

Tobacco

4Q23 US tobacco preview and outlook

Estimate Change

2024 watchouts: Final FDA regs and illicit products

The FDA pushed back anticipated menthol cigarette regulations to March 2024 and announced its intent to provide more info to establish a “maximum nicotine level” in cigarettes in April. Both of these issues are political and could be delayed during an election year, but are important to the long-term prospects of the US nicotine category. Once final details are released, we expect manufacturers and other stakeholders to initiate litigation to prevent these rules from being implemented. This litigation will likely delay any such action by the FDA and if/when implemented could lead to a large rise in illicit trade given adult consumer demand for flavors and nicotine in cigarettes. We expect the influx of flavored disposable vapor products to continue to disrupt legal US nicotine producers.

PM: IQOS and Zyn expansion in 2024

Given that PM’s management laid out its 2024-26e targets in late September at its Investor Day, we would expect near-term issues to be more topical: 1) thoughts on inventory movements and volume impact (if any) post the EU’s flavor ban for heated tobacco (Oct 23, 2023), 2) FDA filing status and market entry developments, 3) its op margin outlook now that input/freight costs have begun to ease and 4) any new disruption due to int’l conflicts and/or the Japanese earthquake (Jan 1). Our 2023 EPS is unchanged at \$6.10, however post an FX spot rate update, our 2024/25 EPS rises by 5c to \$6.55/\$7.10. Our \$113 PO values PM at 15.6x (unchg) 2025E EPS of \$7.10 (+5c) plus \$2.61/share for its Canada unit. This values PM in-line with its average of 15.6x since July 2017 when the FDA updated its regulatory strategy towards nicotine. This year is expected to another investment year; however we think that PM is positioning itself favorably for the long term. We like its attractive yield and strategy to shift smokers to higher-margin, less-harmful alternatives. Reiterate Buy.

MO: Soft cigarette volumes & downtrading

Scanner data for the 12-wks ending Dec 30 suggested continued (but easing) cigarette downtrading and weak industry/MO volumes; partly offset by nicotine pouches. We shaved our 4Q EPS est by 1c to \$1.16 (-1% YoY), largely due to a modest reduction in our moist smokeless outlook. We look for MO’s cigarette shipments to fall 10%, cigars +0.8% and oral tobacco -1.8%. Our 4Q23 EPS estimate is 1c shy of Bloomberg/Visible Alpha (VA) consensus, largely due to more conservative volumes vs. VA consensus. We watch for signs of progress on its smoke-free vision, success in balancing volumes vs. profits, lingering FDA pressures, and any indications of reduced illicit trade. Our \$44 PO is based on 8.4x our 2025E EPS of \$5.25, reflecting a discount to its average P/E since July 2017 (11x) when the FDA announced a new regulatory plan. We think overall inflation on consumer goods and illegal vapor sales may weigh on combustible volumes over the near term. In addition, investors await FDA commentary regarding reducing nicotine levels and banning menthol in cigarettes. Maintain Neutral rating.

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Exhibit 1: Closing prices, ratings

Prices as of 1/19/24

	Ticker	Close \$	Rating
Altria Group	MO	\$40.32	B-2-7
Philip Morris International	PM	\$92.21	B-1-7

Source: BofA Global Research, Bloomberg
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PO= price objective
FDA= Food & Drug Administration

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Altria Group (report date February 1)

On Oct 26, MO updated its 2023 EPS range to “\$4.91-4.98” from “\$4.89-5.03” and includes planned investments to support its smoke-free vision, including R&D and regulatory preparation expense, enhancements to its digital engagement platform and activities to support its smoke-free products, including commercialization of NJOY Ace. Its updated guidance includes a \$50mn increase in D&A to \$280mn for 2023.

We expect illicit trade from China to continue to be an issue for the legal producers going into 2024 given lackluster regulatory enforcement by the FDA and state officials. MO expects NJOY to be accretive to cash flow in 2025 and additive to EPS by 2026.

Exhibit 2: MO mgmt guidance for 2023

We look for EPS of \$4.95 in 2023E.

AS OF	2023		NJOY		
	2/1/2023	3/23/2023	6/1/2023	8/1/2023	10/26/2023
EPS range	\$4.98-\$5.13		\$4.89-5.03	\$4.89-5.03	\$4.91-4.98
EPS growth objective	+3% to +6%		+1% to +4%	+1% to +4%	+1.5% to +3%
Dividend payout	80%		80%	80%	80%
Tax rate	24.5% to 25.5%		24.5% to 25.5%	24.5% to 25.5%	24.5% to 25.5%
Buybacks	New \$1bn program (to be completed by YE23)		New \$1bn program (to be completed by YE23)		
Cap Ex.	\$175-225mn		\$175-225mn	\$175-225mn	\$175-225mn
Depr & amort	\$230mn		\$280mn (+\$50mn NJOY)	\$280mn (+\$50mn NJOY)	\$280mn (+\$50mn NJOY)
Investments/other comments	JUUL to remain on store shelves while under appeal	Sold interest in JUUL, purchased NJOY			
IQOS investment	MO to receive \$1.7bn by July to end IQOS arrangement with PM	MO to receive \$1.7bn by July to end IQOS arrangement with PM	MO to receive \$1.7bn by July to end IQOS arrangement with PM; paydown debt for NJOY	Received \$1.8bn from PM in July; repaid debt with funds	
NJOY acquisition			Accretive to cash flow in 2025 and additive to EPS in 2026		
Debt	Expects to pay off \$1.3bn of notes due		\$2.75bn, \$2bn term loan, commercial paper & cash.		

Source: Company reports

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4Q/2023 watchouts

- MO has equal cigarette shipping days in 4Q23/2023; however we anticipate cigarette downtrading due to inflationary pressures on many goods, wide price gaps between premium and value brands and illicit trade. In oral tobacco, we look for oral nicotine pouches to continue to win share from traditional MST (moist smokeless tobacco).
- This quarter will be the second full quarter of sales from NJOY.** While we haven't seen NJOY sales pick up in scanned channels, we look for updated progress on integration and expansion.
- To MO's combustible businesses benefit, we do expect any shift from combustibles to take longer in the US than in other markets as the FDA and other government regulators struggle to approve new categories for sale in the US despite indications that these products are less harmful than combustible nicotine products.
- Nielsen scanner data and industry commentary indicates that there has been downtrading in cigarettes, to lower priced brands, other nicotine product forms and changes in buying behavior. In addition, illicit trade has increased nationally, depressing volumes from legal producers. While we anticipate overall nicotine consumption to remain resilient given its addictive nature, we look for a high single digit cigarette volume decline in 2023 and 2024.
- Scanner data:** Scanner data for the 12-weeks ending December 30 suggests continued downtrading (albeit easing) in premium cigarettes and weak

industry/company volumes (see Exhibit 26), partially offset by continued strength from nicotine pouches.

- **BofA vs. Visible Alpha consensus.** For 4Q23, we are 1c shy of Visible Alpha (VA)/Bloomberg estimates of \$1.17. We look for consolidated net sales of \$5.05bn vs. VA's \$5.08bn. Illicit trade pressure, downtrading in cigarettes/vapor and shifting to oral nicotine from traditional moist smoking is anticipated. We forecast smokeable and smokeless volumes to fall 9.8% and 1.8% respectively. This compares to Visible Alpha estimates of -9.2% and -1.4% respectively. For the full year 2023, our estimate is \$4.95, +2.3% YoY, 1c shy of Bloomberg/in line with Visible Alpha consensus and compares to management guidance of \$4.91-4.98.

2024 watchouts

- **Will the election delay any menthol ban plans?** Late last year, the FDA recently pushed back anticipated menthol cigarette regulations to March 2024. It also announced its intent to provide additional information to establish a "maximum nicotine level" in cigarettes and certain other finished tobacco products in April 2024. Both of these issues are highly political and important to the long-term prospects of the nicotine category. Given anticipation of a tight Presidential race, press reports have suggested hesitation by the White House to announce a menthol ban before the election. However, once final details are finally released, we would expect manufacturers and other stakeholders to initiate litigation against the FDA to prevent these rules from being implemented. This litigation will likely delay any such action by the FDA and if implemented lead to a large rise in illicit trade given adult consumer demand for flavors and nicotine in cigarettes.
- **Flavored disposable vapor products anticipated to continue to be an issue for legal nicotine producers.** According to the China Electronic Chamber of Commerce, the Chinese vaping sector is worth some \$28bn, with the US representing ~60% of the country's vape exports. Beginning in 2019, the Chinese government cracked down on such products as these products ate into Chinese government cigarette tax revenue (China runs a cigarette monopoly). As a result, some of these manufacturers looked outward and found that smuggling vaping products into the US relatively easy by mislabeling products, obscuring producer identities and weak oversight at large ports. A recent Reuters report also noted that Elf Bar's producers are expanding into flavored nicotine pouches with distribution in the UK, Sweden and Switzerland initially, and we expect investors to watch its expansion given oral nicotine pouches are one of the few growing nicotine categories in the US/global market and its continued growth is important for both PM and MO given their Zyn and on! pouch products.

MO: Divisional summary

Exhibit 3: MO: Divisional volume, sales and profit forecasts (\$mns)

All other sales includes international sales of *on* and NJOY revenue

	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23E	2023E	2024e	2025e
VOLUMES												
Cigarettes (bns of sticks)	20.6	22.5	21.8	19.7	84.7	18.3	20.6	19.3	17.7	75.9	69.4	64.6
Cigars (mns of cigars)	434.0	433.0	439.0	425.0	1,731.0	444.0	466.0	451.0	428.2	1,789.2	1,735.4	1,683.2
Total smokeable vols (bns)	21.1	22.9	22.3	20.1	86.4	18.7	21.0	19.8	18.2	77.7	71.2	66.3
Oral Tobacco (mns of cans)	194.1	208.0	201.4	197.1	800.6	190.6	204.4	194.8	193.5	783.3	774.1	764.1
% chg in volumes												
Cigarettes	-6.3%	-11.1%	-9.2%	-12.1%	-9.7%	-11.4%	-8.7%	-11.6%	-10.0%	-10.4%	-8.5%	-7.0%
Cigars	-9.6%	-5.0%	3.3%	-3.8%	-4.0%	2.3%	7.6%	2.7%	0.8%	3.4%	-3.0%	-3.0%
Total smokeable	-6.4%	-10.9%	-9.0%	-12.0%	-9.6%	-11.1%	-8.3%	-11.4%	-9.8%	-10.1%	-8.3%	-6.9%
Oral Tobacco	-1.9%	-4.4%	1.3%	-4.3%	-2.4%	-1.8%	-1.7%	-3.3%	-1.8%	-2.2%	-1.2%	-1.3%
NET SALES (EX. FET)												
Smokeable	4,221	4,736	4,774	4,456	18,187	4,162	4,779	4,596	4,390	17,927	17,925	18,084
Oral Tobacco	584	633	640	604	2,461	600	651	657	627	2,535	2,653	2,783
All other	14	5	(2)	23	40	1	8	24	29	62	126	133
Total net sales	4,819	5,374	5,412	5,083	20,688	4,763	5,438	5,277	5,046	20,524	20,704	20,999
% change in NET sales												
Smokeable	2.2%	-0.7%	0.4%	0.0%	0.4%	-1.4%	0.9%	-3.7%	-1.5%	-1.4%	0.0%	0.9%
Oral Tobacco	-1.8%	-3.8%	7.7%	-4.0%	-0.6%	2.7%	2.8%	2.7%	3.8%	3.0%	4.7%	4.9%
All other	40.0%	-	-	-	-7.0%	-	-	-	-	53.8%	105.2%	5.0%
Total	-1.3%	-4.3%	-2.2%	-0.1%	-2.0%	-1.2%	1.2%	-2.5%	-0.7%	-0.8%	0.9%	1.4%
UNDERLYING OCI												
Smokeable	2,511	2,800	2,812	2,603	10,726	2,515	2,886	2,741	2,626	10,768	10,856	10,970
Oral Tobacco	407	430	425	370	1,632	416	443	455	384	1,698	1,794	1,893
All other	(5)	(15)	(7)	(9)	(36)	(9)	(4)	(4)	(40)	(57)	(160)	(80)
Total OCI	2,913	3,215	3,230	2,964	12,322	2,922	3,325	3,192	2,970	12,409	12,490	12,783
Amortization	17	18	19	19	73	18	27	42	42	129	168	172
Corporate expense	53	45	57	78	233	34	72	38	55	199	171	175
Underlying operating income	2,843	3,152	3,154	2,867	12,016	2,870	3,226	3,112	2,873	12,081	12,151	12,436
% change in OCI												
Smokeable	5.7%	0.6%	1.8%	4.0%	2.9%	0.2%	3.1%	-2.5%	0.9%	0.4%	0.8%	1.1%
Oral Tobacco	-5.1%	-8.9%	4.9%	-5.1%	-3.8%	2.2%	3.0%	7.1%	3.8%	4.0%	5.6%	5.5%
Total OCI	3.7%	-1.7%	2.1%	3.9%	1.9%	0.3%	3.4%	-1.2%	0.2%	0.7%	0.6%	2.3%
Amortization	0.0%	0.0%	5.6%	0.0%	1.4%	5.9%	50.0%	121.1%	121.1%	76.7%	30.2%	2.4%
Corporate expense	3.9%	-11.8%	3.6%	16.4%	4.0%	-35.8%	60.0%	-33.3%	-29.5%	-14.6%	-14.0%	2.0%
Underlying operating income	3.7%	-1.6%	2.1%	3.6%	1.8%	0.9%	2.3%	-1.3%	0.2%	0.5%	0.6%	2.4%
Adjusted OCI margin												
Smokeable	59.5%	59.1%	58.9%	58.4%	59.0%	60.4%	60.4%	59.6%	59.8%	60.1%	60.6%	60.7%
Oral Tobacco	69.7%	67.9%	66.4%	61.3%	66.3%	69.3%	68.0%	69.3%	61.3%	67.0%	67.6%	68.0%
Consolidated	60.4%	59.8%	59.7%	58.3%	59.6%	61.3%	61.1%	60.5%	58.9%	60.5%	60.3%	60.9%
OCI margin change												
Smokeable	200bps	70bps	90bps	220bps	140bps	90bps	130bps	70bps	140bps	110bps	50bps	10bps
Oral Tobacco	-240bps	-380bps	-180bps	-70bps	-220bps	-40bps	10bps	280bps	0bps	70bps	60bps	40bps
Consolidated	290bps	160bps	250bps	220bps	230bps	90bps	130bps	80bps	60bps	90bps	-10bps	-50bps

Source: Company reports, BofA Global Research

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Altria income statement

Exhibit 4: MO income statement forecast

At \$4.95 for 2023E, we are at the mid point of mgmt's guidance of \$4.91-\$4.98

\$ in millions	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23E	2023E	2024e	2025e
Reported net revenue	5,892	6,543	6,550	6,111	25,096	5,719	6,508	6,281	5,979	24,487	24,354	24,404
Excise taxes	1,073	1,169	1,138	1,028	4,408	956	1,070	1,004	933	3,963	3,650	3,405
Net sales	4,819	5,374	5,412	5,083	20,688	4,763	5,438	5,277	5,046	20,524	20,704	20,999
MSA & other fees	950	1,127	1,124	992	4,193	961	1,085	986	937	3,969	3,820	3,632
Base COGS (ex. FET & fees)	556	581	591	584	2,312	473	596	607	600	2,276	2,278	2,269
Gross profit	3,313	3,666	3,697	3,507	14,183	3,329	3,757	3,684	3,508	14,278	14,606	15,099
Mktg, admin & research costs	400	451	467	543	1,861	407	432	492	538	1,869	2,116	2,316
Underlying OCI	2,913	3,215	3,230	2,964	12,322	2,922	3,325	3,192	2,970	12,409	12,490	12,783
Amortization	17	18	19	19	73	18	27	42	42	129	168	172
General corporate expenses	53	45	57	78	233	34	72	38	55	199	171	175
Underlying operating income	2,843	3,152	3,154	2,867	12,016	2,870	3,226	3,112	2,873	12,081	12,151	12,436
Interest expense, net	281	279	269	252	1,081	248	270	274	275	1,067	1,091	1,119
Net periodic benefit income, ex. svc cost	(46)	(47)	(44)	(47)	(184)	(31)	(31)	(33)	(35)	(130)	(137)	(147)
Equity inc (ABI, Cronos)	(126)	(114)	(134)	(155)	(529)	(171)	(128)	(140)	(142)	(581)	(619)	(673)
Pretax income	2,734	3,034	3,063	2,817	11,648	2,824	3,115	3,011	2,775	11,725	11,816	12,138
Income taxes	687	752	763	704	2,906	706	769	736	716	2,927	2,954	3,034
Underlying net income	2,047	2,282	2,300	2,113	8,742	2,118	2,346	2,275	2,059	8,798	8,862	9,103
Net earnings attrib to noncontrolling int	0	0	0	0	0	0	0	0	0	0	0	0
Net income attrib to Altria	2,047	2,282	2,300	2,113	8,742	2,118	2,346	2,275	2,059	8,798	8,862	9,103
Fully diluted shares outstanding	1,818	1,809	1,799	1,790	1,804	1,786	1,782	1,773	1,768	1,777	1,754	1,735
	-2.1%	-2.2%	-2.3%	-2.3%	-2.2%	-1.8%	-1.5%	-1.4%	-1.2%	-1.5%	-1.3%	-1.1%
Underlying EPS	1.12	1.26	1.28	1.18	4.84	1.18	1.31	1.28	1.16	4.95	5.05	5.25
% change	4.7%	2.4%	4.8%	8.4%	5.0%	5.4%	4.0%	0.4%	-1.3%	2.3%	2.0%	3.9%
Margins & tax rate												
Underlying tax rate	25.1%	24.8%	24.9%	25.0%	24.9%	21.0%	24.7%	24.4%	25.8%	25.0%	25.0%	25.0%
Base COGS margin	11.5%	10.8%	10.9%	11.5%	11.2%	9.9%	11.0%	11.5%	11.9%	11.1%	11.0%	10.8%
Base COGS mgn chg	-130bps	-130bps	-160bps	-60bps	-120bps	-160bps	10bps	60bps	40bps	-10bps	-10bps	-20bps
Gross profit margin	68.7%	68.2%	68.3%	69.0%	68.6%	69.9%	69.1%	69.8%	69.5%	69.6%	70.5%	71.9%
GP mgn chg	230bps	170bps	230bps	380bps	250bps	110bps	90bps	150bps	50bps	100bps	100bps	140bps
OCI margin	60.4%	59.8%	59.7%	58.3%	59.6%	61.3%	61.1%	60.5%	58.9%	60.5%	60.3%	60.9%
OCI mgn chg	290bps	160bps	250bps	220bps	230bps	90bps	130bps	80bps	60bps	90bps	-10bps	50bps
Operating margin	59.0%	58.7%	58.3%	56.4%	58.1%	60.3%	59.3%	59.0%	56.9%	58.9%	58.7%	59.2%
OI mgn chg	280bps	160bps	240bps	200bps	220bps	130bps	70bps	70bps	50bps	80bps	-20bps	50bps
Pretax margin	56.7%	56.5%	56.6%	55.4%	56.3%	59.3%	57.3%	57.1%	55.0%	57.1%	57.1%	57.8%
Pretax mgn chg	270bps	220bps	220bps	280bps	250bps	260bps	80bps	50bps	-40bps	80bps	-10bps	70bps
Net margin	42.5%	42.5%	42.5%	41.6%	42.3%	44.5%	43.1%	43.1%	40.8%	42.9%	42.8%	43.3%
Net mgn chg	190bps	170bps	170bps	240bps	190bps	200bps	70bps	60bps	-80bps	60bps	-10bps	50bps
YoY % change												
Reported net revenue	-2.4%	-5.7%	-3.5%	-2.3%	-3.5%	-2.9%	-0.5%	-4.1%	-2.2%	-2.4%	-0.5%	0.2%
Excise taxes	-7.2%	-11.6%	-9.3%	-12.1%	-10.1%	-10.9%	-8.5%	-11.8%	-9.2%	-10.1%	-7.9%	-6.7%
Net sales	-1.3%	-4.3%	-2.2%	-0.1%	-2.0%	-1.2%	1.2%	-2.5%	-0.7%	-0.8%	0.9%	1.4%
MSA & other fees	-6.1%	-6.1%	-5.4%	-14.3%	-8.0%	1.2%	-3.7%	-12.3%	-5.5%	-5.3%	-3.8%	-4.9%
Base COGS (ex. FET & fees)	-11.3%	-14.8%	-14.5%	-4.7%	-11.5%	-14.9%	2.6%	2.7%	2.7%	-1.6%	0.1%	-0.4%
Gross profit	2.2%	-1.8%	1.2%	5.8%	1.7%	0.5%	2.5%	-0.4%	0.0%	0.7%	2.3%	3.4%
Mktg, admin & research costs	-7.4%	-2.2%	-4.5%	17.5%	0.9%	1.8%	-4.2%	5.4%	-0.9%	0.4%	13.2%	9.4%
Underlying OCI	3.7%	-1.7%	2.1%	3.9%	1.9%	0.3%	3.4%	-1.2%	0.2%	0.7%	0.6%	2.3%
Amortization	0.0%	0.0%	5.6%	0.0%	1.4%	5.9%	50.0%	121.1%	121.1%	76.7%	30.2%	2.4%
General corporate expenses	3.9%	-11.8%	3.6%	16.4%	4.0%	-35.8%	60.0%	-33.3%	-29.5%	-14.6%	-14.0%	2.0%
Underlying operating income	3.7%	-1.6%	2.1%	3.6%	1.8%	0.9%	2.3%	-1.3%	0.2%	0.5%	0.6%	2.4%
Interest expense, net	-8.8%	-5.4%	-4.9%	-13.1%	-8.1%	-11.7%	-3.2%	1.9%	9.1%	-1.3%	2.2%	2.6%
Equity income (ABI, Cronos)	-22.7%	23.9%	-3.6%	4.7%	0.8%	35.7%	12.3%	4.5%	-8.4%	9.8%	6.6%	8.6%
Pretax income	3.6%	-0.4%	1.8%	5.3%	2.6%	3.3%	2.7%	-1.7%	-1.5%	0.7%	0.8%	2.7%
Income taxes	4.2%	-0.8%	1.7%	3.2%	2.0%	2.8%	2.3%	-3.5%	1.7%	0.7%	0.9%	2.7%
Underlying net income	3.4%	-0.2%	1.8%	6.0%	2.6%	3.5%	2.8%	-1.1%	-2.6%	0.6%	0.7%	2.7%
Shares outstanding	-2.1%	-2.2%	-2.3%	-2.3%	-2.2%	-1.8%	-1.5%	-1.4%	-1.2%	-1.5%	-1.3%	-1.1%

Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH



Philip Morris Int'l (report date February 8)

On September 28, PM held an analyst day in Switzerland in which management laid out its 2024-2026 plans and targets. As expected, IQOS and Zyn are anticipated to be the key drivers of its vision to switch smokers to smoke-free products, while combustibles are a key way to communicate with smokers about the benefits of switching to smoke-free along with providing the cash to invest behind new product commercialization.

2024 watchout for Europe

In 2024, the European Commission is expected to begin to revise the Tobacco Products Directive (TPD). Press reports suggest that the EC may be looking to implement regulations on nicotine pouches (including a ban like it currently has on snus) given these products may provide a gateway for young non-smokers into tobacco and nicotine consumption. Disposable vaping products have also created youth issues for the UK and the EU and will also likely need to be addressed. We believe that the EC should also consider how detrimental any such restrictions would be for users intending to switch to safer alternatives.

Exhibit 5: PM's 2023 management guidance

Management stated that FX neutral guidance was unchanged at +10-10.5%

	Feb 23	Apr 23	Jul 23	Sep 23 (Analyst Day)	Oct 23
Industry decline	-1% to -2%	-1% to -2%	-0.5% to -1.5%		-1.5% to -2.0%
PM shipment vol %	flat to +1%	flat to +1%	up to +1%		+1% to +1.5%
Net revenue %	+7% to +8.5%	+7% to +8.5%	+7.5% to +8.5%		+8%
HTU shipment vol (bn)	125 to 130bn	125 to 130bn	125 to 130bn	125 to 130bn	Lower half of 125-130bn
Cigarette shipment decline		-2.5% to -3.5%	-1.5% to -2.5%		-1% to -2.0%
Nicotine pouch volume				370-400mn cans	390-410mn cans
Reported EPS	\$6.09-6.21	\$5.88-6.00	\$5.36-5.45	\$5.19-5.28	\$4.95-4.98
Amortization	16c	16c	Amort/impairment of 60c		68c/share
Incremental investments					\$150mn for ILUMA (split between US and wellness segment)
FX impact	-15c	-30c	-33c	-50c	-53c
Adj EPS with FX	\$6.25-6.37	\$6.10-6.22	\$6.13-6.22	\$5.96-6.05	\$6.05-6.08
Adjusted EPS ex. FX	\$6.40-\$6.52 (+7-9%, 2nd half weighted)	\$6.40-\$6.52 (+7-9%, 2nd half weighted)	\$5.46-5.55	\$6.46-6.55, +8.0% to +9.5%	\$6.58-6.61, +10% to +0.5%
Adj OI mgn change	-50 to -150bps	-50 to -150bps	-50 to -150bps; towards the upper end due to technical factors		-50 to -150bps, likely upper part of range due to technical factors
Impacting OI includes	Global inflation pressures (leaf, acetate tow & energy), ILUMA rollout costs, \$150mn in inv for future growth, and higher profit from HTU	Global inflation pressures (leaf, acetate tow & energy), ILUMA rollout costs, \$150mn in inv for future growth, and higher profit from HTU	Global inflation pressures (leaf, acetate tow & energy), ILUMA rollout costs, \$150mn in inv for future growth, and higher profit from HTU		Global inflation pressures (leaf, acetate tow & energy), ILUMA rollout costs, \$150mn in inv for future growth, and higher profit from HTU
Wellness	Revenue \$300mn, OI loss \$150mn	Revenue \$300mn, OI loss \$150mn	Revenue \$300mn, OI loss \$150mn		Revenue \$300mn, OI loss \$150mn
Interest costs	+\$200mn	+\$200mn	Net financing costs \$1.2bn		\$1.1bn
Tax rate	20.5% to 21.5%	20.5% to 21.5%	20.5% to 21.5%		20.5% to 21.5%
Operating cash flow	\$10-11bn	\$10-11bn	\$10-11bn	\$10bn (FX hit)	\$10bn (FX hit)
Cap ex	\$1.3 bn	\$1.3 bn	\$1.3 bn		\$1.3 bn
Share buybacks	No	No	No		No

Source: Company reports

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Foreign exchange translation could be less of drag in 2024

As of its Investor Day and reiterated in November, PM has guided to -53c/-10c drags on 2023/4Q23 EPS. We see the possibility of slightly less of a drag in 4Q (of 8-9c) although we maintain -10c in our forecasts.

Updating for current spot rates, our 2024 EPS rises by 5c to \$6.55 from \$6.50. Our 2025 EPS also goes up 5c to \$7.10. Versus Bloomberg consensus our EPS estimates are 7c higher in 2024 and 2c below consensus for 2025, perhaps due to timing of the FX spot rate update.

Exhibit 6: 2023 EPS guidance

Adjusted diluted, FX neutral EPS growth of +10-10.5% anticipated

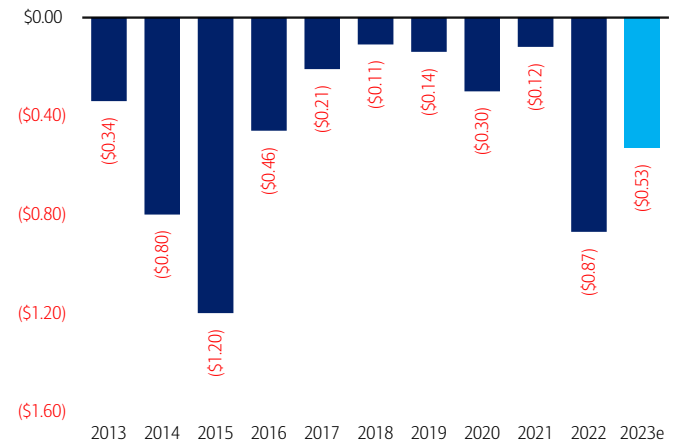
	2023 forecast range		2022A
Reported diluted EPS	4.95	4.98	5.81
Charges related to war in Ukraine	0.01	0.01	0.08
Fair value adj for equity sec inv.	(0.02)	(0.02)	(0.02)
Amortization of intangibles	0.24	0.24	0.09
Asset impairment/exit costs	0.06	0.06	-
Mid East distribution termination	0.04	0.04	-
Swedish Match costs/acct item	0.01	0.01	0.12
Tax benefit assoc w/SM financing	0.03	0.03	(0.13)
Goodwill/other impairment	0.44	0.44	0.06
Tax items	0.11	0.11	(0.03)
Ending agreement w/Foundation for a SF world	0.07	0.07	-
South Korea indirect tax chg	0.11	0.11	-
Total adjustments	1.10	1.10	0.17
Adj. diluted EPS	6.05	6.08	5.98
Currency	(0.53)	(0.53)	-
Adj EPS ex. FX	6.58	6.61	5.98
Adj. diluted EPS (w/FX)	1.2%	1.7%	-
Adj. diluted EPS (ex. FX)	10.0%	10.5%	-

Source: Company reports

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Exhibit 7: FX impact on EPS

The strength of the US dollar has been a drag on earnings over the last ten years



Source: Company reports

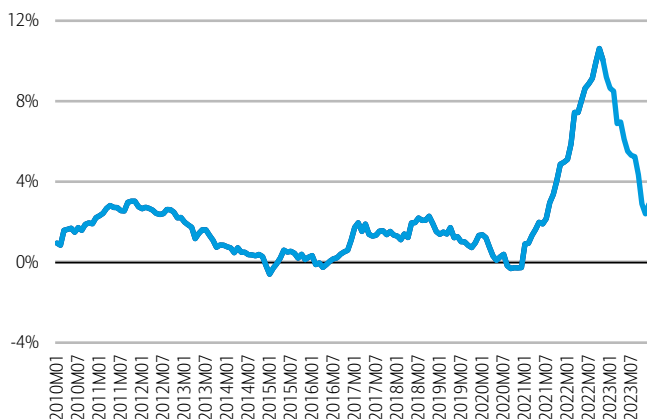
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EU area inflation easing as energy inflation slips YoY

Eurostat reported EU area annual inflation of 2.9% in December, below 3% for the third sequential month and compared to +10.1% a year ago.

Exhibit 8: CPI/inflation in EU area TTM to December 2023

Annual inflation was 2.9%, down significantly from year ago levels

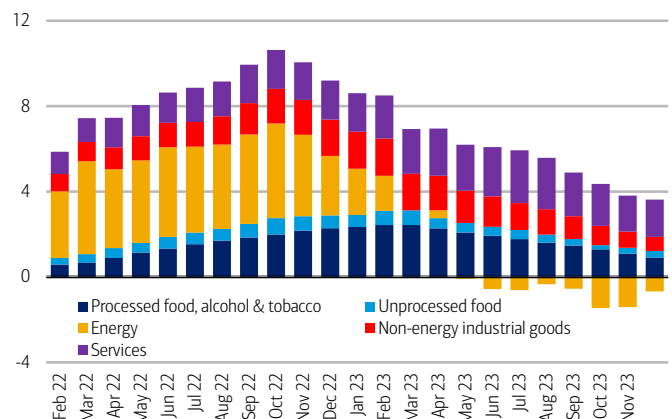


Source: Eurostat

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Exhibit 9: Factors driving EU inflation

The % contribution from food, alc & tobacco began to ease in December



Source: Eurostat

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Cigarettes & heated tobacco volume forecasts

Our cigarettes + heated tobacco volume forecasts for PM in 2023 are 740.0bn, +1.2% YoY and compares to management guidance of “+1-1.5%”. In 2023, we look for cigarette volumes to fall 1.2% (mgmt guidance -1-2%) to 614.6bn sticks, with heated tobacco units to rise by 15% to 125.5n units. Management’s 2023 smoke-free volumes are guided to be “at the low end of 125-130bn units”, with the caveat being unknown industry movements post the upcoming heated tobacco flavor ban in the EU in October.

Exhibit 10: PM: Combustible and heated tobacco volume forecasts (mns)

For 4Q, we look for heated tobacco volume of 34.2bn units

SHIPMENT VOLUME (mns)	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23E	2023E	2024E	2025E
Combustible volumes	148,238	157,678	161,966	154,026	621,908	143,708	157,010	161,137	152,700	614,555	594,760	571,264
Heated tobacco units	24,819	24,821	27,508	32,021	109,169	27,396	31,424	32,471	34,200	125,491	142,837	162,721
Cigarettes & HTU	173,057	182,499	189,474	186,047	731,077	171,104	188,434	193,608	186,900	740,046	737,597	733,985
YoY % change												
Combustible volumes	2%	1%	-2%	-3%	0%	-3%	0%	-0.5%	-0.9%	-1.2%	-3.2%	-4.0%
Heated tobacco units	14%	2%	17%	26%	15%	10%	27%	18.0%	6.8%	15.0%	13.8%	13.9%
Cigarettes & HTU	3%	1%	1%	1%	2%	-1%	3%	2.2%	0.5%	1.2%	-0.3%	-0.5%
HTUs as a % of cigarette/HTU volume	14%	14%	15%	17%	15%	16%	17%	17%	18%	17%	19%	22%

Source: Company reports, BofA Global Research

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Swedish Match – 2023 volume forecasts

For Swedish Match, we forecast total nicotine pouch volume of 401mn cans. This compares to management guidance of 390-410mn cans and is driven by strong volume gains in the US. In snus and moist snuff, we forecast volumes of 242mn and 135mn cans respectively.

PM - consolidated income statement

Exhibit 11: PM: Consolidated income statement forecast (\$mns)

We forecast 2023 underlying EPS of \$6.03 w/FX headwinds of -50c. Mgmt guidance calls for \$5.96-6.05 on an adjusted EPS basis (with FX)

Consolidated inc statement	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23E	2023E	2024E	2025E
Net sales	7,746	7,832	8,032	8,152	31,762	8,099	8,967	9,141	8,898	35,105	37,130	38,858
Cost of sales	2,582	2,628	2,823	3,070	11,103	2,999	3,228	3,165	3,440	12,871	13,231	13,459
Gross profit	5,164	5,204	5,209	5,082	20,659	5,100	5,739	5,976	5,458	22,234	23,899	25,399
Mktg, admin & rsch costs	1,824	1,980	1,879	2,106	7,751	2,081	2,207	2,242	2,234	8,725	9,241	9,638
Adj operating income	3,340	3,224	3,330	2,976	12,908	3,019	3,532	3,734	3,224	13,509	14,658	15,761
Interest expense, net	154	126	138	170	588	230	297	261	312	1,100	1,362	1,362
Pension & other	4	5	7	8	24	22	6	8	8	44	48	51
Pretax income	3,182	3,093	3,185	2,798	12,296	2,767	3,229	3,465	2,904	12,365	13,248	14,349
Income taxes	530	695	690	700	2,615	558	604	850	616	2,628	2,782	3,013
Equity inv and securities (inc)/loss	56	(15)	(21)	(157)	(137)	(51)	21	(101)	(50)	(181)	(194)	(209)
Net income	2,596	2,413	2,516	2,255	9,818	2,260	2,604	2,716	2,338	9,918	10,660	11,545
Non-controlling int net income	134	113	135	97	479	107	114	117	85	423	444	490
Share-based adjustment	7	7	5	5	24	6	-	6	6	18	24	24
UNDERLYING NET INC for dil EPS	2,455	2,293	2,376	2,153	9,277	2,147	2,490	2,593	2,247	9,477	10,191	11,054
Charges	(124)	(60)	(289)	(244)	(717)	(152)	(922)	(539)	(93)	(1,706)	-	-
Reported net income to PM	2,331	2,233	2,087	2,397	9,048	1,995	1,568	2,054	2,154	7,771	10,191	11,054
Diluted shares outstanding	1,552	1,552	1,552	1,552	1,552	1,553	1,553	1,554	1,554	1,554	1,555	1,556
% chg in shares outstanding	-0.5%	-0.5%	-0.5%	-0.3%	-1.9%	-0.5%	-0.3%	-0.3%	-0.4%	-1.8%	0.1%	0.1%
Underlying EPS (includes FX)	1.58	1.48	1.53	1.39	5.98	1.38	1.60	1.67	1.45	6.10	6.55	7.10
Addback/subtract charges	(0.08)	(0.04)	(0.19)	(0.16)	(0.46)	(0.10)	(0.59)	(0.35)	(0.06)	(1.10)	-	-
GAAP EPS	1.50	1.43	1.34	1.54	5.81	1.28	1.01	1.32	1.39	5.00	6.55	7.10
Underlying EPS % (includes FX)	-0.6%	-6.5%	-3.8%	1.3%	-2.3%	-12.6%	8.5%	9.0%	4.1%	2.0%	7.4%	8.4%
UNDERLYING EPS (includes FX)	1.58	1.48	1.53	1.39	5.98	1.38	1.60	1.67	1.45	6.10	6.55	7.10
Currency impact	(0.23)	(0.16)	(0.19)	-	(0.58)	(0.13)	(0.13)	(0.17)	(0.10)	(0.53)	0.00	0.00
Underlying EPS, FX neutral	1.81	1.64	1.72	1.39	6.56	1.51	1.73	1.84	1.55	6.63	6.55	7.10
EPS neutral Underlying EPS	11.6%	3.7%	-1.3%	1.3%	7.1%	-4.4%	17.2%	20.1%	11.4%	10.9%	7.4%	8.4%
Tax rate	16.7%	22.5%	21.7%	25.0%	21.3%	20.2%	18.7%	24.5%	21.2%	21.3%	21.0%	21.0%

Source: Company reports, BofA Global Research

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Sector performance & US industry trends

4Q23/2023: Tobacco underachieved vs peers once again

In 4Q, US tobacco stocks (-8.8%) underperformed the S&P 500 (+5.8%), S&P Staples (-0.2%), S&P Beverages (-3.2%), and Food and Household Products (-3.5%). Altria's (MO) stock fell 8.8% in 4Q23 on US cigarette volume concerns and Philip Morris International (PM) contracted -2.1%. In 2023, MO and PM shares fell 11.7% and 7.0% respectively; this compares to the S&P 500 (+24.2%) and overall staples (-2.2%).

In 4Q, US tobacco stocks underperformed Imperial Brands and Asian counterparts.

Altria's (MO) stock fell 8.8% in 4Q23 while Philip Morris International (PM) -2.1%. Japan Tobacco stock price climbed 14.2%, while KT&G's stock was flat. Imperial Brands' stock climbed 0.9% in the quarter, while BAT's dropped 12.5%, fueled by a large asset impairment charge in its US division.

What weighed on tobacco stocks in 4Q?

News that weighed on tobacco stocks in 4Q included uncertainty in inventory/shipments in heated tobacco post the October 23 flavor ban in Europe, a large write-down announced by BAT on its US business, and on-going illicit trade issues on legal nicotine volumes in the US market. We think asset impairment concerns regarding the US market is likely not an issue for MO's cigarette business given its long-term ownership of its trademarks and low cost base; but could be a risk for its moist smokeless business (UST, acquired in 2009) given consumers' rapid shift away from moist smokeless to oral nicotine pouches. Other news in the quarter included relatively positive management commentary at PM's recent Investor Day in Switzerland.

Exhibit 12: Annual stock performance by staples subsector

Tobacco ranked #3 for the second consecutive year

Year	Food	HPC	Beverage	Tobacco
1999	3	1	2	4
2000	2	4	3	1
2001	2	3	4	1
2002	2	1	3	4
2003	4	2	3	1
2004	1	3	4	2
2005	4	2	3	1
2006	2	3	4	1
2007	4	3	1	2
2008	1	2	3	4
2009	3	4	1	2
2010	3	4	2	1
2011	2	3	4	1
2012	1	3	4	2
2013	1	2	3	4
2014	3	2	1	4
2015	2	4	3	1
2016	2	3	4	1
2017	4	2	1	3
2018	3	1	2	4
2019	2	1	3	4
2020	3	1	2	4
2021	4	2	3	1
2022	1	4	2	3
2023	4	1	2	3

Source: FactSet

1= best performing subsegment that year (of the 4), 4= worse performer of that year (of the 4)

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Upcoming news

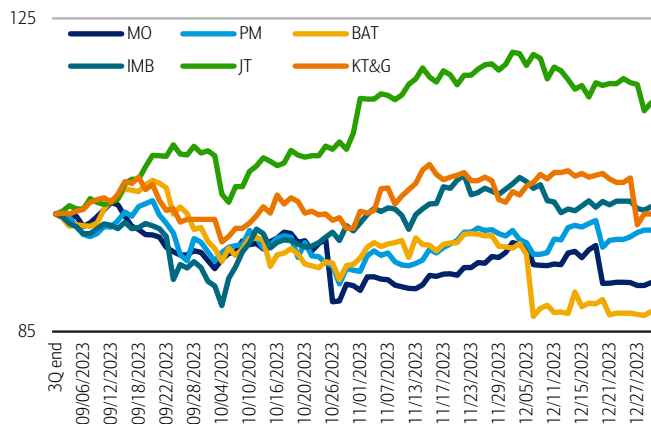
Upcoming news in 2024 includes final rules for Menthol (due in March 2024), additional information regarding lowering nicotine levels in cigarettes (due in April) and the



possibility of reducing marijuana from a Class 1 (very restrictive) level of drugs to Class 3 (restrictive but more manageable) by the DEA (Drug Enforcement Agency, expected by mid-year). All of these issues are highly political in nature and given that 2024 is a Federal election year, may be delayed from the released time line noted earlier.

Exhibit 13: 4Q23 rebased stock price performance (%)

PM's performance edged out MO in 4Q23

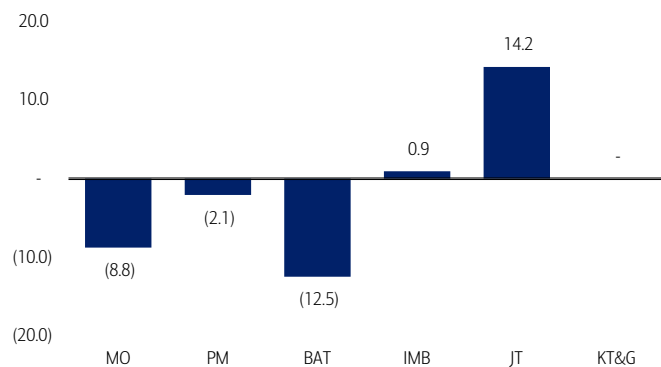


Source: FactSet

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Exhibit 15: 4Q23 tobacco stock performance (%)

BAT was the weakest performer post its announcement of a US write-down

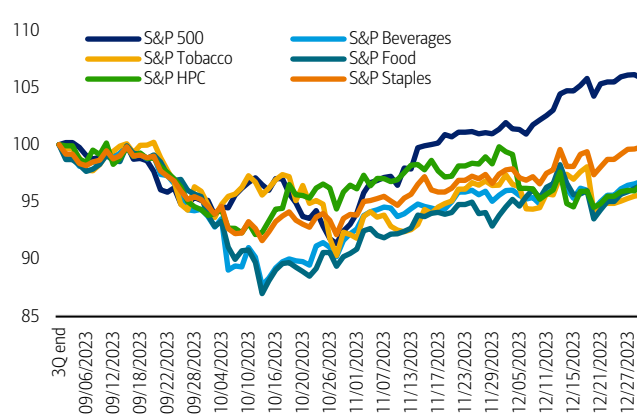


Source: FactSet

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Exhibit 14: % change in staples sector prices in 4Q23

All staples segments underperformed the S&P in the quarter

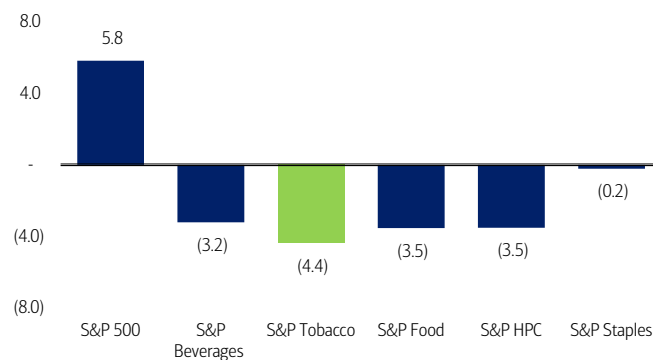


Source: FactSet

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Exhibit 16: 4Q23 S&P 500 and staples sub-sector performance

Tobacco underperformed peers in 4Q

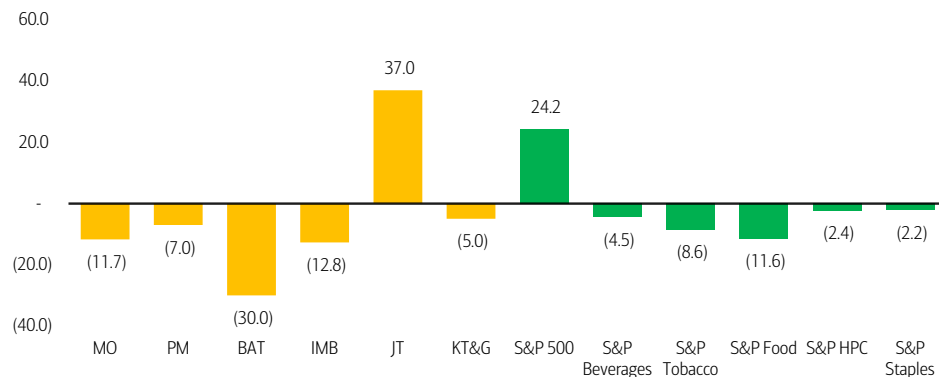


Source: FactSet

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Exhibit 17: 2023 rebased stock performance for Tobacco, S&P500 and S&P consumer staples (%)

US tobacco trailed beverages, HPC and staples overall in 2023, besting only food



Source: FactSet

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Japan Tobacco's stock price was up 37% in 2023, besting its tobacco peers and the Japan Nikkei 225 Index (+28.2%) for the year.

Exhibit 18: Qtrly/annual stock performance for key tobacco stocks (%)

Japan Tobacco was the best tobacco performer in 4Q23, followed by IMB

	MO	PM	BATS-GB	IMB-GB	Japan Tobacco	KG&G
1Q22	10.3	-1.1	16.9	-0.4	-10.1	2.2
2Q22	-20.1	5.1	10.2	14.0	12.4	1.9
3Q22	-3.3	-15.9	-8.3	1.0	1.2	5.4
1Q23	13.2	21.9	1.7	11.6	12.1	5.7
FY22	-3.5	6.5	20.0	28.1	14.6	15.8
1Q23	-2.4	-3.9	-13.4	-10.0	5.1	-8.3
2Q23	1.5	0.4	-8.2	-6.7	12.7	-1.3
3Q23	-7.2	-5.2	-1.2	-4.2	9.1	4.2
4Q23	(8.8)	(2.1)	(12.5)	0.9	14.2	-
2023	(11.7)	(7.0)	(30.0)	(12.8)	37.0	(5.0)

Source: FactSet

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Exhibit 19: Qtrly/annual stock performance for staples sectors (%)

In consumer staples, HPC was the best performers in 2023

	S&P 500	Beverage	Tobacco	Packaged Food	HPC	Staples
1Q22	-4.9	-1.2	3.1	4.4	-8.2	-1.6
2Q22	-16.4	1.4	-4.8	-2.0	-3.0	-5.2
3Q22	-5.3	-6.0	-11.8	-5.3	-13.0	-7.2
1Q23	7.1	10.6	18.8	13.4	18.3	12.0
FY22	-19.4	4.1	2.8	9.9	-8.3	-3.2
1Q23	7.0	-0.5	-3.4	-1.2	-1.2	0.2
2Q23	8.3	0.4	0.8	-2.7	2.6	-0.2
3Q23	-3.6	-6.8	-5.9	-8.9	-5.9	-6.6
4Q23	5.8	(3.2)	(4.4)	(3.5)	(3.5)	(0.2)
2023	24.2	(4.5)	(8.6)	(11.6)	(2.4)	(2.2)

Source: FactSet

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Valuation

Tobacco PE multiples have contracted considerably since the FDA became more vocal regarding tobacco regulation (July 2017+) and youth usage issues spiked for vaping products, especially JUUL (since 2018).

Exhibit 20: Forward PE multiples

Tobacco valuations fell in 2023 as regulatory factors weighed on valuations

	MO	PM	BAT	IMB	JT	S&P 500	S&P Staples	S&P Tobacco
YE 2023	7.9x	14.5x	6.1x	5.9x	13.1x	19.5x	19.2x	11.4x
YE 2022	9.1x	17.8x	8.2x	6.9x	10.5x	16.6x	20.9x	13.4x
1 year avg	8.6x	15.0x	6.8x	6.0x	12.3x	18.6x	19.5x	11.9x
2 year avg	9.0x	15.7x	7.7x	6.3x	11.6x	18.0x	20.1x	12.5x
3 year avg	9.3x	15.4x	7.7x	6.3x	11.7x	19.1x	20.2x	12.5x
5 year avg	9.6x	15.0x	8.0x	6.3x	11.7x	19.0x	20.0x	12.4x
10 year avg	13.7x	16.7x	11.9x	9.5x	13.6x	17.8x	19.4x	15.3x
Avg since July 2017	10.9x	15.6x	9.2x	7.2x	12.2x	18.6x	19.5x	13.3x

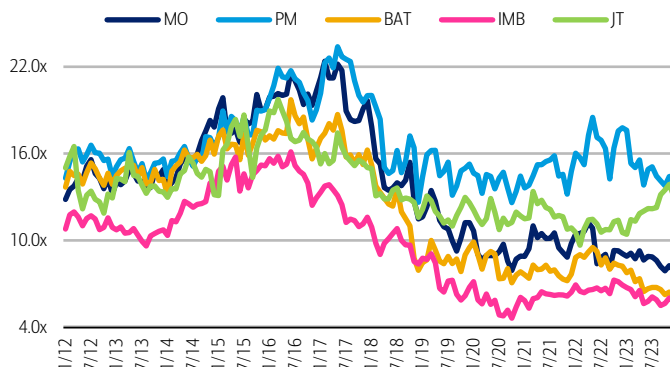
Source: FactSet *In July 2017 the FDA took a more aggressive stance over tobacco

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Investor concerns regarding BAT's planned write-down of its US assets drove valuations down for BAT, IMB and JT.

Exhibit 21: NTM P/Es for the S&P and staples sub sectors

Tobacco PEs have been considerably below staples peers since the FDA announced a more aggressive stance against tobacco in July 2017

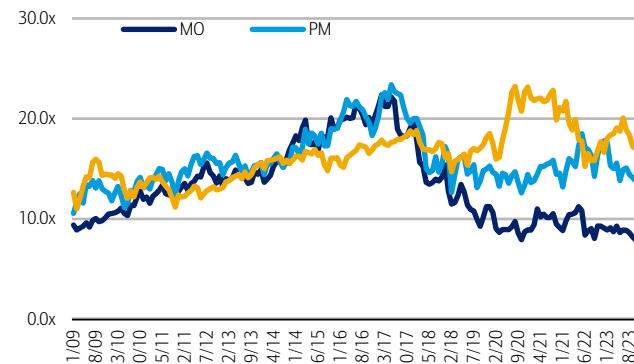


Source: FactSet

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Exhibit 22: NTM P/Es for MO, PM and S&P 500

As of Dec 31, MO and PM were trading at a 59% discount and a 26% discount to the S&P500



Source: FactSet

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Tobacco yields attractive relative to 10Y Treasuries

MO's current payout is 80% while PM is targeting 75% over the long-term. Tobacco producers know the importance of dividends to investors and managements remain committed to them.

MO and PM raised per share dividends in 3Q

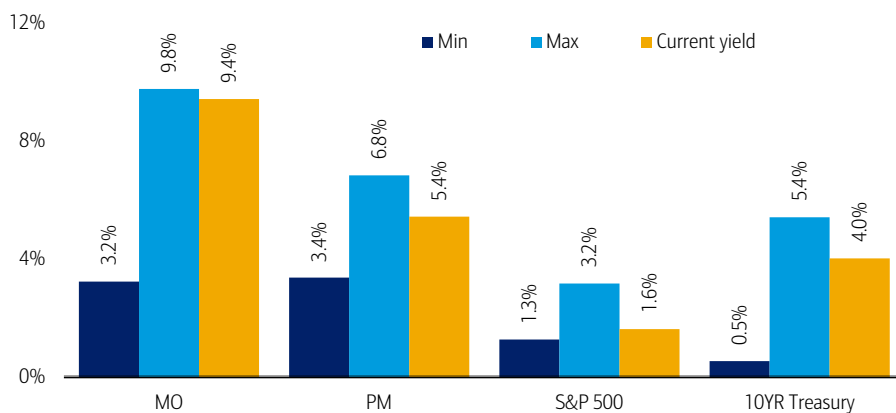
In August, MO boosted its annual dividend from \$3.76 to \$3.92/share (+4.3%).

In September, PM lifted its annual dividend by 2.4% from \$5.08 to \$5.20/share.

We view management's commitment to dividends as unwavering and would look for an increase in 3Q24 for both MO and PM

Exhibit 23: Current dividend yield vs. long-term min/max

Current MO/PM yields are attractive

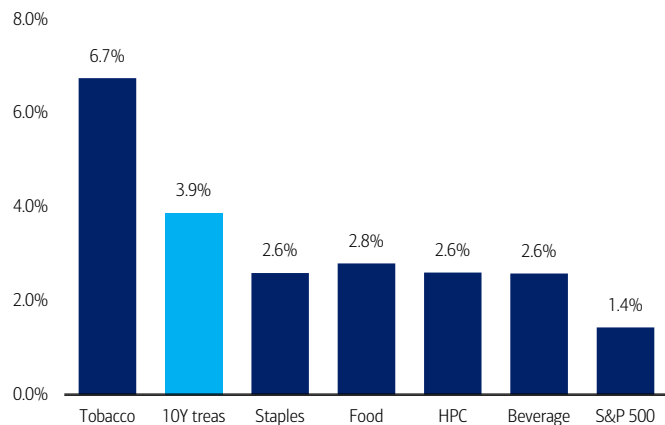


Source: FactSet
Yields as of quarter end.

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Exhibit 24: Year end 2023 dividend yields by consumer subsegment

Given easing rates for the 10Y treasury, tobacco yield attractiveness should rise

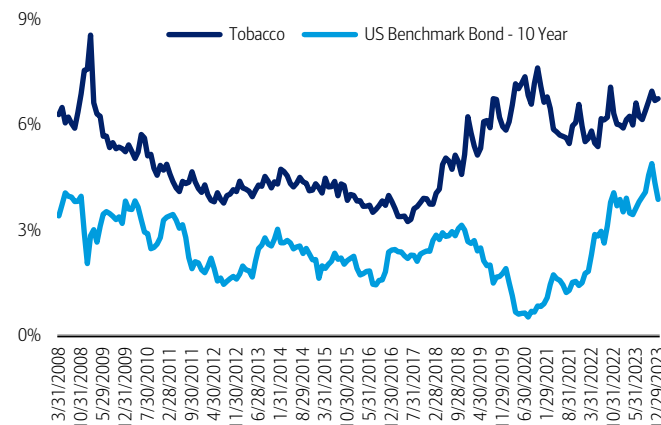


Source: FactSet

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Exhibit 25: Long-term dividend yields for S&P Tobacco and 10Y UST

The gap widened to 2.9bps as of year-end vs. its long-term (2008+) average of 2.7pts



Source: FactSet

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Other US tobacco considerations

US tobacco scanner trends for the 12-weeks ending December 30

Smoke-free tobacco continued to outperform combustibles (cigarettes/cigar) in the 12W period, driven by nicotine users shifting to nicotine pouches. Cigarette and vapor sales in scanned channels were hurt by a rise in illicit trade.

Exhibit 26: 12-week retail scanner trends for the 12W/52W ending December 30, 2023

Volume declines were only partly offset by price/mix in 2023

	\$ sales		EQ volume %		Price/mix		\$ per pack		Vol shr %		Vol shr chg %	
	12W	52W	12W	52W	12W	52W	12W	52W	12W	52W	12W	52W
Cigarettes												
Cigarettes	(4.2)	(4.4)	(8.1)	(8.1)	4.2	4.1	\$8.90	\$8.76	100.0	100.0	-	-
Altria Group	(5.1)	(4.8)	(10.1)	(10.4)	5.6	6.2	\$9.21	\$9.06	47.3	47.7	(1.0)	(1.2)
British American Tobacco	(6.2)	(7.7)	(10.3)	(11.2)	4.5	3.9	\$9.63	\$9.38	30.3	30.6	(0.7)	(1.1)
Imperial Brands	(0.9)	0.7	(5.1)	(3.4)	4.4	4.2	\$8.09	\$8.01	9.5	9.3	0.3	0.5
Vector Group	5.7	10.3	1.0	5.9	4.7	4.2	\$6.75	\$6.71	4.5	4.4	0.4	0.6
Vapor												
E-cigarettes total	(7.8)	(1.9)	(15.5)	(16.2)	9.1	17.0	\$7.93	\$7.83	100.0	100.0	-	-
JUUL	(15.3)	(20.5)	(21.2)	(28.1)	7.5	10.5	\$5.37	\$5.22	35.4	36.1	(2.6)	(6.0)
VUSE	(2.6)	11.5	(12.6)	(7.0)	11.4	20.0	\$7.47	\$7.27	44.1	43.2	1.5	4.2
BLU	(17.2)	(28.0)	(15.1)	(26.5)	(2.5)	(2.0)	\$6.12	\$6.04	1.6	1.6	0.0	(0.2)
LOGIC	8.0	4.2	(0.2)	(2.6)	8.2	7.0	\$5.34	\$5.25	1.1	1.1	0.2	0.2
NJOY	(8.0)	(8.6)	(2.1)	(8.1)	(6.0)	(0.5)	\$5.13	\$5.41	4.1	3.8	0.6	0.3
Cigars												
Cigars	(1.0)	(2.5)	15.0	5.8	(13.9)	(7.9)	\$2.57	\$2.74	100.0	100.0	-	-
Altria Group	2.2	3.5	(0.2)	0.0	2.4	3.4	\$5.44	\$5.37	15.2	16.4	(2.3)	(0.9)
Swisher International	6.7	3.4	73.8	41.4	(38.6)	(26.9)	\$1.49	\$1.77	43.9	38.0	14.8	9.6
PM/Swedish Match	(6.3)	(3.9)	(20.9)	(13.4)	18.4	10.9	\$3.44	\$3.20	11.2	12.9	(5.1)	(2.9)
Imperial Brands	(12.0)	(16.0)	(20.8)	(19.8)	11.1	4.7	\$5.30	\$5.09	9.0	10.3	(4.1)	(3.3)
Cheyenne International	8.8	(1.8)	6.2	(3.9)	2.6	2.1	\$0.53	\$0.52	6.4	6.6	(0.5)	(0.7)
Smokeless												
Tobacco Chewing	13.4	10.0	8.8	5.9	4.2	3.9	\$6.66	\$6.57	100.0	100.0	-	-
Altria Group	1.7	2.5	(1.4)	0.1	3.2	2.4	\$7.10	\$7.00	40.5	42.7	(4.2)	(2.5)
British American Tobacco	(0.7)	(1.4)	(8.8)	(8.4)	8.8	7.7	\$7.15	\$6.98	23.8	25.7	(4.6)	(4.0)
PM/Swedish Match	61.8	48.0	49.1	36.2	8.6	8.7	\$5.91	\$5.75	30.2	26.3	8.2	5.9
Swisher International	17.8	16.7	0.8	8.3	16.8	7.7	\$4.05	\$3.76	1.6	1.7	(0.1)	0.0
National Atlantic	7.0	8.0	3.3	3.6	3.6	4.3	\$6.79	\$6.68	1.3	1.4	(0.1)	(0.0)
Rogue Holdings	55.7	54.6	60.0	45.4	(2.7)	6.3	\$5.46	\$5.61	2.2	1.8	0.7	0.5

Source: Nielsen IQ

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US Inventory movements at wholesale/retail

We look for wholesale/retail inventory levels to likely remain erratic (and likely elevated) in the near term as wholesalers and retailers adjust to varying traffic patterns and the less predictable timing of pricing patterns. If funds become tight for retailers, we would look for them to cut back on inventory.

In 2021, PMUSA enhanced its Wholesale Leaders Program, which encouraged its wholesalers to maintain consistent ordering of its brands while giving them more financial flexibility for their business. As a result, PMUSA's inventory levels have been more stable than the industry overall.

Exhibit 28: US cigarette industry and PMUSA inventory levels at wholesale/retail (bns of sticks)

Industry levels increases YoY and QoQ in 3Q but narrowed for Altria, suggesting other producers posted higher inventory levels at wholesale/retail.

Category	2017	2018	2019	2020	2021	2022	2023
1Q	5.6	8.0	4.6	7.0	7.1	6.8	6.8
2Q	6.6	4.9	5.7	6.4	7.8	9.0	7.4
3Q	8.3	7.6	8.4	8.6	7.8	7.0	7.8
4Q	5.9	5.4	5.1	7.0	8.5	8.1	
MO	2017	2018	2019	2020	2021	2022	2023
1Q	2.6	3.8	2.0	2.9	2.6	2.4	2.1
2Q	3.2	2.2	2.5	2.5	3.1	2.6	2.4
3Q	4.0	3.6	3.7	3.4	2.5	2.4	2.2
4Q	2.6	2.4	2.1	3.0	2.5	2.4	

Source: Company reports

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At its March 2023 Analyst Day, MO management noted that a significant driver of the volume decline in 2022 was due to macroeconomic and other pressures that negatively impacted smoker disposable income and purchasing behavior. MO also identified a slight change in the national price elasticity coefficient for the US cigarette industry to -0.35 from -0.30. This change largely results from the impact of higher retail prices per pack.

More recently, illicit Chinese vapor volume has negatively impacted the legal nicotine segment. Until the FDA and other government regulators get this issue under control, we look for legal industry volume softness.

Cross category factors and inflation negatively impacting smoking volume

Exhibit 29: Underlying volume drivers for the US cigarette category

An influx of illicit disposable vapor volumes weighed on cigarette volumes in the 9M period. We expect this issue will take time to address given limited tools by the FDA and lax port oversight

TTM	2020	2021	2022	TTM to 1Q23	TTM to 2Q23	TTM to 3Q23
LT Secular decline	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-5.5%
Addl cross category shifts	0.1%	-0.2%	-0.1%	0.0%	-0.1%	-1.5-2.5%
Total secular decline	-2.4%	-2.7%	-2.6%	-2.5%	-2.6%	-7-8%
Gas & macro factors	3.8%	-0.9%	-3.8%	-4.0%	-4.0%	-2.6-1.6%
Cigarette px elasticity	-1.4%	-1.9%	-1.6%	-2.0%	-1.9%	-1.9%
Est. industry decline	0.0%	-5.5%	-8.0%	-8.5%	-8.5%	-8.5%

Source: Company reports

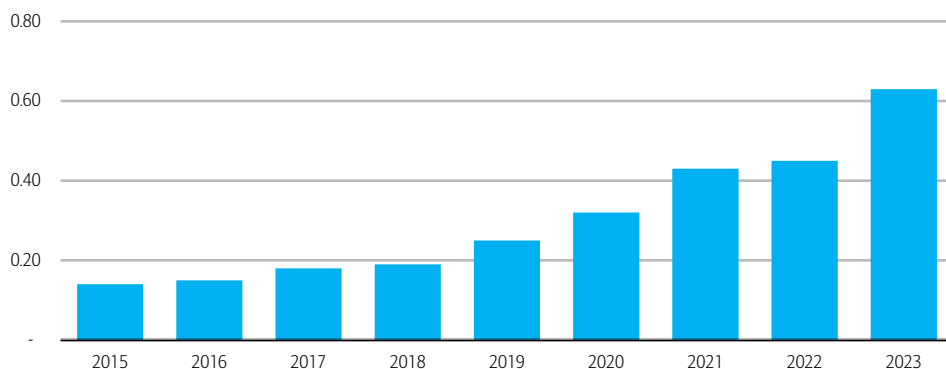
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Domestic cigarette pricing buoyant

Marlboro's per pack (manufacturer) pricing increased by 63c/pack in 2023, made up of 4 price increases in January, April, August and October. While MO has boosted its pricing efficiencies due to its digitalization programs and more targeted promotional spending, inflation linked MSA payments and softer volumes led to higher pricing moves in 2023 in order for management to attain its profit goals. [See PMUSA announces 1st cigarette price hike of year for latest pricing developments.](#)

Exhibit 29: Annual per pack price increases for Marlboro (cents)

Prices per pack rose 63c in 2023 vs. 45c in 2022



Source: Company reports

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Minimum wages increased for ~10mn workers

The Federal minimum wage is \$7.25/hour and is unchanged since 2009. States are allowed to have minimum wage rates above the Federal threshold. Per the Economic Policy Institute, 22 states implemented higher minimum wages as of January 1, 2024, ranging from +23c to \$2.00/hour. In addition, 38 cities/counties (largely in California) increased their minimum wages on Jan 1 above their state's wage floors.

- In January, the minimum wages in Maryland, New Jersey and upstate New York reached \$15/hour for the first time, joining California, Connecticut, Massachusetts, Washington and the rest of New York.
- These minimum wage boosts will positively impact ~9.9mn workers or about 14.7% of the workforce in these 22 states. Further, in September, FL will increase its minimum wage.
- In total, these workers' wages will rise by approximately \$6.95bn, with average annual wages increasing by \$710/year, ranging from \$301/year in Ohio to \$1,308/year in Hawaii. In FL, average increase in annual earnings will increase by \$842 beginning in September.

Price objective basis & risk

Altria Group (MO)

Our \$44 PO is based on 8.4x our 2025E EPS of \$5.25, reflecting a discount to its average P/E since July 2017 (11x) when the FDA announced a new regulatory plan. We think overall inflation on consumer goods and illegal vapor sales may weigh on combustible volumes over the near term.

Downside risks to our PO are more unfavorable FDA regulation than currently envisioned, higher taxation, and deeper secular declines than estimated given inflationary pressures. Upside risks: a faster shift to non-combustible tobacco products than current commercialization suggests and better than expected cost cutting or net pricing.

Philip Morris International (PM)

Our \$113 price objective (PO) values PM at 15.6x 2025E EPS of \$7.10 plus \$2.61/share for its Canada unit. This values PM inline with its average of 15.6x since July 2017 when the FDA updated its regulatory strategy towards nicotine. This year and next are expected to be transition and investment years, however we think that PM is positioning itself favorably for the long term. We like its attractive yield and strategy to shift smokers to higher-margin, less-harmful alternatives.

Upside risks to our price objective are greater consumer acceptance and conversion of smokers to reduced risk products (RRPs), an improved public health stance towards these reduced risk products, and better-than-anticipated combustible cigarette sales trends.

Downside risks to our price objective are longer-than-anticipated disruption due to the pandemic and/or the invasion of Ukraine, underwhelming acceptance of RRP into new markets, unfavorable taxation, ongoing litigation in Canada, increased regulatory action, such as smoking bans, health warnings, packaging or display restrictions, as well as a stronger US dollar.

Analyst Certification

I, Lisa K. Lewandowski, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

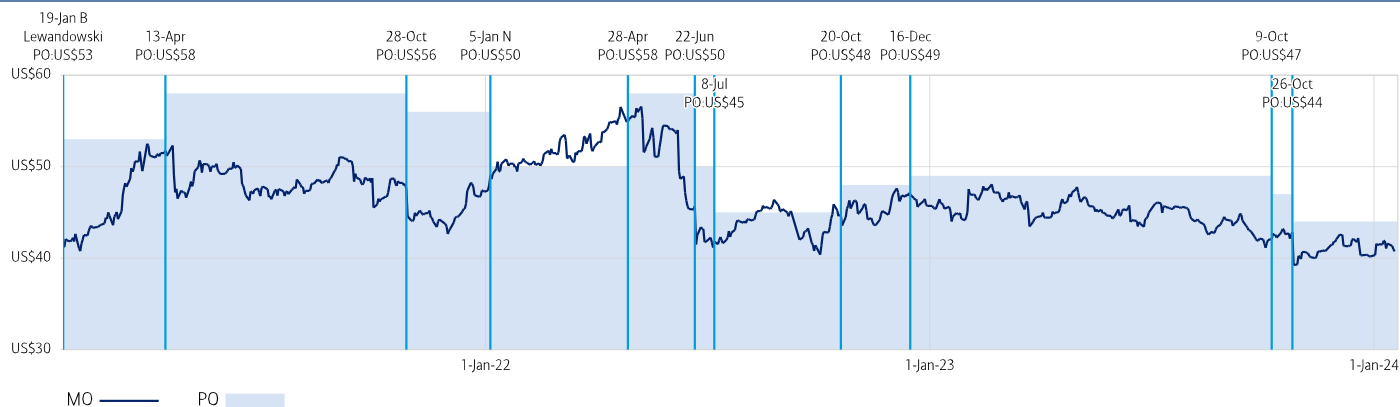


US - Consumables Coverage Cluster

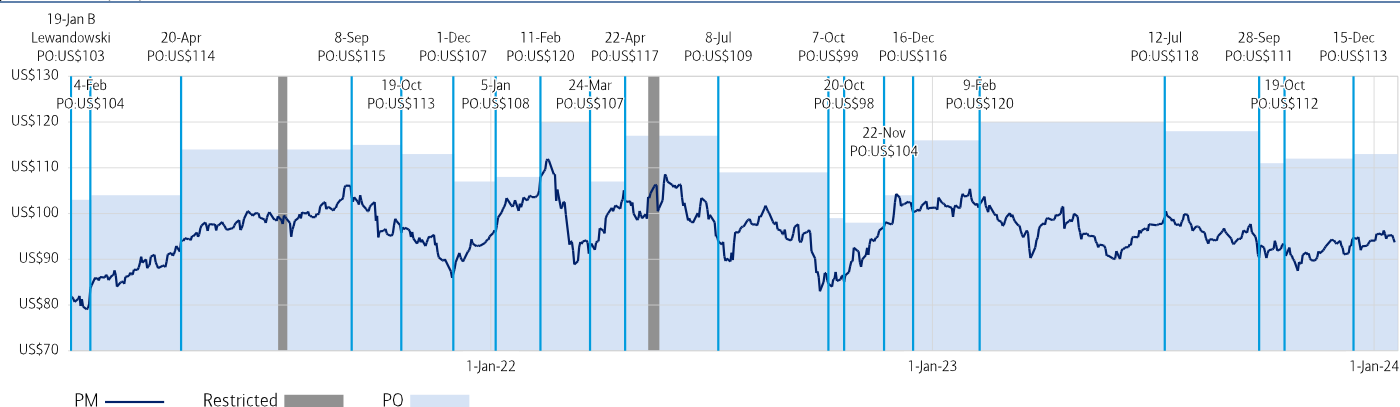
Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	BellRing Brands Inc	BRBR	BRBR US	Bryan D. Spillane
	Coca-Cola Europacific Partners plc	CCEP	CCEP US	Bryan D. Spillane
	Colgate-Palmolive Company	CL	CL US	Bryan D. Spillane
	Constellation Brands	STZ	STZ US	Bryan D. Spillane
	Coty Inc.	COTY	COTY US	Anna Lizzul
	e.l.f. Beauty	ELF	ELF US	Anna Lizzul
	Freshpet, Inc.	FRPT	FRPT US	Bryan D. Spillane
	Kenvue Inc.	KVUE	KVUE US	Anna Lizzul
	Keurig Dr Pepper	KDP	KDP US	Bryan D. Spillane
	Kraft Heinz Company	KHC	KHC US	Bryan D. Spillane
	Lamb Weston Holdings Inc	LW	LW US	Peter T. Galbo, CFA
	McCormick & Co.	MKC	MKC US	Peter T. Galbo, CFA
	Mondelez International	MDLZ	MDLZ US	Bryan D. Spillane
	Monster Beverage Corporation	MNST	MNST US	Peter T. Galbo, CFA
	PepsiCo	PEP	PEP US	Bryan D. Spillane
	Philip Morris International	PM	PM US	Lisa K. Lewandowski
	Pilgrim's Pride Corp.	PPC	PPC US	Peter T. Galbo, CFA
	The Coca Cola Company	KO	KO US	Bryan D. Spillane
	The Procter & Gamble Company	PG	PG US	Bryan D. Spillane
NEUTRAL				
	Altria Group	MO	MO US	Lisa K. Lewandowski
	Celsius Holdings Inc	CELH	CELH US	Jonathan Keypour
	Church & Dwight	CHD	CHD US	Anna Lizzul
	Clorox	CLX	CLX US	Anna Lizzul
	Conagra Brands, Inc.	CAG	CAG US	Peter T. Galbo, CFA
	Estee Lauder Companies Inc.	EL	EL US	Bryan D. Spillane
	General Mills	GIS	GIS US	Bryan D. Spillane
	JM Smucker Company	SJM	SJM US	Peter T. Galbo, CFA
	Kellanova	K	K US	Peter T. Galbo, CFA
	Molson Coors Beverage Company	TAP	TAP US	Bryan D. Spillane
	The Duckhorn Portfolio, Inc.	NAPA	NAPA US	Peter T. Galbo, CFA
	The Hershey Company	HSY	HSY US	Bryan D. Spillane
	Utz Brands	UTZ	UTZ US	Peter T. Galbo, CFA
	WK Kellogg Co	KLG	KLG US	Peter T. Galbo, CFA
UNDERPERFORM				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA
	Canopy Growth	YWEED	WEED CN	Lisa K. Lewandowski
	Canopy Growth	CGC	CGC US	Lisa K. Lewandowski
	Cronos Group	YCRON	CRON CN	Lisa K. Lewandowski
	Cronos Group	CRON	CRON US	Lisa K. Lewandowski
	Dole plc	DOLE	DOLE US	Bryan D. Spillane
	Herbalife Nutrition Ltd	HLF	HLF US	Anna Lizzul
	Hormel Foods Corp.	HRL	HRL US	Peter T. Galbo, CFA
	Kimberly-Clark	KMB	KMB US	Anna Lizzul
	Tyson Foods, Inc.	TSN	TSN US	Peter T. Galbo, CFA
RSTR				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

Disclosures

Important Disclosures

Altria Group (MO) Price Chart

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Philip Morris Intl (PM) Price Chart

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	3	60.00%	Buy	1	33.33%
Hold	1	20.00%	Hold	0	0.00%
Sell	1	20.00%	Sell	0	0.00%

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Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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