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Transcript
Year-end Report 2018
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Joséphine Edwall-Björklund:

Hello, and welcome to Essity's Full Year Report for 2018 Press Conference. I am Joséphine Edwall, Head of Communications.

And today, our CEO and President, Magnus Groth, will go through the highlights in the report, followed by a Q&A session, where our CFO, Fredrik Rystedt, will join on stage. So with this, Magnus, I hand over to you.

Slide 3 – Summary, 2018 vs 2017

Magnus Groth: Thank you, Joséphine, and I will start briefly with a summary of the full year, but focus, of course, on the fourth quarter. So for the full year of 2018, we saw higher organic net sales in all our business areas.

We achieved an organic net sales increase of 3.1% excluding the reduction of mother reels sales due to restructuring efforts. Reported, we grew organic net sales 2.6%, which is close to our target of 3% in a very challenging market, as you know.

We saw strong organic sales growth in emerging markets, higher prices and better mix and higher volumes and continue to see strong contribution from cost savings over SEK 1bn in 2018.

And of course, the main theme continued throughout the full year with significantly higher raw material and energy costs also into the fourth quarter, and I'll get back to that.

Looking at the numbers here, it's notable that even though we had headwinds of 420 basis points, we were able to offset 280, so that the negative impact on the adjusted

EBITA margin was 140 basis points, ending up at 10.9%. Operating cash flow improved with 1% compared to a year ago.

Slide 4 – Summary, 2018

The Board of Directors suggest an unchanged dividend of SEK 5.75. I think this reflects the challenging trading conditions in 2018, but also a positive outlook for the next coming years.

And in the numbers that you see here, there's a positive contribution from repaid -- or a positive tax effect after a verdict in the Supreme Administrative Court in Sweden, which led to a reduced tax cost of SEK 1.1bn in the fourth quarter.

Slide 5 – Successful Innovations, Launched 29 Innovations in 2018

Innovations is what makes us successful in the long term and these are some examples of the 29 innovations that we launched last year. This is a lower number than 2017. However, the quality of innovations are higher.

Last year, we very much focused on replacing and modernizing our base assortment, so the high-volume and often high-margin products and looking at the TENA product there, the TENA Complete, may be it doesn't look that exciting, I have it here, but it's one of our biggest products.

This is a health care product. We have sales of approximately EUR 200m or SEK 2bn every year of this product -- and we're now changing the entire production platform so that we can produce higher quality, better products at a lower cost. And of course, with a better functionality for our users and caregivers.

Another example from Medical. These are the two areas, Incontinence Care and Medical, where we had the highest number of innovations during the year.
Which is Siltec Sorbact, we have it here.

It's a binding that's both bacteria-resistant and takes care of the fluids. So this is a very high-margin product that is actually developing really, really well in the market. So with that, let's move forward to summarize 2018.

Slide 6 – Initiatives and Awards

We continue to work towards a more sustainable and circular society, and we were recognized during the year by being included as the industry leader in the Dow Jones Sustainability Index, both in Europe and in the U.S.

And we also set some very ambitious targets for the group. We set new targets for reduction of greenhouse gases to 2030, reduction of 25%.

And just recently, before year-end, this was approved by the science-based target initiative, which means that if and when we reach these savings, we will have done our part -- Essity will have done its part in contributing to keeping the global warming below 2 degrees, according to The Paris Agreement. So a big commitment that we're very proud of and that's the right thing to do.

Plastics is becoming a bigger issue, of course, and how to manage the waste. And also to work on this, we joined the Ellen MacArthur Foundation's new plastic commitment, "A line in the sand", where we can learn a lot and also contribute by working with other companies to reduce the plastic waste from our products.

We continue to win awards, not only for excellent products, but also for products that actually contribute to a circular and sustainable society, and we have some examples here, and we continue to educate more people than ever in hygiene and health, which is, of course, also very good marketing for us.

Slide 7 – Summary, Q4 2018 vs Q4 2017

So with that, I'd like to move to the highlights of quarter 4, and we saw in the same way here higher organic net sales and strong organic sales growth in emerging markets, higher prices in all business area and strong contributions from cost savings.

And actually, we were also not only maybe market expectations, but we were also quite surprised by the strong top line and the strong margin development and the reason behind this is that our savings programs are moving forward a little bit faster than we had expected and the same with the price increase initiatives.

So it's not really that we added anymore new initiatives, but the initiatives we have are really starting to bite already in the fourth quarter. And this led to an improvement, compared to the third quarter, in the adjusted EBITA margin to 11.1%., but still, of course, a lower EBITA margin than the same quarter last year due to significant headwinds, again, of 480 basis points.

I want to underline that the raw material, energy and distribution cost headwinds, they continue all the way to the end of the year. The improvement here in the results is not really a result of lower costs, but a result of higher savings and higher pricing.

And added on this slide compared to previous quarters is the high distribution costs. We spoke about it before, but it's really a theme both in Europe and in North America.

Slide 8 – Summary, Q4 2018

And looking at the balance sheet numbers. Again, we see a contribution from the reduced tax in Sweden of SEK 1.1bn that helps the adjusted return on equity, the earnings per share and also adjusted earnings per share.

So coming out quite strong. And for the quarter, the adjusted return on capital employed was 12.7% compared to our target, which is of course, 15%. So we still have a way to go.

Slide 9 – Net Sales, Q4 2018 vs Q4 2017

Net sales, I think it is sufficient to say that it's nice to see a positive development here in all the bars. So overall sales growth of 8.5% and the organic net sales, 3.3%. So above our target of 3%.

Slide 10 – Adjusted EBITA, Q4 2018 vs Q4 2017

The adjusted EBITA bridge shows some similarities to previous quarters, some news. One similarity is that, again, we have the massive headwinds from raw materials. So again, no letting up there and you can see in the box under the arrow the different impacts there.

The positive development, really, is obvious, in the price/mix, which was SEK 768m in the quarter with contribution from all business areas, but mainly from Consumer Tissue, while still maintaining also a positive volume.

Cost savings were strong, stronger than the previous quarter, at EUR 255m also helping. And then we have a new bar that we will start showing from now on.

And this shows the cost-savings program that we announced in October, and I will get back to more details about it. But already in the fourth quarter, we saw some savings from the new cost-savings program. That's mostly focused then on SG&A.

Other is typically a negative bar. This is where we catch the inflation in SG&A and so on, but this time, we also had some other significant impacts and one is distribution, SEK 160m adverse.

Another one is actually a comparable to last year when we had a positive impact from health care benefits to our retired employees in the U.S. of SEK 100m. So it's a tough comparison there.

So adjusting for those, there was a positive impact here also, which shows that we're able to mitigate the inflation in SG&A and other areas.

Slide 11 – Cost Savings, Q4 2018 vs Q4 2017

So moving to the cost savings. And they come really from Tissue Roadmap where we last year, saw a big impact on our cost savings, bigger than in previous years. So it's really starting to impact and we will see savings from Tissue Roadmap also this year and the year after.

And even though we talk about reducing our mother reels sales a lot, not all our restructuring is actually just reduced sales. We also restructure smaller units and move the volume to the bigger, integrated efficient units and this contributes also significantly to improving our efficiency in the plants.

Material rationalization and sourcing savings are other important areas. Sourcing savings was lower in 2018 than in '17 just because it was more difficult to negotiate additional rebates for different raw materials.

SG&A savings was down 50 basis points and this was a mix, 20 basis points from A&P; 30 from SG&A and shows again the total cost focus that we have throughout the group.

Slide 12 – Cost-savings Program

Now specifically diving into the cost-savings program that we also announced in the fourth quarter where, as you know, we expect full savings and annual cost saving run rate of SEK 900 million at the end of 2019, but already in the fourth quarter of '18, we saw the first of that SEK 18 million, small but of course, we weren't expecting really anything before this year.

But the year-end annualized run rate of the cost savings are already approximately SEK 150 million and this is due to cancellation of approximately 210 out of the 1,000 positions that we have communicated before, and out of expected restructuring costs of SEK 700 million, we have then accounted for SEK 130 million in the fourth quarter.

So this program has started and it's running according to plan.

Slide 13 - Raw Material Development

Raw materials, and I think, we are accustomed to these graphs by now, but we can see that some of the raw materials are actually leveling off.

However, again, I want to underline that quarter-over-quarter, we had significantly higher raw material, energy and distribution costs not only in the fourth quarter, but we actually expect this to continue also in the first quarter.

So year-over-year, we expect significantly higher energy and raw material costs in all our business areas while sequentially -- so quarter 1 compared to quarter 4, we expect stable raw material costs for Professional Hygiene and Consumer Tissue, higher for Personal Care and for energy, again this is partly seasonal, significantly higher energy costs for all the business areas.

So a little bit of a trend shift but still, this would be a theme going into this year.

Slide 14 – Personal Care, Q4 2018 vs Q4 2017

Looking at the three business areas, a lot of information. I will try to highlight the most important numbers.

In Q4, organic net sales in Personal Care increased to 3.1% with contribution both from volume and price/mix. Strong growth in emerging markets, primarily Latin America, but also in Eastern Europe.

Adjusted EBITA margin, 14.1%, which is very similar to a year ago and this means that we've been able to offset almost all of the 340 basis points of negative impacts from raw materials and energy. So a lot of hard work there that's really paid off.

In Incontinence Products, we continue to see high-growth. Medical Solutions, higher profitability, but lower sales and this is something we are addressing.

This means that for the full year, we only had a small growth in Medical and we're not satisfied with that. And we know the areas we have to pinpoint, it's North America and we are working with improving that going forward and mostly in the compression part of the business.

In Feminine Care, we saw strong growth in all regions. So this category continues to develop really, really well. And in Baby Care, we had good volumes in mature markets, but lower sales in emerging markets. Again, we have some joint ventures in North Africa, and Turkey and so on that are struggling in the current macroeconomic climate.

Slide 15 – Consumer Tissue, Q4 2018 vs Q4 2017

Consumer Tissue. Organic net sales increased 4.6% and this is then including the lower mother reels sales. So if you would exclude that, it would actually have been 6.5%.

So a very, very strong pick up here and as you can see, it's all from price/mix. So the lower sales of mother reels is the negative volume impact that you see there, which is completely in line with our strategy and our priorities, which is, of course, to grow in a value-enhancing way.

Again, strong organic growth in emerging markets. Vinda had a fantastic quarter in China and also Latin America was very, very strong.

The adjusted EBITA margin improved to 6.9%. Of course, this is still a long way off from where we want to be. So our effort to cut costs and to increase prices, I'll get back to that, continues going forward. We saw better mix and again, higher distribution costs very much in this category.

Slide 16 – Consumer Tissue, Changes to Adjusted EBITA margin

Here's a new slide, and it shows the development of the Consumer Tissue business area. And what it shows in the dark blue bars is the positive margin impact year-over-year from price/mix and as you can see, that's increasing.

And we've also communicated before that we have a wave 2 of price increases that will have impact gradually throughout the first quarter and full impact throughout 2019, which will, of course, have a positive effect then on this blue bar going forward. But again, gradually throughout the year.

While the headwinds from raw material and energy costs is still significant. You can see to the right there, in the light blue bar, it's still over 6%, but at least it's not increasing, it's stabilizing and -- of course, as these prices stabilize, this equation should gradually improve and that's what's shown by the dotted line there that a negatively impact. We are compensating more and more for the headwinds and getting closer and closer to actually seeing a positive margin impact here.

Slide 17 – Professional Hygiene, Q4 2018 vs Q4 2017

Professional Hygiene. Again, the organic net sales increase came from price/mix rather than volume and of course, this is also in line with our strategy to improve margins. But in North America, we are not satisfied with volume development, and we have plans in place to manage that going forward.

As you can see from this second bullet point also, there are higher sales in Europe, but lower in North America. Again, emerging markets as you can see, 16.8%. It's the fantastic number and we've seen this for a number of quarters now. And emerging markets are now 20% of Professional Hygiene, which is I think the first time.

Adjusted EBITA margin of 14.8% looks like a lot lower number than the same quarter last year when it was 19.7%, but we have to remember that last year, we had a very positive onetime impact from accrual releases, which was approximately SEK 200 million.

So that actually explains a lot of that difference. But again, of course, as you can see also for this business area, even though it's more reliant on recycled fiber than fresh fiber, there's a big negative from raw materials.

Slide 18 – Priorities 2019

So that summarizes the year. The efforts that we're taking in different areas are helping. We continue to see high costs, but at least stabilizing costs in many areas and that sets, I think, our priorities pretty clearly for next year, which means, of course, continuing to invest in our strong brands.

We never compromise on that, and we are doing this, of course, because we want to improve life for our consumers and for the users of our products and for our customers and for nature.

We will continue to work with price increases, efficiency improvements. It will be as much of a priority in the coming year as -- or in this year as in last year. We need to deliver now on our group-wide cost-savings program so that we have the SEK 900 million run rate at the end of this year.

We need to get back to growth in all our high margin categories and of course, I'm talking about Medical and Professional Hygiene North America. But this is a clear growth focus for the year to come also.

And to accelerate the digital transformation, which now really impacts all of our business. We could see for instance that Vinda had online or e-commerce sales of well over 30% of their sales in China in the year. So an amazing development.

Again, in marketing, we see that more and more of our marketing spend is moving online, and as importantly, we see big efficiencies now coming also internally, both in our supply chain, but also in SG&A and in administration from increased digitalization.

So it's really touching all parts of our business. And then we have our longer-term efforts to also put sensors into our products, where, of course, Tork and Tork EasyCube is a fantastic example, and this will also continue going forward.

Thank you for listening. Let's open up for questions.

Q&A

Mikael Jåfs: Mikael Jåfs, Kepler Cheuvreux. I have 4 questions.

So the first one would be around pricing. You are mentioning that you're trying to increase prices. Could you give us some color and flavor? We know that some of your competitors actually give a number for what they expect in terms of pricing for 2019.

And then secondly, you're running your cost cutting efforts and restructuring efforts. Is there any way that you could sort of describe -- it's hard to give a number, but just sort of to point us in a direction?

And then thirdly on Medical Solutions, you're talking about measures to improve sales and profitability there. And could you describe some of those?

And then the last question would be around your increased focus on digital distribution. Is that only a positive or is there a risk that everybody goes digital, that this actually increases competition and it makes pricing efforts harder?

Fredrik Rystedt: I can start with the pricing. We don't give guidance on that and, of course, partly because we don't actually know. We strive really hard to increase prices and as you saw from the slide that Magnus showed previously, we still have a lot of catch-up to do to kind of recover the additional costs we've had from raw materials.

So we will continue to do that. But we don't give a forecast. And this is actually valid, of course, for all our areas. It's been a lot of discussions on price increases in Consumer Tissue, but also Personal Care has seen a lot of cost increases and we need to, over time also, increase prices there.

We have done that actually, and we've had some good progress, but we need to do that some more. On the cost-cutting side, I guess, you're asking about not the cost-wide program, but -- or group-wide cost program, but rather the COGS. And we've had good development in 2018.

You saw a bit over SEK 1bn and roughly SEK 1.2bn the year before that. We don't give the numbers, also very difficult there. We will have a reasonable and good number also for 2019.

As Magnus said, Tissue Roadmap will continue, so we still have a lot of gains coming from that program. The restructuring part and also the other efficiency parts. And the rest we will continue to work with material rationalization, logistics, but to give you a number is premature. We don't do that.

Magnus Groth: Medical. So the vast majority of our medical business are actually doing really, really well, and then we have some weak points and one I already mentioned is North America.

And this is a market where we decided for a limited time to keep the organizations for Incontinence Care and the Medical separate, and what we're doing now is that we are merging those organizations also in North America, because we see that has worked extremely well in most other markets.

And this was the last market where we really hadn't done it because we were so much focused on the different recovery initiatives. But Incontinence is really doing well now in North America, and we believe we have a strong organization that together with our very, very strong medical organization then can turn this around during the year.

So that's what we're doing in Medical. Digital, yes, of course. Changes always a threat and an opportunity. And I guess, as long as you're on top of things and stay one step ahead, you can be a winner and if you're slow, then, of course, you will not benefit.

Some of the concerns that were very much a theme 3 years ago, like the fact that you would have a price equalization between countries, for instance, where previously margins were very different.

All of that has happened more or less already. I mean, Amazon can give you a price for any product in any country and you can compare between countries and with different suppliers and so on. So a lot of that is happening as we speak, but I still think that there are more opportunities than risks if you invest and if you stay ahead of the game.

Joséphine Edwall-Björklund: Any more questions from the audience? No? So then operator, let's open up the questions from the telephone lines.

Stellan Hellström, Nordea Equities:

First question; I heard you don't want to give too much guidance on the price increases, but may be on the sort of second wave or price increase in Consumer Tissue, if you could give some indication on how you see the phasing of that. Will more than half of it be implemented in the first quarter or will it be mainly in the second quarter?

Magnus Groth: It will be more skewed towards the second quarter because we are still negotiating in several markets about the price increases throughout the first quarter.

Stellan Hellström: And maybe also if you could comment if there's any plans for a third wave or -- and how you see the market climate for that potentiality?

Magnus Groth: That's why we don't give any predictions because as Fredrik stated, we need to recover our margins and improve them further in many areas, not least in Consumer Tissue, but also in other parts of our businesses and of course, this needs to be done by pulling on the all the different levers where price increases is an important one.

But then, this has to be balanced with market share development, launches of new products and so on and that's -- and of course, the development of raw material cost. So that's why it's impossible to predict this.

But our target is to get back to the margins we had 1.5 years ago and then of course, our long term target of a return on capital employed of 15%.

Stellan Hellström: All right. A question also on the sort of yearly savings on the COGS side. So clear step up relative to the third quarter. Is that because you've done more this quarter? Or is it a matter of comparables?

Fredrik Rystedt: No, actually, comparables are very, very tough both for Q3 and Q4. So this -- if you recall, last Q4 in 2017, we had really, really strong savings.

So actually, the comparables is -- they're roughly equal. So this is much more the efforts that has been carried through throughout Q4 and of course, parts of Q3 that's taking effect.

Stellan Hellström: Also, just finally wondering if you have any comments on emerging market profitability for the full year and maybe also CAPEX for '19?

Fredrik Rystedt: As you've seen we had a challenging year for the group in terms of margin because of raw material and of course, the emerging market has had a very, very similar impact relating to raw materials.

So if you look at emerging markets, in terms of the total margin, it's slightly down, but however, actually not as much as you would see in mature markets. So in relative terms, we have improved there, in relative to the rest of the group.

And underlying all the activities we're running there to improve profitability are working and of course, also price increases, but on a total level, it's a slight decrease for emerging markets in terms of margin.

Stellan Hellström: And CAPEX?

Fredrik Rystedt: Yes. CAPEX, we expect roughly around SEK 6bn. So as you saw for 2018, we expected about SEK 7bn and we came down -- came in slightly lower than that. And for 2019, roughly about SEK 6bn.

Faham Baig, Crédit Suisse:

Faham Baig from Crédit Suisse. 2 or 3 questions from me, if I may. I guess, the strong Q4 performance was one, driven by emerging markets; and two, driven by Consumer Tissue.

In emerging markets, I guess, the growth was broad based, but are you able to help us with the volume component and price/mix component? That's my first question.

Consumer Tissue - Could you help us with whether you were able to realize some of the price increases quicker than you anticipated? And it seems that the elasticity impact, particularly if you strip out the negative impact from the lower mother reels sales was pretty limited.

In fact, you might have grown volumes if you had -- if you take out mother reels. So are you able to explain in the market? Are you not seeing volume shifting around? What are the competitive dynamics? Because I know your peers are stressing that.

They might see negative volume impacts from the price increases they're taking. And then finally, on marketing. I know that's another significant part of your SG&A

spend, but could you help us with what marketing was down in FY '18? And how you look at this in terms of FY '19, particularly as you move to a more digital world.

Fredrik Rystedt: Yes. You were asking about volume and price/mix in emerging markets as your first question. And it's absolutely, as you say, it varies, of course, by geography and by category.

But generally, we had a reasonable volume development. So if we take China for -- as an example, we had a good volume development there, as of course also we had price. So we had both there. If you take Latin America, same there.

Lots of price increases that have come through throughout and we've done that exercise, price increase is also there, but volume was actually positive.

We don't give the mix there exactly on what is what, but it's a good volume development and of course, we've seen some challenging development in terms of volume also before in Asia. This was not the case in the Q4. It was actually very, very healthy volumes.

Magnus Groth: And I guess, it brings us to the second question about elasticity. Well, we haven't seen that much shifting of volumes between competitors that I'm aware of in Europe or Latin America.

There has been some, but may be less than anticipated while we could clearly see in China, in the third quarter that when we increased prices significantly ahead of competitors, it had a big negative impact on volume.

So the reaction was stronger in China, maybe because it's been less common to raise prices in China historically. So it's just what we've seen. But of course, it's very difficult to know what that means going forward.

Fredrik Rystedt: Generally, as a comment perhaps. The elasticity is on mature markets for our products quite low for the consumers. So the losses we suffer with the price increases is actively more a competitive issue than a customer issue.

If we take the emerging markets, the elasticity for consumers is slightly higher. So there is an impact there if we raise prices. But also there, of course, the customer angle and the competitive factor is much more dominating. So it becomes competitive game.

Magnus Groth: The third question was about A&P and A&P as a percent of sales was down slightly in 2019 compared to '18 partly because of savings that might not be sustainable because it's very, very important to support our product launches, our innovation.

But partly also because we are improving our efficiency significantly also in our A&P spend. We're really learning year-over-year how to get the most out of every investment in advertising and promotion. In spite of that, we are expecting slightly higher A&P as a percentage of sales in this year to support again our innovation and our launches.

Oskar Lindström, Danske Bank:

I have three questions this morning. First off, you mentioned the need for price increases in the Personal Care division. Now I can't really recall that you've talked that much about this before.

Could you maybe say a little bit more about sort of the timing and magnitude of these and sort of how you would go about? Would it be outright price increases on sort of existing products? Or would it more be a question of -- I wouldn't want to use the word sneaking them in, but then doing it through new product launches, et cetera?

Fredrik Rystedt: It's very obvious that the price increases are necessary given the very, very challenging raw material market that we have seen. So that's obvious and we've already done that.

If we look at the price increases, we've seen price/mix is positive and price is positive for Personal Care in Q4. That's clearly contributing and of course, as we have done many times before, the emerging markets, in particular, there, we have -- I shouldn't say an easy time, far from it, very difficult, but it's still easier than the mature markets. But we have started to, as far as are able to raise prices.

Once again, it's really difficult to give any kind of forecast, but it's obvious that we need to compensate for these high raw materials. So we will, as we have done before, try and do this as we go forward in 2019.

Oskar Lindström: So what we saw the fourth quarter here for Personal Care, that should be seen as sort of part of a concerted effort that's going to last over several quarters to start to raise prices in meaningful way in Personal Care?

Magnus Groth: Again, it's very difficult to give any forecasts because it depends on market share gains or losses, raw material price developments and so on. But again, this is -- we need to improve our margins and get back to where we were.

Sorry, for interrupting you there. I just wanted to mention that a big part of our Personal Care business is the Inco health care business, where typically we have a 3-year contract duration, which means that we're only renegotiating 1/3 of the volumes or the sales every year, which means that it takes longer, really, to increase prices.

So just to put that also in the back of your mind there. So it takes time but we need to get back to the margins we had and better.

Oskar Lindström: Okay, very interesting. My second question, if I may, is last year, as you mentioned, you had some impact on the Professional Hygiene results from not only health care package changes for employees, but also, I believe, some kind of a -- what you call them accrued reserves that were released. Is there any such effects in the fourth quarter results now in any of the other divisions as well?

Fredrik Rystedt: No, not really.

Oskar Lindström: But, but very small or...

Fredrik Rystedt: No, we don't have -- and maybe in Professional Hygiene was -- this is -- and we talked a lot about it last year, if you achieve certain volumes then you pay discount and of course, we accrued for that rebate throughout the year, and if we don't reach the volumes, then that's actually released and that created a large impact.

And this year, we have been more appropriate in adjusting provisions and setting the right provisions throughout the year. So there's been no such impact this quarter, Q4 of 2018. And there's not been a corresponding impact either in the other areas. So the answer is no.

Oskar Lindström: Okay. And my final question is around cost savings or -- I mean, you made these on the COGS side through a combination of closing down mother reels, consolidating some of your production footprint, but also, at least earlier on in the program, exiting certain markets.

Is this something that you still see that you could do in coming years here or in the coming year that there are markets, which you need to exit or maybe even divest parts of your business? I mean, are you open for or see a need for smaller structural changes?

Fredrik Rystedt: I think, generally, what we strive to do is to cure and not to exit. Of course, that's an obvious statement because if you do an exit, it's really difficult to come back and of course, you lose the potential upside in the future. So we always try to cure.

We have this very defined program with a specific number of units included. And for all -- each of these units that are underperforming, we also have a very clearly defined action plan and targets.

And as long as we follow that, those plans, exits are not on the table. We cannot rule out going forward that we may choose to exit parts of our business that will not deliver on those plans, but for the time being, there are no such plans.

Karri Rinta, Handelsbanken Capital Markets:

Karri Rinta, Handelsbanken. Two questions. One about the raw material prices. When you discussed pricing for this year, you mentioned that since you don't really know where the prices are headed, you can't give us more specific guidance.

But if we were to assume that the raw material prices would stay where they are at the moment, would you then see roughly similar trends then, for example, Kimberly-Clark commented that they would expect input cost pressures for this year to be roughly half of what they experienced in 2018?

So any sort of directional guidance on input cost pressures for this year would be very helpful. That's my first question.

Magnus Groth: We don't give such guidance. But of course, there will be a negative input cost pressure also this year, but most likely not to the magnitude we saw last year. I guess, that's something we can state because we don't expect some of the biggest raw materials to really, really increase significantly. So that's some kind of direction.

Fredrik Rystedt: If you take this year, 2018, we had SEK 4.5bn roughly, and of course, just if the prices stay where they are, then half of that increase as we have seen increases being not linear, but actually carrying through to 2018.

So half of it is, I guess, the basis for what the competitors have stated and it's not far from where it is. But of course, for us, the sequential development is much more important and sequentially, as Magnus alluded to before, we expect the raw material costs for Consumer Tissue and Professional Hygiene to be stable, exactly in line with what you're saying.

But of course, for oil based and fluff pulp, we still see higher prices also sequentially. So it's really, really difficult to give that forecast as we simply don't know, Karri.

Karri Rinta: All right. That's helpful. Then secondly, about Consumer Tissue pricing and maybe this is sort of what we saw in the fourth quarter versus the third quarter and clear improvement in price/mix year-on-year despite the fact that you had tougher comps in the fourth quarter.

So from which -- can you give us an indication of from which specific region or in which specific geographical region did you see the biggest improvement sequentially in the fourth quarter in terms of Consumer Tissue pricing?

Fredrik Rystedt: It's Europe.

Karri Rinta: Okay. That was easier. Right. I guess, I could try to give you -- to try to get your directional guidance on price/mix in 2019 for Consumer Tissue, but you probably wouldn't. So those were all my questions.

John Ennis, Goldman Sachs:
Following on from the previous topic on raw materials, I wondered if you could give us a comment on the level of discounts you're seeing. So whether you could give us a number of just how it's changing in 2019 relative to 2018. That would be useful in trying to build-out the raw material impact for this year.

And then my second question would be a follow-up on the medical business. You mentioned some issues in North America, I think. But I think when this was acquired, the ambition was to see around 3% top line growth. Would you argue that is still the target now?

Magnus Groth: The answer to the second question is Yes, I'll get back to that. When it comes to discounts on raw materials, Fredrik mentioned that we had savings of over SEK

1.2bn in '17 and over -- slightly over SEK 1bn in '18 and the difference there is actually raw material discounts.

So we had much higher discounts in '17 than in '18, and I think, we mentioned several times in the previous quarters that it's been becoming more difficult to get additional discounts in the situation we're in.

So to some extent that's a positive thing that the quality of our savings is even stronger in '18 than in '17 because it's really reducing costs and improving efficiencies in our own business that is sustainable while, of course, discounts can always go up and down. But I guess, that gives some kind of indication for this year that we don't expect to see as much of discounts as we saw in '17.

John Ennis: Just a follow-up on that. Is the base case that you see a similar level of discounts? Or do you think those discounts could narrow in 2019?

Magnus Groth: We don't foresee lower discounts. That's maybe some kind of indication.

Fredrik Rystedt: Just, John, you already know that, I'm sure, but we only -- here, what you see the number is the increase of discounts. It's not actually the discounts. The discounts -- that number is a much, much bigger number.

So this is the difference in discounts that we're now talking -- or rebates that we're now talking about. So let's just assume that we're not able to get any additional discounts and then of course, the number would be zero.

And within 2018 numbers, we have got better prices and better discounts. That improvement is just lower than in 2018 than it was in 2017.

So we, of course, count on getting better prices than we've had in 2018 -- in 2019 as well, but that improvement may be difficult to keep the same pace. That, I think is -- I'm sure you know, but just to clarify that.

John Ennis: Yes, I understand.

Magnus Groth: Going back to Medical. Yes, we still have an ambition to grow at least 3% because this is the underlying market growth and we have a very strong portfolio of brands and products.

And when we look throughout the medical business, we see many areas that are growing at this pace or better, and also many of the segments, both in different segments and in different geographies.

And then we have certain issues in certain geographies and in this case, the U.S. is a quite big part of medical. It's the second biggest market. So that's why we have this impact. But we know that with the right go-to-market, we can successfully grow this business at 3%.

So -- and again, I want to underline that margins have actually improved throughout the year and are -- we are very satisfied with the margins, but now, we need the overall growth as well.

Sanath Sudarsan, Morgan Stanley:

Two questions from me. One on China, please. If you could just tell us what the trends in tissue are in terms of volume growth and general demand sense you get in that area, and what kind of pulp prices you see in China?

And the second one, still sticking with tissue in Europe. Since you've seen much better pricing trend in 4Q, how have you seen the market react to that since you are ahead of the market in terms of pricing.

Magnus Groth: In China, we expect the market to grow in line with the general economy, so somewhere around 6%. Probably last year, it grew a little bit more than that. That's our take away and we gained a little bit of market share with Vinda the last year.

We are still the #1 and actually in great shape by the end of the year. And as you knew, we grew close -- on an annual level, close to 9%. So if we grew a little bit faster than the market overall, that would indicate that the market growth may be was somewhere around the general growth of the Chinese economy.

So this is what we expect for this year also. And so far, we haven't seen any indications. Of course, everybody's concerned about growth in general in China that this would have a big impact on our business in Vinda, but big uncertainty, of course, around that and we will adjust and adapt as we go along.

And then the second question was pricing in Europe. It's only possible to get pricing if the entire industry has the same objective because, of course, if there are several actors who are not going for price but rather for volume, then you end up in a very difficult situation.

So the fact that we have seen this positive pricing impact in Europe, I think, shows that this has been the case for the entire industry. I don't have any other indication.

Of course, we have focused our portfolio very much on our strong brands, getting out of the lowest margin mother reels business that we keep talking about, but also lower-margin private label contracts. So I think we are creating a more robust European Consumer Tissue business also for the long term.

Charles Eden, UBS:

Just one question from me on Professional Hygiene, please, and specifically, the lower sales in North America.

Can you just talk about dynamic there and whether the lower sales is a result of competitive pressure or is this something sort of Essity-specific, which you expect to see a sharp rebound in 2019?

Magnus Groth: We don't give any forecast for 2019 to start with. But it's a little bit of a combination. So we have seen increased competitive pressure that kind of impacted us at the time when we were integrating our product portfolio, taking the last steps and integrating the Wausau acquisition and so on.

So I think we were hit by this more than we would have liked. So it's a combination of the two. But we are -- I think we have a very strong program in place to improve going forward.

Chas Manso, Société Generale:

Yes. You said that you -- your sales were surprised by the speed of pricing and savings coming through in Q4. Could you sort of talk a bit about whether this is just a speed thing, a pull forward? Or whether actually the total extent, the total impact of the pricing and savings are now greater than you anticipated a quarter ago?

Fredrik Rystedt: I can start, Chas. Starting with price. I think the total impact is, of course really, really difficult to predict because we follow a plan and the implementation of that plan has been quicker than we had hoped for.

To actually judge whether the total impact will be bigger or equal is really, really difficult. As you have seen, we still have a very low margin in -- predominantly in Consumer Tissue.

So we will need to continue this journey and then whether we are able to continue for -- with a bigger impact, it's really difficult to say, but it's a good progress so far. When it comes to savings, this doesn't come from the group-wide cost program as Magnus alluded to, it's only a small part.

Roughly about SEK 18 million coming from that. It's actually more the fact that we have really, really cut costs in a lot of different areas, including things like travel or consulting or other costs. And that has been very, very effective in Q4. Perhaps to the extent that we cannot actually pursue that low volume.

So we should perhaps not expect us to keep those low costs throughout Q1 entirely. So it was really, really successful and that was a very good thing that happened. Good job done by the organization, but it may be difficult to keep that absolute low cost level in Q1.

Chas Manso: All right. Okay. Another question on pricing, really. So you mentioned that you've been particularly successful on pricing in Consumer Tissue in Europe. Could you talk a bit about whether that's had any impact on your market shares across Europe? Whether your peers have followed suit quite quickly? Or still some time lag between that? So some discussion about the pricing dynamics, please?

Magnus Groth: Yes, I think we've been successful in all geographies. So very successful also in China with Vinda and in Latin America, but the impact is just so much bigger in Europe because it's a big part of the business and that's where we also have been most challenged.

And as mentioned before, I believe that it's only possible to achieve price increases like this when there's that strong need in the entire industry, which is what we have perceived.

So there are no kind of particularly big volume losses compared to what we always have, every year, of course, where volumes are -- contracts are lost and won in different markets and in different tenders, but no big change there.

We should remember that also in 2018, quite a few new production units started up in Europe, especially in Iberia and every time you see an increased supply, that increases faster than demand.

That has an impact on price. But in spite of this, we have achieved price increases. And going forward, looking into the next couple of years, there are very few new announcements for capacity additions in Europe.

Chas Manso: Can I just clarify that. This will be my last question. I guess, you're talking about the end product, kind of new capacity coming in your competitors.

I had a question really on whether any new announcements for new capacity in the sort of the pulp supply chain, whether that might impact the supply-demand balance for pulp in the next year or two? See raw material dynamics are key for you, so whether the supply demand may change in the next year or 2, please?

Magnus Groth: Not really. And that's why we expect pulp prices to remain on a high level. What we've seen during the years that two of the biggest -- or the two biggest hardwood pulp suppliers, Fibria and Suzano have merged and in that process, they've actually delayed a number of capacity expansion projects.

So the trend during the year has been rather that we've seen less of -- fewer announcements for capacity expansions when it comes to pulp than the opposite. So no help from that perspective going forward.

Laura Simpson, JP Morgan:

Just a small technical question. The net savings -- the savings program of SEK 900 million, can you just confirm if that's net or gross?

Fredrik Rystedt: Net or gross? In what sense do you mean, Laura?

Laura Simpson: Sorry, the number that you've given, the SEK 900 million savings. Is that a net number or a gross number?

Fredrik Rystedt: It's, if I interpret your question correct, it's a gross number because we -- for 3 different factors. We are carrying out activities that will generate SEK 900 million in savings.

But of course, we also do all sorts of other things that may impact the cost situation. So this is not an absolute cost target in that sense. And of course, the third factor is that we also take restructuring cost to the amount of approximately SEK 700 million. So little bit depending on how you define gross and net. Those are the two figures we provided.

Karri Rinta, Handelsbanken Capital Markets:

Just a quick follow up on pulp prices. Few years go, there was a situation where pulp prices were high, but there were expectations that they will go lower that therefore, price hike attempts in Consumer Tissue were not successful.

I mean, last year, you did see that Chinese pulp prices were declining for most of the year and then towards the year-end, we see some weakness in the European pulp prices.

So how would you compare the situation now to that situation a few years ago in terms of how easy it is -- or it's never easy, but to negotiate for higher prices in Consumer Tissue?

Magnus Groth: It's different than three years ago because the general outlook from industry experts and others is that even though there's a slight dip in pulp prices now in this quarter and maybe in the next quarter, it will actually get back up to the all-time high levels again towards the end of the year.

That's the general consensus right now. And the swings are bigger in China. So the drop -- the increase was higher early last year, and then the drop was also bigger here at the beginning of this year.

But also for China, we expect that pulp prices will start moving up again towards the end of the year. And I think not only -- we believe that, but that's the general view of the price development for pulp.

Joséphine Edwall-Björklund:

Okay. So that was the last question. Thank you for joining today. Any final words, Magnus, before we end the conference?

Magnus Groth: Well, maybe you want to end with the Investor Day, Joséphine?

Joséphine Edwall-Björklund:

As you might have seen in the report today, we will have an Investor Day in Stockholm, May 23, and you're all welcome to join. So we hope to see you there and then. And with this, we end this meeting. Thank you, and goodbye.

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