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SWMA.ST - Q4 2016 Swedish Match AB Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to today's Swedish Match full-year report 2016 conference call. (Operator Instructions).

I must advise you that this conference is being recorded today, Friday, February 17, 2017. I would now like to hand the conference over to your first speaker today, Emmett Harrison. Thank you. Please go ahead.

Emmett Harrison - *Swedish Match AB - VP, IR and Corporate Sustainability*

This is the Swedish Match fourth quarter 2016 telephone conference, and with me today are Lars Dahlgren, our President and CEO, and Marlene Forsell, our CFO.

After providing our prepared commentary, we will be taking questions. For further information on the fourth quarter's performance, please visit the swedishmatch.com website.

During today's call, there may be certain comments that constitute forward-looking statements and are subject to risks and uncertainties. Management believes that these statements are based on reasonable assumptions but can give no assurance that expectations will be achieved. Risk factors are outlined in the latest interim report and annual report, which are available on our website. Swedish Match assumes no obligation to update information concerning its expectations.

A recording of this call will be made available on the Swedish Match website, and with that, I'd like to turn the conference call over to Lars Dahlgren.

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

Thank you, Emmett, and good afternoon, everybody. For 2016, we had a year of growth in sales in all of our product areas, as well as strong growth in operating profit. We successfully listed STG on the NASDAQ Copenhagen Stock Exchange in February and subsequently sold a significant portion of our shareholding. With strong cash flows from operations and proceeds from the STG transactions, we delivered substantial returns to our shareholders during the year in the form of both dividends and share repurchases.



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Following year end, we further reduced our holding in STG by divesting 9 million additional shares at a price of DKK118 per share. The net proceeds are proposed to be distributed as a special dividend of SEK7.50 per share, which will be paid out in conjunction with the proposed ordinary dividend of SEK8.50.

The 2016 operating performance was driven by a very successful year for cigars in the US.

The cigar business had a record-breaking year in terms of volume, sales and operating profit. Overall market growth for cigars in volume terms continued to be strong in 2016, and Swedish Match outpaced this growth rate, especially in the fastest-growing natural leaf cigar segment. During the year, we added capacity in cigar production to cope with increased demand.

We also experienced good operating profit growth in our snus and moist snuff business on a reported and local currency basis aided in part by significant reduction in operating losses from snus and nicotine pouches outside Scandinavia.

Chewing tobacco faced a challenging year and experienced unusually high volume and profit declines, particularly toward the latter part of the year. On the other hand, our lights business demonstrated resilience, delivering a strong profit improvement driven by lighters.

In our largest business, Scandinavian snus, market growth was strong on a full-year basis but slower in the second half of the year. Swedish Match reported market share losses during the year, and while year-on-year share losses in Norway moderated in the second half compared to the first, we saw the opposite trend in Sweden.

Part of the share loss in Sweden is attributable to aggressive competitive pricing in the premium segment, but the share erosion was principally driven by share losses within the value segment, where competitive activity remains intense. As a consequence, our premium volumes grew at a quicker pace than our value-priced product during the year, which when coupled with modest price increases at the beginning of the year, contributed to improved average prices.

For Scandinavia as a whole, our volumes are estimated to have grown by more than 1% on an underlying basis and operating profit increased despite higher market-related costs.

In the US moist snuff market, we were successful in delivering volume growth within the faster-growing and strategically important segments of [pucks] and pouches, but overall volumes declined marginally on a full-year basis. Profitability in local currency improved, however, as the average pricing increased.

Volumes of snus in the US grew at double-digit levels and sales and profitability improved. We expanded our scope of innovative products on the US market within our new range of nicotine pouches without tobacco. In initial trading, consumer reception to ZYN has been quite strong, and we intend to expand our distribution base within the western US during 2017.

2016 proved to be very active on the regulatory front. In Sweden, the transposition of the European Tobacco Directive came into effect, providing for new snus warning labels and reporting requirements, which we have been effectively implementing without disruption within our supply chain.

In Norway, the parliament approved a bill that stipulates plain packaging also for snus. The effective date for this is anticipated to be in 2018.

The FDA published its deeming regulations on cigars and certain other products, and we have made good progress in our preparations for substantial equivalence filings across our cigar assortment.

In December, we received the long-awaited response from the FDA on our MRTP application. In its current form, the FDA was unwilling to grant MRTP status for General snus in the US. However, the FDA encouraged us we amend our application and continue to seek MRTP status and invited us to meet to further discuss our application. We will take the opportunity to meet with the FDA, and we'll, based on that dialogue, decide on what future actions to take.



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As regards snus and the European Union, there was a positive development early in 2017. The UK High Court decided in line with our request to refer the legal review of the validity of the European snus ban to the European Court of Justice. While we expect the process in the ECJ to take some time and the outcome is difficult to predict, we are of the opinion that we have a very strong case.

From a financial performance perspective, the fourth quarter was somewhat disappointing and fell short of our year-to-date performance through the first nine months of the year. While we delivered good sales growth, operating profit in local currency was flat -- sorry, with a mixed development among our businesses.

For the snus and moist snuff product area, operating profit in the fourth quarter fell short of prior year's level, despite an improved results from snus and nicotine pouches outside Scandinavia. The shortfall is partly attributable to challenging volume comps in Scandinavia, stemming from trade hoarding in the prior year, but costs in Scandinavia rose to notably higher than in the prior year, which more than offset the favorable effects from the improved sales, where pricing was a contributor.

Also, within moist snuff in the US, the volume development during the fourth quarter was weak, which could not be fully compensated by higher average prices per can.

Profits for cigars continued to grow, despite the introduction of FDA fees, but within other tobacco products, the growth in operating profit in local currency from cigars was almost fully offset by weak performance within our chewing tobacco business, as the volume declines were unusually steep.

Lights reported the strongest operating profit for the year, and it was encouraging to note that matches also contributed to the earnings improvement in the quarter. With that, I turn over to Marlene for further comment on the financials.

Marlene Forsell - Swedish Match AB - SVP and CFO

Thank you, Lars. For the quarter, sales grew by 6% on a reported basis and by 3% in local currency. Sales in local currencies grew across all product areas except lights, once again led by a very strong performance for cigars.

Group operating profit increased by 5% to SEK954 million, up from SEK908 million in the prior year. There were no larger one-time items or recorded share of net profit in STG in either the fourth quarter of 2016 or the fourth quarter of 2015.

In local currencies, the Group operating profit was flat on a year-on-year comparison. The introduction in the quarter of FDA's user fees for cigars negatively impacted operating profit by more than 2%.

Our earnings per share amounted to SEK3.61 in the quarter, up from SEK3.34 or by 8% versus prior year. Currency translation effects were positive in the quarter but were negligible for the year as a whole.

At the current spot rates of relevant currencies versus the SEK, we expect the currency translation effect to be positive for 2017. We also note that the Brazilian real was significantly weaker in the beginning of 2016 than the current spot rates.

For the product area snus and moist snuff, sales were up by 3% and operating profit was down slightly. In local currencies, sales were flat and operating income was down. Sales and operating profit were negatively impacted by the lack of hoarding this year versus modest hoarding in the prior year in Scandinavia.

Besides differences in hoarding, the operating profit was affected negatively by a weaker volume quarter for moist snuff, as well as higher costs in Scandinavia. These negative effects were partially offset by a reduction in the loss from snus and nicotine pouches without tobacco outside Scandinavia.



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In Scandinavia, the sales increased despite lower volumes as a result of higher average price. The total Scandinavian market continued to grow, and it's estimated to have been up by 3%. For the full year, the Scandinavian market growth rate is estimated to have been somewhat more than 4%.

Swedish Match shipment volumes were down by 3% in the quarter, and Swedish Match shipment volumes were affected by the above-mentioned differences in hoarding, but were still down by slightly less than 3% on an underlying basis, due to market share declines. Swedish Match overall market share in volume terms declined by [2% in] share points in the fourth quarter versus prior year.

The value segment as a share of the total market measured in total cans continued to grow relatively modest, and also up by 0.7 percentage points from the prior-year period. Swedish Match and market share in the premium segments was down slightly more than one percentage points, but we lost more than 3 share points versus the prior-year period in the value segment.

The operating profit of Scandinavian snus, which was down, was negatively impacted by higher costs related to a large extent to market initiatives. The cost per quarter included also some personnel-related costs of a temporary nature.

In Norway, our market share during the quarter was 52.7%, down 2.6 percentage points from the prior-year period. This year-on-year decline has improved in each of the past three quarters. Within pouches, by far the largest segment of the Norwegian snus market, our share declined by 1.9 percentage points versus last year's fourth quarter and amounted to 48.3%. General G.3 has continued to take market share and ended the quarter with approximately 11% of the pouch segment.

With regard to excise taxes in Sweden and Norway, the Norwegian government has raised the taxes on snus from SEK1,010 per kilogram to SEK1,030 per kilogram, or approximately 2%.

The Swedish government marginally increased excise tax for snus to SEK435 per kilogram. Both increases were effective January 1, 2017, and we note with the marginal increase in Scandinavia that Swedish Match did not raise prices -- in Sweden, sorry.

In the US, volumes grew for our snus and nicotine pouch products during the quarter but declined year on year for moist snuff. In the US, we have also continued our expansion of the ZYN nicotine pouch product.

For the US moist snuff business, total volumes declined by 6%, but pouches grew. A higher net realized selling price compensated partly for the volume decline, but both sales and operating profits were down for moist snuff.

The operating loss for snus and nicotine pouches outside Scandinavia has continued to improve on a year-on-year comparison, as gross profit has increased and costs have been lower. However, it should be noted that costs [as faced] during 2016 for US snus were heavy in the fourth quarter [on that] basis. This explains the significant reduction in operating loss for snus and nicotine pouches outside Scandinavia in the fourth quarter of this year, going from SEK90 million to SEK60 million.

For the full year, the reduction in loss for snus and nicotine pouches outside Scandinavia had also been affected by the absence of costs for our former SMPMI joint venture and a stepwise improvement in the product cost.

Going into 2017, we expect volumes and sales to grow for both US snus and nicotine pouches. Costs may go up as we invest more behind the nicotine pouches.

For other tobacco products, reported sales and operating profit grew by 14% and 8%, respectively, positively affected by the strong dollar during the quarter. In local currency, sales grew by 7%, while operating profit was flat. Sales per product area in the fourth quarter continued to be driven by cigars, whereas operating profit was affected by a weak performance of chewing tobacco and the introduction of FDA user fees for cigars.

Swedish Match shipments of chewing tobacco, excluding contract manufacturing products, declined by close to 14% and was significantly impacted by the increased excise taxes in Pennsylvania. Still, adjusting for the Pennsylvanian effects, volumes declined more than in previous quarters.



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During the year, the competitive activity within the value segment has been at a higher level than in previous years. For the chewing tobacco market, the value products have declined less than premium products, and Swedish Match, with our very strong position in the premium segment, has lost some market share.

The FDA user fees came in at \$2.5 million for the fourth quarter, which is higher than the \$2 million that had been anticipated by Swedish Match. FDA allocated fees to the cigar manufacturers based on federal excise taxes paid for cigars and thereby indirectly based on volumes. These fees have increased the cost base and will continue to impact operating profit.

The operating profit development in 2017 for other tobacco products is expected to be impacted by the FDA user fee, but also by higher raw material costs, especially towards the second half of the year.

For lights, both sales and operating profits grew in the quarter. Much of the improvement in operating profit came from matches, with strong volumes for the quarter, especially in Brazil. After (inaudible) third quarter for lighters, sales were down versus prior year. However, with lower market-related costs, operating profit also grew for lighters. Operating profit for complementary products also improved on an improved cost base.

And now I will provide some commentary on taxes, cash flow and financing. Net profit, excluding the share of net profit in STG and the larger one-time items increased by 9%, and this increase was a result of the improved operating profit and lower finance net. Lower interest rates on the bond portfolio and on pension liabilities, as well as increased interest income, positively impacted the finance net.

The increased interest income was partly due to high cash positions during part of the year stemming from the proceeds from the partial divestment of STG. One-time costs for bond repurchase included in the finance net were higher in 2016 than in 2015. Adjusted for these costs, the finance net for the full year was reduced to SEK364 million from SEK431 million.

As per December 31, weighted average interest rates in our bond portfolio was 3.38% compared to 4.20% for the same date one year ago.

The taxes balance increased on a higher profit before income, excluding the net profit in STG and larger one-time items, and the tax rate of 24.3% excluding associated companies and larger one-time items was higher than the tax rate of 23.1% in the prior year. The tax rate in prior year was lowered by the net effect of items of a temporary nature.

During 2016, we have returned excess cash to our shareholders of a total amount of SEK6.8 million. These returns have been made possible as Swedish Match has continued to deliver strong cash flows and also successfully divested part of the holding in STG. SEK5.5 million have been returned in the form of dividends and SEK1.2 million in the form of share repurchase.

At the upcoming AGM, the Board will propose a regular dividend of SEK8.50 per share, which is an increase of 6% versus last year's regular dividend. The Board of Directors will also propose a special dividend of SEK7.50 as a response to the most recent sell-down of STG shares. The capital gain from the reduction of share ownership in STG during the first quarter of 2017 amounts to SEK131 million and will be recognized in the financial statement for the first quarter of 2017. The capital gain is not subject to tax.

The 2016 reported cash flow from operations was affected by lower dividends received from STG and higher pension contributions. Adjusted for STG dividends and pension contributions, cash flow from operations increased by approximately SEK250 million, driven by the improvements in operating results and the reduced finance net.

The lower dividends received on STG are partly due to Swedish Match's reduction in ownership but also due to lower special dividends being paid in 2016, contrary to 2015. The higher pension contributions we made are deductible for tax after 2016 US corporate income tax rate.

Investments in property, plant and equipment were at the same level as in the prior year, and prior year includes an investment in a distribution building of [SEK150 million], whereas the investment this year has increased for cigars and snus. And investments in property, plant and equipment are expected to continue at similar or somewhat lower levels in 2017.



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In January 2017, we had the (inaudible) to an initial purchase price for the 2007 sale of the former headquarters building. We expect this additional purchase price to amount to a approximately SEK100 million and to be paid during the first half of 2017.

I also want to inform you that we provide details on the maturity profile of our debt portfolios on our webpage, swedishmatch.com. Lastly, the net debt to EBITDA on December 31 was 2.0, and the sale of 9 million shares we did into January 2017 is impacting this ratio for the first quarter 2017.

And then I turn to Lars, and Lars, maybe you take the opportunity to just make sure that my comments on pricing in Scandinavia becomes correct, because think I said that we have not adjusted prices in Scandinavia in total, and that was not my intention, so please, Lars.

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

Let me clarify that. There are regular price increases at the beginning of the year in Norway, but in Sweden, we have not made any adjustments in our prices as of January 1, and the tax was up by about 1% there, so effectively a slight net price decrease on the Swedish market.

With that, let's open up the floor to questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Stellan Hellstroem. Stellan, your line is now open.

Stellan Hellstroem - *Nordea - Analyst*

Yes, thank you. First, a question on the higher -- the relative high costs in snus, if you could just elaborate a little bit on what these higher personnel costs are and maybe also to what extent you have increased any type of signage or marketing, promotional spend? Thanks.

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

If I might comment a bit on snus and moist snuff, the operating expenses and the margin development. I would say that the margin development of course also is partly affected also by the moist snuff being relatively soft in the quarter, the volumes being down, but the operating expenses in Scandinavia is an important expense or factor.

When it comes to those, as we mentioned in the quarter, partly then due to personnel-related costs of a temporary nature, but if we look at the full year, in general, we have had overall then operating expenses going up. And as you allude to then, they are related to market-related activities when we then both expand the product portfolio and develop new products, but also on work close with the trade in order to make sure that we have the best visibility and that we manage our facings then out in trade.

We also have actually worked quite a bit with our coolers in order to make sure that they are environmentally friendly and also modern, which means then that we also have driven actually some depreciation costs going up.

I would say that looking at this quarter in particular, we have this, and as mentioned, some temporary costs. Also, if you look in prior year, we have some temporary positive items. They were not of the magnitude then that you talk about them, but now on comparison basis, they actually become notable. And I would ask you rather to look at the full year as a sort of indication then of the cost increase that we've had within Scandinavia snus (inaudible).



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Stellan Hellstroem - *Nordea - Analyst*

Okay. Then just in Norway then, maybe you mentioned this, but what kind of price increase did you take? Was it a normal 2% to 3%?

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

I would characterize it as a normal price increase, yes.

Stellan Hellstroem - *Nordea - Analyst*

Also a question here on your net debt to EBITDA, EBITDA being a bit lower than you have been historically. Is there any particular reason for that? Or you still aim for -- no.

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

Sorry, no, there's no particular reason to that, but you have noted that during the fourth quarter then of last year, we paid out with a special dividend, so we returned quite some cash to the shareholders also during the fourth quarter. Going forward, we [dream] to have a stable then leverage, which we've been talking about before being [bound], and the two -- that hasn't changed. However, how long time it can take for us to come back to such level we'll need to wait and see.

Stellan Hellstroem - *Nordea - Analyst*

Very well. Then I'll just -- thinking about a comment that I think Lars made here, where you don't see as positive mix effects in the first quarter, I'm just thinking when I look at the Nielsen numbers, it seems that you're entering the year, or even in the beginning of the year, you had quite a significant volume decline in the low-end segment. It kind of seems that you're predicting a pretty strong recovery of the low of your Kaliber+ products or is that also potentially indicating that you're launching new products as well, or any comment on that?

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

Yes. In the fourth quarter, we had a very healthy price-mix component in the Scandinavian snus business, which then comprises of a slight positive currency effect from the Norwegian kroner. It's the modest price increases at the beginning of the year, and it's a relatively low share of value-priced products in our portfolio.

When we go into the first quarter now, it's that we have effectively from January a slight net price decrease, just as an effect of the excise tax increase, and at the same time, we are introducing Kaliber+ in the value segment in the Swedish market, and as you would expect, when you introduce such a product, you have higher shipment volumes than what Nielsen would indicate, as there is a lag factor there. So I wouldn't necessarily stare myself blind on the isolated Nielsen numbers in January as a proxy for our portfolio mix. So yes, it skews a little bit higher in the value.

That is what we're referring to. There's no other pieces of news that we are looking to.

Stellan Hellstroem - *Nordea - Analyst*

Okay. Any first take on the uptake of Kaliber+ then?

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

Positive, but very early days.

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Stellan Hellstroem - *Nordea - Analyst*

Okay, very well. Thanks.

Operator

Thank you so much. And our next question comes from the line of Niklas Ekman. Niklas, your line is now open.

Niklas Ekman - *Carnegie - Analyst*

Thank you, yes. Turning to cigars, I was curious about your view on the volume outlook for 2017. You were talking about higher costs, but what kind of volume trends are you predicting, if there are any changes or if you expect the momentum to remain quite favorable, if you're seeing any changes.

And I'm also interested in what kind of underlying growth are you seeing in the market for mass-market cigars, and if that has changed in any way in the past year or two.

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

In the US cigar market, the data set is not perfect, but especially over longer periods we get a good indication, and there volumes have actually grown by 9% per annum as the CAGR, if you look over the period 2011 to 2016. So very healthy growth, and our estimate is -- excluding little cigars -- then up from just below 6.3 billion cigars up to 6.7 billion cigars, around 7% for 2016. That would be the caveat when you look at isolated years.

And within the market, natural leaf then, that segment grows quite a bit faster than the HTL segment historically, and that's a trend that we expect to continue into the future. And we have then grown faster than the market over this period. We have 11.5% CAGR growth as compared to the market growth of 9%, and as you know, we outpaced the market growth in 2016, as well.

So there are no fundamental reasons to believe that there would be any slowdown to the historic trajectory. With that said, of course, looking into the future is always difficult when it comes to how the total market will develop. And in terms of our own portfolio, we believe we have a very attractive positioning with a strong presence in the natural leaf segment, and our ambition is to grow faster than the market in 2017 on the volume side.

Niklas Ekman - *Carnegie - Analyst*

Thank you. That's very helpful. And then turning to the cost side there, I'm curious. You talk about raw material costs -- I'm curious, because I don't think you've mentioned raw material costs in previous quarters. I'm curious, is this tobacco, your tobacco costs you're talking about specifically, and how big a component is this of your selling price? Just a ballpark figure here would be helpful, just to understand the dynamics.

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

Yes, to your first question, whether or not it's related then tobacco and that's the case here. Of course, it's depending on supply and demand and pricing then of tobacco. And it is a relatively significant price increases on the tobacco we're using, so it is notable, but just we also said we're expected to be a more logical towards than the better part of the year due to us having also some inventory then to work with more in the beginning of the year.



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Niklas Ekman - *Carnegie - Analyst*

Okay, thank you. That's very helpful. Turning to Swedish snus, I'm curious. If you look at the market share decline we've seen in the last couple of months, I'm curious how much of this do you attribute to your phasing out of the Mustang brand? Is this a substantial part of the market share decline?

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

I would say that a substantial part of our market share decline is the fact that we have lost share within the value segment, and that Mustang didn't meet our expectations on our performance. But you have to see overall across the portfolio, and we haven't done too well also on Kronan and Kaliber lately, given very intense competitive activity.

And in terms of product offering, we think that Kaliber+ is actually an improved version of Mustang, you could say, from a product characteristic point of view, so we think that we have a strong offer there to the very price-conscious consumers in that segment.

Niklas Ekman - *Carnegie - Analyst*

Good. Thanks. That's very helpful, and you talked about -- in the presentation here, you talked about lower prices in premium, and I'm curious what you were then referring to. Are you talking about the XRANGE effect with your -- you having lower prices this year, or has there been general price pressure in the premium segment in 2016?

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

There has been one competitor that has repositioned from the -- what you can call the classic premium price point to a more close to the XR price point, so a rather significant price cut on one competitor's brand within the premium segment.

Niklas Ekman - *Carnegie - Analyst*

Okay, thanks. And in general, just to understand the dynamics in the Swedish market, my impression is that the greatest market share declines or changes is that you are seeing increased competition in the mid-price segments, so to speak -- i.e., snus prices around SEK30. It's not -- you're not seeing significant gains in the SEK25 bracket. Is that a right assumption, that competition is growing particularly in the what you would call or previously called the mid-price segment?

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

I would say that there is fierce competition in all price segments, but you're right in pointing out that if you look within the value segment, the trend has been more positive for value priced brands that are a little bit higher than the lower price ones. There is a bit of a cluster more towards the SEK25 or above SEK25 and close to SEK30, and there is a cluster more between SEK20 and SEK25. And the former cluster has been doing relatively speaking better.

Niklas Ekman - *Carnegie - Analyst*

Okay, thank you. That's very helpful. That's all the questions I have for now.

Operator

Thank you so much, and our next question comes from the line of Andreas Lundberg. Andreas, your line is now open.



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Andreas Lundberg - *ABG Sundal Collier - Analyst*

Yes, good afternoon, everybody. Andreas Lundberg with ABG here. A question on the Swedish value segment, on your products. How will you work to restore the market share in this segment? I assume Kaliber+ is one thing, but will you also work with other products or the pricing tool and what you think is unique with the Kaliber+ that does not make it just stealing volumes from other Kaliber products? Thank you.

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

First of all, on the last comment there, we are happy if Kaliber+ steals volumes from other Kaliber products, since it's a slightly higher price than the rest of the Kaliber portfolio. It's a fuller-body Kaliber offering, you can say, with -- in a nice designed, well-filled pouches and good nicotine delivery, so it's an excellent value for money product.

In terms of our tactics there and market share within the value price segment, we speak about what we're doing here and now, and Kaliber+ is an important activity to address the poor performance that we've had in the latter part of 2016, and of course if we look across the segments, it's the higher the price, the more important for us in terms of share development.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Thank you, and I'll ask maybe one for Marlene here. What kind of CapEx guidance can you give us for 2017? Thank you.

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

Yes, when it comes to CapEx, as we've been saying previously, that they have been higher this year than going back a couple of years, [we have] investing both more than on the snus side but especially then now cigars, where we then also made sure then that we have capacity needs.

That will continue also going into 2017, so broadly in line with the 2016 CapEx, but with likely [buildup] of falling below somewhat.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Thank you so much. That concludes my questions.

Operator

Thank you so much, and our next question comes from the line of Alberto Lopez. Alberto, your line is now open.

Alberto Lopez - *JPMorgan Cazenove - Analyst*

Hello. A couple of questions from my side. You'll soon meet with the FDA, and I believe that they have requested you to present a plan in the meeting on how and when the intent to conduct all the additional studies they have asked. Can you share any details on when can we expect Swedish Match to file again?

That's one, and then another one, or coming back to cigars, can you give us a bit more color on what is happening on HTL cigars? You have seen growth over the last quarters for the first time in a long time, so just wondering what has changed. Thank you.



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

When it comes to FDA, we are going to have dialogue with the FDA and discuss the requirements and necessary amendments that they would see that we would need to put in, and then we will form our opinion on how to act in the future on that topic, and we don't go into details of that dialogue. When we have news to communicate, we will communicate that.

When it comes to the HTL cigars, we have done a good job during 2016 to make sure that we have very relevant products out there for the consumers. So that is really the key thing, that we have improved our offerings there. And then from time to time, we have also had a bit of capacity constraints on the natural leaf side, so the product mix may have skewed more HTL than would have been the case if we didn't have any constraints.

Alberto Lopez - *JPMorgan Cazenove - Analyst*

Just if I turn to natural leaf, if we go back in over the last couple of quarters or even in a couple of years, you have been shipping pretty steadily around 40 million to 50 million units incremental every quarter.

Do you think you can maintain that sort of level in 2017?

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

As I said earlier in the call, our ambition is to grow faster than the overall market also in this year, and we think the category will continue to grow. And with that said, it's a competitive market out there, and we'll see the result as the year progresses.

Alberto Lopez - *JPMorgan Cazenove - Analyst*

Okay, thank you very much.

Operator

Thank you so much, and our last question comes from the line of Adam Spielman. Adam, your line is now open.

Adam Spielman - *Citigroup - Analyst*

Thank you very much. My first question actually really follows on from your very previous comments. Can you just talk about any changes you might have seen in the competitive landscape in cigars? And also, while we're talking about competitive landscape, you said that the snus market, or you've implied, in Sweden is perhaps a little bit more competitive than before. And I was just wondering if you could discuss some of the competitor activities you've seen that makes you make that comment. So those two parts would be my first question, or first two questions.

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

When it comes to the cigar market, it is very competitive, and it has been for a long time, so it is a very dynamic marketplace. And I wouldn't point to any specific news in that respect, but it is a -- it's the type of category where people, they expand the distribution -- because now we can't speak about completely new products anymore. But we have had and our competitors have had products in the marketplace that they can be, so to say, introduced more widely and so forth.

And that is an ongoing theme in the cigar industry, so it remains very dynamic. When it comes to the Swedish snus market, what we have seen, as you know, we compete with primarily but not only -- but primarily three international cigarette companies that have a presence on the Swedish snus market. It's fair to say that all of them have been active during the fourth quarter.



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For one, we have seen price cuts in select chains that we interpret being of a temporary nature. For one, we have seen redesign and renaming of a low-price brand and price cuts in certain chains and increased point of sales visibility for that brand. And for the third, we have seen a price cut on one of its premium products and also price deals and increased point of sales activity on its value-priced brand.

Adam Spielman - Citigroup - Analyst

Is that price pressure -- you've mentioned every single one of them have done price cuts, maybe temporary, maybe in some lines, maybe in some channels. One of the things I was surprised by is it seems to me you are replacing Mustang, which I think of as a mid-price offering, or upper value, let's call it, with Kaliber+, which is very much at the bottom end of the value range.

And yet you've said the growth is really at the upper end of the value range. And so I suppose the question is really why, when the growth is in upper value, have you developed a brand in lower value?

Lars Dahlgren - Swedish Match AB - President and CEO

The Kaliber+, it's of course the retailers that set the prices in Sweden, but the way we have priced it to retailers is with an aspiration that it should be about SEK2 higher than the rest of the Kaliber portfolio. And we think that that will certainly help.

The Kaliber franchise is a very strong brand franchise, and while Mustang was a good product, it proved to be difficult to maintain the relevance of that brand in isolation.

Adam Spielman - Citigroup - Analyst

Why did you choose Kaliber, not Kronan? Why wasn't it Kronan+?

Lars Dahlgren - Swedish Match AB - President and CEO

You have to ask our marketers.

Adam Spielman - Citigroup - Analyst

Okay, it's fair enough. Thank you very much.

Operator

Thank you so much. There are no further questions at this time. Please continue.

Lars Dahlgren - Swedish Match AB - President and CEO

Okay, thank you very much for listening in, and the release of our first quarter results will be on May 8. Thank you.

Operator

That does conclude your conference for today. Thank you for participating. You may all disconnect. Speakers, please stand by.



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