Essity Aktiebolag (publ)
Year-end Report 2021
January 26, 2022
9:00 a.m. CET

Slide 1 – Front page

Magnus Groth: Good morning, everyone, and welcome to Essity's year-end report 2021. My name is Magnus Groth. I'm the CEO of Essity and I'm joined today by our CFO, Fredrik Rystedt.

So, I would like to start by talking about the full year 2021 that we have behind us. Fredrik will focus on Q4 and talk a little bit about our expectations for 2022.

Slide 2

Slide 3 – Key Achievements 2021

So, to summarize some key achievements during 2021. We have taken great strides on our transformation journey, including six acquisitions focusing on Personal Care and on Health and Medical. We have had a good price/mix improvement throughout the year, not sufficient to cover cost increases, but we are today announcing further cost increases and we will also see price increases coming from agreements achieved during the fourth quarter, now into the first and second quarter of 2022.

We continue to see a high innovation pace. E-commerce is now 14% of sales. It's important because this is the fastest growing channel. So, as we are over-represented in this channel, this helps our market share development. And we continue to be leading in sustainability with a new target set in 2021 to achieve net zero emissions by 2050. And of course, the digital transformation continues in all areas.

Slide 4 – Financials 2021 vs 2020

Financials for the full year, and just a reminder that our first quarter had negative growth of 10%, our final quarter, that Fredrik will talk about in a few minutes, had a positive growth of around 10%, so it's been a of course a hugely challenging year with a lot of changes due to the pandemic and how that has progressed and the associated restrictions and lockdowns.

But overall, very strong organic growth: 3.5% organic, 4.5% including acquisitions. Adjusted EBITA margin down 330 basis points following increases in raw materials, energy and distribution, and we'll talk more about that, to some extent compensated by price increases, and this is something that we will continue to pursue going forward. Operating cash flow at SEK 11bn and return on capital employed 12%.

Slide 5 – Dividend

The Board proposes to the Annual Shareholders Meeting an increased dividend of 4% to SEK 7.00 per share, so a gradual improvement, which of course also underlines the confidence that we have in the development of the business going forward.

Slide 6 – Adjusted EBITA Margin, 2021 vs 2020

Adjusted EBITA margin for the full year, just to have a quick look at the bridge. As mentioned, margin declined by 330 basis points, of which raw materials, energy and distribution had a negative impact of 480 basis points. But thanks to good volume development, price and mix development in more or less all our geographies and all our categories, we were able to offset parts of that resulting in the numbers that you see here.

Slide 7 – Growing Emerging Markets

We have been growing margins in emerging markets very successfully over a long time period, closing the gap to the margins in mature markets, and as you can see here, share of adjusted EBITA has increased over the last six years from 22% of overall Group EBITA to 36%. Of course, you wonder, why hasn't the share of net sales increased in the same way since we continuously see much higher organic growth in, for instance, China, Latin America, and

Eastern Europe? Well, the reason is the acquisitions that we have done – BSN, Wausau and lately also Asaleo that are mostly then in mature markets which are kind of counterbalancing the rapid organic growth that we have in growth markets. But still a very positive development in emerging markets. And actually, looking at external conditions such as raw materials, energy, distribution, it seems as if - the challenges are also significant of course in emerging markets - but actually slightly easier to manage than in mature markets, which in our case of course is Europe and North America.

Slide 8 – Value Creating Acquisitions, Positioning Essity for Profitability Growth

The value creating acquisitions and the underlying value creating all of these acquisitions are contributing not only to earnings per share but also to margin and to growth in a very positive way. And as mentioned, this is a mix of personal care, health and medical acquisitions, so exactly where we want to position ourselves for the future.

Slide 9 – Acquisition of Hydrofera, Antibactrial Wound Dressings

And speaking specifically of Hydrofera, which was the latest acquisition that we did towards the end of the year – so I think it got a little bit lost when a lot of investors and analysts and others were maybe having some well-deserved time off – we closed this important acquisition in advanced wound care so completely in line with our strategy. And I just want to draw your attention to some of the financials here that are regarding the first nine months of the year, and you can see a significant growth of over 20% and an EBITA margin of over 27%, so it's exactly the type of business that we want to be in. So, very happy about this and also that specifically Hydrofera has a strong position in the US market where we are working to strengthen our positions in general and specifically in health and medical. So, very happy about that.

Slide 10 - Innovations 2021

And a very rich year when it comes to innovations, and we actually launched more and bigger innovations than we've ever done before. And this has helped us with price/mix, the brand development of course, and strengthening our market positions.

Slide 11 – Innovations with Well-beeing and Sustainability in Focus, Q4 2021

And just to give some examples from the fourth quarter, here it's about wiping and cleaning that we've been talking about over the last couple of years, about sustainability and premiumization. So very much in line with our long-term strategy.

Slide 12 – Innovations with Well-beeing and Sustainability in Focus, Q4 2021

And some other examples here from our health and medical assortment, and also incontinence development in emerging markets. So, a very strong innovation pipeline in 2021 that we expect to continue into 2022.

Slide 13 – Increased Branded Market Shares, Positive Development 2021

And this is very much the result. We are positioned as the number one and the number two brand in over 90% of our branded sales and we have increased market shares in around 70% of our branded retail sales. And, as you can see, we continuously add strong value-enhancing brands like TOM Organic, for instance, which we acquired together with Asaleo and now recently the ones I just mentioned.

Slide 14 – Strong E-commerce Growth, 2021

E-commerce, it's important that we draw this channel faster than our competitors and faster than the market, because then we will have a leverage from the growth there. And organic sales growth in e-commerce was 16%. And as you can see, it's a good mix of pure players and multichannel players. And over the next number of years, I expect that our own channels will also be a growing part. Quick changes between the different players here in e-commerce. TikTok is now the fastest growing channel in China for instance, and we are a leading actor also in this channel. So, we’re continuing to stay ahead in this very important area.

Slide 15 – Leading in Sustainability, CO_2 Emissions

Sustainability, where we are working hard to stay in the lead and to achieve our ambitious targets, and we made great strides during the year. And when it comes to our Science Based Targets, we were able to reduce emissions in Scope 1 and Scope 2 with 2.5% so that we are now at 15% and on our glide path to 2030 to achieve 35%. So, positive development. And we have announced a number of efforts and investments that are really contributing to these targets here.

Slide 16 – Financials, Q4 2021 vs Q4 2020

With that I would like to hand over to our CFO, Fredrik Rystedt. Welcome.

Fredrik Rystedt: Thank you, Magnus. And you can see here we continue the strong growth path that we've had in previous quarters, and we grew organically with 8% and if you add the acquisitions that we've made with a bit over 10%. So, if we look at our sales, the market share gains that we've had, e-commerce growth, good performance from all the launches that we have made during the year. All of that contributed to good volume and mix development. And of course, also the executed price increases that we have done now throughout the last couple of quarters have had a very good impact.

Our growth was strong in both emerging and mature markets, and the acquisitions that we have made performed well. So, Familia and Asaleo both performed really well during this quarter and also last.

Now of course obviously, as Magnus has already alluded to, a major theme in the quarter was the continuously growing negative headwinds from cost inflation and of course raw material, distribution and energy. The negative total impact was, as you can see here 10.4%, which in consideration of the fact that last year we had a margin of a bit over 14%, is obviously quite monumental. So, we have compensated a big part of this through volume, price and mix, and continued really good cost savings, but of course also in Q4 margins and cash flow were considerably reduced.

Slide 17 – Adjusted EBITA Margin, Q4 2021 vs Q4 2020

If we look at the bridge. A consequence of this cost inflation was that the gross margin fell with 750 basis points, and we did save in cost of goods sold, but we also managed to maintain a rigid cost control in terms of all other costs. So here you can see A&P and SG&A all contributing to margin. So, of course, part of the reason why as a percentage of sales this is contributing to margin, is the very strong sales growth, but in fact both A&P and SG&A in the quarter were actually down also in absolute terms.

Now, this bridge is showing the comparison to Q4 of last year, but if we look at it sequentially between Q3 and Q4 of 2021, we also there had very, very considerable increases. So, combined raw material, distribution and energy all amounted to an additional cost of SEK 1.5bn between the two quarters. And we expect, as we go forward now into Q1, that we will have additional sequential significant cost increases; not least related to energy, but also predominantly in plastic products and personal care. So, more to come in terms of cost inflation.

Now, as history shows, and we have said that many times, we have always compensated cost inflation with price increases, and we are fully convinced that we will do that this time as well. Now, we have already negotiated further price increases for the first quarter of 2022 and the majority of those will have an impact towards the latter part of the quarter. And of course, it's our absolute conviction that we will continue, or ambition to continue, to raise prices until margins are fully restored also after Q1 and throughout this year.

Slide 18 – Personal Care, Q4 2021 vs Q4 2020

So, turning a bit to Personal Care. We had a good growth of 6.5% and a strong growth actually in all categories with the exception of Baby and the reason why Baby didn't grow was, we could say, unusual market conditions in Asia and this was the reason. So, it was more related, particularly to this quarter. But emerging markets in total was nevertheless very strong, as you can see, with 11.2%, and specifically also in Latin America and not least Familia, as I've already mentioned.

Our Feminine business continues to do really well, not least in terms of volume, but also in terms of price/mix and Incontinence keeps on doing well in practically all markets. We're also quite happy to say, and we have spoken about this many quarters before, that the Medical part of our business has now grown for several consecutive quarters and in Q4, if we compare it to last year, the growth was strong in all of the three therapy areas. So somewhere between 5% to 7% for all of them.

And if we talk about volume, you can see the volume grew totally with 2.6% and price/mix with nearly 4% and the majority there was related to price, but we continued to do well in terms of mix as well.

Now if you look at all the three business areas we have, Personal Care is the area where we have the least content of raw material and distribution and energy, and despite that fact, you can see that the impact, the negative cost impact, was quite significant. We compensated a very large part of that, so the margin was down by only 210 basis points, if you look at it that way. We compensated with volume, price, mix and in this area also cost savings, but as I said for the Group as a whole, we will continue to do price increases here and we'll see some of it already in Q1 towards the latter part.

Slide 19 – Consumer Tissue, Q4 2021 vs Q4 2020

Now, coming to Consumer Tissue. Also, here we had a good organic growth. So, 5.5%. And the majority of that growth came from price and mix. As you can see volume, 0.5% in comparison to last year. We had a good growth in Asia, we had a good growth in Latin America, and we had a strong growth also in the branded part of the European business, whilst the private label part actually contracted. So, we're happy here to see that also here the premiumization, the new launches that we have done, contributed to both the volume and mix and we have executed quite significant price increases in this area.

Now, once again, if Personal Care is the one with the least impact from raw material and distribution and energy, the opposite holds true for Consumer Tissue. So, a very big part of the margin we had last year has been eroded by this cost inflation to the magnitude of 13.2%. So, we compensated a lot – good cost savings, volume, price, mix, as I have mentioned, but of course here as well obviously we are continuing with our price increases, and also here we'll see some in Q1 towards the latter part, and we will continue until margins are fully restored.

Slide 20 – Professional Hygiene, Q4 2021 vs Q4 2020

So, the last business area – Professional Hygiene. A really, really strong growth here, with a bit over 16%. So, really recovering from that sense. And this is, as well, a result of good volumes in most markets or all markets, good mix everywhere, and also executed price increases. As you can see, volume growth was really strong at 11%. So, of course it's recovering at a very fast pace, and we have also increased prices on pretty much all markets when it relates to Professional Hygiene.

As with the other business areas, cost inflation was very significant and also here we will see sequentially higher cost as we will for all three business areas in this case, in particular relating to energy, but for most, and we will continue to do price increases here as well. I'm sounding a bit like a broken record here, but it's very much the same story for Professional Hygiene.

So, with those words, Magnus.

Slide 21 – Everyday Priorities

Magnus Groth: Thank you, Fredrik. I'd like to summarize and put things a little bit in perspective. These were the three everyday priorities that we set up two years ago now almost exactly when the pandemic first became evident, and they have served us extremely well and I'm very proud of the achievements that all our staff has achieved over these two years.

So, our priorities were: to Care for Our People, make sure that they feel safe both in the working environment and on their way to and from their jobs, and also at home, and staying healthy and engaged to continue to run our business; to Contribute to Society, which has been incredibly important in these difficult times for everyone; and of course, to Secure Business Success, which is very much a result of the two first ones. And these priorities remain. It seems, who knows, but a little bit more hopeful than what we've seen over the last two years when it comes to the progress of the pandemic maybe turning into an endemic event during the year. And of course, even though the pandemic put a lot of focus on health and hygiene, which is good for Essity. That's the business we're in. It's had a very negative impact on, as you know, our business from lockdowns and restrictions which has hampered sales and supply chains which has also created the situation with the raw materials that you see now.

We've continued to have very good service levels to our customers. All our plants have been running continuously through these years. So, I'm very proud about that. Of course, we continue with these priorities, but look forward to gradually improving business conditions throughout 2022.

Slide 22 – Strategic Priorities

And during 2022, and also for the longer term, we stick to our strategic priorities, and you recognize these from our Capital Markets Day and from many other presentations. It's so important with our people and our culture, efficiency in everything we do, but also continuing with the transformation journey, innovation to build our leading brands, digitalization, sustainability and the growth in emerging markets. So, this focus remains unchanged. But of course, in the short term, very, very much focused also then on margin enhancements through price increases.

Slide 23 – Q&A

So, with that, we finish our presentation. It's time for questions. So, please, Operator, if you could open up the line and start the Q&A session.

Operator: Thank you.
Our first question comes from the line of Victoria Nice from Société Générale. Please go ahead.

Victoria Nice: Hello there. Good morning, everyone. My first question is on the tax rate which seems very low in the fourth quarter around 13%. Can you give us some color on what's driving that and what the tax outlook for 2022 is please? And then also related to raw material inflation, with inflation expected to increase sequentially in Q1 and prices where they are, could we expect the first quarter to be the peak? And can you give us some sense of the sequential input cost inflation, please?

Fredrik Rystedt: Hi, Victoria, and I'll just mention a couple of things about the tax rate. Now, obviously tax is always a full year number, so it will vary a bit in between the quarters. But if you specifically take Q4, there were a couple of, you can say, one-offs there and related to actually tax cases that we prevailed in and that's had a bit of a positive impact on the quarter. And there was also a kind of a final calculation for the year. So that was the reason for the low tax rate in the quarter.

Looking forward, our structural rate is roughly about 25%, so perhaps somewhat below that. It varies a bit, of course, because of country mix, and we are slightly lower now in structural than 25, but it's approximately there and that would also be the best guess for 2022.

Magnus Groth: So maybe I could give an outlook then for the first quarter when it comes to raw materials and energy. And we expect to see in the first quarter compared to the first quarter of last year significantly higher raw material costs, as well as significantly higher energy costs. And sequentially, we see a stabilization of raw material costs with some increases maybe in recycled fiber, but to a minor extent, while from an energy perspective, we also expect significantly higher costs in Q1 compared to Q4 sequentially. And transportation costs remain on a high level, as we've seen throughout the last couple of quarters.

Fredrik Rystedt: And plastic related products also up a bit.

Magnus Groth: Also up. Sorry I forgot. Thank you for including that. And just about the peak, Victoria. So, to put it this way, if we assume that these costs would stay on the level that we expect to see throughout the first quarter, according to what I just mentioned, I am convinced that the price increases that we have already implemented and the ones that we are now planning for, will lead to a gradual recovery in margins from the second quarter and going forward. This is what we see currently.

Victoria Nice: Thank you.

Operator: And the next question comes from the line of Fulvio Cazzol from Berenberg.

Fulvio Cazzol: Yes, good morning, and thank you for taking my question. So, I have a couple. The first one is in Q4 you have reduced marketing costs as a percent of sales in every division. I'm just wondering what your expectation is on the impact from this on volumes and mix in 2022. Are you a little bit nervous that maybe the volume and the mix impact might suffer as a result of these cuts?

And then my second question is on Personal Care. It seems that on a two-year basis in Q4 there was a sequential acceleration over Q3 for almost every product segment, with the exception of Medical Solutions. So, could you provide a bit of color as to why we didn't see this acceleration in growth quarter on quarter versus 2019 for Medical Solutions, please? Thank you.

Magnus Groth: So if I start with the first question, Fredrik, and you think about the second question. SG&A, I think this was very prudent behavior and responsible behavior from our organization of course to manage margins in a tough quarter in combination with actually a lower need for these investments, which can have a seasonal impact and also be related to price increases and so on. We will continue to invest between our innovations both through SG&A and through advertising and promotion going forward and also in 2022. So, we have an ambitious program for product innovation launches that we will support. So, I expect those costs to be restored to levels similar to what we've seen historically.

Fredrik Rystedt: Yes, I think your question was on Medical and the growth. So if we compare Q4 of 2021 to perhaps Q4 of 2019, the growth was roughly about 5%, so we had a good growth in Medical and contrary to some of the others you've seen that Medical for the last I think six consecutive quarters or in that ballpark has had a very continuously strong growth, so the pace or the momentum when it comes to all three therapy areas is actually quite strong for Medical.

Fulvio Cazzol: Okay, great, thank you.

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

Celine Pannuti: Thank you, good morning, everyone. My first question is on Consumer Tissue. The volumes were flat or there about in the fourth quarter, despite very tough comparative both in Q4 of 2021 and in 2020. So, could you explain why is it that it was so resilient when the habit of buying ahead of price increases? I mean, it's not something you can stop, but I just would be interested to understand the dynamics there.

And then my second question, you said that you are going to raise price. First of all, are we now all fully – the first wave of price is now fully implemented as being fully agreed with your customers? And can you talk about the pricing momentum that you see now in the market, especially, I would think in Europe? And what kind of pricing are you trying to implement? Is it another mid-single digit or higher than that? Thank you.

Magnus Groth: If I try to start with the second question, Fredrik, and you continue with the Consumer Tissue. So, actually last year we had two rounds, the first one that was very challenging was in the first half of the year when we renegotiated a number of actually annual contracts with meeting great resistance. And this was based on the press release, I'm sure you remember, that we launched in April where we saw higher input costs coming, of course not to the extent that we've seen since, and maybe we didn't see it in energy, but still. And then we started a second – and this as you can see from the price/mix in the third and fourth quarter had a positive impact, but not sufficient.

And then we continued negotiations in the second half of the year, and this was very much focused on price increases starting from this year. We still have some positive impact as you can see in the fourth quarter and quite good positive price/mix improvement in all areas, but we also have agreed on price increases that we will see coming through gradually in the first quarter, so some of it 1st of January, but quite a lot also 1st of February and 1st of March. So that’s important to take into account, so some of the price increases already negotiated will not really be visible until the second quarter of this year. But that’s achieved.

Then, in certain market where we are more flexible, like in emerging markets, we have actually negotiated even further rounds of price increases and what we're doing now is making it clear for our customers and consumers that we have a need to compensate for the increasing input costs and the aim, as always, is to compensate fully for the costs that we see in our books today. I mean, that's what we can argue about in addition, of course, to the pricing and mix benefits that we see from innovation and so on in the longer term. But in the short term, this is what we will be talking about with our customers and consumer now in the first quarter.

And momentum, yes, has absolutely improved since our first round in the first half of last year, and I think there is a strong understanding, especially in the tissue categories and now with the additional pressure from energy, that's of course something we have never seen. I think you mentioned the word monumental, Fredrik, I noticed, and that this creates a very strong momentum for price increases while in Personal Care it varies a bit I would say and there is a slower progress but still better momentum than last year.

Fredrik Rystedt: Maybe on your first question, I'm not fully sure that I'm answering the right thing now, Celine, so you've got to help me if I'm wrong. But just to give you a bit of maybe numbers here, if you compare Q4 of 2021 versus Q4 of 2019, we're up in Consumer Tissue with roughly about – a bit over 11%, and if you decompose that a bit, as we have discussed during this call, there is a fairly big part of that that relates to then price, and we have continued to do really well in terms of mix in both 2020 and 2021. So, the volume growth there is roughly half or in that ballpark, a bit lower than that, and if you compare kind of the growth that we've seen historically coming from predominantly Asia and Latin America and coupled with some remaining, you can say, covid impacts, I think the growth is pretty much as one could expect. I'm not sure if I'm answering your question now, but this is a bit of perspective perhaps.

Celine Pannuti: Yeah, maybe if I go on this one again. In Q3, your volumes were down 3% on a very tough comparative and in Q4 you were flat on a 9% volume comparative, so that's where I'm a bit surprised because I think there was some extra consumers demand at the end of Q4 last year. So, I just was wondering why you've not seen negative volume as you had seen in Q3.

Fredrik Rystedt: Yeah, I can understand it's not always easy to follow and this of course has to do with the different cycles that we see in different countries. So if you compare Asia or if you compare Latin America, I think what you referring to is that there was a bit of pre-buying in a couple of countries. Germany was an example last year in Q4 and we did not of course see it this time. As mentioned before, we saw a bit of contraction in the private label part as an example in Europe. Of course, on the aggregate it becomes a bit, as I described before, but in certain markets you have the impact that you were talking about there.

Magnus Groth: And then there are I think reasons that that are just difficult to explain. I think Q3 of last year was quite soft in Europe in Consumer Tissue in general and we don't have a good explanation to that and there was a little bit of a recovery in the fourth quarter, while in China we actually saw a similar development. So, that's where we saw I think the biggest growth from Q3 to Q4 last year.

Celine Pannuti: Thank you. Can I just ask a clarification, Magnus, on what you said? So, in Europe have you started the second round of negotiations or are we just going to see the impact of the negotiation you did last year?

Magnus Groth: We're mostly going to see the impact of the negotiations from last year now in – some, as I said, but gradually in the first quarter and then mostly in the second quarter and in the meantime we have already started discussions again with both retailers, but also business to business customers in all our categories for price increases throughout this year, maybe to some extent implementable already in the second quarter and then in the second half of this year.

Celine Pannuti: All right, thank you so much.

Operator: And the next question comes from the line of Charles Eden from UBS.

Charles Eden: Hi. Good morning. If I could just push you a little bit on the pricing again. Apologies for the further focus on pricing. But when you talk about intending to recover margin, can you just maybe help us? How much of the pricing you've already agreed with customers would be able to contribute and how much do you need further pricing based on negotiations which have not yet commenced? If you could kind of give us a percentage or at least some commentary around that. That would be helpful.

My second question is on Professional Hygiene and maybe you could just give us some commentary on the volume development throughout the quarter. Did you see any material slowdown in the recovery in December as we saw the increased mobility restrictions, I guess, particularly in Europe? I'm just trying to think about how that might impact sort of I guess January and potentially February trends in that division. Thank you.

Magnus Groth: Okay, I'll start with the second question again here. Professional Hygiene recovery. Yes, we did see a slowdown actually in December more or less when we had the lockdowns announced and restrictions in several markets. So, there's a very clear correlation but as soon as lockdowns and restrictions are removed, it increases again and actually as we've shown now in the fourth quarter, we were more or less back to 2019 numbers. We're still missing a percent or something like that when it comes to sales in Professional Hygiene.

And that means that in many markets we are actually above 2019 numbers, while some, where there still are significant restrictions, like in China, for instance, Professional Hygiene is still quite slow, and there was also a slowdown in some European markets. We expect this to be temporary and that this will recover quickly as markets open up again.

Then when it comes to pricing and the ‘how much’ question which is of course difficult to answer, I think the starting point, as we said many times, and it's fine to ask about pricing, that's what we talk about every day when it comes operation issues here in the company to really work on the momentum that we see now. What we are starting to see is a move in shelf prices in many markets and also price increases from our distributors in the B2B category. So, this is happening as we speak. So, that's positive. How much more? I don't think we provide that number.

Magnus Groth: I think I said something a year ago and of course at that point the world looked quite different. But of course, getting back both to yours and Celine's question, with what we've seen now in the fourth quarter, we need the substantial price increases going forward, clearly.

Charles Eden: Super. Thank you. And maybe I can just squeeze a quick follow-up in. Given the kind of pulp comeback in China has been more sharp than we've seen in Europe, would you expect China specifically, I guess, to also contribute materially from a pricing perspective or is it really the balance of your business that you're focusing on that price increases?

Magnus Groth: We have been increasing prices across the board in Consumer Tissue and this goes for Vinda as well.

Charles Eden: Great, thank you.

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

Linus Larsson: Yes, good morning. Thank you very much. First of all, may I just double check what you said on energy costs? Are you saying that the first quarter Group energy costs compared to the fourth quarter will be significantly higher, just to double check that?

Magnus Groth: I'm sure that you've seen, Linus, all the discussions about the natural gas prices in Europe and also of course, electricity prices skyrocketing everywhere. We're fortunate to have a significant hedging programs in place, and I think we spoke about this the last quarter, which is really helping. But in spite of that, this has a significant impact and actually, Linus, when looking at some of the breakdowns that you and your colleagues have provided, I think this explains quite a lot – a big part of the difference in adjusted EBITA that we've seen between kind of consensus and what we actually reported. There's a significant difference in the view on energy, and that's no surprise, of course, because this happened very much towards the end of the fourth quarter and also raw materials. So, it's a mix of those two components.

Linus Larsson: Great. Thank you for that clarification. And then on raw material costs and specifically in Personal Care, on a year-on-year basis, we saw some SEK 500m raw material cost increase in the third quarter and then more than SEK 850m raw material costs inflation year on year in the fourth quarter in Personal Care. Is this still an accelerating trend in the first quarter?

Fredrik Rystedt: Yes, Linus. As we mentioned before we are seeing that in particularly in Personal Care. So, if you compare sequentially, we expect raw material to be largely, you can say, stable when it comes to Professional Hygiene and Consumer Tissue, but for Personal Care, it will continue to increase, and that's mainly on the back of increased cost for super absorbent and plastic products. So, we'll see that a lot higher in Q1. So, it is still accelerating.

Linus Larsson: Thanks. And with those price hikes or cost increases, I should say, in super absorbents and plastic products, for how long are you set, or could you just maybe say something about the contract structure and how to think for the remainder of the year? Could there be potentially additional cost increases and if so, when, given your contracts in place?

Fredrik Rystedt: Yeah, I can try and shed some light, Linus, but we try not to kind of give estimates longer than a quarter in advance and the reason is simply that it's quite difficult to actually estimate. We don't know, to be fair, and when it comes to Q2, there is a bit of longer lag, as you will recall, in some instances up to six months when it comes to plastic products. So, in that case we actually do know that we'll see – and this is why we know so much – that we will see sequentially higher cost here in the first quarter, and potentially also in the second quarter there, but of course we don't know. Our expectation, our best guess at this time is of course that after Q1, most raw material prices will start to flatten out. That's our estimate, but it is of course incredibly difficult in this market to have a firm view, Linus.

Linus Larsson: Great, no, that's very helpful. And then just one final question from my side as I read the report quite quickly, but if there was anything about the private label separation into its own division, I missed it. Could you just give a quick update as to where you stand with private label?

Magnus Groth: Yeah, it's progressing well, and we have a separate organization. We have worked through the financials. And we are in the discussions with the unions about how to do this and looking into now also the different legal structures that could be applicable. So, good progress. Still some work to do, and of course from Q1 this year, we will provide some financials about how we are doing in this division.

Linus Larsson: Great, thank you very much.

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

Oskar Lindström: Hi, yes, a couple questions from me. First on the theme of margin recovery. You mentioned earlier here that margin recovery would be starting in Q2. So, I have a couple of follow-up questions on that. First of all, just to understand that correctly. Is that that Q2 will be the trough in margins or the first quarter of sequentially increasing margins? And will that margin recovery, you think, be driven by lower costs or is it higher prices that are behind that forecast?

Magnus Groth: So, what I referred to and in general terms, because of course we typically don't give forecasts and it's very unpredictable, but still to instill some confidence in our development going forward and give some insight into the price increases that have already been achieved, we expect a sequential improvement in margins Q2 compared to Q1 and then quarter over quarter sequentially. And this is based on, as Fredrik mention, then unchanged input costs, raw materials, energy and transportation, so it's purely based on our planned and achieved price increases, savings, and other initiatives.

Oskar Lindström: All right. Thank you. And a second follow-up question here is. You mentioned price increases and it wasn't quite clear to me if it was the latter part of Q1 that we would start to see these or price increases in the latter part of 2022.

Fredrik Rystedt: Latter part of Q1, Oskar. So, we have negotiated price increases in practically all our areas, also for Q1, but they will take effect the majority of it in the latter part of Q1. And of course, we'll see the full impact of the already negotiated price increases in Q2 and we will continue thereafter to increase prices until margins are restored throughout 2022, of course.

Oskar Lindström: Thank you. A second question here is on, you've obviously faced quite significant energy and raw material cost headwinds in the quarter in your tissue operations. Have you seen any impact on capacity or output levels in the overall consumer tissue industry or the tissue industry in Europe due to this? I mean, are any competitors folding or reducing production basically?

Magnus Groth: Yeah, we've seen some announcements of very small, family-owned players that have actually stopped production because it's not worthwhile for them to run. Then of course one small factory is in Sweden but then mainly in Italy, so that's what we have seen and heard so far.

Oskar Lindström: So, are you getting new customers contacting you for volumes as a consequence of this?

Magnus Groth: It's clear that our very high service levels that we've been able to keep has been very much appreciated both by our existing customers and also by potential customers here. Because there are customers that are very frustrated with low service levels, who are working with other suppliers, and this is definitely benefiting us at this point in time. So, that's clear. I mean we are also very much working every day to manage our supply lines to get material in place, to keep the plants running with big parts of the staff of course, quarantined or out because of being infected and so on, but managing that in a fantastic way. I'm very proud about that. And that's also helping us, of course, when it comes to price negotiations to be perceived as a dependable high-quality supplier.

Oskar Lindström: All right, thanks. My final question is on the other line in your adjusted EBITA calculation or details. This year it was minus SEK 789m, which is actually less than last year despite this SAP project that you're rolling out. What kind of number should we expect for the other line in 2022 and what are the different parts of that?

Fredrik Rystedt: Yes Oskar, there is a bit of phasing there. If I just start with 2021. So, it was lower than our own expectation, actually. There are many different reasons but phasing being one of them. So, for next year it's going to be about SEK 1bn or actually planning-wise a bit even further than that. So SEK 1.1bn. But time will tell. It's a roughly a bit over 1bn for 2022.

Oskar Lindström: And in terms of the different quarters, should we then expect sort of a bit of a bulge in the first quarter and then even or?

Fredrik Rystedt: Yeah, maybe perhaps a bit, but not dramatically. It will be an increase, Oskar, in Q1, but we are not really planning for a kind of a major volatility there, so it should be reasonably even, but with a bit of increase in Q1.

Oskar Lindström: All right, thank you very much. Those were all my questions.

Operator: And the next question comes from the line of Iain Simpson from Barclays. Please go ahead.

Iain Simpson: Thank you very much. I wondered if you could just give us a little bit of more help around the magnitude of the incremental raw material and energy pressures in Q1 2022 versus Q4 2021. So, if I've understood you there, the two main incrementals are increases in plastic costs and energy costs. Am I right that those are the two drivers? And any help you can give us in terms of the quantification of that would be hugely appreciated.

And then secondly, just as we think about logistics pressures through 2022, a number of your competitors have sort of said that they're finding logistics increasingly challenging. If you could just give any indication as to how you feel about your logistics set-up and your ability to keep service levels high as we go through a relatively challenging period. Thank you so much.

Fredrik Rystedt I can start. Just to confirm exactly what your question was there. It is actually what you say. It is plastics and energy. And I think we mentioned that previously and that we see significantly higher costs in both of those areas. But we never quantify exactly. I understand the need for you to see that, but we don't because it's actually difficult to say and competitively, not exactly what we want to do, but it will be significantly higher.

Magnus Groth: Logistics - very challenging and has been for a long time and so far, and that's also my expectations for this year. We will continue to manage it and provide good service levels, not what we had before the pandemic, but better than our competitors and this is on the back of a lot of hard work actually related to digitalization and centralization, where we have a global transport hub located in Barcelona, where we oversee both transportation and scheduling and planning, so both demand planning, supply planning, and SNOP and the different stock levels we have in different parts of the world. So, we have a very, very good overview. And of course, that helps us to manage very tight situations that we see locally all the time. But of course, we're able to manage by buying spot or by having contracts with specific suppliers and so on. So, I expect that we will be able to outperform our competitors in this area also in the year to come.

Iain Simpson: Thank you very much.

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

Karel Zoete: Yes, good morning. Thanks for taking my questions. I first have a question with regards to a remark during the presentation that you expect that the online sales from your own propositions will grow in the coming years. Can you elaborate on that; some of the actions you put in place to have more direct business online yourself? That's the first question.

Magnus Groth: It's a general trend that the direct sales online from the producers to brand owners to suppliers is growing. We also see that this is growing quick in some emerging markets, like Latin America for instance, where these channels are growing disproportionately from very low levels, because online sales have historically been low there. And of course, from our perspective and also from the consumers perspective, it's very interesting to have a channel where you can exchange information, where you can learn and develop, and where we can get feedback. So, I think it's very much the mutual interest of consumers and suppliers to work with the direct online sales. So those are some of the reasons for this expectation that I mentioned.

Karel Zoete: All right, thanks. The second question is on the capital allocation and portfolio. 2021 has been a busy year with six deals, including some larger ones in Latin America. If you look to 2022, can we anticipate a continuation of that strategy? Or would you say first integrate what we have? And would you potentially also be open to take larger steps when looking at the portfolio?

Magnus Groth: We are committed to our transformation journey, which is based on a capital allocation where it makes most sense whether it's in organic growth or acquisitions or in M&A in general. I mean it could also be divestments which we do now and then. But typically, in smaller ones. And we still think that there are opportunities in line with what you've seen during 2021 when it comes to acquisitions. And then when it comes to bigger deals, that's I think always very speculative, so I don't really want to comment about that. I think that's more unusual than a continuous flow of small, medium-sized deals.

Karel Zoete: All right, thank you. And the last question, again coming back to pricing now, of course. What are you currently seeing in the market in January? Of course, you don't want to speak what you expect specifically in March, but if you look in your European and the US market, what kind of price increases have you seen in Personal Care and Consumer Tissue?

Magnus Groth: I don't think we can go into that. That's quite confidential and competitive information so I think you will have to follow that through the price/mix component in our P&L.

Karel Zoete: All right, thank you.

Operator: And the next question comes from the line of Harri Taittonen from Nordea.

Harri Taittonen: Yes, good morning. Just one quick question. It's been a long call already, but are you seeing the peers taking downtime in the consumer tissues because of the high cost and there must be quite a sort of significant price margin pressure among your peers? How does the supply demand balance look like in consumer tissue at the moment?

Magnus Groth: The supply demand balance in Europe and in Latin America is quite good, I would say. It's quite balanced. As mentioned earlier, we haven't really seen any major capacity reductions at this point in time, but of course we don't really see any investments. There has been some more capacity coming into the Chinese market during last year, but I mean, on the other hand, as you know, there's also quite a lot of capacity being closed in China and there's a healthy underlying growth, so no drama really when it comes to supply demand in consumer tissue, which is of course a good thing.

Harri Taittonen: Okay, so basically even the higher cost producers, they are still running and not sort of priced out of the market.

Magnus Groth: We are seeing some smaller producers that have stopped the individual machines or plants, so there's a little bit of that since the fourth quarter of last year, especially in Europe.

Harri Taittonen: All right, okay, thank you very much.

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

John Ennis: Yeah. Hello, everyone. Most of my questions have been asked but a couple of quick follow-ups from me. The first is on the consumer tissue volume growth in 4Q and it comes back to Celine's earlier question on the potential buy-in ahead of anticipated price hikes. I guess. Was there a notable change in the volume performance by month? I.e. was the volume performance materially better in December, for instance? Maybe that could help us quantify that earlier question.

Then my second question is on the private label consumer tissue outlook. I guess, how are you thinking about the mix impacts for the consumer tissue business moving into 2022? As pricing steps up this year, are you expecting any down trading at all and therefore a potential recovery in the private label part of your consumer tissue business? Any information you have with regards to what you've seen historically during price hikes could be helpful for us. Thank you.

Magnus Groth: Yeah, when it comes to your first question, I think Fredrik and I asked exactly the same thing. Was there now a lot of pre-buying before the price hikes and the answer has been no, it's more maybe an impact of a soft third quarter so we don't expect that to have a negative impact on the first quarter in Consumer Tissue.

John Ennis: Understood. So, more of a catch-up.

Magnus Groth: Yeah, more of a catch up, exactly, and when it comes to private label versus brand, we've seen a very strong mix improvement over the last years and also last quarter. So, growing in brand and actually a negative volume in the fourth quarter in private label, and this is related to the price increases that we are negotiating and the subsequent actions from some customers. At the same time, we are also seeing actually some retail, some customers who are coming back to us after leaving us because of the differences in quality and everyday quality and service levels, as I mentioned before.

We haven't seen much downtrading yet. I think the reason is that the shelf prices are just happening now as we speak, so there hasn't really been a movement in shelf prices before and during last year. So, typically I don't expect that to have a major impact on the business going forward.

Fredrik Rystedt: And maybe just to add there, John, on your question, I've mentioned before that we have lost volume when it comes to private label in Europe, and this is quite often the case actually when you see movements like this because we think that we should be fast in terms of increasing prices and compensate for cost inflation. So, we are early, always early. So, in the initial parts of cycles like this, you would typically see that we lose a bit of relative volume in the private label part of the business, where competition is quite fierce, and then we tend to recover that volume as we go along and everyone else will need to do exactly what we are doing. So, whether that will happen this time is a very difficult question to answer, but at least that's been the historical trend.

John Ennis: That's very helpful.

Magnus Groth: Thanks, John. I'm just thinking since I'm the organizer today of this event, a big responsibility. There are still quite a number of questions. We're on the hour. It's fine with me to continue for another 10-15 minutes, if it's okay with those of you who want to stay on the line. And I think Fredrik, you look fresh, so let's continue with a few more questions until quarter past or something like that. So over to the next question, please operator.

Operator: The next question comes from the line of Karri Rinta from Handelsbanken.

Karri Rinta: Yes, thank you. I'll just take one. If I look at some official statistics from the US, I can see that the consumer tissue prices have increased by some in total 10% in the last two years in the US, and if I look at your price/mix for your consumer tissue business, it was flat 2021 and it was down slightly in the year before. So, the question is, is there any structural reason why we wouldn't see this 10% bump up in 2022 in Europe? I know that the price adjustment is more sluggish in Europe and that's why we're lagging, but in terms of magnitude, are there any structural reasons to explain the difference?

Magnus Groth: I don't follow the US consumer tissue market closely. We're more of course looking at the professional hygiene part of the business in the US. So, I really can't comment because I know there has been variations in underlying developments in raw materials and currencies and so on. So, I'm not aware about the plus 10% that you referred to.

From our perspective, of course it's been more volatile than we are used to. I mean, we expect most of our businesses to normally be quite stable, and of course towards the end of 2020, so not last year but the year before, we have had the highest margins in Consumer Tissue ever, as you know, on the back of a lot of innovation, price and mix, but also very, very low raw materials. And at that point in time, of course price increases were not really justified or meaningful or possible and since then we have seen a dramatic development, that was quite unpredictable. So, I think the dynamic is somewhat different in the different markets. I don't know if you have anything to add there, Fredrik.

Fredrik Rystedt: No, not really, but perhaps with – once again, perhaps the historic perspective that it typically takes somewhat longer time in Europe because of slightly less consolidation in the market place, but over time, as you have seen, the pricing in the European market is compensating for raw materials, so of course our own ambition and of course also historic achievement is exactly that. And we are convinced, as we have said before, that we will see that compensation over time.

Magnus Groth: And what we do follow is the margin gap in how that develops to all our peers and some of them are US companies and over the last number of years, that margin gap has actually reduced quite significantly. This is the overall number, so it's not only consumer tissue, it's also personal care and professional hygiene. So, of course that's been a positive development from a margin perspective. Then I think it's difficult to follow pricing actions specifically in these two different markets.

Karri Rinta: Okay, thank you.

Operator: And we have one more question from the line of Tom Sykes from Deutsche Bank.

Tom Sykes: Yeah, morning, everybody. Thanks for the extra time. Just a couple of quick ones on consumer tissue just to clarify your previous comment. So, have we seen a full quarter of the volume benefit that you seem to be outlining from stresses at some of your peer groups? So the higher service levels as you put it. Would we expect a greater benefit in Q1?

Would you expect any negative price elasticity from your own price increases? And indeed, as regards stresses, are there any parts of your own business the lossmaking within Consumer Tissue that might see considerable gearing in 2022?

And then just coming back to your comments on marketing spend and the other line. It does feel like you’ve managed those to manage a margin. Is that still the case in Q1 or could we see that as you're supporting investments, that those may increase a little bit faster than the price increases that are coming through, and obviously that may have a slight negative impact on the margin, please.

Magnus Groth: So, Consumer Tissue, I don't expect we will have a big positive impact on volumes from our excellent service levels, but it helps us in price negotiations So, making our relations more sticky and more positive discussions than just price increases, price increases, price increases. So, it's just to underline that we've been able to have a quite nice development also, in terms of volume, even when we've been negotiating significant price increases both in private label and in brand. So, I don't see that that will show up in the numbers as a specific volume increase.

And then to marketing spend, I expect that to normalize this year. We have a full program when it comes to product launches and that we expect to support. Fredrik, do you want to fill in on that?

Fredrik Rystedt: I think just one perhaps very obvious comment there, Tom, is that of course marketing spend will vary over the quarters, but if you take the 21 numbers, so the total number, it was approximately 5.5% versus sales and of course we grew in the year, so in absolute amounts totally for the year in comparison to 2020, it actually grew because we also had 5.5% in 2020. So, from that perspective you can say we are fairly constant, and we have, Tom, communicated many times before that, we expect that number to be roughly stable and potentially even increasing, so movements in between quarters can vary and this is what's basically the case here in Q4. So, roughly as a whole year, 5.5% approximately.

Tom Sykes: Okay, can you give us any indication of how quickly that will normalize over the course of 2022? Should we be expecting that to normalize pretty quickly in Q1, please?

Fredrik Rystedt: Yeah, it's hard to give you exact numbers there, Tom, but as Magnus said, this will be roughly on that same 5.5% level for the year, and we don't expect any big variations over the years. So probably it will normalize during Q1.

Tom Sykes: Okay, fine, thanks very much.

Operator: And we have just one more question from the line of Iain Simpson again from Barclays.

Iain Simpson: Thank you so much for allowing me a follow-up. Just in terms of capital employment, I understand that you don't want to talk about big M&A because who knows when it's going to happen. I was just wondering in terms of what categories you'd find attractive enough to put incremental capital into though. Is feminine care a category that you'd like to get bigger in potentially?

Magnus Groth: I can only speak in general terms when it comes to our M&A strategy that we prioritize the Health and Medical segment and also definitely Feminine Care because it's so successful for us and we see the opportunity for kind of line extensions in this area. There's a lot going on in this area. And then also finally, as we stated many times before in Professional Hygiene, to the extent that we can strengthen our presence in wiping and cleaning and with some adjacent product lines. That's something we're looking into as well. Those are the areas where we are focused. And of course, excluded are Consumer Tissue and Baby.

Iain Simpson: Thank you very much.

Operator: As there are no further questions. I'll hand it back to the speakers.

Magnus Groth: Okay, thank you very much. Very much on time. Appreciate the discussion and with that, we close this presentation. I wish you a good day. Thank you.

END