

Initiating Coverage:

Philip Morris International

Smoke-free Surge Battles Lofty Valuation

Key Take-away: Philip Morris continues its strategic pivot away from traditional cigarette products toward smoke-free alternatives like ZYN and IQOS. While the firm's fundamentals remain strong with rising profit margins and robust revenue growth from reduced-risk products, the current valuation appears stretched with a P/E ratio of ~36x – well above the industry average (MO at ~10x, BAT at ~8.7x). Despite strong positioning, this justifies a Hold recommendation, as near-term upside may be limited.

Reduced-Risk Products Fuel Revenue Shift: PMI's transformation is anchored in its proprietary alternative nicotine products, which now account for 42% of net revenue and 44% of gross profit. ZYN has gained dominance in the U.S. oral nicotine market with nearly 60% market share while IQOS remains a global leader in heated tobacco with 65% market share in that sector. Both products command significantly higher revenue and profit per unit when compared with traditional cigarettes, driving scale benefits and margin expansion. To meet surging demand, PMI announced in July 2024 a \$600 million investment to build a new ZYN manufacturing facility in Colorado, complementing its ongoing \$232 million expansion of its Kentucky plant. As a result, the company aims for reduced-risk products to comprise two-thirds of revenue by 2030.

Foreign Operations Poised to Gain from Dollar Depreciation: As a company deriving the bulk of its sales in non-USD currencies, Philip Morris stands to benefit from recent trends in USD exchange rates. Since mid-January, the euro has appreciated nearly 10% against the dollar YTD, while the GBP has gained over 8% due to investor concerns over shifting U.S. trade policy. This currency movement enhances the value of PMI's international-based earnings when converted to U.S. dollars, boosting reported revenues and profits in the short term. Additionally, with nearly 80% of its debt denominated in U.S. dollars, PMI could experience a relative decrease in debt servicing costs in local currency terms. This unique positioning may provide PMI with a short-term competitive advantage against U.S. centric peers like Altria, however, is not a reliable long-term value add and as such must be viewed cautiously.

Valuation: We initiate coverage with a Hold rating and \$160 PT. While PMI Demonstrates superior strategic execution and is poised for long-term growth, its current valuation – 36x forward earnings – is significantly higher than industry peers. This premium reflects high investor confidence in PMI's reduced-risk product suite but limits short-term upside.

Consortium Equity Research
Consumer Defensive | Tobacco
June 1, 2025

Stock Rating:	Equal Weight
Price Target:	\$164.00
Price:	\$180.59
Potential Downside:	-9.19%
Ticker(s):	SPM

Market Cap:	\$281.09b
Shares Outstanding:	1.556b
Free Float (%):	100.0%
Dividend Yield:	2.99%

Consumer Coverage Team

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Peer Comparisons

Comparable Companies					
\$mm					
Ticker	Mkt Cap	EV	P/E LTM	Revenue LTM	EBITDA LTM
Altria Group, Inc. (NYSE:MO)	102,094.6	123,477.6	10.1x	20,246.0	12,383.0
British American Tobacco p.l.c. (LSE:BATS)	98,420.9	140,858.3	24.6x	34,857.4	15,930.9
Imperial Brands PLC (LSE:IMB)	30,725.5	45,360.0	9.3x	24,970.4	5,480.5
Japan Tobacco Inc. (TSE:2914)	54,639.5	60,750.5	17.0x	22,442.5	6,065.5
Philip Morris International, Inc	281,091.4	328,256.4	37.2x	38,386.0	16,241.0

Ticker	LTM EV/EBITDA	Gross Margin	EBITDA Margin	EBIT Margin	1 Yr Rev Growth Rate LF
Altria Group, Inc. (NYSE:MO)	10.0x	70.8%	61.2%	59.7%	(1.0%)
British American Tobacco p.l.c. (LSE:BATS)	8.8x	82.3%	45.7%	37.9%	(5.2%)
Imperial Brands PLC (LSE:IMB)	5.6x	36.8%	21.9%	19.1%	1.9%
Japan Tobacco Inc. (TSE:2914)	10.0x	55.7%	27.0%	22.2%	11.0%
Philip Morris International, Inc	20.2x	65.7%	42.3%	37.4%	6.8%

High	20.21x	82.3%	61.2%	59.7%	11.0%
75th Percentile	10.02x	70.8%	45.7%	37.9%	6.8%
Average	10.93x	62.3%	39.6%	35.3%	2.7%
Median	9.97x	65.7%	42.3%	37.4%	1.9%
25th Percentile	8.84x	55.7%	27.0%	22.2%	-1.0%
Low	5.61x	36.8%	21.9%	19.1%	-5.2%

Philip Morris International, IncValuation	
Implied Enterprise Value (25th Percentile)	\$ 143,570.44
Implied Enterprise Value (Median)	\$ 161,922.77
Implied Enterprise Value (75th Percentile)	\$ 162,734.82

Implied Share Price (25th Percentile)	\$ 63.21
Implied Share Price (Median)	\$ 75.00
Implied Share Price (75th Percentile)	\$ 75.52

Source: (CapIQ)

Company Overview

Premium Brand Positioning and Pricing Power: PMI commands strong customer loyalty, particularly in the premium segment. With over 55% of its volume in OECD countries tied to premium-priced brands Marlboro and Parliament, PMI significantly exceeds the industry average of ~25% premium segment exposure. This allows the firm to impose annual price hikes, consistently offsetting secular volume declines. Its global market share stands at 23% (excluding China and the US) with leadership in over 100 countries. This brand strength, combined with the addictive nature of nicotine products reinforces PMI's pricing power and supports durable operating margins.

Economies of Scale and Cost Leadership: In year 2024 PMI sold 617 billion cigarette sticks (excluding Heated Tobacco Units like IQOS), surpassing all global peers, including British American Tobacco and Japan Tobacco. This volume leadership supports a cost-per-pack advantage – PMI's estimated

manufacturing cost per cigarette pack is around \$0.49, below competitors such as Imperial Brands (\$0.59) and Altria (\$0.88). This scale efficiency is further bolstered by low marketing spend due to international advertising restrictions, enabling more of its revenue to flow through to operating profit. PMI's global supply chain and distribution footprint also enhance its agility and cost competitiveness, key strengths as it ramps up RRP's and navigates evolving regulatory environments.

Industry Overview

Secular Decline in Cigarette Consumption: Global cigarette consumption has been on the decline, driven by rising health awareness and increased regulation. The World Health Organization's Framework Convention on Tobacco Control has been pushing for greater taxation, public smoking bans, and packaging restrictions in over 180 countries it has been adopted in. In developed markets, smoking prevalence is declining by 3-4% annually, while in emerging markets growth has plateaued. This global decline in consumption growth underscores the urgency for tobacco companies to diversify and shift strategy towards RRP's, with PMI largely in the lead with ZYN and IQOS.

Regulatory Fragmentation and Innovation Constraints: The global tobacco industry is heavily regulated, but not uniformly. Some jurisdictions like New Zealand have attempted radical anti-smoking laws, while others like Japan have fostered innovation through harm-reduction frameworks. In the U.S., the FDA's premarket tobacco application (PMTA) process creates high barriers to entry for newer products, allowing incumbent giants to gain market control and deeper understanding of regulatory hurdles. PMI's acquisition of Swedish Match and subsequent U.S. distribution plans for IQOS show a strategic response to these dynamics, however increased scrutiny around oral nicotine pouches and e-cigarettes may eventually extend the regulatory risk to RRP's.

Currency Exposure and Macro Sensitivity: PMI's earnings are highly sensitive to currency fluctuations, with over 90% of revenue generated outside the U.S. In prior years, a strong dollar weighted on results, but 2025 has seen the trend reverse – the U.S. Dollar Index (DXY) is down nearly 10% YTD. This decline stems from anticipated Fed rate cuts, expanding U.S. fiscal deficits, and increased flows to international asset classes. A weaker dollar benefits PMI by boosting the value of international revenues when converted to U.S. dollars, while most of its debt remains dollar-denominated. Looking ahead, FX trends will hinge on interest rate policy, inflation, and global macro sentiment – all of which could quickly shift, making currency a key risk and opportunity for multinational tobacco firms.

Investment Theses

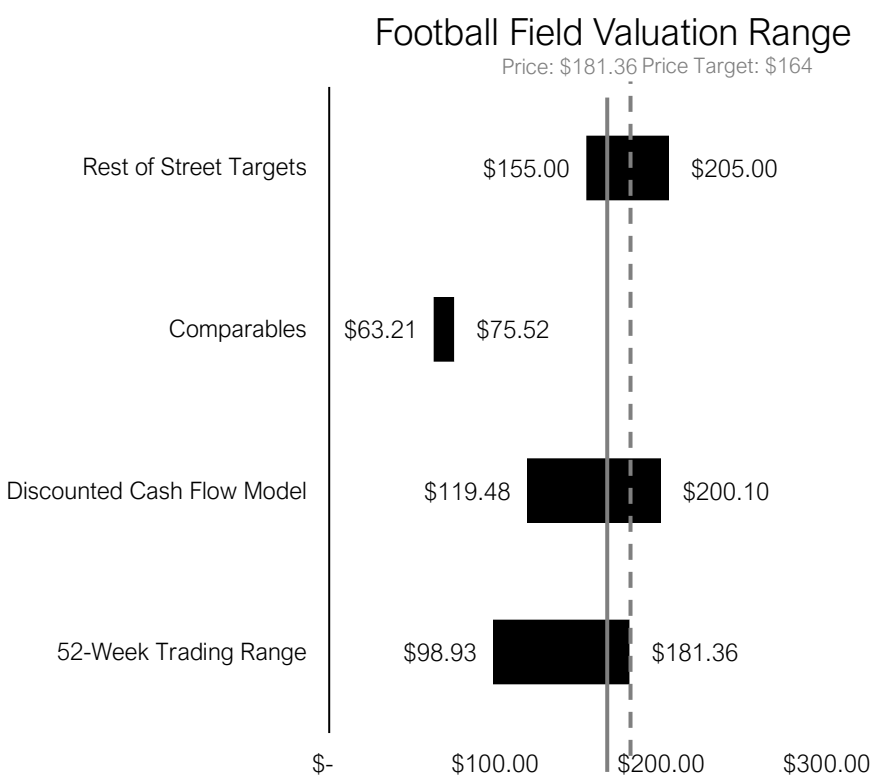
Reduced Risk Products to Drive Sustainable Growth: Philip Morris International is undergoing a structural transformation toward reduced-risk products (RRP's), with IQOS and ZYN at the core of this shift. These products offer superior unit economics, lower regulatory drag, and growing consumer preference, particularly among adult smokers seeking alternatives to combustibles. IQOS leads the heated tobacco segment globally, while ZYN holds dominant U.S. market share in the oral nicotine pouch category. Both

products benefit from high gross margins, favorable tax treatment in many jurisdictions, and strong brand equity, creating a scalable foundation for operating leverage. As RRP's now account for over 40% of PMI's gross profit, continued penetration is expected to drive double-digit revenue growth and long-term margin expansion — a key differentiator within the tobacco industry.

Strong Moat, Yet Valuation Reflects it: PMI's wide economic moat is anchored in its globally recognized brands, premium pricing power, and industry-leading cost efficiency. Its supply chain scale, established distribution, and dominant share in over 100 countries provide meaningful barriers to entry and help sustain consistently high returns on capital. However, much of this competitive strength appears priced in. PMI trades at a forward P/E of ~36x — well above industry peers and comparable to high-growth technology firms — reflecting investor confidence in its RRP strategy and earnings durability. This elevated multiple limits upside potential unless earnings growth meaningfully outperforms consensus expectations, creating a valuation ceiling despite the company's quality fundamentals.

Price Target & Valuation

Our analysis gives \$PM a price target of \$164.00 and an Equal weight rating.



Potential Downsides to Our Rating

ZYN Maintains Cultural Dominance, Defies Trend Fatigue: Although ZYN has already achieved mainstream breakout status in the U.S. nicotine market and popular culture, bearish assumptions may understate the brand’s staying power. Unlike most consumer fads, ZYN benefits from high customer retention rates, a growing adult user base, and cultural embeddedness across multiple demographics. If ZYN sustains its dominant market share and cultural relevance as a discreet and convenient nicotine format, PMI’s earnings from this segment could continue to beat estimates for longer than anticipated.

Accelerated Global Adoption of IQOS: Philip Morris may see stronger than expected penetration of its IQOS heated tobacco units in key markets. Continued regulatory approvals, consumer switching momentum, and infrastructure advantages could drive faster revenue conversion away from traditional combustible cigarettes. If IQOS adoption accelerates, it could outpace conservative forecasts and justify PMI’s premium valuation multiple.

Our Price Target: **\$164.00**

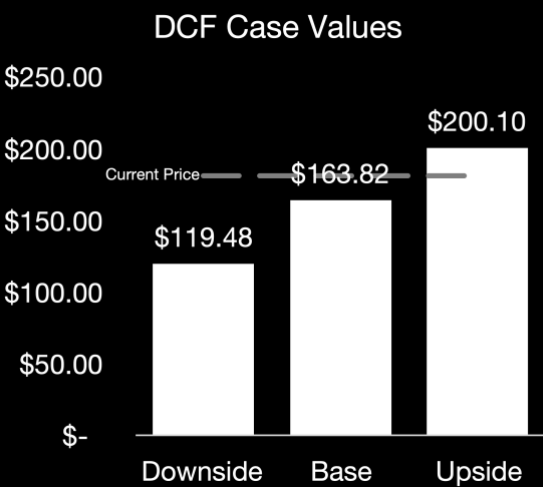
Our base case assumes continued growth in RRP’s, stable pricing in combustibles, and modest operating leverage improvement. We apply a blended valuation using a 12x terminal EV/EBITDA multiple and a 2.25% terminal growth rate, consistent with PMI’s long-term margin profile and global presence. At a 6.3% WACC, our DCF yields a fair value estimate of \$164 per share, representing a slight downside from current levels due to valuation pressure.

Our Upside Case: **\$200.00**

In our upside scenario, we model faster-than-expected adoption of IQOS and sustained momentum for ZYN across U.S. and international markets, with RRP’s comprising a majority of PMI’s revenue by 2029. We assume further operating margin expansion, a 13.5x terminal multiple, and prolonged FX tailwinds from a weak U.S. dollar. These factors drive a DCF valuation of \$200, reflecting investor willingness to pay a premium for high visibility into long-term earnings growth.

Our Downside Case: **\$119.00**

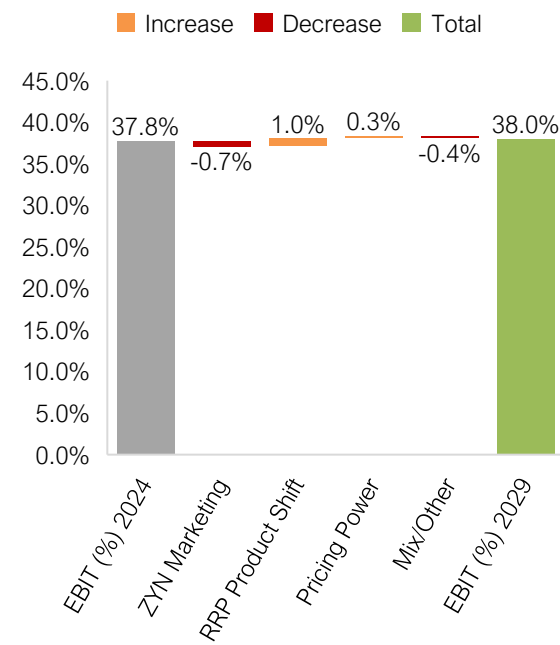
Our downside case reflects regulatory setbacks in key RRP markets, softening consumer adoption of IQOS/ZYN, and persistent cost pressures from inflation and integration. We assume flat margins, a 10x exit multiple, and a stronger U.S. dollar that negatively impacts reported earnings. This scenario results in a valuation of \$119, representing a ~30% downside risk if PMI fails to deliver on its reduced-risk transition.



Stabilization or Rebound in Combustible Cigarette Demand: Although the long-term investment thesis of Philip Morris relies on reduced-risk products, recent research suggests cigarette smoking may be regaining cultural traction among younger adults in specific geographies. In the UK, smoking rates among women under 45 have increased in the past decade, and portrayals of smoking in media and social platforms have also risen. Furthermore, traditional combustibles are extremely resistant in emerging markets and developing nations – Indonesia for example has a male smoking rate of 63% as of 2024, with PMI-owned *Sampoerna* being the #1 brand by market share. This persistent demand provides a durable revenue base and could even continue to grow in coming years, contrary to the secular decline theory.

Projections

EBIT Waterfall Chart



Income Statement (\$mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	35,174	37,878	40,704	43,643	46,689	7.3%
EBITDA	14,682	15,002	16,401	17,881	19,445	7.3%
EBIT	13,284	13,215	14,458	15,772	17,163	6.6%
EBIAT	9,343	9,343	10,405	10,564	10,945	4.0%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	41.7%	39.6%	40.3%	41.0%	41.6%	40.9%
EBIT Margin	37.8%	34.9%	35.5%	36.1%	36.8%	36.2%
Revenue Growth	10.7%	7.7%	7.5%	7.2%	7.0%	8.0%
EBIT Growth	3.7%	-0.5%	9.4%	9.1%	8.8%	6.1%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	30.1x	25.6x	25.2x	23.2x	21.3x	19.7x
EV/Sales	9.3x	8.6x	8.0x	7.5x	7.0x	8.1x
EV/EBITDA	233.3x	182.6x	167.9x	154.7x	143.0x	176.3x
FCF Yield	3.3%	3.9%	4.0%	4.3%	4.7%	5.1%

About \$PM

Philip Morris International Inc. (NYSE: PM), founded in 2008 as a spin-off from Altria Group, is headquartered in Stamford, Connecticut and operates across more than 180 countries, excluding the United States. The company is a leading global tobacco firm, best known for its Marlboro brand and its growing portfolio of reduced-risk products (RRPs), including IQOS heated tobacco systems and ZYN oral nicotine pouches. PMI’s primary business segments include combustible tobacco products and smoke-free alternatives, with a strategic focus on transitioning its revenue mix toward RRP. Its mission is to deliver a smoke-free future by replacing cigarettes with less harmful alternatives for adult smokers who would otherwise continue smoking.

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG, Energy & Sustainability) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.

Appendix

Philip Morris International, Inc
Discounted Cash Flow

Active Case:	2 Base
Current Share Price	\$180.59

DCF Analysis (\$mm)											
	FY2019 12/31/19	FY2020 12/31/20	FY2021 12/31/21	FY2022 12/31/22	FY2023 12/31/23	FY2024 12/31/24	FY2025 12/31/25	FY2026 12/31/26	FY2027 12/31/27	FY2028 12/31/28	FY2029 12/31/29
Stub						0.42	0.42	0.42	0.42	0.42	0.42
Discount Period						0.21	0.92	1.92	2.92	3.92	4.92
Revenue	0.00	28,694.00	31,405.00	31,762.00	35,174.00	37,878.00	40,703.70	43,642.51	46,688.75	49,835.57	53,074.89
Revenue Growth	0%	0%	9%	1%	11%	8%	7%	7%	7%	7%	7%
Revenue Breakdown 1	0.00	0.00	0.00	0.00	0.00	0.00	40,703.70	43,642.51	46,688.75	49,835.57	53,074.89
Revenue Breakdown 2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Revenue	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
EBIT	0.50	11,720.00	13,076.00	12,808.00	13,284.00	13,215.00	14,457.95	15,772.40	17,162.79	18,628.54	20,168.46
EBIT Margin	✓ #DIV/0!	41%	42%	40%	38%	35%	36%	36%	37%	37%	38%
Tax Expense	-	2,377.00	2,671.00	2,244.00	2,339.00	3,017.00	3,180.75	3,469.93	3,775.81	4,098.28	4,437.06
Effective Tax Rate	✓ #VALUE!	20%	20%	18%	18%	23%	22%	22%	22%	22%	22%
NOPAT	✓ #VALUE!	9,343.00	10,405.00	10,564.00	10,945.00	10,198.00	11,277.20	12,302.47	13,386.97	14,530.26	15,731.40
D&A	✓ 981.00	981.00	998.00	1,077.00	1,398.00	1,787.00	1,943.29	2,108.22	2,281.73	2,463.65	2,653.74
Capex	✓ #VALUE!	602.00	748.00	1,077.00	1,321.00	1,444.00	1,567.01	1,696.53	1,832.48	1,974.71	2,123.00
Changes in NWC	0.00	(1,248.00)	(974.00)	348.00	(277.00)	(457.00)	514.98	577.78	645.52	718.28	796.12
UFCF	✓ #VALUE!	7,493.00	8,683.00	9,835.00	9,347.00	10,998.00	11,138.50	12,136.38	13,190.70	14,300.92	15,466.02
PV of FCF						10,861.54	10,542.93	10,818.89	11,074.40	11,307.73	11,517.25

Weighted Average Cost of Capital (\$mm)	
Market Risk Premium	4.24%
Beta	0.54
Risk Free Rate	4.42%
Cost of Equity	5.78%
Weighted Average Cost of Debt	3.71%
Tax Rate	22.00%
Cost of Debt	0.40%
Total Equity	\$281,091
Total Debt	\$45,190
Equity/Total Capitalization	86.15%
Debt/Total Capitalization	13.85%
WACC	6.18%

Terminal Value	
Perpetuity Growth Method	
2029 FCF	\$15,466
Growth	2.25%
Terminal Value	\$ 393,575
PV of Terminal Value	293088,1506
PV of Projection Period	\$66,123
PV of Terminal Value	\$293,088
Implied TEV	\$359,211
(-) Debt	\$49,633
(+) Cash	\$4,443
Implied Equity Value	\$314,021
Basic Shares Outstanding	1557
Implied Share Price	201.7458856
Upside/Downside	12%

Implied BF EV/EBIT	27.18205831
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Terminal Value	
Exit Multiple Method	
2029 EBITDA	\$22,822
EV/EBITDA Exit Multiple	12x
Terminal Value	\$273,866
PV of Terminal Value	203943,0859
PV of Projection Period	\$66,123
PV of Terminal Value	\$203,943
Implied TEV	\$270,066
(-) Debt	\$49,633
(+) Cash	\$4,443
Implied Equity Value	\$224,876
Diluted Shares Outstanding	1557
Implied Share Price	\$144.47
Upside/Downside	-20%

Implied PGR	-0.056472643
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Blended Share Price	
Perpetuity Growth Method	50%
Exit Multiple Method	50%
Blended Share Price	\$163.82
Upside/Downside	-0.092862285