

CIGAR STUDIO

SPRING, 2002

NEWS

VOLUME 6 , ISSUE 2

Our Best Selling Brands

In January and February, we completed 2001 line reviews with all our suppliers. During these reviews we go over the past year - brand by brand - and examine what sold well and what did not. We then put our final spring/summer plans to bed while looking ahead to the Fall. Suppliers are obviously interested in how their "stuff" sell compared to their competitors, so we show them. (See page 3 chart for our top 15 list).

Montecristo was the #1 selling brand in the store in 2001. Three factors combined to drive Montecristo sales (along with that of other Cuban brands) - the big price decline in retail tax assessment in May of last year, an improvement in the quality of Cuban cigars and an increasing \$US dollar value which made our cigars "drop" in price to our US customers. #2 was our Nicaraguan House brand. Macanudo took spot #3 while Romeo Y Julieta and our Honduran House Brand rounded off spots 4 and 5. The rest of the list is shown on the accompanying chart. It is worth noting-

- **O**ur house brand category really dominates our cigar department. Customers enjoy their flavor and love their price. 1 out of 6 cigars we sell are from this category. If you add up our Nic., Hon., and Dom. House numbers, customers buy almost 7 boxes a week!!
- **W**hile current trends are seeing some smokers opt for stronger cigars, our customers enjoy milder and flavorful brands. 7 of the top 15 brands would be classified as mild to medium body cigars. Our house Nicaraguan, Macanudo and Leon Jimenes head this milder category although each brand does contain a more medium strength maduro line.

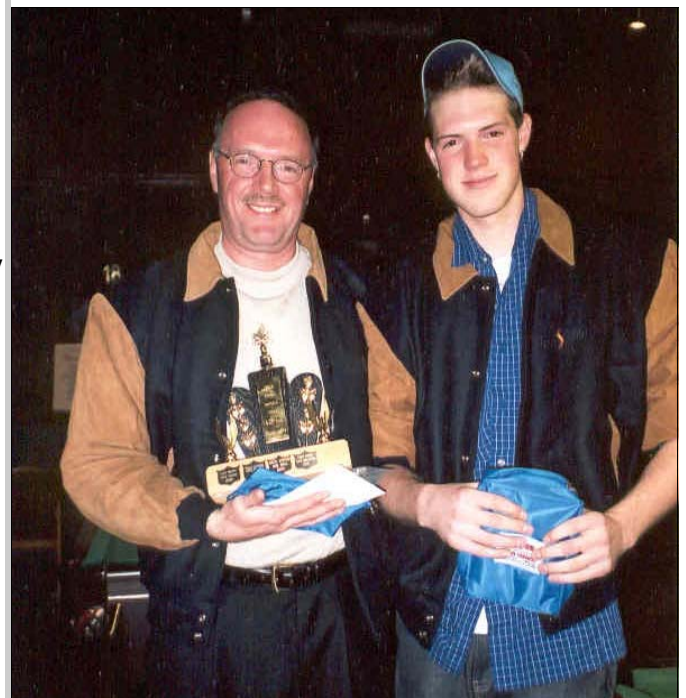
Lets see which brands you put into the Top 15 list for 2002!

Pool Tournament Raises \$3000 for Big Brothers/Big Sisters

On Tuesday March 5, 64 pool players converged at the Crooked Cue to participate in the 5th Annual Pool Tournament for Big Brothers/Big Sisters. After three hours of some terrific stripes and solids, Team Lexus/Toyota, a.k.a. Ken Shaw Jr and his son Kenny, emerged undefeated and claimed the 4-3-2-1 Championship Trophy. Team Rockaderos (Bill Hayter and Rob Marcantonio) handily plowed though the Consolation side to win that stream.

Many thanks to Lee Hammond (Kinectics), Mike Maguire (Swiss Chalet Kipling Queensway), Paul Shaw (Ken Shaw Toyota/Lexus) and Tim Topornicki (Topper Linens) for their direct financial contributions to the Tournament. Thanks also to Bondele Cigars, Coors Light, the staff at Crooked Cue, Fraser Food Services, James Signs, Molson's, and RJ McCarthy for their donations/gifts in kind. Together, the tournament raised \$3,000 for Big Brothers/Big Sisters of Toronto. And many, many thanks to all players!! A great night was had by all.

Note To File – Last year, Ken Reid won the tournament. This year Ken Shaw Jr. and his son Kenny won the tournament. Next year...



SUPPLIERSPEAK

Over the past couple of months, we sat down with our suppliers and asked them for their thoughts on last year and what they thought would occur in the specialty tobacco industry in 2002. There is some real optimism out there! Here is what they said:

On Last Year

"I think we will see a much more stable market this year" says Steve Wall, of Hinds Brothers. "The sharp year over year decline we saw back in 1999 and 2000 was not repeated last year." Most suppliers stated that 2001 was the year that the weaker market seemed to show signs of recovery, in spite of 9/11. Colm O'Shea of House of Horvath (Leon Jimenes, Aurora, Macanudo) calls it a calming trend compared to previous years and expects a very positive market. (We agree here – after a bumpy first half in 2001, our business rocked from Thanksgiving on).

There are two schools of thought on explaining the stronger premium cigar market in the 4th Quarter of 2001, and its continued strength so far this year.

- Following the initial shocks of 9/11, the Fall Thanksgiving period gave rise to consumers saying – "I have a lot to be thankful about. I live in a crazy, mixed up world but I have my family, my friends and my job and have reason to feel better and celebrate a little." Sales of many discretionary products like premium cigars (and fine wines, expensive malts, etc.) seemed to benefit from these sentiments.
- The beginnings of an improved economic and business environment were occurring, lending support to the theory that cigars are a leading economic indicator.

Current Trends – More Value, More Body, Smaller Sizes

A natural development following boom years of 1995 – 1998, is the increasing importance of quality and value. Long gone are the years when smokers lined up to pay high prices for cigars, which did not warrant those prices. And retailers who did not pay attention to retail basics during the boom –service, value, quality, proper cigar maintenance - do not have much of a loyal customer base anymore, if they are still around. "Consumers want choice and a

broad assortment to choose from" says Joe Bondi of Bondele Cigars (Padron, Segovia, Villager), "but don't forget value. There is very strong demand for good quality cigars under \$10". (We have seen this at Cigar Studio for years now as this helps to explain the strength of our house brands. Good quality bundles are in fact putting more and more pressure on the machine made category which may remain flat this year). "The challenge for us as importers, is too deliver a quality cigar to the retailer at a fair price" says Colm at Horvath. "We are able to do this by working directly with some of the best manufacturers in the business, like Aurora SA. The Aurora brand is a great cigar at a super price"

Another trend that began in earnest a couple of years ago and is now mainstream to the industry, is consumer preference for more body and flavor in their cigars, especially among smokers who have enjoyed specialty tobacco for some years now. Chris Harper of National Tobacco; "We have had tremendous success with our Dominican Selection and Maduro wrappers." "The consumers who discovered cigars 5 years ago are switching to fuller body yet smaller cigars," says Joe. Echoing a similar sentiment as Colm, Joe says, "The Maduro Short Walk by Flor de Honduras hits every dimension that the experienced smoker is looking for – great value, superb construction, a shorter smoke and a ton of flavor." This is not to suggest that mild cigars are out of vogue. "Just the opposite" says Luc Taillefer of David Cigar (Ashton, Fuente, Santa Rosa). "They still represent a large part of cigars and remember first time cigar smokers, including smokers who give up cigarettes, are usually going to begin with something milder".

What about the 'European' influence we are seeing with respect to sizes? Luc sees the North American market shifting to sizes that have been popular over there for decades. "It is not just the cigarillo market which is exploding. We are finding strong demand for our panetella and cordiale sizes as the consumer opts for a shorter smoke".

Another trend Luc identified in the cigarillo market is the number of brands, which may incorporate filters. "These will initially be sought after by the cigarette smoker who has given up the cigarette habit but is looking for an occasional smoke and is used to a filter. We are already seeing stronger demand for our

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Danneman Moods and Sweets both of which have always had filters.”

2002 Business Outlook

Business outlook amongst all of our suppliers remains bullish. The fundamentals for a stronger market are well in place - the economy is showing signs of improvement; the fad smoker has long left the market; the consumer has matured and become much better informed about what he/she wants; suppliers are providing a better quality product to the market; and the remaining specialty retailers are more service driven than ever before.

Consensus estimate for 2002 is that the \$cigar market will increase about 5%-6% this year with the cigarillo category up 10% -12%, the machine made category flat, while sales of premium hand made cigars are estimated at a 4%-5% increase.

The News From Havana House

Over cigars and espressos, we spent a very pleasant 90 minutes in the boardroom of Havana House, talking to Roberto Pelayo, General Manager. He shared his thoughts on the cigar industry in Canada, today's cigar smoker, and on new initiatives from Cuba. Here are some highlights from our discussion.

On Improved Quality of Cuban Cigars

“Many factors are coming together which are improving the quality of our cigars, but four are most important: a) we have inventories of tobacco in our warehouses for several years of sales, thus insuring well aged wrapper for our products; b) factory incentives are no longer based on quantity targets but quality insurance targets; c) we are being very careful about how we produce the trademark sizes of our brands – robustos, torpedos, churchills – and the quality of the ligero leaf which goes into them. The unique character of that tobacco makes it more difficult to bunch so only our best rollers will be tasked for those cigars, and d) we have invested a lot of money into new equipment including machines to test for the proper draw on cigars.

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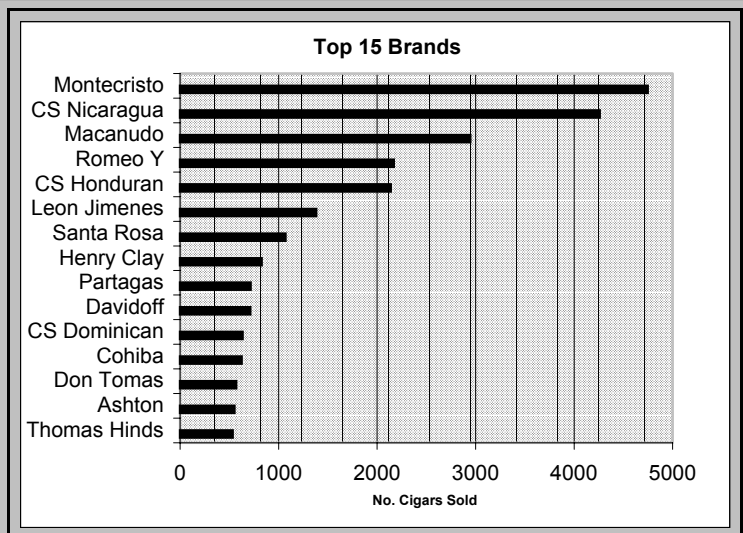


Figure 1 Cont'd from page 1.

WHAT'S NEW IN STORE

The arrival of brand new product for 2002 has begun. The next time you are in the store, have a look at the following:

- Colibri CX Gear, Water/Wind-resist. Lighter \$69.95
- Wesley Bober Leather Cigar Box \$269.00
- Opus X Fuente Fuente (more in stock) \$52.00
- Reiner Pipe Tobacco – Yellow Star, 50g \$15.50
- McClelland Pipe Tobacco – 100g 2002 Anniversary Blend \$32.25
- Cigar Oasis Electronic Humidifier \$239.00
- Prometheus S Cutter/Intruder Lighter \$110.00

The months of April and May see a constant flow of new items so ask “what's new” next time you are in.

Cigar Aficionado Ratings

The April issue of Cigar Aficionado (Don Johnson cover) gave ratings of 90 or better to 10 cigars, 6 of which are available in Canada. Cuba had 4 cigars rated at the highest level, including sizes from Vegas Robaina, Bolivar, H Upmann and Romeo Y Julieta. CAO and Padron, both from Nicaragua, were also rated in the 90's.

The ratings support the improving quality of Cuban cigars, and give testimony to the outstanding cigars coming out of Nicaragua these days (Padron, CAO, Hoja D Nicaragua, Segovia, Perdomo, and Thomas Hinds to name a few).

Next time you are in the shop, why not try one of these brands and see for yourself.

EVENTS

Home Smith Lounge To Host Beer and Oyster Evening

On Tuesday, April 9, the Home Smith Lounge at the Old Mill is hosting another of their very successful cigar and hospitality evenings. Premium beer and oysters are on the menu, featuring beverages from Upper Canada Brewery and food from Oyster Boat and the Old Mill. Reservations are necessary. Tickets are \$20 and are only available at the Home Smith Bar.

Call (416) 232-3718.

Pipe Smokers To Gather at the Crooked Cue

On February 16, guests from Cigar Studio, the Burlington Pipe Club and the Toronto Pipe Club converged at the Crooked Cue on Bloor. About 30 attendees shared many bowls of premium pipe tobacco and several cold adult beverages while swapping information on their pipes and their enjoyment of pipe smoking. Brigham Enterprises were our "supplier experts" and were terrific ambassadors on the industry and current trends in the market. Many thanks to Brigham, the staff at the Cue and our colleagues at the Burlington and Toronto clubs for their support.

Everyone enjoyed themselves so much that the next gathering was arranged on the spot. Put **Saturday, April 6** in your calendar. We will gather at the Crooked Cue once again from 1PM until 4PM.

...News From Havana House Continued from page 3.

On New Products From Cuba

The Mini, Club and Purito formats have been extended to reflect the brands of their larger sizes. These are in response to consumer desire for more choice including smaller sizes. Our Edicion Limitada sizes have been hugely successful worldwide and these will be extended to new sizes and shapes this year including the RYJ Torpedo and Partagas Series No 3. One thing that we will particularly focus on here in Canada, are our premium brands and their flagship sizes. To really taste a great Cuban cigar is to smoke a robusto or torpedo and we feel sales of these sizes will increase. The big price-drop of these sizes in Canada will make them much more affordable to smokers. You will also find new marketing behind these brands including new information to help educate both the consumer and retailer.

On The Trend Towards Stronger Cigars

It is no surprise that many companies are blending stronger cigars since many of them use Cuban Cigars as their desired standard. Our challenge is to continue to improve and build upon our capabilities and deliver truly unique, high demand product like the Edicion Limitada sizes. When we hear another company claim that their cigar is strong like a Cuban cigar, or tastes like a Cuban cigar, it makes us very proud.

On Industry Prospects in Canada

I am very optimistic, even bullish, on the outlook here. The renewed focus on quality versus quantity targets in Cuba, the significant price drop on flagship sizes combined with new marketing we will do here, will provide a truly exceptional product to consumers in Canada. **Cuban cigars are the finest cigars in the world. In 2002, more and more smokers will come to this realization. I am confident about that.**

We are too Roberto!



Kingsway Pipe Club Feb 16: Kyle flanked by guests Norma and Angela. Next meeting Apr



4-3-2-1 champs and their opponents Joe and Tom. Cheers!!

Business Hours

Mon – Wed: 10am – 7pm
Thu – Fri: 10 am – 8pm
Sat: 10am – 6pm
Sun: Noon – 5pm