



**SCANDINAVIAN TOBACCO GROUP**  
INVESTOR PRESENTATION

31 August 2016



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## Q2 AND H1 2016 - HIGHLIGHTS



**Stable overall performance...**



**...despite TPD impact**



**Continued strong performance in handmade cigars**



**Cost focus remain high on the agenda**



**Outlook maintained**



## FINANCIAL HIGHLIGHTS H1 2016

KPI	2016 guidance	H1 2016 Actual performance
Adjusted Net sales	1-3% organic growth <sup>1</sup>	0.1%
Adjusted EBITDA	3-5% organic growth <sup>1</sup>	0.1%
Capital expenditures	around DKK 250m	DKK 148m

<sup>1</sup> Annual organic growth, i.e. excluding currencies, acquisitions and non-recurring items



# OPTIMISATION AND EFFICIENCY PROGRAMME - UPDATE

	A Supply Chain Cost Savings	B Working Capital Improvement																														
Description	<ul style="list-style-type: none"> <li>Simplification, Network optimisation, Material cost reduction, Lean transformation, Integrated planning</li> </ul>	<ul style="list-style-type: none"> <li>Primarily inventory reduction</li> </ul>																														
Target 2018 <sup>1)</sup>	DKK 140 million	DKK 500 million <sup>2)</sup>																														
Target 2016	~40% of 2018 target (run rate by year-end)	DKK 250 million <sup>2)</sup> (cumulative by year-end)																														
	<table border="1"> <caption>Supply Chain Cost Savings Performance</caption> <thead> <tr> <th>Year</th> <th>Year-end target (%)</th> <th>Actual (%)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>10%</td> <td>10%</td> </tr> <tr> <td>2016</td> <td>40%</td> <td>-</td> </tr> <tr> <td>2017</td> <td>70%</td> <td>-</td> </tr> <tr> <td>2018</td> <td>100%</td> <td>-</td> </tr> </tbody> </table>	Year	Year-end target (%)	Actual (%)	2015	10%	10%	2016	40%	-	2017	70%	-	2018	100%	-	<table border="1"> <caption>Working Capital Improvement Performance</caption> <thead> <tr> <th>Year</th> <th>Year-end target (DKK million)</th> <th>Actual (DKK million)</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>-</td> <td>100</td> </tr> <tr> <td>2016</td> <td>250</td> <td>225</td> </tr> <tr> <td>2017</td> <td>400</td> <td>-</td> </tr> <tr> <td>2018</td> <td>500</td> <td>-</td> </tr> </tbody> </table>	Year	Year-end target (DKK million)	Actual (DKK million)	2015	-	100	2016	250	225	2017	400	-	2018	500	-
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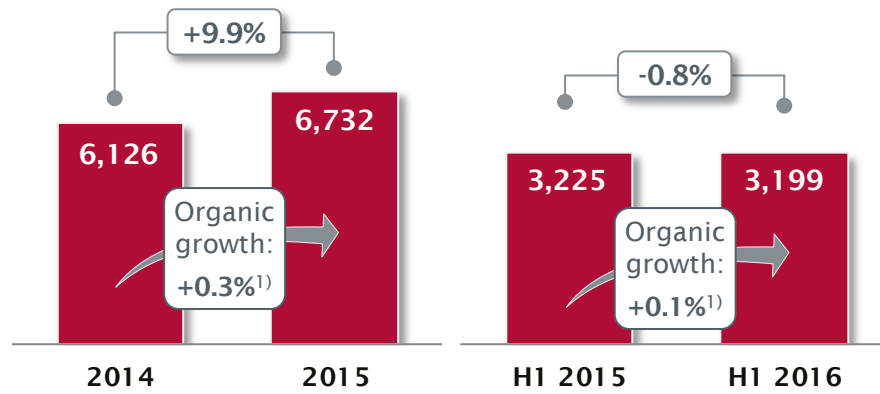
<sup>1</sup> Compared to 2014 level

<sup>2</sup> Inventory reduction on a like-for-like basis at constant currencies

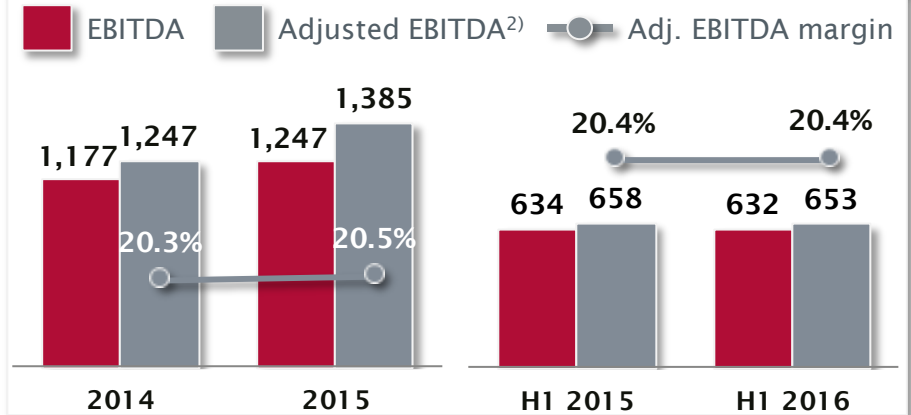


# FINANCIAL OVERVIEW

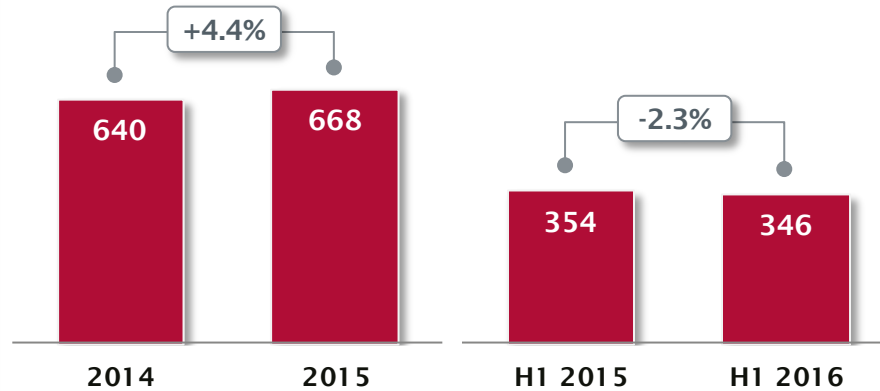
## Net sales (DKK m)



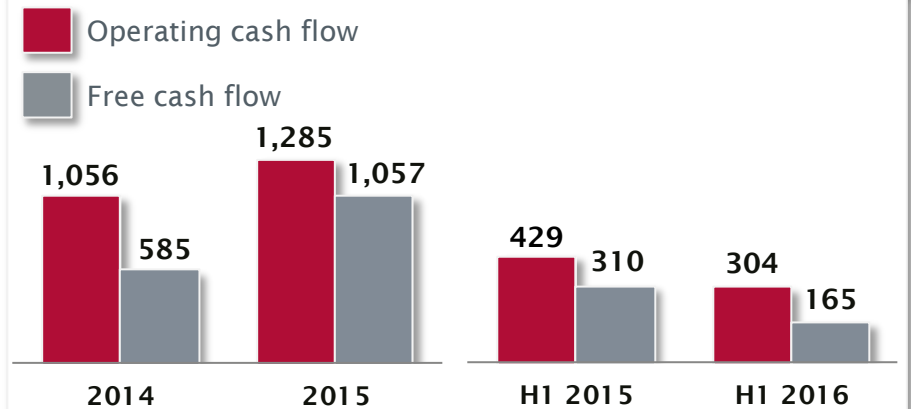
## EBITDA (DKK m)



## Net profit (DKK m)



## Cash flow (DKK m)



<sup>1)</sup> Adjusted for currencies, acquisitions and non-recurring items

<sup>2)</sup> Adjusted for non-recurring items



# STG GROUP

DKKm	2014	2015	LTM <sup>2)</sup>	Q2 2015	Q2 2016	H1 2015	H1 2016
<b>Net sales</b>	<b>6,126</b>	<b>6,732</b>	<b>6,707</b>	<b>1,748</b>	<b>1,699</b>	<b>3,225</b>	<b>3,199</b>
<i>Reported growth</i>	3.4%	9.9%	3.1%	13.9%	(2.8%)	13.4%	(0.8%)
<b>Gross profit</b>	<b>2,947</b>	<b>3,238</b>	<b>3,232</b>	<b>870</b>	<b>840</b>	<b>1,587</b>	<b>1,579</b>
<i>Gross margin</i>	48.1%	48.1%	48.2%	49.8%	49.4%	49.2%	49.4%
<i>Adj. gross margin</i>	48.1%	48.7%	49.0%	49.8%	49.9%	49.4%	49.6%
<b>EBITDA adjusted</b>	<b>1,247</b>	<b>1,385</b>	<b>1,380</b>	<b>392</b>	<b>374</b>	<b>658</b>	<b>653</b>
<i>EBITDA-margin, adjusted</i>	20.3%	20.5%	20.6%	22.4%	22.0%	20.4%	20.4%
<b>Organic growth<sup>1)</sup></b>							
Net sales, adjusted	2.9%	0.3%	0.0%		(1.5%)		0.1%
EBITDA, adjusted	4.8%	2.2%	-		(2.7%)		0.1%

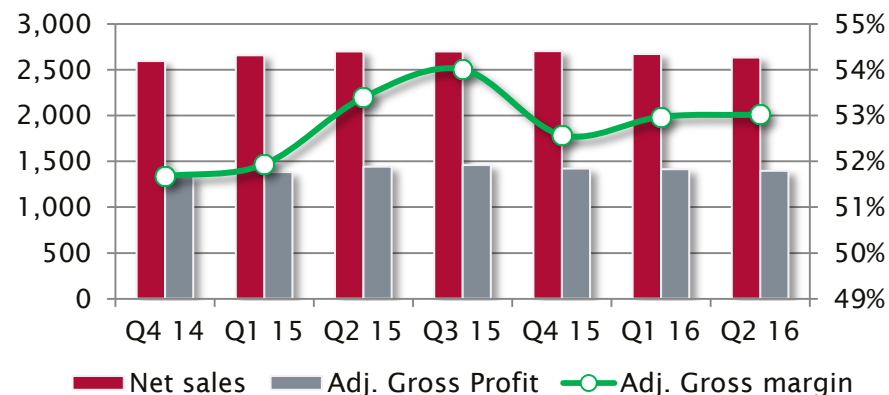
<sup>1</sup> Excluding impact of currencies, acquisitions and non-recurring items. <sup>2)</sup> LTM = last twelve months



# MACHINE-MADE CIGARS

DKKm		2014	2015	LTM <sup>2)</sup>	Q2 2015	Q2 2016	H1 2015	H1 2016
Net sales		2,595	2,702	2,636	683	647	1,312	1,246
Reported growth		3.3%	4.1%	(2.4%)		(5.3%)		(5.1%)
Gross profit		1,341	1,372	1,347	363	338	689	664
Gross margin		51.7%	50.8%	51.1%	53.1%	52.2%	52.5%	53.3%
Adj. gross margin		51.7%	52.2%	53.0%	53.1%	53.3%	52.9%	53.9%
Volume impact		(0.6%)	(5.7%)	(6.5%)		(6.5%)		(6.2%)
Price/mix impact		2.8%	3.4%	2.9%		2.8%		1.9%
Organic growth <sup>1)</sup>		2.2%	(2.3%)	(3.6%)		(3.7%)		(4.3%)

LTM (DKKm)



Q2 2016

- Soft volume trend continues driven by stock fluctuations in the trade caused by TPD. Performance issues in certain key markets only partly off set by the strong performance in Canada.
- Pricing remains healthy, further price increases implemented end of Q2.
- Adoption to the new legislation as well as the cost efficiency program progress according to plan.
- Gross margin expansion continues, although held back by weak volumes and tough comparisons.

<sup>1</sup> Excluding impact of currencies, acquisitions and non-recurring items<sup>2)</sup> LTM = last twelve months





# MMC – ROADS TO IMPROVE PERFORMANCE

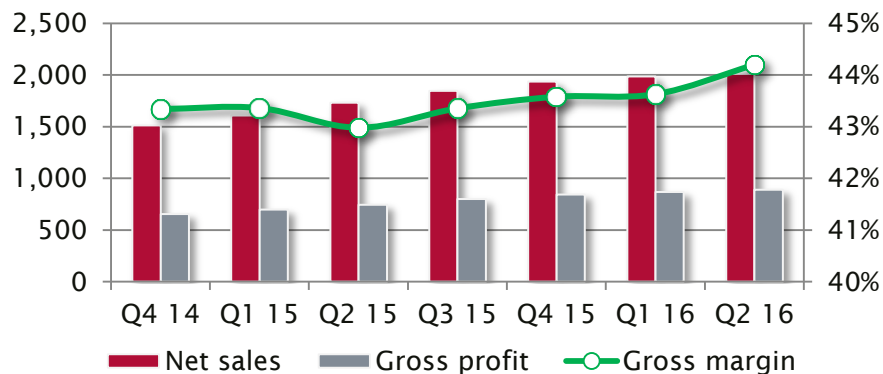
Area	Examples
1 Intensified focus on winning with core brands and key markets	<ul style="list-style-type: none"><li>• Portfolio rationalisation</li><li>• Stronger focus on core brands (e.g. Café Crème, La Paz)</li><li>• Strong focus on key markets (e.g. France, UK, Canada)</li></ul>
2 Lead consumer insights and innovation	<ul style="list-style-type: none"><li>• Develop even better smoking experiences</li><li>• Strengthen portfolio (e.g. aromatic, VFM)</li><li>• Increase speed-to-market</li></ul>
3 In-store and in-market excellence	<ul style="list-style-type: none"><li>• Bench-marking, knowledge-sharing and skill-building</li><li>• Stronger collaboration between functions and markets</li><li>• Optimised trade programs</li></ul>
4 Optimise supply chain to support top-line performance	<ul style="list-style-type: none"><li>• 140/500 programs 2015-18</li><li>• Simplification</li><li>• Integrated planning</li></ul>



# HANDMADE CIGARS

DKKm		2014	2015	LTM <sup>2)</sup>	Q2 2015	Q2 2016	H1 2015	H1 2016
Net sales		1,514	1,935	2,011	512	536	884	960
Reported growth		10.6%	27.9%	16.1%		4.7%		8.6%
Gross profit		656	843	889	219	241	379	424
Gross margin		43.3%	43.6%	44.2%	42.8%	45.0%	42.9%	44.2%
Volume impact		7.3%	6.6%	9.0%		9.2%		11.3%
Price/mix impact	2.3%	1.3%	(0.4%)		(2.7%)		(1.5%)	
Organic growth <sup>1)</sup>		9.6%	7.9%	8.6%		6.5%		9.8%

LTM (DKKm)



Q2 2016

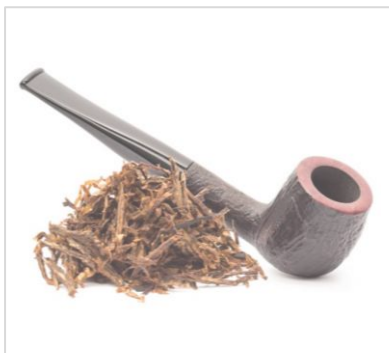
- Strong performance continues with share gains, 6.5% organic growth in net sales and improving margins.
- Gross margins benefits from scale and increased collaboration between our US businesses.
- New FDA regulation effective as of August 8 has created short-term disturbances in the market balance and will open opportunities long-term.

<sup>1</sup> Excluding impact of currencies, acquisitions and non-recurring items. <sup>2)</sup> LTM = last twelve months

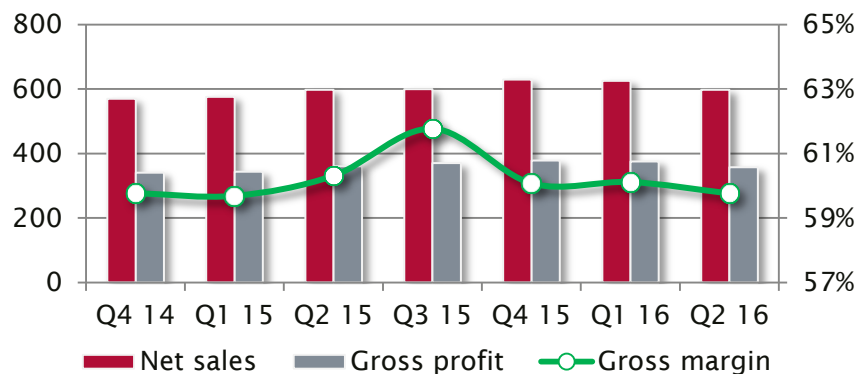


# PIPE TOBACCO

DKKm	2014	2015	LTM <sup>2)</sup>	Q2 2015	Q2 2016	H1 2015	H1 2016
<b>Net sales</b>	<b>569</b>	<b>629</b>	<b>598</b>	<b>167</b>	<b>140</b>	<b>309</b>	<b>278</b>
<i>Reported growth</i>	0.4%	10.6%	(0.0%)		(16.2%)		(10.2%)
<b>Gross profit</b>	<b>340</b>	<b>378</b>	<b>357</b>	<b>105</b>	<b>87</b>	<b>191</b>	<b>170</b>
<i>Gross margin</i>	59.8%	60.1%	59.8%	62.9%	62.0%	61.7%	61.2%
<i>Adj. gross margin</i>	59.8%	60.1%	59.8%	62.9%	62.3%	61.7%	61.4%
Volume impact	(3.1%)	(5.1%)	(5.8%)		(15.5%)		(10.2%)
Price/mix impact	3.6%	6.7%	3.0%		0.7%		1.1%
<b>Organic growth<sup>1)</sup></b>	<b>0.5%</b>	<b>1.6%</b>	<b>(2.8%)</b>		<b>(14.8%)</b>		<b>(9.1%)</b>



LTM (DKKm)



Q2 2016

- Underlying volume trend unchanged. Headline numbers negatively distorted by adverse market situation in Nigeria and the Middle-East not fully off set by continued strong market for US dual-usage.
- Price/mix impacted by mix. Underlying pricing remains healthy.
- Healthy margin level protected despite structural volume decline due to strict cost control and price management.

<sup>1</sup> Excluding impact of currencies, acquisitions and non-recurring items. <sup>2)</sup> LTM = last twelve months

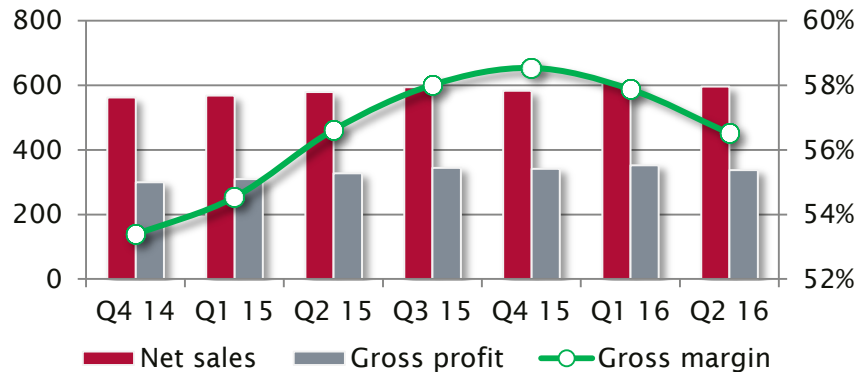


# FINE-CUT TOBACCO

DKKm	2014	2015	LTM <sup>2)</sup>	Q2 2015	Q2 2016	H1 2015	H1 2016
<b>Net sales</b>	<b>562</b>	<b>583</b>	<b>596</b>	<b>160</b>	<b>148</b>	<b>287</b>	<b>300</b>
<i>Reported growth</i>	7.7%	3.9%	3.0%		(7.6%)		4.5%
<b>Gross profit</b>	<b>300</b>	<b>342</b>	<b>337</b>	<b>100</b>	<b>85</b>	<b>176</b>	<b>172</b>
<i>Gross margin</i>	53.4%	58.5%	56.5%	62.5%	57.4%	61.4%	57.1%
<i>Adj. gross margin</i>	53.4%	58.5%	56.5%	62.5%	57.7%	61.4%	57.3%
Volume impact	1.1%	(6.0%)	(1.9%)		(10.0%)		0.9%
Price/mix impact	7.7%	4.7%	5.0%		4.3%		6.4%
<b>Organic growth<sup>1)</sup></b>	<b>8.8%</b>	<b>(1.3%)</b>	<b>3.1%</b>		<b>(5.7%)</b>		<b>7.3%</b>



LTM (LTM)



Q2 2016

- Organic net sales down by 5.7% primarily due to timing of shipments in Norway. YTD growth of 7.3% driven by high positive price impact.
- Danish/German border-trade and Germany continue to deliver strong volume growth.
- Gross margins at 57.7% remain at healthy level. Q2 2015 was exceptionally strong.

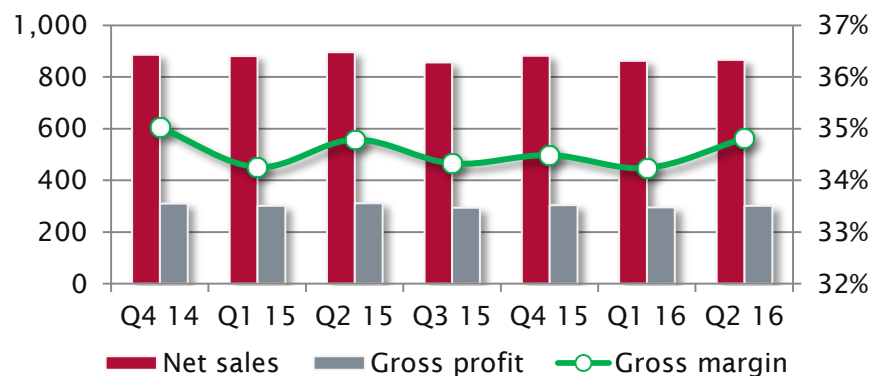
<sup>1</sup> Excluding impact of currencies, acquisitions and non-recurring items. <sup>2)</sup> LTM = last twelve months



## OTHER

DKKm	2014	2015	LTM <sup>2)</sup>	Q2 2015	Q2 2016	H1 2015	H1 2016
<b>Net sales</b>	<b>886</b>	<b>882</b>	<b>865</b>	<b>226</b>	<b>229</b>	<b>432</b>	<b>416</b>
<i>Reported growth</i>	(7.3%)	(0.5%)	(3.4%)		1.2%		(3.9%)
<b>Gross profit</b>	<b>310</b>	<b>304</b>	<b>301</b>	<b>83</b>	<b>89</b>	<b>152</b>	<b>149</b>
<i>Gross margin</i>	35.0%	34.5%	34.8%	36.8%	39.0%	35.1%	35.8%
Volume impact	n/a	n/a	n/a		n/a		n/a
Price/mix impact	n/a	n/a	n/a		n/a		n/a
<b>Organic growth<sup>1)</sup></b>	<b>(6.6%)</b>	<b>(4.5%)</b>	<b>(5.0%)</b>		<b>2.6%</b>		<b>(2.7%)</b>

LTM (DKKm)



Q2 2016

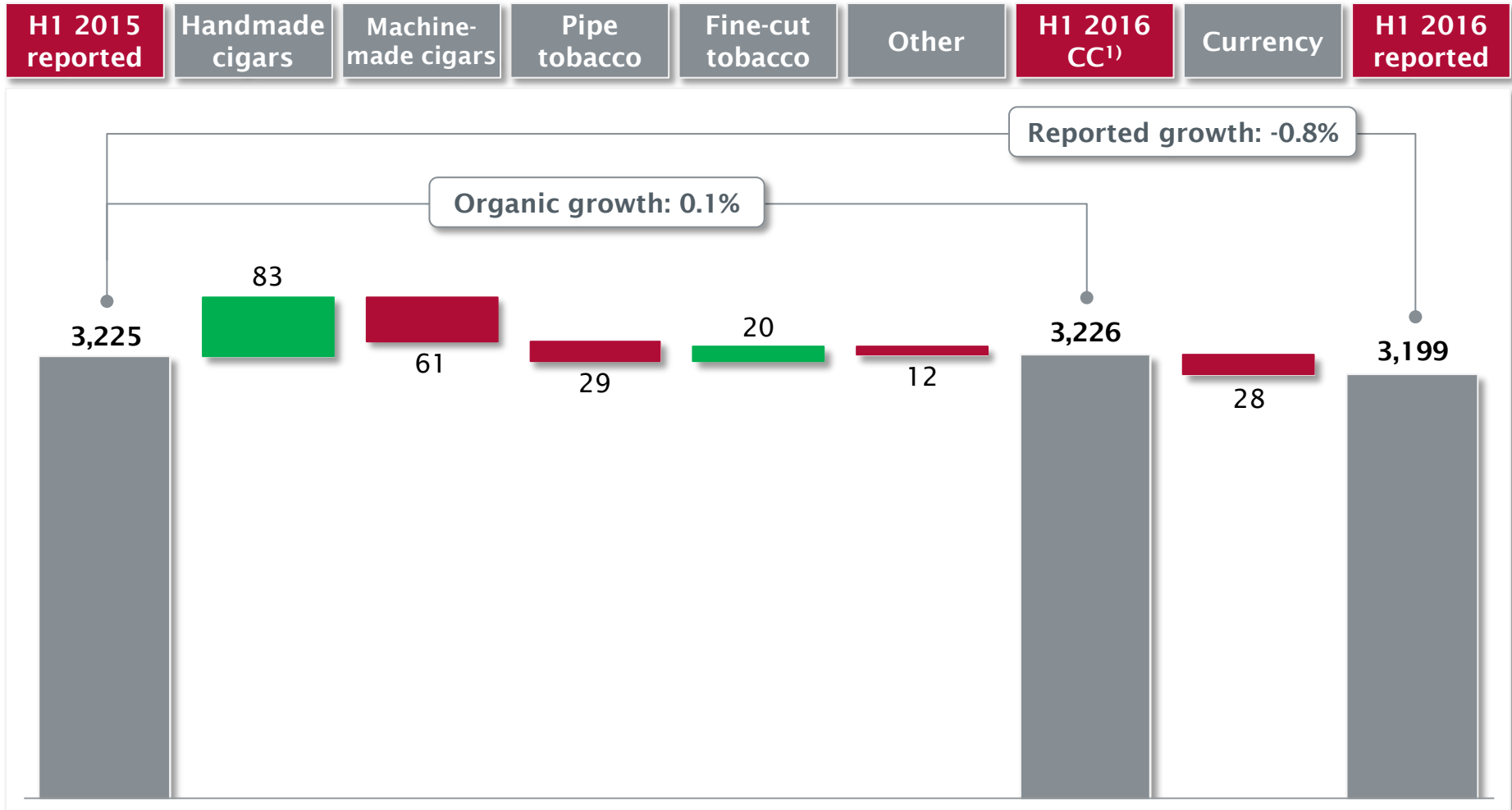
- Organic net sales growth at +2.6% as contract manufacturing activity normalised.
- Gross margins above average level due to a favourable sales mix in the second quarter.

<sup>1)</sup> Excluding impact of currencies, acquisitions and non-recurring items

<sup>2)</sup> LTM = last twelve months



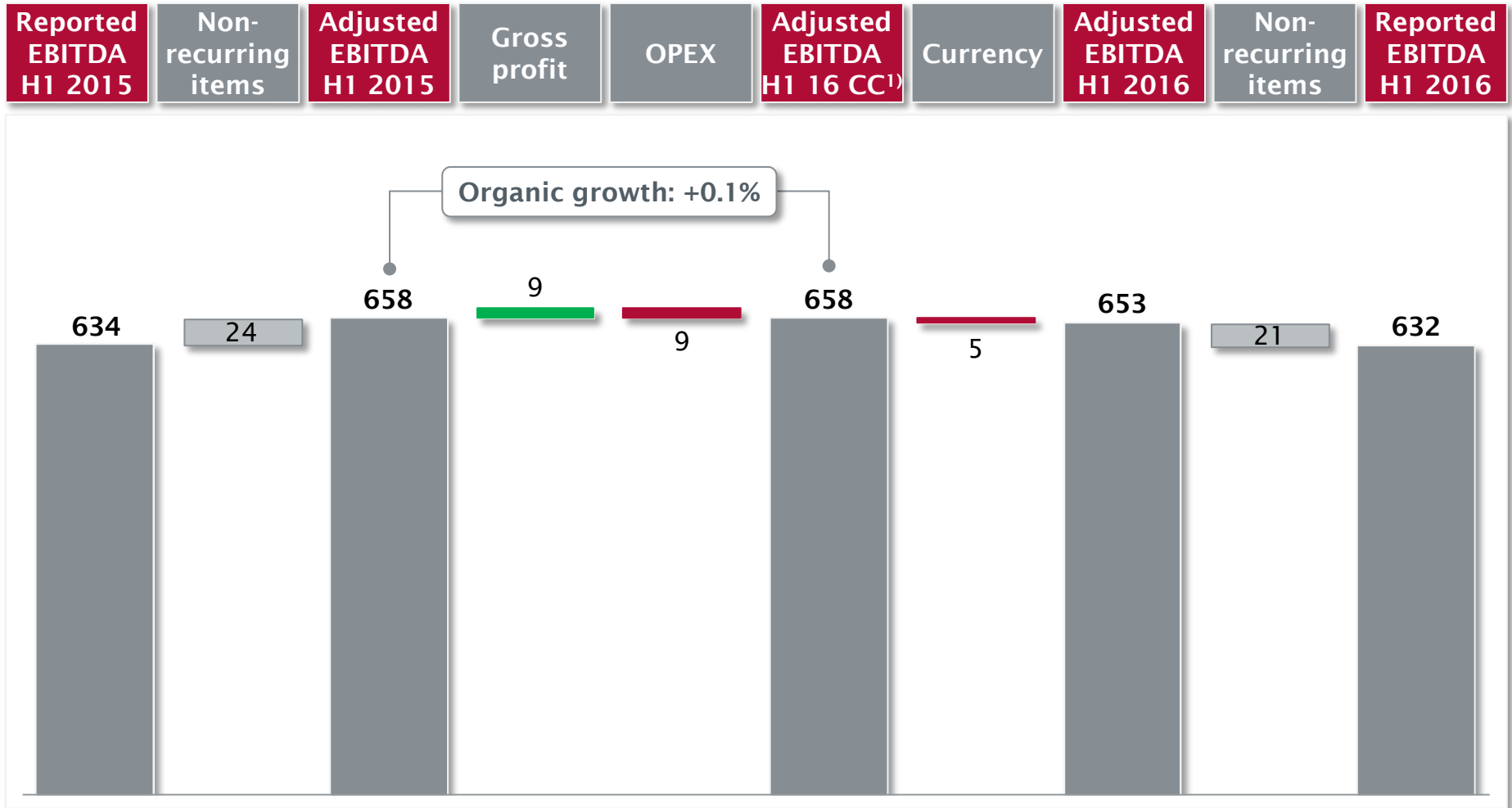
## NET SALES BRIDGE H1 2015 VS H1 2016 (DKKM)



<sup>1</sup> Excluding currency impact



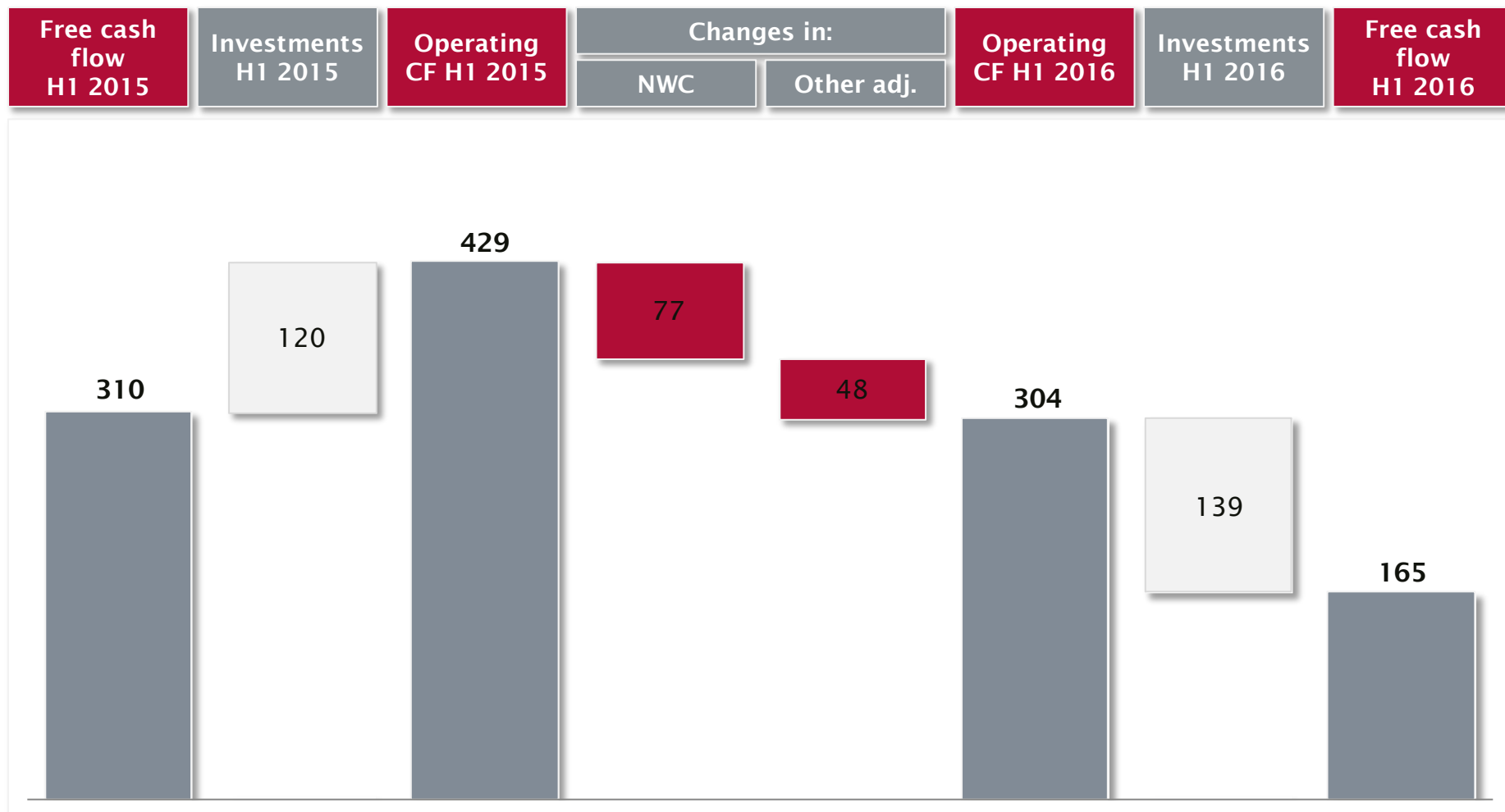
## ADJUSTED EBITDA BRIDGE H1 2015 VS H1 2016 (DKKM)



<sup>1</sup> Excluding currencies, acquisitions and non-recurring items



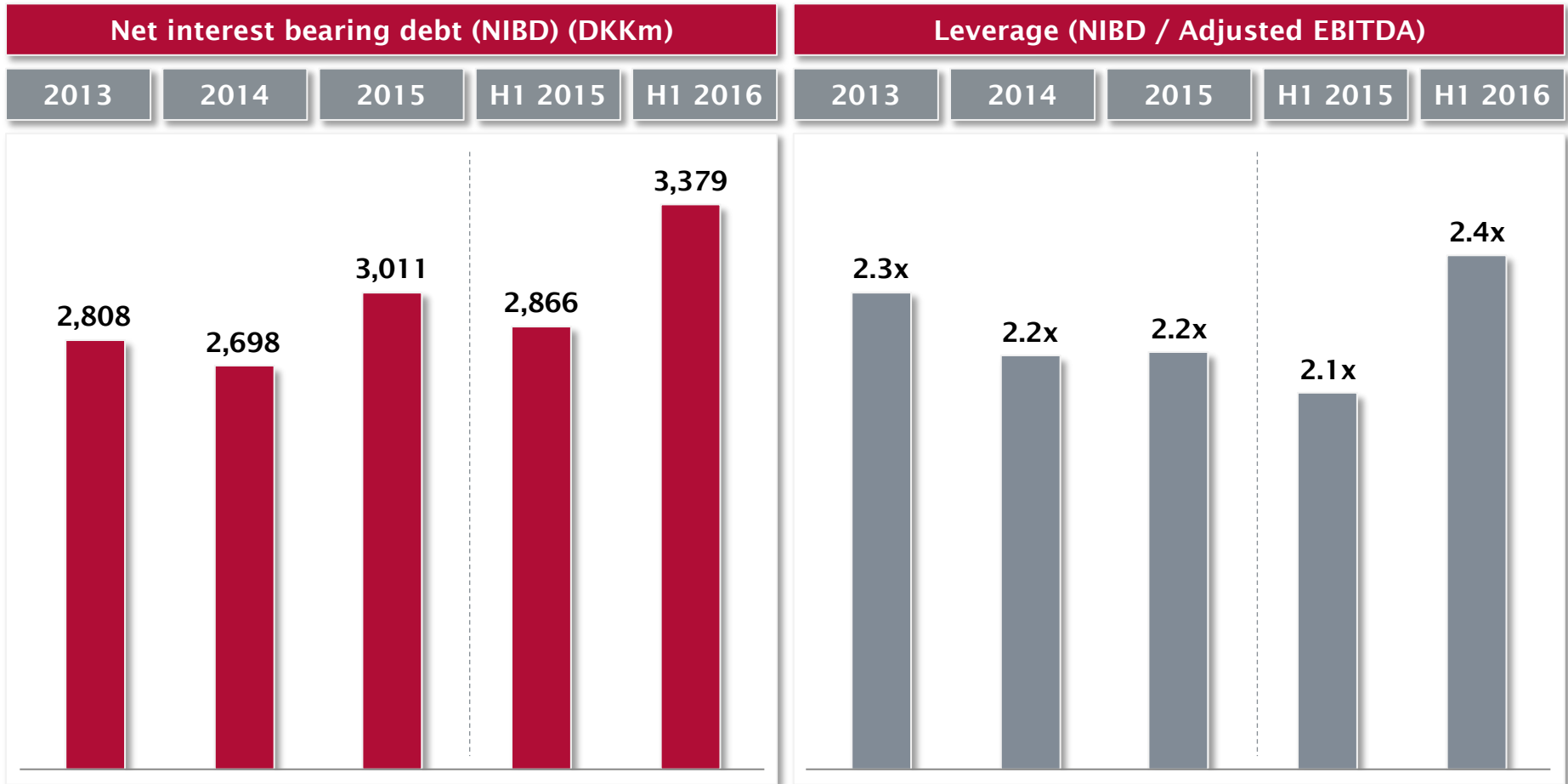
## OPERATING AND FREE CASH FLOW H1 (DKKM)







# NET DEBT AND LEVERAGE





## GUIDANCE AND MEDIUM-TERM OUTLOOK

	2016 guidance	Medium-term outlook
<b>A</b> Adjusted net sales	1% - 3% organic growth <sup>1</sup>	1% - 3% organic growth <sup>1</sup> (through the cycle)
<b>B</b> Adjusted EBITDA	3% - 5% organic growth <sup>1</sup>	3% - 5% organic growth <sup>1</sup> (through the cycle)
<b>C</b> Capital expenditures	Around DKK 250m	c. DKK 150m (maintenance)

<sup>1</sup> Annual organic growth, i.e. excluding currencies, acquisitions and non-recurring items



# EU TOBACCO PRODUCTS DIRECTIVE (TPD) - UPDATE



	Update
<b>Time line</b>	<ul style="list-style-type: none"><li>✓ Effective as of 20 May, 2016</li><li>✓ Late adoption of national legislation</li><li>✓ Non-TPD compliant products produced before 20 May 2016 can generally be sold until 20 May, 2017</li></ul>
<b>Status</b>	<ul style="list-style-type: none"><li>✓ We are well prepared</li><li>✓ Late local adaption affect suppliers and manufacturers</li><li>✓ Very few TPD2 designs in retail channel</li><li>✓ Consumer reactions yet to be seen</li><li>✓ End Q3 should start to normalise</li></ul>



## FDA REGULATION

### Update

- ✓ Industry filed law suits via cigar associations
- ✓ Long-term impact on total market dynamics
- ✓ The competitive landscape likely to change
- ✓ Many new launches before August 8
- ✓ Price increase expected to cover user fees and general cost of compliance
- ✓ Cost implications remain uncertain

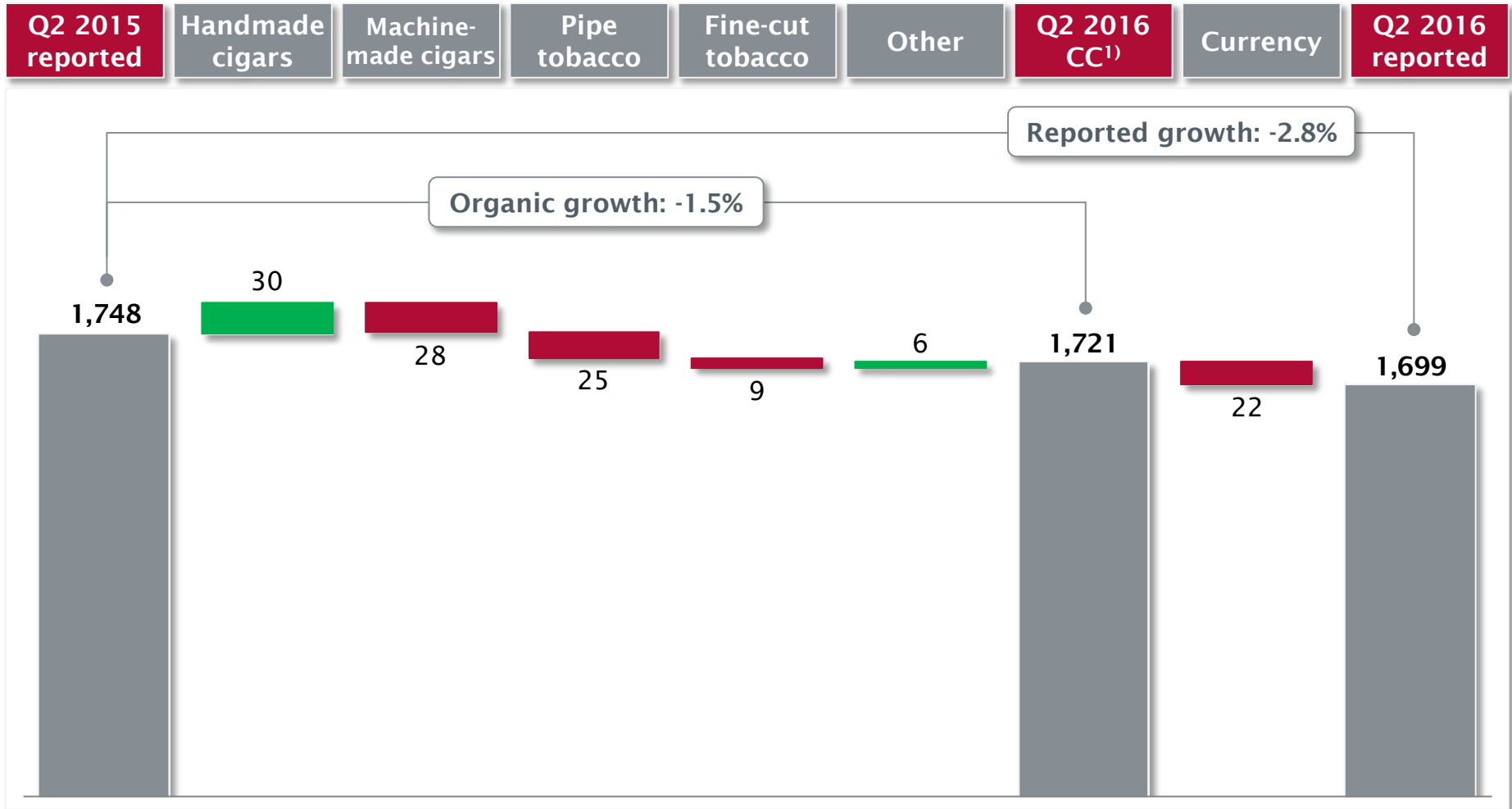


# APPENDIX

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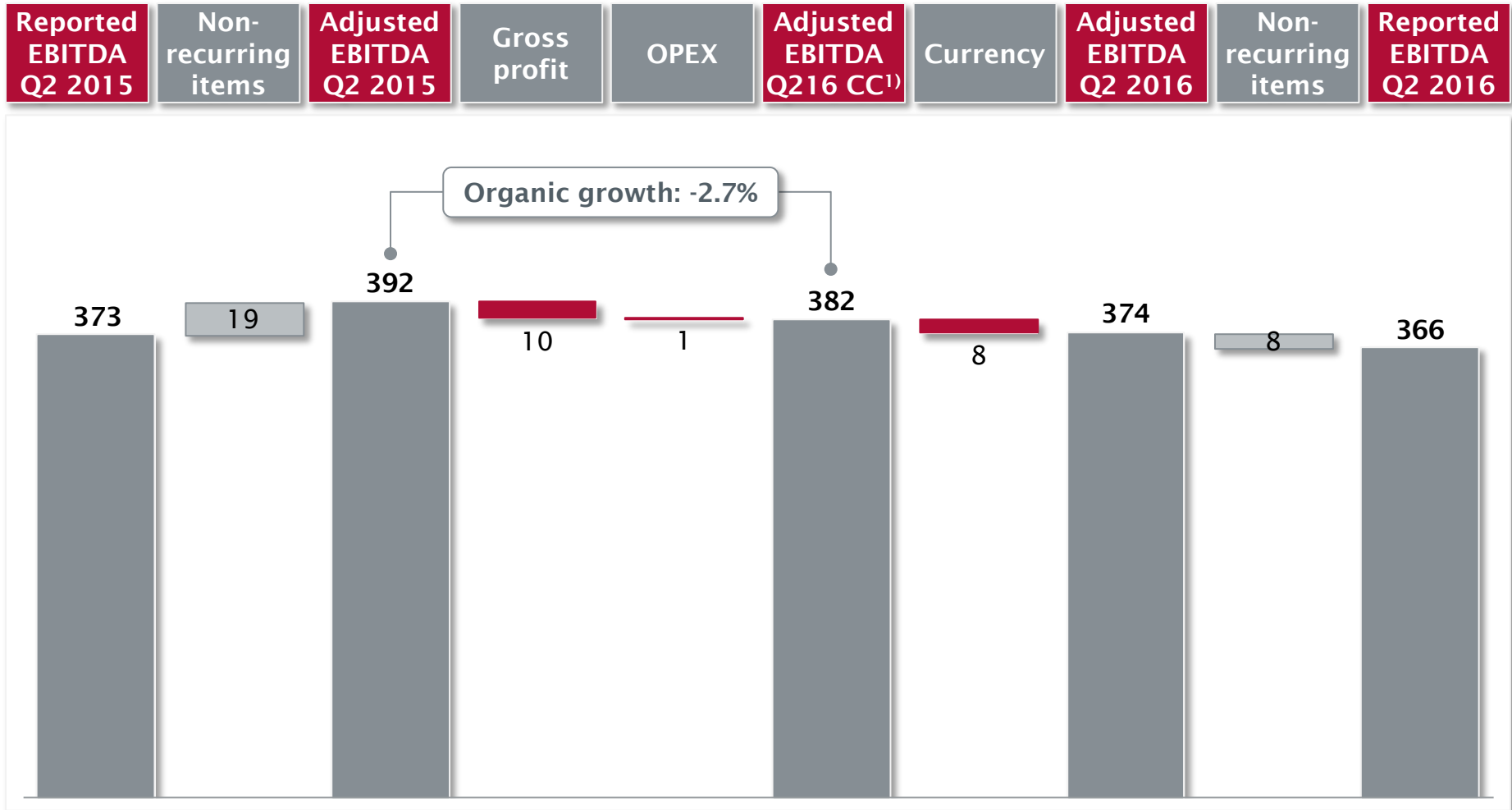
# NET SALES BRIDGE Q2 2015 VS Q2 2016 (DKKM)



<sup>1</sup> Excluding currency impact



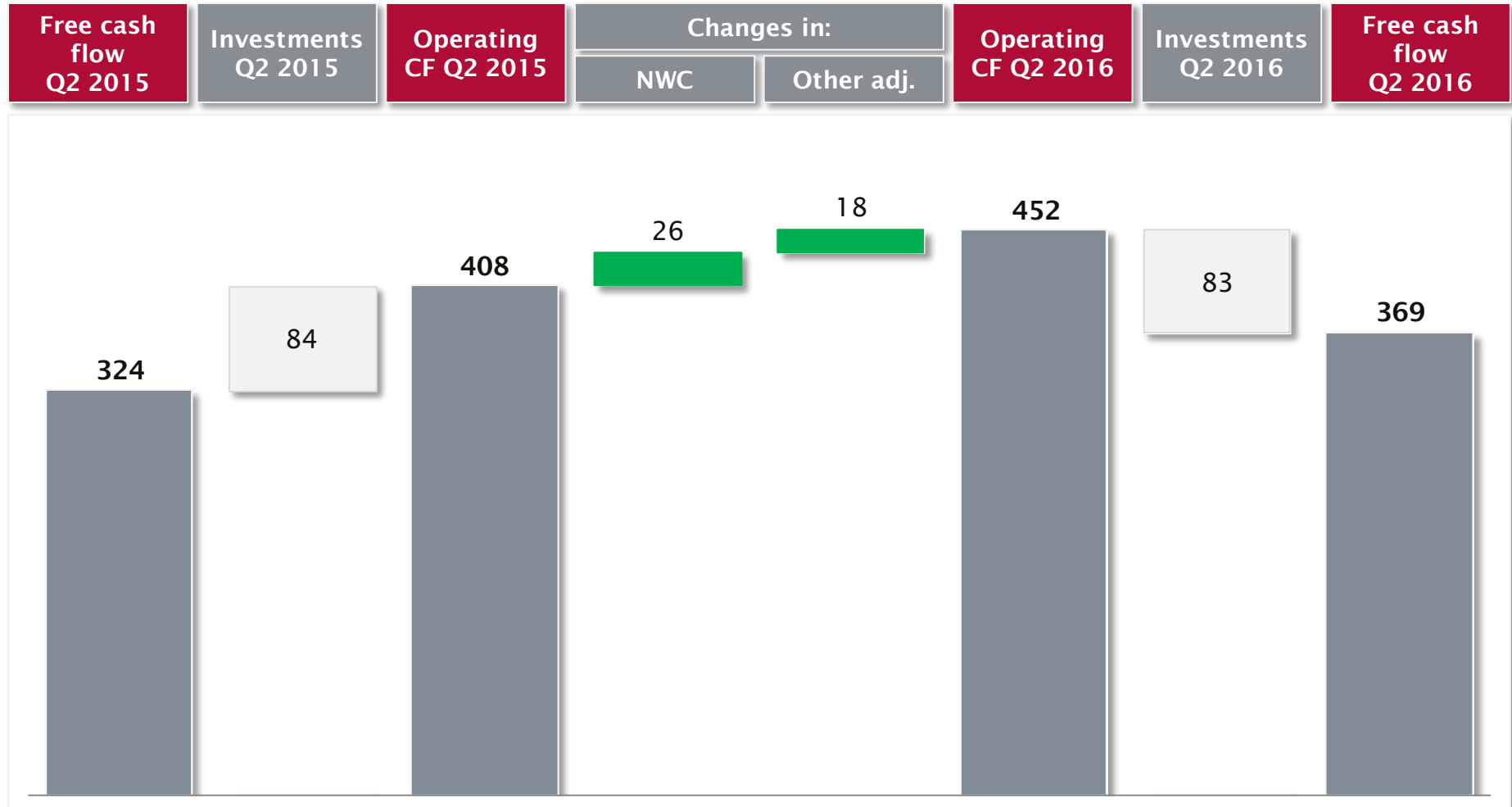
## ADJUSTED EBITDA BRIDGE Q2 2015 VS Q2 2016 (DKKM)



<sup>1</sup> Excluding currencies, acquisitions and non-recurring items



## OPERATING AND FREE CASH FLOW Q2 (DKKM)







## FINANCIAL CALENDAR 2016

Event	Date	Silent period starts
Third Quarter (Q3 2016)	November 3	October 6



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