Essity Aktiebolag (publ)
Interim Report Q1 2022
April 22, 2022
9:00 a.m. CET

Slide 1 – Front page
Joséphine Edwall Björklund:

Hello, and welcome to Essity's conference announcing our interim report for the first quarter 2022. I am Joséphine Edwall, Senior Vice President, Essity Communications, and today our CEO will go through the highlights in the report, and after Magnus Groth is finished with that, we will have a Q&A session together with our CFO, Fredrik Rystedt.

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

Magnus Groth:

Thank you, Joséphine, and welcome to this presentation of Essity's interim report for the first quarter 2022.

Slide 2
Slide 3 – Summary

To summarize and give some highlights:
In the quarter, we saw significant price increases helping our growth and our margins and we are also seeing additional pricing coming in the coming quarters and preparing for further price increases throughout the year and into next year.

Cost inflation has only increased since the last quarter. And of course, we have the war in Ukraine that's significantly impacting especially energy in Europe, but generally, we also see additional cost inflation in raw materials, transports. So, in every area. We continue with a high pace of acquisitions, and in the first quarter we acquired a US professional wiping and cleaning company Legacy Converting.

We have also started work to exit Russia. And with all this going on, we continue to strengthen our core brands and our strong market positions with a high pace of innovations. And we see this in continued strong market share development and online sales development, and also continue to stay as the leader in sustainability.

Slide 4 – Russia

Some more details on Russia, which accounts for approximately 2% of Group sales, or SEK 2.8bn. In the country, we have three production facilities, 1,300 employees. We're taking an impairment of SEK 1.4bn, but we keep a remaining SEK 1.3bn in trade receivables, inventories, cash and cash equivalents.

And the plants are operating. The business is continuing. Our employees will continue to be employed. We are looking at options to exit Russia. And of course, we have as a priority that our employees are well taken care of in this process.

Slide 5 – Financials Q1 2022 vs Q1 2021

With that, I would like to move over to the financials and Q1. Net sales increased with 24.6%. Of course, there’s a big positive currency impact there. When looking at the sales growth, 14.6% organic, about half from volume and half from price and mix. So very, very good growth. And I think this shows how quickly we have been coming out of – as we have been coming out of lockdowns and restrictions, which was very much in place during the first quarter last year, how quickly our different categories have recovered.

We also see here a significant contribution from the acquisitions that we've done over the last year. So, including acquisitions, the growth was 17.3%. The severe impact from costs reduced adjusted EBITDA with 22% and adjusted EBITA margin ended up at 8.2%. Operating cash flow from this perspective was strong and the lower adjusted EBITA was compensated for with a strong working capital development. So, similar operating cash flow as last year.

Slide 6 – Adjusted EBITA Margin Q1 2022 vs Q1 2021

And this has been a very dynamic quarter in many ways. And of course, the Russian invasion of Ukraine is impacting not only our business locally in these countries, where especially in Ukraine and in Russia, we are focusing on the health and safety of our employees, but also big impact in Europe and also globally.

And as we can see from this waterfall compared to a year ago, raw materials, energy and distribution basically has a negative impact that is equal more or less the margin we had last year. So, massive. We've never seen anything like this before. Typically, we talk about cost increases of a few percentage points at the most.

Having said that, we have been able to compensate for a large part of that with higher prices, volumes, mix, cost savings and other activities. And when it comes to the cost savings, they were SEK 34m. But remember that we are very hard on ourselves when we calculate cost savings in cost of goods sold, so we only look at net inflation. And since we have very high inflation, like everywhere else in the business, we think that this is a good number. We also see good underlying momentum in everything from material rationalization to higher rebates and efficiency improvements in other ways. So that work is continuing, and we have high-capacity utilization in most of our production assets, which also helps, of course, from a cost perspective.

A&P was slightly lower compared to last year and then of course also lower in relation to sales and SG&A was higher but lower in relation to sales. So, we have never seen a bridge like this, and this is of course the reason why we have been talking so much about the need for price increases to compensate. And what I think this shows is that we will be able to compensate for raw material, energy and distribution cost headwinds also this time. But of course, since they continue and because of the extent of them, it takes some time.

Slide 7 – Innovating Leading Brands

Moving over then to innovations, and this is something where we are continuing to invest to strengthen our brands and our market shares.

Slide 8 – Increased Market Shares

And after the first quarter, we continue to remain very strong in our positions and we continue to increase market shares in more markets and category combination than the opposite. So, 55% of our branded sales in retail see growing market shares. And some of you might remember that this was 70% in the third and fourth quarter of last year. But of course, the massive focus on price increases has some impact here in our negotiations with customers, retailers, and distributors. But I think this still shows how strong our brands are and how strong our market positions are, that in spite of the massive price increase pressure that we are applying now, we are still growing market share in 55% of our branded retail sales.

Slide 9 – Health & Medical Q1 2022 vs Q1 2021

Moving over then to our three – not new segments – but it's the first quarter where we report in these three segments starting with Health & Medical, which showed a very strong organic sales growth of 9.5% coming from volume, prices and better mix. Actually, we also see significantly higher cost for raw material and in distribution, even in Health & Medical, and this applies to the incontinence health care part of the business where we see very high price increases or cost increases for super absorbent, other oil-based derivatives that we use in our incontinence products. The impact of medical is much, much smaller, which is, of course, one of the reasons why we really, really like this business.

And we have implemented price increases. You can see 2.2% of the growth comes from price and mix. This is less than for the other two segments. The reason being that in many cases we are working with the public sector tender contracts that have a duration of three years and it takes longer. And also going forward, it will take longer to compensate. But we are putting as much effort into price increases in this segment as in the other segments, but it takes longer due to the reason I just mentioned. And as you can see, organic sales growth both in mature and emerging markets and both in the incontinence products part and the medical solutions parts here.

Slide 10 – Consumer Goods Q1 2022 vs Q1 2021

Moving over to Consumer Goods, where we have by far the biggest negative impact from raw materials. We also see a very strong organic sales growth from higher volumes, higher prices, better mix and cost savings. And in the bars below, again, volume contributes but even more price and mix. And this has been clearly the priority. And also, as I stated many times before, we go for pricing even at the expense of volume. And this is clearly also our intent going forward.

We see significantly higher costs for raw materials, energy and distribution in the quarter. And we will also do that going forward. I will give a summary on our outlook in these areas also for the second quarter when we're done with these three segments. And again, we are working to continue to increase prices so that we have a positive benefit from price and mix also, in the coming quarters.

And maybe another positive – or not maybe, a very positive – sign is that we have positive mix in more or less everywhere, which of course indicates that so far, we don't see any significant down trading due to higher prices. On the contrary, we see that consumers actually still prefer premium products and innovations. So, this could change going forward but so far, we see improving mix in most markets and in most categories. So that's very, very positive.

Looking down in the right-hand corner. It's quite amazing with the growth numbers here in Incontinence Products Retail, Feminine Care over 20%, but also Baby Care and Consumer Tissue. This doesn't include what we think any panic buying. It actually includes quite low growth from China. What I think this shows is that how impacted even these categories were during the pandemic and the following lockdowns and restrictions. And maybe we didn't even really realize that but of course, we see this positive impact now that most markets in the world, except for China are opening up again. So, it's a normalization, is our interpretation of these strong numbers, plus of course the fact that we are taking a lot of pricing and also mostly gaining market share.

Slide 11 –Professional Hygiene Q1 2022 vs Q1 2021

Finally, Professional Hygiene, which has by far the highest organic sales growth at 29.8%, nearly 30%. This was also the segment that was most negatively impacted by lockdowns and restrictions. So, a very strong rebound.

But in this growth, we also have a lot of pricing and also volumes, still adjusted EBITA margin and it ends up at 7.5%. And this is due to the impact, again, of raw materials, energy, and distribution. And specifically for Professional Hygiene, we have seen that recycled fibers have been going up immensely during the first quarter of this year and we will see how that develops going forward.

Again, significant price increases implemented and further increases in the pipeline and planned for the rest of the year.

So, I promise to get back on our outlook when it comes to some of the major costs for the second quarter, and it's the same story as we've had now for a number of quarters. We expect significantly higher costs for raw materials, all raw materials, maybe with one or two small exceptions, significantly higher energy costs, and also significantly higher transport costs in the second quarter. And this is both year-over-year and sequentially.

So, the cost inflation continues. We are showing that we have very, very good momentum in all our categories when it comes to price increases and we remain with the statement that I made after the fourth quarter that we expect to see now gradually increasing margins in the coming quarters.

In the second quarter, I would say similar or slightly increasing because of the strong performance we had now in the first quarter, but still when we see the pricing that we already have in the books for the second quarter, we feel confident that we will be able to slightly increase margins also in the second quarter in spite of the headwinds being significantly higher, the cost significantly higher than what we could see when we made this outlook for 2022. That was, of course, before the war in Ukraine

.

Slide 12 – 2022 Priorities

So, summarizing the three segments, and then just briefly on 2022 priorities: Price increases, price increases, price increases. And again, there's inflation. This is not going to end in the near term. But our ambition is, of course, not only to catch up, but also to gradually, step by step, starting to see improving margins going forward.

Cost savings continue to really add to the mix, and we have a strong underlying cost savings programme that is somewhat now being offset by inflation, but the underlying savings are strong. Innovation, digitalization, sustainability as important as ever and of course, continue to grow in high-return businesses and to do value creating M&A going forward.

So, with that, I am done with the presentation and let's open up for questions. Thank you.

Joséphine Edwall Björklund:

Please open up the telephone lines.

Operator: We have our first question. It's from Celine Pannuti of JP Morgan.

Celine Pannuti:

Thank you. Good morning, everyone. My first question will be on pricing, especially in the Consumer Goods division. It came better than expected and I noted that there was a strong growth in developed markets in terms of organic growth. My question is, where are we in terms of pricing implementation? Because last time you guided that it will have a gradual impact into Q1, it clearly came much stronger than expected. Are we still expecting a sequential acceleration in Q2? And you are talking about next price wave. When will that effectively come into impact? Are we looking at Q3 or later on?

My second question is on understanding your guide for margin in Q2. You said gradual improvement. Maybe it's linked to my first question on pricing, but I was expecting to have much more of a rebound. So, I was wondering whether it's because you didn't get all the cost inflation yet in your P&L. Was there some cover that helped you? And I know you said significant increase everywhere, but I don't know if you could give us a bit more of a steer on that for the second quarter. Thank you.

Magnus Groth:

Thank you. Fredrik, would you like to talk to that?

Fredrik Rystedt:

Yes, I can start, Magnus, and please fill in. I think when it comes to your first question, Celine, the pricing was strong, as Magnus already alluded to in the first quarter. And we do expect actually a sequential acceleration, but that's obviously needed because of your second question. So, we see significant cost increases, as Magnus already said, in all of our three areas.

Has there been a delay? No, not really. But we can see that, as you obviously know, if we take energy as an example, of course, as we have now kind of continued in time, prices are gradually coming into our cost structure as we move on. So, although we still have a good hedging level for Q2, the prices within those hedges are much, much higher, particularly so for gas as an example.

We also see that, as an example, super absorbents and fluff pulp are increasing very, very significantly and are gradually coming in and increasing.

So, we need that sequential acceleration of pricing to actually compensate for that significantly higher cost that we have in front of us. So, this is the background to Magnus’ comment there that in line or somewhat higher as you said on our expectations for margins. Just to point out, of course, the obvious: uncertainty of the world at this point of time, it is difficult to forecast, but we are still expecting a somewhat higher margin, as Magnus said.

Magnus Groth:

And just to fill in, Celine, here again, we do see accelerating pricing having a positive impact on the second quarter. And of course, we are in preparation and in negotiations with customers everywhere also to have another wave for the third and fourth quarter. And this is something that we're in and where we are confident, based on the momentum that we're already seeing, that we will be able to get additional pricing towards the second half of the year. And this is necessary to have sequentially improving margins throughout the year.

Fredrik Rystedt:

And maybe, Magnus, just to add what you may have already implied, I guess, but the conviction from our side that margins will come back to the previous where we have been and beyond there reaching our long-term financial targets, that conviction is still equally strong. So, this is a matter of time, and we continue our efforts to increase prices accordingly.

Celine Pannuti:

My question on pricing in mature markets, in Consumer Goods, you alluded to about mid-single digits. That was what you had been able to negotiate. Now, if I look at the growth rates, like-for-like it's close to 14%. So, it seems that it was much higher than that pricing. Can you comment on this, please?

I think you did mention in the past that you were able to get a pricing of mid-single digits in Tissue in Europe. Now things have changed but your reporting is Consumer Goods and the like-for-like in Consumer Goods is 14%. So, does it imply that your pricing was much higher than that? Or was there volume there?

Fredrik Rystedt:

No, not really. But Celine, what we said when it comes to Consumer Tissue specifically, if we just stay on that for a second, then we said that, kind of, achieved last year was roughly about 5%. So, fully implemented. It didn't have all that impact, of course, during Q4, but that was fully implemented at the end of last year. That's what we said. And then of course, we have continued to further increase prices. So, there has been a sequential impact during this quarter and there will be much further sequential impact as we go now forward when all those price increases are fully implemented.

But it's not only Consumer Tissue. We've also raised prices very significantly, as an example, in Feminine. And we've also done it actually for all categories. So, we're pleased with the progress, but we will need to continue, obviously, as you can see.

Celine Pannuti:

Thank you.

Operator:

The next question is by Victoria Nice of Société Générale.

Victoria Nice:

Good morning, everyone. Thank you for taking my question. My first question is on the tax rate, which was, again, much lower than your structural tax rate of 25% in the first quarter. Can you give us some color on what's driving that and whether it has a knock-on effect for the year, meaning tax is likely to be lower than the structural 25% in 2022? Or was it just a timing difference?

And then my second question is on supply chain and whether there's been any demand not met because of supply chain disruptions. And also related to that, have you experienced any difficulties getting the energy that you need, or have you received any pressure to reduce the amount of energy you're using at all at the moment? Thank you.

Magnus Groth:

So, maybe I can start, Fredrik, and I'll leave the tax rate to you. We have not experienced any shortages of energy supplies, but of course, this is something that we are preparing to mitigate for any such risks, taking various measures to ensure that we will have energy supply, especially in Central Europe, also if there would be less access to natural gas. But we haven't seen any issues with that.

When it comes to supply chain disruptions, over the last year, we've had lower service levels than we're usually accustomed to. Still, our customers have been satisfied because we have higher service levels than most competitors. And the reason is that the supply chain is operating. We have raw materials. Our staff is working very hard. It's mostly in actually transportation, in the logistics, where there is such a lack of capacity, and this can create delay and disruption sometimes. But overall, our service levels have been better than competition. And actually, in this quarter, we've seen slight or quite good improvements in some geographies, specifically in North America. How this will develop going forward is very difficult to say. Tax rates, Fredrik.

Fredrik Rystedt:

Victoria, thanks for the question there. Of course, obviously tax is a full year issue and for every quarter we adjust for whatever one-time issues that occur during that quarter. So, the best estimate for our tax rate is of course, always the structural, which is roughly about 25. But then in this particular quarter, we had a one-time issue that affected the tax rate in this specific quarter.

The best estimate for the full year is still the structural tax rate, but hopefully what you have seen, the slightly lower tax rate here for Q1 will also trickle down to the full year, leading to a slightly lower visible tax rate for the year. But it's difficult to say at this point.

Operator:

The next question is by John Ennis of Goldman Sachs.

John Ennis:

Hello, everyone, and thank you for taking my questions. My first is around surcharge pricing. I think you've talked in the past about taking surcharges, given the commodity and energy environment and can you just explain exactly how that works and maybe give us an update on where you are with that strategy?

And then my second question is on price versus mix growth in the quarter. Could you break down the 7% between price and mix just to give us a sense of the size of the pure pricing that has been taken so far and maybe call out if that varies materially by any of your product segments? Thank you very much.

Magnus Groth:

If I start then with the surcharge pricing and, Fredrik, you talk about price/mix and the mix component. So basically, we do have energy surcharge pricing on tissue, both consumer tissue and professional hygiene tissue in Europe and also coming in the second quarter in North America. And most of this is supplied to the second quarter. It's a surcharge, but actually, we don't see this any different from a price increase because every price can be renegotiated these days, really, at any time. So, we don't have in the surcharges really any ways to calculate when does this go away. There's no real link to the natural gas prices or electricity prices and how they develop. This is a surcharge until further notice. So, from that perspective, it doesn't differ from how we negotiate and how we talk to our customers than normal price increases.

Fredrik Rystedt:

I’ll take maybe the second question then, John. So normally we don't expose that split between price and mix, but of course, it's quite big this time, so I'll provide you with some additional data there. So, if you take Health & Medical, of the 2, just over 2% there, pretty much everything was actually related to price. So, mix was low, which is a bit unusual for Health & Medical, but mostly price in that number. When it comes to Consumer Goods, that total number of 8.3%, 7% of that was pure price. And if you take finally Professional Hygiene of that 9.5, that you see there in price/mix, 7% also for PH was related to pure price.

John Ennis:

That's great. Thank you very much. And sorry, Magnus, on the surcharge point, did you say that that, from a timing perspective, is predominantly in 2Q? Is that what you were saying?

Magnus Groth: That's correct. So, we include that when we talk about sequentially in Q2. So that's kind of included in our overall statement of additional pricing coming through in Q2. So, we don't separate that.

John Ennis:

Okay. Understood. Thank you both.

Operator:

The next question is by Charles Eden of UBS.

Charles Eden:

Hi. Good morning. It's Charles Eden from UBS. Just a couple of questions from me, please. Firstly, could you just talk us through the reason behind the decision to report earlier? Was that driven by Vinda? Was it from your end given, obviously your expectation, you were going to come in ahead of - just trying to understand the decision behind that quickly?

And then secondly, when you look to increase prices through the bounce of the year, is the objective to be able to hit your above 17% medium term ROCE target based on the current market conditions, i.e. raw materials, energy, etc.? Is that how you view your decision to price? I'm just trying to get a sense of how that pricing might progress through the rest of 2022 and into 23.

And linked to that, obviously Vinda reported this morning as well, broadly flat, constant FX sales growth. Is that a market where you do expect a meaningful pricing contribution going forward, given clearly there wasn't a huge pricing benefit in the first quarter? Thank you.

Magnus Groth:

Okay, yes. The recent report earlier, it was really a mix. When we saw that there were so many different moving parts, and in combination, we had the numbers, we decided to report early. So, as you mentioned, the performance of Vinda, very much our decision then to exit Russia, and also in general how things were moving in the financials. So, it was a combination of all this. That's why we decided to come out early. From that perspective, it wasn't one single thing that made us report early. We could combine all these three and other moving parts in our reporting.

Coming to the 17% medium term ROCE target, I mean, we assumed that we will be able to not only catch up, but then accelerate past ongoing cost inflation in different areas. So regardless of the underlying cost developments, we just need to raise prices further. So, we don't expect that by the end of this year we'll be done with pricing. We see inflation everywhere and we spoke about this over a year ago that this was to be expected.

So, we just need to continue to raise prices and trust our strong brands and our strong market positions faster than the underlying costs. And through that, to see gradually improving margins. That's how we view it. So, it's not that we're waiting. I guess, that's what you were implying for raw materials or anything to come down. If that happens, of course that would help. But that's not what we're assuming here. We will continue to raise prices continuously, as we've done over the last year, and we see increasing momentum and opportunities for that going forward.

And Vinda had more or less a flat first quarter. Vinda is very, very strong in the tier one cities and on the coast. And it's mostly these cities that have been in really, really tough lockdowns. So even though our plants are actually fully operating in China, we have been unable to deliver, for instance, to Shanghai, to some extent in Hong Kong, and in other major cities. So, this has had a major negative impact on sales. And let's see how this develops in the second quarter, if there will be some easing of these significant lockdowns. And Vinda is working also with price increases. They will also face increasing raw material costs in the second quarter. So, this is an important part of the strategy, just like for the rest of the Group.

Fredrik, do you want to add something?

Fredrik Rystedt:

Yeah, maybe on, I think you probably already said it, Magnus, but Charles, just one maybe reminder going back a bit, when we set that long-term financial target for 25, more than 17, we didn't base it on any pricing. There were no pricing assumptions in there. It was basically flat. So, the assumption was that we were – or actually, we were at the time, and we still are, heading for an improvement of our structural margins. And of course, that improvement was supposed to come and actually still is coming from things that you already know. So, things like innovation, efficiency gains, growth in high-yielding areas, digital, and many other things that you're aware of, and that structural improvement, although it may be really difficult to see now, is still going on.

And then the second assumption that we had at the time was always that we can always compensate the cost, potential cost increases, or cost inflation through price. And that remains our assumption, as we alluded to earlier. And we think that we have kind of time to, in the time frame we're talking about here, that's for sure enough to compensate the pricing necessary to compensate for the inflation. So, the improvement is structural and that is, as

Magnus said before in his presentation on the final slide there, it's still ongoing. We're working with our structural improvements, although that may be difficult to see in the midst of everything else, but it's still structurally improving.

Magnus Groth:

Just number wise, I mean, it's improving maybe 0.5% to 1% - 1.5% per year. But it's when we have cost headwinds of 12% over a year, again, it doesn't show, but the cost increases in raw materials, the transportation energy, that we compensate with pricing. Just to underline it.

Charles Eden:

That's great. Thank you very much.

Operator:

The next question is by Fulvio Cazzol of Berenberg.

Fulvio Cazzol:

Yes, good morning and thank you for taking my questions. I've got three. The first one is on Russia, whether you expect a potential disruption on supply chains, for example, industry pulp? If you could comment on that.

And then sticking with industry, could you give us an update on the general industry capacity situation in Europe? I know it was tight and you've indicated that in the past, but I was just wondering, are you seeing any signs of players re-entering the market now that industry pricing is starting to gather some momentum there?

And then my last question is on hedging. Given where commodity prices are now and also energy prices, how are you thinking about re-hedging as the hedges run off in the coming periods? Will you be looking to maintain similar hedging to what you've had in the past? Or could you be a little bit more strategic and maybe be a little bit less focused on hedging levels in preparation for when eventually these will ease again? Thank you.

Magnus Groth:

Okay. So, I start with the first two. Russia, of course, we follow very, very closely all evolving legislation both in Europe and inside Russia and follow all legislation very precisely. So, I think that's important to state first of all. This means that when it comes to the personal care part of our Russian business, we have been gradually ramping down since that part of the business has been dependent on importing some of their oil-based raw materials. And that's not possible. We are not shipping any finished products or raw materials over the border to or from Russia.

The tissue business is operating, and it's based on the Russian raw materials entirely. So, it's like a separate island organization and setup and also in local currency, and that continues to operate. And we will now, over the next period, see how we can exit that business. It's still operating, the employees are working, and of course, we are paying the salaries and running the business. So, we want to do this in a responsible way over the next time period.

Industry capacity, I'm not sure I understood the question. So, please, if I got it wrong. What we have seen actually in the first quarter is that for a few days here and there, when natural gas prices spiked, quite some of the tissue capacity in Europe was shut down due to the high costs of operating. And this was not the case for us. We are hedged, as we mentioned many times, and we also have a very, very good cost position. So, this has been to the benefit of Essity that we've been able to continue to run and deliver to our customers. And of course, very much appreciated by our customers also. During the last couple of years, we haven't seen much new capacity coming in, in either tissue or in personal care in Europe or in other markets because of the pandemic. And now, of course, the recent volatility.

Fredrik Rystedt

Maybe Fulvio, I should take the third question there. And you were asking about the hedging. So, we don't really hedge raw material. We hedge energy, as we've said a couple of times. And the way that works is that we have a three-year horizon. So, the first year is normally quite hedged. And the second a bit less, and the third to a much lesser extent. So that's how it works. And it's a band. So, there's a maximum and there is a minimum that we can operate within for all those three years. So, there is a bit of flexibility within that policy, and of course, especially in the outer years. So, kind of year two and three. And I think it may be the case that we will be somewhat strategic in the sense that we will be in the lower band of that hedging, or allowed hedging level. But that's more a strategic decision that we will continue to come back on. So, it's more a continuous management, you can say.

Fulvio Cazzol:

Great. Thanks. Thanks for that.

Operator:

The next question is by Oskar Lindström of Danske Bank.

Oskar Lindström:

Yes. Hello. Thank you. This is Oskar Lindström at Danske Bank. A couple of questions from me. First one, just on your comments about margins in Q2. You said both similar or slightly higher, and then I think later on you said only slightly higher. I mean, what's your conviction on the margins for Q2 versus Q1? That's my first question.

My second question is on Russia again. How much of your sales were lost in Russia in this quarter? What was the impact on organic growth basically year on year? And what should we expect for the coming quarters? And also, was the margin in Russia below or above the Group average?

And then finally, my third question is on A&P and SG&A development. Given that we're now seeing quite high sales increases due to price increases, which are driven by raw materials, should we expect the share of sales of both of these to come down? Those are my three questions.

Magnus Groth:

Okay. To the first question, I can only say that I answered an earlier question about the reason to report early, and the reason is there's so many moving parts now, Oskar, and I think we saw very, very strong pricing, but also throughout this quarter even higher raw material transport and energy costs. So, there's so many moving parts and that's why I mentioned it the way I did. And we can't be more specific like that. There are so many different parts. We know that we have a lot of pricing coming in the second quarter, but also a lot of additional costs basically. And so, it can't be more precise than that.

And then I think I hand over to you when it comes to Russia. Of course, the margins we never comment on, but when it comes to sales in the first quarter, how did that look like, Fredrik?

Fredrik Rystedt:

Yeah, Oskar, we never comment on individual countries here, but from a, organic growth perspective, it was not material for the Group in any way. The difference in the sales in Russia was not material for the Group.

Magnus Groth:

And SG&A and A&P.

Fredrik Rystedt:

Yeah, you've seen it here, Oskar, that as a percentage of sales it has come down and it's of course on the back of that strong organic sales growth. So, I think we have iterated many times that our efforts, when it comes to building our brands and marketing our innovations and launches, remain on a good level. And of course, we will continue, and on an absolute level to have to have those investments going forward. But when organic sales growth goes up like this, it's natural that we'll see a bit of decrease when it comes to the percentage of sales.

Oskar Lindström:

All right. Thank you. If I may, a follow up for you, Magnus, on the first question there. Coming back to your price increases and your customers' acceptance for price increases that you've been pushing more aggressively lately, have you been positively surprised by your ability to push through price increases?

Magnus Groth:

Momentum is increasing continuously. When we started talking price increases in April last year, there was a lot of pushback and maybe also not much momentum. We couldn't see that this was a strong trend in many countries or categories. And then gradually, of course, and especially towards the end of the fourth quarter when costs really took off, I think both our customers and competitors woke up, kind of, and saw what was coming, and this continues now throughout 2022. So, there is an increasing acceptance for continuous price negotiations and continuous price increases.

And we see that with the current situation. And as I referred to, for instance, when it came to the natural gas situation just a few weeks ago, this is something that everybody needs now, and everybody is pursuing. So, momentum has continuously improved for price increases.

Oskar Lindström:

All right. Thank you.

Magnus Groth:

And this is in all categories. And where it's still very challenging is where we have the three-year contracts with the public sector in Health & Medical. But also there, as you can see, in spite of that, we had 2.2%, which is quite a lot, but not sufficient, so we continue our efforts there as well.

Oskar Lindström:

Thank you.

Operator:

The next question is by Linus Larsson of SEB.

Linus Larsson:

Thank you, very much and good day, to everyone. On surcharge pricing, I wonder, is that exclusively targeting energy cost inflation? And on that topic, is the current market such that you can fully offset energy cost inflation as we go, i.e., shouldn't we worry too much about the energy part of cost inflation going forward?

Magnus Groth:

It's not that sophisticated because then it becomes very complex, especially with the swings now in the energy markets. So, the surcharge, yes, what we call the surcharges are entirely related to energy, but it's typically a fixed percentage on whatever pricing that we have, which is, and reflecting what we believe then would be the energy price development. But it's not that sophisticated. Again, I would like you to see it as part of our overall pricing effort.

Linus Larsson:

But I would like to think that maybe some of your competitors are struggling more than yourselves, and for that reason, the acceptance for that type of price additions should be even higher than has been.

Magnus Groth:

It's something that our customers understand. They can read about electricity, natural gas prices. And our competitors are, in many cases, as I referred to, have been suffering more than we. So, from that perspective, it's very, very visible.

Linus Larsson:

Okay, cool. And then just on Russia, you express an intention to exit Russia all together. Just to be clear, could you maybe say what's driving that decision? Is it the overall operating environment? Is it potential breach of sanctions, or something else?

Magnus Groth:

It's business related. The business conditions that are deteriorating.

Linus Larsson:

That's clear. Thank you very much.

Operator:

The next question is by Tom Sykes of Deutsche Bank.

Tom Sykes:

Morning, everybody. Just firstly on the price effects, is that all list price or is there an effective lower promotions in that? And do you expect, or what do you expect to happen to promotions over the course of the year? Will those go up at all?

Then, just interested in your comments on market share, where you think you've taken or lost the most market share, please. And just related to the previous caller: your sales increases are highest in private label in consumer. So, do you have any comments on your volume share, say, within consumer of the branded versus private label there, please?

And then finally, are there any areas where there's a restocking benefit, where there was a COVID related sort of reopening benefit? Thinking about Professional in particular, please.

Magnus Groth:

I will start and then Fredrik will fill in. When it comes to restocking, it's nothing that we have really seen or heard. There could be some of that, but not to any significant amount.

Private label in consumer tissue is increasing. A lot of that is price, of course. this is where we have the biggest need of price increases and where we've been most aggressive. In spite of this, we have had some customers coming back to us because of the reason I mentioned. We lost a lot of volume last year when we started increasing prices more than anybody else, and now some of those other suppliers haven't been able to deliver, actually, and then those customers have come back to us. So that's the dynamic there. And that could change again, of course. That's why this part of the business is more volatile. But we are very, very aggressively, I would say, pursuing pricing in private label tissue in Europe, and that's visible in the numbers.

Market share – it's not really that we're losing market share now in many areas, but we're not growing to 70% as we did before. So, I would say it's either growing or stable, and it's the same areas as before, in Feminine Care, in Incontinence Care we are doing well. Especially in Incontinence Health Care. We think we're growing share in Medical. Of course, we don't have Kantar data, but this is what we're seeing. We're doing really well. And in Professional Hygiene, same thing. We feel that we are gaining market share without Kantar data. And in the retail parts in Consumer Tissue, even though we are raising prices, because of our high service levels and quality, we are still retaining the customers. But please, help fill in here, Fredrik.

Fredrik Rystedt:

Maybe on the first question there, I think your question was on the price, whether that's list price or whether it's promotion. So, the absolute dominating part, Tom, is relating to price, pure price increases. But promotional levels, at least parts of our operation or parts of our business is slightly lower. So, there is a positive impact also for that. But in general, it's mostly pure list prices.

Tom Sykes:

Okay. Thank you.

Operator:

The next question is by Iain Simpson of Barclays.

Iain Simpson:

Thank you very much. You gave us some color on the energy hedging, which was very helpful. I wondered if you could give us any sense as to how quickly the sort of unhedged elements of your energy costs kind of flow through from wholesale price movings to your own P&L? And I know that in some places you operate in regulated markets.

And secondly, apologies, I missed the very start of the call, so sorry if this has already been asked, but could you talk a little bit about your logistics arrangements? So, how much of your logistics and distribution do you do in-house with your own lorries and your own permanent staff versus how much is outsourced to third-party haulage companies? I'm just trying to get a little bit of a sense as to how the mechanics of your distribution costs might unfold this year. Thank you so much.

Magnus Groth:

I'm staying with this backward policy of answering the last question first and leaving the first question to Fredrik. But anyway. No, no-one asked about transport and logistics. It's a good question. It's a very challenging area. We don't own or operate any logistics. We don't have any trucks or any drivers or any sea freight. So, this is something that we're buying. Having said that, we have huge benefits from the digitalization work we've done over the last three, four years in this area.

So, we have a central global transport hub in Barcelona where we are then working with hundreds and hundreds of suppliers, distribution companies, and market warehouses and so on, and optimizing. And because of this we get scale, so we become more relevant, but it also makes us more efficient on the spot market, which we have been working with more than before because of the scarcity of capacity. So, thanks to having actually a global overview of the transportation distribution flows with the exception of Latin America so far, it's really, really helping us to get products out to our customers. But we don't do any of that ourselves. Over to you, Fredrik.

Fredrik Rystedt:

Yes, Iain. Maybe a bit of background. So, if you look at our total – let's take Q2 then as an example. So, when it comes to gas, natural gas, we've hedged roughly about 75% of our consumption for Q2 and then it goes down thereafter for the following quarters and following years of course.
When it comes to electricity, about 37% of our electricity purchases are hedged. But to that number, you need to add the regulated markets, which we operate, and they represent approximately about 30% of our purchases. So, if you add that up, roughly 67%, or close to 70% of our energy hedging in Q2 is hedged, and thereafter also reducing. So that's roughly what it looks like.

Your question was on how fast the flow through is of the non-hedged when it comes to, I take it, electricity, and that's more or less immediate or very, very fast. It also goes actually for gas, so for the non-hedged part.

Iain Simpson:

Thank you very much.

Operator:

The next question is by Eva Quiroga.

Eva Quiroga

Yes. Good morning. Two questions, please. Can you highlight what the price component has been in developed versus emerging markets? And maybe directionally talk a little bit about the margin development in these two regions.

And my second question is coming back to the private label question. Am I right in understanding that the big growth you had was partly regaining contracts and pricing rather than there being any evidence of consumers trading down? I think earlier in the call, you've talked about people looking at premiumizing. Can you maybe just elaborate a little bit on that?

Magnus Groth:

Again, second question. It's as you say, we don't see down-trading yet. We're preparing for this, of course, with a good-better-best assortment and having something for – and different pack sizes and so on. But we haven't seen that yet. We think that these are volumes that we're getting back, that we lost, and we can see that, and pricing. And then when it comes to the price/mix component between developed and emerging markets, Fredrik?

Fredrik Rystedt:

Yeah, maybe a bit Eva of a general comment. So emerging market, it's a bit of a mixed picture, because generally, and I think we have said this many times, but the flexibility or adaptability in emerging markets, when it comes to Latin America, is fairly fast. So, we have a very, very good pricing environment when it comes to Latin America. And particularly so when you look at the feminine numbers as an example. We have good volume growth and pricing in that field. As an example, in Latin America.

When it comes to China, as we've already talked about, less aggressive on pricing there. There has been pricing, but of course, not as much so. So generally, I think it's been a good pricing environment in emerging markets, but with some variations.

Operator:

The next question is by Jeremy Fialko of HSBC.

Jeremy Fialko:

Hi. Morning, Jeremy Fialko, HSBC here. I've got some more questions on margins looking forward. Now, clearly, you've been quite helpful in terms of the sort of Q2 margin guide. If we look over the balance of the year, a couple of questions related to that.

Firstly, would you characterize the margin build, as you say, Q2, Q3, Q4 as being a kind of a gradual improvement? Or would you look to see a kind of a bigger step-up as you get into the second half of the year?

And then the second question, related to that, is, certainly when I look at the consensus that was published yesterday, the analysts on average have got you exiting the year at a sort of low double-digit adjusted EBITA margin. So that would be kind of the Q3, Q4 level. Do you think that is realistic, given what you can see in terms of your volume, the price rises that you've agreed? But then at the same time, some of the incremental costs that will come in as, for example, your hedges roll off, you're getting nearer to what current spot prices are versus what you previously hedged. So, a little bit more color on that would be very helpful. Thanks.

Magnus Groth:

Again, and as answered before, and I think you covered it quite well, there are so many moving parts. It's impossible to say. And of course, we don't make forecasts. I did give a little bit of guidance for Q1 during Q4, just too kind of correct the overall picture. And that was before the war. And then since then, we have the war, of course, again, leading to even higher costs in all areas.

Right now, the only thing I can say, we're not seeing that any costs would come down in the second half of the year. I can't say that I see any signs that they would significantly go up either. What we can see is exactly what we stated, that for the second quarter, we will have significantly higher costs in almost all areas.

So that's basically it. And we don't give outlook for the longer term on margins. So, I think that's what I can say on this area.

Jeremy Fialko:

Okay. If that's all the color you can give. Thank you.

Magnus Groth:

Let's see here. It's a couple of minutes past ten, Josephine. I don't know, should we take one more question?

Joséphine Edwall Björklund:

Yes. Operator, do we have any more?

Operator:

There are no further questions at this time.

Magnus Groth:

Maybe I could make a short summary, Josephine.

Joséphine Edwall Björklund:

Yes, I was just going to say, if there are no more question, then why don't you make a concluding speech?

Magnus Groth:

Thank you. We're living in very, very difficult times, and the war in Ukraine was, of course, something, for most, completely unexpected and the consequences, and it's actually, it's terrible times. And we are very focused on our employees in Ukraine and our employees throughout the world. And of course, also in Russia.

We are providing tons and tons of our products to refugees in neighboring countries. We are providing significant amounts of wound care products to Ukraine and other types of products. Our staff, about 70 employees in Ukraine, they are working very diligently to continue to supply our products in Ukraine, which is fantastic.

So, of course, this is something completely different than when we met presenting the fourth quarter of last year and the impacts on global markets, I think we have talked about many, many times now.

What I want to emphasize coming out of this is, of course, the very unfortunate decision to pull out of Russia. And again, we will do this in a responsible way and with the best interest of our employees in Russia also in mind.

And the other one is, that I think we have really been able to prove the strength of our brands and our market positions in pricing power, and we will see sequentially even more pricing in the second quarter, and we're preparing even more pricing for the quarters to come. And that's very, very encouraging going forward. So, we see now that there is the momentum and our organizations, our customers, our consumers, are also accepting higher pricing to compensate for the cost increases. So that's very, very encouraging in a very, very difficult time.

So, I guess that's my summarizing remarks. Thank you all for calling in and for listening.

Joséphine Edwall-Björklund: So, thank you, Magnus. And thank you, everybody. And thanks for calling in. Have a good day.