

Food, Beverage & Tobacco **Carlsberg Breweries A/S**  
Denmark  
Update

**Ratings**

Security Class	
Long-Term Foreign-Currency IDR	BBB
Senior unsecured	BBB
Short-Term Foreign-Currency IDR	F3

**Outlook**

Long-Term Foreign-Currency IDR Stable

**Financial Data**

Carlsberg Breweries A/S	31 Dec 2010 <sup>a</sup>	31 Dec 2009
Revenue (DKKm)	60,054	59,382
Op. EBITDAR (DKKm)	14,364	13,432
Op. EBITDAR/revenues (%)	23.9	22.6
Op. EBITDAR/ fixed charges (x)	6.1	5.4
Cash flow from operations(DKKm)	11,345	13,470
Free cash flow(DKKm)	7,548	10,426
FFO/interest expense net of interest income (x)	7.0	5.7
Total debt (DKKm)	37,251	40,388
Closing net debt(DKKm)	34,539	37,694
Total adjusted debt/op. EBITDAR (x)	2.7	3.1
Adjusted Net Leverage/FFO (x)	2.8	3.3

<sup>a</sup> preliminary figures, Fitch calculations

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**Related Research**

**Applicable Criteria**

- [Corporate Rating Methodology \(August 2010\)](#)

**Other Research**

- [2011 Outlook: EMEA Retail and Consumer Bargain Hunting \(December 2010\)](#)
- [Fitch: Global Brewers Can Manage Impact of Grain Price Spike \(August 2010\)](#)
- [Fitch: Strengthened European Brewers May Be Tempted To Pursue New M&A \(March 2010\)](#)

**Rating Rationale**

**IDR Upgraded:** Fitch Ratings upgraded Carlsberg Breweries A/S's (CB) Long-Term IDR by one notch to 'BBB' in February 2011. The move was prompted by the company's robust performance, despite the difficulties experienced by its core markets in Europe over 2009 and 2010, and its success in deleveraging three years after completing the DKK52bn takeover of Scottish & Newcastle (S&N).

**Volatile Russian Beer Market:** CB relies heavily (40%-45% of average group profits in 2009-2010) on Russia, a market that as a result of macroeconomic and regulatory factors has undergone severe volatility between 2007 and 2010. Furthermore, this concentration of cash flow generation on one single market brings a currency mismatch as group debt is mostly in euros and sterling.

**Strong Position in Russia:** These risks are however mitigated by the strength of CB's operations in the country (40% market share), the resulting pricing power and its track record of effectively managing the shocks of 2009 and 2010. The achievement as of end-2010 of a full pass-through of the hefty excise duty increase introduced in January 2010 supports better prospects for 2011-2012.

**Profit Growth Momentum:** Cost rationalisations and synergies from assets acquired in 2008 enabled group profits to grow by 8% to 9% organically in each of 2009 and 2010. In 2011 CB should be able to largely pass on any increases in raw material prices. Fitch believes profit growth will be maintained thanks to the continuation of cost rationalisations in north and western Europe, as well as market growth in Asia and a recovery in beer demand in eastern Europe.

**Lower Leverage Since S&N Transaction:** Thanks to the allocation of an impressive free cash flow (FCF) of DKK10.4bn in the financial year to December 2009 (FY09) and DKK7.5bn in FY10, mostly to debt reduction, lease-adjusted net debt/operating EBITDAR fell to 2.4x at end-December 2010 (2.8x at FYE09).

**Cash Flow Cushions M&A Risk:** The low leverage achieved, in conjunction with Fitch's expectation that cash flow generation should suffer limited downside risk from FY10's level, provides adequate resources to fund the company's moderate acquisition appetite without challenging its new 'BBB' rating.

**What Could Trigger a Rating Action**

**A Decline in Leverage:** Assuming strong FCF generation and its competitive positions in key markets are maintained, leverage sustainably under 2.0x could lead to another upgrade. While not envisaged, aggressive M&A spending, potentially combined with stronger capex and dividend distributions, could lead to a downgrade.

**Liquidity and Debt Structure**

Of total end-December 2010 gross debt of DKK36.5bn (including debt of the parent Carlsberg A/S but excluding intra-group debt to the parent), DKK23bn was represented by bonds maturing between December 2011 and October 2017. The company's repayment profile is reasonably spread out, although 2012 and 2014 carry heavier maturities of, respectively, DKK8.1bn and DKK7.4bn. These are mitigated by abundant committed lines, including a virtually undrawn EUR1.75bn (DKK12.9bn) facility due in 2015 and strong projected FCF of approximately DKK5.0bn pa.

Peer Group	
Issuer	Country
<b>BBB+</b>	
SABMiller Plc	UK
<b>BBB</b>	
Foster's Group Limited	Australia
<b>NR</b>	
Heineken NV	The Netherlands
AB InBev	Belgium

### Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
21 Feb 11	BBB	Stable
18 May 10	BBB-	Stable
11 May 09	BBB-	Stable
25 Jan 08	BBB-	Stable
19 Jul 07	BBB-	Stable
7 Feb 06	BBB-	Stable
23 Jan 06	BBB-	Stable

### Snapshot Profile: Major Issuer-Specific Rating Factors and Trends

Rating Factor	Status <sup>a</sup>	Trend
Operations	Strong	Improving
Market Position	Strong	Improving
Finances	Average	Improving
Governance	Average	Neutral
Geography	Strong	Neutral

<sup>a</sup> Relative to peer group

## Immediate Peer Group – Comparative Analysis

### Sector Characteristics

#### Operating Risks

While the majority of OECD countries are characterised by stable to declining consumption, demand for beer is growing in emerging Asia and Latin America and is recovering in eastern Europe. Fragmented mature markets typically carry lower profitability due to intense competition. Governments' tendency to raise alcohol taxes as an incremental revenue source affects demand from time to time.

#### Financial Risks

The major companies have, as of end-2010, rebuilt solid credit metrics since a period of global consolidation and intensive capex had caused their deterioration. The industry's strong cash flow generation and the maturity of OECD markets, however, encourage further bolt-on M&A activity in growth markets.

### Peer Group Analysis

	AB InBev NV NR	SABMiller 'BBB+'/Stable	Heineken NR	Carlsberg Breweries 'BBB'/'Stable
Net revenue	USD36.3bn	USD14.2bn	EUR16.1bn	EUR8.1bn
Op. EBITDAR margin (%)	39.0	30.3	21.1	23.9
Volumes (mhl)	353	261	192	134
Free cash flow	USD5.9bn	USD0.9bn	EUR1.5bn	EUR1.0bn

Source: Fitch, Companies

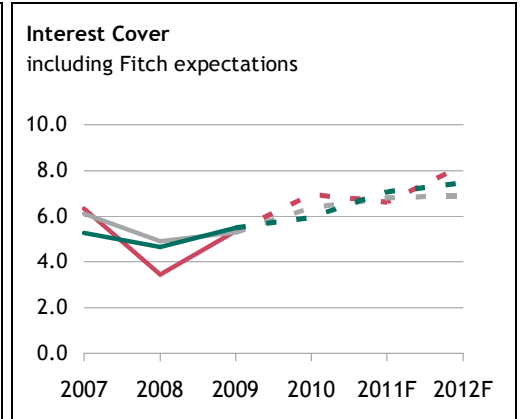
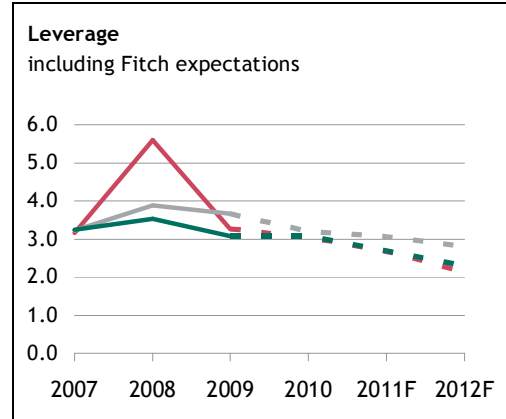
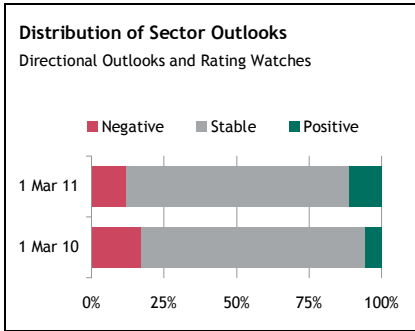
### Key Credit Characteristics

The stronger players in the beer sector have broad geographical diversification, well-recognised local and import brands, healthy EBITDA margins, and strong cash flow generation. Companies with efficient and large-scale operations in duopolistic markets, as well as in high-growth markets characterised by a young population and growing disposable income, enjoy the best prospects.

### Overview of Companies

- **AB InBev NV (ABI)** – owns the international brands Stella Artois, Becks, Budweiser, and BUD Light. ABI is the largest brewer in the world, with leadership in the US, Canada and Brazil as well as several other markets. Following the acquisition of Anheuser Busch in 2008 for USD59bn, ABI's leverage remains higher than the other global players'. It benefits from a superior EBITDA margin and FCF.
- **SABMiller Plc (SAB, 'BBB+'/Stable)** – owns the international brands Miller, Peroni, Pilsner Urquell and Grolsch. Apart from its US operations and smaller Italian, UK and Dutch presence, it is substantially a developing and emerging market player, focused on Africa, Latin America, China and central and eastern Europe. It was cautious on acquisition spending during the M&A wave of 2008 but also did not enjoy as many cost rationalisation synergies as its peers.
- **Heineken NV** – owns the premium international brand Heineken. Largely a European player, the company has increased its non-European presence through the acquisition of Mexican FEMSA Cerveza in early 2010. Although YE10 net debt/EBITDA fell to a healthy 2.2x, Fitch expects cash outflows to purchase own shares on the market to pay for FEMSA Cerveza.
- **CB ('BBB'/'Stable)** – owns the international brands Carlsberg, Tuborg and 1664. Sales are dominated by Europe, including the attractive Russian market where it has a leadership position, and Ukraine, but it is also pushing its way into Asia. Profits enjoy scope for growth thanks to an ongoing cost rationalisation programme and exposure to growth markets.

Carlsberg Breweries A/S — Food, Beverage & Tobacco Median — Developed BBB Median —  
 Source: Company data; Fitch.

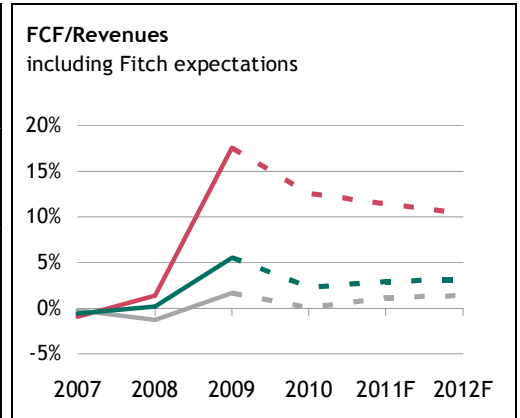


Fitch's expectations are based on the agency's internally produced, conservative rating case forecasts. They do not represent the forecasts of rated issuers individually or in aggregate. Key Fitch forecast assumptions include:

- a high single-digit profit growth annually thanks to cost efficiency gains in north and western Europe and to top line growth in other markets;
- projected cash flow over 2011-2013 should benefit from profit growth and only moderate capex;
- projections are stressed for the inclusion of annual bolt-on acquisition spending of DKK3bn and dividend payments of DKK1bn from 2012;
- all debt maturing is assumed to be refinanced.

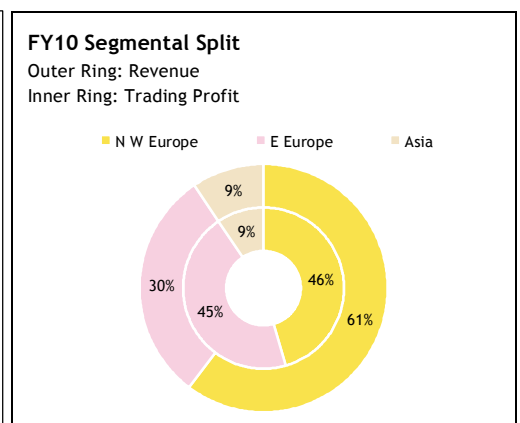
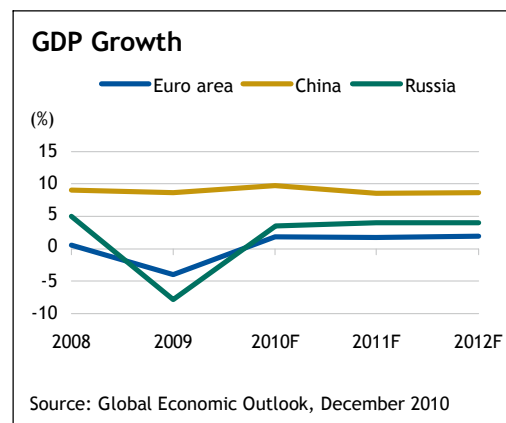
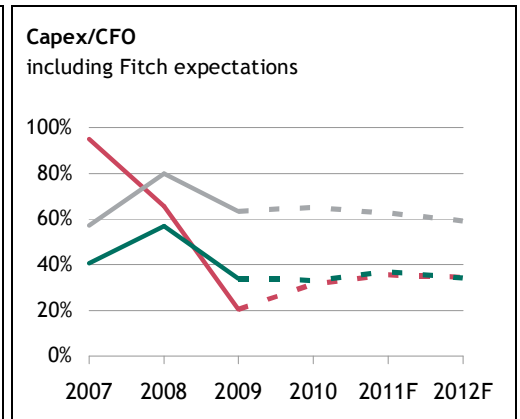
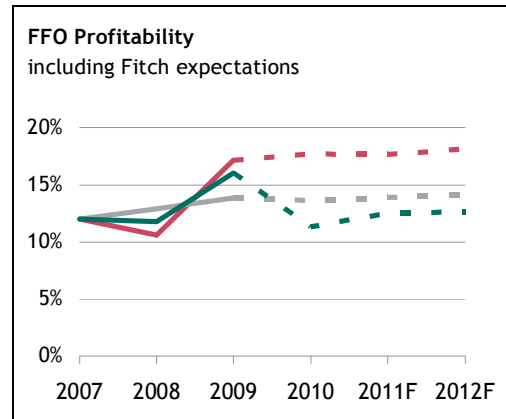
### Debt Maturities and Liquidity at 31/12/2010

Debt maturities	DKKbn
2011	4.0
2012	8.1
2013	3.5
2014	7.4
After 2014	13.5
Cash and equivalents	2.7
<b>Undrawn Committed Facilities (Expiry)</b>	
EUR1.75bn (DKK13bn) due Jan 2015	11.6
EUR1.2bn (DKK9.1) due Oct 2012	1.4



### Definitions

- Leverage: Gross debt plus lease adjustment minus equity credit for hybrid instruments plus preferred stock divided by FFO plus gross interest paid plus preferred dividends plus rental expense.
- Interest cover: FFO plus gross interest paid plus preferred dividends divided by gross interest paid plus preferred dividends.
- FCF/revenue: FCF after dividends divided by revenue.
- FFO profitability: FFO divided by revenue.
- For further discussion of the interpretation of the tables and graphs in this report, see Fitch's "Interpreting the New EMEA and Asia-Pacific Credit Update Format" Special Report, dated 25 November 2009 and available at [www.fitchratings.com](http://www.fitchratings.com).



## Carlsberg Breweries A/S FINANCIAL SUMMARY

	31 Dec 2009 DKKkm Original	31 Dec 2008 DKKkm Original	31 Dec 2007 DKKkm Original	31 Dec 2006 DKKkm Original	31 Dec 2005 DKKkm Original
<b>Profitability</b>					
Revenue	59,382	59,944	44,750	41,083	38,047
Revenue Growth (%)	(0.94)	33.95	8.93	7.98	5.70
Operating EBIT	9,280	7,187	4,807	3,381	2,562
Operating EBITDA	13,305	10,993	7,559	6,321	5,335
Operating EBITDA Margin (%)	22.41	18.34	16.89	15.39	14.02
FFO Return on Adjusted Capital (%)	14.26	9.22	19.31	18.66	14.17
Free Cash Flow Margin (%)	17.56	1.36	(0.94)	4.96	6.03
<b>Coverages (x)</b>					
FFO Gross Interest Coverage	5.35	3.44	6.33	5.80	5.23
Operating EBITDA/Gross Interest Expense	5.68	4.23	7.48	6.46	5.66
FFO Fixed Charge Coverage (inc. Rents)	5.13	3.39	5.96	5.80	5.23
FCF Debt-Service Coverage	1.72	0.29	0.13	0.42	0.42
Cash Flow from Operations/Capital Expenditures	4.88	1.52	1.05	1.55	1.64
<b>Debt Leverage of Cash Flow (x)</b>					
Total Debt with Equity Credit/Operating EBITDA	3.04	4.55	2.63	2.86	4.02
Total Debt Less Unrestricted Cash/Operating EBITDA	2.83	4.30	2.36	2.50	3.62
<b>Debt Leverage Including Rentals (x)</b>					
Rental Expense	127	58	76	0	0
Gross Lease Adjusted Debt/Operating EBITDAR	3.08	4.57	2.68	2.86	4.02
Gross Lease Adjusted Debt/FFO+Int+Rentals	3.27	5.60	3.17	3.19	4.35
FCF/Lease Adjusted Debt (%)	25.18	1.62	(2.05)	11.28	10.71
<b>Debt Leverage Including Leases and Pension Adjustment (x)</b>					
Pension and Lease Adjusted Debt /EBITDAR + Pension Cost	3.14	4.60	2.78	2.93	4.09
<b>Liquidity</b>					
(Free Cash Flow+Available Cash+Committed Facils)/(ST Debt + Interest) (%)	301.50	103.82	34.02	59.84	57.40
<b>Balance Sheet Summary</b>					
Cash and Equivalents (Unrestricted)	2,694	2,729	2,026	2,267	2,120
Restricted Cash and Equivalents	0	0	0	0	0
Short-Term Debt	5,073	9,165	3,711	6,217	6,749
Long-Term Senior Debt	35,315	40,841	16,162	11,865	14,671
Subordinated Debt	0	0	0	0	0
Equity Credit	0	0	0	0	0
Total Debt with Equity Credit	40,388	50,006	19,873	18,082	21,420
Off-Balance-Sheet Debt	1,016	464	608	0	0
Lease-Adjusted Debt	41,404	50,470	20,481	18,082	21,420
Fitch- identified Pension Deficit	1,255	987	1,179	1,020	1,315
Pension Adjusted Debt	42,659	51,457	21,660	19,102	22,735
<b>Cash Flow Summary</b>					
Operating EBITDA	13,305	10,993	7,559	6,321	5,335
Gross Cash Interest Expense	(2,341)	(2,601)	(1,010)	(979)	(942)
Cash Tax	(1,360)	(1,524)	(1,037)	(929)	(664)
Associate Dividends	50	31	82	65	78
Other Items before FFO (incl. interest receivable)	527	(540)	(211)	218	173
<b>Funds from Operations</b>	<b>10,181</b>	<b>6,359</b>	<b>5,383</b>	<b>4,696</b>	<b>3,980</b>
Change in Working Capital	3,289	1,709	(199)	241	940
<b>Cash Flow from Operations</b>	<b>13,470</b>	<b>8,068</b>	<b>5,184</b>	<b>4,937</b>	<b>4,920</b>
Total Non-Operating/Non-Recurring Cash Flow	31	(922)	(3)	1,338	1,336
Capital Expenditures	(2,763)	(5,292)	(4,929)	(3,188)	(3,009)
Dividends Paid	(312)	(1,038)	(672)	(1,048)	(952)
<b>Free Cash Flow</b>	<b>10,426</b>	<b>816</b>	<b>(420)</b>	<b>2,039</b>	<b>2,295</b>
Net (Acquisitions)/Divestitures	(253)	(52,015)	(179)	1,370	(2,117)
Net Equity Proceeds/(Buyback)	0	24,000	0	0	0
Other Cash Flow Items	(590)	(2,231)	(1,433)	76	(2,007)
Total Change in Net Debt	9,583	(29,430)	(2,032)	3,485	(1,829)
<b>Working Capital</b>					
Accounts Receivable Days	33.86	34.90	45.48	48.22	51.97
Inventory Days	62.19	60.75	65.30	64.53	64.95
Accounts Payable Days	111.41	92.77	101.82	101.29	101.55

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