

# Q4 2013 Investor Kit

JANUARY-DECEMBER 2013



# Swedish Match reporting segments

## ■ Snus and snuff

- Swedish snus (Scandinavia and US)
- Moist snuff (US)
- SMPM International



## ■ Other tobacco products

- Cigars (US)
- Chewing tobacco (US)

## ■ Lights

- Lighters
- Matches
- Accessories  
and fire related products



## ■ Other operations

- Distribution
- Central costs

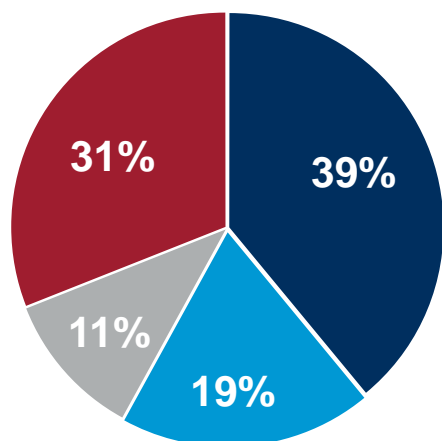


# Sales and operating profit

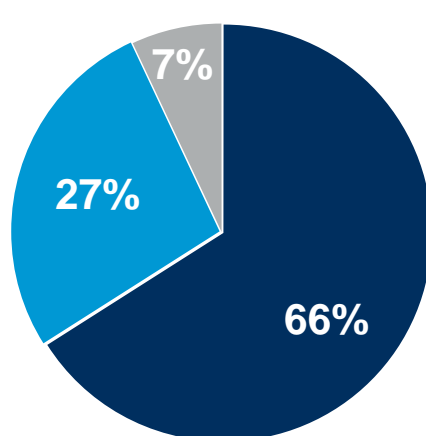
## Sales and operating profit by product area

Q4 2013

Sales, SEK



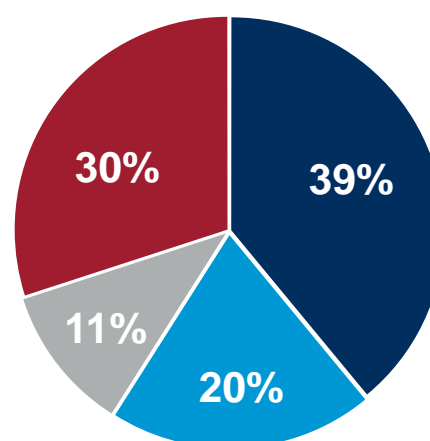
Operating profit\*, SEK



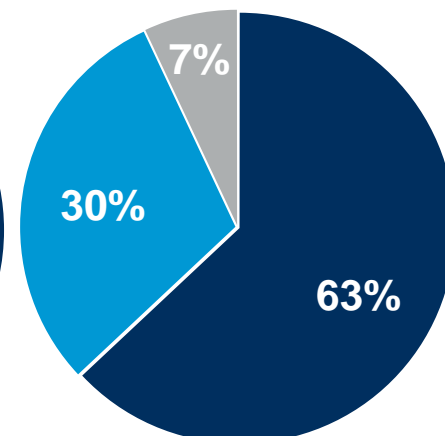
- Snus and snuff
- Other tobacco products
- Lights
- Other operations

Full year 2013

Sales, SEK



Operating profit\*, SEK



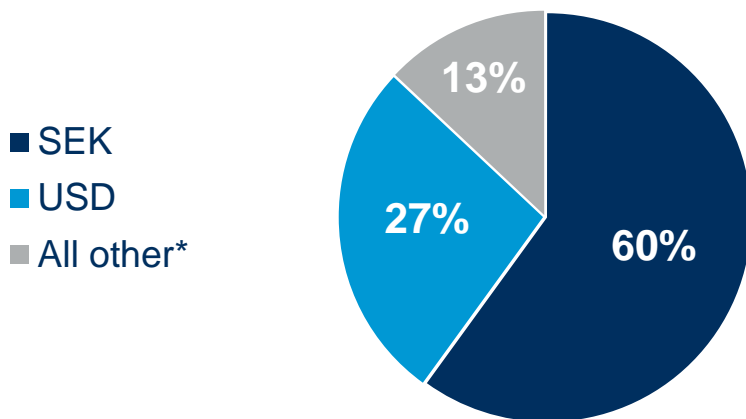
- Snus and snuff
- Other tobacco products
- Lights
- Other operations

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

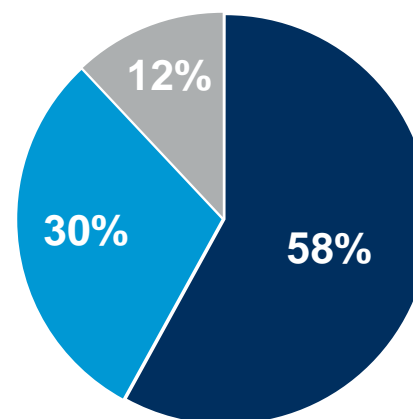
# Sales by currency block

## Percent of sales, MSEK

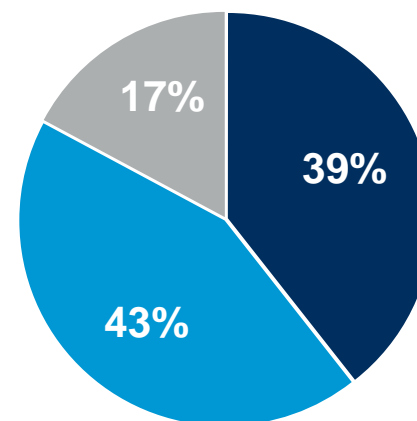
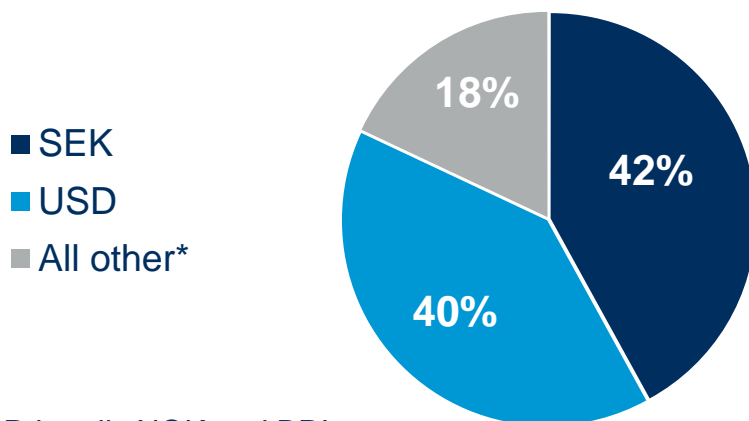
Q4 2013



Full year 2013



### Excluding Other operations



\* Primarily NOK and BRL.

# Group results – fourth quarter 2013

- **Sales amounted to 3,178 MSEK (3,148)**
  - In local currencies, sales increased by 3%
- **Operating profit from product areas amounted to 835 MSEK (883)**
  - In local currencies, operating profit from product areas declined by slightly less than 5%
  - Operating profit for Snus and snuff declined by 5%
  - Operating profit for Other tobacco products was up for chewing tobacco, down for cigars
  - Operating profit, including share of net profit in STG, declined to 932 MSEK (986)
- **Profit before income tax amounted to 804 MSEK (850)**
- **Profit for the period amounted to 675 MSEK (787)**
  - Underlying tax rate was 20.9%
- **EPS (basic) was 3.43 SEK (3.93)**



# Conclusions, fourth quarter – sales

- **Sales up 3% in local currencies, up 1% in SEK**
- **Scandinavian snus sales declined by 2%**
  - Higher sales in Sweden, lower sales in Norway and Travel Retail
  - Shipment volumes for Scandinavia down by less than 1% year on year, but adjusting for hoarding effects between years, underlying shipment volumes were slightly higher
- **US snus/moist snuff sales down 7% in USD**
  - Moist snuff volumes down 3% year on year, but pouches and tubs continued to grow
- **US cigar sales flat in USD\***
  - Volumes up by 11%
  - Sales adversely impacted by lower average prices on more promotional volume
- **US chewing tobacco sales up slightly in USD\***
  - Volumes for own brands down in line with category
  - Significantly lower contract manufacturing volumes
  - Total Swedish Match volumes down by 12%
- **Lights sales up 6% in local currencies**
  - Higher sales for both lighters and matches in local currencies



\* Total Other tobacco products sales in local currency were flat to slightly higher.

# Conclusions, fourth quarter – operating profit

- **Operating profit from product areas\* declined by less than 5% in local currencies, down 5% in SEK**
- **Snus and snuff: operating profit down 5%**
  - Snuff mix shift toward tubs/pouches
  - Snus operating profit impacted by weaker NOK
  - Operating loss for international snus expansion (US, SMPM International) was 85 MSEK (83)
- **Other tobacco products: operating profit down 6% in local currency, down 8% in SEK**
  - Cigar operating profit declined on mix shift toward lower priced cigars/promotional volume
  - Operating profit for chewing tobacco grew in local currency (price increase in September)
- **Lights: operating profit up 5% in local currencies, up 3% 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.

# Group results – full year 2013

- **Sales amounted to 12,610 MSEK (12,486)**
  - In local currencies, sales increased by 3%
- **Operating profit from product areas amounted to 3,375 MSEK (3,666)**
  - In local currencies, operating profit from product areas declined by 6%
  - Operating profit for Snus and snuff down by 7%
    - International snus investments
    - Q3 restructuring costs
  - Operating profit for Other tobacco products down on weak cigar performance
  - Operating profit, including share of net profit in STG and larger one-time items, amounted to 3,693 MSEK (4,032)
- **Profit before income tax amounted to 3,310 MSEK (3,511)**
- **Profit for the period amounted to 2,711 MSEK (2,907)**
- **EPS (basic) was 13.63 SEK (14.33)**





## ■ **Tax rate for the Group was 18.1% for the full year**

- Includes profit and loss impact from associated companies
- No tax on capital gain from sale of land
- The reported tax rate, excl. one-time items, associated companies, and joint ventures was 20.9% (22.0), lower mainly due to the corporate tax cut in Sweden
- Underlying tax rate in 2014 estimated to be around 22%

## ■ **Cash flow from operations**

- Cash and cash equivalents were 3,164 MSEK on December 31, 2013 vs. 2,824 MSEK as of December 31, 2012
- Cash flow from operating activities for the full year was 2,500 MSEK (2,805)
  - Result of lower operating profit and higher taxes paid

## ■ **Share repurchases during the year amounted to 1.6 million shares totaling 352 MSEK**

- During the year, the Company sold 1.2 million treasury shares at an average price of 154.15 SEK, totaling 187 MSEK, as a result of option holders exercising options

# Other events

- **Patrik Engelbrektsson has been appointed new member of the Swedish Match Board of Directors by the employee's organizations replacing Håkan Johansson. Joakim Andersson has replaced Patrik Engelbrektsson as deputy employee representative of the Board of Directors**
- **The Nominating Committee for the Annual General Meeting in 2014 comprises the following five members:**
  - Conny Karlsson (Chairman of the Board)
  - Andy Brown (Cedar Rock Capital)
  - Björn Lind (AMF & AMF Funds)
  - William Lock (Morgan Stanley Investment Management)
  - William von Mueffling (Cantillon Capital Management)

# Financial policy and financing needs

## ■ Financial policy

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

## ■ Financing and cash flow

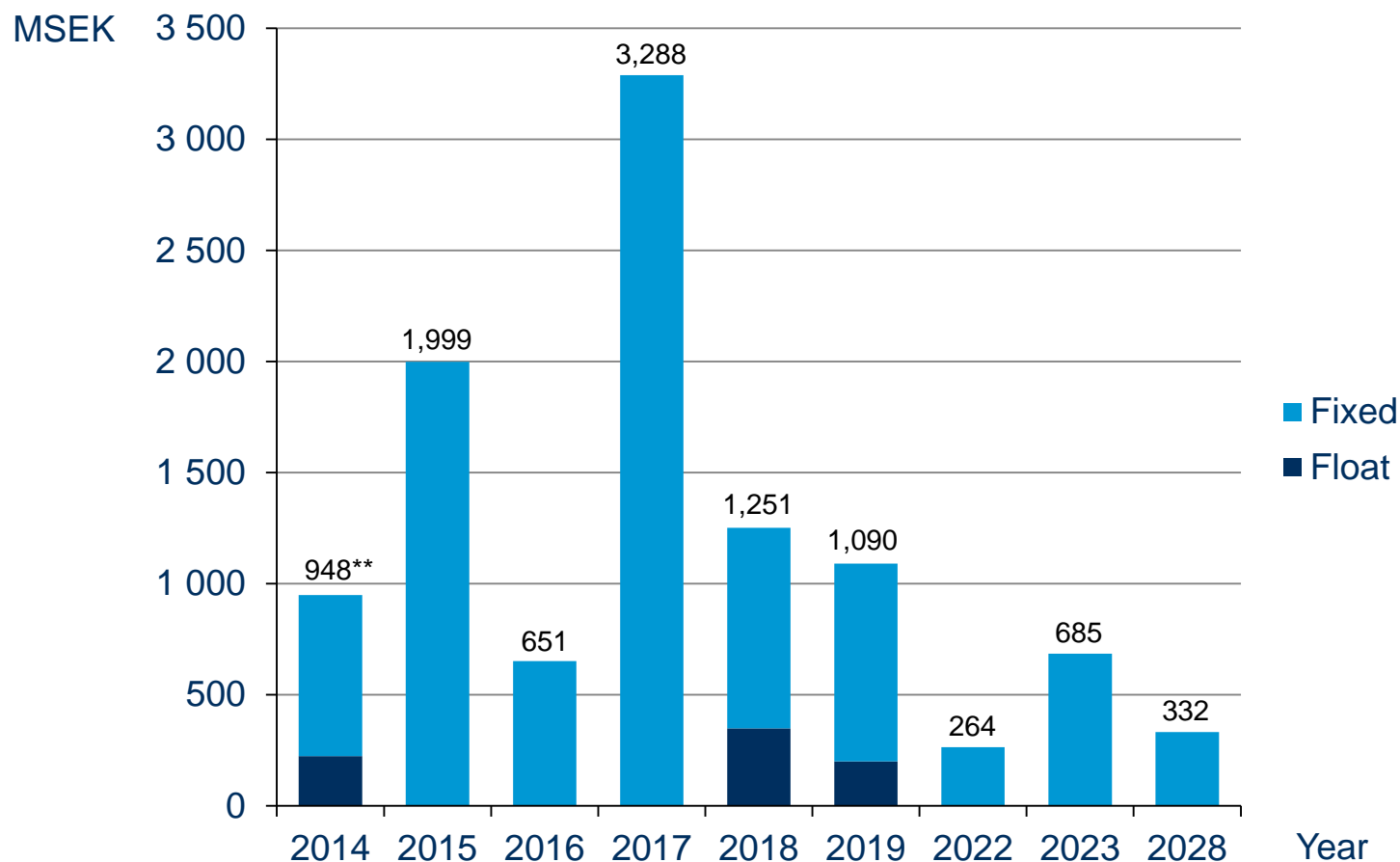
- Cash flow from operating activities for the year amounted to 2,500 MSEK (2,805)
- Higher dividends from associates
- Net finance cost for the year was 544 MSEK (551)
- Net debt/EBITA\* was 2.5 for the 12 months ending December 31, 2013



\* 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 December 31, 2013



\* Global MTN programs, includes 1 MSEK of local credit facilities.

\*\* 488 MSEK comes due in Q1.

# Snus and snuff

- **Leading position 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 mix and weaker NOK vs. SEK

### ■ Scandinavia snus sales down 2% in Q4

- Modest price increases in Sweden in September 2013 offset by negative mix effects
- Scandinavian shipment volumes down less than 1%, but slightly higher excluding Q4 hoarding effects between the years
- Volumes up in Sweden and down in Norway (prior year had unusually high yearend volumes) and Travel Retail (changes made at mid-year to deter illicit trade)
- Profits down mainly on weaker Norwegian crown (NOK)
- Solid total market growth in volume terms

### ■ US snus and moist snuff sales down 7% in USD in Q4

- Moist snuff sales lower primarily on mix
- Growth initiatives for moist snuff pouches and tubs showed good traction in the quarter

### ■ Continued investment behind snus internationally

- Expansion of *General* snus in the US
- Test market activities through SMPM International in Canada, Russia, Israel, and Malaysia



MSEK	Q4-2013	Q4-2012	chg	Full year 2013	Full year 2012	chg
Sales	1,247	1,280	-3	4,868	5,049	-4
Operating profit	562	593	-5	2,195	2,349	-7
Operating margin, %	45.1	46.3		45.1	46.5	

# Nielsen snus consumption data, Sweden\*

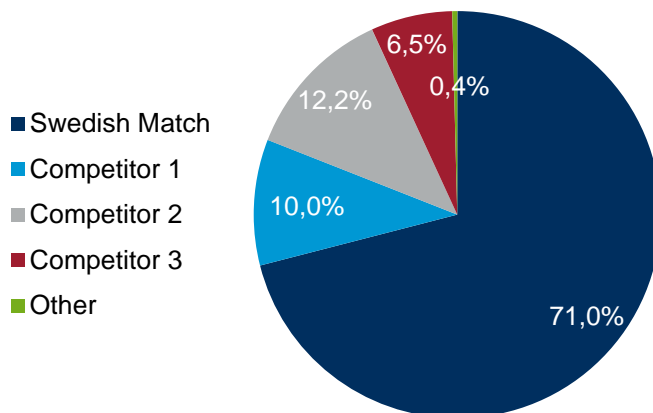
- **Swedish Match total value market share 4 weeks to January 26, 2014 was 77.4%; 24 week share was 78.0%**
  - 79.6% for 4 weeks to January 27, 2013; 80.6% for 24 weeks to January 27, 2013
- **Swedish Match total volume market share 4 weeks to January 26, 2014 was 70.4%; 24 week share was 71.0%**
  - 73.5% for 4 weeks to January 27, 2013; 74.9% for 24 weeks to January 27, 2013
- **Value segment\*\* was 42.0% of Swedish market 4 weeks to January 26, 2014; 24 week share was 40.9%**
  - 37.8% for 4 weeks to January 27, 2013; 36.7% for 24 weeks to January 27, 2013
- **Swedish Match share of value segment\*\* 4 weeks to January 26, 2014 was 36.6%; 24 week share was 36.2%**
  - 36.7% for 4 weeks to January 27, 2013; 38.7% for 24 weeks to January 27, 2013
- **Swedish Match share of premium segment\*\* 4 weeks to January 26, 2014 was 94.8%; 24 week share was 95.1%**
  - 95.8% for 4 weeks to January 27, 2013; 95.9% for 24 weeks to January 27, 2013

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

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

# Manufacturer share by price segment, Sweden

## Total volume shares



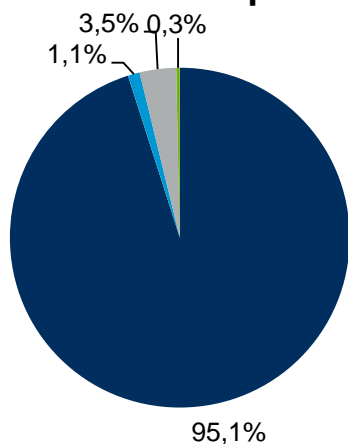
26 January 2014 (12 weeks ending),  
Swedish Match share of:

Full price segment was: 95,0%

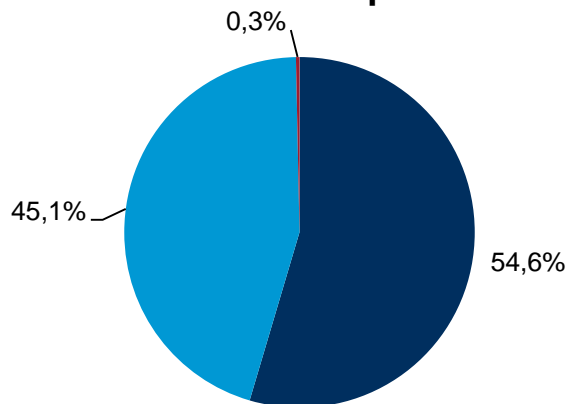
Mid price segment was: 55,4%

Low price segment was: 28,7%

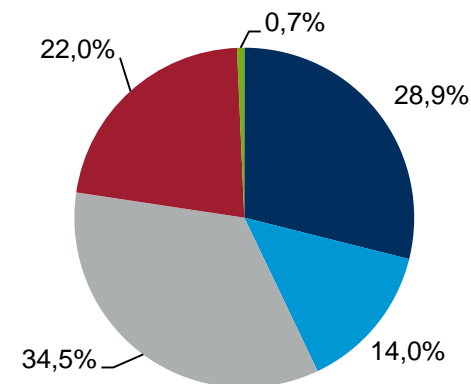
### Share of full price



### Share of mid price



### Share of low price

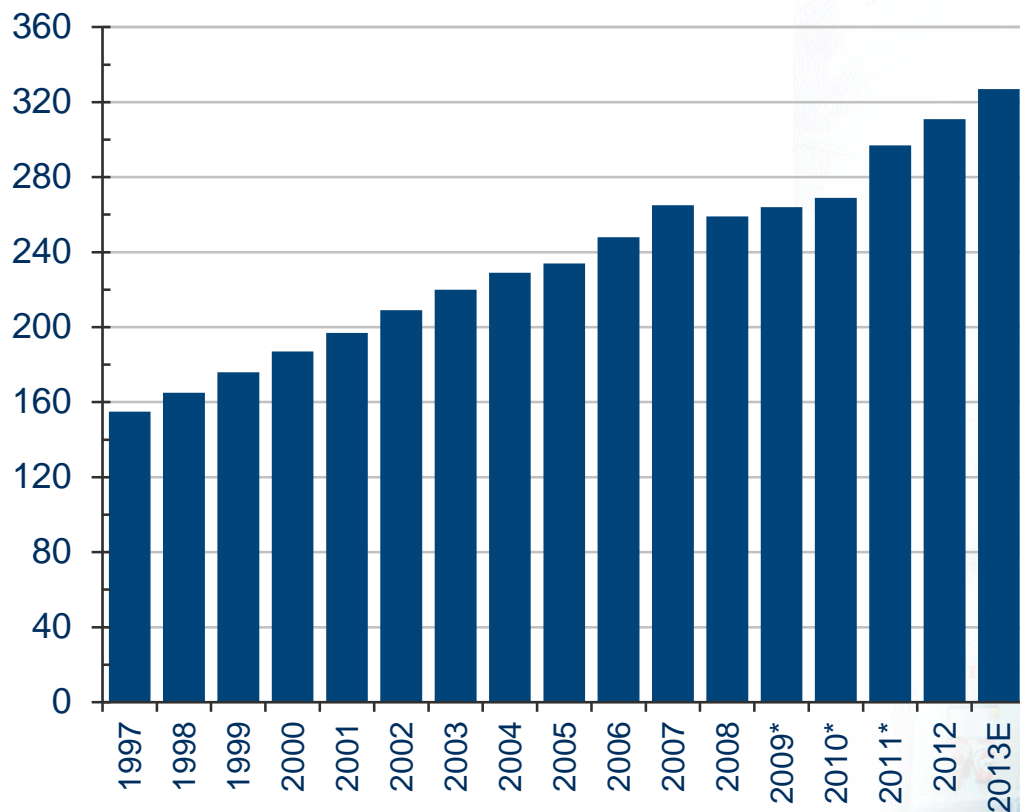


Source: Swedish Match estimates, using Nielsen data (excluding tobacconists). 24 weeks ending 26 January 2014.



# Estimated Scandinavian snus consumption

## Cans/millions



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 snuff market up by close to 4% in 2013\*\***
  - Category growth continues to be driven by the value segment
- **Swedish Match market share in the US**
  - YTD to December 29 was 6.8% vs. 7.4% YTD 2012
  - Swedish Match estimates its market share based on industry shipments to be close to 10% of the market (SM estimates, not Nielsen)

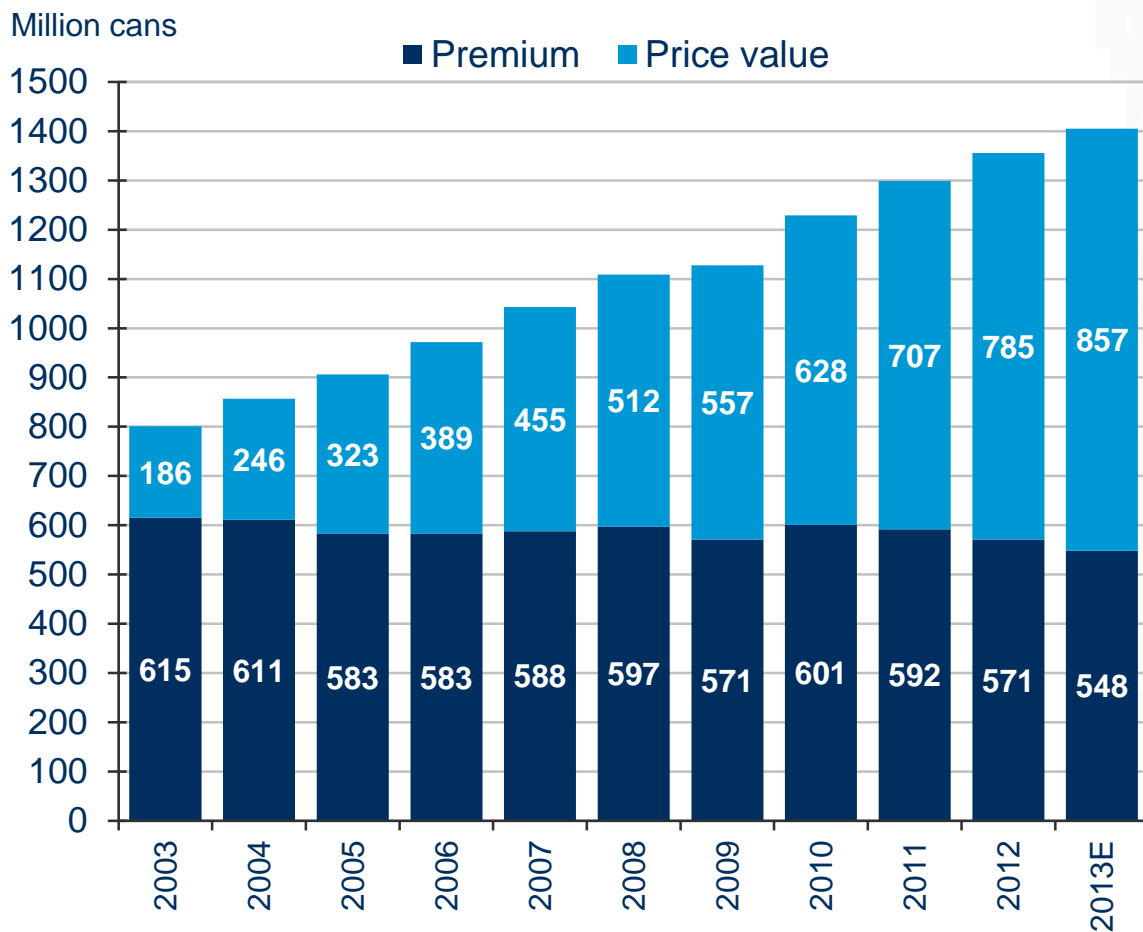


\* Source: Nielsen. Volume basis, unless stated otherwise.

\*\* Source: Swedish Match and industry estimates.

# Volume growth of moist snuff in the US

## US 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

- **Significant investments for future growth**
- **General snus currently in more than 21,000 stores in the US**
  - Distribution expansion continues
- **Market share more than tripled versus prior year**
  - 9% in 2013 vs. 3% in 2012\*
- **Close to 4 million cans shipped during 2013**
  - 2 million cans shipped for all of 2012



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

- **Test markets in Canada, Russia, Israel and Malaysia**
  - Test launch of *General* in Canada started in December 2010, in more than 3,000 stores
  - Test launch under the *Parliament* brand in St. Petersburg, Russia, started in December 2011. Now also in Moscow and other cities
  - Test launch of *Marlboro* in Tel Aviv, Israel started in July 2012, now in more than 500 stores
  - Good sales of *General* snus in Malaysia, although store base is small

\* 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 percent per year in volume terms in recent years



## Continued solid chewing performance

- **Q4 sales flat for cigars, up slightly for chewing tobacco in USD**
  - Cigar sales negatively affected by promotional pricing/mix despite higher volumes
  - Chewing tobacco sales up on price/mix, despite volume decline
- **Q4 operating profit down for cigars, up for chewing tobacco in USD**
  - Operating profit for cigars declined on high levels of promotional activity
  - Full year 2013 operating profit down for cigars and up for chewing tobacco
  - Operating margin vs. prior year affected by changed accounting (incl. pensions)
- **Shipment volumes up 11% for cigars in Q4, marginally lower for the year**
  - 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 Q4 and for the year in USD
  - Lower shipments, most significantly for contract manufacturing
  - Price increase in September



MSEK	Q4-2013	Q4-2012	chg	Full year 2013	Full year 2012	chg
Sales	590	601	-2	2,564	2,661	-4
Operating profit	228	248	-8	1,029	1,161	-11
Operating margin, %	38.6	41.2		40.1	43.6	

# 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
- **While net factory shipments of Swedish Match brands were flat for the year, SM retail share based on Nielsen data grew in 2013**
  - Abnormal level of returns as Swedish Match reset shelves with more competitively priced products
- **Launch of Gold varieties of *White Owl* and *Game* in Q1/Q2, *Game Red* and the low priced brand *Jackpot* in Q3/Q4, and prepared for the launch of new Blue varieties, currently being introduced in the market**



## Chewing tobacco

- **Category declines moderated versus prior years, estimated at 4% based on distributor shipments to retail**
- **Factory shipments of Swedish Match brands declined in line with category but Nielsen data indicates that we grew share in 2013**

## Q4 sales and operating profit up 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

- Q4 sales up for both matches and lighters in local currencies
- Operating profit up for lighters and down modestly for matches
- Strong lighter volume growth in Asia during the year
- Relatively soft performance in Brazil, with higher costs affecting profitability



MSEK	Q4-2013	Q4-2012	chg	Full year 2013	Full year 2012	chg
Sales	345	341	1	1,332	1,339	-1
Operating profit	63	61	3	230	222	4
Operating margin, %	18.1	17.9		17.3	16.6	



# Scandinavian Tobacco Group (STG)

- **STG sales down 8% in the fourth quarter and down 1% for the year**
  - Impacted by currency fluctuations and planned one-off stock reductions for a major cigar distributor in Europe
  - Comparison to prior year distorted by Q4 2012 inventory backlog recovery
- **Swedish Match share of STG net profit after interest and tax for the fourth quarter amounted to 97 MSEK (103) and for the year to 319 MSEK (366)**
  - Net profit in the fourth quarter includes a non-recurring positive adjustment to income taxes, relating to a change in the legal structure of STG
- **Total STG net finance cost for the year amounted to 110 MDKK (101)**
- **Net profit for the year for STG amounted to 564 MDKK (618)**
- **Reported EBITDA for the year amounted to 1,180 MDKK (1,313)**
  - Total EBITDA declined as a result of price/mix shifts, higher operating expenses, and the negative impact from the planned one-off stock reduction in the fourth quarter of 2013
- **Full year sales up in local currencies for all product areas, except for machine made cigars, with relatively flat volumes across the categories**
  - Handmade cigar sales up in local currencies for the year, but EBITDA declined
  - Machine made cigar sales and EBITDA down on price mix and Q4 distributor stock reduction
  - Pipe tobacco sales up for the year but EBITDA declined primarily due to price/cost mix
  - Fine cut sales up while EBITDA was marginally lower for the year
- **The shareholders of STG have retained a financial advisor to evaluate ownership options (standstill ends October 1, 2014)**



# P & L summary

MSEK	Q4- 2013	Q4-2012	chg	Full year 2013	Full year 2012	chg
<b>Sales</b>	<b>3,178</b>	<b>3,148</b>	<b>1</b>	<b>12,610</b>	<b>12,486</b>	<b>1</b>
Cost of goods sold	-1,698	-1,586		-6,647	-6,138	
<b>Gross profit</b>	<b>1,481</b>	<b>1,562</b>	<b>-5</b>	<b>5,963</b>	<b>6,349</b>	<b>-6</b>
Selling and administrative expenses	-633	-667		-2,556	-2,653	
Share of profit/loss in associated companies and joint ventures	84	91		287	337	
Adjustment to capital gain from transfer of businesses to STG	-	-		-	30	
Capital gain from sale of land	-	-		161	-	
<b>Operating profit</b>	<b>932</b>	<b>986</b>	<b>-6</b>	<b>3,855</b>	<b>4,062</b>	<b>-5</b>
Finance income	9	10		34	38	
Finance costs	-137	-146		-578	-589	
Net finance cost	-128	-137		-544	-551	
<b>Profit before income tax</b>	<b>804</b>	<b>850</b>	<b>-5</b>	<b>3,310</b>	<b>3,511</b>	<b>-6</b>
Income tax expense	-128	-63		-600	-604	
<b>Profit for the period</b>	<b>675</b>	<b>787</b>	<b>-14</b>	<b>2,711</b>	<b>2,907</b>	<b>-7</b>
EPS, basic, SEK, incl. larger one-time items	3.43	3.93		13.63	14.33	
EPS, basic, SEK, excl. larger one-time items	3.43	3.93		12.82	14.18	
EPS, diluted, SEK, incl. larger one-time items	3.43	3.91		13.61	14.25	
EPS, diluted, SEK, excl. larger one-time items	3.43	3.91		12.80	14.10	

# Balance sheet in summary

MSEK	December 31, 2013	December 31, 2012
Intangible assets	973	962
Property, plant and equipment	2,027	2,010
Investments in associated companies and joint ventures	4,506	4,354
Other non-current financial receivables*	1,165	1,140
Current operating assets	3,038	3,080
Other current investments and current financial assets*	8	-
Cash and cash equivalents	3,164	2,824
<b>Total assets</b>	<b>14,881</b>	<b>14,371</b>
Equity attributable to equity holders of the Parent	-786	-2,053
Non-controlling interests	1	2
<b>Total equity</b>	<b>-785</b>	<b>-2,051</b>
Non-current provisions	1,031	1,009
Non-current loans	9,420	9,238
Other non-current financial liabilities*	1,440	1,870
Current provisions	103	102
Current loans	920	1,119
Other current liabilities*	2,751	3,084
<b>Total equity and liabilities</b>	<b>14,881</b>	<b>14,371</b>

\* For full detail, please refer to notes in the full year 2013 report.

# Cash flow in summary

MSEK	Jan-Dec 2013	Jan-Dec 2012
<b>Cash flow from operating activities before changes in working capital</b>	<b>2,820</b>	<b>3,093</b>
Cash flow from changes in working capital	-320	-288
<b>Net cash from operating activities</b>	<b>2,500</b>	<b>2,805</b>
Purchase of property, plant and equipment	-306	-251
Proceeds from sale of property, plant and equipment	0	6
Purchase of intangible assets	-35	-48
Investments in associated companies and joint ventures*	-57	-40
Proceeds from sale of subsidiaries, net of cash disposed of*	158	9
Changes in financial receivables etc.	0	-
<b>Net cash used in investing activities</b>	<b>-240</b>	<b>-323</b>
Changes in loans	-277	747
Dividend paid to equity holders of the Parent	-1,459	-1,334
Repurchase of own shares	-352	-1,946
Stock options exercised	187	414
Other	-12	8
<b>Net cash used in financing activities</b>	<b>-1,912</b>	<b>-2,112</b>
<b>Net decrease in cash and cash equivalents</b>	<b>348</b>	<b>371</b>
Cash and cash equivalents at the beginning of the period	2,824	2,533
Effect of exchange rate fluctuations on cash and cash equivalents	-8	-79
<b>Cash and cash equivalents at the end of the period</b>	<b>3,164</b>	<b>2,824</b>

\* For full detail, please refer to notes in the full year 2013 report.

# Key data\*

	Full year 2013	Full year 2012
MSEK		
Operating margin, %	29.3	32.3
Operating capital, MSEK	7,729	7,253
Return on operating capital, %	49.3	55.7
EBITDA, MSEK**	3,968	4,328
EBITA, MSEK**	3,725	4,082
Net debt, MSEK	8,388	9,289
Net debt/EBITA**	2.3	2.3
Investments in property, plant and equipment, MSEK**	306	251
EBITA interest cover	7.0	7.6
<i>Excluding share of net profit in STG</i>		
EBITA, MSEK**	3,406	3,716
Net debt/EBITA**	2.5	2.5
<b>Share data</b>		
EPS, basic, SEK, incl. larger one-time items	13.63	14.33
EPS, basic, SEK, excl. larger one-time items	12.82	14.18
EPS, diluted, SEK, incl. larger one-time items	13.61	14.25
EPS, diluted, SEK, excl. larger one-time items	12.80	14.10
Average number of shares outstanding, basic (Mio)	198.9	202.9
Shares outstanding, end of period (Mio)	199.0	199.4

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

\*\* For full detail, please refer to notes in the full year 2013 report.

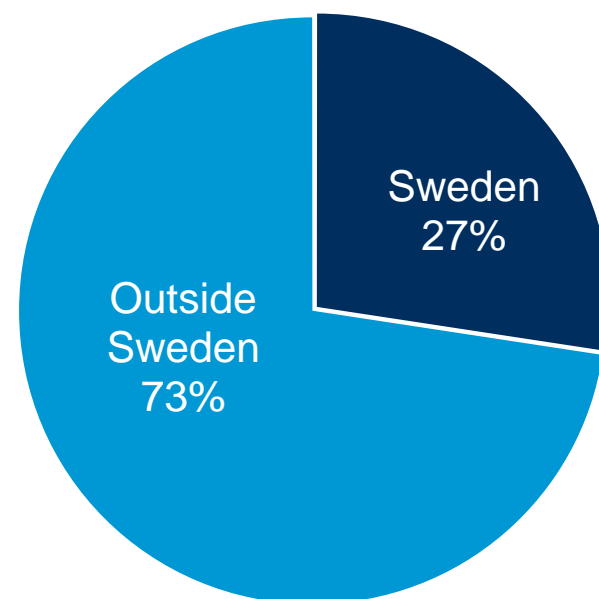
# Largest shareholders\*

As per December 31, 2013

## Largest shareholders

Morgan Stanley Investment Management	5.1%
AMF Insurance & Funds	2.6%
Fidelity Funds	2.0%
Standard Life Investment Funds	1.8%
Nordea Funds	1.6%
Fourth Swedish National Pension Fund	1.4%
Swedbank Robur Funds	1.3%
Second Swedish National Pension Fund	1.3%
SHB Funds	1.2%
SEB Funds	1.2%
	<hr/>
	19.5%

49,405 shareholders



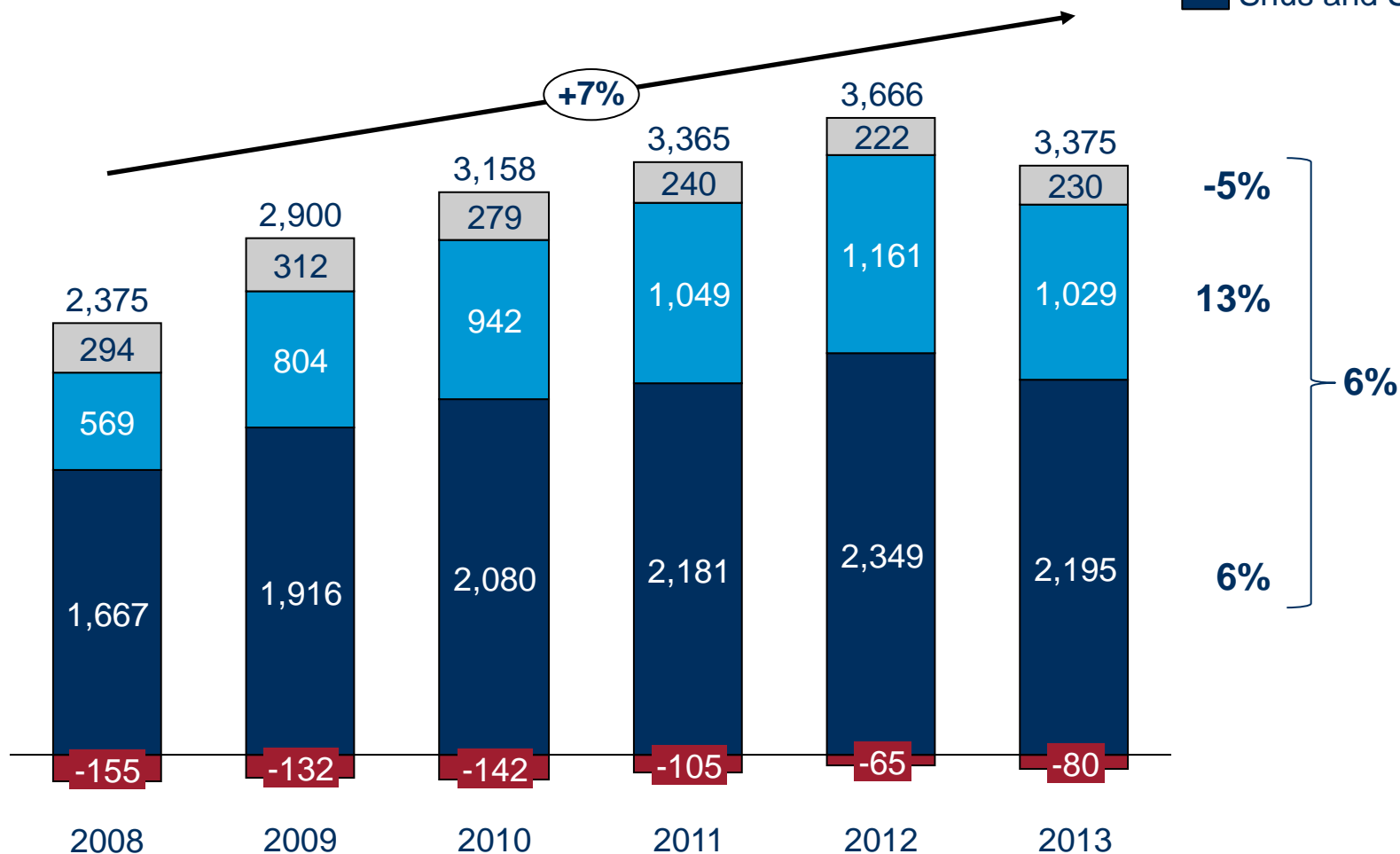
Source: Euroclear, official registry and SIS Ägaranalys.

\* 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

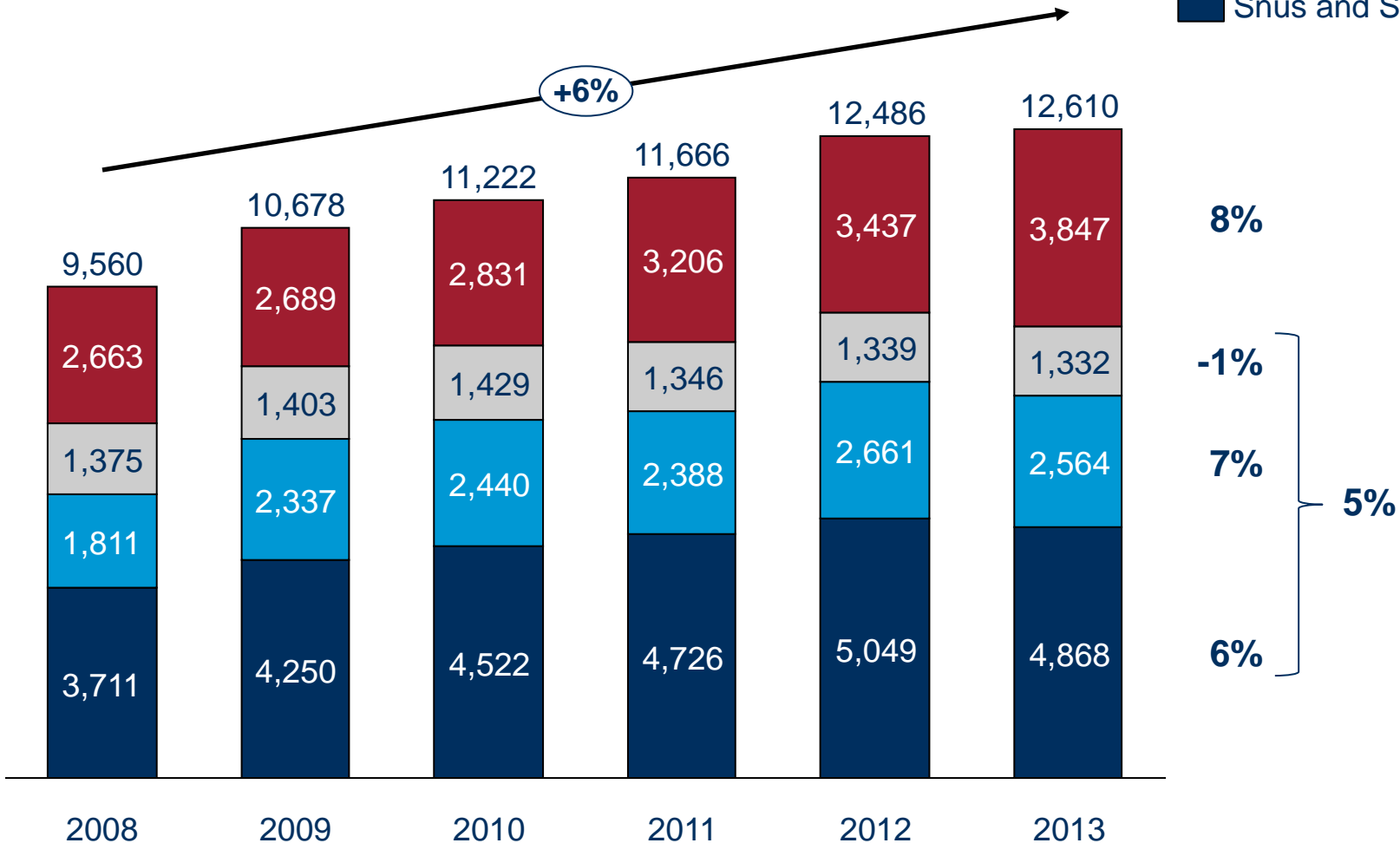
- Other operations
- Lights
- Other tobacco products
- Snus and Snuff



# Comparable sales

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

- Other operations
- Lights
- Other tobacco products
- Snus and Snuff



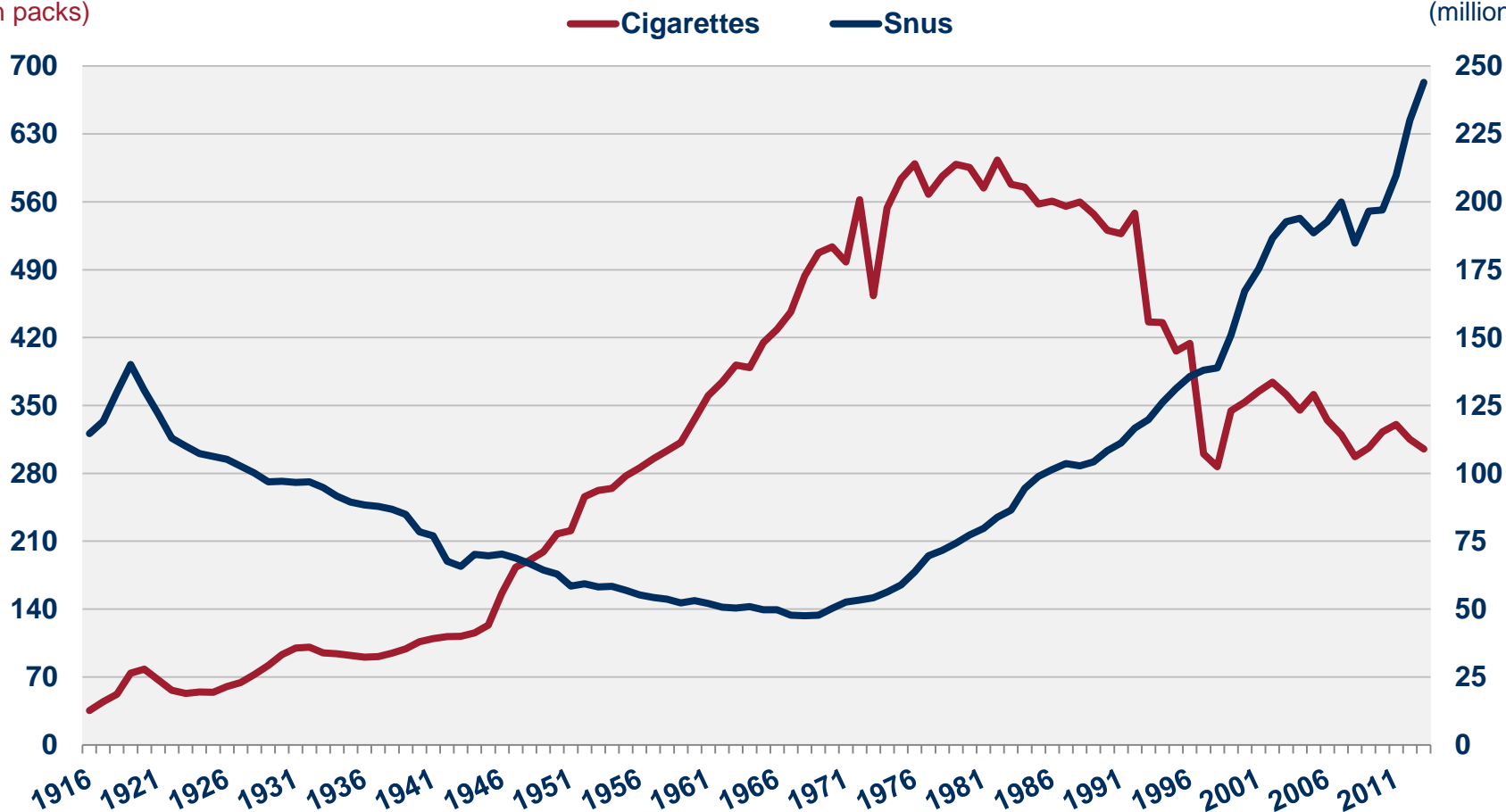


# Snus vs. cigarettes in Sweden

## 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.