THOMSON REUTERS

EDITED TRANSCRIPT

Q3 2019 Pernod Ricard SA Corporate Sales Call

EVENT DATE/TIME: APRIL 18, 2019 / 7:00AM GMT

CORPORATE PARTICIPANTS

Hélène de Tissot *Pernod Ricard SA - MD of Finance, IT & Operations*
Julia Massies *Pernod Ricard SA - VP of Financial Communication & IR*

CONFERENCE CALL PARTICIPANTS

Andrea Pistacchi *Deutsche Bank AG, Research Division - Research Analyst*
Chris Pitcher *Redburn (Europe) Limited, Research Division - Partner of Beverages Research*
Fernando Ferreira *BofA Merrill Lynch, Research Division - Director*
Jean-Olivier Nicolai *Morgan Stanley, Research Division - Executive Director*
Laurence Bruce Whyatt *Barclays Bank PLC, Research Division - Analyst*
Nico Von Stackelberg *Liberum Capital Limited, Research Division - Research Analyst*
Sanjeet Aujla *Crédit Suisse AG, Research Division - European Beverages Analyst*
Trevor J. Stirling *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by. Welcome to today's Q3 financial year 2019 sales conference call. (Operator Instructions) I must advise you, the conference today is being recorded on Thursday, the 18th of April 2019.

Without any further delay, I would like to hand the conference over to your first speaker today, Julia Massies. Please go ahead.

Julia Massies ***Pernod Ricard SA - VP of Financial Communication & IR***

Good morning, ladies and gentlemen, and thank you for joining us this morning for Pernod Ricard's Q3 Fiscal '19 Conference Call. We're hosted this morning by Hélène de Tissot, our Finance, Operations and IT Director. We will take you through a brief presentation and then open the floor to your questions. Hélène, over to you.

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Thank you, Julia. Good morning, everyone. So let's start with the Q3 net sales performance, so very strong and diversified year-to-date growth. We are delivering an organic year-to-date sales performance growth of plus 6.3%, and this is driven by emerging markets growing by 15%.

So if we start with Americas, plus 3%, with a good performance there. The U.S.A. are broadly in line with market, and this is -- I'm talking about the underlying rate here because we have some start at the wholesaler inventory optimization, which is happening in Q3 already. I'll come back to that.

Asia-Rest of the World, plus 12%. This is a very strong performance. And obviously, our 2 key markets that are China and India are strongly contributing to that performance. Europe is 1%. Very good sales in Eastern Europe and a contrasted performance in Western Europe.

So Q3 has delivered a plus 2.5% growth, which is fully in line with our expectation, and this is mainly due to some technical factors I will come back to.

So Americas, plus 2%. Improving performance in Latin America. And as I mentioned, for the year-to-date, shipments in the U.S. that are reflecting the start of this wholesaler inventory optimization.

Asia-Rest of the World, plus 3%. And this is, as I mentioned, in line with our expectation with a very significant impact here of earlier Chinese New Year and sustainable growth management of Martell. And we have some route-to-market change in Korea impacting Q3.

Europe, plus 2%, with some improvement there driven by a very strong performance in Russia and as well U.K. in Q3 despite some commercial disputes impacting us in Western Europe, especially in France and Germany.

So moving to the next slide, you have here all the figures. So net sales figures of EUR 7.188 billion, plus 6.3%, as I mentioned, in terms of organic growth and plus 4.9% reported growth.

If we look at the performance across our markets. So mature markets, stable; and emerging markets, as I mentioned, growing by 15%. Diversified growth as well in terms of brands, which obviously is a key part of our strategy.

You have here the key figures for our categories. Strategic International Brands, plus 8%; Strategic Local Brands, plus 10%; Specialty Brands, plus 14%; and Strategic Wines, minus 5%.

I move to the next slide. So here, you have all the figures, the organic growth figures I mentioned for both year-to-date and Q3, some nonsignificant perimeter impact and FX impact. So negative for the year-to-date, EUR 70 million negative FX impact despite a positive impact of U.S. dollar, that would be some negative impact coming from the emerging market currency that you have on that slide for Q3. The figure is positive in terms of FX, and this is mainly driven by the positive impact of the U.S. dollar.

If I move to the next slide, sales growth by region. So as usual, we show in that slide as well the performance for the full year last year and the comparable basis of the 9 months the previous year.

So Americas, plus 3%, as I mentioned. With again this clarification in the U.S., we are broadly in line with the market and the start of the wholesaler inventory optimization, which is impacting us in this Q3.

Asia-Rest of the World, plus 12%. So you see here the acceleration versus the previous period. Very dynamic growth, thanks to China and India. We'll look at the figures for China and India, they are very strong, and despite the route-to-market change in Korea, which is impacting us in the Q3 and in the year-to-date.

Europe, plus 1%. So as I mentioned, strong momentum in Eastern Europe, and Russia is in strong double-digits and contrasted performance in Western Europe. And you have then the percentage of sales across the region as a reminder.

If I move to the next slide, which is showing our performance by brands, by category of brands. As I mentioned, very good performance, strong and diversified, as you can see on that slide, with Strategic International Brands accelerating. So this plus 8% for the 9 months, and this is driven by Martell, Jameson, our Scotch brands, Beefeater and Perrier-Jouët. And we have as well very strong price/mix contributing to that performance.

Strategic Local Brands, plus 10%, acceleration as well on this category. And this is obviously as well largely due to the very strong performance and underlying fundamentals of our Seagram whiskeys -- Indian Seagram whiskeys.

Specialty Brands, plus 14% as well. Very good performance here, in particular, thanks to Lillet growth, but as well Monkey 47, Redbreast and Altos.

And Strategic Wines, minus 5%, with a return to growth in Q3, and this is mainly due to a great performance of Campo Viejo and Kenwood.

I'll take the opportunity of that call and that slide to happily announce the signing of the -- an agreement almost, let's say, a few hours ago for the acquisition of this super premium Italian gin, Malfy. We are very happy to welcome that new brand in our portfolio.

If I move to the next slide, so let's deep dive into Americas first. So plus 3% year-to-date, with the U.S. at plus 2%, with sellout broadly in line with the market. So you can see here the estimation we have on the market trend, plus 4.5%.

If we deep dive into the brand, so Jameson, continuation of the very strong performance. And we are rebalancing our investment strategy throughout the year to be less reliant on St. Patrick's Day.

Absolut is in decline in a difficult category. There are a few important things about to happen in the coming days and months on Absolut: the launch of Planet Earth's Favorite Vodka in the coming days, this is a great campaign, we believe; and the launch of Absolut Juice, which is an innovation in Q4.

Our growth relays are growing double digits, and this is the case for Martell, Avion, Altos and The Glenlivet Founder's Reserve.

Dynamism of our Specialty Brands with, as you know, the New Brand Ventures division, which is in charge of that category. And in particular, we had a very good performance at Monkey 47, Smooth Ambler and Del Maguey. Those are 3 brands that we bought in the recent past.

Q3 shipments reflecting this finished goods inventory optimization at wholesalers level. As announced in February, we are putting in place that optimization to deliver operational efficiency. And we expect this optimization to have an impact close to 2 weeks for the H2.

Canada. So good diversified growth with double-digit performance for Absolut following the launch of that campaign, Planet Earth's Favorite Vodka that we did, if I remember well, back in October.

Travel Retail America growth driven by Strategic International Brands and in particular our blended Scotch, Malts and Martell.

And Latin America growing by 6% with a strong growth in Brazil, especially on Beefeater and Scotch. And Mexico, back to growth in Q3 with good performance of Passport and Absolut.

Moving to Asia-Rest of the World, so plus 12% on a year-to-date basis. So this is a very dynamic growth, which we continue to deliver in that part of the world.

China, plus 21%. A strong -- very strong Chinese New Year. Martell momentum obviously continuing and contributing very significantly to that great performance with very strong growth across all segments. 5% price increase have been announced early February. And Q4 should reflect the inventory management of Martell, which, as you know, we are continuously monitoring to support growth sustainability.

Chivas in continuing growth, and this is thanks to the successful relaunch campaign we did in 2017 -- at the end of 2017.

Premium brands continuing with the very strong performance, and this is definitely the case for Absolut and Jacob's Creek. And we did announce as well a few days ago the conclusion of the distribution agreement with Domaines Barons de Rothschild, which will start in early fiscal year '20.

India, plus 19%. Very strong growth in India, and this is true for the whole portfolio, meaning the Seagram Indian whiskies, but as well the international spirits portfolio and Jacob's Creek performing very well in India.

Korea, so double-digit decline, and this is mainly due to the destocking of Imperial that happened in Q3 ahead of the change of the route to market, knowing that we are starting 1st of April with the Drinks International, which is now the distributor of Imperial in Korea. And we have as well some impact on our Strategic International Brands portfolio in Q3 adding to the organic -- restructuring organizational changes that we put in place in our market company in Korea in Q3.

Travel Retail Asia, growth driven by Martell, The Glenlivet, blended whiskey and our champagne Perrier-Jouët.

And Africa and Middle East, double-digit growth, thanks to Beefeater, Scotch, Absolut and Jameson and with the very strong performance in Turkey with a good volume growth, very strong pricing and mix.

If I move to Europe, so plus 1% year-to-date. Strong momentum in Eastern Europe and contrasted performance in Western Europe.

So France, minus 3%, and we had a commercial dispute in Q3 impacting our performance. Ricard, on a year-to-date basis, is in growth. And we have some great dynamism of our growth relays that are Absolut, Beefeater, The Glenlivet and Lillet, but it's still difficult on the whiskey category. And we have as well the impact of the new Egalim law, which came into force early February, which is likely to impact our sales negatively from Q4.

Spain in a modest decline with a continued good performance of Seagram's Gin, but we have some pressure on Ballantine's and Beefeater. Germany decline driven by commercial dispute as well impacting Q3, but Lillet continuing to perform strongly.

U.K., double-digit sellout for spirits, so very, very strong performance there. And this is especially true with the performance we are delivering with Beefeater and the gin category, but as well Jameson, Chivas and Absolut. We still have a slight decline year-to-date in the U.K. driven by our value strategy on the wine portfolio, but U.K. is back to growth in Q3 with as well a strong rebound of Campo Viejo, our Spanish wine, in this period.

Travel Retail Europe, good performance, thanks to our Strategic International Brands and in particular the whiskey portfolio and Beefeater. And Russia, as I mentioned in my introduction, very good performance there, plus 13%. Very strong across the portfolio and most notably thanks to Ballantine's, Jameson, ArArAt and Absolut.

If I move now to the final slide of that presentation for the conclusion and outlook. So conclusion, as I started, we have a very strong and diversified year-to-date sales performance. So in that context, for the full year in an environment which remain uncertain, we believe we can expect a good -- this good diversified growth to continue with the continuity of the management of Martell sustainable growth and the full execution of the U.S. wholesalers inventory optimization. And the good price/mix will continue as well.

As announced in February, we are confirming the completion of the '16-'20 operational excellence road map EUR 200 million savings P&L to be fully completed by the end of the year, meaning 1 year ahead of our initial plan. At the same time, we will continue to invest in A&P and as well continue to invest and build strong strategic inventory and invest in our CapEx to ensure a sustainable long-term growth, which is obviously our core strategy.

We're going to deliver circa 50 bps organic improvement in our profit from recurring operation. And we estimate, at that time of the year, the FX impact to be positive and around EUR 20 million on the profit for recurring operation. So in that context, we are increasing our guidance for the full year, and we believe that the organic growth in our profit from recurring operation should be circa plus 8%.

Julia Massies ***Pernod Ricard SA - VP of Financial Communication & IR***

Thank you very much, Hélène. We will now turn to your questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we do have the first question from the line of Fernando Ferreira from Bank of America.

Fernando Ferreira ***BofA Merrill Lynch, Research Division - Director***

I have a few questions on your U.S. business, please. On the first one, when we look at the scanner data from Nielsen, we've seen the first decline for Jameson in March, right, for a very long time. We understand that monthly data can be volatile, but can you discuss maybe some of the reasons behind that slowdown? Was it due to pricing that you've taken on the brand or perhaps increased competition that you're seeing on the Irish Whiskey category? And also, if you can remind us what are your growth aspirations for Jameson given the larger size of the brand now, that will be good. And then lastly, on the distribution changes, is it fair to say that the loss of shipments in Q4 will be similar to the one we saw in Q3?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Okay. Thank you for your question. So as I'm sure you are referring to the 4-weeks Nielsen data that show a minus 3% trend for Jameson. As you mentioned, obviously this is only a 4-weeks period. The 52-weeks period, just as a reminder, is reflecting a plus 9% trend in value for Jameson, which we believe is much more the right, let's say, reflection of our brand's underlying performance, meaning a strong growth.

And I will start by answering your -- the second part of the question, which is what is our ambition for Jameson. No change. Our ambition is double-digits growth. So back to your question on this 4-weeks period. Now different things happening there. But I would like to clarify first that we believe that Jameson had a good performance in that month and especially around St. Patrick's Day, meaning what do I mean by good performance. I mean gaining market share. So let me give you a bit more insight on that because there are different things that probably need to be clarified. So first, this year, St. Patrick's Day happens to be on a Sunday. That is a Saturday last year. So this is already something that could explain a different -- let's say, part of the different figures here. We were as well, in the previous year, launching Caskmates IPA during the same month. So we had, let's say, a high comparable basis.

But back to my initial point, which is about gaining market share. We believe that Jameson has a market share, let's say, around 20% on an annual basis. This year, Jameson gained market share during this 4-weeks period, probably up to 26% market share. And the previous year, this market share gain was even stronger, getting to probably something close to 29%. So there is this, let's say, comparable basis. Good performance again on the basis of a strong market share position. Jameson managed to gain additional market share during this 4 weeks but a bit less than the year before.

Then I think from a strategic point of view, it's fair to say that we believe and that what we mentioned in the call, the presentation, that Jameson needs to perform obviously during the full year and not -- with probably less emphasis on this specific event that is St. Patrick's Day. And we've been, I believe, quite consistent with that strategy in terms of reduction of promotional intensity and as well in terms of pricing position. Just to give you as well some additional information on that, the price -- the average price of Jameson during this 4-weeks period increased by 2.6%. So we are rebalancing our investment strategy to sustain the strong growth of Jameson during the whole year with less emphasis on the St. Patrick's Day event, that even with this rebalancing, Jameson managed to gain significant market share during that month.

Then I think your second question was on the wholesalers inventory optimization?

Fernando Ferreira ***BofA Merrill Lynch, Research Division - Director***

Yes.

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Yes? So as I mentioned, we have already an impact of this optimization in Q3. And just to illustrate that, the net sales performance of the U.S. market was stable in Q3, which obviously is due to this -- to the start of the year of this optimization. As I mentioned as well, we believe that this optimization should more or less represent 2 weeks of sales. And our objective is to implement the full optimization by June '19, knowing obviously that execution is key in that exercise, and we want to avoid disruption and out-of-stock situations. So we're going to keep working on making that optimization as complete and as efficient by the end of June.

Operator

Your next question comes from the line of Sanjeet Aujla from Crédit Suisse.

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

Hélène, a couple of questions from me, please. Firstly, on Korea, are you able to quantify the impact from the destocking in Q3? And what's the breakdown of your portfolio there between Imperial and the Strategic International Brands? And then secondly, can you just provide an update on the commercial disputes across a few of your European markets as we go into the summer selling period? Is there any signs of that situation improving? And finally, on India, do you anticipate any disruption during the election period there?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Okay. Thank you. So I'll start with Korea. So as you know, we rented the distribution rights of Imperial to a third party starting early April, so that's why we had some destocking in Q3. And that's why we have some double-digit decline in our Q3 numbers. And we expect this double-digit decline to be as well impacting us from Q4 until H1 of next year because of the change of route to market compared to the previous situation. So then in terms of weight of Imperial in our total portfolio in Korea, it's probably 50% of our portfolio there. And the -- as you know, the strategy we have now is really to focus on the Strategic International Brands, and we did restructure the company significantly to reflect that strategy.

Your second question was on the commercial dispute. So let's move then to Western Europe because this commercial dispute impacted us in France and Germany. And in both markets, we are reengaging with our customers in Q4. So the situation will progressively normalize during Q4.

And your last question was on India. So India, as I mentioned in the core presentation, very strong performance there. Q3 was a bit lower just because of the very high comparable basis last year, but the underlying trend is very strong. And we don't expect a significant disruption from the general election. So we remain very confident with the performance of India.

Operator

The next question comes from the line of Olivier Nicolai from Morgan Stanley.

Jean-Olivier Nicolai ***Morgan Stanley, Research Division - Executive Director***

Just 3 quick questions, please. First of all, Lillet is doing very well in Germany, also in France. Is there any plan to roll out the brand in the rest of Europe and also perhaps in the U.S.? In Spain, I understand that Ballantine's is under pressure since the Scotch category is quite weak. But can you explain why -- what's happening with Beefeater? Why is it under pressure and if you are losing share overall in the gin category? And just lastly, on China, could you please give perhaps a bit more detail on the strategic rationale of the partnership you signed with Rothschild regarding the distribution of some of their wines?

Julia Massies ***Pernod Ricard SA - VP of Financial Communication & IR***

Olivier, can I just clarify your second question? Did you ask about -- what was your question on...

Jean-Olivier Nicolai ***Morgan Stanley, Research Division - Executive Director***

Essentially, in Spain, I was trying to understand what was going on with the Beefeater brand, why it was under pressure and if you are losing share in the gin category in Spain.

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Okay. So I'll start with your question on Lillet first. So as you rightly highlighted, we have a very strong performance of Lillet in Germany, and this is largely due to a fantastic job done by our affiliate there. And the moments of aperitif is booming, and Lillet is performing extremely well. This is as well a very performing brand in France. And that -- as you rightly mentioned, we have the ambition to leverage that success in other markets. And just to give you an example, I think it's already a great ambition for the brand in the U.S. And so this is -- Lillet is one of our big bets. So this is a great innovation, and we have lots of ambition for that brand, leveraging the success that I just highlighted in Germany and France.

I move to China. I'll come back to Spain afterwards. So we did announce a few days ago this partnership with Domaines Barons de Rothschild. So we're very happy to have that partnership. It's going to start probably very early in our next fiscal year. And in terms of strategy, this is really, for us, very relevant to reinforce our leadership amongst the international players in very key segment or moments of consumption or channels that are meal occasion and e-commerce. So this is really what is at stake here.

If I come back to Spain. So Spain, well, I think first, the difficulty you mentioned, it's really linked to as well the market, the pressure that we have on pricing but as well by competitors. And coming back to the whiskey, that's exactly what is at stake. In terms of gin, it should -- we are a bit struggling there. We did launch Beefeater Pink last year. And we're going to reinforce our investments in Q4 on both Beefeater and Seagram's Gin.

So in terms of market -- and back to your question on market share, it's probably fair to say that we are stabilizing our market share in

Spain in the last few months. And my comment on the market share is more kind of a global comment. For the gin, specifically, if I understand well your question which was about gin, we are even doing better than the category. So that's obviously a very positive thing. And the new media campaigns that we're going to launch in Q4 are probably going to reinforce that trend.

Operator

The next question comes from the line of Nico Von Stackelberg from Liberum.

Nico Von Stackelberg ***Liberum Capital Limited, Research Division - Research Analyst***

With the Malfy acquisition, I think it's time to take stock of how you approach deals. I was just wondering how do you look at the deal in terms of how many years it will take to cover your cost of capital or if there's other sort of relevant metrics for how your approach the valuation process on acquisitions. Please, could you elaborate? The next question is on France with the Egalim. Can you discuss if this has any impact on profits? I understand a lot of it went to promotions. So could you discuss the profit impact for this?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

I'll start with your first question on Malfy. So this is obviously very consistent with our strategy in terms of active portfolio management, and we've been looking at buying and integrating very nice brands for many years already. And if I understand correctly, your question is in terms of criteria for selecting those brands and value proposal assessment. So on this, it's very clear what we are looking for are brands with already a kind of a good growth trajectory with strong potential and where we believe that for a reason that can be specific to the respective brands, the integration of those brands into the Pernod Ricard family distribution network and with the expertise and resources that we can bring and put behind those brands will create a significant value for our shareholders. So then, obviously, it's a question of a strong business plan, what are our assumptions in terms of growth and profitability of those brands once they join the Pernod Ricard portfolio. And we are assessing the value creation using this business plan. The valuation coming from -- it's very basic this year computation and being sure that we have very significant room for value creation.

But back to the Malfy specific because I think that's quite nice for me to have the opportunity on that call to come back to that acquisition, which happened a few hours ago in terms of signing the agreement. So this is a super premium Italian gin. We've got a very nice variant and a strong price positioning. We have already some significant growth, so we are very happy to welcome Malfy into our family.

Second question was on Egalim. So just to mention, because I'm not sure what you said around promotion, so Egalim, to clarify, is the "loi des Etats Generaux de l'Alimentation", which was voted back in November and which came into force in February and which is, let's say, forcing retailers to increase prices to stop selling at loss. So this is just not changing our prices, but this is changing the retail selling price. The reason why we mentioned this as potentially negatively impacting our Q4 is that because of technicalities, this additional market is based on the price, including tax and duties, so they have been a significant increase, for instance, on Ricard starting last February, which had a 10% increase. So the 1 liter price is above EUR 20, which is on top of that a psychological threshold, let's say. And this could have a negative impact in terms of our net sales. I'm not going to quantify it. It's a risk for the coming months.

Nico Von Stackelberg ***Liberum Capital Limited, Research Division - Research Analyst***

Can I just go back to the first question on the M&A.? So if you're using DCF, could you share the cost of capital that you used for the calculation and I suppose rough growth metrics you've used for this brand, I guess, on a 5-year CAGR?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

No, I'm sorry, I cannot go into that specific. But as I said, we are very happy. We believe this is going to create value.

Nico Von Stackelberg ***Liberum Capital Limited, Research Division - Research Analyst***

Okay. And actually, one last one if I can just chime in. For China, could you give us your 9-months-to-date volume for Martell that you've sold? And I'm basically trying to back into your Q4 growth rate.

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Well, in terms of year-to-date performance, the current run rate is double digits. You know that globally, not only for China, but globally, our medium-term strategy for Martell is high single digits. But this is a midterm ambition, and we could have slightly more than this for 1 year or the other. But again, the ambition is as well to internationalize Martell outside of China. So no change in terms of growth sustainability for Martell.

Operator

The next question comes from the line of Chris Pitcher from Redburn.

Chris Pitcher ***Redburn (Europe) Limited, Research Division - Partner of Beverages Research***

A couple of questions. Are you able to give a bit more detail on the growth achieved in Travel Retail Asia, which is obviously an important part? You didn't give a specific number. And if not, can you give us a feel for what your Global Travel Retail business has been doing in terms of sales growth? And then secondly, on the recently proposed U.S. tariffs, which hit champagne and cognac, have you seen any stock building yet ahead of a potential tariff increase in these categories yet? Or is it still very much waiting to see what goes ahead with that?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Thank you. So I'll start by the second question. I think you're answering it in your question, it's much too early. So nothing to comment at that stage. And as you know, there could be many things happening in the coming weeks on that matter. So I didn't see -- we didn't see anything happening in terms of stock build-up. And we keep monitoring the situation obviously.

So back to Travel Retail, your question was on Travel Retail Asia. So as I mentioned across the presentation, Travel Retail is performing well in each geography. But to be more specific with your question, it's let's say between mid-single and high-single digits in terms of year-to-date net sales performance for Travel Retail in Asia.

Chris Pitcher ***Redburn (Europe) Limited, Research Division - Partner of Beverages Research***

And if I have one quick follow-up. In the U.S., you're still talking about Glenlivet Founder's Reserve. Do you have enough stock yet to push the classic Glenlivet 12 yet? Or is it -- are you still very much building stocks of that brand?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Well, we have sufficient stock. I would just -- maybe just modify the word you used, pushing, because that's not our strategy. It's not a push strategy, but I'm sure your question was more to say can we supply what we need as well for the Glenlivet 12, and the answer is yes.

Operator

And the next question comes from the line of Andrea Pistacchi from Deutsche Bank.

Andrea Pistacchi ***Deutsche Bank AG, Research Division - Research Analyst***

I have a few very brief questions, please. Firstly, going back to Korea, if you could possibly say how much Korea was down in Q3. And then you said that because of the changes to route to market, obviously, this will impact your sales until through the year as you, I think, capture less of the value chain. Does this, however, also mean that you should have a positive impact on margin because the margin through the distributor will be higher? And then on Europe, whether there has been any impact from either stock build or shipment phasing around Brexit, either wine into the U.K. or maybe Scotch into Europe. And finally, please, on Brazil where you had a strong performance. Are you seeing -- is this a function of comps phasing? Or are you seeing a more fundamental improvement there?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Okay. Thank you very much. I'll start with Korea. So as you rightly mentioned, we're going to have probably a very much different shape of our profitability there moving forward since we granted those distribution rights. So our sales moving forward will be, let's say, reflecting the significantly lower selling price, which is the one we're going to have to these new distributors. But we're going to have as well some income linked to the use of the intellectual property rights, I mean, the use of the Imperial name. So that's what's going to happen. That's why we're going to have a significant decline in terms of top line because of this lower selling price to distributors but as well from income coming from these royalty flows. Your question on margin is very relevant. And we should have a better margin because on top of that, as I mentioned, we did restructure the -- our organization there to adapt the size of our teams to the new focus on Strategic International Brands.

And your second question on Brexit. So on Brexit, we did have some safety inventory buildup, but this is more for intra-group finished goods inventory. So nothing to comment on this in terms of -- for the net sales performance. This was again more to try to limit business disruption by having some finished goods stock into our markets.

Your last question was on Brazil. So Brazil, it's not a question of technicalities in terms of comparable basis. We are gaining market share, especially on the Strategic International Brands and with a fast growth in terms of Scotch. That's why I was mentioning Passport a bit earlier in the morning and with as well some price increase on Chivas.

Operator

The next question comes from the line of Laurence Whyatt from Barclays.

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

Three from me, if that's okay. On the inventory optimization in the U.S., could you give some detail about which brands in particular are going to be affected? Is that largely hitting your larger brands or some of your growth relays also are going to be impacted there? Secondly, on the Absolut brand, I see you've launched the Juice line. It's been a very big success over your nearest competitor on one of their vodka lines. If you managed to get Absolut back to flat lining, would that be a good result for you? And then finally, on your whiskey brands in China, you mentioned that Chivas is continuing its growth. Could you comment, please, on how Ballantine's and Royal Salute are doing in the Chinese market, please?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Okay. So I'll start with the U.S. So inventory optimization, question on how it's going to impact the different brands. So I'm not going to give you details brand by brand because it's going to vary obviously depending on each brand position, knowing, as I mentioned before, that the execution of the optimization is key and we want to avoid disruption and out of stock. So obviously we will keep monitoring this -- the execution of this optimization brand by brand. It's fair to say that it's going to definitely impact our big and larger brands, but probably not only those brands but as well some other growth relays. But we're really going to do that, and we are already doing it in a kind of very, let's say, agreed approach with our wholesalers.

Question on Absolut. Well, what I would like to say is that, first, as I mentioned before, we believe Absolut Juice is a great innovation, and we launched it in the U.K. last year. This has been quite successful. So we'll see what's going to happen in the U.S., but we have confidence that this is a great innovation there. And back to your question in terms of strategy. As you rightly mentioned, our ambition is to stabilize Absolut in the U.S., and innovation is going to contribute to that objective.

Then your last question was on the whiskey brands performance in China. So -- well, I'm happy to confirm that both Ballantine's and Royal Salute are performing strongly, double digits in terms of depletions.

Operator

And the last question for today comes from the line of Trevor Stirling from Bernstein.

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

Two questions on my side, please. So the first one, can you just give us a little bit more background to the U.S. destocking and why you're doing this destocking? Is it because you had a slow but steady stock buildup in distributors and then you aren't correcting it? Or are you changing the way you're working with the distributors? And the second question, you increased -- or rather, you tightened the range of guidance from 6% to 8% to around 8%. In terms of what lay behind that, was it increased confidence on sales or increased confidence on margin?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Okay. Maybe I'm going to ask you to just rephrase the second question because the sound was not so great. Can you please repeat?

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

Yes. Hélène, you sort of tightened the range of guidance from 6% to 8% to around 8%. I'm just asking what lay behind that? Was it more confidence in terms of achieving your sales numbers? Or was it more confidence in terms of margin performance?

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Okay. So maybe I'll start with this one. Thank you for repeating. It's definitely both. It's confidence in our top line performance, and obviously this confidence is supported by the strong year-to-date performance that I just commented and as well confidence that with the optimization strategy, the operational excellence initiative that will be completed by the end of June, our strong A&P investments and strict discipline on structural cost, we're going to be able to improve the margin to the extent that we mentioned, which is roughly 50 bps.

Back to your question on the U.S. So we discussed that a few weeks ago. This is really happening in the context of renewal of our contracts with our wholesalers. And we believe this is a great thing to do then to be able to implement those operational efficiency initiatives at their levels through this optimization of finished goods inventory. We have obviously some good counterparts in terms of brand activation behind our top priorities from the wholesalers. And that's exactly why we are putting that in place.

Julia Massies ***Pernod Ricard SA - VP of Financial Communication & IR***

Thank you very much, ladies and gentlemen. Thank you very much, Hélène. And that closes our call for this morning. Thank you and have a great day.

Hélène de Tissot ***Pernod Ricard SA - MD of Finance, IT & Operations***

Thank you. Bye-bye.

Operator

Ladies and gentlemen, that does conclude the conference for today. Thank you for your participation. You may now disconnect.