Interim Report for H1 2023

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Company Announcement No 23/2023 - August 22, 2023

Organic EBIT growth of 3% in Q2 2023 – midpoint of full-year EBIT guidance raised

Our multi-beverage businesses in Northern Europe continue to perform well and EBIT in Northern Europe grew organically by 19% in H1 2023 (H1 2022: -9%).

The Italian wholesale channel for On-Trade beer normalized during Q2 thereby ending a period of de-stocking that impacted the first half of the year negatively. In the past three months (May to July), we have experienced a balanced sell-in and sell-out in the Italian wholesale channel for On-Trade beer.

We have implemented price increases in all markets during the first half of 2023, which impact net revenue positively. Net revenue increased organically by 5% in Q2 2023 (H1 2023: 6%), including a negative impact of around 2 percentage points from currency developments. This resulted in a positive price/ mix of 9% for the quarter (H1 2023: +9%), including the negative currency impact. The consumer dynamics remain relatively strong across our European footprint.

EBIT grew organically by 3% in Q2 2023 (H1 2023: 0%), marking the first quarter with positive organic EBIT growth since Q1 2021. M&A contributed by around DKK 10 million in Q2 2023 (H1 2023: around DKK -10 million) as a consequence of the significant devaluation of Norwegian Kroner. For H1 2023 the negative currency impact on EBIT was around DKK 30 million.

Free cash flow in Q2 2023 was DKK 949 million, an improvement of DKK 280 million compared to last year, resulting in a first half- year free cash flow of DKK 545 million (H1 2022: DKK 310 million).

Full-year outlook for 2023 is now net revenue around DKK 13 billion (previously: DKK 13-14 billion) and EBIT of DKK 1,600- 1,750 million (previously: DKK 1,550-1,750 million).

CEO Lars Jensen comments: "We delivered strong top line growth in H1 2023, as our multi-beverage businesses in Northern Europe continue to carry on strongly. We have seen inflation in input costs since the beginning of 2021, and I am pleased to say that we have reached our ambition of mitigating the absolute increase in input costs during Q2. However, there is still inflation from e.g. salary increases and currency-related inflation that need to be mitigated.

In Italy, the de-stocking ended in Q2. Volumes remain weak due to poor weather and tough comparable growth numbers from last year, albeit Ceres is still gaining market share in the Italian market on sell-out data.

In April, we received an updated ESG risk rating from Morningstar Sustainalytics placing us as number one in the beer, wine and spirits sector. According to Morningstar Sustainalytics, we improved our ESG performance by 7%, positioning us as an Industry Top Rated company. I am very proud of this acknowledgement, which is a great testament of all the hard work we are doing as in regards to the ESG agenda. The hard work is not over; we will continue our efforts to reduce our environmental footprint in the years to come.

Finally, I am excited about our recent agreements to acquire Vrumona in the Netherlands and production capacity in Italy. Vrumona is the second largest soft drink company in the Netherlands, will make up a new growth platform for Royal Unibrew in Western Europe and is expected to drive organic earnings growth in the coming years. The acquisition of production capacity in Italy is a result of our strong belief in our Italian business and the Italian market," Lars Jensen continues.

SELECTED FINANCIAL HIGHLIGHTS AND KEY RATIOS

mDKK	Q2 2023	Q2 2022	H1 2023	H1 2022	FY 2022
Volume (million hectoliters)	3.9	3.8	6.6	6.5	13.4
Organic volume growth (%)	-4	5	-3	2	1
Net revenue	3,595	3,211	6,147	5,373	11,487
Organic net revenue growth (%)	5	15	6	15	11
EBITDA	674	623	976	940	1,997
EBITDA margin (%)	18.7	19.4	15.9	17.5	17.4
EBIT	536	511	710	720	1,516
Organic EBIT growth	3	-13	0	-13	-14
EBIT margin (%)	14.9	15.9	11.6	13.4	13.2
Profit before tax	480	851	603	1,046	1,785
Net profit for the period	388	772	486	926	1,491
Free cash flow	949	669	545	310	577
Net interest-bearing debt			4,783	4,416	4,460
NIBD/EBITDA (times)*			2.4	2.2	2.2

ROIC incl. goodwill (%)*			12	15	13
ROIC excl. goodwill (%)*			19	24	22
Equity ratio (%)			32	31	36
Earnings per share (EPS)	7.8	15.6	9.8	19.2	30.5
Earnings per share (EPS)**	7.8	8.5	9.8	11.7	23.1

* Running 12 months
** Earnings per share (EPS) is adjusted for gain on remeasurement of investments in associates (DKK 360 million) in 2022

Financial highlights
The organic volume decline of 4% to 3.9 million hectoliters in Q2 2023 was a consequence of tough comparable numbers in Western Europe and International, whereas volumes in Northern Europe increased organically by 3%. Poor weather in Italy together with de-stocking in the wholesale beer On-Trade channel in Italy resulted in an organic volume decline of 29% in Western Europe. At the end of July, our sales-in has balanced sales-out data for three months in a row. Political and macroeconomic challenges in Africa also continued into the second quarter of the year driving nega- tive organic volume growth of -18% in International. For H1 2023, group volumes declined organically by 3% to 6.6 million hectoliters corresponding to 2% reported growth.

Net revenue increased by 12% in Q2 2023 to DKK3,595 million compared to DKK 3,211 million in Q2 2022. This corresponds to an organic growth of 5%, which is driven by the implemented price increases, while negatively impacted by the weaker Norwegian and Swedish Kroner (around 2 percentage points). The reported growth includes net revenue from acquisitions done over the past 12 months. This impact constitutes around 7 percentage points of the reported net revenue growth and the majority comes from Hansa Borg. Net revenue for H1 2023 amounted to DKK 6,147 million (H1 2022: DKK 5,373 million) corresponding to an organic growth of 6%, which is negatively impacted by the weaker Norwegian and Swedish Kroner (around 2 percentage points).

In Q2 2023, Earnings before interest and tax (EBIT) increased by DKK 25 million from DKK 511 million in Q2 2022 to DKK 536 million in Q2 2023. The EBIT margin declined by 1.0 percentage point to 14.9%. Acquisitions diluted the margin by around 0.7 percentage points negatively impacted by the weaker Norwegian Kroner. Profitability in Western Europe was negatively impacted by poor weather and de-stocking in the Italian wholesale beer On-Trade channel.

In H1 2023, EBIT was DKK 10 million lower than in H1 2022 and amounted to DKK 710 million (H1 2022: DKK 720 million). This represents a flat organic development, whereas the reported decline was 1%. The weaker Norwegian and Swedish Kroner impacted profitability negatively in the first half-year of 2023. The reported EBIT margin declined by 1.8 percentage points whereof around 1.1 percentage points were due to acquisitions.

The free cash flow for H1 2023 amounted to DKK 545 million compared to DKK 310 million for H1 2022 driven by high cash flow from operating activities more than compensating higher capex.

In H1 2023, net interest-bearing debt increased by DKK 323 million (H1 2022: DKK 880 million) compared to year-end 2022. The increase is primarily explained by the payment of dividend to shareholders whereas the positive free cash flow impacted positively. Calculated on a 12-months basis, NIBD/ EBITDA was 2.4 (H1 2022: 2.2) and ROIC excluding goodwill was 19% (H1 2022: 24%).

ESG highlights
The overall ESG performance has improved compared to the same period last year. Our water consumption efficiency improved in the first half of 2023 primarily driven by a change in product mix, while our temporary shift from natural gas to oil still impacts our CO_2 emissions and energy efficiency negatively.

To become 100% CO_2 emission free at our production sites by the end of 2025, we have established decarbonization roadmaps with specific actions in all our markets. In June, we reached important milestones with the inauguration of a biogas plant in Finland and a solar park in Denmark.

As part of our climate targets submission for the Science Based Target initiative (SBTi), we have stepped up on our ambition for Scope 3 emissions and added a target of 50% reduction in absolute CO_2 emissions from Scope 3 alone in 2030 compared to our 2019 baseline.

Our goal to provide 100% recycled, recyclable or reuseable packaging in 2025 has been further addressed by introducing cardboard solutions in our packaging systems; latest for our new caning line in Italy, which enables substitition, or even elimination, of plastics.

Acquisitions
On July 3, 2023, Royal Unibrew announced the signing of an agreement to acquire the Dutch soft drink company Vrumona from Heineken. Vrumona is the second largest soft drink manufacturer in the Dutch market carrying a range of strong own brands and partner brands. With a solid position in both On- and Off-Trade, a portfolio with the majority of products within the no/low sugar and calories segment, Vrumona fits very well into Royal Unibrew's operating model of strong, local businesses with strong, local brands.

Vrumona operates seven production lines at its facility with a current annual output of around 3.1 million hectoliters. The company had net revenue of EUR 200 million in 2022, whereas normalized EBITDA was EUR 25 million. Completion of the deal is expected in either September or October this year, from where Royal Unibrew will acquire 100% of Vrumona in consideration of EUR 300 million on a debt free basis, resulting in an acquisition multiple (EV/EBITDA) of 12x. The acquisition of Vrumona is expected to be EPS accretive already in 2024, and ROIC on the acquisition is expected to exceed WACC within three years.

On July 21, 2023, Royal Unibrew announced the signing of an agreement to aquire a production facility in San Giorgio di Nogaro, Italy, from Birra Castello. This strategic move supports Royal Unibrew's growing Italian business as well as its growing business in international markets. At the same time, it aims to reduce the company's periodic capacity constraints.

Royal Unibrew will take full ownership of the assets later this year once certain transaction-related processes have been fulfilled. The integration will be managed locally by Royal Unibrew's strong Italian organization and is expected to be a smooth and relatively uncomplicated process.

Full-year outlook

We are adjusting our full-year guidance for 2023 and lift the midpoint of our EBIT range. The adjusted full-year guidance 13-14 billion) and EBIT in the range of DKK 1,600-1,750 million (previously: DKK 1,550-1,750 million).

The announced acquisitions of Vrumona and the San Giorgio brewery in Italy are not included in the outlook for 2023.

We have reduced our expectations to net revenue because of poor weather in the Nordics in July and August and weak Norwegian and Swedish Kroner.

The value of both Norwegian and Swedish Kroner has deflated significantly in 2023. Assuming unchanged foreign exchange rates for the remainder of the year, the full-year negative impact on net revenue is expected to be around DKK 250 million.

We narrow our full-year EBIT guidance range by DKK 50 million as we are now through the high season meaning that vi have greater visibility on this year's development. We have increased the low-end of guidance by DKK 50 million primarily because of strong performance in our Nordic multi-beverage markets, an end to the Italian de-stocking and better visibility on the rest of the year.

The beverage industry continues to prove its resilient characteristics, despite inflationary pressure, uncertain macroeconomic environment and geopolitical risks. Our quality beverages are affordable and used for everyday indulgence, and with our portfolio of strong local brands combined with market leading partner brands we feel confident in keeping the commercial momentum throughout the year.

We have now mitigated the input price inflation experienced since the beginning of 2021, and some input prices have started to roll-over, while others continue to increase. On top, salary increases, driven by higher living costs, and currency-related inflation means that we will still need to increase prices going forward.

Therefore, we need to remain focused on monitoring consumers' reactions to the higher prices. Consumer behavior has been relatively unchanged and robust during the first half of the year, but we do expect affordability to remain a key focus for consumers during the rest of 2023 and consequently, our channel mix to be slightly negative. We also continue to expect private label and discount brands to gain share in the overall market.

Net finance expenses, excluding currency related losses or gains, are expected to be around DKK 200 million for the full-year. We expect an effective tax rate of around 21% of profit before tax, excluding result after tax from investments in associates.

Capex for 2023 is expected to be around 5-6% of net revenue as we have increased investments in ESG projects.

Business development
Our Nordic multi-beverage markets showed strong performance in the first half of the year and delivered satisfactory volume growth. Implemented price increases during the first quarter of the year as well as the full-year effect of price increases implemented during the past year, drove healthy price/mix growth in the first half of 2023 in most markets.

The de-stocking in the wholesale beer channel in Italy continued into the second quarter, but as high season in Italy got underway, we saw a normalization of the channel toward the end of Q2 2023. Sell-out data for Ceres in Italy has remained strong despite the fact that the brand has been up against very tough comparable sales-out figures from Q2 2022. The International division continues to be negatively impacted by weak development in Africa caused by political upheaval in some countries, a general weak economic development and short supply of hard currencies.

Consumer dynamics have not changed notably during the second quarter of 2023. In general, consumers continue to do more frequent shopping at discount stores than they did one year ago, resulting in a negative channel mix, as discount stores do not have – or only have a limited selection of – our mainstream and premium offerings. This means that the beverage category has remained resilient in the present consumer environment; although we still expect to see further changes in consumer preferences in 2023, including increasing consumer promotion hunting.

Performance in our focus growth areas have been good in the second quarter with double-digit net revenue growth in the cider/RTD category and the enhanced water category and with high-single-digit net revenue growth in energy drinks.

Following seven quarters in a row with negative organic EBIT growth, due to among others the significant input price inflation experienced during the past two years, we realized positive organic EBIT growth in Q2 2023. It is our North European multi-beverage markets that are driving growth, although earnings development in Norway and Sweden were dented by the weak currencies. The negative impact from weaker Norwegian and Swedish Kroner is around DKK 30 million on EBIT in the first half of the year.

ESG development
The overall ESG performance has improved compared to the same period last year. We received an updated ESG risk rating from Morningstar Sustainalytics in April 2023, where Royal Unibrew was rated number one in the global beer, wine and spirits sector. We improved our ESG performance by 7% compared to last year, i.e. reducing our risk from 16.6 to 15.5.

In June, Royal Unibrew was recognized by an independent jury for the best Annual Report in 2022 among C25 large cap companies on NASDAQ OMX Denmark. The award was based on our open and transparent ESG disclosure, where strategy, targets and performance are presented coherently as well as our continued strong financial disclosure in our management review.

When looking at efficiency, measured as energy and water consumed as well as CO_2 emitted per produced unit, performance is still impacted by our temporary switch from natural gas to oil. Oil contains less calories compared to gas, resulting in both higher energy consumption and an increase in CO_2 emissions. Efficiency is also affected by acquisitions, however, Hansa Borg and Amsterdam Brewery are progressing on efficiency projects, and we expect improvements as these projects become fully implemented. On water consumption, we see improved efficiency (organic and inorganic), which is primarily driven by a change in product mix.

As our company grows steadily, the need for bringing forward talents for critical positions is a continuous focus, leading to a series of internal and external initiatives throughout the year so far. Initiatives to optimize internal succession and development have also been initiated. Employee turnover decreased from 8.7% in H1 2022 to 8.4% in H1 2023, which helps in this process.

The lost time incident frequency has, unfortunately, increased in H1 2023 compared to H1 2022 and FY2022, from 8.1 in H1 2022 to 13.4 lost time incidents per 1 million working hours in H1 2023. Despite being a clear focus area with high priority the total number of LTIs has doubled (21 in H1 22 vs 42 in H1 23) primarily driven by production in Denmark. Consequently, the Danish management is now directly involved in safety walks (with a higher frequency) and incident investigations, including root-cause assessment and implementation of preventive measures.

We continue our journey toward becoming 100% CO_2 emission free at our production sites in 2025. To reach this target, we have established decarbonization roadmaps with specific actions in all our markets. In June, we reached important milestones as we inaugurated two major facilities to enable decarbonization. In Lahti, Finland, with a 100% circular mindset, we have converted from fossil-based gas to bio-based gas thanks to a new biogas plant that utilizes our by-product, spent grain, and converts it into biogas. In Denmark, we inaugurated our own solar park, which on sunny days will make us self-sufficient in electricity at our Faxe production facility. Solar panels are up and running in Italy at our Crodo production facility and well under way in even more markets. In addition, all markets have projects to decarbonize – mainly converting natural gas to either biomass-based gas or electrical boilers. The changes we see in the geopolitical situation support and accelerate our efforts to decarbonize.

In December 2022, we submitted our climate targets to the Science Based Target initiative (SBTi). We expect to get the first feed-back from SBTi in August 2023. The two targets we have set for decarbonization for 2025 and 2030 are aligned with the requirements for limiting global temperature rise to 1.5°C as agreed in the 2015 Paris Accord. However, we have stepped up on our ambition for scope 3 and added a target of 50% reduction in absolute CO_2 emissions from scope 3 alone in 2030 compared to 2019 baseline.

By engaging with our suppliers, we believe to be equipped to reach the goal of reducing the supply chain emissions by 50% by 2030. The recent agreement to acquire the production facility in San Giorgio de Nogaro, Italy, from Birra Castello is also supporting our sustainability strategy, as it will reduce our CO_2 footprint significantly by reducing the transportation needs for products sold in Italy and other international markets.

Furthermore, Royal Unibrew's goal to provide 100% recycled, recyclable or reusable packaging in 2025 has been addressed by introducing cardboard solutions in our packaging systems, for example, as for our new filling line for cans in Italy that enables substitution, or even elimination, of plastics.

Launch of long-term incentive plan for executive management and key employees
In May 2023, Royal Unibrew launched a new share based long-term incentive plan (LTIP) for selected key employees for 2023.

The LTIP implies the grant of a number of performance share units (PSU) to each key employee and are granted in 2023 for vesting in 2026 depending on the company's performance in 2023 to 2025.

The KPIs used for executive management in the program are (a) organic EBIT achieved in 2025; (b) accumulated free cash flow for the years 2023 to 2025; (c) CSR rating at the end of 2025 relative to a beverage peer group and (d) share price development to the end of 2025.

Please find more information in company announcement no 18/2023, May 9, 2023.

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We invite investors and analysts to follow Royal Unibrew's presentation of the Interim Report on Wednesday, August 23, 2023, at 9.00 am CEST by webcast:

Telephone conference
Access details for participants: https://register.vevent.com/register/BI7a512e2d6c284eec948e0345f1be3696

Webcast player URL
https://edge.media-server.com/mmc/p/9vasz7y

Financial Calendar for 2023

November 8, 2023 Trading Statement for January 1 – September 30, 2023

Forward-looking statements

This Interim Results announcement 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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