

U.S. Flue-Cured Tobacco Situation & Outlook

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How much are contracted pounds down for 2015??

– 15%

– 20%

– 25%

Acreage & Production for 15, 20, & 25% Reduction in 2015 Contracted Pounds

% Cut in Pounds	-15%	-20%	-25%
Contracted Pounds	408 million	384 million	360 million
Production at 10% Overage	449 million	422 million	396 million
Acreage	204 thousand	192 thousand	180 thousand

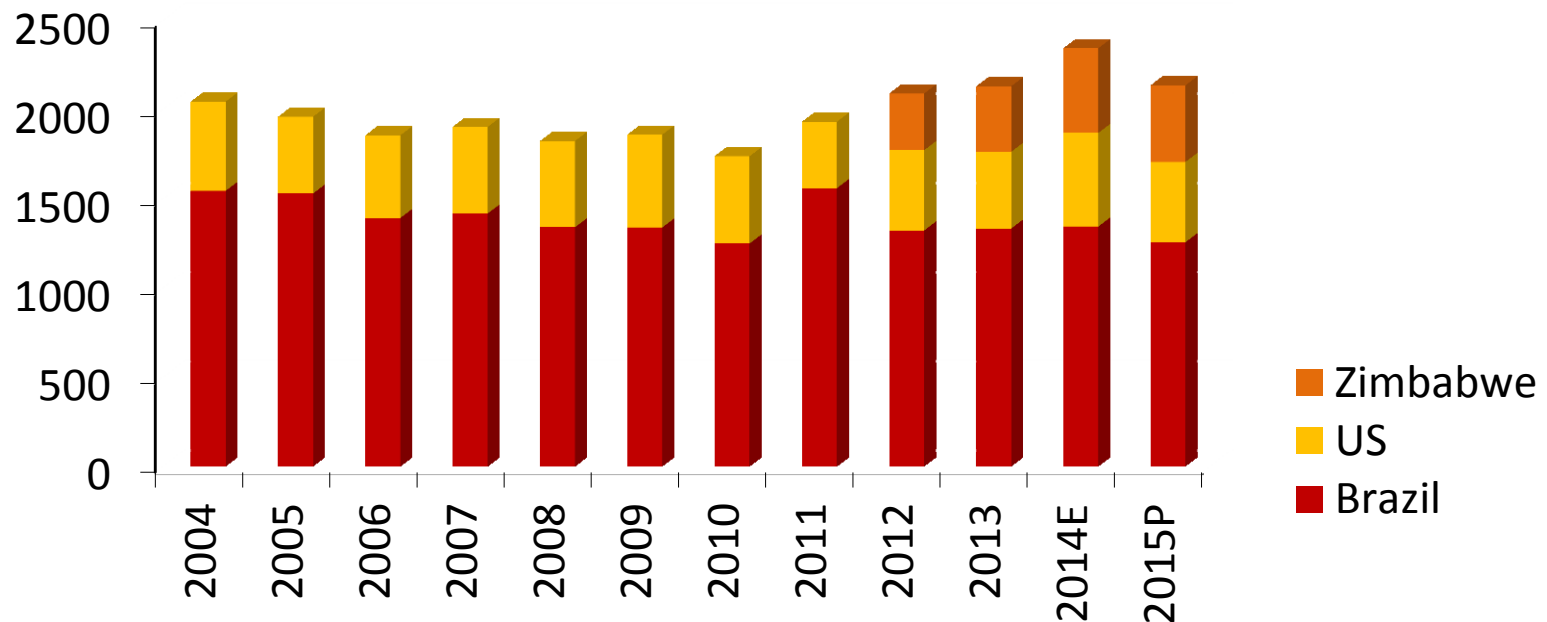
Assumptions:

- 480 million pounds contracted in 2014
- 2,200 lb/acre average yield

So what's causing such a large reduction?...

- Global supplies?
- Imports?
- Anticipation of large reductions in cigarette consumption?
- Exports...exchange rates, etc?
 - Greater deterioration of EU Market?
 - A slowing of exports to Asia?

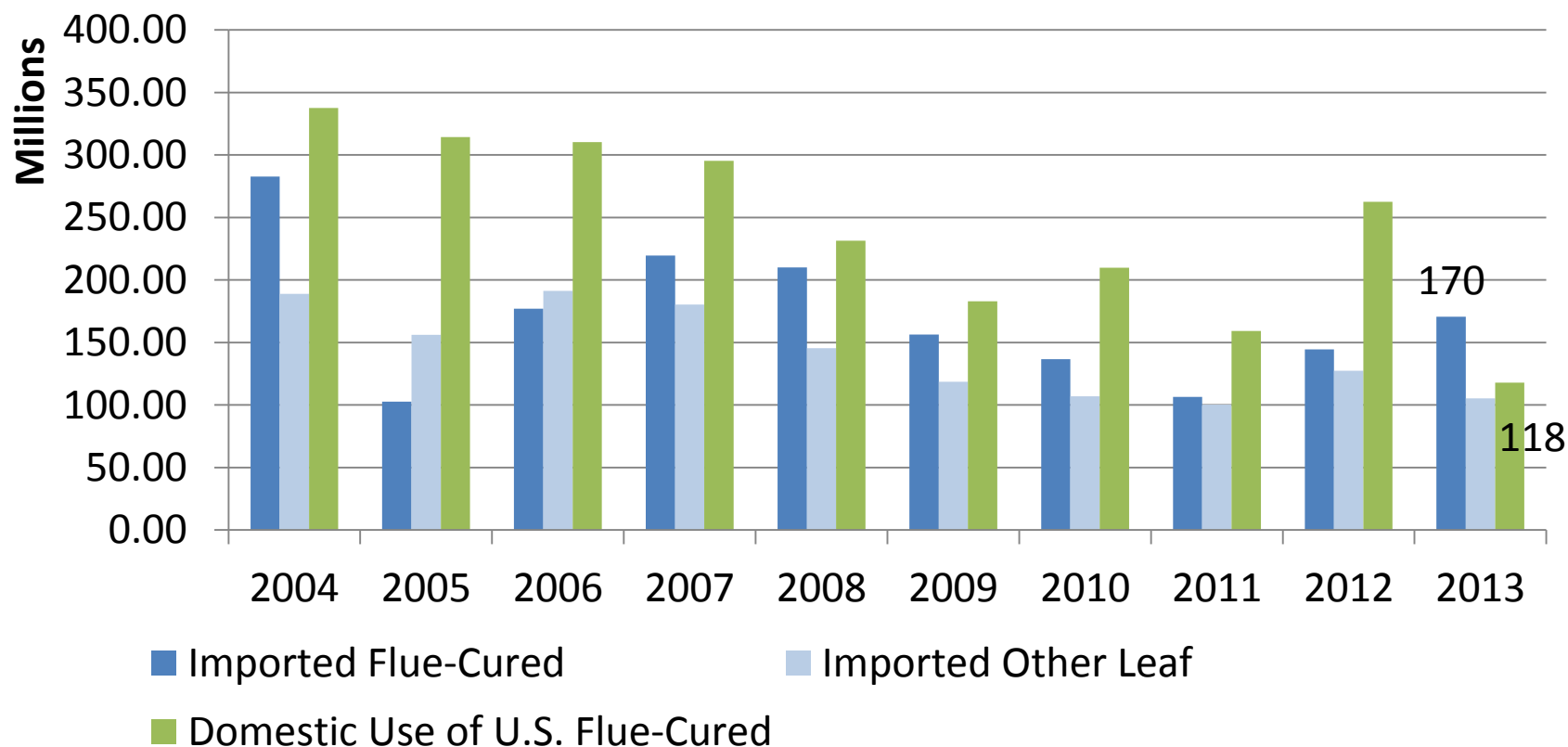
Global Supply: U.S., Brazil and Zimbabwe Flue-Cured Tobacco Production



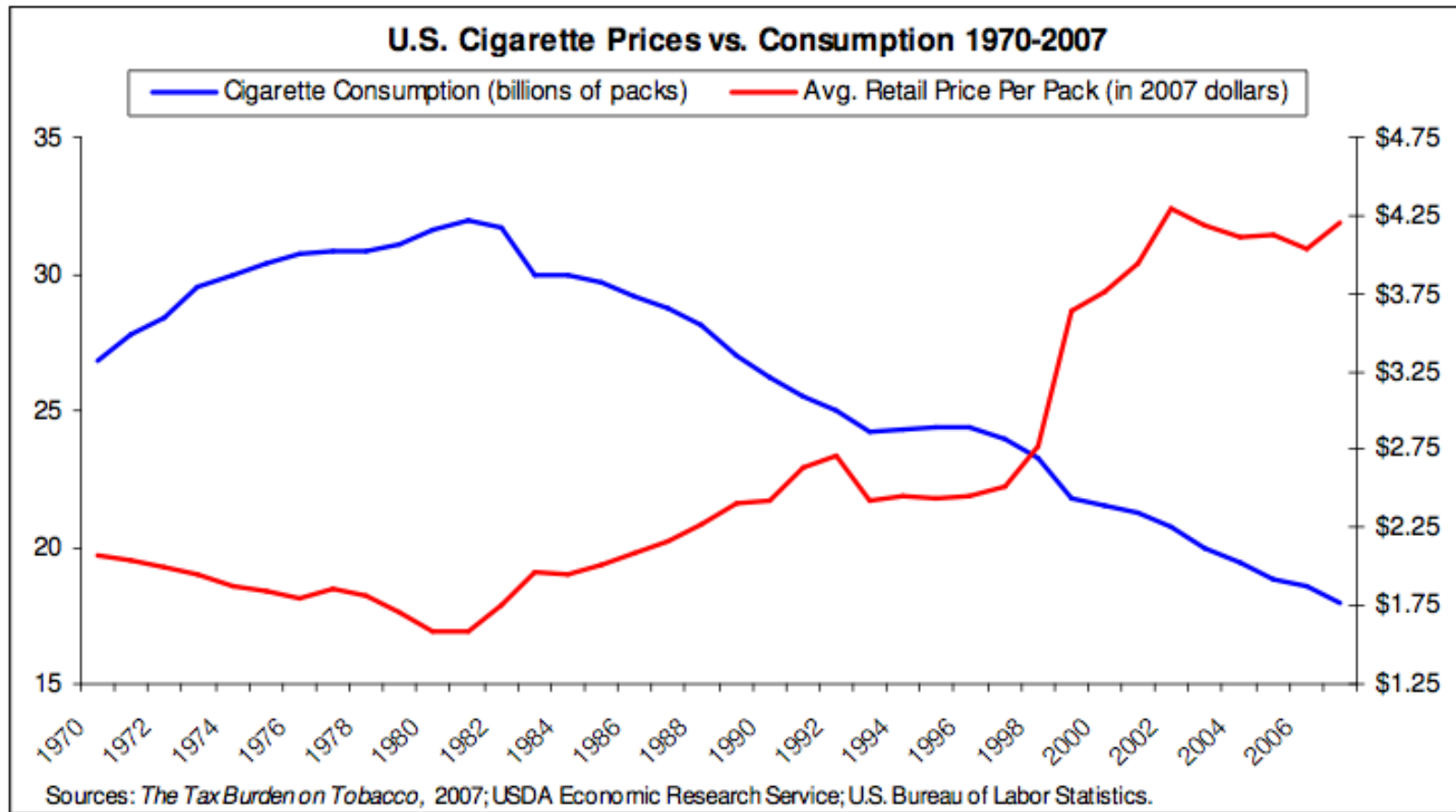
Source Brazil & U.S.: Universal Corporation. "World Leaf Production as of Feb 3, 2015."

Source Zimbabwe: Zimbabwe Tobacco Association "Weekly FCV Report 14.07.2014"

Imports: Domestic Use of U.S. Flue-Cured Tobacco & Imported Tobacco



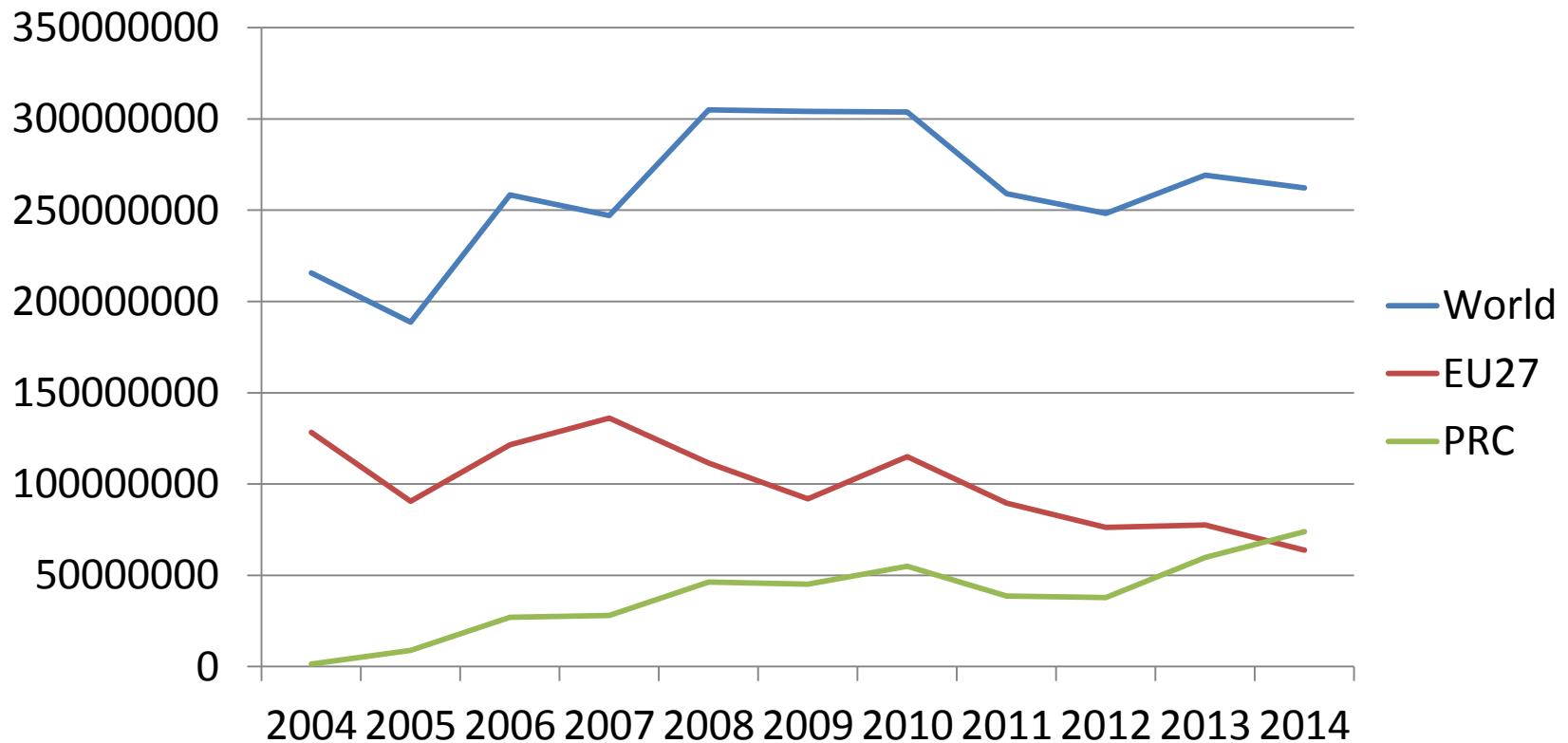
Declining Cigarette Consumption



Tobacco products will undergo a technological revolution over the next 5-10 years

- **Non-combustibles could dominate traditional combustibles in the U.S. and EU**
- **Will e-cigs or “heat-not-burn” products dominate?**
 - **E-cigs: very different tobacco required**
 - **“heat-not-burn:” high quality tobacco needed...& maybe substantial quantity needed**
- **US & EU combustible sales may be heavily impacted**

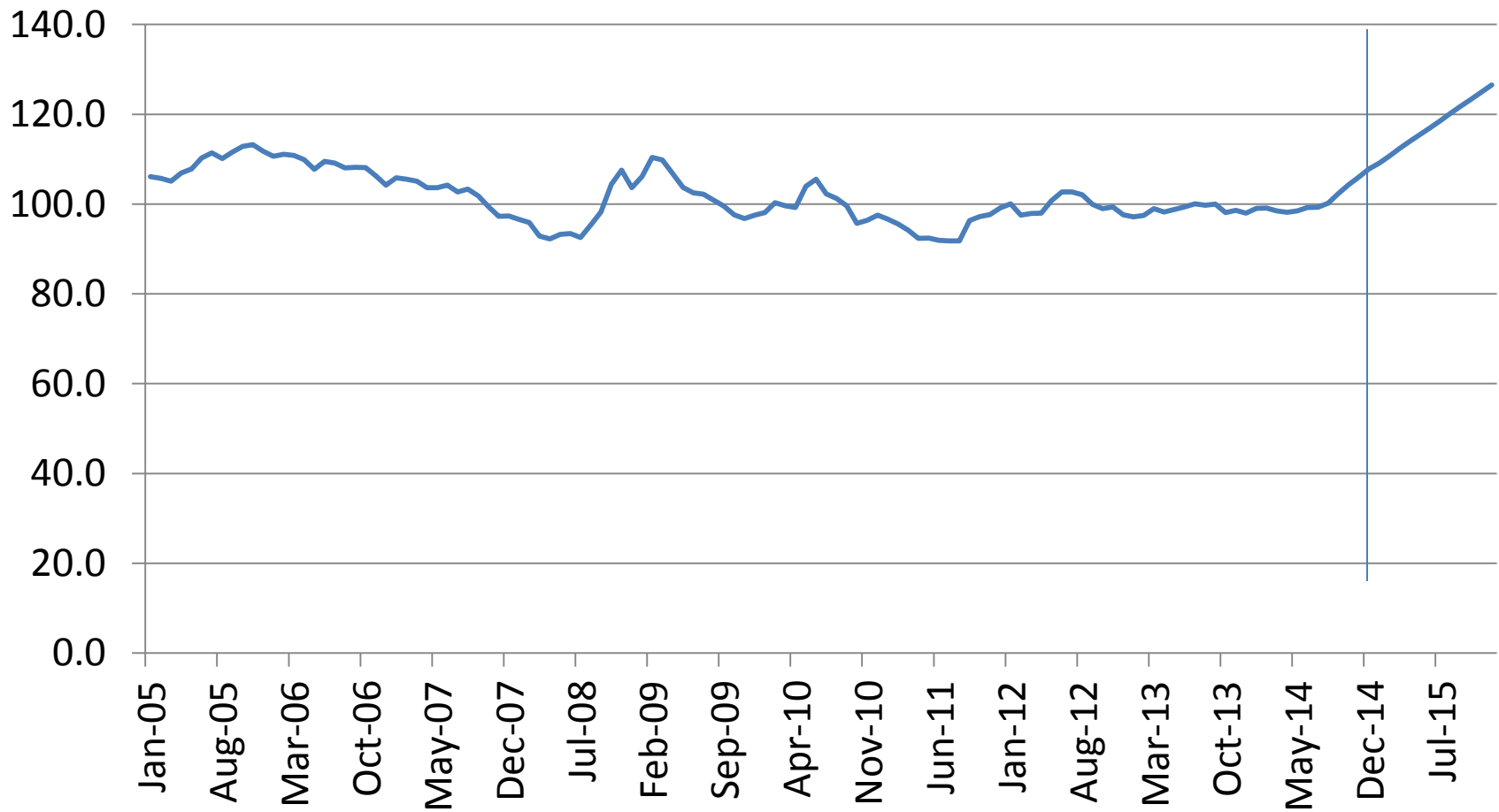
U.S. Unmanufactured Exports of Flue-Cured Tobacco (lbs farm weight)



Source: USDA-FAS

- Exports to EU follow the same path as Domestic use in the US
- But China's cigarette demand remains strong
 - “As China's domestic economy continues to strengthen,...**more consumers will trade up to premium brands**,...” IBISWorld Industry Report

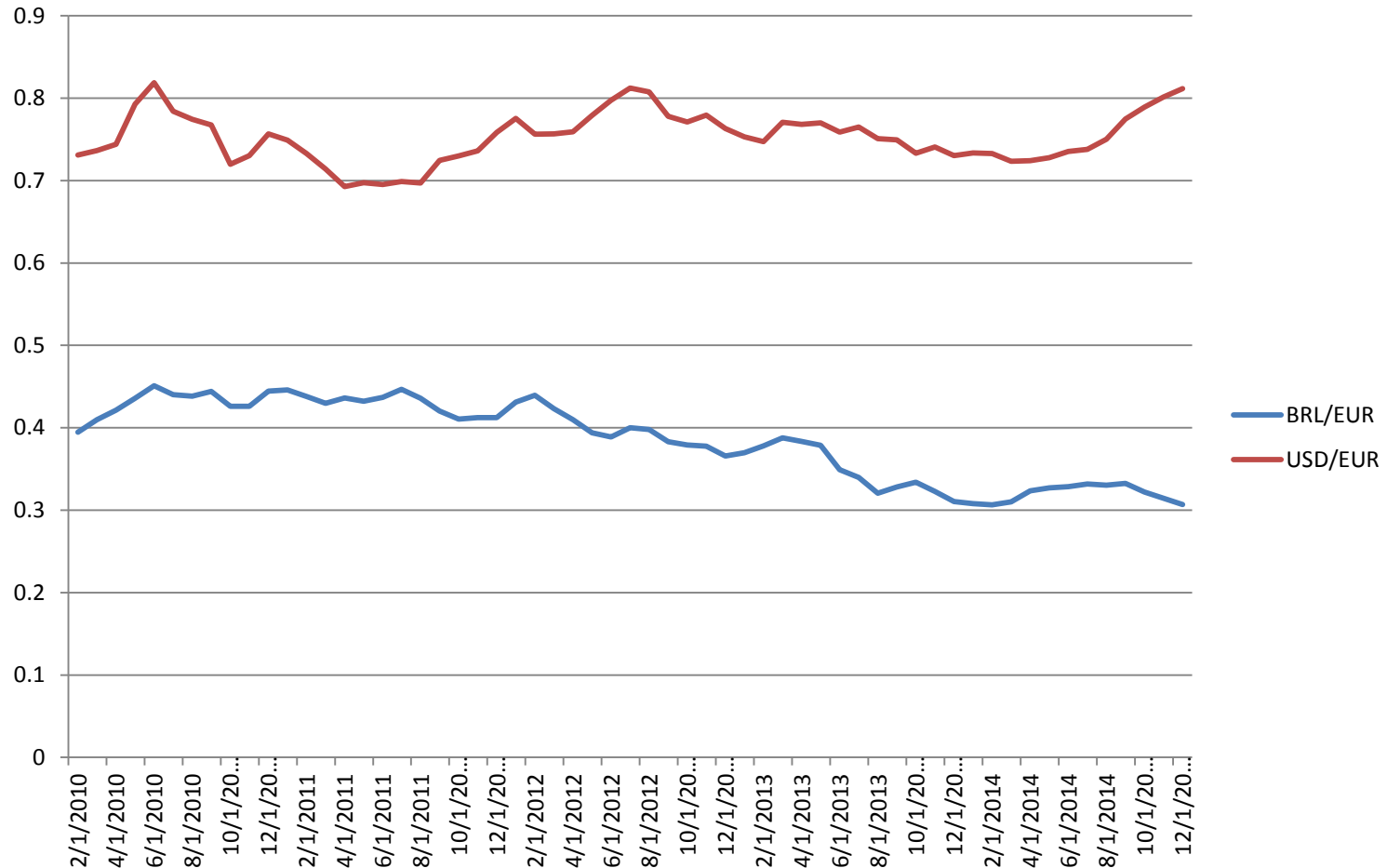
Real Commodity Exchange Rate for US Tobacco



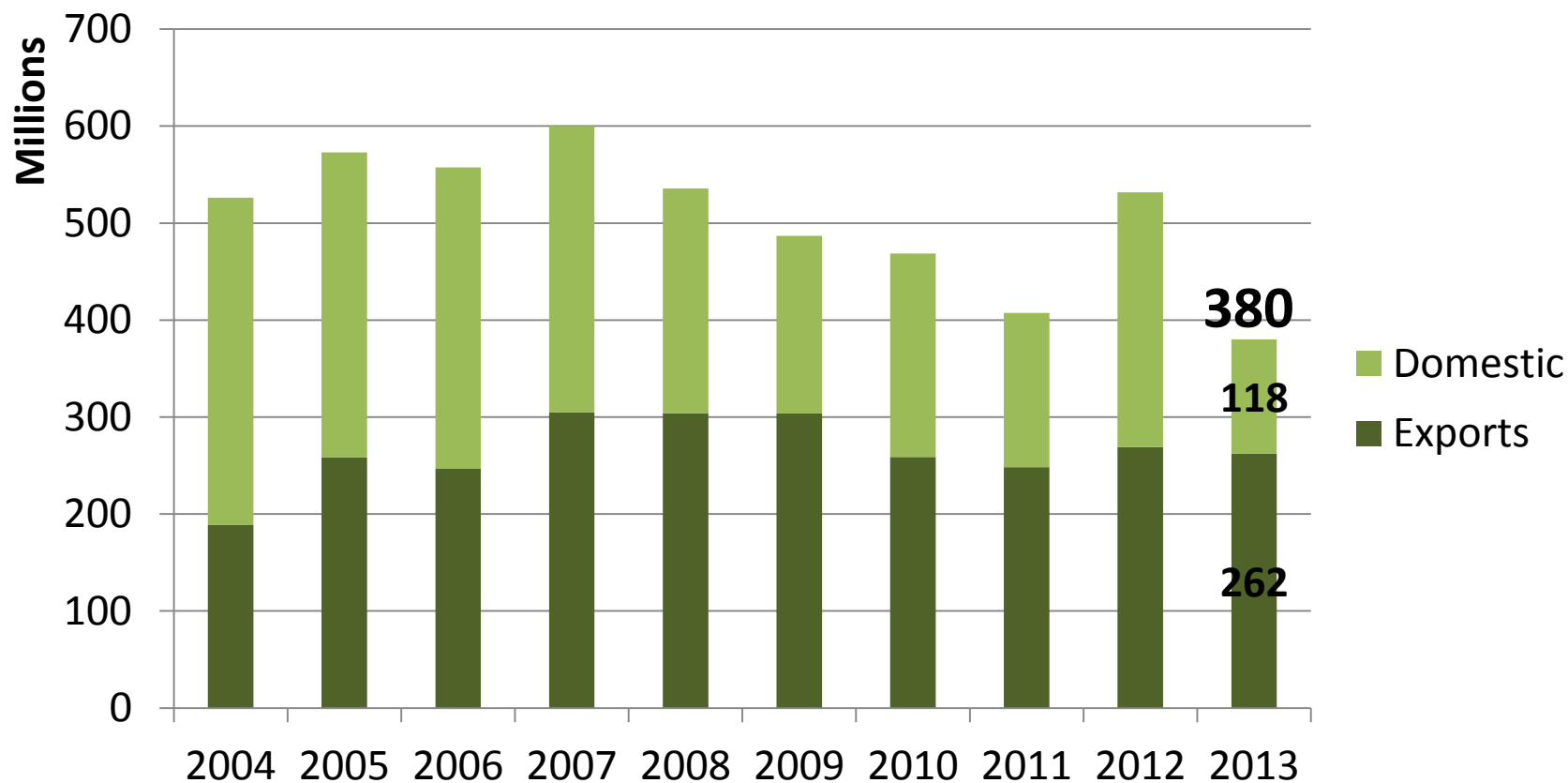
Source: USDA-ERS

Brazilian Real/EURO & US\$/EURO: 2010-2015

Competitor's exchange rates matter.



Domestic Use and Exports of U.S. Flue-Cured Tobacco



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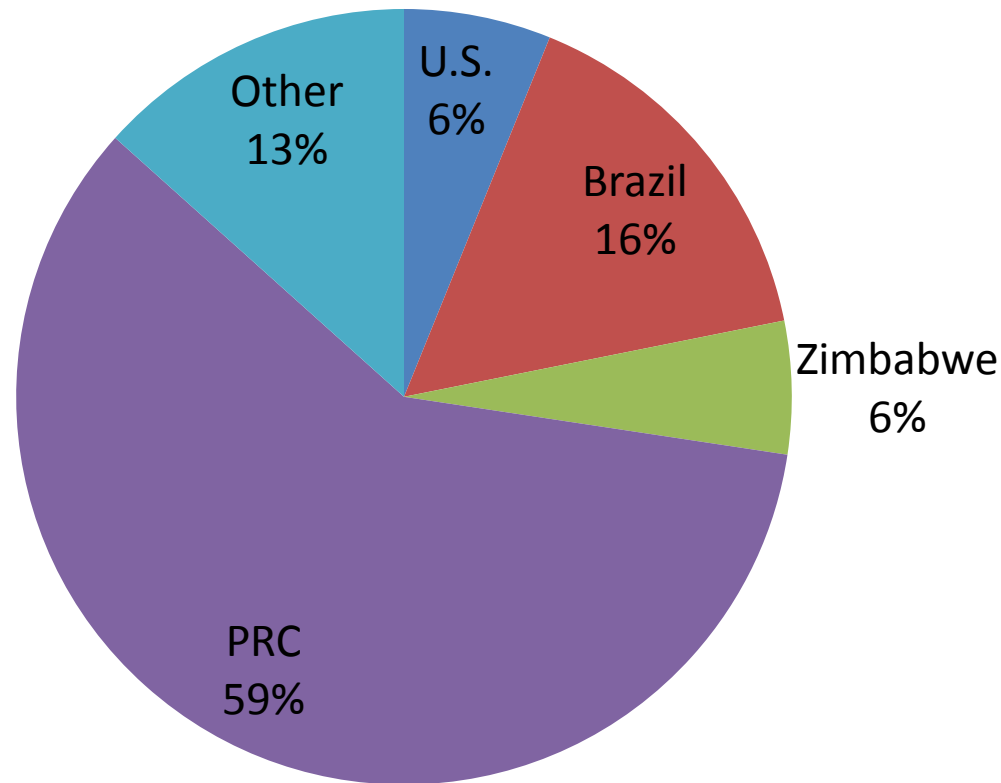
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- Will exports to China increase fast enough to offset declines in exports to EU?
- **Reduction in 2015 contracted pounds is probably due to some combination of all of the above**

2014 World Flue-Cured Production 9.9 billion pounds



Quality is *the* strategic advantage of U.S. flue-cured producers