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Half-year Report 2021
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Joséphine Edwall-Bjorklund:

Hello, and welcome to Essity's Half-Year and Second Quarter Report for 2021. I'm Joséphine Edwall, Head of Communications. And on today's call, our CEO and President, Magnus Groth, will go through the highlights in the report, followed by a Q&A session, where our CFO, Fredrik Rystedt, will join.

So with this, I hand over to you, Magnus.

Slide 1, 2

Magnus Groth: Thank you, Joséphine, and welcome everyone to this half-year presentation of Essity's financial results.

Finally, we are starting to see the benefits of the vaccination programs, the easing of restrictions and lockdowns throughout the world. And during the second quarter, we had a gradual improvement of our market climate, and especially for those categories, worst affected by the pandemic, Professional Hygiene and Medical, but overall, a very good growth throughout the group.

Slide 3 ***Financials Q2 2021 vs Q2 2020***

So to summarize the financials. Strong organic sales growth, clear improvement in Personal Care and Professional Hygiene. Sales increased throughout the quarter as market conditions improved. And actually, when it comes to Personal Care and Consumer Tissue, sales were even higher than the second quarter of 2019. So we have come back to normal, while there's still some way to go for Professional Hygiene.

Slide 4 ***Adjusted EBITA Margin Q2 2021 vs Q2 2020***

Profitability was negatively impacted by higher cost for raw materials, energy and distribution. Adjusted EBITA margin reduced from 13.3 percent to 11.8 percent, with a negative impact on gross margin of 180 basis points. 190 basis points negative came from raw materials and energy. And in addition, also distribution costs increased.

On the positive side, we had very good cost savings, SEK 239 million contributing. And as you can see, we continued to invest in advertising and promotion, supporting our strong brands, continuing to grow market share in more markets and categories than ever before, while SG&A with the growth in top line is on a higher level, but a smaller share of overall sales.

Slide 5 ***Significant Cost Increases***

As you know, I prefer not to talk about raw material costs and cost increases. We are focusing on innovation, branding, developing the consumer and customer offerings. However, in the current situation, it's necessary to make it clear that we are in the middle of a situation with increasing costs across the board.

And here are some examples. Market pulp Europe, so it's both softwood, hardwood and pulp, and especially fluff pulp being on a historically high level. Also, oil-based materials have increased recently and also throughout the second quarter, as well as energy prices, that are also on a very, very high level also historically, and transportation.

Looking forward into the third quarter, we expect all of these cost components to continue to increase significantly, both sequentially and quarter over last year's quarter, maybe with the exception of recycled fibers. That is only growing or increasing to some extent sequentially. So this is what we're facing. It's part of our day-to-day business, but the extent is higher than we have seen before.

We have been very successful in increasing prices across the company. The benefits of that will be visible in the third quarter, but we are catching up. And with these increases, we are currently going out in second and third waves of price increases throughout the company. So it's an important theme for the rest of this year.

Still, we are convinced that by the end of first quarter next year, we will have recovered these cost headwinds through price increases and cost savings throughout the group. So it's business as usual, but on a significant level because it's covering all of the different cost components for the group.

Slide 6 ***Highlights***

Having said that, there are a lot of positive things going on in the company. I already mentioned the price increases that we have pushed through and that are also now being implemented and the waves that we are planning for the third quarter right now.

We also started to create a separate division for our private label business in Europe, and I'll get back to that. We continue with a strong launch program. And we are also improving our external communication to support the launches and the innovations, and getting a lot of positive credit for that.

And of course, the most important result of all those efforts are the market shares that continue to increase. And typically, I have been saying over the last couple of years that we're growing market shares almost everywhere except in incontinence care retail, but actually, in this last quarter, that has also turned around and we are gaining market shares also in that category.

E-commerce continues to increase as a part of sales. That's a very, very important channel shift that we think we can benefit from. We have new and updated sustainability targets. And during the quarter, we were able to finalize the acquisitions of ABIGO and Asaleo. And we are working to finalize also the acquisition of the minority in Familia now in the next couple of months. So that's progressing according to plan. So a lot of good work ongoing in the company.

Slide 7 ***Private Label Division within Consumer Tissue***

So going back to the private label division within Consumer Tissue within Europe. As you can see on the chart to the right, this division will account for approximately 13 percent of our complete Consumer Tissue sales, but a bigger portion of our European tissue sales. This process is expected to be finalized by the end of this year, but we announced it today because it requires quite a lot of work to finalize this process.

And what we have seen during the last year and especially during the different pulp cycles is that there are synergies in Consumer Tissue, of course, and also with Professional Hygiene when it comes to purchasing, production to some extent. But there are also quite a big difference in how we approach the markets, how we work with the different customers. And by making this split, we aim to provide even better services to our different types of customers.

Slide 8 ***Consumer Tissue Private Label Europe***

And going then to Consumer Tissue Private Label Europe will include approximately 1,700 employees, seven sites and sales in four or five countries. Net sales are approximately pro forma SEK 6.7 billion. And what we have seen is, with these private label contracts, we are producing to specifications provided by the customer. And we're doing this with high-quality, high-service levels, of course. And it's important for us to be very agile, service-oriented, short lead times, effective and competitive.

We are not typically that involved in category management, taking the category to the next level through innovation and other ways of developing also the go-to-market, the different channels and so on. So it's a good business that will be even more efficient and that we will develop in a separate division.

Slide 9 ***Consumer Tissue Branded***

The consumer tissue branded part of Consumer Tissue, which then also includes our businesses in China and in Latin America, employs approximately 19,200 people, with sales of over SEK 43 billion. This is characterized by strong brands, where we work very much with achieving leading market positions. We also work with a small number of partners to develop their retail brands, typically not only in tissue, but also in other categories. So it's a completely different way of approaching our customers in this way, and this will also be an opportunity to become even better in this type of business.

Slide 10 ***Innovations Q2 2021***

With that, I move over to the innovations slide that I'm typically very proud of, and I think this really shows the pace of innovation that we have been able to continue to keep during the pandemic. And just as an example, we are seeing now digital solutions with a very, very high customer/consumer benefits in all our categories.

And one example in Medical Solutions is the Cutimed Wound Navigator that we have developed in a very agile and record time.

Slide 11 ***Cutimed® Wound Navigator***

So this is an application where you take a picture of a typical wound on a patient, and you immediately get a recommendation on access to a product catalog, recommendation on the size of the wound and the placement of the wound. And it's also possible to order samples. And it's also a very good way to document and follow the wound development. And we have passed early trials. We are launching this. And the reception from practitioners is incredibly positive. It's a big help in making their work easier and in improving the overall cost for treating wounds. So just an example of another digital initiative in a category where there are many, many opportunities going forward.

Slide 12 ***Record Year for Essity Cannes Lions Festival***

I spoke about marketing. And we have become a little bit used to winning Lions in Cannes for our marketing efforts, our campaigns this year more than ever. Why is this important? Because there's a clear connection between winning these awards and purchase intent. And that's, I think, a big part of the explanation why we have been gaining market shares in feminine care, in tissue now for a long time because we have excellent marketing proven here and with a clear link to purchase intent from consumers.

Slide 13 ***New and Updated Sustainability Targets***

Today, we announced new and updated sustainability targets. And it almost seems as if this coincides with the European Union's announcement of new targets, but it is a coincidence. We were very early in signing up to the science-based target initiative at the time when ambitions levels were slightly lower than they've come to be today. We have had good progress in reducing our carbon footprint. And we see the opportunity to raise the bar, speed up the ambition to reach the Paris Agreement's emission levels.

So we have raised the bar on our Scope 1 and 2 greenhouse gas emission reductions from 25 percent to 35 percent by 2030. And very important, we have also committed now to setting a target to achieve net zero emissions by 2050. We are also raising the target levels in a couple of other areas that are very important where we have had high ambitions, reached the targets, and now we're raising the bar further. This is in sustainable innovations, occupational safety and responsible sourcing.

Slide 14 ***Personal Care Q2 2021 vs Q2 2020***

Then getting into the three different business areas. Starting with Personal Care. We saw strong organic growth in all categories and higher sales also compared to Q2 2019. So we have kind of recovered now the slightly lower sales that we saw when consumers were in lockdown. We also have started regaining market shares in incontinence products in retail, and this is especially with an improved assortment for light incontinence in retail.

Strong margin improvement, 15.3 percent adjusted EBITA margin coming from higher volumes, higher prices, positive mix and cost savings. We do see higher costs for raw materials and distribution also here. And as you could see from the previous slide here, those raw material costs will continue to increase now in the coming quarters.

Also in Personal Care, we are increasing prices. We have implemented some. We will have more coming now in the coming quarters. And just looking down there at the growth numbers in the right-hand corner, I think it's quite amazing numbers across the line there, everything from Incontinence Products, to Baby and Feminine Care. But of course, Medical Solutions, that's now on a very strong momentum, also with a quick pickup in margins coming from the improved fixed cost coverage, especially in the go-to-market for Medical and in the supply chain for the other categories.

Slide 15 ***Consumer Tissue Q2 2021 vs Q2 2020***

Consumer Tissue, also higher sales compared to Q2 2019, but not to 2020 when of course, we had all the impacts of panic buying and destocking and higher consumption when people were at home and so on and so forth. Higher volumes, positive mix and cost savings, but also higher costs for raw material, energy and distribution, as I mentioned previously.

What's important to note, and I think we mentioned this also last quarter, is we actually have lower prices in Consumer Tissue that has a noticeable negative impact in this quarter. And there are two reasons for that. One is that only a few quarters ago, in the second half of last year, we had historically very low pulp prices, and we agreed with some customers to reduce price levels at that point. And of course, that's now rolling over into this year.

But another impact that's temporary is that we more or less did zero promotions in Consumer Tissue in Europe and in China during last year, because of the pandemic, we didn't have to. And of course, now that the promotional pressure gets back to normal, this shows up here as a negative impact on pricing in the quarter.

The announced price increases had a small positive impact, but we will see more coming gradually in the third quarter and then mostly in the fourth quarter going forward. And again, we're adding additional waves of price increases on top of what has already been agreed.

And a very exciting, within a week or two, we will start producing pulp from wheat straw in our new facility in Mannheim. And I hope to be able to go there and see when it starts up. An important step in reducing our dependence on wood pulp for the future.

Slide 16 ***Professional Hygiene Q2 2021 vs Q2 2020***

Professional Hygiene, this is another area – I already mentioned Medical - where we really see a quick pickup in the market conditions. Less restrictions has led to a very rapid improvement, especially in North America during the quarter, as you can see, up 35 percent here.

But actually, when you compare sequentially quarter two over quarter one, we see a big improvement. And even within the quarter, from month to month, sales have been growing, even if there are always a little bit of setbacks here and there, with new restrictions or lockdowns, and so on - overall a positive momentum that also carries into the third quarter.

This gives us strong profitability improvement just because of the fixed cost coverage in our supply chain, higher volumes, higher prices, positive mix and cost savings. So I think I mentioned after the first quarter that Professional Hygiene would be a secret weapon for the second half of the year. And what we see so far is definitely indicating that.

Also here, we have higher costs for raw materials, energy and distribution. We are in the same way as in the other categories raising prices and preparing additional ways of price increases. Margins at 11.6 percent is not where we want them to be, of course, in Professional Hygiene, but a big pickup compared to the same quarter last year as we see the improvements coming from fixed cost coverage.

Slide 17 ***Professional Hygiene - Hygiene Expectations of US Workers Returning to Office***

Here's just some data that we received recently on the topic of, will people, consumers, customers keep up the good practices of improved hand hygiene also when restrictions are coming down and we are getting back to normal life? And so far, that seems to be the case. So here are just some numbers, 84 percent of U.S. workers returning to office are likely to continue the enhanced hygiene protocols they had adopted. So I think that's a good indication that we will see a higher consumption of our products also after the pandemic.

Slide 18 ***Priorities***

So to summarize. Priorities, short-term, to continue to accelerate sales as we move away from the pandemic. Price increases, continuing to the extent that's necessary. We have to assume that the raw material, energy cost, distribution cost that we see currently will remain. And we just have to follow and compensate for that. And we are doing that. And I'm very confident that by the end of the first quarter next year, we will be catching up in this area.

Cost savings. We are protecting our margins. So it's an incredibly important topic for us, not only in cost of goods sold, but across the business. And then, of course, now starting the work with creating the private label division within Consumer Tissue. And longer term, I think you recognize all the things that are creating value in the long term for Essity; innovation, efficiency, acquisitions in high-margin categories, the digital transformations and to continue to lead in sustainability.

So with that, we will hand – open up for questions. I just want to finish by welcoming all of you to Essity's Virtual Capital Markets Day that will take place on the 3rd of November, so later this year.

Q&A

And with that, welcome to ask your questions.

Victoria Nice, Soc Gen:

Hello. It’s Victoria from Societe Generale. My first question is on the separation of private label within Consumer Tissue. Does the separation create some duplicated additional costs? And could the entity be reviewed for a potential sale? If so, what is the profitability of the entity? And will the sale contribute to the return on capital targets or would this be on top of current targets?

And then my second question is on pricing. While pulp prices remain high in Europe, we've seen pulp starting to come off in other parts of the world. Based on this, could further pricing become more difficult to achieve as retailers increasingly see price increases being transitory? Or are the increases being accepted as sort of structural or sustained? Thank you.

Magnus Groth: Thanks. Yes. With the separation, we will make sure that both the tissue businesses are as efficient as possible. And to what extent this will lead to the need for efficiency measures is yet to be seen. We're just starting this work now.

In general, we have done a lot of work to improve efficiency, as you know, and also taking out and restructuring the underperforming parts of our business. So the assets we have are well invested, high performing. It's a good business. And as we do this split, we will see if – I don't think it will lead to any additional costs, but if anything, even higher efficiencies in both areas.

Profitability, in general, without going into specifics, our branded business has higher margin and higher profitability than our private label business. And it's also a fact that we often talk about that, where we have many of our different categories combined, we have higher margins than where we're only selling one category, for instance, Consumer Tissue.

And the current targets, we just raised our targets quarter three last year on return on capital employed to over 17 percent. And of course, we're doing this now to provide even better services to our different type of customer groups. And we expect this to contribute to reaching those targets faster.

When it comes to the pulp price, we have to act on what we see. And there's very little talk about pulp prices coming down. And also, when we speak to our Chinese colleagues, there are not really big expectations of a major drop in pulp prices anywhere. Maybe a stabilization that July was the last month of increases. Let's see. We have to adopt our pricing to what we see kind of on the ground. And that's what we're doing. And that means additional waves of price increases here in the coming quarters.

So far, that has been going well. There is momentum for price increases, especially in Consumer Tissue. And as we stated many times, it takes longer in Personal Care. But also in this area, we are doing efforts to increase prices across the line.

Victoria Nice: Thank you. And then just on the potential for a sale of the Private Label Business.

Magnus Groth: What we decided today is to initiate the work to create this division and to make this division and the other Consumer Tissue division as attractive and as successful as possible, with, of course, happy satisfied customers and a very high performance. That's what we're working on, and we will finalize this work with the separation until year-end.

Victoria Nice: Thanks very much.

Celine Pannuti, JP Morgan:

Thank you. Good morning, everyone. My first question, I would like to follow up on pricing. Can you, first of all, talk about how is the promotional environment in Europe and in China as we go into the second half of the year? I understand there was maybe a technicality about promotional comparison in Q2.

And in terms of the pricing, what kind of pricing should we expect in the second half? If you could quantify the level of pricing in wave one. And you are talking about second wave of pricing. How are the negotiations happening? And are we expecting that for the first half of next year?

My second question is on raw material inflation. So thank you for sharing those charts. But can you we calculated that your inflation was about 5 percent in Q2. Can you talk about what kind of level of inflation we are going to see in Q3, Q4? Because it seems that it could be much higher, but it would be good if you could share some numbers with us.

Magnus Groth: Yes. The raw material inflation will be much higher in the coming quarters. And maybe, Fredrik, you can prepare for that while I'll talk a little bit about the pricing and the waves.

So what we have achieved in Consumer Tissue specifically is a number of price increases in Latin America and also in Eastern Europe, where we do have a lag because pulp prices have continued up, but we are actually quite close to kind of catching up. These are the markets where it's easiest to adjust prices.

Then in Western Europe, we have implemented price increases that are in the lower end of the range that we stated after the first quarter when we said that we need price increases of – and as we stated in the press release that we issued, mid- to high-single-digits. And that's based on the raw material inflation that we saw in our books at the time. Of course, since then, raw material prices have continued up, and that means that we are going out in a second wave.

So we will see in Q3 price increases in the lower end of this range, so mid-single-digits in Consumer Tissue in Western Europe. But then we are going out to negotiate price increases for the fourth quarter, and importantly, in some market for next year, because in some markets like France, we only negotiate prices typically on an annual basis. So that's the plan with price increases.

Promotional pressure returned to some kind of normality both in Europe and in China. And in Europe, I think that's something we will see and manage going forward. That's an important part of also our price realization to manage the promotional levels and the lever that we are able to also pull and to use in Europe.

In China, the promotional level was also higher than last year due to the fact there was no promotions last year, but also based on the fact that many of the bigger suppliers were still enjoying quite high pulp stocks. And these pulp stocks are now declining for everyone. And we believe that this will have an impact on promotional pressure also and the opportunity to take pricing in China in the second half of the year. So this is overall what we see in that area.

And with that, I hand over to you, Fredrik, to talk about the inflation, how we see that on raw materials.

Fredrik Rystedt: Yes. Thanks, Magnus. So I'll try to give you a bit of guidance there. So you're right, the cost of raw material will increase actually significantly higher. If you take Consumer Tissue specifically, it's going to be significantly higher both sequentially, and of course, in comparison to last year's quarter.

And there are a couple of reasons for it. One, of course, is the lag impact that we have generally. So as prices for pulp and other raw materials has increased throughout Q2, we'll see that impact as we come along here in Q3 and Q4. And then we also have a general lag in our processing, so to speak. So we'll clearly see higher cost for pulp and basically in Personal Care for oil-based material and fluff. So it's going to be significantly higher.

But on the other hand, we also have then some compensation for the price increases that Magnus actually alluded to. Now clearly, as raw material has increased much more than – or throughout Q2, we will, as Magnus already said, need to do further price increases, and that's what we're basically preparing for. So we will compensate as we always do through pricing. But of course, as material cost has increased so much, that process to recover will continue over the next few quarters, basically.

Niklas Ekman, Carnegie:

On Professional Hygiene here, you mentioned a number here for the U.S. growing 35 percent and seeing good recovery here. Can you compare this to 2019? Is there any way of putting these things in perspective? In markets where lockdowns have eased and U.S. in particular, are you back to 2019 levels on the Professional Hygiene side?

Magnus Groth: We're still quite far away from 2019. Do you have that number, Fredrik?

Fredrik Rystedt: Yes. It's about minus 13 percent for the total Professional Hygiene business, so roughly in that order of magnitude. And North America is – yes, it's – no major difference between the two. So we still have quite some way to go to be back.

Magnus Groth: Actually, I see that as quite positive.

Fredrik Rystedt: It is.

Magnus Groth: It took much longer for Professional Hygiene to recover because we kept seeing more and more lockdowns and restrictions everywhere throughout the first quarter and then the beginning of the second quarter. And it was quite frustrating. And then as soon as different countries started to open up and restrictions were eased, it's really taken off throughout the quarter and especially towards the end of the quarter.

Fredrik Rystedt: Yes. It's actually been, for several months now, progressing and increasing every month. So it clearly helps when restrictions go away.

Niklas Ekman: Very, very good. And second question is on cost savings. H1 here, cost savings add up to SEK 250 million. Is it safe to assume that you will be probably be aiming at the lower end of the SEK 500 million to SEK 1 billion in annual cost savings?

Magnus Groth: Yes, it's safe. It will be more difficult to achieve the higher end. So yes, I would support that statement. Of course, we are aiming to achieve as much as we can. But as we discussed before, when we still have in some areas, low capacity utilizations, it's difficult to achieve savings, but we expect to improve also in that area gradually throughout the year.

Niklas Ekman: OK. Very well. And just to be clear, on Consumer Tissue, this split here between private label and branded, is that actually a split in reporting as well? Are you going to be reporting this as a separate entity? Or is it merely an internal restructuring?

Magnus Groth: No. We will provide the numbers on the private label division Europe. Fredrik, do you have more to add there?

Fredrik Rystedt: We haven't exactly decided. But you're right, Magnus, we will provide at least some numbers and starting first of January 2022.

Magnus Groth: So it will be a self-sufficient division reporting into the European Consumer Goods business.

Niklas Ekman: Very good. And then just a follow-up on the pulp price increases here. You talk about a second and third wave of price hikes. Given how much pulp prices have risen now, from 25 percent, 30 percent since you made the first wave or since you announced the first wave of price hikes.

When do you think that you will have caught up? I think before, in April, you said that you would fully mitigate this towards the end of the year. Are we now talking Q1 or Q2 of next year?

Magnus Groth: Well, I remember, I said the Q1, by Q1. And what I'm saying today is towards the end of Q1. So and that's and specifically why I mentioned towards the end of Q1 that – is that in some countries, specifically France, there are annual negotiations.

We have been able actually to increase prices in some cases in France even though there is legislation about annual negotiations, but most of the volumes there will be negotiated by the end of the year and then come into effect towards the end of Q1. So that's why I'm so specific around that.

And we have good momentum. And I must complement our organization. We have never raised prices to the same extent across the line – across the board in Consumer Tissue as this time around much, much faster and much more aggressively than ever before. And that's why I'm confident that we can continue doing that going forward throughout the next couple of quarters and have some kind of, yes, a reasonable margin in Consumer Tissue towards the end of the first quarter.

Niklas Ekman: That’s very clear. Thank you so much for taking my questions.

Charles Eden, UBS:
Thank you very much. Apologies for another question on pricing. But just on Consumer Tissue, do you expect to see your customers pass the price increases on to end customers like you did in or like they did, sorry, in 2019?

And my second question is just on the Professional Hygiene and when I look at the 23.5 percent volumes achieved in Q2. Do you get a sense of whether that's end customer demand or whether you're seeing distributors restock ahead of anticipated heightened demand from end customers?

Magnus Groth: We don't know what our customers, our retail customers are contemplating in forwarding the cost increases. But we are in a very, very inflationary environment, not only in our categories, but in many categories. And I mean this is something we all read about every day. And we have seen a few small signs of shelf price increases in some markets.

But of course, with the extent of the cost increases again, not only in our categories, but actually in many, many other categories, I think this will eventually happen. But that's my own reflection there. And then when it comes to Professional Hygiene, 23.5 percent growth, let's see if – I forgot the question. So I'll leave the answer to Fredrik.

Fredrik Rystedt: Yes. Thank you. OK. Charles, I guess your question was whether this is restocking or sell-out, if I understood it correctly. And I think it's actually, as you can see, restaurants and hotels and everything else is actually opening up.

So there's a lot of sellout. We cannot exclude that there is a bit of restocking too because I guess our customers have taken their stock levels down throughout the last several quarters. So we cannot rule out that there is a bit of that, but most of it is actually sell out.

Charles Eden: And if I can just squeeze one more in, just on the sustainability target announced this morning. You raised the target for innovations that yield social or environmental improvement to 50 percent. Can you just remind us where you are on that metric today?

Magnus Groth: Yes. We're actually above that level today and since a few years. So with our focus on sustainability and well-being, we have been around 60 percent for the last couple of years. So it's really adapting the target to the higher ambition that we already have.

Charles Eden: That’s great. Thank you.

Iain Simpson, Barclays:

Thank you very much. So just in terms of that private label separation and Consumer Tissue, you're including seven facilities with that. Does that require any element of supply chain reorganization at your end? Or did private label always have a different factory footprint to branded?

Secondly, are you able to give any update on how Feminine Care in China is going for you? That's the market you entered relatively recently, I think.

Magnus Groth: Absolutely. So historically, private label and branded production has been quite mixed in our plants. But during the tissue roadmap program that we ran over the last five years, we actually did the separation.

And that means that there will be some need for moving of equipment but quite limited, and also, to some level to also see and have very, very transparent financials, we'll also have some internal agreements, but on a quite low level, so it's – I shouldn't say it's an easy separation, but it's – because it's not, but it's OK from kind of a cost and restructuring point of view. It's doable.

So that's – we'll be able to provide more information towards the end of the year. Again, we're starting to look into this now. But it's possible, clearly, and with limited impact.

And then when it comes to – thanks for asking about Libresse in China. Fantastic development. Really happy about how that's progressing. So even – I mean it's – this is growing 40 percent, 50 percent, 100 percent per year and according to the plan that we set ourselves a few years ago, which means that even though we have a very small portion of the overall Chinese market, we are very, very strong in the premium market and growing.

And the same communication, the same perceived benefits that we use all over the world with big success because we're growing market share everywhere in fem care is also working extremely well in China. So we're optimistic about that. There's a few more years of investments. Gross margin is really, really good. And then I think we will start seeing really also the payback from this launch. So optimistic about that.

Iain Simpson: And perhaps a very small follow-up, if I could. Your mother reels capability in Consumer Tissue Europe, is that mother reels capability going into the private label business as well? Or is it staying with branded or is it being split?

Magnus Groth: Fredrik, do you want to answer that?

Fredrik Rystedt: We'll come back on those details later.

Iain Simpson: OK, thank you.

Linus Larsson, SEB:

Yes, thank you very much. And first, a couple of follow-ups on Consumer Tissue. Looking at the raw material cost inflation in the second quarter, at least compared to my expectations, cost inflation was a lot less than I would have thought. If you could just elaborate a bit more on that. Was there some benefits from inventory in Vinda or somewhat else?

And also, when you say that in Western Europe, the mid-single-digit price increase is in the bag, I think that's what you're referring to in the first wave of price increases, is that a gradual implementation in the third quarter? Or will we see all of that in Western Europe from the very beginning of the third quarter?

Magnus Groth: That's a gradual implementation. When it comes to the first question, do you want to talk to that, Fredrik?

Fredrik Rystedt: Yes, I can do that. So a few different things there, Linus. The first time is what I already alluded to before, we got a fairly significant lead time, of course, for price increases in pulp and other raw materials, especially for the oil-based. So of course, as we mentioned before, we'll see a lot more in Q3.

I think there is also, as you rightly suggested yourself, Linus, there is an impact because of the main – or the big Chinese players actually have had a big inventory. So it has not hit that much in China.

And the third issue there has to do with currency. So if you look at that as an example. For Consumer Tissue, we had a negative raw material impact of SEK 169 million roughly and – not roughly, exactly. And – but on top of that, we actually had a positive – included in that a positive currency impact of SEK 185 million. So just taking kind of the raw material development was actually a lot higher. But because of that positive currency impact.

So in reality, it's slightly bigger than what you see in the actual numbers. And of course, as I already mentioned, there is a lag impact.

Linus Larsson: Great. That's very helpful. And then just an update briefly on Familia. Where are we in that process? Any date where we should expect that to close? And any additional thoughts on synergies as that is hopefully integrated?

Magnus Groth: Yes. So we have passed the different government approvals in different countries. So it's actually now about – I mean it's had a specific type of listing. So to delist, Fredrik, maybe you want to give some more detail. We expect it to be finalized during the third quarter, basically. Everything is on track. I don't know if you have more to say to that, Fredrik.

Fredrik Rystedt: No. Not really. We hope to close it during August or in that time frame. But it's a formal process so it's going according to plan. And hopefully, we'll be able to close in August.

Magnus Groth: Yes. And since we already worked closely together with Familia, we are working already on the synergies. And as mentioned before, they are very innovative. There's a lot we can learn actually from how they go to market and how they delight the consumers.

Where we think we can contribute is on infrastructure, supply chain efficiencies, where we will move maybe a little bit quicker than what was possible before we made this acquisition, but without, of course, jeopardizing the very good work that they're doing towards the consumers in these markets.

Linus Larsson: OK. Sounds great. And then just finally, a quick one, but you have a buyback mandate now with the M&A. You have a couple of deals coming through in the second half. I mean is that – are buybacks – what your thinking around that? Why do you have the buyback mandate? And what's your thinking around that?

Magnus Groth: It's a mandate that goes both ways, both buyback but also issuing shares. And it's just to have that flexibility. And I think it's something that many companies have and we haven't had before. So it just gives us a bigger tool. More tools in the toolbox, basically. It shouldn't be perceived as more than that.

We have a very ambitious M&A agenda also going forward. So we are looking, as we have said many times, into Medical, where I want to underline that it's – I'm really happy how that business has recovered and improved. And I feel that Medical will have a very, very positive development now going forward, not only because of the market improvement, but also actually gaining market share, not only in Wound Care, which we've done for a number of quarters, but also in Compression, especially.

So we're really looking into that area and to other adjacent areas, to our Personal Care categories and Professional Hygiene. So the new mandates is, again, more of a tool in the toolbox than anything else.

Linus Larsson: Great. Thank you very much.

Sanath Sudarsan, Morgan Stanley:
Two questions from me, please. First of all, can I come back to pricing, please? And I wanted to understand more from your perspective the pricing landscape competitors, especially in Europe and tissue, and then also in emerging markets. Given FX movements, how is pricing evolving? And how are you versus peers in that segment?

And then secondly, can I just, Magnus, come back to your comments on Medical? I appreciate, and I can see the optics of why this is a great business, great margins and potential great top line. But since your acquisitions, can you just paint us a picture on where you stand now, what your learnings are and why this business is kind of poised to accelerate going forward, please?

Magnus Groth: OK. Happy to talk about it. Yes, pricing, it's never easy to get pricing. But where we are able to compensate the quickest and with quite short delays and lags is in Latin America, because in those markets, retailers also consumers are just accustomed to varying pricing due to currency impacts and inflation and so on. So we've been very fast moving in that area. The same in Eastern Europe.

In China, as I mentioned, there was not much price realization in the first half of the year due to the pulp stocks that we have spoken about. So I think Vinda is pushing that, and this is their ambition, while, of course, retaining the very, very strong market leadership position that Vinda has. And it's fascinating how they are now moving to the new online platforms and the live streaming platforms like TikTok and different WeChat platforms now away from, to some extent, the big ones that have been so important historically.

How the channel landscape is completely changing all the time, and Vinda's always one step ahead in grabbing the opportunities and thereby gaining market share. But also, of course, with a higher proportion of premium products being able to take pricing and pushing for pricing as the market leader. So we expect to see pricing from Vinda in the second half of the year.

And then in Europe, we go back to the same customers we have just been negotiating with now for another wave. And then we start the annual negotiations in those markets where there are annual negotiations. That will not be finalized and will not impact our P&L until first quarter next year. So that's kind of – to give some flavor, it's difficult to be more specific than that actually.

And as I mentioned, in China, as the pulp stocks are declining for the big competitors, that should be an indication of a need to raise prices going forward.

And then Medical, the learnings. The learnings are that it has taken us, until just before the pandemic, I would say, to reinvest in the company, reinvesting in the brands. Fantastic brands, fantastic people, a lot of knowledge about the industry. But an organization that had been highly stressed during previous ownership and where it has taken us a number of years to get all the basics in place.

So efficiencies in the supply chain and an efficient go-to-market. And maybe we should have focused on the fundamentals more than the integration and merging the sales organizations in order to achieve cross-selling, even though we're doing that to – achieving that to a great extent with hindsight. So there was more basics and fundamentals to be done before this business was poised to grow.

But now we see really, really good growth in Wound Care, a pickup in Compression. And then in Orthopedic Soft Goods, we have just restructured the assortment. We have a completely new design of our products and new communication. And we are relaunching that as we come out of the pandemic.

Of course, Orthopedics is the subcategory that is still awaiting to come back as people get out. And we have a proper ski season again, and people go mountain biking and so on. We see some pickup there just in the last couple of weeks. So that's a learning, make sure that kind of the fundamental operations of the company are in good shape as quickly as possible after an acquisition.

Sanath Sudarsan: Magnus, can I just push you on that one? So if you were to compare that with your pre-acquisition kind of guidance, so to speak, on top line and profitability, was over 20 percent. Where does the business stand now? And how do you see that going forward, just if you compare it with those numbers, please?

Magnus Groth: So I stick with those numbers with the delay that we've seen nowfor a number of years. I was absolutely convinced that we would be getting on to that path before the pandemic, and then we were set back for 1.5 year again. And I think during that time, we have invested. We have improved. We have worked very hard on all the different parts that I mentioned several times. And the company, the business is – together with the Inco Health Care business, is in great shape.

And actually, when you think of it and compare it to some other, as they are called, medtech companies, they typically have a combination of quite different categories that they have together, high-tech, low-tech, high margins, low margins and so on, different registrations. And we see now every day that the combination of Inco Healthcare and Medical is a very, very strong proposition. Because as I mentioned already four years ago, it's the same patients. It's the same users. It's the same doctors. Similar ways of doing tenders. It's the same nurses.

So we went after that too early. But now that the Medical part of the business is operating really, really well, now we see those benefits finally.

So I would say that our health care business is not 7 percent of the business but together with Inco Healthcare, close to 20 percent of the business. And we have good growth prospects for that as a combination going forward.

Sanath Sudarsan: Thank you.

Oskar Lindstrom, Danske Bank:
Two quick questions from my side. Just first, continuing on this Medical Solutions topic. I think you talked when you made the acquisition about the market growing 4 percent roughly per year.

Magnus Groth: Yes.

Oskar Lindstrom: Is that sort of still the organic growth rate that we should be hoping for once this is fully up and running? That's my first question.

And then the second question is on the Consumer Tissue price increases. I thought I heard you say something about the lower end of that range, which you guided for mid- to high-single-digits. Is that specifically referring to Europe in the third quarter or what you achieved out of that total price increase?

And then continuing on that. You're now talking about a second and third wave. What's the size of those in Consumer Tissue? And will they also be fully implemented by the end of Q1 next year? Or will they take a little bit longer to implement?

Magnus Groth: Yes. So the answer to your first question is, yes, we believe that the underlying growth fundamentals are still very good for Medical. And I mean we have the same factors driving it; aging, obesity, cancer survival, diabetes, which is creating not only incontinence, but also the need for chronic wound treatment and compression and also eventually orthopedic support. So all of that is as true as before. And we expect this to be our strongest margin category and with very good growth going forward.

And then when it comes to Consumer Tissue pricing, it's difficult to be incredibly specific. I think you caught it quite well. What we are achieving in the first wave is higher price increases and on a bigger scale than we ever did before. And that ends up in Europe in the lower end of the range, mid-single digits around there. And I mean that's good. But in the meantime, pulp prices have increased further, and that means that we need to go out again.

The first wave will have effect gradually throughout this third quarter. And we expect the coming waves now to have some impact in the fourth quarter and primarily then from beginning of next year when we expect to see a bigger impact. Do you want to add something there, Fredrik?

Fredrik Rystedt: No, I don't think so. We as we have said, we need much more price increases, and we will execute those in China. We will do it in Latin America, and we will continue the process. And when it comes to branded, as you say, we are later in that process. That's typically something we negotiated during the latter part of the year.

So pretty much all of these or most of them will be present towards the latter end of Q1. So this is – we're basically following our plans. And of course, we have adapted our plans quite a lot. We've had to adapt our plans since raw material has continued to increase throughout also Q2. So I think so far, we are executing, I think, really well, and we'll continue to do that.

Magnus Groth: Yes. And just to underline that, we cannot go to a customer and say that we expect pulp prices to increase this much by that time, so we need that price increase now. We can only negotiate the costs that we have in our books, and that gives this lag in how quickly we can raise prices on our side to compensate.

Oskar Lindstrom: Thank you.

John Ennis, Goldman Sachs:

Good morning, everyone. Sorry to come back on this pricing point. But if I can just follow up on your comment, Magnus. You said earlier in the call that you think you can offset raw materials through pricing by 1Q 2022.

I just want to confirm that, does that mean you think that the price mix contribution in your EBITA margin bridge will fully match the headwind in raw materials in that quarter? Or do you mean that you will have largely finished the headline price negotiations by that point in time, but then there will be a gradual implementation? So just a clarification to make sure I fully understand those comments.

And then my second question, I think you say that sort of the selected multi-category private label business will remain. Can you give us the size of that business roughly?

Magnus Groth: Yes. So starting with the second one. We've typically said that half of our business in Europe is our own brands and half is private label or retailer brands. So if you deduct the portion that is in this private label division, you get what is then the retailer brand part, multi-category part of the remaining business.

And what we expect to achieve by the end of first quarter next year is to have some kind of reasonable margins in Consumer Tissue. All of these discussions, I think, are referring to Consumer Tissue even though we are raising prices in the other categories as well. So we will not have recovered kind of the margins – any kind of gap over this period. But starting then, we will have reasonable margins in tissue.

I don't know if I'm phrasing this correctly. Fredrik, do you – can you help me here?

Fredrik Rystedt: No. It's exactly right. I think we are aiming to restore margins by the – for tissue, we're aiming to restore margins towards the end of Q1.

John Mark Ennis: OK. Understood. Thank you.

Joséphine Edwall-Bjorklund: So then I suggest we conclude today's call. Thank you all for joining, and we wish you a good rest of the day. Goodbye.

Magnus Groth: Thanks, everyone.

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