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SWMA.ST - Q4 2014 Swedish Match AB Earnings Conference Call

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

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

## CONFERENCE CALL PARTICIPANTS

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

**Adam Spielman** *Citigroup - Analyst*

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

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## PRESENTATION

### Operator

Thank you for standing by and welcome to the Swedish Match full-year report 2014 conference call. (Operator Instructions). I must advise you that this conference is being recorded today, Wednesday, 18th of February, 2015.

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

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

Thank you, operator. Welcome to the full-year 2014 results telephone conference for Swedish Match. With me today are Lars Dahlgren, our President and CEO; and Marlene Forsell, our CFO. After a brief results discussion, we will be taking questions. Most of the commentary today will focus on the fourth quarter, with some references to the full year. For further information on the fourth-quarter and full-year results, please visit the [swedishmatch.com](http://swedishmatch.com) website.

During today's call there may be certain comments that constitute forward-looking statements. Because such statements deal with future events, they are subject to risks and uncertainties. While management believes that these statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. Risk factors are outlined in the latest Annual Report, which is available on our website. Swedish Match assumes no obligation to update information concerning its expectations. A recording of this call will be made available on the Swedish Match website.

And with that, I would like to turn the conference call over to Lars Dahlgren.

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

Thank you, Emmett, and good afternoon, everybody. Swedish Match ended 2014 on a positive note, with good growth momentum for value priced snus in Sweden, for our moist snuff and pouch tub products in the US, [our] General snus in the US, as well as for US cigars. In terms of sales and operating profit, the fourth quarter was the strongest quarter of the year, although this was aided by currency tailwind and somewhat inflated shipment volumes in Scandinavia, owing to trade hoarding and calendar effects.

I'm pleased to note that in the fourth quarter we once again grew market share in the growing value priced segment for snus in Sweden. This resulted in a small underlying volume increase for snus in Scandinavia despite the slowdown in the overall market growth rate in the Swedish market. It's also encouraging to see that we continue to compete effectively in the very promotion-intense US cigar market, and generated the strongest year-on-year volume growth for cigars in the fourth quarter, with 2000 (sic - see Full Year Report, "2014") full-year cigar volumes exceeding 1.1 billion sticks, which is a new all-time high.

The trade hoarding on snus in Scandinavia occurred as a consequence of tax-related price increases, as excise taxes were raised by 12% in Sweden and about 2% in Norway on January 1. In Sweden, Swiss Match changed its list prices across the portfolio to reflect the tax increase only. To give you an idea of the price effect for consumers, Nielsen reports that retail prices for a can of General Original has gone up by 2.9%.

With regard to our submission to the FDA for a modified risk tobacco product status, a date has now been set in April for a hearing at the Tobacco Products Scientific Advisory Committee of the FDA, and we remain confident that we have provided very extensive documentation to support our application. Also on FDA, we have not yet been informed about the timing of any FDA overview for the regulation of cigars, but we continue to expect that regulation by FDA, and fees to the FDA, will begin sometime in 2015.

Further on that regulatory side, there has been some recent news in Norway. The Ministry of Health and Care Services last week communicated the intent to submit the proposal for a review by the Parliament on standardized packaging, and to some degree of the product for all tobacco products. Official data from Norway clearly shows how the increase in snus consumption in recent years is highly correlated with the significant decline in cigarette smoking. Given the dramatic difference in relative risks between snus and cigarettes, the opinion of Swedish Match is that the proposal is ill-advised and risks having a negative effect on public health.

We have to await the final proposal and the results of the commentary period. But we do note that the proposed inclusion of snus under the same strict regulation as cigarettes has already sparked lively debate in Norway. Also on the regulatory side, in Sweden there was news today, as the Swedish government has appointed a committee to evaluate the potential plain packaging for tobacco products in the Swedish market, as well as a display ban.

The Swedish snus market remains highly competitive, with the value segment growth continuing to outpace of the overall market growth. Our volume market share in Sweden has declined at a much more modest pace versus the prior two years, led by a growing market share within the value segment. While the growth rate of this segment is slowing, it was still over 12% year-on-year in the fourth quarter, with Swedish Match brands growing at an even faster rate. The price repositioning for the Kronan brand has had its desired effect, with solid volume growth for the brand.

In the fourth quarter, we launched new products and refreshed package designs for products within our value priced assortment. In the premium segment, we have held rather stable market share. We have noted an accelerated volume decline for this segment. And the decline over the past three months to January has been more than 4%, according to Nielsen data and Swedish Match's definition of the price segment.

In Norway, Nielsen indicates that the market continues to grow at a good pace, up by more than 5% year-on-year over the last three months through January. While our share decline on the Norwegian market is far from in-line with our ambitions, the rate of decline has moderated since September. We are actively focused on the Norwegian market, and have implemented a number of initiatives aimed at addressing the needs of the dynamic consumer base in supporting our brands.

In addition to our recent product improvements, in The Lab range we have also launched new products, including General G.3, with a better mouth feel and improved moisture balance and a distinct and modern labeling. We have also recently launched an innovative line extension for the Light



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brand The Lab brand, Lab 03, natural flavored products that -- normal nicotine levels, but with a stronger sensation that appeals to Norwegian consumers.

For moist snuff in the US, we are continuing to demonstrate strong volume growth for our pouch and tub products, well above the category growth of close to 2%. However, overall moist snuff in volumes declined by 5% in the fourth quarter, impacted by timing of promotions. Pouch products in the fourth quarter represented nearly 10% of Swedish Match moist snuff portfolio, up from below 8% for the full-year 2013. Consumption volume for General snus in the US continued to increase.

Net shipments and gross profits for US snus were higher than last year's fourth quarter, and the rotation of stores has improved since the start of the year, supported by increased focus on consumer engagement, category awareness, and brand-building activities.

Nielsen data, as well as market share data provided by distributors, indicate that General remained the second-largest and fastest-growing snus brand in the US during the year.

The Lights product area, which include lighters, matches, and complementary products, had a solid performance in the quarter, with higher sales and flat operating profit despite the increased year of political uncertainty and lower volumes. And operating profit delivered its strongest quarterly performance this year as the result of improved prices, positive currency effects, and cost control.

Now I will hand over to Marlene for some more detailed comments on the financial performance.

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

Thank you, Lars. Looking at the fourth-quarter financial performance, Swedish Match delivered increased strength in operating profit versus prior year, in both SEK and in local currencies. The strongest growth in sales and operating profit came from other tobacco products, which includes US cigars and US chewing tobacco. In local currencies, the sales increased for all product areas. And operating profit increased for snus and moist snuff, as well as other tobacco products, while Lights noted a modest decline.

Group sales for the fourth quarter were SEK3.536 million, up 11% from the prior year. Operating profit, including our share of the net profit from Scandinavian Tobacco Group, amounted to SEK992 million compared to SEK902 million in last year's fourth quarter. Earnings per share in the quarter increased to SEK3.55, up from SEK3.43 in the prior year. The quarterly comparison is affected by significant positive currency effects. Currency translation had a positive effect of SEK137 million on sales and SEK39 million on operating profit, excluding STG.

In local currencies, sales grew by 7% versus the fourth quarter of the prior year, and our operating profit from both areas improved by 4%. We should also bear in mind that hoarding and calendar effects positively contributed to sales and profits in the fourth quarter. At the current spot rates, we will see [further] positive currency effects in the coming quarters. And for both areas, comments that follows, I will generally refer to (technical difficulty) operating profit development on a local currency basis.

Within the snus and moist snuff product area, sales grew in Scandinavia and also for both moist snuff and snus in the US. For US moist snuff, the sales increase was due to positive price effects from price increases, as well as a lower level of promotional activity. While US moist snuff volumes declined, the decline was substantially attributable to the lower promotional volume. Operating profits were up in both the US and Scandinavia.

In Scandinavia, shipment volumes were 6% higher, with growth in both Norway and Sweden. When adjusted for hoarding and calendar effects in these countries, approximately 3 million cans, volumes were slightly higher. Also adjusted for calendar and hoarding effects, sales declined on price and mix, and operating profit declined, with operating expense being somewhat higher.

During the fourth quarter, the entire portfolio of our Kronan snus brand was being offered at its new lower price. It is worth noting that in September 2013 there was a price increase taken on most of the Swedish snus portfolio, but during 2014 there was no corresponding price increase. These factors, coupled with our momentum in market share growth within the value segment, implied a more negative price/mix component in the fourth quarter compared to the first three quarters of the year for our Scandinavian snus portfolio.



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Given our sequential share growth within the value segment during 2014, and the fact that Swedish Match only adjusted list prices to recover excise tax increase at year-end, one should expect the continued negative price/mix component in the coming quarters.

It can also be good to remember that the trade hoarding at year-end of 2014 would adversely affect Scandinavian shipment volumes in the first quarter of 2015, as shipment volumes in general have indeed been weak.

In Sweden, our overall volume share of the Swedish market was 69.4% during the quarter, down from 70.8% in the same period last year. For most of 2014, the Swedish Match share of the total market has been in the 69% to 70% range. In the fourth quarter, and for all of 2014, the Swedish Match volume share of the premium segment has been hovering around 94%, while our share of the value segment has grown from approximately 36% in the fourth quarter of 2013 to 39% in the fourth quarter this year.

In Norway, our market share during the fourth quarter was estimated to be 58.8%, down from 62.5% during the same period in 2013. Stabilizing the Norwegian market share development is an important priority for Swedish Match; and, for reference, the market share in the third quarter of 2014 was 59.2%.

Our net spending to expand snus out of Scandinavia was up versus last year by SEK11 million during the quarter, mainly as a result of the stronger US dollar.

For other tobacco products, sales increased by 7% in US dollars, while operating profit increased by 12%.

Sales and operating profit in dollars increased for cigars and decreased for chewing tobacco. Cigar volumes during the fourth quarter were up by 16%, and were up by 12% for the year. In the fourth quarter last year, volumes were lower than they otherwise would've been, due to relatively high levels of product returns.

Changes to our promotional product mix have resulted in a lower selling price for cigars during 2014. But in the fourth quarter, the gap between volume growth and sales growth was much smaller than in the previous year.

With regard to operating profit, cigars were favorably affected by the elimination of tobacco quota buy-out fee, the impact being a bit more than \$1 million. When the FDA takes over regulation of cigars, this favorability is estimated to be largely offset by the obligation to pay fees to the regulatory body.

Chewing tobacco shipments, excluding contract manufacturing volumes, were down by 10%, while sales and operating profit in local currency were only somewhat lower due to favorable price and promotional mix. Quarterly fluctuations in volumes of chewing tobacco are common; and for the full year, volumes were down by 5%.

For Lights, operating profit was down 5% in local currencies, while sales grew by 1%. For matches, year-on-year sales growth came from improved pricing and a more favorable currency [situation] that compensated for volume declines.

Sales and volume growth for complementary products in Brazil were once again strong in the quarter, but higher import costs due to depreciation of the Brazilian real resulted in only modest operating profit growth.

For lighters, sales and operating profit declined somewhat as favorable productivity developments could not fully compensate for a lower volume in the isolated quarter.

Volume declined in Russia and certain other European markets, but we were pleased to note a pickup and return to volume growth in Asia. Our limited test of e-cigarettes, produced by a third party and sold under the Cricket brand in Russian markets, continued in the quarter. But the costs related to these tests that are included in Lights were not material in the quarter.



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Moving onward then to Scandinavian Tobacco Group. Sales for STG in the fourth quarter increased by 10% to [DKK1.630]. Adjusted for currency translation effects and acquisition of Verellen, the sales increase was 3%. The sales comparison to prior year is favorably impacted by a one-off stock reduction from machine-made cigars at a major European distributor during the fourth quarter of fiscal 2013.

Reported EBITDA for the period increased by 8% to DKK312 million, but was negatively affected by cost for Verellen integration. Reported operating expense for the quarter also negatively affected by currency translation effects.

Net profit for the period amounted to DKK152 million. And net profit in 2013 included a nonrecurring positive adjustment to income tax relating to a change in the legal structure of the Group. The Swedish Match Group reported share of net profit in STG amounted to SEK92 million.

And now I will provide some full-year commentary on taxes, cash flow, and financing. The net finance cost of SEK34 million, lower than in 2013, due to lower average debt levels during the year. The reported tax rate, excluding associated companies and joint ventures, was 21.6%. And for 2015, we expect the corresponding tax rate to be somewhat higher due in part to the stronger US dollar, which gives higher weight to the relatively higher US corporate tax rate. And the reported tax rate for 2014, including associated companies and joint ventures, was 19.7%.

In 2013, the reported tax rate it was 18.1% and was positively affected by the non-taxable capital gain from the sale of a parcel of land recorded in the first quarter of 2013. The cash flow from operating activities increased to SEK3.3 billion from prior year's SEK2.5 billion. The increase is mainly attributed to cash flow from changes in working capital. And the large difference between 2014 and 2013 is impacted by timing affects.

Investments in property, plant, and equipment at June 2014 had been lower than in 2013. Still, the cash outflow from investing activities is higher due to the proceeds received in 2013 from the sale of the parcel of land.

In total, the cash generated from operating activities, net of cash used in investing activities, amounted to SEK3 billion. Of this amount, SEK2.3 billion have been distributed to shareholders in the form of dividends or share buybacks.

As of December 31, 2014, Swedish Match had SEK8.7 billion of interest-bearing debt, excluding the retirement benefit obligations, compared to SEK10.5 billion at December 31, 2013. The average maturing duration on the bond portfolio was 3.7 years, and the weighted average interest rate was 4.5%. Approximately 94% of the debt had fixed interest. The net debt, in relation to EBITDA, excluding share of profit in STG, was 2.3 for the 12-month period ending December 31, 2014.

At the Swedish Match Annual General Meeting, scheduled to take place on April 23, the Board of Directors will propose to shareholders a 2014 dividend of SEK7.5, an increase of 3% from prior year.

I will now turn the conference back to Lars.

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

Thank you. And, operator, I think we can go ahead and open the floor to questions and answers.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Owen Bennett.

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**Owen Bennett** - *Nomura Securities - Analyst*

Just firstly, I was just wondering, could you give any commentary on the recent pricing in Sweden? Whether it's the store [coming] have competition or followed? Or are you seeing additional discounting?

And secondly, any commentary on regarding what's driving the slowdown in Swedish industry growth? Is it less switching from cigarettes, less snus users entering the category? For example, I was just wondering what is actually driving that [function] up.

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

Hello, this is Lars here. When it comes to pricing, Swedish Match has adjusted its prices basically exactly in line with the tax across the portfolio. We have seen press releases from part of the competition suggesting that they would do the same. And then we have one other relatively big competitor that has not changed its prices; but, instead, lowered the weight in the can. And in the latter case, that is also confirmed in Nielsen data that there haven't been any -- basically no price changes that retail. But on the other hand, there are less contents in the can.

For other competitors it's a bit of a mixed picture, and the Nielsen data and the store visits are a little bit blurry. Where there are several instances where there have been increases in line with the tax, and even cases slightly more, but there are also certain change were there has been very limited pricing. And whether that has to do with some kind of delayed implementation or increased discounts, we don't know.

When it comes to the somewhat slower but underlying still very good growth of the Scandinavian snus market, the Swedish market then in the fourth quarter, we don't have any specific data to show that the number of consumers is not increasing at the same pace as before.

So it's more what I would just call -- first of all, it's small variations from what we've seen in the first half of 2014. If we take Scandinavian volumes, our estimate of the category growth has been a little bit above 5%, even close to 6% if you take the second quarters -- for the first and second quarter, about 5%. And then it has been more around 4% in the third and the fourth quarter. So it's relatively small variation, but it is slightly lower in the second half of the year than in the first half of the year, on a year-on-year basis, but of course the base is bigger as well.

So, that is, quite frankly, the only reason why we say that we think that 2015 will be a little bit lower than the full-year 2014, given that we go into the year with a somewhat higher base but lower growth rates.

**Owen Bennett** - *Nomura Securities - Analyst*

Okay. Thanks very much.

**Operator**

Erik Bloomquist.

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

Firstly, could you discuss how you are thinking about cash return to shareholders for 2015? I'm particularly interested in dividend growth. And do you see the total dividend growing somewhere in line with EPS? And is there any -- how you are thinking about share buyback as well, separate from the STG transaction.

The second question was just on the plain packaging initiatives in Norway and Sweden. And what seems to be the drivers behind that? Is that something that the governments in both countries are interested in? Or is it more related to health departments seeing activity in other countries, and they're trying to get on board with that? So if you kind of characterize the degree of enthusiasm and next steps in those countries, that would be great. Thank you.



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

Okay. I'll take the first question, then. It's Marlene speaking. When it comes to our shareholder returns and so on, we have the policy in place. We haven't really changed anything to that policy. That means that we will target a net debt to EBITDA that we feel is optimum for the Group; which means, then, that the capital that we have in excess to reach that target debt level will be a return to shareholders. We ended up at 2.3 at the year-end here. We've been saying that 2.4 is an area where we've been during the year due to some cash flow effects and so on, versus the end of the year, we came in a bit lower than that. But this can deviate from quarter to quarter, of course.

When it comes to the dividend, the dividend that is proposed now -- will be proposed at the AGM -- that is in line, then, with the payout ratio last year. And also there we have the 40% to 60% as payout ratio in our policy, and of course the mission is to increase the dividend over time, but we have the same policy in place.

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

And if I comment a little bit on the recent regulatory developments, first of all, what was driving that, I think it's fair to say that in both countries there's a connection to the European Tobacco Directive and its implementation into national legislation.

In Norway, which was last week, we have a little bit more transparency in terms of how the government thinks. And just to be clear, in Norway they will submit a proposal for commentary. In Sweden, we don't have any proposal. We have an initiative on the government to have this committee of inquiry to evaluate the matter further.

But in terms of Norway, a little bit as I explained earlier, the -- it's very clear in the Norwegian proposal that snus is targeted with the proposal. And, unfortunately, the representatives from the Norwegian government see the very strong growth in the snus market in Norway not as a positive, from a public health point of view, but instead as a negative. And thus, as most of you who listen to the call knows, particularly the younger consumers -- so if you look a bit below the age bracket of 44 and down to 18, that's where we have the strongest snus demographic. And that has been -- and even below that age, according to government statistics -- and that has been identified as a problem.

While as I said, our data very clearly supports that this is something that has been on this positive. So, we'll have to wait and see what happens with the Norwegian proposal. There are some lively debates, including representatives from the minority government that have come out and commented on the fact that snus is part of the legislation, and who have advocated that snus is a substitute which is much less harmful. So we'll have to see, but it's regretful in that they don't read the data.

When it comes to Sweden, that was the news yesterday, so there was an article in the -- the debate article by the Ministry of Health and Welfare. So what they are, it's the same person who runs the committee inquiry on the implementation of the Tobacco Directive who has been given, then, an extended task to evaluate plain packaging and the display ban. And that is about as much that has been communicated; and, therefore, what we know.

But as you know, there has been a recent shift of government in Sweden, so this is something that has come out of the new government. And while as we know from the discussions on the European Tobacco Directive, and so forth, that the former government have been much less in favor of measures like in this.

And again, of course, in Sweden, Swedish Match will do its utmost to explain the difference between snus and cigarettes.

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

Okay, thank you.

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### Operator

Adam Spielman.

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### Adam Spielman - Citigroup - Analyst

I have two questions. One is around the outlook for Scandinavian snus margins. Now, I think you said that we should expect price/mix to be negative for snus. I assume -- well, first of all, is that a comment for the full-year 2015, or just a very short-term comment?

And then secondly, what other factors should go into our thinking about snus margins? I'm certainly assuming they will fall slightly in 2015, but any comments that would be helpful to that.

And the second question is quite separate. It is on the outlook for cigars in the US, for mass-market cigars. Clearly you had a great quarter, and I was wondering how far we can extrapolate that into next year. Thank you.

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

Hello, Adam. This is Lars here. When it comes to the Scandinavian snus market and particularly the margin, and the margin for the product group snus and snuff, we don't give a specific margin guidance. And we don't comment on potential pricing before we have communicated that to the trade and so forth. But to the start of the year, it is clear that we have only taken prices in line with the tax increase.

And since we entered the year, which is completely in line with our objectives and our ambitions, with a higher share of the value priced segment and consequently of (technical difficulty), everything else equally, if we just would freeze the product portfolio now, and when we sum up the full year, you should expect that there is a negative mix effect in the Scandinavian snus market.

Another thing of course that affects the snus margin very much is the spend that we put behind our efforts to grow snus internationally. And there is already very hard to give a prediction, for the simple reason that with those ventures, we adapt and we may choose to come back new initiatives; we may choose to remove initiatives from the plan. And so, for us, the year progress and then we'd learn and gather more data.

But, largely speaking, that's a very broad indication -- and don't interpret this as a specific guidance -- but I would say that in SEK, the amount that we spend behind those ventures in 2014 is a good indication for the magnitude that we see in 2015. And then there can be ups and downs from that, and that is inclusive then of taking into effect the current exchange rate of the dollars.

So, right now, we estimate that in local currency in the US, the net operating loss will be slightly lower than in 2014. A contributing factor to that matter is that as that business grows, we actually start to see gross profit in the business that partially offsets some of the marketing spend that we still need to put behind that venture.

When it comes to cigars, and we are very pleased with the full-year and with all quarters of the year. I think it's fair to say that we have very successfully addressed the competitive situation, and we have ambitions to continue to grow that business. At the same time, history tells us that that market is exceptionally dynamic and volatile, so I stick with just saying that our ambition is to grow volumes. And we'll see how successful we are.

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### Adam Spielman - Citigroup - Analyst

Can I ask just a couple of follow-up questions? There is something you said I didn't quite catch, and I'm sorry to ask this again. When you talk about -- did you say that at the end of the year, i.e., for the full year, we should expect negative price/mix? Or was it a comment for the initial? I'm sorry not to catch that.

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

The comment is really how we enter the year with higher share of value priced products in the portfolio, than if you, for example, compare it to the first six months of 2014. (multiple speakers) increase the picture right now, you are going to get the full year effect.

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**Adam Spielman** - *Citigroup - Analyst*

Okay, thank you. That's very clear. And can I ask another separate question that I should've asked before? On the application for MRTP status, you said that you expect a hearing in April. How would you expect the timeline to unfold from there?

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

We may go with what FDA has said. And they have said that they intend to treat the application in 360 days. So if you count that from when it's complete, or when it was deemed complete, that would be in August. We cannot rule out that they get back to in before that, but I think that's a good guesstimate.

But then, just to be clear, it could very well be that there is not a final approval or disapproval of the application or applications -- it's for different products. It could very well be that FDA gets back and asks us to clarify something in terms of -- it could include even conducting additional market or clinical research, or something like that.

So I would say the best case, the one we of course hope for, is that all the applications would be approved after the summer. But it's very likely that the process, I would say, will take a longer time than that.

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**Adam Spielman** - *Citigroup - Analyst*

Thank you very much.

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**Operator**

Anders Hansson.

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

First I question on [Scandi] snus. Can you give us some sort of feel for the underlying margin development in Q4, including the negative mix, but if we exclude all the positives from hoarding?

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

Yes, the negative mix has a negative effect on margins.

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

Okay, but nothing more quantified than that?

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

No, we don't go into the margins by sub-product area.

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

Okay. On mass-market cigars, what do you think about competition right now? Has something gotten better or worse compared to previous quarters?

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

It remains very competitive on segments of the market, I would say. But if you would take a helicopter view, I would say that while it wasn't that the market wasn't competitive also in the full-year 2013 and before that, it became even more competitive, especially towards the end of 2013. And I would characterize the market climate being at a similar level as in [some]. And then we have managed to compete in that environment very effectively.

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

Okay. So the ambition to grow in 2015, is that relating to new product launches, more marketing, better distribution, or (multiple speakers)?

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

Yes, new product launches are always important in the cigar business. But it's also our ambition to grow on the rest of the portfolio, including product launches that have been relatively new now, like for example the 1882 and so forth, where we think we still have further growth momentum.

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

Okay. Can I take just two short ones? First of all, if you can comment on what you think about CapEx for 2015.

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

I would say that we guided towards the 300 last year, and you could probably assume something similar.

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

Okay, thank you. And finally just on your interest levels, will we see any effects in 2015 from refinancing of debt, since 4.5% is a quite high interest rate these days?

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

Yes. If you look at what we have coming in this year, then we have some maturities around SEK1 billion due mid-year in July. And you've also seen us with pay down some of the maturities now, and due in 2014. And they have been at a fairly high interest rate of 5% and above. And of course that will mean that -- it has an effect on the finance math going forward. Also when it comes to maturities and how we refinance them, that is dependent on when we feel the need to adjust the capital structure.



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**Anders Hansson** - Danske Bank - Analyst

Okay, thank you.

**Operator**

Andreas Lundberg.

**Andreas Lundberg** - ABG Sundal Collier - Analyst

Back to the US cigar side, what do you see your average selling prices for 2015 versus 2014? Thank you.

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

We will of course need to see how the market conditions unfold and make sure that we remain competitive. But if you look at this past year, what you see is that, if you compare the growth in net sales versus the volume growth, the discrepancy has been relatively big up until this fourth quarter, where the difference is much smaller. And that's an effect of what I was speaking about before, that the market conditions became much more competitive towards the end of last year. And then we sort of anniversaried that, and then it has remained largely on that level. But there is also a bit of positive mix inflect in that, in the sense that we have been particularly successful within natural cigars.

**Andreas Lundberg** - ABG Sundal Collier - Analyst

But do you expect it to continue here in the early parts of 2015?

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

It's very hard to predict the behavior of competition in highly dynamic and competitive markets. Let's see how it unfolds.

**Andreas Lundberg** - ABG Sundal Collier - Analyst

Thank you. And then on US snus, what will be your strategy here, whether FDA approves your application, or disapprove the application? Thank you.

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

Well, first, to make it clear that everything we do now in the marketplace has no influence whatsoever from the MRTP application. So, what we are doing now in terms of the consumer integration activities, and the brand building, and also of course the focus on high-quality distribution and good point of sales and the service to the stores, et cetera. Those programs will continue under all circumstances. And then we don't want to jump to conclusions, but that can also be part of the answer from FDA in terms of how we are allowed to use a possible approval.

And as you know, it refers to warning labels, and changes of warning labels. But the exact nature of the answer of FDA, I think we should see that first before we can comment on how it effectively will be communicated to consumers.

**Andreas Lundberg** - ABG Sundal Collier - Analyst

You seem quite confident that this looks good or promising with the FDA. Why would they say no, or disapprove the application?

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

Just maybe clear, I'm very pleased with all the extremely hard work and extensive application that we are put in, which basically covers all science that has been published on snus. And what the FDA needs to make up their view on is two factors. One is that snus, as such, has a lower relative risk than cigarettes. And quite frankly, I would be very, very surprised if they already haven't reached that conclusion.

But the second part that they need to answer is the net effect on the US population, taking tobacco users and non-users into account. And that is of course a more tricky point to evaluate before you are actually in the market.

We know the experience from both Sweden and Norway, where we have seen a dramatic decline in cigarette smoking. And as I said, in our opinion and many others, have been a very clear benefit to the public health. But the sort of difficult question to assess scientifically here is, before you are in the market, how can you ensure that you will see a similar pattern in other geographies?

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**Andreas Lundberg** - *ABG Sundal Collier - Analyst*

Okay. Thank you, Larson, that concludes my questions.

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

It's a little bit -- for the Swedes that listen, it's a little bit like the debate on whether you should provide clean needles to drug addicts or not.

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**Andreas Lundberg** - *ABG Sundal Collier - Analyst*

Right, thank you.

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**Operator**

Stefan Nelson.

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**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

I thought I'd go back to Norway a bit. To me it seems that your biggest headache right now in market shares. Could you explain a bit how much is in your own hands, and how much is related to just the lose -- category losing a lot of share? And secondary -- the strategies and ambitions you have, where do you expect that to have an effect?

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

Yes, when it comes to the Norwegian decline, as I said, it looks much better if you look at the latest periods. But still the year-on-year decline is way too high, in our opinion. And it is true that we have this continuous pressure from the fact that we are very strong in the loose segment, but we have lost share within the pouch segment as well. And that is something that we are trying to address with our assortment of products, and that includes certain new products. And it includes certain reformulations based on the little consumer feedback that we can gather, which basically is on the Swedish side of the border, of the marketing rules. And it includes certain new designs and similar.

So we work across all the spectrums. And then as I said also, we work what I would call very hard on the ground, in terms of making sure that our product assortment is well represented at the retail level, that it's not out of stock, and that product assortment is kept to fresh and so forth, to make sure that we maintain the highest quality in snus in the market.



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**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

And just if you would be able to stabilize your pouch market shares in Norway, how much would the market share decline in total due to the snus losing share?

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

I don't have those maths on the top of my head for 2014. But the market share within pouches has also declined. If you take the year-on-year quarterly decline for Norway, I think it's 3 point -- you have it in the report.

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**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

Okay.

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

And from top of my mind, I would say that within pouches is probably 2, 2.5, but let me get back to you if I'm wrong on that one.

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**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

Okay, great. And then my second question, or maybe just a few questions on STG. Could you state how much of was one-offs in total there that the Verellen acquisition cost, and then the other non-recurring? What's the underlying profit there?

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

There are quite a few one-offs in both directions, actually, owing to some of the improvements that are ongoing in STG. There are both some restructuring costs that are not part of the Verellen. But there is also, like I say, building and so forth, so it's a bit of a blurry picture. But if you look at the full year for STG, the underlying EBITDA is an increase. So we have turned a trend from -- if you take 2013 versus 2012, that wasn't the case. But 2014 versus 2013, the underlying EBITDA of STG is up --

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**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

Okay. And --

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

-- excluding currencies then. Because also STG of course is helped -- STG has a substantial part of its earnings on the US market, so the current dollar environment is fairly helpful for STG.

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**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

Right. And then on the synergy sides, how much is left? You have previously talked about things kicking in in the second half of 2014 and 2015. How much have we not seen yet of the synergies that you already -- or that already the measures for?

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

I would say that most of the synergies from the regional merger are now realized. And then some of the plans have had to be adjusted because changes in the market landscape and so forth. So it becomes more and more blurry to say what is a synergy are not. But we have identified, in the work that we have done over the past year, we have identified concrete further operational improvement potential that -- where the plan is now to focus on under the leadership of the new CEO to deliver on those.

**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

Okay, great. And then a final question regarding the US. You commented on the snus, or kind of helped us a bit on the snus costs. Is it as before that basically the snus investments will offset the moist snuff profits? Is that how you see it going forward again, or --?

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

We don't give a specific Scandinavian or moist snuff profit level. But it's clear that the net from the US is not so big. So that's why you have a relatively big currency translation on the savings line, but you don't have it on the operating profit line.

**Stefan Nelson** - *SEB Enskilda Equities - Analyst*

Okay. Thanks so much, Lars.

**Operator**

James Bushnell.

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

My first question is just around your expectations for 2015. Your outlook statement is a little bit vague. And I wondered if you could say, are you expecting EBIT to grow in constant currency in 2015? That's my first question.

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

When it comes to the outlook statement, we give the outlook that we're given, and we don't give a specific guidance on earnings.

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

Okay. Fine. My second question was more around regulation. I think I'm right in saying that there's been a display ban in Norway for a little while now. And I wondered how that affected the market; had that changed? And if the dynamics in terms of consumers or indeed how you work with the trade.

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

Yes, when it comes to the Norwegian market, it's correct that it's been a display ban, or a dark market, in the sense that it's not been behind-counter for some time. And also, before, you were not allowed to show the product in the stores. But once you open the fridges, you can see them. And obviously the market growth for snus has been very good in the Norwegian market. The difficult to question is to answer, would it have been even better without the display ban? And, quite frankly, I don't know.



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When it comes to the potential, then, regulation on plain packaging, that is of course different from the display ban, in the sense that there would be very little visual differentiation between the products on the markets. And there we don't have any experience on the smokeless side, so it's hard to estimate the potential effects. But generally speaking, I think that the effects will not come overnight. It is more how that can eventually affect market dynamics over time, in terms of category growth and potential less product differentiation, and so forth.

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

Okay, thank you. And one last question, if I may, which is in terms of the low-priced segment in Sweden, I think you are now up to about 39% share. Do you feel that that share is close to where you ultimately want to be in terms of having a strong leadership position there? Or are you aiming for more, from where we are now?

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

The important objective is that we don't see these type of market share declines that we saw especially a couple of years back. So that's the overall objective. And then the with the dynamics we had in the markets for the past couple of years, the value segment have grown as a percentage of the total market approximately 4 percentage points. And we do expect to see continued growth on that metric this year. How much, we don't know; but given that we believe that we will continue to see directionally the same trend, with that, it's likely that we will need to improve our market share from that 39.6% level where we are now, over time, if we want to be successful in defending our share.

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

Great. Thank you.

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**Operator**

[Dan Jerran].

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**Dan Jerran**

Congratulations, by the way, to Marlene. We haven't spoken before. Congratulations on your new position.

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

Thank you.

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**Dan Jerran**

I've got two questions. One is, can you give us an idea, Lars, of what percentage of operating income is US dollar denominated? We have the sales proportions, but not on operating income.

And the other question is, how are you thinking longer-term about the joint venture with Philip Morris International in terms of hopefully developing markets to an extent that will hopefully insulate Swedish Match somewhat from regulatory changes, or possible regulatory changes, in specific markets? Like, for example, the concerns you are talking about in Norway. Thank you very much.



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

Hi. When it comes to the operating profit and by currencies, we don't give the split by product area, [except for] the details of that. We provide a split on sales, but there are some good hints. If you look at the other tobacco products, that's virtually 100% US dollar-based. And then, as I said, within the snus and moist snuff product area, the mix can vary a little bit from quarter to quarter. But given that we have substantial investments in the US market, the residual is not that material, at where we are now.

In terms of the JV, I wouldn't say that -- the purpose of the JV is not to insulate against regulatory changes. The purpose of the JV is to explore market potential for snus internationally. And of course the regulatory affairs is important in all geographies. But having said that, we continue with the test markets. But our biggest investment really, when it comes to snus outside Scandinavia, is by far in the US market, which has come quite a bit further in terms of development than the other test markets.

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**Dan Jerran**

Okay. Yes, I wasn't thinking so much in terms of the JV insulating you from regulatory situations, but more that the with the development of other markets that what happens in an individual market would become less (multiple speakers).

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

You mean more diversification (multiple speakers).

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**Dan Jerran**

Yes, more of a portfolio effect.

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

Of course, the more markets and the bigger business and then different geographies, then there is a diversification effect. That's correct.

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**Dan Jerran**

So do you see that pace or intensification of the efforts through the joint venture increasing, or pretty much (multiple speakers)?

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

I would say that the regulatory changes that -- the pending regulatory changes that we have now, for example, in the region market -- we'll deal with those issues separate in the sense that -- and it's the same if you look in the US market. We don't step up or step down our investment levels for snus in the US depending on what's happening in Norway. We do that on what we think is right from the US point of view.

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**Dan Jerran**

Okay. Thank you very much.

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**Operator**

(Operator Instructions). Chas Manso.



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

My question is on Swedish snus price/mix. And apologies if you've already covered this, but you called out that you expect more negative price/mix going forward. And clearly the shift to value is a driver of that. But this shift to value has been happening for quite some time, so I was wondering why you are calling it out now. Do you expect that shift to accelerate? Or have we reached some sort of tipping point? And your commentary, was that suggesting that you expected the negative price/mix to actually get worse from here on in? That's the first question.

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

If you look at the full-year report from 2013, it's my recollection that we wrote about the negative mix in that report in the outlook section as well. Because we've seen, already then, saw the trend of growing in a value segment. So that's a similar trend. And then a difference when we go into this year, as opposed to when we go into 2014 -- that is that when we went into 2014, we were benefiting from the September 2013 price increase, while as you already see that in the fourth quarter that we don't have that anniversary effect. So it's more trying to be transparent and make sure that everybody understands those dynamics.

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

Okay. But it's not that you expect these shifts to change their current dynamics? It's all --.

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

We expect continued growth of the value segment, as I said. But how big that one is, is hard to say.

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

Okay. And on US moist snuff, you kind of smooth out the promotional phasing of the last couple of quarters. Could you give us an idea of where you see your underlying market share in the US snuff market versus a year ago? And how confident are you on your market share there for 2015?

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

Yes, we're looking at some numbers here, because the Nielsen is actually very poor. Trend-wise it's good; but it's a poor sample for Swedish Match on the moist snuff. But when we -- what we do see is that we continue to lose share. We have continued to lost share within what we call the open stuff, the loose market. But on the other hand, what is getting more and more important in our portfolio are the segments where we see better growth potential, which is the pouches and the tubs.

So if you look at the share decline in the fourth quarter, as reported on the shipment volumes, to my recollection, it is -- if you take the fourth quarter isolated and see -- we based that on industry shipments. And as reported externally, it's 0.3 percentage points in the fourth quarter. And if you take that in 2013, it was 0.8 percentage points, so it's still down, but --.

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

Roughly, roughly. We'll have to double check that, but (multiple speakers).

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

Okay. And -- yes, on the joint ventures and looking at other potential products, you've been trialing e-cigarettes in Russia. Could you give us an update on how that's been going, whether that has given you any confidence to invest further in other product types? Yes.

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

Yes, and when it comes it's a small scale test. We are in 350 stores in the Moscow region. That product has been selling well in those stores. And we'll look to add a few more stores within not too distant future. But there are no decisions to scale it up significantly. It's part of a learning, and understanding the category in the Russian market.

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

Great. And just three very short admin-y questions. One, did you say what your tax rate expectation was for 2015? If so, I missed it. Secondly, do you have any cost-saving programs for the current year that's above and beyond normal years? And there was a big working capital swing. Is there much more of that to go?

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

When it comes to costs, I'll let Marlene comment a little bit on the fact that the tax rate is trending up from the 22% level. But in accounts to the costs, we continuously focus on -- we look for opportunities. And we have done some good savings, I would say, in the past year.

If you take, for example, our biggest business, Scandinavian snus business there, are certainly things that we do more effectively and smarter now than we did before. But at the same time, we have also invested in the business, and there are certain costs that have gone up. So we continue to focus on costs, but I wouldn't expect any major cost savings programs.

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

Okay. And I didn't really hear all the first question, but I understood it was related to the tax rate, and the outlook that where we're saying that we expect some upward pressure on that one. And the reason for that one is, as we've been saying and report them to the extent due to currency movements. I mean, the US dollar has strengthened so heavily during the last quarter. And that, of course, then changes the weighting of the earnings of the Group. But there are of course also the currency interest rate environment and so on affect that internal financing structure as well. So the weighting of earnings shifts, and that puts some upward pressure.

There are some moving pieces here, so we will get back to you when we report our first quarter, and hopefully we have more clarity on certain to give to you then.

Going to the working capital question, yes, as you see, we have some large movements. However, if you look into the operating model of our distribution business in Sweden, we have large sales numbers, and we have a tobacco tax that we have [liquid] in that business. So depending a little bit on how the days fall into the month and so on, that affects actually, to a big extent, the payments during the period. So, from an underlying basis, there is no real changes in our working capital setup.

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

Okay, thank you.



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**Operator**

There are no further questions at this time. (Operator Instructions). There are no further questions at this time.

Please continue.

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

Okay. Then say thank you for listening, everybody, and to inform you also that the release of our first-quarter results will be on May 8. Thank you.

**Operator**

That does conclude our conference call today. Thank you all for participating, and you may all now disconnect.

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