

SWEDISH MATCH RESULTS PRESENTATION

Q2 2020



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Q2– HEADLINE BULLETS

- In local currencies, sales increased by 11 percent for the second quarter. Reported sales increased by 11 percent to 4,133 MSEK (3,719).
- In local currencies, operating profit from product segments¹⁾ increased by 19 percent for the second quarter. Reported operating profit from product segments increased by 17 percent to 1,704 MSEK (1,456).
- Operating profit amounted to 1,666 MSEK (1,434) for the second quarter.
- Profit after tax amounted to 1,227 MSEK (1,080) for the second quarter.
- Earnings per share increased by 19 percent to 7.60 SEK (6.39) for the second quarter.
- The second quarter financial performance was negatively affected by COVID-19 impacts.
- **ZYN** continued to deliver strong volume growth contributing to higher sales and operating profit.

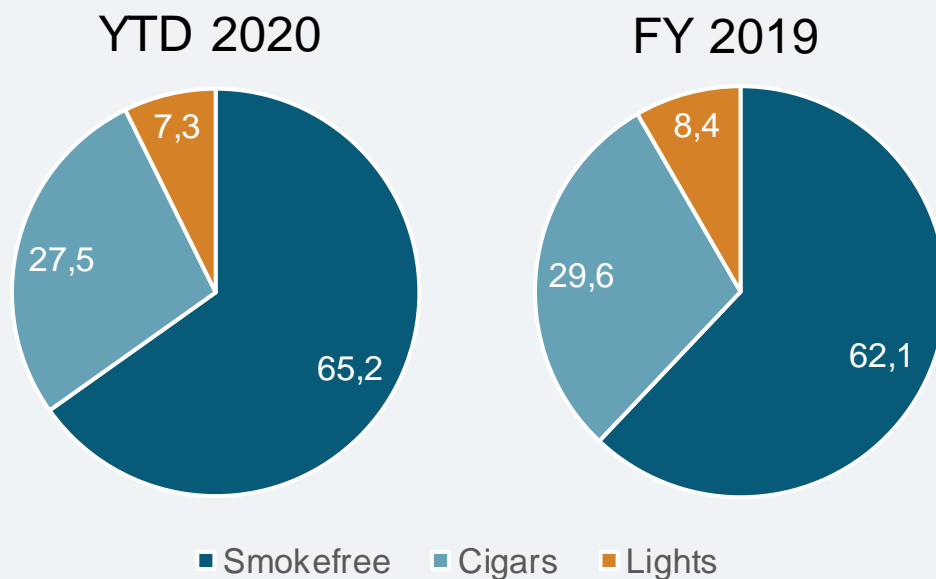
1) Excluding Other operations and larger one-time items.



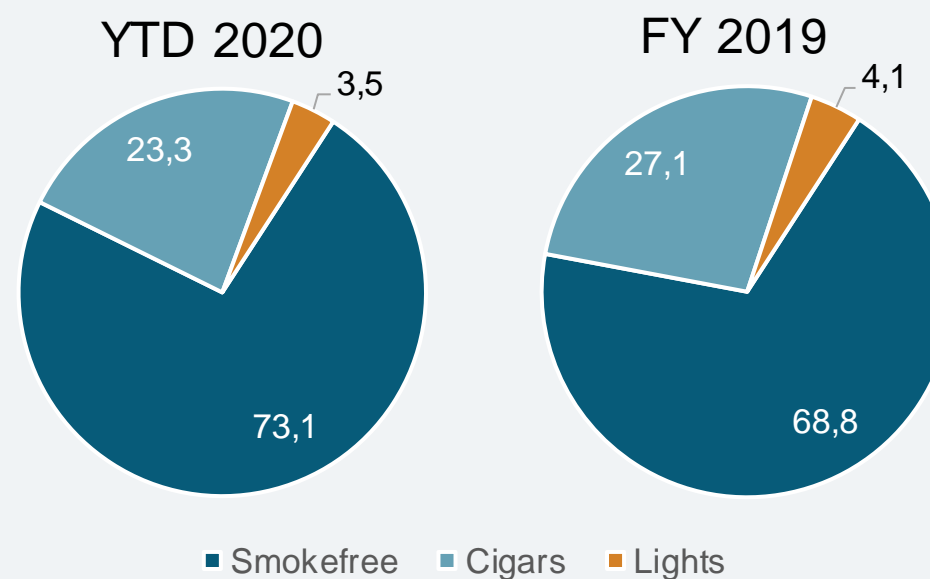
SALES AND EBIT SPLIT BY PRODUCT SEGMENT

Sales and EBIT split in percent, YTD 2020 versus YTD 2019 (Jan-Jun)

Sales split



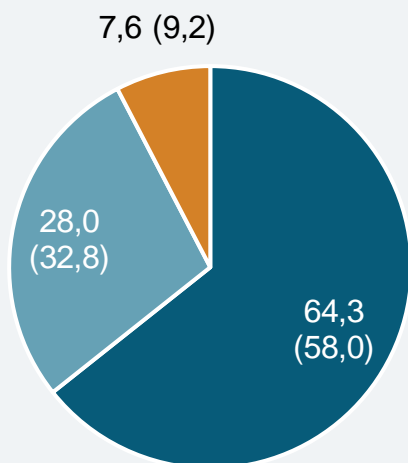
EBIT split



SALES SPLIT BY GEOGRAPHY AND PRODUCT SEGMENT

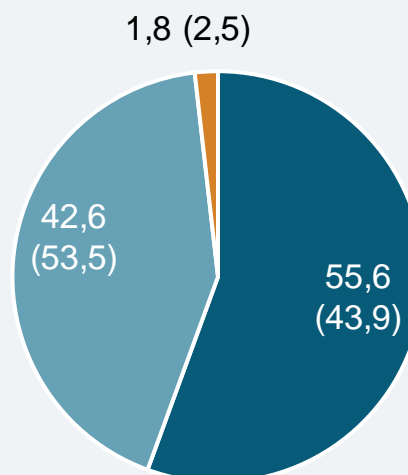
Sales split in percent, YTD 2020 versus YTD 2019 (Jan-Jun)

Sales split



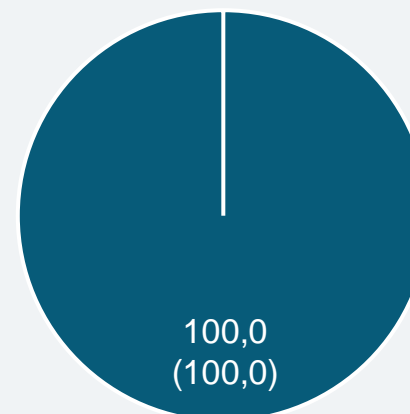
■ The US ■ Scandinavia ■ Other markets

Smokefree

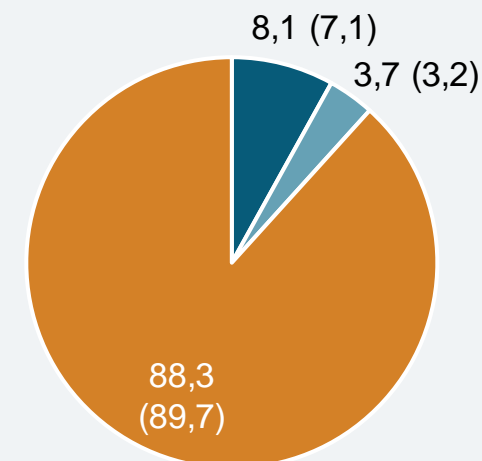


■ The US ■ Scandinavia ■ Other markets

Cigars



Lights



SECOND QUARTER COVID-19 IMPACTS

COVID-19:

- Following trade hoarding in Q1 in the US, destocking negatively affected Q2 shipment volumes for moist snuff and to a lesser extent ZYN nicotine pouches. Shipments of chewing tobacco held up stronger than anticipated and the decline in shipments for natural leaf cigars was primarily a consequence of COVID-19 related production constraints.
- Manufacturing facilities relatively resilient to date. Q1 suspension of production in Dominican Republic and reduced production immediately after startup due to hygiene and other COVID-19 protocols resulted in reduced shipments of natural leaf cigars, while higher than normal shipments of HTL cigars were supplied by our US cigar production facility.
- Shipments of snus and nicotine pouches to Scandinavian travel retail/border classes of trade virtually nonexistent during most of the quarter.
- Border closures in Scandinavia have had a notable impact on consumer purchase patterns, with abnormally strong volume in Norway, as consumers were forced to purchase products locally rather than in Swedish border shops.
- Timing and execution of certain sales, marketing, and launch activities affected for ZYN in markets outside of Scandinavia and the US.
- Higher costs in factories due to implementation of pandemic planning protocols.
- ZYN capacity expansion projects in the US and Scandinavia continued according to plan.
- Swedish Match complying with recommended protocols from governmental and local health authorities.

SECOND QUARTER HIGHLIGHTS SUMMARY

Smokefree:

- Higher sales and operating profit in both US and Scandinavia in local currencies driven by nicotine pouches
- Sequential growth in shipment volumes for ZYN in the US despite destocking of first quarter hoarding
- In Scandinavia, border controls and travel restrictions resulted in volume declines but sales and operating profit benefited from positive product and country mix

Cigars:

- Swedish Match cigar shipments increased by 2 percent with strong HTL volumes offsetting declines of natural leaf varieties
- COVID-19 production constraints in the Dominican Republic caused the decline in natural leaf cigars which resulted in an adverse product mix
- Lower operating profit/operating margin resulted from the adverse mix effects as well as higher factory and other operating costs

Lights:

- Sales growth driven by matches, while lighter sales declined
- Operating profit up compared to the prior year for both matches and lighters on a reported basis as well as when adjusted for restructuring charges and land sale
- Match performance was strong on higher volumes in many markets, particularly in Brazil ahead of announced price increase

Sales for product segment increased 20% in local currencies, operating profit up

	Q2-2020	Q2-2019	chg	H1-2020	H1-2019	chg	July 2019-June 2020	Full year 2019	chg
Sales, MSEK	2,695	2,261	19	5,203	4,124	26	9,993	8,914	12
Operating profit, MSEK	1,301	1,039	25	2,455	1,844	33	4,608	3,997	15
Operating margin, %	48.3	46.0		47.2	44.7		46.1	44.8	

Snus and nicotine pouches

○ Continued strong growth for ZYN nicotine pouches in the US

- Shipment volumes for ZYN in the US more than doubled compared to prior year and grew sequentially compared to the first quarter despite unwinding in trade hoarding and limited distribution build (ZYN available in approximately 85,000 stores by the end of the second quarter).
- Strong profitability development for ZYN benefitting from higher sales, lower manufacturing costs and deferred marketing activities.

○ Scandinavian* snus shipment volumes down, nicotine pouch volumes up

- Continued growth for the combined snus and nicotine pouch category but shipments declined as deliveries to border/travel shops were disrupted and not fully compensated by increased Norwegian domestic volumes.
- Operating profit in Scandinavia increased in local currencies as a result of a favorable portfolio mix from high Norwegian volumes but currency translation effects from weaker NOK caused operating profit to decline.



* Sweden, Norway and Denmark.

US moist snuff

- **Volumes higher despite unwinding of trade hoarding**
 - Average pricing and sales down but volumes up on simplified pricing promotion strategy for *Longhorn*.
 - Operating profit down on lower sales and higher manufacturing costs, impacted by COVID-19 preventative measures.

US chewing tobacco

- **Shipment volumes (own brands) up, sales higher, but operating profit down**
 - The unwinding of first quarter trade hoarding has not yet materialized and could impact future deliveries.
 - Continued mix shift towards value price offerings.
 - Operating profit negatively impacted by changes in the portfolio mix, as well as higher manufacturing costs impacted by COVID-19 preventative measures.

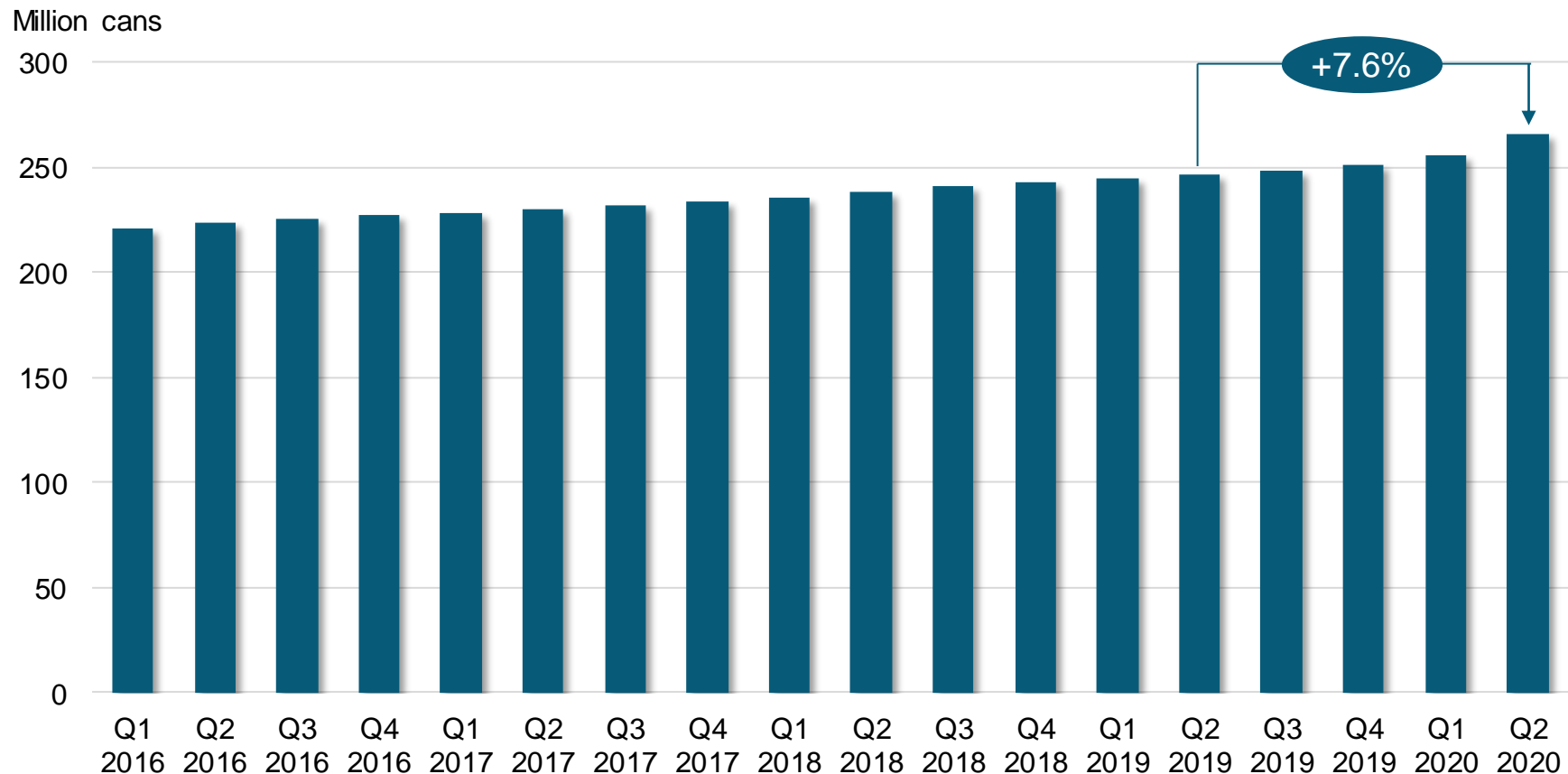
International smokefree products in other markets

- **Volumes up for nicotine pouches but down for chewing tobacco**
 - Operating profit down on lower sales and increased investments for expansion opportunities.
 - For nicotine pouches outside Scandinavia/US, activities were negatively impacted by COVID-19 related restrictions. Investments in expansion projects continue.



SWEDEN AND NORWAY – COMBINED SNUS AND NICOTINE POUCH CATEGORY

Category volume in Sweden and Norway, 12 months rolling

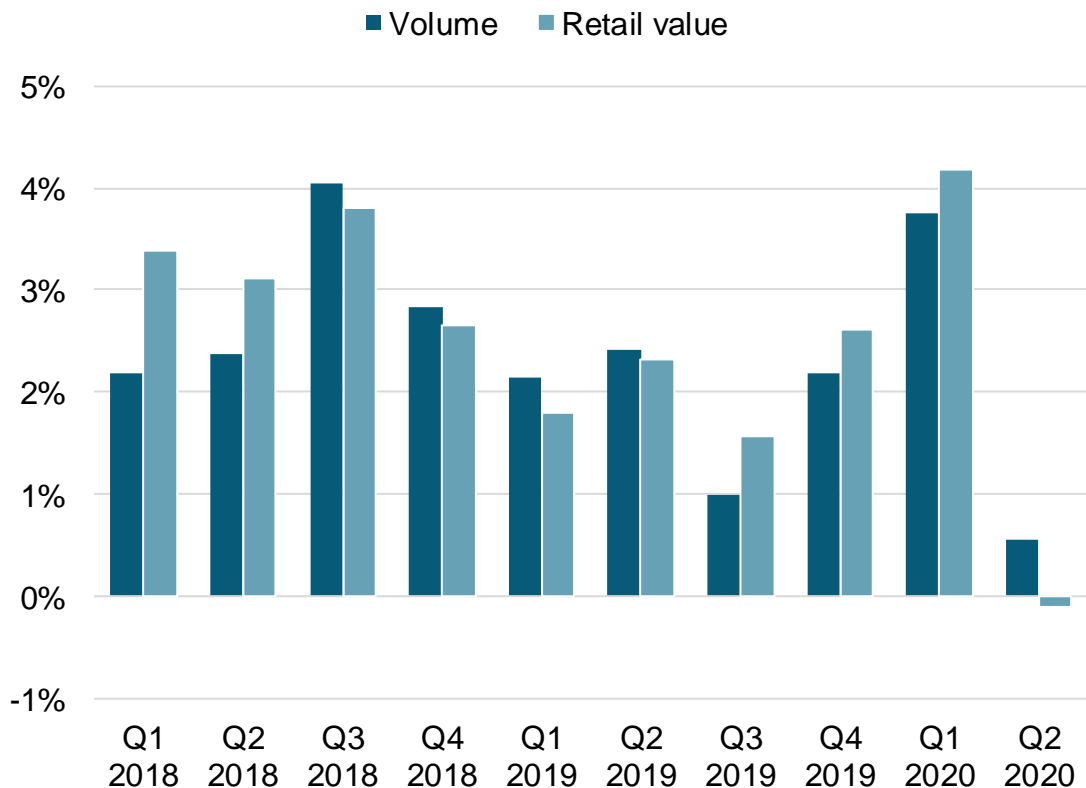


Source: Nielsen Sweden, DVH+SVH/Nielsen Norway, DVH+KBS (including nicotine free).

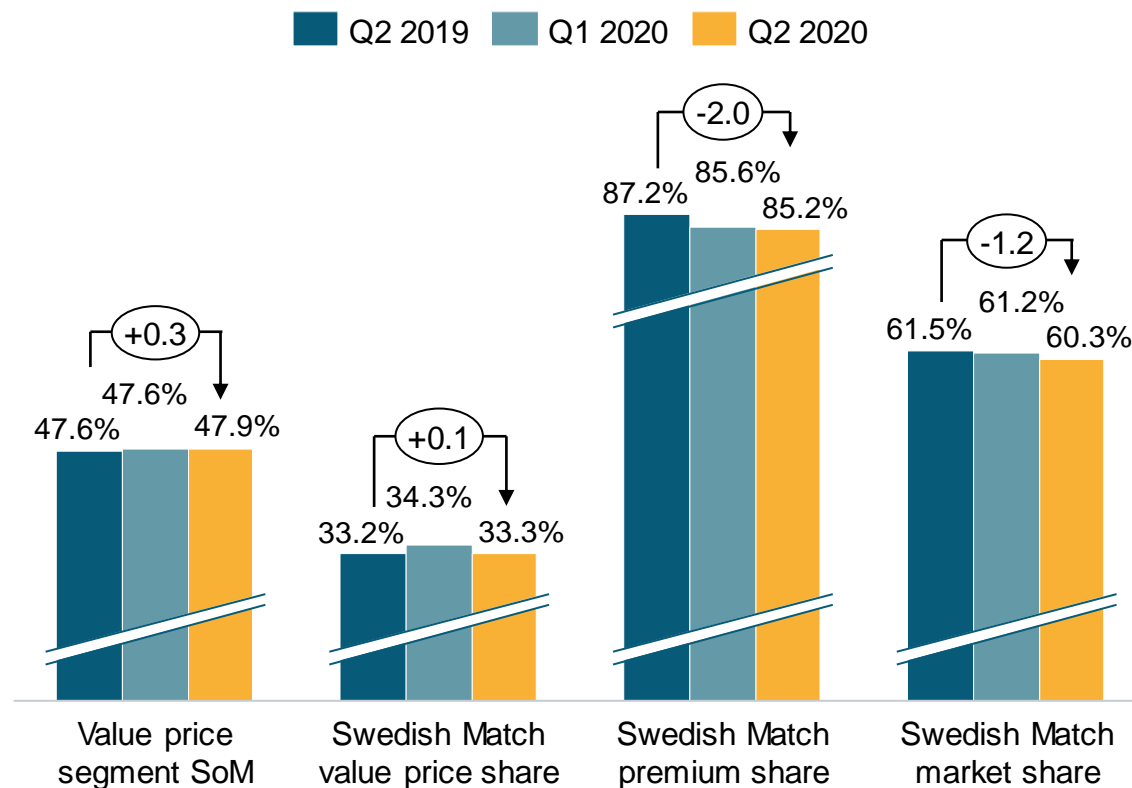


SWEDEN – SNUS CATEGORY

Category volume and retail value growth, year-on-year



Volume share dynamics, quarterly

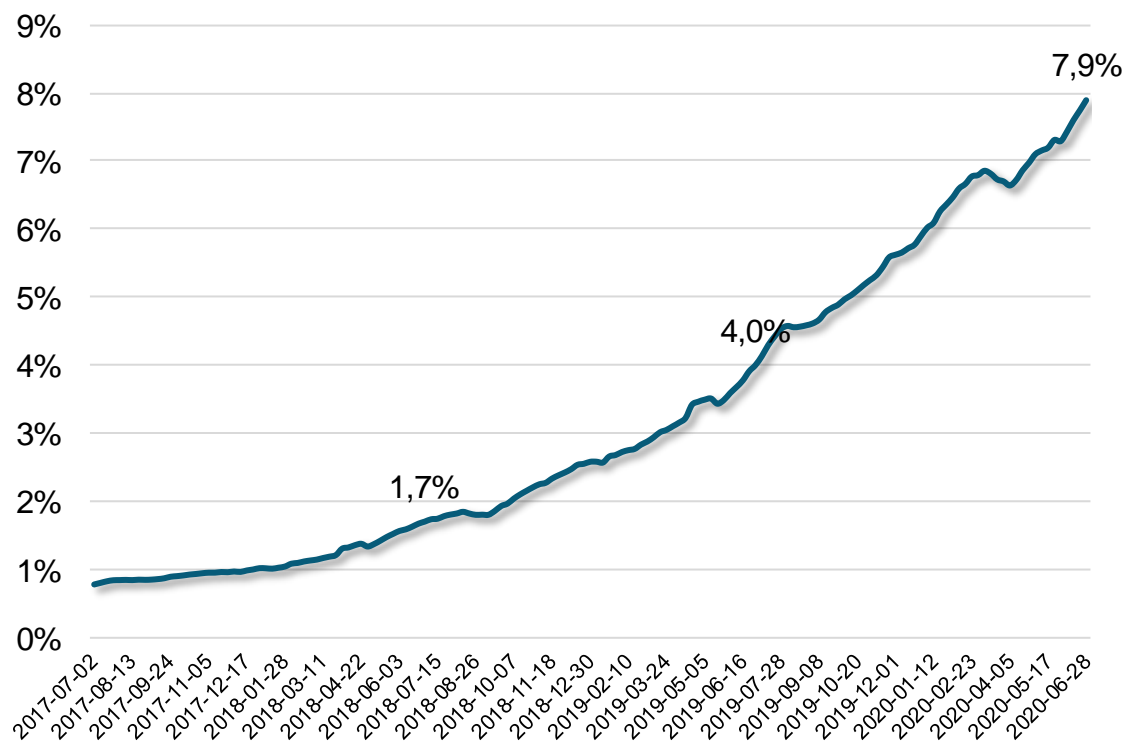


Source: Nielsen, DVH+SVH excl. tobaccoconists (including nicotine free). Please note that the data above excludes nicotine pouches.

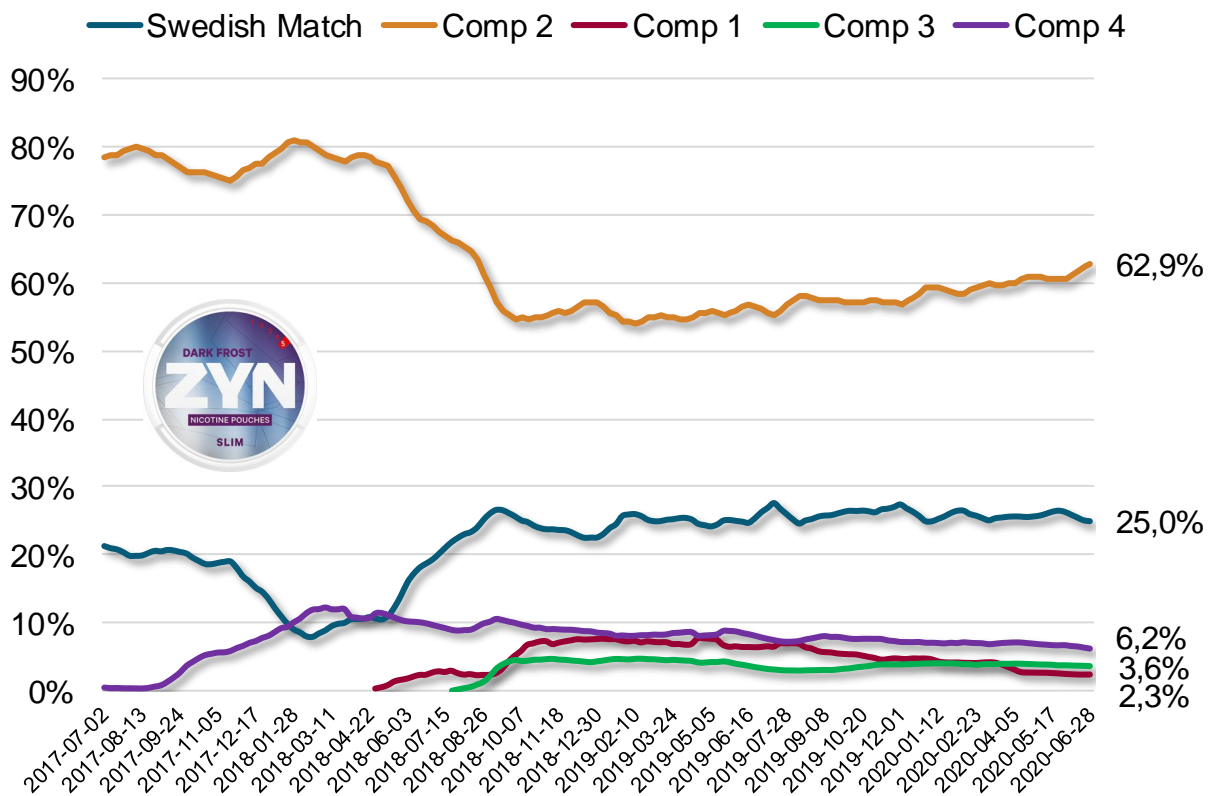
SWEDEN – NICOTINE POUCH CATEGORY

Volume share development, 4-weeks rolling

Nicotine pouch category size relative to the snus category



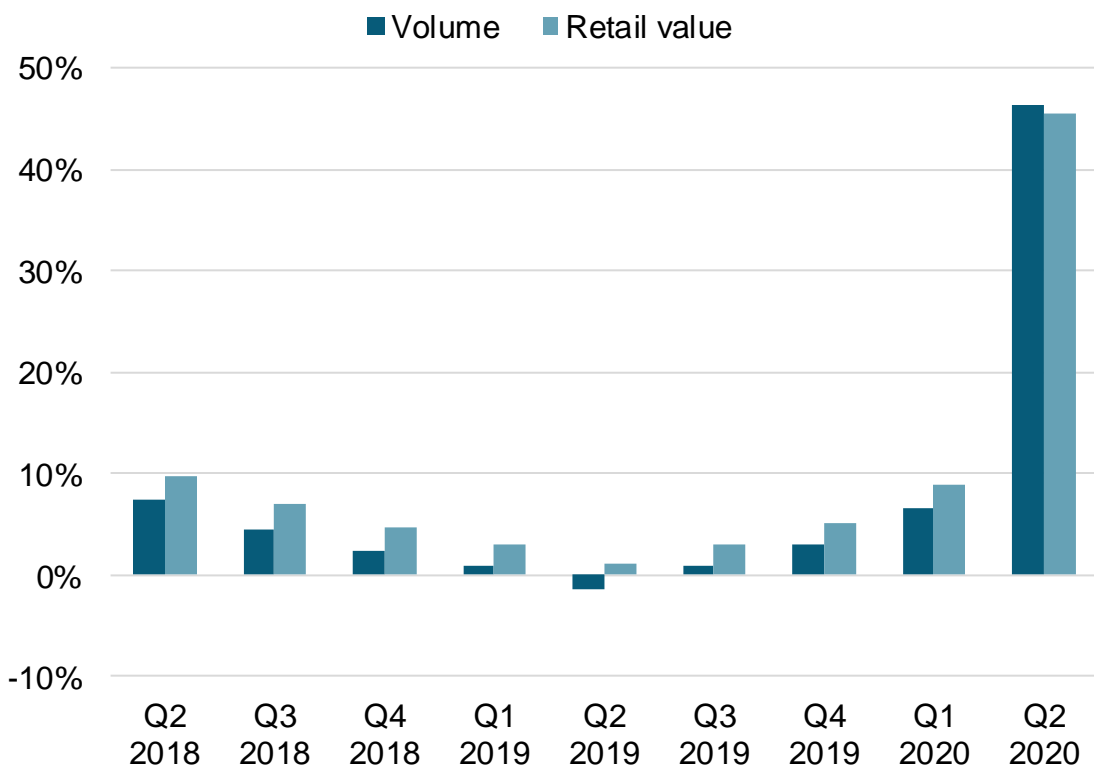
Manufacturer volume shares, nicotine pouch category



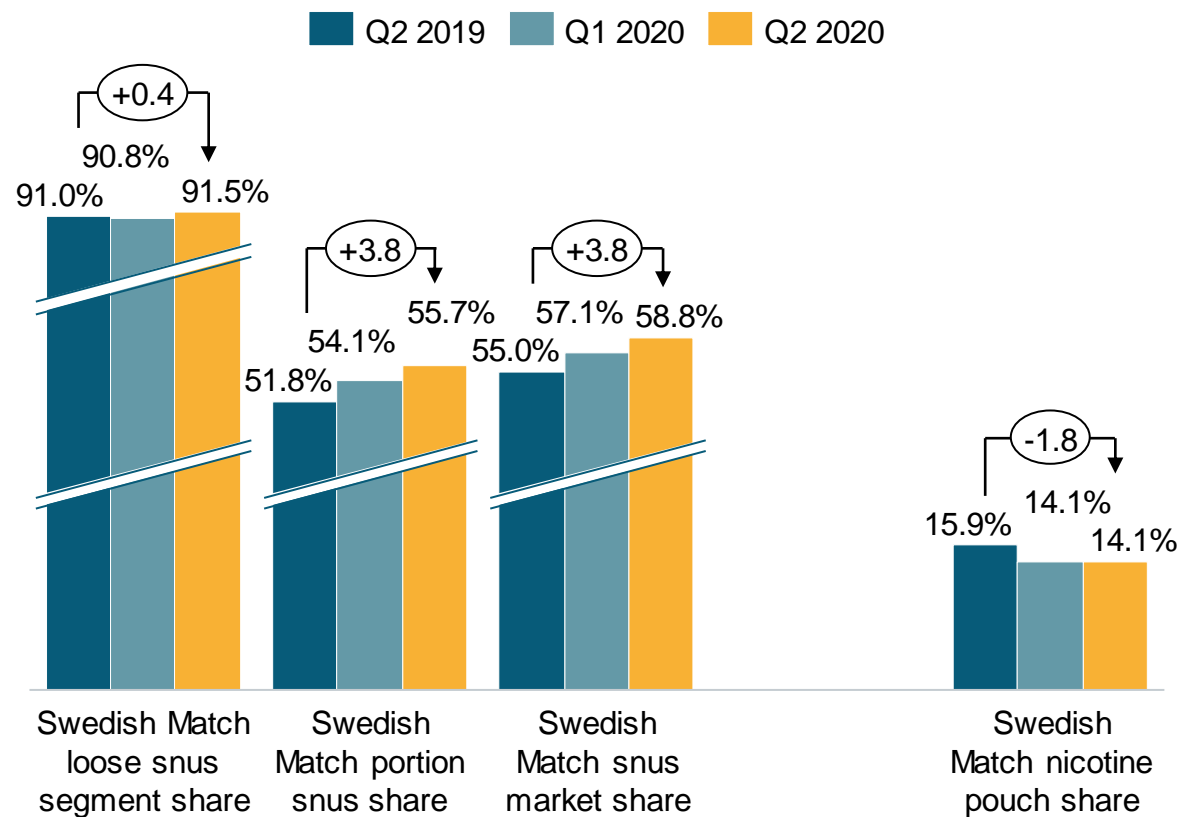
Source: Nielsen, DVH+SVH excl. tobaccoconists. The snus category base includes nicotine free.

NORWAY – COMBINED SNUS AND NICOTINE POUCH CATEGORY

Category volume and retail value growth, year-on-year



Swedish Match volume share dynamics, quarterly

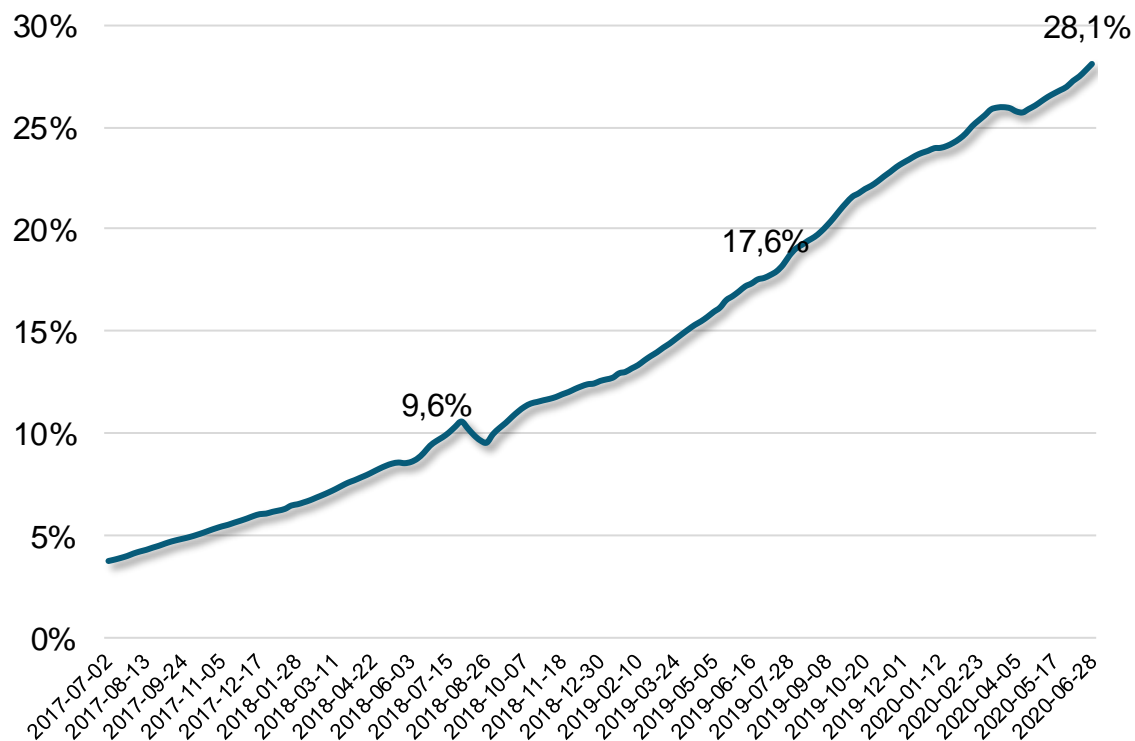


Source: Nielsen, DVH+KBS.

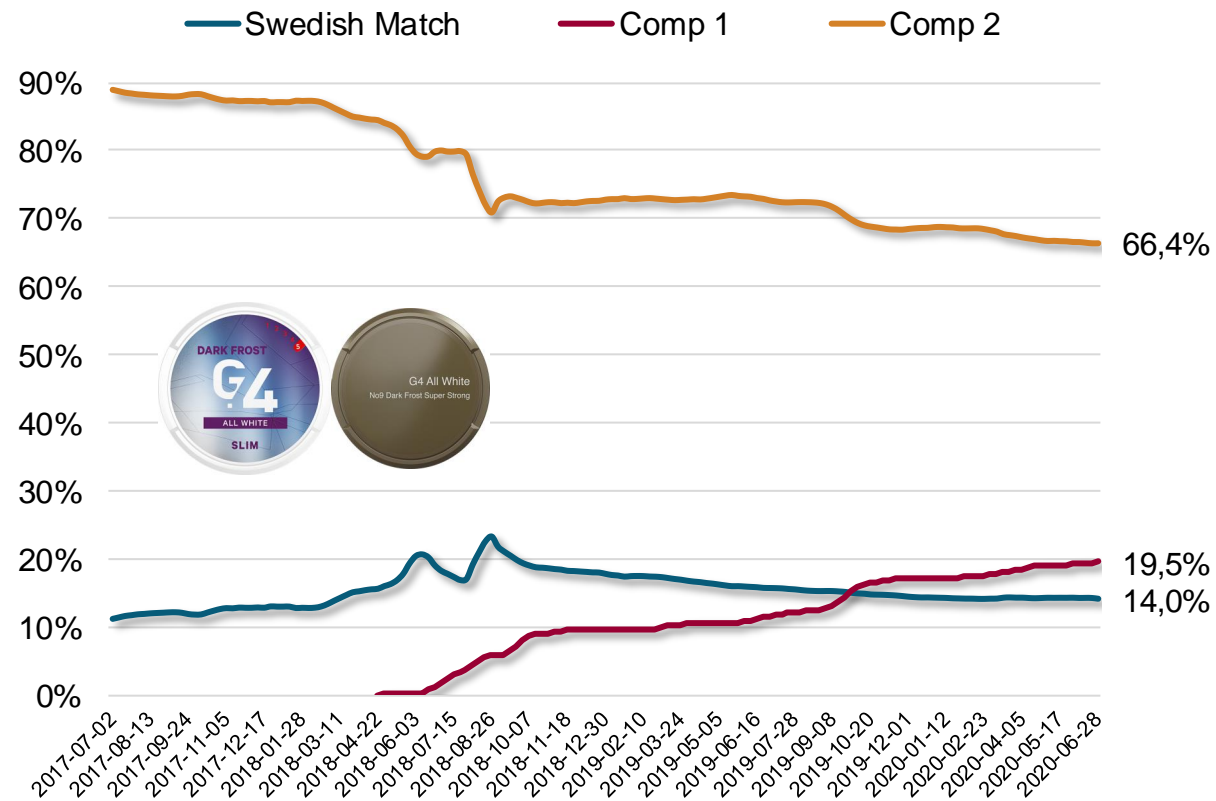
NORWAY – NICOTINE POUCH CATEGORY

Volume share development, 4-weeks rolling

Nicotine pouch category size relative to the snus category



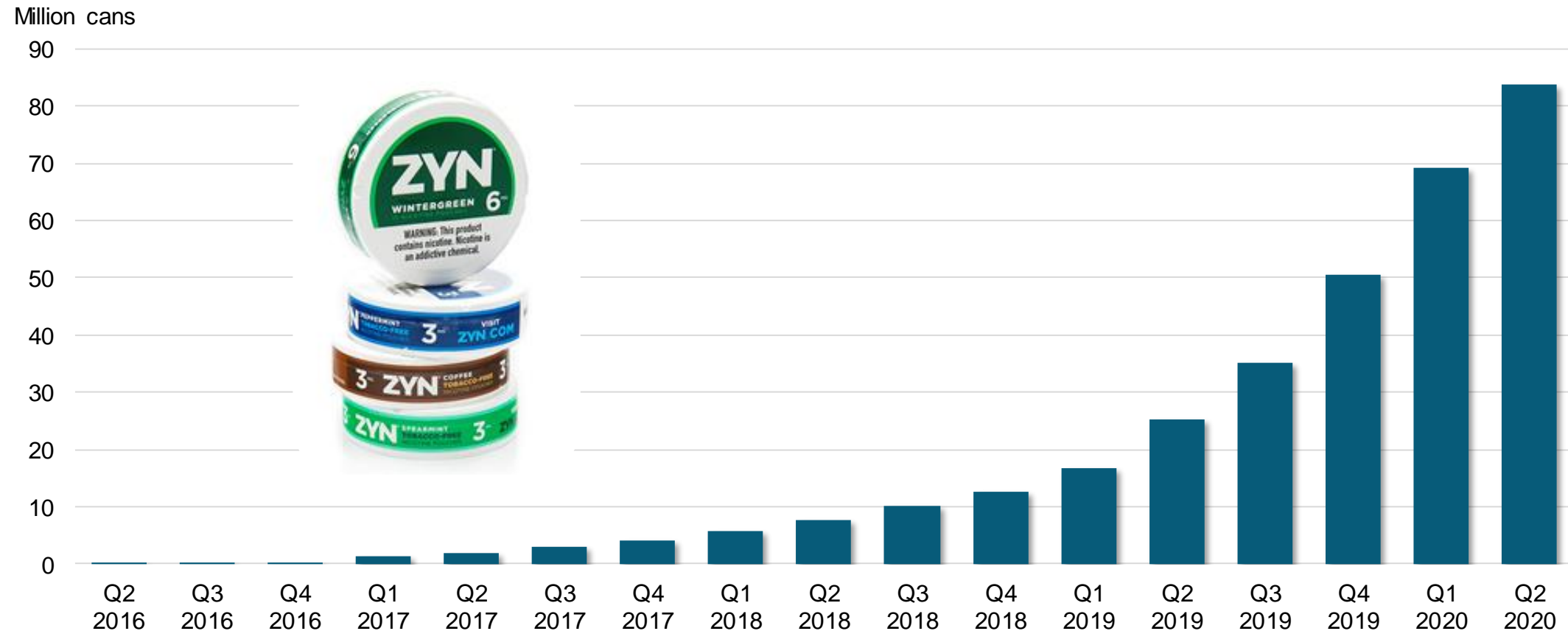
Manufacturer volume shares, nicotine pouch category



Source: Nielsen, DVH+KBS. The snus category base includes nicotine free.

US – ZYN DEVELOPMENT IN THE US

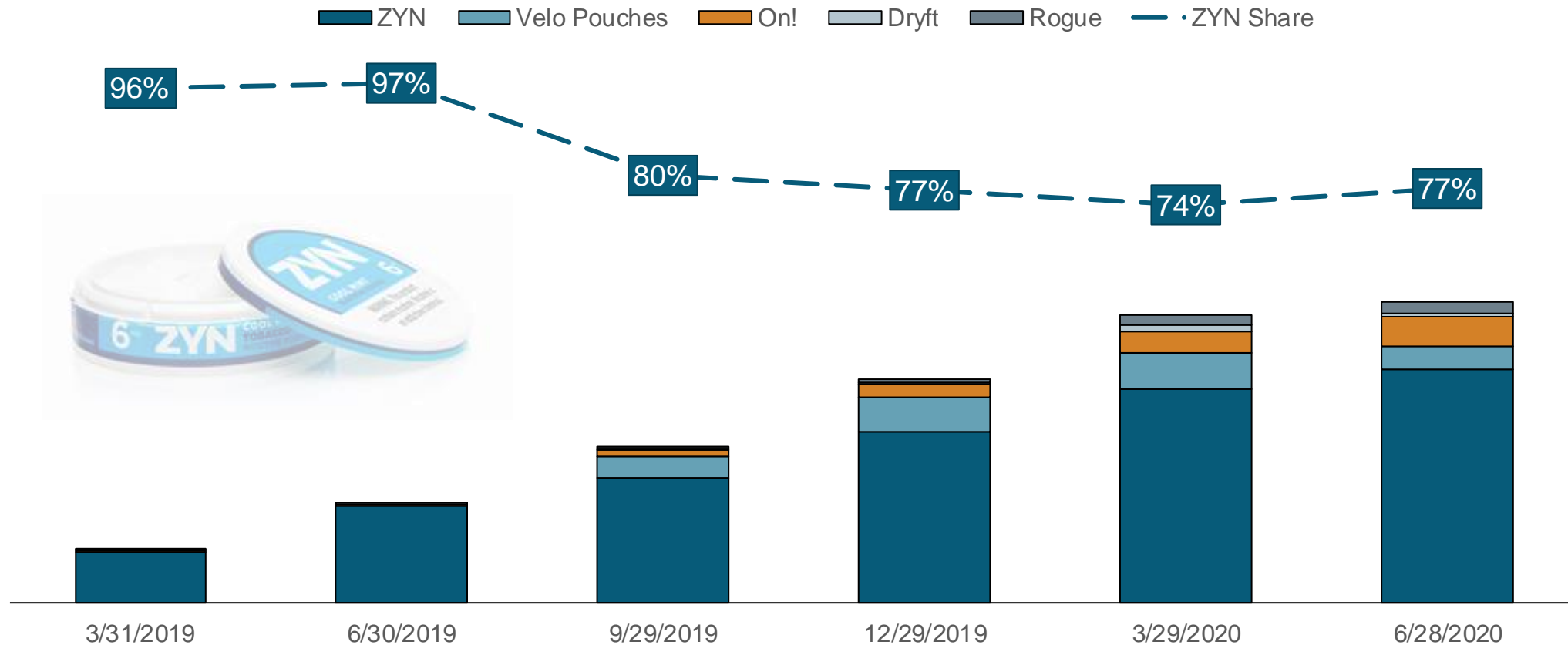
ZYN shipment volumes in the US, 12 months rolling



Source: Swedish Match direct sales.

US – NICOTINE POUCH CATEGORY GROWTH AND ZYN SHARE DEVELOPMENT

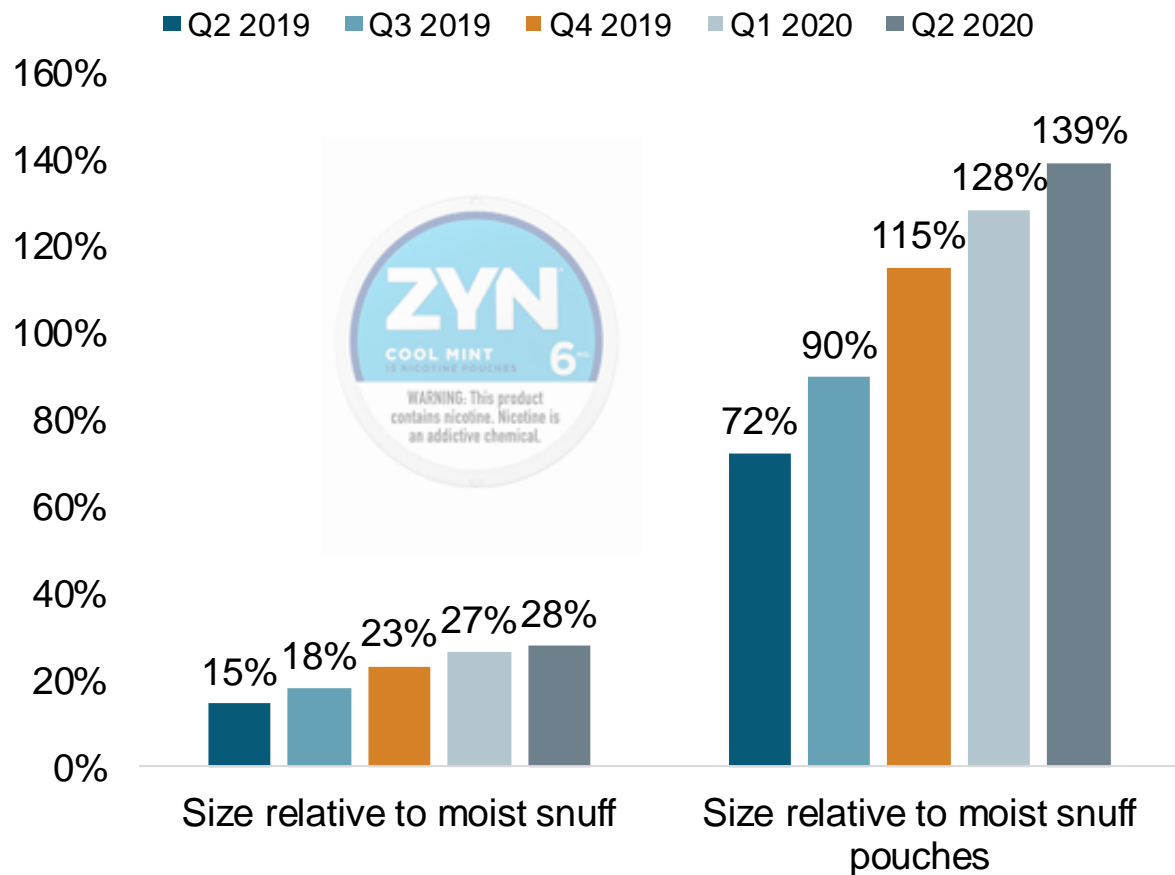
Category volume and ZYN share development, 13-week periods



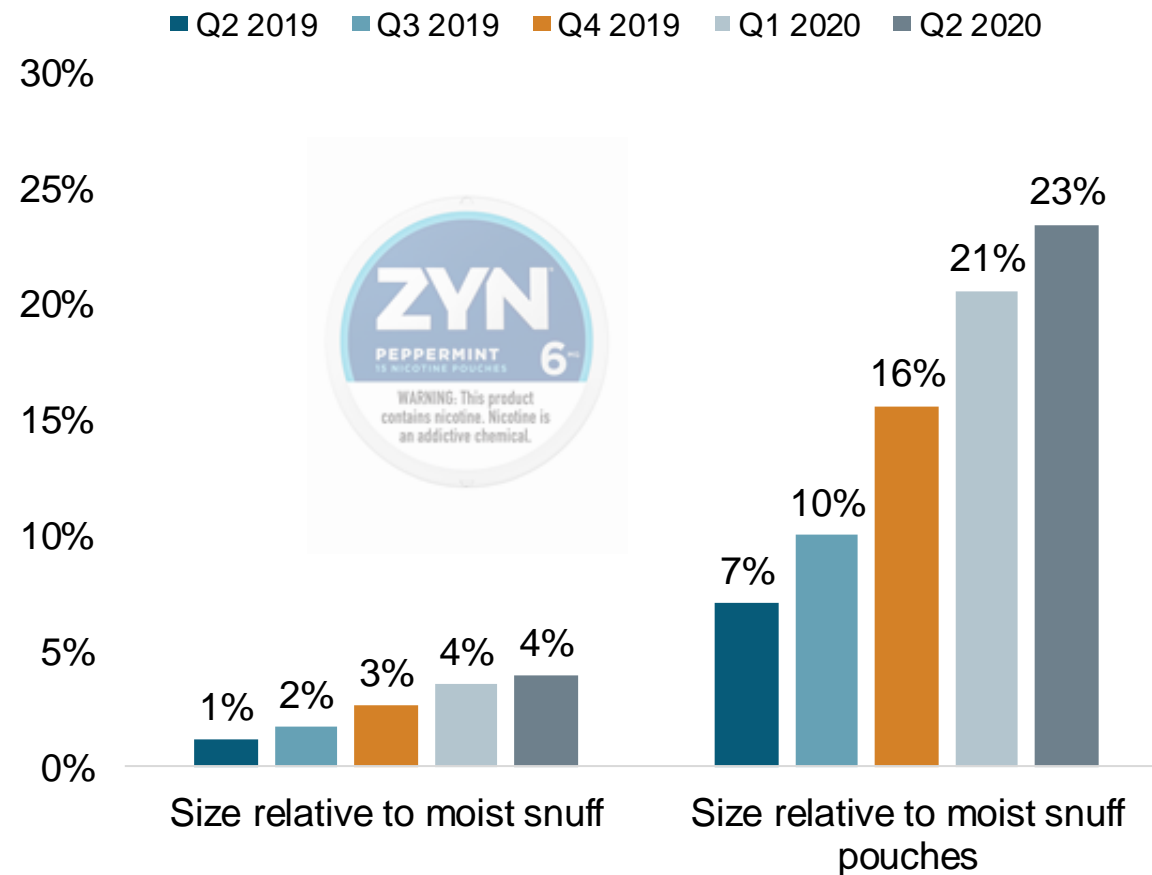
Source: MSA, weekly data.

US – ZYN BENCHMARKS

The western region*



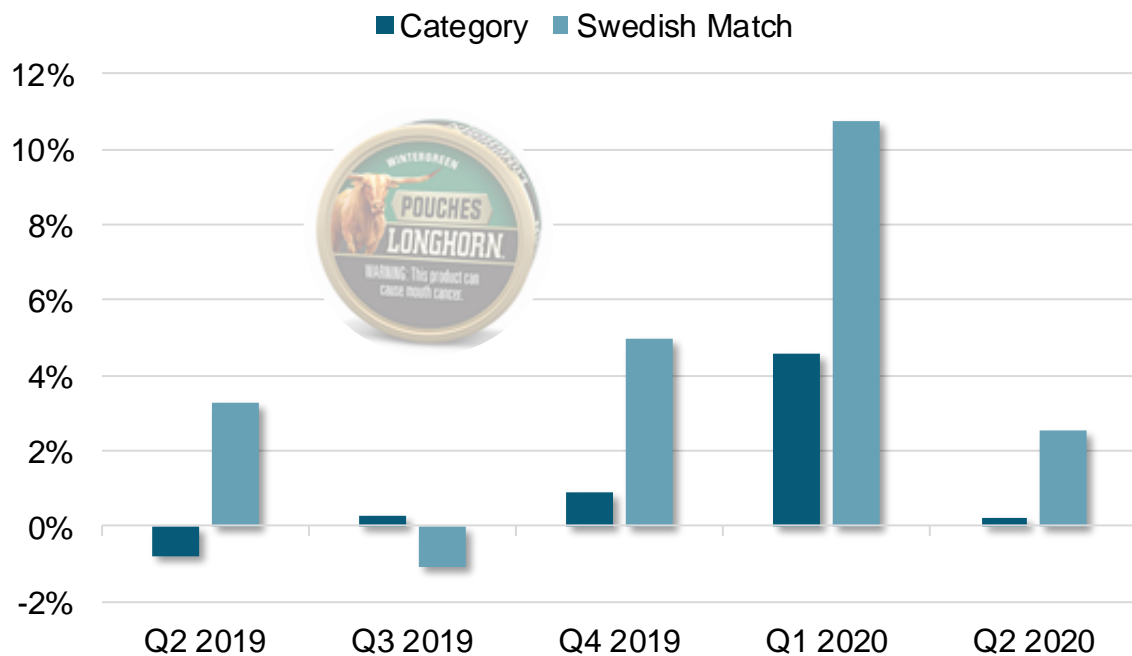
Regions outside of the west**



Source: MSA. *Initial launch date June 2016. ** National launch initiated in April 2019.

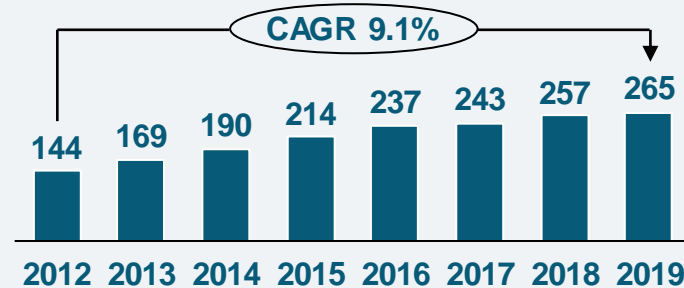
Positive category growth, Swedish Match's volumes have outperformed the category

Moist snuff category and Swedish Match volume growth year-on-year



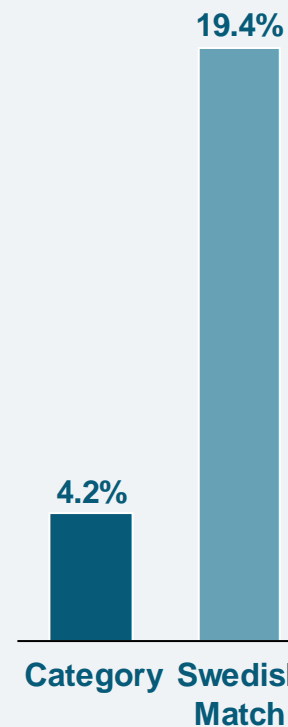
Pouches, category

Million cans



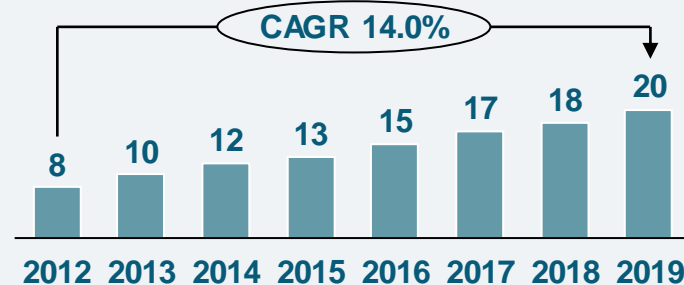
Volume growth pouches YTD 2020

Year-on-year



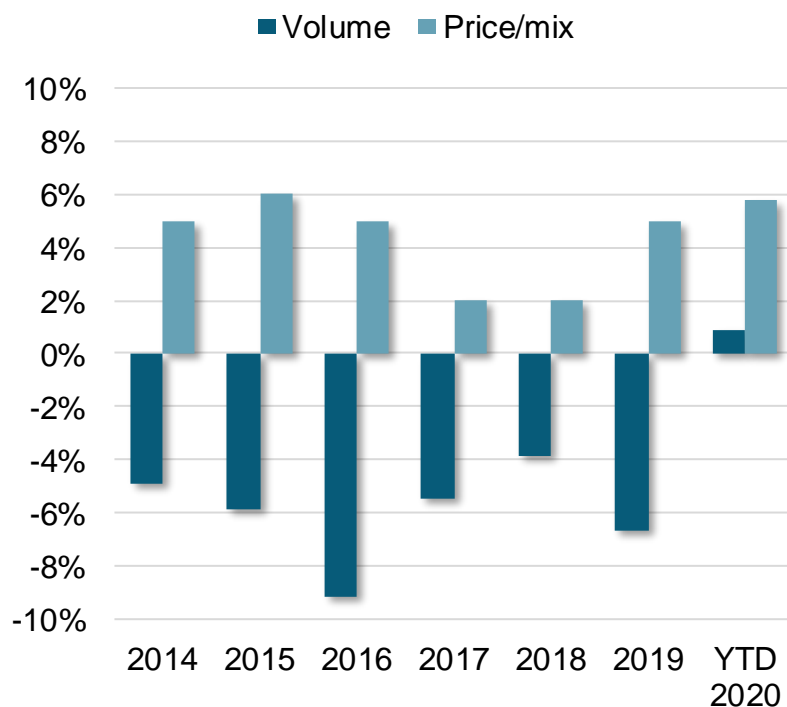
Pouches, Swedish Match

Million cans shipped



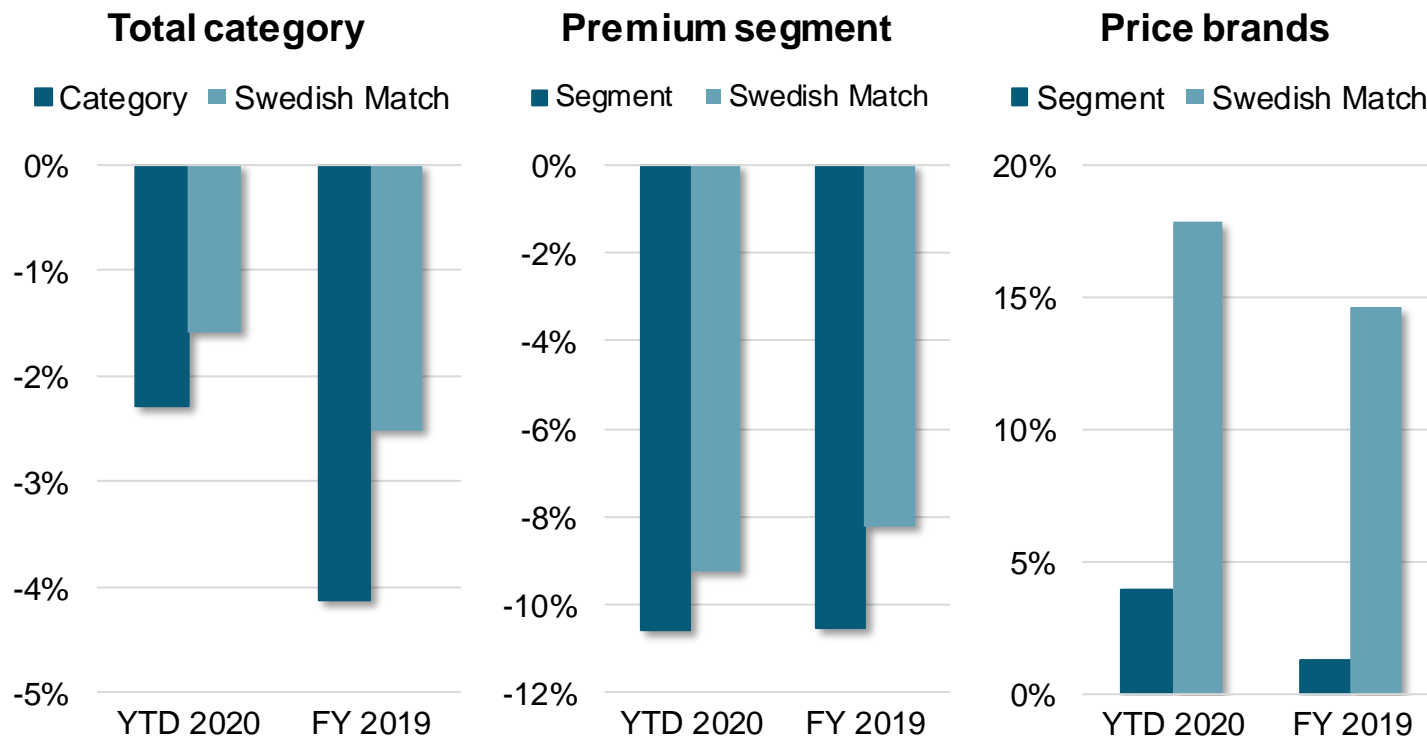
Source: Industry estimates, Swedish Match direct sales, and MSA.

Swedish Match shipment volume growth and price/mix percentage change year-on-year*



* Source: On reported basis. Excludes Co-Pack.

Chewing tobacco category and Swedish Match volume growth year-on-year**



** Source: MSA. Price brands = Price large bag segment + Price small pouch segment.

SNUS AND NICOTINE POUCHES: RECENT NEW PRODUCT AND NEW MARKET ACTIVITIES

Sweden

- Improved **ONE**: Svart, Blå, Vit + two new varieties Gul and Grön



- **ZYN**:
Northern Woods Slim
Dark Frost Slim
Espresso Mini Dry Extra Strong



The US

Expanded availability of ZYN varieties: ZYN Citrus, ZYN Chill and ZYN Smooth



Norway

- **G.4** Dark Frost Slim
- **G.3** Sparkling Slim



Other markets outside the US and Scandinavia for ZYN

- ZYN launched in a limited number of stores in Bosnia and Poland

Volume growth due to strong HTL shipments, offsetting declines for natural leaf cigars

	Q2-2020	Q2-2019	chg	H1-2020	H1-2019	chg	July 2019-June 2020	Full year 2019	chg
Sales, MSEK	1,069	1,095	-2	2,197	2,092	5	4,354	4,249	2
Operating profit, MSEK	351	411	-15	782	795	-2	1,564	1,577	-1
Operating margin, %	32.9	37.5		35.6	38.0		35.9	37.1	

- **Shipment volumes up 2% but adverse mix effects**

- Sales in local currency down 5%, impacted by production constraints for natural leaf cigars.
- Staffing for natural leaf production in the Dominican Republic operations has returned to more normal levels, but production efficiency adversely impacted by COVID-19 related manufacturing protocols.
- Cigar category volumes up sharply based on distributor shipments to retail with Swedish Match volume growth based on this same measure outpacing the category.

- **Operating profit down 15% due to portfolio mix shift and higher manufacturing costs, impacted by COVID-19 preventative measures.**

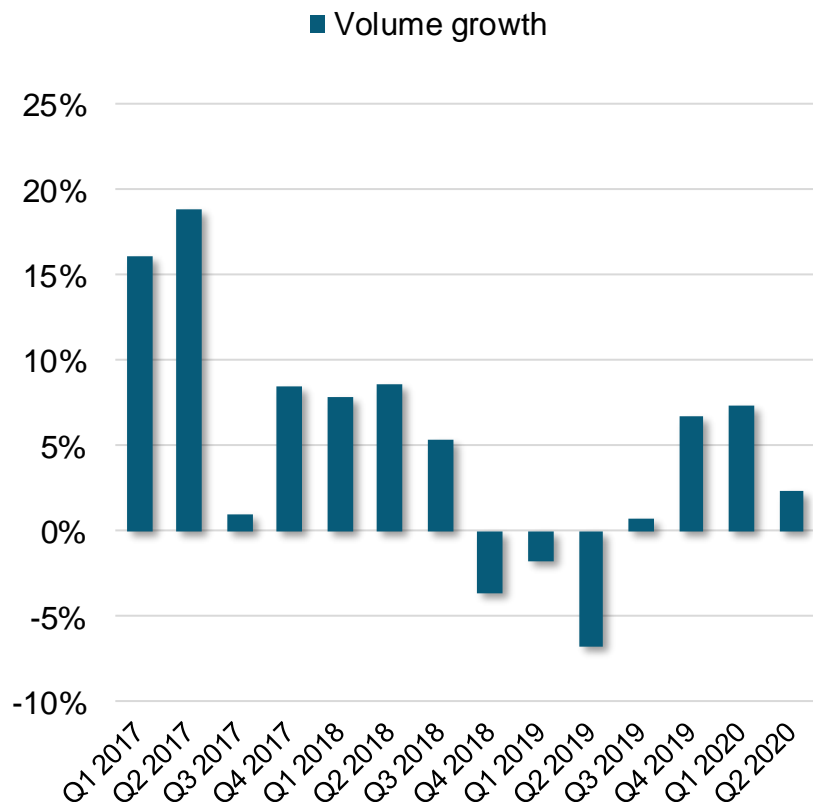
- **Market share growth* year-on-year, but down sequentially from Q1**

- Year-on-year market share grew for HTL cigars, more than offsetting share declines for natural leaf.



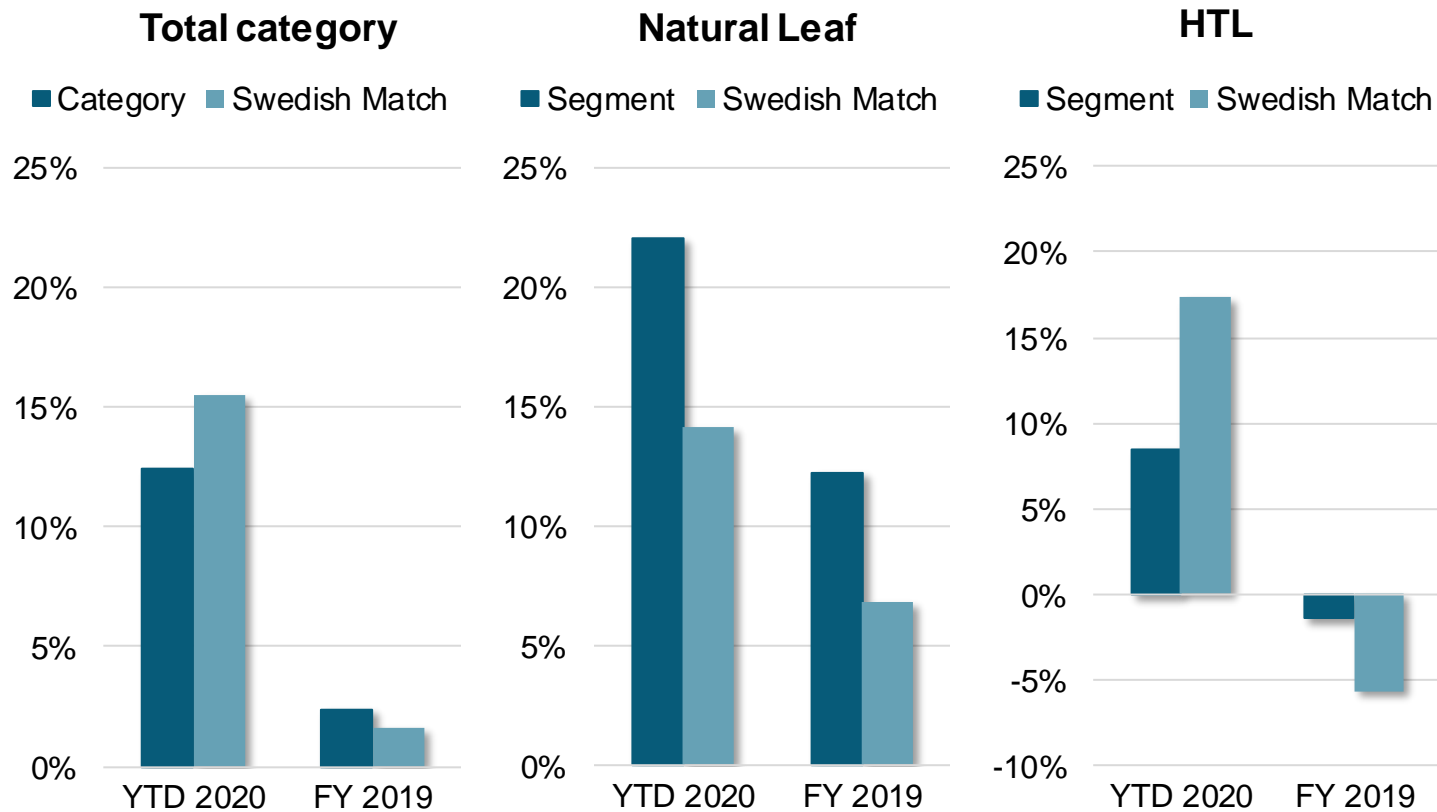
* Source: MSA through June 28.

Swedish Match shipment volume growth year-on-year*



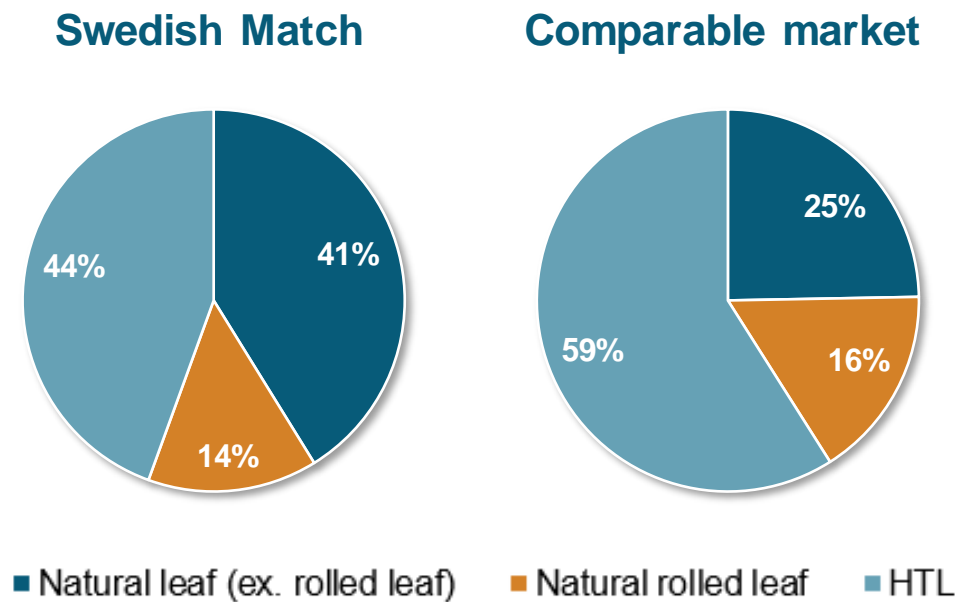
* Source: Swedish Match direct sales.

Cigar category and Swedish Match volume growth year-on-year**



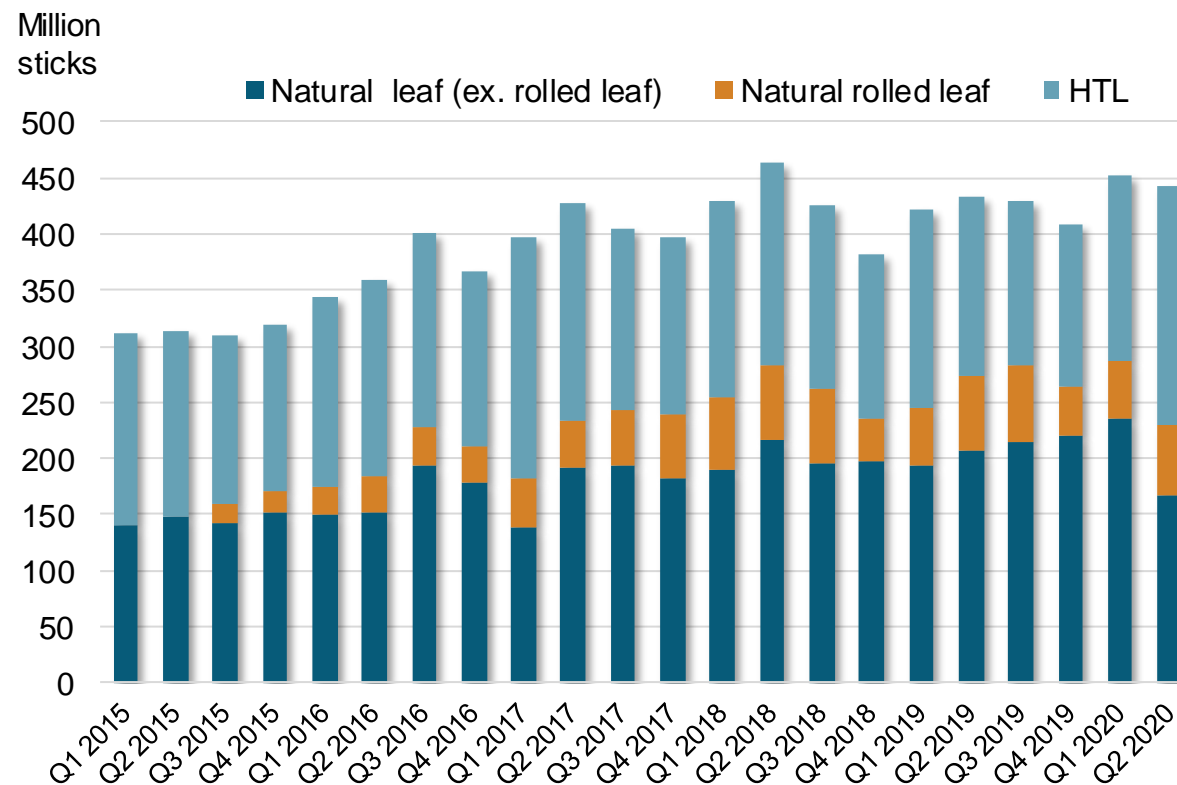
** Source: MSA distributor shipments – mass market cigars excluding little cigars.

Split on cigar volumes by segment* (Q2 2020)



* Source: MSA distributor shipments, excluding segment for pipe cigars, littles, and 'other'.

Swedish Match's reported cigar shipments by quarter and segment**



** Source: Swedish Match direct sales.

Sales and operating profit up

	Q2-2020	Q2-2019	chg	H1-2020	H1-2019	chg	July 2019-June 2020	Full year 2019	chg
Sales, MSEK	275	266	3	584	580	1	1,204	1,200	0
Operating profit, MSEK	52	6	746	119	50	140	307	238	29
Operating margin, %	18.9	2.3		20.4	8.5		25.5	19.8	

○ Sales up for matches, but decline for lighters

- Sales for matches up on strong volume development as well as improved price/mix.
- Significantly higher volumes for matches in Brazil in anticipation of price increase but weakened Brazilian real negatively impacted reported sales development.
- Sales for lighters declined on reduced volumes partly attributable to COVID-19 effects.

○ Reported operating profit up significantly

- For lighters, benefit of improved product mix, cost controls, and reduced raw materials pricing.
- Operating profit grew for matches on a reported basis, and also when adjusting for the benefit from a land sale in Brazil, which amounted to 6 MSEK as well as prior year restructuring costs of 12 MSEK.



○ FDA guidance on flavors

- In January 2020, the US FDA stated that it still intends to issue a regulation that would ban the use of characterizing flavors in cigars, but indicated that it intended to defer regulatory actions against cigars until May 12, 2020 at which time substantial equivalence or new product application filings were due for products that were not in the market on February 15, 2007. On March 30, the FDA filed a motion with the United States District Court for the District of Maryland requesting a 120-day extension of the May 12 deadline which would move it to September 9, 2020. On April 22, the court granted the requested extension.

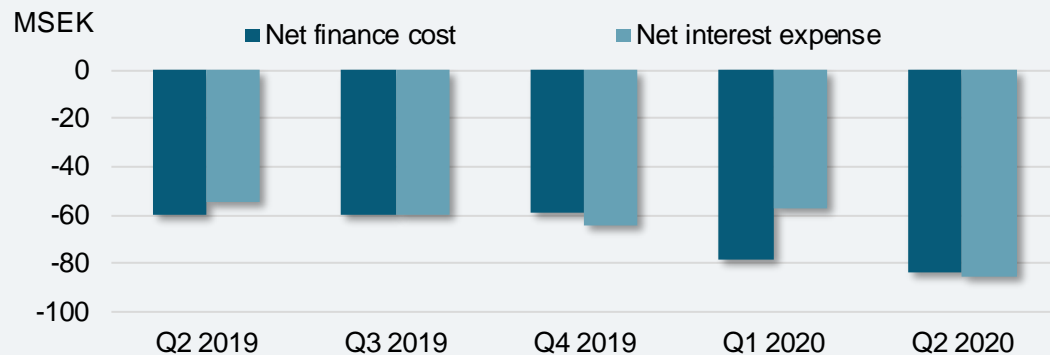
○ Chewing tobacco in Germany

- A determination was made by a Bavarian Administrative Court that certain chew bags sold under the *Thunder* brand should not be classified as chewing tobacco and would therefore not be permitted to be sold on the German market. Swedish Match appealed this decision to the Federal Administrative Court, which in June 2020 decided not to grant leave to appeal which means that the decision by the lower court is final. While this is a product specific ruling, Swedish Match is of the opinion that there may be a cessation of sales of most chew bags in their current form in Germany.

FINANCE NET AND EPS

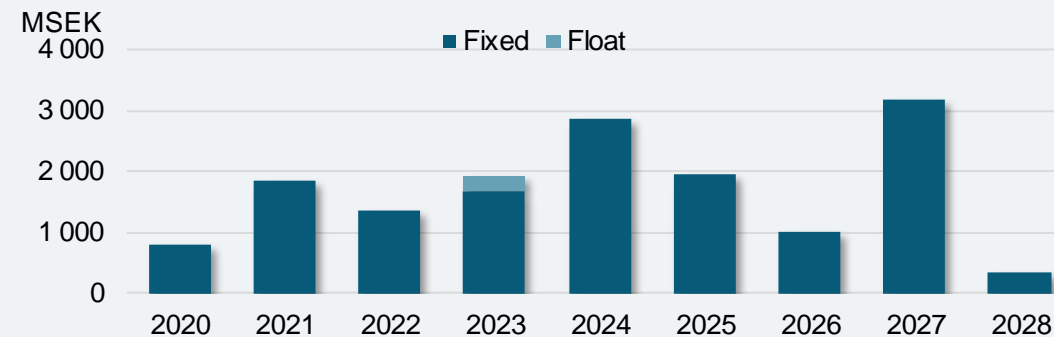
Development of the finance net

By quarter



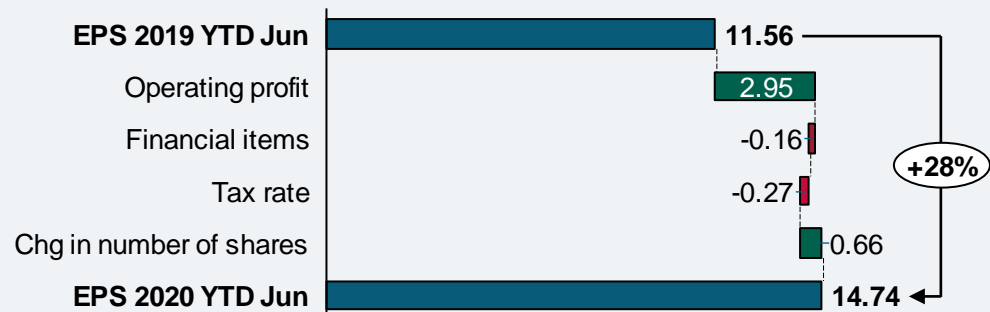
Maturity profile of interest bearing liabilities

Debt as of June 30, 2020

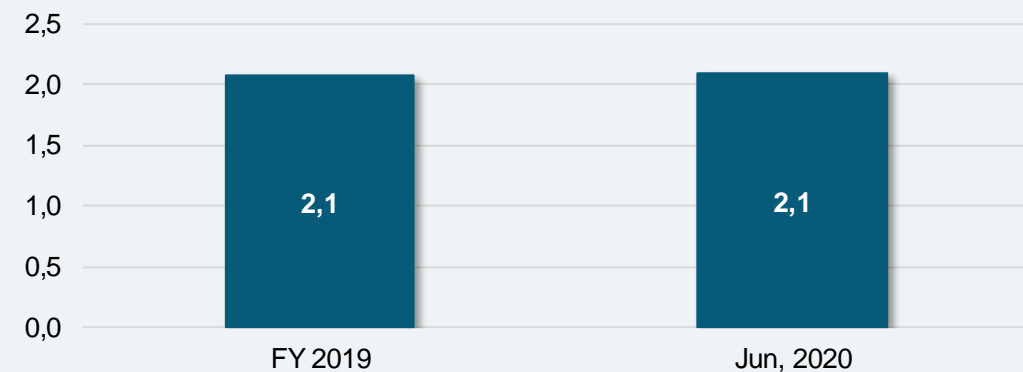


EPS bridge

YTD 2020 vs YTD 2019 (SEK)



Net debt/EBITA



OUTLOOK (UNCHANGED)

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.