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PRESENTATION

Florence Tresarrieu - *Pernod Ricard SA - Senior Vice President, Treasury and Investor Relations*

Good morning everyone. I'm very pleased to welcome you to our Q&A session with Conor McQuaid, Chairman and CEO of Pernod Ricard North America. Please note that during this call, we will not provide any forecast, outlook, or guidance. Please refer to the outlook we shared at the group Q3 sales call in April. As we approach the end of the call, I will announce when we take the last questions.

Operator, please explain the technicalities before we pass on to Connor.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Edward Mundy, Jeffries.

Edward Mundy - *Jefferies - Analyst*

Afternoon, morning, Conor, Florence. So I've got three questions please. The first is really around pricing. In your pre-release this morning, you talked about revenue growth management and driving that with all your available levers in the current economic context.

Could you perhaps talk about how the portfolio and some of the key brands positioned from a price point standpoint, relative to their peer set and what have you done on that journey. And then on the other hand, could you perhaps talk about the ambition to drive price and mix and how do these two things go hand in hand, both the affordability side of things and then also the price and mix? And then I'll ask my second question after that.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Good Morning, Ed. Good to talk to you, and thanks for joining us today. No, from a pricing perspective, we've done a significant amount of work in the last 18 months. As you know, we were very bold in our price increases, largely driven by the inflationary pressures and the COVID super cycle.

But we took a big step back largely 12 months ago to really reset all our pricing strategies across the portfolio and be clear and sharp, succinct in how we articulate those to our teams and to our wholesale partners in terms of the competitive position we wish to occupy versus a core competitive set, and again, very deliberately chose who we are going up against.

And additionally, we've resourced our revenue growth team to a greater degree, both in terms of physical full-time employees dedicated to that particular discipline, but also the processes that we have put in place and the tools that we've made available to them to facilitate greater understanding, greater reactivity, and much more detailed post event analysis.

So in the dynamic context in which we operate currently, it's very incumbent upon us to be agile in the current context and make sure that we're making timely decisions as we see the market dynamics change and shift. And that has resulted in some strategic price repositionings, but more often it's really a focus on the promotional intensity and making sure that those dollars that we're spending on a promotional basis are phased appropriately and the depth and the duration of each of those promotions to the key brands is really well understood.

And we take those insights and learnings forward. We're leveraging the revenue growth KDP that has been put in place, Rev Up. And so that's now covering the full portfolio, and we really do believe that we have probably the sharpest, most detailed data-driven RGM capabilities that we've had for quite some considerable time in this market.

Edward Mundy - *Jefferies - Analyst*

And then the second question is around wholesaler realignment and the revamped route to market. Could you perhaps share a few examples of sort of what you've done and how's the portfolio prioritization strategy been received by your key customers, and a few examples as to how it's helping your commercial strategy.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Yes, it's been an intense year as we've gone through the full landscape review with our wholesale partners. And as you're probably aware, there's quite a degree of dynamism at the wholesaler tier in the US at the moment.

We've taken the opportunity to do a full review state level with each of our key partners, indeed some that we haven't worked with historically. The basic premise upon which we've entered those discussions is we're looking for performance to be the key criteria and ultimately to have the appropriate resources on a state-by-state basis.

To that conversation we've brought the new portfolio view that we've taken, which is clearly the mainline portfolio focused as it is on the six power brands and the four Explode brands, is 70% of the net sales of the business currently and that obviously -- 80% including the explode brands. That is the focus. That is the priority, and that's where we need obviously the bulk of time, energy, and resource to be directed.

Additionally, we believe we've got mid-term growth opportunities, but brands that need an extra level of incubation to scale. And that requires an extra level of dedication and resource. So we've asked those questions of our potential partners.

And the third leg of the commercial strategy focuses on the discipline and requirements to win in RTDs. And that obviously has a different commercial route-to-market ask in terms of frequency of delivery, in terms of replenishment, and obviously, innovation management.

So all of that, we talk to those conversations. We've had really good engagement from each of the partners we've spoken with. And we're just in the final stage of bringing those contracts to a conclusion and making a formal announcement.

So it would be remiss of me to say anything further in terms of where we've landed. But we're very happy with the process. And we're also very happy with the engagement and the support that we've had from our incumbent wholesalers who really have worked with us to try and really sharpen the focus.

They've been very positive to what we said by way of portfolio prioritization, being clear about where we will invest, we will support in the type of activities that we are bringing to the table in support of those brands, but also the clarity that we're now giving them in terms of what success looks like.

The KPIs, the commercial requirements on a state-by-state basis are super clear. And the picture of success, as I say, we've worked through with them and in a spirit of collaboration to make sure that they can convey that to both our dedicated teams within their structure, but also the broader full book support that we would work with towards the wider organizations.

So as I say, very happy with the process. Very much looking forward to putting it behind us. It's a drag on our time. And we really do now wish to focus our attention on delivering the performance that those conversations have allowed us to conclude with.

Edward Mundy - *Jefferies - Analyst*

My third and final question, you mentioned some green shoots, I think, in your thing this morning that you released. I appreciate that you've got no crystal ball. And I'm not looking for forward guidance, given that the current consumer environment is quite dynamic.

But do you feel like that momentum can continue into next year, i.e., fiscal '26 will be better than fiscal '25? And if so, why? I mean, I know you start to lap some pressures on Jameson from July, but one of the things that give you confidence if that's the case that fiscal '26 will be better than fiscal '25.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Now, the first thing I would point to Ed is just the momentum. The green shoots as we speak to, we were 5% gap to market, broadly, a year ago. That volume gap is now down to 2 points. And from a value perspective, there was a 6-point gap to market, and that's down to 3 points at this point in time.

So that momentum that we're seeing gives us confidence that we have put the priorities in the right order and that we are working and doing the right things that are giving us that momentum. We wish to carry forward that volume momentum. And as you say, we will now go up against and lap the price changes that we made somewhat impacting the marketplace probably about a year ago.

And again, we are doing the right things in terms of the revenue-growth-management discipline that's in the system that allows us now to feel that we can carry forward that momentum. So it really is the culmination of all the work that the teams are diligently working on.

And as I say, it's great to see that there's positive momentum there, that there's tangible green shoots that we can point to. And all the work that's been happening again with the wholesalers and the plans that we are putting before them are being really well received.

We had our wholesaler distributor conference last week, 150 of the top tier wholesalers from across the network with us in New York for a six-hour presentation. And honestly, I was really proud of the team in terms of the plans they put forward. They are really some of the strongest plans that we've had for quite some time, and that was the general consensus and reaction that we received in the room on the day.

Really clear in terms of what we're asking of them but also bringing to the table wonderful initiatives in innovation. Some of which I won't allude to now because the commercial sensitivity of that is probably worth holding in abeyance.

But also, sponsorships like we've put in place on brands like Jameson, now the title whiskey sponsor of the MLS and the opportunity that that provides to bring the brand to a new audience and very much Hispanic audience and an audience we maybe haven't focused on and haven't spoken to traditionally. So they have big bold ambition in the plan, very clearly articulated and as I say, warmly received by the team last week because we worked with them.

Operator

Richard Withagen, Kepler Cheuvreux.

Richard Withagen - *Kepler Cheuvreux - Analyst*

Yeah, thanks. Hi, Conor. Hi, Florence. Two questions for me, please. First of all, you've made a lot of changes to how the US business operates in terms of route to market, brand support, innovations, etc. Now on Jameson specifically, what is your -- in your view, the main changes that lead to the better performance of Jameson in recent months.

And then the second question is on the RTDs. I think they help you to recruit younger LDA consumers. So what are you doing to convert them from RTDs to also the rest of the portfolio?

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Thanks, Richard. It's two good questions. First, obviously, the Jameson momentum that we're rebuilding, we have a number of very clear actions that we've put in place. The first of which is bringing the awareness and consideration to the forefront of our thinking, investing as we are on the Jameson – Must be a Jameson platform and communication platform, but also extending it to brands like Black Barrel.

So we went on TV with Black Barrel in the fall and we saw a positive halo, not just on the Black Barrel opportunity, but also on the broader Jameson franchise. So really investing with agility to make sure that every dollar spent is paying back to the franchise.

The second is the partnership and sponsorship that we announced. Clearly, we've had a strong presence in association with NFL historically. We've supplemented that now with the MLS sponsorship, which is a big bold move on our part and something that have joined hands with six of the teams within the league on the male soccer and further four in female soccer.

So now that us with a jump off to really execute against the MLS sponsorship, but at a fan level, at a stadium level, at an event level. We are reigniting the on-premise. We have really stood up a new advocacy team. Ambassadors are now back in the marketplace, some 20 in total across the full portfolio, but a clear focus on what we have done traditionally so well, which is build advocacy with our bartender community.

We are seeking also to use that as an opportunity to elevate our whisky credentials, tell the story, and the quality story that underpins the Jameson brand. Again, through the gatekeepers, but also talking to our wholesalers and our wholesaler sales teams, which have changed over time, and obviously, they've recruited new people through the COVID period.

So really giving them the sell story, , really giving them the right sales tools as necessary. And that stakeholder engagement stretches all the way into bringing back iconic things that we did so well back in the day. So bartender advocacy is such a core part.

We re-instigated the Bartender Ball, which is, again, iconic industry, but it's an off day where we bring bartenders on a Monday or Tuesday on a quiet night if they worked the weekend and really spoil them for all the support that they've given us. So again, emblematic of what we have done really well in the past and bringing that back to the fore .

And then finally, I'd cite the fact that we've really stepped in with a clear portfolio architecture. We are taking the Jameson Original challenge on and there's still great headroom there for us to exploit, but also the introduction of Triple Triple, which is now at a 115, 120 index to Jameson

Original, was launched in the period in the run-up to St. Patrick Day and showing great early traction. And then Black Barrel as the next step, the older brother, as we call it, and that's at a 134 index. So again, really giving clarity to each of the innovations within the portfolio. The commercial aspect of all that we're trying to do has been step changed. And I mentioned it previously in terms of our wholesaler engagement, but also just how the team are working very clearly on this being such a key engine for the portfolio and giving it it's due importance from a commercial engagement perspective.

So the combination of all that together gives us great optimism. I'll cite one figure in terms of Jameson's opportunity is our household penetration is about 8.3% at a national level, which is probably half of what we would call out as one of our key competitors.

So we do see that headroom in terms of household penetration, but we also see that in key states. If we talk about five footprint states in the US between New York, Illinois, California, Texas, and Florida, we under-index in two of those states, Texas and Florida, which again gives us great opportunity and great optimism that there is momentum to be built -- continued momentum to be built on the Jameson brand.

On RTDs, specifically, we've taken a very clear view. We want to replicate in an RTD convenience format America's favorite serves made with our brands. And we have worked, and are working, very closely with partners whom have that same objective.

So Ocean Spray has been a wonderful partnership for us, and they are great partners in bringing Vodka Cranberry to the American consumer, but branded Absolut and Ocean Spray, two household brands household brands of repute.

In talking to them last week, as we were, the household penetration on Ocean Spray is 36%. So it's a super strong brand. And obviously the cachet and the equity f of Absolut brings the multiplier effect to those two brands working together.

We did a calculation in terms of the momentum that's built, and we put 14 million cans in the hands of American consumers and giving them the opportunity to taste Absolut and Ocean Spray Cranberry together. And we see that as a formula that can be replicated and is really using the power of two household names and amplifying America's favorite serves in a convenience format, which, in all honesty is at the service of what we are trying to do on the power brands.

It's really bringing that mental availability and that occasionality that hasn't been there before and using it and investing at an appropriate level so that it has the opportunity that we believe it does.

Operator

Trevor Stirling, Bernstein

Trevor Stirling - *Bernstein - Analyst*

Two questions from my side. Since you took over the role, what surprised you in the last 12 months, almost 18, as you say now, either positive or negative? And the second question I have is the wholesaler inventory build that took place in Q3 ahead of tariffs. Is that starting to drop out now? Or the wholesaler is still nervous and hanging on to the extra stock? And then final question. You have highlighted your four explode brands. What were the criteria for choosing those four? And which one of them do you think will be the next power brand?

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

So it's what surprised me in the marketplace, I'd have to say the intensity, the energy that you get from the US market is just -- it's wonderful. Anything is possible. The prize is great, and the prize is big.

It asks a lot of you from a management perspective, keeping many stakeholders engaged, keeping them informed, communicated with, being available to. But I think I've just taken such energy from being in this marketplace and working in it. And I thoroughly enjoyed it.

I've been really surprised and delighted, I would suggest, by the response of the team. This team wants to win. It is very motivated. It is hugely responsive to all that we've asked of them. And their agility is commendable in the last number of months as we've put quite substantive transformation into the organization and sought to do things differently and do things better.

I've been surprised as well as to how hard it is to find the senior leadership that we went to the marketplace to find. And then finding Paul, it probably took longer than I would have hoped. He has come in as our new CCO, joining us as he has done from being the previous CEO of William Grant here in the US, 13 years in the US, an industry veteran, somebody who knows the business really well.

But it took me a longer time than I would have hoped for to get Paul into the business. But we really knew it was such a critical position that we had to get the right individual and the calibre that he is. And the energy that he's brought to the business has been great. So yes, probably surprised how hard it is to find individuals of that calibre. But once we have him now, we know we've really found a gem.

So your second question was around inventory. So obviously, from an inventory perspective, we did, and do, closely monitor our inventory position as you fully appreciate, very dynamic context. And our ultimate objective is to land the year with the appropriate level of industry at the end of the year. And we believe we will do so.

The retailer situation, my understanding and our understanding collectively, is that the retailer has largely destocked, and we're now down to a situation where we've got normative levels at the retail level. That's not to say that they don't continue to be concerned and monitoring the cost-to-carry. And as interest rates remain high, that's obviously clearly to the forefront of their thinking.

So we have to remain agile and fluid. And then we did in quarter three. As there was more noise in the system around tariffs, we responded accordingly. And we're able to adjust with the support of our wholesale partners who, again, have been very supportive and indeed our brand companies across the world.

So, as I say, something we're studiously working, and looking at on an ongoing basis and making sure that we're making the right moves and the right calls. And then your final question, if you could remind me.

Trevor Stirling - *Bernstein - Analyst*

Yes, Connor, your four explode brands. How did you choose those four? And of the four, which one do you think will make it over to the left and into the power brands first?

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

So there are two criteria, Trevor, that we look to. The first was clearly the dynamism of the individual categories that we were underrepresented in. And specifically, in that context, we called out tequila, super-premium tequila in Código and North American whiskey in Jefferson.

The other two criteria that we -- or the other criteria that we use to select the additional two was those brands that we felt we had a competitive advantage within. And the first clearly was Del Maguey, number 1 Mezcal in the market, very strong on-premise and bartender advocacy, dynamism in the category and good competitive position in a category that we felt had future potential.

And that is replicated when you think about Redbreast. So as Pernod Ricard, we have the largest stock of aged pot still Irish whiskeys. And a category opportunity to really take the premiumization challenge on Irish whiskey to the next level, award-winning and as is superlative liquid that gives us a Blue Ocean in which we believe we've got the best competitive position to take those -- take that challenge on.

Of the four, which do I believe will move to the left in the shortest possible time? I'd have to say Jefferson. I think Jefferson and all the work that we're doing in terms of sharpening the portfolio architecture, repacking and restaging the brand, giving it greater shelf presence and visibility gives me great confidence, both in what we are doing, but also in the superlative liquid that underpins it. So that will be the one that I would see and jumping to the left in the shortest time frame.

Operator

Chris Pitcher, Redburn Atlantic.

Chris Pitcher - *Redburn Atlantic - Analyst*

Thank you, Conor. A couple of questions from me. In terms of the presentation and the answers you've been giving now, it does sound like part of the problem for Pernod Ricard USA was almost under-resourced. You've added people to your revenue management team the on- trade advocacy. You've got agave sales team. It sounds like you've reopened your incubators.

Was it literally just the fact that the business has been trying to be too much on too little resource? And can you give an idea perhaps beyond headcount, how much marketing spend has gone up? And then in terms of capital investment, you mentioned Jefferson could be the breakout brand. Have you just completed -- but in terms of the new distillery there that you were building, is that -- have you broken ground is that finished? That's it.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Yes. So from a resourcing perspective, we are a critical investment market for Pernod Ricard. And as required, there's an open dialogue on an ongoing basis with Paris as to what's needed. From an A&P point of view, our A&P to net sales ratio is circa 18%, and that compares to the group average of circa 16%.

So we have an increased level of A&P resource available to us. As we've deployed that, the onus is on us clearly to make the most of that commitment on behalf of the group. So we've been very choiceful to your point, how we've directed that, how we've put additional resource in -- we've done so by really sharpening our pencil in terms of where the greatest need might be.

So against revenue growth management, no surprise in terms of the commercial challenge that we needed to address. So we directed resources accordingly. So we are being agile in the use of those resources and driving efficiency is to the forefront of our thinking.

We're working very well with our new Matrix tool, which helps us make more informed data-driven decisions in terms of A&P deployment. AI-driven as it is, it makes a series of recommendations. It covers 90% now of our pre-POP spend, and our adherence to those recommendations is increasing over time.

So we are not overriding the system. We're bringing our own intelligence to bear, but the system is and of itself getting better all the time and making us sharper in our choices. And similarly, at the commercial level, as we see D-Star giving clarity to our sales team as to the next best action at outlet level is now covering all 50 states. So I would say there's a greater onus on us to drive efficiency in that spend and ensuring that we're making the best use of the resources that we have.

The other metric we're looking at clearly is working to nonworking. And that now sits at 80% working, 20% non-working. The big component of that non-working is just the data that we need to purchase on an ongoing basis, the complexity of the market needs that insight. And that obviously, is a significant proportion of that non-working. But we're looking at that metric on an ongoing basis as well.

So again, really sharp use thereof, very diligent choices and open dialogue with HQ. When we see opportunities and we see that maybe we don't have the resources needed, we put a call into Paris. And that was very much the case with the MLS opportunity where we felt this was necessary. It was felt it was an opportunity that we should go for. And they were helpful and supportive in making sure that we were able to secure it. So that's the use of resources.

Jefferson. So Jefferson -- I'm just trying to -- more into the answers. Just recalling the questions. So Jefferson. So the Jefferson distillery is largely complete, but we've made the conscious choice that we will not open it until June of 2026 at the earliest.

And that's driven by obviously, our stock position and our inventory position as we see it at the moment, not reflective of a lack of ambition to the longer term. Clearly, as I mentioned previously, critical brand for us, critical focus for the business to get it right. But we don't see the ultimate immediacy to open the distillery.

But the CapEx and the heavy lifting, an investment that's been made is largely behind us. And now it's a choiceful decision as to when we fire it up and then bring it into service. Obviously, we have also got Rabbit Hole in Kentucky, and the distillery capacity therein, together with our stock and inventory position gives us confidence that we have what we need for the moment and can take again a deliberate and choiceful decision to delay the opening of Jefferson.

Operator

Celine Pannuti, JPMorgan.

Celine Pannuti - *JPMorgan - Analyst*

Thank you. Good afternoon. I have a few questions first on ready to drink, coming back on this one, can you say what percentage of your sales that is? And understanding a bit the financial around that. Did I understand correctly, too, that you have a different route to market? And so yes, if you could talk about what is needed to develop that business versus the resources and the capabilities that you currently have?

My second question is on the pricing. You mentioned as well how you looked at RGM and you have done some price correction in the past 12 months. Can you talk about what's the pricing like in the industry. Obviously, there is that question mark about tariff. Is there an opportunity that pricing are going to be raised ahead or still the difficult consumer environment makes the industry quite cautious about the pricing level?

And overall, if you could as well comment on consumer preference in terms of the different variant on premium, super-premium, and more moderate price point? And maybe lastly, obviously, you mentioned extensively some of the key bets, including Jameson recovery. Can you talk about how you see the landscape evolving in terms of the different spirits preferences? Tequila has had an amazing run. But do you see emergence of -- like a differentiation in taste preference as we look in the next 1 to 2 years. Thank you.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Thank you, Celine. So starting with the RTD. RTD has different dynamics that underpin it. Clearly, from a distribution route to market perspective. The frequency of purchase and just the physical number of cases that need to be moved around and ensure that they are in stock, merchandised appropriately in the coal box, ultimately, the convenience opportunity and the broader coverage that -- as of a wholesale partner means that there are different skill sets.

And we've made some deliberate choices as we go forward. And again, I come back to the point we haven't concluded those final negotiations and contracts. So I don't want to go too far into the detail, but we have made some deliberate choices in some key states to see whether the opportunity is better reflected in somebody who has that skill set and that focus in the manner in which we need to drive the RTD opportunity.

So at the moment, it represents about 2% value of net-net sales. So relatively small overall. But again, we'll come back to the role it plays in recruitment. And it is clearly playing back to the mother brand recruitment challenge, specifically on Absolut but also we see opportunities clearly from a Malibu perspective. So we're being choiceful. We don't want to get over our skis, but we do want to make the most of the opportunity that it presents as it stands at the moment.

From an RGM perspective, from an industry perspective, I think everybody is very mindful of the economic and consumer context in which we find ourselves, that there is that strain on household income, and disposable and discretionary spends are under pressure. So we clearly have to be responding to that in the appropriate way and providing value to the consumer as they perceive it.

So promotional weight, depth, frequency is something that's all under the spotlight on an ongoing basis to make sure we're making those choiceful decisions. We do see dynamism though across all price tiers. So there isn't a sense necessarily that consumers are seeking to trade down. They're probably just being more choiceful and deliberate about the brands that they choose at a particular point in time.

One phenomenon that we're seeing at the moment clearly is the dynamism in small sizes. And I'm taking the huge positive from that because it indicates that the consumer would rather stay within the franchise and trade down to a smaller size, than leave the premium brand that they know and love.

We're not saying this is anything other than the tactical opportunity, but reflective of the moment, and obviously, it points to the positivity that brand equity is enduring, consumers in the US love the brands that they are very loyal to them, and will trade down in size if that means that they can afford it in the current context.

And then from a landscape of the other categories and the category dynamics at play. Category dynamics in the US would suggest at the moment, obviously, RTDs are very hot. Tequila remains positive and cordials speaks to the cocktail trend. And we're seeing that dynamism playing in support of our Kahlúa brand, which is obviously a constituent ingredient in one of America's favorite cocktails at the moment being the Espresso Martini.

So we're well positioned to capture that trend. But I'm very much of the view that I think brands drive category dynamics. And as consumers see brands that they aspire to and that others are drinking, that becomes sort of a self-perpetuating momentum.

So we've seen breakout performances in specific categories. And then obviously, the competitive context means others jump on that opportunity also, very quickly. But it's a very brand-driven dynamic. And as I say, if you can capture the right moment, the right cultural zeitgeist that you can bring a consumer and gatekeeper community with you. You can build a presence across many categories that maybe don't look attractive in and of themselves that you can break out accordingly.

And obviously, that's a marketing challenge. That's the enjoyment of the day job that we have such a superlative portfolio with brands across many categories. And our challenge really is to make the right choices within that to give ourselves the greatest opportunity of success. I hope that answers your question.

Operator

Javier Gonzalez Lastra, Berenberg

Javier Gonzalez Lastra - *Berenberg - Analyst*

A few questions from me, please. First one on post-COVID normalization. You mentioned in your video presentation that you believe the lack of growth in the market right now is mostly driven by cyclicality and post-COVID normalization. Are there any particular metrics that you track and that may help us understand how far, or how close we are from a full completion of this post-COVID adjustment?

Second question is on packaging sizes that you've been talking about just now. Your biggest competitor appears to have a big success with the introduction of smaller sizes in some of the key brands. What are your thoughts on this strategy? And more important, are you doing anything similar at the moment?

And then lastly, on THC drinks, how much of an impact do you think the recent rise of hemp-derived THC drinks are having on sales performance of spirits? Thank you.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Thanks, Javier. Metrics that we track to sort of see where we are on that curve, I don't know whether you saw it, but it was a very interesting graph that appeared in the New York Times on March 9, which was leveraging Census Bureau data, which looked to show in a very stark visual manner the explosion that COVID had in terms of alcohol sales by US consumers over the period of COVID and the normalized curve that one would hope to have trended back towards.

And it's very clear that we have trended back towards that normalization. And there's a real sense of that correction having happened. But then we've got the added context in which obviously inflation and the consumer economic considerations, maybe playing out in the short term, I suppose one of the concerning factors from the consumer perspective.

So there's those two dynamics at play, which obviously we're monitoring over time. And we believe we've generally normalize back to the curve that would have been anticipated if we had that linear progression and COVID hadn't have happened.

Smaller sizes, as I say, for us, it's a tactical opportunity. We're looking at it simply to see whether there are price points and price opportunities that could be better served by a smaller size. I don't want to overstate it. I don't see it necessarily as something more than a tactical opportunity that plays into the current economic context.

But there is an opportunity there, and obviously, we're looking diligently across for what brands that may be most relevant. And we're not looking for SKU proliferation or a deluge of small sizes. So as I say, I don't necessarily want to overstate it. It's tactical, not strategic.

And from a THC perspective, clearly we're monitoring it. Clearly in can format as many brands are now appearing in the marketplace, it provides an occasionality maybe an alternative to the RTD momentum that we're seeing on many brands.

So it's something as we scan the market and we stay vigilant to everything that's happening from a competitive perspective, clearly, it's within our frame of reference. But at the moment, relatively small and probably more having an impact in RTDs to the midterm potentially, but something that we will continue to look at.

Florence Tresarrieu - *Pernod Ricard SA - Senior Vice President, Treasury and Investor Relations*

I'm going to take two more.

Javier Gonzalez Lastra - *Berenberg - Analyst*

I was just going to follow up on the THC question. So if that was to grow enough and gain enough size, is that an area you would potentially consider to enter or there are legal aspects to it that will preclude you from it?

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

It's obviously a complicated area, and it's not something I would like to comment to at the moment. I'll defer to my colleagues in the HQ and the M&A team. They are obviously very vigilant to what's happening at a market level and scan the market clearly on a regular basis.

But as it stands at the moment, we have no plans other than a watching brief from a competitive perspective to see how it impacts on our current portfolio. And I remind you, I've got enough on my plate at the moment. So I believe there's enough to keep me busy rather than bringing something else to the party for the moment.

Javier Gonzalez Lastra - *Berenberg - Analyst*

Great, thank you.

Operator

Jeremy Fialko, HSBC. Please go ahead.

Jeremy Fialko - *HSBC - Analyst*

So just a couple from me. First one is perhaps you could talk a bit more about agave. You spoke about forming this stand-alone units, perhaps go into a bit more detail about it, and how you think you'll be able to scale up those agave brands perhaps in a way that you have not been able to before?

And then secondly, following up on this kind of a sort of structural post-COVID normalization question. We've gone through this debate about some of the structural factors a lot and we know your views on it. Do you think it would be fair to say that if you didn't see some sort of, let's say, consumer confidence does improve a bit. We come out of this sort of tariff volatility. Would it be fair to say that if you see that sort of consumer improvement, but then the spirits category doesn't benefit, at that point you would start asking yourself questions as to whether there are some kind of broader structural factors at play within the category.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Okay, so from agave perspective, clearly historically we have been underrepresented in agave, hence the decision we took to purchase Código-and bring a super premium brand into the portfolio. So that's very much our priority and our focus within the agave portfolio that we have.

Del Maguey, as I mentioned previously, has a unique position leader in Mezcal, an emerging category with strong endorsement from bartending community and really strong brand fundamentals in its village sourcing.

And also we have Altos within the portfolio that plays more to that mainstream price opportunity and segment that is quite dynamic at the moment in the current context. So within the agave portfolio, we clearly have the right portfolio, but we are underrepresented in that dynamic category. So it remains a focus and a clear opportunity.

As you mentioned, we have put in place the agave team. They are 14 field-based people. And they are largely positioned within the footprint states, so the 5 largest states. And they have specific programs and complaints and actions to put in place with a very on-premise focus.

So again, not trying to be everywhere, but by trying to be in those large agave accounts and obviously Mexican dining is another opportunity that they seek to tap into. But we're trying to get the brands positioned appropriately and ultimately, build from there as we've done successfully with Jameson in the past in terms of bringing a community with us, who see the brands as their relevant choice in obviously what is a highly competitive and very dynamic category.

For all those good reasons, I think we can be optimistic. But there's no question it's going to take time, energy, and sustained resource and investments over that time for us to break through, as I say, a hugely dynamic category as it is.

From a structural cyclical perspective, the long-term tailwinds are what I point to. And I know, as you rightly say, all those other facets, be it GLP-1, be it Cannabis or Gen-Z and moderation, have been debated and studied to death. So I'm not going to maybe enter into that debate as I stand at the moment.

Clearly, as I mentioned in the video, I believe it is cyclical, not structural. But the long-term tailwinds are what really gives me that optimism. As I mentioned previously, we see that adult drinking age population in the US increasing. And again, that's a source of opportunity as we seek to target those consumers.

We see spirits gaining share over wine and beer, and that's very prevalent in the numbers from 35% in 2015 to 42% in 2024. It's a 7-point penetration of spirits. And we also see the dynamism that's in spirits-based RTDs, which again, recruiting a new generation of consumers into spirits consumption and seeing that as a relevant choice for them.

So all of those would give us that long-term optimism that we will get back to healthy growth for spirits and that the short-term (technical difficulty)

Operator

Mr. McQuaid, maybe your line is on mute. We cannot hear you.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Sorry, we're just going to take the last question now if we could. I think we had a small interruption.

Operator

Laurence Whyatt, Barclays.

Laurence Whyatt - *Barclays - Analyst*

Hi Connor, thanks very much. A few from me if that's okay. Firstly, on the wholesalers and your relationships with the wholesalers. I was wondering if you could characterize the quality of the relationship between yourself and the wholesaler sort of when you started your role at Pernod Ricard USA and how that's evolved to today.

And then in a similar way, I guess your nearest competitor, your largest competitor has a significant market share within the US. I think Diageo has about 20% market share. And that enables them to have certain benefits within the wholesalers they have their dedicated sales team.

By nature of you being somewhat smaller, what can you do in order to try and counter that structural advantage? Is there anything you can you team up with other players or anything like this to try and improve your position within the wholesalers?

And then finally completed separately, given all these sort of trade negotiations that we've been seeing with the US, have you heard or expecting any movement on Cuba and any potential for changes for Havana clubs availability within the US?

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

Firstly, the quality of the relationship with the wholesalers, over the period of the last 18 months, we really have reset that relationship, and I point to a couple of tangible actions that we've taken. We've put a very clear cadence and governance in terms of how we meet on an ongoing basis.

Paul has brought that discipline to bear, so there is now taking an example of the Southern Glazer's relationship. There's now a monthly meeting in which the regional Presidents from Southern meet with our divisional Presidents together with Paul and his counterparts within Southern's leadership team.

They go through on a state-by-state basis and they go deep to take real-time actions in terms of what's happening and how that is impacting our business. And so that discipline and rigor is there now, and it's replicated with our other partners in the same manner. So much more frequent ongoing real-time conversations.

We had one last week, a top-to-top where Wayne and I were present together with the rest of the team, and each of them gave us an overview of how the business of performing and the actions that they were seeking to take for '26 as we head into the new fiscal year.

So, I would characterize it and I put a lot of credit to Paul in terms of how that relationship has evolved since he's joined the business. He travels extensively, and I think his state count is sort of I think '25 or '26 he mentioned since he started in January. So he's seeking to get round all and spends a lot of time at a state level engaging with the teams locally. So, I would say we've reset. We genuinely have turned the page and sought to do things differently, and be really in lockstep with our wholesalers.

To your second question in terms of how we break out and how we be clear with each other, and I say that in the spirit of partnership with the wholesalers, I think one of the asks that they made of us is, can you be more deliberate about where we should direct our energy, and can you give us a clearer picture of what success looks like for you?

And we've worked hard on that. Much clearer KPI dashboarding of -- not just asking questions, we need more distribution on this brand or we need visibility on another (technical difficulty) giving them that clarity helps in giving, I suppose, deliberateness to the dedication resource choices that we are asking of them to give us. In certain states we have that whole dedication. And in other states, then as you mentioned, we partner with other suppliers within the portfolio. Can you hear me?

Laurence Whyatt - *Barclays - Analyst*

Yes, we can. Kind of a break, but you have come back now.

Conor McQuaid - *Pernod Ricard SA - CEO, Chairman and CEO - Pernod Ricard North America*

So yes, again, as I say, being choiceful as to how those resources are being deployed, and that requires us at some -- in some states to partner with other suppliers and make sure that we've got the right compatibility in the portfolios as we seek to bring them to market.

And again, through the wholesaler discussions and negotiations we've had recently, we really interrogated that to ensure that we've got the right coverage, that we've got the right level of dedication, and as I say, the right level of clarity as to the picture of success.

From a trade negotiation perspective in terms of what's happening with regards to Cuba, I'm actually not legally in a position to answer that. You may be aware that that's outside of my purview, and there is a clear demarcation between any comment I would make in that regard. So unfortunately, I can't answer that question for legal reasons.

Florence Tresarrieu - *Pernod Ricard SA - Senior Vice President, Treasury and Investor Relations*

Thank you very much, everyone. Thank you very much, Conor. And we wish you a very good day.

Operator

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