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Philip Morris International Inc. (PM) Management on Q2 2022 Results - Earnings Call Transcript

Jul. 21, 2022 12:57 PM ET | Philip Morris International Inc. (PM)



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EPS of \$1.48 **beats by \$0.23** | Revenue of \$7.83B (3.13% Y/Y) **beats by \$1.07B**

Philip Morris International Inc. (NYSE:[PM](#)) Q2 2022 Results Conference Call July 21, 2022 9:00 AM ET

Company Participants

James Bushnell - Vice President of Investor Relations and Financial Communications

Emmanuel Babeau - Chief Financial Officer

Conference Call Participants

Pamela Kaufman - Morgan Stanley

Bonnie Herzog - Goldman Sachs

Vivien Azer - Cowen

Gaurav Jain - Barclays

Operator

Good day, and welcome to the Philip Morris International Second Quarter 2022 Earnings Conference Call. Today's call is scheduled to last about one hour, including remarks by Philip Morris International management sessions, and the question and answer session. [Operator Instructions] Media representatives on the call will also be invited to ask questions at the conclusion of the question-and-answer from the investment community.

I would now like to turn the call over to Mr. James Bushnell, Vice President of Investor Relations and Financial Communications. Please go ahead, sir.

James Bushnell

Welcome. Thank you for joining us. Earlier today, we issued a press release containing detailed information on our 2022 second quarter results. You may access the release on pmi.com. A glossary of terms, including the definition for reduced risk products or RRP's as well as adjustments, other calculations and reconciliations to the most directly comparable U.S. GAAP measures and additional heated tobacco unit market data are at the end of today's webcast slides, which are posted on our website.

Unless otherwise stated, all references to IQOS are to our IQOS heat-not-burn products and all references to smoke-free products are to our RRP's. Growth rates presented on an organic basis reflect currency-neutral adjusted results, excluding acquisitions and disposals. Consistent with last quarter, figures and comparisons presented on a pro forma basis entirely exclude PMI's operations in Russia and Ukraine.

As mentioned previously, starting in the second quarter of 2022, and on a comparative basis, PMI will exclude amortization and impairment of acquired intangibles from its adjusted results. 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

It's now my pleasure to introduce Emmanuel Babeau, Chief Financial Officer. Over to you, Emmanuel.

Emmanuel Babeau

Thank you, James. Welcome to you in your new role, and welcome, everyone. Before I begin, I want to reiterate our focus on supporting our employees and their families affected by the war in Ukraine and above all on the safety of our people. We continue to deploy pledge humanitarian support and additional benefits for our Ukraine employees.

As previously announced, we intend to exit the Russian market in an orderly manner, as the complexities of continuing to operate in Russia increase such as supply chain challenges and financial and banking sector restriction. We continue to actively work on options for doing so in the context of an increasingly complex and rapidly changing regulatory and operating environment, including the requirement to obtain certain governmental approval for any transaction.

Turning to our business. We demonstrated strong underlying momentum in the second quarter of 2022 with another quarter of positive volume supporting better-than-expected top and bottom line growth. Most impressive was the continued excellent IQOS performance and strong Q2 pro forma user growth of more than 1.1 million, demonstrating further sequential acceleration compared to Q1 as device limitation and COVID restrictions continue to ease. This reflects strong momentum in the EU region, Japan and developing market.

Q2 RP pro forma net revenues grew by plus 11% despite the adverse shipment timing impact due to supply chain constraints highlighted last quarter, while HTU IMS volumes grew by plus 20%. IQOS ILUMA delivered further impressive results in its first three markets of Japan, Switzerland and Spain. The acceleration in category growth in these diverse geographies highlight the exciting future growth opportunity across the world, including in the latest launch market of Greece.

In combustible, robust Q2 pro forma volume growth of plus 2.4% and organic net revenue growth of plus 4.2% were driven by Marlboro share gains stronger pricing and the continued recovery of the market. Maintaining leadership of the cigarette category allows us to maximize the switching of adult smokers to smoke-free alternatives and

We expect the strong underlying momentum of our business in H1 to continue, and we are from an organic growth outlook for the year. We are now well on track to deliver two consecutive years of volume growth, confirming our status as a growth company in terms of volumes, organic net revenues and margins. Despite a substantial currency headwind in 2022, we expect to deliver full year adjusted diluted EPS of around \$6, including Russia and Ukraine.

The proposed addition of Swedish Match would further boost our future financial profile. This is a value-creating offer for both set of shareholders with a compelling strategic and cultural fit, providing an additional opportunity to accelerate our smoke-free future.

Turning to the headline numbers. Our Q2 volumes grew by plus 3% on a pro forma basis and by plus 1.1% in total, including Russia and Ukraine. Pro forma net revenues grew organically by plus 6.2% and by plus 5.3% for total PMI, reflecting both the continued strong growth of IQOS and the ongoing recovery of the combustible business in many markets against a pandemic affected comparison.

As we anticipated and indicated previously, less unfavorable timing of cigarette shipment also played a role, notably due to replenishment of duty-free inventories. Our total organic net revenue per unit grew by plus 3% on a pro forma basis and by plus 4.1% in total despite the expected delay of HTU shipments to Japan as we manage through global supply chain disruption. This incorporates combustible pricing of plus 3.5% on a pro forma basis or almost plus 5% excluding Indonesia.

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