



Ashley Gould
Chief Administrative Officer

July 3, 2019

Via Email

Mike Futrell, City Manager
City of South San Francisco
400 Grand Avenue
South San Francisco, CA 94080
Mike.Futrell@ssf.net

Re: Commitments to Restrict Youth Access and Use of Vapor Products

Dear Mr. Futrell,

On behalf of JUUL Labs, Inc. (JLI or the Company), I am writing to demonstrate our commitment to the City of South San Francisco to establish an environment in which youth are restricted from accessing vapor products, including JUUL, while they remain available to adult smokers to transition them from the deadliest consumer product created — combustible cigarettes. We believe, with the commitments in this letter, South San Francisco can be the first city in the nation to sell vapor products under a controlled, restricted sales system that meets both critical objectives.

POTENTIAL PUBLIC-HEALTH IMPACT OF VAPOR PRODUCTS FOR ADULT SMOKERS

As you may know, tobacco use remains the leading cause of preventable death and disease in the United States, causing more than 480,000 deaths every single year. Cigarettes remain the only consumer product that, when used as intended, will kill half of all long-term users. While nicotine is addictive, it is the thousands of toxicants, carcinogens, and other harmful constituents in combustible smoke that cause disease. It is imperative to public health that we find and support alternatives to combustible cigarettes for the 34 million smokers, and those around them, in the U.S.

That is why JLI's mission is to improve the lives of the world's one billion adult smokers by eliminating cigarettes. Vapor products provide adult smokers with a viable nicotine alternative, without the combustion and irreversible harm caused by the inhalation of 7,000+ chemicals associated with cigarette smoke. The growing consensus among public health is that, while not risk-free, vapor products are significantly less harmful than combustible cigarettes for adult smokers.¹ Moreover, vapor products have

¹ See Nat'l Academies of Sciences, Engineering, & Med., Public Health Consequences of E-Cigarettes, p. 6–11 (2018) ("[T]he evidence about harm reduction suggests across a range of studies and outcomes, e-cigarettes pose less risk to an individual than combustible tobacco cigarettes."); Am. Cancer Society, American Cancer Society, Position Statement on Electronic Cigarettes (2018), <http://bit.ly/31z1s0I> ("Based on currently available evidence, using current generation e-cigarettes is less harmful than smoking cigarettes, but the health effects of long-term use are not known."); Public Health England, E-cigarettes: A New Foundation for Evidence-based Policy and Practice (2015) ("The current best estimate is that e-cigarette use is around 95% less harmful to health than smoking."); New Zealand Ministry of Health, Position Statement on

been shown to be far more effective than traditional nicotine-replacement therapies (NRTs) for smoking abstinence.²

KEEPING VAPOR PRODUCTS OUT OF THE HANDS OF YOUTH

In November 2018, the Company reset its business to address youth access, appeal, and use of JUUL products. Given the reported increase in youth use, we saw the need to take swift and significant action to lead the vapor category. This included:

- Suspending the distribution of non-tobacco and non-menthol-based (NTM) flavored JUUL products to over 90,000 traditional retail outlets, limiting their sale to our ecommerce platform that utilizes automated third-party verification to ensure purchasers are 21+ (regardless of jurisdiction) and limits the amount of product that can be purchased (to prevent social-sourcing).
- Enhancing our ecommerce platform with two-factor authentication and facial-recognition technology for uploaded IDs;
- Improving retailer compliance by expanding our secret-shopper program to over 2,000 stores per month to check against federal age-verification and company-specific bulk-purchasing requirements;
- Exiting social media and retaining Twitter only for non-promotional communications; and
- Building end-to-end traceability for JUUL products to identify where they are being sold to youth and developing next-generation product with user-level access restrictions that could potentially prevent youth use.

But we believe more can be done, particularly in our own backyard. The Company is in the process of implementing additional, targeted youth-prevention measures that we hope will trigger categorical action to restrict youth access and use of *all* vapor products. We would like to deploy some of these initiatives in South San Francisco to demonstrate their effectiveness. Collectively we can prove that, through technological solutions, there is a way to prevent youth use while preserving access to adult smokers to transition them from combustible use.

1. Deployment of automated point-of-sale (POS) systems that restrict sales to verified adults (21+) and limit the amount of product that can be purchased

Any measure to restrict youth access must account not only for robust age-verification, but also the social-sourcing component, limiting the amount of product that

Vaping (2018), <http://bit.ly/2Zt7G0R> ("Smokers switching to vaping products are highly likely to reduce the risks to their health and those around them.").

² Peter Hajek, et al., A Randomized Trial of E-cigarettes versus Nicotine-Replacement Therapy, New England Journal of Medicine (2018) (finding that e-cigarettes were more effective for smoking cessation than NRTs, when both products were accompanied by behavioral support). In this randomized-controlled trial, the one-year abstinence rate was 18.0% in the e-cigarette group, as compared with 9.9% in the NRT group.

can be purchased and ultimately sold or shared with youth. To that end, the Company has developed a set of technical requirements for in-store POS systems that:

- Automatically requires scanning of a government-issued ID to verify age and ID validity;
- Automatically limits purchases to no more than 2 devices and/or 5 pod packages; and
- Automatically integrates the sales transaction to prevent manual override.

Each of these requirements is automated within the POS system, removing the potential for human error. In practice, if an ID is not scanned to verify age and validity; the transaction cannot be completed. If the purchaser's ID is under the age of 21 or expired, the transaction cannot be completed. And if the purchase exceeds the quantity limits, the transaction cannot proceed. We are currently piloting this technological solution at select retail outlets across the country and have seen near 100% compliance rates thus far.

We now would like to take this solution and make it available to every tobacco retailer in South San Francisco. The Company has partnered with multiple vendors to develop POS systems that comply with the above requirements for JUUL products. We would like to provide these POS systems to the tobacco retailers of South San Francisco, including support with onboarding and training, at no cost to either the retailer or the City.

2. Targeted secret-shopper program to ensure compliance with age-verification and bulk-purchasing requirements

The Company runs an internal secret-shopper program, more than 2,000 shops per month, to ensure compliance with federal age-verification requirements and our bulk-purchasing limits (2 JUUL devices and/or 5 JUULpod packages per month). Through a third-party, the Company sends shoppers of legal-purchasing age to obtain JUUL products. Depending on whether the retailer passes or fails, we impose penalties, up to a sales ban that would prevent the retailer from selling JUUL products ever again.

Following deployment of the automated POS systems, we can utilize our secret-shopper program to focus on South San Francisco retailers to ensure they remain in compliance and the POS systems are working effectively. We can provide these results to the City and identify additional measures to create a culture of "retailer compliance" around the sale of vapor products.

3. Partnership with track-and-trace program for JUUL products to identify where products are being obtained by youth

The Company is in the process of establishing full-system traceability for JUUL products; an investment that will total over \$30 million. Once fully implemented, the Company will be able to track a JUUL product confiscated from youth to the retailer that sold it. For example, each JUUL device has a unique product identifier that can be traced through the entire distribution channel — from JLI to the distributor to the retailer. We have created an online-reporting that will enable parents and teachers to enter that

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information.³ Then, JLI can trace that product back to the retailer that sold it and take appropriate action.

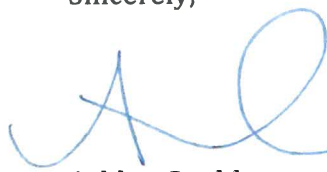
We have piloted our track-and-trace system in a metropolitan area in the U.S., where we ran targeted education and information campaigns to parents, educators, and others to support the reporting of confiscated JUUL devices. To date, we have received over 100 submissions linked to a traceable JUUL device. We would like to work with the City and members of South San Francisco community to create awareness about our track-and-trace program. Together, the Company and South San Francisco will be able to assess where youth, if anywhere, are still accessing JUUL products.

CONCLUSION

We are committed to our mission of eliminating cigarettes among adult smokers. But, to preserve this significant public-health opportunity, we are equally committed to preventing youth use of our products. JLI has spent significant time, resources, and technological ingenuity to achieve these equally important objectives. Now, with South San Francisco as a potential partner, we can demonstrate there is a viable way to achieve this balance of preventing youth use and preserving adult access.

We look for discussing these commitments in more detail, as well as any other questions you may have about the Company and our youth-prevention efforts.

Sincerely,



Ashley Gould

cc: Ed McGovern

³ See live link to JLI online-reporting portal: <https://www.juul.com/report>.