

**Philip Morris International Inc.  
2024 Second-Quarter Conference Call  
July 23, 2024**

**JAMES BUSHNELL**

**(SLIDE 1.)**

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2024 second-quarter results. The press release is available on our website at [www.pmi.com](http://www.pmi.com).

**(SLIDE 2.)**

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 in Exhibit 99.2 to the company's Form 8-K dated July 23, 2024, and on our [Investor Relations website](#).

**(SLIDE 3.)**

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 projections or forward-looking statements.

It is now my pleasure to introduce Emmanuel Babeau, our Chief Financial Officer. Over to you, Emmanuel.

## EMMANUEL BABEAU

(SLIDE 4.)

Thank you, James, and welcome everyone.

Our business delivered another outstanding performance in the second quarter of 2024. Our categories were strong across the board to deliver a record H1 on organic top-line growth and on organic OI growth, excluding the pandemic recovery year of 2021.

The strong underlying momentum of *IQOS* continued in Q2, with shipment and adjusted IMS volume growth above or in line with our expectations. This reflects another quarter of strong progress in Japan and robust fundamentals in Europe, despite the volatility of the characterizing flavor ban. With pricing, manufacturing efficiencies and scale benefits, the expanding profit contribution of *IQOS* is driving excellent growth for PMI.

*ZYN* continued its impressive growth trajectory, with Q2 U.S. volumes growing by over +50% despite recent supply tensions and increased pricing.

In addition to *IQOS* and U.S. *ZYN*, I am pleased to report building multicategory momentum. While still early days, *VEEV* has already become the closed pod leader in 5 European markets and is firmly on the path to profitability, while international nicotine pouch volumes grew over +60% in H1, matching U.S. growth rates. This progress of SFPs is reflected in a rapidly growing consumer base, with around 36.5 million estimated adult users as of June 30, and our products now available across 90 markets worldwide.

Our combustible business also overdelivered, with a return to gross margin expansion ahead of plan in Q2 after two years of significant inflationary headwinds. This was driven by stable H1 volumes and category share despite robust pricing, in addition to cost efficiencies.

This broad-based delivery translated into double-digit organic OI growth, with significant margin expansion. As we have outlined previously, delivering robust growth in dollar terms is a key priority and we are taking pro-active steps on pricing and cost efficiencies to mitigate currency headwinds. This is clearly evident in our H1 adjusted diluted EPS delivery of mid-single digit growth despite a currency headwind of over 12%, as essentially all of the expected full-year impact fell in the first half.

Following this exceptional first half performance, we are increasing our 2024 full year forecasts on all organic dimensions, and for adjusted diluted EPS on both a currency neutral and USD basis. This reflects our strong H2 outlook with accelerating adjusted IMS growth for IQOS, sequentially higher ZYN volumes and a stepped-up rate of USD EPS growth, at prevailing exchange rates.

**(SLIDE 5.)**

Looking at our headline financials, strong total shipment volume growth of +2.8% drove Q2 organic net revenue growth of +9.6%, or +5.6% in dollar terms.

Robust top-line growth, positive smoke-free margin mix and ongoing cost efficiencies enabled us to deliver adjusted diluted EPS of \$1.59. This represents +10.6% growth excluding a larger-than-expected unfavorable currency variance of 18 cents, which includes a small transactional impact from exchange rate volatility at quarter-end. This better-than-expected ex-currency performance reflects the improving profitability of IQOS, ZYN and combustibles, which I will come back to.

Looking at the first half overall, our volumes grew by +3.2%, and organic net revenues by +10.2%, our highest growth since the 2008 spin. Strong performance from both smoke-free and combustibles drove OI growth of +17.0% with margin expansion of +230 basis points organically, and +7.1% growth in dollar terms. We expect continued robust OI growth on both a reported and an organic basis in the second half.

H1 adjusted diluted EPS grew by an impressive +16.8% in constant currency and by +4.0% in dollar terms. The 38 cent unfavorable H1 currency variance includes 8 cents of non-recurring transactional impacts from Egypt and Russia.

**(SLIDE 6.)**

Focusing now on volumes, total shipment growth in both the quarter and H1 overall reflects smoke-free share gains in a resilient international industry which grew by more than 1% in both periods, even excluding oral and e-vapor.

Q2 HTU shipments of 35.5 billion units exceeded our prior outlook, notably driven by continued strong performance in Japan, robust underlying growth in Europe, and promising growth in newer markets such as Indonesia. In addition to underlying momentum, Q2 saw an incremental phasing impact of around 0.5 billion units primarily related to Red Sea disruption.

Q2 HTU adjusted IMS volume grew by +10.2%, in line with our expectations. This includes the impact of the characterizing flavor ban in Europe, most notably in Italy this quarter.

Total smoke-free adjusted IMS volumes grew +11.2% in Q2 and +13.1% in H1. This includes our oral smoke-free portfolio powered by ZYN, with Q2 pouch unit volumes up by +20.0%. U.S. ZYN shipments grew by +50% to 135.1 million cans. This does not include the promising results of our e-vapor business, where volumes grew strongly to the equivalent of 0.7 billion units on a year-to-date basis.

Cigarette shipments grew by +0.4%, with notable positive contributions from Turkey and North Africa. This reflects a stable category share excluding market mix, despite stepped-up pricing.

With such a positive H1 volume performance, we are raising our full year forecast for total cigarette, HTU and oral unit volumes to +1 to +2%, which would mark our fourth consecutive year of volume growth.

**(SLIDE 7.)**

The power of our multicategory smoke-free transformation and recovery in combustibles are clearly illustrated on this slide, as both areas contributed strongly to double-digit organic OI growth of +12.5% for the group in Q2.

Smoke-free continued its excellent momentum, with +18% organic growth in net revenues and +22% in gross profit, driving +220bps organic gross margin expansion. This reflects the strong performance of ZYN and the growth and scale effects of IQOS, including manufacturing productivities; and an increasing, albeit smaller, contribution from VEEV. Expanding smoke-free gross margins continue to widen the gap versus combustible gross margins, enhancing the very positive mix effects of our transformation.

However, combustible gross margin expansion is also a key objective. After 7 quarters of contraction, we are very pleased to report +50bps expansion and gross profit growth of +5.5% on an organic basis, providing a meaningful contribution to total PMI profitability. This reflects resilient volumes despite very strong pricing, in addition to ongoing efficiencies and reduced headwinds on our COGS, notwithstanding continued tobacco leaf inflation. We also expect combustible gross margin expansion in H2.

**(SLIDE 8.)**

Combined with a very strong first quarter, the year-to-date picture is even more compelling, with double digit organic net revenue, gross profit and OI growth. This is driven by the same dynamics as Q2, with an impressive +390bps gross margin expansion and +29% gross profit growth for our smoke-free business.

**(SLIDE 9.)**

Our H1 revenue performance again demonstrates the powerful drivers of our financial model, with an unparalleled combination of positive volumes, robust pricing and the very favorable category mix of our smoke-free products.

As mentioned, volumes grew by +3.2%. Pricing contributed +6.0 points of growth, including +8.3% pricing on combustibles, and around +2% on smoke-free.

Smoke-free category mix added +2.5 points to the top-line, reflecting the higher net revenue per unit of *IQOS* and *ZYN*. While still small, *VEEV* also contributed positively to the overall mix. I also note that Oral SFP added +2.0 points to organic net revenue progression, underlining the continued accretion from the Swedish Match acquisition.

As in recent quarters, geographic mix was negative. This is primarily due to combustibles where volumes increasingly skew to lower margin markets where smoke-free alternatives are small or not available, with higher margin markets over-indexed to cannibalization. We expect this dynamic to be less impactful in 2024 than last year.

**(SLIDE 10.)**

Now let's focus on the mechanics behind our H1 margin delivery. Gross margins increased organically by +140 basis points, and by +80 basis points in dollar terms. This was driven by our higher margin smoke-free business, pricing and ongoing productivity savings across the value chain.

As expected, SG&A cost growth stepped-up in Q2, increasing 9.8% organically after a very modest increment in Q1 due to planned phasing of commercial spend. The resulting 5.8% organic increase in H1 was below the rate of top-line growth, driving +1.0 percentage point of margin expansion, with our successful back-office cost programs able to mitigate some of the investment step-up. With a range of important commercial activities in Q3 we expect SG&A to remain elevated, but continue to target an organic increase below the rate of net revenue growth for the year.

I'm pleased to report we delivered over \$300 million in H1 gross cost efficiencies across both COGS and SG&A, as we pro-actively drive bottom-line growth. We expect an acceleration in H2 savings, notably from manufacturing, as we progress towards our \$2bn target for '24-26.

The combination of these factors drove a +230 basis point expansion in our organic OI margins. Despite a significant H1-skewed currency headwind, adjusted OI margins were stable on a dollar basis.

**(SLIDE 11.)**

Moving to our smoke-free business. We estimate there were 36.5 million adult users of PMI SFPs as of June 30<sup>th</sup>, reflecting an additional 3.2 million during H1. This includes an estimated 30.8 million *IQOS* users, 5.2 million Oral users and 0.8 million *VEEV* users. The increase in both total and *IQOS* users was broad-based, with notable progress in Japan, Europe, and newer growth markets such as Indonesia, in addition to *ZYN*'s strong traction with legal-age nicotine users in the U.S.

Our smoke-free products are now present in 90 markets, following recent launches of *IQOS*, *ZYN* and *VEEV*.

**(SLIDE 12.)**

Focusing now on *IQOS* in Europe, where fundamental dynamics are developing very well including the user growth I just mentioned. First, we see robust recoveries in markets where the characterizing flavor ban has passed the initial adjustment phase. Second, there is continued excellent growth in markets where *IQOS* is already well established, such as Portugal, Hungary and Greece. Last, new growth-leader markets are emerging with accelerating momentum in Germany, Spain, Bulgaria and Romania, in addition to a recovery in Poland following the launch of *DELIA*.

Our Q2 HTU share increased by +0.8 points year-on-year despite the impact of the flavor ban. Due to the usual seasonal factors and a resilient combustible market, Q2 share was sequentially below Q1. HTU adjusted IMS volumes demonstrated robust growth, growing by 0.8 billion units sequentially to reach 12.9 billion on a four-quarter moving average. As expected, adjusted IMS growth of +6.8% was slower than Q1 due to a higher comparison and the initial impact of the characterizing flavor ban, notably in Italy. Growth excluding Italy was close to 10%.

The impact of the ban is progressing in line with our prior estimates in the majority of markets, though the implementation in Italy during Q2 was slightly more pronounced than anticipated. This was primarily driven by earlier sell-through of affected SKUs,

and concurrent pricing. It is important to note this is a transitory dynamic and I am pleased to report a recovery in markets such as Greece, Czech Republic, Bulgaria and Romania, where the ban was implemented previously, following an initial period of consumer adjustment.

Indeed, despite an uncertain outlook in Ukraine, we anticipate an acceleration in Europe adjusted IMS growth in the second half. This is supported by the planned step-up in commercial activity behind *IQOS*, including the introduction of *DELIA* and *LEVIA* HTUs to an increasing number of markets.

**(SLIDE 13.)**

Another illustration of our continued progress in Europe is in our key city offtake share. Strong gains in cities with already high *IQOS* adoption such as Budapest, Bucharest, Bratislava, Lisbon and Sofia; and historically slower growth markets such as Madrid, London and Amsterdam highlight the enduring growth potential in the region.

**(SLIDE 14.)**

Japan demonstrated impressive *IQOS* growth in the quarter, with adjusted HTU IMS growth of +12.5% representing the 7<sup>th</sup> consecutive quarter of double-digit progression. Adjusted IMS volumes continued to grow sequentially, reaching 10.5 billion units on a four-quarter moving average. Total tobacco share for our HTU brands increased by +3.1 points year-on-year to 29.4%, with national offtake share exceeding the impressive milestone of 30% in June. We also maintained offtake share of over 35% in Tokyo despite seasonal factors, where the overall category continues to track at over 50% of total offtake and grow sequentially, demonstrating the continued potential in this important market.

Our continuous innovation is a key driver of this growth, with Q2 seeing a strong step-up in user acquisition following the launch of *ILUMA i*, and further innovative *TEREA* variants such as capsule consumables.

**(SLIDE 15.)**

Taking a more global view, we continue to see very promising *IQOS* growth across a broad range of geographies, including low and middle-income markets, as highlighted by key city offtake shares.

Accelerating growth in Indonesia, the world's largest cigarette market by volume excluding China, leads the way with increasing geographic reach and clove HTU innovation.

Markets across North Africa and the Middle East are also a growing weight and source of growth. We show Saudi Arabia, Lebanon, Morocco and Tunisia here, in addition to Egypt where performance in Cairo remains robust despite recent pricing and a recovery in the combustible market. I am also pleased to report very good progress in the UAE and Jordan.

Following the recent launch of *ILUMA*, growth in Mexico City is very promising, and the East Asian markets of South Korea and Malaysia continue to perform well.

Also worth highlighting is the successful contribution of Duty Free, where we are increasingly leveraging our multicategory portfolio to expand share in a growing market, as travel recovers in Asia.

**(SLIDE 16.)**

Our fundamental HTU growth outlook for the year has not changed. H1 adjusted IMS growth of +11.4% reflects the strong dynamics I described across Japan, Europe and global markets, partly offset by the transitory impact of the EU flavor ban. Indeed, growth excluding Europe accelerated compared to last year and we expect this to continue.

However, we see an incremental headwind of around 2 billion units to our full-year adjusted IMS forecasts, the majority of which is driven by the ongoing delay in approval for commercialization in Taiwan, which was previously expected around the mid-point of the year. We also factor in an impact of a few hundred million units for a slower recovery from the characterizing flavor ban in Europe, principally in Italy. I would note that our revised full-year forecast for adjusted IMS growth of around +13% represents the same absolute volume increase as 2023, despite the EU headwind. We accordingly forecast full-year HTU shipment volumes of around 140 billion, with shipments as usual expected to be a few billion units higher than adjusted IMS given continued offtake and user growth.

Importantly, we expect a very strong H2 delivery in adjusted IMS on both a sequential and year-on-year basis to between +14 and +15% growth. This is supported by a notable step-up in commercial activity, continued momentum in Japan and increasingly dynamic global markets. These include the markets I just mentioned and the ongoing acceleration in Duty Free.

For Europe, a broadening of growth through acceleration in Germany, Spain, the UK & Romania adds to the ongoing momentum in geographies such as Portugal and

Greece. H2 should also see several markets start to rebound from initial flavor ban impacts, including a gradual recovery in Italy.

**(SLIDE 17.)**

Turning now to ZYN, where very good U.S progress continued in Q2 with close to +70% growth in 12-month rolling shipments. As we shared earlier in the year, strong demand dynamics have created short-term supply chain constraints, which has impacted volume growth. As shown on this slide, this has resulted in a temporary slowdown of the category. ZYN's premium positioning and superior brand equity remain strong, with ZYN maintaining very robust category volume and value share despite these availability challenges and a recent price increase. We also remain highly focused on marketing ZYN responsibly to prevent unintended use.

We are making good progress on expanding production, and continue to expect a gradual improvement through Q3, with sequentially higher volumes, and for production volumes to meet expected consumer demand during the course of Q4. We expect the ongoing expansion of the existing facility in Kentucky to provide around 900 million cans of capacity for 2025. We also recently announced the planned investment in a new plant in Colorado, which is due to begin preliminary operations by the end of next year. Together, these plans support our U.S. ZYN growth ambitions for the coming years.

For 2024, we are now forecasting a U.S. shipment range of 560-580 million cans to reflect strongly increasing demand from adult nicotine users and the progress made on increasing our production capacity.

**(SLIDE 18.)**

I will now take a moment to update you on the international expansion of our smoke-free business. Our multicategory approach is gaining momentum as we unlock new horizons of growth with the increasing commercialization of IQOS, ZYN and VEEV across markets.

Our focused strategy for VEEV is showing very good early results. In Europe, closed pods are accelerating within the dynamic e-vapor category. We are seeing strong traction of our VEEV ONE product, achieving a number 1 closed pod position in 5 markets within the first year of launch including Italy, the Czech Republic and Romania.

We continue to observe good repeat-purchase and conversion rates, which is often a challenge for this category. We expect continued volume momentum in H2, supported by ongoing geographic expansion, and to reach profitability in Q3.

For ZYN, there is a large opportunity outside of the U.S., which we are working to capture. Our international nicotine pouch volumes including the Nordics grew by over +60% in H1, matching U.S. ZYN growth. We see promising results in a number of markets, including Mexico, South Africa, Pakistan and the important UK market, where we have seen strong traction with only limited distribution so far.

Our expansion of the IQOS portfolio remains active, as we innovate to broaden and enhance our offer for both existing users and switching adult smokers. Further market launches are planned in H2, including *DELIA* and *LEVIA* HTUs, and the new *ILUMA i* device range which is currently only available in Japan.

We also continue with our preparations for *IQOS ILUMA* in the U.S., and we are underway with consumer engagement for our first city pilot in Austin, Texas with the *IQOS 3* system, which we expect to start in Q4. As mentioned previously, the commercialization will be initially limited in scope and focused on direct activation of select legal-age smokers in a few cities, allowing us to experiment with different elements of the commercial model. The main purpose is to fine-tune our approach and readiness in anticipation of the at-scale launch of *ILUMA*. We continue to assume an authorization from the FDA in the second half of 2025.

**(SLIDE 19.)**

Focusing now on combustibles, our portfolio delivered robust organic net revenue growth and a very positive profit contribution, as I covered earlier. This reflects resilient volumes despite very strong Q2 pricing of +8.7%, including our pro-active actions to maximize growth. It is worth noting the large majority of our pricing is derived from 'regular' pricing actions unrelated to significant currency devaluations.

Factoring a strong H1 and favorable outlook, we now forecast an increased full-year combustible price variance of +7% to +8%.

Our cigarette category share was stable in H1 and down 0.2 points in Q2, or stable excluding market mix impacts. Lower share in Egypt and Indonesia was offset by positive contributions from Turkey, India and the Europe region, again despite strong pricing. Our global brands grew category share in the quarter, with *Marlboro* gaining +0.3 points to 10.1%.

On a global basis, our leadership in combustibles is a critical enabler to maximize switching to smoke-free products, and we target a stable category share over time. As mentioned previously, we evaluate our strategy on a market-by-market basis and have the flexibility to adapt our approach where smoke-free products have already reached critical mass.

**(SLIDE 20.)**

Taking a more holistic view of the business, our transformation and smoke-free journey are backed by a strategy that seeks to embed sustainability in all that we do.

We are making strong progress towards our product transformation targets. Our smoke-free products are now available in 90 markets, placing us on-track for our aspiration of 100 by 2025. We are also moving nicely towards our objective for low and middle-income countries to comprise over 50% of SFP markets. The rapid growth of our estimated SFP user base which now stands at around 36.5 million adult users, as previously described, is further testament to this progress.

With regard to our operations, decarbonization is an important focus area and we are very pleased to have been awarded the top spot on the Forbes' 2024 Net Zero Leaders list, which highlights the 100 U.S. public companies best positioned to reduce their greenhouse gas emissions. It also follows the announcement earlier this year of CDP awarding us a "triple-A" rating for our disclosures and efforts on climate change, forests, and water security.

This recognition reflects our continued focus on our sustainability performance and robust reporting as we continue to work towards a smoke-free future.

**(SLIDE 21.)**

This brings me to our outlook for 2024. Following an excellent H1 performance and strong business momentum as we start the second half, we are raising our full year currency-neutral and USD growth forecasts.

This is supported by accelerated total volume growth and pricing, and reflects the very strong outlook for *ZYN*, despite short-term supply constraints; and the increasing profitability of *IQOS* due to operating leverage, manufacturing efficiencies and pricing. We continue to target close to \$15 billion in smoke-free net revenues for the year.

Taking these factors into account, and a robust combustibles performance, we are increasing our organic net revenue growth forecast to a range of +7.5% to +9%.

In addition to strong top-line growth, the positive smoke-free mix effect, combustible recovery, and further cost efficiencies enable healthy margin expansion. We are accordingly raising our organic OI growth forecast to +11% to +13% for the year. We continue to target adjusted gross margin expansion for both smoke-free products and combustibles, and adjusted OI margin expansion for total PMI all in both organic and dollar terms.

Consequently, and also factoring a lower forecast net financing cost, we are raising our forecast for currency-neutral adjusted diluted EPS growth to +11% to +13%. This translates into a range of \$6.33 to \$6.45, including an unfavorable currency impact of 34 cents for the year, at prevailing rates. The increased currency headwind versus prior guidance is primarily due to the Q2 impacts already described. As shown by the increase in our forecast USD EPS growth to +5% to +7%, the underlying strength of our business and pro-active mitigating actions have allowed us to more than compensate for this, and we expect to deliver on our objective of strong growth in dollar terms.

**(SLIDE 22.)**

Focusing on the second half in more detail, we expect another strong performance driven by excellent IQOS adjusted IMS growth, the progressive improvement in ZYN volumes and continued positive impact from our actions to drive bottom-line growth.

For Q3, we forecast a record high quarterly adjusted diluted EPS of \$1.77 to \$1.82 despite a significant step-up in commercial spending and an unfavorable currency impact of 2 cents at prevailing rates. This is in contrast to a forecast currency tailwind of 4 cents for H2 overall, which enables us to target accelerated USD adjusted diluted EPS growth. We include a table of estimated currency impacts by quarter in the appendix.

This Q3 forecast notably reflects another quarter of dynamic growth, with HTU shipments of 34-35 billion units and an acceleration in HTU Adj IMS growth.

Given expectations for a strong full-year profit delivery, we are forecasting operating cashflow of around \$11 billion, which is at the upper end of our previous forecast range, at prevailing exchange rates and subject to year-end working capital requirements. We expect this improvement to more than offset an increase in capital expenditure to around \$1.3 to \$1.4 billion as we further accelerate ZYN capacity expansion.

Last, we continue to target a 0.3-0.5x improvement in our net debt to adjusted EBITDA ratio in 2024, driven by profit growth and strong cash flow generation. As of June 30th we have already improved to a ratio of 3.0x on a 12-month trailing basis as compared

to 3.2x at the end of 2023. This represents good progress towards our target of around 2x by the end of 2026. We intend to reconsider share repurchases, subject to Board approval, once we are within sight of this goal.

**(SLIDE 23.)**

I will now conclude today's presentation with some closing remarks.

The powerful combination of strong underlying business momentum and our own proactive steps enables us to generate best-in-class growth across key metrics. Our strategy is delivering on volumes, pricing, cashflow and dollar earnings, despite ongoing currency headwinds.

The success of our smoke-free transformation is reflected in our remarkable first half performance, with excellent underlying *IQOS* and *ZYN* growth, very robust pricing, positive category mix and stepped-up cost efficiencies.

This puts us firmly on track for an exceptional 2024, with accelerated top-line growth and margin expansion.

Our momentum is broadening across the business, with exciting multicategory growth opportunities to further support the delivery of our 2024-26 growth targets.

We remain highly focused on delivering performance in dollars, and as shown in H1, we are taking measures to mitigate currency headwinds.

Finally, we are steadfastly committed to returning cash to our shareholders. Our growth outlook and strong cashflow generation underpins our capital allocation priorities to reinvest behind our rapidly transforming business, alongside our progressive dividend policy.

**(SLIDE 24.)**

Thank you. We are now happy to answer your questions.

**JAMES BUSHNELL**

**(SLIDE 25.)**

That concludes our call today. Thank you for joining us. If you have any follow-up questions, please contact the Investor Relations team. Thank you again and have a nice day.