



# INVESTOR PRESENTATION

Q4 AND FULL YEAR 2016

16 MARCH 2017



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# FULL YEAR 2016 – HIGHLIGHTS



**Organic net sales stable at +0.4%**



**Adjusted EBITDA growth accelerated in Q4 reaching +4.0% for the year**



**All efficiency and optimisation plans are well on track**



**Free cash flow +8% despite strong 2015**



**Proposed Ordinary Dividend (+10%) at DKK 5.50/share**



# STRATEGIC FOCUS POINTS 2017



## Leadership enforcement

- Fix key markets with unsatisfactory market share performance
- Ramp up introduction of new products and innovation pipeline
- Be prepared if strategic opportunities arise



## Operating excellence

- Deliver on cost and efficiency improvements
- Drive skills and execution to do what we say we want to do






## Capital disciplin

- Embed working capital orientation
- Safeguard cash flows
- Efficient capital structure



# FINANCIAL HIGHLIGHTS FULL YEAR 2016

KPI	2016 guidance	2016 actual performance
Adjusted Net sales	Approx. 0% organic growth <sup>1</sup>	+0.4% 
Adjusted EBITDA	3-5% organic growth <sup>1</sup>	+4.0% 
Capital expenditures	Approx. DKK 250m	DKK 235m 

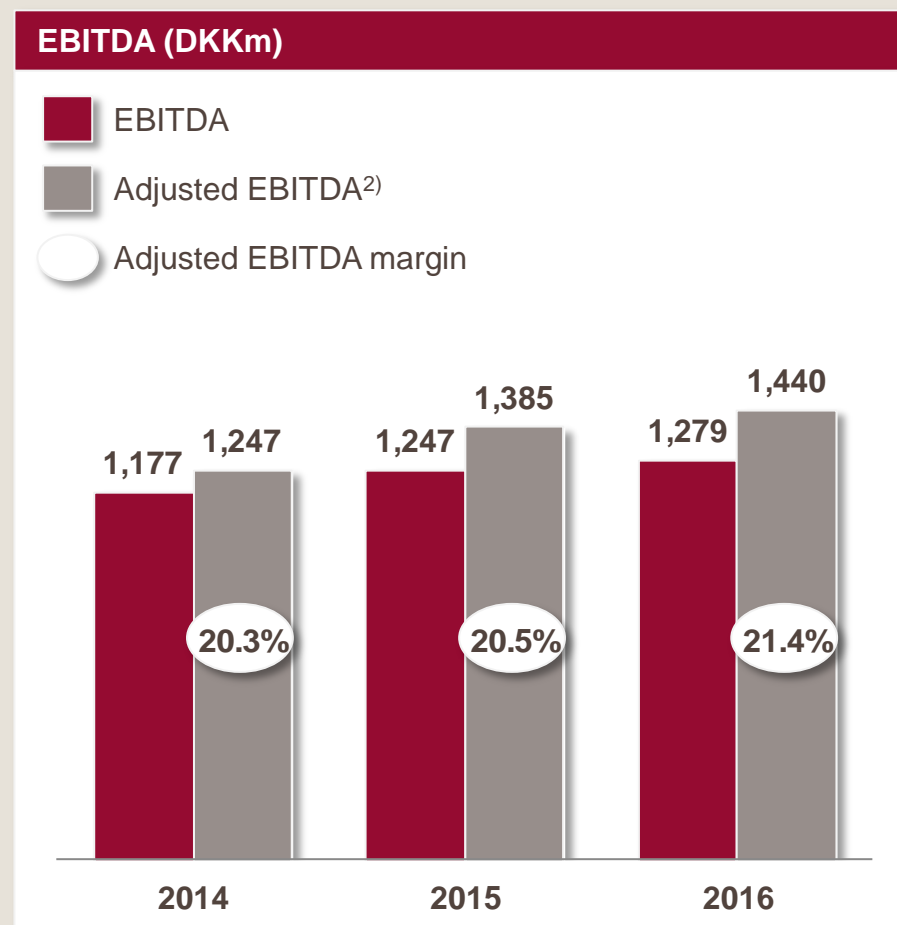
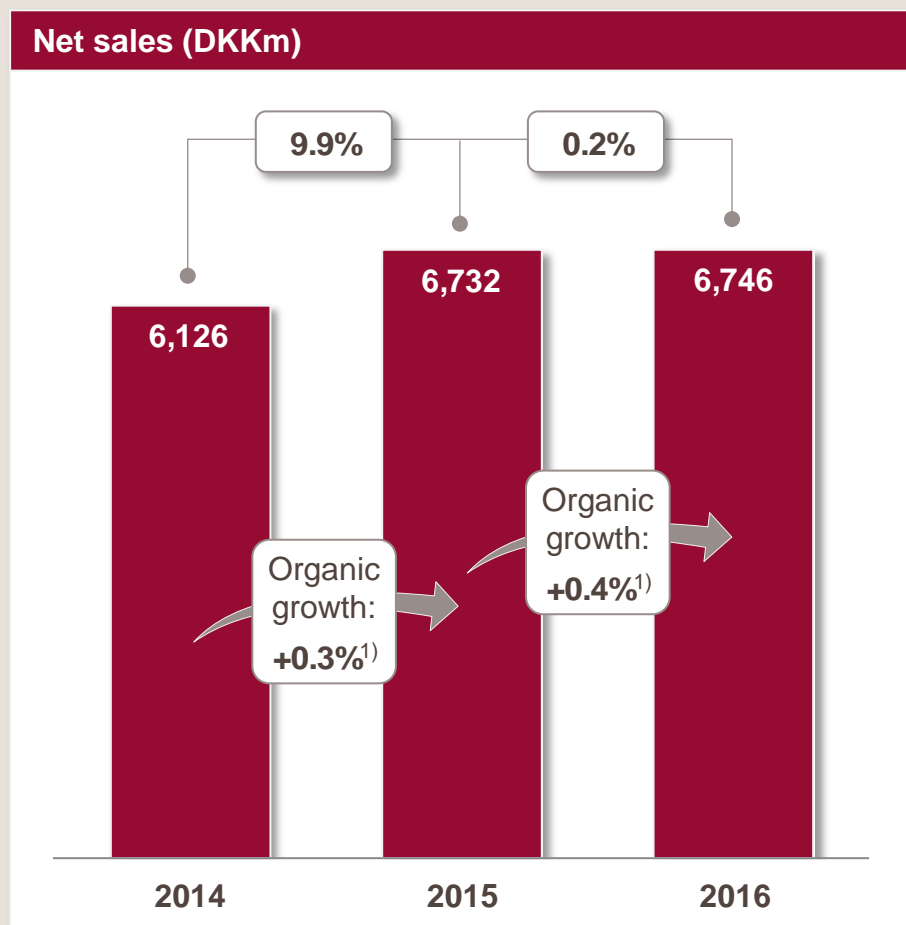


# STG GROUP – KEY PERFORMANCE DATA

	Q4 2016			FY 2016		
	DKKm Reported	Growth, % Reported	Organic <sup>1</sup>	DKKm Reported	Growth, % Reported	Organic <sup>1</sup>
Net sales	1,807	2.3%	1.5%	6,746	0.2%	0.4%
Gross profit	850	3.4%		3,225	(0.4%)	
Adjusted gross profit	868	5.7%		3,314	1.0%	
OPEX	531	3.5%		1,946	(2.3%)	
EBITDA	318	3.2%		1,279	2.5%	
Non-recurring items	57			162		
Adjusted EBITDA	375	12.5%	10.8%	1,440	4.0%	4.0%
Net profit	183	5.3%		681	2.1%	
Capex	37	(42.9%)		235	(0.4%)	
Free cash flow	348	6.8%		1,139	7.8%	
NIBD/Adjusted EBITDA				1.7x		



# FINANCIAL OVERVIEW



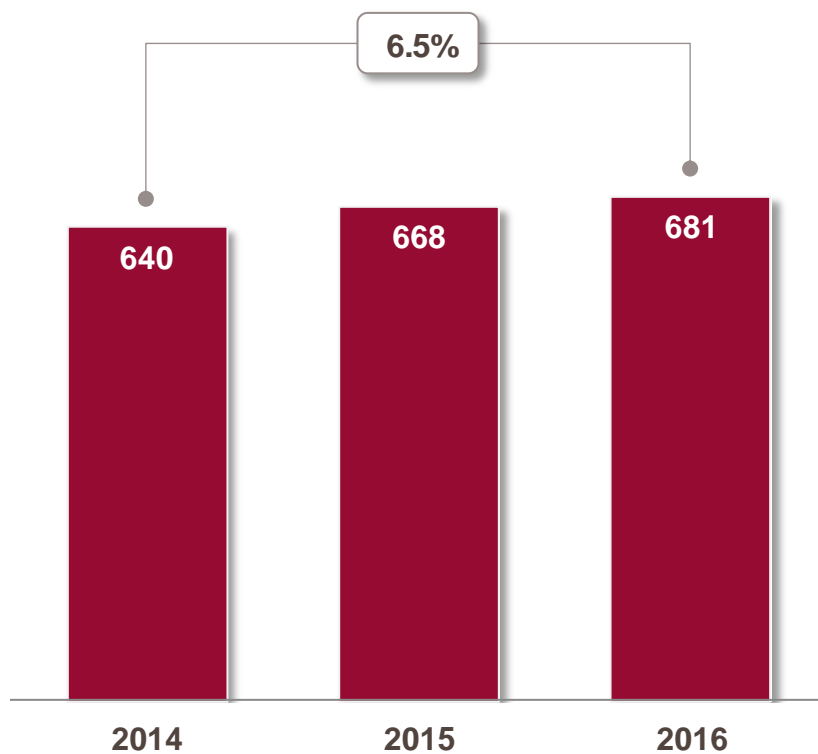
<sup>1</sup> Adjusted for currencies, acquisitions and non-recurring items

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

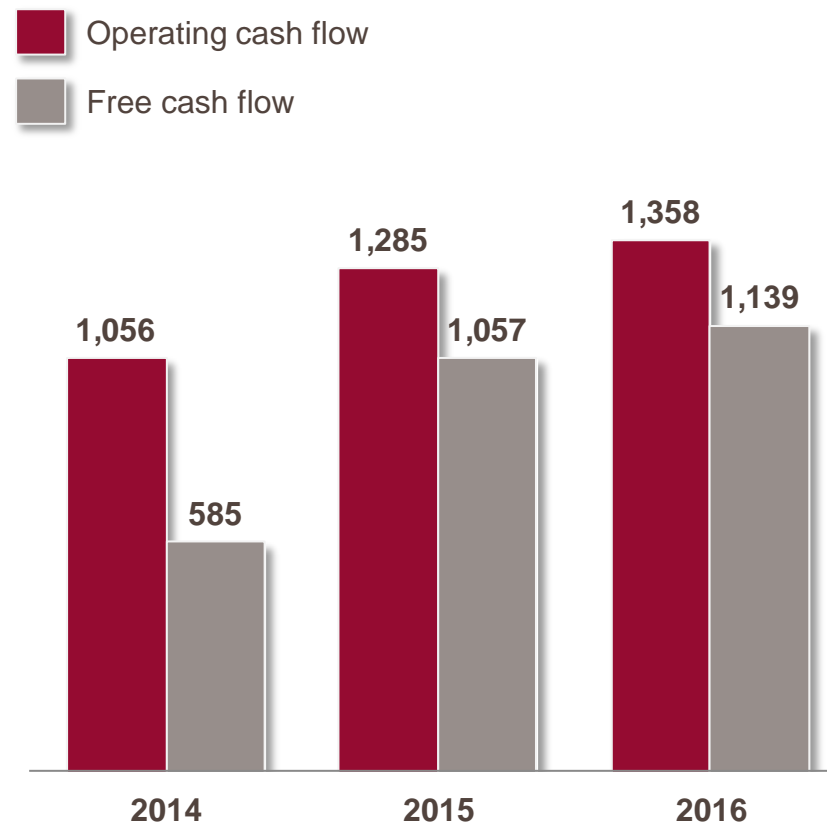


# FINANCIAL OVERVIEW

## Net profit (DKK m)

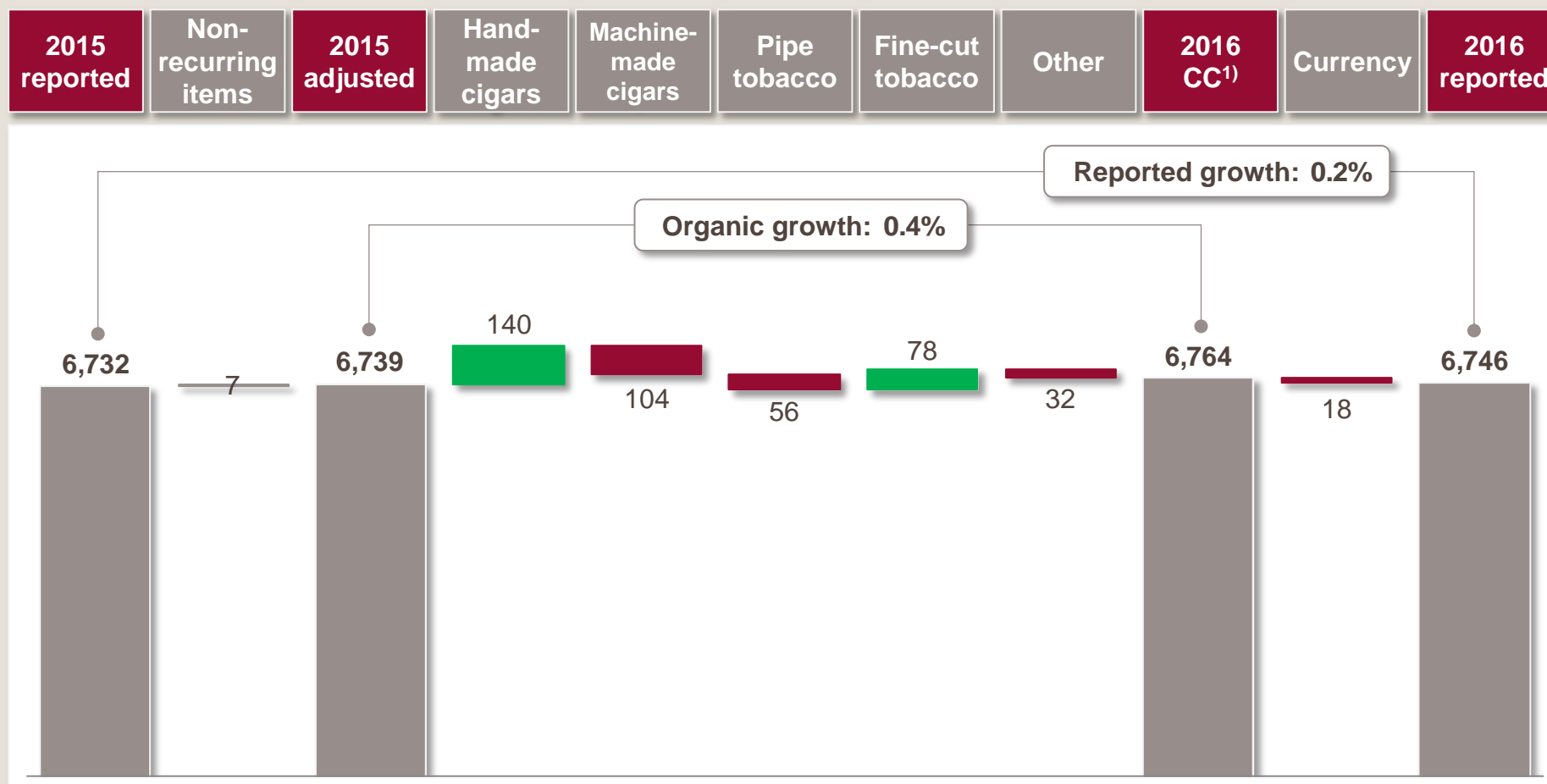


## Cash flow (DKK m)





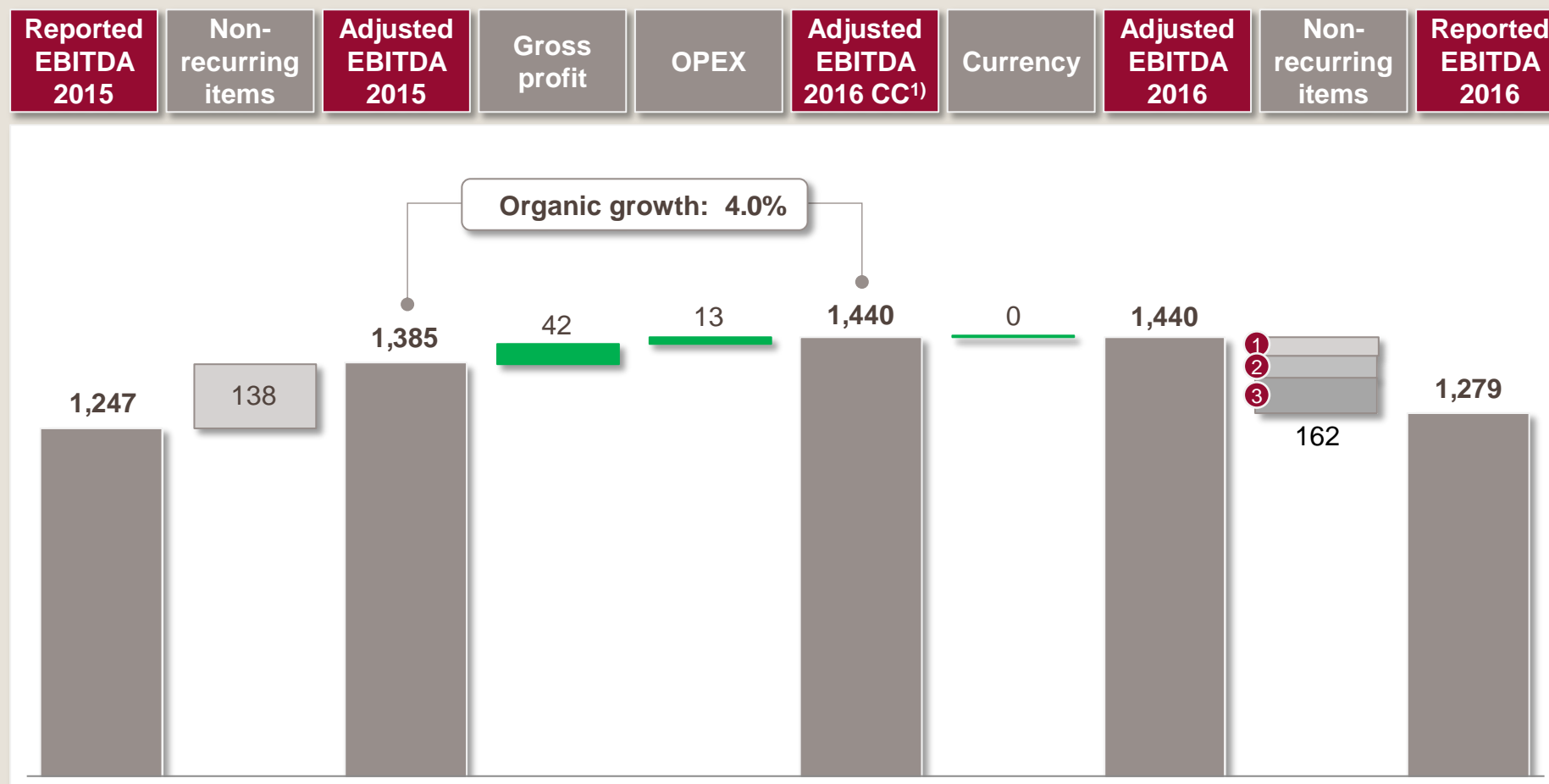
# NET SALES BRIDGE 2015 VS 2016



Note: All numbers in DKKm  
<sup>1</sup> Excluding currency impact



# ADJUSTED EBITDA BRIDGE 2015 VS 2016



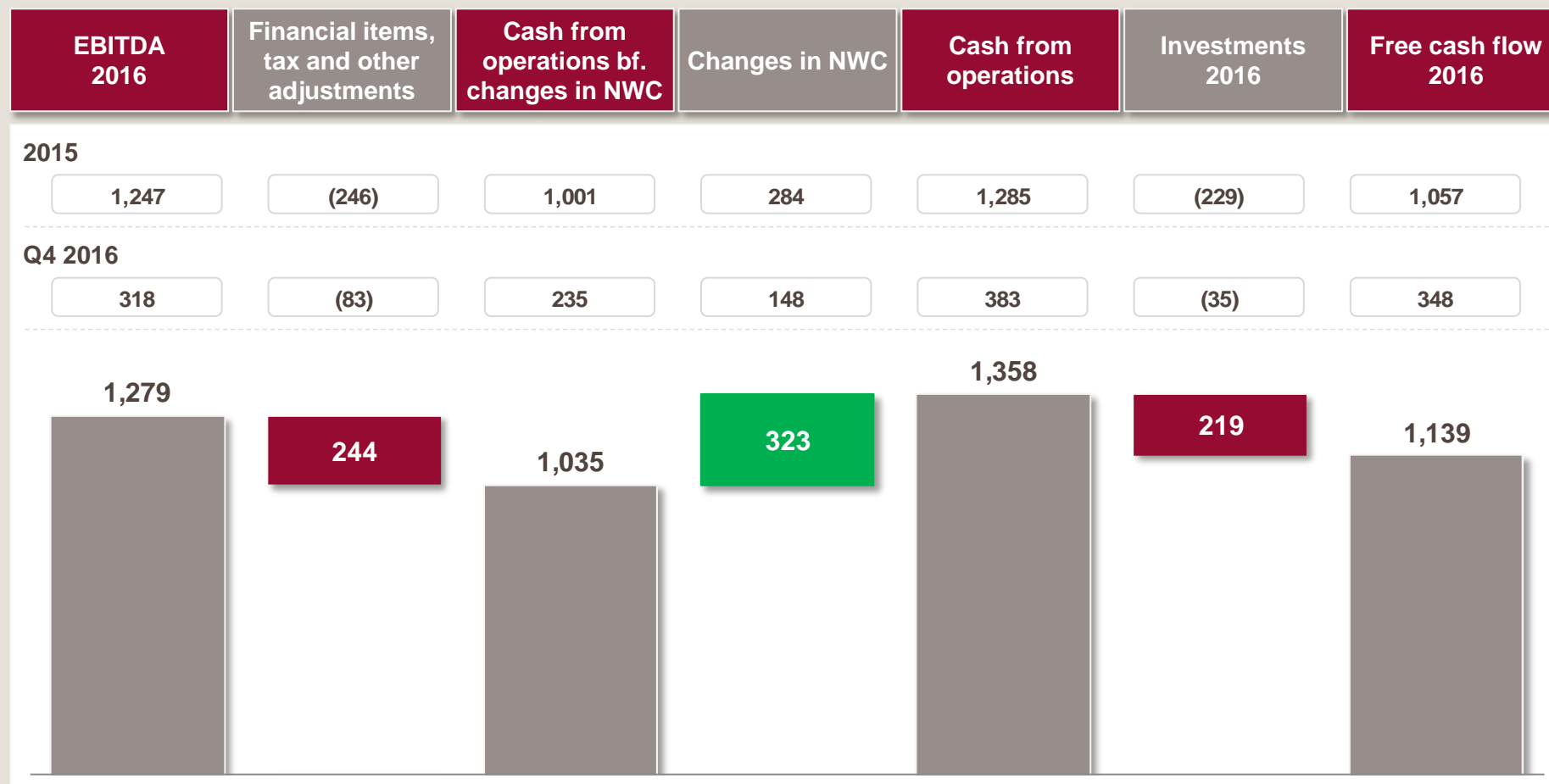
Note: All numbers in DKK mio

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

- ① TPD + IPO DKK 40m
- ② New Operating Model DKK 45 mio
- ③ 140 project DKK 77 mio



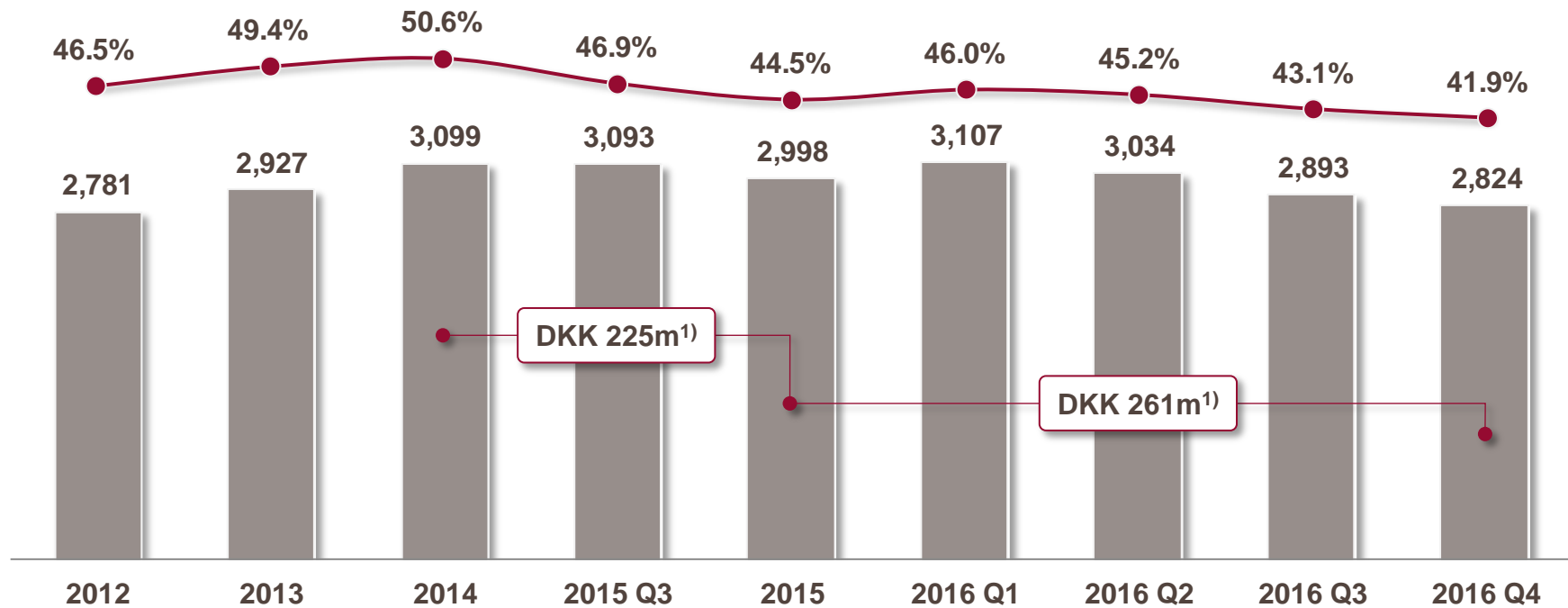
# OPERATING AND FREE CASH FLOW 2016



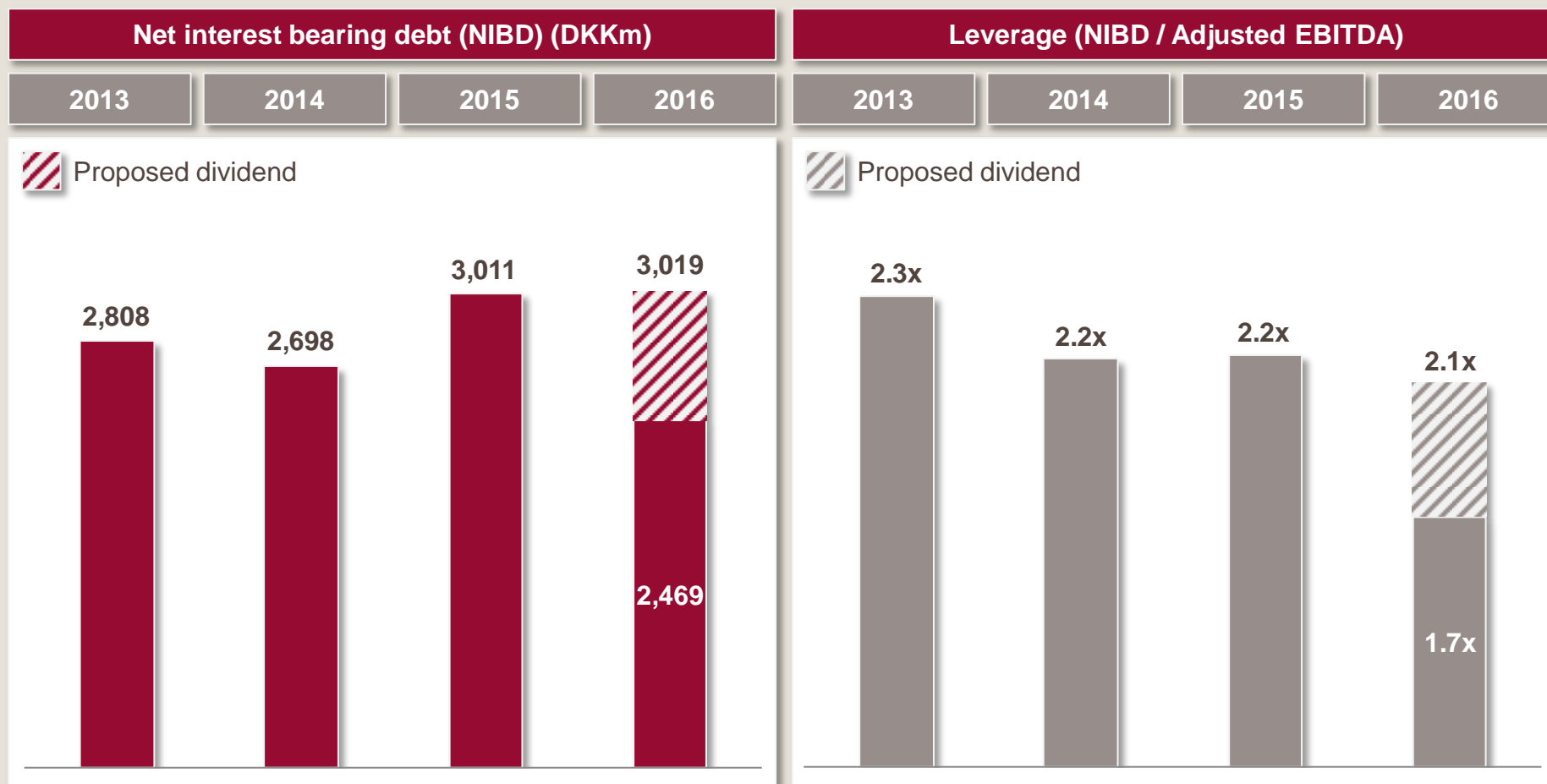
# INVENTORY DEVELOPMENT

## Inventory (DKKm)

- Inventory (reported ending balance)
- Inventory ratio % of LTM net sales



# NET DEBT AND LEVERAGE



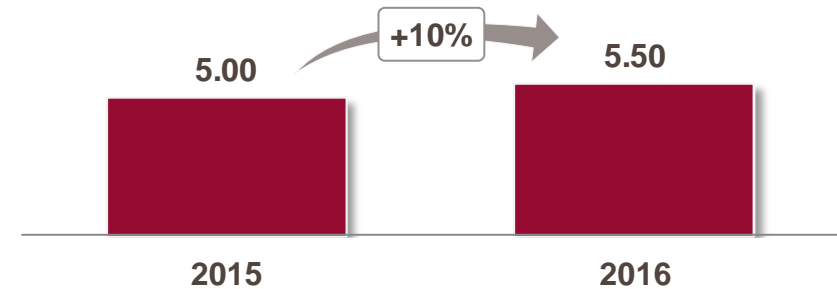


# CASH DISTRIBUTION

## Dividend

- Proposed ordinary dividend for 2016 at DKK 5.50 per share
- Pay-out ratio at 81%
- Adjusting for the proposed dividend payment net leverage is 2.1x by year-end 2016
- The Board of Directors will continue to evaluate the distribution of possible excess cash to shareholders in relation to the Q3 announcement November 8, 2017

## Dividend per share (DKK)



## Pay-out ratio











# OPTIMISATION AND EFFICIENCY PROGRAMMES

## TOTAL

- Initial 140 programme has been advanced to be fully implemented by the end of 2017
- Effect from New Operating model to kick in during 2017 and 2018
- Total run-rate by end of 2017 = **DKK 200m**



- Inventory Reduction by DKK 500 mio. versus 2014
- Progress: End of 2016 DKK 486 mio.
- Completion: Accelerated from 2018 to 2017

Progress	Annual P&L impact	Accumulated
2016	 About 1/3	 About 1/3
2017e	 Slightly above 1/3	 Above 2/3
2018e	 Slightly below 1/3	 Completed!



Savings will be partially reinvested in the business – e.g. innovation, central excellence centers, new product development etc.

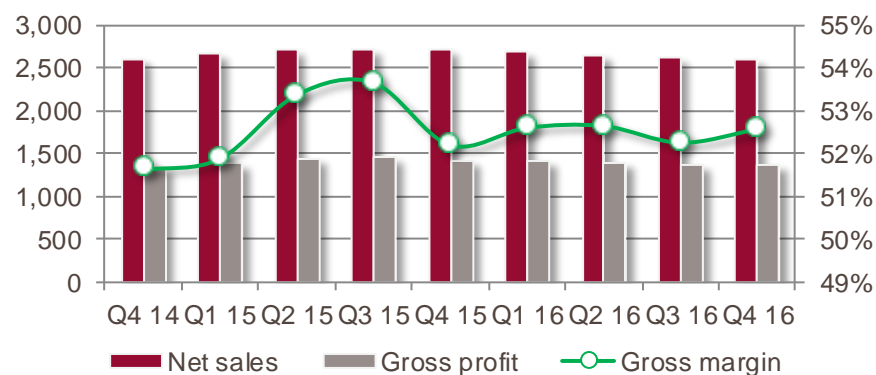




# MACHINE-MADE CIGARS

DKKm		2014	2015	2016	Q4 2015	Q4 2016
<b>Net sales</b>		<b>2,595</b>	<b>2,702</b>	<b>2,593</b>	<b>711</b>	<b>695</b>
<i>Reported growth</i>		3.3%	4.1%	(4.0%)		(2.2%)
<b>Gross profit</b>		<b>1,341</b>	<b>1,372</b>	<b>1,280</b>	<b>354</b>	<b>339</b>
<i>Gross margin</i>		51.7%	50.8%	49.3%	49.8%	48.7%
<i>Adj. gross margin</i>		51.7%	52.2%	52.6%	49.8%	50.8%
<i>Volume impact</i>		(0.6%)	(5.7%)	(6.0%)		(4.9%)
<i>Price/mix impact</i>	2.8%	3.4%	2.2%		2.0%	
<b>Organic growth<sup>1)</sup></b>		<b>2.2%</b>	<b>(2.3%)</b>	<b>(3.9%)</b>		<b>(2.9%)</b>

LTM (DKKm)



Q4 2016

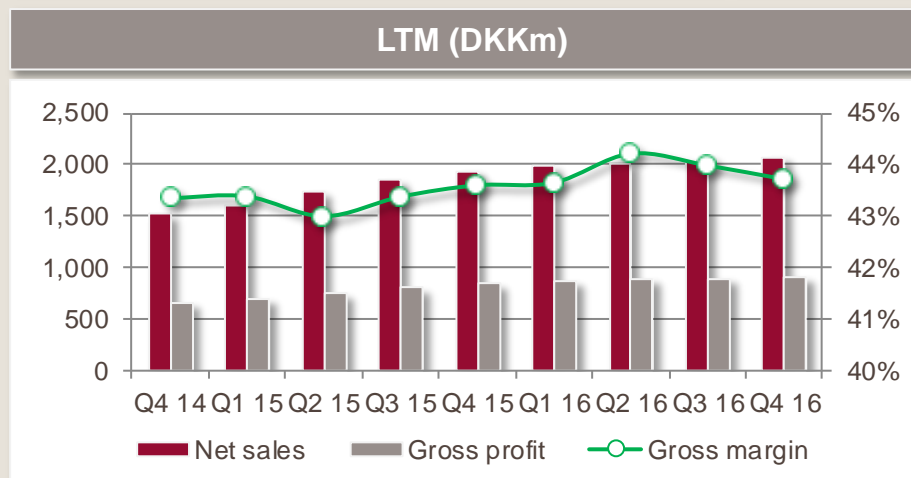
- Total market decline in 2016 estimated at 3-5% and by somewhat more in our core markets
- Inventory reductions in the trade have temporarily enlarged the decline rates
- Volume -4.9% in Q4 2016 versus -6.0% for full year 2016
- Impact from efficiency improvements is doing well and supports positive gross margin trend





# HANDMADE CIGARS

DKKm		2014	2015	2016	Q4 2015	Q4 2016
<b>Net sales</b>		<b>1,514</b>	<b>1,935</b>	<b>2,067</b>	<b>497</b>	<b>531</b>
<i>Reported growth</i>		10.6%	27.9%	6.8%		6.9%
<b>Gross profit</b>		<b>656</b>	<b>843</b>	<b>903</b>	<b>217</b>	<b>226</b>
<i>Gross margin</i>		43.3%	43.6%	43.7%	43.7%	42.6%
Volume impact		7.3%	6.6%	7.4%		6.4%
Price/mix impact		2.3%	1.3%	(0.2%)		(0.3%)
<b>Organic growth<sup>1)</sup></b>	<b>9.6%</b>	<b>7.9%</b>	<b>7.2%</b>		<b>6.1%</b>	

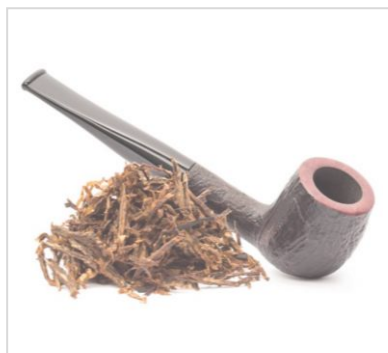


- Q4 2016**
- Market share gains continue in flat market. Cigars International at 36% and General Cigar at 29%
  - Organic growth +6.1% versus +4.1% in Q3 2016
  - Gross margins remain stable at 42.6% in Q4 2016 with mix and keystone pricing putting slight pressure on price/mix impact
  - International sales (outside the US) continue to deliver double-digit growth
  - Limited P&L impact in 2016 from FDA regulation

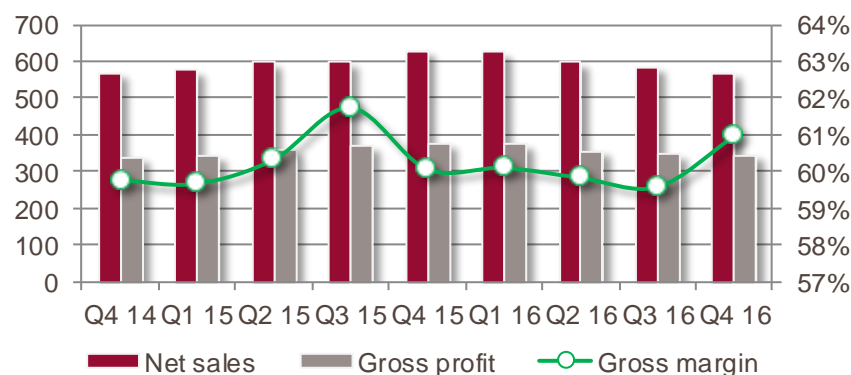


# PIPE TOBACCO

DKKm	2014	2015	2016	Q4 2015	Q4 2016
<b>Net sales</b>	<b>569</b>	<b>629</b>	<b>569</b>	<b>170</b>	<b>154</b>
<i>Reported growth</i>	0.4%	10.6%	(9.5%)		(9.5%)
<b>Gross profit</b>	<b>340</b>	<b>378</b>	<b>346</b>	<b>91</b>	<b>89</b>
<i>Gross margin</i>	59.8%	60.1%	60.8%	53.6%	57.8%
<i>Adj. gross margin</i>	59.8%	60.1%	61.2%	53.6%	59.0%
Volume impact	(3.1%)	(5.1%)	(10.6%)		(12.1%)
Price/mix impact	3.6%	6.7%	1.7%		2.2%
<b>Organic growth<sup>1)</sup></b>	<b>0.5%</b>	<b>1.6%</b>	<b>(8.9%)</b>		<b>(9.9%)</b>



LTM (DKKm)



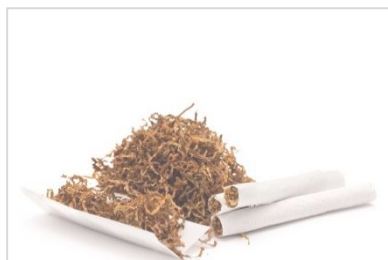
Q4 2016

- Pricing remains good. Growth of US dual-usage continues to have an adverse impact on category price/mix
- Net sales improved versus previous quarters, but remain well below last year due to structural decline in mature markets and low sales to Nigeria and Middle East
- Gross margins well above last year level due to geographical mix and weak Q4 2015

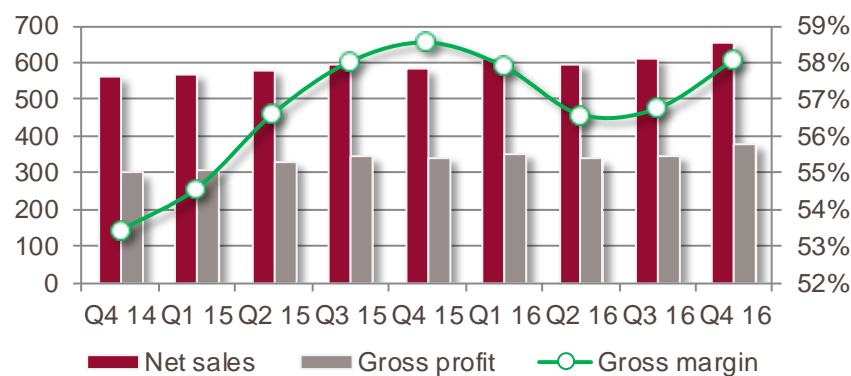


# FINE-CUT TOBACCO

DKKm	2014	2015	2016	Q4 2015	Q4 2016
<b>Net sales</b>	<b>562</b>	<b>583</b>	<b>652</b>	<b>144</b>	<b>184</b>
<i>Reported growth</i>	7.7%	3.8%	11.8%		27.3%
<b>Gross profit</b>	<b>300</b>	<b>342</b>	<b>378</b>	<b>76</b>	<b>107</b>
<i>Gross margin</i>	53.4%	58.5%	57.9%	52.8%	58.1%
<i>Adj. gross margin</i>	53.4%	58.5%	58.3%	52.8%	59.1%
Volume impact	1.1%	(6.0%)	7.1%		20.0%
Price/mix impact	7.7%	4.7%	6.2%		6.9%
<b>Organic growth<sup>1)</sup></b>	<b>8.8%</b>	<b>(1.3%)</b>	<b>13.3%</b>		<b>26.8%</b>



## LTM (LTM)



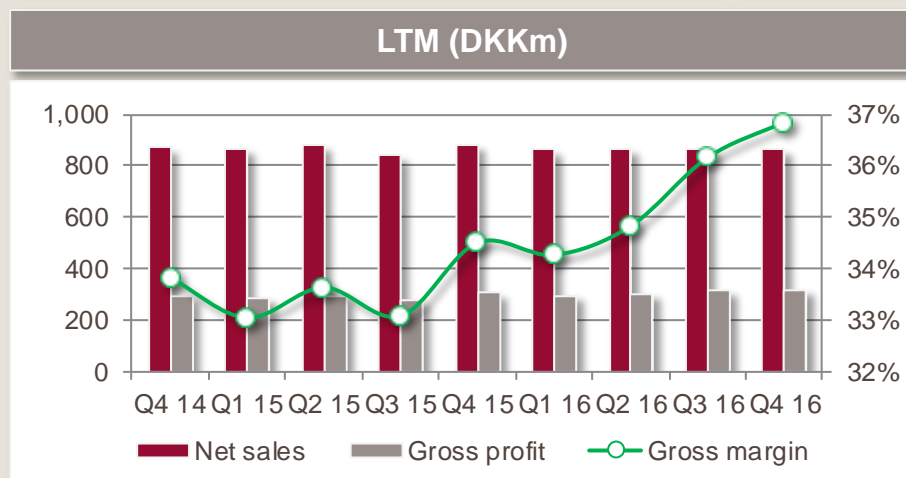
## Q4 2016

- 20% volume growth on the back of a weak Q4 2015
- Growing volumes and gaining market share in Germany
- Strong price development in key markets
- Margins up due to sound pricing, scale benefits and weak Q4 2015
- Strong finish in Norway due to excise increase



# OTHER

DKKm	2014	2015	2016	Q4 2015	Q4 2016
<b>Net sales</b>	<b>886</b>	<b>882</b>	<b>864</b>	<b>245</b>	<b>244</b>
<i>Reported growth</i>	(7.3%)	(0.5%)	(2.0%)		(0.5%)
<b>Gross profit</b>	<b>310</b>	<b>304</b>	<b>318</b>	<b>84</b>	<b>89</b>
<i>Gross margin</i>	35.0%	34.5%	36.8%	34.2%	36.6%
Volume impact	n/a	n/a	n/a		n/a
Price/mix impact	n/a	n/a	n/a		n/a
<b>Organic growth<sup>1)</sup></b>	<b>(6.6%)</b>	<b>(4.5%)</b>	<b>(3.6%)</b>		<b>(2.3%)</b>





**Q4 2016**

- In 2016 focus was on optimisation of CMA-contracts and improved profitability. One contract was terminated.
- Gross margins reflect improved profitability on CMA contracts as well as the sales of fire products in Australia
- Stable net sales in Q4 2016.
- Gross margin increased versus Q4 2015 by more than 2%-points



# UPDATE REGULATIONS

Area	Update
 <p><b>FDA / Deeming Regulation</b></p>	<ul style="list-style-type: none"> <li>• Effective as of August 8, 2016</li> <li>• User fees introduced as from October 1, 2016. Annual impact about 1% of cost of goods sold for the group. We intend to compensate with price increases</li> <li>• Substantial Equivalence Applications deadline February 10, 2018</li> <li>• Warning statements as of May 10, 2018</li> <li>• Other</li> </ul>
 <p><b>EU Tobacco Products Directive</b></p>	<ul style="list-style-type: none"> <li>• Non compliant products banned from retail May 20, 2017 (France Dec 30, 2016)</li> <li>• Cigars exempted from Plain Packaging in most markets</li> <li>• France bans selected brands (Café Crème, Paradise)</li> </ul>



# GUIDANCE 2017

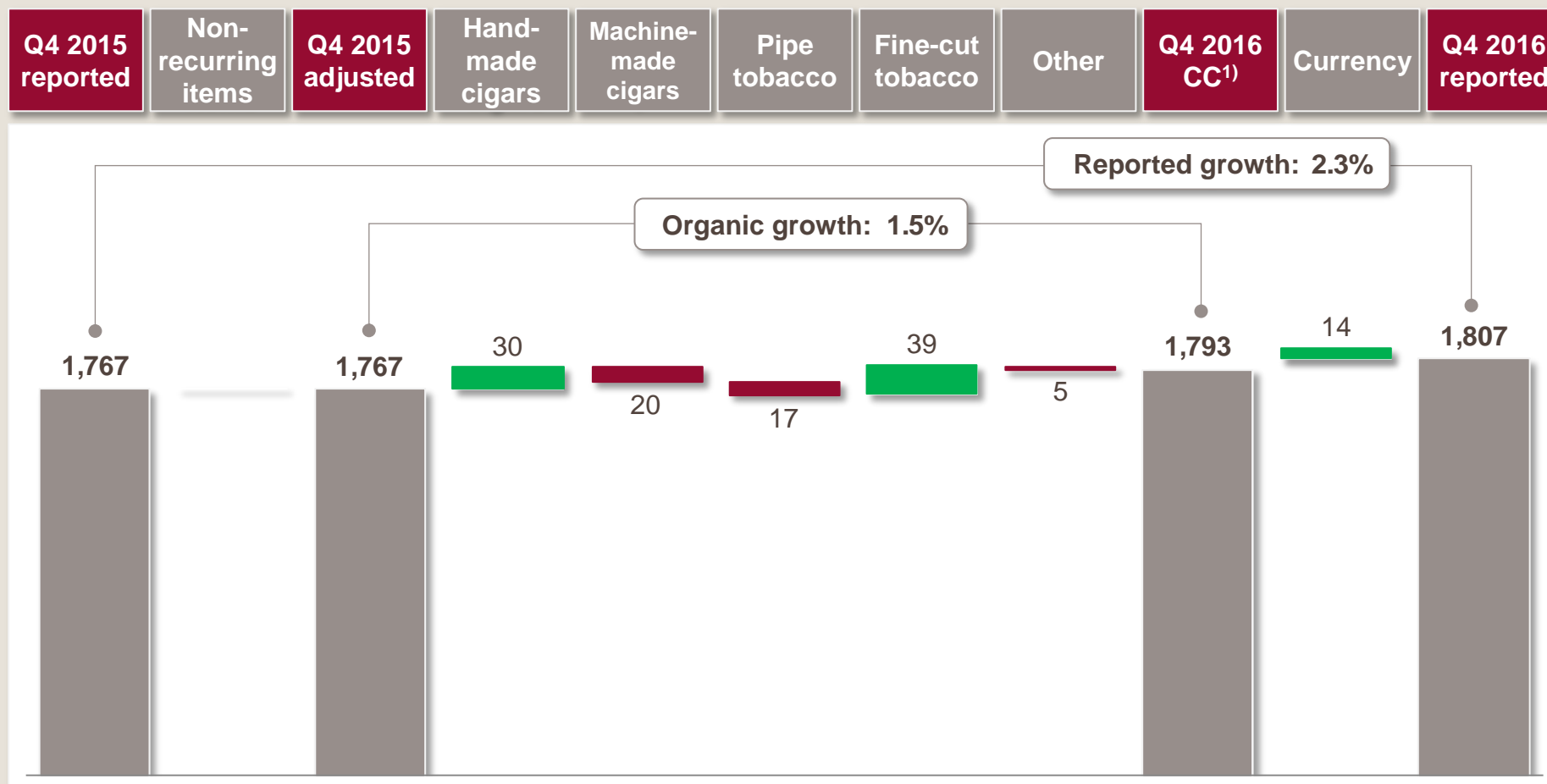
	2017 guidance
<b>Adjusted net sales</b>	<p><b>Flat organic growth<sup>1</sup></b>            (Q1 2017 expected to be negative)</p>
<b>Adjusted EBITDA</b>	<p><b>1-3% organic growth<sup>1</sup></b>            (Q1 2017 expected to be negative)</p>
<b>Other expectations</b>	<p><b>Financial expenses, excl. currency losses/gains DKK 70-80 million</b>  <b>Effective tax rate in the range of 24-25%</b>  <b>Capital expenditure of approx. DKK 150 million</b>  <b>DKK 50 million in non-recurring costs</b></p>



# Q & A



# NET SALES BRIDGE Q4 2015 VS Q4 2016

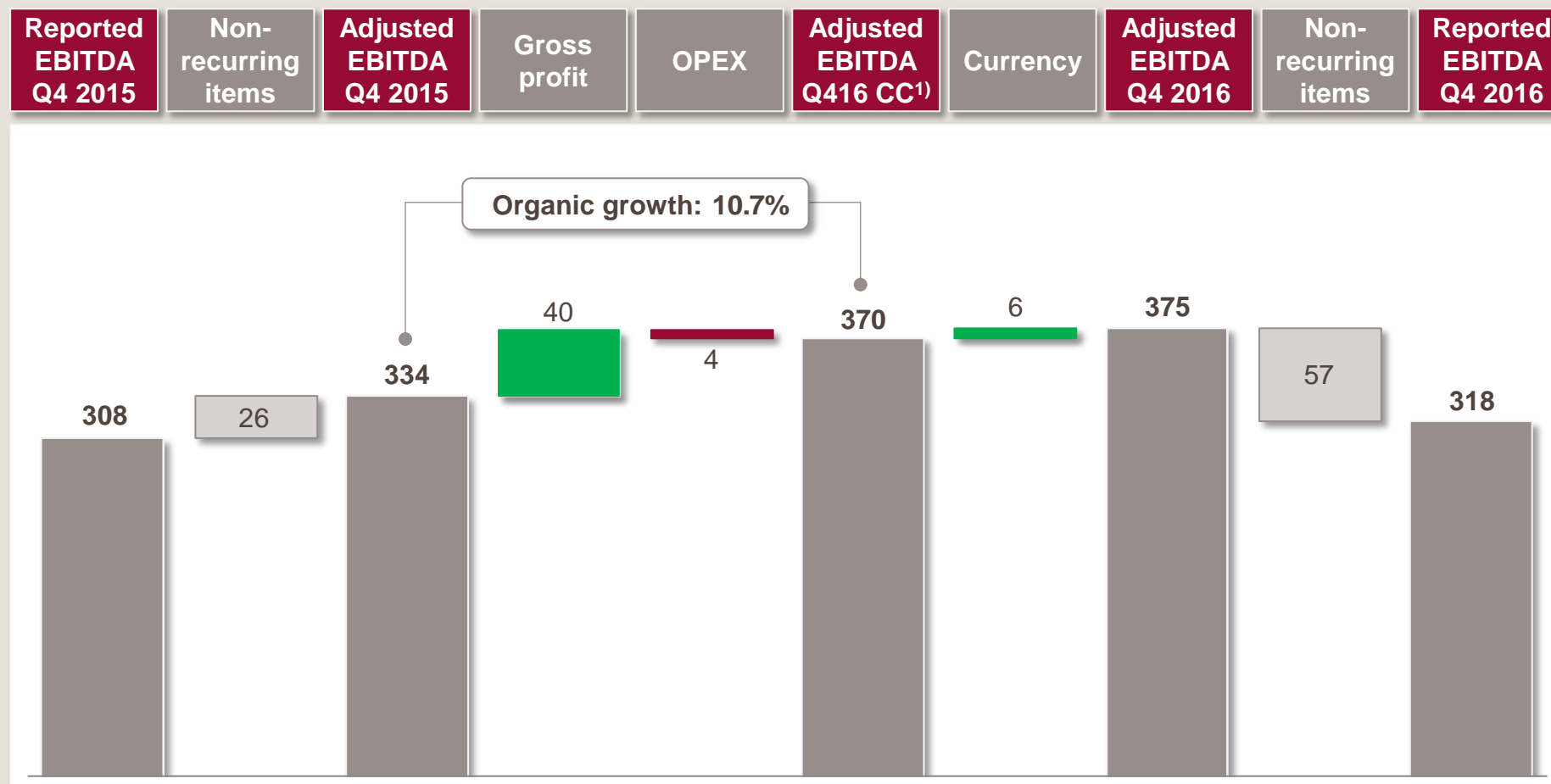


Note: All numbers in DKKm  
<sup>1</sup> Excluding currency impact





# ADJUSTED EBITDA BRIDGE Q4 2015 VS Q4 2016



Note: All numbers in DKKm

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



## NON-RECURRING ITEMS

Period	Net sales	Gross profit	OPEX	EBITDA	Impairments
Q1	-	5	-	5	-
Q2	-	-	19	19	-
Q3	-7	39	49	88	-
Q4	-	-	26	26	-
<b>FY 2015</b>	<b>-7</b>	<b>44</b>	<b>94</b>	<b>138</b>	<b>-</b>
Q1	-	-	13	13	-
Q2	-	8	0	8	-
Q3	-	63	20	83	38
Q4	-	18	39	57	-
<b>FY 2016</b>	<b>-</b>	<b>89</b>	<b>73</b>	<b>162</b>	<b>38</b>
<b>FY 2017</b>	<b>-</b>	<b>-</b>	<b>~50</b>	<b>~50</b>	<b>-</b>



# FINANCIAL CALENDAR 2017

Event	Date	Silent period starts
Fourth Quarter (Q4 2016) and full year results	March 16	February 16
Annual General Meeting (AGM 2016)	April 26	n/a
First Quarter (Q1 2017)	May 18	April 20
Second Quarter (Q2 2017)	August 24	July 27
Third Quarter (Q3 2017)	November 8	October 11



## **TORBEN SAND**

### **HEAD OF INVESTOR RELATIONS**

Scandinavian Tobacco Group A/S  
+45 39 55 62 00  
Direct +45 50 84 72 22  
[torben.sand@st-group.com](mailto:torben.sand@st-group.com)



# THANK YOU

[INFO@ST-GROUP.COM](mailto:INFO@ST-GROUP.COM)

[WWW.LINKEDIN.COM/ST-GROUP](http://WWW.LINKEDIN.COM/ST-GROUP)

[WWW.ST-GROUP.COM](http://WWW.ST-GROUP.COM)

