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Big Tobacco survived a crackdown. So can e-cigarettes



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New York (CNN Business) Altria's big investment in Juul isn't looking so hot now amid growing concerns about health risks tied to vaping and a broad regulatory crackdown on e-cigarettes. But the tobacco giant is unlikely to give up on Juul anytime soon.

If anything, the decision by Juul to replace CEO Kevin Burns with former Altria (MO) executive K.C. Crosthwaite is a sign that the US-based seller of Marlboro still considers vaping a growth market that will help offset the decline in traditional tobacco cigarettes.

The data supports that. According to figures from market research firm Nielsen, electronic cigarette sales in the US nearly doubled to \$4.5 billion in the 52 weeks ending August 24. Tobacco cigarette sales fell 3% to \$59.3 billion during the same time period.

Nielsen doesn't break down sales by specific company. But Wells Fargo analyst Bonnie Herzog estimates that with about 75% market share, Juul is the clear leader. That puts it well ahead of Vuse, owned by British American Tobacco (BTAFF) subsidiary Reynolds American, and Imperial Brands (IMBBF)-owned blu.

Altria is expected to continue focusing on Juul as a way to generate more sales.

Experts said Altria is also savvy enough to realize that working with the government makes more sense than fighting it. The Food and Drug Administration is looking to crack down on underage vaping by banning flavored e-cigarettes.

New Juul CEO has more experience with regulators

Because Altria has decades of expertise dealing with the FDA and other federal as well as state regulators, the company may take further steps to ease any concerns about addiction and targeting younger customers.

"We expect Mr. Crosthwaite to focus on damage control immediately -- adopting a more conciliatory tone around the risks of the product and controlling the message in the media about the product and brand," said Stifel analyst Christopher Growe in a report.

That's a skill set that Burns, who previously was chief operating officer at yogurt maker Chobani and worked for more than a dozen years as a partner at private equity firm TPG Capital, may not have possessed.

Altria CEO Howard Willard admitted as much in a speech at The Global Tobacco & Nicotine Forum conference in Washington on Wednesday.

"This is a pivotal moment for the industry and strong leadership and action are urgently needed," Willard said, adding that "I've worked closely with K.C. at Altria for many years and am confident in his leadership and integrity and that he will help Juul urgently confront and reduce underage vaping." Willard said.

Along those lines, Juul also agreed this week to halt "all broadcast, print and digital product advertising in the US."

But Altria has other non-traditional products in store even if there is a further crackdown on Juul and vaping.

Altria to remain focused on heated tobacco and cannabis

The company still intends to go ahead with plans to market the iQOS e-cigarette from Philip Morris (PM) in the US despite the fact that Altria and Philip Morris called off merger talks Wednesday. (iQOS cigarettes, unlike vaping pens, still contain tobacco but they heat it instead of burning it.)

Altria also spent \$1.8 billion for a 45% stake in Canadian cannabis company Cronos (CRON) last year.

Stifel's Grawe added that regardless of what happens in the US with Juul, he thinks Juul still has the potential to gain share overseas, even though India recently banned vaping and China is looking to put more regulations on it.

"We believe [Crosthwaite] will focus intently on international growth which looks muddy at this time, but remains a strong growth potential for the brand," Grawe said.

A lawyer that is suing Juul, Altria and Philip Morris for false advertising said he thinks Altria isn't going to throw in the towel on Juul just yet either -- even if the value of the company's 35% stake in Juul, originally worth nearly \$13 billion, may have to be reduced.

"Juul claims that it's not Big Tobacco. But they are the same thing. Getting rid of Burns and hiring someone from Altria is not surprising. It was inevitable," said Jonathan Gdanski, an attorney at Fort Lauderdale-based Schlesinger Law Offices.