Carlsberg A/S
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Q3 2019 Trading Statement Conference Call
Speakers:
Cees 't Hart, CEO
Heine Dalsgaard, CFO

PARTICIPANTS

Corporate Participants

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

Other Participants

Søren Samsøe – Analyst, SEB Enskilda (Denmark)
Jonas Guldborg Hansen – Analyst, Danske Bank
Laurence Whyatt – Analyst, Barclays Capital Securities Ltd.
Edward Mundy – Analyst, Jefferies International Ltd.
Simon Hales – Analyst, Citigroup Global Markets Ltd.
Nadine Sarwat – Analyst, Sanford C. Bernstein Ltd.
Frans Høyer – Analyst, Svenska Handelsbanken AB (Denmark)

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Carlsberg Q3 2019 Trading Statement. Today, I'm pleased to present CEO, Cees 't Hart; and CFO, Heine Dalsgaard.

For the first part of this call, all participants will be in listen-only mode. And afterwards, there'll be a question-and-answer session. Just to remind you, this conference call is being recorded and a transcript of the call will be made available online.

Speakers, please begin.

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

Good morning, everybody, and welcome to Carlsberg's Q3 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.

We are pleased that we in Q3 were able to deliver solid revenue growth despite tough comparables with last year. Particularly, our Asia region continued its very good performance, delivering sustained strong growth rate. Our volumes and top line in Western Europe were solid despite the very warm and dry summer last year, while we had tough comps and faced challenges in Russia that negatively impacted our market share year-over-year.

We were of course pleased that we, earlier this week, were able to make the second positive adjustment this year to our earnings outlook. This is another proof point of the execution of SAIL'22. It is also a consequence of improved geographical footprint as solid earnings performance in China and Western Europe more than offset challenges in Russia.

I will now go through the highlights of the quarter and Heine will talk you through the regions and outlook.

Please turn to slide 2 and the headline numbers for the quarter. Organic net revenue grew by 3.1% in Q3. This was driven by a 4% price/mix and a slight organic volume decline of 0.5%.

In reported terms, volume growth was flat due to the increased ownership of Cambrew, which was consolidated from August 1, 2018. The reported net revenue grew by 5.3%, positively impacted by currency movements and the consolidation of Cambrew. The positive currency impact was mainly coming from Asia and Eastern Europe. For the nine months, organic net revenue growth was 3.8%, largely in line with the quarter.

Please turn to slide 3 and a few comments on our international premium brands which saw somewhat mixed results for the quarter. 1664 Blanc continued its strong growth trend and grew by 30%. The growth was broadly based, with particularly strong growth in markets such as China, France, Russia and Ukraine.

Our largest brand, Tuborg, grew by 5%, driven by growth in several markets, including China, India, Serbia, Croatia and Norway as well as licensed volumes in Turkey. We saw strong growth of Grimbergen in markets such as Switzerland, Denmark, Poland and Germany. Total Grimbergen volumes for the quarter declined, though, by 1% as a result of volume decline in France, being the brand's largest market. Year-to-date, Grimbergen volumes were up by more than 2%.

The Carlsberg brand saw good volume momentum in markets such as Malaysia, Singapore, Russia and Kazakhstan as well as in our export and licensed markets. However, total brand volumes declined by 2%, impacted by tough comparables in Western Europe, not least in the UK. Excluding the UK, volumes of Carlsberg brand were up by 3%.

Please turn to slide 4 and a brief update on some of our strategic priorities. The growth trajectory in the craft & speciality category continued and we grew our craft & speciality portfolio by 12% in Q3 and 15% for the nine months. We have an attractive portfolio of strong brands in the category and we were pleased to see that being evidenced by the solid growth in the quarter despite the slight decline of the Grimbergen brand. We saw growth of craft & speciality across most markets, with particularly strong results in Poland, Ukraine, China, France and Switzerland.

The volume growth of alcohol-free brews for the first nine months was plus 8%. In Q3, we saw minus 4% as continued solid growth of 7% in our Western European markets was offset by tough comparables and category decline in Russia and lower sales in a few export markets. Looking at the cider category, where Somersby is our key brand, it continues to perform very well. Somersby grew by 20% for the quarter and 14% year-to-date, mainly driven by markets such as Poland and Ukraine.

Slide 5 please and a comment related to our sustainability program, Together Towards ZERO. In September, we announced the investment in a water recycling plant at our brewery in Fredericia in Denmark. The recycling plant will significantly reduce the brewery's water usage to just 1.4 hectolitre water for 1 hectolitre beer, which is absolutely world-class. This investment will serve as a platform for learnings, which we can apply at our other breweries in our pursuit of reaching the 2030 target of 1.7 hectolitre water usage for 1 hectolitre beer.

I will now 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, and good morning, everybody. Please turn to slide 6 in Western Europe. Net revenue grew organically by 0.2%, a very solid performance, considering that we in Q3 were cycling very tough comparables from last year's warm and dry summer whereas the weather has been more normal this year.

The total organic volume development was minus 0.1% and price/mix was slightly positive. We saw positive price/mix in most European markets, while the growth of license volumes in our export and license division once again impacted the regional price/mix. Excluding the export and license division, price/mix in Q3 was positive by around 1%. Reported net revenue grew by 0.2% and the currency impact was insignificant. In spite of the very warm summer last year, the Nordics delivered 1% organic total volume growth, positively impacted by strong performance in Denmark and a customer contract in Finland that we didn't have last year. Price/mix was slightly negative due to product/mix.

In a slightly declining French market, we saw growth for our premium brands. Total volumes were, however, impacted by lower volumes of the mainstream Kronenbourg brand and the lower level of promo from our side due to some bottle shortage issues. Price/mix continued to improve, driven by mix as prices remain under pressure.

In Poland, volumes grew slightly in a flat market. We continued to see solid price/mix improvement, mainly due to good performance of premium brands such as Somersby, Zatecky and Okocim as well as growth of alcohol-free brands.

In Switzerland, we saw a volume growth and good price/mix, supported by successful premiumization. In Southeast Europe, we saw a good performance with particularly strong results in Bulgaria and Serbia. And in the UK, our market share is stabilizing following the relaunch of the Carlsberg Pilsner, although volumes were down due to tough comparables with last year's good weather.

Slide 7 and Asia please. The positive momentum in Asia continued and net revenue grew organically by 14.2%, driven by strong price/mix of 8% and 5.7% organic total volume growth. Reported net revenue grew by 18.7%, supported by currencies of 2.8% and a net acquisition impact of 1.7%. The acquisition impact related to Cambrew which was consolidated from August last year. The strong price/mix improvement was mainly the result of our successful premiumization efforts.

We had another strong quarter in China. In a slightly declining market, our volumes grew by 6%, and combined with a continued very strong price/mix, net revenue grew organically by 20%. This growth was a combination of sustained growth of the international premium portfolio, which grew by approximately 8%, the big city expansion, growth of local premium brands and price increases.

India was impacted by tax and price increases in some states and as a result, volumes were flat for the quarter. Price/mix developed favorably due to a positive sales mix and also price increases. Both Laos and Vietnam delivered solid double-digit volume growth, driven by our local power brands.

This week, we agreed with our partner to acquire the remaining 25% in our Cambodian business and consequently, we will own 100%. In August, we initiated the significant task of rejuvenating the Angkor brand. Beer volumes continued to decline, while the CSD business performed well. Turning the business around in Cambodia is a substantial task and it requires significant marketing investments, time and patience.

In Malaysia and Singapore, our business continued to deliver very strong performance.

Slide 8 and Eastern Europe please. Net revenue in Eastern Europe declined organically by 2.3%. Total volume development was minus 8.2%, while price/mix was strong at plus 6%. All markets in the region saw positive price/mix, supported by both price increases and regional growth of premium offerings, especially within the craft & speciality category. Reported net revenue grew by 3.7%, positively impacted by currencies.

Our market share in Russia was flat sequentially, but down year-on-year, driven by the continued intense competitive environment. Combined with a slight market decline, our volumes in the quarter were down by 12%. Price/mix remained very solid at plus 4%, in line with year-to-date. As the competitive situation in Russia remains challenging, we expect price/mix in Q4 and margins for second half to come under pressure.

In Ukraine, our volumes declined due to bad weather and a lower level of promotions from our side compared with the overall market. Price/mix was positive and consequently, our Ukrainian business delivered high-single-digit organic net revenue growth.

In Kazakhstan, we saw positive results. The market grew and our business continued its very positive trajectory, supported by growth of craft & speciality, alcohol-free brews and local premium brands.

Slide 9 and outlook please. As we saw earlier this week, we adjusted our earnings outlook from previously high-single-digit organic growth in operating profit to now around 10% organic growth. The change in outlook was driven by continued strong Chinese performance and solid Q3 numbers in Western Europe. Combined, this more than offset the challenges in Russia.

As previously communicated, we expect less strong earnings improvement in the second half compared to first half due to two key reasons. Firstly, in Asia, we have a reversal of a pension provision in China of RMB 170 million but at the same time, marketing strength will increase significant in the second half as we continue to invest in China to maintain our positive momentum. In addition, in Cambodia, we are making long-term investments to bring the business back in shape. Secondly, in Eastern Europe, we are facing challenges in terms of market share loss and an intensified competitive environment in Russia and Ukraine, putting pressure on price/mix and margins. We are taking actions to address these challenges.

In both Asia and Eastern Europe, our actions may temper short-term earnings, but we believe these investments are necessary to secure the long-term sustainable growth of our company. In addition, as many parts of the group are performing well, we are in a position where we can invest more in the long-term growth of our company, while at the same time deliver very solid financial results.

Based on the FX spot rates, on October 30, we assumed plus DKK 115 million currency impact compared to plus DKK 100 million previously. Other relevant assumptions are unchanged, with our expectations being finance costs, excluding FX, of around DKK 700 million, reported effective tax rate of below 28% and CapEx of around DKK 4.5 billion at constant currencies.

Back to you, Cees.

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

Thank you, Heine. Before we open up for questions, a few final remarks from my side. The Group delivered a solid performance in Q3 with organic net revenue growth of 3.1%. We are well on track to deliver solid top and bottom line growth for 2019 in spite of tough comparables.

Finally, we are pleased that we earlier this week announced another earnings upgrade for this year. And with this, we are now ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Okay. Our first question comes from the line of Søren Samsøe of SEB. Please go ahead. Your line is open.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Good morning, gentlemen. First, I had a question in regards to your craft & speciality portfolio, which still shows good growth, but it seems like there are some issues regarding France, if you could maybe go into detail with that. And then secondly, if you could go into details with – I understand that the price on glass is going up. How will that impact your input cost, sorry?

<A – Cees 't Hart – Carlsberg A/S>: Yes. Thank you. Well, as you say, craft & speciality segment is doing well for us in our portfolio. The Grimbergen brand is declining in Q3. The brand continues to deliver growth in most markets like Denmark, Poland, Switzerland and Germany. The largest market for this brand remains France, but the brand declined as we lost some overall market share to the lower level of promotions and the bottle shortage. Excluding France, the brand grew by 8%.

On the bottles, Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. Good morning, Søren. As you know, we don't comment on sort of individual items within COGS and we don't guide on COGS for 2020 before we guide for 2020, which we do in February. But just to mention a few of the positives and the negatives and you're absolutely right that price on glass is one of the negatives.

But on the positive side, on COGS for next year, you have barley, which is declining. You have alu that is also declining. And then on the negative side, there is both sugar pricing that's going up, paper, in some regions, going up and then you're absolutely right, that there is a glass shortage that is driving up glass bottles significantly. But overall, as said, there is a lot of pluses and minuses and again, we don't guide specifically on 2020 before we are in 2020.

In addition, please bear in mind that there is a time lag from current spot pricing and then until it impacts our P&L due to hedging. So this year, the impact is very limited and next year, we don't comment more than in general terms, which is what we've done here.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Okay. But maybe you can comment in relation to the issue or the impact from – that you can't get the right glass bottles. Is that a concern sort of longer term to your growth in craft & speciality because if that's been impacting your growth and trends this year, I assume it could also impact your craft & speciality portfolio more generally going forward and the growth there?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. It's not a concern, Søren. It's a short-term challenge that that we manage. It's definitely not a not a longer-term concern.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Okay. And then a last question. I understand that there's some changes on your contracts with Coca-Cola in regards to the border trade; it's been a pretty high-volume contract. Maybe you can go into detail with what's happened there and also if it will impact your earnings in Western Europe? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Søren. Well, The Coca-Cola Company has redefined the geographical areas and consequently we can from January 1, 2020 no longer sell Coca-Cola products to the Danish/German border trade. This will indeed have a result; in fact it will have a volume reduction of 30% on our Danish CSD canning lines and the financial impact on the Danish business will be relatively substantial for, again, the Danish business. We're taking appropriate actions to mitigate the financial impact, but the Danish business will not be able to fully close the gap. We cannot disclose that exact impact on people, volumes or EBIT due to the agreements we have with our partners and especially as well for competitive reasons. But the change has no implications for the Danish and Finnish Coke Corporation where we have a long-term agreement and for which the duration is not disclosed. So that's our story on the border trade.

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

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

Operator: Thank you. Our next question comes from the line of Jonas Guldborg of Danske Bank. Please go ahead. Your line is open.

<Q – Jonas Guldborg – Danske Bank>: Yeah. Good morning all and thank you for taking my questions, Cees and Heine. First on Russia, you're talking about a continued pressure on your EBIT margin there. How should we look at that in H2 compared to H1? H1 EBIT margin was down 140 basis points. Should we expect a larger decrease in H2? That was my first question.

Then secondly, how much of your total brew volumes are now alcohol-free? And as a follow-up, how is this volume then split between Western Europe and non-Western Europe? And my third question would be how large a market is France in the Grimbergen brand? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Good morning, Jonas. Thank you very much for your questions. With regards to the margin in Russia, the Eastern European EBIT margin was 18.9% in the first half year. And indeed, with the current competitive environment and higher promotional activity from our side, margins will be lower in H2. I think moving forward, we more are looking towards, let's say, 15%, 16% than the 19%, 20% we have in the past.

With regards to the alcohol-free brands and the impact of the volume to the total portfolio, 7% of the volume is craft & speciality and alcohol-free beer. For alcohol-free beer, as such, 3% of the volume and 4% of the net revenue is alcohol-free bear as part of our group's total portfolio.

So again, 3% and 4% for volume and revenue. If you take craft & speciality and alcohol-free beer together, we talk about 7% of volume and 14% of revenue. That's different for Western Europe; that is higher because we started earlier with our focus on these two segments there and craft & speciality and alcohol-free beer is in total 12% of our Western European portfolio in volume and 20% in value.

Grimbergen, as we started our brands in – or basically Grimbergen is already a French brand as you know and we picked it up in our SAIL'22 program, started to export that, if you like, the concept to other markets. These markets, as we said earlier, do very well at this moment of time. Due to the promotional – less promotional pressure and the glass issues combined together, Grimbergen in France is a little bit less. We are talking about roughly 70%-75% of our volume of Grimbergen coming from France.

<Q – Jonas Guldborg – Danske Bank>: Okay. That was – a lot of numbers on the alcohol-free and craft & speciality. Did you say at any point how much of the alcohol-free that is Western European-based?

<A – Cees 't Hart – Carlsberg A/S>: No. Good catch, but we don't want to reveal that one.

<Q – Jonas Guldborg – Danske Bank>: Okay.

<A – Cees 't Hart – Carlsberg A/S>: For competitive reasons, yeah.

<Q – Jonas Guldborg – Danske Bank>: Fine. Thank you very much.

<A – Heine Dalsgaard – Carlsberg A/S>: Hello. Operator, I think we are ready for the next question.

Operator: Thank you. Apologies for the delay. Our next question comes from the line of Laurence Whyatt, Barclays. Please go ahead, your line is open.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Hi. Good morning, Cees and Heine. First question on Russia, there's a comment that came out on Bloomberg this morning that Carlsberg says AB InBev has been very aggressive on pricing in Russia. I was wondering if you would give your opinion on the outlook for next year in terms of Russian pricing. We understand that the AB InBev Efes joint venture has reinvested a lot of the synergies into promotion, do you anticipate that continuing into 2020 or do you think it'll be a more benign pricing environment? Secondly, we've heard that Molson Coors are considering a strategic review of their businesses in Europe. Wondering if you have any view on those businesses.

And thirdly, you mentioned you've continued the rollout of DraughtMaster into a number of new markets, particularly China. I was wondering if you could give an early indication of how well those rollouts have gone. Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Laurence. With regard to the outlook on Russian pricing, it's very difficult to say given the current market dynamics, probably the traction remains unchanged. We are rebalancing our Golden Triangle. We have been very value focused over the last couple of years as you know and with our price increases, we aimed at offsetting the cost of goods increases and sustain our margins, again because of the new competitive environment that might not be sustainable and therefore we need to face up to new reality and of course, we will continue to try to take price increases in order to offset the COGS if needed and follow price inflation. But at the moment that others have another kind of choice, we need to ensure that our prices of our brands remain competitive.

With regard to Molson Coors, we can only share with you that we heard the same, but obviously, we're not commenting on that. And with regards to DraughtMaster, yes, we just completed our line in China and it's far too early to say anything about it. We are excited about it of course because we have been very successful by rolling out this concept in the Nordics, especially in Denmark, Norway and Sweden. It's going very well as well with regard to our rollout in the UK. So we have high expectations from it, but it will be a slow start because we first of course need to fully commission the line and then start to sell the product in the market.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Understood. Thank you very much.

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

Operator: Thank you. Our next question comes from the line off Edward Mundy, Jefferies. Please go ahead. Your line is open.

<Q – Ed Mundy – Jefferies International Ltd.>: Morning, Cees. Morning, Heine. Three questions please, all on Asia actually. The first is on China. I was wondering whether you were able to comment on any splits between on and off-trade. Are you seeing some weakness within the on-trade, within that market? And just as a reminder, how big is the on-trade for you there?

The second question is on Cambodia. To what extent are you able to comment on how big or how material the additional 25% stake is? And then the third is on India where you saw some slightly slower growth within the third quarter. Do you feel that this is a new run rate for 2020 or do you think there were some factors specific to Q3, which means that zero isn't the new run rate?

<A – Cees 't Hart – Carlsberg A/S>: Ed, good morning. The last was on China or you're talking about the run rate?

<Q – Ed Mundy – Jefferies International Ltd.>: That's right. So the first was on China, on -trade versus off-trade. The second is on Cambodia. And the third is on India, where your volumes are flat in the third quarter. Is that sort of a reasonable proxy for growth looking forward or were there some specific factors to Q3?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. With regard to China, it's more or less 50:50, on trade/off trade. Of course, we are very glad with the performance of our portfolio in China. You see indeed some pressures on some of the channels, especially the night channel and there we indeed saw some reduced growth in the Carlsberg brand. But the other parts of our portfolio did extremely well, as you see in our figures.

With regard to Cambodia, over to you, Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. So on the Cambodian acquisition, the price is not disclosed. But if you look at the 2018 Annual Report, you can see that we paid a couple of hundred million USD for the 25% we acquired in 2018. And it is safe to assume that we'll pay a bit more for the rest.

<A – Cees 't Hart – Carlsberg A/S>: But then with regard to India, well, basically as we always say, it's a volatile environment. We used to say it's two steps forward and one step back. Q3 indeed was one of these quarters that it's one step back. Q3 was impacted by price and excise tax increases in a couple of states. And therefore, we need to see how that basically impacts further growth. So it's difficult to say whether it's the new reality. Again, we are very optimistic about our expectations and opportunities in India. However, it is a volatile environment.

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

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

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

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Could I just sort of go back to Russia please, Cees? I was just trying to understand what's happened with your pricing through Q3. You talked at the Q2 stage I think from memory that you were rebalancing the Golden Triangle moving more towards a volume rather than a value approach, but it looks like revenue per hectoliter in the third quarter has remained in line with the first half trend, and have you moved your pricing down to try to react to some of those competitive pressures yet?

And following on from that, your comments around sort of margin outlook for Russia have been maybe near 15% to 16% ongoing. Is that an H2 comment for this year or a much longer term expectation? You now have a rebasing down of that business.

And then just secondly, obviously a very strong volume performance in Q3 in the Nordics. Could you flesh out a little bit more of what you've been doing in those key markets there? How big of a benefit is the Finland retailer contract coming back to you helping those volumes?

<A – Cees 't Hart – Carlsberg A/S>: Thank you very much, Simon. Good morning. With regards to the Russian pricing, obviously, within the season, you're normally down to reduce prices, but we try to get enough promotional slots. We have got – we did get less promotional slots than anticipated and therefore you see a very healthy price/mix, but a different, let's say, direction of volumes. In that respect, Q3 has not done what we expected to rebalance, if you like, our Golden Triangle and that's one of the things we need to do in the remainder of the year and especially of course when we talk about 2020.

Then about the margins, yes there is a new competitive environment. Prices have not been taken in line with COGS and that means that – by our competitor – and that means that we need to rebalance our expectations in terms of margins for at least 2020 and that further depends on the competitive behavior. So for 2020, I think it's indeed more in the direction of 15%-16%.

With regards to our performance in the Nordics, which was quite strong, especially with regards to our Q3 2018 results, it is in Finland and our contract with one of our trade partners. On the other hand, Denmark had an extremely strong Q3 and what we see as well as in some of our markets with our CSD business helped to grow the business. So in that respect, good quality results from the Nordics, Simon.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Perfect. Thanks very much.

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

Operator: Thank you. Our next question comes from the line of Nadine Sarwat at Bernstein. Please go ahead, your line is open.

<Q – Nadine Sarwat – Sanford C. Bernstein Ltd.>: Good morning, everyone. So quick question on China. So over the last few quarters, you seem to have a deceleration in volume growth and an acceleration in the price/mix growth. So could you explain a little bit of what is underlying this trend please?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Nadine and good morning. Well, there are many dynamics in the market in China. Our growth in China is driven by different elements and therefore, you see, indeed different, let's say, dynamics between volume, price/mix and then as concerns the net revenue. What we have is the growth of our international premium brands where we have a strong portfolio with Carlsberg, Tuborg, and Blanc. As I said earlier, Carlsberg was a bit slower in growth than normally because of the night entertainment closures.

Then we have the big city expansions where we expand into cities in Eastern China. We have as well market growth in Western China and we are more skewed to Western China, as you know, and some provinces have been supported by changed opening hours, more tourism and good weather. And then we have a few very specific premium Chinese brands outside that grow outside their home provinces like the Dali brand and the Wind Flower Snow Moon. So in that respect, the different elements of our portfolio in China helped us tremendously in Q3, but give a bit different dynamics maybe as one of the quarters before.

<Q – Nadine Sarwat – Sanford C. Bernstein Ltd.>: Okay. That's very clear. Thank you.

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

Operator: Thank you. And our next question comes from the line of Frans Høyer of Handelsbanken. Please go ahead. Your line is open.

<Q – Frans Høyer – Svenska Handelsbanken AB (Denmark)>: Thank you very much. A question regarding the guidance and the organic EBIT growth, I understand that. What about the M&A impact on the reported EBIT growth? It was negative percent or so in the first half. What should we think about given the increased ownership in Cambrew for the year as a whole or for the second half please?

<A – Cees 't Hart – Carlsberg A/S>: Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. Good morning. So, the impact comes from the Cambrew acquisition that we did last year in August. So, the logic is that when we take control of this, as we did last year in August, then for the coming 12 months, it's included in the nonorganic. Now, we are in control, so there will be no change going forward. It is to be included in the organic. And then remember as well by the way, so this is on the Cambrew part, remember for the second half, there is continued small plus on inorganic coming from the additional acquisitions we did last year of acquiring a bit more in Super Bock.

<Q – Frans Høyer – Svenska Handelsbanken AB (Denmark)>: So, on a net basis, second half, the M&A effect on group EBIT is going to be what, positive or negative?

<A – Heine Dalsgaard – Carlsberg A/S>: It's going to be positive.

<Q – Frans Høyer – Svenska Handelsbanken AB (Denmark)>: Thank you. On the Russian market share loss, could you quantify what has happened there in terms of year-on-year development and where your market share is now in Russia, please?

<A – Cees 't Hart – Carlsberg A/S>: Yeah, Frans. What we see is indeed a decline year-over-year is almost 200 basis points. We are around, let's say, 27.8%. Our market share was flat sequentially. So, that's good. We've been able to stall it, but year-to-date, we have lost indeed year-over-year.

<Q – Frans Høyer – Svenska Handelsbanken AB (Denmark)>: Thank you very much.

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

Operator: Thank you. [Operator Instructions]

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

Okay. If there are no other questions, then thank you very much for listening in and thank you for your questions. We’re looking forward to meeting some of you during the coming days and weeks. Have a nice day. Bye-bye.

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