Carlsberg A/S

2022 Financial Statement

Conference Call

7 February 2023

with:

CEO Cees 't Hart and
CFO Ulrica Fearn

PARTICIPANTS

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Other Participants

Andrea Pistacchi – Analyst, Bank of America
Olivier Nicolai – Analyst, Goldman Sachs International
Trevor Stirling – Analyst, Bernstein Autonomous LLP
Simon Hales – Analyst, Citigroup Global Markets Ltd.
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MANAGEMENT DISCUSSION SECTION

Operator: Welcome to the Carlsberg's Full-Year Results for 2022. For the first part of this call, all participants are in a listen-only mode. Afterwards, there'll be a question-and-answer session. [Operator Instructions] This conference call is being recorded.

I will now hand it over to the speakers. Please begin.

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

Good morning, everybody, and welcome to Carlsberg's full-year 2022 conference call. I am Cees 't Hart, and I have with me our new CFO, Ulrica Fearn; and Vice President of Investor Relations, Peter Kondrup. Before we go into all the details of 2022 and the 2023 outlook, I would like to welcome Ulrica who, as you know, joined us only five weeks ago. We are pleased to have Ulrica onboard, and as Ulrica will join us on our roadshow in the coming weeks, many of you will have the opportunity to meet her in person. At this call, I will go through the key headlines and the regions, and Ulrica will take you through the financials and the 2023 outlook.

Let's now look at the financial performance. Please turn to slide 3 and some of the many headlines for the year. 2022 was a challenging year due to the war in Ukraine, rising input costs and COVID-19, particularly in China. The war in Ukraine has had a profound impact on our business, both from a humanitarian, operational and financial perspective. Because of the Russian invasion of Ukraine, we decided in early March to do a strategic review of our long-term options in Russia, and this led to the difficult but necessary decision to sell our Russian business.

Regardless of these challenges, the Group delivered a very strong set of results with revenue growth of 15.6% to DKK 70 billion. Note that these figures exclude the business in Russia, which is no longer part of Central & Eastern Europe, but reported separately as business held for sale. We delivered all-time high operating profit of DKK 11.5 billion, while at the same time increasing marketing investments by 19% organically, corresponding to DKK 1 billion. Thanks to the very strong cash generation, we returned DKK 7.8 billion to shareholders through dividends and share buybacks. This morning, we announced another increase in dividends of 13% to DKK 27 per share. We are very satisfied to end SAIL'22 on such a strong set of numbers, and we are well prepared to deliver on the growth priorities of SAIL'27.

Please go to slide 4, where we take stock of the financial achievements, since we launched SAIL'22 in 2016. The Group's financial health is strong. When we launched SAIL'22 in early 2016, it was with the ambition to invest in and develop our portfolio, geographies, capabilities and winning culture in order to deliver consistent organic operating profit growth through top line and margin improvements, improve ROIC and increase the annual cash returns to our shareholders.

As you can see from the charts on this slide, we have successfully delivered on all key financial metrics. Despite the war, the significant commodity price increases and COVID, we have achieved strong earnings growth and cash flow while increasing marketing investments by more than 25%. We have achieved these results, thanks to our highly engaged people and the significantly improved strategic health of the Group.

We have strong market positions and strong brand portfolios in our key markets. We have clear strategic priorities. We have invested behind our key growth drivers in terms of brands and markets. We have embedded the Funding the Journey cost focus across our markets and functions, and we have significantly strengthened our capabilities.

The organizational health in Carlsberg is very good. Our purpose of brewing for a better today and tomorrow is clear and well understood. Our purpose-led and performance-driven culture is well embedded. Our employee engagement and commitment are high, and we have a strong ESG agenda with ambitious targets.

As we deliver the final year of SAIL'22, it's therefore safe to conclude that the Group is in a good place with a strong financial, strategic and organizational health. Building on this resilient foundation and with the clear long-term strategic direction set out in SAIL'27, we are confident that we will continue to deliver appealing top and bottom line growth and value creation for our shareholders and our stakeholders.

Please turn to slide 5 and performance of our international premium brands. As presented at the Capital Markets Day in Copenhagen in September, a key growth and value driver in SAIL'27 is to step up in premium. Notwithstanding the current macroeconomic environment, we continue to trust in the long-term opportunities for premium, both for international premium brands and local premium brands.

We saw a good development of most international premium brands. Carlsberg grew by 14%, driven by Asia and key European markets. Tuborg grew by 9%, also driven by Asia, especially India and Vietnam. Brooklyn grew by 42%, achieving good growth in most Western European markets, supported by the launch of Brooklyn Pilsner. Blanc delivered good growth in many markets, including Switzerland, Denmark, Malaysia, Vietnam and the Baltics. But due to the war in Ukraine and lockdowns in China, the brand declined by 4%. Somersby grew in markets such as Denmark, UK, Laos and the Balkans, and in China, where we launched Somersby in 2021, volumes tripled. However, total volume growth of 1% was impacted by the war in Ukraine. Excluding Ukraine, Somersby grew by 5%. Several local premium brands, such as Jacobsen in Denmark, Eriksberg in Sweden and Wind Flower Snow Moon in China, delivered solid growth.

Please turn to slide 6. The growth of our alcohol-free brews continued in our Western European markets, as penetration of the alcohol-free option continues to increase. The Western European region delivered 7% volume growth, driven by brands such as Tourtel, Somersby 0.0 and Carlsberg 0.0. As Ukraine is a large market for alcohol-free brews, total volume growth was impacted by the war. Excluding Ukraine, total alcohol-free brew volumes increased by 1%, impacted by lower volumes in some export and license markets. Including Ukraine, volumes declined by 6%.

Digital is a key focus area in SAIL'27 that we will invest more in, for example, in rolling out our B2B e-commerce platform, Carl's Shop, which is currently live in 11 markets across our three regions. There was continued positive momentum on the platform and revenue increased by 51%. In Western Europe, revenue per hectoliter on Carl's Shop increased by 6%. Our e-commerce revenue grew by 42%, mainly driven by strong growth in China, our most advanced online retail market. In Western Europe, we improved our online market share in several markets, including the Nordics, France and the UK.

Slide 7 and an overview of our enhanced ESG program, Together Towards ZERO and Beyond, which we announced in August 2022. Together Towards ZERO and Beyond reaffirms our commitment to help tackle global challenges and raises our ambition level even further, addressing a wider array of material topics to create a more holistic ESG program. When we launched our previous program, Together Towards ZERO in 2017, we set a number of targets for 2022 against a 2015 baseline within the areas of carbon emission, water, health and safety, and responsible drinking.

Evaluating our accomplishment against these 2022 targets, we have delivered on two out of three targets for carbon reduction at our breweries. We exceeded our target to reduce CO2 emissions at the breweries by more than 50%, reaching a reduction of 57%. Looking at renewable energy sourcing, we now source 100% renewable electricity for our breweries in Western Europe and Asia, but we have not met our 100% target globally, achieving 92% in 2022. This is due to lack of availability of certificates in four Eastern European countries, where we will continue to explore alternative solutions.

Looking at water, we have cut the amount of water we use from 3.6 to 2.5 hectoliter for every hectoliter of beer produced. This equals a 31% reduction, beating our 25% reduction target for 2022 and making us one of the most efficient major brewers in the world. We are working hard to create a safe environment by making improvements each year on a steady course towards ZERO Accidents, and we have cut our lost-time accidents by 41%. But changing behavior takes time, as we still have work to do in embedding our ZERO Accidents Culture across all our markets.

And now to the regions, please turn to slide 8 and Western Europe that experienced a volatile year with a strong H1, thanks to the on-trade recovery, and a weaker H2 due to the continued increase in commodity and energy prices and price increases lagging the cost increases. Revenue per hectoliter increased by 8%, mainly driven by the positive channel mix in H1 and related positive brand mix. Despite the on-trade recovery, our on-trade volumes are still around 10% below 2019 levels. To compensate for the significant commodity and energy cost increases, we took price increases in most markets during Q1 and Q3. As our costs will continue to go up in 2023, we will need to take more pricing during this year. Revenue in 2022 grew organically by 13.8% and operating profit by 12.6%, supported by the on-trade recovery.

Looking at the markets, volumes in the Nordics grew by mid single-digit, mainly driven by high single-digit growth in Denmark and Sweden. In Denmark, our business benefited from strong on-trade recovery, especially in H1. After two very strong years in 2020 and 2021, volumes in Norway declined by mid-single-digit, as borders reopened and cross-border trade and travel restarted. Our Swedish business delivered good volume and revenue per hectoliter development. The business benefited from the reopening of the Norwegian border and on-trade recovery.

In France, volumes grew double-digit in a slightly declining market. The revenue per hectoliter was up by a mid single-digit percentage with good growth of our premium beer portfolio and alcohol-free brews. Volume growth in Switzerland was in the high-teens, driven by the recovery of the on-trade, being an important channel for us in Switzerland. Key growth drivers were Feldschlösschen, including the alcohol-free variant, then Valaisanne and the Pepsi portfolio, which has been part of our portfolio since the beginning of 2022.

Volumes grew slightly in Poland. Revenue per hectoliter increased significantly due to several price increases taken to offset significant cost price inflation. We saw good growth for our local mainstream brands and Garage, while the flavored category declined as consumers traded down into mainstream and lower mainstream lagers. In the UK, we had a good H1, supported by the significant rebound of the on-trade. During H2, we experienced an increasingly challenging trading environment with consumer behavior being impacted by the high inflation. Volumes for the year grew mid-single-digit, but declined in H2.

Slide 9 and Asia, where we achieved very good results, supported by markets recovering after the many COVID restrictions in 2021. Volumes grew by 10.3%. Growth was stronger in H1 than in H2 because of the impact from COVID restrictions in our China footprint from August. Revenue per hectoliter improved by 8% as a result of a positive channel mix, premiumization and price increases, the combination of which led to a high organic revenue growth of 18.8%. Reported revenue grew by almost 22% due to a positive FX impact, mainly from China, which more than offset the depreciation of the Laotian kip and the deconsolidation of Nepal. Organic operating profit grew by 11.2%.

In China, volumes grew by 2% in a flat market and revenue per hectoliter grew by 3%. While we continued to have good momentum for our growth priorities, including expanded distribution, the international and local premium portfolio and the big city strategy, we were more impacted by local COVID restrictions and lockdowns in our strongholds and big cities in H2, and especially in Q4, than in H1. This is the reason why volumes in H2 declined by 3%.

Looking at our brands in China, Carlsberg and Tuborg did very well. 1664 Blanc was impacted by the nightlife restrictions and Wusu by lengthening lockdowns in its home province. There was limited impact in December from sell-in to the 2023 Chinese New Year, as this happened in January 2023. Shipments in January were largely as expected, but we do not yet have a good view on consumer off-take during the New Year celebrations, and it is therefore too early to give a firm indication on how the New Year celebrations panned out in China. We will only know this once we get the sell-out data from distributors in February and early March.

In Vietnam, we achieved more than 25% volume growth in a market that grew by more than 20%, strongly recovering from the previous year's COVID restrictions. Our volume growth was driven by the Huda brand and our international premium brands, benefiting from our strengthened route-to-market and a significant increase in marketing investments, especially behind our international premium brands.

Our Indian business delivered more than 30% volume growth, supported by easy comps and warm weather. We had a solid revenue per hectoliter growth, thanks to strong growth of Carlsberg, Tuborg and packaging mix. Despite the challenging macroeconomic environment, our business in Laos delivered a strong set of results with around 20% volume growth, supported by easy comps. All other markets, except Hong Kong, delivered very good volume growth.

Slide 10 and Central & Eastern Europe, where we had a very difficult year due to the war in Ukraine. Despite a substantial volume impact in Ukraine, regional volumes were flat. Excluding Ukraine, volumes grew by 5%. Revenue per hectoliter was strong at 15%, driven by price increases, a positive channel mix due to the on-trade recovery in South-Eastern Europe, brand and country mix. Revenue was up organically by 14.7%. Operating profit and operating profit per hectoliter were flat due to the significant commodity and energy cost increases.

It was a terrible year for our Ukrainian employees, who have shown incredible strength and resilience, delivering an outstanding effort while at the same time navigating the very difficult situation. The safety, health and wellbeing of our people will always come first, and therefore we suspended production at our three breweries and stopped operations in the country in late February and early March. However, at the recommendation of our local employees, we restarted production during Q2 2022.

Due to the market decline and the suspension of operations, our volumes declined by 20%. Revenue per hectoliter was positively impacted by fewer promotional activities, a positive channel mix and pricing, while cost of sales was up significantly.

Our volumes in South-Eastern Europe grew by high single-digit, driven by double-digit growth in Italy, Greece, Croatia and Serbia. Growth in all markets was supported by easy comps and increased tourism. Revenue per hectoliter improved in all markets due to price increases, a positive channel mix from the improved on-trade and positive brand mix.

In Kazakhstan and Belarus, volumes grew low-single-digit. Revenue per hectoliter increased significantly due to the high price increases in the inflationary environments and a positive brand mix. The export and license business has delivered solid growth, mainly driven by good performance for Tuborg and Carlsberg in many larger markets. In December, we announced the intention to acquire Waterloo Brewing in Canada. We're excited about this acquisition, which will enable us to integrate our local sales subsidiary with Waterloo, and by that strengthen our market position and reduce transport costs.

Please go to slide 11 and a few words on Russia before I hand over to Ulrica. We announced our intention to sell our Russian business on the 28th of March. It has been and continues to be a highly complicated task to separate and prepare the Russian business for divestment, involving more than 150 separation projects. As part of the separation, we are investing more than DKK 100 million in CapEx in Eastern Europe related to IT and a new canning line and expanding the regional office as some regional functions were previously managed out of Russia.

Alongside the separation process, we initiated the necessary steps for divestment including a process to clarify the impact of sanctions and the Russian government's approval process, select advisors, identify potential buyers, and formalize the sales process. A careful screening process is underway to evaluate the bidders' appropriateness to participate in any transaction. We will take the needed time to execute the separation and the divestment to seek the best possible solution for all stakeholders, in particular our more than 8,000 Russian employees and our shareholders. At this time, we aim at signing a divestment agreement by mid-2023.

In the accounts, Russia is presented separately as discontinued operations held for sale. Volumes in Russia declined by 3%, reported revenue grew by 56% to DKK 10.2 billion due to significant price increases and the appreciation of the Russian ruble. The net result was minus DKK 8.1 billion, impacted by the write-down of DKK 9.9 billion. The net asset value amounted to DKK 7.5 billion. The decline of DKK 2.1 billion compared with June 30 was mainly due to the depreciation of the ruble during H2.

And now I will hand over to Ulrica.

Ulrica Fearn, Chief Financial Officer, Carlsberg A/S

Well. Thank you very much, Cees, and hi, everyone. As you've already heard, my name is Ulrica Fearn and I joined Carlsberg on the 1st of January. And I'm very excited about this opportunity and I'm looking forward to getting to know the company fully and also contribute to the continued positive development and momentum of Carlsberg. And my first impression is very positive. I'm gimpressed by how well the performance-driven and commercial culture and also the cost focus is embedded in the company.

So, a few words about myself before I go through the numbers. I joined Carlsberg from Equinor, where I was the CFO, and before that I was Director of Group Finance at BT Group. And my career started in Diageo, where I worked for almost 20 years in various senior finance, treasury roles, as well as general management and operational roles. And that was across several regions and markets. I hope to get to know you a little bit closer in the months to come.

So, with that short introduction, I will now go through the headlines of 2022. So, please go to slide 12 for a few words on the P&L. Revenue was up organically by 15.6%, driven by volume growth of 5.7% and a 9% growth in revenue per hectoliter. The latter is driven by positive channel mix in many markets as well as a positive brand mix and price increases.

In reported terms, revenue was up by 16.9%. The positive currency impact of 2.2% was mainly due to the strengthening of the Chinese and Swiss currencies, which more than offset the depreciation of the Laotian and Ukrainian currency. A small acquisition impact of minus 0.9% was due to the deconsolidation of the Nepalese business.

Operating profit was strong at DKK 11.5 billion. Organic operating profit growth was 12.2% while reported growth was 13.2% due to a positive currency impact offsetting the small negative impact from the deconsolidation. Looking above operating profit, cost of sales per hectoliter was up by 13% due to higher commodity and energy costs. But thanks to the good growth in revenue per hectoliter, gross profit per hectoliter increased organically by 5%. Reported gross profit increased by 11.3%, while gross margin declined by 190 basis points to 45.6%. In years with high inflation, I very much support the focus on offsetting the absolute cost increases through the higher revenue and continued to focus on costs using our OCM toolkit and driving the Funding the Journey Culture.

Total OpEx increased by 13%, while OpEx as a percentage of revenue, was down by 70 basis points despite significantly increased marketing investments of 19%. OpEx was also impacted by higher logistics costs on the back of the on-trade recovery and higher energy price. Operating margin was 16.3% and this is a decline of 60 basis points.

A few specific comments on performance in half two, when operating profit declined organically by 5% compared to the 32% growth in half one. And this was expected and as flagged in half one and Q3 due to several factors. Firstly, there was a time lag between commodity and energy cost increases and our price increases, especially in Western Europe. Secondly, because of the financial health of our business, we have the capacity to invest and we were confident to increase sales and marketing spend across all regions, but most significantly in Asia, especially Vietnam and China. Thirdly, we had tougher comp in half two where half one was still benefiting from easy comparables in half one 2021, which was still impacted by COVID restrictions. And fourthly, there was a softening in the on-trade in Western Europe in Q4, mainly in the UK.

Special items amounted to minus DKK 784 million and main contributing factor was a DKK 700 million write-down of goodwill in Central and Eastern Europe. Net financial expense was DKK 725 million. Excluding FX, net financials amounted to minus DKK 506 million compared to minus DKK 333 million in 2021. The increase was mainly due to a reversal in 2021 of the previous write-down of the loans to our partners in India. Average funding cost was slightly lower and interest expense declined accordingly. The tax rate was 17.9% impacted by non-cash one-off adjustments of around DKK 400 million. Excluding these one-offs, the effective tax rate was approximately 22%.

The net profit for the Group was minus DKK 1.1 billion, impacted by the write-down of goodwill in Russia and Central and Eastern Europe. Adjusted net profit – and that is net profit adjusted with special items after tax in both the continuing business and in Russia – was DKK 9.7 billion and an increase of 40%. This strong performance was driven by the operating profit growth and the lower tax rate. Adjusted earnings per share from continuing operations increased by 24% to DKK 55.7.

So now, please, go to slide 13 and some comments on cash flow and net interest-bearing debt. Operating cash flow was DKK 12.9 billion as a result of the higher earnings and a positive contribution from trade working capital of DKK ,1.9 billion. This was partly offset by the change in other working capital of minus DKK 465 million, impacted by higher VAT payables. Looking at the average trade working capital to revenue, this ratio was strong at minus 21.5%. Free cash flow was therefore strong at DKK 9.9 billion. CapEx was DKK 4 billion on par with 2021. Net interest-bearing debt of DKK 19.5 billion was on par with last year, with free cash flow offsetting the DKK 7.8 billion cash return to shareholders.

So now to slide 14 and a follow-up on our capital allocation priorities, which were set in 2016. These priorities are well-embedded and also part of SAIL'27. Our first priority is to ensure sufficient investment in the business to secure sustainable long-term growth. As already mentioned, marketing investments increased by 19%. These investments were made in support of our SAIL'27 priorities. The strong financial results gave us the capacity to invest, making it possible to even accelerate some growth investment, for example in Vietnam. We also stepped up on our ESG initiatives.

Our second priority is to have a leverage below two times. With a leverage ratio of 1.23, we remain well below this target. We're currently operating with a conservative leverage due to the likely acquisition of our partner's ownership of the Indian holding company. In addition, we are facing an uncertain 2023 related to consumer sentiment, the war in Ukraine and COVID recovery in China. And we will also have around DKK 800 million cash out related to the Waterloo acquisition in Q1.

Our third priority of an adjusted dividend payout ratio of around 50% was realized in March, when we paid dividend of DKK 3.4 billion, equal to 49% of the adjusted net profit for 2021. For 2022, the Supervisory Board will recommend an increase in the dividend per share of 13% to DKK 27 equal to an adjusted payout ratio of 48%. Excluding the previously mentioned one-off tax adjustment, the adjusted payout ratio is a little over 50%.

Our fourth priority is distributing excess cash to shareholders. In 2022, we carried out share buybacks totaling DKK 4.4 billion at an average share price of DKK 926. Despite the strong free cash flow and low leverage, the Supervisory Board has decided not to initiate a new share buyback for this next quarter, due to the recent development in the put-and-call process related to our partner's ownership in the business in India and Nepal. According to the Shareholders' Agreement, the put option price for the partner's 33% shareholding has now been determined by the valuators at a value of $744 million, or approximately DKK 5.1 billion. This value is the simple average of valuations done by two external valuators, one appointed by us and one by the partner. And yesterday, our partner exercised this put option, and we will now valuate the detailed assumptions and the valuations before deciding next step.

Go to slide 15 in the outlook. 2023 will be an uncertain year. Firstly, with regards to pricing and consumer behavior. We are in unprecedented inflationary environment, with an expected total increase in our cost base of around DKK 10 billion over two years. In 2023 specifically, we expect a low-teen increase in cost of sales into next favorable hedges in 2023 compared to 2022. We also expect an increase in operating expenses due to higher logistics costs, further overall inflation in the rest of the cost base, and we will further increase marketing investments.

We will seek to offset this higher cost per hectoliter through pricing and mix, and we are in the process of increasing prices across our markets. We will also use our OCM tool to ensure we maintain our rigorous approach to cost management and also continuing a disciplined approach to resource allocation. As I already mentioned, I am impressed how strongly this cost focus and discipline are integrated in the company culture here at Carlsberg.

And while the beer category is generally a resilient category, significant price increases combined with the overall high inflation may impact consumer behavior and subsequently volumes, channel and branding, particularly in Europe. And we believe that we are well prepared, we have a strong brand portfolio with different price points that cater for different consumer choices.

It is very early days, but we are currently seeing in terms of down trading is mainly in Poland. With regards to the negative channel mix, it is mainly in the UK. In some other markets in Western Europe, the on-trade traffic during Christmas was a little slow, but whether it was because of the fewer holidays or reaction to high inflation is difficult to tell. In terms of any volume impact, it is not possible to make any conclusion based on January performance due to the insignificance of this month in Europe.

Secondly then, the war in Ukraine remains an uncertainty for our business. And lastly, whilst we're positive on the reopening after COVID in China, we cannot yet make firm conclusions regarding the success of the New Year celebrations in China. So because of these uncertainties, unprecedented pricing and uncertain consumer behavior, the war in Ukraine and the reopening of China, our guidance range is broader than usual. At this point in time, our best estimate is an organic development in organic operating profit of minus 5% to plus 5%. As we get more clarity during the year, we will narrow the range and we will, of course, do our utmost to ensure that we continue the positive trajectory of continuous earnings growth and value creation.

Based on yesterday's spot rate, we assume a currency impact on operating profit of minus DKK 550 million, mainly due to the weakening of Chinese, Laotian, Norwegian and Ukrainian currency. Net finance costs, excluding FX are assumed to be around DKK 600 million, which is slightly higher than in 2022 due to higher interest rates. We assume a tax rate of 21%, which is lower than our previous long-term assumptions mainly due to country mix. CapEx is expected to be around DKK 5 billion, remaining at 6% to 7% of revenue.

And with that, over to you Cees.

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

Thanks, Ulrica, and great to have you on board. Before opening up for Q&A. Let me summarize, 2022 was a challenging year due to the war in Ukraine, rising input costs, and COVID-19, particularly in China. Regardless of these challenges, the Group delivered a strong set of results with revenue growth of 15.6% and all-time high operating profits of DKK 11.5 billion, while at the same time increasing marketing investments by DKK 1 billion.

SAIL'27 was launched at the beginning of the year. With our new strategy, we embark on a more ambitious growth agenda. We returned DKK 7.8 billion to shareholders through dividends and share buybacks. And today, we announced 13% increase in dividends to DKK 27 per share. 2023 will be another challenging year, but we are well prepared and we are entering the year with a strong company, both strategically, financially and organizationally.

We will now take questions. And please keep in mind that we will limit the number of questions to two per person to ensure that as many as possible get a chance to get through. Please don't ask follow-up questions. After your questions, you're welcome to join the queue again. And with that, we are ready to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question will be from the line of Andrea Pistacchi from Bank of America. Please go ahead. Your line will now be unmuted.

<Q – Andrea Pistacchi – Bank of America>: Yeah. Good morning, Cees and Ulrica. My two questions are as follows, please. So, could you talk a bit about your pricing plans for 2023 in Europe? In particular, what you're expecting in terms of timing of the price increases in Europe and any countries where you've already reached agreements? Or maybe the fact that you took price – your second round of pricing last year effectively only happened in Q4 in some markets, whether this may push back a little the price increases this year.

And the second question, please, is on your marketing spend. Significant increase in H2, I think 24% organic increase or thereabouts. So, could you talk a bit about the plans for 2023, whether we should expect marketing to grow ahead of sales this year and whether there will be a further step-up in Asia or whether you're done in Vietnam or will we see more there? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Andrea, and good morning. With regards to pricing in Europe, you have seen that in Q4, we increased our revenue per hectoliter in Western Europe by 7%. The majority of that was through pricing in Q3. There was also a positive country mix, but the majority again is in pricing and that will have an impact in 2023.

With regards to the current status for 2023, pricing especially in Q1 in Western Europe, we can say that we are cautiously optimistic. We have finished most of the negotiations. We have a few outstanding accounts that we still need to have an agreement with. And especially in France, we have not come to any conclusion like many of our colleagues. And that will be done, as you know, by law before the end of February.

And so in rest of Europe, we just now need to wait for the impact of these price increases in – with regards to volume and mix. Then looking at the marketing investments for 2023, we will continue to invest in our brands, of course, very much so in countries like Vietnam and China, but also in countries in Central & Eastern Europe. We're very much focusing on the development of SAIL'27. And with regards to H2 of last year, the increase was very much skewed towards Vietnam and China.

<Q – Andrea Pistacchi – Bank of America>: Thank you.

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

Operator: The next question will be from the line of Olivier Nicolai from Goldman Sachs. Please go ahead. Your line now will be unmuted.

<Q – Olivier Nicolai – Goldman Sachs International>: Hi, good morning, Cees, Ulrica and Peter. First, I think, in your press release, you mentioned some on-trade weakness in the UK in Q4. What do you think is driving that? Was it linked to the strike that you've seen in the UK in December or do you think it's that kind of a sign of a softer consumer environment?

And then second question is on China. I know you're not going to comment on Chinese New Year yet, but perhaps could you give us some indication of your level of inventories in the trade in China at the end of Q4? And have you phased shipments for Chinese New Year this year? Did they fall into Q4 or actually there was some in Q1? Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Olivier and good morning. With regards to the on-trade weakness in the UK, there are three elements. First, as you know, the impact of disposable income of the consumer. Second, there was still a lot of sicknesses, flu and COVID. And the third, the train strikes which probably impacted people going to the cities. So, yeah, let's see what happens in Q1. But these were the three elements we think have impacted the on-trade in the UK at the end of the year.

With regards to Chinese New Year, the inventory is more or less in line with what we expected. So in that respect, we feel comfortable. With regards to shipments, that's very much in the beginning of January, maybe good to say that we only have some qualitative feedback from China what they see and it is positive, of course, that people started to travel again. The travel was up by 51%, but still 53% lower than 2019. There's also more tourism, up by 23%. But basically 90% lower than 2019. The good thing is that there's no large scale infection in rural and the closure of late night entertainment was lower than that we expected. On the other hand, some Chinese New Year events were cancelled. There is some lower alcohol consumption, probably also because of the fact that consumers just went through being – suffering from COVID themselves. So, all-in-all, a bit of a question mark still on how the sell-out of our volumes in the trade there will be. And we – as we said earlier, we ca only see that by – or can conclude on that by the end of February, beginning of March.

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

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

Operator: The next question will be from the line of Trevor Stirling from Bernstein. Please go ahead. Your line will now be unmuted.

<Q – Trevor Stirling – Bernstein Autonomous LLP>: Good morning, everyone. Two questions from my side. So the first one, just a little bit more color on the disposal process of the CSAPL and if I've got the numbers right. So I understand the process is that there are two valuations. There's a put valuation from the vendor, and then you have a call and there's an average, is that right? And then you talk about potential legal action around this put option valuation. So, maybe just a little bit more color what's going on there? I suppose a final sub-question in there is, if you had owned the stake all the way through 2022, what would have been the net incremental earnings from the stake?

And a second question around coming back to A&P investment. I saw it – a lot of it went in there in the second half. It went into Asia. Margins were down about 400 basis points. Should we be thinking the same order of margin compression in the first half? So, do you match that level of investment in the first half as well? Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Trevor, and good morning. Ulrica, over to you.

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. I'll answer the question on the transaction. So, not quite what you said. I think what we have here is the put option being exercised and that's been valued by two valuators at $744 million and that's for the one-third of CSAPL or approximately DKK 5.1 billion. So this is two valuators valuating the put option and an average of that.

And yesterday, the partner exercised the put option and what we will do now is evaluate the detailed assumptions in that valuation before we decide next steps. And that's what we're referring to need to understand the assumptions, the valuation and then we will come back as soon as we have more information to share. That's on CSAPL.

In terms of A&P margin and into next year, I – we expect another marketing investment increase in 2023. But it's basically into – we talked about the investment into Asia, but there's also inflation in there. So this – but despite this increase in absolute terms, I think marketing investments per revenue might likely decline due to the price increases. And that's the continuation of the current strategy investing in our SAIL'27 priorities, continuing to invest up. But given revenue, I don't know what that's going to look like from a ratio point of view.

<Q – Trevor Stirling – Bernstein Autonomous LLP>: Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Trevor.

Operator: The next question will be from the line of Simon Hales from Citi. Please go ahead. Your line will now be unmuted.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thanks. Good morning, Cees and Ulrica, welcome aboard. Two questions for me as well, please. Just on your 2023 guidance, particularly the minus 5% to plus 5% range, it's wider than usual given the uncertain backdrop and the COGS inflation you're still facing. Just how should we think about that delivery in the shape of delivery through the year? Should we expect still a strong decline in organic EBIT in the first half because that COGS inflation really continues to bite and then some recovery in the second half? And maybe a sub-point to that, when you look at your low teens COGS inflation guidance for this year, how's the hedging on that? Is there some scope for that to improve, perhaps, if gas prices remain low as we get into the second half of 2023? So that's the first question.

And then, just briefly on the Russian divestment process. Cees, you said you aimed to sort of sign an agreement hopefully by mid-2023. Do you have any visibility beyond that? Perhaps, how quickly any signed agreements could – and proposed transaction could actually complete? Because from my understanding is you might end up having to go through quite a lengthy regulatory process in Russia?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Simon. And good morning, Ulrica, first to you.

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. You're right. It's a wide guidance and we are always cautiously realistic at the start of the year. But it's – that it is more uncertain than usual. And you heard the reasons, uncertain consumer behavior, cost increases, the war in Ukraine and the recovery from COVID restrictions. And following that through and following the development of those factors, it will have a higher impact on half one to half two. And then, of course, you have the COGS of the year before to take into consideration.

In terms of COGS, the program we got now, we are very well-hedged into 2023, but we do have some variable limit to it as well. It's too early to speculate beyond 2023, but in this, we are pretty much well-hedged even if prices come down. But for the part that isn't, which is small percentages, of course, we'll take that into consideration as we go through the year and basically the shape of that will be that there will harder impact in half one than half two.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Ulrica. And with regards to Russia, basically we anticipate to sign a deal with a potential buyer by the end of Q2 and the next phase is then that we need to ask the Russian authorities for authorization of the deal. And frankly, we don't have any experience with that. There are not that many companies that went through the process. So, it is a bit opaque with regards to how long that could take. So it's learning by doing. But the first and foremost focus from us is now signing a deal with a potential buyer, Simon.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Great. Understood, thank you.

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

Operator: The next question will be from the line of Sanjeet Aujla from Credit Suisse. Please go ahead. Your line will be unmuted.

<Q – Sanjeet Aujla – Credit Suisse Securities (Europe) Ltd.>: Morning, Cees and Ulrica. Two for me, please. Firstly, I think in the past you've often talked about an ambition to maintain or grow gross profit per hectoliter through your pricing actions. Is that still the way we should think about 2023, i.e. growing gross profit per hectoliter? And secondly, just coming back to the COGS outlook, is it fair to say when you look at spot commodities today that they are below where you've hedged for 2023? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Sanjeet. With regards to the gross profit per hectoliter, indeed that's the ambition. We are fully focused on that in each region. So, you can take that as an input. And some of this – indeed, some of the spot prices are below our hedge at this moment of time. It fluctuates, but indeed, in average it is a bit down vis-à-vis our hedge.

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

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

Operator: The next question will be from the line of Laurence Whyatt from Barclays. Please go ahead. Your line will be unmuted.

<Q – Laurence Whyatt – Barclays Capital Securities Ltd.>: Hi. Good morning, Cees, Ulrica, and Peter. Thanks so much for the questions, a couple for me also. Firstly, in the Indian business, if you were to be able to take full ownership of that business, what main changes do you think you would be able to make? Or would you like to make? And what impact do you think that will have?

And then secondly, in the UK, so the on-trade weakness, just wondering around the success of the Carlsberg Marston's joint venture. I know you've disclosed the cost synergies that you're expecting to achieve. But in terms of top line synergies, have you succeeded in increasing perhaps the on-trade sales with the joint portfolio or perhaps the off-trade sales going into the supermarkets as well? I'd love to hear any sort of insight from the synergies at the top line level from that joint venture. Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thank you very much, Laurence, and good morning. With regards to India. Well, basically, we just heard the news yesterday. So, we are looking now to finalize this part, and we hope to do that of course as soon as possible. Then, the next step is indeed that we will review our strategy in India, very much focused on our portfolio. At this moment of time, we only have Tuborg and Carlsberg. As you know, we have a richer portfolio than only that. So, yes, we have plans in our mind to further develop growth in India, and also in SAIL'27, India plays a very important role.

With regards to the UK, yes, indeed, with regards to the synergies, the £23 million, £24 million we said that we would be able to get out of this business as a result of synergies, that indeed came out. The top line is a bit more difficult, because more or less in COVID period, we made this – we agreed to this deal, and we have not – since then, we have not had any, let's say, whatever a normal year can be defined as. But we have never had a stable year so far. What we see, however, is that we have strengthened our position with regards to the distribution in the on-trade, but also in the negotiations in the off-trade, because we have a broader portfolio. We also now have the ale segment that we can bring in. So, with stronger brands, a broader portfolio, we have been able to strengthen our business. But the full impact, we hope and we expect to see this year.

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

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

Operator: The next question will be from the line of Søren Samsøe from SEB. Please go ahead. Your line will be unmuted.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Good morning and welcome to you, Ulrica. First of all – actually, just one question on Asia. The margin dropped some 590 bps in second half year-over-year, and I think the EBIT per hectoliter was quite modest. Can you try to bridge the margin development in the second half in Asia, how much was from COGS development, how much was from price/mix and so on? That would be interesting. Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Søren. Well, with regards to the second half, first of all, we announced it already. We had the marketing investment in both China and in Vietnam. So, that depressed the margin. Then, we had some cost increases that came in earlier than we were able to cover that in the price increases. And third, in general, China in the second half of the year and especially in Q4 did less well and contributed less well, and of course, that had an impact – a negative impact on the margins for the region.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: So, given that some of this will ease, I guess, in 2023, do you – is it fair to assume a rising margin in Asia in 2023, you think?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Depending on how China further develops, yes. But we also will continue – as we said earlier in this call – we will continue to invest in Asia and especially in China, India and Vietnam.

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

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

Operator: The next question will be from the line of Mitch Collett from Deutsche Bank. Please go ahead. Your line now will be unmuted.

<Q – Mitch Collett – Deutsche Bank AG>: Good morning, Cees. Hi, Ulrica. Two questions, please. So, the first, I appreciate on the India and Nepal put option that the valuation is an average of two numbers and that you're contesting the valuation of the vendor. Would you be able to give us the two different numbers or maybe explain the range, so we can understand where that price might ultimately come out? And then, to help us understand what sorts of value you may be able to extract from the Russia business, would you be able to give us the 2022 Russian EBITDA, please? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: So, Mitch, good morning. With regards to India, we are studying at this moment of time, let's say, the put and basically – so, contesting is maybe a bit too early. We just need to review that at this moment of time, but we're not giving any further information about the two different valuations. But you know the average of that. Then, with regards to Russia, as I said, it's a very opaque process. Whether we get a significant value out of that, that just needs to be seen in the process that we will start after finishing our negotiations and having a deal. As said, we then need to go to the Russian authorities, and that will be then the part that we really start to understand whether we get value out of Russia or not. If you want to go into the details on Russia, we just looked it up, page 38 gives you all the details – page 38 of the announcement gives you all the details on Russia.

<Q – Mitch Collett – Deutsche Bank AG>: Okay. Thank you.

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

Operator: [Operator Instructions] The next question will be from the line of André Thormann from Danske Bank. Please go ahead. Your line now will be unmuted.

<Q – André Thormann – Danske Bank A/S>: Thank you, and good morning, everyone. So, just two questions from me. First of all, in terms of China during 2022, I just wonder whether some of your investments, especially within marketing, was delayed, and therefore, whether we should expect even more investments in 2023 in China on especially marketing. That's my first question. My second question is just in terms of your guidance, I just wondered, do you assume for Europe that we will see a volume backdrop due to price increase or what do you actually assume here? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, André. I will cover the first one and Ulrica the second one. With regards to China, we continued to invest in half two. However, it's also fair to say that in Q4, it was a bit lower because of so many COVID cases and cities being closed or parts of cities being closed, especially in the beginning of Q4. So, yes, we delayed something of that. It's not that by delaying that we're now accelerating in Q1 or Q2, because we had already in our budget a reasonable step-up in marketing for China.

So, we continue to invest in that country. We will increase the number of cities by 15 for this year and continue with the – hope to continue with the momentum we had before COVID broke again out in China. So, hopefully, after Q1, we can say that we are back to where we were before COVID with regards to underlying momentum, but that's to be seen. Ulrica?

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. On the guidance and Western Europe, yes, we are assuming a slight volume decline in Western Europe, and I guess I could put a little bit more color on that saying that volume decline but limited channel and brand – negative channel and brand mix, so on the back of price increases early in, in the first quarter in all markets and then into the next year with the second. And also those volume declines is assumed to be on the back of no COVID-19 restrictions and – which means that overall EBIT and margins will be under pressure and there is some risk of profit decline in 2023 in Western Europe.

<Q – André Thormann – Danske Bank A/S>: Thank you so much.

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

Operator: The next question will be from the line of Richard Withagen from Kepler Cheuvreux. Please go ahead. Your line now will be unmuted.

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: Yes. Good morning all and thanks for the question. I have two as well. First of all, maybe coming back on product mix, Ulrica, you just referenced to it. But what's your view on product mix trends in 2023? Is it indeed realistic to assume only a limited upside in Europe or maybe even some pressure, but on the other hand, good prospects in Asia? And then, the second question I have is what's – can you give your considerations for the view on net debt to EBITDA below 2 times? Obviously, refinancing rate has increased. There is this uncertain external environment. So, even with the M&A in the back of our minds, should we assume that you're going to be, yeah, more cautious than what your official targets are?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Richard. I will take the first and Ulrica the second question. With regards to product mix, basically, the first phase, if you like, is achieving the price increases, and that's what we do in Europe at this moment of time, and then we will need to see what the consequences of that are in volume, in channel mix or in brand mix.

So, I think indeed in Western Europe, given the fact that in some countries, we need to increase prices by more than double-digit, and that means that it's unprecedented with regards to the consequences of that. And as you also know, so far, we have seen limited evidence on any impact. But again, that needs to be seen in the course of this year after the second price increase that we do now.

Then, with regards to Asia, I think there, you can indeed assume a further development of the product mix, also on China, because assuming that after this quarter, we will not have any big impact of COVID any more in China, then of course we have easier comps in the second half of the year. Ulrica?

<A – Ulrica Fearn – Carlsberg A/S>: Yeah. On the debt ratio levels, I mean, yes, it is an uncertain year and it's more uncertain than usual, and if we do want to be comfortable with our financial position and make sure that we can continue to operate and drive through in that environment. As you said, we're looking at some M&A. We need to be able to cater for that. And maybe in an environment like that, we are slightly more cautious. But our long-term statements around our debt levels remain as it were.

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

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: Thank you.

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

Operator: Yes. The last question will be from the line of Thomas Petersen from Nordea. Please go ahead. Your line now will be unmuted.

<Q – Thomas Petersen – Nordea Bank Abp (Denmark)>: Good morning, everyone, and thanks for taking my question. One here regarding price increases in 2023. Could you maybe elaborate a little bit on what you have in the pipeline here? And then also a bit on the risks here regarding competitor behavior, consumer and customer behavior, inflation is coming down, and what do you see here risk-wise for taking further price increases in 2023? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Thomas. With regards to the price increases, we're very much focused on Western Europe there. We need there to take the highest prices. Again, we are more or less at the end of the negotiations with many of our customers, and we are cautiously optimistic that we can land the price increases that we need for the first half year. Indeed, there's a second price increase planned for some countries in Europe in the second half of the year. So, that needs to take place later. With regards to any insight with regards to consumer, competitive pricing and so forth, we can see that many of our competitors have the same kind of pressures as we have. So, that's what we see back on shelf that many of our competitors take price. And again, with regards to consumer impact on these price increases, it is too early to conclude.

<Q – Thomas Petersen – Nordea Bank Abp (Denmark)>: Okay. Thank you.

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

Thank you very much for your question, Thomas. And I think that leads then to concluding the call. This was the final question for today. Thank you very much for listening in and thank you for your questions. We are really looking forward to meeting many of you in person during the roadshow in the coming days and weeks. Have a nice day. Bye-bye.

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