31 October 2024
Carlsberg A/S Q3 2024 trading statement conference call

PARTICIPANTS

Corporate participants
Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Ulrica Fearn - Chief Financial Officer, Carlsberg A/S

Other participants
Andrea Pistacchi - Analyst, Bank of America
Edward Mundy - Analyst, Jefferies International Ltd.
Simon Hales - Analyst, Citigroup Global Markets Ltd.
Trevor Stirling - Analyst, Bernstein Autonomous LLP
Thomas Lind Petersen - Analyst, Nordea Bank Abp (Denmark)
Gen Cross - Analyst, BNP Paribas SA (London Branch)
Laurence Whyatt - Analyst, Barclays Capital Securities Ltd.
Sanjeet Aujla - Analyst, UBS AG (London Branch)
Chris Pitcher - Analyst, Redburn (Europe) Ltd.
Søren Samsøe - Analyst, Skandinaviska Enskilda Banken AB

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Q3 2024 Trading Statement Conference Call. I am Shai, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the conference is being recorded. The presentation will be followed by a question-and-answer session. [Operator Instructions] The conference must not be recorded for publication or broadcast.

At this time, it's my pleasure to hand over to Mr. Jacob Aarup-Andersen, CEO. Please go ahead.

Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thank you very much, and good morning, everybody, and welcome to Carlsberg's Q3 2024 conference call. As said, my name is Jacob Aarup-Andersen. I'm the Carlsberg Group CEO, and I have with me our CFO, Ulrica Fearn; and Vice President, Investor Relations, Peter Kondrup.

Before we go in, let me begin by summarizing the key headlines for the quarter. We delivered volume and revenue growth in the majority of our markets, while the development in three large volume markets impacted the total group volumes. We maintain our full year earnings guidance.

The Britvic acquisition is progressing and we still expect to close the transaction in Q1 2025. And we have further strengthened our relationship with PepsiCo with the addition of Kazakhstan and Kyrgyzstan to our portfolio of CSD markets.

I'll provide the key group headlines for the quarter, and Ulrica will take you through the regions and full year outlook.

But let's zoom in on Q3. So let's turn to slide number 3. We delivered organic revenue growth of 1.3% for the quarter and 3% year-to-date. The positive quarterly revenue growth was the result of revenue per hectoliter growth of 2% and a slight volume decline of 0.2%.

We delivered volume growth in the majority of our markets, with particularly strong growth in the CEE&I region. However, this growth was offset by the three large volume markets: China, France and the UK. Year-to-date, our volumes grew by 0.8%, which is a solid achievement given the consumer environment and weather impact in Europe and some Asian markets, including China this year.

The revenue per hectoliter growth was mainly driven by price increases across markets and a positive product mix, driven by the growth of Beyond Beer, alcohol-free brews, premium beer across many European markets and European soft drinks. The impact of channel mix was insignificant.

Reported revenue grew by 0.9% to DKK 20.5 billion. So despite currency headwinds, we're pleased to see that we are delivering positive top line growth, both organically and in reported terms, even in a tough quarter.

Let's turn to slide number 4, and let's have an update on our growth portfolio categories. Our total premium beer portfolio grew by 3% year-to-date. Despite growth in the majority of our markets, premium volumes was flat for the quarter due to lower volumes in China, France and the UK. Excluding these markets, our premium volumes increased by double-digit percentages.

While we cannot be satisfied with the total group development, the fact that most markets are transforming their portfolio by continuing to succeed in driving growth for our premium brands is very positive.

We're particularly pleased with the continued positive momentum for our key international brands. If we look at some of them, Carlsberg delivered 11% total volume growth and almost 20% growth in the markets where it is premium positioned.

Tuborg grew by 2% despite the softness in its largest market, which is China. The growth of Tuborg was mainly driven by India and the export and license business. We also saw good growth rates for the local premium brands, such as Wind Flower Snow Moon premium beer in China, Frydenlund in Norway and Kaiser in Greece.

The growth of alcohol-free brews continued, this time at 6% with broad-based growth across Western Europe and CEE&I. Beyond Beer grew by 10% with growth achieved in all three regions. Garage and the Beyond Beer version of Wind Flower Snow Moon were the main contributors.

Soft drinks volumes grew by 4%, supported by good growth of Pepsi in our current Pepsi markets, which are in Norway, Sweden, Switzerland, Laos and Cambodia. We also delivered good growth for the Coca-Cola businesses in Denmark and Finland and for our own soft drinks brands.

As we said at the beginning of the year when we launched the Accelerate SAIL, we are increasing our marketing investments this year to support the long-term growth of our key priorities, both in terms of markets and in terms of brands.

Slide 5, please, and an update on the exciting actions that we're taking in the soft drinks category that will enable us to leverage our already strong beer business and route to market.

Firstly, on the Britvic acquisition. As you may have seen, the Britvic shareholders approved the recommended offer on the 27th of August. And more recently, the UK CMA announced the deadline for the Phase One decision on 18th of December. Following that, there will be the process of the court sanctioning of the scheme of arrangement. And consequently, we still expect the deal to close in Q1.

In September, we announced the expansion of our strategic partnership with PepsiCo with a new agreement. Under that, Carlsberg will become the PepsiCo bottler in Kazakhstan and Kyrgyzstan from 1st of January 2026. We have a strong beer business in Kazakhstan with more than 2.5 million hectoliters and a 38% market share. Adding the Pepsi portfolio to our beer business will more than double our business in Kazakhstan, giving us significant benefits in sales and distribution. The increased volumes will require a new bottling facility, which is going to be an investment of around €100 million. The new investment is expected to deliver a double-digit return on invested capital from year one and will be accretive to group ROIC by year three.

The last point today on our partnership with PepsiCo is that we recently extended our bottling agreements in Norway and Sweden, securing our long-term cooperation with PepsiCo also in these markets.

With this, I will hand over to Ulrica, who's going to take you through the regions and the outlook.

Ulrica Fearn - Chief Financial Officer, Carlsberg A/S
Very good. Thank you, Jacob, and good morning, everyone. And please now go to slide 6, and Western Europe, where we delivered good numbers in most markets, including the Nordics, Poland and Germany, but the overall volume and revenue delivery was impacted by challenging conditions in France and the UK. Consequently, organic volume and revenue growth was flat.

The flat revenue per hectoliter was impacted by last year's comparable due to the inclusion of excise duties in the UK, when we took over the Kronenbourg 1664 licensee arrangement. Excluding this, revenue per hectoliter improved by approximately 2%, mainly driven by pricing. And this impact, by the way, will impact comparable numbers in Q4 and Q1 as well. Reported revenue grew by 1%, positively impacted by the appreciation of the Polish, British and Swedish currencies.

So let's zoom in on a few markets. We were very pleased with the growth that we saw in the Nordics. Volumes were up by 6% and revenue by 8%. And we saw good growth for the core mainstream portfolio and, more importantly, also for premium, alcohol-free brews and soft drinks across the markets. And the positive mix supported the higher revenue per hectoliter as did the price increases taken earlier in the year.

It has been a tough year for our French business. Following several years of growth, led by the premium segment, the beer market in France is impacted by the weak consumer environment and again, in Q3, bad weather. In addition to the impacts from the market development, our volumes have suffered due to our price increases, which seem to be at the high end compared with the market, especially the Kronenbourg red and white brand was impacted by this.

Our performance in the UK was impacted by the soft market, exacerbated by the supply chain disruption that impacted our Northampton brewery, which we flagged in Q2 and which is also now behind us. The supply chain issue was also impacted – impacted also our commercial activities. And even though we were able to source from other Carlsberg breweries, we lost market share as we couldn't fulfil demand in the quarter. And we are now fully back and the start of Q4 has been promising. As you know, we will lose San Miguel from 1st of January. We are, therefore, encouraged by the growth that we saw for Brooklyn, Poretti, Blanc in the Premium segment, although we do recognize that it will take time to recover the lost San Miguel volume. Carlsberg Pilsner delivered another quarter of good growth.

Our Polish business delivered good performance with low-single digit volume growth in a flat market. The growth was driven by international brands such as Carlsberg, 1664 Blanc, Somersby and Garage, and local brands such as Okocim.

So please go to slide 7 and Asia. And here, volumes were under pressure in the quarter due to the difficult trading environment, particularly in China and specifically for Q3 also in Laos. Organic revenue declined by 3.3%, reflecting a volume development of minus 5.2%, partly offset by an increase in revenue per hectoliter of 2%. The positive development in revenue per hectoliter was supported by price increases, particularly in Laos, due to the high inflation and a positive country mix. And the reported revenue development of minus 4.2% was impacted by the depreciation of the Laotian and Vietnamese currencies.

Looking at China, we continued to gain market share in a quarter and year-to-date. However, the consumer environment in China is very tough at the moment, and we were not able to compensate for the market decline. Although better than the market, our volume development in Q3 was minus 6% in a market that was down by an estimated 7%. And year-to-date, our volumes in China were flat while the market was down by an estimated 5%. As we said in our half one announcement, we remain cautious about the Chinese market for the second half of the year and that view remains intact.

In Vietnam, the beer market continued to stabilize in the quarter. Despite the market conditions during the past year to year-and-a-half, we continued to execute our growth and expansion strategy. And our volumes were up by low-single digit for the quarter and year-to-date, and we continued to improve our market share. For the year, we saw very good growth for our international premium portfolio, which plays an important Vietnamese strategy.

Our business in Laos has [shown] remarkable resilience through this times despite multiple price increases. However, in recent months, we have seen a slowdown in the market due to severe rainfalls and flooding in all parts of the country in August and September and a challenged consumer in the high inflationary environment. In Q3, these factors impacted our business and our volumes declined by mid-single digits, while revenue per hectoliter was up by more than 20%. And we did, however, see an improvement towards the end of the quarter.

In Cambodia, we saw stabilizing volumes as we delivered good beer volume growth and as we begin to cycle last year's decline of our energy brand.

To slide 8 and our CEE&I region, where we saw very good performance more or less across the board. Organic revenue grew by 9.8% as a result of 4% increase in revenue per hectoliter and volume growth of 5.2%. The volume growth was supported by good weather during the hot summer, while the improvement in revenue per hectoliter was supported by price increases and a very positive product mix, thanks to 20% plus growth of the premium portfolio. Reported revenue growth was 6.9%.

So a few comments on the largest businesses in the region.

India was a significant contributor to the strong results with low-teens volume growth in the quarter and the year-to-date, which translated into an improvement in market share. The Carlsberg brand, which is positioned in the premium segment in India, delivered an impressive growth of more than 40%.

The Ukrainian market remains volatile. Our business delivered a very strong set of numbers with mid-teens volume growth driven by almost all brands across categories, including premium, alcohol-free brews and Beyond Beer.

And in our export and license division, the low-single digit volume growth was particularly driven by Tuborg and Carlsberg.

And finally, in the region, we still expect to close the buyout of our minorities in India and Nepal in Q4.

Please go to slide 9 and the earnings outlook for the year. The statement on this slide may be a bit boring – which is probably a good thing in a tough year for consumer goods companies – but we keep all element of our outlook unchanged. In August, we adjusted upwards and narrowed our full year earnings expectations to just 2 percentage points to an organic growth in operating profits between 4% and 6%. Based on the Q3 performance, where we saw good momentum in most markets, but a challenging development in a few large volume markets, we maintain the full year outlook.

We still expect that a COGS per hectoliter, a high-single digit increase in marketing investment, and we continue our rigorous and well-embedded focus on costs. And based on yesterday's spot rate, we assume currency impact on operating profit of minus DKK 300 million in line with previous assumptions.

All other assumptions are also unchanged. Net financial expenses, excluding FX, are expected at minus DKK 1.2 billion. Remember here that we had an impact of FX in half one of DKK 100 million, and the tax rate is unchanged at 21% and the CapEx outlook is also unchanged at DKK 5 billion.

And with that, back to you, Jacob.

Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thank you, Ulrica. And for the final slide here, just before opening up for Q:&A, let me just summarize a couple of key points. We delivered a volume and revenue growth in the majority of our markets, while the development in three large volume markets impacted total group volumes. Great to see that we're delivering both organic and reported revenue growth at group level. We maintain our full year earnings guidance, as Ulrica just said, the one that we lifted in August. The Britvic acquisition is progressing and we still expect to close the transaction in Q1 2025. And we further strengthened our relationship with PepsiCo with the addition of Kazakhstan and Kyrgyzstan to our portfolio of soft drinks markets.

As always, for the Q:&A, we will limit the number of questions to two per person to ensure that as many as possible get a chance to get through. After your questions, you are welcome to join the queue again. And with that, let's take some questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from the line of Andrea Pistacchi, Bank of America. Please go ahead.

Q: Andrea Pistacchi - Analyst, Bank of America
Yes. Good morning, Jacob and Ulrica. My two questions are both on Europe, please. So, firstly, I mean, volume growth has remained quite subdued in Europe despite the comp and the same for your peers. The weather is being poor, the consumer environment is poor we know, but what gives you the confidence that there isn't anything a bit more structural in the softness in Europe after a couple of good post-COVID reopening years?

And then the second question is about the pricing situation in Europe. Your price mix was positive I think you said ex the technical factor. So, can you talk a bit about the broader pricing environment in Europe, how you think about pricing also going into next year in this environment? And you flagged before that France, I think you're – part of the reason why you're losing some share is that you priced above peers. So, if you can put all this together, please? Thank you.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thank you, Andrea. Let me address those. So, yeah, you're right and, as you said, it's the subdued volumes in Europe. You're seeing that across the board. And I think also not just in our industry, you're seeing it across consumer goods. And I think that's an important fact, when you address the question as to whether this is cyclical or whether this is potentially structural. We don't believe this is structural, to be very clear on that.

So, we've been very open on all these calls for years, I believe. Also looking back, that the European mainstream volume is not something that – it's an area where you're not going to see any significant growth in Western Europe. It's a relatively mature market across the mainstream beer, but there is structurally still significant growth opportunities in Western Europe when you focus on the growth categories of premium and Beyond Beer and alcohol-free, etcetera. And we don't think anything has changed structurally. What we've seen this year across all consumer goods is, let's say, some element of constipation from a number of years of high inflation and price increases and some uncertainty around the macroeconomic outlook and the combination of all of that means that people are holding back. We think that's a classic cyclical effect that you see in consumer goods, and we don't have any reason to believe that's a structural change.

Are our Western European volumes going to grow significantly and as such in the years to come? No, we don't think so, but that's never been part of the plan. You know, Western Europe is a slow but steady growth region for us, where it's more about this mix than about the overall growth in volumes.

On pricing, yes, I think that's a positive. We are positive beneficiary of the actions over the last couple of years. When we look into next year, from – which is what your question centered around, you know, I'm going to give you the disclaimer that, of course, I cannot be specific around pricing going into next year. Then I would have a legal department pulling me out of this conference call immediately. So – but what I can say is that, you know, that our principle is that the cost increases that we brought to see across the business also needs to be mitigated by our pricing actions. And that principle has not changed at Carlsberg.

Therefore, there will be an element of us needing to see some price increase in the coming year. But we cannot, as you know, be specific on markets and magnitude on that. Of course, the one thing we can say is, if you look at the significant price increases you saw over the last couple of years, of course, we're not in that range. But we – as a principle – as a very sound business principle, we need to perfectly make sure that we cover the cost increases we see in our business with pricing actions so we maintain margins and potentially expand margins via scale. So, that's where I can leave it.

Q: Andrea Pistacchi - Analyst, Bank of America
Can I just follow up? I mean, how would you characterize the sort of promotional environment through the summer in many European markets versus, say, a few months ago? I mean, is it – yes, it's promotional but not getting much worse. Is it normal?

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Well, I think, overall, I don't think the competitive intensity, which you often – which you would measure through promotional activity set, we don't think the competitive intensity has significantly changed. It's correct, looking at our results and looking at our competitors results, people are not seeing – people are not really seeing volume growth in Western Europe. So, it could lead to more competitive tension. We're not seeing that. We're seeing a high level of promotions and competition over the summer, the crucial summer period, as you would expect. But it's not a step change versus what we've seen in previous years.

Q: Andrea Pistacchi - Analyst, Bank of America
Thank you.

Operator: The next question comes from the line of Edward Mundy, Jefferies. Please go ahead.

Q: Edward Mundy - Analyst, Jefferies International Ltd.
Morning, Jacob, Ulrica and Peter. So, two for me, please. First one, on China. I might unpick a little bit. So, your revenue per hec I think was down about 2% this quarter, but you're falling times 5. But you saw 20% growth in economy and a 9% decline in premium. Is this mostly down to adverse channel mix or do you think there's some down-trading over above the weak trade? Or do you think there's on-trade weaknesses or do you think it's cyclical given the weather and the macro, etcetera?

And then the second question is like I appreciate it's too early to give me a guide for next year, but you've done a good job this year at keeping the guide despite the weaker external environment. Are there anything you can share at this stage around some of the key moving parts on margins such as raw mats, marketing or cost cutting?

A: Jacob Aarup-Andersen- Chief Executive Officer, Carlsberg A/S
Thanks, Ed. Why don't I start on China and then Ulrica will talk a little bit about the moving parts for next year. So, on China, I'm going to correct you a little bit. I hope that's okay and we can stay friends. In Q3, we see the price mix of minus 1% in China. So, if you look at it, if you look at this year, if we unpick it a bit, as you said, Q1 price mix in China is plus 2%, in Q2 it's minus 2% and in Q3, it's minus 1%. And year-to-date, the price mix is flattish in China.

And I think that's also a key factor because I notice going into this you can say worsening market in the beginning of the year, I think there was a lot of concern that we would see a significant deterioration in price mix. People would trade down significantly. We are not seeing that. So, I have to say flat price mix year-to-date and minus 1% in Q3. That is in no way dramatic, and it's a – I think it's very well managed by our team.

If you look at it, we don't think channel is a major driver. It is correct that on-trade continues to be weak in China. And it was, of course, clearly not helped by the weather impacts we saw in Q3. So, channel is part of the reason here. But we do also continue to see a relatively strong performance versus market in our big city strategy. And of course, that's positive for our overall mix as a business. As you know that there is a higher premium content in our big city strategy versus our traditional strongholds. So that impact is also there.

Of course, it's a market where it's tough for our high end premium brands. There's no doubt about that. And that's not a surprise for us. You say our more affordable premium brands are actually continuing to hold off quite well in the market. And therefore, the – so, you can say the continued growth of our big city strategy on a relative basis versus our peers, it means that our relative mix is becoming a bit more big city versus strongholds that improves the mix. And then within that mix in big cities and strongholds, there is some element of down-trading.

So, you can say there are two mix impacts on our numbers. The fact that we continue to expand big cities versus strongholds, which is a positive mix impact. And then there is the down-trading within those elements. Overall, minus 1, I think that's more than acceptable in a market like this, no doubt about that.

Ulrica, a couple of comments on 2025 drivers?

A: Ulrica Fearn - Chief Financial Officer, Carlsberg A/S
Yeah. It is, of course, as you say, a bit too early to be very precise on the 2025 outlook. And we are, of course, in the middle of the planning and budgeting process. But – and we'll come out with, of course, being more explicit in February when we give more guidance. However, I mean, what we are focused on, the most important tasks will be clearly the Britvic integration and in that securing Britvic's business continuity. There's a big task of deleveraging. We will continue, though, to follow this, focusing on executing our growth priorities and making sure they are set up for the future. And you mentioned costs. We will continue to focus on our gross margin improvement. And on top of that, we, as Jacob mentioned before, expand capacity in Kazakhstan. So those will be some of the important tasks.

You mentioned COGS per hectoliter for 2025. It is too early to be precise on this, but, I mean, there are many uncertainties around this and we've only hedged 65% to 70% of commodities for 2025, so still a big uncertainty there. And as I said, we're in the middle of the budget, but maybe a little bit of steer on that. We continue to see inflation in salaries. And in some markets, we also see environmental fees and prices for energy up. And there is a bit of a mixed picture of commodities versus hedges in 2024. So it looks like there are both puts and takes and probably, we'll see COGS per hectoliter not that different from this year, but that's basically based on current spot rates, hedges, and numerous assumptions that might change. But that's a little bit of color for 2025.

A: Jacob Aarup-Andersen Chief Executive Officer, Carlsberg A/S
Thanks, Ulrica.

Operator: The next question comes from the line of Simon Hales from Citi. Please go ahead.

Q: Simon Hales - Analyst, Citigroup Global Markets Ltd.
Thanks. Morning, all. So just a couple of quick ones for me. Could you just talk a little bit more about just the channel – the performance by channel in Europe? I think, Jacob, you said in your prepared remarks it was insignificant in the quarter. I think you were referring to Europe there, but there's been some mixed messaging

around how the on-premise has perhaps been weaker in a number of markets through Q3. So just interested in how it's performed across your footprint. And then secondly, in terms of the supply chain disruption you saw in the UK impact of Q3, can you quantify how much of an impact that had on European volumes in the period, please?

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Hi, Simon. Thanks. So on – let me talk to the on-trade, off-trade. We don't see a big difference in channel development in Q3 between on-trade and off-trade. It's not a big thing at a group level and as you say, especially not in Western Europe. You mentioned the mixed comments. Of course, I can only tell you what we see. So I don't know what other people are seeing, but that that's at least what we're seeing when we look across the numbers. There is – on the margin, of course, on-trade is slightly worse than off-trade, as you would expect even post the weather and the consumer impact we've seen. But we cannot say that that had a significant impact on our numbers.

I think you've seen over the last – over the last 12, 18 months, you've seen somewhat of a – you've seen the effect play out. And I think what we saw in Q3 was not a materially different picture on on-trade versus off-trade. So no, I've seen many different statements on that. That's what we've seen from our perspective. Over to you, Ulrica.

A: Ulrica Fearn - Chief Financial Officer, Carlsberg A/S
Yeah. On the supply chain challenges, rather than specific numbers, we will just say we have fully recovered from them in Q3 and – but it did impact service. And we were trying to source from other Carlsberg breweries in Europe to reduce the problem, but we were not able to fully recover the volume loss. So there was an impact on both volume and market share in the quarter. But I will say, having recovered that we now see if you look in the latest four weeks, we're gaining share again and recovering and on the back of a strong portfolio that is performing well, we look forward to delivering a strong Christmas for the rest of the year and the rest of the year.

Q: Simon Hales - Analyst, Citigroup Global Markets Ltd.
Got it. Thanks very much.

Operator: Next question comes from the line of Trevor Stirling. Please go ahead.

Q: Trevor Stirling - Analyst, Bernstein Autonomous LLP
Hi, Jacob and Ulrica and Peter. Two from my side, two please. Jacob, you said that you're still expecting China to be fairly soft in Q4. I was intrigued to see, are you seeing any positive impact on consumer sentiment from the stimulus or is it still way too early on that front? And maybe just returning to the UK a little bit, Ulrica, appreciate it's a bit early yet, but are you able to talk at all about the loss of San Miguel, the impact, the mitigation? There was one thing very specific, you mentioned that Carlsberg posted well in the UK, the premium brands did well in the UK. What was down in the UK then? Was it the Ale brands that were so weak in Q3?

A: Jacob Aarup-Andersen- Chief Executive Officer, Carlsberg A/S
Hey, Trevor, let me just note both your questions here and then. Well, starting on China, you asked on Q4. So, first of all, let's just – I know you know this, but just for everyone's benefit. China, Q4 on China it's only for us

given our business, it's only around 10% of the year. So, 90% of the year in China is in the books, and therefore, Q4 is quite small for us.

In terms of what we see in Q4, no, we're not seeing any changed consumer behavior. We're not seeing any improvements in the beer market as such. It's, I think, unfortunately, we'll be seeing the same trends we've been seeing in recent quarters, also in Q4 from China. But as I said, it's a smaller issue for us given that it's only 10% of our year.

The stimulus, of course, as we've noted all the action did last five, six weeks. On the ground, we're not seeing a change, and any material change in consumer behavior. We still see this as a positive for the long term because it does show that there is a recognition of the issues. There is a recognition and there is a willingness to try to turn around the very weak consumer confidence and the consumer spending. But in terms of real facts, we're not seeing anything on the ground. That is a potential upside for 2025 as we go in there. But Q4, it would be – it's too late for to have an impact there.

You asked about the UK and what is performing and what is not performing. I think we're seeing – you see, we're seeing less growth in the – let's say in terms of the performance. The underperformance versus those outperformers, it would be the Ale business and it would also be San Miguel to a certain extent. So, those two brand families of Ale's and San Miguel are not performing as well as the rest of those brands that were mentioned earlier by Ulrica. So I think that's the mix you're seeing.

Operator: The next question comes from the line of Thomas Lind Petersen, Nordea. Please go ahead.

Thomas Lind Petersen - Analyst, Nordea Bank Abp (Denmark)
Hi, Jacob, Ulrica, and Peter...
Good morning, everyone. Two questions on China. I was wondering if you could help break down a little bit the Q3 numbers. So, the first one is on the volumes. You had very bad weather in June, July. But according to at least the beer production numbers, we've seen a sequential improvement in the Chinese beer production. So, it actually turned positive, I think, in September. So, I was just wondering if maybe you could break down this volume loss you had in China. How much of it is weather and how much of it is consumer sentiment?

And then the second one is on the price mix in China, which was I know you said just a small negative, but still how much of this is mix and how much of this is price? Are you seeing competitors lowering prices and are you guys also lowering prices? That would be my questions. Thank you.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thanks, Thomas. Let me take those two. So, listen, on China, you're right, there was – we talked about the weather impact. It is unfortunately not very scientific to try to discern between weather and consumer impacts. If you look at the broader picture going into the quarter, you have the usual stocking that happens every year going into a summer season where there was expected high sales throughout. And then you had this significant hit on weather both towards the end of June and into July. That meant that there was – just as a factor, there was too much stock and trade across the board. And this is not just a Carlsberg thing, of course, this is a market thing that has led to destocking throughout the quarter. Which also means that it's very hard to look at the production numbers to get a clear sense of underlying consumer behavior and sell-out because of that destocking effect flowing through. And the distribution setup in China, which makes it even harder to look at the different layers of distribution and have a full, clear picture on how the destocking flows.

So, we are, of course, longer term, just like you, focused on production numbers to also understand market share and overall demand. But in a quarter like this, where you have significant destocking effects as well, it is hard to discern the different numbers. We're not going to try to split between consumer and weather. If we look at the three months, they were – it was not like one of the three months stood out and was significantly better than the other three. But there's an underlying and a destocking impact of that, which is very hard to discern. So, sorry for not giving you tremendous amount of color with that. But as we also said, we see a weak consumer in China. We see that continuing for the rest of the quarter, which, of course, for us, means less given the only 10% of our business being Q4.

You asked about price/mix, how much is price, how much is mix. I guess, for us, it's mainly mix. There's not a lot of price impact when we talk about the price/mix here. So of course, there will be some in some places. But if you look at it from an overall China perspective, the price/mix impact we're seeing is a mix impact and not a price impact.

Q: Thomas Lind Petersen - Analyst, Nordea Bank Abp (Denmark)
And maybe just following on it, is that also what you see from your competitors in China, no pricing here?

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
We are very boring people at Carlsberg, so we're not going to talk about what our competitors are doing. So I think there's a set of results out today from one of them as well. So – but we're not going to comment on it.

Q: Thomas Lind Petersen - Analyst, Nordea Bank Abp (Denmark)
Okay. Thank you.

Operator: The next question comes from the line of Gen Cross, BNP Paribas. Please go ahead.

Q: Gen Cross - Analyst, BNP Paribas SA (London Branch)
Good morning, Jacob. Good morning, Ulrica. Thank you for the questions. I'm going to stay in China. Obviously, you've got some short-term weakness, but I just wonder if you could give your perspective on whether you think anything has really structurally changed in your view. I think back towards the start of the year, you said you saw China as a mid-single-digit growth business. That's the first question.

And the second one is just – I appreciate it's a sales call, but just looking at the Chongqing release yesterday, profits obviously in decline in Q3. And you mentioned that Q4 is very small in China. So as we think about the Asia business overall in the second half, is it fair to assume that it's going to be quite difficult to grow organic EBIT in that region? Thank you.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thank you. Thanks, Gen, and I'll take it again with all these China questions. We're not going to let Ulrica off the hook ... But in terms of the structural change, no, we don't see a structural change in our China case. I think that's very important to say.

What we see right now, and you see that across all consumer goods companies, there is a significant cyclical negative that is hitting all of us, whether you're doing handbags, automotive or you're selling beer. And we don't see that as a structural fundamental change.

So underlying market, we do believe that the – we will return to the underlying market trends that we've seen over the last decade in China, which is not a market of a particular growth, but it's a market of relatively subdued volumes. But in that market, we have consistently outperformed. And if you look at this year, the market is down 5%. We are flat, which is a significant market share increase again this year. And we do expect that we can continue with that.

Of course, quarters will be quarters. There can be different effects in a quarter. But structurally, we still believe that China will continue to grow over the cycle at a level that supports our 4% to 6% growth rate. So you said mid-single digit, and I think that's – that nothing has changed from our perspective in terms of that is the contribution we should expect to get from China. Right now, with this – these extremely historically low consumer confidence numbers, et cetera, of course, that will have an impact. But we don't think that's a permanent situation.

You asked about Chongqing Brewery and their profits yesterday, et cetera. There's no doubt that – well, first of all, of course, as you know, we don't comment on profit in the quarter. There's also often sometimes differences between what is reported from Chongqing due to Chinese GAAP and how that feeds into the group level. But what I – and therefore, I'm not going to comment on Asia profits in the second half.

What I can be very clear is that we are very confident in our guidance on the 4% to 6%, and we are also confident that we can deliver that also towards the high end of the range. There is no doubt that we are seeing continued strength across the group. We're not seeing any particular weakness in China, which is implied from the question, that that will any way jeopardize our ability to deliver on our earnings guidance. On the contrary, we are confident that we should be able to deliver in the high end of the range.

Q: Gen Cross- -Analyst, BNP Paribas SA (London Branch)
Thank you very much.

Operator: The next question comes from the line of Laurence Whyatt from Barclays. Please go ahead.

Q: Laurence Whyatt - Analyst, Barclays Capital Securities Ltd.
Good morning, Ulrica, Jacob, Peter. Thanks very much for the questions. A couple from me also. Firstly, on India, you've taken control of the business, I believe, from August. And you just reported delivering very strong growth, particularly Carlsberg growing at 40%. Is that due to the changes you've made in the business already? Or is that – are there other reasons why Carlsberg and your brand is doing particularly well in India at the moment? What changes have you made? And can you give us any update on sort of further changes that you might make in the Indian business over the next sort of quarters and years now that you have control?

And then secondly, you mentioned in the slides that you're doing – you've extended some of your Pepsi contracts in some of the Northern European countries. I was just wondering on the Coke contracts in Denmark and Finland. Now that you've got more and more Pepsi contracts, is there any increased tension with Coca-Cola? And would you expect to renew those contracts as and when they come up? And perhaps, if you could just update us when those contracts are expected to be renewed. Thank you.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thanks, Laurence. Yeah, so there's two very different questions. So we're moving away from China. That's good for diversification here on the Q&A.

So on India, yeah, a very good quarter. Very pleased with it. The team is doing very well. If you look at it across our key focus states and the key clusters, we took share in the quarter, it's very broad based. You mentioned Carlsberg. There's no doubt that Carlsberg did very well, but we continue to see very strong growth from Tuborg Strong and Tuborg Classic as well. You know that Carlsberg Elephant and Tuborg Strong are the two key brands for us in China.

It's not driven by the deal itself. As you know, we are in the process of waiting for the deal to close officially. So we haven't been able to do significant changes. So this is the existing team, which is continuing to perform very well. And of course, an element of this is also in the quarter. The growth opportunity for our teams was in states where we also had enough capacity.

I think what we referred to in the past is that one of the issues with the current structure is that we've struggled to expand capacity in all states. And that does give us a risk where, if demand is high in states where we have less capacity. This quarter, the demand picture was very much around states where we did have capacity, and that gave us an opportunity to grab share.

So it is very much the strength of our big brands that I just mentioned. It's the fact that it was states where we are very well positioned on capacity, and it's a combination of those two things.

Of course, as you know, the Indian market is, in many ways, many markets collated together in one region. And therefore, you need to also always focus on these state-by-state dynamics. So very pleased with the performance in India. And of course, it puts two lines under the attractiveness of the long-term growth of India for us.

You asked about Coke in the Nordic region. Our relationship with Coke is good. It's been a very long-term partnership through decades. We have strong relations at all levels, and we continue to perform together. It's been – it's good performance for both – from a Coke perspective and from a Carlsberg perspective. We're very pleased with the relationship. As you know, we have long agreements in place with Coke. And therefore, we are not about to look into contracts expiring, et cetera. So we continue to plan for continued growth with Coke in those two countries. But of course, I will not start commenting on specific contract terms. I wouldn't do that for anyone – any of our partners and not for Coke either. But good relationships and continued strong growth in the coming years, I have no doubt.

Q: Laurence Whyatt - Analyst, Barclays Capital Securities Ltd.
Thanks very much. If I could just have a quick follow-up on China for the sake of argument. You mentioned China is only 10% in Q4. You've got Chinese New Year a couple of weeks earlier this year. Would you expect any sort of early sell-in in Q4 to boost that number slightly?

A: Ulrica Fearn - Chief Financial Officer, Carlsberg A/S
Hi, Laurence. Now specifically on that question, we won't – we don't see any of that for this year.

Q: Laurence Whyatt - Analyst, Barclays Capital Securities Ltd.
Understood. Thanks very much.

Operator: The next question comes from the line of Sanjeet Aujla from UBS. Please go ahead.

Q: Sanjeet Aujla - Analyst, UBS AG (London Branch)
Hey, Jacob, Ulrica. A couple from me, please. Firstly, I think this time last year when you came in, one of your – one of the first actions was to step up investment levels, particularly in Vietnam. I guess, against that backdrop, are you satisfied with the level of volume and market share performance, outperformance you've seen this year?

And my second question. Just on Laos, I think you alluded to how resilient the business has been, despite several price increases for a while now. Do you think the underlying consumers has finally cracked now as inflation is and those price increases are biting? And would you expect a more subdued performance there to persist? Thanks.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Hi, Sanjeet. Let me do Vietnam, then Ulrica will talk to Laos. So yeah, you're right. Vietnam is a key element of our growth journey. We've talked in terms of growth markets of Vietnam, India and China, plus continuing to invest in our strongholds like the Nordic region, as an example. Quite pleased with that.

Also just as a side note, you see a Nordic region that is doing – all four Nordic countries doing very well again in this quarter.

On Vietnam, I'm pleased. It's been a tough environment. We already saw that, of course, when we [indiscernible] (00:46:24). We saw Vietnamese market that was subdued. It has continued to be subdued, but what we've seen recently is that the Vietnamese market is stabilizing. And we continue to take share.

If I look at the third quarter, we had a low single-digit growth in a stabilizing market, so continue to take share. And overall, our market shares are developing the way we would expect them to. We are now – no matter what metric you look at, we are now more than 10% market share in Vietnam. We are coming from a position a couple of years ago of having 5% to 6% market share. So that continued market share growth. Year-to-date, our market share in Vietnam, if you look at Nielsen data, is up almost 1%, and that's the kind of growth that we would expect from the strategy. So pleased with that.

Of course, the overall growth could have been higher if the market was more conducive. That's why the stabilization is important. It's not like Vietnam is now out of the woods as a beer market, and it's going to start growing significantly. We still see the impact of D100 [note: drunk-drive legislation]. We still see a good, tough competition from our esteemed competitors, et cetera. But we are continuing to grow share, and I'm very pleased with how the team is executing.

A: Ulrica Fearn - Chief Financial Officer, Carlsberg A/S
Yes. And a few comments on Laos. Yes, it was a difficult quarter after several quarters where we did very good results, despite the consumer environment and that high inflation you referred to. We did see Q3 slow down, but it was very much also because of bad weather and flooding across the whole country in both August and September. And the sort of mid-single-digit volume decline was sort of offset by the 20% revenue per hectoliter increase. And that's, as you say, due to multiple price increases both last year and this year.

So we saw some impact of that. But we saw growth in premium and soft drinks, and that was just not compensating for the decline in the large mainstream segment. But as I mentioned before as well, there is – we did see an improvement by the end of the quarter. So we are – it was a Q3 particularity.

Q: Sanjeet Aujla - Analyst, UBS AG (London Branch)
Thanks.

Operator: The next question comes from the line of Chris Pitcher, Redburn. Please go ahead.

Q: Chris Pitcher - Analyst, Redburn (Europe) Ltd.
Hi. Good morning, all. Thank you for the question. A couple for me. On Ukraine, could you talk a bit about the market share performance, how the competitive dynamic is playing and whether you think one of your competitors investing into that market could make the market better or worse?

And then a bit specific, I don't often get to ask about UK budget, but can you give us an idea of how your business splits in the UK between draft and non-draft, and what you think the budget tax changes might have? Thanks so much.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thanks, Chris. Let me speak to Ukraine and then Ulrica will speak to the UK budget.

So on Ukraine, I have to say, just to start out, and I know you know this, but it's been amazing to see the resilience and the performance of our teams in Ukraine. The 1,100 colleagues we have there has – it's been a superhuman effort in a time of crisis to continue to deliver, to continue to focus on the business and continue to not just maintain it, but really drive growth and continue to take share. So really, really proud of that team, and it goes way beyond the day job. So fantastic to see. There's a reason why they – this year, we're also awarded company of – sorry, market of the year in Carlsberg. So very proud of the team.

What they have done since the war broke out is that they have continued to grow share. We have taken – over the last two years, we have moved from high 20s to low to mid-30s on market share, depending on how you measure it. So they've done very well on that. And it's very broad-based across categories. So you see – again, this quarter, you see good growth in premium, you see good growth in our national champion brands, you see good growth in our newer categories in Beyond Beer and also in things like energy drinks. So it's not just a matter of existing categories growing well, but also the team has been expanding into new categories. As an example, energy drinks was not something we had as part of our product assortment two years ago. And now energy drinks is a growing – a fast growing segment for us. So it's quite broad-based.

Of course, competitive tension goes up and down. It's not like we have any type of free ride in Ukraine, I can guarantee you that. It's a tough competitive environment with good competitors that are also fighting for business. So it is doing incredibly well. And of course, still, we have to say the market is – the overall market is smaller than it used to be for the simple reason that the population, of course, is smaller due to the situation. So there's also a longer-term potential in this market once we hopefully get to a point where we will not talk about conflict, but we'll talk about the future for Ukraine instead.

A: Ulrica Fearn - Chief Financial Officer, Carlsberg A/S
So on the UK budget, yeah, I think, I guess, the summary is that most of it was expected. Alcohol duty rising with inflation is – was expected. And the discount on duty on draft was welcome. But net-net, it's a small negative for us, but most of it is expected and sort of not much different for our outlook.

Q: Christ Pitcher - Analyst, Redburn (Europe) Ltd.
Can you just share the split draft, non-draft just to help us model?

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
We are being told by IR that that's the detail too far. But please do call Peter and have a good conversation on that. He would love it. Thanks, Chris.

Q: Chris Pitcher - Analyst, Redburn (Europe) Ltd.
Thank you.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
I'm being nudged to say it's the last question, please.

Operator: The next question is from Søren Samsøe, SEB. Please go ahead.

Q: Søren Samsøe - Analyst, Skandinaviska Enskilda Banken AB

Yes. Good morning, Jacob, Ulrica and Peter. Just two questions from my side. On the supply chain disruption in the UK, if you can maybe elaborate a little bit on how much volume losses you saw either in UK or what the effect was on Western Europe. And you might have had some share loss due to this. When could we expect these to have been regained?

And secondly, I guess it's fair to say that Q3 top line overall was worse than expected, but you still managed to keep the guidance. So I guess, something must have gone better than expected. Maybe you can elaborate a little bit on that as well, please. Thank you.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Hi, Søren. Thank you, and let me talk to the second one and then Ulrica will talk supply chain in UK.

Yeah, you can say – as you say, Q3 top line is relatively subdued. I think what is important for us is that we grow revenue in both inorganic and reported terms, which I think is not a given in this industry at this stage. So very pleased with that.

When we look at how that translates into our earnings, we do think a lot of things are going better. And that's also why it's important for us to highlight the mix here of the portfolio effect because it is a bit of a unique quarter in the sense that a large part of our portfolio is actually doing very well. Two-thirds of our volume markets are growing quite well. And the volume is being pulled down by the three biggest – three of the biggest volume markets being China, UK and France. So you do have quite a significant part of our markets that it continues to do very well. And if you look at the geographic split of that, I know you know the business very well. So when you look at the geographic split of that, especially as an example, the Nordic countries are doing very well. And that's a good microcosmos of saying that a lot of our better margin markets are performing well, and some of our potentially lower-margin markets are doing less well.

And then if you look at the mix of all of that, the portfolio impact of that means that this slightly lower top line growth than expected doesn't impact our EBIT expectations because there is that mix within it. So no, there are – there's no other effects coming through. It's very much the fact that our strongholds are continuing to perform quite well.

Ulrica, on the UK?

A: Ulrica Fearn - Chief Financial Officer, Carlsberg A/S
Yes. And we alluded to a little bit before, we have fully recovered from those supply chain challenges, Søren, in Q3, which did impact service. We did try, as I said before, to source from other breweries to reduce the problem, but it did impact us.

But I guess, what I can add to is that over the last four weeks, we did gain share year-on-year again, both in the on-trade and the off-trade. And we now look forward to delivering as normal for the rest of the year. So just having a look at the off-trade year-to-date market share versus last year, having been negative year to date, it is now flat for the last three months and for the last four weeks is positive.

Q: Søren Samsøe - Analyst, Skandinaviska Enskilda Banken AB
Okay. Thanks a lot.

A: Jacob Aarup-Andersen - Chief Executive Officer, Carlsberg A/S
Thanks. Thanks, Søren. That was the final question for the day. Thank you for listening in, and thank you for your questions. We're looking forward to meeting many of you during the next couple of days and weeks, of course.

Any follow-up questions, Peter and Iben are eagerly awaiting your call. So have a nice day. Until we speak again. Thank you.

Operator: Ladies and gentlemen, the conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the conference. You may now disconnect your lines. Goodbye.