



PHILIP MORRIS  
INTERNATIONAL

# **Philip Morris International's 2023 Investor Day**

Thursday, September 28, 2023

Transcript

## **James Bushnell**

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### **Introduction**

Good morning, and welcome everyone to Philip Morris International's 2023 Investor Day here at the Operations Center in Lausanne, Switzerland. We are very pleased to have you join us today either in-person or via the webcast. I am James Bushnell, Vice President of Investor Relations and Financial Communications. This event is being video webcast live and we will post the slides to our website and IR app at the start of each presentation.

### **Disclaimers**

Let me first cover some required disclaimers. These materials are not intended for consumers. The purpose of these materials is not advertising, promotion or marketing of PMI products to consumers, and they should not be regarded as an offer to sell or solicitation of an offer to buy any PMI products. Our products are sold only in compliance with the laws of the particular jurisdiction in which they are sold.

### **Forward-Looking and Cautionary Statements**

Today's remarks contain forward-looking statements and projections of future results. I direct your attention to the forward-looking and cautionary statements disclosure in today's presentation and press release for a review of the various factors that could cause actual results to differ materially from our forward-looking projections or statements. We issued a news release this morning that outlines some of the main news announced with today's event. You have a copy on your seats, and it is also available on our website and IR app.

### **Glossary and Key Terms and Definitions**

A glossary of terms including the definition for smoke-free products as well as adjustments, other calculations and reconciliations to the most directly comparable U.S. GAAP measures for non-GAAP financial measures cited in this presentation are available on our Investor Relations website.

Growth rates presented on an organic basis reflect currency-neutral adjusted results excluding acquisitions and disposals. As such figures and comparisons presented on an organic basis exclude Swedish Match up until November 11, 2023.

### **2023 Investor Day: Thursday, September 28, 2023**

Let's take a quick look at the agenda for today. We will hear from Chief Executive Officer Jacek Olczak, Chief Financial Officer Emmanuel Babeau, and our three category presidents for combustibles, smoke-free oral products, and smoke-free inhalable products. We will also have presentations from Badrul Chowdhury, our Chief Life Sciences Officer and Matt Holman, our Chief Science and Regulatory Officer U.S. We expect the Q&A session to start at around 3:45 p.m. Central European time and last for around one hour, taking questions from those investors and analysts here in Lausanne.

We will be taking short breaks during the day when the webcast will pause. After the webcast ends at around 5:00 p.m. CET, those attendees here in Lausanne will have the opportunity to participate in select breakout sessions, and spend time with our management team at dinner.

Now let's get started. We will shortly welcome Jacek to the stage, but first let us share with you an introduction to PMI's unique transformation.

## **Jacek Olczak**

*Chief Executive Officer, Philip Morris International*

### **Introduction**

So good morning. Just in case you don't know me I'm Jacek Olczak, Chief Executive Officer. Welcome to the 2023 Investor Day.

I understand that some of you had the opportunity to see our R&D or Cube Center in Neuchâtel yesterday, and to get a bit of insight of what we have on science, but also what we have on product development. So this is our internal kitchen but you know if you want to run a very successful and a good restaurant you have to start with a good kitchen, and I believe this is what PMI has in its domain.

So we have a very exciting day in front of us where you will have an opportunity to listen to the leaders of our organizations from a category perspective. We also have regional presidents somewhere here sitting in the room. You'll have an opportunity also to touch base with them during the break also during the evening. So feel free. I mean we are very happy with what we achieved today, and we are even more happy to share it with all of you what we have done and what is in front of us.

### **Unprecedented Pace and Scale of PMI's Transformation**

So we have come a very long way since we started the transformation. Some of the faces I recognize were in this room, and I believe it was 2014 Investor Day when we presented the charts that Philip Morris will be launching the Heat-not-Burn products that we were talking about, how we see this category evolving over a period of time. We talked about P1, which is Heat-Not-Burn, P2, P3, and P4, which is e-cigarettes.

I have to admit for the record that at that time we didn't have a P5, which is an oral category, but the things are evolving and evolving in the right direction. So we are almost ten years from when we started, and it was quite a journey but a very successful journey. We are switching adult smokers to better alternatives such as *IQOS* and *ZYN* and transforming I believe our company to be not only a great business, but also a sustainable business. And despite the great achievements, which you have accomplished over the last nine, ten years, the fact is that there still are 700 million smokers globally excluding China, which constitutes or presents the significant potential for PMI. We closed last year very successfully the acquisition of Swedish Match which is not only a great company with a great brand, great product, squarely fitting into our smoke-free strategy, but also is accretive to our growth. And I think we are about to put the additional big step into the U.S. market, which was always our dream that if we want to make this company a global, truly global leader in that category, in the nicotine category, you cannot ignore the most profitable and the most sizable nicotine market, which is the U.S. So we will be talking today about this untapped potential, which still is in front of us, but also very much in front of *IQOS* when we come to the U.S.

**IQOS: Creating \$10bn+ Smoke-Free Business in Under a Decade** Before we go to the core of the presentation, as I said, I am and the whole management are extremely happy with

what we have achieved over the last nine years. So, I took the privilege of comparing *IQOS* and putting in the context of many other known companies and we used as the measure how much time we needed with *IQOS* or the smoke-free products if you like to cross the bar of the first \$10 billion of revenue, and how do we compare it to other well-known companies. I think we really are very proud and very happy and even more happy that if you look at the green dots, which we marked here, how many years we needed to start returning the positive results of this transformation, so it's not just the revenue but we also watch very carefully the full economics and the bottom line of this revenue. So I think you will enjoy this slide, feel free to reproduce it in your reports, it's for free.

### **Agenda**

Okay, let's go to the core of my presentation. I will cover a few very important topics. One obviously is us leading the smoke-free transformation, so I will spend a few moments about the regulations and how we see regulations, how they can be accelerator or decelerator of our growth. Obviously, I will cover a little bit in more details and even in more details Emmanuel will cover 2024-2026 growth algorithm, but I also have to admit that as we always focus on delivering the current results looking at the mid-term, I think it's our job also to start seeing how we see this company in the much longer horizon, i.e. what's in it for us 2030 or beyond.

### **From Vision to Reality: Strong Progress Already Clear**

So I think the number speaks for itself. We have invested so far more than \$10 billion behind the product development science and commercialization on *IQOS*. This generated us, if I add now Swedish Match to our results, about \$12 billion of net revenues. Yes, we are above the 35% of the total revenues are coming from smoke-free products. We are available in 80 markets so far, and it's very important because remember that we have put this aspirational target of reaching 50% of our net revenues from smoke-free products by 2025, but the reality is that PMI is nothing else than the sum of the parts.

So, what we're really watching is how many markets we're making progress, and market by market we need to cross that bar and go higher. So at the end of Q2, 2023 we had 23 markets cross the bar over 50%, and obviously this includes countries like Japan, which was on the forefront of the smoke-free journey. We also allocated massively our resources from behind cigarettes, added new resources, and net-net three quarter, 75%, of our total commercial resources are being spent behind smoke-free products, all the different platforms, and essentially 95 plus percent of all the R&D resources, scientific resources are being spent behind smoke-free products. So we're essentially shutting down the resource pipe coming to cigarettes and investing behind, which I think is the best for the company, for the stakeholders, shareholders and also very importantly for the smokers, our consumers.

### **Undisputed Leader of Industry Transformation**

So, we are I believe the undisputed leader of the industry growing shifts toward the smoke-free products. You may recall the conversations and opinions shared by some other industry members at the very beginning of a transformation, how many people were highly skeptical if not negative to what Philip Morris started to do, and I believe all of them have noticed. And I am very satisfied that this progress is being made, how many more other tobacco companies are jumping into the same road, and are trying to move forward. It's very important also from the regulatory and other perspective.

We have the highest investments in R&D and commercial infrastructure. And despite the fact that we want to phase out the cigarettes, we want to retain one of the many great abilities, which the company has demonstrated and put in place in the past, one of them is the tremendous potential in brand building.

This company has created such iconic brands like *Marlboro* and many others. And you may remember me, I guess at CAGNY or another conference, I said if we build *Marlboro* we can build a second *Marlboro*. And I think we are on a good path to achieve this one. So brand equity for us in addition to the product innovation is a very important component of our play. Hence, we very much always focus on the premium part of the portfolio, which I believe the brand if you like is the very good basis in order to occupy that premium positioning in any category in which we want to compete. We have made the tremendous effort over the last ten years of organizational transformations; we will not talk much about our people today but about 40% of the middle plus management is coming from outside Philip Morris today. So if you compare it to many other companies, which are going through the massive transformation, this is the massive organization change to which we undergo, but it serves us very well. Many of my colleagues from my senior management teams are from outside Philip Morris, and they brought an expertise from many other industries, which always helps in opening and widening the horizons.

Obviously, we have leading scientific capabilities and science for us and the rigor of scientific validations and standards is very important, which serve us also well. You know that today, with our *IQOS*, but also with *Swedish Match*, we are one of the few holders of MRTP authorizations in the U.S. If you consider today as the highest bar in order to demonstrate that your products have been properly validated, I mean it speaks for itself. And obviously as on the cigarette business we do recognize and we take it extremely seriously that these products contain nicotine, they're not for everyone and whether by-laws or not by-laws, just acting like a normal human and also a parent, these products are not for underage people.

### **Leading Smoke-Free Portfolio with Two Blockbuster Brands**

So we're leading these smoke-free transformations with the two today iconic, almost iconic brands. One is *IQOS* with \$10 billion annualized revenues.

I mentioned that the dream was that we build *Marlboro*, and we can build *Marlboro* number two. You may be surprised, but about \$10 billion of revenues of *IQOS* puts *IQOS* on the same podium place as *Marlboro*. So by the financial performance perspective from a revenue *IQOS* is *Marlboro*. Okay on the equity side, Stefano will cover this more in detail, but we're getting where we want it to be.

*ZYN*, which is more in delivers more today, more than a billion dollars of annual sales, I think also is in a path to occupy in the category, does occupy in the category this place of being a global leader.

### **Strong Leadership in Most Attractive SFP Categories**

Now *IQOS* and *ZYN* obviously are the leaders in their categories. I mean here in this chart you have a segment shares. And if I take a total of the Philip Morris portfolio and divide it by the total of the market of a smoke-free product, we have about the 50 percent market share. On a cigarettes underlying share is 23, so we are well above double the average cigarette share.

In heat-not-burn, despite the fact that we nine years in the making in a commercializations and being challenged in a number of places with more or less aggressive promotions, entrants, product innovations etc., we still hold a very strong three quarters of the share. There are a number of markets which actually we're sitting at 80-90% of a segment share.

Nicotine pouches in the US 66%, on the total international base is 36%, and E-Vapor which I cover later our share of the segment is about one percent.

### **On Track to Exceed Key 2021-23 Growth Targets**

The smoke-free product strength and this rapid transformation is obviously was driving our financial performance. We expect to exceed our three years' target announced in 2021, and based on the guidance which we issued today for the full year of 2023, I think we should close this period with the CAGR on the shipment volume of a positive 1.5% revenues, which should be somewhere around the 7.5%, and the diluted EPS adjusted diluted EPS 11.5%. So very comfortably above the targets which we have set a few years ago despite the fact that as you know very well the word during those period was turned to be different that we had in the initial assumptions.

So weather forecasts are not very accurate, but the forecast with regards to the geopolitical economical stability even worse than the weather reports, but we still delivered the results.

### **SFPs Have Important Role to Play in Tobacco Harm Reduction**

Let me now move to the regulations okay and how we see the role of the regulations and how they can play in the in the smoke-free journey. This slide just illustrates something, which intuitively many people know, but it's you good always to remind. In a green charts you have a decline rates of a cigarette market if there is an absence of a smoke-free product in this case *IQOS* right, we just used the *IQOS* markets for this presentation.

In the light blue, you'll see how the total cigarette market is declining with the presence of *IQOS*. And you can clearly see that the access giving smokers, adult smokers, access to cigarette to alternative to cigarette drastically, drastically accelerates the declines of the market, and this is despite the fact that most of the markets, the ideal set of regulations fully recognizing, fully recognizing the product's potential with regards to the risk reduction and the harm reduction, tobacco harm reduction is still not there yet. But this is what we see is the five years data set even despite the fact that there were some fluctuations as you remember around the COVID time with the recovery in 2021 every market when the consumer smokers have an access to smoke-free product starts going into rapid acceleration of a decline.

### **Policy Principles to Better Enable Switching to SFPs**

Now there are four components the way we look at PMI, which somehow should be reflected in the regulation. First of all is the availability. It's difficult to sell the new product if the product is not available, and is not allowed. It's very simple. I mean people will not buy the product which doesn't exist. If product is available, it's difficult to expect that people will ask about this product if they are not aware about the existence of the product, not aware about the benefits etc., etc., about this product so this is whole chapter around the availability and awareness, which somehow the regulations have to start recognizing.

There is obviously the big component of acceptability. Okay, we have conversations in time to time. There is a role of flavors, also the risk associated with flavors, but it all I believe can be

managed for the very proper regulations, and obviously with the right enforcement of these regulation.

And at the end of the day, these are consumers which are paying with their own hard-earned money for this product so affordability somehow has to come to play; as you know very well products like IQOS enjoys the tax differential, which on the one hand also recognize the fact of all of the investments, which we have done in the science technology, etc. These products are not cheap in a development, but also very importantly part of the tax differential is being passed on to consumer, so incentivize consumer through economic means to accelerate the switching to this product.

So if we cover the regulations both from the product marketing use and the affordability, i.e. the tax, etc., we're *essentially* curating the climate, which may accelerate even further the progress of the smoke-free products.

### **Countries Moving Towards Sustainable Regulatory Policies for SFPs**

On the next two slides, I just give an example of the progress which was achieved with the regulations over the last three years, since 2021. So you have a number of markets, which either are start recognizing tobacco harm reduction as the fundamental sort of the direction based on which the federal regulations are being developed. But that's very important because when we talk with the governments and why the product should have a differentiated regulation. Okay, well, because if you don't believe in tobacco harm reduction you will end up with the wrong legislative solution.

Why this product should enjoy the lower taxation, heat-not-burn, e-cigarettes or pouches? Well, if you don't believe that this product presents the potential for the lower risk than cigarettes, well, then why I should receive the tax discounts, or lower tax rate. But more and more governments are now applying that logic that, for example, when it comes to fiscal, a tax has to be proportionate to the risk. Otherwise, not only are we sending the wrong signal to smokers, but also not incentivizing them, and are not reaping the benefits or enjoying the benefits of them converting.

### **Countries Moving Towards Sustainable Fiscal Policies for SFPs**

So you have printouts that will be posted. You can in detail read, which markets and what progress we have made over the last three years. Are we happy with this progress? Absolutely, we are happy with the progress. Is this matching our aspirations? No. I mean, to be very frank, we could have done much better in many countries if we didn't have to go and waste our time, frankly speaking, on convincing regulators, on allowing the product or being able to talk about the products. But I think by the fact, the progress, how many markets already are adopting or countries are adopting these regulations, again, it's based on a tax, tobacco harm reduction.. I think the wave is there. It's just a matter of time when this thing is going to be essentially covering the whole globe.

**Responsible Marketing Practices Complement Effective Regulatory Policies** Now, having the regulations is one thing. It's a very important thing, and you and myself are reading this very often and sometimes we observe it during the market visit. These products have to be marketed in an utmost responsible manner. So the fact that the people below the legal age should have access to the product, and frankly speaking, giving information about this product comes without any, I mean, this shouldn't be a topic for a discussion. But we should also

remember, okay, that there is a way of how we can protect the youth and how we can offer this product to adult smokers. And we have demonstrated this with *IQOS* when we measure very diligently the impact of *IQOS* on the market. And in none of the 80, 70 markets, excuse me, where *IQOS* is present, we have triggered any, any worrisome levels of the youth usage or underage usage. So there is component of a product design. There is a component of a responsible flavor marketing. There is a component of reinforcing the discipline at the trade level. So if in this augmented product is delivered, you can perfectly deliver the product to the intended audience, i.e., adult smokers, and isolate or protect youth. And I wish the same will happen, especially when it come, for example, to electronic cigarettes category or some others.

### **Nicotine Misinformation Slowing Tobacco Harm Reduction**

Now another component with which we're being confronted, this is the total massive misinformation about the nicotine, which obviously sends the wrong signal to smoker. Now people don't like to hear this when I say, or when we say that smokers love smoking. Whether we like it or not, they love smoking. Yes, they are aware about the risk associated with smoking, but the fact that they're reaching back to the cigarettes is because they love smoking.

So if we tell them that they're making an effort of changing a ritual, maybe changing the taste, maybe paying a different price for the product, is not worth an effort because the products are equal or worse than the cigarettes, guess what the smoker is going to do. He's going to buyback the pack of cigarette. So, it requires some mature approach into this problem and a dissemination, the false information about the nicotine. And yes, nicotine is addictive, but the nicotine is not the prime cause of the harm caused by the smoking, it's smoking which causes that thing.

By the way, it's the same nicotine, and Badrul will talk about this in his presentation. It's the same nicotine, which you have in a nicotine replacement therapies\ because nicotine replacement therapies have not replaced nicotine. So this is nicotine in a replacement therapies, and a nicotine in a smoke-free product is the same nicotine. And these products, the NRTs, are being allowed for the long-term use.

So can we – with the conversations with regulators have to come to that point that we'll have to address nicotine from addictiveness or dependency perspective, but also realize one thing, that we should stop this confusion about the nicotine in a smoker's mind.

### **Restrictive Regulations Prevent Adult Smoker Access to Better Alternatives in Many Markets**

So the net result of where we stay with the regulation is that out of the 2.8 trillion markets, sorry, cigarette market excluding China, about the 20-18% is completely not accessible. These are the markets, and you have a list of a few examples of these markets, Turkey, India, Vietnam, also Hong Kong, Australia, Singapore. So you can't really draw the conclusions that there are markets which are less developed or more developed when they come with the wrong regulation. It may go across. So it's not the level of income or education, which make people making the wrong decision.

These are the markets where the smoke-free products are not allowed. But guess what. These are the markets when the cigarettes are allowed. So it will take us a time once we untangle almost religious type of views about the subject, and go back to the science and what makes



sense, what should happen. Obviously, this would create opportunities for our smoke-free products. We'll see how much time it's going to take us to open these markets.

### **Restrictive Regulations Limit SFP Growth**

Once the market is open, there is a role of regulations how much we can say about the products, right? So this was my case. Product is being legal. I can go to the market with the product, but I cannot say anything. And most importantly, I cannot tell consumers that these products are better than cigarettes, which defies the logic because why people should switch into these products.

We put a measure here, I think it was six years since the launch. What market share we can achieve if the regulations are favorable or regulations are less favorable? A product is allowed, but I cannot talk about, we cannot talk about this product. That's the difference of a five share point. So yes, you can, if you put the product in a market, somehow consumers will figure it out that this product exists, will try, will adopt. That's the 2% after six years. And in other markets which we can disseminate more openly the communications, the information about these products, you have a 7%. We also have a best in class market that after six years we can drive it to 15%. I will talk in a few moments about the US potential, and actually from that perspective, US is much more skewed to the left part of the slide than to the right part of the slide.

### **Smoke-Free Transformation Drives More Sustainable Growth Model**

Okay, growth phase 2024-2026. So this transformation from a financial or business model perspective is essentially we're moving a combustible into the smoke-free. You know very well, especially those of you who have invested, for which we're always very grateful, and those who covered us for the long time. The business model on the combustible was you had the negative volumes offset by the positive price plus minus your mix.

Cogs on the product, which for the last 20, 30, 40 years is essentially the same, so you can drive the massive productivities at your cogs level results in pretty attractive returns at the bottom. When we go to the new business, the new business, smoke-free business, is much more driven at this stage by volume growth. Then we pay deliberately less focus on the price, knowing that the price, especially when we log into the tax regime, i.e., more specific than at volume, we always can come and start using these levers, but it's very important that we focus on the volume growth, gain the share, convert the smoker.

Obviously, the cogs now is far from being optimized because we need more time to roll out all these innovations which you have seen in the Cube, and those which they have not shown you in the Cube, which are even more exciting. And once we roll it out, this business, this part of a business will go exactly from the same dynamics that we used to have on a cigarette, but we need to understand one thing; on a cigarette business, we have uninterrupted 40-plus years of optimizing the same construction of cigarettes when it comes from the cost. And here we're talking about the new investments, new factories, new machineries, new designs etc., so we need a period of time to stabilize, but I think Emmanuel will cover a little bit more of this thing. So we're going from the volume offset, volume declines offset by the price, by the massive volume growth, with some smaller price component at this stage of our development.

**Combustible Leadership Enhances Ability to Shift Adult Smokers to SFPs**

Before we go to the algorithm etc., and Werner will give you more details, but just a quick zoom on the combustible business. We have said from the very beginning that the fact of our transformation. The fact that we want to go smoke-free doesn't mean that we'll give a free lunch to competition, and we'll try to retain our share in a combustible business, and this is exactly what we're delivering, while at the same time maintaining the *Marlboro* leadership.

This is very important to us. Again, you will see this in Werner's presentation because it gives us much less restricted access to trade, but also to the consumer. The fact that adult smokers who have not switched to this product, every day buying at least 20-plus percent of the market, i.e. our products, give us ability to every day and trying to nudge them to convert into these products. Without this whole thing, if we would run the business on a standalone basis, this would have to be done differently. We wouldn't have an access to the trade, and definitely we wouldn't know where the smokers are.

**Multicategory Smoke-Free Strategy, Prioritizing Heat-not-Burn and Nicotine Pouches**

When I come to the new, when we come to the smoke-free product, okay, obviously our focus is on a heat-not-burn, now also on oral. I know that some of you are questioning what Philip Morris is doing about e-cigarettes. From the very beginning, we're saying that we see e-cigarettes as an important component from the product portfolio perspective, squarely fitting in the tobacco harm reduction perspective. But the other parameters, the dynamics which we observed yesterday, today in the marketplace, which led us a little bit to allocate the resources behind something, which is much more profitable and sustainable from the very beginning, like a heat-not-burn or pouches. And I keep on working on the e-cigarettes, but just keeping an eye rather than doing something, which we don't think the market is organized in a way today which would warrant the sustainable success rather than just the short-term success.

**Focus on Highest Growth Smoke-Free Categories...**

This is how we see markets for the next few years' period. The total nicotine market somewhere between a 0 to minus-2, which is everything together, with account to combustibles going between a minus-2 decline to minus-4 declines, and the smoke-free products in total growing at about a 10-15% rate.

Within the smoke-free product, we believe the fastest will be nicotine pouches, also to some extent because of the much smaller presence of size today, followed very strongly by the heat-not-burn, which is a sizable market and we believe will continue growing at 15% to 20%, and followed by the E-Vapor still with attractive albeit a notch lower growth rates.

**... With Most Attractive Financial Returns**

We're looking when we allocate the resources and when we want to, which are the battles we need to win short, mid-term, and which of the battles are maybe for the longer term. We're also looking of what the underlying conditions in the market. As I mentioned, these products require quite the investments in the development, quite the investments behind the science etc., so it's very important that we're also looking from economic perspective returns.

If a cigarette, we take a product contribution per thousand, assign the index of 1, the value of 1, then the IQOS international basis today, so we're talking LMIC markets, developed markets,

and Emmanuel will talk about the margin differential. This gives you the product contribution factor of 1.5x versus the cigarette. So it's about the nicotine pouches.

Now we go to the US, and this is comes the whole attractiveness of one of the component also of our future, additional future growth is the *IQOS* US, we think will be at the level of a 3 to 4x compared to international cigarettes. I'm not comparing this to the US cigarettes because in our case, in particular, it's irrelevant. We're not selling cigarettes in the US. We don't have any intentions to sell cigarettes in the US, therefore the cannibalizations will be, okay, we said negligible, but from cigarettes, it's absolutely zero, frankly speaking. And US then is a six times the factor of the profitability measured by the product contributions on international.

If I was to put these cigarettes today, they would land somewhere about the 1.2, 1.3x between International and *IQOS* International, but here is one factor. This is a measure per thousand of cigarettes. Now, we in our acquisition of a consumer, so before we go to the volume, the massive spending is behind the cost of acquisition of the consumer. And if you now add to this lack of loyalty, very heavy price discounting, no product differentiation and so on and so on around the cigarette, the factor per consumer is becoming, at this stage, much less attractive.

So here the math which we're showing, the calculations we're showing per thousand if I would convert it into per user, acquired user, actually this would reflect exactly what we are having in terms of our priorities for the next few years.

### **The Opportunity for *IQOS* Remains Vast**

Now, let me talk about the, so yes, we had a significant growth to date etc., but the opportunity, and this is a good part of the story, is even bigger than what we have achieved today. So *IQOS* is currently present in the markets representing an estimated 1.3 trillion units. This is about a 47% of the total industry volume, as always, excluding China. There is a further 1 trillion units, or 35, which reflects the markets where *IQOS* is allowed, but not yet available commercially. These are the markets which we have not opened. We haven't started the commercialization there.

Some of these markets are, for example, like Indonesia, when we have all full-fledged infrastructures, you know very well, but due to the product characteristics etc., we're working on developing a product, not in the white space, which is a classical tobacco flavor space, but there's something which 95 plus percent of the market enjoys, which is a Kretek. And that Kretek, if we deliver this in a heat-not-burn platform in the satisfactory level, so remember acceptability, which I mentioned is very important for a consumer switching to that product, will open these markets.

We do sell technically *IQOS* in Jakarta, but we sell it on a test market. This test market, by the way, is almost approaching 100,000 consumers, but we still call it the test market on a white version of a, if I may call it like this, white version of *IQOS*.

And one of the biggest markets, which is not in our schedule, in our portfolio of markets yet, but we're just about to open, is US. So yes, these are the markets which, from the regulatory perspective, we can go in for a variety of reasons. I have a lack of infrastructure and readiness like the US or the product like Indonesia, we'll be now also focusing during this three-year period of tapping into this market.

**Further Growth Opportunity in Existing IQOS Markets**

The remaining 80% of the markets I covered earlier, these are the markets where we're working on the regulations, but today the products are banned, illegal. Now, if I just stay for a second now in the markets where we are present, right, so this 1.3 trillion markets where we have about the 10% of a share. And we try to segment the markets in we use the terminology from other industry vintage, but the markets when we're less than four years, markets four to seven and above eight years. It's maybe we're demonstrating the obvious, but the longer obviously, we in the market, the share continues to grow. Okay.

So in the markets above, shorter than at four years, we get about the 2% share, but the markets which are eight plus, we are 18% actually, even more as Japan numbers etc. So it's fair to assume that with a passage of time, okay, the longer we stay in the market, the share grows in the existing market. If I just freeze the eight years, sorry, 15%, then all markets will come to the 15%. There's a 75 billion out there for IQOS with just, it's a matter of time when we'll get it. That's an opportunity.

I take a different view, and you remember on some of the presentations in the past years this comparison, that our strategy of rolling out or launching the product in a market, we start in a key city, then we go to the smaller cities, and ultimately, eventually, we cover the entire geography. So it's always some lagging share of the national versus key cities.

So IQOS share today weighted averages in a weighted basis. In a key city, it's about the 15%, national at 9%. If 9% one day is going to become 15%, which I will demonstrate in a second, there is all track record, how does this happen, is a 70 billion in front of IQOS.

**National Shares Reaching Prior City Levels Within 2-3 Years**

Remember this slide, to which I was referring before, you have a light blue national shares, dark blue or navy blue, whatever, dark blue, the city shares, and you could see the perfect correlations that the city shares always goes ahead, and a few years later, national shares is at the level of the previous city share, if not actually surpassing this whole thing while the city shares continue to grow. So this is almost in a continuity. So again, if the national will, over a period of time, equal what we today have achieved in a given market at the city level, that's 70 billion units in front of IQOS.

**Driving IQOS Growth through Innovation**

Now clearly, so the trends are there, so therefore is also our confidence, and we'll talk shortly about our outlook for the next three years, but also is very importantly, do we have the right products, okay. You know, you've heard me, well, I was excited about the IQOS, actually I think out of the 1 billion smokers, I must have been smoker number two, who converted to IQOS. I believe smoker number one was our Chairman, Executive Chairman, and then we went outside. So I was very excited about IQOS. I was the heavy smoker before, I have to admit. I started smoking before I joined Philip Morris because some people think there is this magic that if you join Philip Morris, you have to smoke.

No, I did start smoking before I joined Philip Morris, for the record, okay. It's not Philip Morris who converted me, but Philip Morris gave me IQOS. So for 11 or so years, from one of the first prototypes, I haven't touched a cigarette after this. So my excitement about the IQOS is not

only that I am Senior Executive in this company, I am also a smoker when *IQOS* helped solving my problem.

When I saw *ILUMA*, this is – I don't know what else can excite smokers than the thing like *ILUMA*. And when I know what we have for *ILUMA* going forward, then you have to start temper your excitement because you're running out of the scale. This is fabulous, this is cool, this is the best thing that humans could develop for the smokers to go and address their problems. And my excitement, even my marketing, Chief Marketing Officer is a little bit more toned down, and he is a marketeer and Italian and I am Polish, but my emotions around *ILUMA* are going through the roof. And we can see this in the marketplace. You could see what difference *ILUMA* makes.

### **Enhancing *IQOS* Portfolio to Switch More Adult Smokers**

Now, *ILUMA* is not just about the device, right? The device is this user interface, if you like, between a product and the experience. The real experience is coming from a consumable.

So we have a line-up of, in addition to the fabulous product portfolio which we have today, over a planned period, we will be launching the products like *TEREA CRAFTED*, which is about what we call the curated collection of tobacco flavors, and the flavors are coming not from the synthetic added flavors, but from the mixes with the botanicals.

So I believe there is also another reason for the consumers to continue to stay with *IQOS* and switch to *IQOS*. We're also talking, the more *IQOS* grows, obviously, we're entering this part of the market when affordability for some smokers might be an issue, therefore we're developing products like *DELIA* or *SENTIA*, which we have in Japan, okay, also to allow us to start playing the portfolio game. This is all obviously under the umbrella of *IQOS*, but I think we need to start introducing this portfolio game going forward, otherwise we also will not have enough of the pricing flexibility.

*BONDS* We're also, as you know launching on a test level, on a test market, two markets, and we're working on the further improvements, I think soon, actually, in the next period, you will hear more about the *BONDS* and the *BLENDS*, which is a consumable, which is external heating. Stefano will cover about this whole thing, but it's very important that these match the flavors for some part of the smoking populations are important, but the vast majority of smokers are looking for the true, uninterrupted tobacco flavor, okay. So we need to go and expand the portfolio there. We also, as you know have collaborations, co-operations with KT&G, when we have these two licensed products, *liil* and *FIIT*, as the consumable, and they also very nicely fit into our total portfolio architecture.

### **Introducing *LEVIA*: Zero Tobacco, Rich Flavor Discovery**

We're also working on the products, and I'm pleased to announce that we'll be launching this year a product which has *IQOS* construction, heat sticks of *IQOS*, *ILUMA* construction, has no tobacco, but it delivers the flavor.

So we're also trying to address some of the consumers, which maybe they're coming to that point that the tobacco might be, they don't like the taste of a tobacco, they just want to have a rich flavor discovery. So this will be zero tobacco, nicotine containing product with the flavors, served by the same device. So *IQOS* device or *ILUMA* device is becoming the multi-purpose device. I can use my tobacco flavors, I can use my tobacco and botanicals, there might be

different temperature profile, so the device has to be to some extent intelligent in a sense that whatever consumers put out of the line-up of *ILUMA* consumables, the device will provide the best experience. The same will be the case here with *LEVIA*.

### **Growth Opportunity in Markets Where IQOS Not Yet Commercialized**

So let me now go to the markets, where we are not yet, but we are allowed to go there. I mentioned briefly about Indonesia, but let's focus on what I think is the real, very exciting story, which is the US.

### **Significant Opportunity in World's Largest SFP Market**

So we all know it is the largest total nicotine market by value. And in addition to this, it's even more attractive than the international market.

So we have a sizeable opportunity, an accretion opportunity in front of us. There are around 47 million adult nicotine users, and about out of this 47 is about 30 million adult smokers. Nicotine industry volume of nearly 300 billion unit, and as I mentioned before, we're not selling cigarettes in the US and we have no plans, intention or whatever of selling cigarettes in the US, so we can enter this market without the cannibalization.

You could see on the slide here, composition of the market, 62% cigarettes. Nicotine pouches, there was a lot of excitement quite rightly about this, but the nicotine pouches barely scratched the barrel with a 2% E-Vapor, 16%. There's no heat-not-burn today in the market.

### **IQOS: Untapped Future Growth Driver**

So we think, based on all the experience we have collected, we have lived through in the 70 markets and the product improvements and everything, I think that by the way we think by five years, let's put it that way, five years since we have *ILUMA* in the market, *IQOS ILUMA* in the market, we should be able to achieve 10% of the total market. We will be filing for *ILUMA*, Matt will talk about this later in his presentations. We'll be filing for *ILUMA* PMTA October, so next month. And somewhere, we believe, we expect that somewhere at the end of that period, *ILUMA* will be available.

Now, if that scenario plays out, our launch next year, when it comes to *IQOS* Blade product, which will be very targeted and focused on literally a few locations, in order to prepare the resources, etc., for the best in class innovations which we have because of also impact of that innovations when it comes on a commercialization engine. So we believe, if we properly read the American consumers, if we consider the size of the market, because yes, the market is very sizeable from a nicotine cigarettes perspective, but this market is a very large market.

This is essentially Europe with x number of countries. US has to be also treated from the same perspective, so we are very, very mindful how we put the resources behind which horse, frankly speaking or which *IQOS*. So this is *IQOS*, *ILUMA*, this is our focus.

### **IQOS: 10% Share Reached Within 6 Years in Many Markets**

While in the meantime, we will be enjoying the further growth of *ZYN*, so we can have a better use of resources. Now, when I said this 10% five years, and I said based on experience, this example of the markets of how many years we needed in order to cross 10% share line.

Now, US will not be Lithuania, although if this would happen, massive upside, but this may not happen. Lithuania took us two years, but somewhere between Greece, Portugal, Italy, I think

that's reasonable to assume that within five years or so, we should be able to cross that 10% market share.

**ZYN: Leading the Way With Strong Premium Brand**

Now, as I said, so we're having *IQOS Blade*, which we're regaining on the US market as of May next year. We will start doing our city, very focused few cities launches and a test, which will not drag a lot of resources, so we can have the right resources to support continuous growth of *ZYN*.

And then once we get the authorizations of *IQOS, ILUMA* then we start going and rolling out ultimately to the national level. So I mentioned that the nicotine pouches category within the total space in the US is about 2%, so as I call it, barely scratch the barrel of its potential. *ZYN* already today is the \$2bn retail value brand. And this is within five years, depends now how we count it, but within five years of the national launch.

Remember when we've been announcing the acquisition of Swedish Match, and we spent quite a space on our release on explaining what a strategic fit is, is not only from a product perspective, but also from Swedish Match right approach to the responsible practices. So it's not only you had the company which we acquired, which yes, it was pursuing smoke-free, but was taking this in a very responsible matter.

So therefore, the whole integration of the Swedish Match from a product perspective, but from the marketing perspective, sales practices perspective is a perfect fit. So this is what is very important also for us as we know, there are quite rightly some sensitivities about underage usage. So we need to make sure that we always walk on the right foot.

We're investing and we already have increased the investments behind *ZYN* in the US this year. Also on the back you see the results of what is the growth trajectory of *ZYN*. And we're also now preparing the Capex investment as soon as *ZYN*, if we continue and I think everything indicates that we will continue. We'll need to prepare the capacity for *ZYN* for the US. So this will be in the Emmanuel's part, we address it when we talk about the cash flow and what consequences it has for the – I shouldn't scare you, we'll manage this, but Emmanuel will cover the capacity expansion.

*ZYN* grows today at double-digit net revenue, and obviously is very profitable and accretive to our results.

**ZYN: Western Region Performance Demonstrates National Potential**

I do the same math, roughly speaking, as I did on the key cities and the national.

In the case of the US, it's the west region where Swedish Match has launched the product first and then where is the national share. And you see it's the pretty same dynamics and we observe with *IQOS* with the one lead territory is being followed for the rest of the period of time. I guess also correlates very much with the time and the speed of the rollout, but it suggests the potential or indicates the further potential for the brand. We just equalize the shares to what is today in the western regions, knowing that the western regions continue to grow. Okay, so this covers the smoke-free portfolio.

**A Focused Approach to Wellness & Healthcare Business**

Some years ago, we also have opened a chapter or indicated that we want to open the chapter of what we call internally, to some extent externally, beyond nicotine. And I think that – okay, let's put it this way. We still believe that this business provides the very sizable but long-term potential, and applies especially in the territory of pharmaceutical, medical and consumer wellness segments.

We have excellent technology platform which today might be used for other products which we believe. We strongly believe, can have a play in a broader consumer wellness space, both in oral and inhalation, also supported by our acquisition of Fertin and Vectura. So I think from an inhalation space, when it comes to the consumer type of a product, wellness, medical, RX, Philip Morris in the totality has a very strong asset.

Now this is now back up with the oral delivery methods when we take the capability of Swedish Match and Fertin in different formats of oral, which today you see very much on the nicotine products, the same platforms can be used for other products. So we have made it very clear from the beginning, we're not trying to go with the heavy R&D to invent or develop the new molecule. We're just trying to look at the molecules of active pharmaceutical ingredients if you want, depends on the product, and changing the methods of administration in order to demonstrate that there is the standard of care of benefit versus the existing standard of care.

So the areas, now we have, I have to admit that when we have started talking about the beyond nicotine, we didn't know, we had a dream, but we didn't know where the dream can come through in terms of having gaining access to the US, and being able to acquire Swedish Match. So this is a massive change, which happened since the time when we started talking beyond nicotine. So we still believe in the long term potential of this whole thing, but now we have to reprioritize what we want to do in the next few years in order not to put too many things on the plate.

So what we're trying to do here is to narrow our focus, beyond that and I will cover them in a second, narrow our focus behind the few corridors of product development innovation, manage the resources so we have enough to focus, and the time is not just about the money. But the management time to focus on *IQOS* and *ZYN*, and prepare these products in these categories for the period which is beyond that.

We have declared or we have said that our aspirations were to achieve 1 billion net revenues by 2025. We will scrap that objective because we have to replace them with our priorities. So this is where we are.

Now there is one factor which I have to do. When we have created or developed that strategy, we presumably were too optimistic about how the external environment will accept Philip Morris International or Big Tobacco as many still favor to call us, playing in the space with this outside nicotine. So we had a couple of the very bad surprises, also to the extent that I would call them immoral, but let's leave it aside, when we couldn't do what we wanted to do just because the Philip Morris and the Big Tobacco was the factor determining whether some of our assets can spread their wings.

So we're also looking at the different type of configurations which allow us to maximize the potential of this capability of these assets which we have.



**Wellness & Healthcare: Product Focus Areas**

So our areas of focus on the pharmaceutical is the inhalable aspirin, is the cannabinoids for the chronic pain, so this is the investment which we have made some time ago in Syqe for the pain treatment fully Rx product with THC, and a solution for acute migraine.

On the medical, focus is on the medical cannabis. So have made it very clear if we enter the cannabis space, we're not going into entertainment part of the business. We're going strictly either pharma or the medical.

And on the consumer space, which now Philip Morris is bringing all the brand building capability, consumer, etc., capability, we will be focusing on energy and focus.

**Ambitious 2024-2026 Targets**

Emmanuel will talk also I guess about the resources we put behind it, and we already have talked about it in a Q2 with our earnings call.

So coming back to the targets, I mean we have demonstrated over the last three plus years that we can turn the company to the positive volumes. I think we're going to stay on track with this one. We're targeting a net revenue growth of 6-8%. Obviously, everything is ex-currency on an organic basis, 8-10% on adjusted OI, 9-11% on EPS, you have seen it already in the release this morning.

We also target between 180 to 200 billion shipments volume on the heat sticks, and about 800 million to 1 billion nicotine pouches very much skewed towards the US. But also Lars will talk about the plans on the international roll-out.

**Enhanced Top-Line & Strong Bottom-Line Growth While Transforming**

Just again, based on what we have a confidence in delivering these targets and I know that actually you in your reports always claim that the past performance is not the guarantee of the future performance, but it's good to see whether the company had the track record of announcing, I believe always ambitious target and delivering. You remember this was our growth algorithm from even before smoke-free times at the very early days of the spin. It was 6 to 4, 4 to 6 on the revenues, 6 to 8 on OI, and at 8 to 10 or above even actually 10 with the buyback, on EPS, and we change into the algorithm above 5, above 8.

The last algorithm was above 5, above 9 on the EPS, and the new algorithm is 6 to 8 on the revenue and 9 to 11 on EPS. The current rates, tax rates and no buyback and Emmanuel will talk, will share with you, what is our latest or current thinking about the buyback. Okay, the dots just represented what we said we essentially will actually deliver.

**2030 Vision: On Path to Becoming Smoke-Free Company**

2030, I'm coming to the end of my presentation. Emmanuel will also talk, I forgot about one thing. We also have said that by 2025, we will cross the 50% of the revenue coming from smoke-free product. I think, well, not I think, I think if we look into the numbers I know, we will very likely miss the 2025. But my view on this one is we will not miss 50%.

The question is we will miss 25. And presumably we need another year or so to go into that thing. Partially also because some markets when we have put into our forecast at the time when we're giving these targets, I have to admit we didn't manage to open.

Partially is also zero growth, which we have over the last two years from large geographies like Russia and Ukraine, and there are a couple of other factors. But my view on this one is if we said in this company, an objective, the objective is delivered. Okay, we will not go and compromise an objective.

We may need another few quarters in order to cross the line. So when we go knowing what we have in our portfolio, where smokers are going, in which directions, maybe not the fastest speed, but which directions, regulations etc., are going, I believe that by 2030, we can start crossing two-thirds of our revenues with smoke-free.

But what is more important and I mentioned this before, this is not PMI as such doesn't exist. These are all consolidations of all the markets in which we're selling or commercializing our product. We will have 60 of the markets, which are above a 50% by that time, but very importantly, 40 of the markets which will be crossing 75%. And as I mentioned, there are markets already today, you remember from earlier slides when we already closed the 50%.

So I think, when we declared that by 2025, Philip Morris will become smoke-free by the measure that we cross the 50%, people would argue is the 50% enough, but I think we're really not that far from driving the company to be almost entirely smoke-free. There will have an impact on many things which we're doing here, but I think this is a very exciting vision. And I think with this exciting vision, I finished. Thank you very much.

## **Werner Barth**

*President Combustibles Category & Global Combustibles Marketing, Philip Morris International*

Hello, just double checking you can hear me well. Very good. So thank you, Jacek, and welcome everyone. I'll be sharing more details about our Combustible business results, the underlying drivers and our objectives and outlook.

### **Solid Combustibles Category Value Creation**

Our Combustible business continues to deliver very solid results. Our leading global brands, leading in equity and leading in key consumer segments, with *Marlboro* in the driving position, help PMI sustain its value creation in the category. I will show you shortly that the main lever of value creation is our outstanding pricing engine. Our judicious and data driven approach to pricing has resulted actually in a very resilient share.

Why is all this important and what is the context of our combustible strategy? As Jacek mentioned earlier, maintaining our leadership in the category is a key enabler in accelerating legal age smokers switching to better alternatives.

### **Accelerated Combustibles Net Revenue Growth**

Looking at the details of our strong performance and starting with net revenues, our Combustible business is delivering impressive results with growth accelerating, in particular after the pandemic. We are exceeding our 2022 results, and have achieved a strong net revenue growth of 5.2% in the first half of 2023. This is obviously driven by strong pricing and some share gains, partially offset by total industry decline, albeit a smaller decline than the historical average.

**Robust Pricing Engine**

As just mentioned, pricing continues to be our main growth driver. And in the current inflationary environment, organic pricing growth has reached a record high of 8.4% in the first half of 2023, with notable contributions from markets like Egypt, Germany, Indonesia and the Philippines. Obviously, consumer prices would also be impacted by excise tax pass-on and some trade margin adjustments. The robustness of our pricing engine is underscored by two standout elements.

Firstly, over the last five years, an overwhelming majority of our markets yielded a positive pricing contribution. And secondly, our pricing base is highly diversified, with only three markets accounting for over 10% of total pricing each.

**Moderate Industry Decline, More Pronounced in SFP Markets**

Let me now move on to the total cigarette industry. Overall, the total industry is declining at a moderate rate of 2.2%, mainly driven by secular trends, regulations, and obviously some pricing elasticity. When looking at the industry dynamics in high-cost markets, we observe, and you have seen it in Jacek's presentation, unsurprisingly, a much more pronounced decline of approximately 5%, which we believe primarily reflects the continuous growth of the smoke-free category.

In Japan, one of our most progressed markets, the total cigarette industry volume declined at even a faster pace. Other markets experienced a significantly lower industry decline rate, certainly due to the absence of smoke-free alternatives, and in a large part as well due to a rising population. Moving forward, with the growth of the smoke-free category and expansion to other markets, we expect higher combustible industry decline rates.

**Resilient Premium Segment Despite Downtrading**

Within the combustible segment, the industry continues to experience polarization. The premium segment is showing resilience. The medium segment is continuing to decrease at an average rate of 70 basis points per annum, driven by legal age smokers down-trading to value brands. And this trend is very consistent across many markets.

With the low and super low segment now constituting more than 50% of the world's consumption, a legitimate question is to what extent the growth of this segment impacts our future mix.

In our top ten pricing markets, if we look at the unit revenue rates in local currency over the past four years, indexed to those of the premium segment in 2018, we see that today's unit rates of the low and super low segment represent slightly higher levels than those of the premium segment of four years ago. Concretely, the rates for the low and super low almost doubled, while at the same time those of premium increased by a factor of 1.6. This evolution demonstrates that the category economics remain intact and attractive, even in a down-trading environment.

**Positive Share of Category Evolution**

Turning now to our competitiveness within the cigarette category. Over the last three years, our share of category has steadily grown compared to the same period of the year before, reaching a level of 24.9% in the first half of 2023. We view a resilient share as an essential component of our smoke-free journey. Leadership in combustible translates into access to a

large number of adult smokers, which again is critical to our ability to support them in their conversion to smoke-free products.

### **Strong Performance Across Top Markets**

Our global share of category performance is driven by markets that are currently combustible-only. In the top ten of these markets, our share increased by 170 basis points to reach 37.3% in the first half of 2023, with notable category share growth in Algeria, Egypt and Turkey. Despite cannibalization to *IQOS*, our combustible share performance in our top ten smoke-free products markets is holding well, with flat or growing share in market such as Kazakhstan, Poland and the UK offset by some declines in market such as France, Germany and Italy.

### **Our Global Brands Portfolio**

Moving now on to our global brand portfolio, our cigarettes are sold in approximately 175 markets, and in many of those markets they hold the number one or number two position. It goes without saying that we follow responsible marketing practices when commercializing our products. Our global brand portfolio is led by *Marlboro*, the world's best-selling international cigarette brand, which, in 2022 accounted for approximately 40% of our volume. *Marlboro* is complemented in the premium price category by Parliament, as of 2022 the number two global premium brand.

Our other leading international cigarette brands are L&M, Chesterfield and Philip Morris, covering the mid- and the low-price segments. These five international brands together contributed to more than three quarters of our cigarette shipment volume, continuing the strategy of portfolio concentration on a few power brands.

### **Unparalleled Portfolio with Leading Brand Equity**

Our global brand portfolio is unparalleled, and *Marlboro's* brand equity sets it apart. It stands at 2.5 times the brand power of the closest competitor brand, and *Marlboro's* equity is resilient, growing in a large set of markets including Egypt, Germany, the Philippines and Spain, and this despite us shifting resources behind smoke-free products growth.

Our portfolio of global brands is not solely reliant on *Marlboro*, it includes also L&M, our second strongest global brand. Last year, L&M's brand power has grown in 10 out of 13 markets in which we measure brand equity. In the context of further marketing restrictions, we do believe that the strong brand equity of *Marlboro* is by far the most valuable competitive asset.

### **Objective: Sustained Value Creation for PMI Margin Expansion**

Let me now cover to what we aim to achieve in combustibles. Our main objective is to sustain the value creation in the category to fuel the growth of our smoke-free products. You have seen that our pricing power is intact, and I just showed you that our portfolio is concentrated around strong equity brands.

Let me now share how we are successfully spreading out brands across relevant price points and various consumer segments. I will cover how the category will support PMI's margin expansion just in a minute when we speak about the category outlook.

**Global Brands Catering To LAS Preferences (1/2)**

Let me start by looking at how our global cigarette brands have been performing across important consumer segments. In purple, you can see the size of a segment in proportion to the total industry in the top 20 combustible markets. In dark blue, the share of our global brands in that particular segment, and in the same color you can see the variance versus prior year.

Let me remind you that our global share is at 25% and that on these charts I only talk about our global brands. Needless to say that including local brands our respective shares are higher, and we are over-indexed in all, but low and super low segment.

Now talking about low and super low on the left side of the screen, it represented 48.8% percent of the total consumption, and grew by 1.5 percentage points compared to the prior year. The share of our global brands in low and super low stood at 17.1% and outperformed the segment by far with a growth of 240 basis points. This is driven by significant gains in Germany, Japan and the Philippines just to name a few.

Moving now to the right Full Flavor represented 57.8% growing 60 basis points compared to the year before. Our global brand share of the Full Flavor segment was 23.2% increasing by 20 basis points driven by market such as Algeria, Indonesia, Japan or Turkey.

**Global Brands Catering To LAS Preferences (2/2)**

The two other growing consumer preferences are Slims and Capsules. Though of a smaller size to the left the Slims segment stood at 16.4% in 2022 growing by 0.2%, and Philip Morris global brands share of this segment increased by 4.3 percentage points reaching 32.8%. This was driven by Turkey and Hong Kong with gains from *Marlboro* and Parliament.

The Capsule segment to the right represented about 7% growing half a point. We increased our share of these segments by 2.6 percentage points versus prior year with successful extensions of *Marlboro* in Algeria, South Korea and Mexico, and the Philip Morris brand in Japan. All our global brands are now successfully covering growth segments, and consistently outgrowing them. Let me now show how we can stretch our power brand *Marlboro* across those segments and at the same time cover all relevant price points to keep *Marlboro* accessible beyond its premium adult smoker base.

***Marlboro*: Strong Across LAS Preferences and Price Ladders**

*Marlboro* certainly has the most diverse offerings across key consumer segments and price points. To the left in the standard format, the core red and Gold 20s variants are complemented with what we call banded propositions either through big packs or the *Marlboro* crafted offering extending the *Marlboro* palette from premium all the way to the low and super low to retain down-trading *Marlboro* adult smokers in the franchise.

In the Slims segment *Marlboro* Touch and Crafted Compact both with a smaller diameter cover a range of price points, and are the leading variants.

Moving to the right, consumers as you know can change the taste of their preferred *Marlboro* cigarette by crushing a capsule in the filter. In this segment, our core capsule and menthol propositions are complemented by *Marlboro* Crafted again the very same logic of stretching the brand across relevant price points. Through this breadth of consumer offerings, *Marlboro* holds the number one position in all of these segments.

**Growing Global Brands Performance**

This strategy has proven its viability with *Marlboro* first half 2023 share in the top 20 combustible markets at 12.8%, actually recovering to pre-COVID levels.

With L&M, Chesterfield and Parliament we have three out of our five global brands with significant share growth. Now let's turn to the question of how this is helping us to fuel the growth of our smoke-free products portfolio.

**Enabling Bridging to SFP**

As Jacek has already mentioned through our cigarettes brands, we have access to around 130 million legal age adult smokers purchasing approximately 85 million packs on a daily basis, which translates into 85 million potential touch points every single day. I will explain the consumer journey right after.

Equally important for fast scale up and access to consumers is the extensive commercial and distribution infrastructure that PMI has. It provides the most effective platform from which to launch our smoke-free products. Today, our products are sold in over 15 million stores with adult smokers visiting these stores and buying our products.

Around 5 million of these stores are covered by our own or partner sales forces. Our interactions with trade are not only limited to physical shop visits. We also conduct more than 70 million digital interactions with our trade partners in any one year. All these touch points help us to communicate either directly or indirectly with adult smokers who would otherwise continue to smoke on the benefits of converting to smoke-free products.

***JustScan*: Leveraging the Reach of our Brands**

As just mentioned, one of the most effective engagement and communication tools we have at our disposal is the B2C digital tool *JustScan*. As its name indicates, smokers would scan a QR code placed on their pack of cigarettes, and after age verification enabled by a facial recognition technology, they can access *IQOS*-bridging digital content. This would make it a two-step age verification. Obviously, the first step being youth access prevention measures at the point of sale when purchasing the pack of cigarettes.

The content highlights the benefits of switching to smoke-free products, allowing for education, allowing for information or offering straight lending or purchase to registered, and age verified smokers. This technology is currently available in 41 markets, with the potential to expand to 60 markets. This would then translate into accessing 96 million adult smokers for conversion.

**Category Outlook and Targets 2024-26**

Turning now to our Combustibles Business Outlook over the next three years, we expect the cigarette industry to decline at a faster pace, obviously as the penetration of smoke-free products increases. We assume an industry decline, as you have seen on Jacek's slide, at a pace of 2% to 4%. In such an environment we will continue to take judicious pricing action and target a stable category share over time despite cannibalization to smoke-free products.

Combining all these elements along with geographical and product mix would translate into net revenues growing up to 3% per annum. Over this period, we expect the contribution margin of our combustible business to improve, in particular as input cost inflationary pressures are anticipated to ease, and we pursue prudent cost management. This should translate into an

expanding PMI profit base as well as a margin expansion. So this will constitute the financial framework for the planned period. Let's now have a look at where we believe the adult smoker base will evolve over time, and this is actually important for both combustible as well as for our smoke-free categories.

### **Changing Smoker Demographics**

We can see here how significant the emergence of smoke-free products is on the structure of the combustible market. I start by comparing the age distribution of adult smokers in the top combustible markets to that in the top smoke-free markets.

The change is evident and significant. In smoke-free products markets, smokers are skewed much more towards 45 years and older with close to two-thirds in that age bracket, while logically smokers in the legal age to 34 years old bracket have almost halved compared to those in combustible-only markets.

### **Evolving Smoker Preferences in SFP Markets**

Shifts regarding key price and taste segments are similarly evident. Here I'm looking at the evolution of the price and tobacco flavor segments in the top ten smoke-free product markets over time. What is clear is that smokers who have not yet switched to smoke-free products remain more value conscious, and have a preference for tobacco flavor, which remains dominant. These trends are also a consequence obviously of the geographies where IQOS is prominent where adult smokers are usually less traditional and have a higher socioeconomic status when compared to the more conservative smoker base outside these geographies. Now, how do we think this will play out over the longer term?

### **Extrapolated LAS Profile in SFP Markets Beyond 2030**

Extrapolating these trends beyond 2030, first we would expect the adult smoker base to become to a large proportion, and by a large proportion I mean more than 80% 45 years and older. Second, we would envisage an accelerated move towards much more value conscious offerings with 70% of the market sitting in the low and super low segment.

And last, we can foresee a renewed preference for tobacco flavors at more than 90% of the industry. As said, these trends are not only important for sustaining value creation in the combustibles category. You will recall that our global brands are outgrowing the key consumer segments. The trends will also be addressed in the smoke-free sections as these preferences would reflect the adult smokers that we intend to switch. Stefano and Lars will showcase in their parts the superiority of our heat-not-burn and oral smoke-free offerings and the excellent pipeline of IQOS and ZYN products to accelerate conversion of these cohorts of smokers.

### **Combustibles Business as a Foundation for SFP Growth**

Let me now sum up my key takeaways from my presentation. The combustible category remains a critical foundation for smoke-free products growth. We have observed moderate industry decline, though rates have been significantly and again unsurprisingly higher in smoke-free products markets. We expect this trend to continue.

We have a robust pricing engine that allows for sustained value creation. With smart pricing, we have been able to achieve resilient share performance. Additionally, with prudent cost

management we will drive for PMI margin expansion. Our unparalleled portfolio of global brands, led by *Marlboro*, is critical to our success.

Global brands have a proven track record of addressing emerging consumer preferences across price points. Access to our adult smoker base and to our trade partners, as I said, remains essential to communicate the benefits of switching and to deploy smoke-free products. Thank you very much for your attention. I will now hand over to Lars, who will cover oral smoke-free category. Thank you.

## **Lars Dahlgren**

*President, Smoke-Free Oral Products and CEO, Swedish Match, Philip Morris International*

Good morning, everybody.

So thank you very much to all of you for letting me have this opportunity to share some perspectives on the oral smoke-free business of PMI. For those of you who don't know me from my earlier life, so to say, I was the President and CEO of Swedish Match from 2008 up until the time of the PMI acquisition. And from January 1st of this year, I have the truly exciting role at PMI as being the category head for oral smoke-free products. And as you can see, I've already adopted the company uniform with the navy blue suit and the white shirt.

### **Nicotine Pouches: The Fastest Growing SFP Category**

So looking at the smoke-free category, for many years, the oral smoke-free category used to be considered a niche category. With pockets of consumption in typically lower and middle income countries, often in rural areas, or with Snus up in Scandinavia as an isolated phenomenon with limited export potential. But in recent years, this has dramatically changed, not the least because of ZYN's remarkable progress in the US market. It's broad conversion amongst legal age nicotine users with different forms of tobacco history background.

And now, Swedish Match and what is now PMI have paved the way in terms of development of the oral smoke-free category and now with nicotine pouches. We invented the portion pack Snus back in 1973 that dramatically changed the way Swedes consume tobacco. We introduced ZYN in the US market in 2014, which happens to be the same year as PMI also introduced IQOS in Japan. In 2019, we were the first company ever to be granted modified risk orders by the US FDA for eight variants of *General* Snus, with the FDA recognizing the significantly lower risk with *General* Snus compared to other commonly used tobacco products, and specifically for cigarettes, also recognizing the public health benefit of being able to inform consumers of that relative risk.

Nicotine pouches offer unique benefits. It's an excellent product, offers excellent nicotine enjoyment. It offers convenience. It can be used anywhere anytime without bothering others. And compared to some of the more traditional variants of oral smoke-free tobacco, it benefits from hygienic appearance with its white pouches, and compared to some of the categories, advantages are such as being spit-free.

And importantly, it sits at the far end of the risk continuum. So simply put, there are a lot of good reasons that explain why nicotine pouches is a fast-growing category, and clearly will play in the future an even more important role in the reduced-risk product landscape.



### **The Phenomenal Progress of ZYN**

So let's start looking a bit more at the US and the phenomenal attraction for ZYN that we've seen there since we introduced the product in 2014 in the test market. So the graph to the left here depicts shipment volumes on a 12-month rolling basis. And as you can see, for the 12-month period ending June 30, 2023, PMI had shipped close to 300 million cans, up by more than 40% to the corresponding 12-month period one year earlier.

And if we look at the second quarter in isolation, ZYN in the US alone represented more than 50% of PMI's oral smoke-free business, both as measured in revenue terms or operating income terms.

### **US Nicotine Pouch Category Still in its Infancy**

But with that said, and as Jacek pointed out, the category in the US is still in its infancy. These depicted average penetration and consumption bars helps to bring things into perspective. So let me explain what these bars show here.

So here, what we have done is that we have taken company estimates. We estimate the total consumption of nicotine pouches, and we look at that per legal age nicotine user in various countries. So we get a metric that illustrates both how broadly it's been adopted and how much each consumer has used. So if we look at the US here, that number is 11 cans per legal age nicotine user, or LANU. And that's a national number.

And as I said, we introduced ZYN first in a test market in 2014; we actually started marketing it more for real, so to say, in 2016. And then we started in the Western sales region. And it's not until 2019 that we started rolling out ZYN on a nationwide basis in the expansion markets in the US. So the number there is higher than I will show on a few slides later in the Western region compared to the national average.

### **Strong & Growing ZYN Brand Equity**

And ZYN offers excellent functional and sensorial benefits. But equally instrumental to the success of ZYN in the US is the emotional connection that consumers show with the brand. As Jacek already pointed out, if we look at recent periods and we look at IRI data and we analyze that, ZYN has surpassed the milestone of being a 2 billion retail value brand. One has to look very hard in the consumer goods industry to find similar precedents, and especially considering the highly profitable nature of the ZYN franchise.

Some of the most telling examples of how adult consumers love ZYN in the US are coming from our adult consumer feedback channels, such as the call center. And the praise and appreciation that we have gathered through such channels over the year for ZYN are extremely inspirational, I can tell you. And has actually left several of us teary-eyed, from the factory floor to the boardroom. So a term like 'changed my life' is a term that we have heard many, many times. ZYN Brand Equity Demonstrated by Impressive Performance

And the quantitative but telling testimony to the strength of the ZYN brand is its premium franchise along with its resilient market shares. If we look at IRI data for the first half of 2023, and we compare the average net selling price at retail for ZYN compared to its closest competitor, number two being *On!* ZYN retailed at an average of 70% price premium compared to *On!*. And that is, of course, the ultimate reflection of the strength of the brand, namely its performance in the marketplace.

So on this slide, we have depicted to the left the market share development. And as you can see on these graphs, *ZYN*'s market share has been either resilient or even growing in recent periods. And *ZYN* continues to represent more than two-thirds of the nicotine pouched category in the US on a volume basis and more than three quarters on a net sales basis at retail. And the steady growth of velocities at the retail level not only demonstrates how the value of the *ZYN* brand illustrates the traction with consumers, it also shows how the value of the brand grows for our partners at the retail universe.

So what these velocities show here is the growing trajectory of average cans sold per week in stores having *ZYN* in its assortment.

### ***ZYN* Consumers Factsheet**

Let me also take this opportunity to share some more facts on the consumers of *ZYN* based on company research. The average age of the *ZYN* consumer is 39 years old, which resonates perfectly with our focus on adult nicotine consumers, and our diligent approach to responsible marketing. About a third of the consumers are women, which can be contrasted, for example, with Moist Snuff, where this number is well below 10%.

And this is a number that we have seen increasing over the years as the appeal of the *ZYN* franchise has broadened in scope in terms of the adult nicotine consuming population. The average consumption per *ZYN* consumer and week, we estimate to a little bit over three cans. But if we look amongst consumers who have been using their product for a longer period, that number is higher, and on this slide, as exemplified by the average consumption of those that have registered as members in the *ZYN* rewards program.

In terms of the product preferences for *ZYN*, and if we start with flavors, mint type flavors dominate the portfolio, so more than 60%.

But we are also very pleased to see the progression for our unflavored variants, which now represent about one-fifth of our portfolio. The product comes in two strengths, 3 and 6 milligram, and the split 70-30 in favor, so to say, of the 6 milligram, has been remarkably consistent throughout history and across the country.

So in terms of where the consumers have been migrating from, at the inception, there was a strong over-skew to consumers who had a history of traditional smoke-free products in the repertoire. But over the years, we have seen to an increasing extent how *ZYN* sources its consumers from consumers who report a primary form of tobacco use different than oral products.

So if you look at cigarettes and vapers, those two collectively now are bigger than the pool that is sourced from those with primarily oral smoke-free background. And of course, as you all know, the number of consumers of cigarettes and vaping is bigger than, much bigger collectively than those that have a traditional smoke-free background.

If we look at the average income levels and educational levels, both those metrics skew higher or significantly higher to several other forms of tobacco use, and particularly when it comes to cigarettes. A testimony to not only the premium franchise of *ZYN*, but also the modern profile of the category because although *ZYN* scores the highest here, the whole category is showing similar metrics.

**Attractive Category Dynamics, Best-in-Class Economics**

And just to share a few additional facts that points to the attractiveness of the nicotine pouch category in the US and particularly for the ZYN franchise. I already noted the stellar growth and the fast adoption among legal-aged nicotine users. And in this attractive category, ZYN enjoys a very clear first-mover advantage with its premium franchise and with its proprietary technology for the dry variants, which we know caters to the adult American nicotine user preference.

And especially again, those that have a tobacco history different from that of oral tobacco. With that said, we do believe that there is room for Moist variants in the US market as well. And on that note, as Matt Holman will show in his presentation, we have developed a specific moist product for the US market, for which we have filed a PMTA back in 2021.

**ZYN**

Now, while ZYN is a premium brand, as you can see on the graph to the right there, it retails on average at about a 40% discount compared to the average price for cigarettes, implying that there is a strong also economic incentive in addition to all the other benefits for cigarette smokers to switch to ZYN. And on that note, from a public health point of view, it's naturally very important that that economic incentive is maintained as we see the excise tax environment evolve across the country.

That is the case in most of the ten states where ZYN is currently taxed. So ZYN continues to be sold at a significant discount compared to cigarettes, but not all. But if we look at these states where there is an excise tax implemented in aggregation, it should also be noted that the aggregated market share for ZYN in those states is higher than the national market share for ZYN.

And finally, but by no means the least, as Emmanuel will explain in more detail in his presentation, the nicotine pouch category, and particularly for ZYN with its premium franchise, offers extremely attractive unit economics. And this is despite that we, over time, have been increasing our marketing investments and that we will continue doing so in the future.

**Nordics Show The True & Exciting Worldwide Potential**

Now turning to the Nordics, that in many respects show the true potential for fully penetrated markets and for us on a global basis. So looking at the left, and Badrul will in his presentation cover this in more detail, the Swedish experience, with Swedes having effectively to a very large extent replaced cigarette smoking with oral smoke-free consumption.

And this graph to the left clearly not only demonstrates the significant commercial potential with oral smoke-free products but also the significant tobacco harm reduction potential. In Sweden and Norway, there are significantly more adult users of oral tobacco or nicotine pouches compared to the number of cigarette smokers. But we start to see that the Swedish experience is now an export.

If we look across the rest of the Nordic countries, the incidence of oral use in the adult population is growing quickly, along with accelerated declines in cigarette smoking. Fueled by innovation, the category has evolved from loose type of Snus to pouch Snus back in 1973 to more modern variants of pouch Snus to nicotine pouches, which has broadened the appeal

across the nicotine consuming population, and resulted in a higher conversion amongst adult females, and also a broader expansion of adoption in across the socioeconomic classes.

### **Nordics: Clear Strategic Focus in Growing Category**

And we look at the category in the Nordics, the category continues to grow in volume terms, but the growth is entirely driven now by nicotine pouches. And if we look at PMI's market share within the oral smoke-free category in the Nordics, we have close to 60% in the more traditional Snus market, and a bit below 15% in the nicotine pouch market. And, while the portfolio of iconic Snus brands and the leading position there represent a very valuable asset, our strategic focus is very clear, that is to improve our market position within the faster growing nicotine pouch market, and thereby resulting in better participation of industry category growth.

Now, the growth of the nicotine pouch market in the Nordics has been very fast. And as Jacek mentioned, there is a legitimate concern of youth access when it comes to nicotine pouches, particularly in the Nordics and some countries in Europe. But for PMI, with our diligent approach to responsible marketing and in this environment, our focus is to drive transition in the older age cohorts, where we know that there is a big both tobacco harm reduction and commercial potential to increase the switch from particularly legal age smokers.

And this reflects on our strategies, but it also reflects on the results. So if you look within nicotine pouches and you look at our market share, we look at our market share, it is actually significantly better amongst middle aged consumers. Using data from one Swedish online retailer as an example, if we look at PMI's market share within nicotine pouches amongst those that are above 25 years old compared to those that are legal age to 25, the market share is more than twice as high in the former group.

### **Global Nicotine Pouch Category Still Underdeveloped**

Now turning to international market, and by that we mean markets outside the Nordics and the US, there the nicotine pouch market is still relatively small. But we believe that it represents a very meaningful growth opportunity, medium to long term. Currently, the product is available in some 30 countries. And again, these bars that is showing the estimated average consumption divided by the adult nicotine consuming population is telling.

And this time, to put things into perspective, it's not only nicotine pouches for Sweden and Norway so we have added Snus also to these bars. And these numbers for Sweden and Norway, they show the potential for oral type of products in fully penetrated markets.

If you look at the US, as I said, 11 cans per adult nicotine user. And Iceland, more than eight times the size of the US on this metric, and Iceland is a market without a very long tradition of oral products. And these Nordic numbers, particularly Sweden and Norway, as I said they demonstrate the potential for fully penetrated markets. And clearly, the long tradition of oral tobacco consumption in Sweden and Norway has played a role here, but there are countries across the world, for example India, Pakistan with traditions of oral tobacco use.

And in these type of countries, as living standards go up, purchasing power, consumer awareness, and hopefully, and we work for it, appropriate regulation is put in place. We see no reason why that couldn't be more Swedens or Norways out there, in the long term. And on that note, we are currently conducting a city pilot in Pakistan with good results, and this is one example of a market where we will scale up our efforts. And just to frame a little bit, global

potential. If we take the US where we are already now, five years after the national launch and that number 11 cans per average legal age nicotine user. If those penetration and consumption metrics would apply across PMI's top 20 markets outside the US then that would correspond to 50 billion pouches, which can be compared to 109 million HTUs for heat-not-burn that we shipped in 2022.

### **Securing Appropriate Regulations is a Key Priority**

And as you heard from Jacek, regulatory is an integral part of our strategic agenda. As we consider proportionate and responsible regulations prerequisite for sustainable category long-term. And given the novelty of the nicotine pouch category, there are actually very few countries across the world that has issued specific regulation that covers nicotine pouches that enables a regulated permission to sell in markets.

We see more countries coming on board, and that is very positive. But for the vast majority of the countries out there, the starting point ranges from completely unregulated markets to several countries with outright bans. And we consider it equally important to address both of these situations based on a solid foundation of science and fact, and within the active external affairs engagement agenda.

### **Swedish Match & PMI: Improved Capabilities to Capitalize on International Opportunities**

In terms of the mid to long-term attractive potential for nicotine pouches in international markets, with the combination of Swedish Match and PMI, we have an excellent position to capitalize on this growth prospects. With the heritage from Swedish Match in terms of product and category knowhow and the impressive commercial footprint and capabilities of PMI including its leading position in inhalable smoke-free products, that combination represents very powerful equation.

A telling example is this pilot that we did in a duty-free outlet of the Dubai airport where both *ZYN* and *IQOS* were available for sale at the duty-free outlet. But they were previously sold in separate sections of the duty-free area. So what we did then is that we for the first time put *IQOS* and *ZYN* together in the same consumer setting. And if we look at the sales for *ZYN*, how much the volumes were prior to when we put them together with *IQOS*, and we compare those periods, the sales for *ZYN* more than doubled after putting them together, with an uninterrupted growth trajectory for *IQOS*.

### ***ZYN* Launches / Re-Launches: Sizable Mid-to-Long Term Opportunity Readiness to Scale Up and Invest for Future Growth**

And as Emmanuel mentioned already in conjunction with the Q2 release, we have already started to take steps to capitalize on this international growth opportunities with our ambition to establish *ZYN* as a truly global brand with a premium positioning and with a highest possible quality range. With a coherent upgrade in brand and product architecture, we will launch or relaunch *ZYN* in several markets already this year as you can see to the left on this slide.

And beyond 2023 in the planning period, we have already identified several very attractive markets where we are in an active preparation or planning phase and in the engagement with local organizations out there in the markets. So collectively together with the 2023 markets for launch or relaunch, we are planning for about 40 countries for global expansion for *ZYN*.

It should be mentioned however, that several of these countries to the right, part of the planning process involves an external affairs agenda, and securing permission to sell. And while we hope to be successful in most, there will probably be some examples where we'll be unsuccessful, which means that we should expect this country list to be dynamic over the plan period.

And while several of this launches or relaunches initially will be of test market character in order to first learn and adopt and iterate, we will have the readiness to scale up quickly as we see traction in the marketplace.

### **Strong Category Outlook 2024-26**

So let me highlight some of the priorities for the coming three years. We consider the US market to represent the biggest financial and commercial opportunity, and we're firmly committed to making ZYN and even greater contributor to PMI's top and bottom line trajectories. International, as I said, we see significant growth prospects mid to long-term, and here we will leverage the commercial footprint of PMI, including the IQOS infrastructure, to drive investments in a disciplined way with a readiness to scale up.

And overall, for our smoke-free portfolio, we have a focus on innovation and a commitment to provide adult nicotine-using consumers with the highest-quality propositions to enable reduced-risk nicotine enjoyment and transitioning adult consumers away from combustibles to smoke-free alternatives.

And for oral smoke-free products in particular, our target is, as Jacek already said, that we should deliver in the range of 800 million to 1 billion cans of nicotine pouches in 2026.

And the vast majority of those volumes, we expect to generate in the US market, but I think that the 1 billion number is possible, particularly if we can be successful in terms of regulatory affairs engagements and secure permission to sell in the vast majority of those markets in plan that I had on the previous slide.

We're getting close to lunch, I know, and we haven't had any breaks, but before letting you go and enjoy what I'm sure is going to be a fabulous lunch, let's circle back to the US opportunity and take a longer perspective in terms of 2030. And let me share some perspectives on how one could view that opportunity.

### **US Potential: The West Shows the Way**

As I already mentioned, we started rolling out ZYN in the western sales region in 2016, and we went national in 2019. So, to the left here, that graph is illustrating the historical growth trajectory of velocities. And again, that's the average number of cans sold per store per week that carries ZYN in its assortment, for the western region and the – what we call the expansion markets respectively.

And on the X axis, you have the time in market. So, a couple of key takes from this graph to the left here. First of all, as you can see, up to this point the velocities in the western region have continued to grow. And the other obvious key take from this slide is that the velocity growth in the expansion markets has been very similar to that of the western region after the same time in market.

And top right, you see the striking trajectory of the number of cans of nicotine pouches sold in relation to cigarettes. Now, this slide here depicts the total category developments. Jacek

showed a similar number on where we are for ZYN in the western region in his presentation, but this is for the total category. So if we look at IRi data, you can see that for the first half of 2023, the number of cans of nicotine pouches sold in the western region corresponded to 18% of the number of cigarette packs sold in the west.

And if we look at the bottom right here, we have illustrated this metric of average number of estimated cans consumed per legal age nicotine user per year by the expansion markets – the other sales regions compared to the west. And first of all, what you can see is that amongst the expansion markets, the penetration / consumption is fairly similar, and then you can see how the western region have become quite a bit further, with the 18 number here representing an interesting lead indicator. And again, there is a two-and-a-half-year lag between the western region and the expansion market in terms of time in market.

### **How Big Can This Category be in 2030?**

So, how big could the category become in the US in a longer perspective, like 2030?

Well obviously, there are several factors that come into play in terms of category development. And there is no exact science to this depicted graph here. What we've tried to illustrate is a potential scenario for category development up to 2030. And again, we look at these velocity trends here. So, the solid lines in this graph represent the history – in terms of velocity growth – for the west and the expansion markets respectively. And the dotted lines here represent a potential scenario continued velocity growth, with the prudent assumption that even though historically the velocity growth trajectory has been linear or even accelerating, it could be reasonable to assume that the growth trajectory will level off at some point. So, if it would look like this, along with a modest expansion of the number of stores where nicotine pouches are sold, of 5% per annum, then the result would be that the category would be about three times bigger in 2030 compared to what it is today, or exceeding 1.5 billion cans, or corresponding to 25 billion pouches, which can be, for example, compared to the number of HTUs in Japan in 2022, which was 33 billion. So put differently, the category in terms of volumes would be approaching the size of IQOS in Japan, but in the US with US market economics.

### **How Big Can This Category be in 2030? (Cont'd)**

Another perspective that one could take is that of penetration amongst the legal age nicotine-consuming population in the US and their consumer journeys. Because ultimately, naturally, the size of the category will be determined by how many that use nicotine pouches and their average consumption. Now in the US, there are close to 50 million legal age nicotine users, and that is legal age up to 65 years old. And in the western sales region, where we started, we estimate that already 10% of those are using nicotine pouches. And nationally, as you can see on this slide, that number is estimated to be 7%.

And now within the west where we've been longer – obviously there are more consumers that have been longer in the use. So the estimated consumption – average consumption per consumer per week in the west is a bit higher – 3.3 compared to the national average of 3.2.

So, if we look into the future with illustrative assumptions of how it could look, and we model a penetration from 10% to 30%, where 10% then represents where the western region is estimated to be already today, and a consumption ranging from 3.3 cans per consumer a week

– again, that’s where we estimate the west to be today – up to 4 cans per consumer a week, which is more representative and an indication of where those that have been using the product for a longer time are in terms of their consumption. Then we get these metrics of implied category sizes, ranging from in the most conservative scenario, where we have effectively frozen the west and just let the expansion markets catch up in terms of penetration and consumption. In that scenario, the category would be 60% higher than today, up to if we believe that it’s reasonable penetration of 30%, which is way below the Nordics, as an example, and the consumption of four, which would then imply a category size more than five times as big as today.

And if we take the midpoint here, with 3.5 cans per consumer a week and 20% penetration, the category size would be a little bit more than 3 times as big as today, which happens to align well with that illustrative scenario that was modelled based on velocities on the previous slide. And if we zoom in on that midpoint, and we apply – this is the total category, but we apply for ZYN, the market share of Q2 to that category volume and the manufacturers’ net selling price, PMI’s net selling price from Q2 for ZYN, so we disregard any pricing, not even any inflation, that would translate into retail sales – or net sales, I should say, for PMI of \$3.5 billion. And as you know, ZYN is a highly profitable franchise.

### **Outstanding Prospects to Remain Undisputed Global Leader**

So, let me provide a brief wrap-up. First and foremost, and to be frank, I hope that you all are now as excited as I am in terms of the prospects for oral smoke-free products, and in particular for nicotine pouches. PMI is the global leader when it comes to nicotine pouches, and the company has outstanding prospects to ensure that it will stay that way, with excellent capabilities when it comes to, not only, but certainly for oral smoke-free products.

We have a diligent approach to responsible marketing, which we believe is critical long term for sustainable growth, and we have an active innovation pipeline suited for the US which, as I mentioned, includes moist variants, for the Nordics as well as for international markets.

And in the US, while the FDA market authorization process restricts a continuous introduction of innovations into that market, PMI as well as Swedish Match historically have demonstrated their effectiveness to operate under the FDA regulatory regime – something you will learn more about also from Matt Holman’s presentation.

The commercial and operational infrastructure of PMI speaks for itself when it comes to the global potential for nicotine patches and tapping into that, and in the US we are accelerating our investments in resources and capabilities, both when it comes to commercial, and supporting resources. And we will be applying a disciplined multi-category approach and we will in the future offer what many consider to be the two greatest smoke-free products in the world to US consumers nationwide in the future.

So with that, I’d like to thank you for your attention. I know I’ve been holding you up for any breaks and lunch, but before we go out, I’d just like to remind everybody also what James said, that there will be these breakout rooms, so there is a dedicated ZYN room, which you absolutely should take the time to visit, because you will have a great opportunity to interact with several members of our staff that know the ZYN business, as well as the total oral business very well. So thank you very much.



## **Stefano Volpetti**

*President, Smoke-Free Inhalable Products & Chief Consumer Officer, PMI*

Good afternoon, everyone. Welcome back to the webcast. I'm Stefano Volpetti. I am the President for Smoke-Free Inhalable Products and Chief Consumer Officer of PMI. More importantly, I'm your Italian double espresso after lunch to keep you going for the entire afternoon. Okay? I am very excited to share with you our growth story. I will start from heat-not-burn first, I then will cover e-vapor and I will conclude with our smoke-free multi-category approach.

### **IQOS: 10 Years Evolution**

We started our journey towards a smoke-free future with a launch in November 2014, when we started with IQOS in Nagoya, Japan, and Milan, Italy, with one device and two consumables. Since then, we have been evolving our portfolio, powered by innovation to create a superior consumer experience. That, together with a geographical footprint expansion, translated into a very impressive volume and user growth. By Quarter 2 2023, IQOS is present in 70 countries, with 27 million legal-age users, and we have achieved a 9% share in the markets where we launched. This is up plus 1.6% versus prior year.

### **IQOS: Net Revenue Contribution Exceeded 30% in 2022**

Our strong user and volume growth translated into an even stronger revenue contribution of IQOS into PMI, exceeding 30% net revenue by 2022. It took us five years to reach \$5 billion revenue and in less than a decade we created a \$10 billion net revenue brand. Imagine the potential of our proposition. In June 2023, in top 20 smoke-free markets, the prevalence of the heat-not-burn category, powered by IQOS, exceeded 21%. Simply put, this means that one out of five legal age nicotine users have tried heat-not-burn in the past seven days.

For Japan, our first heat-not-burn market, this number is even higher – two out of three nicotine legal age users have used heat-not-burn in the past seven days.

### **IQOS: #1 SFP Brand Delivering Superior Consumer Experience**

IQOS is the clear number one of the category, with over 70% share, 27 million users around the world, and its success really relies on superior consumer experience. This is powered by three pillars.

First, superior product and portfolio, leading to 72% IQOS users who stopped smoking and switched to IQOS. 72% conversion rate. Second, a significant investment to build brand and superior consumer engagement, resulting in meaningful difference for IQOS, being 39% higher than the closest competition as measured by Kantar. Third, we have built a commercial engine that is truly superior. It creates high satisfaction for legal age smokers and legal age users, and this is indicated by a growing /stable net promoter score in 85% of the volume of our business. 85% stable or growing net promoter score is not only the best in class in the industry – it's by far a phenomenal number in the consumer goods overall.

### **IQOS: Delivers a Superior Progress Across all Stages of Adult Smokers Conversion Journey**

The superiority of IQOS is also reflected in the consumer journey metrics. Compared to the closest competition, IQOS is significantly more effective at all stages of the consumer journey,

with a clear competitive advantage, especially at the Try and Buy stage. Very importantly, *IQOS* achieved high conversion, at 72%, and this conversion is consistent across markets – by far the best in class in the industry.

### ***IQOS ILUMA*: Next Level Forward**

*IQOS ILUMA*. Was Jacek a bit excited about *IQOS ILUMA*? He was consumer number two. I'm going to talk about the other 27 million of it, okay? So, *IQOS ILUMA* marks an historic milestone for us. It's powered by SMARTCORE induction technology that brings *IQOS* really to the next level forward. Breakthrough induction technology provides a stronger, bladeless and effortless experience, with no cleaning ever. The simplest experience in the heat-not-burn category.

*TEREA*, with *IQOS ILUMA*, offers a wide range of real tobacco flavors to give new depths of sensorial pleasure. *IQOS ILUMA* brought a step change in consumer experience, as proved by the net promoter score in launch markets. As of today, it is present in 27 markets and has already reached 13 million *IQOS* users. We aim to roll out *IQOS ILUMA* to approximately 50 markets by the end of this year, and we will expect to cover the majority of the *IQOS* markets by mid-2024.

### ***IQOS ILUMA*: Improves NPS, Conversion, and Accelerates Share**

*IQOS ILUMA*, it's easy and simple to use. A step change in consumers' experience translated into a higher net promoter score, higher conversion and accelerated share growth with strong gains across all launch markets. In the first wave of *IQOS ILUMA* launch markets, Japan, Switzerland, Greece, higher net promoter score brings significant market share growth and the majority of *IQOS* users have already upgraded to *IQOS ILUMA*. As of Quarter 2 2023, induction stick volume contribution reached 98% in Switzerland, 92% in Japan and 81% in Greece.

It takes time to see improvement in conversion rates. Already, before the launch of *IQOS ILUMA*, *IQOS* enjoyed the best conversion rates in the category. Now, with long panel studies in Japan, after 18 months from launch, *IQOS ILUMA* conversion rate champions at 8 points higher. We are very encouraged to see such a sustainable and positive impact.

### ***IQOS ILUMA*: Game Changer to the Business Model**

*IQOS ILUMA* is a game changer to the business model. It has high productivity, it's very reliable. Device defect rates is below 1%. This places *IQOS* in the Excellence range of consumer electronic products. Consumer complaints related to induction sticks reduced by 40% versus blade sticks before launch. High product quality led to significant reduction of device replacement and customer contacts due to product issues. Respectively, in Japan, minus 70% and minus 60%. With such a material improvement, *IQOS ILUMA* helps to optimize our investment in customer care and reverse logistics associated with defective devices.

One more point I would like to highlight. With the next-level technology, we expect *IQOS ILUMA* – holder and charger – to have a longevity that is three times longer than the equivalent blade device and older.

### ***IQOS*: Next Level Innovation with *IQOS ILUMA***

We keep evolving the portfolio heating system, aiming at constant uplift of the consumer experience in line with the advancements of technology but also, very importantly, integrating our voice of consumer. We built the category with blade heating system since 2014. Since

then, we diligently innovated to address consumer pain points as well as to focus on bringing more delight to our users.

I want to highlight a few critical milestones of our journey. *IQOS 2.2* to *2.4+*: they made *IQOS* the category pioneer. *IQOS 3* introduced bottomless side opening and expanded battery lifetime. *IQOS Multi* – one piece, pocket size, a device with ten consecutive uses. *IQOS 3 DUO* – two consecutive uses without recharging the holder. And then *IQOS ILUMA* – launched in August 2021 in Japan, it's a breakthrough innovation, next-level technology, next-level simplicity, next-level pleasure.

Moving forward, we will continue to innovate, aiming to ultimate convenience and pleasure.

### **IQOS: Evolving in Device Range, Personalization and Flexibility**

As we evolve the heating system, also *IQOS* is evolving. We now have a wider range of devices. We offer greater personalization opportunities, and more flexibility into our features. Our device range evolved from one model in standard colors into a full range of device models and a wider palette of color choices for lifestyle integration. We are relentless in our desire to delight our *IQOS* community and we invest extra efforts to elevate our approach to limited editions and accessories with an engaging story-led approach, as well as we expand our partnership footprint into collaboration with fashion and design brands to maximize lifestyle integration. *IQOS* features have been and will be evolving from basic to advanced, giving the users a higher flexibility to customize and personalize their experience. For example, flexible puff and flexible battery. Importantly, we use one brand – uniform, consistent across 70 markets around the world.

### **IQOS: Superior Tobacco Flavor Portfolio**

You heard from Werner this morning legal age smokers are looking for pleasure and taste superiority. Tobacco taste remains the most important flavor choice. 91% of exclusive legal age smokers of cigarettes globally are using tobacco flavors – i.e., non-menthol, non-new taste dimensions. When underlined this, since question number one, number two and number three, that I received this morning at breakfast, was about flavors. Tobacco flavor, the most prominent flavor for those legal age smokers that are still in cigarettes. Our classic tobacco variants contribute for more than 50% of our portfolio volume in Europe, and our global contribution is 1.7 times of the closest competition.

### **IQOS: Successful Across Market Archetypes**

*IQOS* is successful across market archetypes. 20% share in full-flavor markets like Portugal. 26% share in menthol markets like Japan. 19% and 17% share in non-menthol markets like Greece and Italy. Regardless of the market archetype, full flavor, menthol, non-menthol, *IQOS* superior tobacco experience delivers leading share and superior conversion for legal age smokers. It is important to note that beside the product superiority, the progress of *IQOS* share is also linked to regulations, which allow adult nicotine users to access heat-not-burn product information and to access the product itself.

### **TEREA: Innovate & Enhance Tobacco Flavor Experience**

Superior tobacco taste is critical to our ongoing success. Currently, *TEREA*, used with *IQOS ILUMA*, delivers superior tobacco experience with eight classic tobacco variants. We are further exploring complex taste and new taste spaces to enhance our tobacco flavor experience.

**TEREA CRAFTED: Botanicals Enhanced Tobacco Taste**

With multiple years of product development, we will soon bring to adult nicotine users who seek tobacco-flavor experience with natural sensations a new-to-the-world sensorial experience – *TEREA CRAFTED*. A curated collection of tobacco flavors, perfectly blended with natural botanicals, without artificial flavorings. By blending tobacco and botanicals such as rosemary, star anise and clove, *TEREA CRAFTED* opens an authentic space, reinforcing *IQOS*' taste leadership in the heat-not-burn category.

**LEVIA: Zero Tobacco, Rich Flavor Discovery**

Whilst we further reinforce our leadership in tobacco taste, we also invest in building novel consumables that go beyond tobacco. Introducing *LEVIA* – zero tobacco, rich flavor discovery. Instead of tobacco, the *LEVIA* stick is made of a non-tobacco substrate infused with nicotine and flavor. *LEVIA* will bring a vivid and satisfying taste experience with pleasurable aromas and minimal social disturbance and zero tobacco. It's designed for the early adopters within the *IQOS* franchise and for legal age nicotine users that are flavor explorers.

**SENTIA & DELIA: Essentials of Taste**

To accelerate category and share growth, we're expanding the reach of our induction consumables. *TEREA* consumables have still an enormous potential of growth. We will continue to fuel *TEREA* with superior consumer experience at premium price positioning. But it is important to notice that by Quarter 2 2023, *IQOS*' market share exceeded 20% in three markets and 11 key cities. In select markets, there is an opportunity to further the reach among legal age smokers via below-premium proposition. *SENTIA* was developed with focus on essentials of taste at a more affordable price. It was launched in Japan in April 2022 at 9% below *TEREA*, but still 6% premium versus the closest competition.

As you can see in the bar chart, in Japan *SENTIA* helped to expand the reach to a broader adult nicotine user and to fuel the growth of *IQOS ILUMA*. One year after launch, *TEREA* and *SENTIA* combined reached a share of 24% in convenience stores, bringing a significant incremental growth.

Building on the success and learnings from Japan, we developed *DELIA*, the consumer-qualified name outside of Japan, with the same spirit, essence of taste at a more affordable time for select markets.

**IQOS: #1 Smoke-Free Brand**

*IQOS* is the number one smoke-free brand globally. As Jacek told you this morning, *IQOS* is a \$10 billion smoke-free brand in less than 10 years. As of today, *IQOS*' heat-not-burn category share is above 70% and *IQOS* has 27 million users around the world.

**IQOS: A Meaningful, Loved Brand Operating in the Same Space as Iconic Brands**

*IQOS* is a meaningful, loved brand – a brand that resonates with the heart and with the mind of legal age smokers. *IQOS* already operates in the space as other iconic brands, such as Google, Netflix, Heineken and, of course, *Marlboro*.

Keep in mind, *IQOS* is a brand launched less than ten years ago. Imagine the potential that is ahead of us.

**IQOS: Leads the Way Across all Attributes Among IQOS Legal Age Users**

*IQOS* is leading the way by a very wide margin on all Equity[?] attributes among *IQOS*' legal age users, making it not only a globally leading brand. Look at the turquoise circle in this chart. You can appreciate *IQOS*' superiority versus closest competition.

Just to mention a few items, *IQOS* enjoys a few – a very big margin on user experience, trust and quality backed by science, intentional design, and sensorial satisfaction.

**IQOS: At Parity or Superior to Marlboro in Meaningful Difference in the Top Markets**

This morning, Werner showed the unparalleled brand power of *Marlboro*, which was built over 50 years. *IQOS*, with less than 10 years' history, achieved meaningful difference at parity or even superior to *Marlboro* in a few top markets, like Japan, South Korea, Czech Republic, Poland, and Switzerland.

By Quarter 2 2023, a market representing 47% of *IQOS*' volume, *IQOS* enjoys parity or higher meaningful difference than *Marlboro*.

Why is meaningful difference important? This is a key metric of Kantar's Equity model. It asks a very simple question to consumers: is this brand meaningful to you? Is this brand a brand you love? Is this brand standing out? Is it making a difference? And consumers have voted. The metric allows to evaluate the brand potential to command share and to warrant a premium price.

**IQOS: Winning Whilst Having Premium Position**

With such a strong *IQOS* brand power, we translate it into premium price positioning. As you can see in the slide, in key markets across the world, *TEREA* for *IQOS ILUMA* is priced between 16% to 49% higher than the closest competition. *IQOS* is winning across key markets with high heat-not-burn category share, ranging from 63% all the way to 86%, despite its significant premium price versus competition on both consumables and devices.

**Our Vision: Replace Every Cigarette for All Adult Smokers who Don't Quit**

Our vision is clear. We aim to replace every cigarette for all adult smokers who don't quit.

With *IQOS*, with 27 million users, we have a \$10 billion business. Think about the potential. There are over 1 billion smokers around the world.

**Behavior Change**

Behavioral change, when it comes to legal age users, requires a leading brand, a brand that is leader of science, leader of technology, but also leader of superior experience and leader of credibility with empathy. Emotional bonding is needed to guide through the behavior change, make it aspirational, to create a new lifestyle for legal age smokers.

*IQOS* is leveraging all these elements through our superior product experience but also through the way we tell our story and we meaningfully engage with our consumers to build brand love, loyalty and encourage full switching to *IQOS*.

We activate our users as our best *IQOS* ambassadors for legal age smokers' lifestyle change. We have the knowledge, we have the scale, we have the resources, and consumer recognition to continue to grow our overall brand experience advantage versus competition.

**IQOS: Provides LAS a Tobacco Pleasure that Enables Them to Move Away from Smoking and Feel the Joy of Belonging**

IQOS provides legal aged smokers a tobacco pleasure that enables them to move away from smoking and feel the joy of belonging – the joy of belonging to a new community, to a new lifestyle.

Listen to Carlos. Carlos: “The truth is, I’m all about pleasure. This is the one thing I will not compromise.”

We celebrate our users’ ability to move together forward with pleasure.

Within the Together Forward campaign, our brand engagement platform, Together X: Experience the Unexpected, creates national and cross-national events for legal age users that are memorable, purposeful, experiential and, importantly, they are co-created with our adult users. So they are meaningful and contemporary. The first global event, Together X, will take place in Athens tomorrow, and the platform will be rolled out this year and next.

**IQOS Together X: Experience the Unexpected**

Transitioning to omnichannel commercial footprint when it comes to smoke-free products, we deliver unparalleled reach with quality. We have over 1 million point of sales for our smoke-free products, with the opportunity to continue to grow our weighted[?] distribution. We have over 260 million annual traffic to our digital assets. More importantly, we have invested in quality reach to deliver a superior consumer experience with over 5,400 IQOS stores and IQOS partners, which is a 40% growth over the last year.

We have over 10,000 trained sales and service staff and we have invested in own e-commerce capabilities.

**Experiential Touchpoints**

Our experiential touchpoints cater for over 380 million interactions annually – an impressive 20% year-on-year growth. Over 50% of our devices are sold in our experiential touchpoints. This allows, outside of Japan, 80% of our legal age users to be registered with us. 80% is a phenomenal asset to enable, as of day one, relationship management in the behavioral change journey of our users.

**Experiential Touchpoints Deliver Higher Purchase Intent, Conversion and Advocacy**

Experiential touchpoints deliver significantly higher quality of acquisition and retention, and this is reflected in two times higher intention to purchase, over 20 percentage points higher conversion to smoke-free products and two times higher advocacy and positive word of mouth. This means we build a stronger portfolio of commercial assets to engage our legal age nicotine users.

**Digitalization and Scale Optimize the Commercial Engine Efficiency**

Well, being effective and delivering the best-in-class quality across the consumer journey, we also managed to optimize the commercial engine efficiency via digitalization and scale. As of 2022, commercial cost per legal age user reduced by 43% comparing to 2018. We foresee further reduction in the future on the same drivers, of course partially offset by new markets.

**Lil & BONDS: 2<sup>nd</sup> Tier HNB Portfolio to Broaden the LAS Reach**

So far, I talked about *IQOS*. I now want to switch to cover our second-tier heat-not-burn portfolio with the objective of broadening our legal age smoker reach.

Plenty of adult smokers who don't quit have yet to switch. Many still need to be convinced about the category benefits, and we will continue to work on it, eventually supporting regulation as a future catalyst. There are also many adult smokers who prefer full-flavor cigarettes and are more value conscious than *IQOS* users. Our heat-not-burn portfolio needs to cater for their needs. Hence, we are building a second-tier portfolio to broaden the reach, to mainstream adult nicotine users, addressing the main conversion barriers of taste satisfaction and affordability.

*BONDS* by *IQOS* and Lil are the two heating systems that cover this space. Lil was introduced through the partnership between PMI and KT&G in 2020. It delivers tobacco enjoyment with pin heating technology and it has been successfully rolled out in more than 30 markets. *BONDS* by *IQOS*, our peripheral heating system, provides *IQOS* quality at entry price with strong tobacco notes, addressing in particular full-flavor legal age smokers. We are leveraging the learnings from our two pilot markets to evolve the portfolio and the commercial model.

Deployment of the second tier for the heat-not-burn portfolio provides flexibility to continue to grow the category while also responding to growing competition.

***IQOS* Growth Opportunities**

We started our journey in 2014 with one device and two consumables. Today, I share with you a portfolio of four heating systems, seven device models and more than 50 consumables. I invite you to discover them in the breakout session at the end of this day.

With such a comprehensive heat-not-burn portfolio, where will the growth come from? There are many ways to look at growth opportunities for *IQOS*. Let me start.

**HNB: Mid-Term Opportunities in Existing *IQOS* Launch Markets**

First, let's look at the existing *IQOS* launch markets. They represent 1.3 trillion units, included heated tobacco sticks and cigarettes. So far, *IQOS* only accounts for 9% of this universe. To note, 25% of the remaining cigarette industry is still in premium segment.

Looking forward, to gain 200 billion sticks out of this 1.3 trillion – i.e., a 15% share – is not a dream. In fact, by Quarter 2 2023, we have already seven markets exceeding 15%. We will continue to leverage our consumer understanding, product superiority, comprehensive portfolio, cost-conscious innovation, brand equity and commercial engine, to convert the remaining legal age smokers.

Second, we still have opportunities in big markets with H2 markets share below global average, such as Germany, UK, Spain, France and Canada.

In markets like UK and Canada, legal age smokers are under high social pressure to switch out of cigarettes. In markets like France, Spain and Germany, legal age smokers feel relatively limited social pressure. In some of these markets, unfavorable regulation to heat-not-burn prevent legal age smokers to access heat-not-burn information and to try the product itself. As a consequence, lack of understanding of the category benefits have made *IQOS'* progress slower so far. In Germany, consumer and trade readiness, was behind other markets. Despite

good access to information, it took just longer to build a category understanding. But as you can see, our key city share above 10% shows the way forward. To seize growth opportunity in this market, we plan to leverage our commercial engine to unlock *IQOS* visibility, experiential touch points and consumer activation.

### **HNB: Vast Greenfield Opportunities to Unlock**

Don't forget the vast greenfield markets to unlock. US: around 30 million adult smokers, approximately 180 billion sticks and \$70 billion cigarette retail value. Our ambition is to achieve a 10% share of the total cigarettes and HTU market within five years from the launch of *IQOS ILUMA*. This means roughly 18 billion sticks, fully incremental to PMI. As introduced by Jacek, our preparation for the 2024 *IQOS* launch in the US is well underway, including domestic manufacturing as well as readiness of the commercial organization and indirect retail partners.

As said by Jacek, the accessible market outside the US is another 800 billion units – 800 billion units. They include Indonesia for 300 billion units, and in Indonesia we are still at the very, very, very early stage. We are just piloting in Jakarta via the *IQOS Club* and the *IQOS Club* already includes 100,000 members. Our ambition is to reach a 10% market share, which means incremental HTU volume of 30 billion units.

On the lower side of this slide, if regulation changes in non-accessible markets today, such a Turkey as well as India and Vietnam, they combined represent 300 billion units. Assuming that we have the opportunity to take 10%, this would mean another 30 billion units growth opportunity.

### **HNB: Strong Category Outlook '24-26**

We are very confident – very confident of the heat-not-burn category outlook for the following three years. We drive profit growth while investing in high return opportunities and we target 180 to 200 billion units by 2026, focusing on three key drivers. First, *IQOS ILUMA*, the heat-not-burn leader to drive top-line growth. Second, *Lil* and *BONDS* by *IQOS*, to broaden the legal age smokers reach. And third, seize opportunity and accelerate inaccessible greenfield markets.

### **eVapor: High Prevalence, Unfavorable Profitability**

Let me now switch to eVapor. Vaping is another important smoke-free alternative with undisputed harm-reduction potential. It has a growing prevalence, mainly driven by convenience, device-format innovation, wide flavor and affordability. In mature vaping markets, one out of five legal age nicotine users is already using vaping products. The prevalence is even higher among younger adult nicotine users. There are about 60 million adult vape users globally.

However, at the current stage of the eVapor industry, it is very fragmented, with low brand loyalty, low conversion rate, lower than heat-not-burn – significantly lower – and therefore very unfavorable financials.

### **eVapor: Industry Challenges**

There are two key challenges to address to make the eVapor category long-term viable. One is regulation. The other use is user experience.



From Quarter 1 2022 to Quarter 1 2023, negative media coverage also fueled by social media increased more than 200%, mainly in the areas of youth access prevention, environmental sustainability and non-compliance.

Meanwhile, in the retail market, we see proliferation of similar products with thousands of brands and the category expression really lacks societal maturity.

### **eVapor: Vaping Made Right**

Vaping made right is critical to the sustainable growth the industry. On this slide you can see what it takes to have vaping made right. Be patient. We will spend a bit of time on this slide.

It starts with youth access prevention. Tobacco- and nicotine-containing products should never be used by underage person. We develop and market our products in a way that they remain appealing for adult smokers and nicotine users to encourage switching out of cigarettes, while mitigating the risk to appeal to underage audience. This applies to product features, such as flavors, device, packaging, as well as to the way we commercialize them. This approach has been proven to be successful. In another category, heat-not-burn, we demonstrated our track record with *IQOS* on youth access prevention. According to the National Lifestyle Survey of Adolescents in Japan, less than 0.5% of the youth of our users have tried heat-not-burn in the past 30 days – less than 0.5%. And evidence from many other markets where we have a mature commercialization of *IQOS* also demonstrates a very low use by youth. We apply the same approach and the same principles of heat-not-burn to the eVapor category with our brand *VEEV*.

Second, vaping made right is about sustainability. We focus on design for sustainability and post-consumer waste management – principles that we apply across all our smoke-free portfolio. More than 80% of product components by weight are recyclable. 100% of the packaging is recyclable. And we are reducing the material usage, including unnecessary plastic where needed. As part of our strategy to address the post-consumer waste of our products, we offer consumers access to our circular programs in all *VEEV* launch markets.

Third important aspect – we call on governments to regulate the industry, promote responsible marketing practices and enable a level playing field with appropriate product standards, strong youth access prevention safeguards, commercial regulation and fiscal regulation. All of that should be accompanied by rigorous law enforcement and imminent penalties for those who break the rules.

### **VEEV: Responsible Marketing Practice**

In PMI, we do the utmost to minimize the risk to appeal to or access by youth. Let me share some more details about product development and commercialization.

We start with adult design. Our *VEEV* portfolio has clear adult design language, from form factor to color to flavor and packaging. We apply online and offline age verification. While the level of control we have over the different channels, where we commercialize the product, is different, it is critical that we continue, even in those channels where our influence is limited, to use our best efforts to guard against youth access to PMI products.

All adult consumers must be age verified before providing access to PMI products. We continually investigate new technologies to make sure that we do age control. For example, we are exploring innovative certified face age verification in our online channels. We conduct

retail education for youth access prevention program to retail partners and to shop assistants. All point of sales brand marketing materials, including indirect retail, contain youth access prevention communication.

In a nutshell, we are very committed to drive the responsible marketing practice of the entire nicotine industry, including the vaping industry.

### **VEEV: Focus on Select Markets**

Now, consumer is core, and in line with vaping made right principle, we enter the category in a responsible manner. We stick to our vaping made right principles, even if it means slower pace of commercialization or being less competitive. We are launching our latest generation of products which are designed for legal age smokers for help – to help them transition from cigarettes.

First, we introduce VEEV Now disposable vape to adult smokers who are open to try new alternatives. Second, we recommend VEEV One closed pod to legal age nicotine users who know the category and they are ready to commit. The deployment of this portfolio focuses on 20 markets where there are an estimated 20 million adult vapers.

### **VEEV Now and VEEV One: Promising Commercial Start**

By August 2023, VEEV Now is live in 16 markets and VEEV One is live in nine markets, including duty free. We see promising commercial start, with VEEV Now weekly offtake more than two times versus Quarter 1 and VEEV One weekly sales over two times than the previous VEEV launch.

### **VEEV Accents: Innovation to Improve Conversion and Retention**

I covered the first challenge of this category, regulation. Let me now address the second challenge, user experience.

Studies show that many vapers do not switch exclusively to eVapor, but they continue to smoke cigarettes. This is primarily due to the liquid formulation, which is different from the more natural tobacco taste preferred by adult smokers. To help legal age smokers who don't quit to fully convert to eVapor, it's critical to deliver superior tobacco flavor experience. We have developed a proprietary e-liquid formulation using genuine tobacco flavors from real tobacco leaves, introducing VEEV Accents, the new e-liquid formulation which delivers real tobacco taste and demonstrates better conversion and better retention of adult smokers than regular tobacco flavors, not only during consumer research but also with a significantly better sales performance than regular tobacco variants in retail stores in the first market launch, Canada.

### **Champion the Smoke-Free World with a Range of Superior Alternatives**

Let me now transition to multi-category. Multi-category is a way to accelerate the smoke-free category growth. Dual and poly users of smoke-free products is a very sizable segment and is a consumer segment that is growing and will be a long-term trend. According to consumer research, poly users of multiple smoke-free products have low probability to modify their behavior. 68% of poly users in 2021 were still poly users in 2022. So, multi-category is a must to accelerate smoke-free category growth. We champion the smoke-free world with a range of superior alternatives: IQOS, number one smoke-free brand; ZYN, number one nicotine pouch

brand; and VEEV, responsible vaping brand. Each of the brands has a clear image, positioning, space to play, superior equity and superior product quality.

### **Multi-Category Drives Commercial Engine Effectiveness & Efficiency**

Now multi-category is proven to improve visibility and therefore improve brand awareness by up to 17 points and contact to buy ratio by up to five points with limited investment. Recent multi-category deployment in Dubai Airport duty-free show very promising result as introduced by Lars before, after combining *ZYN* and *IQOS* in the duty-free outlet sales of *ZYN* were more than doubled while *IQOS* continued the growth momentum +33% growth.

### **In Summary: We are Well Equipped for 2030**

In summary, we are very well-equipped for 2030. *IQOS*, number one heated tobacco brand with significant growth opportunities by leveraging portfolio evolution to broaden legal age smoker reach; brand equity to acquire and convert legal age smokers and seize opportunity in new geographies. *ZYN*, number one nicotine pouch brand. The undisputed leader in the fastest-growing smoke-free category. *VEEV*, vaping made right, responsible play in select markets. Multi-category deployment as a way to accelerate smoke-free products, category growth at the minimum investment.

We are very, very confident to progress towards our 2030 vision. Thank you for your attention. I end over to Badrul, who will cover the ad reduction from cigarette smoking.

## **Badrul Chowdhury**

*Chief Life Sciences Officer, Smoke-Free Products, Philip Morris International*

### **Introduction**

Thanks, Stefano.

### **About Me**

Good afternoon. I joined PMI late last year and took on the role of Chief Life Science Officer, Smoke-Free Products in January of this year. I'm a medical doctor trained and licensed in the U.S. My training is in the clinical areas of Internal Medicine and Respiratory Medicine and in the basic science of Immunology. I worked at the U.S. FDA for about 20 years, mostly as Director of the Division of Pulmonary, Allergy, and Rheumatology Products. I then led the respiratory medicine development at AstraZeneca as a Senior Vice President.

I'm pleased to have the opportunity to work on one of the greatest public health needs of the current time – reduce health harm from cigarette smoking.

The concept of relative health harm reduction by developing alternative products to cigarettes has been endorsed by the U.S. FDA about two decades ago. I hope other regulatory bodies around the world and public health bodies, including the WHO, will also endorse this concept. I have seen changes in pharmaceutical industry regulation driven by science that happened for the larger good of public health. I'm optimistic that PMI championing a smoke-free future is also going to make changes in the same direction for the larger good of public health.

The Scientific Basis for Tobacco Harm Reduction We have shared our science and third-party studies on smoke-free products on numerous occasions. However, I would like to take this

opportunity to present some of these and share new data to address the unfortunately widespread misinterpretations on both smoke-free products and nicotine. As Jacek mentioned earlier, such misinterpretations are often propagated by NGOs, including the WHO, and such misinformation effectively perpetuates the use of cigarettes.

I will briefly cover the science behind smoke-free products, then speak about existing data that support the health harm reduction potential of these products relative to cigarettes. I will speak about heated tobacco products, e-vapor products, and oral products. I will outline some of the future studies we plan to conduct on smoke-free products. I will speak about nicotine because the health harm reduction products deliver nicotine, and the regulatory focus is shifting from health harm of cigarettes to health effects of nicotine.

### **The Tobacco Harm Reduction Opportunity**

#### *A Complement to the Current Tobacco Control Approaches*

It is estimated that about 1 billion people around the world smoke today. The WHO projects that the number will remain roughly the same for the coming years. The negative health consequences from cigarette smoking are well understood. Those who don't quit deserve pragmatic and sensible alternatives. The potential health benefit of smokers if they switch completely to smoke-free products could be substantial.

### **Smoke-Free Product Portfolio**

Here is an overview of two relevant product categories: inhaled products and oral products. The categories apply globally; however, I'm showing representative PMI products in each category. Of the inhaled products, heated tobacco products use real tobacco while e-vapor products use nicotine sourced from tobacco.

Oral tobacco pouches such as Snus use real tobacco while oral nicotine pouches such as ZYN use nicotine sourced from tobacco. None of these products combust tobacco, therefore all are smoke-free.

### **Cigarette Combustion Causes Harm to Health**

At the core of the health harm caused by cigarette smoking is a combustion of tobacco, which I will cover briefly as it is familiar topic for many. At temperatures higher than 400 degrees centigrade, tobacco ignites and combusts and generates more than 6,000 different chemicals, about 100 of them have been identified and listed by the US FDA as harmful or potentially harmful. The figure on the right shows some polycyclic aromatic hydrocarbons, which are carcinogenic substances which are released at high temperatures beyond the ignition point of tobacco.

Our current heated tobacco products heat tobacco without burning at temperatures below the ignition temperature of tobacco. At these lower temperatures, nicotine and flavors are released from tobacco while generating on average about 90% to 95% lower levels of chemicals that are harmful or potentially harmful compared to cigarette smoke.

### **The Difference Between Cigarette Smoke & IQOS (THS) Aerosol**

#### *Heated Tobacco Aerosol Chemistry & Physics*

Aerosol generated from heated tobacco product is fundamentally different from cigarette smoke as can be seen by analyzing the residue that is left on a filter pad after a pass through of

cigarette smoke or heated tobacco product aerosol. The major mass of the heated tobacco product aerosol is water and glycerin. Heated tobacco products do not generate carbon-based solid particles, and the level of free radicals in the collected residue is below the level of quantification. Carbon-based solid particles and free radicals deposit in the lungs and other tissues and can cause inflammation. Heated tobacco product aerosol also contains significantly lower levels of carbon monoxide, so that the FDA removed the Surgeon General warning on carbon monoxide for our leading heated tobacco product.

### **Reduced Toxicant Formation in IQOS (THS) Aerosol**

#### *Heated Tobacco Aerosol Chemistry & Physics*

Aerosol chemistry studies demonstrated that our leading heated tobacco product emits on average about 90 to 95% lower levels of harmful and potentially harmful constituents for various smoking-related disease-causing risks compared to cigarette smoke. For the nine toxicants recommended for lowering by WHO in cigarette smoke, the reduction is more than 95%.

### **Mouse Toxicology Study – Findings in Lung & Vascular System After IQOS (THS) Exposure**

Many animal studies have been done to assess the potential reduced health harm of our heated tobacco product compared to cigarettes. The results are suggestive of reduced harm. This slide shows results from one such study in mice showing differential effects in the lungs and cardiovascular system.

In this study, mice were exposed for eight months including the first two months to cigarette smoke for cessation and switching groups. Eight months would be about one third of the lifespan of mice. The graph and pictures on the left show emphysematous change, which was pronounced in the cigarette group compared to other groups including the heated tobacco product group. Histopathology of the lungs, as shown on the lower part on the left, show increased inflammatory cell infiltrate and increased airspace in the cigarette smoke exposed animals compared to heated tobacco product.

The lung histopathology in cigarette smoke exposed animals is reminiscent of chronic bronchitis and emphysema that occurs in humans who smoke cigarettes. The graphs on the right show some of the cardiovascular effects. Atherosclerotic plaque volume and blood vessel occlusion measured in the aortic arch were pronounced in the cigarette smoking group compared to other groups including the heated tobacco product group.

### **Overall Reduced Toxicant Exposure in Humans – IQOS (THS)**

#### ***Clinical Assessment HTP (in Smokers Who Would Otherwise Continue to Smoke)***

Some studies done in humans showed the potential benefit of heated tobacco products compared to cigarettes. I will show the results of a couple of such studies. Two human studies, one in the U.S. and one in Japan, compared three groups over a 90-day period – a group of persistent smokers, a group that switched to our heated tobacco product, and a group that stopped smoking. Results at day 90 as shown in this slide, showed reduced exposure to harmful and potentially harmful constituents in subjects using the heated tobacco product that were comparable within 90 to 95% to subjects who stopped cigarette smoking for the duration of the study.

In both studies, 160 subjects were randomized 2:1:1 to heat a tobacco product, cigarettes, and smoking abstinence. Compliance to the allocated intervention in the U.S. study was low, ranging from 24% to 78% compared to the Japanese study ranging from 90% to 98%, reflecting the wide confidence interval in the study in the U.S. compared to Japan.

### **Exposure Response Study: Biomarkers of Potential Harm (BoPH)**

#### ***Clinical Assessment HTP (in Smokers Who Would Otherwise Continue to Smoke)***

One human study conducted in the U.S. compared biomarkers of potential harm in two groups over a six-month period a group of persistent smokers and a group that switched to our heated tobacco product. A total of 984 subjects were randomized 1:1 to the two groups. Eight biomarkers were measured, four in the blood or serum, three in the urine, and one while lung function test. The name of the biomarkers and their functions are shown on the slide on the right-hand side. The study protocol defined a priori that for the study to claim success, statistical significance will be required in at least five out of any eight of the biomarkers.

### **Exposure Response Study: Effects of IQOS (THS) Use on BoPH**

Results showed that all biomarkers moved in the direction of reduced potential harm for our heated tobacco product. That is the direction as observed when people stop smoking. Five of the biomarkers were statistically different compared to persistent cigarette smoker using appropriate statistical methodology. Important to note that in this study dual use with cigarettes up to 30% of all product users was allowed in the heated tobacco product group and was included in the analysis.

### **Reduced Toxicant Emission – VEEV**

#### ***E-Vapor Aerosol Chemistry & Physics***

I will now provide a few data points on e-vapor. Like heated tobacco product, aerosol chemistry studies demonstrated that our leading e-vapor product emits on average about 99% lower levels of harmful and potentially harmful constituents compared to cigarette. The major ingredients of the liquid formulation such as propylene glycol, vegetable glycerin, and nicotine are correlated with the power setting and puffing volume. The toxicants measured are at trace levels and remain low at both power levels compared to cigarettes.

### **Mouse Toxicology Study – Findings in the Lung After E-Vapor Aerosol Exposure**

We also conducted an animal study similar to the one with the heated tobacco product to investigate the effects of various e-vapor liquid components on the lung and cardiovascular system. We tested exposure to propylene glycol and vegetable glycerin (shown in the slide as the Carrier group), propylene glycol and vegetable glycerin plus nicotine (the Base group), and the group with added in flavors (the Test group) and compared to cigarette smoke and air exposure. Results in the lung showed that cellular infiltrate and emphysematous changes were lower in all groups compared to the cigarette group.

### **Overall Reduced Toxicant Exposure in Humans: VEEV**

#### ***Clinical Assessment E-Vapor (in Smokers Who Would Otherwise Continue to Smoke)***

Finally, we conducted a study in humans in the UK that compared four groups over a five-day period in confinement a group of persistent smokers, two groups that switched to our e-vapor product with either tobacco or menthol flavor, and a group that stopped smoking. Results at day five, as shown in this slide, showed reduced exposure to harmful and potentially harmful

constituents in the e-vapor group subjects that were comparable to subjects who stopped smoking for the duration of the study.

68 subjects were randomized in equal numbers to the two e-vapor groups – cigarette and smoking abstinence. Compliance to the allocated intervention was a 100% due to the study being conducted in confinement and under control of the study staff.

### **Comparison of Exposure to HPHCs in Cigarettes, Swedish Snus and Nicotine Pouches**

Let me now address the harm reduction potential of our oral smoke-free products, Snus and nicotine pouches.

Cigarette smoke contains over 6,000 chemicals including about 100 harmful and potentially harmful constituents as well as carbon-based nanoparticles and free radicals as I mentioned earlier. In contrast, oral tobacco products do not combust tobacco so inherently exposes the body to lower levels of toxicants. A recent study published in 2023 screened oral tobacco products and oral nicotine products for 36 compounds identified as harmful or potentially harmful.

Only 15 harmful and potentially harmful compounds were quantifiable in Snus and four were quantifiable in ZYN. Snus had no polycyclic aromatic hydrocarbons, and traces of nitrosamines NNN and NNK – compounds that are known carcinogens. ZYN had no polycyclic aromatic hydrocarbons and no nitrosamines. The number of quantifiable harmful and potentially harmful constituents were comparable between ZYN and oral nicotine replacement therapies or NRTs. Generally, nominal amounts of carcinogens, NNN and NNK, in microgram per gram tobacco is about sevenfold lower in Snus compared to reference cigarettes.

It is obvious that oral products do not expose the lungs directly to any toxicants. Of note, FDA has granted the first authorization of modified risk claim for Snus in 2019. The claim is that Snus relative to cigarettes reduces the risk of lung cancer mouth cancer, emphysema, chronic bronchitis, heart disease, and stroke in humans. I will show some of the data underlying this decision in the following slide.

### **Oral Tobacco Products and Cigarette Sales in Sweden**

These human data on Snus generated mainly from Sweden is often referred to as the Swedish Experience, as Lars mentioned earlier. An indication of the direct human health benefit of smoke-free products can be seen from the use of oral tobacco products compared to cigarettes in Sweden. In Sweden, sales of cigarettes were on the rise till about 1980 and since then has been declining with the increased sales of oral products. Sales of oral products have increased since the first launch of pouched Snus in 1973 and tobacco-free nicotine pouches in 2016 and have overtaken cigarette lately.

### **Real-World Data and Evidence on Harm Reduction in Sweden**

#### ***Usage Rate of Snus and Cigarettes in Swedish Men Correlate With a Reduction in Tobacco Related Diseases***

This slide shows use of cigarettes and oral products in Swedish males from 1980 onwards till about date. Use of oral products increased slightly, while there has been a substantial reduction in smoking prevalence from about 35% in 1980 to about 6% now. At the same time, and as shown in the smaller boxes on the right, there has been a reduction in ischemic heart disease and in lung cancer in Swedish men.

**Sweden: Lowest Male Smoking Prevalence in the EU**

The introduction and uptake of Snus is related to changes that were relatively unique for Sweden. Snus is not permitted in many EU countries due to regulatory restrictions, but in Sweden, where oral tobacco product prevalence grew, men have one of the lowest smoking prevalence in the EU.

**One of Lowest Tobacco-Attributable Male Mortality in EU*****Product Use and Health Harm Reduction***

Swedish males have one of the lowest tobacco-related mortality among the EU countries. This graph of mortality estimates does not exactly mimic the previous graph of smoking prevalence because of differences amongst countries about how death is counted and there are varying lag periods in changes in mortality from various diseases attributable to cigarette smoking.

The observed changes in prevalence of cigarette vs. oral tobacco seems to be causing this pattern of reduction in tobacco attributable mortality in Sweden.

**Epidemiology Supports Snus Reduced Risk Claim for Major Smoking-Related Diseases**

This forest plot shows the health harm reduction estimates from Snus in a granular fashion. The data are mostly from Sweden. It shows the estimated relative risk of mortality from five major smoking-related diseases. Relative risk is a ratio of the probability of an outcome of an exposed group to the probability of the outcome in an unexposed group. An example would be the probability of lung cancer death in smokers vs. non-smokers.

The relative risk for Snus based on the list of studies in different diseases are shown in this slide. The relative risk point estimates were 0.8 for lung cancer, 1.0 for mouth cancer, 0.8 and 2.0 for COPD, there were two studies, and 0.9 and 1.3 for heart disease and stroke. These estimates are from large sets of data. All but the COPD study are meta-analyses of multiple studies. The term COPD combines emphysema and chronic bronchitis.

The relevant comparison of the relative risk for Snus is cigarettes. There are publicly available relative risk numbers for cigarettes from multiple sources, including the US Surgeon General report and the CDC and also from other countries. The relative risks for cigarettes for these diseases are high for lung cancer, mouth cancer and COPD, diseases strongly linked to cigarettes. The relative risk is reported at around 10-20 for heart attack and stroke, diseases that have multiple risk factors, the relative risk for cigarette is reported at around 1.5 to 4. The FDA has concluded that for all these diseases, the risk is lower with Snus compared to cigarettes.

**Health Effects of Oral Nicotine Products (e.g., ZYN)*****Long-term Data from Oral Tobacco Products (e.g., Snus) Provides a Basis***

The epidemiology data presented so far is primarily related to Snus. It will be reasonable to assume that the data from Snus would apply to the nicotine pouch, ZYN, given some fundamental assumptions are met as shown in this slide. ZYN qualitatively and quantitatively contain similar or lesser amount of harmful chemicals compared to Snus. Pattern of use data combined with exposure data from Sweden show a similar nicotine exposure for Snus and ZYN. Based on this, long-term health effects are not expected to differ between Snus and ZYN. The use pattern of Snus and ZYN are also similar.



**Future Evidence Generation for Relative Risk Reduction*****Studies to Show Substantial Evidence on Major Smoking Related Diseases – Our Roadmap***

Now, moving on to some future studies. This slide shows a high-level summary of studies, we at PMI are planning to further define the health harm reduction potential of inhaled smoke-free products. Oral products have generated extensive and persuasive data from epidemiologic studies that I've covered. Inhaled smoke-free products are a relatively new entry to the market and sufficient time has not yet elapsed to generate large epidemiological data for study.

We are launching studies in countries where the inhaled smoke-free products have been in the market for a number of years and have reasonable market penetration. As shown on the right side of the slide, our strategy is to show direct benefit in patients with disease such as symptoms, function, and mortality, and in healthcare utilization, such as hospitalization.

As shown on the left hand side of the slide, the primary diseases we are targeting are COPD, where beneficial changes from switching from cigarettes to smoke-free products could be rapid in weeks to months for some symptoms and function, and in cardiovascular disease such as heart attack and stroke, where the beneficial changes from switching from cigarettes to smoke-free products could be seen in about two years. For cancer, unfortunately, the latency period for change is much longer, over 15 to 20 years, and the risk may never return to the level of non-smokers in lifetime.

Now moving on to diseases. For COPD, we have started a three-year study assessing progressive lung damage from smoking compared to using our heated tobacco product. We will start a six-month study assessing symptoms and functional impairment in COPD with the same product. We plan to retrospectively analyze real-world data for COPD-related hospitalization in subjects using heated tobacco products. For cardiovascular disease, we plan to conduct an outcome study assessing mortality, heart attack and stroke, preferably retrospectively using real-world data. In some markets, we intend to launch product registry on product launch.

Lastly, we are planning to conduct retrospective real-world evidence studies on nicotine pouches to demonstrate the harm reduction potential of these products. We may also launch product registry or cohort study for nicotine pouches.

Now, real-world evidence studies are challenging to conduct as medical or insurance records need to be linked to product use. In addition, high-quality data must be ensured for all data we want to evaluate, for example, mortality status. Real-world evidence studies have limitations in terms of what they can or cannot show.

**Nicotine is Not the Primary Cause of Smoking-Related Diseases**

With the availability and increasing use of smoke-free products, there is interest to understand the health effects of nicotine. Historically, many of the human studies with nicotine were done in the context of cigarettes and there is a smearing of negative health effects of cigarettes over to nicotine. Health authorities and informed scientists understand and accept that nicotine is not the primary cause of health harm associated with cigarette smoking. Nicotine is addictive, but not intoxicating or physically impairing, as are some other addictive products, such as

narcotics and alcohol. Nicotine does not cause tolerance. Tolerance occurs when a person takes higher doses to get the same effect as before with lower doses.

Now, we as larger scientific community need to study and understand the health effects of nicotine in isolation and separate from cigarettes. Furthermore, we need to understand the reasons why consumers use nicotine and understand which levels of nicotine may be associated with potential benefits. There's also room to develop better nicotine replacement therapies or NRTs, such as inhaled NRT, that may provide pharmacokinetic parameters matching better with the nicotine delivery from cigarettes and mimic better the cigarette smoking experience.

### **Nicotine – Potential Medical or Therapeutic Benefits**

Nicotine has been studied for benefits in some human diseases as listed in the slide. In vitro, animal, or human studies have shown benefit, but the data available to date are not persuasive and the addictiveness of nicotine could be a limiting adverse effect for developing nicotine as a medicine for human use, unless the benefit is overwhelming and there's a clear unmet medical need. The NIH in the US sees cognitive impairment as a potential and has funded a multi-center study exploring with a nicotine patch compared to placebo in 380 subjects exposed for two years can improve memory and functioning in patients with cognitive impairment. A potential downstream indication could be Alzheimer's disease.

### **Cost of Regulatory Inaction**

Let me close by going back to where I started. Cigarette smoking is one of the biggest public health concerns of our time. PMI has developed smoke-free products that have the potential of reducing health harms, and we are doing clinical studies to demonstrate reduced health harm of our products relative to cigarettes. However, there are enough data available now for taking pragmatic actions to reduce cigarette use and there are costs to human health of regulatory inactions.

Encouraging progress is being made in many countries. However, a failure to acknowledge the role that health harm reduction can play in bringing about the end of cigarettes hinders the ability of smokers to switch to better alternatives. The science is clear. It is no longer a case of if smoke-free alternatives are better than cigarettes, but by how much they're better. Many policy-makers perceive it is safer to abstain from the debate rather than to be seen as siding with industry, by adopting risk reduction policies. Governments and public health authorities must act quickly and decisively rather than remaining tied to the outdoor approaches that have failed to solve the problems of smoking. Embracing harm reduction by smoke-free products will accelerate the end of cigarette smoking.

Thanks for your attention. I will now hand over the podium to Matt Holman who will talk about our regulatory applications in the US.

## **Matthew Holman**

*Vice President & Chief Science & Regulatory Strategy Officer, Philip Morris International*

### **Introduction**

Good afternoon, everyone.

As Badrul said, my name is Matt Holman. I'm the Chief Science and Regulatory Strategy Officer in the United States for PMI. Before joining PMI, the summer of last year, I spent over 20 years working in the FDA, including the last 12 years working at the Center for Tobacco Products within the agency, where I left there as the Chief Scientist. And that role as Chief Scientist, I had a lot of responsibilities, one of which was overseeing the marketing application review program that all tobacco product manufacturers must go through.

I actually saw PMI's vision, their very aggressive approach to transforming this industry and therefore public health. I saw the portfolio of products that they had available, and so I actually approached them the summer of last year in hopes of contributing to this transformation that they're pursuing. And happy to say that I've been here now over a year, and really excited about what we have going on here, in the future, looking forward.

### **Heated Tobacco Products Applications**

What I want to do though is, Badrul shared with you some of the science behind our products. I want to actually talk to you about the products that we are seeking or have received authorization from the agency so that you know what that portfolio in the U.S., what we expect it to look like in coming years.

So as you all know, we have authorization from FDA to market our blade product, the *IQOS* 3.0 and 2.4. We received the initial authorization in 2019. That product comes with a couple different stick variants that mimic combusted cigarette flavors, so there's tobacco flavored sticks, and there are menthol flavored sticks. What is, wonderful about this product is we also, a year later in 2020, got authorization for a modified risk claim. You can see the claim here on the screen, and essentially says if you're a smoker and you put your cigarettes down and you switch to *IQOS*, you will significantly reduce your exposure to toxic chemicals. That, again, these products are authorized by FDA, that authorization doesn't have an expiration to be able to market these products. What does have an expiration though, is the modify risk claim. When FDA authorizes these claims for any products, they set an expiration date. Our expiration date for the *IQOS* product is July of next year.

In anticipation of this claim expiring and us not being able to use it any longer, and labeling and advertising, we submitted this past July, a renewal request to FDA. I'm very confident that FDA is going to renew this product, this claim on the product, although we will be the first going through this renewal process. What we submitted essentially in the renewal application or submission, the agency was all the new data we've collected on *IQOS* globally since FDA originally authorized in 2020. That data, if you look at it, is very, and, and some of it's been shared in earlier presentation today, supports this claim. Continues to support, in fact provides additional evidence that FDA didn't have in 2020 when they authorized this claim.

By the end of the year, we plan to submit applications for *ILUMA*. Again, just like the *IQOS* 3.0, we plan to submit PMTAs to get authorization of market in the United States as well as MRTPAs. With the MRTPAs, we plan to request the exact same claim that we already have on the *IQOS* product that's currently there. Again, being that we're requesting the same exact claim, I think the probability that FDA will come to the same conclusion for our *ILUMA* product, which as you've heard earlier today, is even better, has even higher potential to convert U.S. smokers to HTPs, I think the likelihood of a success in achieving authorization of market as well as authorization used claim for *ILUMA* is very high.

**Swedish Snus – First MRTP Authorized by FDA**

Switching to a different product category. Swedish Snus products, you've heard about them already earlier today, so I won't say that much about them. Really, the point here is just to say again, they're authorized to be marketed. That authorization doesn't expire.

But again, like I just said a moment ago for *IQOS*, the modified risk claim, does have an expiration date, which is also next year like our *IQOS*. So this past summer, we submitted a renewal request for these products as well. Again, provided additional data that FDA didn't have, when they authorized the product, the modified risk claim originally, again, the data we have, around the world, not just in the United States for these products also, again supports the validity of this claim. So again, I think this will be a relatively – should be a relatively easy decision for FDA to renew and extend this claim so that we can continue to use it in advertising and labeling for these products.

**Nicotine Pouch Applications**

Next, looking at nicotine pouches. We do have *ZYN* products on the market of the United States. We submitted applications PMTAs, in March of 2020, ahead of the September 2020 deadline that the courts had instituted in the United States for all marketed products that had not received authorization. These original products are dry products that come on a variety of flavors and strengths that really align with the rest of the oral tobacco product category. These products have not yet been authorized by FDA. FDA has started the review of our applications, but has not completed the review and concluded, but they are allowed to be marketed because the way the court ruling was set that if we submitted these applications by September of 2020, which we did, then FDA would allow us to continue to sell these products under what they call enforcement discretion. And so, these products are on the market, even though FDA has not completed the review of their applications.

We also would like to market in the U.S., *ZYN Ultra*, the moist pouches. Again, very similar to the dry pouches. The main difference is the moisture level. There are a couple other differences, but again, the same array of products. These products, unfortunately, even though we submitted the applications nearly two years ago, the FDA has also not completed their review of these products. And so, we are not able to market these products. They were not submitted by that September 2020 deadline that would allow us to market under for some discretion. So we will not be able to market these, until FDA authorizes the applications.

**PMTA Authorizations**

I want to just sort of step back for a minute at the end here and kind of give you a little bit of a big picture about what things look like in the U.S. from a regulatory perspective. As shown on the slide here, FDA has only issued marketing and granted orders for 45 different products, in total. To contrast that on the SE, it's many, many thousands at this point. I don't know the exact number off the top of head, many, many thousands. As you've heard, I think in earlier talks for a variety of reasons, I think PMI is a leader in smoke-free products. This is a good example where we have actually a third of all PMTA authorizations that FDA has issued to date, for our *IQOS* product line and our *General Snus* product line.

**MRTPA Authorizations**

Similarly, if you look at the MRTPA pathway to get these claims of either reduced exposure or reduce risk, we actually have 80%. This company has 80% of the authorized claims. Again,

these are some of the reasons why I actually joined PMI as well. They've got proven success with FDA and getting through, what are very difficult, regulatory processes both under the PMTA and MRTPA pathway.

### **Overcoming Regulatory Challenges**

Lastly, I just want to wrap up by talking about some of the challenges. As you saw those numbers for total PMTA and MRTPA MGOs issued is very, very low, concerning these programs have existed now for about 15 years. The situation at FDA is there is a substantial backlog in PMTAs. What that means is there's a very long queue of applications, that still need FDA review. As the consequence of that, there's also a challenge that it's very unpredictable as to when FDA is going to complete the review for all these applications because there's so many sitting there. It's difficult as an applicant to know exactly when FDA's going to pick up your applications and review them. And that's a real challenge because as you, as you know, we are developing innovative products.

For example, we have this *ILUMA* set of products that we would like to get on the market in the U.S. They are innovation on the currently authorized, and authorized both for marketing authorized modified risk, blade versions of the product. And so, you know, how do we do this? How do we get these products on the market? We've got a number of different strategies that we're employing to try to get through the regulatory process and get our authorizations to both market and be able to label these products in the way that we think we should be able to label them.

One of the things we're doing, one of the strategies is making sure that we give FDA all the data we think they're going to need to ultimately make the conclusion that these products are appropriate for the protection public health, and issue marketing authorizations for us.

We don't want to cut corners and not give them everything we need. We want to give them enough data that they look at it and they can quickly come to the conclusion that, yes, the totality of data here demonstrates that these products should be marketed in the United States.

I think another strategy we're employing is just hiring folks with regulatory science expertise. So PMI has a long history of having great scientific expertise, but in the U.S. dealing with the FDA, we're trying to bring in staff that also have that sort of regulatory science experience that FDA is looking for so that we have a better understanding, back to the point I just made a moment ago, but what is the data that FDA would likely need? How would they look at a set a given product or set of products and thinking about what data that they think they need to draw a conclusion. So bringing in people that have that sort of knowledge, that experience with the agency, because it's very unique. Their approach is very different than other regulatory bodies around the world.

And then the last thing is just working to better educate adult consumers. Fortunately, with the new center Director, Brian King, well new, it's been a little over a year, so relatively new. He's been vocal in recent months about the need to better educate adult smokers. Because again, we have products on the market. We like to get additional innovative products on the market, that, you know, will improve both individual and population level health. We also have to make sure that smokers understand these products. And so that's why, for example, our modified risk claims on the *General* Snus and our *IQOS* products are really important. So the

consumers understand the impact they would receive to their health if they in fact put down their cigarettes and move to one of these smoke-free products.

So with that, I thank you for your time and I'll turn it over to Emmanuel.

## **Emmanuel Babeau**

*Chief Financial Officer, Philip Morris International*

### **Delivering on the Immense Smoke-Free Opportunity**

Thank you, Matt. Good afternoon, everybody.

Like all of us, I'm absolutely thrilled to be facing you to share the outlook perspective – objective for the next step of our journey to become a smoke-free company. Stefano was your Italian double espresso. I would've loved to be your French glass of champagne. I'm afraid there are still a number of things that we want to do with you in the rest of the afternoon before we get there later on today. What I'm going to do for the next 45 minutes or so is, of course, to explain how what Jacek and all the category owners have been explaining in term of performance that we want to achieve – all the great perspective, the potential that we are seeing in many dimensions, how is it going to translate into performance for PMI. And here you have the agenda of what I like to cover.

I certainly want to lead you through the very strong underlying driver of PMI today. We are flying with two very powerful engines, two champion in their respective category, IQOS and ZYN. They're fast-growing, they're profitable. I will lead you through a number of elements to emphasize that. I will certainly also explain why the resilience of our combustible category is very important to our performance. That will explain why, we have achieved a great performance over the 21-23 period that we're going to close in three months from now.

I will then, of course, elaborate on our objectives for 24-26. I'll speak about the U.S. We have a formidable opportunity within reach, and we're going to add growth to growth. That is also certainly explaining why we have such an exciting outlook for the coming years. I will certainly explain how we believe that this great performance is going to transform into the continuation of rewarding shareholders, and we are targeting to continue to deliver very strong shareholder return. And I will also say a few words about our 2030 vision on becoming substantially smoke-free.

### **Smoke-Free World Presents Unprecedented Growth Opportunity**

#### ***What would happen if the world was smoke-free tomorrow?***

But before I do all that, I'd like to make sure that we are all on the same page on understanding what is at stake here. We're not talking about something on this transformational journey that would be something that we need to do to just kind of maintain what PMI is or even something that would be marginal. We're talking about something that has for me a second to none capacity and power, in term of delivering growth over a long period of time. And let me illustrate that. What I'm going to say now is illustrative, of course, but I think it's going to help us understand what is at stake.

First of all, when we look at our volume today, we said it earlier today on the combustible business, taking into account the U.S., we have ~23% market share. When we look at the

smoke-free world, we have about 50% market share. So let's assume for one second for illustrative purposes that we are successful in un-smoking the world and the whole world is moving towards smoke-free products, and we keep the same market share of ~50%. It's a 2x factor on the volume. Okay, that's what we could do.

Now, when we look at the economics per unit, whether you look at the net revenue where we are today, I'm going to elaborate on that in a second, it's two to three times higher on our per unit smoke-free product versus combustible, or you look at the growth profit, we are anywhere 2-2.5x higher. Well, if we achieve that, okay, we're going to multiply then by two of course, the profit that we can generate by per unit. And if we double the volume, in fact, we talk about the 4x potential in term of gross profit pool, and of course the SG&A below gross profit will not grow at the same pace.

So all that to illustrate that, we have, as I said, formidable potential of growth ahead of us.

### **Structural SFP Growth As Industry Transforms**

The good news is that the world is moving toward a smoke-free situation far too slowly. We would like it to move much, much faster, but it is moving. We are today in '23, with around 11% share for smoke-free products. We are targeting to grow this share, and we expect to be a big contributor, with around 17% by 2026. And we believe that in 2030, we could be multiplying by close to 3x vs. today the share of smoke-free products.

Globally, we expect the nicotine space to be close to stability in term of volume. Of course, growing in term of value. Combustible, Werner said it, are going to decline between minus 4% and minus 2%, and we expect the smoke-free category to grow double-digit, 10-15%, nicotine pouches, of course, from a lower base being the most dynamic category, 30-35%, heat-no-burn growing 15-20%, and e-vapor growing at 10-15%.

### **Becoming Substantially Smoke-Free By Net Revenues**

We are of course significantly ahead of the curve when it comes to becoming smoke-free. In H1, you've seen that we reached 35% of smoke-free revenue on our total revenue. We are making good inroads toward our objective of becoming predominantly smoke-free, yet, as Jacek said it, we may be a bit short of the objective in 2025 for a couple of reasons. First of all, certainly a number of markets that we were hoping to open during this period did not open and are still closed to smoke-free products. Second, the war in Ukraine and the impact both in Ukraine and Russia, has been slowing down the growth of smoke-free products in these two markets, that's quite obvious. And third, let's face it, the resilience of CC and also the very strong price increase on CC, as it is a ratio of course, it's having an impact. But we believe that rapidly after '25, we're going to be, reaching this 50% threshold and we're going to become predominantly smoke-free.

And actually, when we look at the market where IQOS is available and the 80 markets where we are selling smoke-free products, we believe that by 2025 we should be predominantly smoke-free. And then of course, we have this vision for 2030 to be above two-thirds. But I will come back on that, later in my presentation.

### **Strong Delivery on 2021-23 Key Financial Targets Despite Headwinds**

Okay, let's now move back for a few slides on our 2021-2023 performance. I guess we will all recognize that we've been delivering this performance in a relatively challenging environment.

And I mean, you can name the difficulties that we've been facing, but obviously, I could mention the surge in inflation. I could mention the shortage on IC components that has been disrupting the supply chain and certainly the geopolitical situation and the war in Ukraine. All that has been, or have been, elements that have been clearly difficult that we've had to overcome.

And despite that, despite that we are going to deliver and in fact over-deliver on most of our objectives. We said at the beginning of this period, it was February 2021, we said, we think we can have volume broadly stable. Well, actually, we today, with the latest guidance that we provided today, we believe that we're going to be growing volume at a CAGR about 1.5%. So it's not 0.1%. I mean, it's a meaningful growth of our volume over '21-23. And of course, it's a big change in the outlook for the company when you see that even at the volume level today, we're in the capacity to generate a very nice growth.

We said we want to grow more than 5% organically the revenue of the '21-23 period. We're going to grow more than 7%. We said we want to grow excluding currency adjusted diluted EPS on average at more than 9%. We're going to grow at more than 11%. And we wanted to be highly cash generative. So we're going to be highly cash generative. Of course, the forex has been moving quite a lot over the period. But if we make the calculation at the prevailing forex in February '21, when we made the guidance, we're going to finish with an operating cash flow between \$34.5 billion and \$35.5 billion versus an initial guidance of around \$35 billion operating cash flow.

So we have been delivering, in fact, largely over-delivering despite the difficulties. And I think it gives a lot of solidity, a lot of credibility to the '24-26 targets that we're sharing with you today.

### **Strong Non-Financial Performance Also Delivered**

Now, when we talk of performance at PMI, it cannot be just the financial performance. And equally important are all the parameter, the action, the achievement that we need to realize to make this financial performance sustainable. And as you know, in order to make sure that we track them in a very clear, trackable manner, we put our key objective in that respect in a sustainability index, the PMI sustainability index, where you have the key parameters, KPIs, to deliver sustainability to this performance. And as you know, we classify them in two categories. The first one, which is probably for PMI the most important, what is the impact of our product on sustainability? Are we able to come with the right smoke-free product to convince the smokers to switch to better product? And the second one, I would say like the vast majority of companies, of course, the impact of our operation on the society on the planet, and whether here, again, our action is generating sustainability.

You have a select number here of parameters and KPIs. I'm not going to go through all of them, as you know, we are extensively describing them and this index is in our Integrated Report. Just a few of them here that maybe I can highlight. One is the number of markets in percentage of our shipments where we are coming with a program for youth access prevention. We want to be in '25 above 90%, where we've been so far consistently above at 91%.

Second element, we want to have an anti-littering program for our combustible business in more than 80% of our market in term of volume. In 2022, we have made progress, already at 68%. So we are making good inroad. And we're also making good inroad in becoming carbon neutral on Scope 1 and 2. And as you can see between 2021-22, there is a big decrease.



**Sustainability at the Core of Our Transformation**

Because these objectives are very important, they are also part of the way management is incentivized on the medium term. You know this performance share unit that is the vast majority of the remuneration over the medium-term for the management. Of course, total shareholder return and EPS progression account for 70%, but 30% is based on this sustainability priority to make sure that the management is addressing them in an efficient and successful manner.

**Integrating Smoke-Free Transformation into Financing Strategy**

One thing that we've seen, developing in the recent past, which I believe is extremely positive, is the fact that there is a growing number of stakeholders that are coming to us to sometime challenge us, but certainly support us, help us, and are saying, well, you are in the right direction, please continue. And if you can do more, you should do it. It of course starts with our shareholders. And, you know, in this room and through the broadcast, we welcome your help, your challenge, but your support as well in making sure that we are going in the right direction in building a sustainable business.

What is new is that even the lenders today accept, for some of them to say, that part of the cost that we're paying on the debt they're providing, on the financing they're providing is condition and is dependent on our capacity to deliver on our sustainability target. And I think it's really going in the right direction to have, as I said, a growing number of stakeholders thinking the same and being aligned to help us go in the right direction.

**Value Drivers: Smoke-Free Success & Perceived Sustainability of Growth**

The financial market, of course, also puts sustainability as an important element to assess the quality of the company and the valuation of the company. Here on this slide, you have the average P/E valuation for our peer group, FMCG companies, also tobacco industry. And as you can see, Swedish Match was, until we bought them, the one with the best valuation. Why is that? Well, we believe because precisely being around two-third of their business smoke-free, they had been making extremely good inroad in term of sustainability of the business. And that was acknowledged and recognized by the financial market.

We stand as a nice number two here, in the tobacco industry. And certainly, our multiple is also reflecting the fact that we are delivering strong and sustainable financial performance and the rest of the industry is behind us.

**Robust TSR, Despite Currency and Valuation**

What we take as a positive element as well, is the fact that when we look at, again, the performance on total shareholder return versus our peer group, including the industry, but also vis-a-vis the S&P 500, I think we believe that the quality of our performance over '21-23, and here it is the total shareholder return since the 1<sup>st</sup> Jan. '21, is acknowledged by investors. We are the number two of the peer group, which I think is reflecting the quality of the result that we've been delivering during this period.

**Accelerated Top-Line, Strong Profit Growth Targeted for '24-26**

Enough for '21-23. And now let's look forward and let's look at our ambition for '24-26. And of course, I'm going to elaborate on all these components. Everything is starting with the capacity to change the trajectory on volume and to grow volume. And we believe that today

with *IQOS*, with *ZYN*, with *VEEV*, to a lower extent, there is a capacity for us to grow shipments over the next three years. And that would be, of course after '21-23, 6 years in a row, growing volume.

When it comes to revenue, I'm going to detail, in a few slides, all the elements that are going to enable a significant upside on the revenue growth versus the volume evolution, and you will see, once again, that *IQOS* and *ZYN* are going to be strong providers of this extra growth versus volume evolution.

Then, I think very important, growth of our adjusted operating income. Here, as you can see, 8% to 10%. That means that, organically, we are targeting margin improvement. We believe that over the next three years we have identified the drivers to improve the operating margin and therefore deliver an accelerated growth versus the revenue with our operating income. I'm also going to give more granularity behind that.

Last but not least, of course, growing operating income translating into growth of the adjusted diluted EPS, excluding forex, with a CAGR between 9% and 11% over the period. And I will explain what's going to be the dynamic behind that as well.

### **Smoke-Free Transformation Driving Growth**

So when I look at '24-26, the growth is going to be really, here, generated by these two champions that we have in our portfolio today, *IQOS* and *ZYN*. As you're going to see in a minute, they come with, of course, great growth capacity in terms of volume, very powerful positive mix impact on revenue, on profitability, on margin. And yes, of course, we will have to invest a lot to make sure that we extract the maximum potential of the growth that is available here, but we believe that we have here, with *IQOS* and *ZYN*, the driver of a strong growth of the OI and also of margin expansion.

The combustible business, Werner said it, is going to be important, is going to continue to support, enable our journey to become smoke-free. And what to expect from the combustibles is, with the price increase that we expect to be about mid-single digit on average over the period to more than offset the volume decline, and together with the productivities to also be able to grow operating income.

### **Attractive SFP Volume Growth Supported by Investments**

But before I enter into all these building blocks, let me spend some time with you with what I think is a very important element to have in mind when it comes to the next three years. It is the super-positive mix impact that is coming from *IQOS* and from *ZYN*. Maybe for some of you all that is going to be already known and understood, but I guess a few elements are going to be new, nevertheless.

What we have done on this slide is relatively simple. We've been taking our international cigarette business and we've been calculating on a per-thousand basis the dollar amount for the various parameters here – the net revenue, the cost of goods sold, the gross profit, the commercial and R&D costs, and the product contribution. We've been doing the same for *IQOS*, international *IQOS* today, and also, as a reference, for the Nordics nicotine pouches.

So what do we see? Starting with the net revenue. So you see that, on average, we have net revenue of ~\$35 per thousand sticks – that was in 2022 – for our combustible business. When it comes to *IQOS*, we have an average of ~\$85, or around ~\$85, per thousand. So each stick

of *IQOS*, on average, is delivering 2.5x the net revenue that you have on international cigarettes. Let me, here, clarify the fact that we are integrating the net revenue coming from the device. So this is the, kind of, holistic number for *IQOS*, but, let's be clear, the net revenue coming from the device is about 4% of the total of the *IQOS* business net revenue, so it's not playing a lot at the level of net revenues, it's going to be a bit different at the level of the COGS. So, 2.5x higher than international cigarettes. So, of course, when we have positive volume – but these volumes that are becoming positive for CC volumes that are disappearing, when they come from *IQOS* they are coming with a very positive mix on the net revenue.

Now, let's look at the COGS. So the COGS are higher here for *IQOS* on average, ~\$30 per thousand versus ~\$12 per thousand for international cigarettes. But, be careful, here the large part of the difference is coming from the cost of the device, because for the cost of the consumable we are talking about a bit higher on *IQOS*, but not that massively higher. These COGS as we are generating now, productivity, and notably after the launch of *ILUMA* – and, I think, Jacek and several others, described the work that we have been doing over 20 years on optimizing the cost on CC – we are just at the beginning when it comes to the consumables for *IQOS*. So productivity is in the pipeline and we think that we have a mid-term opportunity to reduce the COGS on the consumables and on the device, once again, to something like \$25 per thousand.

So, today, we have a gross profit on international cigarettes, on average, of ~\$23 per thousand. On *IQOS*, we are at ~\$55 per thousand already, so each stick that we sell of *IQOS*, each HTU, is delivering 2.5x the average gross profit on international cigarettes. And, of course, as we improve the COGS that will further increase. In terms of gross margin rate, or the gross profit on revenue, today it's about the same, but the reality is that, as we shared already in the past, on the consumables we are already even a bit more than 10 percentage points higher in terms of gross margin rate on the consumables of *IQOS* versus international cigarettes.

Now, looking at the commercial/R&D costs, ~\$25 per thousand for *IQOS*. Yes, of course, we are in the phase of investment, we are building the digital commercial engine, we are building the infrastructure, we're investing in new countries. So it's seven times more than international cigarettes. We see that in the countries where we start to have the critical mass, where we are scaling up, we rapidly move below \$20, so it's going to happen in a growing number of countries. But, even taking the costs as they are today, we have a product contribution average per thousand of ~\$20 for international cigarettes, ~\$30 for international *IQOS*, so 50% more, for *IQOS*. And with the improvement that we have, as an opportunity for the mid-term we're going to move to \$40+ of product contribution, so it will be twice on *IQOS* what we deliver on international cigarettes. So you can sense here, you can visualize what is a super-powerful, positive mix that we are generating each time that we grow the *IQOS* business and the volume of *IQOS* consumables.

Now, when we look at the Nordics nicotine pouches, well, as you can see, it's even better on the net revenue per pouch – here we're on per pouch or per thousand pouches – so we are at ~\$100. The product contribution is about the same, around \$30. But here again, on a per unit basis, the nicotine pouch business in the Nordics – these are the reference, if you want, for what we could be developing internationally – is positive and more positive than international cigarettes.

**U.S.: Attractive & Substantial Growth Opportunity**

Now, let's move to the U.S. I think you all know that the U.S. is a super-profitable market, so maybe some of what I'm going to show is stating the obvious for you. But I think the numbers, nevertheless, are still impressive, and I think it shows why, today, the U.S. is already very material to us and the growth in the U.S. is going to make a big difference in our growth.

As a reminder, we put the numbers for international cigarettes and international IQOS, calculation. And here you have U.S. ZYN, so it's for per thousand pouches, if I may say, and you have a revenue of ~\$190. So it's 5.5x international cigarettes, it's more than 2x international IQOS. COGS are a bit higher, actually 3x international cigarettes, very close to the IQOS cost of goods. And the gross profit, the gross profit per thousand is ~\$150, so it's ~3x IQOS, 6.5x international cigarettes.

We have, of course, high commercial and R&D costs. I mean we are building the U.S. today, we are investing. Very often we are asked about what is the level of investment? We are investing today behind ZYN, so you have some of that, that is clearly on these commercial and R&D costs. But it still delivers a product contribution of ~\$115 per thousand. This is 6x the average of our international cigarettes business and this is about 4x IQOS international today. So, as you can see, when we are growing, and we are growing fast, the ZYN volume in the U.S., this is coming as well with a super, super-powerful, positive mix impact.

Now, for illustrative purposes, here we are giving a first view of what the U.S. IQOS number could be, and here this is once we have reached some kind of scale effect. So several percentage of market share; I'm not saying the 10%, but several percentage of market share.

So the net revenue, here we have been positioning the IQOS consumables at a similar price point as premium cigarettes in the U.S. That would be ~\$150 per thousand. The COGS here that is taken is as a proxy the average cost that we have for international, so that would still give a very nice gross profit of ~\$120 per thousand, 5x the one that we have on international cigarettes, more than 2x international IQOS. Yes, we would still be, even at that stage, with significant level of commercial and R&D costs; here we put \$40-50. Again, that would be after several percentage point of market share being gained, and the product contribution would be at ~\$70-80 per thousand, more than 2x what we do on international IQOS and close to 4x what we do on international cigarettes.

There is one number that I forgot to mention to you, which is the gross margin on U.S. ZYN. So that is – on this one it's quite simple. This is simple – simply with almost 80% gross margin, the best gross margin rate that we have in the Group. Okay, so, again, any growth of ZYN is contributing very nicely to the mix of the gross margin.

**Formidable U.S. Growth Engine Adding IQOS to ZYN**

Well, having said that, it is clear that we see a fantastic opportunity in the U.S. And sometimes, when we are talking to some of you, well, you have feeling that there may be more fear than excitement about what the U.S. is going to bring, and sometimes there is maybe even the feeling that, well, the U.S. is maybe for one day, but we don't know when the U.S. will be delivering. No, no, the U.S. is today; I mean, the U.S. today is a big market for us already. In 2024, we believe we're going to deliver more than \$2 billion of net revenue in the U.S. and we should be close to \$1 billion OI, and I don't need to come back on the positive mix that I've just been describing.

So *IQOS*, that, of course, is not in this number, is just going to come on top of that. So the U.S. is adding growth to the growth for the Group, *IQOS* is adding growth to the growth in the U.S., that's what we want to deliver.

Of course, it's going to come with a plan to invest, both on *IQOS* and *ZYN*. You are very validly coming with question on, 'What's going to be the investment on *IQOS*?' I mean, it's going to be at the level of the opportunity. And in '24, expect us to, of course, invest in the U.S. But, let's be clear, first and foremost for the time being we are investing behind the *ZYN* potential, okay, so on the short-term most of the investments are going to be behind *ZYN*. And, by the way, when we increase the level of salesforce, when the – we invest on the commercial tools to create a great digital commercial engine in the U.S. as well, when we invest in our capacity to be more present in terms of external affairs across the U.S., well, that is serving the whole portfolio, and today, of course, first *ZYN*. That is really the brand that is – with the global presence in the country.

So with everything I've just been mentioning, I can share our objective to seize the U.S. as a strong contributor to the growth. We believe that the U.S. should deliver double-digital growth in terms of volume, in terms of net revenue and in terms of operating income, and therefore be accretive to the Group growth, even with the investment that we will have to make to fully extract the U.S. potential taken into account.

### **Strong Overall Financial Model for Sustainable Growth**

Okay. Now, I'm going to go to the full granularity on the building blocks of our powerful growth model. It starts, as I explained, with the volume growth and our capacity to more than offset, with our smoke-free portfolio, the decline on the CC. Second element, or second building block if you want, the positive mix. I've been, I think, putting on the table a number of things regarding *IQOS* and *ZYN* and why they are coming with a very positive mix. Third element pricing. First on CC, but I will elaborate, not only on CC. And then on cost efficiency, and we want to continue to grow, generating cost efficiencies being prioritized and being focused. Also, scaling up and leveraging all the fixed investment, or fixed costs, that we've put in place to support our smoke-free business. And that means that we believe that we will have the capacity to make the investment for growth and still deliver strong topline, as I've shown, and also strong bottom-line growth.

### **Targeting Strong Smoke-Free Volume Progression**

So starting with the volumes. Maybe I can go relatively – because both Stefano and Lars led you through the numbers. We want to grow first, of course, our *IQOS* business very strongly at double-digits over the coming years to be within 180 to 200 billion sticks. It is probable that to be in the high end of the bracket we will need to have a few markets opening. Could we be above the 200 billion? Well, that would require that, relatively rapidly over the next quarters, we have a number – or most of the markets that are close to the end that we describe, between Turkey, Brazil, India, Vietnam, that is market open to *IQOS*, so that we can really accelerate our volumes. But we have this ambition of a strong growth.

When it comes to nicotine pouches, we target to be between 800 million and 1 billion cans. Certainly, the U.S. is going to support what would be more than doubling up the volume. To be in the high end of this bracket, to get to the 1 billion, that would mean, probably, that we need to be successful in some of the new markets where we're going to launch, and we should

be able to develop, in a meaningful manner, in some of these markets the nicotine pouch business. But it means that if you take all the smoke-free units, so all the oral and heat-not-burn, we would be, in 2026, above 200 billion units.

So that's for the volume growth, and we believe that we have the capacity to more than offset, as I said, the decline on combustibles.

### **Positive HTU Mix Consistently Generating Top-Line Growth**

Now, let's move to the positive mix coming from our smoke-free portfolio. It's not something new. I mean, if you look at the performance that we've been delivering in the past years, we have systematically been coming with a positive mix thanks to what I presented on the *IQOS* economics, which have been ranging between 2-3%. That's what we've been delivering over the last four years. *ZYN* is just adding, here, a potential for more positive mix. As you can see, in H1 '23 on a pro forma basis we would have had an additional ~50 bps of positive mix coming from smoke-free products.

### **Pricing Power Provides Third Engine of Growth**

Now, moving to price, which is the third stage of the rocket, if I may say, when it comes to growing revenue. I believe that if 2023 demonstrates one thing, it is our pricing power. We are going to grow our price on combustibles by 7-8%, and while we are doing that I think you see the resilience on the volume and you see the resilience on the market share. So it shows that what Werner presented in terms of strength of the brand is enabling us to have this very nice pricing power, and, I guess, 2023 is clearly evidencing this pricing power.

Now, when we look forward, no, we're not saying we're going to keep growing price at 7% to 8% every year. We believe that targeting mid-single digit average growth for the foreseeable future is a realistic and reasonable assumption.

Now, when it comes to the smoke-free product, the name of the game here, as you understand now, is not so much to increase price. We have such a positive mix impact on the revenue per stick that what we want to do is to maximize the growth in terms of volumes; that's really what is delivering the most positive impact on the overall performance. Now, having said that, we are not discarding the fact that, selectively, we could increase prices on our smoke-free portfolio, but, as I said, it's not at all the same strategy as on combustibles and we'll do that here very selectively.

### **Smoke-Free – Price Position & Segmentation Provides Flexibility**

But just for the sake of clarity and presenting things as they are, today both our heated tobacco units and nicotine pouches in the U.S. present a price positioning that is very reasonable versus premium cigarettes. It's partly here because it is here to help the smokers to move away from combustible cigarettes and make a better a better choice at a cheaper price. But, of course, it means that we have, because that remains both of them, whether *IQOS* or *ZYN*, they remain premium products, so we have the capacity to price up if we want to. And remember, because in many, many countries we have a more specific tax on smoke-free products and it's more ad valorem on combustibles, we have a better productivity on price increases than on combustibles.

**2024-26: Target Enhanced Margins & Strong OI Growth**

So all that is enabling us to target to grow, organically, our revenue at a CAGR of 6-8% over the next three years. Now, when we look at '24-26, we also believe we can grow our operating income very nicely and, actually, that we can improve margins. So when we look at '21-23, one could say, 'Well, maybe, but you did not do that in '21-23. Actually, the margins are going to be about flat organically over the '21-23 period.' So it is true, this has been a year with a lot of investment, as we all know, but we've been facing during this period of time, let's be clear, massive supply chain disruption, geopolitical situation, shortages. This was the *ILUMA* transition, and we told you that there would be a cost on transition into *ILUMA* and we've been, clearly, seeing it in '21-23. And then we've been seeing this surge in inflation that it took us some time to overcome.

Now, when we look at '24-26, we see a number of positive drivers to expand margins. We believe that we have this very positive mix coming from our smoke-free products. There is a confirmation of our pricing power that is very important. We believe that we will be able to move to a new cycle on the *ILUMA* launch, where we're going to be able to start generating productivity, and we are targeting, globally, \$2 billion of efficiencies on our costs.

**Positive Gross Margin Outlook**

Let me provide you some detail on that, and starting with the gross margin outlook. As explained, we expect the top-line to be driven by *IQOS* and *ZYN*, and I think I've been explaining that these two products come with a very superior dollar per unit gross profit, but also in terms of consumables with the higher gross margin rate. So when we grow this product, that is generating a positive mix on the gross margin. We also, of course, have the pricing power, I don't need to come back to that.

We mentioned that on *ILUMA* at the beginning, we were launching, we are not optimized. We are now making the normal productivity gain on *ILUMA*. We are optimizing the manufacturing footprint around *ILUMA*; it's going to happen gradually through the '24-26 period. And then we have the ambition to generate \$1 billion on productivity over the '24-26 period. It's going to be, certainly, on – working on our manufacturing footprint to make sure that, with the plant that we have, we optimize the location of the floors and we optimize how we position our production. It's going to be working, of course, on procurement, it's going to be quality value engineering on our product. We're going to try to have air freight shipment, if possible, as close to zero as we can, and if there is less disruption in the supply chain that should be possible. And all that gives us the clear objective to improve the gross margin rate over the next three years organically.

**SG&A: Investing for Growth & Supporting Margins**

Now, below the gross margin, SG&A. So, yes, we're going to invest. So is the question, 'Do you need to invest?' Well, yes, we need to invest, of course, to generate the full potential that we've been, today, showing up for *IQOS*, *ZYN* and the whole portfolio. We need to invest to build the *IQOS* and *ZYN* brand franchise. I don't think I need to elaborate on that, that has been well explained. We have this fantastic U.S. opportunity that is going to come as incremental, with no cannibalization; every investment is going to get a very high return. We have new markets that we can develop and expand, and we need to keep building our digital capabilities to build further intimacy and further impact with our customers.

So we're going to make this investment. But in front of that, we are going to have a lot of efficiencies in the way we're going to grow our smoke-free products. We are reducing our cost per user as we are increasing the volumes. We have all these investments that we made that we are leveraging up as we reach a certain scale, and, among other, with *ILUMA*. And, on top of that, we're going to generate a \$1 billion cost-efficiency program which will come through the, I would say, natural way of being more digitized, of going through our processes to be leaner and more efficient, to be, also, more focused and more prioritized, and to make sure that we really put the money on the things that are going to make the difference. And we're going to work in a very judicious and disciplined manner on our cost management.

And for all these reasons, including taking into account the necessary investments, we believe we're going to be in a position to grow our revenue faster than our SG&A. That means that the SG&A on revenue ratio is going to decline over the '24-26 period organically, generating extra profitability.

### **Expect Excellent Net Profit Growth**

Six to eight per cent growth of the revenue margin enhancement, leading to an organic growth of our OI between 8-10%, and below the operating income we will have one headwind, which is the increased cost of financing. We are very happy with the way we've been financing the Swedish Match acquisition, but we will come to the market for a number of refinancing over the coming years. And, of course, in the current condition at least, we know that the day that has to come to refinancing is going to cost a bit more, so we are taking into account some increase in the cost of refinancing.

But, despite that, we believe that we can grow our adjusted diluted EPS, excluding forex, at the level, if not faster – 9-11% growth – than our adjusted operating income. I have to emphasize here that this is done with the current tax rate of the Group, and we haven't been, here, taking into account what is unclear and uncertain, which is the implementation of the new OECD rules. Maybe some of you are familiar with that, you have a Pillar One and you have a Pillar Two. One that could be implemented over the next three years is Pillar Two, from what we understand today – of course, still, with uncertainty – which is the minimum tax rate. So this is not taking into account, here, what would be the impact if this was happening during the next three years.

### **Strong Financial Performance & Rewards to Shareholders**

Of course, very strong growth of our adjusted EPS is what is enabling us to keep rewarding the shareholders, and we keep an unwavering commitment to our progressive dividend policy. We've been celebrating 16 years of continuous increase of the dividend – in total 183%, that is a CAGR of 7.2% since 2008 – and it is our objective to continue to do so. And we target – we said it already, we target, over time, a payout ratio for the net profit around 75%. We don't put any kind of deadline when we should be doing that, but we believe that, on the long term, it's a good objective to have.

### **Highly Cash Generative with Focus on Rapid Deleveraging**

#### ***Capital Allocation Priorities***

We are highly cash-generative, around \$35 billion of operating cash flow generated over '21-23 period. Well, we're going to stay highly cash-generative, and for the '24-26 three-year cycle we are targeting an operating cash flow between \$36 and \$39 billion at prevailing exchange rate. In front of that, we will have to make a number of CapEx, notably to ensure that we have



the capacity for *ZYN*, and we believe that we're going to stay at the level of '23 or even below in the next three years. Remember, we will certainly need to accelerate on the capacity for *ZYN*, but there was a big transition on *IQOS ILUMA* to create the capacity and part of that is behind us. So when we look at the next three years, we think that our CapEx should be between \$3.5 to \$3.7 billion, and, of course, the vast majority, 75%, will be on the smoke-free products.

We will pay a growing dividend, as I explained. But as we are going to, with all these elements, we believe be in a position to decrease the debt and at the same time, of course, to grow rapidly the adjusted EBITDA, we think we're going to be in a position to deleverage the company very rapidly over '24-26. For '23, as expected, because we knew that we would have to pay the remaining amount to Altria to buy back the right to *IQOS* in the U.S., there was the minority shareholder to buy for Swedish Match, so we knew we would be broadly in line at the end of 2023 versus 2022 in terms of leverage, and that's still what we believe. But, for the 2024-2026 period, we are expecting rapid deleveraging and we believe that we should be around two times net debt to adjusted EBITDA by the end of 2026, which would be broadly in line too with where we were before the Swedish Match acquisition. And once we have clarified that we're going to reach this objective, at that time, and of course subject to Board approval, we would be in a position to consider moving back to a buyback plan.

### **2030 Vision: Substantially Smoke-Free by Net Revenues**

On the 2030 vision, it has been, you know, widely commented today, of course, you know, that's going to be absolutely a game changer when we get there. We think that for all the reasons we mentioned, we have a clear path, a clear roadmap to get there. To get to two third, we need to continue the growth of *IQOS* where we have growth today; there are a number of markets where we need to accelerate, certainly in some of the emerging countries but in some of the western countries where we haven't been successful yet. It is clear that we need to keep expanding *ZYN*, to do that, and the assumption is that this would be achieved with an excise duty environment, an evolution, I would say, that is broadly consistent with what we see today. There is a possibility that we could be even further, but then for that, we will need the help of the regulators, so we will need the markets that are close today to open up to smoke-free products. We will need the help of the FDA to help us accelerate the innovation and we will be needing to have the world helping us really to phase out cigarettes and to put the right regulation to convince smokers to move to a better product.

### **Smoke-Free Products Driving Sustainable Growth & Strong Returns to Shareholders**

As a conclusion, I just want to go through again the various element of this successful, sustainable, profitable growth model, that is really based on the strength of a duo today, *IQOS* and *ZYN*, fast-growing, very profitable, you've seen the positive mix impact. We have the ambition to create success for *VEEV* in a select number of markets. We have the resilience of the CC business, that has been generating strong performance in 2023. We have exciting growth outlook for 2024-2026; this very powerful, financial model, is going to enable us to keep delivering a strong shareholder return, and we aim to be substantially smoke-free by 2030, more than two thirds, and at that time PMI will have change of paradigm. Thank you very much.

## Question & Answer Session

**James Bushnell:** We will now begin the question and answer session, taking questions from those here in Lausanne. Jacek and Emmanuel are here with us on stage, and our other presenters and select senior executives are also here in the room. Please raise your hand to ask your question and we'll get started. Who would like to go first? A microphone will be brought to you when you ask a question. Jon Leinster.

**Jonathan Leinster (Societe Generale):** Two quick questions on some of the new IQOS variants launched today, or announced today. With regard to the *LEVIA* product, given it's got no tobacco in it, what are the tax and marketing implications on that? Will it actually be a taxed product? Does it fall under tobacco marketing rules?

And secondly, just on the *DELIA* – if I've pronounced that right – product; is that – is the implication that, when you say select markets for the sort of developed world, discount product or lower priced product, and then the *BONDSBONDS* and *BLENDS* will be for the emerging markets?

**Jacek Olczak:** Yes, so the *LEVIA*, the non-tobacco nicotine containing, non-tobacco flavor product. It's a very good question about the taxations. I mean we're in discussions with the several target – first target markets, how the regulator is – very much the fiscal regulator is going to approach it, because technically, it's one of the innovations which doesn't fit into the fiscal categories today. So, one could assume that the day one, you could launch this product without the taxation, and paying zero excise tax, but I think we also have to be realistic that we better proactively engage with our regulators, and set the tax. Also recognizing, as I mentioned in my remarks there, the risk continuum of the products, i.e. the tax, there should be some proportionality, so there is continuum.

The second thing is, this is not containing tobacco product; in some jurisdictions this may not be subject to, for example, flavor regulations. Okay, so that's – that, we will have to see. But, you know, see the whole regulatory environment is that, we know it very well, no other product category, or no product category with the regulations will regulate the product before the product arrives in the market. So, we're dealing with that sort of ambiguity, especially that if we go in for the more complex type of innovations, that the products clearly are going outside the frameworks, and we need to have this conversation.

Second is on the *BONDSB*, so yes, obviously if you're going to the LMIC markets, there is an affordability which we will have to take in – we're taking into consideration. Some *BONDS* would allow us, on the one hand to have a more attractive, or lower cost, if you like, of a device, but also quite importantly, the cost of a consumable, which somehow more goes in hand with what is the available pricing potential, right, or the margin potential. Now, having said so, I believe it is too simplistic to assume that the, you know, they have developed, i.e., rich countries and underdeveloped poor countries, right. You have a price affordability essentially, visibly in all markets, the degree of this whole thing is different.

Now, we also know that the lower you go with the price ladder, the price segments in the markets, consumers try to – are looking for more impactful tobacco, clear tobacco, pure tobacco, if you like, so we will have to address to this one. Our objective and our strategy are very clear; wherever we go, we go with *IQOS* flagship first, to establish the benchmark in the market, and it's obviously not only in terms of quality, but also the quality of the experience,

but also very importantly set premium in the market. And then, you know, depending how far and to which audiences we go, we are then trying to adjust. Now, as you know very well, on the cigarette category, there is a lot of learning which you can draw from a cigarette category.

We have been very successful and continue to be very successful on international. On the one hand, leveraging the strength of the world's biggest global brand, *Marlboro*, but complementing this very actively with the other brands, which allows us to position brand from the price perspective, *Marlboro* in the premium segment, but then also participate in the medium segment, low price segment, etc. You cannot – if we want to play at scale, and we're playing at scale. This is impossible that you can have a one brand which you can start stretching across the price point, and also from a brand equity building perspective, you cannot be a brand for everyone.

So, we need to start and somehow draw the territories of *IQOS*, which in many markets, will still have their time, but in some markets, we have to start thinking more from a portfolio perspective, rather than just the one brand perspective. Because this opened again the possibilities for the differentiated pricing, both to the upside, to the premium, but also managing, for example, competition, if this is needed. But secondly, also allows us for the different positioning, from an image perspective, of the brands, which is longer play.

**James Bushnell:** Who is next? We go to Pam Kaufman, first, and then we'll go to Bonnie, afterwards.

**Pamela Kaufman (Morgan Stanley):** Can you elaborate more on the U.S. rollout strategy, and how you expect the performance in the U.S. market to evolve over the next five to six years? It sounds like 2024 is going to be a softer launch, so how do you envision the progression of the market share in the U.S.? And can you comment on device pricing and the heat stick branding strategy?

**Jacek Olczak:** Okay, excellent question. I thank you very much because I'm receiving these questions on all of these coffee and lunch breaks, etc., so in order to be in accordance with the perfect disclosure requirements, it gives me possibility to address it. And Stacey, our Head of the Americas business, and I think Tom, the Head of our Swedish Match business in the U.S. is somewhere there, so they can chip in, if I go – or stop me, if I am going too far, because I am disclosing things which we shouldn't disclose.

So, assuming we will be filing *IQOS ILUMA* in the next couple of months, okay, as Mark has demonstrated, we have our assessment days, we have pretty good chances, that somewhere, say 2025, in the middle of the plan period, we should have *IQOS ILUMA* authorization. Knowing what we know today, after almost two years of experience with *ILUMA* International, and knowing what is the business model to support *IQOS* Blade versus *IQOS ILUMA*, if this is what's happened, that we had this authorization, say somewhere in 2025, beginning or end of 2025, it would be very unwise, frankly speaking, for us to go as of May next year, put the resources and effort behind the Blade, knowing that anyway, and unheard of in consumer goods industry we would keep U.S. American smokers, consumer, at the two generations behind what we have on international. So we will just confuse, also, from a brand perspective, our consumers. So, if *IQOS ILUMA* comes in say 2025, then we start doing the national rollout.

Now, I need to clarify what is national, because we haven't. As a comparison, we haven't done Europe in one day. Right Europe, which – I'm not saying that Europe is U.S., right, don't get

me wrong, and I don't want to end up in a political or cultural conversation, but size of the market, and it's the vision into states or member states, etc., dictates that we will have to approach, obviously with the objective to ultimately, eventually cover entire U.S., we will have to do in phases. The way we see this whole thing, presumably from the day of *IQOS ILUMA* authorization, it would be fair to assume that in a span of the first 12 months, we will hit the first ten states. And then we will consecutively – we'll be adding the states, because frankly speaking, there is no – this would be the right approach. Okay.

Second thing is, we had a little bit of different plans, couple years ago, not more than a couple years ago but we didn't have the learnings from *ILUMA* how much it really gives us as the incremental, and also help us with a better cost, if you like, or resource management, because on the upstream we require less support, so we can focus more direct to the consumer, because it's very intuitive device, etc. Second thing is, if we get *ILUMA* in the U.S., any further innovations to *ILUMA* with trying to maintain compatibility of the consumables and the device. So, this is less painful. The most painful for us, and we're still going through that process, is when you go from a blade technology to the induction technology, because it's not just the new device. We need to go and redo the entire consumable piece, okay. So, this is on *ILUMA*.

Now, also two years or so ago, we didn't know whether we will first close with Altria, the negotiations. And second, we didn't know that we can conclude with Swedish Match. So now, if we take all these elements into equations. Okay, we have freedom from Altria, now we know what is *IQOS ILUMA*, and we have already *ZYN* brand in the billion dollars. Actually, on track for \$2 billion, ~\$1 billion bottom-line Swedish Match business in the U.S. in 2024, and onto something which is squarely fitting into smoke-free harm reductions. And is growing at the, you know, very high speed, very high rate, so we're not really wasting time because we can focus in the meantime on continuing growing *ZYN*. *ZYN* will require more infrastructure, and that infrastructure anyway later on, we will be using for *IQOS*.

Just will give you an example. One of the things which we're doing at the retail in international is the brand retail; the different formats, flagship, boutiques, pop-up, etc. There is nothing stopping us – to start deploying this also, to further enhance the visibility, brand building, and continued accelerated growth of *ZYN* over deploying brand retail. And the only thing is that later on the same brand retail will have *IQOS*, which we will do on the international, because we will not be doing any extra investments behind *ZYN*, other than bringing *ZYN* now to other channels, and essentially consumer smokers who are looking for alternatives, now we are offering them the portfolio of the products, which we're doing already with the P4.

So, I think it's a better use of the resources, versus opportunities which we have, and this is – that's the plan. Now, you may ask me further to which stage we're going to. So in 2024, May, when we will start the commercialization of Blade, which we needed to, quote-unquote, "warm up the tires", go get the first experience with the consumers, make sure that the messaging and everything is properly done; we will do it in two states, four cities. Okay. I won't tell you in which, because my other competitor from the same town will presumably block the roads to get there. But this is for the test market. For us, it's more important, the first contact with American consumers, we're doing this ourselves, we will see how we can serve this product, etc., knowing that this is Blade, so it's not our interest to go too much.

When we will go to the national – the so-called national rollout of *IQOS ILUMA*, that's in assumed 10 states per 12 months' cadence. We will presumably be looking for the states, when at best,

at this stage, from also positioning *IQOS* as the leader of the category from the brand perspective, etc. So, will we follow what Swedish Match successfully did, West and going to East? Or we'll start a little bit differently? This remains to be seen. Alternately anyway, we'll cover both the entire U.S. with both *ZYN* and *IQOS*, but how we get to this point, that, you know – this we will have to see. Is everybody clear now, on the U.S.? Okay.

**Bonnie Herzog (Goldman Sachs):** Alright, thank you. Emmanuel, I maybe have a question for you, just regarding the new targets that you laid out, you now expect your business to grow faster, which is great, both top- and bottom-lines, but when I look at the new targets, the leverage from the midpoints of those new targets, versus what you had before, the leverage is a little bit less; it's essentially three points versus four points before. So, I was hoping you could spend a little time talking about the drivers of that. I know you called out higher costs of financing, I assume there's going to be stepped up spending, so if you could help frame that for us, maybe give us some sense of how much your investment spend is expected to increase in the next three years, versus, you know, the last three years. And, I guess I'm ultimately trying to frame all of this in the context of you transforming your business into a much more, you know, powerful and higher margin, you know, products. Thanks.

**Emmanuel Babeau:** Sure, Bonnie, so you said it, it is obvious that the cost of financing with the level of debt that we have today, will have an impact. Today, we have an average cost of the debt – of the net debt that is around 3%, that is quite remarkable. That is partly due to the fact that we have a significant chunk of our debt that is in euro, where we are still enjoying a rate that are lower than in dollar, and that, by the way, is also enabling us to have some edge on the currency, because we try to make our liability more in phase with our assets, and of course, we generate more euro than dollar today, still. So, that's going to be an element.

The other element which is the other way round, is that we've been really helping the bottom line with an evolution of the tax rate that has been very positive in the last three years, and we don't expect that this is going to be the case, because in the number we've been showing, we're taking as an assumption, as I explained, not taking any OECD reform that we have a flat tax rate. So, what has been positive is not plain positive, so we have negative on the cost of the debt, and you don't have the positive on the tax rate. So, these are really the two elements, I think, that are driving maybe the difference you are identifying.

**Bonnie Herzog (Goldman Sachs):** Just to clarify, so not a substantial step-up in your expectation for investment spend, in the next, you know, three years. As you rollout, everything that you laid out for us today, just trying to frame it in the context of spend.

**Emmanuel Babeau:** No, I think that if you're referring to the need of investment, as I explained, we will invest, and we have, you know, with the growth on top-line, significant capacity to grow our SG&A, and therefore to grow investment. This together with the positive scaling effect that I described, you know, and the fact that there is a lot now of infrastructure, asset commercial tools that are in place, and that we're going to leverage with bigger volume, plus our plan on efficiency on cost, we think we have the capacity to absorb this extra investment, and have, as I explained, SG&A growing at a lower pace than the top-line, generating extra profitability.

**Bonnie Herzog (Goldman Sachs):** Alright, perfect. Thank you.

**James Bushnell:** Okay, who would like to go next? If we go to Vivien, first, and then we'll go to Owen, afterwards.

**Vivien Azer (TD Cowen):** Hi, thank you. I wanted to ask a question about your targets for *IQOS*, so you've laid out an industry expectation of CAGR of 15-20%, the midpoint of your 2026 volume target would suggest that you expect to slightly underperform. That range which I think is maybe a little bit surprising, given the innovation that you guys have – are putting in place, and price tiering the portfolio, so can you just elaborate on that outlook and where you think there are opportunities to maybe stabilize our whole market share? Thank you.

**Jacek Olczak:** Yes, so we're trying to be – look, *IQOS* enjoys for the last, whatever, 8-9 years, the extremely stronger share of segment position. So, yes, somewhere in the model we're assuming that maybe finally there will be some success coming from, you know, two or three of our competitors. It's not that we want to give it up and leave it to the competitors, but I think we need to be a little bit realistic that maintaining the first-mover advantage of that level for that long period of time, is a little bit unheard. And if you go to many of the – unless you – you know, somebody is dreaming about the monopoly type of a situation. And we know very well, that you know, competition is working, behind improving – continuously improving the heat not burn proposition, not maybe extremely successful, but yes, I mean it somehow is reflected there.

The second thing is that, I think absence, the very meaningful innovation from competition, what is happening is there is a quite of growing price pressure, as the compensation for the fact that nobody can match *IQOS* when it comes to its performance. So, we have to be a little bit cautious in that fact, we will respond with the price, which would be, I think, wrong, rather than, you know, for some maybe shorter volume pressures, rather than try to occupy that space and play to the value, rather than chase, you know, every billion of that thing. It is a pretty dynamic piece, and you know, part of a market, where others are dynamic as well, but you could see this that, you know, competition has not significantly, in most of the markets, eroded our position. I mean, there are a few central European markets which are maybe more price type oversensitive, etc., but if I look at, okay, Japan is also is becoming extremely price, you know, fighting type of a territory. We have a market, when we're sitting at 80-90% of the share, so this is what is reflected there. But, you are right, we predict a category to go a bit ahead of what we – of what we have put in our own estimates.

Now, we have not factored in, in this forecast, any opening of any major market, which I believe there is a chance that at least one or two of these big markets will open the door – it is a pretty sizeable market – to propositions like *IQOS*, okay they will go and start adjusting the numbers. So, today we're assuming no further significant, if at all, improvements, in terms of a space in which *IQOS* play, is the markets which we are. We've said that we're working on a proposition for Indonesia with Kretek. Okay, U.S., you know what is our story. And that's it from major markets, right, the other markets will have to wait.

**James Bushnell:** Owen.

**Owen Bennett (Jefferies):** Hi, I had a couple of questions, if I could be greedy please. So, first one, I'm just curious in terms of *ILUMA*, I'm assuming originally when *IQOS* was rolled out, it was sourcing a certain amount of volumes from *Marlboro* smokers, I'm just wondering now –

now that you roll out *ILUMA*, is that taking a similar amount of smokers from *Marlboro*, or is it now starting to source more smokers from competitive cigarette brands?

**Jacek Olczak:** Okay, so you're asking, what is the cannibalization. And, I think at the very beginning, we recall when we entered the first markets, the cannibalization rates were about 10% above our country market share, national market share, which was reflecting also our premium position with *Marlboro*, medium plus positioning. And I think for the markets, if we enter today, the markets which we're entering, I mean that's about the same cannibalization. But if I go to the markets when *IQOS* is five, six, seven years, that cannibalization rate is essentially at the fair rate of the cannibalization. Okay, so initially we've been sourcing more from Philip Morris consumers and now we're sourcing equally from everyone.

**Owen Bennett (Jefferies):** Great, thanks, and then the second question is on nicotine patches in the US; big ambitions there, it's obviously performing well. I'm just wondering how you see the importance of modified risk. So you spoke about modified risk on Snus, modified risk on *IQOS*, is that something you'd look to apply for on nicotine patches? Because when I've spoken to Swedish Match in the past about this, they said it's intuitively seen as healthier anyway, because it's tobacco free, and with a modified risk message this could potentially confuse the consumer. I was just wondering how you view that going forward.

**Jacek Olczak:** Okay, so our priorities, as you've heard in Matt's presentation. We have the PMTA pending filing for *ILUMA*, and the two pending PMTAs with *ZYN*, and this is our priority. Just also not to create too much of a clogging at the agency level etc., but we will be preparing for the filing for MRTPA for *ZYN*.

**Owen Bennett (Jefferies):** Cool. Okay.

**Jacek Olczak:** Okay, now importance, when you ask about the importance is that, I think ultimately this will make a differentiation at the consumer level. What is happening today is absence the one voice communicating the benefits of these products including authorizations and the review and the claims, etc., you have this noise in the system, confusion about the nicotine and all the other things. So, today one can have perceptions that maybe it's not worth the effort of having MRTPA, because consumer doesn't really pay attention visibly to this thing. But I think we're reading this whole thing wrongly, because of this background noise.

Second thing is the MRTPA for the Swedish Snus product. I think there was some, – due to the fact how that product contains tobacco, is not as clean, and doesn't look as hygienic etc., as *ZYN* – a bit of, an also, limiting factor, what else does the Swedish, traditional Swedish Snus can make. But to comeback, we will be preparing for filling of the *ZYN* MRTPA in the U.S., but however it is not a priority as we have to do it this quarter. We can wait and focus on the other things.

**Owen Bennett (Jefferies):** Thank you.

**James Bushnell:** Next question, first we go to Andrei Condrea from UBS.

**Andrei Condrea (UBS):** Just one from me. So obviously for your *IQOS* volumes, over the next three years, you're not factoring in any market openings. However, you are going to deal with headwinds, in Europe, especially, when it comes to the flavor ban, first of all, which is impending. And secondly, I think from the TED2, which should have happened last year, but

we're still waiting on it. Any inkling you could give on the impact, you could see there, both on the price mix side and the volume for IQOS?

**Jacek Olczak:** Yes, so the flavor ban. Okay, you saw the portfolio which we're preparing, partially is the response to any potential headwinds from a flavor ban. Okay, that's the one thing what we can do. Second is, if we go through the history of the flavor bans, especially in the EU on the cigarette market, you may recall, it was always flagged as the big risk and a headwind, and the net-net what has happened – not much has happened. Okay, so I'm not saying that we know that nothing will happen, we obviously have to see. There will be some turbulences of distortions in the market, around the period that each of the member states will be implementing the regulations; it's not the same process or the same date for everyone.

So, you might have a trade holding, you might have a retail holding; we will need to presumably wait for a good few months to realize what is happening. It's a very interesting experience of a Swedish Match from a couple of states, within the U.S., where our flavors have been a ban on ZYN. And yes, you have some choppy waters in a few weeks, a couple of months, but if you go a little bit longer period of time, still within 12 months, you won't realize that the flavors have been eliminated. I'm not saying that the flavors don't play important role and help smokers to switch, but also absence of flavor is not maybe as dramatic as many think. Okay, but there is a period of adjustment, in this thing. And your second question was on TPD?

**Andrei Condrea (UBS):** Tobacco Excise Directive.

**Jacek Olczak:** Tobacco Excise Directive, okay, then this will have to go through the very extensive process among the member states. I think the practice in most of the member states in the EU, is that there is a tax differential, and now the question is, should we maintain the tax differential but agree on alignment of this whole thing? It is difficult to say how it's going to play out. I think anyway, the plan period which we have here, and the timing of the tobacco excise directive is coming more towards the end, even though we'll have to see.

**Emmanuel Babeau:** Yeah, just remember that on the TED it requires unanimity, and quite obviously you have a number of countries in the EU today, which are embarked into clear differentiation, and some of them, you know, are putting that in the law, and tobacco harm reduction as an objective. So, that probably will mean that the TED discussion will be interesting, but it requires unanimity.

**James Bushnell:** Okay, next question for Matt here, please.

**Matt Smith (Stifel):** Hi, good afternoon. Pricing in the combustible business has been quite strong here in 2023. Can you talk about your mid-single digit pricing outlook within the combustible business, given the category segment shifts including gains in the more value-oriented segments of the category? And you mentioned customers – consumers that had not shifted to smoke-free products are more value sensitive, so what gives you the confidence and the ability to continue to realize strong pricing in combustibles, as the demographic of smokers shift? And, are you seeing any markets where price points are reaching a level that is causing more sensitivity with consumers?

**Jacek Olczak:** So, in a spirit of inclusion and empowerment, Werner can...

**Werner Barth:** Thank you for the question, Matt, and thank you for including me. Particularly proud that it's a combustible question. So, no, what you have seen, I think consistently, if you



take the recent history that we were able to perform pricing, that may not always be in the very same market at the same expense. So sometimes you will look at a market and say, well, either from a competitive angle, or from a consumer affordability angle, you would not repeat the same pricing that you did the last couple of years. But, over the big set of markets, that we manage, I think that has played out very well, over the last years, and little reason to believe that will not play out in the future.

The one thing obviously we also look at, is there any disruptive excise tax coming around and, at least for what we can foresee at this moment, this is not the case. Hence, I think we're pretty confident that we can achieve it.

**James Bushnell:** Thank you. Who'd like to ask the next question? Second questions are also accepted. Bonnie.

**Bonnie Herzog (Goldman Sachs):** Alright, I might as well. I definitely wanted to ask on the FX headwind that you talked about today. I know you called out certainly Argentina, but any other visibility, in some of the other currencies where you're exposed? And any sense on the potential impact that we might see next year? And then ultimately, I'd love to ask from a longer-term perspective, is there anything that you could do to minimize what seems to be never-ending headwinds that you continue to face from the dollar? Thanks.

**Emmanuel Babeau:** Thank you, Bonnie. Very good question. I can tell you, I spend a lot of time on the FX question, so it's quite obvious that we are permanently wondering, you know, how can we try to minimize impact? And there are a number of things that we can do, and there are things that we cannot do. So to be very clear, when the dollar is strengthening, as it did over the last several weeks, against all major currency, I mean we see a loss in our cancellation impact, quite obviously there is not much we can do.

Now, what we do, nevertheless, are a number of things. First of all, as I explained on the debt, we have today a large part, and more than 60% of our debt is in euro. And therefore, when we have some negative impact on our profit in euro, our debt in euro is also decreasing in terms of cost of the debt in dollar, but in terms of absolute quantum of the debt translated in dollar as well. So, that's one element.

We hedge over the medium term, and we have some policy and we're going to enter into that, the yen. So it means that we are not having immediately the full impact of the yen depreciation. It takes some time, so we try to, kind of, smoothen the impact over time. Then, we are trying to increase our exposure to the U.S. dollar, which is probably not a bad idea, but that's exactly what we are doing with the Swedish Match acquisition, and we have the ambition to keep, as we've explained today, the U.S. business, very nicely. And, we hope that the weight of the U.S. business, in U.S. dollar, is going to keep growing, and therefore limiting a bit more, the impact of the currency.

And then, there is all the work that we should be doing, in trying to do the best possible job on at least what is squeezing the margin. So, to have our revenue and our cost maybe better aligned and try to reduce to the hot currency exposure in terms of cost, and try to have a supply chain that is also taking that into account. I'm sure we can do better than what we do today, no doubt, but there is of course some limitation as well, in what we can do, and the way we buy, I mean, tobacco leaf, and to a number of suppliers. But, I think with that, you have relatively good description of everything we can do.

At the end of the day, it is clear that if we were to report in Japanese Yen, our account, or in euro, that would have quite a different trajectory. We are at the moment, where the U.S. dollar is strengthening; I don't know whether it's going to last, but it's true that we have to take that into account. I think on Argentina, we probably have to have a special reflection on what are we doing to try to limit the exposure to this kind of permanent impact. But, the fact is that we are here, tied by the accounting rules on hyperinflation.

**James Bushnell:** Okay, question from Alex, I think, at the back, and then we'll go to Vivien afterwards.

**Alex Mendez (Viking Global Investors):** Hi, can you talk a little bit more about that gross margin trajectory, because I think you guys have called out a bunch of one-time things that have happened, even beyond currency. And if I just look at the forecast period, SG&A below sales, that means gross margin may be muted, but we're kind of weighed down off the peak, from '21. So, just can you talk a little bit more about the puts and takes on gross margin?

**Emmanuel Babeau:** Sure, with pleasure. I've been sharing with you one of the positive drivers for the gross margin evolution, I guess you are talking about the gross margin rate.

**Alex Mendez (Viking Global Investors):** Yes.

**Emmanuel Babeau:** And, today with the *IQOS* consumable, and with *ZYN*, we have two positive mix on the gross margin rate. So remember *ZYN*, in the U.S., it is close to 80% gross margin rate, best in class. *IQOS* consumable on average are about 10 percentage points, even a bit better than combustible cigarettes. So, when we grow the *IQOS* business, this is coming with a higher gross margin rate. Now, in front of that, of course we have a number of investments that we make, notably to introduce a new product, that are ending up into more amortization on CAPEX, for instance, when we are launching a new product. We have the pressure coming from inflation, we are partly offsetting that with price, but I think that I explained that we believe we have capacity to have a good performance on gross margin.

As I explained on pricing, for instance, for the smoke-free product the name of the game for us is more to try to expand volume, then we need to increase price to have a short-term impact on the gross margin rate, but more to increase the quantum of gross profit. But, I think we have a number of drivers that we should use, in order to improve the gross margin. So, for us, it's about, how can we maximize the growth and optimize the gross margin evolution. And then, below that, as I said, to reduce the SG&A on revenue, to add extra profitability driver, but play with the two elements.

**Vivien Azer (TD Cowen):** Hi, thank you for the follow up. This might be for Lars, actually. In your 2030 scenario analysis, you laid out, can per week consumption, and there was a very modest delta between what you were assuming for the Western part of the United States, versus the country as a whole. But, in a prior slide, when you laid out, kind of, what the market looks like today, there's a very large gap in terms of per can weekly consumption, in the West, versus the 11 can national average. So, as you think about, kind of, growth in *ZYN* in the United States, can you just offer a little bit more context on how we should reconcile those two sets of data? Does it assume that most, if not all, of your growth is going to come from outside of the Western region? Thank you.

**Lars Dahlgren:** Sure. Thank you for the question. I think, and correct me if I'm wrong, but I think you're referring to one of the earlier slides, where I said ZYN consumers, that those that have been longer in use consume more, and with an average of a little bit more than four cans per consumer a week. And that is true for consumers that have been longer in the use, and that is certainly true for consumers in the Western region that have been longer in the use. And there are more of those consumers in the Western region, that brings up the weighted average. But, also if you look at velocity transition, the fact is that the growth in the Western region has continued at a very rapid pace, which means that also in the West there are quite a few consumers who haven't been using ZYN for very long. So, I think that is the main explanation why you see a relatively small difference. And then the number is 3.2 and 3.3, they obviously come with a narrower margin, because these are based on self-reported consumption where people say how many pouches do you estimate that are used per day. So, I think one has to take a little bit of caveat on the exact numbers, but see them as more indicative.

**James Bushnell:** Thanks Lars. We have another question from Jonathan Leinster.

**Jonathan Leinster (Societe Generale):** Hi, yes, thank you for the follow up question. In the targets going forward, you spelt out very clearly the impact of the mix element for the product mix element in terms of heated tobacco being, sort of, two and a half times cigarettes. But, within the actual heated tobacco segment, are you expecting price mix to be consistently positive as well? Because, been slightly inconsistent in the past, and I was just wondering whether that was expected to turn positive, on a consistent basis?

**Emmanuel Babeau:** Yes, we're not entering into the detail of the mix, within the Heat-Not-Burn category, and IQOS. A lot of things are going to play. There will be certainly some positive driver. We could have some headwinds, that will depend on, you know, we make some broad assumption on excise duty evolution, to continue as we have seen in the past years, so a kind of gradual increase, but at a moderate pace of the excise duty. And, we're not disclosing more, I would say detail on the mix. I think we talk about the mix on combustible cigarette, and on the fact that there was movement towards growth of the low-price point that was an element that we take into account. I'm not sharing anything more than what we've been sharing on IQOS, beyond the fact that we believe that this positive impact is going to stay, even with the mixed evolution that we will face. There is nothing specific, I would say, to mention, that would be worse, I would say, taking – this is an element that you should be taking into account. I think the vision is IQOS, and the consumable on IQOS is bringing a positive mix with the evolution, and that's a basic assumption, behind the plan.

**Jacek Olczak:** Yes, just to add to this, you saw there on the chart, I think Stefano had the example of SENTIA and TERE in Japan, and if we play that thing that we've not really cannibalized our volumes, but every new addition in a portfolio is adding the volume. And frankly speaking, we don't have a mix, right, because each of this proposition is – so they sold at a slightly different price in the case of TERE / SENTIA is the same essentially, plus/minus cost. Right, maybe some minor differences. But, even if we're selling at slightly lower margins, because it is bringing you incremental volumes, it is not really the mix. When it comes to the propositions like BONDS, which clearly will be addressing the affordability pressures in some markets. But BONDS is also coming in a different technology and a different cost. So, the way also to look at TERE, there might innovations that are in TERE...

**Emmanuel Babeau:** It's going to be small in terms of volumes over the three years.

**Jacek Olczak:** Yes, which can be more expensive, but they also will be positioned in the market, differently. And the *BONDS*, which are intended to go, and the different price points, but also the cost structure of the *BONDS* is supporting this price point.

**James Bushnell:** I think we have a question from Jacob here, in the second row, please.

**Jacob de Klerk (Redburn Atlantic):** Hi guys, thank you for taking my question. Stefano earlier said in his presentation that *Lil* has launched in 30 markets, successfully. I just want to know, how do you define success for a *Lil* launch in a market?

**Stefano Volpetti:** Yes, okay, thank you. Think about it this way, for us, the priority is to continue to drive the growth with our top tier, and our top tier is clearly *IQOS* with *ILUMA* technology. We have multiple markets around the world, where we can extend the audience we are talking to, with smoke-free products by offering a second tier technology. And that second tier technology in our global portfolio of technologies, we have both the pin technology from *Lil* and we have the peripheral leading technology from *BONDS*. So, our play is all about incrementality, okay, if thanks to the launch of *Lil*, we are addressing smokers that are from a different cohort than the one we are addressing, like I say, *ILUMA*, with maximized incrementality. Hence as you have seen, in the case of *TEREA* and *SENTIA*, we maximize the total volume of the smoke-free products; that is good news for us. So, the idea is to make sure that each smoker in CC, in combustible cigarettes, can find a relatively – proposition in the Heat-Not-Burn category, that tailors to the taste, tailors to the pricing, both, so tailoring to the attitude of the brand, that is different between an *IQOS* and a *Lil*.

**James Bushnell:** Now a question from Pam.

**Pam Kaufman (Morgan Stanley):** Thanks. I was wondering if you could talk a little bit more about how you expect your innovation to evolve. The portfolio now has a range of products, *ILUMA*, *BONDS* and the tobacco-free heat sticks are very innovative, and you're clearly expanding across a range of price points, but are there new product forms that you think can address unmet needs, and what are you doing?

**Jacek Olczak:** Yes, they are. But, you will appreciate that I will not talk about them. You saw here that not all, but the key type of innovations which we will be bringing as we speak, i.e., this year, start with *LEVIA* and which will be a key going forward, at least, for this three-year plan period. When it comes to the devices, obviously we're working also on further improving them, but in terms of changing technology, as we have done with the Blade going to induction, I think at least for this plan period, we stay like it is. Does it mean that we're not working on other rocket science. *IQOS* is to be better than *Marlboro*, going forward, so innovation is one of the critical factors of building this brand.

And as you saw it, we're very excited what we have, but I actually think we can demonstrate that *IQOS* much better than *Marlboro*. But this will take time and we'll have to do this whole thing. But again, the very important thing is that innovations around the device, but smokers don't smoke a device, or don't – device is just your interface, which is opening a door to what really smokers are using product for, which is for taste, for flavor, for satisfaction. So, we're also paying a lot of attention, how much innovation goes at the consumable space, rather than device, because at the end of the day, device is just a facilitator to reach the world of

experience. Device is the lighter; people didn't smoke *Marlboro* for the beautiful lighter, people smoke *Marlboro* because of the superb taste, because it was a flavor, because it was giving me that satisfaction.

So yes, in order to be a smoke-free, in order to deliver on the harm reduction criteria, etc., we have to now go and use the help of electronics. But the way to look about this, people are using smokers – adult smokers are using this product for satisfaction. And, satisfaction is very much coming from a consumable. Therefore, we pay a lot of attention to innovation around the tobacco taste, knowing that the market – all these opportunity markets, in terms of size of untapped existing markets, new markets etc., they're extremely very skewed toward the tobacco flavor. And I think, it can deviate us going in the wrong direction, and somebody who will crack the code, and I believe already today, *IQOS* is very well cracking the code of delivering superb tobacco taste satisfaction, but on the harm reduction side, rather than on the combustible side.

**James Bushnell:** Okay, I think we have one question here, and then we'll go to Andrei afterwards.

**Speaker:** Earlier today, you talked about, I think it was merchandising in the Dubai duty free shop. You talked about putting the pouches next to *IQOS*, and the pouches then – sales doubled, while *IQOS* continue to grow. Like, this isn't potato chips and soft drinks that you're selling together. What is the opportunity to really do the merchandising here? Because you're going to have this opportunity in the U.S., in a couple of years.

**Jacek Olczak:** Stefano, you want to.

**Stefano Volpetti:** Think about it this way, in smoke-free category, we are trying to build the category, and the multi-category approach is a better approach than single category to build smoke-free. If I come to you, as a smoker, with one smoke-free product, you will tell me yes or no to that one. With the multi category, I am moving the discussion from yes/no, to which one. And by moving the discussion to which one, we get 70 points better awareness of the benefits. We get five points of better conduct to buy ratio. That is where the power of the multi-category comes together; moving the question from yes/no to which one, for the smokers, to move on.

**Andrei Condrea (UBS):** Thank you for the follow up. Digging around through one of your ESG reports, you have – you are piloting a program where you are upcycling or refurbishing devices in certain markets. Playing this out of the medium to long-term, could this be a way to get those *IQOS* devices into the Low- and Middle-Income countries? Because obviously the device price is a barrier to entry, into the category.

**Jacek Olczak:** Yes, so we, actually, already have been doing this – have done this, in some markets. So actually some of the devices which are being returned to us, essentially are perfect from an inside perspective, and may require some very optical refurbishment, which we can do on the very zero cost. And then yes, we are using these devices in some other markets, or even in the same markets. But, this we've been doing with *IQOS* Blade, and because of an *IQOS* Blade performance, we had much more of returned devices, and the product was lasting – a device was lasting for a shorter cycle than *ILUMA*.

So, we had all of these programs in place, and we continue, but what we are confronted with now, since we start shipping *ILUMA*, the *ILUMA* is unbreakable, the *ILUMA* last of up to three years, depends on your consumption. So, we have programs in place, but the – which we don't complain, but the consumers don't want to return the device, because there is no need to replace the – to return the device. So, we need to accommodate this. We are using actually, similar approach, not for the refurbishment, but when we're launching e-vapor products, and very much disposables, we're using the same upstream solutions, which we have to collect the devices, go for the, in this case, recycling and so on.

So yes, we've been ready, but the new technology somehow deprived us from this massive inflow of the devices, but we know how to do it. That's another reason in the U.S., that I think instead of going with the Blade device, and all of this upstream logistic supply chain etc., we have to scale obviously for the Blade product or drivers into, why don't we just hold it and do *ILUMA*, and then we can focus on consumer work rather than more logistic type of an exercise.

**James Bushnell:** We have a question here from Simon, and then afterwards we'll go to Owen.

**Simon Hales (Citi):** Oh hi, thank you. I wonder if you could just talk a little about your Russian business, and how that is or is perhaps not impacting your mid-term growth algorithm you set out today.

**Jacek Olczak:** Yes, so a number of points presumably which we need to talk here when we're talking about Russia. First, okay, let me first address one thing, when we had the conversations about our growth algorithm, volume evolution of heat sticks today and going forward; we need to acknowledge one fact, and essentially we have no growth from heatsticks from Russia and Ukraine over the last period. And we all know which is the period, we have made the very cautious decisions that we'll not rollout the innovation very much into Russia, so Russia doesn't have access to *ILUMA*. And I believe for very good reasons. And we essentially stopped the whole acquisition effort, etc.

So, Russia sits in our base, when it comes to the heat sticks, *IQOS*, but the growth is not existing, it's very negligible compared to the group, which obviously continues to be a drag on our growth rate, because we're missing growth from that base. So, that's the one thing. Second thing is, Russia today is run by Philip Morris, but Russian management team. Russia is completely separated from a perspective of systems dependence. And that's it. This is where – with Russia, because everything else would be a repetition, what me and Emmanuel have said in the past; we just have to see how this whole thing is going to unfold in Russia, okay, whatever is the resolution.

So, we have a preparedness for whatever scenarios will be at play in Russia, from an internal organization etc., perspective. And business, essentially cruises without much support. We're not investing into any product launches, not introducing innovations, essentially maintaining the business which sits in our base. Now, Emmanuel, you want to add to the margins?

**Emmanuel Babeau:** No, but what I can add is that the weight of the Russian business, within PMI is going down with the weakening of the currency. So, today we talk about revenue and an impact on our EPS, which is between 6% and 7%, which is materially lower than what it used to be, before the currency depreciation.

**James Bushnell:** Then we come to Owen.

**Owen Bennett:** Thank you. I had a question on vape, and you speak about the importance of a multi-category nicotine satisfaction, and when we look at vape, high levels of fragmentation, lots of dual usage. And specifically when you look at European markets, where there's a 2% nicotine limit – and as I understand, one of the fundamental issues is the nicotine delivery and efficiency is not satisfactory for smokers, and it's a category, initially you've been looking at for a number of years. I mean you guys, for instance, launching Mesh, back in 2018 or 2019, I think. I was just wondering, why has the industry not been successful in developing differentiated and better technology, in vape, when you've been very successful in developing very strong technology in heated tobacco? Is there technical limits on how far you can go in vape, is preventing that?

**Jacek Olczak:** Well, yes, I mean that's one of the challenges which the vape category has, is a lack of this differentiation. I think the industry – industry, I mean all the players, right, not just the classical maybe tobacco industry – the industry went into differentiation by flavors which aren't differentiated – differentiation, because everyone can have the same flavor and there is essentially every month, the race, which is another flavor I can bring to the market; it's not really solving the problem. I think a lot of effort has been put on the flavors, rather than saying that I can do something. There are products. There is some differentiation today in terms of efficiency of a nicotine delivery, even within the European thresholds. However, the whole attention again is to the flavor side.

Some other things have been addressed on these products. I actually – we did quite a number of tests with our *VEEV* proposition. I don't think from a product perspective we're missing anything to anybody, even the top selling, whatever it is, brand on the market, but then it's again the question, what is the differentiation? Right, I mean the industry is missing this whole thing. Effort was put historically in the heat-not-burn and that resulted that you have three, four actually, technologies, which are still subject to the further innovations. You had the Blade, you had the Pin, you had the peripheral heating, you had the induction, okay, sort of internal heating.

So, you could see there's a lot of effort, how to optimize this one, and this evolves. E-vape didn't go into this whole thing. Maybe because it was market fragmentation, and the product has evolved. We all remember that the history of e-vape was the cigarette looking like cigarette-like disposables, and they were not performing. Then, we went into open tank system, then open tank systems were too cumbersome for many – for most. And then we come to the cartridges; cartridges going now to the disposables. Disposables is exactly what we had at the very beginning. Although the products are of the better quality, etc. Okay, now some countries are banning disposables, so now we will unglue the cartridge from the battery, will go to the cartridge. So, there's a lot of moving parts that are for, yes, we have tried the Mesh, as you pointed out; I don't think it was – maybe technology was good, the problem is, we couldn't cut through the clutter without doing things which we would rather not do, i.e., go to the extreme flavors and try to cut through this clutter.

But I think propositions which we have from now, have played responsibly in a mature way. Okay, this will not have a short term results, but I think it's a very good strategy. We have invested, in the meantime, of trying to bring to the e-vape market a true tobacco taste, because the taste which you have today in the e-vape market, even if they claim, 'I am tobacco Virginia, etc., this is something which tries to resemble, rather than be. And I think that the technology

which Stefano was talking about, extracting the natural flavors of the tobacco leaf, and putting them into the liquid might be the solution. But again, the market is the shops in many countries, you go into the e-vape shop, and you are lost in space, right. So even – so now, we need to figure it out from a marketing, also, perspective, how we elevate ourselves from this crowd, because in this crowd, even if you are right, and you get the right product, you might get unnoticed.

**Owen Bennett:** Thank you.

**James Bushnell:** We have time for one more question. Okay, I don't see any hands up, so that – thank you very much, that concludes our question-and-answer session for today. I'd now like to hand back over to Jacek for some closing remarks.

**Jacek Olczak:** Yes, so – well, thank you very much for coming, spending your time with us. Actually even more important, thank you very much for investing in Philip Morris. And I know that many of you have invested in Philip Morris for the long time, and I hope that you're happy with that investment. These all transformations, I have to admit one thing, the transformations to smoke-free wouldn't happen if we wouldn't have a license to operate for our investors. So, we appreciate this, but I hope that you can see the results, and we're driving our business to the better, but actually, more important, more sustainable than the business that we used to have in the past. So, thank you very much, and enjoy the rest of the time.

**James Bushnell:** Thank you, Jacek, and thank you to all those joining on the webcast today. Please contact the investor relations team with any questions. Thank you.

[END OF TRANSCRIPT]