Carlsberg Group

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Ulrica Fearn – Chief Financial Officer, Carlsberg A/S

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Christopher Michael Pitcher – Analyst, Redburn Atlantic
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. Welcome to the H1 Financial Statement Conference Call. My name is Rosie, the Chorus Call operator. I would like to remind you that all participants will be in a listen-only mode and that the conference is being recorded. The presentation will be followed by a question-and-answer session. [Operator Instructions]

At this time, it is my pleasure to hand over to Jacob Aarup-Andersen, CEO. Please go ahead, sir.

Jacob Aarup-Andersen, Group CEO

Thank you very much, operator; and good morning, everybody. Welcome to Carlsberg's half year 2024 conference call. As said, my name is Jacob Aarup-Andersen. I'm the Group CEO of Carlsberg. I have with me our CFO, Ulrica Fearn; and Vice President Investor Relations, Peter Kondrup.

Let me begin by summarizing the key headlines for this call. First of all, we delivered continued volume growth despite poor weather in Q2 and continued weak consumer sentiment. We reported solid organic operating growth despite a significant increase in sales and marketing investments. And as you will have seen, we've adjusted our full year earnings outlook upwards. We did all of this while taking some major strategic steps that will support the future of Carlsberg.

I'll go through the key headlines for the group and the regions, and then Ulrica will take over and explain the financials and the full year outlook.

So, let's move to slide number 3. We saw total volume growth of 1.4%, and that's driven by all growth categories. Revenue increased by 3.9%, supported by continued solid revenue per hectoliter improvement of 2%, which was thanks to our premium brands and price increases.

Thanks to the strategic and financial strength of the business, we have the capacity to invest for the future. Consequently, we continued to increase our sales and marketing investments significantly across all three regions. Despite increasing marketing investments by almost 20%, we delivered solid organic operating profit growth of 5%.

We returned DKK 5.5 billion to our shareholders, and that's DKK 0.5 billion more than in H1 last year; and that's driven by higher share buybacks. We stopped the second quarterly share buyback on July 8 following the recommended offer on Britvic. We continue to be very focused on capturing the short-term opportunities, managing the current challenges in our markets and delivering on our short-term commitments, but we also take major steps this year to support the future of Carlsberg.

In February, we launched our refreshed strategy with higher top and bottom line ambitions. Despite the weather and the current consumer sentiment in some Asian markets, we're off to a good start executing the strategy which, as we said in February, includes a significant step up in investments behind the long-term growth accelerators.

In July, we announced the recommended offer for Britvic. We also announced the acquisition of the remaining 40% of Carlsberg Marston's in the UK. That transaction completed at the end of July. And less than two weeks ago, we were pleased to finally sign an agreement which when completed will give us full control of the businesses in India and Nepal. And it's going to allow us to accelerate investments to capture the long-term opportunities in these markets.

All of these initiatives are very exciting. They will strengthen our business considerably and support us in capturing the long-term growth opportunities and delivering long-term value growth for our shareholders.

Please turn to slide 4. A few comments on the recommended offer for Britvic. We're very excited about this potential deal. Whether you look at it from a strategic, operational and financial angle, the proposed acquisition is highly accretive to the Carlsberg Group, to our Western European region and to the UK business.

For the group, adding Britvic to our business will be supportive of our organic revenue growth ambition of 4% to 6%. For Western Europe, combining Britvic and our UK business, will improve the region's top and bottom line growth trajectory and step change cash generation. The deal will also strengthen our long-standing relationship with PepsiCo.

In the UK specifically, we've identified several operational and synergistic benefits from combining our beer portfolio with Britvic's very strong soft drinks portfolio. The acquisition will be value accretive for shareholders. Including cost synergies, the deal would be mid-single digit accretive to adjusted EPS in year one and double-digit accretive in year two. In addition, the deal will be margin accretive for the group and ROIC will exceed the WACC of 7% already in year three.

The transaction is 100% debt financed and, therefore, our financial leverage will of course increase. We'll be very disciplined and focused on deleveraging as fast as possible. And we remain committed to maintaining investment-grade ratings. We expect net interest-bearing debt to EBITDA to be below our new leverage target of below 2.5 times during 2027.

Thanks to the excellent management teams in both these businesses, the shared values and similar cultures in the two companies and our long-standing track record of successfully running integrated beer and soft drinks businesses in several markets, we consider the integration risk to be low.

The transaction is subject to the UK Takeover Code. That also means we're restricted in our communication, and we're only allowed to share information that is available in the public filings. Those filings you can find on the carlsberggroup.com. Since the announcement in July, the only piece of news is that Britvic will have its general meeting on the 27th of August. The deal is currently expected to close in Q1 2025.

Please turn to slide 5 and an update on our premium and alcohol-free brew categories. So, we're pleased to see the good progress of our key growth categories, all categories that are important for our long-term growth ambitions and accretive to revenue per hectoliter, to gross profit and to margins. We saw good growth of the premium beer portfolio, which was up by 4% for the half year and 2% in Q2.

Premium brands are more skewed to the on-trade and, therefore, they are more impacted in terms of bad weather, which particularly was the case in Q2 in Western Europe and in China. When we look at alcohol-free brews, they grew by 6% for the half year and 8% in Q2. The growth was supported by a strong performance in Ukraine, the Middle East and Southeast Europe, and solid growth in many Western European markets. We've recorded double-digit growth for the alcohol-free versions of Carlsberg, Tuborg and Garage. Several local alcohol-free brews also did very well. Examples being Fix in Greece, Lvivske in Ukraine and Lübzer in Germany.

So, let's move to slide number 6 and our international brands that grew well ahead of our average portfolio. Carlsberg volumes were up by 12%. We saw very strong growth for premium Carlsberg volumes. They grew by 24%, particularly due to strong performance in markets such as China, India and Ukraine. We also saw good growth of Tuborg volumes. They were up 8%, driven by strong growth in Asia and CEEI. Markets we call out here would include China, Vietnam, India, Ukraine and Serbia.

1664 Blanc saw a broad-based growth across all three regions with volume growth of 4%. We saw very good performance in markets such as Ukraine, Vietnam, Switzerland, Finland and Poland, while the brand declined in China, Denmark and some export markets. The Brooklyn brand grew by 7% in Q2 and 4% for the half year. The growth in Q2 was driven by most markets in Western Europe.

Please turn to slide number 7 and Western Europe, where volume growth year-to-date May was reversed in June when the region experienced unusually cold and wet weather and, in addition, was cycling tough comps from good weather from last year. The beer volume development for the half year ended at -1.7%, with 3% in Q2 – -3% in Q2, of course. Other beverages declined by 2.4%, impacted by the loss of the Schweppes brand in Switzerland and lower volumes in Denmark.

The increase in revenue per hectoliter was 3% and primarily the result of price increases. That was partly offset by country and channel mix, the latter impacted by the bad weather. In addition, revenue per hectoliter in Q1 was positively impacted by the inclusion of excise duties for

Kronenbourg 1664 in the UK. There was no impact from this in Q2, and revenue per hectoliter on this quarter was up 2%, mainly due to price increases.

Organic revenue growth was 1.3%, while reported growth was 2.6%, positively impacted by the Swiss, Polish and UK currencies. We delivered high-single digit organic revenue growth for April to May, but this was reversed in June due to the weather, and revenue for Q2 declined by 1.3%.

Looking at a few markets. We had positive start to the year up until May in the Nordics, where volume growth was actually in all four markets. The weather in June reversed this positive development and volumes for the half year declined slightly. We saw good performance of our premium and alcohol-free portfolios.

In France, very poor weather in Q2 impacted volumes. They were down by high-single digit percentages. We gained market share on premium, but our total market share was under pressure; and that was driven by a lower level of promotional activities compared to what we observed in the market.

In Poland, we saw good results for our premium and alcohol-free portfolios. Our total volumes were flat, slightly ahead of the market.

Our volumes in the UK grew, thanks to very good performance of Carlsberg Danish Pilsner and the first indications of 1664 Blanc – the launch we did in the beginning of the year – they're positive. We're currently facing some short-term supply chain constraints in the UK, that's going to impact volumes and market share over Q3. But we expect capacity to recover fully as we enter the Christmas season.

Please go to slide number 8 and Asia, where our beer volumes grew by 2.5%, supported by growth in China, Laos, Vietnam and Malaysia. The -2.5% volume development of other beverages was mainly due to Cambodia. Revenue per hectoliter increased organically by 3% and, consequently, organic revenue growth was 4.7%. The positive revenue per hectoliter development was supported by solid growth for the international premium brands and price increases. In Q2, revenue per hectoliter was more muted at 1%, which was due to a negative country mix and weaker brand mix. The depreciation of the Laotian and Chinese currencies led to a reported revenue development of -1.2%.

Operating profit in Asia grew organically by 5.3%. That was achieved despite a significant increase in marketing and sales investments. Adverse currency movements meant that reported operating profit declined by 2.5% and operating margin by 30 basis points to 24.2%.

Looking at a few markets, we continue to gain market share in China. Our volumes grew by 3%, which was ahead of the market, which declined by an estimated 5% in the first half. Volume growth in the second quarter slowed down due to heavy rainfalls in Southern China and weak consumer sentiment. Our premium portfolio outperformed the core mainstream portfolio for the half year, but this was reversed in Q2 when growth for the core mainstream portfolio was ahead of premium. The bad weather and the weak consumer sentiment continued in July; and as a result, we're cautious about growth rates in the second half. They're expected to be lower than in the first half, leading to modest expectations for the full year growth in China.

On the back of tough comps with double-digit growth rates in the first half last year, our volumes in Vietnam grew by low-single digit percentages. This growth was well ahead of the market, which declined by an estimated low-single digit. While consumer sentiment remains weak, we saw early signs of a stabilization of the beer market.

Our volumes in Laos grew by mid-single digits. We saw growth in all categories, including beer, soft drinks and water. Inflation remained high and we therefore continued to take significant price increases. Our business in Laos has delivered strong growth for a number of years and that resulted in some capacity constraints during the peak season. We're, of course, addressing this challenge to avoid future out-of-stock situations.

Slide 9 and Central and Eastern Europe and India, which we internally just refer to as CEEI. The region delivered very good results with organic growth of volumes of 4.5%, 8.8% for revenue and 14.1% for operating profit. It should be noted that the 6% volume growth in Q2 was helped by easy comps due to bad weather last year in the southeast part of the region.

Revenue per hectoliter grew organically by 4%, both for the half year and in Q2. That's thanks to price increases and a positive product mix. The strong organic operating profit growth was the result of volume growth, the positive revenue per hectoliter development and good cost control that more than offset higher sales and marketing investments. The lower reported operating profit growth of 12.2% was mainly because of the depreciation of the Ukrainian currency. The operating margin improved by 60 basis points to 19.4%.

Looking at our two largest volume markets in the region, our volumes in Ukraine grew organically by double-digit percentages despite the very volatile environment. Revenue per hectoliter continued to improve supported by strong growth of the premium portfolio, and the alcohol-free brews portfolio also grew strongly.

Our volumes in India grew by low-double-digit percentages, despite dry days being enforced in connection with the elections and despite challenging weather conditions impacting one of our breweries. Our national market share in India strengthened.

And with that, handing it over to you, Ulrica.

Ulrica Fearn, CFO

And thank you, Jacob, and good morning, everyone. Now, let's go to slide 10 for more details on the P&L.

So, revenue grew organically by 3.9%, and that was driven by a 2% increase in revenue per hectoliter and a volume growth of 1.4%. And revenue per hectoliter improved in all regions as a result of premium growth and price increases, and then partly offset by a negative channel and country mix.

Reported revenue grew by 2.6%, and the main delta from the organic growth was the adverse currency impact, which mainly related to Chinese, Laotian and Ukrainian currencies. The small acquisition impact related to Waterloo Brewing in Canada and the Jing-A craft brewery in China.

Cost of sales per hectoliter declined by 1%, primarily due to the country mix and efficiency improvements. The higher revenue per hectoliter and the lower cost of sales per hectoliter led to an organic growth in gross profit per hectoliter of 7%. The reported gross profit improved by 6.3%, and the gross margin improved by 160 basis points to 46.3%.

As we said in the beginning of the year, we increased sales and marketing investments. Our marketing investments were up organically by almost 20% with higher investments across all three regions. We maintained our strict cost focus and administrative expenses increased in line with revenue. Total operating expenses increased organically by 9.6%, and mainly because of higher sales and marketing investments and higher logistics costs. And the higher logistics costs were primarily driven by salary inflation and higher transport tariffs in some markets.

Operating profit grew organically by 4.7% and by 1% in reported terms. And again, the main offsetting currency impacts came from China, Laos and Ukraine. The reported operating margin was down by 30 basis point to 16.3% because of the higher sales and marketing investments.

Looking at the items below operating profit, special items amounted to DKK -139 million, mainly impacted by M&A-related costs. Net financials amounted to DKK -550 million and excluding foreign exchange gains and losses, net financial items amounted to DKK -452 million, and this was DKK 141 million more than in 2023 and due to higher interest rates on bonds issued in 2023 and also higher net interest-bearing debt.

The effective tax rate was 21.2%. Net profit for the group ended at DKK 3.7 billion. Adjusted net profit was DKK 3.9 billion, which was a decline of 3.4% and due to adverse currencies and the higher net financials. Adjusted earnings per share was DKK 28.6.

Let's go to slide 11. Free operating cash flow amounted to DKK 3.6 billion. The reported EBITDA growth was 1.5%, and that was offset by negative impacts from the change in working capital and higher CapEx. The change in total working capital was DKK -836 million. And zooming in on trade working capital, the 12 months average trade working capital to revenue remained strong at -20.4%. Other working capital was, however, particularly impacted by VAT payables.

CapEx amounted to DKK -2.3 billion compared to DKK -1.8 billion in half one 2023. The higher investment level was partly explained by the new brewery in China and capacity expansion in Laos. Net interest-bearing debt was DKK 25.2 billion, which was DKK 2.9 billion higher than year-end 2023. The increase was mainly due to the share buybacks of DKK 1.9 billion and dividends to shareholders and non-controlling interest of DKK 4.5 billion. Net interest-bearing debt to EBITDA was 1.65 times. Return on invested capital was 14.5% and the 70 basis points decline year-on-year was due to currencies, acquisitions and the higher tax rate.

And now to slide 12 and our capital allocation priorities. So, we'll skip through priority one and four as we have already given details on these, but go to the fifth priority and provide some more details on the financial impact of the acquisitions that we have announced this year. We've entered into strategic partnerships with two craft breweries, Mikkeller in Denmark and Brasserie du Pays Flamand in France. In both cases, we have acquired a minority stake and will sell and distribute their strong local craft brands, which will strengthen our local portfolios. And Jacob has already provided details on Britvic, so no more from that on me – from me.

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The acquisition of the remaining 40% of Carlsberg Marston's amounting to £206 million was completed on the 31st of July. The transaction will increase net interest-bearing debt and interest payments, but will reduce non-controlling interest which were expected to be close to DKK 100 million for 2024.

Finally, we signed an agreement to acquire the remaining 33.3% of CSAPL, which is the holding company owning 100% of the business in India and 90% of the business in Nepal. The agreement also includes an additional acquisition of 9.94% of the business in Nepal, and therefore it gives us more than 99.9% ownership of this business. We expect both deals to complete in Q4 this year. The purchase price is $744 million, and of this amount, $537 million will be paid at completion and $207 million retained for three to five years.

Perhaps a bit counterintuitive, but the acquisition of the 33.33% of CSAPL will not reduce non-controlling interest. This is because of the partners' put option, which meant that the Indian business has been accounted for as a fully owned subsidiary; and this is in accordance with IFRS and described in the annual report.

On the other hand, the accounting treatment of Nepal will change. This business has been accounted for as an associate, but upon completion of the transaction, it will be fully consolidated. Had it been in 2024, this would have added approximately 0.7 million hectoliters in volumes and DKK 0.5 billion in revenue. Net results will also be positively impacted, as it will include 100% of the net profit in Nepal instead of currently 90%.

So, please go to slide 13 and the earnings outlook for the year. Yesterday, we had adjusted our outlook for organic operating profit growth for the year to 4% to 6% compared to our previous expectation of 1% to 5% growth. The adjustment was due to solid business performance year-to-date and good cost control, which compensated for the poor weather in Western Europe in June, a continued soft consumer sentiment in some of our Asian markets in half one and into Q3.

Following the weak June, we expect volume dynamics to improve in Western Europe in half two and we do already see growth in July, which is also helped by easy comparables due to poor weather last year. In CEEI, we expect the good momentum to continue, while we're more cautious on Asia and especially China, where we now expect a softer half two development due to weather in July and continued soft consumer sentiment.

Included in the outlook is a significant increase in sales and marketing investments. Marketing investments to revenue for the year will increase in line with Accelerate SAIL ambitions, although the absolute increase will be lower than expected earlier in the year. And this is due to the weaker consumer sentiment in some Asian markets and the impact from bad weather that has impacted our volumes.

Based on yesterday spot rates, we assume a currency impact on our operating profit of DKK -300 million compared to the previous assumption of DKK -250 million. And the change is mainly due to Chinese and Laotian currencies. Financial expenses, excluding FX, are now expected to be around DKK 1.2 billion, and this is compared to the previous expectations of DKK 1.1 billion. The increase is due to the acquisitions: the purchase of the remaining 40% of Carlsberg Marston's in July, the

expected completion in Q4 of the acquisition of the Indian and Nepalese businesses and the financing costs related to the establishment of bridge financing facilities for Britvic.

Assumptions for tax rate and CapEx are unchanged at 21% and around DKK 5 billion, respectively.

So, with that, over back to you, Jacob.

Jacob Aarup-Andersen, Group CEO

Thank you, and operator, let's turn to slide 14. It's time for Q&A. But before opening up for that, let me just summarize the key messages. First of all, we delivered continued volume growth despite the poor weather in Q2 and the weak consumer sentiment. We reported solid organic operating growth despite a significant increase in sales and marketing investments. As a consequence, we've adjusted our full year earnings outlook upwards and we've taken major strategic steps that will support the future of Carlsberg.

As always, please note that we are going to limit the number of questions to two per person to ensure that as many of you as possible get a chance to get through. You're welcome to rejoin the queue.

With that, let's go to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question today comes from Trevor Stirling from Bernstein. Please go ahead with your question.

<Q – Trevor Stirling – Bernstein>: Morning, Jacob and Ulrica. Two questions from my side, please. The first one, Jacob, I appreciate you're not going to guide on line items. But if we look at the shape of the P&L in the second half, I presume we're looking at, similar to the first half, strong gross margin expansion with a lot of that being reinvested into A&P and net margins of flattish.

And the second, and really coming back to your comments on San Miguel in the UK and you talked about a substantial hit to UK profits. So, based on what we can work out from Global Data, et cetera, it looks like San Miguel did a little bit less than 2 million hectoliters and that probably implies that you're going to be short several hundred million Danish kroner in terms of contribution after A&P and royalties. And I appreciate there's a lot – you're going to be doing to try and mitigate that loss, but is that the right way to think about the impact of San Miguel in the UK?

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Hi, Trevor. Thanks for that. Let me start on your first question and then Ulrica can speak to San Miguel. So, in terms of shape of P&L in the second half, of course, we – as you know, we don't guide on intra-year movements, but we're very – you started with the gross margin, well, listen, we're pleased with the development of the gross margin in the first half. That improvement is – as we laid out in February, it's a key priority for this management team to drive gross margins back to pre-COVID levels, so above the 48% number

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from pre-COVID adjusted for Russia. The 160 basis points in the first half, of course, is a very good starting point.

I'm not going to guide on gross margin in the second half, but, of course, there is a continued focus on this. But you also know it's a multiyear journey for us. It's over the next couple of years that we will bring gross margin back. There is some lumpiness around when that comes through. But I think that's where I can leave it in gross margin. I have been very firmly told not to start guiding on gross margin intra-year.

No, but the other question was around marketing. The other significant part of the P&L composition in the first half was this significant increase in marketing and up to 20%. And we do expect, despite the weakness that we've seen in certain markets compared to when we started the year, which are, of course, market-related and weather-related, et cetera, we do expect that we still see a significant marketing increase this year and that means at least high-single – high-single digit marketing increase for the year. That also means you're going to see a significant marketing spend in the second half.

If you look at the comps, though, do remember that we ramped marketing investments quite significantly in the second half last year. So, the year-on-year effect is different in the second half versus the first half, but in absolute numbers, it's going to be a good and full investment in marketing in the second half as well. So, listen, looking at the overall P&L, this is a year where we're seeing gross margin improvement, we're seeing significant reinvestment into sales and marketing basically just like we said we would, and that you should expect to continue.

On the San Miguel side of things, Ulrica?

<A – Ulrica Fearn – Carlsberg A/S>: Yes. Thank you, Trevor. And yes, the sort of, of course, volume impact of about 1.8 million hectoliter and a revenue impact of DKK 1.4 billion, it will have an impact. We are not disclosing any profit numbers. But, of course, that's partly also because we are working to replace the lost volumes through – that could be through our own brands in the world beer category, if that's Brooklyn or that is Poretti or a 1664 from a commercial point of view. But we're also looking at different cost initiatives. But I can't be more specific than that at this point in time.

<Q – Trevor Stirling – Bernstein >: Thank you very much, Jacob and Ulrica.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thanks, Trevor.

Operator: The next question comes from Sanjeet Aujla from UBS. Please go ahead.

<Q – Sanjeet Aujla – UBS>: Morning, Jacob and Ulrica. Two from me, please. Firstly, on China. Can you just give us a bit more of a feel for what's happening geographically, how your performance in the core strongholds in the west and center fares versus the south and the east?

And then secondly, just on COGS, you're clearly well hedged for this year, but can you just give us a sense of how 2025 is shaping up and how well hedged you are? Thanks.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you very much. Why don't I start on the China question and then if you want to do the COGS, Ulrica? Then the – on the China side, so, you know we're not going to be too specific around different regions versus each other. But if you look about the composition of the market development, we're saying that we're seeing – in the second quarter, we're seeing mainstream perform well and premium being more under pressure, and we're seeing within – so, say, in Q1, we had stronger premium growth than mainstream growth, it's the other way around in the second quarter. Premium is still performing solidly, but you can say, within premium, we're seeing high-end premium people migrating down to more affordable premium brands. That's also why we're seeing something like Tuborg doing very well.

What that means geographically is also you can say part of the – there's a larger proportion of the market that is on trade when you move to the bigger cities. And therefore, on-trade is also hit harder when we have – what we are going through right now, which is both an impact from negative weather, but also the impact from continued consumer sentiment. So, you would expect naturally from that that there's more strength in the more traditional regions versus the big cities.

Our big cities are holding up well and we are seeing continued growth in a number of the strategic focus areas in the big city portfolio. But, of course, with a higher proportion of on-trade in those portfolios, they suffer more when the weather is the way it's been. So, I think it's more about categories than it's around regions. Our focus is on making sure that we maintain people within the premium category, but make sure that we give them affordable premium so they don't leave the premium category, and I think we've been succeeding at that in the first half with the 3% volume growth, which is very much driven across our portfolio of brands.

Ulrica, would you...

<A – Ulrica Fearn – Carlsberg A/S>: Thank you. So, some comments on the COGS. I mean, there's not that much that has moved. We are still seeing the barley and aluminium below where it was in 2023, and we're still seeing the increased sugar, glass, labor. And I could say as well that conversion cost do remain sticky and energy have had a little bit of a hit in the very recent weeks. But overall, we are, as you say, now hedged 95% for the main commodities in 2024. And then if I look into 2025, we're about 50% now hedged in 2025, which basically is a fairly large proportion still, so followings through the market will have a significant impact to the outcome of 2025 still.

<Q – Sanjeet Aujla – UBS>: Great. And can I just sneak in a quick follow-up on San Miguel. Just given the scale of that hit at the group level, it's around 2 percentage points to revenues. Does that impact your 4% to 6% organic revenue growth ambition for 2025?

<A – Jacob Aarup-Andersen – Carlsberg A/S>: No. So, well, listen, we haven't been out adjusting any guidance, and I wouldn't be doing that on this Q&A. So, no, we have an unchanged midterm guidance.

<Q – Sanjeet Aujla – UBS>: Thank you.

Operator: The next question comes from Thomas Lind from Nordea. Please go ahead.

<Q – Thomas Petersen – Nordea Bank>: Good morning, Jacob, Ulrica, Peter. Two questions also from my side here. So, first one is maybe just a little bit on the guidance upgrade. What exactly is

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driving the upgrade here? I know you're saying a bit about the cost control, but I believe that June was numbers – Q2 numbers were a bit hit by bad weather and consumer sentiment. So, maybe if you could just – yeah, is it related to the strong July numbers that you have seen in Western Europe or what exactly here is driving the guidance upgrade?

And then my second question that would be on the Chinese consumer sentiment that you're noticing here is – it's not doing great. And I was just wondering if you're seeing a deterioration in Q2 in Chinese consumer sentiment or if it's mostly related to the poor weather that you're also stating here? So, that would be my two questions. Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thanks for that. Let me start on China and then Ulrica can speak guidance. So, listen, on the consumer sentiment in China, we're not seeing any major change in consumer sentiment. And you can say the starting point on that is, unfortunately, that's not fantastic news because consumer sentiment in China remains significantly subdued.

When you look at the impact we had both in June and July from weather, that, of course, just only exacerbated that and, of course, it's important months, so that's frustrating. We saw a significant flooding also in a number of areas, et cetera. So, we had that weather impact on top of consumer sentiment. But isolated on consumer sentiment, we're not seeing any major change and we don't see an improvement on the horizon. That's quite obvious. And that will impact the entire market, which will remain subdued. That, of course, also impacts us. So, that's just what we are flagging. It's a continued weak consumer sentiment that is then coupled with weak weather in June and also very weak weather in July that has hit the business. So, don't read this as a deterioration. But on the other hand, we don't have an improvement in the horizon on China.

Ulrica, on the guidance side?

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. So, a little bit of color on that. So, you're absolutely right. We did deliver what we believe is solid earnings performance in half one, and that was supported by good cost control, but also very good performance management as we got through this. So, having that behind us, we have a better overview of the year and we now have seven months behind us, and basically Western Europe is improving in July compared to the weak June, so combined – put that altogether, but also some conservatism into half two where, as Jacob just mentioned, consumer sentiment remains weak in Asia and China and the consumer sentiment and whether that has had an impact, and we need to watch that as we get through half two. But, yes, we've got half year behind us and looking into another month and that's combined with that outlook is what gets us to our 4% to 6% guidance.

<Q – Thomas Petersen – Nordea Bank>: Very clear. Thank you very much.

Operator: The next question comes from Chris Pitcher from Redburn Atlantic. Please go ahead. Mr. Pitcher, your line is open, maybe you're still on mute. We still cannot hear you. Maybe you can join back into the queue. And we will continue with the next question, which comes from Simon Hales from Citi. Please go ahead.

<Q – Simon Hales – Citi>: Thank you. Morning, all. I wonder if I could just sort of follow up a little bit, Jacob, on your just Q3 trading comments to-date. Can you provide a bit more color on the volume performance you've seen across Western Europe, any particular markets to call out that

have seen a significant sort of change in trend as we moved into the quarter? And when we think about your full year expectations now for Western European volumes in the context of your raised guidance, do you think we could see positive volume growth for the full year in Western Europe? So, that's my first question.

But maybe just to add a little bit on to that around Western Europe as well, you mentioned UK volume constraints as well – as we headed into Q3 lasting until we get to the Christmas season. Any more color you could share there?

And then just maybe a quick one for Ulrica around working capital sort of movements. You highlighted the move in the first half. How should we think about working capital moves for H2 and for the full year, please?

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you, Simon. And, of course, there are some of the things you're asking for here, I will be a little bit cautious on giving you too many details on, just as you know. But, listen, looking at Q3, you're right, we have stated in Western Europe that we have seen a return of Western Europe in July versus what was a very bad June, and you will have heard that from our competitors as well that June was very weak, but July has come back well in Western Europe and it is broad based. So, I'm not going to single out a country for you. It is broad-based across most of our portfolio in Western Europe. We've seen a clear bounce-back after the very weak June. And so – which is, of course, one of the reasons, as Ulrica just said, that we have more clarity on year to go beyond just the first half numbers.

You asked about full year volumes, whether they could be up in Western Europe. Listen, I think they are going to be flattish. Could they be up a bit? Maybe, but I think we're probably around flattish and that would lead to low-single-digit revenue growth in Western Europe. Let's see. Don't kill me if they are up a bit, but I think this guess is around flattish.

The UK, a specific supply chain issue you mentioned, listen, it's – we just had a supply chain situation where we need to make sure we remedy that. It's not significant from the perspective of the broader group, but we just wanted to highlight it in a diligent fashion. It's under control and we're making sure that we're back on track as quickly as possible, but it could impact supply during parts of Q3. But we'll definitely – as you say, we'll definitely be back for the Christmas season in full – in earnest. But no drama around it. We just wanted to highlight that there could be some disruption in Q3.

Ulrica, over to you on working capital.

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. Absolutely. And, yeah, I think it is – it can be a bit random if you look at total working capital. But I think the way to think about it is that we clearly continue to optimize trade working capital. And as I mentioned in half one, average trade working capital to revenue on an MAT basis was minus 20.4%, which is very much in line with what it's been in over a long period of time. So, that's the way to continue to think about it.

There are some pressures from a country mix element point of view that puts a little bit of pressure on that. But that's in general what we're trying to do and trying to push and mitigate towards. So the best assumption is to continue to go for that long-term trend.

<Q – Simon Hales – Citi>: Understood. Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you.

Operator: The next question comes from Laurence Whyatt from Barclays. Please go ahead.

<Q – Laurence Whyatt – Barclays>: Morning, Jacob. Morning, Ulrica. Thanks very much for the questions. Two of them from me, if that's okay. But firstly, on India, you should be having control of that business towards the end of the year. Just firstly on the volumes, you said you had double-digit volumes in the market. Can we assume that you got positive price/mix there as well and, therefore, we're looking at perhaps mid-teen total sales in India?

And then, when – now you've got the control, when you got the control at the end of the year, what sort of changes can we expect from that business? I think I understand you have relatively few brands in the market today. Do you think you'll be rolling out a full portfolio or what sort of changes you think you can make now you've got full control?

And then my second question on COGS per hectoliter. I think previously you guided for the year a COGS per hectoliter flattish to low-single digit growth. And that came in at negative for the half. Can we then assume that for the rest of the year, perhaps that full year expectation is a little bit lower now and, therefore, we wouldn't necessarily expect the increase in COGS per hectoliter for the year? Thank you very much.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thanks, Whyatt. Great to speak. Let me start on India. So, yeah, you are right. We do expect to get full control of the business in a couple of months once the process has run its course. And you are asking specifically around the price/mix, I guess, in the market. We're seeing a mid-single positive price/mix. Basically, if you look at the – if I were to give you a bit of color on India, so we're seeing low-teens volume growth and around 20% revenue growth. We see the market up roughly 5% in the same period. The revenue per hectoliter is driven by both price increases and brand mix. The market share improvement that we've had is driven by basically three brands which are, as you also say, we have a quite concentrated brand portfolio, but it's driven by Tuborg Strong, it's driven Carlsberg Elephant, and to an extent to Tuborg Classic as well.

When you look at the volumes we just reported, as I also said in my opening remarks, we were impacted by dry days in connection with the election. And I have to say, overall, we're very pleased with the performance in India, where you can say it is very much a state-by-state development as well.

And again, in the first half year, our market share development is uneven per state. We had some supply chain disruption due to weather in Maharashtra. But on the other hand, we had very strong market share performance in other states due to the brand performance and premium growth as well. So, it's a constantly moving picture where we are continuing so far to manage to drive share growth.

When I look at the strategy, which was your main question going forward, it is too early for us to start laying out the strategy for India. Of course, we said it a number of times. It's not going to be a dramatic reversal in our approach to India, but it does mean there is a number of levers that we

can start pulling over the coming years that we have not been able to. But we would prefer to open up around that once we have full control of the business and the acquisition has closed.

Over to you, Ulrica?

<A – Ulrica Fearn – Carlsberg A/S>: Yes, and thank you, Laurence. I think – yes, we're very pleased with our performance of COGS per hectoliter in the first half. And I will say, we do expect COGS per hectoliters to be about flattish for 2024. So, that's the short answer.

<Q – Laurence Whyatt – Barclays>: Perfect. Thank you very much.

Operator: The next question comes from Søren Samsøe from SEB. Please go ahead.

<Q – Søren Samsøe – SEB>: Yes. Good morning, Jacob, Ulrica, and Peter. So, two questions from my side. First one is on the free cash flow. Maybe you can go through the sort of what is the normal seasonality in the cash flow? And if you assume a normal seasonality, where will this year's cash flow end up? And then, a follow up on Trevor's question on San Miguel. With the loss of this contract, where do you think that leaves your UK beer business? Do you have any other sort of brands that could take over, where you could perhaps intensify the efforts significantly? Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Hey, Søren. Let me start on UK. So, Ulrica alluded to some of it. But from our perspective, of course, San Miguel is a – it's a sizable volume that is leaving our portfolio as you also point out. That's also why we're working and investing quite hard behind a number of key brands that will take up a good part of that volume. It's especially, say, Poretti, Brooklyn and 1664 Blanc and especially Blanc is for the longer term, of course.

And then, we're seeing strong growth in market share gains for Carlsberg Danish Pilsner. So there's a number of brands that are relevant here. We don't see San Miguel be replaced over the coming years from a portfolio of these brands. Our beer portfolio in the UK, we think, remains strong, especially now in the combination with Britvic which will give us a strong proposition and integrated proposition.

And for me, it's, of course, important that we continue to launch and remain relevant. And there will be a world segment, which San Miguel is part of, but which also Poretti, Brooklyn, 1664 Blanc are in. It's a dynamic part of the UK market, and it's important that we constantly have a strong portfolio there. So, that's a big focus for us in terms of investment and in terms of focus of resources.

Ulrica, over to you on the cash flow question.

<A – Ulrica Fearn – Carlsberg A/S>: Yes. You cut out a little bit. I think it was about the – how the phasing is and it is – free cash flow is impacted by seasonality. So, we will expect to see a higher second half than the first.

<Q – Søren Samsøe – SEB>: Okay. Thank you very much.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you, Søren.

Operator: Mr. Pitcher is back in the queue. I hope we can hear you. Mr. Pitcher, please go ahead.

<Q – Chris Pitcher – Redburn>: Hello? Can you hear me?

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Yes, we can, and be loud and clear.

<Q – Chris Pitcher – Redburn>: Excellent. The telephone system working now. Can I have a follow-up question on India and the UK. On India, as part of the transaction, you're withholding quite a substantial amount pending some potential claims. Could you give a little bit more color on what that $207 million relate to? And can these claims in any way affect the route to control?

And then just a very technical point, the very, very small minority in Nepal. Does that have any bearing on your ability to operate the business at all, or is that now small enough that you can carry on? And then in the UK, can I just confirm that you said that the UK minority saving would be about DKK 100 million, i.e., the 40% in the Marston's – Carlsberg Marston's JV? Thanks.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: All right. Thanks, Chris, and good to have you on the line. So, let me do India and Ulrica will do the minority. So, on India, the $207 million. Well, for contractual reasons, we're not going to go into the details of that. As you know, this has been a complex negotiation. This has been a complex transaction. There's a lot of moving parts. And there's a number of legal reasons why it ended up being this number. And it covers a number of different items. And we just – we simply cannot start going into the details around that.

And you did ask whether also – so sorry, if you were looking for more color, but unfortunately that's what we can give you. It does not in any way impede our ability to fully control and do whatever we want to do. This is a pure technicality that relates to the transaction itself, and it will have no bearing on our ability to run the business, control the business, own the business. So, we can leave that to decide.

On the Nepal minority, no, that's also will have no impact going forward. It's a pure financial thing. There is no operational control or impact on the business. So, it is a clean transactions once they're closed. And these things that you're highlighting, they're pure financial matters.

Over to you, Ulrica, on the UK minority.

<A – Ulrica Fearn – Carlsberg A/S>: Well, that's very short answer on this one. And just a confirmation, as Chris said, that's the right assumption. We had expected it to be about DKK 100 million for 2024.

<Q – Chris Pitcher – Redburn>: And that includes the San Miguel profit?

<A – Ulrica Fearn – Carlsberg A/S>: That is our expectation. Yes.

<Q – Chris Pitcher – Redburn>: Thank you very much. Okay.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thank you.

Operator: The next question comes from Gen Cross from BNP. Please go ahead.

<Q – Gen Cross - BNP>: Good morning, and thank you for the questions. Just a couple, actually just a couple of small technical ones from me. You mentioned the loss of the Schweppes license in Switzerland, impacting your Western Europe other beverage volumes. I just wondered if you could give us some color on how big that impact was and whether you expect that to continue into Q3, Q4?

And the second question is actually, again, on minorities which I think were a bit higher than most people were expecting in H1. I know you've given a bit of color on the impact of the CMBC minority purchase. But are you able to give us any quantification of what you expect for the full year on that line? Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Thanks for that. Listen, Schweppes, it's – from an enterprise perspective, it's a small impact. And you're going to see it cycle out now with the numbers as we move into the second half. The effect started in the second half last year. So you're going to see a small impact in Q3 and it's going to cycle out at the end of the year.

So, it's small numbers. But when you look at the percentage movements in the quarter and in the half year within soft drinks, of course, it has an impact. But in the grand scheme of things, it's quite small numbers and it will cycle out now from the – during the second half.

Ulrica, on the minorities?

<A – Ulrica Fearn – Carlsberg A/S>: On the minorities, yeah, there is a small increase and that is related to Laos, but it's also related to Marston's what's in there for the half year. And as I said, that will clearly move out and that will be the DKK 100 million that we talked about for 2024. For the rest of it, we don't give an outlook for the full year more than that, but that will be the mechanics as we move forward.

<Q – Gen Cross - BNP>: Great. Thank you very much.

Operator: [Operator Instructions] The next question comes from André Thormann from Danske Bank. Please go ahead.

<Q – André Thormann – Danske Bank>: Yes. Thanks for taking my question. And hi, all. So I have two, please. The first one is just regarding China. And I wonder if you can help me with the numbers for the second quarter. So what was volume growth and revenue growth for Q2 in China?

And the second thing is regarding your guidance. So my impression, at least until now, was that that organic EBIT growth should be higher in the second half, partly due to the better comps on marketing. And now, you grew 4.7% in the first half and you guide 4% to 6% for the full year. So, implied almost the same in the second half. So, am I missing anything here or shouldn't organic EBIT growth be higher in the second half? Thank you.

<A – Jacob Aarup-Andersen – Carlsberg A/S>: Hi, André. Bit tough line, but I think we got the questions. On China, in Q2, and you'll also be seeing that when the Chinese accounts will be

coming out, volume is up 1% which gives you the 3% on the half year and revenue is down 1%. And so, we're seeing a negative price/mix in Q2, which is not driven by price, but it's driven by mix.

It's driven by the fact that we're seeing some trading – down trading from high-end premium towards affordable premium, and we're seeing more strength in the mainstream portfolio versus the premium portfolio. So, a small negative impact there and that gives you the plus 1 and minus 1 impact on China.

On the guidance, listen, we've given you a 4% to 6% range. It's correct that it's 4.7% in the first half. And as we look into the second half, there are many moving parts. I think Ulrica went through them before. In terms of what – you asked specifically, what would pull things down, I think there are some well-known pressures that we're talking about here: Asia, and specifically China, continues to be a tough environment.

At the same time, we're seeing with confidence that Western Europe has come back after a tough June. So there's a lot of moving parts here. We think 4% to 6% is a good range to reflect what we're looking into. And of course, they'll be many moving parts into that.

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

Operator: Ladies and gentlemen, that was the last question, and I would like to hand back for closing comments.

Jacob Aarup-Andersen, Chief Executive Officer, Carlsberg A/S

Thank you very much, operator; and thanks to everyone for their great questions, as always. You know that our IR team is sitting ready at the phones, waiting for further detailed questions. They love that. So, please reach out to them. Otherwise, looking forward to speaking to many of you over the next couple of days.

Until then, have a great day. Thank you.

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