MAGNEETTO MEDIA AB

Moderator: Josephine Edwall
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Josephine Edwall: Hello and welcome to Essity's Q2 Interim Report Press Conference for 2017. My name is Josephine Edwall, Head of Communication for Essity. And today, our CEO and President, Magnus Groth, will together with our Executive Vice President and CFO Fredrik Rystedt, go through the highlights in the report, followed by a question and answer session.

So, with this, Magnus, I hand over to you.

Magnus Groth: Thank you, Josephine.

It's been another busy quarter on the 15th of June, Essity was listed on NASDAQ in Stockholm and at the beginning of the quarter, we closed the acquisition of BSN medical. And we also continue to work with our different programs to improve efficiency and improve our cost position.

And one step in our Tissue Roadmap program was to close down a professional hygiene tissue plant in the US. And this program, together with the other programs we're running like the Cure or Kill program and other regional programs are now having a significant positive impact on our margins. So, we see that what we're doing is really contributing to margins in the business, moving away from no margin business and investing in higher margin branded business.

And this is necessary at the time when we see challenging market conditions with slower growth, increasing competition and increasing raw material prices that we are mitigating through these programs, but also in other ways, of course not the least to enhance growth through innovation. And this last quarter, we have a record high number of launches, 18 all together and I'll get back to this, but of course, this is essential for our growth going forward into the second half of this year.

A brief overview of the numbers, net sales increased by 12.7 percent and adjusted EBITA by 17 percent. Looking at organic sales and organic adjusted EBITA, they were flat in the period. The adjusted EBITA margin improved by 40 basis points and we continue to see a very strong cash flow. And the reasons why it's down here 20 percent was that we had a unusually high cash flow during the second quarter this year, but this is also a good number.

Adjusted return on capital employed is 13.7, which is down somewhat lower than the number you've in the report. And what we've done here is we have done an estimate of what the full year acquisition of BSN will be on return on capital employed, so this is comparable then to our target of 15 percent, which shows that we still have some way to go in this area.

Earnings per share, 2.39 and adjusted earnings per share, so excluding items affecting comparability and amortization of intangibles from the acquisition of BSN was 3.06. And both these numbers are quite high earnings per share in a individual quarter, even looking back when it – comparing to the old SCA, so a quite strong EPS in the quarter.

Getting back to innovations, I'd like to highlight a few of the 18 launches during the quarter. First of all, I think I showed you some Lotus baby pants at the last quarterly report and they are now launched. We are very, very happy with the progress. And already after three months, we have a market share in France of over 6 percent. Of course, this is being now promoted as we're introducing for the first time in many years around baby product in Europe, but so far we – it's working ahead of our expectations, so very satisfied with that.

Three other important innovations on this slide are all related to our TENA Incontinence Care business, so it's TENA Intimates, TENA Lady Pants and a new product for men. And this is something that we've been working with for years to really improve our assortment on the retail side to fight against our main competitors in this area and to start regaining market share in retail in Europe. So, these three launches will be significant for also our growth plans going forward into the second half of the year.

Getting into some numbers then and starting with Personal Care, net sales increased 28.8 percent. Excluding the currency effect and BSN, sales was flat. EBITA increased 50 percent, of course, assisted by the acquisition of BSN, higher volumes and cost savings. We saw improved profitability in incontinence products in North America. And as you know, we were really challenged there for a number of years, but not only do we see now high margins, but also increasing growth there.

And a very positive effect from exiting the Baby Care business in Mexico and the Hygiene business in India that we have previously announced.

Offsetting this were higher raw material costs and investments in increased marketing activities. The adjusted EBITA margin is close to 15 percent, which is then an improvement with over 200 basis points.

Digging into the different regions and product segments, again we had a negative impact on growth of about 1 percent from the decisions to close our businesses in Mexico and India. Looking at the mature markets in Western Europe, we continue to see good growth for Baby Care and higher sales for Feminine Care.

We have flat sales for Incontinence Products. And this is something we've been seeing now for a number of quarters that we have good growth in retail, slower growth in healthcare. We expect to see a better tender balance on the healthcare side throughout the second half of this year, which should assist growth in this area going forward. And in North America, as I mentioned, higher sales for incontinence products.

In the emerging markets, Latin America looks unusually low with 0 percent growth there, but this is again, to the largest extent, due to the closure of our baby business in Mexico, which has a positive impact on margins.

Russia continues to struggle, but we are now re-launching our complete baby assortment. And throughout the end of the quarter, we started to see a pick up again in the baby business in Russia.

And in Asia, we had a slow quarter, mostly for seasonal reasons.

Medical Solutions is now included in our Personal Care business and through the acquisition of BSN Medical, which was consolidated on the 3rd of April, so it's our first quarter with BSN included. We've had our successful start of the integration. The new organization is in place. The new strategy is in place. We are starting to see the first savings, mostly from overheads coming out from the integration, so all running according to plan.

In the (third) – second quarter, organic sales decreased by 0.7 percent, however we had some difficult comparables here. BSN is a business that’s heavily dependent on invoicing days and we had approximately 4 percent lower invoicing days during this quarter this year, compared to same quarter last year.

The adjusted EBITA margin was 17.1 percent and also the margin was impacted by a number of temporary issues, the first one being integration that were not taken in items affecting comparability, affecting the margin with 1.5 percent negatively approximately. We decided to discontinue the Venezuelan business of BSN, which has a negative impact of approximately 1 percent and also then the negative impact from lower absorption of the lower invoicing days I already spoke about.

So, taking all of this into account, looking forward, we expect BSN to improve both on topline and on EBITA going forward in coming quarters.

Consumer Tissue, our second segment, net sales increased 4 percent. Organic sales was flat and adjusted EBITA decreased by 6 percent. And this is one of the two segments really heavily affected by higher raw materials and energy costs, especially in China during this quarter, but to an increasing extent and also into the next quarter in Europe.

This was offset in a positive way by higher volumes and significant cost savings. Fredrik will talk more about that. The adjusted EBITA margin at 9.7 percent was down 100 basis points, so we are able to compensate for a part of the higher raw material costs, but not all of it.

Behind this, not visible in this quarter is also a real improvement in our product mix, especially in Europe, where we are continuing to leave lower margin, lower value added sales like mother reels and private label business, while we see really good growth in the branded part of our European tissue business, so again prioritizing margin over growth at this point in time to prepare for the future.

In the growth, there was little difference in both price mix and volume. In Western Europe, lower sales due to lower prices and again, the lower sales on mother reels as I mentioned. And in emerging markets, relatively good growth, even though Latin America was somewhat lower than expected. We see a worsening macro economic development in Latin America going forward, so we are making new plans for getting back to high growth number in the second half of the year in Latin America. That's a high priority for us.

Third and final segment, Professional Hygiene that we used to call Away from Home with the Tork brand, net sales increased 6.1. And here we also see an organic sales increase of .8 percent. Adjusted EBITA decreased by 2 percent – again, higher raw material costs. And here we saw significantly higher recovered paper prices. And as you know, that's the biggest input cost we have for the Professional Hygiene Tissue and especially in North America.

We also saw lower volumes again, due to our ambition to improve our product mix and higher energy costs. Offsetting this, better price mix and cost savings. Adjusted EBITA margin down 110 basis points to 13.4 percent.

Other organic sales increase, the price mix was 2.6 percent, so we're really seeing here that the premiumization that we're working with both in all our – in all our categories and segments, but also in Consumer Tissue and in

Professional Hygiene it's really working, so we are willing to give up some volume to move up into more premium types of tissue and you can see the effect here.

In the mature markets, we had lower sales in Western Europe and in North America, but a positive price mix in both regions, while we had really, really strong growth in emerging markets. And historically, this has been a small part of the emerging markets of our Professional Hygiene business, but as you can see, there in the graph, it now accounts for 17 percent of the Professional Hygiene business, so it's becoming a more significant part of that mix, which of course, is something that we're striving for.

So, with that brief overview, I'd like to hand over to you Fredrik.

Fredrik Rystedt: Yes, thank you, Magnus.

I will give a few comments on the financial figures and just briefly on the – on the net sales. (So), as you can see from the report, we grew by almost 13 percent in the quarter, so a good nominal growth, but of course organic growth was close to flat.

Price mix, I'll come back to that in the results a little bit more, but we have a good price, particularly in Professional Hygiene and more or less flat on aggregate level on Consumer Tissue and then of course, slightly down in the Personal Care side.

Volume, just the opposite, so Professional Hygiene there, actually lower volumes and the others roughly flat. And as you can see, of course, BSN contributing quite significantly to the growth of the group with over 8 percent and the weaker Swedish krona, also contributing.

So, if you look at the EBITA, you can see we've had a very, very strong contribution here from – in the organic side of the business from price mix, from volume and not least also from the cost savings. So, I'll talk a little bit about that, but if you look at the total increase of 17 percent, you can see of course, that also BSN here contributed with a 359 million, so a significant contribution to the overall profit of the group.

Looking at these components, price mix, volume and the cost savings, first of all, if you look at the different parts, Magnus has alluded to it, Professional Hygiene had a actually a very, very good development in terms of both price and mix. So, on the pricing side, we managed – so we flagged that during the last Q1 presentation, we said that we were trying to increase prices in the North American market and we have done that, perhaps somewhat earlier than anticipated.

So, that was a strong point. And we also had good mix, improvement both in Europe and in North America, so a good performance just generally in Professional Hygiene.

Consumer Tissue, price mix is zero here and there is a lot of moving parts, so if we look at the pricing picture, outside of Europe, generally positive. So, we've increased prices somewhat in Asia. We've done that also in Latin America.

But if we look at Europe, Magnus mentioned it, we have invested much more in branded growth, which is a positive impact. But maybe contrary to what would one – what one would believe in the – in the landscape of higher raw material cost, price pressure is still high as we have reported, previously. So, the competitive pricing is actually quite intense still. And perhaps that's also there because of anticipation of lower future pulp prices, but clearly still a high – a higher price pressure on the Consumer Tissue market in Europe.

Overall, for Consumer Tissue, the impact is flat, with both mix and the price increases in Latin America and price decreases in Europe.

Personal Care, a bit of mix here as well, so price increases in Latin America and we have a continued high price pressure on the healthcare (inco) side on the European market as we've had also previously. The volume side, just the opposite as I mentioned, Professional Hygiene. And here we have left contracts in the Professional Hygiene space, particularly in North America, but also elsewhere.

So, this had had a negative volume impact. So, if you look at the overall organic growth, for Professional Hygiene, it's very clear that we have gone for higher price, higher mix, but lower volume.

For the others, largely flat with various variances on a regional basis.

I talked about the cost savings and I'll do that before the raw materials. So, it's very, very strong quarter. You’ve seen here from the numbers, SEK 320m, as you can see, it's very strong. If you remember, we had a bit over SEK 200m last quarter. And this is unusually strong. This comes from many, many different sources, material rationalization.

We've had things like waste management. We've had price negotiations in more general terms. And of course, not least, the restructuring that we have talked about so much before. So, in the – unusually strong, but we're very, very happy with what we have achieved here in this – in this field.

So, lastly on this slide, the raw materials side and you can see that it's been a – how should we say, a burdensome quarter in terms of raw material and I'll come back to the future development in just a moment, but if we just look at this quarter, the impact has been very significant on the group as a whole.

So, if you look at margin impact, it's roughly about 1.6 percent margin impact for the group as a whole, not even the distributed, but all business areas will have a negative impact, or has a negative impact. So, just for Professional Hygiene – and if you compare the margins from last year, it has deteriorated but from just here, from just the raw material, the negative impact is 2.8 percent, so very, very significant. And this is all coming of course, from recovered paper, I'll show you that in a second.

But also Consumer Tissue, not least in Asia, we had a negative impact from both hardwood and also softwood pulp, with 1.7 percent, or 170 basis points, so fairly draconic in just one quarter. The oil based material – despite still having a low oil price, the oil based material has picked – they – they’ve picked up both SAP or super absorbent and plastic sheets, et cetera, so actually also Personal Care here has a negative impact of 0.7 percent.

So, with all of these factors, of course, we're quite pleased with the fact that we have been able to retain margins as strong as they are.

Looking at the future a little bit, as you can see on this slide, what you can see on the left hand side is sorted office paper for United States and for Europe. And of course, there are many grades, but this is the most frequently used we have. We also have other grades and actually all of the grades which everyone you look at has increased a lot.

You can see there's been some return or bounce back in United States here lately, but in all fairness, if you compare to the previous year, it's a – it's a very significant impact. And if you look at other grades, you can see the impact is even stronger. So, of course, this is something that we will live with also going forward.

If you look at the right hand side of this slide, you can see that the pulp prices have now overstepped that of last year, that happened in basically April. So, what we can see now is increasing prices, as we go forward. Whatever happens in the longer future, is difficult to say, but we are fairly convinced that for all our business areas, raw material cost in Q3 will be significantly higher. And then of course, thereafter, it's more difficult to say.

So, just a few words on cash flow. Magnus mentioned it, we're actually quite happy with this cash flow. If you look at last year, the main differences here operating surplus is of course, much stronger this year, not least because of BSN, but you can also see that working capital – we're consuming much more than we did last year, so SEK 873 million this year.

Now, for those of you who have followed us for many years, you will know that our seasonal pattern is normally looking exactly like this, so we would expect to consume roughly this amount of working capital in any given Q2 so to speak. So, this is quite normal, whilst last year, as we reported at the time, was unusually strong in various places of the group. So, this is more of a normal quarter.

If you look at working capital, last year at this point of time, we had 6.6 percent of net sales working capital. If you look at this year, we're approximately 5.7%, so the trend of improving working capital has basically continued also during this year.

Capital expenditure, we have provided you with a forecast that we will spend approximately 7 billion (SEK) and of course, if you look at this, it's much lower than that trend. And if you look at year to date, we spend roughly SEK 2.5bn , so as usual, our seasonal pattern would typically be increased CAPEX towards the latter part of the year, not only Q4, but also Q3. So, the estimate of SEK 7 billion is roughly still there.

So finally, on the items affecting comparability, a number of different issues this quarter, most of them actually relating to BSN or the closure of Flagstaff as we have previously announced. But if I start with something else, “Silva” or as we call it internally, the spinoff project, we have SEK 40 million in the quarter.

And here we have taken basically all now project cost – the project is obviously completed, but we still have another SEK 250 million to come as we progress in the year and perhaps also beginning of next year for the changes of the name, so those would be signs and those kind of things, so much in line with the previous communication, really no change for this quarter, SEK 40 million.

Flagstaff, SEK 255 million, we have – we've communicated of course previously. And then we have a few different items related. So, the first one being advisory cost remaining, approximately SEK 80 million that we have as part of the SEK 290 million that you see here. Another SEK 180 million of this SEK 290 million relates to the write down of the inventory.

As you know, when we – when we buy companies, we have to activate whatever profit is in stock. And as customer, we always do that. We take that as an item affecting comparability in the first quarter of ownership, so basically SEK 180 million. And the rest relates to restructuring efforts, as we have previously communicated.

And then we have an unusual plus SEK 110m. These are two different issues, one is a provision and the other one is just relating to pensions that are positive this quarter, so totally SEK 476m.

Thanks, Magnus.

Magnus Groth: So, a short sum up, busy quarter, a challenging market environment, but I feel that we have very strong plans in place in all the different businesses to improve both on topline and our cost and efficiency programs are running well and will continue to deliver. So, very quickly summing up, in Incontinence Care, we see an improving tender balance through the second half of the year, gradually in healthcare Europe.

In BSN, we see an improvement from the improved number of invoicing days compared to last year and the moving out from these onetime effects we have in the first quarter.

In Professional Hygiene, we have throughout this product mix change, we have also regained customers and volumes with higher margins and we should start seeing the benefits of that throughout the second half of the year.

And in Consumer Tissue, we are continuing with the Tissue Roadmap, but this will be a challenge to actually mitigate then increasing raw material prices during the third quarter, but we again, continue to deliver on that changing the product mix and also plans to increase our growth, especially in the emerging markets.

So, that’s summing up the second quarter and we're ready for questions.

Josephine Edwall: OK, anyone in the room who wants to start?

Yes, (Michael).

(Mikael Jåfs, Kepler Cheuvreux): Thank you, Mikael Jåfs, Kepler Cheuvreux, I have three questions. The first one would be more general, I mean we know that you are trying to improve your margins and you're doing some very admirable efforts. Do you think that you, at some stage, will give us more guidance at what level are you aiming at and when will you reach there? And that's the question number one.

And then question number two, everybody seems to be speaking about this increased competition. Could you just shed some more light on that, please? And then the third one, you mentioned that there seems to be anticipation about lower pulp prices from market participants, especially on the tissue side, so what is your beliefs about the pulp prices, that would be my questions…

Magnus Groth: OK. So, what is stability on margin targets, we just have to – recently, our return on capital employed target of 15 percent and of course, this implies that we need to improve our margins with a couple of percentage points at least in the group. I think that's pure mathematics. And we're I think happy with targets we have and before we reach them, we also have a target on growth to be over 3 percent. We will stick to those targets. So, those are the targets we have.

When it comes to increasing competition, yes that's a very interesting topic. I believe that if you see just slightly slower market growth, which we do in many markets, not a lot, but maybe, a half a percent slower than previously or something like that, the competitive pressure increases much more than the actual slowdown, because everybody's fighting for growing market share of course. And we feel very good about our market shares.

We're not really losing market shares anywhere. We did to some extent in North America, but that was according then to our kind of margin improvement plan in Professional Hygiene, but other than that, we're actually stable or we're gaining market share in most areas. So, we believe that this increasing competition from slightly, slightly lower volumes then has an impact on price. So, that's how the dynamics work.

Pulp prices yes, there is a perception that pulp prices will come down towards the end of the year and earlier this year or I guess end of last year we saw that there would be an increase – in the first half of the – of the year and then they would come down again. And this has been delayed and also, the price increases have been higher than expected. So, we prefer to remain cautious and just provide guidance for the third quarter when we see significantly higher raw material prices.

But I agree with you that there's a general perception of lower market prices in the fourth quarter, which of course makes it more difficult to argue for higher tissue prices, you know, it is just a quarter and then they're coming down again. So, that’s – puts us in a difficult position for the third quarter, but I mean there could be some easing then going forward.

Fredrik Rystedt: (But) we would prefer lower prices ...

Mikael Jåfs, Kepler Cheuvreux: Thank you.

Josephine Edwall: Anyone else?

If not, then operator, do we have any questions from the telephone.

Operator: Stellan Hellstrom of Nordea. Please go ahead.

Stellan, your line is open – oh, one moment. Stellan is disconnected.

Your next question comes from the line of Celine Pannuti with JP Morgan. Please go ahead.

Celine Pannuti, JP Morgan: Yes, good morning. My first question is on some of the slowdown that you've seen – you mentioned a few points, but it seems also that there have been a continued impact from the discontinued business, so my question is has there been incremental impact from discontinued business? And if so, can you tell us where? And could you quantify overall, for the group, the impact on the discontinued business?

My second question is on raw material, you said significantly higher for all business. If I look at Professional and Consumer Tissue, where we had significant increase in Q1, quarter on quarter, do you see as well a meaningful pick up in Q3 versus Q2?

And then my third question is on restructuring. We've seen an acceleration, as you may noted from 200 to more than 300 in Q2 in terms of the savings, should we expect at least this runrate of 300 to continue or is there a momentum in your – the way you gather selling? Thank you.

Fredrik Rystedt: I can – I can try and answer all your questions, the first one what is incrementally – it's depending of course very much on what we include. And if we look a little bit about the total group impact for the abandoned contracts, the mother reel sales and also the exits that we have executed on, the impact is roughly about a percent.

If you look at Personal Care, it's about 1.4%. If you look at Consumer Tissue, it's about 0.3%. And if you look at Professional Hygiene, it's actually quite a lot at 1.8%. So, this is roughly the impact that we have.

Now, your question is where – I guess also when will this sort of go away? And of course, as you know, the Mexican and –if I may start with Mexico, as just an example, part of the decline came in Q3 and Q4 of last year and the rest basically Q1. So, you will see an easier comp relating to for instance Mexico.

If you take India, all of it was done basically at the end of the year, so easier comp will not be until Q1. And some of these other contracts have been gradually shifted. If you look at mother reel sales finally, that is the main impact you should say of Consumer Tissue. A lot of that happened towards the latter part of this year, so also there we'll see a gradually easier comp in that – in that respect.

I think your second question was relating to raw material and what is going to be the sequential development. And we have this terminology, it's not because we're unwilling, it's just because we don’t have an exact crystal ball I'm afraid, but – so we have this guidance of significantly higher, higher and flat, basically.

And so, if you look at Q – on last year's quarters I said significantly higher for all. If you look at sequentially, we will see significantly higher for Consumer Tissue and higher for the other two. So, this is what it will look like in comparison.

And of course, if you look at the different components for Personal Care, we've seen an uptick in for instance, fluff pulp. If you look at Consumer Tissue – well I showed the graph, so it's fairly obvious what – what's actually happening on both hardwood, softwood and then of course recovered paper is also fairly obvious. So, higher for Personal Care and for Professional and significantly higher for Consumer Tissue sequentially.

And then the final thing, what would you expect? We never give expectations on what we – what we have as cost savings, but I actually used the word, (Celine) when I talked about it, it was unusually high this quarter. So, perhaps that will give you a lead and last quarter we had approximately SEK 200 million, so of course that will provide at least some understanding of what you will be looking at next quarter.

Celine Pannuti: All right. Can I just add two more questions, the first one on – you said professional that you have been able to raise prices ahead of your expectation, so do you think we – you are done in terms of the pricing? And was that only in the US or have you also raised prices in Europe?

And second, on your guidance of 3 plus like for like growth, how should we look at that for this year? Do you think that is something that is not going to be achieved this year?

Fredrik Rystedt: I can maybe take the first one and then maybe you have the second, but if we take the price increase – the way it works and the way we normally do things in United States is that we basically send out letters to our – to our customers and then we increase prices as the contract expire. So, of course, we cannot do a price increase any given date, it's completely dependent on what the – what the expiry date are – of the contracts are.

And so, what we have been able to do during the first quarter is actually push the prices up slightly earlier than we expected. So, we have a lot of the impact that we expect in United States, it's actually already come in the second quarter. So of course, it's very difficult to say whether we'll see any additional, but the absolute overwhelming majority we expect it to have come already in…

Magnus Groth: … the depending also on…

Fredrik Rystedt: Yes.

Magnus Groth: … on the – on the – on the fiber prices or on the recovered fiber prices. If that continues to go up, we will continue with – it will be easier to continue to work with price increases. If they come down, of course, it will be more challenging, so…

Fredrik Rystedt: So, we will always of course try, because if you look at the raw material impact of 30 percent or something like that or recovered prices, of course we have a significant need to increase prices, so we will always strive for it. But it's – as always, impossible to promise anything other than our best efforts to try and increase prices.

Then, you – I think your question was also was this in Europe and United States? This was all of it US or North America and nothing in Europe in terms of price increases, but we had, as I said, a positive mix in both North America and Europe…

Magnus Groth: Yes and in Europe the impact of recycled fiber prices was not as strong as in North America either. So – and typically in Europe we've been working in a fashion where we increase prices at the beginning of each year and we've kept to that in Europe for now. Of course, if raw material prices continue up very strongly, then we will have to act also in Europe.

And then, the growth target of having growth above 3 percent. That's a target where we're striving for it. We don't give an outlook on that. What I stated here in my summary was that we have plans in place in all our categories, in all our segments to improve growth during the second half of the year. But of course, considering the growth during the first half of the year, it sounds challenging to achieve over 3 percent during this year.

I don't know if you want to add…

Celine Pannuti: Thank you very much.

Magnus Groth: … what's our growth now, aggregated in the first half of the year?

Fredrik Rystedt: No, I think it's – I don't have anything to add. We don't give forecasts, but of course just given the growth, it's challenging to reach that.

Celine Pannuti: OK. Thanks a lot.

Operator: Thank you.

Your next question comes from the line from Ian Wood of Redburn. Please go ahead.

Ian Wood: Hi guys, thanks for taking the questions today. My first one is around the contract which you've shared particularly in the Professional Hygiene division and whether you'd give any color or if there are any lower margin contracts you might be looking to shed in the coming quarters?

And the second question would be on tissue pricing in Europe, I think you – you've done quite a good job it seems this quarter with Professional in the US, but I think you say that you see competition in the European consumer business and with raw materials coming up this quarter, do you think you'll be able to get any price rises through this quarter or is that not realistic? Thank you.

Magnus Groth: OK, so on your first question about Professional Hygiene, we are working very strongly with plans to increase our growth in Professional Hygiene in the second half of the year, both in Europe and in North America.

When it comes to pricing in Europe in Consumer Tissue, that will be challenging in the third quarter, because of this general anticipation of lower raw material prices towards the end of the year.

Ian Wood: OK, thank you.

Operator: Thank you.

Your next question comes from the line of Linus Larsson, SEB. Please go ahead.

Linus Larsson: Yes, thank you very much and good afternoon to everyone. Regarding the strategic exits that that – that you are doing, have been doing, when you look ahead, could you give some idea how much there is still to come around your global operations? Have we seen most of such shedding of businesses or are we just in the middle of it?

Magnus Groth: No this is referring to Consumer Tissue in Europe and Professional Hygiene mostly in North America could also be one or the other contract in Europe in Professional Hygiene, so this is something we're doing now to improve our overall mix for the long term, of course.

So – but ideally, we would like to build on the business and having a growth with higher margins premium contracts – you know, without giving up too much of the lower margin volumes. Because if we do too much of that, we'll have a negative impact on our product cost fixed coverage. So, it's very important for us also to keep the volumes up. So, we have to find that balance and going forward, we're definitely focused on continuing to increase our margins, but also to get back to growth.

Linus Larsson: And I guess this – does this also go for the – for the Tissue Roadmap plan? (That – I mean) obviously you have addressed some of your biggest geographies with your Tissue Roadmap program, but are there still a couple of markets to be addressed over the next say, 12 months?

Magnus Groth: The Roadmap is a multiyear program, so we're continuously reviewing that. Because of this margin squeeze that we've been seeing, we have accelerated the program actually when it comes to some of the restructuring efforts. And we will see what's necessary going forward. Of course, if we can avoid restructuring, we will do it. So, that will depend on market development going forward.

Remember, we're not only closing and restructuring, we're also investing in increasing volumes and in increasing quality. Just imagine two examples, we have announced the investment in a new paper machine in Mexico and also to start up a premium paper machine in the UK. So, it's not all about cutting, it's also about investing for growth, for premium high margin growth.

Linus Larsson: Great. And just finally on BSN, BSN contributed EBITA of 369 million krona in the second quarter, when we look into the third quarter, what should we expect? There are obviously some synergies in the making, but there might also be some – you've commented about the South American situation, but are there also other – how should I say, maybe transaction related circumstances in the early stages of your ownership affecting the results?

Fredrik Rystedt: Maybe I can start and Magnus will fill in there, Linus, but of course, first of all, we never give forecasts, so I – we won't do that this time either. But generally, the synergies are of course, much too early. We have cost synergies and we have some cross-selling synergies, both of them and we're convinced and on target, so to speak, to reach them. But as you will recall, those were multiyear synergies to reach, so it's much too early to see benefits from that any in the short future. So, we'll have to wait for that for a while.

And then of course, as Magnus said, the very significant fixed costs that BSN carries in their sales force that makes them very sensitive to absorb, so generally, as we have more trading days in comparison to last year, we should see an improvement in the third quarter, if you just compare it to this quarter. And perhaps you want to add something.

Magnus Growth: No again, we see some cost saving synergies already upfront, but the cross-selling opportunities as we have previously communicated, we expect to start seeing throughout next year. We will run some pilots and we actually started some pilots already for cross-selling opportunities and it's as promising as we expected. And we are very confident that we'll achieve those synergies according to kind of the time plan that we have communicated earlier.

Linus Larsson: That’s great. Thank you very much.

Operator: Thank you.

Your next question comes from the line of Iain Simpson , Société Générale. Please go ahead.

Iain Simpson: Thank you very much. I wondered if we could talk a little bit about Diaper please. Firstly, you've exited a number of top scale diaper markets in recent years, but I think you're still there in China, all be it with a – a really very small market share after your recent (exit) – after your change of a few years ago, so how committed are you to that Chinese diaper business?

And secondly, following the recent launch of your branded diaper offering in France, have you seen any sort of competitive response from any players or any changes to the pricing dynamic there? Thank you very much.

Magnus Groth: OK, so starting – you're absolutely right, we have been moving out of a number of baby positions that have been characterized by low market share, value products and weak brand positions so – and also all the assets, so a very difficult position to be in and focusing now on three strongholds with European being by – Europe being by far the biggest one, including Russia. The second one being Malaysia in South East Asia and the third being our Familia joint venture in Columbia and Peru and neighboring countries where we also have a significant baby position.

And I just want to mention that in Familia, we're seeing a gradual improvement in the baby business. We're re-launching the assortment. We have a new go to market and it looks quite promising.

You're right about China. We have a tiny baby business in China and today, it's mostly actually, importing Libero products from Europe, which is a high margin but very low sales. And going forward, of course, I won't talk on that for Vinda, but if you read the report they issued today, they are really focusing on Incontinence Care and Feminine Care, when it comes to the Personal Care categories in China and selling baby in China more as a – as (a niche) offering through their very, very strong distribution system.

So, baby China, it's not a high priority in Vinda …

Iain Simpson: Thank you very much.

Magnus Groth: … and yes, the launch in France, yes of course, there's always a welcome party and a competitive response. And we're seeing that, but the trade, the retailers are very happy. They – we have very good distribution. We're very visible on shelves in all the major outlets, so we feel that we're really having a good position in this fight that will definitely continue for several years to come.

Iain Simpson: Great. Thanks very much.

Operator: Thank you.

Your next question comes from the line of John Ennis, of Goldman Sachs. Please go ahead.

John Ennis: Thanks for taking the questions. I've just got a few follow ups on the BSN business actually. You talked about the impact from lowered – a low number of selling days, I just wondered if you could give us, excluding that impact, what the runrate is for that business?

And I also wanted to confirm in your opening remarks that you suggest that the EBITA margin would have been almost 250 bips higher if it wasn’t for the Venezuela and integration issues in the quarter. I just wanted to confirm that that was correct. Thanks.

Fredrik Rystedt: Yes, your last question first, perhaps, the answer is yes, Venezuela, the deconsolidation of that has actually had a – in comparison to last year, a 1 percent negative impact. And then we have these integration costs of approximately 1.5%, so that’s absolutely correct what you're stating there.

And the next question – or your first question was relating to the runrate and it's really difficult to give you an exact estimate, because basically you have to know what the exact impact of number of days are, but as we can see historically, the impact has been very strong from number of trading days.

And we alluded to it, we had 4 percent lower trading days in the quarter and if you look at also the sales per day, it's been very positive also throughout Q2. So, time will tell, but it has a significant impact without giving an exact number, so it is – (of course, that’s) going to help Q3 no doubt.

John Ennis: OK, understood. Thank you.

Operator: Thank you.

Your next question comes from the line of Rosie Edwards of Berenberg. Please go ahead.

Rosie Edwards: Yes, good afternoon. Just a couple of follow ups. I just wanted to confirm or sort of follow up from Celine's earlier question, in terms of the headwinds from the sort of exits that you've seen in the second quarter. I think you said it was 100 basis points at group, is that – from memory, that was the same in Q1, is that correct?

Fredrik Rystedt: We didn't actually give that number. I think if I recall, I think we – you're referring to the 100 basis point was the impact of just the exit in Personal Care, so it's actually two different numbers, but the same absolute amount…

Rosie Edwards: OK.

Fredrik Rystedt: … I think, yes.

Rosie Edwards: I see, OK fine. So, actually in other areas i.e. Tissue, it would have been more than 100 basis points in Q1?

Fredrik Rystedt: Yes, I mean as I mentioned before, the impact on Personal Care was approximately 1.3% in Q2. Most of that impact was there also in Q1. If you…

Rosie Edwards: Yes.

Fredrik Rystedt: … look at Consumer Tissue, 0.3%, most of that impact was there also in Q1. Professional Hygiene has accelerated, that 1.8% as I mentioned was actually more in Q2.

Rosie Edwards: OK, that's very helpful. And then just in Personal Care, I think in the second quarter, there seemed to be a slowdown in emerging markets, I think that was driven by Asia and you mentioned something about seasonality, I just wanted to clarify exactly what you meant there?

Magnus Groth: It was actually the Ramadan in Malaysia…

Rosie Edwards: OK.

Male: … so that had a big impact actually in June specifically. So, that's something that should recover then in the coming quarter.

Rosie Edwards: OK. That's very clear. And then one final question from me, again back on BSN, I just – I think I read in the sort of prepared comments around kind of market environment – you did I think, similar to the sort of healthcare inco business, you talked about also pricing pressure in same channels in BSN. Has that impacted growth in the second quarter?

Magnus Groth: I think we spoke about the pricing pressure in general terms and I don't have specific information about the second quarter. I expect it to continue to be competitive also for BSN in the same way that it is and has been for Incontinence Care business.

I don't know, Fredrik if you have any specific information about the second quarter.

Fredrik Rystedt: No, nothing unusual. I made a comment earlier on price pressure in healthcare, in Europe Inco, so that is not unusual either. We've had that also in Q1 and several quarters, so it's to unusual in Inco and of course not an unusual situation in BSN or Medical Solutions either.

Rosie Edwards: OK. All right. Thank you.

Operator: Thank you.

Your next question comes from the line of Oscar Lindström of Danske Bank. Please go ahead.

Oscar Lindström: Yes, good afternoon. I have all of five questions. The first one is regarding innovations, which you highlight as being a bit of a – sort of catch up effect in H2, you have a lot of things in the pipeline that you expect to come out and you say it's going to be important for driving growth, I presume more so into

2018, is this something that we should – sort of when we do our modeling, expect any significant impact from? On organic growth…

Magnus Groth: There are two factors, one is that it's unusually high level in total, but then of course, we have the addition of launches now from BSN, so there are two factors in here. But usually, we have around 30 launches per year, so of course, this is a high quarter, even if you deduct the BSN launches in this quarter.

It's – I think it's very difficult to put in a model, but it's very important for us when we negotiate with retailers about shelf space and about pricing. And with the intense competition we've been facing now for years in Europe retail in Incontinence Care especially and also to strengthen our position in Incontinence Care in North America, this will definitely help us. So, I mean more innovation is always good, but to model that, I think it's difficult.

Oscar Lindström: Second question is relating to the tender balance in Inco that you say will be reversing itself now, as I understood, in H2, kind of compared to H1. How should we model that or what sort of – what's the size of that impact? Is it a positive organic growth impact? Or is there also a margin component to it?

Fredrik Rystedt: It's not necessarily margin component. It's largely a volume component. And as we said, we – we've had a significant negative tender balance without having stated any numbers for this and we don't. But we will still have a slightly negative – we will have a negative tender balance also in Q3 and it will shift towards the positive in Q4. So, it's – you can say it's a reversal of the negative tender balance situation as of now. As of Q2, it's the bottom in that sense. So, it will still be negative in Q3, but not as negative as in Q2 and it will turn to the positive in Q4.

Oscar Lindström: And for Personal Care, if I may (try to sort of) – are we talking about a percentage point in organic growth, sort of from total…

Fredrik Rystedt: We have never – we have never specified that…

Oscar Lindstrom: OK, yes.

Fredrik Rystedt: … tender balance that exactly.

Oscar Lindström: My third question is relating to tissue competition in Europe. I mean you stated very clearly that it's – you know, when one organic growth is weak, competition of course, tends to heat up, but has there been any impact from new capacity also behind the increased competition? And what has – have you yet seen any impact from your stop sales of mother reels market?

Magnus Groth: (We have) new capacities coming in throughout this year and also last year, mainly from the established regional players, so that's Sofidel, Wepa, Tronchetti and as we speak in this year, there's been one new big machine coming online in Poland close to the German border.

There's been some more capacity in France. And there's quite some capacity coming into Spain. But that's – it's not huge, but it's enough in a tough environment to kind of – everything adds up, because even if it's only 30,000 tons or 60,000 tons, it's not much in the overall picture, but when that volume participates in several tenders, it has a negative impact on the overall price level. And typically these – this shows up in some of the very big private label tenders.

So, it's not that there's an unusually high amount, but it can – all adds up with the somewhat slower growth and of course the very tough competition between retailers are also fighting each other to get back to growth with lower prices and so on. So, it's just another component.

Oscar Lindström: Do you believe we've – you've seen the worst of this yet? Or is there more to come in terms of the increased competition and I guess …

Magnus Groth: I think (actually this – or) supply and demand balance shifts over time and right now, there's been some more volume coming in. Of course, there's some going out. We are shutting some volumes, some others are also taking out older assets, so it adds to the problem. I would say it's not the biggest issue. The biggest issue is the slower – the little bit slow growth and the kind of intense competition between retailers and the high raw material prices, which is really affecting margins.

Oscar Lindström: And then just on raw materials in North America, which is I guess, primarily RCP, the chart seems – that you had in the presentation pack here, seems to show prices actually going down in North America over the past couple of months, but you sound sort of unsure. I mean should we expect that they should be flat quarter on quarter or is there sort of still higher prices?

Fredrik Rystedt: No, there are still high prices and we still expect higher raw material costs sequentially. So, you're absolutely right, that trend line showed slightly lower prices in the quarter – trending lower prices. It's not trending favorably right for this moment, so perhaps more the opposite.

And if you look at other grades, than sorted office paper, we see a continued very, very strong hike of raw material prices. So, for the time being, there is no easing so to speak and of course, we hope that this will come down at some future state, but for the time being, it doesn’t look that way in the immediate future.

Oscar Lindström: And my final question and just is on BSN medical. I know that you've been asked this before, but I understand the organic growth issues, not really the deviation in EBITA margin versus what we saw last year, which was like I think, 25 percent adjusted EBITA margin. And now you came in at just over 17 percent, does trading days – and I think there was some other costs, explain that whole deviation? Or should we really expect sort of operating margins for BSN medical to be slightly lower this year, compared to last year for – for some reason?

Fredrik Rystedt: Yes, maybe I can – I can just start perhaps with a more technical thing, you can't see that from the report because we didn't own the company at the time, so we haven’t reported adjusted EBITA numbers for BSN for – as a comparison for you, but it's not 25. I think you were actually referring to EBITDA, so if you look at the actual EBITA levels, they're actually lower. So, the gap is not as significant as you would explain – or as you would say, using 25%.

So – and then we have the 1.5 and the 1 percent for Venezuela, so the gap is roughly about 3 percent as you can see and most of that, as we have explained, is coming from absorption.

Oscar Lindström: All right. Thank you.

Operator: Thank you.

You have another question from the line of Ian Wood at Redburn. Please go ahead.

Ian Wood: Hi, guys, thanks for taking the follow up. Just a quick one on your CAPEX level. I think you spoke about a bit of a step up in the Tissue Roadmap and bringing a bit of it forward because of the increased competition you're seeing. I mean this 7 billion that you're guiding for this year, do you think that's a reasonable number for us to look forward future years? Or do you see CAPEX coming up as the program goes on? Thank you.

Magnus Groth: We don't give guidance on CAPEX more than one year at a time. The 7 billion applies to this year including then the investment in Mexico, the startup of the machine in the UK as I mentioned and other investments in converting mostly – so this would also then of course depend on the general market climate and so on. So, we don't give any guidance on that for the future.

Ian Wood: OK, fine. Thanks.

Josephine Edwall: Operator, I think we have time for one more question and then we need to conclude.

Operator: Certainly.

Your last question then comes from the line of Robert Waldschmidt from Liberum. Please go ahead.

Robert Waldschmidt: Oh, good afternoon. Just wanted to ask a question on Tissue in particular with respect to one, what you are seeing in the UK specifically – seems to be some significant price competition in this market and you've clearly got a differential with Brexit.

And then secondly, whilst you're exiting mother reels or – I guess selectively selling less mother reels in Europe, my understanding is there's also available mother reels from outside of Europe, which are coming into the market and can you shed any color on that as well? Thank you.

Magnus Groth: Absolutely yes, correct with – in terms of competition in the UK, actually already since a year and when we see the impact on specifically Essity and our position in the UK, we think that we're through the worst of that and that we could actually start seeing some sequential – or not sequential but quarter over last year's quarter, easing towards the end of this year, because during last year, the Brexit during some very tough competition between retailers, we lost both margins and volume in the UK and we are actually starting to recover from that, so we already have that issue, so to say, during the last year.

And mother reel sales – yes there's import of mother reel sales to Europe, but it's actually quite specific. The only country where there is a big impact that we can see is in the UK specifically, where there are a number of converters who are then buying these mother reel and converting them. So – but it's a quite specific UK phenomena, which of course we see mother reel in some other smaller markets, but that’s where it has the big impact.

But from our perspective, we feel that we already have significant negative impact from Brexit, from the retailers and how they have been fighting in the UK and that we're starting to leave that behind us actually…

Robert Waldschmidt: Right. So, you'd say the pricing environment is betting better potentially?

Magnus Groth: Well, it's not back to where it was, but it's gradually improving throughout the second half of this year.

Robert Waldschmidt: OK. Thank you.

Josephine Edwall: OK, so Magnus, any final words to conclude this press conference?

Magnus Groth: No, thank you for all the questions and all the engagement in the middle of the summer. So, good fun and look forward to seeing you again in a quarter's time. Thanks.

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