Q1 2023 Trading Statement

April 27, 2023

The quarter progressed as expected – full-year guidance maintained

Statement by Royal Unibrew's CEO Lars Jensen: "The first quarter of 2023 has progressed as planned. Following a weak sales-in during the first two weeks of January, momentum has built through February and especially March in a seasonal small quarter (10% of full-year earnings). Performance was strong in our multi-beverage markets in Northern Europe, while the de-stocking of beer at the Italian wholesale channel continued throughout Q1 and was together with political and macroeconomic challenges in Africa the main reasons for the organic EBIT decline of 7% in the quarter. During the quarter, we have implemented price initiatives in all our markets, and we are close in reaching our ambition of neutralizing the negative impact from the input price inflation seen over the past couple of years and thereby restoring the absolute profitability per hectoliter."

"The consumer demand remained strong throughout the quarter despite the price increases, and we did not observe significant changes in consumer behaviors, which underline the resilience of the beverage industry. Our multi-beverage strategy continues to serve us well, and I am very pleased that our market shares have been unchanged or slightly improved across geographies. The integration of Hansa Borg and Solera in Norway is progressing according to plan. In Sweden, Solera has now been onboarded to our IT platform. In addition, the first commercial batch of Faxe beer for the Canadian market was produced at Amsterdam Brewery in Toronto toward the end of the quarter," Lars Jensen continues.

"In Royal Unibrew, we are taking significant steps in our green transition toward a fossil free future. In Denmark, our 12 GWh solar panel park is up and running, producing electricity for our factory in Faxe. In Finland, we are finalizing the construction of a biogas plant, which will produce biofuel from spent grain from our beer production. Once fully up and running, our production facility in Lahti will run on 100% bio-based energy. We make solid progress and are on track to deliver on our ambitious medium- and long-term ESG targets for 2025 and 2030," says Lars Jensen.

Key highlights of the quarter:

- Organic revenue growth of 7% (Q1 2022: 14%)
- Positive price/mix driven by pricing initiatives
- Organic volume growth of -2% (Q1 2022: 0%)
- Strong performance in multi-beverage markets in Northern Europe
- Organic EBIT development of -7% (Q1 2022: -13%)
- On track to deliver on full-year expectations

Financial highlights Q1 2023
Volumes for Q1 2023 increased by 5% compared to Q1 2022 and amounted to 2.8 million hectoliters. Organic volume growth amounted to -2% with the difference explained by acquisitions. In the first quarter of 2023, net revenue increased by 18% (organic: 7%) and amounted to DKK 2,552 million. Organic price/mix growth therefore amounted to 9% in the first quarter primarily driven by price initiatives.

Earnings before interest and tax (EBIT) for Q1 2023 was DKK 35 million lower than in 2022 and amounted to DKK 174 million (2022: DKK 209 million). DKK -20 million of the DKK 35 million decline in EBIT was caused by the acquisitional effects; hence, EBIT declined by 7% organically. The organic decline is caused by lower volume from the beer de-stocking in the Italian wholesale channel, while the Northern European organic profitability deviates positively compared to last year. The first quarter of a year is a seasonal small quarter (10% of full-year earnings) where small changes to the activity level can have a larger impact on earnings than in the high season. Our profitability has improved throughout the quarter as our price initiatives have been implemented and the underlying commercial performance is solid.

The EBIT margin decreased by 290 bp from 9.7% to 6.8% primarily driven by de-stocking in the Italian wholesale beer channel, M&A and partnerships. The input price inflation that we have incurred in Q1 2023 also diluted the EBIT margin, as we aim to pass on the inflation defending our absolute earnings per volume unit and not the margin. This means that we aim to increase net revenue through price increases and mix effects by the same amount that our cost base has inflated.

Net financial expenses increased from DKK -10 million in Q1 2022 to DKK -51 million in Q1 2023 due to an increase in the financial debt as well as the increase in interest rates.

Free cash flow amounted to DKK -404 million in Q1 2023 compared to DKK -359 million in Q1 2022. The first quarter of the year is traditionally a weak cash flow quarter and thus, the development compared to last year is negatively impacted by higher capex.

Outlook
The full-year outlook for net revenue of DKK 13-14 billion and an EBIT of DKK 1,550-1,750 million as set out in the Annual Report for 2022 is maintained.

Selected financial highlights and key ratios
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	Q1 2023	Q1 2022	FY 2022
Volume (million hectoliters)	2.8	2.7	13.4
Organic volume growth (%)	-2	0	1
Net revenue	2,552	2,162	11,487
Organic net revenue growth (%)	7	14	11
EBITDA	302	317	1,997
EBITDA margin (%)	11.8	14.7	17.4
EBIT	174	209	1,516
Organic EBIT growth (%)	-7	-13	-14
EBIT margin (%)	6.8	9.7	13.2
Profit before tax	123	195	1,785
Net profit for the period	98	154	1,491
Free cash flow	-404	-359	577
Net interest-bearing debt	4,887	4,012	4,460
ROIC incl. goodwill (%)*	12	15	13
ROIC excl. goodwill (%)*	19	25	22
NIBD/EBITDA (times)*	2.5	2.0	2.2
Equity ratio (%)	36	30	36
Earnings per share (EPS)	2.0	3.2	23.1

* Running 12-months

** Earnings per share (EPS) is adjusted for gain on remeasurement of investments in associates (DKK 360 million) in full-year 2022. Had no adjustment been made, earnings per share (EPS) would have been 30.5 in 2022

Management's Review
Top line performance was strong in our multi-beverage markets where the implementation of price increases progressed as planned. Volumes were supported by the beverage contract with PepsiCo on the border between Denmark and Germany as well as parts of the Easter sale went through in Q1 2023, whereas last year it happened fully in the second quarter of the year. Activity in Western Europe and International was low as expected.

On the cost side, we experienced headwind from inflation in our cost base from the beginning of the year. The de-stocking in the wholesale beer channel in Italy continued in Q1 2023 and remained a headwind together with continued high transportation costs from Europe to North America and Africa. We stay cautious on discretionary spending but continue to build the corporate organization to secure implementation of e.g., IT systems in the acquired entities.

Consumer behavior
In general, and as communicated when we announced our initial outlook in March, consumers do more frequent shopping in discount stores, which have a narrower assortment with a higher share of low-end products and a lower, if any, share of high-end products. We expect to see further changes in consumer preferences in 2023, including an increase in consumer promotion hunting, but the beverage category remains resilient in the current consumer environment characterized by high inflation and pressure on the discretionary spending among consumers.

Acquisitions and partnerships
Acquisitions (Hansa Borg Bryggerier, Amsterdam Brewery and Nørrebro Bryghus) contributed by around DKK 240 million to net revenue and by around DKK -20 million to EBIT. The expected negative M&A contribution is among other reasons caused by a weak NOK, costs related to the startup of Faxe beer production in Canada and the fact that Q1 is a seasonally weak quarter in Norway.

Our newly established pan-Nordic platform continues to yield interesting new partnerships as well as extensions of already existing partnerships.

On January 1, 2023, Royal Unibrew took over the responsibility of the PepsiCo beverage portfolio on the border between Denmark and Germany on a license basis. The agreement is expected to support the strong growth in the no/low sugar CSD category in the Nordics as well as strengthening our border business. The agreement includes production, logistics, sales and marketing operations. On the same day, we also took over the sales, distribution, and trade marketing of Lay's and Doritos in the Nordic countries, including Denmark (already on contract), Sweden, Norway, Finland, as well as in Greenland and the Faroe Islands.

We also included Diageo's RTD products in our product portfolio for the Norwegian market from January 1, 2023. On March 31, 2023, it was announced that Hansa Borg and Solera has entered into a long-term agreement to extend the partnership with Diageo. As of July 1, 2023, the partnership will be extended to include all products in Diageo's spirits portfolio for the Norwegian market. By extending the agreement, Hansa Borg & Solera strengthens its position as a multi-beverage business in the Norwegian beverage market with an even stronger portfolio to offer customers in On-Trade and Vinmonopolet.

Capital structure
Net interest-bearing debt by the end of Q1 2023 amounted to DKK 4,887 million, which is an increase of DKK 427 million compared to year-end 2022. Calculated on a running 12 months basis, NIBD/EBITDA was 2.5x by the end of Q1 2023
(year-end 2022: 2.2x). The increase in net interest-bearing debt is explained by the cash outflow experienced during Q1 2023.

It has been proposed to the annual general meeting (AGM) to approve a dividend of DKK 14.50 (unchanged compared to 2021) per share for 2022. Because NIBD/EBITDA is at our maximum target of 2.5x, and as it is higher than our aim of 1.5x, we keep share buy-backs on hold for now.

Corporate Social Responsibility
We continue to make strong progress on our environmental agenda. Our solar panel park in Denmark is now fully constructed and has started to produce electricity for our factory in Faxe. The 12 GWh solar panel park will deliver renewable energy to cover approximately 40% of the electricity consumption at our nearby facility, which is the largest production facility in the Group.

The biogas plant in Finland is under construction and will soon be ready for inauguration, which means that Royal Unibrew will be independent of fossil fuels in our production in Finland. The Lahti site in Finland is our second largest production facility, and we are transforming our fossil-based thermal energy to 100% bio-based energy utilizing our spent grain from production and biogas from a nearby landfill.

On the agenda for 2023, we have projects concerning installation of heat pumps in Faxe, Denmark as well as solar panels in the Baltic countries and Italy. The heat pumps project in Faxe is expected to reduce the thermal energy consumption at the site by more than 30%.

Furthermore, projects supporting our transition from fossil-based to bio-based fuel, from thermal energy to electrical energy, and installation of solar panels are planned in all markets and are expected to be fully implemented by 2024.

Outlook
The full-year outlook for net revenue of DKK 13-14 billion and an EBIT of DKK 1,550-1,750 million as set out in the Annual Report for 2022 is maintained.

Full-year outlook (2023)

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	Outlook 2023	**Actual 2022**
Net revenue	13,000 – 14,000	11,487
EBIT	1,550 – 1,750	1,516

The guided net revenue is substantially higher than in 2022, which is a result of acquisitions (roughly DKK 0.5 billion), expansions of partnerships and price/mix increases to mitigate the impact from cost increases. The incremental net revenue from acquisitions will contribute by a single-digit EBIT margin.

We expect affordability to remain a key focus for consumers during 2023 and, consequently, our channel mix to be slightly negative. We also expect private label and discount brands to gain share in the overall market.

Profitability will be slightly backend loaded in 2023 compared to normal seasonality as price increases will take effect during the year and as the de-stocking during the second half of 2022 in the wholesale beer channel in Italy had a negative one-off effect during the period.

The guidance is based on average summer weather and traveling activities.

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Financial Calendar for 2023

April 27, 2023	Trading Statement for January 1 –March 31, 2023
April 27, 2023	Annual General Meeting 2023
August 22, 2023	Interim Report for January 1 – June 30, 2023
November 8, 2023	Trading Statement for January 1 – September 30, 2023

Forward-looking statements

This Trading statement contains forward-looking statements, including statements about the Group’s sales, revenue, earnings, spending, margins, cash flows, inventories, products, actions, plans, strategies, objectives and guidance with respect to the Group’s future 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 the following words or phrases “believe, anticipate, expect, estimate, intend, plan, project, will be, will continue, likely to result, could, may, might”, or any variations of such words or other words with similar meanings. Any such statements involve known and unknown risks, estimates, assumptions and uncertainties that could cause the Group’s actual results, performance or industry results to differ materially from the results expressed or implied in such forward-looking statements. Royal Unibrew assumes no obligation to update or adjust any such forward-looking statements (except for as required under the disclosure requirements for listed companies) to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking statements.

Some important risk factors that may have direct bearing on the Group’s actual results include, but are not limited to: economic and political uncertainty (including interest rates and exchange rates), financial and regulatory developments, development in the demand for the Group’s products, introduction of and demand for new products, changes in the competitive environment and the industry in which the Group operates, changes in consumer preferences, increasing industry consolidation, the availability and pricing of raw materials and packaging materials, cost of energy, production- and distribution-related issues, information technology failures, breach or unexpected termination of contracts, price reductions resulting from market-driven price reductions, determination of fair value in the opening balance sheet of acquired entities, litigation, pandemic, environmental issues and other unforeseen factors.

New risk factors may emerge in the future, which the Group cannot predict. Furthermore, the Group cannot assess the impact of each factor 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.

Attachment

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