



# **Carlsberg A/S**

**Q3 2020 Trading Statement**

**Conference Call**

**28 October 2020**

## PARTICIPANTS

### Corporate Participants

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**Cees 't Hart** – Chief Executive Officer, Carlsberg A/S  
**Heine Dalsgaard** – Chief Financial Officer, Carlsberg A/S

### Other Participants

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**Simon Hales** – Analyst, Citigroup Global Markets Ltd.  
**Jonas Guldborg Hansen** – Analyst, Danske Bank  
**Trevor Stirling** – Analyst, Sanford C. Bernstein Ltd.  
**Søren Samsøe** – Analyst, SEB Enskilda (Denmark)  
**Laurence Whyatt** – Analyst, Barclays Capital Securities Ltd.  
**Tristan van Strien** – Analyst, Redburn (Europe) Ltd.  
**Fintan Ryan** – Analyst, JPMorgan  
**Pinar Ergun** – Analyst, Morgan Stanley

## MANAGEMENT DISCUSSION SECTION

### Cees 't Hart, Chief Executive Officer, Carlsberg A/S

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Good morning, everybody, and welcome to Carlsberg's Q3 2020 conference call. My name is Cees 't Hart and I have with me, CFO, Heine Dalsgaard; and Vice President of Investor Relations, Peter Kondrup. I hope you and your families are all safe and well and that you're all getting through these challenging times.

As you probably noticed, we issued our Q3 announcement, including an upgrade of our full-year earnings expectation, already last night. The upgrade is done in light of strong performance in Q3, positive volume development in Russia and China at the beginning of Q4, solid execution of cost reduction; and this, despite the current uncertainty in rest of Europe.

We are, of course, very pleased with the new outlook. As said at previous quarters this year, however, the pandemic is having a significant impact on our business. We continue to take steps to protect our people, support our communities and protect the commercial and financial health of the Group, both in short and long-term.

We have a highly committed workforce, clear visions, a well-defined strategy and ambitious targets. Our business is well invested, and our financial position is very sound. We are preparing our structures, processes and cost base for the new reality. Our balance sheet remains strong, and our ability to quickly adjust our cost base, protect cash and secure liquidity, confirms our financial resilience.

These strengths have been pivotal in our efforts to navigate the challenges and mitigate the impact from lower revenue, while ensuring that we come out of the crisis as a strong company that can execute on our long-term strategy and achieve our targets and ambitions. It is also these

strengths that made the recent upgrades possible. The first one on September 17; and the second one yesterday evening.

I will now go through the highlights of the quarters, and Heine will talk you through the regions and outlook.

Slide 3 please, and the headlines for the quarter. Considering the very challenging market conditions, the Group had a satisfactory quarter, delivering volume growth. This was due to several reasons. Russia did very well. China continued to grow, albeit at lower rates than in Q2. And we saw a positive weather impact in a number of markets in both Western and Eastern Europe. Nevertheless, variation between markets remained substantial and several markets, especially in Asia, were significantly impacted by the pandemic.

On-trade in all markets was negatively impacted by the pandemic due to several reasons, including restrictions, changed consumer behaviour and less tourism. Consequently, our on-trade volumes declined in Q3, albeit with an improving trend compared to Q2.

Organic revenue declined by 2.1%, with volume growth of 2.4% being offset by the price/mix of minus 4%. The price/mix was broadly in line with the first half of the year and due to channel mix, a negative country mix and as well the higher level of promotions in Russia. Reported revenue declined by 6.8% due to negative currency impact, mainly related to Eastern European and Asian currencies.

Looking at the current situation in our regions, most markets remain impacted by various degrees of on-trade restrictions, restrictions regarding opening hours in the off-trade and on movement of goods and people.

In addition, we are currently seeing a worsening of the situation in Western Europe with governments taking new steps to contain the virus. Therefore, business performance will continue to be impacted by the pandemic, and uncertainty remains high.

Please turn to slide 4 and a few comments on our international premium brands that performed very well in the quarter. 1664 Blanc continued its growth trend and grew by 13%. The growth was broadly based, with particularly strong growth in the Eastern European markets, China and a number of Western European markets, such as Poland and Denmark.

Grimbergen returned to growth in Q3, growing by 12%. This was supported by good development across Western Europe, notably in France and in Russia. Somersby also reverted to growth in the quarter, mainly driven by almost 50% growth in Eastern Europe and growth in Poland. We've recently launched the hard seltzer line extension on the Somersby brand in Singapore, and are planning for more markets to follow.

Our largest brand, Tuborg, grew by 4% as a result of strong growth in China, Russia, the Turkish license market and markets in Southeast Europe, while we continued to face difficult market conditions in the large Indian market.

Carlsberg delivered very good growth in Russia, and in Q3 also in markets such as China, Bulgaria and the UK. However, overall volumes of the brand declined by 2%, impacted by lower volumes in India, Malaysia, Denmark and some licence markets.

We saw very good progress for many of our local power brands in the quarter. Examples of brands with double-digit volume growth include Baltika and Zatecky Gus in Russia, Dali in China, Lübz and Astra in Germany, and Frydenlund in Norway.

Now, turning to our long-term growth categories. Craft & specialities grew by 12%, despite a continued challenged on-trade channel. This is a very good indication of the strengths of our brand portfolio, and that we are making the right investments to support the long-term growth of these brands.

The strong 29% growth of our alcohol-free brews were thanks to our attractive portfolio of local alcohol-free brews and, we believe, supported by an increasing health focus among consumers caused by the pandemic. This makes us even more excited about the long-term growth opportunities of this category.

And now, over to Heine.

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**Heine Dalsgaard, Chief Financial Officer, Carlsberg A/S**

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Thank you, Cees, and good morning, everybody. Please go to slide 5 and some comments on Western Europe, where we saw a significant improvement compared with Q2. Revenue was down organically by 5% and total volumes by 0.8%. Beer volumes grew by 2%, supported by good weather in August and September. Non-beer volumes declined, mainly due to the loss of the Danish-German border trade for soft drinks. The price/mix of minus 4% was mainly impacted by channel mix due to the lower on-trade that continues to be impacted by the various restrictions.

Our business in Norway had a very good quarter with strong volume growth and positive price/mix, driven by price and category and brand mix. Off-trade sales in Sweden was negatively impacted by the closed Norwegian border and on-trade was negatively impacted by the pandemic. In Denmark off-trade volumes grew while total volumes were impacted by lower on-trade volumes and the loss of the soft drinks border trade. Market share was under pressure due to high level of promotional activity in the market which we did not fully respond to.

Across the Nordics, we saw strong progress for craft and speciality and also alcohol-free brews.

Our Swiss business that is very dependent on the on-trade continued to be significantly impacted by the pandemic. We saw very good growth for craft and speciality, driven by Grimbergen and Valaisanne, and also the alcohol-free brew portfolio.

In France, the trends improved in Q3 after a difficult first half when we were impacted by lockdowns and supply chain challenges, while in Q3 we were able to participate in more promotional activities. Our on-trade volumes continue to suffer as we are over-exposed to the event and leisure channel which remained under significant pressure.

Our Polish business delivered both volume and value growth. We saw strong growth for our craft and speciality brands, including 1664 Blanc, Grimbergen and Somersby, but also for alcohol-free brew portfolio and also for the local brands such as Harnás and Zatecky.

In the UK, our volumes were down low-single digits. We saw very strong growth in the off-trade supported by Carlsberg Danish Pilsner and San Miguel, while on-trade volumes were down significantly, impacted by the restrictions. The brewing JV with Marston's has received antitrust approval and we expect the deal to close within the coming few weeks.

Slide 6, and Asia, please, where our business performance has varied significantly between the markets due to very different impacts of COVID-19. For the region, revenue declined organically by 1.5%. This was the result of a small volume decline and a negative price/mix of 1%. The price/mix was mainly the result of channel and country mix.

Reported revenue declined by 6.6% due to an adverse currency impact in all markets. Our Chinese volumes saw a strong rebound in September, following a challenging August that was impacted by the lockdowns in the western part of the country. We strengthened our market share and price/mix due to very good growth of our international brands and premium line extensions of local power brands. We saw continued good progress in our big cities and also in the e-commerce channel.

In Laos, the pandemic seems to be under control. Our volumes grew by high-single digits, supported by several factors, including an improving consumer sentiment and a higher domestic consumer base due to the closed borders, and also very good execution of a lot of commercial initiatives.

Our business in Vietnam also delivered volume growth despite significant headwinds from COVID-19. Our market share improved, supported by the good performance of the local Huda and Halida brands and good commercial execution.

India is a very challenging market this year with a significant market decline due to the pandemic. While recovery from COVID-19 is high due to a large young population, life and businesses are only very slowly trying to return to normal, and the impact on the Indian economy is severe. As always, the situation in India also varies significantly state by state. Our volumes were down by almost 30%, but this was less than the market and we therefore strengthened our market share.

The situation in Nepal continued to be difficult with widespread lockdowns and other restrictions due to a continued increase in infection rates. Not surprisingly, the beer market is suffering. Compounded by the effect of the import ban on energy drinks imposed earlier in the year, our total volumes declined by around 30%.

The business environment in Malaysia remains challenging due to the consequence of COVID-19. On-trade outlets face restrictions and consumer traffic remains subdued.

And now slide 7, and Eastern Europe, please, where our business has only seen a limited impact from COVID-19 due to a low on-trade exposure. The region delivered strong numbers in the quarter, supported by good weather and good progress in Russia. Volumes grew organically by 12.6%. Revenue grew organically by 6.4%, due to a price/mix of minus 5%. This was mainly the

result of higher promotional activity in Russia. The currency impact on revenue was minus 16% and consequently, reported revenue declined by 9.6%.

Year-to-date September, the Russian market grew by 2% to 3% benefiting from good weather, especially in Q3, when the market was up by 5% to 6%. Our volumes in Q3 grew by strongly 19%, significantly strengthening our market share sequentially versus Q2 and also compared with Q3 last year. The share gain was mainly the result of our changed commercial priorities, including a higher promotional level, increased listings and more first price offerings. Although we saw strong results for Carlsberg, Tuborg, craft and specialty and also alcohol-free brews, price/mix was negatively impacted by the extended promotional activities.

Volumes in Ukraine were slightly up. As in Russia, this was supported by good weather in July and September, combined with strong results for Baltika and Kvass. Price/mix was positively impacted by mix, supported by brands such as 1664 Blanc, Carlsberg and Somersby, while negatively impacted by higher level of promotions, especially in the modern trade.

Following a very strong first half, our business in Kazakhstan delivered flat volumes in the quarter. In Belarus and Azerbaijan, we saw strong volume growth, including for international brands such as Tuborg, 1664 Blanc and Grimbergen.

Slide 8 please and our outlook. Due to the pandemic, 2020 has been a volatile year so has our business performance and hence, also our guidance. In April, we had to suspend guidance due to the lack of visibility. In August, we reinstated guidance. In September, we were able to issue an upgrade and yesterday, we made a second upgrade. We now expect mid-single digit percentage organic decline in operating profit compared with previous high-single digit organic decline.

The upgrade was done in the light of strong performance in Q3, continued positive volume development in Russia and China at the beginning of Q4, solid execution of our cost reductions and despite current uncertainties in Western Europe. The guidance reflects our best estimate for current challenges.

In Western Europe, new government restrictions are being imposed due to increase in infection rates, and these restrictions are particularly impacting the on-trade and in some markets, the off-trade as well. In Asia, we see continued lockdowns and restrictions in several markets, in addition to the typhoon which recently hit central Vietnam and Laos.

Based on yesterday's FX spot rates, the translation impact on operating profit is expected to be minus DKK 450 million, compared with previous assumption of around minus DKK 400 million. For the assumptions regarding figures below EBIT, there are a few changes as well.

Net finance costs excluding FX gains and losses are now expected to be between DKK 550 million and DKK 600 million, compared to previously DKK 600 million to DKK 650 million, mainly due to lower funding costs. The effective tax rate is expected to be between 25% and 26%, compared to the previous expectation of around 26%, and this is mainly due to lower withholding taxes.

Finally, as a result of the tight focus on cash, we have reduced our capex even further and now expect capex excluding the purchase of the Brooklyn brand rights of between DKK 3.5 billion to DKK 4 billion, compared to previously around DKK 4 billion. In comparison to our initial

expectation in February this year our DKK 5 billion capex, we have now reduced capex by DKK 1 billion to DKK 1.5 billion.

Our strong liquidity and balance sheet have enabled us to pursue several inorganic opportunities this year.

In Q2, we acquired the Brooklyn brand rights in our markets.

Also in Q2, we announced the JV with Marston's in the UK and we expect the deal to conclude within the coming few weeks.

The so-called material asset restructuring in China, that was a request from the regulators back in 2013 when we increased our ownership in Chongqing, has now been approved by the company's non-controlling shareholders. There are still a few outstanding steps but we expect to complete the transaction before year-end.

Finally, a couple of weeks ago we announced the acquisition of the German, Wernesgrüner brewery that we expect to conclude early next year. The business will give us significant production and logistics benefits in Germany and in addition, the brand is a very nice add-on to our existing German portfolio.

All these M&A bolt-ons will support the further long-term value creation for the Group.

And with that, over to you Cees.

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#### **Cees 't Hart, Chief Executive Officer, Carlsberg A/S**

Thank you, Heine. That was all for today but before opening up for Q&A, a few concluding remarks from my side to summarize the quarter. The pandemic continues to have a significant impact on our business. Our key priorities remain to protect our people, support our communities, and to protect the short and long-term commercial and financial health of the Group. We are very pleased that we are able to report volume growth of more than 2% for Q3 and finally we're very satisfied that we can upgrade full year earnings outlook.

And with this, we are now ready to take your questions.

#### **QUESTION AND ANSWER SECTION**

Operator: Thank you. [Operator Instructions] Our first question is from Simon Hales from Citi. Your line will now be unmuted.

**<Q – Simon Hales – Citigroup Global Markets Ltd.>**: Thank you. Good morning, everybody. Three questions please if I can. Firstly, I wonder if you could just talk a little bit about how volumes developed through the quarter in some of your core regions and perhaps if you can say, I think, as how things have developed since we've moved into October. I'm just sort of particularly interested obviously from a Western European standpoint given the backdrop we're now facing coming through Q4.

And then on the positive side of things, clearly, Heine as you said in your prepared remarks sort of China volumes have picked up through September and into October. Can you put any numbers at all around that to help us out?

Secondly, with regards to costs, clearly, tight cost containment continuing through the second half of the year. Have you seen the rebound in marketing investment that you expected and talked to back at the half one stage? Or have you also continued to be quite tight or tighter than expected on marketing spend given the backdrop?

And then, finally, just on Russia, I wonder if you could just talk a little bit more about the competitive environment there in terms of the response you've seen to your activity in the market if at all. Has that accelerated in the third quarter?

**<A – Cees 't Hart – Carlsberg A/S>:** Yes very good. Thank you. Good morning, Simon. With regards to the volume development in the quarter, indeed, we had a bit of a slow start because the demand picked up in Q2 in China with an estimated 5% market growth that we saw basically slowing down in Q3.

The market growth continued but at a slower rate than in Q2. We saw a volatile development due to lockdowns in August in western China. So, we had a good start of, let's say, July. We had a mediocre August and then the lockdowns in China were lifted. And we were picking up again then in September. But restrictions on opening hours are still in place in some provinces.

Then in Western Europe, we saw July in line with our expectations but above our expectations in August and September due to good weather. And frankly, in Russia, we had a very good quarter, as you have seen, and that was basically because of our "Plan B" – increasing the market share – but also because of good weather. And we estimate that the volume development in market was 5% to 6% with regards to the general market growth in Russia. And as you've seen, we grew by 19% due to taking some more market share.

With regards to the costs, over to Heine.

**<A – Heine Dalsgaard – Carlsberg A/S>:** Yes. Good morning, Simon. So, you're right. We continue focusing on costs. As you know, we started that back in – already back in January following the outbreak in China. And we then gradually increased our focus, our attention and our activities within cost reductions throughout the year, using our OCM tool. And you're also right in assuming that we have increased our marketing investments in Q3 versus Q1 and Q2, which is in line with what we communicated back in August.

**<A – Cees 't Hart – Carlsberg A/S>:** Then with regards to the competition in Russia, basically the heading could be that it's still a fierce competition and we have not seen any change of that. As we said, we triggered our "Plan B" in Q1. The purpose of that was to more forcefully rebound the Golden Triangle with focus on regaining some of last year's lost market share. And by that, we would be able to run all our eight breweries and our distribution network at a reasonable capacity utilization and efficiency. As we now have regained market share, we will now rebalance a bit again towards becoming more profitable. So, focusing a bit more on the margins. But in general, to your question, the competitive heat is still on.

**<Q – Simon Hales – Citigroup Global Markets Ltd.>:** Brilliant. Very clear. Thank you.

**<A – Cees 't Hart – Carlsberg A/S>:** Thank you.



Operator: Thank you. Our next question is from Jonas Guldborg from Danske Bank. Your line will now be unmuted.

**<Q – Jonas Guldborg – Danske Bank>**: Good morning, Cees, Heine and Peter. So, first a follow-up on the outlook for 2020. So, it is only six weeks since you came with the first upgrade this year and then there's a new one. And then, what has changed the most in these six weeks? Is it the – I was unmuted there. Okay. So, what is driving the upgrade so to speak?

Then secondly, I would – you say that on-trade volumes in Western Europe were down 20% in the quarter. Could you talk about how much on-trade was down for the Group in total?

And then my last question is on your reduced capex outlook. What kind of investment is it that you will not be doing and maybe put some comments on what we should expect next year? Thank you.

**<A – Cees 't Hart – Carlsberg A/S>**: Thank you, Jonas and good morning. Over to you Heine for the outlook.

**<A – Heine Dalsgaard – Carlsberg A/S>**: So, good morning, Jonas. So why the earnings upgrade? Three reasons: Strong performance in Q3, both top line and also bottom line; then continued positive development as we've said in Russia and China here – in the beginning of October. And then point number three is really continued strong focus and execution on the cost reductions, using our OCM tool and methodology.

Then what has changed since September 17 when we came with the last upgrade? Well, Q3 top line performance was good and also better than expected and so was as said, profit development. The key reasons, the way we see it, for this are the fact that we saw good top line growth in Eastern Europe from weather, market growth and also market share gains as said. We saw good weather in Western Europe in August and September in particular, and consequently a good progress on the top line.

We had a good September in China after the lockdowns in August. We saw continued, as said before, also throughout September and early October, continued strong execution of the cost mitigation actions. And as a result of all these, our operating margin improvement was strong in Q3 across all our three regions. And then, as said before, positive development in the beginning of Q4 in terms of volume in Russia and in China, which clearly we did not expect back in the middle of September. And with now having a relatively good estimate on October and with that, we have good visibility on more than 90% of our annual profitability. So, these are the main reasons.

**<Q – Jonas Guldborg – Danske Bank>**: So, no impact from reduced marketing expectations – marketing spend expectations for the rest of the year?

**<A – Heine Dalsgaard – Carlsberg A/S>**: That is exactly as we communicated in August.

**<A – Cees 't Hart – Carlsberg A/S>**: So, then we look at your question with regards to the on-trade and off-trade. Well, when it comes to off-trade, very large variations between markets depending on governments' actions and how these have influenced consumer behavior. To mention a few examples, in the UK the off-trade grew around 40% year-to-date, while in India off-trade declined

by around 40%. So, huge variations. And for the Group, the off-trade is up low-single digit year-to-date. However, in Q3 it was mid-single digit growth. And on-trade is down in all markets, with most countries being down by mid-teens year-to-date. But we saw a slight improvement with mid-single digit decline in Q3.

Then, with regards to the capex outlook, Heine?

**<A – Heine Dalsgaard – Carlsberg A/S>**: Yes. On capex, as said, we will reduce capex versus our initial expectations by, let's say, 20%, 30% excluding the purchase of the Brooklyn brand rights. We're not cutting into stuff that relates to the long-term health of our facilities. We are then evaluating all projects and we are also postponing or canceling projects that are not business ... sort of business critical. And that includes the fact that we have lower investments in returnable glass bottles due to lower demand within glass. We see lower sales capex due to less draught equipment as a consequence of lower on-trade activity.

Also, fewer cars for sales reps for good reasons and also within sales capex there're fewer coolers. And then, within our breweries, then it's clear that versus our expectations there's less of a need for capacity expansions in particular for draught lines, and some projects have actually been postponed due to the fact that suppliers cannot deliver. But as said in the beginning, we are cautious that we continue to invest into projects that support the new reality and the long-term health of our business and also the long-term sustainability of our business.

**<Q – Jonas Guldborg – Danske Bank>**: And any comments on next year?

**<A – Heine Dalsgaard – Carlsberg A/S>**: No.

**<Q – Jonas Guldborg – Danske Bank>**: Okay. Thank you very much then.

Operator: Thank you. Our next question is from Trevor Stirling from Bernstein. Your line will now be unmuted.

**<Q – Trevor Stirling – Sanford C. Bernstein Ltd.>**: Morning, Cees and Heine. Three questions on my side, please. The first one is linking to China. I just wanted to work out what the final structure is going to be. I think from what I can read from the press, Heine, is that you continue to have your 60% stake in CBC, but you now have a 49% stake in the new operating company. If my math is right that gives you about an 80% economic interest in the total Chinese business. And secondly, could you just comment on whether that's cash neutral transaction?

Second question, around Russia. I guess from your comments that margins expanded across all three regions but the operating leverage benefited the high volume growth offset the negative price/mix.

And then thirdly, just India. You said that India has been getting better over the quarter. Could you comment what the current rate of decline is as you're exiting Q3 and into Q4? Thanks very much.

**<A – Cees 't Hart – Carlsberg A/S>**: Thank you, Trevor. Good morning. With regards to China, Heine over to you.

**<A – Heine Dalsgaard – Carlsberg A/S>**: Yes. Good morning, Trevor. So, the material asset restructuring was approved, as you're also saying, by the minority shareholders here at the EGM on October 9. With the new setup, Carlsberg and also Chongqing Brewery will inject our assets into a new joint venture company. That joint venture company as you're also saying is owned 51% by Chongqing Brewery and 49% by us.

And as you're also saying, Trevor, we will from Carlsberg remain 60% shareholder in Chongqing Brewery. So, the net result of all of this is that our direct and indirect ownership of these Chinese assets will be around 80%. In terms of cash, then in order to get through these 80% overall, we will receive a cash equalization payment of around DKK 2 billion from Chongqing and from the JV which is neutral at Group level.

**<A – Cees 't Hart – Carlsberg A/S>**: Then with regard to your question on Russia, indeed we get some operational leverage out of this. So, we see a positive margin impact from the higher volumes, while the negative price/mix and the transactional forex impact negatively. So, it's a mix, but we still think that we'll end up 2020 with around that, let's say, 14-15% in Russia.

Then with regards to your question on India. Indeed, it is a highly uncertain, volatile environment in India. As you know, the C-19 infections are very high. And as a consequence of that, the country is struggling socially and economically. 95% of the off-trade outlets are open. But basically the number of customers remain to be subdued as consumers fear risk of contracting the virus whilst the crowds are gathering.

So, in general, we see some headwinds in India. To your question what basically the exit of the quarter was around September, was declining by 18%, so minus 18%.

**<Q – Trevor Stirling – Sanford C. Bernstein Ltd.>**: Thank you very much, Cees and Heine.

**<A – Cees 't Hart – Carlsberg A/S>**: You're welcome, Trevor.

Operator: Thank you. Our next question is from Søren Samsøe from SEB. Your line will now be unmuted.

**<Q – Søren Samsøe – SEB Enskilda (Denmark)>**: Good morning, gentlemen. I have two questions. First of all, on Russia, how confident are you that you can stay listed at the key retailers into 2021? I'm guessing that renegotiations for 2021 are happening as we speak. So, basically, have your confidence increased during the year that you can actually stay with them?

Second question is regarding the Marston's acquisition in UK. Just if you could update us on how you're proceeding with integration and how fast we can expect to see the first cost synergies materialize? Thank you.

**<A – Cees 't Hart – Carlsberg A/S>**: Good. Thank you, Søren, and good morning. With regard to Russia, yes, we currently are indeed negotiating with key retailers and that, of course, needs to pan out. It's a normal trajectory during the end of the year that you negotiate for the new year. I think the good thing for us is that we are in a better position than last year. We are now in Russia number one over the last two or three readings with 29.5%. Our brands became stronger. We

have a broader portfolio. We have new offerings including some innovations. So, we have a better platform to negotiate from, and that will help us in these negotiations.

Having said that, it's a highly demanding environment also with the consolidated – consolidating key account structure in Russia. So, it is and remains a challenging environment, but we are confident that we at a certain moment can finish these negotiations and look further to strengthen our position in Russia. Heine?

**<A – Heine Dalsgaard – Carlsberg A/S>**: Yes. Good morning, Søren. So on Marston's, the status of the deal is that the deal, as you know, has been approved by the UK anti-trust authorities and we expect the transaction to complete, actually, very shortly.

And to your question on synergies, you are right that the deal will significantly strengthen our UK business, and there are different elements to that. And our brand portfolios will be improved and also very strongly complementing each other and making the JV much more appealing from a supplier point of view for both our on-trade and off-trade customers, both in terms of Marston's strong portfolio of ales and then on our side, of course, our strong presence in lagers.

Then, there are good cross-selling opportunities both for the Carlsberg brand to Marston's customers, but also utilizing Marston's strong distribution network to around 11,000 customers. There is as well a long-term supply agreement with the Marston's pub space that, as you know, includes 1,300 pubs. There are substantial synergies both on top line, as just mentioned, but also on the cost side; we have even disclosed the number of £24 million.

We are well into the preparatory work of the integration, but clearly the actual realization of the synergies has not started yet. But we're well prepared. We are continuing the preparations over the coming weeks and ready to start executing as soon as the transaction is completed.

**<Q – Søren Samsøe – SEB Enskilda (Denmark)>**: Okay. Understood. Thank you very much.

Operator: Thank you. Our next question is from Laurence Whyatt from Barclays. Your line will now be unmuted.

**<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>**: Good morning, Cees. Good morning, Heine. Thanks very much for the questions. Three from me, if that's okay. Could you give us an indication of how strong China was if we exclude the Xinjiang lockdown? Sort of either what it was in the quarter just sort of ex-Xinjiang or what the run rate was going into the end of the quarter throughout sort of September time?

Secondly, in terms of net debt/EBITDA, we've seen a material increase in the expectations for the EBITDA part of that and it doesn't sound like the net debt number has changed dramatically. Previously, you said that you wanted to keep net debt/EBITDA below 2 times and that was the reason behind canceling the share buyback to keep that prudence going. With the increase in EBITDA, has that changed your thought process around how prudent you need to be or how that might change your net debt/EBITDA ratio and, therefore, your attitude towards buybacks?

And then, finally, you mentioned that you're investing in areas that you think will benefit from the COVID situation or at least not be too impacted by the COVID situation. But you also mentioned

that you're reducing capex expansion for your draught lines. Could you give us a sense of how that's impacting your DraughtMaster roll out and what your plans have been throughout the end of this year for DraughtMaster and how they will change going into 2021? And whether you see DraughtMaster as a potential beneficiary of the COVID situation? Thank you very much.

**<A – Cees 't Hart – Carlsberg A/S>**: Thank you, Laurence, and good morning. I will take the first question. With regard to China, of course, very difficult to estimate. But the only thing I can say is that we came out of a very strong Q2, but it was influenced by , if you'd like, renewed straight-loading after the COVID crisis in China and basically preparing for the season. And then, well, as I said earlier, the beginning of Q3 was a bit weak. However, September is 12%-plus, and that was after the lifting the lockdown measures in the west. So, I think that's a good proxy for what it could have been.

And then, Heine, over to you.

**<A – Heine Dalsgaard – Carlsberg A/S>**: Yes. Good morning, Laurence. So on leverage, yes, EBITDA is going up versus our expectations just a few months ago. And you're absolutely right that we are in full control of our debt. We are following our debt and liquidity position to be very honest on a daily – sort of daily level and have done that basically since March. So, yes, we are in full control. And, yes, that does mean, the math, that the leverage is lower than expected.

Remember the logic behind canceling the share buyback, which was that we want to keep a conservative balance sheet, which, frankly, we have and we will continue to keep. But it what also to do a few M&A transactions. We have done that. We've done the Marston's deal, or expect that to complete shortly. We've done the Brooklyn deal of the brand rights. And lately, we also announced the Wernesgrüner deal in Germany.

So we did the reduction or the not-initiation of the second part of the share buyback program for these reasons. We've not changed our thought process in terms of capital allocation, not at all. And that also means that share buyback is high on the agenda, and it's something we expect to come back to going forward. We do see going forward as well share buybacks as an integrated part of our capital allocation principles.

**<A – Cees 't Hart – Carlsberg A/S>**: Then, Laurence, with regard to your question on the roll out of the DraughtMaster. Well, you can imagine, and we had flagged, that the on-trade business at this moment of time is very volatile. So, we indeed reduced the speed of the roll out because many of the on-trade customers were closed.

However, we got a lot of excellent feedback because of the fact that the beer remains more than 30 days fresh in our system vis-à-vis only a few days in steel kegs. And with this kind of a stop-and-go market circumstance, the customers are really very positive about – even more positive, you could argue, about the DraughtMaster. So, we see this as a very strong element in our conversations with new targets.

We will roll out further in 2021, based also on this additional, if you like, positive element of the DraughtMaster. And by that, we hope to gain even more share in the on-trade. At this moment of time, we are preparing the plan and also the budget for this year. So, I can't comment on this further. But, in general, we remain to be very positive and committed to DraughtMaster.

**<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>**: Excellent. Thank you very much. And if I could just follow up on the questions around M&A. Can we assume that all of your M&A is now done for the foreseeable future? Or can you give us further comment on the situation with Habeco? Thank you.

**<A – Cees 't Hart – Carlsberg A/S>**: So, first of all, we will never say that there is nothing in the foreseeable future, sorry. But with regards to Habeco, there's no changed situation. But if it becomes available and if the privatization comes through, yes, we still are very interested. So that's the only thing I can say at this moment of time.

**<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>**: Understood. Thank you very much.

**<A – Cees 't Hart – Carlsberg A/S>**: Thank you, Laurence.

Operator: Thank you. Our next question is from the line of Tristan van Strien from Redburn Partners. Your line will now be unmuted.

**<Q – Tristan van Strien – Redburn (Europe) Ltd.>**: Good morning, a few follow-ups from me. Just first on China, the follow-up. The new structure, does that change anything strategically? Does it unlock new opportunities for you going forward?

And second, just a follow-up on Russia. Just can you discuss what your current capacity utilization is of your breweries in Russia and how balanced that is on quite a wide geography? And then maybe also, I don't know if you gave a particular price/mix number for Russia itself, but that'd be great.

And then lastly, this is very minor, but it's interesting that in your non-alcoholic segment, kvass, the whole fermentation drink development, seems to be growing. And maybe a bit of – give us a sense of what that market looks like, what your position in – because I always assumed it was very much a homemade segment in Russia. Thank you.

**<A – Cees 't Hart – Carlsberg A/S>**: Thank you, Tristan. Good morning. Heine, over to you, the...

**<A – Heine Dalsgaard – Carlsberg A/S>**: Good morning, Tristan. So, on the China structure, the transaction is primarily due to a requirement from the regulators. As you know, when we bought the 60% stake in 2013, we will get, with this transaction, a more clear Chinese company structure than what we have today.

There are absolutely opportunities for synergies here, but it's not the primary purpose. And besides, it's not something we've disclosed yet. But the background is a requirement from the regulator, and then it comes with certain synergy benefits as well.

**<A – Cees 't Hart – Carlsberg A/S>**: Then, with regards to Russia. As I said earlier in this call, we have eight breweries around the country. We would like to stick to that set up because, at the moment that we need to reduce our capacity, it means as well that we will increase the cost of logistics, and probably we'll also lose some expertise and local volume. And for that, we need more or less 20 million hectolitres. We were, a year ago, moving into that direction and with the

kind of new, let's say, stimulus in the business, we are now in the safe zone, so to say, due to market development. You could argue that only for one year because of very good weather, but for sure because of our improved market share development.

And so, no plans there. The capacity is rather depending a bit brewery-by-brewery but 50%-60% is still, let's say, in line with what we think is the right set up for Russia, given the very wide geographical spread.

Kvass is indeed interesting, new – maybe not a new kid on the block, but it got re-energized by the new management team in Russia and with a lot of success. And, yes, there is a huge homemade market to convert that, if you like, in a good proposition is always a nice way of growing the business. So the size of the market is there. We tried to convert and, so far, with very big success. So, we're encouraged by the first feedback from the market and also the sales figures of kvass.

**<Q – Tristan van Strien – Redburn (Europe) Ltd.>**: Just on the last one, where are you relative to the other ... Carlsberg even being the number three and number four player historically and where are you positioned relative to competition on that one?

**<A – Cees 't Hart – Carlsberg A/S>**: Sorry, the line is a bit poor, Tristan. I didn't get the first part...

**<Q – Tristan van Strien – Redburn (Europe) Ltd.>**: Sorry. Just to understand your position in the market relative to competition in that segment, of course. Because I'm understanding you were fourth or fifth in terms of market share in that segment, historically. So just trying to understand where you are today.

**<A – Cees 't Hart – Carlsberg A/S>**: Well, frankly, I don't think that has significantly changed. We just started to reenergize it. But we see nice figures. So, I'm sure in, let's say, half year from now, we know better where we are and whether we have a proposition that is promising for the future and gain more share. As you have seen, our alcohol-free beer growth has been excellent at 29% total, part of that is Baltika 0 but also part of that is kvass. So, it is helping us in Russia but also the segment growth of alcohol-free beer in our portfolio.

**<Q – Tristan van Strien – Redburn (Europe) Ltd.>**: Thank you. And your Russian price/mix?

**<A – Cees 't Hart – Carlsberg A/S>**: The last remark we didn't get, Tristan.

**<Q – Tristan van Strien – Redburn (Europe) Ltd.>**: Sorry. Sorry, I have very bad line. And your Russian price/mix specifically?

**<A – Cees 't Hart – Carlsberg A/S>**: Right. The Russian price/mix is high – negative high single digit. And as we said earlier, that's a consequence of "Plan B", making sure that we get, let's say, the volume back. And when we talk about high single digit, it's year-to-date. We also said that now we basically have safeguarded, more or less, our market share. We don't need to be specifically number one, it is nice to be it in the last two or three readings. The importance now for the local team is to get the balance a bit more right between the volume, margin and profit. In the past it was more towards margin and less towards the profit. This is the consequences on the market share, now we're reverting that. And now we're focused very much on the volume, a bit less on the margin. Well, we're basically invested in that. And the next let's say step is in to balance this

all out. That is of course craftsmanship in a way that we keep more or less our market share and improve our margin.

**<Q – Tristan van Strien – Redburn (Europe) Ltd.>**: Thank you. Apologies for the line.

**<A – Cees 't Hart – Carlsberg A/S>**: Thank you, Tristan. No worries.

Operator: Thank you. Our next question is from Fintan Ryan from JPMorgan. Your line will now be unmuted.

**<Q – Fintan Ryan – JPMorgan>**: Great. Good morning, Cees, Heine and Peter. Three questions from me, please. Firstly, I know you've commented a lot around the Eastern European promotional environment. But could you give us some insights into what you're seeing in Western Europe, and particularly Denmark and France, where that you mentioned that promotion intensity is quite high. But as we get into our first proper COVID winter in Europe, do you see any risk that the promotional environment could get even more intense? Brewers try to fight more for the off-trade volumes. And like do you see any risk of that in terms of your margin outlook?

Secondly, in terms of the China business, I think you mentioned in 2019 that your margin in China was approaching around 20%. I am wondering could you give us – I appreciate there's a lot of moving parts, but clearly, given the strong volume performance in China, do you think you could at least maintain that China margin for 2021? Given the restructuring that's going on within the China business, what would your midterm target for your margin in China be? Could it be like 25% in the next two to three years or is that a bit ambitious?

And then, finally, I think you mentioned briefly the hard seltzer launch. I know it's probably very – undoubtedly very small within the Group context currently. But like what are your thoughts around the hard seltzer category and launch more broadly? And I'm wondering could you give us a sense of what markets you might aim to bring these products into in the next 12, 18 months. Thank you.

**<A – Cees 't Hart – Carlsberg A/S>**: Thank you, Fintan, and good morning. With regards to the Western European promotion, especially in France and Denmark, well, frankly, yes, we see a slight increase in the promotion in France. But the issue that we lost some market share in France is more that we couldn't participate in the promotions due to COVID, which was hitting the Alsace area where our brewery is, in Obernai. So, we had a lot of people absent and ill. Therefore, we couldn't pre-produce for the season. Hence, we needed to let go some of the promotional slots which were taken of course by others.

I think you're right to say that because of the lack of on-trade, there might be a bit of a more focus on off-trade from competition. Frankly, that's not the case in France as such; it's more a market that develops to the added value segment which is good news for the value of the market, or good news for us because we have good proposition there. But then of course we need to make sure that we have the right promotional slots in order to also support our brands during promotions.

In Denmark, frankly I've not heard on regarding that we see a huge pressure on more promotional slots. What we see is price discounting of some of our competitors in the market, hence we lost a



bit of share. And that comes back to basically balancing our Golden Triangle in Denmark. With regards China and margin development, Heine.

**<A – Heine Dalsgaard – Carlsberg A/S>**: Yeah. Sure. Good morning, Fintan. So, our margin in China, as you said in, 2019 was around 20%. And that's up from let's say around 15% just a few years ago. So, a very good development up until and with 2019 in terms of margin. First half 2020, EBIT margin was well above this level. And that remains definitely to be the case also so far into the second half of the year.

We're not disclosing our margin right now. We can confirm that longer term, it's definitely our ambition to stay well above the 20% for China. But remember, as we've discussed before, in China in particular – well in general – but in China in particular, we do have this very fine balance between optimizing our margin and investing into long-term growth, and as much as we can, where it makes sense, which it didn't in the first half due to the lockdowns but as much as we can, we are right now and for the foreseeable future, investing into top line growth in China. That will remain to be the priority for China also after 2020.

**<A – Cees 't Hart – Carlsberg A/S>**: Then Fintan, with regard to your question on hard seltzers. It is an interesting category. You know of course that in the US, they took off in a very encouraging way. And it was I think for many players a big surprise. It seems to be in the US a bit of a calorie game, whereas in Western Europe so far, we see that ... in these kind of health-related areas, it's more a kind of low or no alcohol game. But we are testing it in Norway and we're going to test it also in Singapore.

The good thing is that, we have the capabilities to produce high-quality hard seltzer liquids. And we will indeed like to be able to leverage this in our route-to-market. We are testing, as said, a few concepts. Norway, we have Garage Hard Seltzer. It's still a small category in Norway, only 5% of the RTDs. But the first signs in Norway are very encouraging. We have, after a few months, a strong market share of 30% and tracking better than expected against our own internal 12 months plan. However, it's still very early days. We are evaluating the progress and also potential launches in other markets.

Moving out of Western Europe to Asia, we are now launching a new Somersby hard seltzer. So, it's a line extension of Somersby in Singapore. And also there, we see it as a test market and after that, more markets to follow, at the moment that we are successful. And indeed in the coming 12 to 18 months, you could expect some more countries to enjoy that further and basically make it big, or at a certain moment come to the conclusion that it's a segment more for the US than in Europe and Asia.

Having said that, could we have the last question, please?

**<Q – Fintan Ryan – JPMorgan>**: Thank you.

Operator: Thank you. Our last question is from Pinar Ergun from Morgan Stanley. Your line will now be unmuted.

**<Q – Pinar Ergun – Morgan Stanley>**: Good morning. Thank you. I have two quick questions please. Coming back to the reasons for the guidance raise, some of it sounds transient like the

good weather and others perhaps more structural such as cost savings. Would you be able to give us a sense of the extent of cost savings you're delivering and how much of these you would expect to retain into next year and the longer term?

And secondly, I appreciate this is a quarterly sales call but would you be able to remind us where you see Carlsberg's long-term sustainable top line growth at? And how do you see geographic and product mix evolving over the next few years to support that? Thank you.

**<A – Cees 't Hart – Carlsberg A/S>**: Pinar, good morning. Thanks for your questions. Heine, over to you.

**<A – Heine Dalsgaard – Carlsberg A/S>**: Yeah. Good morning, Pinar. So, on the guidance range and cost mitigation actions we are taking. Well, we are taking and have basically since the mid-January, we've have been taking quite some rough cost reduction actions basically across all of the 15 cost groups that we have and are tracking in a very high detail within our OCM tool. So, it's across all the different cost groups that we have had cost reduction target and also increasing cost reduction target, as we've gone through the year and the impact from COVID-19 became bigger and bigger.

There are some elements of that where we are very firm that some of these cost reductions are not sustainable. It was the right thing to do given the circumstances but we want to invest back into some of these areas. And that is particularly within marketing. So, as you saw in our first half report, we are now down to let's say around 7% in marketing investments versus top line. We want to increase that again. So, that's definitely not something that's sustainable. It was and is a deliberate decision to continue with that focus. But going forward, we want to invest more and back to the level where we were before, in terms of top line investments.

Then for SG&A, most it is actually stuff that is sustainable. If you look at it, for sure part of it longer term. As you know we are taking some rather firm reductions and implementing firm reductions in terms of, sort of on the people side. Unfortunately, we've had to take out as you know, quite a lot of people across both above markets but also within supply chain and also within the markets, and that we expect to be something that we keep for a foreseeable future.

And then, there are elements of the SG&A that to a certain extent will come back not as much as before but it will come back. We are not spending one kroner (DKK) right now on travel. We will start to spend money on travel again. But it will be less than what you saw before 2020, the COVID-19 crisis. Right now, our assumption actually is that in terms of travel, our cost level versus 2019 will be down with something let's say around 30% to 40%. So, it's really depending on which kind of the OCM tool and which kind of cost group it is that you're looking into, from stuff we definitely want to come back – marketing – to stuff where part of it will come back – like travel – to stuff where it is a long-term sustainable – like people but also like consultancy.

**<A – Cees 't Hart – Carlsberg A/S>**: For your second question, Pinar, so, basically if you think of our mantra, despite COVID, so what we promised in 2017, is that by 2022 at the end of SAIL'22, we should look back and see us show 2% to 4% net revenue growth, mid-single digit CAGR in terms of profit development, then, the 17% operating margin and a ROIC of around 10%. Depending on the geographies of course to deliver: In Western Europe, we think it will be flattish, flattish plus, with a positive price/mix. In Asia, of course, volume growth and price/mix, especially

there the international premium brands, with which we are very successful in China, will really support that. And on Eastern Europe it will be mainly price/mix, and hence we do, let's say, significant changes in our portfolio there at this moment in time. The market will probably be flattish. But as you can imagine Russia will be remain to be uncertain.

Then with regards to the kind of segments, we basically feel that we will further grow in alcohol-free beer, hence our quarter three was really supporting our conviction that, despite COVID, that category is growing faster and further, 29% as you have noticed. When we look at craft & speciality, 12% despite COVID. So also there, it seems that we have chosen the right segments to further grow in. And then as we said as an answer on the previous question, on the hard seltzer a question mark, and also in terms of the health category, we might be able to come up, at certain moment with a next generation of alcohol-free drinks.

### **Cees 't Hart, Chief Executive Officer, Carlsberg A/S**

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Having said that, I think we come to the end of the call. This was the final question. Thank you for listening in and thank you for your questions. We are looking forward to be in contact with many of you in the coming days and weeks. Have a nice day. Take care. Bye-bye.

Operator: This now concludes the conference call. You may now disconnect your lines.

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