



Carlsberg A/S
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Q1 2020 Trading Statement Conference Call

Corporate Participants

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

Other Participants

Simon Hales – Analyst, Citigroup Global Markets Ltd.
Jonas Guldborg Hansen – Analyst, Danske Bank
Laurence Whyatt – Analyst, Barclays Capital Securities Ltd.
Edward Mundy – Analyst, Jefferies International Ltd.
Trevor Stirling – Analyst, Sanford C. Bernstein Ltd.
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Sanjeet Aujla – Analyst, Credit Suisse Securities (Europe) Ltd.
Tristan van Strien – Analyst, Redburn Partners
Olivier Nicolai – Analyst, Goldman Sachs
Frans Høyer – Analyst, Svenska Handelsbanken AB

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to the Q1 2020 Trading Statement. Today, I'm pleased to present CEO, Cees 't Hart; and CFO, Heine Dalsgaard. For the first part of this call, participants will be in a listen-only mode, and afterwards, there will be a question-and-answer session. Just to remind you, the conference call is being recorded.

Speakers, please begin.

Cees 't Hart – Carlsberg A/S

Good morning, everybody, and welcome to Carlsberg's Q1 2020 Conference Call. I sincerely hope you and yours are all safe and well. My name is Cees 't Hart and I have with me CFO, Heine Dalsgaard; and Vice President of Investor Relations, Peter Kondrup.

So far, the year has been very challenging due to the COVID-19 pandemic that has resulted in significant changes to the business environment, both when it comes to Q1 performance as well as performance in the coming quarters. As a result, this conference call is expected to be a bit longer than the usual Q1 calls.

I will provide some insights as to how we try to manage through the COVID-19 outbreak and the highlights of the quarter and Heine will take you through the regions and considerations for the rest of the year.

Please turn to slide 3. Before going into the details of the quarter, I would like to give more in-depth comments about our people as well as a short- and long-term business impact from COVID-19 and how we managed through the crisis.

The key priority in the current environment is, of course, the health and safety of our employees. Fortunately, we have had very few employees infected or in quarantine. I would like to take this opportunity to complement our colleagues across the whole Carlsberg Group. Their flexibility, commitment, and willingness to walk the extra very long mile has been incredible.

To give you some flavor on this, some of our sales reps are visiting 20 shops a day, wearing protective suits, brewery workers are working in all shifts, and back-office employees have worked from home for one to two months.

Our other key priority is to safeguard our business commercially and financially. I would like to emphasize that our SAIL'22 strategy remains intact. We see no reason to change the focus on core beer and our specific growth drivers of craft & speciality, alcohol-free brews, and Asia. Our financial KPIs also remain unchanged, including the ambition to drive growth and improve margins and ROIC, while we at the same time focus on cash, the solid balance sheet, sustainable dividends, and further cash returns to shareholders by means of share buybacks. In other words, our long-term strategic thinking is as it was before COVID-19.

Short term, however, the virus is of course impacting our business. We recognize the needs to be fast and agile and constantly adapt to the changing environment to protect the business short term. But we are mindful that we also have to ensure the long-term health of our brands and our business. There will be a day after tomorrow.

We will see a material impact on business results this year. But as we were impacted early in China, we started taking mitigating actions across the group already in January. I'm very pleased to see how our local teams and central functions have responded to the changed conditions, and we are already seeing the impact from our mitigating actions coming through.

As you all know, the on-trade sector is severely impacted across markets. For the group, on-trade accounts for around 25% of volume. The on-trade decline impacts our mix due to lower premium volumes and draught beer. We saw an impact of government lockdowns already in Q1, and there will be an even larger impact in Q2 as the lockdowns have extended. H2 will be impacted as well, although it is currently impossible to predict the magnitude of this.

It will depend very much on when and how governments decide to reopen societies and how fast and how much consumers will return to the outlets. Within supply chain, we have seen few disruptions. We can get supplies, we can produce, and we can distribute in most markets without any significant struggles. In a few Asian markets, breweries have been temporarily closed due to the lockdowns.

Please go to slide 4, and a few comments on how we frame our thinking on how to manage through these uncharted waters. As you know, we use our Golden Triangle as our key performance management tool and that has served us very well during recent years. To manage through the current crisis, we have developed another triangle, our COVID-19 Leadership Triangle, which contains the three elements which we need to focus on.

Firstly, we are practicing situational leadership by making fast decisions, communicating extensively, keeping continuity and adapting scenario-thinking, while focusing on protecting and motivating our people.

Secondly, we must protect operating profit and cash. This includes constantly updating financial scenarios, preparing contingencies, scrutinizing costs using our OCM toolkit, planning and monitoring liquidity, reducing or postponing CapEx, and looking for short-term value opportunities.

Thirdly, we are also preparing for the rebound. This includes tracking and estimating time for rebounds in markets, monitoring changed consumer sentiment and behavior, continuously updating commercial plans, realigning marketing spend, ensuring that supply chain is ready and aligned with the new commercial reality, and not least, ensuring our people remain engaged.

We are evaluating the possible longer-term impact of the virus, including channel changes, changes in on-trade universe, growth of e-commerce, changes in consumer behavior and brand preferences, and perhaps more price-sensitive consumers as a result of economic recession. This is a team effort. Many actions are

done by our local colleagues, while the regional and group functions facilitate, support and share best practice. The executive committee is monitoring all markets closely, having frequent follow-ups to allow fast and agile decision-taking.

A good example of cross-market and functional cooperation is the development of a COVID-19 manual as a tool for sharing best practices. The manual is based on our learnings in China and is now widely used across markets. While we find it difficult to talk about positive things in the current situation, a positive key insight has nonetheless been our ability to act fast and agile in assessing changes, making and implementing decisions. Going forward, this is definitely something that we will embed in our ways of working.

Slide 5, please, and back to Q1. Q1 is, historically, the smallest quarter for our businesses due to seasonality and, therefore, very difficult to extract any firm conclusions on. This year, this is even more true due to the impact from COVID-19, which impacted our three regions very differently. In Asia, we saw disruption in China very early on, whereas the rest of Asia wasn't really impacted until the end of the quarter. In Western Europe, we saw an accelerating impact during March; and in Eastern Europe, the impact for Q1 was minimal.

Organic revenue declined by 7.4%, driven by a 7.6% volume decline and flat price/mix. The volume decline was most severe in Asia, while Eastern Europe reported positive development with some volume growth. Price/mix saw very mixed development across markets. We saw overall growth for craft & speciality and alcohol-free brews, delivering 1% and 5% growth, respectively, while our international beer brands, Tuborg and Carlsberg, declined. As already mentioned, we saw a negative channel mix due to the decline of on-trade and, hence, take very mixed picture.

Slide 6, please. It has been very important for us to contribute and support our communities as best as we can. Activities vary between markets, but on this slide, we have listed some examples from different markets. Very early on, our major shareholder, the Carlsberg Foundation, made a donation worth more than DKK 100 million in support of COVID-19-related research, culture, and civil society. Examples from our local businesses include production of hand sanitizer, donation of protective and test equipment, donation of alcohol-free beverages to health care workers, and financial donations.

We are, of course, very concerned about our on-trade customers as they are facing unbelievable hardship in many markets. We recently launched an innovative idea, starting in Denmark, which we have named adopt-a-keg. This initiative encourages consumers to buy a beer or two in the off-trade, collecting points which they can redeem and get a free pint of freshly poured draught beer at a local pub once the on-trade is allowed to open again.

We realize that our initiatives are just a few steps in the right direction, but we hope that our efforts can make a small positive contribution to the crisis.

And now, over to Heine, who will take you through the regions and the considerations for the rest of the year.

Heine Dalsgaard – Carlsberg A/S

Thank you, Cees, and good morning, everybody. Please turn to slide 7 and some comments on Western Europe. Revenue declined organically by 6.9% as a result of minus 1% price/mix and organic volume decline of 6%. The first two months of the year were ahead of our expectations, while March was significantly below due to the spread of the COVID-19 across the region. The volume decline also was impacted by the expected lower non-beer volumes and lower export and license volumes.

The negative price/mix development was impacted by the negative country mix and channel mix, the latter due to declining on-trade. In Denmark, off-trade volumes grew, while the closure of on-trade outlets from mid-March impacted on-trade volumes for the quarter negatively. As expected, volumes in Denmark were also impacted by the loss of the Danish-German soft drinks border trade.

We saw good performance in Sweden with volume and revenue growth driven by strong off-trade results. Despite fewer government-imposed restrictions than in other Western European markets, on-trade was impacted negatively. In Norway, total volumes were slightly up, while beer volumes were negatively impacted by a challenging March.

After a good start to the year, our Swiss business was impacted significantly by the gradual lockdown during March, especially as the Swiss business is very dependent on the on-trade channel.

In France, we saw a strong promotional pressure, and as we did not participate fully, our volumes and market share declined. In addition, our volumes were impacted by the lockdown as of mid-March and supply chain challenges due to the location of our French brewery in Alsace, which has been the most severely COVID-19 impacted region in France.

Our Polish business only has a limited on-trade exposure and was consequently much less impacted from lockdowns. Consumer behavior was impacted, however, with consumers shopping less frequently, trading down and gravitating to the most well-known lager brands. We saw strong volume growth of high-single digit, while price/mix was impacted by the changed consumer behavior.

An encouraging start to the year in the UK was reversed in March as the first COVID-19 cases appeared. The lockdown of on-trade from March 20th impacted quarterly volumes and price/mix negatively.

Slide 8 and Asia, please. Asia had a very challenging start to the year due to the COVID-19 outbreak in China. Revenue declined organically by 12.4%, price/mix was positive at plus 4%, while volumes declined organically by 15.5%. The positive price/mix was the result of price increases, continued premiumization and a positive country mix. Reported revenue declined by 12% due to a small currency impact.

Our Chinese volumes declined organically by around 20%. January was strong, supported by the sell-in to the Chinese New Year, while February and March were very weak. We estimate that we gained market share in China as our volumes declined at a level significantly below that of the market, which was impacted by a nationwide closure of especially on-trade outlets. By the end of the quarter, we started to see a relaxation of certain restrictions with some outlets opening again. And we have, in the start of April, seen volumes coming back. Whether that is sustainable, or distributors stocking up again, or a short-term consumer relief, is too early to conclude.

India had a weak start to year. January and February volumes were impacted by higher excise duties in some states and changed regulations in others. And in March, volumes were also impacted severely by COVID-19. All alcohol shops were closed in key cities from March 20th and nationwide from March 23rd. As per government orders, all breweries were closed from late March and have remained closed since.

The Nepalese market was impacted by the lack of tourists. In addition, our volumes were impacted by the import ban on energy drinks. As in India, our brewery in Nepal has been closed since late March.

In Laos, our non-beer volumes grew strongly, while beer volumes were impacted by COVID-19. Country borders to China were closed, impacting the quite important Chinese labor force in the north. In March, the on-trade started to close down.

Our business in Cambodia still suffered from the failed promotional structure for the Angkor brand launched in the second half of last year. The correction of this was not rolled out until late March. In addition, our

Cambodian business was impacted by the slowdown in economic activity, a drop in on-trade consumers, and a sharp decline in international visitors.

Our business in Malaysia and Singapore saw a good start to the year helped by good execution of the Chinese New Year. This was reversed, however, in March when our brewery was closed following the Malaysian government's decree.

And now, slide 9 and Eastern Europe, please. This region delivered solid numbers in the first quarter. Revenue grew organically by 2.2% as a result of price/mix of minus 1% and an organic volume growth of 3.3%. Price/mix was positive in most markets. The product mix was positive in most markets, but the negative price/mix was mainly the result of higher levels of promotions in Russia. The currency impact on revenue was plus 3% and consequently reported revenue grew by 5.5%.

The Russian market grew slightly in Q1 on the back of unusually warm weather. We are pleased to report low-single digit volume growth. This was the result of our changed commercial priorities, including a higher promotional level, increased listings and more first price offerings. The Russian market was not impacted by COVID-19 in the first quarter.

We saw good start of the year in Ukraine, while volumes in March were impacted by government-imposed lockdowns. Price/mix was positive and driven by both the price and favorable mix. Kazakhstan and Belarus both posted a good first quarter, delivering volume growth and improved price/mix. Kazakhstan saw particularly strong volume growth.

And now, please turn to slide 10 and what is usually the outlook slide in this presentation. As you know, we suspended our guidance on April 2nd. The situation is very uncertain as governments frequently change restrictions. Not least our on-trade customers are severely impacted. As Cees said, on-trade accounts for approximately 25% of our volume.

In the majority of our markets, authorities have not provided any road map as to when and how on-trade outlets can open again. Consequently, the market and business environment remain unpredictable, making us unable to reasonably estimate the full-year earnings impact of the COVID-19 pandemic. Therefore, guidance will continue to be suspended until we have more clarity.

I will, however, give a bit more color on the start of Q2 on our cost and cash initiatives and on our balance sheet and liquidity. In Western Europe, Q2 has started worse than Q1 as all markets in Western Europe entered into April in some state of lockdown. Markets with large on-trade are suffering the most, whereas markets with a large off-trade are doing okay, given the circumstances.

In Asia, China started Q2 well. It seems that the rebound has begun, although it is unclear whether it's still distributor replenishment or actual consumer-driven. In most other Asian markets, April has been very challenging with full or partial lockdowns.

In Eastern Europe, our on-trade exposure is very small. Consequently, the lockdowns are expected to have less of an impact than in Western Europe and Asia. Our concern for Eastern Europe is the macroeconomic development as lower oil prices usually have a negative impact on consumer sentiment, not least in Russia. As a result, we expect the volume decline in April for the group to accelerate compared to March, where we saw a 12% volume decline.

All in all, based on what we know today, we expect a weaker top-line development in Q2 than in Q1. We will, of course, take actions to mitigate the soft top line as much as possible. Cees has talked about our broader principles and ways of working, so I will focus on cost and cash. Our mindset here is that we hope for the best, but we plan for the worst. When the virus started in January, we initiated several actions,

including gap closing and contingency plans, and kicked off further Funding the Journey initiatives across the group.

Our OCM, or operating cost management toolkit, has proven very useful, creating transparency on cost groups across markets and functions. We have several times already been able to further increase the targets for cost savings, driven by less temporary workers and a hiring freeze, and within specific cost groups like distribution, maintenance, events, facilities, technologies, consultants, and so on.

In marketing, we have identified significant savings as we either cut or put activities on hold in what we call our parking lot. We have here been through a fast, rigorous process, evaluating opportunities for short-term commercial savings, while ensuring long-term brand health. The cost review is an iterative process that will continue, but we are pleased that we already now here in Q1 see an impact in our numbers.

Looking at CapEx, we are postponing or reducing what is not absolutely necessary at this point in time. We will reduce CapEx compared to our previous expectations. Current thinking is a 10% to 20% CapEx reduction, but that really depends on when and how fast markets rebound. We're managing our working capital very closely, having achieved excellent results in recent years. However, we expect a weaker performance this year, although it is difficult to predict year-end balances at this point in time.

Our balance sheet is strong, our liquidity position very healthy. We have no refinancing needs and we will continue to manage our balance sheet and liquidity tightly. In March, we paid a dividend of DKK 21 per share and we intend to continue the first DKK 2.5 billion tranche of the share buyback, while we will evaluate the second tranche planned for August over the coming month.

And now, back to you, Cees.

Cees 't Hart – Carlsberg A/S

Thank you, Heine. Today's presentation was a bit longer than usual for Q1. But hopefully, we have given you more insight into how we are impacted by the COVID-19 pandemic and how we are managing the challenges. To summarize, our first priority remains the health and safety of our employees and societies, in general. Our thoughts are with all those affected by the COVID-19 virus, including people tirelessly caring them.

For Carlsberg, our priority is to safeguard our business in the short as well as the long term. Since the COVID-19 crisis started in early February in China, we have been able to capture learnings from the crisis management, the changing consumer behavior, the impact on customers, and so on. We have been able to codify these learnings and apply them across our business. Frankly, I have been positively surprised how agile our company has responded to this crisis.

After focusing our efforts on stabilizing the business with concrete actions on people, profit, and cash, we have started to work in new ways and developed comprehensive commercial programs for the rebound. We will capture the learnings from our new ways of working in order to further increase efficiency and effectiveness in future.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And first question comes from Simon Hales from Citi. Please go ahead. Your line is now open.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thank you. Morning, gentlemen. Couple of questions, please. I wonder if you could just talk a little bit more about those recent trading trends you highlight in the presentation in China. Obviously, you said some volume pick up as we moved into April. Can you talk about maybe what you've seen in channel in terms of consumer offtake, if you've got anything you can share around that, that'd be very helpful.

Heine, obviously, you talked about some of the CapEx reductions that you're expecting this year and also the cost mitigation actions. Is there any way you can help us at all with the scale that you've seen to-date some of those cost mitigation actions you've put into place? I appreciate, as you said, it's an iterative process and it's ongoing, but any further color there would be really useful.

And then, finally, maybe another one for Heine. In terms of the tax rate for this year, is the geographic mix of the business going to potentially lead to a rise in tax rates in the first half and the full year, do you think?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Simon. Good morning. My first – or the first answer will be on China, and then, Heine will take over. What we see in China with regards to the recovery is that the demand is picking up, outlets are opening. So, more than 60% of the dining is open, modern off-trade is for more than 90% open. The traditional [off-]trade is around 90% open. The only thing that really still impacts us is the night entertainment outlets, because they remain closed. We see a good growth in our modern off-trade and e-commerce, and it seems as home consumption remains at a high level. However, we see also that consumer remain hesitant to visit the restaurants and they did not rush back to restaurants to celebrate.

Another thing we see is that the proportion of cans and multipacks have been growing due to the higher off-trade impact in our portfolio. And in general, we can say that we have changed from crisis mode to recovery and rebound. As you know, we have been enjoying quite a good growth of our more higher-priced brands. And what we see there is that there's a kind of a trend of indulgence and that trend seems to work well for us, also with our premiumization effort. So, our sub-premium and above is at a higher part of our mix than last year, and this is spearheaded by our 1664 brand and as well Wusu. So, what we see is a slow pickup in China, and we see a different portfolio mix, but we see also a continuation of the premiumization. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Thank you and good morning, Simon. So, in terms of CapEx and cost, let's start with the cost, we are expecting significant changes. And we are, as we said, also seeing that coming through now in the numbers. We're looking at all cost groups. We have this very good tool, as you know, OCM, that gives us good transparency and we ensure that we mitigate as much as possible of the volume shortfall with cost reductions.

The cost savings is really sort of a continuous process. You'll remember, we've said a few times this with comparing with the fingernails that have to be cut constantly, which makes it difficult to give an exact number on cost because it really depends on what happens with the top line and we constantly adjust our mitigation action on costs to the current environment.

As an example, the full amount of savings for 2020 is reflecting the level of lockdowns. The longer the lockdowns, the more savings, as we will not be able to spend, for instance, marketing in the on-trade. However, when then on-trade opens again, we will start spending again. So, that's the way it is. We do whatever we can. It's difficult to give an exact number of course. We have exact numbers depending on which scenario we are in when it comes to top line.

Looking at CapEx, our current thinking is a reduction of up to 20%, but again, really depending on whether and how fast markets rebound. We are evaluating all projects we have at CapEx and postponing or canceling all projects that are not critical, but at the same time making sure that we invest in projects that are critical for the rebound. So, that's our thinking around the cost and the CapEx.

In terms of your question for tax, which is very relevant and whether that changes with the geographical mix change, the way we model it right now we don't see any significant changes.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Brilliant. That's very clear, gents. Thank you very much.

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

<Q – Jonas Hansen – Danske Bank>: Yeah. Good morning, Cees and Heine. A couple of questions from me. Just maybe, first, you could elaborate a little bit more on the double-digit growth in China for 1664 Blanc. Is it only indulgence as you talked about or is the more behind this a big move or strong move? Then just to clarify on net working capital, when you flagged that it will be weaker this year compared to previous year, should we then read it as net working capital will still contribute positively to cash flow or that it will contribute negatively to cash flow? And I know it's difficult to know exactly where it ends the year, but maybe just a little bit of color here.

And then, a question on your hedged raw material positions. When we see a market where demand is dropping off a cliff like now in the on-trade and you're going into the year well hedged, how does that affect your hedges, so to speak? Is there a risk that some of the raw materials, where you have physical delivery, getting old? Or do you have any financial hedges that could result in financial losses? Yeah, that would be my questions. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Jonas. With regards to 1664 Blanc, we see indeed, albeit on a slightly lower level, at the beginning of this year after Chinese New Year. First of all, we had a very good anticipation – or trade building, if you like – for Chinese New Year, and 1664 Blanc continued its success story, so to say. Then after Chinese New Year, we saw a pick-up of 1664 because of the pick-up of e-commerce, so we were able to continue sales by e-commerce of 1664 Blanc.

And now the market is opening up, as I said earlier, we see a small trend of indulgence reported by Kantar. And that is as well, of course, supporting the further growth of 1664 Blanc. So, indeed, it's one of our brands that do very well, you could argue, in good times and in bad times. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Jonas. On net working capital, lower sales means pressure on trade working capital. That includes a reduction in bottle deposits, for instance. We get more bottles back than we sell. It also includes lower trade payables due to less CapEx, just to name a few examples. But at this point in time, it's really impossible to estimate the level end of December, both relatively speaking and also in absolute numbers. So, we don't comment on that, Jonas, because it's simply going to be an assumption on an assumption on an assumption, it's simply too far out. What we can say is that we continue to manage our trade working capital very tightly as we have done all along.

When it comes to COGS and hedges, we are well-hedged for 2020. As usual, we don't disclose the exact hedging. The way we see it right now and the way we model it right now, we don't see any over-hedge.

<Q – Jonas Hansen – Danske Bank>: Okay. Very clear. Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Jonas. Can we have the next question, please?

Operator: Thank you. The next question comes from Laurence Whyatt from Barclays. Please go ahead. Your line is now open.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Good morning, Cees. Good morning, Heine. Thanks very much for the question. So, three for me, if that's possible. You mentioned that the April volume decline was worse than the 12% that you saw in March. I was wondering if you can give any color on the different geographies, particularly what's happening in Western Europe and Eastern Europe as they are presumably in the worst possible time for the lockdown in their respective countries.

Secondly, particularly in Western Europe, we've seen some evidence of pantry loading. I was wondering if you are seeing similar things across your markets and any particular market that you would highlight where that's been most positive and whether that would get anywhere close to offsetting the problems in the on-trade or the lack of on-trade?

And then thirdly, you mentioned that Eastern Europe had a negative 1% on price/mix. I was wondering, and particularly in Russia, what was the level of price promotions that you've put through, i.e. could you split that 1% out to how much is price and how much is mix? Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Okay. Thank you. With regards to March, we said our volumes declined by 12% with the biggest impact in Asia. And then, basically, we're talking about 23% – minus 23% in Asia and Western Europe 13%, Eastern Europe plus 10%. So, March was a mixed bag, so to say.

In April, we expect the decline to accelerate compared to March as Western Europe and the non-Chinese markets in Asia now are heavily impacted by lockdowns. The line was a bit poor, so I missed your second question.

The third one with regards to Russia – and maybe you can repeat your second one. The third one with regards to Russia, we have, if you like, a new commercial program in Russia that started off well. Part of that is to make sure that we have as well the big promotional slots in some of the key accounts and that worked well. Of course, that has some consequences for our net revenue per hectoliter. On the other hand, what we see coming back is our market share. We saw for the first time since quite a number of months, the market share of March picking up with 100basis points versus the start of the year. So in that respect, we feel that we are making the right moves and taking the right actions in Russia. Could you ... ahhh, Peter said the consumer stocking...

With regards to consumer stocking, yes, we have seen some consumer stocking – up-stocking in the beginning. And so, we saw some pickup or uplift in the off-trade. That has, later on, then declined. What we see also is an impact of our sales of multipacks, and there is a clear, let's say, indication that the consumers visit the retail less frequently, more or less run into the stores and grab their most-known brand, and then move out with multipacks.

In that respect, we see a good coverage for our own brands. As you know, we have, in many of our Western European countries, leading positions with so-called local power brands. So, that's good. But in terms of mix, it is a bit a worse mix than we would have with, of course, premium brands and single portions.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Thanks very much, Cees. And just to follow up on that, are there any – is there any evidence that the off-trade pantry loading will at all come close to offsetting the lack of on-trade? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: No, no, we don't see that. By and large, 25% of our volume is in on-trade, and we don't see a – basically, we barely sell anything in on-trade at this moment of time in Western Europe. And we see, in some countries, some uplift, like in the UK. But in the others, we don't see that. Poland is a slight different case because we only have 5% of our turnover in the on-trade. So, we see Poland

continue to do relatively well in terms of their sales. Other countries are very much impacted by the closedown of on-trade.

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

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

Operator: Thank you. The next question comes from Edward Mundy from Jefferies. Please go ahead. Your line is now open.

<Q – Ed Mundy – Jefferies International Ltd.>: Morning, everyone. A couple of questions from me. Again, coming back to China, you mentioned that Kronenbourg Blanc 1664 is doing well. But one part of your strategy is the big city strategy which allows you to get more penetration and essentially grow ahead of the market. Do you expect this strategy to continue to allow you to outperform the market in 2020 as the recovery becomes more visible?

The second question on cost. I think, Heine, you mentioned the parking lot. Can you provide a bit more detail on how you balance cost cutting without impacting the longer-term health of your brands? And then the final question is on M&A. Are you seeing more opportunities in the current environment?

<A – Cees 't Hart – Carlsberg A/S>: Okay. Thank you. With regard to the last question, you will not be surprised if we don't comment on M&A. Good morning, Ed. With regard to the big cities, we opened already in the beginning of the year five new big cities. Obviously, the progress is a bit slower than we anticipated due to the hiccup of COVID-19. Now, we are in the rebound and we are continuing, if you like, to ensure that we set up our distribution there and get our brands into the outlets.

We still feel that we are in a very good place with regard to our business in general in China and specifically in the big cities. We have gained market share of last couple of months. We are almost now close to 8%, which is extremely encouraging. And what we pick up from, let's say, evidence on quarterly results, we see that our volume has done better than some of our competitors. So, we take it that even over the last – further than the last readings of market share, we have improved our share.

So, we continue with our big city strategy. By the end of 2020, we will be close to 40 cities. Again, we have already opened five in the beginning of the year. We don't expect more openings. We just want to make sure now that these last five start to contribute to our growth. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Morning, Ed. On the cost side and the balance short term versus long term, our mindset as we said is that we hope for the best, but we plan for the worst, which really gives us kind of a sort of a guiding star. Now, some areas where it's important to have the short-term/long-term balance really in front of our considerations which, in particular, is in marketing, but in the other areas, it's not that complicated.

We are using our OCM toolkit, which just gives us good transparency across the 15 or 17 cost groups depending on whether we include the internal cost groups or, let's say, 15 external cost groups. And then we basically attack one cost group at a time. We are significantly reducing, for instance, temporary labor, a use of external consultants, events, meetings, travels, and so on, and we have implemented a full sort of hiring freeze. So, in these areas, short term, long term is not that complicated.

We also look at marketing, as said. And we have made quite some cuts where we can. But we want to do it only if we can do it without jeopardizing the long-term health of our brands. And that's where it's difficult to give sort of a formula for how we do that. It's very much sort of a balanced approach. We don't cut in to the long-term health of our brands, but we do sort of protect our short-term earnings at the same time. So within marketing, there is no formula. It's a balanced approach.

<Q – Ed Mundy – Jefferies International Ltd.>: Very clear. And given my first question, the M&A question, was a bit of a non-question, are you able to provide a bit more an update on consumer sentiment in Russia? Are you seeing any impact so far from the oil price?

<A – Cees 't Hart – Carlsberg A/S>: In Russia, you said, Ed?

<Q – Ed Mundy – Jefferies International Ltd.>: Yeah, in Russia. Yeah.

<A – Cees 't Hart – Carlsberg A/S>: In Russia. Well, the consumer sentiment is impacted, first, at the beginning of the year, already by the lower oil prices, which always impact, of course, the sentiment in Russia. We see indeed now COVID – as you probably have read, COVID is really breaking out also in Russia and especially causing issues in Moscow. We see indeed that consumers move a bit more to down trading. And by that, we see growth of the PET bottles, which is, of course, not good for the net revenue per hectoliter. On the other hand, strangely enough, we see some pick up of craft & speciality in our portfolio. But the trend in the market is slightly towards PET at this moment of time.

<Q – Ed Mundy – Jefferies International Ltd.>: Thanks so much.

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

Operator: Our next question comes from the line of Trevor Stirling from Bernstein. Please go ahead. Your line is now open.

<Q – Trevor Stirling – Sanford C. Bernstein Ltd.>: Morning, Cees and Heine. Three questions from my side, two related to China. So, the first one, Cees, you talked about the share gains in China. Could you maybe just give a bit more color how much of that is possibly due to regional mix, things like Chongqing doing well and opening relatively early, in Beijing still closed or is it more to do with gains inside provinces?

And the second thing in China, with that brand mix you're talking about, are we still looking at positive price/mix for China? And third question, coming back to Russia, you mentioned you've been very successful in Q1 in terms of booking for promotional slots. Do you expect that to continue into Q2 and have you seen any competitive response?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Trevor. With regards to China, the regional mix in the beginning was even a bit at a disadvantage for us because Chongqing was fully closed. So, I take it that the share gains mainly come from, let's say, our big cities and within the regions, and with regards to the share gains. And then, with regards to the price/mix, there we see indeed a continuation of positive price/mix. As said earlier, we see a further development of the premiumization. These kind of segments still show relatively, and I say relatively, positive development in China. So, in that respect, our price/mix was positive.

And then, your third question, I missed that one – in terms of the promo slots in Q2, what we see there is that it's not so much, let's say, that we are, as you know, started – that we started this kind of a focus on promotional slots. There is a kind of a price war that started already in Q3, Q4 last year. We responded on that in Q1. We see the first positive sign of the response. And by that, we continue that in Q2, because basically we see that this has been successful in regaining market share.

Obviously, at this moment of time, things are different in Russia because of the COVID crisis. So, we might, here and there, adapt something. But basically, when we moved into Q1, we did address what we call Plan B and that is responding to the continuation of a very competitive environment and attacks, if you like. And again, Q1 did well and we continue with that tactics.

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

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

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Good morning, gentlemen. First, a question regarding non-alcoholic brews, it looks like the COVID-19 pandemic has accelerated the trend towards nonalcoholic brews. Do you agree with this observation? And if yes, do you think this effect will stick once the COVID-19, hopefully, is gone at some point, i.e. is this a more permanent effect?

Secondly, on China. It was my impression that there was a lot stocking up in China for the Chinese New Year, which of course didn't happen in terms of consumption. Is it your impression that this stock is now gone or normalized? And if yes, was that brought down during Q1 or has that been brought down in April? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you very much, Søren, and good morning. With regard to non-alcohol beers, I think it's a bit of a mix. We showed good results in Russia, and Russia has a relatively big portion of our non-alcohol or alcohol-free beers. So, that means that by that result we had a positive mix on that. We see also that with regard to COVID-19 purchases, indeed, there's a bit of – in off-trade, a bit of positive mix in the purchase of alcohol-free beers. And whether that continues, that's difficult to say. What we see in general is a continuation of the growth of that segment anyway.

Then with regard to stocking up in China, the stocks have indeed gone through, let's say, mainly Q1 and the beginning of Q2. Basically, we see positive figures in China, which means that there is no stock in the trade anymore higher than the normal days in stock. And we see that as a positive sign.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: And can you put a few words to the risk from loss on bad debtors of, in general, yeah, maybe a number or something? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Well, we will not give a number, but there's some sentiment on that, Heine.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. So, it is – as also said, we do see some of our customers, in particular, within the on-trade having, for good reasons, liquidity problems. And we help where we can. If you look at it overall, we don't see a significant shift towards more overdue debts as of end of March. But there is a risk that it will come in the coming months, and we are ready for it. So far, not significant numbers.

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

Operator: Next question comes from Sanjeet Aujla from Credit Suisse. Please go ahead. Your line is now open.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: [indiscernible] (00:52:20) performance in Western Europe. Is the off-trade actually growing in aggregate in Western Europe throughout April? That's the first one. Second one, through China and Western Europe, in particular, do you have any sign of how much of the on-trade outlet universe will permanently close because of COVID-19? And then, a third one, just for, Heine, on cost of sales. I think at the start of the year, you guided to low-single-digit increase in cost of sales per hectoliter. I assume on the input costs portion, probably not a lot of change, but is that still a sensible way to think about the full year? Thanks.

<A – Cees 't Hart – Carlsberg A/S>: Thank you. With regard to Europe, we see that off-trade is slightly positive, but as said earlier, that does not compensate the negative effects of the on-trade. And again, in

Poland, we are more or less fully in off-trade and we there, if you like, the normal development of our market and market share.

With regard to the on-trade – sorry, that’s in China. Sorry, again, the line is sometimes a bit bad. In terms of China, in the on-trade, especially we’re suffering from the night entertainment, which is still more or less closed and that impacts our brand, especially Carlsberg. As said earlier, some of the other restaurants are opening up, some of that to the level of almost 90%. And there we see a good pick up of, for example, 1664 Blanc. So in general, the main issue at this moment of time in China is still the night entertainment and that impacts the very premium part of our portfolio.

<A – Heine Dalsgaard – Carlsberg A/S>: And morning here, Sanjeet. When it comes to COGS, as you know, we are well-hedged for 2020 and that gives us exactly what we want, both when it comes to ups and downs in COGS development, which is transparency and sort of that we have certainty on how it looks. And that’s also how it is today. We expect increasing COGS per hectoliter due to lower barley and aluminum, but then higher glass, sugar, and paper in some regions.

When it comes to COVID-19 impact, we expect lower cost for example for PET, but most other categories are not impacted due to the hedges that we have and that we are very firm on in terms of our policy. On top of that, we will get some under-absorption of fixed cost due to the lower volumes. And that’s basically – we don’t comment any specifically more on this.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Good. Just a quick clarification, Cees, on the on-trade, my question was more about, are you seeing any permanent closures of on-trade outlets, be it in China or Western Europe or is that too early? And on the nightlife channel, when would you expect that to start reopening in China?

<A – Cees ’t Hart – Carlsberg A/S>: Yeah. So on nightlife, frankly, we don’t know at this moment of time. As you know, there’s still a bit of a fear for a second wave. And by that, we are really glad that most of the channels are reopened, except the night entertainment. Again, we don’t have any information whether that will pick up later on.

With regards to the permanent closure of outlets in China, we have seen a few. But as China is China, so there are quite a lot of entrepreneurs that then jump in and basically take over the assets and start again. So, we have not noticed really a disadvantage out of that. With regards to Western Europe, it is too early to say. More or less, all of them, in many countries, are really closed. And then the question, of course, is whether they are able to weather the storm and reopen in due time.

For that, of course, for us it’s very important that the social life in the very different countries in Western Europe start up again in order to ensure that this will not be impacting the on-trade that much for the longer term. But obviously, in our ways that we think through scenarios at this moment of time, this is in the back of our minds that we could see some of our customers not being able to survive this storm.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: And how much of your business in Western Europe is keg beer and is that an issue? Will you be helping out the on-trade customers with that or who bears the cost?

<A – Cees ’t Hart – Carlsberg A/S>: No, I mean that’s depending a bit on the customer, the country, and so forth. In general, it’s around maybe 5%, 6%. And what we do is helping out the customer at the moment that they have a lot of, let’s say, kegs open. And we make also sure that we are so close to the customer that they are – at the moment that they are able to open again that they have fresh beer. So, again, it is a tailor-made action from our sales guys to ensure that the customers are being helped to the extent that we can.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Thank you.

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

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

<Q – Tristan van Strien – Redburn Partners>: Good morning, gentlemen. Three very modeling questions, if you don't mind, sorry, for me. Just one, can you just maybe give some insights on your fixed costs here in some key cost buckets, especially on your staffing costs, your distribution costs, and your cost of sales? What of that is fixed, before we even start talking about cost savings on the back of that?

The second question is on your wholesale operations and your finished goods, I guess, that go with that. Is it fair to assume that in April, basically, that is a big zero? Are those totally shut down in terms of ability to get any volumes trued-up, and as long as on-premise stays close, that will be longer?

And then, the third question is on your CapEx, what proportion of that last year will be considered returnable bottles in that number?

<A – Cees 't Hart – Carlsberg A/S>: Okay. Thank you, Tristan. The first one is about fixed costs here.

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning. So, on the fixed and variable parts, frankly, it's not possible to give an exact answer to this as some costs may be fixed short term, but variable medium and long term. So, it is kind of a theoretical discussion, from my point of view, because it really depends on the time horizon, if you look at it. Brewers like us, we do run a fixed-cost business with large breweries, for which high utilization is important for fixed-cost absorption. And when volume decline, we struggle with the under-absorption of fixed costs in our brewery. So, that's on the COGS side.

On the SG&A side, it is really a conceptual discussion. We don't look at it that way. We look at more the timeframe when it is we want to address it. And basically, from our point of view, those costs are addressable depending on the timeframe.

<A – Cees 't Hart – Carlsberg A/S>: With regard to the wholesale operations, basically, they are at the – indeed, most of them are fully closed. And with regards to the CapEx proportion, Heine?

<A – Heine Dalsgaard – Carlsberg A/S>: It's not something we disclose specifically. So, it's not a number we comment on.

<Q – Tristan van Strien – Redburn Partners>: Okay. Just can I just follow-up, Heine, on the first answer then? You mentioned you're cutting consultants, how much was that last year? And I guess second, you're saying you're not using temporary workers. So when I listened to some of your other peers, they say that 15% of their staff is temporary. Is that a kind of number we should look at?

<A – Heine Dalsgaard – Carlsberg A/S>: So when it comes to consultants, yeah, this is one of the areas where we allow ourselves to be relatively ruthless in terms of taking those kind of costs out and that goes for group, for regions, and for countries, we simply during these times take out as much consultants and professional services as we can and have a very ruthless sort of approach to that. We don't comment on the specific numbers. I can tell you, overall within our OCM approach, we have around DKK 28 billion that we're addressing with our sort of operational cost management approach in different ways.

In terms of temporary workers, it's clear that our view is that the first obligation we have is towards our employees. That means that the part that goes out first is the temporary workers. We don't comment specifically on the percentage.

<Q – Tristan van Strien – Redburn Partners>: Okay. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Next question, please. Could we have the next questions, please? As we see on our screen, we still have a quite a lot of questions. Is maybe anybody on the line hearing us? Next question, please. As we seem to have a technical problem, we probably...

Operator: This is the operator.... Sorry for that technical difficulty. I will announce the next question. The next question is Olivier Nicolai from Goldman Sachs. Please go ahead. Your line is now open.

<Q – Olivier Nicolai – Goldman Sachs>: Hi. Good morning. Most of my questions have been asked. Just got one follow-up on your prepared remarks. You mentioned that you were, obviously, evaluating the possible long-term impacts from the virus on the consumer behavior and brand preferences. I know you don't have a crystal ball, but I will just be interested to hear a little bit your thoughts on this and different scenarios that you're planning.

<A – Cees 't Hart – Carlsberg A/S>: Yes. Thank you, Olivier, and good morning. With regards to consumer behavior, indeed, it is a crystal ball. What we see at this moment of time is that the consumers have moved to, as we said, multipacks in general. We need to see, of course, what will happen at the moment that the on-trade will restart. We see a slow restart of on-trade in China. So, consumers are still maybe a bit afraid to be amongst many people.

What we also see, and the question is whether that's an undercurrent that will now be more apparent, is about health and the focus on health. In that respect, you could argue that we are well-catered for that at that moment that alcohol-free beers will develop further. Earlier in the call, we were talking about a relatively good growth of that segment and we expect that for the future.

I think in terms of COVID, you could argue that COVID as a crisis will impact consumers' behavior. Maybe what will be more impactful is the consequences of COVID in the different economies. And that, I think, will have maybe a bigger impact. And at the moment, we look at different scenarios for the future. And one of them, of course, is that it could well be that we see some more focus on more economic propositions, a bit of down-trading which we see already, for example, in Russia, and we take these kind of things into account with regard to our next steps.

So, in total, when you talk about scenario thinking and, yes, that's what we do, if we talk about mid-term, we call now the mid-term is 2021, of course, and we will adapt the way we operate based on our new insights on that. So, it's a crystal ball, difficult to say what will be the implications of this crisis. But again, we think in scenarios and what we see already in China where we started off relatively early already we were thinking into scenarios that serve us well. The key insight is that the scenario that we think will prevail is always different and, therefore, then different in practice. And therefore, we also learned how good it is to think into scenarios and change attack at the moment as the reality is different than expected.

I was talking earlier in the call about being agile. I'm positively surprised about agility of our company. I said earlier, we have moved, if you like, the focus much more to operating countries in terms of being very close to the market of the customers and consumers, and ensuring that we move swiftly at the moment that we see either new trends or new opportunities. It's a bit broad, Olivier, but I think the answer is we don't know, but we see some early signs. We have scenarios and we prepare ourselves for the different scenarios.

<Q – Olivier Nicolai – Goldman Sachs>: Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Can we then have the last question, please?

Operator: Of course, yeah. The last question comes from Frans Høyer from Handelsbanken. Please go ahead. Your line is now open.

<Q – Frans Høyer – Svenska Handelsbanken AB>: That must be me. Frans Høyer at Handelsbanken. I just wanted – I appreciate the difficulties with giving guidance and the lack of visibility is great, and that goes especially for the second half depending on the lockdowns, liftings and all that. But with everything – if we just home in on the first half and with everything you know about the volume trends, the mix erosions, the cost mitigation, could you perhaps help us with an idea of sort of a ballpark figure on the margin pressure at the group level in the first half? I mean, is it going to be more or less than 200 basis points? Is this going to be more or less than 400 basis points? Something along those lines, please.

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

<A – Heine Dalsgaard – Carlsberg A/S>: Good morning, Frans. It is for real out there that the visibility is low and the uncertainty and volatility is extremely high. So, as we've said, we work with different scenarios, sort of a best case, a base case and the worst case. And those scenarios are really based on market to market. But because it is so different from market to market, depending on when the specific markets were sort of hit by the outbreak of the virus, but also depending on the time of the sort of governmental actions and of sort of also the release of these sort of restrictions from the different governments.

So, it is really difficult to give you a specific answer to that question. What we can say is that we are following this extremely closely. We're working with different scenarios, best case and worst, per market. We're following it very, very closely, having biweekly follow-ups. And then we are adjusting our mitigation sort of actions on costs to try to close as much as we can on the top line as possible with costs.

But we don't give you any sort of range in terms of margin neither first half, nor second half, nor full year, simply because of the lack of visibility. And the only thing we could be absolutely certain about if we try it is that it's going to be wrong.

<Q – Frans Høyer – Svenska Handelsbanken AB>: Okay. Fair enough.

Cees 't Hart

Thank you, Frans. Thank you. That was the final question for today. We apologize for some technical issues by which your questions did not always come through well. For now, thank you for listening in and thank you for your questions. Stay safe and have a nice day.

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