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CORPORATE PARTICIPANTS

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

Lars Dahlgren *Swedish Match AB - CEO*

Marlene Forsell *Swedish Match AB - CFO*

CONFERENCE CALL PARTICIPANTS

Stephanie D'Ath *BofA Merrill Lynch - Analyst*

Anders Hansson *Danske Bank - Analyst*

James Bushnell *Exane BNP Paribas - Analyst*

Stellan Hellstroem *Nordea - Analyst*

Adam Spielman *Citigroup - Analyst*

Andreas Lundberg *ABG Sundal Collier - Analyst*

Martin Arnell *DNB Markets - Analyst*

Chas Manso *Societe Generale - Analyst*

PRESENTATION

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

Hello. This is the Swedish Match first-quarter 2016 telephone conference, and with me today are Lars Dahlgren, our President and CEO, and Marlene Forsell, our CFO. After providing our prepared commentary, we will be taking questions.

For further information on the first quarter's 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 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 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. I will now turn the conference call over to Lars.

Lars Dahlgren - *Swedish Match AB - CEO*

Good morning, and thank you, Emmett. Let me start by saying that in many respects, I am very pleased with the start of 2016. We reported strong growth in sales and operating profit from product areas. We successfully launched the IPO of STG, and we completed the consolidation of our distribution centers in Sweden according to schedule and inaugurated a brand new facility outside Stockholm.

We also made a small acquisition of patent rights to a nicotine patch period without tobacco that we have been test marketing for some time under a license in the US in a very small scale. And in the beginning of March, we launched a modern form of chewing tobacco under the General brand in the Swiss market.

We are currently present in a few hundred stores, and the product has been very well received by consumers and the trade. While still best characterized as a niche market, smokeless consumption in Switzerland is exhibiting good growth.

In the Scandinavian snus market, we complemented our successful ranges of XRANGE and General G.3 in Sweden and Norway, respectively, with new products.

Looking ahead, we have some interesting product initiatives lined up. In the US, we will be expanding the test launch of the nicotine patch product without tobacco, and we are also in the process of testing a new range of cigars under the Night Owl brand, a tipped cigar that contains pipe tobacco, a product segment where we until had not had any presence.

On the snus side, we have developed a completely new pouch format, super slim, that we believe will resonate well with consumers that demand a full snus experience but with maximum discreteness. This new format will be first introduced selectively in Norway under the General G.3 range.

For our largest categories, we continued to see market growth. For snus in Scandinavia, we estimate the underlying market growth as measured in number of cans to have been about 5% in the quarter, with the strongest growth in Norway.

We have lost some market share, and we estimate that the underlying growth for our Scandinavian snus portfolio was close to 4%.

For US cigars, excluding leafless cigars, we estimate that the overall market grew by around 2%, but more than that for natural cigars. In the cigar market, we continued to gain share, and our shipments were up by 10%.

As we commented in our full-year report, the competitive activity in the Swedish snus market increased after year end with several new product initiatives and the design changes from competition. This coupled with the fact that Swedish Match was the only player that took some general price increases at year end has put some pressure on our market share in Sweden at the beginning of the year.

The halt to the previously positive share trend within the value segment should also be viewed in the light of the Mustang brand having lost its momentum after what was initially a good reception. We're currently reviewing potential corrective actions for that brand.

The competitive activity level remains high, but we have also noted examples of recent consumer price increases for some of the value-priced competitive offerings.

Regarding regulatory news, the Swedish Parliament on April 6 adopted the new tobacco legislations that implements the Revised European Tobacco Directive into Swedish law.

For snus, the most notable changes are somewhat more strictly worded warning label to be placed on two sides of the can, as well as new reporting requirements to authorities, like, for example, submission of market research results. The detailed provisions that dictates the requirement for the revised warning labels were published on April 26, and the public health agency a week later communicated transition rules that imply that snus cans may be produced with the current warning labels until August 31 of this year.

In March, a committee of inquiry also presented its report on recommendations on additional tobacco control measures in Sweden, and the report is currently out for public commentary. The committee proposes a retail display ban for tobacco products, but on the issue of plain packaging, the committee concludes that such a measure would require a change to the Swedish Constitution.

The formal bill in Norway relating to the implementation of the Tobacco Products Directive has not been presented, but is expected before the summer. We will likely not have any more clarity on the final proposal relating to the initiative to require plain packaging for tobacco products until that bill has been presented.

And in the US, we have not received any notification on when we can expect the ruling on our MRTP acquisitions for General snus and also the final deeming regulations that will apply to cigars have not been published.

Regarding our strong sales and operating profit development in the quarter, it should be noted that there are certain timing factors that affect the comparison to the prior year's first quarter.

In Scandinavia, the year-end hoarding was higher in 2014 than in 2015. Consequently, the negative effect from the unwinding of hoarding was bigger in the first quarter of the prior year. This is the main reason why our Scandinavian snus shipments were up by 8% in the quarter, while we estimate the underlying growth to have been about half that.

In addition, our net operating loss for international snus investments within the snus and moist snuff segment was significantly lower than in the prior year.

This was partly related to somewhat lower than normal marketing cost in the US market, but part of the result improvement also came from the improved gross profit for snus in the US as the trend above volume growth and improved pricing continued. Offsetting these factors was a notable negative currency effect for snus and moist snuff as a consequence of a weaker Norwegian krone.

On an underlying basis, adjusted for timing factors and currency effects, both sales and operating profit grew in both Scandinavia and in the US for snus and moist snuff. For the product area other tobacco products, year-on-year currency movements were marginally positive and our sales and operating profit were up in local currency, driven by strong cigar performance.

Within our cigar portfolio, the momentum for natural cigars continued, and in HTL, we recorded some volume declines for the White Owl brand, but the Jackpot value price brand performed well. This solid performance for cigars more than offset the rather weak quarter in chewing tobacco, where volumes in this declining category were down by 9% for our own brand.

Our lights business had a relatively soft quarter, driven by poor match volumes and some smaller costs of a temporary nature. Lighter volumes were also lower, but the mix was good.

With that, I had over to Marlene.

Marlene Forsell - Swedish Match AB - CFO

Thank you, Lars. Group sales for the first quarter increased by 6% to SEK3.6b, and in local currency, sales were up by 7%.

Operating profit from our product areas grew by 8% to SEK939m, and in local currencies, operating profit was up by 10%.

As Lars alluded to, besides currencies, there were other factors affecting our operating profit from product areas, with one very notable factor being the rather large volume variance versus prior year due to the difference in destocking between the quarters, and another factor being lower operating loss for snus outside Scandinavia.

Looking at our total operating profit for the Group, it was significantly higher than last year as there were larger one-time items of SEK704m relating to capital gains at both our partial divestment of STG and the divestment of the former distribution center real estate in Sweden. The sale of the distribution center real estate was communicated in the second quarter of 2015 and noted that it would close at the end of March 2016.

Our earnings per share amounted to SEK7.44 in the quarter, and when excluding larger one-time and adjustments in 2016 for STG's reassessment of the useful lives for primarily trademarks, the adjusted earnings per share increased by 9% versus last year's third quarter to SEK3.71. The earnings per share was also affected by only including 31.1% of STG's net profit in this quarter now.

The currency effect from the US dollar was strongly positive during each of the quarters of 2015 but were minor during the first quarter of 2016. Results were negatively impacted by the weaker Norwegian krone and the weaker Brazilian real.

Currency translation affected reported sales in first quarter negatively by SEK32m, while the operating profit currency translation had a negative impact of SEK10m. At current exchange rates, we could expect a negative currency translation impact on both sales and operating profit in coming quarters, also stemming from the US dollar.



For product area comments, I will generally refer to sales and operating profit development on a local currency basis. Comments on market shares or segment shares will generally refer to shares measured based on product volumes.

For the product area snus and moist snuff, sales as reported in Swedish krone were up by 5% and by 6% in local currencies. In other words, the currency effects were negative. The negative effect on the weaker Norwegian krone more than offset the positive effect from the slightly stronger US dollar.

The growth in sales of 6% in local currency was positively impacted by lower trade destocking in Scandinavia in the first quarter 2016 compared to the first quarter of 2015, as explained by Lars. Adjusted for this effect, underlying sales still grew.

This underlying sales growth was driven primarily by volume developments in Scandinavia and by favorable average pricing in the US. However, continued net negative price-mix effect in Scandinavia partly offset the positive progress.

As you will note in the interim report released earlier today, our total market share in Sweden declined by 0.6 percentage points versus the prior year. The value segment's share of the market was modestly larger than one year ago.

Our share of the value segment has slightly increased, but our share of the premium segment slightly declined. Compared to the fourth quarter 2015, we lost some market share as both our market share within the value and the premium segments declined somewhat.

About one year ago, in April 2015, we launched our XRANGE series of competitively priced premium products. XRANGE continued to gain market share in the first quarter, which affected the mix in our portfolio. After the launch of XRANGE, we noted an uptick in overall market growth.

With regard to pricing, in the beginning of this year, we increased prices of our XRANGE series of products and on our value-priced products, as well as on our loose products and later, in February, also on our Norwegian assortment. But the positive price impact only partly compensated for negative mix effect.

In Norway, we continue to experience share declines despite continuous for our General G.3 range. I also want to note that despite the share declines, our own volumes were slightly up in the quarter.

Underlying sales in Scandinavia grew somewhat less than underlying volumes.

If we turn to the US, sales for snus and moist snuff grew. For US snus, volumes increased, and average selling price was higher, while for moist snuff, with less promotion activity due to timing, volumes were down, but average selling prices were higher.

The average prices of both snus and moist snuff increased due to less price increases in 2015 and for moist snuff also due to the lower promotional activities in the quarter. The operating profit for the product area grew by 14%, as reported.

Underlying operating profit increased less but grew for both Scandinavia and the US.

In the US, an operating loss from our General snus business was significantly lower than in prior period. Our total operating loss for expansion of snus outside of Scandinavia amounted to SEK49m compared to SEK80m in the prior period. This was the driver behind the improved operating margin from 38.2% to 41.8%. The margin development was also favorably impacted by the lower destocking in Scandinavia in 2016.

For other tobacco products, sales increased by 5% in US dollars, while operating profit increased by 3%. The sales increase was driven by the strong performance of cigars, while sales of chewing tobacco are below prior year levels on lower volumes. The volumes for cigars were up by 10%. Cigars continued to perform well with the natural leaf cigar segment.



The positive mix effect from growth of natural leaf cigars was offset by strong performance for our HTL value brand Jackpot and sales for cigars grew in line with volumes. Chewing tobacco shipments, excluding contract manufacturing volumes, were down by 9% versus the first quarter of the prior year.

The volume decline was large for the quarter, but quarterly fluctuations on volumes of chewing tobacco are common due in large part to promotional timing, and we do not see the decline in the quarter as an indication of changed market dynamics.

Operating profit in dollars increased for cigars, while operating profit for chewing tobacco was down, and operating profit also contains the minor costs for the sale of chew bags in Switzerland. We still do not know when the FDA will begin to regulate cigars, but when it does, as you know, we estimate that volume-based FDA user fees of approximately \$2m will be incurred per quarter.

For lights, sales and operating profit decreased and continued to be negatively affected by the weakened Brazilian real. Volumes on matches decreased, but we also note that the match volumes were relatively strong in prior year's quarter, especially in Brazil. The lower volumes affected production costs negatively.

For lighters, volumes were down, but sales declined less due to favorable country mix. Decline in sales for lighters and matches was partly compensated by increased sales for complementary products.

With regard to STG, we are very pleased with the listing on the Nasdaq Copenhagen. The proceeds from the STG sold by Swedish Match's offering are being transferred to Swedish Match shareholders in the form of a special dividend of SEK12 per share.

As from the listing, STG is communicating with investors on the performance of the Company, and we refer to STG investor relations on the website for information on the performance. However, we note that STG delivered according to guidance for the full year 2015.

As you likely recall, Swedish Match has from a reporting period ending December 31, 2015, started to report its share of STG's net profit, as well as its share of equity, with a one quarter lag. The share profit from STG that Swedish Match reported in the first quarter corresponds to 31.1% of STG's net profit for the fourth quarter 2015.

Intuitively, one would think that this share should have been 49%. But since STG's fourth-quarter results only became available after Swedish Match's reduction in ownership, the result stays at the new ownership percentage. I'd also like to note that the capital gained from the partial divestment in essence includes then the difference or the 49% to 31.1% of STG's net profit for the fourth quarter.

Swedish Match reported share of its net profit, which amounted to SEK68m, versus SEK148m in prior period. It was affected by the decreased ownership and by the fact that the comparison period was affected by a positive adjustment for reassessment of useful lives of assets relating to 2014.

And now, I will provide some commentary on taxes, cash flow and financing. The net finance cost for the quarter was lower than in the first quarter 2015, mainly due to lower average interest rates. The net interest expenses on our financial liabilities, including cost for bond repurchases, amounted to SEK87m, down by SEK6m, whereas the increase on pension liability was in line with prior year and amounted to SEK8m.

For the first quarter, the reported tax rate, excluding associated companies and joint ventures, and excluding large one-time items, was 24%.

Capital gains arising from the STG transaction and from the sale of the real estate in Sweden were not taxable items, thus reducing the overall tax rate.

The cash flow from operating activities for the full year amounted to SEK792m, down from SEK963m in the corresponding prior period. This decrease is mainly attributable to the timing of dividends received from STG. We expect to receive a dividend from STG of DKK166m during the second quarter, based on our 31.1% ownership of shares.

The prior year's dividend, based on 49% ownership, was received in the first quarter of 2015. During the first quarter, there was a positive net cash flow from investing activities. Swedish Match received SEK2.172b net of transaction costs from the partial divestment of STG in conjunction with IPO and another SEK145m from the sale of the distribution real estate.

Investments in property, plant and equipment, as well as internal assets, increased to SEK202m, affected by the investment in patent rights for the nicotine patch product without tobacco, which Lars mentioned. For the full year, investment in property, plant and equipment are expected to be in line with prior year.

Last year, we had a larger investment in a new distribution center in Sweden, and during 2016 we expect a similar level of investment within our product area of the tobacco product as the cigar volume performance has been strong.

During the first quarter, new bond loans of SEK497m were issued. Repayment of bond loans for the same period amounted to SEK363m.

During the first quarter, Swedish Match made a share repurchase of SEK199m, buying just over 700,000 shares.

After the quarter at the AGM, it was approved that the dividend paid of SEK8, along with a special dividend SEK12. The total dividend amounts to approximately SEK3.764b, which would then be distributed to shareholders on May 6.

Shareholders also approved the renewed share buyback, and more information about the annual meeting can be found on our website.

As of March 31, Swedish Match had SEK8.2b of interest-bearing debt, excluding retirement benefit obligations compared to SEK8.1b at December 31, 2014 and SEK8.6b on March 31, 2015. Through the remainder of the year, SEK310m was due for repayment in December. The average maturing duration in the bond portfolio was 3.3 years, and the weighted average interest rate was 4.06%.

Approximately 93% of the debt has fixed interest. As of March 31, 2016, Swedish Match had SEK1.5b in unutilized committed credit lines, and the net debt in relation to EBITA, excluding share of profit in STG, was 1.4, by the end then on March 31, but then heavily influenced by the substantial inflow of cash from the STG transaction and the Swedish real estate.

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

Lars Dahlgren - *Swedish Match AB - CEO*

And, operator, we can go ahead and open up the floor to questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Stephanie D'Ath, Merrill Lynch.

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

Yes, good morning, and congratulations for this very strong start for 2016. My first question is on market share losses in Norway. So for the quarter you were at 360 bps market volume loss. Could you please give us what you believe you can achieve going forward, and whether you could stabilize or get to a market share loss more in line with what you have done in Sweden?

My second question relates to Switzerland chew bags. Is that something you could roll out to other countries, or it's just particular to Switzerland?



And finally, regarding your underperforming in Scandy -- so you mentioned you were growing 4% underlying versus the market at 5%, do you believe you could get back in line, and how much time do you think that would take?

And regarding your outperformance in the US, thanks to natural leaf cigars, do you expect it to slow down and your order [count] would be much appreciated. Thank you.

Lars Dahlgren - *Swedish Match AB - CEO*

Okay. Thank you. When it comes to Norway, clearly, we are not pleased with the year-on-year volume decline. We have taken some actions, and we are taking actions. And as Marlene commented, for example, the G.3 range is performing very well, and that's also where we have done some additions during the quarter and where now have some what I would call very interesting innovations that we will put on the market selectively.

So I would restrict myself to saying that we have the very clear ambition to significantly slow down the year-on-year share decline from now onwards.

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

Let me just follow up on that --

Lars Dahlgren - *Swedish Match AB - CEO*

Your suggestion we would be able to maintain share for the full year, I think that is on the optimistic side, given that we have lost about one share point already during this year. But I would be very disappointed if we would see this type of year-on-year share declines in the fourth quarter.

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

Sorry, and just maybe on Norway, before we move to the next question, because Imperial was mentioning this morning they were taking share with scripts. Have they been doing anything particular where they put maybe more promotional than you are to take value share, or how do you explain their market share gain and your market share losses, maybe?

Lars Dahlgren - *Swedish Match AB - CEO*

In Norway, it's a very restricted market in terms of what you're allowed to do on the marketing side. Our fundamental issue is that we are facing in Norway is that we are not as strong as our main competitor in some of the segments that have been growing the best. And one very clear example of that is that we have over 90% in the loose segment that is declining year on year, while then the overall market is showing very good growth.

But that's a challenge that we are taking steps to address, but is also the type of challenge that takes some time to address.

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

Thank you.

Lars Dahlgren - *Swedish Match AB - CEO*

Then, the question on Switzerland, this is recent. We went into the Swiss market in March, and it's very promising. And when it comes to tobacco legislation, it's complicated with the European ban, but the ban is of course for smokeless products that are not intended to be chewed.



But any future initiatives or new markets we will comment on when and if we do so. When it comes --

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

But could you legally launch the chew bags in Europe or not?

Lars Dahlgren - *Swedish Match AB - CEO*

The snus ban in Europe is for products not intended to be chewed, and then the definition there of snus is rather complicated and technical, so it has to do also with the size of the particles. But if you take our product in Swiss market, we actually cut the tobacco in our chewing tobacco plant in the US.

When it comes to the more general question in terms of not growing exactly in line with the strong performance of the Scandinavian snus market, that is, of course, an effect of us having lost some market share. So our shortfall relative market growth is bigger in Norway, where we lost more share, but also in Sweden we'll lag market growth somewhat given that we had some small share declines in the Swedish market on a year-on-year basis.

And it is our clear ambition to defend our market share in both markets, so we are working hard to grow in line with the market, but with growing shares, that's a consequence that we haven't grown as strongly. But still, I must say that the share loss also must be viewed in combination with the very strong category growth, so that's why we record underlying volume growth that we estimate to be close to 4% in the Scandinavian market.

And then you have the opposite situation in a sense growth wise versus the category then on cigars in the US, where we for a long period of time have had very good momentum and have grown share, and that is our ambition, to continue to take share in that market. But it's also a market that is very sensitive to trends, and it is hard to predict both the category and market share developments in that market.

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

Okay, thank you. And maybe just one more on the price increases, sorry, you had seen from competition on the value -- some value products. Can you elaborate a little bit on when you noticed those and extent of the price increases, please?

Lars Dahlgren - *Swedish Match AB - CEO*

It's very recent, and we go -- we have to go on Nielsen data, and then of course samples of stores. But as we can read it, one competitor has taken pricing similar to what we took at year end on our value price products.

And then, you see some other movements in -- from another competitor, but which is more limited to a specific chain.

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

Okay. Thank you very much.

Lars Dahlgren - *Swedish Match AB - CEO*

Thank you.

Operator

Anders Hansson, Danske Bank.

Anders Hansson - Danske Bank - Analyst

Thank you very much. Two questions. First of all, on the US snus cost, if you could help us out for the full year, you mentioned timing helped in Q1, so I assume it's going to be more than just four times SEK50m.

Lars Dahlgren - Swedish Match AB - CEO

Yes, but notably lower than last year, and just the number we're giving is for the total snus expansion outside of Scandinavia, where US is of course a very big part, but just to make it clear that is going to --

Anders Hansson - Danske Bank - Analyst

Yes, but could you help us narrow this down since you had SEK350m last year, and it's going to be above SEK200m. Is it somewhere in the middle of that range, which is the --

Lars Dahlgren - Swedish Match AB - CEO

Yes, the number is actually SEK335m for last year full year. We wrote SEK350m in the Q4 report. But what I decided to do is that we are selling snus to e-comm actors that sell exclusively outside of Scandinavia, and that is actually a healthy business where we make a small profit. So the number to have in mind for the full year is SEK335m.

And you're correct in the sense that since we say there is some timing, our forecast on a constant-currency basis is -- for the full year, is higher than four times the SEK49m that we had in the first quarter, but it is notably lower than the SEK335m. And then exactly where in that is hard to say, but probably closer to four times the SEK49m than the SEK335m.

Anders Hansson - Danske Bank - Analyst

Okay. One more question, on the price increases you took in January, you didn't want to comment previously, if I remember correctly, on the reception. But now, when you've had some time to evaluate, you had good statistics for April in terms of -- in your value products. You mentioned that one competitor seems to have followed. Does that make you quite confident that your price increases are going to stick?

Lars Dahlgren - Swedish Match AB - CEO

If you look on what we write in our forecast for the full year, we do factor in that we will have some positive pricing as we see it for the Scandinavian snus market. Then that's partly offset then, or it is likely to be fully offset by currency and mix effects on an average per can basis.

This is the type of question where you get new information all the time. And I think it's fair to say that pressures that we have seen on the market share a little bit in the first quarter partly is attributable to us taking pricing, but maybe even more so the increased activity in terms of new products and displays and so forth from competition. And these latest price movements that I refer to are actually very fresh, so it's too early to draw any conclusions on the effects from those, if any.



Anders Hansson - Danske Bank - Analyst

Okay. Thank you very much.

Lars Dahlgren - Swedish Match AB - CEO

Thank you.

Operator

James Bushnell, Exane.

James Bushnell - Exane BNP Paribas - Analyst

Hi, good morning, and yes, thanks for taking my questions. Two if I may. Firstly, just wanted to clarify on the chew bags in Switzerland, which I know was asked about before, but one thing that I wasn't completely clear on is whether the regulations in Switzerland are exactly the same as the rest of Europe, or whether because it's not an EU member and just a free trade member, there are some subtle differences that we should think about. And that would obviously be helpful in terms of assessing how easy it might be for you to go into other markets. That's my first question.

Lars Dahlgren - Swedish Match AB - CEO

Yes, Switzerland is not part of EU, but the current legislation is -- in Switzerland is actually very similar to what's in place in most countries in Europe, then where products intended to be chewed are allowed to be sold in the market. And there are several such products out there. That's why this category is growing.

But a difference also is that as a private individual in Switzerland, you are allowed to import snus that you buy over the Internet. So what we've been seeing is also actually that snus consumption in Switzerland is growing.

James Bushnell - Exane BNP Paribas - Analyst

Okay, and the obvious follow-on question would be where else in Europe is there the possibility for you to maybe capture some latent snus demand, maybe in some of the places where there was demand prior to the EU ban? Do you have any plans in that regard?

Lars Dahlgren - Swedish Match AB - CEO

As I commented on one of the questions earlier -- I don't know if you were on the line then -- now we do one thing at a time, and we also speak about one thing at a time, so to say externally, depending on what we have done. Switzerland we regard as very interesting, a new niche initiative, and we will learn from that, and then whether we address additional markets is something we'll have to get back to.

James Bushnell - Exane BNP Paribas - Analyst

Okay. Thank you. Then the other question I have is just a brief one on regulation in Sweden. With the public commentary period now open and the display ban being proposed, would you be able to just briefly comment if you think it's likely that happens. And then secondly whether you think there's any impact we should think about from a display ban, maybe in terms of the promotions and visibility of promotions which have obviously been quite prevalent in Sweden in recent times?

Lars Dahlgren - *Swedish Match AB - CEO*

Yes, on the first question, it's of course hard to assess. But I would say that it's more likely than not that display ban for tobacco products is enacted in the Swedish market. There is, as you would expect, some opposition from retailers and so forth, and there is also opposition recognized that it would be sound to make a differentiation between snus and cigarettes.

But at the same time, I think it's fair to say that a display ban for tobacco in general is a fairly uncontroversial policy that is likely to pass. In terms of implications, if you first talk about category growth and so forth, overall, I think from what we can see, from historic examples, it's very hard to isolate any effects.

As you know, Norway is one of the best-growing -- the Norwegian snus market is one of the best-growing historically tobacco markets in the Western world, and that's a market where we have had a display ban for a long time. At the same time, it's important to underline that we do strongly oppose the display ban for snus, because we do believe that it's important long term for the Company to have evidence-based and sound and proportionate legislation in place that recognizes the relative risk for different products.

On the particular question on how it will look at in retail, yes, there will be less visibility. That's clear. And I would imagine that that goes also for price communication and so forth.

James Bushnell - *Exane BNP Paribas - Analyst*

Okay. Thank you very much.

Lars Dahlgren - *Swedish Match AB - CEO*

Thank you.

Operator

Stephanie D'Ath, Bank of America Merrill Lynch.

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

A follow-up question on the cash flow. The SEK490m other non-cash items, could you maybe just go over those, as well, as the increase in purchase of intangible assets of SEK120m? SEK121m, sorry, that they're related to.

Marlene Forsell - *Swedish Match AB - CFO*

Yes, I'm going to count other non-cash items, I would say that that's primarily been affected by these larger one-time items that we had during the first quarter now with the capital gains from STG and also capital gains on then the sale of the distribution real estate.

When it comes to the investment in intangible assets, Lars talked about us investing in the patent for a pouch product with nicotine without tobacco, and that of course impacts this one. But we also had some other then investments in intangible assets that are included in the numbers.

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

And so should you expect CapEx, intangible CapEx, to remain higher than usual?



Marlene Forsell - *Swedish Match AB - CFO*

Yes, we --

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

The other one-off?

Marlene Forsell - *Swedish Match AB - CFO*

Just looking at the outcome then and now in the first quarter, I definitely view that it will be higher than SEK450m.

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

Okay. Thank you.

Operator

Stellan Hellstroem, Nordea.

Stellan Hellstroem - *Nordea - Analyst*

Hi. I had a question just on the price increase that you've seen with competition in Sweden. If you can say who it is that has increased prices, or at least if it is one of the larger players in the low-end segment? Thanks.

Lars Dahlgren - *Swedish Match AB - CEO*

It's one of the larger players.

Stellan Hellstroem - *Nordea - Analyst*

Great, thanks. Then also a question on the launch of pipe tobacco cigars here. If you could just remind us how big that share of market is for that type of product, and also if you can say something about how you plan to differentiate this product versus competition, thanks.

Lars Dahlgren - *Swedish Match AB - CEO*

Yes, this is -- the total segment is a little bit more than 6b cigars, and then we exclude the little cigars. And the pipe tobacco cigar segment is about 1.3b cigars, and so what we are doing now is it's a test launch.

It's in two states, and one specific retail chain, on the east coast. So first of all, one should have limited expectations on the impacts on the numbers for this year. But it's of course an interesting opportunity and a segment where we haven't had presence.

And in terms of product differentiation, first of all, it's about having developed and worked on this for a long time. We believe that we have a very good product that tests very well with consumers, and at the end of the day, product quality is the most important thing.



And then we also have a very efficient cigar production, which means that we can provide this product at attractive price relative competition.

Stellan Hellstroem - *Nordea - Analyst*

Great. Thanks. Those were my questions.

Lars Dahlgren - *Swedish Match AB - CEO*

Thank you.

Operator

Adam Spielman, Citi.

Adam Spielman - *Citigroup - Analyst*

Good afternoon. Can I ask a question about how in your mind you balance your desire for stabilizing market share -- I'm particularly you talked about Sweden now, not Norway so much -- with the desire to have profit growth? And clearly, you've attempted to stabilize market share. You introduced XRANGE, and that worked.

And now market share seems to be declining again. So just if you can talk a little bit about that, and then I have a follow-up question too, please.

Lars Dahlgren - *Swedish Match AB - CEO*

If you take a longer perspective, we believe that stable market share environment is -- goes hand in hand with profit generation. And it's important to be aware that we don't focus on quarterly profits. We focus on profits over the longer term, so I think those parameters are not in opposition.

Adam Spielman - *Citigroup - Analyst*

I suppose. But in the short term, they are to some degree in opposition. And clearly, you could certainly grow market share by cutting prices, but you're not going to do that, I assume. So how do you think about the -- I guess the next few quarters, about market share versus profit?

Lars Dahlgren - *Swedish Match AB - CEO*

We think about the next few quarters, the main way to reach a stable market share in the Swedish market is through -- in [amount] of product introductions. And this was an example of what we've done now late in the first quarter is introduction of General Mackmyra, which is a specific cobranding activity with a whisky producer that has been very well received. And that's also a product that contains some new technology that has been received very well.

So that's an example of the type thing that we do in the premium segment. And I'm not saying that that's going to be a 5% brand, because it's very challenging to gain share within the premium, but it's definitely been very, very well received by consumers in the Swedish market. We are -- we are working across the market, and we can -- you can see innovation from us in all price segments going forward.



Adam Spielman - Citigroup - Analyst

Thank you very much. And very quickly, turning to the US snuff market. I think you said that you had promoted significantly less, and that affected both sales per can and I assume profit quite significantly. Can you just give us a bit more color on that and maybe your plans about how you think about promotions going into the rest of the year and beyond? Thank you.

Lars Dahlgren - Swedish Match AB - CEO

Yes, generally speaking, I would say that the promotions are a very important part of our market mix in the US moist snuff market, and then you can have timing effects like this. And if you look isolated in the first quarter, you can argue that it's even been helpful for profit, because the pricing is very strong, but that's not a viable long-term strategy, given how the market looks like.

So we will continue to run promotions in certain windows as part of our portfolio. But with that said, we still forecast that we will be able to generate a positive price component on average for the US moist snuff market over the balance of the year.

Adam Spielman - Citigroup - Analyst

Thank you very much.

Lars Dahlgren - Swedish Match AB - CEO

Thank you.

Operator

Andreas Lundberg, ABG Sundal Collier.

Andreas Lundberg - ABG Sundal Collier - Analyst

Yes, thanks for taking my questions. I might have missed this, but can you give us more color on what you think about the risks on the update side on cigars, potential risk and how are you working to minimize potential risks here? Thank you.

Lars Dahlgren - Swedish Match AB - CEO

Yes, we'll have to wait and see the final regulations, but based on the initial proposals, we don't envision a big risk to our flavored cigars, and the issue is of course then more the predicate date. And there's an ongoing discussion when will that be.

And I think one of the key things here is that there will be a couple of years before you need to submit your SCE applications. And what we have done very well is make sure that we have hired products out in the marketplace to set examples, and depending then a little bit on the predicate date, products that we can refer to. So an example is actually this recent test initiative with the pipe cigars that we have had out for some time in a very limited scale in the market.

And I think it's hard to say exactly if the predicate date would even be in 2017, what that will mean in practice. It will be an issue for the entire industry, but the FDA will also be faced with probably several thousands of SCE applications, and I would expect it to take time for them to work through that pile of applications. And I want to think there is -- it's reasonable that there will be a debate on what will the bar, so to say, of significant or equivalence be, given that the cigar market as such is a market that is characterized by innovation.



Andreas Lundberg - *ABG Sundal Collier - Analyst*

But you expect a decision in this year? Is that correct?

Lars Dahlgren - *Swedish Match AB - CEO*

Yes.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Because it seems to take a very long time for this organization. On the cigar margins in the first --

Lars Dahlgren - *Swedish Match AB - CEO*

Now, we lost you. I hope we didn't lose everybody.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Sorry. I may have been on mute. No, I asked about the cigar margins in the first quarter, if you compare them to the same quarter last year. Thank you.

Lars Dahlgren - *Swedish Match AB - CEO*

We don't comment on the margin within other tobacco products. We limit comment on that. We had a nice growth of sales and operating profit in local currency, and this quarter, it was a relatively small difference in SEK, given that the dollar only strengthened 1%.

Andreas Lundberg - *ABG Sundal Collier - Analyst*

Okay. Thanks a lot.

Lars Dahlgren - *Swedish Match AB - CEO*

Thank you.

Operator

Martin Arnell, DNB Markets.

Martin Arnell - *DNB Markets - Analyst*

Yes, hello. I have a question on these new snus brands in Sweden, the Mustang and the XRANGE. Can you give some flavor why you think you lost momentum on Mustang in Q1? And could you also comment on the estimated market share for XRANGE in Q1?

Lars Dahlgren - *Swedish Match AB - CEO*

Yes, if we start by XRANGE, in the latest measure ending April 17, XRANGE had reached 6.3% of the total market. And as you know, XRANGE is only available in pouches, and that's about 80% of the category in Sweden.

When you take Mustang, that's -- we are learning and gathering feedback on that. It is a very crowded category out there, so we are not the only one who have launched new products that haven't met what I would assume the expectations, if we look around us. But we're gathering feedback and we're thinking over some smaller design elements and some smaller flavor parameters, and then we're also looking at the pricing in specific channels, actually, where it's the gap to our competition is a little bit too big within the value segments. We're in the process of making some small adjustments there in specific channels. It's nothing dramatic that will affect the overall average prices in any large way.

Martin Arnell - *DNB Markets - Analyst*

Okay. Thanks. And could you also mention something about your new initiatives in Sweden this year? Will you for example take the super slim also to Sweden this year?

Lars Dahlgren - *Swedish Match AB - CEO*

We don't rule that out, but we also don't comment on our launch plans, but naturally, it will be very interesting to see how the super slim formats resonates with Norwegian consumers. And technically, actually, just to be clear, it's available also in Sweden in the border trade where there are a lot of Norwegian consumers.

But if you look at the consumer insight and the trends in the markets, we think that it resonates particularly well with some of the developments that we noted in the Norwegian market. But those insights may very well prove relevant also in the Swedish market.

Martin Arnell - *DNB Markets - Analyst*

Okay. Thanks a lot.

Lars Dahlgren - *Swedish Match AB - CEO*

Thank you.

Operator

Chas Manso, Societe Generale.

Chas Manso - *Societe Generale - Analyst*

Yes, on the price mix in Scandinavian snus, last quarter, you told us that the price mix was negative 4.8%. And I was wondering what it was in Q1 and what you think the outlook is for mix over the year, obviously, given the pricing elements in January and February.

Second one would be on this, one of the larger players taking a price increase. Could you just confirm that they fully matched your pricing moves, or whether they've done anything different to what you've done?

And the third question would be on net debt/EBITA. At the end of the quarter, it looks pretty low, at 1.5 times, but obviously you've paid out special dividends and all that since then. So could you possibly give us what the spot net debt is, and therefore what an adjusted net debt EBITA is, just thinking in terms of your commitment to pay out funds that you don't need in the business?

Lars Dahlgren - *Swedish Match AB - CEO*

Yes, if you start with the price mix, then it was 3.4% in negative in the Scandinavian snus portfolio in the first quarter, and that includes then the effect of the weaker Norwegian krone. So if you would recalculate that on a constant-currency basis, it's negative 1.3% improvement from a negative 3.2% in the first -- or in the fourth quarter of 2015.

So you see an effect there of the -- on the pricing, and then of course the portfolio is not identical from one quarter to another. And when we look forward, we think that we will have the positive pricing component from both markets, but it will be partially offset by mix. And then the way the Norwegian krone looks like, it's likely to continue to tilt it below the zero line for the remainder of the year.

Sorry, what was the other question? The pricing on competition. It's -- we don't know exactly what they have done, and it's very early Nielsen data that we're looking at. But very early indications there is it's price changes for the one player that has taken it in cross channels that are similar managed as the price changes that we did on our value price portfolio at the beginning of the year.

Chas Manso - *Societe Generale - Analyst*

Right, okay.

Lars Dahlgren - *Swedish Match AB - CEO*

And then there was a financial question there, right?

Marlene Forsell - *Swedish Match AB - CFO*

Yes, it was a question on net debt to EBITA. And I don't have in the back of my head now, if I back out the proceeds received from STG and the real estate sale what the adjusted net debt EBITA would be. But I could say that after the dividends are being paid out now, we are much closer then to what is a targeted net debt to EBITA than the 1.5. And if we're talking about on the balance of the year, or on the longer-term perspective, we're still aiming in the area of the 2.3 when it comes to net debt to EBITA.

Chas Manso - *Societe Generale - Analyst*

Okay. Thank you.

Operator

And there are no further questions at this time. Please continue.

Lars Dahlgren - *Swedish Match AB - CEO*

Okay, then we thank you all for participating today, and our Q2 report will be released on July 22. Thank you.



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