

TEAM EASY ON

BREWtal Growth

Carlsberg's growth initiative for 2022



13th of February, 2019

Accelerating growth by rolling out local experience stores and promote non-alcoholic brands



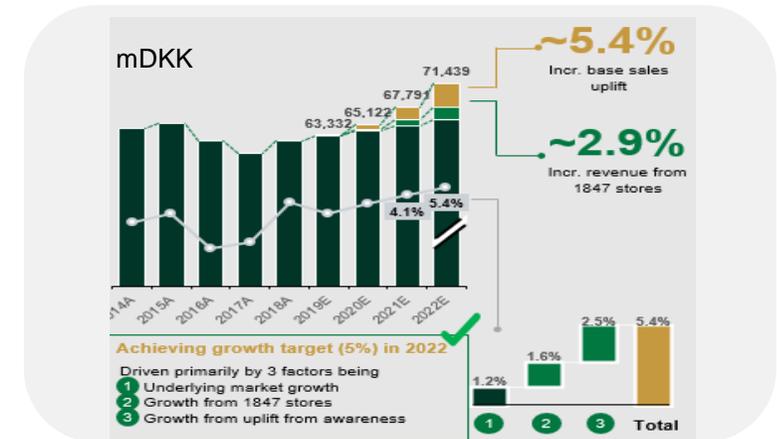
STATE OF THE BREW

- Carlsberg has successfully completed "Funding The Journey" through the Sail'22 Strategy
- .. and is now looking for ways of differentiating in order to grow revenue
- Focus should however be towards on-trade and high-value channels

TAP(PING) INTO THE FUTURE

- Needs to **accelerate growth** through a two-pronged strategy that will allow Carlsberg to respond to key changes in **consumer demands**.
- Roll out local **experience stores** all-over Europe, thereby getting closer to millennial consumers
- Accelerate sales of **non-alcoholic** brands by sponsoring key sports events and athletes

BREW(TAL) GROWTH

Open Experience Stores called **1847™**Accelerate **non-alcoholic** brands

1



- Open up **31** experience sites across Western Europe
- Focus on national and **regional craft beers**
- Full control of **customer experience** around Carlsberg portfolio products

- **Competitors** gaining strong presence within non-alcoholic alternatives across EU
- Therefor - exploit increasing **health** trend
- **Increase awareness** of regional non-alcoholic beers through major sport events and athletes

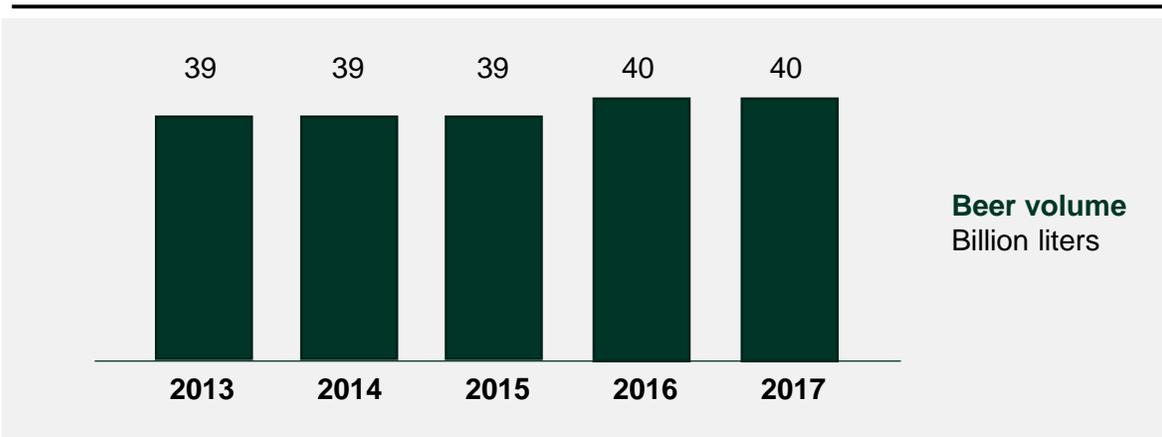


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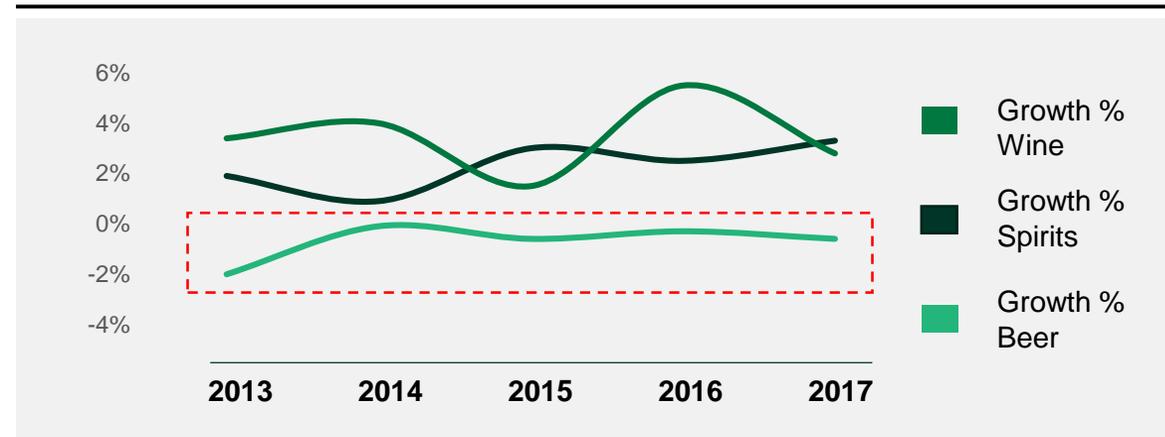
Changing consumer preferences towards non-alcoholic alternatives, wine & spirits and specialty beers are currently limiting Carlsberg's growth opportunities



Carlsbergs volume growth in Western Europe has stagnated..



... due to 'beer' category becoming less relevant in the region



Microbreweries are growing as consumer demands change...

- Highly fragmented industry with a few big players and a lot of smaller breweries
- # of microbreweries:
Year 2008 → 2000
Year 2017 → 7000
- Carlsberg: 29% increase in volume and revenue growth in 2017 from craft and specialty

Microbreweries used to be niche, however category is growing as consumer preferences change towards more quality, local brew and premiumization

... and non-alcoholic alternatives are increasing in popularity

16% of German consumers drink alcohol-free beer on a frequent basis

Q3 in 2018, Western Europe saw a 58% growth increase in sales of non-alcoholic beer

Major reason is that millennials are demanding more regionality, quality and whom are very open-minded in terms of trying new beers and are therefor not particularly loyal towards brands



Millennials in Europe say...

45% drink craft beer out of home **at least** once a week!"

"64% say they drink **more** craft beer than 2 years ago"

"66% drink craft beer for the **taste**"

How are millennials making their purchasing decisions?

Oliver

- 27 yrs old
- Cares about local brew and sustainability

Oliver has become tired of normal 'lager' and has heard about the **Nya Carnegies** "Hingstin Eko Stout" from Sweden



In order to capture the millennial craft beer trend, Carlsberg must leverage local presence and existing craft beer portfolio

Carlsberg therefor needs to turn these challenges into opportunities by leveraging some of its already existing key capabilities



A deep pocket of finances

After two year of cost cutting, Carlsberg is well positioned to engage in large investments to drive future growth and add value to the group

Experience from operating Jacobsen restaurants

In house experiences with running physical bars/ stores for the Jacobsen brand

Capabilities can be leveraged toward other business units



BAR JACOBSEN

Frontrunner w/ sustainability & transparency

“Giving back to society has been in the DNA of the Carlsberg Group ever since our founder J.C. Jacobsen established the Carlsberg Foundation back in 1876.”

- FLEMMING BESENBACHER -

Chairman of Carlsberg Group and Carlsberg Foundation.



Strong product portfolio in non-alcoholic beer

Carlsberg already offers 57 different non-alcoholic beers within its portfolio

Similar in taste and feel to traditional pale lager brews, such as the K1664 Blanc in France while others are less traditional with various flavors added, such as the Utenos Radler 0, a hugely popular grapefruit flavoured beverage in Lithuania.



Global Demand Space Model

Insights on consumer behavior about when they drink what and why they do it.

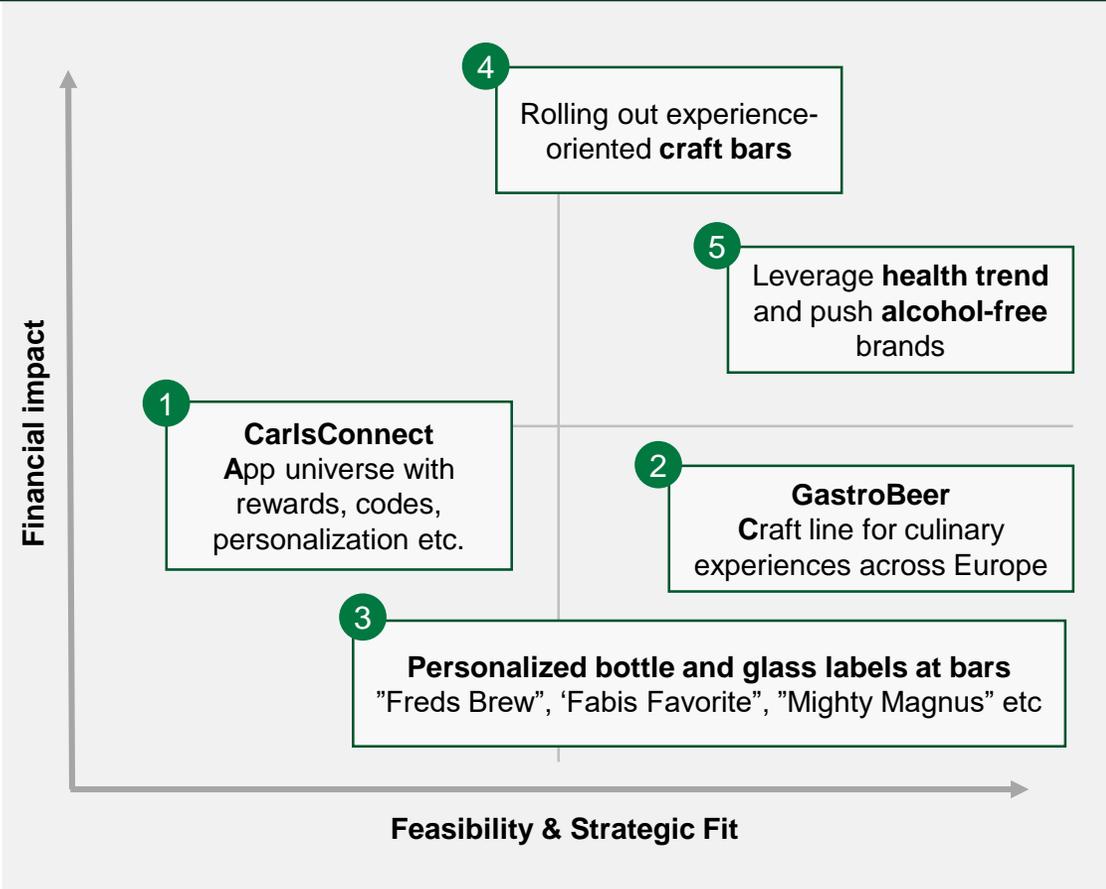
Behavioral segmentation tool based on consumer research studies in over 40 countries, gathering data from over 130,000 consumers.



Assessment shows that Carlsberg should focus on a two-pronged strategy entailing local experience bars and event/athlete sponsorships



Several solutions have been assessed on feasibility and impact...



...showing that two solutions will be supporting the growth strategy

1	CarlsConnect – the app <ul style="list-style-type: none"> Not feasible with conglomerate status and no considerable financial impact 	✗
2	GastroBeer <ul style="list-style-type: none"> Simple and feasible, yet lacking significant customer experience and profound impact 	✗
3	Personalized bottle labels <ul style="list-style-type: none"> A fun experience-oriented gimmick, however lacking impact. Can be utilized as side-kick in craft bars 	✗
<hr/>		
4	Experience-oriented craft bars <ul style="list-style-type: none"> Carlsberg has key capabilities and can drive differentiation through unique experience with large uplifting impact 	✓
5	Accelerate alco-free brands <ul style="list-style-type: none"> Accommodates growing customer trend and allows Carlsberg to directly interact with customers 	✓



Opportunities lie within micro-brewing and expanding sales channels with unique local-based experience bars

Key consumer trends on the craft beer scene...

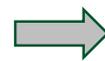


- Expected CAGR of **11%** for European craft consumption over the next couple of years
- **Under-30s** driving the revolution
- Sustainability, sophistication, taste and local brew are in high demand
- Low brand loyalty

...will be catered through 1847 experience bars



Focus on local and regional brews and furthermore leverage local pride



Customized labels to cater sophistication and personalization



Beer tastings, BrewMaster* tour, dining experiences and more

“Winning in on-trade **has always** been about **superior customer experience** for the customer and the consumer” - Cees’t Hart

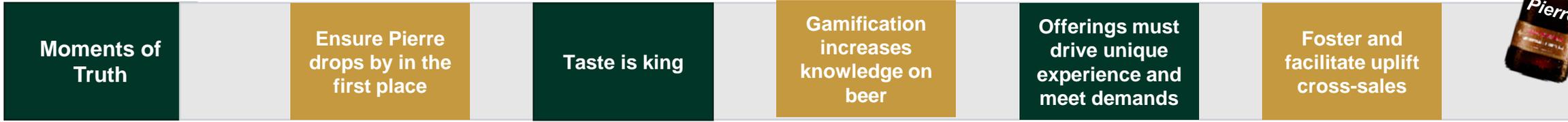
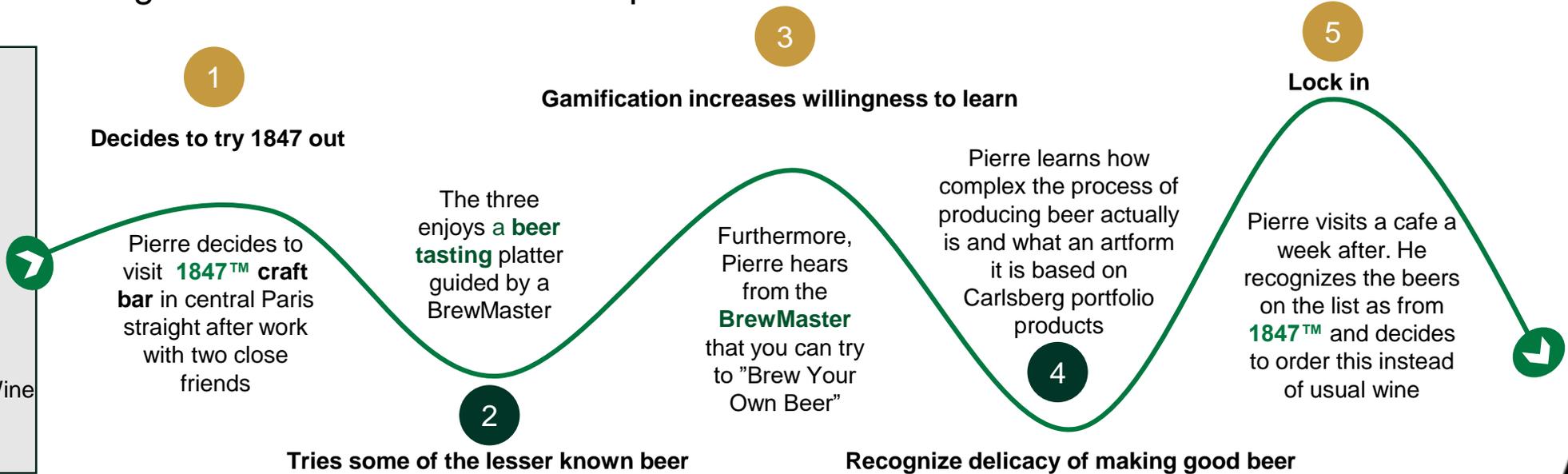
1847™ concept will reshape how Carlsberg can win the customer-experience game in three ways:

- 1 Through the **1847™** experience bars, Carlsberg will differentiate itself and exploit the on-trade market even further by leveraging a **customer centric value proposition**
- Local, sophisticated, original and experience-driven -
- 2
 - It enables Carlsberg to take **full control** of a customer centric and loyalty-improving arena
 - Furthermore allows Carlsberg to **get direct touchpoints** with its customers and cater to local wants and needs
- 3
 - Leverage first-mover advantage to create significant brand **customer loyalty** in low-loyalty sphere
 - Utilize intelligence from direct customer interaction and feedback

By catering to the specific demands within the experience bars, Carlsberg can raise brand awareness around regional craft beers within their portfolio and drive future cross sales




Name: Pierre Brew
Age: 27 years old
Profession: Teacher
Preferred liquour: Wine

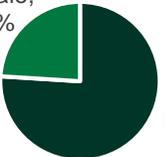
Expected customer profile

Female, 24%

Male, 76%

Sophisticated

Urban





The overall concept can be extended by...

1 Dining
Dining experiences with local and tailored craft beer offering

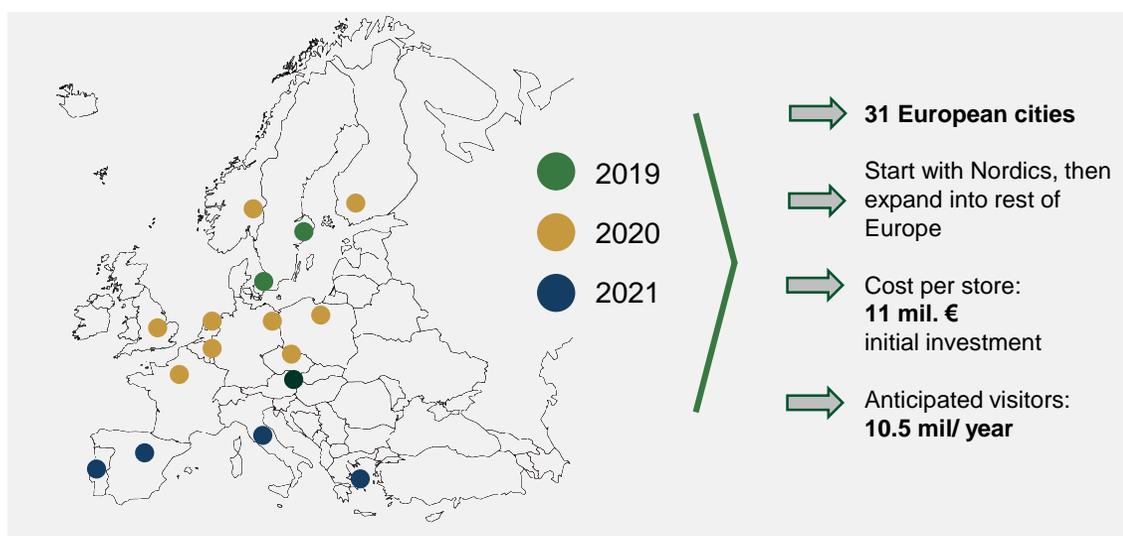
2 Concerts
Concerts – upcoming stars supported by the Carlsberg Foundation

3 Product events
Niche-product events to drive loyalty and leverage word of mouth effects



After successful pilot-test in the Nordics, Carlsberg will be capable of entering physical store space across Europe and execute a successful roll out

Role out of 1847™ experience spaces over 2,5 years time....



...will have to be carefully managed within the organisation

Key actions:

- 1 Create new 1847™ division within Carlsberg group
- 2 Develop concept for first experience space and use same model for subsequent role-outs
- 3 Implement staff training programs to ensure that all new and old employees understand the market that they work in

Carlsberg needs to drive visits to 1847 spaces through digital campaigns to launch the initiative

Current followers: 30k
Other portfolio Brands
 Astra – 53k followers
 Kronenbourg1664 – 3.3k followers
 Competitor Mikkeller: 174k followers
 Must increase SoMe presence to reach millennials

Why SoMe? Goal: reach millennials

- 📱 Young people are more influenced by So-Me than older generations
- 🧠 Influencers behavior on So-Me is replacing existing expert systems

How?

- 1 Influencers with lifestyle image and qualified knowledge
- 2 Can effectively generate brand awareness and influence purchase decisions
- 3 Clear link between the ambassadors' life and habits; and the value of experience stores

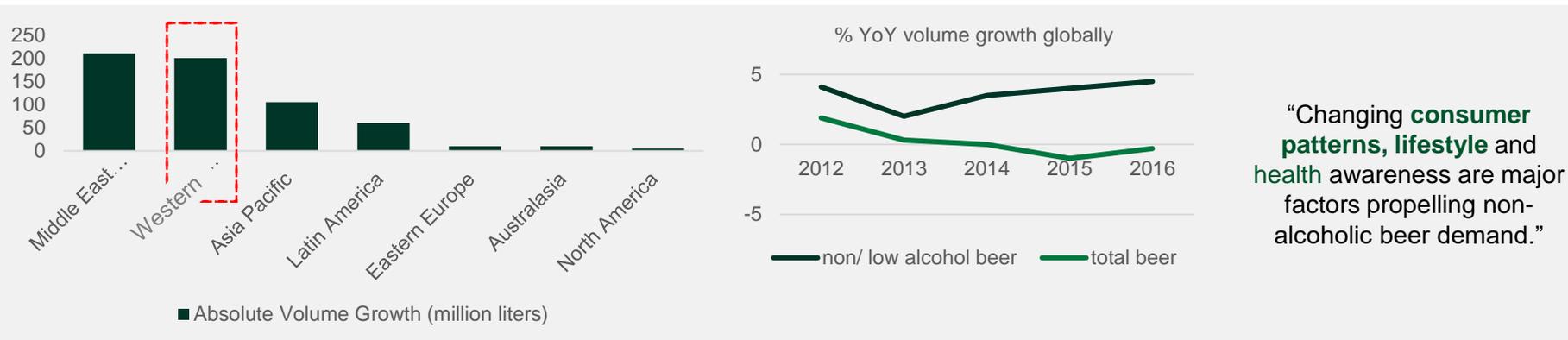
What values to communicate?

- 📍 Local heritage of local brand
- 🍷 Specialty experience
- 🌟 Premium product



Sponsoring key sports events and sports stars with alcohol-free beer brands will tap into the increasing health trend

Consumers are increasingly turning to non-alcoholic alternatives



“Changing **consumer patterns, lifestyle** and **health awareness** are major factors propelling non-alcoholic beer demand.”

Carlsberg should leverage its long time experience in sponsoring soccer and other sports to expand into other sporting events to aggressively market non-alcoholic beer



Already have **strong capabilities** in sponsoring efforts that can be expanded towards sporting events throughout Europe

Over **22,000** racing events held in Europe per year

Opportunity to **contact key target group on-site**

How?

Promotion, sampling and exposure

Create cross-selling effects

Goal

Getting people to talked about non-alcoholic beer and trying it

Decisive factors

➔ Presence

➔ Emotion

➔ Fulfillment of needs

Carlsberg already has strong portfolio of non-alcoholic beers but has to engage in more extensive marketing efforts to stay on par with its competitors

Selecting large and exposed events is key in driving an impactful growth from sports sponsorships



What is the value proposition fit for combining non-alcoholic beer with sporting events?

Through marketing effort at key sporting events throughout Europe, Carlsberg is able to achieve wide reach and get in touch with specific target group for non-alcoholic beer

Properties of non-alcoholic beer

- Ideal for **regeneration** after sport
- **Mineral-rich** electrolyte drink
- Suitable for a **balanced sports diet**
- **Free of fat** and cholesterol
- **Calorie-reduced**



Carlsberg's non-alcoholic beers offer not only a "second best" alternative but have beneficial traits for athletic people

Carlsberg should utilize this and tap even stronger into the growing segment through specific marketing

Proof of Concept



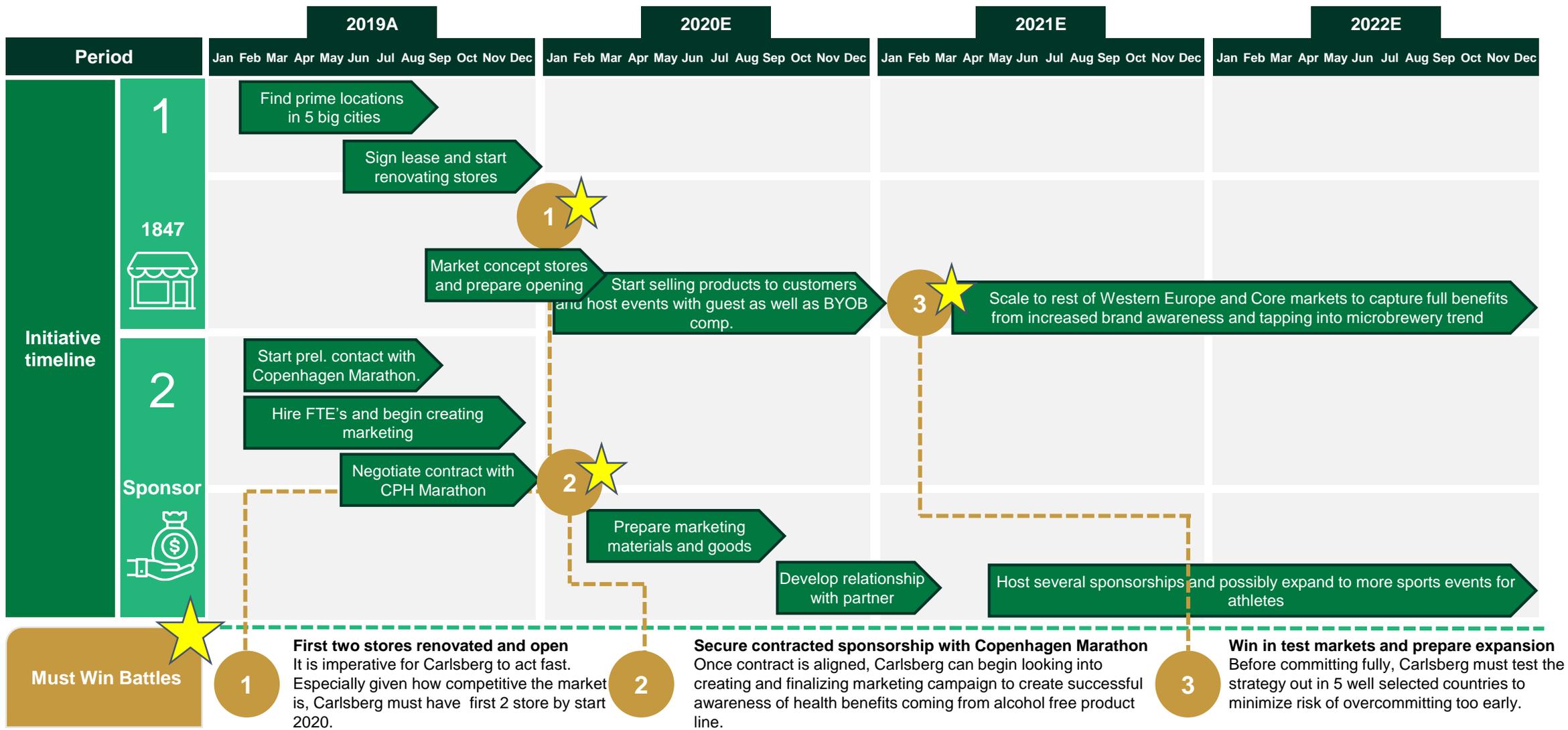
Erdinger Alcoholfree has seen growth due to marketing the brand towards sports



Two promotional streams

1. Sampling for hobby athletes competing themselves
2. Sponsoring professional events to get exposure

Our analysis has identified 3 MWB's, Carlsberg must focus on to realize the full potential of the new strategy



Sources: Team Easy On Analysis

Given a successful launch, Carlsberg will be able to obtain their growth targets of 5% by 2022 with a full year growth of 5.4% Y-o-Y

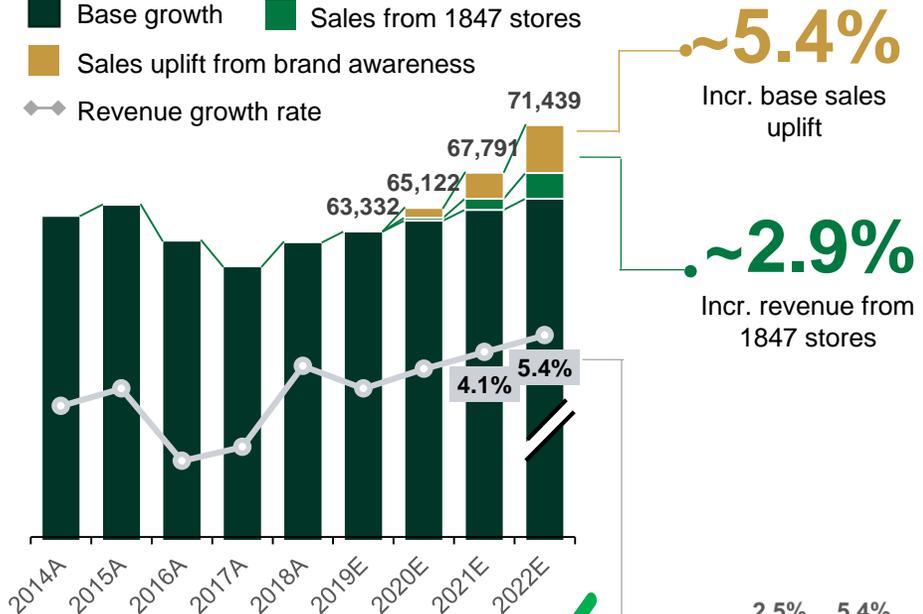


1 Revenue forecast reveals required growth rate is obtained

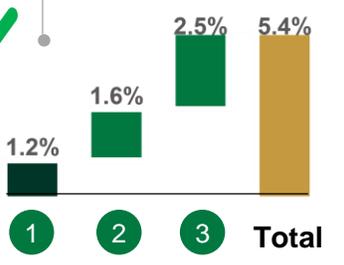
Revenue impact forecasted to 2022

DKK in millions

- Base growth
- Sales from 1847 stores
- Sales uplift from brand awareness
- Revenue growth rate



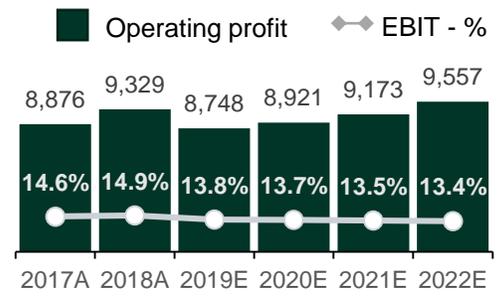
Achieving growth target (5%) in 2022
 Driven primarily by 3 factors being
 1 Underlying market growth
 2 Growth from 1847 stores
 3 Growth from uplift from awareness



2 Scenario analysis and key performance metrics

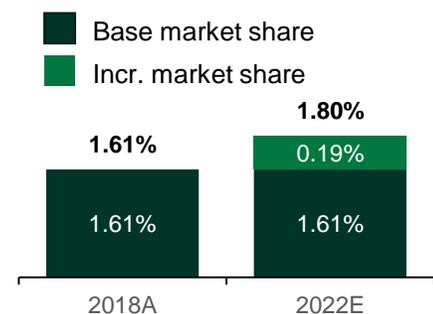
Operating profit forecasted to 2022

DKK in millions
-170 bps
 Driven by higher SG&A costs



Global beer market share for Carlsberg
 2018 = DKK 510bn
 2022 = DKK 537bn

+19 bps
 Driven by stealing market share from primary competitors



3 Key drivers

Revenue drivers

Brand awareness causing uplift in base sales
 10mm customers in total in 1847 stores avg. spend of €25.

1847 Stores

Based on avg. capital size of 1.5mm in EU and 31 stores in 2022. 75% consume alcohol and 15% of these visit store from 5% in 2020. 5mm customers visit 2 times/year⁽¹⁾.

Uplift in base sale

Increased awareness will drive customers towards Carlsberg brands in on-trade locations. Case study⁽²⁾ shows uplift of 20% from flagship. Assumed 9% in 2022 in forecast to be conservative.

Market growth

1.3% CAGR until 2022^(#). Assuming Carlsberg portfolio will grow in line with market. Growth split between on- and off-trade assumed to be constant

Sources: 1) EC Europa, 2) IE University, 3) Case Material, Team Easy On Analysis,



Furthermore, Carlsberg's financial capabilities allows it to self finance the initiatives and there is no need to raise any external capital

Cost analysis of reveals a total investment cost of DKK 3,219bn over 3Y span

1

1847 stores

Number of stores built each year

2019	2020	2021	2022
2	8	10	11

Investment in each store

Capex: DKK 99mm pr. Store opening⁽¹⁾
 Opex: DKK 61.5mm pr. Store / yearly⁽²⁾
 Opex cost incl.: Rent (11%), Salaries(6%), Marketing (80%)

Scale efficiency and practical knowledge

Slightly decreasing Opex as knowledge is learned in opening and scale is reached through each store

Investment in sponsorship events

Marketing: €5mm pr. Event directly contributing to the brand awareness of Non-alcoholic beers⁽³⁾

Beer grants for Copenhagen Marathon

12k participants in Copenhagen Marathon 2018 – assumed 24k beers at DKK 2 COGS = DKK 48k⁽⁴⁾

Total cost for both initiatives over 3Y period amounts to DKK 3,219bn

Carlsbergs extraordinary financial capabilities allows to self finance the strategy

Category	Value
Levered FCF '19 - '22	3,321
1847 Store Capex	-3,069
Sponsorship	-150
Net cumulative cash	102

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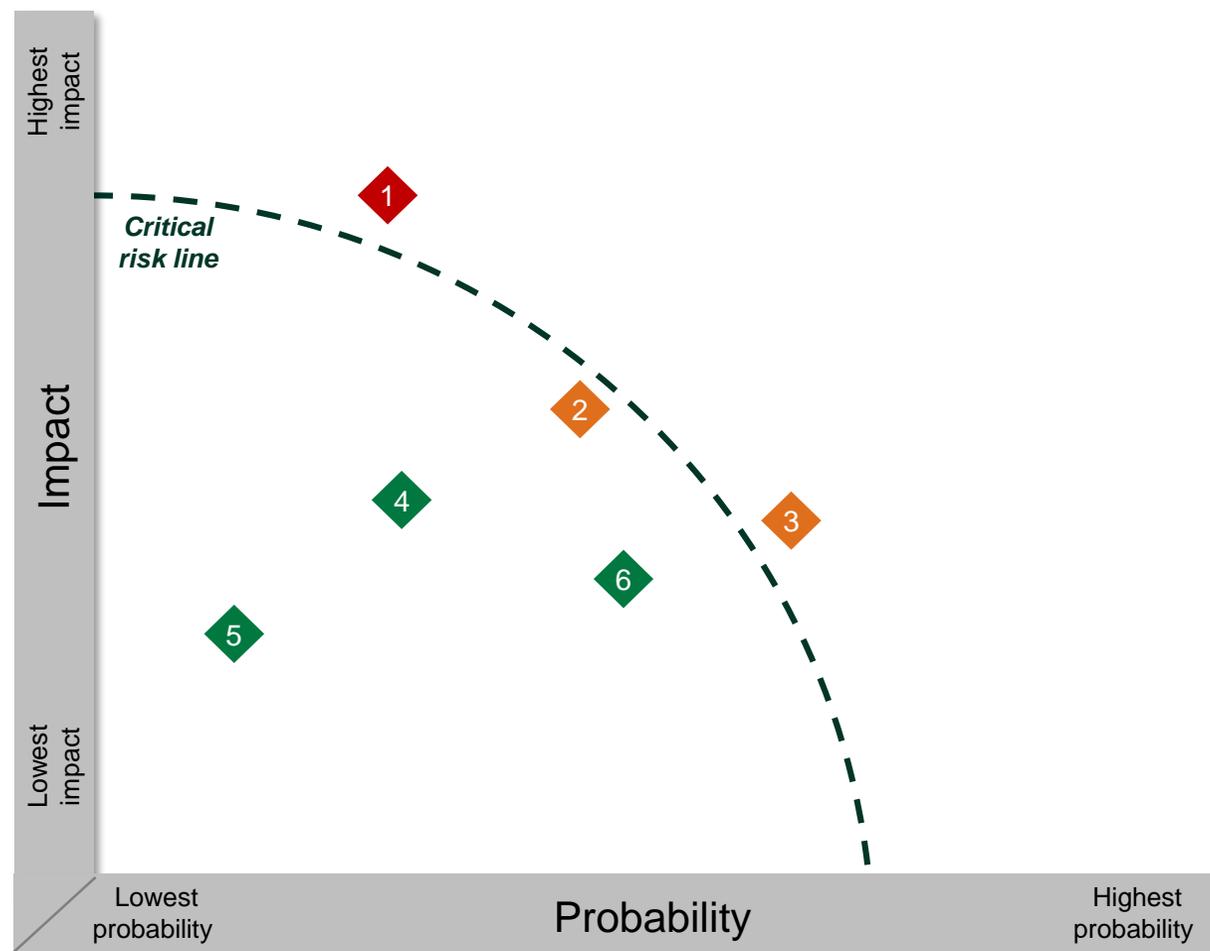
    graph LR
    A[Expected positive LFCF of DKK 102mm cumulative from '19 - '22] --> B[No need for external financing - strategy can be self financed]
    
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Sources: 1) SF Curbed, 2) Nordstrom 10-K 3) Investopedia, 3) CPH Marathon website, Team Easy On analysis, Case materials

Notes: 1) Based on Apple capex for flagship store adj. 50% down to reflect Carlsberg realistic cost, 2) Nordstrom operating expenses adj. 80% to Carlsberg size

Consulting | 14

Six key risks have been identified and associated mitigation strategies have been set up



Number	Risk	Mitigation
1	Bars do not generate uplift from cross sales	Expand in-store branding to drive awareness
2	People lack interest in experience craft bars	Aggressive marketing, promotions, revisit events
3	Competitor replication	Leverage first-mover advantage and push more
4	Can't make sponsorships with major sport events	Scale down and target smaller, local events
5	On-trade customers (bars) will be unhappy with craft bar	Communicate intention and cross-selling benefits
6	People prefer other non-alcoholic beer	Expand R&D to refine taste and product

 LOW RISK	 MEDIUM RISK	 HIGH RISK
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The risks are not severe and can be mitigated

Sources: Team Easy On Analysis