Carlsberg A/S

Q3 2021 Trading Statement

Conference Call

28 October 2021

with:

CEO Cees ’t Hart and
CFO Heine Dalsgaard

PARTICIPANTS

Corporate Participants

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

Other Participants

Edward Mundy – Analyst, Jefferies International Ltd.
Simon Hales – Analyst, Citigroup Global Markets Ltd.
Laurence Whyatt – Analyst, Barclays Investment Bank
Richard Withagen – Analyst, Kepler Cheuvreux SA (Netherlands)
Trevor Stirling – Analyst, Sanford C. Bernstein
Søren Samsøe – Analyst, SEB Enskilda (Denmark)
Olivier Nicolai – Analyst, Goldman Sachs International
André Thormann – Analyst, Danske Bank A/S
Fintan Ryan – Analyst, JPMorgan Securities Plc

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, welcome to Carlsberg Q3 2021 Trading Statement. For the first part of this call, all participants are in a listen-only mode. Afterwards, there will be a question-and-answer session. [Operator Instructions] This conference call is being recorded.

I'll 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 Q3 2021 Conference Call. I hope you 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.

Let me begin by summarizing the key headlines for the quarter.

Driven by both volume and value growth, the Group delivered solid top line performance for the quarter. The market and development remains mixed with recovery in many European markets while many Asian markets were impacted by the pandemic.

As you probably have noticed, we issued our Q3 announcement, including an upgrade of our full year earnings expectation already yesterday. The upgrade was done in light of a better than expected result across all three regions in Q3 and the start to Q4.

Finally, we have launched the last quarterly buyback for the year. I will provide the headlines for the quarter and our performance against some of our SAIL'22 priorities and Heine will take you through the regions and upgraded full year outlook.

Please turn to slide 3. It has indeed been a volatile and disruptive year for us, as well as for the communities in which we operate. As a consequence, our performance has varied significantly between brands, categories, markets, and regions. Given this backdrop, we are very pleased with our performance both for the quarter and year-to-date.

Organic revenue was up by 7% due to both volume growth and improved revenue per hectoliter. The 3.4% organic volume growth was supported by double-digit growth in markets such as China, the Nordics, and India; and also good growth in the markets across Central and Eastern Europe. In reported terms, volumes grew by 5.8% due to the Marston's and Wernesgrüner acquisitions.

Comparing the volume growth to the pre-pandemic level in Q3 2019, volumes were up organically by around 6%. Revenue per hectoliter was up by 3%. This was driven by several positive factors, such as the reopening of the on-trade in Western Europe, growth of premium products, and the growth of alcohol-free beverages, which more than offset country mix and much higher soft drinks sales.

Please turn to slide 4 and a brief update on some of our strategic priorities. Our SAIL'22 growth categories performed well. Craft & speciality grew by 5%. We saw strong growth in Asia, Central and Eastern Europe, and certain markets in Western Europe such as Denmark, Norway, and the UK, while volume growth in the quarter was curtailed primarily due to declining volumes for Grimbergen in France and Somersby in Poland.

Key global craft & speciality brands were 1664 Blanc, for which volumes were up by 19%, and Somersby, for which volumes grew by 4%. We've now launched Somersby in China. It is still very early days, but we see good initial results.

On the back of strong growth of 29% in Q3 2020, alcohol-free brews were up by 10% for the quarter and 19% year-to-date. We saw particularly strong growth in Central and Eastern Europe, in markets such as Russia, Ukraine and Belarus. Western Europe markets such as Finland, Sweden, Norway and Poland also posted strong growth rates. Growth in the quarter was impacted by volume decline in France. The alcohol-free category has delivered consistent growth, also during COVID. Compared to pre-COVID level in 2019, volumes in Q3 were up by 41%, and year-to-date, they were up by 30%.

Innovations are important for the continued relevance of our brands and for supporting the value growth of our portfolio. Examples of innovations launched this year include the alcohol-free Feldschlösschen Zitrone in Switzerland, Somersby Piña Colada in Poland, and 1664 Rosé in China. In 2020, innovations accounted for around 10% of total Group volumes.

Speaking of Asia, this region is the third growth pillar in SAIL'22. Despite the COVID related obstacles in many of our Asian markets, we benefited from our very strong business in China, being a key driver of the regional results, which Heine will elaborate on in a minute. And with that, over to you, Heine.

Heine Dalsgaard, Chief Financial Officer, Carlsberg A/S

Thank you, Cees, and good morning, everybody. Please turn to slide 5 and Western Europe, where the volume numbers were quite mixed across markets, mainly due to bad weather and continued restrictions in certain markets. Revenue was up organically by 2.2%, driven by an increase in revenue per hectoliter of 2%. The revenue per hectoliter was supported by channel mix due to fewer on-trade restrictions, partly offset by product mix due to strong non-beer volume growth in the Nordics, and also country mix due to volume decline in the high priced markets of France and Switzerland.

In reported terms, revenue was up by 17.1% and volumes were +8.6% due to the acquisition impact for Marston's and Wernesgrüner.

We achieved strong volume growth in the Nordics with double-digit growth rates in Denmark, in Norway, and in Sweden. Volumes were supported by strong growth in the on-trade and very good progress for craft & speciality and alcohol-free brews.

In addition, non-beer volumes grew strongly in Denmark and in Norway. Revenue per hectoliter benefited from channel and product mix, partly offset then by the strong growth of soft drinks.

Our business in Switzerland and our business in France were impacted by bad weather. In France, on-trade was open but negatively impacted by the sanitary pass requirement and lack of staff. In the off-trade, our business was impacted by less promotional activity vis-à-vis competition. Brands such as 1664 Blanc, Brooklyn and Carlsberg grew. In Switzerland, the reopening of the on-trade was off to a slow start, also due to sanitary pass requirements, and unable to offset the decline in the off-trade. Craft & speciality saw positive growth rates. On the back of tough comps, alcohol-free brews were flat in Switzerland.

Poland had a difficult quarter due to severe market decline following heavy rainfall and low temperatures. In addition and specifically towards the end of the quarter, the beer market was impacted by growing inflationary pressure, reducing consumers' spending power. Our business gained market share, but not sufficiently to offset the market decline.

In the UK, the integration of Marston's and Carlsberg remains well on track. Our volumes benefited from good weather, the lifting of restrictions, and the reopening of the on-trade, the latter also supporting a good development in revenue per hectoliter. Albeit from a low base, craft & specialty grew strongly, with particularly strong growth for Somersby. Our market share in the UK for the combined business improved slightly.

And now to slide 6 and Asia, please, where the impact of COVID was severe in many markets. Revenue was up organically by 13.3%. The volume growth of 7.9% was driven by markets such as China, India and Cambodia. These markets also supported the revenue per hectoliter growth of 5%. In reported terms, revenue increased by 16.9%, mainly due to a positive currency impact from China.

In a slightly declining market, our Chinese business delivered 11% volume growth, albeit this number was helped by easy comps as part of Western China was subject to severe lockdowns in Q3 last year. We have in recent years significantly strengthened our market share in China. Compared with 2019, our volumes in Q3 were up by 15% and year-to-date by 20%. Key drivers of the volume and market share growth were again this year strong growth of 1664 Blanc and the local premium brands, good results for big city strategy and an increasing share in the modern off-trade channel.

In a very volatile India, 30% volume growth was achieved on the back of relaxation of various COVID-related restrictions. We are encouraged to note that our Q3 numbers in India were almost back at the 2019 levels, albeit we see significant differences state by state.

Our business in Cambodia benefited from very strong volume growth for the Sting energy drink, while beer volumes were impacted by severe beer market restrictions.

In Vietnam, our stronghold in the central part of the country was less impacted by COVID compared with other parts of the country and our volumes therefore declined significantly less than the overall market.

The situation in Laos was very challenging due to a steep increase in infection rates during the quarter. This led to a severe ban on the on-trade and on alcohol sales in the off-trade, in addition to movement restrictions and even curfews.

In Malaysia, results in the third quarter remain negatively impacted by the mandatory closure of the brewery from mid-June until mid-August, preventing us from replenishing supplies for almost two and a half months. The situation is now gradually normalizing.

Slide 7, and Central and Eastern Europe, please. The region delivered another solid quarter. Revenue grew organically by 8.6%, driven by both volume and value growth. With the exception of Azerbaijan, all markets in Central and Eastern Europe delivered organic volume growth for the quarter, and total volumes were up by 2.6%. The revenue per hectoliter growth of 6% was the result of a positive development in most markets, supported by pricing and product and channel mix.

In Russia, we had tough comps due to the very good weather last year, but nevertheless volumes were up by mid-single digit. Revenue per hectoliter was supported by strong growth of craft & speciality and we also saw very good growth for alcohol-free brews. Our market share increased sequentially in Russia. The overall pricing environment in Russia remains challenging, but to compensate for some of the higher inputs and logistic costs seen already in second half, and also the RUB 1 duty increase as of 1st of January 2022, we increased prices towards our customers in late Q3.

Volumes in Ukraine grew and we strengthened our market share. Our portfolio of alcohol-free brews delivered strong growth.

In South-east Europe, volume growth was supported by the return of tourists and our international brands did well, led by Tuborg, 1664 Blanc, Somersby and Carlsberg. Towards the end of the quarter, we saw signs of weakening beer markets in several countries in this region, due to increasing restrictions and lockdowns as infection rates are going up and the vaccination rates in many countries remain low. In addition, there is an increasing inflationary pressure which may negatively impact consumers' spending on beer.

Slide 8 please, and an update on the share buyback.

We've carried out the share buyback as quarterly programs this year due to the continued business uncertainty related to the COVID-19 pandemic. Up until Friday last week, we have bought back shares at a total value of DKK 2.75 billion. During the most recent quarterly program, which was initiated on August 18, 938,441 shares were purchased at a total value of DKK 1 billion, corresponding to an average price of DKK 1,065 million. The daily volume bought represented an average of around 10% of daily traded volumes on Nasdaq in Copenhagen.

Today, we then initiate this year's last program, which will run until January 28, 2022. The good results this year enables us to increase the value of this last tranche to DKK 1.25 billion, taking the total amount of the share buybacks for 2021 to DKK 4 billion, or an average of DKK 1 billion per quarter. The Carlsberg Foundation will continue to participate in share buybacks on a pro-rata basis. Further details on the share buyback can be found in the Q3 trading statement.

Please turn to slide 9 and the outlook for the full year, which we yesterday were able to increase to 10% to 12% organic operating profit growth, versus the previous expectation of 8% to 11%. The reason for sending out the announcement yesterday is to comply with the interpretation of the EU Market Abuse Regulation by the Danish regulators.

2021 has again been a challenging year due to the pandemic. The visibility has been low and the volatility has been high during the year, as authorities frequently are adjusting lockdowns and restrictions in light of the local development of COVID-19-related infections. However, we are pleased that our employees and the company as a whole have been able to navigate well through these challenging times, enabling us to upgrade our full year earnings outlook twice this year.

It is not one specific market driving yesterday's upgrade but better than expected results across all three regions in Q3. The upgrade also takes into account performance so far in October. It is important to emphasize that the uncertainty remains very high in many markets across our regions. In many Asian markets, there are frequent changes in restrictions and lockdowns. The same is true in several European markets. In addition, we also see a risk for consumer behavior being impacted by the increasing inflationary pressure.

The FX translation impact is now assumed to be minus DKK 100 million. This is DKK 50 million better than in August. We're also adjusting our assumption on the effective tax rate which we now expect to be around 24%, compared to the previous expectation of around 25%. The lower tax rate is due to faster implementation of various tax initiatives.

The assumptions on net finance costs and CapEx remain unchanged. Net finance costs including FX are assumed to be around DKK 600 million and CapEx is expected to be between DKK 4 billion and DKK 4.5 billion. And now, back to you, Cees.

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

Thanks, Heine and before opening up for Q&A, let me summarize. Driven by both volume and value growth, the Group delivered solid top line performance in the quarter. The market development remained mixed, with recovery in many European markets while many Asian markets were impacted by the pandemic. Yesterday, we upgraded our full year earnings expectations and we have launched the last quarterly share buyback for this year.

Please observe that we, again, this time will limit the number of questions to two per person to ensure that as many as possible get the chance to get through. And with this, we are now ready to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will have a brief pause while questions are being registered. The first question comes from the line of Edward Mundy from Jefferies. Please go ahead, your line will now be unmuted

<Q – Ed Mundy – Jefferies International Ltd.>: Good morning, Cees, good morning Heine. Hi everyone. Two for me, please. You have flagged that there will be a limited impact from higher COGS for the remainder of the year given you've got good hedging in place. But is there anything you can share about the outlook for COGS for 2022 at this early stage? And then, the second question is, as you think about getting stronger revenue per hl, given the inflationary environment, what are the biggest levers that you're going to lean on across price premiumization, channel recovery and total revenue growth management skills?

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Ed, and good morning. Yes, indeed, we are currently in a, well, you can say, very volatile environment which is impacting both the COGS and the logistic significantly. For many of our commodities, utilities, and logistics services, we have seen prices at very high levels during the autumn and therefore, to your point, the headwind for 2022 will be significantly higher than in 2021. And for 2021, we were indeed hedge.

I'm afraid that we'll not, at this moment in time, give you an estimate of the increase in COGS and logistics in 2022. It's still a work in progress. We are still not fully hedged and volatility remains very high on those commodities that can be hedged and inputs that cannot be hedged. Another reason is that for competitive reasons, as we are in the middle of customer negotiations, we cannot make further comments at this time. But as always, we will come back in connection with the full year guidance in February.

With regards to your second question. And also maybe to give you some comfort, we started preparing for 2022 already before the summer. Also at market level, so very much country-by-country. COGS increases will vary significantly market-by-market and plans therefore need to be locally based. And our operators are working on determining the right balance of mitigating actions. And the levers you are talking about are about value management, indeed. Channel mix, especially in Western Europe vis-à-vis 2021 Q1. Pricing, of course, and also Funding the Journey. So the cost initiatives. I hope that sufficed your question or answers your question.

<Q – Ed Mundy – Jefferies International Ltd.>: Yeah, it does. But, I mean, I suppose there's one element as well, but you didn't mention that that's premiumization and favorable product mix, you know your low-alcohol and some of these other products as well. Is that going to be a – a further tool?

<A – Cees 't Hart – Carlsberg A/S>: No, fair. So, if you look at it in totality, it's indeed value management, it's product and pack mix, it's channel mix. It is the further growth of alcohol-free brews, especially in Western Europe. It's the further development of craft & specialities and alcohol-free beer in Eastern Europe, especially in Russia. So it's basically the continuation of the premiumization journey we do. And on top of that, extra attention on the ones that I said earlier, value management, channel mix, pricing and Funding the Journey.

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

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

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

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Thank you. Good morning, Cees, Heine and Peter. Two for me as well please. Guys, I know you don't want to be drawn on COGS inflation outlook for 2022 at this point which I understand. Are you able to say anything about how you're hedged now into 2022 generally? Have you continued to hedge your core input costs where you can at the normal rate that you would do through the second half of this year or are some of the raw materials you may need a little bit more under-hedged than you would normally expect at this point? So anything you could say. That's my first question.

And secondly, I wonder if you could just talk a little bit about the performance in Southeast Asia, some of those more challenging markets as we came through the end of Q3 and into the beginning of Q4, the way you're seeing the recovery starting to come through, some easing of restrictions? Any more color there would be much appreciated? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Simon, and good morning. Heine, with regards to the COGS, over to you?

<A – Heine Dalsgaard – Carlsberg A/S>: Yeah. Good morning, Simon. So for the hedging, at this point in time, we are approximately 80% covered for barley for 2022, with a higher proportion in Western Europe and in Asia than in Central and Eastern Europe, since Central and Eastern Europe, to a bigger extent, is a spot market. For aluminum, we also covered around 80% for 2022 with the highest level being in Western Europe and the lowest again being in Central and Eastern Europe. For sugar, we are almost 100% hedged. And then, you have some commodities, such as the PET and paper, that are very difficult to hedge.

<A – Cees 't Hart – Carlsberg A/S>: Then with regard to your question on the Southeast Asia countries. So, it is very different country-by-country. Malaysia had in Q3 a volume development of minus 33%. Parts of Malaysia were closed. There's now a national recovery plan of four phases and most of Malaysia is now in phase three, so they are developing into the right direction. 90% is vaccinated. Interstate traveling is going to be open again. So, in that respect, we move into a better situation. Q3 was, as the volume indicates, very poor also because the brewery needed to be close between June and mid-August. We have, by that, low stocks in the markets, so we also lost some share. But we are really getting close to basically moving to a bit more normal times, although it is still very depending on the recovery province-by-province in Malaysia.

With regards to Cambodia, there the situation was very different. You probably have heard about what they call vaccination diplomacy, but there 90% is vaccinated. I said Malaysia is 90% vaccinated. That's where they really reopened the total market. The vaccination rate is 62% in total. In Cambodia, it's 90% and there is still a sales ban on alcohol, but the strong performance we had in Cambodia is very much on the back of Sting, which is a soft drink and basically very good improvement or growth of our non-alcoholic portfolio there.

Then, Laos is at this moment of time probably one of the countries where we have the most concerns with regards to COVID. Q3 was minus 10%, beer even minus 20%. So that also suggests that the CSD was positive. In fact, it was plus 4% in CSD but minus, very slow in beer. There is a high consumer price inflation, there is weakening of the local currency, there are lockdowns and the vaccinations are very, very low.

Then to Vietnam, minus 8% in Q3. Basically, I think it's fair to say that in Vietnam, we had a feel that COVID was not so much impacting the country a year ago. Now, it's at its worst since the outbreak. There are lockdowns also there. The market was down in – with almost 40% in August. We did relatively well. We are more in Central Vietnam, as you know, where the issue is a bit less concerning as in the big cities. Luckily, the Vietnamese government is really focusing on vaccination. They now move from a kind of spirit of "stop COVID campaign". They now they have a new campaign "live with COVID". By that, we hope also that there will be more reopenings in the foreseeable future.

So it's a bit patchy. It's very different country by country. But maybe separate from Laos, we think that most of the countries are now moving towards recovery. And we are hopeful that by the end of Q1, most of these countries are back more or less on track.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: No, that's really helpful. Can I just check within some of those Southeast Asian markets, did you see some restocking in September? Some of the restrictions were easing or was that something that you perhaps might see if restrictions continue to ease into Q4?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Well, not that I have particular information about that. In Malaysia, as I said earlier, we were out of stocks, so there, we are trying to restock. There's more about stock building after reopening of our brewery. And I don't have very specific remarks from our people on that. So probably that means also that it's not a big issue at this moment of time.

<Q – Simon Hales – Citigroup Global Markets Ltd.>: Understood. Thank you very much.

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

<Q – Laurence Whyatt – Barclays Investment Bank>: Good morning, Cees. Good morning, Heine. Thanks very much for the questions. A couple for me. In Russia, you mentioned that your positive revenue per hl was driven by product mix and there was some hope that we might be able to get some price through the Russian market after the problems over the past couple of years. I was wondering if you could give us an update on whether you're able to or have been able to recently and your current expectations for taking price in particular in the Russian market?

And secondly, over the past few years, we've seen a number of guidance increases during the year. The guidance given at the beginning of the year have been raised I think a couple of times now for the past three years. How does that change your ability to give guidance at the beginning of the year or how do you think about the guidance at the beginning of the year and how do you think that will change going forward? Thank you very much.

<A – Cees 't Hart – Carlsberg A/S>: Thanks for your questions, Laurence. And let me try to answer your Russia question, and then with regard to the guidance, Heine will take over. With regards to Russia, we have the mid-single digit volume growth. It's continuing to be a very difficult competitive environment with high level of promotions. We had low-single digit price/mix, as you alluded to, and that was driven by craft & speciality. So, what we see is there that we have broadened our portfolio, put more focus on premiumization, and that helped driving the mix.

We also have the brand Flash Up, a very popular energy drink, which is also helping to grow our volume and improving our mix. On average, we have being able to land a close to 4%, in fact, 3.7% price increase. We announced it in September, we've closed most of the negotiations with the customers. And in that respect, that is a good step, although, it does not yet at all cover for the high cost inflation in Russia.

Then, with regards to the market share which is, of course, very important with regards to the strategic health of our business, that was, in August, at a level of even 29%. Year-to-date, it's 27.6%, which means 120 basis points up versus last year. So, with regards to, let's say, the strategic health, I think we made a good progress in Russia. Then, Heine, guidance?

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. Good morning, Laurence. So, there is, as you know, a lot of uncertainty and a lot of volatility due to COVID-19, which really makes it difficult for us in the beginning of the year for good reasons to see how all the different moving parts sort of pans out throughout the year.

If you look at our performance throughout the year, there are really a lot of moving parts and a lot of plusses and a lot of minuses, which makes it really, really difficult in particular for good reasons in the beginning of the year to give full year guidance. And what you see is also that some of our peers are not giving full year guidance which probably has to do with exactly that effect.

We do give a full year guidance, also because, as you know, due to the Danish regulator's view, on EU regulation, but also because we fundamentally believe that we should give the market, we should give you guys as analysts and our investors sort of our best guess, which just comes with a lot of uncertainty, in particular, in the beginning of the year.

<Q – Laurence Whyatt – Barclays Investment Bank>: Thank you very much.

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

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

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: Yes. Good morning, all. Thanks for the questions. I have two please. First of all, with the cost inflation in the back of our mind, can you share some thoughts on price increases and how that might affect volumes in the different regions that you operate in?

And then, secondly, can you talk a bit about the dynamic of alcohol-free. Does that change much, as the on-trade opens or do you still see sort of the similar dynamics as before?

<A – Cees 't Hart – Carlsberg A/S>: Thank you, Richard, and good morning. Well, what we said, with regards to price increases, we don't give a direction of that one. In total, I guess, it will depend on the attitude of the price increase – sorry, the altitude of the price increase. So, with regards to the impacts on volumes, very difficult to say. As we said earlier in the call, it will not only – when we talk about mitigating actions for the cost increases – it will not only depend on price increases. There will be channel mix, value management and pricing. And also, we continue with our premiumization, as we said earlier. That brings us down to the mix and especially your question on alcohol-free. We think that by reopening of the on-trade, we only have more opportunities to grow alcohol-free. We have seen a very good take-off of alcohol-free in especially off-trade over last couple of years. On-trade followed a bit later. Our DraughtMaster, for example, in the Scandinavian markets, also now is able to have alcohol-free beer on premise, which will help to further develop this category. And going forward, we are very confident that the trend on alcohol-free beer will continue and that the percentage of alcohol-free beer as part of our total portfolio, especially in Central and Eastern and Western Europe will be significant.

We also started in Asia. Chongqing brand has now on a 0.0. It's not yet big, but it's encouraging. And the next step for expanding alcohol-free beer will be in Asia. So all in all, confidence in that category and that also will help us in the steps that we need to take to mitigate the increased costs for 2022.

<Q – Richard Withagen – Kepler Cheuvreux SA (Netherlands)>: That's clear. Thanks – thanks, guys.

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

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

<Q – Trevor Stirling – Sanford C. Bernstein>: Good morning, Cees and Heine. My two questions is the following. So, first one, concerning Western Europe, I think my calculations are right, Q3 still about 1% below 2019 in terms of volumes. Just wonder if you can give us a little bit of color on which countries in Western Europe were trading ahead of 2019 and where there's still some catch-up there to be had?

And the second one concerning the pricing environment. I appreciate Cees it's very, very early days, but you've mentioned in the past that the Russian price increases went through slightly easier than normal. Any indications yet about the general pricing environment in Europe – in Western Europe – given the inflationary environment, given the price increases have already gone through in soft drinks. Are the grocers just a little bit more amenable than they were maybe in previous years?

<A – Cees 't Hart – Carlsberg A/S>: Yeah. Thanks, Trevor. With regards to Western Europe, you're almost spot on. If we take year-to-date September 2021 versus 2019, year-to-date we're 0.9% plus for Western Europe, which is, in that respect, I think very encouraging. Total Group, we're up 5.2% reported. So, in that respect, if you look at whether we have been able to survive COVID so to say and to improve further and to increase our volume, then we can only say that vis-à-vis 2019, which was the last "normal year", we have grown by 5.2% and then for the record, 6.1% in Asia, 0.9% in Western Europe, and 7.7% in Central and Eastern Europe Group. So, in that respect, I think positive news.

With regards to your question about Western Europe, there it is a bit different country by country. So, when we look at France, Switzerland, we are down versus 2019. They came, as you know, a bit slower out of COVID and also had some very bad weather impact during the season. Denmark is still below, but it has a lot to do with the border trade, but – but we are very, very happy and positive about our development in Denmark. We're improving significantly our share there. Norway is a very positive outlier, the same as the UK, but also that has to do, of course, with our joint venture. However, if you look September sales in 2021 versus September 2019, the new Group, the joint venture, grew by 8%. So that gives an impression that we are on the right track there. Also, Poland is positive and Germany is very positive. So that gives you a bit of a feel that, in general, we are close to 1%, but there are some underperformance and some severe overperformance there.

Then with regards to pricing, yes, I don't know whether it's a bit easier, but you could argue indeed that – that it took less time in Russia than normal in order to land these prices. Normally, we get delisted for quite a while and negotiations are tough. I wouldn't say that it was less, but at least it was shorter in terms of the period that we needed -- that we could land the new prices.

For the rest, I must say, what I hear from the colleagues in the countries that it is -- yeah, a conversation that of course, the trade, colleagues are really waiting for, in terms of they expecting us to come up with our proposals. It is very different country-by-country. And also some of the chains react in a normal way. So the French trade is reacting fiercely against any proposal. And then other countries, there is a bit more understanding that we need to move. So also there, it's very, very local. And it – I think it's very much – it's much too early to take any conclusion there other than that in Russia, at least, we landed a price increase.

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

<A – Cees 't Hart – Carlsberg A/S>: Sure. Good morning.

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

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Yes. Good morning, guys. I have two questions. First of all, regarding if you take the guidance now versus what was in the beginning of the year, this increase, would you say this is more due to higher top line growth than you expected back then? Or is it more due to higher efficiencies and better execution on costs? So it's something completely different.

And then the other question is just regarding the tax rate, the 24% level. Is that a sustainable level going forward or are there any extraordinaries in there that we should account of? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Søren. This seems to be two questions for Heine. Heine, over to you.

<A – Heine Dalsgaard – Carlsberg A/S>: Hi, good morning. Good morning, Søren. So, the guidance sort of improvement in the 10% to 12% versus where we started in the beginning of the year really comes from both top line, but also further efficiencies. So it is in particular, of course, the top line that -- that it is difficult to predict in the beginning of the year. But as we also said, we knew this was going to be a difficult year.

So also on the cost side, we initiated sort of further scrutiny and further attention already from the beginning of the year. And we were right in saying that the start of the year and the recovery, in particular, in Q2 in Western Europe, came a bit later than we expected. And that's the reason why we initiated these different cost initiatives in the beginning of the year.

So it really comes from both the top line coming in better and that comes in better across many of our markets. And then it comes from further focus and further attention to some of our structural costs. As you know, the one cost area that we are not scrutinizing with the target of reducing our cost, that is indeed investments into marketing and investments into product and to innovation. But structural costs have been at a further review, also from the beginning of the year. So it's both top end and efficiencies.

When it comes to tax, then as we have discussed before, tax is a priority for us in Carlsberg, both in terms of continuing to strengthen tax compliance, but also in terms of optimizing the effective tax rate. The results or the reason why we are able to improve our outlook from around 25% to around 24% has to do with a lot of different sort of tax initiatives that we've launched over the last five years. And that is really the reason why we are able to reduce our full year outlook. And our outlook then for the coming years remains at approximately the same levels of around 24%.

<Q – Søren Samsøe – SEB Enskilda (Denmark)>: Thank you. That's very clear.

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

<A – Heine Dalsgaard – Carlsberg A/S>: Thank you.

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

<Q – Olivier Nicolai – Goldman Sachs International>: Good morning, everyone. Just two questions, please. First on Western Europe, could you give us an update on your on-trade performance during Q3? And how does the on-trade channel today at the end of Q3 compare to 2019? Are you back to 80% of it, 90% of it? That would be great to have a bit of an idea there to see how much of that being for next year?

And then, just on the UK, could you perhaps give us a bit of an update on the progress you've made on the Marston's integration in terms of cost savings? If you believe there is more to come. But also, what's your plan when it comes to unlocking revenue synergies? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thank you, and good morning, Olivier. With regards to the on-trade, where we were in Q3 2021 versus 2020, it's 8% up in the on-trade and minus 2% in the off-trade. And the index over 2019 for the on-trade is 90, index 90. So, basically, we're still below 2019. What we see is the further developing of the on-trade during also, indeed, during Q3: Switzerland and France, for example, were a bit later in the game of reopening and there were more restrictions there than in some other countries. And we see the consequences of that back in our volume, but also, of course, in our margins, because, as you know, traditionally, on-trade has better margins.

With regards to the UK, there's positive news in my view. First of all, we see a normalization post-COVID in the UK and now there are some new maybe – some clouds there with regard to COVID, but Q3 was very good. We had a 4% volume increase and even 11% net revenue improvement, so a good mix. It was a strong September due to the weather. And what we see there at the earlier question about on-trade, the on-trade in the UK in September was "only" 2% below the development in September 2019 in the on-trade. So that's good.

Our joint venture grew by 8% in September versus 2019 September. So that also shows that we are on the right track. In general, year-to-date the share is stable. And with regards to the integration, to your point, that goes well, we get the synergies through. As now Marston's is reopening, we start to see some revenue synergies. That, of course, needs to be proven further at the moment that the total market has been reopened. So we are positive about our development in the UK.

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

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

Operator: Thank you. And the next question comes from line of André Thormann from Danske Bank. Please go ahead. Your line will now be unmuted.

<Q – André Thormann – Danske Bank A/S>: Thanks a lot and good morning, everyone. I just have one question, and that's just in terms of the guidance for 2021. Can you please elaborate on the assumptions for both the top end and the bottom end of your current updated financial guidance? Thanks.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, André, and good morning. Heine, over to you?

<A – Heine Dalsgaard – Carlsberg A/S>: Yes. Good morning, André. So, well, the outlook for the remainder of the year is sort of best man's best guess at this point in time. That includes a lot of risks and a lot of opportunities that may both positive and negative materialize in the remainder of the year. At this point in time, we will not comment in further details on all the different moving parts, all the different positives, and negatives. But the outlook is, as I said, 10% to 12 %. Our assumption in terms of the COVID outlook is that it continues at approximately the same level as it does now.

<Q – André Thormann – Danske Bank A/S>: Okay, cool. Thanks a lot. That's all for me.

<A – Cees 't Hart – Carlsberg A/S>: Thank you André and could we have the last question, please?

Operator: Yes, and thank you. And the last question today is from the line of Fintan Ryan from JPMorgan. Please go ahead. Your line will now be unmuted.

<Q – Fintan Ryan – JPMorgan Securities Plc>: Hi. Good morning, Cees. Good morning, Heine. Thanks for the questions. Two for me, please. Firstly, I appreciate that you said that the on-trade that's opening in France has been bit slower than other countries, but also the promotional intensity isgetting worse. I'm just trying to get a sense of like, how do you see the French market evolving for you over the next few years, like are you intending to increase your level of promotional investment next year or are you just purely focused on the profit and sort of value in that market rather than to actually volume share?

And secondly, I noticed in the presentation you made number of references to your energy drinks portfolio in both Asia and Central Eastern Europe. With the upcoming strategic update in early next year, should we anticipate that energy drinks become another one of your strategic pillars, along with alcohol-free and craft & speciality? Thank you.

<A – Cees 't Hart – Carlsberg A/S>: Thanks, Fintan. Thanks for your question. Well, with regard to France, it is an – we had in Q3 a double-digit decline in a declining market. The market was heavily impacted by bad weather. The market share loss we had was, to your point, due to less promotions versus competitors. That resulted for us in good price/mix, and we also got a good premium development.

The Kronenbourg brand is a high-volume brand, as you know, and at the moment, we start to promote it a bit less, we immediately see that back in our market share. So we need to get a better balance, if you like, between volume and mix and the total, if you like. Our famous Golden Triangle needs to be rebalanced in France. So it's one of our countries under scrutiny, as we speak, to see what kind of mix we need to go further. In terms of the weapons we have in that market, which is Grimbergen, 1664 Blanc and some other brands, we really feel we have enough ammunition, but again, we need to get the balance a bit better.

Then, talking about energy drinks, yes, we are excited by the development in … well, we were talking earlier in the call about Cambodia, also about the impact of energy drinks in our portfolio in Russia. And you will not be surprised that that will be one of the work streams that we have with regards to our SAIL'27 program. It's far too early to say whether we are going to put, let's say, more focus on that. We will come back to you mid next year with regards to SAIL'27. And then we will talk about the priorities in our portfolio in terms of geographies and in terms of subcategories going forward towards 2027. So that is basically news to come.

Thank you and thanks for the questions Fintan.

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

This was then the final question for today. Thank you for listening in and thank you for your questions. We are looking forward to meeting some of you during the coming days and weeks. Have a nice day. Bye-bye for now.

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