REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2024 Pernod Ricard SA Corporate Sales Call

EVENT DATE/TIME: OCTOBER 19, 2023 / 7:00AM GMT

CORPORATE PARTICIPANTS

Florence Tresarrieu *Pernod Ricard SA - Global Senior VP of Investors Relations & Treasury*
Helene de Tissot *Pernod Ricard SA - EVP of Finance & IT*

CONFERENCE CALL PARTICIPANTS

Andrea Pistacchi *BofA Securities, Research Division - MD in Equity Research & Head of European Beverages*
Edward Brampton Mundy *Jefferies LLC, Research Division - Equity Analyst*
Jean-Olivier Nicolai *Goldman Sachs Group, Inc., Research Division - Equity Analyst*
Mitchell John Collett *Deutsche Bank AG, Research Division - Research Analyst*
Sarah Simon *Morgan Stanley, Research Division - Former MD in European Equity Research*
Simon Lynsay Hales *Citigroup Inc., Research Division - MD*
Trevor J. Stirling *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

PRESENTATION

Operator

Good morning. This is the conference operator. Welcome, and thank you for joining the Pernod Ricard First Quarter Fiscal Year 2024 Sales Conference Call and Webcast. (Operator Instructions) After the presentation, there will be an opportunity to ask questions.

(Operator Instructions) At this time, I would like to turn the conference over to Ms. Helene de Tissot, Group Finance and IT Director. Please go ahead, madam.

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

Hello, everyone. So we're very pleased to welcome you to our Q1 FY '24 net sales call. So as you've seen, we've released a press release on our website. So Helene de Tissot will give you some very short opening remarks before jumping into the Q&A.

And then for the Q&A, as per last time, (Operator Instructions). Thank you.

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Good morning, Florence. Good morning all, and thanks for joining our fiscal year '24 Q1 sales call today. As you've been reading the press release published on our website this morning, today we are reporting a decline of minus 2% in organic net sales for our first quarter.

As expected, the soft start of the year begins notably with USA in decline, reflecting high comparison basis and a normalizing market context. So is China, where we also cycled high comparatives, coupled with soft consumer demand. Echoing Alexandre's quotes in the press release this morning, I'm also pleased to see that those declines were largely offset by the performance of our other markets.

As a matter of fact, we enjoy a very dynamic performance in the rest of Asia, a modest growth in India due to high comps, some resilience in Europe with dynamic growth in France, Germany and Poland and stability in Travel Retail due to phasing. I would say that this serves as a strong illustration of the combination of 2 of our key competitive advantages: number one, being the diversity of our leading premium portfolio of international spirits brands; number two, our broad geographic breadth across mature and emerging markets. We also reported strong price/mix effect of plus 7%, notably benefiting from last year's price increases across trends and markets.

So let me zoom now on Q1 in our must-win markets, starting with USA at minus 8%. So consumer demand remains resilient in the U.S. over the summer as the market continues to normalize towards its long-term average trend of mid-single-digit growth. Net sales declined on an unfavorable comparison basis, also reflecting inventory adjustments being made in particular at retailer level. Share gains were made with Jameson, Código, Malibu, Kahlua and The Glenlivet. We have prepared strong activation plans ahead of festive season, and we hold a positive outlook for the full year.

Moving now to China with net sales at minus 8%. So sales declined in a challenging macroeconomic environment with softer consumer demand, amplified by a high comp basis as we cycle a record FY '23 Mid-Autumn Festival. Q1 sees a solid price effect following this year '23 price increases, which happened in May. We are encouraged to see signs of improvement in September, and we have a positive outlook for the full year in China.

Moving now to India. India is at plus 1% in Q1, which is modest growth against a high comparison base. These are strong consumer fundamentals, as you know, in that market that are supporting strong growth for the full year with easing comparison basis and very solid activation plans ahead of festive season in Q2. We had a good price/mix effect for Seagram whiskeys with continued strategic focus on the higher end of the range and continued strong developments of our strategic international brands.

Global Travel Retail is stable in Q1 with a gradual recovery in Asia, but sales have been impacted by shipment phasing and high comparison basis in Europe. Passenger traffic now are at circa 90% versus pre-COVID, and we expect strong growth for the full year in Travel Retail.

Looking now at the full year for fiscal year '24. And while the environment remains challenging, we are confident in delivering broad-based and diversified organic net sales growth with a positive outlook on U.S. and China and strong growth in Travel Retail and India. It is our intention to deliver fiscal year '24 performance within our plus 4% to plus 7% net sales organic growth midterm range, probably towards the lower end of the range.

We expect to deliver organic operating margin expansion as we continue to focus on revenue growth management and operational efficiencies with A&P at circa 16% of net sales and disciplined investments in structure. We remain very confident in the attractiveness of the spirits market and in the long-term demographic and consumer trend tailwinds.

That concludes my opening comments. And now, Florence, I believe we can open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Edward Mundy with Jefferies.

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

Two questions for me, please. The first is on China. I just wanted to pick up on your comment of some signs of early improvement within September. Could you perhaps talk about what's changed during September relative to the early part of the quarter?

And then secondly, on your guidance on margins. I think you're shifting from an organic to reported margin expansion for the year. Does this signal that all in, including adverse transaction risk, you're still confident in getting margin expansion for the year?

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Okay. Thank you, Edward. I will start with the second question. So to clarify that, we are expecting organic operating margin expansion for the year, which is exactly what we said a few weeks back. So no change on that front.

Moving now to the -- your first question on China. So obviously, this is very early days post Mid-Autumn Festival. That happened only a few days ago. But that's fair to say that we see some signs of improvement in September that, by the way, are confirmed in this first half of October. So maybe let me just come back quickly on the summer.

So what we were showing at the end of August -- or September was the soft consumer demand that happened in July and August, where our volumes were declining, a modest decline in the on-trade and stronger decline in the off-trade in July and August. And this has improved in September, where we see both on and off-trade moving towards stability in September, and I'm talking about value performance. So stability in the on-trade, which is improving.

By the way, clubs are doing better, especially in the South. Improvement as well in the off-trades and moving to stability. And on that channel, for instance, we see a very clear pickup in weddings and bulk trade. So that means, by the way, that Martell is being more flattish in September which is, we believe, a good performance in the current environment. Again, cycling a very high record Mid-Autumn Festival last year. So this is boding well for our Chinese New Year, and that's why as well we are clarifying this positive outlook for the year in China.

Operator

The next question is from Olivier Nicolai with Goldman Sachs.

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

Just 2 questions on my side. You're flagging a positive outlook for the U.S. this year on a full year basis. Is it just because you are starting to face easier comps in H2? Or do you actually see also an improvement in terms of underlying deflation in these markets? That's the first question.

And then secondly, going back to the guidance. First of all, thank you for clarifying the marketing sales growth for full year '24 to be at the lower end of the 4% to 7% range. That's very reassuring. But just going back to FX. You provided on Page 5 of the press release some sensitivity on FX. However, it's quite difficult from the outside, particularly once you have some hyperinflationary adjustments to make, to be accurate there.

You are expecting negative FX, partly offset by perimeter. Consensus today at about minus EUR 236 million negative FX and EUR 94 million positive perimeter impact on operating results for full year '24. Do you think this reflects accurately what you meant by your guidance?

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Olivier, so I'll start with the second question. So first, we don't guide today. It's too early. We don't give a quantitative guidance. What I was sharing with you is our intention to deliver organic net sales performance in the lower end of our range of plus 4% to plus 7%.

So for the year, zoom on FX, we are adding some sensitivity for other currencies than U.S. dollar to support the estimate of what could be FX impact. But again, as we are not guiding for the full year, I cannot comment where the consensus is on organic nor on reported numbers. But hopefully, this additional visibility we are giving you in terms of sensitivity will help on that front.

So now maybe moving to your first question on the U.S. So before moving to the outlook, let me maybe just highlight our Q1 performance in the U.S. So the consumer demand has been resilient over the summer. As we mentioned before, we believe the market is normalizing and we believe that it's currently at plus 2% in terms of growth, including RTD. As far as Pernod Ricard brands are concerned, we are cycling high comp and technical effects. I don't think I need to come back to that.

But very quickly, we are cycling last year price increases that happened 1st October, and there was as well some, I would say, technical impact in Q1 with the easing of supply chain of the year before. So this post-COVID market normalization is continuing. Our net sales are in decline at minus 8% in Q1 with a similar level of value depletion that are in decline because of this very high comp of last year.

So when it comes to the outlook for the year, maybe just a final word on Q1, this is important. We are flagging some inventory adjustments especially at retail level because of the normalization of the market, because of the impact of a higher interest rate environment and because of this last year buying ahead of our price increase in October. This inventory adjustment at a retailer level is largely limited to Q1 probably, but obviously subject to further adjustment depending on OND.

So for the outlook for the year, you're right. There will be easier comps in H2. But that's not the only reason why we have this positive outlook for our performance in our #1 market. We have as well quite, I would say, an exciting preparation of OND, which is happening right now with, for instance, strong media support. You will see a lot around support for activation with Jameson and probably in the coming days. In the U.S., we have some exciting value-added packs for OND and so on. So ready for what we hope is going to be a very exciting OND for our brands.

There will be as well some distribution gains from our recently acquired brands, meaning -- naming Código and Skrewball. That will benefit to our H2 organic growth, quite soon in H2 for Código, much later for Skrewball. So that's why we had this positive outlook for the year. Adding to that, as you know, that we have increased as well our A&P investments in that market already last year. So we want to be very active and attractive with our full portfolio in the U.S. this year.

Operator

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

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

Two questions, please. First one on India, where Q1 was subdued. Could you say how the -- what you're seeing on the ground in terms of environment? And then I believe one of the reasons -- probably one of the main reasons for your softer performance was a situation with the Delhi license. Why maybe was this impacting you more in this quarter than in previous quarters? And when will you be cycling this? And then just to confirm, I think your outlook for the year is definitely positive. You're seeing strong growth there.

The second question is about Q2, really. So at the full year results a few weeks ago, you clearly flagged that Q1 was going to be a soft quarter. I don't think you've called out anything specific on Q2 here. Should we infer that Q2 should be a more normal quarter? I know, I mean, Chinese New Year will be later. Are there any technical factors to consider here? Or -- and where would the areas of main sequential improvement be in Q2, please?

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Thank you. So with Q2, I mean, the comps remain elevated. It was growing at plus 12% last year. To be very transparent with you, we're not guiding on Q2 or H1. We don't give a full year quantitative guidance. We share with you as much as we can from a qualitative point of view, but don't expect me to be more specific on Q2.

Moving now to India. So I think you said it all. The underlying performance is very strong. Consumer fundamentals are still extremely valid in India. That's why we believe this is going to support our ambition to deliver strong growth in the rest of the year and strong growth in the full year and in India. Having said that, it's true that we'll have an easing in the comparatives because we are cycling in Q1 sales to Delhi last year because the suspension happened in September.

So again, what can I say on India? As you know, the fundamentals are excellent. There's an ongoing premiumization trend, geographic structural tailwind. We've been gaining share, holding leadership with our Indian whiskey portfolio. We are in strong development with our strategic international brands. So this is a key market for us with a very strong potential. That's why our ambition is very strong for the year.

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

Can I just ask on India and New Delhi? Is it fair to say that the New Delhi license is the main reason probably of your slower growth? And the situation in New Delhi is that you're just not selling in New Delhi now because of this. And is there any chance that you could, I mean, get back in anytime soon?

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

This is obviously our intention. So we are applying to get our license back.

Operator

The next question is from Trevor Stirling with Bernstein.

Trevor J. Stirling ***Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst***

All my questions have been answered, Helene. So I'll pass it on to the next person.

Operator

The next question is from Simon Hales with Citi.

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

Just 2 quick ones from me, really. Helene, you mentioned obviously that some of your recent acquisitions will start contributing to organic sales growth through the second half of the year. I think even in Q1, the scope benefit on the sales line was a little bit higher than the market was expecting. I wonder if you could just talk a little bit about some of the underlying performance you're seeing on things like Skrewball, the Sovereign Brands sort of transactions, et cetera?

And then secondly, could you talk a little bit about the planned partnership you just announced between Absolut and Coca-Cola? I just wonder how the economics of that tie-up will end up working.

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Yes, with pleasure. So starting with our new acquired brand. To be fair, I don't think a quite early detailed performance makes lots of sense, meaning that, first, for Skrewball we just got back the distribution in August. And there is some, let's say, very temporary disruption linked to this transition from the previous distributor to the new one.

That doesn't change our excitement to have that great brand joining our portfolio in the U.S. So all our teams are again extremely excited and working to make that integration an excellent one. Same thing for Sovereign Brands. I mean, this is, as you know, brands that we believe are adding great value to Pernod Ricard portfolio.

With Coca-Cola, so this is a quite exciting news indeed, combining 2 great brands like Absolut and Sprite. As you know, RTD category is quite exciting because this is what consumer wants. That's as well quite exciting in terms of recruitment tool for new consumers that we can then bring to the mother brand. So again, quite exciting.

This is going to be launched early '24 in a few markets to start with, including U.K. and Germany that are quite exciting markets for RTD. So this is very consistent with our strategy, which is to be consumer-centric. And consumers again like RTD for many good reasons, especially high-quality RTD. So the combination of those 2 brands, I think, is obviously a very exciting offer for the consumers in the months to come.

Operator

The next question is from Sarah Simon of Morgan Stanley.

Sarah Simon ***Morgan Stanley, Research Division - Former MD in European Equity Research***

I just had 2 questions. Firstly, on China, can you just remind us how the comps work? I think if I'm not wrong, Q2 is still quite tough.

And then secondly, just back on the U.S. and the retailer inventories. Is your sense now that retailers have got through that overstock and will be completely normal going forward? And what are -- you assuming that on the basis of, let's say, current off-trade sales trends? Or are you assuming any change in that?

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Okay. So your first question, the sound was not excellent, so hopefully I got it right. What's the comparison basis in China last year in Q2, right?

Sarah Simon ***Morgan Stanley, Research Division - Former MD in European Equity Research***

Yes.

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Okay. So I mean, Q2 was a modest decline last year in China, minus 1%. Because it's true that this was just before the listing of the COVID restrictions, and there was as well some impact of the timing of Chinese New Year. So again, minus 1%. So it's not a high comp. Q1 was at plus 9%, if I remember well. So much softer than Q1 but still much stronger than what we then had in Q3, because Q3 was a very weak period because of the peak of contamination in China last year.

And then your second question is on the retailer adjustment inventory in the U.S. So as I said, we believe that's largely in Q1. And again, please keep in mind that for us, there was a specific situation last year because of the timing of our price increase -- quite broad price increase that happened 1st of October. So that's why we believe it's largely in Q1, but obviously, subject to further adjustment depending on the OND performance.

Operator

The last question is from Mitch Collett with Deutsche Bank.

Mitchell John Collett ***Deutsche Bank AG, Research Division - Research Analyst***

I'll stick with inventories then. I think your statement suggested that the headwinds in Q1 in the U.S. weren't just from retailer inventory levels coming down. Can you comment on the level of stock in the U.S. within wholesalers? I think you said at the full year stage that it was normal. So it'd be very helpful to know if it's still normal and perhaps to get a number of days of sales at the end of the quarter.

And then similarly, I appreciate there's some phasing with Mid-Autumn Festival, but can you just comment on where China inventories are as you see them at the end of the quarter?

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Yes. So starting with the U.S. So you're right, I was more referring to the inventory adjustment at a retail level because this is the main one. At wholesale level, it's much more limited. By the way, that makes sense because we were managing our stock at the end of June '23 to get to a healthy level. And by the way, because of the seasonality of OND, it as well quite usual for our wholesalers to hold a bit more stock ahead of OND.

Having said that, for all the reasons I mentioned and for the retailers that are quite varied as well as for wholesalers, meaning the context of normalization of the market and the impact of higher interest rates, there is some adjustments at wholesale level but probably limited. And by the way, when I was referring to the higher inventory that are held ahead of OND, this is a bit less this year than in previous years. So that's why we are talking as well about limited adjustments at wholesale level.

So same thing, too early to comment definitely for -- on potential destocking in the rest of the year because it will depend on the OND period. But looking forward, we expect tight inventory management within the trade to persist because of that environment of market normalization and higher interest rates.

So for China, I mean, that's true that last year it was -- and by the way from one year to the other, there's always some timing difference between festive season. That's the beauty of the moon calendar. So last year, MAF was a bit earlier than this year. So it's not apples-to-apples, what I was referring to, in terms of September performance. That means that in the context of cautious approach from wholesalers ahead of March that we were sharing with you early September, the situation has improved.

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

Thank you very much, Helene. Thank you all for listening in. And we wish you a very good day, and speak to all of you very soon. Thank you.

Helene de Tissot ***Pernod Ricard SA - EVP of Finance & IT***

Thank you very much. Bye.

Operator

Ladies and gentlemen, thank you for joining. The conference is now over, and you may disconnect your telephones.