Carlsberg Recommended Offer for Britvic Conference Call

Presentation

Operator

Good day, and welcome to today's Carlsberg Group's Recommended Offer for Britvic PLC Conference Call and Webcast.

Jacob Aarup-Andersen

CEO

Thank you very much. Good morning everyone, and welcome to this conference call where we will explain you the details and the rationale for the proposed acquisition of Britvic. First of all, we're confident that this transaction will be advantageous for all stakeholders and value accretive for shareholders.

My name is Jacob Aarup-Andersen, and I'm the Group CEO of Carlsberg. I have with me in the room, CFO, Ulrica Fearn and Vice President Investor Relations, Peter Kondrup.

Let's go to slide 2 for the disclaimer, which I of course encourage you to read. However, as this presentation is available online, we're not going to pause for too long here, so please go to slide 3 where we summarise the important strategic and financial elements of the deal.

First of all, we view the proposed acquisition of Britvic as compelling, both from a strategic, operational and financial angle. Looking at the strategic and operational rationale from the Group's perspective, the acquisition supports our updated average annual organic revenue growth ambition of 4% to 6%, which you will remember we set back in February when we launched the Accelerate SAIL.

Combining Britvic with our UK business will improve the top and bottom-line growth trajectory in Western Europe, and it's going to step change the cash generation in the region.

Very importantly, this deal also strengthens our longstanding and very good relationship with Pepsi, becoming one of their key partners worldwide and the largest one in Europe.

In the UK specifically, there are multiple operational and synergistic benefits from combining our beer portfolio with Britvic's very strong soft drinks portfolio. The combination will allow us to accelerate top and bottom line growth. The former through increased investments in sales and marketing, and the latter, both from growth and realisation of cost synergies.

Today, we've also announced the acquisition of Marston’s 40% stake in Carlsberg Marston’s Brewing Company. This transaction will give us full ownership of the combined business, enabling the full integration of Britvic and Carlsberg. That includes the realisation of cost synergies of £100 million, £80 million of which will be realised by the end of year 3, and the remaining £20 million by end of year 5.

The Britvic transaction is value accretive for shareholders. Including cost synergies, the deal will be mid-single digit accretive to adjusted EPS in year 1 and double digit accretive in year 2. In addition, the deal will be margin accretive for the Group, and ROIC will exceed the WACC of 7% already in year 3.

The transaction is 100% debt financed, and consequently our financial leverage will of course increase. We'll be very disciplined, and we'll focus on de-leveraging as fast as possible. It's important to stress here that we also have a continued commitment to maintaining investment grade rating.

As a result of this transaction and the exit from Russia, our geographical exposure will change towards more stable, cash generated markets, and therefore we're changing our leverage target from below 2x net interest-bearing debt to EBITDA to below 2.5x. We expect to reach this level during 2027.

Lastly, before providing more colour on all the topics I just mentioned on this slide, we believe that the integration risk related to combining Britvic with Carlsberg is low, thanks to excellent management teams in both businesses, shared values and similar cultures in our two companies. We will also draw on our longstanding track record of successfully running integrated beer and soft drinks businesses in several markets.

Let's look at slide 4 and today's agenda. I will start out by providing an overview of the transaction, after that, I'll explain the benefits of combining beer and soft drinks and talk about the attractiveness of the UK soft drinks market, and of course introducing Britvic, being mindful of the fact that not everyone on this call is familiar with the business.

Before handing over to Ulrica, I'll explain how the deal is supportive of our long-term growth ambitions. Ulrica will then elaborate on the synergies and integration and layout why we're confident that the proposed acquisition of Britvic is value accretive for Carlsberg and our shareholders.

Please go to slide 5 and a summary of the transaction details. Now, I've already touched on some of the key advantages of the deal, so a couple of additional comments. The recommended cash offer values Britvic’s equity at £3.3 billion. The implied last 12 months EV/EBITDA for Britvic is 13.6, and including synergies, the EV/EBITDA multiple declines to 10.2. On LTM P/Es the offer values Britvic at 20.1 and including synergies at 13.8 times. Of course, these multiples are even low on a forward looking basis.

The transaction is 100% debt financed with a bridge financing underwritten by BNP, Danske Bank and SEB. Pro forma net debt EBITDA increases to around 3.5x. We're changing our long-term leverage target to below 2.5x from previous below 2x. As I said before, we expect to reach that during 2027.

Pepsi are fully supportive of the transaction. They have waived their change of control, and we have agreed terms for new bottling agreements in Ireland and UK. Overall, the deal is expected to close in the first quarter of 2025.

Before providing details on the Britvic business, I would like to spend a few slides on explaining the highly synergistic nature of combining beer and soft drinks. So let's go to slide number 7.

For Carlsberg, the production, distribution and selling of soft drinks has been an integral part of our business in several markets across our regions for more than 25 years, providing many operational and financial benefits. Today, around 16% of total Group volumes are soft drinks, so this is already today, before this transaction, an important part of our business.

As you can see from the selection of brands shown on the slide, we have extensive experience, particularly in carbonates, in energy drinks, and water. We're currently a Pepsi bottler in Norway, Sweden, Switzerland, Laos and Cambodia, and we are a Coca-Cola bottler in Denmark and Finland. In addition, we are a Schweppes bottler in several Nordic markets.

In several markets across all three regions, we sell energy brands, including our own Battery brand in Norway, Finland, and the Baltics, and our Flash Up brand in many Eastern European markets.

On slide 8, we show more details on our western European region where soft drinks account for 27% of volumes already, with the majority of volumes being in our four Nordic countries where beer and soft drink volumes are split approximately 50-50.

As you can see on the graph on the right-hand side, we have a successful track record in running businesses with a combined beer and soft drinks portfolio, realising attractive top and bottom-line benefits with synergies throughout the value chain. These synergies support the above average margins that we have in the markets, where we have a combined portfolio.

Please go to slide 9, where we detail the synergies throughout the value chain and let's also use Norway as an example here. So the synergies between beer and soft drinks are considerable and growing compared to, for example, wine or spirits, due to the similarities in production and the frequency of servicing customers, which is an important point.

There are significant synergy potentials in procurement, in production, in distribution, but also in the service to the customers and the back office. But there are also opportunities and benefits in basically all areas of the value chain as shown on the slide.

Starting from the left, some benefits, albeit less significant, can be realised from leveraging R&D and innovation capabilities, in areas such as sustainability, for example, related to packaging, and flavour combinations.

In procurement, attractive synergies come from scale benefits in several areas. The most significant one is packaging due to the increased overlap in pack formats, particularly of course cans and glass bottles. Another example is point of sales materials, such as coolers and glassware.

In production, similar pack formats across beer and soft drinks mean that we can run them on the same lines, and thereby improve utilisation rates and efficiencies and reduce costs. Longer-term improved capacity utilisation rates may also reduce CapEx requirements.

There are significant synergies in logistics and distribution, such as combined warehousing, improved inventory management, and higher frequency of full truckloads. The utilisation of the distribution network also significantly increases due to the larger volumes, and it's important to mention it's also a lower cost of servicing smaller customers.

There are multiple benefits for our customers. A one-stop shop portfolio helps solve unmet customer needs, for example, by offering access to the wider product portfolio from one point of contact, by simplifying administrative work and increasing frequency of deliveries. Other advantages of the wider and stronger portfolio is also its ability to act as a door opener, facilitating selling of sub brands. Particularly relevant for smaller outlets is that the combined portfolio also enables our sales force to increase outlet coverage. We will simply in a combined fashion cover more customers.

Across the whole value chain, there are obviously significant opportunities to take out duplicative roles and leverage systems, processes, and functions.

Our joint beer and soft drinks business in Norway is a great example of the synergies to be had. In this market, our business benefits from joint procurement and production, shared warehousing, shared picking, bigger drop sizes and deliveries, and a fully integrated sales organisation. That has led to improved negotiation strength and increased number of customers, higher cooler penetration, and an optimal utilisation of our field sales force. When we got the Pepsi license back in 1998, we utilised our strong beer presence and route to market to accelerate the Pepsi portfolio. That resulted in a market share improvement from below 10% to today, 33%.

Now let's move to turn to - sorry to slide number 11. Many of you already know Britvic very well, but for those of you not familiar with this business, let me provide an overview and explain why we believe this is a great and highly complementary business with exposure to attractive growth segments.

Headquartered in the UK, Britvic is one of the leading integrated soft drinks businesses in Europe with a comprehensive portfolio of market leading brands. Britvic has been that bottling partner for Pepsi in the UK since 1987 and Ireland since 2007, with the franchise accounting for around 50% of total revenue.

The other 50% is generated from a range of own brands in multiple soft drinks segments. Many of these owned brands hold their number 1 or number 2 market position in their respective segment. Britvic is therefore the largest supplier of branded still soft drinks in the UK and the number 2 supplier of branded carbonated soft drinks.

Beyond the UK and Ireland, Britvic is also established in France and Brazil where the Company markets and sells owned brands in a smaller number of categories. In each market, it is the leading supplier of diluteables, also called flavour concentrates.

The Company has a proven track record of growing, expanding, and revitalising its own brands, such as Robinson's, Tango, MiWadi, Ballygowan, Teisseire and Maguary. In addition to a strong brand portfolio, Britvic has a well invested and efficient supply chain, high calibre management teams and a very talented workforce.

On slide 12, there's a quick overview of the strong market positions held by some of Britvic's 39 brands across the UK, Ireland, France, and Brazil. Britvic holds strong number 1 or 2 market positions in several categories.

As shown on the slide, the Pepsi brand holds a number 2 position in cola in both the UK and Ireland, while 7UP is the preferred brand amongst customers in the lemon line segment. Lipton Ice Tea holds a strong number 1 position in the growing, albeit it still small, iced tea segment in the UK.

Let's go to slide 13. The UK is the largest market for Britvic, accounting for 68% of revenues and 78% of adjusted EBIT. The strong brand portfolio and execution have led to impressive financial and cash generative results across the Group in recent years.

After coming out of the COVID years, revenue growth has been more than 6% in the years from 2021 to 2023. Following 6% volume growth and mid-teen organic revenue growth in 2022, revenue grew by 6.6% in 2023, and the first half '24 figures were exceptionally strong at 4.4% volume growth and 11.2% revenue growth.

The Company has also delivered impressive double digit adjusted EBIT growth in 2021 and 2022, while adjusted EBIT in 2023 was up by 5.9%. Again, very strong performance in the first half of this year with 17.7% adjusted EBIT growth. Cash generation has been consistently strong.

Let's go to slide 14 and an overview of the UK soft drinks market. The top line growth delivered by Britvic has been supported by solid value growth in the UK retail market for all soft drinks categories, in many of which Britvic has well established strong brands.

Carbonates is the largest soft drinks category, accounting for around 60% of total soft drinks. From 2018 to 2023, this segment saw retail value growth of around 4% CAGR. Dilutables, where the main brand in the UK market is Robinsons, accounted for 7% of the market and saw 3% retail value CAGR for the period 2018 to 2023. The iced tea segment, in which Lipton Ice Tea holds the Number 1 position, is still a small segment but has seen double digit CAGR from 2018 to 2023.

Finally, on energy drinks, also that category has seen good growth during the 2018 to 2023 period, with a retail value CAGR of 8% and a potential growth area for Carlsberg Britvic in the future.

Let's move to slide number 15. The appealing future volume and value growth prospects that we see for Britvic is underpinned by the expectations for continued volume growth for UK soft drinks, combined with the fact that Pepsi Max is on an impressive growth journey. In the graph on the right hand side, we show how the UK cola market is undergoing a marked change of cola with sugar to low calorie cola.

During the past decade the share of low calorie cola has gone up by almost 18 percentage points. During the same period, Pepsi Max's share of the total cola segment has gone from 13% to almost 31%. This development is similar to what we have seen in Norway, with Norway being somewhat ahead of the curve.

Compared to the cola market in Norway and other Nordic markets, we believe there is some more growth potential for Pepsi Max in the UK, supported by continued growth of the low calorie segment and market share gains. In Norway, the low calorie segment accounts for 73% of the total cola market, supported by our consistent development of Pepsi Max, which now has a market share of 44% in the total cola segment.

We are confident that we, in partnership with Pepsi, can accelerate the growth of Pepsi Max through increased sales and marketing investments and by leveraging our experience in other markets.

Let’s go to slide 16 and let’s look at some more stats on the projected growth in the UK and Ireland from some specific categories. In these two markets, which account for almost 80% of Britvic’s revenue, projected value growth rates for the coming five years for carbonates, energy drinks, iced tea and dilutables are mid-single digit. These data points are based on external sources and should, of course, be taken as an indication.

It’s our intention to exploit these long term growth rates and build on Britvic’s positive performance by increasing investments in sales and marketing. This will leverage our extensive experience of other markets, together with the strong local and regional management teams, to ensure the acquisition of Britvic will support our Accelerate SAIL top line growth ambitions.

Now let’s move to slide number 18. The acquisition of Britvic will be transformative for our UK business. It’s going to enhance the growth prospects for the combined company. By creating a single integrated company, it will become the leading supplier in the UK to offer customers a comprehensive portfolio of strong beer and soft drinks brands; a UK powerhouse.

Today we’ve also announced that we will acquire Marston’s 40% stake in Carlsberg Marston’s for £206 million. That will make us the sole owner of the new company, which will be named Carlsberg Britvic. We will maintain our close partnership with Marston’s with a long term brand distribution and logistics agreement.

We have clear plans to invest further in Britvic and the combined business to accelerate growth. The increased sales, marketing and supply chain investments will be allocated to the brands and categories, for which we see attractive growth opportunities. For instance, we expect to add significantly more sales people in the UK and Ireland and these initiatives will, of course, be aligned with PepsiCo around their brands.

We intend to leverage the combined companies’ broad-based opportunities for cross selling between beer and soft drinks and expand distribution rates for growth categories, while looking into opportunities for expanding into new categories.

Let’s go slide 19. The incorporation of Britvic into our company will double the Group’s exposure to soft drinks, from around 16% to around 30%. As you just heard me explain on the previous slides, we are confident that by diversifying our brand portfolio with a number of leading brands, we are in fact improving our exposure to attractive growth categories, and by that supporting our accelerate sale ambition of 4% to 6% average organic revenue growth annually.

It's important to stress that Carlsberg will remain a brewer, with beer being our core business. However, increasing our exposure to the growing soft drinks category will improve the resilience of the overall business, both from a market and from a brand portfolio perspective.

Let’s move to slide number 20. Zooming in on Western Europe, this is a region with attractive cashflows. We are a number 1 or 2 player in most markets, including the stable cash generative Nordic markets and Switzerland, where we operate a combined beer and soft drinks business model.

We are very pleased with our Western European business and the opportunity to further strengthen this footprint by adding the Britvic business. We are confident that the proposed transaction will improve the long-term hard currency revenue and operating profit opportunities in Western Europe, to the benefit of the region but definitely also for the Group. Based on our internal plans and protections and after realisation of synergies, the proposed transaction will be margin accretive in Western Europe and at Group level by end of Year 3.

On slide 21, a few words on the strengthened partnership with PepsiCo, because the proposed deal also brings that very importantly along. The Group has a longstanding partnership with PepsiCo in the Nordic and Asia for decades and just a few years ago, we took over Pepsi Bottling and Distribution in Switzerland as well. Adding the UK and Ireland to the franchise of markets will therefore bring the total number of markets to seven.

We have an excellent relationship with Pepsi, characterised by mutual respect and admiration. We’ve had a good dialogue and connection with this transaction and we’re pleased with the support from Pepsi. The extended partnership will make Carlsberg PepsiCo’s largest partner in Europe and among the biggest worldwide. As Pepsi is progressing towards consolidating it’s bottling network we see opportunities to be part of this journey and possibly add more geographies to our portfolio in the coming years.

With that, let me hand over to Ulrica who’s going to take you through the synergies.

Ulrica Fearn

CFO

Thank you Jacob and good morning. Please go to slide 23 and then the significant synergies that we expect. So as you’ve just heard Jacob explain, there are multiple cost efficiencies and sales benefits from combining beer and soft drinks businesses. Based on detailed analyses of Carlsberg and Britvic, we have identified significant cost synergies and efficiency improvements of £100 million. This level of costs synergies equals around 6% of Britvic’s 2023 full year revenue. Of the £100 million, approximately £80 million will be realised by the end of Year 3 and then the remaining £20 million by the end of Year 5.

So while we have quantified the cost synergies, we are not providing a figure for sales synergies. We have internal plans and target but as it is more difficult to objectively verify these achievements of these synergies and therefore credibly report on them, we have decided not to do so. The business case of the acquisition is appealing, even without these sales synergies.

The full realisation of cost synergies will contribute profitability to EBIT margin progression in both Western Europe and at Group level. Consequently, the acquisition of Britvic’s will strengthen the Group’s top and bottom line and the EBIT margin equated in Year 3.

Let’s go to slide 24. We intend to start the integration of Britvic as soon as possible after closing and anticipate a smooth integration with a low risk profile, delivering the identified cost synergies, and potentially additional sales benefits. Aside from our long track record of running combined beer and soft drinks businesses, we also have recent and successful experience in integrating businesses in the UK from combining Carlsberg UK with Marston’s brewing business, where the realised cost synergies ended up being ahead of the initial target and achieved ahead of schedule, despite significant challenges posed by COVID.

We know that both companies have committed and talented employees. We also see a great overlap in shared values and cultures. The combined company will be led by a high quality and very experienced management team drawn from both Carlsberg and Britvic.

The incoming head of Western Europe Soren Brinck will be overseeing and supporting the integration. Soren is a beer and soft drinks veteran. He joined Carlsberg almost 20 years ago and has, during his successful career, held MD roles in Norway and Denmark which are great examples as to how to successfully run a combined beer and soft drinks business. Soren joined the Executive Committee in 2021 and from 2022 has been heading up our commercial and strategy organisations and from 1 September he will take over responsibility for Western Europe, following Graham Fewkes’ retirement.

Please go to slide 26 and why we’re confident that the proposed transaction is indeed value enhancing for Carlsberg and our shareholders. The acquisition will be mid-single digit accretive to adjusted EPS in Year 1. The transaction will be fully debt financed. We have secured short-term bridge financing to a coupon rate of around 4%, while we expect the longer-time financing through the issuance of EMTN Euro Bonds.

With a planned level of growth and investment, together with the realisation of identified synergies, the acquisition will be double digit accretive to adjusted EPS in Year 2; and the ROIC is expected to exceed WACC in Year 3, aided by the delivery of the £80 million of costs synergies.

I should make clear that the EPS accretion and ROIC delivery are based purely on the delivery of cost synergies, which are fully within our own control, and do not take account of the sales synergies, nor the additional £20 million of cost synergies that we expect by the end of Year 5.

Slide 7 and our capital allocation principles, which have been in place since 2016 and to which we want to reaffirm our commitment. Our first priority remains to invest in the organic business in support of long-term sustainable growth. As we said in February, when we guided for the year, we are increasing our market investments this year by around 10% in support of our premium portfolio and our growth markets in Asia. We also want to reaffirm our intention to increase marketing investment in the coming years so that we reach a ratio to revenue of 9% and later on possibly 10%.

Our second priority is to maintain a conservative leverage. We are today announcing as a revised leverage target of below 2.5x net interest bearing debt to EBITDA. The increase from below 2x to 2.5x follows the changed geographical exposure of the Group, including a higher share of cashflows coming from stable cash generating markets in Western Europe, and with Russia no longer being part of our company. While we are increasing our leverage target, there is no change in our commitment to maintain a solid investment grade rating.

Our third priority is our policy of dividend payout ratio of around 50% of adjusted net profit. There is no change to this commitment.

Any excess cash following the first 3 allocation principles will be distributed to shareholders through share buybacks or extraordinary dividends or be used for value enhancing M&A. Again, as already mentioned, we will always have a clear focus on value creation and will not engage in M&A activities that are not value accretive to our business and our shareholders.

Slide 28 and some details on leverage. Post transaction, pro-forma net interest bearing debt to EBITDA ratio, and that's calculated as the combined EBITDA from Carlsberg and Britvic and the total net interest bearing debt including bridge financing and the cost of acquiring Marston's 40% in our UK business, that's expected to be 3.5x. We expect our leverage ratio to reach 2.5x during 2027 as a result of the increased free cashflow from operations.

In line with our capital allocation principle, we have this morning stopped the share buyback program launched on 30 April. We will resume the share buybacks once we reach our target of below 2.5x.

With that, back to you Jacob.

Jacob Aarup-Andersen

CEO

Thank you. Let's go to slide number 30. This means we are now through this morning's presentation but before going into Q&A, let me just summarise the key headlines.

Firstly, we are acquiring an attractive, well-run business which has delivered consistent and cash generative growth. The leading soft drink positions of Britvic are highly complementary to our existing operations.

Secondly, by leveraging the platforms of Britvic and Carlsberg, we have identified significant cost synergies amounting to a £100 million. In addition, we believe there will be sales benefits.

Thirdly, we do believe that we can accelerate the growth further by increasing investments in sales and marketing.

Fourth, the acquisition is value accretive for Carlsberg shareholders. It will be mid-single-digit adjusted EPS accretive in year 1, double digit in year 2, and ROIC will exceed WACC in year 3.

Finally, the transaction further strengthens our long-standing partnership with Pepsi that provides opportunities to broaden our successful collaboration even more in the coming years in markets outside of this deal.

Now we are ready to take your questions, with that over to you operator.

Q&A Session

Edward Mundy - (Jefferies)

Morning Jacob, morning Ulrica and morning Peter. A couple of questions from me first of all. So first question is Jacob you laid out a number of reasons in the slide deck for doing the acquisition. Attractive financials, hard currency cash flow and a strong balance sheet. If you had to pick one reason, what would be the most important reason for doing the deal? What is the thing that's most pertinent to you for doing this transaction? Number one.

Second question is on the revenue synergy side of things. Do you think there's going to be more on the soft drink side or in the beer side? I appreciate you're not putting numbers out there but how do you think about the revenue opportunities, at more on the soft drink side or the beer side?

Then the third question is really around the balance sheet. Does this impact the ability to do the buy-out of the Indian minorities and are there any potential divestments potentially, such as Brazil?

Jacob Aarup-Andersen

Thank you Ed, let me start and then Ulrica will come on the balance sheet and your disposal question as well. One reason – you're being tough, Ed, from an early morning on a Monday – I have so many good reasons there, but I think if you force me into only one thing, I think it is the significant value creation, when we combine major beer businesses with major soft drinks businesses in core markets. We have a proven business model around that. I think it's a very powerful slide where we show you on the right hand side the margins of our combined beer and soft drinks businesses versus our average. So if I had to pick one, it would be that.

We are not going – this is not a leap of faith, this is a model that we know incredibly well and have a proven track record in and it will be led by people who know how to drive this value as Ulrica also explained, even at the ExCom level. I think I'll pick that as the one reason.

In terms of the revenue, so revenue synergies, I know you're going to be frustrated with the answer, but we do see it on both soft drinks and beer. We wouldn't highlight one of them as having more revenue synergies than the other. This will be different across different categories, there's no doubt about that. Especially if you want the particulars around it and of course we shouldn't go into too much detail, but especially brands that are the smaller emerging brands, the high growth brands that may get less shelf space and less attention in sales and distribution, will really benefit from the broader distribution capability of the combined business but we do see this across both brands.

It's going to strengthen [inaudible] from a beer perspective and a soft drinks perspective so I'm not going to be drawn into whether it's one side or the other. We will see benefits on both sides.

But heading over to Ulrica on the India question on balance sheet.

Ulrica Fearn

It's a quite short answer Ed. It won't have any impact on the CSAPL [India minority partner] transaction or its prospects. You mentioned Brazil, we can't comment on any other strategies around Britvic at this point in time.

Edward Mundy - (Jefferies)

Got it, thanks very much.

Soren Samsoe – (SEB)

Yes good morning Jacob, Ulrica and Peter and congrats on doing this deal. Just first a question on the acquisition. Should we see this as an addition to the Accelerate SAIL strategy or does this fit in with the existing strategy?

Secondly, you say that the acquisition will support the 4% to 6% growth ambition in that strategy. If you see this stand alone it would be difficult for Carlsberg to reach the 4% to 6%, or should we see that there could be an upside bias to the 4% to 6% after you have done this acquisition? Thank you.

Jacob Aarup-Andersen

Thank you Soren, let me take those two strategic questions. First of all, in terms of whether this is as part of the strategy or change to the strategy. So we strongly believe that it's going to support the Accelerate SAIL growth ambitions as you also highlighted yourself in your second question.

It is aligned with the Accelerate SAIL strategy. We want to accelerate higher growth categories than mainstream beer. That means we want to accelerate in premium beer, we want to accelerate in alcohol free, we want to accelerate in beyond beer and soft drinks. They are all structurally higher growth categories than you can say mainstream core which is a more mature segment. That's needed for us to deliver on our Accelerate SAIL ambitions. From our perspective this is not a change. In the current mix, 16% of our business is already soft drinks and it is a structurally growing category. So this is along the lines of what we laid out with Accelerate SAIL.

In terms of the 4% to 6%, so this supports the 4% to 6%, it doesn't mean – I think your question implied that stand alone without this deal that we were implying that we would have issues with the 4 to 6%. No, we are confident then the 4 to 6% with or without Britvic. All we are saying is that Britvic is going to grow. We expect Britvic to grow in the same range of 4 to 6% and therefore it's contributing to the overall Accelerate SAIL ambition. Britvic will neither pull down our growth rates or significantly push them up. It's an asset that grows in line with our own ambitions. From that perspective, nothing changes.

Soren Samsoe – (SEB)

If I could just add one question then.

Jacob Aarup-Andersen

Of course.

Soren Sampson – (LCB)

If you say that the Britvic will grow the 4 to 6% but you actually also indicate that there will be sales synergies. So including sale synergies then perhaps you are looking at a higher number than 4 to 6%.

Jacob Aarup-Andersen

Okay that's fair, sorry Soren.

Soren Samsoe – (SEB)

If you could explain a little bit on those sale synergies. I of course acknowledge that you cannot quantify it but if you could maybe just expand a little bit, what the sale synergies will be. That would be really interesting, thank you.

Jacob Aarup-Andersen

Yeah, happy to. So but it's okay, I missed that nuance of your question. Yes there is potential revenue synergies on top of this. We have been – and of course that can give us additional growth on top. We are reluctant in terms of starting to quantify and talk about size and impact of revenue synergies.

I'm an old cynic, I know first of all that the risk of coming out with the revenue synergy numbers. Everyone is going to dismiss it because it's very intangible until it starts being realised. Therefore, as you also know from all of our financial metrics, we are not including revenue synergies in any of the numbers. It's cherry on top, it's in addition to the numbers we're talking about.

But the reason why we do mention it is, we know from experience, when we look at the other markets, the seven markets where we do combine soft drinks and beer businesses, that we have revenue synergies, we see it come through. It comes from a number of reasons and it builds over time so it's not in day 1 you get it but it will basically improve our positioning versus customers.

So we just get a broader must-have portfolio that gives us better customer grip. It also means that brands that would otherwise not have reached the same distribution, will reach a broader distribution due to a bigger, combined sales force. It is very easy for a sales person and a field sales force person to bring the whole portfolio with them when they go out and meet customers.

Therefore we will see a number of our brands being brought to customers that they haven't been brought to before. We know from precedents in our other markets that that drives more sales. It is the combination of the total portfolio being more relevant to customers which just drives more stickiness and therefore also more sales.

The second element is we have a broader distribution, so our brands will reach more customers and consumers than they did before. It's the combination of those two but we're not going to put a number on it, which I know you appreciate.

Soren Samsoe – (SEB)

Yeah thanks, I'll get back in the queue.

Laurence Whyatt – (Barclays)

Morning Jacob, morning Ulrica thanks very much for the questions. A few from me as well please. Just on the synergies on page 23, you detailed that you get £80 million from the end of year 3 and then £20 million by the end of year 5. I was wondering if you could just give us a bit more detail and what sort of synergies goes into those two buckets.

In particular, what are the synergies that take 5 years to realise? Secondly, given that you're now increasing your soft drinks business as a percentage of total sales, do you think there's more scope to add more soft drinks businesses in your other markets, if there were Pepsi contracts for example available elsewhere? Is that now a key area that Carlsberg wants to focus on?

Then, finally, of course you had this deal with Marston's that you've bought out – today or announced you're buying out today. Could you just give a review of how the Carlsberg Marston's business has gone? Has that gone ahead of your expectations when you made that acquisition or are there things that you had learned from that that you had taken to this new, increased UK presence?

Thank you.

Jacob Aarup-Andersen

Thank you, Laurence. Let me do number 2 and 3 and then Ulrica will speak to the synergies. Let me start with those. You asked about whether we see more Pepsi markets. Yes, I think we're quite open around that in the statement today. You also see the quote from the CEO of Pepsi in Europe. Yes, we are considering, together with Pepsi, potential other markets in the coming years.

It will be markets, where we're already present, otherwise you can see the logic falls apart in terms of the strong synergies we see between soft drinks and beer. Which is also why we are the righter, you can say, owner of assets like that. So yes, we are looking at potentially more markets. When we have news on that of course we will inform you.

Don't assume that that means acquisitions, just to be clear. As you know generally when we add a Pepsi market or generally soft drinks market, it's happening organically. I think that's also the expected way forward on potential more markets. I think this is one of the key benefits of this transaction and one of the things that it's also becoming clear today for most of you, it is the broader, deepening of the Pepsi, Carlsberg partnership for the coming years. That is value creating for us, no doubt about that.

The third question you had was on Marston's. In terms of giving a review on that, I think the most important element of the Marston's combination, for the purposes of also this discussion is that, we set out on an ambitious integration agenda in terms of ambitious synergy targets when we did the merger.

We have overperformed on the synergy delivery on the Marston's Carlsberg combination, which is of course also a great benchmark in terms of the work that we will be doing now on combining with Britvic.

Within terms of the business case on the top line, it didn't live up to the original business case. It didn't for the simple reasons that we were hit by COVID, which meant that we were brought back a couple of years versus the original case, which is of course the same thing that has happened to many other businesses. But I have to say the things that were under our control, we drove that very well and ahead of the business case.

Just a final comment. Of course, as you see with the agreement today, we take 100% control, but we will continue our excellent relationship with Marston's going forward with a long-term brand and distribution deal with them. So, the relationship continues to be very strong with Marston's going forward.

Maybe over to Ulrica on the synergies.

Ulrica Fearn

Yes, you're absolutely right, and yes, the £100 million synergy is first of all, as you say, it's based on a preliminary assessment, and we have identified synergies both for cost and efficiencies, and in aggregate they come to £100 million, of which, as you say, Lauren, £80 million will be by the end of year 3, and then the £20 million taking another two years.

Maybe to give - I think there was some in the presentation, but some flavour of those savings and efficiency improvements. They come from all areas.

The direct procurement area, whether that's packaging, cans, glass bottles, indirect procurement. It's that logistics and marketing services. But also supply chain and our warehousing and network and inventory management, as well as more pure cost savings around admin and overheads and also better utilisation of sales and marketing being able to cover a wider range of outlets. That comes with more efficiencies, and we have investments in this area as well.

So, most of the areas are in procurement, supply chain, and admin and overhead. So, what you mention is absolutely correct. We are phasing some of them out beyond year 3, and that phasing depends, of course, on several factors. We need to get in closer and have a look at what's there as well. It depends on the detailed review of the business itself, and we can't do that, of course, just now. But it could be, network efficiencies might take a little bit longer to run. It depends on how long the procurement contracts are and how we integrate in the fastest way the two businesses. So, as you'd expect, there will be more limited impact in year 1, with the largest delivery in 2 and 3 within the first three years. But then there are some that will drop into between three and five years as well.

Laurence Whyatt – (Barclays)

Thanks very much.

Trevor Stirling - (Bernstein)

Hi, everyone. A few questions from my side. A couple of technical ones first, and then a couple of strategic ones. The technical one, Ulrica, I just missed what you said was the coupon on the bridging finance, and when you talk about the deal being accretive, presumably that's based on the coupon of the bridging finance? Then, so second technical one, you talk about the Carlsberg WACC of 7. In Britvic's annual report, they estimate WACC for their own business of 8.5. Where would your ROAC hit at 8.5 WACC, please?

Jacob, two strategic ones. One identifies the improved relationship with Pepsi, but is there a possible fallback from that in terms of - fallout from that, rather, in terms of your relationship with Coca-Cola and could it imperil some of your Coca-Cola bottling relationships? Maybe the final strategic one, does this mean that, given the scale of the leverage that, apart from the buy-out in South Asia, that there really isn't any big deal around the corner for the next two or three years in beer?

Jacob Aarup-Andersen

Thanks, Trevor, always good to speak. Let me do the two strategic ones first, if that's okay, and then Ulrica will come in on the coupon and the WACC rate.

So, you asked about the Coke relationship. So, for everyone's benefit, we operate Coke in Denmark and Finland and Pepsi in five countries. We have a good relationship with Coke. They are of course aware of this. They will have seen the leak announcement 10 days ago, and it's also important to stress that we have, for decades, been operating both Coke and Pepsi businesses. So, this is not new. We have a good relationship in Denmark and Finland, where we are creating value both for ourselves and for Coke. We have a contract that runs for multiple years, and we don't see that changing in the context of this. This is a deal that - a Pepsi deal that concerns the UK and Ireland. So, the Coke relationship continues in those two countries.

Then you asked about big deal in beer. I think we are very clear that of course this is a major deal and we'll be focusing on getting integration right and delivering the proper value for our shareholders that we see in this deal, which we are super excited about creating. Of course, if an attractive value-accretive situation occurs within beer in the next couple of years where it creates significant value for our shareholders, we will of course look at it like you would expect us to do, otherwise we're not doing our job.

So, I don't think, from that perspective, anything changes. You cannot time when opportunities occur and when major, significant M&A becomes available, and we will look at opportunities that occur, but I think also we all know from history that they are far between those deals happening. But this is not a question of us reorientating away from beer. Beer is our core, and beer will remain necessary for us. But this deal truly creates a significant amount of value between beer and soft drinks.

But let me hand over to Ulrica on the coupon and the WACC.

Ulrica Fearn

Yes, thanks, Trevor, and yes, I said 4%, approximately, for the bridge financing, which we then will take out, and that will likely be an EMTN, Euro market bond program, and that's currently trading a little bit lower than 4%. I'd say 4%. It may be worthwhile from a modelling point to view to say as well is that it will also be likely that the Britvic debt will be refinanced at our rates, if you're thinking about the calculation there, and yes, including this, it is still EPS accretive as per what we've stated.

In terms of the WACC, we do use our country-specific WACC, and that's what we've used here as well. By the way, that's also pretty much in line with the group WACC here. In terms of instead of using what Britvic have in their accounts, that's what we're using. I can't comment on when we're going to reach a ROIC of over 8.5, but I will say that clearly, following the transaction, we will continue to focus on continuing ROIC improvements and benefiting driving that as we always do. So, you've got when we will pass our own WACC, and then we'll continue after that.

Trevor Stirling - (Bernstein)

Thank you very much, Ulrica and Jacob.

André Thormann - (Danske Bank)

Yes, good morning, and thanks for taking my question. The first is in terms of potential factory consolidations. I wonder if you can give some comments on the potential for that and also how the capacity situation looks in your existing facilities in Carlsberg Marston's UK. Do you have spare capacity here?

The second question is in terms of sales synergy, and I realise you don't quantify it. But just another question around whether you see most synergies in off-trade or on-trade. That's my question, thanks.

Jacob Aarup-Andersen

Yes, hi, André. So, in terms of factory, no, we don't see this as a deal that is about, I think you said factory consolidation. When you look at our breweries, both across Britvic and across Carlsberg UK, we overall see a good utilisation, and as both businesses are seeing volume growth, we don't expect to see any major brewery consolidation behind this. Based on all the work we've been doing, Britvic has well invested and strong infrastructure, but also seeing strong growth and therefore, in the coming years, we would expect, potentially, to see more lines being added as certain categories continue to grow.

Carlsberg UK also has good capacity utilisation, not running at levels where we need to invest in further lines, etc. but both businesses have good well-invested brewery capacity. Not ripe for major consolidation. No, we don't see that. We see this as a growth case, that we see this consolidation. So, that's also how the synergies have been built.

You asked about the revenue synergies, and thanks for the different angle on it, because as you know, we can't put numbers on it. But we see especially the revenue synergies in on-trade. You asked for our on-trade versus off-trade, and that's based on the greater sales force versus on-trade and the stronger overall portfolio into an on-trade environment. So, it's more on-trade than off-trade, and I think that's as specific as we can be at this stage.

André Thormann - (Danske Bank)

Thank you so much.

Jeremy Fialko - (HSBC)

Hi. Morning. Jeremy Fialko, HSBC here. Thanks for taking the question. So, a couple from my side. So, the first one is, you've said this example of where you've got beer and soft drinks together as being beneficial for overall market development. So, if you were to look back at the last five years, is there any data that you can provide us with to demonstrate how your market share performance has been better in the markets where you have got the combined operations versus doing just the beer, and then the second question is on the synergy numbers.

So, you've given this £80 and £100 million number, and I'm assuming that that is a net synergy figure. Is the gross savings number higher than this? But then that's what you would be reinvesting, say, in higher sales and marketing, and if there's any sense of what the reinvestment level might be post the transaction completing? Thanks.

Jacob Aarup-Andersen

Thanks, Jeremy. Just on the synergy number, of course the synergy number is a net number where we're referring to - we also mentioned the one-off cost of achieving the synergies, which we haven't faced yet. But it's £83 million versus the £100 million, which will be taken through the P&L as well, of course, in special items.

In terms of the investments in sales, what we're saying is that we will invest in sales force going forward. We will not be specific around the number of people and the size of the investments, but of course it will also come with additional top line growth which will more than fund the investment in sales force. So, that's why I think we need to separate these two elements of the transaction.

There is a clear synergy case in terms of duplication and all the things Ulrica very diligently went through a second ago, and then we will, as part of our ongoing business case going forward, we will invest in sales force where we can see there's a real business case for it. You asked around market share over the last five years, and of course IR will be very helpful in terms of - or very willing to be helpful around these things. But if you look at it, the markets we are in - I think we gave you an example in Norway - as an example, of how we have been growing market share on soft drinks, and we have the same in most other countries, that type of development. And it's a combination of driving continued market share gains in soft drinks and also strengthening our beer business. It's very hard, though, to - I would just caution - that it's very hard to separate hot and cold water in terms of saying, if we hadn't had soft drinks, our beer market share would have developed X, but with soft drinks, it develops X plus.

Of course, there's a lot of factors in and out you need to consider, but it is interesting to see how strong our beer franchises are in the market where we have long term soft drinks franchises. The two franchises, they really feed off each other in a positive way, which is also what we're trying to illustrate with the margin illustration. But of course, we're happy to share as much as we can. But I think it's quite clear from that perspective.

Jeremy Fialko - (HSBC)

Okay, thanks.

Jacob Aarup-Andersen

Thanks, Jeremy.

Olivir Nicolai - (Goldman Sachs)

Hi, good morning, Jacob, Ulrica, Peter. Three questions, please, on my side. First of all, big picture question, the timing of the deal. Why today? Is it because Pepsi Co would not have given its agreement previously, or is it because you wish to refocus the group on Europe and being therefore less reliant on Asia?

Secondly, just on the working capital, net working capital, would you be able to quantify how much improvement you could bring to the Britvic side, considering that Carlsberg has one of the best in class in terms of working capital in CPG? Could we expect therefore faster deleveraging to reach 2.5x NIBD/EBITDA target during 2027?

Just lastly, on the £80 million synergies in year 3, would you be able to break it down between what's the part for procurement, logistics, supply chain and overheads? On a related topic to that, how much dis-synergy do you expect from losing the San Miguel licences in the UK this year? Thank you.

Jacob Aarup-Andersen

Hi, Olivier, I think I counted five questions there, but let me just see. You broke all the rules but we'll answer them anyway because you're such a nice person and it's Monday morning. Ulrica will talk to the net working capital and the faster deleveraging question.

Just killing one of them, so the synergies, we're not going to give more details than what we've given. We are in an early phase here where we also need to spend time on integration together with Britvic and we have a very clear perspective on where we think the synergies are and are comfortable with the numbers. But the different pockets may change in size as we get more into the weeds of it, but we're comfortable with the overall number and the delivery of it. But we're not going to give you a further breakdown on it and I hope you respect that.

On the timing, I think we can answer quite assuredly no to the point around whether this is because we want to take Carlsberg in a completely different direction. No, that's not the case and it is not - I think you said that we want to be less reliant on Asia and that's not the case either.

We continue to be very excited about our Asian growth case, Vietnam, India, China provides significant growth opportunities for us over the next decade and we will continue to invest to the maximum in terms of organic growth in those markets, so nothing changes in terms of Asia.

Of course, I can see the math around Asia being diluted from this. Everything gets diluted from this of course, but it doesn't change the fact that we see strong growth opportunities in Asia. We don't see inorganic opportunities in those markets beyond, as Ulrica talked about earlier, taking out our India minorities as we are working on. Therefore we continue the strong growth, organic growth investments in those.

No, it is more the case of what you said before, there is - precise timing is not always possible to control. There was a window of opportunity now with Pepsi looking into consolidating their bottling network. It comes with significant benefits to us across a number of vectors that we have described today and we needed to act upon that window, and that also of course dictated some of that timing. It's something that has matured for a while and it accelerated and it was clear for us that there was significant value for us to create here.

That is the case with the larger M&A, timing is often dictated by a number of factors, and here a window opened and it creates significant value for us. It also creates - don't forget that – it creates an even stronger cash generation machine going forward that will make us even more able to deliver on shareholder returns and accretive investments in our business, so we're excited about it.

You asked about the dis-synergies on MSM, so for us that is a separate item. We're not doing this acquisition because of the loss of MSM in the UK. As you know, the contract expires at the end of this year and, of course, there's going to be an impact in the short term from losing that. You know that it's around £1.8 million, actually that's the volume and around £1.4 billion of revenue, and it will have a short-term negative impact standalone of course. But we will also replace that over time through our own plans in the world beer category, we have some strong brands that are growing well in the UK in Brooklyn, Poretti and 1664.

So we have clear plans in place for this and of course there'll be a short-term impact of it and then we'll mitigate it over time. So we don't see that as a dis-synergy because MSM is completely unrelated to this. It's just an impact on the business that we will deal with, like when other brands leave the portfolio. This time it's just a bigger brand than your average brand, there's no doubt about that. But maybe over to you, Ulrica, just on working capital and deleveraging.

Ulrica Fearn

Yes and thank you, Olivier. I think, no we can't quantify what sort of working capital level we will aim for. What I can do is connect the sentiment to your "will we deleverage faster". Of course, what we will start once this is complete, is being very, very focused to reduce leverage to 2.5 and that is expected in 2027.

Of course as we do that we will aim to beat that using the capability that we have internally. That will be - part of that will be driving high free cash flow and taking - we've paused our share buybacks now - and taking all the factors into account that we can use to get to that leverage, including driving free cash flow high.

Olivier Nicolai – (Goldman Sachs)

Thank you very much, very clear.

Sanjeet Aujla – (UBS)

Hi, guys. Two questions from me please. Firstly, when you look at the UK beer business, I think your margins have been quite low there, even after the Marston's acquisition. But I guess with the benefit of scale that Britvic brings and the cost synergies that you've outlined, is it conceivable for that UK business to be margin accretive to Carlsberg, consistent with the other markets where you've got beer and soft drinks? I think margins are probably in the high teens range there. Is that a realistic ambition for the proforma UK business in the fullness of time?

My second question is just going back to the Pepsi. Can you just talk a little bit about how the concentrate model works with Pepsi? I think you talked about a new bottling agreement in the UK and Ireland. Have you received more favourable terms there and is that allowing you to step up marketing investment? Thanks.

Jacob Aarup-Andersen

Hi, Sanjeet, thanks for your questions. On the UK, you are perfectly right, there's no shying away from the fact that the UK business has lower margins than the Group average for a number of reasons. You're pointing to all the right points in terms of the benefits that the UK will get out of this combination with a great company in Britvic.

It is not wrong to assume that over time we could be - we should be able to bring the combined UK margin to Group average or potentially above Group average. We're not going to put a date on that, but if you do the maths of the combination here and of course you'll have to do a lot of assumptions given that you have to look specifically at the UK business and not the full Britvic business, et cetera. But if you do the maths on this, including the synergies, you can see that you can get there. So fully agree on that and the ambition is the UK's a major market for us. We are long-term invested in the market and with this transaction we're creating a UK powerhouse. Over time that powerhouse should also be accretive to the Group.

In terms of the concentrate model, I'm sorry but that's just too specific and commercially sensitive. I hope you accept that we're not going to go into those details.

Sanjeet Aujla – (UBS)

Got it, thank you.

Thomas Lind Petersen – (Nordea)

Hi, guys. Two questions from me, maybe a bit in the same way here. Just wondering if you could put a bit of colour on the various sort of let's call them multi-beverage markets. Because you highlight, Jacob, here that you have five Western European markets where you have beer portfolio and you have the Pepsi contracts here, all margin accretive, higher margins than the rest of Western Europe.

Just sort of comparing those, because they are small markets, it's the Nordics, it's Switzerland, how do they compare to the UK market, which is so much bigger? Are there any comparisons, any differences here that we need to - you know, that this is just not a copy-paste? Or is it exactly a copy-paste from what you've been doing in the Nordic margins here - markets, sorry?

Then the second question is perhaps just regarding the Pepsi contract and I know this is a bit sensitive, but Britvic had a very long contract, at least that's my understanding, with Pepsi. Can you say anything about that? Is that the same contract that now passes on to you, the links at least? Thank you.

Jacob Aarup-Andersen (03.43)

Thanks, Thomas. Let me start on the Pepsi question. We're not going to give details on the contracts that we will be getting in the case of closing of the deal we'll be getting with Pepsi. I know that's of course frustrating, but I can assure you that of course in order for us to do this and in order for us to reach agreement with Pepsi, you would assume that we have negotiated terms that are enabling us to invest for the long term in the business. But I cannot give you specific details on the length of the contracts, but I think given the commitment we're putting in here you would assume that this is not a short-term contract that we are looking at.

In terms of multi-beverage markets, I think it's a very considerate thought from your side in terms of there is - of course it's a different type of market, the UK. But that's also why we've done a lot of analysis on the UK, because the seven markets where we operate is often - especially the five in Western Europe - they're all smaller markets and they're markets where we have a higher market share than what we have in the UK on the beer side.

All the analysis we've done is we see - we actually see that as an upside versus a downside. It means that there is more runway for us in terms of realising synergies, in terms of building our capabilities, building up stronger distribution. We have a tremendous amount of respect for the colleagues that are joining us. Britvic is a phenomenal company that knows how to drive soft drinks already, but the combination - so we're not there to teach them how to drive the individual categories, but we are there combined to drive on the experiences, or build on the experiences we have in terms of combining those businesses.

We see a significant upside, as this will also be the first real proposition in the UK market where you see that properly happening. So we see it as a longer term higher upside than what we see in the Nordic region. It's not a concern but you're right, we need to respect the individual market dynamics, just like the way we've launched in Switzerland has been slightly different from the way we launched in [inaudible], et cetera. I hope that adds a little bit of colour and I'm now being told that - thanks, Thomas. Last question please, operator.

Richard Withagen – (Kepler Cheuvreux)

Good morning, Jacob, Ulrica and Peter. Thanks for the question, I have two please. First of all, can you share some thoughts on the Britvic profitability level? It's been relatively consistent over the last 10 years or so, so do you see that there is opportunity even there on a standalone basis? Or will the £100 million in synergies be predominantly driven by the combination of the two businesses?

Then the second question I have is on any antitrust reviews, could you maybe give your thoughts on that and where that will be the focus of the authorities?

Jacob Aarup-Andersen

Thanks, Richard. Let me speak to the profitability question. I think Britvic has been running a good shop, I think when we - also the interactions we've had with the company and all the analysis we've done and as you would expect we've done very thorough analysis with Britvic.

We are impressed with the team, we are impressed with the capabilities, we're impressed with their execution, the way they have been building brands. We do believe that they have achieved good profitability levels as a standalone company. I have no reason to believe that they should be able to lift that standalone significantly. I think that will be borderline arrogant from my side, I think that it's run by very capable people and doing very well.

The real upside here is the combination of the two, the significant synergies that we bring through as a combined entity and that's where we really see that. So we're building on a very strong base and I think in your question also lies the fact that this has been a very consistently strong performer. It's been a very strong compounding delivery from Britvic and that's what we're building on top of with the combination synergies here. So super excited about that and excited about being joined by such talented colleagues. Over to Ulrica just on the antitrust.

Ulrica Fearn

Yes, the very short answer there is that we are having to go through the process clearly and we'll rely on that as we get through. But I don't see any upfront issues in getting through that.

Richard Withagen – (Kepler Cheuvreux)

Thank you.

Jacob Aarup-Andersen

Thank you very much, Richard. With that, that was all for today. I hope we addressed as many of your questions as possible. Of course as always, our phenomenal IR team is eagerly awaiting at the phones, so please reach out to them. Otherwise, for those of you who we don't speak to, we wish you a good summer break as well. Thank you very much.

[End]