Carlsberg A/S

H1 2021 Financial Statement

Conference Call

18 August 2021

with:

CEO Cees 't Hart and
CFO Heine Dalsgaard

PARTICIPANTS

Corporate Participants

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Heine Dalsgard – Chief Financial Officer, Carlsberg A/S

Other Participants

Trevor Stirling – Analyst, Sanford C. Bernstein
Søren Samsøe – Analyst, SEB Enskilda (Denmark)
Richard Withagen – Analyst, Kepler Cheuvreux SA (Netherlands)
Laurence Whyatt – Analyst, Barclays Investment Bank
Tristan van Strien – Analyst, Redburn Partners
Olivier Nicolai – Analyst, Goldman Sachs International
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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Carlsberg’s H1 2021 Financial Statement. For the first part of this call, all participants are in a listen-only mode. Afterwards, there will be a question-and-answer session. [Operator Instructions] This conference call is being recorded. Cees ’t Hart

I will now hand it over to the speakers. Please begin.

Cees ’t Hart, CEO

Good morning, everybody, and welcome to Carlsberg’s H1 2021 conference call. I am Cees ’t Hart and I have with me CFO, Heine Dalsgaard; and Vice President of Investor Relations, Peter Kondrup. The world is still dealing with the challenges of COVID-19 and I hope that you and your families are safe and well. Let me begin by summarizing the headlines for H1.

The Group delivered a strong set of results and, overall, like-for-like numbers were ahead of 2019, underpinning the relevance of our strategic priorities and the long-term health of our business. COVID-19 continues to impact our business and while we see recovery in some markets, other markets are still heavily impacted. Therefore, uncertainty for the remainder of the year persists.

Finally, we are satisfied that the good results for H1 and the start of Q3 have enabled us to upgrade our earnings guidance and launch the third quarterly share buyback program. I will now go through the key headlines for the first half year and the commercial and the regional highlights, and after that Heine will take you through the financials and the new outlook for 2021.

Please turn to slide 3. The Group delivered a strong set of results in H1. Total volumes were up organically by 10% and revenue by 9.6%. Albeit these numbers were helped by easy comps especially in Q2, we are pleased that the business delivered approximately 2% organic volume growth compared with the pre-COVID level in H1 2019.

Revenue per hectoliter improved sequentially during the half year, and for Q2 it was plus 5%. The improvement was supported by channel mix, following the gradual reopening of on-trade, particularly in Western Europe, and product mix. All regions contributed to the organic operating profit growth of 15.6%. The operating margin was up by 10 basis points to 16.1%. Free cash flow was strong at DKK 5.3 billion, supported by the higher EBITDA, a positive impact from working capital, and lower operational investments. So far this year, the group has returned to DKK 4.9 billion in cash to shareholders through dividends and share buybacks. Heine will go into more details on the financials in a few slides.

Please go to slide 4 and some strategic highlights. We are pleased with the progress of the SAIL'22 priorities so far this year. Our core beer volumes grew by 8%. Particular brands to highlight includes Tuborg, Wusu in China, Huda in Vietnam, Mythos in Greece, and Baltika in Russia.

We are driving the digital agenda across the Group. We saw very good growth for our online platform, Carl's Shop, with the number of active customers being up by 25%. The platform is currently available in eight markets and we expect this number to increase to ten by year-end. We are also encouraged by the value growth generated by Carl's Shop, with revenue per hectoliter being up 5% in H1.

Online sales to consumers primarily takes place on various third-party platforms, including e-retailing and online-to-offline (O2O). In total, our eCommerce revenue increased by 30%. In China, which by far is the most advanced online market, O2O revenue was up by 130%. Our strong online presence in China and its continued growth has led to our online market share being well above our average national market share, the latter being around 8%.

Slide 5, please, and our growth priorities which all posted very strong results for the half year. Craft & speciality grew by 21%, particularly driven by 1664 Blanc and Somersby and supported by the reopening of the on-trade in many markets. In Q2, the growth was even stronger at 27%. Alcohol-free brews grew by 26% for both the half year and Q2, even following a very strong 2020. We achieved double-digit growth in all three regions, although the category remains very small in Asia.

In Asia, we achieved strong organic revenue and operating profit growth. Notwithstanding the importance of China for the strong growth numbers, almost all markets made meaningful contributions to both top- and bottom-line, albeit supported by easy comps last year.

Slide 6 please, and a few words on our organisational health and sustainability agenda. Just before the summer, we got the results from our employee survey, which is conducted every other year. Given the significant challenges for all our employees during the past year, we were very pleased that the results were largely on par with 2019 and that the participation rate was very high at 92%, slightly ahead of 2019.

The overall employee engagement score was strong at 82%, which is in the top quartile. The good results show that the many initiatives we took during 2020 to support and take care of our employees, to empower them further and assure good communication resonated well with colleagues across the Group.

We continues to make progress towards our sustainability targets. Our Together Towards ZERO program is part of SAIL'22 and we have ambitious targets for carbon, water, health and safety, and responsible drinking. Zooming in on carbon, a few examples from the half year included our Finnish brewery becoming the eight carbon-neutral brewery in the Group. In Sweden, our supplier switched to biogas trucks for the distance not covered by electrified train, thereby making our long-distance transport route fossil-free. In May, we officially inaugurated the new total water recycling plant at our brewery in Denmark. The plant will recycle 90% of the process water, making the Fredericia brewery the most water-efficient brewery in the world.

And now to a review of the regions, please go to slide 7 and Western Europe. After a very challenging Q1, restrictions were gradually lifted in many markets from mid-Q2, leading to a gradual recovery of the on-trade channel. The weather in Q2 was bad across the region in April and May, but improved considerably in June. In June, we also saw a positive benefit from consumers celebrating the reopening of on-trade, which coincided with the European Football Championship. Total volumes grew organically by 1.1%, with significantly improved dynamics in Q2. Including acquisitions, the volume growth was 7.7% for H1.

Consumers' return to the on-trade also led to a considerable improvement in channel and brand mix during Q2, and revenue per hectoliter was up 6% for the quarter. Organic revenue growth was 12.5%, while it was more muted for the half year due to the challenging start to the year. However, even though on-trade volumes were up by almost 80% in Q2, they were still only at index 60% versus 2019. Profitability strengthened gradually during the half year despite a significant increase in marketing investments, particularly in Q2. Operating profit grew organically by 1.2%.

Excluding acquisitions, the operating margin improved by approximately 10 basis points, while the reported operating margin declined by 110 basis points due to the dilutive effect of last year's acquisitions, especially the Marston's brewing business as the UK business is heavily on-trade skewed and therefore was lossmaking the beginning of the year.

Slide 8 and a few additional comments on Western Europe. In the Nordics, we gained or kept market share in all markets but Finland where our market share was impacted by less promotional volume. Norway continued to benefit from the cross-border to Sweden, and in Denmark the reopening of the Danish-German border contributed to the strengthening of our market share. In Norway, very strong off-trade volumes offset the decline in on-trade but impacted price/mix. The strong momentum of our Pepsi franchise in Norway and Sweden continued, particularly in Q2.

In Poland, the volume and value growth were driven by our alcohol-free brews, Carlsberg, Somersby, and local brands such as Zatecky and Kasztelan. Somersby has been particularly successful in Poland, which is the brand's largest market.

Our Swiss business is heavily on-trade exposed. Even though our off-trade business continued to perform well with good progress of craft & speciality and alcohol-free brews, total volumes declined due to restrictions.

In France, we saw a gradual improvement during Q2 as the off-trade started to reopen. Q2 volumes were up by high teens.

In the UK, the key focus so far this year has been the integration of Marston's brewing business, and that is progressing well. The business recovered strongly during Q2 when the restrictions were relaxed, and volumes grew by double-digit.

Please turn to slide 10 and Asia where the market development varied significantly. Our Chinese business performed very well, but all other markets to various degrees were challenged by government-imposed restrictions. Total volumes grew strongly by 19.7%, with China being the key driver. Mainly due to last year's easy comparables, almost all other markets also grew volumes in H1. Total volumes grew organically by 5% compared to H1 2019. The region delivered strong organic revenue growth, thanks to the volume growth and an increase in revenue per hectoliter of 4%.

Revenue per hectoliter accelerated in Q2 due to a positive brand mix and, in some markets, channel mix. Organic operating profit grew strongly by 29%. The operating margin increased by 80 basis points to 25.8%, driven by positive operational leverage, the improvement in revenue per hectoliter and the ongoing tight cost control.

Slide 10 and a few market-specific comments. Our Chinese market share strengthened further. Our volumes were up by 23%. It also delivered strong growth versus the 2019 pre-pandemic level. We saw good progress for all our key priorities in China, including very good growth on our international premium portfolio, continued expanded distribution of the Wusu brand, and big city growth. Revenue per hectoliter improved by mid-single-digit percentages. Mainly due to easy comparable numbers, as restrictions were generally much tighter in 2020, our Asian volumes outside China grew by 15% in H1.

In India, our business had another very volatile year with frequent changes in restrictions. Our volumes grew strongly by 40%, mainly due to last year's extensive lockdown during Q2. The growth was led by Tuborg and Carlsberg Smooth Draught.

In Laos, we had a good start to the year, but the situation became increasingly challenging during Q2 due to a prolonged lockdown.

Volumes in Vietnam grew by mid-teens. The country saw a surge in infection rates and the reintroduction of strict lockdown measures, but during H1, our stronghold in Central Vietnam was less impacted by these restrictions.

In Cambodia, volume growth was in the mid-teens due to a strong performance of the CSD and energy drinks business.

In Malaysia, our business remains impacted by extensive lockdowns, which included the closure of our brewery for an extended period during the summer. We were able to reopen the brewery a few days ago.

Slide 11 and our Central & Eastern European business that delivered a solid performance with organic volume growth of 8.7%. The non-beer business did particularly well with 27% volume growth, not least due to our energy drink, Flash Up, in several Eastern European markets. Compared to 2019, total volumes grew by 5%. Revenue grew by 8.6%. Revenue per hectoliter for the half year was flat, but improved considerably in Q2 to plus 4%, following four quarters with a negative development.

The improved trend was driven by a positive product mix and improved channel mix in South-East Europe, and the fact that we, in Q2, were lapping our higher level of promotions in Russia that were introduced in late Q1 2020. Operating profit grew by 2.7%. Tight across discipline led to a reduction in SG&A costs, but operating profit was impacted by the transactional impact on input costs in Russia and Ukraine after last year's currency depreciation as well as higher logistic costs in some markets.

Slide 12, please. Our Russian volumes were at mid-single digit. We saw a significant improvement in revenue per hectoliter in Q2. Due to a positive product mix, with good growth of 1664 Blanc, Somersby, Tuborg, and Flash Up, price increases, and the more like-for-like comparables. The competitive environment remained tough during the half year.

In Ukraine, our volumes grew slightly in a flat market. Revenue per hectoliter improved, thanks to a positive product mix from Garage, Baltika, and Carlsberg, and price increases.

In South-East Europe, most markets had a tough start to the year, but improved from around March, mainly due to the easy comparables as lockdowns were more severe last year. In Italy, Greece, Croatia, and Serbia, volumes grew by double-digit percentages and revenue per hectoliter improved, especially in Q2 due to a positive channel mix. In Bulgaria, recent years' very positive trajectory continued.

In our Export & License business, volumes grew by more than 20% helped by the reopening in some of the key markets. Key drivers were markets such as South Korea, Australia, Turkey, and Romania.

And with that, I will hand over to Heine who will take you through the financials and outlook.

Heine Dalsgaard, CFO

Thank you, Cees, and good morning, everyone. Please turn to slide 13 and the P&L highlights for the first half year.

Revenue grew organically by 9.6% driven by the solid volume growth in Asia and Central and Eastern Europe. For the half year, revenue per hectoliter was flat, but we saw a significant improvement in Q2, when on-trade restrictions were gradually lifted. This also contributed to the positive product mix. The reported growth was 9.9% as the acquisition impact from Marston's and Wernesgrüner was almost offset by currencies mainly from Russia, Ukraine, and Laos.

Gross profit increased by 8.9% organically and 7.4% in reported terms. COGS per hectoliter was flat supported by country mix and fixed cost absorption from the volume growth. The reported gross margin was 47.5%, impacted by acquisitions which had a lower gross margin than the Group average. In organic terms, the gross margin was 48.3%.

We maintained our strict cost focus. And hence, as a percentage of revenue, reported operating expenses were down by 90 basis points despite a significant increase on marketing investments, in particular in Q2. As markets gradually opened, we increased our marketing investments. And in first half, marketing investments were up organically by more than 20% to now 7.8% of revenue. Excluding marketing, the decline in operating expenses, as a percentage of revenue, was 160 basis points.

Reported operating profit amounted to DKK 5.1 billion, which was on par with the first half of 2019 despite currency headwinds in both 2020 and 2021, and also this year's operating loss from acquisitions. Versus first half 2020, the organic growth was 15.6%, while in reported terms growth was 10.7%. Currency accounted for minus 4.4% with the most significant adverse impact coming from China, Laos, Russia, and Ukraine. The operating margin improved by 10 basis points to 16.1% compared to 2020.

Net profit benefited from the higher operating profit and also lower tax rate of now 24.8% versus 26% last year. Net special items were minus DKK 176 million. There was a positive contribution from reversal of provisions made in purchase price allocations in previous years, which was offset by impairment charges, contingent considerations related to the acquisition of Marston's brewing activities and also restructuring charges.

Net financial expenses were DKK 261 million compared with DKK 199 million last year. Excluding FX, net financials were up by DKK 8 million to DKK 271 million, impacted by higher funding costs. Adjusted net profit was DKK 3.2 billion, which was an increase of 10.3% on 2020. Adjusted earnings per share were up by 12.3% supported as well by the share buybacks.

We are very pleased that earnings and returns in first half were well ahead of pre-pandemic levels of first-half 2019. Organic operating profit was 3% ahead of 2019. Reported operating margin was plus 40 basis points and adjusted net profit was 10% better than 2019. ROIC also strengthened by 100 basis points versus 2019.

Please go to slide 14 and some comments on cash flow and net interest-bearing debt. Operating cash flow increased by DKK 1.6 billion as a result of the higher earnings and the positive contribution from total working capital of DKK 1.1 billion. Trade working capital was impacted by the higher activity level and supported by country mix including the strong growth in China.

Looking at the ratio of average trade working capital to revenue, this continued to improve and is now minus 18.7%, which is of course is something that we're very satisfied with since cash remains a key priority for us.

Somewhat counterintuitive, especially as we've talked about increasing CapEx, operational investments declined in the first half. This was however due to the acquisition of the Brooklyn brand rights in 2020. CapEx excluding Brooklyn was up by DKK 260 million.

Free cash flow amounted to DKK 5.3 billion, an increase of DKK 2.1 billion versus last year. The strong free cash flow more than offset the DKK 4.5 billion cash returns to shareholders. And consequently, net interest-bearing debt declined by DKK 0.5 billion to DKK 20.8 billion.

Slide 15, please, and a follow-up on the progress of our capital allocation priorities. Continuous investments in our business to secure long-term growth is our first priority. We scaled down our marketing investment last year due to the pandemic but scaled up investment this year, albeit skewed towards Q2 due to the continued lockdowns and restrictions in many markets.

In Q2, marketing investments were up organically by almost 40%. As a percentage of revenue, they were 8.5% in Q2, which was an increase of 130 basis points versus last year. The solid rebound of the Group to 2019 levels for organic volume and also profit numbers and the strong progress for our growth priorities serve as proof points for the quality of our investments.

Our second priority of maintaining a strong balance sheet was achieved again. And at 1.43 times, our leverage ratio remained well below our target of below 2 times.

Our third priority of an adjusted dividend payout of around 50% was delivered again in March when we paid a dividend of DKK 3.2 billion, equal to 50% of the adjusted net profit in 2020.

The fourth priority is to distribute excess cash to shareholders, which we're doing in the form of share buybacks. To maintain flexibility in a very volatile environment, we have this year chosen to carry out share buybacks as quarterly programs. Therefore, we so far carried out two share buyback programs, in total amounting DKK 1.75 billion.

Today, we are then launching the third quarterly program, amounting to another DKK 1 billion. Adding the dividends and the share buyback, we have year-to-date returned DKK 4.9 billion to our shareholders. Since we started the share buybacks in February 2019, we have bought back 9.4 million shares or around 6% of the outstanding number of shares at that time. The average purchase price has been around DKK 927.

Our fifth priority is value-enhancing acquisitions. Last year, we acquired Marston's brewing business in the UK and the Brooklyn brand rights in our markets. And on January 1 this year, we completed the acquisition of Wernesgrüner in Germany.

And now, please turn to slide 16 and the outlook for the year. As a result of the good first half and the good start to Q3, we are upgrading the full-year guidance for organic operating profit growth to 8% to 11% from previous 5% to 10%. However, the impact of the pandemic is certainly not yet behind us and the market uncertainty and volatility remain high.

For the three regions, the full-year outlook is based on the following expectations for second half:
For Western Europe, the on-trade channel recovery will continue, and as a result of positive revenue per hectoliter development will also continue. While we have easy comps for Q4 due to extensive lockdowns in 2020, Q3 comparables are more challenging due to last year's very good weather, although we did have a good start to the quarter.

In Asia, the situation is uncertain in a number of markets such as Laos, Vietnam, Cambodia, India, and also Malaysia due to the low level of vaccinations. The positive trajectory in China continued in July, but the increase in infections and lockdowns in recent weeks bring some uncertainty for the remainder of the year.

In Central & Eastern Europe, the competitive environment remains fierce in most Eastern European markets. In addition, input costs are under pressure, mainly due to a negative transactional impact. And therefore, margins are expected to remain under pressure. In the southern part of the region, the situation will be more like Western Europe with a gradual recovery in on-trade and positive revenue per hectoliter.

Based on yesterday's spot rates, we assume a translation impact on operating profit of minus DKK 150 million. This is better than the last update and due to several currencies, including the Russian, Ukrainian, the Chinese, and the Laos currencies. Other assumptions previously communicated are unchanged. Net finance costs, excluding FX, are assumed to be around DKK 600 million, the effective tax rate around 25%, and CapEx between DKK 4 billion and DKK 4.5 billion.

The 15.6% organic growth in operating profit at the first half and the 8% to 11% outlook for the full year implicitly means that the growth in second half will be lower than in the first half. There are several reasons for this. Firstly, in several markets, we will have more difficult comps than in the first half. Secondly, the weather in Western Europe and Central & Eastern Europe was very good in Q3 last year. Thirdly, on the cost side, COGS will be slightly higher in second half due to an increase in commodities and, at the same time, we expect higher marketing investments in second half due to the reopening of the on-trade in many of our markets.

And now, back to you Cees.

Cees 't Hart, CEO

Thank you, Heine.

That was all for today. But before opening for Q&A, a few concluding remarks from my side.
The Group delivered a strong set of results and like-for-like numbers were overall ahead of 2019, underpinning the relevance of our strategic priorities and the long-term health of our business.
COVID-19 continues to impact our business. And while we see recovery in some markets, other markets are still heavily impacted. Therefore, uncertainty for the remainder of the year continues.
Finally, we are satisfied that a good results for H1 and the start to Q3 has enabled us to upgrade our earnings guidance and launch the third quarterly share buyback program.

And now, we are ready to take questions. Please observe that we, again this time, limit the number of questions to two per person to ensure that as many as possible get a chance to get through.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from the line of Trevor Stirling from Bernstein. Please go ahead, your line will now be unmuted.

<Q – Trevor Stirling – Sanford C. Bernstein>: Good morning, Cees and Heine, two questions on my side, please. The first one concerning Asian margin, the very strong margin performance in Asia even though China was very strong and China would normally be dilutive to margins. So, I wonder, Heine, maybe if you can give us a little bit of color on the strength of the Asian margins.

And then the second question around input costs next year. I know it's way too early to put a number on it, but we know it's going to be significant pressure. As things stand at the moment, do you think that the combination of price increases and the revenue per hectoliter from the on-trade recovery will be enough to offset that?

<A – Cees 't Hart>: Thank you, Trevor, and good morning. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Trevor. So, on your question on Asian margins, you are right that we used to be in a situation where the margins in China were dilutive to the region. That's not the case any longer. So, basically, across most of the markets in Asia, we see a very good and very strong performance. As said, overall, profit/EBIT is up with 29% and 80 basis points on margin, and that is across most of our markets. And China, as said, is not dilutive to the Asian margin.

On the input cost for next year, that is certainly something that we are focused on, and the headwind for 2022 will be significantly higher than what we've seen in 2021 on most of the inputs, including, in particular, aluminium, barley and paper and also oil related packaging materials. In some markets, by the way, as well on logistics.

As usual, we are following our financial policy and hedging during this year to be as hedged as possible by the end of the year when we do our budgeting and also when we do our customer negotiations. We're not commenting any further at this point in time on 2022. But we will come back to this in connection with our full-year guidance in February. It's the same with the pricing, Trevor. We are not commenting on the individual pricing, but we will aim at compensating, in absolute terms, the higher COGS through a higher revenue per hectoliter.

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

<A – Heine Dalsgaard – Carlsberg A/S>: Thank you.

Operator: Thank you. The next question comes from the line of Søren Samsøe from SEB. Please go ahead. Your line will now be unmuted.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Good morning, gents. Just one question from my side, which is in regards to your free cash flow. It seems quite strong in first half supported by both lower CapEx and lower working capital. If you could comment on what factors you see in the second half of the year that will have the biggest impact on CapEx and trade working capital, both positively and negatively. What could you see really impact this? Thank you.

<A – Cees 't Hart>: Thank you, Søren. Good morning. Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Søren. So, you're right, a good and strong cash flow in the first half. And we also see that continuing into second half. It is clear that trade working capital is positively impacted by country mix. And as we will see, hopefully, in the second half, other markets coming strongly back, there could be a negative country mix impact on the average trade working capital relative to turnover, but we don't expect it to be significant. So, trade working capital, overall, a strong first half, and we expect that to continue into the second half.

On CapEx, CapEx is a bit skewed towards second half. You can see we are closing the first half with around DKK 1.8 billion. And as you know, we're targeting DKK 4 billion to DKK 4.5 billion for the full year. So, a little bit more CapEx in second half versus first half.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: But on the CapEx, I mean, it's normally high in the second half as you indicate. But is there anything special this year that will – is there like a new factory you need to build or something that is particular or different this year?

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

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

Operator: Thank you. The next questions come from Richard Withagen from Kepler Cheuvreux. Please go ahead. Your line will now be unmuted.

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: Yes. Good morning, all, and thanks for the questions. I have two, please. Now, first of all, how much of China's growth is driven by the Wusu brand in the past two to three years? And what is the opportunity for the Wusu brand going forward?

And then the second question I have is also perhaps a bit related to the input cost inflation that you're seeing. I wanted to know specifically what kind of shortages do you see in labor or in sourcing any other raw materials?

<A – Cees 't Hart>: Thanks a lot, Richard, and good morning. With regards to Wusu, we don't give very specific, let's say, insight on the development of that over a couple of years. But, indeed, Wusu is strong, a very strong contributor to our growth in China. It's a very strong brand. It's inspired by the mountainous, windy, and rough terrain of the Silk Roads. And that is basically inspiring also Chinese in the very east. There's also an increase of appreciation of the Central Asian kitchen [food] in the mid and the eastern part of China. And that leads to a very strong growth of the Wusu brand. As it is spreading across China, we do believe that we can continue to grow this, what we call, local power brand.

With regards to your question on the input cost, Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. So, good morning, Richard. So, as you know, we are a local business and we typically source a lot of our inputs locally. Generally, we do not have major problems sourcing raw materials and packaging materials. However, there are two exceptions to that. One is cans and due to the growth of the off-trade consumers, on top of that, consumers' increasing demand for convenience, and the strong growth of cans in the US, we have seen a tight supply of cans across many of our markets. And to solve this, we are sourcing from other suppliers and other geographies than we did previously, and we are shifting into other packaging formats where possible. As the on-trade then recovers, we should see a lower demand for cans. So that's the one, you can say, exception.

The other exception is on transportation where, in some markets, we see a tight supply of transportation services like, for instance, in the UK where there seems to be a lack of truck drivers. So, overall, we don't have major problem sourcing, but we do see certain shortages within cans and transportation.

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: Great. Thanks, Cees. Thanks, Heine.

<A – Cees 't Hart>: Thank you, Richard.

Operator: Thank you. And the next question comes from Laurence Whyatt from Barclays. Please go ahead. Your line will now be unmuted.

<Q – Laurence Whyatt – Barclays Investment Bank>: Good morning, Cees and Heine. Thanks very much. Two questions for me. Firstly, the beginning of the year when you gave your guidance, you gave also your expectations on the restrictions particularly in Western Europe, expecting the on-trade channels to be largely reopened by the end of Q2 with the exception of the night channel and large events. I was wondering if you can give an update on that expectation in Western Europe, but also specifically in China for any expectations you have on restrictions there and the Southeast Asian region also.

And secondly, you managed to do a small price rise in Russia this year. You are now getting a bit of volume growth. I was just wondering what are your expectations for price increases in Russia over the next 6 months or 12 months. Thank you very much.

<A – Cees 't Hart>: Thank you, Laurence. Thank you for your questions. In regards to the impact of COVID-19 on our markets in Western Europe, generally, in all markets the on-trade channel is recovering as restrictions are being lifted. More or less, all markets are following the same development with a few weeks difference. And to your earlier point or to your question, indeed, the recovery started a bit later than we expected. So, April, May was very gradual so to say. The real openings started, especially, for example, in a big country like France, only by June. And then we have the nice combination with the football and the nice weather.

With regards to Asia, the situation is a bit different. In China, you have seen some small infection rates, and the local governments are very, very fast in mitigating this. And so far, we see no impact in our daily sales rate. And they talk about 30 cases a day which for a country as China is extremely low.

In other countries of Asia, it's more concerning especially because the vaccination rate is very low, in some cases even below the 10%. So, what we see in Laos, for example, is the lockdown of on-trade and we see travel restrictions. In Cambodia there's alcohol ban. In India, it is a bit better. The infection rates are in decline and there we see the off-trade more or less open to 90%, 95% and 70% in on-trade. Vietnam is severely hit by COVID. Restrictions in many provinces and major cities really reduce the sales of beer. Nepal, the restrictions eased. In Malaysia, it was very strict in terms of lockdowns. The brewery was suspended from the 1st of June but reopened just over the weekend. So, there we see some small light. So, this gives you a bit of a feel.

In general, Western Europe, moving to a full recovery. Asia, China well, but the rest of Asia still in a recovery mode. Eastern Europe, as we said earlier, no big, let's say, closures. There the on-trade is relatively small, and, hence, the impact on our business, from a channel point of view, is not that big.

Then with regards to your question on pricing in Russia, well, what we see is the increase of the COGS. We will take a price after the season. And then, let's see what others will do. But we are keen to basically recover our margins that of course have been impacted by increased COGS materials.

I hope that satisfies your question, Laurence.

<Q – Laurence Whyatt – Barclays Investment Bank>: Super. Thank you very much.

<A – Cees 't Hart>: Thank you.

Operator: Thank you. The next questions comes from the line of Tristan van Strien from Redburn Partners. Please go ahead, your line will now be unmuted.

<Q – Tristan van Strien – Redburn Partners>: Good morning. Just two for me. One, just to follow-up on China, on Trevor's question earlier. Just how should we think about the margin in that particular market because I expect that some – a bit more investments? Will a lot of the marketing investment increase in H2?

And the second question, there's a lot of mention of energy drinks over the last few quarters. Can you just give me a view or just expand on your work in energy drinks? How important is that in your non-beer portfolio and why you're doing so well in this area?

<A – Cees 't Hart>: Good. Thank you, Tristan, and good morning. Heine, over to you with regards to the China margin.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning, Tristan. So, with respect to margins for China going forward, for good reason, this is not something we comment on. As you know, CBC is a listed company. And, in general, as we've said over the last few years, in China we are prioritizing growth over margin expansion, and at the same time of course also by doing that, over time, increasing our margins as well. And that's basically what we've done over the last few years, and that is what we will continue to do over the coming years.

So, we'll continue to invest in the top line growth. We will continue to invest into our international premium brands, in particular 1664 Blanc. We'll continue to invest in the local power brands, in particular there Wusu. We will continue to invest into the big city expansion. So, what we have done over the last few years in terms of fueling top line growth via investments will continue.

<A – Cees 't Hart>: Then with regards to your question on the energy drinks, that's very much in a positive development in Eastern Europe. We have a very strong brand, which is called Flash Up. We have that in several Eastern European markets. And that's a brand that served us well already over a couple of years. But the team, the regional team, and the local teams have decided to focus a bit more on it. And just behind this brand, we really see market share gain, but also momentum growth, so that the segment is, as such, becoming more interesting. We grew by 27% in the non-beer business, which did particularly well and obviously, we continue to use this momentum growth segment.

<Q – Tristan van Strien – Redburn Partners>: Just a quick follow-up on that one, Cees. So, right now, the energy drink is very much a local and regional initiatives. This is not a centrally-driven initiative at the moment or is there no need for that.

<A – Cees 't Hart>: Yes, it's very much regional. Some other – also outside Eastern Europe, some other countries have it in their portfolio and is doing well. But that's very, if you like, very local. It's not a regional or – sorry – it's not a global initiative. But we have also in Asia some markets where this segment of the market is doing well. We are well-positioned with strong brand or brands, and hence the huge opportunity.

<Q – Tristan van Strien – Redburn Partners>: Thank you very much.

<A – Cees 't Hart>: Thank you, Tristan.

Operator: Thank you. The next questions comes from the line of Olivier Nicolai from Goldman Sachs. Please go ahead, your line will now be unmuted.

<Q – Olivier Nicolai – Goldman Sachs International>: Hi. Good morning, everyone. Just two questions on my side. First, a follow-up on the – on Russia pricing, considering your Golden Triangle matrix, are you satisfied with your current market share in Russia if we see pricing going up? You mentioned margins earlier in the previous questions. I just was keen to hear your view on market share. And then on the Wusu brand in China, just could you give us a bit of an update on how much more upside from a geographic expansion perspective you see for the brand? Are you in all provinces or is there a lot of white space opportunity there? Thank you.

<A – Cees ’t Hart – Carlsberg A/S>: Thank you, Olivier, and good morning. With regards to the Golden Triangle in Russia, well, we’re not entirely satisfied with the balance of the Golden Triangle at this amount of time. I think what we did last year is correcting the decline of the market share and the team has significantly improved our position in Russia. We are now at a market share of, let’s say, between 27% and 28%, which we feel is more or less fine for us at this moment of time and, therefore, we start to repair the other parts of the Golden Triangle because the increase in market share came at the cost of margin.

So we’re now rebalancing this Golden Triangle and the assets of the Golden Triangle, that is, of course, this imbalance and therefore we take pricing. But we take pricing and will continue with the promotions up to the level that we are not going to lose significant share, because 27%, 28% of share is what we feel we need to stick to. We’re going to take another price increase after the season, as said. And, obviously, there, we’re going to, if you like, try the waters, whether a higher price is possible to still defend our share around the 27%, 28%.

With regards to the Wusu brand, as said earlier in this call, we see a substantial growth of Wusu brand. It is a brand originated in the West. It is travelling to the center and to the east. It is an attractive concept. The positioning is very clear. The abv level is a bit stronger and that’s very much – or higher, and that’s very much appreciated because of the stronger beer. We see many white spaces in big cities further in the Center and the Eastern part of China.

So, for us, as we see it, this is not at all the end of the story of the growth. With our focus, the marketing approach in promoting the brand via social media, we have in recent years been able to reach an aspirational target group of younger adult consumers effectively, and we can offer them a premium and best-tasting brew. So, we see ample opportunities to grow this brand further by recruiting more consumers.

<Q – Olivier Nicolai – Goldman Sachs International>: Thank you very much.

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

Operator: Thank you. The next question comes from the line of Fintan Ryan from JPMorgan. Please go ahead. Your line will now be unmuted.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Good morning, Cees, Heine and Peter. Thanks for the opportunity to ask some questions. Most of mine have been answered before, but, firstly, could you give some color in terms of the UK business, particularly the Marston’s integration now that the on-trade is more of substantially back to the market? Would you hope for that business to get back to a level of profitability for the second half of the year? And has anything changed in terms of your long-term thinking of that asset given the – sort of the shortage we’ve seen within transport and labor?

And then secondly, maybe you could give a bit more color on the growth within the alcohol-free segments, particularly the strong growth we’ve seen in Q2 – do you think that there’s still further to go in terms of penetration of the alcohol-free beers in most of your market, particularly in Western Europe, or as you – are you starting to see any sort of slowdown in terms of penetration? And then how do you think we should think about that type of growth rate going forward? Thank you.

<A – Cees ’t Hart – Carlsberg A/S>: Thank you, Fintan, and good morning. With regard to Marston’s, so we are on plan, so to say. Obviously, we needed to adjust our timing a bit with regards to everything that happened across the globe on C19 and [that] impacted, of course, severely the on-trade in the UK. What we see is that we are able to get towards the synergy levels that we concluded earlier, the around £23 million, £24 million. The integration is going well. There’s a strong local management that’s able to bring the two cultures together. And, of course, now after all the hiccups to COVID, we're very much focused on delivering our customers in the second half of the year.

So, no major deviations from plan, albeit of course that, especially with regard to the top line, we are a bit behind around this plan. On the other hand, we see some opportunities to catch up with regards to the synergies. And in that respect we are still very positive about the deal we made. The combination with Marston's – the management of Marston's helping us to become more competitive in the UK market.

With regards to alcohol-free, well, frankly, we think that we have only seen the beginning of this further development. More and more brands coming in the market. The brews are very good in terms of quality. Our own brews are very well-tested. Carlsberg 0.0% is now really exceptional in terms of the outcome – the test outcomes. And with that respect, we don't see any issue with regards to growing this segment further. As you know, in Spain, it's already there for years, more than 10, 15 years. The percentage of the alcohol-free market as a percentage of the total market is close to 15%. In most of our Western European markets, it's 4% or 5%, and that means we see ample opportunity for growth.

Our market shares are growing in Western Europe and CEE [Central & Eastern Europe]. We are, in most of our markets, the market leader, so we are strong in alcohol-free. We have strong brands, above the 50% in Western Europe and above the 70% in Central & Eastern Europe. We have now touched Asia by some test markets, Chongqing, for example, and also Carlsberg 0.0%. Small figures still but encouraging learnings also out of that. So, we are extremely positive about the further development of alcohol-free beer.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Thank you. It's very clear.

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

Operator: Thank you. The next question is from Nik Oliver from UBS. Please go ahead. Your line will now be unmuted.

<Q – Nik Oliver – UBS AG (London Branch)>: Hey. Good morning. Thank you for the question. One question on Western European margins. Is there any help you can give us on country mix? So, which regions are – or so which countries are tracking above the regional average and which are below just to help us with our modeling over the next 12 months given the varied pace of reopening across Europe? That'd be very helpful.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Nik. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. Good morning, Nik. No, it's not something we are breaking – we're breaking down in terms of the mix. It's clear, as we've discussed before, those markets where we have a leading position, in a well-consolidated market, that is the markets where we have the strongest margins, whereas markets like, in particular, UK this year, of course, hit in particular by the on-trade, but also a market like Germany are the ones that are sort of suffering the most from being – where we don't have number one or number two position and where the markets are not that consolidated.

So, it's the same picture as we've seen before. A big, strong, well-consolidated market where we have a number one or number two position, that is the market where we have the highest margin, and the opposite then in the other parts and those, in our case, in the new Western European region are in particular, UK and Germany.

<Q – Nik Oliver – UBS AG (London Branch)>: Cool. Perfect. And then just one follow-up, this time on India, similar question. Can you give us any sense on how much margins have come down from pre-COVID-19 to present? And I guess given the high fixed cost in that business, as volumes come back, I guess we hope the margins should recover quite quickly. But any color there would be helpful as well.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. No, that's absolutely right. India is a business with a high level of fixed costs and, hence, sort of even small swings in the top line has a very severe impact on the bottom line. And as you know, actually, first half last year, due to the significant drop in volumes, we were around zero in terms of profit. So with volumes up with around 40% in the first half this year, our margins are also quite well and quite good and coming back strong.

So the logic is that when volumes decline, our margins go down rapidly, and the opposite is the case when volumes are coming back, and that's what we've seen this year. So, a strong recovery on top line and the strong recovery of margins in India in 2021 first half.

<Q – Nik Oliver – UBS AG (London Branch)>: Perfect. Thanks so much, guys. That's really clear. Thank you.

<A – Heine Dalsgaard – Carlsberg A/S>: Thank you.

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

Operator: Thank you. The next question is from André Thormann from Danske Bank. Please go ahead. Your line will now be unmuted.

<Q – André Thormann – Danske Bank A/S>: Thanks a lot for taking my question. Just the first one, and it's just to be sure on this. Do you expect any significant negative impact from this input cost inflation that we have seen in H2, just to be sure? And then the second thing is, in terms of China, do you expect a continued strong development here in H2 or should we factor in some kind of slowdown due to the uncertainty that we're currently seeing? Thanks a lot, guys.

<A – Cees 't Hart – Carlsberg A/S>: Good morning, André. With regards to your margin question, it came through very, very thin in terms of sound. Did you get that, Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. So, good morning, André. I – it was a bit difficult to hear your first part of the question, but it – I'll try to answer what I thought we heard. So your question was around the negative impact from input costs. Yeah, and did I hear you particularly ask about 2021?

<Q – André Thormann – Danske Bank A/S>: Yes. I asked about the second half. Can you hear me better now?

<A – Cees 't Hart – Carlsberg A/S>: Yeah, yeah.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. It's better now, André, yes. Yeah, and we got that.

<Q – André Thormann – Danske Bank A/S>: So...

<A – Heine Dalsgaard – Carlsberg A/S>: So – sorry?

<Q – André Thormann – Danske Bank A/S>: Should I rephrase the question or did you catch it?

<A – Heine Dalsgaard – Carlsberg A/S>: No, it's fine. It's fine. We got it. It was just a bit difficult to hear. So for 2021 in COGS, as said, so we are – we're well hedged and we expect only a modest increase in COGS per hectoliter. The biggest impact that we see in 2021 is in some of the Central & Eastern European markets due to the negative transactional impact from last year's depreciations of the currencies, for instance, the Russian ruble. And the largest impact we have seen this year so far is on aluminium and on oil-related packaging materials.

For the second half, we expect as well a negative impact from barley due to the harvest, poor harvest season, but we are relatively well covered and well hedged for the remainder of the year. So, overall, for the second half, we feel that we are well hedged, we are well in control and feel comfortable.

<A – Cees ’t Hart – Carlsberg A/S>: With regards to your second question, André, about the volume growth in H2 in China, we can say that a positive trajectory in China continued in July, but the increase in infections and lockdowns – local lockdowns – in recent weeks bring some uncertainty for the remainder of the year. So, it’s difficult to really be precise on the outlook for H2. But we can see, of course, big swings so you cannot extrapolate H1 towards H2 because we had a significant recovery in Q1 versus Q1 2020. But as such, July was good, start of August was good, so we feel that we can continue our development, positive development in China. Can we have the last question now, please?

Operator: Certainly. The last question comes from Sanjeet Aujla from Credit Suisse. Please go ahead. Your line will now be unmuted.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Hey, Cees, and a couple for me, please. Firstly on Western Europe, just coming back to the on-trade recovery, I think and I heard you saying the on-trade is back to an index of 60% in Q2 versus 2019 levels. Can you just talk a little bit about how that’s trending into July and the early parts of August? Are we getting back to – in line with 2019 levels there? And in the same turn, can you just give us a feel for how the off-trade is trending versus 2019 levels in Q2 and into July and August for you? Thank you.

<A – Cees ’t Hart – Carlsberg A/S>: Hi, Sanjeet, and good morning. Thanks for your question. With regards to the Western European on-trade, indeed, we see a recovery that was slower, as I said earlier, slower in Q2 than we anticipated, in average, 60%. However, towards the end of Q2, so in June, it was already significantly better. And we really hope that for the remainder of the year, we become close to the 80%.

And with regards to the further development of the off-trade, of course, the off-trade significantly grew due to the closure of the on-trade. And we see, of course, that now the off-trade is not that much growing any more than in the last quarters; however, it still has a positive growth. So, in total, the off-trade for H1 2021 in Western Europe grew by 4%, so still positive versus – even versus last year.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Thanks very much.

Cees ’t Hart, CEO

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

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