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# EDITED TRANSCRIPT

SWMA.ST - Q3 2020 Swedish Match AB Earnings Call

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## PRESENTATION

Operator

Ladies and gentlemen, welcome to the Swedish Match Q3 report for 2020. (Operator Instructions)

Today, I am pleased to present Emmett Harrison, Senior Vice President of Investor Relations. Please begin your meeting.

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Emmett Harrison - Swedish Match AB (publ) - SVP of IR & Corporate Sustainability

This is the Swedish Match Third Quarter 2020 Telephone conference. And with me today are Lars Dahlgren, our President and CEO; and Anders Larsson, our CFO. In the Investors section of our [swedishmatch.com](http://swedishmatch.com) website, you will find the presentation for today's call, which is intended to be viewed in conjunction with our prepared commentary. So we encourage you to follow along with that presentations.

After our prepared commentary, we will take -- be taking questions. During today's call, there may be certain comments that constitute forward-looking statements that are subject to risks and uncertainties. Management believes that these statements are based on reasonable assumptions and can give no assurance that expectations will be achieved. Risk factors are outlined in the latest interim report and annual report, which are available on our website.

Swedish Match assumes no obligation to update information concerning its expectations. A recording of this call will be made available on the Swedish Match website. At this call, unless we specify differently, when we comment on the financial development, we refer to the isolated third quarter compared to the third quarter of 2019. Regarding market shares, again, unless we specifically comment otherwise, for the U.S., we base our comments and numbers on the MSA database that captures volume shipments from distributors to the trade.

With periodic changes to the distributor database, figures noted for a given period may change as well, and historical figures may be rebased over time. For Scandinavian market shares, we draw our estimates from the AC Nielsen data set that reports market shares based on volumes sold to consumers, primarily through the organized trade. In other words, through the convenience and grocery stores classes of trade.

Slide 3 of this presentation reiterates the headline bullets from our interim report released this morning. And we refer you to the report rather than repeating them on this call. Sides 4 and 5 are also included for your reference. With Slide 4, illustrating the growing importance of our smoke-free product segment. And Slide 5, showing the geographic split for each of our product segments as well as the group, and where the success and the growing importance of our U.S. business is evident. You may want to take note of the fact that the U.S. smoke-free business this year has surpassed the Scandinavian Smokefree business, as the largest profit contributor of the group.

With that, I will hand over to Lars, who will begin on Slide 6.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Thank you, Emmett, and good afternoon, everyone. We are very pleased with the performance in the third quarter, which was a record quarter in several respects. Our operating profit from product segments exceeded SEK 2 billion for the first time. The continued success for ZYN in the U.S. resulted in shipment volumes exceeding 100 million cans on a 12-month rolling basis for the first time.

We also posted record shipments for cigars, and in addition, we saw a strong performance in our Scandinavian smoke-free business. Throughout our group, the organization has made impressive efforts in adapting and coping with the challenges brought on by COVID-19. Result wise, COVID-19 related effects provided a net boost to earnings. But when we look at the 28% reported increase in operating profit from product segments, one should also factor in that there was a considerable currency translation headwind. For Smokefree, the trajectory for ZYN in the U.S. was the key contributor to profit growth, but we also saw a good development for U.S. moist snuff and chewing tobacco as well as for Smokefree in Scandinavia with the strongest growth for nicotine pouches.

We estimate that COVID-19 affects -- favorably affected consumer demand for moist snuff and chewing tobacco in the U.S. while in Scandinavia, the unusually strong price/mix component primarily was the result of Norwegians concentrating their purchases to domestic channels. For cigars, the category has reverted to strong growth this year, likely helped by COVID-19 effects.

Our ability to produce HTL cigars in Dothan, Alabama in the U.S. was a distinct advantage for Swedish Match. We grew overall market share as we managed to compensate for our constrained production capacity situation for natural leaf cigars sourced from our Dominican facility, by growing cigar shipments of HTL varieties by more than 60%.

In the DR, we made great progress during the quarter by gradually bringing in more personnel on-site and increasing productivity. For Lights, the underlying development has been strong during the year. And while this was also the case in the third quarter, the results comparison was impacted by a significant negative translation impact and realized capital gains on sales of excess assets that were of a larger magnitude in Q3 of 2019 compared to Q3 2020.

I will now hand it over to Anders, who will provide more details on the financial performance of our Smokefree segment.

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Thank you, Lars, and good afternoon. On Slide 7 and 8, we have provided the most important drivers of the financial development of the Smokefree product segment, which includes snus, nicotine pouches, moist snuff and chewing tobacco.

Beginning with snus and nicotine pouches on Slide 7. ZYN in the U.S. continued to be a major contributor to sales and operating profit growth for the segment. Shipment volumes during the quarter foreseen in the U.S. reached 42 million tonnes, and although benefiting from some of the

factors that we highlight on the slide, the key reasons for the strong volumes were continued very strong demand, coupled with high production efficiencies in Owensboro as well as some additional capacity support from Sweden.

In addition to efficient production and the strong volumes, which, in our case, were sold with minimal consumer promotions, the operating margin benefited from the curtailment of some marketing initiatives due to COVID-19.

For Smokefree in Scandinavia, sales were up by 6% in the third quarter on virtually flat volumes, implying an unusually strong price/mix component despite the weaker NOK. This was largely due to the dramatically higher Norwegian domestic purchases of premium-priced products, replacing lower-priced volumes at border and travel retail classes of trade due to COVID-19 related travel restrictions. Profitability in Scandinavia was also supported by relatively low operating expenses, to some extent impacted by COVID-19.

Turning to Slide 8. In moist snuff in the U.S., it is clear that our simplified pricing promotional strategy for Longhorn has helped in strengthening the brand. Share gains for Longhorn more than offset the clients for other brands, and with the improved category growth that we have experienced this year, during the third quarter, Swedish Match moist snuff shipment volumes were up by 16%. The success for the value priced Longhorn brand as well as format mix effects resulted in sales being up less than volumes in percentage terms.

Gross profit was up in line with sales, but operating expenses were somewhat higher, which resulted in only a slight increase in operating profit. For U.S. chewing tobacco like for moist snuff, since the inception of the pandemic, we have noted strong category development compared to historical trends. Despite the increased portfolio share of lower-priced varieties and our flat shipment volumes, sales and profit improved as a result of price increases and improved production efficiencies.

For Smokefree in other markets, Germany used to be the biggest market for chewing tobacco. However, following the adverse ruling in the Hartmann case in Bavaria, there were no shipments to Germany in the third quarter. We consider nicotine pouches to be a promising long-term opportunity in other markets and sales of nicotine pouches increased nicely in the quarter. We are now present in several markets with nicotine pouches, but typically on a limited scale, and the growth for these products could not offset the steep decline for chewing tobacco. Our cost base in other markets is scaled for future opportunities, and we should expect the continued operating losses in this segment for some time to come.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Thank you, Anders. And moving over to Slide 9, where we present ZYN shipment volumes in the U.S. on a 12-month rolling basis. As previously noted, in Q3, we reached another milestone as same shipments for the 12-month period surpassed 100 million cans. Our team in Owensboro, Kentucky has done an excellent job in further raising utilization and productivity on already installed capacity and the Swedish factory has also provided valuable support. We are very pleased to note that with the distribution we have in place, we've been able to maintain an order fulfillment rate of close to 100% despite the rapid growth. Also positive to note is that the next phase of our capacity expansion project continues to follow the plan.

On Slide 10, we present the nicotine pouch category growth and our owners in market share development. Several of our competitors have been extremely active in the market, both through promotional activity and increased store count distribution. This competitive landscape has likely accelerated market growth. And to this point, our market share has been relatively resilient. Given the attractiveness of the nicotine pouch category, we expect that competitive activity, including installation of production capacity will be further intensified. Turning to Slide 11, where we compare ZYN shipments in the U.S. to 2 different benchmarks. Relative to our estimated size of the moist snuff category as a whole and relative to the moist snuff pouch segment.

In the western region, where the initial launch took place in 2016, the ZYN brand now represents 30% relative to the moist snuff category and is significantly larger in size relative to the moist snuff pouch segment in regions outside the West, where we initiated our rollout in April 2019. In those regions, considering the shorter time in market, the growth of ZYN relative to these benchmarks is also impressive, especially when one considers that this growth was accomplished in markets where competitors expanded their market presence around the same time. While we point to the moist snuff category as a benchmark in order to put the size of the nicotine pouch opportunity into perspective, it should be noted that already today, we see that ZYN is an attractive option also for cigarette consumers that seek alternatives.

Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Turning to Scandinavia on Slide 12. This slide provides Swedish Match's estimate for the combined category of snus and nicotine pouches in Scandinavia in consumption growth terms. In other words, shipment volumes adjusted for trade inventory adjustments around the year-ends and certain other periods. The statements depict our estimates of total category consumption growth in Sweden, Norway and Denmark combined.

For historical years, we have included volumes that we believe have been consumed by Finnish consumers but procured in Sweden or at Travel Retail. Given that COVID-19 has severely restricted the possibilities for Finns to buy smokefree products, for the year-to-date 2020 period, we provide 2 estimates. The first one excludes Finnish consumption altogether. In other words, providing our assessment of consumption growth among Swedes, Norwegians and Danes.

The second one captures Finnish consumption and illustrates the adverse impact on the category growth from Finns being forced to turn to other products during COVID times. As the picture depicts the category growth, particularly if we limit the view to Swedish, Norwegian and Danish consumption, has held up very well despite the challenges and higher average price paid, primarily by Norwegian consumers as caused by travel restrictions.

Slide 13 provides the market growth for the smokefree category, as reported by Nielsen for the year-to-date period in Scandinavia on a country level in volume and retail revenue terms. The exceptional growth in Norway due to COVID-19 is clearly visible, but also the effect of the weaker NOK when retail value is measured in SEK.

The fact that retail value in NOK has not grown faster than volumes. It's an effect of channel shifts within Norway as consumers have turned away from inner city outlets like convenience stores during COVID times. What is also striking is the stellar growth in Denmark, driven by nicotine pouches.

Slide 14 illustrates our market share of the entire smokefree category in Scandinavia, as reported by Nielsen. We note that our share of the overall smokefree category continues to decline, but at a somewhat slower pace than the prior year.

Looking at the sequential development between the third and second quarters, our market share eroded by 0.7 percentage points. Comparing the third quarter to the third quarter of the prior year, our market share was down by 3.4 percentage points, with the main driver being the rapid growth for the nicotine pouch category and the fact that we did not capture a share of that growth that corresponds to our overall share.

Slide 15 provides market shares in the snus category, combined for Sweden and Norway as well as the snus share of the entire Smokefree category in Scandinavia to the right. As you know, in Denmark, snus is not allowed. Swedish Match has maintained an overall share of about 60% over the past several periods with slight share erosion in Sweden, offset by share gains in Norway.

On Slide 16, we present the development of the nicotine pouch segment in Scandinavia. Today, as seen to the right, nicotine pouches, which have been growing at a rapid pace, represent close to 16% of the overall Smokefree category, up from only 4% just 2 years ago.

And while our share of the segment has remained relatively low, also at close to 16%, this rapid segment growth has meant that our volumes have grown significantly.

Looking at U.S. moist snuff on Slide 17, we have summarized trended quarterly category in Swedish Match growth rates based on distributor shipments to retail. It is likely that the 2020 growth rate has been favorably influenced by COVID-19 related changes to consumer patterns. MSA data indicates that Swedish Match volume development continued to notably outpace the category led by pouches in the third quarter.

As noted earlier, we are seeing favorable trade and consumer response to our simplified price promotion strategy for Longhorn, contributing to this positive performance. For U.S. chewing tobacco, on Slide 18, we have summarized trended Swedish Match shipment and price/mix developments as well as some category and Swedish Match dynamics based on MSA data.

As seen to the left, Swedish Match's year-to-date shipment volumes are up relative to historical shipment decline rates of approximately 5 plus percent. The segment dynamics in 2020 mirror pre-COVID trends with price brands growing faster than premium brands and Swedish Match gaining market share, despite our strong position within the premium segment.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

On Slide 19, we have presented some of our recent new product and market activities for snus and nicotine pouches. In Sweden, in an effort to further promote recycling of our cans, we are abolishing black plastic and our [task] General design has concurrently been given a design face lift.

In Germany, Thunder tube bags was a successful product prior to the regulatory challenges, and we have now provided Thunder lovers with a novel offering in the form of a nicotine pouch. In Switzerland, we have initiated an exciting test launch of CBD-infused white snus under the G4 brand. In Switzerland, as opposed to several other geographies, the regulatory situation for CBD products is clear. And we are keen to understand if pouches could be an attractive delivery format. The Swave products are niche nicotine pouches with well distinguished character provided by Gotlands Snus, the company that was acquired in 2018. And in the U.S., we have further expanded the availability of the 3 depicted ZYN varieties. And we've been pleased with the performance of all 3.

The unflavored varieties have performed particularly well in the State of Massachusetts, which implemented a flavor ban during the summer.

Moving on to Slide 20 and cigars. Swedish Match cigar shipment volumes in the quarter for the first time exceeded 500 million sticks. Taking advantage of the strong category growth, we successfully grew our HTL cigar shipments by more than 60%. And the shipment volumes for our natural leaf varieties only declined by 4% despite the fact that we continue to face production constraints.

Our organization in Dominican continues their dedicated efforts to increase available supply of natural leaf cigars, and very good progress was made during the quarter.

For the fourth quarter, we foresee that it will continue to be challenging to fully serve the demand for natural leaf varieties, especially considering that we will shut down the factory in the DR for maintenance over Christmas and need to restore inventory levels.

The success for HTL cigars was possible, thanks to our high-quality product assortment, dedicated sales and marketing efforts, a more automated production process for HTL varieties as well as our dual factory footprint. In percentage terms, sales grew somewhat less than volumes due to mix effects while operating profit development mirrored the volume increase, up 19% in local currency.

On Slide 21, we have presented a quarterly trend of year-on-year growth in Swedish Match cigar shipment volumes as well as our estimates of U.S. mass market cigar category and segment volume development based on MSA data. As can be seen, shipment growth rates tend to be rather volatile and we had to go back to 2017 to find a quarter that showed growth in line with Q3 of this year. Based on distributor shipments to retail, the cigar category, excluding little cigars, has grown by 16% in volume terms on a year-to-date basis. Swedish Match has managed to gain share during the year despite underperforming the category, within the faster-growing net release segment due to the production constraints mentioned earlier. And the explanation is our stellar performance in HTL as depicted on the right-hand side of this slide.

On Slide 22, you can see a split on cigar volumes for Swedish Match and the comparable market for the year-to-date period. And on the right side of the slide, you can see our shipment volume trends by format. Here, you will note the marked increase in HTL shipments and that our shipment volume on net release regards are not yet back on pre-COVID levels, has notably improved versus the abnormally low second quarter. Normally close to 2/3 of our portfolio is comprised of natural leaf cigars, while for this year, they represent less than 60% of our shipments.

Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Moving on to Slide 23 and our Lights product segment. The Light segment delivered another good quarterly result on an underlying basis. Currency translation and especially the significantly weaker Brazilian real affected the reported sales and operating profit in this year. And capital gains on sales of land and forestry assets in both years also influenced the reported earnings development.

In the Brazilian operations, Swedish Match owns several forestry plantations. Timber supply from this forestry exceeds the raw material need for match production, which enables continuous asset disposals and good cash generation. Excluding the currency translation effects and capital gains, operating profit growth for both matches and lighters as well as for complementary products.

On the regulatory front, on Slide 24, we have summarized the more notable regulatory events, which have occurred during the third quarter. With regard to the FDA and cigars, we filed our substantial equivalence or SE applications for our entire current assortment before the September 9 cut off date, with what we believe to be professional and well-supported filings.

Timing on when any decision by the FDA on these applications as well as for the ZYN PMTA applications filed in March is unknown. In California, a bill was signed that does not exempt ZYN nicotine pouches from the ban on characterizing flavors, effective from January 1, 2021.

Swedish Match's nonflavored offerings of ZYN are already available in California. And while the potential impacts of the ban are not known, ZYN with 4 nonflavored SKUs in popular nicotine strength is well positioned versus the other large nicotine pouch competitors.

In Scandinavia, we noted that the Norwegian budget proposal includes a higher percentage increase for excise taxes on snus compared to cigarettes, which obviously is counterproductive from a public health point of view.

In Denmark, we had earlier informed you about the political compromise on a new tobacco regulation. A proposal that now has been presented to parliament, mirrors what has been communicated earlier, with the exception being that the timing and legality under EU law of the proposed flavor ban is uncertain.

On Slide 25, we have summarized relevant metrics from our interim report relating to finance cost, our financial position and earnings per share. Net finance costs during the quarter increased relative to levels that we have experienced during the past few quarters due to higher debt levels as well as lower returns on surplus cash position in addition to a onetime interest charge of SEK 16 million of an adverse tax ruling.

The weighted average interest rate of our loan portfolio at September 30 was 2.04% compared to 2.08% at the end of 2019. During the fourth quarter of 2020, SEK 800 million of debt hold still for payment and an additional SEK 750 million will be repaid during the first quarter of next year.

The interest rate on these repayments is substantially lower than the current weighted average of our loan portfolio. The capital duration was 3.8 years, with 98% of the bond portfolio subject to fixed interest rates.

The EPS bridge illustrates the components of our 29% year-to-date growth in adjusted EPS. Apart from the after-tax effect of our increased operating profit, the reduced number of shares had a positive impact on adjusted EPS on a year-to-date basis. The adjustment in the EPS bridge refers to the SEK 270 million income tax expense and SEK 16 million interest charge related to the adverse Swedish ruling on an ongoing tax case, further described in Note 7 of the interim report.

While we funded the full amount of the judgment during the third quarter, we continue to believe that our position is justified, and we have appealed for a lead to appeal with the Supreme Administrative Court in Sweden. During the first 9 months of the year, we have made share repurchases in the amount of SEK 2.183 billion, corresponding to 3.5 million shares at an average price of EUR 625.43 per share. And during the second quarter, an ordinary dividend of SEK 2.20 billion for the 2019 financial year was paid out to shareholders.

Slide 26 simply restates our revised 2020 outlook from the interim report, it just been updated with respect to our underlying corporate tax rate, which we now expect to exceed 23%. Our CapEx plans remain on track to be considerably above 2019 level, and we continue to foresee good



market growth for the smokefree nicotine products. Finally, as always, fluctuations in currency rates will impact our future reported results. And you may want to take note of some of the more important average exchange rates versus the SEK.

The average exchange rate in the fourth quarter of 2019 for the U.S. dollar was 9.63, the NOK, 1.06 and the Brazilian real, 2.34. Based on current spot rates, we foresee continued currency headwinds during the fourth quarter. And with that, operator, please open up the line for questions.

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## QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Richard Felton of Goldman Sachs.

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Richard Felton - Goldman Sachs Group, Inc., Research Division - Equity Analyst

I've got a few questions, please. My first question is on market share for ZYN in the U.S. So a key theme in these results presentations for a while has been increasing competition in the U.S. nicotine pouches category, which will make it harder to sustain your current levels of market share over time. But looking at your performance over the last 12 months and Q3 specifically, your market share has been pretty resilient.

So my question is, are you surprised at how resilient your market share has been? And why do you think that's been the case?

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Yes, hi. This is Lars here. We are pleased, of course, with the volume growth in the category as a whole and the resiliency of our market share. We know we have very good products on that. We have done a phenomenal job in not only securing distribution, but also good visibility.

I think, looking at market shares during the recent times is a bit challenging in terms of analyzing what is driving what since we have been in our capacity constraints, and we have managed distribution because of that. And at least one of our other major competitors have publicly spoken about capacity constraints.

So in that respect, it's hard to say that we were surprised because if they can produce more, they can't produce more. But it's reassuring to see, I would say, when we dig down deeper into specific change and so forth, we naturally see declines for us in, as particularly one other competitor is running deep promotions. But more so in terms of that being a result of incremental volumes. And when the promotional pressure has been eased, typically seen reverse quite nicely, not all the time to where it was prior to conversation, but sometimes, that is indeed the case.

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Richard Felton - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Great. My second question, also on ZYN, but this time on the topic of flavor bans. I was hoping you could give us an update on the trends you're seeing in Massachusetts following the 1st of June flavor ban. I believe that your Q2 results, you'd said that shipments were sort of largely unaffected as flavors were being swapped to nonflavored variants. Is that particularly the case? Or have you seen any impacts either at the shipments or the retailer level?

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

That is pretty much still the case. But the same word of caution that we still consider it to be a relatively short period of time as what we measure here is shipments into the trade. And not all competitors also have unflavored varieties. But it is, I say, positive to note how much -- there are, of



course, now repeat orders as well in the data set, how much of the previously flavored varieties does seem to be substituted by our unflavored ones.

And Nielsen, unfortunately, does not capture one of our unflavored varieties. So we cannot rely on that one to get the consumer off take.

Operator

Our next question comes from the line of Andreas Lundberg of SEB.

Andreas Lundberg - SEB, Research Division - Analyst

Continue on ZYN in the U.S, I think you mentioned that you're production plans are going according to plans. Also I think you talked about 160 million cans in this current phase. Is that the case? And when do you think it will be up and running? And at what capacity do you have for the fourth quarter?

Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Yes, hello, Andreas. This is Anders. Yes, of course, I mean, we have talked about, you referred to the 80 million, which is kind of what you have said is a normal utilization level for the currently installed capacity. Obviously, if you look at our numbers, we have been producing at higher levels than that, but then bear in mind that we are squeezing out a lot of capacity with overtime shifts. And you also need to factor in that we need to have downtime for maintenance and so forth.

And then for the next phase, we say that we will double kind of the normal capacity level with another 80 million, which then means 160 million to be up and running sometime during mid of next year. But then obviously, there are kind of room to flex that a bit and squeeze out some more capacity. And also some additional support from Sweden.

Andreas Lundberg - SEB, Research Division - Analyst

And once this capacity is up and running fully, if any, what will that mean to your strategy on retail distribution and price promotions and so forth?

Lars Dahlgren - Swedish Match AB (publ) - President & CEO

I mean if you -- in terms of distribution, our ambition is, of course, grow distribution to the extent that it's motivated from a consumer demand point of view. We're starting to approach, you can say, close to similar distribution levels, as you see from moist snuff. But that's also, as I commented on earlier, we see a larger potential for nicotine pouches in terms of the addressable consumer markets, including cigarette smokers. So say if we compare ourselves to so cigarettes, of course, there is a long way to go still and a big opportunity. But at the same time, we are mindful to make sure that we don't add distribution in a manner that say cannibalizes on existing store base and existing store owners.

And when it comes to pricing practices, we are committed to defend the ZYN opportunity, but we need to see how competitive dynamics play out in the future.

Operator

Our next question comes from the line of Gaurav Jain of Barclays.

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Gaurav Jain - Barclays Bank PLC, Research Division - Research Analyst

I have 3 questions. One is on the shipping days. So you are saying that Q4 will have 3 less shipping days versus Q3. Now Altria gives its shipping days by quarter for the next year. And their shipment days are flat Q4 versus Q3. And I thought it was all linked to the number of holidays and weekends. Can you just help us explain why there will be a difference between companies on shipping days?

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Hi, Gaurav. I can't really speak for Altria and the number of shipping days that we have. But the difference in shipping days between Q4 and Q3 this year is quite similar to what we have in most years. You have fewer shipping days in the fourth quarter. You have a little bit of Christmas time off. You have some downtime that we're going to have to make sure that all the machinery is fully up and running and in great shape.

And also that the third quarter had one extra shipping day. So it's not like it's a major departure from prior years. But we did want to highlight that fact, just to reemphasize, that normally, normally the third quarter is your strongest quarter in terms of volumes and also costs sometimes are a bit lower in the third quarter on a per can basis or per unit basis. And in the fourth quarter and the first quarter, those tend to be a little bit weaker than the middle of the year.

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Gaurav Jain - Barclays Bank PLC, Research Division - Research Analyst

Sure. That's very helpful. My second question is on margins. So your margins have expanded, I would say, way beyond what anyone expected. And probably your real margins are now well north of 60%, and that is clearly seeing benefit of reduced costs because of COVID, that there is less travel, less marketing, demand is strong. So maybe promotions are less. So how do we think about FY'21 margins when you will have new capacity coming on? So probably, you will have less than 100% utilization in your factories. So is this a high base of margins? And from here, margins decline going forward?

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Hello, this is Anders. Yes, you're right that margins, we have benefited, of course, from some curtailed marketing spend and also with the high utilization levels that we see. And then, I mean given how margins will play out, looking into the future is, of course, dependent on the competitive environment, and it becomes a bit speculative because you don't need to factor in how competitors will play in the market. But I think it's fair to assume then that it will be intensified competition, meaning that we will use what we have in the toolbox to fight for our brand, so to say.

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Gaurav Jain - Barclays Bank PLC, Research Division - Research Analyst

Sure. And my last question is on the letter that Senator Jerry Hill from California had sent to the FDA in August, which hit the headlines, and it did cause a negative share price reaction? He wrote in that letter is that you are making reduced (inaudible) ZYN without appropriate authorization from the FDA on an MRTP. So has that changed your view about applying for an MRTP for ZYN, because that essentially will take this entire discussion off the table.

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Emmett Harrison - Swedish Match AB (publ) - SVP of IR & Corporate Sustainability

Yes. I think there are 2 points in your question. One is the point about MRTP versus CMTA. And the other is the isolated case with this. So, this letter to the FDA. We are very consistent in our approach and our communication to the consumer, very consistent. We also need to make sure that investors, regulators, the scientific community is well informed about the differences between not only snus, but also ZYN and other tobacco products like cigarettes in terms of the profile of the product itself.

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In fact, for the applications to the FDA, for PMTA, you are required to provide some of that information. So in our discussions with regulators, with the financial community and with the scientific community, we share our information and make sure that there's a good understanding.

And to the consumer, however, we don't do that. ZYN is a lifestyle enjoyment product that does not contain tobacco leaves. Nicotine is derived from tobacco. But it's positioned as a -- as a nontobacco nicotine enjoyment product for consumers. And I think perhaps, I'm not a lawyer, but I think perhaps that there was a little bit of a misperception about who we talk to and what the consumer actually is seeing from us.

We also have -- are perfectly happy to maintain good dialogue with the FDA. So if there are any issues with any of the communications that we have, we're quite pleased and willing to talk to them in order to address any of those issues.

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Operator

Our next question comes from the line of Niklas Ekman of Carnegie.

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Niklas Ekman - Carnegie Investment Bank AB, Research Division - Head of Consumer Discretionary & Staples and Financial Analyst

Just a couple of questions. Firstly, I'm curious about the very strong growth we reported in cigars and moist snuff, 19% and 16%. I'm just curious if there's any strong element of restocking here after Q2. And if you have any good insight into what the real consumption was during this quarter? That's my first question.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Yes. I mean, if you take the cigars, even as you look back in history, you know that cigar volumes can fluctuate quite a bit from year-to-year. And but we have seen a marked slowdown not until recently, and then we see this acceleration this year. Our -- and this has been going on for some time now. So our assessment is that there is a genuine increase in consumer demand this year. That is probably then elevated due to habits and so forth in COVID-19 times. And it remains to be seen whether sort of say all of that is reversed once, hopefully, we can leave this pandemic behind us, so to say, or whether consumers continue smoking cigars to the same extent.

I'd say for moist snuff, the category growth at 4%, I think is what I have year-to-date, right, in the MSA data. That is also an acceleration compared to what we've seen in recent history, but a more, what I would call a more normal magnitude. And -- but I say the same thing there, with 9 months, we're looking at a 9-month period, it is fair to assume that there is true consumption that has led to that increase.

And then as Anders commented, on the long run has been particularly successful this year, that is and driving up the demand for our portfolio. And then on top of that, you always have for moist snuff a little bit of quarterly fluctuations in growth rates because of timing, of promotions and so forth. Because we're comparing with this year with a simplified promotion schedule against a more faced calendar in the prior year. So look at year-to-date numbers as your best indication, I would say.

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Niklas Ekman - Carnegie Investment Bank AB, Research Division - Head of Consumer Discretionary & Staples and Financial Analyst

Okay. That's very helpful. And second question, and I know this is a recurring question. Curious if you have some more insight now where exactly the ZYN customers are coming from? You were mentioning moist snuff as a major category and cigarettes. Do you have any more detailed split up between those 2 categories? And also, how many young users or new users versus experienced tobacco users? Do you have any more detailed data that you can provide us?

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

I mean when we look at the category data and compare to moist snuff and so forth, the numbers continue to support our assessment that about half of the thin volume is sourced from other categories. And we have no indications of that nicotine pouch use and ZYN use in the U.S. is skewing younger.

So I'd say it's a fairly similar pattern to what we've been describing before.

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Niklas Ekman - Carnegie Investment Bank AB, Research Division - Head of Consumer Discretionary & Staples and Financial Analyst

Okay. Excellent. And also, just finally, a question on the competitive environment. You mentioned, ON!, for instance, having some production disruptions. But what are you seeing in general in terms of price pressure in the market? Has that been growing over the year? Or has it been fairly constant?

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

I would say that Q3 has been more intense in terms of competitive price promotions compared to earlier parts of the year, potentially because capacity has been installed. And they've had different possibilities to do that. But it's varied a little bit during the quarter and from chain to chain as well.

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Operator

Our next question comes from the line of Faham Baig of Crédit Suisse.

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Mirza Faham Ali Baig - Crédit Suisse AG, Research Division - Research Analyst

A couple from me as well, please. Within the ZYN volumes of 32 million in the first -- during the third quarter, you highlighted that you've benefited from national expansion of some varieties and increased order distribution. And I think one of your customers also taking extra stock levels, et cetera. What -- would you say the 32 million could be the underlying growth that we should carry on into Q4? Or are there elements that inflated the sort of Q3 performance that we should take into account when on thinking about Q4?

And then secondly, the U.S. nicotine consumption has certainly benefited from COVID-19, per se. Have you seen that continue during the past couple of months, for example, and should we -- and when do you think we should expect some sort of normalization?

And my final question, it's really around your strategy going forward on Scandinavian nicotine pouch competition. You mentioned, I think, that your share has remained pretty stable at around 15%, 16%. But that's clearly much lower than your incumbent share in this news category. What strategy are you looking to deploy to try and close that gap because going forward, it could prove a bit of a headwind.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

This is Lars here. I think I'll start with your last question, and then I'll leave it to Anders to give you some comments on the sequential development for ZYN volumes. No, you're right in pointing out that our market share development for nicotine pouches in Scandinavia is not where we would like to have it. And as you would imagine, it's a very clear focus area internally to address that.

And we have been taking steps, say, in the Swedish market in terms of broadening the assortment and increasing distribution and visibility and -- also on the marketing side. But to date, we haven't seen all the desired results. It is a fiercely competitive environment when it comes to marketing

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activities. And there are some marketing activities going on there, out there that we actually try to stay clear of, because we think it's better for the category and the brand long term.

But we do have plans in place in terms of initiatives to improve the situation. And if you take the Danish market as a specific example, there we have been particularly unsuccessful, I would say, share wise to date with ZYN. But there, we are altering the consumer value proposition for the ZYN brand in order to have more consumers discovering the product.

In Norway, it is more of a long term journey, given that it's a black market in plain packaging. So it is very difficult to reach. And marketing is severely restricted. It's packed, regulatory-wise, a snus product in Norway. So we are extremely restricted in terms of marketing in Norway, which makes it particularly challenging. And extra challenging this year since one of the few ways to communicate with Norwegian consumers is the Alps that's in Travel Retail or in the Swedish and border shops.

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Yes. And Anders here. Starting with your first question on volumes for ZYN. Yes, we sold 32 million cans in the quarter. And as you mentioned, we have an inventory adjustment at a major retailer, which increased -- or distributor, which increased their minimum stock levels. So I think that's -- it's at least 1 million cans in extra shipments for that reason. And then I think we can also see some pipelining relating to the new varieties that we have rolled out and then also comparing to the second quarter, there is an additional trading day in the third quarter.

But I think on an underlying basis, I think if you adjust for those factors, I think it resonates very well with the 20% growth we see in MSA on a sequential basis, with most of that or at least more than half coming from increased velocities. So that was the ZYN question.

Then you had an interesting question on the demand on total nicotine market, if I understood you correctly, for the U.S.

And I believe it's fair to say that COVID-19 has changed the consumer patterns and can potentially then elevate the total demand, especially -- I mean, look, if you look at for, on a category like chewing tobacco, where you actually see shipment growth versus the historical decline, normal declines, so to say. There is clearly an effect there.

And then I think it's very hard to speculate how that will evolve over next year, and when this COVID situation start to ease.

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Emmett Harrison - Swedish Match AB (publ) - SVP of IR & Corporate Sustainability

The one thing you can say is that this type of product generally is used rather quickly. So there might be a little bit of pantry loading or consumer extra purchases for a period of time, but it wouldn't be a massive amount. So it's not like building up, getting lots of sanitizer or toilet paper or something like that. So you have elevated consumption now. I would think it's likely due to effects from COVID on consumer purchasing patterns.

But then you may not see a huge offsetting destocking at the consumer level because they're probably not loading up too much product there. But yes, it's rare to see chewing tobacco business even flat. The moist snuff business has gotten better, cigars have gotten better. And I heard in the market that other categories that you would think of is enjoyment products that people can use at home or outside are tending to do a bit better right now.

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Operator

Our next question comes from the line of Owen Bennett of Jefferies.

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Owen Michael Bennett - Jefferies LLC, Research Division - Equity Analyst

Two questions, please. First of all, do you have any rough idea of Norway industry growth ex the COVID support? And then second question, I just wanted to touch upon the Switzerland test for CBD pouches. So I mean, this is a segment that's starting to get traction in the U.S. Would a possible U.S. launch the sort of thing you may look at in the future?

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Hi, Owen. I mean we think CBD market is interesting. Clearly, there has been a growing consumer demand for adding CBD to all kinds of different products, including food products. And we take this opportunity to just say that we have no plans at all at this stage to launch any pouches with THC in the product.

But when Switzerland, as we said, is one of the few countries where actually also the regulatory situation for CBD is clear. And as we understand it, the FDA, although we do note, of course, that the products of CBD are widely available in the U.S., we also note that the FDA is saying that they will come out on -- with guidance on CBD. So I think it's a reasonable assumption that we would at least like to have a bit more regulatory clarity in the U.S. market before we announce any decisions of expanding tests to that geography.

And then we try to continuously estimate the underlying demand, basically by nationality. But as you would expect, in these COVID times, it is particularly challenging with all the channel shift. But what we are fairly confident about is that there is a continued growth in Norwegian consumption. So say, regardless of where it was bought this year relative last year. And according to our estimates, it is very similar but maybe slightly below Swedish consumption, actually. But -- so Anders showed you the slide there of 39 overall. So you're not -- not too far from that in Norway, I would say. And then Sweden, including Finnish consumption, is around that number and a little bit higher excluding Finnish consumption.

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

And then just to add to that, if you combine them, the border trade in Sweden, with a lot of Norwegian consumers buying there, which has closed down with the domestic purchases for Norway, I think it's -- you don't see a steep decline in total consumption, so to say, so.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

So and at the kind of curiosity, I mean, the -- we see Finnish consumption, as you would note then from the graph, is not insignificant part of -- if we look last year, we're talking in the range of 5% of the overall Scandinavian category being represented by Finnish consumption. And in Denmark, we see stellar growth. So it's starting to become a meaningful category, although still penetration is quite a bit below the other countries.

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Operator

Our next question comes from the line of Adam Spielman of Citigroup.

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Adam Justin Spielman - Citigroup Inc., Research Division - MD, Head of EMEA Consumer Staples Research and European Tobacco & Beverage Analyst

So my first question is really to try and back out the impact of the COVID crisis. You said repeatedly that it's had an impact, a positive impact on Q3, but it's obviously really tough to sort of quantify it. I was wondering if you could sort of give a range. I mean, if I turn around to you and said, somewhere between 5% and 10% of sales this quarter can be attributed to a boost of -- by COVID. Is that of a sort of right, rough range? You must have got some sense of the sort of top and bottom impact?

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Hello, Adam, Anders here. I mean, as you say yourself also, it's, of course, very tricky to calculate a number with all things going on and a lot of moving pieces. But I think one way to look at our results is to look at our actually reported earnings this year. And then you see that we have quite a headwind in terms of currencies. I think the reported results is a indication of the underlying results development (inaudible).

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

I think the line might have died?

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Adam Justin Spielman - Citigroup Inc., Research Division - MD, Head of EMEA Consumer Staples Research and European Tobacco & Beverage Analyst

I can hear you.

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Sorry. We had some technical difficulties here. So I don't know if you heard me all the way or not.

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Adam Justin Spielman - Citigroup Inc., Research Division - MD, Head of EMEA Consumer Staples Research and European Tobacco & Beverage Analyst

Well, essentially, if I got it right, you said that if I look at in reported sales increased by 15%. Now that's got a sort of COVID boost with an FX hit, but that's a good measure of what you think is sort of underlying, basically is what I took away from your comments?

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Yes, I think that gives a fair view of the result development.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

And then Adam, I mean, as you would also understand, it is, so to say, easier to try to assess, for example, the impact in Scandinavia, Smokefree also for you, where you can compare to kind of a more normal price/mix history that has been relatively stable the past few years, against the reported numbers now. As opposed to, for example, cigars where you have huge swings. You have on the one hand, very strong category and very high HTL volumes, but on the other hand, very different mix. So it almost becomes hypothetical and highly theoretical exercise to say what would cigars have looked like, wouldn't it had been for COVID-19.

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Adam Justin Spielman - Citigroup Inc., Research Division - MD, Head of EMEA Consumer Staples Research and European Tobacco & Beverage Analyst

No, I quite understand. There are a lot of positives and negatives. Moving on to ZYN in the U.S. In the past, you've been very helpful providing velocity and store counts. Would I be right to think that the -- and I think you've already implied that the velocity accounts per store per week was up about, let's say, 12% sequentially this quarter. Is that about right? Or have I misunderstood you?



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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

No, that's-- if you look at the M&A data, it's 20% sequential growth. And a bit less than 10% distribution growth. So that would get you to a number close to what you indicated.

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Emmett Harrison - Swedish Match AB (publ) - SVP of IR & Corporate Sustainability

And in terms of store count, we're looking at things a little bit differently now. What we're going to be talking about more and more is at distribution points that we have made deliveries to over the last 26-week period. So that means that the store count will vary from week-to-week and month-to-month, looking at which accounts actually ordered products. And we think that, that's a much more useful tool to have. And over the last 6 months, 26 weeks, and we have shipped products into about 95,000 stores, roughly speaking. So we've added stores during this quarter as we had during last quarter as well. At around that 95,000 level, if you compare it with moist snuff, about 80% of the volume that they have.

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Adam Justin Spielman - Citigroup Inc., Research Division - MD, Head of EMEA Consumer Staples Research and European Tobacco & Beverage Analyst

So you're going to say, I think you're about to say that about 80% of the volume goes to those 95,000 stores.

(technical difficulty)

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Operator

Okay. We seem to have temporarily lost sound and from our speakers. We will place the call on hold for one moment while we reestablish connection. (Operator Instructions)

(technical difficulty)

Ladies and gentlemen, thank you very much for your patience. We will now resume the call. And we will continue with a question from Adam Spielman of Citigroup. Speakers and Adam, please go ahead.

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Adam Justin Spielman - Citigroup Inc., Research Division - MD, Head of EMEA Consumer Staples Research and European Tobacco & Beverage Analyst

Yes, I think you were just saying, just to be clear, that over the last 26 weeks, you shipped 95,000 stores. And I think you were about to say, and this is where we got cut off, that, that 95,000 stores, I think you were about to say, represents about 80% of volume of moist and Smokeless tobacco.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

No. I mean, we tried to give you indication here. I mean, for moist snuff, yes I mean, yes, you're correct that although the distribution for moist snuff is higher than that, it's kind of 80-20 rules. So that covers about 80% of our moist snuff universe, suggesting that as you would expect, the larger we initially gone to, sort of say, higher volume stores.

And then just to comment also on velocity. We talked about overall velocity in the U.S. What continues to be a positive development is that we see increased velocities in what we call the initial markets, mainly in the Western region as well as the expansion markets in the quarter. And also for the initial market, the Western region, relatively consistent sequential growth compared to what we've seen before.

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Adam Justin Spielman - Citigroup Inc., Research Division - MD, Head of EMEA Consumer Staples Research and European Tobacco & Beverage Analyst

All right. So fine. Okay. And then one final question from me. If my understanding, and I'm just trying to check this, is the -- as you said, the current capacity, in theory, is 80 million units a year, which is 20 million a quarter. And the question is, my understanding is during 2021, that, let's say, rated capacity will exactly double because you've put in the equivalent number of new lines.

And I suppose a sort of follow-up question is that this is a quarter where you've shipped in excess of 30 million, but let's sort of round it to 30 million, even though the capacity is actually 20 million. Does that mean to say that in 3Q '21, we should take your rated capacity, which is 40 million, and assume that actually you're likely to ship 60 million because somehow you can get 50% more out of your lines through over time, et cetera, than what I've just described as rated capacity.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

I mean, shipments in future quarters with, of course, depend on demand and not only capacity. It doesn't mean that capacity cannot be a constraining factor, but we'll have to see what happens to the competitive situation in overall consumer demand. What Anders explained is that the base is the kind of optimal level or a little bit more than 80 million on the currently installed capacity. And you're right in pointing out that if need be, we can, even with the additional machinery then that is, as you indicate, basically a doubling of installed capacity, we can, if need be, squeeze out more capacity for a limited period of time.

But with those type of shift patterns and so forth, is not the type of level we would like to operate to in -- for the long term, but it gives us some flexibility.

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Operator

Our next question comes from the line of Sanath Sudarsan of Morgan Stanley.

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Sanath Sudarsan - Morgan Stanley, Research Division - Research Associate

Just 2 from me. First one on ZYN, of more broadly nicotine pouches. Could you just give a sense about how do you see the trends on new recruits versus increased usage? So how do you look at new pouch user to consumption compared with the (inaudible), for example, and how does it evolve or how has that evolved? If you can give us some sense of that, that would be great.

And then secondly, just getting back on your point about year-on-year market share decline of 40 basis points in Scandinavia, you alluded to the fact that much of these would be due to pouches. But could you give us much more granularity around the component of that share loss, more keen to hear about how you closed the gap on your underperformance in (inaudible) segment, please.

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Emmett Harrison - Swedish Match AB (publ) - SVP of IR & Corporate Sustainability

Hi, Sanath, it's Emmett. Your line was not terribly clear. So we may have to ask a little bit of help there. But it's fairly common for people to go through a migration pattern when they're moving consumption from one product category over to an adjacent product category. So there often can be a period of time when a person is using moist snuff and using a nicotine pouch, or snus and a nicotine pouch, or even smoking and a nicotine pouch. So you have people who are in that process of migrating over. And think about it as kind of a real basic rule of thumb, kind of a generality here. But as somebody might start off in the first 6 months or 1 year, using well below 1/10 a week, well below 1/10 a week. And as time progresses, they increase the consumption to a more normal pattern while decreasing the consumption of the other product.

So you could have people that are in the category for a year or 2 before they get up to the regular consumption levels, that would be -- from moist snuff might be 3 cans a week or what have you, yes? So you have -- it's a combination of users coming into the category to try the product and

migrating over to the product. But then you do have a certain pool of people, and we have -- we've heard of this, where people love the product so much, they say that this is the reason why they've been able to stop using a product -- another product completely.

So the consumption goes up to a more normal level, a couple of cans a week.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

And then there was a question on market share, but -- sorry, I couldn't even hear if it was a U.S. market share or Scandinavian market share you mean.

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Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Nicotine pouches, I think.

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Sanath Sudarsan - Morgan Stanley, Research Division - Research Associate

It's more about Scandinavia, actually.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

So was the question on what drove the year-on-year market share of 3.4 share points? Was that the question?

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Sanath Sudarsan - Morgan Stanley, Research Division - Research Associate

Yes, exactly. Can you just (inaudible)

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

If you can make a bridge, and you have much of this in the report. But when you make a bridge versus prior year, and measure each component contribution to the share erosion, then out of the 3.4 share points, 3.1 share points is attributable to the relative size. So the mix between the other components and then being Sweden snus contributed with a year-on-year decline, 0.7. Sweden nicotine pouches, given that it's smaller, a decline of 0.1. Norwegian snus has done very well. So it's contributed with an overall share increase of 0.9, Norwegian nicotine pouches had 0.1 and Denmark with total Denmark for all categories, meaning in Denmark and nicotine pouches and chew packs down 0.3.

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Operator

Our next question comes from the line of Robert Rampton of UBS.

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Robert Amos Rampton - UBS Investment Bank, Research Division - Associate Analyst

So 3 questions from me. The first is going back to the U.S. ZYN margin, basically running well above the 50% level. How much of that would you put down to the kind of higher utilization you flagged versus, should we say, lower levels of promotional intensity?

The second question is, would you be able to help us with these shipment numbers for the national rollout region versus the core regions, the Western region? And then finally, I mean looking -- the third question is, so looking at the Western region, it appears as though nicotine pouches

are 2% to 3% of total tobacco spend. Any obvious reasons why we can't put that in for the rest of the U.S.? Obviously, I appreciate that's a bit some way out, but interested to hear for.

Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Hi, it's -- this is Lars here. If I try to give you some color to your 2 last questions. We don't provide specific shipment data by region. However, the trends in the expansion markets have been fairly similar to and in most of the cases, better than actually the early trajectory compared to the Western region in terms of growth in velocities. And market share-wise, we are above 80% in the Western region, and we are about 60% in the expansion markets. And then you had those benchmarks there on slide, let's see there, I think it's Side 11, where we give you the benchmarks for the West and expansion markets relative to the moist snuff category.

And from the top of my head, the Western region represents about 20% of the moist snuff category, it's a bit less than a quarter then. And in terms of predictability of continued demand on the back of the success in the Western region, as I said, the early trends are very similar and indeed very promising. And I also think now with the -- there is a great -- there are also a competitive presence in the rest of the countries. So that bodes well in terms of building consumer awareness.

And then, of course, there are differences in demographic and consumer profiles across the U.S. and sourcing about half from the moist snuff category. So far, I think we should consider the fact that particularly the southern U.S. is, let's call it a little bit more committed moist snuff consumption down there.

So it could be -- if you draw a parallel to Sweden where we see looseness doing better in the north of Sweden when compared to the more urban parts of Sweden down south. So that could potentially imply that the growth could be a little bit -- so we're from that part of the addressable consumer market. And then with ZYN being a premium offering in some states low price moist snuff because the tax regions is much more prevalent than in most states in the west, that could be another factor. But net-net, how this is going to play out is, of course, very difficult to predict. I think the key thing here is that we see the same type of very strong growing consumer demand in the expansion markets as we have done in the West.

Anders Larsson - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Yes. And Anders here. On your comment, on your question on margin, I think it's very hard to separate and isolate specific effects on the margin. But just as a general comment, I mean, we see of course, the margin benefits from that high utilization levels and also the curtailment of certain spending and absence of pricing promotions. But I cannot provide any specific isolated effects from each single item.

Operator

Our last question comes from the line of Fredrik Ivarsson of ABG Sundal Collier.

Fredrik Ivarsson - ABG Sundal Collier Holding ASA, Research Division - Research Analyst

Two very quick ones from me. Starting on moist snuff, you saw double-digit volume growth, would say that operating profit was only up slightly. So am I right in assuming that the moist snuff margin actually decreased a little bit in the quarter?

Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Yes. There was slight erosion there.

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Emmett Harrison - Swedish Match AB (publ) - SVP of IR & Corporate Sustainability

So it was a mix issue a bit because Longhorn, our value-priced product, saw very good growth. Timber Wolf, which is our higher-priced product was not pacing at all the same levels as Marlboro does. So mix comes into play there. Also, it's good to remember, Lars mentions the quarterly fluctuations in the prior year before we went into the EDLP program. So you are getting these swings.

And also for cigars, just to reiterate, the third quarter last year, you saw on the slides, the numbers were down in the third quarter. So it makes the comparative a bit easier in terms of the growth. And then one final thing, just a little bit on the profitability for cigars, I should mention that with the very high production levels and efficiencies that we're getting from our HTL cigars, it's not necessarily given that extra volume in HTL cigars is a drag in any way on the profitability for the cigar business.

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Fredrik Ivarsson - ABG Sundal Collier Holding ASA, Research Division - Research Analyst

That's excellent. And one last question. On the 32 million cans, would you mind giving a ballpark figure on how much of that volume that came from Sweden?

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

It's 2-plus million. We managed to produce that or supply at those for close to 30 million cans in the quarter.

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Operator

And we have no further questions at this time. Please go ahead, speakers.

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Lars Dahlgren - Swedish Match AB (publ) - President & CEO

Okay. And we would like to thank everybody for participating and your patience with the technical challenges. We will not disclose which mobile phone brand we were utilizing during this call. And I'd like to remind you that the publication of our full year report will be on February 5 next year. Thank you.

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