

## Altria Group

## Another challenging year ahead

Reiterate Rating: NEUTRAL | PO: 44.00 USD | Price: 41.72 USD

## Modest EPS growth in 2023, more of the same for 2024

MO ended 2023 with adj. EPS growth of +2.3% to \$4.95, with flat EPS % in 4Q. Inflationary pressures, higher consumer debt loads, heightened competitive activity and a growing illicit flavored vapor market weighed on MO's 2023 results, with the outlook for 2024 anticipated to be similar. Mgmt expects to deliver 2024 EPS of \$5.00-\$5.15, +1% to +4% growth, and including two extra shipping days in 2H24 (which will aid 2H24 cigarette shipments by ~1.5pts). EPS % anticipated to be 2H24 weighted due to the extra shipping days and lapping higher NJOY related amortization in 2H24. We made some tweaks to our model (See pg 8) but 2024/25 EPS is unchanged at \$5.05/\$5.25 respectively. Net income is expected to be flattish in 2024; buyback to aid EPS growth.

## The positives: Marlboro share, on! vols, NJOY distribution

Marlboro's share held steady in 4Q but dipped 40bps in 2023 despite downtrading and cross category movement. Marlboro's premium share +80bps in 4Q to 59.2%. Nicotine pouch vols +39% in 2023 and represented 18% of its oral tobacco volume +3.5pts YoY. Notably, promotional activity for on! eased further in 4Q, aiding price/mix for oral tobacco. on!'s share of the nicotine pouch category was 22%. NJOY grew distribution to 75,000 stores, up from 32,000 in June and added capacity to support expansion and close inventory gaps. NJOY's 4Q share was 3.7%. MO's yield + valuation is attractive.

## The negatives: Cigarette/MST volumes, illicit vols, FDA

Cigarette volumes -10% in 2023 vs. an overall industry contraction of 8%. We look for an higher than normal volume decline in 2024 as well due to macroeconomic pressures (downtrading) and limited lax enforcement to stem illicit trade. Moist smokeless vols fell at a 7% rate in 2023, as consumers shifted to oral nicotine. MO's oral tobacco share - 3.7pts in 2023. FDA news pending re nicotine ban and cigarette nicotine reduction.

## Reiterate Neutral rating; PO unchanged at \$44

MO has a long history of successfully navigating the nicotine landscape, however we look for illicit trade & pending regulatory news to weigh on investor sentiment. 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 (10.9x) when the FDA announced a new regulatory plan. We think overall inflation on consumer goods and illegal vapor sales will weigh on combustible volumes.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	4.84	4.95	5.05	5.25	5.49
GAAP EPS	3.21	4.57	5.05	5.25	5.49
EPS Change (YoY)	5.0%	2.3%	2.0%	4.0%	4.6%
Consensus EPS (Bloomberg)			5.01	5.20	5.30
DPS	3.76	3.92	3.96	4.12	4.19
Valuation (Dec)					
P/E	8.6x	8.4x	8.3x	7.9x	7.6x
GAAP P/E	13.0x	9.1x	8.3x	7.9x	7.6x
Dividend Yield	9.0%	9.4%	9.5%	9.9%	10.0%
EV / EBITDA*	8.7x	8.8x	8.8x	8.6x	8.4x
Free Cash Flow Yield*	10.9%	13.5%	11.2%	11.4%	11.8%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 13.

01 February 2024

## Equity

## Key Changes

(US\$)	Previous	Current
2024E Rev (m)	20,704.2	20,692.0
2025E Rev (m)	20,999.4	20,991.5
2026E Rev (m)	21,242.1	21,242.8

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## Stock Data

Price	41.72 USD
Price Objective	44.00 USD
Date Established	26-Oct-2023
Investment Opinion	B-2-7
52-Week Range	39.07 USD - 48.11 USD
Mrkt Val (mn) / Shares Out (mn)	73,970 USD / 1,773.0
Free Float	99.9%
Average Daily Value (mn)	376.17 USD
BofA Ticker / Exchange	MO / NYS
Bloomberg / Reuters	MO US / MO.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "[BofA ESGMeter Methodology](#)".

## Abbreviations

YoY = yr-over-yr; QoQ = qtr-over-quarter

MST= moist smokeless tobacco

PO= price objective

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# iQprofile<sup>SM</sup> Altria Group

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	30.3%	30.7%	31.3%	30.9%	30.4%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	58.1%	58.6%	58.3%	59.0%	59.9%
Free Cash Flow	8,051	10,022	8,266	8,448	8,722

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.9x	1.2x	1.0x	1.0x	1.0x
Asset Replacement Ratio	0.9x	0.7x	0.7x	0.7x	0.7x
Tax Rate	21.9%	25.6%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	11.1x	11.5x	11.7x	11.4x	11.9x

## Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	20,688	20,502	20,692	20,991	21,243
% Change	-2.0%	-0.9%	0.9%	1.4%	1.2%
Gross Profit	14,183	14,255	14,555	15,053	15,501
% Change	1.7%	0.5%	2.1%	3.4%	3.0%
EBITDA	12,242	12,109	12,058	12,382	12,720
% Change	-0.5%	-1.1%	-0.4%	2.7%	2.7%
Net Interest & Other Income	(368)	(306)	(250)	(239)	(155)
<b>Net Income (Adjusted)</b>	<b>8,731</b>	<b>8,796</b>	<b>8,855</b>	<b>9,103</b>	<b>9,423</b>
<b>% Change</b>	<b>2.7%</b>	<b>0.7%</b>	<b>0.7%</b>	<b>2.8%</b>	<b>3.5%</b>

## Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	5,785	8,130	8,856	9,107	9,424
Depreciation & Amortization	226	272	310	324	337
Change in Working Capital	(586)	(650)	0	0	0
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	2,831	2,470	(693)	(752)	(806)
Capital Expenditure	(205)	(200)	(207)	(231)	(234)
<b>Free Cash Flow</b>	<b>8,051</b>	<b>10,022</b>	<b>8,266</b>	<b>8,448</b>	<b>8,722</b>
<b>% Change</b>	<b>-2.2%</b>	<b>24.5%</b>	<b>-17.5%</b>	<b>2.2%</b>	<b>3.2%</b>
Share / Issue Repurchase	(1,825)	(1,000)	(1,000)	(1,000)	(1,000)
Cost of Dividends Paid	(6,599)	(6,772)	(6,891)	(6,970)	(7,191)
Change in Debt	(1,105)	(1,566)	0	0	0

## Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	4,030	3,686	4,061	4,538	5,070
Trade Receivables	1,769	0	103	105	106
Other Current Assets	1,421	1,899	1,278	2,153	2,373
Property, Plant & Equipment	1,608	1,652	1,549	1,456	1,430
Other Non-Current Assets	28,126	31,333	31,743	31,967	32,404
<b>Total Assets</b>	<b>36,954</b>	<b>38,570</b>	<b>38,734</b>	<b>40,219</b>	<b>41,383</b>
Short-Term Debt	1,556	1,121	0	0	0
Other Current Liabilities	7,060	10,198	9,353	9,452	9,337
Long-Term Debt	25,124	25,112	26,233	26,233	26,233
Other Non-Current Liabilities	7,137	5,629	5,673	5,923	5,968
<b>Total Liabilities</b>	<b>40,877</b>	<b>42,060</b>	<b>41,259</b>	<b>41,608</b>	<b>41,538</b>
<b>Total Equity</b>	<b>(3,923)</b>	<b>(3,490)</b>	<b>(2,525)</b>	<b>(1,389)</b>	<b>50</b>
<b>Total Equity &amp; Liabilities</b>	<b>36,954</b>	<b>38,570</b>	<b>38,734</b>	<b>40,219</b>	<b>41,588</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 13.

## Company Sector

Tobacco

## Company Description

Altria Group is the parent company of Philip Morris USA (cigarettes), UST/Helix (oral tobacco), John Middleton (cigars), and NJOY, Inc (vapor). PMUSA enjoys a 48% share of the US cigarette market, led by its top cigarette brand Marlboro. MO also owns 10% of Anheuser-Busch InBev, the world's largest brewer. It has an ownership interest in Cronos Group (cannabis). In 2008 it spun off its international tobacco business to shareholders.

## Investment Rationale

While MO will likely continue to be a steady earnings performer, with pricing growth, limited input inflation and margin expansion, we are more cautious on prospects for its share price performance in 2024 as we anticipate regulatory news flow, inflationary pressures and PM's entry into the US may be an overhang. We are Neutral.

## Stock Data

Average Daily Volume 9,016,617

## Quarterly Earnings Estimates

	2023	2024
Q1	1.18A	1.19E
Q2	1.31A	1.30E
Q3	1.28A	1.33E
Q4	1.18A	1.23E

## 2024 management guidance

### Exhibit 1: Initial 2024 management guidance

EPS growth is modest at +1-4% vs. 2023

AS OF	2024 2/1/24
EPS range	\$5.00-\$5.15, 2H weighted
EPS growth objective	+1% to +4%
Tax rate	24.5-25.5%
Buybacks	\$1mn
Cap Ex.	\$175-225mn
Depr & amort	\$310mn
Investments/other comments	2 extra shipping days in 2024, 1 in 3Q, 1 in 4Q
IQOS distribution	FY excludes \$1.14 gain related to IQOS termination of rights

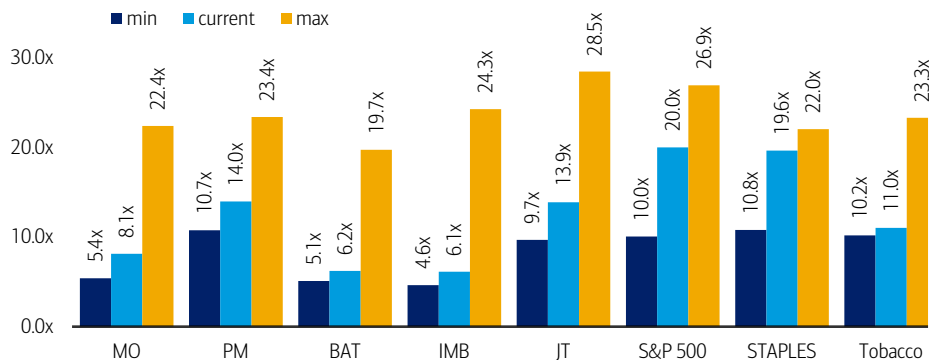
Source: Company reports

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### MO's valuation remains attractive

#### Exhibit 2: Min, max and current forward P/E

At just 8.1x, MO's valuation is below its 10Y average of 13.6x and its July17+ average of 10.9x (when the FDA indicated a more aggressive oversight of tobacco)



Source: Company reports, BofA Global Research

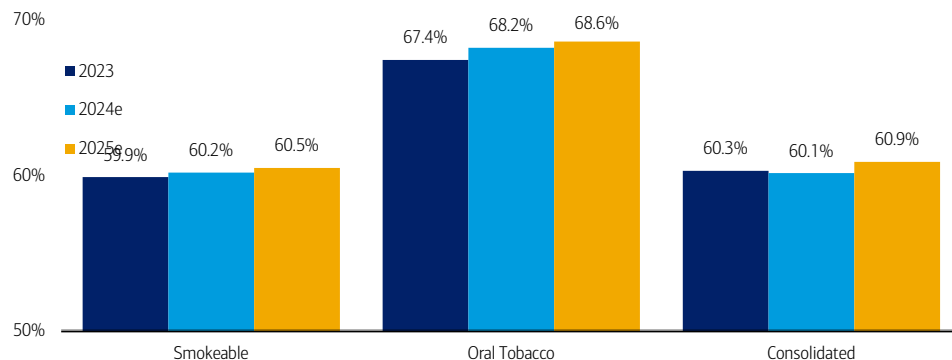
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### Maintain adjusted annual consolidated OCI margins of "at least 60%"

Including NJOY spending, our current OCI margins are forecasted at 60.1% and 60.9% over the 2024-25 period. This is within the range of management goals.

#### Exhibit 3: We think adjusted OCI margin goal of "at least 60%" is achievable\*

We could see FY24 adj OCI margin above 60% despite spending for NJOY in 23/24e



Source: Company reports, BofA Global Research \*and includes support spending for NJOY and international oral tobacco in "all other" and promotional activity for cigarettes.

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## Smokeables (cigarettes/cigars)

### YoY smokeable volume % trends

Inflationary pressures on smokers, the menthol ban in California (beginning in Dec 2022) and lack of clarity/enforcement by the FDA over illegal vaping products has driven nicotine users to smokers shift where they buy product and the type of nicotine they purchase. We look for MO's shipments to fall by 7.5% in 2024 and includes the benefit of 2 extra shipping days in 2H24.

#### Exhibit 4: MO's combustible volume % trends

MO's 2023 volumes fell 10% following a 9.5% drop in 2022

Cigarettes	1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Marlboro	-5.8%	-10.3%	-8.8%	-11.3%	-10.4%	-7.6%	-10.5%	-6.4%
Other premium	-4.5%	-12.1%	-4.3%	-11.7%	-12.0%	-6.2%	-10.2%	-6.1%
Discount	-14.1%	-19.5%	-16.8%	-22.4%	-24.6%	-24.4%	-28.9%	-26.1%
Rpt cigarettes	-6.3%	-11.1%	-9.2%	-12.1%	-11.4%	-8.7%	-11.6%	-7.6%
Adjusted	-8.0%	-10.0%	-10.0%	-11.0%	-11.0%	-10.0%	-10.0%	-9.0%
Cigars								
John Middleton	-9.6%	-4.6%	3.3%	-3.6%	2.3%	7.6%	3.0%	-1.4%
Rpt cigars	-9.6%	-5.0%	3.3%	-3.8%	2.3%	7.6%	2.7%	-1.4%
% chg cigarettes	3M22	1H22	9M22	2022	3M23	1H23	9M23	2023
Marlboro	-5.8%	-8.2%	-8.4%	-9.1%	-10.4%	-8.9%	-9.5%	-8.8%
Other premium	-4.5%	-8.6%	-7.2%	-8.3%	-12.0%	-9.0%	-9.4%	-8.6%
Discount	-14.1%	-16.9%	-16.9%	-18.2%	-24.6%	-24.5%	-25.9%	-26.0%
Rpt cigarettes	-6.3%	-8.9%	-9.0%	-9.7%	-11.4%	-10.0%	-10.5%	-9.9%
Adjusted	-8.0%	-9.0%	-9.5%	-9.5%	-11.0%	-10.5%	-10.5%	-10.0%
% chg cigars								
John Middleton	-9.6%	-7.2%	-3.9%	2.9%	2.3%	5.0%	2.7%	2.9%
Rpt cigars	-9.6%	-7.4%	-4.0%	2.8%	2.3%	5.0%	4.2%	2.8%

Source: Company reports

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### Cigarette industry volume drivers

#### Exhibit 5: Cigarette industry volume drivers

The industry's decline rate appears to be stabilizing above historical norms. We look for elevated levels of decline to remain in the near term until the illegal trade problem is addressed

TTM	2017	2018	2019	2020	2021	2022	2023
LT Secular decline	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Addl cross category shifts	-0.2%	-0.4%	-2.0%	0.1%	-0.2%	-0.1%	-1.5-2.5%
Total secular decline	-2.7%	-2.9%	-4.5%	-2.4%	-2.7%	-2.6%	-7-8%
Gas & macro factors	0.0%	-0.5%	0.2%	3.8%	-0.9%	-3.8%	-2.1-1.1%
Cigarette px elasticity	-1.3%	-1.1%	-1.2%	-1.4%	-1.9%	-1.6%	-1.9%
Est. industry decline	-4.0%	-4.5%	-5.5%	0.0%	-5.5%	-8.0%	-8.0%

Source: Company reports

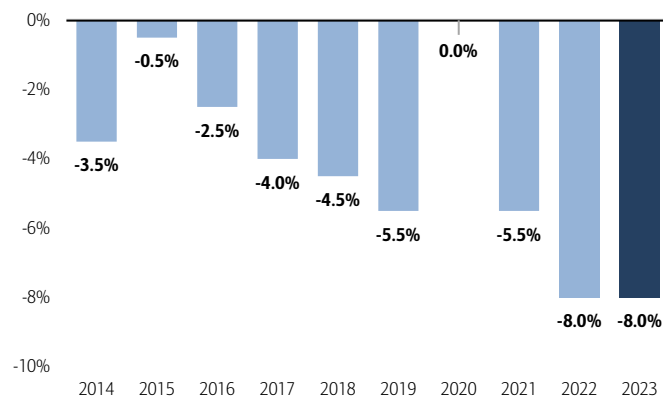
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### Quarterly cigarette industry volume change

Inflationary pressures and illegal flavored vapor products are weighing on industry volumes as illustrated in the Exhibit above. While we look for declines to ease modestly in 2024 due to extra shipping days this year; however we do not anticipate industry volumes to improve significantly until illegal volumes ease.

**Exhibit 6: Annual adjusted cigarette industry declines YoY %**

Widespread inflationary pressures and illegal volume are weighing on cigarette volume

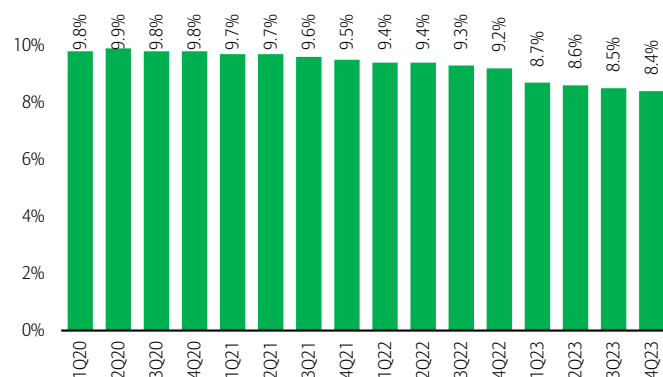


Source: Company reports

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**Exhibit 8: MO's share of menthol**

MO's share of menthol has waned in 2023 as the CA menthol ban was implemented

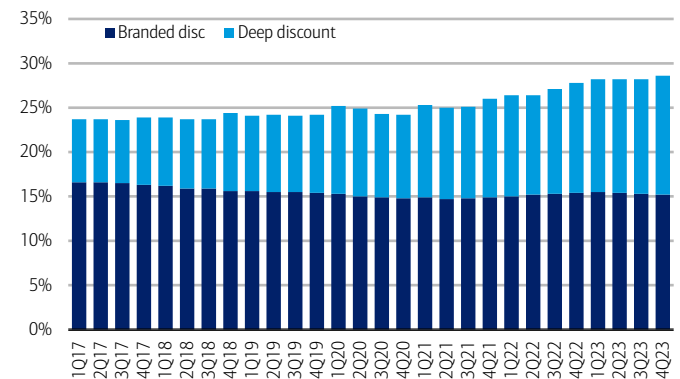


Source: Company reports, BofA Global Research

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**Exhibit 7: Value share of US cigarette category**

Competitors such as Vector/Liggett and to a lesser degree Imperial Brands are benefitting from downtrading. Total value share rose 90bps YoY

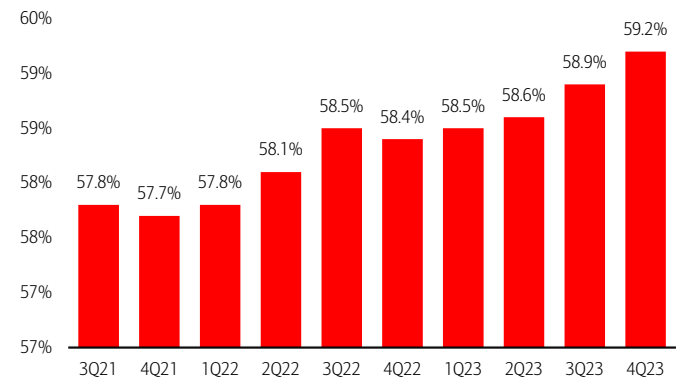


Source: Company reports

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**Exhibit 9: Marlboro's share of the US premium category**

Marlboro is gaining share of the premium segment, suggesting brand health



Source: Company reports

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**Wholesale/retail inventory**

MO's inventory levels grew QoQ and (modestly) YoY ending the quarter at 2.5bn units, suggesting success with this retail agreements to keep fairly steady inventory levels on an annual basis. Industry inventory levels remain erratic, with an decrease YoY and QoQ—suggesting some inventory drawdown by wholesalers/retails for peers.

Given that the trade needs to pay for cigarettes quickly after delivery, we may be looking at a tightening of inventory levels to conserve cash.

**Exhibit 10: Wholesale levels (bn of sticks)**

We would look for inventory levels for the industry to be erratic over the near term

INDUSTRY	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	7.6
MO							
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	2.5

Source: Company reports

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## Smokeable pricing aided by couponing efficiencies and other factors

Price/mix was +5.5% in 4Q23, lapping a big +13.5% increase in the price year and aided by price increases along with greater efficiency and use of promotional resources – benefitting from MO's investments made in trade programs, data analytics and consumer data. For the full year price mix increased +8.8%. For 2024, we forecast pricing/mix growth of +8%.

### Exhibit 11: MO: Smokeable revenue build

Soft volumes were nearly offset by price realization

	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23	2023	2024E	2025E
Volume	-6%	-11%	-9%	-12%	-10%	-11%	-8%	-11%	-7%	-10%	-7%	-7%
Price/mix	9%	12%	10%	14%	11%	11%	10%	9%	6%	9%	8%	8%
Net sales (ex FET)	2%	-1%	0%	0%	0%	-1%	1%	-4%	-2%	-2%	0%	1%

Source: Company reports, BofA Global Research

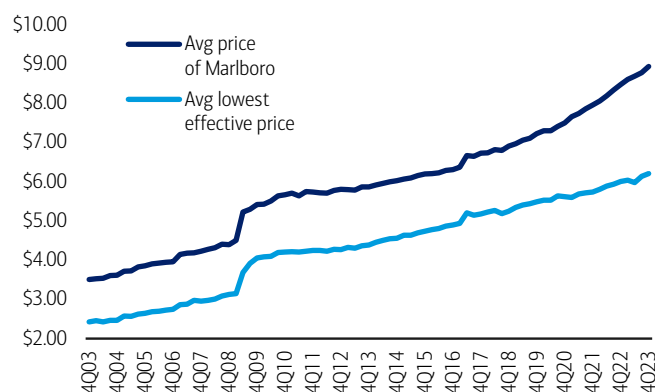
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## Average Marlboro prices

Marlboro prices were \$8.93 in 4Q, +5.4% at retail. This indicates an increase of +46c vs. 4Q22 and +16c vs. 3Q23. The price gap between Marlboro and the lowest priced brand expanded to 44% and compared to 41.2% in 4Q22 and 43.1% in 3Q23. *Historically we expect accelerated trading down if the price gap topped the 40% level, but management highlighted that this is a national average and is narrower on a local level. This gap remains a factor to watch.*

### Exhibit 12: Average per pack prices of Marlboro (\$ per 20 sticks)

Marlboro's price per pack reached \$8.93 vs. \$6.20 for the lowest priced brand in store

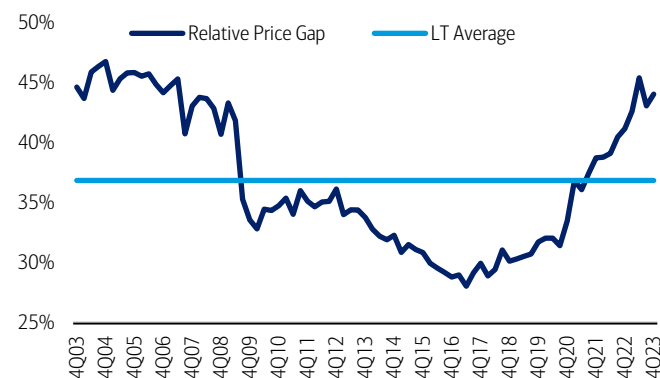


Source: Company reports

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### Exhibit 13: Relative price gap between Marlboro and lowest effective price brand

The price gap widened YoY and QoQ



Source: Company reports

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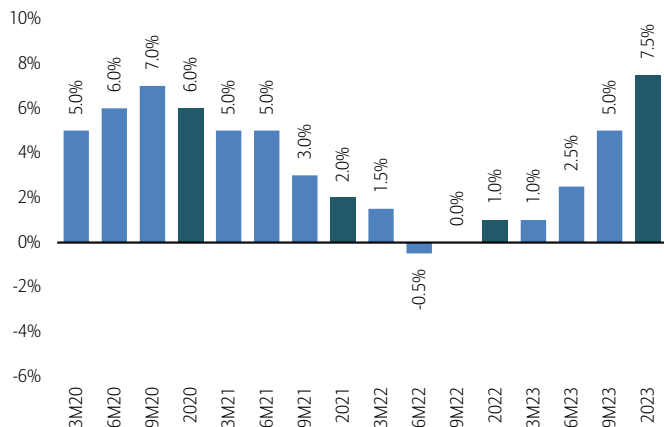
## Oral tobacco

In 4Q, MO's oral tobacco shipments fell 2% (reported) and -2.5% (inventory adjusted) basis. Moist smokeless tobacco (MST) volumes -6.6%, including a 6.9% drop for its premium MST brands. On! oral nicotine volumes advanced 32.8%, aided by trial, repeat purchase and additional stores added in 2022. Oral nicotine represented 15.7% of MO's oral tobacco volumes +4.1pts YoY and +1pt QoQ.

For the full year, oral tobacco volumes contracted 2.2% or -2.7% ex. inventory factors. Reported premium/total MST volumes tumbled by 7.2%/6.9% as consumers shifted to oral nicotine. On! volumes rose 38.5% YoY to represent 14.6% of total oral volumes. For 2024, we look for volumes to drop 1.8%, with MST vols -5.8% and nicotine pouch volumes +22%.

**Exhibit 14: Industry volume trends (on a trailing 6M average)**

In 4Q23, industry volumes were +7.5%, led by oral nicotine pouch growth

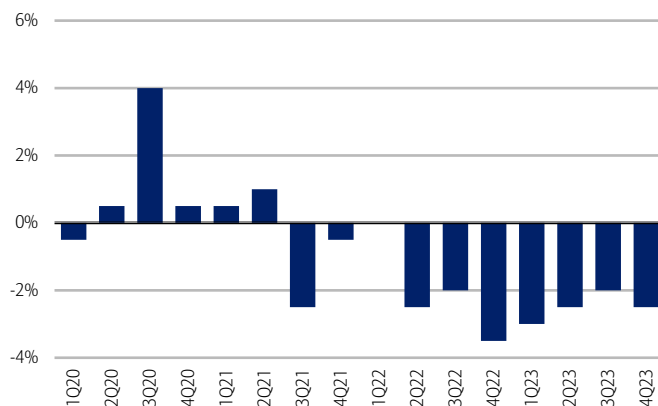


Source: Company reports

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**Exhibit 15: MO's adjusted oral tobacco volume % change**

Despite strength of nicotine pouches, MO's oral tobacco volumes have been soft for the two years



Source: Company reports

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**Exhibit 16: MO: Oral tobacco revenue build %**

We look for oral tobacco sales +5% in 2024, led by reduced promotional levels for on!

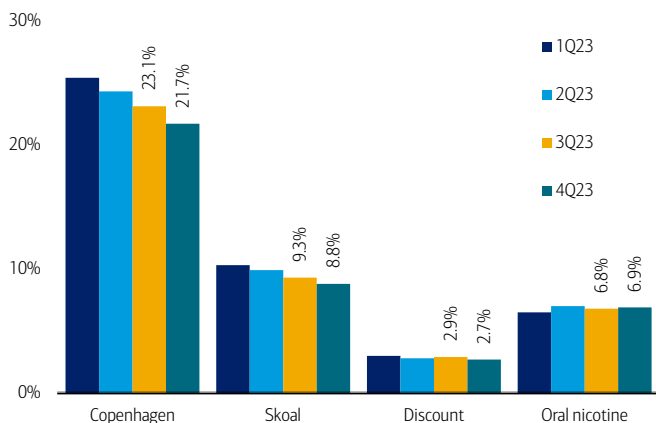
ORAL TOBACCO REVENUE BUILD	1Q22	2Q22	3Q22	4Q22	2022	1Q23	2Q23	3Q23	4Q23	2023	2024E	2025E
Volume	-2%	-4%	1%	-4%	-2%	-2%	-2%	-3%	-2%	-2%	-2%	-1%
Price/mix	0%	1%	6%	0%	2%	5%	5%	6%	9%	6%	7%	6%
Reported sales	-2%	-4%	8%	-4%	-1%	3%	3%	3%	7%	4%	5%	5%

Source: Company reports, BofA Global Research

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**Smokeless share****Exhibit 17: MO's oral tobacco share by major brand — %**

Weakness in Moist Smokeless acts as a drag to on!'s share gains

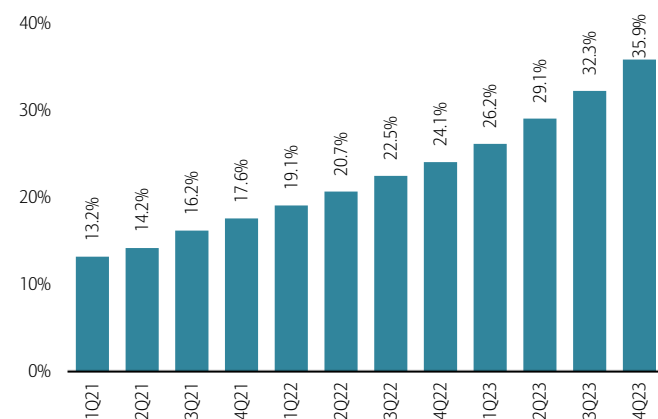


Source: Company reports

BofA GLOBAL RESEARCH

**Exhibit 18: Nicotine pouch category share— quarterly retail share trends**

Oral nicotine pouches won 11.8pts of share YoY in 4Q



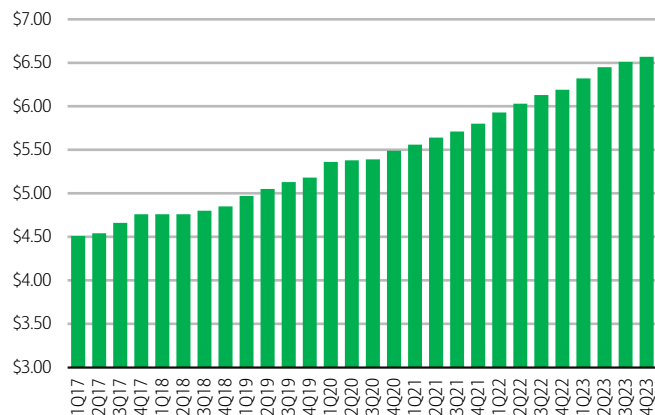
Source: Company reports

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## Smokeless price gaps

### Exhibit 19: Average price/can of Copenhagen

Pricing is a key driver for sales/profit growth



Source: Company reports

BofA GLOBAL RESEARCH

The price gap between Copenhagen and on! was \$2.80/can, narrowing from \$3.72/can in 2Q23.

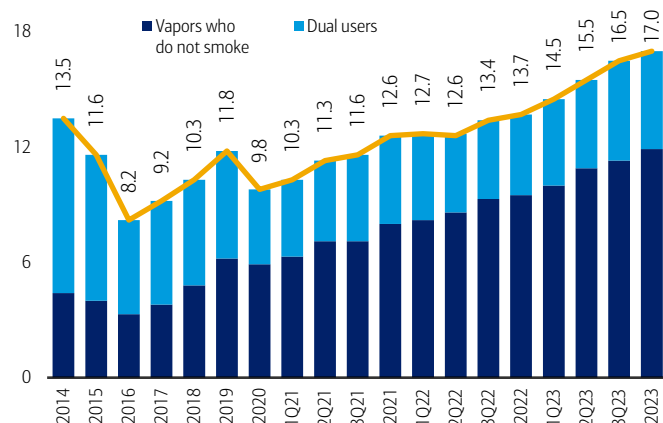
On average YoY prices for Copenhagen rose 38c YoY to \$6.57/can, +6c QoQ. The average price of on! was \$3.77/can, +\$1.22 YoY and +16c with 3Q23 prices. Promotional activity for on! has eased YoY/QoQ.

## Vapor

In June 2023 Altria completed its purchase NJOY for ~\$2.75bn in cash payable at closing with an additional \$500mn in contingent cash payments upon regulatory outcomes of certain NJOY products.

### Exhibit 20: US vapor users (mns)

Usage grew as users switched to flavored, disposable products



Source: Company reports

BofA GLOBAL RESEARCH

Lack of enforcement is an issue for many of vapor products, especially the flavored, disposable variety.

MO data indicates that 17mn US adults are vapors, of which 11.9mn do not smoke. This compares to 13.7mn in December 2022 (of which 9.5mn did not smoke).

## Model changes

### Exhibit 21: FY24 model changes post 4Q results

2 extra shipping days helps smokeable volumes vs. our prior forecast

	Prior est	Current
<b>YoY % change in smokeable vols</b>		
Marlboro	-8.0%	-6.8%
Other premium	-10.0%	-7.8%
Discount brands	-15.0%	-19.4%
Total PMUSA cigarette volumes	-8.5%	-7.5%
Combined smokeable vols	-8.3%	-7.5%
<b>SMOKEABLE TOBACCO REVENUE BUILD</b>		
Volume	-8.3%	-7.5%
Price/mix	9.1%	7.9%
Net sales (ex FET)	0.0%	-0.1%
SMOKEABLE underlying OCI	0.8%	0.3%



**Exhibit 21: FY24 model changes post 4Q results**

2 extra shipping days helps smokeable volumes vs. our prior forecast

	Prior est	Current
SMOKEABLE underlying OCI margin(s)	60.6%	60.2%
YoY mgn change	50bps	30bps
<b>YoY % change in oral tob vols%</b>		
Copenhagen	-4.0%	-5.0%
Skoal	-6.0%	-8.0%
Total premium MST	-4.5%	-5.8%
Discount MST	-7.0%	-6.0%
Total MST	-4.8%	-5.8%
On! oral nicotine pouches	20.0%	22.0%
Total Oral Tobacco volumes	-1.2%	-1.8%
<b>ORAL TOBACCO REVENUE BUILD</b>		
Volume	-1.2%	-1.8%
Price/mix	5.9%	7.3%
Reported sales	4.7%	5.5%
ORAL TOBACCO underlying OCI	5.6%	6.6%
ORAL TOBACCO OCI mgn	67.6%	68.2%
YoY mgn change	60bps	80bps

Source: BofA Global Research

BofA GLOBAL RESEARCH

**Divisional summary****Exhibit 22: Division volume, sales and profit forecasts (\$mns)**

Smokeable volumes are forecast to fall 7.5%; oral tobacco volumes -1.8% in 2024

	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024e	2025e	2026E
<b>VOLUMES</b>												
Cigarettes (bns of sticks)	18.3	20.6	19.3	18.2	76.3	16.8	18.6	18.1	17.1	70.6	65.6	61.0
Cigars (mns of cigars)	444.0	466.0	451.0	419.0	1,780.0	430.6	419.4	433.0	410.5	1,693.5	1,642.5	1,593.1
Total smokeable vols (bns)	18.7	21.0	19.8	18.6	78.1	17.3	19.0	18.5	17.5	72.3	67.3	62.6
Oral Tobacco (mns of cans)	190.6	204.4	194.8	193.1	782.9	186.5	200.8	191.4	190.3	769.1	758.5	752.6
<b>% chg in volumes</b>												
Cigarettes	-11.4%	-8.7%	-11.6%	-7.6%	-9.9%	-7.9%	-9.6%	-6.2%	-6.2%	-7.5%	-7.0%	-7.0%
Cigars	2.3%	7.6%	2.7%	-1.4%	2.8%	-3.0%	-10.0%	-4.0%	-2.0%	-4.9%	-3.0%	-3.0%
Total smokeable	-11.1%	-8.3%	-11.4%	-7.5%	-9.6%	-7.8%	-9.6%	-6.2%	-6.1%	-7.5%	-6.9%	-6.9%
Oral Tobacco	-1.8%	-1.7%	-3.3%	-2.0%	-2.2%	-2.1%	-1.7%	-1.7%	-1.5%	-1.8%	-1.4%	-0.8%
<b>NET SALES (EX. FET)</b>												
Smokeable	4,162	4,779	4,596	4,350	17,887	4,120	4,634	4,678	4,431	17,863	18,026	18,175
Oral Tobacco	600	651	657	647	2,555	634	689	696	674	2,693	2,823	2,918
All other	1	8	24	27	60	31	36	38	31	136	143	150
Total	4,763	5,438	5,277	5,024	20,502	4,785	5,359	5,413	5,135	20,692	20,991	21,243
<b>% change in NET sales</b>												
Smokeable	-1.4%	0.9%	-3.7%	-2.4%	-1.6%	-1.0%	-3.0%	1.8%	1.9%	-0.1%	0.9%	0.8%
Oral Tobacco	2.7%	2.8%	2.7%	7.1%	3.8%	5.6%	5.9%	6.0%	4.1%	5.4%	4.8%	3.4%
Total	-1.2%	1.2%	-2.5%	-1.2%	-0.9%	0.5%	-1.5%	2.6%	2.2%	0.9%	1.4%	1.2%
<b>UNDERLYING OCI</b>												
Smokeable	2,515	2,886	2,741	2,568	10,710	2,502	2,812	2,804	2,629	10,747	10,899	11,044
Oral Tobacco	416	443	455	408	1,722	447	475	485	430	1,836	1,936	2,018
All other	(9)	(4)	(4)	(57)	(74)	(40)	(40)	(30)	(30)	(140)	(60)	60
<b>Total OCI</b>	<b>2,922</b>	<b>3,325</b>	<b>3,192</b>	<b>2,919</b>	<b>12,358</b>	<b>2,909</b>	<b>3,247</b>	<b>3,259</b>	<b>3,028</b>	<b>12,443</b>	<b>12,775</b>	<b>13,122</b>
Amortization	18	27	42	41	128	42	42	42	42	168	172	176
Corporate expense	34	72	38	69	213	35	73	39	70	217	222	226
<b>Underlying operating income</b>	<b>2,870</b>	<b>3,226</b>	<b>3,112</b>	<b>2,809</b>	<b>12,017</b>	<b>2,833</b>	<b>3,131</b>	<b>3,178</b>	<b>2,916</b>	<b>12,058</b>	<b>12,382</b>	<b>12,720</b>
	-	-	-	-	-	-	-	-	-	-	-	-
<b>% change in OCI</b>												
Smokeable	0.2%	3.1%	-2.5%	-1.3%	-0.1%	-0.5%	-2.6%	2.3%	2.4%	0.3%	1.4%	1.3%
Oral Tobacco	2.2%	3.0%	7.1%	10.3%	5.5%	7.5%	7.2%	6.6%	5.3%	6.6%	5.4%	4.3%
<b>Total OCI</b>	<b>0.3%</b>	<b>3.4%</b>	<b>-1.2%</b>	<b>-1.5%</b>	<b>0.3%</b>	<b>-0.4%</b>	<b>-2.4%</b>	<b>2.1%</b>	<b>3.7%</b>	<b>0.7%</b>	<b>2.7%</b>	<b>2.7%</b>
Amortization	5.9%	50.0%	121.1%	115.8%	75.3%	133.3%	55.6%	0.0%	2.4%	31.3%	2.4%	2.3%
Corporate expense	-35.8%	60.0%	-33.3%	-11.5%	-8.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
<b>Underlying operating income</b>	<b>0.9%</b>	<b>2.3%</b>	<b>-1.3%</b>	<b>-2.0%</b>	<b>0.0%</b>	<b>-1.3%</b>	<b>-2.9%</b>	<b>2.1%</b>	<b>3.8%</b>	<b>0.3%</b>	<b>2.7%</b>	<b>2.7%</b>
<b>Adjusted OCI margin</b>												



**Exhibit 22: Division volume, sales and profit forecasts (\$mns)**

Smokeable volumes are forecast to fall 7.5%; oral tobacco volumes -1.8% in 2024

	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024e	2025e	2026E
Smokeable	60.4%	60.4%	59.6%	59.0%	59.9%	60.7%	60.7%	59.9%	59.3%	60.2%	60.5%	60.8%
Oral Tobacco	69.3%	68.0%	69.3%	63.1%	67.4%	70.5%	68.8%	69.7%	63.8%	68.2%	68.6%	69.2%
Consolidated	61.3%	61.1%	60.5%	58.1%	60.3%	60.8%	60.6%	60.2%	59.0%	60.1%	60.9%	61.8%
<b>OCI margin change</b>												
Smokeable	90bps	130bps	70bps	60bps	90bps	30bps	30bps	30bps	30bps	30bps	30bps	30bps
Oral Tobacco	-40bps	10bps	280bps	180bps	110bps	120bps	80bps	40bps	70bps	80bps	40bps	60bps
Consolidated	90bps	130bps	80bps	-20bps	70bps	-60bps	-60bps	-30bps	90bps	-10bps	70bps	90bps

Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

**Consolidated income statement****Exhibit 23: MO- quarterly/annual income statement forecast (\$mns)**

We look for only a modest increase (+0.45) in net income in 2024; buyback program expected to be meaningful contributor to EPS growth

\$ in millions	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024e	2025e	2026E
Reported net revenue	5,719	6,508	6,281	5,975	24,483	5,671	6,332	6,359	6,033	24,395	24,445	24,466
Excise taxes	956	1,070	1,004	951	3,981	886	973	946	898	3,703	3,454	3,223
<b>Net sales</b>	<b>4,763</b>	<b>5,438</b>	<b>5,277</b>	<b>5,024</b>	<b>20,502</b>	<b>4,785</b>	<b>5,359</b>	<b>5,413</b>	<b>5,135</b>	<b>20,692</b>	<b>20,991</b>	<b>21,243</b>
MSA & other fees	961	1,085	986	947	3,979	928	1,031	972	933	3,865	3,675	3,493
Base COGS (ex. FET & fees)	473	596	607	592	2,268	490	577	612	595	2,273	2,264	2,248
Gross profit	3,329	3,757	3,684	3,485	14,255	3,367	3,751	3,829	3,607	14,555	15,053	15,501
Mktg, admin & research costs	407	432	492	566	1,897	458	504	570	579	2,111	2,278	2,379
<b>Underlying OCI</b>	<b>2,922</b>	<b>3,325</b>	<b>3,192</b>	<b>2,919</b>	<b>12,358</b>	<b>2,909</b>	<b>3,247</b>	<b>3,259</b>	<b>3,028</b>	<b>12,443</b>	<b>12,775</b>	<b>13,122</b>
Amortization	18	27	42	41	128	42	42	42	42	168	172	176
General corporate expenses	34	72	38	69	213	35	73	39	70	217	222	226
<b>Underlying operating income</b>	<b>2,870</b>	<b>3,226</b>	<b>3,112</b>	<b>2,809</b>	<b>12,017</b>	<b>2,833</b>	<b>3,131</b>	<b>3,178</b>	<b>2,916</b>	<b>12,058</b>	<b>12,382</b>	<b>12,720</b>
Interest expense, net	248	270	274	252	1,044	257	257	257	257	1,030	1,088	1,069
Net periodic benefit income, ex. svc cost	(31)	(31)	(33)	(32)	(127)	(33)	(33)	(35)	(34)	(133)	(144)	(156)
Equity inc (ABI, Cronos)	(171)	(128)	(140)	(172)	(611)	(187)	(135)	(147)	(177)	(646)	(705)	(759)
<b>Pretax income</b>	<b>2,824</b>	<b>3,115</b>	<b>3,011</b>	<b>2,761</b>	<b>11,711</b>	<b>2,794</b>	<b>3,042</b>	<b>3,102</b>	<b>2,869</b>	<b>11,808</b>	<b>12,143</b>	<b>12,566</b>
Income taxes	706	769	736	678	2,889	699	760	776	717	2,952	3,036	3,141
<b>Underlying net income</b>	<b>2,118</b>	<b>2,346</b>	<b>2,275</b>	<b>2,083</b>	<b>8,822</b>	<b>2,096</b>	<b>2,281</b>	<b>2,327</b>	<b>2,152</b>	<b>8,856</b>	<b>9,107</b>	<b>9,424</b>
Fully diluted shares outstanding	1,786	1,782	1,773	1,767	1,777	1,761	1,756	1,751	1,746	1,753	1,734	1,716
<b>YoY % change in FD shares</b>	<b>-1.8%</b>	<b>-1.5%</b>	<b>-1.4%</b>	<b>-1.3%</b>	<b>-1.5%</b>	<b>-1.4%</b>	<b>-1.5%</b>	<b>-1.2%</b>	<b>-1.2%</b>	<b>-1.3%</b>	<b>-1.1%</b>	<b>-1.0%</b>
<b>Underlying EPS</b>	<b>1.18</b>	<b>1.31</b>	<b>1.28</b>	<b>1.18</b>	<b>4.95</b>	<b>1.19</b>	<b>1.30</b>	<b>1.33</b>	<b>1.23</b>	<b>5.05</b>	<b>5.25</b>	<b>5.49</b>
<b>% change</b>	<b>5.4%</b>	<b>4.0%</b>	<b>0.4%</b>	<b>-0.1%</b>	<b>2.3%</b>	<b>0.8%</b>	<b>-0.9%</b>	<b>3.6%</b>	<b>4.5%</b>	<b>1.9%</b>	<b>4.0%</b>	<b>4.5%</b>
<b>Margins &amp; tax rate</b>												
Underlying tax rate	21.0%	24.7%	24.4%	24.6%	24.7%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Base COGS margin	9.9%	11.0%	11.5%	11.8%	11.1%	10.2%	10.8%	11.3%	11.6%	11.0%	10.8%	10.6%
Base COGS mgn chg	-160bps	10bps	60bps	30bps	-10bps	30bps	-20bps	-20bps	-20bps	-10bps	-20bps	-20bps
Gross profit margin	69.9%	69.1%	69.8%	69.4%	69.5%	70.4%	70.0%	70.7%	70.2%	70.3%	71.7%	73.0%
GP mgn chg	110bps	90bps	150bps	40bps	100bps	50bps	90bps	90bps	90bps	80bps	140bps	130bps
OCI margin	61.3%	61.1%	60.5%	58.1%	60.3%	60.8%	60.6%	60.2%	59.0%	60.1%	60.9%	61.8%
OCI mgn chg	90bps	130bps	80bps	-20bps	70bps	-60bps	-60bps	-30bps	90bps	-10bps	70bps	90bps
Operating margin	60.3%	59.3%	59.0%	55.9%	58.6%	59.2%	58.4%	58.7%	56.8%	58.3%	59.0%	59.9%
OI mgn chg	130bps	70bps	70bps	-50bps	50bps	-110bps	-90bps	-30bps	90bps	-30bps	70bps	90bps
Pretax margin	59.3%	57.3%	57.1%	55.0%	57.1%	58.4%	56.8%	57.3%	55.9%	57.1%	57.8%	59.2%
Pretax mgn chg	260bps	80bps	50bps	-50bps	80bps	-90bps	-50bps	30bps	90bps	-10bps	80bps	130bps
Net margin	44.5%	43.1%	43.1%	41.5%	43.0%	43.8%	42.6%	43.0%	41.9%	42.8%	43.4%	44.4%
Net mgn chg	200bps	70bps	60bps	-10bps	80bps	-70bps	-60bps	-10bps	40bps	-20bps	60bps	100bps
<b>YoY % change</b>												
Reported net revenue	-2.9%	-0.5%	-4.1%	-2.2%	-2.4%	-0.8%	-2.7%	1.2%	1.0%	-0.4%	0.2%	0.1%
Excise taxes	-10.9%	-8.5%	-11.8%	-7.5%	-9.7%	-7.3%	-9.1%	-5.7%	-5.6%	-7.0%	-6.7%	-6.7%
<b>Net sales</b>	<b>-1.2%</b>	<b>1.2%</b>	<b>-2.5%</b>	<b>-1.2%</b>	<b>-0.9%</b>	<b>0.5%</b>	<b>-1.5%</b>	<b>2.6%</b>	<b>2.2%</b>	<b>0.9%</b>	<b>1.4%</b>	<b>1.2%</b>
MSA & other fees	1.2%	-3.7%	-12.3%	-4.5%	-5.1%	-3.4%	-5.0%	-1.4%	-1.5%	-2.9%	-4.9%	-4.9%
Base COGS (ex. FET & fees)	-14.9%	2.6%	2.7%	1.4%	-1.9%	3.5%	-3.3%	0.8%	0.5%	0.2%	-0.4%	-0.7%
Gross profit	0.5%	2.5%	-0.4%	-0.6%	0.5%	1.2%	-0.2%	3.9%	3.5%	2.1%	3.4%	3.0%
Mktg, admin & research costs	1.8%	-4.2%	5.4%	4.2%	1.9%	12.6%	16.8%	15.8%	2.3%	11.3%	7.9%	4.4%
<b>Underlying OCI</b>	<b>0.3%</b>	<b>3.4%</b>	<b>-1.2%</b>	<b>-1.5%</b>	<b>0.3%</b>	<b>-0.4%</b>	<b>-2.4%</b>	<b>2.1%</b>	<b>3.7%</b>	<b>0.7%</b>	<b>2.7%</b>	<b>2.7%</b>
Amortization	5.9%	50.0%	121.1%	115.8%	75.3%	133.3%	55.6%	0.0%	2.4%	31.3%	2.4%	2.3%
General corporate expenses	-35.8%	60.0%	-33.3%	-11.5%	-8.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Underlying operating income	0.9%	2.3%	-1.3%	-2.0%	0.0%	-1.3%	-2.9%	2.1%	3.8%	0.3%	2.7%	2.7%
Interest expense, net	-11.7%	-3.2%	1.9%	0.0%	-3.4%	3.8%	-4.7%	-6.1%	2.1%	-1.4%	5.6%	-1.7%

**Exhibit 23: MO- quarterly/annual income statement forecast (\$mns)**

We look for only a modest increase (+0.45) in net income in 2024; buyback program expected to be meaningful contributor to EPS growth

\$ in millions	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024e	2025e	2026E
Equity inc (ABI, Cronos)	35.7%	12.3%	4.5%	11.0%	15.5%	9.1%	5.7%	5.0%	2.9%	5.7%	9.1%	7.7%
Pretax income	3.3%	2.7%	-1.7%	-2.0%	0.5%	-1.0%	-2.4%	3.0%	3.9%	0.8%	2.8%	3.5%
Income taxes	2.8%	2.3%	-3.5%	-3.7%	-0.6%	-1.0%	-1.1%	5.4%	5.8%	2.2%	2.8%	3.5%
<b>Underlying net income</b>	<b>3.5%</b>	<b>2.8%</b>	<b>-1.1%</b>	<b>-1.4%</b>	<b>0.9%</b>	<b>-1.0%</b>	<b>-2.8%</b>	<b>2.3%</b>	<b>3.3%</b>	<b>0.4%</b>	<b>2.8%</b>	<b>3.5%</b>
Shares outstanding	-1.8%	-1.5%	-1.4%	-1.3%	-1.5%	-1.4%	-1.5%	-1.2%	-1.2%	-1.3%	-1.1%	-1.0%

Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

## 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 (10.9x) 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.

## 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
<b>BUY</b>				
	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
<b>NEUTRAL</b>				
	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
<b>UNDERPERFORM</b>				
	Brown-Forman Corporation	BFB	BF/B US	Bryan D. Spillane
	Campbell Soup Company	CPB	CPB US	Peter T. Galbo, CFA

**US - Consumables Coverage Cluster**

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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
<b>RSTR</b>				
	The Vita Coco Company, Inc.	COCO	COCO US	Bryan D. Spillane

**iQmethod<sup>SM</sup> Measures Definitions****Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

**Quality of Earnings**

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

**Valuation Toolkit**

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

**Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

**Numerator**

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash &amp; Equivalents

EBIT

**Numerator**

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

**Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

**Denominator**

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

**Denominator**

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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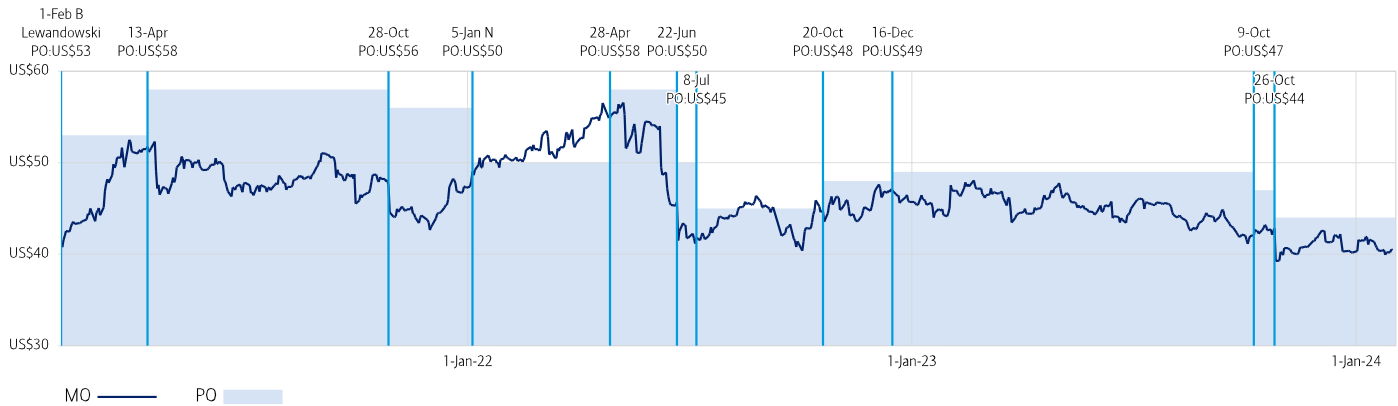
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B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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### Equity Investment Rating Distribution: Tobacco Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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%

<sup>R1</sup> 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 <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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