Interim Report for H1 2024

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EBIT growth of 22% in H1 2024 driven by International and Western Europe

Key highlights from H1 2024:

- Top-line development as expected with strong momentum and continued market share gains. Organic volume growth of 3% and organic net revenue growth of 6%.
- The profitability per hectoliter has been re-established across markets after years of inflation and FX volatility.
- The organic EBIT growth of 16% was driven by efficiencies, resulting in an EBIT margin of 11.7%.
- Integration processes in Norway, the Netherlands and San Giorgio, Italy, according to plan.
- The previous capacity constraints have been significantly reduced, as production capacities at Vrumona and San Gorgio are utilized with benefits for Group efficiency.
- Financial flexibility is re-established with NIBD/EBITDA at 2.4x end of Q2. The Board of Directors has therefore decided to use the previously communicated mandate to pay out an extraordinary dividend of DKK 14.50 per share on October 3, 2024.
- Full-year organic EBIT growth outlook is updated to 14-19% (previously: 9-19%).

CEO Lars Jensen comments: *"I am very pleased that we managed to create positive organic growth in volumes, net revenue, and especially EBIT in the second quarter of 2024. Continued strong commercial execution and great innovations mean that we have really good momentum in our most important brands across all our markets.*

The organization is doing a good job to secure higher profitability in our business, despite poor weather, and the second quarter is a proof that we are on the right track. It is therefore also based on a solid first half that we specify our expectations for organic EBIT growth for 2024, where we now expect 14-19% organic EBIT growth compared to the previous 9-19% organic EBIT growth.

The integrations in Norway, the Netherlands, and Italy are proceeding as planned. We have ramped up production in Vrumona and San Giorgio during the first half of the year, and this has increased the service to our customers and contributed with efficiency improvements through a more optimal use of the production capacity.

Finally, our decarbonization journey continues with an organic reduction of CO2 by a full 35% in the first half of 2024 compared to last year," concludes Lars Jensen.

SELECTED FINANCIAL HIGHLIGHTS AND KEY RATIOS

mDKK	Q2 2024	Q2 2023	H1 2024	H1 2023	FY 2023
Volume (million hectoliters)	4.8	3.9	8.4	6.6	14.1
Organic volume growth (%)	1	-4	3	-3	-3
Net revenue	4,180	3,595	7,379	6,147	12,927
Organic net revenue growth (%)	4	5	6	6	4
EBITDA	821	674	1,197	976	2,208
EBITDA margin (%)	19.6	18.7	16.2	15.9	17.1
EBIT	656	536	866	710	1,638
Organic EBIT growth	17	3	16	0	7
EBIT margin (%)	15.7	14.9	11.7	11.6	12.7
Profit before tax	578	480	704	603	1,406
Net profit for the period	458	388	559	486	1,095
Free cash flow	1,041	949	560	545	1,143
Net interest-bearing debt			5,848	4,783	6,426

ROIC incl. goodwill (%)*			12	12	11
ROIC excl. goodwill (%)*			19	19	18
NIBD/EBITDA (times)*			2.4	2.4	2.9
Equity ratio (%)			34	32	32
Earnings per share (EPS)	9.2	7.8	11.2	9.8	21.9

* Running 12 months

Financial highlights for H1 2024

Volumes increased organically by 3% to 8.4 million hectoliters in H1 2024. The organic volume growth was driven by soft comparable numbers for the Italian On-Trade beer business in the first quarter of the year and a normalization of the International segment that was negatively impacted by unrest in Africa in Q1 2023.

Net revenue for H1 2024 amounted to DKK 7,379 million, compared to DKK 6,147 million in H1 2023, corresponding to an organic growth of 6%.

The positive organic price/mix development of 3 percentage points in H1 2024 was driven by strong product and channel mix in Italy, price increases in Norway and Sweden to mitigate the effect of weak currencies in 2023, and price increases in the beginning of the year in most other countries.

In H1 2024, EBITDA rose by DKK 221 million to DKK 1,197 million, leading to an EBITDA margin of 16.2%, which was 0.3% higher than the year before.

In H1 2024, EBIT was DKK 156 million higher than in H1 2023, totaling DKK 866 million (H1 2023: DKK 710 million). This represents an organic growth of 16%. The reported EBIT margin expanded by 0.1 percentage points to 11.7%, which was negatively impacted by acquisitions. The organic EBIT margin expanded by 1.0 percentage point.

Financial highlights for Q2 2024

In Q2 2024, organic volume growth of 1% was negatively impacted by poor weather in June. The International segment experienced strong organic growth of 27%, and in Western Europe, 4% organic volume growth was in the context of a normalized Italian in-market inventory level.

Net revenue in Q2 2024 increased by 16% to DKK 4,180 million, up from DKK 3,595 million in Q2 2023. This corresponds to an organic growth of 4% driven by a strong organic price/mix in Western Europe, bolstered by a positive product mix.

EBITDA increased by DKK 147 million to DKK 821 million in Q2 2024, resulting in an EBITDA margin of 19.6%, which was 0.9 percentage points higher than the previous year.

EBIT for Q2 2024 increased by DKK 120 million, from DKK 536 million in Q2 2023 to DKK 656 million in Q2 2024. The reported EBIT margin expanded by 0.8 percentage points to 15.7%. However, acquisitions diluted the margin by approximately 1.1 percentage points, resulting in an organic EBIT margin expansion of 1.9 percentage points for the quarter. Profitability was adversely affected by poor weather conditions in June.

The free cash flow for H1 2024 amounted to DKK 560 million, compared to DKK 545 million for H1 2023, driven by higher earnings which more than offset the increase in capital expenditures to support building capacity, enhancing efficiency and reducing CO2 usage.

In H1 2024, net interest-bearing debt decreased by DKK 578 million (H1 2023: increase of DKK 323 million) when compared to year-end 2023. This reduction is attributed to the positive free cash flow and the postponement of the dividend payment. The Board of Directors was authorized at the Annual General meeting to potentially distribute dividend of a maximum of DKK 14.5 per share to the shareholders. The financial strength has improved as planned, and the Board of Directors has decided to declare a dividend payment of DKK 726 million (DKK 14.5 per share). The ex-dividend date is October 1, 2024, and the pay-out date will be October 3, 2024.

Calculated on a 12-month basis, the NIBD/EBITDA ratio was 2.4 at the end of H1 2024, consistent with H1 2023.

ESG highlights

In H1 2024, we achieved a 9% reduction in absolute carbon emissions (market-based – scope 1 and 2), despite the acquisitions of Vrumona and San Giorgio and thereby equal to a 35% organic decrease. This significant reduction is partly due to the transition from oil to natural gas at certain facilities and is also a result of our Lahti site operating on 100% renewable energy. Additionally, the installation of an additional heat recovery system in Faxe has led to a decrease in natural gas consumption, which is projected to result in a 30% reduction in energy usage at the Faxe site upon full implementation.

Measured in GWh per hectoliter, our energy efficiency produced improved by 7% in H1 2024. We expect further improvements from a heat recovery system in Lithuania and other efficiency projects that will be implemented later this year.

In May 2024, the Science Based Targets initiative (SBTi) approved our long-term net-zero target for 2040, our near-term FLAG (Forest, Land, and Agriculture) goal, and our commitment to eliminate deforestation. These pledges are in addition to our existing near-term targets for scope 1, 2, and 3, set in August 2023, which include a 50% reduction in absolute emissions for scope 3 compared to 2019, and a 100% reduction for scope 1 and 2 by 2025. Our KPIs, roadmaps, and activities are aligned with the latest climate science and the Paris Agreement's goal to limit global warming to 1.5°C above pre-industrial levels.

Acquisitions

The acquisitions of Vrumona and San Giorgio were finalized in 2023, thus contributing inorganically to the reported figures for Q2 and H1 of 2024. In H1 2024, the total inorganic contribution was approximately 1.6 million hectoliters, net revenue of DKK 844 million, and EBIT of DKK 45 million. In Q2 2024, the total inorganic contribution amounted to nearly 0.9 million hectoliters, with net revenue of DKK 446 million and EBIT of DKK 30 million.

The integration of both acquisitions is progressing as planned. In early April, a mere six months after acquiring Vrumona, we seamlessly integrated all IT infrastructure and systems from Heineken/Vrumona into Royal Unibrew. The remaining carve-out activities are expected to be finalized later this year.

The agreement with PepsiCo to assume production, sales, and distribution of their beverage portfolio in Belgium and Luxembourg is now anticipated to commence in the fall of 2024.
In San Giorgio, we are upgrading parts of the plant and equipment to enable the facility to increase production for other Royal Unibrew entities in the upcoming quarters.

Updated full-year outlook
We increase our net revenue guidance to at least DKK 15 billion (previously: around DKK 15 billion), including one quarter of net revenue from Belgium and Luxembourg. This is based on a flat underlying volume development and a positive price/mix leading to a low-to-mid-single digit percentage organic net revenue growth.

After a solid performance up until mid-August, we narrow our organic EBIT growth range to 14-19% (previously: 9-19%). This is equivalent to a reported EBIT of DKK 1,950-2,025 million, including acquisitions.

Acquisitions are expected to contribute to EBIT by at least DKK 80 million (previously: around DKK 80 million) in 2024.

The current year is progressing according to plan, and following several years with extraordinary external impacts on the business, 2024 is on track to become a normal year without de-stocking, extraordinary weather, etc.

Financial assumptions

- Net financial expenses, excluding currency related losses or gains, of maximum DKK 300 million (previously: around DKK 350 million)
- Corporate income tax rate of around 21%
- Capex in the range of DKK 850-1,000 million

Business development
Soft drinks have continued the strong progress in the first half of 2024, driven especially by Denmark and the Baltics, based on a strong market, innovation, commercial execution and growth within the no/low sugar segment. Beer growth has been high due to the normalization of sales to the International segment, which was affected by unrest in Africa last year. The energy drink segment continues its above-average growth, with the half-year performance being driven by growth in all markets.

Up to and including May, we experienced very strong momentum in the business across all markets, but adverse weather in June had negative impact on volumes and mix. In Northern Europe, the On-Trade channel was negatively impacted by the weather in June. However, adjusting for weather, we consider the momentum in the business maintained.

In Italy, sales in and sales out have been balanced for more than 12 months, meaning that there is full comparison from now on. The results in Italy are solid and satisfactory, and we continue to gain market shares in all categories.

The development in the International segment was strong in Q2 2024 and with no capacity constraints. Strong execution and a more normalized cost base ensured high volume growth, significant earnings improvement, and more than a doubling of profitability.

For the first half of 2024, we have not observed any significant changes in consumer behavior, aside from the effects of the poor weather in June. The unfavorable weather in June influenced the channel mix negatively, as people were less inclined to go out, and consumption was less due to the weather.

In the first half of 2024, we have improved the profitability of our total business. With a strong focus on commercial execution, strong innovations and efficiency improvements, we expect continued growth in earnings and an organic improvement in profitability in the coming years.

With a solid earnings performance in the half-year, we have seen a turnaround in profitability. Coupled with strong cash conversion, we have achieved a free cash flow of more than DKK 1 billion. This has resulted in a noticeable reduction in our net interest-bearing debt compared to the beginning of the year, re-establishing financial and strategic flexibility. The net interest-bearing debt to EBITDA ratio is now 2.4x, which is within our target level.

ESG development
Our journey to become carbon emission-free (scope 1 and 2) by 2025 continues with determination. By the end of 2023, 92% of our roadmap for scope 1 and 2 reductions were either implemented or planned. We continue to invest in efficiency, decarbonization technology, and the transition to renewable energy sources. We are intensifying our initiatives across the entire value chain (scope 1, 2 and 3), from optimizing raw material processes and engaging in regenerative agriculture to converting packaging materials to bio-based solutions and enhancing recycled content. In distribution, we are localizing production, testing electric and biogas-fueled trucks, and exploring more eco-efficient transportation modes like rail.

All production sites are focused on energy and water efficiencies. The majority are implementing heat recovery from various processes such as brewing, cooling, CIP, and from compressors, which is a precursor to the efficient deployment of heat pumps at a later stage. Preliminary estimates suggest that heat pumps could reduce natural gas consumption by 10-50% depending on the site configuration.

Other projects include optimizing our blow molders for PET, where both bottle design changes and new molds enable blow molding at significant lower pressure. This alone has the potential to save 4% of the annual electricity consumption in Faxe, as well as avoiding investments in new compressors. Additional projects related to compressed air involve simple fixes like leak repairs to reduce consumption, and others involve investing in or refurbishing heating, ventilation and air condition systems, which have the potential to save 10-12% on heating at one site. Ongoing projects on CIP optimizations, pasteurizers, and semi-dry/dry conveyor belts are driving both water and energy improvements.

We are currently installing several filling lines for cans and PET bottles that will enable the elimination of plastics, replacing them with paper or cardboard-based solutions.

Moreover, on the distribution side we have initiated the replacement of trucks in our own fleet with electric vehicles (EVs). We are also testing concepts with our providers in Denmark, where one lane is now converted to 100% EV. We are working with more providers to expand these concepts. In Norway, we have already shifted 80% of our empty can transport from road to rail, resulting in a significant CO2 reduction.

The no/low sugar and alcohol segment of our portfolio continues to develop positively. We launched new products within no/low, such as Lemonsoda Twist in Italy, Faxe Kondi Booster Pink Dragon and Frosty Blue energy drinks in Denmark, and Mangali Energy water with natural caffeine in Latvia during the first half of the year. In the alcohol-free segment, our Royal Pilsner 0.0 was named the best non-alcoholic beer in Denmark in 2024, amongst 42 beers from 21 breweries.

Gender diversity at our Board of Directors (BoD) and management levels is improving, and we are on the right path to achieving our goal of at least 40% of the underrepresented gender by 2025. At the Annual General Meeting (AGM) in April 2024, Lise Mortensen was appointed as a member of the BoD, chairing the Audit Committee, replacing Christian Sagild. This appointment means that the BoD now has a 50:50 gender representation among the AGM elected members. At the International Management Teams level, we have also tipped the gender distribution to 34% through new recruitments, surpassing our short-term goal of at least 30% by 2027.

Launch of long-term incentive plan for executive management and key employees
In May 2024, Royal Unibrew launched a new share based long-term incentive plan (LTIP) for selected key employees for 2024.

The LTIP implies the grant of a number of performance share units (PSU) to each key employee and are granted in 2024 for vesting in 2027 depending on the company's performance in 2024 to 2026.

The KPIs used for executive management in the program are (a) organic EBIT development from 2024 to 2026; (b) accumulated free cash flow for the years 2024 to 2026; (c) CSR rating at the end of 2026 relative to a beverage peer group and (d) share price development to the end of 2026.

Please find more information in company announcement no 14/2024, May 13, 2024.

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We invite investors and analysts to follow Royal Unibrew's presentation of the Interim Report on Wednesday, August 23, 2024, at 9.00 am CEST by webcast:

Telephone conference
Access details for participants:
https://register.vevent.com/register/BIb32ca9b6b6844a788a3c8bf6bbd057e0

Webcast player URL
https://edge.media-server.com/mmc/p/9vasz7yb

Financial Calendar for 2024

November 12, 2024 Trading Statement for January 1 – September 30, 2024

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.

Attachments

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- ROYAL-2024-06-30-en