

# SWEDISH MATCH RESULTS PRESENTATION

Q4 2019



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## Q4/FY – HEADLINE BULLETS

- In local currencies, sales increased by 15 percent for the fourth quarter and by 8 percent for the full year.
  - Reported sales increased by 19 percent to 3,933 MSEK (3,301) for the fourth quarter and by 14 percent to 14,739 MSEK (12,966) for the full year.
- In local currencies, operating profit from product segments<sup>1)</sup> increased by 18 percent for the fourth quarter and by 13 percent for the full year.
  - Reported operating profit from product segments increased by 22 percent to 1,525 MSEK (1,246) for the fourth quarter and by 18 percent to 5,828 MSEK (4,936) for the full year.
- Operating profit, which includes a non-cash impairment charge of 367 MSEK related to the European chewing tobacco business (see Note 5), amounted to 1,098 MSEK (1,196) for the fourth quarter and to 5,307 MSEK (4,812) for the full year.
- Profit after tax amounted to 756 MSEK (925) for the fourth quarter and to 3,896 MSEK (3,578) for the full year.

1) Excluding Other operations and larger one-time items.



## Q4/FY – HEADLINE BULLETS

- Earnings per share amounted to 4.62 SEK (5.41) for the fourth quarter and to 23.22 SEK (20.63) for the full year. Adjusted earnings per share increased by 26 percent to 6.81 SEK (5.41) for the fourth quarter and by 23 percent to 25.41 SEK (20.63) for the full year.
- ZYN available in approximately 67,000 stores in the US, and average sales per store continued to increase sequentially.
- In 2019, Swedish Match paid dividends of 1,777 MSEK to its shareholders.
- The Board proposes an increased dividend of 12.50 SEK per share.
- The outlook for 2020 can be found on page 13 in the Q4/FY 2019 report.



## FOURTH QUARTER IN SUMMARY

**Volume growth for snus in Scandinavia, moist snuff in the US, and nicotine pouches in both Scandinavia and the US. ZYN in the US was the main driver behind the strong performance.**

- ZYN continued to deliver strong growth in both the western region and national launch markets. Store velocities continued to increase in all regions.
- Combined Scandinavian snus and nicotine pouch market continued strong growth. Improved trends for market shares within the Premium 2 segment in Sweden. Scandinavian nicotine pouch market continued to grow at a rapid pace with Swedish Match holding share in Sweden while losing share in Norway. Swedish Match further improved its market share position in the declining conventional snus market in Norway.
- Outside of Scandinavia and the US, ZYN is now available in stores in ten countries.

**Within OTP, cigars delivered sales and earnings growth while the financial performance for chewing tobacco was weak compared to prior year quarter.**

- Volume growth and stronger price/mix for cigars driven by growth for natural leaf varieties, which resulted in higher sales and operating profit in local currency. Swedish Match cigar shipment volumes up by close to 7% versus the prior year.
- For the cigar category, continued softness in the HTL segment more than offset growth in the natural leaf segments.
- Sales increased for chew bits but were down for US chewing tobacco and for chew bags on lower volumes.
- Our US chewing tobacco business continued to effectively navigate overall category declines and market shifts to more value priced products.
- Non-cash impairment charge of 367 MSEK related to European chewing tobacco business (V2) recorded as a larger one-time item.

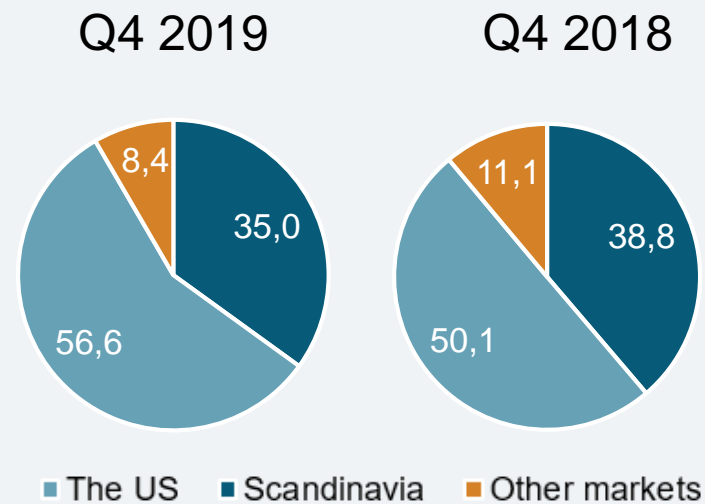
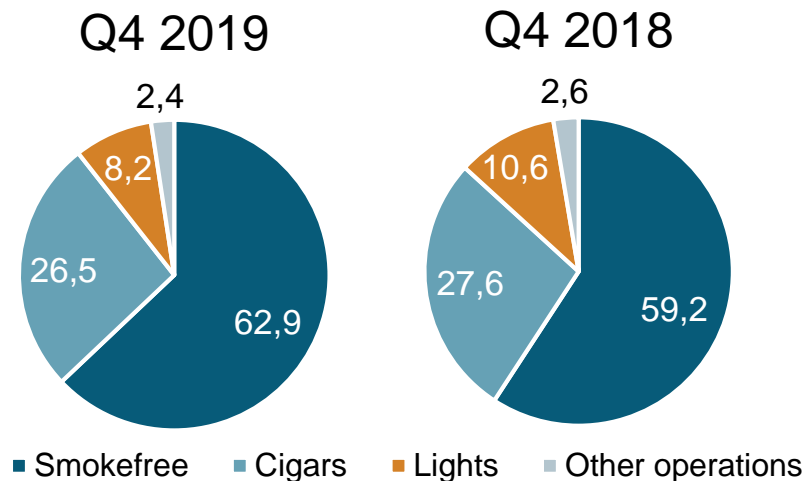
**Lights sales down on lower volumes, partially offset by favorable mix effects**

- Higher operating profit due to a positive result from tax dispute in Brazil.

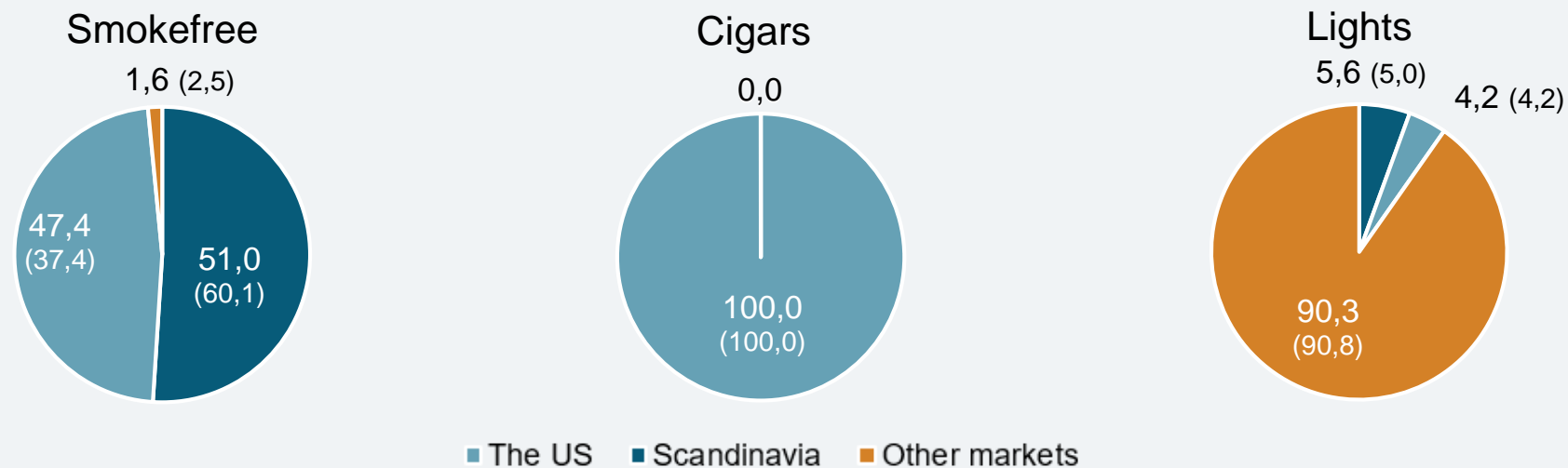
# SALES SPLIT (QUARTER)

## Sales in percent

### Total Group



### By new segment Q4 2019 (prior year)



# SNUS AND MOIST SNUFF: Q4 COMMENTARY

## Sales for product segment increased 29% in local currencies, operating profit up sharply

### Higher sales and operating profit in both Scandinavia and the US in local currencies

#### Continued strong growth for snus and nicotine pouches outside Scandinavia\*

- Strong volume growth for ZYN in the US as velocities continued to grow sequentially on a per store basis and from increased distribution (ZYN currently available in approximately 67,000 stores in the US).
- ZYN is now also available in select stores in Austria, Croatia, Czech Republic, Estonia, Germany, Greenland, New Zealand, Slovakia, Slovenia, and the UK.

#### Sales and operating profit growth in Scandinavia

- Strong growth for the combined snus and nicotine pouch markets. Underlying growth estimated at more than 8%.
- Nicotine pouches accounted for all of the growth in Norway and in Denmark, and about half of the growth in Sweden.
- Underlying Swedish Match snus and nicotine pouch volumes up by more than 2% (adjusted for inventory fluctuations and calendar effects).
- Higher average pricing in both Sweden and Norway on price increases and favorable mix shifts.

#### US moist snuff reported sales down in local currencies despite higher volumes

- Sales impacted by merchandising program as well as changes in price/promotional activities and product mix.
- Operating profit down on mix and effects of price/promotional activities.

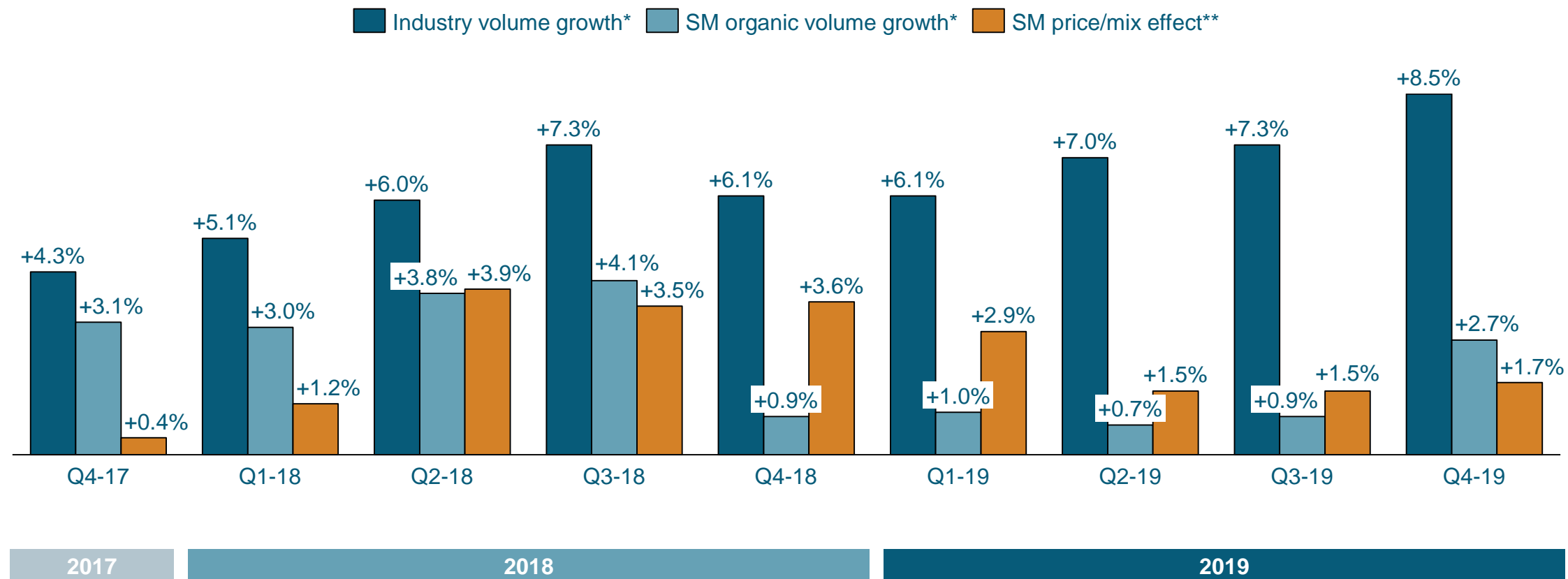


\* Sweden, Norway and Denmark.

	Q4-2019	Q4-2018	chg	Full year 2019	Full year 2018	chg
Sales, MSEK	2,156	1,632	32	7,484	6,127	22
Operating profit, MSEK	987	725	36	3,477	2,791	25
Operating margin, %	45.8	44.4		46.5	45.6	

# SCANDINAVIA – UNDERLYING VOLUMES AND SWEDISH MATCH PRICE/MIX EFFECT

## Total underlying Scandinavian snus and nicotine pouches versus same prior year time period



\* Based on Nielsen and Swedish Match estimates (adjusted for hoarding).

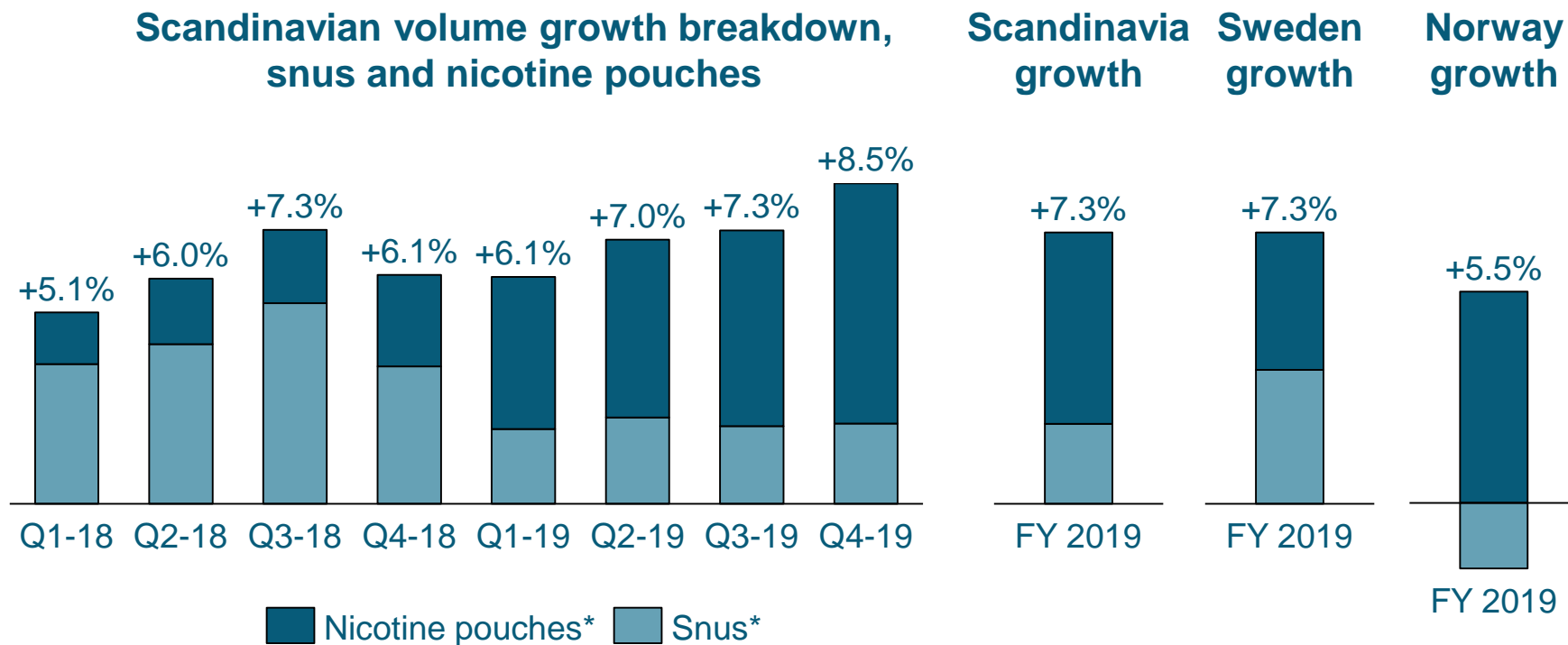
\*\* Not adjusted for currency effects.

Nicotine pouches in Denmark are included from Q1 2019 onwards.



# SCANDINAVIA – UNDERLYING VOLUME GROWTH DRIVEN BY NICOTINE POUCHES

Total underlying Scandinavian snus and nicotine pouch volumes versus same prior year time period

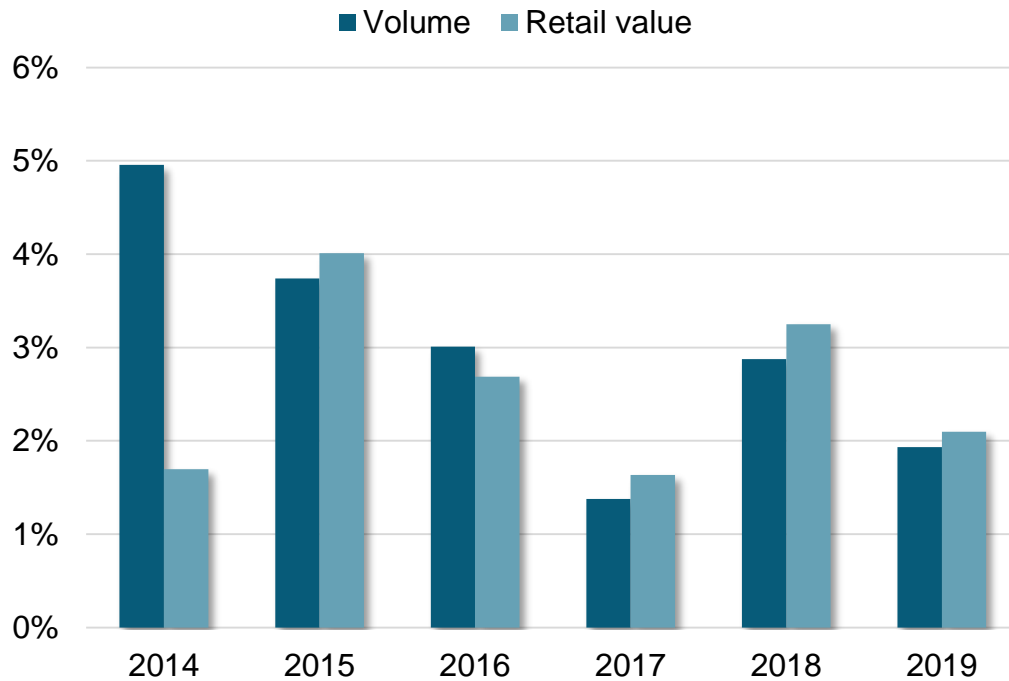


\* Based on Nielsen and Swedish Match estimates (adjusted for hoarding).  
Nicotine pouches in Denmark are included from Q1 2019 onwards.

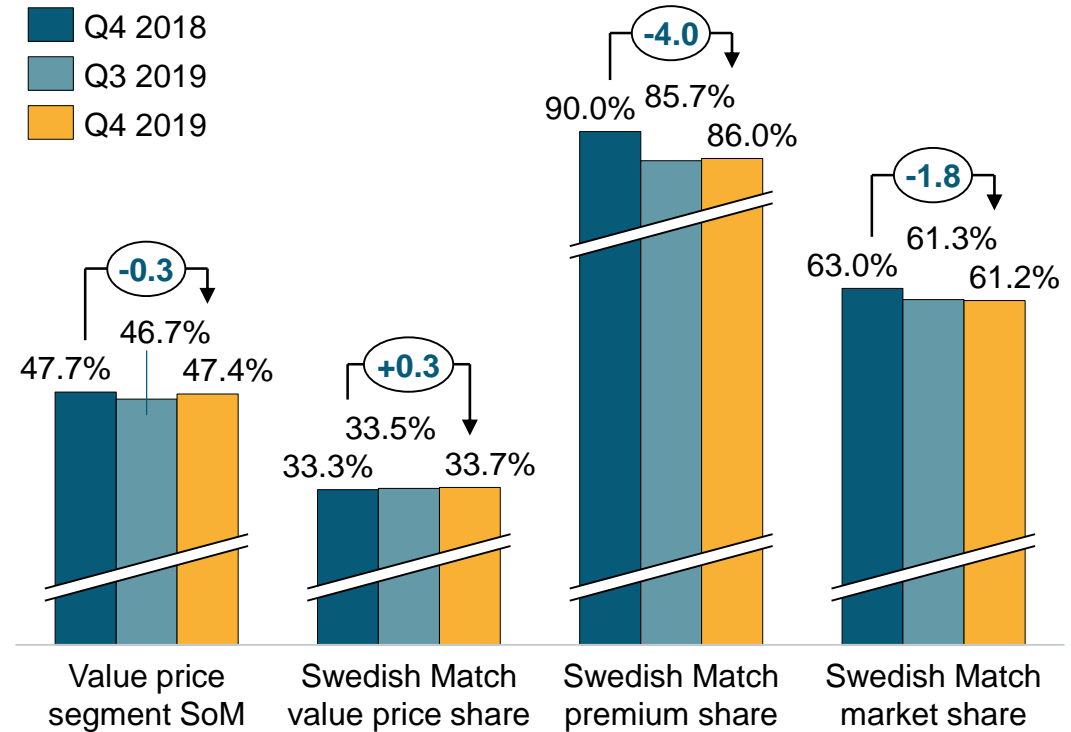


# SWEDEN – SNUS CATEGORY DEVELOPMENT AND MARKET SHARE DYNAMICS

## Snus volume and retail value year-on-year growth (Nielsen)



## Snus market share dynamics (volume shares)

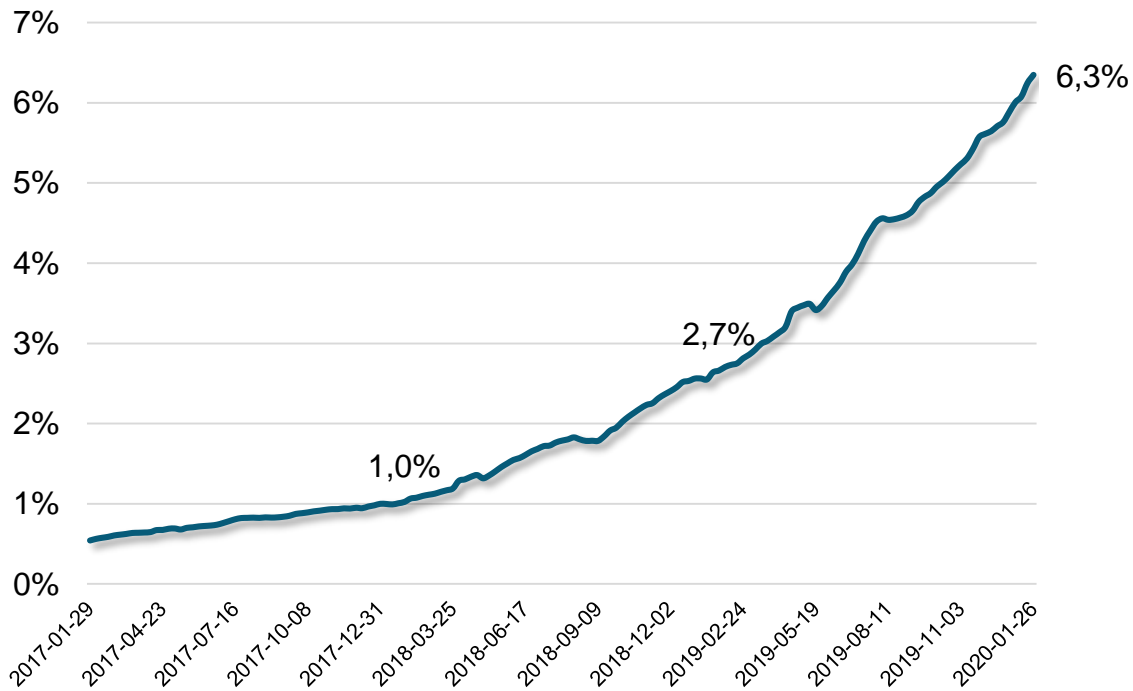


Source: Nielsen, DVH+SVH excl. tobaccoists (including nicotine free). Please note that the data above excludes nicotine pouches.

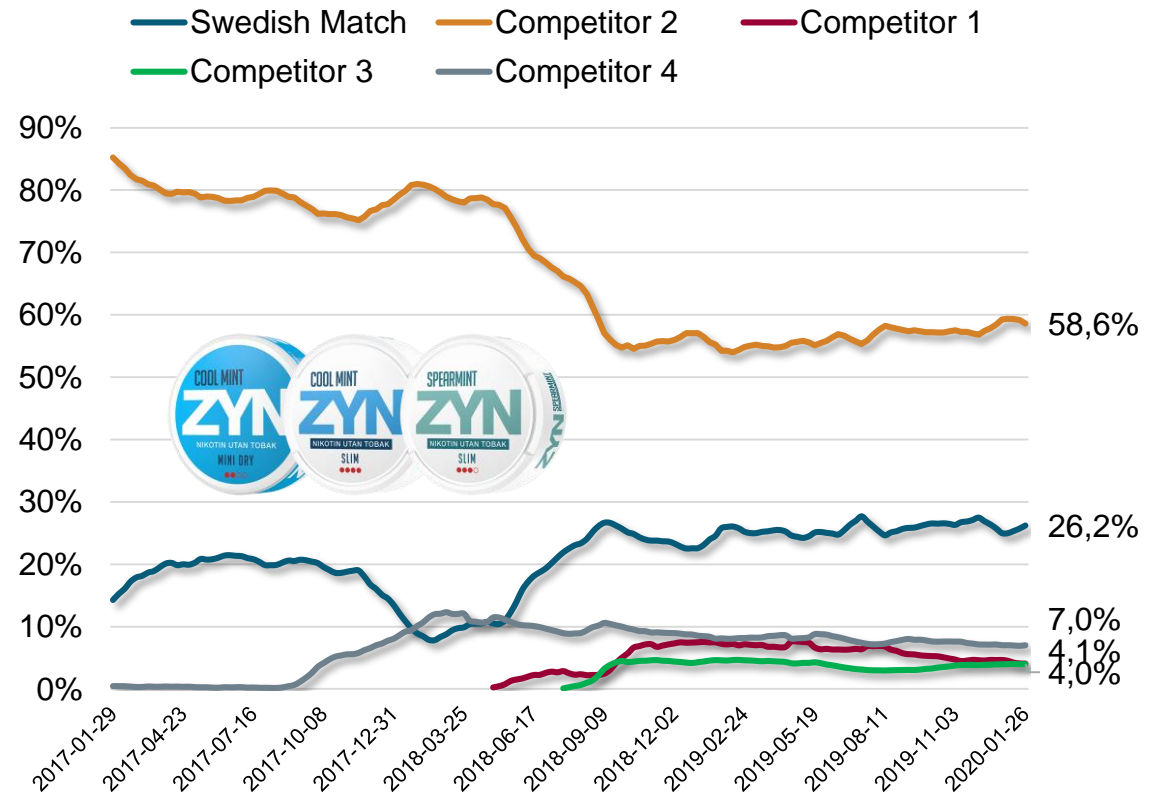
# SWEDEN – NICOTINE POUCH CATEGORY GROWING

## Volume share development, 4-weeks rolling

Nicotine pouch segment size relative to the snus category



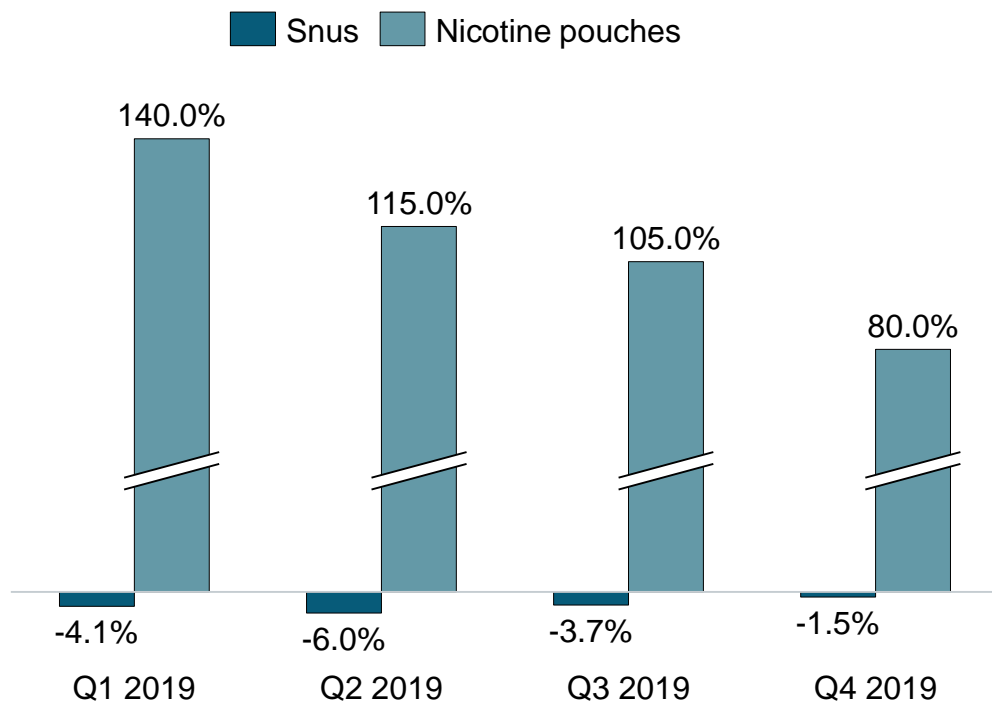
Manufacturer volume shares, nicotine pouch category



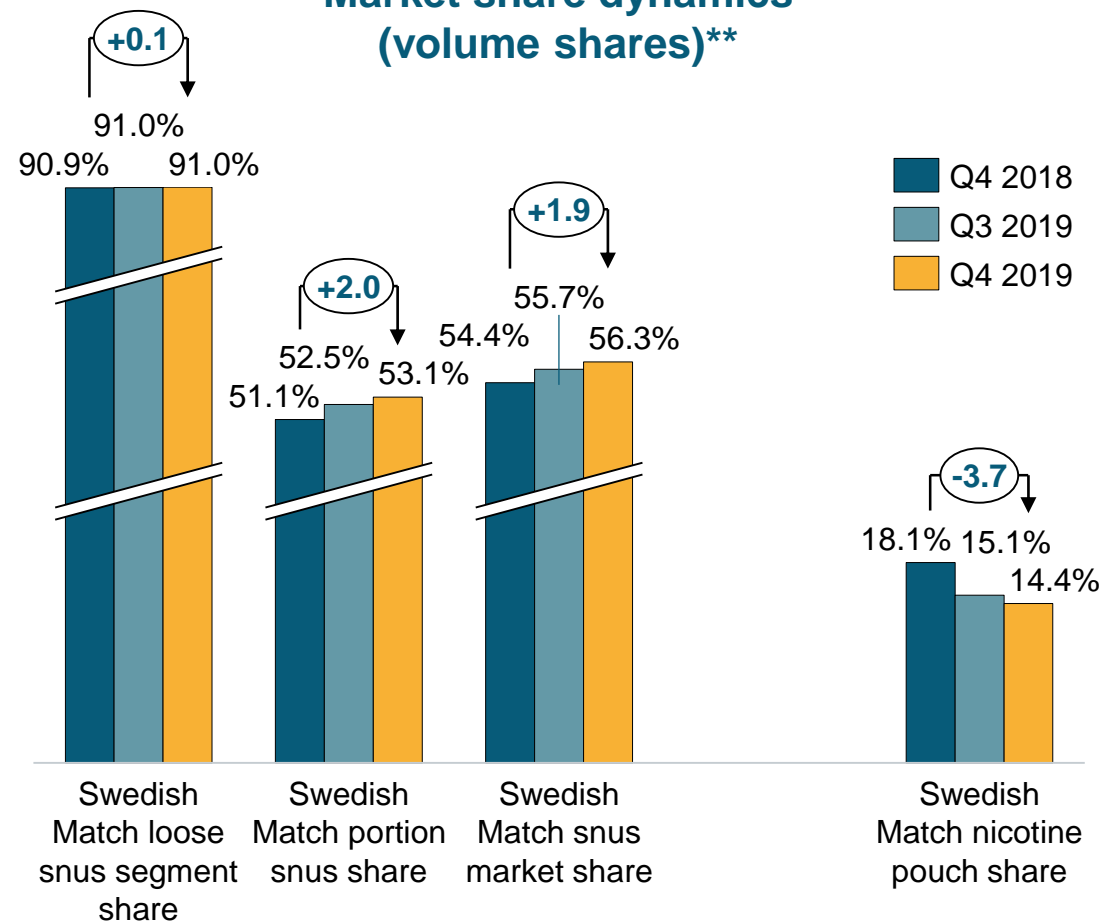
Source: Nielsen, DVH+SVH excl. tobaccoconists. The snus category base includes nicotine free.

# NORWAY – CATEGORY DEVELOPMENT AND MARKET SHARE DYNAMICS

Estimated underlying volume year-on-year growth for snus and nicotine pouches\*



Market share dynamics (volume shares)\*\*

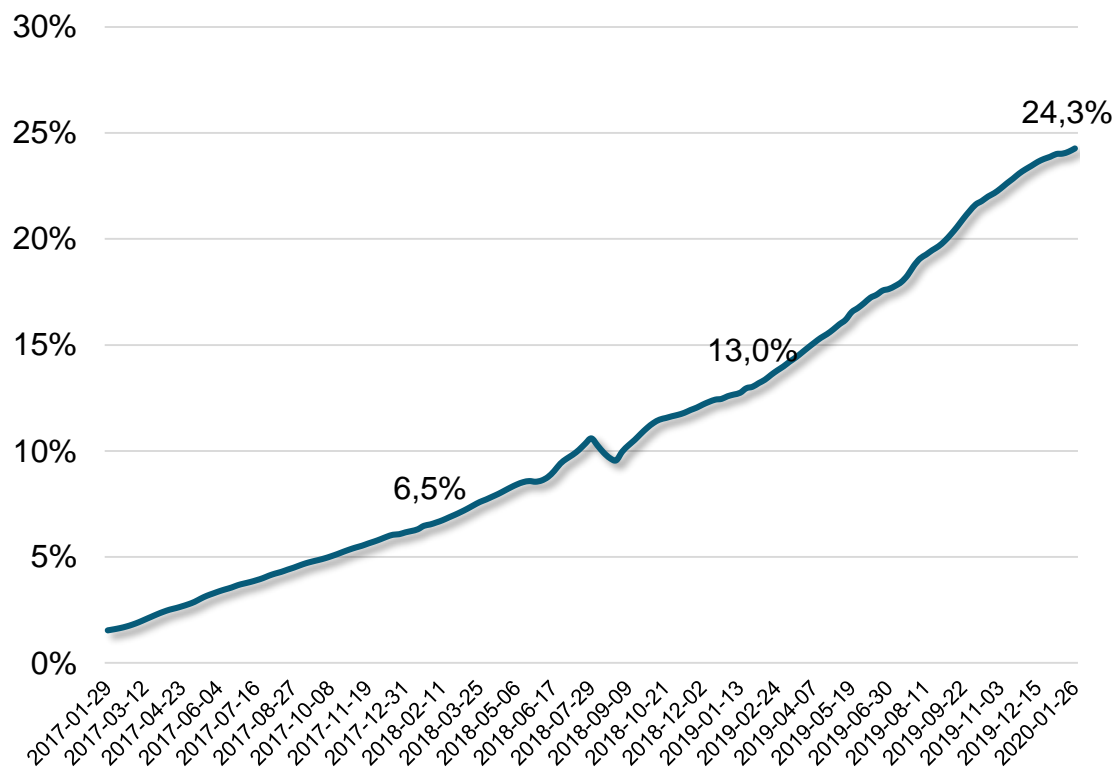


\* Based on Nielsen and Swedish Match estimates (adjusted for hoarding). \*\* Source: Nielsen, DVH+KBS.

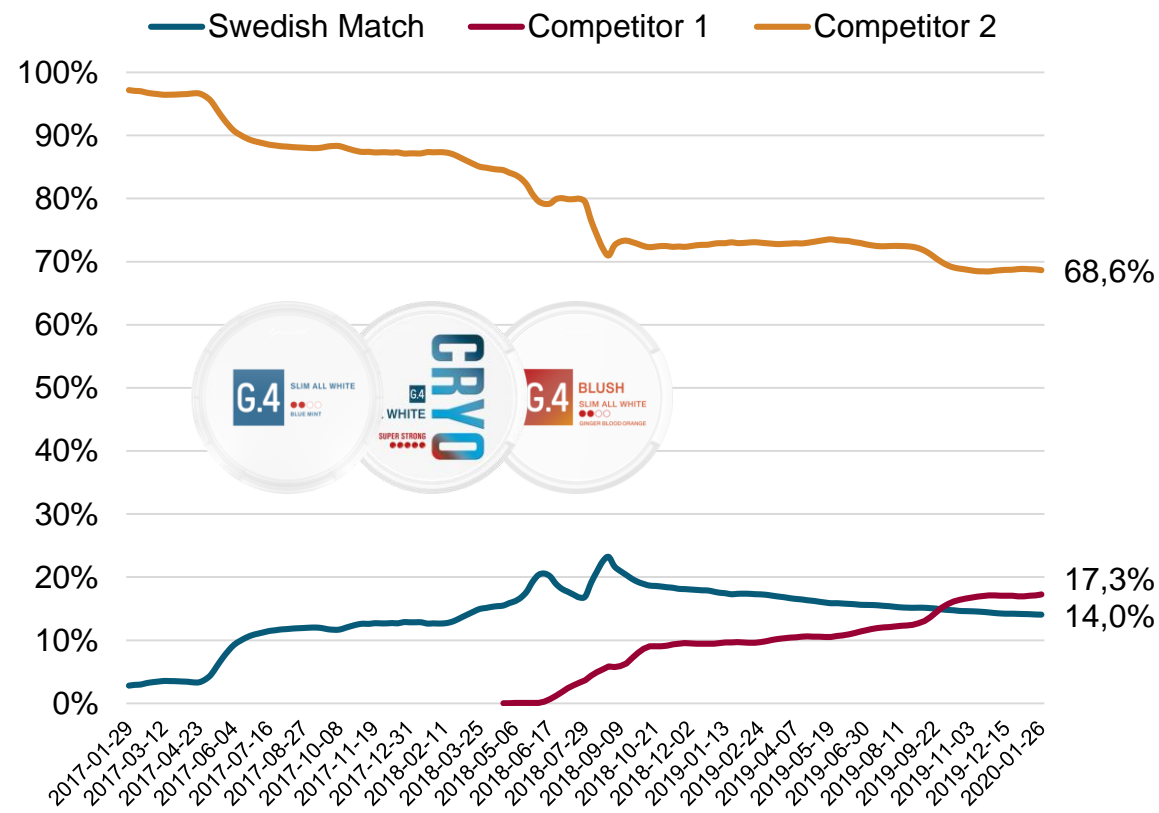
# NORWAY – NICOTINE POUCH CATEGORY GROWING

## Volume share development, 4-weeks rolling

Nicotine pouch segment size relative to the snus category



Manufacturer volume shares, nicotine pouch segment



Source: Nielsen, 4-week data, DVH+KBS. The snus category base includes nicotine free.

# RECENT NEW PRODUCT AND NEW MARKET ACTIVITIES

## Norway and Sweden

- **G.4 CRYO Super Strong** (new recipe)



## Sweden

- **ZYN Deep Freeze Slim**



Limited editions:

- **Göteborgs Rapé Kardus Winter 2019 – Gastronomy Series – (Oct)**
- **Svenskt Exportsnus – Series of historical brands – (Oct)**
- **Small Batch Chef's Edition No. 1 (Nov)**
- **Small Batch #13 (Jan)**



## Other markets outside US and Sweden for ZYN

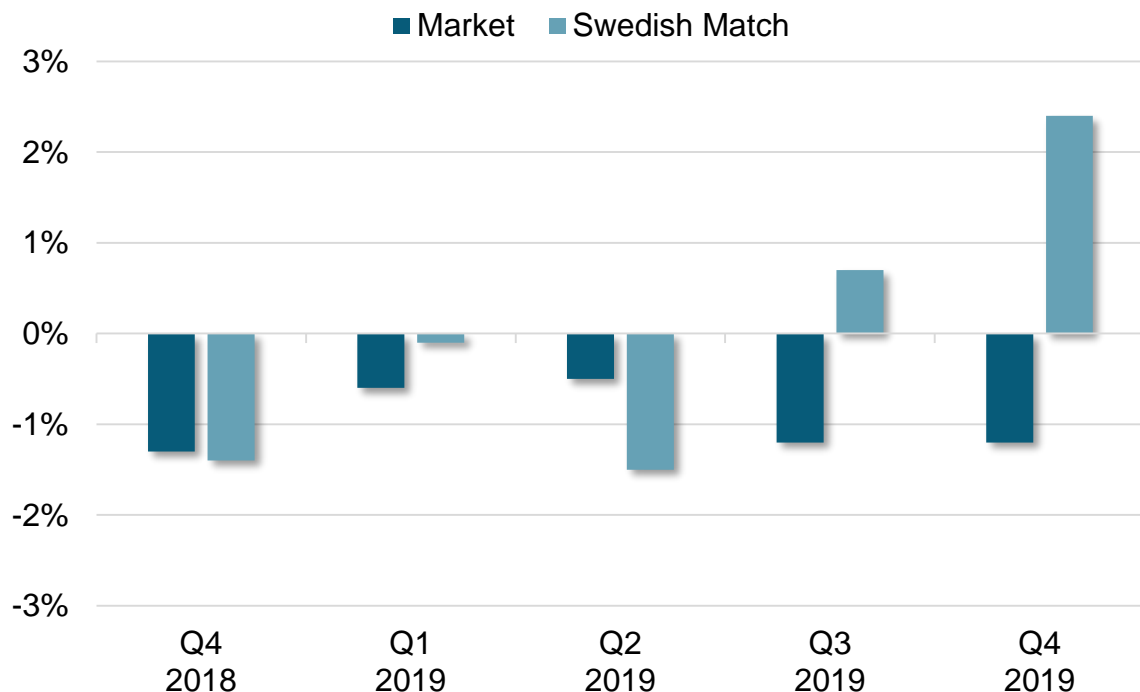
- **ZYN available in stores in Austria, Croatia, Czech Republic, Denmark, Estonia, Germany, Greenland, Slovenia and the UK end of December. From January 2020, ZYN has been launched in New Zealand and Slovakia.**

# ZYN®

## Slight negative category growth, Swedish Match's pouch volumes have outperformed the category

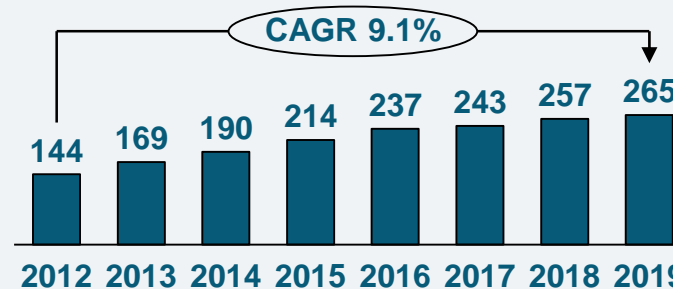
**Total moist snuff category and Swedish Match by quarter**

*Growth, volume*



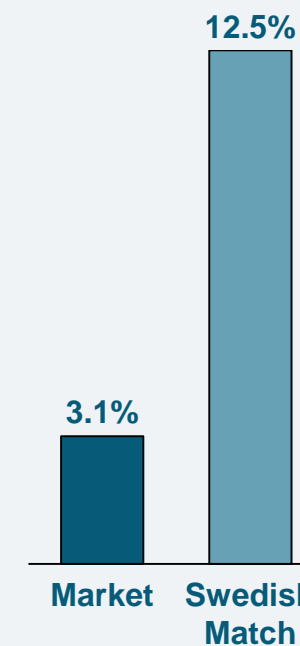
**Pouches, market**

*Million cans*



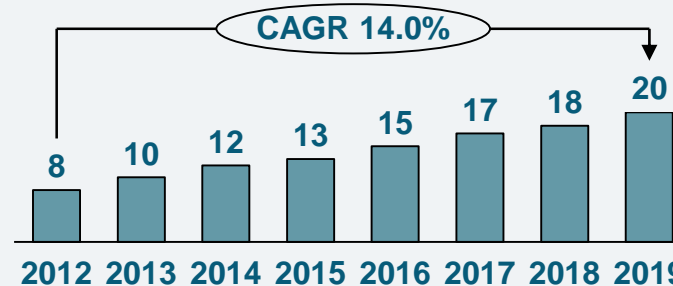
**FY 2019, y-o-y pouch growth rates (%)**

*Volume*



**Pouches, Swedish Match**

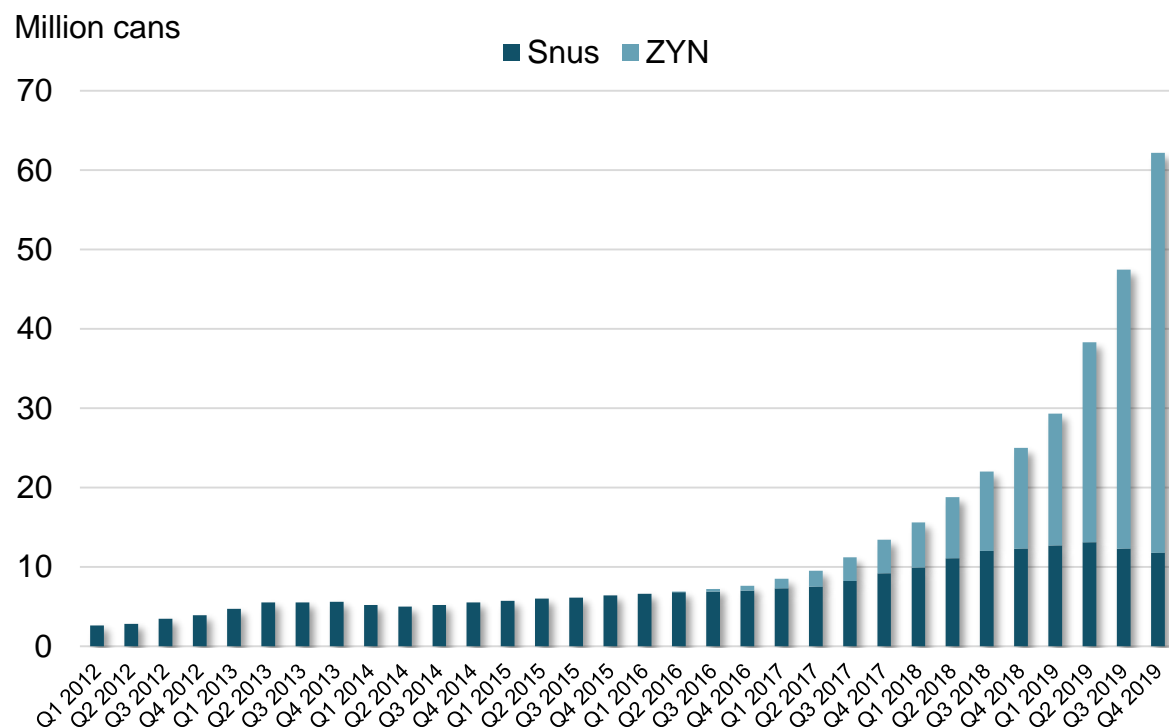
*Million cans shipped*



Source: Industry estimates, Swedish Match direct sales, and MSA.

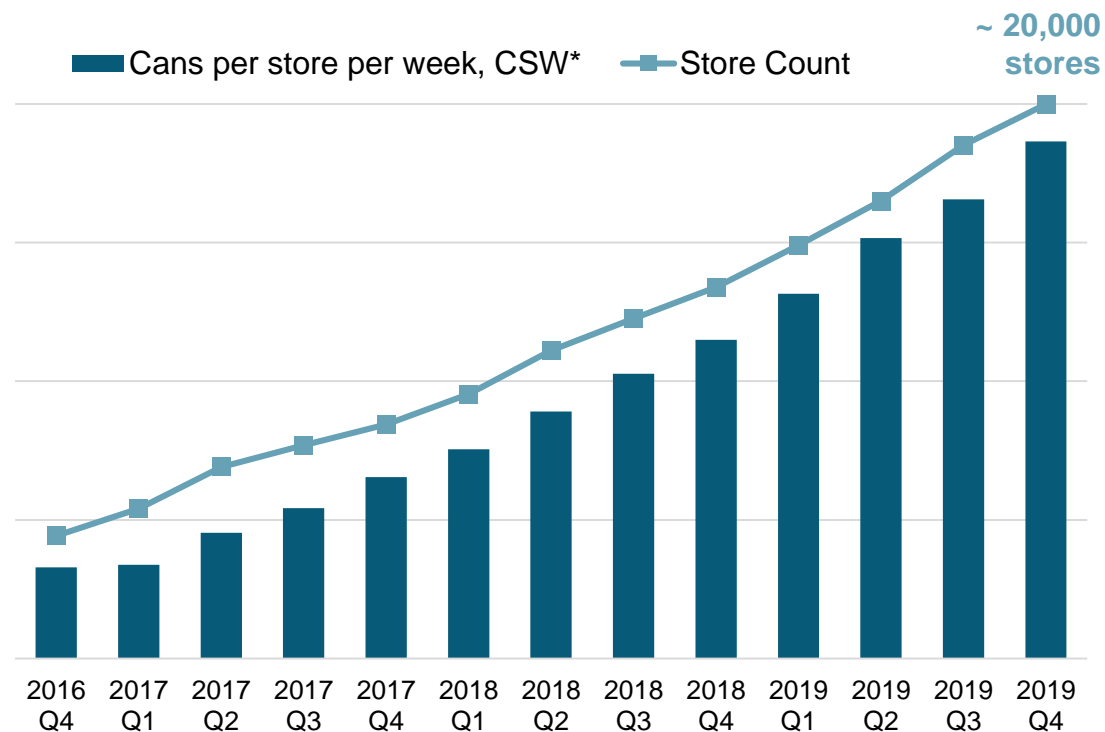
# SNUS AND NICOTINE POUCH VOLUMES OUTSIDE SCANDINAVIA

Swedish Match's shipments of snus and nicotine pouches outside of Scandinavia by rolling four quarters\*



\* Includes V2 snus. Shipments refer to the US and all other non-Scandinavian markets.

ZYN markets prior to national launch – increase in quarterly average velocity and increased number of stores\*\*



\*\* Cans per store per week are based on distributor to retail shipments for stores installed through Q3 2019



# OTHER TOBACCO PRODUCTS (OTP): Q4 COMMENTARY

## Sales and operating profit growth for cigars, while chewing tobacco declined

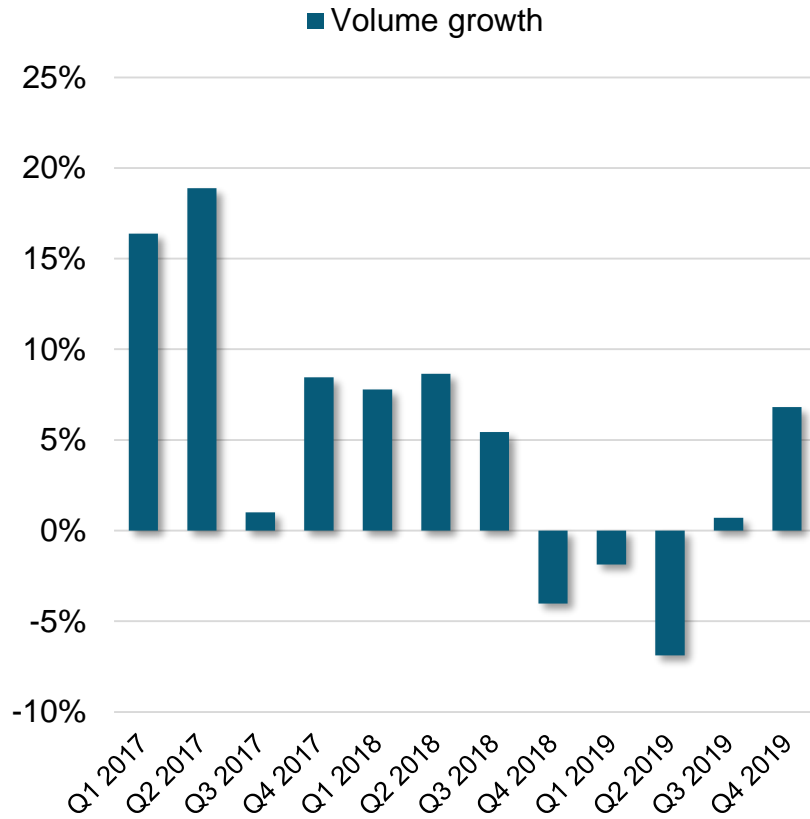
### Sales up by 4% in local currencies while operating profit declined partly due to items of one-time nature

- **US cigar sales and profits up on 7% higher volumes**
  - Continued category softness driven by HTL varieties.
  - Growth in Swedish Match shipment volumes led by natural leaf varieties.
- **US chewing tobacco shipment volumes (own brands) down 7%, sales in local currency down in line with volumes**
  - Volumes for traditional premium varieties declined but grew for value brands.
  - Higher pricing more than offset negative mix effects (premium to value).
  - Distributor shipments to retail indicate share gains in both premium and value segments.
- **Chewing tobacco outside the US: Sales and operating profit down on weak chew bag performance**
  - Sales growth for *Oliver Twist* tobacco bits, declines for chew bags.
  - Chew bag volumes impacted by regulatory uncertainty and a shift to nicotine pouches in certain markets.
  - An impairment charge of 367 MSEK for Swedish Match's European chewing tobacco business, reported under larger one-time items.

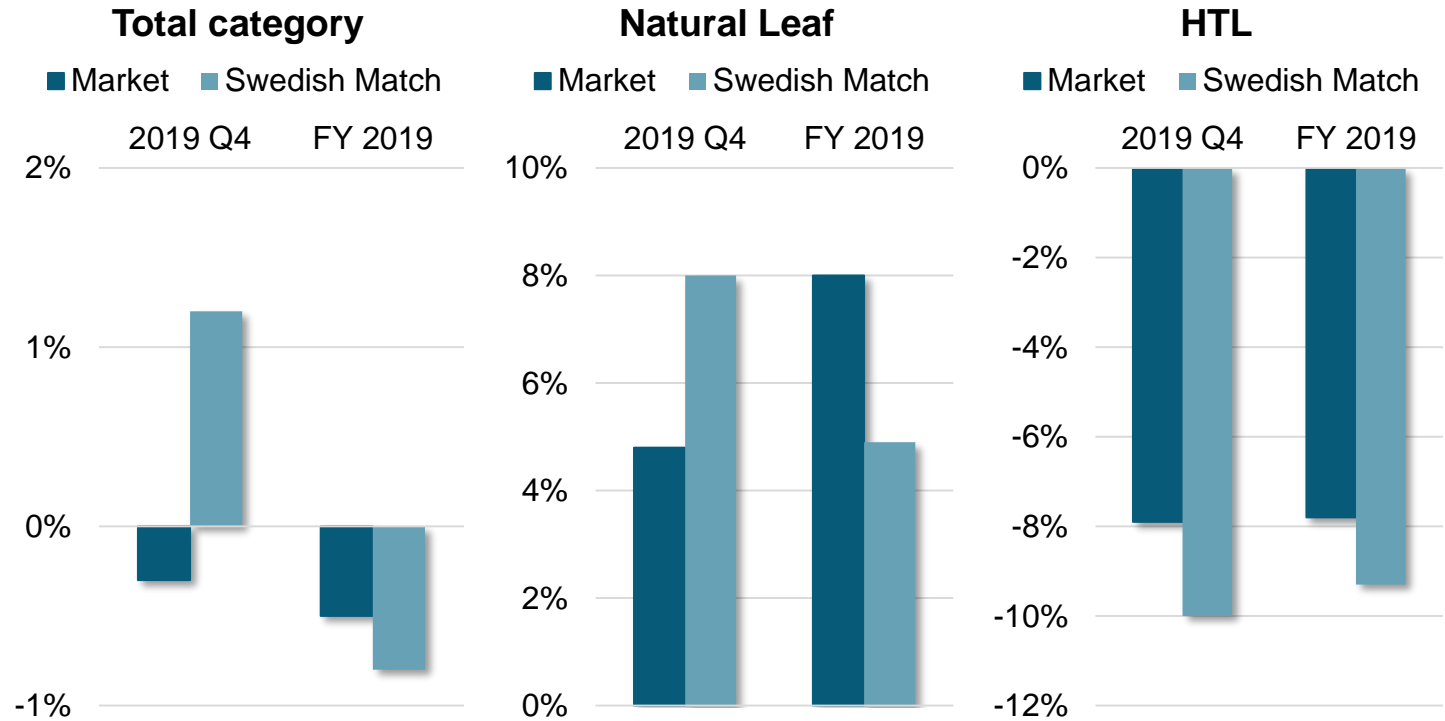


	Q4-2019	Q4-2018	chg	Full year 2019	Full year 2018	chg
Sales, MSEK	1,359	1,233	10	5,679	5,240	8
Operating profit, MSEK	437	456	-4	2,113	1,956	8
Operating margin, %	32.2	37.0		37.2	37.3	

## Shipment volume percentage change y-o-y, Swedish Match

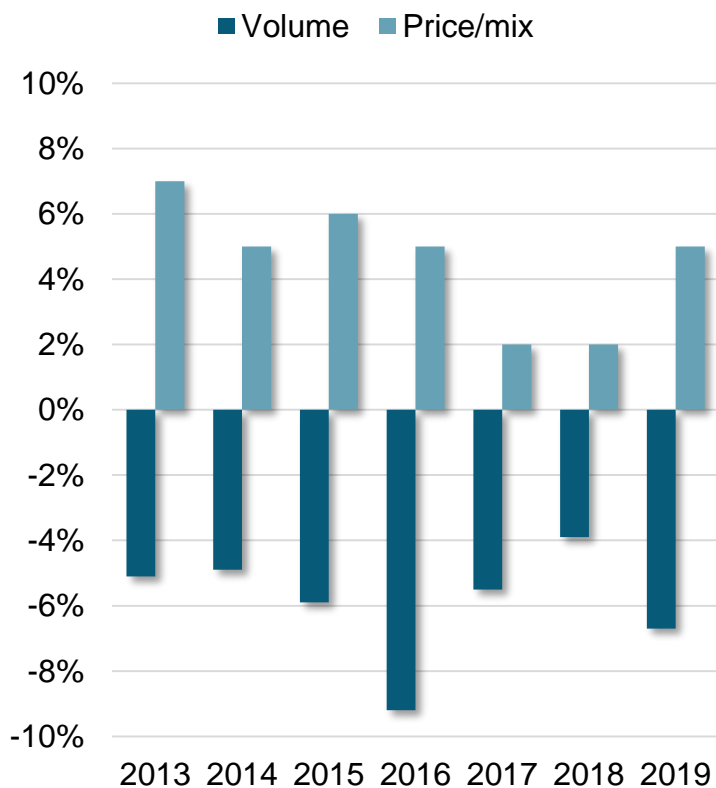


## Cigar tobacco category (Swedish Match estimates) and Swedish Match volume change year-on-year (%)\*

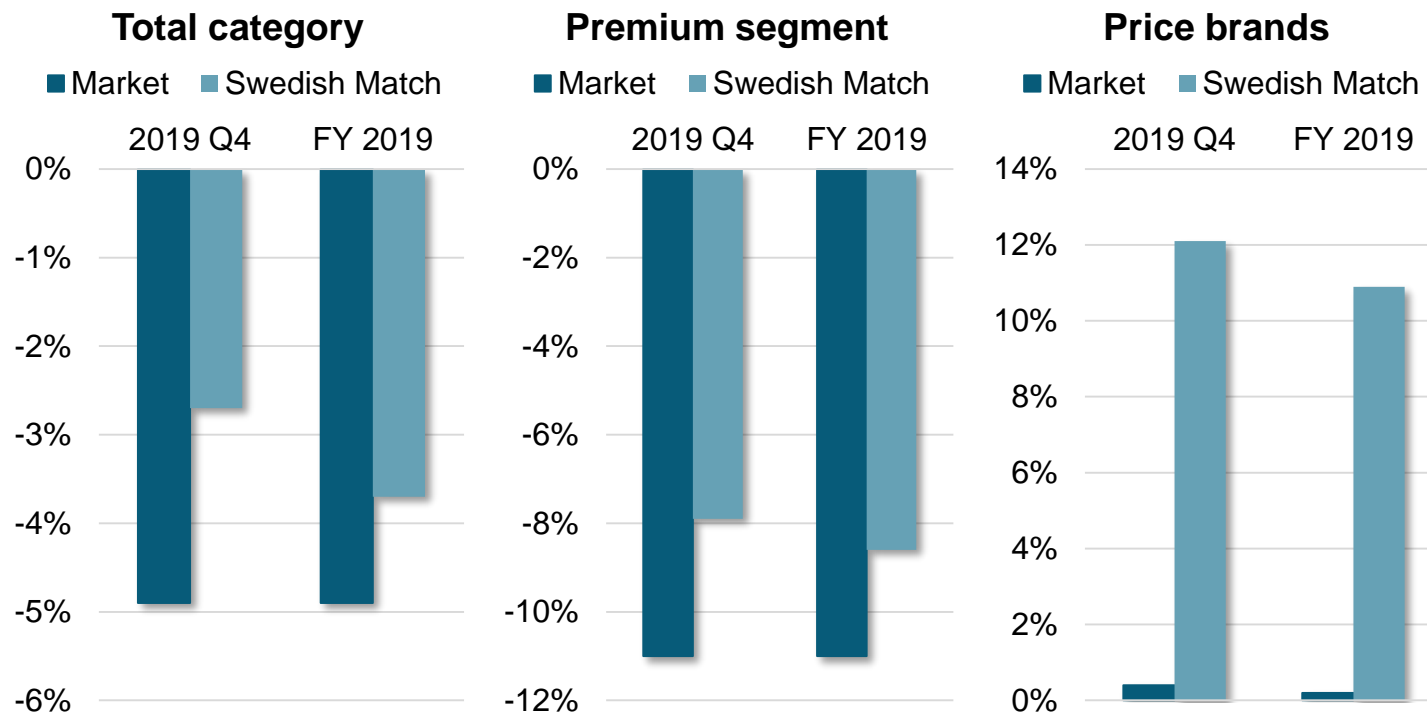


\* Source: Swedish Match estimates of distributor shipments to retail using MSA data (excluding littles).

**Shipment volume and price/mix percentage change y-o-y, Swedish Match brands\***



**Chewing tobacco category (Swedish Match estimates) and Swedish Match volume change year-on-year (%)\*\***



\* On reported basis. Excludes Co-Pack. \*\* Source: MSA. Price brands = Price Large Segment + Price Small Segment.

## Sales down, operating profit up helped by favorable market and portfolio mix and positive resolution of dispute over indirect taxes

- **Sales down 8%, driven by complementary products and lighters**
  - Sales for matches up slightly despite 21% lower volumes, aided by positive price/mix.
  - Sales for lighters down despite positive price/mix effects on tough volume comparisons.
  - Weak development for complementary products in Brazil.
- **Reported operating profit up significantly**
  - 37 MSEK benefit from ruling in Brazil on tax dispute.
  - Excluding effects of tax ruling, profits up for matches and down for lighters and complementary products.
  - For lighters, increased nylon costs continued to weigh on profitability but to a lesser extent.
  - Operating profit for complementary products down on low shipments and currency transaction impacts.



	Q4-2019	Q4-2018	chg	Full year 2019	Full year 2018	chg
Sales, MSEK	323	349	-8	1,200	1,246	-4
Operating profit, MSEK	100	66	52	238	189	26
Operating margin, %	31.1	18.9		19.8	15.2	

## REGULATORY DEVELOPMENTS DURING THE FOURTH QUARTER

### FDA grants modified risk tobacco product (MRTP) designations for *General* snus in the US

On October 22, 2019, the FDA granted Swedish Match an order designating eight *General* snus varieties, including its Mint and Wintergreen varieties, as modified risk tobacco products. The MRTP designation will allow Swedish Match to market the products with the following modified risk description – “Using General Snus instead of cigarettes puts you at a lower risk of mouth cancer, heart disease, lung cancer, stroke, emphysema, and chronic bronchitis” – along with standard health warning statements required of all smokeless tobacco products.

### The Bavarian Administrative Court in Germany has ruled on chewing tobacco

The Bavarian Administrative Court (BAC) in Germany presented its judgements in the chewing tobacco cases on November 28, 2019, concluding that certain of V2 Tobacco’s Thunder chew bag products as well as loose chew products sold in Germany are to be regarded as oral tobacco not intended for chewing under the EU Tobacco Directive. The judgements of the BAC have been appealed to the Federal Administrative Court in Germany. The Federal Administrative Court is expected to decide by mid 2020 whether to allow the appeals.

### US legislation on minimum age for tobacco purchases

In December 2019, the US congress passed legislation raising the minimum age of the purchase for all tobacco products, including smoking tobacco, smokeless tobacco, e-vapor products and nicotine pouches to age 21.

## Agreed action on tobacco control policies in Denmark

On December 18, the Danish government announced that an agreement on an action plan against smoking among children and youth had been reached by parties representing a broad parliamentary majority. Under the proposal, tobacco products and non-pharma nicotine products will be subject to a display ban at retail, an age limit of 18 and certain marketing restrictions. Chewing tobacco will be subject to a flavor ban (other than menthol and tobacco) and will be sold in standardized packaging. The provisions on flavors and packaging will also apply to e-cigarettes, but nicotine pouches have explicitly been excluded from these provisions. Final legislation according to the action plan is expected to be adopted during 2020 with implementation during 2021.

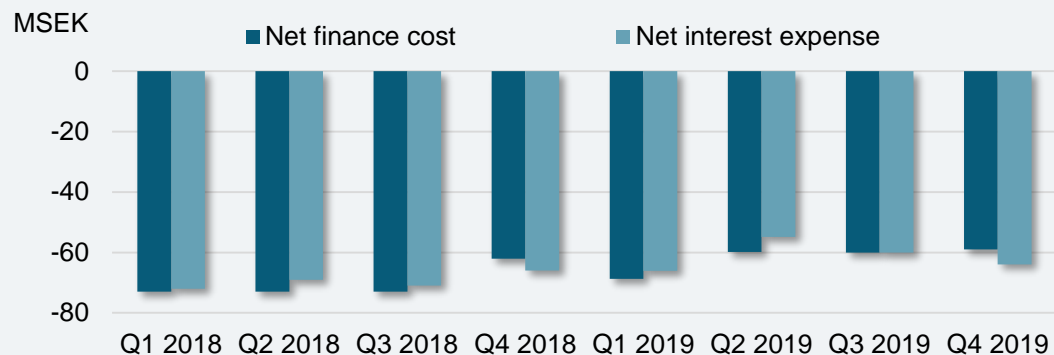
## FDA guidance on flavor

In January 2020, the US FDA issued guidance stating that the FDA intends to take enforcement action against flavored cartridge-based electronic cigarettes (other than a tobacco- or menthol-flavored) and against other electronic cigarettes that are targeted to minors or where manufacturers have failed to take adequate measures to prevent access by minors. In relation to flavored cigars, the FDA stated that it still intends to issue a regulation that would ban the use of characterizing flavors in cigars, and that FDA is working towards that proposed rule. The FDA further indicated that it intends to defer regulatory actions against cigars until May 2020 at which time substantial equivalence or new product application filings are due for products that were not in the market on February 15, 2007.

# FINANCE NET AND EPS

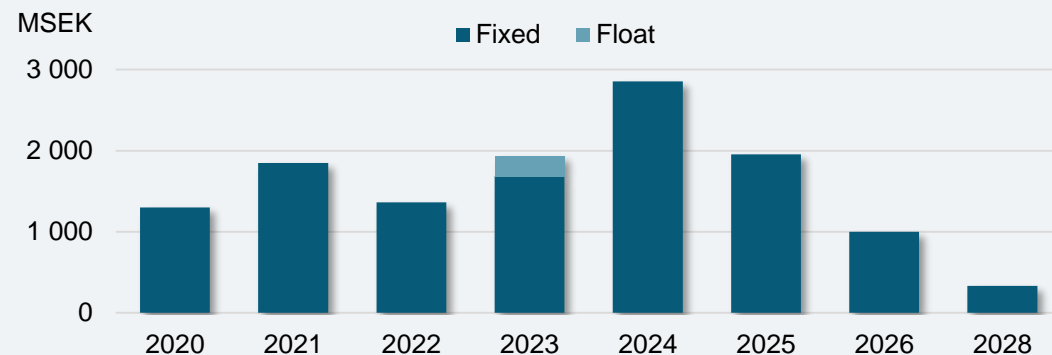
## Development of the finance net

By quarter



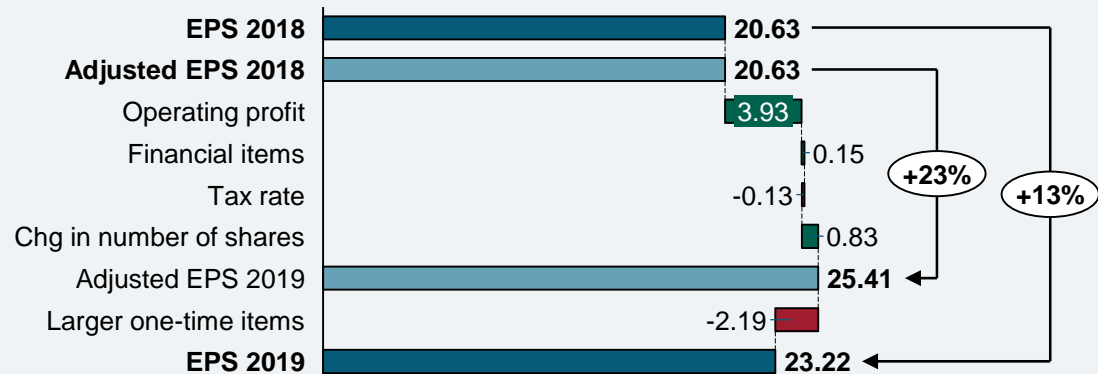
## Maturity profile of interest bearing liabilities

Debt as of December 31, 2019

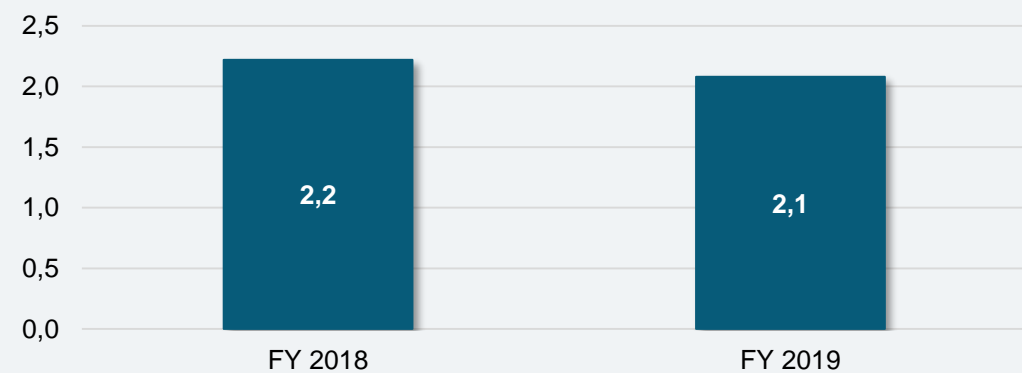


## EPS bridge

12M 2019 vs 12M 2018 (SEK)



## Net debt/EBITA



# CHANGE IN GROUP'S REPORTABLE SEGMENTS AS OF JANUARY 1, 2020

- As of January 1, 2020, Swedish Match has changed the internal reporting structure. The Group's new reportable segments are Smokefree, Cigars and Lights.
- Smokefree represents an aggregation of the Group's entire smokefree operations.
  - Snus/moist snuff/nicotine pouches, as well as all chewing tobacco (which were previously reported under "Other tobacco products").

Sales	2019				2018
	Q4	Q3	Q2	Q1	Q4
<i>MSEK</i>					
Smokefree	2,475	2,315	2,261	1,863	1,955
Cigars	1,040	1,117	1,095	996	910
Lights	323	298	266	314	349
<b>Sales from product segments</b>	<b>3,838</b>	<b>3,729</b>	<b>3,622</b>	<b>3,174</b>	<b>3,214</b>
Other operations	95	100	98	84	87
<b>Sales</b>	<b>3,933</b>	<b>3,829</b>	<b>3,719</b>	<b>3,258</b>	<b>3,301</b>

Operating profit	2019				2018
	Q4	Q3	Q2	Q1	Q4
<i>MSEK</i>					
Smokefree	1,060	1,093	1,039	805	845
Cigars	359	423	411	384	332
Lights	100	88	6	43	66
<b>Operating profit from product segments</b>	<b>1,520</b>	<b>1,603</b>	<b>1,456</b>	<b>1,233</b>	<b>1,243</b>
Other operations*	-54	-18	-22	-43	-47
Impairment charge - European chewing tobacco business	-367	-	-	-	-
<b>Operating profit</b>	<b>1,098</b>	<b>1,586</b>	<b>1,434</b>	<b>1,190</b>	<b>1,196</b>

Operating margin from product segments	2019				2018
	Q4	Q3	Q2	Q1	Q4
<i>Percent</i>					
Smokefree	42.8	47.2	46.0	43.2	43.3
Cigars	34.5	37.9	37.5	38.6	36.4
Lights	31.1	29.4	2.3	13.8	18.9
<b>Operating margin from product segments</b>	<b>39.6</b>	<b>43.0</b>	<b>40.2</b>	<b>38.8</b>	<b>38.7</b>

\* Certain central costs previously captured under Other operations related to smokefree initiatives have been allocated to the Smokefree segment in conjunction with the change in reportable segments.



## OUTLOOK

**Swedish Match expects that the trend of increased interest from consumers, industry participants and regulators in less harmful alternatives to cigarettes will continue. Our ambition is to create value for both shareholders and society by providing products that are recognized as safer alternatives to cigarettes.**

**For 2020, Swedish Match expects continued market growth in global markets for smokefree nicotine products, most notably driven by rapid growth of nicotine pouches (both without tobacco and with small amounts of tobacco).**

**During 2020, Swedish Match expects to increase its investments in marketing, distribution and sales efforts in both existing and new markets to actively participate in growth opportunities. Continued capital investments by Swedish Match to further expand ZYN production capacity are expected to result in capital expenditures in 2020 considerably above the 2019 level.**

**The effective corporate tax rate in 2020, excluding associated companies and larger one-time items, is expected to be in the 22 percent to 23 percent range.**

**The Company remains committed to returning cash not needed in operations to shareholders.**