

**2021**  
**INVESTOR DAY**

Delivering a Smoke-Free Future

## **The Next Growth Phase**

**André Calantzopoulos, Chief Executive Officer  
Philip Morris International**

**February 10, 2021**



# 5 Years of Progress on our Smoke-Free Transformation

**\$6.8**  
billion  
in Smoke-Free Net Revenues

**24%**  
of total PMI

Note: Full-year 2020  
Source: PMI Financials or estimates

# 5 Years of Progress on our Smoke-Free Transformation

**17.6**

million IQOS users,  
of which

**12.7**

million have switched and  
stopped smoking

Launched in

**64**

markets

with **80%** segment  
share; focus on  
responsible marketing  
practices

Note: As of December 31, 2020  
Source: PMI Financials or estimates

# 5 Years of Progress on our Smoke-Free Transformation

IQOS the world's

**#1**

Smoke-free brand

**#5**

Nicotine brand

**#1**

position

in

Combustibles<sup>(a)</sup>

(a) Measured by market share excl. China and the U.S.

Note: As of December 31, 2020

Source: PMI Financials or estimates



# 5 Years of Progress on our Smoke-Free Transformation

**ESG leadership  
&  
Pioneering  
role in  
tobacco  
harm reduction**

# 5 Years of Strong Financial Performance Despite Challenges

**\$8.1**

**billion of RRP investments**  
(cumulative since 2008)

'15- '20 organic CAGR of

**4.3%** Net Revenues

**9.8%** EPS

Total dividends ('16-'20)

**\$34bn**

Source: PMI Financials or estimates. Investments reflect research, product and commercial development, production capacity, scientific substantiation, and studies on adult smoker understanding

# The Next Growth Phase: Key Questions

- Smoke-free category growth outlook; including the obstacles and enablers
- Maintaining PMI's leadership in smoke-free products
- Category economics and profitability
- Combustibles: strategy and outlook
- Capital structure and shareholder returns
- Sustainability and ESG drive
- Leverage capabilities to go beyond nicotine over the longer term



## The Next Growth Phase: Our Priorities

- Aim to reach over 50% of Net Revenues from smoke-free products by 2025
- Sustainable long-term growth nicotine business model which will advance harm reduction and reward shareholders; RRP's still at a very early stage
- Driving a new phase of category development to reach more adult smokers
- Leveraging leadership in combustibles to continue supporting smoke-free expansion
- Pursue differentiated regulation to accelerate switching
- Long-term growth opportunities beyond nicotine



## Growth Targets for 2021-23

	2021-23
Net Revenue Organic Growth CAGR	>5%
OI Margin Average Annual Organic Increase	≥150bp
Adjusted Diluted EPS Organic CAGR	>9%
Annual HTU Shipment Volumes (in billion) <sup>(a)</sup>	140-160
Smoke-free % of Net Revenue <sup>(a)</sup>	~40%
Gross Cost Efficiencies	~\$2bn

(a) By 2023

Note: Growth rates presented on an organic basis for consolidated financial results reflect currency-neutral underlying results and "like-for-like" comparisons, where applicable. Does not include share repurchases and assumes constant effective tax rate.



# The Nicotine Transition to Smoke-Free

	2017-19	2020	2021-23
<b>Total Nicotine Industry Volume Growth CAGR<sup>(a)</sup></b>	~(2)%	~(5)%	~(1)-(2)%



<b>Nicotine Industry by category</b>	2017	2020	2023
<b>Combustible<sup>(b)</sup></b>	97%	94%	90%
<b>Smoke-Free<sup>(c)</sup></b>	3%	6%	10%
<b>Heat-not-Burn</b>	1%	3%	7%

(a) Includes cigarettes, other tobacco products (OTP), heat-not-burn, e-vapor and nicotine pouches in stick equivalents. Assumption for cigarettes and HTUs also a decline of around 1-2%

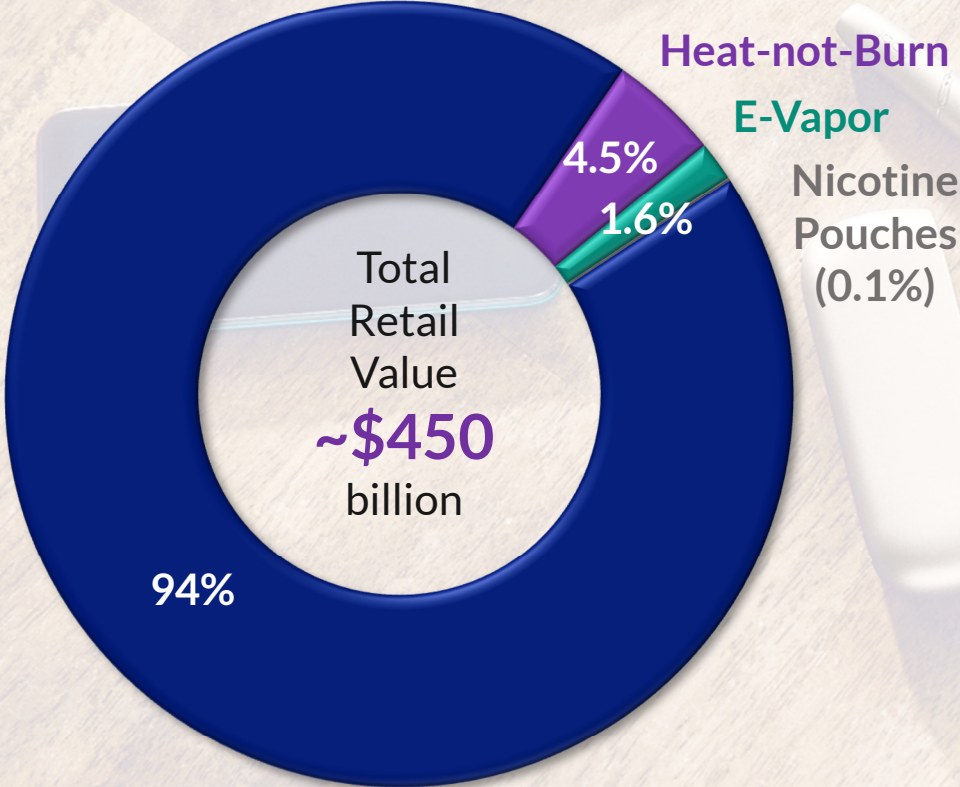
(b) Includes combustible cigarettes and OTP in stick equivalents; OTP includes fine cut tobacco, cigars and cigarillos

(c) Includes heat-not-burn, e-vapor and nicotine pouches

# The Nicotine Industry in 2020

## Retail Value

Cigarettes and OTP<sup>(a)</sup>



Over the next 5 years we expect retail value CAGRs of approximately:

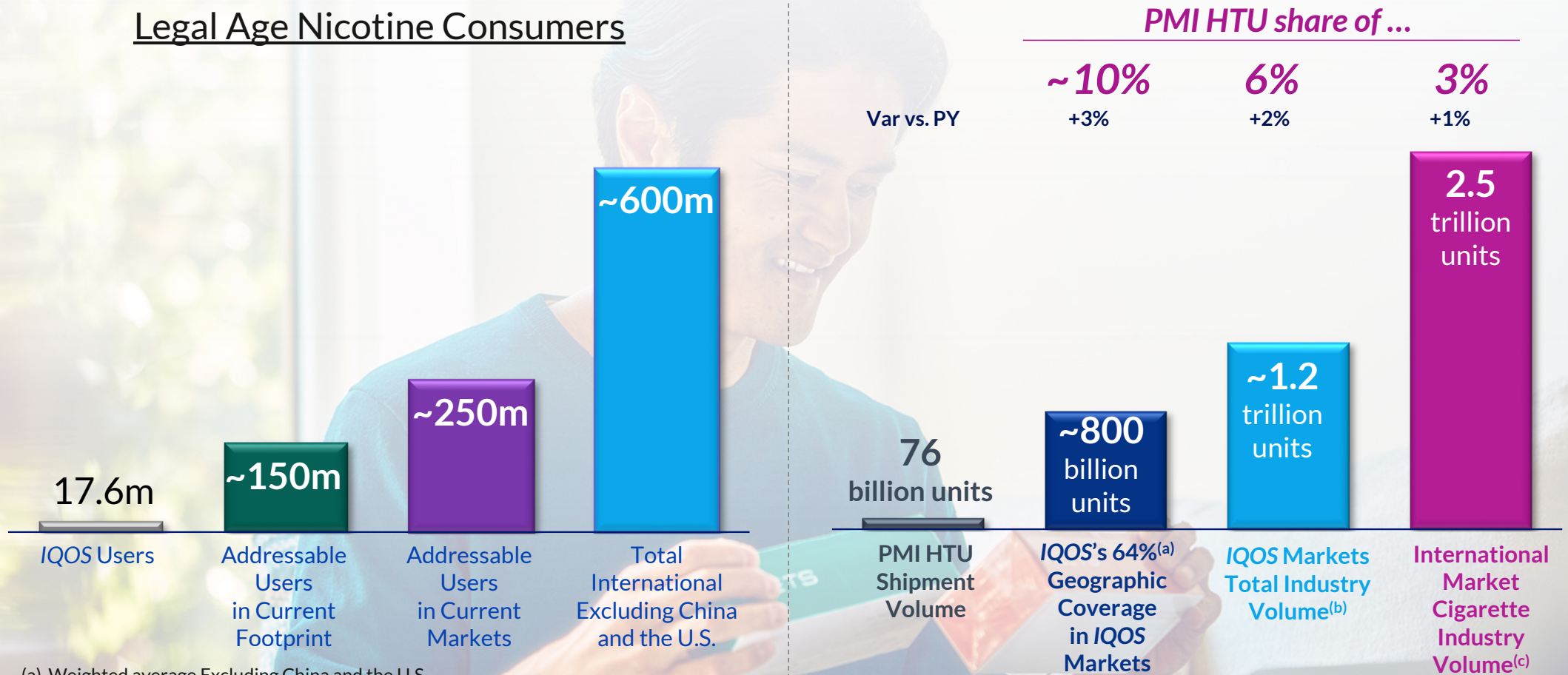
- 4% for the total industry
- 25%+ for heat-not-burn
- 10-15% for e-vapor

(a) Other Tobacco Products (OTP) includes cigars, cigarillos, pipe tobacco and fine cut  
Source: PMI Financials or estimates. International excl. China and the U.S.



# The Opportunity for IQOS Remains Vast

## Legal Age Nicotine Consumers



(a) Weighted average Excluding China and the U.S.

(b) Excluding the U.S.

(c) Excluding China and the U.S.

Note: Total volume reflects cigarettes and HTUs

Source: PMI Financials or estimates (2020)



# RRPs Are a Different Business

- Higher complexity:
  - Product: No-combustion, aerosolization, sensory, electronics
  - Build new brand equity
  - Life sciences: substantiation, pre and post market
  - Manufacturing and supply chain
  - New consumer journey and route-to-market
  - High upfront investment for meaningful entry
  - Uncharted regulatory landscape
  - High conversion for harm reduction and gaining scale
  - New organizational skills and ways of working
- Higher rewards:
  - Significant positive public health impact
  - Higher profitability and growth potential
  - Sustainable business model with adjacency potential
- Accelerator: Enabling, differentiated regulation



# IQOS Portfolio Philosophy: Consistent Approach

- Establish the best technology for high conversion and fastest growth: Heat-not-burn
  - Establish the category reference brand: *IQOS*
- 
- Build trust and capability to convert adult smokers
  - Establish public health credentials of the product
  - Invest up-front and build profitability
  - Focus and build organizational capabilities
- 
- *IQOS* brand and commercial engine now established
  - Potential for positive health impact demonstrated
  - We can now leverage this to accelerate growth
  - *IQOS ILUMA* launching in 2021





# Portfolio Philosophy: Heat-not-Burn

- Heat-not-burn: Over the mid-term we may need 2-3 technologies and respective consumable offers to cover the full spectrum of consumer price segments
- Innovation pace:
  - Aerosolization engine changes every 4-5 years – *IQOS ILUMA*
  - User experience / interface improvements 1-2 years
  - Consumable portfolio, sensory experience expansion 6-12 months
- *IQOS* is premium brand: Has successfully uptraded many consumers:
  - Premium can be stretched to 2 main price segments, as in Japan
  - Further offerings including partnerships needed to cover a total of 3-5 price points in certain markets
- Same philosophy applies for other smoke-free platforms – including e-vapor

# Portfolio Philosophy: E-vapor & Multi-Category

## E-Vapor

- IQOS VEEV device and consumables with premium positioning
- E-vapor focus is different: Build differentiation in existing category and user loyalty, rather than primarily building new category
- Audiences: Adult smokers, exclusive e-vapor users, dual users with CC, dual heat-not-burn:
  - Converting dual users' combustible use to Heat-not-burn via IQOS brand
  - As closed systems grow over time, can migrate open tank users
- Need to address category concerns; youth access prevention is fundamental

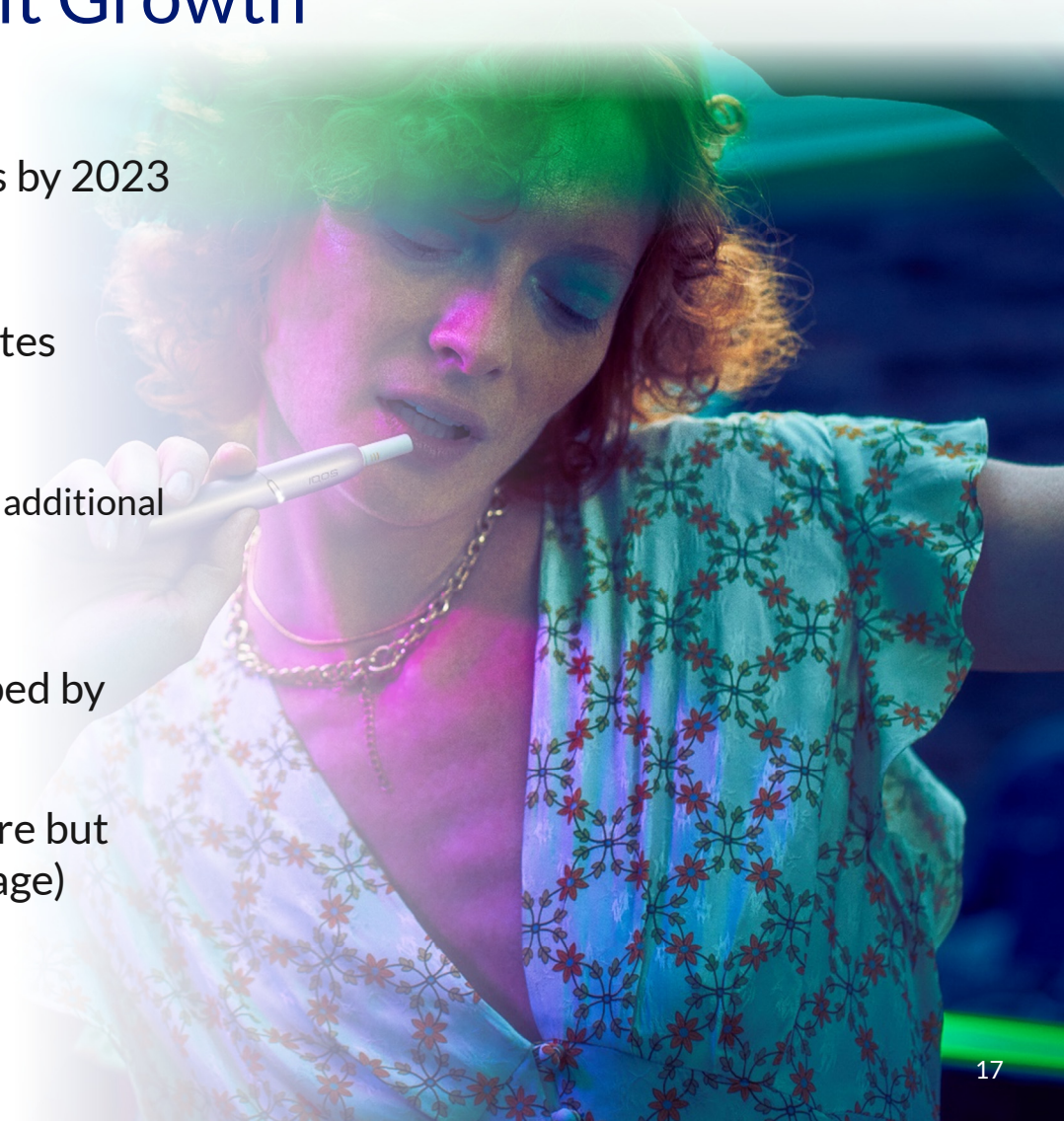
## Multi-Category

- Nicotine pouches – largely occasional use products today for adult smokers
- In the future consumers will use different smoke-free products: Important to offer choice to capture full conversion and loyalty to our platforms
- Heat-not-burn will remain the best technology with the fastest growth, biggest scale and best economics for the foreseeable future



# IQOS Economics: Significant Profit Growth

- We aim to approximately double our HTU volumes by 2023
- Significant expansion in net revenue per unit
- IQOS price productivity significantly above cigarettes
- Limited further manufacturing investments:
  - Existing production capacity up to 150bn HTUs, each additional 10bn costs around \$150 million in capex
  - Moderate capex behind other platforms
- SG&A costs growing well below net revenues, helped by digitalization
- New markets always require up-front infrastructure but time to break-even much shorter (<1 year on average)



# IQOS VEEV Economics

- Fixed investments limited; already have *IQOS* commercial platform
- Majority of costs are variable / volume-related
- Differentiated experience under *IQOS* brand
- Premium positioning, targeting higher conversion and brand loyalty
- Premium e-vapor gross margins approximately 1.6x cigarettes assuming full conversion and brand loyalty
- Taxation more favorable than heated tobacco
- Trade margins are higher

Note: gross margins on a \$ per user basis  
Source: PMI Financials or estimates

# Why Tobacco Harm Reduction Makes Sense

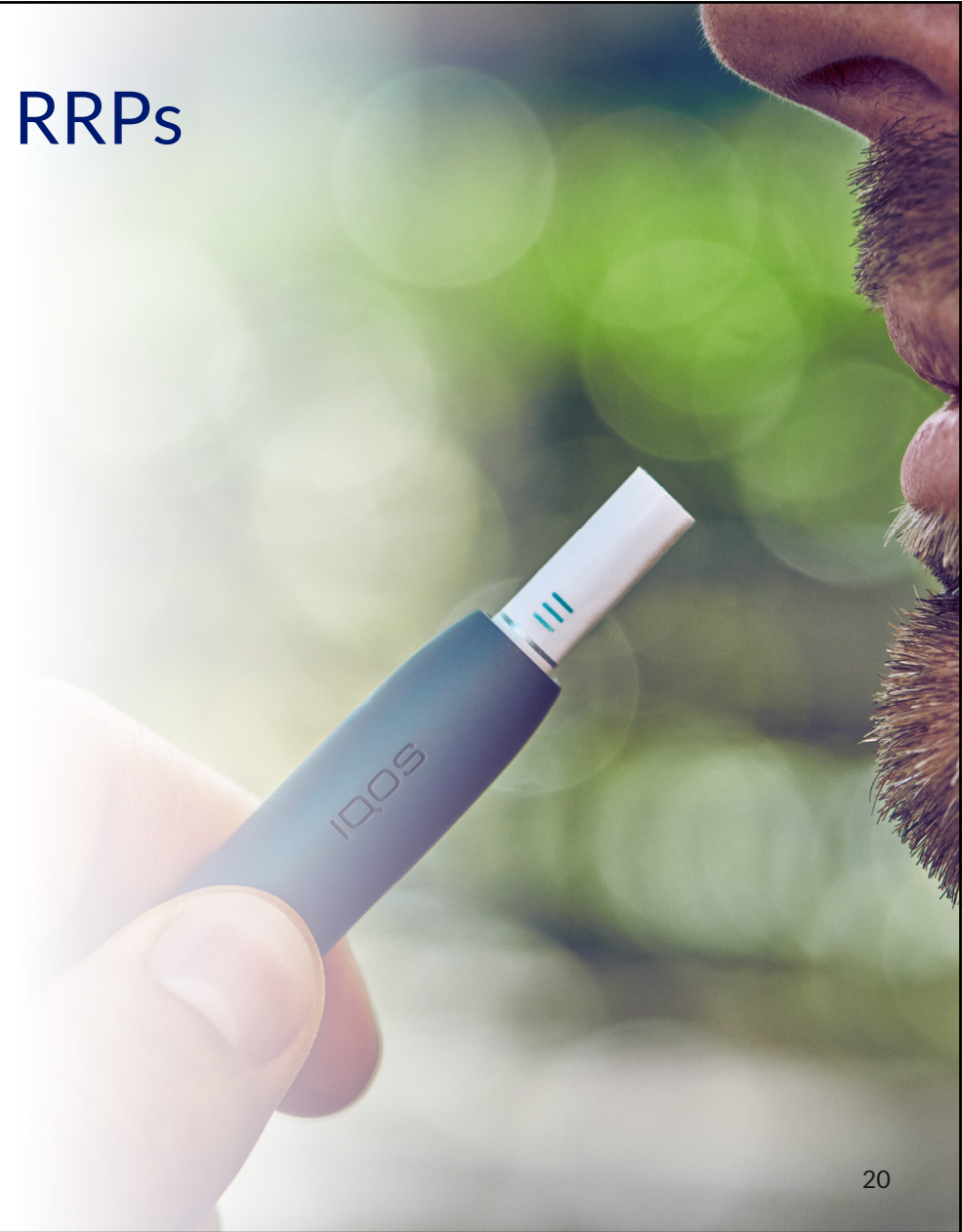
- Current fiscal and regulatory measures are not accelerating cessation
- Second Pillar of Harm Reduction is required, applied in many other industries
- Scientifically-substantiated products can switch consumers out of cigarettes much faster than restrictive measures only
- Differentiated regulatory frameworks are a must
- Positive public health outcomes can be significantly accelerated
- Interest of 1 billion people who smoke should be at the center of the discussion
- We must stop debating whether RRP's should be made available, but how fast and how best to help the men and women who would otherwise continue smoking

Over  
**1 billion**  
smokers  
worldwide



# The Positive Public Health Impact of RRP

- Nicotine is not the real problem – Combustion is:
  - Nicotine is addictive, but does not directly cause disease
  - Certain NGOs propagate confusion on nicotine leading to consumer misunderstanding





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*“Nicotine, though not benign, is not directly responsible for the tobacco-caused cancer, lung disease, and heart disease that kill hundreds of thousands of Americans each year. The FDA’s approach to reducing the devastating toll of tobacco use must be rooted in this foundational understanding: other chemical compounds in tobacco, and in the smoke created by combustion, are primarily to blame for such health harms.”<sup>(a)</sup>*

FDA - September 2017

(a) (FDA) - September 21, 2017 N Engl J Med 2017; 377:1111-1114 DOI: 10.1056/NEJMp1707409



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FDA - September 2017

- The 90-95%+ reduction in exposure to harmful and potentially harmful chemicals – from switching to heat-not-burn or e-vapor – will result in better public health outcomes
- Long-term epidemiology needed to precisely quantify the benefit

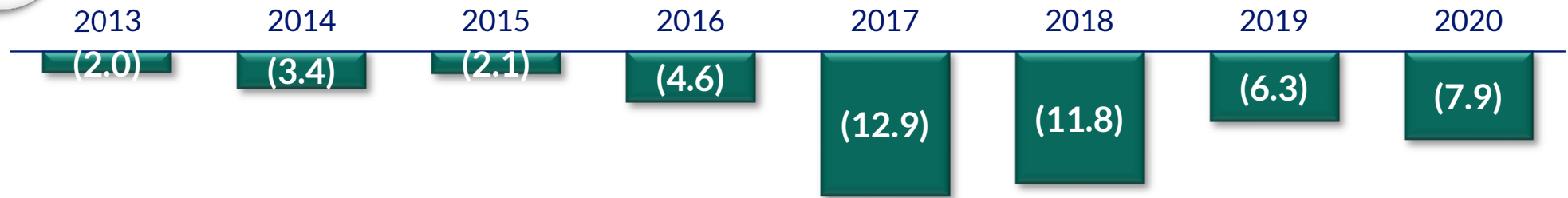
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Note: Heat-not-burn and e-vapor are categories where individual products require scientific substantiation to establish level of reduction in HPHCs

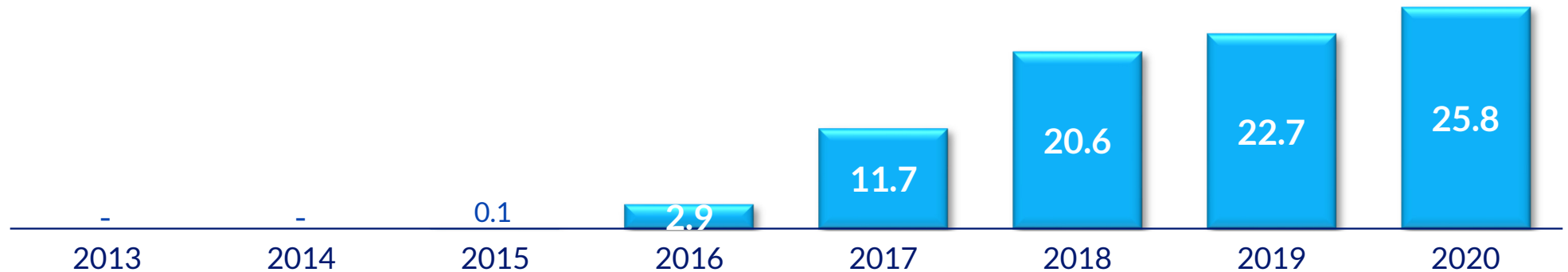
# Acceleration in Decline of Combustible Category in Japan



Combustible Industry Change (in %)



Heat-not-Burn Category Share of Total Market (in %)



Note: Including cigarettes and cigarillos  
Source: PMI Financials or estimates

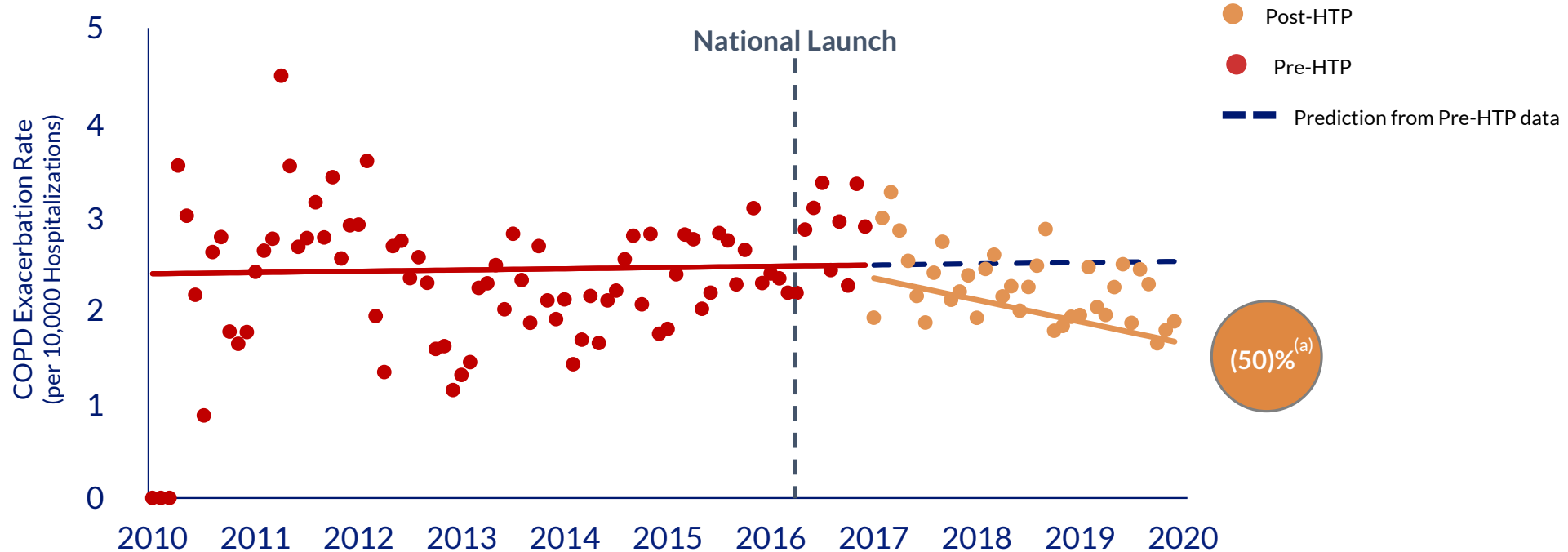


# Japan: COPD Exacerbation Hospital Admissions Trending Down



## COPD Exacerbation Hospitalization Rate Over Time

MDV Hospital Records



(a) Difference in regression line estimate from pre-HTP and post-HTP periods (December 2019). HTP stands for Heated Tobacco Products

Note: model adjusting for age and sex. COPD stands for Chronic Obstructive Pulmonary Disease

Source: MDV Diagnosis Procedure Combination Data. <https://en.mdv.co.jp/> (January 13, 2021)

Observational ecological study looking at temporal associations and not designed to assess cause and effect. Specific factors associated with changing hospitalization rates over time have not been fully analyzed. Subject to inherent limitations of ecological analysis.

Note: PMI Open Science Event to be held February 17, 2021, [www.pmisce.com](http://www.pmisce.com)

# Why There is Opposition

- Dogmatic opposition fosters confusion of both consumers and regulators:
  - Ideology, politics and retribution
  - Legitimate concerns on unintended consequences (youth nicotine use)
  - Lavishly-funded special interest groups
  - NGOs afraid to lose their funding or be stigmatized
  - Ideologically-biased research is frequently produced
  - Ostracism silences reasonable voices
- WHO anachronistic positions based on special interest influence and funding, not facts and science
- Wrong focus on companies, not the 1 billion people who smoke
- Such dogmatic opposition effectively perpetuates smoking
- Governments, public health community, NGOs have a major responsibility to stop confusion by allowing smokers access to and information about better alternatives

# Differentiated Regulation Key Enabler for Acceleration of Category by Fully Switching Smokers

- Smoke-free products make perfect sense for public health; absence of combustion is a fundamental criteria
- Consumer confidence, knowledge, elimination of confusion
- Responsible industry practices
- Accelerate growth in currently 'restrictive' markets
- Unlock closed markets
- Establish marketing and fiscal measures to incentivize switching and minimize unintended use
- Longer-term, when category status at a level where it is a credible substitute for all smokers, potential to accelerate phase-out of cigarettes:
  - Supply-side measures: e.g., cap and trade, taxation based on share of combustibles
- Regulation also needs to:
  - Have pre-market notification with product standards in place
  - Post-market monitoring of use
  - Ongoing studies of epidemiological effects



# Preventing Unintended Use of Smoke-Free Products is Fundamental to Building a Sustainable Business

- Responsible marketing practices: we sell only to legal-age smokers
- Age verification for all transactions through our own assets, physical and online
- Age limits for purchase and point-of-sale enforcement
- Robust post-marketing surveillance protocols and monitoring:
  - Own and third-party assessments
  - FDA post-marketing surveillance in the U.S.
- Age-verification technology on all our electronic smoke-free devices by 2023
- Negligible use of IQOS by underage or never-smokers

**IF YOU DON'T SMOKE, DON'T START.  
IF YOU SMOKE, QUIT.  
IF YOU DON'T QUIT, CHANGE.**

# Driving Change Through Stakeholder Engagement

- Our key stakeholder constituencies and an evidence-based discussion are fundamental to maximizing harm reduction
- Engaging with civil society, regulators, NGOs, consumer organizations to drive measures which can accelerate the shift to smoke-free products and smoking prevalence declines
- Continuous dialogue with regulators to present scientific and real-world evidence
- Consumer advocacy when needed
- Employee and shareholder advocacy can also play a key role
- **Progress is constant but could be much faster**

UNSMOKE

# Combustibles: Philosophy and Outlook

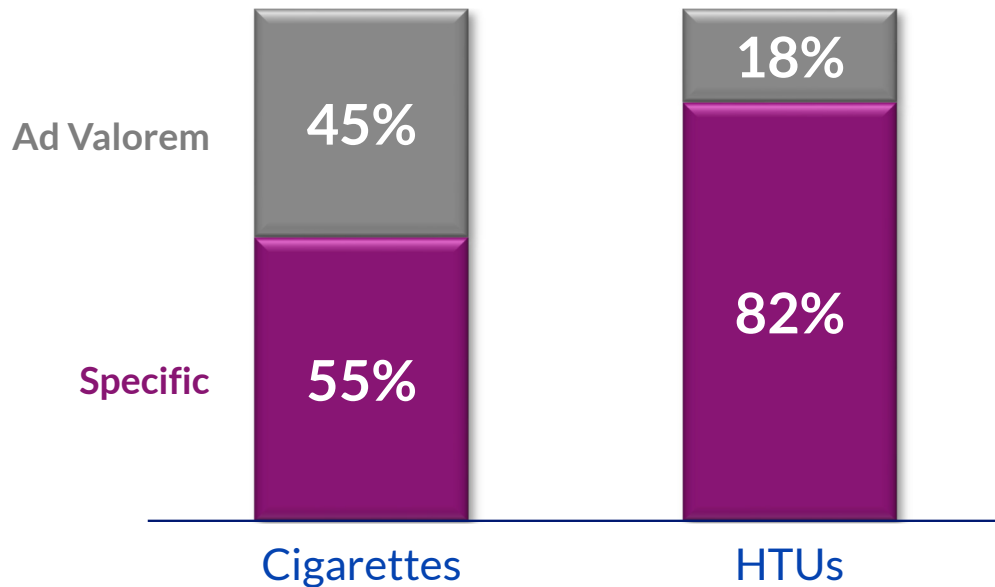
- Combustible portfolio sufficiently-invested; small possible incrementality given COVID-related impacts:
  - Focus on price gap management
  - Grow share of low-price segment
  - Continue progress on SKU consolidation, fewer & better new product launches
- Assume negative COVID related impact in 2020 to reverse over 2021-22
- Overall fiscal structures continue to improve
- Price elasticities remain around -0.4
- Combustible pricing remains important
- As IQOS volumes grow, our overall price productivity increases despite cannibalization

Note: COVID related impacts include the effects of social and other restrictions linked to the pandemic  
PMI financials or estimates



# Excise Structures Becoming More Specific Over Time

Specific vs. Ad Valorem Average  
Excise Tax Components, Jan '21<sup>(a)</sup>



**~80% of top 30 markets raised specific tax & lowered ad valorem rates on cigarettes over last 10 years**

- Broadly rational 2021 excise outlook
- Governments enacting more specific tax structures over time; benefits of revenue predictability and effectiveness
- Price productivity is much better for smoke-free products

(a) Estimated weighted average of top 30 CC markets and all IQOS markets

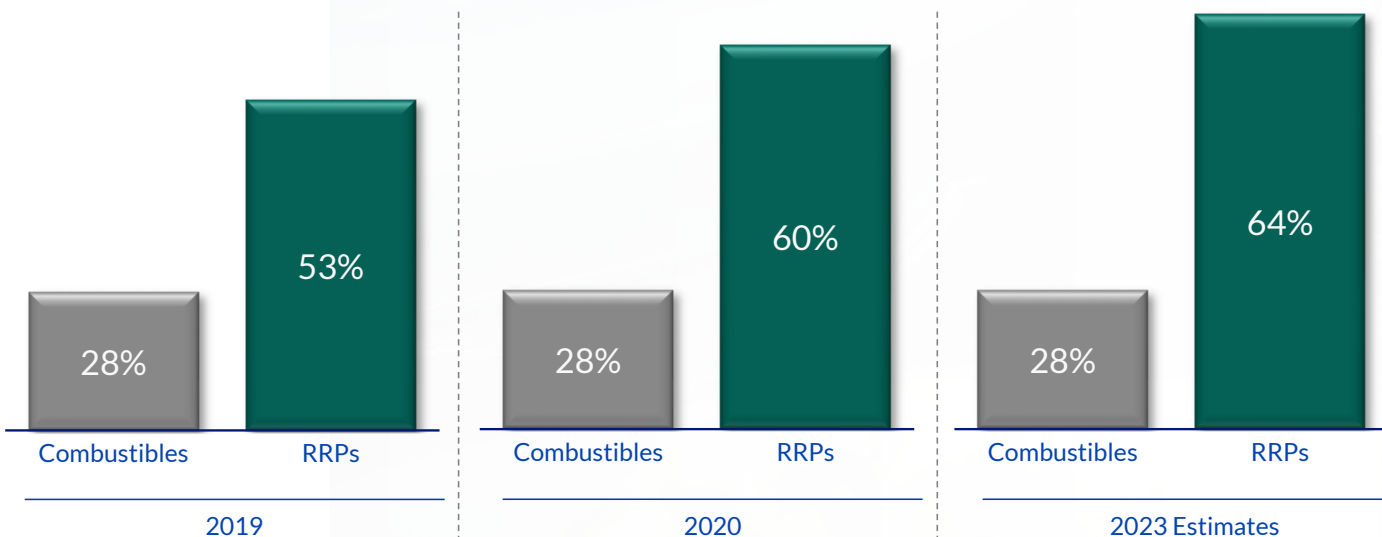
# Strengthening Our Organization For The Next Growth Phase

- **New Skills:**
  - Senior management team: Enriched with 45% external talent in last 3 years
  - Over 20% of senior leaders and executives are new expert hires; technology, consumer, digital and life sciences
- **New Ways of Working:**
  - Project-based, consumer-centric working practices
  - Learning, performance management transformed
- **Diversity, Equity and Inclusion:**
  - Women now: 37% of management roles, 40% of promotions, 39% of new hires in management roles and 49% below management
  - Equal-salary certified, named to Bloomberg Gender-Equality Index, inclusive employer of choice
  - Certified by Top Employers Institute as a global top employer for the fifth year in a row

# Why We Will Continue to Lead the Smoke-Free Category

- Internal Innovation, supplemented by partnerships
- First mover advantage & highest brand equity
- Existing user base and commercial engine to continue acquisition
- Natural share gains from at least maintaining share in RRP

PMI International Share of Retail Value





Note: RRP includes e-vapor and heated tobacco products, excludes nicotine pouches and snus. Excluding China and the U.S.  
Acquisition means switching adult smokers  
Source: PMI Financials or estimates



# Going Beyond Nicotine to Drive Additional Growth

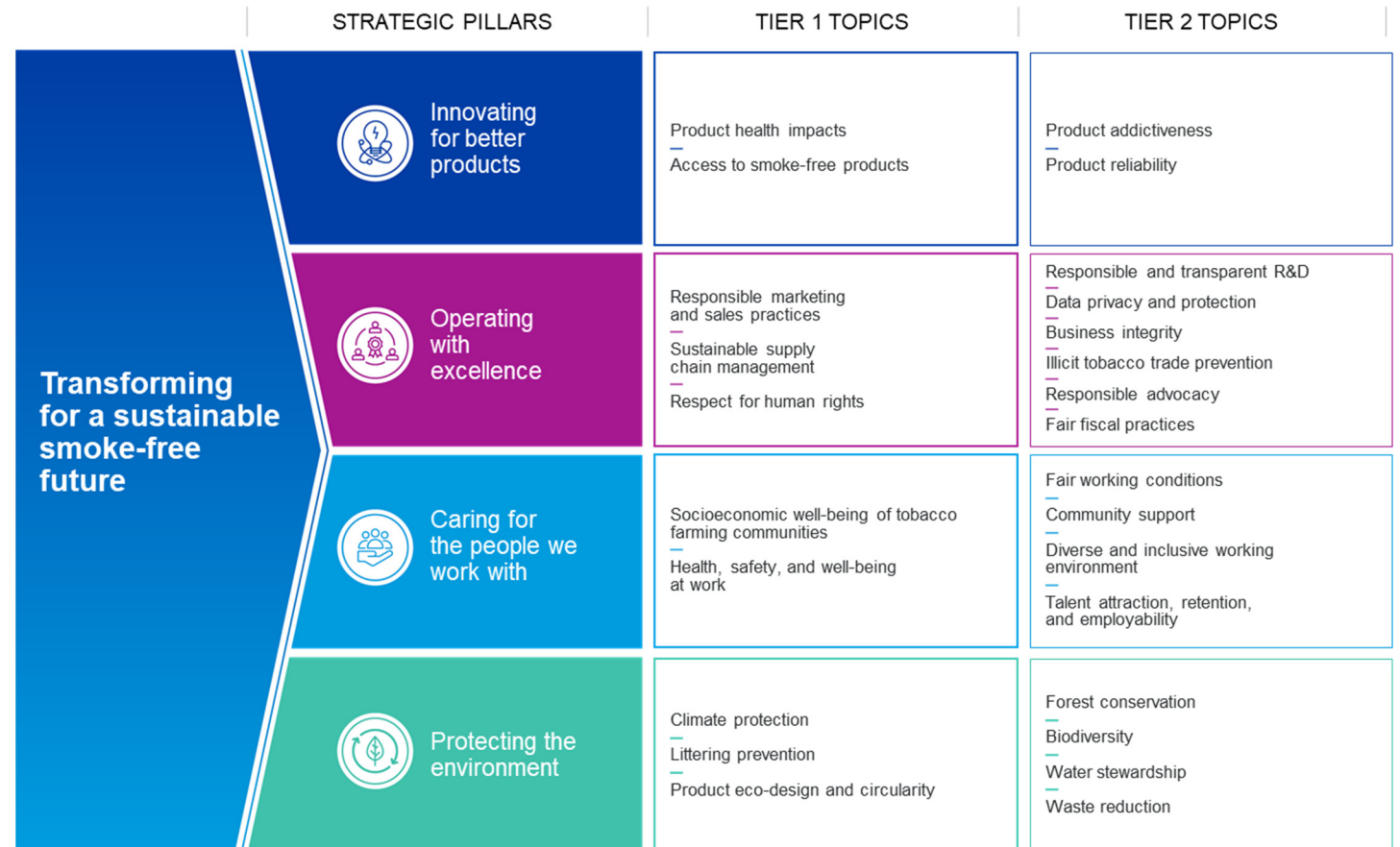
- We are already becoming a different company with our transformation into a majority smoke-free business
- Our expertise in life sciences, inhalation technology, natural ingredients, commercial deployment and ability to change consumer behavior can take us beyond nicotine
- Natural long-term evolution into a broader lifestyle & consumer wellness company
- We intend to explore, develop and grow new adjacent areas to deliver additional growth:
  - Botanicals:
    - Extend RRP consumables into new sensorial experiences
    - Moving into botanical well-being products using expertise in botanical substrates
  - Respiratory Drug Delivery: Use our technology and expertise in inhalable delivery for medical applications with partners
  - Business model: use core existing capabilities to manage an outsourcing/partnership ecosystem with new/non-core skills
  - Leverage consumer database and CRM to offer non-nicotine products and services

# Beyond Nicotine: Initial Areas of Focus

	Addressable Market (Initial focus areas) 2025	Example areas of opportunity
 Botanicals	\$29bn	Sleep Aid Energy & Focus Calm & Control
 Respiratory Drug Delivery	\$36bn	Acute conditions Side-effect reduction
<b>TOTAL</b>	<b>\$65bn</b>	

# Sustainability at PMI

- **Defined Corporate Purpose:**  
Statement of Purpose issued by Board of Directors
- **Rigorous Materiality:**  
Establish sustainability priorities
- **2025 Roadmap with KPIs**
- **Annual Integrated reporting**





# First Strategic Pillar: Innovating For Better Products

(1) Developing better / **LESS HARMFUL ALTERNATIVES** to cigarettes

(2) Broaden **ACCESS** for adult smokers to smoke-free products that are scientifically substantiated

(3) Purposefully working to **PHASE OUT CIGARETTES**

(4) Developing products that go **BEYOND NICOTINE**



# Smoke-Free Future is Within Reach

- With the right regulatory frameworks, dialogue and support from civil society, we believe cigarette sales can end within 10 to 15 years in many countries
- We are becoming a different company with our transformation into a majority smoke-free business, aiming for more than 50% of net revenues by 2025
- Driving sustainable positive revenue and profit mix from leading the nicotine transition
- Leveraging our continued leadership in combustibles to accelerate the smoke-free transition
- Not just a tobacco company: long-term opportunities in naturally adjacent areas
- Superior, sustainable growth and shareholder returns



# 2021 INVESTOR DAY

Delivering a Smoke-Free Future

## The Next Growth Phase

Break

09:25 – 09:35 ET

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