



PHILIP MORRIS  
INTERNATIONAL

# 2018 INVESTOR DAY

Designing a Smoke-Free Future

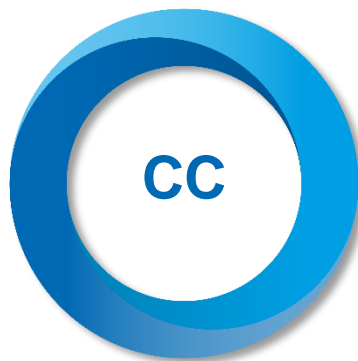
## Investor Day

Lausanne, September 27, 2018

Jacek Olczak  
*Chief Operating Officer*

# OPERATING **AROUND THE ADULT CONSUMER**

# Operating Around the Adult Consumer



Combustible  
Cigarette  
Performance

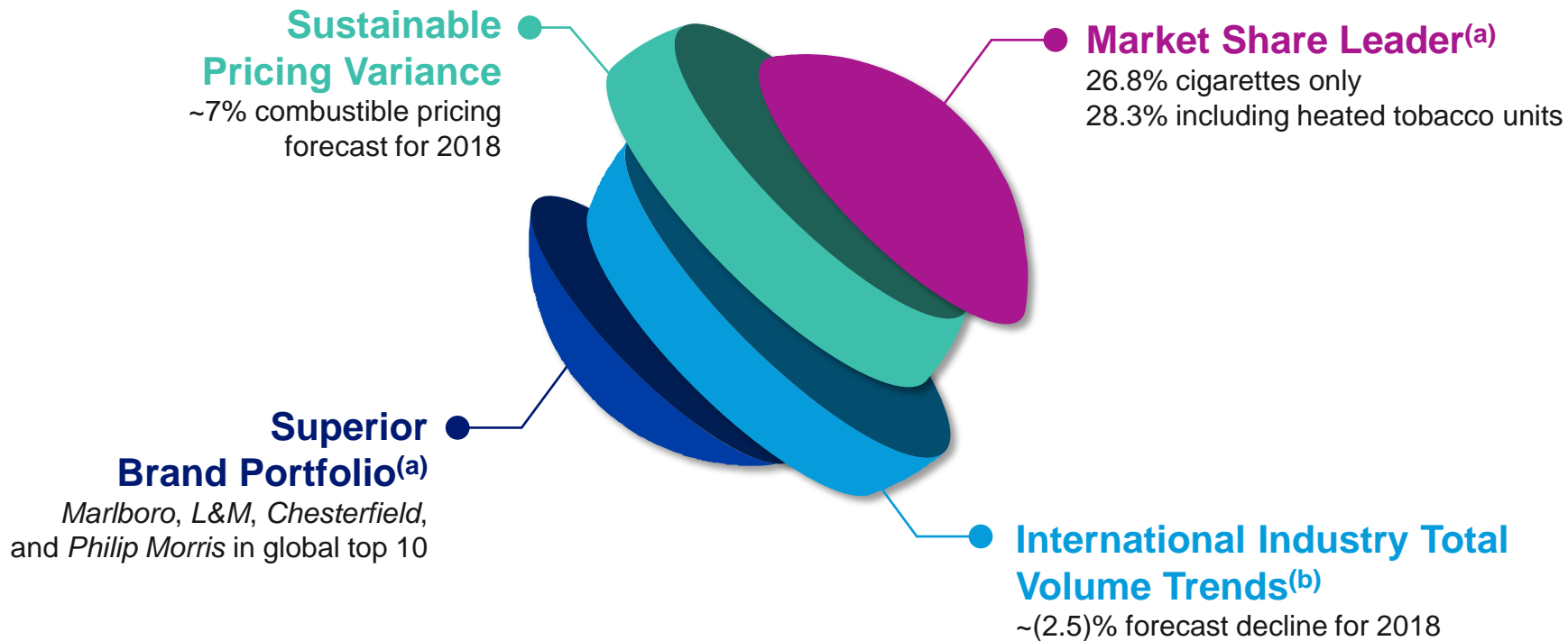


Reduced-Risk  
Product  
Performance



Upskilling  
Our  
Organization

# Our Eye is On the Ball: Robust Cigarette Fundamentals



(a) YTD August, 2018. Excluding China and the U.S. Reflects cigarettes and heated tobacco units

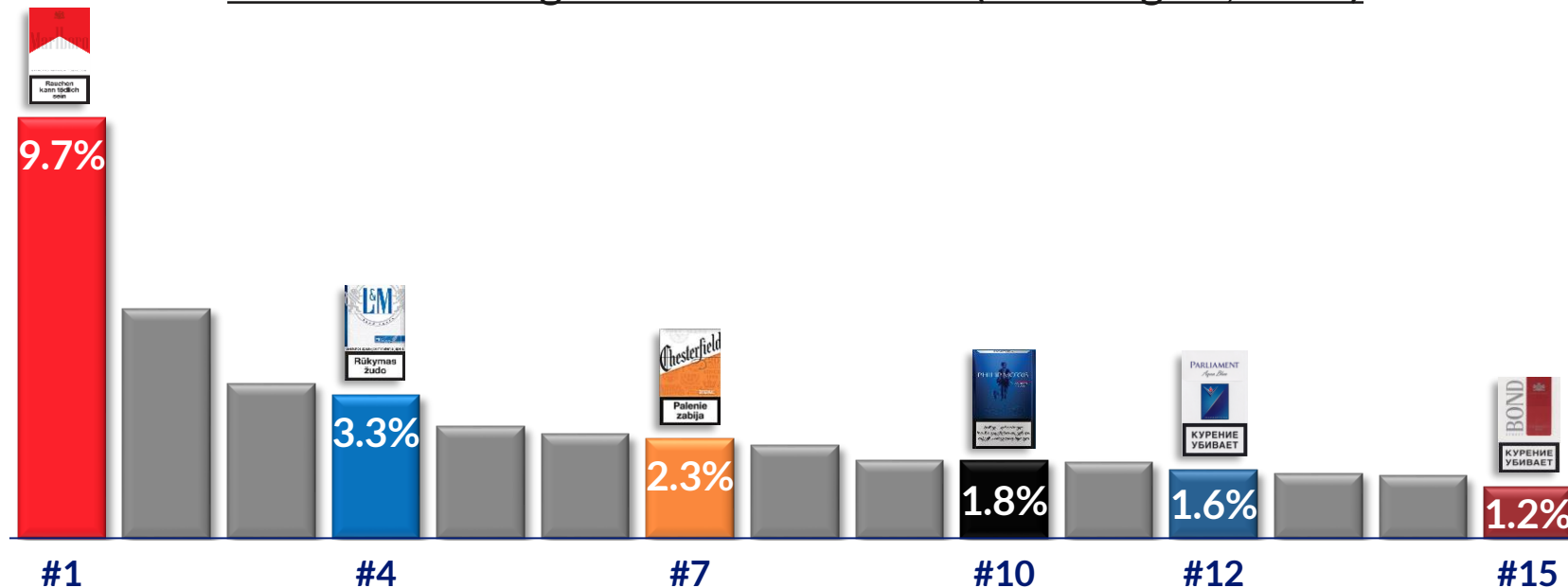
(b) Excluding China and the U.S. Reflects cigarettes and heated tobacco units

Source: PMI Financials or estimates

# Our Strong Cigarette Brand Portfolio



## International Cigarette Market Share (YTD August, 2018)



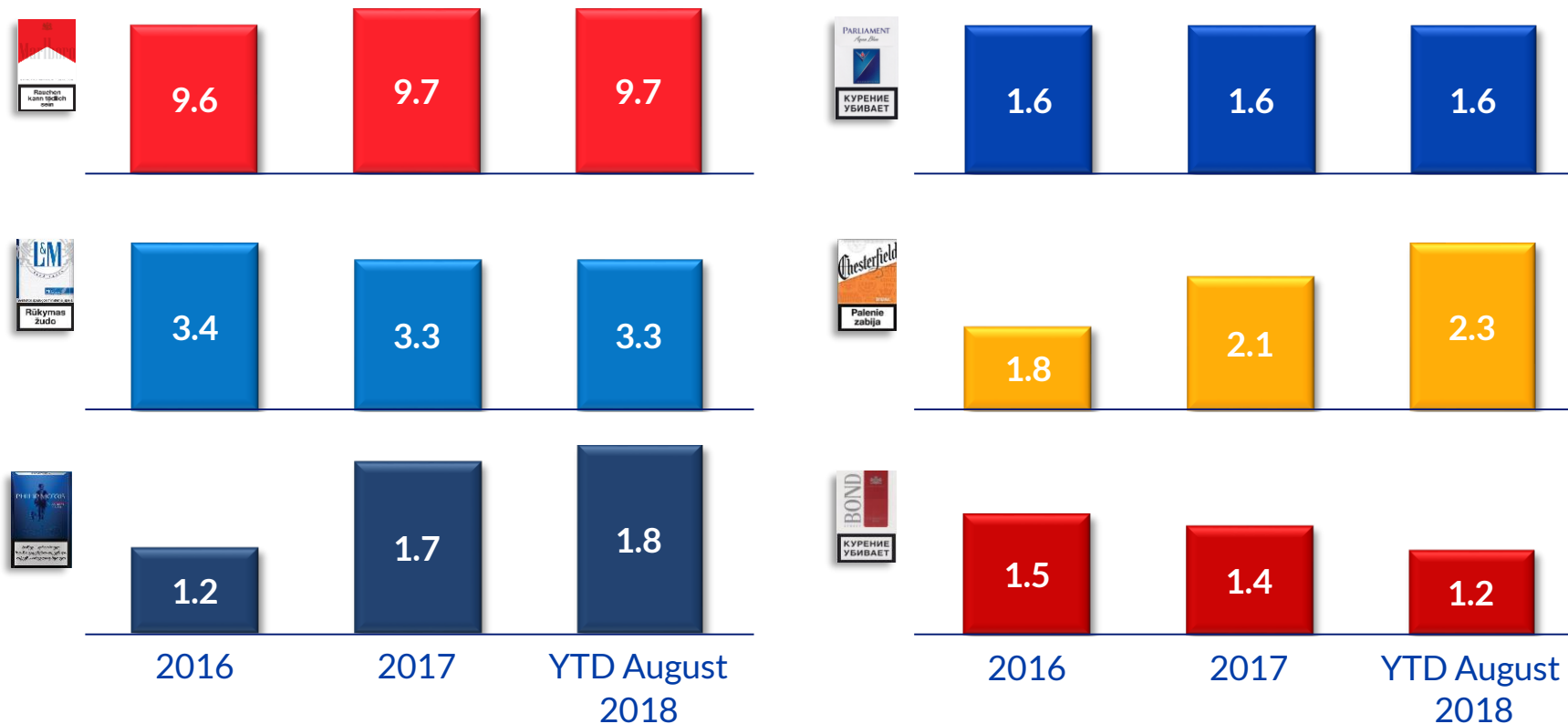
**We Own Six of the World's Top 15 International Cigarette Brands**

Note: Excluding China and the U.S. Reflects sales volume of PMI cigarettes as a percentage of cigarette industry sales volume

Source: PMI Financials or estimates

# Solid Global Cigarette Brand Share of Market

(%)



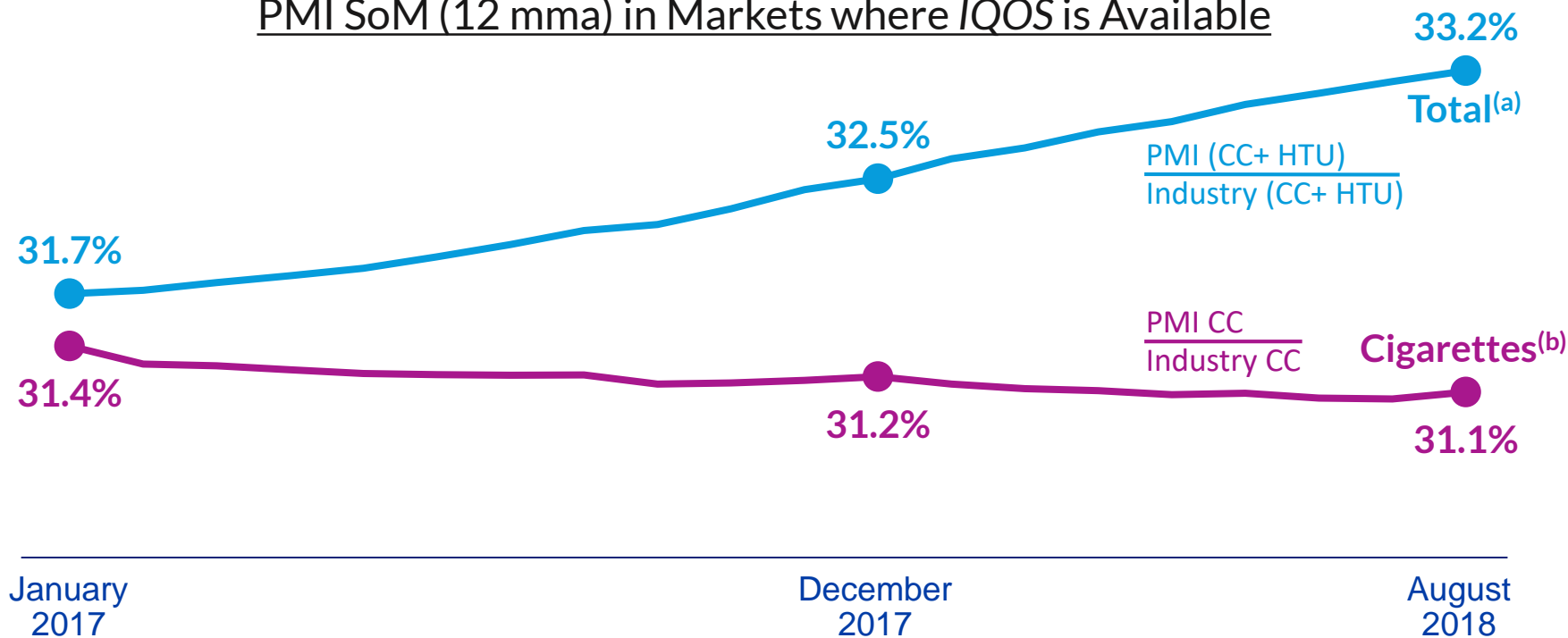
Note: Excluding China and the U.S. Reflects sales volume of PMI cigarettes as a percentage of cigarette industry sales volume

Source: PMI Financials or estimates

# Cigarette SoM Resilient Despite Investment Shift to RRP's



## PMI SoM (12 mma) in Markets where IQOS is Available



(a) Sales volume of PMI cigarettes and HTUs as a percentage of the total industry sales volume for cigarettes and HTUs in the markets where IQOS was available at the end of August 2018

(b) Sales volume of PMI cigarettes as percentage of the total industry sales volume for cigarettes in the markets where IQOS was available at the end of August 2018

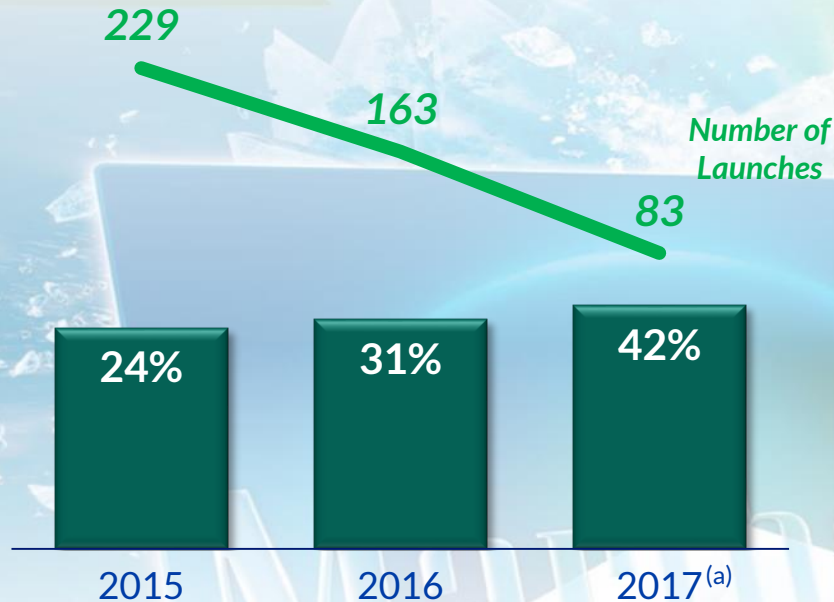
Source: PMI Financials or estimates

# Focused Product Launches Yielding Higher Success Rate

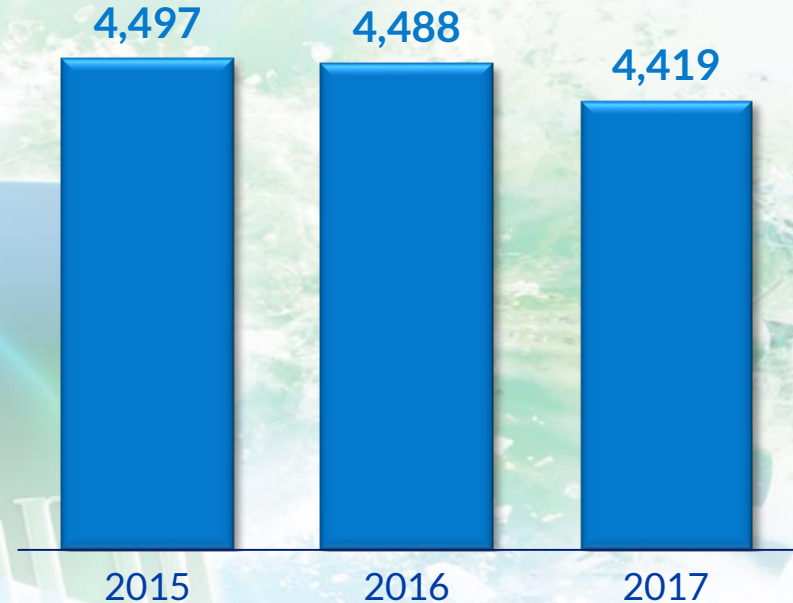


## Strike Rate (%) & Number of Launches

(0.7% SoM in 12 months after launch)



## Number of SKUs



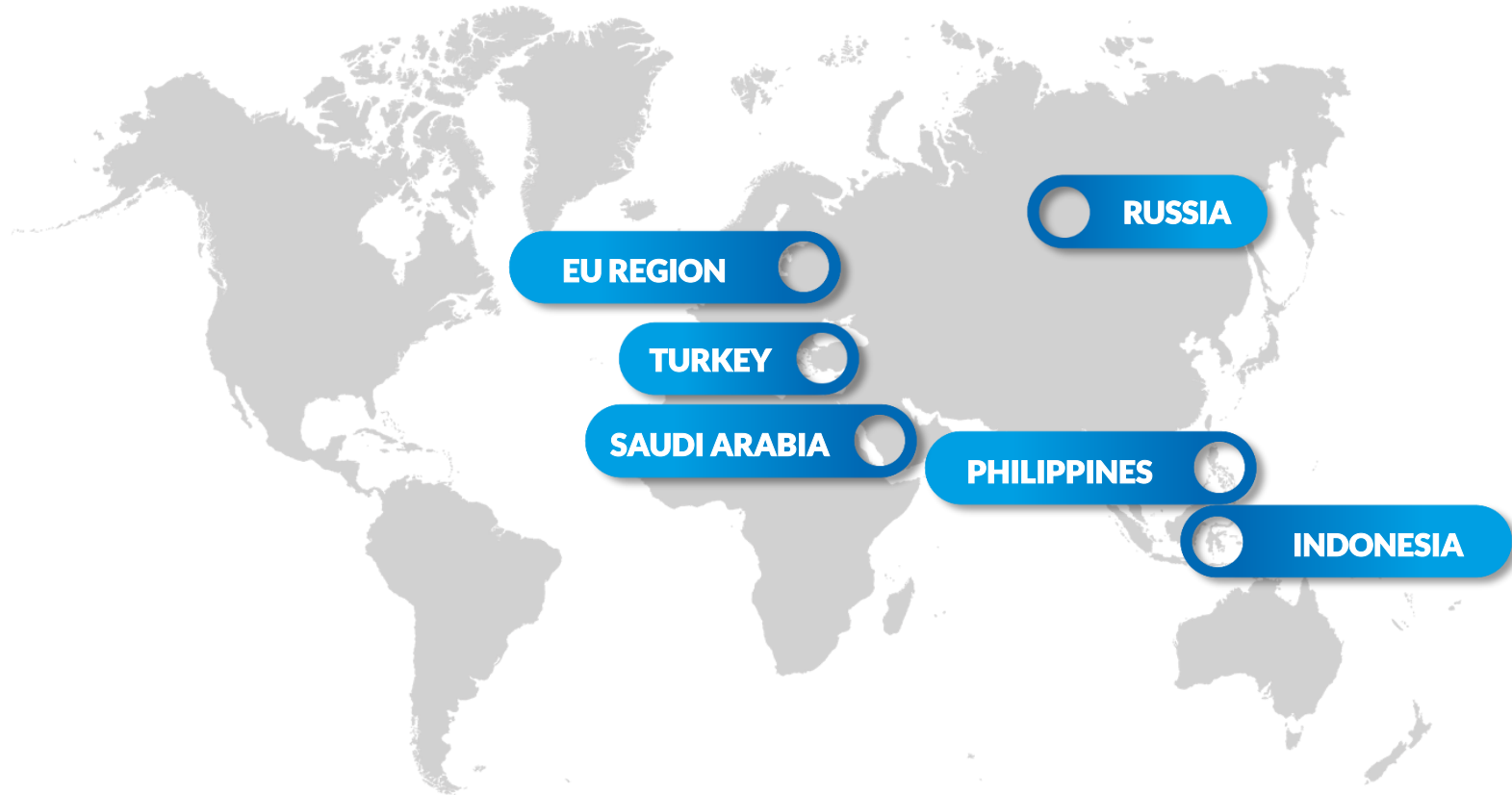
(a) Based on latest available share for 2017 launches

Note: Strike rate is defined as % of innovations meeting a pre-defined threshold, 12 months after launch

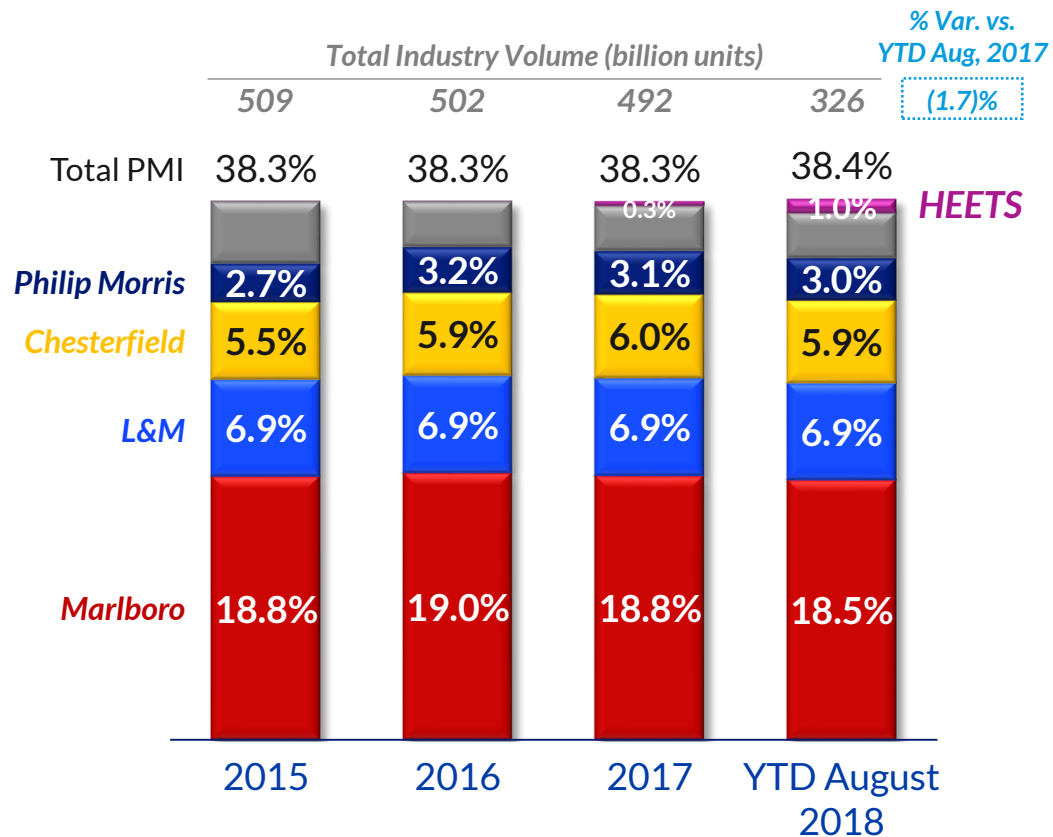
Source: PMI Financials or estimates



# Region/Market Snapshot



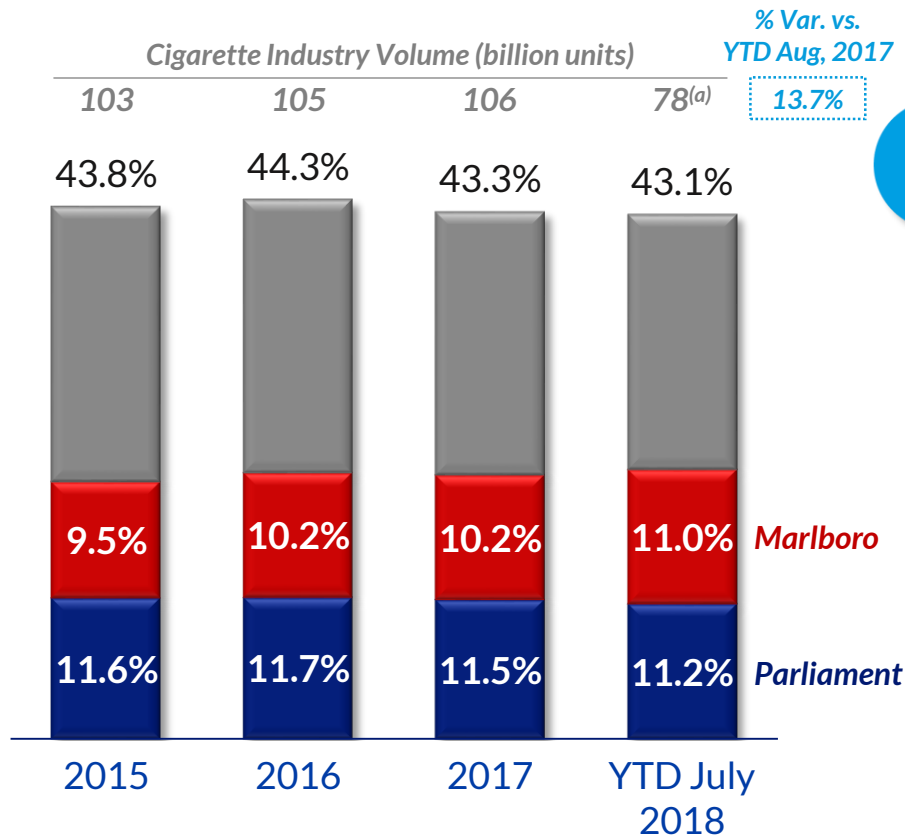
# Strong Total Market Share Performance



EU REGION

Note: Total industry volume reflects cigarettes and heated tobacco units  
Source: PMI Financials or estimates

# Solid Business Fundamentals



**TURKEY**

- Amendment to cigarette excise tax structure on June 30, 2018:

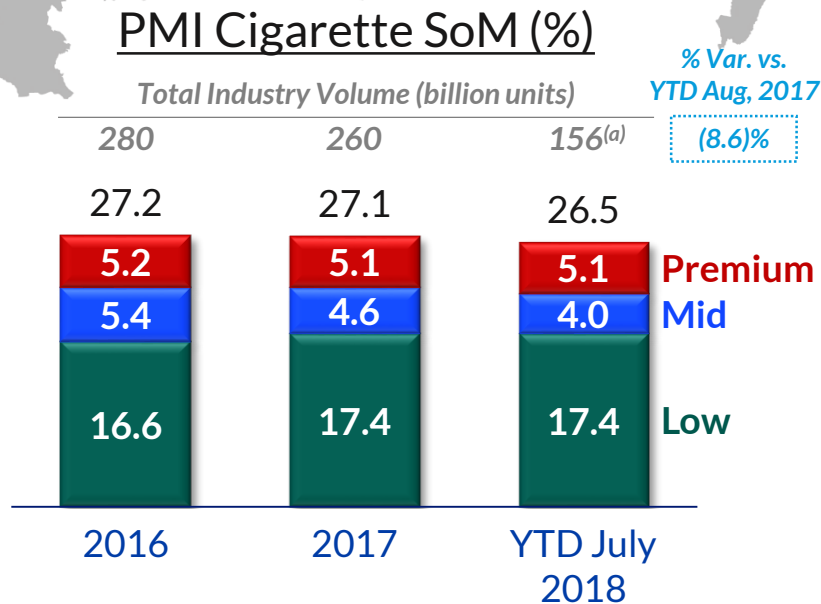
- Increased specific component
- Reduced ad valorem component

(a) YTD August, 2018

Source: PMI Financials or estimates, and Nielsen

# Improved Pricing

- Strong pricing mainly driven by the annualization of pricing announced in H2, 2017, and further supported by price increases earlier this year
- July 1, 2018 excise tax increase with a pass-on of RUB 5/pack
- PMI HTU national IMS share of 0.7% YTD July, 2018



(a) YTD August, 2018

Note: Total industry volume reflects cigarettes and heated tobacco units. Cigarette share is based on cigarette industry only. Premium includes above premium. Low includes super-low

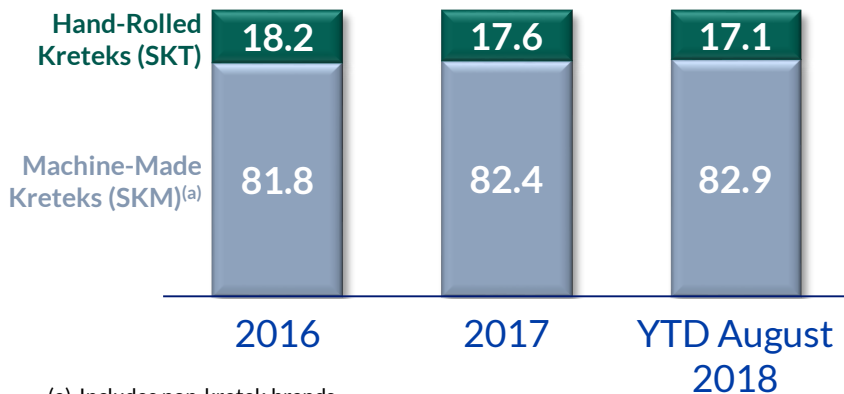
Source: PMI Financials or estimates, and Nielsen

# Solid SoM Performance Supported by Marlboro

- PMI cigarette share growth driven by strong performances of *Marlboro Filter Black* and *Dji Sam Soe Magnum Mild*

INDONESIA

## Industry Segment Split (%)

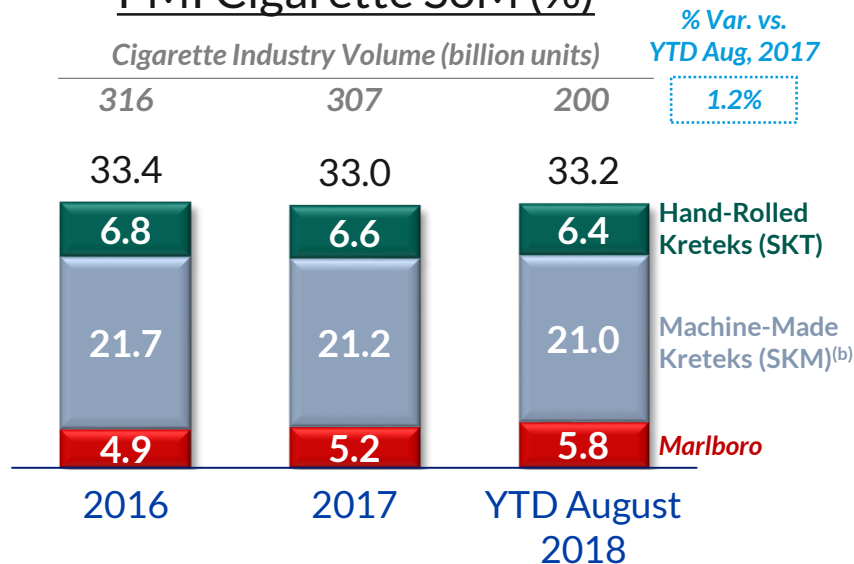


(a) Includes non-kretek brands

(b) Excludes *Marlboro* SKM

Source: PMI Financials or estimates

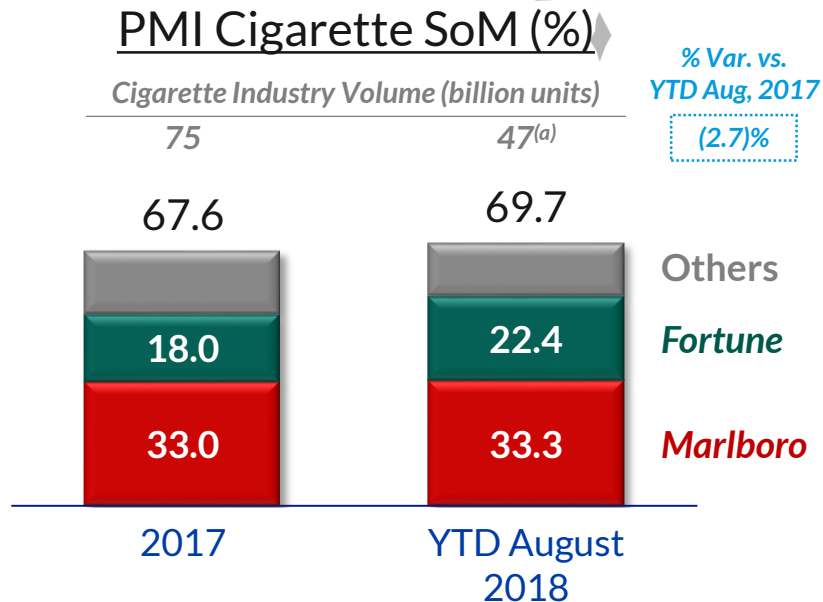
## PMI Cigarette SoM (%)



# Gaining Share and Increasing Profitability

- Further profit growth from excise tax-driven price increases
- Strong PMI share growth led by:
  - *Fortune*: benefiting from narrowed price gaps vs. lower-priced brands
  - *Marlboro*: solid performance in spite of its price increase in December 2017
- Excise tax increase of PHP 2.50/pack (+7.7%) effective July 2018

## PHILIPPINES

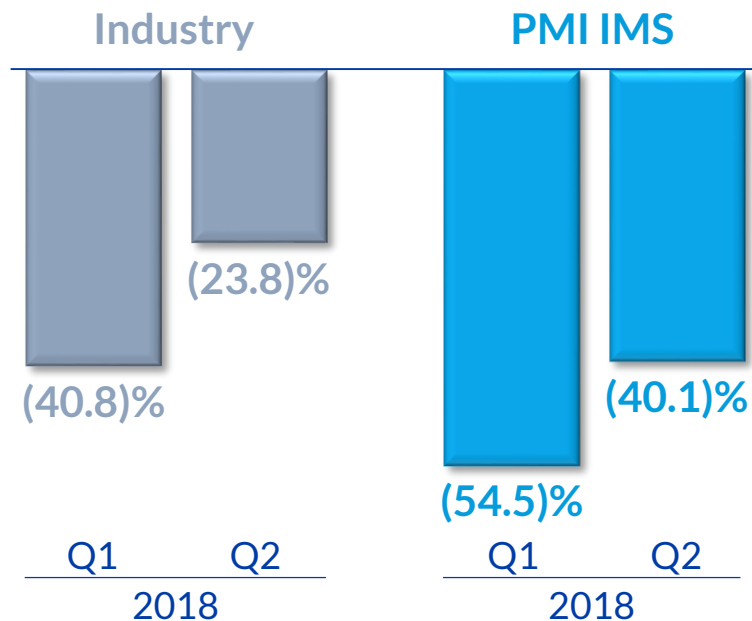


(a) YTD August, 2018

Source: PMI Financials or estimates

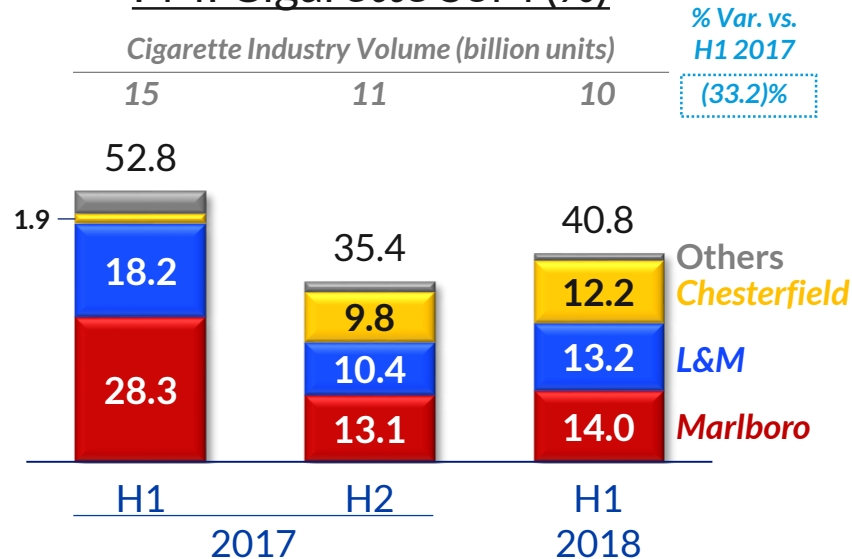
# Sequential Improvement

## Cigarette Volume (Variance vs. PY)

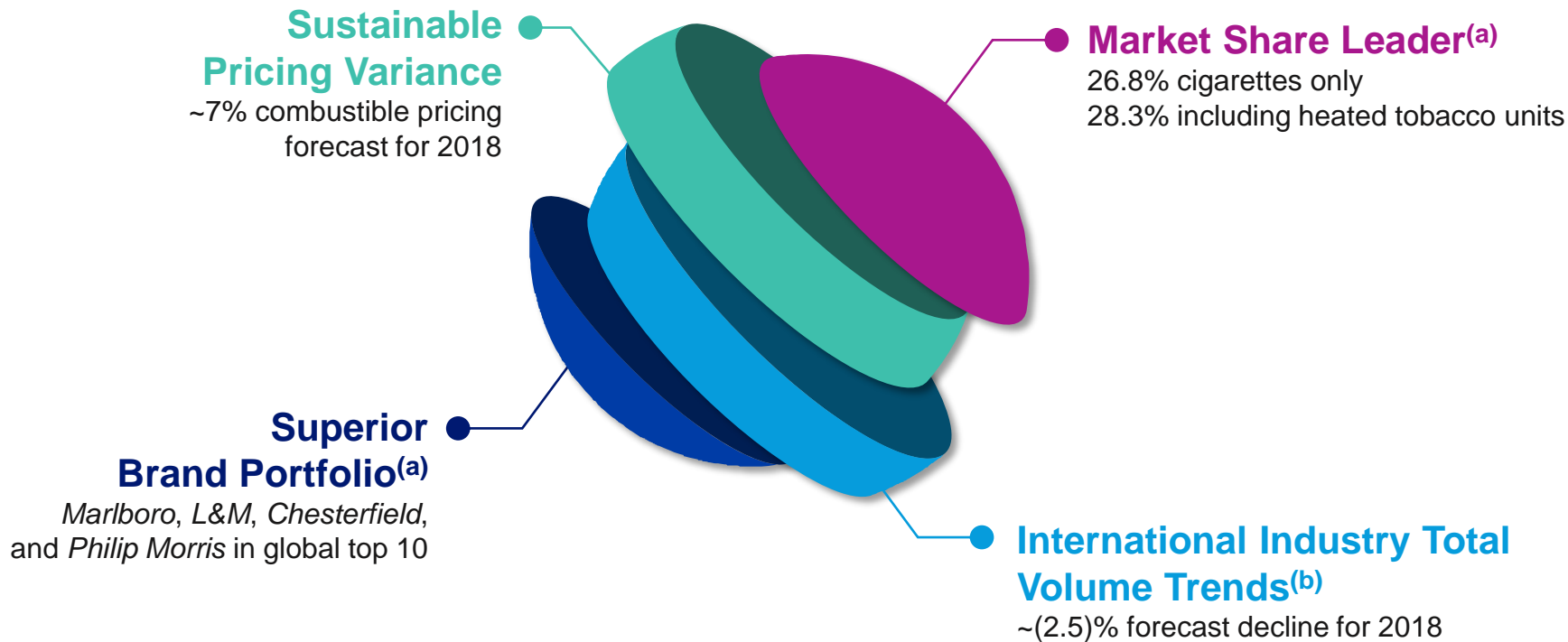


## SAUDI ARABIA

### PMI Cigarette SoM (%)



# Our Eye is On the Ball: Robust Cigarette Fundamentals



(a) YTD August, 2018. Excluding China and the U.S. Reflects cigarettes and heated tobacco units

(b) Excluding China and the U.S. Reflects cigarettes and heated tobacco units

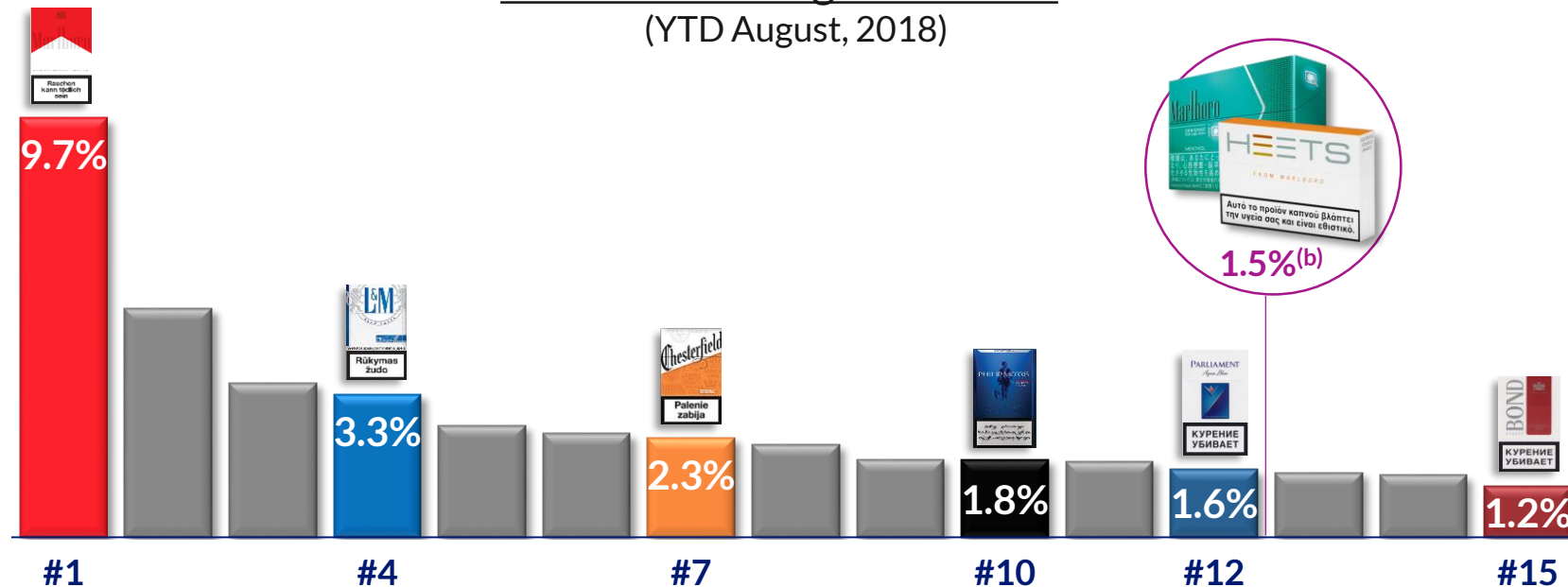
Source: PMI Financials or estimates



# Everything Else Comes On Top



## International Cigarette SoM<sup>(a)</sup> (YTD August, 2018)



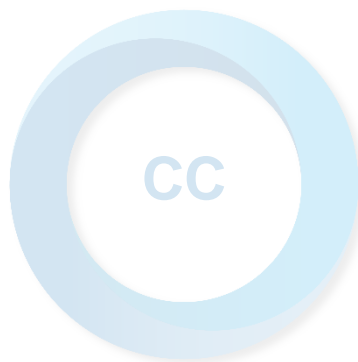
(a) Sales volume of cigarette brand as a percentage of the total industry sales volume for cigarettes

(b) Sales volume of PMI HTUs as a percentage of the total industry sales volume for cigarettes and HTUs

Note: Excluding China and the U.S.

Source: PMI Financials or estimates

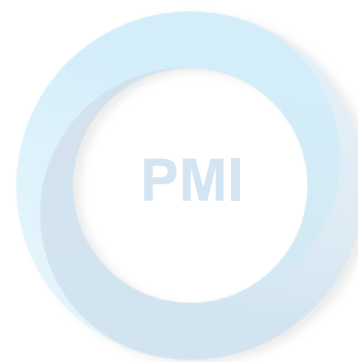
# Operating Around the Adult Consumer



Combustible  
Cigarette  
Performance



Reduced-Risk  
Product  
Performance

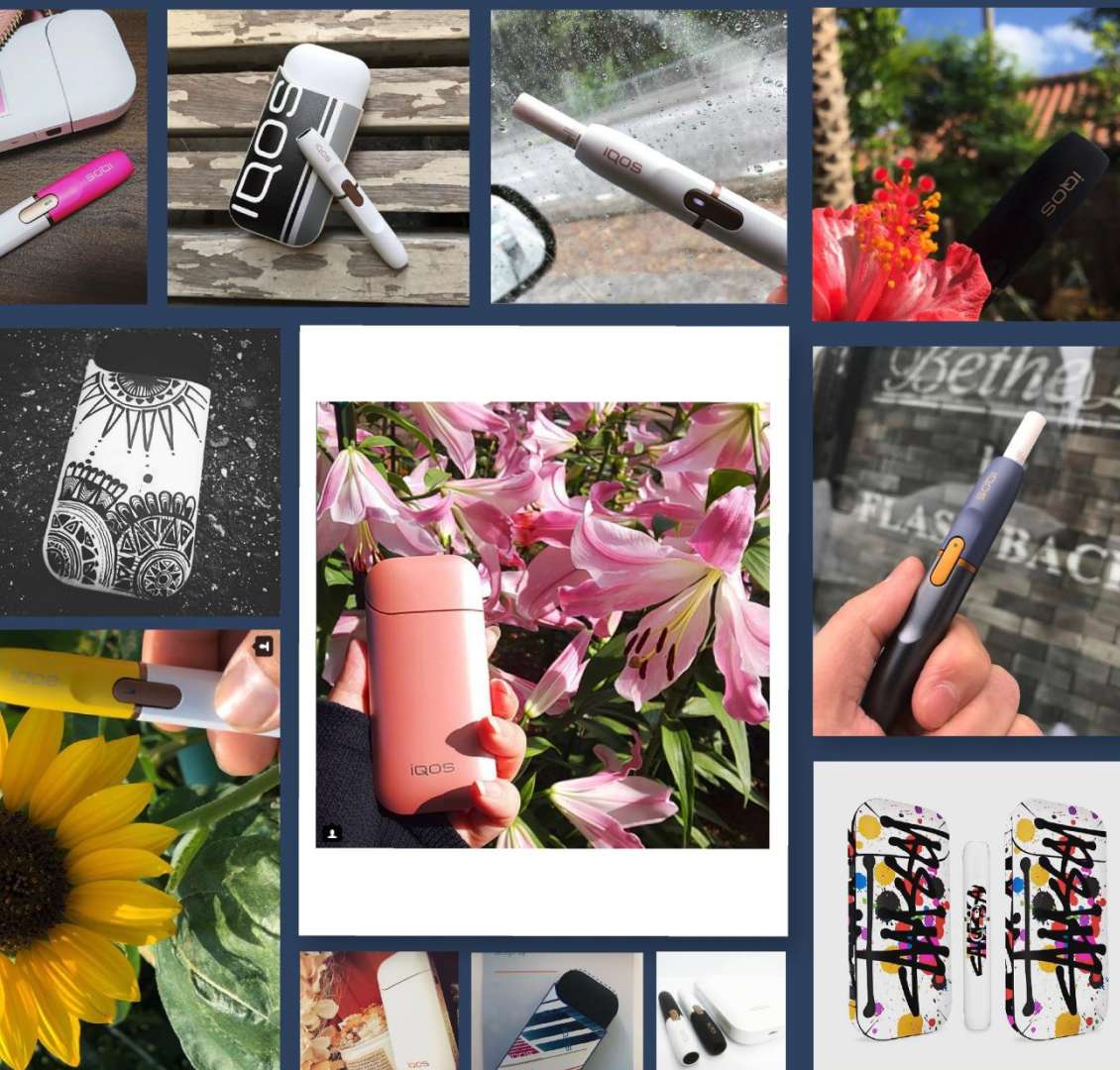


Upskilling  
Our  
Organization

# Every Consumer Matters

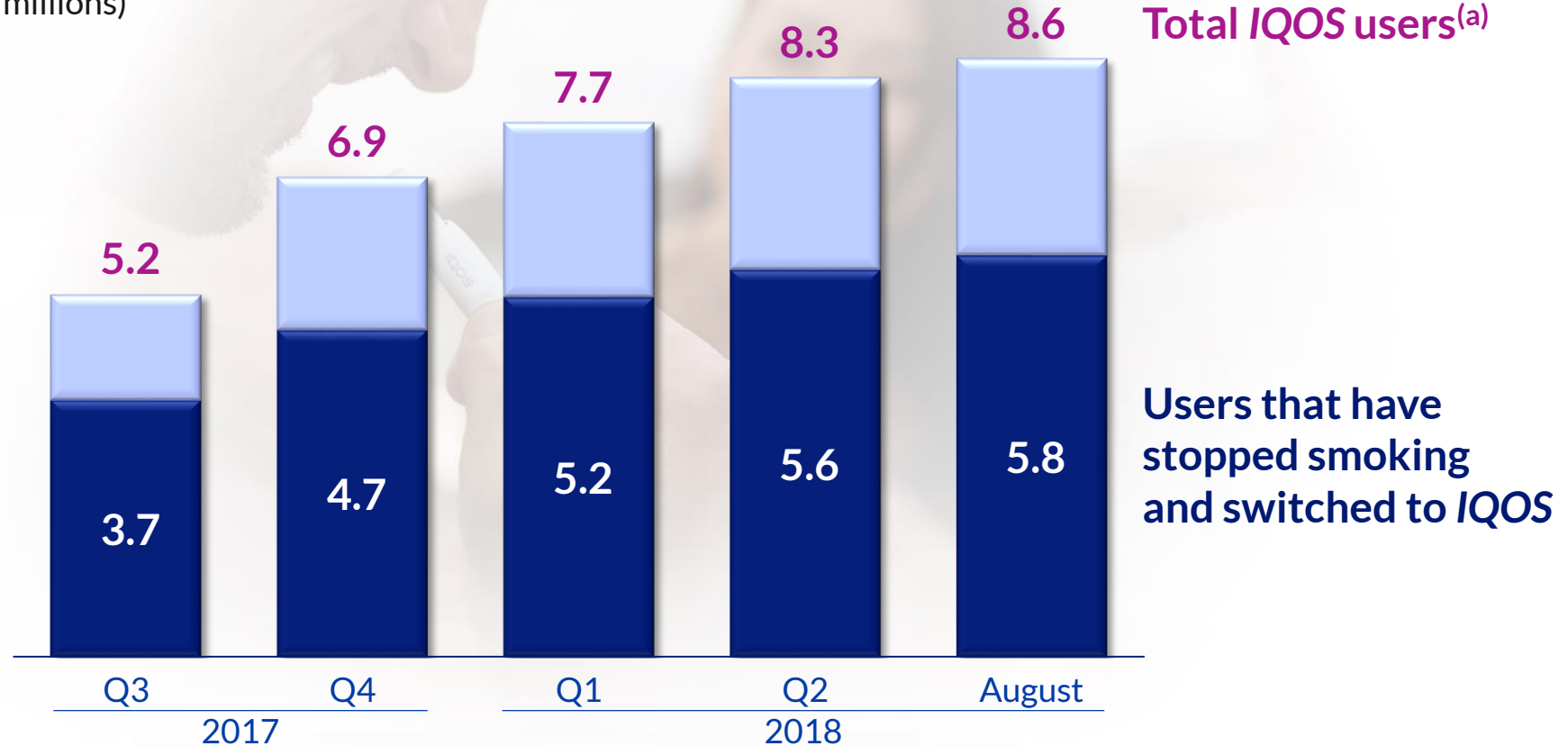
Approximately  
**5.8 million**  
adult consumers  
around the world  
have already  
stopped smoking  
and switched to *IQOS*

Note: Status at the end of August 2018  
Source: PMI Financials or estimates, IQOS user panels, and PMI Market Research



# Continued IQOS User Growth

(in millions)

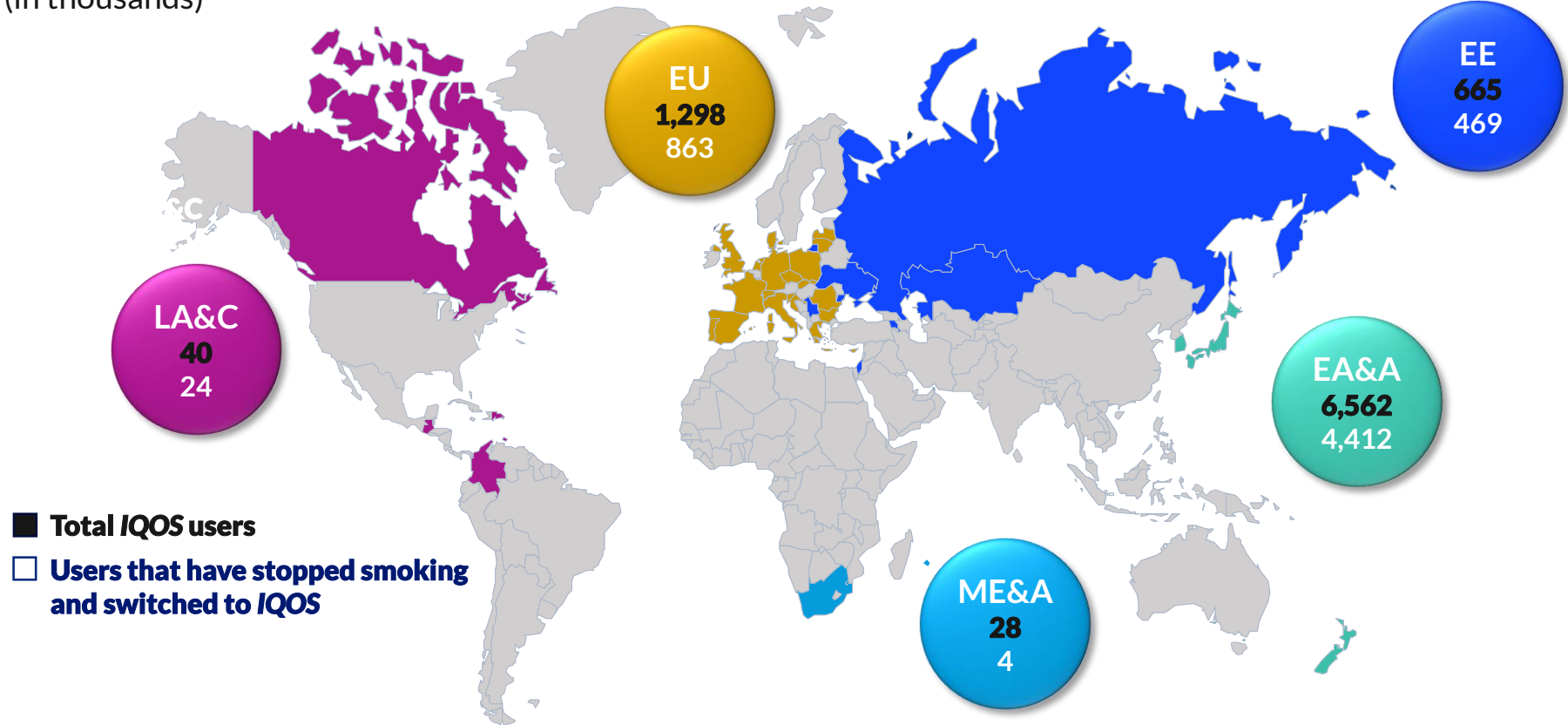


(a) Total IQOS users means the estimated number of Legal Age (minimum 18-year-old) who have used *HeatSticks/HEETS* for at least 5% of their daily tobacco consumption over the past seven days

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

# Total IQOS Users by Region

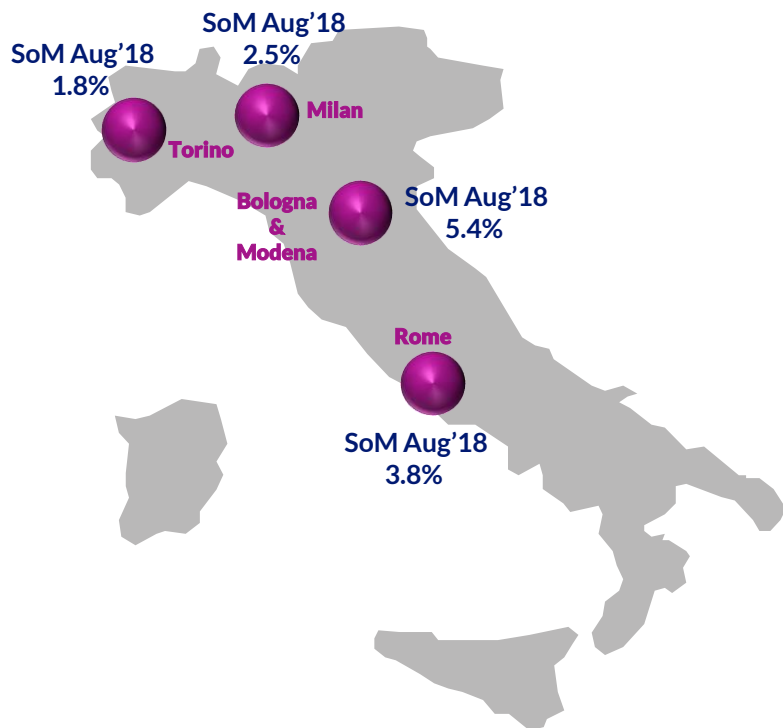
(in thousands)



Note: Status at the end of August 2018

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

# IQOS in Italy



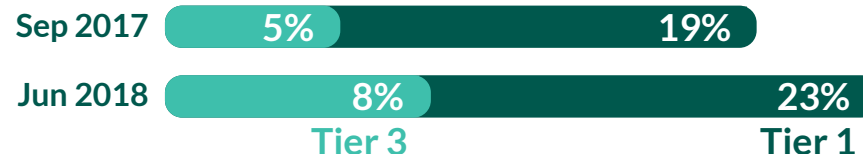
## Total IQOS Users (in thousands)



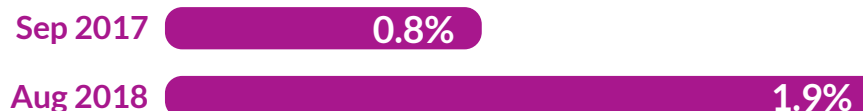
## IQOS Conversion Rate (>95%)



## Awareness Level



## IMS SoM



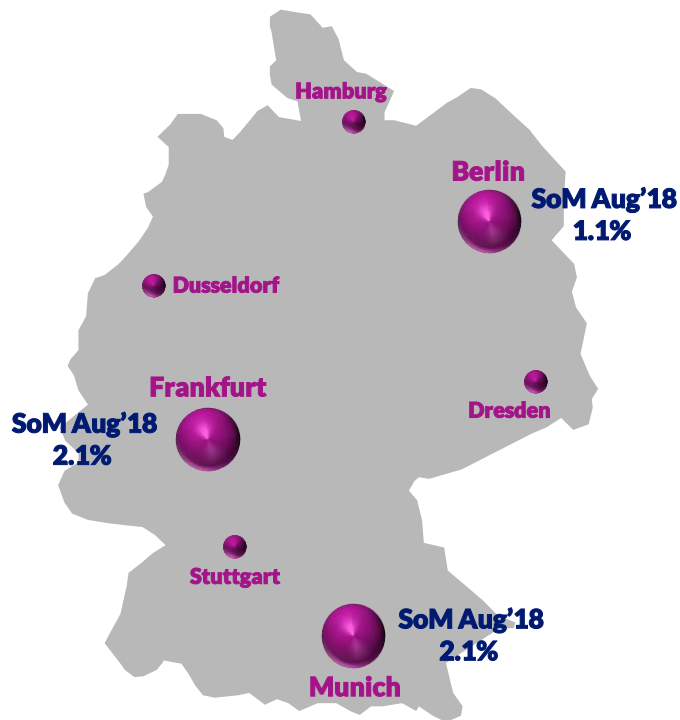
Notes: City share represents offtake share

**Tier 1 Awareness:** I have heard or seen IQOS and or HEETS

**Tier 3 Awareness:** I have heard of IQOS and HEETS, understand correctly what IQOS is or its benefits are and I find at least 1 benefit highly relevant

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

# IQOS in Germany



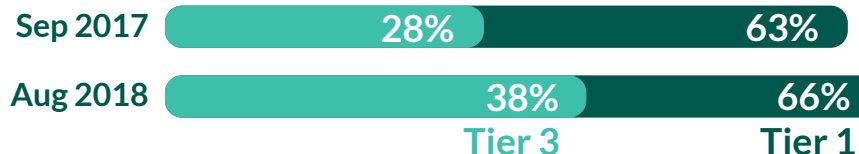
## Total IQOS Users (in thousands)



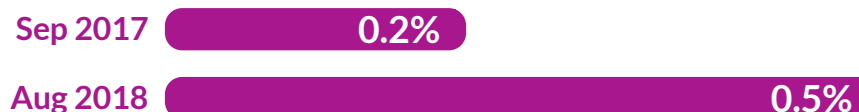
## IQOS Conversion Rate (>95%)



## Awareness Level (3 cities)



## IMS SoM



Notes: City share represents offtake share

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

# IQOS in Greece



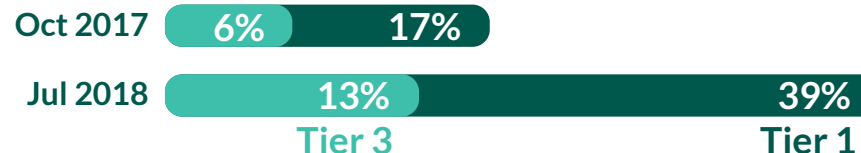
## Total IQOS Users (in thousands)



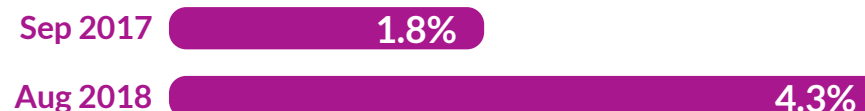
## IQOS Conversion Rate (>95%)



## Awareness Level



## IMS SoM



Notes: City share represents offtake share

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

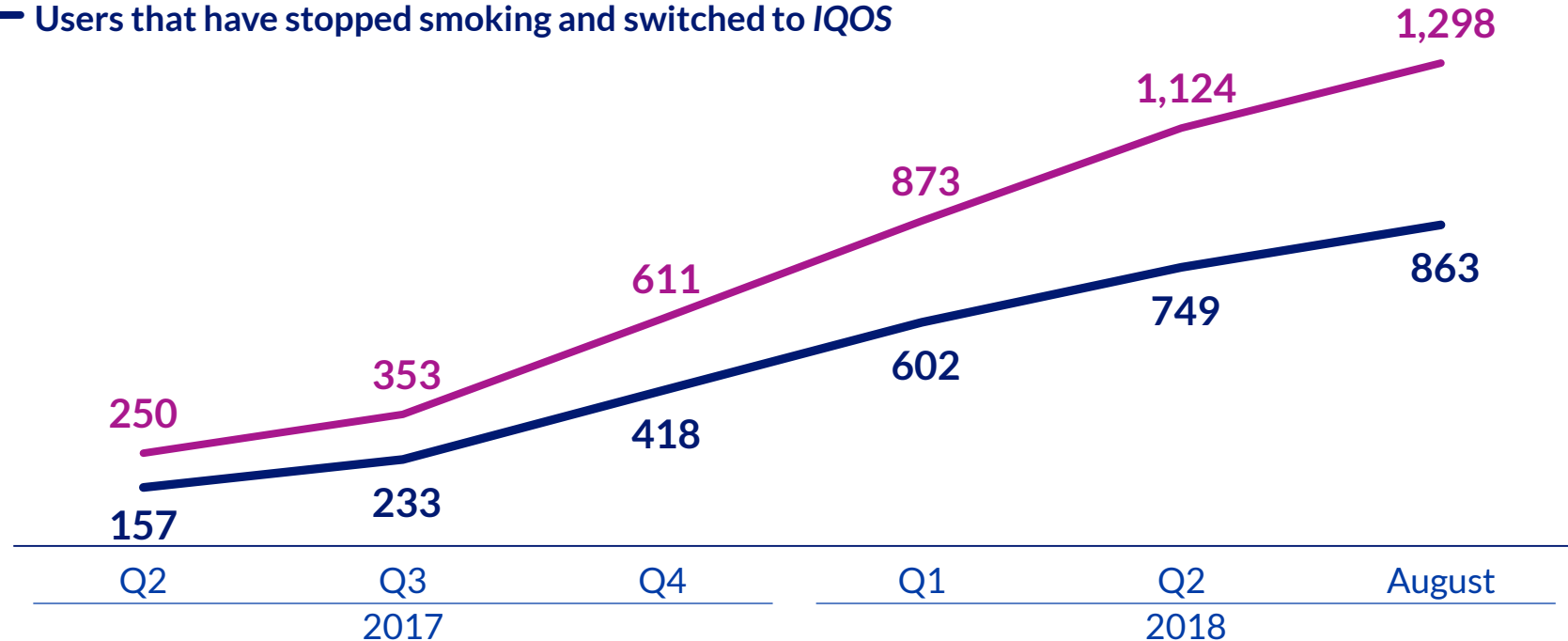


# Growing IQOS User Base in the EU Region

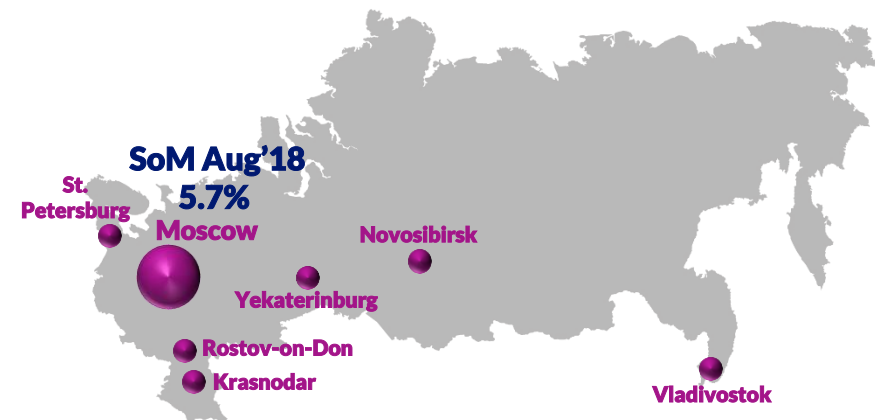
(in thousands)

— Total IQOS users

— Users that have stopped smoking and switched to IQOS



# IQOS in Russia



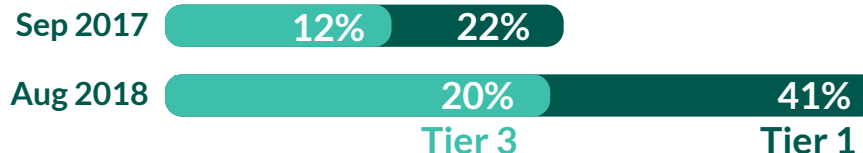
## Total IQOS Users (in thousands)



## IQOS Conversion Rate (>95%)



## Awareness Level (Moscow)



## IMS SoM



Notes: City share represents offtake share.

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

# IQOS in South Korea



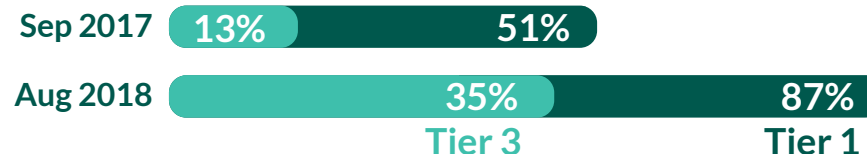
## Total IQOS Users (in thousands)



## IQOS Conversion Rate (>95%)



## Awareness Level



## IMS SoM



# IQOS in Japan



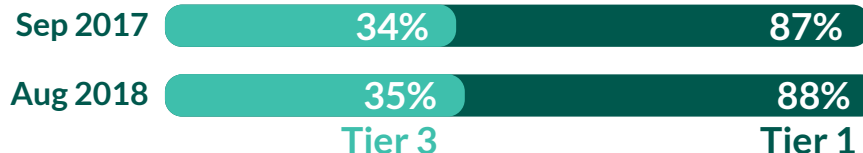
## Total IQOS Users (in thousands)



## IQOS Conversion Rate (>95%)



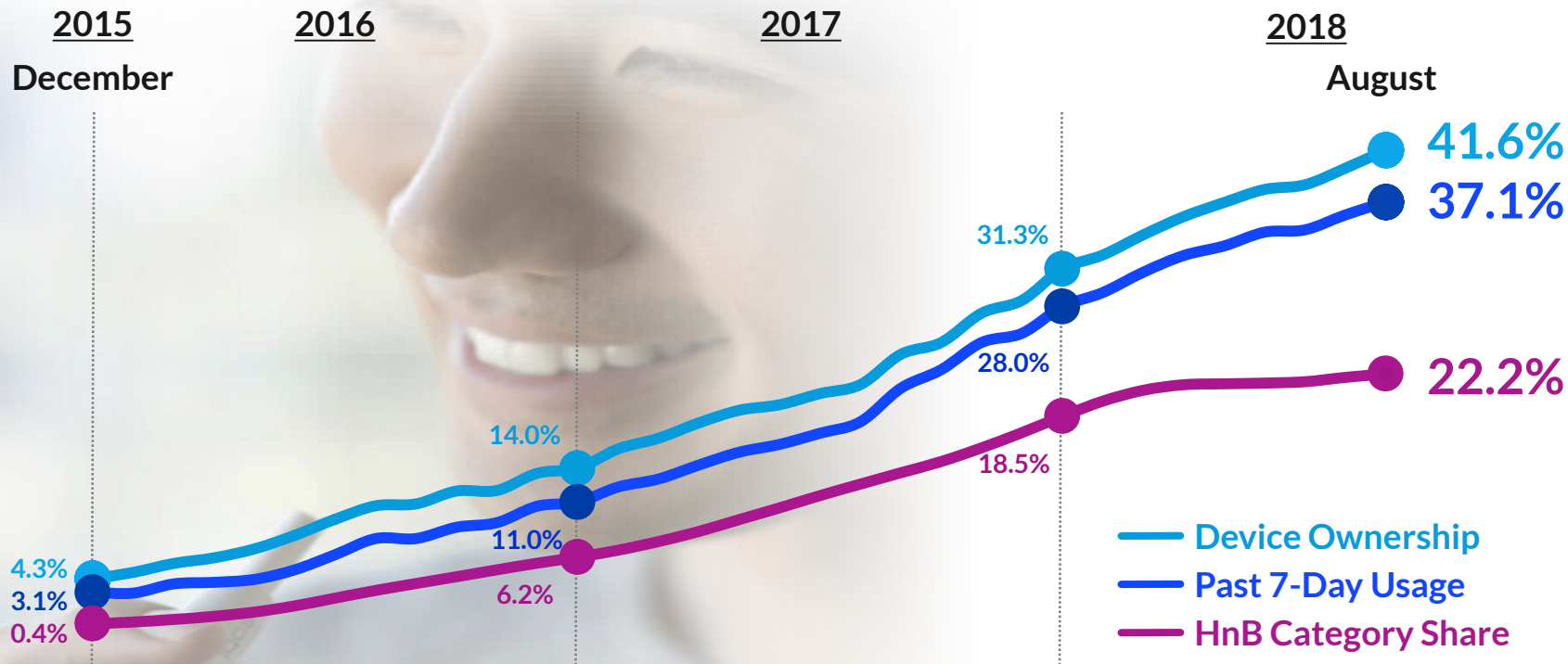
## Awareness Level



## IMS SoM



# Japan: Market Opportunity for Smoke-Free Alternatives is Real



Note: All numbers reflect a three-month moving average

**Device ownership** of any heated tobacco product (IQOS, glo, Ploom TECH) among all adult tobacco users in Japan

**Past 7-day usage** of any heated tobacco product (IQOS, glo, Ploom TECH) among all adult tobacco users in Japan

**HnB category share** represent selected C-Store sales volume for HTUs as a percentage of the total retail sales volume for cigarettes and HTUs in these C-Stores

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

# Initiatives in Japan



1



2.4 Plus Improved Device

2



Increased Second Holder Penetration

3



Simplified Warranty Registration Process  
Improved Response Time

4



Campaign "5 Million"

5



New IQOS Devices

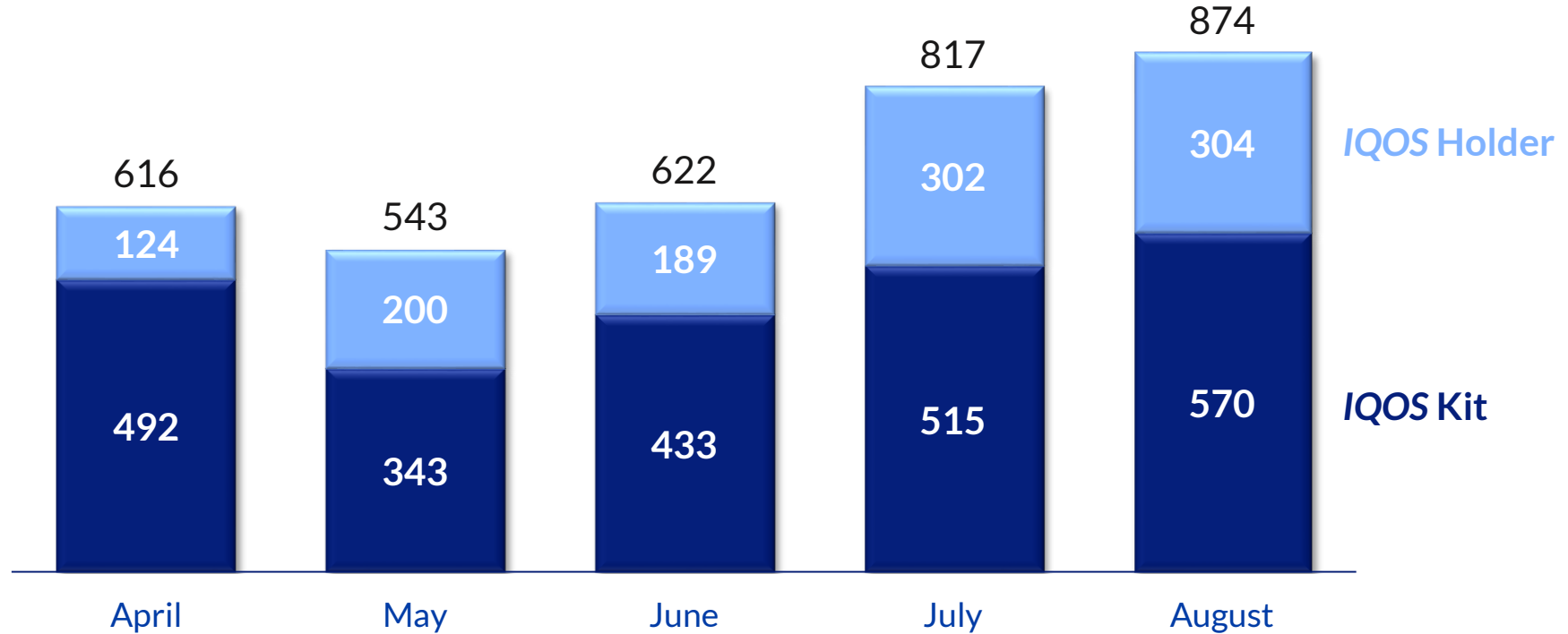
6



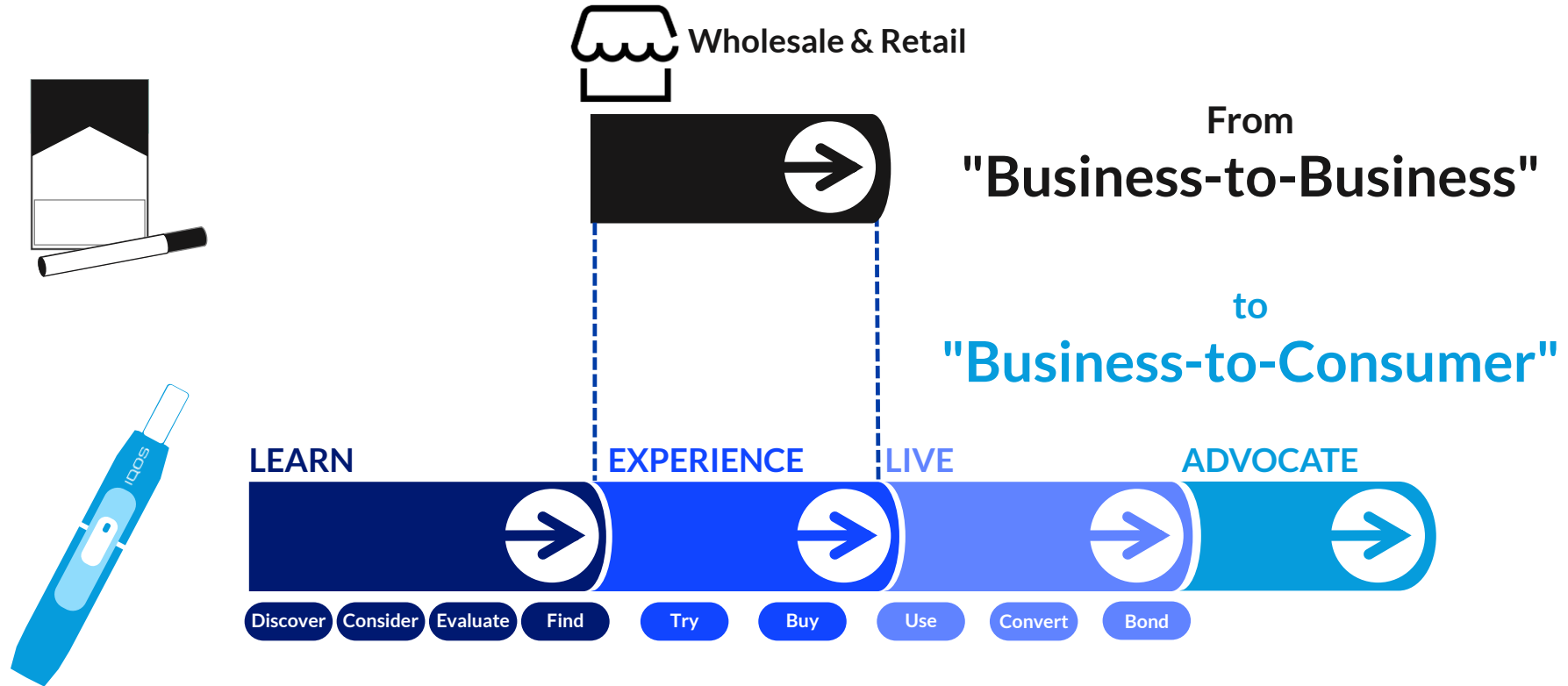
Stronger-Tasting HTU Variants

# 2018 IMS Evolution for IQOS Kit and Holder – Japan

(in thousands)

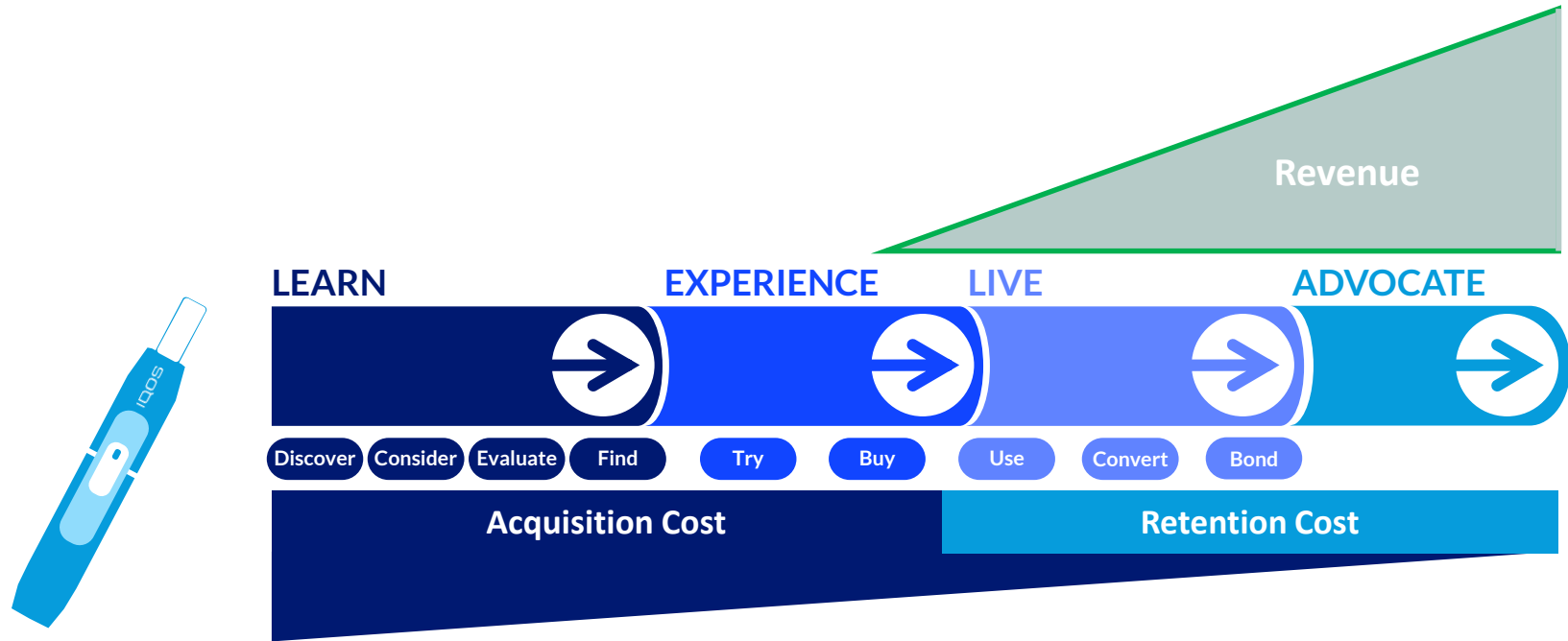


# Increasing Interactions with Adult Consumers



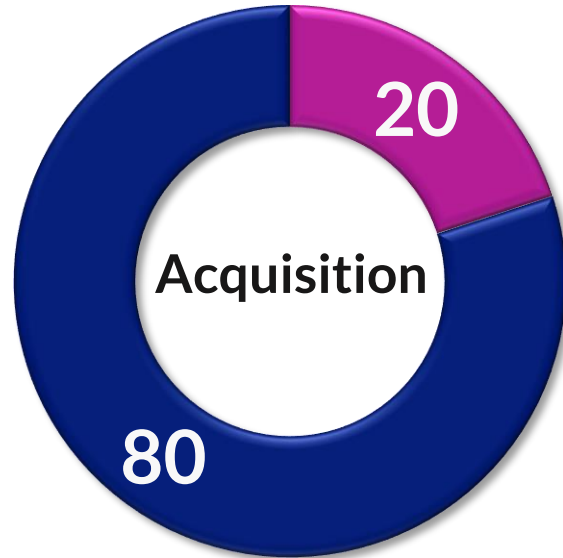


# Investing for Revenue Growth



# RRP Commercial Investment at Market Level

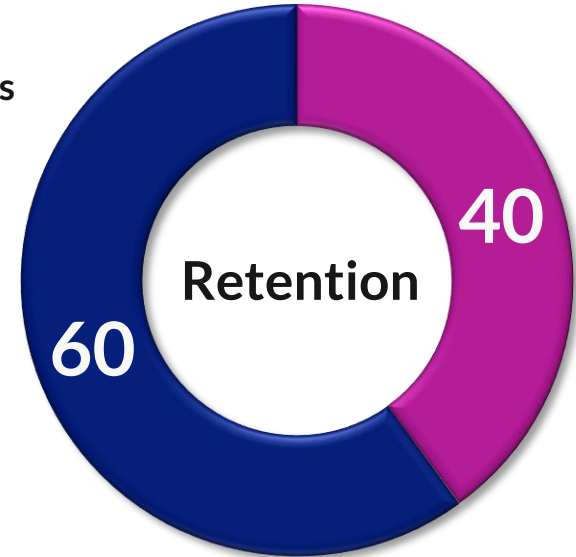
(2017 % split)



Variable  
IQOS Coaches  
Registration Incentive  
Referral Programs  
Marketing & Events

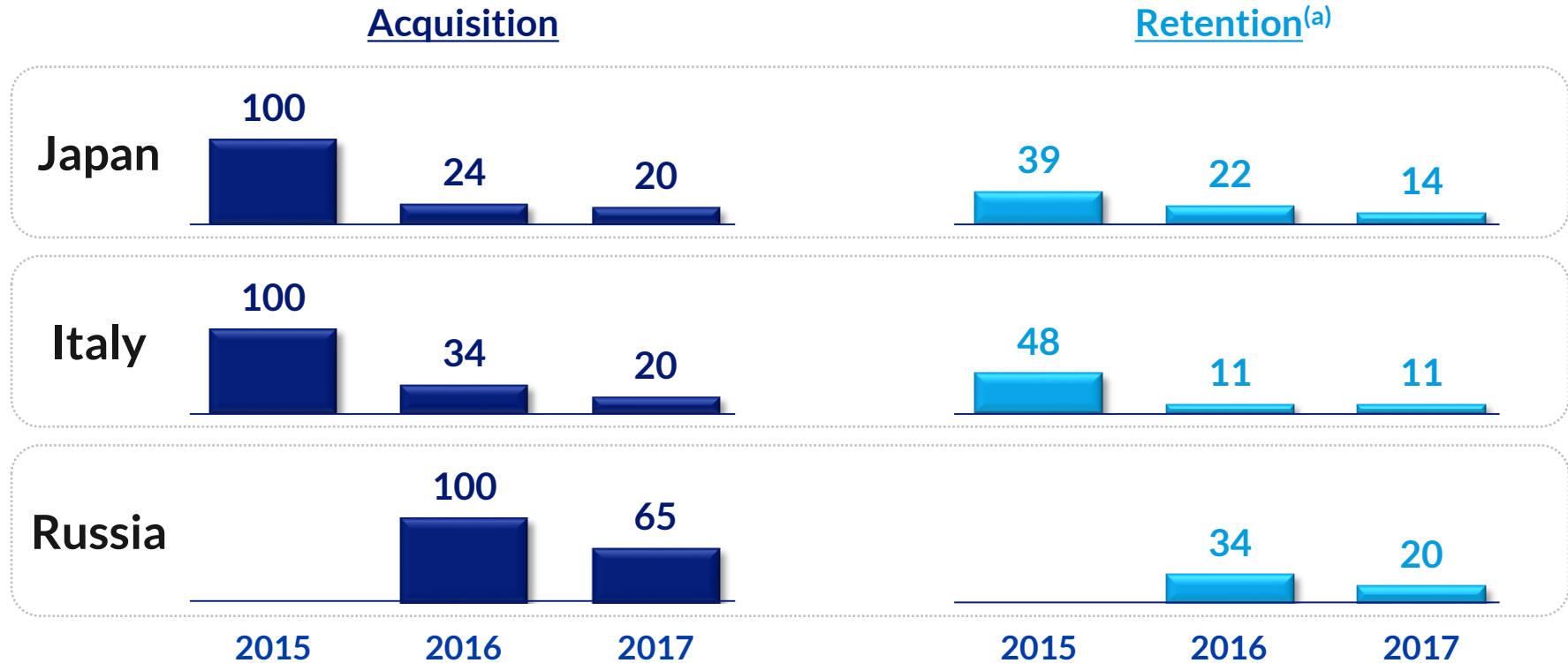
Split between  
Acquisition and Retention Costs  
depends on Market Maturity

Fixed  
Brand Retail  
Trade & LAMPs  
Overheads



Variable  
Customer Care  
E-commerce  
Loyalty Programs

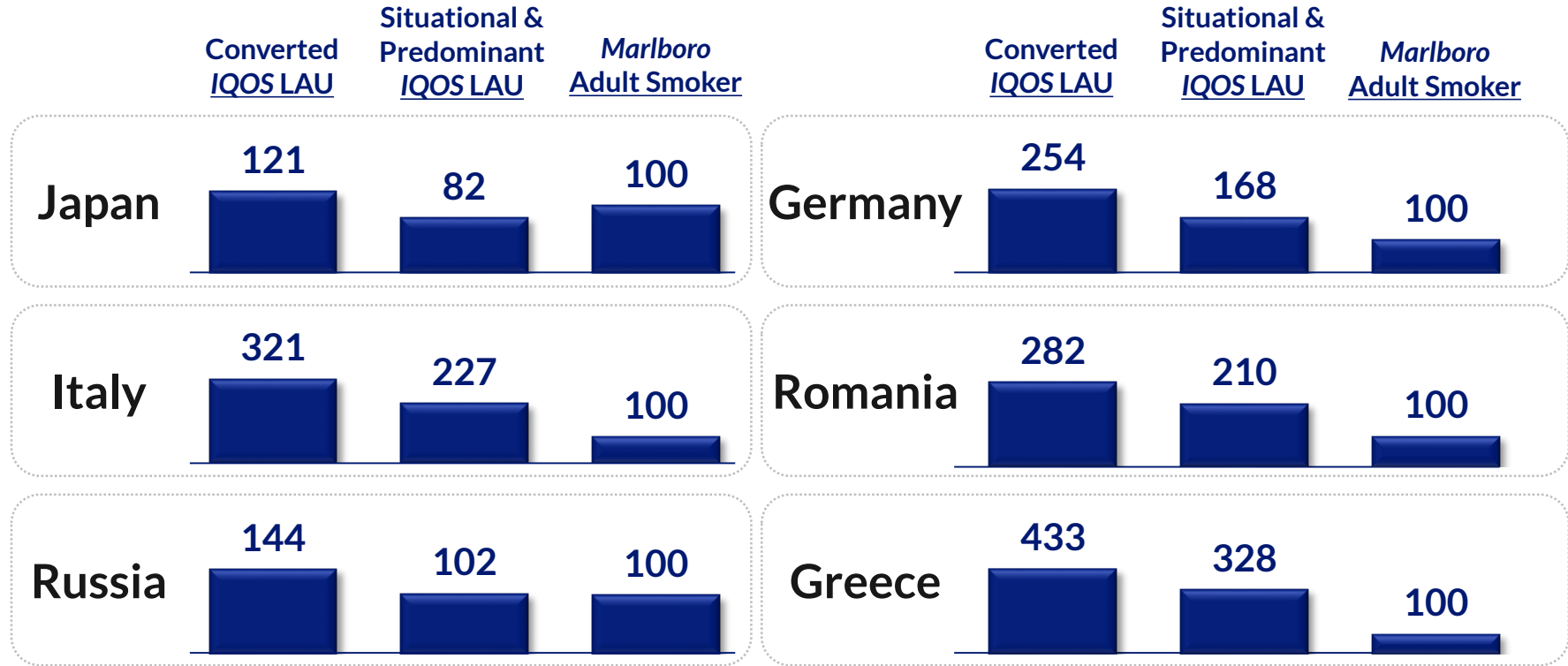
# Cost per IQOS User - Index



(a) Indexed to base year acquisition cost per IQOS user  
Source: PMI Financials or estimates

# IQOS User Economics - Index

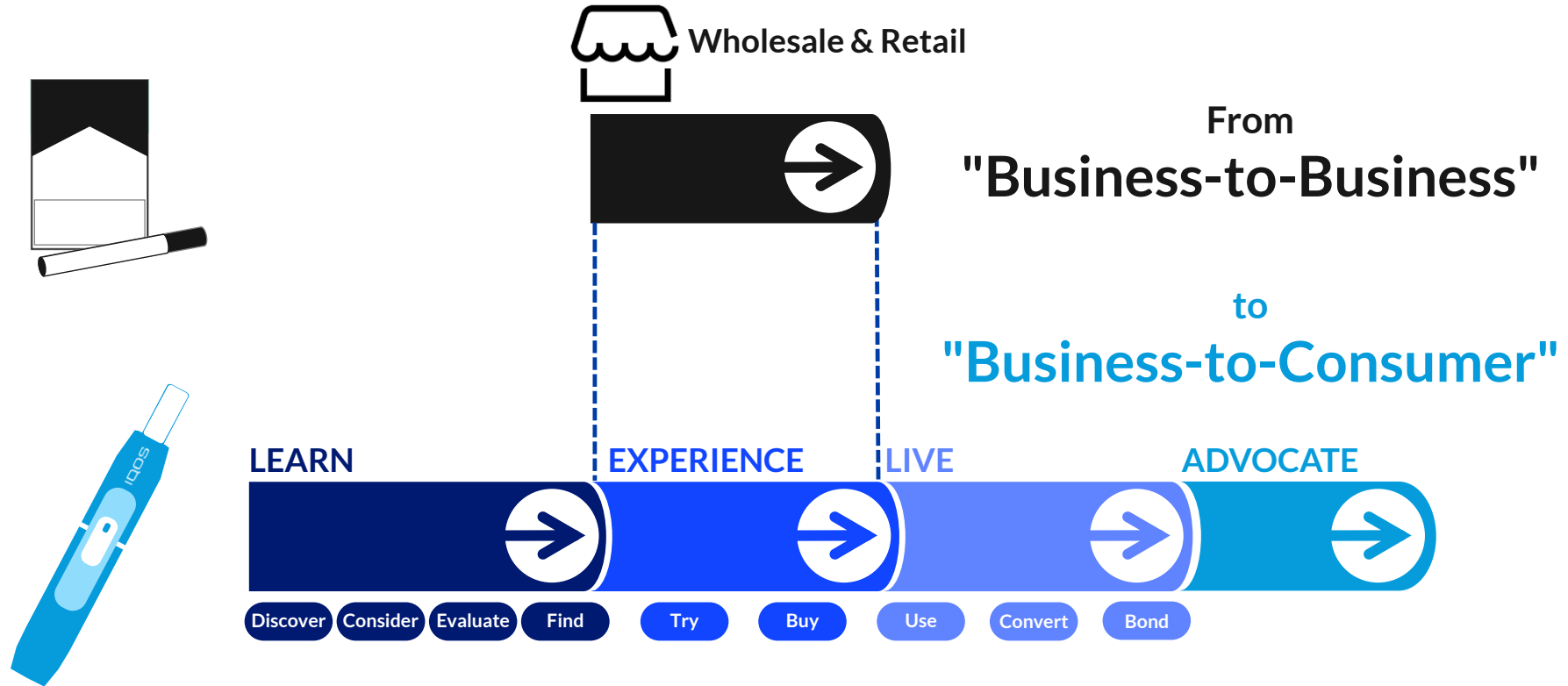
(2017 marginal contribution per user; Index = marginal contribution per *Marlboro* adult smoker)



Note: 2017 annualized marginal contribution per user. Marginal Contribution per user represents customer revenues before considering discounts and incentives to consumers, less the volume driven components of "Cost of sales". It excludes fixed manufacturing costs and distribution costs

Source: PMI Financials or estimates

# Business Model Evolution Opens New Doors



# RRP Portfolio Drives New Revenue Opportunities



Cigarettes



Tobacco

IQOS



Consumables

+



Device &  
Accessories

+



Services

# Growing Revenue Stream: IQOS Accessories

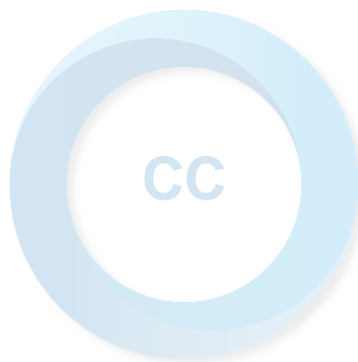
Today: Narrow Range



Tomorrow: Wider Range



# Operating Around the Adult Consumer



Combustible  
Cigarette  
Performance



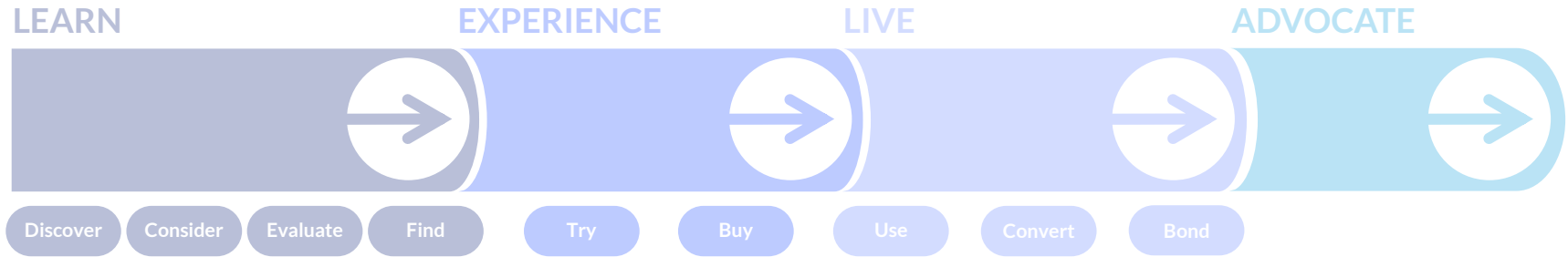
Reduced-Risk  
Product  
Performance



Upskilling  
Our  
Organization



# Aligning Organization Along The RRP Consumer Journey



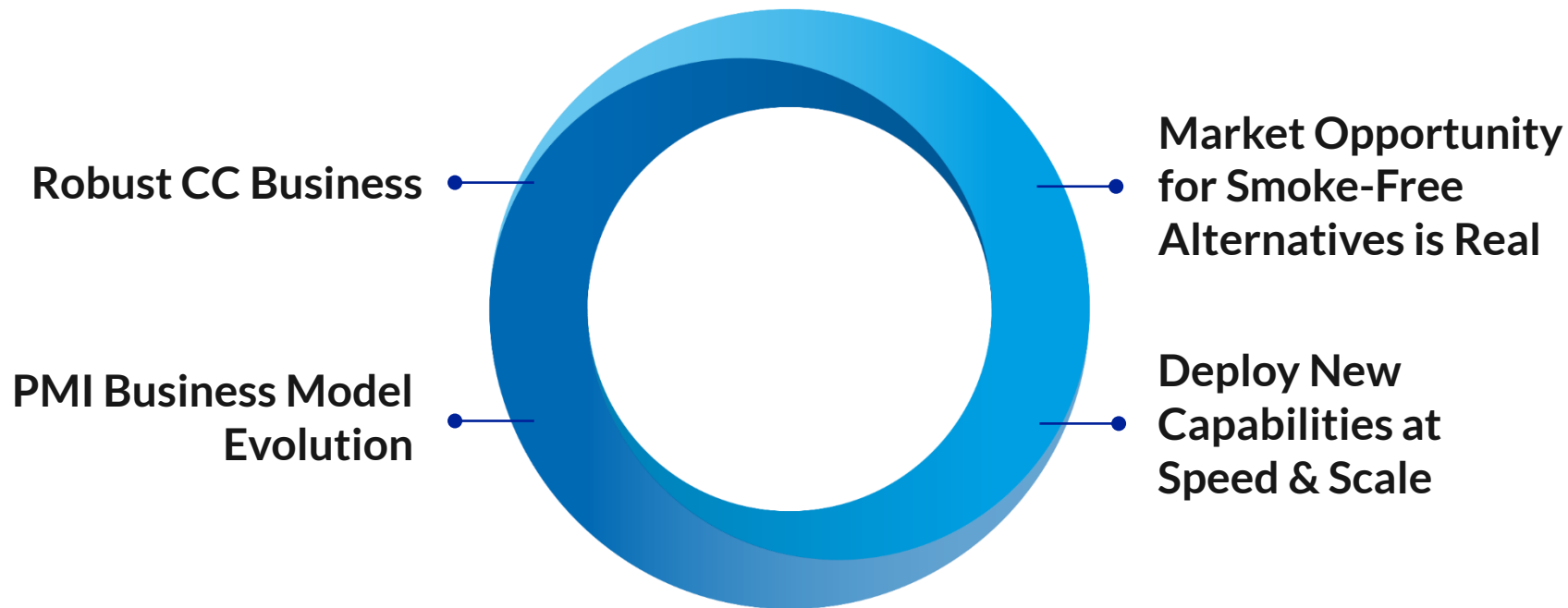
ACQUISITION



RETENTION

- Understand consumer needs faster
- Enhance & add new capabilities
- Deploy new organization at speed & scale

# Summary





PHILIP MORRIS  
INTERNATIONAL

# 2018 INVESTOR DAY

Designing a Smoke-Free Future

## Investor Day

Lausanne, September 27, 2018