Company Announcement
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Scandinavian Tobacco Group A/S integrates Agio Cigars

Following completion of the acquisition of Agio Cigars on 2 January 2020, Scandinavian Tobacco Group today announces the completion of the plan for the integration of Agio Cigars into Scandinavian Tobacco Group.

The combination of Scandinavian Tobacco Group and Agio Cigars is expected to deliver substantial cost synergies within sales & marketing, production and back office functions. When full integration has been completed by the end of 2022, it is assumed that Agio Cigars will contribute to an increase in Scandinavian Tobacco Group´s EBITDA margin before special items of more than 2%-points, based on estimates of net synergies at the level of DKK 225 million. In reaching the synergies, special costs are estimated at the level of DKK 450 million with cash impact and another DKK 175 million in the form of non-cash impairments related to factory closures, including write down of buildings. Any amounts from the sale of property and buildings from closed-down factories are not included due to uncertainty about timing and sales prices. The implementation of integration plans is subject to mandatory works council processes in various countries; hence the impact in 2020 will only be communicated after these processes have been completed.

For the financial year 2019 and based on Scandinavian Tobacco Group´s accounting principles, Agio Cigars delivered DKK 1,023 million in net sales and DKK 203 million in EBITDA before special items. Agio Cigars has for the first quarter of 2020 delivered according to expectations while experiencing a negative impact on net sales during April 2020.

Changes in commercial and production footprint
As part of the integration of Agio Cigars, Scandinavian Tobacco Group changes its organisational structure and moves from four to three commercial divisions and intends to optimize its operational footprint by closing three production sites and upgrading two others.

In order to increase speed to market and unlock synergies, Scandinavian Tobacco Group will going forward conduct commercial activities in three divisions by integrating the current Smoking Tobacco and Accessories Division into the North America Branded Division (NAB) and the Region Machine-made Cigar Division (MMC). NAB will change name to Division North America Branded & RoW (Rest of World) and MMC will change name to Division Europe Branded. The North America Online & Retail Division (NAOR) will remain unchanged except for a move of its cigar wholesale business to Division North America Branded & RoW. The divisions will be headed by Senior Vice President Regis Broersma (NAB), Senior Vice President Jurjan Klep (MMC) and Senior Vice President Sarah Santos (NAOR).

Financial reporting reflecting the new structure will commence from the second quarter of 2020.

To improve capacity utilisation and reduce unit costs across our production footprint, Scandinavian Tobacco Group will over the next 9-18 months close production facilities in Eersel and Duizel in the Netherlands and move the production to its other production facilities. The production facilities in Moca in the Dominican Republic will be closed in the near future.

Following the changes, around 800 employees are expected to be laid off. Scandinavian Tobacco Group has today approx. 11,000 employees. The organisational changes are subject to applicable information and consultation requirements.

CEO Niels Frederiksen says:
“The changes we announce today are a step further in our transformation of Scandinavian Tobacco Group. They impact most parts of our organisation as we build a more competitive and profitable business with a powerful brand portfolio, strong market positions and robust supply chains. It is an investment in our future and addresses the need for continuous optimisation to remain competitive and succeed in tough market conditions. Regrettably, the changes also necessitate that we part ways with a number of hard-working and valued colleagues. I would like to thank everyone of them for their efforts and dedication over the years.”

Suspended guidance and COVID-19

On 2 January 2020, in relation to the completion of the acquisition of Agio Cigars, Scandinavian Tobacco Group communicated the intention to release an updated financial guidance, including Agio Cigars, as soon as the integration planning period was concluded. However, on 19 March 2020, Scandinavian Tobacco Group suspended its financial guidance for the year due to the outbreak of COVID-19 and lack of transparency. With the continued uncertainty and lack of predictability caused by the outbreak of COVID-19 prevailing, a credible guidance for the combined company can still not be communicated.

Scandinavian Tobacco Group expects to provide an update on the financial guidance for 2020, including Agio Cigars, as soon as the negative impact of COVID-19 on the business can be properly assessed.

The demand for our product categories has historically been relatively resilient to major macroeconomic developments. However, in the short to medium-term, changes in customer and consumer behaviour following the outbreak of COVID-19 are impacting demand for our products across markets. Currently, net sales have been negatively impacted by the international travel restrictions, the closure of small stores and restrictions on out-of-home activities across many markets. Volumes in the North American online operation have experienced a positive impact from changed consumer behaviour while our wholesale business in North America has experienced a negative impact on net sales.

We have experienced temporary shut-downs of our factories in Honduras, Sri Lanka and the Dominican Republic, but in all countries a gradual restart of production has now taken place.

To protect the continued financial health of our business, we are constantly implementing mitigating activities by reducing costs. Lower consumption and unexpected temporary close-downs of our factories that can potentially cause out-of-stock situations are key risks to our financial performance. In addition, STG’s ongoing focus on implementing new safety protocols have added constraints in the distribution across our commercial operations, particularly the warehousing operation in North America.

Scandinavian Tobacco Group will present its interim report for the first quarter of 2020 on 20 May 2020.

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About Scandinavian Tobacco Group

Scandinavian Tobacco Group A/S is a world-leading manufacturer of cigars and pipe tobacco with an annual production of four billion cigars and 5,000 tonnes of pipe and fine-cut tobacco.

The Group holds market-leading positions in several categories and has a portfolio of more than 200 global and local brands.

Scandinavian Tobacco Group has its headquarters in Copenhagen, Denmark – and employs approximately 11,000 people in Europe, the US, Canada, Australia, New Zealand, the Dominican Republic, Honduras, Nicaragua, Indonesia and Sri Lanka. For more information please visit www.st-group.com