

SCA Q2 Report Conference Call
Thursday, 19th July 2012
13:00 Hrs UK time
Chaired by Jan Johansson

Jan Johansson

Thank you very much and welcome to all of you to this Q2 report. First of all I have to apologise for the problem we had by delaying the telephone conference. It was a very simple mistake. We had the wrong telephone number in the report as you have discovered but that is corrected now and I hope everyone is on board.

To start with the general market conditions: I'm not going to spend too much time on this because I'm sure all of you have a very good view of it also. We do see a slower European market of course due to the debt crisis but still a very strong growth in emerging markets, and when it comes to the hygiene products we also still have a good growth in emerging markets, maybe a little bit slower in Europe and in the western world but looking at SCA's performance we have growth in all our segments during the second quarter.

When it comes to Forest, we still have the same difficult situation as we comment on in Q1. We do see volumes coming down here today; News is down 10%, LWC is down 8% and SC is down 1%. When it comes to solid wood, the market is still weak but we have increased the volume in our sales and we have also increased the prices for Kraftliner during Q2.

Then moving on, looking at what we have been doing exact operation during the quarter, and as you have seen we have closed five strategic deals during the quarter. We finalised the acquisition of Georgia-Pacific today on the European tissue operation and I will ask Mats Berencreutz just in a moment to explain to you what we have done in terms of divestments or what we will divest in that business.

We also concluded Everbeauty with operation in Asia coming from Taiwan and also strong position in China, an increased shareholding in Vinda, and both of those, of course, is giving us now very good position to continue to grow in Southeast Asia and maybe also in China in particular.

We also increased our position in Latin America by buying the remaining 50% of PISA in Chile, and also as from 30th June we have divested a packaging business and of course excluding the two Kraftliner mills in Sweden. Georgia-Pacific will be integrated as from 20th this month. Everbeauty from 1st June and the divestment of packaging is excluded from 30th June, so Mats, could you please tell us a little bit on how the process was finalised when it comes to the commission?

Mats Berencreutz

Absolutely, I'll be happy to, Jan and good afternoon, everyone. First let me just say that it's seldom that you see such a good strategic fit when it comes to deals of this size and despite that the commission has addressed issue... areas of concerns would have led us to

a remedy package which I will go through, but let me first start with the good news that what the deal did not require any divestments in, and that is the whole away from home where we have an exceptionally good fit with the Georgia-Pacific operations are very strong in geographical areas where we are less strong, and also on the consumer side; we have the French consumer market where we have the brand, Lotus, which you can consider as an icon brand, and reason being of course SCA's soft... relative soft branded position here in France.

So the concerns addressed by the commission are really divided into three different blocks. When it comes to the consumer tissue branded business it was in UK, a small part in Holland and also a minor part in Belgium. When it comes to the retailer brand business I will say in the UK, and also when it comes to Scandinavia it was retail brand business that led to some concerns.

All these three blocks are also... should include production capacity so hence we have offered for the UK and Benelux branded business the mill of Horwich and for the retail business we have a site in south Wales in Bridgend and in Scandinavia we have also linked that to one of our mills that we have in Norway in Drammen so totally this is about 100,000 tons and a value of approximately €200 million in sales.

Jan Johansson

Thank you, and it is mainly in line with what we had expected when we concluded the deal with Georgia-Pacific and it will not have any negative impact on the synergies that we have communicated.

So coming back to the quarter we compared to Q2, we have a sales increase overall in the company and we have the hygiene business higher volume and higher prices and a very good growth in emerging markets; personal care is growing by 20% and tissue by 17% and we haven't seen any down trading in Europe and we still see very stable volume when it comes to hygiene and our sales.

Forest though, as I said, we see both lower volumes and lower prices and overall we have an increase in EBIT of 16% compared to Q2 last year. As you can see also on page five we have improved the EBIT margin from 8.9% to 10.4%. We are improving our operational cash flow and of course after divesting packaging we are on a debt equity ratio of 0.41 and that will be after finalizing of GP 0.61, and as you know we have a sort of a running target of 0.7 for the group.

Looking at the development Q1 to Q2 we also have sales increase of 4% and we're improving the EBIT by 15%. Personal care also substantially improving by 17% and that's both higher volumes and maybe more importantly, improved product mix. Tissue is also higher volumes and lower energy costs but we also see higher raw material cost in tissue, and that is mainly currency impact. We actually have had an increase of pulp with 8% compared to Q1 and that is mainly the weaker euro since we are buying most of our raw material in dollars.

But Forest is also improving EBIT compared to Q1. You remember that we had some problems with the storm that increased the cost of harvesting and that has now been

mostly taken care of and we are more in normal operational situation in the Forest operation.

Going into Personal Care we are improving the margin from 9.5 to 12% compared to Q2 last year, a sales increase like for like of 10%, incontinence care is growing very nicely by 9%. Also Baby, you know, subject for discussion, we now see the positive impact of all the structure we were doing in Europe including new contracts that we also have in Europe so that is going exactly as planned.

Feminine care is growing also and as I said earlier the emerging markets with a figure of 20%. We have an EBIT increase of 41% if we exclude among other things the Australian business and currencies, and we have high volumes, better products' mix but we also see the cost saving programmes that we are running are kicking into Personal care and also coming in gradually into the Tissue operation.

We also had some lower raw material cost compared to Q2 last year. Tissue: we have improved the margin from 7% to 10.8%. We have like for like a sales increase of 4%, Consumer tissue growing by 5%, Away-from-home by 2% and emerging market with good 17%. We also have an increase in EBIT here of 53% and if you take excluding also the currency into this it's 45% increase in EBIT.

We have managed to increase prices compared to last year and we have a better product mix but also lower raw material cost and some of the cost saving is gradually coming in to the operation. What we can see; some impact of the European crisis in the very south of Europe in Away-from-home. It's nothing dramatically but we see a slower development on the market in south when it comes to maybe travelling, restaurants, etc, but the rest of Europe is doing fine.

Back to Forest, and looking at the consumption on the market Q2 to Q2, we have a similar pattern as we had year to date, the Newsprint is down 10%, LWC are down 12% and SC is down 6% on an overall market situation, and we also have a decrease of sales and then slightly lower volume. We had a record production, if you remember, Q2 last year and it's difficult to have a record production every quarter. Solid-wood is flat. We see higher volume but still pressure on prices mainly due to an over production.

Kraftliner Q2 to Q2 is both... so it's lower prices but higher volume and as I said the Q1 to Q2 we have increased the Kraftliner of prices and there will be more increase coming through during the year. It has been announced from our competitors both 40 and €50 price increases and of course we will increase our prices at the same time.

But overall and EBIT increase of 34% and that are lower prices and also higher raw material costs.

So with that, operator, I will open up for questions.

Questions and Answers

Johan Sjöberg – Carnegie

Thank you very much, yes, coming back also to the Georgia-Pacific acquisition can you say something about margins in Georgia-Pacific, how that is... has been developing since you announced the deal in November last year?

Yes, they have a positive development when it comes to volume. They have not been able to improve the margins in the same way as we have improved in SCA so they are on a similar or slightly higher than we... than when we communicated the deal and it's not a surprise when you have an operation for sales for such a long time that you may see maybe less aggressiveness when it comes to pricing. The positive of that side is, of course, that now when we have it we can do it in their operations also.

So you... the last time I heard anything about margins, it was the 2010 margins and then you... they were lining with yield 7.6%. Should we calculate that they're round about 8% right now?

They are lower than ours but higher than we communicated 2010 so we're immediately day one when we include this in the business there will be a slight dilution on the tissue margin but it's also much smaller business. This will not be substantial so you are in the right ballpark.

Okay, great. Just looking at the one-offs coming here, how... when will you see the one-offs kicking in there from this acquisition? Will it already coming to three and how long will it continue would you say?

No, I think that you will probably see any substantial coming in the beginning of next year.

Okay, so early 2013.

Yes, nothing in Q3 anyway.

Okay, and also...

I was just going to say what we've said when it comes to the synergies, that's a programme that would run over two to three years.

And when will we see the main impact on that one would you say?

Over the next two to three years.

All right, thanks. Another question, looking at the European tissue market also, I mean raw material of course in terms of pulp costs have come down, I mean energy prices have come down. What is the current atmosphere among your customers? How much are they pushing for price decreases right now?

Sorry, pulp prices have actually come up with 8% due to the currency since we are buying in dollar and we are selling in Euro and I mean the atmosphere is... it's nothing different from what we experience every day in the past. There is always competition but there's nothing changed due to the pulp prices in dollars since everyone is aware and that is actually more expensive in Euro.

So pulp prices... as you see it, prices near term will be flat basically?

Well, I... if we continue with the current situation we have today we do see a need for an increased prices during the second half year since we are living in the Euro world and not in a dollar world from this perspective.

All right, and also just looking at the personal care business, is the full effect from the baby diaper restructuring now in your figures or do you see more positive impact from that during the second half?

It's mainly in the figures now, yes.

Okay, great, thank you very much.

Thank you.

Oskar Lindström – Danske Bank

Yes, hello, this is Oskar Lindström at Danske Bank. Just a follow-up question on Personal care where your margins have been trending upwards over the past year or so, in addition to the Baby diaper restructuring which you now say the benefits from are more or less complete, are there other factors which have been driving up your... needing you to increase your EBIT margins in the personal care segment and anything that we should expect to continue going forward?

Well, we have of course volume growth that is helping to improve that but also the product mix. We always try to improve our products and get new innovation out on the market and those should always improve the margin compared to the old ones but as you know we have, when it comes to super absorbent and oil-based products we have a delay of three to six months when it comes to impact on the raw materials so we will continue to have an increased raw material and personal care at least for Q3 and then it will change in Q4.

Okay, and more sort of long term question on really the personal care; there's a lot of anticipation out there about new drugs for Alzheimer's disease which are apparently, you know, phase three studies are being presented here during the second half of the year. Do you have any comment as to how this could affect your inco business; how important is... are Alzheimer's disease patients for that part of your sales?

Well, I mean if they could... it's not a cure actually it's reducing the impact but if they could do that, that's, of course, extremely positive. The impact it will have is a delay when you entry into our products but you will sooner or later entry into it anyway.

All right, thanks. A final question on your tissue pricing, you're saying here that your earlier reply that prices are roughly stable; if I look at your quarter on quarter deviation table which you publish on your website, seems that there is a negative price mix effect on the tissue earnings this quarter compared to the previous quarter. Could you provide some detail on that, please?

Well, my comment was going forward Q3, Q4 and not in Q2, we're... as long as we have contracts re-negotiated or a new contract coming in all over the year and we have had one or two contracts in Q2 that were on a lower level than the average of the contracts.

Is that something that you expect, you know, could continue as, you know, other older contracts are re-negotiated?

No, my expectation when we see increased costs in pulp is that we will have to increase prices rather than decrease them but the impact of the contracts we have had during Q2 will, of course, remain for the rest of the year.

So we shouldn't see a negative deviation quarter on quarter deviation figure in Q3; is that what we... how we should see it or?

I can't give that detailed forecasts.

All right, yes, thank you very much. Those were all my questions.

Thank you.

Mikael Jåfs – Cheuvreux

Yes, hello, good afternoon, everybody. I have a question regarding the fact that we see a strengthening Swedish Kroner. I mean it was around nine kroner just a few weeks and now trading around 8.5 and then I wonder how this will sort of affect SCA if we stay at these very strong levels versus the Euro.

I think for all Sweden export industry operating from Sweden exporting it will, of course, have a negative impact in transaction. Then there will be translation impact on SCA also since we have the bulk of the sales in Euro but not an impact on transaction and overall if you have a 10% weakness of the Swedish Kroner it will be 1.7 billion on the yearly basis if you take the translation, the impact of that, but I mean in reality we don't bring the cash back to Sweden. We reinvest it so it doesn't have a real impact. It's more a translation but for the production in Sweden, and that's mainly or... yes, mainly the Forest operation today, it will be a transaction impact also so that's a tough situation when the Swedish Kroner is as strong as it is today.

Is it fair to say that that would sort of increase the need for additional costs actions in Swedish operations then?

It will be... if it remains, absolutely, and that goes for the whole industry in Sweden.

Many thanks.

Thank you.

Karri Rinta – SHB

Yes, thank you. Karri Rinta from Handelsbanken, and a few questions. Firstly, in Tissue and Personal care you mentioned in a year on year comparison improved product mix. What is driving this, given the uncertain macro environment, and how sustainable is this also going forward?

If I start with Personal care, it will take a lot before anyone is trading down in products that they are confident in. If you take the Feminine side, or if you take the Inco side, and even the Diaper side. And we haven't seen any down trading in those areas. When it comes to Consumer tissue, it's the same, very little down trading, but maybe more in promotion, you'll buy one and you'll get two, and things like that. And it was the same in the last recession also. Very little down trading, but a lot of promotion. And people are buying smarter rather than different products. So I don't see any risk at all from a volume perspective in our hygiene operation.

Okay. What is the, if I look at the second quarter last year and second quarter this year, what drove the historical improvement in the product mix?

It's mainly new innovations coming up in our different business areas and in a way from home also, that we have more added value sales. We have an incredible development in the US where they're transforming commodity into value added, and that is of course increasing the margin quite substantially. And that is on-going, even though we do have a difficult economic situation.

All right, thanks. You did also mention cost savings both in personal care and tissue as drivers that improved earnings.

Yes, absolutely.

Can you break that into this restructuring programme, and is there any element of lower promotional spending versus the first quarter when you had a high promotional spending?

The cost programme I'm referring to is the one we communicated last year, which we are now implementing gradually, so it's not going to change to that. Lennart, do you remember the figures?

Lennart Persson

I mean, it is 700 million SEK saving we announced from the restructuring programme in late October last year.

Jan Johansson

And when it comes to promotion, we don't see any change in that, neither up nor down. It was only during Q1 we had a higher to offset some of the seasonality. But now we are on the normal level.

Okay, thanks. And then finally, it seems to be that there's a growing discrepancy or gap between the growth numbers when it comes to emerging markets and mature markets. How should we factor this into our margin expectations for SCA as a whole, that a bigger and bigger part of your growth comes from the emerging markets, now in the, let's say, for the next two to three years. Is it diluting or improving margins?

It's of course very positive that we grow in emerging markets, but still it's a very small part of our sales, which we have to remember, in particular in the tissue side. And where we are established, like in Latin America, I can't see that the growth will have a negative impact on the margin. When we enter a new market, like China, it will, in the beginning, have a negative impact on the margin, but that's still so small from an overall perspective.

All right.

I don't know if that was an answer to the question, but it was an attempt, anyway, to answer it.

That was good enough, thank you.

Thank you.

Linus Larsson – SEB Enskilda

Thank you, it's SEB Enskilda. A couple of questions relating to the concessions in conjunction with the Georgia-Pacific acquisition. Is there a timeframe as to when you will have needed to divest these operations that you mentioned? And do you have any sort of indicative range of expected proceeds from these operations?

Well, first of all, there is a process for that that the European Commission has clearly stated. So there is a six month timeframe, and we're following that. We have a lot of interested parties in this, and there will be a trustee appointed as well for this process. So that's what we're going to say at this point. And of course we started the process long before we got the information from the commission, since we knew quite well where the problems will be.

Okay. Any, very rough, indicative range of the value that you expect from these operations?

It's too early to say that, but in our assumptions, when we communicated the deal, we believe that it will at least not be different to that, it will not change the assumption that you have of the business.

Okay. Because the acquisition price that you're communicating I think is €1.32 billion, that is a gross figure, I presume?

Yes.

And then you say that you will give up something like €200 million worth of sales. Should we expect that the percentage of sales that you're giving up corresponds to the percentage of value that you're giving up, or is that being a bit harsh?

No, it's probably quite different.

Okay. And just so I get things right here on what you're actually selling, did I hear it right that you're selling, what you're selling includes three paper making units?

Its three manufacturing sites. Two of them are integrated sites with both paper making and converting, and one is converting only.

Okay. So it's only the Drammen and the Welsh operation which are paper making units?

Yes, in Bridgend (UK) and in Drammen (Norway) you have it. Horwich (UK) is a converting site only.

Great.

And it depends, of course, very much on, I mean, we have interested buyers which are industrial buyers, and also private equity, financial, and so forth. So the whole set up would, of course, it's too early to discuss any effects of that before we're ready.

Yes, yes. Great. And then given, on this call we've already talked about the fast movement of the Swedish krona compared to the euro; in the end, what was the purchase price, considering that the hedging that you might have done, what was the purchase price in krona, and did you also hedge the expected profits from the acquired operations?

Lennart Persson

We have not hedged the purchase price.

Okay.

Because, you know, that we need all permissions before we can do that. And we have not had the contract.

Good, that's great. And just one final question now, with the Georgia Pacific deal closed, what's the tax rate that we should expect going forward for the group?

Jan Johansson

Sorry, I missed. What is the...?

The tax rate?

Tax rate? It will not change, it's still what we communicated – 29%.

Lennart Persson

We are in the same, even if we have not seen, exactly, the earnings distribution between the countries, but I mean we have not changed the average. Thank you.

Okay, so your guidance is 29%, or...?

Yes, per day, per day, at 29%.

Okay, great. Thank you very much.

Jan Johansson

Thank you.

Christoff Wagner – Uni Credit

Good afternoon to everyone. Just one question from my side is in your presentation with the Deutsche Bank conference, you forecasted total revenue or net sales of 12 billion Swedish crowns. Will this be changed because of the sales, which you have to divest, or will this remain on the same level?

It will be on the same level.

And do you have any ideas how your net sales will develop over the next five years? I know this is a challenging question, but perhaps you have an idea?

Yes, but I think it's not something we can communicate just now.

Okay. Last question from my side would be; you have made this joint venture for the Australasian business of yours. And I read in your web page that you have deconsolidated the sales and all the figures of that. Is this correct?

That is correct, yes.

How much of these, how much sales have you deconsolidated?

About four...

Lennart Persson

Four billion.

Jan Johansson

Four billion SEK.

Okay. Thank you so much, and thanks, and have a good day.

Thank you very much, same to you.

Ankur Gupta – JP Morgan

Good morning, good afternoon, it's Ankur Gupta from JP Morgan. I have a few questions, starting with Forest. You know, there's been a quite volatile business, and

could you try to help us figure out, you know, how we should look forward in terms of your growth in the next couple of quarters, and, you know, what would be the potential impact of, you know, whatever we should look at, volume or pricing. You've said that pricing are going up, but at the same time the price realisation in some of your business are weak. So if you could help on that.

And then the same thing for margin, which again have been volatile. There was an impact in Q1 from the weather problem you had in Sweden, but it would be helpful if we could have a view of the level of margin going forward. That's my first question.

I think when it comes to Forest, we don't have the same growth ambitions as we have in Hygiene. We have said that we want to grow in line with the market. And the situation when it comes, in particular the publication paper in Europe today is very depressed. I don't see any margin improvements in Forest going forward, for this year, if nothing dramatic happens. When it comes to our sawmill operation, it looks slightly better when it comes to supply and demand, but still the supply is a little bit bigger than demand, so I think that will probably also be flattish for the year.

And the pulp price, then, as you know, is decided on a global market, so that's more difficult to have a view on, but the estimate now is that we will see pulp coming down a little bit during the rest of the year. So it's, it's a tough situation for those kind of operations today, and particularly in the publication paper side.

So just to follow up on that, when you said that the margin will not improve, which level are you referring? Because you had 7% in Q1, 9% in Q2, 12.5 last year, which level? Is 9% the right level you think you can deliver this year?

I mean, I'm not going to give single margin comments, because that will be too much of a precise forecast, but what I'm saying is I can't see an improvement from where we are now when it comes to publication. We do see prices still coming down, and we don't see any improvement in consumption.

Okay, and that was my second follow up. Like you have been saying in your beginning remarks that you see that you start to see a slowdown in the business, not so much in personal care, a bit in away from home, what does this comment infer for Forest going forward, in terms of the performance? Shall we expect that it could worsen?

I also said that I'm very optimistic when it comes to volume. I don't see any risk in our volumes in the hygiene operation overall.

No, no, I'm sorry, I'm just talking about Forest, not hygiene at all.

Forest? I thought you said Personal care and Tissue.

I'm saying is that you've made some comments about a worsening trend, but nevertheless it seems that Personal care is okay, and it's a bit Away- from-home in southern Europe that has worsened. My question is what kind of worsening trend shall we expect in the Forest Product division?

It's a very good question, but it's also very difficult, because as I said year to date, we're down 10% on use, and it's also very much dependent on the advertising side, and the advertising side is dependent on the general market development. But we don't expect, we don't expect any dramatic change from the situation we are today.

Okay. And then I have a second question, for the Personal care business, could you give us the growth in your private label, how different has been private label growth versus your own brand, in, in fact, both Personal care and hygiene?

When it comes to private label, that's mainly an operation we have in Europe, and in Personal care it's mainly, or only in the Baby business. And the growth you have seen in Baby now is coming from the restructuring of the private label business in Europe, and the improvement of profitability in private label. So that's mainly Feminine, increase is almost 100% branded business. Tissue will change, with GP. We will have a 50/50 branded and private label, so we will grow the branded business. And the growth in Consumer tissue in Europe today is very slow. It's not a recession, it's not going down, but the growth is very slow. Emerging markets are 100% branded business.

But my question refers to the down trading. You said you've seen a risk of down trading, so for instance if I take tissue, is private label growing less than brand, or do you see no difference between the two markets, or the two categories?

I'm sorry, maybe I was unclear. I said that we *don't* see any down trading in the market so far. So the growth is similar, both in private label and in branded.

Okay.

But does that answer your question? Yes?

Yes, yes. That's fine. And then last question of me, can you give us the emerging market component for both division, and how much of sales now is from emerging market, and within the growth you gave us, what is volume and what is pricing?

Personal care, it's about 35% from emerging market, and in tissue it's about 18-19%. And the growth is, in emerging markets, is mainly on the volume side. And the growth in the mature market is mainly on the pricing side, and innovation, with new products.

So the double digit, like, it's 17, 20% growth in emerging market is, what, three quarter is volume?

It's volume, yes.

Thank you.

Oskar Lindström – Danske Bank

Almost forgot what it was, sorry.

Should I remind you?

Yes, no, no. You previously haven't wanted to update your capex forecast for the year, given that you hadn't closed the GP Tissue transaction. Now that you have closed that transaction, could you, are you in a position to give us a more detailed forecast of where the capex level should be, say, this year, and preferably also next year?

You'll have to give us some time now to dig into the GP business. Remember we have been competitors until today, so now we need to sit down and work through everything. But I hope you've seen that we, that the investments is going down quite substantially when it comes to reinvestment in relation to depreciation, and that is mainly due to the huge restructuring programme we have now, where we used the capital much more efficient than we used to do. And of course we will do that as fast as we can into the GP business also.

Okay, excellent, thank you.

Thank you.

Closing Comments

Okay, so then I will finalise, and just conclude that we have seen, in, at least in our view, a very strong quarter; a very strong development in the hygiene business, still a difficult situation in Forest, even though it's improved from Q1. We don't see any risk on the volume side in our hygiene operation, neither in mature markets nor in emerging markets. We are going in, as we always do at this time of the year, in the seasonality weaker period, with holidays, at least, all over Europe, but that's a normal pattern that we have. So with that, I would like to thank everyone, and hope to see you. Thank you, bye.