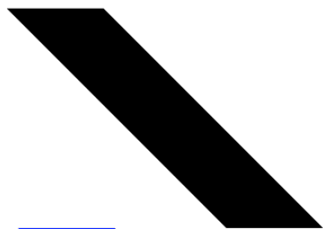
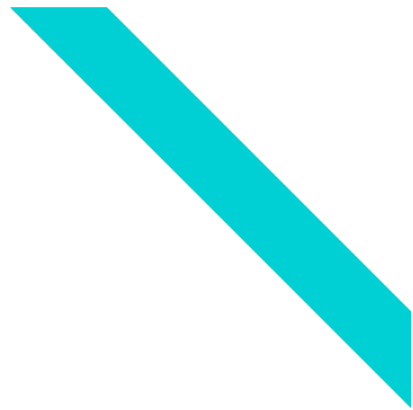


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FULL YEAR 2024 PERNOD RICARD SA EARNINGS CALL

EVENT DATE/TIME: August 29, 2024 / 7:00AM UTC



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- **Hélène de Tissot** *Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee*
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- **Simon Hales** *Citigroup Inc. - Analyst*
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PRESENTATION

Operator

Good morning, everyone. We're very pleased to welcome you at our fiscal year 2024 full-year sales and results presentation. Alexandre and Hélène will take you through the slides, and then we will follow up with a Q&A session. Alexandre, it's to you.

Alexandre Ricard *Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee*

Great. Well, thank you, and good morning to all. I really hope you had a great sportive summer. So let's directly dive into our fiscal year '24 sales and results. So we've had a robust performance in what we can qualify a normalizing spirits market with organic net sales broadly stable at minus 1%, which would have been plus 1% excluding the exit from Russia. Has a very strong performance in many mature and emerging markets, offset still normalizing United States and a weak China.

We've experienced sequential volume recovery throughout the second half of our fiscal year in most markets. Pricing, operational efficiencies, and cost discipline have led to organic gross margin expansion and organic operating margin expansion of,

respectively, 108 basis points and 80 basis points. We've continued to invest in our brands' desirability and sustainability for long-term growth with a very sharp and consistent marketing policy, and to prepare the future and acceleration in our strategic investments.

And as you may have seen over the summer, we continue to actively manage our portfolio with a number of disposals, the most recent one announcement being the disposal of our strategic wine brands. So in a nutshell, you have here our financial performance with organic net sales, as I said, broadly stable at minus 1%, and profit from recurring operations growing organically by plus 1.5%. We'll go in much more detail in a few minutes with H  l  ne.

Our core strength beyond our premium and broad portfolio of brands is our broad-based geographic footprint. We have balanced regional exposure, and we have balanced exposure in terms of both mature and emerging markets. These results exemplify the benefit of our global breadth, mitigating the impact of weaker results this last fiscal year, both in the US and in China.

We have growth in two out of our three regions if we exclude the one-off impact of the exit of Russia. And we have positive price mix across the board, benefiting from the carryforward of our price increases the previous year. And finally, we've gained or held share in most markets across the world.

The broadly stable organic top-line results are to be seen in the context of market normalization following the outsized, what we would call, revenge conviviality growth enjoyed and the post-COVID period that lasted two years. Normalization is well exemplified with volumes in most markets being broadly stable or even growing now in the second half of the year. And this is obviously a very important KPI, which underlines the strength of our business.

Our focus as a consumer-centric company is clearly to understand and address swiftly our consumers' desires and aspirations and really invest behind all of them. And this has been a very active year, and we've been increasingly agile in doing so based on our new organization and new governance. You have a number of examples with number-one time-to-market media campaigns that are much shorter with the recent launch of the new media campaign around Skrewball whiskey.

We've been very active on the innovation front. We've launched, I think, a record result of limited additions this year with the Lillet x Emily in Paris Limited Edition but as well the Absolut Warhol, the Ricard Limited Edition, which was all over the place over summer in France, and the Malfy Missoni Limited Edition. And we launched Absolut Ocean Spray, the ready-to-drink range, which is currently enjoying a huge success. Before we move on, I'd like to have a quick video, please.

(video playing)

Yes, so don't drink and drive campaign, which just stresses as well, where every single one of our brands has a responsible consumption roadmap as well. So we've been actively as well involved in partnerships because it is absolutely critical for all our brands to be relevant, culturally relevant, and engage with our consumers who are a big sports fan. And I'm very pleased to announce basically the signing of three great partnerships over summer.

Chivas is now the official whiskey partner of Arsenal. Jameson is now the official partner of the English Football League. And I think, since yesterday, we've just signed a partnership with Paris Saint-Germain, which regards the -- which will benefit the entire portfolio of brands of Pernod Ricard. And I'd like to say more to come very soon, and not just in football.

We've also been very active in terms of portfolio management in fiscal year '23. We're mainly very active on the acquisition front with a record number of acquisitions. This year -- this past fiscal year was more skewed towards a number of disposals. So we disposed of Clan Campbell. We disposed of Becherovka. We recently announced the disposal of our strategic wines, basically the Australia, New Zealand, and Spanish wines, to really focus our portfolio of brands on the very premium end of spirits and champagne. That transaction is expected to close in the second half of this new fiscal year around spring.

That being said, we continue to focus on fast-growing and attractive categories. And I'm also pleased to announce, and I think the announcement took place six minutes ago if the teams are very disciplined, that Pernod Ricard has joined Lewis Hamilton and Casa Lumbre Spirits to enhance the success of Almave. Now Almave is a super-premium distilled non-alc blue agave spirit.

So that brand -- by the way, the taste is quite amazing. And by the way, this is one of the two expressions of Almave. It's at the confluence of three accelerating global trends: tequila, as you know; non-alc alternatives; and the desire for authenticity. So I'm very excited about Pernod Ricard joining this adventure and accelerating the development of Almave across the world.

So we're a performance-driven business, and that means driving sustainability in everything we do to have and drive sustainable growth over time. So we've made a number of progress around, obviously, our strategic roadmap, good times from a good place. You have here four key areas where we've made significant progress, and which remain a clear focus for our performance across

the business.

Speaking of, so our revised reduction targets in line with the 1.5-degree trajectory have been validated by the Science Based Targets Initiative. We had action plans across distillation, packaging, transportation, and agriculture. In distillation, it's around renewable electricity. It's about mechanical vapor recompression. That's one of my favorites.

Anyways, in packaging, it's about reducing packaging weight. It's about increasing recycled content, and many, many other initiatives. Transportation, about optimizing shipping loads, about exploring alternative transportation modes and so on. Agriculture, about regenerative agriculture. I could keep on quite for a while, but this is very important for our business performance.

So this year, we've delivered a robust performance in a normalizing market with a number of technical impacts as well. But at the end of the day, our business model, we aim to deliver sustainable, stretched, profitable growth. And I think it's important to go back to some of the key fundamentals.

So we clearly want to build on our strengths, and our strengths are based on what I call the triptych of the most premium complete portfolio of brands in the industry, number one; our balanced and broad-based geographic footprint, number two; and our people, our winning culture, number three, and their commitment to driving performance across the business; to leverage as well our growth model, which is designed to fully empower our teams to seize growth opportunities where they see them in a very agile and swift way with a strong and continuous resource allocation strategy; and finally, leveraging tech and data to do so by developing our capabilities across the business and deploying our key digital projects.

Again, our business is based on underlying very favorable trends, which will sustain and which sustain our long-term growth for premium spirits. There are very powerful megatrends, again, global growth of the legal drinking age population; global growth of middle and affluent classes across many emerging markets and women increasing their share of consumption; evolving consumer needs to which we adapt through our brands; the way we activate our brands and through innovation; and as I mentioned earlier on as well, acquisitions, so experiences, self-expression, and convenience, for instance, RTDs; and the increasing penetration of spirits consumption amongst the American Gen Z.

And over the last four years, that penetration has increased by 3 points growing from 71% to 74%. I was mentioning leveraging tech and data, so the foundational layer of consumption occasions which we master through Maestria and then underpinned here with marketing effectiveness through Matrix, with promoting and pricing effectiveness with Vista Rev-Up and sales force effectiveness, which are all powered by tech and data, artificial intelligence algorithms.

Right now, we have 28 markets covering three-quarters of our business that are now equipped with at least one KDP, and we're still deploying with the end vision to have what we call the CoDi Cockpit, which is doing the entire strategic planning for the year across the portfolio, leveraging the full tools.

I mentioned we put in place a little bit more than a year ago now Project Tomorrow. That was an organization and a governance to facilitate and speed decision making, particularly around resource allocation in a world which is quite volatile, one could say. So we have the exec, which is now fully operational. And we have a very, I would say, agile operating model. With the HQ are 10 management entities and our seven brand companies.

Well, what for? What drive? What we call now stretched profitable growth. So while year-to-year performance may vary, obviously, in a volatile, I would say, environment, we're clearly delivering our top-line growth framework and our gross margin expansion. This consistency over time is a clear feature of Pernod Ricard of our performance over time. We do what we say, and we say what we do, and we deliver over time.

I'll give you a couple of illustrations on one of our key strengths, which is our broad-based geographic footprint. I mentioned half of our exposure is to emerging markets. The other half is towards mature markets. And if you take one example in terms of emerging markets, then the reason why I took India for that presentation is India this year, for the first time in terms of net sales is now our second largest market.

Well, India enjoys very strong and favorable macro fundamentals, obviously, strong GDP growth. And the middle and affluent class population is growing. And we have, every single year, 25 million people joining the legal drinking age population. There's a strong presence of premium-plus Western-style spirits in the Indian spirits market. And it is indeed the world's largest whiskey market.

Well, we've grown on average over the last few years, over the last five years by 8%, by the way, in line with our algorithm for India, which is high single, low double digits for that market. We do enjoy a strong leading position with, broadly speaking, half of the market and with a great portfolio of brands, which continues to enrich itself with some innovation, as you can see.

Now with regards to mature markets, I thought it was interesting as well to illustrate the way we operate with the likes of Germany with double-digit growth, by the way, consolidating our market leadership in that very specific market. So Germany does face mixed macro fundamentals with, I would say, subdued GDP and some degree of cost-of-living squeeze with private labels in Germany and discount retailers that are very strong in that market but a spirits market which is growing roughly at 4%.

So we've grown, on average, I would say, 3x the market rate. We've grown double digit on average every year over the last five years. Our portfolio has been adapted to address consumer trends. Absolut is now the number-one premium vodka in Germany. Lillet has grown almost 30% year on year over the last few years. And Germany was one of the pioneer markets for our key digital projects and our key digital acceleration roadmap, and we see here the results. So again, that was just to illustrate our business model.

So at the end of the day, this model is here to drive long-term sustainable value creation, and I think it's important to remind you what our medium-term financial framework looks like, 4% to 7% top-line growth, aiming for the upper end of the range and driving organic operating leverage of 50 to 60 basis points on average. Now, well, the industry's -- with the industry's leading in most complete portfolio of premium spirit brands and our broad-based and balanced geographical footprint, I can only reiterate our confidence in that medium-term framework.

Obviously, for this fiscal year '25, and I'll mention it during the outlook, we're not yet giving any guidance. But we're clearly confident on the underlying fundamentals to drive that medium-term financial framework. Very briefly, in terms of our top-line update, on the must-win markets, the US, down 9%. As I mentioned, the spirit market in the US continues to normalize but remains resilient with sellout for the market in positive territory.

Our depletions value are down 7%. Our sellout for Pernod Ricard is down 4%. Our acquired brands have enjoyed and are enjoying good growth. Jameson is holding its share. There have been, as we mentioned, retailer and distributor inventory adjustments throughout the year. But in the environment with interest rates that are still quite high, we expect to see some further inventory adjustments, probably at wholesaler level, in this new fiscal year, which leaves us to anticipate a decline in Q1 for the US.

For China, down 10%. While it's been very straightforward, a very challenging macroeconomic environment, which caught us a bit by surprise basically a year ago, and we were the first ones to share that surprise with you, we do see continuing weak consumer sentiment, which is directly impacting demand. Our brand equity metrics are growing, are remaining very strong, in fact, are even strengthening. And we have very strong price discipline in that environment.

We have gained share throughout the year. Stable sales for Martell Noblige. Good performance -- I would say, very good performance, very good because it's double-digit performance for brands like Absolut, Jameson, Olmeca, Beefeater all growing double digits. We do expect a strong decline in the first quarter with subdued trade sentiment ahead of MAF, which is going to take place in a couple of weeks. That's what our teams clearly shared with us.

And we are cycling a stronger consumer sentiment last year in Q1. But for the full year, clearly, we expect, I would say, a similar trend to fiscal year '24. India -- listen, at the end of the day, let's not spend too much time on India. All of the lights are green for the Indian market. It is a buoyant market. Our teams are very bullish for India. Travel retail, up 2%. So remember, full-year sales growth with the soft first half of the year and good growth in the second half, still impacted to some degree by weak Chinese traveler demand.

From a regional point of view, Europe, up 2%, excluding Russia, with a strong performance as you've seen in Germany but also in Poland and a number of other markets. We've held our gain share in most European markets and across most of our portfolio. Americas, down 5%, by the way, excluding the US, basically a pretty good performance across the board with some good market share gains in Brazil and Mexico, for instance.

Asia-Rest of the World, I would say, good, with 3% growth and a very good performance in Japan and Taiwan, where we've gained share as well. And very strong results across Africa and Middle East, led by Turkey, but also countries such as Nigeria, a flat South Africa within a difficult macroeconomic environment. Very briefly in terms of our House of Brands, strategic international brands, down 3%. Martell is impacted by China. Strong growth for Jameson outside Russia across the board, I would say. For Absolut, strong growth in Europe, excluding Russia, again, and in Asia, both in China. I mentioned double digit, but also in India, et cetera.

On the strategic local brands front, again, very strong performance for Seagram's whiskey, particularly Royal Stag and Blender's Pride. Strong growth as well of Kahlua, a very strong growth of Kahlua not just in North America, its stronghold, but as well in Europe and in many other markets as well. And finally, in terms of specialty brands, broadly stable with good growth across Asia, Middle East, Africa, Central Europe, LatAm and a soft Western Europe. And again, US impacted by retailer destocking but very good growth, by the way, experienced on Bumbu, Skrewball, Altos, and Lillet.

And now I'd like to let Hélène go in much more detail in terms of our financial performance.

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

Thank you, Alex. Good morning, everyone. So let's come back to the financial performance. So I'll start with the gross margin expansion and the impact of the organic profit from recurring operation, which has been growing by 1.5% in the context of a broadly stable top line. So we have achieved strong organic gross margin expansion of 108 bps and -- which is as well translating into organic operating margin expansion of 80 bps.

This is coming from the top line and especially from the strong price increase over fiscal year '24, which is mainly coming from the full-year impact of fiscal year '23 significant price increase at that time in the context of high inflation and as well some additional price increases, a bit more tactical in fiscal year '24, especially in inflationary markets.

We have as well worked hard on the price and promotion with a strong focus on revenue growth management. And this is obviously quite helpful to offset the impact of COGS inflation, which has been moderating, but -- which was not a tailwind in fiscal year '24. So it remains a headwind as far as COGS are concerned with, obviously, a very consistent focus and ongoing operational efficiencies.

Just -- let me give you two examples of that, for instance, a removal of secondary giftbox packaging was as well accelerated in fiscal year '24, and we have reduced energy consumption as a result of the implementation of the mechanical vapor recompression that Alex has alluded to in the S&R roadmap.

Naturally, we had some negative market mix in fiscal year '24, which is impacting our margin with the weight of the US and China in our performance. When it comes to resource allocation, we've been very agile, keeping a strong level of investments, EUR1.9 billion, which is circa 16% of the net sales with a very agile deployment of this investment across the world, across the market, and across the brands with always that priority of maximizing efficiency, and of course, leveraging our key digital programs to secure that maximum efficiency and especially in terms of consumer touch points.

As well, I would like to insist on discipline on structure costs, which was absolutely necessary and that has been pursued in fiscal year '24 very consistently. So on a reported basis, the group faced a negative foreign currency impact, quite a sizable one of EUR425 million, which was primarily a translation effect, notably arising on Turkish lira, Argentinian peso, US dollar, and Chinese yuan. This negative currency impact has been partially mitigated by a positive perimeter impact of EUR140 million, which is then leading to a decline in reported profit from recurring operation of minus 7%.

So moving now to the EPS, which is down 13% due to the softer reported profit from recurring operation I was just presenting to you and as well higher financial expenses as a result of recent refinancing at higher rates with an increase in the average cost of debt to 3.2%. As a result, the group share of net profit from recurring operation has decreased by 14.5%, while EPS benefits from the share buyback and has declined by 13%.

So moving now to the group share of net profit. We report a decline of 35%, which is due to the increase in non-recurring expenses, especially the recording of impairment arising from the planned disposal of the wine business, which is partially compensated by the reversal of historical impairment on Kahlua, as we mentioned that Kahlua has been delivering a quite strong performance in the recent past.

Additionally, we recorded an increase in non-recurring income tax caused by changes in deferred tax, one, which is driven by the reversal of the Kahlua impairment; and the second one, which is linked to the change in value of foreign tax credit in the US in the context of the changes of the US tax legislation.

Let's move now to cash and debt, starting with the cash generation. So we are reporting a robust cash generation with free cash flow close to EUR1 billion, EUR963 million, which is a decline on the prior year due to lower reported profit from recurring operation and an increased investment in terms of strategic investment to support future growth. So let me illustrate that with the CapEx of EUR766 million, which is increasing by roughly EUR160 million in the prior year, driven by very strategic priority in terms of capacity expansion, mainly in Ireland, in US, and in Scotland. So you can assume that this is linked to a very exciting risky portfolio there.

And as well, maturing inventory increasing by EUR645 million, which is an increase of EUR136 million versus the previous year, largely as a result of lower usage in the context of softer volumes performance rather than additional cashout. Just a word on the operating working capital, which is broadly stable, as previously shared, CapEx is expected to remain at similar elevated level for fiscal year '25 and fiscal year '26 with the continued expansion in terms of capacity, especially with our new distilleries in Ireland and

in the US.

Moving now to the net debt, so which is increasing by EUR700 million, leading to a net debt-to-EBITDA ratio of 3.1x, which has reduced from the 3.3x at H1, though an increase of 0.3x compared to last year. So this is reflecting the lower year-on-year reported profit from recurring operation and higher net debt. We have a strong balance sheet, which is consistent with our solid investment-grade rating.

With this EUR963 million free cash flow, we then have a limited impact from M&A in fiscal year '24 with some cash out especially for the acquisition of Ace Beverage, offset by the disposal proceeds of Clan Campbell and Becherovka. There is the execution of the share buyback for EUR300 million and a dividend payment in line with our policy. Our leverage ratio is to improve as reported profit from recurring operation growth normalizes.

Our commitment is to long-term shareholder value creation, and we are proposing a dividend per share, which is flat versus last year of EUR4.70 per share, fully aligned with our financial policy. And finally, I can reiterate our financial policy, which outlines our capital allocation priorities, which I believe you know.

So while maintaining investment-grade rating, our first priority is to invest in future organic growth, in particular to strategic inventories and capital expenditure. We will continue active portfolio management, including value-creating M&A, dividend distribution at circa 50% of debt profit from recurring operations, aiming at consistently growing dividends, and last priority, share buyback when the above priorities are fulfilled.

And then back to you, Alex, for the outlook.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

Thank you very much, Hélène. Again, I think it's important to start by reiterating our confidence in our medium-term financial framework, which is aiming for the upper end of our plus 4% to plus 7% organic net sales growth with 50 to 60 basis points of operating margin expansion. I'd like to say, by the way, my view is big and diversified is beautiful if big is agile. I think we mentioned the more -- the word agility a dozen times over this presentation. And I think that's been our focus over the last fiscal year, and we will continue to be in a volatile environment.

Now we're not in a position at this stage to give a formal guidance for the fiscal year. It's still too early. We barely started the fiscal year. We're in the month of August. The environment, as you know very well, is still volatile. But what we can say for this new fiscal year is that we do expect full-year organic net sales back to growth with continued volume recovery and to sustain our organic operating margin.

We do expect a soft first quarter with further inventory adjustments in the US, as we mentioned; a continued very weak macroeconomic context in China; and a very good performance in the rest of the world. On that note, and before handing back to Florence for Q&A, maybe a last little video.

(video playing)

Florence Tresarrieu Pernod Ricard SA - VP - Financial Communication and IR

Let's now turn to the Q&A session. Thank you, Alexandre and Hélène. (Event Instructions) So operator, if you can open the Q&A session, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Sanjeet Aujla, UBS.

Sanjeet Aujla UBS AG - Analyst

Hi. Good morning, Alexandre and H el ene. A couple from me, please. Firstly, can you talk a little bit about the pricing environment in the US? I think we spoke a couple of quarters ago about the landscape maybe becoming a little bit more challenging, but I'd just love to get an update on what you've seen over the last few months through summer on the pricing and promotional environment and how you're responding to that.

And my second question is really around the potential for tariffs on cognac in China. Are you embedding anything there in your outlook? And what's your latest understanding on any potential timing on anything that might happen there? Thank you.

H el ene de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

Thank you. So I will start with your first question about the pricing environment in the US. So as we mentioned in the second half of this year, '24, it's fair to say that there has been a kind of acceleration in terms of promotional intensity in the US, probably starting at the end of O&D.

So we're amplifying as soon as January '24. And this is still the environment that we are facing in the US. So there was some probably acceleration of that in Q4, meaning that there were some volume -- slight deterioration. I'm talking about the market in Q4, which was not offset by price mix, probably because of this intensity of promotion activity. This has slightly improved in terms of momentum in the summer. So I would say quite consistent with what we shared before in terms of environment on that front.

As far as Pernod Ricard brands are concerned, so we are obviously very closely monitoring the performance of our brands and the pricing of our brands, state by state and channel by channel, to make sure that we are at the right place in terms of brand positioning versus key competitors. So this is already something that we've been accelerating back at the end of December '23 and accelerating as well in the spring, so this clear focus on pricing of our brands, revenue growth management, and activation of our brands in the weeks and months to come.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

On your second question, so on the anti-dumping investigation, it is still work in progress. In other words, we're still answering questions and so on and so forth. So the investigation is still ongoing. As to will there be an increase in trade tariffs, and if so, when? My answer is I have absolutely no idea. Maybe two things on that front: number one, we firmly believe we do not do any antidumping, but we are fully collaborating, and we'll see what is needed to be seen.

But to therefore directly answer your question, to go back to my comment regarding big and diversified is beautiful, the reality is we do believe we can deliver full-year net sales growth this fiscal year despite a very weak environment in China, irrespective of the trade tariffs issue, by the way, because demand is quite weak in China. We believe China will probably follow the same trends as this past fiscal year. This past fiscal year, China was down 10%. But despite that, we do believe we can grow the business globally. Because at the end of the day, we're very diversified from a geographical point of view.

Operator

Simon Hales, Citi.

Simon Hales Citigroup Inc. - Analyst

Thank you. Good morning, Alex. Good morning, H el ene. Good morning, Florence. I mean, firstly, Alex, could I just follow up on your answer around China that's just so I'm 100% clear? You're obviously talking about sales for 2025 being down around the 10% level again this year. So you're not building any assumption of any incremental tariffs in China at this stage into that forecast? Is that how I should think about it? And therefore, if there was to be a tariff, clearly, your sales outlook for 2025 could be worse than that minus 10%, give or take?

Secondly, just around Europe. Clearly, a number of your peers have talked about an increasingly promotional environment in Europe as we've come into the summer months. Is that something you've been seeing? Is there anything you could share there? And maybe if I could just squeeze a quick one for H el ene. H el ene, could you give us any guidance at all around finance costs and FX for fiscal 2025, please?

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

So listen, on your follow-up question on China, again, I think that the real topic for this fiscal year in China is the weak consumer demand. And I also believe that irrespective of tariffs, I'm not talking about a potential impact, we believe that thanks to the rest of the world, which, by the way, represents 90% of our top line, we can drive net sales organic growth with volume recovery and protect our operating margin. I cannot comment further on the trade tariffs, specifically in China.

On Europe, well, since all the inflation and price increase, which were driven across the market, now there's been -- normalization is behind us. It's fully normal. And everybody is back to regular, I would say, promotional strategies. Some might be a bit more aggressive than others. Again, we're pretty happy with our performance across Europe with market share gains in most -- not all, but most European markets.

H el ene de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

Two last questions. So first, cost of debt. So we were at 3.2% in fiscal year '24, coming from 2.7% in fiscal year '23. Our expectation for fiscal year '25 is closer to 3.5%. And this is clearly the implication of the most recent refinancing, which will lead us to this cost of debt. For FX, we don't give any guidance on that front. It's a bit early. It could be slightly negative. But again, a bit early. As soon as I have more visibility, I will share that, obviously.

Simon Hales Citigroup Inc. - Analyst

Very helpful. Thank you.

Operator

Laurence Whyatt, Barclays.

Laurence Whyatt Barclays Investment Bank - Analyst

Good morning. Thanks very much for the questions. A couple for me, please. Firstly, in China, one of your competitors mentioning they're expanding into more southern cities, I'm just wondering if you're seeing any increased competition from that. Is there any real impact from their expansion?

And then secondly, on the US, you sort of mentioned it's going to be a weaker full year with a very difficult Q1 due to reduction of inventories. Just wondering how long you think that reduction of inventory is going to last for. Is that just the first quarter, or do you see that persisting longer into the year? Thanks very much.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

Thanks. For China, right now, again, I do think that the main issue is a consumer issue and very weak demand. And in that very soft environment, we have gained share across the board, by the way. We've maintained, even though we've adjusted, of course, our marketing investments in China -- they've been adjusted, but we're still investing much more efficiently by the way, behind our brand

equities that are growing and becoming stronger over the last year.

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

So for the US, thanks for the questions, that's going to help me to clarify our expectation for our fiscal year '25. So what you mentioned about Q1 is really linked to inventory adjustments, I would say, rather technical. But obviously, on a quarter, that could have some significant impact.

By the way, we were already highlighting that at the end of fiscal year '24. We have landed the year with a level of inventory, which is in line with the historical leverage. It's slightly lower in terms of value, but that's why we believe there could be additional inventory adjustment, mainly at the wholesaler level, that could materialize in Q1 in a market which remains a very attractive market.

The market has been growing in fiscal year '24 at circa plus 2%. We believe this environment will remain very valid in fiscal year '25, and we intend to improve our performance in terms of sellout, gradually improving that momentum across the year. So fair to say that the shipments will likely be below the sellout because of this inventory adjustment. But I would not call it a weak outlook, I would say, to the US, but quite technical in terms of inventory adjustments.

So then obviously, this strong confidence on the ability of the US market to be back to mid-single-digit growth, which has been -- this is performance for probably more than 20 years in average. The timing of that is obviously quite difficult to be super specific about, because as well, it's linked to other factors like the higher rate environment, which is likely to move in the coming months.

Laurence Whyatt Barclays Investment Bank - Analyst

Thank you for the clarification. Just on the -- you mentioned the US going back to mid single digit, but timing uncertain. Do you still expect China to get back to the high single-digit, low double-digit range that you mentioned at the interims?

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

We believe in the potential of China. This is a must-win market. We have a very strong portfolio of brands, very strong market share position, protecting and even improving that market share position, a very strong pricing policy there. So the current challenging environment is very much linked to macroeconomic environment, but that doesn't change our confidence that this is a great potential and a great competitive asset for Pernod Ricard in the future.

Operator

Andrea Pistacchi, Bank of America.

Andrea Pistacchi

Yes. Hi, Alex. Hi, Hélène. Two questions. The first one, again, on China, please. Now you've been very clear that the issue is the macro and the consumer environment. Can you maybe just give a bit more color on sort of what you're seeing in the environment in terms of channel performance, what you're expecting through the year in terms of channel? Is it much the same as what we've been seeing in the last 12 months?

And also, you -- on China, you highlighted double-digit growth for brands like Jameson, Absolut, Olmeca. How do you expect -- I mean the consumer environment is tough. So how do you explain the very different performance versus cognac? Is it just that these are, of course, much smaller or the different channel exposure or lower price points?

The second question, please, is on margins on the medium-term ambition. You're reiterating your confidence on the medium-term framework, 50-, 60-basis-points margin. So when you think of the margin drivers for the next two or three years, do you see anything different from what has driven margins in the last few years? Mainly, I'm thinking in terms of pricing, efficiencies, or potentially other

moving parts? Thank you.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

So listen, on China, from a channel point of view, the off trade is very weak. And by the way, we've seen it at Mid-Autumn Festival, and we've seen it again at Chinese New Year. But the on trade is better than the off trade, but as well is suffering likewise.

On your question regarding our premium brands portfolio, again, bear in mind that there is a channel which is growing very rapidly, which is what we call the live venues, which are these kind of neighborhood bars with a music band. They're very accessible. You have a broad portfolio of brands, and you can buy by the glass. And so it's affordable as well versus very elitist, high-end luxury-driven venues.

So of course -- and given the very, very low penetration of these kinds of spirits in China, there is a scope for growth. So it's because they're part of a channel which is clearly expanding live venues, and they're very accessible and accessible by the glass, not by the bottle and at very, very affordable prices. That being said, for very premium brands -- and as for the margins?

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

For the margin, so of course, everything starts with the top line. So back to your question, it's true that recently, a big driver of top-line performance has been price, much stronger than in average before the pickup inflation. This was obviously critical to offset the impact on COGS at this inflation. And we believe we have the right portfolio of brands, meaning in terms of strength of the equity of the brand to put in place this type of price increase.

Now things are moderating. And we expect in the near future, starting in fiscal year '25, to have more, I would say, drive from volumes recovery. Because obviously, pricing has been quite strong, but volumes were a bit softer in fiscal year '24. So for the near future, I would say, our expectation is that the top line will be, first, still fully benefiting from premiumization trends, which is very valid in many geographies and for which we believe we have the right portfolio with a better balance between volume, price, and mix.

This will be obviously very important to have set COGS increase, which we believe is moderating because of the moderation of inflation, but which is still the growth that we need to obviously manage through pricing, premiumization, and as well operational efficiencies. But I'll name a few for fiscal '24. There's more to come in fiscal year '25. So this will lead on top of the very agile resource allocation, both in terms of A&P and strict discipline on structure costs through organic margin expansion in the midterm.

Operator

Olivier Nicolai, Goldman Sachs.

Olivier Nicolai The Goldman Sachs Group, Inc. - Analyst

Bonjour, Alexandre, Hélène, and Florence. I got two questions, please. First, the short term in India, when could we expect a resolution regarding your Delhi license? And then secondly, going back to the medium-term guidance, you've maintained your EBIT margin expansion objective of 50 to 60 bps after a few years of really good margin improvement already. Where do you see the biggest area margin upside in terms of regions or perhaps in terms of lines? And then should we assume that we still see a steady 16% R&D spend in the midterm by guidance?

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

So for the Delhi license, there were some more recent developments in the summer, which was a rejection of the appeal. And we are pursuing the request to renew the license in court. So difficult to be more specific in terms of timing. This is really up to the

judicial system in India. When it comes to our performance, it's not going to impact the fiscal year '25 performance because the last quarter which was impacted was Q1 in fiscal year '24.

In terms of midterm guidance and margin, I believe I already mentioned in the previous question most of our strategy there. So it's all about premiumization. Strong performance of our portfolio, which is very skewed to the premium part of the market and the right footprint as well in terms of geographical location. And I'm not sure I need to add anything to that.

Olivier Nicolai *The Goldman Sachs Group, Inc. - Analyst*

Thank you.

Operator

Celine Pannuti, JPMorgan.

Celine Pannuti *JPMorgan Chase & Co. Inc. - Analyst*

Good morning, Alexandre, H el ene, and Florence. So my first question is on the outlook for '25. So you expect sales to return to positive. Price mix was plus 1% in fiscal year '24. And I presume there was still some benefit of pricing that you put throughout the year prior.

So I just want to understand whether -- first of all, could you give the price and the mix within that? And should we expect potentially this to be flat to even negative as we look into fiscal year '25? And yes, therefore, my follow-up question to just what you said was whether gross margin will continue to expand as well in fiscal year '25?

And then my second question is on the mid-term outlook. Alexandre, you reiterated that you are confident in growing -- you are confident on the -- reaching the upper end of 4% to 7% in the midterm. But you also mentioned that there were some extraordinary years post COVID, which benefited the spirits industry. And I think during those years, this midterm outlook was given.

So I just want to -- if you could share with us your thinking in terms of how we reconcile what were extraordinary years and what is more midterm growth outlook for the spirits industry and how that fits the mid-term guidance that you have in mind? Thank you.

H el ene de Tissot *Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee*

So on your first question, so I'm not going to give you an exact view of what could be at stake in terms of growth between volume, price, and mix. I wish I know, but the environment is quite volatile. So what I know is that we have the intention to keep obviously, looking at price as a very important driver of top-line performance in an environment which is obviously moderating.

But I think you asked the question in fiscal year '24. The price impact was mid-single digit, positive mid-single digit, and that's likely to be lower in fiscal year '25 due to the environment. Having said that, we will, again, keep working hard on that pricing impact and revenue growth management everywhere. In terms of mix, again, a bit difficult to be more specific because this is obviously as well quite much driven by market mix, which was negative in fiscal year '24, as I guess you know.

So gross margin expansion, I think what matters is that at the end of the day, we believe we have the right strategy. And by the way, the confidence brought by this fiscal year '24, strong performance in terms of operating margin expansion, which is giving us the right, I would say, confidence for fiscal year '25 to sustain organic operating margin, but I cannot go through what will happen in gross margin.

And then in operating margin, which you can trust we will focus on, is everything we described in terms of revenue growth management and pricing. We have lots of initiatives in terms of COGS to reduce the COGS increase, for which the environment could be probably quite different from what it was in fiscal year '24.

Because in fiscal year '24, we had some, I would say, a sizable increase in terms of wet goods as well in terms of cost of manufacturing because of the volumes' softer trajectory, but some strong initiatives that help us to manage dry goods increase and

as well some benefit in terms of lower freight cost, where the year before was very high.

So in fiscal year '25, a bit too early to say, but there's a lot that is happening that will help us to manage the COGS increase, which is likely to increase again in '25. So not a tailwind at a COGS level. But then that is really the power of our premium strategy, the strength of the portfolio, and of our footprint.

When it comes to the geographical performance, again, I would like to insist that fiscal year '24 has been a quite solid year. We are growing, excluding Russia. This is a lag that we will not have any more in fiscal year '25. And as we mentioned, as well starting in Q1, we will deliver a good performance in the rest of the world, which is something which is already very solid and visible in our fiscal year '24 performance.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

And on your second question, before the pandemic, our past two-year trend was 6%. So in 2018, we grew our top line by 6%. In 2019, we grew our top line by 6%, then came the COVID pandemic. So it hit us, travel retail and so on in the on trade, so we were down 10%. Immediately cut up the following year, up 10%, bringing it back to -- rebasing back the business to its theoretical normal trend. And then came that post-COVID super cycle of plus 17% year one, and plus 10% year two, which were exceptionally fast-growing years.

And I think the word exceptional is important. We spoke about revenge conviviality, people going back in the on trade, people taking flights again, et cetera, et cetera. Now at the end of the day, that medium-term framework is based on what we call consumer insight-driven fundamentals, including, by the way, socially driven fundamentals, including demographics, LDA, population, and so on. I mean, it's big piece of work that has been done and is based on a number of algorithms that we obviously have shared with you, which we believe fundamentally have not changed.

We do believe, H el ene mentioned it earlier on, the US will get back at some point in time to its historical trend of, whatever, 4% or 5%. We do believe -- H el ene mentioned it as well, but China's long-term profile is a strong growth profile of high single digit. Back in the past, we've had that kind of volatility in China. We do believe -- I mentioned it that India is a high single or maybe even a low double-digit growth market.

No need to talk to you about travel retail, where travel retail passenger traffic is now far and above its pre-pandemic levels. Remember, in 2020, people thought it was the end of travel. The softness there is basically related to Chinese travelers. We've been quite impressed by the resilience of Europe. And I have to say, Africa, Middle East is starting to materialize in terms of size as a very serious growth really for the group. It's already playing this role.

So I don't see why pre-COVID dynamics of the upper end of that 4% to 7% range should not be the case going forward based on all the insights that we're getting. And again, the headwinds of this year -- despite these technical headwinds for most, we have grown, excluding Russia. So yes, we feel very confident of hitting that high end of the range, and again, thanks to a very diversified profile, both from a geographical standpoint and from a portfolio standpoint.

Celine Pannuti JPMorgan Chase & Co. Inc. - Analyst

Thank you.

Operator

Edward Mundy, Jefferies.

Edward Mundy Jefferies Financial Group Inc. - Analyst

Good morning, Alex. Good morning, H el ene. I appreciate -- it's a little bit too soon to be giving a guidance as the fiscal year's just started, but you sound pretty confident at this stage of an inflection with sales coming back into growth despite the softer first quarter. You grew 1% in fiscal '24, ex Russia. Is it overly simplistic to think about 1% growth in fiscal '25, or are there any other

green shoots that you'd want to point to? That's my first question. And the second question is on this topic of agility. What are you doing differently in both China and the US as you adapt your business to come out stronger?

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

Okay, so thanks for your questions. You started the right way, which is we cannot be more specific at this time of the year. So difficult for me to be more specific in terms of what to expect. But let me just repeat, this back-to-growth expectation and intention for the year in terms of top line is as well very consistent, by the way, not only with what we did in fiscal year '24, excluding Russia, but with as well the continued volume recovery, which materialized in fiscal year '24. Volumes were growing in H2 by 3% in many geographies. So that's why we are able to share that intention and ambition for the year at this time of the year.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

On your second question, which is absolutely key, I'll give you a very tangible illustration of what has happened over the last fiscal year. China marketing investments have been revisited. And that revision benefited the US market where they have been revisited the other way around. So we basically decreased a little bit in China and increased accordingly in the US.

So some underlying changes allow us to do this in a very swift and agile way. First of all, we now have what we call a rolling forecast put in place. So basically, very regularly during the course of the year, we have assumptions for the next 3, 6, 9, and 12 months. And based on the diversions of these assumptions over time, we then make decisions of reallocations and so on and so forth.

A year ago, I was announcing a new organization and a new governance with the suppression of the regions, the creation of these management entities, which means that at headquarters, we're much closer to the business, which means that when China told us, listen, we need to revisit our assumptions, we knew immediately.

And by the way, with the new governance in place with market companies and the brand codes, and in between, by the way, the operations, we made calls quite quickly. And that's just one example, but speed of decision is really important. And we now have the tools, the organization, and the governance to facilitate this.

Florence Tresarrieu Pernod Ricard SA - VP - Financial Communication and IR

So we're going to take our last questions.

Operator

Chris Pitcher, Redburn Atlantic.

Chris Pitcher Redburn Atlantic - Analyst

Thank you very much. A couple of questions for me. I mean, firstly, on capital employed. I mean, your strategic inventories were higher than we were expecting this year, which I expect is a function of weaker sell through. I appreciate you mentioned CapEx is going to remain high, but should we expect lower investments in strategic inventories this year, even within your committed purchases of ODV helping protect some cash flow?

And then just secondly, following up on the China tariffs point, I don't know if you've had it flagged to you yet, but there has been a MOFCOM announcement just out saying they're not going to impose tariffs for now. I don't know if you've had time to read it and contemplate it. Does that affect your outlook for China given there seems to be a stay of tariffs there? Thank you very much.

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

Okay, so first question on strategic inventory. So you're right, this year, the increase, and I think I mentioned it, has been largely due to lower usage, which is linked to the volumes at fiscal year '24. You need to keep in mind that first, this is obviously a very strategic asset for us in terms of competitive advantage.

Because this is the, I would say, the translation in terms of balance sheet of the strength of our portfolio, meaning the aged part of the portfolio, which is more than 60% of our portfolio. So a close monitoring of strategic investment is absolutely critical to protect the future business growth. So this is something that we are closely monitoring. And obviously, if there is some adjustment to take, we are looking at it.

But in that context -- which means we don't want to overreact to short-term volume, I would say, volatility that could then undermine the potential of our beautiful portfolio of aged products. For your second comment, I think it happened during the call. So maybe just to repeat that -- this expectation for fiscal year '25 is assuming very weak macro context in China, again, which is more linked to macroeconomic weakness and the impact on the consumer confidence. So I think it remains very, very valid.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

I would just say, given what you said in your question, you mentioned for now. So I would remain very prudent.

Chris Pitcher Redburn Atlantic - Analyst

If you could confirm that because the difference between actual translation and Google translation is difficult. There was -- the headlines are saying now, and it reads as if it is for now. So if you can confirm it to stay rather than they're stepping away completely?

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

Listen, it's brand-new news, as you said. So at this stage, I'd rather not comment.

Chris Pitcher Redburn Atlantic - Analyst

Understood. Thank you very much. Apologies for dropping it on you, by the way -- thank you.

Operator

Trevor Stirling, Bernstein.

Trevor Stirling AllianceBernstein Holding LP - Analyst

Hi, Alex, Hélène, and Florence. Two questions on my side, please. The first one, returning to the US, Alex, Conor has had several months now, probably a bit more than six months, in the US. What changes are you undertaking in the US that you can share with us to address that context? And I suppose the second one then, I'm intrigued, Alex, you highlighted that you have now got the ability to increase in terms of number of brands you can activate in any one country from 6 to 8 to 15 to 20. What is it you've done that has given that big increase in organizational capability?

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

Sure. Well, listen, from a strategic standpoint right now in the US, not much change because the strategy is quite clear. The real opportunity, I would say, that Conor is clearly working on and has started working on six months ago is the execution of that strategy and the excellence in execution thereof.

So bringing to life all our brands with that portfolio strategy, which was already set up with a bigger balance between the off-trade and the on-trade activation, which is clearly stepping up from that point of view with basically the allocation of the resources which have grown coming from other markets, as I mentioned earlier, allocated both to some of the big power brands, including Jameson, of course, but as well Malibu, Glenlivet, and Absolut but also the very strong growth relays starting with Codigo, Jefferson, and Skrewball, just to mention a couple that I could mention a few more indeed.

Which brings me, by the way, to that second very critical point. That digital transformation journey we're on is all about leveraging this tech and data to be able, number one, to indeed activate a lot more brands because we have precision at scale, thanks to algorithms that help us do that and help us understand what threshold levels and what consumer touch points by brand, which is generating, by the way, additional efficiencies on the same amount of money invested, which can be reinvested across more brands efficiently. So today, what tech and data is allowing us to do is to free up additional A&P money, number one; and number two, help us focus on many more brand activations.

Florence Tresarrieu Pernod Ricard SA - VP - Financial Communication and IR

Thank you very much, Alexandre and Hélène. And this concludes our Q&A session. Thank you to all of you and have a good day.

Hélène de Tissot Pernod Ricard SA - EVP - Finance and IT, Member of the Executive Board, & Member of the Executive Committee

Thank you.

Alexandre Ricard Pernod Ricard SA - Chairman of the Board, CEO, Member of the Executive Board, & Member of the Executive Committee

Thank you.

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