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Magnus Groth: Good morning. So the third quarter showed strong organic net sales growth of 5.9 percent and higher adjusted EBITA margin in all business areas. And the performance benefited from higher prices, better mix, high volumes and cost savings in all business areas. And in addition to this, for the first time since the split 2.5 years ago, we saw lower raw material costs compared to a year ago and lower energy costs.

We still have a significant negative impact from stock revaluation impacting margins. In spite of this, and thanks to very strong cash flow, earnings per share increased 150 percent to SEK 3.53.

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And to look back at the 2.5 years since the split in the second quarter 2017, this is the best performance we have seen not only in absolute numbers but also when it comes to the organic net sales growth of 5.9 percent that you see at the bottom of the box to the left, and also when it comes to adjusted EBITA margin in the bottom right-hand corner.

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So a very positive development. And this comes from both price/mix and volume, as I mentioned, and all business contributing. We had a slight negative impact outside of the organic net sales from the divestment of a joint venture in Turkey that we have communicated earlier, and that's part of our Cure or Kill program.

We had a very positive impact or contribution from the weakening of the Swedish kronor of 4.3 percent, adding up to a total net sales increase of 9.8 percent.

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Moving on to the adjusted EBITA, again, a very positive development. And contributions from price/mix, volumes and for the first time again since Essity was split out from SCA, a good contribution from raw materials.

However, this is a mixed picture, the SEK 409 million you see there is primarily benefiting Consumer Tissue with SEK 344 million, professional Hygiene, with SEK 170 million, while we still have a negative raw material impact on Personal Care of SEK 105 million. And most of this negative impact on Personal Care and actually, overall, is a big negative currency impact on raw material costs from the strong U.S. dollar of close to SEK 200 million.

Energy was also positive. Overall cost savings, combining the ongoing cost savings in cost of goods sold and the defined cost savings programs was strong at SEK 271 million. However, the mix was a bit different, and I'll get back to that.

The cost savings program is well on track with SEK 179 million in the quarter. We have yet another quarter with high other costs of minus SEK 773 million. And the large portion of this is higher sales and marketing costs in order to support the really good growth that we've seen on the previous slides.

And again, a big negative stock revaluation number of SEK 195 million, and the rest is made up from higher distribution costs.

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Raw material development, as you can see from this slide, most of the graphs are pointing down, and our expectations for the fourth quarter in Personal Care that we expect quarter over last year's quarter, stable raw material costs and also quarter four over quarter three, so sequentially stable raw material costs.

In Consumer Tissue, we expect significantly lower raw material costs in quarter four over last year's quarter and lower costs sequentially, while for

Professional Hygiene, it looks slightly different with significantly lower costs for raw materials in the fourth quarter compared to last year, while we expect the cost to be stable sequentially for Professional Hygiene.

And when it comes to energy, finally, we expect energy cost to be stable compared to the same quarter last year, but higher sequentially due to seasonal impacts.

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Digging into some more detail behind the COGS savings where we had lower COGS savings than in previous quarters of SEK 92 million due to temporarily higher production and distribution costs and what we list here is start-up of new production capacity, higher pace of product launches and higher demand.

And we have a very strict definition of COGS savings, which means that any additional costs that we have in COGS actually are counted against the savings so that we are looking at net savings here, which I think is the right way to do it, which means that even though we continue to have good savings from Tissue Roadmap, operational efficiency improvements, material rationalization and sourcing savings.

This is unchanged. When we are starting up a machine, and we have low capacity utilization, we start depreciation and so on. This is a negative saving. And then we have had some issues also in start-up of new production capacity as we have a lot of innovation with new products that requires then running in of new machinery.

And talking about the strict definition of our COGS savings. There's word there and the first bullet point says that the lower savings came mainly from start-ups, higher pace of launches and high demand. Actually, there's also a component in here of accruals for higher bonus payments due to the strong performance and also higher pension costs due to lower interest rates, which we also then net from the savings. So I think that's important to note. You could argue, is that really negative savings, but that's how we account for it.

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And then the defined cost savings program that we launched a little over a year ago, with the main impact in SG&A costs, which is well on plan to deliver annual cost savings of SEK 900 million. And then for this year, SEK 600 million.

And as you can see here, the annualized run rate cost savings after three quarters was already SEK 799 million. So we're getting close to the SEK 900 million run rate and the headcount reduction is now adding up to 880 positions out of the 1,000 positions we mentioned, and we will hit that number by the end of the year since many of these headcount reductions will actually happen at the end of the year.

So that means that our ambition for this year, again, is well on track. And combined then, the overall savings lead to lower SG&A costs as part of – as a percentage of sales, this is important to note so that even though we need to support the growth with higher SG&A. We stay focused on lower SG&A as a percentage of sales.

A little caveat here because in the fourth quarter last year, we had very low SG&A as part of sales since we were working very hard to cut costs in the short term. As you remember, since – at that time, raw materials were really, really heading for the cloud. And so that will be a difficult comp, but still our ambition is in spite then of tailwinds from lower raw materials to be very much focused on cost efficiencies throughout the business.

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Innovation. We had an exciting quarter when it comes to innovations. And just to mention a few here in TENA, we are now completely relaunching our entire assortment with new pack design, a new logo, that's more consumer-oriented and inside the packs, a number of new exciting innovations.

I want to mention also new Tork dispenser, which is fulfilling an unmet need that we have been – that we identified a couple of years ago, which is an electronic drive-through dispenser. So the customer need here is that in drive through situations, it's time-consuming, and there's a waste of paper in picking napkins from a normal dispenser.

So we have designed the dispenser that can pre-deliver a set number of napkins for the operator who is providing the services in the drive-through setting. So again, adding some new exciting functionality to our Tork range.

And then finally, to the right Leukoplast, which has a 100-year heritage, has a very strong clinical product that we are now actually launching in the pharmacy channel.

So towards consumers, and that means that we have revived the packaging. We have a complete assortment, that's very exciting, and you will see Leukoplast now in pharmacies in a number of countries going forward in retail.

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So I look at the three business areas separately, starting with Personal Care, where organic net sales increased to 4.5 percent, coming both from volume and mix. And there's one exception here, as you can see down in the right-hand corner, when it comes to the growth, which is Baby Care, which had a slight negative organic net sales development.

And this is due to the development in Russia that we also announced that we're pulling out of open diapers in Russia after a number of years actually of struggling in this specific category in the specific country. And as I always say, we're doing great in Russia in all other categories and very much supportive of the development there.

Medical Solutions returned to growth of 1.5 percent, which is a good improvement over the last quarter, not where we want to be. We want to be growing at over 3 percent. We continue with our improvement plans and expect that to improve gradually, but that it will take another couple of quarters before we're back where we want to be in medical, but still an improvement.

When it comes to the adjusted EBITA margin, there's a slight improvement of 50 basis points. However, we have to take into account that we had 100 basis points of negative impact from raw materials, which is mostly then currency-related. We also had a relatively high negative impact from additional costs for medical device regulation, which impacts not only our medical business, but also our inco business and higher distribution costs.

And as I mentioned, we announced the exiting of open baby diapers in Russia as part again of our ongoing Cure or Kill efforts.

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Consumer Tissue with a fantastic organic net sales growth of 8.1 percent. And as you can see in the bottom right-hand corner, very strong growth, both in mature and emerging markets, where the volume components comes very much from Asia and Latin America, while very good price/mix contribution is mostly then the European Union and the LatAm or Europe and LatAm, where we see a very strong mix improvement due to high sales of branded products and actually stable sales of private label.

This business area is negatively impacted by stock revaluation. In spite of this, we have an adjusted EBITA margin improvement of 500 basis points. Of course, 330 of this comes from raw materials, but strong contribution still from price/mix as well. So very positive development here.

Again, higher distribution costs and investments in growth, especially in the emerging markets.

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Finally, Professional Hygiene, which has another quarter with strong improvement everywhere.

And again, positive growth in North America, where organic net sales increased with 5 percent and coming from both volume and price/mix. The EBITA margin improvement of 250 basis points is actually similar to the improvement in raw materials, but we have to remember that this is a business area that's negatively impacted both of from stock revaluation.

But actually, with all the innovation that we have coming here, and we are launching – we are investing in SG&A, because we think we have a lot of good things going for us in this business area, which also has a negative impact on the margin. Still a strong improvement compared to third quarter last year. And as you can see down in the right-hand corner, the organic net sales was strong, both in mature and emerging markets.

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Finally, something about our digital journey and as you know, we have approximately 10 percent of our sales online and might not sound as such a high percentage. But actually, we had a discussion here with some other industries and someone said, but that's actually SEK 1 billion per month that there aren't that many companies around that are such huge online companies actually in comparison.

And I think that's something worth noting. This would mean that we have over $1 billion or over EUR1 billion of sales online on an annual basis. And of course, this is growing month-over-month and quarter-over-quarter over quarter. So it's just showing that this transition is working very smoothly and that in most markets, we are overtrading in the online channel.

So this focus, which, of course, requires investments as well is really paying off. And just as a fun fact, maybe to the right, we are launching a new app in collaboration with the World Health Organization on patient safety based on the insight that 80 percent of health care professionals would like to improve their hand hygiene compliance.

And this is an app that can then where health care professionals can train on then how to use hand sanitation in the most efficient way to always comply with hand hygiene regulations. And of course, this again just shows what can be done with new digital tools, strengthening the Tork brand and our presence in health care in general.

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So with that, summing up, strong organic sales growth, improved profitability in all business areas. This comes down to the bottom line. As you can see from the EPS improvement of 150 percent. We continue to have a high innovation pace. We support this with investments in growth with higher sales and marketing costs, but being very cautious that we try to keep this lower as a percentage of sales. And of course, a continued cost and efficiency focus, even when we have raw material tailwinds. This is as important as ever.

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

Joséphine Edwall Björklund:

Yes. So please, operator, if you can handle the Q&A session and open up this for us.

Operator: Your first question comes from the line of Celine Pannuti from JPMorgan. Your line is open. You may ask your question.

Celine Pannuti, JP Morgan:
Yes, good morning. A few questions for me. First of all, in terms of the pricing, can you give us a bit of a flavor for the outlook? Because, obviously, you had positive contribution this quarter, and we started to see the benefit of lower raw mat. So how should we look probably into Q4, but probably more importantly, into next year for pricing in Consumer Tissue and Professional Hygiene, please?

And second, in terms of the raw mat outlook that you have given us for the next quarter. Could you similarly give us an idea of how the other costs outlook looks like, and especially on the revaluation item? And what should we expect? And then lastly, digital. Could you give us the growth that you have in the digital sales? And how does it split? Where are you that you see more digital? Is it because of the China weight? Or are there other areas where you have made big inroads in digital?

Magnus Groth: Thanks, Celine. A lot of questions. In the fourth quarter, we expect to see the full benefit still from pricing. And we, of course, in the fourth quarter, also starting the negotiations for next year for some of our contracts. As you know, many of our Consumer Tissue contracts can be renegotiated at any time in Europe.

And our customers are seeing the lower raw mat costs, and this will be a big discussion point. We don't know where that's going to go. We strongly feel that the prices that we see in the market are relevant and leads to a healthy profit level in our industry that we need to invest for the long term.

So that's our definite starting point for this upcoming negotiations. Professional Hygiene, I think, is less subject to changes in raw materials. First of all, they haven't been as volatile as for the fresh fiber, the recycled fiber has been moving a little bit less, and it's less about the price per roll and more about system sales and solution sales.

And I believe that we're more resilient to raw material changes in Professional Hygiene, and we expect to negotiate about price increases as we do every year in Professional Hygiene. Your second question, raw materials and other costs in Q4, we will have a negative impact from stock revaluation.

Fredrik, maybe you want to?

Fredrik Rystedt: Yes, Celine, just – I think, we will have, as you know, stock revaluation is a consequence, it's actually derivative of whatever happened last year and what happens this year. So two things. Last year, we had a positive impact of SEK50 million in Q4. And of course, that will be correspondingly negative. So we know that will be negative also in Q4. And then we've also seen, and Magnus talked about it before.

We still expect cost going down for raw material, which will create a negative revaluation in this year also. So if you combine those two, we will see a negative number. So whether it will be the same numbers as this quarter, SEK200 million or some other number is, of course, difficult to tell at this point, but it will still be large.

So in this vicinity. And then Magnus has already mentioned, the SG&A cost of the other cost. We will have high cost increase also in Q4. Actually, if you remember, last year, we really, really cut cost, everything from travel to conferences to – well, all basically project costs, et cetera.

We did cut that in Q3 and especially in Q4. And now we're back to more normal – normalized levels. Of course, we have the cost savings program. But if you take the other costs, we will expect to have a high SG&A cost, an increase also in Q4.

So you will see exactly what level it is, for the total. It's difficult to tell, but it will be high, as you have seen also in Q3.

Magnus Groth: And then the third question about digital, a big contribution comes from Vinda and China specifically, of course, and they continue to grow double-digit there. But we see double-digit growth in our online sales in most geographies. In Latin America, it's still very, very small, but I think we're at the forefront there.

And maybe, especially, we see a positive development in Professional Hygiene and also Incontinence. So in the Incontinence, it's our own online web shops and in Professional Hygiene, it's through our online distributors and new channels, actually.

And that's a big opportunity to grow going forward.

Celine Pannuti: Thank you.

Operator: Your next question comes from the line of Karel Zoete from Kepler. Your line is open.

Karel Zoete, Kepler Cheuvreux:
Yes, good morning. Thanks for – thanks for taking the questions. The first question is with regard to you're mentioning the impact of accelerating pace of product launches. If we think about volume growth in the third quarter being very good. What should we expect in terms of impact from these launches going forward? Is that something that will sustain?

And the second question is with ...

Operator: Hello, the line has – the line got disconnected. You may press “star,” “1” again to ask a question.

Karel Zoete: Hi. Can you hear me?

Josephine Edwall Björklund: Yes.

Karel Zoete: All right. The second question is with regards to – the third question with regards to the Fem Care performance, that was very strong in the third quarter. Can you elaborate which markets did particularly well?

Thank you.

Magnus Groth: OK. Thank you. The first question about innovation. This is something that's very much in focus over the long term, and we are becoming more efficient in our innovation efforts and also in how we launch and support our products once they're in the market. And there's nothing specific, disruptive, I think, in the short term, it was more a statement from my side of just the importance of this – of innovation and how we work continuously to improve in this area, rather than any specific changes in the short term.

The second question, I'm afraid we missed because you were cut out there for a while. And Fem Care, Fredrik, do you want to elaborate on that?

Fredrik Rystedt: No, we had a very good development in Latin America primarily, but actually, we had good volume development everywhere. We just launched, you will remember, we launched recently also in China and that has also been a good development.

Of course, the numbers are still very small as the base, starting base is also very small. So it's not really a big part of the impact, but it's still positive. So Feminine keeps on doing very, very well, both in terms of volume and price/mix.

Karel Zoete: All right, thank you. The second question was on the Leukoplast rollout. Can you highlight which markets you're particularly starting with the rollout in pharmacies?

Magnus Groth: First of all, it's a German-speaking countries where Leukoplast is already a household brand. So Germany and I'm not – I don't want to overpromise. So consumers start looking for it, where it's not launched yet, but I think it's also in parts of Benelux.

But definitely, Germany.

Karel Zoete: All right, thank you.

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

Iain Simpson, Barclays:

Good morning. Two questions from me, please. Firstly, it's very impressive to see that pricing tick up in tissue, given the comparison you've got there and also the ongoing raw material deflation. So it'd be great if you could give some color on which regions you took incremental pricing in Consumer Tissue during the Q3, please?

And then secondly, you've clearly – this has been a great quarter for innovation launches for you. I guess, how should we feel about the phasing of your innovation launches over the coming quarters? Is this the quarter where a lot of stuff goes into the market? Or do you have a pipeline where we could see more stuff coming in, in Q4 and maybe some more stuff next year and the level of launch would be comparable.

Thank you very much.

Magnus Groth: Thank you. Yes, we don't give specific information. In the third quarter, we didn't have much additional pricing in Consumer Tissue, because raw materials are coming down. So the positive impact that you see in the quarter is from price increases we made in the first half of the year and the end of last year, even and which will then gradually roll over and come out of the comparisons going forward.

But of course, this quarter and next, we have the benefit of having both the very positively from price increases and the negative raw materials. And when it comes to innovations, again, my statement was more of a general nature that this is incredibly important for us, and we feel that we have a strong pipeline and are launching some great innovation rather than that we will see some specific benefits in specific quarters.

Typically, quarter two and three are the strongest innovation quarters for us because in Q4, there's a focus on Christmas, and Q1 is typically slow. So we typically have most innovations in the second and third quarter.

I mean, however, we made – we had some launches here over the last two years that are really, really contributing that the growth you're seeing and maybe the most important one is the PeakServe dispenser system in

Professional Hygiene, which actually is visible in terms of basis points now in our growth.

We've never had actually a product growing so fast as PeakServe, which is, of course, the high-capacity dispenser, which was designed for stadiums and then high-capacity locations, but turns out to be incredibly attractive, actually in a much wider range of settings. And another one, even though it's at lower volumes, but that's really growing is the coreless toilet tissue that we launched in Germany and France a year ago, and we will be adding some more converting capacity to manage that increasing demand.

So trying really to differentiate also in the Consumer Tissue category in Europe, which, as you know, is a very, very price competitive market.

Iain Simpson: Just to follow-up very quickly, if I may. Your Consumer Tissue pricing in the third quarter was higher than your Consumer Tissue pricing in the second quarter. So that would suggest to me that there was incremental pricing in the third quarter because your price growth went up.

Are you saying there was no incremental pricing in the third quarter anywhere, and that's actually just a mix benefit?

Fredrik Rystedt: Yes, it's largely a mix benefit. So you can say, it's sequentially flat, you can say, to some – if you take the total.

Iain Simpson: Thank you very much.

Operator: Your next question comes from the line of Oskar Lindstrom from Danske Bank. Your line is open.

Oskar Lindstrom, Danske Markets Equities:
All right. So I also have three questions. The first one is on the reduced cost, COGS, cost save, where you have a new target of SEK 600 million to SEK 700 million. I mean, is this – are the higher costs, mainly related to costs not directly related to your cost save actions? Or is it a cost save actions themselves, which have become less profitable?

Magnus Groth: OK. That's the first question. It's – yes, it's a mix, as I mentioned. So some are not, I mean, directly, actually lower savings. As I mentioned, if we have high bonus accruals or high pension cost is not really a lower saving is still impacting how we calculated since we present a net figure.

However, there are also impacts on our ongoing cost savings efforts in cost of goods sold because when we have high volumes, we start up maybe old lines. We take in extra shifts, temporary staff. All of those costs we account for as lower savings. And also, if we start up new machines. And initially, of course, you have the full depreciation, the full staffing.

And you have a start-up curve maybe over three or six months as you gain volume, that then also has a negative impact on our savings. And then in addition, in some of these cases, we actually had also production problems, adding to increasing distribution costs as we try to, to do our outmost, of course, to respect our service levels that we have agreed with customers. So that leads then to higher freight costs and the distribution costs.

So it's actually a combination of all of this. But of course, if you do the math, after three quarters, our ongoing. I mean, again, this is not a program, and this is not a target. It's more an ambition level of SEK 1 billion that we had before that we now reduced to SEK 600 million to SEK 700 million after three quarters, we have had savings, COGS savings of SEK 450 million.

And this, of course, means that we expect between SEK 150 million and SEK 250 million of COGS savings in the fourth quarter so that we will get back up to speed, which indicates that we have a lot of undergoing – underlying initiatives that are as relevant as ever before.

Oskar Lindstrom: All right. My second question is on Personal Care price increases. Is this something that you're planning to push through in the coming year or years? And what kind of timing and magnitude should we expect here?

Magnus Groth: This is, of course, necessary, being the last business area where we still have a negative impact from the raw materials. And we are doing this continuously. It takes more time, as you know, for instance, in inco health care, only 1/3 of the volumes are tendered every year. So there's a delay from that.

In inco retail, there's intense competition, which makes it more difficult to increase prices even if we are doing what we can, and we see a need for price increases there in order to compensate for raw materials and also on the back of innovation.

So we are doing what we can to increase prices, mostly then related to innovation, actually, in these areas.

Fem Care, I think we are quite happy with the margins and where we are a market leader, of course, we are increasing prices. As we see fit, for instance, in Latin America. And in Baby, we are typically not the market leader, and we work with the prices we see in the market.

We are also working with price increases in Medical, I should add, and even though – and this is then innovation based rather than raw material based since not really impacted by raw material changes.

Oskar Lindstrom: All right. My third and final question is on China and the market there. I mean, some other companies, not necessarily direct competitors of you have reported a pushback from Chinese consumers due to sort of higher food prices and kind of economic uncertainty. They've also mentioned lower birth rates, et cetera.

Is this something that you see in China as well that there is a bit of a pushback on, for example, the higher prices that have been pushed through over the past year?

Magnus Groth: Not really, actually. Even though adding to that, the fantastic growth that we see in China is partly good underlying market growth, but also coming from the fact that we are gaining market share. Year-over-year, market share is up approximately 1.5 percent, and we are now the clear market leader.

We also see an impact on top line from a big mix improvement. So a higher percentage of sales comes from the higher-priced premium products, and that's still a very positive change we're seeing. And we haven't seen any negative impact in Hong Kong, either, which is a very important part of our Chinese business in spite of the difficulties there.

So, so far, but of course, we expect to have price pressure from the lower raw material prices in China, which are coming down even faster in China than in the rest of the world.

Oskar Lindstrom: Sorry, you're expecting price pressure because of lower raw material costs?

Magnus Groth: In China, yes.

Oskar Lindstrom: When do you expect that to come through? Like are we talking Q4 already or ...

Magnus Groth: That's impossible to say. And what's always very difficult to predict in the fourth quarter in China is 11/11, the big, the big Singles Day. So I mean, it's just the fact that raw materials or pulp costs have come down faster and further in China even than in other global markets.

Fredrik Rystedt: Maybe you ask you just to add one thing. Maybe you already know that, but if you remember last year, we had a weak quarter because we raised prices in Q1 and Q2, and we had a negative impact on volumes Q3 last year. And this year, we had a very, very strong volume development.

So if you combine those two, that, of course, creates a super good quarter for Vinda. And frankly, of course, just looking at the same kind of comparison, Q4 was really strong last year. So just to bear that in mind that it may be quite difficult to repeat that this was a very exceptionally strong quarter for Q3 for Vinda.

Oskar Lindstrom: All right, thank you very much. Yes, good point. Thanks. Those were all my questions.

Operator: Next question comes from the line of Linus Larsson from SEB. Your line is open.

Linus Larsson, SEB:

Thank you very much. First, a question on cost savings, it sounds as if at least part of the lowered guidance is due to a delay in cost savings rather than anything else. Do you share that you and maybe more importantly, big picture is probably still that you are very much nearing completion on the announced initiatives in your cost savings program.

So entering into 2020, should we expect some new initiatives on cost savings or other ways of driving your improvement strategy? That's my first question. Thank you.

Magnus Groth: The cost – the specific cost saving program focused on the 1,000 positions in SG&A. That will be finished and by the end of the year and have the full impact, at least that we have spoken about. At this point in time, we're not planning any additional specific cost savings programs. These are always difficult to run, and we prefer to focus on ongoing savings initiatives throughout the group.

The ones we report as COGS savings in that EBITA bridge. And in that area, we see as many opportunities as before, actually, you're right that some of the positive impacts from the restructuring according to Tissue Roadmap will be less, but we will continuously look at identifying new opportunities in material savings, more efficient purchasing and efficiencies in the plants and in our operations and of course, also as well in SG&A.

And there are ample opportunities, but that's more than continuous savings that we expect going forward.

Linus Larsson: OK. You mentioned earlier on the call, with regards to Consumer Tissue that you see potential for product differentiation. I'd be very curious to hear more about that, that sounds interesting. And how do you weigh that or value that option versus some potential exits in Consumer Tissue over the next – I'm not talking about 2020, I'm talking about over the next several years?

Magnus Groth: Yes, improving mix and moving to more premium assortment is ongoing. I think the quickest development that we see already mentioned is in Vinda, where we can see that the 4D DeCo, which is the four-ply embossed products has grown phenomenally over the last year or two as well as the Tempo brand, which is our premium brand in China, which has, again, a very positive impact on price and mix in China.

Another example, a recent example is that we're starting up premium tissue machine in Mexico, which will enable us to actually have a more premium mix in that market. And during Tissue Roadmap, actually, we have also increased our premium tissue capacity in the U.K. by starting up a machine that we had there that had been mothballed for a couple of years. Some of the innovations.

It's an ongoing effort. In the meantime, we are having a Cure or Kill program. Also, of course, in Tissue, and that's very visible, even in this quarter, as our private label volumes have not increased in Europe. And the entire growth comes from the branded assortment. So that's one way of doing it, but I don't expect to see any massive shifts here.

But a gradual and ongoing premiumization and differentiation, this takes time. If you imagine the volumes that we have also on standard assortment and so on. And the assets we have for producing that. So this is very much a stepwise approach, but we are seeing the benefits year-over-year.

Linus Larsson: Great. And then just one final question. So strong results and with implications on your leverage ratios, you haven't been overly active in M&A recently. How do you see M&A market opportunities going into 2020?

Magnus Groth: Yes, when it's – we haven't been overly active, and this is since we have been deleveraging after the acquisition of the BSN. And then, of course, the very strong negative raw material headwinds that we've been experiencing now 2.5 years. We're at the end of that, and we are hitting the rating metrics, we need to hit maybe as we speak, actually.

And this will give us room for some look at M&A opportunities going forward. However, when there would be something available and that we could acquire, who knows. But it's still a part of our strategy to grow not only organically but also through M&A, and we have some more room to maneuver, which will then increase over time going forward.

Fredrik Rystedt: Maybe just to add there, Linus, we constantly evaluate whatever is out there on the market. And we have been deleveraging, but despite that fact, it's not our feeling that we have missed something because of that deleveraging. So we are constantly evaluating, as you know.

Linus Larsson: Great. Thank you very much.

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

John Ennis, Goldman Sachs:
Yes, good morning, everyone. A couple of for me, please. The first is on volume growth in the Consumer Tissue business. I just wondered if you could better run through the big drivers of that 5 percent performance and where you're seeing share gains and what you think the blended market volume growth rate would have been for your respective geographies?

And I also wanted to know if there was anything noteworthy around inventory levels in any particular region? So that's the first one on volume growth. The second is on tissue pricing. You talked about pricing pressures stepping up in China. I just wondered why this pressure is not flowing through to the European market.

Is it just because of the magnitude of deflation in China? Or is there something more structural that causes the difference between the two regions? Thank you.

Magnus Groth: OK. On the – I leave the first question to Fredrik, and I will try to answer the second question. Yes. OK. And when it comes to China and the difference I think it's just a temporary impact. The fact that there was a lot of pulp actually flowing into China as prices started coming down.

So there's actually a huge surplus of pulp available in stock in China, which will now, of course, gradually come down, and that's what's putting, adding pressure to pulp prices. And then also, of course, to tissue prices in the short term. But again, this is in the longer term, I think this will normalize, and there won't be really any difference between different geographies.

Fredrik Rystedt: Yes, John, about Consumer Tissue volumes, starting with China, very, very positive volume development there in the third quarter. If we go to Europe, we had a positive volume development very good to volume development for branded products, but we had the opposite for private label. So contraction.

And if you add those two up, in terms of absolute volume, it was slightly lower. And then finally, Latin America was also positive, not to the extent of China but positive. So that was the mix of the volume development. So quite good.

John Ennis: So is it fair to say you're gaining share in LatAm, gaining share in China, holding share in Europe? Is that a fair?

Fredrik Rystedt: Yes, it's really difficult to track exactly like that because of the private label. I mean, we're clearly, clearly gaining share in the branded segment in Europe, and that's basically where you measure. So from that angle, we're gaining market share in basically Asia or China, we are gaining on branded Europe and in Mexico. I think that's the conclusion of it. If you take the total, also including private label in Europe.

It's really difficult to say, but probably maybe overall, a slight loss that maybe even if it's difficult.

John Ennis: OK, that's helpful. And then on the inventory point, is there anything noteworthy there have been retailers? Are they stocking up?

Fredrik Rystedt: No. Not that we're aware of. No, I wouldn't say.

Magnus Groth: I don't think it's impossible. It's such a bulky, low value.

Fredrik Rystedt: It's a very short inventory turnover time. So that's not possible.

John Ennis: Fine. Thank you.

Operator: Next question comes from the line of Nico. Your line is open.

Nico von Stackelberg, Liberum Capital:
Hi there. Nico von Stackelberg from Liberum Capital. I just wanted to ask you

about Feminine Care in China. So we've seen that you've been very successful, of course, in Mexico, and you've called out Asia in the press release, but with the relaunch of Fem Care in China has consumer acceptance improved?

And are you doing anything for Singles Day, in particular, to support growth in that region? And then the next question is really just around generally on pulp prices. The question has sort of been asked in different ways. But obviously, you're going to expect to see some degree of price cutting from competitors in order to win business in Consumer Tissue.

So could you just help us understand where you expect the market to be disciplined at the very least? Thank you.

Magnus Groth: Yes, I won't be able to give you very firm answers on either of these questions. When it comes to Fem Care, the initial launch was very positive. And initial indications are also very positive. So strong take-up from distributors, and it's too early to say about sell-out and consumer acceptance.

And then, of course, repurchasing, that always takes nine months to a year before you know, but we feel very confident because of the success we're having in other markets. And of course, the strong distribution market position that we have in China in tissue, that we will be successful here.

And also in the way we have done this, then with very much an online approach and focused on certain very specific segments of the market. But too early to say. And when it comes to pulp prices, I think it's also too early to say. And we'll have to see. But we believe, as I stated earlier that the current prices are what the industry needs and what gives a reasonable return on investment.

And this is – we will continue to be very, very disciplined going forward as we have been in this category and focusing on margin over volume. And as you can see, already in this quarter, we are actually giving up some private label volumes where we don't see sufficient. This is not due to price pressure. This is more due to just ongoing business considerations.

Nico von Stackelberg: OK. And on Singles Day, any specific programs, I guess ...

Magnus Groth: Always. But that's very unpredictable. So it's difficult to say, but it's typically been a very big day for us since Vinda is so strong online, Singles Day has been a very, very special event. But when it comes to tissue, just to underline what Fredrik said, Q4 was very strong for Vinda. So there's – last year, so some uncertainty there for this year.

Nico von Stackelberg: Excellent. Thank you so much.

Operator: Next question comes from the line of Sanath Sudarsan from Morgan Stanley.

Sanath Sudarsan, Morgan Stanley:

Morning, Fredrik. Two questions from my side. First of all, can you please, if possible, break down the price/mix component during the quarter? It seems that you actually made an effort to drive branded sales much higher, and that's been the major driver of price/mix.

So I would like to understand the underlying pricing momentum in the business? And if possible, the impact of mix? And then secondly, this one's more for Fredrik, actually. You had laid out your view about the value creator as an ROCE or at the Investor Day, the value creation journey.

So you already had about 14.3 percent run exit run rate for this quarter. Of course, your guidance for 15 percent. How much of the current ROCE you see as sustainable? And where are you on that journey of value creation?

Thank you.

Fredrik Rystedt: Yes. Would you want to take the first one? Or no? So your first one on price/mix. I mean, there is, of course, a lot of movements, just generally, I think, on price/mix for the different categories. Of course, we're continuing to try and drive mix, and we have positive mix in actually all business areas. So from that perspective, and actually all categories.

So from that angle, it's actually going quite well. Then it differs a lot between categories and geographies. So we mentioned earlier that the mix component, of course, is quite positive for Consumer Tissue in Europe, just to take an example. But of course, we do have positive mix pretty much everywhere, which is very, very helpful. If you take the ROCE and the value creation journey. That's a really good question.

First of all, this is one quarter, and we have differences in seasonality, as you know, between different quarters. So you should not take this as a kind of a permanent level, that would be great, if it was the case, but it's, of course, not the case. It's – this was a very, very strong and seasonally very, very good quarter.

But we're very happy with the level, but we still have a lot of work to do in terms of getting to where we need to be in terms of our value creation journey. So we still need to, over time, improve from a margin perspective, of course, Consumer Tissue, and we still have some upside, we believe, in the areas that I portrayed where we talked about in the Capital Markets Day.

So good, great quarter, but of course, this is just one, and we are working hard to raise the permanent level.

Sanath Sudarsan: Thank you very much.

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

Karri Rinta, Handelsbanken:
Karri from Handelsbanken. A few follow-ups and then one final question. First, about the COGS savings. So what should we think about 2020? Are we back to an ambition level of SEK1 billion? Or is there a room for even more, given some of the lost opportunities that you had in Q3?

That's my first question.

Magnus Groth: I think one billion is a quite high level. Of course, this – we've been around that, but up and down a few hundred million historically. But considering that tissue road map is partly coming to an end, at least the big items.

It will be, I think, becoming more difficult to stay on such a high level, then we have to see what kind of benefits we can get from digitalization and new opportunities going forward. But the SEK1 billion ambition has been partly fueled also by tissue roadmap restructuring initiatives, which will be moving out gradually over next year.

Karri Rinta: All right, fair enough. Then on the net debt, that is just the headline net debt seems to remain stubbornly high because there's FX and their pension debt revaluation. What KPI should we look at when we try to sort of measure your readiness for acquisitions and what kind of firepower you have?

So is there any specific KPI that we should look at that the credit rating – that the rating agencies also looking?

Fredrik Rystedt: Yes. So Karri, so if you look at Standard & Poor's, they would require, if you look at BBB+, in their case, they would require a net debt-to-EBITDA below three and free funds from operations above 30 percent. And of course, they make various adjustments, if you take the S&P, they'll make adjustments relating to all sorts of different things, but that's basically the threshold.

If you look at Moody's, it's got similar measures. They have gross debt also gross debt to EBITDA below 3, and they have something they call RCF, which is quite similar, above 20 percent. So we are just – I think Magnus actually said it, we are kind of hitting those thresholds pretty much as we speak, or we expect to do that within this quarter.

So that gives you kind of a guidance that if you were to look at exactly now, there's not a lot of space, but of course, we have built a very, very strong – we have had very strong cash flow, and we continue to build that strength as we go. You mentioned just a couple of things, FX, pensions and especially FX, that's, of course, negative in terms of absolute net debt increase.

But of course, that also raises the EBITDA. So from a rating perspective, that translation increase of net debt has very little meaning. It doesn't actually matter. And of course, pensions will move up and down as interest rates move. So we're very happy with the way we have been able to generate cash flow.

We're very happy with the way we have been able to amortize debt. And we are getting stronger, and we are gaining firepower as we go along.

Karri Rinta: And then finally, looking at your earnings and the volatility that comes from the raw material prices, you have talked about premiumization of your tissue offering. But of course, that will take years.

As you also say, and then there's the growth in outside tissue, but that will also take years because tissue is such a big part of your overall operations. Have you – is there any other sort of pools for maybe reducing this volatility that comes from raw material prices?

Have you looked at maybe hedging some of your pulp purchases? Or is that even sort of viable?

Fredrik Rystedt: Yes, Karri, it's viable. We can always hedge. It's possible, you can do that in multiple ways. First of all, of course, you can kind of pre-buy lots and lots of pulp and putting some inventory or you can make fixed contracts with suppliers. There are some financial contracts to not very efficient.

But – so you can do this in multiple ways. None of them, we perceive as very efficient. So it's costly to do this. And of course, as hedging is merely a push of profits over time, we don't think it's actually a good thing to do that. We want our organization to be very agile. We want to be able to work with pricing in a way that adjusts for movements.

And so agility is very important for us. We understand it's a negative from a volatility perspective. But actually, over the longer term, from a net present value perspective, we think it generates the most cash flow. So we don't hedge.

Magnus Groth: Add to that, we're looking at increasing our flexibility when it comes to raw material sourcing. So we would like to see more suppliers offering FSC-certified products, of course, because as you know, we only buy FSC or PEFC certified or at least adhering to that standard, that would really help.

And then we are very actively changing our pulp mix between hardwood and softwood and looking at different ways of being able to do that more aggressively. And of course, in addition, the initiative to the investment we're doing in Mannheim in Germany, looking at using alternative fibers.

Again, it will take a long time. This would replace approximately a little over 1 percent of our fiber needs, but it's still, I think, a step in that direction to increase our raw material flexibility going forward.

Karri Rinta: Understood. Thank you very much.

Operator: Next question comes from the line of Virendra Chauhan from AlphaValue. Your line is open.

Virendra Chauhan, AlphaValue:
Yes, hello, Magnus, Fredrik. I have a question on both the growth as well as your margin. So now that – I was just going back into your previous presentations and also into the history. And I see that we are almost at the peak in terms of growth as well as margins.

So do you think both of these are sustainable going forward, that would be the first questions. So I'm not really looking for a specific guidance, but more in terms of a directional view.

Magnus Groth: On the long term, our targets to have a growth over 3 percent and return on capital employed over 15 percent, and we're, of course, reaching that growth number, but we have a lot of pricing in there that will eventually come out over time, if raw materials stay on this level. So that will have an impact on the overall growth numbers going forward.

We always stated that to be able to grow above 3 percent, we need to gain some market share and have contributions from volumes as well as price and mix coming then from innovation. So that's kind of still remains, in that perspective, this was a very, very positive quarter where everything goes our way.

And margin-wise, we're still not at above 15 percent return on capital employed. This requires higher margins across the line. And this is an ongoing effort, and we are right now, of course, in a very fortunate situation where we have a lot of factors going our way after a long period of the opposite.

But that doesn't mean it's going to – I mean, we are well aware, it might not stay. It's not going to stay like this forever, and that we have to keep on working very, very hard in all the different areas that we continuously talk about innovation, cost savings, efficiencies and so on and so forth.

Virendra Chauhan: OK. And just one more question on your net debt-to-EBITDA level. So right now, it's closer to 2.93. So any specific target net debt because you spoke about deleveraging earlier on the call, in reply to someone.

So any specific target that you have on this front where you get to that level of net debt to EBITDA, and then you can look ahead or look out for targets or maybe inorganic or quality assets out there?

Fredrik Rystedt: Yes, we don't have a specific target on net debt. We have a capital restriction or balance sheet restriction that states that we should be at all times, we should be solid investment grade, which you could translate to BBB+ or BAA1. And so we look at what the rating agencies would require in terms of net debt to EBITDA, as an example, to be able to be solid investment grade.

And as I mentioned before, if you take S&P, as an example, that would be below 3. So that's the restriction on the upside, if you put it that way. And we don't – we have not set a restriction on the downside. So there's – we can be much, much stronger, of course. And we haven't set a target for that.

We, of course, always strive to have an efficient balance sheet, obviously.

Virendra Chauhan: OK, thank you. That’s it from my side.

Operator: Last question comes from the line of Karel Zoete. Your line is open.

Karel Zoete: Yes, thanks, thanks. I have two follow-up questions. The first one is with regards to the balance sheet and it's becoming stronger. Could that also be a trigger to raise the dividend later this year potentially? Is a way to allocate cash? And the second question is with regard to the exit of parts of the diaper business in Russia and earlier in Turkey.

If you look to the combined impact on margins for the Personal Care business, what would be more or less the impact from those exits? Thank you.

Fredrik Rystedt: Yes, maybe I can take the first question. You talk about raise the dividend. It's, of course, premature talk about that, that's the decision for a later, just to say the – perhaps the obvious, we have a dividend policy, which states that our dividend should be stable and rising, and that's basically how we have formulated it.

So the potential room for dividend is something we will discuss, of course, to the Board and the AGM at a later stage. Clearly, as I talked about before, we're always interested to make sure that we have an efficient balance sheet and an appropriate weighted average cost of capital.

So we're always working with our balance sheet in that way. But we'll come back to the dividend.

Magnus Groth: And then regarding Baby, this has a positive margin impact these efforts. We don't give that number, but it's actually notable in the Baby category, the positive impact. And I mean that's the primary reason for doing it, but it's also showing discipline that the value creation journey is something that's always top of mind, and we don't we don't have a lot of patience with underperforming businesses when it came to – maybe in Russia, I think we were very patient.

Now we took this decision, but we don't give specific numbers.

Karel Zoete: OK, thank you.

Operator: There are no further questions at this time. Please continue.

Josephine Edwall Björklund: So thank you very much. Any concluding remarks, Magnus?

Magnus Groth: Maybe just briefly, it's a very strong quarter where we see the combination of all the hard work being done within the company too, as you know, cut costs and raise prices and launch exciting innovation. But for the first time since the split in June 2017, we have the additional benefit of the lower raw material costs.

And I think that's all this together, that's really leading to the numbers that we see here. So from that perspective, a very positive development.

Josephine Edwall Björklund: So thank you all for calling in, and we wish you a good day.

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