

Lorillard

MEMORANDUM

July 31, 1986

TO: Those Listed

FROM: S. F. Smith

RE: ANNUAL INDUSTRY AND CATEGORY FORECASTS

For your reference, MRD's current industry volume estimates for 1986 through 1988 are shown below. In addition, the attached tables summarize:

- 1) 1986 and 1987 volume and share of market forecasts for key market segments
- 2) breakdowns of projected filtration category shares by length (king vs. 100mm), type of packing (soft vs. box), and non-menthol vs. menthol.

Estimates of industry shipments versus consumption for the next three years relative to actual recent annual trends are as follows:

Industry Volume Trends

	<u>Shipments</u>			<u>Consumption*</u>		
	<u>Units</u> <u>(Bill.)</u>	<u>Change vs.</u> <u>Year-Ago</u> <u>Units</u>	<u>%</u>	<u>Units</u> <u>(Bill.)</u>	<u>Change vs.</u> <u>Year-Ago</u> <u>Units</u>	<u>%</u>
<u>Actual</u>						
1983	596	-26	-4.2%	600	-18	-2.9%
1984	600	+ 4	+0.6%	594	- 6	-1.0%
1985	595	- 5	-0.8%	587	- 7	-1.2%
<u>Estimated</u>						
1986	585	-10	-1.7%	580	- 7	-1.2%
1987	578	- 7	-1.2%	573	- 7	-1.2%
1988	571	- 7	-1.2%	566	- 7	-1.2%

*Consumption estimates reflect annual rates of decline for shipments based on March through October 8-month periods

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As outlined in the following table, forecasted shipment trends for 1986 assume that: 1) consumption will continue to fall at a rate of 1.2% (i.e., the rate indicated by actual 1985 and early-1986 data); and 2) the industry's year-end load will be approximately 5 billion units higher than in 1985. This increase in load volume would most likely result from further efforts by Philip Morris to maintain volume growth (the company has not had an annual volume decline in over 30 years, but its total shipments for the first 5 months of 1986 were 3.8 billion units below a year ago), as well as the tendency seen for other companies to offer heavier and/or earlier terms associated with price increases, historically announced in mid-December.

1986 Industry Estimate

<u>Shipments (Units in Billions)</u>			
	<u>1985</u>	<u>1986</u>	<u>% Chg.</u>
Jan/Feb	75	66	-12.7%
Mar-Dec (excl. load)	500	494 (E)	- 1.2%
<u>Year-end Load</u>	<u>20</u>	<u>25 (E)</u>	
Total Year	595	585 (E)	- 1.7%

During 1987 and 1988, shipments are expected to adjust to consumption trends which are estimated to remain at about -1% per year due to the reduction in the number of smokers, higher prices, and increase publicity and legislation against smoking. Additionally, forecasts for these years presume that the magnitude of year-end loads will stabilize in the declining market.

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S. F. S.

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attach.

cc: M. R. Abene	R. D. Hammer	T. H. Mau
K. P. Curren	S. T. Jones	P. P. McFadden
J. E. Daghlian	M. A. Kayiatos	A. P. Pasheluk
S. L. Evans	E. M. Kiernan	M. A. Peterson
E. P. Farrell	V. D. Lindsley	W. Sands
C. G. Garbin	R. H. Orcutt	G. R. Telford
J. A. Guardino	J. P. Mastandrea	H. H. Westphalen

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VOLUME (UNITS IN BILLIONS) AND SHARE OF MARKET TRENDS
ACTUAL 1983 - 1985 AND ESTIMATED 1986 & 1987

INDUSTRY	LOFI		LOTAR		ULT		STRAIGHTS		120MM	
	VOL	% CHG.	VOL	% CHG.	VOL	% CHG.	VOL	% CHG.	VOL	% CHG.
1983	596	-4.2	261	-8.9	216	2.0	66	-0.7	13	-0.7
1984	600	0.6	264	1.2	223	3.2	62	-5.2	13	-0.9
1985	595	-0.8	260	-1.2	225	0.8	61	-2.3	14	5.5
1986 (EST.)	585	-1.7	253	-2.8	226	0.3	59	-2.8	15	7.4
1987 (EST.)	578	-1.2	248	-2.1	227	0.6	58	-2.2	15	2.8

INDUSTRY	80MM		85MM		100MM SDFI		100MM BOX	
	VOL	% CHG.	VOL	% CHG.	VOL	% CHG.	VOL	% CHG.
1983	596	-4.2	58	7.0	270	-8.2	186	-3.3
1984	600	0.6	61	4.6	266	-1.4	188	0.8
1985	595	-0.8	64	4.9	262	-1.8	185	-1.3
1986 (EST.)	585	-1.7	66	2.6	254	-3.0	184	-0.8
1987 (EST.)	578	-1.2	67	2.3	249	-2.1	182	-0.9

INDUSTRY	TOTAL 80/85MM		TOTAL 100MM		TOTAL BOX	
	VOL	% CHG.	VOL	% CHG.	VOL	% CHG.
1983	596	-4.2	329	-5.9	214	-0.6
1984	600	0.6	327	-0.4	222	3.7
1985	595	-0.8	326	-0.5	221	-0.5
1986 (EST.)	585	-1.7	319	-1.9	219	-0.9
1987 (EST.)	578	-1.2	316	-1.2	217	-0.7

INDUSTRY	NON-MENTHOL		MENTHOL	
	VOL	% CHG.	VOL	% CHG.
1983	596	-4.2	381	-2.6
1984	600	0.6	386	1.5
1985	595	-0.8	386	-0.2
1986 (EST.)	585	-1.7	382	-0.9
1987 (EST.)	578	-1.2	380	-0.6

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SHARE OF MARKET TRENDS
ACTUAL 1984 & 1985 AND ESTIMATED 1986 & 1987

	TOTAL			NON-MENTHOL			MENTHOL		
	1984	1985	1986(E)	1984	1985	1986(E)	1984	1985	1986(E)
INDUSTRY	100.00	100.00	100.0	64.43	64.85	65.3	27.13	27.02	26.7
TOTAL LOFI	43.97	43.81	43.3	30.37	30.15	29.9	13.59	13.66	13.4
LOFI 80MM	7.74	7.92	8.0	6.62	6.63	6.6	1.12	1.29	1.4
LOFI 85MM	22.53	22.40	22.0	14.89	14.81	14.6	7.64	7.59	7.4
LOFI 100MM SP	12.52	12.19	12.0	7.82	7.63	7.6	4.70	4.56	4.4
LOFI 100MM BOX	1.17	1.29	1.3	1.04	1.08	1.1	0.13	0.21	0.2
TOTAL LOTAR	37.22	37.84	38.6	26.51	27.25	28.0	10.71	10.59	10.6
LOTAR 80MM	2.31	2.72	3.1	2.14	2.57	2.9	0.17	0.15	0.2
LOTAR 85MM	17.84	17.78	17.7	13.03	13.11	13.1	4.81	4.68	4.6
LOTAR 100MM SP	13.97	14.11	14.5	9.73	9.83	10.2	4.24	4.28	4.3
LOTAR 100MM BOX	3.10	3.23	3.3	1.61	1.74	1.8	1.49	1.49	1.5
TOTAL ULT	10.37	10.22	10.1	7.55	7.44	7.4	2.82	2.77	2.7
ULT 80MM	0.10	0.09	0.1	0.10	0.09	0.1	0.00	0.00	0.0
ULT 85MM	4.06	3.83	3.7	3.06	2.90	2.8	1.00	0.93	0.9
ULT 100MM SP	4.82	4.85	4.9	3.48	3.52	3.6	1.35	1.34	1.3
ULT 100MM BOX	1.39	1.44	1.4	0.91	0.94	0.9	0.48	0.51	0.5
TOTAL 80MM	10.15	10.74	11.2	8.87	9.29	9.6	1.28	1.45	1.6
TOTAL 85MM	44.43	44.01	43.4	30.98	30.82	30.5	13.45	13.19	12.9
TOTAL 100MM SP	31.31	31.16	31.4	21.02	20.98	21.4	10.29	10.18	10.0
TOTAL 100MM BOX	5.66	5.96	6.0	3.56	3.76	3.8	2.10	2.21	2.2
TOTAL 80/85MM	54.58	54.75	54.6	39.85	40.11	40.1	14.74	14.64	14.5
TOTAL 100MM	36.97	37.12	37.4	24.58	24.74	25.2	12.39	12.38	12.2
TOTAL SP (85/100MM)	75.74	75.17	74.8	52.00	51.80	51.9	23.74	23.37	22.9
TOTAL BOX (80/100MM)	15.81	16.70	17.2	12.43	13.05	13.4	3.39	3.65	3.8
STRAIGHTS 120MM	6.27	5.82	5.5						
	2.15	2.29	2.5						

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