

Company announcement 44/2020

27 October 2020

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## TRADING STATEMENT AS AT 30 SEPTEMBER 2020 AND EARNINGS UPGRADE

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

### HIGHLIGHTS

- Total organic volume growth of 2.4% (9M: -4.0%).
  - Total organic volume development in Western Europe -0.8%, Asia -0.4% and Eastern Europe +12.6%.
  - Tuborg volume +4%, Carlsberg -2%, Grimbergen +12%, 1664 Blanc +13% and Somersby +9%.
  - Craft & speciality volume +12%, alcohol-free brews +29%.
- Organic revenue decline of 2.1% (9M: -8.2%). Reported decline of 6.8% to DKK 17.3bn (9M: -10.5% to DKK 46.1bn).
  - Organic revenue development in Western Europe -5.0%, Asia -1.5% and Eastern Europe +6.4%.
- Price/mix -4% (9M: -4%).

### 2020 EARNINGS EXPECTATIONS

In the light of strong performance in Q3, continued positive volume development in Russia and China at the beginning of Q4, solid execution of cost reductions and despite current uncertainty in Western Europe, we are adjusting our 2020 earnings expectations upwards. Consequently, we now expect:

- Organic operating profit decline of a mid-single-digit percentage (previously a decline of high-single-digit percentage).
- Translation impact on operating profit of around DKK -450m, based on the spot rates at 27 October (previously DKK -400m).

Assumptions regarding financial expenses, effective tax rate and capital expenditures have been updated; see page 5.

CEO Cees 't Hart says: "We're satisfied with our Q3 performance and the fact that we were able to deliver more than 2% volume growth, including strong figures for craft & speciality and alcohol-free brews. Our earnings upgrade is the result of solid execution and our ability to adjust our business and costs to changing market conditions."

"The pandemic remains a concern for us, impacting our people, our customers and our businesses in many of our markets. Our first priority is the health and safety of our employees and customers, while also ensuring the health of our business, both short term and long term. Consequently, we're continuing to adapt our organisation, processes and structures to a new market reality, including changed consumer preferences and a temporarily reduced level of on-trade activity."

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*For more news, sign up at [www.carlsberggroup.com/subscribe](http://www.carlsberggroup.com/subscribe) or follow @CarlsbergGroup on Twitter.*

Carlsberg will present the results at a conference call on 28 October at 9.00 a.m. CET (8.00 a.m. GMT). Dial-in information and a slide deck are available on [www.carlsberggroup.com](http://www.carlsberggroup.com).

## THIRD-QUARTER REVIEW

The Group saw organic revenue decline of 2.1% (9M: -8.2%) as a result of total organic volume growth of 2.4% (9M: -4.0%) and price/mix of -4% (9M: -4%). Reported revenue was DKK 17.3bn (9M: DKK 46.1bn), a decline of 6.8%, impacted by a currency effect of -4.7%.

Our international premium brands, craft & speciality and alcohol-free brews delivered solid growth for both Q3 and year-to-date despite the impact of the COVID-19 pandemic. Craft & speciality grew by 12% (9M: +3%), mainly driven by 1664 Blanc, Grimbergen and Somersby, and with strong growth in many markets, including Norway, Denmark, Switzerland, Poland, Russia and China. Supported by an increasing health focus among consumers, alcohol-free brews grew by 29% (9M: +10%), with particularly strong growth in Russia, Ukraine, Poland and France.

Tuborg grew by 4% (9M: -11%), with strong growth in China, Russia, the Turkish licence market and markets in South-East Europe, partly offset by continued difficult market conditions in the large Indian market.

Carlsberg continued to post very good growth rates in Russia, and in Q3 also in markets such as China, Bulgaria and the UK. Overall, brand volumes declined by 2% (9M: -9%), impacted by lower volumes in India, Malaysia, Denmark and some licence markets.

1664 Blanc continued its strong performance, delivering 13% volume growth (9M: +11%), with strong results in Eastern Europe, China and a number of Western European markets, including Poland and Denmark.

Grimbergen returned to growth in Q3 due to positive progress across Western Europe and growth in Russia. Brand volumes were up by 12% (9M: +1%).

Somersby also returned to growth (+9%) in Q3 (9M: +3%), mainly driven by almost 50% growth in Eastern Europe in addition to growth in Poland and South-East Europe. Leveraging the strong Somersby brand credentials, we recently launched a hard seltzer line extension in Singapore.

## WESTERN EUROPE

Revenue in Western Europe declined organically by 5.0% as a result of a total organic volume decline of 0.8% and price/mix of -4%. Reported revenue declined by 6.0%.

Supported by good weather in August and September, beer volumes grew by 2%. We saw solid total volume growth in Norway, the UK, Germany, Bulgaria, Italy and Serbia, while volumes declined in markets such as France, Greece and Switzerland. As expected, non-beer volumes were negatively impacted by the loss of the German/Danish soft-drink border trade from 1 January, resulting in a 10% organic decline for non-beer volumes.

Price/mix was the result of an adverse channel mix due to a declining on-trade in most markets and a negative country mix. On-trade volumes declined by around 20% for the quarter. In light of the increase in COVID-19 infection rates across the region, we are currently seeing governments implementing new restrictions. Consequently, we expect the on-trade channel to face an increasing level of pressure in the coming quarters.

## ASIA

It has been a very volatile year in Asia, with the pandemic impacting markets very differently. Revenue declined organically by 1.5% as a result of total organic volumes of -0.4% and price/mix of -1%. Reported revenue declined by 6.6% due to a negative currency impact from all markets in the region.

Volumes in China grew by 4%. A lockdown during the quarter in western China meant that this growth rate was lower than in Q2. Price/mix in China continued to improve due to growth of both our international and local premium brands.

Compared with Q2, some markets in Asia saw an improving trend. In Laos and Vietnam, our businesses returned to growth, while markets such as India, Nepal and Malaysia continued to be negatively impacted by government restrictions, albeit less than in Q2.

Price/mix was the result of a negative country mix, with China – where the price per hl is below the regional average – growing, while some markets with a price per hl above the regional average declined.

## EASTERN EUROPE

The Eastern Europe region delivered strong volume growth for the quarter, supported by good weather across the region and strong progress in Russia. Revenue grew organically by 6.4% as a result of organic volume growth of 12.6% and price/mix of -5%. Reported revenue declined by 9.6%, impacted by a currency impact of -16%, with all currencies in the region depreciating against DKK.

All markets reported volume growth, with particularly strong growth in Russia of 19%. The growth in Russia was driven by overall market growth, supported by good weather, and our promotional activities in response to the challenging competitive environment, leading to market share gains versus Q2 and Q3 last year, when we lost considerable market share.

Price/mix was mainly the result of the higher level of promotions in Russia.

## STRUCTURAL CHANGES

Year-to-date 2020, the Group has announced the following transactions:

- Purchase of the Brooklyn brand rights in our markets completed in Q2.
- Establishment of a joint venture beer company in the UK: Carlsberg Marston's Brewing Company. The joint venture received anti-trust clearance in October. The transaction is expected to complete during the coming weeks.
- Acquisition of the Wernesgrüner brewery in Germany. The transaction is expected to close in January 2021.
- At the extraordinary general meeting on 9 October in Chongqing Brewery Co., the non-controlling shareholders approved the material asset restructuring with Carlsberg, as a consequence of which Carlsberg and Chongqing Brewery Co. will contribute their controlled assets to the joint venture Chongqing Jianiang. Certain steps are needed before completion, which is expected by year-end.

## EARNINGS EXPECTATIONS

In the light of strong performance in Q3, continued positive volume development in Russia and China at the beginning of Q4, solid execution of cost reductions and despite current uncertainty in Western Europe, we are adjusting our 2020 earnings expectations upwards. Consequently, we now expect:

- Organic operating profit decline of a mid-single-digit percentage (previously a decline of high-single-digit percentage).

Based on the spot rates at 27 October, we assume a translation impact of around DKK -450m for 2020 (previously DKK -400m).

Other relevant assumptions are:

Financial expenses, excluding currency losses or gains, are expected to be around DKK 550-600m (previously around DKK 600-650m).

The reported effective tax rate is expected to be 25-26% (previously around 26%).

Capital expenditures at constant currencies, excluding the acquisition of certain brand rights, are expected to be DKK 3.5-4.0bn (previously around DKK 4bn).

The earnings expectations remain more uncertain than usual, as the development of the pandemic and related market consequences continue to be very uncertain.

## FINANCIAL CALENDAR

The financial year follows the calendar year, and the following schedule has been set for 2021:

5 February	Full-year 2020 financial statement and Annual Report 2020
15 March	Annual General Meeting
28 April	Q1 trading statement
18 August	H1 interim financial statement
28 October	Q3 trading statement

## **FORWARD-LOOKING STATEMENTS**

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

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

## VOLUME AND REVENUE DATA

Q3	2019	Change			2020	Change Reported
		Organic	Acq., net	FX		
<b>Beer (million hl)</b>						
Western Europe	13.8	2.0%	0.0%	-	14.1	2.0%
Asia	10.6	-1.7%	0.0%	-	10.5	-1.7%
Eastern Europe	8.4	11.5%	0.0%	-	9.3	11.5%
<b>Total</b>	<b>32.8</b>	<b>3.2%</b>	<b>0.0%</b>	<b>-</b>	<b>33.9</b>	<b>3.2%</b>
<b>Non-beer (million hl)</b>						
Western Europe	4.1	-10.0%	0.0%	-	3.7	-10.0%
Asia	1.1	13.1%	0.0%	-	1.2	13.1%
Eastern Europe	0.5	29.0%	0.0%	-	0.7	29.0%
<b>Total</b>	<b>5.7</b>	<b>-1.9%</b>	<b>0.0%</b>	<b>-</b>	<b>5.6</b>	<b>-1.9%</b>
<b>Total beverages (million hl)</b>						
Western Europe	17.9	-0.8%	0.0%	-	17.8	-0.8%
Asia	11.7	-0.4%	0.0%	-	11.7	-0.4%
Eastern Europe	8.9	12.6%	0.0%	-	10.0	12.6%
<b>Total</b>	<b>38.5</b>	<b>2.4%</b>	<b>0.0%</b>	<b>-</b>	<b>39.5</b>	<b>2.4%</b>
<b>Revenue (DKK million)</b>						
Western Europe	10,203	-5.0%	0.0%	-1.0%	9,589	-6.0%
Asia	5,034	-1.5%	0.0%	-5.1%	4,703	-6.6%
Eastern Europe	3,271	6.4%	0.0%	-16.0%	2,958	-9.6%
Not allocated	18	n.m.	n.m.	n.m.	9	n.m.
<b>Total</b>	<b>18,526</b>	<b>-2.1%</b>	<b>0.0%</b>	<b>-4.7%</b>	<b>17,259</b>	<b>-6.8%</b>
9 months	2019	Change			2020	Change Reported
<b>Beer (million hl)</b>						
Western Europe	36.2	-3.7%	0.0%	-	34.9	-3.7%
Asia	30.7	-8.5%	0.0%	-	28.1	-8.5%
Eastern Europe	23.1	5.1%	0.0%	-	24.2	5.1%
<b>Total</b>	<b>90.0</b>	<b>-3.1%</b>	<b>0.0%</b>	<b>-</b>	<b>87.2</b>	<b>-3.1%</b>
<b>Non-beer (million hl)</b>						
Western Europe	11.5	-14.7%	0.0%	-	9.9	-14.7%
Asia	3.7	-3.9%	0.0%	-	3.5	-3.9%
Eastern Europe	1.4	23.8%	0.0%	-	1.7	23.8%
<b>Total</b>	<b>16.6</b>	<b>-9.1%</b>	<b>0.0%</b>	<b>-</b>	<b>15.1</b>	<b>-9.1%</b>
<b>Total beverages (million hl)</b>						
Western Europe	47.7	-6.3%	0.0%	-	44.8	-6.3%
Asia	34.4	-8.0%	0.0%	-	31.6	-8.0%
Eastern Europe	24.5	6.1%	0.0%	-	25.9	6.1%
<b>Total</b>	<b>106.6</b>	<b>-4.0%</b>	<b>0.0%</b>	<b>-</b>	<b>102.3</b>	<b>-4.0%</b>
<b>Revenue (DKK million)</b>						
Western Europe	27,995	-10.7%	0.0%	-0.8%	24,765	-11.5%
Asia	14,815	-9.1%	0.0%	-2.0%	13,166	-11.1%
Eastern Europe	8,682	1.6%	0.0%	-7.8%	8,140	-6.2%
Not allocated	24	-40.9%	14.9%	0.0%	18	-26.0%
<b>Total</b>	<b>51,516</b>	<b>-8.2%</b>	<b>0.0%</b>	<b>-2.3%</b>	<b>46,089</b>	<b>-10.5%</b>