

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

SWMA.ST - Q3 2021 Swedish Match AB Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2021 / 11:00AM GMT

## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

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

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

**Jared T. Dinges** *JPMorgan Chase & Co, Research Division - Analyst*

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

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

## PRESENTATION

### Operator

Welcome to the Swedish Match Q3 Report 2021. (Operator Instructions)

I am pleased to present Emmett Harrison, Senior Vice President, Investor Relations. Please go ahead with your meeting.

---

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

Good afternoon. This is Emmett Harrison, Senior Vice President of Investor Relations at Swedish Match. And joining me today is Lars Dahlgren, our CEO; and Anders Larsson, our CFO.

---

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

In the Investors section of our [swedishmatch.com](http://swedishmatch.com) website, you will find our Q3 investor presentation. We encourage you to have that presentation at hand as you listen to our prepared commentary for this call. Several of the slides in the investor presentation repeat key messages from the interim report that we published this morning. We will focus our commentary on select slides only. And while doing so, we would refer to the applicable page number of the presentation.

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

After that intro, that was mostly read by Lars, because we are in different locations, so apologies for the technical difficulties. But I will now go on with the main commentary.

In today's report for the third quarter, we reported record sales with year-on-year revenue growth across all product segments. Operating profit from product segments was also at record level and considering well-executed ramps up in marketing and selling activities, the more elevated demand for some of the product lines, along with lower-than-normal administrative and selling expenses in Q3 of the prior year, the year-on-year profit growth reported to date is a testimony to both the strength and the potential of our businesses.

The Smokefree product segment represents more than 70% of our group EBIT. And with nicotine patches becoming a larger and larger portion of our product portfolios across markets, the growth prospects of the Smokefree segment are becoming increasingly attractive. For the 9-month period ending September 30, revenues attributable to nicotine pouches were approaching 40% of the sales of the entire Smokefree segment.

Without the exception in our core geographies being Scandinavia and the U.S., the consumption of nicotine pouches continue to exhibit strong double-digit growth in the third quarter. Also, in several of the other markets where we are present, we see similar trends. In the U.S., more and more adult tobacco consumers are discovering the benefits of nicotine pouches over their current form of tobacco use. And in Scandinavia, nicotine pouches are enhancing the already attractive dynamics of the Smokefree category by making the product more relevant for broader consumer groups, not the least women.

In the U.S., ZYN continued to perform very well in the quarter. Despite aggressive and deeper promotions from large competitors, ZYN demonstrated market share resilience and grow its shipments sequentially relative to the second quarter by 7% on a constant trading day basis. Higher velocities measured on a can per store week basis within our existing store distribution footprint continue to be the key driver of growth.

As indicated in the second quarter conference call, we outlined an ambitious plan of activities for Q3 geared toward driving awareness, engagement and loyalty for ZYN with both consumers and the trade. I'm very pleased to note that we successfully executed on this plan and we were pleased with our volume development and market share resilient.

Traditional smokefree product in the U.S., however, had a weaker development in the third quarter, to a large extent, due to comparison with elevated demand in the prior year. Our Smokefree business in Scandinavia continued to report strong top line development, along with earnings growth, in spite of significantly higher spending in pursuit of growth opportunities within nicotine pouches also on this side of the advantage.

With very strong category development, snus shipment volumes grew at a respectable rate despite our portfolio skewed towards a slower growing snus market and shipment growth for nicotine pouches that fell somewhat short with the market growth rates. Strong realized pricing contributed meaningfully to the sales development, resulting from price increases, product and segment mix effects as well as continued high deliveries to Norway, where there is virtually no low price segments.

For U.S. cigars, we pointed to likely elevated demand brought on by the COVID-19 situation in the prior year quarter. Demand from consumers and the trade has remained strong. And since the onset of COVID, manufacturers have struggled to produce enough cigars to satisfy demand. Our own supply chain organization has made impressive progress in managing a difficult situation and raising productivity for natural leaf varieties, shortage of certain raw materials brought on new challenges in Q3, which especially affected shipment volumes of HTL varieties.

Given difficult comps in Q3 of the prior year and the strained supply chain situation, I would characterize our cigar business' performance during the quarter as an accomplishment. An achievement to highlight is record shipment volumes for natural leaf cigars and resulting share gains with this strategically important segment, both versus the prior year period and sequentially compared to the second quarter.

Over the past 10 years, the natural leaf segment has grown at an annually compounded rate in excess of 20%. And for the year-to-date period, more than 60% of the Swedish Match cigar shipment volumes were comprised of natural leaf cigars.

The successful strategy of focus on the natural leaf segment, the strong track record of innovation and nurturing of leading brands like Game, Garcia y Vega 1882 and White Owl position Swedish Match's cigar business very well for growth.

The cigar business has now grown to a scale where we believe that the advantages to the business of pursuing a separate autonomous strategic agenda would outweigh any negative impacts from the loss of synergies or scale economies present under the current setup. This is the key reason why we, on September 14, announced our intention to carve out the U.S. cigar business into its own independent company and to list the new cigar entity on a U.S. Stock Exchange via a spinoff through its shareholders.

The remainder of Swedish Match U.S. business has had an even more impressive historical track record of growth in recent years. And the current scale of that business implies that the administrative and other dis-synergies that would result from a cigar spinoff are manageable. While some

resources are anticipated to transfer to the new cigar company in conjunction with the intended spinoff, the intention is that the new cigar company will establish a more streamlined and fit-for-purpose sales and administrative structure.

What this means for the remainder of Swedish Match in the U.S. is that even more resources would be available to focus on expanding and executing on the smokefree growth strategy with the ability to reach full dedication, crystallize both the significant harm reduction and commercial opportunities of that business in line with our vision of a world without cigarettes.

Following these introductory remarks, we will now provide some more comments to select slides of our Q3 investor presentation. And starting on Slide 8. Slide 8 illustrates the impressive trajectory for ZYN shipment volumes in the U.S. on a 12-month rolling basis. During the third quarter, we delivered record volumes of 46.2 million cans, which brought the 12-month rolling shipment volume to close to 160 million cans. For the year-to-date period ending September 30, ZYN shipment volumes in the U.S. grew by more than 50% compared to the corresponding period in the prior year, with continued strong growth in the Western region, where we initially launched the product and also in the other regions outside of the West, where we started building presence at a more meaningful scale from the spring of 2019.

Slide 9 illustrates the volume development for all nicotine pouch brands in the U.S. as measured by MSA data. As we have pointed out before, MSA data is particularly helpful in analyzing trends over a longer period of time, while isolated quarters can be susceptible to ways for distribution expansion and promotional offerings, et cetera, that cause retailers to stock up. Yield over several quarters, however, the chart depicts the impressive growth trajectory of the nicotine pouch segment, which we now estimate to have reached the size of about 280 million cans on an annualized basis based on the current run rate.

The dotted line in the chart illustrates the resilience in ZYN market share over the past quarters, and we are very encouraged to note that ZYN has held up its position very well despite continued broad-based and deep promotional activities from major competitors. During the quarter, there were also certain summer promotions for ZYN that calibrated to well aligned with the premium profile of the brand, which implied a promoted discount for can at retail level well below rebates typically seen from major competitors.

Slide 10 provides some more details of the trajectory for ZYN based on the same MSA data. Starting with the graph to the left, which shows the number of stores selling ZYN with historical 13- and 26-week period, you will note that the store count for ZYN has increased in a controlled manner. Currently, the number of stores selling ZYN is around 100. To the right-hand side of the slide, you can see the consistent growth in velocity for ZYN on a quarterly basis.

In the second quarter, the velocity for ZYN benefited somewhat from the sell-in of Menthol and Chill varieties at the national level, while this year, summer promotion had a favorable impact in the third quarter. Again, we urge you to take a longer-term perspective. And if you compare to the third quarter 1-year ago, the number of stores have grown by 13%. As a testimony to the appeal of the ZYN franchise, the velocity has grown by an impressive 27%.

Turning to Slide 11. Based on recently conducted consumer research, we have updated some of our benchmarks for the nicotine pouch segment in the U.S. On this slide, we look at benchmarks for our estimated number of ZYN consumers rather than consumers of any brand of nicotine pouches, bearing in mind that ZYN enjoys a market share well above 70% in the West.

Our most recent estimate indicates that the number of ZYN consumers in the West now makes up more than 10% when compared to the number of cigarette smokers. The corresponding number nationally has grown to close to 5%. These benchmarks not only demonstrate the high level of acceptance that ZYN has among consumers, but more importantly, they highlight and reinforce the future growth potential for ZYN, including its great harm reduction potential.

When comparing the trajectory for velocity growth for nicotine pouches in the expansion markets versus the West, the velocity development in the expansion markets up to this point shows a similar growth rate, but at slightly higher levels compared to what was noted for the West region based on a comparable number of months in the market. It should also be noted that in addition to cigarette smokers, adult users of other forms of tobacco such as moist snuff and obsolete ENDS have proven to be an important source of users for ZYN.

In addition, one needs to remember that across the entire user base, estimated average consumption for nicotine pouches are still relatively low, in and around 2 cans per week. This can be compared to reported consumption patterns for consumers registered in the ZYN loyalty program now were in excess of 100,000 consumers, whose average consumption is about twice that number, which is largely consistent with consumption patterns reported for U.S. moist snuff consumers and Scandinavian snus users.

The combination of consumer migration rates from other tobacco and nicotine categories, coupled with likely increased weekly consumption levels, bode extremely well for the future growth prospects of the nickel pouch segment and its market-leading brand, ZYN.

With that, I will give the word over to Anders.

---

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

Thank you, Lars. Moving on to Slide 12 and the Scandinavian Smokefree category. The strong volume trend for Smokefree products in Scandinavia continued in the third quarter, supported by solid consumption growth in all the 3 Scandinavian countries: Sweden; Norway; and Denmark. Swedish Match's best estimate is that the overall Scandinavian smokefree market grew by close to 10% year-to-date in volume terms. While nicotine pouches were the key source of growth, snus also contributed with low single-digit growth for the combined Swedish and Norwegian markets.

Slide 13, which depicts the volume trajectory for the Scandinavian Smokefree category on a 12-month rolling basis based on Nielsen and online sales data, clearly demonstrates the acceleration of growth resulting on the broader consumer adoption of nicotine pouches. More than half of the nicotine pouch user base is comprised of women and cigarette consumption historically has been higher for women. We view this as a very positive development from both a harm reduction and a commercial perspective.

A word of caution is warranted when viewing the acceleration of growth that this slide indicates in and around the onset of COVID, with travel restrictions and changes in consumer purchase pattern, the data is susceptible to differences in data coverage between different classes of trade.

In our estimate of close to 10% overall category growth, for the year-to-date period, we have adjusted for this, but it remains a challenge to estimate consumption data with precision. While the margin of error should be applied to the overall estimate, the data indicates that the sharp reduction of retail prices in Norway following the excise tax reduction in January of this year has fueled consumption growth further.

On Page 14, we look at market share development in the Scandinavian snus market as reported by Nielsen. Our share for snus in Scandinavia has been stable over the past few years, and we remain the clear market leader, more than twice the size of the next largest competitor. While the declining percentage of snus relative to the entire Smokefree category is apparent as illustrated to the right on the slide, this needs to be considered in light of very strong overall category growth.

Further, with the low-price snus segment in Sweden that has remained relatively stable and almost an absence of low-priced products in the growing Norwegian snus market, the premium segment share of the overall Scandinavia snus market has grown slightly.

On the following slide, Page 15, we look at share trends for the nicotine pouch market in Scandinavia using Nielsen data. The competitive intensity of the nicotine pouch market has escalated even further during the third quarter with a high level of activity, both in terms of new brands and varieties and in terms of promotional offerings, both online and in traditional retail channels. The high activity level has supported growth of the category, which now represents close to 22% of the Scandinavian smokefree category according to needs and data.

As illustrated in the graph to the left, Swedish Match's nicotine pouch volumes continue to grow strongly in the third quarter to some extent aided by VOLT launched during the second quarter. With a competitor of ours having what can be described as a first-mover advantage, the proliferation of product and brand offerings available to consumers and the intensity of competitive activity generally improving our share of the Scandinavian nicotine pouch market remains a challenge that takes time to address. However, with the pipeline of distinctly differentiated innovations showing very promising test results on several key parameters, we remain confident that our unique capabilities will make a difference.

Moving on to moist snuff in the U.S. on Page 16. As can be seen on the left-hand graph, volumes for both the category and for Swedish Match contracted during the third quarter compared to the third quarter of the prior year. However, there are two important things to note about this development: first, we are comparing to a prior year quarter with unusually tough comparisons, resulting from the elevated demand that was derived from changed consumer purchase pattern in the midst of the COVID-19 pandemic; second, the timing and design of our promotional activities in 2021 differed from 2020, which also contributed to the year-on-year volume decline in the third quarter. The promotional schedule differences should be more supportive of the volume development in the fourth quarter.

While Swedish Match's market share of the moist snuff category was slightly down year-on-year in the third quarter, we note that we gained shares year-to-date. The share gain was driven by sustained momentum of the Longhorn brand, in particular, within the faster-growing pouch segment. That was partially offset by the discontinuation of certain products within our loose range.

If we turn to chewing tobacco in the U.S. on Page 17, it is even clearer that we are comparing to a prior year with elevated demand as 2020 demonstrated changes in consumer behavior and purchase patterns, likely driven by factors like higher prevalence of work from home. Based on more recent category trends, we believe that it is prudent to assume that the chewing tobacco segment now has returned to its historical decline rates.

Swedish Match shipments declined by close to 9% year-to-date and by 12% in the third quarter. Similar as for more stuff, the timing of promotional activities further accentuated the year-on-year volume decline for Swedish Match's chewing tobacco. Also, for chew, the promotional scheduling should benefit year-on-year volume development in the fourth quarter.

We now turn to Page 19 and cigars. Swedish Match's shipment volumes increased only marginally in the third quarter, but we are very pleased to note the strong growth for natural leaf varieties, both as compared to the third quarter of the prior year and relative to the second quarter of this year. Progress in increasing capacity for natural leaf resulted in record volumes for those varieties, but the shortage of certain input materials had a significant negative effect on HTL shipments. Total production volumes for all varieties, while being well above pre-COVID levels did not reach the level of more recent quarters.

On Page 20, we illustrate the U.S. mass market cigar category development based on MSA data. For the sake of clarity, comments relating to the mass market cigar category includes the market for pipe cigars, but excludes the market for little cigars. The graph to the left depicts the solid growth for the mass market cigar category over the last 10 years and the relative outperformance of the natural leaf segment. For the year-to-date period ending September 30, the total category for mass market cigars grew by 6% in volume terms, exclusively driven by the natural leaf segment with Swedish Match growing at only a marginally slower pace according to MSA despite HTL production issues in the third quarter.

The graph to the right illustrates Swedish Match's volume share in the third quarter for the category and by segments. In the third quarter, we not only gained market share in the faster-growing natural leaf segment on a year-on-year basis, but also sequentially relative to the second quarter. The decline in our HTL market share was, to a large extent, the result of the shortage of certain input materials as mentioned earlier.

Slide 23 restates our 2021 outlook from the interim report. We continue to expect the effective corporate tax rate for the full year to be around 23%. Our CapEx plans remain on track to be above the 2020 level, and we'll continue to foresee good market growth for smokefree products, driven by the rapid growth of nicotine pouches. On the back of the attractive growth prospects for nicotine pouches, we have for the 9-month period of 2021 noted an elevated competitive activity for nicotine pouches across our markets, and we foresee no change to this development in the fourth quarter.

While our 2020 outlook remains unchanged, there are a few things worth noting. For our Scandinavian smokefree business, we remind you that shipment volumes to the domestic Norwegian market remained elevated at the start of the prior year fourth quarter, but declined significantly in December as the trade and distributors, they stopped ahead of the January 1, 2021, excise tax cap. In January of this year, inventories in Norway were replenished.

For our U.S. businesses, there will be 60 shipping days in the fourth quarter compared to 64 days in the third quarter and 61 days in the fourth quarter of the prior year. For cigars, as was noted in the interim report, while we work diligently to mitigate production-related challenges, restrictions on certain input materials in particular, are likely to continue limiting our ability to fully meet expected strong demand for some time ahead.

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 sales. The average exchange rate in the fourth quarter of 2020 for the U.S. dollar was SEK 8.63; the NOK, SEK 0.95; and the Brazilian real, SEK 1.59.

And with that, operator, please open up the line for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Fredrik Ivarsson from ABG.

---

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

First, a question on what you just said regarding the promotional rates of moist snuff and chew in the U.S., obviously. What does that imply in terms of price/mix in the quarter? Should we read it as price/mix were more positive in both those 2 categories?

---

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

Yes. I mean when you have price promotions that tend to bring up volumes and bring down the average price slightly, but it's far from all of the volumes that is on promotion. So it's more -- you get a degree of incrementality in terms of shipments during promotional ways. I'd say that's the main effect. And as Anders said, we should have more favorable year-on-year comparison from that perspective. It's also worth noting that we have announced list prices in our moist snuff portfolio recently in the U.S., largely following the levels of competition.

---

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

Okay. Perfect. Second question on the implied margin of ZYN in the U.S., which seems to be down a bit. Is it possible to get some kind of ballpark figures on the impact from gross margin versus higher OpEx? I assume spending in terms of marketing and so forth as you mentioned in the report.

---

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

Without going down into details of that -- like that, but the gross margin has remained very, very strong. And the margin has also remained very strong. But if you look at sequentially, the fourth quarter -- or sorry, the third quarter compared to the second quarter, we continue to grow sales while the operating profit development was relatively stable. So a slight margin contraction in the third quarter, but which is something that is -- was perfectly in line with our own plans and ambitions in terms of stepping up the marketing support in view of the long-term growth prospects.

---

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

And I mean, obviously, comparing to the prior year margins, that becomes then a quite big effect. But then you need to remember that costs in the prior year was very low on certain activities that we couldn't carry out because of this COVID situation.

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

Yes. That's fair enough. And then you write in the report that you grew EBIT double digit from ZYN, I think. But I assume that can be anywhere between 10% and 40%. So can you help us out a little bit? Is it closer to 10% or closer to 25%?

---

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

The figures we disclosed are for the entire segment. But the relatively sharp volume declines that we report from moist snuff and chewing tobacco naturally had a negative effect on the earnings development. This will be highly driven by strong performance for ZYN.

---

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

Right. And last one for me. If you could give us some key takeaways from the new VOLT products that you launched a few months back. I think if I remember correctly, those are targeting another consumer group than ZYN. So it would be interesting to hear any key takes from that product launch?

---

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

Yes. That seems to be the case to some extent, at least, I think it's the fair description. It skews younger than ZYN in terms of who is buying the product. It's reached a 4% share, and we are very pleased with the execution of the launch and the continued support in terms of the distribution build and the activities that have been put in place to support and build the brand. We have seen more cannibalization on ZYN than we originally had anticipated, but I think we have to give it some time for the communication and for the brand to, so to say, find its right home in terms of the target audience.

There is [suites on the core] was recognized. There's been a virtual explosion in terms of product and brand varieties when it comes to nicotine pouches in the Swedish market. So there is a fair degree of -- while people typically have a main brand, people try a lot of different varieties and so forth. So I think we have to give it some time before we see a more stable development in terms of the consumer profiling.

---

**Operator**

Our next question comes from Richard Felton from Goldman Sachs.

---

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

So my first question is on the nicotine pouch category in the U.S. Now I understand that quarter-to-quarter shipments can be volatile. But I'd like to know for the overall category, from an underlying sellout perspective, what is your best estimate of category growth? And has there been any material change to that trend this quarter? That's my first question. And then I've got a follow-up on ZYN afterwards.

---

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

It's almost impossible. Obviously, we know the MSA volumes. But if you look at the kind of spikes in deliveries, particularly from competitors of ours around promotional ways, it's very dangerous to provide any estimates of exactly what's underlying. So we need to stick to what the MSA data said. And then I think it's worthwhile to remember this type of quarterly volatility.

So if I start to read the numbers here, now going back to Q1 2020, then you had 29% in Q1, dropping to 6.5% and then 26.5% and dropping to 6%, then up to 23.5% and 17.9% and now 7.7%. So with that type of variability, again -- I mean, if you look at the year-to-date growth, it's 67% up. I think that's the number that you should focus on, quite frankly.



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

Okay. That's very clear. My second question is on ZYN specifically. So you mentioned in your statement that ZYN U.S. sales grew by less than volume. Can you maybe quantify by how much, please? Then also on your average realized price per can, I know you've been clear that you were going to be stepping up promotion and support, especially compared to last year when you were capacity constrained. But how should we think about average price per can going forward? Should we expect that to be stable sequentially or because there's still a very big gap between you and your competitors? Should we think that pricing is likely to be a headwind going forward for ZYN?

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

Yes. On your first question around the channel rate of growth, we -- I can confirm it was double digit and then we don't go into more details than that. And then in terms of promotions, we have increased the promotional activity for ZYN during the quarter. And it's fair to assume an increased element of promotional activity going forward as well. But we have also implemented list price increase for ZYN recently as well.

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

And similar as other categories, there may be some seasonality and ways. So during the quarter, for example, we had what was called the summer promotion in certain outlets that won't be repeated now in the fourth quarter, but there may be some other activity in view of that.

**Operator**

The next question comes from Faham Baig from Crédit Suisse.

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

One clarification question or just check if you did give that number. Are you -- Lars, did you mention that velocity of ZYN has continued to expand in the Western region. And I guess what would be helpful for us is as you have on Slide 10, are you able to break out the velocity in the Western region versus the expansion markets, please?

And then my second question is in your other markets in the Smokefree division. I noticed a bit of a pickup in your volumes in Q3. What would you attribute that to? Are you seeing any early successes in any particular market? And with it seemed to have come an improvement in losses. Again, where has that come from? And how should we look at Q4 next year in terms of losses in that division would be helpful?

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

Yes. I mean if you take the velocities, again, it's with some hesitancy I provide quarterly MSA numbers given what we keep on repeating in terms of looking at longer trends. But if you look at the total velocity number for ZYN in the U.S., it's just shy of 30 cans per store a week and it's close to 60 cans per store a week for the Western region, and it's a little bit above 20 cans than in the expansion market.

And it is correct that the quarterly velocities have grown sequentially in both the West and the expansion markets. I'm trying to look how far back, but for all quarters this year, and for all quarters prior year as well, actually.

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

Then in terms of other markets, one thing there to note is that we have now anniversaried the situation in Germany with a ban of chew bags. So that helps the comparison. So -- but we see good growth, but from a small base of nicotine pouches, but that has been there all the time, but

masked a bit by this chew bag volumes on the German market. And in terms of spending, I would consider the change there in trend versus previous quarter, more a timing driven thing.

---

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

If anything, I think you should count on us continuing increasing investments over the coming years in other markets given the opportunity that we see there.

---

**Operator**

Our next question comes from Gaurav Jain from Barclays.

---

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

So I have 3 questions. One is on the slide where you show the sequential market share trends for ZYN in the U.S., Slide #9, is it possible to share what was the monthly trend? And the reason I'm asking is that, is it that the September market share is much higher than the July market share and that has continued into October? Like is there anything like that which is happening with ZYN?

---

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

It is. There is certainly monthly volatility in market share, and again, attributable to ways of promotions. And the exit share for the quarter is slightly higher than the average quarterly market share. But I'm convinced that we will see volatility also going forward. I wouldn't take that as prediction for how Q4 could look like.

And rise in promotions that we see from competition, they have a very distinct effect on market share. While typically, the historical pattern is that we've seen very limited impact on the velocity trajectory for ZYN.

---

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

Sure. That's very helpful. Second is on the cigar spinoff and you mentioned several times that there will be stranded costs, but the strategic benefits would outweigh any stranded costs. Is it possible to quantify what the stranded costs could be? And will there be a separate sales force that the cigar company will hire, so does that lead to less cost amortization of your -- of the remaining U.S. business, the cost of that salesforce over the cigar revenue and volume? So how should we be thinking of margins in U.S. next year? And the associated question on that is, will the U.S. cigar company be targeting an investment-grade rating when it spins off?

---

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

Most of the questions of that nature are premature as we are working through or started to work through the detailed plan. But in terms of the dis-synergies, they are actually spread out, manageable. But naturally, we're talking a few millions of dollars. And when it comes to the capital structure, that's the type of thing we need to get back to, but enriching investment-grade rating is likely, but the levers could be a bit higher than what we have on average for Swedish Match.

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

Okay. And the third is on the Scandinavian slide. So earlier you used to give a breakdown of trends happening in Norway, Sweden, Denmark separately, which used to be very helpful. Is it possible for you to just give some remarks on how our markets developing in each of these separate countries?

---

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

Yes. I mean given the size of our different businesses and the flows that we see between the countries, we think it's more appropriate to provide numbers for Scandinavia as a total and particularly during this period of channel shifts and so forth that is a prudent thing to do. But of course, we look at it more in detail ourselves. And the strong growth that we can note, the year-to-date period, it is without a doubt sourced both from Sweden and Norway. So compared to kind of 5-year historic growth rates, we see an acceleration in both those.

In terms of consumption because we measure it -- we try -- we estimate it by effectively Norwegian consumption, then we include border trade in Sweden that is both by the region.

---

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

Yes. I think if you think of it like consumption by nationality, regardless of where those products are bought, then it's good growth for all nationalities, so to say.

---

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

Yes. Except year-to-date Finnish consumption.

---

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

Finnish haven't been able to buy them with restrictions.

---

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

But -- which has picked up in the third quarter. And in percentage terms, the strongest growth is in Denmark where we see a strong acceleration of category growth since the introduction of nicotine pouches in that market. Finally, also most probably will be a tax increase, by the way, on nicotine pouches. But we think that, that will -- but it's of the magnitude, it's meaningful, but we think that the strong growth is going to continue.

---

**Operator**

(Operator Instructions) The next question comes from Jared Dinges from JPMorgan.

---

**Jared T. Dinges** - JPMorgan Chase & Co, Research Division - Analyst

A couple from me, please. So you mentioned that overall, ZYN users in the U.S. are using 2 cans per user roughly. Could that be due to dual or poly usage? And could you give us roughly where you guys think the percentage of users are -- ZYN users that are dual or poly nicotine product users?

And then secondly, you guys called out the strong female uptake of nicotine pouches in Scandi. Have we seen any uptake of -- for females in the U.S. as well? Or is it still male dominated?

---

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

If we start with your last question, the answer is yes. But in Scandinavia or in Sweden, the number from top of my head is -- we estimate that 55% of the consumers are women, which can be compared to roughly 20% for snus. It may even have gone down a little bit for snus given the popularity of nicotine pouches. And in the U.S., we estimate that about -- or about 20% of the consumers of nicotine pouches are female, which in turn is significantly higher than traditional smokeless use like moist snuff. So the U.S. is basically where snus was in Sweden and which was -- female assumption was growing at very good rates even before nicotine pouches.

In terms of poly use, there is a degree of that. And there is a consumer journey typically going on. So we see that consumers that have used for a longer time, they tend to use it more on an exclusive basis. I don't have a percentage on the top of my head from our latest research, but it's a fairly large proportion of U.S. consumers that may switch with doing or alternate between vaping and nicotine pouch as an example and also sometimes cigarettes.

But the good news is that the typical consumer pattern is to leave the combustible alternatives behind. And this is also the trend that we've seen in Scandinavia for a long, long time that as new consumers that come from cigarette smoking, they may start to use it occasionally at work and so forth, and then they discover the benefits and they transition fully -- most of them.

---

**Jared T. Dinges** - *JPMorgan Chase & Co, Research Division - Analyst*

Got it. So I mean you said a fairly large proportion. I mean can we think about maybe over 50%?

---

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

That's our poly users. Yes, I would say so, yes. And as also indicated by the estimated average consumption of only 2 cans. But if you look at the ZYN database of loyalty consumers, it's close to 4 cans per consumer. And we, to some extent, of course, by example, given that they are engaged enough to sign up for a loyalty program. But there are also typically consumers who have used the product a bit longer time. And we do estimate that the consumption per consumer in the Western region is a bit higher than in the expansion market given longer time with the brand.

---

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

And comparing also to Scandinavian moist snuff, it's about 4 per week just about end consumer.

Did the line drop dead? Or are there no further questions, operator?

---

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

I'm calling from the outside, and we can still hear you on the line. But there were no further questions that I heard. I did receive one question if I may. This is Emmett Harrison speaking, if I may?

---

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

Yes.

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

Yes. Okay. The question that came in is, what is the opinion on new synthetic nicotine pouches that have pumped onto the market and thoughts on synthetic nicotine in general?

And a second question on velocity, which is currently tracking a 13-week level of around 27, 28 cans per store per week. What is the optimal level for this measurement? In other words, how many cans per store per week at the right level for efficiencies without stopping the trade.

So two questions. What are your thoughts on nicotine pouches? And the second, how high can the level of cans per store per week be without stopping the trade and sort of deliveries to retail?

---

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

I mean on the last question there on cans per store per week, that is, of course, an average across very diverse types of stores. So it varies dramatically.

---

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

Yes. And it depends, of course, on the offtake from the stores, which is growing, of course, compared to -- I don't know if Scandinavia -- it's much headroom to go or to increase that number.

---

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

I mean we have stores -- several stores and many stores in the U.S. that turn well above 100 cans per store per week. So as long as consumers buy it, we don't understand the stopping of the trade question.

On Synthetic nicotine, I mean, this is a phenomenon where that is obviously kind of falling between the cracks a bit from a regulation point of view. From an industry perspective, we don't think that that's a good situation. We are in favor of a proportionate and reasonable regulation. And I think it's safe to assume that through our authorities and politicians.

So from that respect, we do expect regulation of those type of products. It should also be noted that for the consumers, I mean, correctly done, so to say, it's the same molecule. So there is no consumer experience difference. But there can be differences if we go into chemistry here that means that there can be synthetic variants out there that don't completely mirror tobacco dry ones, where also the long-term effects of using it are not known.

So in terms of supply and product and then marketing of synthetic nicotine, it's a bit of wild, wild west at the moment, and we don't expect the situation to remain that way.

---

**Operator**

We have no further questions. I hand back the word to our speakers.

---

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

Okay. Then thank you, everybody, for joining today's call. And I can inform you that the release of our full year report will be on February 16. Thank you very much.

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

Thank you.

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021, Refinitiv. All Rights Reserved.