**Essity Aktiebolag (publ)**
**Interim Report Q3 2021**
**October 22, 2021**
**9:00 a.m. CET**

Joséphine Edwall-Bjorklund:

Hello and welcome to the conference for Essity's Interim Report for the Third Quarter 2021. I'm Josephine Edwall, Head of Communications for Essity. And today, our President and CEO, Magnus Groth, together with our CFO, Fredrik Rystedt, go through the highlights in the report followed by a Q&A session.

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

***Slide 1, 2***

Magnus Groth: Thank you, Josephine.

***Slide 3*** ***Key Achievements, Q3 2021***

So in the third quarter, Essity continued with a high pace of innovations and a number of important product launches. And this, together with the increasing sales in e-commerce, resulted in the highest-ever market shares in our branded retail business. We are now gaining market share in over 70 percent of our sales in this area.

Another highlight of the quarter is the continued momentum in Medical. It's now the fifth quarter in a row when Medical Solutions is growing and in the quarter with over 9.7 percent compared to a year ago.

We are continuing with our price increase programs across the business in all our categories. We have started the integration of Familia and Asaleo that we acquired earlier in the year, but we also concluded the deals and took over the ownership during the third quarter.

We started up tissue production based on alternative fiber, which we believe can be a significant step in our efforts to reduce our dependency on fresh wood pulp going forward. And we have continued to work with creating the Private Label Consumer Tissue division.

***Slide 4*** ***Financials Q3 2021 vs 3 2020***

And moving over to an overview of the numbers. We have a couple of different sales growth numbers this quarter. Organic sales growth that we are typically presenting was 7.4 percent. So another strong – our second solid growth quarter in a row after the pandemic. But here, we also show actually that for the first quarter, we are also growing as the group – as a whole compared to 2019. So we're starting to leave the impacts of the pandemic behind us that, for Essity's categories, was mostly negative from a top line perspective.

We also added another growth number, which is the sales growth, combining organic and acquisition growth, which was 9.7 percent, and this is primarily due to the fact that we now include Asaleo or Essity AustralAsia, as we call it, in these growth numbers.

Adjusted EBITA margin was down, and I will soon show a bridge explaining that, while operating cash flow was very, very strong. We're happy about the development there, and it's a combination of a very good reduction of working capital, lower stock levels and also higher payables as we continue to grow.

And adjusted ROCE is very much impacted, of course, by the margin development.

We were compensating significantly higher cost for raw materials, energy and distribution by higher volumes, higher prices and better mix in nearly all our businesses and continued also to achieve savings in cost of goods sold on a high level and we are now year-to-date at SEK 470m. And as you know, our target range for the year is to be between SEK 500m and SEK 1bn. So already after three quarters, we're very close to get into that range.

***Slide 5*** ***Adjusted EBITA Margin – Q3 2021-Q3 2020***

So then looking at the EBITA margin bridge. There's a significant negative impact here of 370 basis points. But as you can see, the raw materials, energy and distribution together accounted for 670 basis points. So very good performance in terms of higher volumes, higher prices, better mix and cost of goods savings and, in addition also, positive contribution from A&P and SG&A. So this is something where I'm very proud about the achievements. Looking forward, we see continued significantly higher prices or costs in all the areas I just mentioned but also a very good momentum in our efforts to continue to mitigate and compensate.

***Slide 6*** ***Continuing Our Transformation – New Business Areas***

With that, I'd like to move over to a couple of news that we have announced today in the Q3 report and then we'll talk more about on the Capital Markets Day that's coming up on the 3rd of November.

And one important change is in how we account and present our business areas. We're moving away from a more product-oriented business area definition to a definition that's based on our consumers, our customers, our competitive environment and the rapidly changing channel shift that we see in all our different categories and businesses.

So our new three segments or business areas are Health & Medical that includes what used to be our medical business, wound care, compression therapy and orthopedics but also our significant presence in incontinence care health care. And of course, there are significant synergies in this business, and this is something that we've spoken about many times. And we see that those synergies are just growing stronger over the years and also resulting in the strong performance that you're seeing in the medical business, but also in the incontinence care health care business.

Secondly, Consumer Goods. I think it's clearly defined by the name here. Incontinence Products Retail and Feminine Care, which are coming closer and closer together into an Intimate Care category. We'll talk more about this on the Capital Markets Day. Baby Care and Consumer Tissue, branded and retail brand. And in this business area, we also report the new division that we're creating for our Consumer Tissue Private Label Europe.

And finally, Professional Hygiene that you recognized from before but, of course, emphasizing the increased focus that we're putting on not only tissue products but also solutions, skin care, cleaning and wiping.

So it's a significant step that we believe also underpins the new growth target that we have announced today.

***Slide 7*** ***Financial Targets and Policies – New Sales Growth Targets***

And the new growth target is to achieve sales growth over 5 percent. Our previous target was organic sales growth over 3 percent, which came from the notion that we have very good underlying growth in the markets where we are present. And in addition, we aim to grow market share. And what we're adding now is that based on our strong M&A agenda, we believe that we can add up to overall sales growth number of over 5 percent in the long term, of course with variations between the different years.

The other financial targets remain unchanged, the adjusted ROCE target of over 17 percent and the policies that we have for capital structure and dividend.

***Slide 8*** ***Consumer Tissue Private Label Europe Division***

An update on the Consumer Tissue Private Label Europe division. The work is ongoing. We are slightly increasing the scope of the division, and we are still focused on having this division developed and ready and split from the rest of the Consumer Goods business area by the end of this year.

***Slide 9*** ***Sustainability Journey – Supporting Net Zero***

We've also taken not just one but a number of steps when it comes to our sustainability journey, not least, of course, our target to achieve net-zero emissions by 2050. And here are some examples. I already mentioned, and you can see in the picture there, our new facility to use alternative fiber, which has a significantly lower carbon footprint than using fresh wood pulp. We've also decided to invest in a paper machine that will be fully supplied with its steam from geothermal steam in New Zealand. It will be a world's first paper machine of that kind. And we're also increasing our efforts of recycling different types of paper products in order to increase the sourcing then of nonfresh fiber materials and of course, again, to reduce our dependency on fresh wood pulp supplies.

***Slide 10*** ***Innovations with Well-being and Sustainability in Focus – Q3 2021***

Innovations, always a big topic. And I think here we have a very, very strong line up for this quarter, starting with we have also now launched a washable underwear not only for women in TENA and in different Fem Care brands but also now for men as one example.

***Slide 11*** ***Innovations with Well-being and Sustainability in Focus – Q3 2021***

We're also continuing to grow our brands with adjacent products. And in the middle here, you see one example with Tempo, which is, of course, a very famous tissue brand in Asia. And in Central Europe, we're now also adding some skin care products.

***Slide 12*** ***Innovations with Well-being and Sustainability in Focus – Q3 2021***

And finally and a very important launch for us, a new cleaning cloth range for the industrial sector, where we have been underrepresented and undertrading historically and where we are now making an effort to grow our presence. And this product that you see here has 27 percent lower carbon emissions compared to the product that it replaces.

With that, I'd like to invite Fredrik to talk about the financials for the different business areas. Welcome.

Fredrik Rystedt: Thank you, Magnus.

***Slide 13*** ***Personal Care – Q3 2021 vs Q3 2020***

And I'll start with Personal Care. And it was a good quarter with strong organic sales and market share development in the quarter, and this was driven both by good volume growth and also price/mix in that combination. It was not only good in comparison to 2020 but also versus the same period of 2019. So we grew by close to 7 percent also in comparison to 2019.

Our medical business, for the fourth consecutive quarter, strengthened considerably, and all therapy areas continued to grow at a good pace and especially so for Wound Care. And that growth contributed also to strengthening margins for medical.

Our incontinence business, both on the health care side and the retail side, continued to grow and perform really well and also there with growing or stable market shares in general.

Our biggest growth category, our strongest growing category, is feminine, and we are growing much faster than the market in general terms and especially so in Latin America and in Asia.

Clearly, generally, markets' growth in the emerging markets have been very strong, as you can see from this slide.

So despite good performance in terms of volume and price and mix, we have a slight decline in margins, as you can see. And cost savings were good, but we also have a considerable cost inflation. We have raised prices, as Magnus said, and that is particularly so in Latin America. But we are preparing for future price increases as cost inflation keeps on rising.

***Slide 14*** ***Consumer Tissue – Q3 2021 vs Q3 2020***

So turning to Consumer Tissue. Versus 2019, the sales in Consumer Tissue increased by just close to 1.5 percent. But if we compare to last year when COVID-related demand was really strong, as you will recall, our sales contracted with 0.6 percent.

Now we continue to grow our sales portion of branded sales. We also improved mix pretty much everywhere in the Consumer Tissue business. So the decline that you see here is mainly related to the private label business.

Cost inflation is the highest for all our categories here in Consumer Tissue, and the impact was very significant during the quarter. So price increases and, of course, continued cost savings, as we have achieved in this quarter, price increases will remain quite key. We have done quite a lot in Europe and in Latin America, and we continue to negotiate for further price increases as we continue in coming quarters.

***Slide 15*** ***Professional Hygiene – Q3 2021 vs Q3 2020***

So as lockdowns and restrictions are now unfolding across the globe, the recovery in Professional Hygiene is very strong. So in the quarter, we achieved versus last year a growth of – organic sales growth of close to 21 percent. But also, if you just compare sequentially against the last quarter or Q2 of 2021, our increase was actually 13 percent. So it keeps on growing, and the recovery is particularly strong in North America and South America.

Professional Hygiene is the area that was most affected by COVID. But the recovery is very strong, and we're now only 5 percent behind the net sales that we had in 2019.

So also in this area, cost inflation is, of course, very strong. But we have improved margins quite considerably, and there are many reasons for it. The higher volumes, the higher sales brings much better cost absorption. We continue to do well in terms of cost savings, as Magnus alluded to. And we have a strong price and mix performance. Also here, we've improved in our pricing, and we will continue, as with all the other areas, those efforts as we progress in the coming quarters.

Magnus Groth: Thanks, Fredrik.

***Slide 16*** ***Priorities for Profitable Growth***

So with that, summing up our priorities in the short term, quite obvious; continue to invest to fuel sales growth; price increases in all our categories, in all our geographies; strong focus on cost savings also to offset the expected continued cost inflation that we're seeing in raw materials, energy and transports; and the creation of the Consumer Tissue Private Label division.

And as we have done in the third quarter, for the long term, we will also continue with a strong emphasis on innovation; expanding our product offerings; the Manufacturing Roadmap that is delivering significant savings in cost of goods sold; acquisitions in high-margin categories to support our new, higher growth target, which is a sales growth of over 5 percent; digital transformation in all areas; and, of course, to continue to lead in sustainability, which is just getting more and more important.

Thank you for listening. With that, we hand over to Q&A.

***Slide 17***

Josephine Edwall Bjorklund:
Yes. So operator, please help us open up with the first question.

Operator: And now our first question is from the line of Celine Pannuti from JPMorgan.

Celine Pannuti: My first question is on this new target. I was wondering why you wanted to include M&A in your target. And is the 3 percent underlying still valid from the previous target? And would that as well impact your return on invested capital or return on capital employed? Are you going to include acquisition in that?

My second question is on raw material inflation, if you could give us an outlook for what you expect in the coming quarter.

And then lastly, on tissue, the pricing – you said you did some pricing, though it was only up 2 percent, I believe. Can you comment a bit more about where you implemented pricing? And when should we expect more pricing to come in this division?

Magnus Groth: OK. If I start with the growth target. So the buildup there. Yes, we believe that our categories where we are present will still continue to show a good, solid underlying growth. And with an addition of our ambition to continue to grow market share, we do expect to be able to achieve a sustainable organic growth over 3 percent also going forward.

As we have mentioned also in the previous quarters, we have a stronger M&A agenda, very much focused on medical or our new Health & Medical business area but also in parts of Professional Hygiene and Feminine. And we see the opportunities to have a flow of M&A supporting then an overall growth target of over 5 percent. So the 3 percent organic is still valid.

And then your question how will we then work with our return on capital employed target, which is related then to without acquisitions, and – we will have to adjust depending on the type of acquisitions and also the intangibles, the goodwill that might follow with that. So that's something, as always, we will be very transparent about and show. But of course, the 17 percent target on return on capital employed is as important as ever before. That's unchanged.

Magnus Groth: So raw material inflation continues, and we expect in the fourth quarter significantly higher raw material costs actually in all areas, maybe with the exception actually of wood pulp, where we expect higher costs in the next quarter. So the decline of wood pulp prices that we were expecting in the fourth quarter in Europe has not happened, and it's still expected because there is now an increasing surplus and stock build of wood pulp, especially in China. But due to the global transport situation, we have not seen the decline in Europe yet, but that's to be expected.

But in the other areas, including then also recycled fibers, of course oil-based materials, also transportation and energy, which you, of course, hear about every day in the news, read about in the newspapers, we expect significantly higher costs in the fourth quarter.

And consumer tissue pricing, we have achieved further price increases in all markets, though to a lesser extent in China, and we have efforts in place that should show an increasing pricing component also in the fourth quarter but especially in the first quarter of next year since we're now entering a period where many of the negotiations are focused on price increases for next year.

And of course, with the continued inflation of the raw material, transport and energy costs, it's becoming a moving target. But we have good momentum and we feel very confident that we will continue to achieve price increases not only in Consumer Tissue but also in our other product categories.

Fredrik Rystedt: And maybe just to add there, Celine. You mentioned a number there but just to remind perhaps of the obvious. We measure against last year, and there's still some spillover from the price concessions that we actually did when raw material levels were quite low last year. So the actual raise that we have implemented is bigger than what you see. And of course, that impact will be more visible in quarters to come. So just to remember that. And there are also still differences in promotional levels. So generally, the progress is quite good in most parts of the group.

Celine Pannuti: Yes, maybe just one precision. Given what you said about the pulp prices, that the decline has not happened, are you still confident in achieving a rebound in Consumer Tissue margin by Q1 as you have guided before?

Magnus Groth: When we gave that guidance in Q1 and Q4, the expectations on pulp prices were quite different, and we have not seen the decline. But I think more importantly, because the price increase program is going really, really well, we're seeing now also cost inflation in energy and in transportation, which makes our price increases. Again, a very important contribution to protecting margins, which we also see in the quarter. But again, we are now moving towards a kind of a moving target.

And I think that's a very important insight, that it seems as if we are entering somewhat of an inflationary environment so that price increases will become a very kind of natural component of our business going forward. And we also expect to see here eventually, and we're starting to see that in some areas also, higher shelf prices with our customers and price increases there, which is absolutely essential.

Operator: Your next question comes from the line of Iain Simpson from Barclays.

Iain Simpson: So a couple for me, if I may. Firstly, in terms of raw material recovery via pricing. If it's no longer going to be end of first quarter '22 given that prices have not unfolded as you would have expected, are you able to give us an indication as to when you currently expect to offset raw material pressures through pricing, assuming no further movements from current spot levels?

And then apologies to stick with the theme of raw material pricing, but your comments earlier around significantly higher in Q4, is that significantly higher year-on-year in Q4 or is that sequential acceleration, so Q4 versus Q3?

And then just lastly, if I may, could you comment a little bit on energy costs? You've clearly seen a lot of volatility in electricity and gas recently. If you could just remind us, I think energy is about 5 percent of your COGS. But in terms of your hedging policies and your exposure there, that would be great.

Magnus Groth: You want to talk to that, Fredrik?

Fredrik Rystedt: Yes, Iain. So we're – after that long wait, we are well prepared, of course, hopefully. But good questions. So just coming to the sequential development in raw material for Personal Care, and this has to do a bit with the lag, as we have talked about many times, we expect to see significantly higher raw material costs. And when it comes to Consumer Tissue and Professional Hygiene, both of them more higher. So we've seen that increase being very high. And with a bit of lag impact, we'll see higher cost as we progress in the fourth quarter here. So that's about raw materials sequentially.

Then the question on energy, it's, of course, a very, very volatile market. And especially on the European side, quite dramatic with, as an example, gas prices up by four or five times. So very, very dramatic and depending a bit on the market. So it's really difficult to forecast.

We have hedging in place. So there's a hedging policy. And right now, in coming quarters, we're about 60 – yes, 65 percent hedged or in that ballpark when it comes to gas and about 1/3 when it comes to electricity. And that may, to you, sound low, but that has to do with the fact that we can only hedge roughly about 50 percent or 60 percent of the market. The rest is regulated. So the actual hedge level is slightly higher. But the impact nevertheless is, of course, given the price levels on energy that you now see, is very severe. So of course, we'll see that, and we need to compensate price-wise for that as well.

Iain Simpson: And with regards to the timing of the recovery of our pricing of input cost inflation assuming no further moves?

Magnus Groth: I think it's almost irrelevant to talk about in relation to pulp costs now because there are so many cost items moving currently. And what we see is that we have really good momentum in our price increase efforts and in our other efforts to improve, of course, mix, growing volumes, which also contributes very much to offset higher raw material costs and savings. So to single out one cost component, which was easier to do at the beginning of the year after the first and the second quarter, is more difficult now.

Iain Simpson: Thank you very much for those answers. Well worth waiting for.

Operator: Yes. Our next question is from the line of John Ennis from Goldman Sachs.

John Ennis: My first is on the sales growth target of 5 percent. I guess the M&A component of that could obviously be quite lumpy. So is the plan to average 5 percent sales growth over, say, a five-year or whatever year period you want to disclose with effectively a minimum of 3 percent per annum because that's the organic contribution you're sticking with? I just wanted to confirm my understanding there.

And then I wanted to ask a second question around Consumer Tissue price/mix, because I guess there's yet to be a notable change in price/mix on a two-year view. Is that because the pricing came in at the end of the quarter? Or is it just being promoted away relative to the promotion levels of last year?

And then what is the latest thinking in terms of the number of price rounds that you're thinking you will need to offset inflation?

And then maybe my last question is a pretty brief one just on volume growth in Personal Care. Can you maybe just give us a bit of color behind which product lines really contributed this quarter and what your outlook is for the remainder of the year?

Magnus Groth: Yes. So I'll start with the growth target. And it's a long-term target, just as we have previously communicated. So I guess to put that, as you did, kind of as an average over five years, I think it's a good way to look at it because, yes, it will be lumpy.

We're not setting any floors on the targets. As you know there, it will vary very much with the pricing and volumes over the years and also with the – to what extent we achieve small or big acquisitions. But to say that over a five-year period on average, I think that's a good way of expressing this long-term target.

When it comes to comparing Consumer Tissue price/mix to 2019, I must admit that I have to hand over to you, Fredrik, on that one.

Fredrik Rystedt: Yes. I'm not sure, John, I fully understood the question. But if I just go back a little bit, as I mentioned previously, we had a positive mix, a very strong positive mix, in 2020. We actually had it in '19, and we also have it in '21. So generally, the mix impact is strong.

When it comes to pricing, we maintained a good pricing level throughout 2020. But as the year progressed towards the latter quarters, we saw prices coming down. And there is also that spillover impact that we've had during this year for price concessions that we did last year.

And finally, the sales promotions are generally higher this year than they were last year. And that, of course, had – is related to COVID.

So yes, the impact is gradually building up, and this is what you now will see. So this is – of course, it looks a bit kind of lower now because of promotion and the spillover, but gradually it will increase in the coming quarters.

Magnus Groth: And then the question of the number of price increase waves and – what we're doing now is that we're continuously working on pricing in all areas. And that's because we have to assume that we are in an inflationary environment and that this will be the new normal. So I think gradually, over the years here, we will talk less about one cycle and then the following price increase to compensate for that but very much an ongoing process. So we will still have pricing in Q4 but then more significantly in Q1 next year. And this goes not only for Consumer Tissue but for all our different categories.

So the notion of how many price increases you need depends also very much on how the raw materials and other costs currently develop. If they continue up, then, of course, as soon as we're finished with one round, we need to go back again. So that's the dynamic that we have now. But I think we are managing that quite well, as we can see now in how we're already compensating for what we believed maybe would have been the raw material cost increases at the beginning of the year and continuing now in waves to come back to the margins that we need in order to reach our long-term target of return on capital employed over 17 percent.

And then finally, volumes in Personal Care, Fredrik.

Fredrik Rystedt: Yes, it was strong volume growth in Medical, Incontinence and particularly on Feminine or actually all of those. And we had a slight volume contraction when it comes to Baby. So this was approximately the way it looked. So good volume development pretty much everywhere.

Operator: OK, our next question is from the line of Charles Eden from UBS.

Charles Eden: So the first one, I just wanted to dig a little bit deeper on the Consumer Tissue volume decline. Obviously, you mentioned this was driven by your private label business. Is that because the private label business saw higher pricing than the sort of 2.4 percent you reported at the group level – sorry, not the group level, divisional level, which sort of led to some elasticity in the quarter? So that's my first question.

My second one, again, is pricing in Baby. You mentioned the slight volume contraction. Have you managed to get any pricing in Baby yet?

And then finally is a bit of a follow-up on an earlier question. But you mentioned your hedging policy on energy, Fredrik. Where the price is today, does that in any way impact your approach to hedging? Or is it pretty routine and you'll continue to hedge even at these higher levels?

Magnus Groth: OK. I'll start with your second question on pricing in Baby and then leave Fredrik to question one and three.

Yes, we are achieving pricing in Baby, but this is not the reason for the slightly lower volumes. The volumes decline is actually a consequence of our customer mix, where a significant part of our sales are in formats that are still slightly suffering from COVID impact. They are recovering but still behind more generalist supermarket formats. So it's actually not to do with pricing but with the sales channels where we are present. So we expect this to, from a volume perspective, improve over the coming quarters. Fredrik?

Fredrik Rystedt: And just to add maybe on the Baby side, we also have – and we have reported on that many times before. We've left the Russian market, and that has a fairly big impact.

Magnus Groth: Yes.

Fredrik Rystedt: So the biggest part is – actually of the contraction as such is related to that.

I think your – the first questions was related to the volume decline in Consumer Tissue and private label and whether there is a price elasticity. I really don't think so because if – when you think about price elasticity on the consumer side, it's really very low. So people will – consumers will continue to buy consumer tissue also when prices come up.

So I don't think it's necessarily a consumer issue. It's much more that, as we have reported many times, we are very much conscious of margins, and we have continued to push very, very strong price increases also in that part. And of course, that is also carrying with it that we are prepared to give away volumes if profitability are not sufficient. So that's more the case.

Magnus Groth: Before moving to energy then, if I could add. What's very positive is that our branded business is growing everywhere. So consumers are willing to pay, just as they were during the pandemic, for strong brands and innovation, and it's a very clear trend. So we believe that in general, private label consumer tissue is currently actually losing out to branded products, where we are very strong. And this is partly also a consequence of the switch towards increasing online sales where we have a very strong position.

Fredrik Rystedt: Yes, Charles, the final question on energy hedging. So the way this looks is that we have a policy which states that we can hedge the current year plus another two, if I put it that way. So – and there are brackets. So in the first year, so to speak, we can hedge a very considerable portion and then gradually reducing. So three years out, the maximum hedging we can do is much more limited.

So it's a very interesting question because when we see these extreme levels that we alluded to before when it comes to both gas and electricity, whether or not to hedge in those outer years is, of course, a question that we will think about as we go forward. But principally, we always follow the policy. But I think it's – as things stands at this time, we'll probably remain quite low in our hedging for – if you think about the outer period of our hedging period.

Charles Eden: That's great. I'm sorry, just one follow-up on the private label tissue prices. My question was more if you've raised prices to a greater extent in the private label side than you have in branded. So maybe they have seen some shifts because that price gap that typically is there had narrowed somewhat rather than sort of assuming there is some price elasticity on the consumer side, just some sort of switch between – I wonder if you can help us. Is the pricing that you put through on both private label and branded tissue broadly similar? Or have you led on the retailer side when contracts are a little bit more instant?

Magnus Groth: I think it's very difficult to say. Of course, on average, we need higher price increases on private label because the pulp component is bigger. But to what extent we have actually raised more, I don't think we provide that data.

Charles Eden: Ok, thanks very much.

Operator: Next question is from the line of Karri Rinta from SHB.

Karri Rinta: I wanted to talk about the new business areas. And the first question is, is this a big change in terms of how you run and have run these businesses internally? Or is this more of a change in reporting structure?

Magnus Groth: So – yes. So that's already happening. And I gave one example where we see that, for instance, the consumer – the inco category is very much developing into an inco health care category, which is very close to our medical business and while we see inco retail. But then in certain formats, pharmacies, for instance, you will see these products side by side and, of course, not the least in the online channel.

So all of this leads to a way of working and actually also organizationally, where we're much more focused on the consumers, the customers and the channels to service all the needs independent of the product dimension.

And of course, this is also a continuation of our thinking when it comes to adding adjacencies, as we've spoken about earlier, to different product groups. So more focused on how can we service the needs of our customers and consumers.

So that's already progressed in the company. But of course, this will accelerate that development also internally.

Karri Rinta: All right, I missed the first part of that answer, but I got the big picture of it.

Then just a quick follow-up on the – more specifically on the sort of the links between the different divisions. So you have incontinence product in both medical and Consumer Goods. So who is producing those? And then similarly, when it comes to tissue, do you have – how many sites do you have where you produce both consumer tissue and professional hygiene tissue?

Magnus Groth: Yes. So we're not planning to make any changes when it comes to the production or in the global brand development, innovations and our sustainability work. So those are global services that we provide in strong global expert organizations.

We have, in most of our sites, a number of different categories, and this will remain. And actually, the trend right now is towards having more categories on sites just because it's more efficient from a transport and logistics perspective. So that's – there's no link there.

This new organization from a business area perspective is very much customer and consumer centric while we keep the strong synergies that we have in the back end by keeping our global supply chain organization covering all our global sites, both Personal Care and the different types of tissue sites that we have.

Karri Rinta: Perfect, thank you very much.

Operator: We will now take our next question. It's from the line of Victoria Nice from SG.

Victoria Nice: OK. So then I just wanted to ask about Vinda Consumer Tissue, which was a little bit weak in the quarter despite easier base of comparison from last year. Is that partly because you've been taking some pricing earlier than the competition because the pulp inventory at lower prices has run out? And if so, does that mean that it's been a little bit uncompetitive over the last few months but will be getting better moving forward as peers lower their pulp inventories?

Magnus Groth: Yes. And this is a very, as you know, dynamic market. And the most agile and successful player in that market by far is Vinda, and I think they managed the quarter really, really well. Vinda still has a pulp stock, so not really running out, and very much focused on price increases but also mix improvements. And we continue to see a strong growth in the premium categories of Vinda, which is the Tempo brand and also the 4D-Deco and not least the Tork as well. So all of that really contributes to the strong margin that Vinda has been able to show.

Vinda has also been active in pushing for price increases and reducing promotional pressure, which has, as I also mentioned in the second quarter, has been a difficult thing to do in a market where the big players, all of them actually, still benefit from pulp stocks with lower costs. So there's a dynamic there where I think Vinda has done exactly the right priority between protecting margins, working with a long-term improved mix and strategy and mixing up and, of course, cost efficiencies and balancing that with volumes.

So – and as always, in the fourth quarter, we're coming into Singles' Day or 11.11. And typically, Vinda is a very strong performer during this festival based on their strong also presence in e-commerce where we are also seeing a quick channel shift that they are managing really, really well.

Victoria Nice: Ok, thank you.

Operator: And our next question is from the line of Fulvio Cazzol from Berenberg.

Fulvio Cazzol: Most have been answered, but I was just wondering if I could ask one on the volume trends in the Consumer Tissue.

I hear you on the low elasticity of this category, so I was a little bit surprised that the volumes came in a bit weaker than I expected. So I was just wondering what's really behind that. Is that market share losses because of taking more pricing than your competitors? Or is it because you've got a higher mix of private label business versus competitors? Or is it retailer destocking ahead of the – well, following the price increases, are retailers winding down inventories there?

And then my second question is on finance costs, which, again, sort of came out a little bit below my expectations. I was expecting them to go higher following the acquisitions that you've made. So just wondering if you could give a bit more color on what's going on in that line and what we should forecast for the coming quarters.

Magnus Groth: Yes, I'll start with the consumer tissue volume development, where clearly, it's a combination of a few factors, and one is our focus on recovering margins, as we have now been focused for several years. Having said that, we're actually growing market shares still in most parts of our branded businesses. So we're not giving up on that. And we're able to achieve improved pricing mix and volumes in most of our branded business, which is a fantastic combination, of course. While in private label, we have lost some volume due to our efforts to raise prices.

There is also – compared to last year, as you'll remember, there was huge swings in tissue demand, and that makes also comparing to the same quarter in general difficult this year. We've seen slightly softer volumes. And if this is – I don't think it's due to stockpiling with the retailers. We have no such indications. Maybe some stocks in – with the consumers, but that's typically a very, very short-lived impact.

I don't know if you want to add something there, Fredrik?

Fredrik Rystedt: No.

Magnus Groth: Or – and then it was the finance cost question which I hand to you very happily.

Fredrik Rystedt: Yes, it was – thank you, Fulvio. It was actually lower, and it was all attributed to interest cost or predominantly. We also had some smaller, you can say, revaluation gains in the finance net this quarter. So as – your question was on the next quarter. We expect it to be somewhat higher on the back of a bit higher net debt volumes predominantly, to your point there. So it will be higher or somewhat higher in the next quarter.

Fulvio Cazzol: Ok, thank you.

Operator: OK, it looks like we will take our next question. It's from the line of Linus Larsson from SEB.

Linus Larsson: And if you don't mind, I'd like to return to input costs. And my question is, given what you have said on the call, is it fair to assume that on a year-on-year basis in the fourth quarter, there will be more cost inflation than we saw year-on-year in the third quarter?

Fredrik Rystedt: If I may just say, we haven't said that. We've said that it still would be significantly higher cost than last. But we haven't given a specific indication, Linus. But it will be significantly higher. And of course, we've also talked about energy and distribution. So – but we have not given an exact number, and we never do that, as you know.

Linus Larsson: And, I mean, combining that with price then, I mean, you're making some nice progress on pricing, obviously, in the third quarter, and that's encouraging to see. Do you expect – I mean, would you comment on that, whether the gross margin would be expected to improve on the fourth compared to the third quarter?

Magnus Groth: We don't comment on that specifically. I think that's a quite detailed question.

Linus Larsson: OK. One last try then, and that would be on energy specifically. And I thought it was interesting what you said, that even though we might think that your hedging rates are somewhat low, you said something about regulated markets. So maybe if you could just expand somewhat on that and say – I mean, how big a percentage of your gas and electricity purchases are actually subject to – or, should we call it, to volatility? And how big a part is either hedged or subject to other stability factors?

Fredrik Rystedt: Maybe I can start, Linus, because when I said hedging levels were low, I was talking about the outer year. So '23 as an example here. On the contrary, when you look at the short period of time, so just in coming quarters, we are high in hedging. So this is the way it works. It's a staged approach when it comes to policies.

So just coming to gas, we are hedged in the coming quarter to roughly about 65 percent, as I said. The rest is basically free float, if I put it that way.

When it comes to the electricity, it's roughly about – a bit over 30 percent hedged. But in reality, that has to do with the fact that many markets that we operate in are regulated. So if you take the nonregulated, where we're able to hedge, hedging levels are also in the range of 65 percent if you take also electricity. So we're actually high on hedging for both.

And for the regulated market, which accounts for give and take 50 percent of all our electricity purchases, their prices don't move in the short term. So you can say on the short term it's hedged. But over time, they will also move as we progress if the conditions stay the same. So of course, we have a significant impact, but the hedges are also helping us quite some both now, Q3, Q4, and also in the coming quarters.

Linus Larsson: Great, thank you very much.

Operator: OK, for – our next question is from the line of Oskar Lindstrom from Danske Bank.

Oskar Lindström: So actually three questions. I'll read them off all at once. The first one is on – in the press release that you have on the new business areas, you're write that this supports the strategy with less capital tied up. How should we interpret that part of it? I mean what parts of your business is it that you feel are tying up too much capital? Or how would this change with this new strategy?

Magnus Groth: OK. Yes.

Oskar Lindstrom: My second question is – yes. Yes, please. If you want to answer that first, then.

Magnus Groth: Yes, OK. Yes. Sorry, Oskar. But yes, it helps us, I think, both internally and externally to focus on the primary growth areas for the future, which is the Health & Medical business area and the Professional Hygiene and then the less capital-intensive parts of Consumer Goods. But thanks for asking about return on capital employed because if you look back, it's been quiet healthy and especially if you look at it without, of course, goodwill and intangibles in all our categories over the long time period.

But going forward, this focus that we've already had now for a number of years, I think we are emphasizing that further, prioritizing the business areas I just mentioned. So it's even easier to prioritize in those areas.

And as you can see, the acquisition of Asaleo, for instance, had a big part of Personal Care and Professional Hygiene and only to a lesser extent Consumer Tissue. And the same with Familia. So – and the other acquisitions in medical all kind of underpin that focus going forward. So they – it's another step in that direction.

Oskar Lindström: Is – the separating of the Private Label Tissue business in Europe into a separate legal entity, is that part of this as well?

Magnus Groth: It's – I mean, our Consumer Goods business, and we'll talk more about this at the Capital Markets Day because these are more kind of maybe longer-term strategic discussions that are really, really interesting, and I'd like to spend more time on that, is, of course, primarily a branded business, and we are always prioritizing the branded part of our business when it comes to innovation and investments.

But the divisionalization that we're doing now in preparing for the year – the end of the year is very much, again, based on a kind of customer and consumer perspective on our business where we see that there are different needs between our different customers in private label and in brands in Europe. And the response from these customers has been quite positive to this planned organizational change.

Oskar Lindström: My second question, probably a little bit shorter, but, I mean, we've read a little bit about at least one very small but possibly more tissue producers in Europe closing production due to high prices for energy or lack of energy. First of all, I mean, is this something that you see possibly impacting any of your tissue production facilities? And is this in any way – that competitors are closing, is that impacting the competitive landscape for Consumer Tissue in Europe?

Magnus Groth: I think it's too early to say how it changes the competitive landscape. We don't currently see any need to shut down any of our facilities. We don't see any bottlenecks in supply of raw materials. We are well hedged, as Fredrik said, and we have a very competitive cost position, especially after the Tissue Roadmap program. So on that cost curve, we believe we are very, very competitive.

And again, from a longer-term perspective, I'm convinced that both the impacts from the pandemic, the increased focus on e-commerce and now these cost increases will benefit the strong players with the strong brands and strong Go-to-Markets. And that's us. So over time, yes, I think this is good for us from a competitive perspective. But of course, this is a long-term development.

Oskar Lindstrom: Right. Just my final question, also shorter, is on Professional Hygiene. Are distributors, i.e., your customers, are they stocking up? Or have we not seen that impact? What's the situation, you believe, in their stock levels?

Magnus Groth: We don't believe – we think that's normalized, and we don't believe there's any stocking up. I mean there are still some restrictions and shutdowns in some markets, I think you read about this also in the newspapers, that can impact short term.

The long-term development, as Fredrik has presented, is very positive for Professional Hygiene. There could be, of course, ups and downs. There's been a major shutdown in Australia now for a number of months, for instance. But overall, we don't see any stock-ups or any kind of major now impacts other than a gradual improvement.

Oskar Lindström: Ok, thank you.

Operator: And now for our next question, it's from the line of Tom Sykes from Deutsche Bank.

Tom Sykes: Yes. On the other items line through the adjusted EBITA, that seemed to be a bit lower than expected in the quarter. What – is that the ongoing level that we should expect? Or is that going to go back up?

And then just on your comment on promotions. Can we just try and untangle that a little bit, please? So where are the absolute – or where are the promotion levels relative to history? And then, did you say you – obviously, there'll be a volume impact of these. But did you say you expected these to still sequentially go up? Or are there – is there some leeway for you now to maybe start easing off some of the promotions as your list prices go higher, please?

Fredrik Rystedt: Maybe I can start, Tom, with your first question on the other line. So we have – it is a bit lower this quarter. We have guided previously for SEK 1bn for the year, and this is still – it remains our guidance actually. It may be somewhat slightly low but roughly about SEK 1bn. So it's – you should see this as more of a low number for this particular quarter. And it will vary depending on the cost of, as an example, our digital project that's been slightly lower this quarter and will be slightly higher next quarter just as an example. So it's a bit of a – volatile there over the quarters. But generally, the guidance is still SEK 1bn.

Magnus Groth: OK. Yes, it's not easy to detangle the promotional impacts. But in general, promotional levels were close to zero last year because of panic buying and the COVID situation, as you know. Then there was a little bit of promotions again towards the end of the year in some markets. And the phasing here with China is slightly different as they have been moving in and out of lockdowns and prebuying. So it's very difficult to say. But of course, in general, just returning to normal then leads to higher promotions than the year before.

Having said that, I believe that reducing promotion is an important tool in achieving price realizations until shelf prices move. And we're starting to see some shelf prices moving recently because that's also part of the equation that makes it even more difficult to detangle the promotional situation. Higher shelf prices gives greater opportunity then for promotions.

So that's what we're – but of course, from our perspective, what's important is to remain competitive, gaining market shares in the branded part of our business, increasing premiumization and – while, of course, also then recovering our margins specifically in Consumer Tissue.

Tom Sykes: In terms of – even if those were stable, say, going forward, that is now, well, annualizing the headwind of the step-up in promotions. And so therefore, that shouldn't be an impact on year-on-year. I mean I take – I get that there's going to be some news and there'll be strategic choices and there's going to be a volume impact of these. But just trying to understand...

Magnus Groth: That's fair to say with the exception of – I'm not completely on top of where Vinda is in that cycle. But in general, of course, moving into next year, we will be annualizing to more normal using promotions as one of the tools to work with being competitive, promoting new products and, for us, very much promoting premium products and moving up the chain there.

Tom Sykes: Ok, thank you.

Operator: OK. And for our next question, it's from the line of Martin Deboo from Jefferies.

Martin Deboo: I just want to come back to energy costs and how they're impacting the business. Clearly, it's the new theme in cost inflation. And I just want to understand how they're impacting the different divisions differentially. What was striking about Q3? You took big hits on the bottom line from energy in Tissue and Professional Hygiene but much lower impacts in Personal Care. Does that – so that just reflects the fact that energy intensity in Personal Care is lower, which is what the disclosures would suggest. Or is it something to do with different energy mix in Personal Care or different regional mix in terms of energy markets? Just trying to understand what drove the difference.

Fredrik Rystedt: It is – to the absolute largest extent, Martin, it's a matter of exposure. So we consume more energy when it comes to Consumer Tissue and also, to some degree, in Professional Hygiene. So both of those much, much more energy and particularly so with gas in Consumer Tissue than we do in Personal Care. So it's exposure.

Martin Deboo: Ok, very clear. Thank you.

Operator: OK. Our next question is from the line of Rob Price from HSBC.

Robert Price: So a couple from me. Just first of all, on this other line, perhaps you could kind of talk us through what a more normalized level would look like for F '22.

And then the next question is – relates to the different categories within the Medical Solutions business. Perhaps you could give us an update on how each of those categories have been performing.

Fredrik Rystedt: I can start to – maybe with the other line there for '22. We'll be back and – Rob, we'll come back in connection with our Q4 release.

So generally, this is – this line contains our corporate costs, as an example. And we also have some costs related to our digital program. So exactly how we phase that into – in the total cost picture, we'll be back in connection with the Q4 report.

Magnus Groth: OK. So Medical, a very strong development overall also compared to 2019. And Wound Care, both acute and advanced wound care, is doing extremely well, not least advanced wound care, also helping margins, so double-digit growth there, while both compression and orthopedics are still catching up with 2019 but now getting very, very close. And when it comes to orthopedics specifically, since we didn't have a ski season this year whatsoever, it will remain until next year until we recover. But if you're looking just quarter over last year's quarter, it's improving month-over-month. So very positive. But also, compression orthopedics will recover in the next couple of months and the next quarter.

And as in most of our categories, we feel that we have a very, very strong offering to the customers and a very, very strong Go-to-Market. And we believe that we are gaining market shares in most of these areas. Of course, we don't have that data in the same way as we have in the consumer categories. And that will help us to continue to grow in Medical also going forward.

Josephine Edwall Bjorklund:
OK. Thank you. And now I think it's the last question. Celine?

Celine Pannuti: I mean, a follow-up – my follow-up is on the SG&A line. So in Personal Care, I think your gross margin was under pressure, but then both A&P and SG&A went – came down. Can you explain what drove that? And then what should we expect for A&P spend this year and next? Is there more savings or cash, whatever it is, that could help from the SG&A line?

Magnus Groth: OK, if you start with the SG&A, Fredrik. I'll take the easy one.

Fredrik Rystedt: Yes. I mean, first, it was – you're right, Celine, it was a bit lower. And this is, of course, a conscious decision that we take.

When it comes to the forward looking on the SG&A, we have kept a very high pace in terms of product launches and future-looking investments throughout this pandemic, and we continue to do that. But needless to say, we need to be careful with what we spend in terms of SG&A, so we will continue to be cost conscious, of course, and save money where we can. But it's not a general view that we can take out lots of costs. We continue to be cost conscious in short.

Magnus Groth: And with A&P, we expect to have a lot of innovation coming also going forward that will help our mix and our price, as it has over the last number of years. And this means that for next year, we will continue to have – I can't be specific at this point in time. We're still in our planning work. But we continue to have a similar A&P level as we've had historically. It can vary a little bit between the years. But of course, with the good growth we're seeing now, we need to keep on fueling that also partly with A&P. So it's an important tool for us to continue to win market shares going forward.

Celine Pannuti: Thank you.

Josephine Edwall Bjorklund:
OK. Thank you so much for calling in today. Thank you for your patience. With this, we'll conclude today's conference. And as you heard Magnus and Fredrik, we will talk more about certain topics on the Capital Markets Day on November 3. I really hope to meet all of you virtually there. We will also have the rest of the management team. We will focus on how we continue to drive profitable growth, breaking barriers to well-being and, of course, innovation, sustainability and digitalization.

So with this, have a good weekend. Thank you and goodbye.

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