Carlsberg A/S
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Q1 2019 Trading Statement Conference Call
Speakers:
Cees 't Hart, CEO
Heine Dalsgaard, CFO

PARTICIPANTS

Corporate Participants

Cees 't C. Hart – President & Chief Executive Officer, Carlsberg A/S
Heine Dalsgaard – Group Chief Financial Officer, Carlsberg A/S

Other Participants

Jonas Guldborg Hansen – Analyst, Danske Bank A/S
Søren Samsøe – Analyst, SEB Enskilda (Denmark)
Andrea Pistacchi – Analyst, Deutsche Bank AG
Hans Gregersen – Analyst, Nordea Bank Abp
Michael Vitfell-Rasmussen – Analyst, ABG Sundal Collier ASA (Denmark)
Edward Mundy – Analyst, Jefferies International Ltd.
Tristan van Strien – Analyst, Redburn (Europe) Ltd.
Simon Hales – Analyst, Citigroup Global Markets Ltd.
Trevor Stirling – Analyst, Sanford C. Bernstein Ltd.

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Carlsberg Q1 2019 Trading Statement. Today, I am pleased to present CEO, Cees 't Hart. For the first part of this call, all participants will be in a listen-only mode. And afterwards, there will be a question-and-answer session. Just to remind you, this conference call is being recorded and the transcript of the call will be available online.

Speakers, please begin.

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

Good morning, everybody, and welcome to Carlsberg's Q1 2019 conference call. My name is Cees 't Hart and I have with me CFO, Heine Dalsgaard; and Vice President of Investor Relations, Peter Kondrup. I will go through the highlights of the quarter and Heine will talk you through the regions and outlook.

Please turn to slide 2. Q1 is traditionally a very small quarter for our businesses in Western and Eastern Europe due to seasonality, while Q1 for our Asian business is an important quarter due to the festive season. We delivered a solid start to the year in all three regions with broadly-based organic top-line growth. Organic net revenue in the quarter grew by 6.4%, and this was driven by a 3% price/mix and 3.4% organic volume growth.

Reported volumes grew by 6.7% due to last year's acquisition of additional 25% of Cambrew in Cambodia. Reported net revenue grew by 9.3% as well due to the acquisition of Cambrew and a very small positive currency development. We confirm our full-year expectations for organic operating profit growth.

Please turn to slide 3 and a few comments on our international premium brands, for which we saw good growth. 1664 Blanc grew by 30%, despite cycling a very strong Q1 last year with volume growth of 44%. The continued expansion in our Asian markets remains the key driver with Russia and Ukraine were also significant contributors to the impressive growth momentum.

Grimbergen grew by 4% in the quarter as it was impacted by phasing of commercial activities and shipments in France in Q4 versus Q1. The brand strengthened its market share slightly in its biggest market, France, and saw good growth in markets such as Russia, Switzerland, Italy, Poland, Germany, Belarus, and China.

Our largest brand, Tuborg, grew by 7%, supported by strong growth in China, India, the Balkans, and the Turkish license market. We just kicked off this year's Tuborg Open music activation with Grammy Award winners, Clean Bandit.

The Carlsberg brand grew by 2% with strong growth achieved in several Asian markets, particularly in China. In Western Europe, we saw strong growth in markets such as Poland, France, and Germany, while volumes in the UK were soft, ahead of the launch of the new Carlsberg Danish Pilsner brew in April. Across the globe, we continued the rollout of the new Carlsberg visuals and communication, the environmental-friendly packaging, and line extensions.

Please turn to slide 4 and a brief update on a few of our strategic priorities. The growth trajectory in the craft & speciality category continues and we grew our craft & speciality portfolio by 18%. We saw growth across most markets with particularly strong results in Poland, Ukraine, China, and Russia. Alcohol-free brews grew by 15% for the group. The category and our brands are showing good progress across basically all markets in both Western and Eastern Europe.

To mention a few other activities, we have expanded our offerings for our proprietary one-way keg system DraughtMaster to include alcohol-free brews and Somersby. The availability of alcohol-free brews on tap is an exciting proposition as we have not previously been able to offer our customers this option.

Within our digital activities, we launched a couple of new on-trade applications that will support our customers in terms of training and quality. In China, our e-commerce business is showing strong results, more than doubling volumes year-on-year in Q1. After just two years of e-commerce operations in China, our market share in the online beer market exceeds our offline market share.

With that, I will hand over to Heine who will take us through the regions and outlook.

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

Thank you, Cees. Please turn to slide 5 and Western Europe. Net revenue in Western Europe grew organically by 2.4% as a result of plus 1% price/mix and total organic volume growth of 1.6%. Reported net revenue was in line with the organic development due to an insignificant currency impact. We saw a positive price/mix in almost all markets driven by both price increases and a continued positive mix due to growth of premium products. The volume growth was particularly strong at the beginning of the quarter most profoundly in France, Denmark, Norway, Germany, Bulgaria, Poland and Croatia, whereas at the end of the quarter was softer, impacted by the later sell-in to the Easter versus last year.

Looking at a few selected markets, our volumes in the Nordics grew by low-single-digit percentages as they were impacted by the later sell-in to the Easter compared to last year. In Denmark, our beer business developed well and our volume and value share showed solid improvement. March was weak due to the aforementioned Easter effect. In Norway, the positive momentum continued with particularly solid results for craft & speciality portfolio, alcohol-free brews and soft drinks businesses. In Sweden, we saw a good growth for our craft & speciality and alcohol-free portfolios, while total volumes were impacted by the latest sell-in to Easter.

Our French business delivered solid volume growth in the quarter. Pricing remains challenging whereas mix continues to improve. Our craft & speciality brands developed positively with growth of brands such as 1664 Blanc and Grimbergen.

In Poland, our volumes grew by mid-single-digit percentages and even more importantly, our price/mix improved by double-digit percentages following price increases and a continued strong performance of our premiumization of brands.

As already mentioned by Cees, volumes in the UK declined by high-single-digit ahead of the launch in the UK of the new Carlsberg Danish Pilsner brew at the beginning of April following the launch of new visuals and packaging for the brand in Q1. Please note that the Carlsberg Pilsner sold in the UK is different from the rest of the world containing a lower ABV of 3.8%.

In some of our smaller Western European markets such as Bulgaria, Croatia and Germany, we saw solid growth. In all markets, price/mix developed favorably.

Please turn to slide 6 and Asia. Q1 was another strong quarter for our Asian business, despite the Chinese New Year being earlier this year and consequently with part of the sell-in happening already in Q4 2018.

Net revenue grew organically by 15.3% as a result of plus 5% price/mix, and total organic volume growth of 9.5%. Reported net revenue grew by 27%, positively impacted by currency movements, in particular the Chinese, Malaysian and Lao currencies and also the impact from the Cambrew acquisition. The price/mix improvement was the result of price increases and premiumization with our international brands delivering strong results in most markets in the region. We achieved strong results in our largest market China. Volumes here grew by 11% following strong execution of Chinese New Year activities and strong growth of our premium portfolio, supported by our big city expansion and leading to a very healthy price/mix.

Our Indian volumes grew by mid-single-digit despite very tough comps with a strong Q1 last year. We had a very strong start to the year, but March was week in India. In most of the other markets, we saw good business momentum, with particularly strong performance in Vietnam, Laos and Malaysia, Singapore. In Cambodia, our work with rebuilding the business is ongoing and will continue in the coming years.

Please turn to slide 7 and our smallest region, Eastern Europe. Net revenue in Eastern Europe grew by 5.1% as a result of strong price/mix up of plus 8%, which offsets the volume decline of 2.4%. Reported net revenue grew by 1.1%, impacted by weaker currencies compared to Q1 last year. In Russia, our volumes declined by 4%, while our price/mix developed favorably resulting in flat organic net revenue.

Market conditions in Russia are challenging. In Q4 2018 and Q1 this year, our shelf prices increased by 5% to 6% due to the 2 percentage points VAT increase as at January 1 and additional price increases to offset the higher input costs. We lost market share due to a temporary delisting in some outlets in connection with our negotiations with certain retailers and higher than anticipated price premium vis-à-vis competition. We monitor the situation very closely and we are taking appropriate actions. Our craft & speciality and alcohol-free portfolio delivered solid growth, which also supported the healthy price/mix.

We achieved very strong net revenue growth in Ukraine due to price increases and continued growth of our craft & speciality, while volumes were down.

Please turn to slide 8 and the outlook for the year. We started the year well and based on the Q1 performance, we confirm our key priorities for the year as well as our full year financial outlook. Consequently, we still expect to deliver organic operating profit growth of mid-single-digit percentages. Based on the spot rates on May 1, we assume a positive translation impact of around plus DKK 150 million compared to the previous assumption of zero currency impact. The change compared to February is primarily due to the strengthening of the Russian, the Chinese, and the Ukrainian currencies.

Other relevant assumptions remain unchanged. Finance cost excluding FX of DKK 700-750 million and effective tax rate of below 28% and CapEx of around DKK 4.5 billion at constant currencies.

Our SAIL'22 financial priorities also remain unchanged for 2019, meaning that we want to grow operating profit organically, increase ROIC, and secure an optimal capital allocation. Our share buyback program which was launched on February 6 and executed according to the Safe Harbor rules is running smoothly. As at April 26, 1,041,000 shares have been purchased at a total value of DKK 849 million. The daily volume bought represents an average of around 7% of daily traded volume on Nasdaq Copenhagen.

I also just want to remind you that in April, we sold the former brewery site in Trondheim in Norway. That will result in a gain of approximately DKK 400 million booked in special items and a net cash flow effect of slightly less than DKK 500 million.

And now back to you, Cees.

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

Thank you, Heine. Before we open up for questions, with a few final remarks from my side. Thanks Heine. We delivered a good start to the year in Q1. We see solid growth in our key strategic priorities, such as craft & speciality and alcohol-free brews. We are well on-track to deliver top- and bottom-line growth for 2019. Finally, we maintain the outlook for the year.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Jonas Guldborg from Danske Bank.

<Q – Jonas Guldborg – Danske Bank A/S>: A question from my side. First of all, if you could just talk a little bit more about Russia? You're losing market shares and you're taking – you're saying you're taking appropriate measures. Could you talk a little bit about what measures you're taking? Thank you.

Then looking at the 11% volume growth in China, are you able to say how much of that is due to the expansion into big cities? And then, finally, my third question is on this sale of brewery site in Norway and the capital gain of around DKK 0.5 billion. Will that affect your current share buyback program or will it affect it next year, so to speak? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you. Good morning. With regard to Russia, as you know, we increased prices in late 2018 and in Q1 2019. We now see on the shelves that our price premiums vis-à-vis competition is increasing, and therefore, we're losing market share. It was the start of the season, so we are able to correct that when we move into the season.

As always, we need to balance this in the dominant logic of the Golden Triangle, and therefore, we take measures in such a way that we balance market share, operating profit, and margins. What we're going to do, of course, we are not going to tell here. But you can assume that we will correct our first quarter with regards to market share.

Then, with regards to China, we're not giving specific underlying figures with regard to the big cities. However, we can say that the big cities as such continue to grow significantly. We have in terms of our total international premium brands portfolio and that's highly depending as well on the roll out in the big cities. We now see a 12% volume [growth]. Within that, Carlsberg grew 10%, Tuborg 11%, 1664 Blanc 42% and we are gaining market share in the premium and the super-premium segment in China. And that shows that we are making good progress in our cities. Then the third one, Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good, morning, Jonas. So, the question on Trondheim in Norway. So, there's gain in special items of approximately DKK 400 million and as you say, a cash flow – positive cash flow – effect of slightly less than DKK 500 million. And to your question, no, it will not affect our share buybacks trends for this year, just a small acquisition of DKK 500 million would not have affected it either. So, it is something that we will take into consideration for next year when deciding on share buybacks.

<Q – Jonas Guldborg – Danske Bank A/S>: Okay. Very good. Thank you very much.

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

Operator: Thank you. Our next question comes from the line of Søren Samsøe from SEB. Please go ahead. Your line is now open.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Hello. Just a question regarding Asia. If you could elaborate a little bit on what brands specifically have driven growth in Asia and if you can quantify the growth with these brands a bit. And secondly, some comments around your incremental margin in Asia. Is there any reason to believe that should be lower than for the rest of the group? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Søren, and good morning. Well, with regard to the brands growing in Asia, we see what I just said, the Chinese markets being very favorable for us with our international premium brands. So, they grew at a level that I just quoted. Then, we had a very good start in Vietnam, and that is basically across our total portfolio, and a very good buy-in at the beginning of this year on Tet and very good throughput for the Chinese New Year in Vietnam.

And then, we had as well a good momentum in India, especially in January and February with regards to our Carlsberg and Tuborg portfolio. So, these are the brands that were growing in the different countries. When we look at it from an Asian perspective, Tuborg grew by 9% and Carlsberg by 6%.

Then, I think in terms of the margin, Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. So, I didn't – frankly, I didn't really get what the question was. But as you know, we don't comment specifically on the development in the margin development sort of region per region. So, for the full year, we maintain ...

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: No, no, no. But it was more a general question whether your margins in – your incremental margins in Asia is in general lower than for the rest of the group. So, when you're growing in Asia, is that – on that incremental volume, is the margin lower than what you see for the rest of the group? That was the first question.

<A – Heine Dalsgaard – Carlsberg A/S>: No, no. It's the opposite.

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

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Oaky. Interesting. And then, finally, just on India, you grow 5%. But given you had a comparable 30%, what – how should we think of the underlying growth in India currently?

<A – Cees 't Hart – Carlsberg A/S>: So, the 30% in Q1 was the very easy comps in the year before because of the highway ban. When we look at the first quarter, in India our volume growth was almost 7%. So, that was good. We had a bit of a soft March. But please remember that India has a volatile business due to the differences per state, and obviously as well with some lower sales in some states in anticipation of dry days due to the elections and as well we have changed some of prices in some states. So all in all, we started off in India with in terms of 6.7% volume growth and 16.6% net revenue.

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

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

Operator: Thank you. Our next question comes from the line of Andrea Pistacchi for Deutsche Bank. Please go ahead, your line is now open.

<Q – Andrea Pistacchi – Deutsche Bank AG>: Good morning. A couple of questions, please. Firstly on Russia, if I could ask for a little more color here, in particular on the pricing situation. I mean, from what you're saying, it seems that I could be wrong of course that the competition hasn't followed, but really the price increase as you put through. And then, you alluded to some de-listings. Is that one or several players? And what is the situation there? Are you – I mean can you get back in now as you adjust prices? So does this mean you're out for the year with those retailers?

And if I can please ask you on China on your local business there, which I believe is also growing, is the way – and I think you're taking share, but is the market backdrop you – some of the Chinese brewers are talking about improving market conditions in mainstream. Are you seeing this?

<A – Cees 't Hart – Carlsberg A/S>: Andrea, good morning. Thank you very much. With regard to Russia, yes, it is – basically, the conclusion is when we look at Nielsen that we see some competitors having a widening gap between volume and value. That means indeed the competition seems not to have increased their prices.

With regard to the de-listings, it's good to say that we are back on all the shelves. But at the moment you negotiate price increases, sometimes retailers delist you just to increase the pressure. But basically, we have been able to successfully increase our prices and we are back on the shelves. However, what I said earlier, we lost some market share and we need to review that in line with our Golden Triangle.

Then with regard to China, yes, indeed, our local business is – or the local brands are growing. It's fair to say, I think, in terms of the mainstream brands that they had easy comps versus last year, because in general, we had some lower inventory last year beside the Q1. However, we saw as well a good share development in Yunnan. We had a stock-up for Chongqing extra malt – that is a new product launch that we will see in April. So, it was a combination of factors where as well the mainstream brands had a very good start of the year.

With regard to the general outlook, we see indeed some pricing in the mainstream segment and indeed that would give an indication that the underlying circumstances as well in that segment are a bit better than what we have seen over the last couple of years. So, in total, we are positive about Q1 in China.

<Q – Andrea Pistacchi – Deutsche Bank AG>: Thank you.

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

Operator: Thank you. Our next question comes from the line of Hans Gregersen from Nordea. Please go ahead. Your line is now open.

<Q – Hans Gregersen – Nordea Bank Abp>: Good morning. Two quick household questions. Your guide – interest ex-FX, can you guide to what the FX will be based on current exchange rates? DraughtMaster, you gave back in Q4, a growth rate of – I think it was 35%. What has the growth been in the first quarter? Then to the real questions. If we look on Cambrew, what is the integration update there and how is the three-year outlook? On Russia, we have seen a very aggressive campaign activity especially from some of your key competitors in the last couple of years. Any easening there? And then, finally, on India, when should we expect the next brewery expansion? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Good. First question for you, Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: So, I'll take the first one. Good morning, Hans. So, you're right. We are guiding for net financials excluding FX of 750 million and then whether we comment on where it would look, where the FX as of today, no, we don't comment on that.

<Q – Hans Gregersen – Nordea Bank Abp>: Can you say whether it's a positive or negative figure at least?

<A – Heine Dalsgaard – Carlsberg A/S>: No, it's not something we comment on. We end up in all kinds of speculations and it's basically a nonsense number.

<A – Cees 't Hart – Carlsberg A/S>: Then, your second question about the DraughtMaster growth, we grew 30% in the number of installations and we had as well 30% volume growth and especially then in Nordics and Germany, as well Italy had growth, but that was a bit more modest. Then, Hans, due to some mic issues here, we didn't get your third or fourth question. So, very briefly repeat it.

<Q – Hans Gregersen – Nordea Bank Abp>: Yeah. Cambodia, can you give integration update and sort of outline where is the company going to be in the three-year outlook? And then, on India, given the strong growth, what should we expect the next brewery expansion?

<A – Cees 't Hart – Carlsberg A/S>: Right. Okay. Thank you. With regard to Cambodia, I was there two weeks ago, got a total update on the business. It's fair to say that there's a lot that we need to do there and put in place. We see that more as a kind of three-year program rather than a short and sweet success turnaround in a few months. So, we need to get the fundamentals in place. However, it's a very attractive market. We see as well that the brands that we have, have a good base and a good relation, if you like, with customers and consumers. So, I think we will get there, but it takes indeed, like you say, it's a three-year plan rather than a three-month turnaround.

<Q – Hans Gregersen – Nordea Bank Abp>: Are you still seeing a negative market share trend?

<A – Cees 't Hart – Carlsberg A/S>: No. No. We grew in the first months after we took over. So, we are regaining some market share. But frankly, there as well, we need to get this Golden Triangle right, so we're not obsessed by market share only. It needs as well a review of the good margins and the profitability. So, in total, for us potentially a very good market, but we need to do see through the consequences of all the initiatives we take now. We have an excellent team there. So, I'm really confident that we're doing there the right things and that the results will be over time will be seen and accretive to Carlsberg.

With regards to India, for the time being, we don't have new plans for a brewery. As you know, we have this kind of logic that we continue with our growth by first making sure that we have the number one or number two position in a state and then continue to invest in another state. The last state we did was Karnataka. We opened a brewery about a year ago and that's what we are focusing on. So, with regard to capital investment, we do not see short term any expansion there.

<Q – Hans Gregersen – Nordea Bank Abp>: Thank you.

Operator: Thank you. Our next question comes on the line of Michael Rasmussen from ABG. Please go ahead, your line is now open.

<Q – Michael Rasmussen – ABG Sundal Collier ASA (Denmark)>: Thank you very much. First of all, can you quantify if India has turned around in April? My second question, a follow-up on DraughtMaster. Can you quantify how many systems by numbers that you have installed at the moment and what is the ambition by 2020 as an example, please?

Then finally on the re-launch of the Carlsberg brand, firstly, can you share a bit of the initial thoughts from the trade in the UK here about a month in? And secondly, please confirm if the rollout plans into the other markets are following the plans that you've set out? Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Michael. Turnaround in India, in April, feels as if there is a disaster in India. That's not at all the case. March was a bit more soft, as I said. April is doing okay.

Again, what we said earlier, there are elections in the coming periods in India. That means that we have in some of the states some dry days. We have as well changed some prices. We see the consequences of that. But in that respect, there is no new news to say at this moment of time with regard to India.

With regard to our DraughtMaster system, I don't think we are going to move into these details hopefully. Competition is listening as well. What we do in Denmark, as we speak, is we are converting from still to DraughtMaster and that conversion is going very well. We are going to move further, as you know, in Sweden and in Norway. We get a very good review and feedback from our customers on this. Consumers get more fresh beers. So, this is a system which really helps us to serve our customers and consumers better. And as we said earlier, we see it back in the figures.

Then with regards of the UK re-launch, we launched, as we said, Carlsberg Danish Pilsner with a new brew, new design, new pack format, and as well now in Snap Pack. We have received very good customer feedback, and we are pleased to say that now Carlsberg Danish Pilsner, including the Snap Pack, is listed in Tesco, with in-store support from the 5th of May. Very early days, but it will be the first time that the core Carlsberg variant has been listed since 2015 in Tesco, and we are delighted by this support from a key customer.

We've got secure distribution in our all major targeted off-trade retailers including then the Tesco, indeed Asda and Morrisons, and the Aldi, Lidl and so forth. So basically, we got the full support for this from the trade. And when you talk about rollout, I would like to highlight that the re-launch of Carlsberg in the UK is of a different order of magnitude, because there, we have a different brew, as you know. We have improved the brew due to the dissatisfaction with the consumer. We had this famous 3.8% ABV with not at all huge appreciation of the taste from our consumers. That is very, very different in the other countries. There's no reason to significantly change the brew there. There, we talk more about new design and some new pack formats and new advertising.

So, there are different – if you like, these are two different projects. Both are early days. We got very good feedback that we want to see now in the figures.

<Q – Michael Rasmussen – ABG Sundal Collier ASA (Denmark)>: Thank you. If I just can ask a follow-up question on the Snap Pack, I think that in the Nordics at least, we've heard kind of a little bit mixed feedback in the media. Can you please confirm that everything is going as planned on the Snap Pack, please?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. I can fully confirm that. Especially in Denmark, we saw an uplift of our volume of that format of 19% in Q1. So, that shows that it's good and I'm not talking about Easter impact for that yet. So yes, there are some maybe small complaints about how to "unlock", if you like, one of the cans from the total pack and maybe need to do the communication a bit better, because it's a bit of a trick, but relatively easy to learn. So, we're not at all afraid for that. And in fact, we see in the figures again very good throughput.

<Q – Michael Rasmussen – ABG Sundal Collier ASA (Denmark)>: Great. Thank you very much and well done.

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

Operator: Thank you. Our next question comes from the line of Ed Mundy from Jeffries. Please go ahead. Your line is now open.

<Q – Ed Mundy – Jefferies International Ltd.>: Morning, everyone. Three questions, please. First is on Poland where you think you grew volumes mid-singles and had a double digit price increase. This is quite different to Poland of old. I was wondering whether you provide a bit more color around that.

The second is your acquisition, Chinese craft brewery Jing-A. Beijing, I think, is a challenging market for you. What does Jing-A do to help to get your distribution in this market, or are you planning to sell this beer around your other territories?

And then third question is on Vietnam. I think the Hanoi Times is reporting there have been some breakthroughs in negotiations on the stake sale. I was wondering whether you've got any comments on that.

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Thank you, and good morning. We, in Poland, yes, we had a volume increase of 2.6% and our value is 12.6%. We go ahead with our value-oriented strategy. It means that we are indeed where possible increasing our prices. We are focusing very much at the higher end of the market and that improves significantly our mix, enhancing a very good quarter for Poland and the continuation, if you like, of the success in Poland of our more premium part of the portfolio.

With regard to Jing-A, we just got it. We have our plans. We are now going to announce those. But, let's first make sure that we get the further momentum of Jing-A in China. As you know, the craft brands in China pick up. So, we are really excited by this acquisition and how we maybe roll out the further in globe, we will see, but first, we want to make that further success in China.

Then, with regard to Vietnam, Habeco, the business or the brewery in Hanoi, I can't say we have a breakthrough. The only thing I can say is we continue our conversations with the government. And in that respect, we are basically progressing slowly, slowly with no breakthrough, but good talks.

<Q – Ed Mundy – Jefferies International Ltd.>: Great. Thank you. And just as a follow-up, I think in Western Europe, you said that volumes dipped a little bit at the end of the quarter in a largely due to the timing of Easter. And given the better weather in April and the shift in Easter from Q1 into Q2, is it fair to assume that Q2 started well in Western Europe?

<A – Cees 't Hart – Carlsberg A/S>: Yes. That's fair to assume. We had a good April. The Easter impact in Q2 is always a bit less than in Q1. Q1 is a smaller quarter. Q2 is always a bigger quarter and there, you have the, well, the spring and the early summer, in fact. So, don't exaggerate these kind of thinking, your expectations for Q2. But we had a good April and the totality of March and April show that we had more than good Easter.

<Q – Ed Mundy – Jefferies International Ltd.>: Okay. Thank you.

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

Operator: Thank you. Our next question comes from the line of Tristan van Strien from Redburn Partners. Please go ahead, your line is now open.

<Q – Tristan van Strien – Redburn (Europe) Ltd.>: Three questions. One, just a follow-up on Cambodia from Hans' question. Can you just maybe give some color on the pricing environment there? And to what extent has that market down traded? The second one, in Western Europe, I assume that your Tuborg license in Turkey is outperforming the rest of Europe. So, what impact has that had on your price/mix in the region? And then, lastly, just Heine, just in terms of your tax rate, as your business shifts away from Russia towards Asia, is it fair to assume that enhances your tax rates in a positive manner for you? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Okay. Thank you. With regards to pricing in Cambodia, yeah, the level of promotions is huge in Cambodia, especially because of the ring-pull promotion. That's I think one of the things that reduces the value in the market. And one of the things we are reviewing now how to move away from that kind of very deep promotion in such a way that we don't massively lose market share gain, margin and improve our profit. So, that's the kind of review we have as we speak.

And so, that's with regards to Cambodia. With regard to Tuborg in Turkey, it has a slightly negative impact on the mix. That's how you need to read it. With regards to tax, I'll hand over to Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Hi, Tristan. So, actually the tax rate in Russia is slightly below the average for the group. So, good profit in Russia is good for our overall tax percentage. So, as that profit goes down, that does put a bit pressure on our outlook for tax. We do remain confident in what we've said all along, which is that we can, over the next few years, see a tax rate of around 26%, and that sort of remains the case.

<Q – Tristan van Strien – Redburn (Europe) Ltd.>: Just a follow-up on that, Heine. I assume your Asian tax rate then is above the group, right. Are there possibilities to work on that or is this just what it is?

<A – Heine Dalsgaard – Carlsberg A/S>: You mean specifically for Russia?

<Q – Tristan van Strien – Redburn (Europe) Ltd.>: For Asia.

<A – Heine Dalsgaard – Carlsberg A/S>: No, but there's a lot of different opportunities for us to work on further optimizing our tax rate also in Asia. It's clear that for a lot of the Asian markets, the growth rates or the tax rates are sort of negative versus group average, but there is a lot of different optimization projects we're working on in order to optimize both our structure and also specific initiatives within tax. So, if you balance all these different things out, and as you know we are working on let's say 10, 15 different tax initiatives every year, then the outlook remains the same.

<Q – Tristan van Strien – Redburn (Europe) Ltd.>: Okay. Thank you very much.

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

Operator: Thank you. Our next question comes from the line of Simon Hales from Citi. Please go ahead. Your line is now open.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thank you. Morning, everybody. I wonder if I could just follow-up on your comments around the Easter impact. I mean, could you quantify a little bit more, how much of a shift we've seen in hectoliters perhaps from Q1 to Q2 just to help think about the underlying Western European trend as we move forward?

And then secondly, the non-beer volumes performed quite well in the first quarter. I wonder if you could just flesh out a little bit what was going on in some of the regions there. And finally Cees just on China. I mean big cities are you now in China and what's been the sort of the delta in Q1 versus where you were at the end of 2018?

<A – Cees 't Hart – Carlsberg A/S>: Okay. Thank you, Simon and good morning. The Easter impact, first of all, when we talk about Western Europe because the rest of the globe if you like doesn't show that big Easter effect, the Easter effect or impact in Western Europe is mainly coming from the northern part of Western Europe, and there we show a very good and strong April. As I said earlier, it's always more visible in Q1 than Q2. When the largest spring and the early summer volumes dilutes the Easter volumes. An exact number is always difficult to estimate and how we do that internally is putting March and April together vis-a-vis last year. And then I can just tell you that we are very satisfied and basically in line with what we see in Q1.

Then on the non-beer, I'm afraid I need to – Heine has the answer on that.

<A – Heine Dalsgaard – Carlsberg A/S>: I don't know if I have the answer. But I can certainly give you an answer, Simon. So you're absolutely right that the non-beer part is performing well across Western Europe in particular, and it is something we see across the region. So that's absolutely right. When you look into the percentages for Eastern Europe, you have to bear in the mind that it's very, very small numbers. So if you look Q1 numbers, even though we're growing 17% in non-beer, we are talking about 0.2 million hectoliter so it's a small numbers. In Asia, you have to take into account when you look at the total growth of non-beer, you have to take into account a significant part of that growth comes from Cambodia where we have a very strong soft drink business.

<A – Cees 't Hart – Carlsberg A/S>: And then Simon, with regard to the big cities in China, as we said earlier, it's a rolling program. We started almost one and a half year ago with five cities and then we opened new cities at the moment that we were really seeing the success in the first five cities. By the end of 2018, we were in more than 20 cities. At the end of 2019, we expect to be at least in 30 to 32 cities. So we are adding up or adding cities towards our current program. And a good thing is that we see still continued growth in the cities we opened one-and-a-half year ago as the first five cities. And in that respect, it helps, if you're really interested in the year-over-year, of course it helped in Q1 because we opened several cities in the second half of 2018 to build up to the 20 cities where we were at the end of 2018.

With this answer, I suggest we have the final question please.

Operator: Thank you. Our final question will be from Trevor Stirling from Bernstein. Please go ahead, your line is now open.

<Q – Trevor Stirling – Sanford C. Bernstein Ltd.>: Good morning, Cees and Heine. Two quick questions from my side. First one on China. I think you've commented on healthy price/mix in China. I think last year price/mix was 7%. Is it reasonable to expect that broad trends continuing? And second question perhaps broader. Again, towards the end of last year we were talking in terms of your ambition to take sufficient price and cost cuts to offset input cost inflation. Looking at the pretty healthy price/mix you're achieving around the world, seems like you're well on track to do that.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Trevor, and good morning. With regard to the mix in China, yes, of course, it depends on, if you like, three different parts. They need to come together in order to continue this very good price/mix. That's the further rollout to the big cities. I think it is a tick. The further rollout or the further volume development of our international premium brands, I think there we show as well very good momentum. And the third thing is then, of course, our mainstream brands. And as we said earlier in the call, it seems that we see there some better circumstances with regard to taking price. So yes, it's not at all a statement here, but a 5% to 7% mix should be possible there in China.

Then, with regard to taking prices, in general, that's over to Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. So, good morning, Trevor. The short answer is yes and a little bit longer answer is that as you know, we've been well-hedged for 2019. I don't disclose the exact hedging.

And that we expected, as we also said, some months ago the COGS per hl to increase by 2% to 3% net-net because of these significant price increases in raw materials then offset by the hedging. We will aim at mitigating the cost impact through pricing and through mix and then to the conclusion, so far, so good. Yes, we are getting pricing through.

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

<A – Cees ‘t Hart – Carlsberg A/S>: Thank you, Trevor.

Cees ‘t Hart, President & Chief Executive Officer, Carlsberg A/S

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 your during the coming days and weeks. Have a nice day. Bye-bye.