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SWMA.ST - Q3 2015 Swedish Match AB Earnings Conference Call

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**Anders Hansson** *Danske Bank - Analyst*

**Chas Manso** *Societe Generale - Analyst*

**Catherine Farrant** *JPMorgan - Analyst*

**James Bushnell** *Exane BNP Paribas - Analyst*

## PRESENTATION

**Emmett Harrison** - *Swedish Match - SVP of IR and Corporate Sustainability*

Thank you, operator. And apologies to everyone for being a little late. We had some technical difficulties.

Welcome to the third-quarter results telephone conference for Swedish Match. With me today are Lars Dahlgren, our President and CEO; and Marlene Forsell, our CFO. After a brief results discussion, we will be taking questions. For further information on the third-quarter performance, please visit the [swedishmatch.com](http://swedishmatch.com) website.

During today's call, there may be certain comments that constitute forward-looking statements. Because such statements deal with future events, they are subject to risks and uncertainties. While management believes that these statements 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. 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.

With that, I would like to turn the conference over to Lars Dahlgren.

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

Thank you, Emmett, and good afternoon, everyone. The third quarter demonstrated our commitment and progress with regard to our Scandinavian snus strategy. The quarter also represented yet another period of solid US performance, especially within other tobacco products reporting segments.

In the third quarter, Swedish Match reported double-digit growth in sales and operating profit from foreign areas, with other tobacco products and cigars leading the way. While the strengthening of the US dollar was a major contributor to our sales growth, we also experienced underlying growth of 4% for the group in local currencies, with higher year-on-year sales across all product areas.

Operating profit from product areas was also up by 4% in local currencies. Swedish Match is the leader in the Scandinavian snus markets, with Sweden representing our largest profit contributor. A significant component of our strategy is to lead the development of the Scandinavian snus category, defend and develop our market position, and to provide consumers the highest quality assortment of both traditional and modern snus varieties across the pricing spectrum.



I'm pleased to say that we continue to deliver on our strategy in the third quarter. Scandinavian snus market grew both in Norway and in Sweden. In the Swedish market, the third quarter represented the second consecutive quarter where Swedish Match achieved sequential share gains in volume terms.

A key contributor to our stable market share in Sweden is the development of our XRange snus series. XRange combines classic premium brands with features in demand by modern consumers at a competitive price point. XRange has proven to be very popular and already holds, after only six months, 5% share of the total market. XRange volumes are being sourced from both higher and lower price products.

Providing high-quality products also to the more price-conscious consumers remains an important part of our strategy. And in September, with the launch of the Mustang brand, we further strengthened our portfolio within the value segment. Mustang, which is priced at the upper end of the value segment, has been very well-received by consumers and the trade.

In Norway, while the pouch segment continues to show robust growth, the loose segment, where Swedish Match has a very strong position, continues to experience rapid volume declines. Our popular General G3 range gained market share during the quarter. We have not yet, however, managed to reverse our negative year-on-year share trend.

In the US, our moist snuff and snus businesses performed well in the quarter, with both sales and profit growth year-on-year. The US snus market continues to grow, and over the past year, our volumes have grown markedly faster than the overall market.

Concerning regulatory issues in Scandinavia, there has still not been any further official news on the plain packaging proposal in Norway after the end of the commentary period, which was in June. If standardized packaging were to be implemented for snus in Norway, we believe that the most likely implementation date would be sometime during 2017 or 2018.

In Sweden, the Committee of Inquiry that is evaluating plain packaging under the display ban, among other measures, is expected to deliver its report in March of next year. Both the Swedish and the Norwegian governments have submitted their budget proposals for the fiscal year 2016. In Sweden, the proposal is to leave excise taxes for snus virtually unchanged. And in Norway, the government proposes an increase of 2%.

For other tobacco products, our cigar business again delivered a strong performance, with volumes growing at double-digit rates in the third quarter, and once again exceeding 300 million cigars shipped in an isolated quarter. So far, this year, our volumes are up by 9%. While the category retail pricing has continued to trend down on a year-on-year basis, our own portfolio shift toward natural leaf cigars continued to generate positive mix effects.

Regarding FDA oversight of cigars, the FDA has now submitted its regulation to the Office of Management and Budget for review. The details on the regulations have not been published and we expect the OMB review to be complete in early 2016. The effective date of the regulation is dependent on the outcome of the review, however; but once effective, Swedish Match expects to start paying FDA user fees with respect to cigar volumes in the range of \$8 million annually.

Chewing tobacco had a somewhat softer quarter than last year. However, year-to-date, the chewing tobacco volume declined for our brands remains in line with historical rates.

Our lights business showed a marked improvement from the unusually weak second quarter, especially for lighters, where volumes picked up significantly. For lighters, in view of geopolitical situation and currency developments, we have increased our marketing efforts in Russia and Ukraine. And while volumes increased in this area, the profit remained below the prior-year levels. The match business continued to deliver an operating profit ahead of prior-year.

I would also like to make a few comments about STG's performance. On an underlying basis, STS performed well this year. Their reported results for the third quarter, however, was impacted by restructuring costs, as the Company made tangible progress in its operational improvement program. Specifically, we announced reduction of the work force within the supply chain.



And the planned significant SKU reduction and product portfolio rationalization within its mass-market cigar business are expected to result in improved productivity, greater commercial focus, increased capital efficiency and, ultimately, a stronger company. We are also very pleased with the progress that STG has made in its preparations for the implementation of the revised European tobacco products directive, which we expect to be implemented across markets in May 2016.

With that I'll hand over to Marlene.

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**Marlene Forsell** - *Swedish Match - SVP and CFO*

Thank you, Lars. And then turning to our financial performance, group sales for the third quarter were SEK3.756 billion, up 10% from the prior year, and operating profit from product areas increased by 12%.

Similar to the first two quarters of the year, the strongest growth in sales as well as operating profit came from other tobacco products, which includes US cigars and US chewing tobacco. Sales also grew for snus and moist snuff product area. For lights, reported sales were down.

In local currencies, sales increased for all product areas, and group sales and operating profit from product areas both grew by approximately -- from approximately 4%. Currency translation affected reported sales positively by SEK204 million and reported operating profit from product areas by SEK73 million. At the current spot rates, we will see further but diminishing positive currency effects from the US dollar in the fourth quarter.

Operating profit, including our share of the net profit from Scandinavian Tobacco Group, amounted to SEK1,065,000,000 compared to SEK989 million in last year's third quarter. The net profit from Scandinavian Tobacco Group in third quarter, as Lars mentioned, included a number of restructuring activities. Basic earnings-per-share in the quarter increased by 10% to SEK3.84 from SEK3.50 in the prior year, and this was then also affected negatively by the restructuring costs in STG.

For product areas comments, I will generally refer to sales and operating profit development on a local currency basis. Commons to market share or segment shares were generally referred to shares measured based on product volumes. Within the snus and moist snuff product area, our sales grew for moist snuff and snus combined in the US, and also grew slight in Scandinavia. Operating profit in the US increased while Scandinavian operating profit declines almost.

Sales as reported in Swedish kroner were up by 4%, affected by net positive currency effects from the stronger US dollar but weaker Norwegian kroner. The Norwegian kroner depreciated during the quarter and was 8% weaker than in the prior-year period. The weakened Norwegian kroner resulted in a net negative currency affect on operating profit, as the cost of the US dollar impact on operating profit is limited due to the net operating loss from Swedish snus in the US.

In Scandinavia, Swedish Match volume growth compensated for the negative price mix effect that we experienced following a number of conscious decisions to lead and develop the Scandinavian snus market. The Scandinavian market grew strongly, and Swedish Match estimates the market to have grown by more than 5% in the isolated quarter. Capturing a large part of that volume growth, our shipment volumes were up by close to 5%, with volume growth in both Sweden and Norway.

For the year-to-date period, Swedish Match estimates that its Scandinavian snus volumes grew by close to 2% on an underlying basis, and that the total market grew by somewhat more than 4%. The negative price mix effects are the consequence of share gains within the value segment; price requisitioning on the Kronan snus brand; the launch of the competitively priced premium assortment of extreme product, as well as the year-on-year growth in the value segment.

In Sweden, our overall volume share of the Swedish market has increased by 0.5 percentage points since the first-quarter 2015. The volume market share increased to 69.3% during the third quarter compared to 69.1% during the second quarter and 68.8% in the first quarter 2015.

As Lars mentioned, the XRange product strength has contributed to this market share development, and it has also contributed to the development of the total premium segment. Since the first-quarter 2015, the premium and value segments' respective shares of the market have been relatively

stable. And on a year-on-year comparison, Swedish Match market share within the premium segment has declined by 0.6 percentage points, and at the same time, we have gained market share of 2.3 percentage points within the value segment.

For the third quarter, our market share within the premium segment was approximately [93.1%], and our share of the value segment was 40.6%. Swedish Match total volume share declined of 0.6 percentage points on a year-on-year comparison is due to the relative growth of the value segment's share of the total Swedish market, up until the first quarter this year, coupled with a decline of Swedish Match premium market share.

In Norway, our market share during the quarter was 66%, down from 59.3% during the same period last year. However, our G3 line extension continues to take market share in the third quarter.

For US and moist snuff sales, a decline slightly, as higher net realized pricing substantially mitigated volume decline. For US snus, sales increased due to both higher net realized pricing and higher volumes. During the quarter, the net spending SEK100 million for expansion of snus out of Scandinavia was slightly up from last year's SEK91 million, even though the net spending in the US was down. The increased net cost was a result of negative currency effects and higher costs of dissolution on the Swedish Match PMI international joint venture. The reduced operating loss for Swedish snus in the US was a result of improved gross profit and lower spending.

And just as we previously mentioned that negative currency effects and the high costs underlying Swedish Match and P.M. international joint venture, the operating profit for the snus and moist snuff product area was in line with prior-year for the third quarter. The operating margin, as in prior quarters this year, was affected by -- negatively by US businesses' larger relative share of total snus and moist snuff sales, and the low margin in the Scandinavian business.

For other tobacco products, sales increased by 9% in US dollars while operating profit increased by 16%. The sales increase was primarily driven by the very strong performance in cigars while sales for chewing tobacco were down somewhat. Operating profit in dollars also increased for cigars, while operating profit for chewing tobacco is down. Cigar volumes during the third quarter were up by 14%. And in addition to the volume effect, operating profit for cigars was also favorably affected by an improved product mix, as well as elimination of tobacco of a buyout fee, the impact being approximately \$2 million for the quarter.

This year-on-year favorability will diminish substantially during the fourth quarter, as the elimination of the closed SC's occurred on October 1st of last year. When the FDA begins to regulate cigars, it is estimated that FDA user fees will be comparable to the former quota buyout fees.

Moving now to chewing tobacco, chewing tobacco shipments, excluding contract manufactured volumes, were down by 9%. Quarterly fluctuations for volumes in chewing tobacco are common, due in large part to a promotional timing. And for the nine months' period, chewing tobacco volumes, excluding manufacturing, were down at historic rates by 6.6%.

For lights, sales declined by 2%, while operating profit declined by 7%. For matches, despite the sharp depreciation on the Brazilian real, price increases, and more favorable country mix as well as some positive currency transaction effect, compensated for relatively weak volumes. For lighters, sales grew as a consequence of stronger volumes and positive currency effects, while operating profit declined primarily as a result of increased market support to parts of the new room.

With regards to Scandinavian tobacco group, actions that Lars then referred to have resulted in restructuring costs of DKK123 million for the nine-month period, for which DKK98 million have been recognized in the third quarter, affecting both gross profit and EBIT negatively. Reported sales for STG were up by 5% to DKK1,741,000,000. Sales were flat in local currencies as increases in handmade cigars were offset by declines in third-party contract manufacturer volumes.

So you need to count the impact by the aforementioned restructuring costs, reported EBITDA decreased to DKK307 million from [DKK364 million] in the prior year. However, underlying EBITDA was marginally higher with some positive price effects and improved production efficiencies.

Net finance costs in STG increased from DKK18 million to DKK32 million, reflecting higher interest costs of pension obligations coupled with lower realized gains from financial instruments compared to the prior year. Net profit amounted to DKK139 million versus DKK200 million in the prior



year, and negatively affected by the restructuring charges. Consequently, Swedish Match reported share of net profit in STG was also lower, and amounted to SEK87 million versus SEK150 million in the prior year.

If the positive effect of the reassessment utilized instead have been included in the 2014 comparable figures, Swedish Match trial net profit would have amounted to SEK129 million for the third quarter of 2014. On September 30, 2015, Swedish Match received an extra dividend from STG of SEK555 million, which has impacted our cash from operations positively.

Now, I will provide some commentary on taxes, cash flow, and financing. The net finance costs for the third quarter was SEK21 million, lower than in the third quarter 2014, due to lower average debt levels. But the average interest rate was also somewhat below prior-year. The net interest expenses on our financial liabilities amounted to SEK84 million, down by SEK28 million, whereas interest on pension liabilities increased to SEK20 million from SEK30 million, affected negatively by the strong US dollar.

For the first nine months of the year, the reported tax rate, excluding associated companies and joint ventures, was 24.5%. The rate is higher than in 2014, due in part to the strong US dollar and earnings growth in the US, which gives higher weight to the relatively high US tax rate, as well as a reduced taxable benefit of certain deductions due to the increased earnings.

The cash flow from operating activities in the first nine months amounted to SEK3,199,000,000, up from SEK2,537,000,000 in the corresponding prior-year period. This increase is mainly attributable to higher profits as well as STG's special dividend. Investments in property plant and equipment during the first nine months of the year was SEK218 million, SEK51 million higher than prior-year. And the total level of net cash used in investing activities was SEK37 million higher than prior-year.

The investments in the new distribution center amounts to approximately SEK150 million and that was paid in October 2015. However, as the divestment of the current distribution sampling sooner will be concluded during the first quarter of 2016, we will at that time have a capital inflow of approximately SEK150 million. During the first nine months, 4.9 million shares were repurchased while 0.7 million shares from treasury were sold, all in the first quarter, as a result of option holders exercising the last options under the now-ended option program.

As of September 30, Swedish Match had SEK8.1 billion in spare debt, [with] retirement benefit obligations compared to SEK8.7 billion at December 31, 2014. During the first nine months, we have repaid maturities of SEK1,139,000,000 and issued a new bond in the amount of SEK498 million during June. We also issued a new bond this week of an amount of SEK300 million. The new bond issued in June was issued at an all-in fixed five-year rate of approximately 1.5%, and one issued this week at about 1.8%.

The average maturing duration of the bond portfolio was 3.5 years, and the weighted average interest rate was 4.3%. Approximately 93% of the debt has fixed interest. The net debt in relation to EBITDA, excluding share profit in SD, was 2.1 for the 12-month period ending September 30, positively affected by extra dividend from STG.

And I will now turn the conference call back to Lars.

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

Thank you. And moderator, I think we can go ahead and open the Q&A session, please.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Erik Bloomquist.



**Erik Bloomquist** - *Berenberg Bank - Analyst*

I was hoping you could update us on how mix is improving or stabilizing in the Swedish market? It looks encouraging with the developments in XRange and then in Mustang. Is that something that looks to be an opportunity to further improve mix through the Swedish market?

Second question is then with respect to FDA. And do you have some additional detail on why the MRTP application has taken so long? And what one might expect to be? And is there any way to read that one way or the other?

And then with respect to the deeming of cigars, have there been any leaked versions of that that provide visibility? Or is it looking to be pretty much in line with what was expected? Thank you.

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

Good afternoon, Erik. This is Lars. I'll start with the FDA question. And the very short answer is that we have no information on why we haven't received a response to our applications. So, now -- which we thought they would get to during the third quarter. But this also means that we read nothing into it and we think it's just a normal delay that can happen with the middle authorities.

Continuing on the FDA theme and with cigar regulations, I've seen some comments on the Internet, on supposedly leaked information on deeming regulations. But the official regulations have not been published, and I think it's prudent to wait and see what the official versions say.

Regarding the Swedish snus market and the mix effect there, there are -- first of all, as I pointed out, the third quarter -- the premium segment held up very well. If you look at the Nielsen data, the premium segment actually grew its share of the market in the third quarter compared to the second quarter, and only lost 2.4 percentage points versus the same quarter last year, which is lower than the recent historic trend.

And as Marlene explained, we attribute definitely part of this to XRange. And clearly, that and the fact that value segment has remained more stable, is positive as such for the mix, but also, a word of caution, these are -- contain several summer months and the summer months is -- are months where we typically see quite a bit of resilience at the premium segment.

So we do think that the underlying trend of the growing value segment still exists at the Swedish market. and we do expect to see some negative effects in that respect during the fall. But we also do think that XRange will continue to do a very good job.

And, when it comes to the specific question on mix effects, XRange essentially has a lower price per can than the rest of the premium segment, means that we do expect negative mix effects within the premium segment. And within the value segment, the general market trend that we have seen lately and for quite a bit of this year is that products priced a little bit higher in value price segment do, relatively speaking, better than the lowest priced products. And that goes for our portfolio also in the quarter.

And with the Mustang product launch at the up brand of the value segment, there are dynamics that imply that there can be positive mix effects within the value segment. And I think given that the value segment still has grown year-on-year, and given that XRange has been so successful, we should still expect to see some negative mix effect for the near future.

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**Erik Bloomquist** - *Berenberg Bank - Analyst*

Great, thank you.

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

Thank you.



**Operator**

Stellan Hellstrom.

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**Stellan Hellstrom** - *Nordea Markets - Analyst*

I wanted to come back to what you mentioned there on the value segment in Sweden. You said that there might be some kind of rebound in the autumn, and just wanted to see if you could tell us what would be the reason behind that? And also if you could comment if there is any different behavior from competition that you've seen lately?

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

The only reason I say that we expect to see the value segment to show a bit of growth, again, I think if we look to the historic trend, typically the summer months have shown resilience in the premium segment. And then we have seen the value segment picking up in growth rate shortly after in the summer. And we do think that the underlying trend, as I said, is still there, although it's not as pronounced maybe as if you go back a couple of years.

And, the -- sorry, what was the other question?

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**Stellan Hellstrom** - *Nordea Markets - Analyst*

Just if you see anything --?

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

Yes, competitive behavior. Yes, I mean it continues to be very competitive market and it varies a bit from outlet to outlet. So I would say that we haven't seen any across-the-market meaningful actions either, so to say up or down if you referred to pricing. But we have seen lately one competitor that was -- or alternatively, the chain running very low price on one of its products in what I would label a premium chain. That price has now gone up.

And -- but another competitor on the other hand, in some other chains, which is the chain where you would more expect to see discount offerings, we have seen decrease lately. So, one up and one down, you can see within the value segment. But this is not the total market again. These are isolated chains but relatively big chains.

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**Stellan Hellstrom** - *Nordea Markets - Analyst*

Yes, very good. I think I also saw some comments, we talked about the low price segment being a potential candidate for seeing some price revisions. I don't know if you can share some further color on your thinking here? And particularly what is different compared to a few years ago when you did raise prices for the low-end, and then there was price rollback eventually?

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

Our view continues to be that the prices in the value segment in the Swedish market, they are at the very low price levels. This is true if you compared to other type of products on the Swedish market and like convenience type of products that you can -- may consume on a daily basis.

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The price gap is very big to premium, and the absolute price for a pack of tobacco in the Swedish market, if you value-price snus, is exceptionally low from a European perspective. So we do believe that, over time, there is room for pricing at the value end of the Swedish market without that leading to any material negative category impact.

So, I believe that is the comment that you are referring to. Then, in terms of specifics of pricing action, that, of course, also depends very much on the competitive environment, which we need to monitor closely.

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**Stellan Hellstrom** - *Nordea Markets - Analyst*

Okay. Is there any time of the year where you would think price increases would be more natural to push through?

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

We have -- if you look historically, you have seen Swedish Match adjusting its price list at year-end, spring, and September. Those have been the historic dates.

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**Stellan Hellstrom** - *Nordea Markets - Analyst*

All right. Just finally also on your financial gearing here, you had net debt to EBITDA of 2.1 times at the end of the quarter. And now I reckon there was an extra dividend from STG but still it's a pretty low level, even excluding VAT. And is there any particular reason why you haven't bought more shares?

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**Marlene Forsell** - *Swedish Match - SVP and CFO*

I think that if you exclude the extra dividend from STG, then it would be close to 2.3 and we've been talking about 2.4; 2.4 is still a relevant number. However, whether we will be reaching that by year-end, I can't promise. But in the longer-term perspective, we're still talking about something in the area of 2.4. But I mean, as I said, with the extra dividend from STG, I'm just promising that we arrive at that by year-end.

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**Stellan Hellstrom** - *Nordea Markets - Analyst*

All right, very good. Thanks. Thank you.

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**Operator**

Anders Hansson.

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**Anders Hansson** - *Danske Bank - Analyst*

Anders Hansson at Danske. I only have two more technical questions left. First of all, given the high tax rate in Q3, can you say anything about the full-year tax rate besides higher than 2014?

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**Marlene Forsell** - *Swedish Match - SVP and CFO*

No. But generally when we report our tax rate, we -- I mean, we take into consideration sort of the full-year, so the 24.5% is the best estimate at the moment of the tax rate.

**Anders Hansson** - *Danske Bank - Analyst*

Okay. And secondly, also on STG, after all these dividends, can you say anything about the leverage in STG right now?

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

It's around 2.5 net debt to EBITDA.

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**Anders Hansson** - *Danske Bank - Analyst*

Great, thank you. That was it.

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**Operator**

Chas Manso.

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**Chas Manso** - *Societe Generale - Analyst*

On the Scandinavian sort of snus volume growth, so running at 4%, 5%, can you perhaps explain what's driving it? Is it the shift to lower Graeme edge cans? Is consumption by weight stable or is it being driven by price gaps with cigarettes? Sort of how is the -- do you think the 4% to 5% market volume growth is looking forward?

The second question would be on XRange market share. It's reached, you said, 5% in six months. Is -- within that six months, has it kind of reached 5% quite quickly and is leveling off? Or is it continuing to progress? Have you done any sort of data analysis on the sort of potential size of XRange trialing from your premium users as well as your value users? And the final question would be, is there any news on the snus labeling issue in the US? Thank you.

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

This is Lars here. When it comes to the market growth, which we estimate to be slightly more than 4% year-to-date in Scandinavia, with Norway continuing to lead the way, but so a little bit higher than that and a little bit lower than that. But still very good. It's a very good question where the market growth is coming from.

And this is one of those things where we don't have exact answers, but there are a set of variables, and that we believe are meaningful. And you mentioned a couple of them yourself. If I may add to your insight there on the price gap versus cigarettes, which has -- indeed has increased in Sweden this year, and specifically low-priced cigarettes.

Then as you know, Swedish Match has been leading the way and been very active in terms of introductions on the Swedish market this year. And that in itself, we believe, has helped the category growth. The average weight of a can does continue to trend down slightly. So, that may be a part of the part being a reason.

And another reason is that the number of snus consumers continues to go up. This is something we measure relatively broadly once per year. And according to our latest measure, the number of consumers are increasing in both Sweden and Norway -- in Sweden particularly through population growth, while overall penetration is relatively stable.



So in terms of going forward, I would say that in years where we haven't seen a very strong sort of value segment growth for 4-plus-percent comes across as a little bit unusually strong. So we have seen a little bit more modest declines than that historically. But all of these factors that I mentioned, they are still valid. So, we believe there are good reasons to factor in and continue the volume growth of the Scandinavian snus market.

When it comes to the XRange, I think it's fair to say that low-hanging fruit, so to say, has been captured. So we certainly believe that the brand range has further potential. It's a very good product at an attractive price point, but I think it's fair to count on that the growth will level off the growth rate.

And then your last question on labeling on the snus, I assume you mean the MRTP application. And you might have missed an earlier question the caller had. I said we haven't heard anything from FDA and we don't know why. It can still come any day. And it's a slight delay to what we had counted on, but we have no new information or questions or so from FDA. So we don't read anything into this delay.

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**Chas Manso** - *Societe Generale - Analyst*

Okay, good. Can I ask on the 4% to 5% volume growth in the market, what would that be in value growth?

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

If you look on the year-to-date, if you take Nielsen -- I have the Swedish market here in front of me; then you have, according to Nielsen, 4% in volume terms. This is rolling 12 months versus the previous rolling 12 months period. And 3% in the value terms. If you look at the quarter, this has isolated the quarter. And again, the isolated quarter may be a little bit exceptionally strong. We have a match there between value and volume, so, Nielsen shows both 6% for volume and for growth in value.

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**Chas Manso** - *Societe Generale - Analyst*

Great, thank you.

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**Operator**

Catherine Farrant.

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**Catherine Farrant** - *JPMorgan - Analyst*

Yes, really just wanted to come back to the cigar market, where clearly you had another strong quarter. And I know you've been very successful with the natural cigars there. And I'm just wondering if that's something that -- is there any other trend emerging which you think are worth commenting on, given I think we must be getting to the point where we are sort of lapping the period where natural cigars started to do very well.

And also, just trying to make a little bit of sense of the US snuff pricing. Just in terms of no -- sort of how that's played out across the broader industry, and if everyone is sort of pricing up similarly, or if there's any kind of price competition going on there? Thank you.

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

When it comes to cigars, we believe that there is still room to grow within the natural leaf segment, in particular. And then, of course, we do our best to defend our position in the HTN segment, where we actually lost some share during this year. But you are right in pointing out that, naturally, we are facing tougher comps since we have now a relatively long period of very good projection on -- in the marketplace.

With that said, in the total market, there is also showing relatively good growth this year. Emmett, do you have the number off the top of your head?

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**Emmett Harrison** - *Swedish Match - SVP of IR and Corporate Sustainability*

The growth rate is about 6% this year.

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

When it comes to snuff pricing, the trend nowadays seems to be that manufacturers take two price increases per year. So far this year, there has been one. If anything, I would say that the promotional intensity has increased somewhat during the third quarter. But if you look in our price mix, it is positive. And it has also to do with where the promotional price points are. So it's specifically on promoted volumes, we actually have more positive pricing in the third quarter compared to the prior-year.

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**Catherine Farrant** - *JPMorgan - Analyst*

Really helpful, thank you.

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**Operator**

James Bushnell.

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**James Bushnell** - *Exane BNP Paribas - Analyst*

I have two questions, please. The first one is on the review of potential tobacco regulation in Sweden of which plain packaging is a possibility. I read somewhere this week that the Attorney General in Sweden had made a comment about the constitutionality of plain packaging. I just wondered if you could add anything to that?

And then my second question was around the extra dividend from STG. I just wanted to ask what the motivation for that was, whether Swedish Match was in agreement with that? Assuming, as a 49% shareholder, that you would be. And then I guess touched on in the previous question as well, how we should think about the use of that extra cash? Thank you.

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

I'll let Marlene answer the question on extra cash. Normally, we don't comment on how we vote in the Boardroom, but in this case, I will make an exception and say that, yes, Swedish Match agreed to the extra dividend. And it was a good idea. And the reason for it is that, as you know, we have done a relatively thorough strategic review of STG.

And as an add-on to that, you can say we also looked at what we believe is an optimal capital structure for the Company. And part of the operational improvement program actually includes capital efficiencies. So we think this type of leverage target is well-aligned with that program.

When it comes to -- I'll leave the word to Marlene soon to comment on the money, on how to use the money. When it comes to the plain packaging in Sweden, a bit technical, and I'm afraid I'd give a somewhat long answer, just so that everybody follows. So, in -- as opposed to Sweden -- oh, sorry, as opposed to Norway, in Sweden, there is not a proposal on plain packaging out for commentary.

Instead, what is the Health Department in Sweden has instructed a Committee to provide a report on additional tobacco control measures that include, first, a smoking ban even on outdoor restaurants, and then plain packaging and display then. And there is a judge leading this Committee and their report is due in March. And depending on that report, the government may choose to follow recommendations in the report or they may choose to not to do so.

And the news you read is that the judge that leads this Committee correctly pointed out that the Swedish government that a plain packaging would require a change of the Swedish Constitution. And this is a technical remark as we understand it, because it basically means that the Committee itself cannot make a recommendation. It's outside the scope of the Committee to comment on the legislative opportunities for such a measure.

Whether they still would provide a view whether plain packaging would be good or bad, I don't know. But we don't read into this. It's normal practice that a Committee, so to say, comes out during the interim period, and clarifies that this is within or without the scope of what I am working on.

Then, Marlene, you want to comment briefly on --?

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**Marlene Forsell** - *Swedish Match - SVP and CFO*

Yes, okay. When it comes -- I mean, that's just in general, when it comes to excess cash, yes, I mean, first of all, of course, priority one is the operations and such. But besides that, we are returning cash to our shareholders. And if you look at the extra dividend from STG, I don't look upon that event in isolation as the course of sort of an extra dividend from Swedish Match. We'd be treated in accordance with sort of the international financial policy that we have.

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**James Bushnell** - *Exane BNP Paribas - Analyst*

Okay, great. Understood. Thank you very much.

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**Operator**

And you have no further questions at this time.

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

Okay. Thank you very much. Then I guess finally, I'd like to point out that the release of our full-year report will be on the February 19th. Thank you, everybody.

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