

# SWEDISH MATCH RESULTS PRESENTATION

Q3 2017



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## Q3 – HEADLINE BULLETS

- Sales increased by 1 percent in local currencies. Reported sales declined by 1 percent to 4,069 MSEK (4,118) for the third quarter.
- Operating profit from product areas in local currencies increased by 2 percent. Reported operating profit from product areas<sup>1)</sup> amounted to 1,089 MSEK (1,089) for the third quarter.
- Operating profit amounted to 1,089 MSEK (2,694) for the third quarter. The previous year's third quarter included larger one-time items of 1,550 MSEK relating to a capital gain from the partial divestment of STG and an unrealized gain from revaluing Swedish Match's remaining shareholding in STG to market value.
- Profit after tax amounted to 753 MSEK (2,306 – positively affected by the larger one-time items mentioned above).
- Earnings per share excluding both larger one-time items and share of net profit in STG amounted to 4.22 SEK (3.76). Reported earnings per share amounted to 4.22 SEK (12.32) for the third quarter.

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



## DEVELOPMENTS IN THE QUARTER

- Profit growth for Snus and moist snuff across geographies and product types
- Cigar volumes up despite challenging prior year comparisons
- Strong development for *ZYN* in the US
- *General One* and *Göteborgs Rapé One* in Sweden (three SKUs, premium brands, popular price point)
- Market share improvement in Norway
- V2 Tobacco acquisition
- FDA reaffirmed intention to regulate to encourage migration from cigarettes to less harmful products
  - Also, timeline extensions and coming guidance for Substantial Equivalence (SE) reports and Premarket Tobacco Applications (PMTA)

# SNUS AND MOIST SNUFF: Q3 COMMENTARY

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

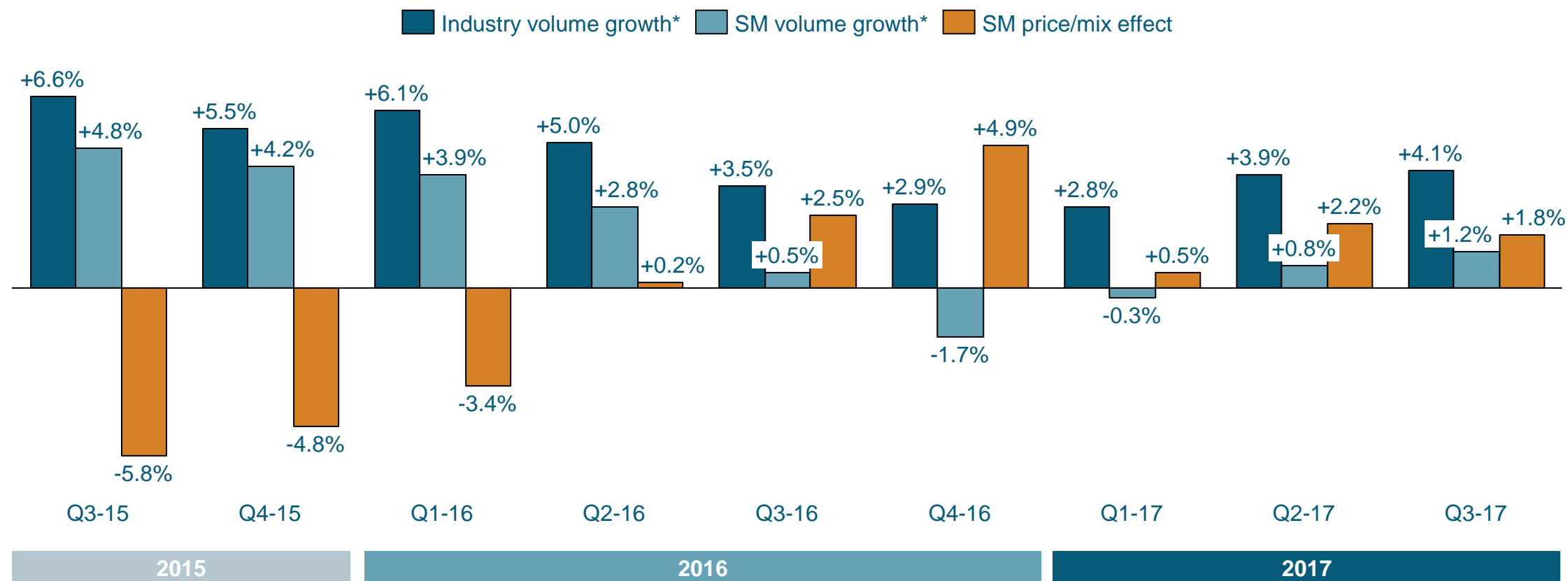
- **Scandinavian shipments up 1 percent**
  - Underlying volumes estimated to be up by 1 percent (adjusted for shipping day effects).
  - Market growth picked up somewhat to be in the range of 4 percent.
  - Some share declines, but improving trends, especially in Norway.
- **Scandinavia snus sales and operating profit up**
  - Price increases in Norway (Jan) and in Sweden (May), volumes up in both Sweden and Norway.
- **US moist snuff operating profit up in local currency, despite lower sales**
  - Positive price/mix.
  - Volumes down.
- **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.
  - Solid sequential volume growth for ZYN in the US on increased velocity and store expansion (close to 8,000 stores, 7,500 end of Q2).
  - ZYN now introduced in Sweden into one of Sweden's largest convenience store chains.



	Q3-2017	Q3-2016	chg	9m-2017	9m-2016	chg	Oct 2016- Sep 2017	Full year 2016	chg
Sales, MSEK	1,377	1,338	3	4,076	3,922	4	5,432	5,277	3
Operating profit, MSEK	622	577	8	1,744	1,656	5	2,286	2,197	4
Operating margin, %	45.2	43.1		42.8	42.2		42.1	41.6	

# 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). Please note that certain figures have been restated.



# SCANDINAVIAN NEW PRODUCT ACTIVITY

## Sweden

- *General One* and *Göteborgs Rapé One* in full distribution in September.
- *G.3 Volt Super Strong* in wider distribution from June.
- *ZYN* expansion from Swedish Match snus stores in to one of Sweden's largest convenience store chains.



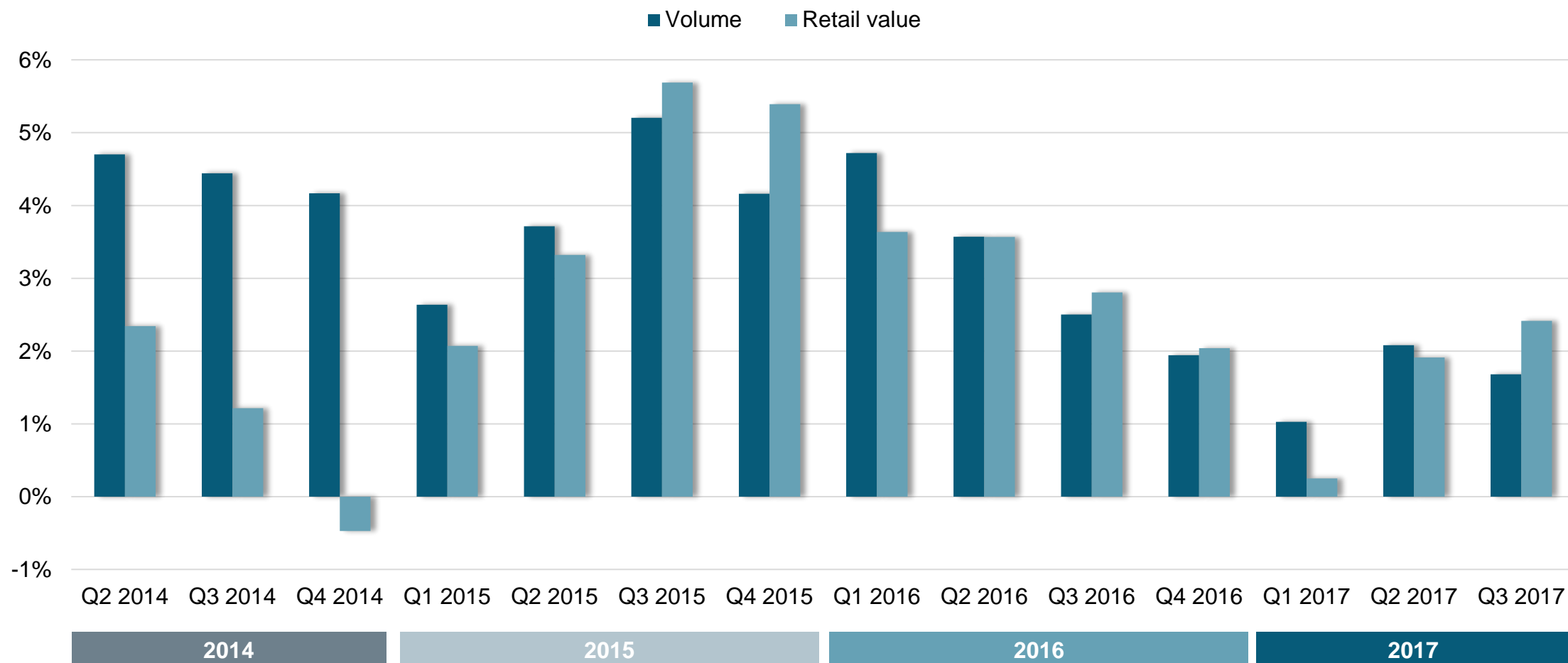
## Norway

- *G.3 Wire Super Strong* in stores from September, follows *G.3 Volt* launch in March.
- *G.4 Blizzard* in stores from October, extending scope of earlier launch of *G.4* regular strength in May.



# SWEDEN – CATEGORY DEVELOPMENT

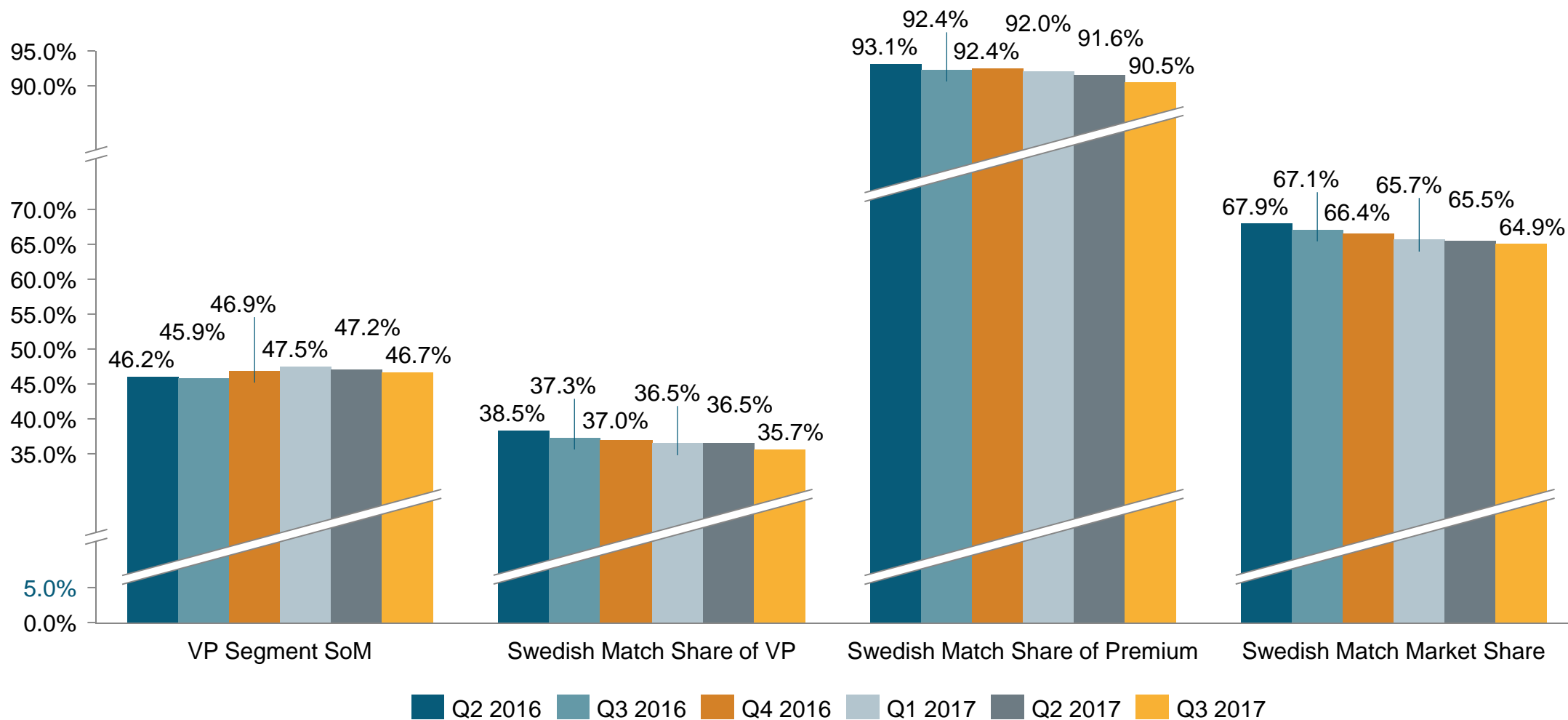
## Volume and retail value y-o-y growth (Nielsen)



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



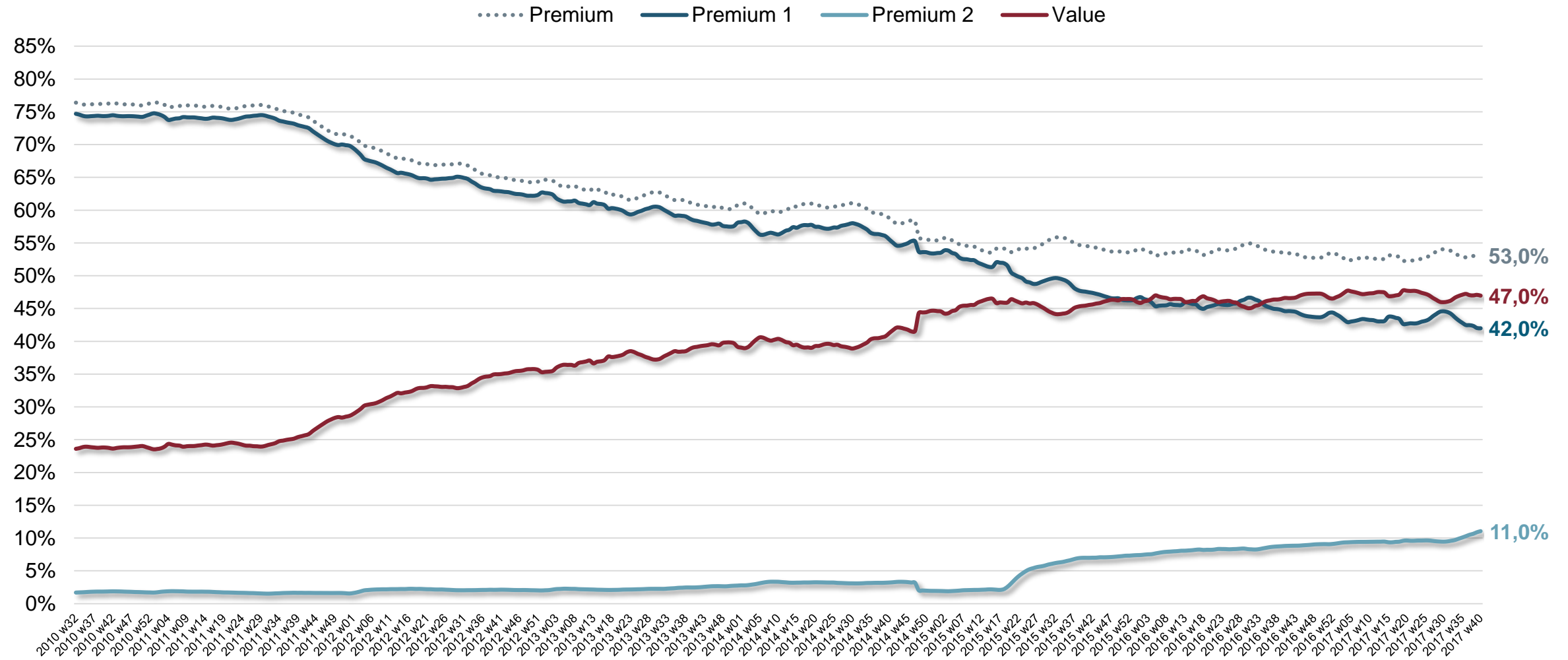
# SWEDEN – MARKET SHARE DYNAMICS – VOLUME SHARES



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

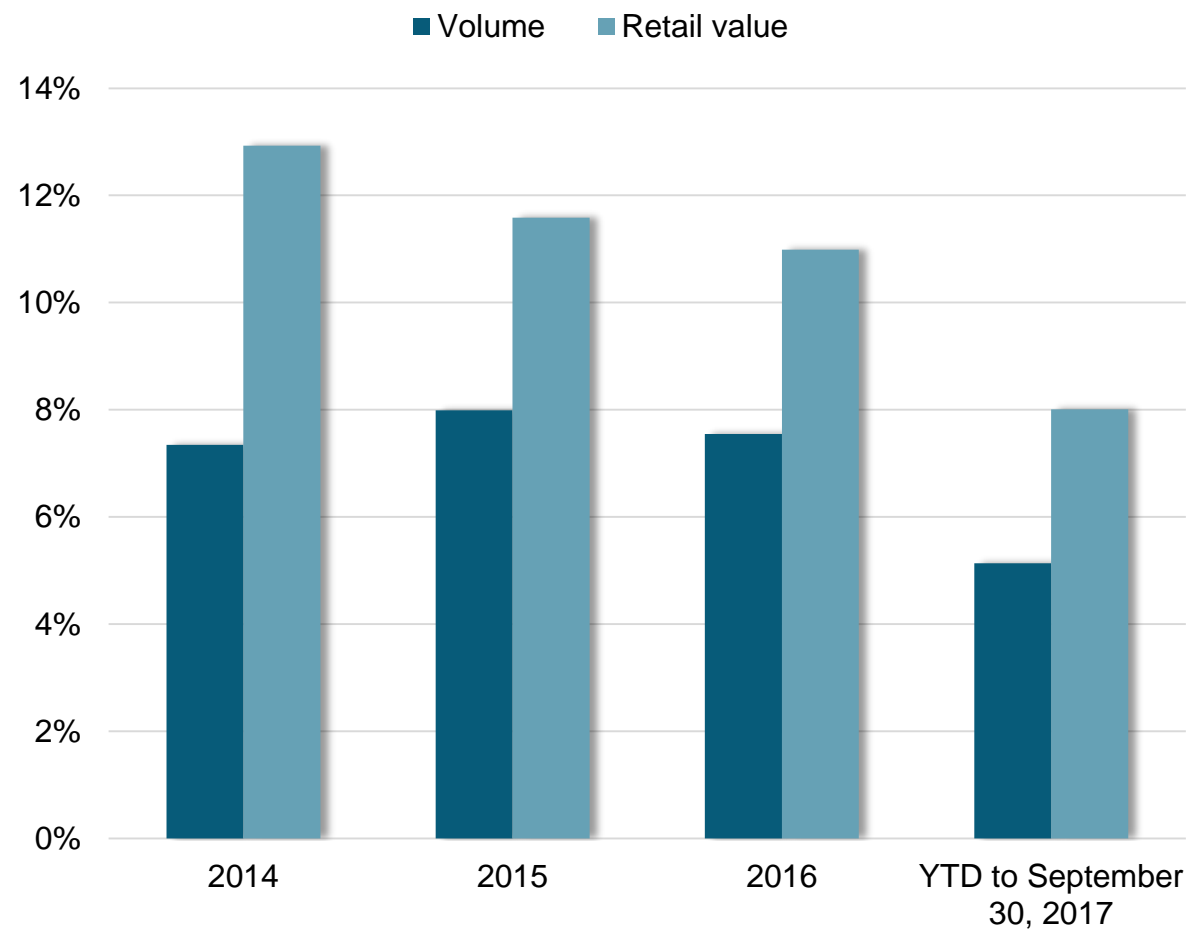
# SWEDEN – SEGMENT SHARES OF SNUS MARKET, VOLUME (TOTAL MARKET)

## Volume share development, 4-weeks rolling



# NORWAY – CATEGORY DEVELOPMENT

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

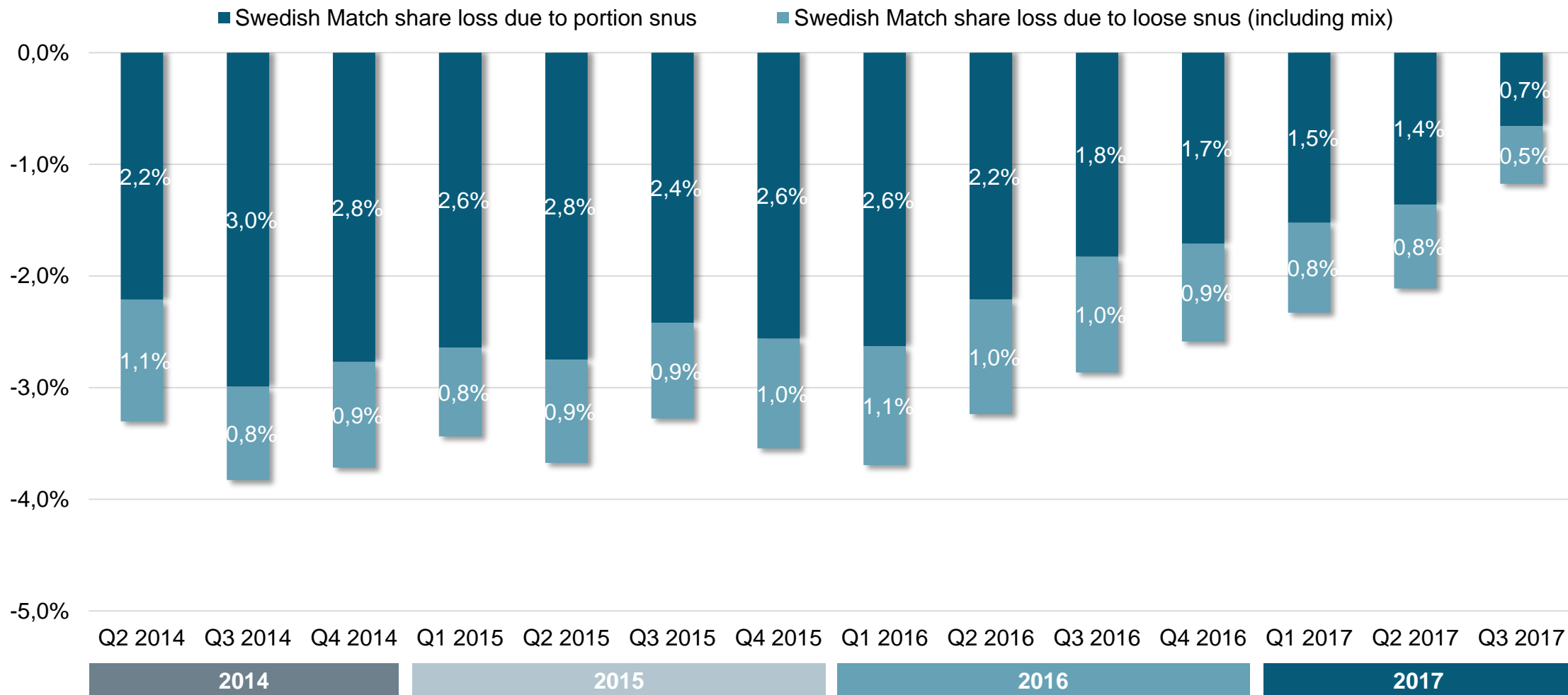


Source: Nielsen, DVH+KBS.



# NORWAY – SWEDISH MATCH MARKET SHARE DEVELOPMENT

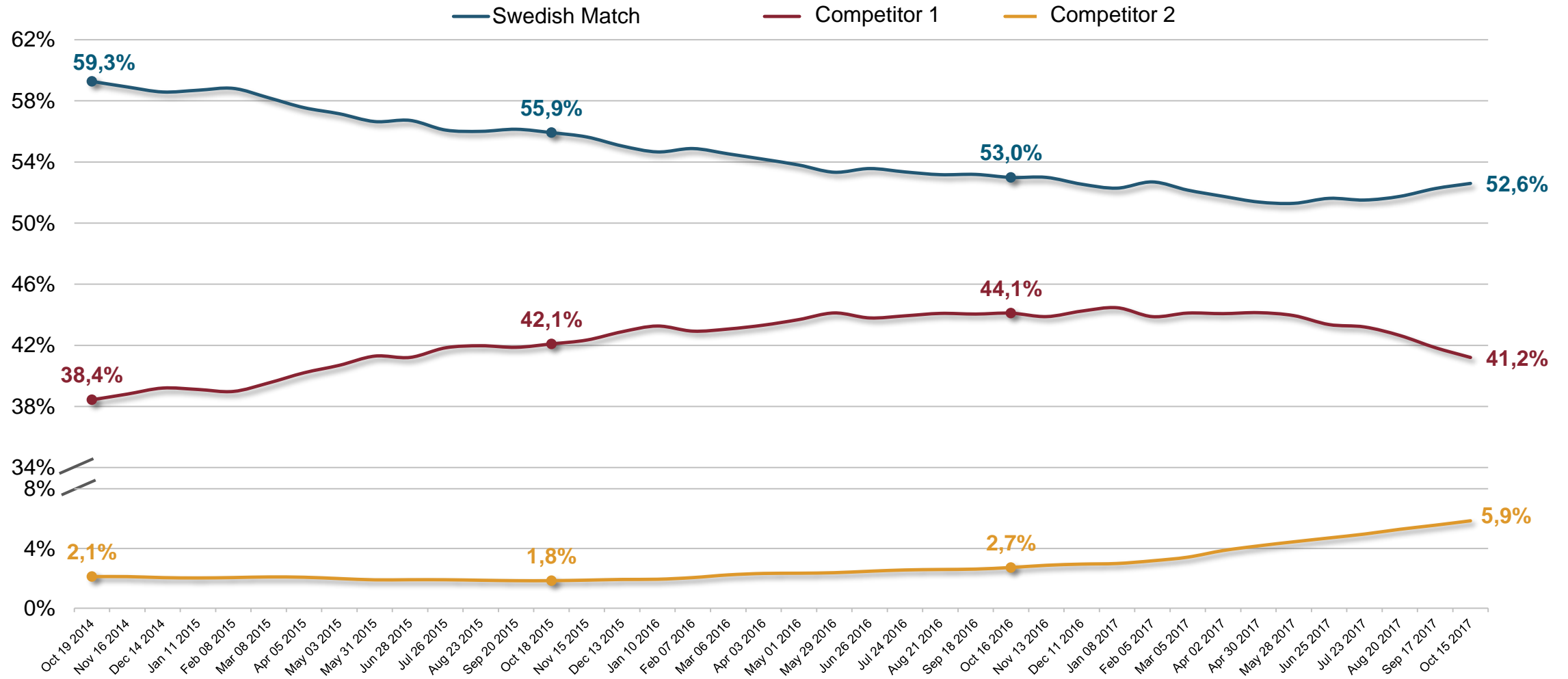
## Change in Swedish Match volume market share y-o-y by format; percentage points of total market



Source: Nielsen, DVH+KBS.

# NORWAY – TOTAL VOLUME SHARES

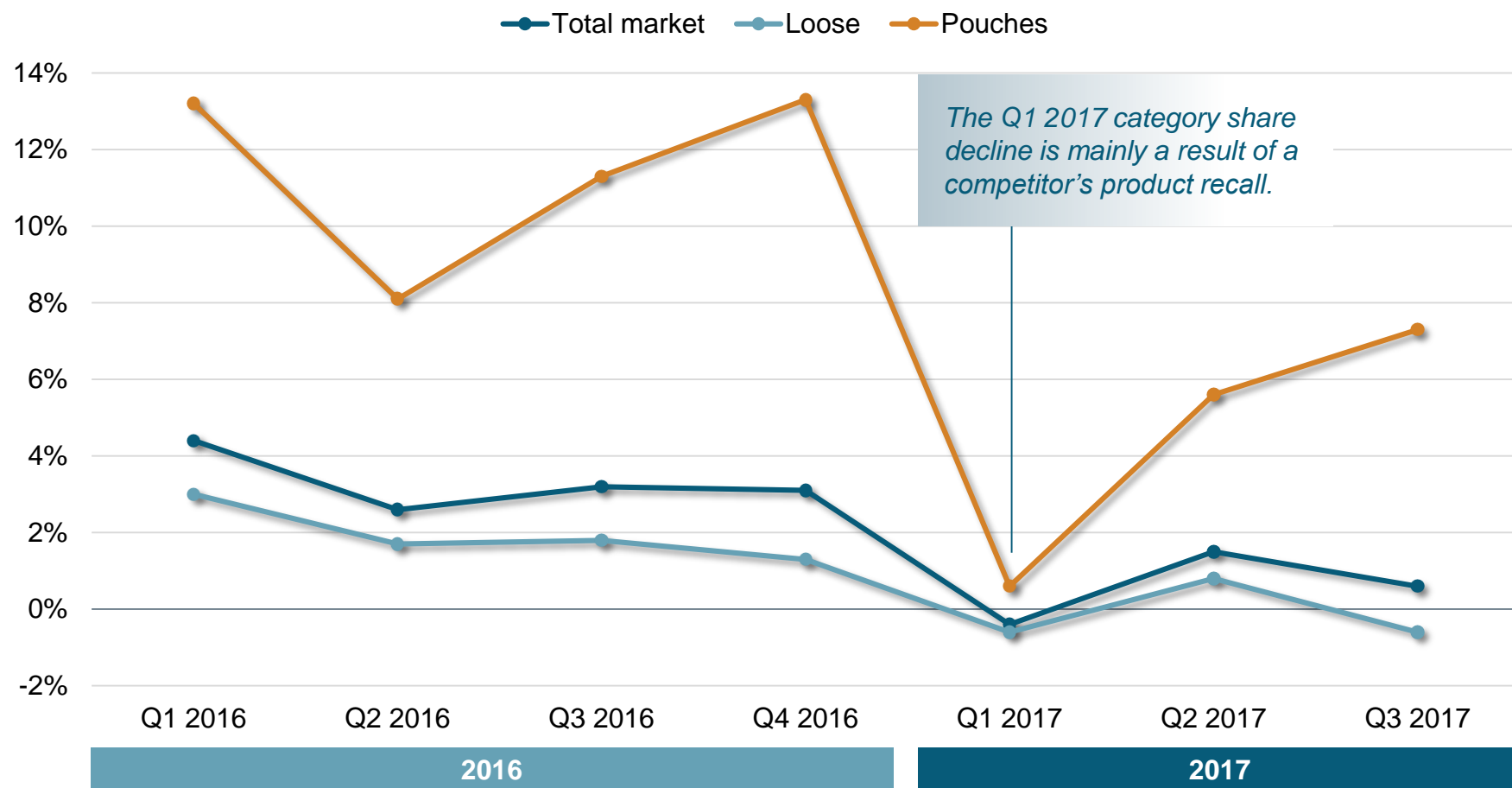
## Volume share development, 4-weeks isolated



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

# US – MOIST SNUFF MARKET GROWTH

## Volume growth rates year-on-year, total market and by segment

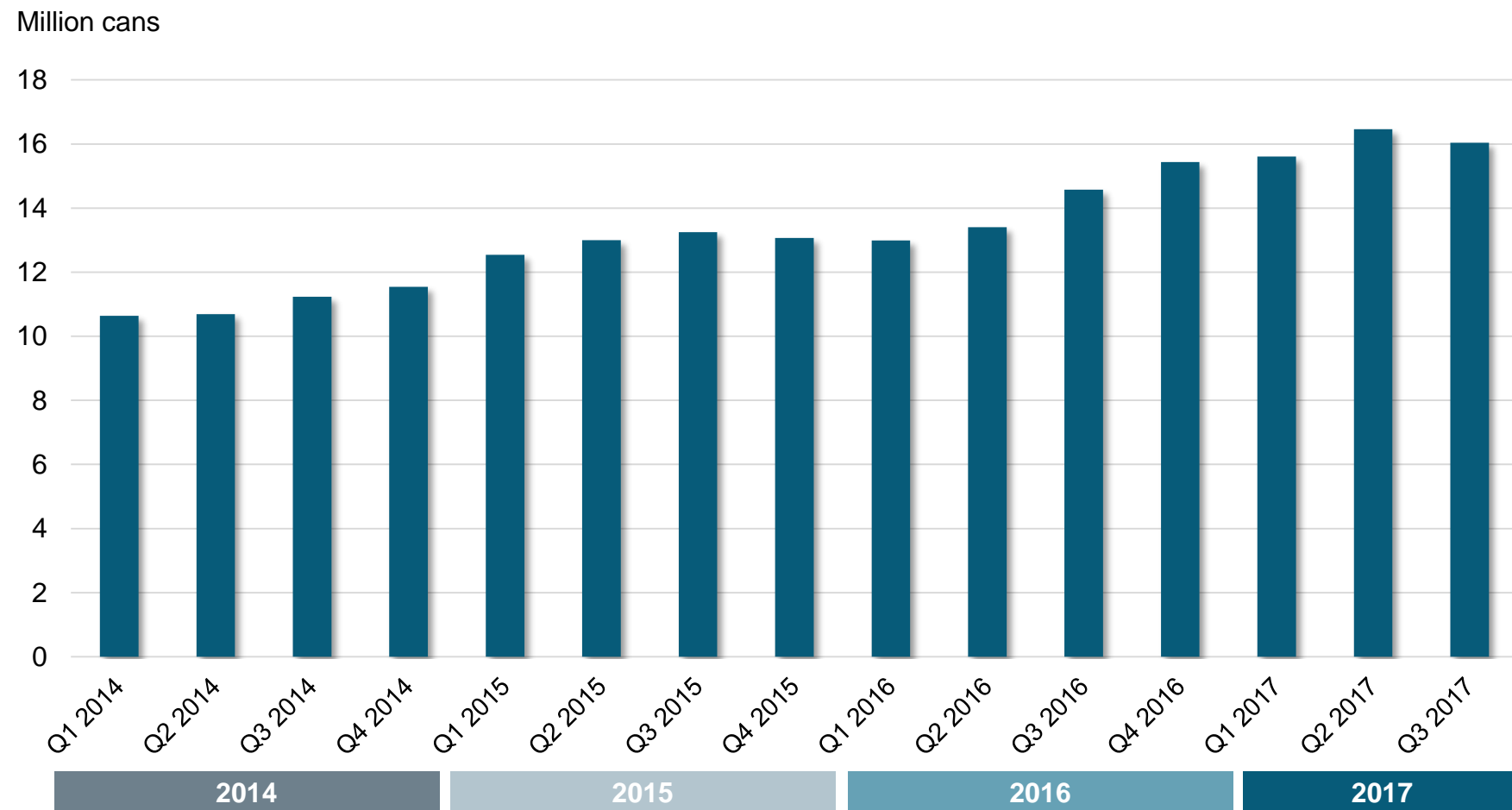


Source: CMPP



# US – SWEDISH MATCH MOIST SNUFF POUCH VOLUMES BY QUARTER

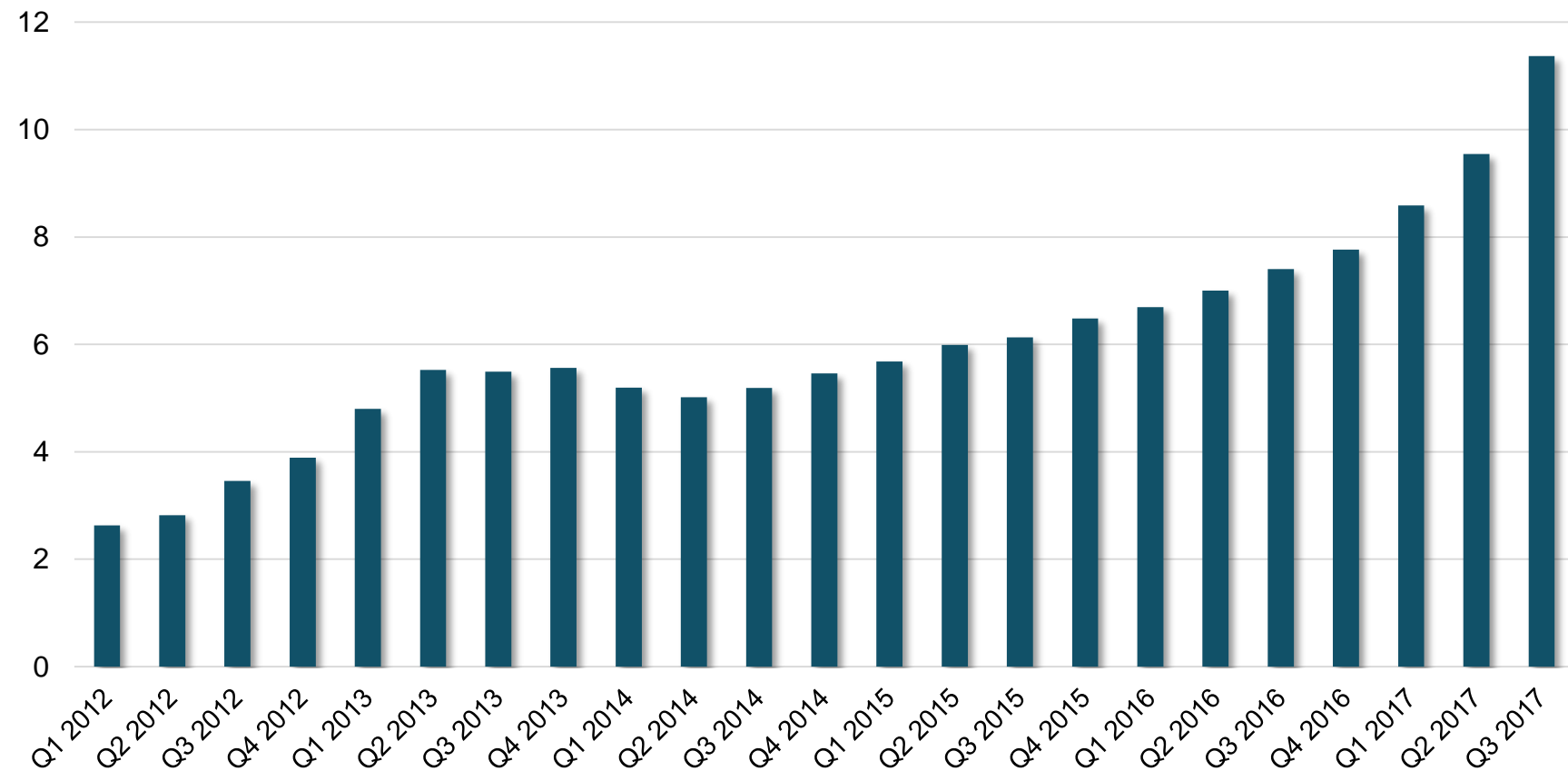
## Swedish Match's moist snuff pouch volumes by rolling four quarters



# 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.
    - This will require shipments of plain packaging products well before July 1.
  - Not applicable to e-cigarettes, chewing tobacco, cigars or pipe tobacco.
  - Swedish Match on July 7 filed for a temporary injunction, with ruling expected in October or early November.
- **Norway will require licensing of tobacco shops from January 1, 2018**
- **Challenge to EU snus ban before the ECJ with ruling expected in the first half of 2018 at the earliest**
- **Proposed excise taxes for Norway and Sweden from January 2018**
  - Norway from 1,030 to 1,050 NOK/kg, and Sweden tax increase “in line with inflation”.

# OTHER TOBACCO PRODUCTS (OTP): Q3 COMMENTARY

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

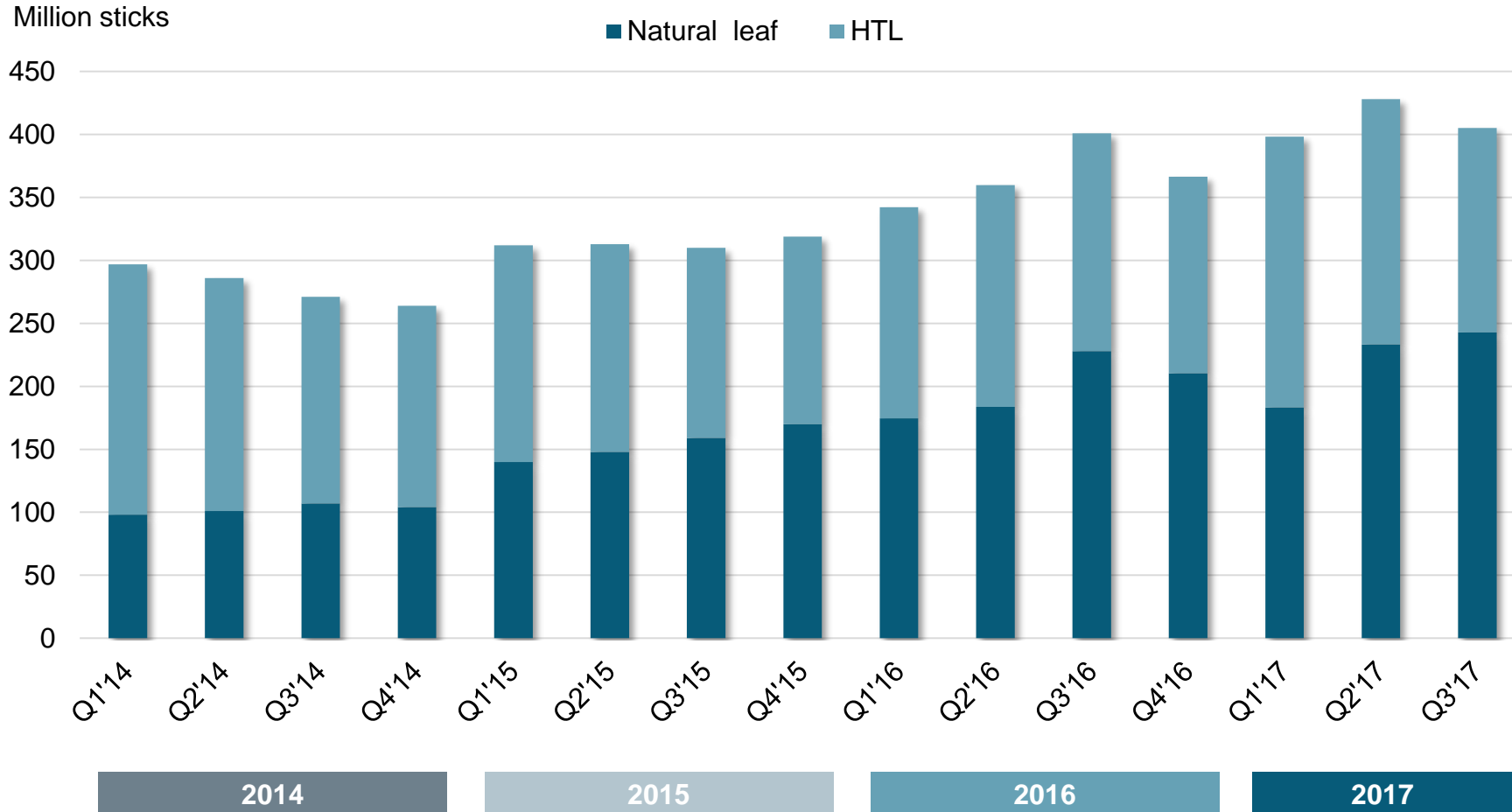
- **Mixed performance for cigars on difficult comparables**
  - Cigar volumes up 1% (challenging prior year comparison, and following strong Q2).
  - Operating profit declined in local currency, on product/production mix, FDA fees.
  - Some negative effects from weather-related disruptions.
- **Chewing tobacco in the US remained challenging, volumes down 6%**
  - Sales and profits down by less than the volume in percent.
- **Chew bags, now in several European countries**
  - June launch in Germany, following earlier launches in Denmark, Slovenia, Czech Republic.
  - Includes V2 (one month).



	Q3-2017	Q3-2016	chg	9m-2017	9m-2016	chg	Oct 2016- Sep 2017	Full year 2016	chg
Sales, MSEK	1,142	1,166	-2	3,514	3,192	10	4,606	4,283	8
Operating profit, MSEK	436	486	-10	1,359	1,310	4	1,754	1,705	3
Operating margin, %	38.2	41.6		38.7	41.1		38.1	39.8	

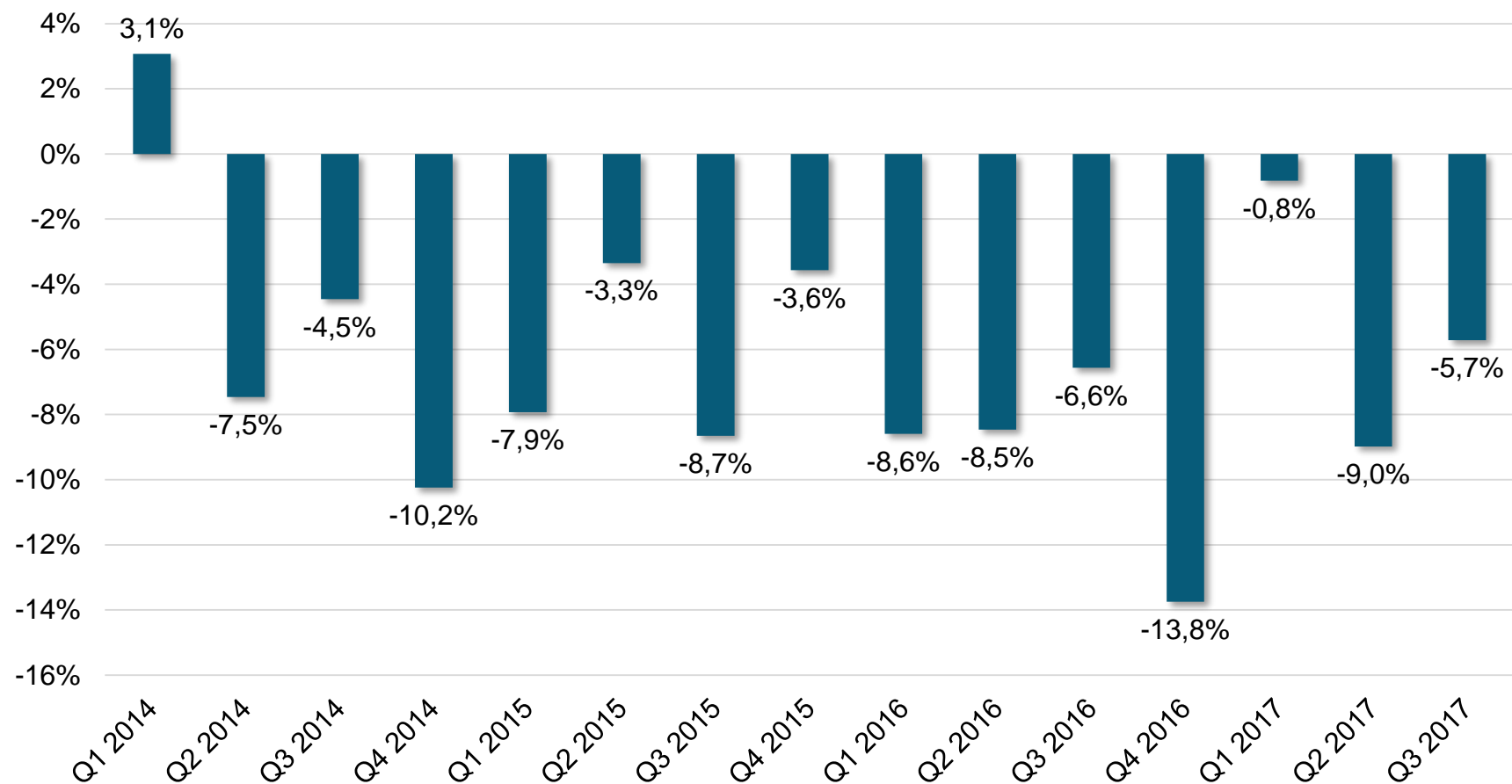
# US – SWEDISH MATCH'S CIGAR VOLUMES

## Mass market cigar shipments by quarter and format



# US – DEVELOPMENT OF SWEDISH MATCH CHEWING TOBACCO VOLUMES

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

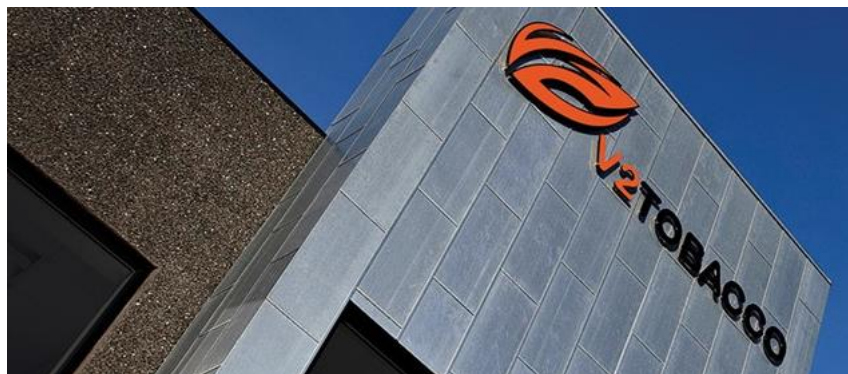


\* On reported basis. Excludes Co-Pack volumes.



- **FDA announces comprehensive regulatory plan for tobacco and nicotine regulation**
  - Extension announced for Substantial Equivalence (SE) reports and Premarket Tobacco Applications (PMTA).
    - Combustible products (excluding cigarettes) extended to August 8, 2021.
    - Non-combustible products (excluding moist snuff and chewing tobacco) extended to August 8, 2022.
    - Manufacturers will be permitted to continue to market products during FDA's review.
  - Intention to seek public input on the role that flavors in tobacco products play in attracting youth and may play in helping some smokers switch to potentially less harmful forms of nicotine delivery.
- **User fees from October 1, 2016 are approximately 2.5 MUSD per quarter for Swedish Match**
- **ECJ/Hartmann case**
  - On July 11, the Administrative Court of Bavaria decide to refer the Hartman case to the ECJ.
    - Questions refer to interpretation of TPD articles regarding the characteristics and definition of chewing tobacco.
    - Separate to this case, Danish government and Czech governments have determined that chew bags are chewing tobacco and therefore not covered under the snus ban.





**Modern and flexible production facilities in Silkeborg, Denmark**

**Annual turnover in the range of 160 MSEK, ~60 employees (FTE)**

**Solid growth in the modern chewing tobacco segment with chew bags**

**Active and growing in many markets**

**Main brands include *Thunder, Offroad, and Phantom***



## Sales and operating profit down on lower volumes

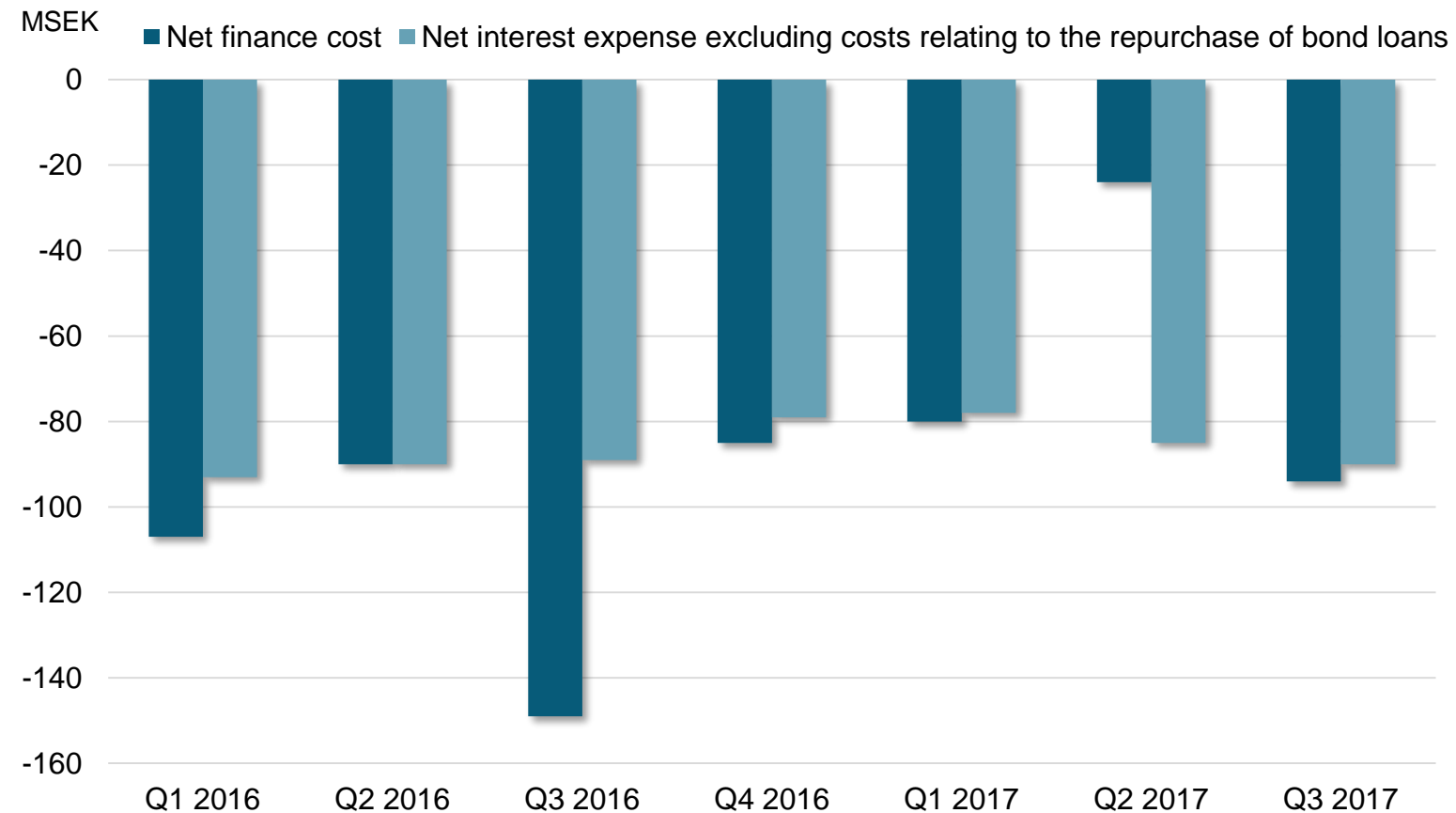
- **Sales declined by 11%, operating profit down 24%**
  - Volume declines for both matches (-16%) and lighters (-14%).
  - Improved pricing and product mix for matches.
  - Lighter sales negatively affected by product mix and trade inventory reductions.
- **Continued growth for complementary products in Brazil**
  - Growth in both sales and operating profit.
- **Operating margins in the third quarter were on par with the average of the first two quarters**



	Q3-2017	Q3-2016	chg	9m-2017	9m-2016	chg	Oct 2016- Sep 2017	Full year 2016	chg
Sales, MSEK	308	346	-11	950	967	-2	1,297	1,314	-1
Operating profit, MSEK	46	61	-24	143	157	-9	206	219	-6
Operating margin, %	15.1	17.6		15.1	16.2		15.9	16.7	

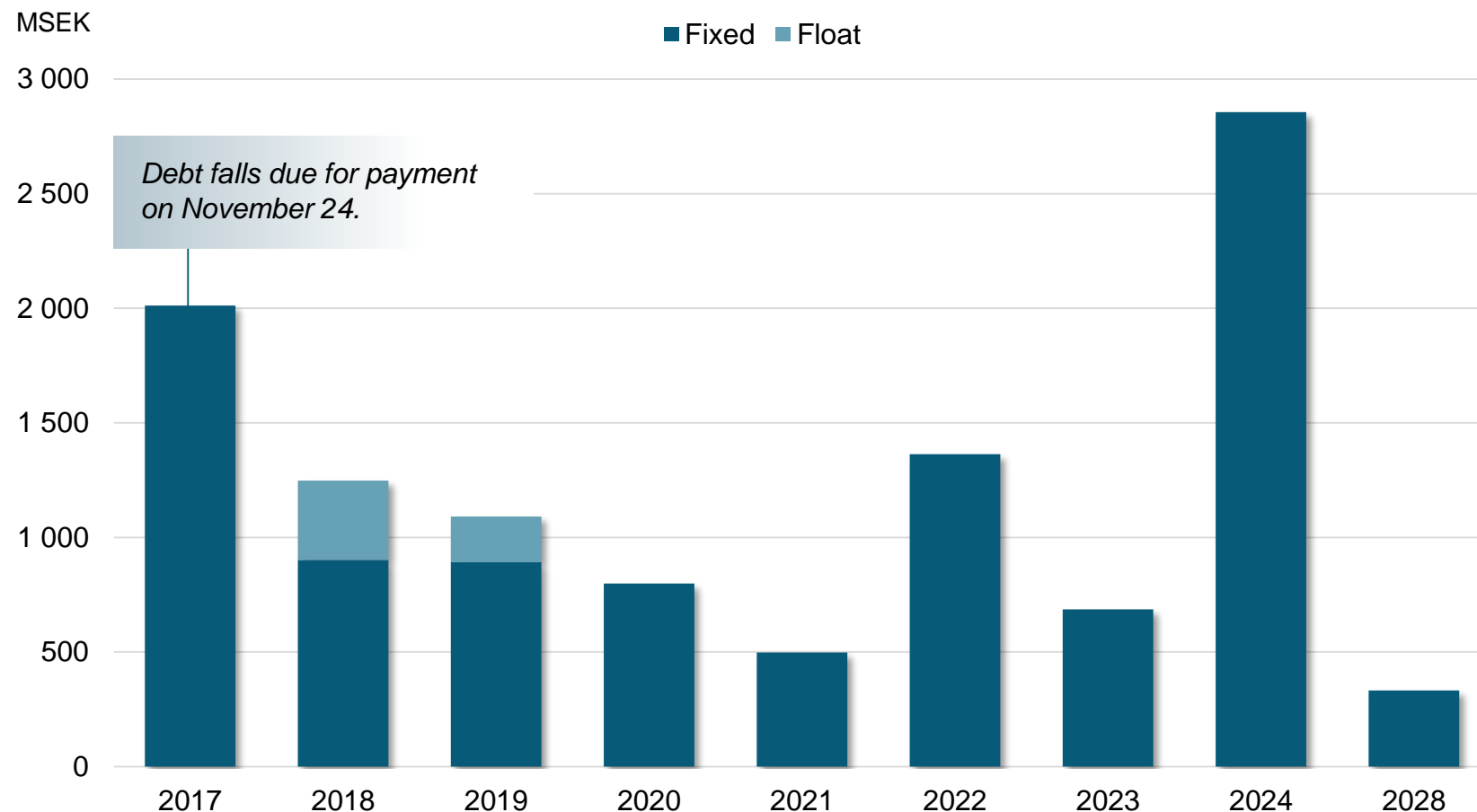
# DEVELOPMENT OF THE FINANCE NET

## Net finance cost by quarter



# MATURITY PROFILE OF INTEREST BEARING LIABILITIES

## Debt as of September 30, 2017



## OUTLOOK STATEMENT

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 of the potential impact for the Company.

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