Philip Morris International Inc.
2023 Third-Quarter Conference Call
October 19, 2023

JAMES BUSHNELL

(SLIDE 1.)

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2023 third-quarter results. The press release is available on our website at 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 to the company's Form 8-K dated October 19, 2023, 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. We delivered very strong and better-than-expected performance in Q3 driven by *IQOS* and *ZYN.* Adjusted diluted EPS grew by an excellent 20% in currency-neutral terms to reach a record quarterly high of $1.67, despite a significant adverse currency impact in the period. Once again our total volumes were positive, with the Q3 progression of over 2% positioning us to deliver our third straight year of growth.

While not yet in our organic metrics*, ZYN* continued its exceptional growth with U.S. volumes up by 66% in Q3 and over 50% year-to-date, with a substantial increase in category share.

Importantly, our *IQOS* business delivered another strong quarter with HTU shipments growing 18%, in line with the year-to-date trend. As covered at our recent Investor Day, HTU volumes have excellent unit economics relative to cigarettes and the 16.5% organic net revenue growth from smoke-free products was a key driver in both our high single-digit organic top-line and double-digit organic OI growth. Smoke-free products made up over 36% of total net revenues in the quarter, as we drive towards our new ambition of over two-thirds by 2030, making us substantially smoke-free.

In combustibles, we delivered very robust performance with 6% growth in organic net revenues, strong pricing and higher category share, despite the impact of adult smokers moving to smoke-free products.

Our impressive OI growth drove organic year-on-year margin expansion, and a sequential improvement compared to the second quarter. This includes healthy expansion in the gross margins of our *IQOS* business - which surpassed combustibles in the period - and lower-than-expected commercial costs.

Overall, we are pleased to report another strong quarter and we look forward with confidence to the remainder of the year and beyond.

(SLIDE 5.)

Turning now to the headline numbers. We surpassed $9 billion in quarterly net revenues for the first time, as strong positive volumes and continued excellent *IQOS* momentum supported organic net revenue growth of 9.3%. This organic growth does not include the impressive 22% adjusted ex-currency top-line growth of Swedish Match, led by *ZYN.*

Our organic net revenue per unit grew by 7.0%, driven by the increasing proportion of *IQOS* HTUs in our sales mix and very firm combustible pricing of 9.0%.

This positive top-line and mix performance drove very strong organic operating income growth of 11.3% and organic margin expansion of 70 basis points. Again, this excludes the exceptional performance of Swedish Match, which is included in our adjusted diluted EPS. We delivered adjusted diluted EPS growth of 20.3%, excluding an unfavorable currency impact of 17 cents notably due to the Russian ruble and the balance-sheet-related currency impact in Argentina, as disclosed at our recent Investor Day. Sequentially lower net financing costs were broadly offset by a higher tax rate.

(SLIDE 6.)

Our excellent third quarter, combined with a robust H1, resulted in strong delivery year-to-date. I want to highlight our volume growth of 1.5% and organic net revenue growth of 7.7%, again reflecting continued dynamic *IQOS* performance and combustible pricing. In addition, Swedish Match currency-neutral net revenues increased by 18% excluding accounting reclassifications.

Year-to-date operating income grew by 2.4% organically, despite accentuated margin headwinds and a notable OI decline in the first quarter due to the headwinds covered previously, which are now starting to subside.

Combined with outstanding *ZYN* performance, this resulted in year-to-date currency-neutral adjusted diluted EPS growth of 10.7% to $4.65. This is an excellent performance.

(SLIDE 7.)

Turning now to the full-year outlook. I am pleased to share that following this very strong year-to-date delivery we are raising our volume, organic sales growth and currency-neutral adjusted bottom-line growth forecasts.

First to volumes, where we increase our outlook to 1% to 1.5% total shipment growth for cigarettes and HTUs, despite a lower expectation for the total industry. Within this, we expect to deliver HTU shipment volumes within the lower half of our prior 125 to 130 billion range. While *IQOS* fundamentals remain strong, this narrowing reflects a further delay to the expected market launch in Taiwan, limited underlying growth in Russia and Ukraine, as well as some uncertainty related to inventory levels in the EU, as trade partners adjust to the upcoming HTU flavor ban. For combustibles, the resilience of our portfolio is reflected in an updated forecast of a 1% to 2% cigarette volume decline.

ZYN continues to perform exceptionally, with strong adult consumer traction. Following a further step-up in the U.S. volume run rate, we are now increasing our full-year nicotine pouch forecast range to 390 to 410 million cans.

Combining the improved volume outlook with robust pricing and continued positive mix, we are narrowing our organic net revenue growth forecast to around 8%, the midpoint of our previous range.

As I will come back to shortly, we expect excellent organic OI growth over the second half of the year. Combining this strong profit performance with the continuation of *ZYN*'s phenomenal growth and diligent cost management, allows us to raise our currency-neutral adjusted diluted EPS growth forecast to 10% to 10.5%. This means we now expect double-digit growth for the third year running, and translates into a full-year range of $6.05 to $6.08, including an estimated unfavorable currency impact of 53 cents at prevailing rates.

Last, despite increased currency headwinds we continue to expect operating cash flow of around $10 billion for the year. This sets us up nicely as we focus on deleveraging towards our target of around 2 times adjusted net debt to EBITDA in 2026.

(SLIDE 8.)

Now let me provide a different view of our forecasted results. As you can see, 2023 has very much been a year of two halves, with a number of accentuated headwinds in H1, as explained in prior quarters, including steep cost inflation. H2 is a different story, and we believe it is more reflective of the underlying trajectory of our business.

First, we expect an accelerated H2 top-line with organic growth of around 9%. Second, we expect a significant reacceleration in profit growth.

We continue to expect organic OI margin expansion in H2, and we are well on track after delivering another quarter of sequential adjusted OI margin improvement in Q3, with margins also expanding organically year-on-year. In H2, we expect strong organic OI growth of around 10%. For the full year, our expectation remains that organic margin evolution will be towards the lower end of our -50 to -150 basis point range, including the expected technical margin impact of around 40 basis points from third-party arrangements in Indonesia and Ukraine. For Q4, we expect strong OI growth with broadly stable year-on-year organic margin progression. This includes the expectation of higher device sales as we accelerate our *ILUMA* roll-out to reach around 50 markets by year-end, complimented by further *ILUMA* device innovation.

This very positive organic OI trajectory in H2 naturally translates into an acceleration in currency-neutral adjusted diluted EPS growth, bolstered by Swedish Match.

(SLIDE 9.)

Now turning back to our results, our total shipment volumes increased by 2.2% for Q3 and 1.5% year-to-date, putting us comfortably on track to deliver our third sequential year of growth.

HTU shipment volumes grew by 18% in Q3 to reach 32.5 billion units, driven by continued strong performance in Europe and Japan. Adjusting for inventory movements, including the transition back to sea freight, Q3 adjusted IMS grew by 14.4%. This includes Europe at 16% despite heightened competitive activity, notably in Poland, and a more normalized growth rate in Japan of 12%. Excluding Russia and Ukraine where growth remains limited, our adjusted IMS advanced by a very robust 16%.

These growth rates exclude the excellent development of oral nicotine, for which shipment volumes grew by 19% in Q3 and 14% year-to-date on a pro forma basis, including the U.S. growth of *ZYN* of 66% and 56%, respectively. If we were to add the growth of nicotine pouches on a unit basis, our Q3 pro forma smoke-free volumes grew by 19.5% and our total volumes by 2.5%.

Cigarette volumes declined by a modest 0.5% in Q3, with strong performance in Turkey and Egypt, and by 1.3% year-to-date, reflecting solid category share performance in a resilient category, despite robust pricing.

(SLIDE 10.)

I will now walk through the mechanics of our Q3 net revenues. In addition to 2.2% volume growth, pricing contributed 6.2 points of growth as combustibles remained strong and the negative impact on HTU pricing of the annualization of excise tax increases in Japan and Germany notably moderated.

The increasing proportion of HTUs in our business continues to be a consistent top-line driver, reflecting higher net revenue per unit. The positive mix impact of HTUs, overall volume growth, and pricing are powerful drivers of our transformation and growth. We expect *ZYN* to enhance this further as it starts to be included in our organic metrics from mid-Q4.

(SLIDE 11.)

Looking now at adjusted operating income, where the $3.7 billion delivered in Q3 is also a record high. I am pleased to report that following peak margin headwinds in Q1, our organic growth has accelerated nicely as inflation, supply chain disruptions and *ILUMA*-related factors continue to moderate, and the underlying dynamics of our transformation bear fruit. The Q3 progression is slightly above our 2024-26 CAGR target of 8 to 10% organic OI growth and as I covered earlier, we expect our overall H2 OI growth to be around the top of this range.

(SLIDE 12.)

This strong OI growth, in excess of an already healthy top-line performance, drove a better-than-expected organic margin expansion of 70 basis points in the quarter. This was also the first quarter this year where gross margins expanded organically, notably due to lower shipping costs, *ILUMA* margin improvement and lower device sales compared to the prior year. SG&A costs were also organically lower as a percentage of net revenues, reflecting a good cost performance and some phasing between the third and fourth quarters.

We delivered a further $120 million in gross cost efficiencies in Q3, now surpassing our $2 billion target for 2021-23. We aim to continue this run rate, as reflected in our 2024-26 target of an incremental $2 billion in gross savings.

The Q3 margin currency variance includes a 0.6 point impact from the Argentina balance sheet-related item I mentioned earlier. By its nature, this does not carry forward to future periods.

(SLIDE 13.)

Now moving to Swedish Match, which is meaningfully accelerating our smoke-free growth trajectory as we progress towards becoming substantially smoke-free by 2030.

Swedish Match's business delivered excellent adjusted currency-neutral net revenue growth of 22% in Q3 and 18% year-to-date. This means that our adjusted pro forma year-to-date top-line growth was 60 basis points higher at 8.3%. Swedish Match's strong profitability also enhanced our year-to-date adjusted OI margin by 70 basis points.

As we covered at Investor Day, Swedish Match's smoke-free portfolio has excellent economics and is already at significant size compared to total PMI, with its product contribution – or operating profit before G&A - approaching one quarter of our total smoke-free business year-to-date.

ZYN remains the key performance driver as it delivered another remarkable U.S. performance with 66% volume growth, reflecting positive momentum across the country.

Elsewhere in smoke-free, recent trends of share gains in U.S. moist snuff as well as category mix headwinds in Scandinavia broadly continued.

We continue to be very pleased with the positive impact of Swedish Match on our company, and I would like to thank the team for delivering such a great performance.

(SLIDE 14.)

Now let's examine *ZYN*'s recent U.S. performance in more detail. Exceptional progress continued in Q3 with an increase in 12-month rolling shipment volumes growth of 52% compared to Q3 2022 and 14% sequentially.

Impressively, *ZYN* Q3 category volume share grew to 70.8%, which is 4.7 points higher year-on-year and 2.5 points sequentially. Retail value share remains strong at around 76%, highlighting *ZYN*'s premium positioning and superior brand equity.

This accelerated growth reflects progressive increases in distribution and a further broad step-up in nationwide store velocities as the category gains strong traction with adult nicotine users for its convenience and pleasurable experience.

(SLIDE 15.)

Now focusing on *IQOS*, starting with user growth. We estimate there were 27.4 million *IQOS* users as of September 30th. This represents an increase of 3.7 million users versus one year ago, and 0.2 million compared to Q2, 2023.

As shown on the right-hand side of this slide, the third quarter of each year typically experiences slower user growth due to seasonal influences in the calculation. Both new user registrations and device sales to legal-age smokers continue to advance strongly, and at levels broadly in line with Q2, when users grew by 1.4 million sequentially.

Also as in prior years, we expect a substantial acceleration in user growth in the fourth quarter.

(SLIDE 16.)

Moving now to *IQOS* in the Europe Region, where our third quarter HTU share increased by 1.3 points to 8.6% of total cigarette and HTU industry volume. Continued share gains include the growing take-up of *ILUMA*, which is available to over 80% of *IQOS* users in the region. In addition to Q3 launches in Denmark and the UK, *ILUMA* was launched in Poland, which – like Japan – is a market with high competitive activity. We look forward to driving its performance here over the coming quarters.

While sequential share is, as usual, optically affected by the seasonality of the cigarette category, adjusted IMS volumes continue to exhibit robust sequential growth and reached a record high on a four-quarter moving average. This reflects strong year-on-year growth of 16% in Q3, despite limited growth in Ukraine. We expect strong IMS volume growth to continue in Q4, with a corresponding increase in market share.

In the EU, a majority of member states have transposed the Delegated Directive withdrawing the heated tobacco product exemption from the characterizing flavor ban into national law. The ban in those markets will be effective as of October 23rd and the remaining markets are expected to adopt in 2024. As previously mentioned, we are adjusting our HTU portfolio as required in line with this transposition and while short-term volatility is possible, including in year-end trade inventories, we do not expect a significant change in the structural growth of the category.

(SLIDE 17.)

In Japan, *IQOS ILUMA* celebrated its second anniversary of the national launch in September and continues to exhibit strong growth due to excellent conversion, consumer satisfaction, and retention rates.

Adjusted total tobacco share for our HTU brands increased by 3.0 points in Q3 year-over-year to 26.6%. Importantly, adjusted IMS volumes again grew sequentially on a four-quarters moving average, reaching over 10 billion units for the first time in Q3'23, as *IQOS* outgrew the heat-not-burn category. In addition to this excellent consumer trend, our Q3 shipments to Japan also benefitted from further switching back to sea freight during the quarter. This shift is now substantially progressed, and we expect a more normalized rate of HTU shipments in Q4.

Our premium-priced *TEREA* HTUs and mainstream priced *SENTIA* HTUs continued to grow individually and in aggregate, reaching Q3 offtake shares of around 18% and 8% respectively, despite the impact of seasonality. Our Japan city shares also continue to progress with a number reaching over 30%. We continue to see a long runway of growth in Japan over the coming quarters.

(SLIDE 18.)

In addition to strong *IQOS* gains in developed countries, we continue to see very promising growth in Low and Middle-Income markets.

This slide highlights a selection of Q3 key city offtake shares across markets in Eastern Europe, Africa, Asia, and Latin America. We see notable ongoing success in Egypt with Cairo offtake share up 3.5 points to almost 9%, and in Santo Domingo as our leading Latin American city, with offtake share around 8%. Most promising is the 3.1% offtake share in Urban Jakarta, where *IQOS* is only available via the *IQOS* Club members program. We continue to see robust offtake volume growth across these important future markets, despite seasonal effects on sequential share metrics.

(SLIDE 19.)

I'd like to spend a moment now on combustibles, where our portfolio delivered strong organic net revenue growth of 6.2% in Q3 and 5.6% year-to-date. This reflects another strong quarter of pricing, with notable contributions from Germany and Indonesia. With better-than-expected pricing in Q3 of 9.0% and 8.6% year-to-date, we now forecast a full-year increase of 8% to 8.5%.

Our cigarette category share grew by 0.6 points in Q3 and 0.3 points year-to-date. This reflects notable contributions from Egypt, Poland, and Turkey, resulting in only modest volume declines. Our leadership in combustibles helps to maximize switching to smoke-free products and we have fully achieved our ongoing objective of stable category share over the last 2 years, despite the impact of *IQOS* cannibalization.

(SLIDE 20.)

This combustible share performance, combined with the structural growth of *IQOS*, supports robust overall market share gains. We captured 0.9 points of international cigarette and HTU share in Q3, and 0.7 points year-to-date.

As covered at Investor Day, our superior share of smoke-free products gives us a formidable platform for sustainable market share gains, with superior unit economics.

(SLIDE 21.)

Now, let me update you briefly on our exciting innovation and expansion activities, which will be critical as we aim to reach over two-thirds smoke-free net revenues by 2030, including 60 markets over 50% and 40 markets over 75%.

As we covered at Investor Day, the global roll-out of *IQOS ILUMA* continues. We launched *ILUMA* in 4 markets in Q3, reaching 27 markets in total, which represent around 75% of our *IQOS* business by volume. *ILUMA* continues to generate excellent growth, with upgrades from existing users and new user acquisition. With a further 6 markets launched already this month we expect *ILUMA* to be present in around 50 markets by year-end and to essentially complete the roll-out next year.

As also mentioned during Investor Day, superior tobacco taste is critical to our ongoing success, and we are further exploring complex and new taste spaces to enhance our tobacco flavor experience. On the other end of the consumer preference spectrum, we will be offering zero tobacco consumables for non-tobacco flavor discovery under the *LEVIA* brand. Just as nicotine pouches are an evolution from snus to make the oral category relevant to more adult smokers, *LEVIA* is a similar non-tobacco evolution for *IQOS* as we broaden our offering to increase switching away from combustibles.

The U.S. represents the most significant opportunity to drive accelerated smoke-free growth at both the top- and bottom-line. We are continuing to invest behind *ZYN* and readying our organizational and commercial capabilities for the launch of *IQOS* in Q2 2024 and a scaled-up roll-out with *ILUMA* once authorized. We remain on track to file for *IQOS ILUMA*'s PMTA and MRTPA this month.

The international expansion of nicotine pouches remains a key mid- to long-term focus, notably for *ZYN* as the world's leading brand. During the third quarter we re-launched *ZYN* in Switzerland and, following positive regulatory developments, rolled-out *ZYN* in Finland.

(SLIDE 22.)

Moving now to sustainability. Addressing the product health impact of combustible products by switching adult smokers to smoke-free products, which are designed and marketed for adult use, remains our most critical priority. This transformation is at the core of our strategy as we become a more sustainable business with accelerated growth and returns over time.

With regard to tackling climate change, I am delighted to report that the Science Based Targets initiative validated our Forest, Land, and Agriculture emissions reductions targets, a recognition achieved by very few companies. We pledged to reduce these absolute scope 3 emissions by 33% by 2030, which is significant given that scope 3 remains the most challenging aspect of any company's decarbonization strategy.

In September, almost 20,000 employees in over 60 countries participated in World Clean-up Day, showcasing our commitment to raising awareness around littering, as part of our wider strategy to reduce post-consumer waste.

We have long expressed our support for more rigor in sustainability-related reporting and welcome recent moves towards greater consistency in standards under strong governance frameworks. As part of our ongoing work, we provided responses to consultation requests from the International Sustainability Standards Board to help shape the development of their work plan and updates to the SASB standards. PMI continues to be recognized by organizations such as the World Business Council for Sustainable Development as a leader in non-financial reporting.

We have much more to share on our sustainability efforts and transformation. Jacek will be presenting at the CECP CEO Investor Forum in New York on November 14, and the event is open to all those who would like to attend.

(SLIDE 23.)

To conclude today's presentation, we continue to deliver sustainable growth through our transformation. The powerful trajectory of our smoke-free business gives us confidence in strong full-year results built on volume growth, positive mix, pricing and cost management. Considering the headwinds faced, notably in the first part of the year, we believe this speaks strongly to the fundamentals of our growth model.

Notably, the outstanding performance of *IQOS* and *ZYN* continues, further enhancing our position as the global smoke-free champion. We have exciting plans to accelerate our smoke-free future in both the U.S., the largest smoke-free market, and internationally.

We are confident in our 2024-26 CAGR targets of 6% to 8% organic top-line growth, 8% to 10% organic OI growth and 9% to 11% currency-neutral adjusted EPS growth. We also have a clear guiding objective with our new ambition to be substantially smoke-free by net revenues in 2030, as another key milestone on our journey towards a smoke-free future.

And finally, with our latest dividend raise in September, we have delivered 16 years of continuous dividend increases since our 2008 spin, despite the ups and downs of economic and currency cycles. This translates to a cumulative 183% increase and CAGR of 7.2% since 2008, with an annualized dividend of $5.20. As this demonstrates, our commitment to shareholder returns through a progressive dividend remains steadfast.

(SLIDE 24.)

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

JAMES BUSHNELL

(SLIDE 25.)

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.