

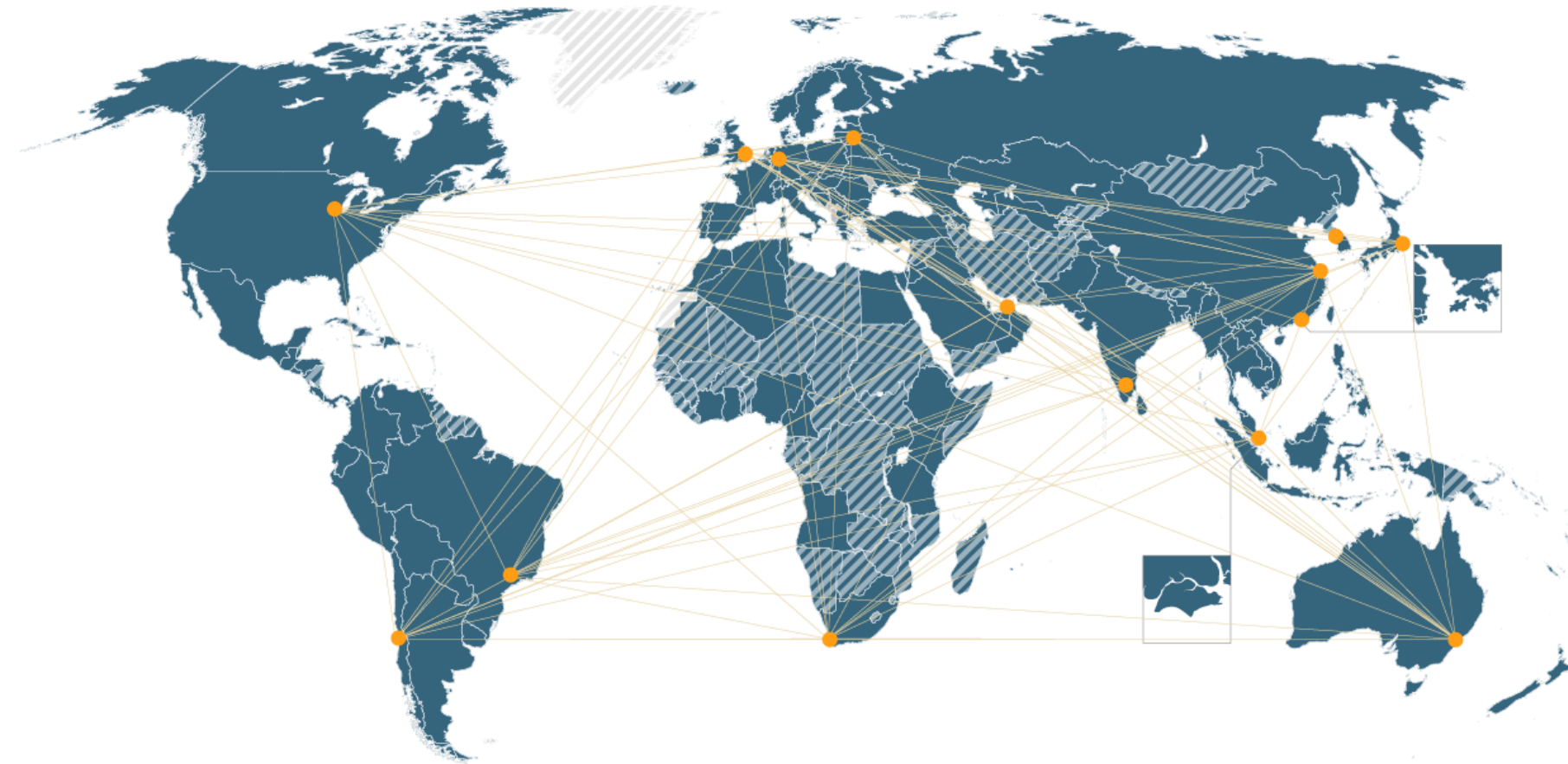


**ITGA
ANNUAL
GENERAL
MEETING**
26th to 29th October 2022
Castelo Branco, Portugal

ITGA
International Tobacco Growers' Association

Global Nicotine Market Overview

Euromonitor International



● 15 OFFICE LOCATIONS
London, Chicago, Singapore, Shanghai, Vilnius, Santiago, Dubai, Cape Town, Tokyo, Sydney, Bangalore, São Paulo, Hong Kong, Seoul and Düsseldorf

■ 100 COUNTRIES
in-depth analysis on consumer goods and service industries

■ + ▨ 210 COUNTRIES AND TERRITORIES
demographic, macro- and socio-economic data on consumers and economies



Shane MacGuill – Head of Nicotine and Cannabis Research

OVERVIEW

Context and Key Findings

Company and Category Focus

Nicotine Consumer Trends

Sustainability in Tobacco

Key Trends in Cannabis

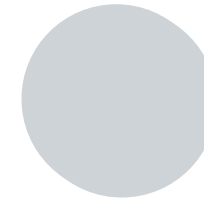


Key drivers in global tobacco

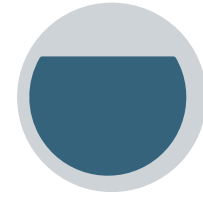
Regulation tops the list of major factors influencing markets

COVID-19 disruption creates threats and opportunities

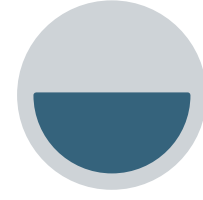
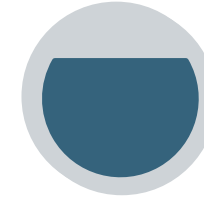
Historic
significance



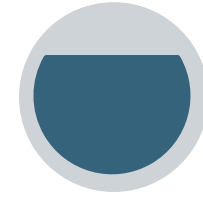
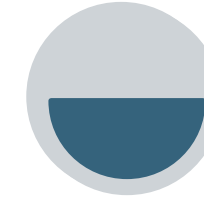
Forecast
significance



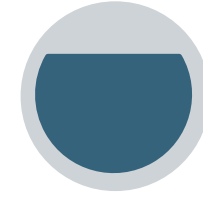
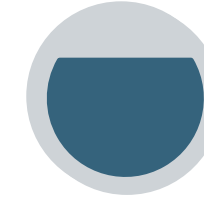
Significant prevalence and visibility declines



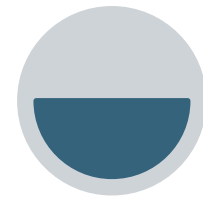
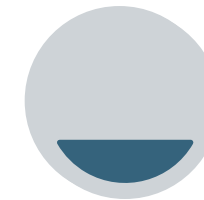
Broadening of the nicotine universe



Regulatory innovation (including sustainability)



Beyond nicotine, discovering the new core



2021 tobacco market in figures

Pandemic effect sends cigarettes to best performance in years



2,793 bn = cigarettes (ex. CN)
(3,063 bn stick equivalent)



-0.2% = decline in '21 v '20
cigarettes (+0.8% stick
equivalent)



\$518bn = cigarettes (ex. CN)
(\$577bn stick equivalent)



+0.3% = value growth in
cigarettes (+1.8% stick
equivalent)



12.6% = illicit penetration of
total sales (excl. China)



US\$2.94 = average pack price
(US\$3.63 excl. China)



18.2% = proportion of adults in
the world smoke

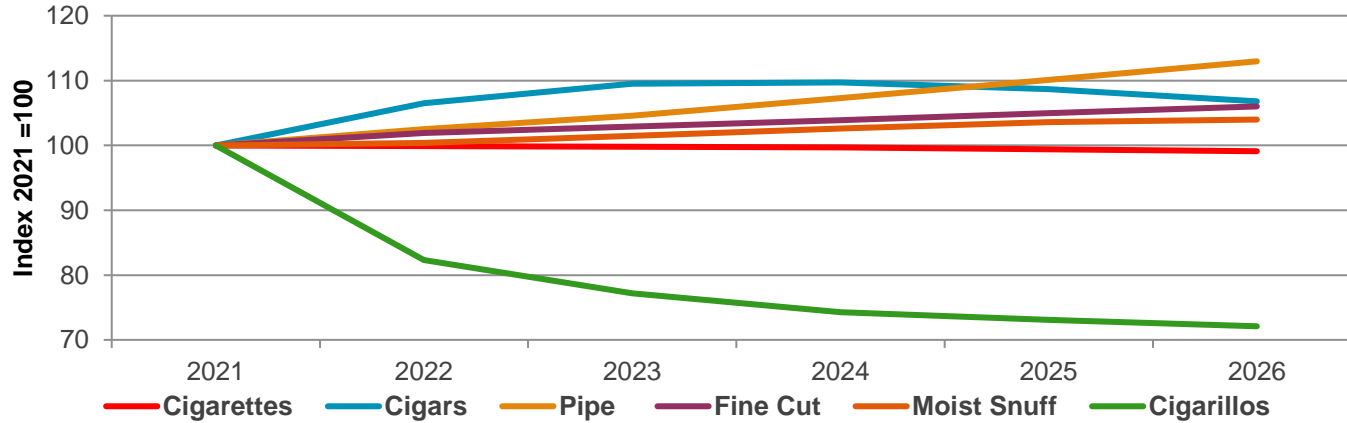


83% = cigarettes as share of
total value sales (80% excl
China)

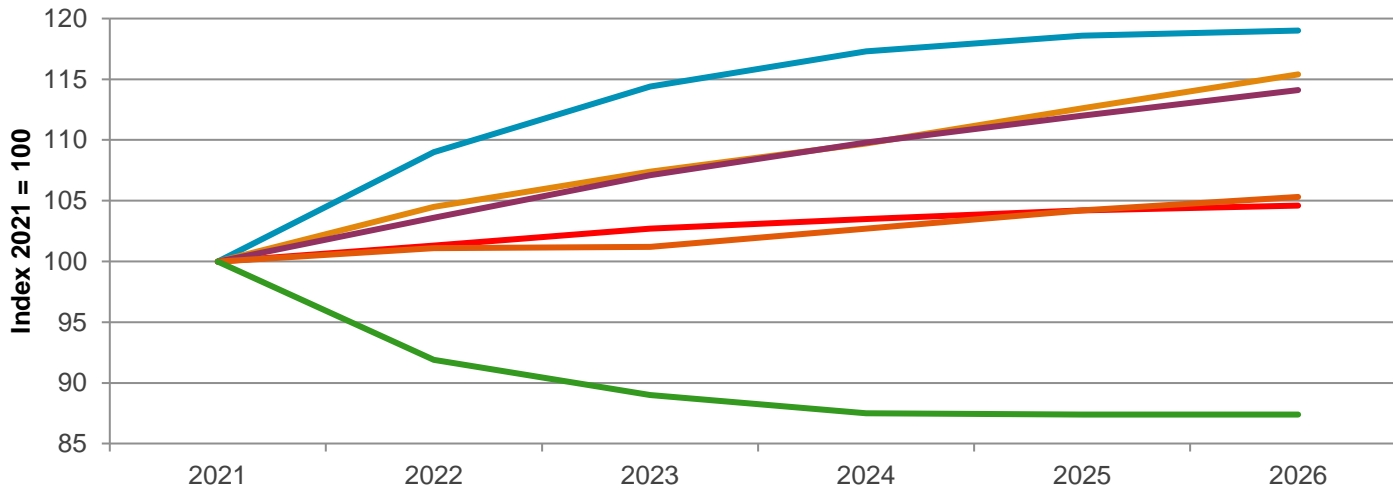
Tobacco and reduced risk market outlook 2021-2026

Struggle for cigarette value continues as vapour growth trajectory begins to flatten

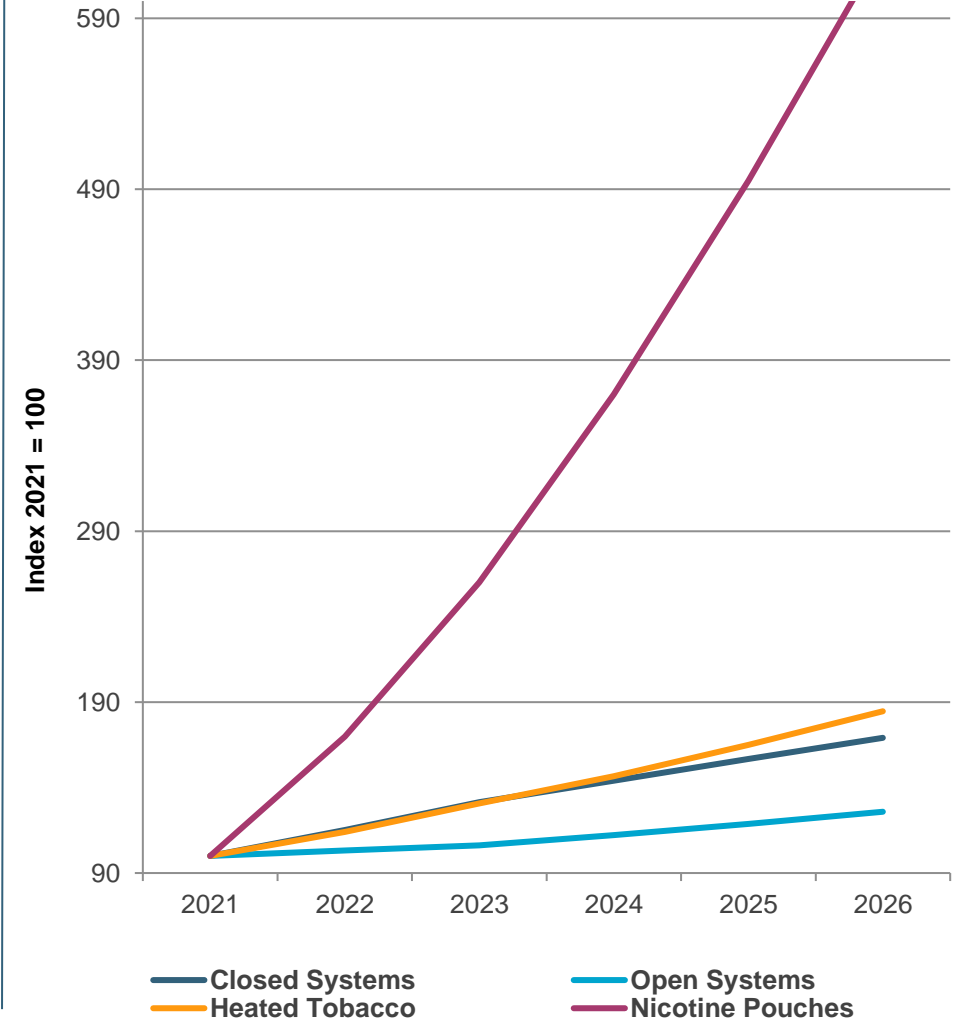
World Volume Outlook by Category 2021-2026



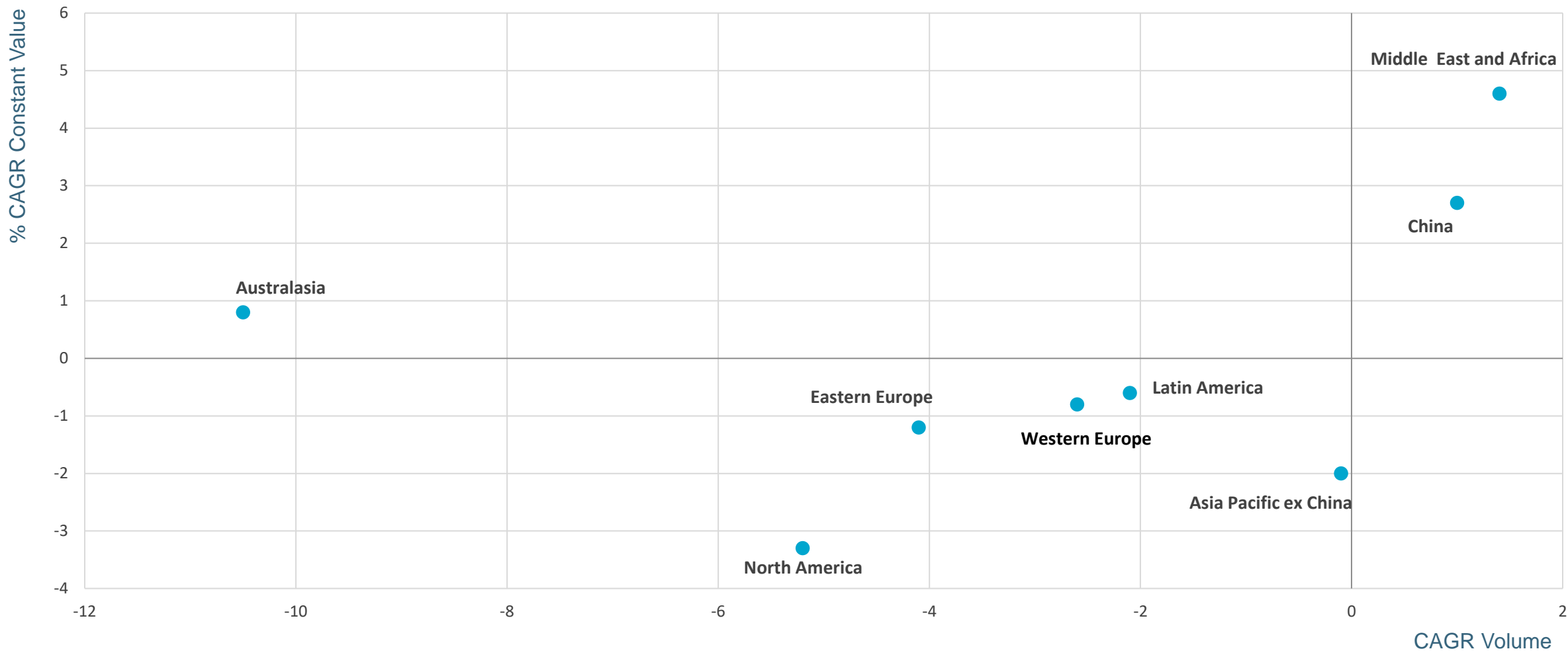
World* Value Outlook by Category 2021-2026



World Reduced Risk Products Value 2021-2026

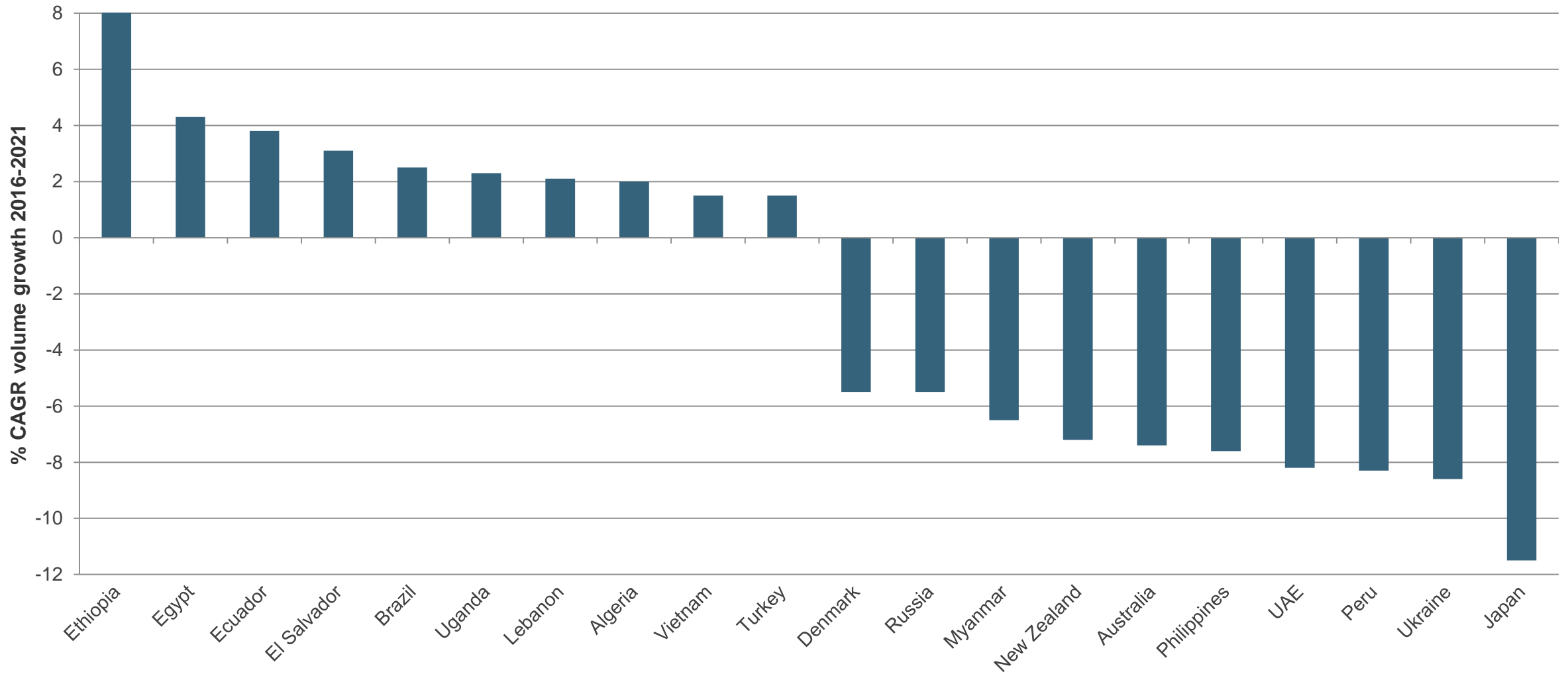


Growth in Cigarettes by Region 2021-2026



Most regions to see both volume and value drop

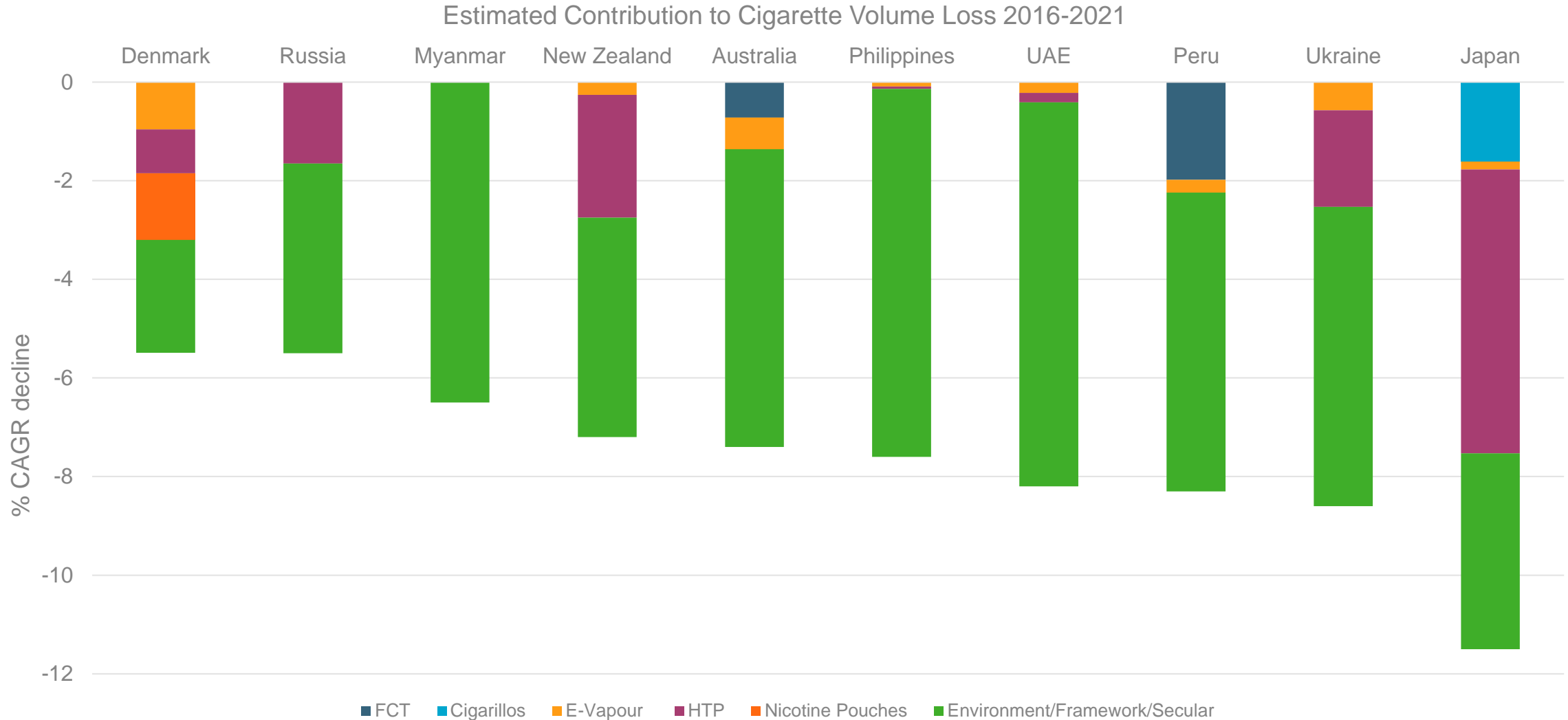
Cigarettes: Top Ten Risers and Fallers by CAGR Volume (Retail + Illicit) 2016-2021



Looking back: largest shifts in cigarette demand between 2016 and 2021

Deconstructing historic cigarette volume loss

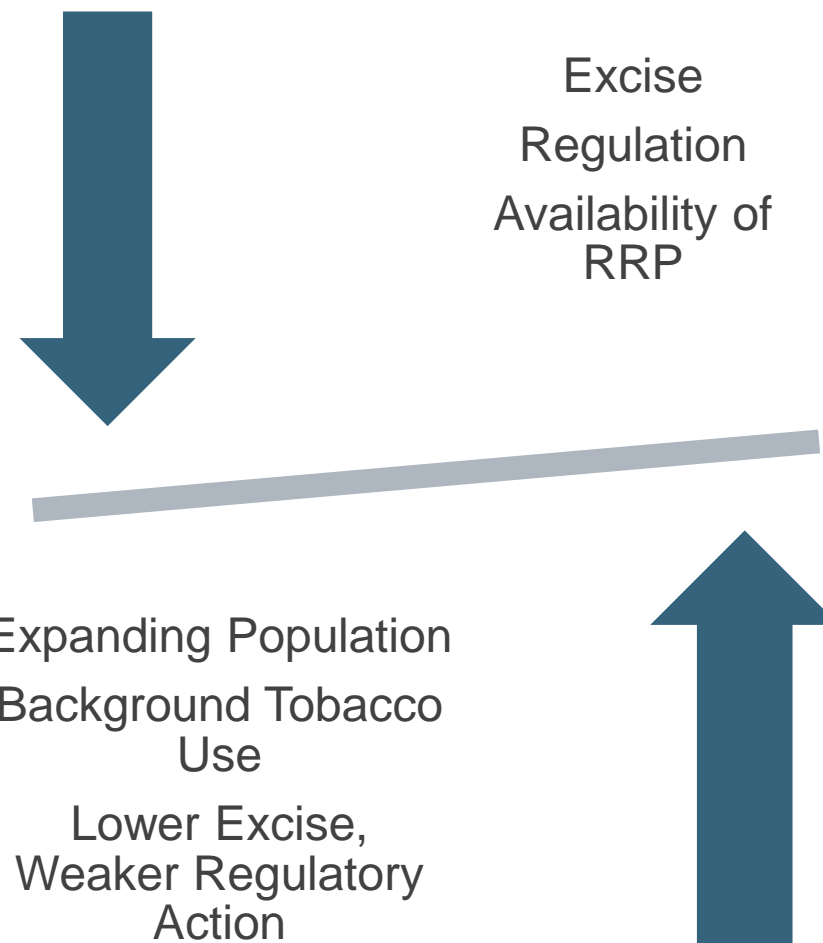
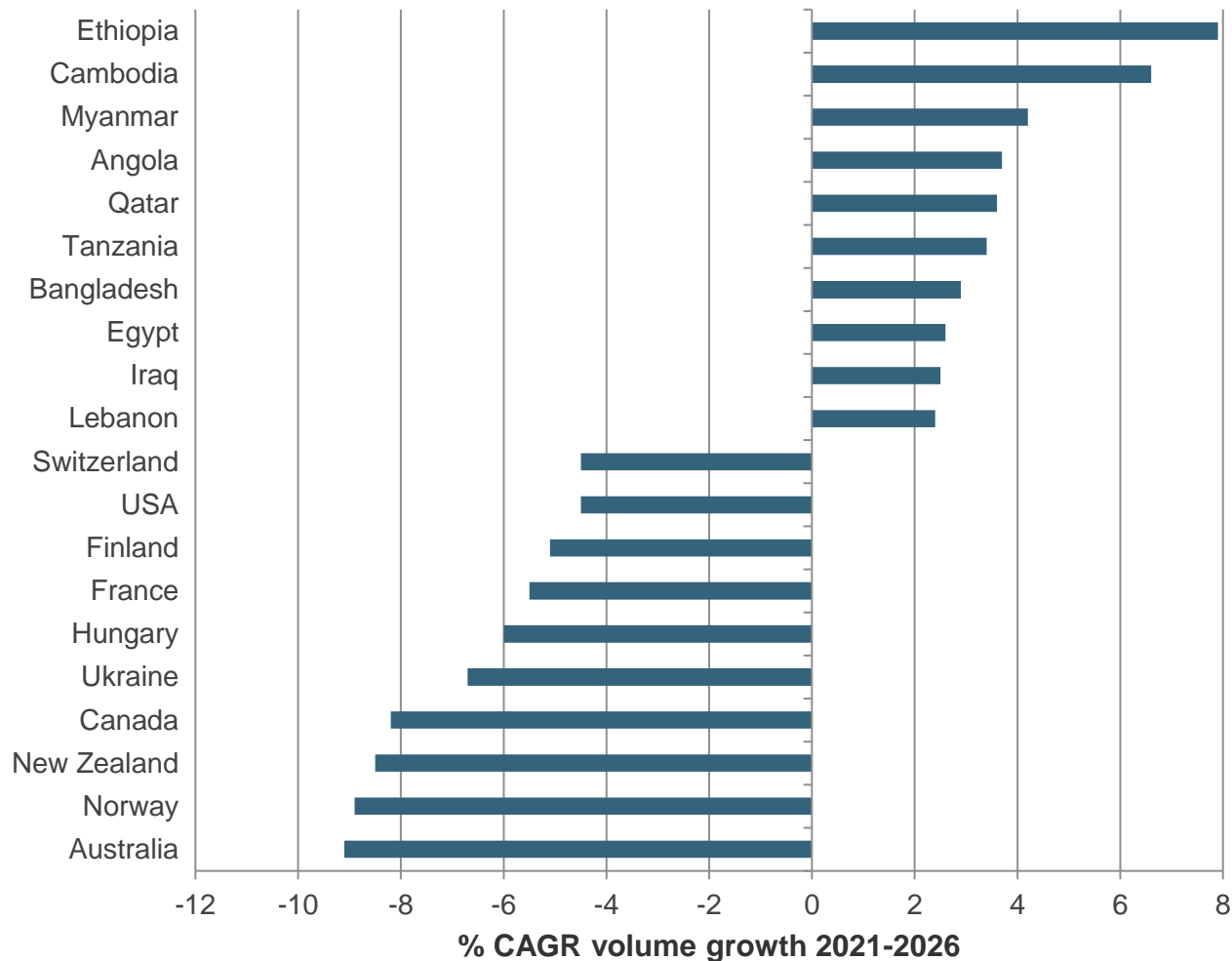
Alternatives – in particular HTP – playing significant role in cigarette attrition



Cigarette market outlook: largest projected growth and decline 2021-26

Markets with biggest % growth potential almost exclusively centred in MEA

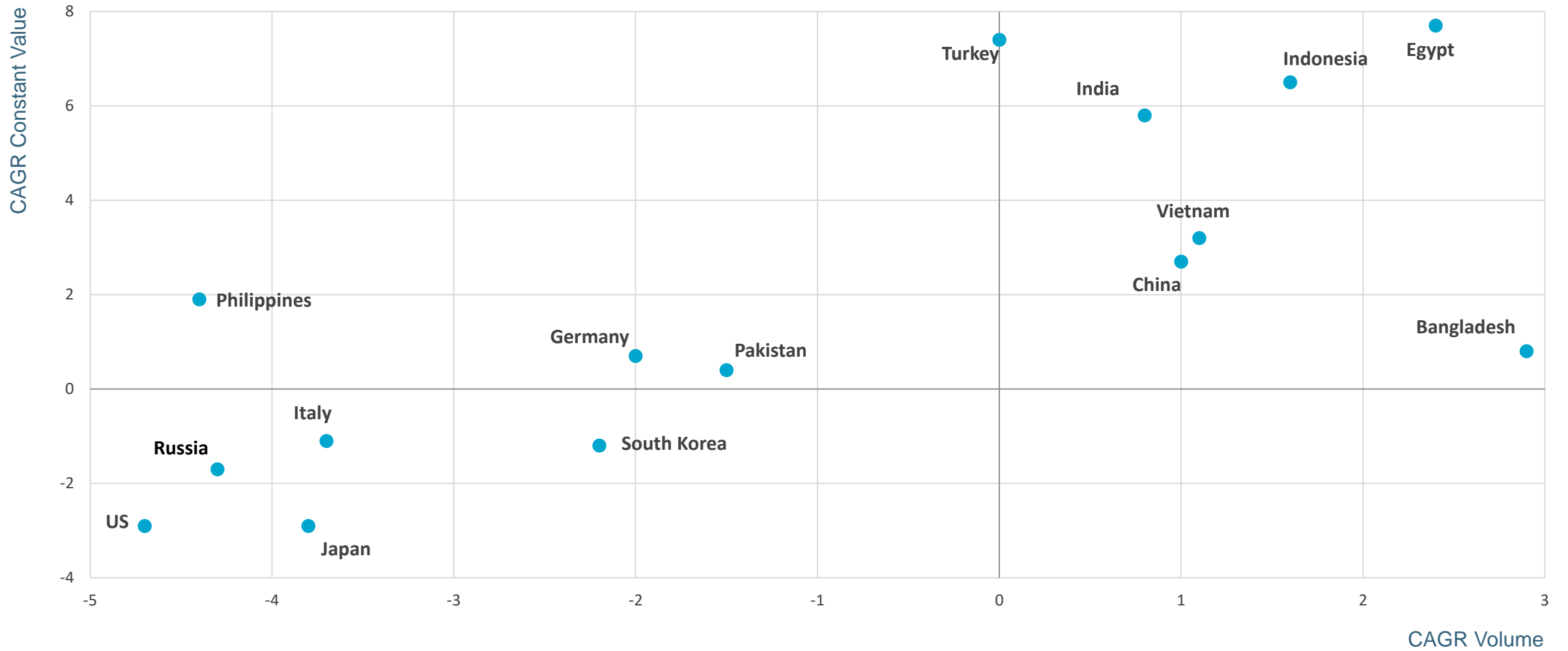
**Cigarettes: Top Ten Risers and Fallers by CAGR Volume
(Retail + Illicit) 2021-2026**



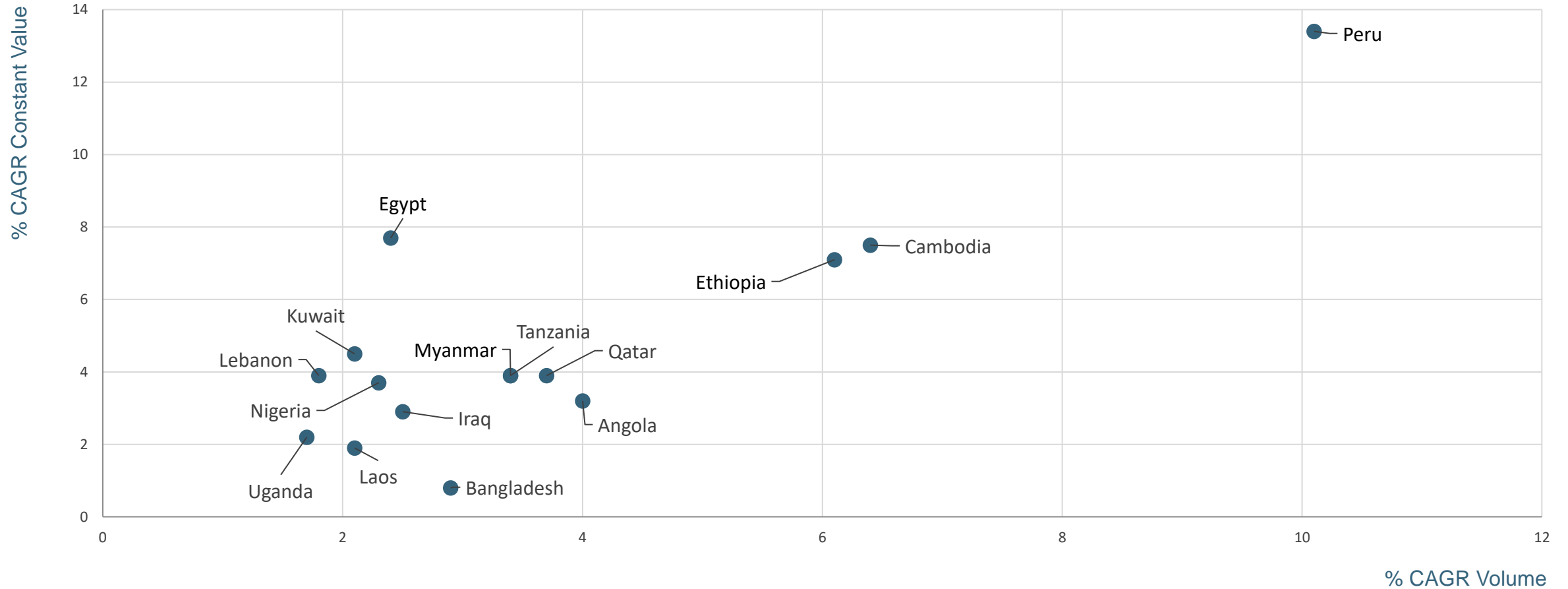
Prospects for global top 15 2021-26

Volume and value growth concentrated in MENEAT and APAC but others now flirt with value contraction

Growth in Cigarettes in 15 Largest Markets 2021-2026



Growth in Cigarettes in 15 Fastest Growing Markets, 2021-2026

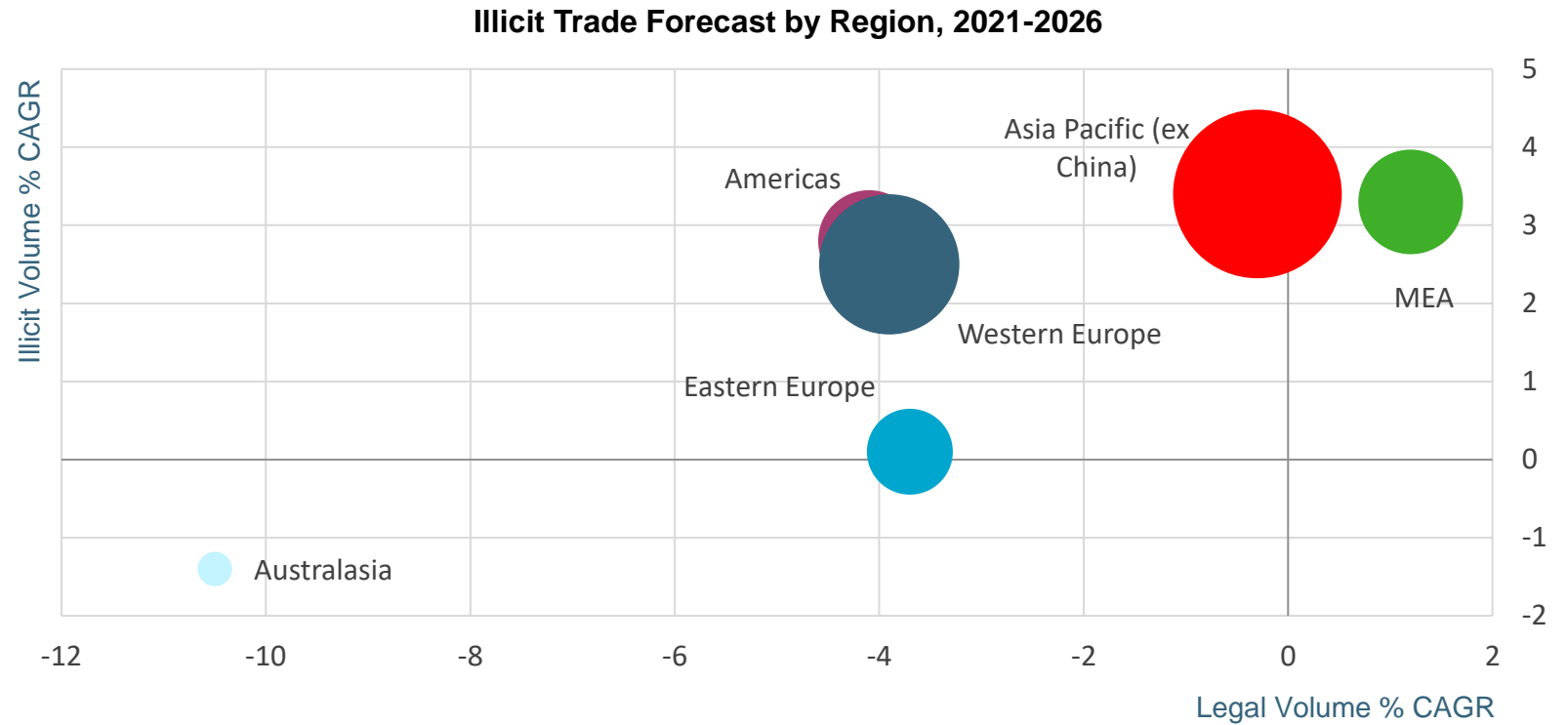
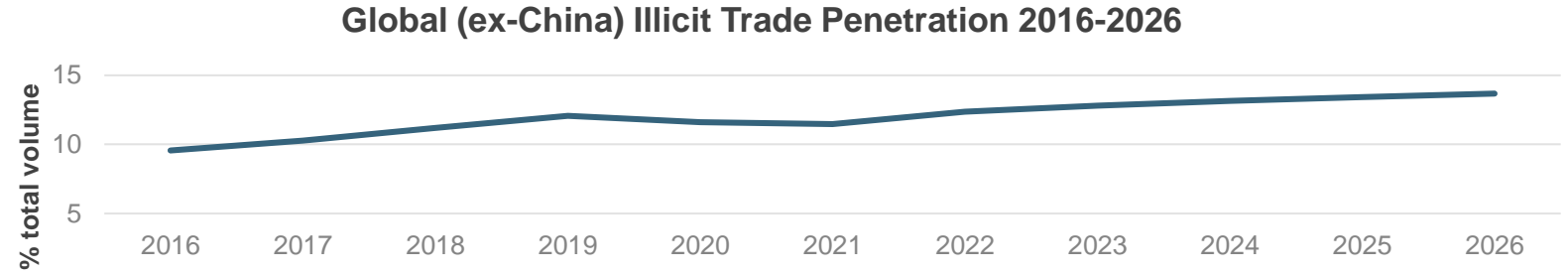


Top 15 fastest growing global cigarette markets 2021-2026

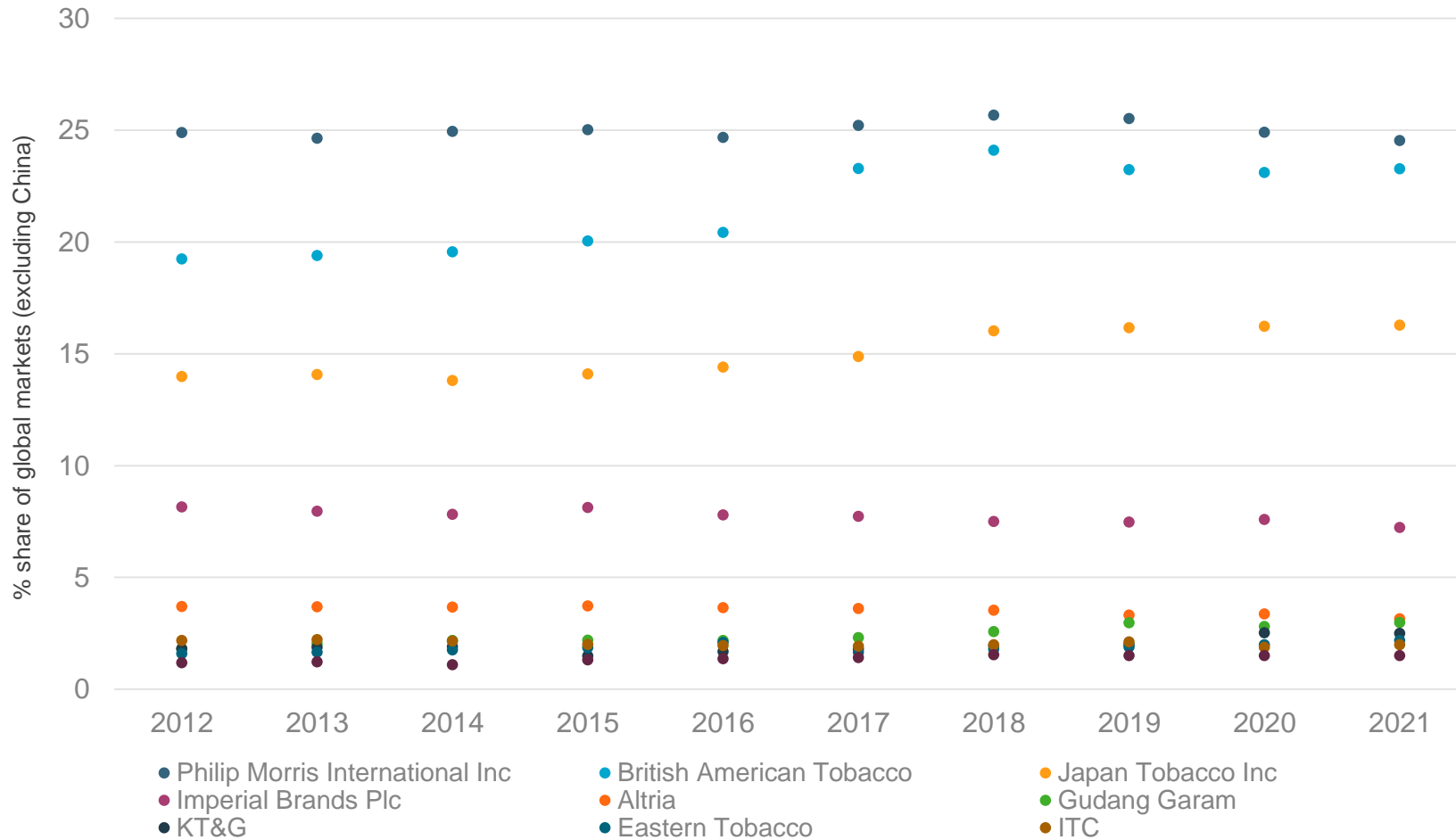
Global illicit penetration set to rebound significantly in 2022

Rebound projected to extend into forecast period as cost of living bites

Rank	Country	Penetration
1	Ecuador	↓ 66%
2	Peru	↑ 66%
3	Uganda	↑ 59%
4	Malaysia	↓ 57%
5	Bosnia & Herzegovina	↑ 51%
6	Brazil	↓ 49%
7	Ethiopia	↑ 43%
8	Panama	↑ 43%
9	Dominican Republic	↓ 43%
10	Costa Rica	↑ 32%
11	Colombia	↓ 31%
12	Oman	↑ 31%
13	Pakistan	↓ 30%
14	Cameroon	↑ 29%
15	Uruguay	↑ 28%
16	El Salvador	↑ 28%
17	UAE	↓ 27%
18	Guatemala	↑ 27%
19	South Africa	↓ 25%
20	Greece	↓ 25%



Global Company Top 10 Share of Cigarettes, Fine Cut, Cigarillos and Heated Tobacco 2012-2021



71.3%
Share of
Top 4

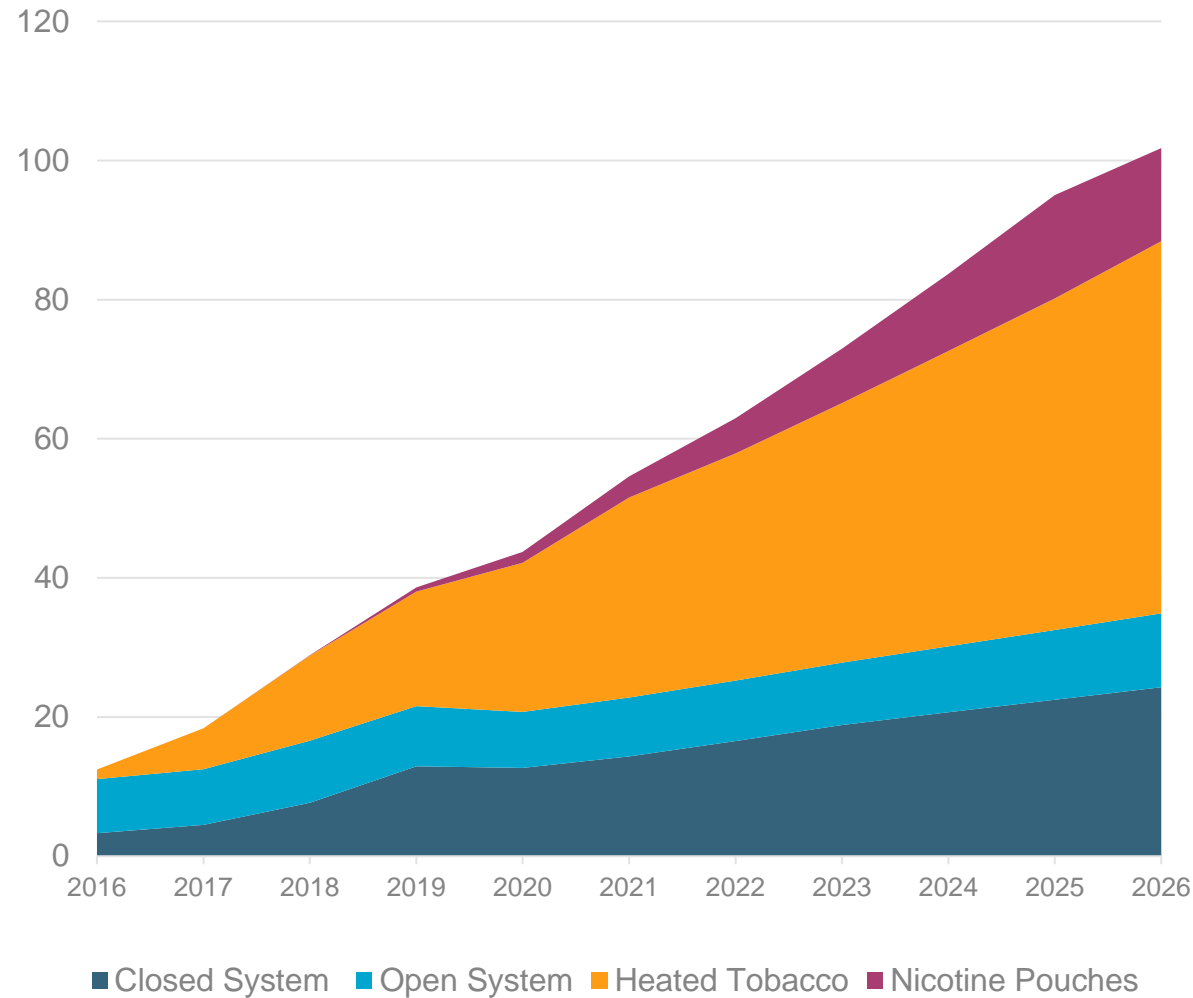
86%
Share of
Top 10

Global company share evolution displays significant stability

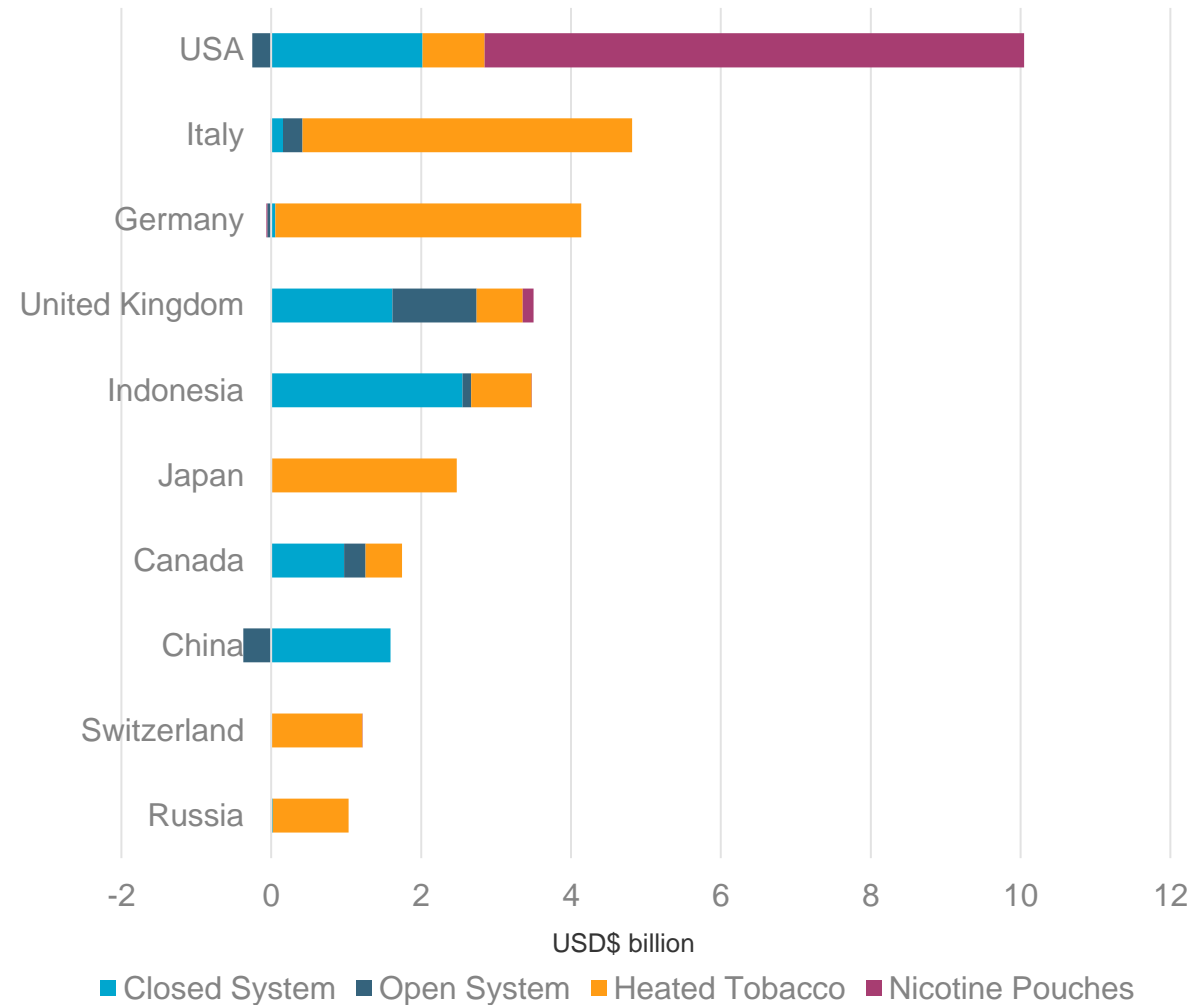
Notwithstanding issues in Europe, HTP will remain key RRP format

Nicotine pouches driven by significant traction in USA but may struggle elsewhere

Global RRP Value Sales by Category 2016-2026



Top 10 Growth Markets by Value 2021-2026





Smoke-free products to account for over 50% of PMI's revenues by 2025



Deliver £5 billion of revenue from New Categories by 2025



Investments will concentrate on heated tobacco



Investment in heated tobacco opportunities in Europe



Accelerate investment in new smoke-free tobacco platforms

Heated Tobacco



IQOS

glo™

ploom

PULZE

PōDA

E-vapour products



VEEV

vuse

logic.

blu CIGS

JUUL

Nicotine Pouches



shiro TRUE NORTH ALL WHITE SLIM NICOTINE POUCHES

WILD VAPOR FRESH

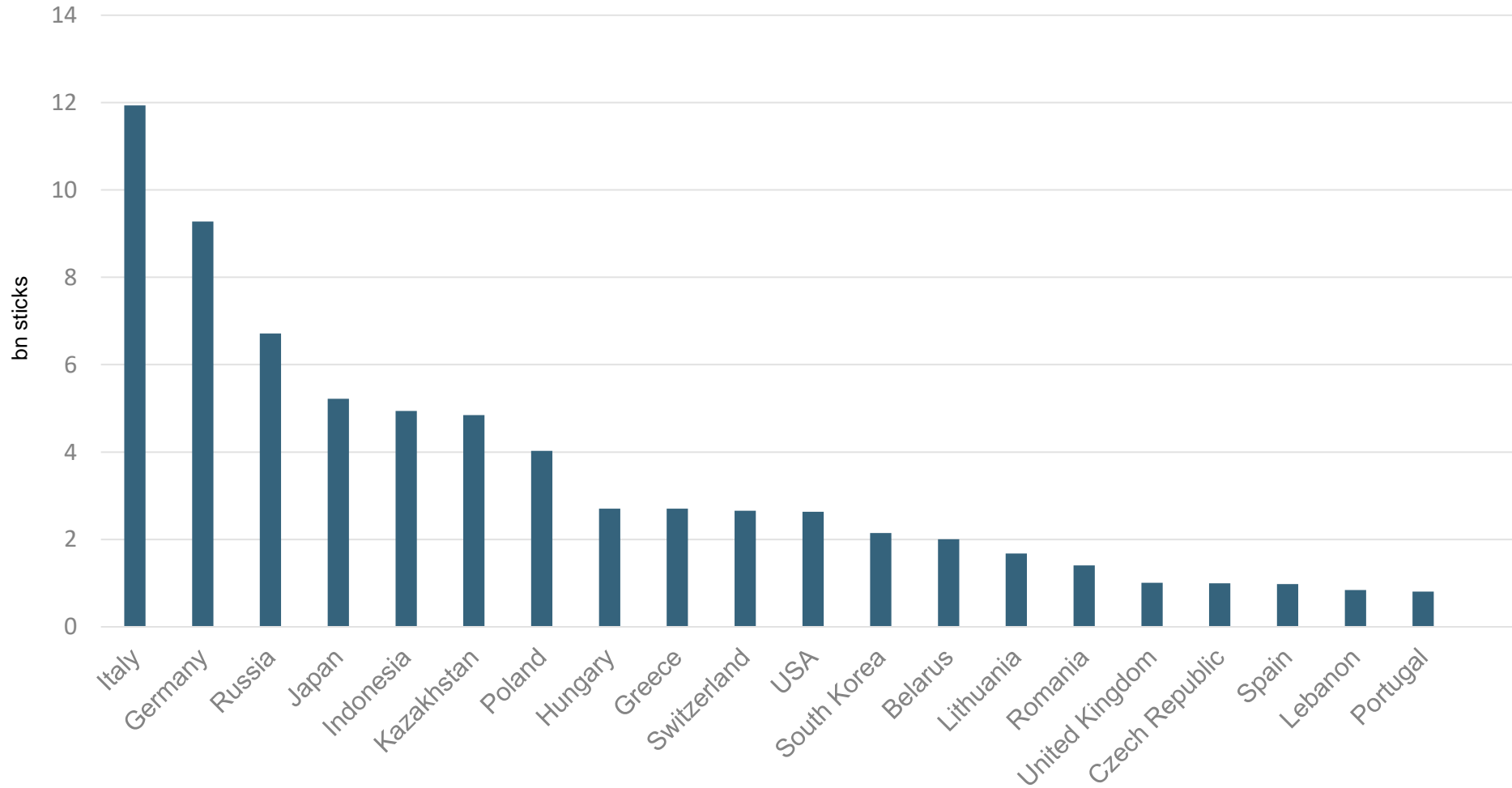
NORDIC SPIRIT

zoneX ALL WHITE #3 NICOTINE POUCHES

4 MG WINTERGREEN on! 20 NICOTINE POUCHES WARNING: This product contains nicotine. Nicotine is an addictive chemical.

RRP efforts begin to look consolidated around heated tobacco – particularly outside US

Absolute Heated Tobacco forecast growth 2021-2026



% of global growth in Top 5 markets

49%

'21-'26

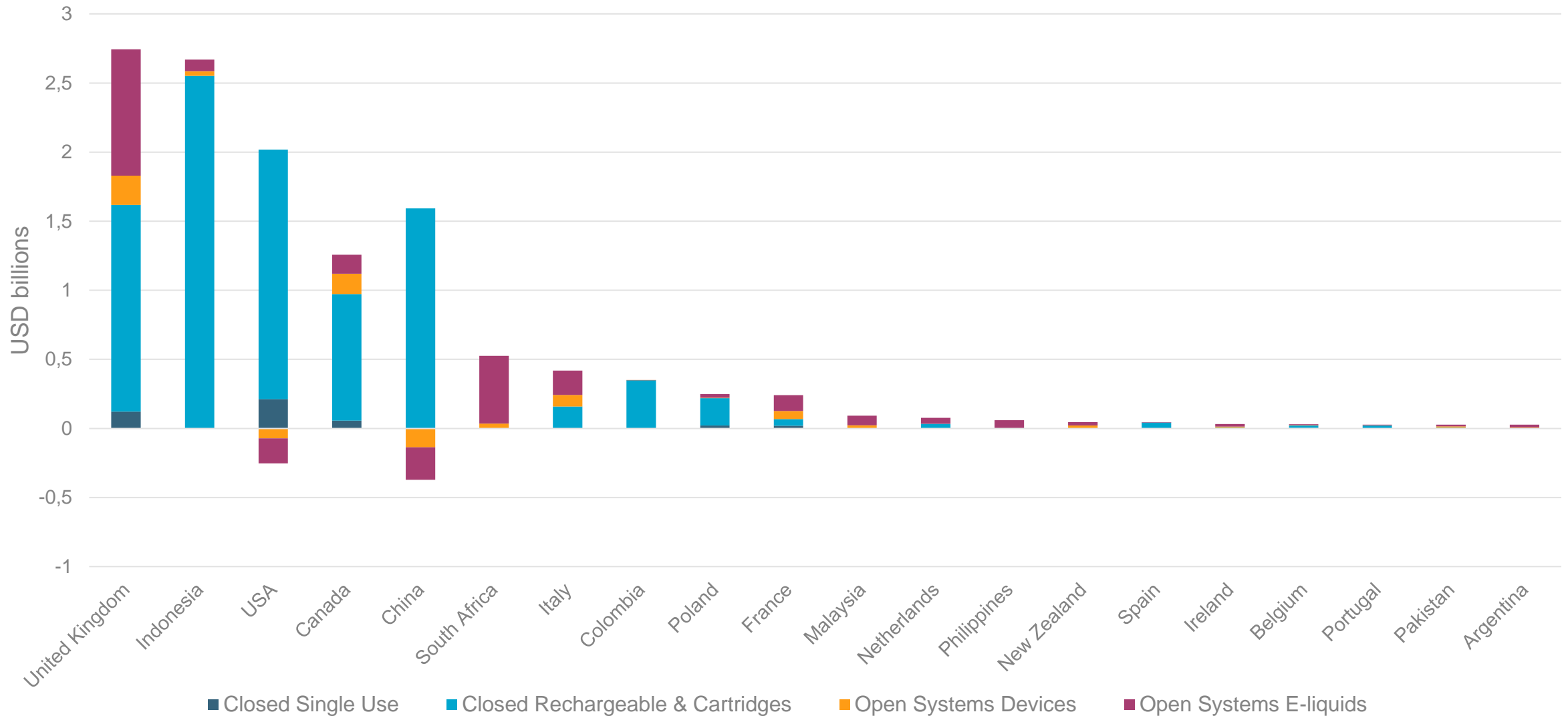
v

71%

'16-'21

HTP growth becoming increasingly broad-based

Top 20 E-Vapour Markets by Absolute Growth 2021-2026



E-vapour forecast growth heavily concentrated in closed systems

Leading disposable brands here for a good time, maybe not a long time

BAT launch first major company offering – Vuse Go – in UK



Puffbar
~30% global legal sales



Geek Bar
~20% WE legal sales



HQD
~40% EE legal sales



Allo
~1% global legal sales



Bidi Stick
~30% global legal sales



Elf Bar
~20% WE legal sales



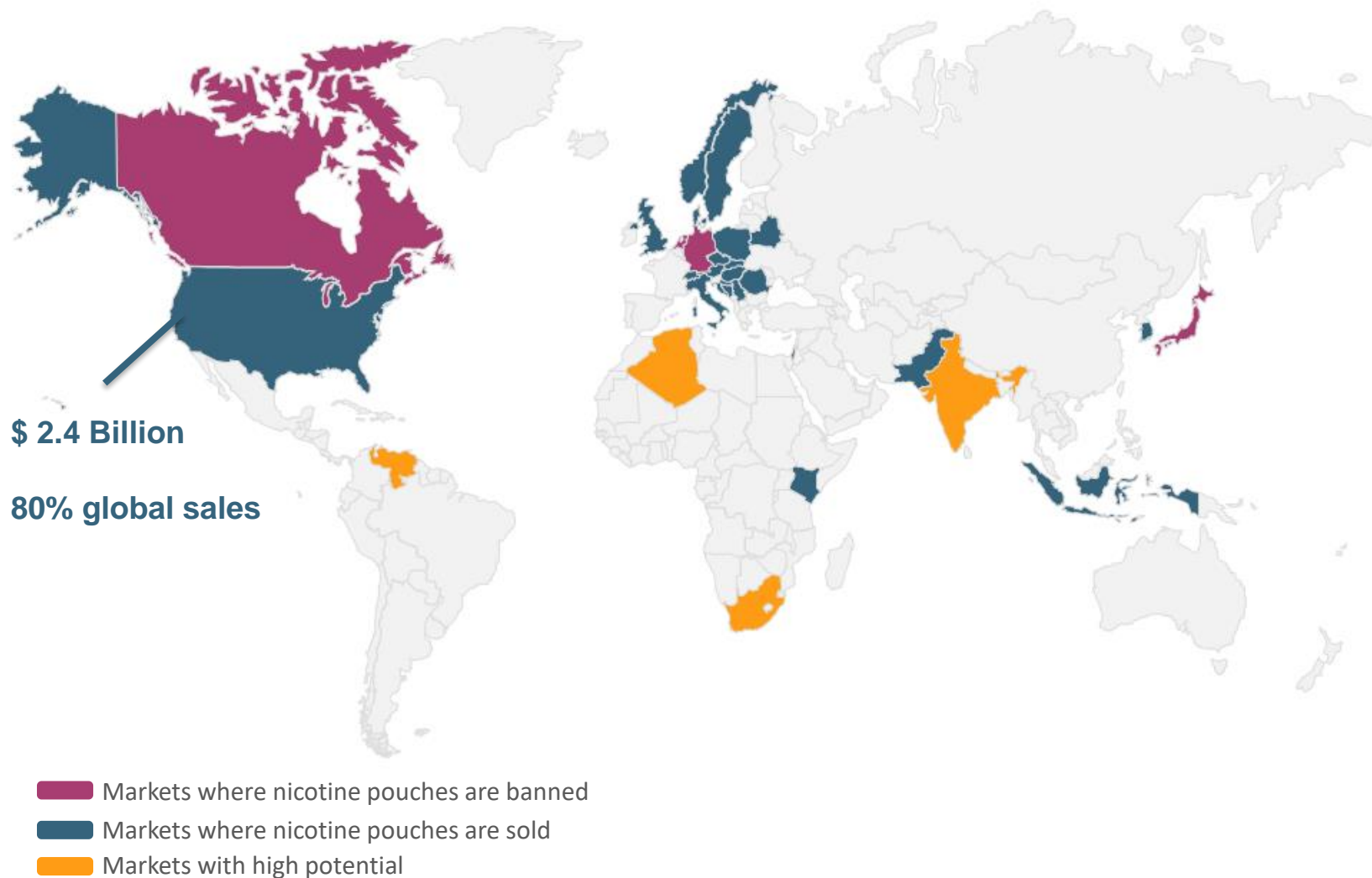
Izi
~20% EE legal sales



Bubblemon
~80% AP legal sales

- Brand landscape remains regionalised with no dominant global presence
- Strongest features of the category are incredibly vulnerable to regulation i.e synthetic nicotine coverage, flavour and nicotine strength
- However, significant portion of consumption is illicit/non-compliant, the large majority in certain markets. Awareness and enforcement is patchy
- Huge issues from a major manufacturer perspective in terms of perception of audience (younger adult) and sustainability.
- Mid to long term opportunity lies in replicating strengths of the category – ease of access, convenience, levity – in a form which is less monodimensionally focused on flavour and which can mitigate environmental impact (organic/recyclable materials ultimate goal – hemp disposable?)

A growing international presence with promise



US\$ 3 Billion

Size of the nicotine pouches market worldwide in 2021

40%

The expected global growth to 2026

Innovation differentiates novel tobacco products from traditional propositions

Among the most recent innovations:

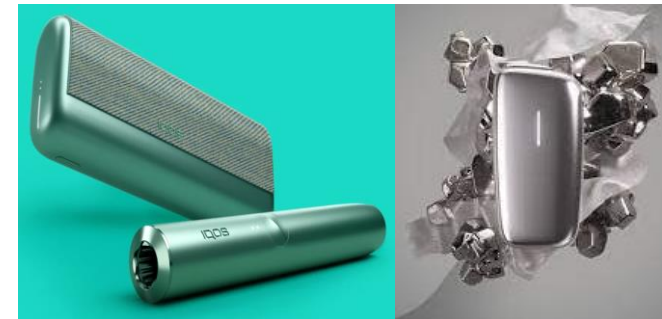
- New formats such as disposable e-vapour products and synthetic nicotine vapor products
- New innovation to improve the vaping experience such as Water-Based Vaping from Aquios Labs
- Improved heated tobacco devices from major tobacco players like PMI or Japan Tobacco
- Heated tobacco sticks compatible with IQOS launched in the Italian market by MC
- Capsule pouches, lozenges and gum from Lucy Goods



Disposable e-cigarettes



Water-Based Vaping from Aquios Labs



IQOS Iluma / Ploom X



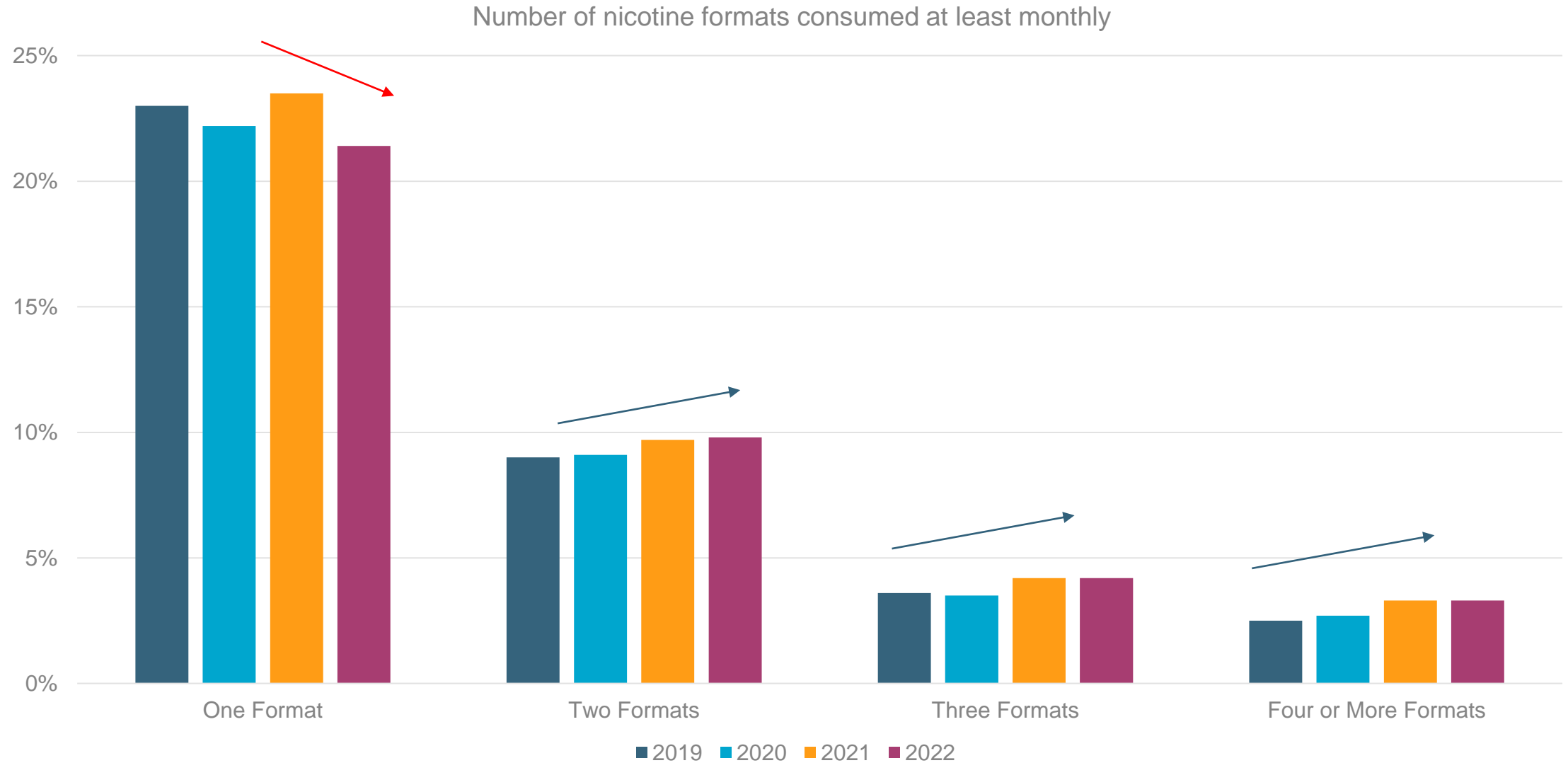
Heated tobacco sticks compatible with IQOS



Capsules pouches from Lucy Goods

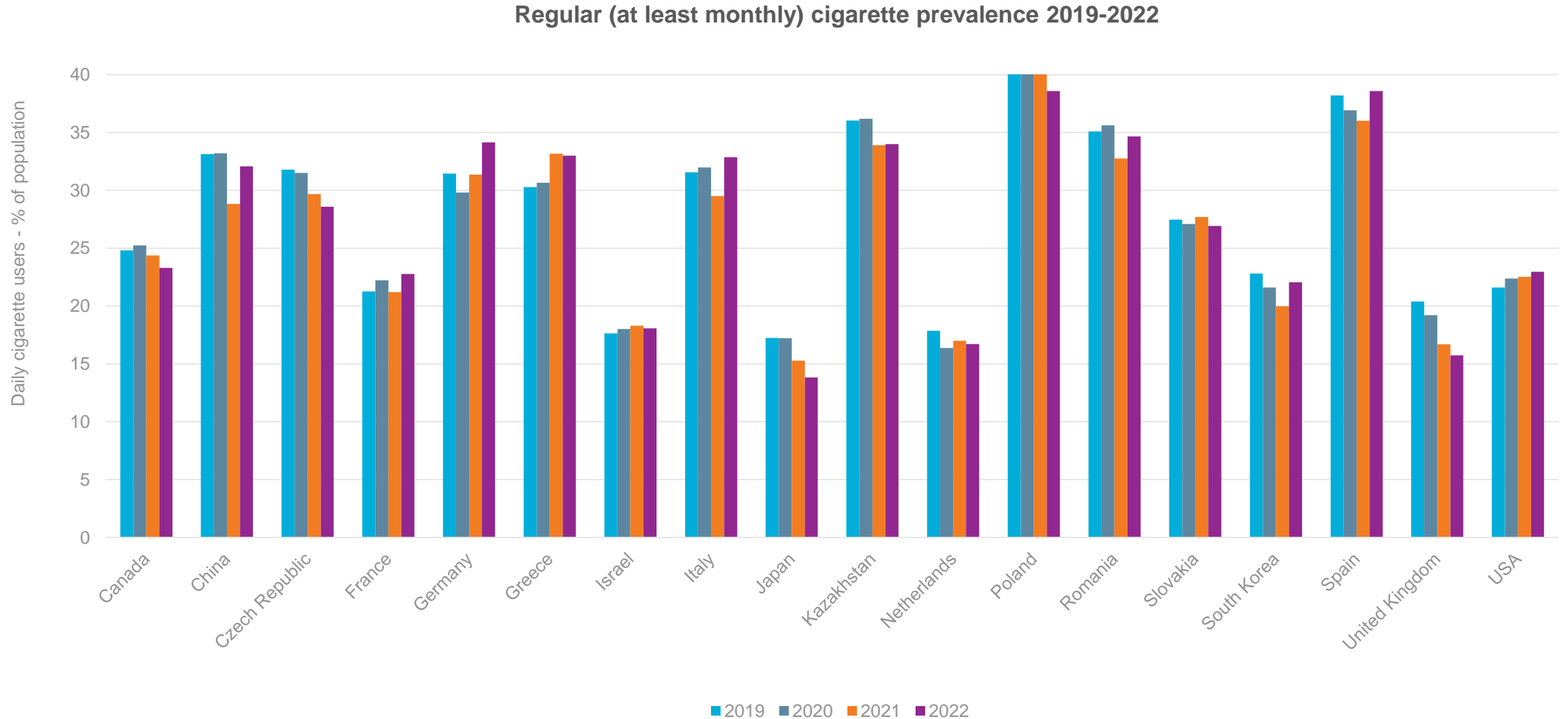
Nicotine format fragmentation is happening in slow motion

As yet inconclusive as to how sustained fragmentation will be in longer term



Regular cigarette use ticks up in large minority of markets

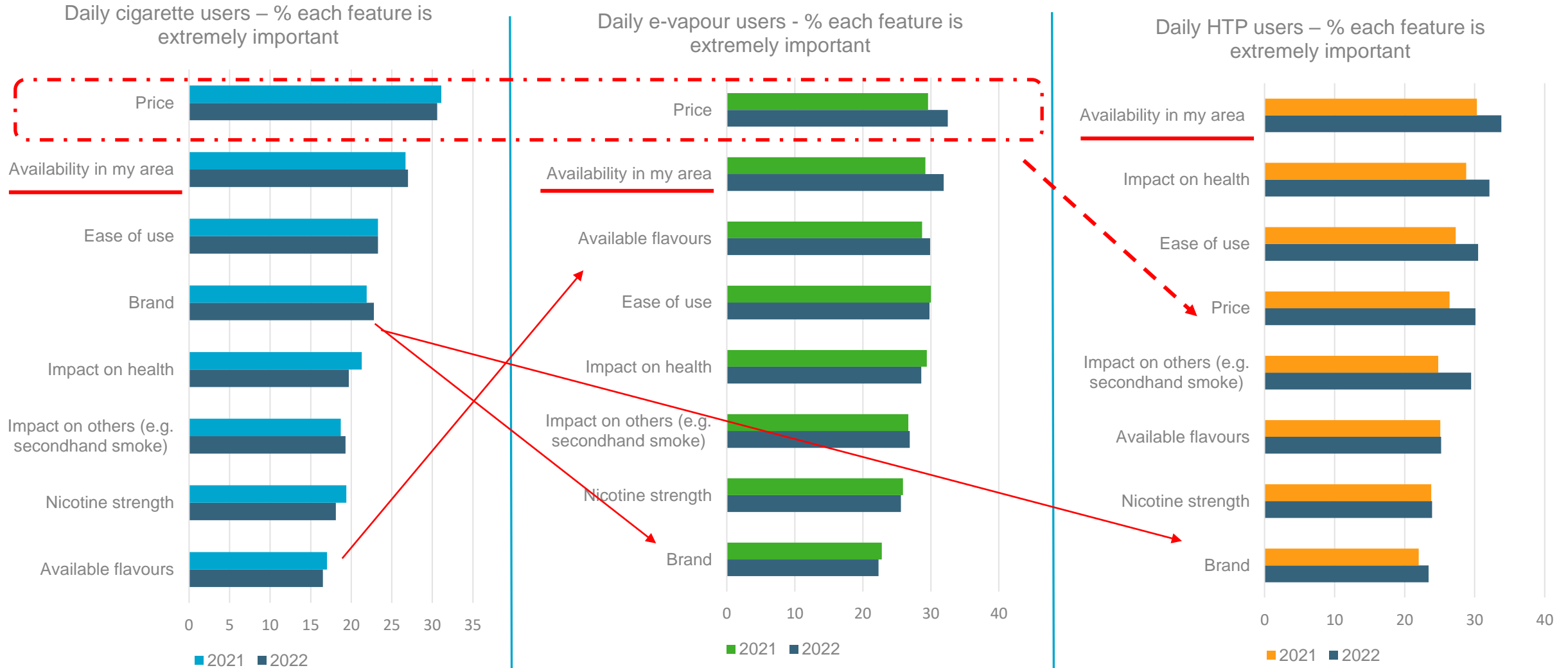
Remains trending down in most however



Source: Euromonitor International Nicotine Survey

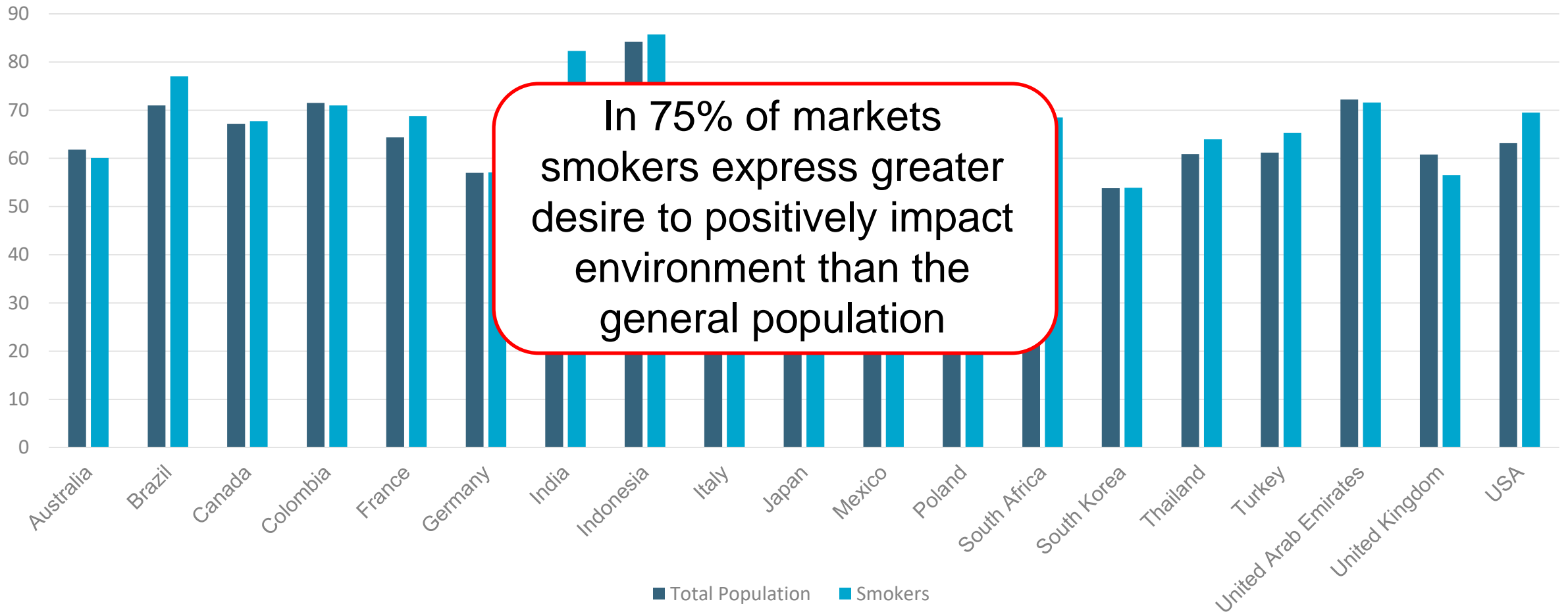
Contrasting priorities in evidence across different format use

Availability key across categories where e-vapour emphasises flavour and HTP less sensitive to price



Source: Euromonitor International Nicotine Survey

I try to have a positive impact on the environment through my everyday actions (Agree or strongly agree)



In 75% of markets smokers express greater desire to positively impact environment than the general population

Smokers are just as, if not more, concerned with sustainability

Key sustainability legislation drivers in tobacco and nicotine

Supply chain integrity and issues of product disposal are main areas of legislative focus

LEAF CULTIVATION

The tobacco industry has an agricultural foundation which (alongside other forms of agriculture) incurs environmental impacts such as deforestation, lack of crop diversity, chemical use and water utilisation. These were highlighted in the WHO's 2017 report and are likely to attract increased regulatory scrutiny



SUPPLY CHAIN EMISSIONS

The manufacturing and supply of tobacco products is widely accepted as the most environmentally damaging stage of the industry. Thus far, active legislation has been limited, while major tobacco companies have significantly enhanced their focus on self-regulation and the reduction of their carbon and energy usage.



PRODUCT WASTE

The EU Directive on Single-Use Plastics which came into force in 2021 places extended product responsibility on cigarette manufacturers to mitigate the impact of discarded cigarette butts. The regulation is likely to be replicated in other regions and represents the clearest area of focus from an environmental perspective



Growth trajectory



Cannabis revenue potential remains significant but progress continues to be varied

Regulatory momentum



Focus on major developments in US and Germany as internationally momentum grows

Corporate travails



Only a handful of major companies are hitting their straps in often challenging environments

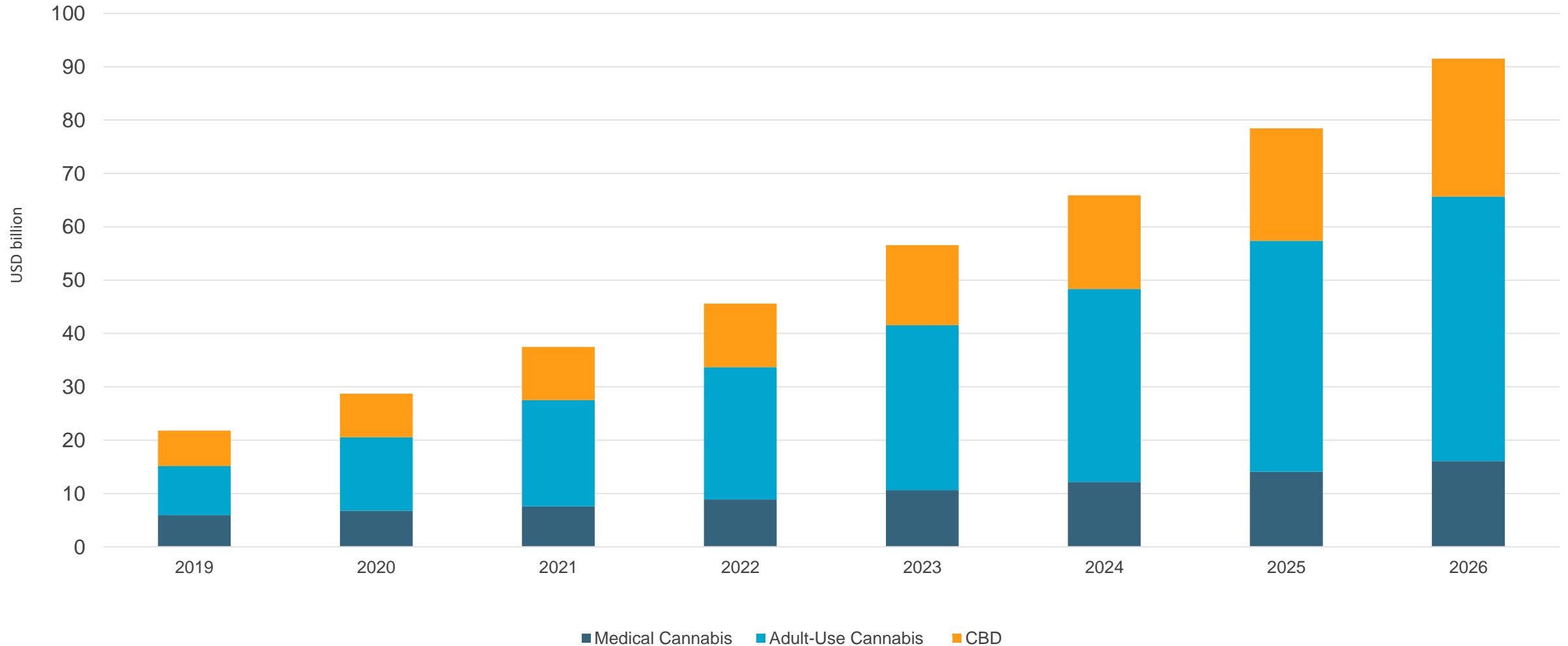
Expanding product landscape



Alongside the flower hegemony, more demanding and adventurous consumers are driving format expansion

Legal cannabis set to reach US\$91 billion by 2026

Global Legal Cannabis Sales by Category 2019-2026



Source: Euromonitor International

© Euromonitor International

President Biden @POTUS · Oct 6
United States government official
Replying to @POTUS
First: I'm pardoning all prior federal offenses of simple marijuana possession. There are thousands of people who were previously convicted of simple possession who may be denied employment, housing, or educational opportunities as a result. My pardon will remove this burden.

3,699 56.5K 222.2K

President Biden @POTUS · Oct 6
United States government official
Second: I'm calling on governors to pardon simple state marijuana possession offenses. Just as no one should be in a federal prison solely for possessing marijuana, no one should be in a local jail or state prison for that reason, either.

721 17.8K 116.5K

President Biden @POTUS · Oct 6
United States government official
Third: We classify marijuana at the same level as heroin – and more serious than fentanyl. It makes no sense. I'm asking @SecBecerra and the Attorney General to initiate the process of reviewing how marijuana is scheduled under federal law.

1,418 24.9K 131.3K



All eyes on pace and character of change in Germany and US

Crowded, fragmented markets

Busy marketplaces with low consumer awareness and loyalty means larger companies are struggling to capture control .. With some notable exceptions

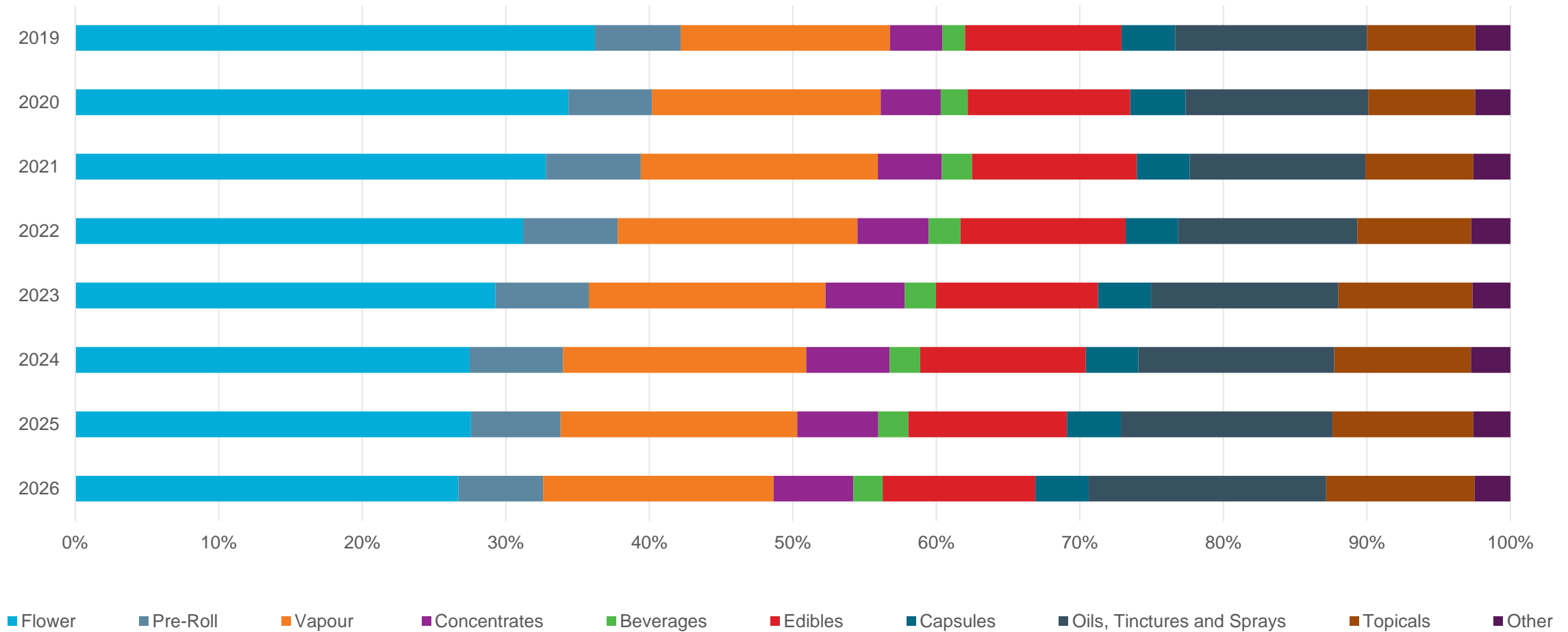
Misaligned regulatory frameworks

From the impact of excise rates and restrictions on product features through to challenges in accessing finance (e.g. Netherlands pilot programme), legal companies are wrestling with frameworks

Capital and cost of living squeeze

Emerging cannabis operators are finding funding more challenging to acquire than ever while needing to compete more intensively for share of their consumer base's stretched wallets

% Value Share of Total Legal Cannabis Sales by Format 2019-2026



Globally, formats are evolving at pace



Thank You!



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[@TobaccoGrowers](https://www.twitter.com/@TobaccoGrowers)

[ITGA.org](https://www.ITGA.org)

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