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Altria in Talks to Buy Vaping Startup NJOY for at Least $2.75 Billion

Marlboro maker looks to buy rival e-cigarette company after struggles with Juul

NJOY is one of the few e-cigarette makers whose products have clearance from federal regulators.

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Marlboro maker Altria MO **-0.89%** ▼ Group Inc. is in advanced talks to buy e-cigarette startup NJOY Holdings Inc. for at least $2.75 billion, according to people familiar with the matter, moving to take over a new vaping brand after its bet on Juul fizzled.

The deal for NJOY, one of the few e-cigarette makers whose products have clearance from federal regulators, could be announced as soon as this week, the people said, though the talks could still fall apart. The proposed deal includes an additional $500 million earnout if certain regulatory milestones are met, the people said. The Wall Street Journal reported last June that NJOY had hired advisers and was exploring a sale.

Altria, the largest maker of cigarettes in the U.S., has tried for years to develop or acquire e-cigarettes as U.S. smoking of traditional cigarettes declined. The tobacco giant in 2018 paid $12.8 billion for a 35% stake in Juul Labs Inc., only to see the vaping market leader tumble.

Juul, embroiled in a dispute with federal regulators and swamped by lawsuits alleging that it had targeted minors, came close to filing for bankruptcy last year. Juul has since settled much of that litigation but its future remains in question amid a dispute with the Food and Drug Administration over whether its e-cigarettes can remain on the U.S. market. Juul has said it never targeted young people and has been working to regain the trust of regulators and the public.

Altria now values Juul at $714 million—down from the $38 billion valuation when Altria first invested.

The Federal Trade Commission is expected to issue a decision in March on whether to unwind Altria's investment in Juul. The agency's staff has alleged that it violated antitrust law. With the Juul case pending, an NJOY deal would likely face regulatory scrutiny.

NJOY has obtained clearance from the FDA to sell its tobacco-flavored e-cigarettes in the U.S., a hurdle that so far has eluded the two biggest brands: Juul and Vuse Alto, which is owned by Reynolds American Inc. Those reviews are still under way.

NJOY is the No. 3 e-cigarette brand in U.S. stores tracked by Nielsen but has a very small market share, representing about 3% of the market. Juul accounts for about 26%.

Altria last fall ended its noncompete agreement with Juul. That gave Altria the option to buy another e-cigarette brand or develop its own vaping products, and Juul the ability to sell itself or a stake to an Altria competitor.

Tobacco companies are jockeying for position to grab up pieces of the U.S. e-cigarette market as regulators reshape the industry, deciding which products can stay and which must go. The Biden administration has said it plans to mandate the reduction of nearly all nicotine in cigarettes, adding urgency to cigarette makers' efforts to find other avenues of growth.

The potential deal for NJOY would fall short of the $5 billion or more some of the company's investors hoped NJOY would fetch. People familiar with NJOY said last summer that if talks with potential suitors didn't result in a high-enough valuation, the company could raise more money privately and bide its time until undertaking an initial public offering.

But the window for IPOs has worsened. Some companies that went public in 2020 and 2021 are at risk of being delisted, and some newly public companies have reached deals to go private again.

Still, the deal would represent a corporate turnaround story for NJOY. The company emerged from bankruptcy protection in 2017 via an auction won by Homewood Capital, an investment firm run by Douglas Teitelbaum, and its investors; the bid later was backed by Mudrick Capital Management LP, a distressed investor, which emerged with a 51% controlling interest.

A sale likely would relieve some pressure Mudrick founder Jason Mudrick has been facing and contribute significantly to his firm's performance this year. Mudrick's portfolio has grown illiquid over time and caused concern on the part of some investors, said people familiar with the firm. In a February letter to clients that didn't name NJOY, Mr. Mudrick wrote he would soon have good news to share about one of his largest positions.

Mudrick bought into NJOY at a $40 million post-money valuation, and sold parts of its stake over time, said people familiar with the matter. At the end of 2022, they said, Mudrick valued NJOY at roughly $1.8 billion.

Homewood Capital remains a shareholder. Mr. Teitelbaum, who led turnarounds of Barneys New York and the Planet Hollywood Casino in Las Vegas, served as chairman of NJOY's board until last year.

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