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PERP.PA - Half Year 2023 Pernod Ricard SA Earnings Call

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## PRESENTATION

**Florence Tresarrieu** - *Pernod Ricard SA - Global Senior VP of Investors Relations & Treasury*

Good morning, everyone, and welcome in Paris for our FY '23 half year results and sales presentations. So we're going to start with a presentation from Alexandre and Helene, followed by a Q&A session. Alexandre, over to you.

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

Well, thank you very much, Florence, and good morning to all of you for our first half fiscal year '23 sales and results. And let's dive quickly into them. Well, first of all, we've had -- we've enjoyed a very strong first half, with reported sales growth of 19% and reported profit from recurring operations of plus 21%.

From an organic point of view, both our sales and profits grew 12%. Now beyond these numbers, which we believe are very strong, I would like to stress the quality of these numbers. Number one, these sales are really broad-based and diversified, which basically is the consequence of a pretty resilient consumer demand, the continued premiumization of our brands and portfolio and the growth coming indeed from all regions, and we'll see this in some detail later on.

I think the other important message is we sustained our margins. And I think that is absolutely important in what we can qualify as a high inflationary environment, and this is driven by a plus 10% price effect, while leveraging revenue growth management initiatives that have been boosted by our digital transformation, in particular, a key digital program called Vista Rev-Up for revenues going upward. Our volumes have enjoyed a growth of 3%.

And of course, to maintain and sustain our margins, we've also worked quite heavily on efficiencies across all operations. We keep on investing in sustainable future growth. Number one, we've invested behind our digital transformation quite significantly. Our marketing investments have been enhanced by our key digital programs. We have an example or 2 later on in the presentation.

We keep on investing in CapEx, and you've all seen all of the announcements we've made over the last 6 months, in particular, in Scotland, in Ireland, in North America. But we keep on investing as well in China behind our distillery in particular, our aging facilities to build our strategic inventories and drive or fuel future growth. And finally, of course, active portfolio management.

Well, one of the big objectives is obviously to create long-term shareholder value. If you look at our 5-year annualized total shareholder return, it's 11%. And we are confirming this morning the higher end of the range of our share buyback for this fiscal year of EUR 750 million, of which we've already carried out EUR 150 million over this last first half.

So these are the big highlights of our first half. I won't do all about these numbers. We'll come back into most of these in more detail in a few minutes, including with Helene. But as I was mentioning, I think the quality of the growth is the fact that it is broad-based. It is coming from all regions. You see the Americas region with organic sales growth of plus 7%. You see Europe with organic sales growth of up 6%. And the Rest of the World-Asia growing by 18%.

By the way, we have a pretty balanced footprint -- global footprint with Americas representing today 28% of our business. Europe as well, 28% and Asia and the Rest of the World, 44%. We've also mentioned the 3-year CAGRs. Why? Because it's probably the last time we'll mention them because 3 years ago for that similar first half, that was just before COVID. That was the July to December 2019, which was our 2020 fiscal year period. And if you look at our 3-year CAGRs, overall, for Pernod Ricard, our top line 3-year CAGR is 9%, somewhat above, by the way, the 4% to 7% framework behind our Transform & Accelerate strategy.

And if you dwell into the regions, you'll see that the 3-year CAGR in Americas is 9%, more recently driven by high single-digit pricing. If you look at Europe, the 3-year CAGR is up 7%, by the way, which is very strong, driven more recently by low double-digit pricing. And finally, Asia-Rest of the World with a 3-year CAGR of 9% and more recently, driven as well by low double-digit pricing.

So broad-based growth coming from all regions, but also diversified growth across all spirit categories. I think here, the important metric from my point of view is you have 6 categories, which is quite a lot, driving roughly 9% of the growth. You see here, the Scotch category, which has grown 23% with low double-digit growth across the portfolio.

You have Irish Whiskey as well, growing 20% with low double-digit growth across the portfolio. Cognac and Brandies growing 4% driven as well with double-digit growth. Vodka grown 16% with high single-digit growth, 7% on Absolut, for instance. Gin growing 15% with high single-digit growth on pricing. And finally, Seagram whiskies growing 12%.

So really diversified growth as well across all spirit segments. A quick mention on our Specialty Brands portfolio, which we've been nurturing quite carefully, which we've been building as well, in particular, through M&A. That Specialty Brands portfolio doubled its weight in our business over the last 3 years, growing on average 22% per annum since pre-COVID levels.

This last first half, that portfolio grew 14% with some quite impressive growth numbers. Lillet, up 43%; Malfy up 23%; Aberlour, up 15%; Redbreast, 24% and so on and so forth. I think again, that Specialty Brands portfolio, which was introduced in 2018 as a growth relay for Pernod Ricard is most definitely delivering the results.

Now it's important to invest behind our brands. And as I was mentioning earlier on, we've accelerated our investments behind our brands, boosted as well by our digital transformation from an A&P point of view at Matrix. Just to mention, we've significantly accelerated A&P investments in the U.S. by above 200 basis points.

In particular, during the OND, October, November, December festive season in the U.S. We've also increased our investments -- marketing investments in Europe by 77 basis points. We've been quite agile in resource management, for instance, and we'll talk about it later. We've decreased our A&P investments in China during the course of Q2, completely related to the COVID restrictions. If people are at home, it's why invest in out-of-home advertising, for instance. So brand equity is absolutely clear.

I mentioned Matrix but also from a pricing point of view, we've really, really improved our value conversion through some very strong revenue growth management initiatives, which have been boosted by Vista Rev-Up, which is now being deployed. By the way, our premium plus portfolio, which represents more or less 80% of our business has also delivered 80% of our growth, the rest coming principally from our Seagram's whiskies.

From a pricing point of view, I think it's important to show how proactive we've been. So inflation kicked in at the end or towards the second half of our last fiscal year. And this is where you saw pricing increase to mid-single digit for the second half of fiscal year 2022 from January to June 2022.

Then in Q1, our pricing, so over July, August, September of 2022, pricing was up 7%. Finally, for this first half from July all the way through to December, pricing is up 10% to compensate for inflation and, of course, maintain and protect our margins.

Just a couple of examples, and I will not dwell into them, but Matrix is really driving efficiencies. And you see here the U.S. contribution of Media to Net Sales increasing threefold. Thanks to our key digital marketing program, which means in some specific cases, if I take ROI on Jameson, media advertising, up 40%.

Likewise, our D-Star key digital program, which is all about our sales force activation. You can see that it allows us to really focus on the outlets that really matter where we can accelerate our market share gains. So this as well has boosted our performance over the first half.

We continue to premiumize our portfolio through innovation, in particular. Here you have a number of examples. Through the acceleration of our prestige portfolio, I'll mention Royal Salute, which over the first half is up strong double digit, 37%, if I'm not mistaken.

And also through partnerships and acquisitions, if I mentioned our partnership with Sovereign Brands, or more recently as well with Codigo Tequila, in both cases, increasing our footprint in the U.S. market and in some pretty dynamic categories.

Well, I couldn't present these results without having a special mention to our teams around the world behind these numbers, behind the quality of the performance of -- the financial performance of our group, while we have teams of women and men that are extremely highly engaged, that are working heavily day in, day out across all functions to carry out and deploy our transformation to deliver these results, and I just wanted to pay a special tribute to them.

To their extremely high level of engagement and it's something that I feel very proud of. I believe I'm lucky to have amazing teams, and we're here to invest behind them. It's very important. Of course, sustainability and responsibility is embedded in everything we do. You probably saw over the last few months, the significant investments we're making behind some of our distilleries because we have a vision, a clear vision, and we will achieve it, of a carbon-neutral future, in particular, when it comes down to distillation.

I could talk about the packaging of the future, about new initiatives regarding responsible consumption. I could have a focus because this is going to happen this year. When exactly? I don't know. The teams are working hard on that, but which is about the e-labeling, having QR codes on every single bottle in Pernod Ricard, which will give access to consumers around the world to everything they want to know on our brands.

If we dive very quickly into our sales, starting with our must-win markets, U.S.A., up 5% for the first half. That's a 3-year CAGR of 7%. We can qualify that first half of solid in a normalizing market with no surprise, as we mentioned during Q1. During COVID, the market was growing above its usual 4% to 5% rate.

As it normalizes, we believe, by the way, the market currently trends around 3-ish just like us, by the way, from a depletion standpoint. We've had and we've carried out some strong pricing across the portfolio in the first half. We intend to continue to do so in the second half. And we could underline the strong performance of Jameson and Jefferson's, but also the solid growth of Malibu, Kahlua and Beefeater.

And the strong -- the continued strong development of our RTD performance, as you can see, there's been some phasing between 5% shipment and 3% depletion. Obviously, this will cost correct during our third quarter.

China, up 4%, slightly as well boosted by a little bit of phasing ahead of Chinese New Year as always, but a good 3-year CAGR, up double digit at 10%. We feel quite confident about the immediate future in China with the very welcomed lifting of COVID restrictions. Obviously, these COVID restrictions did impact us in our Q2 for China.

So Q1 was a great Q1, driven by a very strong Mid Autumn Festival. But then Q2 was disrupted by the COVID restrictions. We've driven some very strong pricing across the whole portfolio in China. We are continuing to widen our market footprint with a pretty strong growth of our growth relays. In particular, I think we can underline the very strong performance of The Glenlivet and Absolut.

As I mentioned, H1 has been favorably enhanced by advanced shipments ahead of Chinese New Year, which, frankly, was soft, impacted by a low footfall because the lifting of the restrictions happened a little bit too late ahead of Chinese New Year. But as we can mention it here, we strongly anticipate good consumer optimism going forward, starting as of February, quite clearly.

Global Travel Retail, up 36%, pretty well on track to deliver exactly the same level of profit that Travel Retail delivered just before COVID. We are currently trending at 80% in terms of net sales versus pre-COVID levels. And again, strong pricing across all Global Travel Retail across all the portfolio, in particular across our Scotch portfolio.

Finally, India, a 10-year CAGR -- a 10% 3-year CAGR, which grew 17% over the first half of this fiscal year, with continued premiumization momentum, obviously, across our Seagram's whiskies with some mid-single-digit pricing but also mix with acceleration on Blenders Pride and Royal Stag at the expense of Imperial Blue.

And finally, as well, not to forget the strong momentum of our strategic international brands, in particular, Jameson and our Scotch portfolio and finally, Absolut Vodka. Very briefly, of course, Europe 7% 3-year CAGR, which is, in my view, a very pleasant surprise, up 6% over this first half, really excellent performance with as well very strong pricing across the region.

Modest growth in France with a particularly good momentum on Ricard with great marketing initiatives behind the brand, where we're starting to see the returns, double-digit growth in Spain with the rebound of the on-trade. Good growth in the U.K. on spirits, in particular, on Absolut, Jameson, Malibu and Martell. And finally as well, good growth across all channels in Germany.

In Americas, more generally speaking, which does include Travel Retail and the U.S. You see 7% over the first half, 9% CAGR, as I mentioned it. High single-digit growth in Canada. Very strong growth in Brazil or as well in Mexico. And Asia-Rest of the World, as I mentioned, up 18%. Strong growth in Japan. Very strong growth as well in Korea. A good rebound as well in Taiwan and more generally speaking, Southeast Asia and a continued very strong momentum in Turkey.

I won't dive into this slide. You've already seen most of the numbers. Again, we do believe in the power of our premium brands portfolio and in the fact that the growth is really coming across all categories of our portfolio. From a brands point of view, I think it's great to see Jameson, up 19%. By the way, the 3-year CAGR is up 14% on average every single year over the last 3 years. We could even go beyond. That's the most recent trend. So that, again, it's a broad-based growth with all key markets growing and as well innovation, which is doing pretty well, very well. In fact, Jameson Orange part of that success. And Black Barrel, continued strong performance there.

Strong pricing across the world as well. So very strong performance in the U.S., in Europe, in Travel Retail, across sub-Saharan Africa, in some Asian markets, in Latin America and with a very strong campaign, which is currently being rolled out.

Scotch portfolio, up 23%, and you see the 3-year CAGR, up double digit as well with particularly strong performance of Chivas. So you see Chivas, up 34% over the first half. Royal Salute, I wasn't wrong, I remember , so up 37% Royal Salute. Ballantine's up 17%. Glenlivet, up 12%, perfectly in line which is -- with its ongoing momentum of, on average, 12% growth every single year.

Absolut, 16% growth, of which 7 is driven by pricing. Over the last 3 years, the brand has grown 8% per annum on average. The growth is broad-based and despite a pretty high comparison basis across all markets, in fact, Western Europe is in double-digit growth. You see a strong development in LATAM, India and China. A pretty solid rebound in Travel Retail, like the rest of the portfolio and stable depletions.

In the U.S., Martell, up 3%, 4% 3-year CAGR, very strong pricing, perfectly in line with our value strategy. You see strong double-digit pricing in China. We had a great Q1, as I mentioned, driven by an exceptionally strong mid-up in festival, followed by quite a soft Q2, as I mentioned, due to COVID restrictions. GTR was impacted by COVID in Hainan, as you all know.

H1 in the U.S. was somewhat soft, but we see continued very strong development for Martell in Africa/Middle East, notably in Nigeria and of course, a rebound in China in the months to come starting February. More generally, the rest of the brands, you see here Beefeater, Ricard, as I mentioned, great to see the momentum behind Ricard in France for the second year in a row ever since we -- we came up with the new great campaign, Born à Marseille, in Marseille, Ricard up 10%. I won't go more into detail there. And I think it's now time for me to pass le baton to Helene.

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

Thank you, Alex. Good morning, everyone. So let's have a look at our financial performance. So let's start with the profit from recurring operations. The numbers have been already shared, obviously, with a reported growth of plus 21%, organic growth of plus 12%. One of the key achievements from a financial point of view in this first half is our ability to sustain margins. And this is, thanks to the very dynamic top line, but as well as strong pricing, excellent revenue growth management initiative and obviously, a focus on operational efficiencies.

So you see here the gross margin, which is slightly growing, plus 5 bps, thanks to these efforts that has been deployed to protect the margin in an environment where we are suffering from high COGS inflation. This was expected. We had as well the low comp last year in H1, but I must say we expect this pressure in terms of COGS to remain for the year.

When you look at the A&P spend, so this is growing in line with the top line. There is some acceleration expected for H2 to achieve this circa 16% A&P to net sales ratio. I would like to flag that there is already some acceleration in H1, especially in the U.S. and in Europe, but as well as some adjustments in China to face the environment impacted by COVID.

We are investing behind our structure and especially to support the digital transformation. A strong favorable FX impact in this first half, which accounts for close to EUR 140 million on the profit from recurring operations.

Moving now to the earnings per share. So this leads into a very strong growth of plus 23%. Obviously, the profit from recurring operations is the main driver of this acceleration. In addition to the accretive impact of our share buyback program, which has been announced and which is to be carried over the remainder of the fiscal year despite the environment in terms of rates increasing significantly over the recent months. Our recurring financial expenses, increase has been quite limited, I must say. The cost of debt is increasing slightly to 2.5%. It was 2.3% for the full year 2022. And our tax rate is broadly stable.

So moving now to the group share of net profit, quickly, a significant increase at plus 29%. This is driven as well by the strong profit from recurring operations performance as well as some nonrecurring income from disposals. The financial expenses that remain stable with a limited increase in the recurring financial expenses I just mentioned. And a decrease in the nonrecurring financial expenses as we had last year, the impact of the debt buyback, the make-whole call, which we don't have this year. And taxes are increasing in line with the profit from recurring operations performance.

Moving now to the cash flow and debt, starting with the cash generation. So we are delivering in this first half a solid cash generation with recurring free cash flow at circa EUR 1 billion, which is decreasing by 28%. This is essentially driven by working capital, higher outflows given normalization of balance of payables. We are as well increasing our strategic inventories, which is obviously critical to support future growth of our 8 spirits, mainly whiskey and cognac.

Our CapEx are increasing at circa EUR 90 million if you exclude disposals, and there is an acceleration expected in H2, as this was already announced earlier in the year. And we have as well highlighted before, a limited increase in financial expenses.

So let's look now at the evolution of our net debt, which is increasing by circa EUR 1.1 billion, which is essentially at the back of a quite active deployment of our financial policy with significant M&A in this first half, notably in the U.S. and fast-growing super-premium categories with the increase in our minority stake in Sovereign Brands with very successful brands, Bumbu and Belaire and as well the acquisition of Codigo.

We have paid dividend for a bit more than EUR 1 billion, and we have as well started our share buyback program, which we intend to complete to the upper end of the range at EUR 750 million. The net debt-to-EBITDA ratio is now at 2.6, thanks to our strong profit from recurring operations performance and free cash flow as well as the agile deployment of our financial policy, which drives the maintenance of a strong balance sheet. Maintaining this strong balance sheet in the current volatile environment is a constant priority. This is obviously a backbone of our future growth. Back to you, Alex, for the outlook.

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

Well, thank you very much, Helene, very briefly. All no surprise, we clearly expect the context to remain volatile. And despite that, we are confident in delivering a strong performance for the full fiscal year. Driven by what I was mentioning, our global footprint and our diversified attractive premium portfolio. So number one, we do expect dynamic broad-based net sales growth, albeit, I think this is important to mention in a normalizing environment.

We'll continue to focus on revenue growth management and operational efficiencies to offset cost pressures in an environment which is still highly inflationary. We will keep our ratio as we did last year of A&P at circa 16% of our net sales and continue at the same time, disciplined investments in our structures, in particular, to deploy our digital transformation. We will sustain or we aim at sustaining our operating margin.

As you'll see, we accelerated investments in our CapEx and strategic inventories to fuel our future growth and thanks to our solid cash generation.

As Helene just mentioned, we're confirming the upper end of the range of our share buyback for EUR 750 million, of which EUR 300 million, a tranche of EUR 300 million to be launched quite soon. And finally, we do expect, based on the current exchange rates, a positive currency effect for our full year. Up to you, Florence.

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**Florence Tresarrieu** - *Pernod Ricard SA - Global Senior VP of Investors Relations & Treasury*

Thank you. Thank you, Alex and Helene. We're going to move now to the Q&A session. So please remember to state your name and company name before asking your questions. We're going to show a short video and then back to your question.

(presentation)

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) The first question is from Simon Hales with Citi.

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**Simon Lynsay Hales** - *Citigroup Inc., Research Division - MD*

A couple for me, please. Can I just start off on the U.S. Obviously, you highlighted there was some phasing in the first half, which will unwind as we move into Q3. And the one factor is do you expect shipments really to track depletions for the remainder of the year? Or do you see some risk that there is the possibility we see some further destocking later in H2 either at the wholesale or the retail level in the U.S.?

And then secondly, just continuing on with the U.S. You obviously acquired a bigger stake in Sovereign Brands back in October. Alex, I don't think you've spoken sort of publicly since then. I'd just be interested to get your take on what that acquisition really brings to the party for your business in the U.S. and beyond. And then just another question just on China, just switching gears. You talked about a soft Chinese New Year, but anticipated some pickup in trends as we move into February. Is that what you've actually seen in the first couple of weeks in February? And I was just wondering if you could give us any more color of the shape of the recovery you're seeing in recent trading there.

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

Well, thank you, Simon, for your questions. I'll let Helene answer the Chinese one, and I'll grab the first 2 on the U.S. and in particular, on Sovereign Brands. Starting with the U.S., yes, some phasing. As you've seen, our shipments over the first half are up 5%. Our depletions are up 3%. That's a 2% slight difference. By the way, just to be very clear, our global underlying performance, if we readjust for phasing in the U.S. and China, it's closer to 11% than 12%. It doesn't really change the big picture, but 11%, 12%, take or leave, that's 11% is probably closer to the underlying trend. The U.S. market is normalizing during COVID. During the last 3 years, the U.S. market has accelerated. As you know, the U.S. has historically grown on average 4% to 5%.

During the COVID crisis, that rhythm of growth accelerated closer to 8% -- 7%, 8%. By the way, we grew on average 7% over the last 3 years. We do believe that it is normalizing back to its historical trends of 4% to 5%. Right now, it's closer to 3% as it's normalizing by the way, in line with our depletion trend. And we have a clear policy and then, take or leave, given our forecasting accuracy rates, but our policy is quite clear. We want our June end inventory levels to be healthy, and we have metrics for that. And usually, shipments and depletion tend to be roughly in line, so that we finished the year as we should.

So from that point of view, there will be unwinding as you can -- as you mentioned it, just to make sure we finished the year in a very healthy situation, just like we started it in the U.S., by the way. This is just the midyear. We shipped ahead of October, November December festive season and ahead of some additional price increases in the U.S. So market is normalizing. As expected, timing of going back to 4% to 5% can be a couple of months, it could be 6 months. Frankly, I don't know, we'll see. But that's it.

For Sovereign Brands, yes, I think it's a great way as well to increase our exposure to the U.S. market. It's a radically different company from what we're used to do. They have -- they do have a great portfolio of brands, in particular, Bumbu and Belaire, and the partnership we've entered into with Brett Berish and his family, by the way, is quite an interesting one. They are increasing their development in the U.S. market. They're fully in charge of their route-to-market in the U.S. While at the same time, the Rest of the World is going to be managed from a distribution point of view by the Pernod Ricard route-to-market. So you're going to see increasingly all of our -- most of our affiliates distribute Bumbu, which has a very premium, very attractive positioning in the upper end of the rum range and as well in a number of markets, Belaire.

And finally, what this partnership, I think, has the best to offer beyond exposure to the U.S., acceleration for Sovereign Brand brands outside the U.S. is innovation with the new launch, which is going to take place in -- I already have a bottle. So it should happen in the next days or weeks of the Deacon, which is a super-premium scotch, which I invite all of you to go check the Deacon, its packaging and its positioning on Instagram. I think you'll enjoy it. So what about China, Helene?

**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

So China, obviously, the lifting of the restrictions is a positive. I'm sure we're not going to be surprised about it. Maybe let's just come back quickly to what happened at the end of H1 because it's true that Q2 has been severely impacted by COVID, the fact that this COVID restrictions has been lifted in December had as well triggered some peak of infection around end of December, probably to mid-January. So just a few days ahead of CNY. That's why CNY has been soft. And the full month of January has been quite soft. So your question was more around February. So the very -- recent trends are quite positive, I must say, starting from a very low footfall in the on-trade and in the off-trade in January because of the peak of the infection and many people being sick. And many sick leave, by the way, happening as well in the stores and in the different companies. So now in February, we see already some positive signals. The off-trade is a bit more busy and there's obviously significant traffic in retail. Question is how much of the CNY activities are going to be happening post CNY. It's probably already visible when it comes to banquets. The on-trade is as well starting to be more active, especially in the Western Style bar but as well Family KTV. For the night clubs, it's still very quiet, I must say, but -- so this is very, very positive and early signals. Obviously, our teams fully ready to seize the rebound of the demand in China with beautiful brands and great activation ready to face that positive in the coming weeks. Being a bit more specific would be difficult. I must say, at that stage, the pace and the timing of this rebound is obviously something we will very closely monitor in the coming weeks.

**Operator**

The next question is from Edward Mundy with Jefferies.

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**Edward Brampton Mundy** - *Jefferies LLC, Research Division - Equity Analyst*

I've got 3 questions, please. The first is that you showed a slide that where your pricing has really accelerated, and you're taking about 10% price. I was hoping you could provide a bit more color on how many markets Vista Rev-Up is live or either in full or just light. And any color on how impactful this digital initiative has been in allowing you to optimize trade spend? And essentially, how much more benefit is that still to come as you roll it out across other markets?

The second question is around D-Star and Matrix. I think Slide 9 shows some of the benefits from these digital -- these programs. Can you talk about how you're activating both more brands and also spending A&P more effectively? And again, how many markets are there at the moment and the phasing of the rollout question. And then the third one is really around India, which has been very, very strong. Just any more color on what you're seeing on the ground within India from a consumer standpoint and from a sort of premiumization standpoint would be great.

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

Great. Well, listen. Thanks very much, Ed. I'm going to take the first 2. Maybe I can let Helene take the third one. First of all, pricing, you're correct. We've been from mid-single-digit last fiscal year to 7% this first quarter, to now 10% this first half, which is obviously a blend of pure pricing and from that point of view across all markets. Let's be absolutely clear, with maybe a couple of exceptions, as you may know, 2 markets in Europe, not to mention them, France and Germany are regulated from a price point of view. So in fact, price negotiations are currently happening now, and they can only happen once a year. But basically, pricing has been taken across all markets. And number two, as you did mention, we've increased our efficiency in terms of trade spend. Vista Rev-Up is being developed and deployed in -- across the world now. We started principally with some of our big European markets. We started with a number of states within the U.S. and with a couple of markets in Asia. Obviously, we have our largest markets, and we always start focusing on them for maximum impact. But you should indeed expect future positives coming from Vista Rev-Up.

From a marketing standpoint and Matrix, basically, the fact is our content management is becoming a lot more customized based on the data we have, is being targeted a lot more efficiently as well, targeting the right consumer profiles, which means that the return on investment for any given campaign goes up quite significantly. I mentioned the example of our latest media campaign in the U.S. for Jameson where the return on investment grew by 40%. What this allows us to do is, well, we save money, and that money that is saved is invested behind other brands, in fact. And the whole underlying vision behind our digital transformation, which we call the Conviviality Platform, is being in a position to move from the activation of 6, 8, 9 brands to 15, 20, 25 brands, number one, through efficiency, targeting and savings. This is why our A&P to net sales ratio does not change. It does not go down. It remains at 16% but the return on investment is far greater. And likewise, in terms of D-Star because our sales forces know exactly where to go with maximum impact and with the right information regarding a much broader portfolio of brands. That's the whole underlying vision of our digital transformation. Maybe on India...

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

So a very strong performance in India in H1. And if you look at the 3-year CAGR performance, which is double digit, it's as well obviously excellent despite the COVID disruption. This is, by the way, very much in line with our midterm ambition for that market, which is a must win market for us, as you know. Premiumization is continuing, which is obviously very positive. The consumer confidence is very high, to be fair. These as well some very good dynamics in terms of demographic, in terms as well of urbanization. So it's very positive for the business. Premiumization is happening within our local portfolio with a strong growth of Royal Stag and Blenders Pride and as well with our strategic international brands with very strong performance of Jameson, Absolut and the Scotch portfolio. So very, very positive in a country where we have as well some strong cost pressure to be fair. That's why we are increasing prices, which is not easy to do in that country, but we are doing it in a very, I would say, disciplined way. We are as well working on the promotional efficiency to protect margin and our COGS are under significant pressure, I must say, in terms of inflation.

On wetgoods with grain neutral spiritsbeing increasing quite significantly on glass and as well on freight. So this is very important for us to keep protecting our margin with a very strong revenue growth management initiative, but in a very positive context, I must say.

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**Operator**

The next question is from Laurence Whyatt with Barclays.

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**Laurence Bruce Whyatt** - *Barclays Bank PLC, Research Division - Analyst*

Three for me, actually, 1 is a slight follow-up or one of the previous questions on the A&P spend. You increased the spend in the U.S. and Europe, but not Asia, presumably that's as a result of China being under more restrictions. But as China is starting to reopen, would you have to take marketing spend away from those other countries. You just mentioned you keep marketing spend at 16%. And so how would you square that circle if you were to increase marketing spend in China or in Asia. And then secondly, continuing on China, as we see the consumer recovery coming through in February, that assumes that the Chinese New Year was relatively subdued, but you had a relatively decent sell-in ahead of that period. Should we, therefore, expect a little bit of a destocking coming through in China over the next couple of quarters? And then finally, on the Jameson slide, you talked about the health of the Orange and Black Barrel brands. I remember when you started launching flavor brands in Jameson, there was some concern around the launch of flavors. You've not mentioned Cold Brew I was wondering whether Cold Brew is still performing as you had hoped or if there's any sort of concerns around some of your flavors in Jameson?

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

So we are fighting to answer your questions. I think I win. I will start. So the first question on the A&P spend. Obviously, there is some acceleration in H2 because as you see the H1 ratio is at 14%, where the ambition is to go at 16%. By the way, we are not targeting any ratio for first half, second half. We are really in a very agile mode, deploying our resources depending obviously on the dynamics of the market to be sure that we are seizing this opportunity on the ground. So China, as you rightly mentioned, there's some excitement for the weeks and months to come. And obviously, we're going to be ready, we are already ready to activate our brands in that context. And there is no compromise on other markets, which is only about, I would say, agile deployment to be sure that we are very visible with our brands everywhere. China recovery, I mean, as you said, it's true that Q2 was quite soft in the context I mentioned before, January as well with a soft CNY. So there is some positive early signals starting a few days ago. So we'll see what would be the H2 dynamics. For sure, and as usual, we're going to monitor the situation quite closely to be sure that we land with a healthy level of inventory at the end of June. So that would be, again, quite agile to be sure that we are following the consumer demand closely and lending as well with a very healthy level of inventory. We are always tracking our inventory on a full year basis to be sure that we have shipment equal depletion and as well that we close the fiscal year with a healthy level of inventory in China, but everywhere else.

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

And on Jameson, it's funny you asked the question because as I was preparing for this morning's presentation at home last night, I ended up having a Jameson Orange Old Fashioned, by the way. Listen, the point is not to have 12 Jameson flavors out there in the market. What made me agree on launching Jameson Orange was to put it very simply, pressure coming from consumers. The reality is that consumers want -- absolutely want to see brands experiment new flavors, new propositions. And then they like them or they don't. In Jameson's Orange case, they absolutely do. The reality is from a purely business standpoint, 1 of the key metrics I enjoyed seeing recently on Jameson Orange is, 50%, 1 consumer out of 2 of Jameson Orange is new into the franchise. So Jameson Orange is doing precisely what it was designed to do, which is to recruit new consumers into the Jameson franchise. And the rationale of Orange, it's true. One of the most fashionable cocktails, excuse the joke with fashion. It's the old-fashioned and it's orange-based. And it's true that Jameson Orange Old Fashioned, to be fair, is when it's well done and I enjoyed doing it. It's very, very good. And the numbers, by the way, are there to show it. I think Jameson Orange is up close to 40% this year. Black Barrel is doing extremely well at that sweet spot of super premium for up-trades into the Jameson franchise. And as for Jameson Cold Brew, to be fair, we weren't lucky. Jameson Cold Brew was launched March 17, 2020. By the way, that day, I was stuck at home because we were under lockdown in France. And people were no longer going out in the U.S. So we'll see what we do on Cold Brew. If we can relaunch it or if we want to develop it. But right now, by the way, from an investment point of view, our priority is #1 Jameson Original. And then number 2 and 3 is Black Barrel, which is doing extremely well, by the way, not just in the U.S. but across the globe; and Jameson Orange, in particular, in the U.S.

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**Operator**

The next question is from Pinar Ergun with Morgan Stanley.

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**Pinar Ergun** - *Morgan Stanley, Research Division - Equity Analyst*

Your pricing momentum is absolutely outstanding, especially in the context of the spirits industry. What is the company doing differently versus competition that allows you to be more effective in pricing? And would you expect these strong trends to persist into H2 in fiscal '24.

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

If I can answer that one. What is the -- courage is the number one. But anyways, pricing, I'll take your adjective or your qualifier is outstanding because inflation is outstanding from that point of view. I think it's very important to protect our margins in a highly inflationary environment. If we want to keep on investing behind our brands to make them even more desirable and attractive and to keep on investing to gain market share, it's better when you have a good basis from a margin point of view. It's nicer to run a marathon on a flat road, then to run a marathon uphill because you need to gain market share, invest behind your brands, and at the same time, regain the margin lost. So that's the ethos behind our pricing strategy. So number one, what it does require, by the way, is courage, indeed. But then number two, it requires a disciplined and very effective and efficient approach. So we have put through some pricing, but as well, it's not just pure pricing, as I was mentioning it, it's a trade spend. And from that point of view, I would mention, in particular, 2 things. Vista Rev-Up, digital transformation. So data-enhanced pricing trade spend decisions, number one, which I think is absolutely critical. And number two, a very, very disciplined approach to what we do through, what we call, brand equity analysis. So our brands, in particular, some specific brands, have strong equity that basically can handle some price increases. For the full year, what do we expect? Frankly, I would say upfront, I don't know, because -- our teams on the ground are basically paid to see what the optimal situation is. But I could say, I would not be surprised, let's put it that way, if we finished our fiscal year with a high single-digit pricing impact. So probably slightly lower than the current 10% as we're going to start cycling some price increases that happened already in H2 of last fiscal year.

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**Operator**

The next question is from Olivier Nicolai with Goldman Sachs.

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**Jean-Olivier Nicolai** - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Just a couple of questions first and then a follow-up. First, in the U.S., historically, pricing has been not been really a driver for growth in U.S. Spirits and that's been much more reliant on mix. As you've taken more price in recent months, what has the consumer response been and do you expect pricing to be more of an important driver for growth moving forward even as inflation normalize? That's the first question.

Second one, on China, but a bit more of a longer-term one. Do you see any reason why China should not go back towards this high to low double-digit growth that you enjoyed in previous years? Or has there been any change in behaviors you think, there is pandemic, which could derate historical growth rate? And then just lastly, very briefly, I have to ask about the 10% growth in Ricard. That does the question itself. Can you give us a bit more detail there and how you managed to turn around the brand over the last couple of years? You mentioned marketing, but are the demographics for the brands changing as well?

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

So I'll start with the U.S. So you're right, pricing is obviously supporting the performance in H1. This is a market where premiumization has been a key driver of the growth, and we believe that premiumization is going to continue and is still there when you look at the premium part of the portfolio. It is growing. So the pricing has been, I would say, very well received by the consumers, by the way. In the U.S. and in many other geographies, we are tracking, obviously, as well the -- not only the price impact from a financial point of view. But everything you mentioned, Alex, in terms of brand equity and market share evolution. So quite, quite positive so far for us in the U.S. with as well, an acceleration of our spend in the U.S. to keep reinforcing the attractiveness and you mentioned, desirability of other brands.

China, I keep going. So yes, midterm ambition, high single to low double digit, absolutely. We believe we have a great portfolio of brands, not only with Martell, which is a very strong brand there for sure, but as well with everything -- all the other brands we have developed recently with the Scotch portfolio, but as well with Absolut, with Jameson and so on and so on. So we are very confident about the potential of China, which is a must-win market for us. But on Ricard, I'll let you answer, Alex.

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

Thank you, Helene, and thank you for asking the question because I think this gives me the perfect opportunity to pay tribute to our French team because going back to July 1, 2020, when at least in France, we were all under lockdown and stuck at home. Something happened that they and became effective, which is having a great impact on Ricard today. That was the effective merger of Pernod and Ricard. July 1, 2020, there was no longer Pernod in France and Ricard in France. July 1, 2020, a new entity, a new team in, in fact, and a new mindset was called Pernod Ricard France, number one.

Number two, this entire reorganization in France was designed to drive growth and market share gains in what can be qualified as a dull spirits market in France. And to redynamize indeed, some of our great brands, starting with Ricard because Ricard is still, by the way, the #1 consumer brand in the off-trade in France, independently of -- or across all consumer sectors. So the portfolio strategy was redesigned by the leadership team. The savings -- part of the savings of that merger were reinvested behind priority brands, one of which is Ricard. At the same time, creativity behind the marketing platform for Ricard really stepped up. And I was mentioning during the presentation, Born à Marseille. And last year and this year, again, during summer, you could see it everywhere. It's an amazing campaign. And by the way, the return on investment is quite amazing. So you have a new portfolio with a new team, a new entity, a new mindset with increased investments behind the right brands with increased creativity. And the route-to-market by the way, for some reason, and I know why Pernod Ricard France volunteered to be pilot market on Matrix, to be pilot market on Vista Rev-Up as well and to be pilot market on D-Star for some reason. So this is what we see as a result of all of the above. So it's great to see. And it's a perfect opportunity again to pay tribute to Philippe Coutin and his team who have done this over the last almost 3 years. It's been a hell of a job, somewhat tough, but the results are there to say that it was most definitely worth it.

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**Operator**

The next question is from Celine Pannuti with JPMorgan.

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**Celine A.H. Pannuti** - *JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst*

So my first question is on the U.S. Is it possible to understand a bit your market share performance either by channel, off-trade, on-trade as well as by main categories? My second question is on the cost inflation, Helene said that it was elevated and will remain elevated. How elevated was it in H1? And what are the prospects for H2? And if you could tell us a bit the building block of that inflation.

And then finally, on -- so interest in pricing of 10% rolling up 3%. So that means the mix is slightly negative. Can you explain is that a geographical reason? Or is it that the premium or the super premium didn't do as well?

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

Thank you very much. So let's start with the U.S. So in terms of market share performance. We believe we are closing the gap with the market with probably what we believe is another performance in the on-trade. As you know, we have a quite strong portfolio, which is very favorably exposed to the on-trade. So we are overperforming in the on-trade, especially with Jameson, but as well with Glenlivet and probably as well with Martell. And in the off-trade, it's a bit probably below, I would say, the market and especially because we have a limited exposure to tequila.

Second question on COGS. So this is obviously a very hot topic right now as expected. So we are -- first, I must say, let's go back a little on what happened last year. Alex alluded to it earlier. But last year, we mainly had the COGS pressure starting in H2. So we had a kind of a low comparable basis in this H1 because last year, H1 was, I would say, quite limited in terms of inflationary pressure, probably with the exception of logistic costs that were already increasing close to double digits last year in H1. But all the other components of COGS, especially dry goods and wet goods were quite, I would say, stable or in modest growth only in H1 last year. This year, different story. We have significant inflation on both of the COGS. So obviously, starting with logistics, it's still quite high. Probably, we expect it to slow down a bit in H2, but we are still much higher than pre-COVID and it has been quite significant in this H1, especially on deep sea freight. And there is as well some increased cost in terms of landward, especially in the U.S. with some demurrage costs that are increasing because of the way we are normalizing the stock that we built internally to face the additional lead time last year.

When it comes to dry goods, so dry goods, it's mainly linked to the energy cost and to the impact on glass. So this dry goods were mainly increasing starting in H2 last year. It is still quite high, low double digit in H1, and we expect this pressure to remain in H2 despite obviously very significant initiatives we took to negotiate our contractual terms with our suppliers. And we are probably together with the suppliers that have as well hedging some of their COGS in -- especially in terms of energy. We are benefiting from a favorable rate compared to spot rate, but it is still quite significant in H1 for sure and probably expect to remain high in H2.

And then maybe last word on wet goods. So wet goods first, a significant part of wet goods are going into the balance sheet, thanks to our aged portfolio, especially for our whiskey and cognac. But for the other part, it is increasing quite significantly. There is some pressure on sales, but there is as well some significant pressure for the neutral spirit and neutral alcohol in India, I mentioned it already, but as well in France, it is impacting Ricard. And these increases are as well double digits, and we expect it to remain quite significant pressure for the coming months. So all in all, high inflationary context. COGS were increasing low double digit in H1 with all the drivers I just mentioned. We expect this pressure to remain quite significant in H2 with probably some slowdown in terms of logistic COGS, but still increasing in H2 and all the other drivers remaining probably quite similar to the H1 trends. Then your last question was on the mix in terms of net sales, you're right. There is some negative mix impacting net sales, which is linked to the market mix as you saw the growth of markets like U.S. and China is below average and below market like, for instance, India. When it comes to gross margin, the mix is slightly positive, especially thanks to the performance of the Scotch portfolio and as well the recovery of Travel Retail.

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

Okay. Maybe we can take 2 more questions before we finish.

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**Operator**

The next question is from Sanjeet Aujla with Credit Suisse.

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**Sanjeet Aujla** - *Crédit Suisse AG, Research Division - European Beverages Analyst*

Alex, Helene, 2 from me, please. Firstly, can you just talk a little bit about the environment in Europe? You managed to realize quite strong pricing. And I'd love to get a sense of to what extent you're seeing any negative volume elasticities coming through from that pricing and generally how you feel about the volume picture there?

And my second question is just coming back to the U.S. and back to Sovereign Brands and Codigo, I appreciate those brands are not yet in your organic reporting, but have been growing quite significantly in recent years. And if you were to pro forma, what would your U.S. growth look like relative to the 3 depletions that you've done in the first half?

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

Maybe a couple of points on Europe. I did mention during the presentation that 7% 3-year CAGR for Europe is pleasantly surprising. It's very clearly at the very upper end of what we can expect from that kind of region. And this is clearly a testament to the work that our teams have done across all the region, by the way, in terms of route-to-market excellence, we're gaining share in most -- I cannot say all because I think there's one of the markets where we're still not gaining share. But in most European markets. This year, we have grown by 6% in Europe. We have increased prices. Bear in mind, if I'm not mistaken, inflation in Europe, generally speaking, consumer inflation is closer to 8%. So our pricing in Europe, I think, is basically in line or even maybe slightly below what consumer inflation looks like. So far, it's doing okay. The only point we can stress, part of the performance in Europe, the recent performance is related to the rebound of the on-trade versus a year ago, where in a number of European markets were still suffering from COVID-related disruptions, particularly in the on-trade, which in Europe tends to be more profitable than the off-trade. On your second question, maybe, Helene?

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

Yes. So on Sovereign Brands and the contribution to future growth of the U.S., obviously, we are quite excited by this acquisition and as well by the acquisition of Codigo. Those brands are very well positioned, I would say, both in terms of pricing and as well desirability vis-a-vis, the U.S. consumers, so they are growing double digits. And we are very exciting to have them joining quite already impressive and an amazing portfolio in the U.S. So more to come. This is very recent. But as you can see, hopefully, the excitement is there.

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

Perfect. One more question.

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**Operator**

The last question is from Andrea Pistacchi with Bank of America.

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**Andrea Pistacchi** - *BofA Securities, Research Division - MD in Equity Research & Head of European Beverages*

Yes. I'll have 2, please. The first one on Travel Retail. Sales -- I think you said that Travel Retail sales are 20% below pre-COVID levels, held back also by Hainan. Now with the strong China reopening, how long do you think it will take to recover to 2019 levels? And I think the few months back at the full year results, you said you expected Travel Retail profit to be back this year at 2019 levels. Just wanted to confirm whether that is still the case and why sales is lagging profit? I mean I assume this means that the business is more profitable than it was before the pandemic? And then the second question, please, for Helene, on margins and your guidance to sustained margins this year, just confirming that this is consistent with the comments you made on the call that the full year that you were targeting or aiming for some operational leverage this year, and on the margins, given your flat organic margins in H1, it would -- I think this guidance would imply at least or flat, let's say, in the second half. Marketing spend will be stepped up you said. So what offsets that? I heard your useful comments on gross margin, should there be a bit of offset maybe with a slightly better gross margin performance in the second half?

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

So thank you very much. So Travel Retail, everything you mentioned is absolutely correct. So the top line is probably at 80% versus pre-COVID. We are aiming at delivering the same level of profit than pre-COVID for this fiscal year '23. We said that already a few months back, meaning we are very confident to achieve that before the lifting of the restrictions in China. So we are obviously confirming that confidence. And this is, as you alluded to, thanks to the profitability, which is improving in that channel. So we are already at probably pre-COVID level in Europe and Americas. And not yet, obviously, in Asia. The situation has been improving in Southeast Asia and Pacific, probably starting around July '22. So the question is how fast Chinese travelers will travel again. I don't have any crystal ball, obviously, but we know that this is probably one of the priorities of many Chinese travelers. The numbers are already quite impressive when you look at the booking and the travel that happened since the beginning of calendar year '23. I think we are talking about 1.4 million of Chinese travelers already in this period. So again, as we said for China domestic, same thing for the Travel Retail, we are ready. Our teams have a great activation ready for the travelers wherever they are coming from, but including, obviously, Chinese travelers with a strong activation at the airport.

So second question was on margins. So as I said before, we have a kind of different comparable basis between H1 and H2. So last year, we had some acceleration of the price increase in H2, which means that we're going to have this year in H2, more difficult comparable basis because of the price increase that have happened last year, knowing obviously that the H1 price impact this year is a combination of carry forward of last year price increase and additional price increase. Having said that, we are going to increase prices as well in H2 in many geographies in Europe, in LATAM, in the U.S., we mentioned it, I think, when we discussed the U.S. performance as well. When it comes to COGS, as I said before, a bit similar as well. H1 last year was only the beginning of the pressure in terms of inflationary environment, starting with deep sea freight and it has increased significantly in H2. So we're going to have in H2 a higher comparable basis, which means a more favorable comparable basis when it comes to COGS. So we are going to as well, increase our ratio, as you rightly -- our A&P to net sales ratio, as you rightly mentioned. And that's why we are confident, thanks to this H1 performance to sustain operating margin for the full year.

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**Andrea Pistacchi** - *BofA Securities, Research Division - MD in Equity Research & Head of European Beverages*

One -- sorry, 1 very quick follow-up, please, on Travel Retail, Helene, if I may. On the comment about the business being more profitable compared to pre-pandemic, is there any specific reason driving that? Or is it sort of efficiencies you've brought through into the business?

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**Helene de Tissot** - *Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board*

Yes. I mean I would say it's the combination of efficiency that have been brought very, very fast at the time of the shock of COVID. So back in winter 2020, January 2020 when Travel Retail was impacted. So there was many efficiency initiatives delivered by the team immediately, I would say. And we have as well, obviously, increase our prices in Travel Retail, plus a premiumization, which is -- if you put all those initiatives together, this is why the profitability is increasing in that key channel for us. It is as well a must-win market for us, as you know.

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

Well, thank you very much to all. I hope you enjoyed this little chat and presentation. And as we go, there's a nice little video. So thank you, and goodbye.

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