Continuing success for Oettinger Davidoff AG

New records set for revenue and production in 2014 thanks to strong growth in sales of Davidoff cigars – Strategic investments in Honduras and Nicaragua reinforce "crop-to-shop" strategy – Cautiously optimistic outlook for current year

Basel, 17 June 2015 - Basel-based Oettinger Davidoff AG, the worldwide leading manufacturer of premium cigars, further consolidated its strong global market position in 2014. With market performance varying from region to region, the company secured above-average growth and thus increased its market shares. Despite the continued focus on core business, which prompted the company to sell its cigarette machine business in 2013, Oettinger Davidoff AG increased revenue by 1.7% in 2014 to CHF 1.23 billion (previous year: CHF 1.21 billion). This positive performance was driven by the Davidoff brand's strong growth, with global revenue increasing by 12%, as well as impressive growth in the USA. Earnings developed above average, and cigar production went up once again to 44 million cigars, which is 13.1% higher than in the prior year and a new production record. This improved performance is also reflected by a 4.9% increase in staff numbers, mainly due to new hires in the Dominican Republic and Honduras. The company created more than 170 new jobs in these producer countries. Despite the negative effect of freeing up the Swiss franc exchange rate, and despite the uncertain economic outlook in Europe, Oettinger Davidoff is cautiously optimistic about 2015, which is its 140th anniversary year.

The company's consistent focus on its core business of producing and selling its own brands and those of other premium producers, as well as developing its own innovative new products and relaunching selected existing ones, is paying off. CEO Hans-Kristian Hoejsgaard commented as follows on last year's performance: "We are very pleased with the results we've achieved and the high degree of consistency in Oettinger Davidoff's revenue, earnings and sales volumes." This performance is still based mainly on the core Davidoff brand, but some of the company's other internationally distributed brands have also posted pleasingly strong growth rates.

Alongside the continuously successful Davidoff brand, last year's European launch of the Camacho cigar, which is already very successful in the USA, was a resounding success. Camacho is now Oettinger Davidoff's second most important brand. Growing demand for this cigar and other Honduran brand cigars in the mid-premium price segment has
prompts the company to start planning a new, modern production building in Danlí (Honduras). It will replace an out-of-date plant and ensure that production, which has increased by 60% over the last three years, can continue to keep pace with rising demand.

During the year under review, Oettinger Davidoff also purchased 150 hectares of land in Honduras and Nicaragua in order to plant enough additional crop to meet this demand. This expansion, along with the 170 new jobs created, also ensures control over the whole value chain – from sowing the seeds right up to the finished cigar.

**Desired closeness to customers requires constant improvements at the point of sale**

Increasing worldwide regulation of the sale and consumption of tobacco, as well as the introduction of new, more stringent anti-corruption regulations in China with regard to the acceptance of gifts, are having a negative impact on the luxury goods industry, and also influenced Oettinger Davidoff's sales during the year under review. Sales growth was also rather disappointing at duty free shops, where the lower number of Russian and Chinese travellers had a noticeable effect.

These trends created some pressure on sales, but did not jeopardize Oettinger Davidoff's positive overall revenue performance. This was far better than in the previous year in the USA, and slightly better in Asia. Markets in Europe shrank significantly, but Oettinger Davidoff managed to secure good growth and so gained share in all the important markets. The ongoing expansion of the retail sales network and the company's own sales outlets, especially Davidoff Flagship Stores in major cities and Davidoff Shops in duty free stores, contributed to the steady growth in sales.

It is increasingly important to bring brands closer to customers, though this is becoming more expensive because of the high price of top locations. Consequently, the acquisition of a minority stake in Asian distribution company Bluebell Cigars (Asia) Ltd. in January this year, with an option for subsequent acquisition of a majority stake, is strategically important for Oettinger Davidoff. Bluebell provides access to a dense network of sales outlets in Asia, which is Davidoff's most important future market. At the beginning of this year, Oettinger Davidoff signed a framework agreement with Sparkle Roll Group Limited, which is listed in Hong Kong, for a joint venture to market Davidoff cigars and cigar accessories in China.
Market presence is also being ensured by the repurchase of Oettinger Davidoff's distribution operation in Spain – a strategically important market – and the establishment of a dedicated subsidiary for the Iberian peninsula. Previously, Oettinger Davidoff had worked for almost 40 years with Madrid-based Proein SA.

Cautiously optimistic outlook for the anniversary year
CEO Hans-Kristian Hoejsgaard expects a varying growth performance from the main sales markets of Europe, the USA and Asia. It is hard to say how revenue will be affected by the economic and regulatory environment in Europe and especially Switzerland, where a new tobacco products law is currently being discussed. "But we are confident that we can outperform the market average again this year." This confidence is being bolstered by a series of Flagship Store openings in New York, Atlanta, Houston, Tampa, Amsterdam and Bahrain. In Basel, Oettinger Davidoff's 140th anniversary is being celebrated with the opening of a new Davidoff Shop by the city's Middle Rhine Bridge, while Zino Davidoff's original store in Geneva is being comprehensively modernised. Oettinger Davidoff is therefore significantly expanding and strengthening its distribution network during the anniversary year. In addition, the renowned "Winston Churchill" brand has been relaunched, thus further expanding Davidoff's existing product portfolio.

Davidoff Art Initiative now complete
The inauguration of the International Art Residency in the Dominican Republic at the beginning of this year completed the philanthropic Davidoff Art Initiative launched in 2012. The Art Residency Program is the main pillar of the Davidoff Art Initiative, which enables creative exchange between artists in the Caribbean, the Dominican Republic and the rest of the world, helping to develop their talents and experiences through residencies in other cultural environments. The Davidoff Art Initiative has been a resounding success. In the past three years it has already benefited twelve artists.

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