

## "Tobacco Talk" Survey - Retailers React To FDA's E-Cig Flavor Removal Plan

### Tobacco Convenience Stores

#### FDA Casts Harsh Rhetoric, But Opens A Window

- Our View** – Based on retailer feedback in our recent "Tobacco Talk" survey (representing ~85,000 stores), we believe the FDA's plan to remove mint/menthol e-cig flavors (in addition to all other non-tob flavors) would without question encourage a return to combust cigs, esp given menthol cigs will still be available. This is a decidedly undesirable outcome for public health as cig smoking falls on the most harmful end of the risk continuum. However, it does show how far the FDA is willing to stray from its objective to avoid "unintended consequences" in order to get e-cigs out of the hands of kids. While we agree kids & e-cigs should never mix, we also acknowledge the issue has been intensely politicized (esp as we enter an election year), which could suggest that some of the rhetoric gets walked back. While this doesn't mean we think the FDA won't enforce a flavor ban (we think it will, given political pressures), it just won't be as absolute as some may fear. We see the FDA's focus on e-cig flavors that "lack premarket authorization," leaving the door open, we think, for authorized e-cig mint/menthol products to return to the market (after completing the very expensive & time-consuming PMTA gauntlet, of course, **which IQOS has!**). **Bottom line** – While we're still in the early innings of the FDA's enforcement plan (on e-cigs, in addition to nicotine, menthol, CBD vape, what else?), we are cautiously optimistic that, in this instance, we're not dealing with a complete end to e-cig flavors. True, getting premarket approval is no easy feat (it took IQOS ~2yrs!), but it's possible the FDA fast tracks a few that meet child-proof criteria (JUUL's next gen C1?). Regardless, this all puts IQOS in an enviable competitive position, in our view, as it launches this month in Atlanta.
- Key Takeaways from Retailers on FDA's Planned E-Cig Flavor Removal** – Unsurprisingly, retailers are broadly disappointed by the FDA's plan to remove non-tobacco e-cig flavors from the mkt, calling it *"an overreach"* of authority and *"knee-jerk."* Our survey revealed: **(1)** Almost 50% of retailers believe the removal of flavors in e-cigs won't help reduce youth usage of e-cigs as kids are more likely to turn to the black market/D.I.Y. for product (*"I think the black mkt will be the biggest winner [as] too many people know how to make [e-cig] flavors"*). **(2)** Over 50% of retailers believe the removal of e-cig flavors would positively impact combust cig & oral nicotine vols in their stores. Nearly one-third of retailers expect mint/menthol e-cig vol to migrate back to combustible cigs (*"menthol customers tend to want to stick with menthol"*). **(3)** The majority of retailers believe that removing non-tobacco e-cig flavors (esp mint/menthol) would be positive for combustible cigs (>70%) & oral nicotine (~60%) and negative for e-cigs (85%). **(4)** ~40% of retailers are seeing "some" deceleration in JUUL vols in their stores (in-line with Nielsen) with nearly 20% seeing combust cig vol accelerate in part due to effective promos but also possibly recent neg FDA/health headlines.
- A Removal Of E-Cig Flavors Would Improve IQOS' Competitive Position** (see pp 10-12) – Echoing our sentiment, two-thirds of retailers believe a removal of e-cig flavors only increases IQOS' competitive advantage as IQOS is the only RRP product to have received FDA premarket approval for its mint/menthol flavor variants. Over 50% of retailers believe the prospect of an e-cig flavor removal makes them more optimistic than before about IQOS. We concur.

Please see page 15 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 09/18/19 unless otherwise stated. 09/18/19 12:59:18 ET

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## **Key Takeaways from Our Ad Hoc “Tobacco Talk” Retailer Survey**

We recently reached out to several of our industry trade contacts to get a sense of retailers’ thoughts on the FDA action on e-cigs in the U.S. Below are some of the key takeaways from this survey including direct quotes from tobacco retailer/wholesaler contacts, representing over 85,000 U.S. retail locations.

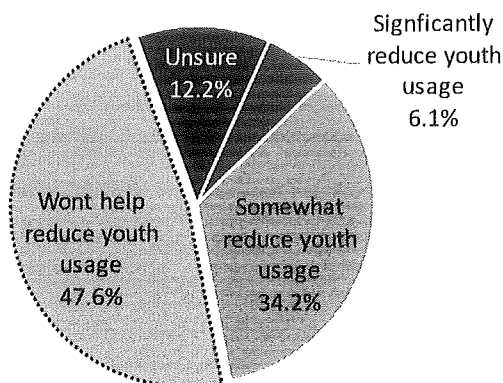
- **Almost 50% of Retailers Believe the Removal of E-Cig Flavors Won’t Help Reduce Youth Usage of E-cigs - Most See It Encouraging Black Mkt Activity & A Return to Combustible Cigs**
- **Roughly 50% of Retailers Expect the Removal of E-Cig Flavors (Mint/Menthol) to Increase Combust Cig Vols or Black Market E-Cig Activity – Clearly Not the FDA’s Desired Outcome**
- **Retailers Broadly Agree That Removing Non-Tobacco E-Cig Flavors (Esp Mint/Menthol) Would Be Positive For Combustible Cigs (>70%) & Oral Nicotine (~60%), Neg for E-Cigs (85%), & Have No Change for Moist Smokeless Tobacco (~60%)**
- **Nearly Two-Thirds of Retailers Expect IQOS’ Competitive Advantage to Increase Following The Removal Of E-Cig Flavors – Most Retailers Are Now Even More Optimistic Than Before for IQOS**
- **While ~40% of Retailers Report “Some” Deceleration in JUUL Vols (in-Line With Nielsen Trends), A Bigger Group (50%) Have Not Seen Any Impact – Interestingly, Nearly 20% See Combustible Cig Vols Accel In Part Due to Effective Promos But Possibly Also Recent Neg FDA/Health Headlines**

### **Almost 50% of Retailers Believe the Removal of E-Cig Flavors Won’t Help Reduce Youth Usage of E-cigs - Most See It Encouraging Black Mkt Activity & A Return to Combustible Cigs**

#### Select Retailer Comments

- *“The fact that we are rolling into an election year I think that much of the uproar around e-vapor is being blown out of proportion just get to media play...”*
- *“Knee jerk reaction...Most problems with e cigs are caused by mixing drugs with the e cig. No problems with e cigs sold by major companies.”*
- *“It may help...however if addicted to Nicotine, it could have a negative effect and users will go to other forms of nicotine (cigs, tobacco free products, moist, etc).”*
- *“It will create a black market. It will not significantly reduce youth usage of e-cigs.”*
- *“[The FDA/White House] are actively ignoring the huge efforts being put forth by JUUL and other vapor companies to eliminate appeal and access to youth. These efforts take time to implement - give them a chance to get it done.”*
- *“Removing flavors in my opinion will reduce the number of adult smokers trying to off board and increase the illicit market.”*

**What do you think about the FDA's plan to remove e-cig flavors (including mint/menthol & other non-tobacco flavors)? Do you believe it will have a significant impact on reducing youth usage of e-cigs?**



**Retailer Comments- What do you think about the removal of e-cig flavors in general?**

"The initial issue of flavors was brought on by Juul because college students were using the devices discretely in class and flavors became available after that. The intent of Vaping is to transform cigarette smokers to vaping due to the harm that cigarettes caused. The recent government discussion is fueled by some deaths that have occurred due to improper use of the devices and what was put in the device to vape including illegal substances."

"Over reaction. Parents should parent and underage users should be held accountable. Stop internet sales of flavored and that would help significantly without [hurting] responsible retailers."

"I understand the FDA's decision to remove the fruit based e-cig flavors but I think they are dangerously over-stepping their bounds and the consumer's rights when they also target not only mint and menthol but also a slow methodical attempt at banning e-cigs entirely. It is a stepping stone in testing the waters to see if they are successful in eliminating vapor then they can go after cigarettes next."

"With the current administrations proclivity toward media (especially twitter) and getting as much air time as possible as well as the fact that we are rolling into an election year I think that much of the uproar around e-vapor is being blown out of proportion just get to media play. Even POTUS has begun to walk his initial harsh statements back with a more moderate stance on the issue.... I just don't see the FDA take harsh regulatory action in any quick fashion so I think the issue is overblown and will soon blow over as it get overshadowed by "the next big" thing coming out of the Oval Office..."

"I don't understand why people don't learn lessons that occur repeatedly. The government hasn't learned that the prohibition of anything works. We have a massive drug problem, despite drugs being illegal. We have tons of underage drinking and smoking because it is cool. The ideal situation is to shrink the size of all levels of government, lower taxes a bunch, and allow adults with children some time off to be parents again. I know I am getting political but there seems to be a serious lack of common sense in today's society."

"It may help...however if addicted to Nicotine, it could have a negative effect and users will go to other forms of nicotine (cigs, tobacco free products, moist, etc.)."

"I do not think it is a good idea. It seem like an experiment by the FDA. If they can remove menthol without having [an uproar], I think they will gradually proceed to remove flavors in other forms of tobacco."

"Not for it."

"A poorly thought out reaction to some bad media reports. Government seems to have no clue why youth decides to smoke & how they can make them stop. Government couldn't figure it out when I was a kid either. This kind of thing will only push kids back towards products that burn, like Cigarettes & Weed."

"Not right. JUUL flavor ban converted all users to Mint and volume still growing."

"Most adults I know use regular tobacco or Menthol."

"Terrible image for an industry the public doesn't trust in the first place."

"With the current fragmentation of e-cigs/e-vapor in the market (lots of different outlets - Specifically independent vape shops that carry a huge variety of devices, pods, liquids) (and the shady nature of many of these retail owners) I just don't see how the FDA will really be able to enforce the ban in any meaningful way. If there is a demand for a product consumers will find a way to access it. The current atmosphere seems to be more of a knee-jerk reaction than a scientific, data driven decision."

"FDA overreach - What about the adult users who are legally purchasing and using the products?"

"It is the flavored product that is not supplied by large tobacco that is the culprit. Getting rid of the outliers should be the plan. Mint Menthol should stay."

"I think they should take other steps first before totally eliminating them."

"Kids will always seek out what the adults tell them they cannot have. The issues here are access and education. • If there are Retailers and manufacturers that are providing access, they need to be held accountable. • Children need to be better educated on the dangers of vaping so they are less likely to try it in the first place. If you are really worried about vaping being the gateway to cigarette usage, then the fruity SKUs should be allowed. A person used to a mint or fruit flavored vape will not enjoy

the taste of a real cigarette thus they are less likely to make the switch to combustible tobacco. I wonder why they can't or have not made a pod that has no flavor."
"Kids will flavor them thru a black market. The government should realize this."
"I think it is a red herring. I believe the time/energy/efforts needs to be placed in regulating the grey-ish market of backroom chemist and fake store fronts advertising cotton candy, pizza and clearly age-focused flavors. The country has an epidemic of folks that are under-qualified to safely blend flavors, let alone add glycerin and "other" additives in order to create safe to inhale products."
"I agree with the obvious "kid" flavors i.e. cotton candy. I disagree with the others. All retailers are checking for ID's and do a good job of it."
"Most of the problems with the use of E-cigarette has been with people using it with THC and not the regular products available from c stores. Most people do not read the full article which spells out the problem they just read the headlines."
"I think it is a good idea to remove all E-cigs until a full investigation can be done to determine the harmful ingredients and real risks of E-cigs and vaping in general. Let's be realistic we all know the companies are targeting youth and young adults."
"Just because someone turns 18 or 21, doesn't mean their taste for flavors evaporate."
"It will kill our sales, which will be hard to replace. Unless the FDA does something about on line sales, the sales will switch to there."
"I think this is over reaction and too much oversight from government."
"Chasing a symptom not the problem."
"Needs to be researched more before knee jerk reactions are made. Is it just e-cigs that are causing the recent deaths or is it in fact something else? Maybe illegal or illicit substances in a vape form?"
"It may help...however if addicted to Nicotine, it could have a negative effect and users will go to other forms of nicotine (cigs, tobacco free products, moist, etc.)."
"I do not think it is a good idea. It seem like an experiment by the FDA. If they can remove menthol without having [an uproar], I think they will gradually proceed to remove flavors in other forms of tobacco."
"This is a knee jerk reaction without much thought. Not sure why adult consumers should be punished for the behavior of underage youth. I find it curious that flavored alcohol is OK along with TV advertising. Underage alcohol consumption is still a problem which is probably more severe."
"This topic has spun out of control with c-stores becoming the scapegoat. Rational and logical arguments are not carrying the day. It is a feeding frenzy at local city/town meetings and now the President is using it as another distraction."
"Knee jerk reaction due to media. Most problems with e cigs is caused by mixing drugs with the e cig. No problems with e cigs sold by major companies."
"From a business POV it will hurt. It is 75 % if our cartridge sales and don't know if people will move over to regular flavor."
"Banning alcohol did nothing to slow alcohol consumption. Marijuana use was not difficult when it was banned. If people want a product they will get access to it since it will still be available in virtually every other country in the world."
"It will create a black market. It will not significantly reduce youth usage of e-cigs."
"Utter and complete nonsense. It's a complete overreach of the FDA and the Trump administration - who DON'T actually care about the true issue. Responsibility for keeping teens off vapor or any substance starts IN THE HOME. As a parent to a teenager, I find it intensely frustrating that the media is not calling that out in any of their many reports, and are instead saying "oh, poor parents, I feel sorry for them going through this with their teenager." WE need to take 100% of the burden for setting our kids up to make the right choices. Boundaries set, no more helicopter parenting of this generation of sensitive babies, and HOLD THEM ACCOUNTABLE for doing things they are not supposed to do! I hope that our industry fights the FDA tooth and nail and makes it impossible for them to push this forward further. They're actively ignoring the huge efforts being put forth by JUUL and other vapor companies to eliminate appeal and access to youth. These efforts take time to implement - give them a chance to get it done, for goodness sake."
"The federal government should have stepped in years ago. Most no name vapor shops have been mixing their own products in the back of the stores for years. I never realized that any John Doe can make E-Juice Mixing their own Nicotine levels with no license, permit, degree or experience. Let alone not actually having a purchasing age requirement on state levels. The government is just as guilty for allowing this industry to be run like the wild west years ago."
"I think it is the wrong approach. I think further review in online, raising the tobacco purchase age and independent Vape Shops would be a better way to reduce. Removing flavors in my opinion will reduce the number of adult smokers trying to off board and increase the illicit market."
"Sure it should if they are not available. But will it really happen?? Posturing is one thing but the administration has been quick to change course on positions it seems to strongly support one day and not so much the next. The "epidemic" is very much overblown with hype and anecdotal evidence/comments. This is the MSA of this era....ban flavors, move the PMTA date up to 5/12/20, own 35% of a brand that has a 70 share and lock in the market once again while regulating or legislating your competition out or to a small share of the pie."
"Hey, let's remove flavored Vodka from the market to keep "kids" from drinking alcohol. We could also make weed illegal again that worked so well to keep it from "kids"."
"I don't think Mint/Menthol should be removed as they mimic traditional cigarette flavors that will help smokers switch away from combustibles to vapor. I am okay with banning all other flavors though. While they may also help smokers switch, the appeal to youth is too strong."
"I believe that this was an overreaction, but it makes sense with the multiple vaping deaths that have been reported this year. I would maybe understand some of the fruity flavors being banned, but banning menthol does not make sense. I believe that current menthol e cigarette users may switch back to combustible cigarettes if this is the case. I believe that there needs to be more regulation, and that should happen with a PMTA approval in the future. 21+ could subside some youth usage, but it does not address the potential black market. Lastly, I believe more federal regulation over CBD and THC would help as well- having it

being federally illegal but legal in some states is causing less regulation and non-quality products are getting in the hands of minors."
"Knee jerk reaction and an overreaction."
"I think removing flavors in general will be a negative thing for the folks who vape but did not necessarily smoke. If we keep the menthol and mint like menthol, vapes would mimic typical smokes helping the current smoker looking for alternatives. To remove menthol and mint is a super negative similar to banning menthol in traditional smokes."
"Other than mint/menthol, not a huge factor as JUUL sets the pace with no flavors already. Mint/menthol ban will be have a significant impact."
"I think that E-Cigarettes not only provide an alternative Nicotine delivery method, but can also help cigarette smokers reduce their product intake as well as save money. It can be a valuable tool for those looking to reduce or work to eliminate their reliance on Nicotine all-together. I believe that the news media, and the FDA have over-responded to recent news of deaths associated with E-Cigarettes that actually had more to do with the mis-use of the product by incorporating THC chemicals that could possibly have been done outside the lab. I do not see JUUL, VUSE or NJOY products as included in responsibility, yet those are the brands that will suffer the hit."
"Typical knee jerk reaction. FDA desperately needs to gain control of e-cig production. Rampant retailers mixing in backrooms creating dangerous products with no regulation. Has the potential to adversely affect big tobacco. Fix the source."
"Tough decision as responsible retailers don't sell to youth."
"Remove e cigs from the internet is the most effective way to stop underage purchases. WITHOUT A DOUBT."
"This will push products to the black market."
"In one regard I believe that removing the flavors could help the situation with youth usage by eliminating the "smells good" effect that they have. What should have happened first was the passage of the 21 age restriction nationwide. To me this would have had the largest effect on the youth issue. As a board chair for our local school district I am well aware of the problem we are having in the schools. The largest contributor being that we have kids whom are 18 years old in the high schools that have become dealers for these products. They carry around backpacks full of anything you want and sell it at a premium to underage students. These 18 year old students are buying it legally through local stores and the internet. It's become big business for them. Making the minimum age 21 could help to potentially slow down this issue but I'm sure that they would just find someone older to make their purchases for them and its business as usual. On another note I believe this fully opens the door to the FDA [going after] everything else flavored in the tobacco category. My question is at what point does the FDA or other entity go after the alcohol industry? Everyday there are new flavors of beers, sparkling waters, and hard alcohols hitting the market. All of these are introduced with the intention of attracting new younger users. Why is it okay for the alcohol industry to continue their ways when other industries can't? Especially when both products can be linked to deaths in some way, form, or fashion."
"I think removing all flavor should as menthol and mint is a mistake. It limits the opportunity for those using these product to stop smoking."
"It is taking a band-aid approach to solving the problem while punishing the responsible companies."
"People do what people do for many reasons. Kids smoke and vape to fit in, to be cool, whatever. Growing up in the 70's, I witnessed this. It is the same with tattoos and body piercings. Kids do things to please their friends and contemporaries."
"I think consumers will change to tobacco especially the younger generation. If customers want these products they will figure out how to get them (e.g. an older sibling buys them etc.)."
"Consumers will switch back to combustibles or buy it off the street."
"That is about 90% of what we sell."
"It's impossible and foolish to make plans based on the statements of the president. I think it's far more likely the business will try to self-regulate out of fear at the general ruckus."
"I think it's a mistake. Not fair to adult users trying to quit smoking. If the FDA would enforce their guidelines issued on August 8, 2016 and go after the so called black market products, we wouldn't be in this position."
"A knee jerk reaction to a problem that won't get solved by this action."
"It's a foolhardy move. May actually make things worse and take it to the black market."
"Will shrink the category at least 40%. It will still by higher then where it was before JUUL."
"I am still trying to figure out what it is based on and why did the connections to recent deaths just pop up - vaping has been around for quite a few years and now all of a sudden we have 6 deaths associated to it. Is it directly related to what we sell legally or are these deaths a result of modifications made to existing products, THC, homemade carts, etc. We are going to scrap the whole category which with the legal products appear to be helping ATS get away from combustibles. We are responsible retailers who only sell to adults but somehow we are being singled out as the bad guys. Get the PMTA approvals out so that the market becomes more legit and let the ENDS devices evolve as they should."
"I am fine with them removing all flavored E-cigs as long as they remove all flavored BEER and Alcohol along with it. I think the beer industry and distilleries are actively targeting our precious youth coming out with flavored beer, Peach Schnapps, etc. Then they need to go after the candy and cereal manufacturers for the harmful products they target our youth, using cartoon characters to push their sugary products like Cocoa Pebbles (Fred Flintstone), Lucky Charms (Leprechaun), Frosted Flakes (Tony the Tiger), etc....the obesity problem among our youth is at epic levels...we need to stop this NOW!!"
"Removing e-cig flavors is like treating a symptom. Unfair to combustible Quitters who are relying on e-cig flavors. There will be a movement back to combustibles. Insurgence of black market flavors."
"I think they are over reacting. The government should have all companies submit sample batches of everyone their products and then it would get split and a portion sent back to the manufacturer and a portion sent to a 3rd party lab for testing and compare test results so see if what the manufacturer and the independent lab says what is in the product is the same results. That would be step 1. Step 2 would stop all mixing of juices at retail, all items should be processed and packaged in a controlled environment. I think they should limit the flavors and get rid of candy flavors like bubble gum and maybe even limit manufacturers to a specified number of flavors per manufacturer and let them decide which ones they want to sell. If they were

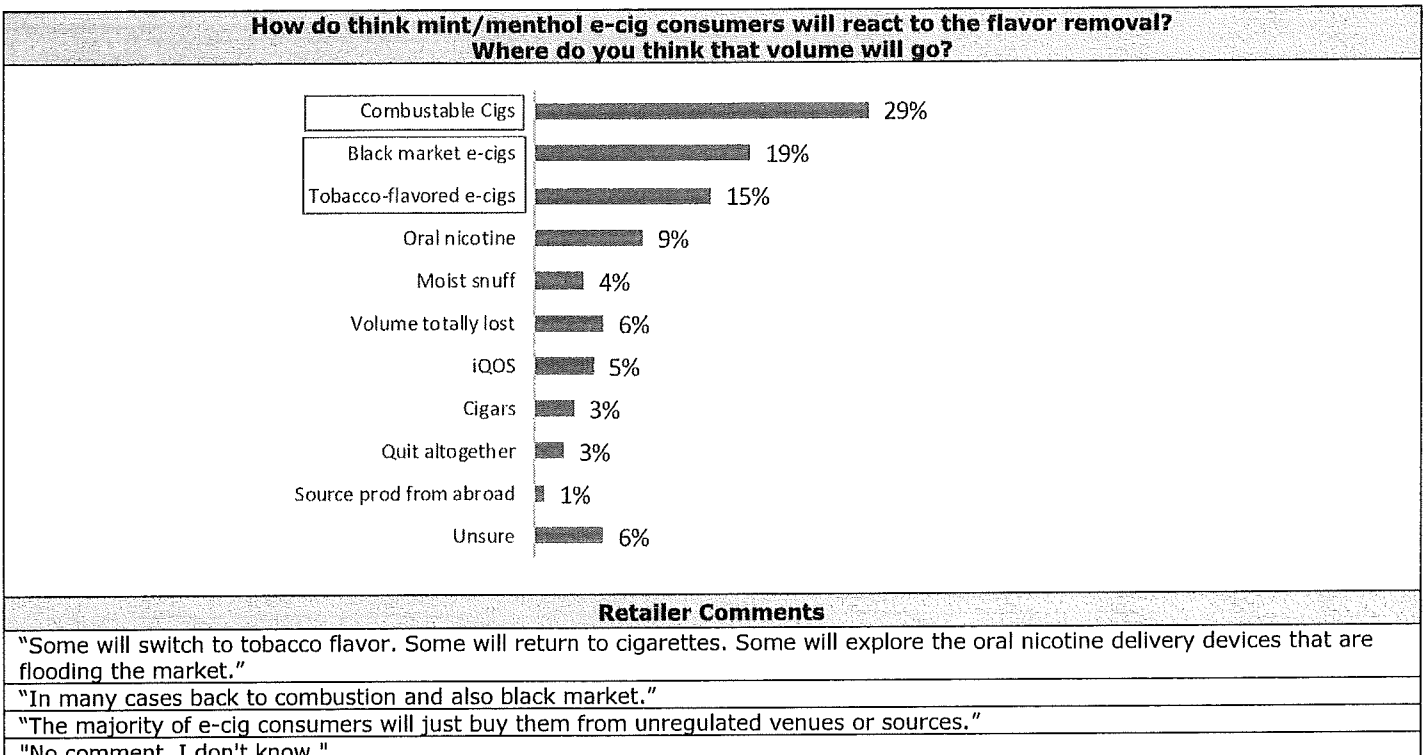
limited to say 10 flavors this might change the scope of things. Also from what I am hearing some of the health issues might be more related to THC usage than to "tobacco" vape I am not totally sure yet since it is early. Also they just need to get stricter on the age verification at retail and put some teeth into fining or stripping a retailer of their ability to sell vape say for 6 months if they get busted selling to a minor. Tobacco and Vape should be no different than selling alcohol to a minor."
"I think it is ridiculous. E-Cigs have helped many adults. There is science behind their benefits that are being ignored in the US. Removal could cause a black market, and that could harm many people. I believe there should be regulation, but not removal. If there is a youth problem, kids will figure out ways to get what they want. They have been doing that with alcohol, marijuana, etc. for a very long time. If you remove it from the market, who knows what kids and adults will get on the black market. I believe the recent illnesses have not shown evidence that e-cigs were even involved. It seems like the increased popularity of vaping marijuana might be more of a problem, as perhaps some of these people did not even know what they were vaping."
"I think the removal of e-cigs in general will stem the decline of combustibles, but it would have a significant impact on our overall sales."
"A lot of adults like the flavors. It may encourage more smoking as people use this for cessation."
"It's going to happen eventually, but not as quickly as people may think. Government agencies definition of fast is not the same as the rest of the world's definition, and there will be legal challenges."
"It could also push those youth that like the mint or menthol flavors into combustible cigarettes or cigars. I agree with the FDA but also recognize that we could be on a slippery slope to also pull menthol from combustible cigarettes then all tobacco including cigars and moist."
"A rush to judgement, as the BRAND names don't look like they are the problem."
"I don't feel it is a necessary decision to make. The government is caving to pressure."

Source: Wells Fargo Securities, LLC

**Roughly 50% of Retailers Expect the Removal of E-Cig Flavors (Mint/Menthol) to Increase Combust Cig Vols or Black Market E-Cig Activity – Clearly Not the FDA’s Desired Outcome**

Select Retailer Comments

- *"In a word: black market..."*
- *"..Definitely a lot of risk of that customer going back to cigarettes. Menthol customers tend to want to stick with menthol"*
- *"The underage crowd will smoke and vape anything. Any flavor. The flavor is not their motivation for doing the deed."*
- *"I think the black market will be the biggest winner. Too many people know how to make many flavors."*



"Poorly. Hoping it goes back to smokes, but it could go to vape stores where customers can still flavor up as they wish."
"They will find something else."
"80% to tobacco flavor. 10% back to combustible. 10% to oral nicotine."
"Alternative Nicotine Delivery [AND's]."
"I think that these consumers will be very unhappy and that retailers will bear the burden of this change in a negative way. Some of the volume will convert over to combustible products but a significant number of consumers may look to exit the category all together."
"Impulsive purchasing."
"They may convert to tobacco just like mango converted to mint."
"They won't be happy about it. They likely will go back to traditional cigarettes."
"Not well. It's our number 1-2 best sellers."
"Poorly. Could lead to a larger black market for Menthol and Mint flavors. Some portion of the population will go back to cigarettes."
"It will be flavored thru a black market."
"I foresee a run on still available SKU's until there is a clearly outlined full ban. Non banned flavors will see an uptick. It will also find itself driving up the world of Zyn, ON, Velo: alternative nicotine. But not at a one to one clip/ratio."
"Negatively. Unknown."
"BACK TO CIGARETTES OR TO THE UNDERGROUND SALES ECONOMY."
"It will push people to create their own flavors with liquid drops...moving back to open devices."
"Black Market or they will return to cigarettes/cigars."
"They will be very unhappy. Some will buy on the black market that will arise."
"Flavored cigars."
"Not sure, menthol ban is legal and would take years to implement."
"They will flavor their own mixing in other additives."
"Dunno. Maybe they'll stop altogether or buy on line."
"Look for other options."
"I am not sure they will switch to tobacco flavor, or may use much less."
"Tobacco flavored e cigs or revert to menthol cigarettes."
"No comment. I don't know."
"Will not be popular with the consumers that use the product. Good question on volume...some may go to the tobacco flavor, some may quit, may help IQOS, may go to products like On, Velo, Zyn, Rogue. It will be a challenge for retailers to make up the lost sales in 2020."
"I think the mint/menthol consumers are very smart. They will not react kindly. I think the volume will go underground."
"They may seek other flavored alternatives in moist, oral products, or just use the tobacco flavor."
"In a word: black market though many will switch to standard tobacco flavor."
"Back to cigarettes."
"Cigarettes."
"Someone will come up with refills DIY."
"Anger at first, then to the black market or to Zyn/Velo/On."
"It could create a big backlash. Menthol smokers are a unique market."
"The volume will go to either black market vapor items, or these smokers will go back to smoking combustible cigarettes."
"I believe that you will see people move to cigarettes. The E-Cig already created the addiction."
"I don't think they'll be happy and will move back to cigarettes."
"Majority back to traditional combustibles, others to reg vape and possibly add their own flavoring."
"Not sure."
"Back to cigarettes."
"Believe these users will seek out these flavors from wherever they can get them. Some may move to other products like MST or cigars. Some may move back to combustibles."
"I don't think it will go. If it does they will move to tobacco flavor."
"I believe the volume will go back to combustible Cigarettes."
"Black Market."
"It is hard to say, but I believe some will go to tobacco flavored e cigs, but there is definitely a lot of risk of that customer going back to cigarettes. Menthol customers tend to want to stick with menthol."
"I think a fair percentage will just switch back to cigarettes. Any who remain will choose the smoothest tobacco flavor."
"To tobacco flavored vape and other nicotine delivery options."
"I think Volume will be lost."
"I believe that volume would go back to traditional menthol cigarettes or to the alternative market skirting regulations and restrictions."
"Very negative. Some to tobacco flavor others back to combustibles."
"I think this will potentially return some to combustible cigarettes, but also towards the other new alternatives."
"Tobacco flavors or black market."
"Probably back to cigs or OTP."
"Some will likely switch to tobacco, but potentially some to new tobacco-derived nicotine (TDN) segment or back to combustibles."

"I believe that the elimination of the mint/menthol could potentially push users back to traditional cigarettes. At least until the FDA eliminates them as well."
"I think they will but online from outside the US or black market."
"The volume will go to alternate sources. They will find a way to get it, which will be unregulated and possibly tampered product."
"I think they will just move to the tobacco selection, keeping the same E-Cig style."
"The underage crowd will smoke and vape anything. Any flavor. The flavor is not their motivation for doing the deed."
"I do not believe consumers will respond well to this as their only option will be tobacco flavor. I think that volume may just go away completely as I do not see an influx back to cigarettes."
"Poorly, back to combustibles."
"The volume will go to vape shops that are using additives to the product. A flavor will be just another additive unless the law has some real monitoring and penalties."
"Trade to tobacco, quit/scale back or go black market options - YouTube industry of refills and self-mixes will [become very popular]: not likely to help the 6 vaping death statistic headliner. Some may switch to flavored tobacco-free options, IQOS could get fast-tracked."
"I think e-cig consumers will react negatively of the removal. We'll see the volume drop at least 50%."
"They will be upset, as would anyone who can no longer get a product they have been buying."
"Volume may go back to combustibles or innovative, emerging OTP products."
"To the black market and combustibles."
"Back to other forms (combustibles, OTP, etc.) or out of the category altogether."
"It will either go back to combustibles or move over to tobacco variants."
"The mint/menthol consumer will not switch over to the tobacco flavored e-cig, rather, they will go to the black market or back to combustibles."
"That is hard to say. I think they would move to the non-vaping products like ZYN, VELO or the other similar products out there. Maybe even back to cigarettes for the menthol flavor."
"That is hard to answer. A variety of scenarios, but I think the black market will be the biggest winner. Too many people know how to make many flavors."
"They will not respond well. Some of those customers will go to menthol cigarettes and others may choose not to vape."
"- 70%."
"They will go back to smoking."
"Those that want the experience of expelling a cloud will switch to combustible if the heat and smell doesn't turn them off."
"I don't think menthol will be banned in the end."
"Another rush to judgment ... smokers will with back to combustibles."
"Regular tobacco flavor or pouches."
"That volume will decrease significantly."

Source: Wells Fargo Securities, LLC

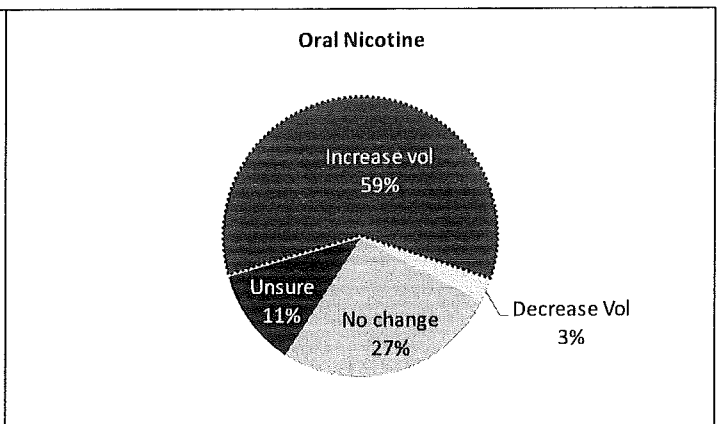
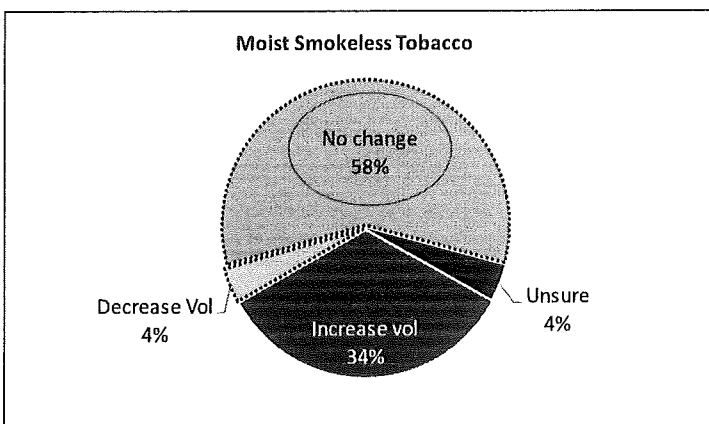
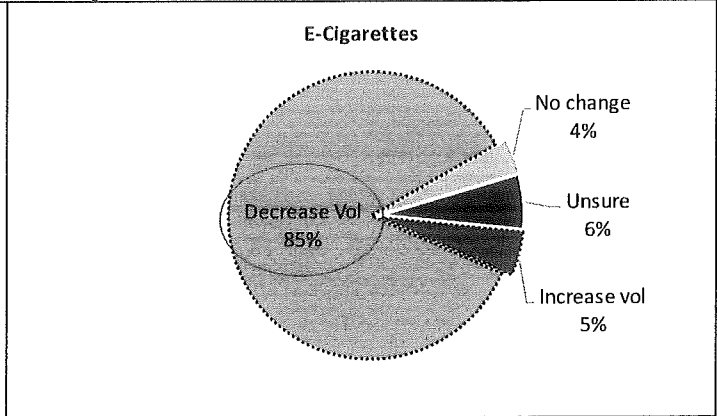
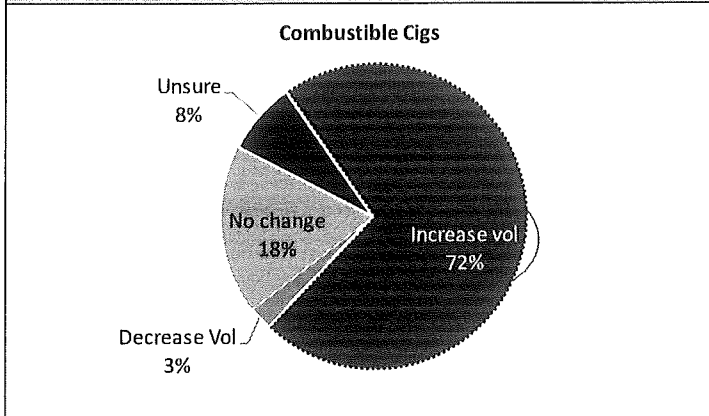
**Retailers Broadly Agree That Removing Non-Tobacco E-Cig Flavors (Esp Mint/Menthol) Would Be Positive For Combustible Cigs (>70%) & Oral Nicotine (~60%), Neg for E-Cigs (85%), & Have No Change for Moist Smokeless Tobacco (~60%)**

Select Retailer Comments

- *"True menthol users will dip back into the world of discount menthol cigs. Mint users will dabble in both oral nicotine and non-mint/menthol e-cigs."*
- *"...consumers will revert back to combustibles if the flavor profile (mint/menthol) is more important than the delivery system."*
- *"...if only regular tobacco is left for e-cigs we will see more 'smokers' return to traditional combustible cigarettes...Modern Oral will continue to grow but it's too soon to tell if that will move e-cig consumers in that direction."*
- *"I think that people will still have to get their nicotine fix so there will be migration back to other nicotine products - will we see a steep decline in dual users?"*



**How do you think the removal of e-cig flavors will impact combustible cig, e-cig, smokeless and oral nicotine volumes in your stores?**



**Retailer Comments**

- "Increased space to merchandise oral Nicotine."
- "We have heard from our consumers that they are only consuming e-cig products in an effort to get of combustible tobacco. It is a process they are trying to use in order to quit tobacco but have full intent to wean themselves off e-cigs too. The FDA isn't getting that part and they are only exasperating efforts of the consumer."
- "It's only going to hurt the retailers that follow the rules already."
- "There may be a change back to cigarettes. I don't know if the female user will transition to modern oral."
- "Poly-users will more than likely split their future purchases. True menthol users will dip back into the world of discount menthol cigs. Mint users will dabble in both oral nicotine and non-mint/menthol e-cigs."
- "The sales volume on moist smokeless products are increasing slightly. We recently brought in Zyn and the sales are increasing every week. A few of our independent retailers are increasing their selection of moist smokeless products also."
- "Vapor is here to stay.....Combustible volume will continue to fall at a good clip."
- "Most people are not yet aware of the options in the oral nicotine category."
- "Getting the Oral Nicotine set and ready is more important now to help offset loss of e-cig flavors."
- "The new oral nicotine products will be increasing anyway, as RJR and Altria get into them. E-cigs will decrease because of bad media. Moist Smokeless and Combustible Cigs are so big that their numbers will hardly budge."
- "I believe that consumers will revert back to combustibles if the flavor profile (mint/menthol) is more important than the delivery system."
- "From observation, people are using e-cigs as a replacement for tobacco. I think they're all just be a switch to combustible."
- "Oral is the winner. Generally tobacco free but the consumer still gets the nicotine."
- "I believe that the E-Cigarette has already set in place the hand and mouth habit. I strongly feel the consumer will go to combustible cigarettes."
- "We're already seeing the impact of negative press impacting our combustible cigarettes positively and our e-cigs negatively."
- "I think if only regular tobacco is left for e-cigs we will see more 'smokers' return to traditional combustible cigarettes. I think Modern Oral will continue to grow but it's too soon to tell if that will move e-cig consumers in that direction"
- "Considering the recent accelerated declines in combustibles, if e-cigs are removed there will be some percentage of consumers that may go back to cigarettes short-term while they try new items like oral Nicotine. I think consumers who go back to combustibles is due in a large part to the oral fixation of drawing on a device or cig-a-like product where snuff and pouched products (oral nicotine) will not meet their needs."
- "I am already seeing some upticks in trends for combustible cigarettes since all of the news of e cigarettes has been released"

within the last couple of weeks. I do believe consumers will look for other options, especially if menthol is removed."
"Hard to quantify the impact but it's hard to imagine that any gains would be enough to offset losses in the vape space (at least from a profit margin dollar perspective)."
"I think the removal of E-cigs flavors will increase other categories. We will see combustible use increase from where it is today. I think in other states Smokeless will grow. I only said mine would not change because I am in MA and we have a 210% excise tax rate."
"I think products like ZYN and Fully Loaded will continue to reap the benefits of removal of Menthol/Mint/Flavored E-Cigarettes."
"We possibly may see an increase due to the closing of vape shops that will lose a substantial percent of their sales."
"I think we will see an increase in the menthol combustible cigs as those users who use e-cigs to move off combustibles will move back into the category."
"I think, and I repeat I think, that former e-cig flavor smokers will return to flavored filter cigars."
"If all e-cigarette flavors are banned (including mint and menthol) we will see a decrease in units and sales in the E-cig sub-category and I think we will see growth in moist/oral as flavors will still be available."
"I think consumers will seek alternatives to get the flavors they like/love."
"I think that people will still have to get their nicotine fix so there will be migration back to other nicotine products - will we see a steep decline in dual users?"
"The decrease in combustibles will curb slightly as some guest migrate back, as well as other categories reaping a benefit from nicotine conversion."
"I think all other types of products containing Nicotine will see an increase as ENDS users go back to what they were using prior to changing. I know in my case, and ENDS user since 11-12-13, Altria would be happy as I would probably resort back to my beloved (and still missed) Marlboro Blacks!"
"It will be interesting to see how it all shakes out. I read one article where it said that users were already moving back to cigarettes. Funny how this all happened in the span of one week. I think cigarettes will definitely pick up, but I think the oral nicotine will be the big winner in all this. It doesn't seem to be getting the scrutiny and the bad press that vaping is getting. Also why is the THC vape not getting sued or hit in all this? Seems those products were the cause of this sickness."
"A lot depends on whether menthol is included in the flavor ban, I know the FDA says yes as of now but I think that may change. They will get a major pushback on that from makers of e-cigs, cigarettes, and cigars because they will fear that once it gets banned from one segment the FDA may try to do the same to them. If it is included, there will be a big hit to e-cigs and a big bump to combustibles."
"Yesterday a consumer told me he made his own e-cig product. He went to the store and bought vegetable glycol and something else and makes vape juice."
"Decrease on all - the government is trying to legislate morality and we as retailers will suffer."
"There is a correct assumption among users, that while bad for you, vaping is less harmful than direct tobacco use. Oral nicotine is the best replacement for this."
"Combustibles and moist will go up over time but I predict that oral will [do very well and] become the next target of the FDA, and e-cigs will decline."
"The E-Cigarette already created the habit of smoking. People will stay with smoking."
"I think the majority of the affect will be in Combustibles and E-cigs. I think for the smokers it is the hand to mouth motion, throat burn and overall routine more so than just getting nicotine. I don't think it will change much in smokeless and modern oral is too new to really comment on but I would think modern oral will continue to grow."
"Combustible - Increase; E-cig - Decrease; MST - Increase; Oral Nicotine - Unsure."
"I believe combustible will increase volumes, and there will be a decrease in e cigarettes. I believe oral nicotine is a huge opportunity, but since it is a different habit I'm not sure how the e cigarette customer will react. I believe oral nicotine has a large growth opportunity in and of itself, outside of e cigarettes."
"Traditional cigarettes, Moist, and Oral Nicotine, will see a slight uptick in my opinion. There will be a decrease in e-cigs."
"Will increase moist."
"I think combustible cigarette will continue to decline in a faster, and faster pace. E-Cigarettes menthol/mint/flavor volume will likely switch over to products like ZYN, ON! or Fully Loaded as a result. Customers are looking for NEW alternatives, not a switch back to the past."
"It is not wise to think a menthol or mint user will just switch to a non-tobacco flavored product."
"It will obviously decrease volumes for E-cigs since the selection will be smaller."
"I believe it will increase cigarette and moist chew volume."
"People will seek mint flavors and satisfy it elsewhere."
"People will still need a nicotine fix and they will just migrate to other forms. Will there be menthol/mint/flavored stick or something similar so that you can inject the flavor? Who knows?"
"Increase- combustible Cigs. E-cigs- Unsure. Moist Smokeless- No Change to volume. Oral Nicotine- Increases volume. I think the major players are going to survive but the smaller companies are not going to make it especially if there is any kind of recall."
"The category is too new. Given the timing and lack of historic data, I do not think any of us will ever know that answer."
"I think oral nicotine may increase."
"For those truly looking to quit cigarettes they will need to move to oral nicotine to get their fix along with a flavor. That being said, if youth switch to oral nicotine for the buzz then the FDA may step quickly into that arena."

Source: Wells Fargo Securities, LLC

**Nearly Two-Thirds of Retailers Expect IQOS' Competitive Advantage to Increase Following The Removal Of E-Cig Flavors – Most Retailers Are Now Even More Optimistic Than Before for IQOS**

Select Retailer Comments

- "IQOS is not as "slick" as the JUUL system but a viable alternative."
- "May accelerate Altria's push to expand [iQOS] distribution."
- "I was already highly optimistic for IQOS, but if IQOS has an advantage on Mint/Menthol vs. e-cigs, then IQOS should do even better."
- "It will initially have a positive impact on trial of IQOS."
- "If indeed all flavors of e-cigarettes including mint and menthol are pulled, then if IQOS can sell mint and menthol I believe you will get a great potential of volume converted to this product."

Do you believe IQOS will have a competitive advantage since it received a PMTA authorization for its Mint/Menthol HeatStick variants? Does the removal of e-cig flavors make you more optimistic for IQOS?																	
<p>Will IQOS have a competitive advantage?</p> <table border="1"> <caption>Competitive Advantage Data</caption> <tr><th>Response</th><th>Percentage</th></tr> <tr><td>Yes</td><td>64.2%</td></tr> <tr><td>No</td><td>17.3%</td></tr> <tr><td>Unsure</td><td>18.5%</td></tr> </table>	Response	Percentage	Yes	64.2%	No	17.3%	Unsure	18.5%	<p>Are you more optimistic for IQOS now?</p> <table border="1"> <caption>Optimism Data</caption> <tr><th>Response</th><th>Percentage</th></tr> <tr><td>Yes</td><td>53.8%</td></tr> <tr><td>No</td><td>23.8%</td></tr> <tr><td>Unsure</td><td>22.5%</td></tr> </table>	Response	Percentage	Yes	53.8%	No	23.8%	Unsure	22.5%
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Retailer Comments																	
"IQOS will have a merchandising spot already as I believe they will merchandise it in Juul space made available with Federal SKU reductions."																	
"Unless the marketing campaign does a very clear distinction and educates the consumer, the average consumer will lump IQOS in the same basket of all vapor or e-cigs. [In that way], the FDA is doing a fine job putting fear into the American public."																	
"This is a product no one in the states wants or ever asked for. Hope it sells with some volume out of the gate, but I don't believe it will."																	
"I am optimistic about IQOS but with the pushback of the test launch in the Atlanta Market I'm still on the fence as to the whether the US consumer will adopt this sub-segment. I really see IQOS appealing to a much more urban consumer as opposed to the traditional cigarette smoker... just given the demographics in the Southeast and the fact that the Southeast carries lots of volume and share for Altria (PMUSA)."																	
"Price and knowing how to use is the biggest factor."																	
"I am getting the impression that getting the equipment for IQOS may be a hurdle that a lot of consumers won't go through."																	
"People will look for a replacement for the mint and menthol flavors where ever they can."																	
"I do not think this will be a winner in the USA. The horse is out of the barn on other products that may be easier to use."																	
"More optimistic for IQOS after this announcement."																	
"I think they will revoke the mint/menthol authorization before it gets started."																	
"It will provide a different kind of option for the consumer. IQOS is not as "slick" as the JUUL system but a viable alternative. Given the dynamic nature of the business, I can image a small accessory made by other companies that attach to the JUUL system that will provide flavors."																	
"A viable alternative."																	
"iQOS does not adequately address the risk spectrum concerns of younger people."																	
"Any flavor ban benefits the big guys."																	
"I don't have enough information on the product but I can see it being successful when fully launched in the USA."																	
"If one is banned, they all need to be banned. There is no research history behind all these new ways of smoking methods. Therefore no method should be considered better for your health. Who knows what long term effects any of these items are going to have!!! Isn't it Common Sense???"																	
"It's almost like Altria/PMI had this plan in their playbook - act like you're being friendly to the e-cigarette category only to pull the carpet out from underneath and be the only company with a menthol alternative to cigarettes."																	
"Not very optimistic that they will allow mint/menthol IQOS if they remove all flavors of e-cigs including mint/menthol regardless of the PMTA. I think it would be different if it received RRP authorization."																	

"Flavors being banned would benefit Big Tobacco.....they are probably supporting it and cheering it on. Big Tobacco again wins if this happens.....they will control the market."
"Certainly will provide consumer choices from a mint and menthol perspective. May accelerate Altria's push to expand distribution. The question is are they prepared to take advantage and expand to new markets outside Atlanta quicker."
"Since IQOS does not have any of the E-cig/Vapor Chemicals I believe it will be considered differently. Possibly helping its success."
"I was already highly optimistic for IQOS, but if they have an advantage on Mint/Menthol vs. e-cigs it should do even better."
"Again, menthol consumers like to stick with menthol. I believe the true competitive advantage will be with a modified risk claim. More smoking customers could switch to IQOS over e cigarettes. But depending on timing, IQOS might not be in enough markets to truly make an impact."
"I was always optimistic about IQOS."
"Not enough information as product is not in my market."
"I am not sure that IQOS will ever see the US Market considering current conditions."
"If IQOS keeps flavors."
"The unknown with IQOS is cost. That could be the big determining factor for its success."
"It think Altria has probably thought this out and been a driver of the FDA decision."
"It will initially have a positive impact on trial of IQOS. Whether or not that initial trial phase lasts into sustainable volume remains to be seen."
"I think this is an exciting innovation in the tobacco industry."
"If indeed all flavors of e-cigarettes including mint and menthol are pulled, then if IQOS can sell mint and menthol I believe you will get a great potential of volume converted to this product."
"Very long on this product as a potential boon."
"Learning curve will always be interesting. Depends on how patient Altria is with it. Cost of entry is the most concerning aspect. Asking smokers (avg. income 30-40k) to trade up to a premium product +\$100 for the device alone."
"I think IQOS could become the next JUUL if JUUL loses all its market share due to regulation."
"I am really curious to see how IQOS performs once it hits the mainstream and how the American consumer will accept and or try this item. Also the usage by age group- Is grandma going to want to move to the new platform?."
"The biggest question is with regards to the high price point and how states will tax it since it is still tobacco. I assume they are working on modified reduced risk language, but we do not have these answers."
"Too expensive ... too bulky to carry around."

Source: Wells Fargo Securities, LLC

**While ~40% of Retailers Report "Some" Deceleration in JUUL Vols (in-Line With Nielsen Trends), A Bigger Group (50%) Have Not Seen Any Impact – Interestingly, Nearly 20% See Combustible Cig Vols Accel In Part Due to Effective Promos But Possibly Also Recent Neg FDA/Health Headlines**

Select Retailer Comments

- "I think people in general do not care."
- "There will be an increase in mint/menthol sales until the ban is put into effect."
- "We are running ~ -1% in combustible volume--way ahead of national data and seeing minor uptick. JUUL volume still growing but not at the rate it was 1H 2019."
- "We definitely are a feeling a hit in our JUUL. Volume, and our combustible volume has started to increase."
- "JUUL is holding strong."