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SWMA.ST - Q3 2022 Swedish Match AB Earnings Call

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Q3 Report 2022 Swedish Match Earnings Conference Call and Webcast. (Operator Instructions) Please note that today's conference is being recorded.

I would now like to hand over to your first speaker, Mr. Johan Levén, Vice President, Investor Relations. Please go ahead, sir.

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**Johan Leven** - *Swedish Match AB (publ) - VP of IR*

Hello. This is the Swedish Match Third Quarter 2022 Telephone Conference. And with me today are Lars Dahlgren, our President and CEO; and Anders Larsson, our CFO. In the Investors section on the [swedishmatch.com](http://swedishmatch.com) website, you will find our Q3 investor presentation.

You are encouraged to have the investor presentation at hand as you listen to the prepared commentary for this call. Some of the slides in investor presentation, repeat key messages from the interim report that was published this morning. We will, therefore, focus our commentary on a smaller number of slides that we have selected, and while doing so, we will refer to the relevant page number in the presentation. Unless otherwise stated, all comparisons are relative to prior year's corresponding period.

For U.S. Smokefree and Cigars, comments on financial developments are made based on results achieved in local currency measured in U.S. dollars. And when we refer to market shares, unless stated otherwise, we refer to MSA data that measures shipment volumes from distributors to the trade.

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 that 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 undertakes no obligation to update information concerning its expectations. A recording of this call will be made available on the Swedish Match website.

And with that, I'd like to hand over the call to Lars.

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

Thank you, Johan, and good afternoon, everybody. With group sales from product segments of close to SEK 5.7 billion and operating profit from product segments of just about SEK 2.4 billion, the third quarter financials of Swedish Match again reached a record. Currency tailwinds, in particular, the stronger U.S. dollar played a role, but again, the Smokefree segment, and particularly, the U.S. Smokefree business, drove the financial performance. Within U.S. Smokefree, the continued momentum for ZYN and excellent performance from moist snuff far outweighed challenges in chewing tobacco, where we experienced deeper than historical trend volume declines and accelerated consumer down trading.

For most of our other businesses, the third quarter was unusually challenging with common denominator such as strong comps, timing effects on shipments and inflationary effects on costs. For Lights, the third quarter was particularly challenging with the suspension of deliveries to Russia and some costs of onetime nature.

Naturally, we do not expect negative timing effects over time, and we worked diligently to mitigate challenges, like inflation and the reduced lighter footprint. But the most successful strategy as evidenced by Q3 financials is to continue to pursue our focused growth agenda in attractive and profitable segments, like nicotine pouches and natural leaf cigars.

We expect continued significant growth in consumer demand for safer alternatives to cigarettes, and we expect the nicotine pouches as a category will continue to evolve as the #1 choice among even more consumers seeking satisfactory experiences in the reduced risk product landscape.

In the third quarter, the nicotine pouch markets continued to grow at strong double-digit levels in U.S. and Scandinavia as well as in several of the smaller markets outside those geographies. For the year-to-date period, nicotine pouches comprised almost 1/3 of group sales from product segments and close to 50% of the sales of the Smokefree segment.

Then in the U.S. had another impressive quarter. The strong category demand and market share gains drove the volume increase of 38% and profitability was excellent with improved pricing and benefits of economies of scale in marketing investments and production.

In Scandinavia, the overall Smokefree market continued to exceed with good growth, and we are pleased to note that the slight -- pleased note the slight market share gains and strong growth for our own nicotine pouch business, driven by continued traction for the VOLT brand family in Sweden.

Our total Scandinavian Smokefree shipment volumes were weak, however, as we saw inventory adjustments in the Norwegian domestic retail trade as consumer purchases at border and travel retail classes of trade approached pre-Covid levels. These shifts, which also implied negative mix shift, together with inflationary pressure on production and other costs, contributed to a notable decline in our Scandinavian Smokefree business operating profit.

For Cigars, while we knew that we faced particularly tough comps for natural leaf varieties, the third quarter was a disappointment in terms of overall shipments. For natural leaf varieties, we continue to grow volume sequentially versus the second quarter, driven by good performance for all leaf varieties. But for HTL, we did not see anticipated increases in orders as production constraints eased, and we removed allocations.

With the supply chain issues that we have experienced, it's been a challenge to consistently match shipments with demand, which in turn has caused less predictable ordering patterns and inventory fluctuations at both distributor and retail levels.

For the quarter as well as for the year-to-date period, our year-on-year shipment declines are steeper than what MSA is reporting as shipment declines from distributors to the trade and what IRI is reporting as consumer offtake of Swedish Match products. We are now in a good inventory position ourselves. Our production capacity has come up and the limited raw material availability that we have been referring to is no longer a production constraint.

While it may still take some time to restore balance and for these issues to work through the value chain, we should now be in a good position to fulfill future demand. And while the category is down compared to the prior year, it is notably stronger in volume terms compared to the level

before covered, driven by growth in the natural leaf segment. And we continue to expect that growth in the Cigar category, driven by natural leaf varieties and during the third quarter, close to 70% of our cigar shipments were comprised of natural leaf cigars.

Following these introductory remarks, we will now turn to some comments to the selected slides from the investor presentation, and we start on Page 9.

Page 9 illustrates the continued 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 63.6 million cans, which brought the 12-month rolling shipment volume to about 220 million cans. Similar to previous quarters, while increased distribution for ZYN has been a supporting factor for volume growth, higher velocities have been the primary driver.

At the end of the third quarter, distribution of ZYN exceeded 138,000 stores. It's very encouraging to note the fact that the solid trends of growing velocities for ZYN have continued both in the Western region, where the brand was initially launched in 2016, as well as in the expansion markets where the brand was marketed on a broader scale from April 2019. The relatively high purchases by distributors towards the end of the second quarter that we referred to in the Q2 report are not estimated to have had any meaningful adverse effects on shipment volumes in the third quarter. Our consumer research demonstrates that nicotine pouches are becoming increasingly relevant as an alternative for cigarette smokers.

Looking at Slide 10 and making a volume comparison to cigarettes. We continue to be excited by both the commercial and the tobacco harm reduction trajectory both in the West and in the rest of the U.S. When equalizing 1 can or nicotine pouches to 1 pack of cigarettes, our estimate based on IRI data is that the nicotine pouch category volume approached the 13% benchmark in the West and exceeded 4% of the cigarette volume on a national level. Another source of growth for the nicotine pouch category in the U.S. are consumers of vaping products as well as more traditional smokefree products such as moist snuff.

And on Slide 11, we compare nicotine pouches with cigarettes and moist snuff and vaping products on a quarterly basis and in retail dollar terms based on IRI data. In the Western region, nicotine pouches in the quarter represented around 7% of figures, more than 50% of traditional moist snuff and made up close to 3/4 of the vape category in dollar terms. On a national level, nicotine pouches represented 3% of figures in the quarter and around 25% of both moist snuff and vaping products in dollar terms.

Turning to quarterly market shares for ZYN and category volumes based on MSA data and Slide 12. And as usual, we urge people to take a longer-term perspective rather than looking at isolated quarters, which can be susceptible to fluctuations based on timing of shipments and promotional schedules. While the category for nicotine pouches in the U.S. continues to be characterized by frequent deep price promotions from a large competitor, the overall competitive promotional intensity is subsided somewhat in the third quarter compared to the first half of the year.

As the graph depicts, ZYN's market share has been extremely resilient for several periods. And lately, our market share has been growing sequentially both in the West and in expansion markets. On a year-on-year basis, the market share for ZYN increased by more than 2 percentage points, driven by particularly strong performance in regions outside of the West. In dollar terms and based on IRI data, ZYN's market share increased in the third quarter relative to the second quarter and exceeded 76% on a national level.

With that, I will hand over to Anders Larsson.

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

Thank you, Lars. Turning to Slide 13 and the traditional moist snuff in the U.S.. Based on MSA distributor data, the category for moist snuff continued to decline in the third quarter. And for the year-to-date period, MSA has the category down by 5%. The Swedish Match volumes, however, have grown both in the quarter and year-to-date, both as reported by MSA and in terms of factory shipments. In the third quarter, both factory shipments and Swedish Match MSA volumes were up by 5%. Our average price per can is up versus prior year, but Swedish Match remains very well positioned with its value-priced Longhorn brand in the current inflationary environment and where many consumers are seeing their purchasing power eroding.

Moving on to U.S. chewing tobacco on Page 14, the long-standing trend of category contraction continues, along with migration toward lower-priced offerings. For chewing tobacco, 2022 has been a tougher year with relatively steep volume declines and migration to value price offerings. While the volume contraction of the category still reflects comparisons influenced by the COVID environment, the current erosion of consumer purchasing power has accelerated down trading. While half of Swedish Match's portfolio is still comprised of the legacy premium brand, America's Best, we continued to make progress in the third quarter with share gains in the price value segment, both sequentially and year-on-year.

Turning to Slide 15 and the Smokefree category in Scandinavia. The trend of good category growth for Smokefree products in Scandinavia continued in the first quarter and similar to the rest of the year, the growth has been driven by the very strong growth for nicotine pouches, while the snus market has continued to show resilience. Towards the end of the quarter, we did note some weaker development for premium snus, however, possibly reflecting change consumption patterns in view of the general economic development.

The overall volume growth for Smokefree products in Scandinavia has been supported by good growth in all 3 countries, Sweden, Norway and Denmark, including a continued recovery of volumes to Finnish consumers post COVID. For Swedish Match, shipment volumes in the quarter did not reflect the underlying consumption growth of Swedish Match products. The recovery in border and travel retail classes of trade post Covid has implied unusual swings in ordering patterns from different classes of trade.

In the second quarter report, we highlighted that Swedish Match's shipments benefited from changes in trade inventory levels. And now in the third quarter, we experienced the opposite. With volumes in border and travel retail being almost at pre-Covid levels, during the third quarter, there was a significant reduction in orders from domestic Norwegian retailers, which we attribute to inventory adjustments.

Before we move on to Slide 16 and the snus market in Scandinavia, we want to inform you that market share figures for snus and nicotine pouches in Scandinavia now also includes sales data from e-commerce channels. In Scandinavia, snus still makes up the lion's share of the Smokefree category and based on needs and data and available sales data from the online channel, the snus market is estimated to represent more than 70% of the total Smokefree category. Swedish Match's share of the snus market has been holding at a fairly consistent level on a sequential basis relative to the second quarter Swedish Match's share decline margin.

Moving on to Slide 17 and nicotine pouches in Scandinavia. On the 1st of August, most of the regulations of the previously adopted Swedish legislation for nicotine pouches came into effect. The new regulations included, among other things, 18-year age limit and marketing restrictions, mandating moderation similar to the rules for alcoholic beverages. Swedish Match's share within nicotine pouches, as measured by Nielsen and available sales data from the online channel, improved both compared to the prior year quarter and compared to the second quarter of this year. The share gains resulted from good progress in Sweden with a continued positive development for our VOLT brand family. In Norway, a brand transition from G.4 to RUSH nicotine pouches, along with product enhancements, has been implemented, which, for now, has not met the expectations and implied a lower nicotine pouch market share in that market.

On Slide 19, we have illustrated the long-term volume development for the overall mass market cigar category in the U.S. based on MSA distributor shipments. As we have previously commented, the demand in the cigar category was elevated during COVID times with consumer demand boosted by more usage occasions and stimulus income. These effects are clear when looking at shipments from distributors and comparing average levels pre-COVID during COVID and now in 2022. Zooming in on the third quarter, Swedish Match estimates that the category has grown by a CAGR of 4.5% from the third quarter in 2019, which is only slightly lower than the long-term trend.

Turning to Slide 20. While our cigar factory shipment volumes were down by 17% in the third quarter, MSA reported a less steep decline, which we attribute to inventory adjustments at the distributor level. According to MSA, Swedish Match's cigar shipments from distributors to the trade declined by 7% in the third quarter, broadly in line with the market development. As depicted on the slide, market volumes for both the natural leaf and HTL segments declined, but a relatively better trend for natural leaf cigars continued. With close to 70% of our portfolio in the natural leaf segment, Swedish Match is well positioned as consumer and segment dynamics play out.

On Slide 22, we have summarized relevant financial metrics from our interim report. On a trended quarterly basis, net finance costs decreased markedly in the third quarter, principally reflecting higher financial returns on surplus cash. While we remain committed to returning cash not needed in operations to shareholders, share repurchases have been suspended in view of the current public cash offer by PMI. With halted share

buybacks, our cash position has grown to more than SEK 4.4 billion by the end of the third quarter. And our net debt to EBITDA for the 12-month period ending September 30, declined to 1.3%, illustrating the strength and resilience of our financial profile.

Slide 23 simply restates our full year 2022 outlook from the interim report, which remains unchanged. Our investment plans remain on track, and we continue to foresee significant growth in consumer demand for safer alternatives to cigarettes. 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 same. The average exchange rate in the fourth quarter of 2021 for the U.S. dollar was 8.86, the NOK 1.02 and the Brazilian real 1.58. In other words, should current spot rates largely prevail, one should expect continued significant currency translation tailwind in the upcoming fourth quarter for sales and earnings.

And before we open up the line for questions, please note that we are not able to comment on the Philip Morris offer for Swedish Match beyond what has already been announced.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first questions come from the line of Rashad Kawan from Morgan Stanley.

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### Rashad Kawan - Morgan Stanley, Research Division - Equity Analyst

A couple of questions for me. So another strong quarter for ZYN. Congrats on that. I wanted to get a sense from you if you're seeing any benefits from (inaudible) ZYN specifically. So whether cigarette smokers, as an example, are transitioning at a faster pace given the cost benefits involved in the switch? And then my second question is on Cigars. Obviously demand continues to slow. You talked about the category being down 6% or so, I think, in shipment volumes. And if I look at a 3-year CAGR, your volumes continue to go down sequentially. I mean what's your take on industry demand levels? I mean, is there something more structural going on? Or is it just a function of kind of a return to normal consumption habits? And would you expect trends to normalize starting next year?

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

Thank you for your questions. And this is Lars here. I'll take the first one on ZYN. In fact, when we look at ZYN, and you may recall this, through the pandemic, where we definitely saw swings in demand and shipments for several of our categories for ZYN, we couldn't detect any impact. That is, not to say, that there was no impact at all, but the underlying strong growth trends were so powerful that they overshadow any other kind of temporary factors.

And if you look at the current trends, I mean, we're still relatively early into what we can call the new economic environment. But the current trends through the third quarter, they will continue to be very similar to historical periods with a nice growth in the velocities across the country. And so that's [not again] to say that there couldn't be any such impact with price advantages and that could prove to be a benefit going forward. But so far, it's hard to isolate any such factors.

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

Yes. And then on your question for Cigars, I think it's pretty clear on the slide that we have in the investor presentation that we have seen an elevated category during COVID times. And of course, that's a headwind when things turn, so to say. But still, the category is healthy if you take a longer-term

perspective. And then we'll have to see where demand is heading going forward. But clearly, from this short period after COVID, it's still well above pre-COVID levels.

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**Operator**

We are now going to proceed with the next question, and it's from the line of Gaurav Jain from Barclays.

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

So a few questions from my side. So one is on -- you mentioned in one of the slides, how big modern oral is as a percentage of e-cigarettes in the U.S. And we are seeing more pressure from FDA on e-cigarettes. There were some pressures on Juul at the end of last quarter. So can -- like is there any metric like what percentage of volumes you get from e-cigarettes when any such disruption happens?

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

We source consumers across the tobacco landscape and the latest numbers that I looked at, we thought roughly half of the consumers are -- little bit more than half of the consumers are coming from vape and/or cigarettes. And as you know, the U.S. consumer sometimes are using multiple type of products. So it's definitely an important source of growth, but it is a bit challenging to say with precision exactly how much is coming from each category. It's only subject to what people define, whether they define themselves as mainly a cigarette smoker or mainly a vapor prior to switching over to a larger extent ZYN.

But if you look at the trend as we have there on the slide with the IRI data, I mean you see in the total U.S. market in the third quarter, nicotine pouches correspond to 26% of the sales value of vape. And I mean, if you go back only 1 year, that number was 19%, and it's been growing every single quarter. So there's much more to it than some issues for some of the manufacturers of vape.

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

Sure. My second question is on this potential flavor ban that could happen in California in Q4. And you can still ship using online channels in California? Is my understanding correct?

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

We'll have to get back and see the exact guidelines around implementation and so forth. But it is a retail ban and the online channel for nicotine pouches is very limited in the U.S. market. So the -- so California is an important retail market. I think the latest number we have is that it's 8% or 9% (inaudible) of our volumes.

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**Unidentified Company Representative**

Yes, it's high 9%.

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

But then when we look at our portfolio in California, already today 23% of our volume of ZYN comes from unflavored products, and the corresponding number for U.S. on a national basis is 12%. And that is also higher than for our main competitor on both of those metrics.

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

Sure. Very helpful. You mentioned in your comments that the promotional intensity from competition has gone down in Q3 and when we look at pricing in U.S. (inaudible) at the retail level, up 6%, 7% and versus 2019, it's up almost 20%, while ZYN's pricing is probably flat to up maybe 5%. So as promotional intensity is reducing, do you think there is an opportunity for you to close some of the price gaps versus, let's say, Copenhagen and moist snuff or versus cigarettes?

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

I mean you're right in pointing out that while ZYN is a premium brand within the nicotine pouch category, its pricing is attractive for the consumer of multiple type of nicotine products. So over time, I think there is an opportunity to narrow in a bit on that price gap. And then we'll have to see what happens (technical difficulty) to state taxes and potential federal taxes and so forth and how the implementation of those is split across the industry participants.

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**Operator**

We are now going to proceed with the next question. The questions come from the line of Andreas Lundberg from SEB.

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**Andreas Lundberg** - SEB, Research Division - Analyst

Yes, good afternoon, everyone. I know you talked about usage a year ago or some quarter ago. Could you remind us or update us on the usage of nicotine pouches among your consumers in the U.S. today versus, let's say, 1 year or 2 year ago?

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

I mean, our numbers we're getting are ranging from basically 2 to 3.5 cans per consumer [per week]. Quite frankly, it's challenging to get accurate data, and we see some volatility and so forth in market research that is difficult to explain. So we -- a little bit of caution there to say exactly what the average consumption is. What we can say definitively is that if you look in -- among those consumers that are registered in the ZYN loyalty program, the average consumption is higher, around 4 or north of 4 cans per consumer in a week, which is not surprising if you're more engaged with the brand if you sign up as a loyalist. But that's still the estimate.

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

Which is in line and with a number of Scandinavian levels of snus consumption.

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

For the loyalty program, yes. But we still think it is lower on average, and there is an opportunity in there as there is a higher degree of multi-usage of different type of products.

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**Andreas Lundberg** - SEB, Research Division - Analyst

You said that there were no visible effects from these prepurchasing took place in the later part of Q2, right? But anything specific to think when it comes to the fourth quarter when it comes to potential destocking, holding effects on nicotine pouches in the U.S.?



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

I mean, first of all, we have 60 shipment days as opposed to 64 in the third quarter, so which is, to my recollection, the same pattern we had last year. Then as always a bit tricky around year-ends with the holidays and how the weekdays falls and so forth. So I wouldn't -- we have had issues before in quarter 4, where we have seen lower sequential growth and so forth. But one needs to look through longer periods and not look at isolated quarters too much.

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**Andreas Lundberg** - *SEB, Research Division - Analyst*

And a general question on destocking among retailers or distributors, which appear to have been the case for a few of your businesses in the quarter. Would you say this is an isolated thing, or do you have any sense on that resellers actually are focusing more on their own cash flows as we've seen in some other consumer categories of late?

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

I mean, that could be an element of that. But the 2 most notable cases for our business are the Cigars in the U.S. and then the Norwegian situation with the border trade opening up and so forth. And there, we think there are the other factors that are far outweighing any kind of general inventory management due to cash constraints. But it is challenging when you have those types of swings, even in the Swedish market, where we have seen a strong rebound of traveling now. It could be that there are some fluctuations also among Swedish retailers. There are a little bit of indications of that in terms of the little bit weaker development towards the very end of the third quarter and the start of the fourth quarter.

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**Andreas Lundberg** - *SEB, Research Division - Analyst*

And speaking of Sweden, it seems that a lot of the issues in Scandinavia in the third quarter also related to Norway. But could you share some light on your performance versus the market in the Swedish market?

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

Johan, do you have the shares there for nicotine pouches Sweden and...

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**Johan Leven** - *Swedish Match AB (publ) - VP of IR*

Yes. I mean, just to remind you that we now also include sales from the online channels together with Nielsen. And when we look at the Scandinavian business for nicotine pouches, we saw that we actually gained shares both on a sequential basis and year-on-year. And we reported 18.2 in the quarter, right, and was slightly up from Q2. And in the Swedish market, specifically, in Sweden, we gained some shares within nicotine pouches, but lost some shares within snus.

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

It looks like I'm looking at the different brands area, I think we gained 0.6 or so sequentially in Sweden. I mean the VOLT being up by a share point and ZYN being down by 0.4.

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**Andreas Lundberg** - *SEB, Research Division - Analyst*

Does that imply that you were growing faster in Sweden than the market...

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

(inaudible) total Scandinavia, but not a big difference compared to the overall market.

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**Andreas Lundberg** - *SEB, Research Division - Analyst*

The recent or newer launches on the VOLT product, I think you launched them for the summer. Any traction or feedback you can share with us on those products?

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

In Norway, we made -- they decided to make a brand transitioning from G.4 to RUSH. And along with also making certain product changes that we are confident our enhancements in as consumers get to try them fully, but that switch has been disappointing so far. So we lost something like 3 share points or so sequentially in the Norwegian nicotine pouch market in the third quarter.

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**Operator**

We are now going to proceed with the next question, and it's from the line of Andrei Condrea from UBS.

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**Andrei Condrea** - *UBS Investment Bank, Research Division - Research Analyst*

Two -- one for me actually. Can you give us some more color on the performance of your, well, nicotine pouches outside of the U.S. and [Scandi] markets, such as the U.K., for instance?

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

Yes, it's been -- markets are growing typically from a relatively small base. If you take the U.K., for example, the market is showing strong growth in percentage terms, but it's still a very small market relative to the size of the market. U.K. has been a bit challenging for Swedish Match. We are doing fairly well in those chains where we are present. But the majority of the volumes are in some chains where we're not present at this point. And so we have a very small share in the U.K. market. We have taken a bit of share in the Austrian market, which obviously is not a huge country, but it's actually a large market in terms of per capita consumption, so that one looks promising, and I think we're around 8% share or something like that in the Austrian market at the moment and with a clear upward trend.

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

And just to remind you, from a financial standpoint, if you compare year-on-year, costs were unusually low last year. So that's just to bear in mind.

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**Operator**

We are now going to proceed with the next question, and it's from the line of Fredrik Ivarsson from ABG.

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

I've got one question on snus, i.e., regular snus nicotine in Scandinavia and maybe in particular in Sweden. Have you seen any signs of consumers down trading in the quarter or at the beginning of Q4?

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

Yes. I mean, Lars touched upon that just previously here. We have noted some signs of along those lines towards the end of the quarter and also now in October. And then it's still early to draw any conclusions from that. But likely, there are some elements of down trading from this inflationary environment and consumers being more cautious on spending with premium being down versus value products.

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

Yes. Understood. And can you, maybe, since the margin (inaudible) was down quite a bit and on a historical low level for Q3. Help us out with the bridge. So how much do you think is channel mix and how much is product mix? Do you think...

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

It's quite a few moving pieces affecting the margin development. I mean, first of all, with weaker volumes, that's a headwind from an absorption point of view on the production side. And then we see inflationary pressure generally on the cost side, plus that we were also very active ahead of the legislation implementation in Sweden, August 1, with activities carried out ahead of that.

**Operator**

We have no further questions at this time. I hand the conference back to you for closing remarks.

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

Okay. Then we thank everybody for participating. And I'd like to inform you that our full year report is scheduled to be published on February 15, next year. Thank you very much.

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

Thank you.

**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect your lines.

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