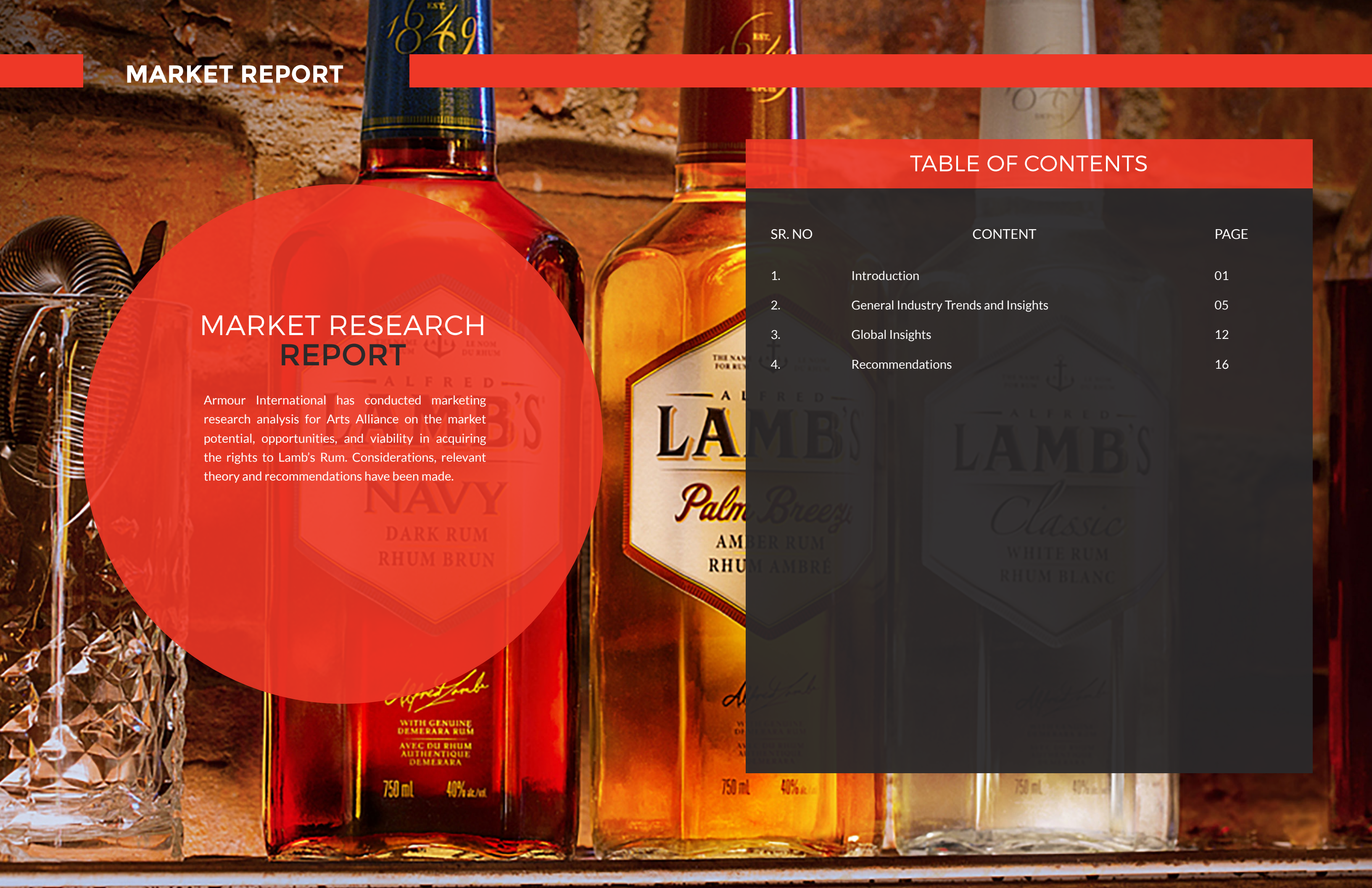


ARMOUR INTERNATIONAL



MARKET REPORT

ANALYSIS AND RECOMMENDATIONS ON LAMB'S RUM



MARKET REPORT

MARKET RESEARCH REPORT

Armour International has conducted marketing research analysis for Arts Alliance on the market potential, opportunities, and viability in acquiring the rights to Lamb's Rum. Considerations, relevant theory and recommendations have been made.

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1

EXECUTIVE SUMMARY



INTRODUCTION

Armour International has conducted marketing research for Arts Alliance, an investment firm in the UK, on the market potential and opportunities for Lamb's Rum. Below are our findings.



On behalf of Arts Alliance, Armour International has conducted both local and international marketing research, data analysis, recommendations and strategic insights based on the potential acquisition of Lamb's Rum, a recently retired brand. We have assessed general UK industry trends and insights, considered global insights, analyzed category/sub-category trends, marketing insights, relevant cases and conclude that the premium rum market has significant potential for growth in the next 10-20 years depending on the ability to introduce new premium, authentic drinks with unique tastes and strategically market to the segment that is driving this demand – the millennials. This demographic,

containing consumers who are all coming into the legal drinking age category (Grand View Research, 2017), are currently largely non-consumers of rum, but are driving huge demand for premium craft spirit drinks. The global craft spirits market is expected to reach USD 80.43 billion by 2025, according to a new report by Grand View Research, Inc. (Grand View Research, 2017).

Although Arts Alliance has no notable experience in bringing products to the Fast Moving Consumer Goods (FMCG) market and historically invests in early stage businesses we believe there is opportunity to use the experience gained in other product areas to



INTRODUCTION

the millennial demographic and attract these consumers. Although an investment at this time holds some risks, we believe it to be an attractive investment contingent on Arts Alliance’s abilities to focus on the expansion of new unique product combinations, using digital channels and a commitment to integrating the rich Lamb’s Rum narrative into a meaningful story. Specific growth markets of interest for rum are the UK, Asia, Germany, Canada, US, France, Mexico and South America.

Consumer data and overall market insights look very promising for investing in Lamb’s (“a vice product”), part of the beer, wine and spirits category, which is considered a seemingly recession-proof product compared to other products in the FMCG category. Vice products such as alcohol and tobacco are typically known for their value consistency in good or bad times. An investment at this time will, however, require scenario planning and new product research to further confirm viability and mitigate risks.

BACKGROUND

Lamb’s Rum is an already well-established brand worldwide with a rich tradition and largely untold brand narrative. Lamb’s is a premium-quality rum with a smooth, clean, distinctive taste. The current rum products include: Spiced, Navy, Palm Breeze, and Classic. From the house of Alfred Lamb, the recipe for Lamb’s dates back to 1849, when he established his business in London, England, distilling fine rums from the highest quality Caribbean sugar cane. We see this as a huge opportunity to tell the brand story and leverage digital, event, social, sponsorship and event marketing channels to appeal to and engage a large coming of age millennial audience than was previously under marketed to.

The story of Alfred Lamb and his journey is an authentic one and very conducive to driving meaning and engagement to the millennial segment. A well promoted authentic brand story that could sustain many years of growth and increased market share with certain demographics should the proper strategies be implemented and channels effectively used.

REFERENCE

Grand View Research, 2017. Craft Spirits Market Size Worth \$80.43 Billion By 2025 | CAGR: 33.4%. Market Research Reports & Consulting.

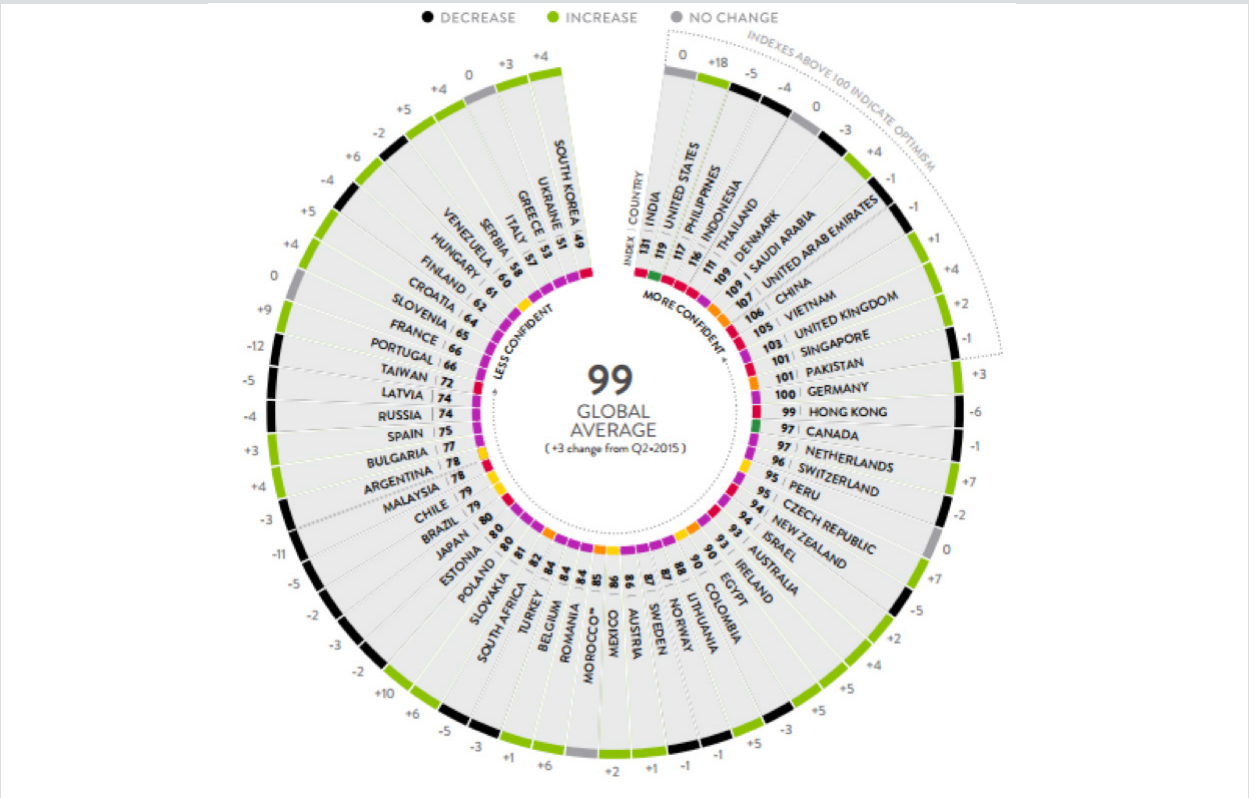


2

GENERAL INDUSTRY TRENDS & INSIGHTS

GENERAL INDUSTRY TRENDS

GENERAL INDUSTRY TRENDS AND INSIGHTS OF THE UK AND THE FAST MOVING CONSUMER GOODS INDUSTRY



CONSUMER CONFIDENCE

In the U.K., confidence increased for the seventh consecutive quarter, rising four points in the third quarter to a score of 103—the highest score for the country since 2005, the first year of the survey, and its first above-the-baseline score since 2006.

Source: Nielsen Consumer Confidence Survey Q3 2015. *Survey is based on respondents with Internet access. China survey results reflect a mixed methodology. Index levels above and below 100 indicate degrees of optimism/pessimism. **Morocco is a new market in Q3 2015.

The UK's consumer confidence index shows strong consumer optimism for the 7th consecutive quarter, rising four points to 103. This is the highest score in the UK since 2005 (Nielson, 2015). This suggests that the UK consumer attitudes and buying intentions are upward trending making for healthy economy. UK consumers are spending money and seemingly optimistic suggesting a good platform for potential investment. It is important to note that this index is a lagging indicator telling us what has been happening and does not predict what will happen. Scenario planning would support this investment.

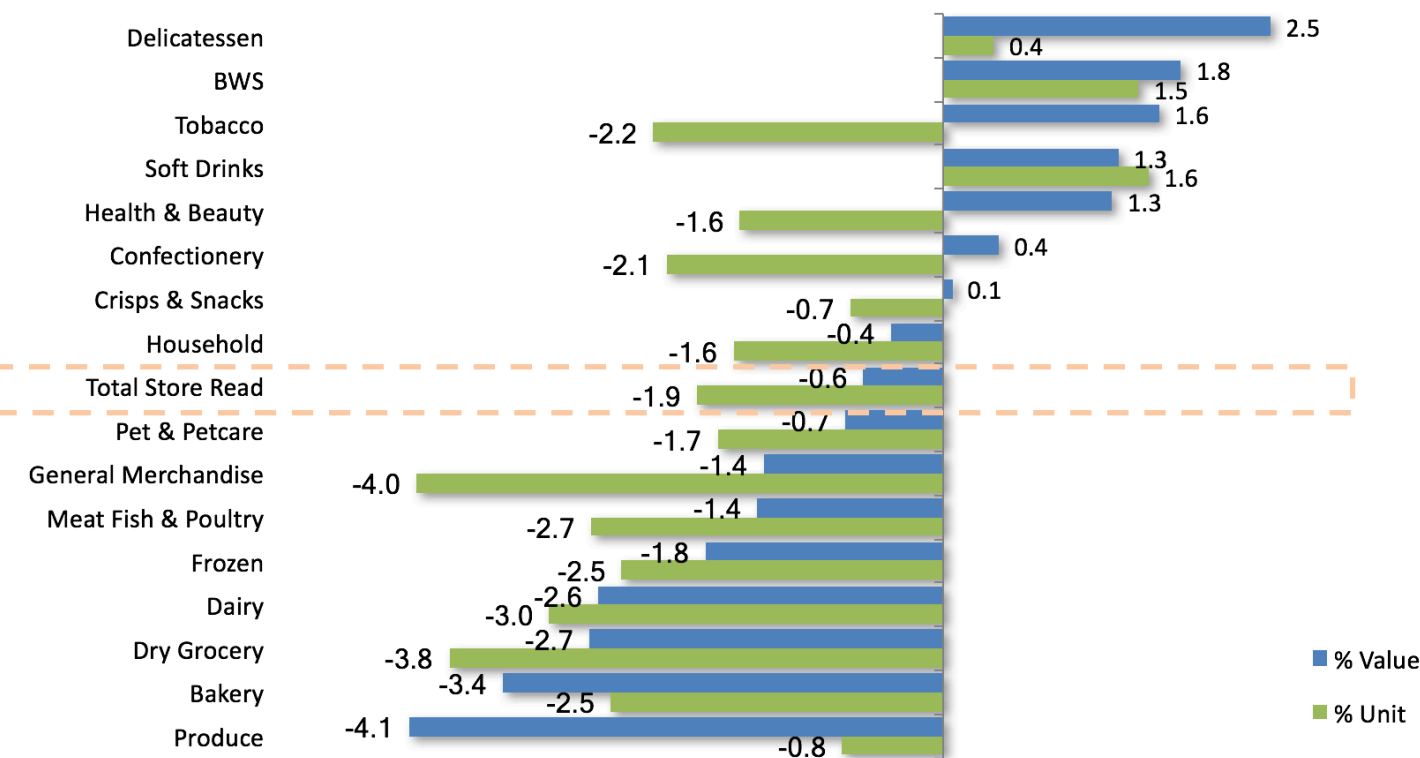
FMCG INDUSTRY TRENDS

BEER, WINE & SPIRITS

Along with the benefit of lower fuel and energy costs in the UK, unemployment is down, and wage inflation is rising faster than general inflation, reflected in an increase in disposable income. UK market leader, Steve Smith, suggests the strongest volume growth is categories driven by promotions and branded innovation.

Upward trending growth in both value and unit percentage in the Beer, Wine and Spirit categories in 2015 compared to 2014 initially suggests a positive market for Lamb's Rum. In the UK, the BWS segment is highly driven by grocery store promotional activity, although less so in other countries like Canada where alcohol is not sold in grocery stores. Special international considerations and distinct strategies will need to be developed in markets outside of the UK for Lamb's Rum to be successful worldwide.

Total GB | Year-on-year Value and Unit % Growth

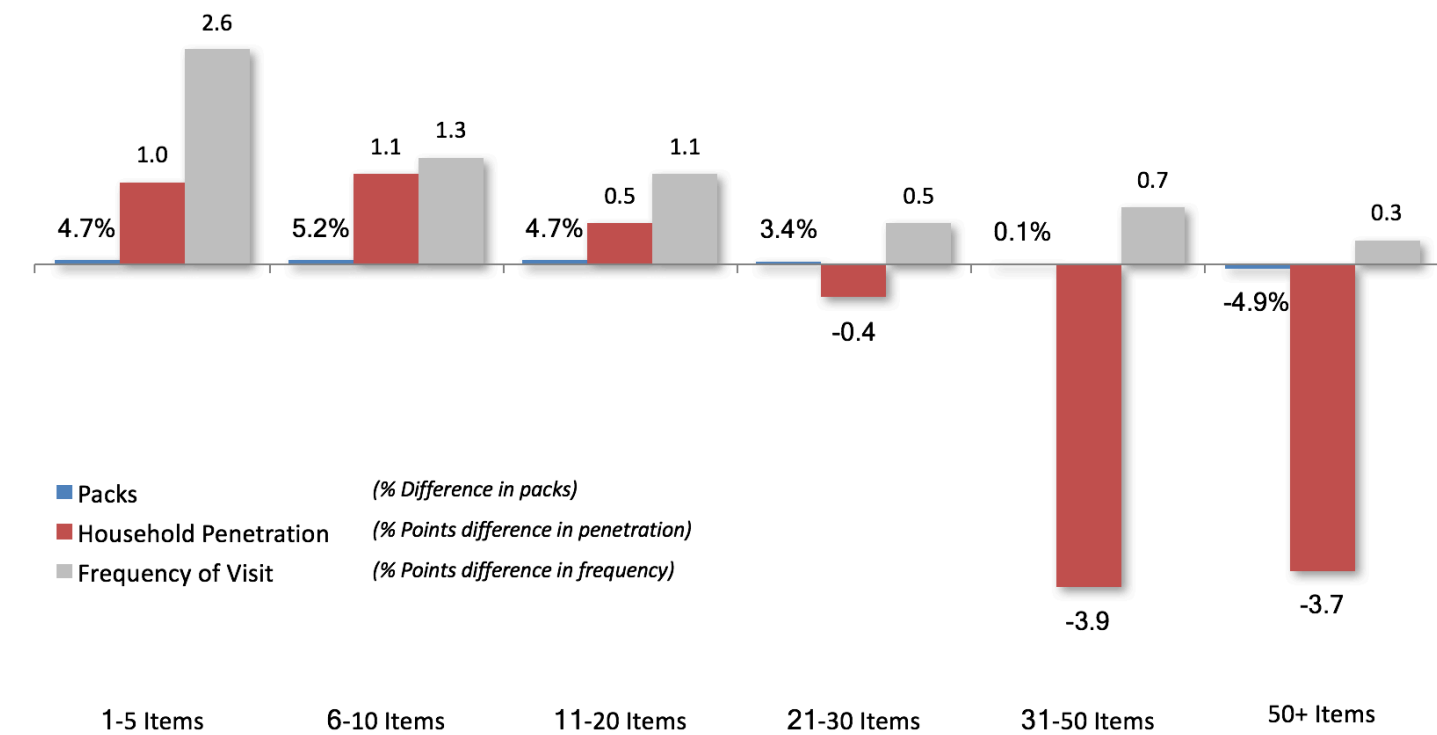


Year over year growth in 2014 and 2015 is down in both unit sales and percentage value but a few categories are on the rise. Unit sales are down 1.9% from 2014 and percentage value is down .6%. BWS and tobacco are up with BWS up 1.8% in value percentage and up 1.5% in unit percentage.

Source: Nielsen Scantrack Total GB, 52w/e 3rd January 2015 vs 52w/e 4th January 2014. Value and Unit % Growth Total Store Read

FMCG INDUSTRY TRENDS

Total GB | Year-on-year Differences in How People are Shopping – Total FMCG



Number of grocery trip visits, in general, are up year over year between 2014 and 2015 with the greatest increase in purchases of 1-5 items. There is a 2.6% increase in the frequency of visits for purchasing 1-5 grocery items and a 1.3% increase in store visits for 6-10 items first year of the survey, and its first above-the-baseline score since 2006.

Source: Nielsen Homescan Total GB - 52w/e 3rd Jan 2015 vs 52w/e 4th Jan 2014. FMCG excl General Merchandise and Tobacco

Branded innovation and new product offering, however, need to be the cornerstone of the marketing plans both internationally and in the UK. We believe branded innovation and its strategic execution will be the key to Lamb's Rum future success.

The FMCG's overall year over year growth in 2014 and 2015 is down in both unit sales and percentage value but a few categories are on the rise. As a whole, unit sales are down 1.9% from 2014 and percentage value is down .6%. However, the "vice" categories of BWS and tobacco are up with BWS up 1.8% in value percentage and up 1.5% in unit percentage. This is good news for a product like Lamb's, in particular in the UK as it reflects the slight upward trend of purchasing in this category.

FMCG INDUSTRY TRENDS

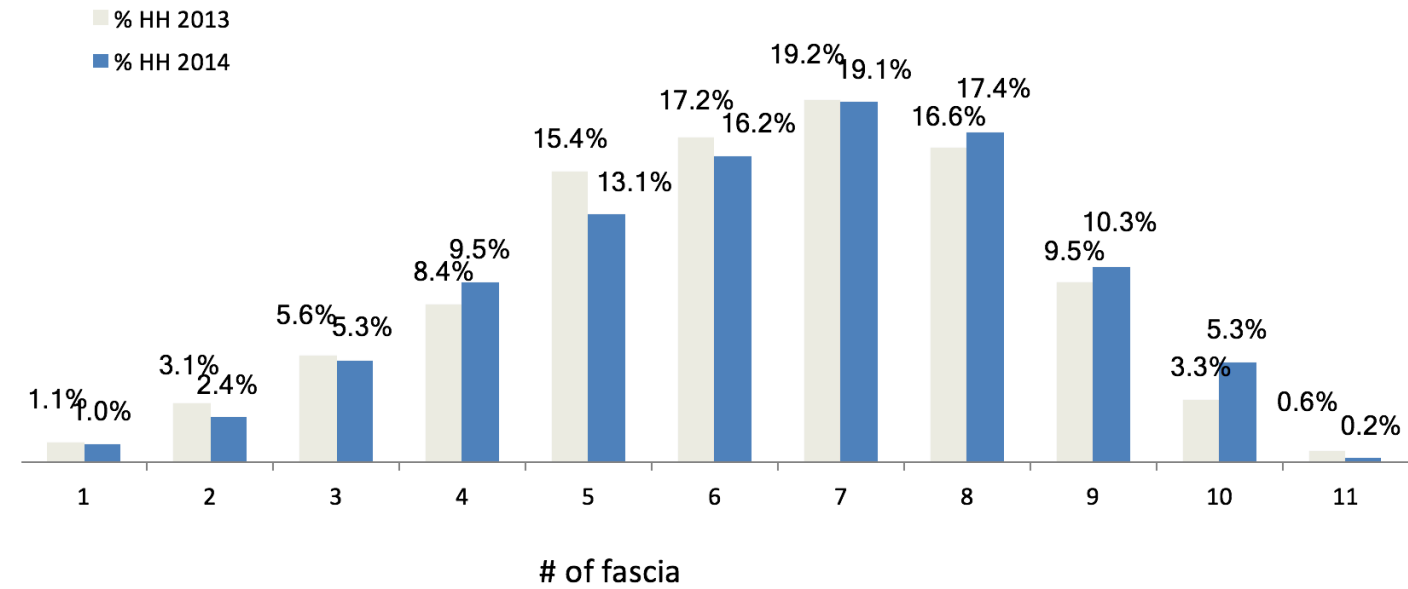
HOW CONSUMERS ARE SHOPPING

Household penetration is up for 1- 20 items but decreasing with 20 or more items. Similarly, packs are up since last year in all categories except in 50+ item shopping visits. This suggests consumers are shopping more frequently and are optimistic - they are searching for the best deals as opposed to displaying store loyalty. Disregarding general peaks of higher seasonal store visits there is a general trend toward consumers visiting grocery stores more often. In addition, we see that 19% of households are visiting seven different stores again suggesting that consumers are price shopping and are promiscuous.

Regarding how much consumers are spending during each visit we see that there is a 13% increase in the amount spent on 1-5 items from 2014 and an 8% increase in the amount spent for 6-10 items. There was a 6.1% decrease in £ spend on 50+ item visits. The grocery store shopping experience is ripe with opportunity for right products at the right price. In the case of the Lamb's products, promotions, price, and competition must be carefully considered.

NUMBER OF STORES VISITED

Total GB | Total FMCG | % Households Visiting Fascia

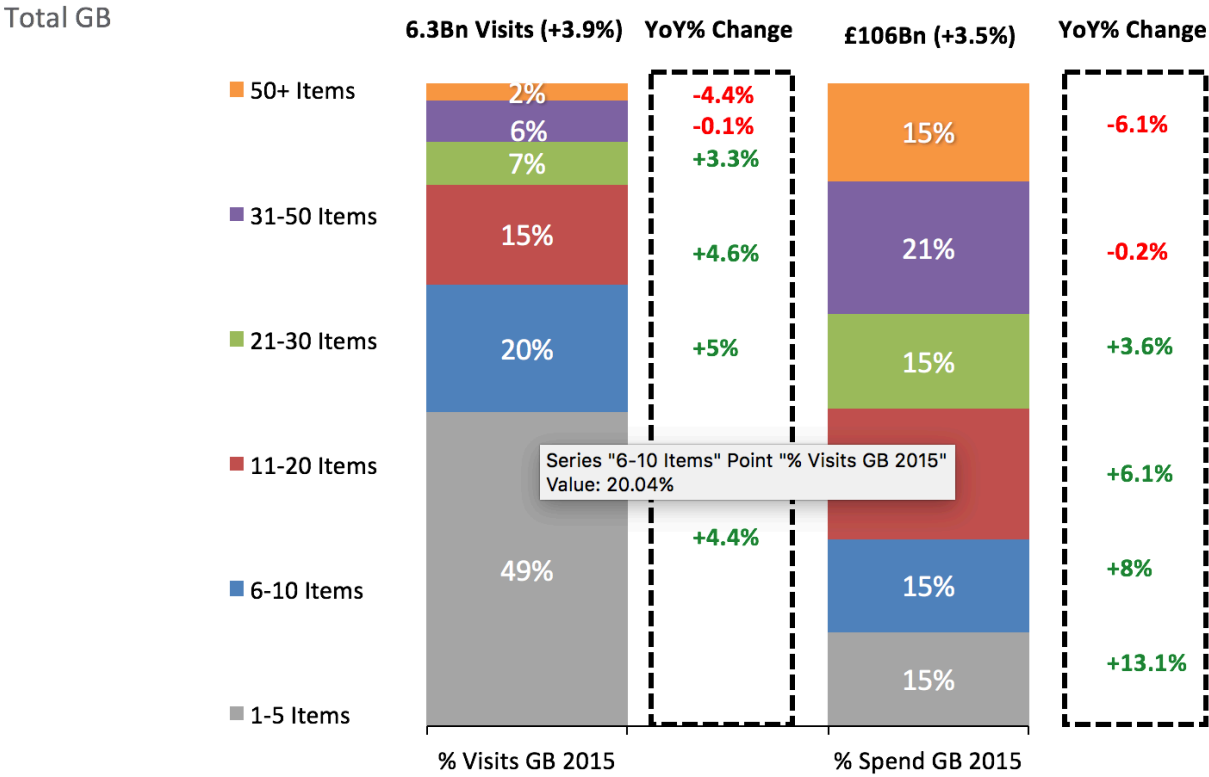


19% of households are visiting seven different stores again suggesting that consumers are price shopping and are promiscuous

Source: Nielsen Homescan Total GB - 52w/e 3rd Jan 2015 vs 52w/e 4th Jan 2014. Total FMCG

FMCG INDUSTRY TRENDS

NUMBER OF ITEMS BOUGHT IN STORE



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Source: Nielsen Homescan Total GB - 52w/e 3rd Jan 2015 vs 52w/e 4th Jan 2014. FMCG excl General Merchandise and Tobacco

ITEMS BOUGHT ON PROMOTION

Savvy consumers in the UK heavily rely on sales prices and promotions when purchasing goods in the FMCG category. In 2014 and 2015 the total % fast moving consumer goods bought on promotion was 34.5% and beer, wine and spirits accounted for 46.5% of that total, only second to household items at 49.5%. This demonstrates that the BWS category is heavily driven by promotional activity.

Promotional and sales strategies will need to be given serious consideration as an overall integrated plan should the rights to Lamb's Rum be invested in to balance profit with promotion.

FMCG INDUSTRY TRENDS

PROMOTIONAL OFFER SALES

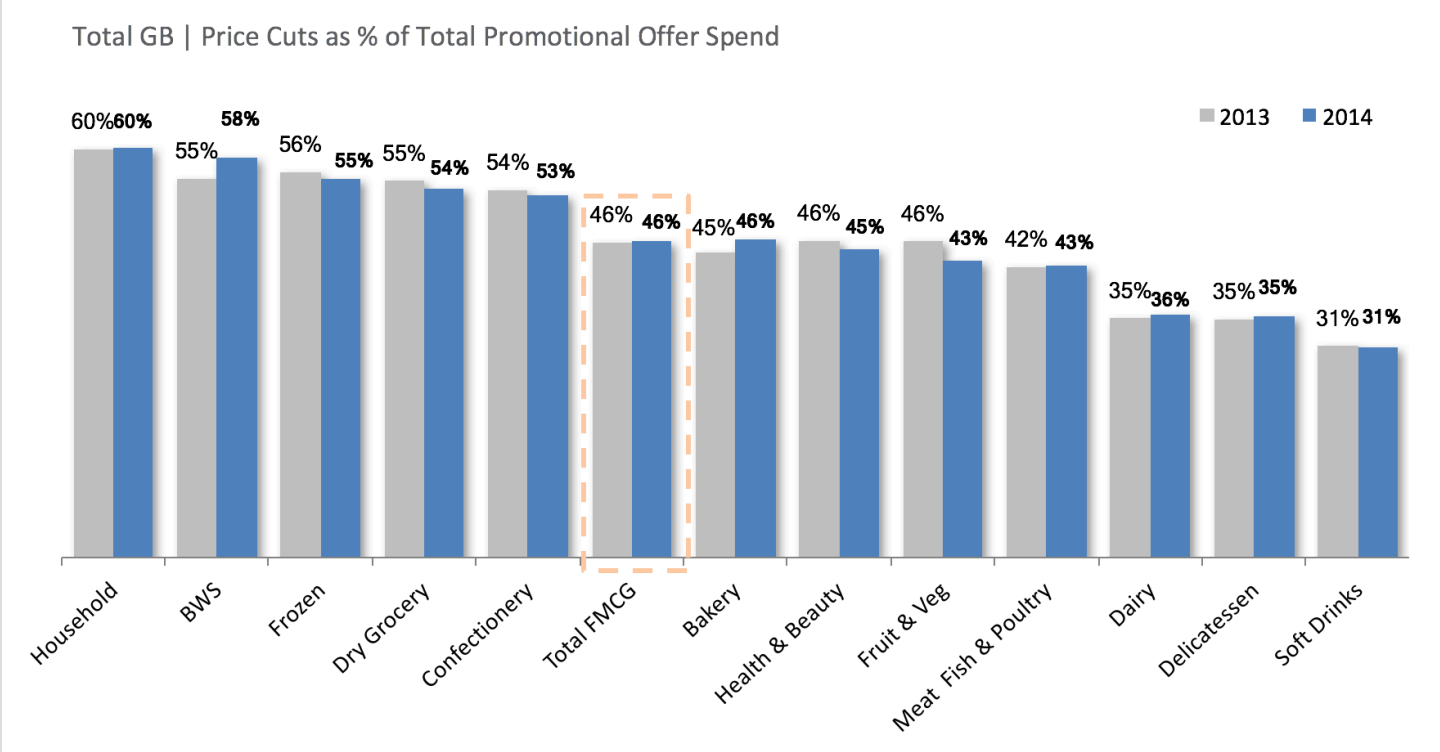


In 2014 and 2015 the total % fast moving consumer goods bought on promotion was 34.5% and beer, wine and spirits accounted for 46.5% of that total, only second to household items at 49.5%.

Source: Nielsen Homescan Total FMCG Grocery Multiples 52w/e 3rd January 2015 vs 52w/e 4th January 2014. Value Sales bought on offer as % Total Value Sales by category

FMCG INDUSTRY TRENDS

PRICE CUTS OF OFFER SPEND



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Source: Nielsen Homescan Total FMCG Grocery Multiples 52w/e 3rd January 2015 vs 52w/e 4th January 2014. Price Cuts as % Total Value Sales bought on offer by category

PROMOTION & PRICE CUTS

While UK consumers tend to purchase grocery items on sale and price shop for the “best deal”, they also tell us that they lack discipline when it comes to sticking to their budget. In 2014 and 2015 28.5% strongly disagree with the statement “I always stick to a budget when going grocery shopping”. Hence behaviour and intention do not always align. There is potential opportunity here to strategically balance less price cutting with perception of promotion and branded innovation strategies. In other words, consumers are triggered to action on the perception of promotion, but when it comes down to it they will spend more while “in store”. In 2015, up 4% from the previous year, 38% of respondents suggest that they would buy more products when they are on sale. Which is why you are seeing sales strategies aimed at “buy 2 or more” and get the sale price. Higher volume purchasing offsets the price cut as a whole.

In general, shoppers are buying greater numbers of products on sale, actively seeking promotions and increasingly price comparing by visiting more than one store when shopping. While it “appears” that the consumer is choosing the best promotion price for making their purchasing decision, other data suggests that only 21% are purchasing based on price. 59% tell us that store choice is based on perceived “good value for money” in 2015, up 6% from 2014.

3.

GLOBAL INSIGHTS

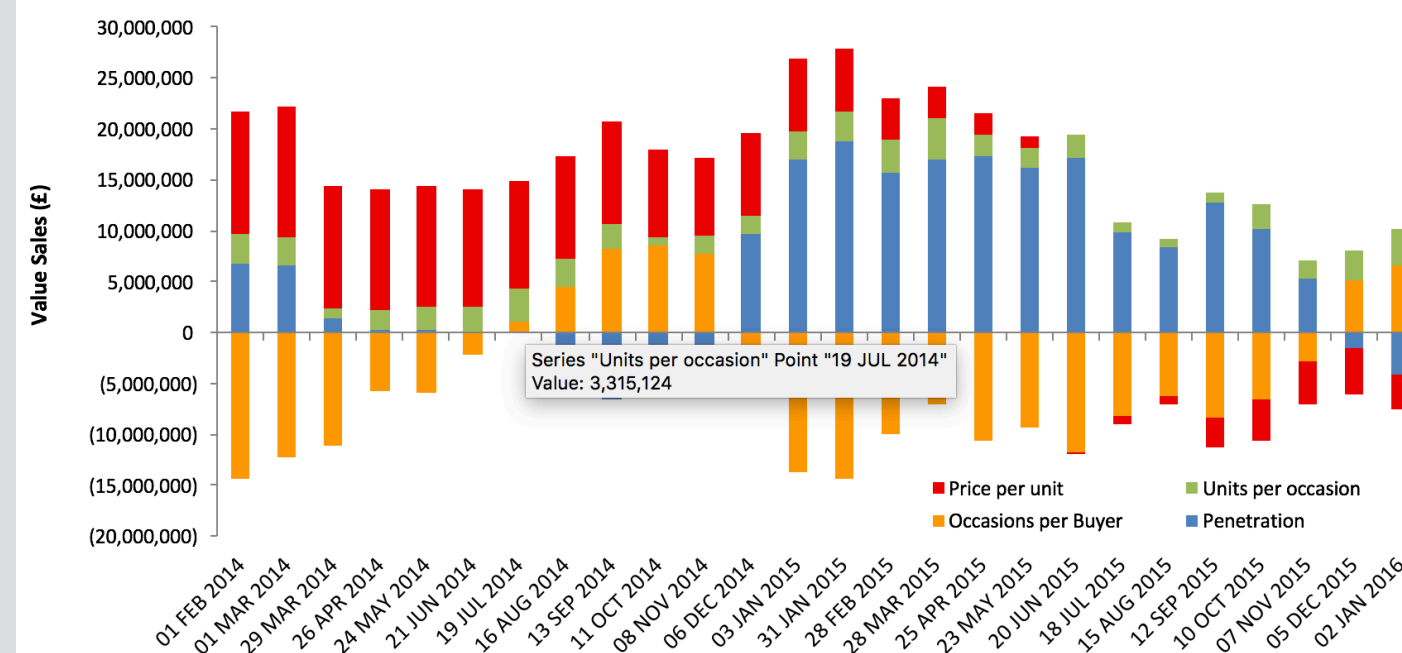


GLOBAL RUM TRENDS

GLOBALLY, THE RUM MARKET SEEMS SOMEWHAT FLAT AND STAGNANT WITH THE MAJORITY OF RUM CONSUMERS BEING BABY BOOMER SINGLES AND COUPLES 55+.

KEY CONSUMER PURCHASING METRICS

Rum – Value Drivers at Total Market – MAT TY vs. YA



Rum's price per unit has seen declines over the last quarter of 2015. Number of occasions per buyer is down for most of 2015 but on the rise in 2016. However, penetration for rum purchases saw significant growth during 2015 and units per occasion has increased slightly from January 2014 to January 2016.

Source; Nielsen Homescan – data to W/E 03/01/16

We analyzed total worldwide growth and decline on four key purchasing metrics for rum in a two-year period: price per unit, occasions per buyer, units per occasion and penetration. Rum's price per unit has seen declines over the last quarter of 2015. Number of occasions per buyer is down for most of 2015 but on the rise in 2016. However, penetration for rum purchases saw significant growth during 2015 and units per occasion has increased slightly from January 2014 to January 2016.

This somewhat circular rum trend data along with current rum drinker demographics suggests that there is not huge growth opportunity for Lamb's Rum as a standalone product.

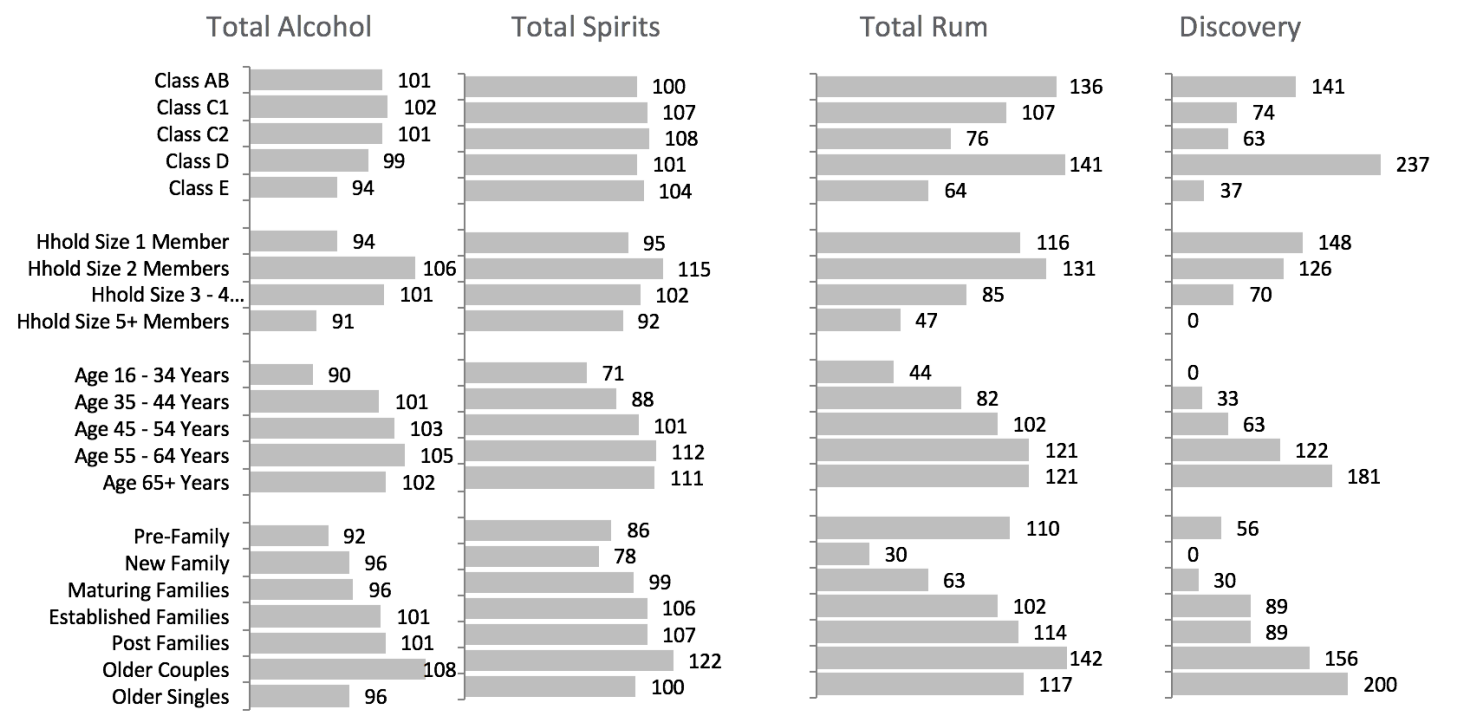
GLOBAL RUM INSIGHTS

RUM CONSUMERS

Our data shows there continues to be a large demand for alcohol and spirits in general and the segments of people drinking alcohol products are vast and far-reaching around the globe. However, the demographic of consumers driving rum sales specifically are households with two members and older couples who are 55+ in age. These segments of consumers also notably over-index at 200 on the discovery index, meaning they are open to trying new products and discovering new tastes for alcohol. Older couples and singles are well employed and have significantly higher purchasing power. This, however, is not a growing market segment. Lamb's focus should not be on existing Baby Boomer rum drinkers who are 55+. The global rum panel data reveals somewhat of a stagnating rum market with price per unit and penetration down from 2014 – 2016.

RUM BUYERS TO TOTAL POPULATION

GB – MAT TY

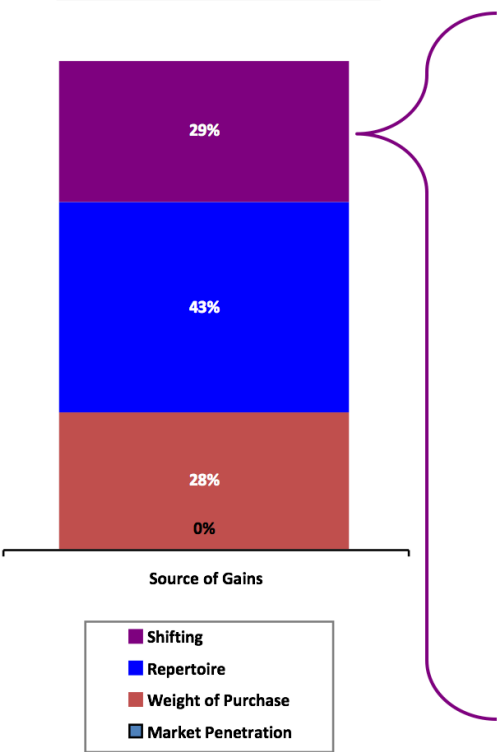


Consumers driving rum sales specifically are households with two members and older couples who are 55+ in age. These segments of consumers also notably over-index at 200 on the discovery index, meaning they are open to trying new products and discovering new tastes for alcohol. Older couples and singles are well employed and have significantly higher purchasing power.

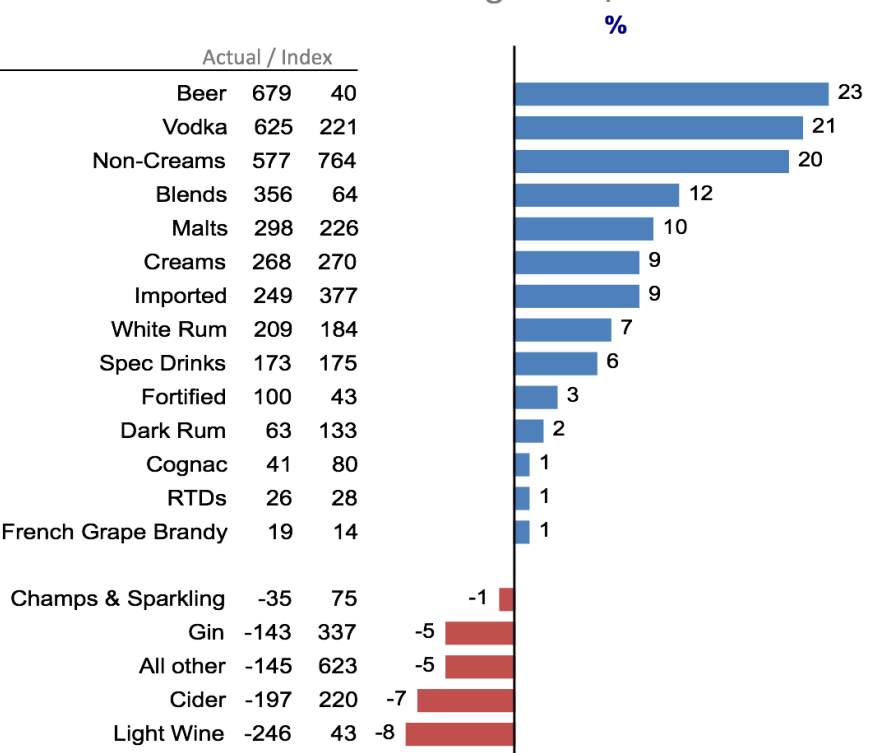
Source; Nielsen Homescan – data to W/E 03/01/16

GLOBAL RUM INSIGHTS

Source of Value Growth



Shifting Gains / Losses



43% of new buyers are gained as shown by Repertoire". 29% of shifting occurred from the previous period suggesting consumers shifting to and from competitive products. We see shifting gains in white rum, dark rum and RTDs.

Source; Nielsen Homescan – data to W/E 03/01/16

MARKET OPPORTUNITY

Where we see the largest opportunity for Lamb's is among the millennial population (people born between the 1980s and early 2000s) that have just reached the Legal Drinking Age (LDA) and have been establishing a growing preference for premium and authentic drinks with unique tastes. We believe that the millennial market along with their particular tastes and attitudes presents a unique opportunity for Lamb's Rum to branch out into the "alcopop" or "ready to drink" market.



RECOMMENDATIONS

RECOMMENDATIONS

OUR RECOMMENDATIONS FOR ARTS ALLIANCE INVOLVE A MULTI-PRONGED, MULTI-YEAR AND MULTI-NATIONAL DIGITALLY BRANDED APPROACH TO BREATHING LIFE AND NARRATIVE INTO LAMB’S RUM-AN ESTABLISHED “OLD-SCHOOL” PREMIUM RUM.

STRATEGIES & TACTICS

Our recommendations for Arts Alliance involve a multi-pronged, multi-year and multi-national digitally branded approach to breathing life and narrative into Lamb’s Rum-an established “old-school” premium rum. The cornerstone of these recommendations hinges on the idea that Lamb’s Rum is an already strong brand worldwide with a largely untold authentic brand story. We believe Lamb’s focus needs to be specifically on the millennial, hipster demographic who are trendsetters and have a growing affinity for unique, premium alcoholic drinks that have a meaningful ethical backstory. The 55+ consumers, who already love their rum and are open to discovery are a potential market for Lamb’s premium “alcopops”.

Currently Lamb’s only has 4 products of rum: Spiced, Navy, Palm Breeze, and Classic. We see the opportunity for Lamb’s to significantly expand its sales and brand awareness with the introduction of premium alcopops or “Ready to Drink” products (RTD) targeted at the millennials. An example brand might be Lamb’s Swills with 3 varieties: Swills Ginger Beer & Rum, Swills Grapefruit and Swills 1849’ers. These RTD brands will need to align with the overall Lamb’s brand narrative - Lamb’s journey and history as an adventurer and voyager.

According to research, alcopops have experienced a renaissance within the industry. One example is the reappearance of Hooch in 2012. Its owner, Global Brands, claims that it is now the industry’s star performer. Nielsen data showed that Hooch had upped sales by £2m in 2014. Hooch has become one of the best-performing ready-to-drink products in UK pubs and bars, according to a recent report by food and drink consultant CGA. Alongside the resurgence of RTDs, the demand for “craft” alcoholic products are rising. We see Lamb’s as being in a good position to introduce a “craft” rum ready to drink alcopop into the market targeted directly at millennials. We see a viable opportunity to partner up with existing branded products on the market.

We highly recommend that Lamb’s as the manufacturer sell all products directly online. That digital be the main thrust of the new business model and used heavily for brand awareness of the new product line. Because Lamb’s Rum has a robust back story and a rich historical narrative we believe social could be leveraged in a significant way to drive new sales, in particular, to the millennial market. 55+ consumers can also be impacted via the social channel, but the Lamb’s Rum narrative has to be driven by authenticity, utilizing its long heritage and family story. With the use of creative, meaningful branding efforts utilizing promotional and event marketing we see Lamb’s Rum increasing its market share in the next 10-20 years should the marketing strategies by highly focused on branded innovation. We feel this is a unique opportunity for Lamb’s currently, primarily because it is a premium product and the story is essentially untold. Co-branding events and sponsorship as a way and means to “share the brand story” in an authentic, meaningful way using social media and public relations could serve to drive massive customer engagement.

In terms of advertising and promotions we recommend authentic upfront digital branding designed to be awareness building. Using six-second video ads along with broader campaigns to build the narrative to the millennial audience will be key. Further recommended are aligning the brand with a meaningful cause that can serve to underscore authenticity and ethics. Due to consumer promiscuity, we also recommend that Lamb’s Rum products should be available for purchase in multiple high performing grocery and off-licence stores around the globe. The current retailers should be assessed for their performance.

AUDIENCE INSIGHTS

The millennial target market is a stickler for authenticity and meaning. The latest group of consumers, millennials, are consumers who have never been without personal computers, the internet, or cell phones. They have different values, learning styles, communication habits and interests than the previous generation. Offering them need-satisfying products using appropriate communication strategies will require marketers to know them very well. It will require a departure from the traditional approaches to products and services, product benefits, distribution, communication, and pricing (Journal of Consumer Marketing, 2011).

EVENTS & BRANDED INNOVATION



BRANDED MOMENTS

Part of branded innovation requires offering the intended audience branded moments that reinforce bigger campaigns. Sponsorships, when used correctly can re-enforce a brand’s meaning while aligning itself with larger causes that matter to the relevant audiences.

REFERENCE

Journal of Consumer Marketing, 2011. Special issue on marketing challenges in serving millennials. Journal of Consumer Marketing, 28(1).

CONCLUSION

“Among the many tools a manager can use for strategic planning, scenario planning stands out for its ability to capture a whole range of possibilities in rich detail. By identifying basic trends and uncertainties, a manager can construct a series of scenarios that will help to compensate for the usual errors in decision making — overconfidence and tunnel vision” (Schoemaker, 1995).

1

No one can predict the future and as we know there are many world uncertainties. As a risk mitigator to this potential investment, Arts Alliance should consider Scenario Planning analysis.

2

More research will need to be conducted on the new product line. Creative use of contests for product names and taste test events to build engagement should be considered. Further we recommend unique cross promotional activity from digital to retail.

3

A full e-commerce deployment of all of Lamb’s products will be one of the keys to its success.

4

Partnerships with existing alcopop beverages need to be considered in the development of the new product line.

5

Social media marketing and video advertising should be relied upon heavily to build awareness, connection, engagement and reach the intended audience. Digital marketing and advertising campaigns should focus on telling the Alfred Lamb story and be integrated with all other campaigns including retail.



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