



Big tobacco stands to benefit from an FDA crackdown on e-cigs, analyst says

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Key Points

- A Food and Drug Administration crackdown on e-cigarettes could be a boost for big tobacco, Piper Jaffray's Michael Lavery says.
- Any move to slow or stop the migration of smokers to vaping products would benefit big tobacco, Lavery says, plus tobacco companies' investments in vaping haven't yet reached profitability.

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Why tobacco stocks are rallying on FDA e-cig crackdown

A [Food and Drug Administration](#) crackdown on e-cigarettes could be a boost for big tobacco, Piper Jaffray's Michael Lavery told CNBC on Thursday.

There is "directionally, no question" these companies would benefit, Lavery said in a ["Closing Bell"](#) interview.

"If a crackdown reduces the number of smokers switching to e-cigs, it would likely be bad for public health but financially a benefit for public tobacco companies," he later wrote in an email.

The FDA on Wednesday ordered five brands — Juul, British American Tobacco's Vuse, Altria's MarkTen, Imperial Brands' Blu E-cigs and Japan Tobacco's Logic — [to submit plans, within 60 days, to discourage teen use of their products](#). It is considering restricting e-cigarette manufacturers from selling flavored nicotine liquid or making the products undergo an agency review.

“E-cigarette use among youth has hit epidemic proportions,” the FDA said in a press release that also detailed “a large-scale, undercover nationwide blitz to crack down on the sale of e-cigarettes to minors at both brick-and-mortar and online retailers.”

The coming crackdown could spell trouble for companies such as Juul. Their products, available in sweet flavors, are popular with young people, who can hide the sleek devices from parents and teachers.

Big tobacco, on the other hand, could benefit in a couple of ways.

There is no industry-wide data to show how many customers vaping companies steal from tobacco, but a survey of 19,000 Juul users, conducted by the company and detailed in a Piper Jaffray note, said that about 62 percent were smokers when starting to use Juul. About two-thirds of them quit after beginning to use Juul.

In the context of huge tobacco companies, that impact is rather modest, Lavery said, but any move to slow or stop the migration of smokers to vaping products would benefit big tobacco.

Beyond that, vaping research and development is actually costing tobacco companies as they attempt to gain market share in the burgeoning industry, Lavery said. A crackdown could mean less emphasis on those investments.

“The cigarette companies make all their money in cigarettes — that’s the high-margin business where they have scale. And they all have smaller vape or e-cigarette businesses, but they are still in investment mode. They make little or no money there and, in some cases, lose money,” Lavery said.

Following Wednesday’s announcement, [tobacco stocks surged](#) then pared some of those gains on Thursday.

— *CNBC’s Angelica LaVito contributed to this report.*