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PRESENTATION
Operator
Good morning. Thank you for standing by, and welcome to the Swedish Match Half Year Report January to June 2018. (Operator Instructions) I must advise you that the call is recorded today, on Thursday, the 19th of July 2018.

And I would like to hand the call over to your speaker today, Emmett Harrison. Please go ahead, sir.

Emmett Harrison  Swedish Match AB (publ) - SVP of IR & Corporate Sustainability
Thank you. This is the Swedish Match Second Quarter 2018 Telephone Conference. And with me today are Lars Dahlgren, our President and CEO; and Tom Hayes, our CFO.

In the Investors section of our swedishmatch.com website, you will find the presentation for today’s call, which is intended to be viewed in conjunction with our prepared commentary, so we encourage you to follow along with that presentation. In that same Investors section, you will find copies of the interim report. After our prepared commentary, we will be taking questions.

During today’s call, there may be certain comments that constitute forward-looking statements and are subject to various 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.

Slide 3 of this presentation reiterates the headline bullets from our interim report released this morning, and we’ll refer you to the report rather than repeating them on this call.

I will now turn the conference call over to Lars Dahlgren, who will begin on Slide 4.

Lars Dahlgren  Swedish Match AB (publ) - CEO & President
Thank you, Emmett, and good morning, everyone. Q2 was a continuation to our strong financial performance. And for this quarter, we recorded increases in sales and operating profit for all of our product segments in local currency.
Within our 2 largest product segments, we predominantly operate on markets and within categories with attractive growth profiles. These markets are highly competitive, but the first half of 2018 is a clear testimony to the successful strategies of Swedish Match.

Within Scandinavian snus, our innovation efforts have been paying off, and we've been realizing good underlying volume growth, improved pricing and the Swedish market where the premium segment is now growing faster than the value segment. The second quarter marks a milestone for our growth efforts with snus and nicotine pouches outside Scandinavia as we recorded a profit due to an impressive performance for ZYN and efficient marketing spend for U.S. snus.

Within cigars, Swedish Match's strategy is to target the fastest-growing segments with outstanding products at competitive prices. The cigar market continued to grow, but once again, we grow faster than the market, owing to our portfolio skew. And on top of this, we have taken some pricing on our rolled leaf assortment that enhanced profitability.

For chewing tobacco in the U.S., we have, without losing focus on our important premium portfolio, successfully adapted to changing market dynamics with increased demand for value-priced products. Operating profit for chewing tobacco as a whole grow sharply as our recent acquisitions have contributed to the results.

For Lights, market conditions in several markets remained challenging, but it was encouraging to note the improvement in profit both sequentially from the poor first quarter and versus the second quarter of the prior year.

Thomas Hayes - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

On Slide 5, we’ve summarized some of the quarterly highlights for the snus and moist snuff product segment. As was the case in the first quarter, both sales and operating profit grew sharply on a local currency basis. Our reported sales and operating profit growth in the quarter, up 7% and 17%, respectively, was essentially the same as sales and operating profit growth reported in the first quarter. But the first -- both the first and second quarters' reported performance were impacted by items that influenced the comparability of the results versus the prior year. For the second quarter, however, the underlying performance of the snus and moist snuff product segment is very well represented by the reported results. As Lars mentioned, snus and nicotine pouches outside of Scandinavia reported a net profit in the quarter and was the largest contributor to profit growth for snus and moist snuff product segment.

For the Scandinavian snus business, the underlying dynamics in the second quarter were very similar to what we experienced in the first quarter, with operating profit growth coming from increased volumes, pricing and operating expense discipline. Our own shipment volumes in Scandinavia were stronger than last year’s second quarter, up close to 4% on a reported basis, reflecting the benefits of continued strong category growth, more modest market share declines compared to the prior year and the acquisition of V2 Tobacco in August of 2017. Swedish Match estimates that its underlying organic volumes in Scandinavia were up by 3%.

For moist snuff in the U.S., Swedish Match shipment volumes were down somewhat in the second quarter on a constant trading day basis. Volume growth from our pouch and tub products were more than offset by declines for our loose portfolio.

On Slide 6, we have provided estimates of trended total market and Swedish Match volume growth in Scandinavia adjusted for hoarding and calendar effects as well as Swedish Match’s organic price/mix effects by quarter. Very healthy market growth continued or even accelerated slightly during the quarter and was well above 4%. While there can be quarterly fluctuations, it is also encouraging to note that Swedish Match's realized price/mix, measured in constant currencies, continue to improve. A contributing factor to this development is our year-on-year market share growth in the fast-growing Norwegian all-premium market. In Sweden, we took a price increase in early May of this year, the timing of which was comparable to the price increase taken in 2017. And in terms of magnitude, this year's price increase was just slightly below the increase taken in the prior year.
Lars Dahlgren - Swedish Match AB (publ) - CEO & President

Slide 7 presents Swedish market growth trends in the volume and value terms according to Nielsen on an adjusted basis. Our assessment is that Nielsen often underestimates the market growth due to the exclusion of e-commerce volumes but still reflects the trends relatively well.

As the picture depicts, we have now had 4 quarters in a row with the combination of good volume growth and the retail value growth outpacing volume growth in the Swedish market. The stronger growth in value compared to volume is the result of manufacturers’ price increases, slight excise tax increases as well as the faster growth of the premium segment relative to the value segment.

On Slide 8, you can see our share of performance in Sweden within the premium and value segments. Our share decline in the premium segment is partly due to competitor gains in pouches but also due to the continued category decline on the loose segment, where our share is around 80%.

Within the value segment, while we have been growing with our higher-priced Kronan brand, the mid-2017 delisting of Mustang pouch products, coupled with share losses for Kaliber, resulted in an overall decline of our share within that segment. As you can see in the graph, the value segment represents 46.4% of the Swedish market, according to Nielsen, which is about a share point lower than 1 year ago.

Moving on to Norway and Slide 9, which shows the volume and retail value growth in Norway, also according to Nielsen. In Norway, we consider the Nielsen coverage to be more complete.

As for our historic years, the data shows that category dynamics are very strong in Norway, with retail value growth continuing to exceed the already good volume growth. The slowdown that we noted in 2017 has reversed with a slight acceleration of growth in 2018.

Plain packaging is fully enforced since July 1, but the implementation at retail has been gradual over the past couple of months. Until now, we have not noted any disruptive effects to the category relating to the plain packaging implementation. However, it deserves to be mentioned that we are facing some delivery problems on smaller SKUs at the moment, owing to high volumes in the factory under transition.

Slide 10 depicts our market share development within different segments in Norway. Our innovations within the pouch segment have been very successful, especially when it comes to making our portfolio more relevant for young adult males. And despite the continued decline of the loose segment, year-on-year, we gained market share in the second quarter.

But despite continued good performance for our G.3 family, we have, however, lost some market share sequentially from the first quarter. The main explanation to this is the fast-growing all-white segment, white pouches that only partly contain tobacco, where a competitor of ours has the first-mover advantage. The all-white segment in Norway is approaching 10% of the total market. And as a segment, it is now larger than the loose segment. Within the all-white segment, Swedish Match has launched 4 varieties under the G.4 brand, and this year has been growing over the course of the year and is currently around 18%.

On Slide 11, you can see some of our more recent new product introductions in Scandinavia. In Sweden, the rollout of our 3 moist ZYN Slim varieties complements the ZYN Mini Dry products that are very similar to the varieties that we sell in the U.S. While it is still relatively early, the reception from the trade and consumers to ZYN Slim has been positive, and the all-white segment in Sweden, according to Nielsen, is now approaching 2% of the market. As from July 1, the nontobacco white products like ZYN are levied with an excise tax of SEK 200 per kilo, which is less than half the excise tax rate for tobacco-containing smokeless products. As you can see on the slide, we have also introduced some new premium one-price varieties.

In Norway, there has been one addition to our G.3 family in the quarter, T.N.T., for consumers who wants a bit less moisture, a bit more strength and a modern pouch format. We have also launched CRYO as part of the G.4 family. This all-white product provides a fresh experience and extra strength.

Turning to the U.S. in the next slide on moist snuff. In the volume terms, the U.S. moist snuff category has continued to experience little or no growth, and our assessment is that year-to-date, the category is flat. In value terms, the category has grown about 4%, as a result of price increases and some increased excise taxes.
One segment that is growing at a much faster rate is moist snuff pouches. The pouch segment now makes up about 17% of the total category in volume terms, and we’ve been gaining share within this attractive segment. The performance in the pouch segment has helped offset much of the share declines we’ve experienced from our traditional loose products. Apart from strong growth from our pouch portfolio, our shipment volumes on moist snuff tubs also grow on a quarter and year-to-date basis.

On Slide 13, you can see the rolling 4-week volume -- 4-quarter volume trajectory for snus and nicotine pouches in markets outside of Scandinavia, with the bulk of this volume being in the U.S. For snus, the volume growth is impacted by the acquisition of V2 Tobacco, but the snus volumes outside Scandinavia have also been growing on an organic basis. As to the U.S. snus category, our estimate is that the category has been growing more recently at a similar pace to the pouch segment within moist snuff.

For ZYN, we have worked hard to increase installed capacity to keep up with the growing market demand. We ended the quarter with ZYN store distribution in just over 12,000 outlets, mostly in the Western region of the U.S. Out of these, 12,000 outlets, we have data for close to 10,000 stores where we can compare the sales of ZYN, as measured by distributor shipment into the stores to other categories. In our latest measure for these outlets, ZYN volumes are close to 40% larger than the entire snus category. Volumes for both general snus and the overall snus category have been maintained at roughly the same level in the stores which now sell ZYN, indicating that cannibalization from snus is relatively low and that ZYN is sourcing its volume from a wider variety of tobacco categories.

In terms of distribution for ZYN, we plan to add some additional stores during the remainder of the year, but the current capacity situation puts the limit to how fast we can make the product more widely available. Our factory expansion project in the U.S. follows plan, and we expect a significant increase in available capacity over the course of 2019.

Thomas Hayes - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

Turning to Slide 14, I will now discuss the results of the OTP segment. Sales and operating profit in local currencies were significantly ahead of the prior year period. Cigar shipments were up 7% on a constant trading day basis and were -- we were able to outpace the growth in the overall category due to our focus in positioning in faster-growing segments.

At the end of the first quarter, we announced the price increase on our rolled leaf assortment. At this early stage, we have not seen any adverse impact on the demand for these products.

U.S. chewing tobacco had a good quarter with modest volume declines on a constant trading day basis. Swedish Match grew market share in both the premium and value segments, but negative mix effects within our portfolio partly offset price increases. Reported sales and operating profit of our overall chewing tobacco business grew to the -- due to the inclusion of V2 Tobacco and, to a lesser extent, Oliver Twist.

On Slide 15, you can see our quarterly shipment volume trends for cigars differentiated by segment. It is worth noting that our shipment growth in the second quarter of 7% on a constant trading day basis is in comparison to what was our highest shipment quarter of 2017. The trends presented on this slide also reflect our concerted efforts to actively pursue the faster-growing segments within the cigar category, with our natural leaf portfolio, which is the sum of the natural leaf small and rolled leaf, now representing slightly more than 60% of our cigar shipments. This compares to a natural leaf portfolio that was roughly 50% of our shipments as recent as 2 years ago.

Turning to Lights on Slide 16. During the quarter, we experienced a rebound from what was a poor Q1 result. Volume performance improved, with higher volumes for matches and a more modest volume decline for lighters than in the first quarter. Sales grew year-on-year for both matches and complementary products, offsetting declines for lighters. The decline in sales for lighters was in the lower single-digit range due to improved mix. Operating profits were notably improved in the second quarter, though still down for the half year. This improvement in operating profit as well as operating margins is attributable to several factors. Operating expenses have been reduced, and the price/mix impacts were positive. Also, there were certain restructuring costs that were incurred during the second quarter of last year. It is also good to note that a contributor to the weak result for the first half of this year and the rebound from Q1 to Q2 was the restructuring costs that we incurred earlier in the year resulting -- relating to our Brazilian operations.
Lars Dahlgren - Swedish Match AB (publ) - CEO & President

Slide 17 summary -- summarizes some other events. We are very pleased with the acquisition of Oliver Twist that was closed according to plan on April 3. Oliver Twist is a good complement to our smokeless portfolio and will provide increased depth to our chewing tobacco offerings, especially in Europe.

We are, of course, pleased also with the verdict by the Swedish Patent and Market Court of Appeal. From the beginning of this process, we have considered our legal grounds to be very strong and have found it difficult to understand the arguments of the Swedish Competition Authority. This is why we had decided not to make any provision for the fine of SEK 38 million imposed by the lower court.

On the regulatory side, there has been little development in the quarter. Regarding the Swedish proposal for further tobacco control legislation, the proposal by the minority government was met by quite a bit of opposition. Some of the opposition related to the fact that the proposal fails to take into account the significantly lower risk for snus relative to cigarettes. In addition, the European Commission presented views that the proposal did not properly reflect all elements of the European tobacco products directive. It remains to be seen whether there would be amendments to the proposal prior to it being brought to Parliament again after the elections in September.

Regarding the new labeling requirement mandated by the FDA for cigars, Swedish Match is very well prepared, and we have switched over our entire assortment. The recent delay by the court from the original August effective date while the appeal is made, therefore, does not have any practical implications for us.

Thomas Hayes - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

On Slide 18, we've summarized relevant metrics from our interim report relating to finance costs, our financial position and earnings per share. Reported financial net increased sharply compared to the second quarter of 2017 due to dividend income from STG in the prior year. Adjusting for the dividend, finance net declined SEK 15 million versus the prior year due to lower average interest rates, partially offset by increased average debt levels. The weighted average interest rate of our portfolio at June 30 was 2.43% compared to 2.64% at the end of 2017. The capital duration was 4.5 years, with 96% of our portfolio subject to fixed interest rates. You may recall during Q1, we paid back SEK 500 million in bond maturities and have SEK 750 million of future maturities for the remainder of 2018 that have an average interest rate of 4.1%. On a reported basis, our net debt to trailing 12-month EBITDA at June 30 was 2.4. The EPS bridge illustrates the components of our 22% growth in adjusted EPS for the first 6 months of 2018. Apart from the after-tax effect of our increased operating profit, both the lower tax rate and reduced number of shares had a meaningfully positive impact. The lowering of the tax rate principally resulted from the U.S. tax reform.

The last page of our presentation repeats the outlook statement from the interim report. For this quarter, we have made one change to the outlook statement as our international business of snus and nicotine pouches outside Scandinavia has exceeded our expectations.

For the 6-month period ended June 30, the business generated an operating profit of SEK 9 million compared to an operating loss of SEK 93 million in the prior year. We have previously guided that the full year operating results relating to this business would be negative.

For the remainder of the year, we do plan for increased market investments for ZYN. But with the anticipated strong volume growth, it could be that the full year operating result remains in positive territory. All other items in the outlook have remained unchanged.

As always, fluctuations in currency rates will impact our future reported results, and you may want to take note of some of the more important average exchange rates versus the SEK in Q3 of 2017. The average exchange rate for the U.S. dollar was SEK 8.11; the NOK, SEK 1.02; and the Brazilian real, SEK 2.56. For the fourth quarter of 2017, those same average exchange rates were SEK 8.31, SEK 1.02 and SEK 2.56, respectively.

With that, operator, please open up the line for questions.
QUESTIONS AND ANSWERS

Operator
(Operator Instructions) Your first question comes from the line of Adam Spielman.

Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

I’d like to ask you a question about the all-white segment in Scandinavia. I think you said, and I want to double check I heard it right, that it was now 10% of Norway and 2% of Sweden. And I think you said you had an 18% segment share in Norway, but I’d like to know what it was in Sweden. And I suppose my real question is, can you tell me what those corresponding figures were for 2017 and, I guess, how you expect them to develop going forward? Particularly in Sweden, I guess, where do you think it will accelerate or what you’d expect?

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

Yes. This is Lars here. You’re correct the number on top of my head is just below 10% in Norway. And with decimals, in Sweden, according to Nielsen, it’s 1.7%, which could be slightly underestimated, in my opinion. In terms of our share in Sweden, it’s a similar situation as in Norway, where our main competitor has the first-mover advantage but less pronounced, we can say, as the segment is smaller. And we are at 28% market share and have been growing lately in — of the Swedish market, according to Nielsen. In terms of growth going forward, we do see that there is a strong consumer interest in the all-white segment. And what’s very positive is that we do see that it attracts consumers that, I would say, historically, may have thought that snus is not the product for them. So it — we think that it has the potential to continue to grow and that it has the potential to continue to add growth to the overall category. As in historic periods, I would say that it’s not uncommon that we note trend shifts like this. And when we compare Norway and Sweden, that they are much more pronounced and faster in the Norwegian market and owing to the profile of the markets and the demographics of the markets and, to some extent, also the size of the markets. So we think that it will continue to grow in both markets and that the Norwegian experience is probably a good indicator of not unlikely long-term development of the Swedish market. I think to my recollection, we sometimes speak about a chain in Sweden called Reitan that operates the Pressbyrån kiosks and 7-Eleven, so you can say kind of more urban in character in — and at the Reitan outlets, according to Nielsen, the all-white segment is 5% of the Swedish market. And it’s — think of Reitan a little bit like a mini-Norway for the Swedish market, all trends, kind of when it comes to [end users] over there, are more accentuated than earlier in the Reitan channel.

Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

Can you remember what the figures were? I mean, I suppose I could look it up. For...

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

Yes.

Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

For last year, are we sort of 10% and roughly 2% in Sweden?

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

If I have my reading glasses, I could. I think it’s — beginning of 2017, it was 0.8% in Sweden.
Thomas Hayes - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

This time last year.

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

And in Norway, it was 4%.

Thomas Hayes - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

This time last year.

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

Yes, this time last year, according to Nielsen.

Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

And another question, and I'm now turning to the moist segment in the U.S. You said it was 0 growth. I mean, and I'm talking about the segment here. In the past, the segment has been growing. Why do you think it's slowed down? Do you think this has to do with the success of e-vapor products? Or do you think it's more to do with faster pricing growth?

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

I think it's a combination. But it's very clear that when you look at the category in value terms, money terms, you see a slowdown in volume growth when you see an acceleration in pricing growth. So we think that, that is an important -- maybe the main explanatory factor.

Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

Fine. And finally, turning to ZYN. Any -- and clearly, you have a sort of expansion plan for capacity in place? Is there any reason to think that will accelerate or expand? Or should we sort of think -- and how should we think about that going forward?

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

In terms of accelerate, we do everything we can, of course, to install the capacity as early as possible. And -- but it is a large project, and it's encouraging that we follow what's already an ambitious plan. The number of -- the capacity number that has been discussed before, that was more -- when we discussed the comparison to the snus category, 60 million cans. We never said that, that was exactly the capacity we're installing. And we said that we could meet that, and we are -- we have been adding to the investment, as you know, so it's a little bit higher than that...

Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

Okay, that's very helpful.

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

When fully up and running, of course, and this will take some time.
Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

And presumably you mean sort of '21 -- sort of 2021 or 2022 for it to be fully up and running.

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

2020?

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

'21.

Adam Justin Spielman - Citigroup Inc, Research Division - MD and European Tobacco and Beverage Analyst

'21, yes, okay.

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

If things continue to go according to plan.

Operator

Our next question comes from the line of Fulvio Cazzol.

Fulvio Cazzol - Goldman Sachs Group Inc., Research Division - Equity Analyst

I was just looking at Slide 13 of your presentation, where you have the volumes rolling 4 quarters for snus and nicotine pouches outside of Scandinavia. And I was just wondering if you can sort of guide me in the right direction here in terms of what the ZYN volumes might have been in the quarter. I sort of calculate around 3 million cans, so just wondering if that's kind of a good ballpark figure to go with. And if that's the case, could you give us a bit of an indication on what the scope for growth is between now and when the new capacity comes on stream? And also, I was under the impression that you would be focusing more on store velocity as opposed to increasing the number of stores, and we've seen you going from around 10,000 to 12,000. So also, I was looking for some comments around, yes, where your ambitions are, if you can comment on that by the end of the year, please.

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

Yes, certainly. When it comes to the volumes, I mean, you can look in the graph, and you’re fairly close to the truth there. And -- but we’ve decided not to give out the volumes with decimals on an isolated quarter basis. And when we look forward, it’s fair to say that we have added some capacity on the Swedish side here during the year, but it’s been a good production quarter. And we can’t produce much more volume than we did in Q2 over the course of the year, maybe on the margin and a little bit more. And then the plan is then to install -- to -- starting to install the U.S. capacity during the first half of next year and, hopefully, around the end of the first quarter and then gradually build the capacity there. And it’s a very relevant question on why do we -- have we added some store. First, let me clarify that the bulk of the volume increase is from increased velocity. It’s been very good trends in basically all phases of installs, the 2016 store and the 2017 stores first half and second half. But they all showed good trends of increased velocity. And it is a balancing act in terms of our customer relations. For example, we have chain accounts, and that have been very successful and are very eager to make it more widely available in more outlets over their chains. And then we try to accommodate that, but
we're keeping a close eye on the [capacitification]. And we are not adding distribution as much as we would like to do if we add -- if we had more capacity. I think it's a fair assumption that the growth in number of outlets for the remainder of the year will slow down, but we have a few accounts that were lined up that -- and that where we'd try to meet our commitments, and so there might be a slight increase in distribution for the remainder of the year.

Operator

(Operator Instructions) Okay, next question comes from the line of Karri Rinta.

Karri Rinta - Handelsbanken Capital Markets AB, Research Division - Research Analyst

Karri from Handelsbanken. Just quickly, can you remind us of the competitive situation in nicotine pouches, both in the U.S. as well as in Sweden, as we have seen some competitors launching product into the Swedish market recently. So just thought of maybe focusing on the U.S., what are the existing competitors? What are the existing barriers to entry? And how big of a bottleneck is manufacturing capacity in the foreseeable future?

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

Yes, if we just, for the benefit of the non-Swedes, explain the situation in Sweden. BAT, with its Epok product as -- or Epok than before owned by BAT, has been out for some time both in Sweden and in Norway. And when it comes to the Swedish market, Imperial has recently launched an all-white product. And just recently, Japan Tobacco has also launched an all-white product. When it comes to the Norwegian market, it's mainly Epok, but we have seen the Imperial products then also pulled off the markets as it didn't meet the legislative requirements and -- but I think reintroduced with some tobacco. So they are there as well. When it comes to the U.S. situation, our largest competitor is -- is The Burger Group with its ON! product, and they are actually present on the Swedish market as well. And then there are some other smaller products out there that are white products but not entirely similar to ZYN. ZYN and ON! are more similar in character. When it comes to capacity, I refrain from speculating on competitors' capacity, but I think it's fair to say that this has been a growing category, so several players have had to add capacity. When -- and in the U.S., the situation is with the FDA then that if you were not present on the market prior to the FDA cutoff date, you need to get your PMTA application approved before you can go into the market. While ZYN and then, for example, the ON! product that were on the market prior to cutoff date, we have until 2022 to complete our PMTA application.

Karri Rinta - Handelsbanken Capital Markets AB, Research Division - Research Analyst

Okay. And then the PMT applications, from what I have been able to figure out, there hasn't been that many, if any, new tobacco products that have been approved since the cutoff date. And are you aware of any competitors submitting their PMTA applications or their PMTs to FDA, especially regarding the potential competitors to ZYN?

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

There haven't been any public announcements on white products and PMTA applications. And you're correct that, to my understanding, we're still the only company with the approved PMTA applications, and those then referred to our snus -- General Snus range.

Operator

The next question comes from the line of Niklas Ekman.
Niklas Ekman - Carnegie Investment Bank AB, Research Division - Head of Consumer Discretionary & Staples and Financial Analyst

Yes, I was wondering about the cigars business in the U.S., where you raised prices, and you said that there was no obvious impact on the volumes from these price hikes. Can you elaborate a bit on the potential for further price hikes in the U.S.? I seem to remember that this particular product where you raised prices, you had lower prices compared to your competitors, and that might not be the situation for the rest of your portfolio. But can you elaborate a bit here on what the situation is like and what the ability to make -- or your thoughts on further price hikes in the U.S. is?

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

Yes, you're correct. In the rolled leaf segment, we were -- we had a price -- a significant price advantage relative to our largest competitor. And while if you look in the natural leaf small segment and the HTL segment, just about the entire market is in states that allow it tax-wise are sold at 2 for $0.99. That was a difference there. And as it was very encouraging, quite frankly, we had counted on a bit of a slowdown on volumes for the natural leaf assortment, but it is a -- or for the rolled leaf assortment in the second quarter. But what's worth noting is that, that segment is the fastest-growing segment of the market, so it is a very attractive segment. And according to data with shipments from distributors to the trade, that is less complete for cigars, should be said, but still a good indicator. And our main competitor has also done very, very well in that segment, so it's a very attractive segment. In terms of our price strategies for other products then or products where we haven't announced any actions, we don't comment on that, but it is a very competitive market. And with the whole market being at basically the same price point, I think it's fair to say that it could be more challenging. But some day, of course, costs do go up in -- for cigars as well. So someday, we need to move off that 2 for $0.99 price point.

Niklas Ekman - Carnegie Investment Bank AB, Research Division - Head of Consumer Discretionary & Staples and Financial Analyst

Have you seen any competitors that have made that move recently?

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

Not in any meaningful way, no.

Thomas Hayes - Swedish Match AB (publ) - CFO & Senior VP of Group Finance

No.

Niklas Ekman - Carnegie Investment Bank AB, Research Division - Head of Consumer Discretionary & Staples and Financial Analyst

Okay. Second question is regarding ZYN and the regulatory environment. Should you want to push this product to more European markets, can you just remind us what that situation looks like? And how -- was it difficult to get approval for this product in Sweden, for instance, once you started launching it? And will it be -- will there be specific challenges rolling this out in other markets where you don't have this exception from the snus ban that you have in Sweden, for instance?

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

Yes, the snus ban should not have any relevance because it is not a tobacco product. And according to the European tobacco directive, tobacco products contain tobacco. With that said, it's fair to say that the regulatory situation is unclear. And the best analogy is e-cigarettes, when they came to the market, it's a completely new product and that in that sense, it's unregulated, so there needs to be a kind of regulatory action from authorities. But we are naturally exploring possibilities of introducing ZYN in other markets, and the snus ban, as such, should not stop us, but there is regulatory uncertainty.
Niklas Ekman - Carnegie Investment Bank AB, Research Division - Head of Consumer Discretionary & Staples and Financial Analyst

And can you remind -- I know there's been some discussions in the Norwegian market regarding the all-white segment, where the regulators had some views on this particular segment. And I think they've talked about fines for BAT, for instance, for violations. Can you just remind us what's going on in Norway on the regulatory level?

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

Yes, in Norway, we -- all-white products that -- at least the very, very vast majority of them that are on the market then, including our assortment, they do contain tobacco, and they are therefore classified as snus. In the pending Norwegian legislation, there -- they open up for an application path for novel nicotine products. We had -- we have applied for ZYN, but we have received the response from the authorities that they will not allow an exception prior to the new legislation coming into force. And that legislation has been delayed, so we don't know exactly when that one will come into play. But there have been attempts, as you point out, from other companies to have on the market white products without tobacco, and that has been challenged by the authorities. That is clear, but the details of those challenges, you would have to ask our competitors.

Operator

And your next question comes from the line of Martin Arnell.

Martin Arnell - DNB Markets, Research Division - Analyst

My question is on your price hikes in Sweden carried out in May. I was just wondering if you noticed anything, how competition have reacted to this increases. Have they followed most of them, as was the case last year?

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

Yes, when -- last year, there were some price movements about the same time from some, and then there was some during the fall, and then was some in January, so it's not really a correct description that everybody followed in May. This year, it's a bit early to draw conclusions. And we look into the Nielsen data. Quite frankly, it's a little bit choppy because we -- what we have noted is that there are some ups, but there are also some downs and related to certain chains and so forth. And for the same manufacturers, some brand has gone up, but others have gone down. And we don't see a really clear picture at this point, so we cannot say that just looking at Nielsen data, competitor prices have gone up.

Martin Arnell - DNB Markets, Research Division - Analyst

Okay. But do you -- would you expect them to move up?

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

That is a very good question to them.

Martin Arnell - DNB Markets, Research Division - Analyst

Okay. And my next question is on the cigars, if you could comment anything on the mix effect in the production, which had a negative impact in the previous report.
Lars Dahlgren - Swedish Match AB (publ) - CEO & President

It is still there on our cost of goods, given that the rolled leaf has done very well. But then now with the price increase, that has well compensated for that. But we still have an increased cost of goods relating to product mix. And also, we -- for the small natural leaf, we have seen some tobacco prices there going up.

Martin Arnell - DNB Markets, Research Division - Analyst

Okay. And that’s expected to be the case also in the coming 2 quarters or...

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

Yes, our focus is on these growing segments, natural leaf and rolled leaf. So -- and they are a little bit more expensive to produce, but prices are also higher for rolled leaf, especially after our price increase. But also for the small natural leaf, our net selling prices are higher than our HTL cigars despite them being priced at a similar level as retail.

Martin Arnell - DNB Markets, Research Division - Analyst

Okay. And then final question, on this -- on the capacity for U.S. production on ZYN and General cans, could you just repeat what the full capacity when fully up and running was on a full year basis?

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

For -- we haven’t disclosed the exact number on ZYN capacity, but it’s exceeding the 60 million cans that was previously discussed when fully up and running. For snus in the U.S., we are still exporting those products from Sweden, and we haven’t announced any decision to move that production to the U.S. And so it’s basically mixed with the Scandinavian capacity, which is relatively stretched on some varieties, quite frankly. So we have to make some investments also in our snus factories here in Sweden.

Operator

(Operator Instructions) Okay, we have no further questions coming through the phones. Please continue.

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

Okay, then we would like to thank everybody, wish everybody a continued good summer and inform you that the release of our Q3 report will be on October 26. Thank you, and goodbye.

Operator

Thank you. That does conclude the call for today. Thank you all for participating. You may now disconnect.
JULY 19, 2018 / 9:00AM, SWMA.ST - Q2 2018 Swedish Match AB Earnings Call

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