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Transcript
Interim Report Q1 2019
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Joséphine Edwall-Björklund:

Hello, and welcome to Essity's Q1 interim report for 2019. I'm Joséphine Edwall, Head of Communications.

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

Slide 3 - Summary Q1 2019 vs Q1 2018

Magnus Groth: Thank you, Joséphine. Good morning, everyone. And to summarize the first quarter, we had a good start of the year. We had strong organic net sales with higher prices, better mix and higher volumes in all our three business areas, and organic sales growth of 4.3 percent.

We continued to see strong contributions from cost savings. However, we have to remember even though we're now in a new year, we have still have considerable headwinds from raw materials and energy in the quarter, adding up to 350 basis points in the first quarter. Operating cash flow increased compared to a year ago and the earnings per share as well with 20 percent to SEK 2.49.

Slide 4 - Net sales Q1 2019 vs Q1 2018

The net sales bridge is positive in all the different buckets here, with price/mix contributing 3.2 percent and volume 1.1 percent, which we are very happy about the positive volume growth in all our three business areas, while pushing for higher prices almost everywhere to find that balance. Currency also impacts very positively inorganically through the weaker Swedish krona in the quarter.

Slide 5 – Adjusted EBITA Q1 2019 vs Q1 2018

Adjusted EBITA bridge. And we seem to be adding some buckets or some different areas to the waterfall here as we go along. What we see here, in the grey part is the organic adjusted EBITA. Overall, the EBITA increased by 2 percent; adjusted decreased slightly. But again, we can see here that in spite of the very negative impact from raw materials and energy, we compensate for nearly all of that. And I will get back to that in a short while through price/mix and volume.

Cost savings, as I mentioned, continued according to plan. And then maybe, surprisingly, in the quarter a very high other impact of SEK 383 million negative. And this is as high as it gets I would like to state and it's unusually high and we don't expect it to have that much impact from the other line going forward. But in the quarter, we had a number of smaller impacts that were all negative. Normally, there's a mix of negative and positive here.

We continued to see higher distribution costs in all parts of our business. We had some planned maintenance stop that took longer. It costed more than we had expected in the quarter. That's all managed now. We have stock revaluation due to the lower raw material prices. Some lower volumes produced in parts of the business that also affected negatively.

The trade tariffs that we continued to see between Canada and the U.S., in spite of that there's now an agreement on some of the other tariffs. And higher A&P on a krona basis, but not as a percentage of sales, where it's coming down. But since we're growing so fast, the overall A&P is going up slightly. So that are some of the impacts affecting all negatively in the quarter the other line.

Slide 6 – Raw Material and Energy Costs vs Price/Mix, Impact on Adjusted EBITA Margin

And talking about then the positive balancing now of the higher raw material and energy costs with price/mix. So this shows over time just those components. So volume, cost savings and so on are not in here.

And what we're seeing here is that we are very close to the inflection point that we've been talking about now for a long time, the point where we are able to compensate through just price and mix – so not volume and cost again, but price and mix, the higher raw material and energy costs. And we're getting very close to that. And of course in the coming quarters, we will see some more positive impacts from pricing, while we will have easier comparables on the raw material and energy costs. So we are actually at the inflection point after this quarter.

Slide 7 – Raw Material Development

Raw material development looks slightly more positive than what we've seen now for a number of years. However, some words of caution here because there are some delays, as you know, from when the prices move until we see them in our numbers. It's about 35 days for recycled fiber, 45 for pulp and 6 months for oil-based raw materials.

And typically, here, we give some outlook for the next quarter. And it's really complicated now, so let's see if I remember this. But actually, for tissue – Consumer Tissue, we continue to expect a significantly higher raw material cost in the second quarter compared to the first quarter. And this is not so much because of the pulp price, which is actually coming down a little bit, but because of a very negative currency impact.

When it comes then to Professional Hygiene, we also expect to see higher prices in the second quarter compared to a year ago. And the same then for Personal Care, which is based on the fluff pulp prices, which, as you can see here, continue to be quite high.

Sequentially, it's looking better. We expect actually mostly then lower raw material costs sequentially. So slightly lower for Consumer Tissue and for Personal Care and stable for Professional Hygiene. So sequentially, it's starting to look better.

There is still uncertainties when it comes to the price development on some of these raw materials. We have seen pulp prices coming down month-over-month. We expect them to level out and then to start increasing again towards the end of the year. So that's the same information as we have provided previously. So it's not that we expect a big downturn in pulp prices. Again, the dollar has strengthened to the krona and to euro and this negatively impacts all of these commodity prices.

Finally, something about energy. That looks quite positive here. In spite of this, for the next quarter, we foresee significantly higher energy costs than the same quarter last year, but lower sequentially. And sequentially, this is due to seasonality. So a slightly more positive development still, but maybe not as positive as what it first looks like when looking at this graph.

Slide 8 – Cost Savings, SEK 295m in Q1 2019

So with that, I like to move over to the cost savings, say something more about that. And as you know, when it comes to cost of goods sold, it's not a specific program. It's numerous efforts ongoing continuously throughout the Group. Everything from Tissue Roadmap operationally, efficiency improvements, material rationalization and sourcing savings.

And in the first quarter this year, we had savings of SEK 186 million. This is slightly lower than our average numbers over the last 2 years. We expect on an annual basis the same level of savings as we've seen in the last couple of years, which has been around SEK 1 billion on an annual basis. So we still feel that this is a good start of the year when it comes to savings in cost of goods sold.

And then we have the additional cost savings program that we announced last fall that's mainly impacting SG&A costs – just to keep this apart. And there's no double counting here. We expect annual savings of SEK 900 million with full effect at the end of this year. And so far, the run rate savings are very much on line with our expectations at SEK 530 million. And the expected head count reduction, mostly then in white collar positions, has now approached 550 out of the 1,000. So that's also moving very much according to plan.

And as you can see there to the right, the impact on SG&A as a percentage of sale is really massive. So fantastic progress here on cost savings below then gross margin – so from gross margin to EBITA margin. And as you can see there, the actions continue in all parts of SG&A.

And improved A&P efficiency is important to note. It's not there we're cutting A&P here because we have a number of good innovations that we're launching, but we're becoming more efficient. So we are really looking at the all parts. We were slightly under 5 percent in A&P as a percentage of sales in the first quarter. We expect to be on a similar level to last year for the full year, so slightly above 5 percent for the full year.

Slide 9 – Successful Innovations

Innovations. And we continue to innovate at a high pace. But more than that, when it comes to TENA, where we actually have a completely new pack format in our retail offering, a new logo that we're rolling out now for TENA everywhere. So as you can see there, it's less of a medical look. It's much more of a retail look. It's more feminine.

Also, the products are upgraded. So we're launching a big range of pants here that are more underwear like. So a big step forward for us when it comes to the very tough competition that we're encountering in the retail part of the incontinence care business. So this is a big step for us and we will continue to launch additional programs in Inco retail throughout the year with this new logo and with this new pack format. And all our tests show that this is a big step forward for us.

Slide 10 – Sweden's Most Attractive Employer 2019, A winning Corporate Culture

And also, before moving on to some more numbers, I'd like to mention, because we're immensely proud of this, in Sweden that we were elected Sweden's most attractive employer based on 6,220 interviews throughout Sweden.

So privately held employers with more than 150 employees there's a ranking, and Essity being less than 2 years old came out on top. So we are very happy that all the work we've been doing with the Essity brand, but also with our culture, with our values, as you can see there, our beliefs is really impacting.

So something that I like to brag about in this presentation before moving on to some more numbers.

Slide 11 – Personal Care, Q1 2019 vs Q1 2018

And moving on then to the three separate business areas. There are some bullet points you will actually recognize in all three business areas: The two first ones and the two ones at the bottom. So for all three business areas, as I already mentioned, the organic net sales benefit both from volume and price/mix, and especially, we see strong organic growth in emerging markets. This goes for all our three business areas. However, in all three business areas, we also continued to see significant raw material headwinds and higher distribution costs.

Looking specifically then at Personal Care. What we can see here is that feminine care continues to grow at a very high rate mostly in emerging markets, in Latin America. While baby care is growing very well, and I think you've heard this before, in Western Europe and in our mature markets, while in some of our emerging market positions like in Northern Africa, in Turkey and so on, in Latin America, we are struggling both with price and volumes and we have actions in place during the year to get back to growth also in baby care.

Medical solutions, very importantly, came back to growth, 2.9 percent. So we're happy about that. In market-after-market, we are seeing improvements. But then we have still one or two markets that are dragging down the overall growth of medical. But gradually improving here. And incontinence products, which is of course one of our jewels, grows us at a good pace here. So that's the development in Personal Care.

Slide 12 – Consumer Tissue, Q1 2019 vs Q1 2018

Consumer Tissue. What's really notable here is that on the adjusted EBITA margin, up in the right hand corner, our margin is actually now similar to that of one year ago, which means that we have compensated for 430 basis points of headwinds here mostly with massive price increases, but also all the restructuring that we've been doing through the Tissue Roadmap project, where you see a negative impact on volume through the closure of mother reels capacity, which is now in this quarter 160 basis points on volume.

This will have an impact also in the second quarter, but then it will annualize and we will stop reporting that separately. But still in this quarter the closure of mother reels, which has a very positive impact on margins, has a negative impact on growth. In spite of that, we have a positive volume overall in the Group. So again, talking about the inflection point, I think that's pretty clear.

And the growth in emerging markets is partly attributable to Vinda in China, which grew by over 13 percent. But actually, also in Latin America, in Eastern Europe, we saw a very good growth in the quarter.

Slide 13 – Consumer Tissue, Changes to Adjusted EBITA margin

And another picture then just focusing in on Consumer Tissue, where you can see that we actually then are ahead of the inflection point. So we are now compensating. Of course, that's just getting back to where we were. So we will continue to work with price increases, and in addition to what you see here, which is just price and mix, also with the volume improvements and cost savings to continue to drive this development going forward.

Slide 14 – Professional Hygiene, Q1 2019 vs Q1 2018

Finally, Professional Hygiene. Again, a very good organic net sales growth of 4 percent. Again, strong organic sales growth in emerging markets. The same – not the same, slightly lower, but still significant raw material headwinds and high distribution costs. What may be, is specific here is that emerging markets grew by again double digit, over 15 percent, in all our emerging markets.

In mature markets, we continue to see a very positive growth in Europe and a slightly negative growth in North America. However, after more than a year now of a slow development in North America, we are starting to see a gradual improvement. So even though we had some negative growth in North America, we believe that going forward this will gradually now start improving, which is of course very important for our overall performance in Professional Hygiene.

And the margin impact here that was negative with 160 basis points is partly compensated then with price increases and mix improvements, but only to offset the raw material headwinds by half. And as we go forward, as we continue to improve volumes – and as you know also, Q1 is a seasonally weak quarter for Professional Hygiene. We expect this to gradually move in a positive direction.

Slide 15 – Priorities 2019

To summarize our priorities for the year. Very much focused now on improving the business day-by-day, which I think we are incredibly good at. So winning over the competition, gaining market share through strong innovations, strengthening our brands. We will continue with price increases, efficiency improvements, cost savings wherever possible. So we're not slowing down in any of these areas.

Very much focusing on growing in the categories with high margins, which is of course Inco, Medical, Fem Care, Professional Hygiene, while continuing to focus then on margin improvement in Consumer Tissue and in Baby Care.

To capitalize on digital opportunities. This is something we're talking about in all parts of the business, both internally for efficiency improvements, but of course also in our Go-to-Market, in our marketing, in our sales, in all parts of the business in order to create sustainable value for you as shareholders and for all the other stakeholders.

So thanks for listening. Let's open up for questions, Joséphine.

Slide 16 – Q&A

Joséphine Edwall-Björklund: Yes, let's start here in the room.

Karri Rinta, Handelsbanken: Thank you. Karri Rinta, Handelsbanken. Firstly, about the price and mix. You mentioned that there will be some more pricing coming in the second quarter. So when – how should we think about the price and mix for Consumer Tissue, because you had more pricing last year in the second quarter than what you had in the first quarter. So I guess the question is should the 5 percent level be maintained in the second quarter or is it mathematically coming down because of the higher comparables from last year?

Fredrik Rystedt: Yes, Karri, it's a difficult question. We will sequentially increase prices. Exactly how that will compare to last year is a difficult question to fully answer. But of course we have raised prices a lot in comparison. But you're absolutely right, Q2 last year was also strong in terms of price increases. So exactly how that will play out – but we'll continue to raise prices.

Karri Rinta: Then secondly on medical solutions. You mentioned that there's one or two countries still underperforming. Is one of those countries U.S.? Or can you say a few more words about the U.S. development?

Magnus Groth: That's correct. And as you know, we have a changed organization and we're doing a little bit of the same maneuver now in medical as we did a few years ago in incontinence care when we were struggling in the Inco category.

And we're already seeing some positive signs there. But that will have a negative impact on medical's growth for the next coming quarters. It takes a while to turnaround the business. And the U.S. is one of our big medical markets.

Karri Rinta: Then finally, a small detail. Easter and invoicing days in the second quarter, how should we think about that?

Fredrik Rystedt: Yes, actually we try not to talk so much about days. And we have a couple of businesses where this is impacting. So medical is one and Inco health is another and to some smaller degree also Professional Hygiene. So there is an impact, but we tend not to actually talk about it. This particular – if you look at last year, there is a difference of one day actually. So it has very little impact.

Karri Rinta: All right. Thank you.

Sanath Sudarsan, Morgan Stanley: Thank you very much. Good morning, everyone. A couple of questions from me. First one on the pricing momentum and the sustainability of that. I mean, I know you said you wanted to look at to raise pricing. But given that input costs have started to moderate a bit, especially pulp prices, how do you see the acceptability of further price increases in the future?

And you've highlighted before that you needed a second round, a third round, a fourth round of price increases. Do you still see that requirement given input cost environment? And the second one is also on pricing, especially in Personal Care, which you had initially said you wanted to take up more of. How is the trend progressing there? Thank you.

Magnus Groth: So Consumer Tissue, we had a very positive development, as you could see in the first quarter. And we're almost through with the second wave, but we have some contracts still to negotiate, and I think that will be an indicator for the momentum in the market. And even though pulp prices have eased slightly, the consensus in the market is that they will start moving upwards again towards the end of the year.

And of course, our European competitors are also seeing the same negative impact from currency development as we are seeing with the strengthening U.S. dollar to the euro, which has continued into this quarter. So that will very much decide how we move on with the third wave, what happens to pulp prices with the development that we expect.

Yes, we will have to continue to raise prices, but depending slightly on pulp development and Consumer Tissue. But to increase our margins – of course we're not happy with current Consumer Tissue margins. They should be well above 10 percent and higher than that. We will need to pull all the levers. So higher prices, better mix, more innovation, lower costs going forward. So there will be more price increases coming in Consumer Tissue.

In Personal Care, there's more of a delay partly because we have the health care part, where we have 3-year contracts typically, where only then 1/ 3 is tendered every year. So we're seeing a positive price/mix impact, but that development is a bit slower. And that's why we have a bigger negative margin gap still compared to a year ago. But we expect that to improve also gradually going forward. Do you want to add something there Fredrik?

Fredrik Rystedt: No, I think it's exactly as you say. We can never promise price increases. We can only promise that we'll try. And of course, in terms of tissue, our belief is still that a lot of our competition is – they have not recovered, and margins are still low. So there's a need for the whole industry to continue to raise prices also in a slightly more stable raw material environment. So nothing really to that.

Magnus Groth: And we haven't really seen any announcements of new capacities in Consumer Tissue in the last year and most of the capacities that were announced and also then built is up and running now. So from that perspective, there's an increasing stability specifically in Europe going forward.

Sanath Sudarsan: Thanks. Can I just ask one more question on the changes on your leverage obviously in IFRS 16? Can you just tell us what the impact of this was on your margin? And secondly, can you also tell us – your ROCE seems to have kind of depressed this quarter. Is that also a reflection of the higher leverage you have? And does that change your target of 15 percent ROCE?

Fredrik Rystedt: Yes, the first question on IFRS 16, it has a slight impact. As you know, the rating agencies, they already adjust for leasing prior to IFRS 16. In our case, if you look at the debt addition of roughly about 3.9 or just below that, it was slightly more than what the rating agencies actually estimated.

But on the other hand, so was the EBITDA impact. So if you actually look at the ratio of net debt to EBITDA, which is the most important, or gross debt for Moody's, the impact is very, very small. It basically is nothing. So from a rating perspective, it doesn't actually have an impact. And if you look at – the second question was ROE?

Sanath Sudarsan: ROCE.

Fredrik Rystedt: ROCE. No this is just a reflection. Yes, partly it has an impact because of the higher level of capital employed. So it has an impact. But, of course, the major impact there is just result and the capital turnover. And there is also a little bit of currency impact. As you know, the average rate is slightly lower than the balance sheet. So that's basically – IFRS 16, slight impact, but not explaining the full.

Sanath Sudarsan: Ok, thank you very much.

Operator: OK. Our next question comes from the line of Oskar Lindström. Your line is now open.

Oskar Lindström, Danske Bank: Hi. Just one question from my side, is on the cost savings. Did I understand you correctly when you said that you guided – you expected the Tissue Roadmap COGS savings to come in at about SEK 1 billion for the full year 2019?

Magnus Groth: Yes and no. I spoke about that historically over the last two years we've had COGS saving totally for the Group of somewhere around SEK 1 billion and we expect to keep that pace. So that's only attributable to Tissue Roadmap, but to all the efforts we're doing in Tissue, but also in Personal Care and Professional Hygiene. So the full COGS savings run rate in the last two years for the Group has been around the SEK 1 billion and we expect that pace to continue this year.

Fredrik Rystedt: And that's everything. That's of course everything from material rationalization to the fixed cost in the product and whatever we negotiate, bundling of purchasing and distribution, etc. So that's all.

Oskar Lindström: And a couple of follow up on this. I mean, does that make any specific assumptions about sort of pulp price rebates or pulp price development?

Magnus Groth: Not pulp price development, but rebates, because only increasing rebates leads to savings, while decreasing rebates has a negative impact on savings. So with the current very high pulp prices and tight market, it's been difficult to achieve additional rebates.

So rebates is actually a smaller part probably going forward, is our assumption then – additional rebates than maybe the more sustainable long term cost saving components that Fredrik referred to. So there is – it's likely to be in that average number, less rebates and more sustainable savings.

Oskar Lindström: OK. And then just a final one, a follow up here. Could you say anything – I mean, should we expect continued COGS savings also in 2020?

Magnus Groth: This is not a program. This is something that's ongoing continuously. But we don't really give any outlook. We'll have to see what we can achieve once we get there. But of course, we will continue to work in all of these areas going forward.

And we many times stated that as we pull all these levers and work with all these opportunities – and now of course with the increased opportunities from automation and different digital possibilities, we continue to see new possibilities everywhere, both in administration, but also in our plants and in our Go-to-Market. So we expect to continue to save on our cost of goods sold going forward.

Oskar Lindström: All right. Thank you very much.

Operator: OK. Our next question comes from the line of Faham Baig. Your line is now open.

Faham Baig, Credit Suisse: Hi, thanks, guys. Good morning. Two questions from me as well. Firstly, the question is really to do with the cost of doing business, because I think your – you have been realizing more savings than you or the market expected. But it's not so far translating into higher operating profits. And I guess in this quarter, you've got a significant other line, which I wasn't expecting.

And if we compare that to the SEK 280 million in Q4 – the moving part seems to be the stock revaluation and the production stop. Could we attribute around SEK 100 million of the difference between the quarters to those factors? Or is there anything else I should be considering?

And on the former point, do you still expect that the SEK 900 million of savings associated with your program fully falls to the bottom line? That's my first question. And the second one quickly probably for Fredrik. The tax rate was materially lower than last year.

And even on an annual basis, over the last couple of years your tax rate is between 23 percent and 24 percent. But are you guys still guiding to 25 percent and 26 percent for the full year? Could you help me with the moving parts there as well, please?

Fredrik Rystedt: Yes, maybe I can – yes, we'll try and answer this together, Faham. So thanks for the questions. Let me start with the first one. You are right, the other line is very high and it's actually higher than you've seen from us before. And there were a lot of different things that Magnus alluded to in his presentation.

And some of them are more kind of – I shouldn't say permanent, but at least now for the time being. So distribution is one of them. The production facility issue, yes, you're right, that is actually – that's a fairly material issue and of course likely to go away. The stock revaluation is not just what's happening this year. It's also in relation to what happened last year.

So over time that will also diminish. So you can say this particular quarter, it was a lot. Just to say that – our view is that it actually is flowing through the cost savings that we have done. So we've actually achieved in SG&A. You can see that also in our SG&A ratio. It has clearly come down.

On the gross margin, you see all these negative things that you see on the other line. So you can say in a way the cost savings that we have made not only in the program, but also in other SG&A activities is actually compensating for some of these gross margins impacts in this particular quarter. And hopefully, over time we'll see less of that other line, as Magnus already alluded to.

On the SEK 900 million, on the second question there, yes, that will flow through all the way to the bottom line. I think as we alluded to last time and also when we presented this program, this doesn't mean that we put a full stop to everything.

We continue to do a lot of initiatives in terms of digital, we do a lot of things in terms of A&P, etc, and many other initiatives that will promote growth and further expansion of margins. So we're not only saving in terms of efficiency and reducing personnel, we are also investing. So of course had we not done the program as such, then of course you would have seen a bigger impact, negative impact on the margins.

So I think just to answer that question, I think we are seeing the cost savings flowing through to the bottom line. We track that very, very clearly and we see that actually happening. And I think that's also true for the full SEK 900 million. On a net basis, it will not be SEK 900 million because we also put a lot of initiatives in place. And then the third question – maybe you want to add something, Magnus?

Magnus Groth: That's perfect.

Fredrik Rystedt: OK.

Magnus Groth: And nothing to add.

Fredrik Rystedt: The tax rate then, it was actually – I mean, first of all, as you know, Faham, taxes is all about the full year. It's not about individual quarters. So whatever the tax rate is in one quarter, it doesn't necessarily mean that the full year will be on the same level. However, having said that, we have guided for 25 percent, not 25-26 percent.

That was actually last year. So this was 25 percent this year. And we actually have some – how shall I put it – hope that we will actually achieve a lower tax rate throughout this year. So without guiding kind of anything more specific than that, we hope that we can achieve a lower tax rate than 25 percent. And we are quite happy with what was achieved now in the first quarter.

Faham Baig: Great. Thank you.

Operator: OK. Our next question comes from the line of John Ennis. Your line is now open.

John Ennis, Goldman Sachs: Good morning. A couple from me, please. The first is on Personal Care. You delivered I think 1.6 percent volume growth on a pretty tough comp. I wondered if you could give us the volume growth by category, so Vinda, incontinence, baby, fem care, etc?

And then I wondered whether there is any phasing we should be aware of, i.e., are customers effectively buying in ahead of anticipated price increases later in the year? And if that is the case, can you help quantify the magnitude of effectively that early phasing?

And then my second question is on Consumer Tissue. The 5 percent price/mix – I wondered if you could give us a steer on the magnitude of price increases within each of the regions, so between Asia, Europe and LATAM. And then specifically in Asia, I guess we are already lapping the price increases that you put through this time last year. So does the announcement today suggest there have been further price increases in Asia that you are benefiting from? Or as we move into 2Q and 3Q, will Asia start to slow? Thanks.

Magnus Groth: OK, I can start with the first and the last question.

Fredrik Rystedt: Yes.

Magnus Groth: And leave the middle question to you, Fredrik. So specifically, in Personal Care when it comes to volume, we had good growth in incontinence products of 2.8 percent. And in medical, we were around 3 percent, which shows that price/mix was not the big driver in medical, which has not been our intent either to really raise prices in medical.

We are happy about the margins in medical. It's more about driving the growth, the volume growth. So that's in line with our strategies. And then in feminine care, our volume growth was 2 percent. So we had a lot of pricing there, especially in emerging markets. And then finally, in baby care, slightly negative volume of 1 percent.

So very good growth in mature markets, including France, where we launched, as you remember, some time ago. And – but with some negative development in the markets I mentioned earlier. Then when it comes to China specifically or Asia – and you mentioned Vinda specifically. So I think they made a fantastic strategic move last year when they increased prices in 2 steps. And they had a very tough third quarter, if you remember, with negative volume and so on as a consequence of this.

But they really took the opportunity with increasing pulp prices to do this. And at the end of the year and also now after the first quarter, they remain the clear market leader in China with around 16 percent market share, so well ahead of competition, and with higher gross margins than most competitors.

And now pulp prices – and as before, they are swinging faster and more drastically in China than in most other markets. So they came up higher and now they've been falling also a little bit quicker in China. So we don't really expect to take any more pricing at this stage in China. I will leave that to Vinda. But more to focus on now – I mean, keeping our position and working with all the other opportunities to improve mix and growing volumes and cost efficiencies.

Fredrik Rystedt: Yes, and the second question, John, was about pre-buying and we saw very little of that. It was actually a slightly positive impact from Brexit, and this was ahead of – building stocks actually from our customers.

But from a Group perspective and also for the different business areas, it was marginal. But that was what we could see basically the only thing. The rest of the business did not have that much pre-buying. So you should not expect any big impact from that.

John Ennis: OK. Thank you both.

Operator: OK. Our next question comes from the line of Iain Simpson. The line is now open.

Iain Simpson, Barclays: Thank you very much. Good morning, everyone. A couple of questions from me. Firstly, I just wondered in LATAM in Personal Care, where it's clear that you've taken pretty significant pricing there. Do you make any adjustments for high rates of LATAM inflation in your accounting as some of your peers do?

And then staying within Personal Care. In baby care, it's very impressive to see that diaper growth in Western Europe. Is this market share gain in France following your branded launch there? Or are there other moving parts we should be aware of? Thank you.

Fredrik Rystedt: And maybe I can start with the first question. We don't have inflation – the relevant country for inflation accounting would have been Argentina. It's actually quite small within our business, so it has a very, very small impact. But we don't have inflation accounting in any of the countries in LATAM. And as I said, it's actually quite – very – the difference would have been very small.

Magnus Groth: OK. Yes, we grew by 5.2 percent in mature markets in baby, which is extremely good. And our launch in France is doing really well. We are growing market share. But we're actually growing everywhere in Europe, in Western Europe.

So both in our branded offering in Northern Europe and in France, but also very much with our private label, or, as we prefer to call them, our retail brand customers, where we are working since many, many years together with a few selected retail brand customers in developing their brands together with them. And that's also going really, really well.

Iain Simpson: Just to follow up on that if I may. Would I be right in thinking that that growth in Europe would mostly be share gain? I mean, presumably the market isn't growing 5 percent.

Magnus Groth: No, that's correct, because the market is more or less flat. But we have been launching new products recently. And, yes, we have a good offering, we have good communication, and good momentum in Europe in baby care.

Iain Simpson: Thank you.

Operator: Our last question comes from the line of Linus Larsson. Your line is now open.

Linus Larsson: Thank you very much. On the ongoing price initiatives that you are – that you're having, could you just talk a bit about the volume push back that you may have had and also what's going on in terms of shelf space pricing?

Magnus Groth: So this I guess refers specifically to Europe and maybe Consumer Tissue. And, yes, there is a push back also this year, which means that when we ask for price increases, there's a risk of being boycotted not only in Consumer Tissue, but also which means that the retailers then decide not to order from us, which of course has a very negative impact on both our top line and on our profitability.

And this is now – this has now become almost day-to-day life in the European retailer landscape. So we're seeing some of that not only in Consumer Tissue, but also in the other categories. And it also happens that when we negotiate Consumer Tissue pricing, we are subject to boycotts or sanctions also in other categories. So that's day-to-day business. And your second question was?

Linus Larsson: Just wonder whether your price hikes are pushed through in the value chain...

Magnus Groth: Yes. Yes, absolutely. And good point. Definitely. So we're seeing new price points on shelf in most countries and that's very important for us. And for the rest of this year, it's very important we see that these new price levels stick. Because in some cases – or actually in many case, in many countries, we are passing barriers from 199 to 229 and so on, on shelf and it's important that those price levels stick.

I mean, still the price of a toilet roll – we discussed this, Fredrik, the other day – is close to nothing. I do not know if you are aware. But I mean it's EUR 0.50, EUR 0.60 for a toilet roll, which I think is incredibly cheap compared to a cup of coffee or almost anything else considering the benefits.

So I think there should be huge opportunities here for raising prices on Consumer Tissue going forward considering that, something we don't talk about that often. Do you agree, Fredrik?

Fredrik Rystedt: Fully, fully.

Magnus Groth: OK, good. Thanks.

Linus Larsson: Sounds good. And also, if I may just one follow up on input costs. So in the quarter, you showed easing raw material cost inflation. If you add together raw material cost and energy cost, the year-on-year cost inflation was SEK 1 billion and it was SEK 1.4 billion year-on-year in the fourth quarter. Is the implication of what you're saying that in the second quarter the year-on-year cost inflation should ease yet again to something below SEK 1 billion?

Fredrik Rystedt: Yes, we don't give a number, Linus, but hopefully that will be the case. And as Magnus already alluded to, I think the open question is of course the development of the dollar, which is really difficult to predict.

But hopefully, it's going to be less since sequentially, as Magnus said, we will have slightly lower in basically Consumer Tissue and Personal Care. And if you take Professional Hygiene, basically stable. So that would be the conclusion. But exact number is always difficult because of the currency.

Linus Larsson: Excellent. That’s very helpful. Thank you.

Joséphine Edwall-Björklund:
OK. Thank you so much. So before concluding today's conference, we would like to highlight again we hope to see you all on the Investor Day on May 23 here in Stockholm. And with that, any final word from you, Magnus?

Magnus Groth: See you at the Investor Day. Thanks for coming. Thanks for listening.

Joséphine Edwall-Björklund:
Thank you and goodbye.

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