

Altria: Funding the Next Step Beyond Smoking

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Decision scope: Pace of NJOY commercial investment over the next 12 months

Case convention: This is a hypothetical management decision exercise. The alternatives and decision assignment are author-created; company and competitor disclosures are historical. No private meeting, board budget or management deliberation is represented.

The decision

Altria had invested \$2.75 billion to acquire NJOY in June 2023. The company expected the acquisition's return on invested capital to exceed its weighted average cost of capital by 2027. That was a management target, not a reported result. [S1]-[S2]

On June 21, 2024, the FDA authorized four NJOY menthol e-vapor products: two ACE pods and two DAILY disposables. Altria reported growing NJOY shipments and retail share in the second quarter. But the menthol products had only just received their orders; incremental menthol demand was unobserved. JUUL and VMR were also seeking an ITC exclusion order that could prohibit NJOY ACE imports, with an initial determination due after this case's cutoff. [S3]-[S5]

Altria's first-half operating businesses supported substantial shareholder returns as the company continued to fund its "Moving Beyond Smoking" strategy. How quickly should it now invest in scaling NJOY?

Assignment: Advise Altria's management team on the pace of incremental NJOY commercial investment from August 2024 through July 2025. Choose one of three hypothetical approaches: accelerate the commercial rollout; stage spending against operating, regulatory and legal milestones; or conserve incremental spending while maintaining the existing authorized-product offer. Specify the evidence you would monitor, the conditions that would change your recommendation, and how you would explain the decision to investors and adult nicotine consumers. The alternatives are teaching options, not options disclosed by Altria.

Use only information public by 31 July 2024. Do not assume a budget amount, NJOY margin, consumer switching rate or outcome for a pending FDA or patent matter unless you explicitly label it as a scenario assumption.

Altria's portfolio challenge

Altria's largest operating business remained smokeable products, which included cigarettes and cigars. The first-half adjusted operating companies income (OCI) margin for the segment was 61.0%, while adjusted OCI declined 2.3% and net revenue after excise taxes declined 3.2% from the prior year. The 61.0% is a segment measure; it is not the margin on cigarettes alone and does not estimate the contribution Altria would lose if smokers moved to NJOY. [S3]

The company had a broader smoke-free portfolio that included oral nicotine pouches and heated tobacco plans, alongside e-vapor. In April 2024 Altria assigned its U.S. IQOS commercialization rights back to Philip Morris International. The transaction generated a \$2.7 billion pretax gain, mostly reflected in reported earnings. Adjusted first-half diluted EPS was \$2.46, down 1.6%; reported EPS included the IQOS gain and other special items. [S3]

Altria said it paid \$3.4 billion in dividends and completed a \$2.4 billion accelerated share repurchase in the first half. The company said the ASR used proceeds from its March sale of ABI shares. At June 30, \$990 million remained under a \$3.4 billion repurchase authorization, subject to board discretion. These disclosed returns made capital allocation tangible, but they did not establish that a particular dollar of repurchase should instead go to NJOY. [S3], [S5]

NJOY's early commercial record

NJOY ACE was a reusable, closed pod e-vapor system. Its economics depended on attracting device users and repeat purchases of consumable pods. NJOY DAILY was a disposable product. The two formats differed in use and replenishment; Altria's shipment disclosures therefore reported device and consumable units separately. [S3]

Altria reported that NJOY ACE distribution reached 75,000 stores by year-end 2023, including 40,000 stores added since the acquisition closed. Store reach indicates availability, not sales velocity, repeat purchase or profitability. [S6]

Exhibit 1. NJOY reported shipments and measured-channel share

Period or measure	Consumables	Devices	Retail share
June-December 2023 shipments since acquisition close; share in Q4 2023	23.0 million	1.3 million	3.7%
Q1 2024	-	-	4.2% implied by rounded Q2 sequential change*
Q2 2024	12.5 million	1.8 million	5.5%
First half 2024	23.4 million	2.8 million	4.8%

*Altria reported Q2 share rose 1.3 percentage points sequentially to 5.5%; subtracting gives 4.2%, which is an author calculation from rounded figures, not a reported Q1 figure. Altria reported Q2 consumables shipments rose 14.7% and devices 80.0% sequentially. The table keeps the Q4 and first-half measures distinct. [S3], [S6]

Altria defined the 5.5% as NJOY's retail share in the U.S. multi-outlet and convenience channel. It was not a total-market share or a profitability measure. Shipments were not the same as consumer sell-through, repeat purchase or complete switching from cigarettes. Altria did not disclose NJOY's standalone revenue, gross margin, marketing spend, customer retention, or

payback period. [S3]

A regulatory milestone, with two forms of uncertainty

FDA marketing orders on June 21 covered NJOY ACE Pod Menthol at 2.4% and 5% nicotine and NJOY DAILY Menthol at 4.5% and 6%. These were product-specific permissions, not FDA safety approvals or blanket authorization of menthol e-vapor products. FDA said its review found that evidence of benefit to adult smokers from complete switching with these products, compared with NJOY's previously authorized tobacco-flavored products, was sufficient to outweigh assessed risks including youth appeal. The orders included marketing restrictions; the FDA said it could suspend or withdraw them if population effects changed. [S4]

Under the acquisition agreement, Altria paid \$250 million in July after the menthol pod orders. Altria recorded a separate \$140 million pretax charge in Q2 for a fair-value change in contingent payments. Another \$250 million was contingent on FDA orders for blueberry and watermelon pod products designed for ACE 2.0. Those products had applications pending at the cutoff. [S3]

At the same time, JUUL and VMR alleged that NJOY ACE infringed their patents. They sought an ITC exclusion order that could prohibit ACE imports. An administrative-law-judge hearing had taken place in May. Altria's July 31 filing said an initial determination was due by August 9 and an ITC final determination by December 9. The filing reported mixed Patent Trial and Appeal Board decisions and mediation among the parties; Altria said a loss was not probable or reasonably estimable at that time. NJOY was pursuing a separate ITC action against JUUL. The outcome and potential effect on ACE remained unresolved. [S5]

The competitive setting

British American Tobacco (BAT) reported Vuse U.S. value share of 45.6% in its tracked channels for 2023, up 4.7 percentage points; BAT also reported 13.1% U.S. revenue growth and a 6.6% decline in consumables volume. In June 2024 BAT reported 51.5% Vuse U.S. share in tracked channels and called illicit single-use vapes a headwind. Those are BAT's measurements and explanations, not a directly comparable series to Altria's NJOY share. [S7]-[S8]

On July 18, FDA authorized the Vuse Alto device and six tobacco-flavored pods. BAT reported that Vuse Alto Menthol products remained available under a court stay of their FDA denial order; the Mixed Berry denial did not have the same stay. NJOY therefore had the first FDA-granted menthol e-vapor product set, while its larger rival still had menthol product availability under a different legal posture. [S9]

BAT attributed part of its volume performance to illicit flavored and disposable products. Altria's 2024 full-year EPS guidance assumed illicit e-vapor enforcement would have limited effect on combustible and e-vapor volumes, while management said it would monitor enforcement and other market conditions. These were company statements, not independent estimates of the illicit market or its eventual effect. [S3], [S7]

Exhibit 2. Selected competitive and regulatory evidence

Company	Dated disclosure	What it does and does not show
NJOY / Altria	Q2 2024: 5.5% NJOY retail share in Altria's U.S. multi-outlet and convenience measure.	Company-reported share in a specified channel. Not comparable without matched channel, time and share definition. [S3]
Vuse / BAT	FY2023: 45.6% value share in BAT's U.S. tracked channels; H1 2024 update: 51.5% in BAT's tracked channels.	Competitor-reported Vuse measures on BAT's basis. Do not subtract NJOY's 5.5% from either figure. [S7]-[S8]
NJOY FDA status	Four June orders: two ACE Menthol pods and two DAILY Menthol disposables.	Permission for named products with restrictions; orders can be withdrawn and do not confer blanket approval. [S4]
Vuse Alto FDA / court status	July 18 FDA orders for the device and tobacco pods; BAT reported Alto Menthol's FDA denial was stayed by a court and the products remained available.	A tobacco-flavored authorization and a stayed menthol denial are different legal statuses. Mixed Berry did not have the same stay. [S9]
NJOY ACE patent dispute	JUUL/VMR sought an ITC exclusion order; initial determination due August 9, 2024.	Potential ACE import and continuity risk unresolved at cutoff. No later result is included. [S5]

Hypothetical approaches

1. **Accelerate:** expand retail execution, supply readiness and promotion for the authorized NJOY range to compete for adoption while the menthol orders create differentiation. This accepts higher near-term spending and greater exposure to demand, enforcement and ACE patent uncertainty.
2. **Stage the investment:** fund selected commercial needs and release further resources as predefined indicators emerge, such as retailer productivity, repeat consumable purchases, product compliance, FDA status and ACE continuity. This preserves a path to scale while information accumulates, but may sacrifice speed if the opportunity is time-sensitive.
3. **Conserve:** maintain distribution, compliance and authorized-product support, but defer broad incremental expansion until demand and legal continuity are clearer. This limits near-term commitment and preserves funds for existing operations and shareholder returns, but risks losing position to established rivals or ceding the menthol opening.

These approaches are hypothetical. Altria had not publicly stated this three-option decision or provided a specific incremental NJOY budget by the cutoff.

Questions for discussion

1. Which strategic objective should govern the next 12 months: grow smoke-free products, defend near-term cash returns, or balance both? What evidence supports that priority?
2. Which of the three approaches would you recommend? What is the strongest argument against your choice?

3. How should the company treat the FDA menthol orders when incremental demand is not yet observed and ACE faces a pending import dispute?
4. Which commercial and regulatory indicators should trigger additional investment, a pause, or a shift in resources? How could Altria measure repeat use and adult complete switching without treating shipments as a proxy for either?
5. Which facts are company or competitor claims, and what independent evidence would help test them? What important information is missing from the public record?

Sources and conventions

Financial results and operating metrics in this case are company-reported. FDA order scope and review statements come from FDA. BAT competitor metrics and its statement about the Vuse Alto court stay are attributed to BAT. Calculations are labeled. The classroom alternatives are not historical Altria proposals. All evidence is limited to information public by 31 July 2024.

[S1] Altria, [NJOY acquisition announcement](#), 6 March 2023. Transaction consideration and rationale.

[S2] Altria, [NJOY acquisition completion and updated 2023 guidance](#), 1 June 2023. Transaction completion and expected 2027 return target.

[S3] Altria, [Q2 and first-half 2024 results](#), 31 July 2024. NJOY metrics, segment results, cash returns, contingent payments and guidance.

[S4] FDA, [authorization of four NJOY menthol e-cigarette products](#), 21 June 2024.

[S5] Altria, [Q2 2024 Form 10-Q](#), filed 31 July 2024. Note 14, “E-vapor Product Litigation,” printed pp. 33-34; Note 6, “Investments in Equity Securities,” for the JUUL disposition.

[S6] Altria, [Q4 and full-year 2023 results](#), 1 February 2024. NJOY's 2023 shipment and retail-share baseline.

[S7] British American Tobacco, [Annual Report and Form 20-F 2023](#), published February 2024. “Our Vapour Products,” printed p. 31.

[S8] British American Tobacco, [2024 first-half pre-close trading update](#), 4 June 2024. “Vuse” section.

[S9] British American Tobacco, [Vuse Alto receives U.S. FDA marketing authorization](#), 18 July 2024.