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Slide 1

Joséphine Edwall Björklund:

Hello. Welcome to Essity's Q4 and Year-end Report for 2019.

I'm Joséphine Edwall, Head of Communication. And today, our CEO and President, Magnus Groth, will go through the highlights in the report, followed by a Q&A session, where our CFO, Fredrik Rystedt, will join on stage.

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

Slide 2

Slide 3 *Summary - 2019 vs 2018*

Magnus Groth: Thank you very much and welcome to this conference. So in summary, we had the strongest results ever in a year and also in quarter 4. So strong organic net sales, 4.5 percent for the year, and adjusted EBITA margin improved to 12.3 percent, and this came from higher volumes, higher prices, better mix and cost savings. And for the full year, we also had an impact from lower raw material costs, offset by stock revaluations. And actually, for the full year, this is close to zero. So the positive impact from raw materials, we saw mostly in the second half of the year.

We made significant investments in growth and increased sales and marketing costs, which actually paid off. As you can see in both Latin America and in Asia, we grew by over 10 percent through the year. Earnings per share increased 17 percent and the Board of Directors proposes an increase of the dividend with 9 percent to SEK 6.25.

Slide 4 *Summary 2019 – Strong growth and higher profitability*

So to summarize, our focus during 2019. Even though we worked very hard with our cost savings program, we kept our long-term strategy of investing behind our brands and market positions. And I think it shows in the numbers that this paid off since we could see positive volume, price and mix, and actually, from a market share perspective, we strengthened our market shares in many more markets than the opposite. So we were successful also out there in the market.

Online sales is an increasing part of our business, now adding up to SEK 13 billion. That's 10 percent of sales and an increase with 16 percent compared to the previous year. Cost savings amounted to SEK 1.1 billion, and I'll get back to that in a short while. And our initiative that we sometimes call Cure or Kill has continued to increase profitability in many country category combinations. I already mentioned the strong performance in Latin America and Asia that we will see later also, is now increasingly contributing to our margin development.

Improved cash flow and strengthened balance sheet. This has been an issue ever since we acquired BSN Medical, close to three years ago. We are out of that. We are back to a very solid financial strength, and we are able to look into growing not only organically, but also through acquisitions going forward.

And we continue to work throughout the year on our contribution to sustainable society, and of course, our very ambitious targets to reduce greenhouse gas emissions in line with the Paris Agreement is a highlight there and also more ambitious packaging targets.

Slide 5 *Summary - Q4 2019 vs Q4 2018*

Moving on then to Q4 specifically where we had organic net sales growth of 3.6 percent, adjusted EBITA margin of 14.1 percent, but maybe the real highlight here in the quarter is that for the first time, we achieved our target on return on capital employed. Our target is 15 percent, and we achieved 16.4 percent. So in the fourth quarter, we were above our targets, both for growth and the return on capital employed. And in this quarter, we had a big positive impact from raw materials, as you will see then in the EBITA bridge in a minute. And we also had significant investments in the quarter for growth but also for incentive programs.

Slide 6 Just to give a timeline, put this in perspective, this is how net sales and organic net sales growth has developed to the left there over the last couple of years. And as you can see, growth has been quite high now the last year, and this is a mix of volume and price and mix. And going forward, we will see less of a pricing component as raw material prices come down, but a very positive trend, of course, overall in this picture. And then to the right there, adjusted EBITA and EBITA margin, you can see the actual dynamics throughout last year, how both EBITA and EBITA margin increased significantly throughout the quarters there from Q1 with 10.4 percent and then ending at 14.1 percent.

Slide 7 The net sales bridge, we see organic net sales coming from both volume and price/mix. So that's a positive note. The divestment impact there is from moving out to a joint venture in Turkey in the fourth quarter, it had a minor impact on overall net sales.

Slide 8 And then maybe more interesting, the adjusted EBITA bridge where we see positive contributions, again, from volume, price/mix and a significant contribution in the quarter from raw materials and energy. The next two bars, they're relating to cost savings, the ongoing cost savings in COGS and the cost savings program. I'll get back to you in subsequent slides here. And I thought I'd focus here very much on the big other bar here, which is negative SEK 1.34 billion.

And this consists of a number of components, the biggest being higher sales and marketing costs, altogether amounting to SEK 875 million. And breaking that down, SEK 175 million is actually advertising and promotion to support the growth that we've seen, and that's really paying off. The remaining SEK 700 million is partly the incentive payouts that we had in the company.

As you know, we have short-term and long-term incentives. We also have all employee bonuses that actually – and we're very happy about that impact over 17,000 of our employees. This is now excluding our joint ventures. And compared to last year, when we had a very low incentive payout this year, we had a quite high incentive payout, it shows that the system works. But this had an impact in the quarter and on this line here with approximately SEK 200 million.

In addition to that, we did many growth-related initiatives, especially, again, in Latin America and in Asia and also in different digital initiatives. And then in addition, of course, we have the normal inflation here.

Stock revaluation in the quarter was SEK 180 million negative and the rest consists of higher distribution costs and a number of smaller cost items of which some were related to the quarter because of year-end effects.

Slide 9 *Raw material development.*

Raw material development. The only slide where we look slightly into the future, at least into the next quarter. And what we foresee here, as you can see, overall, of course, it's been a very positive development over the last couple of quarters. Starting with Consumer Tissue, which is mostly affected by the market pulp prices, we foresee quarter over last year's quarter, significantly lower raw material costs in the first quarter and sequentially, actually stable raw material costs. So the outlook for pulp prices at this point is a stable outlook for the next couple of quarters and then towards the end of this year, rising pulp prices. So stock levels in China are coming down, and demand is increasing slightly.

When it comes to Professional Hygiene, which is affected, of course, both from market pulp, but also to a high degree from recycled fibers, we foresee, again, a significantly lower raw material prices quarter over last year's quarter and stable sequentially. And then finally, Personal Care, where the raw materials consist of the oil-based materials, we expect lower prices year over last year's quarter and, again, stable. So very stable sequentially. I think that's the easy message going forward, and then we will have to see.

Slide 10 *Mature and Emerging Markets*

I think this slide is good news, especially in the light of the good growth we see in emerging markets, not only are they growing well, but they are also increasingly contributing to the margin development. So going back from 2015, margins have improved significantly in emerging markets, the light blue bar there at the bottom. And looking then at the group margin, we ended up at 12.3 percent for the full year. But as I already mentioned, in the last quarter, 14.1 percent. So moving in the right direction there.

Slide 11 *COGS Savings*

I said I was going to get back to the two bars in the EBITA waterfall of – related to savings, starting then with ongoing savings in cost of goods sold where we saw full year savings of SEK 456 million and in Q4, very small savings of SEK 4 million. And many of you remember that we actually guided for the fourth quarter to have savings of between SEK 150 million and SEK 250 million in the fourth quarter. And in the end, it was close to zero. And behind this development, we actually see good productivity improvements from all the points you have here on this slide, Tissue Roadmap, operational efficiency improvements, material rationalization and sourcing savings.

So all that continues to deliver and was actually in the middle of this range, so around SEK 200 million. But this was nearly completely offset then since we are very tough on ourselves when it comes to measuring COGS savings, we only look at the net savings, not at gross savings. So this was offset to high degree of all employee incentive programs related to cost of goods sold, so very much in our supply chain, changes in our pension schemes and some high distribution costs that we had not expected. So the underlying savings continue to be good. But in the quarter, we did not achieve the target or the – we achieved the target but not the numbers that we presented in the last quarter.

Going forward, what can we expect and we've had quite some volatility here between quarters. Historically, we have had ongoing savings of around SEK 1 billion per year. This year, it comes out then at SEK 456 million. Going forward, I would suggest to look somewhere in between here, the SEK 500 million and SEK 1 billion. We see big opportunities for continued savings and efficiency and operational improvements in all the areas that you see here, and that work continues.

We expect to see less cost savings in COGS from restructuring, which was very much related to Tissue Roadmap when we closed sites and made major changes to our footprint. We will not see as much of that going forward. And that's why I propose that you look somewhere between SEK 500 million and SEK 1 billion for ongoing COGS savings going forward, maybe in the higher end of that range but still lower than SEK 1 billion.

Slide 12 *Cost-savings Program – Closed with savings slightly above plan*

Then the cost savings program that we announced in the fall of 2018, and that finished at the end of the year, which is exactly in line with what we expected and slightly better. So for the full year, we guided savings of SEK 600 million. We came out at SEK 637 million impact on P&L, Q4 SEK 202 million and a run rate that's slightly above the SEK 900 million that we guided, and the headcount reduction is also slightly above the 1,000 employees that was in the program.

Restructuring costs are slightly below SEK 700 million that we expected. And the impact here on SG&A as a percent of sales on the year, as you can see, it looks quite small, 10 basis points. I mean, it's always good that SG&A goes down year-over-year, but this is maybe a slightly decline than expected when looking at the cost savings program.

However, again, impacting here when we look at this program, which mostly impacted SG&A, there is an impact from actually our incentive programs, again, which is approximately 40 basis points, so 0.4 percent, which, of course, has an impact specifically very much in the fourth quarter, but also for the full year. So – and that's, again, because we had very, very low incentive payouts in 2018 and quite good in 2019. So that explains some of that difference.

And then the growth investments that we are doing that I already mentioned, in order to continue the good momentum we have in many markets and categories.

Slide 13 *Improving Well-being Through Innovations*

We always talk about innovations, and this is just summing up the year, maybe just one or two highlights. We refreshed the TENA brand, not only the logo, but also relaunched many of the products. And I think we entered 2020 with a very, very strong product assortment and a very strong offering in incontinence care with the TENA brand. So feel good about that. During the year, we also worked hard with our medical brands to reduce the number of sub-brands and to start to relaunch under a number of the umbrella brands that you see some of them here, Leukoplast, Cutimed and JOBST, and that will continue throughout the year.

Slide 14 *Personal Care – Q4 2019 vs Q4 2018*

Moving over then to the individual business areas. And the bullet points to the left here will be quite similar for the different business areas, with organic net sales being positive 2.5 percent, coming both from volume and mix when it comes to Personal Care, and contributing here is higher volumes, higher prices, better mix and cost savings.

We see this in all three business areas, actually. Also in Personal Care, we saw lower raw material costs, not as much, of course, as in the pulp-related business areas but still, but then investments in growth and costs related to medical device regulation, which impacts our medical business, but also actually, our European incontinence care business and higher distribution costs, which is something that we are working very much to improve going forward.

But this has been a theme throughout the year. At the beginning of the year, partly because of issues that we had with some warehouses and different supply issues. Now we're getting out of that. We're in good shape for 2020, but actually underlying distribution costs are, in general, rising still in many markets in North America and in Europe.

Going through the different categories, looking down at the right-hand corner there. Well, first of all, of course, emerging markets continues to grow incredibly well while in mature markets, we had an impact from medical and from baby, which also is visible here. Incontinence Products had a very, very good quarter and a very good growth throughout the year, primarily in health care where we have been growing market shares in almost all markets, but also in retail where we are now stabilizing market shares and the launches we did throughout last year are really having a positive impact. So very good development for Incontinence Products.

Medical, we're not happy with that, flat growth in the quarter. I stated earlier that this will take time. We are in the middle of this improvement program that's very much focused on sales growth because we know that once we have sales growth, we have margin improvement. It's, again, very much related to North America and the United States. Many of the medical markets are growing really well. So we feel very confident that we have strong brands, strong products and that we have the plans in place to get the growth up for next year. So overall growth for the year in medical was about 0.5 percent during 2019.

Baby Care. We are still in working in the strategic direction of improving margins before growing volumes, as you can see here. And as before, in Europe, we are doing extremely well on margins, a little bit slower on volumes. Malaysia is doing better. This is, of course, part of Vinda. And in Latin America, we are just in the relaunch of our baby assortment, which had a negative impact on volumes but something we think will be positive going forward.

And then Feminine Care. Year-after-year, quarter-after-quarter, we continue to see these fantastic growth numbers. And this is volume, mix and to high extent price also on the back of innovation. So a very positive development that just continues here in Feminine Care. And again, Latin America is a big part of this, but actually, the launch of Libresse that we did in the mid of the year in China, is also having a positive impact here.

Slide 15 *Consumer Tissue – Q4 2019 vs Q4 2018*

Moving over to Consumer Tissue, where we had a significant growth, 4.9 percent. Of course, a lot of this comes from emerging markets, again, volume, price and mix. Significant positive impact from lower raw material costs, a slight negative impact again from stock revaluation. This will now eventually become a smaller number in 2020. Overall, of course, a huge improvement compared to last year, margin going from 6.9 percent to 13.3 percent.

And we're starting to get to the margins levels where Consumer Tissue needs to be in the long term. And as you can see in the previous slide, we're very much focused on getting margins up, not only in Consumer Tissue Europe, but also in Asia and in Latin America, all need to contribute, especially since the emerging marks are growing faster. And of course, this has been a big question. So what about price pressure now that raw materials have really, really come down?

And what we stated in the report is that in the fourth quarter, we have negotiated slightly lower prices in Consumer Tissue in Europe. It's low single digits. So we think that's a good outcome. It means that we feel that Consumer Tissue in Europe will be able to contribute from a margin perspective. We also had a very good mix improvement through the last quarter in Europe, focusing on our brands and again, being very selective when it comes to private label.

And as you've maybe had the time to see from the Vinda's number, they had a fantastic margin uplift, not only from lower raw material cost, but also from a big mix improvement. And as they state, they have not done any major price decreases.

However, they had additional promotions at the end of the year, which they frequently have. They also had a very tough comps with the year before. So continuing to do well, both on sales and on margin. So that's looking quite encouraging for the rest of the year. Now we have to see, of course, what happens with pulp prices and ongoing negotiations. But we have come quite a far way actually in the ongoing annual negotiations in Consumer Tissue and so far looking good.

Slide 16 *Professional Hygiene – Q4 2019 vs Q4 2018*

Professional Hygiene, finally, continues to steam ahead. Had a fantastic quarter, benefiting again from volume, price, mix and all the different components that we've seen before. We think we have so much innovation here and so much going for us, both in the mature and emerging markets that we're actually really investing here in A&P and SG&A to grow this.

We see this as an opportunity to really strengthen our leading market position here globally, and 3 percent growth here is quite nice, considering that we have 80 percent of sales here in mature markets and only 20 percent in emerging markets. And of course, the challenge and opportunity going forward is to grow faster in emerging markets.

So that becomes a bigger part of the business here. And then just to note that in Professional Hygiene, adding to the strong margin development, we had a onetime impact from pension – reduction of pension liabilities in the U.S. so that we can take that out when we compare next year. We have to look forward here.

Slide 17 *Priorities 2020*

So final slide, priorities 2020. To continue to invest in our strong brands. Of course, price management remains a big theme for the year now that raw materials are coming down. Efficiency improvements, to have a high pace of efficiency improvement. And not least, also manage SG&A costs. So even though we want to continue to grow at a high pace and grow market share, we need to do this in an efficient way, of course.

According to our strategy, focus on the high-margin categories. I think we have good momentum in Latin America and in Asia to continue to leverage that. Accelerated digital transformation in all parts of the business also when it comes to internal efficiencies where you see that we have big opportunities going forward. And not the least, continue to contribute to sustainable society.

As you know, this is something that's at the heart of what we do at Essity, very important for us, and we expect to stay ahead in this area also in the next year. Thank you for listening.

Slide 18 *Q&A*

Linus Larsson: It's Linus Larsson with SEB. Broad picture looking into 2020, it sounds and seems as if price as a component of organic growth is slowing and so I wonder more about the volume component of organic growth, it was 2.3 percent in the quarter, and the same for the full year. Will you be able to maintain or even accelerate that in the year ahead?

Magnus Groth: We don't make forecast. You're right with your first statement, the pricing will be a smaller component. But of course, we will work hard to grow both the volume and actually improve mix, which has been quite a success also in this year. What that will bring, we will have to see. There are areas there also where we have to keep on increasing prices, especially in Personal Care where we still need to get back to margins that we had one or two years ago.

Linus Larsson: And just a follow-up on Personal Care. You have two subsegments within Personal Care, which are a bit of a drag on the average in terms of organic growth. When do you expect them to be on par or contributing to the average for Personal Care as a whole?

Magnus Groth: Medical, as I mentioned, we have plans in place. This is going to take some time. I'm not going to make any exact predictions. I mean, we have successfully just turned around the North American Professional Hygiene business, a few years ago, the North American inco business. So we know that we're good at this. When it happens, difficult to say. Baby, we will focus on margin improvement also going forward even though we see positive and encouraging signs in Malaysia with the Drypers brand and also have hopes related to the relaunch that we're doing in Colombia, Ecuador and Peru. So let's see how that develops. So I don't think that we should have a negative development in Baby in the next year.

Fredrik Rystedt: We'll still have some impact from Russia still. As you will recall, we left the segments of open diapers. And of course, that has an impact also going forward in the next couple of quarters.

Linus Larsson: And then just finally for clarity sake, if you could just say, again, maybe on the inventory revaluation, what the absolute effect was? And what the year-on-year effect was in the fourth quarter, those two numbers, please?

Fredrik Rystedt: So if you take Q-on-Q or compare to last year, it was SEK 180 million roughly. Most of it was related to either Tissue or Professional Hygiene, actually, Professional Hygiene being a fairly significant part. Personal Care was about SEK 20 million roughly.

Linus Larsson: And the absolute revaluation in the quarter?

Fredrik Rystedt: Yes, it's a good question. Let me come back on that Linus.

Linus Larsson: Excellent.

Magnus Groth: But in the year, this negative impact from stock revaluation was almost completely offsetting actually the lower raw material prices in the year so a significant impact.

Stellan Hellström: Stellan Hellström with Nordea. Looking at the higher A&P spending, particularly in the fourth quarter and – could you give some indication if this is a level that you – an increased level that you will maintain? And also given that volume growth was maybe only 2 percent, is this – or do you see this as a low payoff/payback on this investment? And is this a sign of increased competition?

Magnus Groth: We on average have had during the year, I believe, A&P of 5.2 percent, and that could be slightly higher in 2020, partly because of high competition, especially in inco retail, but also behind a lot of product and innovations – product launches and innovations that we have planned for the year and where we see that it's really paying off. So this is mostly then kind of a positive investments rather than a defensive one.

Stellan Hellström: OK. And could you give some indication on what you are seeing on pricing in professional also for – maybe for Q1?

Fredrik Rystedt: It's – we don't give pricing forecast. But I think you've seen a positive price component for Q4. And of course, we think the pricing is fair at this moment given the market situation. So we hope for a good development also going forward, but it's very, very difficult to predict.

Magnus Groth: What we see is, as I already mentioned, that also recycled fiber prices are flattening out. So we think that's a good reason to hold on to the prices we have on the products we have. And of course, every time we launch new innovation, we work with the mix and also with a positive pricing component.

Stellan Hellström: Just a final one also on the increased payout for incentives. Just to understand it, is it related to the delta of profits? Or is it more the absolute level, so to say, if it's – yes?

Fredrik Rystedt: In what way, Stellan?

Stellan Hellström: No the increase in incentive payout. Is that related to the increase in profit or the absolute level of the profit, so to say? How recurring it is?

Fredrik Rystedt: No. So what we do basically, we set targets every year. So before the start of the year, we set targets for all our incentive programs, so to speak. And then, of course, depending on the delivery of the full year then there's a payout. So if you take 2018, the total payout was actually quite low for all the programs basically, very low and just the opposite in 2019.

So without giving the exact range, we were kind of in the 25 percent, 30s in 2018 and above 80 percent in 2019. So of course, that big swing caused this effect to happen. And then just perhaps on your specific questions on Q4, what we do is we provide throughout the year based on our forecast for the year. So obviously, here, what we have seen is, of course, the cost for Q4, but also the fact that Q4 was actually better than we estimated.

Niklas Ekman: Niklas Ekman here from Carnegie. A question on the price adjustments in Consumer Tissue. If – first of all, the – I mean, raw material prices now are basically back to where they were at the start of 2017. If I look at your price mix effects over the last 2 years, they are around 6 percent aggregate. So given that you're now looking at price adjustments of low single digits, do you think there's a risk if pulp prices were to stay at these levels that you would have to make further downward adjustments of prices?

Magnus Groth: There's always a risk, but to some extent, in Europe, we have annual negotiations, especially for the branded part of our business. And the big part of that is actually done, and that's why we are able to state this number, then customers could always come back and ask for more. But what we currently see is that this range is where we are.

Of course, during this period, we have also improved our cost position through the Tissue Roadmap program and Cure or Kill and so on. And that's why we are seeing this significantly improved margin. It's not only the low raw materials, it's a combination, of course, of all these different positive factors.

Fredrik Rystedt: And we can add, Niklas, because it depends a little bit on – I mean, you mentioned the number. First of all, there is a positive mix. So the price component is smaller than that. And I think it's also depending on when you start the comparison because we – if you recall, we actually had a decline if we look at the European market of pricing in 2017 despite the fact that raw material went up. So if you start 1st of January 2018, you've got absolutely a valid point, but we think still, if you look at the total period, we think there is reason for having kind of this current price level.

Niklas Ekman: OK. Very good point. Another question is the other line, in general, obviously, has increased significantly now in Q3 and Q4. What do you see that in 2020? Do you see a lot – a big catch-up in costs now that you are at a higher margin level now that pulp prices are back to lower levels? Do you see a lot of costs continuing to increase in 2020?

Magnus Groth: The entire organization is incredibly aware of the importance of staying cost-conscious. And I don't want to see this high other line going forward, of course, and the cost improvements that we achieved, especially in SG&A, I mean, are very – are hard-earned in the organization. So I don't think anyone wants to give that away in the short term.

So cost focus throughout all parts of the organization remains very, very strong. Then we are planning to invest more behind growth. So those are very specific initiatives to continue to grow market share and of course, behind value-creating high-margin parts of the business. And then it's, I think, a valid growth in SG&A, digital initiatives, emerging markets and so on and so forth. You want to add something here, Fredrik?

Fredrik Rystedt: Yes, maybe a couple of things. Because the other line here is both SG&A and also other stuff. So if you – Linus, you had a question before, what's the impact of the SEK 180 million, what's the distribution, so roughly SEK 130 million relates to Q4 of 2019, so negative. And then the rest, of course, is last year.

So that SEK 180 million, if we go into Q1 of 2020. So this quarter, basically, we had last year a negative SEK 60 million, which will basically then be a positive in comparison. Then, of course, whatever happens in 2020 or this quarter, we don't know yet. But of course, that is a positive swing versus last year on stock revaluation.

Fredrik Rystedt: And then if we talk about, of course, the incentive programs, Magnus mentioned roughly SEK 200 million or a little bit above that. That is, of course, also something that is more of a hopefully, not a temporary nature. But in comparison, over year-over-year, that will actually change the story.

And there is one maybe additional remark about the very significant increase versus 2018, Q4, in this quarter. You will remember that last year, we just launched the cost savings program. And we made a very, very rapid stop to basically all costs in the organization. So as we actually said in the Q4 and the

Q1 report, we said we had exceptionally low cost, nonsustainable levels. And what you see now is much restored cost level. So they will actually be there.

Niklas Ekman: And just a final question. You mentioned the balance sheet being strong again, and looking at acquisitions. In the past, you've talked about Medical Solutions being the most interesting area and wound care, in particular. Is that still a priority for you? And I mean, not least in light here of the slightly weak trend we've seen in Medical Solutions organically, is that still a key priority to expect?

Magnus Groth: That's still a key priority. And I mean, our strategic priorities are to grow faster in the most value-creating parts of the business, which are the parts with the highest margins, the lowest capital intensity and where we see the underlying strong market trends, and this definitely implies to medical, it applies to professional hygiene, inco and feminine.

As you know, in inco and feminine, those categories are highly consolidated. Even though we would be interested in looking at growing in those areas as well. And that means that in medical, and that was also the strategic logic for the acquisition, we did buy a platform where we said that we would eventually then bolt-on smaller acquisition, which reduces the integration risk and increases the potential synergies and grows then the scale of that business. That's definitely the plan.

Karel Zoete: It's Karel Zoete with Kepler Cheuvreux. Coming back to the integration work or the works to be done in the U.S. medical business, what is precisely that you want to fix here or what you should do in order to improve performance?

Magnus Groth: Yes. More precisely, it's the sales engine, or go-to-market. We have good customer relations. We have strong brands, and we have a good assortment, and we see that in parts of the U.S., in many other mature markets, we are being very, very successful against exactly the same competitors, same situations that we see where we're underperforming in the U.S. So we made some big organizational changes last year in the U.S. business.

And it's those plans. So very much rebuilding the sales force, the sales incentives, the CRM systems, very basic stuff, actually, and that makes me more confident because it's not – it doesn't – it's not that we're not competitive or we don't have the right products or anything like that, but we need to get the fundamentals in place.

Karel Zoete: Right. And the second question is coming back to Consumer Tissue and pricing, you specifically highlight for the annual negotiations with the branded business in Europe, you have accepted slightly lower prices. But how much is that of the total Consumer Tissue business because you also say that in Asia, the pricing trends are better?

Magnus Groth: We haven't seen any major price cuts in Vinda. Only promotional impact then on pricing levels, which varies over the quarters, of course, and could move either way. So Europe, what percentage is that now of our overall tissue business?

Fredrik Rystedt: You were asking about branded. And so it's about – if you take the European business, about 50 percent branded, 50 percent retail brands.

Karel Zoete: And how much is that of total Consumer Tissue?

Fredrik Rystedt: 60 percent roughly, approximately.

Joséphine Edwall Björklund:
Any more questions? OK. Then, operator, please open up the telephone lines.

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. As a reminder, if you wish to ask a question, please press "star" "1" on your telephone and wait for your name to be announced. And if you wish to cancel your request, please press the "hash" key. Once again, "star" "1" if you wish to ask a question.

So our first question is from the line of Iain Simpson.

Iain Simpson: I'm just looking at your Personal Care business, I noticed that organic sales growth in each one of the subcategories, so diaper, fem care, inco or Medical Solutions appears to have deteriorated in Q4 versus Q3. I was just wondering if that was just a coincidence and there were sort of subcategory specific issues? Or whether you'd had any sort of retailer issues or similar that have been a drag on all four subcategories?

That was my first question. And then secondly, just thinking about that Consumer Tissue pricing, you've very helpfully talked about how Consumer Tissue pricing in Western Europe will turn negative in 1Q '20. I just wondered if there were any areas of your Consumer Tissue business where we might see positive pricing early this year, perhaps just as a rollover from pricing that you took last year or similar. Did you have hope for any positive pricing to offset what's happening in Europe?

Magnus Groth: Yes. Regarding your first question, Personal Care development sequentially, that's a pure coincidence. So it's a variation that we see typically between quarters. So we haven't had any major losses or any changes in the market development. And actually, when we follow our market shares, it looks quite positive in Personal Care in general. So I think that's just following the market.

Consumer Tissue, positive pricing, I would say that, that could potentially be Latam where we are very flexible in pricing, very much then responding to currency fluctuations. We also, as you know, started up ahead of schedule a new paper machine in Mexico, second half of last year, and that's a premium product machine that should lead to better pricing opportunities in Latam. Fredrik, do you want to add something?

Fredrik Rystedt: No, I think that's it.

Iain Simpson: Could you just remind us how much of your Consumer Tissue business is Latam, please?

Magnus Groth: 12 percent.

Operator: Our next question is from the line of Celine Pannuti.

Celine Pannuti: I would like to come back on the pricing in Europe and elsewhere. So on Consumer Tissue, you said that there is a annual negotiation. I think there was as well a summer negotiation. So how often effectively do you negotiate? Importantly, too, do you think that there will be promotion on top of the price decline?

And if you could discuss about the environment, the competitive environment that you think you will see, given that the pricing year-on-year are down – pulp prices are down substantially year-on-year? And then I was wondering as well on the rest.

You just mentioned Latam will be potentially positive with inflation. But wondering whether promos should continue to as well be there in Vinda and – for the remainder of 2020? I was – then on pricing, I'm also a bit surprised that your commentary on Professional Hygiene.

So why is it that pricing will be positive in 2020, given that the raw material will be significantly lower? Then my second question is on others, just to try to iron out what you said. So you would have a positive benefit from savings.

And then could you – do you understand well that incentive should be a neutral? So if you could confirm that? And what do we expect in terms of distribution cost for 2020? And I would expect, yes, then we'll still have the negative impact from A&P. If you can comment on the other line, that would be great.

Magnus Groth: Thanks, Celine, that was a number of questions. Let's see, please help me if I don't get it all. Starting with Consumer Tissue. We don't know what will happen throughout the year, and we know that this is a category that's subject to a lot of price pressure. What we've seen so far, and we're now at the end of January, is actually low single-digit price declines.

I think that's actually a positive and maybe better than we had expected. I feel more confident in our strong brands, in our strong product offering that I've done before, I think they have proven to be very solid throughout these last very volatile years. This goes as well for our European brands as Latin America and Vinda, and actually in China, we have higher prices than the competitors and consumers still seem to prefer our brand. I'm sure that promotional pressure will vary through the year.

However, I think that everyone in the tissue business looks at the raw material development. And what we expect right now, what the experts expect, I would say rather, is for stable pricing for the next couple of quarters and then increasing pulp prices again towards the end of the year. So to start taking lower prices now would – could potentially end up in a kind of quite bad situation towards the end of the year. So I don't think that, that's a good strategy.

Promotions, of course, could vary throughout the years. I can't really give any update or any views on that. Professional Hygiene, positive pricing. We've seen a decline also in recycled fiber prices. The Tork brand, where we're – and the Tork offering is more than just tissue, it's solutions, it's the dispensers, it's the sensor enabled cleaning solutions and so on. So we are less price-sensitive in general in this category than in Consumer Tissue.

And I think we have a bigger competitive advantage compared to the other suppliers of these products. And that's why, typically, we enter every year with a view to increase prices, then let's see what we achieve. I mean, the margin development has been very positive here. Even though, as you know, it's very seasonal, I just want to point that out. It's been an issue a couple of previous years that the first season typically sees lower margins in first quarter, yes, in Professional Hygiene.

But other than that, I think we're just going to leverage our brand and our innovation and also have that in the pricing. Remember also that some of our Professional Hygiene products are not really volume-driven. Many of our promises is actually reduced consumption. So it's a win-win, which means that pricing advantage for us compared to a lower-value product, but also then a cost saving for our and that's sustainability improvement for our customers.

Incentives, so Fredrik said, we had approximately 80 percent incentive payout altogether in the group last year. And of course, that means that I love it to be 80 percent for this year as well. Let's see. But of course, it's probably not going to be much higher because that – I don't think that ever happened.

And distribution cost and raw mats, do you want to talk about that, Fredrik?

Fredrik Rystedt: Yes. You were talking specifically on the other issue. And of course, the – if you look at this year, the major items, of course, as Magnus already said, the SG&A part and the incentive part, which we have, I guess, discussed. And then you have the stock revaluation.

I think Magnus actually mentioned that if you look at the year as a whole, 2019, we have a stock revaluation of roughly about SEK 670 million, I think, in negative stock revaluation and out of that, about SEK 370 million or so is relating to specifically the negative impact this year. So if you compare kind of 2020 to 2019, that turns positive.

Now what's going to happen to raw material this year? It's very difficult to say so – what that number will be. But it's very likely, of course, stock revaluation, if you look at the other line, will be much more favorable. That's, of course, much more the predicted outcome and, of course, incentives, just the same. The total negative impact last year in comparison to 2018, roughly about, so 2019 compared to 2018, it's about SEK 500 million roughly in SG&A totally. And of course, as Magnus said, that's likely not to be there next year. So if you look at the overall level than other, of course, is expected to be lower. But it's very difficult to predict exactly the components.

Celine Pannuti: And distribution cost?

Fredrik Rystedt: Yes, it's hard to tell. I mean, we've seen distribution costs come up a lot this year, and it's coming from many different sources. It's been shortages, road fees. We've also seen fuel cost increases and just a general kind of tough climate, I think. So we are making – or we are doing a lot of initiatives in distribution in various ways.

We're working with much more efficient sourcing and other kinds of activities and also savings within our warehouse management and planning, etc. So of course, the ambition over time is to become more efficient. So what you see is mainly market-related or it's all market-related issues, and it's difficult to predict. Hopefully, it will be much better next year, but it's really difficult to predict, Celine.

Celine Pannuti: OK. So just to make sure that I've understood well. It seems that all the components of others are going to turn positive in 2020. So others will come from a big negative to potentially quite a nice positive.

Fredrik Rystedt: It will never be positive, I think, Celine, I hope not really because basically – so the other line contains all the costs that's basically not related to cost of goods sold. So basically, what happens there in the EBIT bridge is that if we grow, we need to, of course, invest more into A&P. We need to invest more into SG&A or selling expenses. And all of that will, of course, be negative in the other line.

Magnus Groth: And the annual inflation, of course.

Fredrik Rystedt: Yes. So – and then we have a few other things. So if we, for as an example, we continue to invest into our business. So just imagine that we invest into a new line – production line, as an example, then the running-in cost of that before we have filled it fully, that will also be there. And then, of course, you have the normal inflation in all our cost base. So if that turns kind of flat or positive that means that we have basically been – we stopped to grow. And so I hope it will not be positive, but it will not be as negative as this year. That's, of course, our assumption at this time.

Celine Pannuti: And just one last thing on Vinda. So I saw that the growth rate has decelerated in the quarter from I think, mid-teens to 6 percent. Can you say what was the impact of promotion on the top line?

Magnus Groth: I don't know that. What I know is that it's – it was a very tough comparable compared to 2018 when growth was very high in the fourth quarter, but I don't know the impact of promotion.

Celine Panutti: Ok, thank you.

Operator: The next question is from the line of Namita Samtani.

Namita Samtani: I have a question on the wording in the press release related to the price decreases in Europe. Does the wording that we have finalized some negotiations, and in particular, the word "some" imply negotiations have been done with your largest customers, and that's just a tail left?

Or can we expect to see some further negotiations and some further guidance from this in the Q1 results? And my second question is related to the ongoing cost savings. Magnus, you talked about some big opportunities in your initial remarks. Could you give us some additional color on this?

Magnus Groth: So yes, some customers, as we stated, in Europe, were approximately half private label, half branded and many of the branded negotiations are actually done at this point in time. And parts of the negotiations regarding private label. When it comes to private label, some of those can be opened at any time. But – so this is more of an indication.

And again, we don't know if there will be renewed negotiations or not. For that to happen, I think we would have to see even lower pulp prices. That's my view on things, but that's not what we're expecting at this point in time. We're expecting stabilizing and then at the end of the year, increasing pulp prices again.

So it's more of an indicator where we are at this point in time, and it's difficult to give any more guidance. But the indication is, yes, there are some price decreases, but at the level where we still see kind of good margin development, taking all the other things into account like cost efficiencies and also, of course, the starting point with the price levels. But again, it's not that price levels from a historical perspective are high. They are, as Fredrik said, back and maybe around where they were in 2017.

And then ongoing cost savings. Yes, actually, in cost savings, this year – or last year, 2019, the biggest part was actually improved efficiencies in material purchasing. So higher rebates being able to actually approve more suppliers so that we can have more suppliers compete for volumes. So very much purchasing-related and then material efficiency related.

We improved our pulp mix significantly. We have actually individual paper machines now that run entirely on hardwood, which is quite amazing. This was deemed impossible a couple of years ago. So a lot related to materials, material rationalization, using less material in our products, very much in that area. What we saw less of last year, but the big opportunity going forward is actually improving efficiencies in our plants. We see that every year.

But because we've had such quick growth in Personal Care and added a lot of equipment in the plants over the last couple of years and since we've been doing so much restructuring in Consumer Tissue, we haven't really had the kind of peace and quiet to work on the efficiencies in more stable operations, and that's the opportunity we see going forward.

And that's a lot about increasing machine efficiencies, both in papermaking, in converting, improving output, reducing waste, reducing energy usage so – and also distribution, as we spoke about. So many opportunities in all our production facilities. They all have individual targets that are very clear, and it's those targets that are then specified in these different components that we work towards.

Faham Baig: A couple from me as well. Firstly, on Consumer Tissue and margins in that business, I guess, pricing negotiations and raw mats are a part of the parcel of your business, and therefore, you may or may not see price decreases or increases going forward. But in the medium term or steady state, what margins do you think or what returns do you think the business should be able to make?

Because I think in the call, you – earlier in the call, you mentioned that we should continue to see – we should see progression in margin in 2020 despite some of the negotiated price increases. So steady state, margins and returns in Consumer Tissue would be my first question. The second question is really a housekeeping one, maybe for Fredrik, actually. Fredrik, could you just give us a sense of where we should expect cash restructuring to end up for 2020, CapEx for 2020, the interest finance cost for 2020 and also the tax rate for 2020?

Magnus Groth: Do you want to start, Fredrik?

Fredrik Rystedt: Yes. On the cash restructuring, if I start with the 2020 questions, then lower than this year, and we don't give a forecast there. But we have a fairly big impact in previous years, as you know, from restructuring and there is much less, as Magnus alluded to, going forward. We also have this finished year – or 2019, we had quite some cash restructuring from our cost saving program. And of course, as you know, there is no such things announced.

So therefore, we expect cash restructuring to be lower. If we look at CapEx, as you have seen now from our 2019 report, we were quite low on CapEx. Actually, if you look at it in percentage of sales, we were roughly about 4.4 percent, which is really low in comparison to previous years. As a reference, I think we were at 5.7 percent or something like that in the year before, 2018.

So next year, we expect to increase CapEx to approximately SEK 7.5 billion, in that order of magnitude, which is more kind of normal levels for us. And of course, this is – a couple of things within that CapEx, we have already announced the alternative fiber investment, which is part of that. And there is also quite a few what we would define as strategic growth-related high-value investments that we also intend to do during 2020. So roughly about 7.5.

I think the question on finance net, no significant change. Of course, we have a lower debt level, as you have seen, and therefore, of course, as far as we can see at this point of time, we would see slightly lower costs, but this will, of course, depend on the interest rate levels as we go forward. And then finally, our structural tax rate, roughly about 25 percent, perhaps slightly lower than that. But this is about – so that's come down.

We have previously, historically, talked about 25 percent, 26 percent, the structural tax rate is perhaps more like 25 percent or slightly lower. And this is the, of course, the expectation then things may or may not happen in individual quarters but roughly, the structural is 25 percent.

Magnus Groth: OK, Faham, your first question about the Consumer Tissue pricing negotiation, raw materials and margins, difficult to predict. One thing I didn't mention, maybe here in the last question, was that supply-demand balance is slightly improving, I would say, both in Europe and quite balanced in China. We don't see, at this point in time, any announcements for new capacity in Consumer Tissue in Europe, and as I said, in China, it seems to be fairly balanced because there's quite a lot of capacity being shut down in China.

And actually, in many parts of the market now after the restructuring we have done with Tissue Roadmap, we are balanced or even to some extent, short, which is where we want to be because then I think we can be even more focused on innovation and margin enhancement. I didn't say that I foresee a progression in margins in the short term because we don't give any such forecasts.

What I would like to say is that since we aim to reach our return on capital employed target of over 15 percent, also, in the longer term, this requires, of course, Consumer Tissue being a big part of the business, nearly 40 percent, to be well over 13 percent. Otherwise, it doesn't add up. And we can see that on the levels we have now, we're actually achieving over 15 percent return on capital employed.

So that's more of a kind of an ambition than to give any forecast for this year, which is, of course, not possible to do. So that's – I don't know if that answered your question but trying to give some flavor for where we see the Consumer Tissue part of our business going.

Operator: Next question is from the line of Oskar Lindstrom.

Oskar Lindström: I have three questions. The first one is, I mean, you're guiding for less restructurings in 2020 as part of the Tissue Roadmap, and I guess, also the Cure or Kill programs. Now those have had a negative impact on organic growth throughout 2018 and '19. Does that mean that we should expect less drag on organic growth from closures of businesses or exits of businesses in 2020? That's my first question.

Fredrik Rystedt: Yes, Oskar, I can answer that real quick. I mean, we've had, I think, this year, we've talked a little bit about – in the early part of the year, in the first two quarters, we talked about the negative impact from mother reels sales. And of course, that's a drag, if we put it that way. It's not a drag on margins but drag on organic growth.

Of course, that is not going to be there for next year. And then I think we have mentioned, which is much smaller, but nevertheless, the open diaper in Russia, and that will be there for another couple of quarters and then after that fade away. So short answer is yes. Basically, it will be slightly less dragged, not material but slightly less.

Oskar Lindstrom: All right. Second question is on Personal Care price increases, which you talked about now this morning but you've also talked about it in previous quarters. Could you maybe provide some more details about sort of the magnitude and the timing and perhaps also in which segments you foresee this – these price increases?

Magnus Groth: The area where we've been working with actually improvements quarter-over-quarter mostly with this is the incontinence care part of the business and especially in health care where margins were really depressed by following low raw materials a couple of years ago. And as you know, only 1/3 of the volume is tendered every year. So it takes a long time to regain pricing here. So that's incontinence care, health care, which is a big part of Personal Care. In retail, it's going to be down to the competitive level.

What's different this year is that – I feel that our assortment, based on the product launches we've done over the last, year is very, very strong, which should make us more competitive then with less pricing pressure. Let's see where that leads, that's impossible to say today. But that's an area where we are definitely focusing on pricing.

Medical prices aren't really changing that much. I think prices are at quite good level. And in Baby, we have increased prices in some markets slightly recently. But don't expect any major changes. So actually, mostly inco. In fem care, we typically have a quite big pricing component already. So I think that's – we're quite happy with that, how that category is managed.

Oskar Lindström: All right. And then my final question is more of a clarification to understand the guidance that you're giving on Consumer Tissue. And when you say low single-digit price declines, am I correct to understand that, that is for Europe which...

Magnus Groth: Yes.

Oskar Lindström: Which is 60 percent of your business? And it's for the branded portion of Europe, so – which is roughly half of that?

Magnus Groth: No, this is for the entire European Consumer Tissue business, both branded and private label.

Oskar Lindström: OK. And the private label side, I mean, on the branded side, it's most of your customers. On the private label side well, it's not decided because it depends on when contracts come up for renegotiation. Is that the fair understanding?

Magnus Groth: In some cases, in private label, it's just to reopen negotiations, again, kind of at any point in time. So there's not a set term to those contracts in many cases.

Oskar Lindstrom: Have you seen a lot of – or have you seen any opening of contracts on the private label side?

Magnus Groth: We have renegotiated also private label contracts to some extent. And that's kind of included in this guidance where we stand at this point in time when it comes to Consumer Tissue pricing.

Oskar Lindstrom: And – I mean, this concerns the pricing component of price/mix. Do you, I mean, foresee pushing harder on improving the mix? Or do you see that you have an ability to improve the mix in Consumer Tissue in 2020?

Magnus Groth: This is a constant push. It's a very important part of our long-term strategy to make Consumer Tissue a value-creating category for us and for our shareholders, which it hasn't been just a year ago or two years ago. So that's a very strong focus to increase the branded part of our shares and in that part, focus on the subsegments that have the highest margins and adding on top of that innovations. So that's a very clear strategy of our since many years and that we are seeing is paying off here but gradually, of course, this takes time.

Oskar Lindstrom: And in the past, when you've had price declines, have you been able to offset those through mix improvements? Or...

Magnus Groth: Historically, the Consumer Tissue industry, especially in Europe, has not been good at managing quickly – quick reductions in pulp prices. I think everyone who has been involved in a couple of cycles, has seen that. And in this cycle, I already mentioned that supply and demand balance is a bit better than it has been previously. We have done a lot of restructuring. We have reduced our cost position. We have better mix. We have invested in our brands. I feel that we are in good shape to manage the current market situation in Consumer Tissue in Europe.

Operator: Next question is from the line of Charles Eden.

Charles Eden: So my question is on Vinda, specifically. Obviously, very strong growth there through 2019. There's been a story of very strong growth for several years. Just sort of thinking about how you see the competitive landscape in that market and the opportunity for further product expansion for Vinda in 2020 and whether it can continue to be a strong driver of the overall growth?

Or whether you think – you noted that there's not been any pricing roll out there yet to an increase in promotion, but is that likely to something that we'll see if pulp prices, as you say, meet the current market expectation for flattish for the first half or first few quarters of 2020? That's my first question.

Magnus Groth: Yes. And again, I don't now about what will happen with pricing going forward. But if you read Vinda’s report, it's very clear that they have been very, very successful in improving their product mix in tissue and actually the Tempo brand, the Tork brand is growing exceptionally well and with great margins.

Also, the 4D-Deco which is the high-end premium toilet tissue, that's now a high-volume, but also premium product, continues to grow year-over-year. And that's, of course, really helping them from a pricing position because the competitors don't offer these types of products.

In addition, there's a very strong focus this year on Personal Care categories, and there was good growth in the fourth quarter, both in inco and fem care in China and a slight improvement also in our Personal Care business in Vinda outside of China. So that's clearly a focus area for Vinda going forward.

So I think that's – from a competitive performance, Vinda improved market share with approximately 1 percent last year compared to – and it was primarily the second and third player that lost this market share. So doing really, really well also in the relative game.

Charles Eden: And then just one follow-up quickly, if I can. Just on Consumer Tissue in Europe, I know you've heard a lot of questions on it this morning. But is it too early to sort of see competitive responses? I know sort of Essity market leader, probably a price leader in the market. Are you seeing any competitive response, i.e., is low single-digit looking comparable? Just sort of any commentary you can give us in terms of...

Magnus Groth: No, I don't have any further comments, really at this point in time.

Joséphine Edwall Björklund:
Operator, I think we can take the last question. And if there are more questions, you can follow up with Sandra and Johan in the Investor Relations team.

Operator: So the next question is from the line of Virendra Chauhan.

Virendra Chauhan: So I have a few questions on – around the Consumer Tissue business. So I mean, just one quick word on rationale behind the scene. So is it because of passing on the RM benefits that you are seeing to your suppliers as well as – and competition? Or is it something of a competition induced that your competitors have done that before? Because what I know is that it is a price setter in the European context, at least. So maybe a quick clarification on that front.

Magnus Groth: OK. Quick clarification. Historically, the European market was quite commoditized and with also some overcapacity on average. And we worked very hard over the years to get out of that and focusing more on our brands, on innovation and on making sure that at least we are not – have an overcapacity. So that has improved over the last number of years, and that's kind of why we see – I would like to see a different dynamic this time around when we see lower raw mats.

Virendra Chauhan: OK. And just another one. So while the repricing frequency you mentioned is annual in terms of contract going to negotiations, the frequency is annual in Europe. What's it like in other geographies?

Magnus Groth: It's not only annual. It's actually the longest contracts we have in Europe are annual and many contracts are actually without term and can be renegotiated at any time, especially in private label. So – and I think that's – I don't know about Vinda, actually, I think that's similar.

Virendra Chauhan: OK. So there could be a potential – I mean, if the raw materials do not exactly pan out like what you see today, there could be further pricing negotiations even in the European business?

Magnus Groth: There could always be. Yes, that's not something that we know today.

Joséphine Edwall Björklund:
Yes. And now we need to conclude this conference. Do you want to conclude it, Magnus?

Magnus Groth: Thank you, Joséphine. Strong quarter, a strong year. I think we have a good momentum. We're on – of course, there are always challenges and improvement areas, but we are working very hard on all those areas while keeping our long-term strategy to grow in the value-creating parts of the business. Thanks.

Joséphine Edwall Björklund:
Thank you, and thank you for joining. Have a good day.

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