Philip Morris International Inc.
2023 First-Quarter Conference Call
April 20, 2023

JAMES BUSHNELL

(SLIDE 1.)

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2023 first-quarter results. You may access the release on 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, and additional net revenue data are available in Exhibit 99.2 of the company's Form 8-K dated April 20, 2023 and 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.

(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, Chief Financial Officer.
Over to you, Emmanuel.

EMMANUEL BABEAU

(SLIDE 4.)

Thank you, James, and welcome everyone.

I am pleased to report that Q1 performance exceeded our expectations, with strong underlying momentum from *IQOS*, *ZYN* and our combustible business. As mentioned at our full-year earnings in February, we expected this quarter to be the weakest of the year due to a confluence of transitory factors impacting our top- and bottom-line. In this context, our business delivered robust results and we look forward with confidence to the remainder of the year.

Smoke-free net revenues made up almost 35% of total PMI, despite the impact of adverse timing factors on HTU shipments, with an increasing number of markets crossing the 50% threshold.

IQOS continues to deliver strong share and user growth across its geographies, both with the blade version and *ILUMA*. Where launched, *ILUMA*'s excellent traction with both existing *IQOS* users and legal-age smokers is boosting growth, demonstrating the dynamism and importance of our ongoing innovation. *ILUMA's* progress is especially notable in the first launch market of Japan, where share growth has accelerated in recent quarters.

In combustibles, accelerated pricing across a range of markets helped to deliver robust organic net revenue growth.

Swedish Match delivered impressive results, with a stand-out performance from *ZYN*'s 47% U.S. shipment volume growth compared to the first quarter of 2022.

Following an encouraging start to the year, we are well set up to deliver strong performance in 2023 including excellent top- and bottom-line growth for the remainder of the year.

(SLIDE 5.)

Turning to the headline numbers, our Q1 organic net revenues saw robust growth of 3.2% against a very strong prior year quarter with organic growth of 9%. This reflects the continued strength of *IQOS* and a step-up in pricing but was partially offset by expected HTU inventory movements, which I will come back to. This organic figure does not include the excellent 14% ex-currency top-line growth of Swedish Match, led by *ZYN*. Our total reported currency-neutral net revenues grew by 9.6%, with combined pro forma adjusted net revenues increasing by around 4%, also excluding currency.

Our total organic net revenue per unit grew by 4.4% with strong combustible pricing of 7.4% partially offset by HTU dynamics in Japan and Germany, which I will come back to momentarily.

We delivered Q1 adjusted diluted EPS of $1.38, well above our previous expectations. This reflects a strong underlying delivery from our existing operations, excellent Swedish Match performance, and favorable phasing on interest costs. Compared to a record high prior year quarter, and with a number of one-off or accentuated margin headwinds from inflation, supply chain inefficiencies and timing factors as flagged previously, our adjusted diluted EPS contracted by 4.4%.

(SLIDE 6.)

Let me now walk through the mechanics of our Q1 net revenues. We delivered overall adjusted net revenue growth of 4.6% on an organic shipment volume decline of 1.1%. While not included in this number, Swedish Match's smoke-free volumes grew by an excellent 10% – adding impressive accretion to our overall growth profile.

Combustible and HTU pricing, excluding Germany and Japan HTUs, contributed 5.3 points of growth, including positive HTU pricing in a number of markets.

This was partly offset by a negative 1.3 point HTU impact from Germany and Japan. The larger of the two was Germany, reflecting a full quarter of the 2022 excise tax increase for which we await a court ruling later this year. In Japan, the October 2022 excise tax increase and transition to *ILUMA* were also a drag on our top-line, and we expect some of this impact to phase out in the second half.

While the increasing mix of HTUs in our business, at higher net revenue per unit, continues to positively impact our performance, lower shipments in Europe this quarter due to wholesaler and distributor inventory movements limited the benefit. This was also the main driver for the difference between our smoke-free organic net revenue growth and HTU shipment volume growth. We expect this positive mix shift to accelerate as both smoke-free organic net revenue growth and HTU shipment growth align more closely with offtake trends for the year, as they also did in 2022. The positive mix impact of HTUs, overall volume growth, and pricing are powerful drivers of our transformation and growth.

(SLIDE 7.)

As expected, the first quarter was impacted by peak margin headwinds at both the gross margin and adjusted operating income level. Our gross margin contracted by 0.6 percentage points due to the net impact of COGS inflation, pricing, volume, mix and productivity savings. We expect the positive elements of pricing, productivities and favorable HTU category mix to increasingly compensate and ultimately outweigh inflation as we progress through the year.

Supply chain disruption and the accelerated transition of consumers and our business to *ILUMA* accounted for a further 0.6pp impact. We anticipate these items to abate as we progress with *ILUMA* launches and gain efficiencies in our supply chain, including a return to sea freight.

In addition, specific cost phasing and the geographic mix of inventory movements, notably for HTUs in Europe, impacted our gross margin by 1.8pp in the quarter. Despite these exceptional Q1 dynamics, we continue to forecast the full-year 2023 margin impact of our heat-not-burn business to be favorable as inventory movements and *ILUMA*-related factors dissipate.

Therefore, and as explained previously, we expect a progressive improvement in our gross profit and OI margins, notably weighted towards H2 as headwinds subside and the underlying drivers of our transformation accelerate.

(SLIDE 8.)

At around 26% of adjusted net revenues, our Q1 SG&A costs are at a similar ratio to the full-year 2022. However, as expected there was a notable increase compared to Q1, 2022 given lower commercial spend at the beginning of last year, the inflationary environment, cost phasing, and front-loaded commercial investments.

Our successful cost efficiencies program continues to deliver, enabling ongoing investment and helping to mitigate inflation, with $150 million of gross savings realized in Q1 of which almost $50 million were from SG&A.

Importantly, we expect a significant slow-down in SG&A growth to a level below the rate of net revenue growth for the remainder of the year – which will support OI margin improvement.

(SLIDE 9.)

This brings me to the outlook for 2023. Our robust Q1 performance supports visibility on strong full year growth. We continue to expect 7% to 8.5% organic top-line progression, with a targeted acceleration in HTU shipment volume growth versus 2022. As detailed in this morning's press release, our other operating assumptions remain unchanged, and we remind you that our organic metrics do not include the contribution from Swedish Match for the large majority of the year.

Our updated full year adjusted diluted EPS forecast of $6.10 to $6.22 includes an estimated unfavorable currency impact of 30 cents. Positive estimated impacts from the Euro and a number of other currencies are outweighed mainly by the weakness of the Japanese Yen, as well as the significant depreciation of the Russian Ruble and the Egyptian Pound.

This range continues to reflect 7% to 9% currency-neutral growth and does not include any contribution from a potential favorable excise tax ruling in Germany, which we would expect to add around 3 points to our adjusted diluted EPS related to 2023 tax payments. We continue to expect Swedish Match to be low single-digit accretive to our 2023 adjusted diluted EPS after financing, and for an increase of around $200 million in our non-acquisition related interest costs, despite a relatively modest increment in Q1.

As discussed at full-year earnings in February, this year's bottom-line results are expected to be notably H2-weighted. However, we expect our organic net revenue growth to already accelerate in the second quarter into the high single-digits. We forecast second quarter HTU shipment volumes of between 30 and 32 billion, with adjusted diluted EPS in the range of $1.42 to $1.47, including an estimated unfavorable currency impact of 13 cents. Looking ahead to the second half of the year, we expect close to double-digit organic top-line growth and a return to margin expansion.

(SLIDE 10.)

Looking at our full-year forecast through a different lens, after the temporary headwinds in Q1 we expect very strong performance for the remainder of the year. Despite ongoing margin headwinds and investments, we expect organic top-line growth of 8% to 10%, improving margins with expansion in H2 and currency-neutral adjusted diluted EPS growth of 10% to 13%. This reflects the strong underlying drivers of our transformation, with *IQOS* and *ZYN* driving volumes at a higher net revenue per unit, combined with stepped-up pricing on combustibles.

(SLIDE 11.)

Turning back to our Q1 results, our HTU adjusted IMS volumes grew by an estimated 16%, demonstrating continued strong growth momentum.

HTU shipment volumes of 27.4 billion units were toward the higher end of our forecast range, with growth of 10.4%, which was well below actual offtake trends as anticipated, due to distributor and wholesaler inventory movements. As implied by our full-year HTU shipment forecast, we expect the rate of shipment growth to accelerate for the rest of the year as shipments converge with consumer offtake, and to grow at a faster pace in 2023 than in 2022.

Before detailing these inventory impacts, it's important to note that in certain markets, such as Germany, IMS sales volumes are not measured at the point of distributor sales to the retail trade, as the data is not available. In these cases we instead use our shipments as the proxy. This means that shipment fluctuations can impact both IMS volumes and reported market share, and may not be representative of offtake dynamics. Given the volatility seen over this quarter and from now on, where there is a significant difference between estimated offtake performance and IMS data, we may choose to provide market share metrics based on adjusted IMS to better reflect offtake, where adjustments reflect the total estimated impact of distributor and wholesaler inventory movements. As you may note in the appendix to today's earnings release this is the case for Germany this quarter, where we also provide historical figures.

Coming back to Q1, HTU shipment volumes in several European markets were below consumer offtake. This is explained by the reversal of some inventory build-ups at the end of Q4, 2022 to meet the needs of *ILUMA* launches, as mentioned at our full-year results in February, and also to create some safety stock to mitigate the risk of production and distribution constraints due to energy shortages. As anticipated, we were able to adjust this safety stock in Q1 as the risk receded. We also decreased the level of *IQOS* blade HTU inventories in several markets to reduce the risk of obsolete stock given the rapid transition to *ILUMA*. Notably impacted markets include Italy and Germany, where underlying market share and offtake trends remained strong. Italian Q1 IMS volumes grew by 21% compared to the prior year, with market share increasing from 15.4% in Q4 to 17.4% in Q1. In Germany, adjusted Q1 IMS volumes increased over 30% from the prior year with adjusted market share up from 4.7% in Q4 to 5.3% in Q1.

Now turning back to the overall picture, while total Q1 cigarette and HTU shipment volumes declined by 1.1%, our total IMS volumes were essentially stable and grew excluding total estimated inventory movements.

Our cigarette shipments declined by 3.1%, with resilient trends in many markets. The decline includes a notable impact from a high prior year comparison in Japan and the introduction of an abrupt excise tax increase in Pakistan, resulting in an increase in illicit trade and an industry contraction of over 30%. Volumes also declined in the

Philippines following industry pricing, with consumer purchasing power facing ongoing pressure.

We continue to target stable to positive combined cigarette and HTU shipment volumes for the year, following growth in 2021 and 2022. This notably does not include the excellent growth prospects of oral nicotine, for which shipment volumes grew by 10% in Q1.

Most importantly, the exciting growth combination of *IQOS* and *ZYN* presents an unrivalled platform for growth over the coming years.

(SLIDE 12.)

Focusing now on combustibles, our portfolio delivered robust Q1 organic net revenue growth of 3%. This reflects strong pricing of 7.4% with a step-up across many markets including Germany, Indonesia, and the Philippines. With over 80% of planned 2023 combustible pricing implemented or announced, we have good visibility on the full year delivery, although some of the positive Q1 variance reflects earlier pricing compared to 2022. We now forecast a full-year variance of 6% to 7%.

Our cigarette category share declined by 0.3pp in Q1, which was essentially all attributable to geographic mix as the total industry declined in large volume markets such as the Philippines and Pakistan. The impact of share movements within markets was neutral, with gains including Egypt, Poland, and Turkey offset by declines in markets such as Ukraine, the Philippines, and Iraq.

Importantly, we continue to target a stable category share in 2023 and over time, despite the impact of *IQOS* cannibalization.

(SLIDE 13.)

Moving now to our smoke-free products, we estimate there were 25.8 million *IQOS* users as of March 31st. This represents growth of close to 1 million adult users since December with notable progress in Japan and Europe, in addition to a broad range of other geographies.

(SLIDE 14.)

IQOS ILUMA has been a positive catalyst for volume and share growth across a broad range of launch markets, both supporting our strong position in the heat-not-burn category with a superior user experience, and fostering further category growth.

For existing *IQOS* users, *ILUMA* drives an accelerated upgrade cycle. This enhances retention and full conversion for the future, with a temporary margin impact from concentrated device sales. Indeed, we are now approaching an estimated 10 million *ILUMA* users with *ILUMA* taking over 85% of HTU volumes in the first launch markets of Japan, Switzerland, and Spain.

ILUMA is also enabling better acquisition and conversion of legal-age smokers, with market share acceleration visible in both earlier and more recently launched markets such as Italy and Korea. Since the introduction in these two markets in Q4, we are seeing encouraging trends in initial launch areas and expect this to be increasingly visible at the national level over time as it is in Japan and Greece, after a seasonal inflection in the latter.

Our main focus in Q1 was on ensuring the success of *ILUMA* in the 16 markets launched by the end of 2022, which cover over half of our *IQOS* business by volumes. In addition, we launched *ILUMA* on a limited basis in Indonesia in February via our *IQOS* club members program. The *IQOS* club was introduced in 2019 and now has over 100 thousand estimated users across 10 cities, with a notable boost from the launch of *ILUMA*. We expect to progressively launch *ILUMA* in more markets this year.

With *ILUMA* accelerating *IQOS* growth where launched, PMI HTUs continue to strengthen their position as the second largest nicotine 'brand' in markets where *IQOS* is present with a record high share of 9.0% in Q1. Impressively, as of Q1 PMI HTUs are now the #1 nicotine ‘brand’ in 10 markets with the addition of Italy and Greece during the quarter.

(SLIDE 15.)

Focusing now on Europe, which under our new regional structure includes additional markets such as Ukraine. Our first quarter HTU share increased by 1.7 points to reach 9.2% of total cigarette and HTU industry volume, adjusted for estimated wholesaler and distributor inventory movements, such as those I mentioned earlier in Germany and Italy. On the same adjusted basis, IMS volumes continued to grow sequentially and reached a record high of 11.1 billion units on a four-quarter moving average. This reflects strong progress across the region.

We expect our Europe HTU volumes to grow strongly in the remainder of the year while, as in the past, our quarterly HTU share of market can be impacted by seasonality of cigarette consumption during Q2 and Q3.

(SLIDE 16.)

To give some further color on our outstanding progress in the region, slide 16 shows a selection of the latest key city offtake shares.

The success of *IQOS* continues across a diverse range of geographies from Western, Southern, Central and Eastern Europe including markets with and without *ILUMA*. Notable stand-outs include Budapest with over 35% offtake share as well as Rome and Athens reaching the high twenties. To my earlier comments, we are very pleased with performance in Germany, where offtake share in Munich surpassed 10% for the first time.

We are also encouraged by recent positive regulatory developments in Greece where the Ministry of Health approved differentiated health claims for heated tobacco products. Greece is the first country outside of the United States that permitted health-related statements following a robust scientific assessment.

(SLIDE 17.)

In Japan, the heat-not-burn category now represents over 35% of total tobacco with *IQOS* driving category growth. The acceleration seen in recent quarters continued in Q1. Adjusted total tobacco share for our HTU brands increased by 3.4 points to 26.2% with offtake share surpassing 32% in Tokyo and 30% in Sendai. Adjusted IMS volumes again grew sequentially, reaching a record high of 9.0 billion units on a four-quarter moving average.

Strong performance in Japan further highlights the importance of continuous innovation and a broad consumable portfolio. Our premium-priced *TEREA* HTUs and mainstream priced *SENTIA* HTUs continued to grow through Q1, strengthening their position as the two largest heat-not-burn brands. We are delighted with the progress in Japan and as we look forward to further robust volume growth in the coming quarters, we would also like to remind you of the seasonality impact on quarterly share metrics.

(SLIDE 18.)

In addition to strong *IQOS* gains in developed countries, we continue to see very promising growth in Low and Middle-Income markets which are now approaching 30% of our total HTU volumes.

This slide highlights a selection of Q1 key city offtake shares across markets in Eastern Europe, the Middle East, Asia and Latin America. Notable successes include Bulgaria with Sofia offtake share of over 16% and Egypt, where offtake share in Cairo reached 7.5%. We also continue to see robust offtake volume growth across these important future markets.

(SLIDE 19.)

Now moving on to Swedish Match's business, which delivered an excellent Q1 performance with currency-neutral net revenue growth of 14% and smoke-free products comprising 77% of total net revenues.

Most impressive was the continued outstanding performance of *ZYN* in the U.S. with 47% volume growth to 73 million cans. While volume growth benefited from inventory movements, including restocking in California following the December flavor ban, underlying growth in volumes was very strong, estimated well above 30%.

We are also pleased with the Q1 performance in other U.S smoke-free categories, including moist snuff which gained 0.8pp category share and delivered shipment volume growth of 3%.

The smoke-free category in Scandinavia continued to grow driven by nicotine pouches, albeit at a slower rate following January snus excise tax increases in Sweden and Norway, with destocking accentuating the volume decline for Swedish Match's premium-skewed snus portfolio.

In cigars, the business delivered positive pricing and robust shipment volume growth of 4% in a declining category driven by the strong development of natural leaf varieties.

Finally, I would like to congratulate Swedish Match's employees for continuing to deliver excellent results as we thoughtfully integrate our activities. The integration is progressing very well and we look forward to sharing more on our combined growth plans later this year.

(SLIDE 20.)

Now let's examine *ZYN*'s recent U.S. performance in more detail. Superb progress continues with a record increase in 12-month rolling shipment volumes of 23 million cans, which equates to 40% growth.

Category volume share remained essentially stable despite continued heavy competitive discounting from less premium offerings. Importantly, retail value share for *ZYN* also remains strong at 75.6%, highlighting its premium positioning and superior brand equity.

(SLIDE 21.)

There are two key engines driving the U.S. growth of *ZYN*, as covered at CAGNY. First is the progressive increase in distribution, with the number of stores 13% higher than Q1, 2022 at around 140,000. There remains ample opportunity to further increase this over time.

Second are velocities, or the number of cans sold per store per week. *ZYN* velocities continue to grow sequentially and by an impressive 21% compared to prior year as the brand continues to resonate with adult nicotine users.

(SLIDE 22.)

Now, let me update you on our exciting plans to further accelerate our smoke-free journey.

As previously mentioned, the full global roll-out of *IQOS ILUMA* is a major priority. We are on track to make substantial progress this year as HTU manufacturing constraints continue to ease.

We continue to work on our *IQOS* U.S. commercialization plans for launch in Q2 2024, in line with the principles outlined at the recent CAGNY conference. With the benefit of the expertise and commercial tools from launching *IQOS* successfully in over 70 international markets, and a U.S. market with a clear regulatory framework and the ability to communicate with adult smokers, we remain very positive about the opportunity. Importantly, we believe we can make the necessary investments in the U.S. business, generating additional top-line performance while continuing to deliver strong bottom-line growth for PMI during the investment period.

In addition to our premium offerings, we are continuing to focus on *BONDS*, our latest heat-not-burn innovation that is especially relevant for Low- and Middle-Income consumers. Pilot launches in the Philippines and Colombia are progressing well and we intend to continue taking the learnings from these markets before deploying on a wider scale.

Another key mid-term opportunity from the Swedish Match combination is the international expansion of nicotine pouches, notably with *ZYN* – the world's leading brand. At CAGNY I mentioned we are targeting up to ten launches or relaunches this year as we look to develop the category with adult smokers who value the convenience, specific use occasions, taste, and satisfaction. We expect this to commence in a few markets this summer, including both developed and emerging countries.

While staying clearly focused on the heat-not-burn and nicotine pouch categories, which present the largest and most accretive growth opportunities, we are adjusting our *VEEV* e-vapor portfolio and approach. We intend to focus on commercializing in select markets and prioritizing profitability given the known category challenges. *VEEV ONE* is a new pod-based system providing an enhanced user experience with fully outsourced manufacturing of devices and consumables to optimize costs. *VEEV ONE* will replace the current *VEEV* product and, as a result, we no longer intend to file a PMTA for the former technology. Instead, we will focus our near-term FDA engagements on *IQOS* and *ZYN*. We will come back on future e-vapor FDA authorizations in due course.

For disposables, the fastest growing e-vapor segment, we are rebranding *VEEBA* to *VEEV NOW*. All of our e-vapor products will now be under the single, recognizable brand *VEEV* for a seamless consumer experience.

We will introduce the new *VEEV ONE* platform in Canada later this month and will apply an agile and disciplined approach for further *VEEV* roll-outs later this year.

(SLIDE 23.)

Moving to sustainability, I want to first draw your attention to our 2022 Integrated Report published earlier this month, which outlines the progress we are making towards achieving our purpose and smoke-free future. The report provides a comprehensive run-through of all our most material sustainability topics. This includes those in focus for investors such as post-consumer waste, youth access prevention, decarbonization, and our resource allocation towards advancing our smoke-free transformation.

In conjunction with the Integrated Report, we also published an updated ESG KPI Protocol providing even more robust criteria on how we define success and measure ESG performance. It focuses on the KPIs included in our Sustainability Index, which as outlined in our 2023 proxy statement continue to represent 30% of our long-term performance-based equity executive compensation.

I am also proud to announce that we released our first TCFD Report yesterday, which updates and compiles our previous disclosures on how we are implementing the recommendations of the Task Force on Climate-related Financial Disclosures in one document. This will be an important topic for many companies as reporting regulations evolve.

Lastly, we are also pleased that, following CDP's triple A recognition, PMI was again included in CDP's supplier engagement leaderboard, contributing towards achieving our scope 3 ambitions.

(SLIDE 24.)

To conclude today's presentation, we are on track for strong performance in 2023 despite margin headwinds. Our underlying growth fundamentals remain strong, and we expect these headwinds to progressively ease through the year.

Indeed, we delivered higher-than-expected Q1 results which put us on-track for the third consecutive year of high single-digit organic net revenue growth.

Continued excellent *IQOS* and *ZYN* performance further enhances our position as the global smoke-free champion with leadership positions in the largest category of heat-not-burn and the fastest growing category of oral nicotine. We are taking action through pricing in combustibles and our cost savings initiatives to recover cost inflation, as we progress rapidly toward our ambition to become a majority smoke-free business.

Finally, we remain a highly cash generative business with an unwavering commitment to our progressive dividend policy. We look forward to further rewarding our shareholders as our transformation delivers sustainable growth.

(SLIDE 25.)

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

JAMES BUSHNELL

(SLIDE 26.)

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