Thanks, Vitaliy.

We’ve had a long day, so I’m going to kick off with something a little lighter.

Disclaimers

Broyhill Asset Management, LLC ("Broyhill" or "BAM") is a boutique investment firm, established as a family office and guided by a disciplined value orientation. The investment team at BAM is also responsible for managing investments for the Broyhill Family Office, established in 1980 upon the sale of Broyhill Furniture Industries. The majority of BAM's SMAs include a significant cash allocation, which has averaged 30% - 40% in recent years, and also utilize options to compliment individual position sizing and to hedge the portfolio as appropriate for individual clients. As a result, we believe that the historical performance of our flagship strategy (which includes both options and a significant cash drag) is not representative of a pure equity allocation.

The performance of the Broyhill Equity Portfolio illustrated here is representative of the fully invested strategies available through various TAMPs (Turnkey Asset Management Platforms). As such, this data may be useful for an advisor evaluating Broyhill, although individual results may differ based on each account's investment objectives, the date of initial funding, the opportunity set available at the time, specific investment vehicles available to the accounts, and individual fee schedules.

Performance is calculated using time-weighted rates of returns, net of fees. Since these platforms report returns to Broyhill gross of fees, in order to report returns representative of a typical investor, a 1% annual fee has been subtracted from gross reported returns to illustrate net returns.

The investment return and principal value of an investment will fluctuate. Therefore, an investor's account, when liquidated or redeemed, will almost always have a different value than that shown herein. Current performance may be lower or higher than return data quoted herein.

Information presented herein is subject to change without notice and should not be considered as a solicitation to buy or sell any security. The opinions, estimates, investment strategies and views expressed in this document constitute our judgment based on current market conditions and are subject to change without notice. The views and strategies described herein may not be suitable for all investors and may differ from those expressed for other purposes or in other contexts by Broyhill. There is no guarantee that the views and opinions expressed in this document will come to pass. Investing in the stock market involves gains and losses and may not be suitable for all investors. No representations, expressed or implied, are made as to the accuracy or completeness of such statements, estimates or projections, or with respect to any other materials herein.

Under no circumstances does the information contained within represent a recommendation to buy, hold or sell any security, and it should not be assumed that the securities transactions or holdings discussed were or will prove to be profitable. There are risks associated with purchasing and selling securities and options thereon, including the risk that you could lose money. This information should not be used as a general guide to investing or as a source of any specific investment recommendations and makes no implied or expressed recommendations concerning the manner in which an account should or would be handled, as appropriate investment strategies depend upon specific investment guidelines and objectives.

Market value information (including, without limitation, prices, exchange rates, accrued income and bond ratings furnished herein) has been obtained from sources that Broyhill believes to be reliable and is for the exclusive use of the client. Market prices are obtained from standard market pricing services or, in the case of less liquid securities, from brokers and market makers. Broyhill makes no representations, warranty or guarantee, express or implied, that any quoted value necessarily reflects the proceeds that may be received on the sale of a security. Changes in rates of exchange may have an adverse effect on the value of investments.

We believe the information contained in this material to be reliable but do not warrant its accuracy or completeness. This material should be checked against your records and is distributed with the understanding that it is not rendering accounting, legal, or tax advice. Please consult your legal or tax advisor concerning such matters. The assets in the account are held by third-party custodians and Broyhill has no obligation to independently verify or approve any information provided by the third-party custodian (including, without limitation, any information with respect to the value of any securities or investments held in the account).

Past performance is not indicative of future returns. The investment return and principal value of an investment will fluctuate. Therefore, an investor's shares, when sold, or interest, when redeemed, will almost always have a different value than that shown herein. Current performance may be lower or higher than return data quoted herein.

Additional information and statistics on the strategy are available upon request at ir@broyhillasset.com.

Not this.

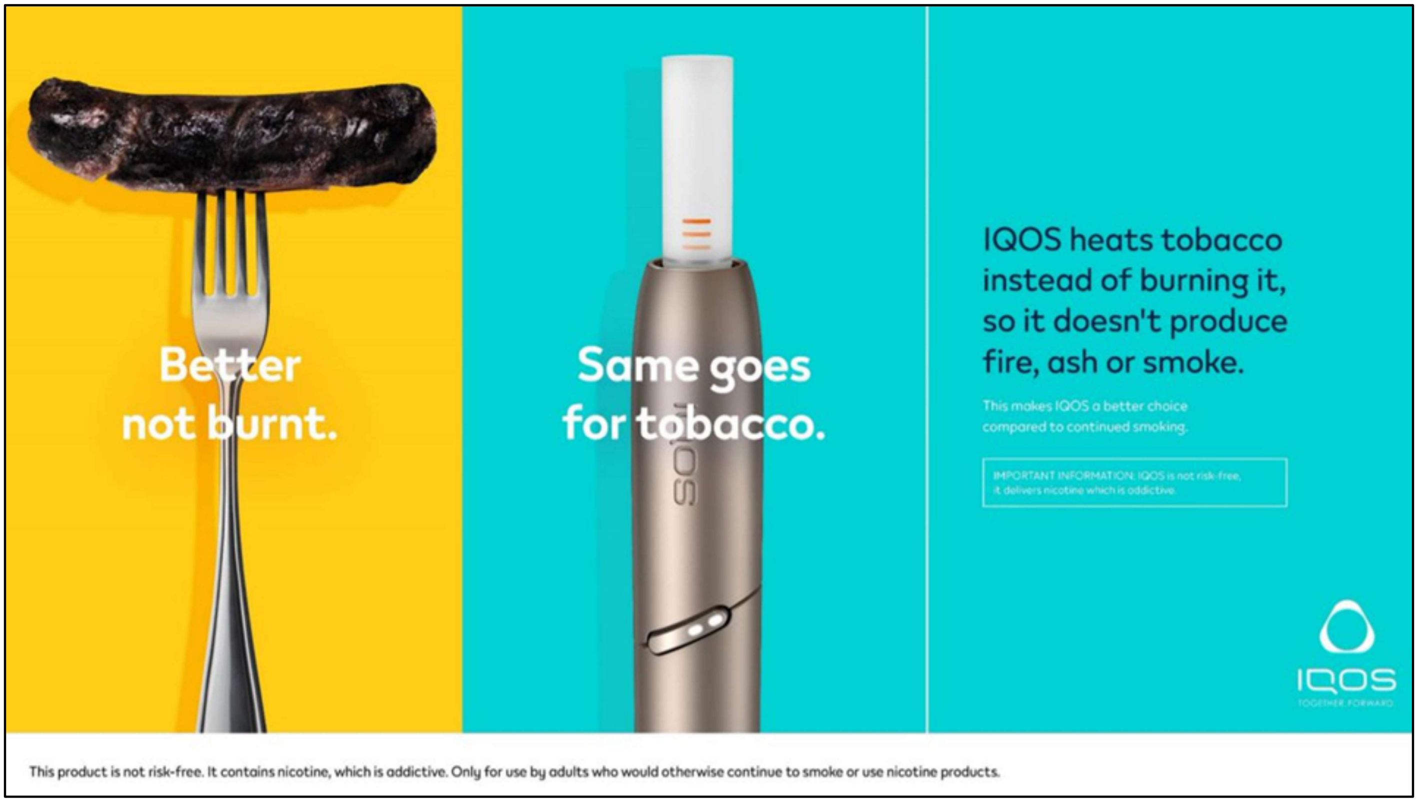
Let’s start with a pop quiz.

The winner gets a prize. Later.

What do these things have in common?

Clayton Christensen showed us just how rare it is for a successful company to disrupt itself. But there have been a few notable exceptions in corporate history:

- DRAM at one point in time accounted for over 90% of Intel’s sales.
- The iPod accounted for ~ 40% of Apple’s sales the year before the iPhone was released.
- NFLX famously disrupted its entire DVD-by-mail business, betting the entire company on an emerging “streaming” technology.



Today, I'd like to discuss a company disrupting one of the most profitable industries in history.

This is Big Tobacco's Kodak Moment.

Table of Contents

Tobacco is somewhat controversial these days.

So let me say upfront that I'm not here to defend the industry.

Cigarettes are bad for you. And Big Tobacco isn't the Virgin Mary.

But we are not trying to change the world. That's not our mandate.

Our investors hire us to preserve and compound their capital. We think the tobacco industry serves both purposes today.

Previous advertising campaigns may have been a little suspect.

Little boys were much cooler those days.

So were little girls . . .

But a lot has changed since then and we think the tobacco companies of today are different than those in the past.

Let’s start with a quick trip down tobacco road.

But first . . .

Some perspective on where we are coming from.

We’ve been living in a strange world for the past several years.


CNBC
WATCH LIVE

CRYPTO DECODED

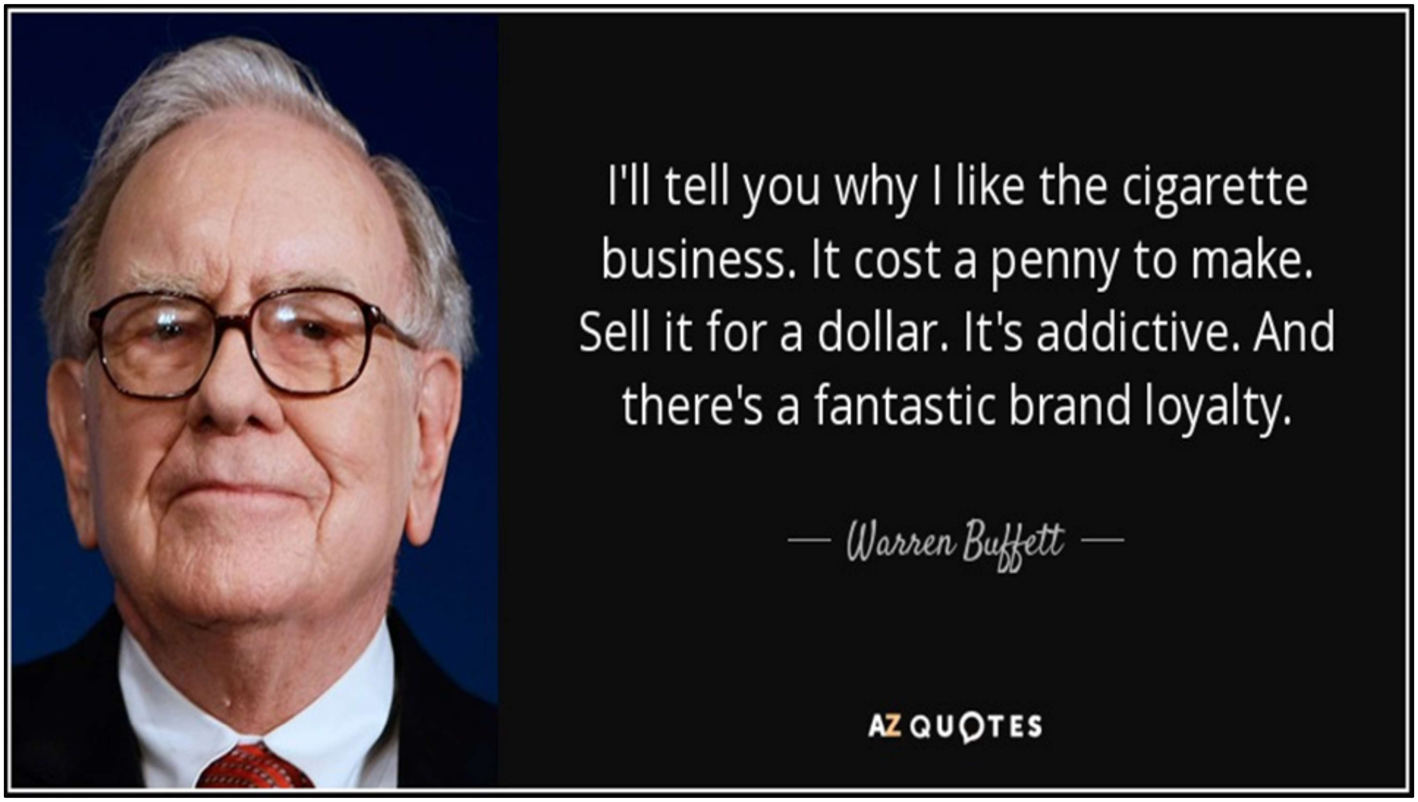
Somebody just paid $1.3 million for a picture of a rock

PUBLISHED MON, AUG 23 2021 6:17 PM EDT
UPDATED MON, AUG 23 2021 9:37 PM EDT

A decade of speculation has distorted "normal" for an entire generation of investors.

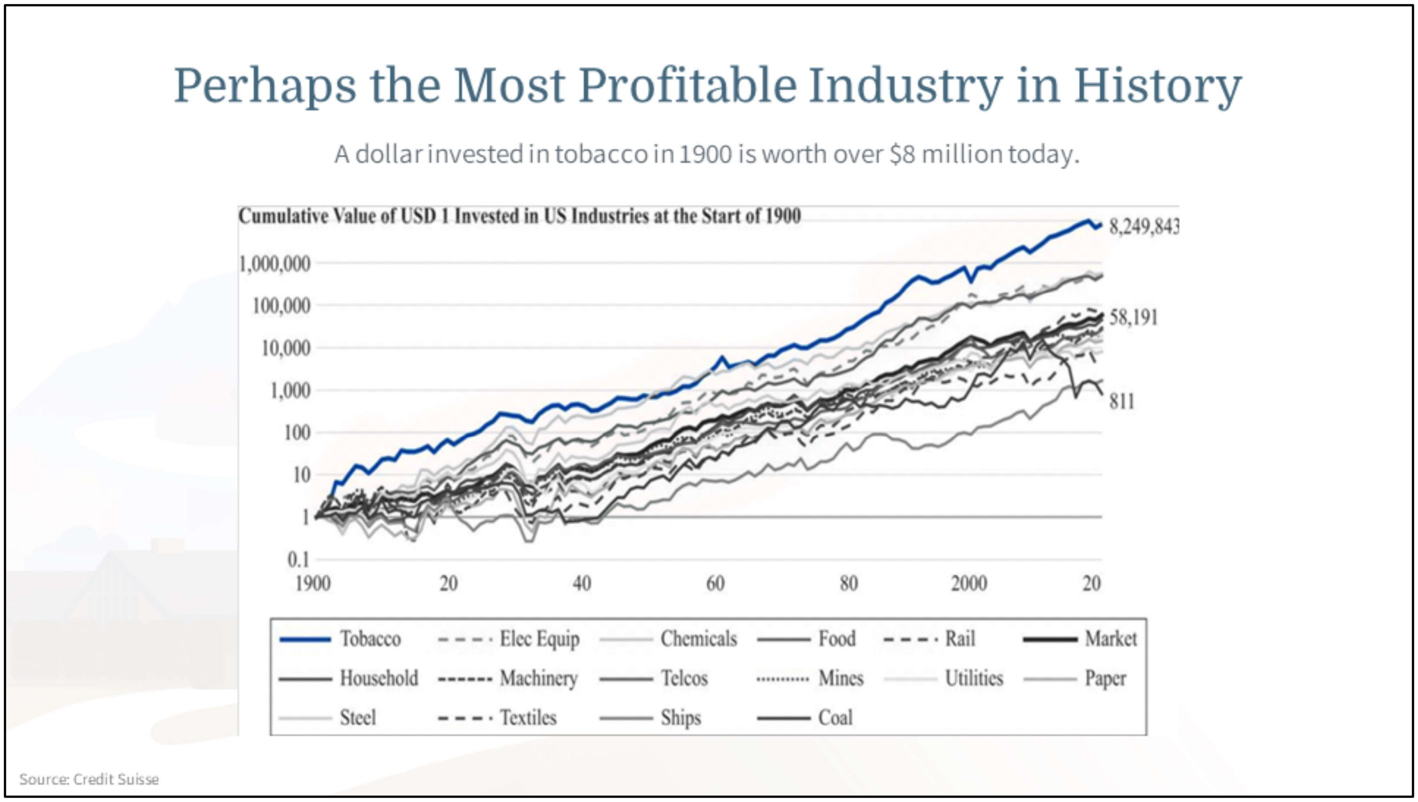
So it’s probably no surprise that consumer staples posted one of their worst stretches of underperformance in a century.

But investors are now waking up to the reality that they've been living in a world of fantasy. And good, old-fashioned value investing is again proving its merit. It’s Boomer Time!



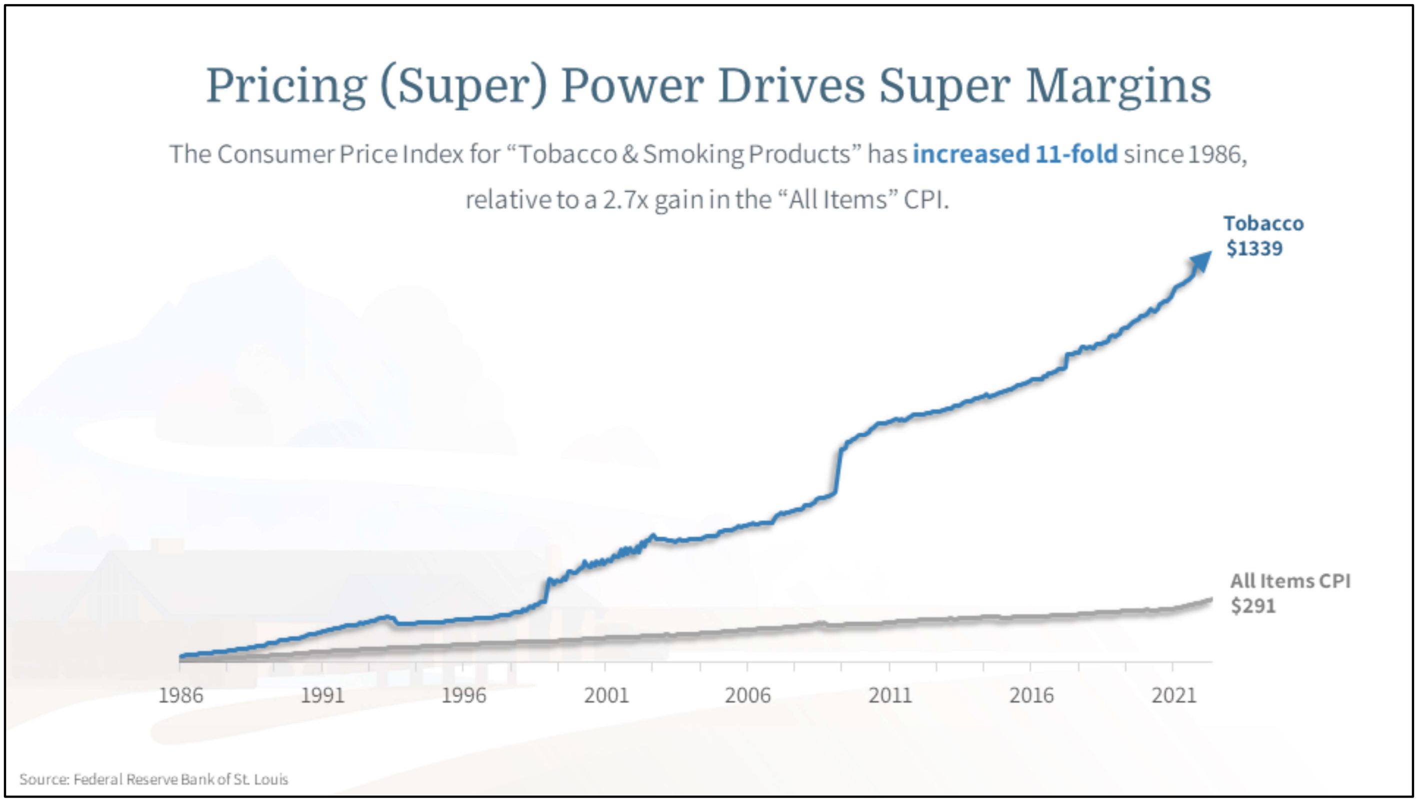
We believe tobacco is extremely well-positioned in a world that's woken up from this fantasy, where profits are again more important than promises.

It's a countercyclical business, selling a highly addictive product with tremendous brand loyalty, that prints almost as much cash as the Fed.



It may lack the sex appeal of rocket ships or driverless cars but tobacco more than makes up for it in consistency.

That consistency has driven over a century of long-term outperformance.

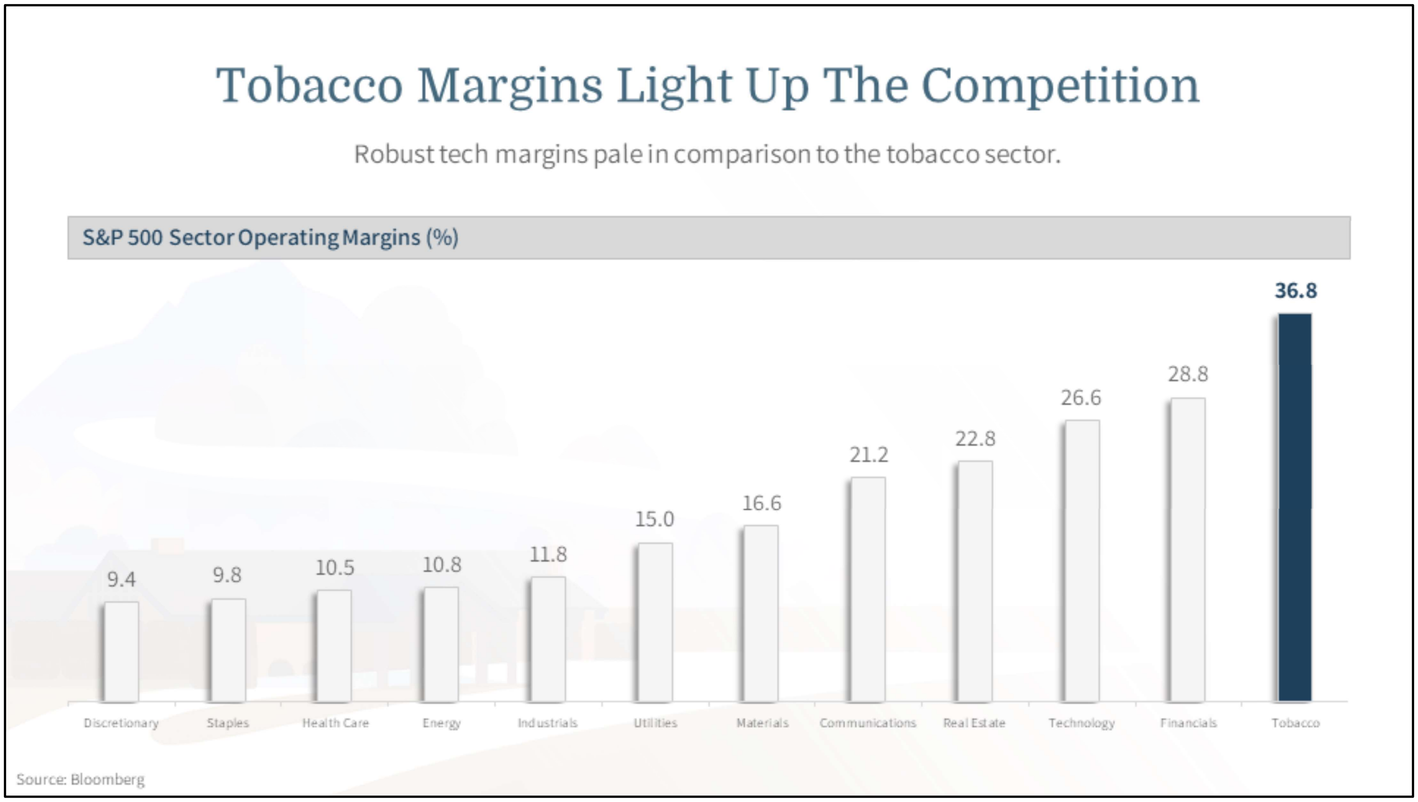


Consumer businesses with strong brands and inelastic demand demonstrate tremendous pricing power.

The tobacco industry is perhaps the single best example of this dynamic.

Simply put, price is not the primary determinant of choice in tobacco.

If it was, Marlboro wouldn't control the US market.



Brand loyalty, pricing power, and highly attractive unit economics generate best-in-class margins.

So why is the sector mispriced?

We believe the relentless selling was primarily driven by two factors.

Greta and her friends are the first factor we'll discuss today.

Bull market millennial mentality has facilitated a furious flow into ESG funds.

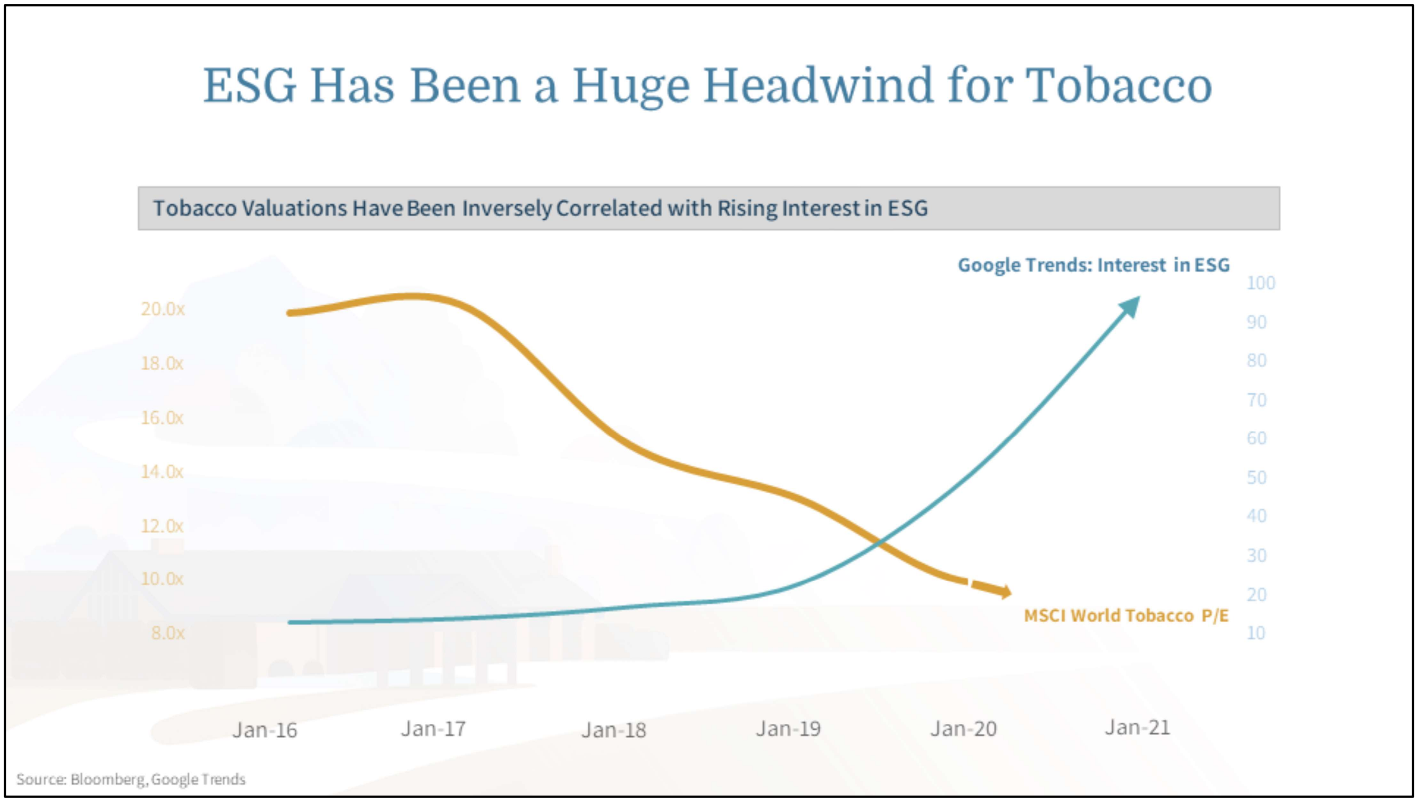
Dr Tedros Adhanom Ghebreyesus, Director-General, World Health Organization

"...it makes no sense to fight tobacco and the tobacco industry with one hand, while financing it with the other."

Launch of the Tobacco-Free Finance Pledge, United Nations Headquarters (September 2018)

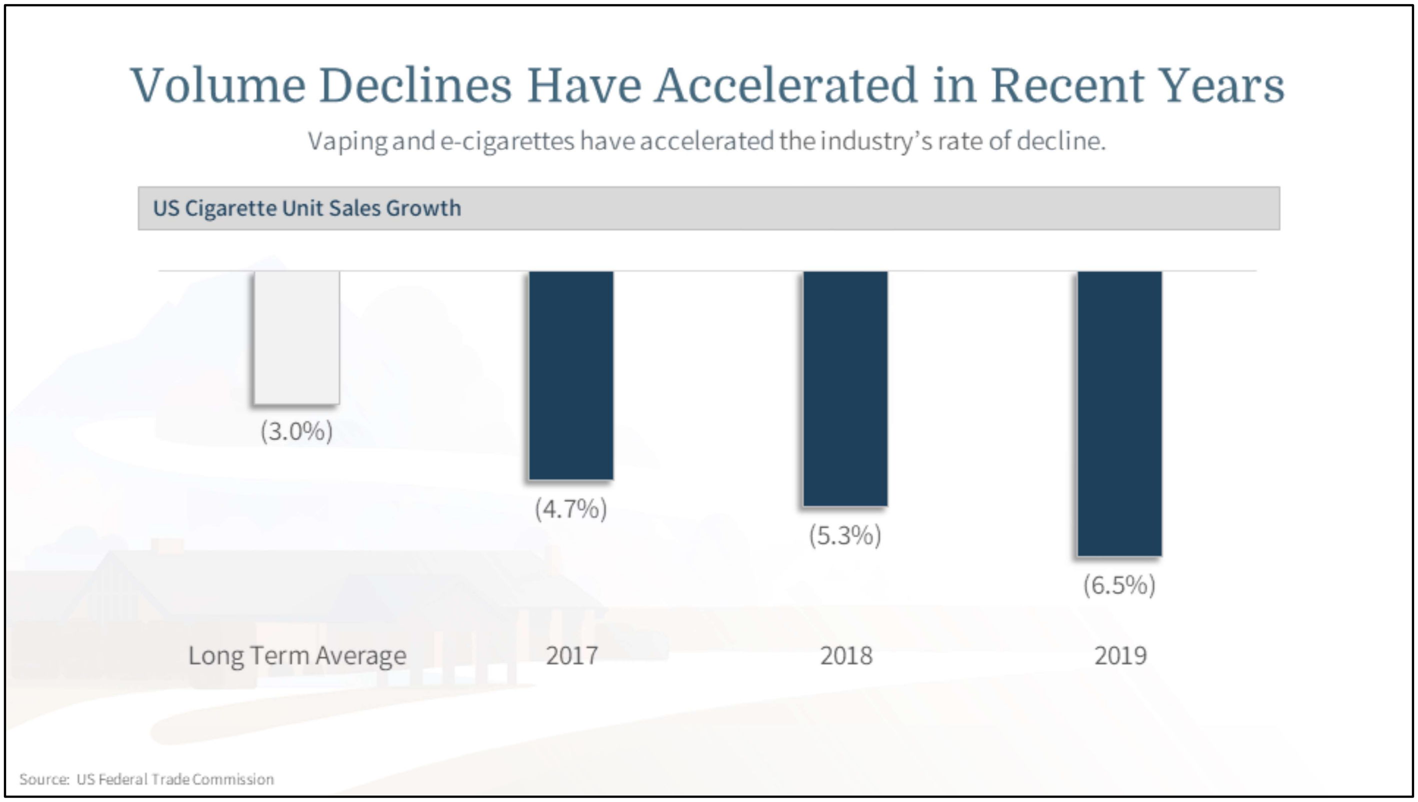
Signatures on The Tobacco-Free Finance Pledge represent over $12 TRILLION in AUM.

The impact is even larger in Europe where exclusions cover up to a third of assets in the region.



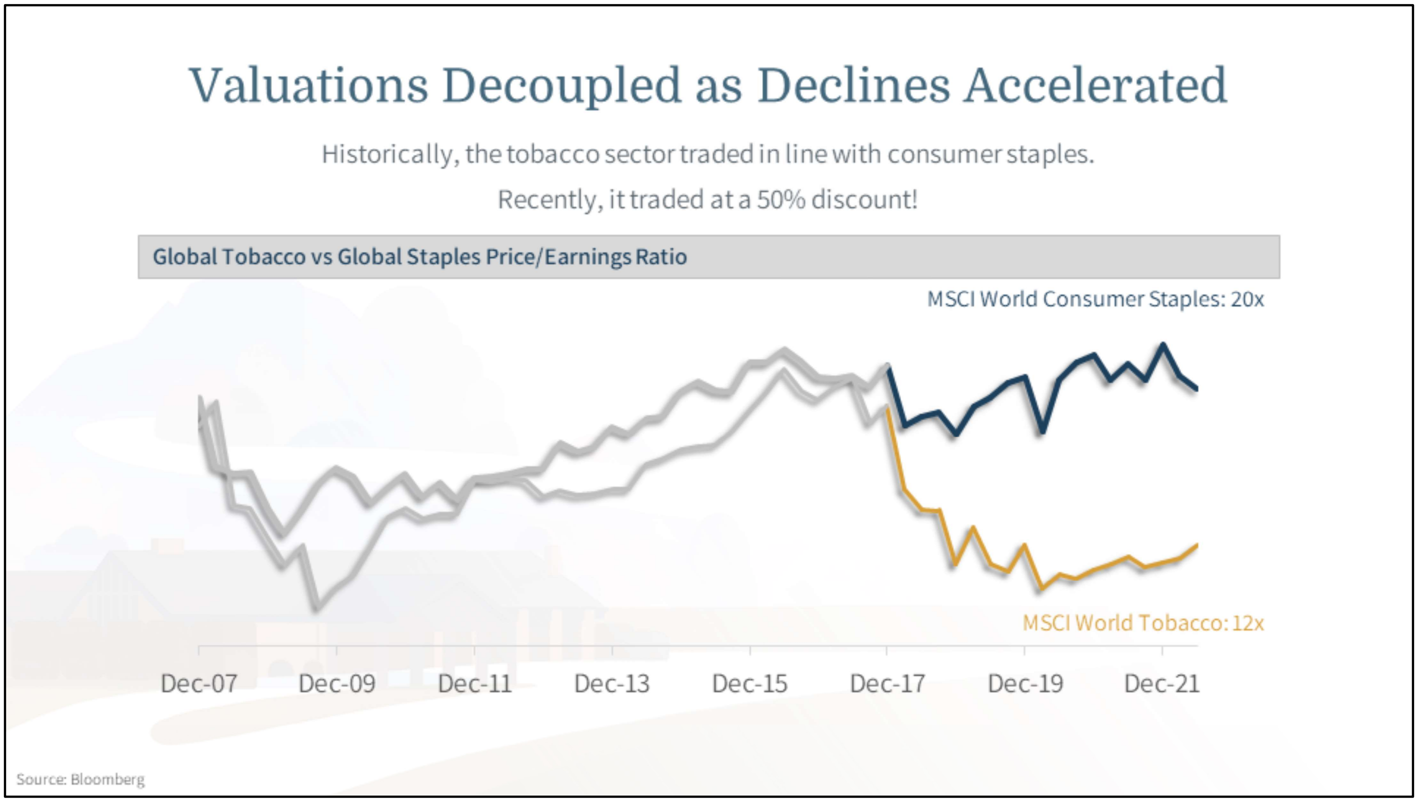
Interest in ESG and the resulting capital flows have clearly weighed on tobacco sector valuations.

Greta and her friends also played a role in the second factor creating today's opportunity.



JUUL's growth exploded in 2017.

And with it, the decline in tobacco volumes accelerated.



Historically, the tobacco sector traded in line with consumer staples.

But the sector de-rated aggressively on the heels of accelerating volume declines.

Tobacco recently traded at a 50% discount to the consumer sector. We think this is overdone and may now be reversing.

PMI is the single best-positioned company in the industry to capitalize on emerging trends.

The stock does not yet reflect the massive opportunity in front of it or the shifting economics of its business.

So, in our remaining time, we'll provide a quick overview of the company, how it's disrupting the industry, and close with some thoughts on valuation.

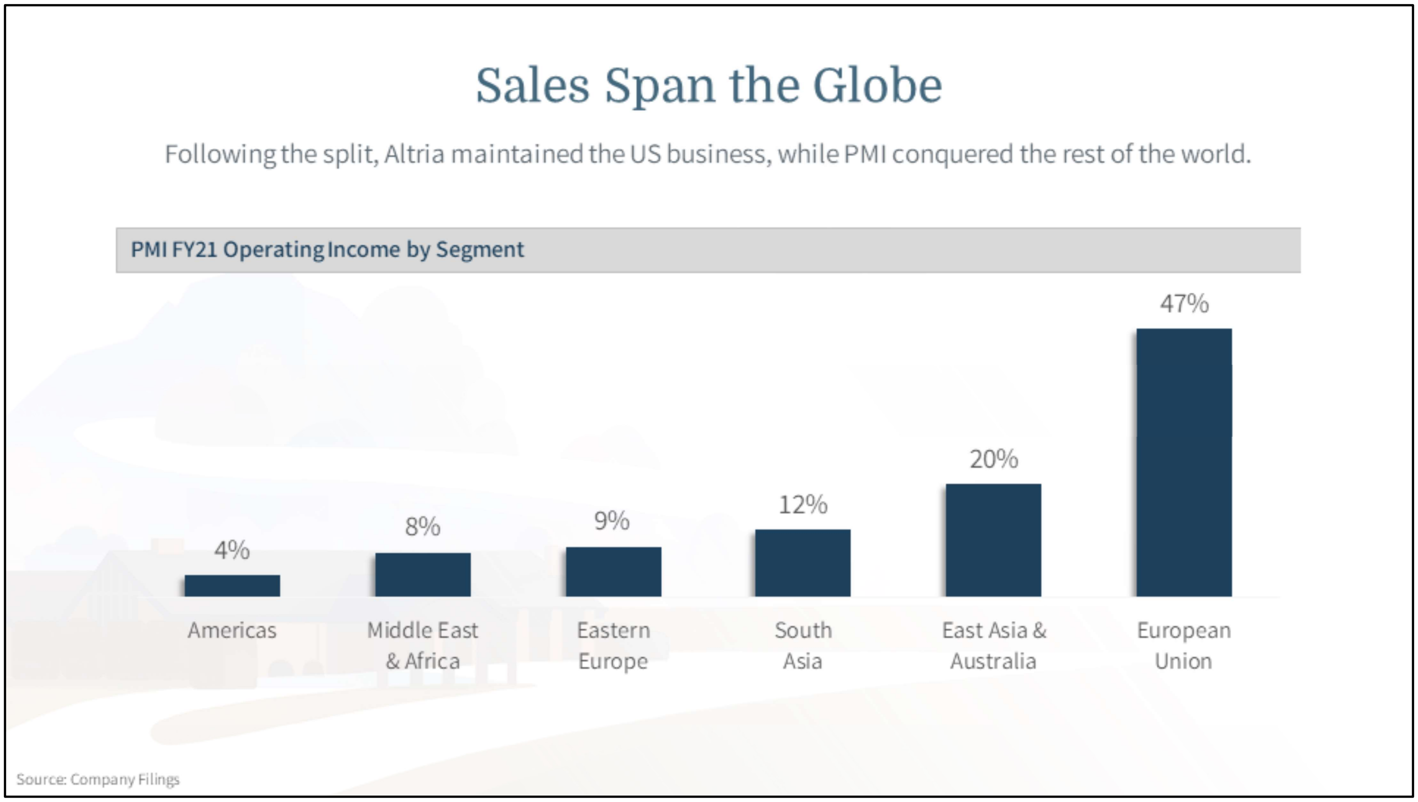
The Largest Tobacco Company in the World

Philip Morris International Inc.	
Ticker:	PM
Market Capitalization:	$140.4B
Enterprise Value:	$167.0B
Shares Outstanding:	1.55MM
Stock Price:	$89.6
LTM EPS:	$6.07
LTM P/E:	14.8x
Dividend Yield:	5.5%

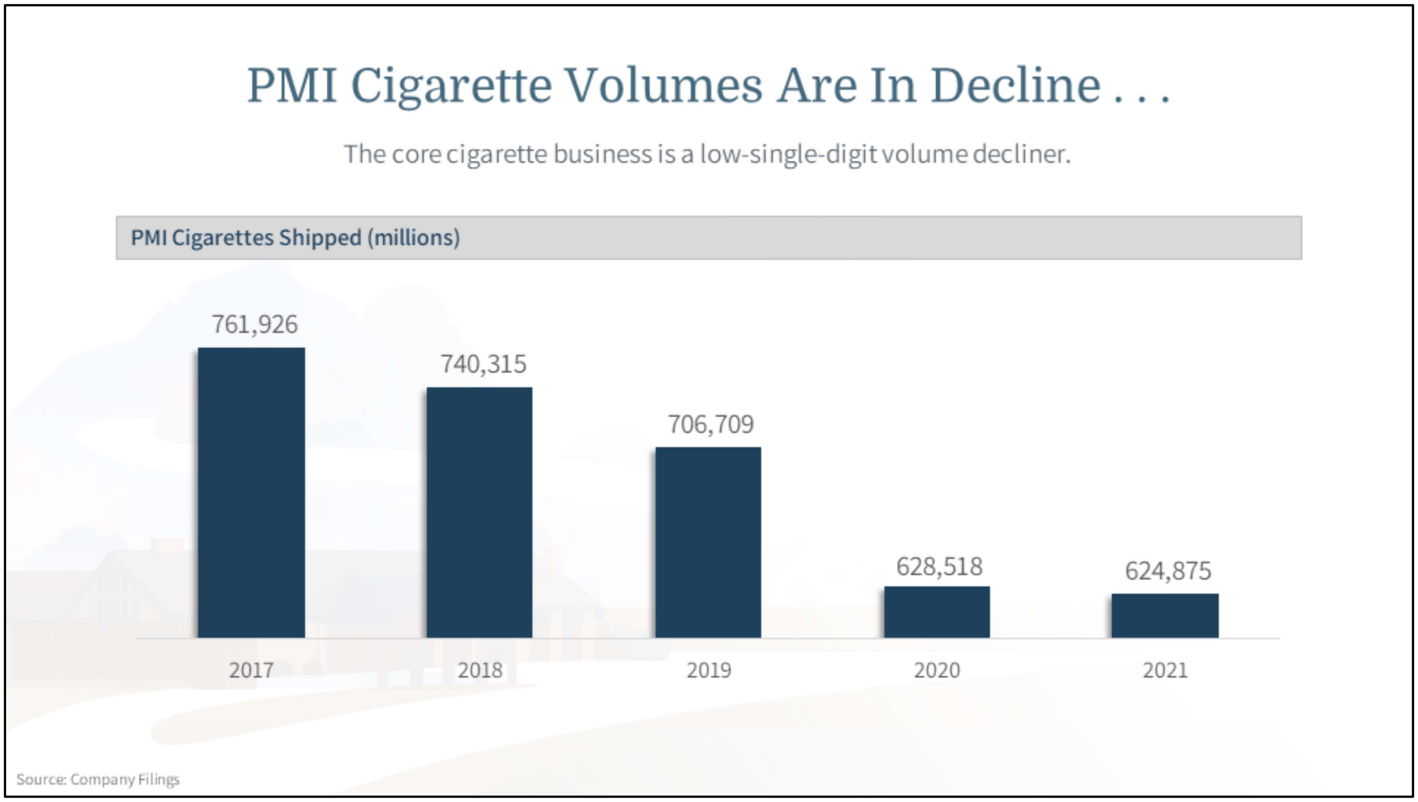
PMI is the largest tobacco company in the world (ex-China).

Its roots date back to a tobacco shop on Bond Street in 1847.

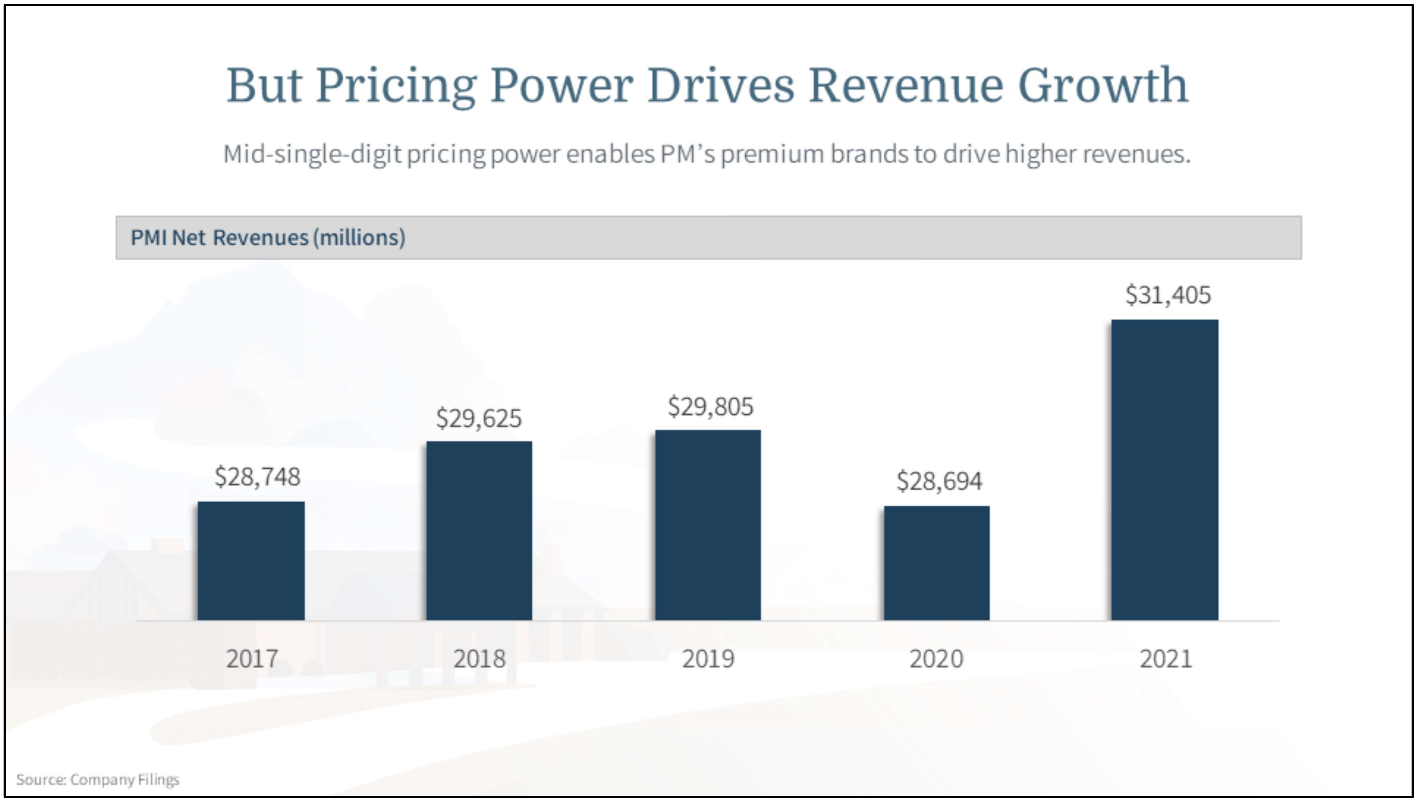
Since its initial stock listing in 1919, PMI has experienced quite the evolution acquiring Miller Brewing Company, General Foods, and Kraft, before changing its name to Altria and spinning most of these businesses off, along with its international operations – PMI.



That business today, PMI, sells Phillip Morris products around the world with the exception of the US and China.

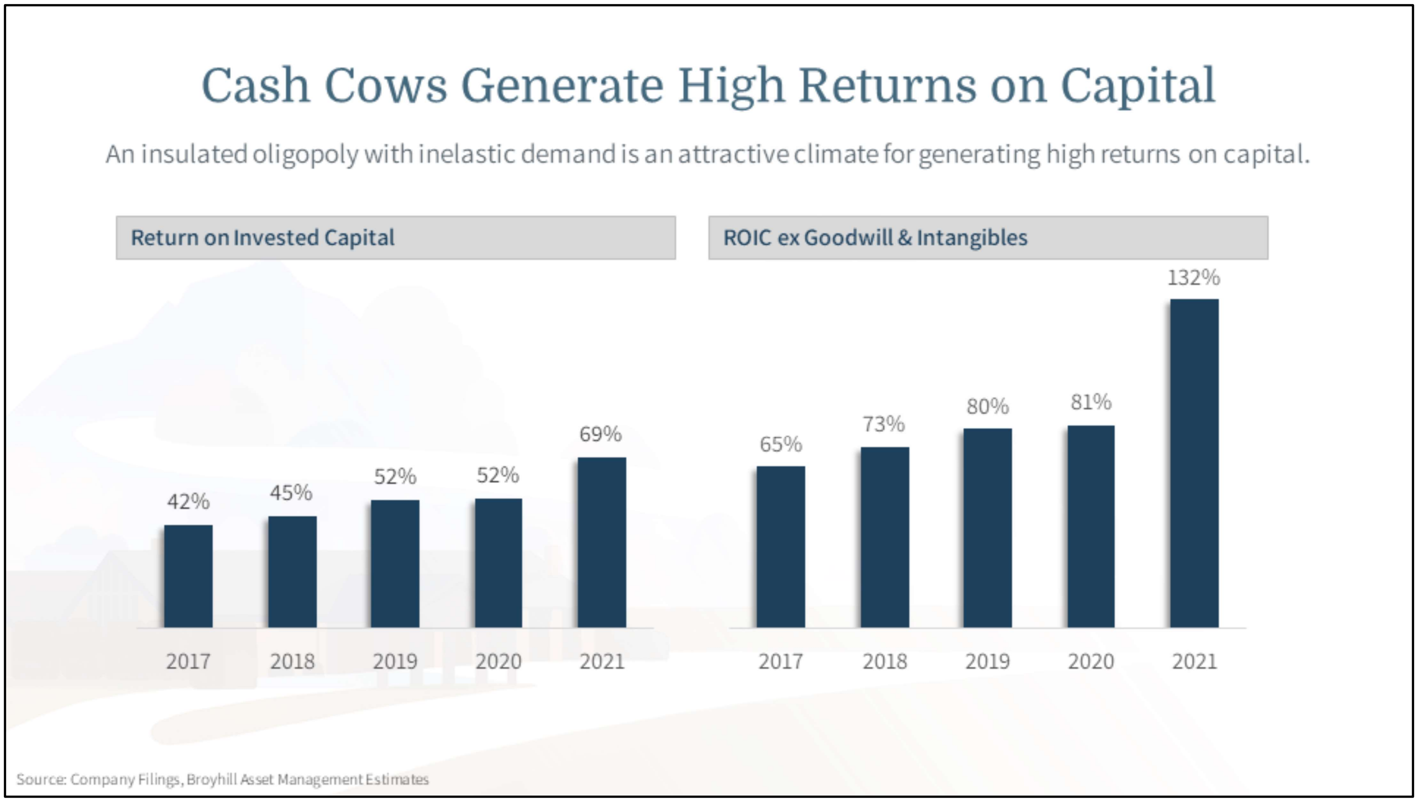


Everyone knows that the cigarette business is in decline.



But volume declines to date have not translated into top-line declines.

PMI continues to generate healthy sales growth.



And returns on capital are off the charts.

But, since we only have 15 minutes to spend on the company today, I want to spend our remaining time on how PMI is disrupting its business.

IQOS

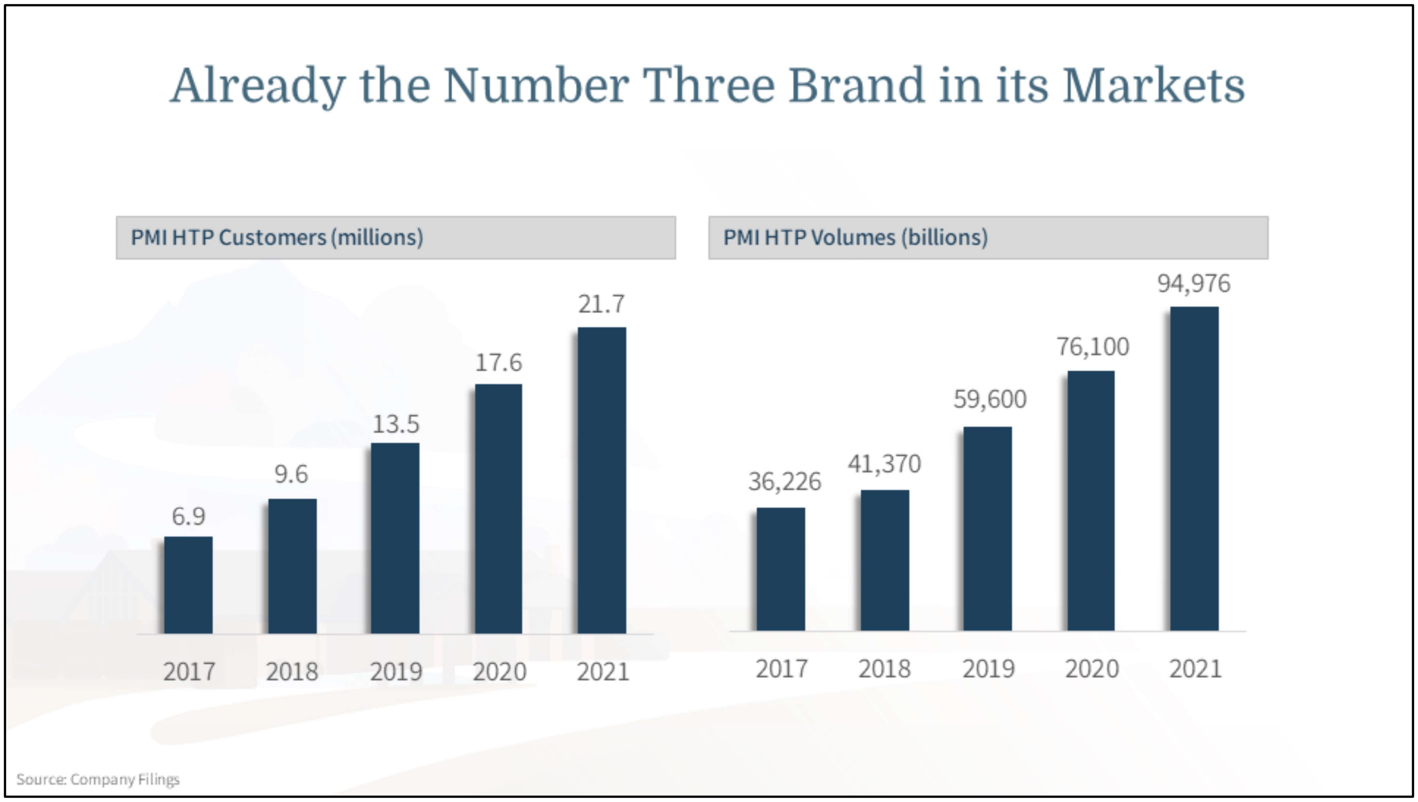
SIMPLY AMAZING

PM made the greatest cumulative investment in RRPs of the major tobacco players, investing over $9B over the past decade. The results speak for themselves – iQOS is the single most successful alternative nicotine brand.

Consider that Marlboro has ~ 13% share of the global nicotine market after five decades; IQOS has captured more than half of that share within five years.

And it’s one of only two products that has received the FDA's first-ever modified risk status.

We'll get to the second in a moment.

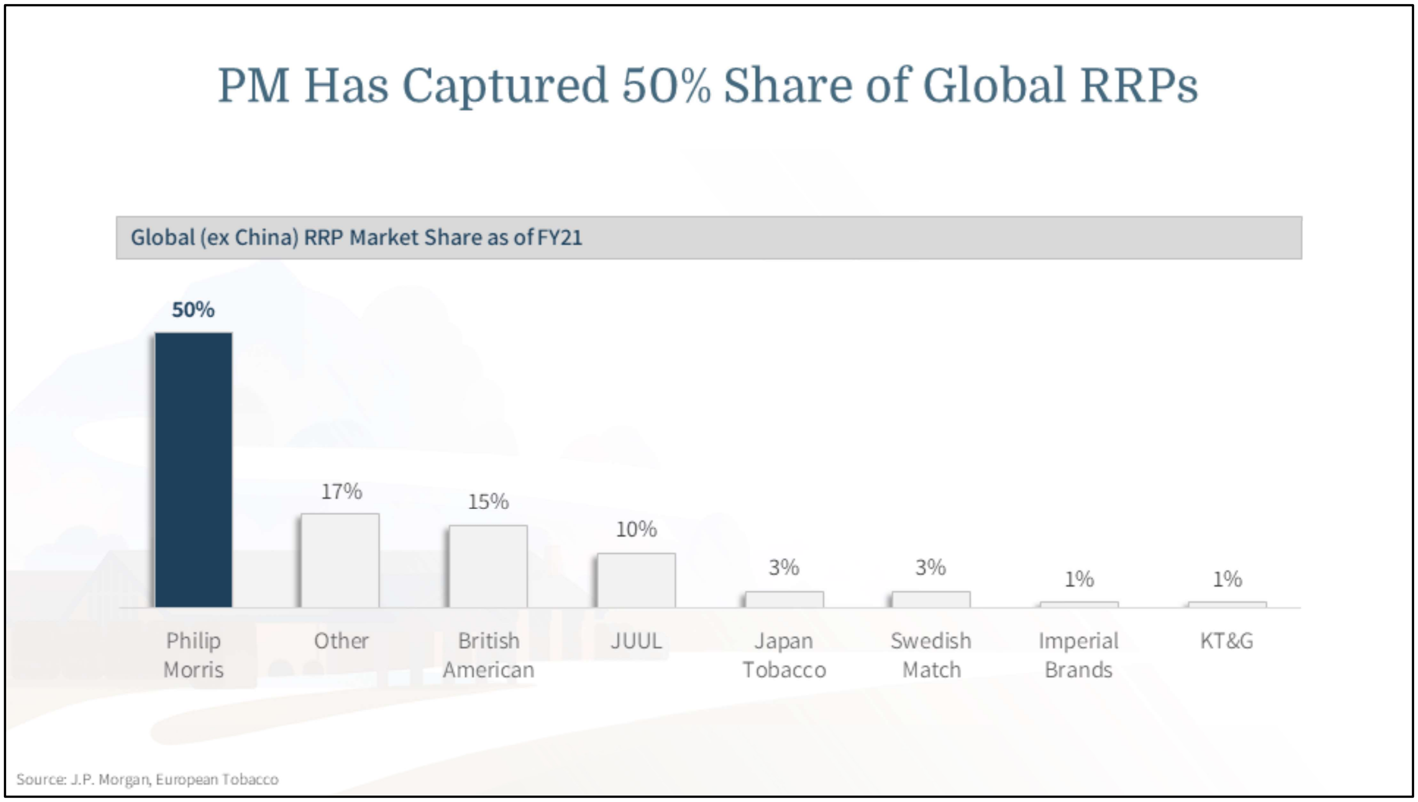


IQOS is already the number two brand in markets where it is present. It should reach the number two position – globally - next year, despite being available in only half the world.

It launched in 2015 and already has over 20 million customers worldwide.

About 70% of those customers were PMI customers.

The balance represents share gains.



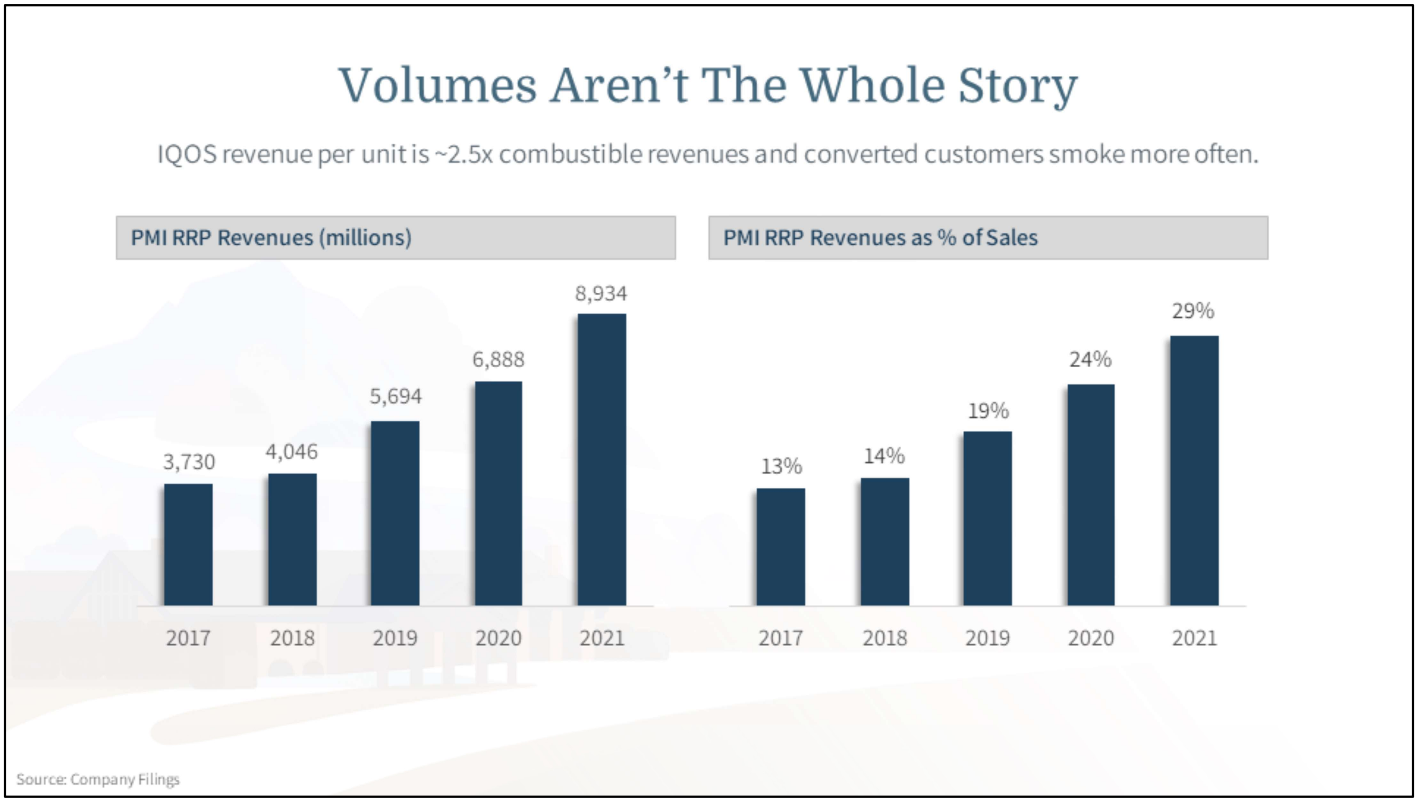
Overall RRPs hold about ~ 12% share of the global nicotine market. And PM has captured half of this market.

Heated Tobacco Products are the largest category within RRPs.

PM's share here is even more dominant at about 80% today.

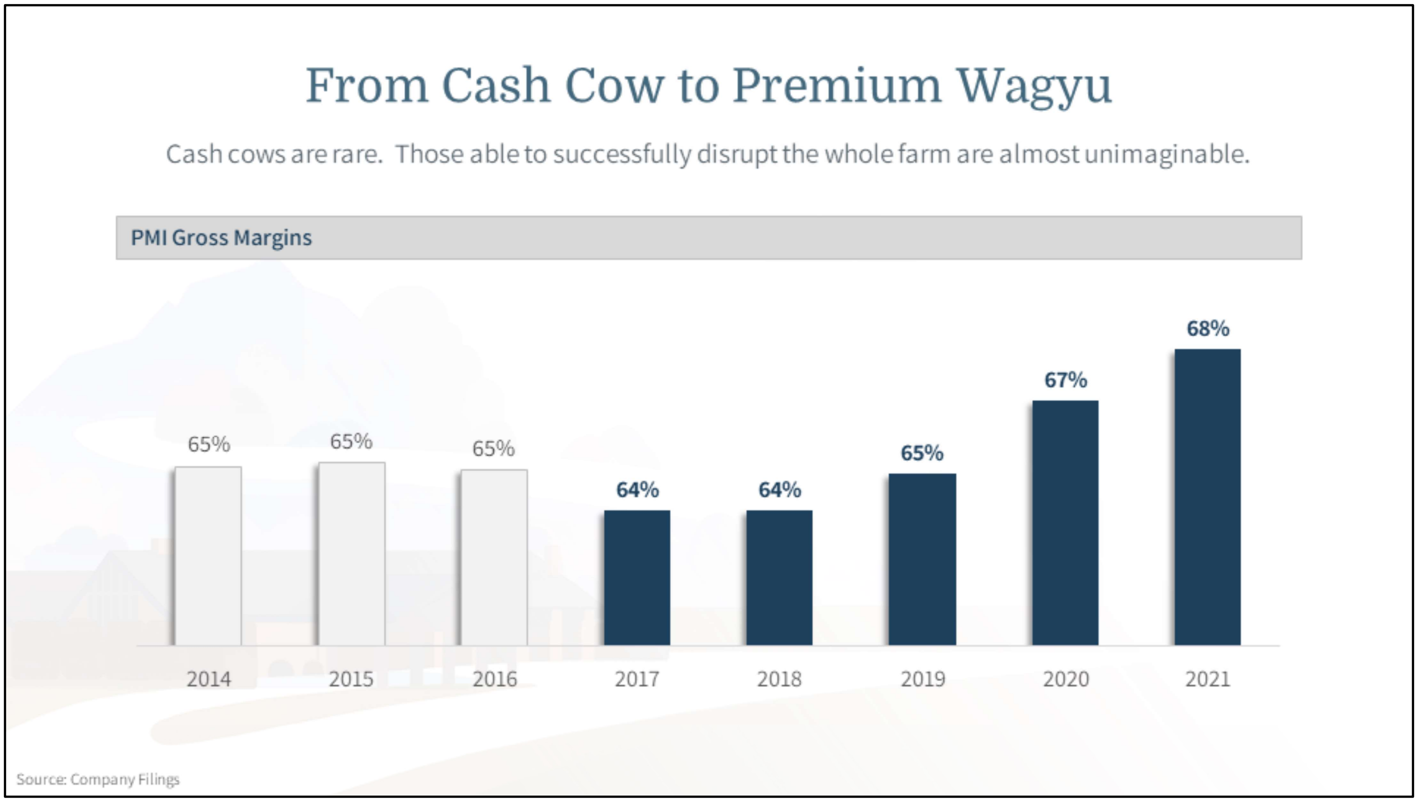
While iQOS has already passed 20M users, RRPs are only a sliver of the total nicotine market.

The global cigarette market ex-China is ~ 35x the size of HTPs.



IQOS revenue per unit is ~ 2.5x combustible revenues so volume growth comes with accelerating revenue growth.

Converted iQOS users also smoke more to achieve the same level of nicotine so we get increased frequency as well.



But revenues don't tell the whole story either. GMs - at about 75% - are 10 points higher than the already incredible GMs on combustible cigarettes. And SG&A should continue to scale ultimately exceeding combustible operating margins. As a result, iQOS is 2-4x more profitable than combustibles depending on geography.

Bottom Line: cows that generate this much cash for this long are a rare breed. It's even more rare to find cash-generating animals willing to disrupt the entire farm. And it's almost unimaginable that one of the most profitable cows in farm history transforms itself into a different animal altogether, while actually improving unit economics.

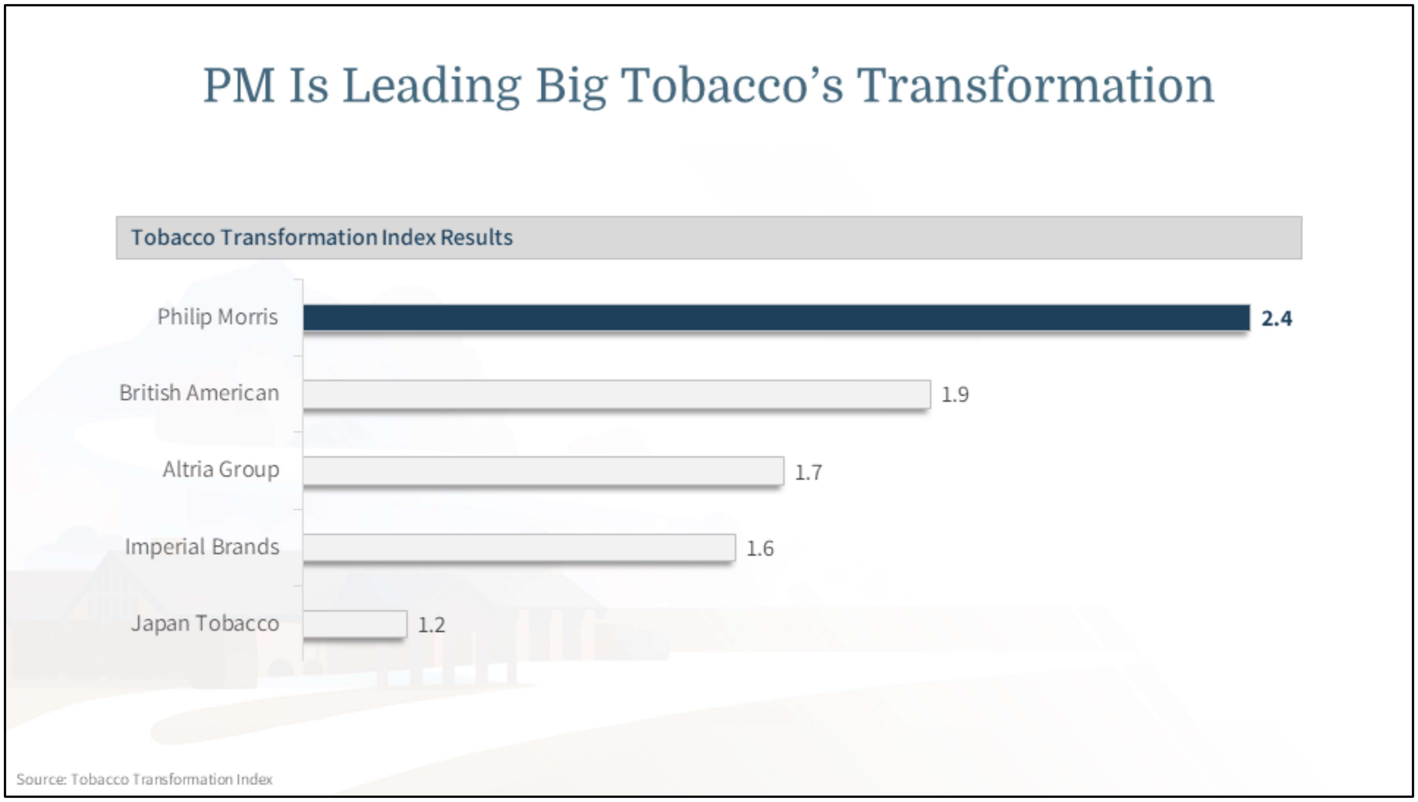
Okay.

Let's back up for a second before wrapping up.

And let's say ESG isn't a complete scam. Let's give Greta the benefit of the doubt . . . even if just as a thought experiment.

What if near-term outperformance, driven by a return to fundamentals, prompted the ESG crowd to reconsider their "strict" requirements for inclusion?

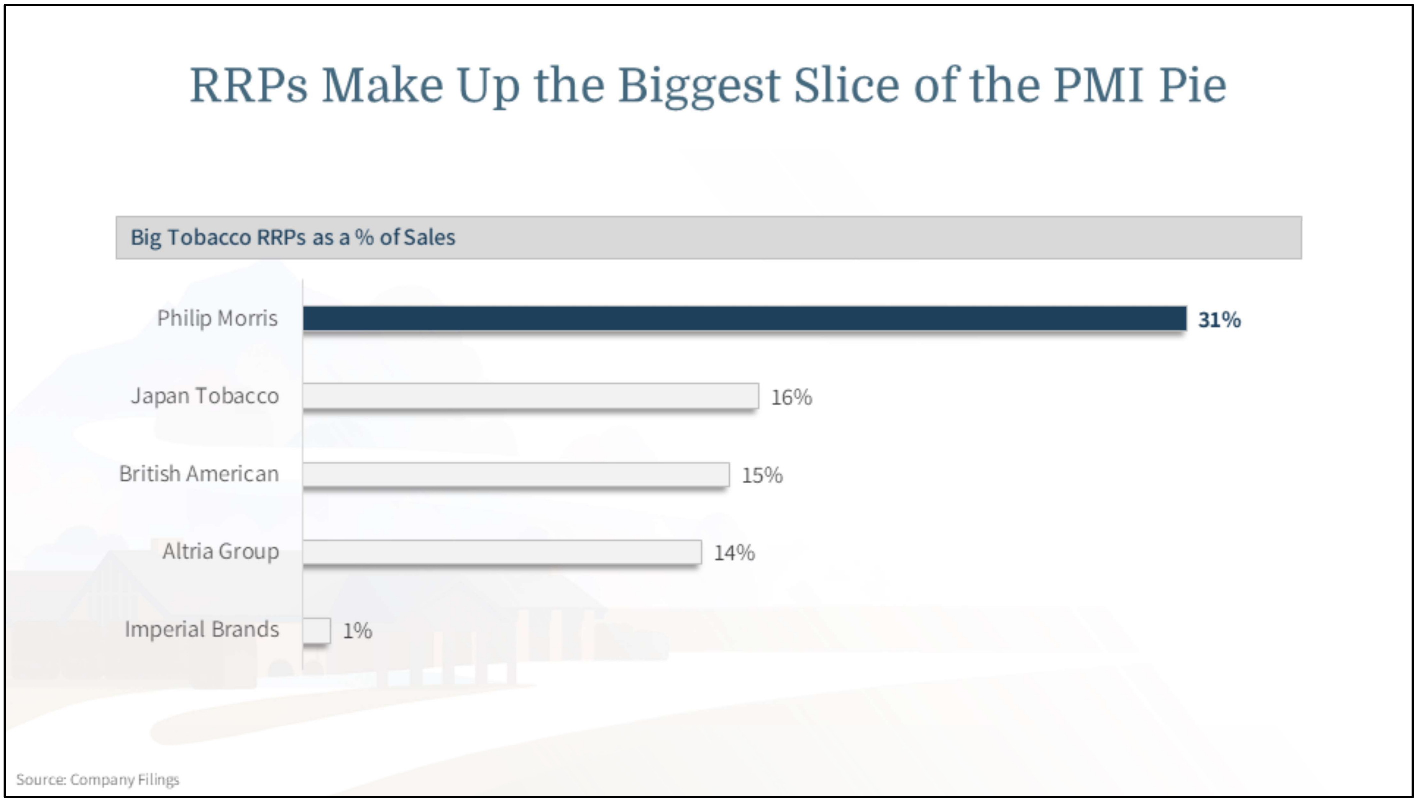
The energy sector is crushing it year-to-date. And guess what, the number of ESG investors allocating to the industry has doubled. Could we see a similar setup in tobacco? Could ESG investors start looking for excuses to invest in transformational companies?



If so, PMI is leading the pack.

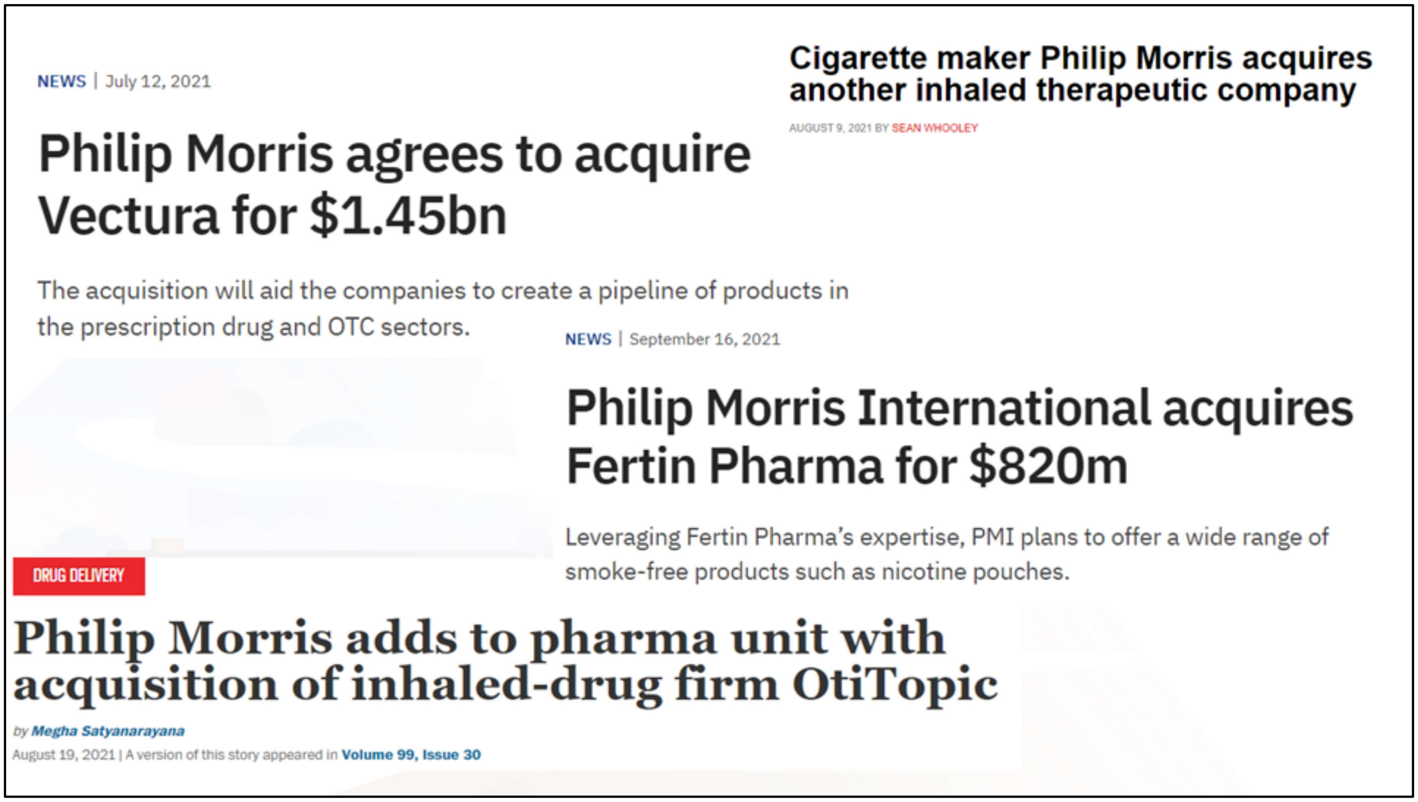
It's the top-ranked Big Tobacco company in terms of its commitment to tobacco harm reduction, as measured by The Tobacco Transformation Index.

It's also been included in the Dow Jones Sustainability Index for the second consecutive year. This puts PM among the top 20% of companies in ESG performance, per S&P Global.



RRPs make up more than 30% of PMI sales today. Nearly twice the level of the next biggest player in the market.

And management has accomplished this from a standing start via 100% organic growth.



NEWS | July 12, 2021

Philip Morris agrees to acquire Vectura for $1.45bn

The acquisition will aid the companies to create a pipeline of products in the prescription drug and OTC sectors.

Cigarette maker Philip Morris acquires another inhaled therapeutic company

AUGUST 9, 2021 BY SEAN WHOOLEY

NEWS | September 16, 2021

Philip Morris International acquires Fertin Pharma for $820m

Leveraging Fertin Pharma's expertise, PMI plans to offer a wide range of smoke-free products such as nicotine pouches.

DRUG DELIVERY

Philip Morris adds to pharma unit with acquisition of inhaled-drug firm OtiTopic

by Megha Satyanarayana

August 19, 2021 | A version of this story appeared in Volume 99, Issue 30

The next phase is strategic expansion. Unlike some of their peers, we think PMI management has an excellent capital allocation track record.

This one is a game changer.

The synergies here are perhaps the greatest we’ve seen in a strategic acquisition.

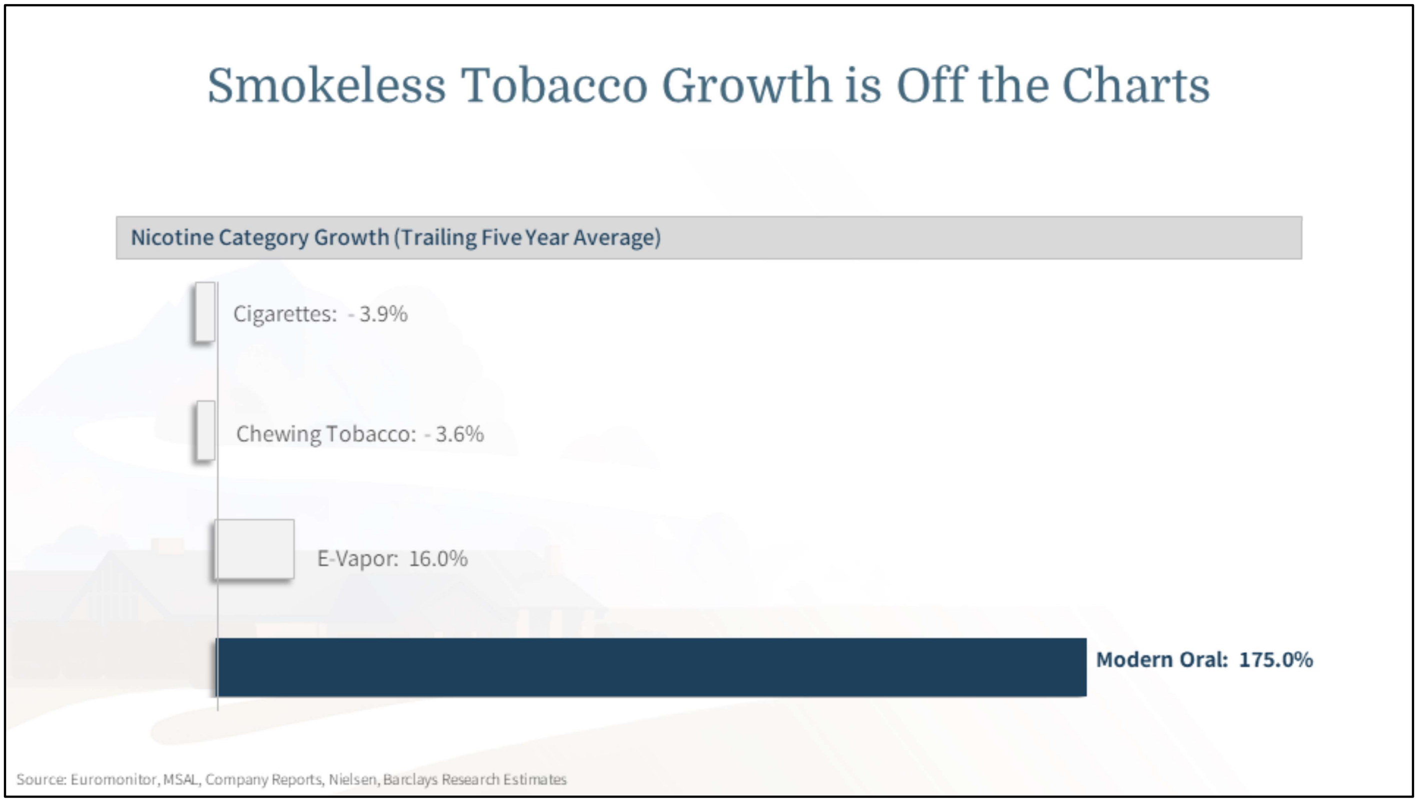
Swedish . . . Match (Point)

Accelerated Transformation	Zyn's rapid growth would accelerate PM's transition to a predominantly smoke-free company.
Excellent Strategic Fit	Combined geographic footprint would represent a comprehensive global smoke-free portfolio.
Entry Into US Market	Accelerated entry into the US - the most lucrative nicotine market in the world.
Larger Addressable Market	PM's addressable market for smoke-free products would increase by ~ 60% with the US alone.
Growing Product Portfolio	The combined company would have a presence in e-vapor, heated tobacco, and oral tobacco.
Potential iQOS Distribution	Match could provide PM with potential distribution (and full margin capture) for iQOS in the US.
Global SWMA Distribution	Longer term opportunity to add SWMA products to PM's broad, global distribution network.
Enhances Top Line Growth	Immediately improved revenue growth profile led by pouches expected to grow 30% - 40% annually.
Accretive to Margins	Proposed transaction is accretive to PM's operating margins, before synergies.
Improved FX Profile	Significant boost to USD income would dramatically improve PM's currency profile.

We think this deal is a home run.

Match dominates the market for nicotine pouches and stands to benefit most from its growth.

The category should grow volumes at better than 30% annually, with little cyclicality, high gross margins, and strong cash generation.



Who here has heard of Zyn? Who's tried it?

I'm asking because I think you need to have a sense of what this product is to understand these numbers. So here's your chance.

The nicotine pouch user base is likely to double to over 4MM users by FY25 while the average number of cans per consumer continues to increase, driving a ~ 4x increase in US sales to $4B.

Match provides PM with a global presence in every category.

And a leading smoke-free portfolio.

Match Point.

So . . .

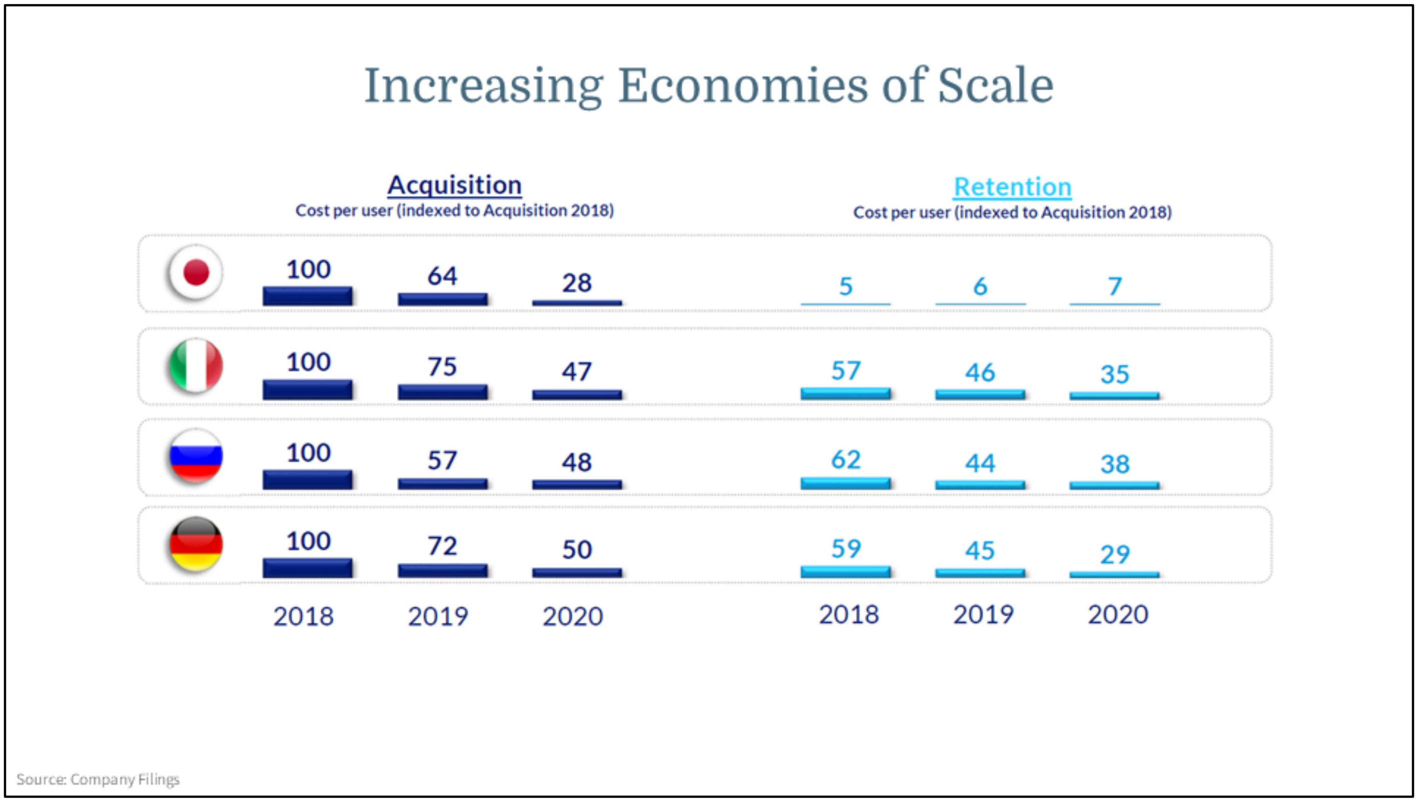
What's it worth?

Valuation is an imprecise science.

So, we triangulate our fair value estimates from several different angles to increase our degree of confidence.

SaaS businesses are all the rage today, but the model is not new.

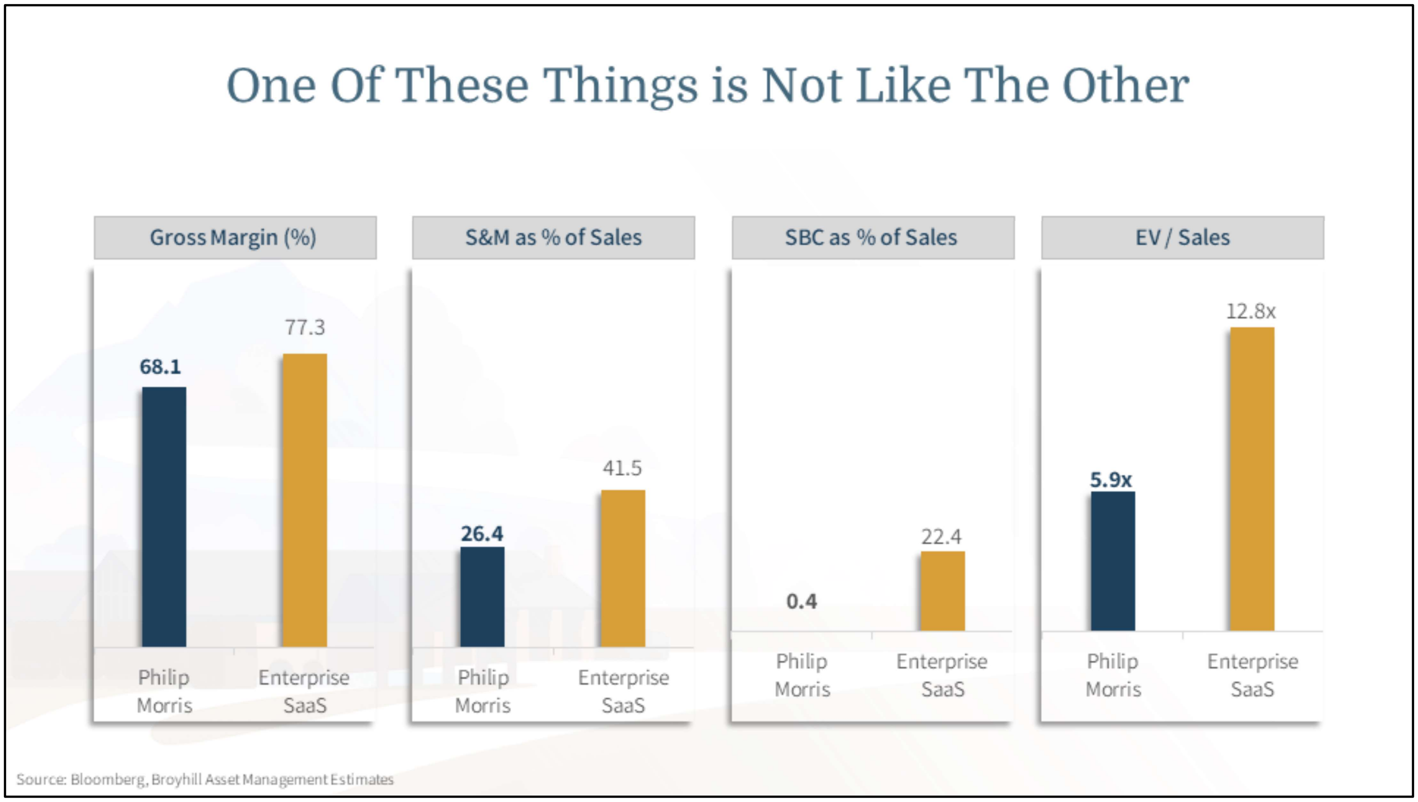
I present to you . . . Smokes as a Service!



Smokes as a Service boasts unmatched unit economics.

To start, churn is essentially zero. Customer lifetime value really is the customer's lifetime in most cases.

At the same time, Customer Acquisition Costs are low and declining. Breakeven in new markets is less than a year now so margin gains should accelerate.



Gross margins are a tad below the largest enterprise SaaS companies.

But PM doesn’t require nearly as much marketing spend to drive growth.

And it certainly doesn’t need to give away the company to incentive employees.

Yet, despite similar or perhaps superior economics, the company still trades at a massive discount to its sexier software peers.

All Multiples Are Not Created Equal

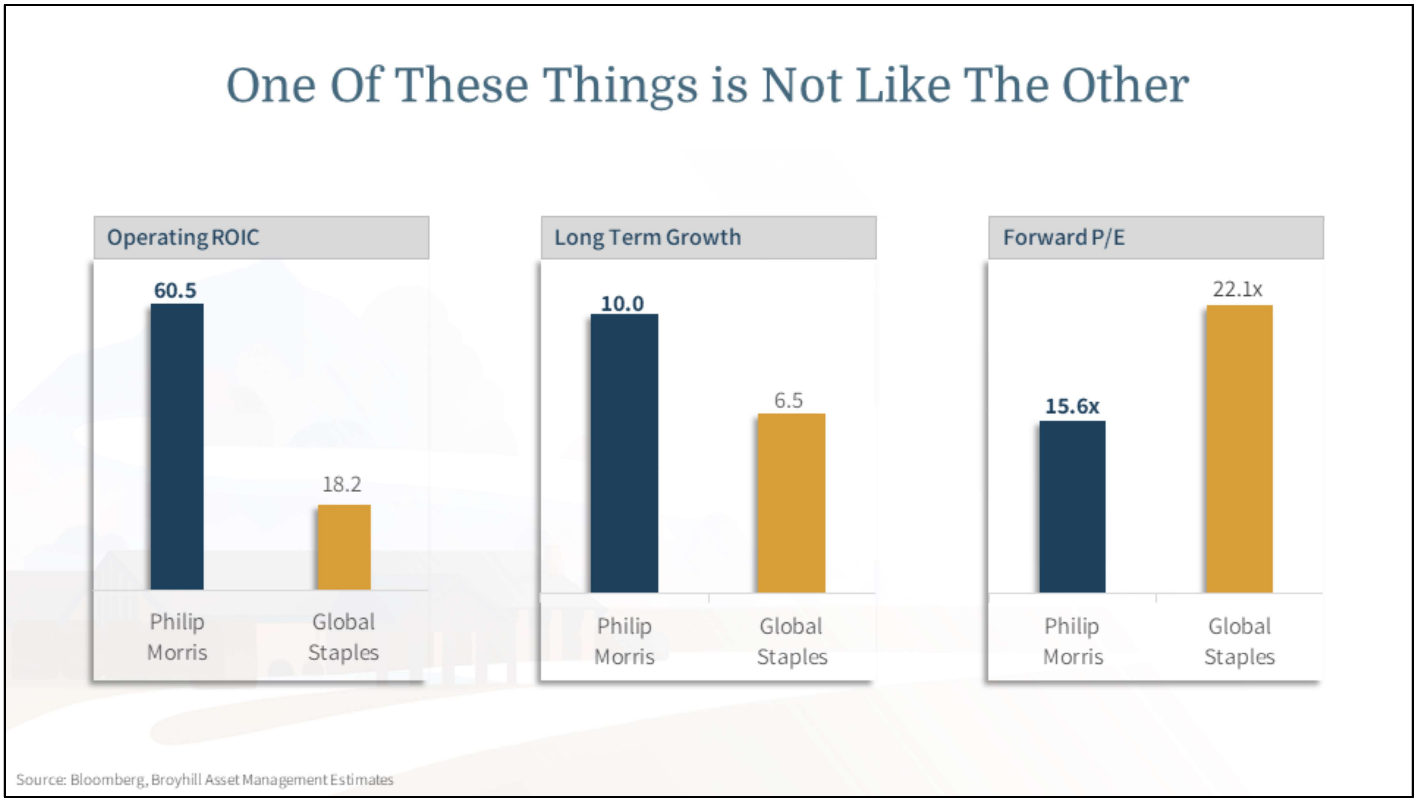
Growth	Return on Invested Capital			
	4%	8%	16%	24%
4%	7.1x	12.5x	15.2x	16.1x
6%	3.3x	12.5x	17.1x	21.8x
8%	N/A	12.5x	19.4x	21.8x
10%	N/A	12.5x	22.4x	25.7x

Source: Credit Suisse, What Does a Price-Earnings Multiple Mean?

Many would point to the delta in growth rates as the driver of this disconnect. But high multiples are about more than growth.

Growth rates and multiples don't move in lockstep since growth requires investment.

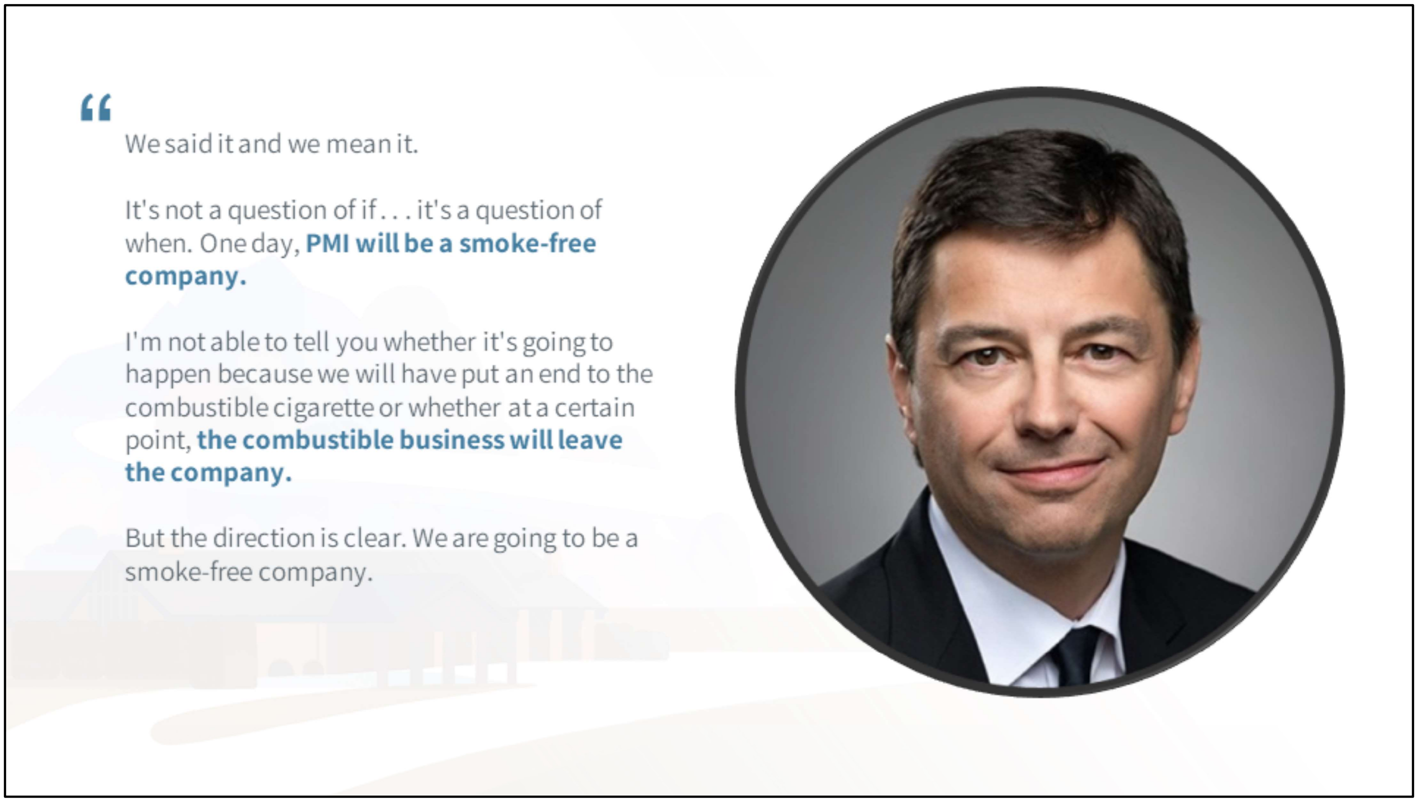
As a result, returns on capital play a key role in translating growth into multiples.



Some of you might struggle comping PM to SNOW.

So let's take a look at how we measure up to the top five global consumer companies.

PM's ROIC is more than 3x the average, is growing 50% faster, and trading at a massive discount to the group. Something doesn't add up here.



PM will be a smoke-free company.

It’s not a question of *if*. It’s a question of *when*.

And at some point between now and then, the market will value PMI MUCH differently.

PM + IQOS = A Unique Value Opportunity

	FY25 Sales	FY25 Margin	FY25 EBIT	EV / EBIT	Enterprise Value
Combustibles	16,862	45.0%	7,588	12.5x	94,851
RRPs	16,862	45.0%	7,588	25.0x	189,703
Total	**33,725**	**45.0%**	**15,176**	**18.8x**	**284,554**
(-) Net Debt					23,720
Equity Market Value					**$260,834**
Shares Outstanding					1,550
Future Share Price					**$168**
(+) Cumulative Dividends					$20
Expected Value per Share					**$188**
Cumulative Return					*110%*

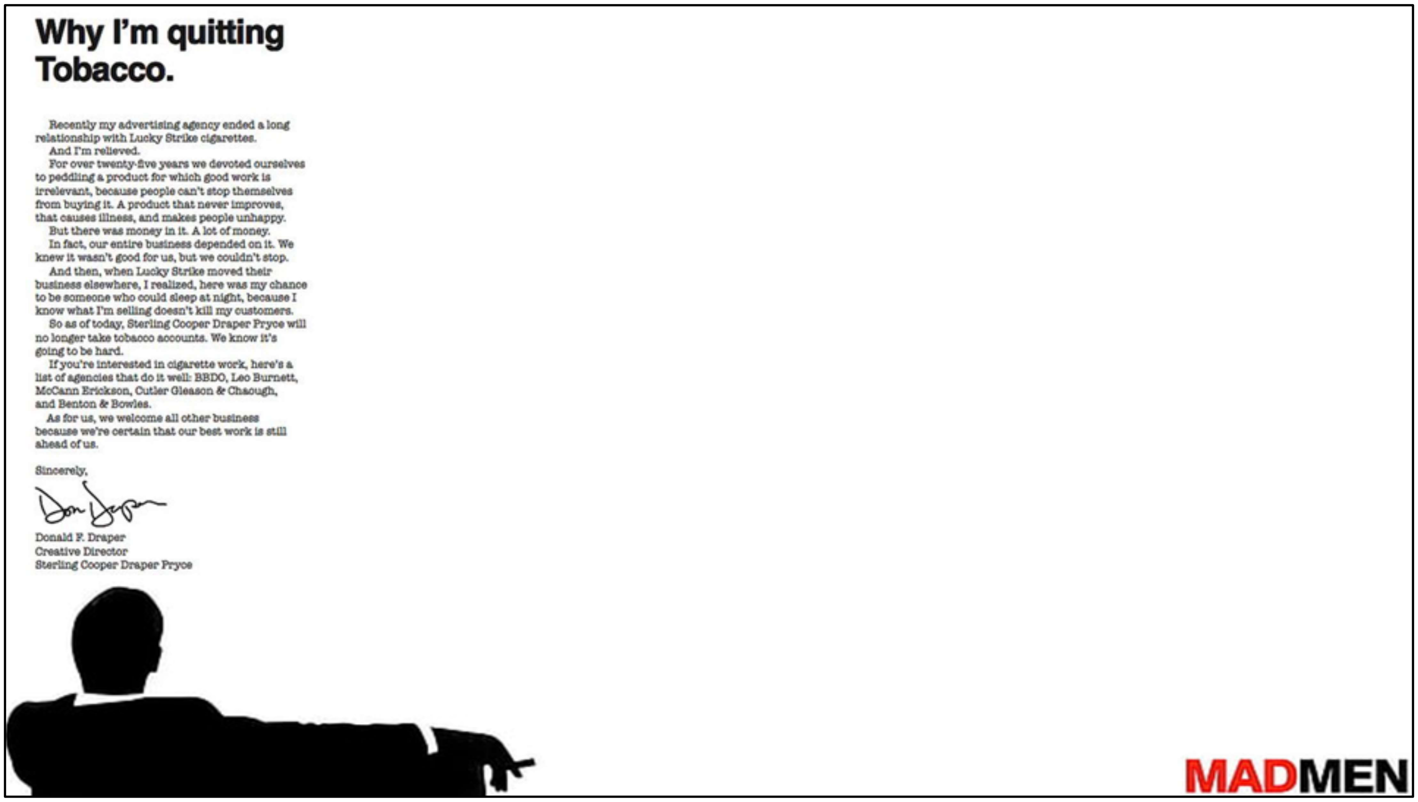
Source: Broyhill Asset Management Estimates

Most SoTP analyses are purely academic exercises. But in this case, we think it makes sense to take management at their word and value the individual parts separately.

This is our "back of the napkin" valuation.

- We start with current run rate revenues ex Russia.
- We assume revenues grow at 5% annually (we think this is conservative given the accelerating uptake of IQOS, new product launches, and the potential to re-enter the US market, which is not currently in our numbers).
- We assume both segments earn 45% EBIT margins (as discussed earlier, we believe IQOS margins should ultimately exceed combustible margins as SG&A declines and the business begins to demonstrate its inherent operating leverage).
- We assume the combustible segment trades at 12.5x – in line with the tobacco sector's historical average. And we assume RRPs trade at 25x – roughly in line with the top global consumer staples franchises, which earn a fraction of the returns on capital and generate little, if any, organic growth. We believe this could prove to be very conservative.

Bottom line: after backing out net debt and accounting for cumulative dividends, we believe shares have the potential to double over the next few years.



Everyone is quitting tobacco these days.

The stocks haven't seen this magnitude of underperformance since the late 90s.

Back then, tech was roaring, value was dead, and the sector was uninvestable.

The stocks went on to outperform the market by several hundred percent over the next decade. We think the setup is incredibly similar today.

It's Boomer Time.

FIND THIS INTERESTING?

CLICK HERE TO TAKE IN REGULAR VIEWS
FROM THE BLUE RIDGE

FOR MORE INFORMATION
info@broyhillasset.com
Lenoir NC 28645

Explore more presentations at VALUExVail.com