



SCANDINAVIAN TOBACCO GROUP

INVESTOR PRESENTATION

MARCH 10, 2016

FORWARD LOOKING STATEMENTS

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AGENDA

1. 2015 Highlights
2. Financial Update FY15 and Q415
3. Category Update
4. Appendix

FINANCIAL HIGHLIGHTS 2015

KPI	2015 guidance	2015 Actual performance
Net sales growth	High single digit	+9.9% 
Adjusted EBITDA-margin	Broadly in line with 2014 (20.3%)	20.5% 
Capital expenditures	c. DKK 250m	DKK 236m 

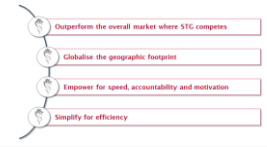
2015 – A YEAR OF CHANGE



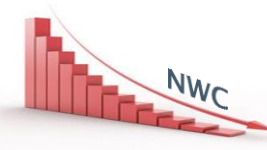
New management team



Strategy review completed



Cost efficiency and NWC programs initiated



Listing at Nasdaq Copenhagen (Feb 10, 2016)






OPTIMISATION AND EFFICIENCY UPDATE

	A Supply Chain Cost Savings	B Working Capital Improvement
Target 2018 ¹⁾	DKK 140 million	DKK 500 million ²⁾
Description	<ul style="list-style-type: none"> • Simplification • Network optimisation • Material cost reduction • Lean transformation • Integrated planning 	<ul style="list-style-type: none"> • Driver is inventory reduction <ul style="list-style-type: none"> • Raw tobacco • Other materials
Realised 2015	~10% of target	DKK 225 million ²⁾
Target 2016	~30% of 2018 target (~40% cumulative)	DKK 250 million ²⁾ (~50% cumulative)

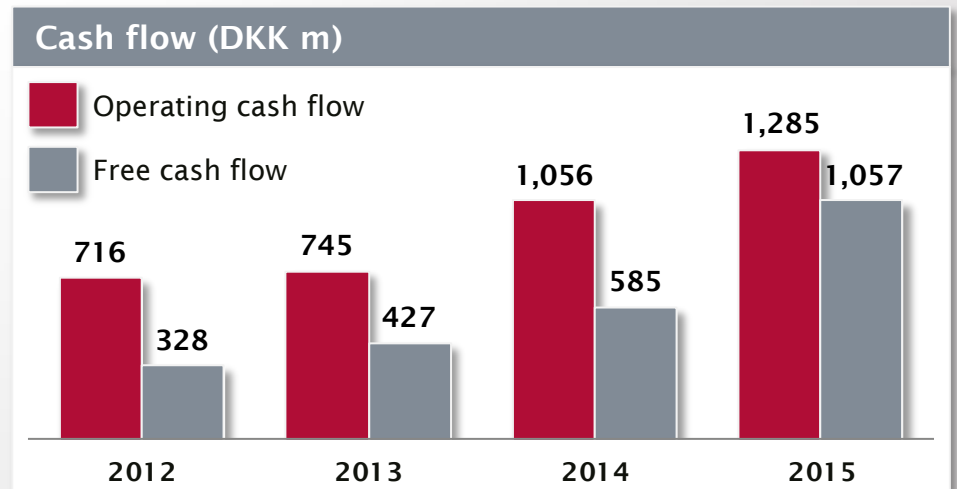
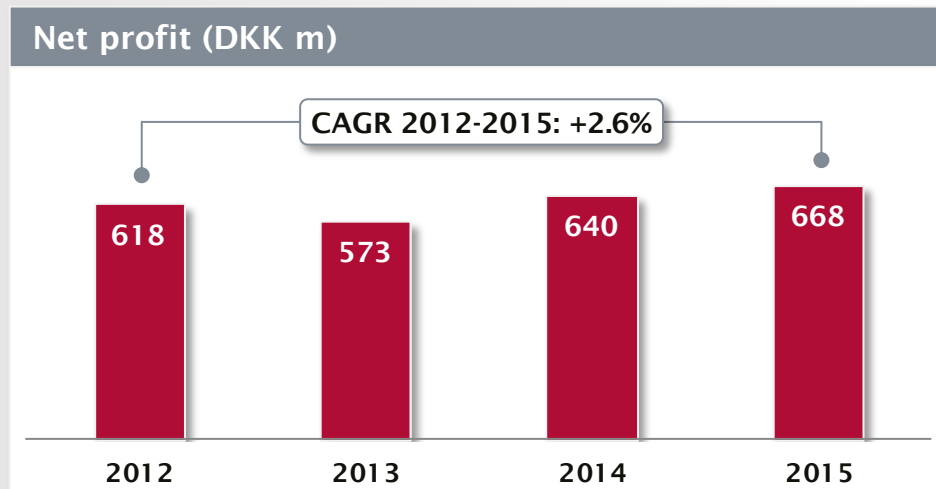
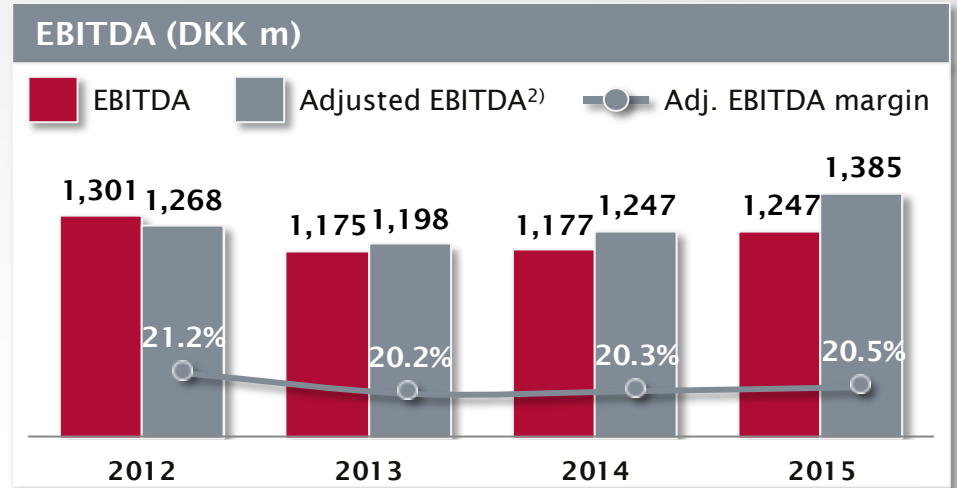
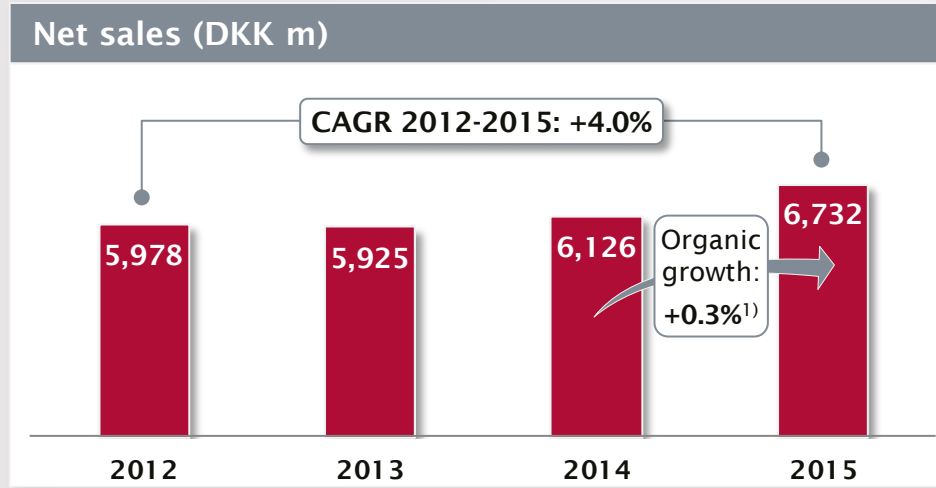
1) Compared to 2014 level

2) Inventory reduction on a like-for-like basis at constant currencies

UPDATE ON KEY REGULATION

Area	Update
 EU Tobacco Products Directive (TPD2)	<ul style="list-style-type: none">✓ We are well prepared✓ Some member states have not yet adopted TPD2 into national regulation✓ May 20 deadline to impact market dynamics
 FDA	<ul style="list-style-type: none">✓ FDA has not yet published Deeming Regulation✓ Full implementation expected to take several years✓ Market dynamics likely to change
 Cuba	<ul style="list-style-type: none">✓ Timing of potential lifting of embargo unclear✓ Market dynamics likely to change✓ STG engages with stakeholders
Other	<ul style="list-style-type: none">✓ Plain packaging

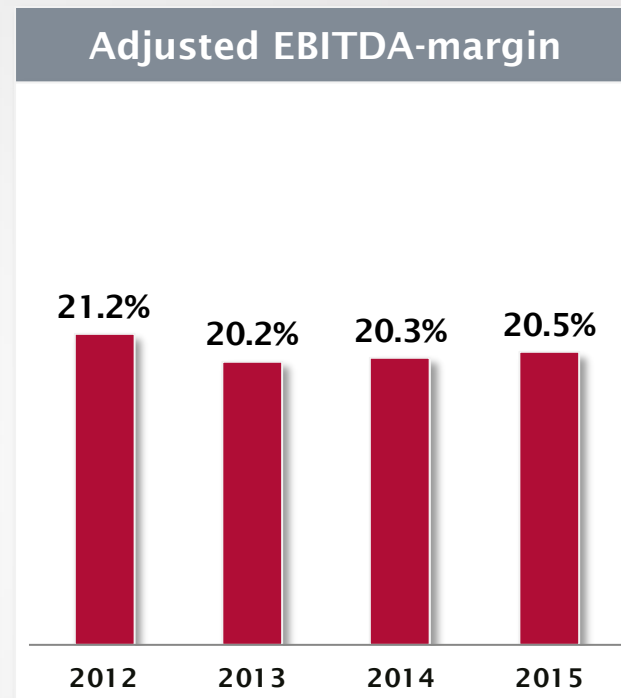
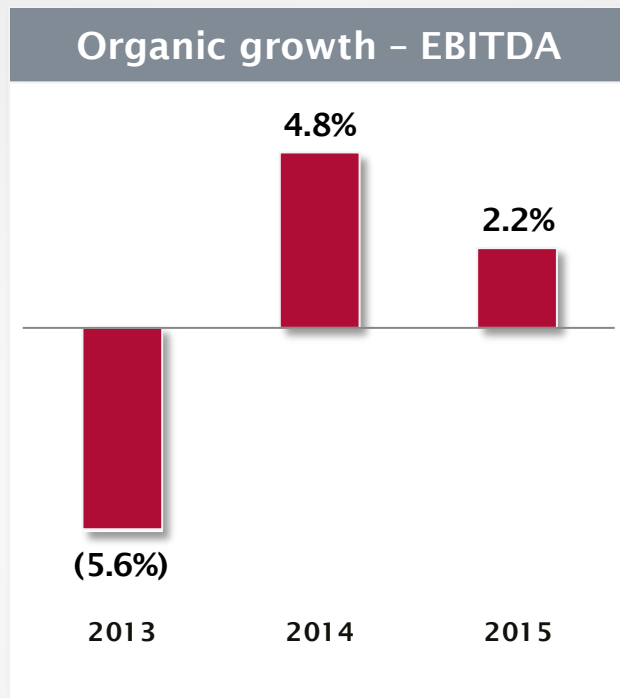
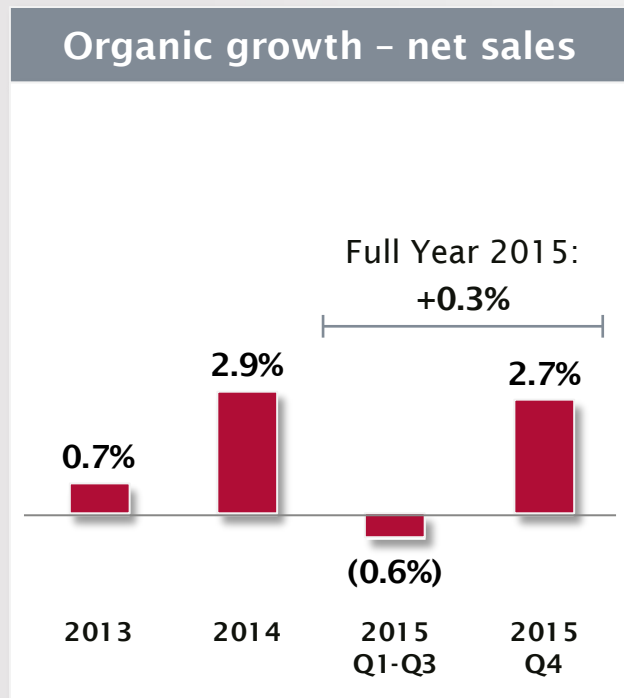
FINANCIAL OVERVIEW



1) Adjusted for currencies, acquisitions and non-recurring items

2) Adjusted for non-recurring items

OPERATING PERFORMANCE DRIVERS

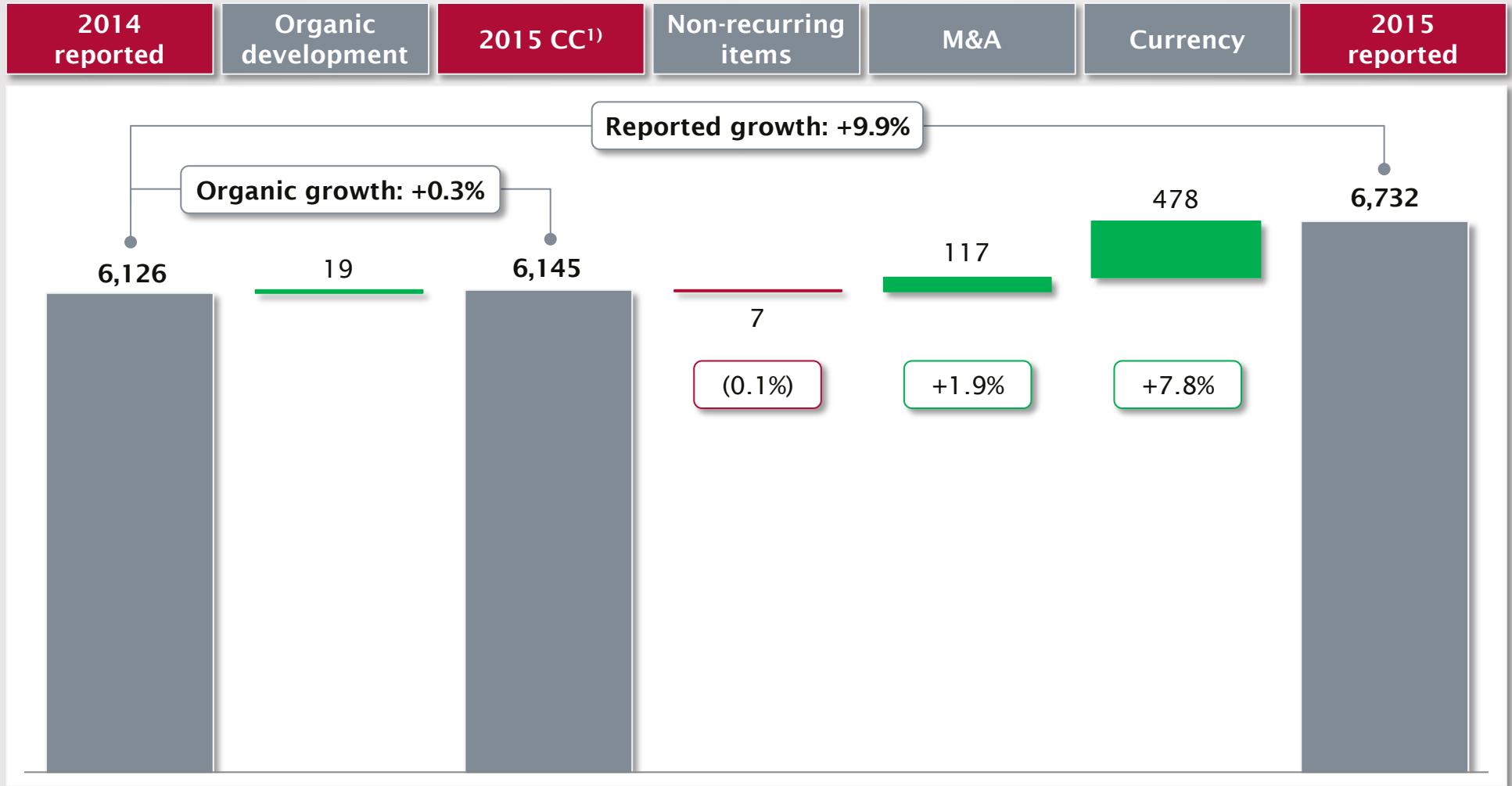


Medium-term outlook
+1-3%
through the cycle

Medium-term outlook
+3-5%
through the cycle

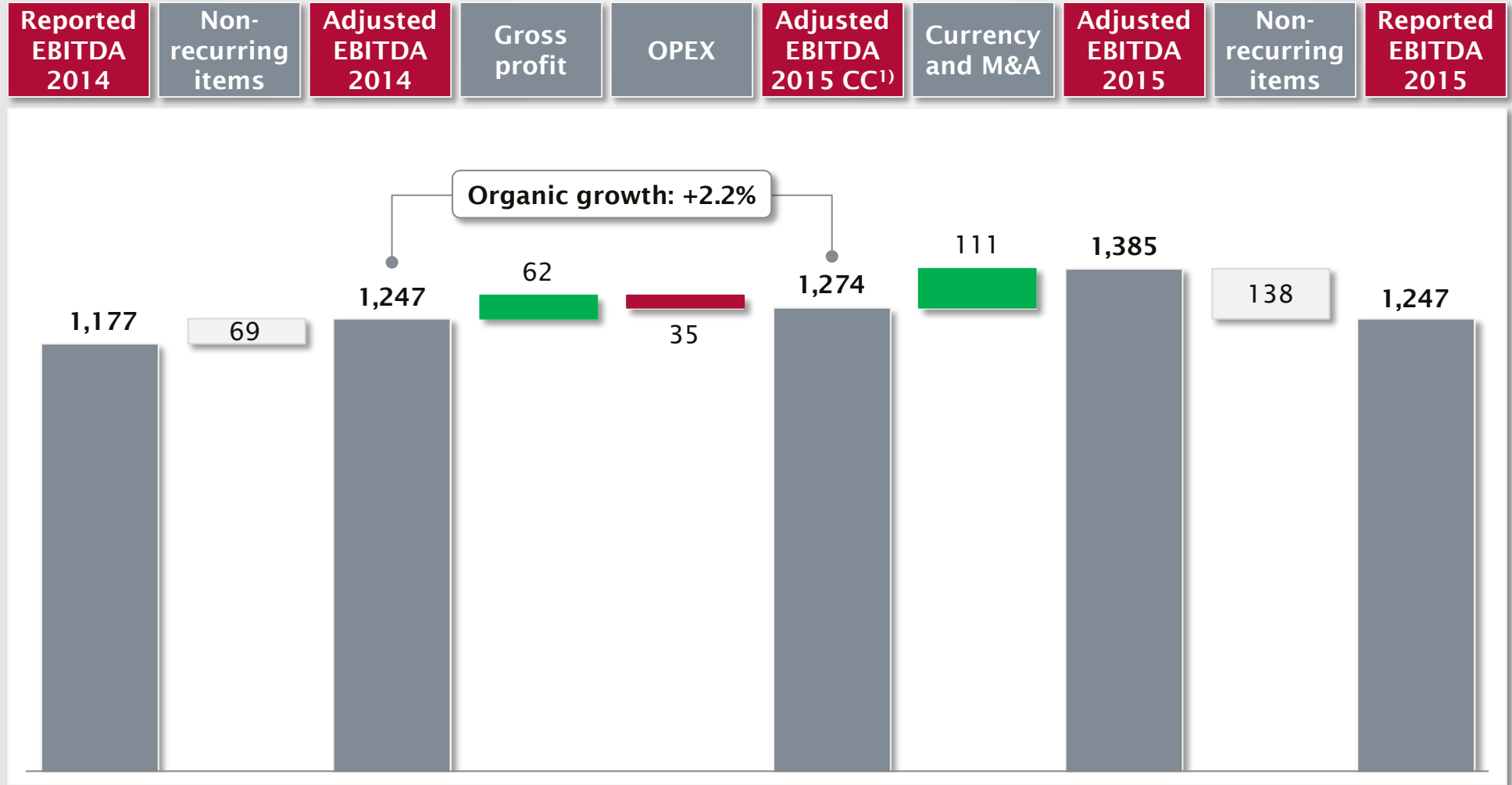
Improving

NET SALES BRIDGE 2014 VS 2015 (DKKM)



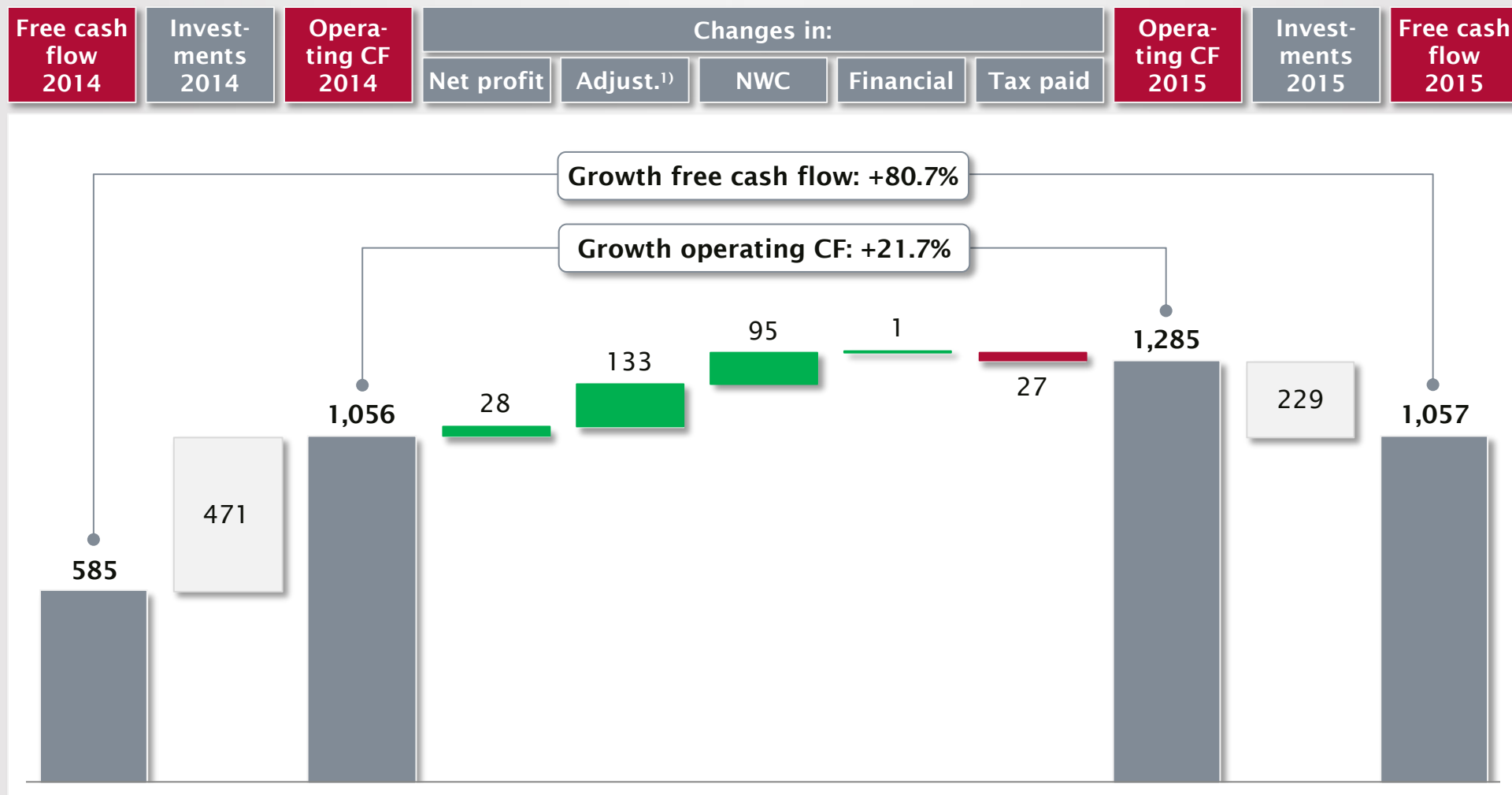
1) Excluding currencies, acquisitions and non-recurring items

ADJUSTED EBITDA BRIDGE 2014 VS 2015 (DKKM)



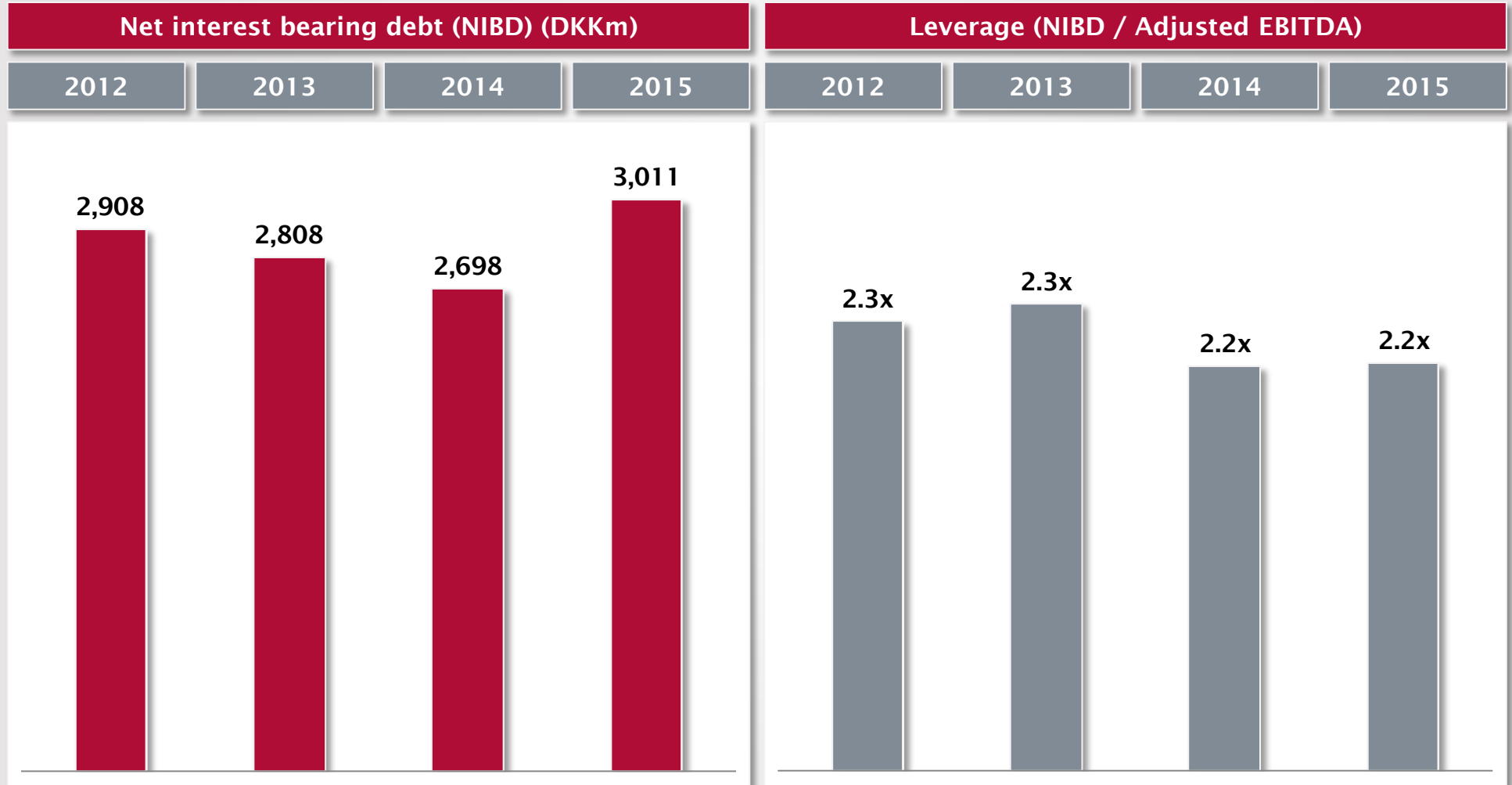
1) Excluding currencies, acquisitions and non-recurring items

OPERATING AND FREE CASH FLOW (DKKM)

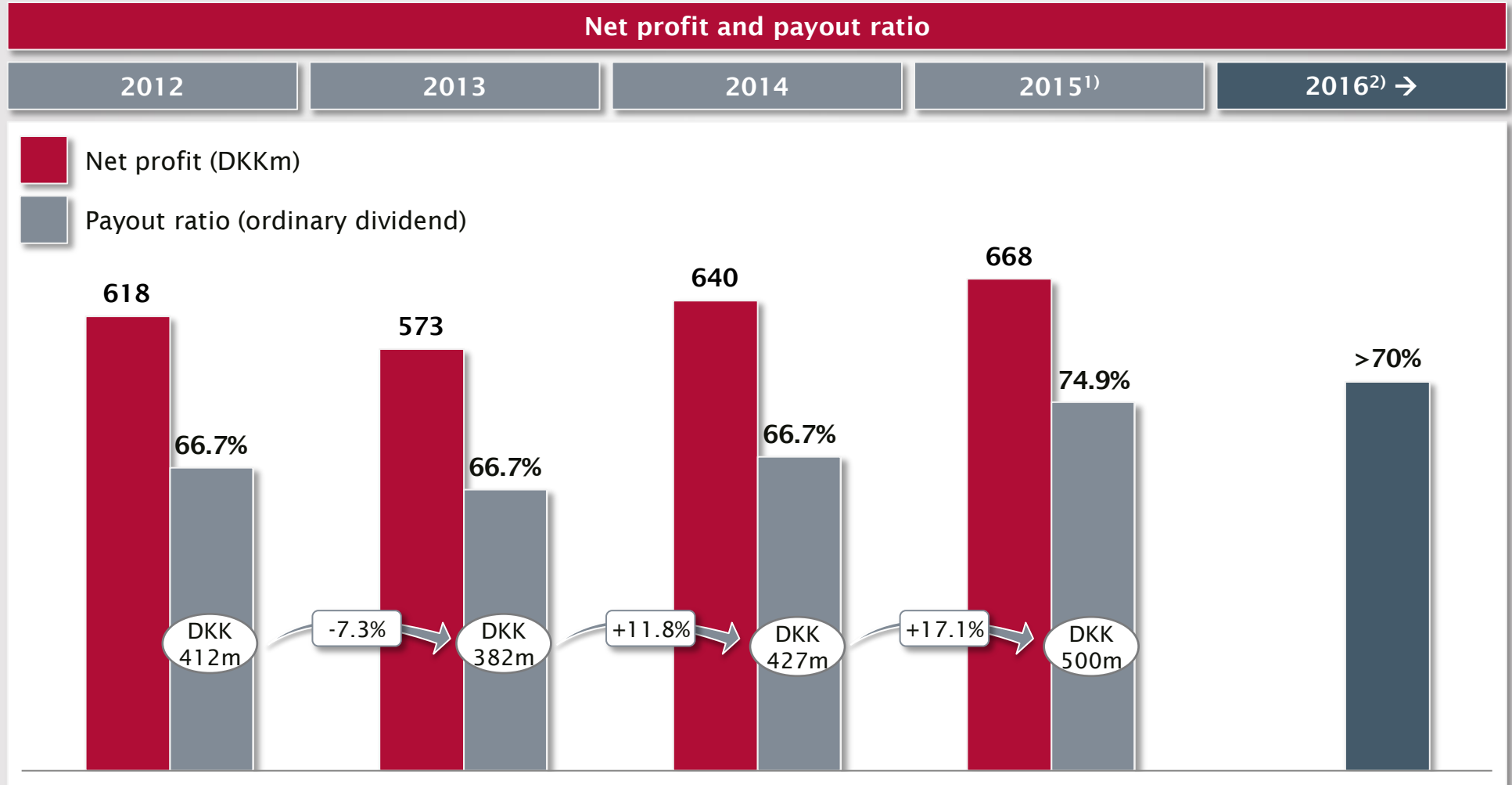


1) Adjustments comprise changes y-o-y in depreciation, amortisation, gains/losses on disposals a.o.

NET DEBT AND LEVERAGE



NET PROFIT AND PAYOUT RATIO



1) In 2015 an interim dividend of DKK 900 million was paid giving a total dividend pay-out ratio of 209.7%. 2015 pay-out ratio calculated based on the Board of Directors proposal for 2015 ordinary dividend


2) 2016 -> based on STG financial policy

GUIDANCE AND MEDIUM-TERM OUTLOOK

	2016 guidance	Medium-term outlook 2)
A Adjusted net sales	1% - 3% organic growth ¹	1% - 3% organic growth ¹ (through the cycle)
B Adjusted EBITDA	3% - 5% organic growth ¹	3% - 5% organic growth ¹ (through the cycle)
C Capital expenditures	Around DKK 250m	c. DKK 150m (maintenance)

1) Annual organic growth, i.e. excluding currencies, acquisitions and non-recurring items.

MACHINE-MADE CIGARS

DKKm		2013	2014	2015	2014 Q4	2015 Q4
Net sales		2,513	2,595	2,702	710	711
Reported growth		(3.1%)	3.3%	4.1%		0.1%
Gross profit		1,362	1,341	1,372	392	354
Gross margin		54.2%	51.7%	50.8%	55.2%	49.8%
Volume impact		(4.2%)	(0.6%)	(5.7%)		(4.0%)
Price/mix impact		1.6%	2.8%	3.4%		2.9%
Organic growth ¹⁾		(2.6%)	2.2%	(2.3%)		(1.1%)

Full year 2015


- Challenging business environment
- Stable market shares with variances per market
- -2.3% organic sales growth (reported +4%: Verellen impact +4% and FX +2%)
- Reported gross margin down by 0.9pp due to restructuring of supply chain. Adjusted margin up by 0.5pp
- Complexity reduction and efficiency program progress according to plan

Fourth quarter 2015

- -1.1% organic net sales growth. Volume impact at -4.0% and price/mix at +2.9%
- Certain markets experienced year-end rebound in volumes
- Reported gross margin down by 5.4pp. Adjusted for reversal of pension provisions in 2014 Q4 and timing of accrued import duties in 2015 Q4 margin was in-line

1) Excluding currencies, acquisitions and non-recurring items

HANDMADE CIGARS

DKKm		2013	2014	2015	2014 Q4	2015 Q4
Net sales		1,368	1,514	1,935	407	497
Reported growth		(0.7%)	10.6%	27.9%		22.0%
Gross profit		603	656	843	174	217
Gross margin		44.1%	43.3%	43.6%	42.7%	43.7%
Volume impact		(3.0%)	7.3%	6.6%		10.1%
Price/mix impact		5.3%	2.3%	1.3%		(3.0%)
Organic growth ¹⁾		2.3%	9.6%	7.9%		7.0%


Full year 2015

- Net sales organic growth +7.9% (+27.9% reported) driven by continued strong performance in the online & retail channel and modest growth at GC
- Gross margin up by 0.3pp to 43.6%
- CI continues to take market share in the online channel
- New management structure

Fourth quarter 2015

- Net sales organic growth +7.0% (+22.0% reported). Volume impact +10.1% and price/mix down by 3.0%.
- Gross margin up by 1.0pp to 43.7%

1) Excluding currencies, acquisitions and non-recurring items

DKKm		2013	2014	2015	2014 Q4	2015 Q4
Net sales		567	569	629	140	170
Reported growth		3.2%	0.4%	10.6%		21.8%
Gross profit		333	340	378	83	91
Gross margin		58.8%	59.8%	60.1%	59.5%	53.6%
Volume impact		1.5%	(3.1%)	(5.1%)		9.9%
Price/mix impact		3.9%	3.6%	6.7%		4.7%
Organic growth ¹⁾		5.4%	0.5%	1.6%		14.6%


Full year 2015

- Net sales organic growth +1.6% (+10.6% reported) with strong price/mix (+6.7%) compensating for volume declines (-5.1%)
- Volume declines driven by Nigeria and Denmark.
- Gross margin up by 0.3pp due to price/mix management

Fourth quarter 2015

- Net sales organic growth +14.6% (+21.8% reported) with both volumes and price/mix contributions
- Volumes boosted by a strong year-end especially in the US
- Gross margin down by 5.9pp due to mix

1) Excluding currencies, acquisitions and non-recurring items

DKKm		2013	2014	2015	2014 Q4	2015 Q4
Net sales		522	562	583	155	144
Reported growth		6.3%	7.7%	3.9%		(6.5%)
Gross profit		274	300	342	79	76
Gross margin		52.5%	53.4%	58.5%	51.1%	52.8%
Volume impact		0.7%	1.1%	(6.0%)		(16.9%)
Price/mix impact		6.6%	7.7%	4.7%		6.2%
Organic growth ¹⁾		7.3%	8.8%	(1.3%)		(10.6%)

Full year 2015

- Net sales organic growth -1.3% (+3.9% reported) with volumes down 6.0% and price/mix up by 4.7%
- Volume was impacted by termination of NAS contract (the UK a.o.) and loading at the Danish/German border
- Gross margin up by 5.1pp driven by termination of low-margin NAS contract and price increases
- Expanded tobacco start-up in Holstebro factory

Fourth quarter 2015

- Net sales organic growth -10.6% (-6.5% reported) with volume impact down by 16.9% and price/mix up by 6.2%
- Q4 15 heavily skewed by termination of NAS contract and loading at German/Danish border
- Gross margin up by 1.7pp

1) Excluding currencies, acquisitions and non-recurring items

DKKm	2013	2014	2015	2014 Q4	2015 Q4
Net sales	956	886	882	219	245
<i>Reported growth</i>	(1.2%)	(7.3%)	(0.5%)		12.0%
Gross profit	342	310	304	74	84
<i>Gross margin</i>	35.8%	35.0%	34.5%	33.5%	34.2%
Volume impact	n/a	n/a	n/a		n/a
Price/mix impact	n/a	n/a	n/a		n/a
Organic growth¹⁾	1.2%	(6.6%)	(4.5%)		8.9%

Full year 2015

- Net sales organic growth -4.5% (-0.5% reported)
- Gross margins slightly down at 34.5% (35.0%)
- Captain Black license agreement in Russia was terminated with effect from July

Fourth quarter 2015

- Net sales organic growth at +8.9% (+12.0% reported)
- Strong year-end for other products and third party agreements

1) Excluding currencies, acquisitions and non-recurring items

APPENDIX



Financial policy

A

Shareholder return policy

- Dividend policy of **at least 70% pay-out ratio** of reported net profit
- Excess cash may be used to conduct **share buybacks**

B

Leverage policy

- Target of **NIBD/adjusted EBITDA ratio of 2.5x**

C

M&A policy

- Actively **pursue consolidation opportunities** with disciplined approach
- Ability to **maintain an attractive dividend policy** while pursuing consolidation

NET SALES COMPOSITION

Group numbers in DKKm	2013	2014	2015	2014 Q4	2015 Q4
Net Sales	5,925	6,126	6,732	1,630	1,767
Reported growth	(0.9%)	3.4%	9.9%		8.4%
- Non-recurring	0.0%	0.0%	(0.1%)		(0.0%)
- Currency	(1.6%)	(0.7%)	7.8%		5.7%
- M&A	0.0%	1.2%	1.9%		(0.0%)
Organic growth	0.7%	2.9%	0.3%		2.7%

Organic growth per segment	2013	2014	2015	2014 Q4	2015 Q4
Machine-made cigars	(2.6%)	2.2%	(2.3%)		(1.1%)
Handmade cigars	2.3%	9.6%	7.9%		7.0%
Pipe tobacco	5.4%	0.5%	1.6%		14.6%
Fine-cut tobacco	7.3%	8.8%	(1.3%)		(10.6%)
Other	1.2%	(6.6%)	(4.5%)		8.9%
Organic growth	0.7%	2.9%	0.3%		2.7%

GROSS MARGIN COMPOSITION

Group numbers	2013	2014	2015	2014 Q4	2015 Q4
Gross profit	2,915	2,947	3,238	801	821
Gross margin	49.2%	48.1%	48.1%	49.1%	46.5%
Gross margin, adjusted¹⁾	49.2%	48.1%	48.7%	49.1%	46.5%

Gross margin per segment	2013	2014	2015	2014 Q4	2015 Q4
Machine-made cigars ¹⁾	54.2%	51.7%	50.8%	55.2%	49.8%
Handmade cigars	44.1%	43.3%	43.6%	42.7%	43.7%
Pipe tobacco	58.8%	59.8%	60.1%	59.5%	53.6%
Fine-cut tobacco	52.5%	53.4%	58.5%	51.1%	52.8%
Other	35.8%	35.0%	34.5%	33.5%	34.2%
Group¹⁾	49.2%	48.1%	48.1%	49.1%	46.5%

1) 2015 includes non-recurring items of DKK -43.7m in gross profit and DKK -6.9m in net sales.

Adjusted gross margin 52.2% (machine-made) and 48.7% (STG).

SELECTED BRAND PORTFOLIO

	Machine-made cigars	Handmade cigars	Fine-cut tobacco	Pipe tobacco
Premium				
				
Mainstream				
Value				

GROUP - SALES AND SUPPLY CHAIN



- STG Sales Companies
- Export Markets
- Production Sites

<p>Dominican Rep. Santiago: Cigars, box making and long filler tobacco processing</p>	<p>Honduras Danli: Cigars, box making and long filler tobacco processing</p>	<p>Indonesia Pandaan: Cigars, bobbins and box making Pasuruan: Bobbins</p>	<p>Denmark Assens: Pipe tobacco</p>	<p>Holland Eersel: Cigars</p>
<p>Moca: Bobbins Two tobacco plantations</p>	<p>Nicaragua Esteli: Cigars and long filler tobacco processing</p>	<p>USA Tucker: Pipe tobacco, fine-cut, little cigars</p>	<p>Holstebro: Fine-cut Nykøbing: Cigars</p>	<p>Belgium Lummen: Cigars Verellen: Cigars</p>

Financial Calendar 2016

	Date	Silent period starts
Annual General Meeting	April 26	
First Quarter (Q1 16)	May 25	April 27
Second Quarter (Q2 16)	August 31	August 3
Third Quarter (Q3 16)	November 3	October 6

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