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Imperial Takes on Juul as Big Tobacco Faces Upstart Rival (2)



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Bloomberg Editorial

- Company is launching nicotine salt pods in U.S. and U.K.
- Juul's rapid growth has sparked selloff of tobacco stocks

By Sam Chambers

(Bloomberg) --

Imperial Brands Plc is launching a vaping product to compete with Juul Labs Inc., as Chief Executive Officer Alison Cooper steps up efforts to reassure investors that smoking alternatives are an opportunity rather than a threat.

This month the maker of Winston cigarettes is releasing new vaping pods in the U.S. and U.K. containing nicotine salts, which allow the stimulant to be absorbed into the bloodstream more rapidly than when using a conventional e-cigarettes. The nicotine formulation is similar to that used by Juul, which has grabbed a 68 percent share of the U.S. retail market for vaping devices in just three years, according to Nielsen.



Alison Cooper

Photographer: Jason Alden/Bloomberg

"The type of experience Juul delivered was definitely a step forward," Cooper said in an interview at Imperial's headquarters in Bristol, England. "Smokers weren't switching completely in to vaping before because the experience wasn't satisfying enough. That's what we are trying to achieve."

The rise of a new entrant in the U.S. and last year's 18 percent decline in the cigarette market in Japan, where heated-tobacco devices have become popular, have investors worried that an industry known for steady profit growth faces an increasingly uncertain future. Imperial's shares have fallen 17 percent in the past year.

Cooper told investors this week that Japan was the only market where she expects rapid disruption for the tobacco industry and that the popularity of e-cigarettes in the U.K. and the U.S. means overall nicotine consumption is growing there.

Juul gives vapers a hit comparable to that of a cigarette because it contains benzoic acid, which makes it easier to deliver nicotine at a lower temperature without being

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harsh to the throat. After its success in the U.S., the startup vape brand is expanding internationally. To fund that effort, the company is said to be raising \$1.2 billion in a financing round that would value it at \$15 billion. Juul's slim device, which looks like a flash memory drive, has captured the imagination of young consumers as word spreads via social media.

"For big tobacco it's really problematic because that's the generation they need to get," according to Bloomberg Intelligence analyst Ken Shea.

Juul's popularity with teenagers has put the company on the radar of the U.S. Food and Drug Administration, which has requested information from the company on why its product is widespread in high schools.

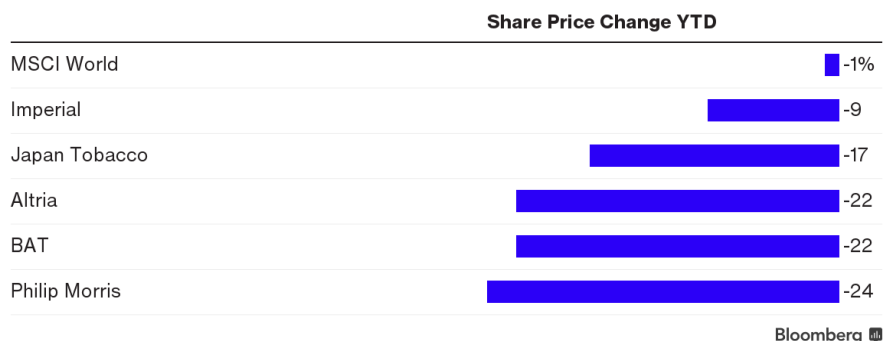
"We have a comprehensive marketing code in which we adhere to strict guidelines to ensure that our marketing is directed toward existing adult smokers," a Juul spokeswoman said via email.

#### Burning Cash

The U.S. is the world's biggest e-cigarette market -- and the only one in which Imperial is profitable. But Juul's rise caused Imperial's market share to fall by more than half to 8 percent since last year, according to Wells Fargo.

Imperial is reducing the number of components in its MyBlu vaping device and automating the production, which will cut manufacturing costs by two-thirds, Cooper said. Users of the new pods will be able to insert them into existing MyBlu systems.

### Tobacco's Tough Year



Returns from next-generation products will make a "significant step forward" in the company's financial year ending 2020, the CEO said. British American Tobacco Plc expects its cigarette alternatives business to break even this year and deliver substantial profit by 2022.

Amid doubts over big tobacco's position in smoking alternatives, Imperial is looking further afield by participating in a \$10 million fundraising by cannabis research firm Oxford Cannabinoid Technologies. The deal followed Imperial's appointment of Simon Langelier -- who chairs a medicinal cannabis company -- to its board last year.

"Cannabis is going to be a very regulated space and we very much have capabilities in terms of regulation," Cooper said. Further legalization of recreational use could also present "interesting" consumer opportunities, she added.

(Updates with Juul comment in ninth paragraph.)

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