



STOPPING TOBACCO
ORGANIZATIONS & PRODUCTS

COVID-19 and PMI:

Slides from PMI's AGM, 6th May 2020, reproduced with comments

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PMI's 1st 'show' slide



The **reality** is outlined in this [STOP press release](#), which notes: *[“two factory workers have died from COVID-19 and dozens of others tested positive at HM Sampoerna, a Philip Morris International affiliate in Indonesia.”](#)*

According to reports in the Jakarta Post, at the factory which employs at least 500 people:

- 9 workers have been admitted to hospital
- 63 samples from 323 workers (20%) tested positive
- the factory only closed [more than three weeks](#) after a worker first reported a health and nearly two weeks after the [patient died \(approximately April 18\)](#)

Supporting Our Employees and Communities Through the COVID-19 Pandemic



- Our main focus is the health and wellbeing of our employees, their families and the communities in which we operate
- Implemented policies and measures to protect, support and reassure employees
- Outstanding strength and spirit shown by all our people

PMI's 2nd 'show' slide



Reality:

\$30M is 0.09% of \$30.7Bn – PMI's net revenue in 2019

Note PMI's focus on "*Supporting hospitals*" and "*at risk populations*" – the latter of course includes smokers and those with smoking related diseases (see [WHO statement](#)). This focus is consistent with the tobacco industry's tactic of using philanthropy to distract from the harm it causes and buy favours where they are needed. See:

- [Corporate Philanthropy, Political Influence, and Health Policy](#)
- [Tobacco Tactics: COVID-19](#)
- [Tobacco Tactics: CSR Strategy](#)

Donations to "trade partners" may simply be a way of supporting their own supply chains

PMI has Donated
>\$30 million

Across
62 markets

Supporting
hospitals,
crisis centers,
trade partners, and
at-risk populations




Photography: Ministry of Health (Greece)

Note: photo by Greek Ministry of Health is likely intended to signal partnership, contrary to FCTC Article 5.3

What PMI is really worried about:

- Fewer new users for IQOS
- Less duty free sales
- Less profit and market share in Indonesia

Note terminology: “user acquisition rate” suggests NEW users. While the statement above this on “adult smokers” appears intended to suggest this is the audience, PMI’s targeting of young people [has already been documented](#).



Main Areas of Business Impact from COVID-19

Duty-Free Sales	IQOS User Acquisition	Indonesia Pricing Enforcement
<ul style="list-style-type: none"> • Severely curtailed global travel • Almost 4% of 2019 net revenues: <ul style="list-style-type: none"> – Skew to premium brands (e.g., Marlboro and HEETS) • Expect weak consumer offtake trends to continue until travel starts to recover 	<ul style="list-style-type: none"> • Lockdown/restrictive measures hamper ability to engage with adult smokers • IQOS retail touchpoints closed in a number of markets: <ul style="list-style-type: none"> – Digital tools and flexible commercial capabilities allow us to mitigate the impact • Average user acquisition rate expected to be around 50% lower than previously anticipated (for as long as widespread restrictions continue) • Expect strong underlying momentum to return as restrictions ease 	<ul style="list-style-type: none"> • 2020, already an abnormal year of catch-up on excise tax and pricing • New minimum RSP enforcement delayed until June, due to COVID-19 restrictions • Prolongs unfavorable price gaps, an added headwind for: <ul style="list-style-type: none"> – The risk of down-trading – The timing of price increases – Market share

Source: PMI Financials or estimates


What PMI is really worried about:

- Consumption falling during the pandemic, especially in LMICs

i.e. PMI is worried about the very thing that needs to happen in order to reduce the risks from COVID – smokers giving up

Note there is a particular risk to PMI from downtrading given its premium brand portfolio

[Read more here](#)



COVID-19 Impact on Consumption Patterns

In Developed Markets	In Certain Developing Markets
<ul style="list-style-type: none">• Stronger social support programs• Only limited impact on consumption so far• Instances of pantry-loading in certain markets around the introduction of restrictions:<ul style="list-style-type: none">– Generally short-lived– Minimal impact on Q1, 2020 performance– Distributor and trade inventory movements being the bigger influence	<ul style="list-style-type: none">• High prevalence of daily wage workers, lower resources for social support, greater income fragility• Initial signs of down-trading, reduced daily consumption in some countries• Assume this will temporarily continue while pandemic-driven restrictions last• Less developed route-to-market infrastructure:<ul style="list-style-type: none">– Potential difficulties for some smaller general trade outlets, which may lead to temporary localized out-of-stocks

Keeping factories going is clearly an imperative for PMI



This may explain the infection rate in the factories in Indonesia noted above (slide 2), an issue PMI does not touch on anywhere in its AGM slides.

Our Supply Chain and Inventories are Resilient



Manufacturing & Distribution Operations Functioning Well

- Implemented contingency measures to ensure continuity of production and customer supply
- Inventories remain healthy, on average:
 - >2 months on HTUs
 - >3 months on IQOS devices
 - >1.5 months on cigarettes
- All HTU factories are currently operating with sufficient capacity
- Around 20% of cigarette production capacity currently affected by temporary shutdowns
- In the Philippines, our factory is currently subject to quarantine-related restrictions:
 - We have observed some increased demand for our products in recent weeks, driven by competitor out-of-stocks
 - If restrictions continue until the end of May, we could reach out-of-stocks on some SKUs, mainly in local brands
- Aside from this, we do not currently see any major operating income market as being at risk

Source: PMI Financials or estimates (status on May 6, 2020)

PMI statement on current risk versus the reality



The **reality** is PMI may be at particular risk during this pandemic because it is arguably the least diversified transnational tobacco company (TTC) with the highest-risk product portfolio [as we explain here](#).

It really only sells cigarettes and IQOS. [Independent analyses](#) suggest IQOS may be as harmful as smoking. PMI are therefore not well positioned as smokers look to reduce their health risks during the COVID-19 crisis.

Even a [survey](#) undertaken by PMI's front group, the [Foundation for a Smoke Free World](#), found large proportions of smokers had attempted quitting during lockdown (from 23% (UK) to 62% (India)).

PMI's statement:

"Our business has historically proven remarkably resilient, and we believe we can deliver a solid performance under the current challenging circumstances.

Importantly, we remain confident in our structural mid-term growth prospects and, when these headwinds have passed, expect to resume growth consistent with our 2019-2021 compound annual ex-currency growth targets.

Crucially, our organization, liquidity and balance sheet are strong. We will continue to protect and support our employees, serve our consumers and reward our shareholders, which clearly includes our strong commitment to our dividend. We are convinced that we will emerge stronger from this crisis."



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The Union

