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Interim Report Q1 2020
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Slide 1

Joséphine Edwall-Björklund:

Hello and welcome to Essity's presentation of our interim and Q1 report for 2020. My name is Joséphine Edwall, and I'm Head of Communications for Essity.

Today, our President and CEO, 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, Magnus, I hand over to you.

Slide 2

Slide 3 *Summary – Q1 2020 vs Q1 2019*

Magnus Groth: Thank you, Joséphine. And for the first time we are making this presentation from various locations, so that will be very interesting. I am making this presentation from home.

So summarizing the first quarter, we entered a year of great uncertainty with a fantastic Q1 performance. We saw strong increase in net sales and earnings, as we have also previously reported.

This is partially a consequence of the COVID-19 crisis, of course, and that's evident from the fact that we had a sharp sales increase in March of 19.7%. And that's really the first month when we saw a clear impact from the pandemic. And before that, we could see that we entered the year actually with a very strong underlying business performance.

So gaining shares in more markets and categories than we've done previously and with a very strong innovation and launch program ahead of us. So we had a good start and then there was further strengthened by the impact from the pandemic. This resulted in higher volumes, better mix and cost savings in all areas.

We saw lower prices in one business area, Consumer Tissue, but higher prices in Personal Care and Professional Hygiene. And we also had lower raw materials and energy costs in all our three business areas that had a big impact on gross margin, a positive impact.

In the first quarter, we saw increased sales and marketing costs compared to last year, partly to support the ambitious launch and growth program that we have, but also due to low numbers comparatively last year. Just looking at some of the numbers here, to the right, operating cash flow was twice of last year at SEK 4.481bn. And earnings per share, almost doubled as well to SEK 4.61 per share.

Slide 4 *Increased Sales and Profitability*

And even though this was an exceptional quarter and March an exceptional month, we have been on a positive trend now for some time, as is evident from this slide, which shows the quarterly development over the last couple of years.

Slide 5 *Net Sales – Q1 2020 vs Q1 2019*

Net sales increased with 10% and organic net sales with 7.8%. And as you can see here, volume accounted for 5.9% of the increase. And starting with Personal Care, we saw volume growth in all categories, except for Medical. And in Consumer Tissue, we had very high sales growth in Europe, in Latin America, and significantly lower sales in China with Vinda due to the fact that they are at a different phase, as you know, of the pandemic.

And in Professional Hygiene, finally, we had higher sales in Europe, Latin America and not least in North America and for the same reason, lower sales in China. So a very positive volume development, which also actually, we will talk about that on the next slide, has a positive fixed cost absorption with a positive impact on the margins in this quarter.

Moving over to price/mix. All business areas, again, had a positive price/mix. And the only category with lower price is Consumer Tissue in Europe and China to the extent that we have previously communicated. So small negative impact there.

The divestment is -- the divestment we did last year in Turkey, a joint venture, which is part of our Cure or Kill program. And then we had a positive impact by the weakening of the Swedish krona.

Slide 6 *Adjusted EBIT Margin[1)] – Q1 2020 vs Q1 2019*

Moving over to adjusted EBITA margin. We decided to present in a slightly different format this year, focusing on the impact on gross profit margin, which increased by 560 basis points. And the majority of that comes from lower raw material and energy costs, 470 basis points. And out of those 470 basis points, a large part is pulp prices, but also recycled fiber and oil-based materials were lower in the quarter and energy.

We had a very good start to the year when it comes to savings in cost of goods sold with SEK 260m. And this is, to a large extent, from raw material savings and raw material rationalization.

So we're happy that we can continue to work with savings even when our facilities are operating flat out and when they're more or less closed to different types of new projects since we are focusing on keeping the staff safe in the plants and the machines running. And as you know, our ambition for the year is to have COGS savings of between SEK 500m to SEK 1bn. So it's a good start, and we see more opportunities going forward.

Moving over then to A&P. We have a negative impact of 30 basis points. This is partly because we had a tough comparison with last year when we had very low A&P of 4.9% to sales. This year, it's more normal, 5.2%.

And a slight positive impact from SG&A. And again, SG&A and some other parts of our costs are, of course, positively absorbed by higher sales, so the extremely high sales in this quarter has also added to margins in this picture here.

Slide 7 *Raw Material Development*

Then, moving over to raw material development. After a long period now of declining prices, we're starting to see, as is evident from the graphs here, that price starting to level out or even increase slightly.

So starting then with the usual outlook for the next quarter, quarter two, and starting with what we foresee a quarter over last year's quarter, we expect to have lower raw material costs in Personal Care and lower raw material costs in Professional Hygiene in the second quarter compared to the same quarter last year.

And in Consumer Tissue, we expect to see significantly lower raw material costs in the second quarter compared to the same quarter last year, even though there is a negative impact from currency in all the three business areas.

Then, comparing sequentially. So Q2, this year, compared to Q1 that we said behind us, we expect to see higher raw material costs in Personal Care and a negative currency transaction effect, even though we see slightly lower costs for oil-based materials. So this means that we expect higher fluff pulp prices.

For Consumer Tissue, we expect higher raw material costs and also negative currency effect and the same for Professional Hygiene. So as is also evident again from the graphs, there is a slight increase now in pulp prices, while when it comes to energy, and there's also a seasonal effect, we foresee slightly lower energy costs sequentially, but also compared to last year's second quarter.

Slide 8 *Innovations – Q1 2020*

And in spite of everything that's going on, we focus on innovations and the long-term importance of hygiene and health. And of course, this is just increasing with what we are experiencing now.

And here are some examples, starting to the left there with the new phase of TENA, a much more modern, more feminine. Here are some examples of a new black TENA liner and also a fully breathable liner that we're launching now, adding to our already very strong inco retail portfolio.

When it comes to wound care, we completely modernized our Leukoplast brand last year, and we are adding products in the skin sensitive range, which is important, especially for older skin. And here's an example of a product that is managing or reducing the amount of bacteria. It's waterproof, but also skin sensitive in the adhesive.

Then, moving right, we have two innovations that are both focused on sustainability. And of course, that remains as important as ever before.

So starting with the feminine brands, in the middle there, we are making new claims on pack that all our paper-based packaging will now be based on recycled fiber, and our plastic packaging will have at least 50% of the plastic coming either from recycled fiber or plastics that has come from renewable sources. So that's a strong claim when it comes to sustainability.

And Tempo, where we have changed the plastic that's usually in the opening of these facial boxes to paper, so that the package is 100% paper going on.

And then, of course, to the right, we have moved extremely quickly, maybe quicker than ever before, in adding a completely new category, starting to produce face masks in China and now also in Sweden and eventually also in Mexico and in North America.

And initially, we're doing this to protect our own employees, but we see that there's a large demand from the health care sector, and we believe that there could eventually also be opportunities in retail, and this is something we're looking into currently.

Slide 9 *Personal Care – Q1 2020 vs Q1 2019*

Now moving over to the three different business areas, starting with Personal Care. Organic net sales increased 8.8%, a combination of volume and price/mix. And as in the other business areas, a very sharp sales increase of 17%. So the stocking up or stockpiling that we saw was not only related to Consumer Tissue or toilet tissue, we also actually saw stockpiling in Feminine, in Baby Care and in Incontinence Care.

So in all categories, except Medical, resulting in higher volumes, higher prices, better mix and cost savings with the exception of Medical. And as you can see down in the right-hand corner of this slide, we had around zero growth from Medical Solutions.

And we started out very strongly the first couple of months of the year. And then actually, this is the category that is negatively impacted by COVID-19. The reason is that we're active in three different subcategories, as you know, and two of them are adversely affected by the ongoing crisis.

First of all, when it comes to compression, our customers, consumers, are not able to reach the medical device stores, the health care centers or the hospitals where they need to go to fit new compression garments. So that has a negative impact on the compression part of the business.

And when it comes to orthopedic soft goods and the orthopedics part of the business, which is also approximately 1/3 of Medical, that's negatively affected by the fact that people are staying home, which means that they are not becoming injured to the extent that they normally are in sports or because of age or for other reasons, while the third part of Medical Solutions, wound care, is relatively stable and not influenced by the ongoing pandemic. And we expect, of course, this negative impact to continue now in the coming quarters.

Lower raw material costs, as I already explained, we have that in all the three business areas and also higher distribution costs in all three areas. This is related just to added complexity of border crossings and difficulties in rush orders, for instance, to some retailers in order to cope with very high demand and managing service levels. We also have increased sales and marketing costs behind innovation.

And in addition, due to the medical device regulations that was supposed to come into play now in May, this is postponed by one year. We just heard this morning. It really doesn't influence Essity. We were well prepared for actually, managing these regulations already this year.

Then, on a very positive note, after a couple of years of focusing on organic growth, we acquired two very important companies, ABIGO Medical, that is the provider of the technology for our advanced wound care products.

And in itself, a very successful and rapidly growing wound care company based in Sweden. And a small technology company, Novioscan, based in Holland, which we see as an important technology development in managing incontinence or continence.

Looking, maybe just one final comment on this page, on Fem Care, I just want to underline, you can see the growth there of 15.5%. And we have been growing share in most markets and most parts of Feminine now for a number of years. And this last quarter, we actually grew in every market where we are present. And I don't think that ever happened before. So continue to have a great momentum in Feminine Care.

Slide 10 *Consumer Tissue – Q1 2020 vs Q1 2019*

Moving over to Consumer Tissue. Organic net sales increased by 4.3%, which looks very strange considering the stockpiling that we've been seeing.
But of course, this is explained by the completely opposite picture you see down in the right-hand corner to what we're used to, where mature markets grew by 8.9%, and this is the stock up that I mentioned, while the emerging markets had two very opposite impacts. Latin America had a fantastic quarter, growing really nicely, but this was completely offset by Vinda and Asia, which declined by nearly 13%. So that explains the total growth of 4.3%.

The impact on adjusted EBITA is nearly a doubling from SEK 1bn to over SEK 2bn. And again, there are some positive absorption effects here where we had very high volumes like in Europe, for instance, and a huge impact on EBITA margin also positively up to 16.0%. Of course, this was very much helped by lower raw material and energy costs. And again, partly offset by higher distribution costs.

Slide 11 *Professional Hygiene – Q1 2020 vs Q2 2019*

Finally, Professional Hygiene, and maybe this was the most, I shouldn't say confusing, but surprising development. We entered the year with a very, very strong product portfolio, great innovation and had a good development in January and February. And then in March, sales increased by 24.5%.

And so actually, it increased more. There was more stockpiling in Professional Hygiene than in the other business areas. And this is, we believe, due to the fact that distributors felt unsure if suppliers would be able to continue to supply. So we saw significant stockpiling here, which is a little bit counterintuitive and surprising.

And of course, this has a huge impact positively on net sales, adjusted EBITA and the EBITA margin, which came in at 17.5%. I think we have the same impact I mentioned before, higher volumes, better mix, higher prices and cost savings, combined with lower raw material and energy costs, higher distribution costs. We also saw higher increased sales and marketing costs following low-cost last year and again, ambitious launch initiatives.

Going forward, we do expect lower volumes due to the fact that fewer people are going to restaurants, staying in hotels and working from home and not working from offices, this will have a negative impact, and we saw that in China, for instance, in the first quarter where Professional Hygiene had a big drop in volumes in the first quarter due to lockdowns.

Moving to the right-hand bottom corner again here, the total growth of 12.2%, again, had a strange breakdown of mature markets growing faster than emerging market. But again, the same explanation for the slow growth in emerging markets where Latin America grew by 23%, while Asia declined by 34%. So big swings here. And that's something that is difficult to forecast and something we'll just have to see how this works out going forward over the next couple of quarters.

Slide 12 *COVID-19*

And before moving to the summary, then COVID-19, what are we doing? Well, first of all, of course, we are active in providing leading hygiene and health solutions. So we are currently focusing very much on providing our consumers and customers with hygiene and health solutions that can help them in fighting this pandemic and doing everything we can then, to keep on producing and helping our consumers.

In some areas, we have historically already made great efforts, for instance, in educating health care professionals and also children in the importance of hand hygiene, and we have doubled those efforts, of course.

We also started manufacturing surgical and facemasks in several geographies. And we are supporting different NGOs, both locally and centrally, among them, the World Health Organization, which we believe are doing a very important job.

And with all these fantastic efforts from our employees, I can't thank them enough. We are getting a lot of positive feedback from customers, retailers, distributors, but also end-customers appreciating the support and service levels that we are providing. And we believe that this are making us winning the relative games.

So even though there are huge uncertainties, we believe that we are benefiting from this in the long-term compared to our competitors, even though our focus right now, of course, is to care for our people, contribute to society and thereby secure business success.

Slide 13 *Summary – Q1 2020*

So summarizing, strong increase in net sales and earnings, which was, to a large extent, a consequence of COVID-19, but we do have a strong underlying business performance.

We are back in acquisition mode as visible from the acquisition of ABIGO Medical and Novioscan, and we believe that even though we're living in a period of high uncertainty, where safety comes first for our employees and when it comes to managing this situation, the increasing importance of hygiene and health for the long-term is something that will help Essity develop and be successful also in the long term. Thank you so much for listening. And with that, I hand over to the operator to open up for questions.

Slide 14 *End slide*

Operator: And our first question comes from the line of Christian Kopfer from Nordea.

Christian Kopfer: Just a few follow-ups for me. Firstly, on Personal Care. If I look at operational leverage on the volume side, it seems to get a lot of tailwind, obviously, in the first quarter of SEK 800m on volumes.

But if I look at what you get on EBITA, it's around SEK 280m. So if you compare that to previous quarter, it seems that you get less run-through of higher volumes. So can you comment on that, please?

Magnus Groth: Fredrik, do you want to comment on that?

Fredrik Rystedt: Yes. I can try. I think it's -- I don't fully understand the question because if we look at the underlying performance, also in January, February for Personal Care, the growth was actually quite strong, and the margin was also reasonably strong. So there might have been a slight mix shift in the building up of the March sales.

But as I said, both in January, February and March, the margins were actually quite strong. We've had some impact, as Magnus alluded to, for slightly additional A&P, as Magnus talked about and also MDR, which has impacted Medical margins slightly, but it's still on the margin. So frankly, underlying margins are quite good for Personal Care.

Christian Kopfer: So Fredrik, it was not any structural changes in this business area, if you look at operational leverage?

Fredrik Rystedt: No, not really any structural changes.

Operator: And your next question comes from the line of Sanath Sudarsan.

Sanath Sudarsan, Morgan Stanley: I hope all of you are well. I had a few questions. I think the first one I wanted to ask you about is, how do you see the pricing dynamics going forward? Of course, you have very strong demand, especially in Consumer Tissue.

But you also had start taking price cuts ahead of the market. So in light of that scenario, how do you see the pricing dynamics going forward? Have you seen some competition also taking price action? That's one.

Second, I think, again, this is for Fredrik, I believe. You guys are now, I presume at peak gross margins and also at very high ROCE levels. How do you look at the evolution of this going forward?

Of course, you can expect Q2 to have some negative operating leverage. But going forward, how do you see the evolution of ROCE? Are you willing to share a bit more with retailers, consumers to get back to the balance 15% target that you have?

Magnus Groth: Okay. I can start then with the pricing dynamics, your first question. And currently, there is very little discussions about pricing in most markets. It's more about keeping the supply chains up and running and managing, fluctuating demand.

Maybe with one exception, and this is Latin America, where we had a massive depreciation of the local currencies and there will be need for price increases going forward to compensate then for the increase in raw material costs due to local currency depreciations. I don't know if you want to add to that, Fredrik, before moving on with the second question?

Fredrik Rystedt: No, not really. I think Sanath, maybe just one obvious conclusion. As you said, Magnus, we've had some price adjustments in line with our expectations for tissue in Europe. And of course, most of the pricing negotiations were completed prior to the COVID, prior to March. So it's in line with expectations. And you're right. I mean, we see some currency depreciation, as you said, and we, of course, need to and we'll try to compensate as far as we're able to.

Maybe, Sanath, should I continue then with the margin question? I'm not sure I fully understood. But first of all, we don't really give forecasts on volumes or sales for the coming quarters.

But as Magnus elaborated on here, we clearly see, of course, impacts from potential or from lower sales in Professional Hygiene and potentially Medical and other issues. So of course, repeating what we have seen in Q1 is not what we are anticipating. All the uncertainty is very, very high. So of course, we're impacted from an operational leverage perspective.

And just as you said, and although it's really difficult to kind of separate what exactly is fixed and what's variable in our cost structure, you can say that if you take our total cost mass, roughly about 35% to 37% of cost or 31% or in that ballpark of sales, if you put it that way, is, at least in the short term, relatively fixed.

And of course, the main parameters there being personnel and depreciation and some other cost buckets. So of course, a significant reduction of sales or volume has also a very big margin impact. So we will see that impact most likely as we go forward. I'm not sure if that was your question, Sanath.

Sanath Sudarsan: That's very helpful. I was just trying to understand how do you keep up your ROCE level, which is right now, I think, 18%, so which is much ahead of your target and was much ahead of your target in Q4 as well. So in terms of the balance for the business and value proposition for consumers, how do you balance that?

And if I may just add on both these points made, what's your past historical learnings in EM versus DM when there is kind of a recessionary environment globally for the business?

Magnus Groth: Well, so if I start maybe, Magnus, here. I think it's impossible to say right now and we don't make any forecast either when it comes to gross margin or ROCE development going forward, other than what you just stated that they are, of course, incredibly high for all the reasons mentioned in the first quarter, and they will normalize going forward, how that will play out. I think it's not possible to say today.

EMDM learnings, well, I guess, what's so uncertain now is to what extent we will have a recession or maybe even some talk about the depression, what will the impact be in some countries?

Will there even be social unrest due to high unemployment, food shortage and so on. And that, of course, all could have a big, big impact on the economy here in a couple of quarters. And I don't know or can only speculate like anybody else.

What we have seen though, in previous economic downturns is that Essity and previously that, of course, SCA, has done quite well and managed through those situations with reasonably stable sales. But of course, what we see today, we never saw before. So very difficult to give any outlook on that. You want to add, Fredrik?

Fredrik Rystedt: Exactly to that point, we've been resilient in past recessions for a very long time in most of our businesses. But you're right, it's different this time. I think one thing that you already said, Magnus, but is worth highlighting, is typically some of the emerging markets tend to depreciate their currencies. And this is also why we have more flexible pricing possibility in those countries.

So we have been able to compensate quite often when that has happened by raising prices. And of course, the uncertainty in this case is whether the economy or the economic GDP development will allow full compensation or so. But the uncertainty is very high. So of course, we will try, as you said, earlier, Magnus.

Operator: And your next question comes from the line of Karel Zoete from Kepler.

Karel Zoete, Kepler: I have two questions. The first one is on the mix, as mix was quite strong in the first quarter. Is that something we can expect to continue? Or has the promotional share been very low and once that normalizes, mix goes down as well?

And the second question would be on China. What are your learnings now the lock down there is stopped? And does the business go quickly back to normal? Any insights here and how that would play out in your European business, potentially?

Magnus Groth: Okay. Maybe I start with the second question and leave the mix question to Fredrik. Of course, we don't give any numbers about the actual quarter that we're in, and I don't have that information either. But I guess, what we saw was a gradual opening up of China. To what extent that will continue, we don't know. And also to what extent that will go back to normal, we don't know either.

But we do believe that there is a shortage of product in the entire supply chain. So with the retailers and the distributors and all through the chain, so there should be kind of at some point, some kind of recovery. But how big it is, I think it's very difficult to say.

What we could see from the first quarter in China was that online sales was 40%, which was an all-time high. So there is a big channel shift here ongoing where we are well positioned.

What we -- I think, can expect for the second quarter is a more challenging conditions in Southeast Asia, which is approximately 20% of Vinda sales as they enter the same phase of the pandemic as Europe is in now. So some relief in China, but more challenging business conditions in Southeast Asia. Fredrik, do you want to talk about the mix?

Fredrik Rystedt: Yes, I can start, and then maybe you can fill in, Magnus. I think just if we look at historic figures, we have seen a very, we've actually seen a positive mix for quite some time.

And typically, product mix has been favorable. We have invested a lot, as you know, in innovation, and this is clearly paid off from a product mix perspective. We've also worked very hard with the portfolio strategy of the group. So category mix has also been positive.

We are typically growing where we have higher return. And finally, I think on the positive side, brand mix has also been positive. So we tend to, in most of our, where we have both retail brand or private label and branded business, we have grown in the branded side. So all those three parameters have been positive also before.

There has been a little bit of negative geographical mix as emerging markets has been growing a little faster than the mature markets. And of course, with slightly lower margins. So that's been history. And if we look at January, February, mix was quite positive also before COVID.

And then March with that additional volume, we saw actually a quite strong growth in our branded assortment, in Consumer Tissue, contributing to a good mix. And just generally, a very, very strong growth in the mature side of the business and therefore, also bringing in additional mix.

Now the future is, of course, quite difficult to estimate, and we don't do that. We don't provide those forecasts. But generally, of course, the ambition is to, as things over time normalize, to continue the good mix development that we've seen for quite some time.

Operator: And your next question comes from the line of Oskar Lindström from Danske Bank.

Oskar Lindström, Danske Bank: A couple of questions from me here. I mean, just again, coming back to the pricing or price/mix that you had in the quarter, what do you see -- the price/mix you said was primarily a consequence of mix -- improved mix, which is not so much a COVID-19 impact, but more part of a longer-term trend. I mean, what do you feel that the competitive environment is like now.

Are competitors using the relatively low raw material prices to cut prices? Or is there a sort of still a focus on recovering margins among your competitors? And also, is the European -- lower European Consumer Tissue price now fully in the Q1 results? Or should we see more impact from that in coming quarters? That's my first question.

Magnus Groth: Okay. When it comes to impact on then, mostly what competitor behavior in Consumer Tissue in Europe, but actually also globally. I think that all competitors have been completely focused on supplying because there's been such an over demand in many product areas.

So everyone's been focused on fixing the logistic, the distribution, the warehousing, keeping the plants running, safety protocols for employees, minimizing the risk for reducing absentees in the plants. So there hasn't been any time actually for any pricing or price/mix discussions, in general.

I think this goes for -- and in the relative game, the winners have been those who have been able to just supply. That's been the fact in the first quarter. And I think that's still where we are. So I don't really have any information to give on pricing or price/mix developments.

And the impact of the low single-digit price cuts that we took in Consumer Tissue that we announced in the Q4 presentation, I think they're all in, more or less, now.

Oskar Lindström: All right. And my second question is on the Medical Solutions segment, I mean, which continues to perform poorly. And I mean, I realize the negative number in this quarter was due to the impact of the pandemic.

However, I mean, it's been performing quite poorly for a while since you acquired it, and it's quite far in terms of organic growth from, I think, you mentioned 4% market growth when you made the acquisition. I mean, what's the plan here for improving performance in Medical Solutions? And what's the sort of timeline? Or when do you think we will have -- we'll see better performance here?

Magnus Groth: Yes, we've been working according to a plan that we have discussed several times here, and felt quite good and moving into this year with actually big improvements in organizational setup, in go-to-market, in modernizing the different brands, and the product portfolios, and so on and so forth going into the year, and we also saw the positive impact at the beginning here of the year.

A lot of this now is just not possible to continue with -- due to the situation that when it comes to the compression part of the business, consumers and customers cannot actually buy the products at this point in time because they are not able to access the medical device stores or the health care institutions where they need to go to do the measurements. And for orthopedics, as I mentioned, there is a negative impact from just the fact that people are staying at home. So lesser -- lower demand.

So I think this is now a temporary negative impact that also slows down our possibility to really kick start and get this business going, where we were feeling that we had a great momentum here at the beginning of the year. So that's just a fact. And we'll get back to this as the situation normalizes.

Oskar Lindström: All right. And just my final question is on the FX. I mean, as you mentioned, there've been some quite large currency declines in some emerging markets. I've seen around 20%.

I mean, has this impacted your earnings already in this quarter? And how long will it take for you to sort of recover in -- through price increases? I mean does that happen next quarter? Or are we talking six to 12 months?

Magnus Groth: Fredrik, do you want to --

Fredrik Rystedt: It's a super difficult question to respond to, Oskar. First of all, there's been very little impact this quarter to start with. So this is mainly ahead of us. And of course, it -- so currency depreciation is largely having an impact on purchase raw material as an example or other purchased goods and then, of course, one, we need to compensate through increasing prices.

And as I mentioned earlier, the ability to do so will, of course, depend on the economic situation for the countries that are impacted. So it's very, very difficult to say.

But we have been able to do that before. We had -- just as an example, 2015 was a very similar situation in terms of currency, and we were able to fully compensate at that point through price increasing. But of course, the situation is very, very different at this stage. So we just can't say whether we are able to do that. We will try, of course.

Oskar Lindstrom: All right. But it's not as if you have sort of any automatic clauses in contracts or anything that sort of kick in immediately?

Fredrik Rystedt: No.

Operator: And your next question comes from the line of Iain Simpson from Barclays.

Iain Simpson, Barclays: Can we talk a little bit about input costs, please, in particular, it'd be great to know how you see pulp prices developing from here and whether there's any sort of COVID-19 impact on the supply-demand balance in pulp? It would also be great to get a comment on your oil exposure.

In particular, I suppose it's a raw material for superabsorbent polymer, but also feeds into your energy and logistics costs. So anything on the sensitivity there? And how much of a lag before it shows up in the numbers, would be welcomed?

And then if I may, looking at Professional Hygiene. Clearly, a very strong performer in March with the distributor stock loading.

But when you think through your Professional Hygiene business, what proportion of sort of end demand remains open during lockdown and what proportion gets shut? I mean, I understand it's mostly sort of restaurants, hotels and offices. Any idea as to how to think about that, would be very welcomed?

Magnus Groth: Fredrik, if you start with question 1 and 2, I will talk to question 3 about Professional Hygiene.

Fredrik Rystedt: Yes, okay. I can start with the oil based. So it's, of course, oil based -- we got oil exposure in a couple of areas. So mainly, of course, in the raw material purchases that we have for Personal Care.

So the oil based, it could be back sheets or SAP or other types of products and adhesives, whatever. And if you look at the total cost of those oil-based materials in Personal Care, they were amounting to roughly about SEK 10bn or a little bit lower than that.

So it's a significant exposure. Of course, it's -- that's the total purchase, but it's not fully kind of oil based. There is a lot of kind of other content in those products. So oil is not fully impacting. You cannot translate an oil cost reduction fully in the material. We've made a couple of examples historically, Iain, and you may remember that.

But assuming we have a 10% oil decrease and that's sustainable then, over time, indices for the plastic polypropylene, for instance, will go down. That will actually mean, if you take an increase in or a decrease in polypropylene, that will mean for us about a 2.5% decrease in SAP. It's a little bit different depending on material. So if you take non-woven, for instance, the impact is slightly bigger.

So the oil price, providing that it actually stays on this level, will have a positive impact. But just to remind about the obvious, we have a fairly long lag here, about six months. So the impact is not kind of anytime soon. So we will have to see the sustainability of it, and then we will see a positive impact as we go forward.

We also have about a lot of oil in, of course, in the transportation cost. So if you look at all the transportation costs, it's about 20% to 30% of the total transportation costs we have.

And also there, we have a considerable lag. We got lots of contracts where you have kind of price adjustments that are done when we kind of renegotiate the contracts and then there are more floating oil-based products. So there's going to be a positive impact, but also there, with a lag. So this is more in the future.

Magnus Groth: And pulp prices, did you mention that?

Fredrik Rystedt: Yes. I don't have much to say there. There's been, of course, a lot of analysis already made by others, and it's inherently very, very difficult.

I think the -- there has been some attempt to increase prices already at this point of time, and we've seen some limited price increases on softwood pulp and not so much for the others. But of course, the expectancy is more towards the latter part of the year that pulp cost will increase, but it's, of course, inherently difficult and uncertain in these times.

Magnus Groth: Okay. Yes. And what we're seeing is an increase in recycled fiber because of a lack of supply. Since people are working from home, they're using less -- there's less sorted office waste to turn into recycled fiber, and that could also potentially then drive pulp prices going forward.

Moving then to Professional Hygiene. We have approximately 40% of sales in hotel, restaurants and catering and 26% of sales in the commercial area. So large exposure actually to those areas that are heavily affected. So they will be impacted, for sure, by the lockdowns that we have in big parts of the world today. And then we have approximately 12% in health care.

So that's a smaller part of our sales but, of course, that's growing extremely well in these times, in all areas, not only in tissue, but also when it comes to soap and hand sanitizers. So that gives you a feeling for the breakdown of the Professional Hygiene sales in different areas.

Operator: And your next question comes from the line of Linus Larsson from SEB.

Linus Larsson, SEB: And maybe if I may then continue on Professional Hygiene and the very strong price/mix that you reported in the first quarter. Would it be possible to break that down in any way?

Have you agreed on any price changes in the quarter? What's the sequence of events going forward in terms of contractual developments? Is this a reflection of new customers coming to you? Is it mix? If you could just add some granularity to that figure, would be very helpful.

Magnus Groth: Difficult to add granularity, but here's an area where we believe that based on our strong brand, our strong product portfolio and our high service levels that we are actually winning, especially against the smaller suppliers who we know, to some extent, have had supply problems.

And we also entered this year with a very strong portfolio and increasing share of strategic sales from higher-margin products. So all of that is contributing.

Just out of interest, we have a number of customers, many customers who are asking us to replace air dryers with paper towels. So this is a trend that can, of course, not offset in the short term, the negative impacts from lockdowns. But in the long term, I think this is a trend that's beneficial for Tork and Essity.

Linus Larsson: And there's nothing in that number, in the first quarter, which -- anything that happened during the first quarter that would suggest that you have a backlash in terms of price/mix to expect in, say, the second quarter?

Magnus Groth: I think the issue is volume, as we've mentioned many times, rather than price/mix. Fredrik, do you have anything to add here?

Fredrik Rystedt: No, I fully agree. I think we had a very, very strong price mix. So it's a bit positive on price and a very good mix. And of course, this was and the comments made earlier as to what happened during the quarter. Jan, February was very, very strong and, of course, further improved by March.

So for most of our areas, we had a very good mix of sales in the March figures. So the numbers look very, very strong. So partly, of course, as we have said many times, due to COVID, but the underlying performance is strong. So nothing more to add.

Linus Larsson: And also then in the same business area, Professional Hygiene, on the volume side, like you have said several times, very strong in the first quarter. But now, we are at least some days into the second quarter, are you seeing a reverse in terms of buying and the stockpiling that did take place, is that now reversing in the second quarter?

Magnus Groth: We can't comment on that, Linus. So I know that it's very, very difficult to estimate what will happen here going forward, and we don't know either. The only kind of reference that we have is what happened in China and in Southeast Asia, where there was a considerable decline in sales for all the reasons we just mentioned, basically lockdown.

Linus Larsson: Yes. That's fair enough. And just one final question. You said, Magnus, that you are back in M&A mode yet, your Board of Directors prudently decided to postpone the dividend. Are you suggesting that you might do even big type M&A in this sort of environment in the next couple of quarters?

Magnus Groth: We have incredibly high uncertainty currently in the world, and most of us are working from home and unable to travel. So I think the opportunity to close any transactions here in the foreseeable future, it's very, very, very difficult.

So that, and also the financial uncertainties and the uncertainties where around pricing and so on, will make it very, very difficult, if not impossible, to make any transactions. And of course, so it's the same logic as our decision to prudently not provide a dividend at the Annual Shareholders' Meeting.

But of course, with the statement that the Board will come back with a proposal for an EGM later in the fall, depending on when we have a better outlook on the uncertainties surrounding the current situation. So of course, that statement also goes for M&A in addition to the fact that it's almost impossible to work on this right now.

Operator: And your next question comes from the line of Virendra Chauhan from AlphaValue.

Virendra Chauhan, AlphaValue: And I have one on the EM versus the mature market growth. So while you have said that in mature markets, probably stockpiling played an effect.

I'm just trying to understand why we didn't see a similar kind of effect play out in the emerging markets, probably was -- why is there a difference in customer buying behavior, if that's the case, firstly? Or was it something of a supply side constraint which particularly hindered your performance in Asia? So that's the first question.

And on the second question is that with the March growth of 19.7%, it effectively looks like January and February was relatively weak at sub-2% growth rate. So any comments on that as to what really drove that, I mean, apart from maybe China and emerging markets weakness coming earlier in the quarter? Was there any other factors, please? So those were the two from my side.

Magnus Groth: So I'll start with the first and leave the second to Fredrik. And actually, we did see considerable stockpiling also in Latin America, which then explains the high-growth numbers that we saw there. And also in some other, what we define as emerging markets, like in Eastern Europe and Russia.

While that was completely offset by the very negative growth in China and in Vinda, which was then mostly from China. So actually and of course, in China, this was due to the lockdown. So we did see stockpiling in Latin America, which is at different phase, as you know, of this pandemic.

They are just entering into maybe the worst part right now. So I think there are no other reasons really why the numbers look so low for emerging markets. There was stockpiling where there were not lockdowns.

And there was also some impact on sales for Vinda from the fact that 25% of production was closed until early mid-March because our biggest plant in China is located in the Hubei province, which is part of the Wuhan area, which was closed. So we did have some capacity constraints in China at the end of the quarter when things started opening up a little bit again. So minor impact from that.

When it comes to the underlying growth in January and February. Fredrik, could you elaborate on that, please?

Fredrik Rystedt: I guess, from the numbers we have provided, you can calculate basically what was January, February, and you come to the number of 1.2%. And this is, as Magnus already said, very much impacted by Vinda.

So if you would do the same calculation, excluding Vinda, January, February, you would come to a growth number of 3.2%. So clearly, normally, Vinda is contributing a lot to the growth of Essity. But of course, this time, it was just the opposite. So excluding Vinda, as I mentioned, 3.2%. So strong underlying growth in January or February, without the COVID impact.

Virendra Chauhan: Okay. So maybe just one quick follow-up, if I may. Is the Hubei plant operational today?

Magnus Groth: Yes, everything is up and running and working well.

Operator: And your next question comes from the line of Faham Baig from Credit Suisse.

Faham Baig, Credit Suisse: I have a couple of broad questions, if I may. Firstly, if I could start with underlying tissue demand. So I want to try include both the Professional Hygiene consumption and the Consumer Tissue consumption. Net-net, do you think that -- does this environment prove a headwind for you guys or tailwind or neutral?

Because what you're seeing the reductions in footfall in the various out-of-home categories, I would expect you to see significant retail consumption as people are more at home. And partly related to that, your European growth, I guess, in March was probably between 20% and 30%.

But the demand for the tissue category, I believe, in March, was 50-percent plus and probably is trading at a similar level in April. How do you match that gap between your sell-in versus the sell-out data we're seeing? And do you expect that sort of restocking measurements to take place in the foreseeing months and quarters?

And on the second question. We are, like you say, in lockdown, constrained at homes, et cetera. How will that impact your decisions around innovation, your decision on A&P spend, your investments going forward and also your CapEx levels for this year as well?

Magnus Groth: Wow, and it's already 10:00. I think, I will try to answer this as best I can. And then there's room for one last question after this. These are very interesting questions.

Yes, what's the impact on net-net on tissue. We've tried to really dig into this and understand what it will be and actually, we don't know yet what the net-net impact will be. What we do -- what I agree is that, of course, consumption at home increases. So it's not only stockpiling.

There also impact from just more usage at home of tissue products. So that's partly offsetting the reduction in Professional Hygiene. But I would be surprised if that would be a complete set of just for the fact, for instance, that paper handtowels are frequently not used at home, for instance.

So -- and also, of course, maybe you don't use napkins to the same extent as you do away-from-home when out having fast food and so on. So I think the net-net effect will still be negative for those reasons in that many of the Professional Hygiene categories don't really exist at home. Maybe in toilet tissue, the difference will not be that big.

Number two, yes, the lockdown impact on A&P, innovation, CapEx. Since the plants are more or less closed to external contractors, engineers, different types of projects, it is likely that capital expenditure will be lower than the SEK 7.5bn that we have mentioned before. How much lower? We'll have to get back to that. It's very difficult to say.

When it comes to innovation so far, we're able to continue working. But eventually, if innovation leads to changes in our supply chain, of course, that will be more difficult in some cases. But for now, we're continuing with innovation work, of course, the R&D work and so on and with the product launches that are possible to do. And we have a pipeline there.

And A&P, where we were expecting and I think also forecasting a higher A&P this year than last year, percentage-wise and also higher in the coming quarters and this quarter's, let's see where that ends up. Of course, there has not been the same need for A&P in Consumer Tissue as maybe we had expected. So I don't think it's going to be higher rather, if anything, lower, but too early to tell.

Faham Baig: Could I follow-up with one question, please. On Consumer Tissue, would it be fair to assume that the current supply is lagging behind the current end market demand? And if so, how are you looking to bridge that gap going forward?

Magnus Groth: No, there is enough supply, for sure, for the demand, then there might be some variations in the supply chain, if -- depending on where the stockpiling has taken place, if it's in the homes or with the retailers or -- which, I don't think or with distributors and so on. But there's not a lack of supply.

Fredrik Rystedt: Maybe to add, Magnus, I guess, the inventory levels are quite low. At least it’s our perception that inventory levels are quite low with perhaps retailers, distributors and also our own inventory, to some degree, is -- so part of the increase that you mentioned has been met with lower inventories generally. And of course, there is a rebuild that will happen.

Magnus Groth: That's a good point.

Magnus Groth: Operator, could we have one last short question, please, before we sum up.

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

Karri Rinta, Handelsbanken: Karri Rinta, Handelsbanken. In your EBITA deviation analysis, you have the other line, and it's minus 19 for the first quarter. Could Fredrik, maybe go a little bit deeper into the minus 19, and maybe single out some of the biggest items and say, as much as possible about the outlook?

Fredrik Rystedt: Sorry, the other line?

Karri Rinta: EBITA, so earnings, so minus 19 year-on-year?

Fredrik Rystedt: Yes. I mean we -- we can maybe provide those details to you in a separate call, Karri, if that's okay with you. But just generally, as we've already alluded to many times before, we have increased our spending on innovation and investments in growth in more sales resources as we have talked about.

And we also have some additional cost which is partly related to COVID also in the production side. So these are the main, the bigger items that we have in that line. So mainly SG&A, A&P and COGS increases and those last partly a consequence of COVID.

Karri Rinta: Roughly, how much is that last one?

Fredrik Rystedt: Yes. We haven't specified that in detail, Karri, but it's a part of the number.

Magnus Groth: Okay. So with that, thank you so much for calling in and for your questions. And to sum up, we had an excellent start to the year. I'm very proud about all the efforts our employees are doing now to deliver these products that are so important to society, to our consumers and to our customers and continuing to go to work every day in this environment.

And we are entering a time of great uncertainty. But for the long term and for the short-term relative to the competition, I believe that I'm convinced that Essity is very well positioned. We entered this year with a lot of confidence and with good momentum, and we will make sure to put that to use now in this very unusual circumstance that we're in. So thank you so much for listening and stay safe.

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