

FINAL TRANSCRIPT

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SWMA.ST - Q3 2011 Swedish Match AB Earnings Conference Call

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen and welcome to the Swedish Match third quarter conference call. At this time all participants are in listen-only mode until we conduct the question-and-answer session and instructions will be given at that time.

(Operator Instructions) Just to remind you this conference call is being recorded. I would now like to turn it over the chairperson, the Senior Vice President of Corporate Communications Emmett Harrison. Please begin your meeting and I'll be standing by.

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Emmett Harrison - *Swedish Match AB - SVP of Corporate Communications*

Good afternoon, this is Emmett Harrison. Welcome to the third quarter 2011 results telephone conference for Swedish Match. Lars Dahlgren, President and Chief Executive Officer is joined today by Joakim Tilly, Chief Financial Officer and myself.

The conference call should last about an hour and will include an overview by Lars Dahlgren and a review of the financials from Joakim Tilly. A question-and-answer period will follow. A shortened version of our investor kit accompanies this presentation via webcast and a complete investor kit is available in the Investor Relations section of our website, swedishmatch.com.

During today's conference call we will discuss certain items which may constitute forward-looking statements. Because such statements deal with future events, they're subject to various risks and uncertainties. Although management believes that its expectations are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Risk factors are outlined in the latest annual report, which is available on our website swedishmatch.com.

Swedish Match assumes no obligation to update information concerning its expectation. The conference call is being recorded and the recording will be published on the Swedish Match website. I would now like to turn the conference call over to Lars Dahlgren.

Lars Dahlgren - *Swedish Match AB - President and CEO*

Thank you, Emmett. For the third quarter 2011, Swedish Match delivered solid comparable sales and profit growth in local currency terms and comparable operating profit for the third quarter increased to SEK909 million up from SEK874 million previous year, an increase of 4%.

In local currencies, the increase was 9%. The increase in operating profit in local currencies was driven by strong performance for other tobacco products and Scandinavian snus. Comparable sales for the third quarter increased by 2% to SEK3.011 billion up from SEK2.964 billion previous year. In local currencies this increase was 6%.

The operating profit for the quarter, which includes the share of profits from STG, reached SEK983 million down from SEK1.049 billion previous year. The share of profit from STG this year increased the impact of the restructuring charge pertaining to the announced closure -- and our decision to close cigar factory in Europe.

In last year's number, the business transfer to STG is included before tax and interest and is -- also includes the reversal on appreciation, amortization on assets held for sale amounted to SEK32 million pending the transaction.

Scandinavian snus sales were up by 8% in the third quarter versus last year. We're very pleased with the strong volumes on the Scandinavian market. Shipment volumes were up by 3% in the third quarter, and volume increases in both Sweden and Norway. Operating profit for snus in Scandinavia increased in line with sales in percentage terms.

Beginning in October, Nielsen is using a reporting measurement system for market shares on the Swedish market. The new measure relies more heavily on scanning data, include some more chains, mostly some additional lower price outlets, and is reported in four-week cycles compared with the old measure, which was aggregated bimonthly.

As a result of this change, market shares have been adjusted and are not directly comparable with the previously provided bimonthly figures. In Sweden, according to Nielsen, our market share for snus in value terms was 86.1% in the four-week period ending September 11 compared with 86.3% for the preceding four-week period and 87.9% in the corresponding four-week period last year.

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Our market share in volume terms was 83.3% compared to 83.8% in the previous four-week period and 85.6% in the corresponding period last year. Using the new units and measurements for the four-week period ending September 11, Swedish Match had a volume share of approximately 96% of the full-price segment and more than 48% of the value segment.

The value segment accounts for approximately 28% of the Swedish market in number of cans up from 25% in the corresponding period last year. Nielsen reports the Swedish market to have grown by 3.2% in volume terms on a year-on-year basis for the four-week period ending September 11.

In Norway, our market share in value terms in the latest four-week period ending October 9th was 71.7% compared with 71.3% in the previous period and 73.7% in the corresponding period last year. Kaliber, our new brand of value price snus on the Swedish market has been in limited distribution since April and Nielsen indicates the brand has already achieved 2% share of the Swedish market for the four-week period ending September 11.

In August, for the Swedish market, Swedish Match launched the first snus product in the world made of ecologically grown tobacco in an all green harvest, a white-portion product, has the classic General taste, and is made from tobacco that is exclusively selected from eco-certified growers in Argentina and the US.

In September, for the Norwegian market, Swedish Match launched two new products in the Lab Series assortment. Lab Series 05 and 06 have been welcomed by the trade and received extensive distribution.

For the four-week period ending October 9th, these two new products had already achieved a combined market share of 2.5% and the total Lab Series brand has reached 5.9% in the market up from 4.3% in August, according to Nielsen.

In the US market, snuff and snus revenues in the second quarter declined by 7 -- 6% in local currency on 12% lower shipment volumes versus a year ago. During last year's third quarter, there was a very high level of promotional shipment while this year's third quarter the promotions were at a lower level as planned.

In the fourth quarter, comparisons will become easier as promotions in the fourth quarter last year were rather low. Nielsen reported the overall US snuff market being up by 6.2% for the year-to-date period ending October 1st, and Swedish Match volume down by 2.5%. Our analysis suggests that the real consumption of Swedish Match brands may have done somewhat better than that of course by skewing the Nielsen sample.

Nielsen reports that the growth of our low-priced brand Longhorn was higher than the overall category while we saw declines in the rest of our portfolio due to intense price competition. In the most isolated four-week period ending October 1st, Swedish Match market share was 10.4% according to Nielsen. Market growth is continuing, but at a slower rate as the four-week market growth, according to Nielsen, was 4.3% in the most recent period.

In Q3, profitability for our US snuff and snus businesses declined versus a year ago in local currency mainly as a result of significantly higher investments standing to support the introduction of Swedish snus in the US market. For moist snuff, we saw a modest decline in operating profit year-on-year on the back of each shipment volumes, while year-to-date operating profit for the moist snuff business is up in local currency.

Swedish Match will continue to invest on its snus program in the US with General snus and we are very pleased with the brand's performance thus far. General, which typically sells at the premium price compared to other snus offerings in the US, has experienced good and improving rotation and sell-through in the stores.

The store expansion is continuing for our General snus in the traditional round can, and in addition in June we introduced two new varieties, Classic Blend and Nordic Mint, in a new rectangular can each holding 15 or 10 pouches of snus.

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This product is in the process of being launched and brought to the distribution in Dallas, Chicago, and Philadelphia. General snus in either traditional round can or the new rectangular can is now available in more than 3,000 outlets in major cities across the country, more than doubling the total store count since June.

As the store distribution continues to build in the coming months, we would expect investments in our US snus program to remain higher than year earlier levels. With regard to SMPM International, the joint venture company for smokefree product, we continue testing regional Swedish snus in Taiwan.

We have scaled up the tests in Canada to include not only the Toronto area, but also parts of Alberta. We may continue to see positive signs from the Canadian market and will expand distribution further.

In late November, we plan to add Saint Petersburg in Russia as the next test market and the introduction will be supported by brand building and sampling activities and the product will be available in three varieties under the premium Parliament brand.

For our US snus expansion as well as our joint venture projects with SMPMI, the incremental investment in 2011 is estimated to be in the range of SEK60 million to SEK80 million with most of this occurring during the most recent quarter and the fourth quarter.

In our other tobacco products businesses, sales for mass market cigars in local currency were up by 26% versus the third quarter 2010 while mass market cigar volumes increased by 55%. The reason for the relatively stronger growth in volume than in sales is that we have been particularly successful with our cigarillo, our small cigar in assortment.

They've also been in that phase of rapid distribution buildup for our sweet cigar product. During the quarter we again gained market share and have continued good success with our FoilFresh cigars. Our sweet cigars in FoilFresh packaging continued to do very well, and the new variant of sweet cigars with candela wrapper, White Owl Green sweets launched earlier this year have exceeded our own high expectations.

Overall, volume share for Swedish Match in the US market excluding little cigars was 14.3% year-to-date through October 1st, up from 11.3% in the prior year. In the latest four-week period volume share had reached 15.2%.

The extraordinary volume growth in cigars, nearly 50% on year-to-date basis is expected to subside going forward as we experience more difficult comparisons versus prior year periods. There are still remaining opportunities to expand distribution and our innovation pipeline is strong.

The negative mix variances that we have experienced during this period on extraordinary volume growth are also expected to subside as the vast majority of our cigar volume has now shifted from large to small cigars. For chewing tobacco, our market share for the year-to-date period ending October 1st was 45.9% according to Nielsen estimates up slightly from the corresponding year-to-date period in 2010.

Nielsen estimates the market declined by 7.3%. For Swedish Match on brands, shipment volumes in the quarter were down 7% while contract manufacturing volumes were down more significantly. In value terms our market share is about 50%.

In local currency, US sales were down somewhat while operating profit was flat versus last year's third quarter as high prices and lower cost compensated for the lower volumes.

For our Lights businesses, in the third quarter in local currency terms sales decreased by 1% while operating profit increased by 9%. In the quarter, sales and operating profit for lighters were higher as a result of strong volume performance. Match sales and operating profit declined somewhat versus prior year as a result of mixed effects and negative currency effects.

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As regards Scandinavian Tobacco Group, we continue to see a positive trend. On the sales and marketing side, the business is now well integrated and we see clear benefits from realized synergies.

In the third quarter, STG announced the decision to close one cigar factory in Europe. While the process of closing the facility is expected to take some time, the restructuring charge of DKK105 was booked in the quarter. The Swedish Match 49% share of STG's net profit after interest and tax amounted to SEK74 million for the third quarter. The share of net profit from STG includes the restructuring charge of the announced plant closure amounting to SEK61 million before tax in the quarter for Swedish Match 49% share.

For premium cigars, sales were flat in local currencies versus last year's third quarter, while sales for mass market cigars were down. EBITDA for both premium and mass market cigars grew significantly in local currencies and Danish krone due to realized synergies and lower costs.

For pipe and fine cut tobacco, excluding the Lane acquisition EBITDA was above year earlier levels in Q3 on higher volumes. The Lane business delivered EBITDA according to the acquisition plan. Total Scandinavia Group net sales for the third quarter amounted to DKK1.413 billion.

Excluding restructuring charges, the total STG EBITDA for the third quarter was DKK342 million, the highest quarterly EBITDA so far. Excluding Lane and restructuring costs, EBITDA increased by 34% compared to the estimated proforma for the third quarter 2010.

Now I would hand over to Joakim for some more comments on the financials.

Joakim Tilly - Swedish Match AB - CFO

Thank you Lars. As in previous quarters, the development of exchange rates had a negative effect on our sales and operating profit comparisons due to strengthening of the Swedish krona versus primarily the US dollar and the Brazilian real.

Compared to last year's third quarter results, the average rate of the dollar versus the Swedish krona has declined by 12.8% year-to-date from 7.35 for the year-to-date ending September 30, 2010 to 6.41 for the year-to-date ending September 30, 2011.

The Swedish krona has also strengthened against the Norwegian krone by about 5% for the year-to-date versus last year. For the third quarter, the translation effect on operating profit was a negative SEK41 million.

For the third quarter, the total translation impact on sales was a negative SEK122 million of which SEK74 million for other tobacco products, SEK31 million for snus and snuff, SEK16 million for lights, and SEK1 million for other operations. If currency exchange rates prevail we expect very small translation effects into fourth quarter.

Net finance cost for the third quarter amounted to SEK130 million compared SEK128 million in the previous year. The net finance cost for the first nine months increased to SEK389 million compared to SEK363 million last year. The net finance cost of 2010 includes bondholder consent fees of SEK21 million related to the STG transaction.

The underlying increase in the finance cost was mainly a result of a higher net debt and higher interest rates. In May a loan repayment of SEK140 million was received from STG following final transaction adjustments.

For the first nine months of the year, Swedish Match paid dividends totaling SEK1.152 billion and repurchased shares, net, in the amount of SEK1.872 billion. During the first nine months new bond loans of SEK680 million were issued.

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Repayments of loans for the same period amounted to SEK733 million including repurchase of SEK191 million of bond loans with shorter maturities.

As at September 30, 2011 Swedish Match had SEK9.835 billion of interest-bearing debt excluding retirement benefit obligations compared to SEK9.885 billion at December 31, 2010.

No further debt falls due for repayment in 2011. As of September 30, 2011, Swedish Match had SEK1.481 billion in unutilized committed credit lines.

The average maturity duration of the bond portfolio is 3.8 years and the average duration of the interest binding is also 3.8 years. The weighted average interest rate on bonds issued including derivative effects is currently 4.88% and about 5% of the portfolio is exposed to variations in interest rates.

As of September 30, 2011 Swedish Match had SEK2.2 billion of cash and cash equivalents. For the first nine months of the year the reported tax expense amounted to SEK459 million corresponding to a tax rate of 20%. The reported tax rate excluding one-time items as well as profit and loss impact from associated companies and joint ventures was approximately 22%.

Cash flow from operating activities for the first nine months amounted to SEK1.863 billion compared with SEK1.997 billion for the same period previous year. The cash flow for the first nine months of 2010 included businesses which were transferred to STG on October 1, 2010.

Excluding the transferred businesses the cash flow from operating activities improved mainly as a result of an improved EBITDA.

Investments in property, plant, and equipment during the first nine months amounted to SEK170 million compared to SEK248 million in the first nine months of 2010 whereas SEK36 million pertained to businesses now transferred to STG.

During the first nine months, Swedish Match repurchased 9 million shares for SEK1.872 billion at an average price of SEK208.96 following authorization from the annual general meeting held in 2010 and 2011.

During the first nine months, the Company sold 0.5 million treasury shares at an average price of SEK127.10 totaling SEK67 million as a result of option holders exercising options. During the third quarter in isolation Swedish Match repurchased 3 million shares for SEK691 million. No options were exercised during the third quarter. The total number of registered shares in the Company is 213 million.

The net debt was SEK9.0 billion as per September 30. The net debt in relation to EBITDA excluding businesses transferred to STG, share of profit in STG, and larger one-time items was 2.7 for the 12 month period ending September 30, 2011.

I will now turn the conference call over to Lars.

Lars Dahlgren - Swedish Match AB - President and CEO

Operator, I think we can go ahead and open the floor to questions and answers.

Emmett Harrison - Swedish Match AB - SVP of Corporate Communications

We can go ahead and open the floor to questions and answers. Operator.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Andreas Lundberg.

Andreas Lundberg - ABG - Analyst

This is Andreas Lundberg with ABG in Stockholm. You talked about some improvement in rotation for snus in US stores. I wondered if you could give some more color on that? And also my second question relates to the margins in other tobacco products, could you give us more on each sub-segments, more in performance year-on-year and on a quarter-on-quarter basis? Thank you.

Lars Dahlgren - Swedish Match AB - President and CEO

Hello Andreas, this is Lars here. We have continued to expand the distribution that is out there for the round cans and then as well as this new wave which is just launched into the stores with the rectangular cans. For the rectangular cans, we don't have any sales data ourselves because it's just hit the stores and don't include the initial selling on volumes.

But we continue to see very good trends for the round can and even as we expand the distribution, I must say that we are encouraged by the fact that in our model now implies that from having started predominantly in the premium cigar outlets, where the consumers really have time to discuss what this product is with the shop-owner and so forth.

But they come -- the recent -- more recent expansions includes more and more convenience stores, and although the rotation starts at a clearly lower level than the average, we know from experience that it takes some time to build up the rotation. But we see in almost all chains now where we've gone in, we see a positive trend.

And some of these chains, where we've been for longer time, we've started to approach turns per store that approach the average of all our stores. If you take our 1,500-plus stores in the month of September, we are turning 14 cans per store a week on average.

Andreas Lundberg - ABG - Analyst

And the figure used to be like eight, nine cans --

Lars Dahlgren - Swedish Match AB - President and CEO

There is a gradual build in there some jumps between the months but the trend is very clear and the longer we've been in the stores the more positive numbers we show.

Andreas Lundberg - ABG - Analyst

Okay, thanks for that. And also some color on your margins for each sub-segment in other tobacco products. Could you give some more comment on that?

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Joakim Tilly - Swedish Match AB - CFO

In terms of the two different segments, the margins for cigars in the US are a bit higher than the margin for chewing tobacco. Both chewing tobacco and cigars saw improvements in profitability during the third quarter versus the prior year, up a couple of percentage points.

Andreas Lundberg - ABG - Analyst

Okay, was the margin for chewing tobacco up or down year-on-year?

Joakim Tilly - Swedish Match AB - CFO

For both chewing tobacco and for cigars, the margins were up year-on-year on the third quarter.

Andreas Lundberg - ABG - Analyst

Okay, thanks a lot guys.

Operator

Stellan Hellstrom.

Stellan Hellstrom - - Analyst

Thank you. First question, you didn't state the EBIT for STG this quarter (inaudible) the EBITDA which was done previously. Can you give us the number?

Joakim Tilly - Swedish Match AB - CFO

The reason -- this is Joakim here. The reason why we didn't state the number is simply because the EBITDA is the best comparison. The EBIT includes, of course, the depreciation and amortization and the base for that has changed quite a bit due to the PPA that's done in connection with the transaction, the purchase price allocation.

So that's why we prefer to give the EBITDA instead. If we look at the third quarter to start with for STG, we should mention that the Q2 numbers for STG were somewhat preliminary due to our fast reporting of Q2, which is a bit too fast for STG to be able to finalize everything.

So it was somewhat preliminary, and there were some adjustment made to the Q2 numbers after we had reported. It actually came in slightly stronger than what they expected. So if you look at our Q3 reporting for STG, the year-to-date numbers are of course correct, and the Q3 numbers reflect the actual Q3, so based on the new Q2 numbers. That's important to understand.

Stellan Hellstrom - - Analyst

Okay, good. So but I still take it that you're -- that the net debt to EBITDA ratio in STG now is a little bit below your own level, so to say, at 2.7 times, and still there was no dividend paid out from STG in Q3. Is there anything to say about that?

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Joakim Tilly - Swedish Match AB - CFO

Now, we were -- we had a delay in acquisition and so on, we've been saying all along that we didn't expect to have any dividends paid out during this year. So we will see what happens with that in the beginning of the next year.

Stellan Hellstrom - - Analyst

Okay, good, fine. Also just a question on if you expect any hoarding in Sweden ahead of the tax increase next year?

Lars Dahlgren - Swedish Match AB - President and CEO

Yes. We are definitely prepared for that operationally, for us it's an operational issue, where we need to plan our production and so forth. And we have certain indications that might be some hoarding, but how significant it will be, the tax increase is 13.7%, so it's not to be compared to the draconian tax increases in 2007 and 2008, but of course it will be -- there will be an increase in list prices. So quite frankly we cannot estimate it with accuracy now, but we will make sure we explain our estimates of the hoarding post the Q4 results.

Stellan Hellstrom - - Analyst

Good, good. Also finally just maybe you can give us some flavor on why you've chosen Saint Petersburg as the next test market for snus.

Lars Dahlgren - Swedish Match AB - President and CEO

Yes, we think that Russia is a very interesting country when it comes to snus. We have had some limited presence there before, when Swedish Match did it alone, and we did see definitely some consumption, so we have some experience that it can appeal to the Russian consumer.

And now together with PMI, with their strength in the market, and providing the offering under a very strong premium brand, cigarette brand for the Russian market, I think it's going to be a very interesting test market to follow. And it's also the case that in the Russian market, marketing restrictions are not as strict as they have been for us in the Taiwanese market and the Canadian market.

Stellan Hellstrom - - Analyst

Good. Thank you very much.

Operator

Erik Bloomquist.

Erik Bloomquist - - Analyst

If I could just follow on with the questions around the new launch in Saint Petersburg, is part of the way that you'll present the Parliament snus, where you talk about the relative risk of snus to smoking in terms of being a lower-risk product or is it more simply educating the Russian consumer how to use it and this is an alternative for when you can't smoke?

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Lars Dahlgren - Swedish Match AB - President and CEO

The plan is that during the fourth quarter and probably around November-December the product is going to hit the stores, and since it's so close to today, we said that it's better that we mention which the next market is to everybody. But I prefer to not to go into any specifics for competitive reasons on how we will do it.

But I can mention that initially we target around 200 stores this year but that number could change a little bit and then hopefully we will see good progress on this on from there, but in terms of product positioning and so forth, we will come back once we are in the market. So post-Q4 and we'll show you some examples.

Erik Bloomquist - Analyst

Okay, super, thank you. And then with respect to your comments initially on the US rollout, so if I understood correctly, does that mean that Swedish Match expects to be in 5,000 stores by the end of Q1 next year?

Lars Dahlgren - Swedish Match AB - President and CEO

It's a bit difficult to predict the exact number of stores by when. It's in many cases a practical reason ordering fridges, installing fridges and so forth. But the trend is definitely based on what we see so far -- and of course it's very early days for the second wave of test market in the rectangular can -- but our hopes are high. So our mental ambition now is that definitely we will continue through 2012 to expand both the round can and the rectangular can pretty significantly compared to where they are today, but to give you a number end of Q1, I don't dare to do it at this point.

We're in a little bit -- combined it's just about 3,000 stores now. We should see some addition before the end of this year, but not a significant addition. And then we'll have to see how it plays out during next year.

But the trend is very clear for ourselves. We're very focused on the opportunity in the US market. And the market should also expect that we continue to provide sufficient and adequate resources to execute this very well next year in the US.

Erik Bloomquist - Analyst

Okay, thanks. And so is really the difference in the sales growth in Q3 in smokefree an operating profit growth? Is that just simply attributable to the investment behind General in the US in the quarter?

Lars Dahlgren - Swedish Match AB - President and CEO

When it comes to the US business as said the moist snuff business had a little bit of dip compared to last year's third quarter. And since we had 5% lower shipment volumes that was notable on the operating profit line as well.

When it comes to snus investments for the Group we spend about SEK20 million more in Q3 2011 than 2010 on what I call international snus investments. So that's the SMPMI JV combined with US. And the vast majority of that delta so to say was for the US market.

In Q4, the balance maybe a little different since we are having Saint Petersburg as a test market. So we should expect a little bit of uptick there. But for Q3, yes, the majority of the SEK20 million extra was attributable to the US market.

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Erik Bloomquist - - Analyst

Okay. And then lastly on STG, what was the tax rate for the restructuring charges?

Joakim Tilly - Swedish Match AB - CFO

Well, I think you can use a net amount of about SEK40 million to add to the profit share to get to a good number before restructuring charges.

Erik Bloomquist - - Analyst

Great. Thanks, Joakim.

Operator

David Hayes.

David Hayes - - Analyst

Two things to ask please, just on the cigar side. Obviously you talked on the presentation about the mixed impact there, but it's a little bit more of a significant drop in average pricing that we saw last quarter. Just wondered whether you can talk about whether you are seeing a need to promote a little bit more aggressively in that marketplace?

And then secondly, just in Sweden. The success of Kaliber, a 2 percentage point share I think you mentioned obviously doing very well since April, our impression was that was more of a niche product than that. Can you just talk about whether you've got wider distribution of that product than you previously planned for, whether in terms of targets, whether you've got specific ballpark target per share for that brand in that marketplace? Thanks very much.

Emmett Harrison - Swedish Match AB - SVP of Corporate Communications

David, hi, this is Emmett. On the US mass market basically there were three different things going on during the third quarter. We were building -- continuing to build distribution for our sweet cigars.

We had some promotional offers along with that distribution build. We also had a wave of promotions in general for the product. I wouldn't say that it is in response to any competitive activity. I think it's part of our overall promotional plan to have promotional cycles and that was -- we had that in the third quarter.

We also had the mix shift even more toward more smaller cigars and larger cigars. So you had quite a few different things going on in the mix. And the increased -- the promotional way to level of promotions as well as the distribution build did really turbo-charge if you will the volume growth that we had in the third quarter.

David Hayes - - Analyst

Okay.

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Lars Dahlgren - Swedish Match AB - President and CEO

Yes, and when it comes to the Kaliber brand it is still -- it's limited distribution. It's -- up until recently it's been available in about 12,000 stores. And we have some different numbers on the Swedish store universe. But 12,000 or so is a round number. And then you have maybe another 2,000 very small stores.

But -- so you've seen the number of stores, it's roughly in 10% of the market. But on the other hand these stores are then skewed, like groceries that skew, lower price and so forth. So in terms of volumes of the total snuff market in Sweden they clearly represent the bigger share than 10%.

And we'll continue to fight with the Kaliber in the value segment of the Swedish market. And what we can see is that in those stores where we have launched Kaliber, basically since the time of the launch we've maintained our share while we dropped slightly off the value segment in the overall market.

But on the other hand we don't see any big growth of the value segment in the remaining part of the market. So it's pretty much that Kaliber is -- and for the really price-conscious consumer we offer Kaliber as a high quality choice and good value for money.

David Hayes - - Analyst

Okay. But no change in terms of price regression at the lower end? You're not having to use it as a tool more aggressively than you --?

Lars Dahlgren - Swedish Match AB - President and CEO

The low -- the value segment has gone up as you said three points. Based on the new Nielsen [notes] and now it's clearly captured the value segment better. We see an increase of the overall value segment in the Swedish market double by three points year-on-year which is an acceleration from trends the last couple of years. And it is attributable to increased activity at the lower end of the value segment.

And that's the reason why we've gone in with the Kaliber as well. And we intend to definitely take our fair share of that segment with that brand. So we have to see how it plays out.

David Hayes - - Analyst

Okay.

Lars Dahlgren - Swedish Match AB - President and CEO

So there is increased activity, but on the other hand as far we can judge as well, this is one of the reasons why that category is growing stronger than historically also in the Swedish market.

David Hayes - - Analyst

Sure.

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Lars Dahlgren - Swedish Match AB - President and CEO

Because we see basically premium volumes around stable and then we see a rather significant growth in the value segment of the Swedish market.

David Hayes - Analyst

Okay, that's great. Thank you very much.

Operator

Peter Wallin.

Peter Wallin - Handelsbanken - Analyst

Peter Wallin here from Handelsbanken in Stockholm. I would like to start with a question on STG and achieving your synergies. If you would lay back the restructuring cost you're taking in this quarter, it seems like your (inaudible) profit contribution is clearly better than expected. Do you still stick to your previous synergies guidance or is it possible that would be surpassed?

Lars Dahlgren - Swedish Match AB - President and CEO

No, we haven't changed any guidance when it comes to the synergies. It's been estimated to be around EUR30 million. And not all of that is realized this year. The part that relates to the supply chain will be deferred as it takes time to implement that.

Peter Wallin - Handelsbanken - Analyst

Okay. And in terms of extraordinary costs for achieving those synergies or do we have the bulk of those now in the books or are there still some left to come?

Lars Dahlgren - Swedish Match AB - President and CEO

No, the bulk of the cost to realize the synergies are now booked. And then we -- not -- there might be some additional, but it's not going to be material compared to what we have booked so far.

Peter Wallin - Handelsbanken - Analyst

Okay. So then if you look to 2012 and some kind of dividend payout capacity for the STG entity it will probably from purely on operational cash flow basis be pretty much up and running except for not fully realizing all synergies yet?

Lars Dahlgren - Swedish Match AB - President and CEO

We'll have to come back to the dividend for 2012 next year. But the way these costs works of course is also that they're -- it's not necessarily a perfect match on when you book them in the P&L and when they become cash outflows. So --

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Peter Wallin - Handelsbanken - Analyst

Okay.

Lars Dahlgren - Swedish Match AB - President and CEO

But it's --

Peter Wallin - Handelsbanken - Analyst

Okay, thank you. And then I would like to go to -- at least in the Swedish news media here it's been flashing that that you've been saying that a very round estimate for volume growth for US mass market cigars in the fourth quarter could be at about 10% which looks like to be a very, very sharp slowdown from the 55% we've seen this quarter.

How should we look on this 10%? This is more of a very ballpark estimate from your side or is it really that -- or as you can see in the books today it's a quite realistic assumption?

Emmett Harrison - Swedish Match AB - SVP of Corporate Communications

No, I -- this is Emmett. I would say that it's a ballpark estimate. We know that in the third quarter we did have good volumes going out in terms of the distribution build of our products, as well as promotional wave in promotional activity going on. And when we compare the number with the fourth quarter last year, last year was a very strong fourth quarter in volume terms with quite a bit of activity going on.

So we have said that in the coming quarters that you will have moderating volume growth in four of the mass market cigar business. And we wanted to give an indication that that growth that you saw in Q3 was exceptionally strong and that that will slow down quite significantly going forward. What the exact percentage is going to be we will have to wait and see.

Peter Wallin - Handelsbanken - Analyst

Okay. Thank you, and then I'd like to turn to the US snuff market and it seems like the market growth is declining over the last couple of months over there. Could you say anything about your -- what the competitive landscape looks like, if it's still extremely fierce or is it becoming less so?

Emmett Harrison - Swedish Match AB - SVP of Corporate Communications

Right, it's two different things, I mean, earlier on in the year when we set the -- our estimate for 2011 we assumed about a 6% growth rate. And you'll recall that in the first half of the year the growth rate was quite a bit higher than that early on.

So the slowdown in the growth is a bit expected just because of the timing of some promotional activities in competitive launches of products in the first half of 2011 versus 2010.

The overall market continues to be extremely competitive in the value priced segment. There are price promotions going on, low priced products out there as well as pretty aggressive competitive contract agreements that are going through the system. So it continues to be tough for Timber Wolf and Red Man, our higher priced, low priced products, but our Longhorn products continue to do well and is outperforming the overall market.



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Peter Wallin - *Handelsbanken - Analyst*

Okay. Thank you, guys, that's all from me.

Operator

[John Shu].

John Shu -- *Analyst*

A couple of things. Just first of all coming back to the US mass market cigar business, if you're going to do only 10% of volume growth in the fourth quarter, should we be looking there for a drop in sales given the negative mix in this business that we've been seeing? And looking into 2012, do we then resume complete normality or do you expect to be growing faster than the overall categories till next year?

And then secondly just a quick one on the US snuff. You mentioned that you think your off-take is a little bit better than the Nielsen numbers would suggest. Could you just remind us what those two figures would be for the third quarter? Thank you.

Lars Dahlgren - *Swedish Match AB - President and CEO*

Hi, this is Lars here. When it comes to the cigars you see the shift. Also where we anniversary very strong comps but we also anniversary much more there are -- represented in mix between large and small cigars. So we expect the volume growth and the revenue growth to show a much better match from the fourth quarter going forward.

So that's why I talk about the volume growth subsiding and this mix effect subsiding. So not at all the same type of delta that we've seen this year. When it comes to the moist snuff Nielsen is reporting 2.5% decline for our brand.

Our shipment volumes are through nine months virtually unchanged. They're up something like a tenth of a share point or a tenth of a percent. So -- and with nine months, it's -- we think that our shipment is a good indication of what the real consumption of our brands is. And then give or take a percent or so after that, but it's zero shipments and it's a minus 2.5%, the Nielsen reports.

And the reason for this is basically that with the -- since we compete in the value segments we're relatively bigger in some of the independent stores and the DTO, the discount tobacco outlets, and so forth. And the way we can read it is that Nielsen does not fully reflect these type of outlets as accurately as the rest of the market.

John Shu -- *Analyst*

Okay, thanks. And just coming back to the cigars how confident would you be that you can continue to outgrow the category next year?

Lars Dahlgren - *Swedish Match AB - President and CEO*

When it comes to the cigars, we have had extremely positive trend this year and we start the year on a much higher market share than -- so the year-on-year market share provided that we don't see any major changes in the market dynamics in the fourth quarter here. And we start 2012 on a higher market share.

And the category has declined some, but we should be able to compensate for that and we plan for a growth in our mass market cigar business in 2012, but we will not be able to repeat the 2011 growth numbers.

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John Shu - - Analyst

Okay. Thank you very much.

Lars Dahlgren - Swedish Match AB - President and CEO

Thank you.

Operator

(Operator Instructions) Daniel Ovin.

Daniel Ovin - Cheuvreux - Analyst

Yes, Daniel Ovin from Cheuvreux. I only have actually one question left. And I wonder about the marketing expansion expenses for Swedish snus in the US, and as I understand it around half of the SEK70 million to SEK80 million is due to this.

And then I wonder if you next year would rollup similar number of stores that you've been doing this year, would that then mean that you're marketing expenses for rolling out to these stores will be similar to this year or do you have any scale benefits here?

So what I'm trying to understand is little bit more the structure of these marketing expenses involved in rolling out to additional stores.

Lars Dahlgren - Swedish Match AB - President and CEO

Yes, first of all, you mentioned a number that I didn't quite recognize. What we've been saying is we've been saying -- and today we've been saying that we think that our -- for the full year the amount of incremental marketing investment is going to be in the range of SEK60 million to SEK80 million. And we're up SEK40 million after three quarters. So you can count on SEK20 million to SEK40 million additional spending in Q4 versus prior year.

And quite frankly we need to come back. We are working through various scenarios ourselves for the expansions and clearly some of it will depend on the early reach for the new test markets in Chicago and Dallas and Philadelphia. But the trend is there that we're very confident that this is going to lead us to the conclusion to continue to invest.

I'm not in a position to quantify now but you should expect -- our own expectations are that 2012 investments will exceed 2011 investments as well for snus internationally.

Daniel Ovin - Cheuvreux - Analyst

Okay, perfect. Thank you.

Operator

Toby McCullagh.

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Toby McCullagh - - Analyst

Sorry, almost everything has already been answered, but just to quantify on this internalization of snus, the marketing investment there, the SEK60 million to SEK80 million incremental, could you just clarify that's off of base, last year was about SEK60 million or so?

Lars Dahlgren - Swedish Match AB - President and CEO

We prefer for competitive reason not to give you the exact amount we are spending. Rather -- but for comparison reasons we provide you with the increment.

Toby McCullagh - - Analyst

Okay, fair enough. That was it. All of my other questions have been answered. Thanks.

Operator

Rogério Fujimori.

Rogério Fujimori - - Analyst

Can I just ask you a quick question about US moist snuff and if you could remind us about the current relative pricing position of Timber Wolf and Red Man versus Grizzly and Copenhagen please? Thank you.

Emmett Harrison - Swedish Match AB - SVP of Corporate Communications

Quick question, I have to find the numbers -- just a second. According to Nielsen the -- I'll give you a few here. The Q3 average retail price for the Skoal premium products is 4.41, is retail nationwide. For the -- if you go down to Timber Wolf, it is 2.64, Red Man 2.52. The Skoal extra moist snuff which is the lower priced offer, Nielsen reports it to be 3.05 and then Longhorn at 2.08.

Rogério Fujimori - - Analyst

That's great, very helpful and thanks. And the other quick question that I have is on Norway. And you reported an increasing volume in the third quarter. So I was just curious to know if you have seen any impact from the retail display bands in place since the start of the year?

Lars Dahlgren - Swedish Match AB - President and CEO

Norway continues to grow at impressive numbers in terms of the total market. So I think Nielsen reports, which is 11% or even 12% year-to-date now. And then we think that Nielsen overstates it slightly because of the way they draw their samples. But we're talking a round number of 10% plus volume growth in Norwegian markets.

Then of course we don't know what it would have been without any display band, but as far as we can see we haven't seen any effects whatsoever.

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Rogério Fujimori - *Analyst*

Okay, thank you.

Operator

Adam Spielman.

Adam Spielman - *Citi - Analyst*

It's Adam Spielman from Citi here. Can you tell me how many cans a week of snus you have to sell in a store to make it profitable for you and the store in the US, I'm talking about? I'm trying to work out -- compare it with the 14 figure you gave earlier.

Lars Dahlgren - *Swedish Match AB - President and CEO*

I'd say a round number, if you could look at that overall moist snuff portfolio and so far it's a round number to really make sense. And -- but to start to build from is to be at 10 cans per store per week.

If you take the -- depending on how many stores you think that the snus category that sells snus in the US now, if we include our competitors, but if we use a rough number of 100,000 stores you have somewhere around 7 cans per store a week on average. And then of course you have some stores that do very well and you have [retail] that sell less than that. But then we are -- but the 10 cans I say you have a very sustainable base to build from.

Adam Spielman - *Citi - Analyst*

And that's a significant base for you and for the (inaudible) store I assume?

Lars Dahlgren - *Swedish Match AB - President and CEO*

That can of course vary how big the store is and so forth, how much do they sell of the other things. And that is -- and I don't have any exact science behind my answer here, but in terms of KPI that we look at is once you start to reach 10 cans per store per week we see that it's in clear demand from the retail universe as well.

Adam Spielman - *Citi - Analyst*

Okay, thank you.

Operator

Mikael Holm. Your line is now open.

Mikael Holm - *Erik Penser - Analyst*

This is Mikael Holm, Erik Penser. I have one question and that is what lessons have you learned from the historical attempt to try to sell Swedish snus in Russia, and especially if I remember it correctly it was (inaudible) then as well?

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Lars Dahlgren - Swedish Match AB - President and CEO

Is it --?

Emmett Harrison - Swedish Match AB - SVP of Corporate Communications

Yes.

Lars Dahlgren - Swedish Match AB - President and CEO

Clearly, we look at the previous experience and see what we can learn from that. And I don't think I want to share that externally. We want to keep those learning to ourselves. But that's an important element of what we're doing now. Also with several different test markets going on is to gather learning that we can apply and continuously refine the model.

Mikael Holm - Erik Penser - Analyst

Okay, thank you.

Operator

[Chez Munster].

Chez Munster - - Analyst

Two questions from me. One on STG. You're saying that the sales, underlying sales are down. So could you give us an indication of what the underlying profits doing, obviously up 34%, but obviously the increased synergies in the Lane contribution. So what's the underlying profitability the business is doing, and maybe some words on where you see the great potential going forward?

And the second question would be on your leverage. You've gone from 2.4 to 2.7 times net debt EBITA. I think you have a ceiling on that of three times. Do you see yourself hitting that ceiling any time soon? Do you see scope to lift that self-imposed ceiling? Just a few words on that please.

Joakim Tilly - Swedish Match AB - CFO

Okay, this is Joakim. I'll do my best. On the profitability of STG excluding Lane and one-offs, it is actually up in Q3, and up quite a bit actually. And partly of course that is related to synergies, a large part of it is which have been realized already to a large extent. It's giving those of course supply chains (inaudible) that we talked about earlier. And part of it is also due to efficiencies in cost which are not synergy related.

If we look at the average we are at 2.7 like you said. And we have said in the past 2.7 is a good level to be at, we believe. And we have really no plans to change that now. You've seen before that we've never exceeded 2.7. So we think it's a good level to be at.

Chez Munster - - Analyst

Thank you.



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Lars Dahlgren - *Swedish Match AB - President and CEO*

When it comes to the sales performance of STG the premium cigars is pretty much flat in local currency which means that the earnings improvement varies to a large extent driven by synergies. And when it comes to the mass market cigars in Europe, sales are down a little bit. So we have quite significant synergies. But on the other hand pipe and fine cut tobacco business is doing excellent with strong volume growth and very clear uptick in profitability on the underlying business.

Operator

David Hayes.

David Hayes -- *Analyst*

Just a quick one on the Lights business. Obviously the margin recovered a little bit, more than we thought certainly. I think as you mentioned again in the presentation because Lights had a better quarter. But I see you talk about STG distributing Lights.

Was that kind of a one-off benefit where you're filling new distribution outlets and that follow a little bit in the fourth quarter or is it something that's more sustainable? Thanks very much.

Lars Dahlgren - *Swedish Match AB - President and CEO*

There was no special STG effect in the third quarter now. They've been distributing the lighters since the inception of the new Company. And year-on-year it actually didn't make any big difference. The fact that we had distributed those ourselves in our sales companies last year.

Now, the strong performance of lighters is coming from especially Asia and Russia in the third quarter. And it is -- it's a little bit tough year for Lights with the current situation, some of the raw material prices. So on the match side we continue to have challenges to reach up to last year's results.

But we are clearly pleased ourselves also that it was a different level of profitability in the third quarter compared to what we've seen in the second half or in the first half. But when it comes to the fourth quarter it's probably going to be hard to reach all the way to last year's fourth quarter number for the Lights business.

David Hayes -- *Analyst*

Thanks very much. Thank you.

Operator

We have no further question registered. I hand the conference back to you.

Lars Dahlgren - *Swedish Match AB - President and CEO*

Thank you very much. And just to inform everybody that the release of our Q4 results will be on February 22, 2012. Thank you.

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Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference. You may now disconnect your lines. Thank you.

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