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Year-end Report 2020
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Slide 1

Magnus Groth: Good morning, and welcome to Essity's Year-end Report 2020.

Slide 2

Slide 3 *Summary (2020 vs 2019)*

And to summarize, we are happy today to present the highest adjusted operating result ever for Essity. This is SEK 17.6m, an increase with 11 percent compared to 2019. And this was achieved through a margin improvement of 220 basis points to 14.5 percent for the year.

And considering, of course, the huge uncertainties throughout this year of the big pandemic, ending up with an organic net sales of minus 1.9 percent shows how resilient our different businesses are in very turbulent circumstances. Also, operating cash flow was very strong, over SEK 16bn. And we, based on this, from the Board recommend to the Annual Shareholders' Meeting to increase the dividend with SEK 0.5 to SEK 6.75 earlier for the year.

Slide 4 *Strong Development of Sales and Profitability*

And I think this six-years development shows the strength of having a number of categories that benefit from different market circumstances, but with the foundation of all being related to hygiene and health, which is, of course, of growing importance, not least to this pandemic. And in this perspective, the small decline in growth of 1.9 percent in 2020, I think, really shows how resilient we are after having average annual increases of over SEK 5bn.

And maybe even more stable to the right here is the adjusted EBITA, which has grown with over 10 percent per year over the last six years, an annual increase of approximately SEK 1.4bn per year, and 2020 was not an exception. Actually a year where adjusted EBITA grew even more than on average. And there are ups and downs, but overall, Essity has a very, very strong combination of businesses that together create this stability and solid growth, both in EBITA and net sales.

Slide 5 *Mature and Emerging Markets*

And underlying this, which is very, very important for the future is an improvement in margins, both in mature and emerging markets. But the key message here is that since 2015, margins in emerging markets have nearly doubled from 6.5 percent to 12.9 percent. And emerging markets include Asia, Latin America and Eastern Europe.

And this is very positive for the future, considering that this is where the growth is in the long term. So really giving us the opportunity to invest in growth for the future in emerging markets without a major negative impact on margins. And this is based on the strategies that we've been talking about for years now, which is premiumization, innovation, cost efficiency in everything we do. And we will continue on this journey going forward.

Slide 6 *Making a Different with Impactful Innovations*

Just a short view of what we achieved in 2020 before we turn to the Q4 numbers. In spite of lockdowns and restrictions, we had a very ambitious launch program for innovations. And here are just some examples of the different innovations and the different brands that have been supported.

Slide 7 *Increased Hygiene and Health Awareness*

And we were also agile and disruptive internally in quickly adjusting our launch programs to adapt to the need for hygienic and health products supporting, of course, fighting the pandemic.

And here are some examples. Soaps and sanitizers, where sales were up close to 40 percent for the year. Converting air dryers to Tork PeakServe. So don't dry your hands on air dryers because they blow waterdroplets throughout the washrooms, and I mentioned this before, but just a reminder.

One year ago, at this point last year, we had no plans to produce face masks, and now this is a growing business with production in three countries. So very agile from the entire organization here. And of course, repositioning existing products to really underscore the hygienic benefits of these products.

Slide 8 *Strengthened Market Shares and Brands*

And the results are clear, over 90 percent of our branded sales have number one or number two positions on the markets where we're active. And maybe more importantly, over 60 percent are market positions in retail branded are growing, and over 20 percent are stable. And for those of you who participated in the Capital Markets Day in May 2019, you might remember that this number was, at that time, over 50 percent. So we are continuing to grow market shares in many more markets and categories than we did 1.5 years ago.

Slide 9 *Accelerating Digital Transformation*

And of course, this also relates to our digital transformation, which flows through the entire organization. And looking at e-commerce specifically, in the end, that accounted for SEK 15bn of sales last year.

And in the fourth quarter, this was 15 percent of sales. And to give some more feel for what we're doing in all these areas, I'm going to show two short videos. One about TENA SmartCare, which is a new product launch that we're very excited about. And the other one about what we're doing in digitalization in supply chain and specifically in manufacturing.

Slide 10 *Digital Solutions*

(video)

I think that's a great tagline: The more we connect, the better we care.

Slide 11 *Digitalization in Manufacturing*

Moving over then to the second short movie about manufacturing and digitalization.

(video)

So I hope that gives you a little bit flavor of what we're doing in digitalization.

Slide 14 *Value Creating Acquisitions 2020*

We were also able to make two value-creating acquisitions in Medtech as we have reported earlier

Slide 15 *Sustainability Targets and Initiatives*

And made big strides when it came to our sustainability targets and initiatives. And, of course, one exciting thing for 2021 here is our investment in sustainable fiber technology in Mannheim in Germany, where we are expecting to start-up at the end of the first half of this year.

Slide 16 *Recognitions*

And all this work has also resulted in a number of recognitions. Of course, very important being part of Dow Jones Sustainability Indices in Europe, on the A-List for CDP and an ESG rating of AAA from MSCI. And just recently, this week, being listed as one of the world's 100 most sustainable companies by Corporate Knights.

Slide 17 *Summary (Q4 2020 vs Q4 2019)*

So with that, over to the fourth quarter, where we continue to see a strong underlying business performance in an increasingly challenging environment. When we entered into the fourth quarter, it seemed, for a few weeks, as if market conditions were easening. And then absolutely, the opposite happened, of course, with every stronger lockdowns and restrictions that we see even today. And in spite of this, we were able to show organic net sales that were close to flat and continue to improve our margins compared to a year ago at 14.2 percent.

We improved mix in all our business areas. And, of course, we're also benefiting from lower raw material costs, even though at a smaller rate than in previous quarter. And I'm very happy about, for last year, also, I think, taking out a major uncertainty. We were not certain how much we could save costs in this very difficult operating environment and in the end, our COGS savings were over SEK 1bn. So a huge achievement there and very strong in the fourth quarter.

Slide 18 *Net Sales (Q4 2020 vs Q2 2019)*

Net sales declined of 0.5 percent organically, consisting of a small volume uplift and negative price/mix, mostly in Consumer Tissue in China and also, to some extent, in Europe.

Slide 19 *Adjusted EBITA Margin ((Q4 2020 vs Q2 2019)*

Adjusted EBITA margin, up 10 basis points. And here, we see a positive impact on gross margin from the raw materials and COGS savings and a negative from A&P. And what we're doing here is that we are accelerating through the curve.

So this is a very conscious decision to increase A&P spending in order to boost market shares and position ourselves towards our competitors as we prepare for markets gradually opening up during the year. So this is a very conscious decision.

Slide 20 *Positive Long-term Development*

And putting this in perspective, since it's such a rollercoaster and so big uncertainties here from quarter-to-quarter, we show to the left here, the net sales and organic net sales growth and how it plunged in the second quarter and then gradually has improved in the third and the fourth quarter, while the adjusted EBITA margin has remained very, very stable on over 14 percent here. So a strong number recovering, just considering the very low fixed cost absorption that we have in parts of the business, mainly Professional Hygiene.

Slide 21 *Personal Care (Q4 2020 vs Q4 2019)*

Going through the three different business areas, and starting with Personal Care, a very strong quarter with organic net sales growing 2.2 percent with a mix of volume, price/mix, even though sales are still negatively impacted by people using less protection while in lockdown and while at home. So we expect to see somewhat improved underlying market growth throughout the year as restrictions ease, and we go back to a more normal life, one way or the other.

And I'd like to point out that we saw also growth both in mature and emerging markets and very positive Baby Care now improving significantly. And this is a result of the Cure or Kill program we have been running for several years where we took the last steps in discontinuing our joint venture in Africa during last year, Sancella in North Africa and stepping out of Russia.

And the remaining business now, both the branded and private label, is doing really well, not only from a growth perspective, but also margin-wise. We also benefited from lower raw material costs. And looking forward into this quarter, we see stable costs for raw materials for these categories.

Slide 22 *Consumer Tissue (Q4 2020 vs Q4 2019)*

Consumer Tissue, very high organic net sales growth in emerging markets, 12 percent. And, of course, very much, Vinda, they had a very, very successful Q4 with single's day, 11/11, but also other festivals like 12/12. So very strong growth in emerging markets also in Latin America. We continue to improve the structural profitability, as is evident in the strong COGS savings.

We saw lower raw material costs and lower prices, including promotional levels. And to bring some more detail to this, in China, we had higher promotional levels on Consumer Tissue but actually did not change the underlying prices. And we expect promotional levels to come down now in the first quarter, which is not then influenced by the festivals that we see in the fourth quarter.

And in Europe, there's a negative price impact from negotiations that were concluded during last year. So nothing new in retailer brands. And we are still in the middle of negotiations with our branded volumes in Europe. So we are, of course, in those discussions, also including the increases that we've seen in pulp prices at the beginning of the year.

This is part of day-to-day business and really not something that we believe will have a major impact during the coming year. Sales and marketing costs increased as a percent of net sales. And as I mentioned previously, this is something that we're doing to position ourselves for the future.

Slide 23 *Professional Hygiene (Q4 2020 vs Q4 2019)*

Professional Hygiene, of course, still suffering and increasing throughout the fourth quarter from lockdowns and restrictions with volume down 16 percent, while we continue to have positive price/mix also here. We have strong sales growth for wiping, cleaning, dispensers and skin care.

Unfortunately, this is less than 30 percent of sales. And our washroom products and also our sales to, of course, hotels, restaurants and office buildings, commercial buildings, and public buildings is still very negatively impacted by lockdowns and restrictions.

And in spite of that, with big efforts on cost efficiency, we managed to keep margins on 13 percent and preparing for the gradual opening, which I think will be a little bit of a secret weapon for us here going forward as markets return to normal because with all the work we've done now, gaining market shares in skin care with a high placement of dispensers, also with premium dispensers, I think we're in great shape for the gradual improvement of the market conditions for Professional Hygiene during 2021.

Slide 24 *Achievements 2020*

So to summarize very briefly. Most important is, of course, to secure business success, while keeping employees safe and contributing to society. But I would like to mention also the development in Personal Care and throughout also the second half of the year, specifically in Medical, where growth has been coming back, we see that we are gaining market share, we are winning the relative games.

And specifically, in the fourth quarter, Wound Care, which is the most important part of Medical, grew by 6.7 percent. So a very, very positive development there. So we feel that Medical is also now in good shape for the gradual reopening of markets and doing continuously better, both relatively and in absolute terms.

And to summarize, it's been a year that has been incredibly volatile and unpredictable. The organization, I'm very proud to say, has been agile, adaptive and been able to manage the situation fantastic this year, *Slide 25* *Priorities 2021*

Which puts us in a great spot for this year, where our priorities are to accelerate growth in Personal Care further, continue to improve the structural profitability of Tissue and, of course, we are starting the manufacturing road map this year.

We will give more information on that after the first quarter, and that should support the above, prepare for a strong comeback in Professional Hygiene as we go back to normal life. The vaccines have a positive impact on the underlying business conditions for Professional Hygiene. And with our very strong balance sheet, we will also pursue acquisitions in high-margin categories and continue to lead in sustainability.

Thank you for listening. Let's open up for questions.

Q&A

Operator: And your first question comes from the line of Victoria Nice calling from SG.

Victoria Nice: My first question is on the strong volumes in Consumer Tissue, particularly in Asia. We just wondered if that was driven by inventory build following the high level of promotions that consumers know will come off? And therefore, would you expect to give some of that volume back in the first quarter?

And then my second question is on the disappointing Asaleo news. Just wondered whether you could outline whether strategically it's a setback? Are you're able to talk about why you wanted to take control and what were the considerations there.

Magnus Groth: Yes. Starting with Asaleo, we typically never comment on acquisitions in the process. I would just like to note that the Chairman, at the end of his statement, noted that the independent Board committee remains open to further engagement. So I think it's too early to call it disappointing.

Moving over then to Consumer Tissue in Asia. I think the pattern for last year, in Q4, was not different from previous years with very, very strong sales in the annual festivals like Singles Day 11/11 and 12/12 and typically, then Q1 is a slower quarter with the Chinese New Year coming up. So I don't see that there's any additional kind of stockpiling with consumers due to the strong sales in Q4.

Operator: Your next question comes from the line of Celine Pannuti calling from JP Morgan.

Celine Pannuti: So my first question is to come back on what you said on the promotion level and pricing. So could you give a bit more granularity on the quantum of promotion that you've seen in China as well as in Europe, if you could quantify that? And as we look into next year, so you mentioned a slower promotional level in Asia, and you are trying to engage with price rise, is that what I understood correctly in Europe? And how do you think that is doable in the context of negative price that we've seen already as in Q4 last year?

And my second question is correlated. I think you did mention the outlook on Personal Care in terms of raw mat being flattish sequentially. Can we talk about Consumer Tissue, your expectation on the raw material cost as we look into Q1, but as well, some of your competitors have been mentioning inflation in raw mat like of close to high single digits. Is it something that we should also expect for you?

Magnus Groth: Thanks, Celine. Yes, and I will be brief about China since I think there's a lot of material from Vinda also. So what we're seeing in China right now is that many of the smaller players are looking for price increases in the market due to the increasing pulp prices short-term in China, which helps the bigger players and, of course, the market leader, Vinda, in protecting pricing going forward into the first quarter, which typically is a quarter with lower promotional intensity.

In the EU, we have finalized the number of negotiations on a good level that we're happy with in private label. And we are in the negotiations for the branded part of the business, which is approximately half of the business. Some of that is done, some of that remains. And, of course, the new information on pulp prices is part of those negotiations. And our raw material prices will always fluctuate, and I'm not very concerned about the current increases.

So giving an outlook then on pulp prices, we expect them to be higher in the first quarter, both sequentially and year-over-year. And then actually, looking forward, I think it's still very, very uncertain where pulp prices will go. So I'm not able to be specific. We typically never are. But I think this still remains to be seen. Impact for Essity in the first quarter and second quarter will be quite minor from pulp price increases.

Operator: Your next question comes from the line of Iain Simpson calling from Barclays.

Iain Simpson: I just wondered if you could talk a little bit about Baby Care. That top line is very impressive. You attributed most of it to Western Europe, I think. Is that share gain on your part, do you feel or market acceleration or some sort of mixture of the two?

And then secondly, I was just wondering in terms of your tissue pricing. You've said that most of it was attributable to higher promotion in China. Would it be fair to say that European tissue was sort of broadly flat? Or anything to help us get a sense of the quantum as to what specifically China tissue and European tissue pricing did in the fourth quarter, would be great?

Magnus Groth: OK. So I'll talk about Baby Care and then hand over to Fredrik, who is in a separate room today, of course, in order to stay safe. So Baby Care growth would actually have been a few percentage points higher in the quarter, if it hadn't been for the discontinuation of the final remaining business in Russia and some decline in Northeast Africa during the transaction that we concluded.

And we saw strong growth compared to a year ago, both in private label and in branded. And this is market share gain. This is not growing category in Europe. So we are doing well in all markets, in the Nordics, in France, in our bigger private label or retailer brands contract. And also in Malaysia, on a declining market, Vinda is taking market share, while we have lost a little bit of market share in Latin America.

Fredrik, let's try to hand over to you when it comes to tissue pricing and the various impacts that we saw in the fourth quarter and expect to see going forward.

Fredrik Rystedt: Yes. Thanks, Magnus and thanks, Iain. I think you've actually answered most of the questions already. So if we look at Vinda, I think you commented on the fact that pretty much all of that decline had to do with promotional activity, which is expected to relax in Q1. If we talk about Europe, actually, from a sequential standpoint, if you take Q4 versus Q3, quite minor impact.

So the total price decline that we have seen as a result of the total price decline we've seen during 2020. And of course, when there is going to be a little bit of impact kind of remaining from what has been agreed in Q4 but as I said, most of it is actually there. And of course, then the future will – is still open when it comes to part of the branded portfolio.

But once again, just to remind what you've already said, Magnus here that in those negotiations, of course, the outlook for pulp is included in those negotiations. So we'll see when we come forward here. But it looks reasonably OK.

Operator: Your next question comes from the line of Linus Larsson calling from SEB.

Linus Larsson: Just to start off then maybe a follow-up on the Consumer Tissue pricing. You said that some of the promotional impact that we saw in price/mix in the fourth quarter were to reverse in the first quarter. Would you be able to just repeat that or even specify how much of a reverse we might see in Consumer Tissue price/mix in the first quarter, please?

Magnus Groth: This is entirely a question for Vinda, so I think my recommendation is to look at what they have been stating in this because we didn't have any increase in promotional pressure in Europe during the fourth quarter. Quite the contrary, it was another quarter that was characterized by a little bit minor but still panic buying in some countries.

And also an understanding, I think, by retailers of the benefits from working with a big, stable suppliers with strong brands that have a high service level and a high everyday product quality. And, of course, that is also helping us in the ongoing negotiations with retailers that are currently ongoing.

Linus Larsson: Great. That's very helpful. And if you were to break down the 3.5 percent negative price/mix that you saw in Consumer Tissue in the fourth quarter, how would that roughly break down?

Magnus Groth: Do we do that, Fredrik? I hand over to you.

Fredrik Rystedt: No, Linus, no, we don't really break that down. But, of course, as we have talked about here, most of the promotional activity was in China. On the other hand, the European Consumer Tissue business is bigger. So we don't break it down, but I think you hopefully get a rough understanding from what we have communicated.

Linus Larsson: But was there a mix – was there a significant mix component in the fourth quarter?

Fredrik Rystedt: It was a positive mix. We don't, as you know, specify specifically what price and what's mix, but we had a positive mix component there, as you know, and we've discussed it many times before. There are many kind of mix movements here. So one is obviously premiumization or product mix and that was quite positive. So we continue, not least, actually, in China, the premiumization route.

And then we also have another mix impact, which is basically in Europe, branded – and branded versus private label. And also there, we grew the branded portfolio quite considerably. And so we increased the share of branded versus private label.

And then there is a third, which is a country mix which was slightly negative because of growth tendencies. But overall, all of these things were positive – net positive.

Linus Larsson: That's very helpful. And then just like you already mentioned, you had very strong finish to the year in terms of cost savings. What's your projections for the year ahead?

Magnus Groth: Yes, they're very strong at over SEK 1bn and SEK 434m in the fourth quarter. Some of that is lower bonus payouts. And, of course, as we have communicated before, lower travel, lower costs for conferences and so on like all other companies. We expect to see cost of goods sold savings in this year of between SEK 0.5bn to SEK 1bn. So same guidance as for the last couple of years.

So we believe that we have a very strong momentum in this area. We see opportunities. And as we give more detail about Manufacturing Roadmap, let's see if we are able to revise those numbers. But the current expectation for this year is to have COGS savings of between SEK 0.5bn to SEK 1bn.

Operator: Your next question comes from the line of Karel Zoete, calling from Kepler Cheuvreux.

Karel Zoete: I have three follow-up questions. The first one is in relation to your medical business, and particularly, the wound care turnaround during the fourth quarter despite the lockdown. Can you provide more insight in what is driving the improvement and how we should think about 2021?

Then the second question is on fixed cost absorption within hygiene. You mentioned that with regards to the 2020 margin performance. But when we think about 2021, clearly, this business has a lot of recovery potential. So how should we think about the margin trajectory within Professional Hygiene?

And then the third question is on digitalization, which is e-commerce is now 15 percent of your revenues, which is quite a bit. Can you highlight where you've progressed the most in the area of digital sales?

Magnus Groth: OK. So I will start with the first and the third question and then hand over to Fredrik. And, of course, Fredrik, feel free to fill in on those questions as well. But I leave the fixed cost absorption to you.

So yes, Medical and Wound Care. One reason why Wound Care is turning around faster than the compression and orthopedics subcategories or subsegments is that we've seen an increasing pace of planned or elective surgery again. And we have worked so hard now for years to improve our go to market, our product offering, our brand equity, and we are seeing this paying off.

And, of course, over 6 percent is a very strong number and stronger than what I've seen from several competitors. So it's an indication that we are doing the right things. And that, when market conditions start to normalize, we have a very strong offering here. And, of course, we've done similar activities also in the other parts of medical and expect that to show as we come out of lockdowns and restrictions, which still has a very, very negative impact.

Just as an example, the hospital in St Moritz in France, which serves the local ski resorts typically does 3,000 castings every year. So 30 per day for 100 days. And, of course, it's 0. So when it comes to the other two parts of the medical business, it can kind of only gradually improve, and we feel that we are relatively, to our competitors, in better shape than we were before.

And this is also an area where we are investing as through this situation. So really continuing to develop that part of our business. So feel confident about that as markets start returning to normal.

And wound care, specifically, we are focused very much on Germany, which is our biggest wound care market and very much on the advantages of our advanced wound care offering, which is non silver offering and – which is quite unique on the market, and this is gaining traction.

Yes, digitalization and e-commerce online sales has actually been growing everywhere, but from very different starting points. So in Latin America, online sales has grown from being 1 percent to 3 percent of sales, which is, of course, a huge increase, but from a very low level. While in China, specifically now, online sales accounts for 46 percent of overall sales.

And for Vinda, in total, 36 percent of sales. So accelerating even quicker. But also in Europe, actually in all markets, we have a higher – and also in Professional Hygiene now, and as a result of the pandemic, we see higher online sales and expect that to continue, which we feel is positive because we are well positioned in those growing channels for the future.

So with that, I hand over to you, Fredrik, to talk about fixed cost absorption.

Fredrik Rystedt: Yes. Thank you, and hi, Karel. I just kind of if you take two steps back, you will remember that we had a very, very good trajectory when it comes to margins prior to COVID. So we were gradually increasing margins quite considerably. And did that through, of course, much more e-commerce and premiumization than many other activities, including cost savings.

So generally, the underlying performance of the business was very strong and remains very strong. But we got roughly about 36, 37 percent of the fixed cost. So obviously, when you have such a reduction of demand and therefore, also production and sales, that has a very, very significant impact on margin.

And, of course, we have partly mitigated that. So we've done a lot of cost activities, as you have seen. A although we don't really now have a lot of kind of the temporary lease, we've had that as well. So we've done a lot of cost activities. But needless to say, as, of course, volumes start to increase when restrictions and lockdowns gradually go away that will be quite positive for cost absorption and hence, margins.

So the underlying performance of Professional Hygiene remains very strong and has improved actually throughout the year. So – and that was also the ambition. So we're looking forward to a better margin as we go forward.

Operator: Your next question comes from the line of Oskar Lindström calling from Danske.

Oskar Lindström: Three questions from my side. The first one is on demographics. I mean, there's been some talk about the pandemic leading – having a negative impact on births. And my question to you is, I mean, have you seen this already in Q4? Are you expecting it in 2021? And how would that impact your business? So that's my first question.

The second question is on long-term customer consumer behavior sort of impact from the pandemic. I mean, we've all seen what the lockdowns mean for demand. But do you believe there's going to be sort of major long-term lasting changes, either in how you interact with and serve your customers or in how consumers change their behavior or buying patterns and so on, and opportunities and threats for you from that? Actually, I'll leave it at those two questions.

Magnus Groth: Starting with the demographics. Yes, I've seen some studies expecting birth rates to come down in the following years following the pandemic. Of course, Baby Care is the smallest category that we have. And I think it's approximately 7 percent of sales. Correct me if I'm wrong here, Fredrik.

And out of that – those 7 percent, actually, 1 percent or 2 percent is actually baby wipes and different types of wipes that are not only used for babies, but also for other purposes. So it's a quite small part of our business. And we've been working in an environment, our position, where actually demographic has not been favorable before.

So birth rates have been coming down in Europe, also in Malaysia for quite some time, and we are working to increase market shares, and the same for Latin America. So we don't see that as a big further negative influence on the group and not on baby care either in the next couple of years. So I think this is something we will manage as part of that day-to-day business.

Long-term behavior, absolutely. One of the big changes we're seeing already is what we call blended selling, which is then meeting our big customer, whether it's in health care or a retailer online, of course. And I don't believe that our sales forces will be out traveling to the same extent as before, even though probably to a higher extent than some would say, and I'm following like all of us are what's the take on employees coming back to the offices and what will change going forward.

For sure, we know that we will work much, much more like we're doing now, digitally and online. But we see in many studies that there's a growing demand actually for people to meet again and to come out, and not only come out to restaurants and traveling and so on, but also to come back to the office.

And we also see the management in many companies saying that we need this to build culture, to create a sense of urgency, to build the team and so on and so forth. So I think there will be big changes, but maybe not as big as we think. And online sales will definitely continue to increase because it's just so convenient and works so well, especially for our categories that are bulky and quite low-value, it's a big convenience.

So there will be changes throughout. And also when it comes to us, as a company, in our travel costs and underlying costs because, of course, it's a big efficiency for us as well.

Oskar Lindström: On that, thank you, that last comment about more moving online and your travel cost. In terms of when consumers buy more online, does that sort of benefit your premiumization and sort of brand-focused strategy? Or do they become more cost-conscious when they buy online?

And second question is a follow-up is travel costs. What share of your sales is that?

Magnus Groth: What we saw during last year is that increasing online sales was benefiting strong brands and innovation for a number of reasons. When consumers can't touch and feel and see the product, they go for what they trust and what they know and what they recognize.

And secondly, also in terms of lower purchasing power, our categories are categories where people feel that they can still indulge themselves by buying a high-quality product. It's still a small difference from buying a somewhat cheaper product. So we definitely benefit from online in terms of having strong brands and working with premiumization.

The travel cost, I don't think we provide that number, Fredrik.

Fredrik Rystedt: No, we don't. And, of course, if you look at the whole context of the company, is not really material in that sense. But it has had a meaningful impact for our SG&A development this year. So, of course, it is beneficial from an overall efficiency standpoint, obviously. But we don't provide the specific number.

Oskar Lindström: All right. What about logistics costs, in general, we're seeing some of those price indices coming up. Do you foresee your costs, some headwinds from that in coming quarters?

Magnus Groth: Distribution costs are, in general, negatively impacted from all kinds of restrictions on the border and trade like Brexit, for instance, but also from smaller drop sizes, which is the result of online sales and home deliveries. But this is a trend that's impacting not only us but the entire industry.

And this is an area where we see big opportunities with the digitalization and through extensive work over the last years with demand planning through advanced – looking at that through advanced analytics and connecting that to supply planning in the S&OP process, we kind of continue to counteract that continuously.

In the last quarter, we actually saw some increased distribution costs also from rising container costs, especially in Asia, where lower global trade leads to imbalances in container, where they're located and keeping them at high fill rate. So some changes here that drives costs, but this is not only for us, but a general development that we've been seeing over the last year.

Fredrik Rystedt: And Oskar, maybe we can add there, we don't provide guidance for the full year, more than kind of general direction. But if we just take the near-term future, so quarter one of this year, 2021, then we expect it to be fairly stable in comparison to what we've seen in Q4.

Oskar Lindström: OK. Good. I just wanted to see that there were no sort of huge red flags here on logistics, OK thank you.

Operator: Your next question comes from the line of Karri Rinta calling from SHB.

Karri Rinta: Two questions. Maybe take them one by one. Firstly, about Professional Hygiene business. Can you give us any sense or color on the fourth quarter in Europe versus the US, how did your volumes develop? Was there a significant difference between the two geographies and maybe especially when it comes to the hospitality vertical of that business? That's my first question.

Magnus Groth: Yes, there is a big difference, both because of the market conditions, but also because of specific differences in product mix between these two regions. So the decline – the negative sales were much higher in North America than in Europe. And we actually had individual countries and regions like the Nordics where we even saw positive sales in the fourth quarter, which was a result of some opening ups at the beginning of the quarter.

But overall, a negative development in both areas, but significantly bigger in North America. And this is because in North America, we're even more dependent on hospitality, hotel catering.

So we have a big, big napkin business there, and this is, of course, very dramatically impacted. And on the other hand, that's where we're expecting to see the gradual improvement also based on all the dispensers that we're placing, the increased sales of skin care and so on, as we gradually go back to normal.

Magnus Groth: Fredrik, do you want to add something there.

Fredrik Rystedt: No. I think maybe one thing, and that is, as we have communicated before, Karri, we've also put significant efforts into sectors where we are slightly weaker. So the health and the industrial part, where we have put much more resources – selling resources into those segments in North America and elsewhere.

And there, we have actually made progress, not yet so visible in the numbers or – but it will be as we go forward. So we're working on kind of all of these fronts, both from a product standpoint and also from a customer segment standpoint. So, of course, that's actually building the strength of the business as we are opening up here in 2021.

Karri Rinta: Great. That's helpful. Then the second question relates to Consumer Tissue. And you mentioned that you are – that you have disclosed that you are sort of looking to improve the structural profitability of that business.

But when it comes to the margin volatility of that business because typically, you don't hedge your input costs and then your contract cycles are pretty long with – especially with some of the branded customers. So are you looking into trying to be more – either more hedged on the input cost side or more dynamic in the pricing side going forward? Is there anything that you can or are looking into or plan to do there?

Magnus Groth: We're not planning to do hedging for the reasons we mentioned many times before. We need our sales force to be aware of the changes in the input costs immediately and hedging goes both ways. And we have also benefited from the declining raw material costs when costs come down, prices come down.

However, we are looking at – I wouldn't say that we have long contract terms. I think the longest contracts we have with retailers are up to one year. Having said that, yes, we are looking at increasing flexibility in those negotiations to see if we can be more even shorter-term in the contract duration there to allow for them – changes in the underlying raw materials. So that's something that we're working with actively actually in the current negotiations that are ongoing now.

Karri Rinta: And just sort of for reference, what might be a sort of an average duration that you have with your branded retail customers?

Magnus Groth: It's less than a year on average. It's between six months and one year.

Operator: Your next question comes from the line of Faham Baig calling from Credit Suisse.

Faham Baig: A couple of quick ones, if I may. Just a follow-up on the remarks with regards to improving the structural profitability of the business – of the Consumer Tissue business. Of course, we've seen a pretty unprecedented year this year with the retail side, benefiting materially from lockdowns.

When you talk about structural profitability, what margins are you alluding to, particularly as we go into inflationary raw material environment and already achieve – we began to see some deceleration in Consumer Tissue margins. So any sort of medium-term expectation there would be helpful?

A quick question for Fredrik on working capital. I did note a slight – well, a pretty big increase in inventories as a percentage of sales. The highest, I think it's ever been since you became a singly publicly listed company. What are the drivers behind this, would be helpful?

And if I could sneak in a couple of financial questions for Fredrik. Fredrik, could you kindly guide for the year with regards to the potential tax rate, CapEx expectation, and also cash restructuring charges on the cash flow for 2021, would be very helpful?

Magnus Groth: OK. I will soon hand over to you, Fredrik. But, of course, Consumer Tissue being our biggest business area needs to contribute to our overall increased return on capital employed target of over 17 percent, which means purely mathematical that Consumer Tissue needs to be somewhere between 13 percent and 15 percent and during several quarters of last year was, of course, way above 16 percent.

This is a long-term journey that we've been progressing very successfully for many years and where we see many more opportunities. And we'll continue relentlessly also going forward to increase our margins. They will still be volatile to some extent.

They will still fluctuate, but they should be doing less so as a bigger part of our portfolio is branded, is premium and – which gives us more possibilities, of course, to also negotiate the underlying raw material costs. So that's a very, very clear direction, and it's no change really from what we've been achieving and really where we can show proof points over the last four or five years.

I hand over to you, Fredrik.

Fredrik Rystedt: Yes. Lots of questions there, Faham. So thanks for that. The first – maybe just to add, I think – I'm not sure if you asked about the definition of how we – how we actually define structure, but it is actually our progress in terms of mix and, of course, premiumization brand and everything Magnus just talked about.

And the other part is cost efficiency and, of course, that's both a scale and savings and everything else that comes in there. So we kind of adjust in our own underlying tracking when it comes to raw material and kind of our end pricing, if I put it that way. And this is how we track it over time.

So we can see that – and I think we mentioned that last time, we have increased with several percentage points over the last several years, and we expect to continue to do exactly that. And then, of course, the actual margin will fluctuate as we said.

I think when it comes to inventory, a couple of things. Because of basically the reduction of production volume coming from the lower demand particularly in Professional Hygiene, we've actually seen an increase of the cover days.

And if you look at the increase of the cover days, and this is about finished products, then we actually reached the top in Q3. So Q2 and Q3 being on similar levels, if you take the group as a whole. And then in Q4, we actually came down in cover days. So it's actually going in the right direction because of volume and of course, also because of just general reduction.

And we expect days in stock to continue to actually more normalize. And over the longer perspective, of course, from an – yes, as parts of the digital projects that we talked about over time, the additional capabilities we will have in demand and supply planning and many other things, of course, we are going to be able to have a lower days in stock over time. So generally, I think we're not concerned about the level. It's going in the right direction. And over time, of course, it will gradually decrease.

When you come to the tax rate, we are approximately structurally around about 25 percent. There has been, you can say, a bit of both positive and negative if you look at the gradual movement. So the increase in profitability has actually brought a slight negative, you can say, overall tax – structural tax rate implications simply because we actually make money in countries with relatively high tax rates.

So that's been quite negative, and there's been a couple of other movements that taken it down. So we are roughly at the same level of about 25 percent in structural tax rates that we have been before. It may be slightly lower than that, but approximately that level.

On the structural cash out, we are not giving that number. And of course, one of the reasons is that we simply cannot actually say before we have communicated any potential action there. But from what we have communicated and the cash outlays in terms of the structural costs, not a lot actually in 2021.

Fredrik Rystedt: CapEx. So we should be roughly about SEK 7.5bn for 2021, approximately in that level.

Magnus Groth: Move on. I think we're closing on the hour, but we have a number of questions. So I think if we can work through the remaining five persons asking questions will be fine.

Operator: OK. So your next question comes from the line of Virendra Chauhan calling from AlphaValue.

Virendra Chauhan: So could you talk us through the inventory levels across the various segments. And – I mean, is there anything abnormal in terms of higher or lower than what you would normally be seeing?

And then secondly, in terms of Professional Hygiene, any color on when do you expect this business to be back to growth and even better to pre-crisis levels, any kind of an insight into that, if you have, that would be great?

Magnus Groth: OK. So when it comes to raw material inventories, we did have a – some buildup during last year when there was uncertainty about supply security and especially in China. So – but that's normalizing. And I think that was also part of what Fredrik mentioned. And we don't have any exceptional inventory levels anywhere else that we are aware of currently in any of the categories or anywhere in the delivery chain. So we don't expect any kind of big destockings or anything like that going forward.

When it comes to Professional Hygiene, this will depend very much with the efficiency of the vaccines. And, of course, this is great news for Professional Hygiene. And I think my guess is as good as yours, when we will start seeing a return to a more normal travel patterns and people able to returning to the offices and so on.

First quarter will be very challenging because we are in the midst of severe lockdowns, even maybe the most severe lockdowns in many parts of the world, while, of course, we have a very challenging comparable to last year when we saw stock building in Professional Hygiene.

I think that's the only answer I can give on Professional Hygiene. But overall, throughout the year, we expect a gradual improvement as life goes back to normal following the vaccine programs.

Operator: Your next question comes from the line of Sanath Sudarsan, and he's calling from Morgan Stanley.

Sanath Sudarsan: Three questions from me. Hopefully, it should be very quick. First one on ROCE development. You reported about 200 basis points of ROCE development this year. If it just puts you off by about 100 basis points of your next five-year target of 17 percent. So how should we think about this progression over the next few years and specifically next year. Is this a more stable level of ROCE that you see for the business? Or should we expect some moderation before it picks up again in the future years?

Secondly, on the FX impact on margins. I mean, you made a point about emerging markets seeing a very good improvement in margins overall. Has FX been a headwind for you in these businesses overall and specifically in the fourth quarter, given how strong FX has been a headwind for you, is there a margin impact for the same, please?

And then lastly, on e-commerce. Could you just give us a sense about how your operating cost structure has evolved or needs to evolve to kind of make this business more profitable given you sell more premium brands in digital, of course, your gross margin profile would be higher, but how do you evolve your operating margin profile?

Magnus Groth: Start with the third question before handing over to Fredrik. We are seeing that margins are becoming more and more similar between e-commerce and brick-and-mortar sales, as I think everyone is learning how to manage the cost of the last mile. So it's not a big topic for us internally. We just want to be in the fastest-growing winning channels, and we don't see a big margin impact one way or the other from that actually.

Then when it comes to ROCE progression, of course, since most of the ROCE improvement will come from improvements in the margin. And since we don't give a forecast on that, I don't think we can answer that. I just want to emphasize that the above 17 percent ROCE target is for 2025. So it's a few years out, and there will be, of course, uncertainties in this time period. But we believe that we have a very sound underlying strategy getting there by 2025 at the latest.

I hand over to you, Fredrik.

Fredrik Rystedt: Yes. Thanks, Magnus. And hi Sanath. Maybe just to complement that ROCE question. I think we also communicated very clearly last quarter that part of that improvement, of course, comes from underlying performance and mix and cost efficiency and other things that we're talking about now.

But we also had specifically gains from the Manufacturing Roadmap that we will come back to later in this year and also the digital projects that we're doing. So, of course, most of those savings are some time out. And of course, we, as Magnus alluded to a bit in his presentation, there is another kind of components of value creation, and that's growth. So I think we are, of course, aiming to continue to grow the company a lot and reinvest also quite a lot of what we gain into that growth ambition.

So there is going to be that balance, and we stick to what we said before that we will gradually, over time, reach that target, but we will also strive for the high growth. So it's a balance.

I think when it comes to the FX impact, we don't provide specifically transaction impact for the entire company. Just to give you a bit of flavor, actually, we had a positive transaction impact when it comes to raw material because a lot of raw material is purchased in US dollars, and the weakening of that has actually been beneficial at least to part of our company. So if you look at cost of goods sold, it's about 60 – a bit over SEK 60m, positive, in this quarter.

When it comes to the rest of the transactional impact, and there is a bit of flows in various directions of products, and we have a little bit of an uneven cost distribution but, in general, it's not really material. So this is why we don't provide a total transaction impact. It doesn't have a material impact. So I think the more important thing is to look at is the cost of goods sold, and that's roughly about SEK 60m.

Sanath Sudarsan: Just to follow-up on that. So is there an impact from FX that you need to recover via pricing next year? Or is this a structural benefit for you, so you don't have to really recover that as such?

Fredrik Rystedt: No. I mean, if you take one – I mean, there are many, you can say. So it's hard to discuss every single one. I'll just make a couple of examples. We have, as I said, an uneven cost distribution in so we have costs in countries where you have the strengthening currency, making that slightly more expensive. And then, of course, we're flexible and agile.

So we put resources, perhaps redistribute resources somewhat. There's another example. If you take the British pound has been – versus euro, actually weaker in this quarter in comparison. That's now strengthened now. So that will be slightly positive as we go forward. There are many things like this and we constantly act make sure that we capture the best of our ability and to be flexible there. So not really specifically anything. It's more business as usual.

Operator: Your next question comes from the line of Iain Simpson calling from Barclays.

Iain Simpson: Just very quickly from me. It would be great if in Consumer Tissue, you could just let us know how much of that was bathroom tissue and how much was household tissue? And I think earlier, you talked about how a proportion of

Baby Care was wipes rather than diapers. Apologies if I missed the number, but if you could just quantify that as well, that would be great.

Magnus Groth: OK. I will hand over to Fredrik. I'm not sure I have those numbers top of mind.

Fredrik Rystedt: Yes. Wonderful. Thanks for giving that question. Actually, I'm a little bit unsure. We don't actually provide the number, to my knowledge, exactly how much – we have done it for Professional Hygiene because it has a bit of importance there. When it comes to Consumer Tissue, we have not actually provided what is bathroom tissue and not. I can check that, but that's my recollection that we actually don't provide that number.

When it comes to wipes in baby, it's a fairly small portion. So, of course, most of it is diapers. But there is a bit of portion...

Magnus Groth: So maybe I exaggerated that number, Fredrik, and we will have to come back on that.

Fredrik Rystedt: Yes, let's come back on that.

Magnus Groth: OK. Just looking at the tissue segment, there hasn't been a huge actually growth in bathroom tissue by increased home usage. It's not massive, but it is enough, of course, to have a positive impact. Same in kitchen rolls. While we actually see a lower consumption of hankies because of less flu. There hasn't been a flu season this year. So some changes there in the mix. But, of course, overall, positive due to an increased focus on hygiene.

Operator: Your next question comes from the line of John Ennis from Goldman Sachs.

John Ennis: I just had a small follow-up on the promotional outlook, but in Europe. Can you detail the first half 2020 impact from having low levels of promotion in European tissue business because my understanding is that you'll be lapping relatively low promotions given COVID-19, and it'd be helpful just to know how much of a boost this was in the base year to help us in modeling 2021?

Magnus Groth: I don't think we can answer that question.

Fredrik Rystedt: No, we cannot know. It's impossible to answer.

Operator: So your final question comes from the line of Anubhav Malhotra calling from Liberum.

Anubhav Malhotra: Just a small simple one for me. If you could give us a sense of the performance in Professional Hygiene when restrictions were easier in the last quarter compared to in the last couple of months and restrictions tightened. So maybe a breakup of like-for-like growth between October, November and December, if possible?

Magnus Groth: How much did we grow, I guess, in 2019 in the fourth quarter? But, of course, growth is down 15 percent compared to 2019. And margins are down 3 percent, 4 percent as we presented. I don't know if that answers the question.

Fredrik Rystedt: I guess, I would just add there, I think that was your question, what the performance was in October, November and December or the distribution in the quarter. Was that...

Anubhav Malhotra: Yes, distribution within the quarter between October, November, December 2020.

Fredrik Rystedt: Yes. We haven't actually disclosed, but it's really difficult to actually state that. No material differences between the months in comparison to a normal path.

And if anything, maybe slightly easier or better in October; a little bit tougher than, of course, in November and December, but no material differences actually. So it was quite normal from a pattern description, but just on a lower level because of the restriction.

Magnus Groth: OK. So to sum up, the strongest margins and the strongest operating profits ever in 2020. We have a positive view on the markets in 2021 based on the ongoing vaccine programs and the gradual opening up that we expect in the second half of the year. And we feel that we're in good shape.

We've kept on investing in our brands, in innovation, in our go to market, and we're in a good position to leverage from a return to a more normal market situation as we progress through the year. Thank you for listening.

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