

# SWEDISH MATCH RESULTS PRESENTATION

Q1 2018



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## Q1 – HEADLINE BULLETS

- In local currencies, sales increased by 10 percent for the first quarter.
  - Reported sales increased by 4 percent to 2,941 MSEK (2,833).
- In local currencies, operating profit from product segments<sup>1)</sup> increased by 11 percent for the first quarter.
  - Reported operating profit from product segments increased by 6 percent to 1,079 MSEK (1,021).
- Operating profit<sup>2)</sup> amounted to 1,047 MSEK (1,235) for the first quarter. The first quarter 2017 included larger one-time items of 238 MSEK relating to capital gains from the sale of STG shares and from the sale of a parcel of land.
- Profit after tax amounted to 766 MSEK (932) for the first quarter.
- Earnings per share amounted to 4.36 SEK (5.07) for the first quarter. Adjusted earnings per share<sup>3)</sup> increased by 15 percent to 4.36 SEK (3.78).
- Implemented IFRS 15 effective January 1<sup>st</sup>. Changes to reported sales and reportable segments reflected in the interim report.

1) Operating profit for Swedish Match product segments, which excludes Other operations and larger one-time items.

2) Operating profit for the Group, which includes Other operations and larger one-time items.

3) Earnings per share adjusted to exclude income from Scandinavian Tobacco Group (STG) and larger one-time items.



## HIGHLIGHTS IN THE QUARTER

- **Sales were higher in local currencies, led by the OTP and Snus & moist snuff product segments**
  - Scandinavian snus volumes up by 9% (7% excluding V2), underlying organic volumes up by more than 2%.
    - Shipment volumes benefitted from calendar effects; average pricing up in both Sweden and Norway.
  - Sales essentially flat in local currencies for US moist snuff, up for international snus/ZYN.
  - Other tobacco products (OTP) sales growth driven by US cigars and the V2 acquisition (acquired August 31, 2017).
    - US chewing tobacco sales marginally down in local currencies.
  - Lower sales for Lights, most notably from lighters, on lower volumes.
- **Operating profits were up in local currencies for the product segments Snus & moist snuff and OTP, but down for Lights**
  - Improved result in Scandinavia on an underlying basis on higher gross profit and lower operating expenses.
  - US moist snuff operating profit marginally up in local currencies.
  - Significantly improved operating result from international snus/ZYN outside Scandinavia; -3 MSEK (-42).
    - Continued strong volume growth for ZYN in the US, and growth also for snus in the US; improved pricing.
    - ZYN capacity project: Construction in the US according to plan (capital expenditures to exceed 60 MUSD).
    - Result from international snus/ZYN expected to be negative for the full year, but noticeably improved from 2017.
  - OTP operating profit up in local currencies for cigars, US chewing tobacco, and acquired V2 business.
  - Lights burdened by poor volume developments and restructuring costs.

# SNUS AND MOIST SNUFF: Q1 COMMENTARY

## Growth in both sales and operating profit

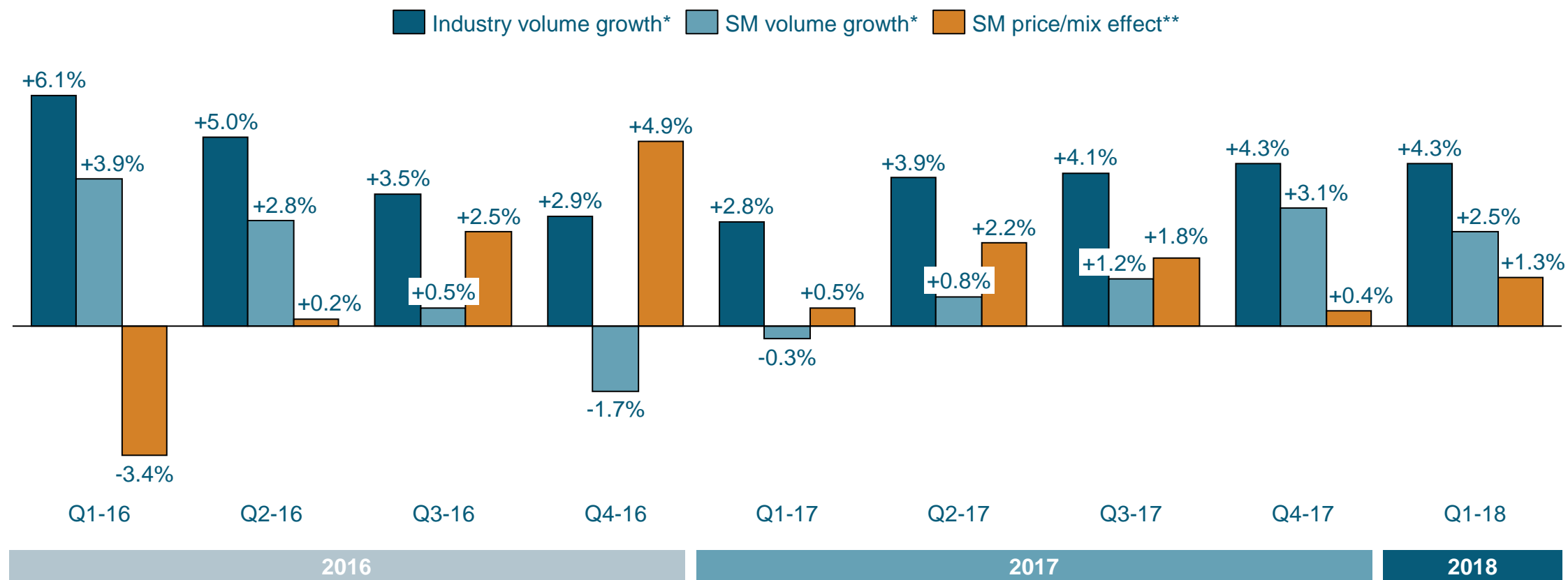
- **Underlying organic Scandinavian volumes estimated to be up by more than 2%**
  - Volumes up in both Sweden and Norway, positive impact from calendar effects.
  - Market growth estimated to be slightly higher than 4%.
  - Market share in Norway stable year on year; market share decline in Sweden.
- **Scandinavia sales and operating profit up**
  - Average selling prices somewhat higher than prior year with price increases being offset by negative mix effects and negative currency effects.
  - Lower operating expenses due in part to phasing of marketing and trade activities.
- **US moist snuff volumes down slightly, pouch growth partially offsetting loose declines**
  - Slight improvement in average sales per can equivalent.
  - Operating profit up in local currency, aided by lower marketing spending.
- **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.
  - Volume growth for ZYN in the US on increased velocity and store expansion (10,000 stores).
  - Lower marketing spend for snus, partially offset by higher marketing spend for ZYN.



	Q1-2018	Q1-2017	chg	April 2017-March 2018	Full year 2017	chg
Sales, MSEK	1,386	1,296	7	5,574	5,484	2
Operating profit, MSEK	623	534	17	2,447	2,358	4
Operating margin, %	45.0	41.2		43.9	43.0	

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

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

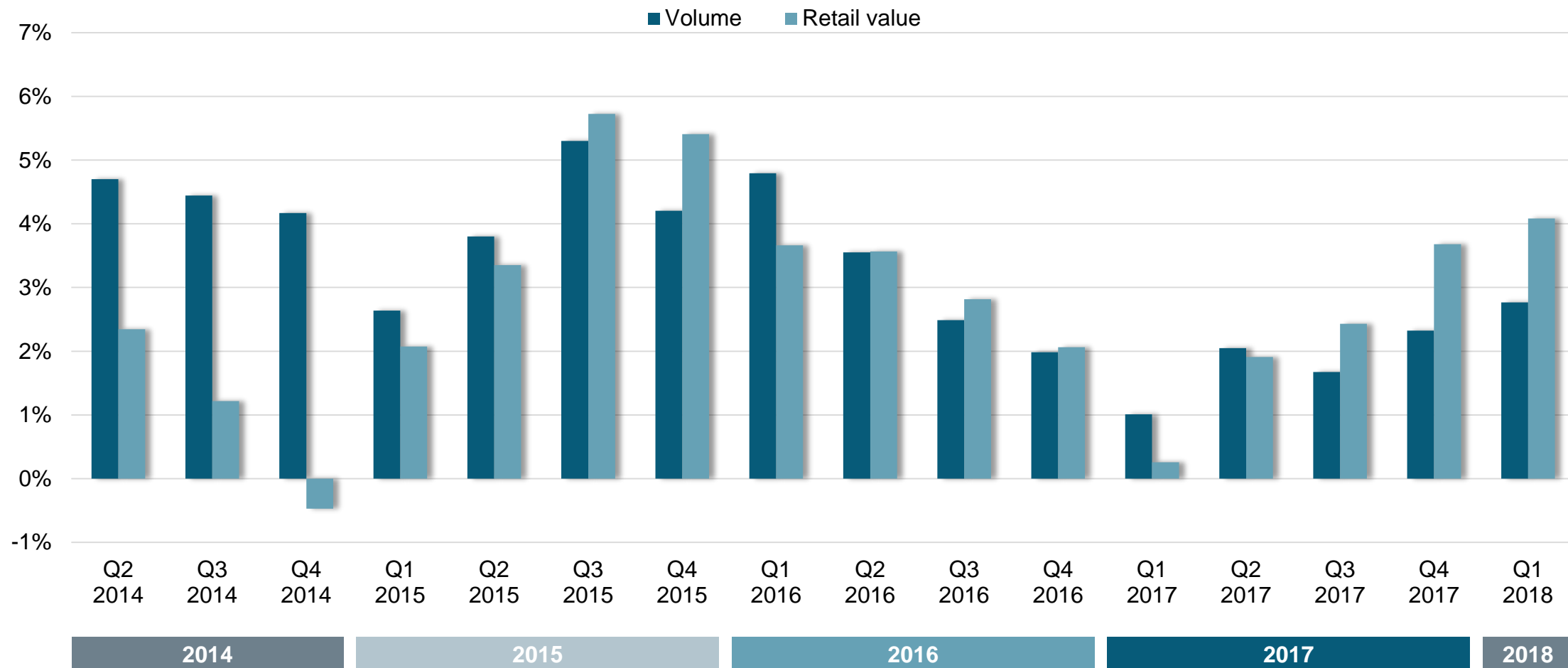


\* Based on Nielsen and Swedish Match estimates (adjusted for hoarding).

\*\* Not adjusted for currency effects.

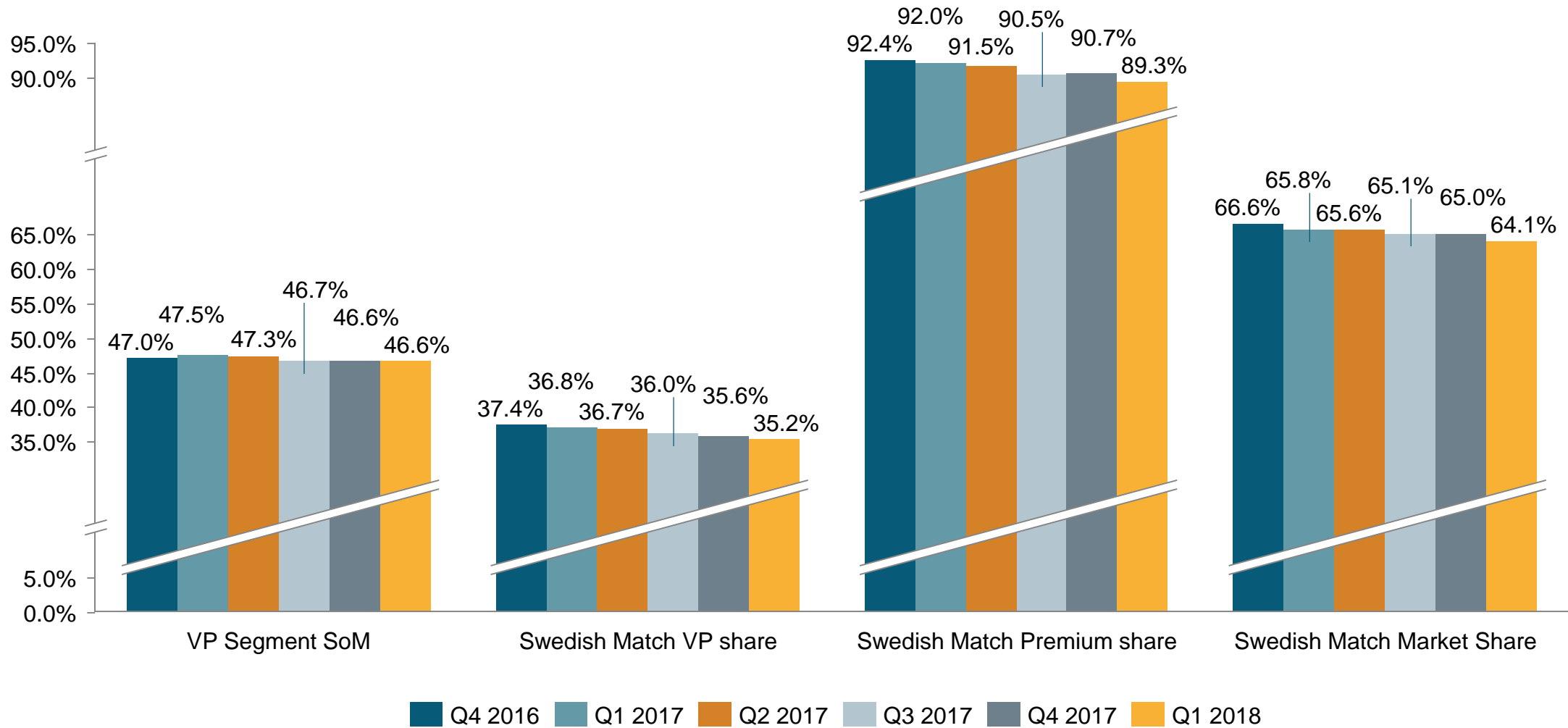
# SWEDEN – CATEGORY DEVELOPMENT

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



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

# SWEDEN – MARKET SHARE DYNAMICS – VOLUME SHARES

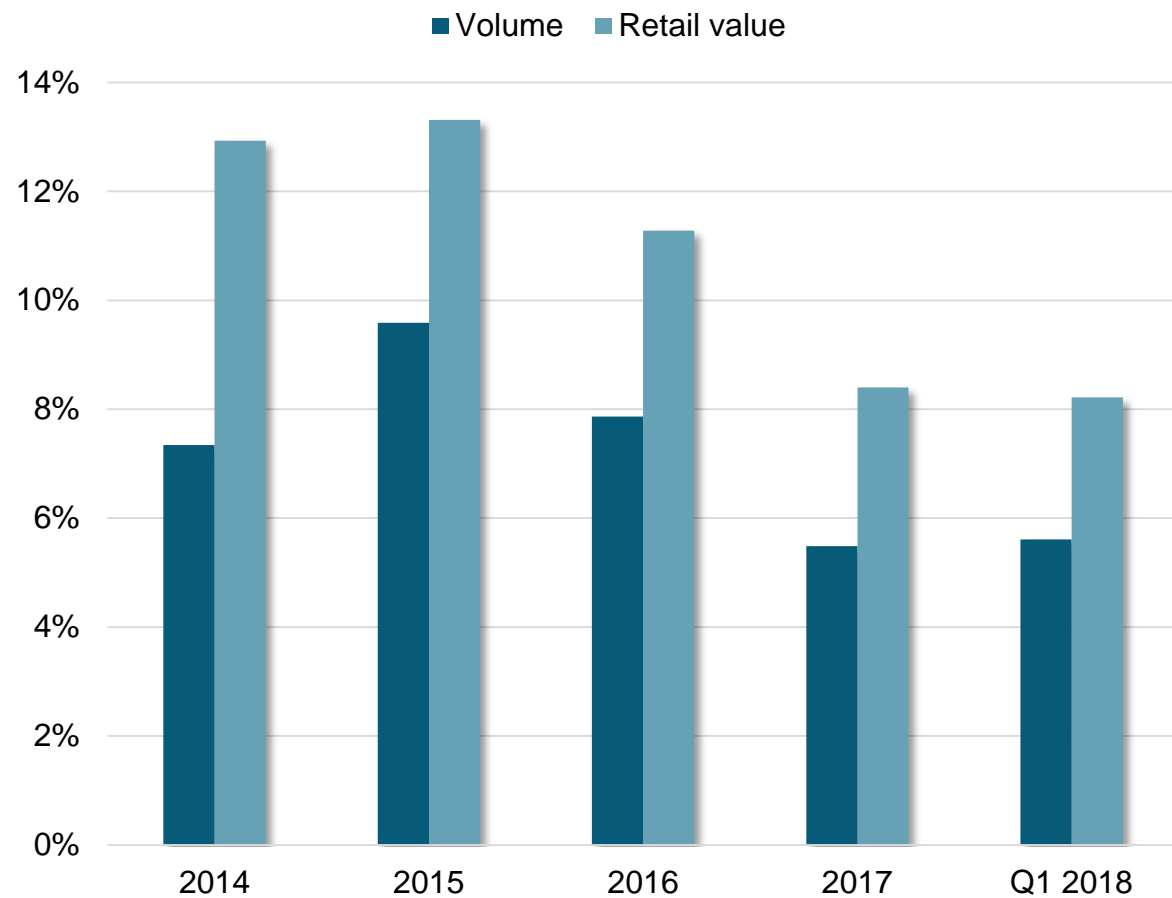


Source: Nielsen, DVH+SVH excl. tobaccoists (including nicotine free).



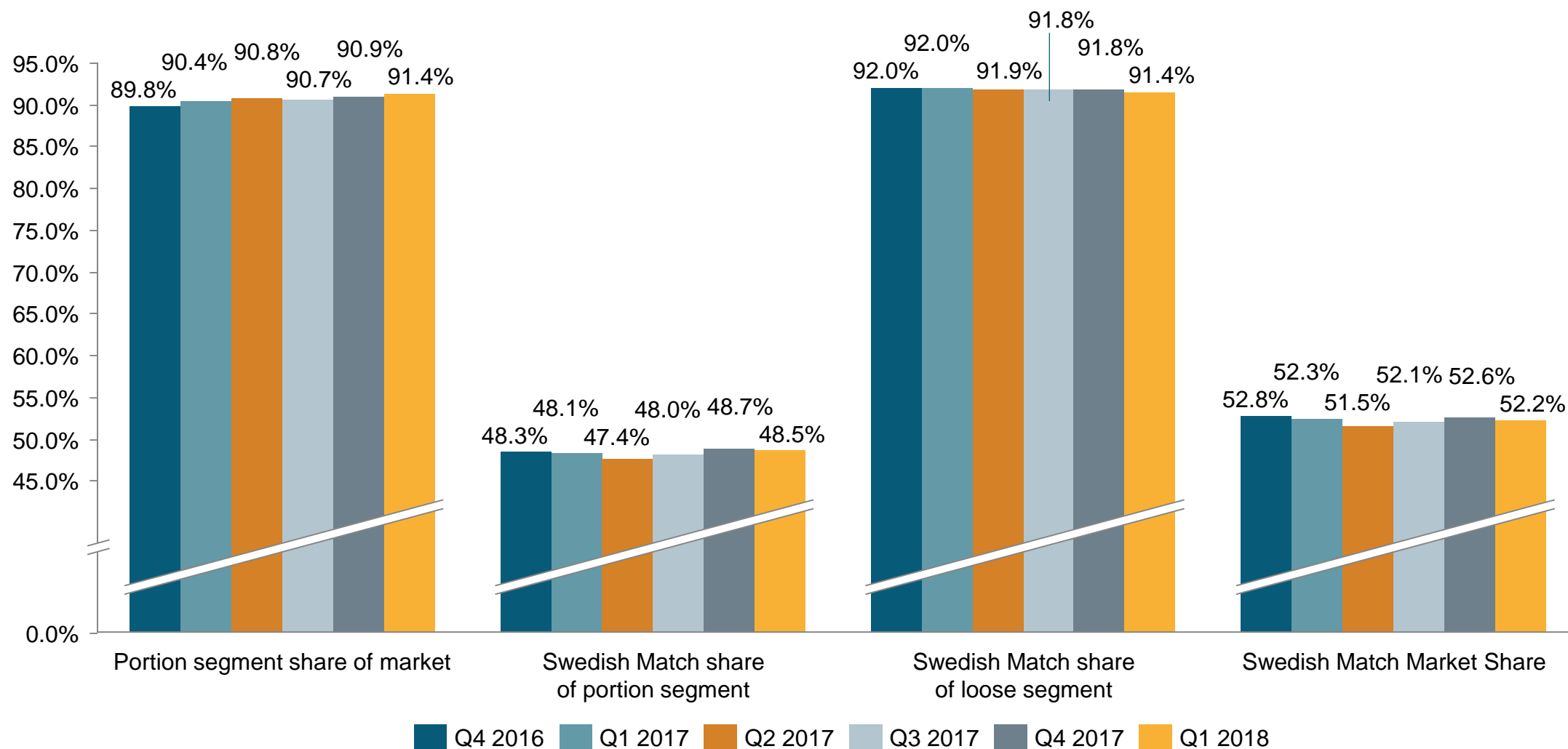
# NORWAY – CATEGORY DEVELOPMENT

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



Source: Nielsen, DVH+KBS.

# NORWAY – MARKET SHARE DYNAMICS – VOLUME SHARES



Source: Nielsen, DVH+KBS.

# SCANDINAVIAN NEW PRODUCT ACTIVITY

## Sweden

- ZYN Slim - three new additions to the ZYN portfolio, in full distribution early May.
- Limited editions: *Small Batch #2* in February and *Small Batch #3* in April.
- *General Kardus Spring 2018* in February (Swedish Match stores and e-com).



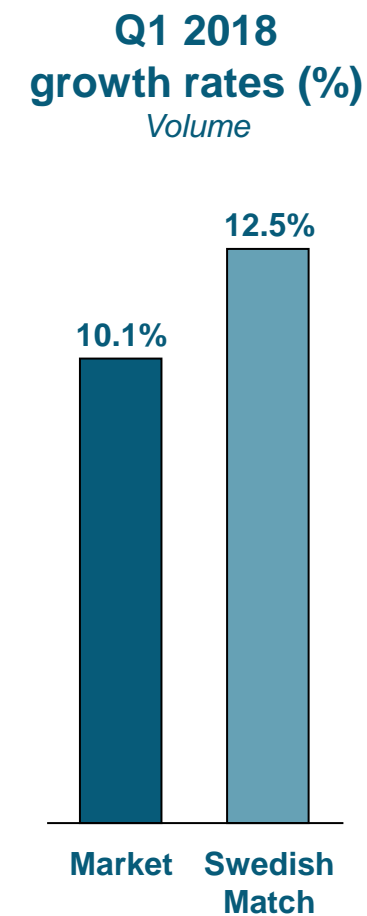
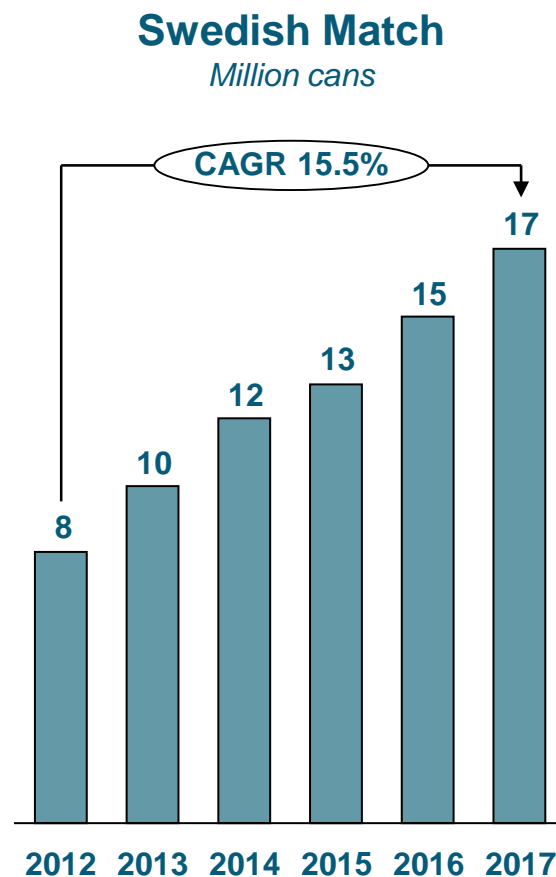
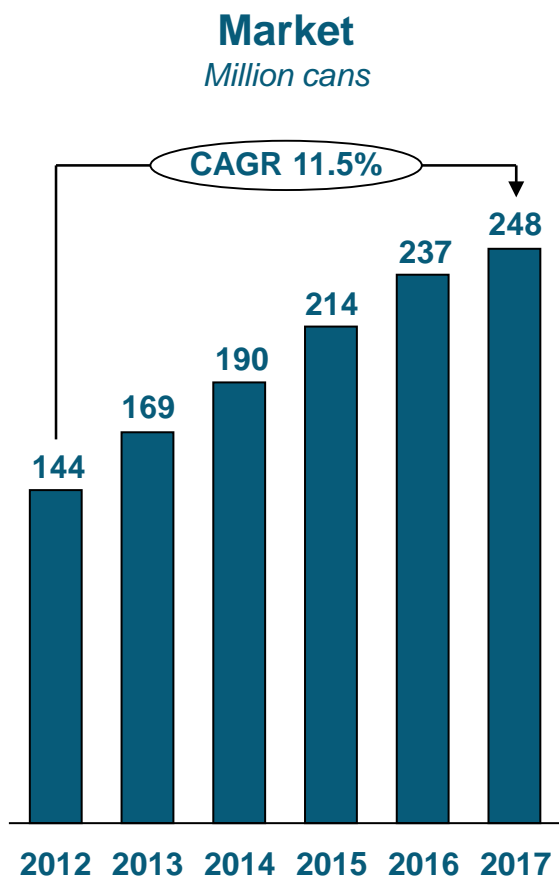
## Norway

- *G.3 Load Super Strong* in stores from early March. First product in plain packaging.
- *G.4 Fu:zn*, limited sales during summer 2017 in Oslo, available in stores from February.



# US – MOIST SNUFF POUCHES

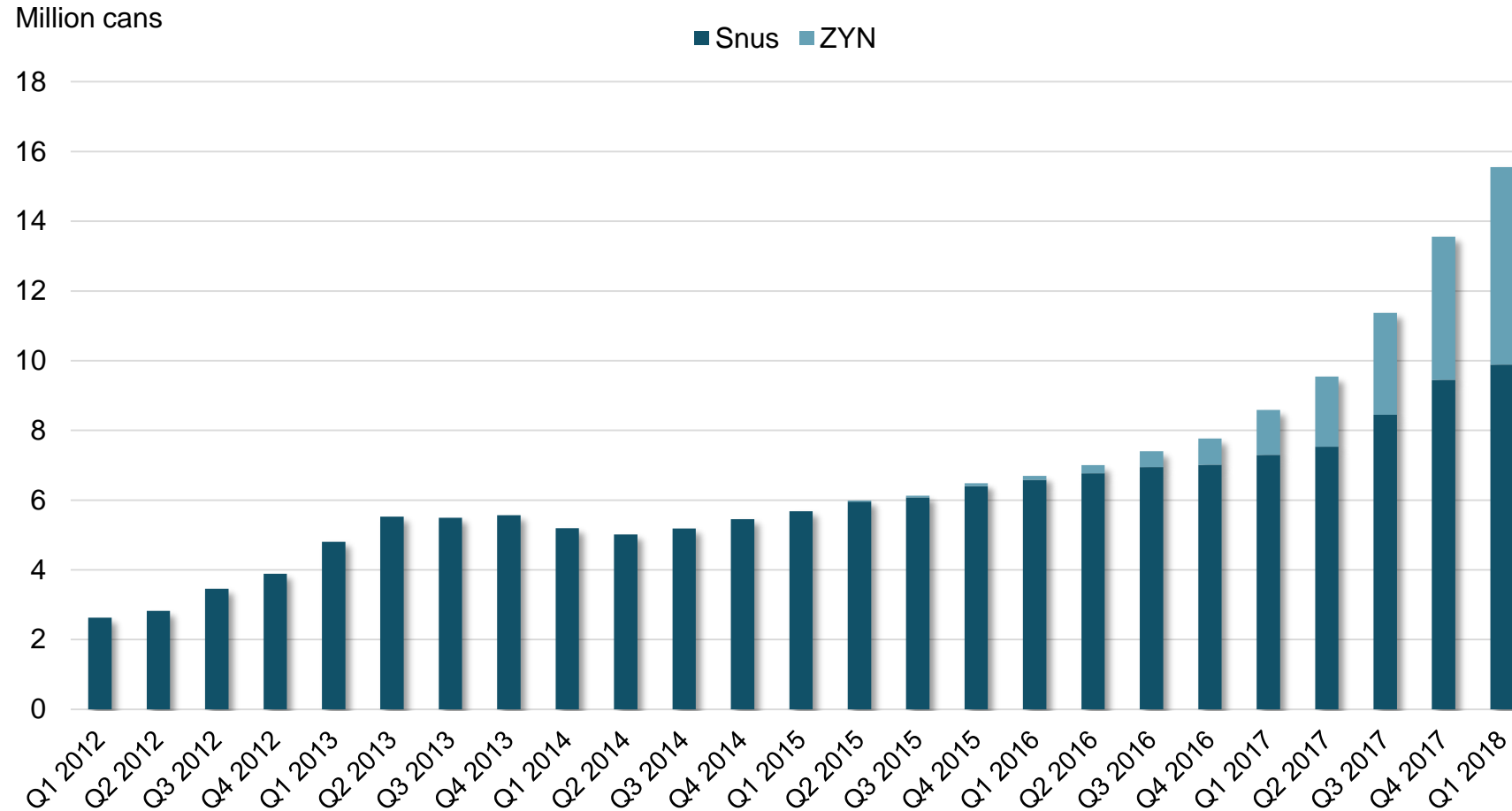
## Swedish Match's pouch volumes have outperformed the category



Source: RAI and Altria quarterly reports, Swedish Match direct sales, and CMPP.

# SNUS AND NICOTINE POUCH VOLUMES OUTSIDE SCANDINAVIA

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



# OTHER TOBACCO PRODUCTS (OTP): Q1 COMMENTARY

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

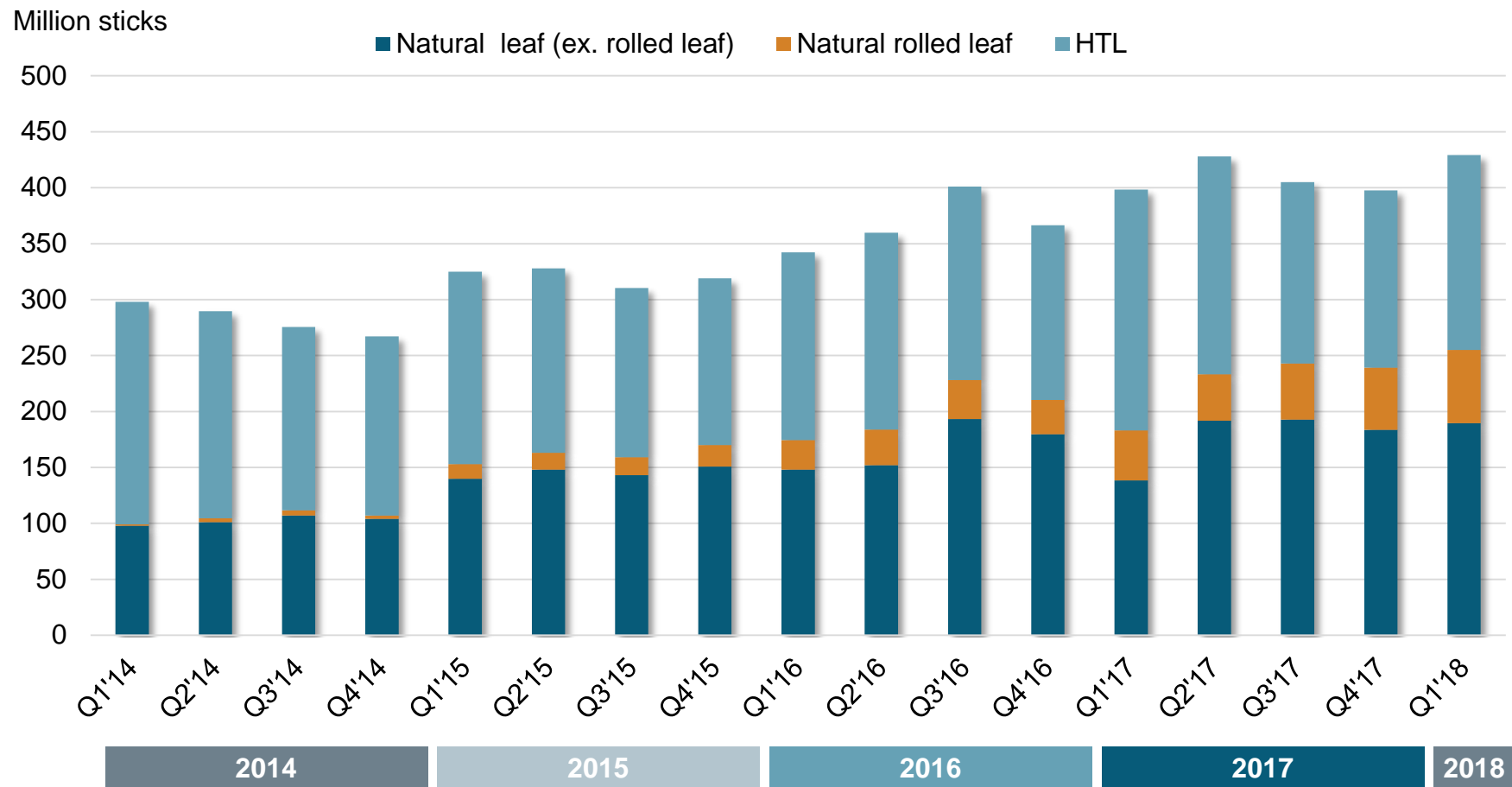
- In local currencies, sales up by 16% and operating profit up by 9%
- Higher volumes, sales and operating profit for US cigars in USD
  - Cigar volumes grew by 8%, (11% in constant trading days) driven by growth for natural leaf cigars (particularly rolled leaf). HTL volumes down from an unusually strong Q1 2017.
  - Mix effects favorably impacted sales but had a negative effect on the operating margin.
  - Operating profit also impacted by FDA related packaging costs.
- Sales for US chewing tobacco down slightly in local currency
  - Shipment volumes for premium varieties declined, while they grew for value brands.
  - Price increases partially offset by negative mix effects.
  - The market volume development for Swedish Match outperformed the overall category.
  - Slight improvement in operating profit in local currency.
- Chew bags contributed positively to both sales and operating profit
  - Includes V2 (acquired on August 31, 2017).
  - Continued volume growth in niche chew bag segment in Europe.



	Q1-2018	Q1-2017	chg	April 2017-March 2018	Full year 2017	chg
Sales, MSEK	1,190	1,120	6	4,704	4,634	2
Operating profit, MSEK	425	427	0	1,774	1,776	0
Operating margin, %	35.7	38.1		37.7	38.3	

# US – SWEDISH MATCH'S CIGAR VOLUMES

## Mass market cigar shipments by quarter and format



1882 brand launched in 2014, Game rolled leaf brand launched in 2015.

## Lower volumes, restructuring costs hurt performance

- **Lower sales, primarily due to weak lighter volumes**
  - Lighter volumes down 23%, match volumes down 11%.
  - Lighter volumes down most notably in Russia and Asia (partly due to temporary factors).
  - Sales for matches and complementary products down, primarily from currency effects (mainly BRL weakness).
- **Operating profit down on lower sales and volumes, restructuring costs**
  - Higher prices and positive mix were not enough to offset the negative impacts of lower volumes and currency effects.
  - Higher costs including restructuring costs in Brazil amounted to approximately 12 MSEK.
- **Operating margin down (partly of a temporary nature due to restructuring impacts)**



	Q1-2018	Q1-2017	chg	April 2017-March 2018	Full year 2017	chg
Sales, MSEK	285	340	-16	1,236	1,291	-4
Operating profit, MSEK	31	60	-49	182	211	-14
Operating margin, %	10.9	17.7		14.7	16.4	

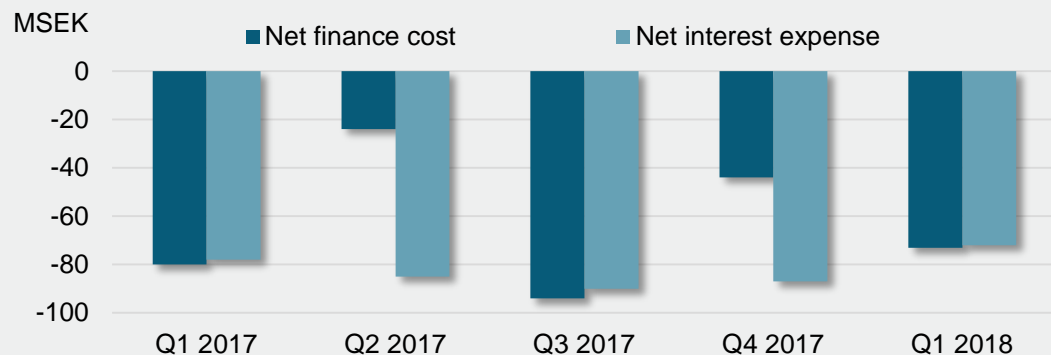


- **Advocate General recommendation published April 12, does not recommend the ECJ to declare the snus ban invalid**
- **A proposal for a new tobacco law was put forward to the parliament on March 9, voting expected in May**
  - Smoking ban in restaurants and certain public places (including e-cigarettes).
  - Prohibition of all marketing of tobacco products at point of sale (e-cigarettes exempted). Display of products and price lists allowed.
  - Self-service ban for all tobacco products (e-cigarettes exempted).
  - Online stores; marketing prohibition. No pictures of product. Only price lists allowed.
  - A can of snus must not carry less than 20 pouches.
  - Nicotine containing products not included in proposal.
  - Licensing requirements for retailers.
- **Norway – plain packaging**
  - Effective July 1, 2017 for all new products launched after that date and for all other products from July 1, 2018.
  - Swedish Match request for preliminary injunction rejected by court of first instance in November 2017. Swedish Match lost the suspension proceedings in second instance in February 2018.
- **New warning labels for cigars in the US applicable from August 10, 2018**
- **FDA issued ANPRMs on nicotine content in cigarettes, flavors in tobacco products, and regulation of premium cigars**

# FINANCE NET AND EPS

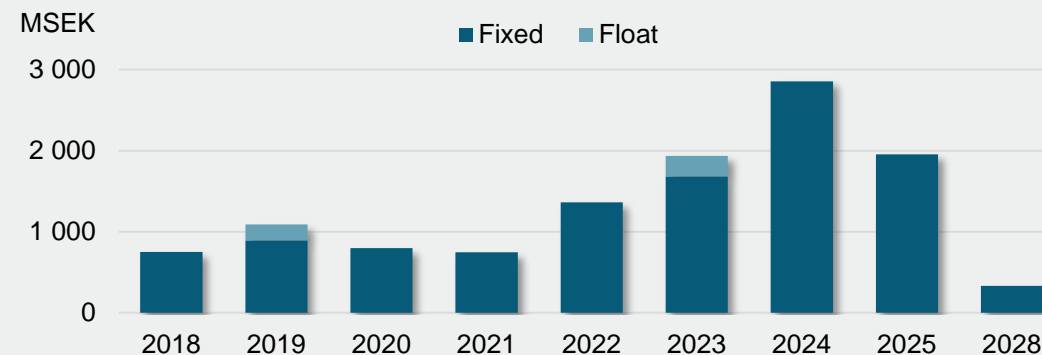
## Development of the finance net

By quarter



## Maturity profile of interest bearing liabilities

Debt as of March 31, 2018



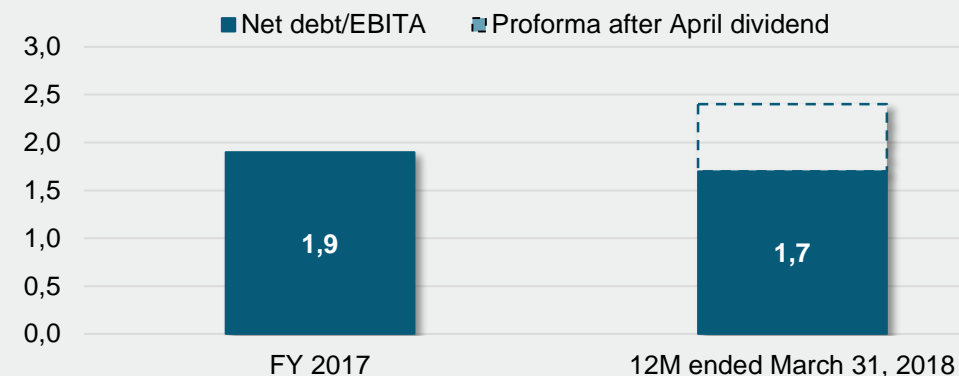
## EPS bridge

Q1 2018 vs Q1 2017 (SEK)



## Net debt/EBITA

By quarter



## OUTLOOK STATEMENT

Swedish Match expects that the trend of increased interest from consumers, industry players and regulators in less harmful alternatives to cigarettes will continue. Swedish Match takes pride in paving the way with its vision of a world without cigarettes. By providing products that are recognized as safer alternatives to cigarettes, our ambition is to create value for both shareholders and the society.

For 2018, on a full year basis, Swedish Match expects the Scandinavian snus market to continue to grow and to remain highly competitive. In the US moist snuff market, we expect continued good growth for pouches. Swedish Match also expects the US snus/nicotine pouch market to grow. For US chewing tobacco we expect continued market declines, while for chew bags in Europe we expect continued market growth.

We will continue to invest in growth for snus and nicotine pouches outside Scandinavia. We will also increase the availability of nicotine pouches to Swedish consumers and explore new market opportunities for chew bags. The operating loss for snus and nicotine pouches outside Scandinavia is expected to be noticeably lower in 2018 than in 2017. The decision to invest in ZYN production capacity in the US will predominantly affect capital expenditures in 2018.

For the full year, Swedish Match expects continued growth in the US cigar market. Swedish Match expects the US cigar market to remain highly competitive.

The effective corporate tax rate in 2018, excluding associated companies and any non-taxable larger one-time items, is expected to be around 21.5 percent (23.8). The expected reduction in tax rate is a consequence of the US corporate income tax reform effective January 1, 2018.

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