

2021
INVESTOR DAY

Delivering a Smoke-Free Future

The Next Growth Phase

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Philip Morris International**

February 10, 2021

**PHILIP MORRIS
INTERNATIONAL**

Rapidly Becoming a Different Business After Pivotal 2020

- 2020 was a pivotal year in our journey to becoming a different company
- Significant breakthroughs in the growth of our IQOS business, despite COVID:
 - Smoke free products now $\frac{1}{4}$ of our business, 26% of net revenues in Q4, 2020
 - Rapid efficiency gains on our commercial model
 - 10 countries where our market share for HTUs now above 10%, with some over 15%
 - 2020 organic net revenue growth of over 30% on HTUs, now over 10% of our volume
- Rapidly growing weight of high quality IQOS business in our portfolio driving growth



On Track For 2019-21 HTU and EPS Objectives Despite COVID

	2019-21 Targets	FY 2021 Annual Guidance	2019-21 Expected Performance ^(a)
Net Revenue Organic Growth CAGR	≥5%	4-7%	3-4%
OI Margin Average Annual Organic Increase	-	≥150bps	≥190bps
Adjusted Diluted EPS Organic CAGR	≥8%	9-11%	8-9%
HTU Shipment Volume (billion) ^(b)	90-100	90-100	90-100

(a) Incorporates 2021 guidance provided at FY 2020 Earnings, February 4, 2021

(b) For final year of period

Note: Growth rates presented on an organic basis reflect currency-neutral underlying results and "like-for-like" comparisons, where applicable

Source: PMI Financials or estimates

Accelerating In The Next Growth Phase

	2019-21 Targets	2019-21 Expected Performance ^(a)	2021-23 Targets
Net Revenue Organic Growth CAGR	≥5%	3-4%	>5%
OI Margin Average Annual Organic Increase	-	≥190bps	≥150bps
Adjusted Diluted EPS Organic CAGR	≥8%	8-9%	>9%
HTU Shipment Volume (billion)^(b)	90-100	90-100	140-160
Shipment Volume Growth^(c)	-	-	Broadly stable
Operating Cash Flow (billion)^(d)	-	~\$30	~\$35

(a) Incorporates 2021 guidance provided at FY 2020 Earnings, February 4, 2021

(b) For final year of period

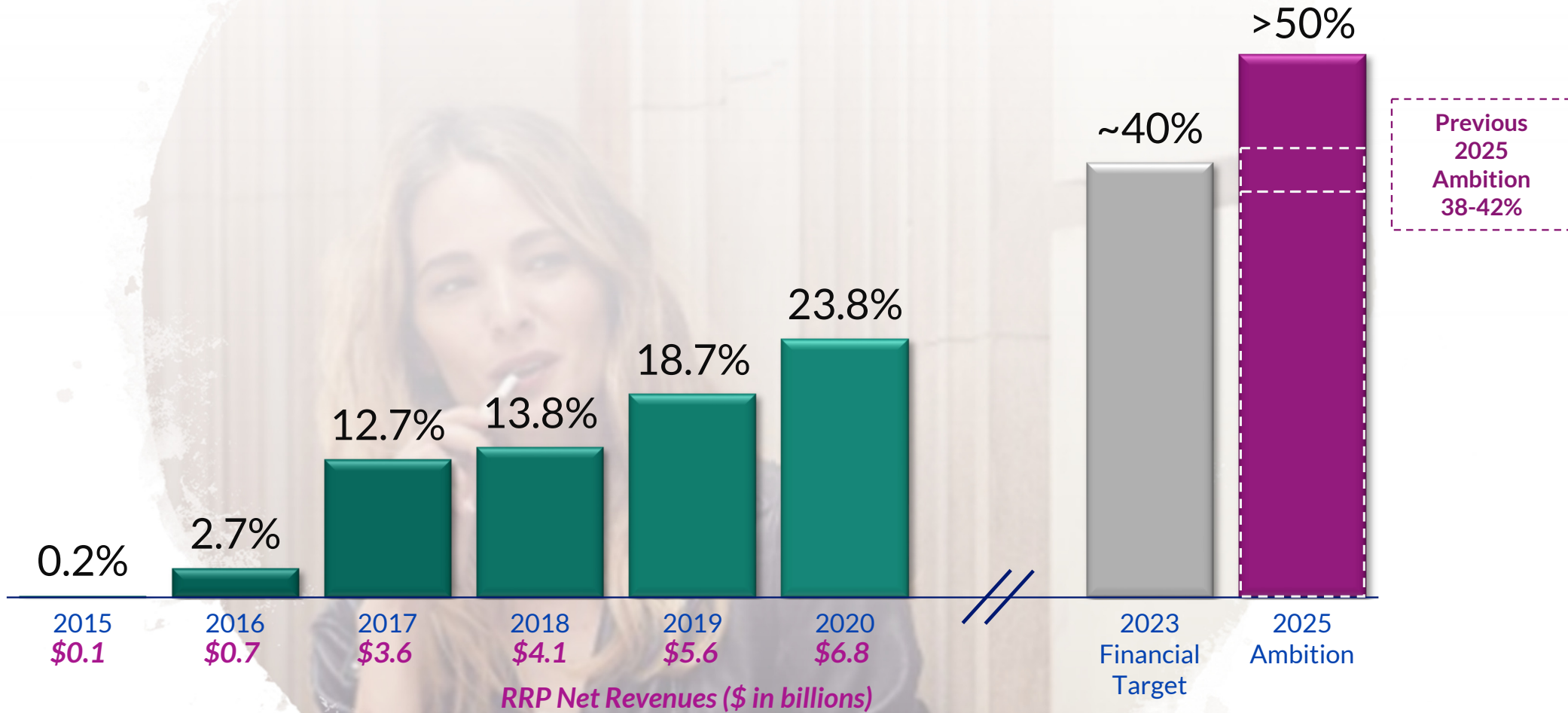
(c) Cigarettes, HTUs, E-vapor cartridges and nicotine pouches in stick equivalent units. Assumption for cigarettes and HTUs only also 'broadly stable'.

(d) At current exchange rates

Note: Growth rates presented on an organic basis reflect currency-neutral underlying results and "like-for-like" comparisons, where applicable

Source: PMI Financials or estimates

Becoming A Majority Smoke-Free Company by 2025

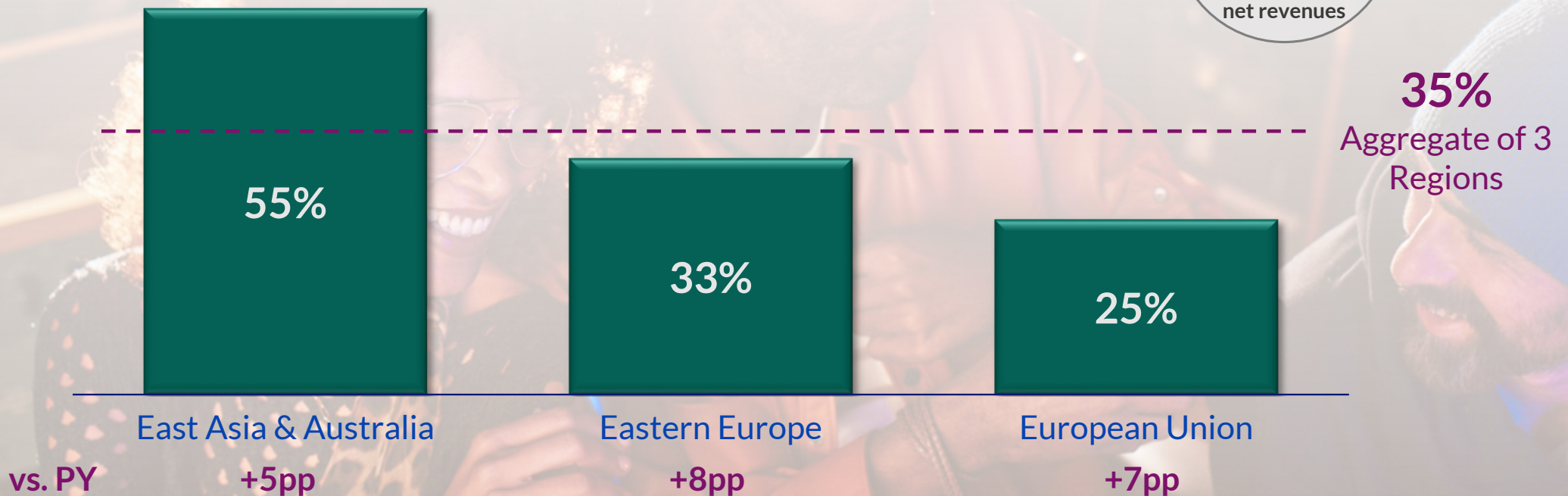


Source: PMI Financials or estimates

IQOS Already at 35% of Net Revenues in Regions Where Meaningfully Present

(as a % of Total PMI Net Revenues in 2020)

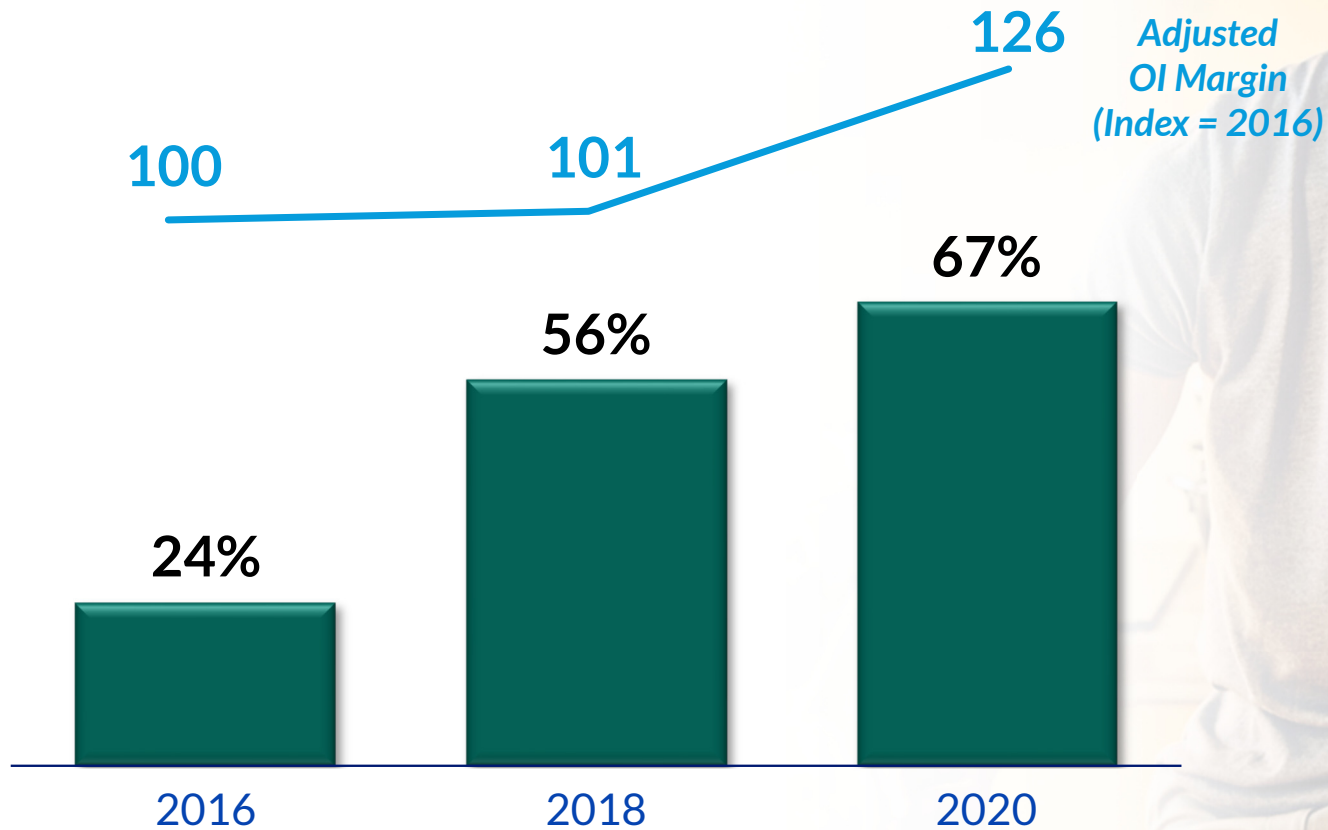
6
markets
where smoke-free
products >50%
net revenues



Source: PMI Financials or estimates

Japan: IQOS Business is Increasingly Profitable

(RRP Net Revenues as a % of Total Net Revenues)



Source: PMI Financials or estimates

High-Quality IQOS Business Driving Growth

- Leadership in growing smoke-free category propels strong volume growth and share gains
- Strong positive price/mix impact from higher net revenue per unit
- Higher organic gross margin rates, further enhanced by manufacturing & supply chain productivities
- Increasing return on RRP investments in infrastructure and other fixed costs
- Decreasing variable cost per user
- Excellent and profitable organic revenue growth

Source: PMI Financials or estimates



Driving Revenue Growth: Volume and Share

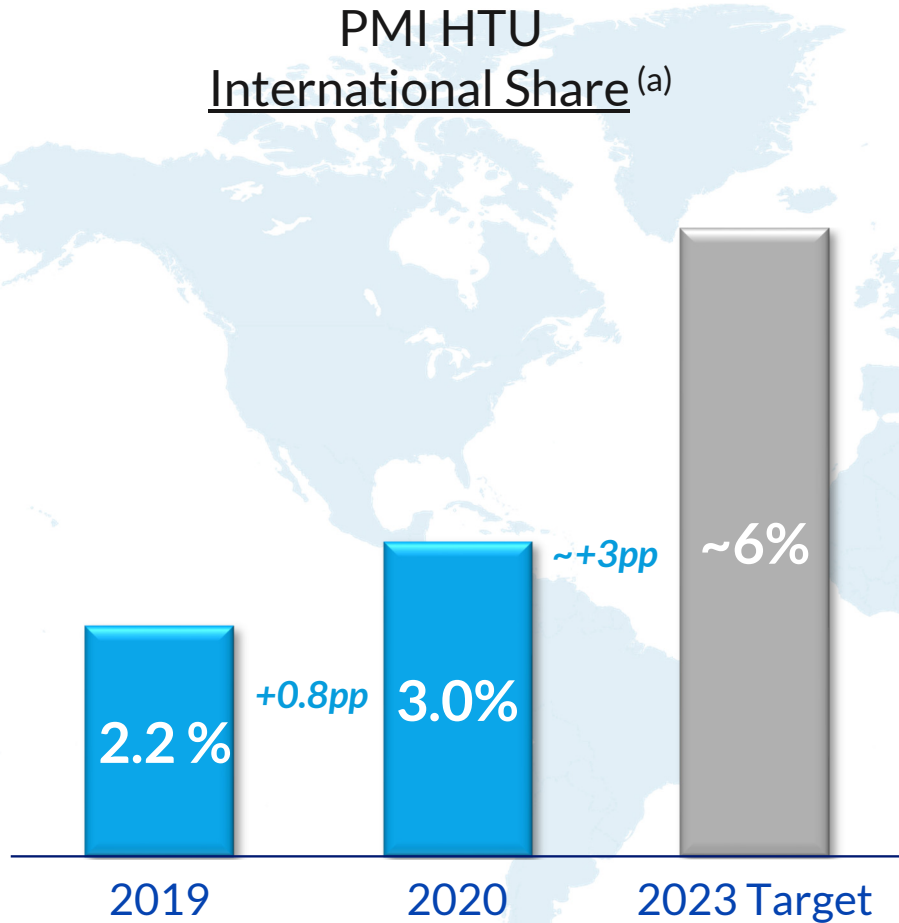
	2017-19	2020	2021-23	
Total Nicotine Industry Volume Growth CAGR^(a)	~(2)%	~(5)%	~(1)-(2)%	
			↓	
Nicotine Industry by category (volumes)	2017	2020	2023	2023 Net Revenues
Combustible^(b)	97%	94%	90%	~80%
Non-combustible^(c)	3%	6%	10%	~20%
Heat-not-Burn	1%	3%	7%	>15%
			↓	
PMI HTU Volume CAGR			2021-23 ~23-28%	

2023
140-160
bn units

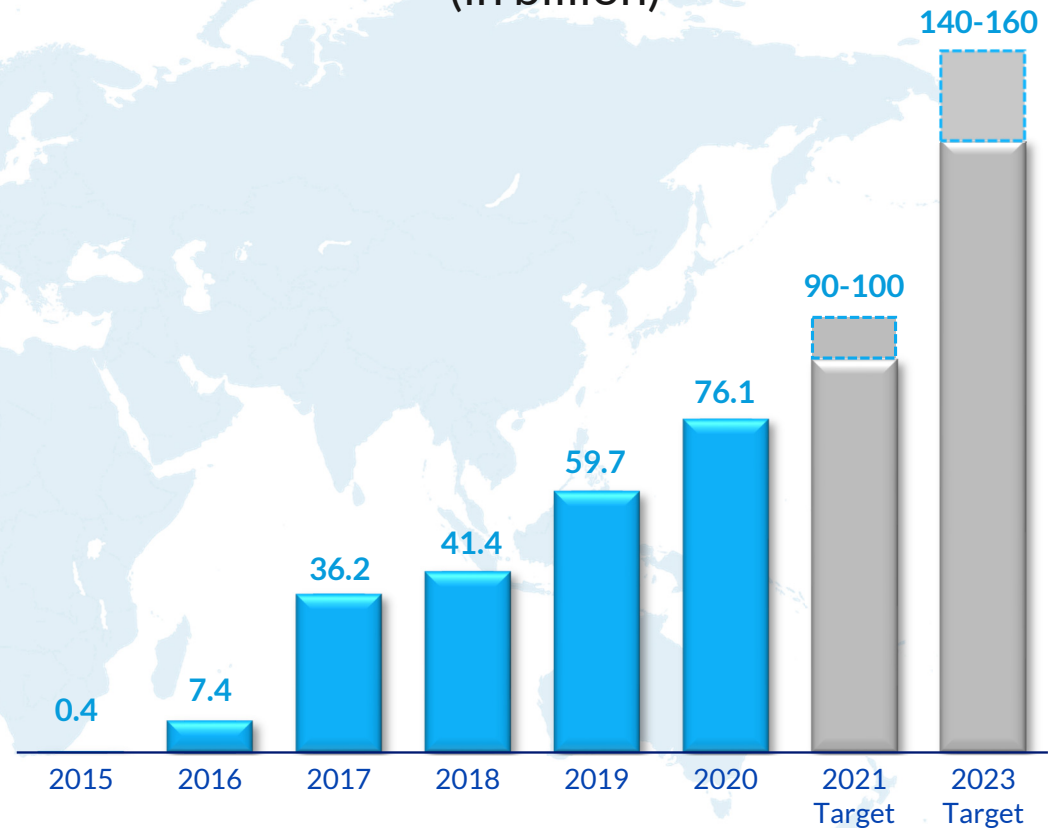
(a) Includes combustible cigarettes, other tobacco products, heat not burn, vapor and nicotine pouches in equivalent units. Assumption for cigarettes and HTUs only also a decline of around 1-2%.
 (b) Includes combustible cigarettes and other tobacco products in equivalent units
 (c) Includes heat-not-burn, e-vapor and nicotine pouches in equivalent units
 Source: PMI Financials or estimates. Industry excludes China and the U.S. Other tobacco products include fine cut tobacco, cigarillos and cigars

Target Strong HTU Volume and Share Growth

PMI HTU
International Share ^(a)



PMI Total HTU Shipment Volumes
(in billion)



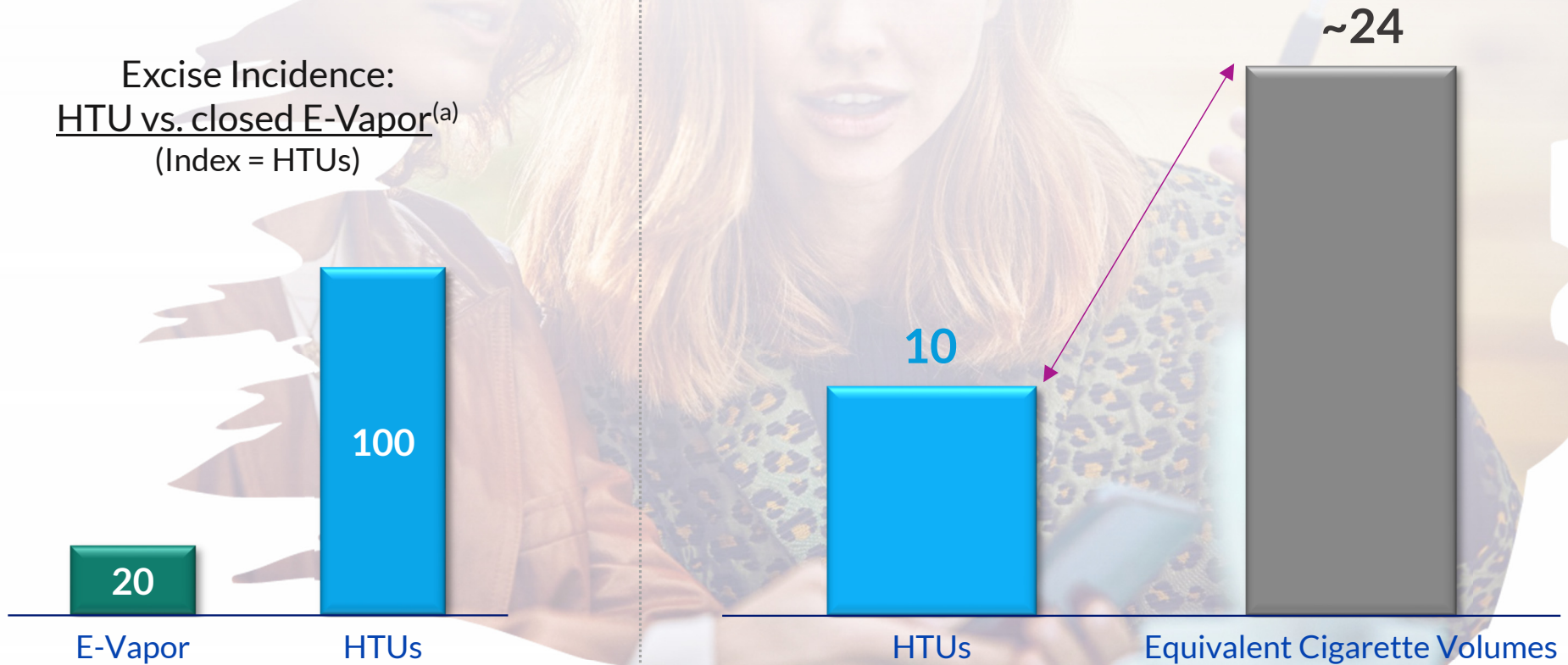
(a) Excluding China and the U.S. Current view (reflecting the deconsolidation of RBH, PMI's total market share has been restated for previous periods). Sales volume of PMI cigarettes and HTUs as a percentage of the total industry sales volume for cigarettes and HTUs

Source: PMI Financials or estimates

Net Revenue per Unit of IQOS HTUs

10bn HTUs Equate to ~24bn Cigarettes
(in Net Revenue Terms)

Excise Incidence:
HTU vs. closed E-Vapor^(a)
(Index = HTUs)

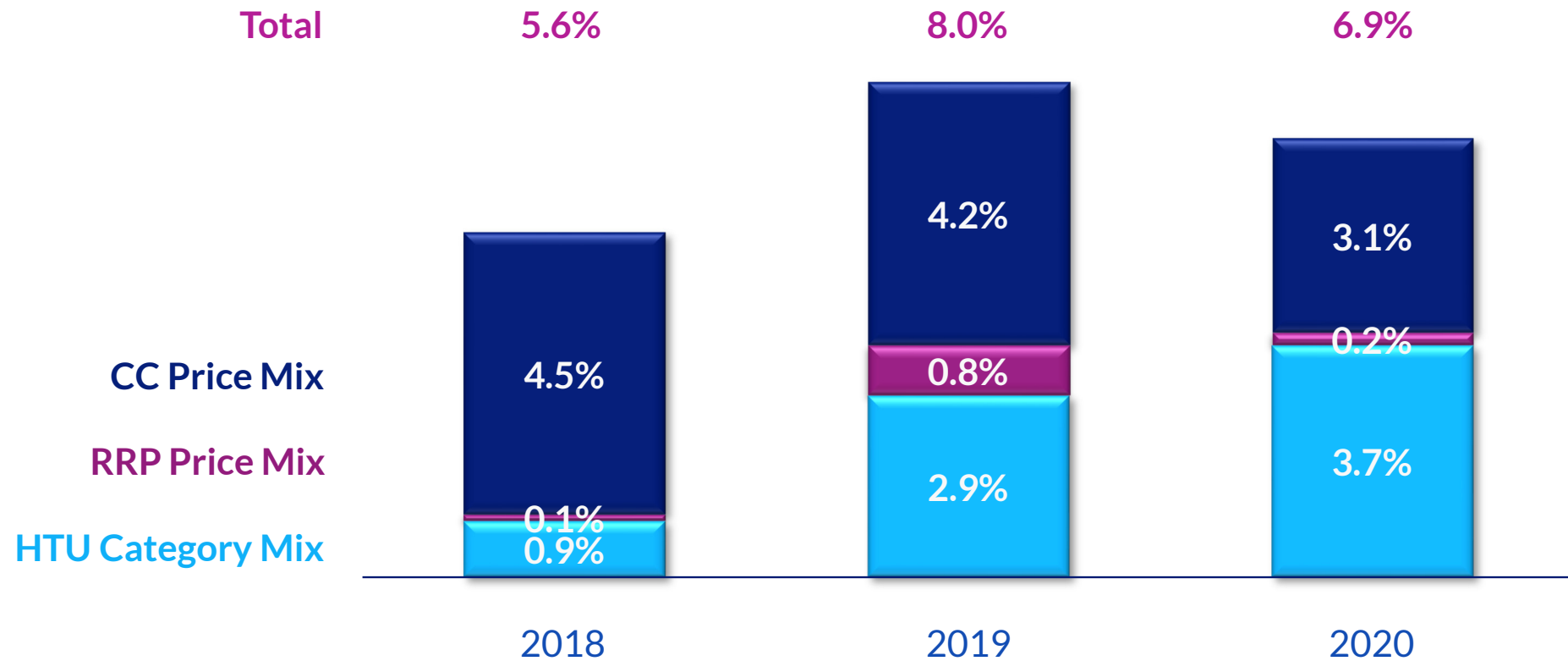


(a) Weighted average excise as a % of retail selling price, closed e-vapor cartridges. PMI Estimates.

Net Revenue Per Unit Growth Increasingly Driven by IQOS Volumes

Price/mix (Net Revenue per Unit)^(a)

(Organic variance vs. PY)



(a) Reflects total PMI net revenues divided by total PMI cigarette and HTU shipment volume

Note: Sum of the drivers does not fit due to rounding

Source: PMI Financials or estimates

HTU Price Position & Segmentation Provides Flexibility

- *HEETS* mainline are often priced close to mid-price cigarettes reflecting lower excise
- Price segmentation makes portfolio pricing more manageable
- Provides flexibility for excise tax increases and regular pricing

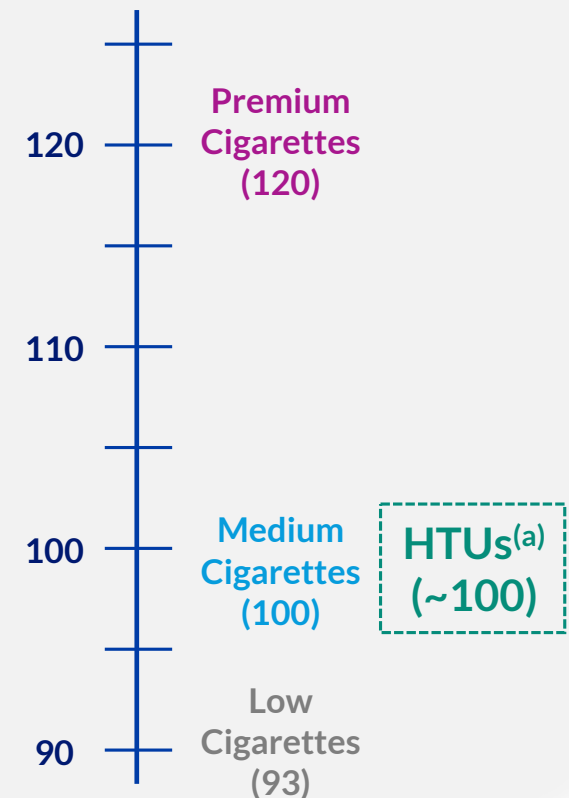


(a) Represents average price of HTUs relative to cigarettes
Source: PMI Financials or estimates

2020 Average Price Position in

IQOS Markets

(Index 100 = Medium)



Price Productivity of IQOS HTUs Superior to Cigarettes

	Weighted Average Retail Price \$/Pack	Effect of 10c increase on Retail Price
Total PMI Cigarettes	3.80	2.6%
PMI HTUs	4.10	2.4%

Effect of 10c increase on average PMI CC & HTU
6.9%
9.0%

Reflects percentage increase on weighted average PMI net revenue per pack (cigarettes and HTUs combined)

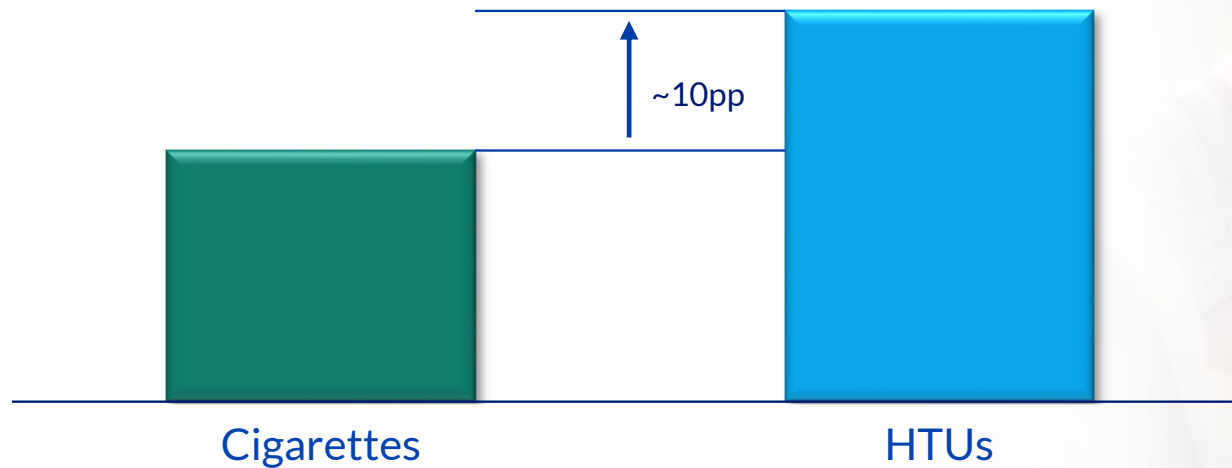


Note: Assumes pack of 20 units
 Source: PMI Financials or estimates, 2020. Price increase effect illustration at constant tax structure

Gross Margins Are ~10pp Higher on HTUs

- Positive mix on revenue further boosted by higher gross margins
- Further upside from manufacturing & supply chain productivity
- Accelerated organic growth in gross profit

2020 % Gross Margin

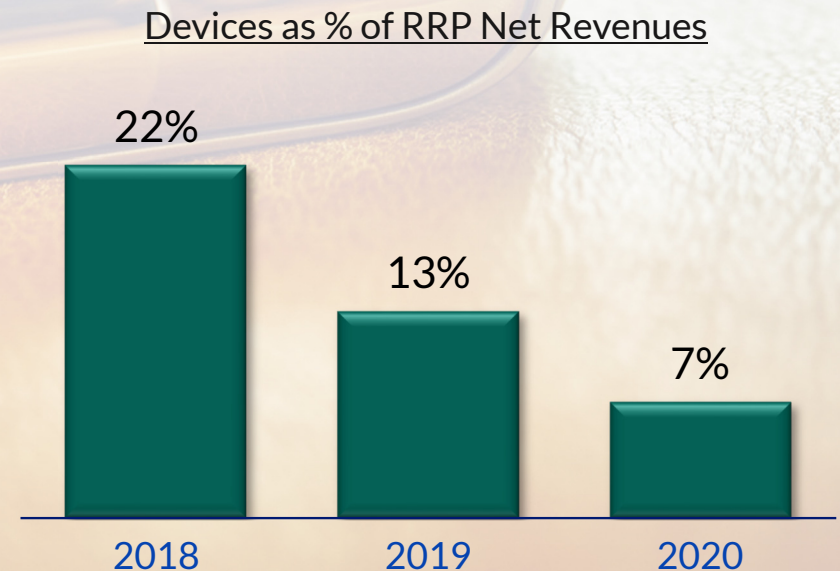
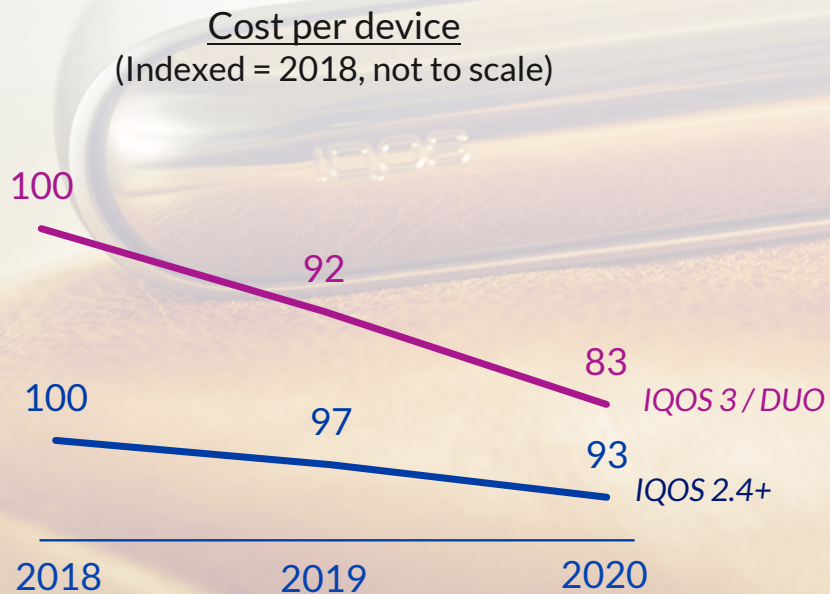


Source: PMI Financials or estimates



Target Break-Even to Positive Device Gross Margins Over Time

- Driving costs down over device lifecycles
- Dilution of device margins a small investment in acquisition
- Devices now a smaller part of RRP revenues

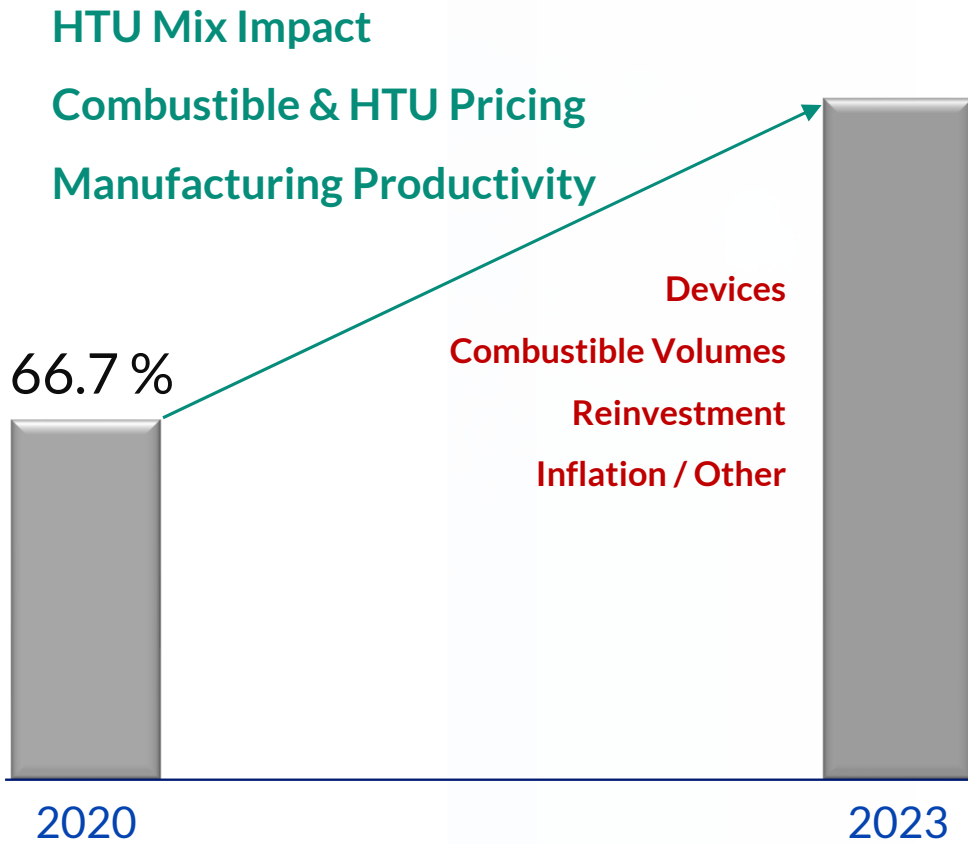


Target ~\$1 Billion in Gross Manufacturing Productivities Over 2021-23

- Productivities across RRP and combustibles
- Focus on performance, efficiency and quality
- More than offsetting inflation, manufacturing investments and impact of lower combustible volumes



Multiple Levers Driving Organic Gross Margin Expansion



Source: PMI Financials or estimates



Growing Organic Revenues Faster Than SG&A to Fuel Reinvestment

- Target Gross SG&A Efficiencies of ~\$1bn by 2023:
 - Expect a broadly even split between Commercial and G&A savings
- Increased commercial efficiency via scale and digitalization
- Offset inflation of 2.5-3%
- Invest for Growth:
 - Innovation and R&D
 - Consumer programs for acquisition & retention
 - New launches
 - Further digital capabilities for G&A



Route to \$1Bn Gross SG&A Savings for IQOS Reinvestment

	FY 2020	2021-23 Targeted Savings
Commercial, R&D	~\$(4)bn	~\$0.5bn
CC	~1/3	
RRP (incl. R&D)	~2/3	
<i>Of which fixed</i>	~70%	
<i>Of which variable</i>	~30%	
G&A, Other	~\$(3.4)bn	~\$0.5bn
Total SG&A	\$(7.4)bn	~\$1.0bn

Commercial Efficiency Allowing Scalability at Lower Cost

- Target ~\$0.5 billion in gross savings from commercial costs
- Efficiency on commercial and R&D costs through improved ways of working and digitalization
- Big initial investments in innovation, product platforms and commercial infrastructure allows costs to grow at lower pace than net revenues



Commercial Efficiency Allowing Scalability at Lower Cost

Acquisition



2023 Variable
Cost per User
Reduction

Target

(vs. 2020)

30%

Retention



G&A: Gross Savings of ~\$0.5 Billion

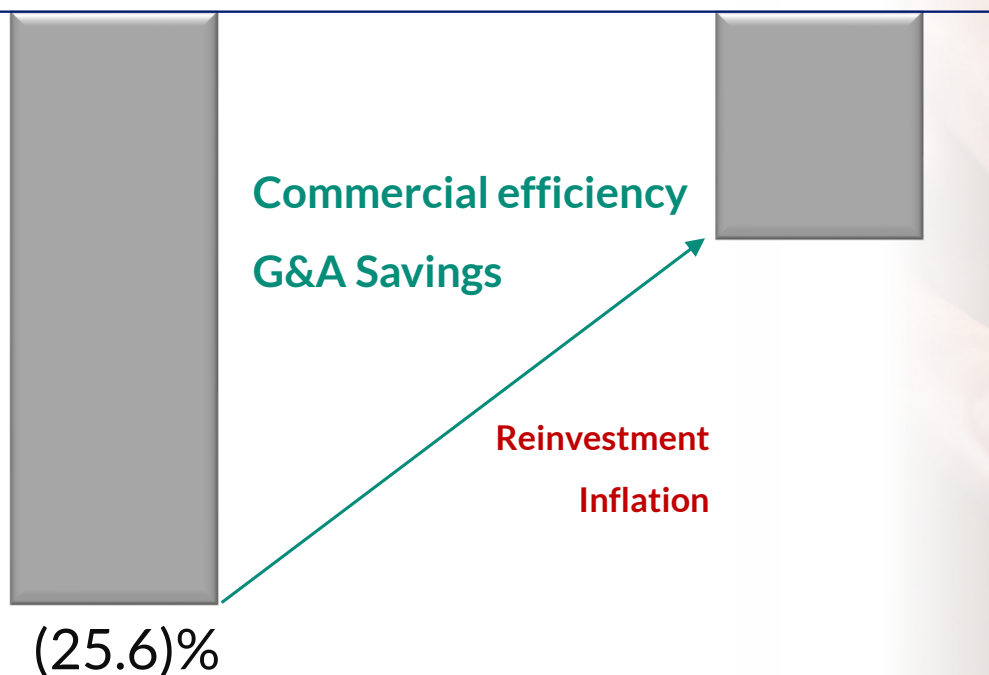
- Efficiency levers:
 - Simplification
 - Digitalization
 - Standardization
 - Shared service centers
 - Project-based working
- Offset inflation, including IT costs
- Support reinvestment and margin expansion



Growing Organic Revenues Faster Than SG&A to Fuel Reinvestment

Marketing, Admin. & Research Costs

2020 (as a % of net revenues) 2023



2020 excludes asset impairment and exit costs (\$149 million) offset by a Brazil indirect tax credit \$119 million totaling \$30 million. Please refer to slide 54 of Q4,2020 earnings presentation for reconciliation.
Source: PMI Financials or estimates



Ingredients for Strong Organic Financial Performance

- Volumes broadly stable
- Strong organic revenue growth driven by *IQOS* and pricing
- Gross margin organic improvement:
 - HTU mix impact
 - Combustible & HTU pricing
 - Manufacturing & supply chain productivity
- Lower SG&A-to-sales ratio:
 - Commercial efficiency through scale and digitalization
 - G&A efficiency through automation and simplification
- Reinvest for growth
- Adjusted operating income organic margin expansion of ≥ 150 bps per annum
- Deliver strong, sustainable organic growth in net revenues, adjusted operating income, adjusted EPS and operating cash flow



Capital Allocation

- Continued strong operating cash flow generation expected: around \$35bn over next 3 years at constant currency:
 - Annual Capital expenditures around \$0.8 billion
- Main priority is reinvestment in growth of smoke-free products:
 - Continue driving the growth of *IQOS*
 - Possibility of bolt-on acquisitions in ‘Beyond Nicotine’ space
- Maintain progressive dividend policy while targeting long-term payout ratio of around 75% of adjusted EPS
- Share repurchase program: If 2021 outlook confirmed over course of the year, in H2, 2021 we intend to start a 3 year program of \$5-7bn

Beyond Nicotine: Additional Growth Potential & Further Acceleration of Transformation

- Going 'Beyond Nicotine' offers start-up opportunities in high-margin areas
- Leveraging our significant capabilities and select partnerships:
 - Life sciences, device technology and consumer expertise
- Target at least \$1 billion in net revenues by 2025:
 - Not included in our 2021-23 mid-term outlook



Sustainability at PMI: Fully Integrated Into Corporate Strategy



Route to Accelerating Change & Driving Impact



Our Performance – Major Sustainability Milestones in 2020

(P) Product

- 12.7 million legal-age smokers switched to IQOS and stopped smoking
- Pioneering role in Tobacco harm reduction
- Outperformed on DJSI^(a), leading on technology and innovation

(E) Environment

- CDP Supplier Engagement Leaderboard
- CDP Triple-A rated
- Validation of new science-based targets with the 1.5°C scenario (SBTi^(b))
- Well on track to achieving carbon neutrality (scope 1+2) by 2030

(S) Social

- DJSI^(a) leading on human rights
- More than 30% of our management is female
- Included in Bloomberg Gender Equality Index
- Equal pay certified

(G) Governance

- Statement of Purpose, issued by BoD
- Issued first Integrated Report
- Reporting considers GRI, SASB, and TCFD disclosure standards
- Executive compensation linked to ESG performance
- Sustainability moves under Finance, reporting to CFO
- Appointment of Chief Diversity Officer, reporting to CEO

(a) Dow Jones Sustainability Index

(b) Science Based Targets initiative, 1.5C scenario refers to setting net-zero carbon emissions targets in line with limiting global average temperatures to 1.5C above pre-industrial levels

Business Transformation Metrics^(a)

Shifting Our Resources to Deliver a Smoke-Free Future

	2015	2016	2017	2018	2019	2020
R&D expenditure (smoke-free/total)	70%	72%	74%	92%	98%	99%
Commercial expenditure (Marketing) (smoke-free/total)	8%	15%	39%	60%	71%	76%
Net revenues^(b) (smoke-free/total)	0.2%	2.7%	12.7%	13.8%	18.7%	23.8%
Smoke-free product shipment ratio ^(c) (smoke-free/total)	0.1%	0.9%	4.4%	5.1%	7.6%	10.4%
Estimated users who have stopped smoking and switched to IQOS ^(d) (in millions)	n/a	1.5	4.7	6.6	9.7	12.7
Proportion of markets where PMI smoke-free products are available, which are outside the OECD	n/a	32%	43%	47%	47%	52%
Number of markets where net revenues from smoke- free products exceed 50% of total net revenues	n/a	0	1	3	4	6

(a) As of December 31, 2020

(b) Excluding excise taxes

(c) The smoke-free product shipment ratio is computed based on millions of units. Smoke-free products include heated tobacco units and e-cigarettes. Total products include smoke-free products, cigarettes and other combustible products

(d) See Glossary for definition

Source: PMI Financials or estimates, IQOS user panels and PMI Market Research

Select 2025 Aspirational Goals: Environment & Social

Operating With Excellence

>90%

Youth access prevention programs in place in markets representing over 90 percent of PMI's total shipment volume by 2020

100%

Percentage of PMI's portfolio of electronic smoke-free devices equipped with age-verification technology by 2023

100%

Percentage of critical suppliers from whom PMI sources sustainably

10

Highest risk countries covered by external human rights impact assessments and findings addressed

Caring for the People We Work With

100%

Percentage of contracted farmers supplying tobacco to PMI who make a living income

Zero

Child labor in PMI's tobacco supply chain



Protecting the Environment

Net Zero

Achievement of carbon neutrality of PMI's direct operations (scope 1+2) by 2030 and 2050 (scope 1+2+3)

100%

Percentage of PMI smoke-free product users who have access to collection and recovery for devices and consumables

100%

Percentage of PMI smoke-free devices that have eco-design certification

-50%

Reduction of plastic litter from our products (versus 2021)

Select 2025 Aspirational Goals: Product

INNOVATING FOR BETTER PRODUCTS

>50%

Net revenues smoke-free/total

≥\$1 billion

Revenue coming from beyond
Nicotine business

>40m

Number of adult smokers
globally who switch to PMI
smoke-free products

>20m

Number of adult smokers in
non-OECD countries who switch
to PMI smoke-free products



Note: Aspirational targets do not constitute financial projections

Conclusion: Rapidly Becoming a Fast-growing and Increasingly Profitable Majority Smoke-Free Company

IQOS strong growth, together with price excellence and cost efficiency will deliver in the coming years:

- + Improved volume dynamics
- + Fast-growing revenues
- + Enhanced profitability
- + Strong profit and cash flow growth
- + Major positive impact on sustainability and society

Strong, sustainable financial performance to deliver superior returns for shareholders



2021 INVESTOR DAY

Delivering a Smoke-Free Future

The Next Growth Phase

Break

11:35 – 11:45 ET

Have you downloaded the new PMI Investor Relations App yet?

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2021 INVESTOR DAY

Delivering a Smoke-Free Future

The Next Growth Phase

Questions & Answers

11:45 – 1:15pm ET

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