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March 27, 2020
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Altria (MO) Maintain SELL
Nine More Reasons the Worst May Not Be Over

1. BUD Investment on the books at $18.1 billion at the end of December 2019. At that time the actual value was $16.1 billion and MO did not write it down. The auditors specifically pointed to this in their statement as an issue to monitor. BUD is now worth $8.1 billion.

2. BUD cut its forecasts after 4Q results due to COVID-19 and expected a 10% decline in EBITDA. Bars, sporting events, restaurants are closed – which should hurt beer sales. BUD withdrew 2020 guidance this week based on COVID-19 issues having a much greater impact on sales than first thought.

3. MO is predicting a decline of only 4%-6% in cigarette volumes for 2020. The decay rate has been running higher than that for years now. That is a net number of losing current smokers and adding in new ones. The minimum age of 21 should pull the new smoker numbers down in a larger amount than before in our view.

4. Per the CDC – the occupations with the highest percentage of smokers are food service and hotel workers – they are largely unemployed now. A $7-$15 pack of cigarettes may not be their highest priority these days, which could hurt cigarette volumes too. MO will likely respond to volume decay by raising prices again.

5. MO's forecasts also include its IQOS rollout occurring as planned – could that now be delayed? What was actually expected is MO will benefit from stocking into the various channels and booking revenue before the sell-through of actual product happens – so this could still be a neutral item.

6. MO paid $1.9 billion for 45% of Cronos and took a $1.4 billion loss in 2019. Net of taxes, it is carrying the investment on the books at $1.0 billion. The fair value of those shares is now about $900 million.

7. Cronos is restating results from 2019. It's first quarter will see sales fall by $2.5 million – but sales were only $6.5 million. The third quarter will see sales fall by $5.1 million compared to the reported $12.7 million. It is also dealing with SEC inquiries too.

8. Cronos spent some of MO's cash to buy another cannabis company owned by the CEO and another board member for 150x revenue in late 2019.

9. Resignations at Cronos and JUUL: Bruce Gates, Kevin Burns, James Monsees, Grant Winterton, Ken Bishop. JUUL has also stopped advertising and laid off staff. Have we seen the last of the impairments there?

Explanation of EQ Rating Scale

6- "Exceptionally Strong"	Indicates uncommonly conservative accounting policies to the point that revenue and earnings are essentially understated relative to the company's peers. Higher possibility of reporting positive earnings surprises
5- "Strong"	Indicates the company has no areas of concern with its reported results and we see very little risk of the company disappointing due to recent results being overstated from aggressive reporting in recent periods.
4- "Acceptable"	Indicates the company may have exhibited a minor "red flag", but the severity of the issue is not yet a concern. Minimal risk of an earnings disappointment resulting from previous earnings or cash flow overstatement
3- "Minor Concern"	Indicates the company has exhibited either a larger number of or more serious warning signs than companies receiving a 4. The likelihood of an immediate earnings or cash flow disappointment is not considered to be high, but the signs mentioned deserve a higher degree of attention in the future.
2- "Weak"	Indicates the company's recently reported results have benefitted materially from aggressive accounting. Follow up work should be performed to determine the nature and extent of the problem. There is a possibility that upcoming results could disappoint as the impact of unsustainable benefits disappears.
1- "Strong Concerns"	Indicates that the company's recent results are significantly overstated and that we view a disappointment in upcoming quarters is highly likely.

In addition to the numerical rating, the EQ Review Rating may also include either a minus or plus sign. A minus sign indicates that our analysis shows the overall earnings quality of the company has worsened since the last review and there is a possibility the numerical rating will fall should the problem continue into the next quarter. Likewise, a positive sign indicates that the overall earnings quality is improving, and the company may see an upgrade in its numerical rating should the trend continue.

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The EQ Review Rating is not comparable to a traditional buy/sell rating. The Rating is intended to specifically convey the extent to which reported earnings may be over/understated. Fundamental factors such as forecasts for future growth, increasing competition, and valuation are not reflected in the rating. Therefore, a high score does not in itself indicate a company is a buy but rather indicates that recent results are a good indication of the underlying earnings and cash generation capacity of the company. A low score (1-2) will likely result in us performing a more thorough review of fundamental factors to determine if the company warrants a full-blown sell recommendation.

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