Carlsberg A/S

H1 2022 Interim Financial

Statement Conference Call

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with:

CEO Cees 't Hart and
CFO Heine Dalsgaard

PARTICIPANTS

Corporate Participants

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Heine Dalsgaard – Chief Financial Officer, Carlsberg A/S

Other Participants

Andrea Pistacchi – Analyst, Bank of America
Laurence Whyatt – Analyst, Barclays Investment Bank
Trevor Stirling – Analyst, Sanford C. Bernstein
Nik Oliver – Analyst, UBS AG (London Branch)
Mitch Collett – Analyst, Deutsche Bank AG
Simon Hales – Analyst, Citigroup Global Markets Ltd.
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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Carlsberg’s H1 2022 Financial Statement. For the first part of this call, all participants are in a listen-only mode. Afterwards, there’ll be a question-and-answer session. [Operator Instructions] This conference call is being recorded.

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

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

Excellent. Good. Let me start. Good morning, everybody and welcome to Carlsberg’s H1 2022 conference call. I am Cees ‘t Hart, and I have with me CFO, Heine Dalsgaard; and Vice President of Investor Relations, Peter Kondrup.

Let me begin by summarizing the headlines for H1. It was a challenging half year due to the war in Ukraine, significantly rising input costs and COVID-19. Nevertheless, Carlsberg delivered a strong set of results and we are now significantly ahead of the pre-pandemic levels of H1 of 2019 on basically all parameters. Our Ukrainian colleagues have shown incredible strength and resilience, navigating both the humanitarian crisis and the enormous business challenges since the outbreak of the war, by which we have been able to reopen our breweries in Ukraine. We have announced our intention to dispose the business in Russia and the preparations to allow for this are progressing well. Despite continued challenges ahead of us, we are very satisfied that we are able to upgrade our full year earnings outlook last week – and thanks to strong cash generation, we have made DKK 5.4 billion cash returns to shareholders in H1 and we have launched another DKK 1 billion share buyback program this morning.

I will now go through the key headlines for the first half year, our new ESG program, which we are launching today, and the regions. And after that, Heine will take you through the financials and the outlook for 2022.

Please turn to slide 3. The Group delivered very strong numbers for H1, albeit helped by easy comparables due to the more extensive COVID-19 restrictions last year. Total volumes grew organically by 8.9%, supported by the strong rebound of the on-trade, particularly in rest of Europe where on-trade volumes doubled compared with 2021. Total on-trade volumes increased by 27% compared to last year and is now back at 2019 levels.

Off-trade volumes grew by 2%, driven by strong growth in Asia, mainly in India and Vietnam. In Western and Central and Eastern Europe, off-trade volumes were impacted by consumers returning to the on-trade outlets and therefore declined. However, compared with 2019, off-trade volumes were still very strong at 15%.

Revenue per hectoliter grew by 11%, mainly due to a positive general mix from the on-trade recovery, a positive brand mix and price increases; and consequently, organic revenue growth was 20.7%.

Operating profit was DKK 6.4 billion, with strong organic growth of 31.8%. A solid testimony to the strength of our business and our strategic priorities is the fact that our H1 2022 reported figures were well ahead of those in H1 2019. Excluding Russia, volumes were 11% above 2019. Revenue was 21% ahead and operating profit was 42% higher than in 2019. Looking at adjusted EPS, which is based on reported figures, and therefore including Russia, it was up by 89% in H1 2022 compared with H1 2019.

Slide 4; and some of our strategic growth drivers. We saw good progress for our premium portfolio and alcohol-free brews. 1664 Blanc grew strongly in many markets in all three regions, but this was offset by a decline in a few markets including Ukraine. Consequently, volumes declined by 1%. Excluding Ukraine, volumes were up by 5%. Tuborg volumes grew by 14%. In Asia, Tuborg grew by 18% with India being a strong growth driver. Carlsberg delivered very strong growth at 20%. In Asia, Carlsberg volumes were up by 25%, achieved by very impressive results across the region, with particularly strong growth in India, Vietnam and Malaysia.

Being exposed to the off-trade channel, category growth for alcohol-free brews was impacted by the decline in the off-trade channel in Western Europe. In addition, Ukraine was one of our larger markets for alcohol-free brews. Consequently, total volumes for alcohol-free brews were down by 3%. Excluding Ukraine, volumes were up by 4%. In Western Europe, alcohol-free brews grew by 7% despite the decline in off-trade. The growth was driven by both local brands and alcohol-free line extensions of our international brands. Our market share in the alcohol-free brew segment over-indexed in most Western European markets and we were able to further strengthen our position during H1.

We saw good progress for our online B2B platform, Carl's Shop, which is now available in 11 markets. Volumes on the platform were up by 84% and revenue per hectoliter improved by 7%. We are optimistic about driving premiumization opportunities on Carl's Shop as we expand the use of data-driven product recommendations. In H1, premium offerings sold on Carl's Shop indexed 105 compared with offline sales. In China, our largest B2C e-commerce market, our online market share was up by 170 basis points, reaching almost 12%.

And now, a few slides on our new ESG program Together Towards ZERO and Beyond, which we are launching today. Please go to slide 5. Our new ESG program is an enhancement of our previous Together Towards ZERO program, addressing the environmental, social and governance topics that impact our company and our stakeholders most significantly. As in the past, Together Towards ZERO and Beyond is embedded in the SAIL'27 strategy as a key mechanism for driving positive change, mitigating risks and demonstrating Carlsberg's purpose of brewing for a better today and tomorrow.

Slide 6, please. As part of Together Towards ZERO and Beyond, we will continue to deliver on our previous ambitions, namely a ZERO carbon footprint, ZERO water waste, ZERO irresponsible drinking, and ZERO accidents culture. We are building on the progress made thus far, including a 40% reduction in carbon emissions and a 21% reduction in water use per hectoliter since 2015. Going forward, we are stepping up to address intensifying world challenges such as climate change and water scarcity, as well as health, well-being and diversity, equity and inclusion. We have expanded the program to include a wider range of ESG topics to address the societal challenges impacting people and the communities where we operate. We have raised our ambition levels, sharpened our targets, and introduced new focus areas to create a holistic and ambitious program with milestones for 2030 and 2040.

Slide 7 and an overview of the updated and new targets and milestones. We maintain our target of zero carbon emissions at our breweries and a 30% reduction in our beer-in-hand carbon footprint by 2030, but we are now going to the next level, introducing the target of a Net ZERO value chain by 2040. Looking at water, we have updated our targets such that by 2030, we want to have a water usage efficiency of 1.7 hectoliter per hectoliter beer at our breweries in high-risk areas and 2 hectoliter per hectoliter beer globally. In addition, we are targeting 100% replenishment of water consumption in high-risk areas.

To support our ambitious net zero carbon target, we will take new actions within agriculture and packaging, which will drive critical emission reductions in our value chains. Firstly, looking at agriculture where we can play an important role in reducing the carbon footprint from farming. Our 2030 target is to source 30% of our raw materials from regenerative agriculture practices. By 2040, our target is 100% of raw materials.

Secondly, packaging accounts for 41% of our Scope 1, 2 and 3 carbon emissions and is therefore very important to address. Our new packaging targets include the use of 100% recyclable, reusable, or renewable packaging in 2030. We also target 90% collection and recycling rate, 50% reduction of virgin fossil-based plastic and 50% recycled packaging content for bottles and cans. By reaching these targets, we will actively help drive a circular economy.

The last notable target evolution pertain to our raised ambitions for responsible drinking, where we now target 35% global portfolio share for no and low alcohol brews by 2030.

With our new targets, we support the industry transformation towards more sustainable business practices through, for example, shifts in farming practices, sourcing procedures and product design as well as the scaling up of efficient deposit return schemes. We will continue to leverage partnerships to deliver on our ambitions together with suppliers, customers and partners to go towards ZERO and Beyond.

And now the regions, please turn to slide 8; and Western Europe where volumes grew by 10.2%, supported by easy comps due to less on-trade restrictions this year and bad weather at the beginning of Q2 last year. Revenue per hectoliter was up by 12% due to the positive channel and brand mix in addition to price increases. Revenue grew organically by 23.3%. Including the impact of currencies, reported revenue growth was 24.5%. We did price increases across our markets in H1. Commodity prices and energy costs continue to go up and the favorable hedges from last year are rolling off. Therefore, we will take price increases across the region again in H2 in order to mitigate the higher cost, which will impact us in the second half of this year and the next year. The organic growth in operating profit of 46.8% was significantly ahead of revenue growth, benefiting from the strong top line growth and cost reductions that more than offset the significantly higher cost of sales and sales and marketing investments. The operating margin improved by 240 basis points to 15%.

Denmark, Sweden and Finland delivered good volume growth, although with a soft June due to tough comparables. Volumes in Norway were impacted by the reopening of the borders, which enabled the Norwegians to resume their border trade and travel. There was a strong on-trade recovery in all markets.

In France and Switzerland, volume growth was double-digit, supported by very good progress for premium products and growth of alcohol-free brews. In Poland, the beer market improved in Q2 following a tough start to the year. Our volumes in the first half year were flat with good momentum in market share. Volume growth in the UK was 20%. On-trade volumes recovered strongly, but were partly offset by mid-teen volume decline in the off-trade.

Slide 9 and Asia where we achieved very good results. Volumes grew by 13.2% with accelerating growth in Q2 in all markets but China. Revenue per hectoliter improved by 6% as a result of a positive channel mix, premiumization and price increases. Organic revenue growth was 20.5%, and reported revenue growth was 25.8%. The higher reported growth was because of a positive currency impact, partly offset by the deconsolidation of Gorkha Brewery in Nepal. Due to higher cost of sales, logistic costs and sales and marketing investments, operating profit grew in line with revenue, being up organically by 20.1%.

A few comments on the individual markets. In China, volumes grew by 6% thanks to successful New Year activities and continued good progress for our growth priorities, including expanded distribution, our international and local premium portfolio and big city strategy. Thanks to the premium growth, revenue increased by 11%. In Q2, volume growth was more muted at 2%, as some of our big cities were impacted by COVID-19 restrictions. It is still early days but we are very pleased with the progress of Somersby for which volumes are exceeding our expectations.

Our Indian business saw a very strong recovery in Q2, following a slow start to the year as January and February were impacted by the outbreak of the Omicron variant. Volumes grew by 50% for the half year with volumes in Q2 being almost 7% above Q2 2019 – a proof point of the resilience of our business.

We saw very good volume growth in Laos, Vietnam, and Cambodia. In Laos, we benefited from fewer restrictions and achieved strong growth for beer, water and soft drinks. The performance was very good, but Laotian economy is struggling and we have seen a very high inflation in the country and the weakening of the currency. In Vietnam, volume growth was in the mid-teens, driven by our local Huda brand, and very strong growth for the international premium brands. We are increasing our investments in Vietnam considerably, both behind brand and through investments in route-to-market. In Cambodia, we continue to see impressive results for the Sting energy drink. Beer volumes were also up strongly, albeit on easy comps.

Malaysia posted very good volume growth on the back of easy comps. We saw a very strong growth for the Carlsberg brand and the premium portfolio.

And slide 10 and Central and Eastern Europe where overall reserves were impacted by the war in Ukraine. Due to the very significant volume decline in Ukraine, regional volumes were flat. Excluding Ukraine, volumes grew by around 7%. Revenue per hectoliter was strong at 14%, driven by a positive channel mix, due to the on-trade recovery in the southeastern part of the region, brand and country mix and price increases. Revenue was up organically by 14% and 16.6% in reported terms due to a positive currency impact. Operating profit increased by 7.9% and both gross profit and operating profit per hectoliter improved.

In Ukraine, we have reinstated production at all three breweries. The reopening happened at the request of our local colleagues, whose stamina and courage have affected us deeply. For the half year, volumes declined by 27%. In late April, we announced that operating profit in Ukraine would be included in special items due to the volatile situation and the inconsistent level of operations. However, due to the reopening of the breweries and as a consistent level of operations has been achieved much faster than expected, we will include the full year profit from Ukraine in the operating profit for the region.

The Balkan markets saw good growth of premium brands, including Carlsberg, Tuborg, Blanc and Somersby. On-trade rebounded strongly after last year's lockdown. In Italy, the beer market began to recover; thanks to the reopening of on-trade. We increased our market share and volumes were up double digit with growth in both on-trade and off-trade. Carlsberg, Tuborg, Grimbergen, and Poretti, all delivered high growth rates. In Greece, volume growth accelerated in Q2 following the reopening of on-trade and the increase in tourism. Carlsberg, Mythos, Somersby and the local alcohol-free brew delivered strong growth. Inflation in Greece is running at double-digit, affecting consumer disposable income.

In our export and license business, Carlsberg, Tuborg and 1664 lager grew. We saw good growth in markets such as Turkey and Ireland.

And now, over to you, Heine.

Heine Dalsgaard, Chief Financial Officer, Carlsberg A/S

Thank you, Cees, and good morning, everybody. Before I go into the financials, a few words on the Russian business. Please go to slide 11.

We announced our intention to sell the Russian business on March 28th. The complicated task of preparing the Russian business for divestment is progressing well, with teams across the entire business working on more than 150 separation projects. In the accounts, Russia is no longer part of Central and Eastern Europe, but presented separately as held for sale. Volumes in Russia for the half year declined by 2% and market share declined slightly. Revenue increased organically by 22% due to value management initiatives, including price increases. There was a significant increase in input cost, but this was offset by higher revenue per hectoliter, a positive FX impact of DKK 110 million and the reversal of a tax provision of DKK 230 million, and therefore profit before tax improved.

The net result from the Russian business was negative at DKK 8.6 billion due to the impairment charge of DKK 9.6 billion, recognized in March. On the balance sheet, the assets and liabilities in Russia are presented in one liners under assets and liabilities, respectively. The net asset value increased during Q2 due to the appreciation of the Russian ruble versus the DKK from 0.079 end of March to 0.138 end of June, as well as the development in the operating result. Therefore, end of June the net asset value amounted to DKK 9.6 billion. The accounting treatment of Russia is present in note eight in the company announcement.

Slide 12 please. We are very satisfied with our first half results, which really serve as a proof point of the resilience and strong fundamentals of Carlsberg. As Cees showed at the beginning of the presentation, volume, revenue and EBIT are well ahead of the pre-pandemic level of 2019. Looking at adjusted EPS, we have delivered consistent growth during the past five years, even in the very turbulent times of the pandemic. From first half 2018 to first half 2022, adjusted EPS CAGR has been 22%. The very strong figure for first half this year was achieved thanks to the very strong growth in operating profit and a lower tax rate, and of course, also supported by the share buybacks, which we have carried out every year since 2019.

We've maintained a consistent payout ratio of around 50% and a steadily increasing dividend payout in the DKK. In March, we paid DKK 3.4 billion in dividends to shareholders compared with DKK 2.5 billion in 2018. Since 2018, dividends paid to shareholders are up by 36%. Despite the very turbulent market conditions in the past few years, we've also continued the share buyback programs. In total, cash returns to shareholders in first half 2022 amounted to DKK 5.4 billion; representing a CAGR of 21% from first half 2018 to first half 2022.

Slide 13 and a few words on the P&L, please. Revenue was up organically by 20.7%. The strong growth was driven by volume growth of 8.9% and 11% growth in revenue per hectoliter due to a very positive channel mix, brand mix and price increases. In reported terms, revenue was up by 23.6%. The currency impact was 3.8%, supported by the strengthening of the Chinese, the Swiss and the British currencies that more than offset the depreciation of the Laotian kip. The small acquisition impact of minus 0.9% was due to the deconsolidation of Gorkha Brewery in Nepal.

We continue to manage the healthy balance of our business performance by applying our disciplined performance management drumbeat and the golden triangle, ensuring that we drive absolute EBIT growth by mitigating cost increases through both revenue per hectoliter and a disciplined approach to cost. In first half, cost of sales per hectoliter was up by 14% due to high commodity prices and energy costs. Gross margin was 46.3%, which was a decline of 160 basis points. However, gross profit per hectoliter, which is the most important KPI these days, increased organically by 7% thanks to the strong growth in revenue per hectoliter. OpEx as a percentage of revenue was down by 250 basis points, positively impacted by our cost focus. Looking at the organic numbers, total OpEx was up by 11% due to marketing investments, which were up by 14%. Recorded operating profit amounted to DKK 6.4 billion, an increase of 31.8% in organic terms and 35.9% in reported terms. The operating margin improved by 170 basis points to 18.2%.

Special items amounted to minus DKK 865 million with the main contributing factor being the impairment and write-down of goodwill in Central and Eastern Europe, which in total amounted DKK 700 million. Another DKK 139 million related to impairment of trade receivables, obsolete inventories and commercial assets in Ukraine.

Net financial expenses were DKK 508 million compared with DKK 262 million last year. The significant increase was due to FX, which mainly related to currency losses on intercompany loans in Eastern Europe and the depreciation of the Laotian kip. Excluding FX, net financials were down by DKK 47 million to DKK 230 million, positively impacted by lower funding costs. The tax rate was 22%, down from 25.7% in first half last year, reflecting the continued good progress on our tax initiatives.

The net profit for the group was minus DKK 5.3 billion, impacted by the write-down of goodwill in Russia and the impairment and write-down in Ukraine and Central and Eastern Europe. Combined, these more than offset the strong operating profit and the lower tax rate. Adjusted net profit – that means net profit adjusted for special items after tax and the impairment of Russia – was DKK 5.1 billion. This was an increase of DKK 1.9 billion or 60% compared with first half 2021. Adjusted earnings per share were up by 64% as a result of the higher operating profit and a lower tax rate. Adjusted EPS was also supported by the share buybacks.

Please go to slide 14 and some comments on the cash flow and net interest-bearing debt. Operating cash flow increased by DKK 2.6 billion to DKK 8.4 billion, thanks to the higher earnings and a positive contribution from trade working capital of DKK 2.7 billion, impacted by higher activity levels and our continued strong focus. This was partly offset by the change in other working capital of minus DKK 622 million. Other working capital was impacted by higher deposits and VAT payables. Looking at the average trade working capital to revenue, this ratio was minus 20.2%. Free cash flow was very strong at DKK 7.3 billion, CapEx was DKK 1.6 billion, which was on par with 2021. Net interest-bearing debt was DKK 18.1 billion, which was a decline of DKK 1.1 billion compared with year-end 2021. The strong free cash flow more than offset the DKK 5.4 billion cash return to shareholders.

Slide 15 please, and a follow-up on our capital allocation priorities. Continuous investment in our business to secure the long-term growth of the company is our first priority. In first half, we increased our marketing investments by 14% organically in support of our strategic priorities. The highest percentage increases were in Asia and Western Europe. Our strong financial results give us the capacity to accelerate our investments in our SAIL'27 strategic growth priorities, such as strengthening our business in Vietnam, continued investment in growth priorities in China, growing our alcohol-free and beyond beer portfolios, and stepping up ESG initiatives enabling us to deliver strong earnings and cash flow performance also in the years ahead.

Our second priority of having a strong balance sheet was maintained and even strengthened. With a leverage ratio at 1.11 times, we remain well below our target of below 2 times. We are currently operating with a more conservative approach to leverage than usual, due to the general uncertainty related to the macro, the war, commodities, energy and so on, as well as being prepared for potentially buying out our JV partner in India and Nepal, where both the put and the call options have been initiated. You can find more details on this in the announcement.

Our third priority of an adjusted dividend payout ratio of around 50% was realized in March. We have paid out a dividend of DKK 3.4 billion, equal to 49% of the adjusted net profit for 2021. To deliver a continued and consistent increase in dividend per share remains very important to us.

Our fourth priority is distributing cash to shareholders. We have this year continued with quarterly share buyback programs. Since February, we have finalized two quarterly programs, each amounting to DKK 1 billion, and today, we are launching the third quarterly program, also amounting to DKK 1 billion. The dividend and the share buyback carried out in first half amounts to DKK 5.4 billion, including July and up until the 13th of August. We have year-to-date returned DKK 5.8 billion to our shareholders. The average purchase price in the second share buyback program was DKK 905 per share.

Slide 16, please. Before we get to the outlook for the year, let me provide a little more details on the input cost situation and the possible consequences of gas shortages, in particular in Western Europe.

On input costs, it's a well-known fact that the inflationary pressure is impacting us as well as other industries. For our business, we expect cost of sales per hectoliter to increase by low-teens in 2022. This is slightly higher than expected earlier in the year and due to the continued increase in energy costs. Our methodology and our approach for managing the business, including the years with significant input cost increases, remains unchanged since 2015-2016. Our disciplined performance management approach sets the overall drumbeat for the business. Our golden triangle is our performance management tool and we use it to drive performance and profit improvement in a balanced way. Therefore, we're using management initiatives, including price increases, to offset the higher input cost through revenue per hectoliter, thereby growing the absolute profit per hectoliter and also total profits for the group. We're also maintaining our disciplined focus on costs by using our OCM methodology.

At this point in time, we cannot comment specifically on 2023. However, we do expect cost of sales per hectoliter to increase further, but we will stick to the rigor of aiming to grow profit per hectoliter also going forward. We will come back with more detail in February next year, when we give the guidance.

In terms of business continuity, the possible gas shortages has become an important topic for us and for Europe in general since the outbreak of the war. To mitigate the risk of gas shortages, we have made investments in Europe during the past couple of months to ensure that the breweries at risk will be able to operate with alternative energy sources as well. Looking at our suppliers, a shortage of gas may, in particular, have an impact on glass producers due to the energy intensive production. We are closely monitoring the situation.

Applying the valuable lessons from the early days of COVID-19, we've established a crisis team that meets frequently to be able to take fast and appropriate actions if anything changes. At this point in time, the availability and contracted supply of glass have been confirmed by our supplier. We are working with all key suppliers to ensure safety stock of critical components and commodities. In addition, our procurement team is developing contingency plans and measures.

And now to the outlook. Please go to slide 17. Last week, we upgraded our full year earnings to an organic growth and operating profit of high-single digit percentages. The main reason for the upgrade was the strong operational performance in first half and a better than expected start to Q3. In many European markets, the impact of the on-trade recovery was stronger than expected. And in Asia, most markets delivered stronger top line and earnings growth than expected at the beginning of the year. In addition, we decided to include profits from Ukraine in the regional numbers, as a consistent level of operations has been achieved. The previous guidance included operating profit of zero from Ukraine.

Let me elaborate on the expected second half performance, as we are assuming a weaker earnings progression in the second half. The increase in commodity and energy prices will have a higher impact on our cost of sales in second half than in first half, due to the rolling off of the more favorable hedges which we entered into last year. While we will increase prices across our market in second half, these price increases will time lag the input cost increases. In addition, we have decided to further accelerate our SAIL'27 strategic priorities investments, including marketing investments across the group and sales investments particularly in China and Vietnam. Lastly, we have tougher comps in the second half than in the first half and revenue per hectoliter will not benefit from the on-trade recovery as in first half. We are closely monitoring consumers' reactions to the inflationary pressure and the impact on the beer consumption. At this point in time, we are seeing very limited change in purchasing patterns as beer is normally a very resilient category. However, there is a risk of lower volumes or downtrading. We believe we are well-prepared for this having portfolios with different price points to cater for different consumer choices. Despite the increasing input costs, we remain confident that our value management, including price initiatives, our strict cost focus, our growth initiatives, in particular in Asia and premiumization efforts across the group will support the journey of continued earnings growth.

Based on yesterday's spot rates, we assume currency impact on operating profit of plus DKK 350 million, which is unchanged compared to previous assumptions. Net finance cost excluding FX are now assumed to be around DKK 550 million, tax rate now around 22% and CapEx unchanged at around DKK 4.5 billion.

With that, over to you, Cees.

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

Thanks, Heine. Before opening up for Q&A, let me summarize H1. It has been a challenging half-year due to the war, rising input costs and the pandemic. We delivered a strong set of results and are now significantly ahead of pre-pandemic levels. Our Ukrainian colleagues have shown incredible strength and resilience since the outbreak of the war. And thanks to their efforts, we reopened the breweries in Q2. We have announced our intention to dispose the business in Russia. Last week, we upgraded our earnings guidance for the year, and finally we launched another DKK 1 billion share buyback today.

Please observe that we, again this time, would like to limit the number of questions to two per person to ensure that as many as possible have a chance to get through. After your questions, you're welcome to join the queue again.

And with that, we are ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will have a brief pause while questions are being registered. The first question comes from the line of Andrea Pistacchi from Bank of America. Please go ahead, your line will now be unmuted

<Q – Andrea Pistacchi – Bank of America>: Thank you, and good morning, Cees and Heine. Two questions for me, please. The first one is just to get a bit more color on the COGS inflation and your guidance there. So I think you're guiding to 14% – you had 14% COGS per hectoliter inflation in H1, and you're guiding to, I think, certain acceleration in the second half. At the same time, you're saying that you expect low-teens COGS inflation for the year. So, could you help us square these numbers a bit, or should we interpret this as a fact that it will only be a slight acceleration in the second half compared to what we saw in H1? And then; also on the COGS inflation, if you could just update us a bit on your hedge situation, where are you not hedged?

The second question, please, is on price/mix. If you could split out from the 11% price/mix you had in H1, how much was price? And then maybe comment on, at Q1 you were talking about you were working on a mid-year price increase with retailers in Europe, whether you've been able to land that, how much potentially that is? And you were also talking about, now in the prepared remarks, about taking additional pricing in Europe in H2. Is that a reference to that mid-year price increase or is it something maybe incremental to that? Thank you.

<A – Cees ’t Hart – Carlsberg A/S>: Thank you, Andrea. Over to, Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning, Andrea. So that was a lot of questions. So let’s start with the COGS inflation year-to-date versus year to go. So you’re right. Year-to-date is 14% up. Full year, guiding on something in the area of low-teens. The reason why that still accelerates in the second half is due to the absolute numbers. So percentage wise, it’s going down, but in DKK it is going up in the second half, also impacted by COGS increases already impacting our P&L in the second half last year. Last year number quite simply, they’re higher this year than last year. That’s why in DKK, it is an acceleration, and in percentage, it is not.

On your second question relating to the hedges, we are continuing the same hedge policy as we’ve had for the last two years. So we are hedging our main commodities. It is correct that the spot prices of some of the commodities are as well declining, but we hedge and that means as well that there is an approximately of 12-month sort of lag before that hits our level of COGS going, both up and down. And most recently, where I can see rising costs due to the higher energy prices and also, actually, higher sugar prices. So overall, hedging policy remains the same, we’re not speculating when we do the hedging, we’re simply giving ourselves transparency and predictability. On the price/mix part, over to you, Cees.

<A – Cees ’t Hart – Carlsberg A/S>: Thank you, Heine. Andrea, with regards to the price mix, the split we don’t give details, but basically there’s more due to the reopening of the on-trade. With regard to a second round of price increases in 2022, an estimated negotiation started in Q4 2021. Those negotiations were based on the hedges done during 2021. And therefore, the price increases executed in H1 didn’t reflect the rise in input costs following war in Ukraine. In other words, consumers and customers have in H1, you could say, benefited from our 2021 hedges that have postponed the indirect impact from the war. And as these more favorable hedges are now rolling off, our COGS and LOGS [logistic costs] will in the second half of 2022 increase further and therefore this does require a new round of price increases. And in most markets in CEE [Central & Eastern Europe] and the rest of Europe, we have engaged in the new customer negotiations in late H1 or the beginning of H2, but it’s too early to report on the effect of that.

<Q – Andrea Pistacchi – Bank of America>: Fantastic. Thank you.

<A – Cees ’t Hart – Carlsberg A/S>: You’re welcome.

Operator: The next question is from the line of 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. I’d like to ask three questions on three different regions, if that’s possible. Firstly, on China, you mentioned you’ve got growth in the first half, but of course you are impacted by some of the lockdowns particularly throughout April and May of this year. I was wondering if you could give us an indication of the exit rate to hit June’s growth rate. Anything like that would be very helpful in China.

Secondly, in the UK you’ve now had a reasonably decent period of the on-trade being open. And I was wondering if you can give an update on the progression with the Marston’s business, how much you’re benefiting from the increased portfolio into the off-trade, but also any benefits into the Marston’s on-trade outlets in the UK now that that’s relatively fully open. And then finally, assuming the call and put options go ahead as expected, perhaps this year, I was wondering if you could give us an indication of how having a fully consolidated and 100% ownership of the Indian and Nepalese business will change your ability to operate in those countries. Thank you very much.

<A – Cees ’t Hart – Carlsberg A/S>: Thank you, Laurence and good morning. These are three questions but we’ll allow them. And let me take the first two and Heine will take the third one. With regards to China, our Q2 in China was a bit muted. It was 2% volume sales. We see at the end of that quarter, but especially in

July and August, the volumes coming back. So it was, if you like, skewed to that quarter and more a blanket approach on closing part of cities or cities at that moment of time in China. Now we seeing more [indiscernible] (00:45:53) and shorter closure of parts of cities or part of the trade; and therefore we are more optimistic about the second half. In our guidance, we included some short lockdowns in big cities in China and basically, we see them as we speak. But it will not impact according to our own judgment at this moment of time that heavily in the second half of the year. So, we expect the momentum in China to come back in the second half of the year.

With regards to the UK, first of all, we continue to be very glad to have as our joint venture in UK. 20% volume growth was driven by strong on-trade recovery. The off-trade channel declined by around 20%, but we gained some market share there and that is on the back of the full power, if you like, of the portfolio that we have now. We lacked that a bit in the past. We now with the joint venture have a broad portfolio and see that in our negotiations with both off-trade and on-trade coming back that we gained from the strength of our portfolio in these negotiations but also of course in widening our distribution and getting improved sales and especially then shares.

With regards to India, I hand over to Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. Good morning, Laurence. So we are, as we also said, very satisfied with the ruling from the arbitration. With respect to the impact on our operations, well, India continues to be a very, very interesting long-term opportunity for us. As set out both in our, sort of current strategy and also in SAIL'27, it is a very, very attractive long-term market. It is too early to say anything about the sort of short-term impact on our operations. The decision from the arbitration does give us new opportunities and options to end the dispute and our partnership and also to secure future sort of operational freedom of our business, both in India and Nepal. So overall, we're satisfied with the ruling and it is certainly positive for the outlook.

<Q – Laurence Whyatt – Barclays Investment Bank>: That's great. Thank you very very much.

Operator: The next question is from the line of Trevor Stirling from Bernstein. Please go ahead, your line will be unmuted.

<Q – Trevor Stirling – Sanford C. Bernstein>: Hi, Cees and Heine. So, two questions for me and maybe I'll sneak in a tiny third one at the end. The first one, Heine, concerning H2. If I look at H1, I think roughly you're up about 275 bps compared to – to the margin compared to 2019. Is it fair to think that you can manage the same in the second half or do you think that versus 2019; it'll be slightly lower because of the COGS inflation that you mentioned? And second question, I appreciate you're still not fully hedged for 2023. It's too early to talk yet and put a precise number on it. But at the moment, does it look like COGS inflation in 2023 is of the same order of magnitude as 2022? Maybe a bit higher, bit lower? Any color you can give it'd be great. And the final sneaky one, the third one, India; if the puts and the calls do go as per paper, what level of cash outflow could you be looking at to close off all of those transactions?

<A – Cees 't Hart – Carlsberg A/S>: Thanks for your question, Trevor, and good morning. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: So, good morning, Trevor. So, you're right, a strong operating margin performance in first half that will be lower in second half, also versus 2019. It is worth just elaborating on the different factors here as the reason why second half will be lower because it's the same reason both versus last year and also versus 2019. There're basically three main reasons. The first is that the increasing commodity and also energy pricing will have a higher impact on our cost of sales in the second half than we saw in first half, in particular, also due to the rolling off of the favorable hedges which we entered into last year. As a consequence then, cost per hectoliter will increase both compared to first half, but also compared to second half last year. And in second half last year, as we already said, we did see some impact from the higher commodity prices on our COGS. Part of that as well also impacts the fact that in order to cover that, the increasing sales pricing, that we are implementing across our markets, will time lag the cost increase. So, that's sort of first part.

The second part is that we have proactively decided to further accelerate our investment into our SAIL'27 strategic priorities and this includes, as we have said many times before, further marketing investment across the entire group, as it includes sales investments in particular into Vietnam and into China. So, the second part of the lower growth in earnings both margin-wise and absolute in second half has to do with a proactive position to accelerate growth investment in order to make sure that Carlsberg remains strong, and there's the growth earnings outlook also in the years to come. So, that's the second part. And then, basically the third part of the reason for the slower growth in earnings in second half versus first half has to do with tougher comps from last year. I'm sure you remember, last year, in particular, Q3 was extraordinarily strong in Western Europe. So that's the first question. It was a bit of a long answer, Trevor, but it is because it is rather complicated. So, yes, we do expect lower earnings growth versus 2019 in the second half.

When it comes to the 2023 hedging impact, I think it was, we are seeing COGS increasing and our expecting COGS increases in 2023 to go up. It is too early to give sort of precise comments on 2023 COGS and also LOGS [logistic costs] by the way, due to the volatility. But as said we are expecting cost of sales increases also next year. But it is important as part of that to highlight that we stick to the rigor of continuing to fight for growing the net profit and thereby offsetting the COGS headwind by increase revenue per hectoliter and also in continued discipline in our costs.

The last part of your sort of third question Trevor that was on the cash out relating to a potential buyout of our partner in India and Nepal. As said, we're very satisfied with the ruling but we cannot and are not allowed to comment on anything relating to potential cash out.

<Q – Trevor Stirling – Sanford C. Bernstein>: Thanks very much, Heine.

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

Operator: The next question is from the line of Nik Oliver from UBS. Please go ahead. Your line will be unmuted.

<Q – Nik Oliver – UBS AG (London Branch)>: Hey, good morning. Thanks a lot. And I'll keep myself to two questions. First, on China, margins in that market. I guess I'm surprised to get upside. I think in the past, we used to think about China being roughly 20% EBIT margin market, but just any observations you can give us on the margin profile and going forward. And then, secondly one for Heine. I guess, when you took over, I remember, the CFO role, you flagged some typical CFO-type targets, getting the interest rate down, getting the tax rate down and we've seen good progress on that. As you move on, has that all been achieved or do you think there's more to do on the Carlsberg side? Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Nik. With regards to the second question, we're still making him sweat for the coming months but he will answer himself. With regards to China, we continue to progress and to improve our margins, it is indeed significantly above the – in fact, 25%, 26% as we speak, and it has a lot to do with the further premiumization. As you know, the big cities are very much focused on international premium brands and Wusu, which give us good margins. And by that, the further growth of big cities will also enhance our margins in the future.

Then Heine, over to you and your legacy.

<A – Heine Dalsgaard – Carlsberg A/S>: Well, good morning. So, has it all been achieved, sort of the areas that are typically within a CFO focus? The journey that we've been on for the last years will continue. The rigor we've put in place, both when it comes to the general performance management but also to sort of the specific CFO drumbeat areas like interest, tax, also cost and cash will definitely continue also going forward. So that has nothing to do with me. That rigor, that discipline will continue and there're still more to go for.

<Q – Nik Oliver – UBS AG (London Branch)>: Cool. Perfect. Thanks, Heine, Cees. Thank you.

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

Operator: The next question is from the line of Mitch Collett from Deutsche Bank. Please go ahead. Your line will now be unmuted.

<Q – Mitch Collett – Deutsche Bank AG>: Morning, Cees. Good morning, Heine.

<A – Cees 't Hart – Carlsberg A/S>: Good morning.

<Q – Mitch Collett – Deutsche Bank AG>: And I'm also happy to just take the two. So, my first one is on the big step-up in associate income. I appreciate in the statement you say it's driven by Nepal, but the increase seems pretty big compared to the scale of that business, so can you comment on the drivers of that?

And then my second question, just philosophically on the timing difference between COGS and price increases. Why is there a gap between you being able recover any prices – is it because competitively it's hard to take up prices soon enough or is there something else that you'd like to flex?

<A – Cees 't Hart – Carlsberg A/S>: Okay. Thanks, Mitch. The first question, Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Okay. Good morning, Mitch. So, the question on the associate income in the P&L. So there're basically three factors behind it and you're absolutely right that Nepal in itself is not the only one, but Nepal is one of the reasons why associate profit goes up. The other reason has to do with a very strong performance in our business in Portugal. So Super Bock, which is also an associate, that is of course, significantly up versus last year, also due to the reopening, but in general, Super Bock has performed extraordinarily well this half year and significantly up versus last year. And then there are a few one-offs, particular in Asia, but the main drivers in total that is the Nepal deconsolidation, which now moves the profits to share of profit in associate. And then from a business point of view, the very strong performance in our associate in Portugal Super Bock.

<A – Cees 't Hart – Carlsberg A/S>: Then with regards to the gaps between the COGS increases and the price increases, that's predominantly an issue in the Western Europe. As I said earlier, the customer negotiation started in Q4 2021 and these negotiations were based on the hedges done in 2021 and of course also what we felt was possible from a competition point of view. And what we then registered was an increase in the cost and then basically rolling off of our hedges. And that indeed leads for the second half of the year to higher COGS. But in Europe, normally we only have one price round, one round of negotiations per year. So we are now in uncharted territory that we need to go back to the negotiation table with our customers. We expect that it'll take time and hence we expect or we see already a gap between the increase of the COGS and then the timing of successful price increases.

<Q – Mitch Collett – Deutsche Bank AG>: It's very helpful. Thank you.

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

Operator: The next question is from the line of Simon Hales from Citi. Please go ahead. Your line will now be unmuted.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thanks. Morning, gentlemen. Just coming back on the whole COGS issue, Heine, I wonder if you can just help us understand a little bit perhaps what proportion of your sort of COGS basis is directly or indirectly exposed or at risk from spot price moves in energy cost from here? I mean any help you could give us there? And maybe associated with that and on the risk of gas supply disruption in the coming months in Europe. You mentioned you've got alternative energy sources at your breweries. Does that mean that you don't expect that you would have any production outages within your brewery footprint in the coming months?

And then the second question, with regards to your full year guidance from here. I wondered, Cees, what are you building in in terms of potential deteriorations in consumer demand perhaps as we move through the latter half of this year and inflation really begins to bite on the consumer.

And then, just this third quick clarification in response to sort of Nik's question around associates. When Heine you talked about there're obviously some one-offs in that associate contribution in the first half. I wondered if you can just quantify that to help us with our modeling going forward.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Simon. Let me take the disruption. And the other questions will be answered by Heine. With regards to the disruption on our production or possible disruption, we have done a risk assessment on our European breweries and also, of course, looked at the risk of reduced gas supplies. And in some breweries in Europe, we have invested in new equipment to our boilers. And that means that we now can shift between natural gas and oil, and in some cases, also use electricity for our boilers. So the conclusion of that is that we don't see a major risk on our production from reduced natural gas supplies.

Then, with regards to the COGS, Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Sure. Good morning, Simon. So on your question on COGS and the proportion of the energy that is hedged, we are as said, of course, for good reasons only hedging our own gas used, but for 2022 for Western Europe: around or it's actually more than 85% of our year-to-go use is hedged. And for Central and Eastern Europe: it is more than 50%. So for this year, we feel relatively comfortable. For next year, it is around 60% for Western Europe and around 25% to 30% for Central and Eastern Europe. So, these are for the markets where we can actually hedge gas usage. That is not the case in a lot of Asian markets, as you're very well aware.

Let me take the one with the associates. Then Cees will comment on the consumer demand impact. As said, there're three factors driving associates, the deconsolidation of Nepal, the strong results in Super Bock, and then the one-offs which are primarily in Asia. The biggest part is the business impact. The one-offs have a magnitude of a bit more than DKK 100 million. On the consumer demand, Cees?

<A – Cees 't Hart – Carlsberg A/S>: So with regard to that, so far, we have not seen any impact from higher prices and inflation in our regions and in countries. We expect, of course, some impact in the second half of the year, although for this year it will not impact us that much anymore because, as you know, the season is almost over. However, we have a wide range in terms of brands in our portfolio and also a good stretch in our drive from, let's say, the top premium brands to the very affordable brands. And in that respect, we think that our portfolio really can help the consumer at the moment that they really want to have some affordable luxury in our premium brands or an affordable beer with regards to our mainstream or below mainstream price trends. So in that respect, we also look back in history. It's, as you know, a resilient category. So we feel, and we're basically also confident, that we can cater for the storms that happened.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: That's great. Thank you so much.

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

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

<Q – André Thormann – Danske Bank A/S>: Thanks a lot and good morning, Cees and Heine. So, my first question is in terms of China. I mean, I wondered if you could elaborate a bit on what the current status is on the big city strategy and what this accelerated investments will mean to the big city strategy? That's my first question.

And then my second question is just on the point you just made, Cees, on down-trading, as I heard, and I want to make sure that I heard it right. Do you expect some impact in the second half on down trading and what is that about just to be sure. Thanks a lot.

<A – Cees 't Hart – Carlsberg A/S>: Sure. Just to prevent any confusion, no, and I don't think this year we will see any, let's say, impact of higher prices on our business because the season is almost – also we don't expect a lot of down-trading. We don't see, at the moment, as we speak a lot of down-trading. Of course, we don't know what 2023 will bring. But again, I would like to highlight that we feel, and we are confident about the portfolio we have and the price points we cover in the market, by which the consumers has a lot of choice, either at the high end or at the low end of the price ranges.

With regards to the big city strategy and the investments in China, maybe it's good to repeat where we are at this moment of time. By the end of 2021, we were at 41 cities but we have adjusted our big city concept because we, as you know, went into the 41 cities with the international premium brands, but the desire of distributors on Wusu was so big, that we saw Wusu very strong already in other cities, which are also relatively big. And now we merge these to kind of cities, so to say, and that brings the total number of cities to approximately 61 by the end of 2021. So if we take it from 61 big cities by the end of 2021, we plan to add another 15 cities in 2022 and that rollout has continued. However, it has been delayed a bit by COVID restrictions in Q2. And by that, we want to accelerate this in the second half of the year going forward and end at 76 cities by the end of this year. And when we talk about investments in China, we're talking about seeding further new big cities in the future by which we will accelerate our growth in China in the future.

<Q – André Thormann – Danske Bank A/S>: Thank you so much.

<A – Cees 't Hart – Carlsberg A/S>: Can we have the last question, please? Thank you, André.

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

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Hi, Cees and Heine. Just one from me. As you are preparing the business for further cost inflation into 2023, is the focus on protecting profit per hectoliter or actually growing profit per hectoliter?

<A – Cees 't Hart – Carlsberg A/S>: Thanks for this question, Sanjeet. Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Sanjeet. So as always, we are ambitious in Carlsberg. So, as said, we do see further cost inflation coming our way. Our key focus is in the years to come to continue to grow our absolute profit and profit per hectoliter, even though we have a significant cost headwind. And we do that with many management initiatives, so continue to grow the top line and revenue per hectoliter, and we do that by continuously having a strict discipline on our cost via sort of OCM methodology that has served us well for the last six years. So, our ambition certainly is in the years to come to continue to grow profits.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Great. And just one point of clarification, just from the COGS increase to low-teens from 10% to 12% previously, is that entirely the recent step up in natural gas or is there some benefit from lower commodities kind of within that, that's more than offset by higher natural gas? Is that the right way to think about it?

<A – Heine Dalsgaard – Carlsberg A/S>: The main reason has to do with the increases in energy pricing.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Okay. Thank you.

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

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Sanjeet. 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 in person during our roadshow in the coming days and weeks as well as our Capital Market Day in September in Copenhagen. Have a nice day.