Philip Morris International Inc.
2023 Second-Quarter Conference Call
July 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 second-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 July 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, our Chief Financial Officer. Over to you, Emmanuel.

EMMANUEL BABEAU

(SLIDE 4.)

Thank you, James, and welcome everyone.

Our business delivered outstanding performance in the second quarter of 2023, exceeding our expectations to reach a record high quarterly adjusted diluted EPS of $1.60. This was driven by impressive *ZYN* and *IQOS* growth, coupled with strong combustible results.

We delivered total cigarette and HTU shipment volume growth of 3.3%, putting us well on track for our third consecutive year of positive volumes. This excellent result underpinned double-digit organic top-line growth and high-teens currency-neutral adjusted diluted EPS growth.

We also expanded our leadership in smoke-free products in the period. Firstly, *IQOS'* strong momentum continued, with adjusted IMS volumes ahead by 16%, and shipments up by 27%. This reflects very good user growth of 1.4 million in the quarter and continued strong traction across the world. This is increasingly driven by *IQOS ILUMA* which is now available in 23 markets representing around two thirds of our *IQOS* business by volume.

Secondly, and now two full quarters after the Swedish Match acquisition, *ZYN* is delivering an exceptional acceleration to our smoke-free business. U.S. volumes grew by over 50%, including a notable step-up in June. We are delighted with this performance.

Our combustible business also delivered better-than-expected results with over 7% organic net revenue growth after a very robust quarter for pricing and resilient volumes. This was a key contributor to the strong 7% organic operating income growth with a 210 basis points sequential improvement in our adjusted OI margin.

(SLIDE 5.)

Turning to the headline numbers, positive volumes supported very strong organic top-line growth of 10.5%, with continued excellent *IQOS* momentum and a further acceleration in combustible pricing. This does not include the remarkable 19% pro forma ex-currency top-line growth of Swedish Match, led by *ZYN*, with combined pro forma ex-currency net revenues increasing by 11.1%. Our total reported currency-neutral net revenues grew by 19%.

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

Due to these positive factors, adjusted operating income grew by a very robust 7% organically despite continued inflationary headwinds. This excludes the tremendous growth of *ZYN,* and starting in Q4, our organic results will include Swedish Match. Adjusted OI margins improved 210 basis points sequentially, and while still organically lower year-on-year by 140 basis points, this better-than-expected performance was notably supported by combustible strength and favorable timing of certain costs. We also increased our participation in the below Tier 1 segment in Indonesia, which now represents close to 40% of its industry volumes, and is slightly dilutive to our margins.

This organic delivery, including the favorable timing of costs, combined with exceptional June *ZYN* volumes and a lower tax rate, allowed us to outperform our most recent Q2 forecast. We delivered adjusted diluted EPS of $1.60, representing 16.9% growth excluding an unfavorable currency impact of 13 cents notably due to the Japanese yen.

(SLIDE 6.)

While the first quarter of the year contained some exceptional headwinds and distortions due to timing and comparison effects, our business delivered a strong first half, including volume growth of 1.1%. Organic net revenues grew by 6.8%, with Swedish Match's excellent ex-currency pro forma net revenue growth of 17% for H1 demonstrating its growth accretion to our business. Combined pro forma currency-neutral net revenues increased by around 7.5%.

Following peak margin headwinds and a notable OI decline in the first quarter, the strong improvement in Q2 narrowed the H1 organic decline to -2%. As in Q2, this excludes Swedish Match which delivered an excellent profit performance and made a significant contribution to our adjusted OI margins. We expect continued strong reported and organic OI growth in the second half.

Despite these headwinds, we delivered 5.9% growth in currency-neutral adjusted diluted EPS to $2.98 in H1, providing a strong platform for the second half of 2023 and beyond.

(SLIDE 7.)

Let me now walk through the mechanics of our Q2 net revenues. While not included in our reported shipment volume growth of 3.3%, Swedish Match's smoke-free volumes grew by 15%, providing impressive accretion to our overall growth profile.

Combustible and HTU pricing contributed 6.0 points of growth. This primarily reflects combustible strength, partly benefitting from timing effects. As in Q1, HTU pricing was impacted in Japan and Germany by the annualization of 2022 excise tax increases, and in the case of Japan, the transition to *ILUMA*. These factors will have less impact in the second half as annualization recedes. We also continue to expect greater visibility on the likely outcome of the court ruling related to the German tax surcharge toward the end of the year.

The increasing proportion of HTUs in our business again contributed positively, reflecting higher net revenue per unit partially offset by unfavorable geographic mix. The positive mix impact of HTUs, overall volume growth, and pricing are powerful drivers of our transformation and growth.

(SLIDE 8.)

Let's now turn to gross margins. While the year-on-year trajectory remained negative, we saw improvement versus the first quarter driven by strong growth fundamentals. Indeed, we achieved sequential improvement of 1.2 percentage points despite increased inflationary pressures, as top-line growth accelerated and supply chain disruptions and *ILUMA*-related factors started to dissipate in the quarter.

In addition, cost phasing and the geographic mix of inventory movements, notably for HTUs in Europe, increasingly normalized after an adversely affected Q1.

Our *IQOS* business contributed positively to our gross margin in Q2 and we expect this to continue, partly mitigating combustibles. We expect further improvement in our year-on-year gross margin trajectory in H2 as headwinds continue to subside, *ZYN*'s outstanding growth continues, and the underlying drivers of our transformation accelerate.

(SLIDE 9.)

As expected, SG&A growth was much closer to net revenue growth in Q2, and at a more normalized growth rate with regard to our full year expectations. Indeed, with such a strong top-line in Q2, SG&A costs were lower as a percentage of net revenues. While we continue to invest in *IQOS* and *ZYN*, our successful cost efficiency programs continue to deliver, helping to finance growth investments and mitigate inflation which remains a headwind. With $1.9 billion of gross savings realized to date, including $820 million from SG&A, we are on track to achieve our 2021-23 $2 billion target ahead of plan.

(SLIDE 10.)

Turning now to the 2023 outlook, we are raising our currency-neutral top and bottom-line growth forecasts.

We aim to be a growth company starting with volumes. In 2023, we expect to grow total volumes for the third year in a row, even before factoring in the excellent progress of Swedish Match's portfolio. As part of this growth, we are reiterating our targeted HTU shipment range of 125-130 billion, while we expect a cigarette volume decline of 1.5%-2.5%.

We are increasing our organic net revenue growth forecast to 7.5%-8.5%, reflecting the continued momentum of *IQOS*, the resilience of our combustible business and the ongoing excellent growth of *ZYN* which we expect to contribute positively in Q4.

We expect strong organic OI growth in the remainder of the year to support H2 margin expansion despite the headwinds previously mentioned and certain technical impacts. These relate to the increased use of third-party manufacturing in a few markets, such as Indonesia and Ukraine, and the related growth of the below tier one segment in Indonesia I already mentioned. The full year estimated impact of these factors is around 40 basis points on our adjusted OI margin, and without this impact we would expect to be broadly in the middle of our forecast organic margin range. On top of this organic evolution, we expect Swedish Match to add around 50 basis points of accretion.

Our strong top-line and OI outlook allows us to raise our forecast for currency-neutral adjusted diluted EPS growth to 8%-9.5%. This translates to a revised range of $6.13-$6.22, including 33 cents from unfavorable currency at prevailing exchange rates, notably due to the Japanese yen and Russian ruble.

This forecast continues to assume around $150 million for incremental investments in the U.S. and our Wellness and Healthcare business.

It also assumes around $1.2 billion in net finance costs which includes higher interest on variable debt, partly offset by better returns on cash deposits. As previously mentioned, our forecasts do not assume any contribution from a potential favorable ruling on the Germany tax surcharge.

(SLIDE 11.)

Focusing on the second half in more detail, we expect strong performance on all key metrics as smoke-free products deliver an increasingly positive impact.

In Q3, we forecast high single-digit organic top line growth with HTU shipments of 31-33 billion units and adjusted diluted EPS of $1.60 to $1.65, including 6 cents of unfavorable currency at prevailing exchange rates.

Looking ahead to Q4, we expect notably strong reported and organic OI growth as certain inflationary impacts are annualized and we increasingly benefit from an optimized *ILUMA* supply chain and consumables. As I mentioned, Swedish Match will also be included in our organic figures during the quarter. The exceptional growth of *ZYN* is clearly margin-accretive, as visible in our adjusted H1 figures.

(SLIDE 12.)

Turning back to our results, our total shipment volumes increased by 3.3% for Q2 and 1.1% year-to-date.

HTU shipment volumes grew by 26.6% in Q2 to reach 31.4 billion units, notably driven by continued strong performance in Europe and Japan. In addition to fundamental strength, HTU shipments to Japan were boosted in Q2 by around 2 billion units as we increased sea freight, with corresponding increases in inventory levels. As I mentioned earlier, total PMI adjusted IMS volumes of HTUs increased by 16% in Q2, continuing the excellent trend seen in Q1. H1 shipment volumes grew by 18.5%.

Notably, this does not include the excellent growth prospects of oral nicotine, for which shipment volumes grew by 14% in Q2 and 12% in H1 on a pro forma basis.

Cigarette volumes declined by a modest 0.4% in Q2, with notable support from Turkey and Egypt, and by 1.7% for H1, reflecting a solid category share performance in a resilient category, despite stepped-up pricing.

(SLIDE 13.)

Our smoke-free transformation continues to progress rapidly. Due to the continued impressive performance of *IQOS*, heated tobacco units comprised 16.4% of our total shipment volume in H1 as compared to 14% in the first half of 2022, despite a resilient cigarette category. Including oral smoke-free products, this would be close to 18%.

Powered by *IQOS* and *ZYN*, smoke-free products made up 35% of our adjusted net revenues in H1, compared to 30.9% for the same period in 2022. *IQOS* devices accounted for approximately 4.5% of our H1 inhalable smoke-free net revenues.

(SLIDE 14.)

Focusing now on combustibles, our portfolio delivered strong organic net revenue growth of 7.4% in Q2 and 5.2% in H1. This reflects strong Q2 pricing with a notable contribution from Indonesia and the Philippines. While we don't expect the exceptionally strong Q2 pricing of 9.4%, which benefitted from timing factors, to be fully replicated in H2, we now forecast a full-year increase of 7% to 8%.

Our cigarette category share grew by 0.7 points in Q2 on a year-over-year basis, including contributions from Duty Free, Egypt, and Turkey; and by 0.1 point in H1, 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 18 months, despite the impact of *IQOS* cannibalization.

(SLIDE 15.)

The combination of stable share in combustibles and the continued growth of our leading smoke-free brands positions us to deliver total market share growth over time. We captured 1.1 points of international cigarette and HTU share in Q2 and 0.5 points in H1, with notable contributions from Turkey and Japan.

Impressively, despite increasing competition in many markets, our volume share of the growing heat-not-burn category remains stable at around 75%. This is supported by ongoing *ILUMA* market launches and increasing focus on our 2-tier HTU portfolio, providing adult smokers with an expanding range of innovative and high-quality alternatives to cigarettes.

PMI HTUs again strengthened their position as the second largest nicotine 'brand' in markets where *IQOS* is present, with a sequential share gain in Q2 of 0.2 points to a record 9.2% share.

(SLIDE 16.)

We estimate there were 27.2 million *IQOS* users as of June 30th. This reflects excellent growth of 1.4 million adult users in Q2 with notable progress in Japan and Europe, in addition to a broad range of other geographies.

While fundamentals remain very strong, I remind you that Q3 user growth can often be below the average for the year due to the seasonal factors evident in prior years.

(SLIDE 17.)

I will now turn to *IQOS* in the Europe Region, where we are approaching a milestone of twelve million users. This reflects the further roll-out of *ILUMA*, which is now available to around 70% of *IQOS* users in the region, and the expansion of our 2-tier portfolio. As an illustration of its progress, *TEREA* is already close to 100% of our HTU IMS volumes in the first launch markets of Spain and Switzerland.

Our second quarter HTU share increased by 1.6 points year-over-year to 9.0% of total cigarette and HTU industry volume. 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 20% in Q2, outstripping the 11% growth in HTU shipments which were affected by some residual effects from the inventory dynamics seen in Q1. We expect robust growth in HTU shipments, adjusted IMS and overall region organic net revenues in the second half.

We continue to be encouraged by the increasing number of European countries adopting multi-year excise tax plans with clear differentiation of smoke-free products. Over half of EU member states have now passed multi-year plans.

Also in the EU, a number of member states are currently transposing the Delegated Directive withdrawing the heated tobacco product exemption from the flavor ban into national legislations. The ban is scheduled to come into effect on October 23rd, and we will be adjusting our HTU portfolio as required in line with this transposition. While short-term volatility is possible, we do not expect a significant change in the structural growth of the category.

(SLIDE 18.)

To give some further color on our continued progress in the region, this slide 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*. Despite the denominator effects of the combustible category I just mentioned, share results remain very strong. We are very pleased with trends in Rome, showing a sequential step-up to 28% share following the *ILUMA* launch. Robust progress in London and Munich also bodes well for these 2 key markets. While the Q2, 2022 comparison for share in Vilnius was helped by the popularity of certain bundle offers, the share of over 40% remains impressive and underlying offtake continues to grow.

(SLIDE 19.)

In Japan, *IQOS ILUMA* continues to drive impressive growth momentum. Smoke-free products made up over 75% of our Japan net revenues in H1, clearly showing the path for the broader company.

Adjusted total tobacco share for our HTU brands increased by 3.4 points in Q2 to 26.3%, further strengthening *TEREA* and *SENTIA*'s positions as the clear number one and two heat-not-burn brands, despite intensified price competition for mid- and low-price offerings. Importantly, adjusted IMS volumes again grew sequentially, reaching a record high of 9.3 billion units on a four-quarter moving average as *IQOS* outgrew the heat-not-burn category. In addition to this excellent consumer trend, our Q2 shipments to Japan also benefitted from progressively switching back to sea freight during the quarter.

(SLIDE 20.)

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 Q2 key city offtake shares across markets in Eastern Europe, Africa, Asia, and Latin America. Notable ongoing successes include Egypt with Cairo offtake share surpassing 8.5% and Bulgaria, with offtake share in Sofia exceeding 15%, despite the usual impact of seasonality that I mentioned. We continue to see robust offtake volume growth across these important future markets.

(SLIDE 21.)

Now moving to Swedish Match, which is meaningfully accelerating our smoke-free growth trajectory. As covered earlier, the business delivered outstanding currency-neutral net revenue growth of 19% in Q2 and 17% in H1.

This means that in the first half of the year, Swedish Match has added 70 basis points of currency-neutral growth to our pro forma top-line and 60 basis points to our adjusted OI margin.

In the U.S., *ZYN* delivered another exceptional quarter with volume growth of over 50%, 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.

The cigar business performed well, with Q2 organic net revenue growth of 16%. This reflects ongoing share gains despite being an early mover on category pricing.

I would like to again congratulate and thank all the Swedish Match employees for continuing to deliver terrific results as we thoughtfully integrate our activities, which is progressing very well.

(SLIDE 22.)

Looking at *ZYN*'s U.S. performance in more detail, exceptional year-over-year volume growth in cans of 53% also reflects a 22% sequential increase versus Q1, 2023. This accelerated growth reflects progressive increases in distribution and a broad nationwide step-up in store velocities as the category gains strong traction with adult nicotine users for its convenience and pleasurable experience. This includes California, which implemented a statewide flavor ban in December. While such elevated rates of growth may not continue indefinitely, the structural indicators remain very encouraging.

Impressively, *ZYN* category volume share grew 2.2 points compared to prior year and 1 point sequentially, despite continued discounting from less premium offerings. Retail value share also grew to 76.8%, highlighting its premium positioning and superior brand equity.

(SLIDE 23.)

Now, let me provide an update on our innovation and expansion plans as we further accelerate our smoke-free transformation.

First and foremost, the global roll-out of *IQOS ILUMA* continues to be a top priority. We launched *ILUMA* in 6 markets in Q2 and, with HTU manufacturing constraints now normalized, we aim to be present in around 50 markets by the end of the year.

The most significant opportunity to drive accelerated growth is in the U.S. We are investing behind *ZYN* and readying our organizational and commercial capabilities for the launch of *IQOS* in Q2 next year. As mentioned in today's release, we are also on track for *IQOS ILUMA* PMTA and supplemental MRTPA submissions in Q4, 2023. Our philosophy on the U.S. remains unchanged. We will seek to accelerate our top-line with *IQOS* and *ZYN,* supported by disciplined investment and leveraging both our extensive experience in smoke-free products and Swedish Match's infrastructure and knowledge, while continuing to deliver strong bottom-line growth for PMI.

Our pilot city launches for *BONDS* in the Philippines and Colombia continue to progress well. The learnings from these markets will be integrated as we roll out more broadly, starting next year.

The international expansion of nicotine pouches remains a key medium-term opportunity, notably for *ZYN* as the world's leading brand. We are now preparing for the launch or re-launch of *ZYN* in several markets.

In e-vapor, our refocused approach in select markets is progressing with *VEEV ONE*, our newly designed pod-based system introduced in 4 markets, and *VEEV NOW*, our disposable product, in 6 markets.

Now let me discuss our Wellness and Healthcare segment, starting with its first clinical trial results for our inhalable aspirin product. While it was observed that the experimental product had a rapid onset of effect, which is the key medical advantage sought, there was significant variability in inhaled dose among subjects. The study was therefore deemed unsuccessful and, as a result, product design improvements are required. Our plan was to file this product with the FDA later this year, however, additional time is now required and the outcome is therefore less certain. In addition, the CDMO business has been facing slower-than-anticipated development, including cost-related challenges. Consequently, we recorded a non-cash goodwill impairment from our annual assessment, as detailed in today's release. While these elements will postpone the achievement of our 2025 aspiration to reach over $1 billion of net revenues from Wellness and Healthcare products, they will result in a corresponding decrease in the level of investment in 2024. Our ambitions to build and monetize our product pipeline are unchanged. As in the early days of developing *IQOS*, certain headwinds are to be expected and the 2021 acquisitions in this segment have provided us with unique and enabling R&D capabilities. We remain committed to developing our Wellness & Healthcare business and continue to see attractive mid- and long-term growth potential on many fronts such as inhalable drugs, NRT, and consumer wellness products, including non-recreational cannabinoids in line with applicable regulatory requirements.

We also aim to accelerate Vectura's growth and will be exploring potential partnerships to enhance its CDMO business.

We plan to discuss all these topics, including our plans for *IQOS* in the U.S. and a full update on our Wellness & Healthcare business at our Investor Day on the 28th of September in Lausanne, Switzerland.

(SLIDE 24.)

Moving now to sustainability. Addressing the product health impact of combustible products by switching adult smokers to smoke-free products, such as *IQOS* and *ZYN,* remains our most critical priority. This transformation is at the core of our strategy, driving accelerated growth and returns over time from a more sustainable business.

In addition, we remain committed to delivering best-in-class progress in other key sustainability areas. With our extensive agricultural and manufacturing supply chain, Human Rights are a very important responsibility for our company. We released our first dedicated report on the topic last month, detailing our strategy to promote, respect, and protect Human Rights, and the progress to date in implementing our Human Rights Commitment.

Our performance on Human Rights is included in the 19 KPIs of our Sustainability Index which comprises 30% of executive long-term equity compensation, weighted towards our product transformation. Our goal is to conduct comprehensive human rights impact assessments in our 10 highest risk markets by the end of 2025. These help us better understand and address our impacts, and we are making excellent progress with seven completed to date.

Addressing climate change is another priority for us, and I'm pleased to share that PMI was included in Forbes' first ever Net Zero Leaders List, ranking seventh overall for all U.S. public companies — higher than any other consumer products or services company.

(SLIDE 25.)

To conclude today's presentation, we delivered a very strong first-half despite a number of headwinds, putting us on track for the third consecutive year of positive volumes and organic net revenue growth of over 7%. The powerful trajectory of our smoke-free business gives us confidence in a strong full year performance, with excellent OI growth.

Outstanding momentum continues for *IQOS* and *ZYN* – the world-leading heat-not-burn and oral nicotine brands, and we have exciting plans to further grow oral nicotine pouches in the U.S. and internationally, along with the U.S. commercialization of *IQOS* next year.

Importantly, we remain steadfast in our commitment to generously reward our shareholders, including through our progressive dividend policy.

In short, our smoke-free transformation continues to deliver sustainable growth. We look forward to sharing more with you on the next phase of our transformation at our Investor Day on September 28th.

(SLIDE 26.)

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

JAMES BUSHNELL

(SLIDE 27.)

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.