

Tobacco

UK cigarette retail trends in January

Industry Overview

Industry cigarette sales -1.3% in January

NielsenIQ data indicates that UK cigarette industry retail sales fell -1.3% YoY in January (4-week period ending January 27, 2024) cycling -10% a year ago and followed -0.5% in December. In January, industry volumes were -14.1%, price/mix +14.8%. Sales for Philip Morris International (PM, sales +6.3%) and Japan Tobacco (JT) -1.2% outperformed the category, while sales % for British American Tobacco (BAT) fell -4.3% and Imperial Brands (IMB) sales -2.5%.

Cigarette volumes -14% YoY and softened consecutively

Cigarette category volumes fell -14.1% in January, weakening vs. December (-13.5%) and cycled -15% a yr ago. Inflationary pressures, category switching, increased mobility, and higher prices likely weighed on legal volumes. **JT's** vols -14.5% vs. -13.6% in December and following -16% volume % a year ago. **BAT's** volumes -17.9% vs. the prior period's -17.1% and lapping -15%. **PM's** volumes fell -5.7% vs. December's -3.9% rate and cycled -4% last year. **IMB's** volumes -14.5% in January vs. December's -14.6% and following -15% last yr.

PM won 80bps of share this period

PM gained 80bps of share, while BAT, IMB and JT's share slipped 40bps, 20bps and 20bps respectively. Cigarette industry results were also negatively impacted by user switching to IQOS and/or other vapor/nicotine products which are not included in this data.

Per pack prices averaged £15.61

January price/mix +14.8%, easing 20bps with December's % increase and cycling +6% a year ago. Average per pack (20 stick) price were £15.61, +£1.82 YoY and +£0.09 with December.

We look for legal UK volumes to remain soft

We anticipate that legal UK cigarette volumes will remain soft. 1) A 2023 report from Public Health Wales suggests that Brexit reduced the UK's access to EU databases for identifying criminals and illicit activity across Europe, likely reducing visibility for combating illicit trade. 2) In Apr 2023, the UK Govt announced a plan to provide most UK smokers a free vapor starter kit to help them quit smoking. Along with behavioral support, the UK aims to be smokefree by 2030, reducing incidence to 5% or less.. 3) In Sept 2022 UK press reports suggested that the UK govt is considering stricter anti-smoking measures that would steadily raise the legal smoking age so tobacco would end up never being sold to anyone born on January 1, 2009 or later. While this is just in consideration phase, if implemented, would likely heighten concern investors that this type of restriction could spread to other European countries. 4) In late January, the UK announced plans to ban disposable vapes and restrict the packaging and flavors existing vapes can be sold to stem the growth of youth usage.

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United States
Tobacco

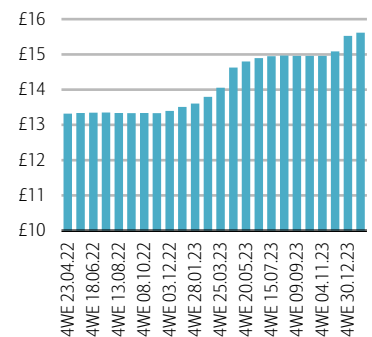
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Exhibit 1: UK industry per pack prices £

Average cigarette prices approached £16



Source: Nielsen IQ. A pack = 20 cigarettes
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YoY= year-over-year
MoM=month-over-month

Exhibit 2: UK cigarette sales trends for the 4, 12 and 52-Wks ending January 27, 2024

Inflation, travel, category shifts and higher per pack prices are likely depressing volumes

| | Retail sales % growth | | | Volume sales % chg | | | Price/mix % chg | | |
|-----------------|-----------------------|--------------|--------------|--------------------|---------------|---------------|-----------------|--------------|--------------|
| | 4W | 12W | 52W | 4W | 12W | 52W | 4W | 12W | 52W |
| Total UK | -1.3% | -1.9% | -4.4% | -14.1% | -14.1% | -14.1% | 14.8% | 14.1% | 11.3% |
| BAT | -4.3% | -3.1% | -6.9% | -17.9% | -16.6% | -16.6% | 16.6% | 16.2% | 11.7% |
| JTI | -1.2% | -1.6% | -5.5% | -14.5% | -14.3% | -15.4% | 15.5% | 14.8% | 11.8% |
| IMB | -2.5% | -3.7% | -4.3% | -14.5% | -15.1% | -14.3% | 14.0% | 13.4% | 11.6% |
| PM | 6.3% | 5.3% | 4.1% | -5.7% | -5.3% | -2.8% | 12.7% | 11.3% | 7.1% |

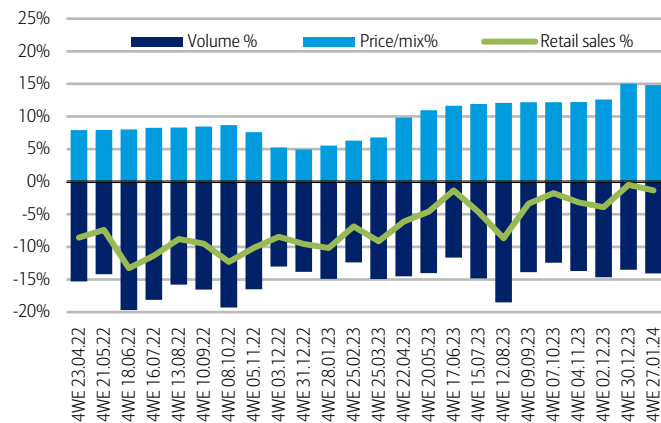
| | Volume shr | | | Volume shr chg | | | Average price | | |
|-----------------|---------------|---------------|---------------|----------------|-------|-------|---------------|---------------|---------------|
| | 4W | 12W | 52W | 4W | 12W | 52W | 4W | 12W | 52W |
| Total UK | 100.0% | 100.0% | 100.0% | | | | £15.61 | £15.40 | £14.84 |
| BAT | 7.7% | 7.8% | 8.0% | -0.4% | -0.2% | -0.2% | £15.00 | £14.78 | £14.01 |
| JTI | 43.3% | 43.5% | 43.2% | -0.2% | -0.1% | -0.7% | £16.02 | £15.73 | £15.18 |
| IMB | 40.3% | 40.0% | 40.1% | -0.2% | -0.5% | -0.1% | £15.23 | £15.09 | £14.56 |
| PM | 8.6% | 8.6% | 8.6% | 0.8% | 0.8% | 1.0% | £15.91 | £15.79 | £15.26 |

Source: NielsenIQ

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Exhibit 3: UK cigarette industry retail sales trends %

Volume and price/mix drivers – price/mix more of a factor this month

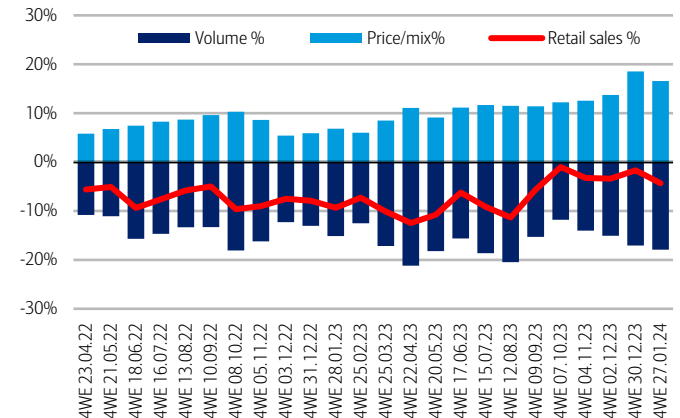


Source: NielsenIQ

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Exhibit 4: BAT retail sales trends %

Volume and px/mix drivers – BAT's volume decline accelerated this month

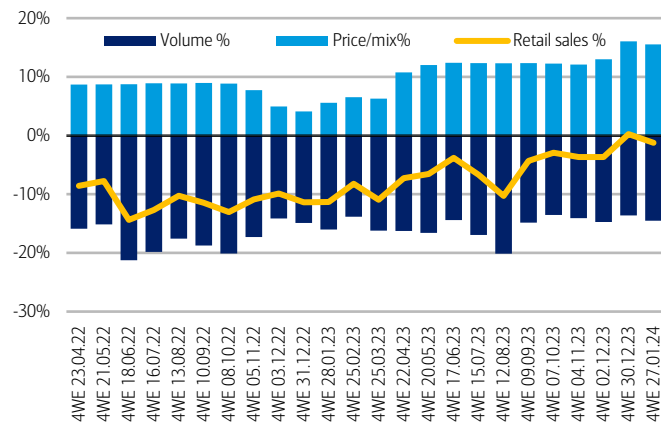


Source: NielsenIQ

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Exhibit 5: JTI retail sales trends %

Volume and price/mix drivers – price mix growth % slowed MoM

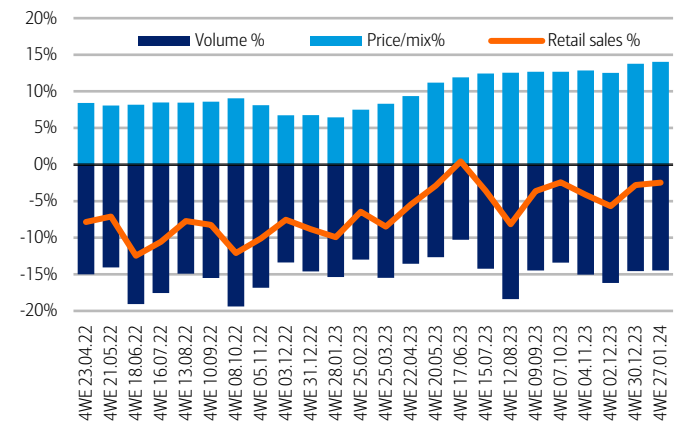


Source: NielsenIQ

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Exhibit 6: IMB retail sales trends %

Volume and price/mix drivers – sales dropped 2.5% this month

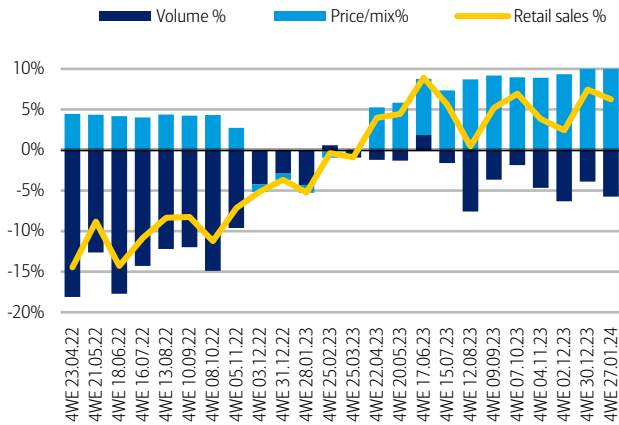


Source: NielsenIQ

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Exhibit 7: PM retail sales %

Volume and price/mix drivers- PM's combustibles outperformed despite consumers shifting to Heat-not-burn products and vapor

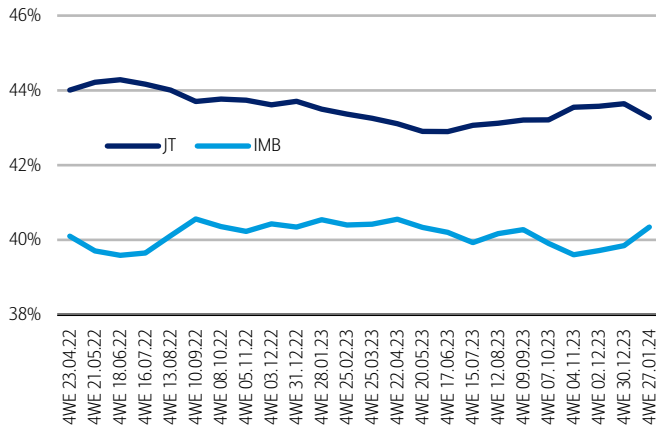


Source: NielsenIQ

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Exhibit 9: Volume share % for JT and IMB

JT lead gap narrowed to 2.9pts in January

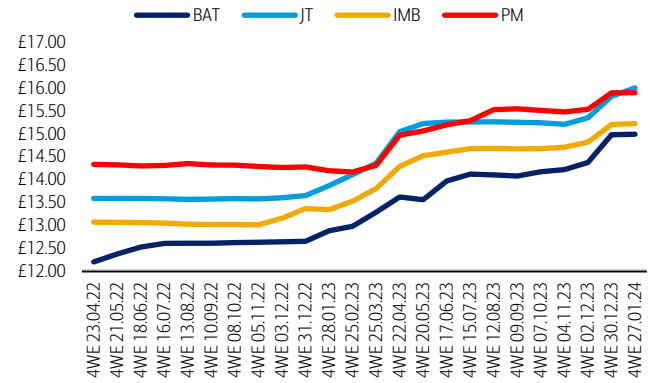


Source: NielsenIQ

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Exhibit 8: Per pack prices

YoY, PM's prices + £1.74 YoY, vs. the overall category's £1.82 increase

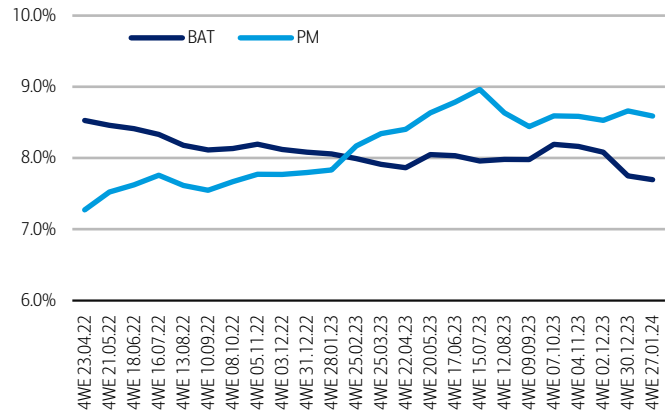


Source: NielsenIQ

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Exhibit 10: Volume share trends % for BAT and PM

PM's share slipped 10bps MoM



Source: NielsenIQ

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