Event: Carlsberg Q1 2017 Trading statement conference call

Date: Thursday, 4 May 2017

Speakers: Cees 't Hart, CEO
Heine Dalsgaard, CFO

Operator

Ladies and gentlemen, welcome to the Carlsberg Q1 2017 Trading Statement. Today, I'm pleased to present President and CEO, Cees Hart. For the first part of this call, all participants will be in a listen-only mode, and afterwards, there will be question-and-answer session. Just to remind you, this conference call is being recorded.

Speakers, please begin.

Cees 't Hart

Good morning, everybody, and welcome to Carlsberg's Q1 2017 conference call. My name is Cees Hart, and I have with me CFO, Heine Dalsgaard; and Vice President of our Investor Relations, Peter Kondrup.

I will briefly go through the highlights of the first quarter, and Heine will talk you through the regions. We will try to be brief and to the point as we know that this is a busy day for you as another brewer is reporting as well.

Please turn to slide 2. We delivered a solid start to the year, in line with our plans and we, therefore, confirm our full year expectations for organic operating profit growth and financial leverage. In a seasonally small first quarter, organic net revenue grew by 4%. This was driven by a very solid price/mix of 4% and flat total volumes.

Reported volumes declined by 1% due to [last year's divestments and reported net revenue grew by 5%, supported by a positive currency development. This was most notably in Eastern Europe. /audio gap].

Looking at selected brands, Tuborg achieved strong growth in China but declined in India due to the difficult trading environment. The brand achieved 1% volume growth. The Carlsberg brand delivered particularly strong results in Russia. In total, the brand grew by 8%. Our focus on craft & speciality was reflected in an impressive 25% of Grimbergen.

Funding the Journey is progressing as expected, and we remain confident in our ability to achieve the promised DKK 1.5 billion to DKK 2 billion of benefits. A few visible actions taken so far this year is the further streamlining and focusing of the Group by divesting Carlsberg Uzbekistan, our 23% holding in United Romanian Breweries, a 30% minority holding in the Russian malt producer, and the Nordic Getränke wholesale business in Germany.

Heine, please, over to you.

Heine Dalsgaard

Thank you, Cees and good morning everybody. Please turn to slide 3, and Western Europe. We grew net revenue by 2% driven by flat price/mix and 2% volume growth. We saw solid volume performance in a number of markets, as well as relisting at a major customer in Poland. Combined, this more than offset the later sell-in Easter compared to last year.

Please note that the volume decline seen in Q1 2016 was due to tough comps and the impact of the delistings at three major customers towards the end of 2015. The flat price/mix was the result of a positive mix, thanks to our premiumization efforts, counted by continued challenging pricing environment and a negative country mix.

Looking at few selective markets, our volumes in the Nordics were flat in spite of the later sell-in to Easter. Price/mix improved as a result of our premiumization efforts. The Norwegian business continued its overall positive performance. In Sweden, we saw particularly strong performance within non-alcoholic. In Denmark, we achieved good value growth and we gained market share in the beer category underpinned by good performance of the non-alcoholic Carlsberg Nordic. And finally, in Finland, our volumes were impacted by the later Easter sell-in and therefore declined.

The French market grew and we gained market share especially in the premium end of the market. The pricing environment in France is challenging, but our mix remains healthy due to the growth of our premium portfolio.

In Poland, we gained value share at a faster pace than our volume share. From the beginning of the year, we were relisted as a major customer. In some of our smaller Western European markets, such as Germany, Italy and Bulgaria, we will delivered solid performance. It is worth mentioning that the growth in Italy was huge by the continuous expansion of our DraughtMaster PET keg system in the on-trade.

Slide 4 and Eastern Europe, please. Our Easter European business had a good start for the year with a strong price/mix of 13% and a modest 2% volume decline and thereby 10% organic revenue growth. On top of this, we saw a positive currency impact which resulted in a net revenue growth of 37%.

Our Russian volumes declined by high-single-digit percentages due to the impact of the PET bottles and the underlying market decline. Driven by last year's price increases and the impact of the downsizing and the price/mix improvement was in the mid-teens.

Please be aware that price/mix will be less pronounced in the remainder of the year as we start cycling last year's price increases and as we started the PET downsizing in the second half of last year. Our Russian market share was flat sequentially but declined year-on-year due to our early implementation of the PET downsizing and share losses in the declining traditional trade channel. We had good momentum in the so-called beer channel.

Our Ukrainian business continued solid performance and delivered high-single-digit volume growth in a market declining by mid-single-digit percentages. It should be noticed that the growth was on the back of easy comps as Q1 last year was impacted by the substantial excise tax increase in January 2016. Nevertheless, in Q1, we achieved the market's leadership position in Ukraine. The Carlsberg brand continued last year’s strong performance and the Garage brand, which was launched just a year ago, also delivered strong results.

Please turn to slide 5, and Asia. As a result of a solid 6% price/mix, net revenue grew by 6% organically. Reported net revenue grew by 2%, negatively impacted by the sale of Carlsberg Malawi in August last year, and the divestment of some Chinese breweries, and positively impacted by currencies. Total volumes were flat organically. However, excluding India, our volumes would have grown approximately 2% for the region. As expected, the Indian market was volume and will continue to be so this year.

As a result of the so-called highway ban, which stipulates that outlets can't sell or promote products in the vicinity of 500 meters to federal highways, the beer market contracted as the outlets adjust to this change in regulation. In addition, comparables in Q1 were still impacted by the ban in Bihar which came into effect in April 2016. All in all, this meant that volume declined by almost 20% in Q1. Corrected for Bihar, volumes declined by 15% in India in Q1.

In China, we grew volumes organically by 4% and net revenue by 10% in a slightly declining market. The main driver of the volume growth was our international portfolio, which grew by 16%, particularly driven by yet another quarter of strong Tuborg performance. We sold one additional Chinese brewery in Q1 2017, thereby bringing the total number of plants closed or sold to 18 since we commenced our China network optimization project.

And last but not least, we had good momentum in Laos, in Nepal and in Vietnam.

Cees, over to you.

Cees ‘t Hart

Thank you, Heine. Please turn to slide 6 and outlook. Based on the Q1 performance, we keep our 2017 guidance unchanged and thus, maintain our outlook of mid-single digit percentages organic operating profit growth. We expect to see a stronger year-on-year operating profit performance in the first half of the year than in the second half of the year as we will have tougher comparables in the second half of the year, especially in Eastern Europe that delivered a very strong Q3 last year. Please note that the sale of Nordic Getränke will have an impact on net revenue of approximately minus DKK 1 billion, with modest impact on operating profit.

In terms of benefits from Funding the Journey, we still assume that approximately 50% of the DKK 1.5 billion to DKK 2 billion will come through this year and the remaining part in 2018. In addition, we expect to continue to reduce financial leverage, driven by a continued solid cash flow from operations as well as the divestments done in the beginning of the year.

Based on the spot rates on the 2nd of May, we assume a positive translation impact on operating profit of around DKK 300 million compared to DKK 350 million in February. The decline is due to the recent strengthening of the euro and consequently the Danish krone against some Western European and Asian currencies that more than offset the slightly stronger ruble. All other assumptions are unchanged compared to the full year announcement in February.

Slide 7, please. That was all for today. A few concluding remarks before we open up for Q&A. We've had a solid start to the year, in line with plan. We delivered a very solid 4% price/mix driven by our premiumization efforts. We are well on track to deliver the benefits from Funding the Journey which will give us an uplift in EBIT as well as funds to invest in the long-term growth of the business. Lastly, we maintain the financial outlook for the year.

With this, I would like to open for questions.

Question & Answer Section

Operator

Thank you. [Operator Instructions] Our first question comes from Fernando Ferreira from Bank of America Merrill Lynch. Please go ahead. Your line is open.

Fernando, your line is open. Please speak.

Ok, the next question comes from Jonas Guldborg from Carnegie. Please go ahead. Your line is open.

Jonas G. Hansen

Yeah. Good morning, Cees and Heine. A couple of questions from me. If you just could elaborate a bit on the development in Russia, it went a bit too fast for me, I think. So, what did the market do in Q1 and what do you expect for it to do for the rest of the year and how do you see the PET ban now one quarter after it was imposed?

Then looking also at the strong price/mix in Eastern Europe, would it be fair to assume that it is around 50/50 split between price increases and the smaller PET pack sizes? And then lastly, how much of the organic volume growth in Western Europe is due to the re-listing in Poland? Thank you.

Cees 't Hart

Okay. Thank you very much, and good morning, Jonas. With regards to Russia, our volumes declined by 9% versus a market decline of 4% to Q1. So, that means a drop year-over-year but almost flat quarter-over-quarter [market share]. We declined more than the markets because of the following reasons. There are many moving parts this year, and in Q1, it's very difficult to make a firm conclusion for the first quarter.

As you know, we stopped PET production earlier than some of our competitors; hence, we were, if you like, with the big bottles out of stock already at the end of last year. And others had still stocked PET big bottles on shelf in the first quarter. So, that is the difference. In quarter four, we mainly produced the 1.4-liter PET, and we saw already the impact in our Q4 numbers and we have lost some share in traditional trade due to the price leadership.

What we expect for the market in 2017, we assume minus 5% market impact from the PET restrictions. We continue to believe that consumers will be negatively impacted by the macro environment and expect for that a decline on top of the 5% from PET. And the 4% decline in Q1 is largely in line with our expectations.

Then with regard to the price/mix, we think that it's probably 60% price/mix and 40% downsizing. And with regard to the organic volume growth in Poland, we need to come back on that one.

Jonas G. Hansen

Okay. Thank you very much.

Cees 't Hart

Thank you.

Operator

Thank you. The next question comes from Sanjeet Aujla from Credit Suisse. Please go ahead. Your line is open.

Sanjeet Aujla

Yeah. Hi. I'd just like to talk a little bit about market share development across Western Europe. How do you see your business growing a year into the value strategy? Which markets do you think are progressing well and where do you think there's still more work to do? Thanks.

Cees ‘t Hart

Thank you. Thanks for your questions, Sanjeet. The Nordics are moving into the right direction, so a strong quarter one, especially in Norway and Denmark, Sweden as well, and Finland a bit less. We had a very good start in France as well. So, that gives us the right encouragement for the remainder of the year. Poland, due to our renewed contract with one of the retailers, we have strengthened our market share. UK, we are awaiting, let's say, the impact of our new campaign on especially Carlsberg Export. So, that's a short reflection on, let's say, the outlook for the year and a review of the start in Q1.

Sanjeet Aujla

And just on the price/mix development there, can you just help us, maybe give us a sense of headline pricing versus mix development and be able to quantify that, and the country mix impact from Poland as well?

Cees ‘t Hart

Yeah. Well, you see that the price/mix is zero for Europe but that’s a consequence of a mix effect indeed as you alluded to. The ones that take the mix for Europe a bit down is France because of deflationary contracts and Poland because of the country mix, if you like. As you know the revenue per hectoliter is lower in Poland and we have increased the volume in Poland. So, there is a mix effect. The rest of Europe is pretty well on price/mix.

Sanjeet Aujla

Got it. Thanks.

Cees ‘t Hart

As we talk about Poland, the previous question with regard to the price, the volume is high-single-digit growth in Poland.

Operator

Thank you. The next question comes from Søren Samsøe from SEB. Please go ahead. Your line is open.

Søren Samsøe

Yes. Good morning. First, a question on Asia where you have 6% price/mix. If you put and maybe give us the split how much is sort of price and how much is you can say country mix effect from India and then the decline we have seen due to the highway ban.

Cees ‘t Hart

Well, let's see – I'm not sure we can give you offhand all these figures at this moment of time. What we have seen is, as we said in the beginning, that we have a strong growth in China despite a market decline. We see our volume growth being 4% which is a very strong start. Our premium brands or the international brands grew or started in Q1 with 16%. So, there we have a very strong price/mix as well. The totality of Asia is being, let's say, has declined or contracted a bit because of India. So, despite a good start in all the other countries, India, because of the implication of the highway ban, we had a negative double-digit volume decline. So, it's mainly India which impacts the performance in Asia in Q1.

Søren Samsøe

Okay. So, is it fair to say that you have not had this case in India, then price/mix would maybe have been – maybe around 3% or something like that?

Cees 't Hart

It's difficult but – difficult to say, but for sure, it would have been positive, yes.

Søren Samsøe

Okay. Second question. Just you don't mention specifically in the statement regarding Funding the Journey, can you give a little bit of detail how it is progressing and what is going better than you planned in Italy and what is going worse?

Cees 't Hart

Over to you, Heine.

Heine Dalsgaard

Yes. Good morning, Søren. Well, Funding the Journey is progressing as planned, so not worse and not better but it's progressing as planned. And we still proceed to deliver, as we've said before around 50% in 2017 of the total program. So, 2017 is an important year and for us in terms of Funding the Journey and we are progressing as planned.

Søren Samsøe

Any specific items in Funding the Journey you want to highlight?

Heine Dalsgaard

No. If there is something in Funding the Journey, which we already have said that, then that would be the divestitures that we have already mentioned, right. So, this about rightsizing the business, which is also part of Funding the Journey. So, we have basically sold four businesses here in the first months of 2017. We are very satisfied with that. We still have a few divestments we're working on. So, that's something we're very satisfied with. In terms of the rest of the program, both value management, supply chain efficiency, and operational cost management efficiency is progressing exactly as planned.

Søren Samsøe

Okay. Thank you.

Operator

Thank you. Our next question comes from Carl Walton from UBS. Please go ahead. Your line is open.

Carl Walton

Thanks for the questions, guys. Just one on India, you mentioned excluding Bihar volumes, I think, would have been down 15% in the quarter obviously driven by the highway band. But do you have some sense of how we should think about underlying growth in India excluding this impact? And obviously, it's been very strong in the last couple of years. So, just roughly what kind of rate you think it's sort of going out excluding that?

And then in terms of how to think what is your best guesses at the moment or thoughts about how long we should think about this impact going through? We've had somewhat few other companies exposed to the area that different states are sort of delaying bringing forward this impact. So, should we think about it? At this point, is there a better way to think about as a fairly even impact throughout the year or most of the impact coming through from disruption in the first half? Just what your best view on how think about that is. Thank you.

Cees ‘t Hart

Good morning, Carl. Thank you very much for your question. Indeed, we can guesstimate at this moment in time. Yes, first of all, the figures, our volumes are down by 20% in Q1. This will be, corrected for Bihar, it will be minus 15%. So, that's the additional, most of the time, the underlying, let's say, development. We estimated our market share is largely flat. So, that's good. The market is impacted, as you say, by the highway band, outlets are relocating, closing and consequently destocking. And in that respect, the we feel or our Indian team feels that especially the first half year will be hit the most due to the combination of closing, relocating and destocking as a consequence of that.

As we said earlier, we expect a volatile year in India. It's too early to say how this all with pan out. As you know, there's some other issues going on as well like the implementation of GST and still the effects of demonetization. So, our team is a bit more confident about second half of the year than the first half of the year.

Carl Walton

Perfect. Just one quick follow up. I know you didn't see any impact from demonetization or significant impact in the fourth quarter. Just to confirm, you're still not seeing that or you didn't see that in the first quarter. That's not really a factor, is that right?

Cees ‘t Hart

No. We must say that we were a bit more, if you like, optimistic in Q4. That did not hit us, but we have seen some impact on that in the first quarter as well to our business. Yes.

Carl Walton

Okay. Thank you.

Cees ‘t Hart

Thank you.

Operator

Thank you. The next question comes from Hans Gregersen from Nordea. Please go ahead. Your line is open.

Hans Gregersen

Good morning. You mentioned in the report this morning you have sold four businesses in the first quarter. Can you tell us how much cash you'll be receiving from those divestments? That's the first question. Secondly, Easter, how much volume do you estimate have been transfered from Q1 into Q2? And thirdly, both you [audio gap] (23:19) this morning flagged a quite strong performance in China in terms of international premium segment. Can you give a little bit more insight into how this segment as well as the overall market is performing in China? Thank you.

Heine Dalsgaard

Good morning, Hans. If I start with the impact from the divestment. So, you're absolutely right. We have sold Uzbekistan, Romania, Nordic Getränke, and we have also sold the malt production activities in Russia. The impact on revenue, with the exception of Nordic Getränke, is limited and the same, in particular, on EBIT.

In terms of cash, it's also a limited impact. We don't disclose the number precisely, but it is a limited impact.

Hans Gregersen

Is it half or DKK 0.25 billion?

Heine Dalsgaard

No. It's more. It's more, around DKK 200 million, if you want a number.

Hans Gregersen

Thank you.

Cees ‘t Hart

Okay, Hans. Good morning. Thanks for your question. With regards to the Easter effect, on the Q1, we believe because it's a small quarter, as you know, it's 1% to 2%. But moving it forward, it will be a less impact in a much bigger quarter two. So, let's say, roughly 0.5%.

Hans Gregersen

In hectoliter terms, how much is it?

Cees ‘t Hart

Sorry, in terms of? I'm talking percentages.

Hans Gregersen

Yeah. But in actual volumes.

Cees ‘t Hart

I need to look at that.

Hans Gregersen

I'll do that myself. No worries.

Cees ‘t Hart

Okay. Good. Then, with regard to China, maybe to have some more flavor on China, as such. In 2016, the premium volume as part of our total portfolio, was 23% and 35% of net sales. We grew in Q1, 16% for the full premium portfolio. Very much by Tuborg, 18%, which is 3.7 million hectoliter in 2016. So, that's a sizeable chunk of our business is growing pretty well, and we have already there a 17% market share in the premium segment in China. Carlsberg grew by 6% on a basis of 0.9 million hectoliter. And on a very small basis but very profitable is Kronenbourg 1664, that grew by 61% albeit on a very small base. So, that gives you a bit of more detail on the Chinese portfolio and the dynamics.

Hans Gregersen

But if you look at the international premium segment in China, what is your market share there?

Cees ‘t Hart

We have around, I think, it will be around 20%, 22% a share. 17% is already for Tuborg.

Hans Gregersen

Sorry, I couldn't hear your answer.

Cees ‘t Hart

Sorry. We said 20% to 22% of the premium segment is in our [ph] hands (26:41).

Hans Gregersen

Okay. Thank you.

Cees ‘t Hart

Yeah. Thank you.

Operator

Thank you. Our next question comes from Matthew Webb from Macquarie. Please go ahead. Your line is open.

Matthew Webb

Hi. Good morning. Three questions, please. First, the plus 13% price/mix in Eastern Europe was much stronger than I'd expected. Would you expect that to moderate materially over the balance of the year as the impacts of previous price increases fades and if you start to lap the change in PET bottle sizes in the fourth quarter? That's the first question. The second on France, I know and, sorry, on the market share specifically in France, I know you lost some shares in the comparable period last year due to the phasing of promotional activity. Were you just naturally recovering that share in this quarter or did you have to be very aggressive on price to recover that share?

And then the third question just following up on the earlier question on India. So, the impact from the highway ban in Q1 was due to the destocking. But do you have any sense of what the more recent implementation of that band has had on actual consumer demand? Has that been significantly effective? Thank you.

Cees ‘t Hart

Thank you. With regard to the PET question in Russia, yes, the quarter one is almost, if you like, a spike. Further in the year, that will be reduced because of the consequences of more difficult or high comparables, of course. So, indeed, that will ease down.

With regard to France, we had indeed a very good quarter one. That, as well, was an easy comps versus last year where we had even some fights with some of the customers. We closed our contracts earlier. We have not been more aggressive on price. We have not been more aggressive on promotions. But I think, Q1, we had the promotions slots and that was important in driving our shares. By the way, as well a good start for the year in on-trade. So, that is of course encouraging.

With regard to the implementation of the ban, as you know, it's pretty uncertain what will happen. But what we see is a lot of creativity in India on how to mitigate this for, first of all, the states; and secondly, as well for the local entrepreneurs. We don't see a lower demand. The only thing is that there are less outlets and obviously that restricts some of the sales. So, it is difficult to say on India what the it's difficult to say on India what the further development or an impact for quarter two will be. And as I said earlier, for the second half year, the local team is a bit more optimistic. At the first half year, it will remain to be a bit difficult on the volume side.

Matthew Webb

Great. That's really clear. Thanks very much.

Operator

Thank you. Our next question comes from Anthony Bucalo from HSBC. Please go ahead. Your line is open.

Anthony Bucalo

Good morning, everyone. Just wanted to follow up on Carl and Matt's questions about India. Just thinking about it in practical terms. Are we just going to go through three- to six-month period where retail reorganizes itself and we get back to sort of traditional growth rates or is this something that's going to impact the market in multiple years?

And then the second question which is a little bit more simpler is the balance between pricing and volume was obviously in the much more balanced towards pricing this quarter. Do you think that's a sustainable revenue driver split with the long term or do you see that sort of moderating one way or the other over the next few quarters? Thanks.

Cees ‘t Hart

Thanks, Tony. Good morning. Well, the first question, I think it's a bit like I said. The market is still a bit influx after the ruling of the Supreme Court. As you probably have seen as well, there's some reviews of that as we speak. But what we see is that the stores get further away from the highway. But you see there as well, there's not that much space, so it's not a very quick process. We see as well that hotels and restaurant around the highway are suffering significantly from it. So, the pressure is high from the entrepreneurs. The pressure is high from the state as well because of their missed income. However, we have not seen yet, let's say, the light at the end of the tunnel in terms of a significant change in the position of the authorities. So, it is more that the market is restricting itself now and trying to relocate the sales outlets, and that takes a bit of time.

Anthony Bucalo

Okay.

Cees ‘t Hart

That's how we see it, and our local team keeps us obviously updated about the development. With regard to the balance on pricing and volume, well, first of all, if you take total Carlsberg, this quarter has been impacted significantly by Eastern Europe and, in fact, of course, the PET issue in Russia. So, that's, if you like, on the price/mix, positive news. But as we said earlier, that will ease down a bit. However, with the SAIL'22 strategy, we are talking about premiumizing our portfolio. We are focusing more on craft, specialities and non-alcoholic beers or alcohol-free beers, and these, as you know, have an index that should continue to push more for our price/mix. So, premiumization is a keyword for us towards the operators.

Anthony Bucalo

Okay. So, we could conceivably see very low single and maybe flat volume growth but still get to mid-single-digit revenue growth organically this year just based on those dynamics alone?

Cees ‘t Hart

Well, I wouldn’t like to guide you on the balance but indeed, more price/mix than volume.

Anthony Bucalo

Okay. Thank you.

Operator

Thank you. Our next question comes from Frans Høyer from Jyske Bank. Please go ahead. Your line is open.

Frans Høyer

Good morning. A question on the mix improvement in Eastern Europe, on the smaller PET packs. How should we see the increased price on these products compared to the presumably increased distribution cost and packaging cost? The gross profit per hectoliter on these products, how does that compare to the rest?

Cees ‘t Hart

Thank you. So, I guess you would like to know the difference between let's say the old bottle and the new bottle. And then of course indeed – the costs, indeed, are higher. But in total we make 150 to 200 basis points more margin on the smaller bottles.

Frans Høyer

Okay. Thanks. Also whether you have any comments on the off-trade draught beer development in Russia.

Cees ‘t Hart

Well, as we said earlier, that's a channel which is developing fast and it's maybe as well bigger than we anticipated earlier. So, we are really investing in that. We have 10% share in that and growing in that segment.

Frans Høyer

Thank you.

Operator

Thank you. Our next question comes from Richard Withagen from Kepler Cheuvreux. Please go ahead. Your line is open.

Richard Withagen

Yes. Good morning. Two questions, first of all, on Russia. What's the outlook for price increases this year? Should we assume that to be in line with overall inflation? And perhaps, have you already increased prices this year?

And then the second question is on the UK. Can you talk a bit about the take-up in the trade of your Carlsberg export brand and perhaps also the Brooklyn brand portfolio?

Cees 't Hart

With regard to Russia pricing, we continue to price in line with the market. And the first price increase we took in Q1 was 2%. So, we followed the CPI. And then with regard to the UK, frankly, that's a bit too early. The good thing is that we got a good reception from the retailers. We have increased even our distribution of Carlsberg Export, which is good news.

And Brooklyn, as you know we only started by the 1st of January. We get here as well a good feedback from our customers. So, they like the fact that we have been able to improve or increase our portfolio with very interesting plans. But it's too early to talk, Richard, now on the results already.

Richard Withagen

All right. Thank you.

Cees 't Hart

Thank you.

Operator

Thank you. The next question comes from Michael Rasmussen from ABG Sundal Collier. Please go ahead. Your line is open.

Michael Vitfell-Rasmussen

Thank you very much. Could you please give us an indication on whether you're ready to give us an update on the big cities growth approach, and what will that update contain, please?

Then moving back on, Heine, you mentioned there was a couple of small divestments that you were looking at. How are we looking at that in terms of timing? And also, if you could give an indication in terms of size?

And finally on OCM cost savings in Western Europe, can you give us an update on that please? Thank you very much.

Cees 't Hart

Michael, thank you very much. First of all, the big cities, we are almost, as we speak, starting with one big city, and in September, the second big city. As we said earlier, you will all, I guess, understand that we're not advertising yet where we are starting because we don't want to have welcome committees in these cities. But we, obviously, will update you by the end of this year because then, I guess, it will be clear for everybody where we are about our approach and the first signals, signs of this test. So, we do two, maybe even three cities this year, and then we can start to roll it out next year based on the insights of the pilot cities this year. So, more to come but only, I would say, probably in the call of the first quarter. Heine?

Heine Dalsgaard

Sure. Good morning, Michael. So, on divestments, first of all, as I said, DKK 200 million to DKK 300 million cash impact of the ones we have done so far in the year. There are still a few more to come. In terms of size and timing and not really something we comment on. We're working on it right now. So, we will come back to you as soon as we have news.

In terms of OCM and status in Western Europe, it is now definitely embedded in the processes in Western Europe. It gives everyone that it is there to stay and it's being embraced by the organization. So, we are positive. In terms of delivering the benefits, it still takes a bit of time. This is exactly as expected. So, the processes, the governance is now implemented, as we've said before. Now, we need to see the benefits, and that will come later on during 2017 and onwards.

Michael Vitfell-Rasmussen

Great. That sounds very, very good and well done.

Cees ‘t Hart

Thank you.

Operator

Thank you. Our next question comes from Andrew Holland from Société Générale. Please go ahead. Your line is open.

Andrew Holland

Just a brief point of clarification on the not allocated revenue which was down 90% on divestments. Can you just remind what that was? Was that the malting business in Denmark? And can you tell me where the businesses you sold, the four businesses, are they all reported in this sort of geographic division that you would expect them to be reported in?

And secondly, I think I may have missed your answer to the earlier question on an update on the Funding the Journey and what the run rate is on cost savings. So, could you just repeat what you said in that, please?

Heine Dalsgaard

Yeah. So, we start with an update on Funding the Journey. As I said before, it's coming through as planned in terms of value management, in terms of OCM and in terms of the supply chain efficiency. It is coming through as planned. In terms of the last element of Funding the Journey which has to do with the rightsizing the business, we have now divested four more businesses in the quarter. We're very satisfied with that. So, all are in line with plans we will deliver approximately or just higher than 50% of the total benefits this year.

In terms of not allocated, that has to do with the Danish Malting Group, that is correct. And the last question that is Western Europe, Nordic Getränke in Germany.

Andrew Holland

Okay. Thank you.

Operator

Thank you. Our next question comes from Andrea Pistacchi from Citi. Please go ahead.

Andrea Pistacchi

Yes. Good morning. Two quick questions, please. First, if you have any update at all on Habeco. I think at the full year you were saying you are hoping possibly to hear something from the Vietnamese government by March, April. Second on China, good volume growth this quarter. I understand there's less of an impact from the brewery closures there and you said a good growth in premium. Are you detecting any improvement in the underlying market there, the mainstream segment? Thank you. And your performance within mainstream.

Cees ‘t Hart

Yeah. Thank you very much, Andrea. With regard to Habeco, yeah, well, we're still waiting for the reaction of the government on that. The process is, if you like, hot. As you know, they want to privatize three companies this year. It still seems that they go first for Habeco, but that from time-to-time changes as well, first Sabeco or first Habeco. Over the last six weeks, I've been three times in Vietnam. So, probably that makes a point. But frankly, we do not know the new timing. It's pretty complicated, cumbersome. But as you can hear, we are hunting to get it, but we can't put a new timing on that one at this moment in time. The process is not less good or better than we anticipated. It's just taking over time.

And with regard to the Chinese volume. Yes, that if you like the total market declined, as you know, last year 4% to 5%. It's now minus 1%, minus 2%. We are holding share in that segment. So, the decline of the total market is less. But here, again, premiumization is the golden word for us.

Andrea Pistacchi

Do you get a sense of the 1% to 2% market, the improvement in the market? Does that reflect any sort of seasonal or phasing issues? Or do you detect something a bit more fundamental in the market?

Cees ‘t Hart

No. Well, I may have not expressed it but it is a decline, but it's basically a less decline than in the past. We've seen that in Russia, of course, as well. At the moment, you see a positive signal, you extrapolate that for the future. I think that's too early. But it suffice to say that Q1 was not as negative as the full year last year. So, we hope here as well that it bottoms out a bit. But, I think, we can say a bit more about it after the season and then reflecting on what happened this year.

Andrea Pistacchi

Yeah. Thank you.

Cees ‘t Hart

Thank you. Can we have the final question, please?

Operator

Thank you. The final question is a follow-up question from Hans Gregersen from Nordea. Please go ahead. Your line is open.

Hans Gregersen

One final question on Russia, the DIOT segment. If I could hear correctly, you said you had around 10% market share. Given it's a rather fragmented market, do you think there is scope over time, that you can reach a share in that segment in line with the rest of your business?

Cees ‘t Hart

Well, I think that's what we say to our local team. As you know, the profitability of the channel is different than we assumed in the past. It's between traditional trade and modern trade. It's a growing channel. It's an interesting channel because the consumers see there's a kind of fresh beer, there are positive connotations there. And we just want to indeed move our share to the right direction. We have a national coverage of our distribution, as you know. So, well, step by step, I would say. But obviously, you always want to have the fair share of your total share in each channel.

Hans Gregersen

Thank you.

Cees ‘t Hart

That was the final question for today. Thank you for listening in, and thank you for your questions. We are looking forward to meeting some of you during the coming days and weeks. And have a great day today. Thank you. Bye-bye.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference call. Thank you very much for attending. You may now disconnect your lines.