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PRESENTATION

Operator

Thank you for standing by and welcome to the Swedish Match full-year results 2015 conference call. (Operator Instructions). I must advise you that this conference is being recorded today, Friday February 19 2016.

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

Emmett Harrison - *Swedish Match AB - SVP IR & Corporate Strategy*

Thank you. This is Emmett Harrison with the Swedish Match full-year 2015 conference call. And with me today are Lars Dahlgren, our President and CEO and Marlene Forsell or CFO. After providing our prepared summary, we will be taking questions. For further information on the fourth quarter and full-year performance, please visit the 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 uncertainty. 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 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'd like to turn the conference call over to Lars.



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

Thank you, Emmett. During the past year, an important objective of our -- Snus business has been to stem our market share decline. Our efforts in our largest market, Sweden, were focused on protecting our premium business while growing our share in the value segment.

I'm pleased with our progress on these objectives. For the fourth quarter, our volume share of the market in Sweden was only slightly down from the same period prior year. And since August, we estimate that our consumption volumes year on year in the premium segment have grown thanks to our 2015 launch of the XRANGE assortment.

In Norway, while we continue to have challenges, our sales in Norwegian kroner were up somewhat, as improved pricing and strong market growth and were offset by market share decline. Nielsen reports in Norway that during the fourth quarter our volume growth in the important pouch segment has continued its upward trend.

For Snus and moist snuff in the US, our momentum remained strong for [General] Snus and sales were significantly higher than in the prior year due to both higher volumes and improved pricing. And for moist snuff, sales increased in local currency.

The other tobacco products area delivered double digit year on year growth in both dollar sales and earnings in the quarter. And within our lights product area, some of our key markets like Russia and Brazil, faced challenging macroeconomic conditions, including weak local currencies. Sales held up reasonably well though, but operating profit was hurt on higher cost including marketing support for lighters.

For the fourth quarter, Swedish Match sales and operating profit from product areas grew slightly, aided by strong US dollar.

Backing out currency effect, performance was still strong. And while the result was led by cigars, I'm also pleased by our sales volume performance for our Scandinavian Snus business, considering that Q4 2014 benefitted from substantial hoarding effect.

On an underlying basis, excluding net hoarding effect, Scandinavian Snus volumes are estimated to have been up by 4%. Our market share for Snus in Sweden has been quite stable over the past quarters. And for Scandinavia overall, our year-on-year share decline has improved every quarter over the past year.

Two major contributions to our stable market share in Sweden have been our share growth in the value segment and the strong volume development for our XRANGE Snus assortment in the premium segment. XRANGE has proven its popularity as a premium brand range for modern consumers with XRANGE now approaching 6% share of the total market. We are seeing an improved volume development of certain flagship premium brands.

Goteborgs Rape, for example, has a strong number 2 position within the premium segment and recently it has been one of our fastest growing brands in the assortment. Very recently we have introduced two further XRANGE products which are just now coming onto the market, XRANGE Grov and XRANGE General Salmiak.

Early in the fourth quarter, we also launched the Mustang brand. Mustang is priced in the upper end of the value segment and has helped not only to reinforce our share position in that segment but also to strengthen the higher priced end of the value segment.

In the US, moist snuff and Snus sales grew year on year. The US Snus market growth has accelerated in 2015 and over the past year our volumes have grown at a markedly faster rate than the overall market.

Concerning regulatory issues in Scandinavia, at the beginning of this year there was a small tax increase in Norway while the tax rate remained virtually unchanged for Snus in Sweden. Swedish Match has taken modest price increases on many but not all of its Snus products in Sweden.

Changed regulations for Snus that will follow from the implementation of the European Tobacco Products Directive, the TPD in Sweden and in Norway, remains somewhat unclear. In Sweden, the Ministry of Health and Social Affairs has published a proposal that has been submitted to parliamentary committee. But this committee has not yet published its conclusions and the bill has not reached the full parliament. Based on the

available proposal, Snus is partially exempted from the TPD implementation in Sweden. For example, there is no ban on communicating the flavor on the can.

The proposal does include and extended authority for the Public Health Agency of Sweden to issue detailed provisions regarding matters like warning label, fees, user fees and filing requirements. Consequently, we have to await those detailed provisions before we have the complete picture. But what we do know is that the warning label for Snus will have to be put on two sides of the can instead of, as today, only on one side.

The government proposal does not include any details of proposed regulations relating to e-cigarettes as the government opted to wait for the ruling of the Supreme Administrative Court on whether to classify e-cigarettes as medicinal products or not. On February 17, the Court published its verdict and concluded that at least the e-cigarette products that were tried in this court case shall not be classified as medicine. Based on this ruling, we expect the government to complete the proposal with relevant regulation for e-cigarettes but the timing of such a proposal is unknown.

In Norway, the complete proposed bill for transposition of the TPD into Norwegian law has been delayed and is now expected to be published before the summer. We also expect to get clarity on potential requirements for standardized packaging in Norway in the same proposal.

In the US, the FDA has still not issued a final ruling on our modified risk tobacco application. But we were encouraged by their approval of modifications for a Snus product through the pre-market approvals process becoming the first and only tobacco company in the US to have such an approval.

Turning to other tobacco products, our cigar business continues its strong performance in the fourth quarter. Volumes throughout the year have been relatively evenly phased and shipments in the fourth quarter again exceeded 300m cigars. Volumes are up by 12% for the full year.

While average category retail pricing has continued to trend down on a year-on-year basis, our own portfolio shift towards natural leaf cigars continued to generate positive mix effect. In the fourth quarter, more than half of our portfolio consisted of natural leaf cigars.

Regarding FDA oversight for cigars, we are still awaiting approval of the proposed regulation and the exact contents remain unknown.

For chewing tobacco, the full-year volume decline of 6% for our brands was in line with historical rates. Sales for chewing tobacco for both the fourth quarter and for the full year were very close to prior year levels.

Regarding the IPO of STG, we are very pleased to see the strong interest among investors despite challenging market conditions. Swedish Match still owns 31.2% of STG and we believe that this IPO will provide many benefits for STG as a company.

For Swedish Match, the IPO will provide tangible benefits to our shareholders, both in terms of the proposed special dividend of SEK12 per share and enhanced focus on our core business.

With that, I hand over to Marlene.

Marlene Forsell - Swedish Match AB - CFO

Thank you, Lars. Turning to our financial performance, Group sales for the fourth quarter were SEK3,719m, up 5% from the prior year. And operating profit from product areas increased by 1%.

The largest growth contribution to sales as well as operating profit came once again from other tobacco products, which includes US cigars and US chewing tobacco. Reported sales for the Snus and moist snuff product areas for the quarter were flat and down 2% in local currency. For lights, reported sales and operating profit were down.

Currency translation affected reported sales in the fourth quarter positively by SEK171m and reported operating profit from product areas by SEK45m.

At the current spot rate, we will see much less pronounced currency effects from the US dollar. And both the Norwegian krone and the Brazilian real are at significantly weaker levels than during the first half of 2015.

Operating profit includes our share of the net profit from Scandinavian Tobacco Group. From the fourth quarter 2015, Swedish Match share on net profit after tax for STG is reported with one quarter lag. Consequently, no profit figure has been reported for the fourth quarter. Group operating profit figures year on year in the fourth quarter are therefore not directly comparable.

Basic earnings per share in the quarter amounted to SEK3.34 versus SEK3.55 in the prior year. This decline in earnings per share is due to the absence of profit from STG in the fourth quarter 2015 following the changed reporting. For the full year, basic earnings per share increased by 9% to SEK14.48.

For product area comments, I will generally refer to sales and operating profit on a local currency basis besides for the product area lights. Comments on market share or segment shares will generally refer to shares measured based on product volume.

For the product area Snus and moist snuff, sales as reported in Swedish kronor were flat affected by net profit currency effects from strong US dollar, but weaker Norwegian krone.

The Norwegian krone depreciated during the quarter and was 8% weaker than in the prior year period. The weaker Norwegian krone resulted in a net negative currency effect to operating profit while the positive US dollar impact on operating profit is limited due to the continued investments in Swedish Snus in the US.

Within the Snus and moist snuff product area, sales grew for moist snuff and Snus in the US. In Scandinavia, reported sales were down but the sales comparison between the periods is affected by the significant hoarding in Scandinavia during the fourth quarter of 2014 in advance of the January 1, 2015 excise tax increase whereas hoarding during the fourth quarter 2015 was smaller. And when adjusted for hoarding as well as currency effects, Scandinavian Snus sales were flat.

Operating profit decline in both Scandinavia and the US as a result of negative price/mix impact in Scandinavia and higher costs [per quarter] in the US.

Swedish Match estimates the Scandinavian market has grown by somewhat more than 5% in volume times in the isolated quarter. Capturing a large part of that volume growth, our underlying shipment volumes when adjusted for hoarding effects were up by 4%. With underlying shipment volume growth in both Sweden and Norway -- sorry, with underlying shipment growth in both Sweden and Norway.

There was modest trade hoarding in the fourth quarter but it was much less pronounced than in 2014. The large trade hoarding at the end of 2014 negatively affected shipment volumes in the first quarter of 2015. But the effect was partially offset by a positive Easter effect which was reversed in Q2. In 2016, the timing of Easter is earlier and we do not expect any timing differences of shipments between the first and second quarter of 2016.

For the full-year period, Swedish Match estimates that its Scandinavian Snus volumes grew by more than 2% on an underlying basis and that the total market grew by somewhat more than 4%.

In Sweden, our overall volume share of the Swedish market has declined by 0.3 percentage points since the fourth quarter 2014. The market share estimates for the Swedish market now include nicotine-free product volumes, which is already the case in Norway. The historic market share estimates in the fourth quarter interim report are restated to reflect the change.

As Lars mentioned the XRANGE product range has contributed to this market share development. It has also contributed to the development of the total premium segment.



Since the beginning of 2015, the value segment share of the market has increased at a lower pace. On a year-on-year comparison during the fourth quarter, Swedish Match market share within the premium segment has declined by 0.5 percentage points. And at the same time, we have gained 2.3 percentage points on market share within the value segment.

For the fourth quarter, our market share within the premium segment was 93.7% and our share of the value segment was 41%. Swedish Match total volume share decline of 0.3 percentage points on a year-on-year comparison is due to the relative growth of the value segment share of the total Swedish market, up in the first quarter this year, coupled with the decline of Swedish Match premium market share.

In Norway, our market share during the fourth quarter was 55.3% down from 58.7% during the same period last year. However, our G.3 line extension has grown more than 7% of the market.

The share gains within the value segment, the increase in the value segments share of the total market measured in volume, the success of XRANGE products as well as the weakened Norwegian krone have combined resulted in lower average net sales price.

For US moist snuff, sales increased slightly as higher net realized pricing mitigated volume decline. For US Snus, sales increased attributable to both higher net realized pricing and higher volumes.

During the quarter, the net investment in expansion of Snus outside Scandinavia amounted to SEK90m, down from SEK100m prior year. For the full year, the net investment for Snus outside Scandinavia increased slightly to SEK352m. But measured in local currencies, it was lower than prior year as the performance of US Snus improved.

For other tobacco products, sales increased by 15% in US dollars while operating profit increased by 11%. The sales increase was primarily driven by the very strong performance of cigars while sales of chewing tobacco were similar to prior year levels.

Operating profit in dollars also increased for cigars while operating profit for chewing tobacco was down. Cigar volumes during the fourth quarter were up by 20%.

In addition to the volume effect, operating profit for cigars was also favorably affected by an improved product mix and more natural leaf cigars in the portfolio, as well as the elimination of tobacco (inaudible), the impact being approximately \$1m for this quarter on comparison.

This year-on-year impact from the elimination of these fees will not continue in 2016. Likely not to continue in 2016. When the FDA begins to regulate cigar it is estimated that FDA user fees of approximately \$2m will be incurred per quarter. It needs to be noted that FDA user fees are not fixed fees but based on yearly volumes.

Chewing tobacco shipments, excluding contract manufacturing volumes were down by 4% versus the fourth quarter in the prior year. Quarterly fluctuations in volumes of chewing tobacco are common due in large part to promotional timing. For the full year, chewing tobacco volumes excluding contract manufacturing were down at historic rates by 6%.

For lights, as reported in SEK, sales declined by 8% while operating profit declined by 20%. For matches, the results were burdened by a sharp depreciation of the Brazilian real combined with unusually low volumes and higher costs in our Brazilian operations. The Brazilian operations had during the quarter upgraded several production lines in order improve labor safety and as a consequence there has been a capacity constraint.

For lighters, sales were only slightly down but operating profit more in percentage terms, primarily through (inaudible)of increased market support (inaudible) Eastern Europe.

Swedish Match is releasing our 2015 full-year report ahead of STG releasing its full-year results. And also future reporting dates are anticipated to deviate. And in order to manage the difference in financial calendars, Swedish Match has from the reporting period ending December 31 2015, started to report our share of STG's net profit and equity with a one quarter lag.

As a consequence of transitioning to one quarter lag reporting, Swedish Match has not included any results from its ownership in STG for the fourth quarter 2015. Instead, Swedish Match will include its share of STG's profit for the fourth quarter 2015 in Swedish Match's financial statements for the first quarter 2016. STG has announced that its 2015 full-year report will be released on March 10, 2016.

On January 14, 2016, Scandinavia Tobacco Group announced intention to launch an initial public offering and listing of the company on NASDAQ Copenhagen. The IPO consisted of a partial sale of existing shares by the STG shareholders. The IPO closed on February 9, 2016 and STG shares began trading on NASDAQ Copenhagen on February 10, 2016.

Swedish Match reduced its ownership of STG in the IPO from 49% or 49m shares, to 31.2%, owning 31.2m shares at completion of the offer. The final offer price of DKK100 per share corresponds to market capitalization of STG of DKK10b.

The proceeds from the STG shares sold by Swedish Match in the offering are planned to be transferred to Swedish Match shareholders. The Board of Directors of Swedish Match therefore intends to propose to the 2016 Swedish Match annual general meeting a special dividend of SEK12 per share in addition to the ordinary dividend of SEK8. In total, then SEK20.

Swedish Match expects that the capital gain from the reduction of share ownership in STG will be in excess of SEK500m and will be recognized in the financial statements for the first quarter of 2016. The capital gain is not subject to tax.

And now I will provide some commentary on taxes, cash flow and financing. The net finance cost for the quarter was SEK4m lower than in the fourth quarter of 2014. Both the average interest rate and average debt was lower than prior year. But net finance cost included some cost for bond repurchases.

The net interest expenses on our financial liabilities including costs for the bond repurchases amounted to SEK106m, down by SEK6m, whereas the interest on pension liability increased to SEK20m from SEK15m, affected negatively by the strong US dollar.

For the full year, the report tax rate excluding associated companies and joint ventures was 23.1%. The rate is higher than in 2014 due in part to strong US dollar and earnings growth in the US which gives higher weight to the relatively high US tax rate, as well as reduced tax benefit of certain reductions due to increased earnings. The increase was partially offset by the net effect of items of a temporary nature. The effective corporate tax rate excluding associated companies, is expected to be somewhat higher for 2016 than for 2015.

The cash flow from operating activities for the full year amounted to SEK3,768m, up from SEK3,276m in the corresponding prior period. This increase is mainly attributed to the higher profits as well as the special dividend received from STG (inaudible).

Investment in property, plant and equipment during the year was SEK491m versus SEK223m in the prior year. The investment in property, plant and equipment were especially high due to the investments in a new distribution center in Sweden of approximately SEK150m. The sale of the old distribution center will be closed at the end of the first quarter 2016 at a price of approximately SEK150m.

During the year, 7.5m shares were repurchased while 0.7m shares from treasury were sold, all in the first quarter as a result of option holders deciding to lock those options under the now-ended option program.

As of December 31, Swedish Match has SEK8.1b of interest-bearing debt, excluding retirement benefit obligations compared to SEK8.7b at December 31, 2014. During the year, we have repaid maturities of SEK1,435m and issued new bonds in the amount of SEK798m.

The average maturing duration of the bond portfolio was [3.2] years and the weighted average interest rate was 4.2%. Approximately 93% of the debt has fixed interest. The net debt in relation to EBITDA excluding share of profit in STG was 2.1 for the 12-month period ending December 31. Swedish Match expects the financial gearing to be temporarily affected by -- until the payment of the proposed special dividend i.e. the proceeds from the IPO of STG.

And then I will turn the conference back to Lars.

Lars Dahlgren - Swedish Match AB - President, CEO

And I will turn it to the operator who please can go ahead an open up for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Adam Spielman, Citi London.

Adam Spielman - Citi - Analyst

Thank you very much. The first question is really, Lars, to get you to expand on the statement that the competitive activity level in the Swedish Snus markets has increased since the beginning of the year. I was just wondering if you can try and describe what's happening in a little bit more detail. I guess that's one part of the question.

The other part is related to that, is if I look at your month-on-month or four week by four week market share, it improved very significantly in Sweden until September but it's been falling steadily since then at a similar rate as it was falling before XRANGE. And I was just wondering what you make of that and how worried you are by that? So these are the two questions from me, thank you very much.

Lars Dahlgren - Swedish Match AB - President, CEO

Okay, good morning, Adam. When it comes to the competitive activity, first of all let me say that it's not unusual that we see high activity around this time of the year. It has to do with the so-called windows that are open for changes to the product assortment in the organized trade in Sweden, which is a significant part of the Snus market.

What we do see is that basically all of our three main competitors on the Swedish Snus market is very active in terms of displaying redesigns and putting new products and displaying price points and so forth. Add to that that there is a high activity level of the sales forces like, for example, very rich sales competitions to the trade pushing the products by competition. So it's basically just to point out that we see across the spectrum a broad range of activities.

In terms of new products and so forth, for example there is a new range of products from JTI, called the Z] product. BAT has changed their design and increased the weight of their Knekt product without changing the price. On the other hand, JTI has lowered the rate of one of its products. Imperial has changed the design of its can and so forth. All of these changes are very actively displayed at the retail level.

Adam Spielman - Citi - Analyst

Just very quickly, you said at the beginning it's very common at this time of year. I think from the fact you haven't previously mentioned it, it sounds as if it's more severe at the beginning of 2016 than it has been in previous years. Or am I over interpreting your comments?

Lars Dahlgren - Swedish Match AB - President, CEO

You're interpreting it partly right, I would say. In the sense that it's not uncommon that we see display of new products and so forth this time of year. But this time what we see is that all three of our main competitors are very active. So it's three out of three, so to say. So in that sense it is higher activity level than towards the end of last year.



In terms of the market share, what is within the value segment you said?

Adam Spielman - *Citi - Analyst*

Well, if I look at the overall market share that your company very, very helpfully sends to us each four weeks, essentially what you see is you see a trend that was declining pretty sharply, then starting in April, about April of 2015 it rose very quickly due, I assume, to XRANGE. But then since September, it's headed down again. I was just -- so it's a bit of a zigzag. But the point for me is that it seems to be declining at a similar rate to what it was before, albeit from a higher base.

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

If you look at the quarterly market shares for this year, yes there is a sequential very marginal decline between the third and the fourth quarter. But we are into small decimals. I would label the whole of 2015 as basically stable market share.

And if you look in the market share in value terms, in money, then the market share is completely flat between the fourth quarter and the third quarter. It was 75.8% compared to 76% at the beginning of the year.

Then you're right that there is the -- after the summer there is a slight, slight decline but it's -- when you look at the line, at least I would call that stable. Remember that it's not unusual that we have a little bit of boost during the summer months, owing to our strong position in the premium segment.

And then of course the XRANGE and the success of XRANGE does affect the overall dynamics. And its growth, it's still growing, but its growth was natural strongest closer to the time point when the range was launched in the market.

Adam Spielman - *Citi - Analyst*

Okay, thank you very much. That's very clear.

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

Thank you.

Operator

Owen Bennett, Nomura.

Owen Bennett - *Nomura - Analyst*

Morning guys.

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

Morning.

Owen Bennett - *Nomura - Analyst*

A couple of questions please. Firstly, I was just wondering if there's any data on the level of cannibalization of XRANGE on the full price General?

And then secondly, if you could please give an update around possible Scandi plain packaging? Thank you.

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

Yes. In terms of XRANGE, there is no notable change to the trend in terms of cannibalization, I would say. But naturally one would need longer periods to evaluate the full picture. But if you look at our premium segment excluding XRANGE, it is declining. But I would say we have not seen an acceleration. There may be some monthly deviations. But if you look at the longer trend, it's been relatively similar since XRANGE was introduced on the market.

And I think the best indication to us is when we look at the overall performance of the various brands. And if you look at Nielsen data, all three brands. General, Goteborgs Rape and Catch, that are the ones with the exception of Grov that was just introduced, that have had XRANGE price in the market. All three of those brands have been showing growth lately.

Owen Bennett - *Nomura - Analyst*

Cool, thank you.

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

And then yes, sorry, the second question was on the standardized packaging in Scandinavia.

Owen Bennett - *Nomura - Analyst*

Yes.

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

Yes, I would do my best. In Norway, as I said earlier, we expect that the issuance on standardized packaging will be included in the Norwegian -- what we call the TPD proposal. And this is a bit detailed but Norway also has to implement the TPD under the (inaudible) treaty. However, they're not bound by the same deadline as the rest of the European Union, May 20, so they can do it later in the year. They have now said that the proposal will come before the summer.

And I would say that we still consider it a high likelihood that standardized packaging will be proposed for Snus in Norway but that the likelihood -- the probability has gone down somewhat. And the reason for that statement is that we do know that there is a rather strong and verbal opposition against plain packaging and specifically as regards Snus in Norwegian. So it's a hot debate.

When it comes to Sweden, there is basically no news since we spoke last time, Q3. And this committee that is evaluating additional tobacco control measures in addition to the TPD -- and that was just published -- is due with its report on March 1.

So when that report has been published, we expect the government to take that into account and propose additional changes to the tobacco law. And those tobacco control measures, they include a complete ban on smoking outdoors in public places, so outdoor restaurants. It includes standardized packaging and it includes a display ban.



The timing of that is such that I would say that it's very unlikely that we would see any law before -- with effect before next year. The whole topic of plain packaging is very complicated. And the judge that is leading this enquiry has already come out with a conclusion that he finds that plain packaging is in contrast with law in Sweden. But that is a technical observation. Whether that can be changed or not remains to be seen. But it's very complicated.

Owen Bennett - *Nomura - Analyst*

Okay, thanks very much, very helpful.

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

Thank you.

Operator

Niklas Ekman, Carnegie.

Niklas Ekman - *Carnegie - Analyst*

Thank you very much. Yes, I'm curious about the mass market cigars. Why you saw such strong volume growth here despite that you're now in a period of very tough comparisons? Were there any timing effects that helped lift these numbers?

And is there anything you can say about how we should think here over the coming quarters? You have much easier comparisons, for instance, in Q1 and Q2. So any kind of help here on how to think of the short-term effects would be very helpful.

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

I would say that when you say much easier comparisons in Q1 and Q2, you're referring to 2015 I assume then?

Niklas Ekman - *Carnegie - Analyst*

Yes, exactly. The volume growth was lower in Q1 and Q2.

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

Yes. But if you look at 2015 quarter by quarter, it's actually very evenly phased. So we've had a very -- we reached a new level in 2015, you can say, with very strong volumes and we've been basically staying consistently at level, that level. The reason for that, as you know, is that we've been very successful with our natural leaf cigars. But on the other hand, we have lost a bit of volume on our HTL cigars.

So when we look forward, we have a much more consistent pattern in terms of comparisons.

Niklas Ekman - *Carnegie - Analyst*

Okay. Great. And I'm also curious, when you look at the other tobacco products margin, it was quite weak in this quarter. You mentioned weakness there in chew but I would imagine with a 20% volume growth you would have still had some margin boosts. Is there anything in particular here driving the margin lower?

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

It's not anything particular that is not related to timing, actually. So it's better to look at the full-year performance. We had a little bit higher operational cost this year and they were a little bit timing wise unusually low in the fourth quarter this year.

Niklas Ekman - *Carnegie - Analyst*

Okay, great, that's helpful. Do you have any more insight on FDA regulation? When new regulation could come in place? Any more discussions about the date for substantial equivalence, et cetera? Is there any more news or indications you've been getting on that field?

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

Now you said substantial equivalence but I assume you mean the MRTP application?

Niklas Ekman - *Carnegie - Analyst*

No, the discussion about substantial equivalence for cigars.

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

Okay, you mean on the actual cigar regulation.

Niklas Ekman - *Carnegie - Analyst*

Yes.

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

No, we have no news apart from what's already public that it's been -- it's now with the official management and budget. And the conclusion could come any day but we have no indication of timing. We have to wait and see when the regulations are published before we know the specific contents.

Niklas Ekman - *Carnegie - Analyst*

And these fees of \$2m per quarter roughly, when at the earliest could you be obliged to pay them?

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

As we interpret it, the earliest when the regulation is put into place. So if it would come tomorrow, as of tomorrow.

Niklas Ekman - *Carnegie - Analyst*

Okay, good. And then a nitty gritty here. On other, you talk about extraordinary costs here related to the logistics operations. Can you give any kind of indication of magnitude of these costs?

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

You see in the comparison that last year it's quite significant. But it was not only that one. We had some temporary costs. A very round number is SEK20m.

Niklas Ekman - *Carnegie - Analyst*

Okay, excellent, thank you very much.

Operator

Andreas Lundberg, ABG Sundal Collier.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Thank you. Good morning, everyone. Can you talk a little bit about your product launch expectations for 2016 in both Sweden and Norway?

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

What I can say is that there will be what we consider very interesting and good products coming into the market. We have, over the past few years say, rather significantly stepped up our R&D in product development activities and have invested resources in that area.

You've seen some of the output in 2015. And we have interesting, what we believe are very good products planned for the pipeline in 2016. But for competitive reasons, we don't go into details and specifics of those.

In terms of magnitude, I think one should be aware that we consider what we have in the pipeline to be very important products long term. But I would say that 2015 was a unique year in absolute impact in a sense. That XRANGE introduction was a very large introduction and very successful one.

So if you look at Nielsen data for the fourth quarter in Sweden, almost 10% of the sales volume was actually products launched in the past four quarters which is unique from a historic point of view. And Swedish Match has the absolute majority of those new products.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Is that all for Norway, you're going to launch new products there?

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

Yes.



Andreas Lundberg - *ABG Sundal Collier - Analyst*

Or are you working with restoring the market share there?

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

It's our clear ambition to not repeat the type of market share decline that we saw in 2015 in the Norwegian market, yes.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

And finally on your financial positioning for your financial gearing will continue to be at a somewhat lower level than in the past. Can you remind us what's your reasonable level for the gearing? Thank you.

Marlene Forsell - *Swedish Match AB - CFO*

Yes, now I will be repeating what I've been saying in previous quarters that we're talking about the range 2.3, 2.4 but that's a long-term objective. Also noting that during Q4 we did quite substantial share buyback.

Also noting that if you go back to 2015 now we have returned all cash from operations after investments then to our shareholders.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

But you expect to be at your target level in 2016?

Marlene Forsell - *Swedish Match AB - CFO*

It's a target level for every year then, so -- but it would fluctuate between quarters.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Okay, thank you.

Operator

Stephanie D'Ath, BofA Merrill Lynch.

Stephanie D'Ath - *BofA Merrill Lynch - Analyst*

Yes, hi. Most of my questions have been answered but I just wanted to maybe ask how you were seeing the price -- the environment in terms of possibility of increasing prices in Scandi and in the US? Is it more healthy than in the past?

And then my second question would relate to your -- I know we haven't had a different FDA regarding modified risk tobacco product application but if you have a sense of the timing there? Thank you.



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

If I start with the last question, we haven't heard anything from FDA regarding our MRTP application. So no follow-up questions, no indication of timing. And we don't read anything into that in terms of probability of outcome of the application. But we realize it's obviously very hard to predict the timing since we've been wrong there. But it can still come any day.

As regards pricing, we don't comment really on forward plans. And since we just took a price increase on a relatively large part of our assortment in the Swedish market, we took a small price increase in the Norwegian market as well which will be effective in February.

And going forward, naturally we'll have to see how the competitive dynamics play out. In terms of the US, if you take moist snuff, we are typically not the price leader. But there has been biannual price increases in the category for the past couple of years.

And in terms of our Snus, we have taken price increases basically in line with the premium moist snuff in the US market. In terms of cigars, it's a more complex picture with a lot of (inaudible) price offerings out there in the market. So there, the pricing that we have realized in 2015 is entirely attributable to the improved product mix. And actually the year-on-year net price is slightly down if you look in isolation on HTL and natural leaf respectively.

Stephanie D'Ath - *BofA Merrill Lynch - Analyst*

Okay, and just maybe regarding the recent price increases in Snus in Scandi, would they have been higher than in the past? Or do you see more ability to take prices up or not really?

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

That depends on what you mean by the past. Because it is actually the first price -- if you take the Swedish market, it's the first price increase in a rather long time. But there has also been in the history times when there has been quite a big higher price increases.

Stephanie D'Ath - *BofA Merrill Lynch - Analyst*

And has that been followed by the competition?

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

(Multiple speakers) I would say it's normal, in line with the historic pattern. In terms of competition, based on what we can see, which is -- we have to go with intelligence from the sales force and on the Nielsen data there, there we haven't seen any price increases from competition in Sweden. We have seen that in Norway, as I said. One competitor in Sweden has lowered the weight, so that's a manufacturer's take price increase. But it's not a price increase to the consumer.

And then we see in Sweden selective price changes both up and down limited to specific chains, which has been the practice over the past few years.

Stephanie D'Ath - *BofA Merrill Lynch - Analyst*

Okay, thank you very much.

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

Thank you.

Operator

Anders Hansson, Danske Bank.

Anders Hansson - *Danske Bank - Analyst*

Thank you very much. Two questions first. First on your comment on not seeing accelerated decline for traditional premium, I was wondering if you could quantify the volume decline for your traditional premium in Q4 versus previous quarters?

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

No, I don't -- we don't go into those kind of details.

Anders Hansson - *Danske Bank - Analyst*

Okay. Secondly on competition, you haven't seen much of the price changes but more activity. And I was wondering, does that mean -- or should we expect any changes to your sales and marketing costs in Swedish Snus in 2016?

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

I would say there can always be changes there in terms of most of the changes that you see from a year to year, to do with the trade engagement and key account agreements and so forth. But those are longer -- those are decisions not necessarily linked to the pricing environment.

Anders Hansson - *Danske Bank - Analyst*

And when you include such should we expect --?

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

As you know, the traditional marketing activities, consumer goods marketing activities are very limited in our category.

Anders Hansson - *Danske Bank - Analyst*

Yes. Okay, and two nitty gritty questions. First of all, on your Snus cost in 2016, which should be down, do you care to give an indication of the magnitude of that one?

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

It's directionally, the indication, we forecast that our net operating loss will be lower than in 2015. And it will be notable but -- and it's basically -- an important component there that we forecast and improved gross profit with the improved pricing and with continued volume growth.

Anders Hansson - Danske Bank - Analyst

And the second one. The tax rate for 2016, is there any range or indication you can give us on the magnitude?

Marlene Forsell - Swedish Match AB - CFO

No, we will be reporting tax rate for Q1, noting though what I said earlier that we have had a higher tax rate during 2015. It was partly counteracted by items of a more temporary nature versus year] And this means we started off in 2015 by 24% and we had 24.5% the coming two quarters now coming down to 23% with the help of some one-time items.

Anders Hansson - Danske Bank - Analyst

So that implies 24% to 24.5% being a reasonable level?

Marlene Forsell - Swedish Match AB - CFO

That you will have to wait until we report on the Q1.

Anders Hansson - Danske Bank - Analyst

Okay, thanks.

Operator

Stellan Hellstrom, Nordea.

Stellan Hellstrom - Nordea - Analyst

Thank you. Yes, I would like to come back to your statement there on the increased competitive environment in Swedish Snus. And just to be clear here, you haven't seen price increases really except one competitor lowering weight. But have you -- does this statement at all mean that you have seen increased pricing activity?

Lars Dahlgren - Swedish Match AB - President, CEO

As I said, it refers to the general climate with anything close. It includes some new products at the value end. And it includes a lot of point of sales display. And there are -- it can also vary from chain to chain. In some places, we see some price decreased. But we've also seen some price increases on the chain level, as I said.

So it's more the general environment with all these changes in new products, redesigns of cans and increase of weight in the case of one competitor, and so forth. And all of these product news are very actively pushed and displayed and including the price points.

Stellan Hellstrom - Nordea - Analyst

So do you think this will affect your ability to realize the list price increase that you have announced?

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

Those price increases have been affected. As we say, when we speak in our outlook section about slight decline on the average sales price per can in Scandinavia for the full year then we take into account the positive price effect that we think will be realized from our price changes. But this will be then offset by negative mix effect, as we see specifically within the premium segment at the Swedish market and weaker Norwegian krone.

Stellan Hellstrom - *Nordea - Analyst*

But does this also mean that you exclude the possibility of further price increases throughout the year?

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

It means that we don't comment on any further pricing actions for the remainder of the year at this point. Apart from noting that overall forecast is a slight decline on a net average sales price per can.

Stellan Hellstrom - *Nordea - Analyst*

Okay, very good. Just a question also, did you quantify what sort of price increase you pushed through in Norway?

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

It was in the range of a little bit more than 2%.

Stellan Hellstrom - *Nordea - Analyst*

And there wasn't an opportunity to increase it more, given the weakness of the Norwegian krone?

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

We think that price change that we made was well balanced.

Emmett Harrison - *Swedish Match AB - SVP IR & Corporate Strategy*

Operator?

Operator

James Bushnell, Exane BNP Paribas.

James Bushnell - *Exane BNP Paribas - Analyst*

Hi, good morning.



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

Morning.

James Bushnell - *Exane BNP Paribas - Analyst*

Morning. I have three questions, actually, if I'm not being too cheeky. The first is on Norway. You've mentioned that G.3 grew its share within pouches. And I just wanted to clarify has Swedish Match overall grown its share in Norwegian pouches sequentially?

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

No.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay, and the second question was on Sweden. So I know this has been asked around on the previous questions. But in terms of your pricing, in your outlook statement you seem to be budgeting for at least some of that sticking. Obviously in the past we've had a situation where competitors didn't follow. Where do you draw the line? At what point would your patience potentially run out if you don't see the response that you would expect in a rational market?

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

I think if you look at the pricing that we effected, we consider it relatively modest. And when we look at the overall competitive environment, it's not limited to price. It's, for example, all these new products that we see and so forth. And also there will be introductions on our side. So I wouldn't take out the pricing that we have done in isolation apart from you're correct in saying that in our outlook it's included a positive contribution from the price change that we have implemented.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay, thank you. And just lastly, could you give us any color on the quantum on the volume growth in Snus in the US? I know you said it's grown but just to give us a feel for how that's doing and what the category's doing a well?

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

Yes, the category as far as we can see, based on [C&PP] shipments and Nielsen is the growth has accelerated and in the second half last year it's been double digit. And we've been growing faster than the overall category. But we don't go into exact volumes and percentages because there are quarterly fluctuations and so forth. But the trend is encouraging.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay, great. Thank you very much.

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

Thank you.



Operator

Adam Spielman, Citigroup.

Adam Spielman - Citi - Analyst

Thank you very much for allowing me a follow-up call. Rather a technical question. You have a big bond repayment at the end of next year, 2017. And I was wondering how that prospective bond repayment basically will influence your pace and rate of buybacks?

Marlene Forsell - Swedish Match AB - CFO

Sorry? Yes, when it comes to that repayment of the big maturity end of 2017, the plan is of course to manage that while also taking into consideration overall the financial policy and our share buyback.

Adam Spielman - Citi - Analyst

Okay, thank you very much.

Operator

Chas Manso, Societe Generale.

Chas Manso - Societe Generale - Analyst

Yes, good morning. If I can squeeze in three questions. And the first one is on Swedish price mix. And it seems as if the challenge in Sweden's gone from market share, which you successfully managed, now to price mix.

Could you remind us what the price mix development has been quarter by quarter this year? And really what I'm trying to get down to is the impact of XRANGE on your Swedish price mix?

Lars Dahlgren - Swedish Match AB - President, CEO

If you look at the fourth quarter, this is over all Scandinavia and that's the level we deal with here. It's minus 4.8% in Q4. And then that includes a significant effect from the Norwegian krone then as well. And it was 5.9% minus in Q3.

Chas Manso - Societe Generale - Analyst

Okay. So do you see the XRANGE introduction softening that negativity, improving your price mix dynamic generally?

Lars Dahlgren - Swedish Match AB - President, CEO

When we go into this year, you have to take into account that we didn't have XRANGE in the first quarter. So the year-on-year mix effect in the premium segment will of course be rather notable in the first quarter. And then the trajectory of XRANGE is that it's still growing. But the steepness of the growth was naturally faster at the beginning.

Chas Manso - *Societe Generale - Analyst*

Right, okay. And second question is on plain packaging if it comes through in Norway. You're saying that it's still highly likely, albeit a little bit less highly likely. How do you think about the risk to your business if plain packaging does come into Norway? Do you see it as a major risk or a minor risk, essentially?

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

I think the fair answer to that question that it's very hard to know all the effects. And also I don't think we have the answer in the first 12-month period necessarily.

So -- but so it becomes more of a reasoning answer. I'd say on the category growth, it is likely not to be positive. But at the same time, we have an extremely strong category growth in Norway as it is, we have very favorable demographics in the Snus market. And we expect good growth to continue in Norwegian market, with or without standardized packaging.

And at the end of the day, we think that what's in the can is far more important than what's outside the can. And then of course what it means in terms of assortment and so forth, it's going to be more challenging for both the consumers and the trade with many SKUs.

So it could well be that there is a concentration in the product portfolios in the market.

Chas Manso - *Societe Generale - Analyst*

And you mentioned Mustang, did you mention how Mustang is doing? I know it's early days but an update on that one?

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

Yes, Mustang has reached about 3% of the Swedish value segment. I'd characterize it as a very successful launch and a good reception from consumers. And there's definitely clear demand for that type of product and the positioning. But the last couple of periods, the development has been relatively flat.

Chas Manso - *Societe Generale - Analyst*

Okay. And can you tell whether it's sourcing its consumers from lower price value brands or from higher-priced premium brands?

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

We don't have market data to those specifics yet. But if you look at the overall development of the value segment, the growth year on year is clearly lower. So -- we don't see a change in that trend, so to say, after launching Mustang. So if it would have pulled its consumers entirely from the premium segment then we would have seen another trend, in my opinion.

Chas Manso - *Societe Generale - Analyst*

Okay, thank you.



Operator

Thank you, we do have one further question if you have time to take it?

Marlene Forsell - *Swedish Match AB - CFO*

Could I just clarify a question that came from Adam Spielman first?

Operator

Of course.

Marlene Forsell - *Swedish Match AB - CFO*

I can elaborate a little bit more on your question there on big maturities versus the end of 2017. Because normally of course our aim is to have the maturities spread out as evenly as possible and also then to refinance them when they reach maturity in general.

With this one, we tried to manage this one then of course in order also for this one not to affect the return to the shareholders. That being said, of course we also need to follow the market. So if there would be any significant changes in the availability of funding, that could of course impact share buyback. But as of now, I don't foresee that being the case. I hope that clarified.

Emmett Harrison - *Swedish Match AB - SVP IR & Corporate Strategy*

And back to your operator.

Operator

Thank you. Would you like to take the final question?

Emmett Harrison - *Swedish Match AB - SVP IR & Corporate Strategy*

Yes, sure.

Operator

[Cary Rinter], SHB Stockholm.

Cary Rinter - *SHB Stockholm - Analyst*

Yes, thank you, I actually had five questions. No, just kidding. Just one question.

Just to clarify the regulatory issues, is there a risk of display ban in Sweden? And do you think that that risk might be driving the increased activity that you're seeing in the point of sale? Could these two things be linked somehow?



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

On the second question, one can only speculate, but I don't think so. Because if standardized packaging would be implemented in Sweden, I think --

Cary Rinter - *SHB Stockholm - Analyst*

No, sorry, display ban.

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

Display ban, sorry. But even it's the same thing there. I would say yes on the display ban. And say that there is a clear risk that it will be implemented in the Swedish market. But the timing of that one, I have a hard time seeing that with the political processes necessary that that could be effective before next year.

But they could potentially accelerate things. They still have time, so to say. But I wouldn't think that that's in place before 2017, at the earliest, if in place.

Our ambition is of course to, regardless of what happens to the rest of the tobacco category, to not have a display ban for Snus. Given its superior health profile compared to other tobacco products.

Cary Rinter - *SHB Stockholm - Analyst*

All right, thank you, that's helpful.

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

Thank you.

Operator

Thank you. We have no further questions, please continue.

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

Okay, then I would like to thank everybody for listening in. And we inform you also that the Q1 report will be published on May 4. And that the telephone conference on that day will be at 11:30 Central European Time.

Thank you very much.

Operator

Thank you. That does conclude the conference for today. Thank you all for participating, you may now disconnect.



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