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Philip Morris International (NYSE: PM)

Recommendation: This report conducts an analysis of Philip Morris International (PM) using the exit multiple method. When this report was conducted, PM was trading at \$128.20. Due to our valuation of PM, we have determined a 2026 target price of \$175.41, which provides an expected return of 15.9%. Therefore, we recommend that investors buy Philip Morris stock and keep it for the long term because of their adaptation to present and future health trends, their competitive industry positioning, and their loyal consumer base.

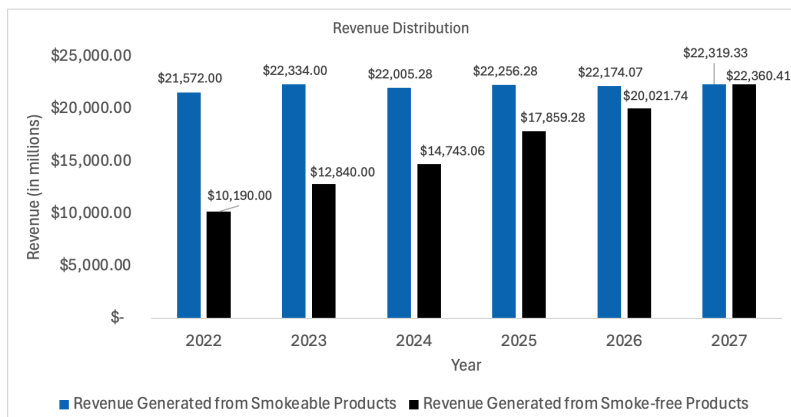
Business Description:

Philip Morris (NYSE: PM), historically a leader in smokeable products like cigarettes, is undergoing a transformative shift toward a smoke-free future, prioritizing the well-being of its consumers, shareholders, and society. Its new product portfolio includes heated tobacco devices (IQOS), e-vapor products (VEEVs), and oral smokeless options (Zyn), all scientifically shown to be less harmful than traditional tobacco. Since 2008, the company has invested \$12.5B in developing these alternatives to meet global demand from adults unwilling to quit tobacco entirely. Strategic acquisitions, including Vectura Group, Fertin Pharma, and Swedish Match, along with securing U.S. rights to IQOS, have positioned Philip Morris as a pioneer in smoke-free innovation.

Investment Thesis:

I: Adapting to Present and Future Health Trends

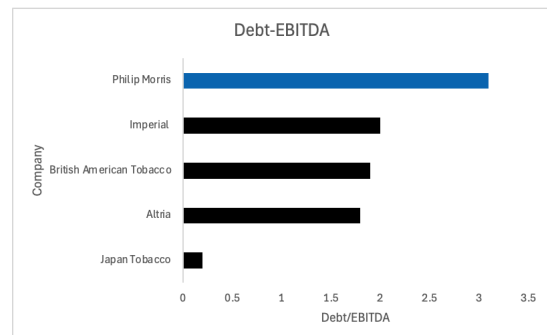
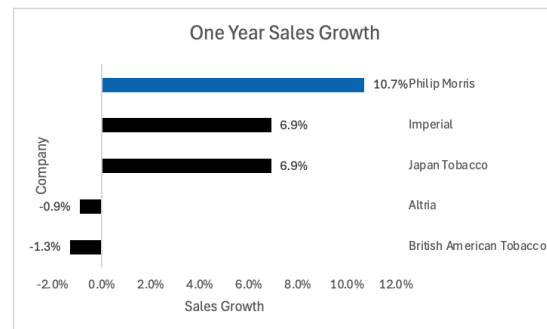
- In 2022, PM acquired Swedish Match, a Swedish-based company that was a leader in smokeless tobacco products, for \$14.46B. The company was primarily known for their oral nicotine pouches, Zyn, which was a market leader in Sweden and the U.S. In 2023, Swedish Match's smoke-free segment brought in net revenues of \$1.99B.
- Since 2008, PM has invested \$12.5B into R&D of smoke-free products, developing a new product line. All of these products have been curated to be healthier than traditional smokeable products. This also includes the development of the Swedish Match product, Zyn.
 - IQOS: IQOS is a portable device that heats real tobacco instead of burning it. There is no combustion, fire, ash, or smoke. It generates flavorful nicotine that contains vapor, releasing a taste of heated tobacco. It retails for about \$100 for the device and charger, and then \$5.25 for the heatsticks that need to be refilled.
 - VEEV One: VEEV One is a closed pod vapor product. It heats e-liquid to produce an aerosol that releases a vapor rather than smoke. It also features compact ceramic heating technology instead of a wick. VEEV One emits 99% lower levels of harmful chemicals compared to cigarettes. The device retails for about \$25 for a device and \$3.50 for the pods that need to be refilled.
 - Zyn: Zyn, which is an oral, smokeless, nicotine pouch, is consumed by placing the pouch between the gum and cheek or upper lip. The product does not contain traditional tobacco leaves. Zyn retails for about \$10 for 15 pouches.
- Currently, about 1/3 of PM's revenue is generated from smoke-free products. By 2030, the company aims to have it be 2/3 of their revenue:



Philip Morris International (NYSE: PM)

II: Competitive Industry Positioning

- Philip Morris falls into the tobacco industry category. Products that the industry as a whole sells includes nonmenthol cigarettes, menthol cigarettes, smokeless products, E-cigarettes, cigars, and other products. Over recent years, the usage of cigarettes has gone down in countries such as the United States, but there has been a rise in smoke-free tobacco products, which has contributed to the industry's re-growth. As of 2024, the smoke-free segment of the tobacco industry makes up about 11.5%, which is valued at \$18B. Within the last year, profit for the industry grew by \$3.9B. Philip Morris is the industry leader in the smoke-free industry, holding approximately 28.3% volume-based share of the global (ex-China and the US) cigarette and heated tobacco-unit market.
- On top of being a pioneer in the development of smoke-free products, they are also a leader in classic tobacco products. Philip Morris is the largest independent tobacco company, with a 14% global market share. Marlboro, one of their tobacco brands, accounts for 40% of the company's cigarette shipment volume. It is the top-selling international tobacco brand.



PM outperforms its competitors in one year sales growth and debt/EBITDA.

III: Loyal Consumer Base

- In the tobacco industry, the companies are dealing with consumers who are facing addiction. This keeps customers returning and provides limited possibilities of substitutes.
- PM has a diverse product line. This reduces the buyers' bargaining power because there are a lot of options available.
- Overall in the industry, regulations limit buyers' influences.
- PM uses marketing tactics to keep the customers returning, such as their reward program on the back of Zyns. Consumers can earn points for products such as AirPods and AppleTV.
- PM also has an iconic brand image with the "Marlboro Man" and the "reds" and "golds".

Valuation:

- As illustrated here, PM is forecasted to have a positive annualized growth from the LTM to 2026 in revenue, gross profit, EBITDA, net income, and EPS.
- With a conservative 2026E P/E ratio of 22.0, the company is predicted to have a share price of \$175.41, illustrating a positive 15.9% return. This excludes the 4.1% dividend yield.

PM	Sector	FY End	Market Cap	Shs Outstand	Div Yield								
Philip Morris	Consumer Staples	12/2023	199,330	1,555	4.21								
		2020	2021	2022	2023	Current/LTM	2024e	2025e	2026e	Annualized Growth (LTM to 2026e)			
Revenue		28,694	31,405	31,762	35,174	37,219	37,706	40,392	43,155	7.2%			
growth %		(3.7)	9.4	1.1	10.7	8.6	7.2	6.9	7.1				
Gross Profit		19,125	21,375	20,360	22,281	23,851	24,379	26,135	28,016	7.8%			
growth %		(0.9)	11.8	(4.7)	9.4	9.4	9.4	7.2	7.2				
margin %		66.7	68.1	64.1	63.3	64.1	64.9	64.9	64.9				
EBITDA		13,193	14,595	14,346	14,840	15,277	15,948	17,382	18,774	10.2%			
growth %		3.3	10.6	(1.7)	3.4	3.4	7.5	9.0	8.0				
margin %		46.0	46.5	45.2	42.2	41.0	42.3	43.1	42.5				
Net Income		8,219	9,393	9,567	8,673	10,178	10,018	11,020	12,107	8.5%			
growth %		(1.2)	13.1	1.8	0.6	15.5	10.0	10.0	9.9				
margin %		28.7	30.0	30.2	24.7	27.3	26.6	27.4	28.1				
EPS		5.17	6.08	5.98	6.01	6.54	6.50	7.20	7.97	9.8%			
growth %		2.8	14.2	2.2	(9.3)	18.2	8.2	10.7	10.8				
Exit Multiple Model													
		2020	2021	2022	2023	Current/LTM	2024e	2025e	2026e	Annualized Growth (Curr/LTM to 2026e)	PEG		
EPS, Adj*		5.17	6.08	5.98	6.01	6.54			7.97	9.8%	2.26		
P/E		16.01	15.63	16.92	15.65	19.61			22.00	5.6%			
Price		82.79	95.00	101.21	94.08	128.20			175.41	15.9%			
Composition of Price Appreciation													
		2021	2022	2023									
EPS, Adj*		17.4%	-1.7%	0.5%									
P/E		-2.6%	8.2%	-7.5%									
Price		14.7%	6.5%	-7.0%									

Key Risks and Mitigants:

- Philip Morris has operations in 180 countries, all of which have their own regulations. This can strongly affect PM's ability to market and sell products.
- Philip Morris is affected by currency fluctuations. We estimate an adverse currency impact of \$170M in 2023.
- Philip Morris is extremely vulnerable to litigation due to PM's products. In 2008, the Thai government fined PM for \$2.3B.
- Until PM can completely rebrand their smoke-free products, they won't be seen as ESG-friendly.