

Nasdaq Stockholm: SWMA

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Swedish Match announces planned separation of its cigar business

Swedish Match today announced that it intends to separate its cigar business via a spin-off to shareholders and to completely exit the manufacturing of combustible tobacco products. Swedish Match has initiated preparations for a separation and a subsequent listing on a major US securities exchange, with a final decision on execution subject to various considerations. The separation is expected to be completed during the second half of 2022, at the earliest.

For more than 20 years, Swedish Match has been a pioneer in the transformation of its business model away from combustible tobacco, starting with the divestiture of its cigarette business in 1999, and later with its divestitures of pipe tobacco, premium cigars, and its non-US machine made cigar business. After conducting a thorough strategic review of its businesses, today's announcement of the planned separation of the US cigar business marks the next chapter in this transformation, where smokefree products such as nicotine pouches and snus will play the leading role in building a stronger Swedish Match in line with societal trends. The intended separation of the cigar business provides even greater focus on building Swedish Match's presence in the growing modern oral category, while also providing opportunities and greater flexibility for the stand-alone cigar business to execute its own strategic plans toward delivering strong value as an independent company. As a stand-alone company, the cigar business will be able to explore a broader scope of growth opportunities, and to optimize its operational set-up and capital structure, among other benefits.

The cigar business has solid positions in both the natural leaf and homogenized tobacco leaf (HTL) segments of the US mass market cigars category and holds the number two market position with approximately 23 percent of the market measured by number of sticks¹. Since 2015, volumes have grown at a compounded annual rate of close to 10 percent from more than 1.2 billion sticks to more than 1.9 billion sticks in 2020, driven by robust growth for natural leaf varieties. During the same period, revenues have also grown by close to 10 percent on a compounded annual basis from 313 to 493 MUSD, while operating profit has grown by 54 percent to 195 MUSD. During the first six months of 2021, compared to the same period of 2020 and measured in local currency, sales grew by 25 percent as a result of improved pricing and double-digit volume growth and operating profit increased by 44 percent.

The natural leaf cigar portfolio includes such iconic brands as *Garcia y Vega*, *Game*, and *1882*, while its *White Owl* brand of HTL cigars is recognized nationwide for its quality and heritage. Its portfolios of both non-flavored

¹ Based on MSA distributor shipments of mass market cigars (excluding little cigars).

and flavored cigars are among the broadest in the industry. The business has efficient and modern manufacturing presence in both the US and in the Dominican Republic.

In addition to its cigar business Swedish Match operates its Smokefree and Lights product segments. For the full year 2020, the Smokefree and Lights product segments reported combined revenues of 11,799 MSEK (10,115) and combined operating profit of 5,364 MSEK (4,235). Measured in constant currencies, sales and operating profit for these segments combined grew by 21 and 32 percent respectively for the full year 2020. For the first six months of 2021, these segments combined reported revenues of 6,404 MSEK (5,787) and operating profit of 3,062 MSEK (2,574). Measured in constant currencies, sales and operating profit for these segments combined grew by 20 and 30 percent, respectively, during the six-month period. Growth continued to be driven by the strong momentum for nicotine pouches. In the US, the ZYN brand of nicotine pouches is the clear market leader and has enjoyed tremendous growth, with volumes exceeding 140 million cans for the twelve-month period ending June 30, 2021.

Lars Dahlgren, President and CEO of Swedish Match says: “This announcement is another milestone toward achievement of our aspiration to become an entirely smokefree organization with a clear leadership position in oral reduced risk products, including ZYN, the largest modern oral brand in the US and globally. The cigar business continues to perform very well and is seeing positive industry dynamics, which we believe will make it an attractive stand-alone company, balancing strong cash flow generation with attractive growth. The new cigar company will have the ability to explore a wider scope of growth opportunities within its autonomous and focused strategic agenda and to establish efficient and tailored operational and legal structures, geared for long-term value creation. Subject to market conditions, we expect that the new stand-alone cigar business, with its strong cash flow profile, could be capitalized at a higher level of leverage than has been the case for Swedish Match historically, which would create the opportunity for Swedish Match to use financing proceeds upon separation to further enhance shareholder returns. Until a separation is complete, Swedish Match will continue to operate as a single company and will continue business as usual for our customers and employees.”

Swedish Match expects to conclude the intended separation in the second half of 2022, at the earliest. Following the potential separation of the cigar business into a new stand-alone company, Swedish Match expects to provide commercial and administrative support to the new stand-alone entity during a transitional period. The completion of the intended separation, the resulting structures, and other related considerations are subject to final board and shareholder approvals, a thorough review of market and other business conditions, required documentation, and other customary and necessary approvals and consultations.

Goldman Sachs is acting as exclusive financial advisor to Swedish Match on the intended spin-off of its cigar business.

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Swedish Match develops, manufactures, and sells quality products with market-leading brands in the product segments Smokefree, Cigars, and Lights. Production is located in seven countries, with sales concentrated in the US and Scandinavia. The Group's global operations generated sales of 17,496 MSEK for the twelve month period ending June 30, 2021. The Swedish Match share is listed on Nasdaq Stockholm (SWMA).

Swedish Match's vision is a world without cigarettes. Some of its well-known brands include: *General, ZYN, Longhorn, Game, Red Man, Fiat Lux, and Cricket.*

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