Carlsberg Group

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# Q3 2019 TRADING STATEMENT

*Unless otherwise stated, comments in this announcement refer to Q3 performance.*

## HIGHLIGHTS

- Organic revenue growth of 3.1% (9M: +3.8%). Reported net revenue growth of 5.3% to DKK 18.5bn (9M: +6.1% to DKK 51.5bn).
- Price/mix of +4% (9M: +3%).
- Total organic volume development of -0.5% (9M: +0.7%).
  - International premium portfolio: Tuborg +5%, Carlsberg -2%, 1664 Blanc +30% and Grimbergen -1%.
  - Craft & speciality volume growth of 12% (9M: +15%). Alcohol-free brew volume growth of 7% in Western European markets (9M: +11%), while volumes for the Group declined by 4% (9M: +8%).
- In October, we signed an agreement to acquire the remaining 25% of Cambrew in Cambodia.

## 2019 EARNINGS EXPECTATIONS

- Organic operating profit growth of around 10% (unchanged from announcement on 28 October).
- Translation impact on operating profit of around DKK +150m, based on the spot rates at 30 October (previously DKK +100m).

CEO Cees 't Hart says: "We're pleased that we've been able to deliver solid revenue growth for the quarter despite tough comparables from last year. In particular the Asia region continued its very good performance. The top line in Western Europe was solid in spite of challenging comparables from the very warm and dry summer last year, while we had difficult comparables in Russia and faced challenges that negatively impacted our market share year-over-year.

Our earnings upgrade earlier this week is another proof point of the execution of SAIL'22 and a consequence of our improved geographical footprint, as solid earnings performance in China and Western Europe more than offset the challenges in Russia."

Carlsberg will present the results at a conference call today at 9.00 a.m. CET (8.00 a.m. GMT). Dial-in information and a slide deck are available beforehand on www.carlsberggroup.com.

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## THIRD-QUARTER REVIEW

The Group delivered organic net revenue growth of 3.1% (9M: growth of 3.8%), driven by price/mix of +4% (9M: +3%) and total organic volume development of -0.5% (9M: growth of 0.7%). In reported terms, total volumes were flat. Reported net revenue was DKK 18.5bn, an increase of 5.3%, impacted by a currency effect of +1.8% and +0.4% from acquisitions.

The craft & speciality category continued its strong progress, delivering 12% growth in Q3 (9M: growth of 15%). 1664 Blanc delivered volume growth of 30% (9M: growth of 29%), while strong growth of Grimbergen in markets such as Switzerland, Denmark, Poland and Germany was offset by a decline in the brand's largest market, France. Total brand volumes thus saw a small decline of 1% (9M: growth of 2%).

Alcohol-free brew volume development was -4% (9M: growth of 8%), with continued solid growth of 7% in our Western European markets (9M: growth of 11%), offset, however, by a slight market decline and market share loss in Russia as well as lower sales in a few export markets. We saw very good growth for many of our local power brands in Asia, including double-digit growth rates for local power brands in China and Vietnam.

Tuborg volumes grew by 5%, driven by growth in several markets, including China, India, Serbia and Norway, as well as licence volumes in Turkey. The Carlsberg brand saw good volume momentum in markets such as Russia, Malaysia, Singapore and Kazakhstan as well as in our export & licence markets. However, total brand volumes were impacted by tough comparables in Western Europe, not least in the UK. Excluding the UK, Carlsberg brand volumes grew by 3%.

In recent months, we announced two important initiatives within our sustainability programme, Together Towards ZERO: a water recycling plant at our brewery in Fredericia, Denmark, and two research prototypes of the Green Fiber Bottle.

### WESTERN EUROPE

In spite of cycling tough comparables with last year's warm summer, net revenue in Western Europe grew organically by 0.2% (9M: growth of 0.1%).

Total volume development was -0.1% (9M: -0.6%). Price/mix was slightly positive (9M: +1%). Price/mix was positive in most markets, while the growth in licence volumes in our export & licence division impacted regional price/mix. Reported net revenue grew by 0.2%. The currency impact was insignificant.

We saw good revenue and volume growth in markets such as Switzerland, Denmark, Poland, Serbia, Greece, Croatia and Bulgaria, whereas volumes declined in markets such as France and the UK.

### ASIA

The positive development in Asia continued. Net revenue grew organically by 14.2% (9M: growth of 14.4%) as a result of a strong price/mix of 8% (9M: +6%) and 5.7% total organic volume growth (9M: growth of 7.5%). Reported net revenue grew by 18.7% (9M: growth of 21.9%), with a currency impact of +2.8% and a net acquisition impact of +1.7%.

We saw particularly strong volume growth in China, Laos, Malaysia/Singapore and Vietnam. Volumes were flat in India, impacted by tax and price increases in some states, and declined in Nepal in line with the market. In China, volumes grew by 6%, supported by sustained strong growth of Tuborg and 1664 Blanc, successful premiumisation of local power brands and the big city expansion.

The strong price/mix improvement was mainly the result of our successful premiumisation efforts, especially in China.

### EASTERN EUROPE

Net revenue in Eastern Europe declined organically by 2.3% (9M: growth of 1.0%). Total volume development was -8.2% (9M: -5.0%) and price/mix was +6% (9M: +6%). Reported net revenue grew by 3.7% (9M: growth of 3.0%), positively impacted by currencies.

Volumes in Russia and Ukraine were impacted by the intensified competitive environment in 2019, cool weather and, in the case of Russia, tough comparables due to the World Cup last year.

All markets in the region saw positive price/mix, supported by both price increases and growth in premium offerings, especially within the craft & speciality category.

### STRUCTURAL CHANGES

During the first nine months of 2019, the Group completed the following transactions:

- Disposal of the former brewery site in Trondheim, Norway, at a sales price of NOK 729m.
- Acquisition of a non-controlling stake in the Chinese craft brewery Jing-A Brewing Co.
- Acquisition of the remaining 1.2% of Carlsberg Ukraine, giving the Group 100% ownership.

In October, we signed an agreement to acquire the remaining 25% of Cambrew in Cambodia, giving the Group 100% ownership.

### SHARE BUYBACK

On 15 August, the Company launched the second tranche of the share buy-back programme. The second tranche will be DKK 2.0bn, in addition to the DKK 2.5bn share buy-back from February to August 2019. As at 25 October, the Company had bought 973,531 shares of the second tranche at a value of DKK 970.7m.

## EARNINGS EXPECTATIONS

On 28 October, we increased our operating profit outlook for the year due to solid earnings performance in China and Western Europe, which combined more than offset the challenges in Russia. Consequently, for the full year we expect to deliver:

- Around 10% organic growth in operating profit.

Based on the spot rates at 30 October, we assume a translation impact of around DKK +150m for 2019 (previously DKK +100m).

Other relevant assumptions are unchanged:

Financial expenses, excluding currency losses or gains, are expected to be around DKK 700m.

The reported effective tax rate is expected to be below 28%.

Capital expenditure at constant currencies is expected to be around DKK 4.5bn.

## FINANCIAL CALENDAR

The financial year follows the calendar year, and the following schedule has been set for 2020:

| | |
|---|---|
| 4 February | Full-year 2019 financial statement |
| 4 February | Annual Report 2019 |
| 16 March | Annual General Meeting |
| 30 April | Q1 trading statement |
| 13 August | H1 interim financial statement |
| 28 October | Q3 trading statement |

## FORWARD-LOOKING STATEMENTS

This Company announcement contains forward-looking statements, including, but not limited to, guidance, expectations, strategies, objectives and statements regarding future events or prospects with respect to the Group's future financial and operating results. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and may contain words such as "expect", "estimate", "intend", "will be", "will continue", "will result", "could", "may", "might", or any variations of such words or other words with similar meanings. Forward-looking statements are subject to risks and uncertainties that could cause the Group's actual results to differ materially from the results discussed in such forward-looking statements. Prospective information is based on management's then current expectations or forecasts. Such information is subject to the risk that such expectations or forecasts, or the assumptions underlying such expectations or forecasts, may change. The Group assumes no obligation to update any such forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Some important risk factors that could cause the Group's actual results to differ materially from those expressed in its forward-looking statements include, but are not limited to: economic and political uncertainty (including interest rates and exchange rates), financial and regulatory developments, demand for the Group's products, increasing industry consolidation, competition from other breweries, the availability and pricing of materials used by the Group, cost of energy, production- and distribution-related issues, IT failures, market-driven price reductions, litigation, environmental issues and other unforeseen factors. The nature of the Group's business means that risk factors and uncertainties may arise, and it may not be possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on the Group's business or the extent to which any individual risk factor, or combination of factors, may cause results to differ materially from those contained in any forward-looking statement. Accordingly, forward-looking statements should not be relied on as a prediction of actual results.

## VOLUME AND NET REVENUE DATA

| Q3 | 2018 | Change Organic | Change Acq., net | Change FX | 2019 | Change Reported |
|---|---|---|---|---|---|---|
| **Beer (million hl)** | | | | | | |
| Western Europe | 13.9 | -0.1% | 0.0% | | 13.8 | -0.1% |
| Asia | 10.0 | 5.3% | 0.9% | | 10.6 | 6.2% |
| Eastern Europe | 9.0 | -9.0% | 0.0% | | 8.2 | -9.0% |
| **Total** | **32.9** | **-0.9%** | **0.3%** | | **32.6** | **-0.6%** |
| **Non-beer (million hl)** | | | | | | |
| Western Europe | 4.1 | 0.0% | 0.0% | | 4.1 | 0.0% |
| Asia | 0.9 | 10.2% | 9.3% | | 1.1 | 19.5% |
| Eastern Europe | 0.7 | 2.8% | 0.0% | | 0.7 | 2.8% |
| **Total** | **5.7** | **1.9%** | **1.5%** | | **5.9** | **3.4%** |
| **Total beverages (million hl)** | | | | | | |
| Western Europe | 18.0 | -0.1% | 0.0% | | 17.9 | -0.1% |
| Asia | 10.9 | 5.7% | 1.6% | | 11.7 | 7.3% |
| Eastern Europe | 9.7 | -8.2% | 0.0% | | 8.9 | -8.2% |
| **Total** | **38.6** | **-0.5%** | **0.5%** | | **38.5** | **0.0%** |
| **Net revenue (DKK million)** | | | | | | |
| Western Europe | 10,178 | 0.2% | 0.0% | 0.0% | 10,203 | 0.2% |
| Asia | 4,243 | 14.2% | 1.7% | 2.8% | 5,034 | 18.7% |
| Eastern Europe | 3,156 | -2.3% | 0.0% | 6.0% | 3,271 | 3.7% |
| Not allocated | 11 | 21.0% | 47.4% | 0.0% | 18 | 68.4% |
| **Total** | **17,588** | **3.1%** | **0.4%** | **1.8%** | **18,526** | **5.3%** |

| 9 months | 2018 | Change Organic | Change Acq., net | Change FX | 2019 | Change Reported |
|---|---|---|---|---|---|---|
| **Beer (million hl)** | | | | | | |
| Western Europe | 36.8 | -1.4% | 0.0% | | 36.2 | -1.4% |
| Asia | 27.8 | 7.1% | 3.3% | | 30.7 | 10.4% |
| Eastern Europe | 24.0 | -5.9% | 0.0% | | 22.6 | -5.9% |
| **Total** | **88.6** | **0.0%** | **1.1%** | | **89.5** | **1.1%** |
| **Non-beer (million hl)** | | | | | | |
| Western Europe | 11.3 | 1.9% | 0.0% | | 11.5 | 1.9% |
| Asia | 2.6 | 11.6% | 33.1% | | 3.7 | 44.7% |
| Eastern Europe | 1.7 | 8.2% | 0.0% | | 1.9 | 8.2% |
| **Total** | **15.6** | **4.2%** | **5.4%** | | **17.1** | **9.6%** |
| **Total beverages (million hl)** | | | | | | |
| Western Europe | 48.1 | -0.6% | 0.0% | | 47.8 | -0.6% |
| Asia | 30.4 | 7.5% | 5.7% | | 34.4 | 13.2% |
| Eastern Europe | 25.7 | -5.0% | 0.0% | | 24.4 | -5.0% |
| **Total** | **104.2** | **0.7%** | **1.6%** | | **106.6** | **2.3%** |
| **Net revenue (DKK million)** | | | | | | |
| Western Europe | 27,933 | 0.1% | 0.0% | 0.1% | 27,995 | 0.2% |
| Asia | 12,158 | 14.4% | 5.2% | 2.3% | 14,815 | 21.9% |
| Eastern Europe | 8,429 | 1.0% | 0.0% | 2.0% | 8,682 | 3.0% |
| Not allocated | 34 | -42.0% | 14.5% | 0.0% | 24 | -27.5% |
| **Total** | **48,554** | **3.8%** | **1.3%** | **1.0%** | **51,516** | **6.1%** |