

## Investor Day Presentations

26 February 2013

### **The Premium Cigar Growth Opportunity - Fernando Dominguez, Premium Cigar Director**

Good morning everyone and welcome to the Premium Cigar Experience!

I'm Fernando Dominguez, Premium Cigar Director and I'm delighted to have the opportunity to share with you in the following minutes a general overview of our business, our performance, the way in which we do business and the key areas of focus and opportunities we have going forward.

But, before getting into any detail I think it's helpful to answer the following question:

#### **What is Premium Cigar Business all about?**

What is Premium Cigar Business all about? Anybody in the room has any idea? Well, I think the best way to discover it is ...

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... to play!! I'm sure everybody knows this quiz game. We have four possible answers and only one of them is the correct one.

So, "What is Premium Cigar Business all about?"

Answer A: Smoking cigars and drinking rum all day

Answer B: Enjoying the Habano Festival in Cuba

Answer C: Luxury and experience

Answer D: Selling tobacco at market gold price

So, which is the correct answer, A, B, C or D?

I assume the majority of you would go for answer C: Luxury and experience.

Is that your final answer? Shall we go for it?

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Yes, correct answer!

Many congratulations!

You've won a box of Cohiba! Well, maybe just a cigar!

#### **It's all About Luxury**

Indeed a Premium Cigar is a luxury product. It's about style and exclusivity and can be compared with a powerful car, an exclusive watch, a vintage champagne, or other examples you may see on the screen that visualize what I mean.

#### **And Experience**

But it's also about experience.

The unique experience we live from the moment we enter a shop and we look at the cigars, touch them, smell them and finally we chose the ones we want to buy,

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until the moment we decide to enjoy them, lighting up our cigar and start tasting its unique flavour, sometime alone or sometimes with other people, but always feeling we enter into a special and exclusive world.

### Luxury Industry Sales to Continue

Well, if Premium Cigar Business has to do with luxury, let's have a look at this industry.

We see a very positive sales evolution along the years. After the significant rebound experienced by this industry in 2010 and 2011, when sales grew by 10% after the economic crisis, luxury fundamentals are expecting to remain strong in the next coming years.

Market growth will be mainly pushed by the Asian consumers, being China the key driver, but also emerging markets like Latino America led by Brazil, Middle East and Eastern Europe are gaining increasingly relevance.

### Premium Cigar Market

Going now to our specific business.

Firstly, I would like to put it in the context of the Total Cigar market. Premium cigars only account for around 3% of the units of the total traditional cigar market, but have a much more relevant participation in value and margin terms. It's a niche but high value oriented business.

USA is the largest Premium Cigar market with more than 60% of total sales. Adding Western Europe both represent around 85% of total consumption.

In the rest of the world, mainly emerging markets, where 90% of the population lives, the knowledge of Premium cigar culture is very limited and sales per capita are still low. With the increasing purchasing power for many living in these countries and western lifestyle becoming more popular, there is significant growth potential for Premium cigars.

Cuba, Dominican Republic, Nicaragua and Honduras are the main production origins. Cuban origin cigars have more than 70% of market share excluding the USA where these products are forbidden.

### Our Position in the Market

In this category, Imperial enjoys a solid global leadership position with around 40% of market share in units thanks to:

Our partnership with Cuba in Habanos, the global leader and marketer of the prestigious Cuban brands;

Our strong presence in the USA; and

The increasing international development of our brands, complementing the Cuban offer.

### Our Performance

Regarding performance, last year has seen an acceleration of the positive trend we resumed in our business after the deep economic crisis that took place some years

ago.

During last fiscal year we've achieved double digit growth in our main indicators, 11% in units and 10% in sales value, with sales going up across all our operations.

Our Cuban business showed a very good dynamism in emerging markets where our sales increased by 17% in line with the increasing demand of luxury products in these territories. Countries like China (+13%), Russia (+38%), Brazil (+15%) and areas like Middle East (+19%) are becoming increasingly important for us.

In the USA, we had a very positive performance, mainly driven by a stronger focus on our key strategic brands, underpinned by innovative product initiatives. We are covering all price segments with our core assets: our Cuban heritage brands Montecristo and Romeo y Julieta in the high end, VegaFina in the mid-price and Casa de Garcia in the low end, all made in our Dominican and Honduran factories.

And finally, our international business, complementing our Cuban offer, grew significantly, driven by VegaFina expansion, in line with our commitment to develop this brand as our non-Cuban global Premium brand.

### How we do it: Business Approach

So far I've talked about the "what" but how do we do business? What is our business approach?

This relies on three main pillars.

Firstly, our portfolio strength that is based on:

- The uniqueness of our offer and the focus on our key brands;
- The highest product quality we ensure;
- The exclusivity we create; and
- The constant innovation we deliver

We don't sell just cigars but also status and differentiation and therefore a Premium cigar, as a luxury product, requires outstanding quality and constant innovation.

We always search for innovation to respond to consumer needs and to generate trends. We make new proposals through the product itself and through special packaging and presentations that transmit a more perceived value to the consumer, providing tangible benefits that enable us to upgrade the category.

We encourage the wishing factor, to have the latest, the most exclusive or to be in fashion.

Secondly, our footprint strength that is based on a global presence through a specialised and dedicated distribution network.

And finally, our business approach is increasingly consumer and customer oriented, aimed at creating and providing Premium experiences around product enjoyment, spreading at the same time the Premium cigar culture, associated to lifestyle, allowing us to reach a wider consumer range.

I am going to provide you with more details and examples about this in the following slides.

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### **How we do it: Business Approach – strong presence in all main tobacco growing countries**

Our PORTFOLIO is unique because we have a strong presence in all main tobacco origin places: Cuba, Dominican Republic, Honduras and Nicaragua.

### **How we do it: Business Approach - and the most global and prestigious brands**

And because we own the most global and prestigious brands which make our portfolio offer incomparable and unbeatable.

### **How we do it: Business Approach – Romeo by Romeo y Julieta USA**

Our USA recent launch “Romeo” by Romeo y Julieta is a clear example of overall product quality, which has been recognized being placed 3rd in the top cigars ranking of the famous Cigar Aficionado magazine. Additionally, this innovative, creative and stylish release, combining tradition and modernity, has been one of the most successful irruptions in the USA market ever.

### **How we do it: Business Approach – Cohiba Behike Habanos**

Talking about exclusivity the best example is Cohiba Behike, a new line under the most prestigious Habanos brand. Widely recognised by many experts as the best cigar in the world, introduces as a novelty the tobacco leaf called “half time” which comes from the two upper leaves of the plant, providing the cigar with superior taste and aroma. Natural growth of these leaves is extremely scarce what limits production and explains price and exclusivity.

### **How we do it: Business Approach –Old Habanos Tubes**

Habanos’ tubes are a clear example of constant innovation over the last years and a proof of our ability to reinvent the patterns.

This was Habanos’ tubes classic image some years ago.

### **How we do it: Business Approach – new Habanos Tubes**

And this is the current design, which make the tubes much more appealing to the consumers and trendy. We are not just covering needs as cigar protection and preservation but creating new needs related to status, image and differentiation.

### **How we do it: Business Approach – international distribution network in more than 150 markets**

Going to the FOOTPRINT, as the only global player in this business with presence in more than 150 countries through a mainly owned international distribution network, we are very well positioned, leveraging on our PORTFOLIO strength, to drive the category and unlock the existing growth potential in the emerging markets.

Our global operations also allow us to identify and implement best practices across the markets to be more efficient and maximise the growth opportunities.

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### **How we do it: Business Approach – consumer engagement: loyalty programs**

Regarding EXPERIENCES, our approach towards consumers is the development of a Premium universe around the product with specific engagement activities based on lifestyle.

An example of consumer engagement is the loyalty programs we run like the Montecristo Social Club in the USA, an exclusive club to discover the joys of our products, with educational and lifestyle contents and to network socially with other cigar lovers.

### **How we do it: Business Approach – consumer engagement: special events & activities**

Special events and entertaining activities around premium cigars are another example of engaging consumers.

Product presentations, cigar tastings and pairings with other trendy products like rum, malt whiskey, champagne and chocolate to put some examples are some of these activities, but probably the most emblematic special event we run with and for our consumers is the HABANOS FESTIVAL which takes place every year in February in La Habana Cuba, exactly this week. Celebrating this year its 15th edition, this is recognised as the most important event in the Premium cigar world. Distributor, retailers and aficionados coming from more than 60 countries across the world meet all together. Let's have a little taste of it in the following video!

### **How we do it: Business Approach – consumer engagement: product enjoyment places**

And creating and promoting the right environment to enjoy a Premium cigar is for us a key tool to engage consumers, like the Cohiba Atmosphere in Beijing, an horeca concept we are developing in the Habanos world or the Comfortable Outdoor Smoking Area in London you may see on the screen, this is in the Leinsborough Hotel but there are around 400 across the UK, and many more all around the world.

### **How we do it: Business Approach – consumer engagement: partnerships**

But the Premium EXPERIENCE really starts at the point of sale and this is why we've developed and we continue to reinforce concepts and programs to enhance such experience and to engage with our customers and retailers, building strong and collaborative partnerships that are mutually beneficial.

We develop plans like category managements programmes to help our customer to grow business and for us to gain product visibility and trainings, educational trips and events in point of sale to improve customer service and advocacy towards our brands.

### **How we do it: Business Approach – customer engagement: specialization**

And we also develop specific plans with specialised outlets, working with the retailer to transform the shop in a Premium and exclusive product exhibition so that the consumer can immediately feel the magic of a Premium cigar right when entering the shop and live a Premium shopping experience.

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La Casa del Habano franchise is the most important example of retail specialisation in our business. With more than 140 in 60 countries around the world, these high-class boutiques are well known for their exclusive product assortment and customer service and they are an important tool to develop the category and build consumer knowledge, particularly in emerging markets.

### More to Come - portfolio

And going forward, we still have opportunities ahead of us to continue to deliver growth. In terms of “portfolio”: Leveraging on our existing portfolio strength we’ll continue to lead innovation based on consumer insights and with focus on our core brands. With innovative product and concept initiatives we’ll continue to surprise our consumers. Like an example the new regional edition concept we are developing in the USA under our Montecristo brand.

We have the goal to make our VegaFina brand the non-Cuban leader brand in the world. Following geographical expansion our focus is now on developing product initiatives to continue to build brand equity.

And considering the current regulatory environment and consumer behaviours, we are developing a more accessible product line, a new proposition to enter into the mass cigar category with the new Montecristo mini, exploiting the strong equity of this well-known brand.

### More to Come - footprint

Regarding “footprint”, we have a clear opportunity, particularly with our Cuban brands, to develop the category in the emerging markets, in line with the luxury industry growth expectations. Focus will be in Asia, mainly China, as well as in Russia, Brazil and the Middle East.

In the USA, the largest cigar market, where the Premium cigar consumption is still growing, although slightly, we are enhancing our competitive position based on a more robust and efficient business but the main upside will come when we have the possibility to market our Cuban origin cigars.

### More to Come - experiences

And finally in our consumer and customer approach, the opportunity we have is about gaining more consumers and more consumer occasions.

Engagement activities based on lifestyle and trends: Use of Digital Media to interconnect with consumers as this is becoming the usual communication way for people to talk and exchange about experiences;

Continue development of cigar lounges; and strengthen our retail approach, keeping the focus on the specialisation to enhance the shopping experience, would enable us to expand the Premium cigar culture, legitimatise the product and bring new consumers to the category.



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The following video has much to do with our lifestyle approach: enjoying cigars as an aspirational choice, trendy, a premium way of living, attracting new aficionados.

### **The Premium Cigar Growth Opportunity**

In conclusion, building on the good momentum we are experiencing in our business, the strong and solid foundations we've set up and our people, a highly motivated and engaged team that feels and transmits passion for the product, we are in an excellent position to maximise the opportunities we still have ahead of us and guarantee sustainable growth going forward.

Thank you very much for your attention and I will be pleased to answer any question you may have.