Remarks by
André Calantzopoulos
Chief Executive Officer

Consumer Analyst Group of New York (CAGNY) Conference

February 19, 2020

Philip Morris International Inc.

ANDRE CALANTZOPOULOS

(SLIDE 1.)

Thank you, Janet. It is my great pleasure to be back at CAGNY. Let me extend a warm welcome to those joining us on the webcast.

I would like to introduce the team here with me today who will join me for the Q&A session: Jacek Olczak, Chief Operating Officer, Martin King, Chief Financial Officer, Deepak Mishra, Chief Strategy Officer and Nick Rolli, Vice President Investor Relations. For those here in Boca Raton we also look forward to talking with you at dinner this evening.

(SLIDE 2.)

Our remarks contain forward-looking statements and, accordingly, I direct your attention to the Forward-Looking and Cautionary Statements section of today's presentation. Reduced-risk products, or "RRPs," is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking.

Comparisons are presented on a "like-for-like" basis reflecting pro forma 2018 results, which have been adjusted for the deconsolidation of our Canadian subsidiary, Rothmans, Benson & Hedges, Inc. (RBH), effective March 22, 2019.

(SLIDE 3.)

Let me first outline the agenda for today.

(SLIDE 4.)

I will begin the presentation with a quick recap of our 2019 performance and the outlook over the near-to-mid-term.

Next, I will cover our view of the evolving industry landscape and the profit-enhancing trend towards RRPs, driven by consumer needs.

I will then turn to our RRP portfolio strategy and some of our key competitive strengths.

Subsequently, I will cover our strong combustible portfolio, before turning to our efforts to create a sustainable and responsible operating environment.

(SLIDE 5.)

Let me reiterate a few key metrics that highlight the very strong underlying performance of our business in 2019.

Our heated tobacco unit shipment volume increased by 44%, reflecting broad-based growth across a wide range of geographies.

Net revenues increased by 6.4%, excluding currency, driven by HTU sales growth and strong combustible pricing of 6.5%.

Our adjusted operating income margin increased by 170 basis points, excluding currency, also helped by a favorable geographic mix of HTUs, RRP scale benefits and cost efficiencies.

Consistent with the growth in revenues and margins, adjusted diluted EPS increased by almost 10%, excluding currency. In summary, 2019 was an excellent year where we demonstrated the success of our strategy and delivered across all of our financial objectives.

(SLIDE 6.)

Turning to 2020, as we explained in our earnings release on February 6th, we anticipate another robust performance, despite a temporary headwind in Indonesia from a year of catch-up on excise tax and pricing. We assume net revenue growth, excluding currency, of approximately 5%, reflecting expected strong shipment growth in HTU volumes, putting us well on track for our target of 90 to 100 billion units by 2021.

We also forecast continued strong growth in adjusted currency-neutral operating income margin of at least 150 basis points, as our expected acquisition cost per new *IQOS* user improves by around 25%, and our cost efficiency programs fully offset incremental RRP investments.

Accordingly, we forecast adjusted diluted EPS growth of at least 8% in 2020, excluding currency.

(SLIDE 7.)

As outlined during our Investor Day in September 2018, we are targeting currency-neutral compound annual growth for net revenues and adjusted diluted EPS of at least 5% and 8%, respectively, for the 2019 to 2021 period. The implicit margin growth is supported by over $1 billion in targeted cost efficiencies over the same period, which we are well on track to deliver as we start 2020.

(SLIDE 8.)

In our press release today, we re-affirmed our 2020 reported diluted EPS guidance provided on February 6th. On a currency-neutral and like-for-like basis, our guidance represents an adjusted diluted EPS increase of at least 8%.

As we highlighted in our recent earnings call, we expect particularly strong growth in the first quarter, and a notably softer Q2. The first quarter will benefit from favorable year-over-year pricing comparisons in the Philippines and Turkey. We anticipate double-digit currency-neutral adjusted diluted EPS growth in the first quarter, on a like-for-like basis.

Conversely, performance in the second quarter will likely be impacted by both the comparison to a strong Q2, 2019, and the most pronounced effect of the tax-driven pricing in Indonesia as the new minimum retail price takes effect.

Finally, there are natural questions to all companies on the potential impact of the coronavirus situation. As of now there is no impact on our *IQOS* device supply. We observe, however, a modest impact on Duty-Free sales for both RRPs and combustible cigarettes, due to currently reduced global travel. We will continue to monitor developments closely.

(SLIDE 9.)

Now we turn to consider the evolving outlook for the industry.

(SLIDE 10.)

There have been questions in some parts of the investment community over disruption from the advent of RRPs. While a changing environment comes with new challenges and opportunities, by far the biggest disruption to both our company and our industry to date has come from our own deliberate efforts.

We have spoken previously of the RRP category being at its very beginning. Where we stand today, is that on one hand the category is gaining credibility among consumers, while on the other hand consensus among regulators, policymakers and public health advocates is still lagging.

We now have a much better understanding of category dynamics. The main RRP product categories are now established, the profitability of both heated tobacco and closed system e-vapor is favorable, and an increasing number of adult smokers seek better alternatives to cigarettes.

As with any new category, RRPs will experience periods of faster and slower growth. Over the mid-term we expect these factors to drive sustainable, enhanced revenue and profit growth for PMI and those industry participants who invest in the technology, science, consumer experience and the commercial and digital muscle to deploy at scale.

(SLIDE 11.)

Let us now consider this vast opportunity in more detail. There are over 1 billion adult smokers worldwide. As of December 2019, we estimate *IQOS* had acquired close to 14 million legal-age smokers, where close to 10 million of these have stopped smoking and switched to *IQOS*, and another 4 million are in various stages of conversion. For e-cigarettes, there are around 40 million global users, of which we estimate around 10 million are converted. While the approximate total of 20 million converted users is a great achievement for harm reduction, it represents only 2% of the world's smokers.

(SLIDE 12.)

It's clear we have only scratched the surface of the smoke-free category's potential. Indeed, as shown on this chart, *IQOS* is currently commercially available in markets representing around 1.2 trillion units, or 44% of the total international industry excluding China and the U.S. Due to focused distribution, our effective geographic reach is approximately 700 billion units. It follows that while our 2019 heated tobacco unit shipments of 60 billion units make up only 2% of the total industry, this represents around 8% of volumes where *IQOS* is available.

(SLIDE 13.)

Nevertheless, our *IQOS* RRP business already accounted for close to one-fifth of our net revenues in 2019. This offers us great encouragement as to the future potential to accelerate our successful business transformation.

(SLIDE 14.)

Another way to illustrate this is to consider the weight of RRPs in the total international nicotine market, which we estimate grew by around 4% in retail value since 2018. While disproportionately driving retail value growth, we estimate RRPs, including snus, are just over 5% of the total.

(SLIDE 15.)

RRPs' two principal categories are heated tobacco, which makes up around 70% of the total international retail value of $23 billion, and e-vapor at 30%, reflecting the prevalence of open systems and low rates of conversion, all based on our latest estimates. While emerging categories such as nicotine pouches are showing promising growth in a few markets, they remain small in the overall picture, and snus is concentrated in Scandinavia. We also note that heated tobacco is growing faster than e-vapor, helped by the quality of consumer experience and consequent better rates of conversion.

(SLIDE 16.)

IQOS HTUs have better unit margins relative to cigarettes. There are regional variations in this differential, due to different excise tax regimes, making geographic mix an important factor for our overall margin progression.

While certain closed system e-vapor products already enjoy attractive unit profitability compared to cigarettes, there is an opportunity to optimize trade margins over time and to reduce manufacturing costs with scale and automation, which could help offset future excise tax introductions or increases for the category.

(SLIDE 17.)

However, better unit margins for all RRPs should not be viewed in isolation. The development, scientific substantiation, manufacturing, commercialization and continuous innovation for these products require significant upfront infrastructure costs and capital expenditures for any serious long-term participant. For PMI, the cumulative amount invested for the period 2008 to 2019 is $7.2 billion. In addition, there are variable costs related to consumer acquisition and retention. Consequently, only when significant sales volumes are achieved do the revenues become accretive to the bottom line. For a category in its early stages this entails significant segment volume share, which PMI has achieved in the heated tobacco segment with *IQOS*. We can now leverage this infrastructure and *IQOS* brand equity to also achieve critical mass in the e-vapor segment.

(SLIDE 18.)

Indeed, while not the only driver, this is reflected in our margin progression over the past few years where the investment phase has been followed by the strong margin expansion seen in 2019, and expected in 2020, as RRPs continue to make a positive contribution to our operating profit.

(SLIDE 19.)

Our longstanding focus and investment in RRPs have allowed us to lead the category. Even without a meaningful presence in e-vapor, our 2019 share of the international RRP category in retail sales value terms, was around 55%. This compares favorably with our approximate 30% retail value share of cigarettes. It follows that as the structural trend towards better alternatives continues, share gains can further accelerate growth.

(SLIDE 20.)

I am sometimes asked how confident we are about the long-term growth of RRPs. While switching to a less harmful alternative makes intuitive sense for smokers who would otherwise continue to smoke, we also know this is a significant change of behavior for them. Taste satisfaction, credibility of the proposition and understanding of the comparative health benefits are all important factors in the decision to switch, and unfortunately there is confusion on the health benefits, exacerbated by recent events in the e-vapor category.

Despite all this, our consumer insights research from *IQOS* markets indicates that 80% of legal age smokers say they are looking for better alternatives.

(SLIDE 21.)

We also know that consumers have a wide range of attributes, needs and preferences. We highlight here some of our high-level consumer segmentation, based on research across our *IQOS* markets.

We find the needs of around one third of legal age smokers have a strong fit with heated tobacco. A slightly larger group are likely to be served by predominantly adopting either heated tobacco or e-vapor. A smaller third group are more likely to regularly combine different RRP products.

(SLIDE 22.)

Having discussed the consumer and industry landscape, we now turn to PMI's approach and competitive strengths within this environment.

(SLIDE 23.)

Consumer segments, preferences and usage occasions are diverse, and it follows that growing the smoke-free category to its full potential will require different product formats, technologies and taste experiences.

We started with heated tobacco products, which we believed would be most effective at converting adult smokers, as has proven to be the case. This gave us much faster scale and established *IQOS* as the most credible brand in the category. In addition to this brand strength we have the technology and capabilities to expand to the e-vapor category.

(SLIDE 24.)

Our competitive advantages in RRPs are built on three key pillars. The first is product superiority, backed by science, technology and consumer insights. The second is our commercial deployment engine which allows us to launch and grow at scale. The third is the strong brand equity and awareness we continue to build with *IQOS.*

I will now explain these interrelated strengths in more detail.

(SLIDE 25.)

Building the category requires regular innovation of our devices and consumables. The first major commercial launches in 2015 and 2016 used the *IQOS 2.4* device, with repeated innovations culminating in 2019 with the launch of *IQOS 3 DUO*.

(SLIDE 26.)

We should not forget that the product consists of both the device and the consumables, and it is equally important to innovate our HTU portfolio. We continue to expand our flavor range around the real tobacco taste of *HEETS* to offer consumers a wide choice of experiences, and deploy these according to local market dynamics.

(SLIDE 27.)

A wide assortment of consumables also allows us to serve a broader range of legal-age smokers at different price points in more advanced *IQOS* markets. A key example is the launch of the *HEETS* brand in Japan at a mainstream price point below *Marlboro Heatsticks*. As shown on the chart this was notably successful, with *Marlboro Heatsticks* proving very resilient, and the overall share of our HTUs continuing to grow.

(SLIDE 28.)

As another example, we recently launched *HEETS Creations* in Russia, an above-premium line of consumable variants priced at RUB170 per pack, compared to existing *HEETS* variants at RUB150.

(SLIDE 29.)

To conclude, we are the clear leader with strong segment shares and our focus on further improving our best-in-class products remains relentless. We continue to nurture a strong pipeline of improvements and innovations across our platforms.

(SLIDE 30.)

A second key competitive advantage is our RRP commercial engine, and the physical and digital infrastructure which supports it. Following significant investments across our *IQOS* markets, we now have a footprint of almost 200 stores, over three thousand exclusive *IQOS* retail touchpoints, a commercial salesforce of some 11 thousand people and 23 call centers all working to convert legal age smokers to our reduced risk products. We also collected 1.6 million pieces of consumer feedback and generated 46 million unique visits to our digital assets in 2019.

(SLIDE 31.)

Our commercial engine has a number of key pillars. These include an organization and infrastructure aligned to the *IQOS* consumer journey, an omni-channel model providing consistent brand experience to consumers, a digitally-driven Customer Relationship Management (CRM) approach for tailored communication, and systems and processes to generate consumer feedback.

Why is this so important? While the cigarette business is mostly transactional at point-of-sale, we are now interacting directly with consumers on a daily basis. The required capabilities take time and investment to design, implement and leverage. This is coupled with a relentless focus on executional excellence and minimizing unintended consequences, such as underage use, through the application of Good Conversion Practices. With regard to our focus on minimizing unintended consequences, we are encouraged by the results of a recent study conducted under a Japanese Ministry of Health research grant, which showed that only 0.1% of high-school students were daily users of heated tobacco products.

(SLIDE 32.)

Let me now explain how our commercial approach aligns to the *IQOS* consumer journey. The first part of the journey relates to awareness, trial and acquisition whereas the latter parts concern full conversion, retention and advocacy. We allocate resources accordingly on a market-by-market basis, with increasing digital capabilities enabling us to scale faster and become more efficient in serving consumers.

(SLIDE 33.)

One example of how a digital approach increases scale and cost efficiency is the 'guided trial' that legal-age smokers who express an interest in *IQOS* are offered. In the analog version, this is a face-to-face interaction which is time-consuming and expensive. We are now able to offer this remotely, which is more convenient for the consumer, and scalable for us, at a cost which can be up to 5 times less expensive. The same principle applies for other stages of the consumer journey.

(SLIDE 34.)

We have also put significant focus into establishing an omni-channel model to ensure consumers receive a consistent brand experience and service across all touchpoints, whether that be via our CRM, website, social media, retail touchpoints or customer care centers.

(SLIDE 35.)

CRM is a core element of our commercial engine. It allows us to proactively offer tailored promotions and communications to consumers through digital means, according to their specific interests and stage of the consumer journey. We are able to process, analyze and respond swiftly to consumer feedback collected across all touchpoints. It also constitutes a growing platform to offer other revenue-generating products and services in the years to come.

(SLIDE 36.)

All this is important because execution matters: great products are a necessary but not sufficient condition for competitive success. It is especially crucial to the RRP category, as we are not just 'selling RRP devices' but convincing consumers to change their behavior by switching to less harmful alternatives.

This requires substantial upfront and ongoing investment, and time to continuously learn, making it hard for others to replicate. As highlighted earlier when we showed our recent margin progression, even for a company as large as ours this is a significant and lengthy undertaking.

Mastering the commercial engine makes a difference to our results. In markets where we have launched more recently, which have the benefit of our engine development and learnings, we have achieved faster growth.

(SLIDE 37.)

We demonstrate this by first showing the market share progression of *IQOS* HTUs from time of launch in some of our early markets. With the notable exception of Japan, where *IQOS* uptake was a consumer-led phenomenon, our progress was relatively slow for the first 2 years.

(SLIDE 38.)

In contrast, in markets where we have launched more recently we see much faster growth in user acquisition, and market share. While growing global awareness of *IQOS* also helps, this is a clear testament to superior execution.

(SLIDE 39.)

Turning back to the same early launch markets, our commercial learnings have also allowed us to accelerate growth momentum and give us confidence for geographic expansion. Notably in Japan, where early success came before our commercial engine was ready, we were able to resume growth during 2019, despite an intensified competitive environment.

(SLIDE 40.)

I will now turn to how we can leverage this going forward, starting with our core *IQOS* heat-not-burn offering.

(SLIDE 41.)

First, I would reiterate our expectation of accelerated user acquisition in 2020, reflecting strong momentum across our *IQOS* markets. This follows the net addition of 4 million new users in 2019.

(SLIDE 42.)

We expect to achieve this at a lower cost per user, aided by scale leverage effects and digital efficiencies. On this chart we see the improving trend in the key markets of Italy, Russia and Germany up to 2019. These markets have taken learnings from Japan, building the agility to adapt and respond to changing consumer trends. We expect our worldwide acquisition cost per user to decrease by around 25% in 2020.

(SLIDE 43.)

A potent illustration of our commercial approach comes from comparing the market share in key cities, where we first establish our commercial engine, and the national shares in these markets. Coupled with the fact that key city shares continue to grow across the vast majority of our geographies, this is a clear indicator of the large remaining potential in existing *IQOS* markets.

(SLIDE 44.)

I would also like to highlight trends in some of the markets which have been more challenging, mainly due to either severe regulatory restrictions on communicating with consumers, or a small initial PMI presence. Despite these challenges, we persevere in seeking the optimum approach to grow awareness and trial of *IQOS*, and we are seeing encouraging progress in a number of key cities.

(SLIDE 45.)

Like our *IQOS* product, our commercial RRP platform is present in over 50 markets. This broad geographic reach has been built over a number of years. We started our first full commercial launches in 2015 with the first 7 markets, with expansion to a further 13 markets in 2016, 18 in 2017, 6 in 2018 and 8 in 2019 to reach a total of 52. We intend to expand further, both in the countries where *IQOS* is already present and to new markets. The timing of any expansion is based on appropriate fiscal & regulatory frameworks, consumer and organizational readiness and a suitable product offering.

(SLIDE 46.)

Our international expansion has been augmented by the launch of *IQOS* in the U.S. under our licensing agreement with Altria. This was a significant milestone in both the commercial launch itself, and the PMTA authorization from the Food & Drug Administration which made it possible. As we mentioned previously, we intend to seek an additional marketing order for the *IQOS 3* device in the coming months. As a reminder, our applications to commercialize *IQOS* in the U.S. as modified risk tobacco products remain pending.

(SLIDE 47.)

I will now turn to our plans for our new e-vapor product, which will be launched under the brand name of *IQOS VEEV*.

(SLIDE 48.)

We will leverage our commercial engine and the *IQOS* brand name to deploy *IQOS VEEV* at scale, applying the same responsible marketing and conversion practices across our portfolio.

We have designed *IQOS VEEV* to deliver a superior user experience, utilizing the differentiated *MESH* technology, that is worthy of the *IQOS* brand and can perform well for e-vapor users, adult smokers considering the e-vapor category and dual users of e-vapor and heated tobacco products. As a reminder, the *MESH* technology is significantly more efficient than coil and wick systems at the same battery power level.

(SLIDE 49.)

We estimate there are approximately 25 million adult e-vapor users, excluding China and the U.S., of which around 70% are in 10 markets. About three quarters of these users currently use open systems, with many closed systems low on satisfaction in nicotine-capped markets.

Importantly, we have infrastructure and RRP capabilities in all of these markets, so the costs of commercial deployment will be primarily variable in nature. Our build-up of manufacturing capacity is ongoing and we will be in a position to launch at scale, including in Europe, starting in Q3, 2020.

(SLIDE 50.)

A further opportunity to leverage our technology and commercial engine, and accelerate growth of the smoke-free category comes from our global collaboration agreement with KT&G. As shown by the segment shares in Korea, KT&G's smoke-free Lil portfolio has been the most innovative and successful rival offering to *IQOS*. As KT&G is not present with these products outside Korea, we have the opportunity to broaden our portfolio and offer consumers in international markets a wider range of taste, price and technology choices.

(SLIDE 51.)

The KT&G portfolio includes the lil Hybrid, lil Plus, lil Mini and lil Vapor products. I would highlight the lil Hybrid in particular as an innovative, novel product with the potential to accelerate category growth. We may also use our product and technological expertise to enhance some of these products for international sale.

(SLIDE 52.)

I will now cover the strength of our combustible portfolio, which plays a critical role in our ability to grow the RRP category and reward shareholders.

(SLIDE 53.)

The combustible business' principal driver remains robust pricing. The average pricing variance over the 2008 to 2018 period of 6.5% reflects a variance between the minimum of 5.2% in 2008, and a maximum of 7.7% in the following year.

Our outlook for 2020 reflects an expected pricing variance of around 5%, with a one-off drag from the excise tax catch-up in Indonesia. However, the international environment for pricing remains robust and excise tax increases are broadly rational.

(SLIDE 54.)

The international share of *Marlboro* reached an all-time high of 10% in 2019, demonstrating the enduring strength of the brand. This also represents positive portfolio mix in the context of a total international volume share decline in 2019, which was impacted by temporary unfavorable price gaps in Turkey and Indonesia.

(SLIDE 55.)

I will turn now to our 2019 market share performance. While the 60 basis point increase in the international share of HTUs was partly offset by a decrease of 50 basis points from our cigarette portfolio, this does not reflect an excessive level of cannibalization. As shown on the right chart of this slide, *IQOS* drove significant share gains in the markets where it is present, gaining double the share lost in combustibles.

(SLIDE 56.)

Looking at combustibles in isolation, a degree of share pressure in *IQOS* markets is to be expected as HTUs initially source disproportionately from the premium segment, which is more pronounced in the key cities where we are present. This modest level of share erosion is consistent with non-*IQOS* markets, where geographic mix and the temporary factors mentioned in Turkey and Indonesia were key drivers.

(SLIDE 57.)

Lastly but very importantly, I will cover our drive for a sustainable operating environment and positive impact on society.

(SLIDE 58.)

There is increasing focus on ESG for public companies, and we place great importance on the areas where we have the largest impact. Although at its beginning, we believe the way ESG investing is currently applied is not yet capturing the power of the process to make true change happen, as it mostly uses negative screening – which tends to exclude controversial industries such as tobacco. This does little to incentivize companies and industries to effect positive change, or more importantly to encourage change in consumer behavior.

ESG should not only consider operational aspects of a business, but also the societal benefit of true product change. What a company makes is at least as important as how it makes it, and not all companies within an industry are the same. By far the biggest positive impact PMI can have on society is by replacing cigarettes with lower-risk alternatives. This is at the very core of our corporate strategy and sits atop our sustainability priorities, which are shown here.

(SLIDE 59.)

Our most important achievement is that close to 10 million people have already stopped smoking and switched to *IQOS*, and our aspirational target is to switch more than 40 million smokers by 2025.

Of course, we will not stop there. We show here some of our ESG targets which include measures to help eliminate child labor in our supply chain, and to achieve manufacturing carbon neutrality by 2030.

(SLIDE 60.)

We have made significant progress in a number of social and environmental sustainability areas, including human rights and responsible sourcing, women empowerment and best-in-class Agricultural Labor Practices. Indeed, in 2019, PMI ranked for the 6th consecutive year on CDP's A List for Climate, featured on the A List for Water and Supplier Engagement and received A- for Forest.

For those who would like more information on ESG at PMI, please refer to our Sustainability report, available on our website, and business transformation metrics in the appendix of this presentation. I will also be speaking at the Chief Executives for Corporate Purpose 2020 CEO Investor Forum on Monday February 24th, which will be webcast via our website.

(SLIDE 61.)

I would now like to leave you with some key messages from today's presentation.

As we have laid out, the structural shift to RRPs is favorable for smokers, society and the industry from a revenue and profit growth perspective.

In this next phase of category development, and beyond, we have significant competitive strengths which will enable us to deliver sustainable and superior growth for our shareholders. A key element of this strength is our commercial engine which, in tandem with our cost efficiency focus, supports ongoing margin expansion and strong cashflow.

We continue to maintain the leadership of our strong combustible portfolio, which provides the financial resources to further invest in RRPs.

Finally, we remain confident in our 2019 to 2021 targets and will continue to generously reward shareholders.

Thank you. Jacek, Martin, Deepak and I are now happy to take your questions.