PHILIP MORRIS INTERNATIONAL INC. (NYSE) - PM

Company Description:

Philip Morris International Inc. is a Virginia holding company incorporated in 1987. Prior to March 28, 2008, it was a wholly-owned subsidiary of Altria. In 2008, PM was spunoff to Altria's stockholders. The Company is engaged in the manufacture and sale of cigarettes and other tobacco products in markets outside of the US. The Company's products are sold in approximately 160 countries. The company’s operations are based in Lausanne, Switzerland. Brands include Marlboro, Philip Morris, Chesterfield, Parliament, L&M, and Bond Street. Profit breakdown: European Union, 32.6%; Eastern Europe, Middle East and Africa, 31.5%, Asia, 26.3%, Latin America & Canada, 9.9%. Has 54 factories around the globe. 78,300 employees. Chairman: Louis C. Camilleri.
CEO: Andre Calantzopoulos www.pmi.com
As stipulated by the Employee Matters Agreement between PMI and Altria (described below), the exercise price of each option was set to reflect the relative market values of PMI and Altria shares by allocating the price of Altria common stock before the distribution ($73.83) to PMI shares ($51.44) and Altria shares ($22.39),

Basic Description:

PM has had slowing earnings and revenue growth due to declining cigarette volumes and currency headwinds. Despite this, P/E ratios are fairly close to market averages. Part of this is because PM has been able to increase prices beyond tax increases. In addition, because PM requires little for reinvestment, it can payout a large dividend and repurchase shares. However, debt has risen in order to fund high repurchases. Despite significant regulatory headwinds and multiple competitors, PM continues to maintain consistent profit margins and generate a superior return on capital.
Yet the heavy share repurchase days are probably past, due to dividend equally net profits and debt levels maxed out. The currency impact was -$1.20 in 2015.
It is difficult to assess this impact as PM's adjusted non-GAAP 2015 earnings of $5.62 do. VL uses GAAP earnings.

Profitability Description:

PM has raised prices significantly with most of the increase going to excise taxes. These taxes put PM into somewhat of a partnership with governments. Other costs are fairly easy to maintain. But the increase in costs is effective in dampening demand with the result of volume drops. Offsetting this unattractive feature is the high profit margins of PM. Only some pharma companies have higher margins - and those require high reinvestment, whereas PM pays out significant payout ratios combined with high share repurchases. Debt levels have climbed in order to fund the combined size of repurchases and dividends, effectively stopping repurchases. Clearly, PM has major swings around currrencies, reaching peak results at times of significant USD weakness.

Core Advantage Description:

In 2009, the company held an estimated 15.4% share of the total international cigarette market outside of the U.S. PM uses its narrow focus on four brands to effectively market around the globe to different segments. Its most powerful presence is in the premium segment with Marlboro and Parliament. Even though countries continue to raise taxes and limit advertising in an effort to reduce smoking, the psychological and physical addictions provide for a continuing supply of high profits. PM is building a lead in RRP (reduced risk products) and seems to view its long term ability to differentiate around technology rather than brand. This may lead to a weakened position unless patents are sufficient and government cooperation is present.

Investment Thesis:

PM generates high profitability with declining top line revenues. ACM assumes that top line growth, with the introduction of new products and increased pricing, will be 3% with inflation of 2%, margins will be maintained for an operating earnings growth of 5% and share repurchasing is limited to 1% additional EPS growth due to debt limitations. In addition, we have adjusted earnings upward for currency headwinds and used a terminal P/E of 20.

Purchase Description:

Given the above factors, we would recommend patient, value-oriented investors purchase shares of PM as a Tier I at prices up to $71 per share for 4.5% and $78 for 3% with a sale of half at $97 (hist range) per share and the rest at $124 per share (combo of capl charge and e.g. sell).

FY End	Stock Price	Mkt Value
December	$96.00	$148,992.00

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Net Profit (mln)									4,597	5,616	6,130	6,038	6,890	6,465	7,259	8,591	8,800	8,576	7,493	6,873	*7,060*	*7,245*
EPS									$2.18	$2.66	$2.91	$2.86	$3.43	$3.20	$4.03	$4.98	$5.32	$5.40	$4.84	$4.44	*$4.55*	*$4.75*
Operating EPS									$2.18	$2.66	$2.91	$2.86	$3.43	$3.20	$4.03	$4.98	$5.32	$5.40	$4.84	$4.44	*$4.55*	*$4.75*
Ave. P/E Ratios													19.5	13.6	13.2	13.8	16.7	17.0	17.7	18.8	20.7	
Yrly Price Low													$33.3	$32.5	$42.5	$55.5	$72.9	$84.3	$75.0	$75.0	$84.8	
Yrly Price High													$56.2	$52.3	$60.1	$79.4	$94.1	$96.6	$91.0	$90.0	$104.0	
Dividends Paid													3,091	4,180	4,396	4,867	5,358	5,689	6,002	6,259	*6,363*	*6,344*
Dividends PS													$1.54	$2.20	$2.44	$2.82	$3.24	$3.58	$3.88	$4.04	*$4.10*	*$4.16*
Ave. Div. Yld.													3.44%	5.19%	4.76%	4.18%	3.88%	3.96%	4.67%	4.90%	*4.34%*	
Shares Outstdg.									2109.0	2109.0	2109.0	2109.0	2007.0	1900.0	1801.8	1726.0	1653.6	1589.0	1546.9	1549.3	*1552.0*	*1525.0*
Buyback $ (mln)									0.0	0.0	0.0	0.0	4,564.5	4,536.8	5,037.7	5,112.7	6,045.4	5,843.1	3,494.3	(198.0)	*(254.9)*	*0.0*
Shr. Equity (mln)									13,231	10,505	14,449	15,595	7,500	9,155	3,506	551	(3,456)	(7,766)	(12,629)	(11,476)	*(10,000)*	*(11,000)*
Book Value PS									$6.27	$4.98	$6.85	$7.39	$3.74	$4.90	$1.95	$0.32	($2.09)	($4.89)	($8.16)	($7.41)	*($6.44)*	*($7.21)*
LT Debt (mln)									100	4,141	2,222	5,578	11,377	15,500	13,370	14,828	17,639	24,023	26,929	25,250	*27,000*	*28,000*
Return On Eq.									35%	53%	42%	39%	92%	71%	207%	1559%	-255%	-110%	-59%	-60%	*-71%*	*-66%*
Return On Capl.									34%	38%	37%	29%	36%	26%	43%	56%	62%	53%	52%	50%	*42%*	*43%*

Description:

Instructions:

Analysis:

Observations:

Investment Characteristics

Earnings Analysis:		Use Of Earnings Analysis:	
Growth Rate %	6.32%	Avg Div Payout Rate:	71.56%
Quality %:	100.00%	Avg Stk Buyback Rate	50.26%

	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues (mln)									39,637	45,316	48,302	55,243	63,640	59,750	67,713	76,346	77,393	80,029	80,106	73,908	*73,000*	*75,000*
SPS									$8.35	$9.49	$9.85	$10.82	$12.81	$10.39	$15.38	$18.16	$18.98	$20.16	$19.46	$17.29	*$16.75*	*$16.39*
Adj. Sales (mln)									17,605	20,017	20,769	22,810	25,705	19,750	27,713	31,346	31,393	32,029	30,106	26,794	*26,000*	*25,000*

Sales Analysis:		Sales Analysis (last 5 yrs.):	
Growth Rate %	3.30%	Growth Rate %:	-3.67%
Growth Rate P	5.98%	Growth Rate PS %:	-1.60%

	1995	1996	1997	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Oper. Margin									36.97%	38.62%	40.20%	38.99%	39.87%	40.10%	41.16%	42.87%	44.70%	44.58%	41.42%	40.00%	*40.00%*	*40.00%*
Tax Rate									27.07%	23.71%	21.86%	28.90%	27.20%	29.10%	27.40%	27.40%	29.50%	29.30%	29.10%	28.00%	*28.00%*	*28.00%*
Deprec. (mln)									459	527	658	748	842	853	932	1,075	898	882	628	754	*750*	*765*
Depreciation %									9.98%	9.38%	10.73%	12.39%	12.22%	13.19%	12.84%	12.51%	10.20%	10.28%	8.38%	10.97%	*10.62%*	*10.56%*

Description:

Instructions:

Analysis:

Observations:

Description & Analysis of Profitability (in mlns):

		2004	2007	2008		2009	2010	2011		2012		2013		2014		2015	
Net Revenues:	5.8%	39,637	55,243	63,640		62,080	67,713	76,346	915	77,393	927	80,029	879	80,106	856	73,908	847
European Union						28,550	28,050	29,768	211	27,338	198	28,303	185	29,058	185	26,563	195
									0.141		0.138		0.153		0.157		0.137
EEMEA						13,865	15,928	17,452	290	19,272	304	20,695	296	21,928	288	18,328	279
									0.060		0.063		0.070		0.076		0.066
Asia						12,413	15,235	19,590	313	21,071	327	20,987	301	19,255	288	19,469	281
									0.063		0.065		0.070		0.067		0.069
Latin America & Canada						7,252	8,500	9,536	100	9,712	99	10,044	97	9,865	95	9,548	92
									0.095		0.098		0.104		0.104		0.104
Excise Taxes:	7.2%	22,032	32,433	37,935		37,045	40,505	45,249		46,016		48,812		50,339		47,114	
European Union							19,239	20,556	69.1%	18,812	68.8%	19,707	69.6%	20,219	69.6%	18,495	69.6%
EEMEA							8,619	9,571	54.8%	10,940	56.8%	11,929	57.6%	13,006	59.3%	10,964	59.8%
Asia							7,300	8,885	45.4%	9,873	46.9%	10,486	50.0%	10,527	54.7%	11,266	57.9%
Latin America & Canada							5,447	6,237	65.4%	6,391	65.8%	6,690	66.6%	6,587	66.8%	6,389	66.9%
Internal Costs:	3.4%	11,096	13,916	15,457		14,995	16,008	17,765		17,351		17,300		17,437		16,021	
3% Cost of sales		6,716	8,711	9,328	#####	9,022	9,713	10,678	14.0%	10,373	13.4%	10,410	13.0%	10,436	13.0%	9,365	12.7%
4% Selling, general and adm. exp		4,380	5,205	6,129	9.6%	5,973	6,295	7,087	9.3%	6,978	9.0%	6,890	8.6%	7,001	8.7%	6,656	9.0%
EBITDA:	4.7%	6,968	9,642	11,090	#####	10,893	12,132	14,325	46.1%	14,924	47.6%	14,799	47.4%	13,219	44.4%	11,527	43.0%
5% Amortization/Dep.		459	748	842		853	932	993		898		882		889		754	
"Free" Cash Flow	4.9%	6,257	8,570	9,991	#####	10,178	11,419	13,428	43.2%	13,868	44.2%	13,599	43.6%	12,066	40.5%	10,567	39.4%
3% Capital Expenditures		711	1,072	1,099		715	713	897		1,056		1,200		1,153		960	
EBIT/Margin%:	4.7%	6,509	8,894	10,248	#####	10,040	11,200	13,332	42.9%	14,026	44.7%	13,917	44.6%	12,330	41.4%	10,773	40.2%
European Union						4,506	4,311	4,560	49.5%	4,187	49.1%	4,238	49.3%	3,727	42.2%	3,576	44.3%
EEMEA						2,663	3,152	3,229	41.0%	3,726	44.7%	3,779	43.1%	4,121	46.2%	3,425	46.5%
Asia						2,436	3,049	4,836	45.2%	5,197	46.4%	4,622	44.0%	3,187	36.5%	2,886	35.2%
Latin America & Canada						666	953	988	29.9%	1,043	31.4%	1,134	33.8%	1,030	31.4%	1,085	34.3%
External Costs:	6.6%	1,912	2,856	3,358		3,698	3,941	4,741		5,046		4,917		4,314		3,855	
4% Taxes		1,762	2,570	2,787	#####	2,691	2,826	3,653	27.4%	3,833	27.3%	3,670	26.4%	3,097	25.1%	2,688	25.0%
Interest inc., net		4	10	311		797	876	800		859		973		1,052		1,008	
Minority Interest		146	276	260		210	239	288		354		274		165		159	
Earnings/Margin:	3.8%	4,597	6,038	6,890	#####	6,342	7,259	8,591	27.6%	8,980	28.6%	9,000	28.8%	8,016	26.9%	6,918	25.8%
Dividend Paid/% of FCF:		0	0	3,091	#####	4,180	4,396	4,867	36.2%	5,358	38.6%	5,689	41.8%	6,002	49.7%	6,259	59.2%
Common Stock/% of FCF:		0	0	4,565	#####	4,537	5,038	5,113	38.1%	6,045	43.6%	5,843	43.0%	3,494	29.0%	(255)	-2.4%
Share buybacks: Stmt of C. F.										6525		5,963		3,833		48	
Net Business Acquisitions:		0	0	0	0.0%	0	80	83	1.0%	0	0.0%	703	7.8%	110	1.4%	0	0.0%
Purchases							80	83				703		110		0	
Disposals																	

Description:

Instructions:

Analysis:

Observations:

Balance Sheet (in mlns):

	2004	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assets:	**21,381**	**31,777**	**32,972**	**34,552**	**35,050**	**35,488**	**37,670**	**38,168**	**35,187**	**33,956**
Cash and Cash Equivalents		*1,501*	*1,531*	*1,540*	*1,703*	*2,550*	*2,983*	*2,154*	*1,682*	*3,417*
Accounts and notes receivable		*3,099*	*2,848*	*3,098*	*3,009*	*3,201*	*3,589*	*3,853*	*4,004*	*2,778*
Inventories:	*4,882*	*9,371*	*9,664*	*9,207*	*8,317*	*8,120*	*8,949*	*9,846*	*8,592*	*8,473*
Deferred income taxes		*302*	*322*	*305*	*371*	*397*	*450*	*502*	*533*	*488*
Other current assets		*513*	*574*	*532*	*356*	*591*	*619*	*497*	*673*	*648*
Property, Plant and Equipment, Net	*4,042*	*6,435*	*6,348*	*6,390*	*6,499*	*6,250*	*6,645*	*6,755*	*6,071*	*5,721*
Goodwill, net		*7,925*	*8,015*	*9,112*	*10,161*	*9,928*	*9,900*	*8,893*	*8,388*	*7,415*
Other intangible assets, net		*1,906*	*3,084*	*3,546*	*3,873*	*3,697*	*3,619*	*3,193*	*2,985*	*2,623*
Other assets		*725*	*586*	*822*	*761*	*754*	*916*	*2,475*	*2,259*	*2,393*
Liabilities:	**807**	**16,182**	**25,472**	**28,407**	**29,929**	**33,725**	**39,523**	**44,330**	**46,232**	**45,226**
Accounts payable		*819*	*1,013*	*670*	*835*	*1,031*	*1,103*	*1,274*	*1,242*	*1,289*
Accrued liabilities		*6,129*	*7,881*	*8,073*	*8,098*	*8,973*	*9,143*	*10,833*	*10,108*	*9,691*
Accrued income taxes		*478*	*488*	*500*	*601*	*897*	*1,456*	*1,192*	*1,078*	*970*
Short-term debt		*400*	*375*	*1,662*	*1,747*	*1,511*	*2,419*	*2,400*	*1,208*	*825*
Current portion of long-term debt		*91*	*209*	*82*	*1,385*	*2,206*	*2,781*	*1,255*	*1,318*	*2,405*
Long-term debt	*100*	*5,578*	*11,377*	*13,672*	*13,370*	*14,828*	*17,639*	*24,023*	*26,929*	*25,250*
Other long-term liabilities		*1,273*	*2,550*	*1,869*	*1,728*	*2,127*	*2,993*	*1,876*	*2,800*	*3,253*
Deferred Income Taxes		*1,414*	*1,579*	*1,879*	*2,165*	*2,152*	*1,989*	*1,477*	*1,549*	*1,543*
Minority Interest										*1,768*
Shareholder's Equity:	**13,231**	**15,595**	**7,500**	**5,716**	**3,506**	**229**	**-3,476**	**-7,766**	**-12,629**	**-13,244**
Common Stock		*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Additional paid-in capital		*1,265*	*1,581*	*1,403*	*1,225*	*1,235*	*1,334*	*723*	*710*	*1,929*
Retained Earnings		*12,642*	*13,354*	*15,358*	*18,133*	*21,757*	*25,076*	*27,843*	*29,249*	*29,842*
Treasury stock, at cost		*0*	*-5,154*	*-10,228*	*-14,712*	*-19,900*	*-26,282*	*-32,142*	*-35,762*	*-35,613*
Accumulated other comprehensive income		*1,688*	*-2,281*	*-817*	*-1,140*	*-2,863*	*-3,604*	*-4,190*	*-6,826*	*-9,402*

Description:

Here is the report form of the balance sheet (as opposed to the account form).

Instructions:

Analysis:

Observations:

Description & Analysis of Debt Levels (in mlns):

Summary:	Debt is a four-letter word. Debt causes the years of repayment of capital to equity shareholders to stretch out into the more distant future. Even worse, debt can cause the best business model to become the property of bondholders in a rough economic environment.
Total Debt-Capital:	The measure of total debt to total capital is useful when book value is a good measure of a firm's worth. This is particularly true of traditional businesses where property, plant and equipment are important. Further, it helps to have this ratio in capital intensive businesses with cyclical earnings.

Total Debt:	41,973	Here, deferred income taxes have been excluded.
Total Capital:	28,729	Here, deferred income taxes have been excluded.
Ratio:	146.10%	

Long Term Debt-Cap.:	The measure of long term debt to total capital is useful when total debt is distorted by the high presence of current assets being financed by current liabilities. Again, the measure works best within a traditional industry setting. The ratio helps position the equity shareholders.

L. T. Debt:	30,908	Here, the current liabilities have been excluded.
L. T. Capital:	17,664	Here, the current liabilities have been excluded.
Ratio:	174.98%	

Net Income Payback:	The measure of how quickly debt is repaid by net income is a conservative measure, as it includes some debt, such as current liabilities that are financed by current assets and excludes some sources of cash, such as noncash amortization numbers.

Total Debt:	41,973
Net Income:	6,918
Years Payba	6.1

L.T. Debt:	30,908
Net Income:	6,918
Years Payba	4.5

Addback Net Inc. Paybac	The measure of how quickly debt is repaid by addback net income is a good measure, as it starts with GAAP net income and adds back expenses on an after-tax basis that are clearly discretionary, such as business acquisitions to better analyze the strength of the repayment stream.

L.T. Debt:	30,908	
Net Income:	6,918	
Addback:	0	Merger charges, writedowns above the line, dep. Amort below the line less capex
Years Payba	4.5	

The debt situation at PM is adequate. The debt used been used prudently as a way of enhancing returns. This strategy has reached limits.

Description & Analysis of Pension Issues(in mlns):

Summary:	Corporate defined benefit or "pension" plans are a major obligation of companies. Because of the actuarial changes involved, obligations can move significantly. As a result, corporations have steadily moved toward defined contribution plans as they froze or terminated pension plans. These obligations are measured in two ways: accumulated and projected. As the name implies, projected is what is likely and a greater number than accumulated. This obligation is typicapm in three categories: US, non-US and post-retirement. There are assets which are set up to fund these plans. The difference is the funded status. This number provides an indication of the additional potential obligation of the company and is included in the balance sheet - typicapm in "other assets" and "other liabilities." That may not be the accurate value of the obligation in the event that assumptions are unreasonable. Because pensions are funded over time, it is less likely to have an immediate funding need that cripples the company or its earnings. Rather than focus on these assumptions, we estimate the size of plan's underfunding relative to the market value of the company. The greatest financial risk involves companies which are small relative to these funding requirements. For our purposes, we set this limit at 25% for the total underfunded as a percentage of market capitalization.

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Pension Plan	*Yes*	*Yes*								
Frozen:	*No*	*No*								
Taft-Hartley	*No*	*No*								
Underfunded	*Yes*	*Yes*								
Amount:	1,592	3,253								
Market Cap:	148,992	148,992								
Ratio:	1.07%	2.18%								

Description & Analysis of Stock Options (in mlns):

Summary:	Stock options are a difficult form of compensation to assess. Heavy use of stock options creates stock issuance and a demand for stock repurchasing in some industries. This can be dilutive to shareholders if no repurchasing occurs or can absorb cash flows in the event that repurchasing occurs to offset issuance. Uses "share-based incentive" language

FASB ASC 718	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
After tax Exp	210.00	166.00								
Net profits:	7,493.00	6,873.00								
%	2.80%	2.42%								
Cash net of t	3,833.00	48.00								
Net share rep	3,494.30	-254.88								
Difference	338.70	302.88								
% of Net pro	4.52%	4.41%								

Industry Overview

Tobacco companies enjoy the luxury of operating in a very attractive industry characterized by superior margins, strong pricing power, low volatility in the cost of raw materials, and strong cash flows. Yet the evolution of total industry volume has been a recent concern. International cigarette industry volume declined from 3.4 trillion units in 2008 to 3.2 trillion units in 2012, due to OECD markets. In contrast, the retail value increased from $362 billion in 2008 to $413 billion in 2012, an average growth rate of 3.3%, driven by non-OECD markets.

Industry Comparisons

Operating Statistics:

Company	*Yrs.Paybk*	*Sales*	*ROC*	*Operating Margin*
PM	4.47	26,000	41.53%	41.42%
BTI	3.20	21,000	13.00%	45.00%
JAPAY	0.30	20,000	15.00%	29.00%

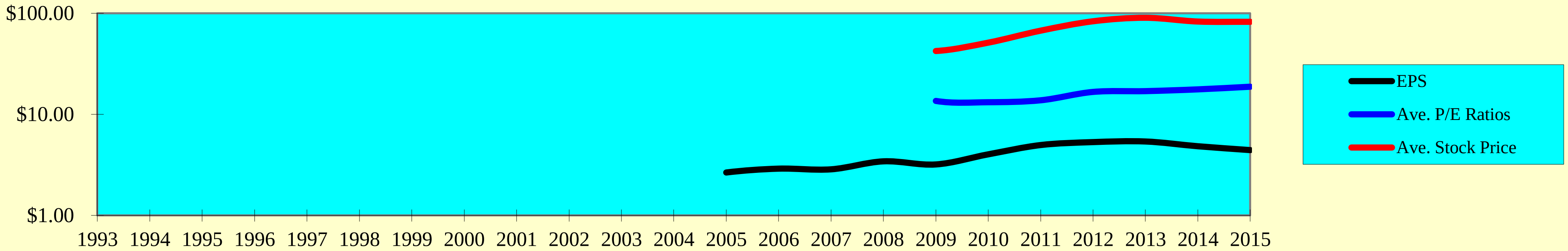
Market Statistics:

Company	*P/B*	*P/E*	*Divd. Yld.*	*EV/Sales*
PM	-1490%	21.1	4.34%	677%
BATS	1200%	17.5	3.94%	571%
JAPAY	315%	17.4	2.90%	393%

Qualitative Characteristics

		Positives:	Negatives:
Product/Service:			
	Pricing Power:	Consumer uptrading in non OECD mkts	
	Durability:	Must be continually purchased; addictive	
	Brand Appeal:	Important strength for uptrading	
	Unique:		
	Role Of Media:	Advertising is important	
	Toll Bridge:	Legal providers are important to gov't	
	Global Opportunity	Yes	
	Competition		OTP, illicit and e-cigs popular in downtrade mkts
	Economic Risk:		Downturns in economy create downtrading
	Government Role		Rapid increase of excise taxes curtails demand
	Role Of Technology:	Low tar, slims and menthol are growth area	Rapid changes could increase competition
	Supply/Demand:		45% increase in excise tax for 2014 in Russia 100% increase in excise tax in South Korea
Financial:			
	Business Model:		
	High Capital Reinv.:		
	Effective As Public:		
	Ownership:		
	Growth:		
	Concentration:		
Management:			

Average Stock Price vs. Average P/E vs. EPS



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EPS	####	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$2.18	$2.66	$2.91	$2.86	$3.43	$3.20	$4.03	$4.98	$5.32	$5.40	$4.84	$4.44
Ave. P/E Ratios	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	19.50	13.60	13.20	13.80	16.70	17.00	17.70	18.80
Ave. Stock Price	0.00	0.00	1.00	1.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	44.75	42.40	51.30	67.45	83.50	90.45	83.00	82.50

Price/Earnings Ratio: used -	$5.35
Eight year average low P	12.9
Eight year average high	17.3
If we set the purchase at the ave. Eight year low P	
the price implied is:	**$69.04**
If we set the sell at the ave. Eight year high P/E,	
the price implied is:	**$92.43**

Price/Sales Ratio: used -	$16.75
Eight year average low P/S is	3.47
Eight year average high P/S is	4.67
If we set the purchase at the ave. Eight year low P/S,	
the price implied is:	**$58.13**
If we set the sell at the ave. Eight year high P/S,	
the price implied is:	**$78.17**

Price/Book Ratio: used -	($6.44)
Eight year average low P	17.5
Eight year average high	27.2
If we set the purchase at the ave. Eight year low P	
the price implied is:	**($112.59)**
If we set the sell at the ave. Eight year high P/B,	
the price implied is:	**($174.96)**

Price/Cash Flow Ratio: used -	$5.03
Eight year average low P/CF is	11.6
Eight year average high P/CF	15.4
If we set the purchase at the ave. Eight year low P/CF,	
the price implied is:	**$58.16**
If we set the sell at the ave. Eight year high P/CF,	
the price implied is:	**$77.66**

Initial Rate of Investment	
Current Price	$96.00
Current EPS	$4.55
Initial ROI	**4.74%**

Relative Value to Investment In T-Bonds	
Current EPS	$4.55
T-Bond Rate	4.00%
Relative Value	**$113.72**

Capital "charge" approach

11,527	ebitda
0.12	required return
0.05	growth rate (not on EPS basis)
1	% not required
0.07	denominator
164,671	ev
30,908	debt
133,763	equity value
1552	shares
86.19	share value
51.71	buy at 60%
103.43	sell at 120%

Valuation as an Equity Bond:	
Current BV	($6.44)
Current ROE	-70.60%
Retained %	-1.82%
Net BV Growth	1.28%
BV in Year 10	($7.32)
EPS in Year 10	$5.17
Valueat20P/E	$103.36
Total Dividends	$58.35
Total F.Value	$161.70
Purchaseat14%	**$43.62**

Valuation on Earnings Growth:	
Current EPS	$5.35
EPS in Year 10	$10.52
Ave. P/E Ratio	16.29
Valueat20P/E	$268.79
Price Return	8.16%
Dividend Return	4.34%
Total Return	12.51%
Purchaseat14%	**$72.50**
Sellat6%	**$150.09**

History of Buys/Sells

by	pm	6/22/2009	150	6,243.75	41.63	1.50%
sl	pm	4/25/2013	-150	14,165.25	94.44	0.00%
by	pm	8/19/2013	125	10,665.96	85.33	1.50%
by	pm	10/9/2013	122	10,389.41	85.16	3.00%
by	pm	1/31/2014	198	15,443	78	4.50%
by	pm	3/12/2015	40	3,136	78.4	4.50%

Discussion of Buys/Sells

What:

The return of the purchase of PM (bought 6/22/2009 to 4/25/2013) was 126% and SP 72% for an outperformance of 54% (nearly 4 years).
The return of the purchase of PM (bought 6/22/2009 to 4/25/2013) was 126% and MO 120% for an outperformance of 6% (nearly 4 years).
The return of the second purchase of PM (bought 8/19/2013 to present) was -5% and SP 23% for an underperformance of 28% (nearly 2 years).
The return of the second purchase of PM (bought 8/19/2013 to present) was -5% and MO 59% for an underperformance of 64% (nearly 2 years).
The return of the third purchase of PM (bought 10/9/2013 to present) was -2% and SP 23% for an underperformance of 25% (nearly 2 years).
The return of the third purchase of PM (bought 10/9/2013 to present) was -2% and MO 64% for an underperformance of 66% (nearly 2 years).
The return of the fourth purchase of PM (bought 1/31/2014 to present) was 5% and SP 13% for an underperformance of 8% (nearly 2 years).
The return of the fourth purchase of PM (bought 1/31/2014 to present) was 5% and MO 54% for an underperformance of 49% (nearly 2 years).
The return of the fifth purchase of PM (bought 3/12/2015 to present) was 7% and SP 2% for an outperformance of 5% (nearly .5 years).
The return of the fifth purchase of PM (bought 3/12/2015 to present) was 7% and MO 9% for an underperformance of 2% (nearly .5 years).
The return of PM since 6/22/2009 until current was 102% and SP 119% for an underperformance of 17% (over nearly 6 years) and 243% for MO.
PM's long run returns are somewhat correlated with SP, with outperformance from 2009 to 2013 and underperformance since 2013.

So what:

It appears that we initially purchased a "compounder" with the double benefit of top line growth and aggressive share repurchasing.
As the top line growth flattened out, we began to build ownership of an "equity bond" as growth became dependent on share repurchasing.
On our first purchase, we paid nearly 14X current earnings.
On our first purchase, we sold at nearly 17X current earnings - which were the peak.
On subsequent purchases, we have paid between 15X and 16X current earnings - as they have declined due primarily to currency issues but also volume issues.

Now what:

Our discipline works very well with "equity bonds" that have consistent earnings and are at a low P/E.
Our discipline also works well if we are able to purchase a "compounder" even if we pay a higher P/E.
We identified PM over MO despite a higher P/E due to a reduced legal environment and a larger potential market. This thesis worked as a "compounder."
MO and PM have both become "equity bonds" so MO has had an expansion of P/E and PM has not - as its category moved down.
Takeaway: our discipline got us into and out of PM at almost perfect timing on the first round.
Takeaway: we need to continue to pay close attention to the impact of currencies on multinationals; environment of weakening foreign operating currency hurts performance
Takeaway: PM should be a good purchase the closer we get to the end of a strengthening dollar.

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Sales (mln)	$0.00	$0.00	$39,637.00	$38,182.03	$36,780.47	$35,430.36	$34,129.80	$32,876.99	$31,670.16	$30,507.63	$29,387.78	$28,309.03	$27,269.88
SPS	#DIV/0!	#DIV/0!	$18.79	$18.49	$18.19	$17.90	$17.61	$17.33	$17.05	$16.78	$16.51	$16.24	$15.98
Earnings (mln)	$0.00	$0.00	$4,597.00	$4,635.12	$4,673.56	$4,712.31	$4,751.39	$4,790.79	$4,830.52	$4,870.58	$4,910.97	$4,951.70	$4,992.76
EPS	#DIV/0!	#DIV/0!	$2.18	$2.24	$2.31	$2.38	$2.45	$2.53	$2.60	$2.68	$2.76	$2.84	$2.93
Operating EPS	#DIV/0!	#DIV/0!	$2.18	$2.24	$2.31	$2.38	$2.45	$2.53	$2.60	$2.68	$2.76	$2.84	$2.93
Shares Outstdg.	0.00	0.00	2109.00	2064.83	2021.59	1979.25	1937.80	1897.22	1857.49	1818.59	1780.50	1743.21	1706.71
Buyback $ (mln)	$0.00	$0.00	$2,310.54	$2,329.70	$2,349.02	$2,368.50	$2,388.14	$2,407.94	$2,427.91	$2,448.04	$2,468.34	$2,488.81	$2,509.45
#ShresBuyback	#DIV/0!	#DIV/0!	44,167,580	43,242,603	42,336,998	41,450,359	40,582,288	39,732,396	38,900,303	38,085,636	37,288,031	36,507,129	35,742,581
Ave. P/E Ratio	24.00												