Carlsberg A/S
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FY 2018 Financial Statement Conference Call
Speakers:
Cees 't Hart, CEO
Heine Dalsgaard, CFO

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Carlsberg 2018 Financial Statement Call. Today, I'm pleased to present CEO, Cees 't Hart; and CFO, Heine Dalsgaard. For the first part of this call, all participants will be in a listen-only mode. And afterwards, there will be a question-and-answer session. And just to remind you, this conference call is being recorded and a transcript of the call will be made available online.

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

Good morning, everybody, and welcome to Carlsberg's full year 2018 conference call. My name is Cees 't Hart and I have with me, CFO, Heine Dalsgaard and Vice President of Investor Relations, Peter Kondrup.

Let me first briefly summarize the key highlights for the year. We delivered strong financial performance both on top and bottom line. We see good growth coming from our SAIL'22 priorities. We are significantly increasing the cash returns to shareholders, and we are well-prepared for continued growth in 2019.

I will go through the highlights of the year, our strategic progress and the regions, and Heine will take you through the financials and 2019 outlook.

Please turn to slide 2. Before I go through the numbers, let me spend a few minutes evaluating the financial, strategic and organizational health of our company. Financially, we continue the positive trajectory that we have been on since 2016. For 2018, we delivered strong top line growth margin and ROIC improvement, and a very healthy cash flow. We have also been able to invest significant funds in support of our SAIL'22 priorities in order to strengthen our growth profile.

In 2016 and 2017, our focus was on delivering the Funding the Journey benefits. In 2018, our focus was to shift gears to growth to deliver top line growth enabled by a significant SAIL'22 investments.

We are, therefore, very pleased with the results, albeit, we were helped by a very warm summer. Strategically, we made excellent progress on our growth priorities and saw strong numbers for craft & specialty and alcohol-free brews as well as in Asia. We continued building stronger capabilities within areas such as sales, marketing and digital, and we continued the rollout of DraughtMaster.

Looking at the organizational health of the business, we are also moving in the right direction. It is continuous never-ending journey and we see our winning culture becoming increasingly embedded across the group. Our competencies in areas such as commercial, finance, supply chain, digital and data has strengthened. We also see very good traction of bringing to life our purpose of brewing for a better today and tomorrow, including our sustainability programme Together Towards ZERO.

We are convinced that being a purpose-driven company will become increasingly important for our people, customers and consumers and for attracting new talents. At the end of the day, our well-embedded purpose will help us to deliver sustainable long-term value for our shareholders.

Back to the numbers now. As you can see from the slide, net revenue grew organically by 6.5% and operating profit by 11%. The group's cash generation remains strong at DKK 6.2 billion and we reduced net debt further ending the year with the leverage of 1.29 times.

As a result of the strong financial performance, the Board will propose to the AGM an increase in dividends of 13%. In addition, we have, today, initiated a DKK 4.5 billion share buyback programme. Heine will come back to the details.

Slide 3, and a few words on our Golden Triangle, which serves as a key KPI in our performance management. It helps us to continuously aim at balancing growth and profits, while at the same time, delivering a strong free cash flow. For 2018, we delivered a well-balanced Golden Triangle of top line growth, margin improvements and operating profit growth, while at the same time, achieving a strong free cash flow.

The organic volume growth was driven by all three regions. In parts of Western Europe and Russia, we were also helped by warm weather during the summer. GPaL margins strengthened by 100 basis points due to a solid 2% price/mix, volume leverage and efficiency improvements. The 11% organic operating profit growth was the result of improved GPaL and cost efficiencies, which were positively impacted by Funding the Journey, and all this more than offset a significant increase in marketing investments.

Please turn to slide 4 and a few comments on our international premium brands, which all saw a very good growth. 1664 Blanc continued its strong performance, crossing the 1 million hectoliter mark in 2018. The brand grew by 49%, even after having achieved 46% growth in 2017. We saw growth in most markets, with particularly strong growth in Russia, China, Ukraine, France and some export markets.

Grimbergen also continued its double-digit growth pattern and grew by 14%, driven by Western and Eastern Europe and with particularly strong results achieved in markets such as France, Denmark and Russia.

Tuborg, our largest brand, grew by 10%, mainly driven by continued strong growth in India and China together adding another 1 million hectoliter to our Asian volumes. The brand also grew in several markets in Western Europe such as Denmark, Norway, Serbia and Bulgaria, as well as in the Turkish license market.

Volumes of the Carlsberg brand grew by 5%. We saw solid growth in all three regions. On the slide, you can see the brand's new design, which was launched in September. The new looks and a number of sustainability improvements have been launched in Norway, Finland, Sweden, Denmark and the UK, and will be rolled out across other Carlsberg markets such as China, India, Malaysia and many more during 2019.

Please turn to slide 5 and a brief update on some of our strategic priorities, which are receiving support from our SAIL'22 investments. The strong growth of the craft & specialty category continued and we grew our portfolio by 26%. Russia, France, China, and Poland were important drivers of this growth.

During the year, we launched Brooklyn in Poland and established as the microbrewery in Lithuania, taking the number of craft breweries in Western Europe to 10. Our extensive portfolio of local alcohol-free brews includes brands such as Carlsberg Nordic in Denmark, Munkholm in Norway, Feldschlösschen Alkoholfrei in Switzerland and Baltika 0 in Russia.

Alcohol-free brews grew by 33% in Western Europe, and in Russia Baltika 0 grew by 35%. In May, we launched Birell, which is our first global standalone alcohol-free brew. Birell was launched in Bulgaria and Poland with positive initial consumer response.

The roll-out of the DraughtMaster system continued, supporting the availability of our craft & specialty portfolio in the on-trade. The system is available in all Western European countries and the process of converting all steel keg installations in the Nordic markets is well underway and expected to be finalized within the next two to three years. In 2018, we increased the number of DraughtMaster installations by approximately 35%.

Building the right capabilities in different functional areas is a vital part of SAIL'22. A very important area is digital and in 2018, we set up a new team to drive momentum and progress within this area. One of the digital successes this year was the business-to-business platform, Carl's Shop. The platform is currently available for customers in six European markets and it just passed DKK 1 billion in net revenue.

Slide 6 had a few comments on our sustainability efforts, which are driven by our sustainability programme, Together Towards ZERO. We have four ambitious sustainability targets being zero carbon footprint, zero water waste, zero irresponsible drinking, and zero accidents culture. For each of these ambitions, we have defined clear, measurable and science-based targets for 2022 and 2030, all measured against a 2015 baseline.

In 2018, we continued our efforts to achieve the targets. Our sustainability report will be released later today, and it contains a wealth of information on our progress. Let me briefly touch upon two of the areas. Our ambition for CO2 emissions is to reduce this at our breweries by 50% in 2022 and reach zero by 2030. Compared to the 2015 baseline, we have reduced emissions by 20%. Our brewery in Sweden became the first brewery in the group to run on 100% renewable energy and all our breweries in Western Europe now run on 100% renewable electricity.

Water usage is another important area for us and we have reduced our water usage by 9% per hectoliter compared to the 2015 baseline, taking us down to 3.1 hectoliter. We are among the most water efficient breweries in the world, but we still have some way to go to reach our target.

And now, I will hand over to Heine who will take us through the financials and outlook.

Heine Dalsgaard, Chief Financial Officer, Carlsberg A/S

Thank you, Cees, and good morning, everyone. Please turn to slide 7. So, net revenue grew organically by 6.5%. This was driven by volume growth of 4.8% and a positive price mix of 2%. In reported terms, net revenue grew by 3%, impacted by negative currency movements. Cost of goods sold per hectoliter grew organically by approximately 1%, mainly due to higher input costs and mix. The solid price/mix and ongoing efficiency improvements led to a gross margin improvement of 20 basis points to 50%.

Operating expenses increased organically by 4%. This was driven by higher marketing expenses, supporting our SAIL '22 growth initiatives. Marketing expenses grew organically by more than 15%, or around DKK 700 million, reaching 8.6% of net revenue compared to 7.8% last year. Excluding marketing expenses, reported operating expenses declined by 1% or a 45 basis point reduction to net revenue as a result of Funding the Journey initiatives. Depreciation was down from DKK 4.7 billion to DKK 4.1 billion, mainly due to an extraordinary to depreciation charge in first half 2017. In total, we delivered 11% organic growth in operating profit. In reported terms, operating profit grew by 5.1% due to a significant negative impact from currencies of DKK 500 million. Operating profit margin increased by 30 basis points to 14.9%.

As expected and as we saw early in the year, the second half organic operating profit growth of 8.3% was lower than the 14.2% in first half. This was due to lower depreciation in first half 2018 versus first half of 2017, a positive year-on-year impact in first half from the sell-in to the festive season in Asia and higher spend in second half 2018 to support our SAIL'22 priorities.

Before turning to the next slide, a few comments on Funding the Journey, which as a programme has now been concluded. As we've talked about in the past, the benefits from the programme exceeded our initial expectations. The benefits came from all four work streams. So that is value management, supply chain efficiency, operating expense efficiency and right-sizing of businesses.

Taking all this together and compared to the 2015 baseline, we have improved the underlying profits organically by around DKK 3 billion. As said previously, we have reinvested more than DKK 1 billion back into the business into SAIL'22 growth initiatives.

We will not announce a new efficiency programme but rather ensure that Funding the Journey as a mentality and way of living will stay in the organization. By applying our disciplined approach, we will continue to take out cost and we will maintain disciplined on cash.

Slide 8 please. Further down the P&L, net special items amounted to minus DKK 88 million, primarily due to restructuring measures in Western Europe. Net financials improved to minus DKK 722 million compared to minus DKK 788 million last year. In line with our expectations, net financial expenses excluding currency gains and losses amounted to DKK 758 million versus DKK 980 million in 2017. The improvements versus 2017 was mainly due to a reduction in our interest bearing debt including the repayments of the EUR 1 billion bond in October 2017.

Tax was DKK 2.4 billion, corresponding to an effective tax rate of 28%, which was in line with our expectations. Non-controlling interests amounted to DKK 824 million, slightly higher than last year. They primarily relate to our businesses in Malaysia, Chongqing in China and Laos.

The Carlsberg Group's share of consolidated profits increased to DKK 5.3 billion compared to DKK 1.3 billion in 2017, which was impacted by the impairment of the Baltika brand. Adjusted earnings per share were up 9% to DKK 35.2 per share.

And now, some comments on the cash flow on slide 9 please. We had another year of strong cash flow delivery and we will continue our strict cash discipline in the years to come. Free operating cash flow amounted to DKK 8.1 billion, which is slightly higher than last year.

Trade working capital was very strong at plus DKK 1.9 billion and better than we expected at the beginning of the year. All three regions improved on trade working capital, and especially Asia delivered strong progress. As a consequence, trade working capital to net revenue improved to minus 16% or a 200 basis point improvement compared to 2017. We are very satisfied with our trade working capital performance.

Net interest paid were DKK 863 million. This was higher than last year as last year's number was impacted by a one-off income related to the settlement of a financial instrument. Tax paid amounted to DKK 2.4 billion or approximately DKK 400 million higher than last year. This was due to certain one-off tax payments and the consolidation of Cambrew in Cambodia.

Total operational investments amounted to DKK 4 billion, slightly below depreciation of DKK 4.1 billion. This corresponds to a CapEx to revenue ratio of 6.3%. Financial investments net were DKK 1.9 billion, primarily due to the increased ownership in Cambrew in Cambodia and Super Bock in Portugal. As a consequence, free cash flow for the year amounted to DKK 6.2 billion.

We also increased our ownership in Olympic Brewery in Greece and Alivaria Brewery in Belarus. As these indices were already consolidated, the cash flow impact from these two acquisitions is accounted for in non-controlling interests below the free cash flow line.

Slide 10, please. As a result of the strong cash flow, we continue to reduce financial leverage. Net interest bearing debt was reduced by DKK 2.3 billion to DKK 17.3 billion and the net debt to EBITDA ratio came down to 1.29 times. This is a continuation of recent years' progress and we now have reduced net interest bearing debt by more than DKK 19 billion since 2014, and over the same period reduced net debt to EBITDA from 2.7 times to now 1.29 times.

Consequently the group is now in a significantly stronger financial position than just a few years ago. As mentioned, we increased our ownership in four businesses. The two biggest ones were in Cambodia and Portugal. In Cambodia, we acquired an additional 25% in Cambrew, bringing our ownership to 75% and giving us control. The acquisition was in line with our SAIL'22 priority of growing our business in Asia. And we see interesting opportunities in Cambodia, both in terms of future market growth and our ability to strengthen the business through an enhanced portfolio and improved route-to-market.

In Portugal, we increased our total ownership of Super Bock from 44% to 60% through an acquisition of 28.5% of the holding company, Viacer, that controls the business. However, as our partner still controls Viacer, we don't have the control of Super Bock and the business remains an associated company in our accounts. In Greece, we increased our ownership in the Olympic Brewery to 100% and in Belarus, we increased our ownership in the Alivaria Brewery to 78%.

In total, cash flow relating to investments in entities amounted to DKK 2.8 billion in 2018.

Slide 11 please, and a few words on ROIC, dividends and payout ratio, which are clear shareholder value KPIs in SAIL'22. We managed to improve ROIC in all three regions. We increased group ROIC excluding goodwill by 520 basis points to 20.9% and including goodwill, which is our internal KPI, the increase was 120 basis points to 8.1%. The high ROIC was a result of improved profits, a lower effective tax rate and our strict focus on cash which reduced invested capital.

When it comes to capital allocation principles, we've been targeting an adjusted payout ratio of around 50%. We reached that last year and we maintain this level for 2018. Therefore, the Board will propose to the AGM on March 13 that dividends ared increased by 13% to DKK 18 per share. DKK 18 per share represents a 100% increase in dividend compared to just three years ago, as you can see from the chart.

Slide 12 please, and a few comments on capital allocation which we on several occasions the past year promised to come back to today. As a result of the healthy state of the business in terms of earnings growth, margin improvement returns and the significant reduction in leverage the Supervisory Board has decided to significantly increase the cash returns to shareholders. In addition to the proposed DKK 18 dividend per share, we are today initiating a share buyback of DKK 4.5 billion. Combined, the total cash return for the year will amount to DKK 7.2 billion, corresponding to approximately 6.5% of the market cap of Carlsberg.

Let me go through the rationale behind our balance sheet and the decision to use buyback programmes to return cash. When we announced SAIL'22 in 2016, we set clear principles for capital allocation, as you can see from the slide. After having invested in the business, both organically and now also inorganically, reduced leverage to significantly below 2 times and reached the 50% payout ratio already, we have now come to point number four in our capital allocation principles, which is either high dividends or buybacks.

Following discussions with a number of our largest shareholders, we concluded to maintain the 50% payout and use buyback as a flexible tool to return additional cash to shareholders. The amount of cash that we will return in any year will depend on the actual leverage in the year just passed, so for this year the 1.29 times leverage and the outlook for the coming year. We will, at all times, maintain a conservative balance sheet and we also want to have the firepower for potential M&A if the right opportunities arise.

It is clearly not an exact science, but when balancing this, we concluded that DKK 4.5 billion for this year would be appropriate. To maintain the financial flexibility, the current buyback programme will be done in two tranches of approximately six months each, with the first tranche amounting to DKK 2.5 billion. The programme starts today and will be done in accordance with the EU Safe Harbor regulation. The shares will be cancelled at the AGM next year, except for those needed to cover share-based incentive schemes.

The Carlsberg Foundation has notified us that they will participate in the share buyback pro rata corresponding to their 30% economic interest in Carlsberg. The details are described in the full-year announcement on page 18.

And now please turn to slide 13 and the outlook for the year. We exit 2018 with good momentum. We deliver strong results and we've been able to invest significantly in the business. As a result, we feel well prepared for 2019 despite the well-known headwinds of higher input costs and tough comps in Western Europe.

The key focus for 2019 will be to further drive organic revenue growth, while at the same time ensure that we maintain a strong focus on efficiencies, costs and cash. The strict cash discipline will focus on working capital as well as fixed assets. Our regional priorities will be to increase net revenue and operating margin in Western Europe, drive growth in Asia through premiumization and strengthen market leadership in Eastern Europe.

Based on this, we expect to deliver an organic operating profit growth of mid-single digit percentages. Based on the spot rates on February 5, we assume an insignificant translation impact on operating profit. Other relevant assumptions are finance costs excluding FX of DKK 700-750 million and effective tax rate of below 28% and CapEx of around DKK 4.5 billion.

Our SAIL'22 financial priorities remain unchanged for 2019 meaning that we want to grow operating profit organically, increase ROIC and ensure an optimal capital allocation.

And now, back to you, Cees.

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

Thank you, Heine. Please turn to slide 14 and Western Europe. Western Europe delivered strong results in 2018 partly supported by the warm summer in the northern part of the region especially in Q3. Net revenue grew organically by 3% as a result of 3.6% organic total volume growth and minus 1% price/mix. Reported net revenue grew by 1.2% due to the disposal of the German wholesaler Nordic Getränke in 2017 and the negative currency impact.

Price/mix was positive in the majority of our Western European markets, supported by successful premiumization efforts and some price increases, partly accounted by the higher growth of non-beer products.

On the regional level, the positive price/mix was more than offset by country mix due to growth in license markets such as Turkey and loss of volumes in high-revenue export markets in the Middle East. Excluding export and license, price/mix was around 0.5%.

Organic operating profit grew by 7% and operating margin improved by 60 basis points to 15%. The earnings progress was driven by volume growth, value management, premiumization, Funding the Journey benefits and lower depreciation. The organic operating profit growth in the second half of the year was 6.3% and operating margin declined by 10 basis points year-on-year for the half year due to higher investments in SAIL'22 priorities such as craft & specialities, alcohol-free brews and DraughtMaster roll out.

Total volumes increased organically by 3.6% and beer volumes by 2.9%. Supported by the warm weather in Q3, we saw a significant improvement in the second half of the year after a difficult start to the year. Non-beer volumes grew by 5.9% due to good performance in the Nordics. We estimate that our regional market share grew slightly.

Slide 15 please and a few country-specific comments. The Nordic businesses all benefited from the warm weather in Q3. Total volumes for the year grew organically by 6%. In Denmark, the beer market grew slightly with our total volumes growing in line with the market. We saw good performance for the Carlsberg brand, speciality products and alcohol-free brews while Tuborg Green declined due to price increases. Price/mix improved by 5%. The non-beer business delivered strong growth.

In Norway, we saw continued strong business performance. Our volumes grew slightly, and price/mix strengthened, supported by growth of premium brands. Within alcohol-free brews, we saw good traction of Munkholm and the alcohol-free variants of 1664 Blanc and Somersby.

In Sweden, total volumes grew, driven by strong non-beer volume growth. Beer volumes declined slightly due to the loss of distribution rights for third-party brands. In Finland, the beer market declined slightly. Our volume growth was strong, driven by relisting in Q1 at a major retailer for the winter campaign and growth of non-beer products.

The French market grew and our volumes were up by 5%. Price/mix improved as a result of continued growth of our premium brands. Our craft & speciality and alcohol-free brands performed well, while the Kronenbourg brand in the mainstream segment declined. The good performance was achieved despite some supply issues due to the French national rail strike.

The positive trend of our Swiss business continued. Volumes grew slightly and price/mix improved, driven by solid performance of our beer portfolio. Our power brand Feldschlösschen, our regional brands and our alcohol-free brews all delivered good growth.

Our Polish volumes grew slightly. After a slow start to the year, the business accelerated throughout the summer and towards the end of the year. We achieved price/mix of high-single digit percentages, helped by the growth of upper mainstream and premium brands, such as Okocim, Carlsberg, Zatec and Somersby, as well as growth of alcohol-free brews.

In the UK, our volumes declined by 3%, mainly as a result of the declining mainstream segment. Our volumes in the premium category performed well. During the year, we completed our exit from porterage activities.

In the other Western European markets, we achieved particularly strong top line and margin improvement in the Balkan markets and the Baltics. And in Germany, our local power brands drove the growth. In our Export & Licence business, license sales of Tuborg in Turkey increased significantly, while sales in some Middle Eastern countries declined due to the higher duties and VAT.

Slide 16, and Asia please. Our Asia region had another very good year, delivering a strong set of results. Net revenue grew organically by 13.3%, driven by 8.6% organic volume growth and 4% price/mix. Reported net revenue grew by 11.4% due to a negative currency impact in most countries in the region that more than offset the acquisition impact of Cambrew.

The solid 4% price/mix improvement was the result of our ongoing premiumization efforts, not least in China, where the premium portfolio performed strongly. The organic volume growth was broadly based, with all major markets delivering solid numbers.

Organic operating profit grew by 15.8%, mainly due to the strong revenue growth. The reported operating margin declined by 40 basis points to 20.4%. While the gross margin improved considerably, this was offset by a significant increase in marketing investments as a sizeable proportion of our SAIL'22 investments were allocated to further strengthening our Asia business. As expected, the consolidation of Cambrew also impacted operating margin negatively.

Slide 17 please, and a few country-specific comments. Our Chinese business achieved very strong results. Net revenue grew organically by 15%, driven by 8% organic volume growth and 7% price/mix. We outperformed the Chinese market that declined by an estimated 1%. The market decline was driven by the mainstream segment, whereas the premium segment continued to expand. Our premium portfolio grew by 13% and supported our price/mix improvement along with price increases.

Our Indian business had an excellent year, following a challenging 2017 that was impacted by the highway ban, GST and tax increases. Our volumes grew by 19% and price/mix was 7% due to the strong growth of the Carlsberg brand and improved pricing. Profitability improved considerably due to the volume growth, positive price/mix and supply chain efficiencies following the opening of the Karnataka brewery.

In Laos, our volumes grew by high-single digit percentages, driven by growth of all three categories: beer, soft drinks and water. Price/mix was slightly negative due to the product mix. Our Beerlao brand strengthened its position as a result of improved communication.

Our Malaysian business delivered share gains especially in the premium categories. Carlsberg Smooth Draught, which was launched in 2017 grew strongly. Our premium international brands, such as 1664 Blanc and Somersby, also achieved very strong growth rates.

In Nepal, we saw good progress. Following a 30% excise tax increase in the first half year, retail beer prices grew by approximately 15%, leading to a slightly declining price/mix. In the second half of the year, we revitalized the communication platform for the Tuborg brand.

In Cambodia, we are currently in the process of rebuilding the business. Although it was a challenging year with double-digit decline and operating loss, the first signs of the rebuild are encouraging. Our volumes in Vietnam declined slightly in a flat market. We saw strong growth of the Carlsberg brand.

Slide 18 and Eastern Europe. Our Eastern European business delivered 9.3% organic net revenue growth, driven by 3.1% volume growth and 6% price/mix. Reported net revenue declined by 1.3% due to the weak currencies in all markets in the region. Volumes grew in all markets.

The drivers of the strong price/mix improvement differed between markets, with Russian price/mix mainly being the result of higher prices, while the other markets benefited from both price increases and mix improvements.

Organic operating profit grew by 11.3% driven by volume growth, the positive price/mix and tight cost control. Operating margin improved by 30 basis points to 20.6%. H2 operating margin declined year-on-year as a result of higher packaging costs and adverse currency impact.

Slide 19 please. In 2018, the Russian beer market grew for the first time since 2007. The market growth was an estimated 3%, supported by favorable weather in Q2 and the world cup impact in

Q3. Our volumes grew organically by 2%, price/mix improved by 2%, with an improving trend towards the end of the year, when we took price increases to offset input cost pressure. Product mix remained negative due to the continued growth of the economy segment. Operating margin remained in excess of 20%. Our market share was stable during the year, but declined slightly in Q4 as a result of our price increases which triggered some discussions with a large customer.

The Ukrainian market grew slightly, and our volumes grew by mid-single-digit percentages, supported by growth of our strong local power brand Lvivske and our international brands. Price/mix developed very favorably due to price increases and the growth of premium products, with particularly strong results for 1664 Blanc, Grimbergen, Somersby and Garage.

Our businesses in Belarus, Kazakhstan and Azerbaijan all the delivered solid revenue and earnings growth.

That was all for today, but before opening up for Q&A, a few concluding remarks on slide 20. 2018, was the year where we wanted to shift gears to growth, while at the same time improving margins and stepping up investments in marketing and capabilities. This was a bold ambition. And we are, of course, very pleased that we succeeded. The group has over the past three years taken important steps forward and we believe that we are all well positioned to target sustainable top and bottom line growth in the coming years.

So, to summarize for 2018, we delivered strong financial results both on top and bottom line. We saw good growth coming from our SAIL'22 priorities. We are significantly increasing the cash returns to shareholders and we are well prepared for continued growth and expect mid-single-digit organic operating profit growth for 2019.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question comes from the line of Simon Hales from Citi. Please go ahead.

Simon Hales
Analyst, Citigroup Global Markets Ltd.
Hello? Can you hear me?

Cees ‘t Hart
Chief Executive Officer, Carlsberg A/S
Yes. Simon, good morning.

Simon Hales
Analyst, Citigroup Global Markets Ltd.
Good morning, Cees, and good morning, Heine. Three questions if I can, please. Firstly, can I just go back to your comments around the buyback. Clearly, positioned to return DKK 4.5 billion, I just wonder given the outlook you've given for 2019 on my numbers, your net debt/EBITDA at the end of the year will be broadly similar to where you ended 2018, still a long way short of the below 2 times level that you are targeting as being the top end of that guidance. Is there something specific as you look into 2019 as to where you might see capital allocation going elsewhere? Is there a M&A pipeline perhaps that you've got greater visibility on as we look forward?

And how will you evolve the share buyback discussions? Is this a once a year decision you will make or as you go through the year will this be an ongoing discussion you'll have with the Supervisory Board as to the right size of that buyback?

Secondly, I want to just ask you little bit about input cost pressures, I mean, you mentioned this in the presentation and you've talked about it through the second half of 2018. What's the scale of input cost pressures you are facing do you think for 2019? And what have you been doing and what do you hope to continue to do to really mitigate that risk from a margin standpoint?

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Simon. Over to Heine.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yes, good morning, Simon. On the share buyback so first of all this is not an exact science as to what the amount is going to be. There are two keys comments here. The first is that we are a cautious company and we want to maintain a strong and conservative balance sheet. And at the same time we also want to maintain fire power for potential M&A going forward.

The overall principle for deciding the size of cash return is that we take a pragmatic view and look at our leverage for the preceding year and also for the coming year. This is then the basis for what we distribute to shareholders. That's not an exact science but that is sort of the principle we are using. And you're right, 1.5 is below 2 and below 2 in terms of leverage is sort of what we're aiming for. And with these numbers, all other things being equal, we are looking into something around 1.5 towards year end 2019.

Then whether this is an ongoing thing with share buybacks, that is definitely something that we will discuss with the Supervisory Board from time to time. Currently, the decision from the Supervisory Board is that we will continue with share buybacks can of course in the future depending on our needs for cash to expand the business and also, depending on other sort of inorganic opportunities that may come up.

In terms of the input costs outlook for 2019, you're right, that we do see a significant cost pressure coming into 2019. And we've discussed it before. We are well hedged for 2019. We don't disclose the exact hedging, but we are well hedged. That's basically it and we will sort of maintain our aim to ensure that the cost increase impact comes through to pricing and mix.

Simon Hales
Analyst, Citigroup Global Markets Ltd.
And can I just follow up on the last point, Heine. I mean, can you tell us what the actual input cost inflation is you think you're seeing in 2019 versus 2018. And have you outside of what you mentioned in Eastern Europe, have you taken pricing elsewhere yet to offset that?

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
So we expect COGS per hectoliter overall across the group to increase by 2% to 3%. And as said, we don't comment specifically on what we do in individual markets. But the plan is and that's what we are targeting and that's what we are planning for is to mitigate this through price and mix impacts. And then when we do it, it's really something that is very specific market to market.

Simon Hales
Analyst, Citigroup Global Markets Ltd.
Perfect. Thank you.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Thank you.

Operator: The next question comes from the line of Jonas Guldborg from Danske. Please go ahead.

Jonas Guldborg Hansen
Analyst, Danske Bank A/S
Yeah. Good morning and thank you for taking my questions. First of all, on trade working capital you managed to outperform your own expectations once again. What have you put in for 2019 of expectations? Is there any one-offs in the later part of the year that will affect the development negatively in 2019 or should we expect an improvement?

Then, you mentioned that you have seen significant profitability improvement in India from volumes and other things. Could you update us on where your profitability is in India? And then, my last question is on Russia, is there any reasons for not seeing any mix effects, positive mix effects in Q4? Was that due to the interruptions you had with the customer or is it something to do with the Efes and ABI merger or what else could it be? Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Okay. Thank you, Jonas. The first question about trade working capital, Heine.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah. Hi, Jonas. So on trade working capital I think we saw better performance on trade working capital at the end of the year than expected and that is basically due to continued strong discipline and focus on cash across the entire group. We are with the minus 16% trade working capital among the best. It's always difficult to stay world class but we will maintain also for 2019 strict discipline. There are no sort of particular one-offs worth mentioning. We expect for 2019 sort of a total effect of around zero in terms of DKK. And we are satisfied if we can stay within sort of a relative trade working capital of minus 14% to minus 16%.

Jonas Guldborg Hansen
Analyst, Danske Bank A/S
Okay.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
With regards to India. We are really on a nice trajectory there. The price/mix was 10%. So we did almost 19% volume and 27% value which, of course, is very good. Our share is increasing. The market growth was 12%, so we outbeat the market and obviously at the moment that the price/mix is good and we get the throughput of the volumes in our breweries, the profitability improves. So where we were breakeven three years ago, we now are in a double-digit EBIT margin position in India. And we're on the right track.

With regards to Russia, there we see, you were talking about pricing, yes, Q4 had an impact of a big retailer in Russia that had some issues with our price increases. On the other hand, the PET segment is still growing a bit and that has some negative impact on the total pricing of the beer category.

Jonas Guldborg Hansen
Analyst, Danske Bank A/S
Okay. Very clear. Thank you very much.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Jonas.

Operator: And the next question comes from the line of Ed Mundy from Jefferies. Please go ahead.

Edward Mundy
Analyst, Jefferies International Ltd.
Hi. I have three questions please. On your guidance of mid-single-digit EBIT growth, are you able to provide any colour by region and also do you expect to continue to invest behind SAIL'22 initiatives within that guidance?

The second question is on China. You're seeing a very good trajectory here on both volumes and price/mix. Could you provide a little bit more colour as to how many cities you're in now and how we should think about the opportunity for China over the next few years?

And then third question is on the tax rate which fell about 100 bps in 2018. Should we expect a similar step down for 2019?

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Ed. With regards to the guidance, Heine?

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah. Hi, Ed. So, our guidance on organic operating profit is mid-single digit. We don't split it per region. And to your question as to whether we will continue with our SAIL'22 investments that is definitely a yes. We've seen Funding the Journey work very well, and we've seen that the investments that we've put into the top line – into growth initiatives – working very well also. So, yes, definitely, we will continue with SAIL investments also going forward.

If I just take the tax rates, on the tax rate, you're right. We are 100 basis points below where we were and we guided with below 29% and we hit 28%. This year, we guide with below 28% and that is basically our guidance. So, where we hit specifically is something we will come back to, but for 2018, we guided with below 29% and we hit 28%.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
And Ed regarding your question about the cities wherever you're in, by the end of 2018, we were in more than 20 cities. At the end of 2019, we expect to be in between 30 and 40 cities which is very important for our international premium brand portfolio that grew in 2018 by 13% and just to give you some details on that, Carlsberg was 11%, Tuborg was 12% and 1664 Blanc 50%. So the further rollout in the big cities is quite important for us.

Edward Mundy
Analyst, Jefferies International Ltd.
Great. Thank you very much.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you.

Operator: And the next question comes from the line of Mitch Collett from Goldman Sachs. Please go ahead.

Mitch Collett
Analyst, Goldman Sachs International
Hi, there. Can you comment on organic sales growth for F 2019? Do you think you'll be within the 2% to 4% medium-term range you've guided to, I think at your investment seminar back in 2017? And then secondly now that Funding the Journey has ended, I just wondered whether you could comment on where you would expect margin expansion to come from going forward. If I look at what you've delivered in terms of Funding the Journey and then net off the reinvestment, it's roughly the same as the organic EBIT growth you've achieved across that period. Do you expect that to be other drivers of margin expansion going forward?

And then a final one on the CapEx versus depreciation which are broadly equal. I noticed that your CapEx is running ahead of depreciation in Western Europe and then below in both Asia and Eastern Europe. Is that the impact of DraughtMaster and should we expect that shape to continue? Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Mitch, and good morning. Let me take the first question and Heine, the other two. What we said is we don't guide on the top line. However we want to continue to grow the top line, but it's, of course, will be a bit more challenging this year due to the last year's strong performance. But we, in general, commit over the period of 2017 to 2022 to grow the top line by 2% to 4% organic. Heine?

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah. Hi, Mitch, and on the Funding the Journey going forward and how we see the margin progression, so we said before that – well for this year, we're guiding with mid-single-digit – we have said that we will continue the journey also after 2019 in terms of improving our operating profit organically. So, that remains a key priority for 2019 and also for 2020 and afterwards.

Where is the margin improvement going to come from, well, basically more or less the same levers as we've used in the past, which is sort of value management, so, that's pricing and mix, it is the supply chain efficiencies and then it's a strict discipline in general on our costs, our SG&A cost and our OpEx cost in general. So, across the line.

Then on top of this, the more than DKK 1 billion that we have invested in particularly in 2017 and 2018 in sale investments also give us benefits in terms of margin progression. So, even though Funding the Journey as a programme will close, Funding the Journey as a mentality, a way of living and as a focus will definitely continue.

In terms of CapEx versus depreciation, you're right that there is a regional sort of difference and that will probably continue. What we can say is that what we have done over the last few years in terms of CapEx is not to underinvest, definitely not but we have implemented a strict discipline on where we allocate our CapEx and that is what you see come through now. That it also follows our priorities and our sale priorities.

Mitch Collett
Analyst, Goldman Sachs International
Got it. And one unrelated follow-up which is just a clarification. The guidance you've given for finance costs in 2019, I assume that's post the impact of your buyback.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
That is including the impact of our buyback. Yes.

Mitch Collett
Analyst, Goldman Sachs International
Okay. Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you. Next.

Operator: The next question comes from the line of Hans Gregersen from Nordea. Please go ahead.

Hans Gregersen
Analyst, Nordea Bank Abp
Good morning. First question on Russia. We've seen during 2017 and 2018 there has been quite hefty promotional activity level from one of your competitors. Have you seen any sign of that easening here in the beginning of 2019 or would you still need further time to – before we can make a call on that? That's the first question.

Second question a little bit of accounting. When you made the big investments in your IT supply chain systems, you had a significant investment that would undergo depreciation charges. Are they coming to an end? And how should we assume depreciation continuing going forward?

Thirdly, on the UK, can you give an update on when we should expect the negative revenue trend to stabilize?

And then, finally, just one quick accounting question. If you look on the estimates and assumptions you are applying into the accounting principles, are there any changes in the 2018 accounts versus the 2017 accounts? Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Hans, and good morning. With regard to Russia and there were – let's say, the investments of our competitor, main competitor if you like, there was a World Cup and our main competitor was the sponsor of that. So you can imagine that there was extra support money. We have not seen it in our market shares. Our market shares did not really suffer from that. So in that respect, we answered that challenge well.

It's a sizable number two player. But we don't know yet how they really will behave in the market and whether they will continue with this kind of high-level promotions. We don't think that because after the World Cup, we saw a reduced level of promotions. But, of course, other activities.

And Heine, over to you.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah. Good morning, Hans. You're right that we have reduced our depreciation over the last years. And you're also right that a part of that come from lower depreciation relating to the investments we made a few years ago into our setup in Western Europe – what we call the BSP1 structure. For 2018, you can – 2019, sorry, you can expect depreciation of around DKK 4 billion.

Then if I take the last one on accounting…

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
The UK...

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Okay.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Yeah. With regard to the UK, you're right, that if you look across all markets globally, the UK business is probably where we are most disappointed of performance and we are focused on improving the profitability.

the market share loss is mainly driven by a decline in mainstream segment as consumers are trading up and we overindex as you know in the mainstream. The Carlsberg brand continues to lose share and we have our re-launch announced more or less as we speak. And then, in 2018 we saw a further decline of our net revenue because of the planned loss of the porterage business. So in total, we have good plans for the UK. It's a difficult market and it's for us very important that the re-launch of Carlsberg will be successful.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
And now the accounting.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
And now the accounting.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Hans, you had a question about accounting changes from 2017 into 2018. So, there are two changes. They're described in detail. It's relating to IFRS 15...

Hans Gregersen
Analyst, Nordea Bank Abp
Heine, sorry. The question was...

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah.

Hans Gregersen
Analyst, Nordea Bank Abp
...when you prepare the account you as a management make assumptions and estimates going into the accounting principles. That was what I was asking about if there's any changes in those in 2018 versus the 2017s?

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Hans, no, I can tell you that that is not the case. We apply the same logic and rationale behind our estimates in 2018 as we did in 2017.

Hans Gregersen
Analyst, Nordea Bank Abp
Thank you.

Operator: And the next question comes from the line of Søren Samsøe from SBE. Please go ahead this morning.

Søren Samsøe
Analyst, SEB Enskilda (Denmark)
Yes. Good morning. First question on your margin profitability. Given your higher top line, you would expect a higher underlying least productivity and maybe margins, but I understand why your EBIT margin is down, given your higher marketing costs, et cetera. But why is your gross margin down? If you could give some flavor and details to this in the second half, sorry, I mean…

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah. So, hi, Søren. So you're right. Revenue is strong and also our profit is strong and we also have a good progress on our overall group margin of 30 basis points. So we're very satisfied with that. If you look into the second half in particular, there are some one-offs – or specificities – and some of them hit OpEx and it is relating to acceleration of SAIL'22 investments. And then in particular, in Eastern Europe, we – in the second half and you can see that in the numbers as well, we were hit by negative FX and we were hit by higher commodities, in particular packaging.

Søren Samsøe
Analyst, SEB Enskilda (Denmark)
Okay. And then, the higher OpEx level you're applying for the second half versus sales, is that also a similar OpEx level you have assumed behind your 2019 guidance?

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
When we look at our 2019 guidance, we take out seasonality within the year and we look at the full year. So what you can expect is that the baseline for 2019 in terms of OpEx is full year 2018.

Søren Samsøe
Analyst, SEB Enskilda (Denmark)
Okay. So we should expect that these sort of higher investment levels that you've seen in second half that you will continue to invest at that level for the full year 2019? Is that what you're saying?

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
No. You can't really say that. What you can expect is that the full year effect – so you should look at the full-year OpEx for 2018 – and compare that to our assumptions for 2019. In 2018, for many, many reasons, we skewed, in particular, our SAIL'22 investments towards the second part of the year. This year, we're starting our SAIL'22 investments up earlier in the year. So we expect to invest more in SAIL'22 in first half versus second half in comparison with 2018.

Søren Samsøe
Analyst, SEB Enskilda (Denmark)
Okay. That's helpful. And then, on Asia you had 14% growth in Q4 organic. Of course, I understand there are some easy comparables especially in India. But could you give us the growth in China, in India, and the rest of Asia in Q4?

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Well, we will come back on that. I don't have that one on hand now. Peter will give you a call.

Søren Samsøe
Analyst, SEB Enskilda (Denmark)
Thank you. And then, final question on your free cash flow, it seems to be rather flattish for the year. Maybe you could give us some flavor of what is your ambition going forward to 2022 in terms of your development of your free cash flow. Thank you.

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

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah. So when you look into the free cash flow, you have to take into account that we have invested quite dramatically in the second half of the year, in particular in Cambrew and in Super Bock. If you look at the operating cash flow, it's actually quite strong and slightly up versus last year. Going forward, we will maintain the strict discipline we have on cash and that goes for both trade working capital and it goes as well for CapEx.

For 2019, you can expect working capital of around zero depending on the country mix. CapEx of around DKK 4.5 billion as said and tax and interest in the cash flow statement assume they consume around DKK 2.5-3 billion.

So cash is a way of living in Carlsberg. It will remain a way of living for 2019 and also going forward. And we don't comment specifically on numbers, you know that, beyond 2019.

Søren Samsøe
Analyst, SEB Enskilda (Denmark)
Okay. Thank you. It was just more sort of your thoughts and ambition. So, thank you for that.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Thank you.

Operator: And the next question comes from the line of Andrea Pistacchi from Deutsche Bank. Please go ahead.

Andrea Pistacchi
Analyst, Deutsche Bank AG
Yeah. Good morning. I have three questions, please. First one on Europe, you had a strong Q4, I think, about 6.5% organic sales growth. Now, Q2 and Q3 had been very strong in Europe. But then you had some one-off benefits from the weather. My understanding is that Q4 is a sort of clean quarter with no specific one-offs, and obviously, 6.5% growth is a lot better than you were delivering a couple of years ago. So could you just comment on that whether there were any maybe factors helping Q4 or not?

Secondly, on Russia, you talked a bit about the pricing environment still maybe uncertain, but you sound cautiously optimistic. How would you – what do you think about the market in Russia in 2019, given no World Cup and comps?

And then, finally, just a question on the buyback. I understand the rationale of splitting the buyback into two tranches of DKK 2.5 billion and DKK 2 billion. Is that because you generate typically more cash in H1 and whether theoretically it would be possible, for example, to seek approval from the Board at the half year potentially to raise the buyback should you be comfortable with the cash you're generating?

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you and good morning, Andrea. With regard to Europe, no specific factors for Q4. The Nordics were up. ELUD [Export, License and Urban Development] had a good quarter, France had a good quarter, the Balkans had a good quarter. We see the revenues of DraughtMaster growing. So it was just a good quarter. We were satisfied with that. Q4 2017 was not the strongest. So in that respect, it was a good and forecasted strong quarter.

Then with regard to Russia, as you know, the market declined by 4% to 5% in 2017 and then in 2018, it grew by an estimated 3%. And we think that is due to good weather in June and World Cup in Q3. And we plan for flattish market with a slight negative bias. We remain cautious on the Russian market and don't want to make too precise predictions. So let's say, the market is around flattish.

Then over to you, Heine.

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yes. Hi, Andrea. So on buyback split in two tranches, you're right. The intention definitely is to initiate also the second tranche following our first half[-year] announcement in August this year. The reason to split the buyback in two is basically to give us more flexibility to adjust for potential M&As and overall business needs. Can the second half tranche of DKK 2 billion increase? Yes, it can but it is not the plan. The plan is the DKK 2 billion.

Andrea Pistacchi
Analyst, Deutsche Bank AG
Okay. Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you.

Operator: And the next question comes from the line of Richard Withagen from Kepler Cheuvreux. Please go ahead.

Richard Withagen
Analyst, Kepler Cheuvreux SA (Netherlands)
Yes. Good morning, all. Two questions, please. First of all, on the marketing spending, perhaps, can you give some background on how marketing spending has changed as part of Funding the Journey? And have you developed any internal tools to improve the marketing function? And also, how will marketing spending develop in the future? Will it continue to go up?

Second question is on the regional priorities. Heine, you mentioned it briefly, but especially on Western Europe, will there be more focus on top line growth and less on margins than in 2018? And probably related to that, will it be specialty beers, craft, alcohol-free beers, will that be the main focus of generating top line growth in Western Europe?

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Good. You take the second and I'll take the first, Heine. So with regard to the first one the marketing expenditure. Well, we have strengthened our marketing team or better to say the commercial team, group commercial has seen quite a lot of changes over the last three years. It's based on the activities we wanted to develop for the SAIL'22 rollout. And they have prepared the programmes on craft & speciaity and alcohol-free beer but as well on the local power brands because we see a lot of commonalities between these brands.

And, of course, the international power brands we have as well supported quite well. So we have, first of all, strengthened our group commercial, then based on our strategy, we allocate the resources across the markets and we do that on the basis of investment cases. And we see this, for example, coming back now in a strong growth of craft & specialties. You saw more than 30% in Western Europe on alcohol-free beer, the big cities, the DraughtMaster. And what we see is that allocations based on business cases are now giving the returns.

The way forward is that we continue to see that we want, of course, to invest in the markets. The P&L needs to be balanced. But for next year, we have, as well, an increase versus – well, more or less the same kind of level of investments like this year. And 2018, as you know, was already an increase of DKK 700 million. We see good returns as we continue with investing in our brands.

Heine?

Heine Dalsgaard
Chief Financial Officer, Carlsberg A/S
Yeah. Hi, Richard. And then to your question on the priorities for Western Europe, there is no change in our priority for Western Europe. The journey basically continues that started a few years ago. There will be strong focus on margin progression in Western Europe also going forward. Western Europe will be a significant part of the group's continued margin progression journey.

In terms of Western Europe, focus will continue both on top line and bottom line. On bottom line specifically, the cost discipline that we've had in Western Europe over the last years will continue also going forward. And then, you will see that the SAIL'22 or the top line sort of focus we've had in particular in 2018 will continue also in the years to come. So both top line focus and cost discipline will make us continue the margin progression journey looking ahead, and that's the same as we've seen in 2018.

In terms of the SAIL'22 priorities where is it that we are investing our money in Western Europe. It is, you're right, in craft & speciality. It is also in alcohol-free. We see a significant increase in alcohol-free across Western Europe, and we're putting a lot of money behind that also going forward. Then it is DroughtMaster, as you know, being rolled out now in a lot of European markets and the journey will continue. And then, it is our local power brands.

Richard Withagen
Analyst, Kepler Cheuvreux SA (Netherlands)
All right. Very good. Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Richard.

Operator: And the next question comes from the line of Trevor Stirling, Bernstein. Please go ahead.

Trevor Stirling
Analyst, Sanford C. Bernstein Ltd.
Good morning, Cees and Heine. So a lot of my questions have been answered already. But two quick ones, please. The first one relating to Eastern Europe, regional price mix was 6%, but Russia was only 2%. So does it imply that Ukrainian price mix is very strong? And if that so, could you maybe just give the split between price and mix in the Ukraine?

And the second question, I guess, the eternal discussions around Habeco. Do you have any update on Habeco negotiations case?

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Trevor and good morning. Yes, you're right. In Eastern Europe, we have mainly the Ukraine that is driving the top line, if you like. Just looking at the main figures now. In Ukraine, we made 5.1% of volume and 25.2% value. So that's the real driver. I don't have the difference between the mix and price, but I know that the majority is price.

With regards to Habeco, no real update. We continue our conversations. It's as we said that the Vietnamese government would like to finish the prioritization project by the end of 2020 and Habeco is part of that. And that's, of course, what we take into consideration with regard to our planning.

Trevor Stirling
Analyst, Sanford C. Bernstein Ltd.
Thank you very much.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you, Trevor. Can I have the last question please?

Operator: And the last question comes from line of Fernando Ferreira from Bank of America Merrill Lynch. Please go ahead.

Fernando Ferreira
Analyst, Bank of America Merrill Lynch

Morning Cees and Heine. Thanks for the questions. I have three please. First one is still on marketing. Despite the strong growth we saw, there still appear to be a bit below some of your peers in terms of a percentage of revenues. So just wondering if you have a target level in your mind going forward for what's the appropriate level of marketing investments in your business.

Second question, if you can comment on how relevant are the alcohol-free beers and craft & specialty as a percentage of group revenues today. And lastly, there is a Bloomberg headlines saying that in China, the year started well for Carlsberg. So if you can please discuss the expectations for 2019 in China please, given the strong year you had last year. Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you. With regard to the marketing investment basically, we don't look so much on a percentage, we look at what the market needs and on the strength of our plans, but – well because of the Funding the Journey, we had the money to invest in these markets and these plans.

With regards to the share of craft & specialties and alcohol-free brews in our markets, it's 7% volume and 13% revenue in total. So it becomes to be a real significant part of our total portfolio. And the third question was, Fernando, sorry I lost that one.

Fernando Ferreira
Analyst, Bank of America Merrill Lynch
Oh, sure. China, expectations for 2019, there's a headline of the year started well, yeah.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Yeah. That's it that was the headline the year started well. It's only February now, that is more or less as we speak [new year] in China and it's very important for us, of course, to have the trade loading before that period starts and we were satisfied – very satisfied with that part, but as you know, the year is still long, but this is always good to have a good start.

Fernando Ferreira
Analyst, Bank of America Merrill Lynch
Right. Thank you.

Cees 't Hart
Chief Executive Officer, Carlsberg A/S
Thank you. This does brings us to the end of the call and thank you for listening in and thank you for your questions. We are looking forward to meeting some of you during the coming days or weeks. Have a nice day. Thank you.

Operator: This now concludes our conference call. Thank you all for attending, you may now disconnect your lines.