

**Philip Morris International Inc.  
2024 Third-Quarter Conference Call  
October 22, 2024**

**JAMES BUSHNELL**

**(SLIDE 1.)**

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2024 third-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 October 22, 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.

Following an excellent first half we delivered another outstanding performance in Q3. All key elements of the business performed at or above expectations, driving strong double-digit organic top and bottom-line growth, margin expansion and a significant acceleration in adjusted diluted EPS growth in dollar terms.

As expected, both *IQOS* and *ZYN* accelerated on a sequential basis. *IQOS* delivered a significant step-up in HTU adjusted IMS volumes in Q3, which is historically a quarter impacted negatively by seasonality. This reflects the strong underlying momentum of the business, with adjusted IMS close to +15% ahead versus prior year with another very strong performance from Japan, reaccelerating momentum in Europe, and promising results from a number of global markets.

With *ZYN*, we continued our efforts to increase U.S. production capacity in response to strong demand, enabling stabilization of share performance followed by sequential improvement throughout the quarter. This led to a significant increase in sequential U.S. volumes, with over 40% year-on-year growth despite capacity constraints. Outside the U.S. nicotine pouch can volumes grew by close to 70%.

Our combustibles business also accelerated to high single-digit net revenue and gross profit growth, led by further very strong pricing, resilient volumes and the benefits of our cost actions.

Our overall Q3 performance epitomizes the soundness of our strategy, with underlying momentum across categories with strong volumes, pricing and smoke-free mix supported by cost efficiency measures. With double-digit growth in both adjusted operating income and diluted EPS in currency-neutral and dollar terms, we are raising our full-year guidance.

### (SLIDE 5.)

Turning now to the headline financials for Q3. We delivered excellent organic revenue growth of +11.6%, driven by shipment volume growth of +2.9%, positive smoke-free category mix and pricing.

The combination of this positive top-line performance with the additional favorable smoke-free mix impact on profits and ongoing cost efficiencies, enabled us to achieve

growth of +13.8% in organic operating income and +18.0% in currency-neutral adjusted diluted EPS. This excludes an unfavorable currency impact of 6 cents, notably due to weakness in the Egyptian Pound, Argentine Peso and the strong Swiss Franc, partly offset by the Japanese Yen. Despite this currency headwind, our proactive measures on pricing and accelerated cost initiatives drove +11.2% dollar growth in adjusted OI and +14.4% dollar growth in adjusted diluted EPS to a record \$1.91.

This better-than-expected earnings delivery reflects *IQOS* and *ZYN* shipment volumes at the higher end of our expectations and a very strong combustibles performance. In addition we benefitted from a lower net financing cost, including increased interest income as well as mark-to-market gains on derivatives that we use to manage the currency profile of our debt -- driven by interest rate volatility.

Combined with an excellent H1, this yields an impressive +17.2% year-to-date currency-neutral growth in adjusted diluted EPS, with double-digit organic top-line growth and 190 basis points of organic OI margin expansion. Including currency, we delivered adjusted EPS growth of close to +8% which is a testament to our continued focus on delivering strong performance in dollar terms.

**(SLIDE 6.)**

Let's turn to the Q3 financial performance by category, with both sides of the business producing excellent results.

Smoke-free net revenues and gross profit grew organically by +16.8% and +20.2% respectively, driving +200 basis points of gross margin expansion. This reflects a robust *IQOS* performance in the quarter including manufacturing productivities, as well as the continued accretion of *ZYN* and a small but growing contribution from *VEEV*. Smoke-free gross margins were more than 450 basis points higher than combustibles in Q3 and more than 200 basis points higher year-to-date.

Combustible net revenue and gross profit growth accelerated to almost +9% organically. Combustible gross margins improved by +10 basis points organically and by +20 basis points in dollar terms, marking the second quarter of expansion following a challenging 2023. We continue to target combustible gross margin expansion for the year in organic and dollar terms as cost pressures, including the impact of the EU single-use plastics directive, are more than offset by pricing and ongoing cost initiatives.

**(SLIDE 7.)**

Focusing now on volumes, we are well on track for our fourth consecutive year of volume growth. Our business delivered a remarkable performance of around +3% total shipment growth both in Q3 and year-to-date, with all categories and all four regions growing over both periods.

Q3 HTU adjusted IMS growth of +14.8% reflects the underlying dynamism of our *IQOS* business, with a continued strong performance in Japan and a reacceleration in Europe as expected. Q3 HTU shipments of 35.3 billion units were at the upper end of our expectations, with the superior adjusted IMS growth compared to shipments due to shipment phasing, as highlighted in H1.

Our oral smoke-free business grew Q3 shipment volumes by +22.2%, with *ZYN* powering U.S. growth of +41.4% and very strong international performance.

Our *VEEV* e-vapor business exhibited continued volume momentum in the quarter, reaching the equivalent of 1.2 billion units on year-to-date basis.

Q3 cigarette shipments grew by +1.3%, outpacing the total estimated international cigarette industry excluding China and the U.S. at +0.5%. The unusually resilient industry performance this year reflects growing volumes in markets where smoke-free products are not permitted such as Turkey, India and Brazil, alongside a reduction in illicit volumes in a number of markets driven partly by geopolitical factors. Our growth includes notable contributions from Turkey, India and Italy and reflects good category share performance despite robust pricing.

**(SLIDE 8.)**

Our exceptional Q3 revenue performance reflected our three structural pillars of topline growth -- volumes, pricing, and smoke-free mix shift. Building on our very robust volume growth, pricing contributed +7.5 points of growth. This was powered by strong combustibles pricing of +9.7%, +3% pricing for *IQOS* HTUs and a notable contribution from *ZYN*.

The positive mix impact of our smoke-free business delivered +1.4 points despite the strong growth of combustibles, given the higher net revenue per unit of both *IQOS* and *ZYN*.

As in prior quarters, geographic mix was negative but to a lesser degree as growth stepped-up in Europe and the U.S.

The year-to-date net revenue drivers were very similar, with double-digit organic top-line growth built on positive volumes, smoke-free category mix of more than +2 points and strong pricing.

**(SLIDE 9.)**

Turning to operating income, we delivered impressive Q3 organic margin expansion of +90 basis points, and +110 basis points in dollar terms.

Gross margins increased organically by +80 basis points, and by +70 basis points in dollar terms. This was again driven by our higher margin smoke-free business, pricing and ongoing productivity savings across the value chain.

Moving now to SG&A. Despite a planned step-up in commercial activity, our organic cost evolution was essentially in line with top-line growth, with +40 basis points of margin expansion in adjusted dollar terms supported by cost efficiency actions. As previously communicated, we target an organic increase in SG&A below the rate of net revenue growth for the year, while still supporting our smoke-free expansion with continued commercial investment.

We delivered an incremental \$180 million in gross cost efficiencies in Q3 reaching almost \$490 million year-to-date, with initiatives notably focused on manufacturing and back-office costs. While only the first year, we are progressing nicely towards our '24-26 target of \$2bn in gross savings.

On a year-to-date basis, our adjusted OI margin evolution was also very positive with +190 basis points organic expansion and +40 basis points in dollar terms. We are well set to meet our full-year objective of expansion on both bases.

**(SLIDE 10.)**

Turning now to our *IQOS* business, which is celebrating the 10-year anniversary of its first launches in Japan & Italy. *IQOS* is the world's leading smoke-free product, generating over \$10 billion in annual net revenues. Notwithstanding the incredible growth and success of the brand over that time, there is a very substantial growth runway over the coming years as more of the world's 1 billion legal-age smokers switch to better alternatives.

Indeed, robust growth continues this year. We spoke last quarter about our expectation for a strong H2 delivery, with continued user growth momentum supported by our commercial programs, including events to celebrate the 10-year milestone. As expected, Q3 momentum accelerated with +14.8% year-on-year growth in HTU

adjusted IMS and a very substantial sequential step-up of 1.8 billion units versus Q2, which is especially impressive in a quarter that is typically negatively impacted by seasonality. This reflects a return to double-digit growth in Europe, a continued excellent trajectory in Japan, and a further acceleration from our global markets. We expect further strong growth in Q4.

The success of *IQOS* is built on technology, commercial capabilities, brand-building and innovation on both devices and consumables. Following the successful launch of the *IQOS ILUMA i* device in Japan earlier this year, we are expanding the rollout to more markets, including Italy, Greece, Portugal, Romania and Switzerland.

**(SLIDE 11.)**

Focusing now on *IQOS* in Europe, I am pleased to report a Q3 reacceleration in adjusted IMS growth to +11.3% following a slower Q2 progression. This includes the resumption of growth in markets passing through the adjustment phase of the characterizing flavor ban. The majority of EU HTU volume is now covered by the ban, and we observe a return to robust growth in markets such as Greece, Romania, and Portugal.

Following the stronger-than-expected initial impact in Q2, we are pleased to report positive volume momentum in Italy. This was supported by the launch of recent HTU variants, including our mainstream-priced offering *DELIA*, and tobacco-free *LEVIA*, jointly accounting for close to 7% of Italy's HTU offtake 3 months from launch.

In addition, we see excellent momentum in markets such as Germany, Spain and the UK, and increasingly balanced growth across markets overall, regardless of *IQOS* penetration.

Regional Q3 adjusted HTU share was up by +0.8 points year-on-year to 9.5%, and modestly lower sequentially due to the typical impact of seasonally higher combustible volumes in the summer. HTU adjusted IMS volumes reached 13.2 billion units on a four-quarter moving average, maintaining our high share of the category with robust sequential growth.

**(SLIDE 12.)**

Looking at our key city offtake shares in Europe, we see continued rapid progress in a large number of cities. An increasing number are posting growth of over +2.0 points year-on-year, which is the most meaningful comparison given seasonal factors. Particular callouts include Budapest, Athens, Bratislava, Bucharest, London and Amsterdam.

**(SLIDE 13.)**

Turning now to Japan, we delivered our eighth consecutive quarter of double-digit progression with adjusted HTU IMS growth of +14%, reaching 10.9 billion units on a four-quarter moving average. Our commercial programs continue to drive meaningful results, with innovation on devices and consumables propelling a +3.2 point market share increase to 29.8% in Q3, and surpassing the landmark of 30% in September. This includes the impact of the *IQOS ILUMA i* device, which was launched in Q1 and delivers enhanced consumer satisfaction.

**(SLIDE 14.)**

As shown on the previous slide, *IQOS* HTU offtake shares in key cities such as Tokyo continue to advance rapidly. We have previously flagged that Tokyo offtake share for the overall heat-not-burn category reached 50% earlier this year. This is also now true in 8 cities overall including Yokohama, Kawasaki, Sendai and Fukuoka, with several others rapidly approaching the same milestone. This is clearly a positive sign of the enduring growth potential in a market with already high penetration.

**(SLIDE 15.)**

Taking a more global view, we continue to see very good growth across a number of global markets, as highlighted by key city offtake shares. These include cities in Saudi Arabia, Mexico, and Egypt, where Cairo reached close to 10% share. Offtake share of more than 5% in Jakarta is indicative of the strong acceleration in Indonesia, as we continue our geographic and portfolio expansion, including a growing offer of clove *TEREA* HTU variants.

Finally, I would like to call out Duty-Free, where the ongoing travel recovery combined with the strength of our multicategory portfolio delivered dynamic growth, with *ZYN* and *VEEV* increasingly offered alongside *IQOS*.

**(SLIDE 16.)**

Moving now to *ZYN*, the number one U.S. smoke-free brand continues to see very strong underlying momentum. As flagged previously, we are working to progressively increase our production volumes, and this was reflected in a sequential acceleration to 149 million cans shipped in Q3.

As we continued working through these supply constraints, *ZYN*'s category share stabilized and then resumed growth on a sequential basis through the quarter, despite a further 15 cent per can list price increase taken at the start of September.

We continue to expect shipments to match consumer demand at some point during the fourth quarter. While gauging the level of underlying demand is not an exact science in the current circumstances, our promotional and commercial activity has naturally been lower as we prioritize meeting existing consumer needs over growing the legal-age user base from other nicotine categories. With ongoing efforts to increase our U.S. production capacity to around 900 million cans for the full year of 2025, and significant expansion beyond 2025 from our planned new facility in Colorado, we believe we are well positioned to capture ZYN's potential over the coming years.

We remain committed to driving industry standards in under-21 prevention, with policies and initiatives designed to prevent youth access. Our robust U.S. marketing code prohibits social media influencers and we refuse requests for such partnerships. All our owned product websites use age verification technology and we partner with WeCard and TruAge to support age restriction checks for retail sales. Overall, we are encouraged by the results of our efforts, which I'll come back to.

Combatting trade in illicit tobacco and nicotine products remains a top priority, and we dedicate a significant level of resources to support these efforts. We have strong governance and supply chain controls in place, and we take appropriate action where necessary, including limiting and/or terminating sales to certain customers in both the online and traditional trade, and we are continuously improving these control measures. We also closely monitor imports of products which may be illicit or infringing our patents and are committed to act on our own or in conjunction with the authorities to prevent these products being illegally commercialized.

**(SLIDE 17.)**

Our multicategory approach continues to gain momentum, as we leverage the strength of our leading brands whilst expanding the reach of our smoke-free portfolio.

For nicotine pouches, we are focused on responsibly building the category with ZYN in international markets. Increasing category awareness and interest among legal-age nicotine users is driving positive traction in a growing number of geographies. We have increased ZYN's presence year-on-year to 30 markets, including the Philippines, Mexico, several European markets as well as within Duty-Free. Despite still-limited distribution in some markets, we see continued strong traction in Mexico, Pakistan, South Africa, the UK and Duty-Free. The category also continues to grow robustly in Scandinavia.

E-vapor performance remained dynamic in Q3, and we reached profitability at product contribution level in September on the back of excellent volume momentum and

COGS improvements. Europe is at the forefront, as closed pods continue to take share from disposables and we lead the category with our flagship *VEEV ONE* closed pod system in several markets, including Italy, Romania and the Czech Republic. We are seeing good repeat-purchase and regular usage within a competitive environment, as we continue to build distribution and brand awareness. Outside Europe, we are investing behind *VEEV* for future profitability in a number of focus markets.

We are underway with the first stage of our *IQOS 3* consumer pilots in the U.S., with the launch of our “Be the first” campaign in Austin, Texas. As explained previously, the focus is on adult consumer engagement, building awareness through category and brand education in legal-age smoker communities. We do not anticipate any commercial volumes in 2024. The learnings from these pilots in Austin and other cities will be used to fine-tune our approach in anticipation of the at-scale launch of *IQOS ILUMA*, where we continue to assume an FDA authorization in H2, 2025.

Finally, a brief comment on our Wellness & Healthcare business. As we disclosed in September, we have entered into an agreement to sell Vectura Group and expect the transaction to close by the end of the year. Our ownership of Vectura was important to develop the required skills and scientific expertise to advance our inhaled therapeutics pipeline. Significant progress has been made on this front, however given that Vectura’s scientific engagement and commercial CDMO relationships were being impacted by unwarranted opposition to PMI’s ownership, we believe the overall future of Vectura will be better served under its new ownership. Together with the divestment, we announced the establishment of master service agreements to support the continued development of our inhaled therapeutics proprietary pipeline. Our Wellness & Healthcare strategy continues, and we look forward to updating you on future developments, including launches of consumer wellness products.

**(SLIDE 18.)**

Moving now to combustibles, where our portfolio delivered a very strong financial performance. Net revenues grew +8.6%, driven by Q3 pricing of +9.7%. This includes pricing taken during the quarter as we continue to focus on value maximization, and was led by markets such as Egypt, Turkey and Germany. As covered earlier this drove a very robust +8.7% increase in gross profit. With better-than-expected pricing of +8.8% on a year-to-date basis, we now forecast full-year pricing of +8 to +9%.

Cigarette volumes were resilient, as global industry trends remain benign. As I touched on earlier, this can be largely attributed to markets where smoke-free products are not allowed or are early in their development, as well as the impact of significant industry efforts and geopolitical factors on global illicit trade in a number of markets.

Our cigarette category share grew by +0.1 points in Q3 and year-to-date. Both *Marlboro* and our overall global brands achieved their highest quarterly share since the 2008 spin-off, with a corresponding positive impact on value share.

**(SLIDE 19.)**

As announced last week, there has been some long-awaited progress towards resolution of the decades-old cigarette-related litigation claims in Canada. Our Canadian affiliate RBH was deconsolidated in 2019 after entering the mediated CCAA process. The mediator's proposed plan would entail a settlement of around \$23.5 billion for the industry, payable from cash and cash equivalents in Canada and future combustible profits in Canada.

The reconsolidation of RBH's financial results after the plan is implemented would be subject to the final terms of the Proposed Plan and U.S. GAAP. We estimate reconsolidation would be incremental to PMI's cash and cash equivalents, cash flow, adjusted EBITDA, adjusted operating income, and adjusted EPS numbers. I direct you to last week's press release for further details.

**(SLIDE 20.)**

Moving now to sustainability. We are making continued strong progress towards our product transformation targets, including on access to smoke-free products. Our SFPs are now available in 92 markets, placing us on track for our aspiration of 100 by 2025. As a reminder, there remain a notable number of markets where smoke-free products are not yet available due to regulatory constraints, which in the case of heated tobacco make up close to one fifth of industry volumes excluding China -- as covered at our investor day last year. We are also moving nicely towards our objective for low and middle-income countries to comprise over 50% of SFP markets.

Our efforts to increase access to smoke-free products are specific to legal-age nicotine users and tackling underage nicotine use is a critical area of focus. We are encouraged by the results of the U.S. 2024 National Youth Tobacco Survey which reported youth usage of nicotine pouches remains very low at less than 2%, with no statistically significant change year-on-year despite the strong growth of the overall category. Such results can only be achieved through responsible stewardship of the category, and we are committed to continue driving standards in youth access prevention through a multi-stakeholder approach.

Addressing our company's environmental impacts is another key pillar of our sustainability strategy. We are working towards carbon neutrality in our direct operations, including certification of all our manufacturing facilities as carbon neutral.

Year-to-date, we certified 4 additional sites, bringing us to a total of 52%. We have concrete plans for the remainder of our footprint in order to achieve the 100% aspiration by 2025. Additionally, we are progressing with the Alliance for Water Stewardship standard, certifying 1 additional factory year-to-date to place us at 86% against our goal of 100% by 2025.

Combining our ongoing initiatives to address our environmental impacts with robust and rigorous reporting processes, we believe we are well-prepared for upcoming reporting requirements, including the EU Corporate Sustainability Reporting Directive.

**(SLIDE 21.)**

Turning now to our outlook for the full year. Following this stronger than expected year-to-date performance, we are raising our full year volume, organic sales growth, organic OI growth and bottom-line currency-neutral and USD forecasts.

First to volumes, where we target record organic growth and increase our outlook to +2% to +3% total shipment progression. Within this, we continue to expect adjusted IMS HTU volume growth of around +13% and shipment volumes of around 140 billion. This forecast continues to assume an impact from the EU characterizing flavor ban of just over 2 billion units and no volumes in Taiwan, where we continue to await regulatory approval.

For U.S. ZYN we forecast shipment volumes at the upper end of our prior guidance, in the range of 570 to 580 million cans, reflecting the progress made on capacity expansion as well as continued strong demand. Our outlook also factors in a robust combustibles performance, driven by a resilient total category as previously outlined.

**(SLIDE 22.)**

Given the combination of stronger volumes with accelerated pricing and continued smoke-free mix, we are increasing our forecast organic net revenue growth to around +9.5%. This includes strong double-digit organic growth in smoke-free net revenues and should result in close to \$15 billion in total for the year.

With the impact of this improved top-line performance, coupled with IQOS and ZYN operating leverage and further cost efficiencies, we now also raise our forecast organic OI growth to +14% to +14.5% 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.

Accordingly, we are raising our forecast for currency-neutral adjusted diluted EPS growth to +14% to +15%, which also factors in lower-than-anticipated net financing costs, including higher interest income. This translates into a range of \$6.45 to \$6.51, including an unfavorable currency impact of 40 cents for the year at prevailing rates. The 6 cent increase in expected currency headwind largely reflects the same factors as Q3. On a USD basis, this forecast represents very robust growth of approximately +7% to +8%.

As reflected in this forecast we expect another robust delivery in Q4, despite a more challenging top-line comparison on the mix of shipments between categories. We also target another quarter of adjusted gross and operating margin expansion, including a planned increase in commercial investments behind our smoke-free brands. Q4 net financing costs are likely to be sequentially higher, notably given the mark-to-market benefit in Q3 from the volatility in interest rate markets I mentioned earlier.

Our expectations for strong operating cashflow of around \$11 billion for the year are unchanged, and factoring in the most recent currency moves we now target a 0.3-0.4x improvement in our net debt to adjusted EBITDA ratio in 2024. This places us well on track for our target ratio of around 2x by the end of 2026, with buybacks to be considered, subject to Board approval, once we are within sight of this goal.

**(SLIDE 23.)**

In conclusion, we delivered another outstanding quarter reflecting the strong underlying momentum of our business coupled with our proactive steps to support superior growth in USD.

We are delivering on all key metrics, with best-in-class volumes and pricing, in addition to substantial margin expansion and earnings growth on both a reported and dollar basis. We are raising our growth outlook for an exceptional 2024, with growth rates comfortably above our 24-26 targets.

While the industry dynamics affecting combustible volumes may be specific to 2024, the key drivers of our growth are both structural and sustainable. Legal-age smokers are looking for smoke-free alternatives and we are building strong and profitable premium brands with *IQOS*, *ZYN* and *VEEV* to lead the smoke-free category. As we continue our powerful smoke-free transformation we have significant further opportunities both in the U.S. and internationally.

Importantly, we raised our dividend in September for the 17<sup>th</sup> successive year, in line with our progressive policy. We retain a strong and growing cash generation profile,

which enables both reinvestment in long-term growth and the capacity for substantial shareholder returns.

**(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.