Swedish Match AB (OTC Pink: SWMAY)

Industry: Food, Beverage & Tobacco - Tobacco

Rating: Buy

Target: $23.17 USD

Date: January 30, 2015

Executive Summary

Business Summary

Swedish Match AB (Swedish Match) is a vertically integrated tobacco products, matches, and lighters company based in Stockholm, Sweden. Swedish Match's production facilities are located in six countries and its largest markets are Scandinavia (Norway, Denmark, and Sweden), the United States, and Brazil. The three main product divisions are described as "snus and moist snuff products," "other tobacco products," which are cigars and chewing tobacco, and "lights" which are matches and lighters. Snus and moist snuff products are the dominant contributors by a measure of sales and operating profit. Swedish snus is a unique product in the smokeless tobacco market. Snus (Swedish IPA: "snʉːs"), is a finely ground and unfermented tobacco product that is water pasteurized, packaged in small cellulose pouches (or kept loose), and sold in circular containers.

Investment Case

Substitution
The harms of tobacco cigarette smoking today are universally unquestioned. Government programs, graphic labels, and legislation have all contributed to public awareness. The World Health Organization's (WHO) fact sheet 339 states that tobacco kills nearly six million people each year. However, the most important factor to realize is that tobacco has been consumed by humans since time immemorial in a variety of forms, each with varying "degrees" of risk. While tobacco addiction is both physiological and psychological, nicotine is the key reason. Snus offers the consumer a similar amount of nicotine through the oral mucosa instead of the alveoli of the lungs. We think that public awareness of the harms of cigarette smoking has the potential to drive the transition towards Swedish Match's products.

United States & European Union (EU) Expansion
In 1992, after a WHO study concluded that snuffs were carcinogenic to humans, the EU banned all oral tobacco products that could not be smoked or chewed. In the April 3, 2014 version of Directive 2014/40/EU, Article 17 states that "Member States shall prohibit the placing on the market of tobacco for oral use." As Swedish snus is neither "smoked nor chewed," it was banned despite cigarettes having a far higher risk profile. The most current directive allows for sale in Sweden under Article 151 of the Act of Accession of Austria, Finland, and Sweden. Snus is so important to Swedish exports that the former Minister of Trade, Ewa Björling, has publicly defended it. While this seems counterintuitive as an investment case, we believe that the arbitrary nature of Article 17, government support, and increasing scientific data in favour of the product will result in an eventual lifting of the ban.

Key Statistics

(USD)	Current	(USD, millions)	2012	2013	Current
Price	$16.35	Enterprise Value (EV)	$8,334	$7,385	$7,418
Date	January 30, 2015	Total Debt/EV	0.19	0.22	0.16
52 Week Range	$14.36 - $17.37	EV/Free Cash Flow	22.54	22.90	18.65
Shares Outstanding	200,500,000	EV/EBITDA	13.91	12.82	13.03
Market Capitalization[1]	$6,556,350,000	Price/Earnings	15.90	15.35	15.65
Enterprise Value[2]	$7,417,590,000	Price/Sales	3.70	3.30	3.37
Beta	0.80	SG&A/Revenue	0.10	0.10	0.10
CUSIP	870309606	Tobacco Tax/Revenue	0.51	0.49	0.49
ISIN	US8703096060	Dividend Yield	2.11%	2.61%	2.54%

Balance Sheet (SEK, millions)	2010	2011	2012	2013	LTM
Cash & Cash Equivalents (Cash)	3,275	2,533	2,824	3,164	3,220
Current Assets (Excluding Cash)	2,887	3,031	3,080	3,047	2,929
Total Assets	**14,739**	**14,507**	**14,371**	**14,881**	**15,497**
Current Liabilities	3,485	4,714	4,305	3,774	5,204
Total Debt	9,734	9,818	10,357	10,340	9,819
Total Liabilities	**15,221**	**16,107**	**16,422**	**15,666**	**15,487**
Total Equity	**(482)**	**(1,599)**	**(2,051)**	**(785)**	**(40)**

Income Statement (SEK, millions)	2010	2011	2012	2013	LTM
Revenue	25,062	23,662	25,449	24,991	25,352
EBITDA	**15,339**	**15,673**	**16,955**	**16,076**	**15,757**
Depreciation & Amortization	288	290	296	275	222
Interest	590	560	589	578	538
Tax[3]	12,105	12,639	13,567	12,981	13,017
Net Income	**2,958**	**2,538**	**2,907**	**2,711**	**2,601**
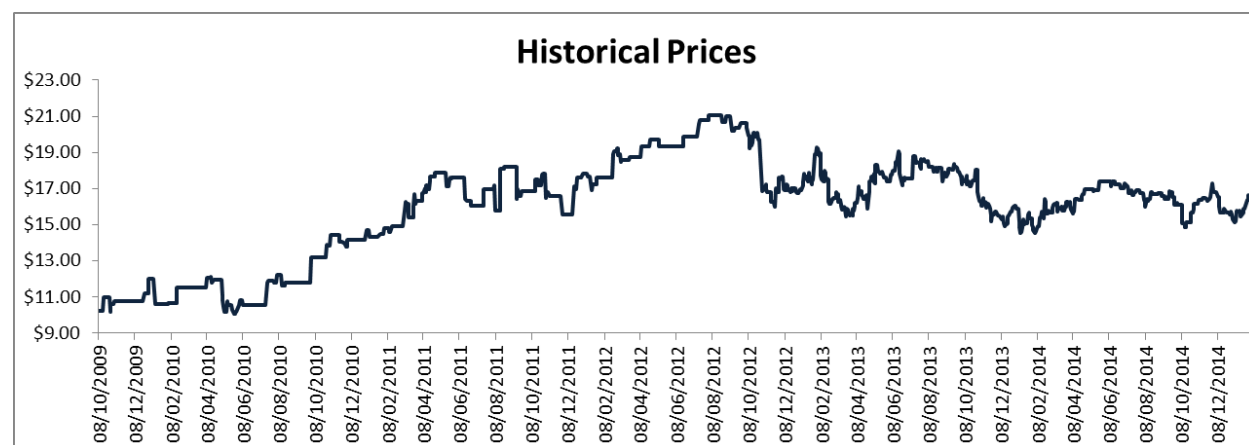
[1]Refer to "Security Specifics" section [2]SEK/USD = 0.12 [3]Sum of "income tax expense" and "tobacco tax"

Company History

Tobacco in Sweden

To have a sense of the importance of such a humble product to Sweden, it is imperative to consider the long history of tobacco in Europe. From Christopher Columbus' 1492 encounter with the plant in Haiti to Queen Catherine de Medici's use of nasal snuff as a headache cure, tobacco is nothing new. It was in the 1700s when the Swedish tobacco industry truly developed. Starting with the first tobacco crops in Skåne,

Credit: Swedish Match Image Bank

Gränna, and Alingsås, tobacco was eventually planted in about 70 Swedish towns. The most recognizable snus brands of today come from the 1800s. Petter Swartz's "Röda Lacket," J.A. Boman's "General" and Jacob Fredrik Ljunglöf's "Ettan" are all owned today by Swedish Match. The General brand is even sold in the Canadian market.

AB Svenska Tobaksmonopolet

Credit: Swedish Match Image Bank

In 1915, Sweden created AB Svenska Tobaksmonopolet (Tobaksmonopolet) and nationalized all plantations. This monopoly was created to finance Sweden's military defense and start a national pension system. Tobaksmonopolet is also credited with founding a medical tobacco research council in 1957, seven years prior to the world's first publication on the harmful effects of smoking by then Surgeon General of the United States, Luther Terry. In the 1960s, the sales and import monopoly was abolished and Tobaksmonopolet was converted into the state owned limited liability company, Svenska Tobaks AB (Svenska Tobaks). In 1968, to gain a foothold in the European cigar market, the company then acquired Elizabeth Bas/La Paz (EBAS). This would be the start of Swedish Match's involvement in the cigar market. From Svenska Tobaks, the ownership of the company was then transferred in 1971 to Statsföretag AB (Statsföretag), another state owned enterprise. This period was characterized by acquisitions and the development of the first portion packed snus in 1973. In 1984, Statsföretag was renamed to Procordia AB (Procordia) and listed on the Stockholm Stock Exchange in 1989. The Swedish Match of today carries around 40 years of experience in producing portion packed snus.

Company History

Svenska Tändsticks AB

Svenska Tändsticks AB (Tändsticks) was formed in 1917 by Ivar Kreuger after the consolidation of 20 companies in the match industry prior to the First World War. In 1918, Tändsticks listed on the Stockholm Stock Exchange and grew to own match companies in 33 countries worldwide. By 1929, Kreuger's death and the Great Depression led to a consolidation. The following president, Fred Ljungberg, then oversaw a period of diversification into wood veneer, doors, and other wood based products as match exports declined. Axel Brandin then succeeded Ljungberg in 1944 and began investing in the forest land which still forms a part of the company's balance sheet assets today. By 1980, Tändsticks was renamed to Swedish Match and even more acquisitions occurred including Cricket lighters from Gillette. From there, Swedish Match was

Credit: Swedish Match Image Bank

acquired by STORA, sold to Nederlight BV, and finally acquired by Procordia in 1992. The notable brands of today include Cricket, Fiat Lux matches and toiletries in Latin America, and Redheads matches in Australia to name a few.

Swedish Match AB

Credit: Swedish Match Image Bank

In 1992, Procordia, Volvo, and the Swedish government jointly purchased Swedish Match to complement the existing businesses of Svenska Tobaks, EBAS, Pinkerton Tobacco (the Owensboro, Kentucky manufacturer of Red Man chewing tobacco), and their confectionery division. Eventually, after a period of ownership by Volvo, shareholders decided to split the company into Volvo and Swedish Match AB. After the new listing, Swedish Match acquired R.J. Reynolds' cigar division, General Cigars, and distribution companies in Australia, New Zealand, and Hong Kong. In 2008, the current President and CEO, Lars Dahlgren was appointed. Since then, Swedish Match has had numerous acquisitions and divestitures, but one event we find notable is the creation of SMPM International AB (SMPM). SMPM was a joint venture agreement in 2009 with Philip Morris International (PMI) to commercialize smokeless tobacco products worldwide. We think that the decision was well justified considering PMI's long history in the tobacco industry and its global reach.

Management

Lars Dahlgren
President and CEO

Credit: Swedish Match Image Bank

Since 2008, Dahlgren has been the President and CEO of Swedish Match. He is 45 years old. Starting in 1996, he has held a variety of positions with Swedish Match, ranging from Finance Director in the Philippines to Senior Vice President and Chief Financial Officer. His only past experience outside the company was at the investment bank SBC Warburg as a Financial Analyst. Dahlgren holds a M.Sc. in Business and Economics from the Stockholm School of Economics. At the time of writing, his holdings as per Finansinspektionen (FI), Sweden's financial supervisory authority, are 36,900 common shares.

Richard Flaherty
President, US Division

Credit: Swedish Match Image Bank

Flaherty has been with Swedish Match since 2000 and he has been the President of the US Division since 2009. He is 56 years old. He holds a B.A. in Economics, J.D. Law from Rutgers University, and LLM in Taxation from New York University. He was formerly the CEO of Bumble Bee Seafoods, LLC (also known as Clover Leaf in Canada) and Commercial Director at Unilever. His FI listed holdings are 18,125 common shares.

Marlene Forsell
Senior Vice President and CFO

Credit: Swedish Match Image Bank

Forsell acquired her current position in 2013 and she has been with Swedish Match since 2004. She is 39 years old. Her previous positions with Swedish Match include Vice President Group Reporting, Vice President Business Control (Smokefree Division), and Vice President Corporate Control. Her FI listed holdings are 1,300 common shares.

Joakim Tilly
President, Scandinavia Division

Credit: Swedish Match Image Bank

Tilly joined Swedish Match in 1994 and has held his current position since 2013. He is currently 45 years old and holds a M.Sc. in Business and Economics from the Stockholm School of Economics. He was also the CEO and CFO of Netgiro International, a B2B and B2C payments processing company. His FI listed holdings are 8,240 common shares.

Management

Marie-Louise Heiman
Senior Vice President, Legal Affairs and General Counsel

Any tobacco product company operating in today's litigious business environment requires a strong legal team. Heiman has been with Swedish Match since 1996 and she has held her current position since 2015. She is 50 years old. Heiman holds a Master of Laws, LL M from Uppsala University, Sweden. She has held legal related positions for Fortos AB, Procordia AB, and BCP Branded Consumer Products AB. Her FI listed holdings are 1,165 common shares.

Credit: Swedish Match Image Bank

Fredrik Lagercrantz
Senior Vice President, Business Control

Lagercrantz has held his current position since 2013 and he has been with Swedish Match since 2009. He is 38 years old. Lagercrantz holds a M.Sc. in Business and Economics from the Stockholm School of Economics. Prior to joining Swedish Match, he was a Management Consultant at McKinsey & Co. His FI listed holdings are 1,595 common shares.

Credit: Swedish Match Image Bank

Lars Olof Löfman
Chief Innovation Officer, Scandinavia Division

Löfman has been with Swedish Match since 1987 and he has held his position since 2013. He is 59 years old and holds a M.Sc. in Engineering and Controller DIHM. He has worked in roles related to distribution, operations, supply, and marketing. His FI listed holdings are 10,689 common shares.

Credit: Swedish Match Image Bank

Ownership Summary

Appendix Figure 2 shows the number of common shares held by members of Management (dark blue) and by members of the Board of Directors (light blue) at the time of writing as per FI data. The holdings mentioned here are the common shares listed on NASDAQ OMX Nordic exchange. The graph does not include the effects of options as many did not have significant options positions.

Management

Aggregate Insider Ownership

In total, Management and the Board of Directors hold a total of 0.08% of Swedish Match's common shares outstanding. While we do not view this to be encouraging, a glance at comparable companies by market capitalization points to the fact that they are all widely held. Swedish Match is on the lower end of insider ownership but its figures are not disproportionate.

Percent Insider Ownership

Company	Value
Swedish Match AB (NASDAQ OMX Nordic: SWMA)	0.08
Altria Group Inc. (NYSE: MO)	0.21
Reynolds American Inc. (NYSE: RAI)	0.10
Lorillard Inc. (NYSE: LO)	0.24
Philip Morris International Inc. (NYSE: PM)	0.25
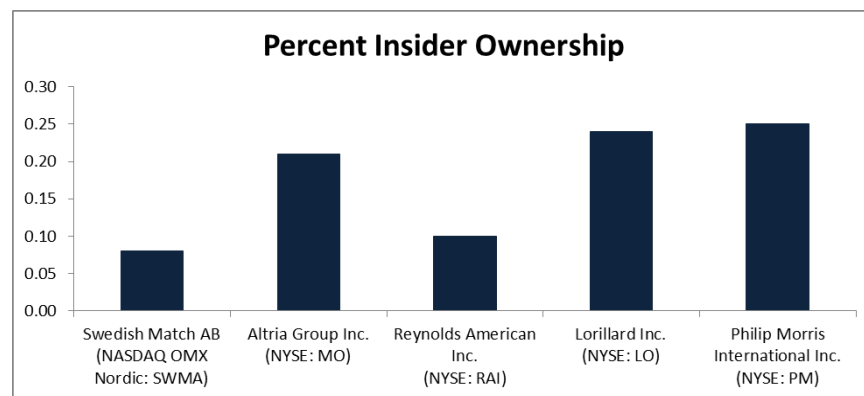
Remuneration

Relative to other CEOs of comparable tobacco products companies, we believe that compensation is in line. Swedish Match has industry standard fixed and variable wages as well as benefits. We also support the decision to promote internally as a means of rewarding performance. In terms of relative market capitalization, Swedish Match appears generous, but we have to take into account the cost of attracting and retaining executives with experience and organizational fit. The chart below shows aggregate compensation converted to USD.

CEO Compensation (USD, millions)

Company	Value
Swedish Match AB — Lars Dahlgren	1.75
Altria Group Inc. — Martin J. Barrington	3.70
Reynolds American Inc. — Susan Cameron	0.45
Lorillard Inc. — Murray S. Kesler	4.55
Philip Morris International Inc. — Andre Calantzopoulos	4.25
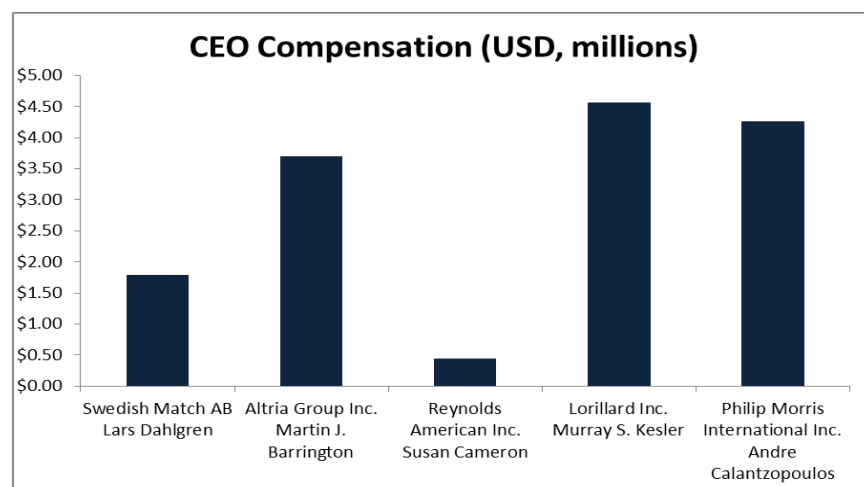
Security Specifics

American Depository Receipt (ADR)

Underlying common shares of Swedish Match trade on the NASDAQ OMX Nordic exchange under the ticker "SWMA" and are denominated in Swedish Krona (SEK). "SWMAY" is a Level 1, unsponsored ADR listed on the OTC Markets Pink exchange that is denominated in USD. One ADR is approximately equivalent to one half of an underlying common share. The movement in USD/SEK explains the post-conversion difference between the value of the ADR and the underlying. The term "unsponsored" means that Swedish Match has no formal agreements with depositary banks BNY Mellon and Citi. While we make note of the point, we do not foresee any material risks arising from the depositary banks themselves as both have well established and recognized depositary receipt programs. Level 1 ADRs also are subject to the loosest reporting requirements by the Securities and Exchange Commission. Investors should be aware that there is limited information through North American reporting channels and should instead opt for audited financial publications through Swedish Match, FI, or other European agencies. For a period of time, Swedish Match was listed on the NASDAQ, but lack of investor interest, low turnover, and fees were cited as the reason that management decided to delist and terminate the ADR program on August 19, 2004. Volume, with the exception of news releases, is generally low and this is something to note when buying or selling this security on a short term basis.

Historical Volume

USD/SEK Rate
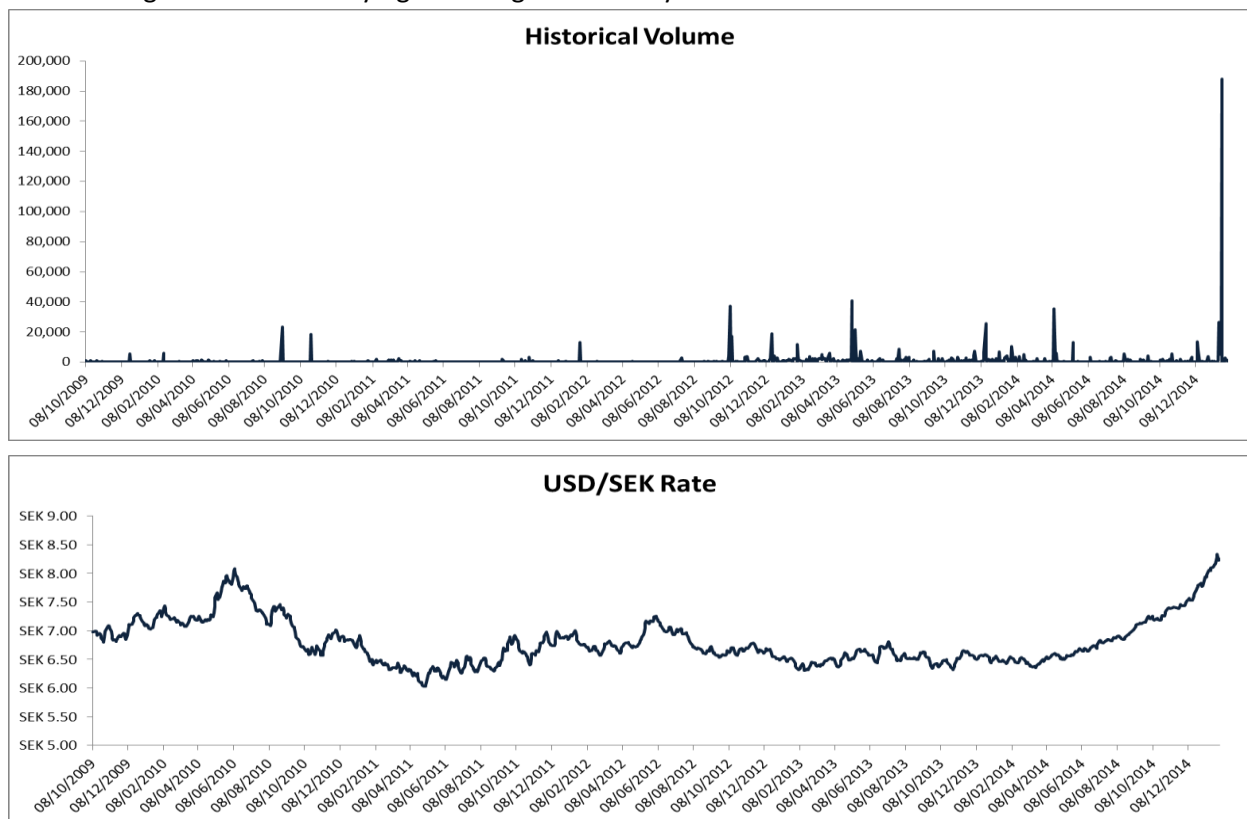
Swedish Snus

The Product

Credit: Swedish Match Image Bank (Top Left and Right), Northerner Scandinavia Inc. (Bottom Left and Right)

Swedish snus is sold in two different forms. Snus also can be purchased in a plethora of flavours ranging from mint and "natural" to berry and coffee. The top two images depict portioned snus. These pouches are placed under the upper lip. The bottom two images depict loose snus, which is the same finely ground tobacco that is then compressed into a ball or cylinder known colloquially as a "pris" and then placed under the upper or lower lip. The tool to the right is used by some to achieve a more uniform and consistent cylinder. We believe that the pouch format will be the dominant form to drive expansion into the international market. Unlike American smokeless tobacco, portion snus is spit free and far more discreet before and after use.

However, the key factor that distinguishes snus from other smokeless tobacco products lies in how the tobacco leaves are processed. American smokeless tobacco products are sold in both loose and portioned forms, so the prevalence of the pouch format does not truly distinguish snus. The North American perception that a smokeless product is "Swedish snus" only when it is portioned is largely a marketing issue and we believe this can be easily eroded by the introduction of products such as Reynolds American Inc.'s "Camel Snus." We think it is important therefore that Swedish Match advertise (to the extent that it is legally allowed) the difference by which its products are manufactured. The method of processing has significant medical implications which are important to policymakers. This difference in risk classification could result in more lenient labelling and distribution rules.

Swedish Snus

Labelling Risk

For any tobacco products company, labelling has become increasingly punitive over time. From the contents of the warning label to the font size used, these details have all been codified into law. For example, Section 204 of the United States Food and Drug Administration's (FDA) Family Smoking Prevention and Tobacco Control Act (Tobacco Control Act) states that smokeless tobacco products must bear warnings starting with the word "WARNING:" and followed by sentences such as "This product can cause mouth cancer. This product can cause gum disease and tooth loss. This product is not a safe alternative to cigarettes. Smokeless tobacco is addictive." The labels are even mandated to "comprise at least 30 percent of each such display panel." We have no illusions that Swedish Match would be exempt from these labels at the very minimum. However, we do think that its lowered risk profile would prevent the introduction of more drastic measures such as homogenous packaging or graphic warning labels.

While every "increment" of leniency is beneficial for Swedish Match, regardless of the labels, a glance at aggregate share price data since the introduction of tobacco legislation strongly suggests that labelling has actually done little to curtail overall tobacco use. For reference, the Tobacco Control Act became effective on June 22, 2009. The vertical freefall in 2013 was due to multiple stock splits. Clearly, as per the graph below, tobacco is still flourishing along with the increased quantity and severity of warnings. If cigarette warning labels are generally ineffective, we see no convincing reason as to why they would be more effective on smokeless tobacco products.

Historical Mean Share Price of NYSE: PM, MO, LO, RAI
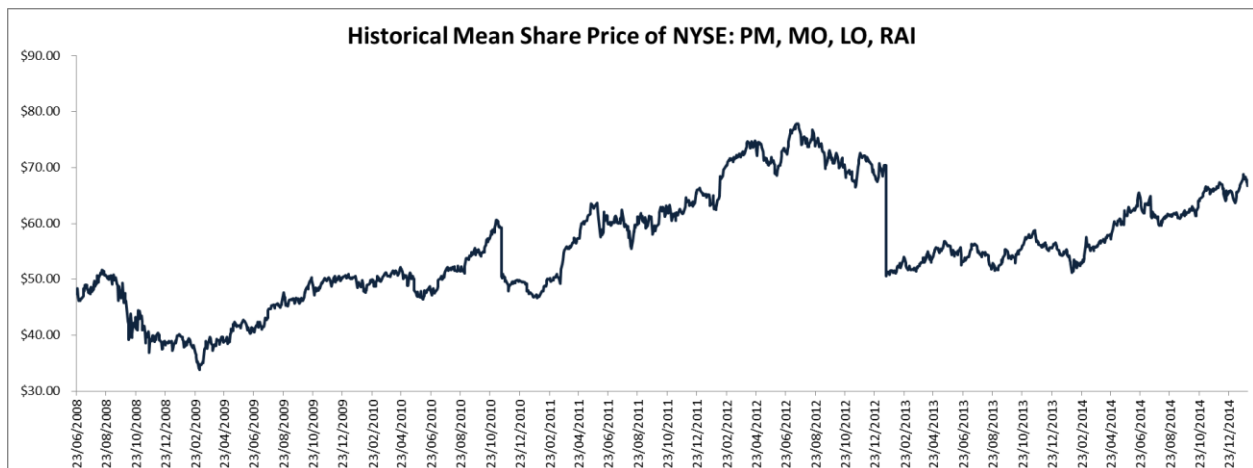
Swedish Snus

Manufacturing Method - Consumer Care

Swedish Match describes their manufacturing method as the "GOTHIATEK Quality Standard." The standard oversees production from the seed to the end product and has been in place since 2000. Gothiatek is divided into consumer care, quality, and openness. While we often treat statements made by tobacco and alcohol companies with some level of skepticism, we believe that this particular standard has proven benefits.

The first area, consumer care, relates to the tolerances for toxic substances such as lead, tobacco specific nitrosamines (TSNAs), and aflatoxins, which are naturally occurring mycotoxins caused by fungi. We think that a supporting factor is specific product recognition by government. The industry is regulated by the Swedish National Food Agency and facilities must conform to hygiene standards set by the Swedish Food Act. Swedish Match is governed by the directive on snus and chewing tobacco (LIVSFS 2012:6). Legislation and legitimacy give Swedish Match a strong incentive to adhere to standards and publicise them. Below is an overview showing average reported content of undesirable or toxic components in Swedish Match snus compared to national limits. "Reason for Concern" is general, not necessarily proven, and the health effects differ by the amount and the route by which humans interact with the particular component.

Undesirable/Toxic Components				
Component	Limit	Average Content in 2013 (95% CF)	Reason for Occurrence	Reason for Concern
Nitrite (mg/kg)	3.50	1.40 (1.40-1.50)	Derivative of nitrate from drying and processing	Carcinogenic nitrosamines
TSNAs NNN+NNK (mg/kg)	1.00	0.49 (0.49-0.50)	Formed during curing and processing	Carcinogen
NDMA (µg/kg)	5.00	<0.6	Present in green tobacco plant	Hepatoxin
Benzo(a)pyrene (µg/kg)	2.50	<0.6	Formed through fire curing and from air pollution	Mutagenic and carcinogenic metabolites
Agrochemicals	Internal Limit	Below the quantity used in fruit crops	Pesticide	Various
Cadmium (mg/kg)	0.50	0.28 (0.28-0.29)	Comes from soil	Poisonous
Lead (mg/kg)	1.00	0.15 (0.15-0.15)	Comes from soil	Neurotoxin
Arsenic (mg/kg)	0.25	0.07 (0.07-0.07)	Comes from soil	Poisonous
Nickel (mg/kg)	2.25	0.89 (0.87-0.91)	Comes from soil	Allergen, carcinogen
Chromium (mg/kg)	1.50	0.42 (0.41-0.42)	Comes from soil	Chromium (VI) toxicity

All Gothiatek products bear an ingredients label, which is an exception among tobacco products such as cigarettes, cigars, and American smokeless tobacco. In countries such as Canada where there is no space for an ingredients label net of warnings, the corresponding list can be easily accessed on their website. We think this level of corporate transparency is exactly what Swedish Match needs to maintain a positive image and even protect itself against litigation. The image to the right is an example of a Swedish Match snus product that can be purchased in Canada.

General Classic Portion

CAS	Ingredient name	Function	mg/portion
7732-18-5	Water	Humectant	470
	Pouch material	Pouch	39
57-55-6	Propylene glycol	Humectant	34
7647-14-5	Sodium chloride	Other	28
497-19-8	Sodium carbonate	pH Adjuster	23
	Flavor	Flavor	2.0

For information of all ingredients in our Snus products, please use our Composite list.

Page updated Dec 22, 2014

Swedish Snus

Manufacturing Method - Quality

Credit: Swedish Match Image Bank

The tobacco farming market has similar characteristics to a monopsony. For tobacco companies, this is not only a matter of cost savings but one of quality control and standardization. It is common for smokers to show preference towards a particular brand of cigarettes for its taste, design, labelling, and other factors. To maintain the loyalty of a consumer, the taste of a particular blend must be consistent. Snus is no exception to this. Swedish Match distributes a specific strain of the tobacco plant, and from there, farmers around the world grow the plant for six weeks and cure the leaves for another six weeks. The cured leaves are then shipped back to Sweden where they undergo a highly mechanized process of grinding, mixing with other ingredients, water pasteurization, and then packaging. Unlike flue and fire cured tobaccos, Swedish Match cures tobacco by air and sunlight, which results in naturally lower TSNA levels. It also advertises the fact that its plants are not genetically modified, although we do not see any material health implications resulting from this fact.

One significant issue that we recognize is the fact that snus must be kept away from heat and refrigerated prior to sale. On one hand, Swedish Match supplies cabinet "coolers" to end retailers which double as lockable promotional displays. However, in places such as British Columbia, Canada, retailers are not permitted to openly display tobacco products. Thus, retailers may have an issue of keeping snus fresh, but hiding the cooling cabinet. Once the foil seal is opened, the consumer then has to use it before the pouches dry out. Again, for the heavy user, this should not be an issue, but we think that the container's seal should be improved to make it more shelf stable and impermeable after opening. This is especially relevant to individuals looking to substitute from highly shelf stable products such as cigarettes.

Manufacturing Method - Openness

To a certain extent, we have to recognize that companies of a similar scale to Swedish Match have the funds and the funds at stake to aggressively defend their products. However, relative to other tobacco products and other tobacco companies, it is arguably easier to find ingredients and medical research on Swedish Match's products. We hold strongly that no tobacco use is always safer than tobacco use, but Swedish Match has made a strong case for the fault behind many previous research papers. Because of the lack of defined terms, most research on smokeless tobacco products fail to use Swedish snus, and rather, test with American fire cured and fermented smokeless tobacco, which is a vastly different product from both a chemical and production standpoint.

Swedish Snus

"Review of the Scientific Literature on Snus (Swedish Moist Snuff)"

Figure 2-1. Distinction Between Snus and Other Oral Smokeless Tobacco Products (adapted from Andersson and Axell 1989)
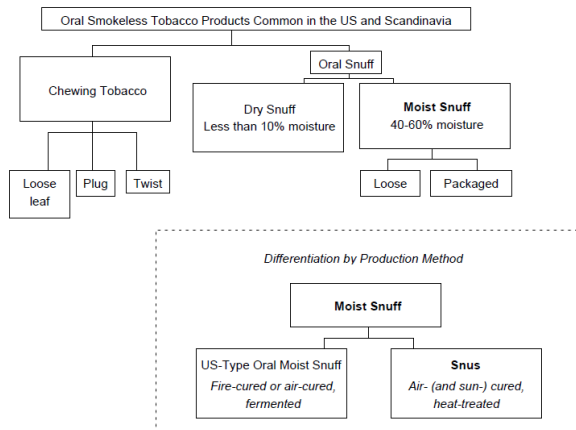
Credit: ENVIRON Holdings, Inc.

ENVIRON Holdings, Inc. (ENVIRON) of Arlington, Virginia is an international consulting company that specializes on environmental, health, and safety issues. It is an organization we have found to be of good repute, and has even been commissioned by governmental agencies such as the United States Environmental Protection Agency (USEPA). ENVIRON published the report on March 31, 2010. ENVIRON's report was originally written for Swedish Match and key individuals, but FDA legislation has mandated its release. While the 362 page document is a summary of all current scientific literature, it is likely one of the most comprehensive and objective pieces on the subject. We have decided to draw upon it because of its objectivity in writing and honesty in mentioning works of scientific literature which are not positive towards snus. We have found several points from the document which address common concerns and support our investment thesis.

Carcinogenic Potential

"Well-controlled epidemiological evidence indicates that Swedish snus is not associated with oral cancer." (Page 4)

"Studies support the conclusion that Swedish snus is not genotoxic in mammalian cells and a recent study also reported that Swedish snus is not mutagenic, cytotoxic or clastogenic." (Page 3)

"A limited number of epidemiology studies have failed to demonstrate that Swedish snus is a significant risk factor for the following cancers: kidney, bladder, lung, skin cancer, hematopoietic cancers, and all cancers combined." (Page 4)

Sodium Chloride

"Based on the results presented in Table 2-2, Lunell and Lunell (2005) assumed an average extraction of 7 mg sodium chloride per sachet of snus and concluded that it would take daily consumption of approximately 900 sachets of snus to produce an intake of approximately 6 g of sodium chloride." (Page 17)

Swedish Snus

General Conclusions

It is a commonly heard statistic that tobacco products contain thousands of chemical compounds. What this fails to account for is that most are naturally occurring and in Swedish Match products, most of the undesirable compounds are present in quantities lower than that of other staple foods. When ENVIRON examined naturally occurring aldehydes such as formaldehyde and acetaldehyde, concentrations in Swedish snus were found to be lower than those of alcoholic and diet beverages. Another argument against cigarettes is the presence of radioactive compounds. While all tobacco products contain polonium-210 due to fertilizers, soil, water, and air, the radioisotopes found in snus are not thought to be absorbed into the body. At the very worst, "the author suggested that habitual snus users are exposed to a radiation dose per year similar to the exposure from three single dental x-rays." (Page 30)

To further complicate the issue, the methodology of each study of smokeless tobacco products has been highly varied. Not only did many previous studies use American smokeless tobacco, but their methods for administering the product to rats were described as "a highly invasive method involving surgically created oral test canals." (Page 54) We think this is entirely unrealistic simulation of the average consumer's habits.

We did notice however that Gothiatek did not specify any limits for cobalt and barium. It is likely that they are not to be found in any significant quantity, but if Swedish Match is to have a standard, it should continually seek to improve them as an industry leader. Ultimately, there are thousands of compounds, and not all are extractable or testable in economic quantities. Additionally, there exists no standard set of biomarkers for testing, so more research is needed.

At the time of writing, ENVIRON found that the most significant issues associated with the chronic use of Swedish snus were cardiovascular, reversible in nature, and most likely the result of nicotine. Due to the oral nature of the product, there is limited evidence to suggest that Swedish snus may be linked to non-carcinogenic dental activity such as dental caries, oral mucosal lesions, tooth loss, tooth wear, and periodontal disease. However, there are other variables such as the dental habits of the test subject. Given how dental issues rarely appear overnight, it is difficult to monitor the other habits of subjects in addition to their consumption of Swedish snus in an economical and even ethical manner.

Investment Thesis

Substitution

The fundamental assumption behind our thesis for substitution is that the odds of breaking the addiction to nicotine are scaled against the consumer. Even with the advent of medicines such as Chantix (Varencline) and Zyban (Bupropion) for quitting smoking, they are by prescription only and not without their share of side effects. The market for prescription quit products is also limited by contraindications with existing medicines and supplements as well as individual biological incompatibility. We see evidence of substitution in the nicotine replacement therapy (NRT) market as well. NRT products provide pure nicotine through inhalers, aerosols, patches, gums, and lozenges. The concept behind NRT products is that it is easier to quit smoking by gradually reducing the nicotine consumed rather than by shocking the body through "cold turkey" quitting. Even in the NRT market, ACNielsen researchers found that "5-9% of nicotine gum users relied on it for longer than the recommended three months." Again, we find nicotine to be extremely addictive. The resulting symptoms from sudden and complete cessation are often severe enough to induce the smoker to relapse. We also think that a consumer contemplating prescription medicines is fundamentally different than one who is merely looking for an alternative to cigarette smoking. The severity of addiction can vary due to a person's genetic makeup, social environment, and life events, but a comprehensive examination into the mechanics of addiction is clearly beyond the scope of this document.

Today, smoking is on the decline, but if our assumptions are to hold true, this must mean that the demand for nicotine must be satisfied through other channels. We have noticed an increase in the consumption of smokeless tobacco products. The growth of Swedish snus in the United States is still in its infancy, so we took a glance at Altria Group, Inc.'s (Altria) subsidiary U.S. Smokeless Tobacco Company (USSTC). In the United States and Canada, the three dominant brands of dipping tobacco are Copenhagen, Skoal, and Grizzly. Copenhagen and Skoal are both made by USSTC. In the chart below, we compare the net revenues of USSTC against rates of cigarette smoking in the United States and Canada among adults. The net revenue data comes from Altria's 10-K filing, United States smoking rates are from the Centers for Disease Control and Prevention (CDC), and Canadian data comes from Health Canada's Canadian Tobacco Use Monitoring Survey (CTUMS).

Cigarettes & Smokeless Tobacco Products
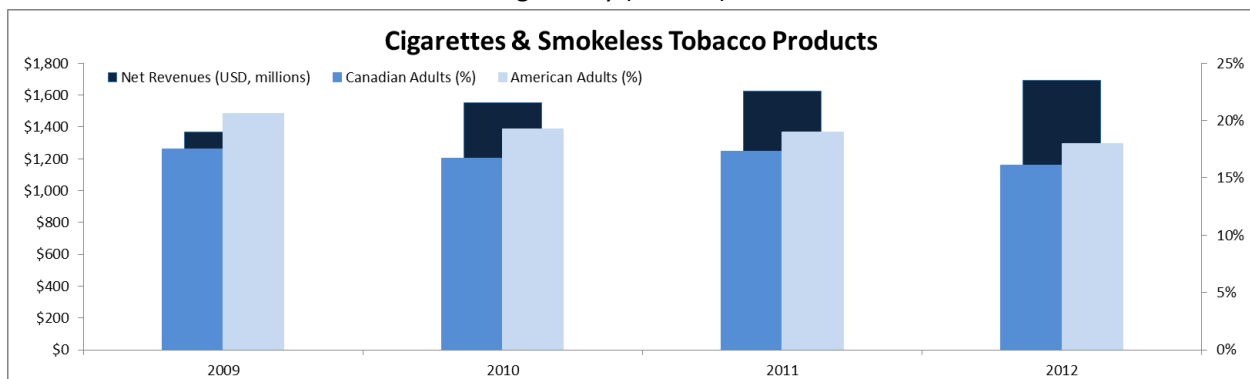
Investment Thesis

Global Expansion

Total Excise Taxes Per Pack in USD
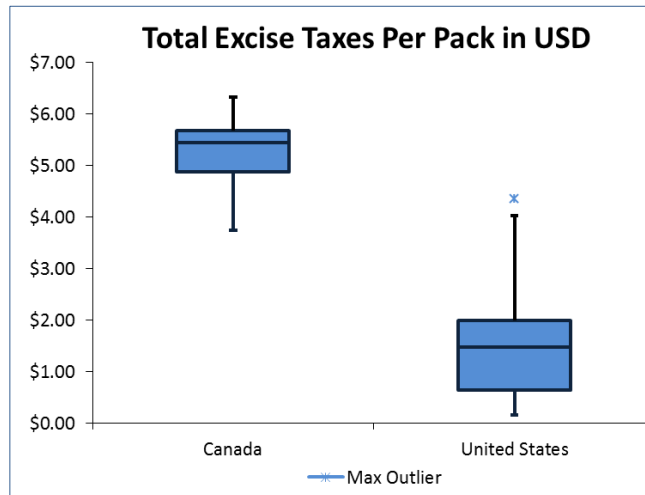
We see two geographical markets with the greatest potential for expansion. In the near term, the United States has been a prime business environment. We examined total excise taxes per pack of cigarettes (Appendix Figure 1) by province in Canada and by state in the United States as a proxy for taxes on snus, cigars, and other Swedish Match products. The Canadian mean tax per pack of cigarettes was $6.55 CAD or $5.24 USD while the American mean tax was only $1.58 USD. For a more direct comparison, British Columbia and New York are known to have relatively high tobacco taxes in their respective countries. A can of General retails for $19.95 CAD in Vancouver, British Columbia while the same can in New York City, New York retails for $7.50 USD. Given the economic importance the crop and the political power of the tobacco lobby in the United States, we do not foresee average excise taxes rising past the rate of inflation in our estimates. Swedish Match estimates that in 2013, the General brand of snus has captured around nine percent of the United States smokeless market and was available through over 21,000 retailers. We think that lower excise taxes, the overall support of the tobacco lobby, and PMI's distributional expertise will help Swedish Match grow its market share in the United States.

In the longer term, perhaps past the horizon of our estimates, we see the EU as the market with the most potential for Swedish Match. Currently, the sale of Swedish snus is illegal in all EU countries. We realize this is a wildcard decision. Snus will be either fully legal or illegal, but as of right now, we see encouraging signs. On November 28, 2008, the Swedish Government asked the EU Commission for a review of its export ban. On October 8, 2014, the European Parliament rejected a proposal to ban flavours in snus and impose stricter regulations on the tobacco industry. We think that the science behind the product as well as the support of Sweden's trade minister will eventually demonstrate to the European Parliament the logical fallacy behind allowing the sale of cigarettes and fire cured and fermented chewing tobacco products but upholding a ban on Swedish snus. If the ban were to be lifted, we would expect a near instantaneous rise in the price of Swedish Match shares.

Investment Thesis

Forecasted Declines

In line with the company's recent performance, we expect a continued decline in the lights division. Lighters and matches are products with razor thin margins but Swedish Match does have the distribution and production scale to remain a market leader. Our issue with lights is that we think that Swedish Match is a market leader in a slowly contracting industry. While the line may be contributing to sales, we see no convincing reason as to why the line should form a greater part of sales in the long term. We have factored in a gradual decline to a residual percentage of sales at the terminal year of our estimates of approximately two percent. In the 2013 Annual Report, Swedish Match "estimates that consumption of matches in markets where the Company has a presence declined during the year, in line with previous years." The portion of forest land on the balance sheet is made of poplar and pine forests in Brazil which are maintained to secure the wood needed for the lights division. We would not be surprised to see a divestiture of these assets in the long term. For normal operating purposes, wood is currently sourced from external Forest Stewardship Council (FSC) certified sources.

Modified Risk Tobacco Product (MRTP) Application

On June 11, 2014, Swedish Match submitted an MRTP application to the FDA. The application is a document over 100,000 pages long that cites scientific evidence in favour of select brands of the General line to be sold in the United States under a modified risk classification. Prior to submission, Swedish Match also established an independent MRTP Advisory Panel in 2013 to study matters relating to the application. The immediate benefits are reduced labelling requirements, but more importantly, the FDA ruling will be closely watched by all sides of the tobacco industry and by foreign governments. We think that the application is well supported by decades of documented evidence, but the FDA will also take into account public commentary as well as opinions of the "morality" of the issue. On one hand, there are groups who support the complete abstinence from all forms of tobacco. Swedish Match will encounter challenges from this side which does not view the use of modified or lower risk tobacco products as a legitimate alternative.

Investment Thesis

Comparable Companies Analysis (CCA)

On the basis of our comparable companies analysis, we have found several noteworthy factors. Valuing on a price to free cash flow per share basis, the price to equate Swedish Match's ADR shares to the mean of the peer group would be $22.33 USD. This share price would not be disproportionate in comparison with our model estimates. There are many publicly traded tobacco companies, but very few are true tobacco product companies. When we use the word "true" we are referring to companies that produce tobacco products that are recognizable to the end consumer and not bulk leaves sold in pallets. Again, this type of industry requires enormous scale in terms of distribution, production, research & development, and access to financing. For this reason, we excluded companies that exclusively grew tobacco, developed patents for seeds and genetics, distributors, and other intermediaries. Swedish Match is definitely dwarfed in terms of market capitalization and enterprise value in the industry. This is not an entirely negative factor as Swedish Match operates in a very specific niche market and has nearly perfected the production of portion snus. The dividend yield is comparatively low and we do not foresee any increases considering the existing efforts dedicated to expanding in the United States. Along with expansion assumptions, we expect to continue seeing a relatively high debt to assets level. Swedish Match has an established medium term note program (MTN) and it likely will continue to use this facility in the near future. MTNs generally mature in five to 10 years.

A larger version of the table below can be found in Appendix Figure 5

Swedish Match AB (NASDAQ OMX Nordic: SWMA / OTC Pink: SWMAY) Comparable Companies Analysis (CCA)

All figures in United States Dollars unless otherwise noted. (USD)

Company	Ticker Symbol	Price	Shares Outstanding	Market Capitalization	Dividend Yield (TTM)	Enterprise Value (EV)	EV/EBITDA (TTM)	Debt to Assets (Quarterly)	EPS Diluted (TTM)	P/E	P/FCF
Philip Morris International Inc.	NYSE: PM	$ 80.24	1,554,000,000	$ 124,692,960,000	4.84%	$ 153,870,000,000	12.110	88.14%	$ 4.77	16.825	18.933
Altria Group Inc.	NYSE: MO	$ 53.10	1,976,000,000	$ 104,925,600,000	3.77%	$ 116,320,000,000	14.960	42.62%	$ 2.57	20.661	23.744
Reynolds American Inc.	NYSE: RAI	$ 67.95	531,280,000	$ 36,100,476,000	3.94%	$ 40,220,000,000	15.150	35.79%	$ 2.75	24.727	25.441
Lorillard, Inc.	NYSE: LO	$ 65.61	360,050,000	$ 23,622,880,500	3.75%	$ 25,530,000,000	11.670	101.50%	$ 3.28	20.009	18.341
British American Tobacco PLC (ADR) Ratio (DR:ORD) 1:2	NYSEMKT: BTI	$112.65	932,060,000	$ 52,498,279,500	4.28%	$ 123,950,000,000	11.640	49.51%	$ 6.32	17.819	13.871
Japan Tobacco Inc. (ADR) Ratio (DR:ORD) 1:1	OTC Pink: JAPAF	$ 27.54	1,817,560,000	$ 50,055,602,400	4.26%	$ 51,500,000,000	7.080	6.07%	$ 2.21	12.484	11.842
Imperial Tobacco Group PLC (ADR) Ratio (DR:ORD) 1:2	OTC QX: ITYBY	$ 93.42	478,550,000	$ 22,353,070,500	4.44%	$ 59,120,000,000	13.440	38.19%	$ 4.95	18.888	(32.186)
Swedish Match AB (ADR) Ratio (DR:ORD) 1:0.5	**OTC Pink: SWMAY**	**$ 16.35**	**200,500,000.00**	**$ 6,556,350,000**	**2.54%**	**$ 7,417,590,000**	**13.030**	**63.36%**	**$ 0.99**	**16.555**	**8.365**
Mean		**$ 71.50**	**1,092,785,714.29**	**$ 59,178,409,842.86**	**4.18%**	**$ 81,501,428,571**	**12.293**	**51.69%**	**$ 3.83**	**18.773**	**11.427**
Median		**$ 67.95**	**932,060,000.00**	**$ 50,055,602,400.00**	**4.26%**	**$ 59,120,000,000**	**12.110**	**42.62%**	**$ 3.28**	**18.888**	**18.341**
Maximum		**$112.65**	**1,976,000,000.00**	**$ 124,692,960,000.00**	**4.84%**	**$ 153,870,000,000**	**15.150**	**101.50%**	**$ 6.32**	**24.727**	**25.441**
Minimum		**$ 27.54**	**360,050,000.00**	**$ 22,353,070,500.00**	**3.75%**	**$ 25,530,000,000**	**7.080**	**6.07%**	**$ 2.21**	**12.484**	**(32.186)**

Investment Thesis

Discounted Cash Flow Analysis (DCF)

Swedish Match's products are sold in nearly every area of the planet, whether directly, through distributors, local retailers, or even smaller online channels. As a consolidated entity with approximately 200 years of history, its magnitude was considered in our analysis. For this reason, we have decided to simplify our analysis by only considering the company as a consolidated entity, rather than a sum of many parts. We then projected growth over an expanded period of 20 years. To simplify our projections, we calculated all figures except the ADR share price exclusively in SEK. Due to truncation in Swedish Match's audited historical financial statements, we had to exercise liberties in correcting line items, often with an alteration no more than 2,000,000 SEK to maintain the integrity of the fundamental accounting equation. Below is a highly compressed version of our model.

All figures in millions of Swedish Krona unless otherwise noted. (MSEK)

Consolidated Free Cash Flow

	2015 Est.	2016 Est.	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2028 Est.	2029 Est.	2030 Est.	2031 Est.	2032 Est.	2033 Est.	2034 Est.
Sales Attributable to Snus and Moist Snuff	11,153	11,762	12,456	13,249	14,153	15,184	16,359	17,702	19,238	20,996	23,013	25,332	28,004	31,090	34,652	38,809	43,637	49,272	55,889	63,616
Sales Attributable to Other Tobacco Products	5,311	5,119	4,935	4,755	4,574	4,388	4,191	3,979	3,744	3,478	3,170	2,810	2,384	1,873	2,051	2,256	2,492	2,767	3,085	3,455
Sales Attributable to Lights	2,380	2,261	2,133	2,003	1,868	1,724	1,570	1,399	1,208	991	742	801	869	947	1,037	1,141	1,261	1,399	1,560	1,747
Sales Attributable to Other Operations	7,701	8,206	8,776	9,421	10,153	10,984	11,929	13,006	14,236	15,684	17,260	18,641	20,744	22,611	24,140	25,873	27,837	30,064	32,590	35,458
Total Sales, Including Tobacco Tax	26,556	27,352	28,310	29,442	30,767	32,305	34,082	36,127	38,475	41,169	44,256	47,797	51,859	56,527	61,897	68,087	75,236	83,512	93,115	104,289
EBIT	3,854	3,959	4,084	4,233	4,406	4,606	4,837	5,101	5,402	5,746	6,138	6,585	7,095	7,678	8,344	9,107	9,983	10,990	12,153	13,497
Effective Tax Rate	22.02%	22.04%	22.07%	22.09%	22.11%	22.13%	22.15%	22.18%	22.20%	22.22%	22.24%	22.26%	22.29%	22.31%	22.33%	22.35%	22.37%	22.40%	22.42%	22.44%
Depreciation	262	272	283	293	304	316	327	340	352	366	379	394	408	424	439	456	473	491	509	528
Change in Net Working Capital	(2,611)	2,740	(2,680)	2,862	(2,772)	3,022	(2,889)	3,229	(3,033)	3,489	(3,206)	3,812	(3,411)	4,213	(3,652)	4,708	(3,931)	5,322	(4,252)	5,412
Capital Expenditures	233	245	257	270	284	298	313	329	345	363	381	400	420	442	464	487	511	537	564	592
Consolidated Unlevered Free Cash Flow	6,112	863	6,403	1,000	6,792	1,178	7,295	1,409	7,934	1,709	8,739	2,101	9,754	2,618	11,035	3,306	12,665	4,235	14,753	6,177

All figures in millions of Swedish Krona unless otherwise noted. (MSEK)

Consolidated Discounted Cash Flow

	2015 Est.	2016 Est.	2017 Est.	2018 Est.	2019 Est.	2020 Est.	2021 Est.	2022 Est.	2023 Est.	2024 Est.	2025 Est.	2026 Est.	2027 Est.	2028 Est.	2029 Est.	2030 Est.	2031 Est.	2032 Est.	2033 Est.	2034 Est.
Consolidated Discounted Unlevered Free Cash Flow	5,828,084,063	794,985,453	5,551,715,539	826,695,535	5,355,197,569	885,912,121	5,230,241,661	963,621,808	5,172,456,097	1,062,059,055	5,180,000,220	1,187,710,210	5,257,943,448	1,345,561,864	5,409,425,739	1,545,519,118	5,645,149,685	1,800,225,784	5,979,772,940	2,387,396,286
Shares Outstanding	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000	200,000,000
Consolidated Discounted Unlevered Free Cash Flow per Share	29.14	3.92	27.76	4.13	26.78	4.43	26.15	4.82	25.86	5.31	25.90	5.94	26.29	6.73	27.05	7.73	28.23	9.00	29.90	11.34

Discount Rate	4.87%
Present Value Per Share SEK (NASDAQ OMX Nordic: SWMA)	340.11 kr
Present Value Per Share USD (OTC Pink: SWMAY)	$23.17

Weighted Average Cost of Capital (WACC)

Capital Structure	(E) Market Value of Firm's Equity SEK
	(D) Market Value of Firm's Debt SEK
	(V) Total Market Value of Firm's Equity and Debt SEK
Cost of Equity	(Rf) Risk free Rate (Sveriges Riksbank "SE GVB 10Y" current to January 30, 2015)
	(β) Equity Beta
	(Rm) Swedish Equity Market Risk Premium (Aswath Damodaran, current to January 2015)
	(Re) Cost of Equity using Capital Asset Pricing Model (CAPM) (Re = Rf + β (Rm - Rf)
Cost of Debt	(Rd) Weighted Cost of Debt (Based on outstanding issues and credit rating)
	(Tc) Corporate Tax Rate (Mean Effective Swedish Corporate Tax Rate 2008-2034)
WACC	WACC = E/V X Re + D/V X Rd (1 - Tc)
	Swedish Country Risk Premium (Aswath Damodaran, current to January 2015)
	Effective Discount Rate

The key assumption we have is that sales attributable to snuff and moist snuff as well as other operations (sales of snuff and moist snuff in Scandinavian markets) will continue to form a greater share of total sales. We forecast declines in lights and other tobacco products as a percent of total sales. This is in line with the Swedish Match's vision of "A world without cigarettes" and the historic performance of its lights division. We simply do not see the growth opportunities needed for lights to form a greater share of total sales. The company's matches may be fairly ubiquitous in certain local markets, but we fail to find a reason for the sales of Clipper lighters to outperform Bic lighters worldwide. Gilette, the former owner of Cricket divested the line due to years of failing sales. Balance sheet line items such as receivables were projected in line with the percentage growth in total sales. We did not factor in any significant increases in debt or equity financing. With respect to debt, the company has been actively paying off its outstanding bonds and also repurchasing shares on a regular basis.

Investment Thesis

Swedish Match AB (NASDAQ OMX Nordic: SWMA / OTC Pink: SWMAY)	Cost of Debt												
Issue Name	CUSIP	ISIN	Amount Outstanding	Currency	Amount Outstanding (SEK)	Ask Yield to Maturity	Issue Date	Maturity Date	Time to Maturity (Years)	Weighted Rate	Comparable Risk Free Issue	Weighted Risk Free Premium	Total Weighted Rate
SWEDMAT 4.34 07/12/15 CORP	E0154719	XS0525248653	1,000,000,000	SEK	1,000,000,000	0.165%	12/07/2010	12/07/2015	5.003	0.019%	SVERIGES RIKSBANK 5Y (SWEDEN)	0.022%	0.041%
SWEDMAT 4.25 09/19/18 CORP	E8112530	XS0678163154	750,000,000	SEK	750,000,000	1.086%	19/09/2011	19/09/2018	7.005	0.091%	SVERIGES RIKSBANK 7Y (SWEDEN)	0.031%	0.123%
SWEDMAT 4.00 12/22/16 CORP	E9131836	XS0724658223	400,000,000	SEK	400,000,000	0.471%	22/12/2011	22/12/2016	5.005	0.021%	SVERIGES RIKSBANK 5Y (SWEDEN)	0.009%	0.030%
SWEDMAT 3.875 11/24/17 CORP	E4735672	XS0562188580	350,000,000	EUR	3,262,055,000	0.317%	24/11/2010	24/11/2017	7.005	0.117%	DEUTSCHE BUNDESBANK 7Y (GERMANY)	0.015%	0.132%
SWEDMAT FLOAT 02/01/18 CORP	EJ2171167	XS0789183570	350,000,000	SEK	350,000,000	0.639%	04/06/2012	01/02/2018	5.666	0.025%	SVERIGES RIKSBANK 5Y (SWEDEN)	0.008%	0.033%
SWEDMAT 4.76 02/29/16 CORP	E9602790	XS0596681964	250,000,000	SEK	250,000,000	0.341%	28/02/2011	29/02/2016	5.005	0.010%	SVERIGES RIKSBANK 5Y (SWEDEN)	0.005%	0.015%
SWEDMAT FLOAT 02/15/19 CORP	EJ6695799	XS0931685779	200,000,000	SEK	200,000,000	0.816%	15/05/2013	15/02/2019	5.759	0.018%	SVERIGES RIKSBANK 5Y (SWEDEN)	0.004%	0.023%
SWEDMAT 3.875 02/01/18 CORP	EJ2171118	XS0789183224	150,000,000	SEK	150,000,000	0.836%	04/06/2012	01/02/2018	5.666	0.014%	SVERIGES RIKSBANK 5Y (SWEDEN)	0.003%	0.017%
SWEDMAT 2.125 06/26/23 CORP	EJ6989680	CH0215278448	100,000,000	CHF	893,830,000	0.896%	26/06/2013	26/06/2023	10.005	0.090%	SCHWEIZERISCHE NATIONALBANK 10Y (SWITZERLAND)	0.010%	0.100%
SWEDMAT 3.125 04/03/19 CORP	EJ1100779	XS0767319857	100,000,000	EUR	937,730,000	0.686%	03/04/2012	03/04/2019	7.003	0.072%	DEUTSCHE BUNDESBANK 7Y (GERMANY)	0.004%	0.077%
SWEDMAT 4.00 05/31/28 CORP	EJ6953768	XS0939505003	50,000,000	USD	413,300,000	3.989%	31/05/2013	31/05/2028	15.011	0.185%	UNITED STATES TREASURY 10YR (USA)	0.096%	0.281%
SWEDMAT 3.875 02/16/22 CORP	EJ0149090	XS0745894138	30,000,000	EUR	281,319,000	1.684%	16/02/2012	16/02/2022	10.008	0.053%	DEUTSCHE BUNDESBANK 10Y (GERMANY)	0.011%	0.065%
Swedish Match AB			Total		8,908,234,000					Total 0.715%		Total 0.220%	Cost of Debt
Synthetic CDS Spread Premium (BBB) = 1.75%													2.685%

Our cost of debt took into account outstanding issues and Swedish Match's credit rating, and is an approximation based on the size of each issue. Each issue's amount outstanding was converted into SEK, and the yield to maturity was multiplied by its relative weight. A premium based on the risk free alternative to each issue in its currency was also multiplied by the issue's relative weight. These two totals were then added along with a synthetic estimate based on CDS spreads for BBB rated corporate debt with similar characteristics. Standard & Poor's most recent long term rating for Swedish Match is BBB with a stable outlook. We used the longer term rating because of the length of our projections. We relied on the Swedish equity market risk premium, the Swedish country risk premium, and the CDS spread premiums as provided by Aswath Damodaran, Professor of Corporate Finance and Valuation at the Stern School of Business at New York University.

Sweden, like many developed countries around the world has had low interest rates across the board. While our goal is to value the ADR we cannot forget that it is ultimately dependent on the underlying security. Because underlying shares are denominated in SEK, we have used the 10 year, Swedish Government Bond rate as of the time of publication as our risk free rate. Sweden is also in a state of deflation, but our forecast has increased inflation in a linear pattern over time to the targeted two percent as set by Sveriges Riksbank, the Swedish Central Bank.

Our forecasted present value of the next 20 years of consolidated unlevered free cash flow per ADR of Swedish Match is $23.17 USD. This represents an upside of approximately 42 percent against the current share price. To convert the underlying to the ADR, we multiplied the underlying by a mean daily historical (Sveriges Riksbank daily cross rate from January 31, 1994 to January 30, 2015) SEK/USD rate of 0.13388.

The complete discounted cash flow model including historical financial statements, projections, and weighted average cost of capital (WACC) calculations can be found in Appendix Figure 3. A highly compressed version can be found in Appendix Figure 4. A larger cost of debt table can be found in Appendix Figure 6.

Appendix

Figure 1

As of May 2014	Total Excise Taxes Per 200 Cigarettes (CAD)	Total Excise Taxes Per Pack (CAD)	Total Excise Taxes Per Pack (USD, CAD/USD=0.80)
British Columbia	$68.83	$6.88	$5.51
Alberta	$61.03	$6.10	$4.88
Saskatchewan	$71.03	$7.10	$5.68
Manitoba	$79.03	$7.90	$6.32
Ontario	$48.97	$4.90	$3.92
Quebec	$46.83	$4.68	$3.75
New Brunswick	$59.03	$5.90	$4.72
Nova Scotia	$68.07	$6.81	$5.45
Prince Edward Island	$66.03	$6.60	$5.28
Newfoundland	$68.03	$6.80	$5.44
Northwest Territories	$78.23	$7.82	$6.26
Nunavut	$71.03	$7.10	$5.68
Yukon	$63.03	$6.30	$5.04
Canadian Average	$65.32	$6.55	$5.24

As of January 2015	Total Excise Taxes Per 200 Cigarettes (USD)	Total Excise Taxes Per Pack (USD)	Total Excise Taxes Per Pack (CAD, USD/CAD=1.25)
Alabama	$4.250	$0.425	$0.531
Alaska	$20.000	$2.000	$2.500
Arizona	$20.000	$2.000	$2.500
Arkansas	$11.500	$1.150	$1.438
California	$8.700	$0.870	$1.088
Colorado	$8.400	$0.840	$1.050
Conneticut	$34.000	$3.400	$4.250
Delaware	$16.000	$1.600	$2.000
DC	$25.000	$2.500	$3.125
Florida	$13.390	$1.339	$1.674
Georgia	$3.700	$0.370	$0.463
Hawaii	$32.000	$3.200	$4.000
Idaho	$5.700	$0.570	$0.713
Illinois	$19.800	$1.980	$2.475
Indiana	$9.950	$0.995	$1.244
Iowa	$13.600	$1.360	$1.700
Kansas	$7.900	$0.790	$0.988
Kentucky	$6.000	$0.600	$0.750
Louisiana	$3.600	$0.360	$0.450
Maine	$20.000	$2.000	$2.500
Maryland	$20.000	$2.000	$2.500
Massachusetts	$35.100	$3.510	$4.388
Michigan	$20.000	$2.000	$2.500
Minnesota	$29.000	$2.900	$3.625
Mississippi	$6.800	$0.680	$0.850
Missouri	$1.700	$0.170	$0.213
Montana	$17.000	$1.700	$2.125
Nebraska	$6.400	$0.640	$0.800
Nevada	$8.000	$0.800	$1.000
New Hampshire	$17.800	$1.780	$2.225
New Jersey	$27.000	$2.700	$3.375
New Mexico	$16.600	$1.660	$2.075
New York	$43.500	$4.350	$5.438
North Carolina	$4.500	$0.450	$0.563
North Dakota	$4.400	$0.440	$0.550
Ohio	$12.500	$1.250	$1.563
Oklahoma	$10.300	$1.030	$1.288
Oregon	$13.100	$1.310	$1.638
Pennsylvania	$16.000	$1.600	$2.000
Rhode Island	$35.000	$3.500	$4.375
South Carolina	$5.700	$0.570	$0.713
South Dakota	$15.300	$1.530	$1.913
Tennessee	$6.200	$0.620	$0.775
Texas	$14.100	$1.410	$1.763
Utah	$17.000	$1.700	$2.125
Vermont	$27.500	$2.750	$3.438
Virginia	$3.000	$0.300	$0.375
Washington	$30.250	$3.025	$3.781
West Virginia	$5.500	$0.550	$0.688
Wisconsin	$25.200	$2.520	$3.150
Wyoming	$6.000	$0.600	$0.750
Puerto Rico	$22.300	$2.230	$2.788
Guam	$30.000	$3.000	$3.750
Northern Marianas	$17.500	$1.750	$2.188
American Average	$15.810	$1.581	$1.976

Appendix

Figure 2

Figure 3

The detailed financial model (Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Cash Flow Statement, Consolidated Free Cash Flow, Discounted Cash Flow Analysis, and Weighted Average Cost of Capital tables) is presented here with figures in millions of Swedish Krona.

Appendix

Figure 4

Swedish Match AB (NASDAQ OMX Nordic: SWMA / OTC Pink: SWMAY) — Discounted Cash Flow Analysis (DCF)

All figures in millions of Swedish Krona unless otherwise noted. (MSEK)

Consolidated Balance Sheet, Consolidated Income Statement, Consolidated Cash Flow Statement, Consolidated Free Cash Flow, Consolidated Discounted Cash Flow, and Weighted Average Cost of Capital (WACC) — with estimates from 2015 Est. through 2034 Est.

Appendix

Figure 5

Swedish Match AB (NASDAQ OMX Nordic: SWMA / OTC Pink: SWMAY) Comparable Companies Analysis (CCA)

All figures in United States Dollars unless otherwise noted. (USD)

Company	Ticker Symbol	Price	Shares Outstanding	Market Capitalization	Dividend Yield (TTM)	Enterprise Value (EV)	EV/EBITDA (TTM)	Debt to Assets (Quarterly)	EPS Diluted (TTM)	P/E	P/FCF
Philip Morris International Inc.	NYSE: PM	$80.24	1,554,000,000	124,692,960,000	4.84%	153,870,000,000	12.110	88.14%	4.77	16.825	18.933
Altria Group Inc.	NYSE: MO	$53.10	1,976,000,000	104,925,600,000	3.77%	116,330,000,000	14.960	42.62%	2.57	20.661	23.744
Reynolds American Inc.	NYSE: RAI	$67.95	531,280,000	36,100,476,000	3.94%	40,220,000,000	15.150	35.79%	2.75	24.727	25.441
Lorillard, Inc.	NYSE: LO	$65.61	360,050,000	23,622,880,500	3.75%	25,530,000,000	11.670	101.50%	3.28	20.009	18.341
British American Tobacco PLC (ADR) Ratio (DR:ORD) 1:2	NY SEMKT: BTI	$112.65	932,060,000	52,498,279,500	4.28%	123,950,000,000	11.640	49.51%	6.32	17.819	13.871
Japan Tobacco Inc. (ADR) Ratio (DR:ORD) 1:1	OTC Pink: JAPAF	$27.54	1,817,560,000	50,055,602,400	4.26%	51,500,000,000	7.080	6.07%	2.21	12.484	11.842
Imperial Tobacco Group PLC (ADR) Ratio (DR:ORD) 1:2	OTC QX: ITYBY	$93.42	478,550,000	22,353,070,500	4.44%	59,120,000,000	13.440	38.19%	4.95	18.888	(32.186)
Mean		$71.50	1,092,785,714.29	59,178,409,842.86	4.18%	81,501,428,571	12.293	51.69%	3.83	18.773	11.427
Median		$67.95	932,060,000.00	50,055,602,400.00	4.26%	59,120,000,000	12.110	42.62%	3.28	18.888	18.341
Maximum		$112.65	1,976,000,000.00	124,692,960,000.00	4.84%	153,870,000,000	15.150	101.50%	6.32	24.727	25.441
Minimum		$27.54	360,050,000.00	22,353,070,500.00	3.75%	25,530,000,000	7.080	6.07%	2.21	12.484	(32.186)
Swedish Match AB (ADR) Ratio (DR:ORD) 1:0.5	OTC Pink: SWMAY	$16.35	200,500,000.00	6,556,350,000	2.54%	7,417,590,000	13.030	63.35%	0.99	16.555	8.365

Appendix

Figure 6

Issuer Name	CUSIP	ISIN	Amount Outstanding	Currency	Amount Outstanding (SEK)	Ask Yield to Maturity	Issue Date	Maturity Date	Time to Maturity (Years)	Weighted Data	Comparable Risk Free Issue	Weighted Risk Free Premium	Total Weighted Data
Swedish Match AB (NASDAQ OMX Nordic: SWMA / OTC Pink: SWMAY)										**Cost of Debt**			
SWEDMAT 4.34 07/12/15 CORP	EI31647/19	XS0625248653	1,000,000,000	SEK	1,000,000,000	0.165%	12/07/2010	12/07/2015	5.003	0.019%	SVERIGE RIKSBANK 5Y (SWEDEN)	0.022%	0.041%
SWEDMAT 4.25 09/19/18 CORP	EI811530	XS0978163154	750,000,000	SEK	750,000,000	1.096%	19/09/2018	19/09/2018	7.005	0.091%	SVERIGE RIKSBANK 7Y (SWEDEN)	0.037%	0.123%
SWEDMAT 4.00 12/22/16 CORP	EI891930	XS0724692223	40,000,000	SEK	400,000,000	0.471%	22/12/2011	22/12/2016	5.005	0.021%	SVERIGE RIKSBANK 5Y (SWEDEN)	0.009%	0.030%
SWEDMAT 3.875 11/24/17 CORP	EI472672	XS0562766590	35,000,000	EUR	3,282,065,000	0.317%	24/11/2010	24/11/2017	7.005	0.117%	DEUTSCHE BUNDESBANK 7Y (GERMANY)	0.015%	0.132%
SWEDMAT FLOAT 02/01/18 CORP	EI2171107	XS0769185070	350,000,000	SEK	350,000,000	0.630%	01/02/2012	01/02/2018	5.666	0.026%	SVERIGE RIKSBANK 5Y (SWEDEN)	0.003%	0.033%
SWEDMAT 4.74 02/28/16 CORP	EI8527961	XS0599691964	250,000,000	SEK	250,000,000	0.341%	28/02/2011	28/02/2016	5.000	0.010%	SVERIGE RIKSBANK 5Y (SWEDEN)	0.015%	0.019%
SWEDMAT FLOAT 02/16/19 CORP	EI866799	XS0831697779	200,000,000	SEK	200,000,000	0.816%	16/02/2013	16/02/2019	5.759	0.018%	SVERIGE RIKSBANK 5Y (SWEDEN)	0.002%	0.022%
SWEDMAT 3.875 02/01/18 CORP	EI271118	XS0769185224	150,000,000	SEK	150,000,000	0.836%	04/06/2012	01/02/2019	5.666	0.014%	SVERIGE RIKSBANK 5Y (SWEDEN)	0.002%	0.017%
SWEDMAT 2.125 06/26/23 CORP	EI8898999	CH0215278448	100,000,000	CHF	893,830,000	0.896%	26/06/2013	26/06/2023	10.005	0.090%	SCHWEIZERISCHE NATIONALBANK 10Y (SWITZERLAND)	0.010%	0.100%
SWEDMAT 3.125 04/03/19 CORP	EI1130779	XS0879731957	100,000,000	EUR	937,730,000	0.698%	03/04/2012	03/04/2019	7.003	0.072%	DEUTSCHE BUNDESBANK 7Y (GERMANY)	0.005%	0.077%
SWEDMAT 4.00 05/31/28 CORP	EI865769	XS0935950503	50,000,000	USD	413,300,000	3.989%	31/05/2013	31/05/2028	15.011	0.085%	UNITED STATES TREASURY 10Y R (USA)	0.009%	0.094%
SWEDMAT 3.875 02/16/22 CORP	EI4149090	XS0749964108	30,000,000	EUR	281,319,000	1.694%	16/02/2012	16/02/2022	10.008	0.053%	DEUTSCHE BUNDESBANK 10Y (GERMANY)	0.011%	0.009%
					Total				**Total**			**Total**	**Cost of Debt**
					8,906,234,000				0.715%			0.220%	2.665%
Swedish Match AB													
Synthetic CDS Spread Premium (BBB) = 1.75%													

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