

# SWEDISH MATCH RESULTS PRESENTATION

Q2 2017



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## Q2 – HEADLINE BULLETS

- Sales increased by 8 percent to 4,214 MSEK (3,920) for the second quarter. In local currencies, sales increased by 4 percent.
- Operating profit from product areas<sup>1)</sup> increased by 8 percent to 1,091 MSEK (1,008) for the second quarter. In local currencies, operating profit from product areas increased by 4 percent.
- Operating profit amounted to 1,091 MSEK (1,061) for the second quarter.
- Profit for the period amounted to 812 MSEK (752) for the second quarter.
- Earnings per share amounted to 4.49 SEK (4.01) for the second quarter. Earnings per share excluding a dividend from STG in 2017 and share of net profit in STG in 2016 amounted to 4.18 SEK (3.72).
- The outlook has been updated based on the developments during the first six months.

1) Operating profit for Swedish Match product areas, which excludes larger one-time items and share of net profit in STG.



# SNUS AND MOIST SNUFF: Q2 COMMENTARY

## Growth in both sales and operating profit driven by the US

- **Scandinavian shipments up 1 percent**
  - Underlying volumes are estimated to be up by 1 percent (adjusted for calendar effects).
  - Higher volumes for premium pouches in Sweden, and pouches in Norway.
- **Scandinavia snus sales and operating profit up**
  - Price increases in Norway (Jan) and in Sweden (May), volumes up, stronger NOK vs. SEK.
  - Absorption of the 2017 excise tax increase in Sweden during April and part of May.
- **US moist snuff operating profit down in local currency on lower sales**
  - Sales down on lower volumes, partially offset by improved price/mix.
- **Lower operating loss for snus and nicotine pouches outside Scandinavia**
  - Snus/ZYN sales (primarily in the US) up on higher volumes and higher realized pricing.



MSEK	Q2-2017	Q2-2016	chg	H1-2017	H1-2016	chg	July 2016- June 2017	Full year 2016	chg
Sales	1,406	1,338	5	2,699	2,584	4	5,392	5,277	2
Operating profit	590	557	6	1,122	1,078	4	2,240	2,197	2
Operating margin, %	42.0	41.7		41.6	41.7		41.5	41.6	

# SCANDINAVIAN NEW PRODUCT ACTIVITY (JANUARY – JUNE)

## Sweden

- *Kaliber+* in stores from January.
- *Kronan* packaging and product upgrade.
- *G.3 VOLT Super Strong* in wider distribution from June.
- *Göteborgs Rapé White Strong* from April.
- *ZYN* in Swedish Match snus stores.



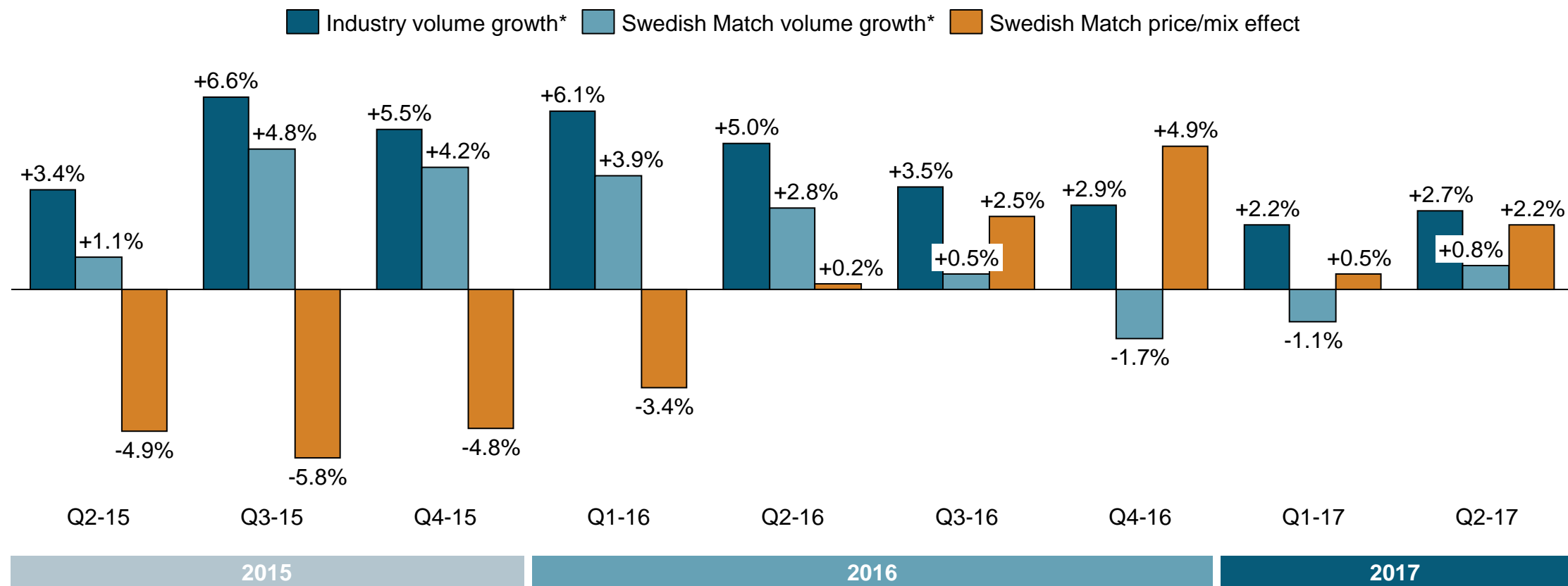
## Norway

- Line extension of *G.3 Super Slim* pouch product in stores from February.
- *Göteborgs Rapé Slim* in stores from February.
- *G.3 VOLT Super Strong* in stores from March.
- *G.4* in stores from May.



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

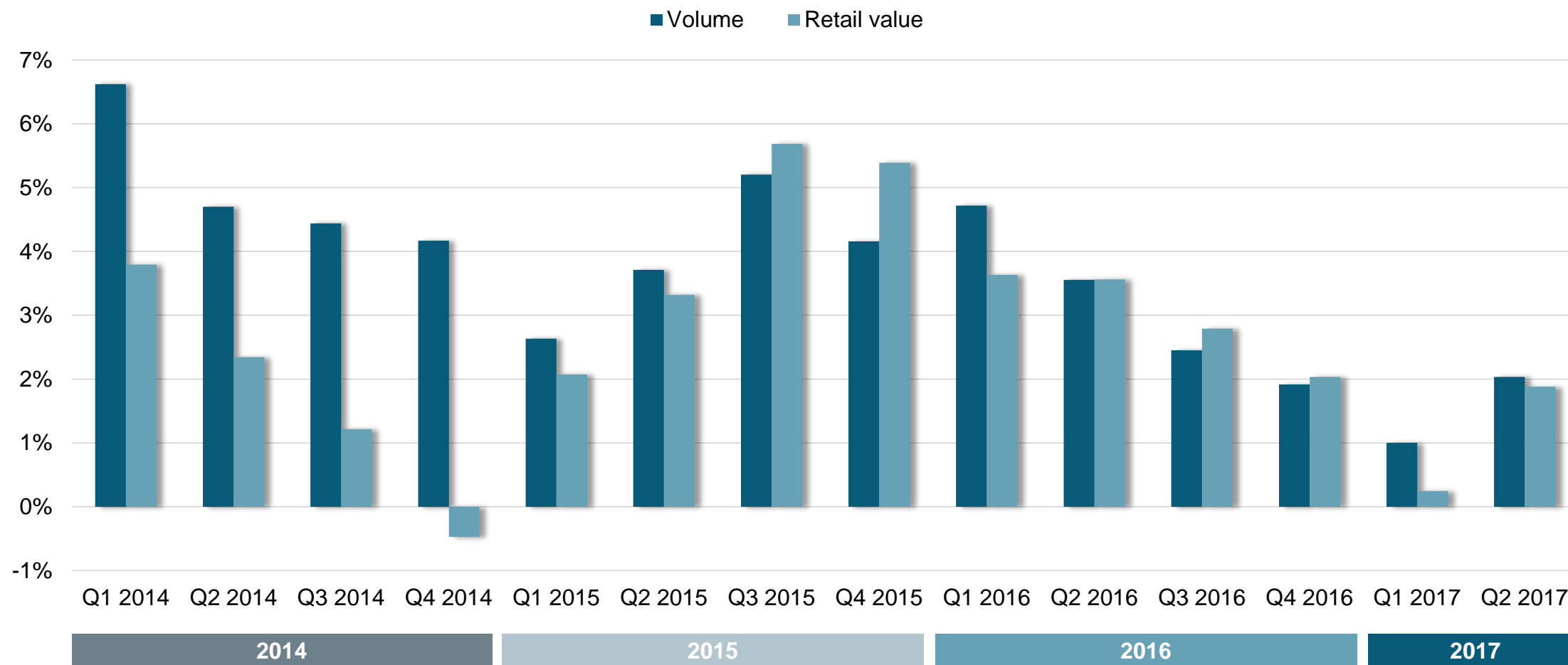
## Total Scandinavian snus by quarter versus same quarter prior year



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

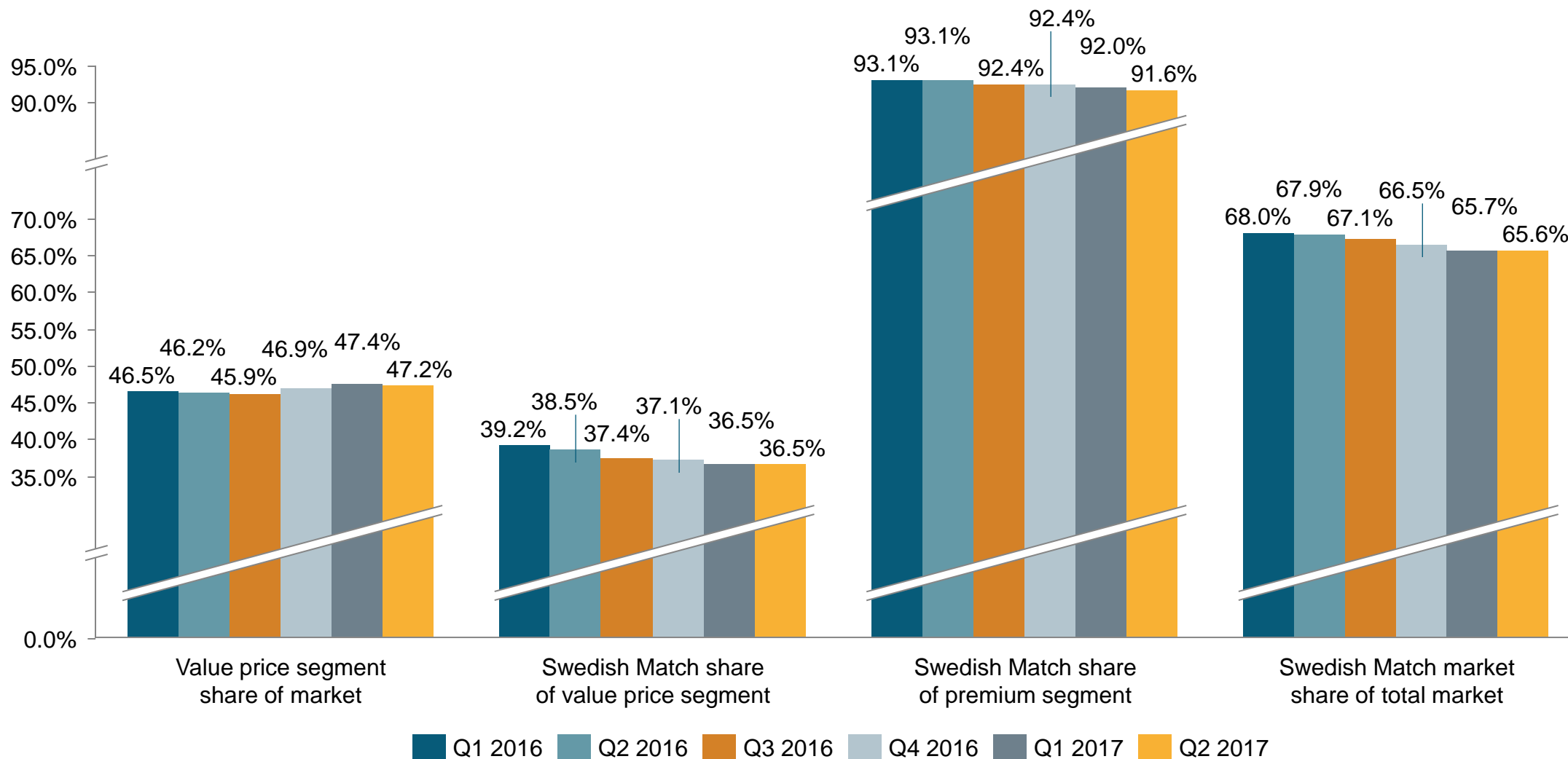
# SWEDEN – SNUS CATEGORY DEVELOPMENT

## Volume and retail value year on year growth (Nielsen)



Source: Nielsen, DVH+SVH excl. tobaccoconists (including nicotine free).

# SWEDEN – MARKET SHARE DYNAMICS – VOLUME SHARES

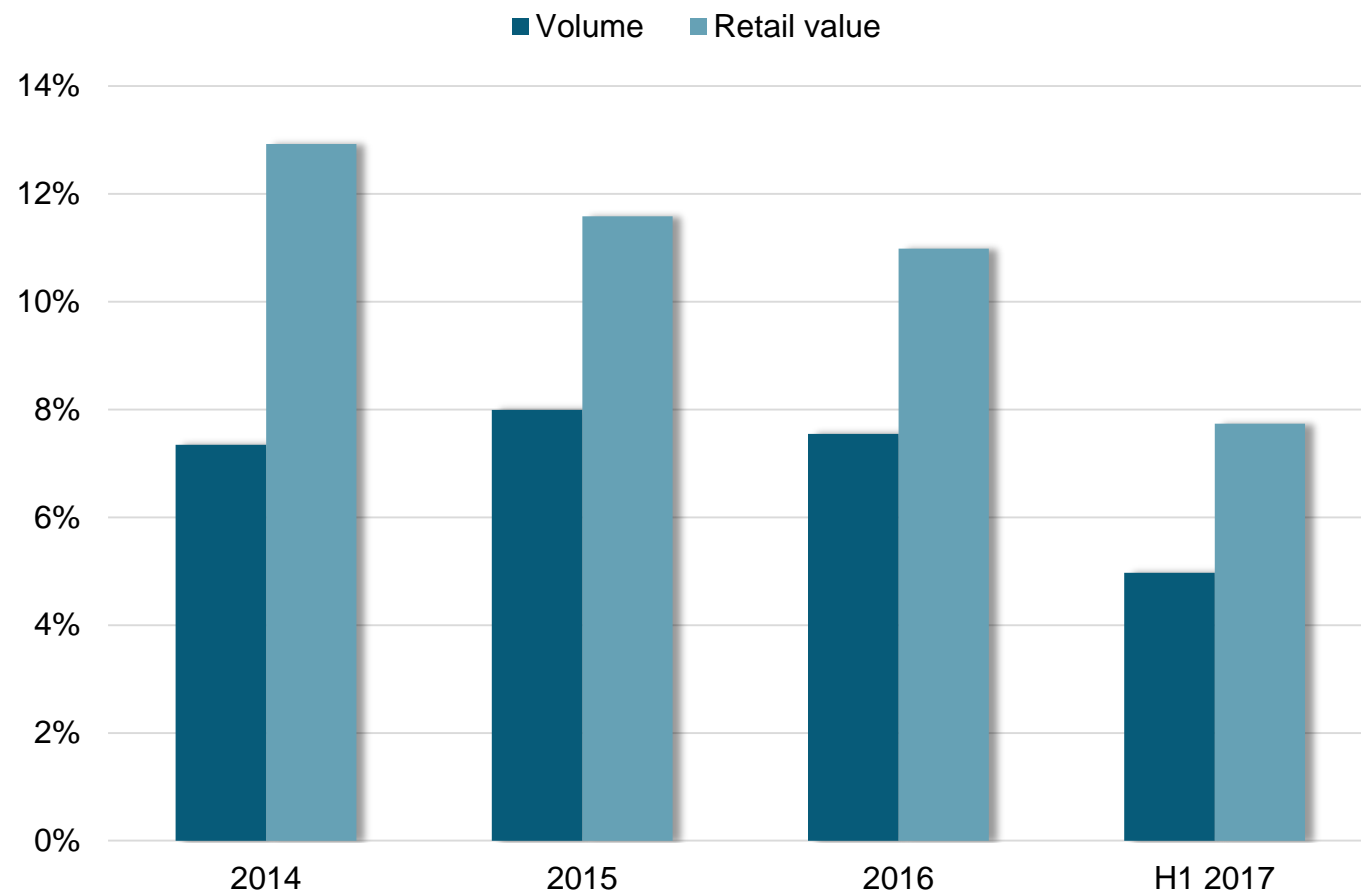


Source: Nielsen, DVH+SVH excl. tobaccoconists (including nicotine free).



# NORWAY – SNUS CATEGORY DEVELOPMENT

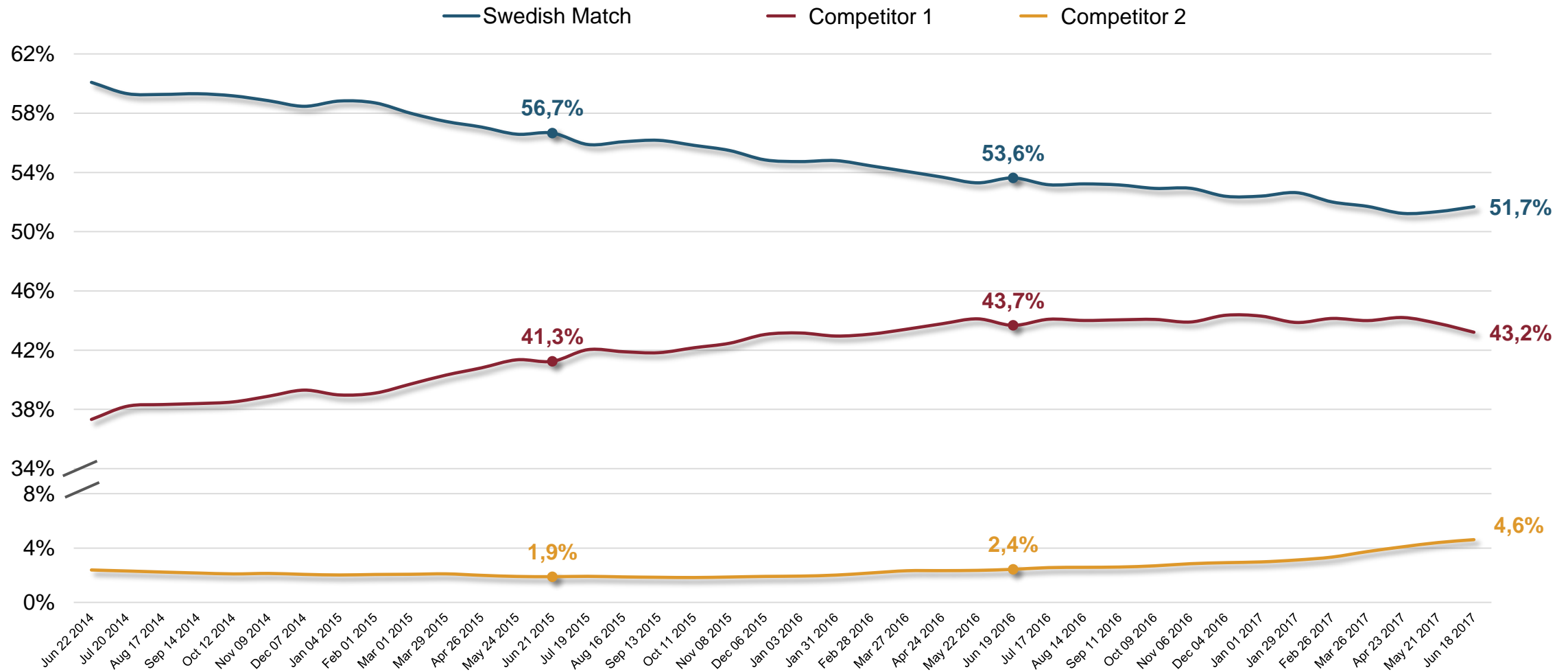
## Volume and retail value year on year growth (Nielsen)



Source: Nielsen, DVH+KBS.

# NORWAY – TOTAL SNUS VOLUME SHARES

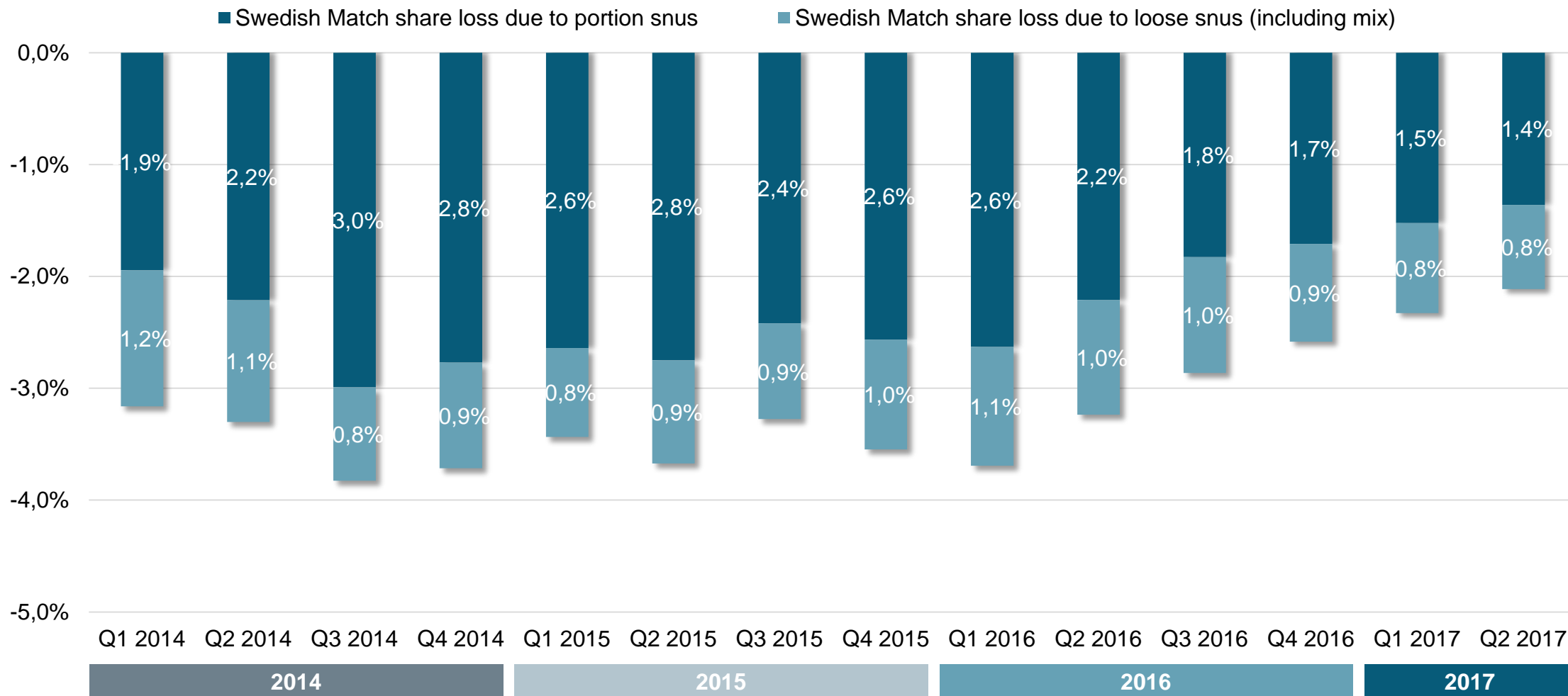
## Volume share development, 4-weeks isolated



Source: Nielsen, 4-week data, DVH+KBS. Circles indicate same period prior years.

# NORWAY – SWEDISH MATCH MARKET SHARE DEVELOPMENT

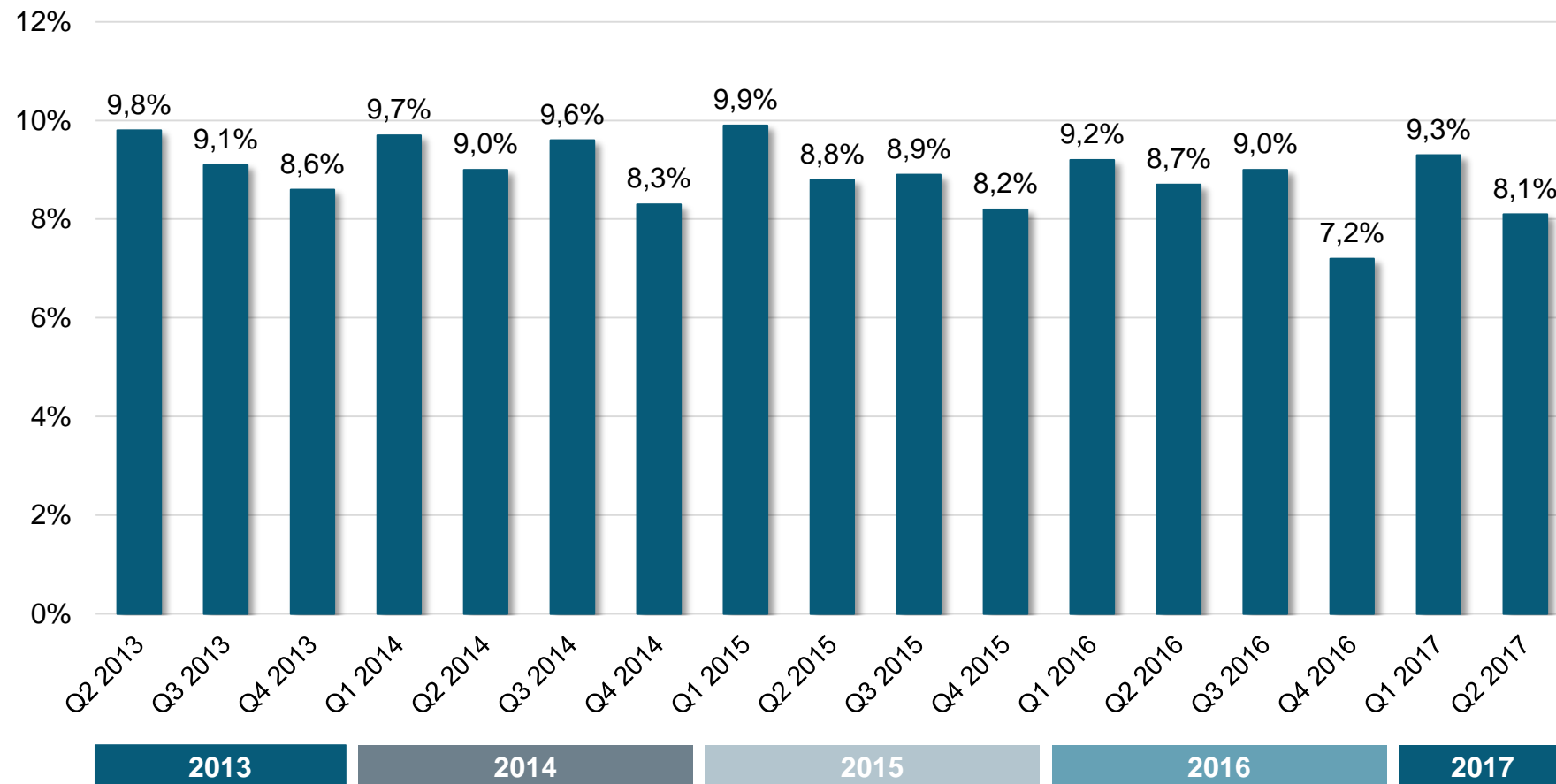
## Change in Swedish Match volume market share y-o-y by format; percentage points of total market



Source: Nielsen, DVH+KBS.

# US – SWEDISH MATCH MOIST SNUFF MARKET SHARE

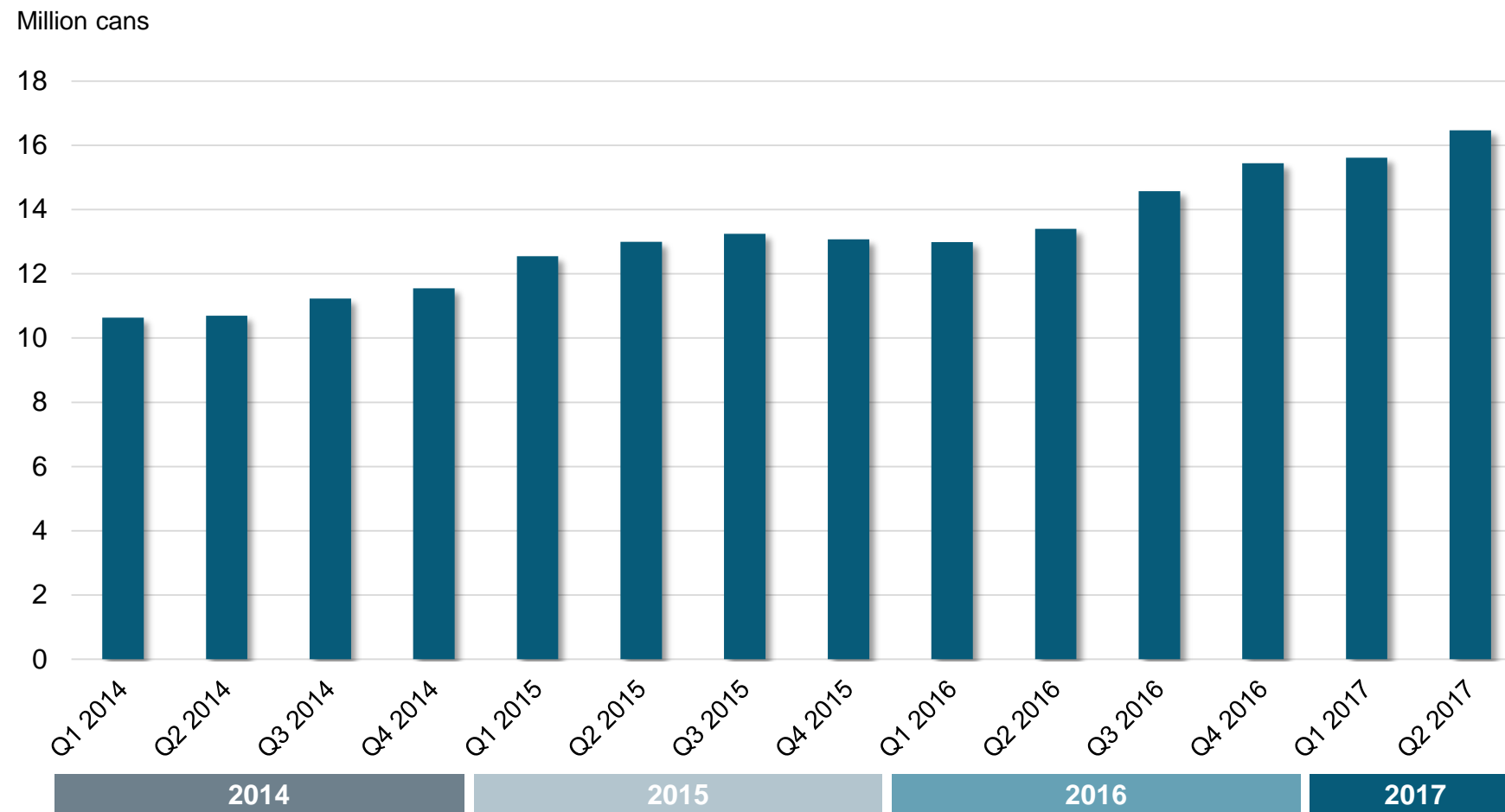
## Market share based on shipments



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

# US – SWEDISH MATCH'S MOIST SNUFF POUCH VOLUMES BY QUARTER

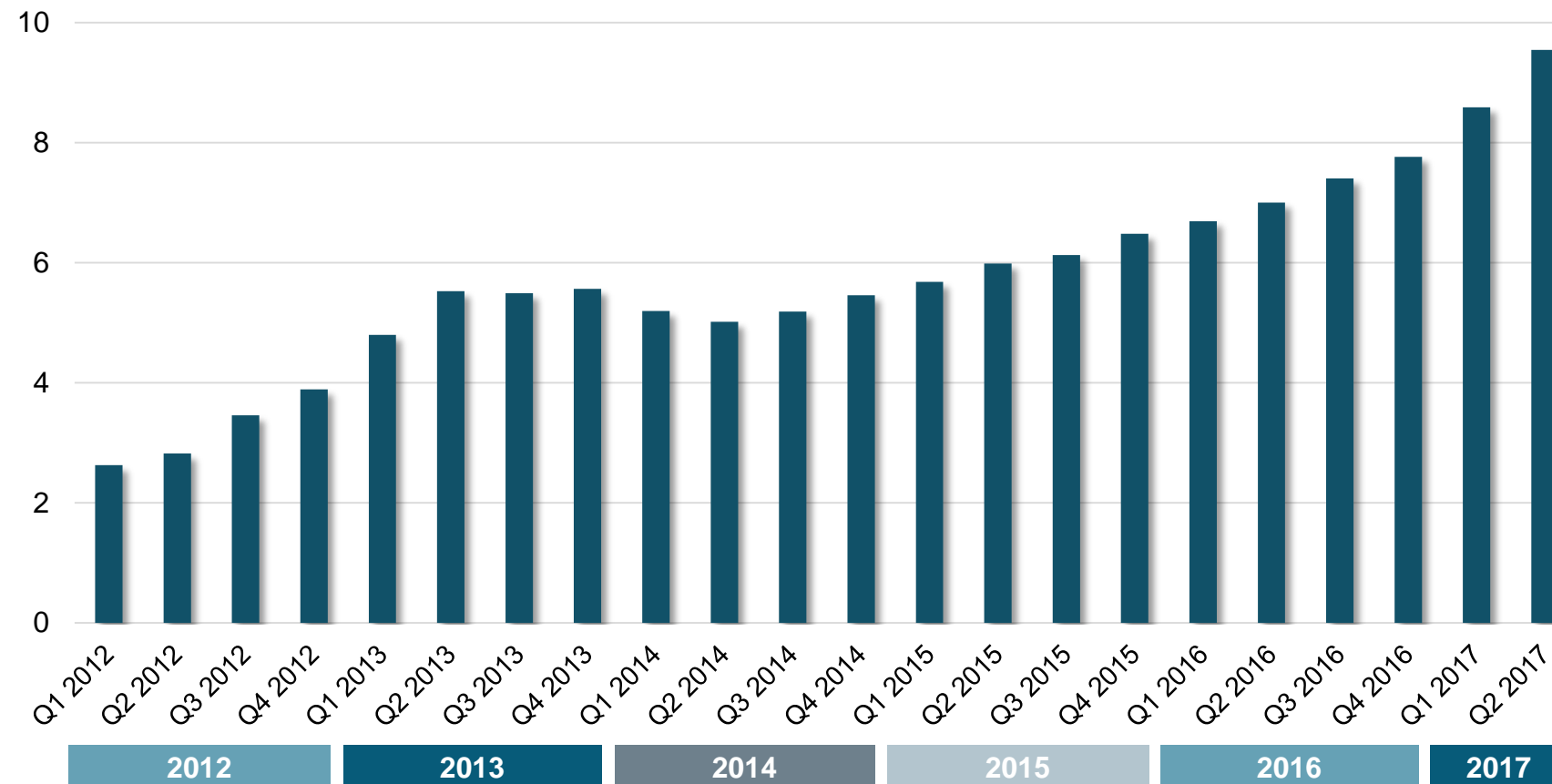
## Swedish Match's moist snuff pouch volumes by rolling four quarters



# SNUS AND NICOTINE POUCH VOLUMES OUTSIDE SCANDINAVIA

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

Million cans



- **Norway – plain packaging**
  - Effective July 1, 2017 for all new products launched after that date.
  - All snus products to have plain packaging at retail from July 1, 2018.
  - Not applicable to e-cigarettes, chewing tobacco, cigars or pipe tobacco.
  - Green surfaces, only name in Helvetica with specified font size and no logos.
  - Swedish Match on July 7 filed for a temporary injunction.
    - Not proportionate.
    - Not appropriate for the protection of public health.
- **Large study dismissing causal relationship between snus and pancreatic cancer published in International Journal of Cancer**
  - Based on a joint analysis of nine Swedish cohort studies (including the Construction Worker Cohort study) with 424,000 male participants.
  - The authors concluded that, in contrast to smoking, “Swedish snus does not appear to be implicated in the development of pancreatic cancer among men”.
- **US – MRTP**
  - Swedish Match to conduct further consumer research to support revised claim(s).
- **Challenge to EU snus ban referred to the ECJ**
  - Swedish Match expects a ruling by the ECJ in the first half of 2018 at the earliest.

# OTHER TOBACCO PRODUCTS (OTP): Q2 COMMENTARY

## Continued strong volume growth for cigars, US chewing volumes down

- **Strong growth in sales and operating profit for cigars**
  - Cigar volumes up 19% with solid growth for both natural leaf and HTL.
  - Volume growth led by natural leaf cigars.
  - Operating profit increased in local currency, despite new FDA fees of 2.5 MUSD.
- **Chewing tobacco in the US remained challenging, volumes down 9%**
  - Sales and profits down on lower volumes.
  - Volumes negatively impacted by enactment of Pennsylvania state excise tax in the beginning of October.
  - Higher average prices only partly offset the effect of lower volumes.
- **Chew bags, now in several European countries**
  - June launch in Germany, following earlier launches in Denmark, Slovenia, Czech Republic.
  - Currently no shipments to Switzerland, due to unclear regulation.

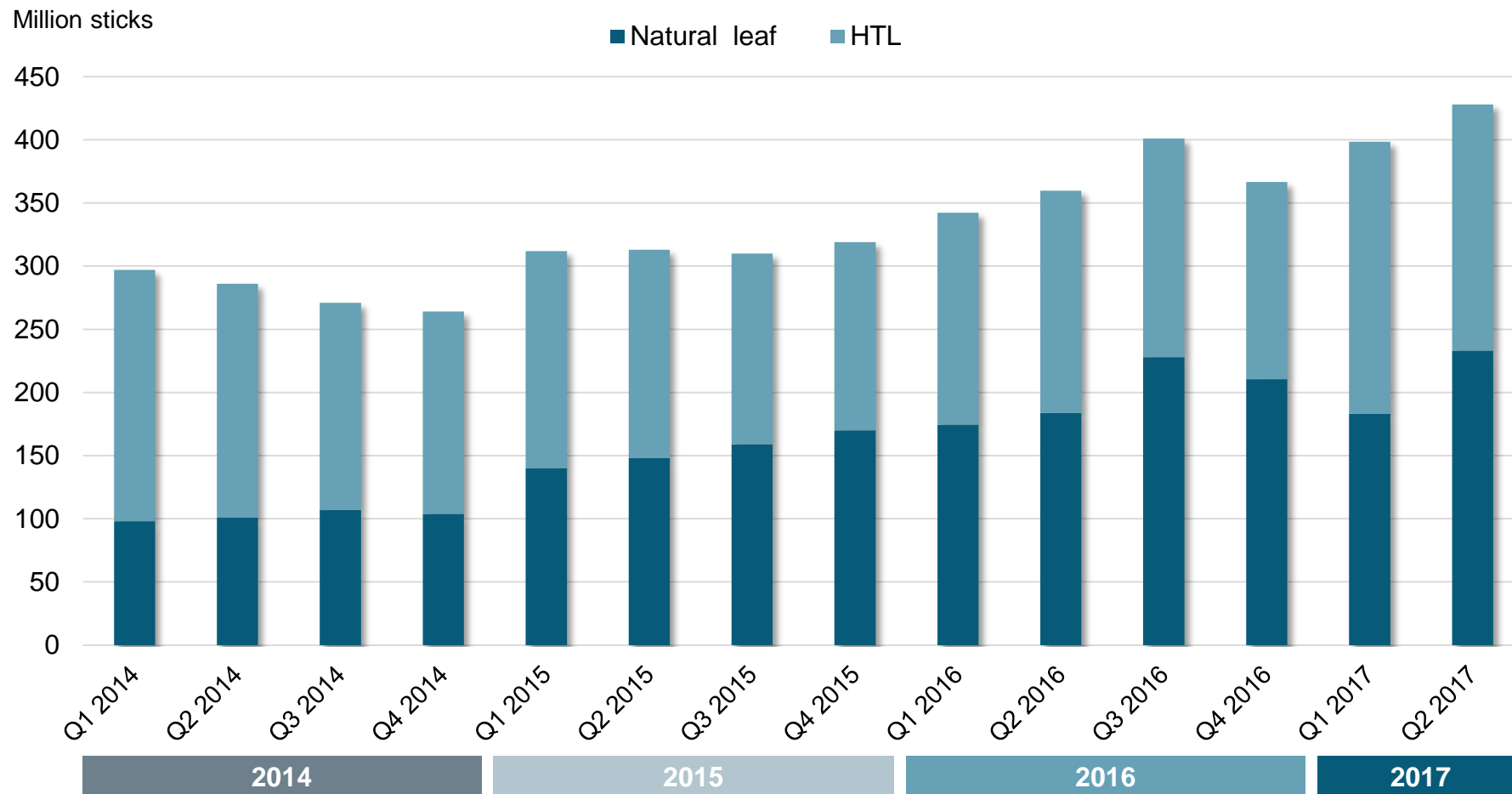


MSEK	Q2-2017	Q2-2016	chg	H1-2017	H1-2016	chg	July 2016- June 2017	Full year 2016	chg
Sales	1,252	1,031	21	2,373	2,026	17	4,630	4,283	8
Operating profit	496	425	17	923	825	12	1,804	1,705	6
Operating margin, %	39.6	41.2		38.9	40.7		39.0	39.8	



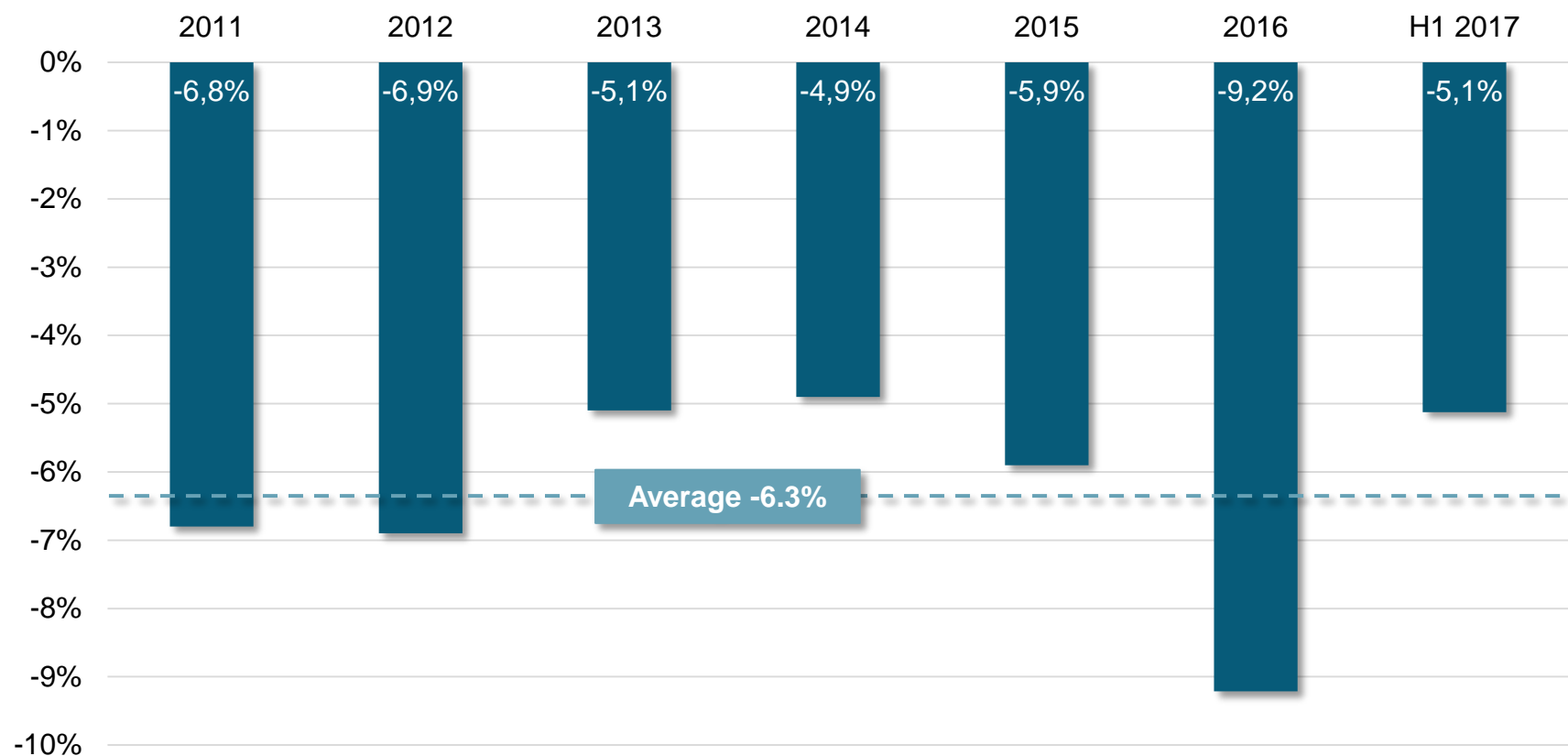
# US – SWEDISH MATCH CIGAR VOLUMES BY QUARTER AND FORMAT

## Mass market cigar shipments



# US – DEVELOPMENT OF SWEDISH MATCH CHEWING TOBACCO VOLUMES

## Shipment volume percentage change year on year, Swedish Match brands\*



\* On reported basis. Excludes Co-Pack volumes.

## Sales and operating profit down on lower volumes

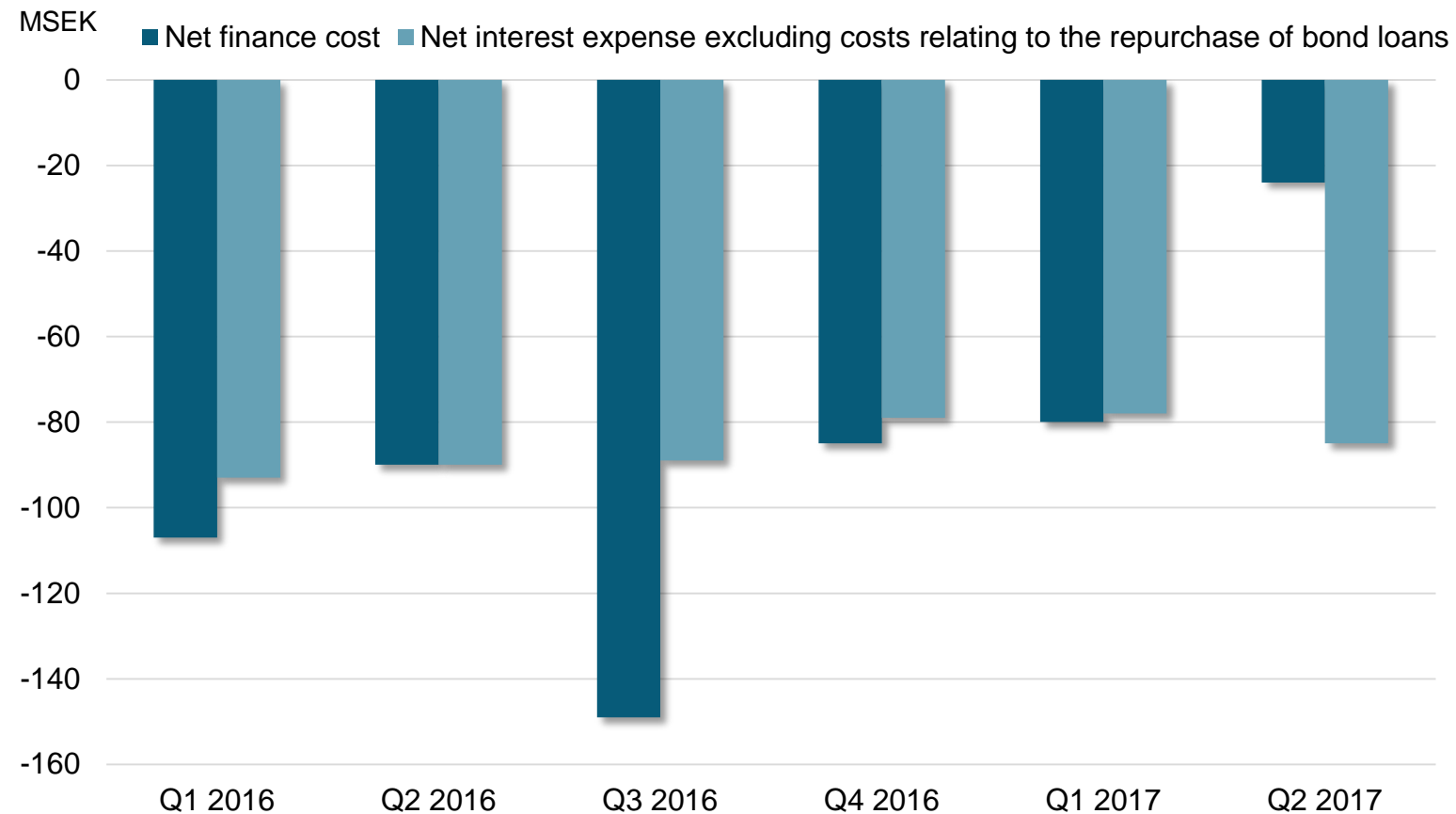
- **Sales declined by 5%**
  - Volume declines for both matches (-19%) and lighters (-15%).
  - Sales decline partly offset by increased sales for complementary products and positive currency effects.
- **Continued growth for complementary products in Brazil**
  - Growth in both sales and operating profit.
  - Favorable currency effects.

MSEK	Q2-2017	Q2-2016	chg	H1-2017	H1-2016	chg	July 2016- June 2017	Full year 2016	chg
Sales	302	318	-5	642	621	3	1,334	1,314	2
Operating profit	37	54	-32	97	96	1	220	219	0
Operating margin, %	12.2	17.0		15.1	15.5		16.5	16.7	

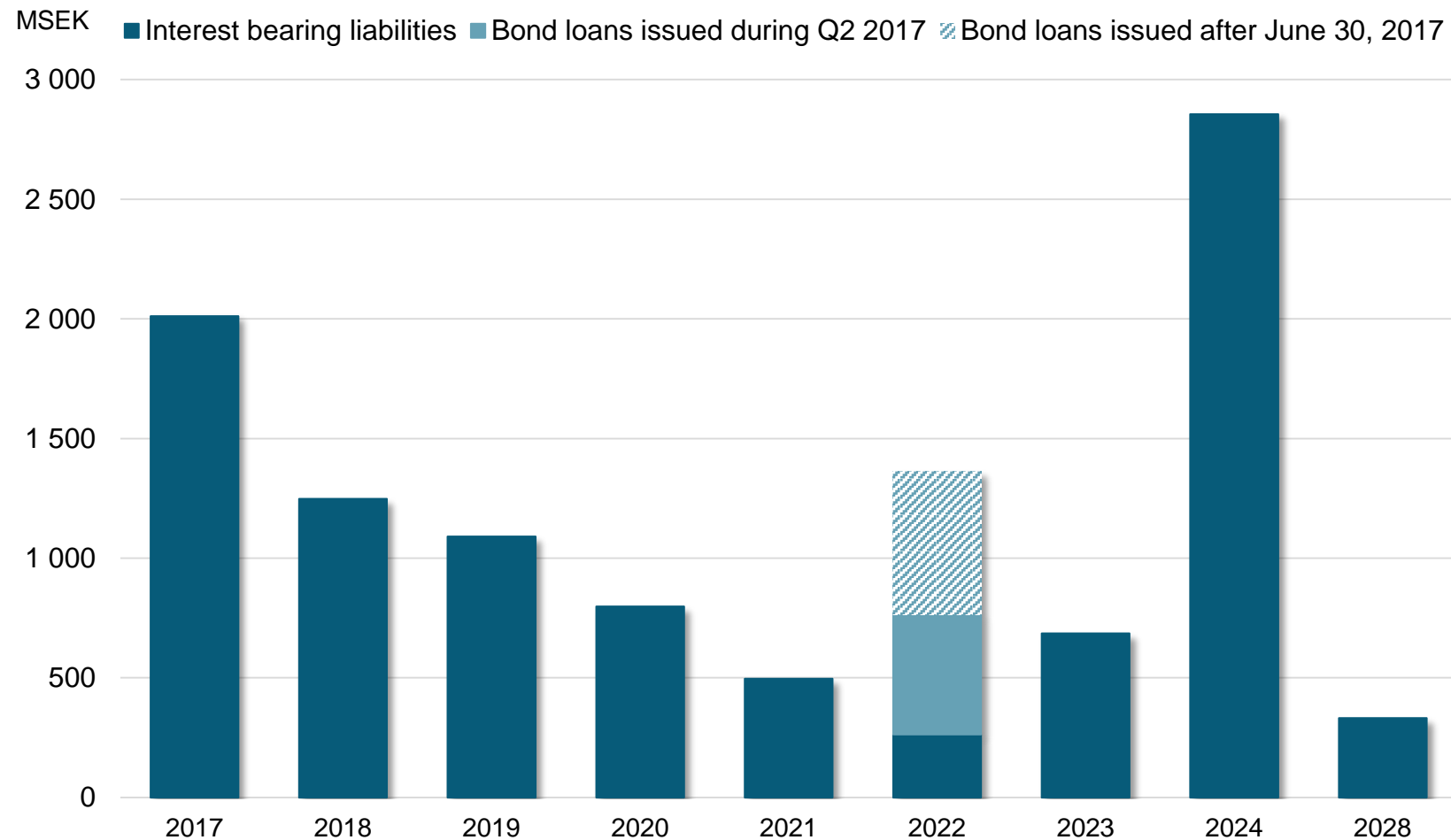


# DEVELOPMENT OF THE FINANCE NET

## Net finance cost by quarter



# MATURITY PROFILE OF INTEREST BEARING LIABILITIES



## CASH FLOW (SIX MONTHS)

- **Positive cash flow from operating activities, when adjusted for STG**
  - Cash flow from operating activities was 1,781 MSEK (1,872).
  - The dividend received from STG of 191 MSEK during the Q2 2016 (31.1% ownership) was recognized as cash flow from operating activities in prior year period.
  - Adjusted for the dividend received from STG in the prior year, the cash flow from operating activities increased by 100 MSEK.
- **Positive net cash flow from investing activities**
  - Swedish Match received 1,355 MSEK from the partial divestment of STG in January and another 107 MSEK of additional purchase price payments relating to a parcel of land sold in 2007.
  - Cash flow from investing activities also include a dividend of 65 MSEK from STG received during the second quarter of 2017 (based on a 9.1 percent ownership).
- **Investments in property, plant and equipment, and intangible assets decreased to 178 MSEK (347)**
  - For the full year, investments in property, plant and equipment are expected to be in line with prior year.
- **Share buybacks**
  - Share repurchases of 4.8 million shares for 1,392 MSEK up to June 30.
  - From July 1, 2017 to July 20, 2017, 446,000 shares repurchased for 131 MSEK.

## UPDATED OUTLOOK STATEMENT (CHANGES NOTED IN ITALICS)

For 2017, on a full year basis, we expect Scandinavian snus as well as US moist snuff consumption to grow as measured in number of cans. In Scandinavia, we expect the growth to be more modest than in 2016. We expect the level of competitive activity in the Scandinavian snus market to continue to be high.

For cigars in the US, Swedish Match expects the market to continue to grow during the remainder of 2017 but to remain highly competitive. *Swedish Match continues to have the ambition to grow cigar volumes but note that the second half of 2016 was strong for cigar shipments. The year on year comparison for cost of goods for cigars will be adversely impacted by the FDA user fees through the third quarter of 2017.* We expect the US chewing tobacco market to continue to decline.

Swedish Match will continue to invest in growth for snus and nicotine pouches outside Scandinavia. We expect continued growth in volumes and sales. *The operating loss for snus and nicotine pouches outside Scandinavia is now expected to be lower than in 2016. The decision to invest in additional ZYN production capacity will predominantly affect capital expenditures in 2018.*

The effective corporate tax rate in 2017, excluding associated companies, dividend from STG and non-taxable larger one-time items, is expected to be similar to 2016, assuming no changes to current tax regimes. There are currently general expectations that there will be a US corporate income tax reform. Due to the uncertain outcome and structure of such reform, Swedish Match makes no projections to whether the impact would be positive or negative for the Company.

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