

# Q1 2014

## Investor Kit

### JANUARY-MARCH 2014



# Swedish Match reporting segments

## ■ Snus and moist snuff

- Snus (Scandinavia and US)
- Moist snuff (US)
- SMPM International

## ■ Other tobacco products

- Cigars (US)
- Chewing tobacco (US)

## ■ Lights

- Lighters
- Matches
- Fire related products

## ■ Other operations

- Distribution
- Central costs

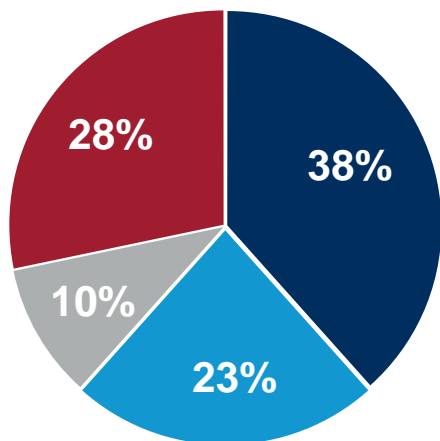


# Sales and operating profit

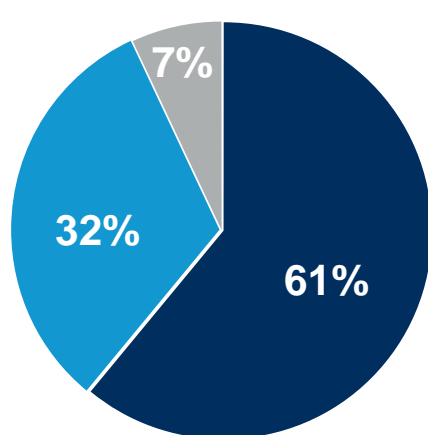
## Sales and operating profit by product area

Q1 2014

Sales, SEK



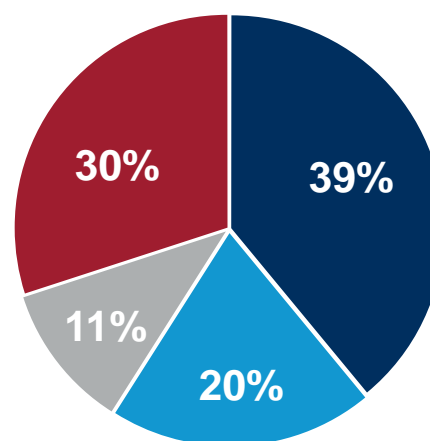
Operating profit\*, SEK



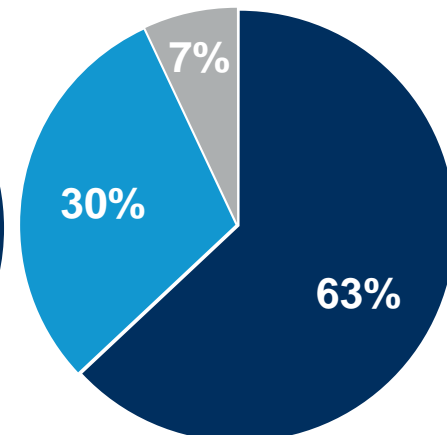
- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

Full year 2013

Sales, SEK



Operating profit\*, SEK



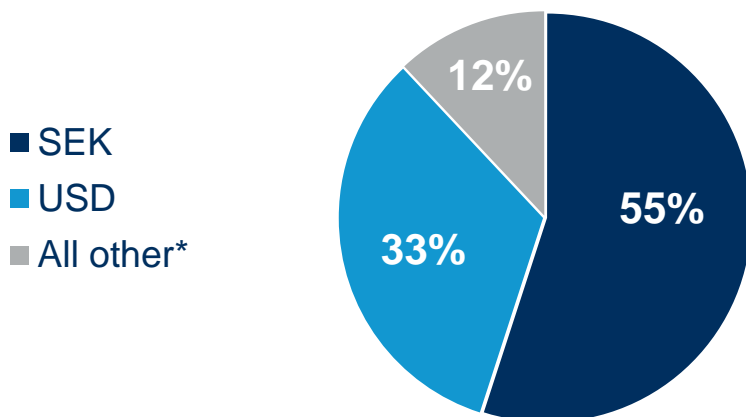
- Snus and moist snuff
- Other tobacco products
- Lights
- Other operations

\* Excluding Other operations, share of net profit in STG and larger one-time items. Totals may not add up due to rounding.

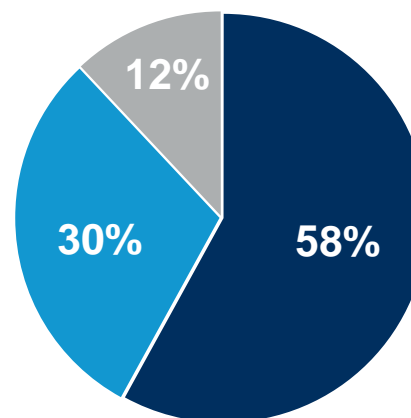
# Sales by currency block

## Percent of sales, MSEK

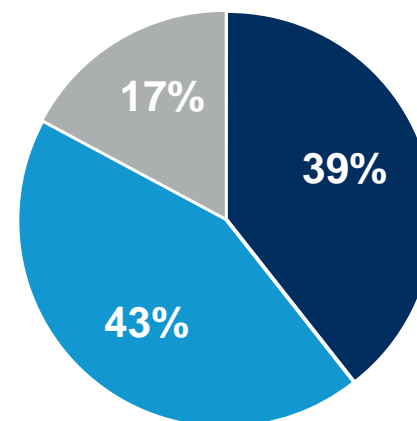
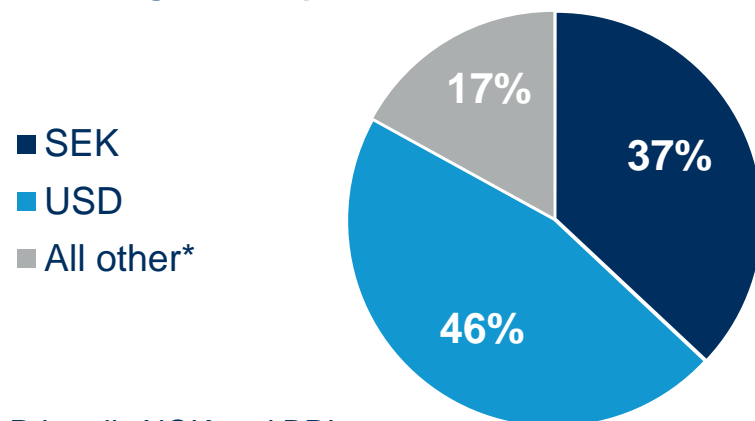
Q1 2014



Full year 2013



## Excluding Other operations



\* Primarily NOK and BRL.

# Group results – first quarter 2014

- **Sales amounted to 3,014 MSEK (2,982)**
  - In local currencies, sales increased by 2%
- **Operating profit from product areas amounted to 809 MSEK (832)**
  - Operating profit from product areas declined by 3%, adversely impacted by higher costs relating to snus outside Scandinavia and currency effects
  - Operating profit, including share of net profit in STG, declined to 858 MSEK (872 excluding larger one-time items)
- **Profit before income tax amounted to 732 MSEK (895)**
  - Q1 2013 included a one-time gain on sale of land of 159 MSEK
- **Profit for the period amounted to 580 MSEK (741)**
- **EPS (basic) excluding one-time items was 2.91 SEK (2.92)**
- **EPS (basic) was 2.91 SEK (3.72)**



# Conclusions, first quarter – sales

- **Sales up 2% in local currencies, up 1% in SEK**
- **Snus sales in Scandinavia declined by 2%, virtually flat in local currencies**
  - Shipment volumes for Scandinavia up by close to 1% vs. Q1 prior year. Adjusting for Easter hoarding effects between years, underlying shipment volumes were approximately also 1% higher
  - Higher shipment volumes in both Norway and Sweden, volumes down in Travel Retail
- **Moist snuff and snus sales in the US declined by 1% in USD**
  - Moist snuff volumes down 1% vs. Q1 prior year, with significantly increased volumes for pouches and tubs
- **Cigar sales in the US flat in USD\***
  - Volumes up by 5%, driven by strong growth for natural cigars
  - Sales adversely impacted by a more promotional product mix
- **Chewing tobacco sales in the US up in USD\***
  - Volumes for own brands and contract manufacturing up
  - Total Swedish Match volumes up by 9%
- **Lights sales up 1% in local currencies**
  - Higher sales for both lighters and matches in local currencies



\* Total Other tobacco products sales in local currency were up by 3%.

# Conclusions, first quarter – operating profit

- **Operating profit from product areas\* declined by 3% in local currencies and in SEK**
- **Snus and moist snuff: operating profit down 5%**
  - Snus operating profit impacted by weaker NOK
  - Operating loss for international snus expansion (US, SMPM International) was 78 MSEK (63)
  - Moist snuff mix shift toward tubs/pouches but lower production costs
- **Other tobacco products: operating profit up 2% in local currency, up 3% in SEK**
  - Chewing tobacco operating profit grew in local currency
  - Cigar operating profit declined on promotional and product mix
- **Lights: operating profit down 3% in local currencies, down 5% in SEK**
  - Operating profit up for lighters and down for matches in local currencies



\* Excluding share of net profit in STG and larger one-time items.

- **Tax rate for the Group was 20.7% for the first quarter**
  - Includes profit and loss impact from associated companies
  - The reported tax rate, excluding one-time items, associated companies, and joint ventures was 22% (22)
  - The tax rate in 2014, excluding one-time items, associated companies, and joint ventures is estimated to be around 22%
- **Cash flow from operations**
  - Cash and cash equivalents were 3,640 MSEK on March 31, 2014 vs. 3,331 MSEK as of March 31, 2013
  - Cash flow from operating activities for the first quarter was 1,027 MSEK (643)
    - Increased mainly as a result of positive changes in working capital
- **Share repurchases during the quarter amounted to 0.3 million shares totaling 68 MSEK**
  - During the first quarter, the Company sold 0.4 million treasury shares at an average price of 141.24 SEK, totaling 53 MSEK, as a result of option holders exercising options



# Annual General Meeting

- Shareholders approved a dividend of 7.30 SEK per share
- Shareholders approved withdrawal of 1.5 million treasury shares. Total amount before cancellation was 202.0 million
- Shareholders approved authorization for the Board of Directors to resolve on acquisition of the Company's own shares, provided that the Company's holding does not at any time exceed 10 percent of the outstanding shares



# Financial policy and financing needs

## ■ Financial policy

- Dividend policy: 40 - 60% of earnings per share
- 2013 dividend: 7.30 SEK per share (7.30)
- Net debt not to exceed 3 times EBITA\*

## ■ Financing and cash flow

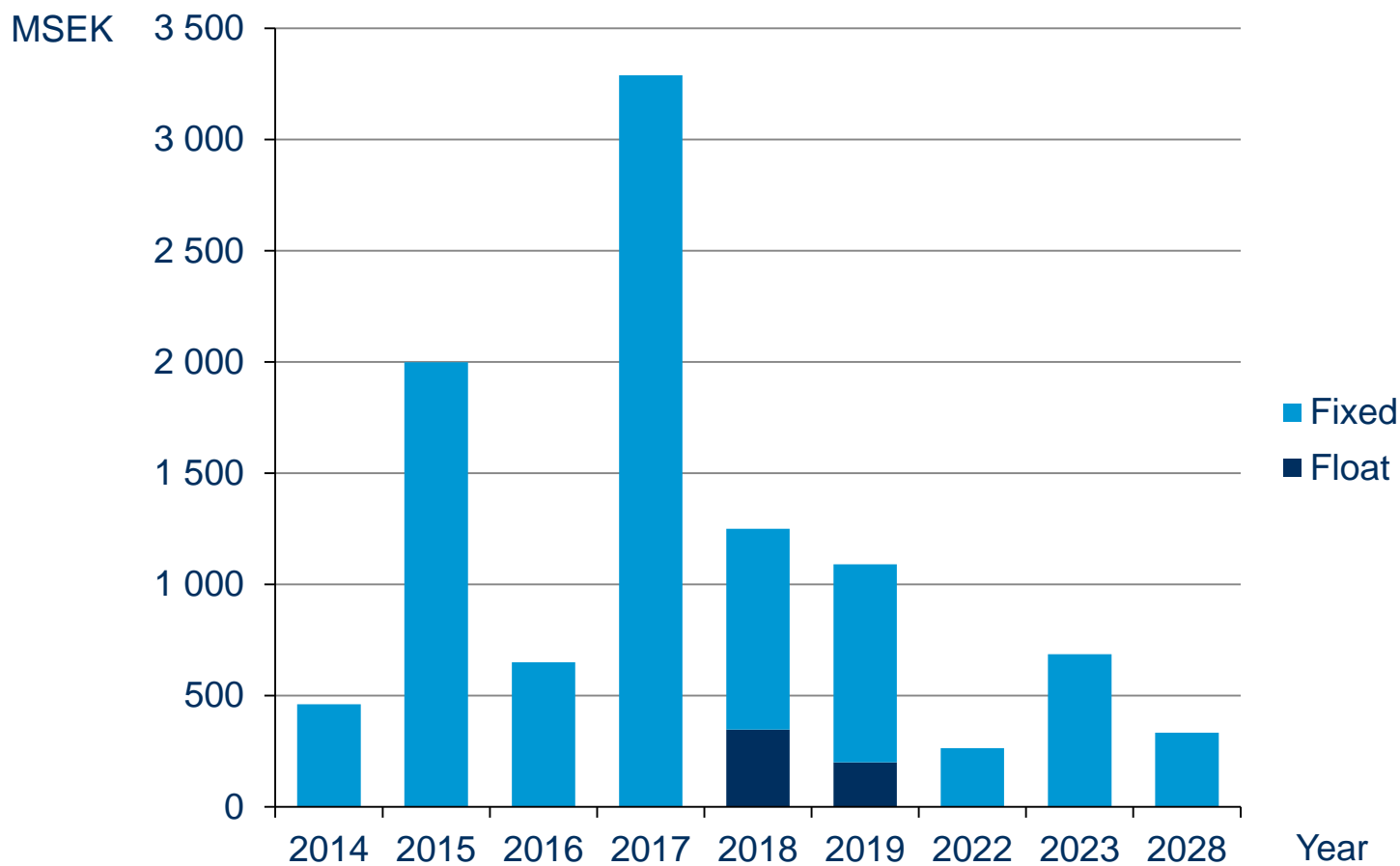
- Cash flow from operating activities for the year amounted to 1,027 MSEK (643)
- Net finance cost for the first quarter was 126 MSEK (136)
- Net debt/EBITA\* was 2.2 for the 12 months ending March 31, 2014



\* Excluding share of net profit in STG. Operating profit adjusted for amortization and write-downs of intangible assets.

# Maturity profile of interest bearing liabilities

As of March 31, 2014



# Snus and moist snuff

- **Leading position for snus in Scandinavia**
- **The third largest producer of moist snuff in the US**
- **Production in Sweden and the US**
- **Joint venture with Philip Morris International for markets outside Scandinavia and the US**



## Operating profit impacted by international snus investments and a weaker NOK

- **Scandinavia snus sales down 2% in Q1 (flat in local currencies)**
  - Modest price increases in Sweden in September 2013 offset by negative mix effects
  - Scandinavian volumes up by 1%
  - Volumes up in Sweden and in Norway, but down in Travel Retail (further changes made at mid-year 2013 for Travel Retail to deter illicit trade)
  - Profits down mainly on weaker Norwegian krona (NOK) vs. SEK
  - Solid total market growth in volume terms
- **US snus and moist snuff sales down 1% in USD in Q1**
  - Moist snuff sales were flat, operating profit slightly up
  - Snus sales down
    - Slower pace of store expansion year on year
    - Product returns following heavy promotional shipments in 2013
- **Continued investment behind snus internationally**
  - Operating loss for international snus expansion was 78 MSEK (63)



MSEK	Q1-2014	Q1-2013	chg	April 2013-March 2014	Full year 2013	chg
Sales	1,154	1,173	-2	4,848	4,868	0
Operating profit	505	534	-5	2,166	2,195	-1
Operating margin, %	43.8	45.5		44.7	45.1	

# Nielsen snus consumption data, Sweden\*

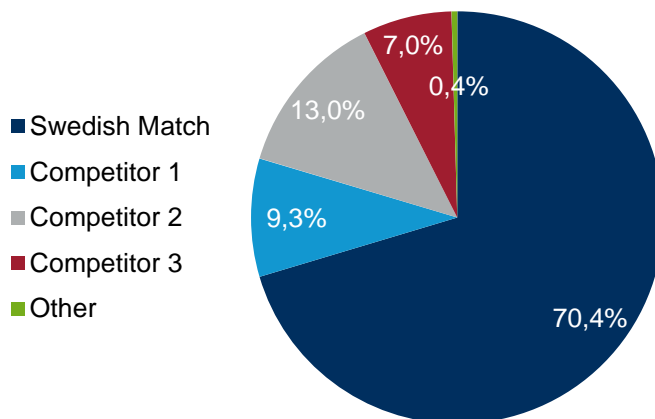
- **Swedish Match market share in value terms was 4 weeks to April 20, 2014 was 76.8%; 24 week share was 77.3%**
  - 79.2% for 4 weeks to April 21, 2013; 79.6% for 24 weeks to April 21, 2013
- **Swedish Match total volume market share 4 weeks to April 20, 2014 was 70.1%; 24 week share was 70.4%**
  - 72.8% for 4 weeks to April 21, 2013; 73.5% for 24 weeks to April 21, 2013
- **Value segment\*\* was 42.5% of Swedish market 4 weeks to April 20, 2014; 24 week share was 41.8%**
  - 38.5% for 4 weeks to April 21, 2013; 36.7% for 24 weeks to April 21, 2013
- **Swedish Match share of value segment\*\* 4 weeks to April 20, 2014 was 38.0%; 24 week share was 36.8%**
  - 36.9% for 4 weeks to April 21, 2013; 36.8% for 24 weeks to April 21, 2013
- **Swedish Match share of premium segment\*\* 4 weeks to April 20, 2014 was 93.8%; 24 week share was 94.5%**
  - 95.4% for 4 weeks to April 21, 2013; 95.7% for 24 weeks to April 21, 2013

\* Source: Nielsen (excluding tobacconists). Volume basis, unless stated otherwise.

\*\* Segmentation by segment: premium and value (mid and low price combined), made by Swedish Match, not Nielsen.

# Manufacturer share by price segment, Sweden

## Total volume shares



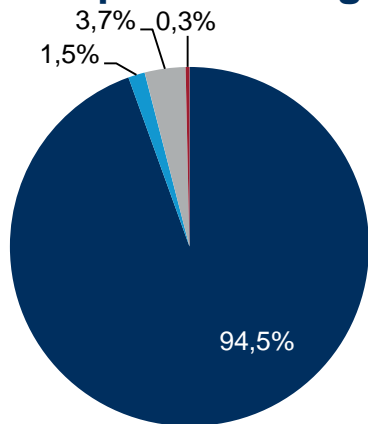
20 April 2014 (4 weeks ending),  
Swedish Match share of:

Premium segment was: 93.8%

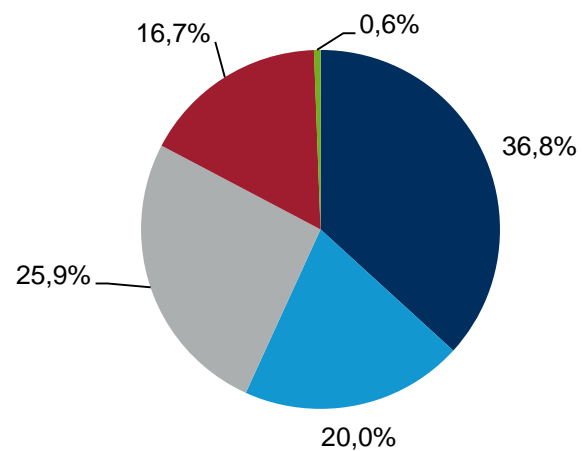
Value segment was: 38.0%

Total market was: 70.1%

## Share of premium segment



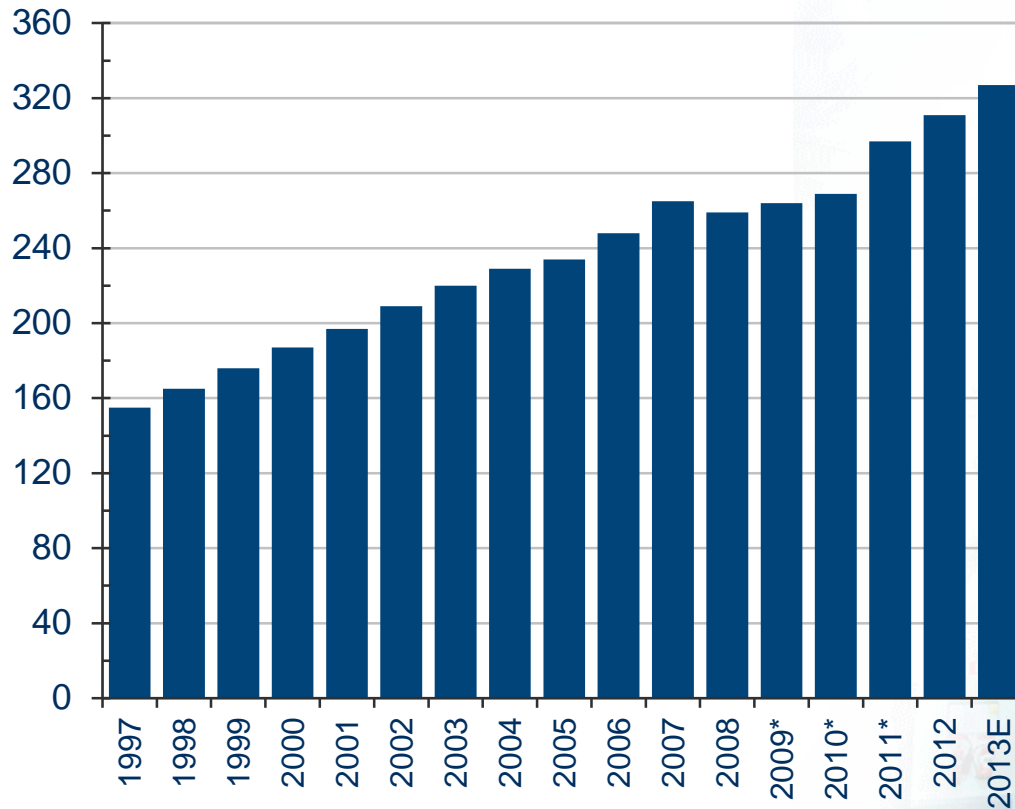
## Share of value segment



Source: Nielsen (excluding tobacconists), 24 weeks ending 20 April 2014.

# Estimated snus consumption, Scandinavia

## Million cans



Source: Swedish Match estimates, adjusted for hoarding in Sweden (estimated hoarding volumes Q4 2006 and Q4 2007 moved to 2007 and 2008 to more accurately reflect consumption).

\* 2009 to 2011 figures rebased.





# Nielsen moist snuff consumption data, US

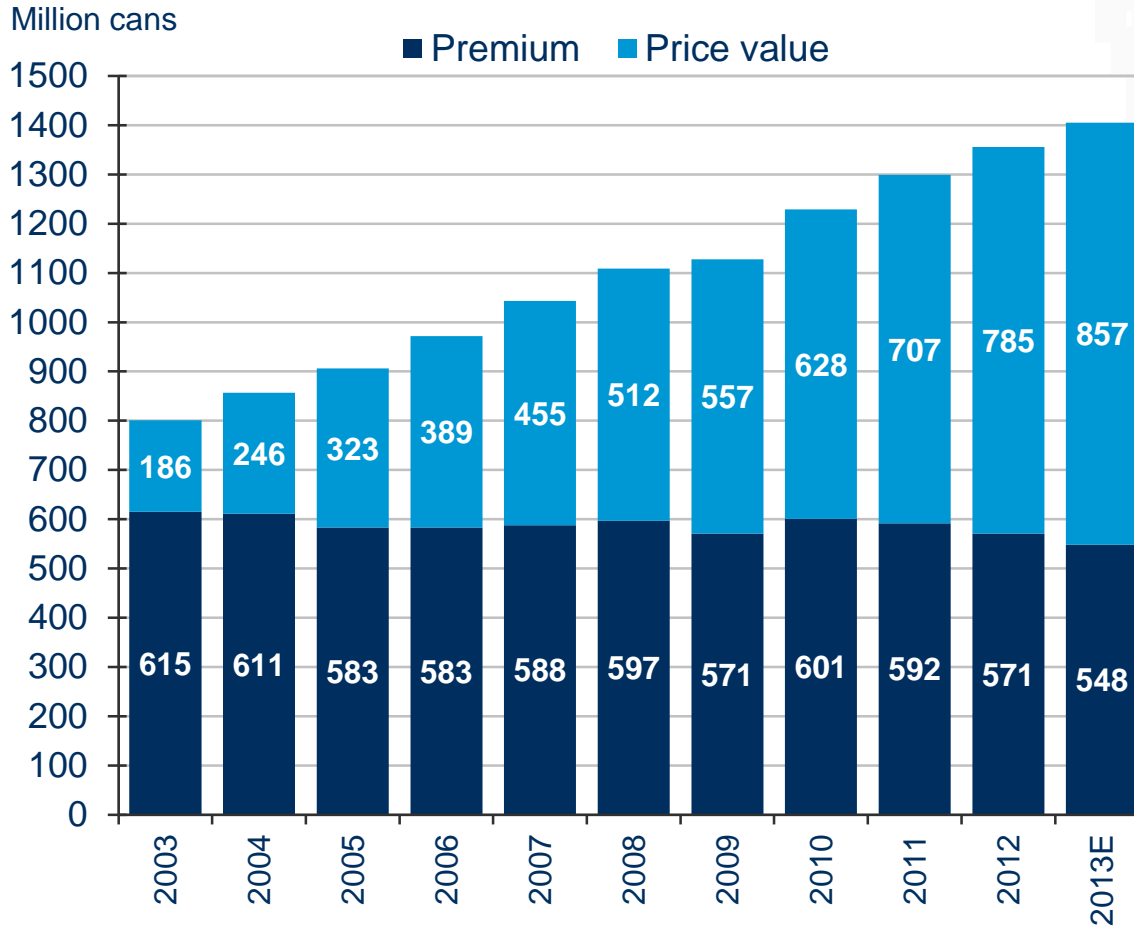
- **US moist snuff market up by close to 4% in 2013\***
  - Category growth continues to be driven by the value segment and pouches
  - Nielsen estimates category growth rate of 5% in the first quarter 2014
- **Swedish Match market share in the US**
  - Swedish Match estimates its market share based on industry shipments to be in the range of 9% to 10% of the market
  - YTD to April 12, 2014 was 7.4% vs. 8.2% YTD 2013 (Nielsen, rebased)



\* Source: Swedish Match and industry estimates.

# Volume growth for moist snuff in the US

## US moist snuff market by segment



Market size estimated by Swedish Match using Nielsen estimates as well as industry data and estimates. Note that the value segment includes competitive “premium brand” line extensions launched at price value level.

# Snus expansion

## Snus in the US

- **Continued investments for future growth**
- **General snus currently in more than 23,000 stores in the US**
  - Higher level of consumer engagement activities
  - Distribution expansion continued
- **Market share above 9%**
  - Consumption growth for *General*, faster than market growth rate
- **Net shipment volumes and sales down year on year in Q1**
  - Product returns in Q1 from heavy promotion shipments earlier in 2013
  - Higher level of pipeline for new store expansion in 2013 than in 2014



## SMPM International (the 50/50 joint venture)

- **Test markets continue**

\* Source: Swedish Match estimates, based on Nielsen convenience store sample.

# Other tobacco products

## US cigars

- Swedish Match is a major player in the **US** (mass market) cigar market
- Production takes place in **Santiago, Dominican Republic** and **Dothan, Alabama**



## Chewing tobacco

- Nearly all chewing tobacco sales are in the **US**. Swedish Match is the largest producer and production takes place in **Owensboro, Kentucky**
- The market has declined by 4-7% per year in volume terms in recent years (4% decline in 2013)



# Other tobacco products

## Continued solid chewing performance

- **Q1 sales flat for cigars, up for chewing tobacco in USD**
  - Cigar sales impacted by promotional pricing/mix, volumes were higher
  - Chewing tobacco sales up on volume growth year on year (partly due to phasing of promotions)
- **Q1 operating profit down for cigars, up for chewing tobacco in USD**
  - Operating profit for cigars declined on promotional pricing
  - Operating profit for chewing tobacco up on higher volumes
- **Shipment volumes up 5% for cigars in Q1**
  - Mix skewed to promotional items
  - Growth of *Game by Garcia y Vega* naturals
  - *Jackpot* launch in September/November
- **Solid chewing tobacco performance**
  - Sales and profits up in Q1 in USD
  - Strong volume for own brands, also growth for contract manufacturing
  - Price increase in September 2013



MSEK	Q1-2014	Q1-2013	chg	April 2013-March 2014	Full year 2013	chg
Sales	687	664	3	2,586	2,564	1
Operating profit	267	260	3	1,036	1,029	1
Operating margin, %	38.8	39.2		40.0	40.1	

# Other tobacco products

## Cigars

- **Category growth estimated at around 5% based on distributor shipments to retail**
  - Larger format varieties continued to decline
  - Cigarillo and other small format varieties now make up over 90% of the category
- **Net Swedish Match factory shipments up 5% in the first quarter**
  - Swedish Match retail share based on Nielsen data grew YTD April 12 vs. prior year
  - Level of returns declined vs Q3/Q4 2013
- **Solid growth of *Game by Garcia y Vega* natural wrapper cigars**



## Chewing tobacco

- **Category declined by 8% versus prior year (Nielsen, YTD April 12)**
- **Swedish Match consumption volumes down 5.5% (Nielsen, YTD April 12)**
- **Strong shipment volumes for Swedish Match brands**

## Q1 sales up and operating profit down in local currencies

- Swedish Match is market leader in many markets. The brands are mostly local and hold a strong position in their respective markets
- Main markets EU, Brazil, Asia and East Europe
- Production in Brazil, the Netherlands, the Philippines and Sweden

- Q1 sales up for both matches and lighters in local currencies
- Operating profit up for lighters and down for matches
- Lighter volume growth continued
- Relatively soft performance in Brazil, with higher costs affecting profitability



MSEK	Q1-2014	Q1-2013	chg	April 2013-March 2014	Full year 2013	chg
Sales	315	328	-4	1,318	1,332	-1
Operating profit	55	59	-5	227	230	-1
Operating margin, %	17.6	17.8		17.2	17.3	

- **STG sales up 3% in local currencies for the first quarter**
- **Gross profit also increased in local currencies for the first quarter**
  - Machine made cigar sales slightly up in local currencies, but gross profit declined due to weaker product mix
  - Handmade cigar sales and gross profit up in local currencies on positive mix and higher volumes
  - Fine cut/pipe tobacco sales and gross profit up on higher volumes
- **Reported EBITDA up 3% for the period**
  - Driven by higher sales and lower operating expenses this quarter
  - Underlying EBITDA (in local currencies and adjusted for one-time items) up more than 10 percent
- **Total STG net finance cost for the first quarter amounted to 25 MDKK (18)**
  - The increase was mainly due to exchange gains in Q1 2013
- **Net profit for the first quarter for STG amounted to 75 MDKK (74)**
- **Swedish Match share of STG net profit after interest and tax for the first quarter amounted to 49 MSEK (39)**
  - Excluding accounting adjustments, net profit was 43 MSEK (41)
- **Dividend of 223 MSEK (224) MSEK received from STG on March 26**



# P&L in summary

MSEK	Q1- 2014	Q1-2013	chg	April 2013- March 2014	Full year 2013	chg
<b>Sales</b>	<b>3,014</b>	<b>2,982</b>	<b>1</b>	<b>12,642</b>	<b>12,610</b>	<b>0</b>
Cost of goods sold	-1,561	-1,527		-6,682	-6,647	
<b>Gross profit</b>	<b>1,452</b>	<b>1,455</b>	<b>0</b>	<b>5,960</b>	<b>5,963</b>	<b>0</b>
Selling and administrative expenses	-637	-618		-2,576	-2,556	
Share of profit/loss in associated companies and joint ventures	43	35		295	287	
Capital gain from sale of land	-	159		2	161	
<b>Operating profit</b>	<b>858</b>	<b>1,031</b>	<b>-17</b>	<b>3,681</b>	<b>3,855</b>	<b>-4</b>
Finance income	8	8		34	34	
Finance costs	-134	-144		-568	-578	
Net finance cost	-126	-136		-535	-544	
<b>Profit before income tax</b>	<b>732</b>	<b>895</b>	<b>-18</b>	<b>3,147</b>	<b>3,310</b>	<b>-5</b>
Income tax expense	-152	-154		-597	-600	
<b>Profit for the period</b>	<b>580</b>	<b>741</b>	<b>-22</b>	<b>2,550</b>	<b>2,711</b>	<b>-6</b>
EPS, basic, SEK, incl. larger one-time items	2.91	3.72		12.79	13.63	
EPS, basic, SEK, excl. larger one-time items	2.91	2.92		12.78	12.82	
EPS, diluted, SEK, incl. larger one-time items	2.91	3.71		12.78	13.61	
EPS, diluted, SEK, excl. larger one-time items	2.91	2.91		12.77	12.80	

# Balance sheet in summary

MSEK	March 31, 2014	December 31, 2013
Intangible assets	963	973
Property, plant and equipment	2,026	2,027
Investments in associated companies and joint ventures	4,342	4,506
Other non-current financial receivables*	1,207	1,165
Current operating assets	2,686	3,038
Other current investments and current financial assets*	3	8
Cash and cash equivalents	3,640	3,164
<b>Total assets</b>	<b>14,866</b>	<b>14,881</b>
Equity attributable to equity holders of the Parent	-262	-786
Non-controlling interests	1	1
<b>Total equity</b>	<b>-261</b>	<b>-785</b>
Non-current provisions	1,012	1,031
Non-current loans	8,432	9,420
Other non-current financial liabilities*	1,574	1,440
Current provisions	96	103
Current loans	1,447	920
Other current liabilities*	2,566	2,751
<b>Total equity and liabilities</b>	<b>14,866</b>	<b>14,881</b>

\* For full detail, please refer to notes in the January-March 2014 interim report.

# Cash flow in summary

MSEK	Jan-Mar 2014	Jan-Mar 2013
<b>Cash flow from operating activities before changes in working capital</b>	<b>958</b>	<b>907</b>
Cash flow from changes in working capital	69	-264
<b>Net cash from operating activities</b>	<b>1,027</b>	<b>643</b>
Purchase of property, plant and equipment	-56	-70
Proceeds from sale of property, plant and equipment	0	0
Purchase of intangible assets	-	-5
Proceeds from sale of subsidiaries, net of cash disposed of*	-	5
Changes in financial receivables etc.	0	-1
<b>Net cash used in investing activities</b>	<b>-56</b>	<b>-72</b>
Changes in loans	-485	-12
Repurchase of own shares	-68	-138
Stock options exercised	53	89
Other	0	-8
<b>Net cash used in financing activities</b>	<b>-501</b>	<b>-69</b>
<b>Net increase in cash and cash equivalents</b>	<b>470</b>	<b>502</b>
Cash and cash equivalents at the beginning of the period	3,164	2,824
Effect of exchange rate fluctuations on cash and cash equivalents	5	5
<b>Cash and cash equivalents at the end of the period</b>	<b>3,640</b>	<b>3,331</b>

\* For full detail, please refer to notes in the January-March 2014 interim report.

# Key data\*

MSEK	Jan-Mar 2014	Jan-Mar 2013
Operating margin, %	28.5	29.2
Operating capital, MSEK	7,490	7,290
Return on operating capital, % (12 months rolling from April 2013)	49.8	
EBITDA, MSEK**	930	938
EBITA, MSEK**	868	878
Net debt, MSEK	7,533	8,615
Net debt/EBITA** (12 months rolling from April 2013)	2.0	
Investments in property, plant and equipment, MSEK**	56	70
EBITA interest cover	7.0	6.6
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK**	820	839
Net debt/EBITA** (12 months rolling from April 2013)	2.2	
<b>Share data</b>		
EPS, basic, SEK, incl. larger one-time items	2.91	3.72
EPS, basic, SEK, excl. larger one-time items	2.91	2.92
EPS, diluted, SEK, incl. larger one-time items	2.91	3.71
EPS, diluted, SEK, excl. larger one-time items	2.91	2.91
Shares outstanding, end of period (Mio)	199.1	199.3
Average number of shares outstanding, basic (Mio)	199.1	199.3

\* All key data, unless otherwise stated, have been calculated excluding larger one-time items.

\*\* For full detail, please refer to notes in the January-March 2014 interim report.

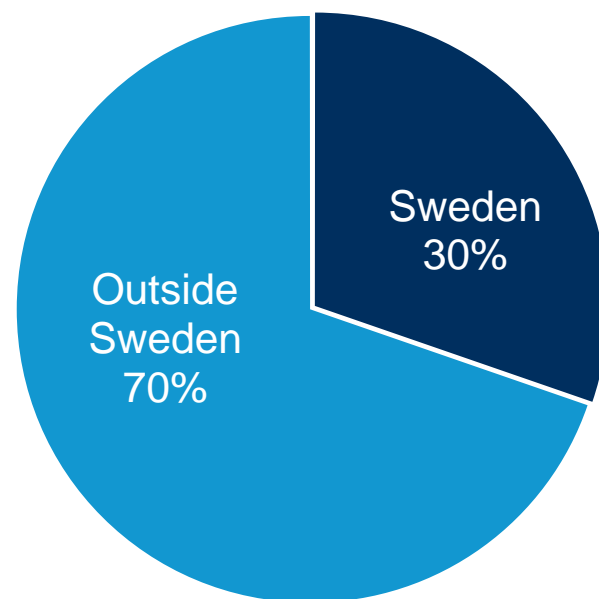
# Largest shareholders\*

As per March 31, 2014

## Largest shareholders

Morgan Stanley Investment Management	5.1%
Nordea Funds	3.0%
Didner & Gerge Funds	2.4%
Fidelity Funds	2.3%
Standard Life Investment Funds	2.0%
Second Swedish National Pension Fund	1.9%
SEB Funds	1.7%
Fourth Swedish National Pension Fund	1.4%
Swedbank Robur Funds	1.1%
Third Swedish National Pension Fund	1.0%
	<hr/>
	21.9%

50,454 shareholders



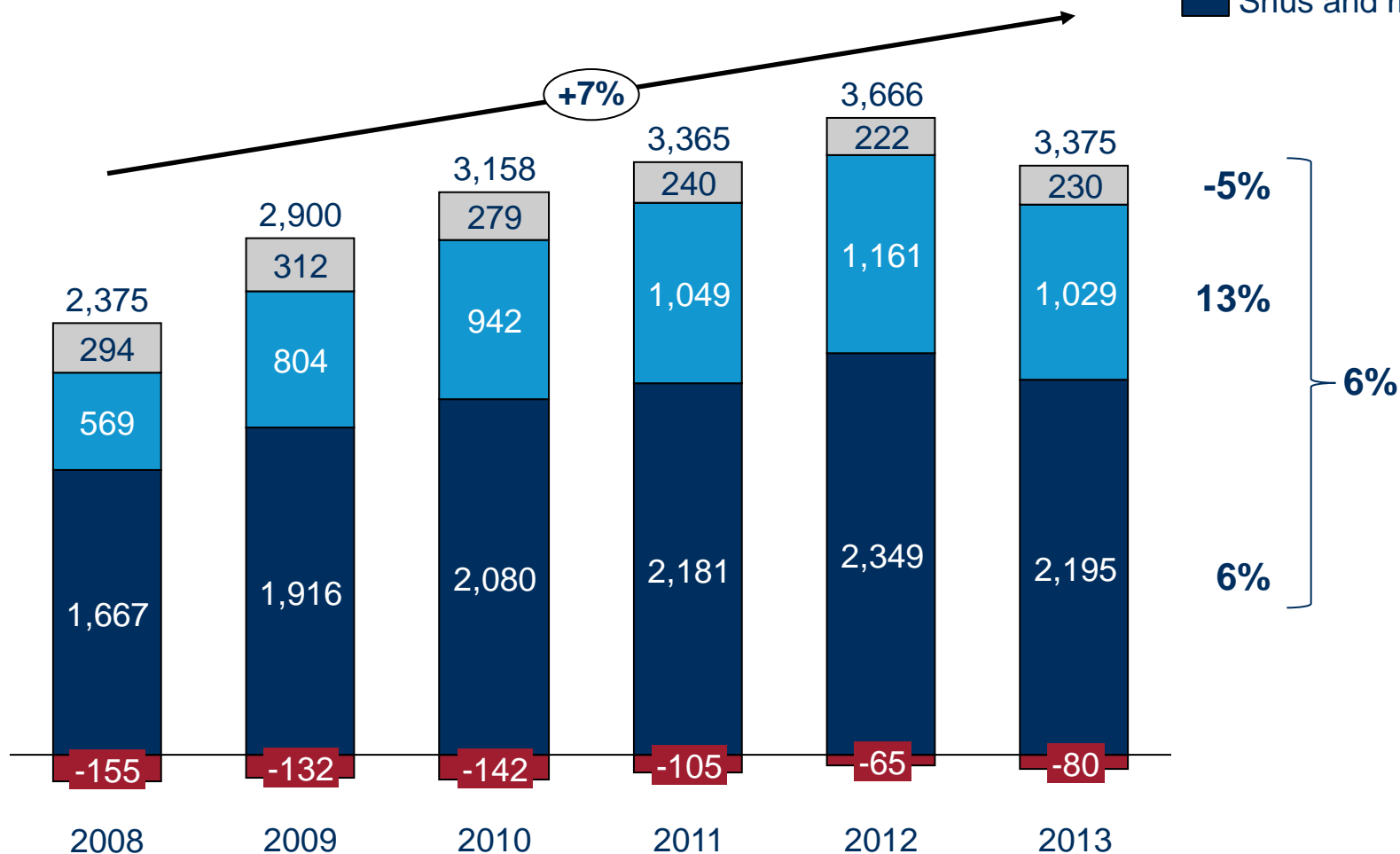
Source: Euroclear, official registry and SIS Ägaranalys.

\* Percent split of share capital held, excluding Swedish Match shares held in treasury.

# Comparable operating profit

Excluding businesses transferred to STG (MSEK)  
CAGR 08-13

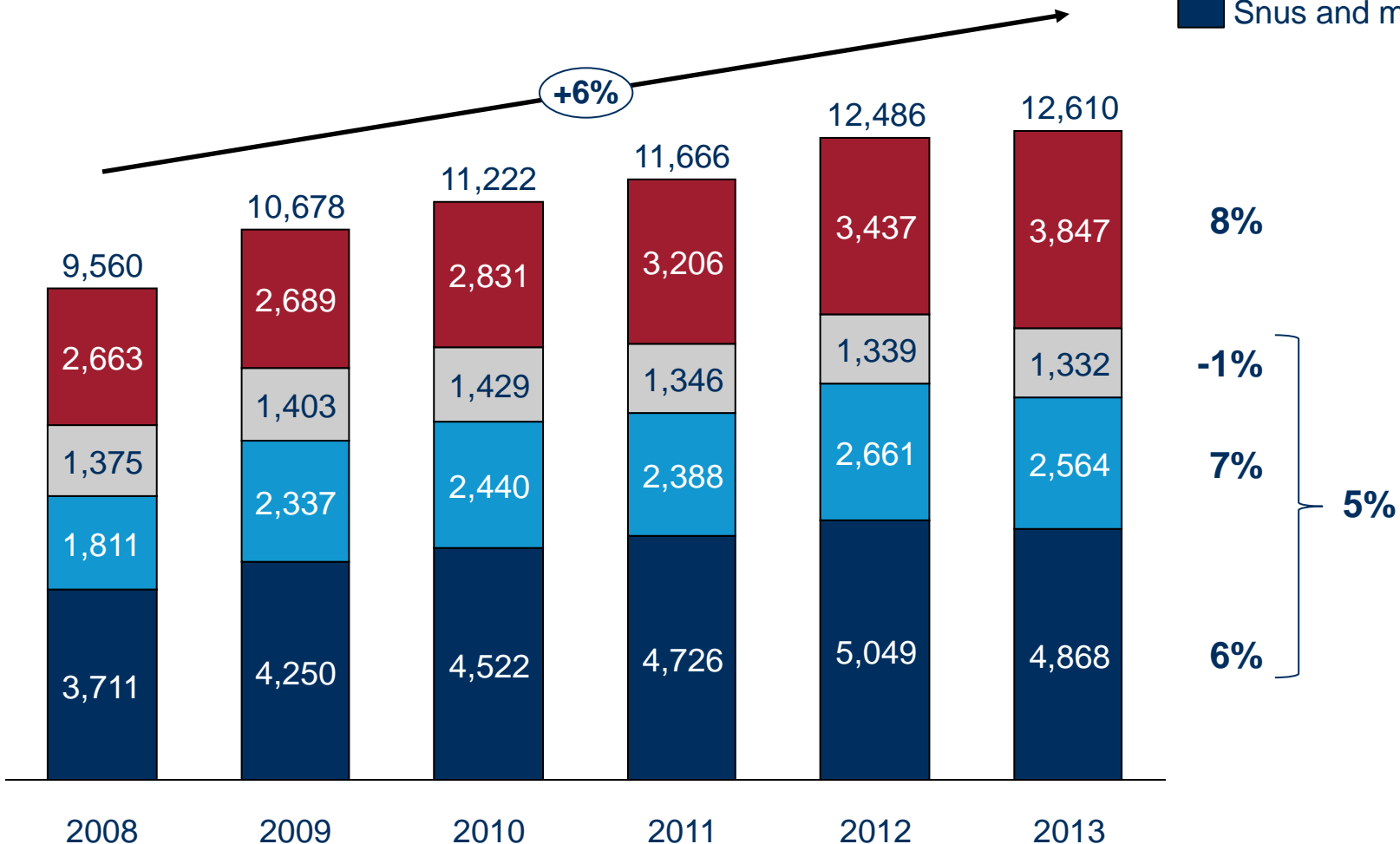
- Other operations
- Lights
- Other tobacco products
- Snus and moist snuff



# Comparable sales

Excluding businesses transferred to STG (MSEK)  
CAGR 08-13

- Other operations
- Lights
- Other tobacco products
- Snus and moist snuff

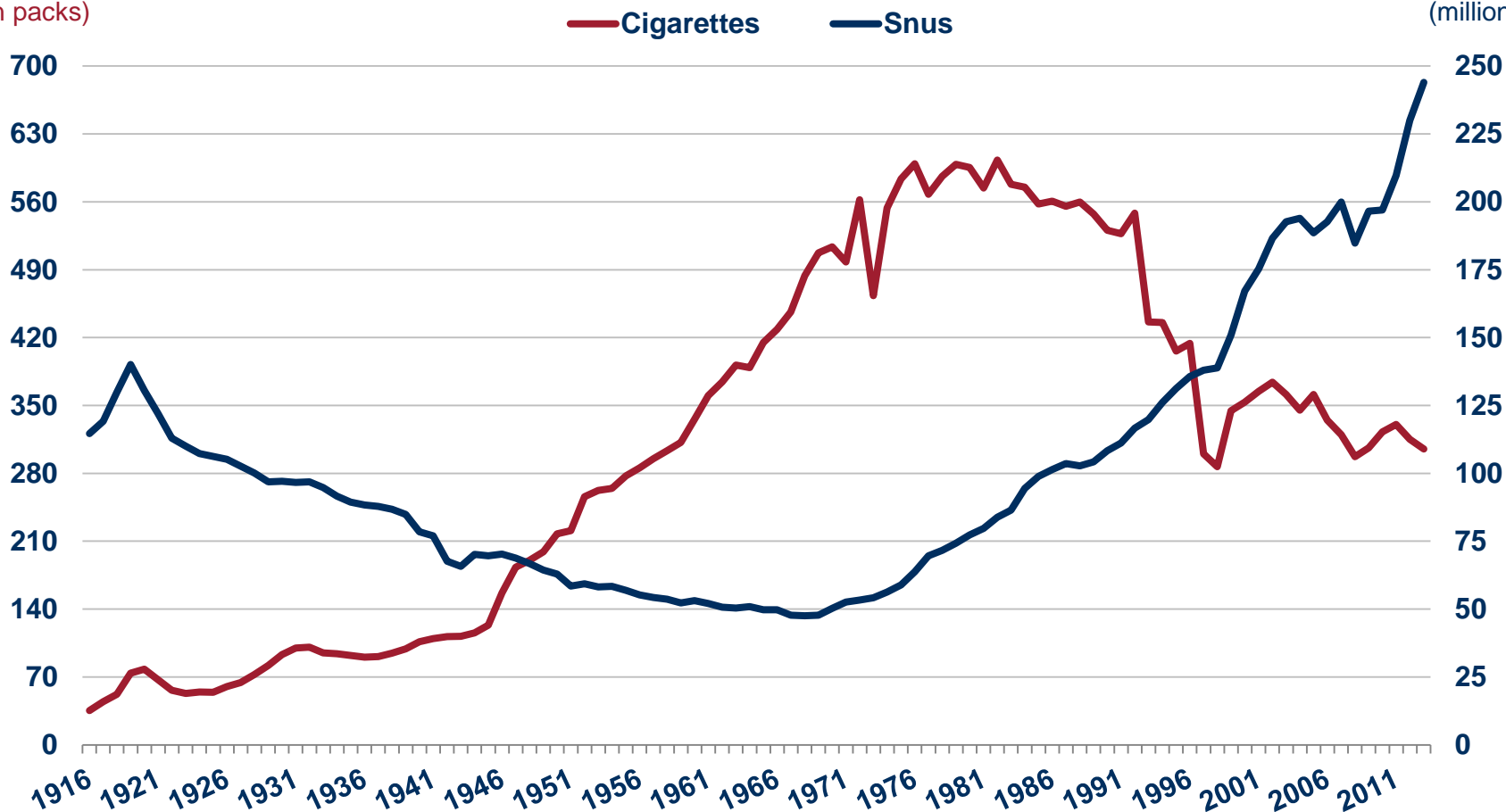


# Snus vs. cigarettes in Sweden

## Volume of snus and cigarettes in Sweden 1916-2013

**Cigarettes**  
(million packs)

**Snus**  
(million cans)



Adjusted for estimated snus hoarding 1996, 1997, 2006, 2007, 2008, 2011 and 2012.  
Source: Swedish Match Distribution AB and Swedish Match estimates.