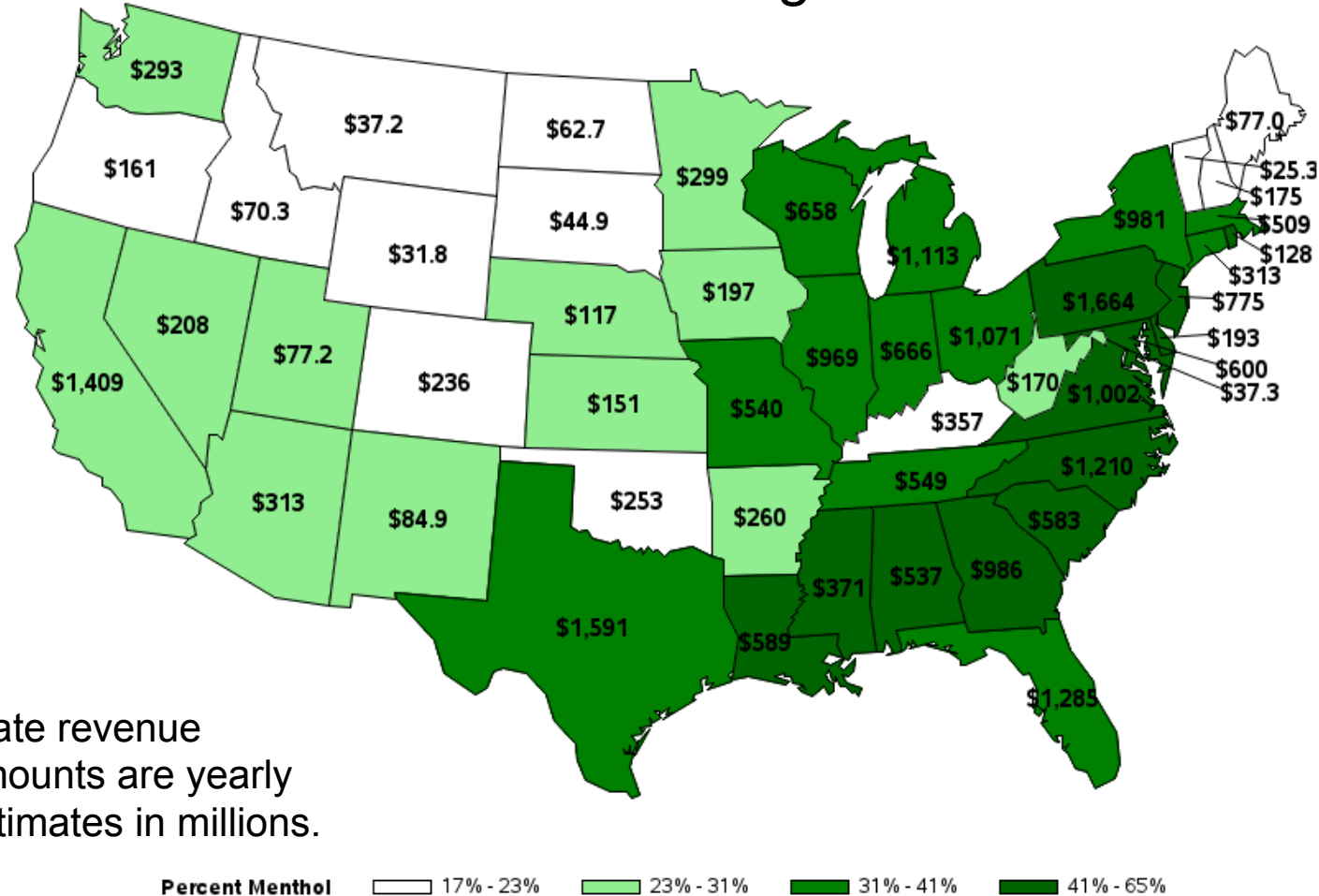
% Change in Volume for 52 Weeks Ending July 2018

FDA Announcement July 2017

	Menthol	Non-Menthol
Overall	-3.1%	-5.7%
Convenience Gas	-2.8%	-5.1%
Tobacco Outlets	-4.0%	-6.2%
Dollar Stores	8.4%	8.6%
Drug Stores	-9.6%	-13.9%
All Other Outlets	-4.3%	-8.5%

State Summary of Menthol Cigarettes

52 Weeks Ending Q3-2018

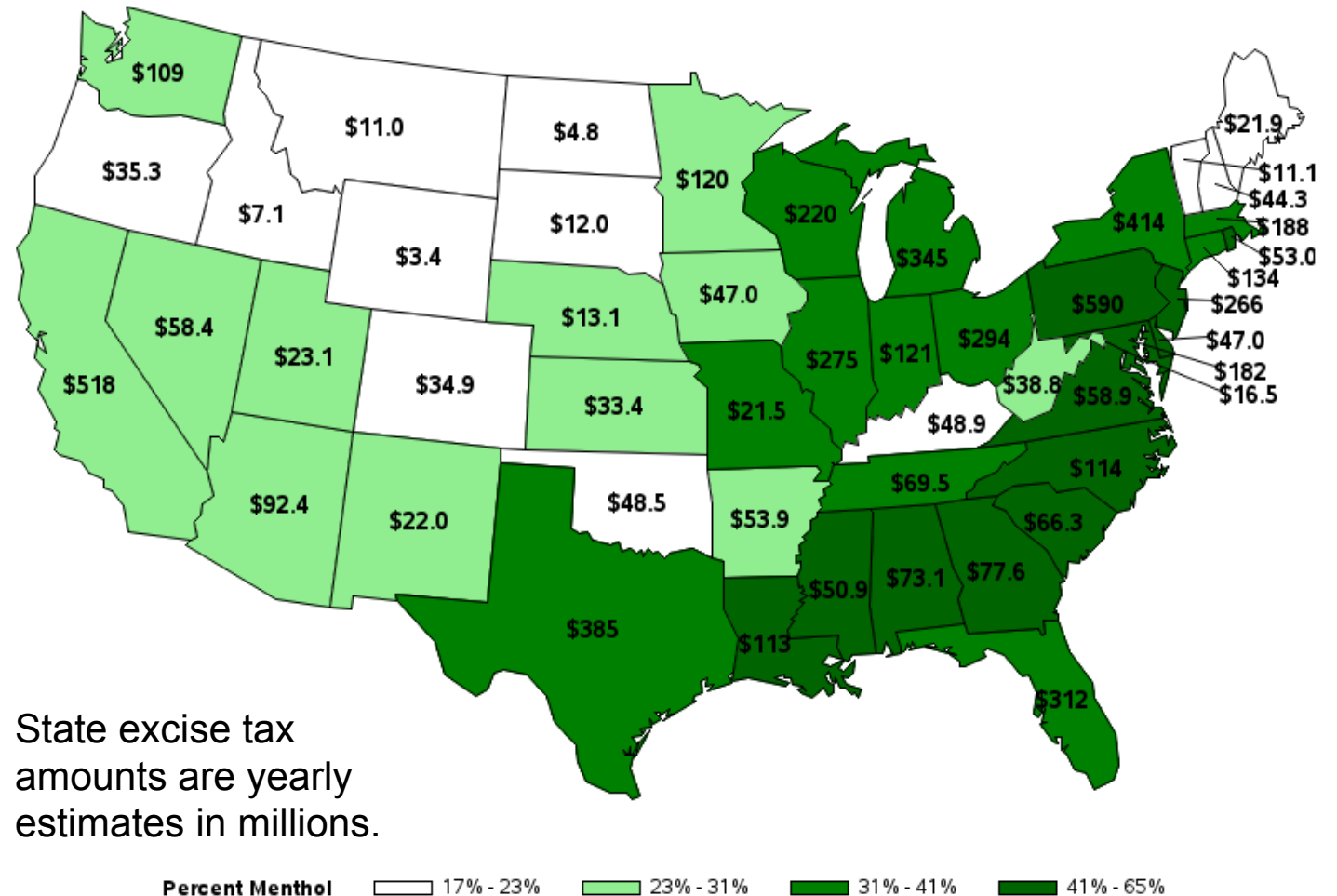


State revenue
amounts are yearly
estimates in millions.

Excise Tax Summary of Menthol Cigarettes

Federal excise tax dollars from menthol cigarettes equals \$4.02 billion per year

Total state excise taxes from menthol equals \$5.9 billion per year





DISTRIBUTOR SUMMARY

Distributor Summary

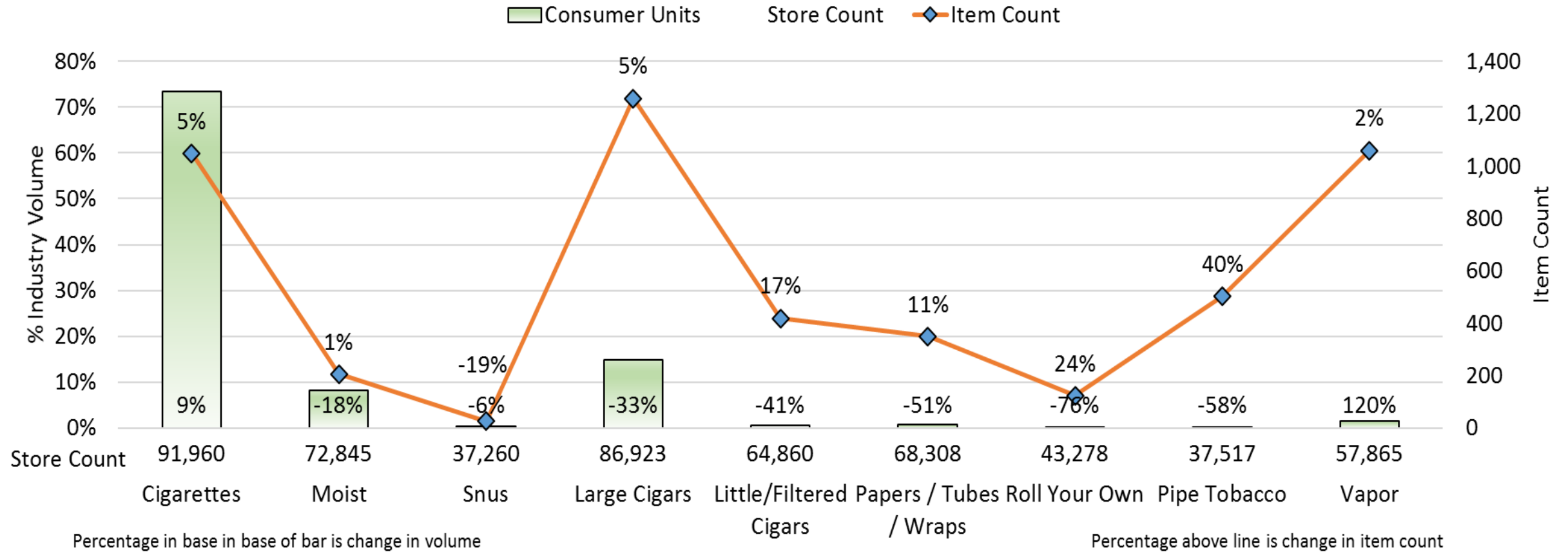
	Distributor Count	Avg. Store Count	Avg. Dist. Volume	Avg. Store Volume	Avg. Item Count	Avg. Category
High Volume	34	2,818	2,314,240	1,145	1,310	7.7
Mid Volume	95	1,023	865,723	994	1,213	7.6
Low Volume	1,536	190	52,041	365	399	4.8

Avg. Distributor & Store Volume is a weekly average.

- ◆ In total 1,665 distributors of Cigarettes, Moist, Snus, Large Cigars, Little/Filtered Cigars, Roll Your Own, Papers/Tubes/Wraps and Vapor were used in the following analysis.
- ◆ Distributors were ranked based on their industry volume.
 - High Volume – Represents the Top 33%
 - Mid Volume – Represents the Middle 33%
 - Low Volume – Represents the Bottom 33%

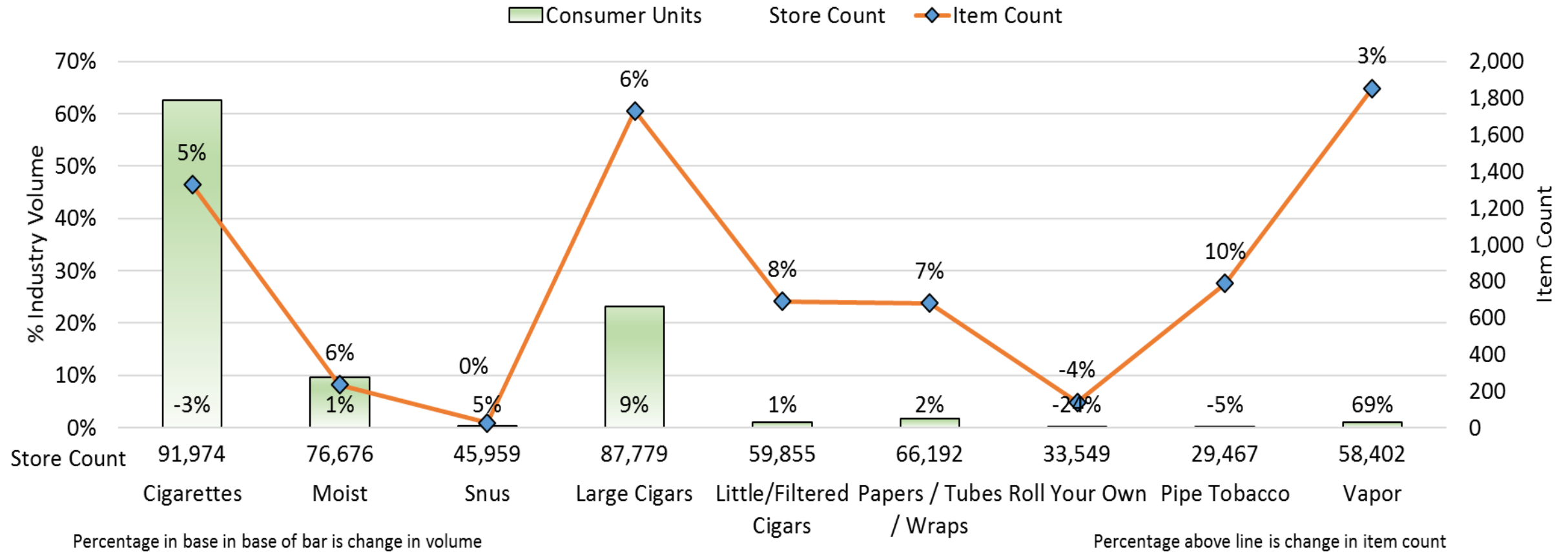
Industry Summary

High Volume Distributors



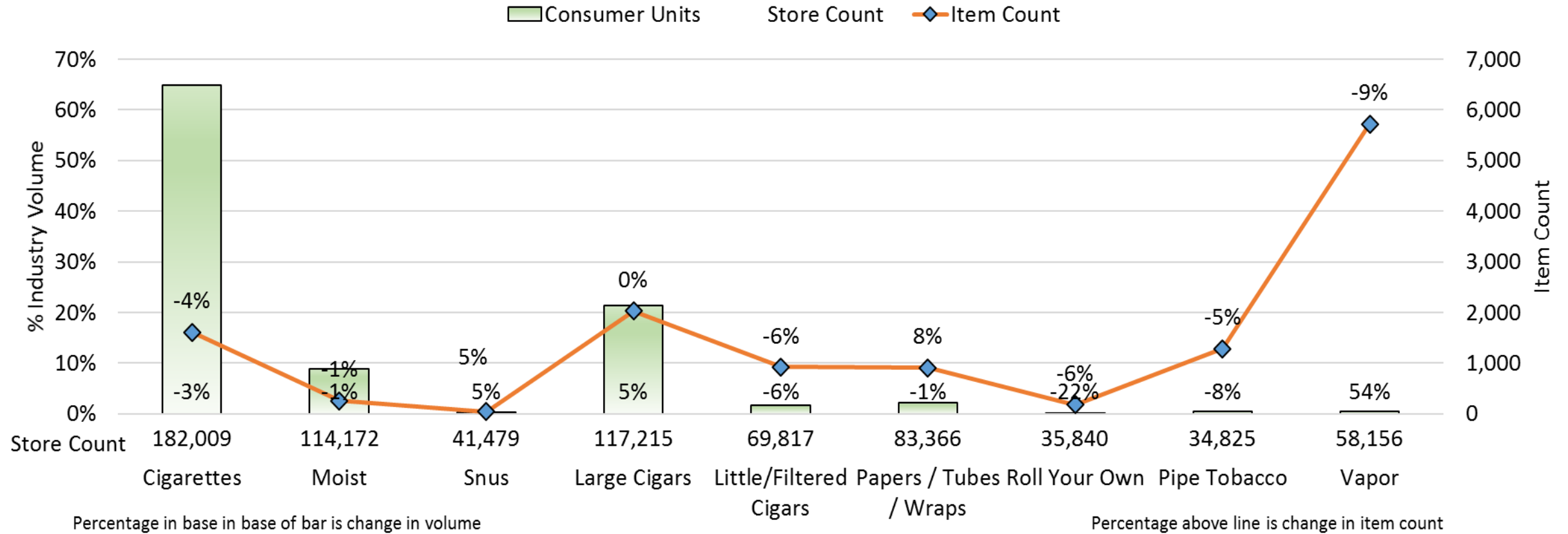
Industry Summary

Mid Volume Distributors



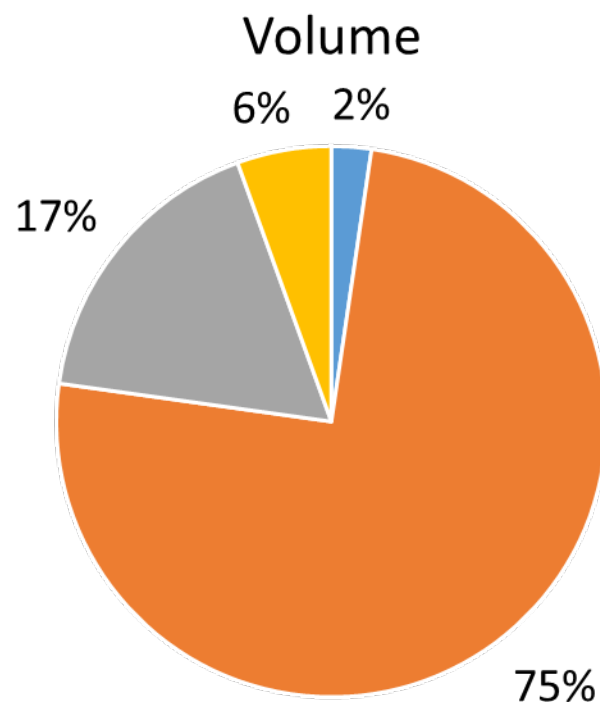
Industry Summary

Low Volume Distributors



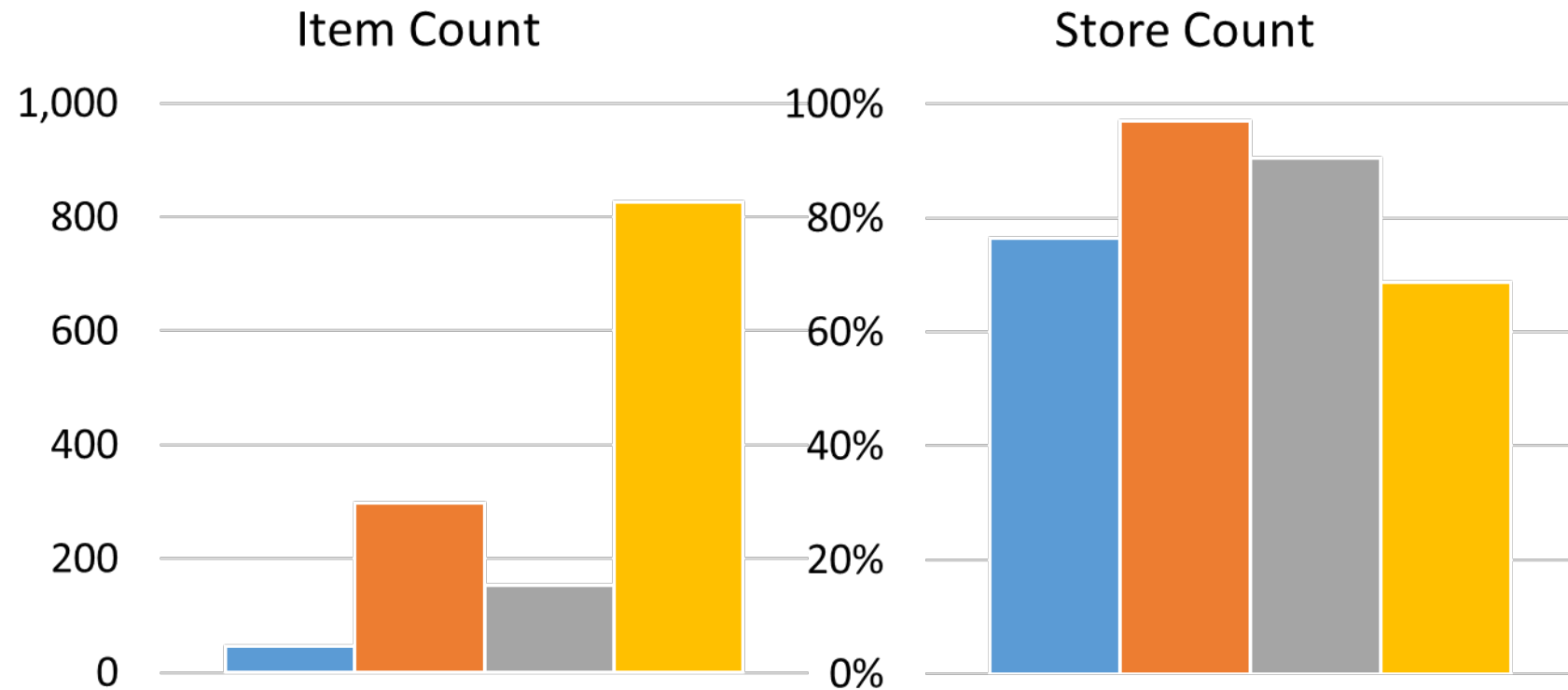
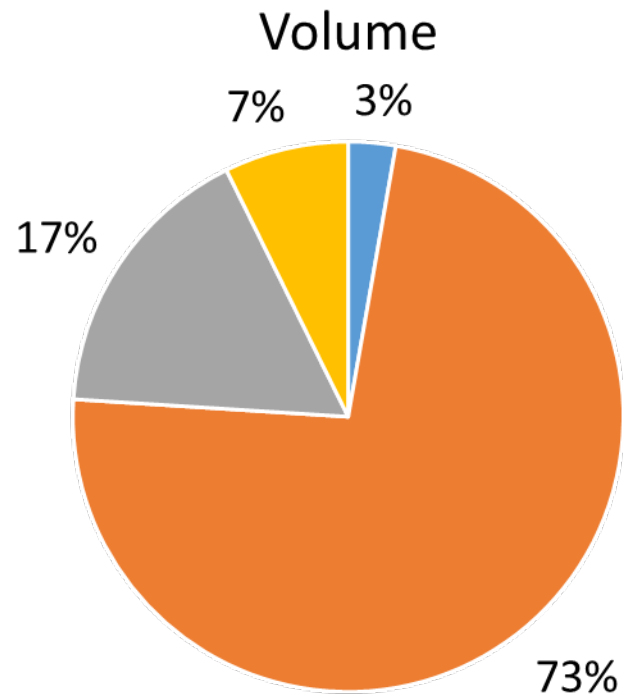
Cigarette Price Category – High Volume

■ Super Premium ■ Premium ■ Discount ■ Deep Discount



Cigarette Price Category – Mid Volume

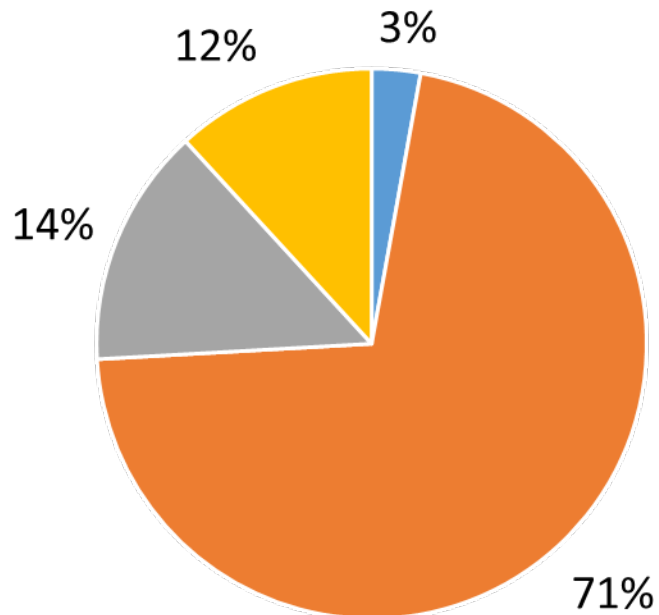
■ Super Premium ■ Premium ■ Discount ■ Deep Discount



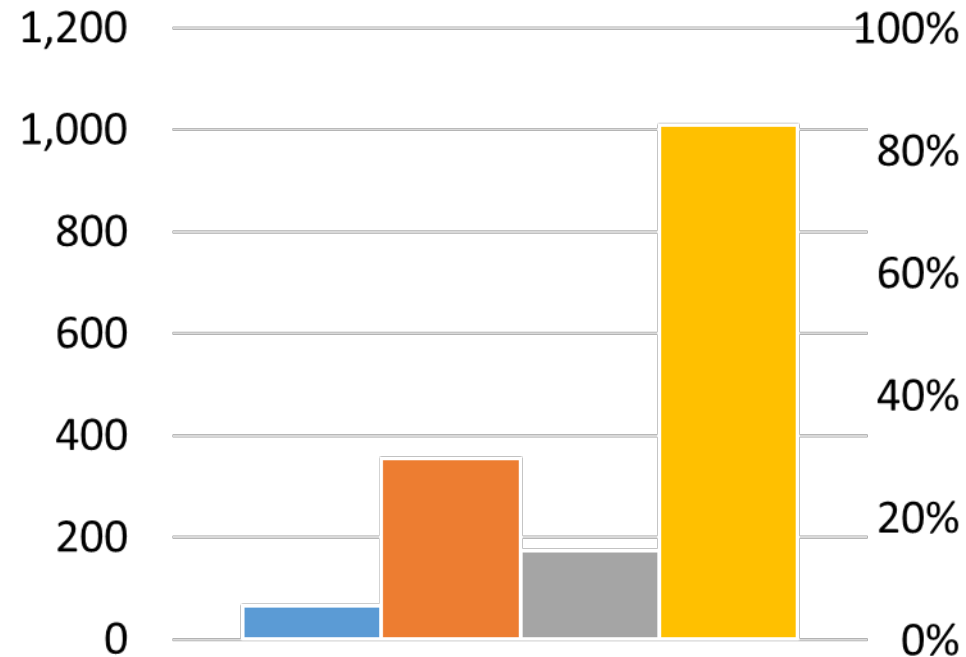
Cigarette Price Category – Low Volume

■ Super Premium ■ Premium ■ Discount ■ Deep Discount

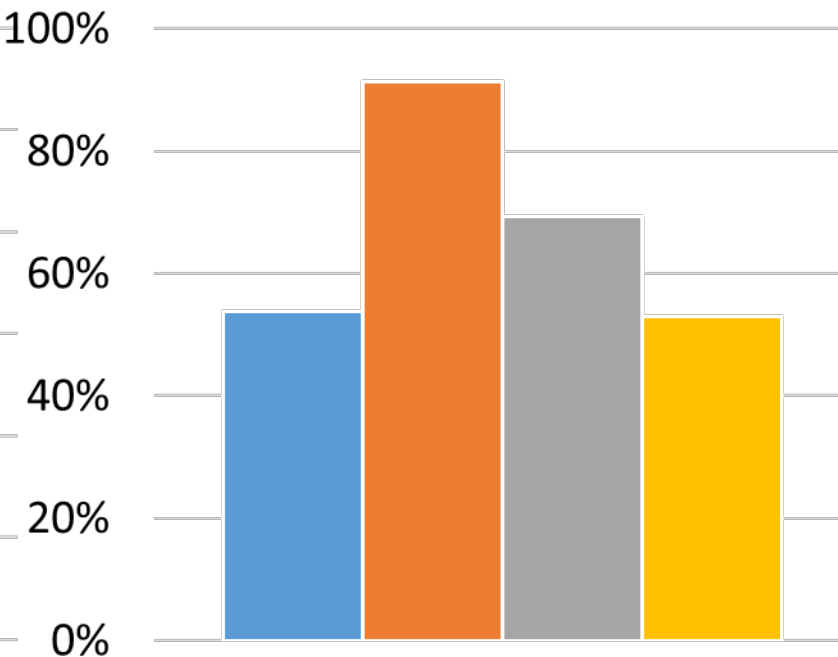
Volume



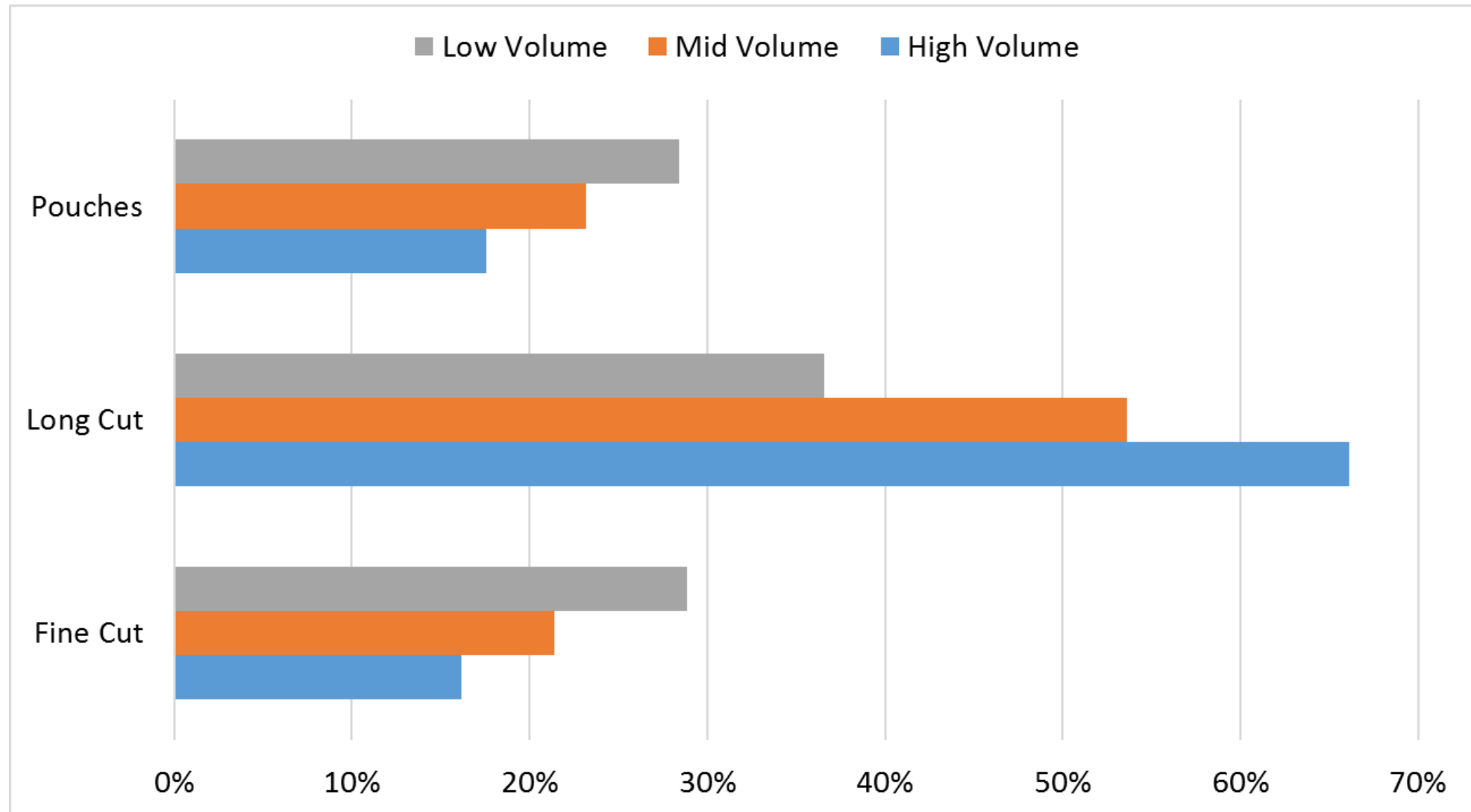
Item Count



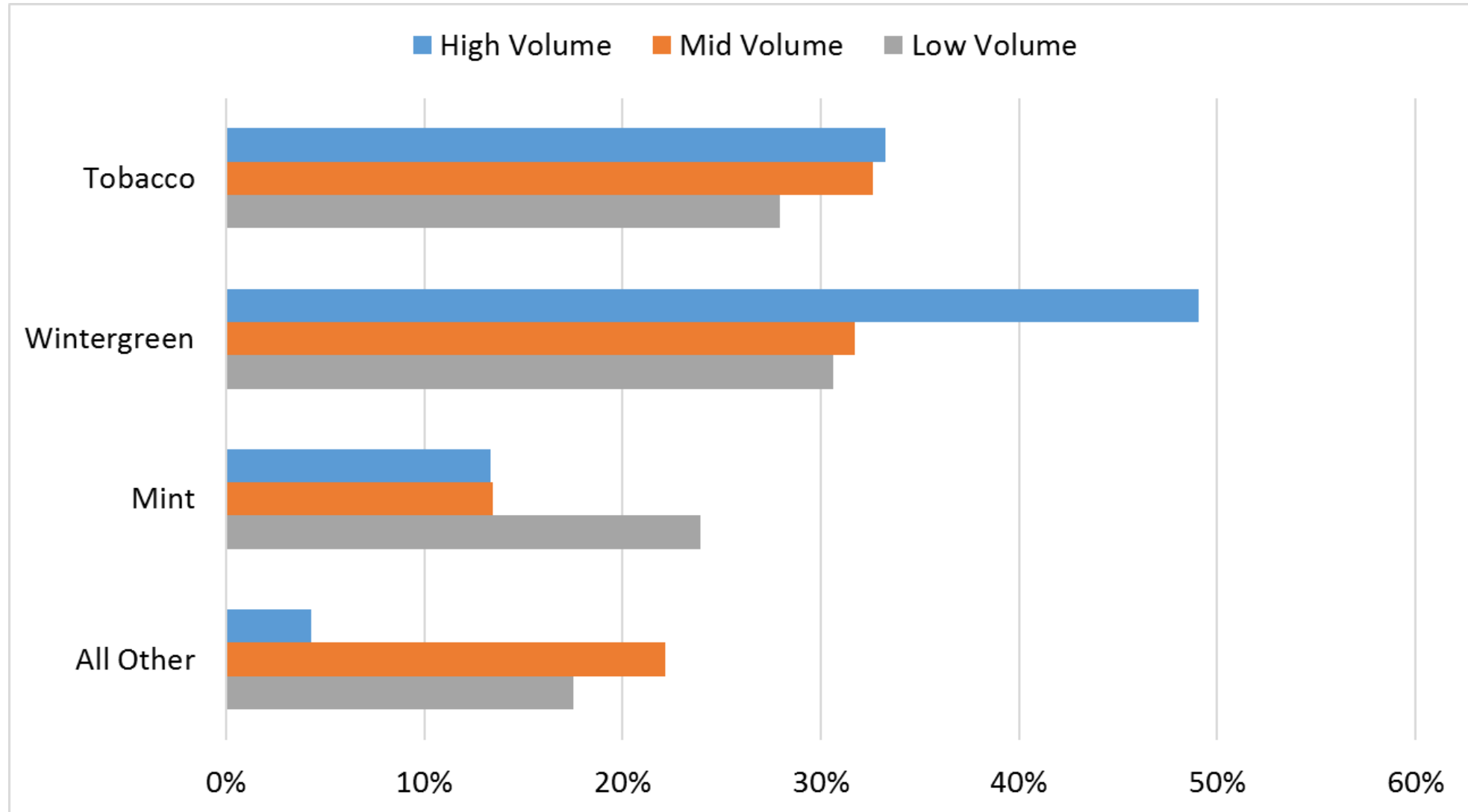
Store Count



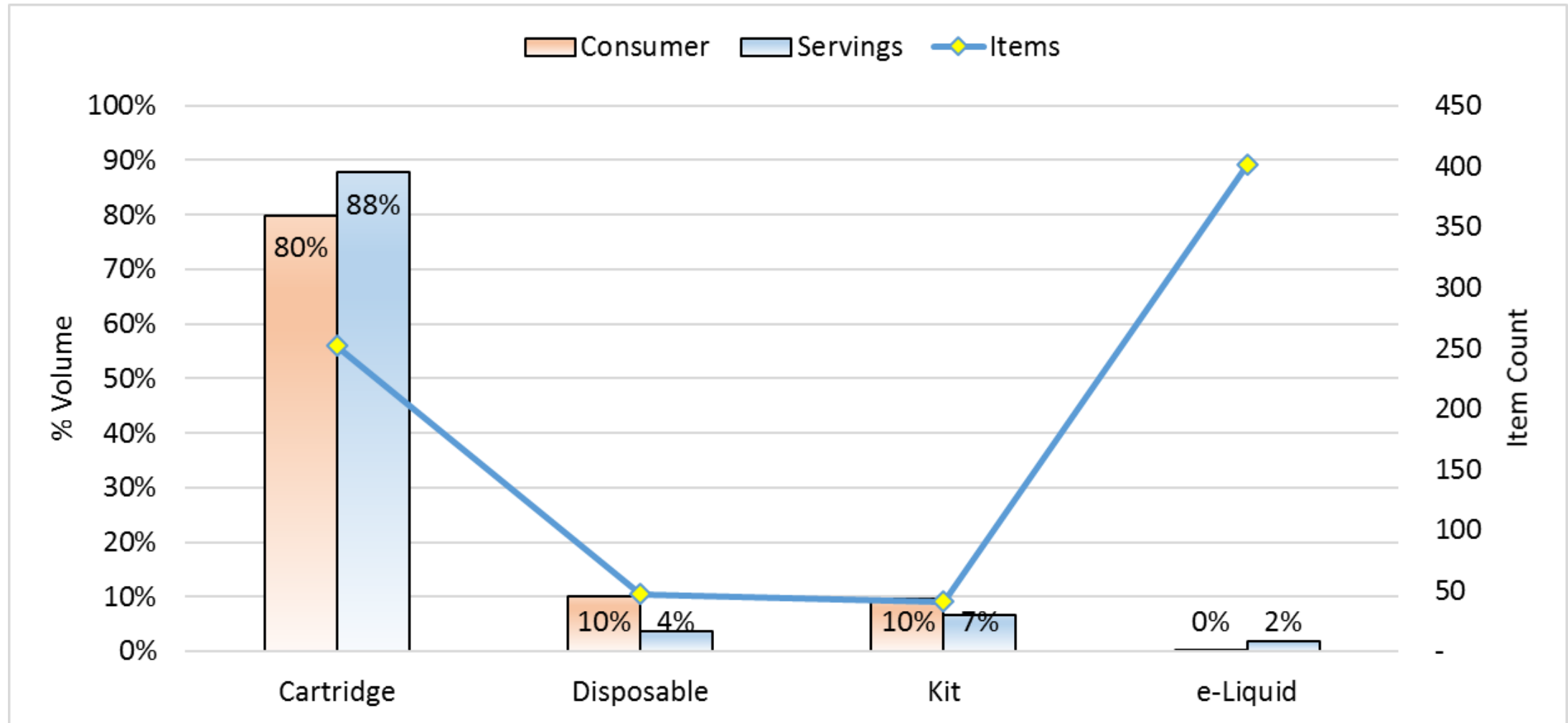
Moist Cut Type by Distributor



Moist Flavor by Distributor

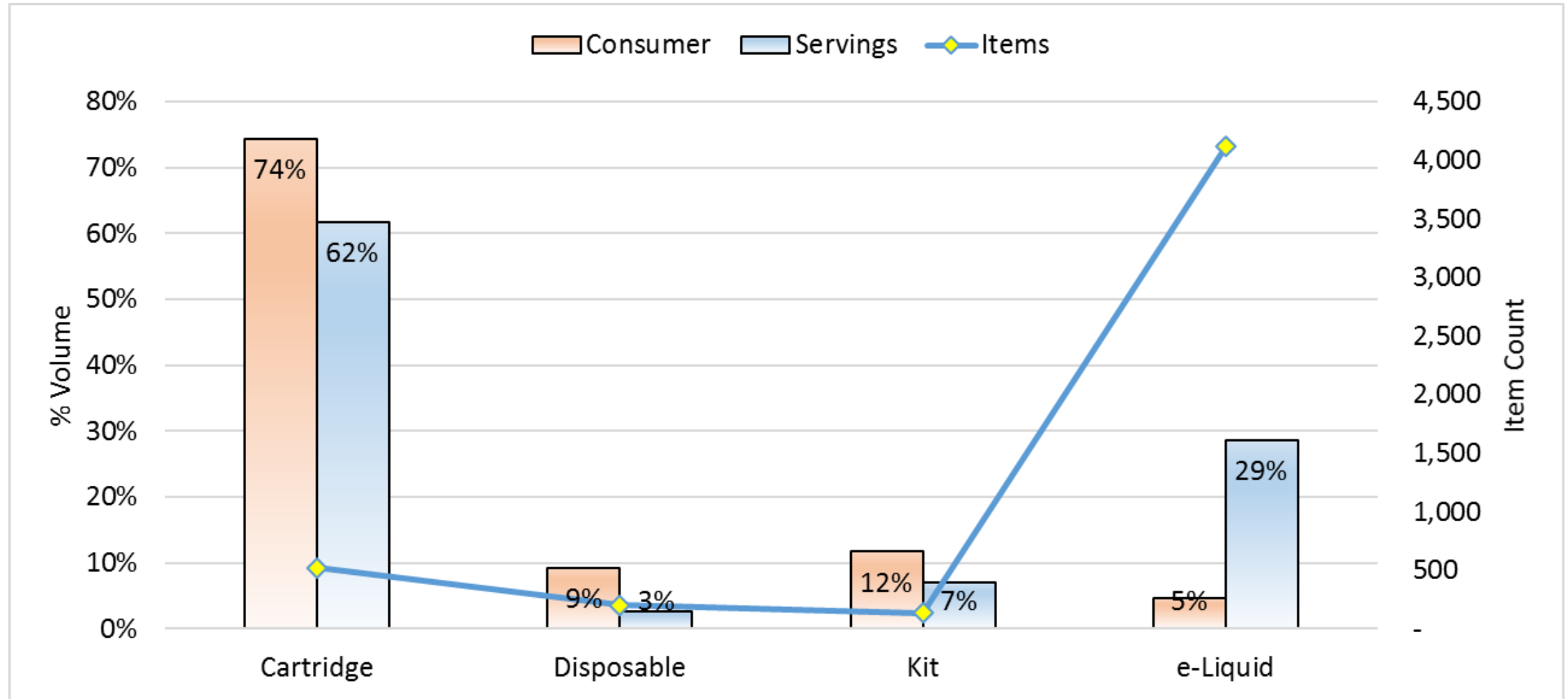


Vapor Sub-Category – High Volume Distributor



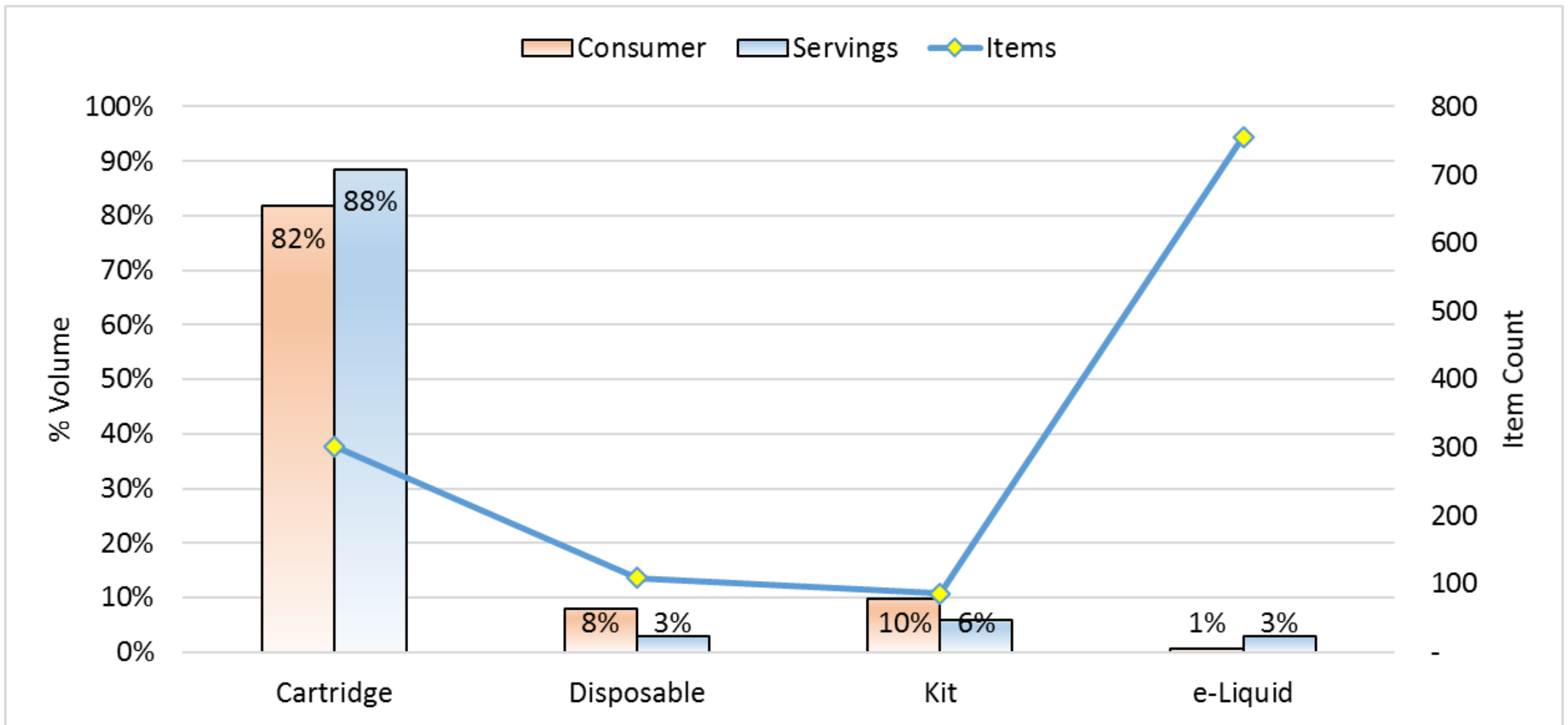
Item count is total items across all distributors

Vapor Sub-Category – Mid Volume Distributor



Item count is total items across all distributors

Vapor Sub-Category – Low Volume Distributor

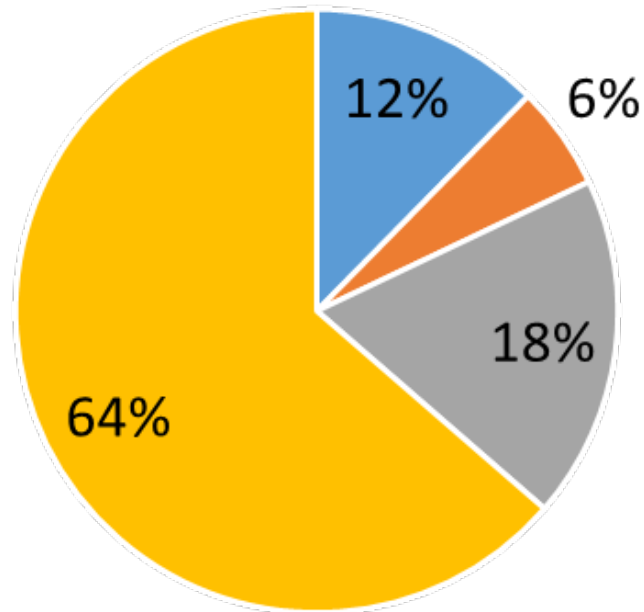


Item count is total items across all distributors

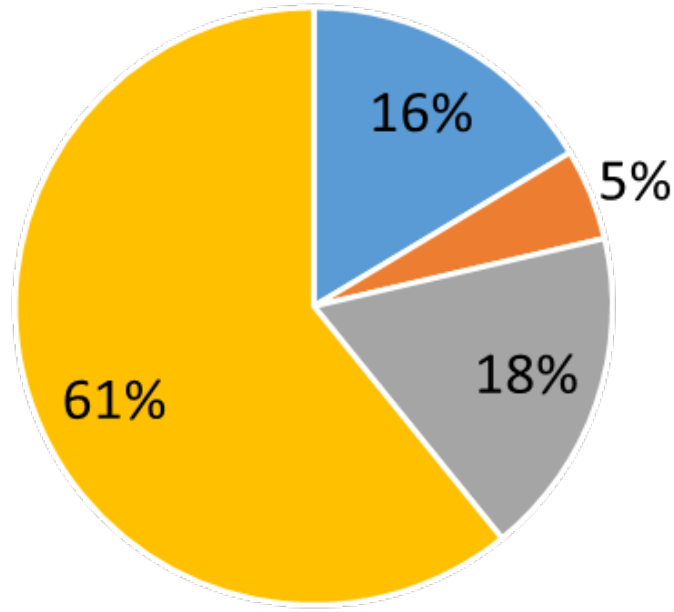
Closed Vapor System Nicotine Strength

■ Low ■ Medium ■ High ■ Extra High

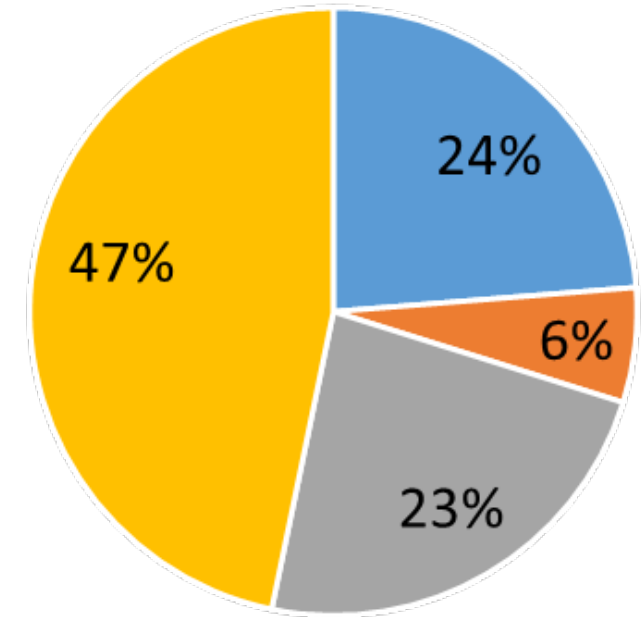
High Volume



Mid Volume

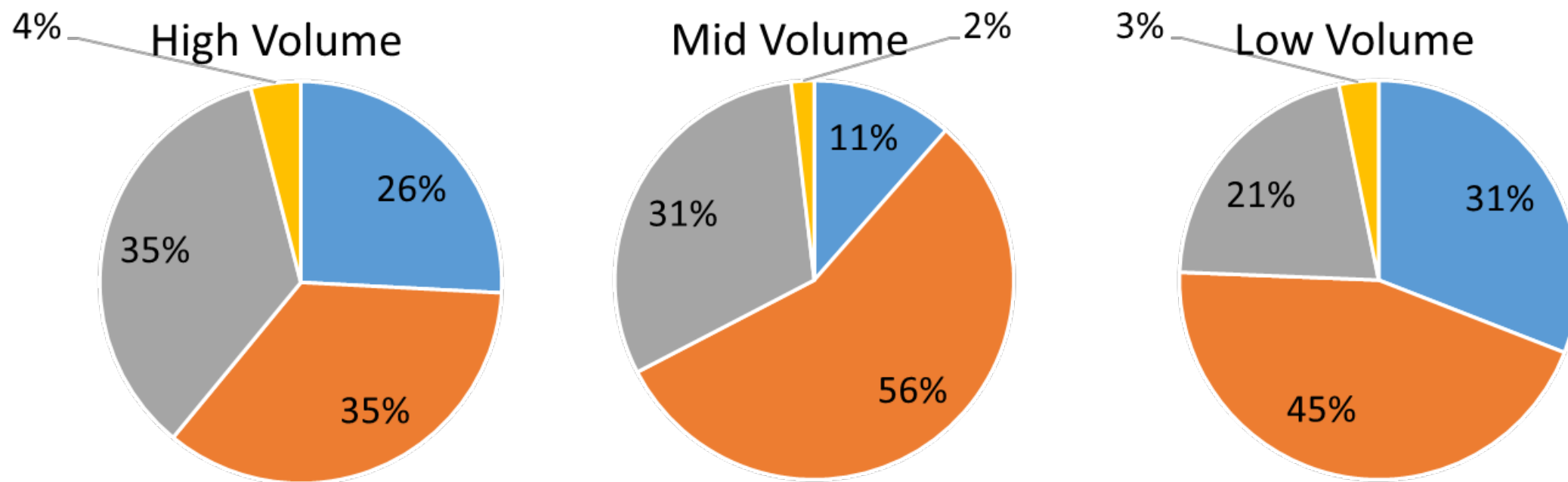


Low Volume



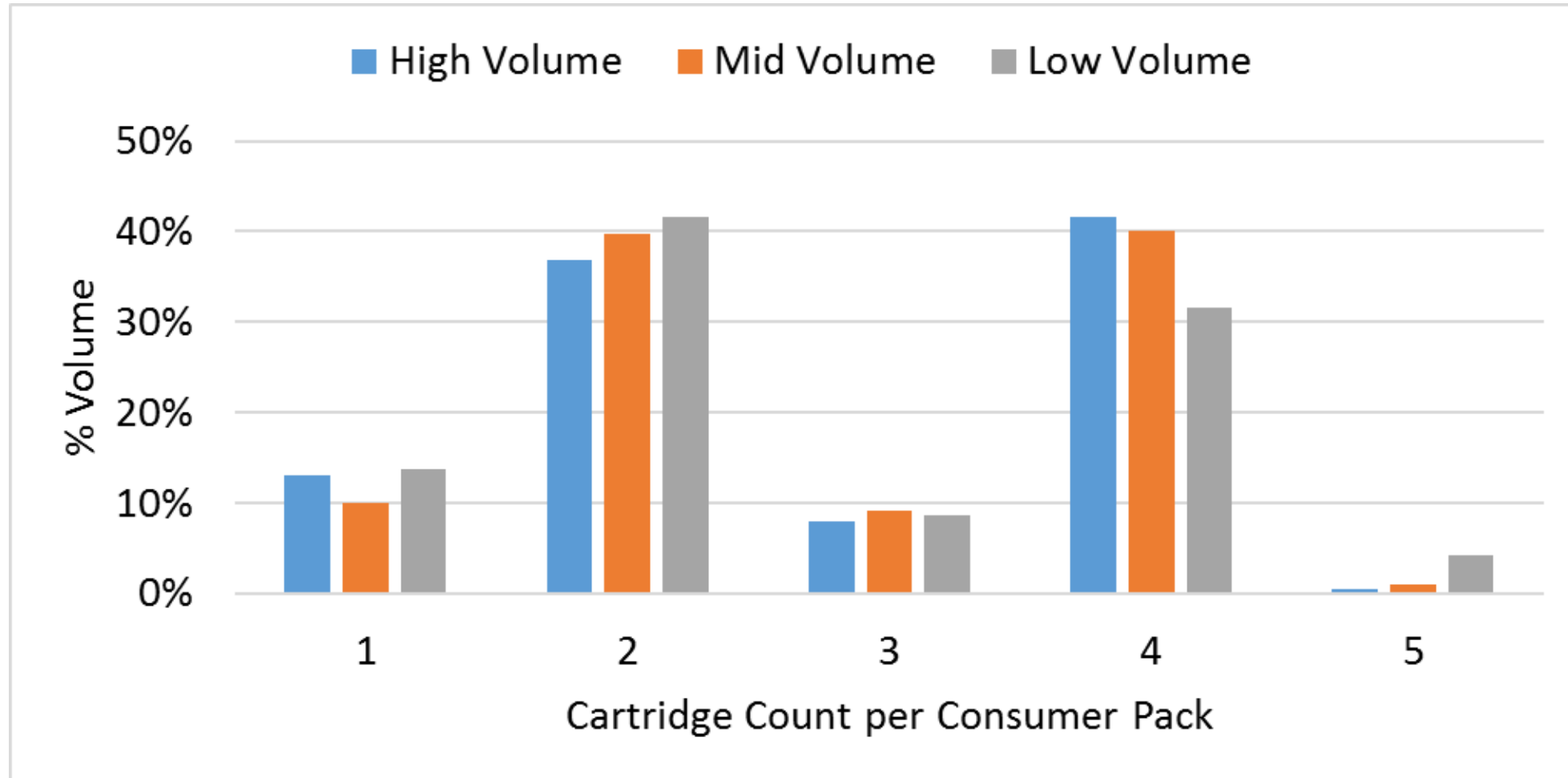
e-Liquid Nicotine Strength

■ Low ■ Medium ■ High ■ Extra High



Closed Vapor System includes Cartridges, Vaporizers & Disposables

Closed Vapor System Cartridge Count



Closed Vapor System includes Cartridges, Vaporizers & Disposables

Top Closed Vapor System Flavors

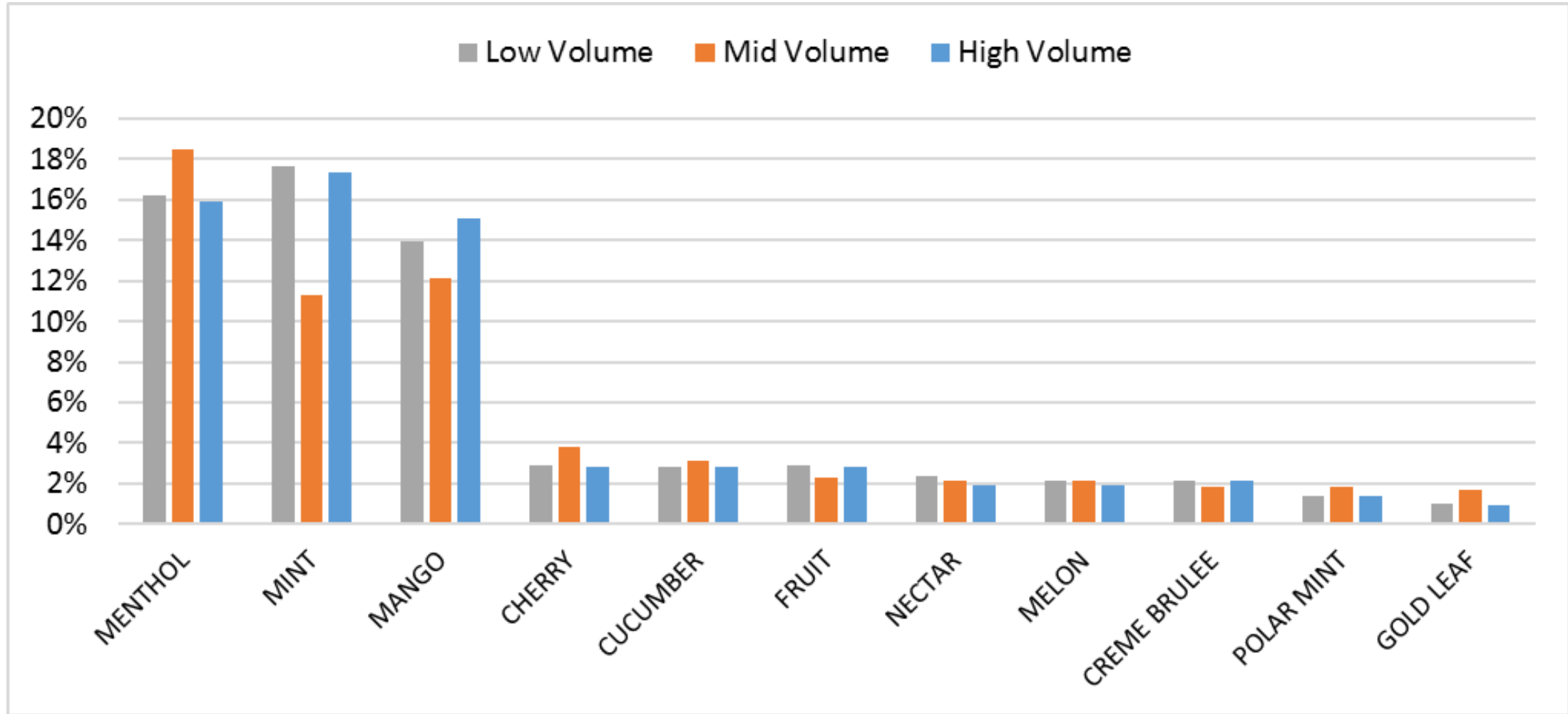


Chart represents 90% volume

Top e-Liquid Flavors

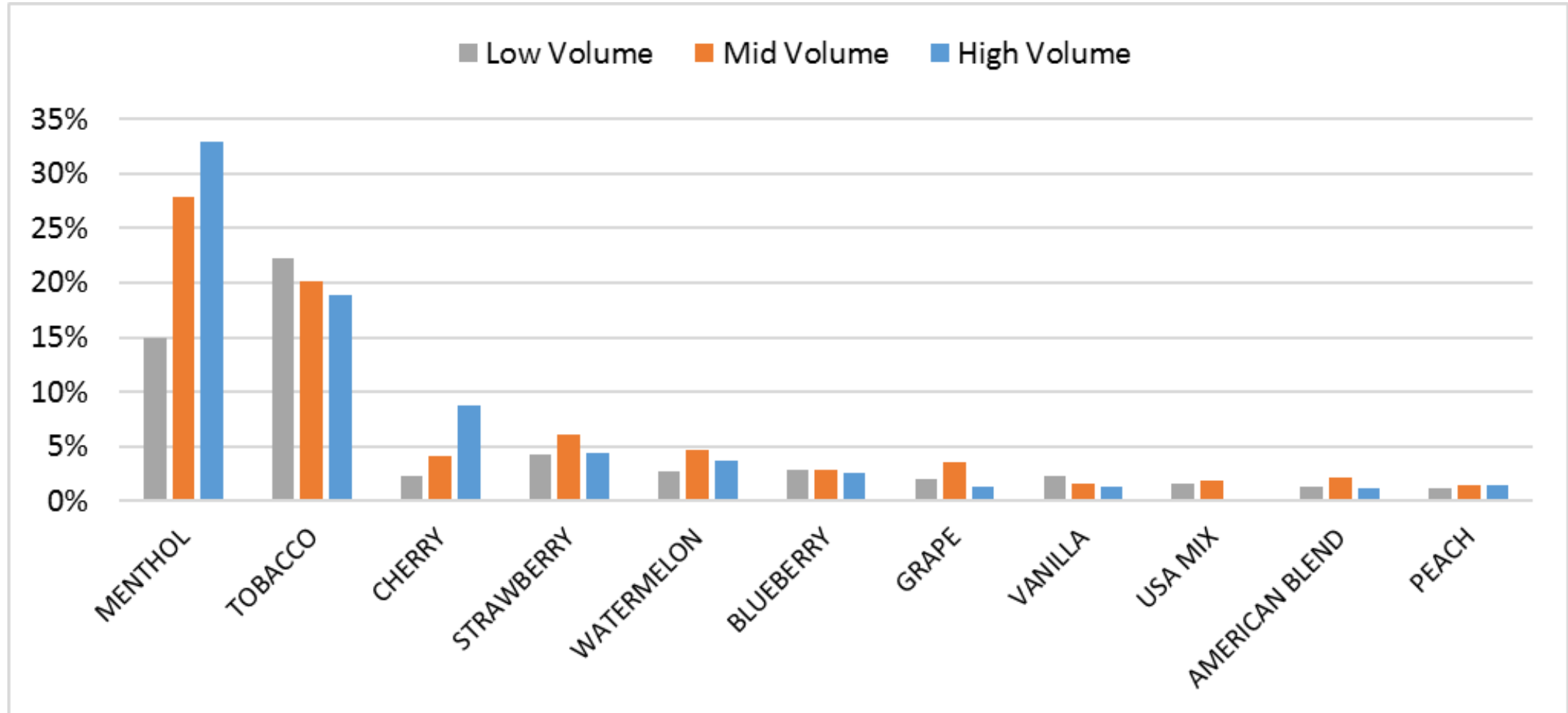


Chart represents 71% volume



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