

1 KEY RESULTS VS. CONSENSUS			
Metric	Reported	Year Ago	vs. Year Ago
Revenue	\$11.438B	\$10.845B	+5.5%
Adjusted operating income	\$5.117B	\$4.670B	+9.6%
Adjusted diluted EPS	\$2.36	\$2.24	+5.4%
SEGMENT REVENUE			
U.S. (vs. Q2)	\$845M	\$856M	-1.3%
U.S. ZYN shipments (vs. Q2)	3.2B pouches	2.9B pouches	+10.3%

2 | GUIDANCE AND OUTLOOK

Full-year adjusted EPS guidance was cut to \$8.29-\$8.44 from \$8.35-\$8.50, a reduction fully explained by currency; the currency-neutral range is unchanged at \$8.11-\$8.26. Organic revenue guidance stays 5%-7%, now expected in the middle or upper half, while organic operating income guidance of 7%-9% is expected in the middle or lower half, with EPS biased the same way. The cigarette shipment outlook improved to a decline near 1.2%, from 2%-3% previously. Q4 U.S. adjusted operating companies income is expected to be approximately zero or slightly negative.

3 | EARNINGS ANALYSIS

A PRICING-LED BEAT. Net revenues rose 7.1% organically to \$11.438 billion, but pricing supplied \$739 million of the \$775 million organic increase, approximately 95% of it, and international combustibles contributed approximately 63%. Adjusted operating income rose 10.5% organically to \$5.117 billion, the adjusted operating margin expanded 130 basis points organically to 44.7%, and total shipments grew only 0.6%. The beat was price and mix, not volume.

THE EPS BEAT WAS MODEST. Adjusted EPS of \$2.36 exceeded September’s guided range by \$0.02 at the top end despite currency moving from \$0.01 favorable to \$0.01 unfavorable, a currency-neutral beat of approximately \$0.04. GAAP diluted EPS fell 4.9% to \$2.12, with adjustments including \$0.13 of intangible amortization, and the prior-year tax-rate comparison reduced adjusted EPS growth by approximately 4 percentage points, to 5.4%. Organic revenue growth also moderated, from 7.6% in Q2 to 7.1%.

THE ZYN RESET IS STRUCTURAL. Migrating the flagship portfolio from 15 to 20 pouches at the 15-count price cuts revenue per pouch by 25% permanently; holding revenue requires 33.3% more pouches, and more still to hold profit. U.S. adjusted operating companies income fell 38.7% sequentially in Q3 to \$171 million and is expected to be approximately zero or slightly negative in Q4. Q3 U.S. spending of approximately \$370 million is the indicated 2027 run rate, so only the Q4 increment is exceptional.

CASH FUNDS THE RESET. Operating cash flow guidance is approximately \$13.5 billion against capital expenditure of \$1.4-\$1.6 billion, implying approximately \$11.9-\$12.1 billion after capital expenditure; the dividend was raised 8.8% to an annualized \$6.40, a payout of approximately 75.8%-77.2% of adjusted EPS guidance, and no repurchases are planned. The international franchise can fund the U.S. reset without breaking the consolidated earnings algorithm; whether the reset earns an attractive return is unproven, and incremental purchases depend on valuation, not the headline beat.

4 | KEY READ-THROUGHS

ZYN'S VALUE RESET RAISES THE COST OF COMPETING
British American Tobacco (BATs), Altria Group (MO), Imperial Brands (IMB) | Negative | High for U.S. pouch franchise economics
Management is migrating the flagship portfolio from 15 to 20 pouches at the 15-count price, a 25% cut in revenue per pouch. ZYN’s estimated category offtake share rose 1.4 percentage points from June to September, before the full reset. Rivals must answer with lower realization, heavier promotion or slower share gains: 33.3% more pouches are needed just to hold revenue.

PMI CAN FUND U.S. DISRUPTION WITHOUT SACRIFICING AN INCUMBENT U.S. CIGARETTE FRANCHISE
Altria Group (MO), British American Tobacco (BATs) | Negative | Moderate near-term earnings risk, potentially high strategic significance
International operations produced 93% of year-to-date revenue and approximately 11% organic operating income growth, letting PMI absorb Q4 U.S. operating income near zero while holding group guidance. Q3’s approximately \$370 million U.S. spending is the 2027 run rate. Altria and Reynolds must defend pouch share while protecting incumbent cigarette earnings; PMI has no comparable U.S. cigarette stream to lose.

INTERNATIONAL CIGARETTE CASH FLOWS REMAIN MORE RESILIENT THAN A SIMPLE VOLUME-DECLINE MODEL IMPLIES
British American Tobacco (BATs), Japan Tobacco (2914), Imperial Brands (IMB) | Positive | Moderate support for earnings durability and cash distributions
PMI held cigarette shipments approximately flat against a 1.1% industry decline while taking 8.9% pricing, and raised its full-year outlook to a decline near 1.2%, from 2%-3%. Strength sat in Turkey, Indonesia and Egypt, where smoke-free alternatives are limited. That pricing power keeps funding dividends, debt reduction and smoke-free investment across the group.

LARGER ZYN PACKS BREAK THE LINK BETWEEN POUCH GROWTH, RETAIL SALES AND SHOPPING FREQUENCY
Murphy USA (MUSA), Alimentation Couche-Tard (ATD) | Negative | Material for nicotine-category growth measurement
Most flagship ZYN variants move from 15 to 20 pouches at the same can price, so pouch volume can rise 33.3% with no increase in can revenue, and unchanged consumption means 25% fewer cans and longer gaps between trips. Murphy USA disclosed nicotine at approximately 48% of merchandise contribution per store: visit frequency and revenue quality are the figures to watch.