

**Company Announcement**

No. 66/2022

Copenhagen, 9 November 2022

**Interim report, 1 January - 30 September 2022****Scandinavian Tobacco Group A/S Reports Q3 Results with Solid Cash Flow and Maintains Full-Year Guidance**

For the third quarter of 2022 Scandinavian Tobacco Group delivered 1% negative organic net sales growth which is in-line with the Company's performance expectations for the full year. Consumption in our categories has remained resilient in recent months, and when combined with strong price management, has resulted in organic net sales remaining relatively stable as compared to last year, despite the third quarter being impacted by the return to the pre-pandemic market mix. Increasing cost inflation across the entire value chain and continued promotional pressure in the online business is negatively impacting the Group's EBITDA-margin. The plan to improve productivity in the supply chain is being executed, however, with high complexity in our portfolio we expect part of the issues to persist into 2023.

**Q3 Highlights**

- Net sales were DKK 2,362 million (DKK 2,182 million) with -1.4% organic growth.
- EBITDA before special items was DKK 631 million (DKK 627 million) with -6.2% organic growth. The EBITDA margin was 26.7% (28.7%). The third quarter of 2021 was positively impacted by refunds of certain duties in the US by DKK 31 million.
- Exchange rate developments increased net sales by DKK 196 million and EBITDA before special items by DKK 43 million.
- Adjusted Earnings Per Share (EPS) were DKK 4.4 (DKK 4.2).
- Free cash flow before acquisitions was DKK 462 million (DKK 564 million).
- Return on Invested Capital was 13.2% (12.9%).
- In the first nine months of 2022, organic net sales decreased by 1.6% to DKK 6,577 million (DKK 6,221 million), EBITDA before special items decreased by 8.0% organically to DKK 1,707 million (DKK 1,759 million) and free cash flow before acquisitions was at DKK 735 million (DKK 1,086 million).

*"In the current environment I'm pleased with our performance for the third quarter, delivering solid cash flows and positive EPS growth, which is in-line with our financial expectations for the full year of 2022. We are driving productivity improvements in the supply chain, an issue we have faced in recent quarters which continues to be our most important short-term priority,"* said CEO Niels Frederiksen.

*"While the supply chain issue and the current economic backdrop continue to be challenging, we are encouraged by the progress we are making on our Rolling Towards 2025 Strategy. Our new super store in San Antonio is off to a very strong start, and our Growth Incubator completed its second product launch in the third quarter, with early but encouraging results. As the unprecedented inflationary dynamics continue to play out, we will use the offsetting actions at our disposal to manage in the*

*short-term and are confident in our ability to deliver on our long-term strategy and value aspirations for our shareholders."*

### **Financial Guidance 2022**

Consumption of our products continues to be relatively resilient, pricing remains robust throughout most product categories and markets, and the Company is making progress on improving productivity in the supply chain. Consequently, the assumption of an unchanged organic net sales development for the full year is maintained.

Based on these assumptions, the full-year guidance for 2022 is maintained:

- EBITDA: Organic growth in the range -4% to 0%
- Free cash flow before acquisitions in the range DKK 1.1-1.4 billion
- Adjusted EPS >5% increase

For the fourth quarter of 2022 we expect organic net sales growth and organic EBITDA growth to resume. Organic net sales growth is expected to be driven by Europe Branded and North America Online & Retail, whereas North America Branded & Rest of World is expected to deliver declining organic net sales versus the fourth quarter of 2021. A lower OPEX-ratio is expected to support a return to organic EBITDA growth in the quarter. The bias in the expectation for organic EBITDA growth for the full year is currently included in the lower end of the guidance range.

#### **For further information, please contact:**

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A conference call will be held on 10 November 2022 at 10.00 CEST. Dial-in information and an accompanying presentation will be available at [investor.st-group.com/investor](http://investor.st-group.com/investor) around 09:00 CEST.

# Key Figures

DKK million	Q3 2022	Q3 2021	9M 2022	9M 2021	FY 2021
<b>INCOME STATEMENT</b>					
Net sales	2,362	2,182	6,577	6,221	8,233
Gross profit before special items	1,172	1,102	3,265	3,128	4,113
EBITDA before special items	631	627	1,707	1,759	2,233
Special items	-27	-26	-67	-67	-55
EBIT	514	510	1,374	1,421	1,814
Net financial items <sup>1</sup>	-32	-29	-90	-61	-77
Profit before tax	492	489	1,315	1,384	1,769
Income taxes	-111	-106	-296	-300	-378
Net profit	382	383	1,019	1,083	1,391
<b>BALANCE SHEET</b>					
Total assets			16,145	14,384	14,584
Equity			9,576	8,686	8,968
Net interest-bearing debt (NIBD)			4,138	3,360	3,266
Investment in property, plant and equipment	66	68	179	157	212
Total capital expenditures	92	76	279	183	240
<b>CASH FLOW STATEMENT</b>					
Cash flow from operating activities	551	635	999	1,256	1,567
Cash flow from investing activities	-89	-71	-268	-170	-178
Free cash flow	462	564	731	1,086	1,389
Free cash flow before acquisitions	462	564	735	1,086	1,393
<b>KEY RATIOS<sup>2</sup></b>					
Net sales growth	8.2%	-2.2%	5.7%	2.3%	2.8%
Gross margin before special items	49.6%	50.5%	49.6%	50.3%	50.0%
EBITDA margin before special items	26.7%	28.7%	25.9%	28.3%	27.1%
Effective tax percentage	22.5%	21.7%	22.5%	21.7%	21.4%
Equity ratio			59.3%	60.4%	61.5%
Cash conversion	100.7%	96.7%	77.9%	101.7%	108.6%
Organic net sales growth	-1.4%	-2.2%	-1.6%	5.4%	4.5%
Organic EBITDA growth	-6.2%	0.9%	-8.0%	19.5%	18.4%
NIBD / EBITDA before special items			1.9	1.6	1.5
ROIC			13.2%	12.9%	14.5%
ROIC ex. Goodwill			21.9%	21.5%	24.3%
Adjusted earnings per share (DKK)	4.4	4.2	11.6	11.6	14.8
Basic earnings per share (DKK)	4.2	4.0	11.1	11.3	14.6
Diluted earnings per share (DKK)	4.2	4.0	11.1	11.3	14.5
Number of shares issued ('000)			93,000	97,500	97,500
Number of treasury shares ('000)			4,113	3,358	4,526
Number of outstanding shares ('000) <sup>3</sup>			91,432	96,220	95,689
Share price at balance date (DKK)			110.50	126.90	137.30
Dividend per share (DKK)					7.5
Pay-out ratio					52.6%

1. Excl. share of profit of associated companies.

2. See definition/explanation of financial ratios in note 5.8 in the Annual Report 2021.

3. Average number of shares outstanding, including dilutive effect of PSUs.

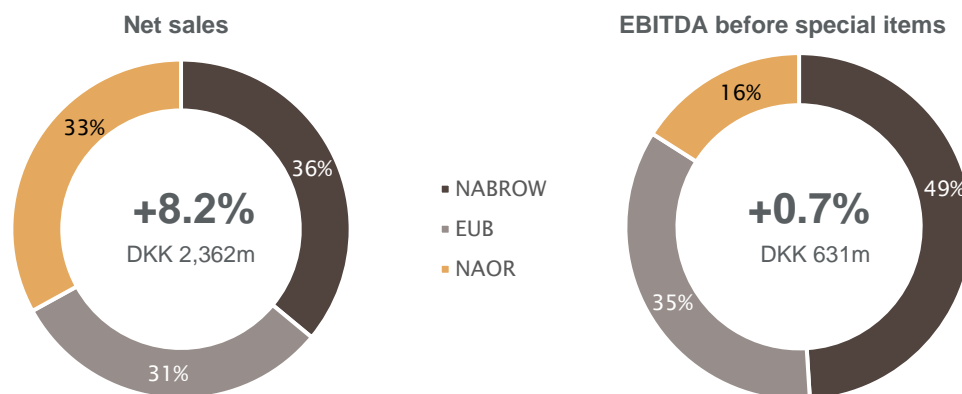
## Business overview Q3 2022

In the third quarter of 2022, the Group delivered a financial performance in line with expectations. Reported net sales increased by 8% to DKK 2,362 million, while organic net sales decreased by 1%. Exchange rate developments were impacted positively by DKK 196 million. The performance was driven by positive organic net sales growth in Europe Branded (“EUB”) and a negative organic net sales growth in North America Online & Retail (“NAOR”). North America Branded & Rest of World (“NABROW”) delivered flat organic net sales growth compared with the third quarter of 2021. Consumer behaviour remains relatively solid in the current macro-economic environment, despite pandemic induced impacts now subsiding, with the organic net sales trend for the Group being stable. Price management and increased cost consciousness are expected to balance the increasing cost inflation and the prevailing supply chain issue.

Gross margin decreased compared with the same quarter of 2021 to 49.6% (50.5%), which was primarily driven by the change in product and market mix, particularly in NABROW. EBITDA before special items was DKK 631 million with 6% negative organic growth resulting in an EBITDA margin before special items of 26.7% (28.7%). In the third quarter of 2021 EBITDA was positively impacted by a refund of certain duties in the US of DKK 31 million. OPEX-ratio decreased slightly to 22.9% (23.2%) despite increased cost inflation but due to tight cost control and prioritisation.

Special items were DKK -27 million (DKK -26 million) mainly driven by the ERP project OneProcess (see note 3). The Group’s free cash flow before acquisitions declined to DKK 462 million (DKK 564 million) due to changes in working capital. Changes in working capital were negative by DKK -29 million (DKK 136 million) driven by higher inventories and receivables. Special items impacted the cash flow by DKK -31 million (DKK -41 million). The Group’s leverage ratio (LTM) declined to 1.9x versus 2.0x by the end of the second quarter 2022.

### Divisional split Q3 2022



### Group net sales and EBITDA Q3 2022

Table 1: Net sales

	Q3	Q3	Change
DKK million	2022	2021	in %
Net sales	2,362	2,182	8.2%
Acquisitions		15	
Currency development	-196		
<b>Organic net sales</b>	<b>2,166</b>	<b>2,197</b>	<b>-1.4%</b>

Table 2: EBITDA before special items

	Q3	Q3	Change
DKK million	2022	2021	in %
EBITDA	631	627	0.7%
Acquisitions		0	
Currency development	-43		
<b>Organic EBITDA</b>	<b>588</b>	<b>627</b>	<b>-6.2%</b>

# Business updates

## The Growth Incubator brings its second product to market

The Company's Growth Incubator, the enabler identifying new paths to growth supporting our Rolling Towards 2025 strategy, continues to make notable progress.

At the end of the third quarter of 2022, **STRÖM**, our first "Modern Whites" product was launched in Sweden and in a test environment in Manchester, UK. STRÖM is a high-quality brand of tobacco-free nicotine pouches developed in collaboration with a well-established company with more than 30 years of experience in developing and manufacturing nicotine products. STRÖM is the next generation of all-white nicotine pouches, and its proposition is anchored in 'maturity' with four differentiating consumer benefits:

1. unique brand design
2. three natural tasting flavours (Fresh Mint, Minty Orange, Juicy Berry)
3. long lasting flavour and nicotine release and
4. delivered in a 100% plant-based plastic can

The launch, although still in its early days, has had a strong start with positive response by retailers in Sweden.

STRÖM is the second product launch from the Growth Incubator. In the third quarter of 2021, we launched our combustible hemp brand, **Versa**, which creates an ideal non-nicotine product for cigarette smokers seeking an alternative to their current tobacco-based choice. Combustible hemp products are a new category within the industry which will take time to build; however, initial developments have been positive to date.

## The Sustainability Strategy

In May 2022, we launched a more ambitious and comprehensive sustainability strategy called **Rolling Responsibly**. The new sustainability strategy, which is now fully integrated into the corporate strategy Rolling Towards 2025, strives to craft a better tomorrow by elevating our communities and anchoring climate action in our corporate culture. The ambition is embedded in two strategic pillars 1) Net Zero along the Journey of the Leaf and 2) Sustainable Communities Pioneers. Our long-standing focus and efforts within Diversity, Equity and Inclusion and Corporate Ethics continue and are key components of our enhanced sustainability platforms.

Since the launch of Rolling Responsibly, the priority has been to reinforce our sustainability organisation as well as the formal commitment to SBTi (Science Based Targets initiative) - setting ambitious emission reduction targets.

## Update on financial key metrics

In the third quarter of 2022, the **EBITDA margin** decreased to 26.7% (28.7%) despite a slightly lower OPEX-ratio as result of a decrease in the gross margin to 49.6% (50.5%) and a DKK 31 million refund of certain duties in the US, positively impacting the third quarter of 2021. The decrease in the OPEX-ratio has been realised despite the impact from cost inflation, higher consultancy fees and IT-investments. The gross margin as well as the EBITDA margin remain above the pre-pandemic margins realised in 2019.

The 12 months rolling **Return on Invested Capital (ROIC)** decreased to 13.2% versus 14.5% by the end of 2021 primarily driven by an increase in invested capital of DKK 896 million totalling DKK 13.4 billion (DKK 12.5 billion).

### Capital allocation

On 9 March 2022, Scandinavian Tobacco Group initiated a new share buy-back programme with a total value of up to DKK 700 million with an expected closure by the end of February 2023. On 19 May 2022, the programme was increased to a total value of up to DKK 1,000 million.

During the third quarter of 2022, Scandinavian Tobacco Group has bought back 2,054,048 shares at a market value of DKK 247 million. As of 30 September 2022, Scandinavian Tobacco Group had repurchased shares at a total market value of DKK 480 million in the DKK 1,000 million programme.

The purpose of the share buy-back programme is to adjust the capital structure and meet obligations relating to the Group's share-based incentive programme.

## Financial guidance for 2022

The financial guidance for 2022 is maintained for organic EBITDA growth, free cash flow before acquisitions and for adjusted EPS growth.

While normalisation for most product categories have materialised during the recent months following the pandemic, the consumption of handmade cigars for 2022 is expected to be lower than its structural volume decline rate of -2%. Additional price adjustments across most of our product categories are expected to balance cost inflation. Organic growth in net sales for the Group is expected to be close to zero driven by growth in Europe Branded and North America Online & Retail in the fourth quarter.

Organic EBITDA growth is expected to turn positive in the fourth quarter of the year due to cost reductions, and as the balance between our price management initiatives and cost inflation improves. Currently, the bias in expectation for organic EBITDA growth for the full year is included in the lower end of the guidance range. The largest potential uncertainties for the fourth quarter are changes in consumer behaviour, slower than anticipated execution of solving the supply chain issue and additional unexpected cost inflation.

Given these considerations, our guidance for 2022 is maintained:

- EBITDA: Organic growth in the range of -4% to 0%
- Free cash flow before acquisitions in the range of DKK 1.1-1.4 billion
- Adjusted EPS increase >5%

The expectation for the Group's free cash flow before acquisitions is maintained in the range of DKK 1.1-1.4 billion. The cash flow is still expected to be impacted by investments in the retail expansion in the US, the ERP-project OneProcess and a negative impact from special items of about DKK 200 million. The negative impact from working capital is about DKK 500 million from previously DKK 300 million.

The adjusted EPS is still expected to increase by more than 5% (from DKK 14.8 in 2021) including a positive impact from the share repurchases of about DKK 1.0 per share.

**Events after the reporting period**

There are no other events than those mentioned in the above that have occurred after 30 September 2022 and that are expected to have material impact on the financial position of the Group.

**Forward-looking statements**

This report contains forward-looking statements. Such statements are subject to risk and uncertainties as various factors, many of which are beyond Scandinavian Tobacco Group's control, may cause actual developments and results to differ materially from the expectations set out in this report.

**Financial calendar for 2023**

Annual Report 2022	8 March, 2023
Annual General Meeting	13 April, 2023
Interim report Q1 2023	17 May, 2023
Interim report Q2 2023	29 August, 2023
Interim report Q3 2023	8 November, 2023

## Divisional Update

### North America Online & Retail

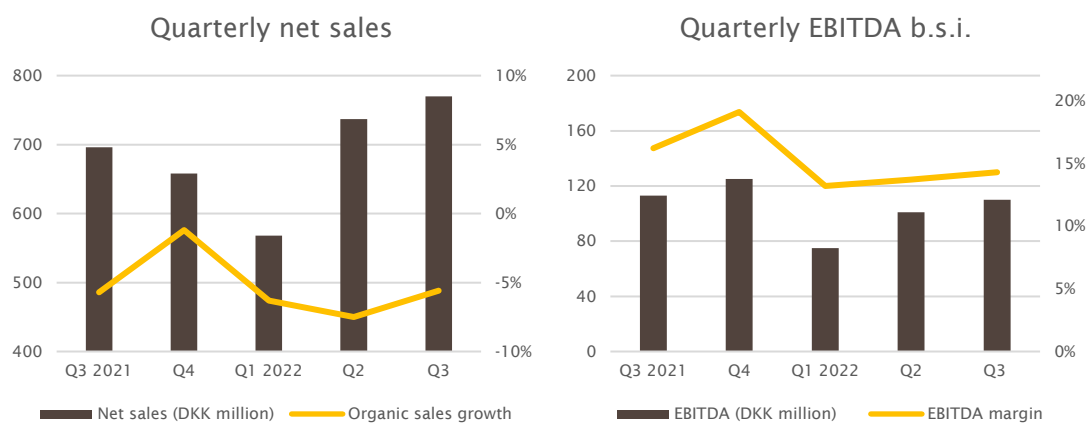
Net sales increased by 11% to DKK 770 million during the quarter with a 16% positive contribution from exchange rates. Organic net sales growth was negative by 6% driven by a negative contribution in the online channel being partly offset by an organic growth of about 18% in the retail super stores.

In the third quarter of 2022 organic net sales in the division were impacted by the channel dynamics between retail and online sales channels. With a higher proportion of online than retail sales in the division – retail accounts for 8% of net sales – NAOR currently underperforms the general market development. While average order value is increasing, pricing opportunities in the online channel remain restricted by the prevailing competitive situation in the market.

Our online channel experienced another double-digit decline in the active customer base versus the third quarter of 2021 with website traffic being impacted by the delayed shift back to online trade from retail. It is expected that the balance between online and retail will improve in favour of online in the coming quarters. The active consumer file remains above pre-pandemic levels in 2019.

The retail business continues to deliver solid double-digit organic net sales growth versus last year. In the third quarter, retail accounted for 8% of net sales in the division. The new super store in San Antonio, Texas which opened in April has come off to a good start with net sales exceeding expectations in the first months since the opening.

#### Quarterly development, Q3 2021-Q3 2022



EBITDA before special items decreased by 3% to DKK 110 million with an EBITDA margin before special items of 14.3% (16.2%). The margin development was driven by an increase in the OPEX ratio due to increased expenses relating to IT-investments, the new automated warehouse system in Bethlehem, Pennsylvania, as well as the scale impact on declining sales volumes. The gross margin was unchanged at 40.1% (40.0%) as pricing partly offset general cost inflation.

#### First nine months of 2022

Net sales for the first nine months of 2022 increased by 6% to DKK 2,075 million driven by a positive exchange rate development. Organic net sales growth was negative by 7%. Gross profit before special items increased by 4% and the gross margin was 39.5% (40.1%). EBITDA before special items decreased by 17% to DKK 286 million with an EBITDA margin of 13.8% (17.5%).

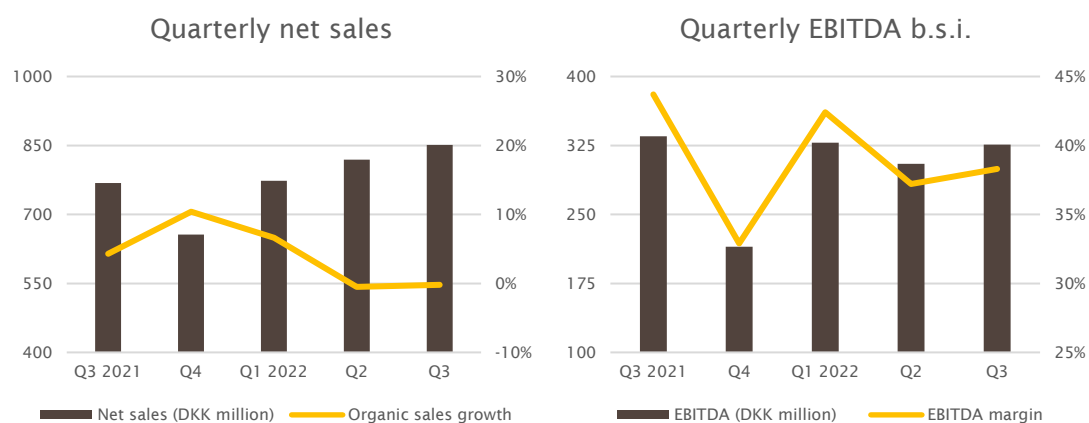


## North America Branded & RoW

Net sales increased by 11% to DKK 851 million during the quarter with a 11% positive contribution from exchange rates. Net sales were positively impacted by price increases, the continued recovery in Global Travel Retail and the change of distribution model in Australia. This was offset by the decline in sales to US online distributors, as well as the decision to cease sales to Russia and Belarus.

Consumer demand for cigars and smoking tobacco remains resilient, and the financial performance in the division continues to be robust. However, consumers have become more cautious with changes in consumer spending as a result of macro-economic developments. The reversal to pre-pandemic product and market mix have continued. Following two years of exceptionally strong growth, the consumption of handmade cigars in the US continued to decline from its peak last year, with the online sales channel having the strongest decline rates.

### Quarterly development, Q3 2021-Q3 2022



EBITDA before special items decreased by 3% to DKK 326 million with an EBITDA margin before special items of 38.3% (43.7%). The decrease in margin is primarily a result of the refund of certain duties in the US of DKK 31 million in the third quarter of 2021 and the normalisation of market and product mix in the division. The OPEX ratio increased to 14.6% (11.2%). Excluding the duty refund the OPEX ratio was 15.3% in the third quarter last year. The underlying improvement is primarily a result of the change of distribution model in Australia.

### First nine months of 2022

Net sales for the first nine months of 2022 increased by 10% to DKK 2,443 million and organic growth was positive by 2%. Gross profit before special items increased by 8% to DKK 1,313 million and the gross margin was 53.8% (54.7%). EBITDA before special items increased by 4% to DKK 959 million with an EBITDA margin of 39.3% (41.4%). Excluding the duty refund, the EBITDA-margin was 40.0% for the first nine months of 2021.

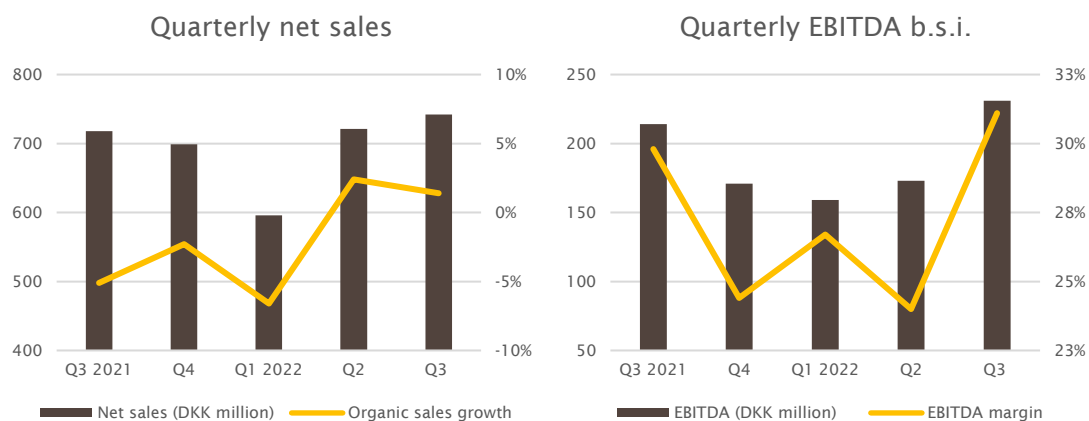
## Europe Branded

Net sales increased by 3% to DKK 742 million during the quarter with a positive impact from the acquisition of Moderno Opificio del Sigaro Italiano of almost 2%. Organic net sales growth was 1%. For all product categories pricing remained a key focus area, with price/mix impact for machine-rolled cigars, the largest product category, being up by more than 5%.

Consumer demand for machine-rolled cigars in Europe remains resilient to macro-economic developments with the average negative volume development in our key markets at approximately 3%. Disciplined pricing initiatives offset inflationary pressure in the supply chain. During the third quarter of 2022, the volume decline of machine-rolled cigars continued at its structural trend. Benelux, Iberia, Italy and Germany delivered positive organic net sales growth while the other key markets delivered negative growth. All markets delivered solid price/mix increases. The supply chain issues continued to impact the market share performance in France and Benelux.

In the third quarter of 2022, the market share index for our key markets was 30.4% versus 32.1% in the third quarter of 2021 and 30.5% in the second quarter of 2022. The market share development is driven by supply issues still impacting net sales and a strong focus on compensating cost inflation with price management.

### Quarterly development, Q3 2021-Q3 2022



EBITDA before special items increased by 8% to DKK 231 million with an all-time-high EBITDA margin before special items of 31.1% (29.8%). The margin development is driven by a reduction of the OPEX-ratio to 24.7% (26.2%) as result of cost efficiencies stemming from the Agio integration and general cost reductions.

### First nine months of 2022

Net sales for the first nine months of 2022 increased by 1% to DKK 2,059 million and organic growth was negative by -1%. Gross profit before special items increased by 1% to DKK 1,131 million with the gross margin at 54.9% (55.3%). EBITDA before special items decreased by 4% to DKK 563 million with an EBITDA margin of 27.3% (28.7%).

# Quarterly Financial Data

DKK million	2022			2021		2022	2021	
	Q3	Q2	Q1	Q4	Q3	9M	9M	12M
<b>Reported data</b>								
Net sales	2,362	2,278	1,938	2,012	2,182	6,577	6,221	8,233
Gross profit before special items	1,172	1,074	1,019	985	1,102	3,265	3,128	4,113
EBITDA before special items	631	544	532	474	627	1,707	1,759	2,233
Special items	-27	-23	-18	13	-26	-67	-67	-55
EBIT	514	433	427	393	510	1,374	1,421	1,814
Net financial items	-32	-44	-14	-16	-29	-90	-61	-77
Profit before tax	492	400	423	385	489	1,315	1,384	1,769
Income taxes	-111	-90	-95	-78	-106	-296	-300	-378
Net profit	382	310	328	307	383	1,019	1,083	1,391
<b>Other financial key data</b>								
Organic EBITDA grow th	-6.2%	-14.6%	-2.7%	14.2%	0.9%	-8.0%	19.5%	18.4%
Organic net sales grow th	-1.4%	-1.8%	-1.7%	1.8%	-2.2%	-1.6%	5.4%	4.5%
Gross margin before special items	49.6%	47.2%	52.6%	49.0%	50.5%	49.6%	50.3%	50.0%
EBITDA margin before special items	26.7%	23.9%	27.4%	23.5%	28.7%	25.9%	28.3%	27.1%
Free cash flow before acquisitions	462	143	129	307	564	735	1,086	1,393
<b>North America Online &amp; Retail</b>								
Net sales	770	737	568	658	696	2,075	1,963	2,620
Gross profit before special items	308	285	227	264	279	820	786	1,050
EBITDA before special items	110	101	75	125	113	286	344	470
Net sales grow th	10.5%	4.9%	0.8%	2.9%	-6.6%	5.7%	-3.0%	-1.6%
Organic net sales grow th	-5.6%	-7.5%	-6.3%	-1.2%	-5.7%	-6.5%	3.5%	2.4%
Gross margin before special items	40.1%	38.7%	39.9%	40.1%	40.0%	39.5%	40.1%	40.1%
EBITDA margin before special items	14.3%	13.7%	13.2%	19.1%	16.2%	13.8%	17.5%	17.9%
<b>North America Branded &amp; RoW</b>								
Net sales	851	819	773	656	768	2,443	2,222	2,877
Gross profit before special items	450	416	448	346	422	1,313	1,216	1,562
EBITDA before special items	326	305	328	215	335	959	920	1,135
Net sales grow th	10.7%	7.7%	11.6%	14.6%	4.7%	10.0%	13.6%	13.8%
Organic net sales grow th	-0.2%	-0.5%	6.6%	10.4%	4.3%	1.8%	16.7%	15.3%
Gross margin before special items	52.9%	50.8%	57.9%	52.8%	54.9%	53.8%	54.7%	54.3%
EBITDA margin before special items	38.3%	37.2%	42.4%	32.9%	43.7%	39.3%	41.4%	39.5%
<b>Europe Branded</b>								
Net sales	742	721	596	699	718	2,059	2,036	2,735
Gross profit before special items	414	373	345	375	402	1,131	1,125	1,501
EBITDA before special items	231	173	159	171	214	563	584	754
Net sales grow th	3.4%	4.2%	-4.8%	-1.7%	-4.6%	1.1%	-3.3%	-2.9%
Organic net sales grow th	1.4%	2.4%	-6.6%	-2.3%	-5.1%	-0.7%	-3.4%	-3.1%
Gross margin before special items	55.8%	51.7%	57.8%	53.7%	56.1%	54.9%	55.3%	54.9%
EBITDA margin before special items	31.1%	24.0%	26.7%	24.4%	29.8%	27.3%	28.7%	27.6%
<b>Group costs</b>								
EBITDA before special items	-36	-34	-31	-38	-36	-101	-88	-126

# MANAGEMENT STATEMENT

The Board of Directors and the Executive Management have today considered and approved the interim report of Scandinavian Tobacco Group A/S for the period 1 January – 30 September 2022.

The interim consolidated financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting” as adopted by the EU and additional Danish disclosure requirements for listed companies. The interim report has not been reviewed or audited.

In our opinion, the interim consolidated financial statements give a true and fair view of the Group's assets, liabilities, and financial position on 30 September 2022 and of the results of the Group's operations and consolidated cash flows for the financial period 1 January – 30 September 2022.

Furthermore, in our opinion the Management Review gives a fair review of the development and performance of the Group's activities and of the Group's results for the period and financial position taken as a whole, together with a description of the most significant risks and uncertainties that the Group may face.

Gentofte, 9 November 2022

## EXECUTIVE MANAGEMENT

Niels Frederiksen  
CEO

Marianne Rørslev Bock  
CFO

## BOARD OF DIRECTORS

Henrik Brandt  
CHAIRMAN

Claus Gregersen

Marlene Forsell

Dianne Neal Blixt

Anders Obel

Henrik Amsinck

Mogens Olsen

Lindy Larsen

Hanne Malling

## STATEMENT OF COMPREHENSIVE INCOME

1 JANUARY - 30 SEPTEMBER

## CONSOLIDATED INCOME STATEMENT

DKK million		Q3 2022	Q3 2021	9M 2022	9M 2021
<b>Net sales</b>	1, 2	<b>2,361.9</b>	<b>2,181.9</b>	<b>6,577.3</b>	<b>6,220.5</b>
Cost of goods sold	1, 2	-1,189.9	-1,080.0	-3,312.0	-3,092.7
<b>Gross profit before special items</b>	<b>1, 2</b>	<b>1,172.0</b>	<b>1,101.9</b>	<b>3,265.3</b>	<b>3,127.8</b>
Other external costs	1, 2	-320.4	-279.5	-882.3	-752.8
Staff costs	2	-220.7	-226.9	-676.4	-646.7
Other income		-	31.0	-	31.0
<b>Earnings before interest, tax, depreciation, amortisation and special items (EBITDA before special items)</b>	<b>2</b>	<b>630.9</b>	<b>626.5</b>	<b>1,706.6</b>	<b>1,759.3</b>
Depreciation and impairment		-46.3	-50.2	-139.4	-150.4
<b>Earnings before interest, tax, amortisation and special items (EBITA before special items)</b>		<b>584.6</b>	<b>576.3</b>	<b>1,567.2</b>	<b>1,608.9</b>
Amortisation and impairment		-43.4	-40.2	-125.7	-120.9
<b>Earnings before interest, tax and special items (EBIT before special items)</b>		<b>541.2</b>	<b>536.1</b>	<b>1,441.5</b>	<b>1,488.0</b>
Special items, costs and impairment	3	-26.9	-26.3	-67.3	-67.2
<b>Earnings before interest and tax (EBIT)</b>		<b>514.3</b>	<b>509.8</b>	<b>1,374.2</b>	<b>1,420.8</b>
Share of profit of associated companies, net of tax		10.2	8.3	30.6	23.9
Financial income		56.1	13.3	129.0	37.4
Financial costs		-88.4	-42.1	-218.6	-98.4
<b>Profit before tax</b>		<b>492.2</b>	<b>489.3</b>	<b>1,315.2</b>	<b>1,383.7</b>
Income taxes		-110.7	-106.2	-295.9	-300.3
<b>Net profit for the period</b>		<b>381.5</b>	<b>383.1</b>	<b>1,019.3</b>	<b>1,083.4</b>
<b>Earnings per share</b>					
Basic earnings per share (DKK)		4.2	4.0	11.1	11.3
Diluted earnings per share (DKK)		4.2	4.0	11.1	11.3
<b>OTHER COMPREHENSIVE INCOME</b>					
<i>Items that will be recycled subsequently to the Consolidated Income Statement, when specific conditions are met:</i>					
Cash flow hedges, deferred gains/losses incurred during the period		0.1	1.7	8.8	5.5
Tax of cash flow hedges		-	-0.3	-1.9	-1.1
Foreign exchange adjustments on net investments in foreign operations		373.4	130.4	844.3	296.9
<b>Other comprehensive income for the period, net of tax</b>		<b>373.5</b>	<b>131.8</b>	<b>851.2</b>	<b>301.3</b>
<b>Total comprehensive income for the period</b>		<b>755.0</b>	<b>514.9</b>	<b>1,870.5</b>	<b>1,384.7</b>

## Net sales

In the third quarter of 2022, net sales were DKK 2,362 million (DKK 2,182 million). Adjusted for positive exchange rate impact of DKK 196 million and the acquisition of Moderno Opificio del Sigaro Italiano of DKK 15 million, the organic growth in net sales was negative by 1.4%. For the first nine months of 2022, net sales came to DKK 6,577 million (DKK 6,221 million).

## Profit

Gross profit before special items in the third quarter of 2022 was DKK 1,172 million (DKK 1,102 million) driven by a positive impact from exchange rates being partly offset by a decrease in gross margins in North America Branded & Rest of World and Europe Branded caused by change in product and market mix. Gross margin before special items was 49.6% (50.5%).

Operating expenses in the third quarter increased to DKK 541 million (DKK 506 million) driven by the inflating freight, distribution and utility costs, increased consultancy and IT costs, as well as increased travel activities as result of diminishing COVID-19 restrictions. The OPEX ratio decreased slightly to 22.9% (23.2%) despite the increasing cost inflation.

EBITDA before special items in the third quarter of 2022 amounted to DKK 631 million (DKK 627 million). The development is explained by improved net sales, being partly offset by the increase in operating expenses. Furthermore, the third quarter of 2021 was positively impacted by other income of DKK 31 million. Exchange rate developments impacted positively by DKK 43 million. Organic EBITDA growth was negative by 6.2%.

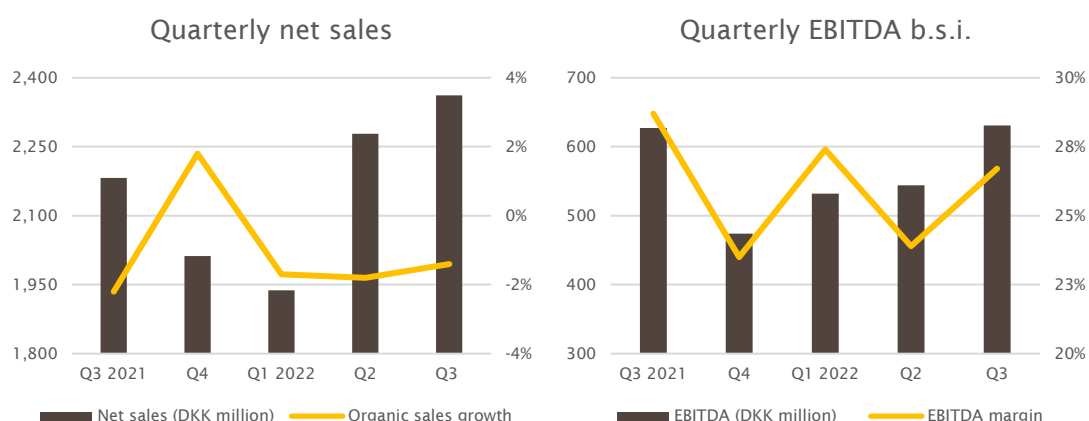
EBITDA margin before special items in the third quarter of 2022 was 26.7% (28.7%).

During the third quarter DKK 27 million (DKK 26 million) have been expensed as special items. Special items relating to the integration of Agio Cigars was DKK 4 million (DKK 4 million). DKK 2 million has been expensed in relation to the production footprint (DKK 7 million). Cost expensed in relation to Project OneProcess was DKK 21 million (DKK nil million). Refer to note 3 for an overview of special items.

Net profit for the third quarter was DKK 382 million (DKK 383 million). Earnings Per Share ("EPS") were DKK 4.2 (DKK 4.0). EPS adjusted for special items, fair value adjustments and currency gains/losses, net of tax decreased to DKK 4.4 (DKK 4.2).

In the first nine months of 2022, gross profit before special items was DKK 3,265 million (DKK 3,128 million) with a gross margin of 49.6% (50.3%). EBITDA before special items was DKK 1,707 million (DKK 1,759 million) with an EBITDA margin of 25.9% (28.3%) Special items were DKK -67 million (DKK -67 million), net profit was DKK 1,019 million (DKK 1,083 million) while EPS adjusted for special items, fair value adjustments and currency gains/losses, net of tax remained flat at DKK 11.6 (DKK 11.6).

### Quarterly development, Q3 2021-Q3 2022



**CONSOLIDATED BALANCE SHEET****ASSETS**

DKK million	30 Sep 2022	30 Sep 2021	31 Dec 2021
<b>INTANGIBLE ASSETS</b>			
Goodwill	5,616.0	5,052.4	5,142.5
Trademarks	3,099.5	2,981.5	3,044.6
IT software	153.1	84.5	88.4
Other intangible assets	217.6	221.8	218.9
<b>Total intangible assets</b>	<b>9,086.2</b>	<b>8,340.2</b>	<b>8,494.4</b>
Property, plant and equipment	1,768.1	1,394.9	1,448.3
Investments in associated companies	238.8	178.6	187.5
Deferred income tax assets	147.1	137.1	130.2
<b>Total non-current assets</b>	<b>11,240.2</b>	<b>10,050.8</b>	<b>10,260.4</b>
Inventories	3,424.1	2,918.3	2,935.9
Trade receivables	1,052.7	936.9	852.4
Other receivables	105.3	85.9	98.8
Corporate tax	43.2	59.7	69.5
Prepayments	133.7	66.8	84.6
Cash and cash equivalents	37.1	123.0	173.6
Assets classified as held for sale	108.5	142.6	108.5
<b>Total current assets</b>	<b>4,904.6</b>	<b>4,333.2</b>	<b>4,323.3</b>
<b>Total assets</b>	<b>16,144.8</b>	<b>14,384.0</b>	<b>14,583.7</b>

**CONSOLIDATED BALANCE SHEET****EQUITY AND LIABILITIES**

DKK million	30 Sep 2022	30 Sep 2021	31 Dec 2021
Share capital	93.0	97.5	97.5
Reserve for hedging	-	-10.1	-6.9
Reserve for currency translation	1,538.0	581.3	693.7
Treasury shares	-548.8	-419.1	-570.5
Retained earnings	8,494.2	8,436.5	8,754.0
<b>Total equity</b>	<b>9,576.4</b>	<b>8,686.1</b>	<b>8,967.8</b>
Borrowings	3,490.9	2,950.9	2,918.0
Deferred income tax liabilities	695.9	618.3	698.9
Pension obligations	315.0	304.8	307.4
Other provisions	17.6	20.0	17.9
Leasing liabilities	319.7	161.3	149.4
Other liabilities	65.5	-	58.4
<b>Total non-current liabilities</b>	<b>4,904.6</b>	<b>4,055.3</b>	<b>4,150.0</b>
Trade payables	573.1	421.3	504.5
Corporate tax	254.8	216.2	102.4
Other provisions	20.9	116.2	64.3
Leasing liabilities	42.5	41.2	48.5
Other liabilities	772.5	847.7	746.2
<b>Total current liabilities</b>	<b>1,663.8</b>	<b>1,642.6</b>	<b>1,465.9</b>
<b>Total liabilities</b>	<b>6,568.4</b>	<b>5,697.9</b>	<b>5,615.9</b>
<b>Total equity and liabilities</b>	<b>16,144.8</b>	<b>14,384.0</b>	<b>14,583.7</b>

**Net interest-bearing debt**

Net interest-bearing debt increased by DKK 872 million to DKK 4,138 million versus the end of 2021. The development was driven by the purchase of own shares, exchange rate changes and increased leasing liabilities. The leverage ratio (net interest-bearing debt to LTM EBITDA before special items) increased to 1.9x (1.5x at 31 December 2021).

**Return on Invested Capital**

The return on invested capital (ROIC) decreased to 13.2% versus 14.5% by the end of 2021 driven by an increase in invested capital of DKK 896 million, totalling to DKK 13.4 billion (DKK 12.5 billion), and a decrease of DKK 47 million in EBIT (12 months rolling) driven by the operational performance.



## CONSOLIDATED CASH FLOW STATEMENT

1 JANUARY - 30 SEPTEMBER

DKK million	Q3 2022	Q3 2021	9M 2022	9M 2021
Net profit for the period	381.5	383.1	1,019.3	1,083.4
Depreciation, amortisation and impairment	89.7	103.8	265.1	284.7
Adjustments	170.8	171.5	422.7	422.3
Changes in working capital	-28.7	136.2	-421.9	-84.9
Special items, paid	-30.8	-41.4	-106.9	-141.8
<b>Cash flow from operating activities before financial items</b>	<b>582.5</b>	<b>753.2</b>	<b>1,178.3</b>	<b>1,563.7</b>
Financial income received	49.5	1.0	89.2	16.0
Financial costs paid	-66.5	-49.4	-125.3	-97.0
<b>Cash flow from operating activities before tax</b>	<b>565.5</b>	<b>704.8</b>	<b>1,142.2</b>	<b>1,482.7</b>
Tax payments	-14.6	-69.6	-142.8	-226.5
<b>Cash flow from operating activities</b>	<b>550.9</b>	<b>635.2</b>	<b>999.4</b>	<b>1,256.2</b>
Acquisitions	-	-	-3.7	-
Investment in intangible assets	-26.2	-8.3	-100.1	-26.4
Investment in property, plant and equipment	-65.8	-67.7	-178.5	-156.5
Sale of property, plant and equipment	-	2.0	2.8	6.0
Dividend from associated companies	3.4	2.6	11.1	7.1
<b>Cash flow from investing activities</b>	<b>-88.6</b>	<b>-71.4</b>	<b>-268.4</b>	<b>-169.8</b>
<b>Free cash flow</b>	<b>462.3</b>	<b>563.8</b>	<b>731.0</b>	<b>1,086.4</b>
Repayment of lease liabilities	-16.6	-14.3	-48.0	-43.6
Other financing	-	-	-	-21.5
RCF	-245.3	-492.2	443.2	62.9
Repayment bank loans	-1.0	-	-3.1	-
Dividend payment	-	-	-692.0	-626.7
Purchase of treasury shares	-236.6	-160.2	-564.3	-455.0
<b>Cash flow from financing activities</b>	<b>-499.5</b>	<b>-666.7</b>	<b>-864.2</b>	<b>-1,083.9</b>
<b>Net cash flow for the period</b>	<b>-37.2</b>	<b>-102.9</b>	<b>-133.2</b>	<b>2.5</b>
Cash and cash equivalents, net at 1 July / 1 January	74.7	225.2	173.6	117.0
Exchange gains/losses on cash and cash equivalents	-0.4	0.7	-3.3	3.5
Net cash flow for the period	-37.2	-102.9	-133.2	2.5
<b>Cash and cash equivalents, net at 30 September</b>	<b>37.1</b>	<b>123.0</b>	<b>37.1</b>	<b>123.0</b>

### Cash flows

Cash flow from operations before changes in working capital in the third quarter of 2022 was DKK 580 million (DKK 499 million). The development was driven by tax payments and lower net financial costs.

Working capital in the third quarter of 2022 had a negative impact on the cash flow by DKK 29 million (positive of DKK 136 million) mainly due to inventory increase, sales tying up cash in receivables as well as lower level of other liabilities.

Cash flow from investing activities in the third quarter amounted to DKK -89 million (DKK -71 million). The increase was driven by higher investments in intangible assets related to OneProcess.

Free cash flow before acquisitions in the third quarter of 2022 was positive by DKK 462 million (DKK 564 million). The cash conversion ratio was 101% (97%).

For the first nine months of 2022 cash flow from operations before changes in working capital was DKK 1,421 million (DKK 1,341 million). Working capital had a negative impact of DKK 422 million (DKK -85 million) with a significant impact from a higher level of inventories, increase in receivables and prepayments partly offset by a higher level of trade payables. Free cash flow before acquisitions was DKK 735 million (DKK 1,086 million) and the cash conversion ratio was 78% (102%).

## STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 SEPTEMBER 2022

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
<b>Equity at 1 January 2022</b>	<b>97.5</b>	<b>-6.9</b>	<b>693.7</b>	<b>-570.5</b>	<b>8,754.0</b>	<b>8,967.8</b>
<i>Comprehensive income for the period</i>						
<b>Net profit for the period</b>	-	-	-	-	<b>1,019.3</b>	<b>1,019.3</b>
<i>Other comprehensive income</i>						
Cash flow hedges	-	8.8	-	-	-	<b>8.8</b>
Tax of cash flow hedges	-	-1.9	-	-	-	<b>-1.9</b>
Foreign exchange adjustments on net investments in foreign operations	-	-	844.3	-	-	<b>844.3</b>
<b>Total other comprehensive income</b>	-	<b>6.9</b>	<b>844.3</b>	-	-	<b>851.2</b>
<b>Total comprehensive income for the period</b>	-	<b>6.9</b>	<b>844.3</b>	-	<b>1,019.3</b>	<b>1,870.5</b>
<i>Transactions with shareholders</i>						
Capital reduction	-4.5	-	-	569.5	-565.0	-
Purchase of treasury shares	-	-	-	-577.4	-	<b>-577.4</b>
Share-based payments	-	-	-	-	14.7	<b>14.7</b>
Settlement of vested PSUs	-	-	-	29.6	-29.6	-
Settlement in cash of vested PSU's	-	-	-	-	-7.2	<b>-7.2</b>
Dividend paid to shareholders	-	-	-	-	-731.3	<b>-731.3</b>
Dividend, treasury shares	-	-	-	-	39.3	<b>39.3</b>
<b>Total transactions with shareholders</b>	<b>-4.5</b>	-	-	<b>21.7</b>	<b>-1,279.1</b>	<b>-1,261.9</b>
<b>Equity at 30 September 2022</b>	<b>93.0</b>	-	<b>1,538.0</b>	<b>-548.8</b>	<b>8,494.2</b>	<b>9,576.4</b>

**Equity**

Total shareholders' equity as of 30 September 2022 amounted to DKK 9,576 million (DKK 8,968 million at 31 December 2021). The equity was positively impacted by profit for the period and a positive impact from foreign exchange adjustments on net investments in foreign operations was partly offset by the ongoing share buy-back programme and dividend payment to shareholders. As of 30 September 2022, the equity ratio was 59.3% (61.5% at 31 December 2021).

At the Annual General Meeting held on 31 March 2022, shareholders approved to reduce the share capital by nominally DKK 4,500,000 by cancelling some of the Company's treasury shares. After the reduction, which took place 4 May 2022, the nominal value of the Company's share capital is DKK 93,000,000. Please refer to Company Announcement 29/2022.

## STATEMENT OF CHANGES IN GROUP EQUITY

1 JANUARY - 30 SEPTEMBER 2021

DKK million	Share capital	Reserve for hedging	Reserve for currency translation	Treasury shares	Retained earnings	Total
<b>Equity at 1 January 2021</b>	<b>100.0</b>	<b>-14.5</b>	<b>284.4</b>	<b>-227.7</b>	<b>8,230.1</b>	<b>8,372.3</b>
<i>Comprehensive income for the period</i>						
<b>Net profit for the period</b>	-	-	-	-	<b>1,083.4</b>	<b>1,083.4</b>
<i>Other comprehensive income</i>						
Cash flow hedges	-	5.5	-	-	-	<b>5.5</b>
Tax of cash flow hedges	-	-1.1	-	-	-	<b>-1.1</b>
Foreign exchange adjustments on net investments in foreign operations	-	-	296.9	-	-	<b>296.9</b>
<b>Total other comprehensive income</b>	-	<b>4.4</b>	<b>296.9</b>	-	-	<b>301.3</b>
<b>Total comprehensive income for the period</b>	-	<b>4.4</b>	<b>296.9</b>	-	<b>1,083.4</b>	<b>1,384.7</b>
<i>Transactions with shareholders</i>						
Capital reduction	-2.5	-	-	247.2	-244.7	-
Purchase of treasury shares	-	-	-	-455.0	-	<b>-455.0</b>
Share-based payments	-	-	-	-	15.3	<b>15.3</b>
Settlement of vested PSUs	-	-	-	16.4	-16.4	-
Settlement in cash of vested PSU's	-	-	-	-	-4.5	<b>-4.5</b>
Dividend paid to shareholders	-	-	-	-	-650.0	<b>-650.0</b>
Dividend, treasury shares	-	-	-	-	23.3	<b>23.3</b>
<b>Total transactions with shareholders</b>	<b>-2.5</b>	-	-	<b>-191.4</b>	<b>-877.0</b>	<b>-1,070.9</b>
<b>Equity at 30 September 2021</b>	<b>97.5</b>	<b>-10.1</b>	<b>581.3</b>	<b>-419.1</b>	<b>8,436.5</b>	<b>8,686.1</b>

## NOTES

## NOTE 1

**BASIS OF PREPARATION**

This unaudited report has been prepared in accordance with IAS 34 and additional Danish disclosure requirements for listed companies.

**Significant accounting estimates**

The estimates made by STG in the determination of the carrying amounts of assets and liabilities are based on assumptions that are subject to future events. For a description of risks and accounting estimates, see the Annual Report for 2021.

**Accounting policies**

This report has been prepared in accordance with the accounting policies set out in the Annual Report for 2021.

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by the International Accounting Standards Board (IASB) and IFRS, endorsed by the European Union, effective on or after 1 January 2022, it has been assessed that the application of these new IFRS has not had a material impact on the Consolidated Financial Statements for the first three quarters of 2022, and the Group does not anticipate any significant impact on future periods from the adoption of these new IFRS. The Group has adopted all new, amended, and revised standards and interpretations.

## NOTE 2

**SEGMENT INFORMATION AND NET SALES**

9M 2022 DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Group costs / not al- located	Total
Net sales	2,074.9	2,443.3	2,059.1	-	6,577.3
Cost of goods sold	-1,254.5	-1,129.9	-927.6	-	-3,312.0
<b>Gross profit before special items</b>	<b>820.4</b>	<b>1,313.4</b>	<b>1,131.5</b>	-	<b>3,265.3</b>
Staff and other external costs	-534.6	-354.2	-569.0	-100.9	-1,558.7
<b>EBITDA before special items</b>	<b>285.8</b>	<b>959.2</b>	<b>562.5</b>	<b>-100.9</b>	<b>1,706.6</b>
Depreciation and impairment				-139.4	-139.4
Amortisation and impairment				-125.7	-125.7
<b>EBIT before special items</b>				<b>-366.6</b>	<b>1,441.5</b>
Special items, costs and impairment				-67.3	-67.3
<b>EBIT</b>				<b>-433.3</b>	<b>1,374.2</b>
Share of profit of associated companies, net of tax				30.6	30.6
Financial income				129.0	129.0
Financial costs				-218.6	-218.6
<b>Profit before tax</b>				<b>-492.3</b>	<b>1,315.2</b>

## NOTE 2

## SEGMENT INFORMATION AND NET SALES (continued)

9M 2021 DKK million	North America Online & Retail	North America Branded & RoW	Europe Branded	Group costs / not al- located	Total
Net sales	1,962.9	2,221.7	2,035.9	-	6,220.5
Cost of goods sold	-1,176.6	-1,005.4	-910.7	-	-3,092.7
<b>Gross profit before special items</b>	<b>786.3</b>	<b>1,216.3</b>	<b>1,125.2</b>	<b>-</b>	<b>3,127.8</b>
Staff and other external costs	-442.7	-327.0	-541.6	-88.2	-1,399.5
Other income	-	31.0	-	-	31.0
<b>EBITDA before special items</b>	<b>343.6</b>	<b>920.3</b>	<b>583.6</b>	<b>-88.2</b>	<b>1,759.3</b>
Depreciation and impairment				-150.4	-150.4
Amortisation and impairment				-120.9	-120.9
<b>EBIT before special items</b>				<b>-359.5</b>	<b>1,488.0</b>
Special items, costs and impairment				-67.2	-67.2
<b>EBIT</b>				<b>-426.7</b>	<b>1,420.8</b>
Share of profit of associated companies, net of tax				23.9	23.9
Financial income				37.4	37.4
Financial costs				-98.4	-98.4
<b>Profit before tax</b>				<b>-463.8</b>	<b>1,383.7</b>

DKK million	9M 2022	9M 2021
<b>Category split, net sales</b>		
Handmade cigars	2,474.6	2,293.2
Machine-rolled cigars	2,251.7	2,193.7
Smoking tobacco	946.5	925.8
Accessories and CMA	904.5	807.8
<b>Total net sales</b>	<b>6,577.3</b>	<b>6,220.5</b>

Licence income and other sales of DKK 48.2 million (DKK 37.8 million) are included in the category 'Accessories and Contract Manufacturing'.

DKK million	9M 2022	9M 2021
<b>Geographical split, net sales</b>		
Americas	3,552.3	3,295.4
Europe	2,522.9	2,601.6
Rest of World	502.1	323.5
<b>Total net sales</b>	<b>6,577.3</b>	<b>6,220.5</b>

**NOTE 3****SPECIAL ITEMS**

DKK million	9M 2022	9M 2021
Integration and transactions costs (Agio Cigars)	8.6	26.9
Fuelling the Growth programme	-	1.9
Production footprint	15.7	25.0
OneProcess	43.0	-
Reversal of impairments, tangible assets	-	-41.6
Impairment intangible assets	-	55.0
<b>Total special items</b>	<b>67.3</b>	<b>67.2</b>