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CORPORATE PARTICIPANTS

Alexandre Ricard Pernod Ricard SA - CEO, Chairman & Member of Executive Board
Florence Tresarrieu Pernod Ricard SA - Global Senior VP of Investors Relations & Treasury
Helene de Tissot Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board

CONFERENCE CALL PARTICIPANTS

Celine A.H. Pannuti JPMorgan Chase & Co, Research Division - Head of European Food, Home, Personal Care & Tobacco and Senior Analyst
Edward Brampton Mundy Jefferies LLC, Research Division - Equity Analyst
Jean-Olivier Nicolai Goldman Sachs Group, Inc., Research Division - Equity Analyst
Laurence Bruce Whyatt Barclays Bank PLC, Research Division - Analyst
Simon Lynsay Hales Citigroup Inc., Research Division - MD
Trevor J. Stirling Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

PRESENTATION

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

Alex and Hélène will go through the presentation, which is available on our website, after which we’re going to run a short Q&A session. But before we begin, I would like to showcase a short video highlighting our recent Chivas Regal global campaign.

(presentation)

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

Well, good morning to all of you. First of all, I do hope you had a great summer period, sipping the right cocktails based on the right brands.

So let’s present to you our fiscal year ’23 sales and results. Well, first of all, we had a very strong fiscal year ’23 performance in an environment which is normalizing. We had a very strong and diversified performance basically with growth driven across all regions and across all categories. One of our key objectives was to protect our gross margin, and we did. We sustained our gross margin and expanded our operating margin.

We kept on investing in our brands’ sustainable growth and desirability with record level of investments in A&P, in CapEx and in strategic inventory to fuel our future growth. We continue to actively manage our portfolio, focusing on priority premium+ brands.

Our ongoing transformation continues and accelerates. We are progressing towards our 2030 Sustainability and Responsibility targets. And we continue to deploy our Conviviality Platform. Of course, all of this is translating into long-term shareholder value creation. You see our total shareholder return of 18% in fiscal year ’23. And today, we’re announcing our intention to do a share buyback this fiscal year, somewhere between EUR 0.5 billion and EUR 800 million.

Here, you have the key highlights. I won’t dwell into them. Hélène will give — will present them to you in more detail. As I mentioned, our growth is really broad-based. It’s been driven by all regions with also very strong pricing execution across the globe and resilient volumes. So our 10% global organic net sales growth is composed of 1% resilient volumes, 8% strong pricing execution and a 1% positive mix. You see 2% organic sales growth in Americas, 8% across Europe and 17% in Asia-Rest of the World and strong pricing basically across the globe.
Also, and this is core to our strategy, which is to diversify the sources of our growth, you see here 6 categories have driven approximately 85% of our growth and premiumization also being at the core of our strategy. You see premium+ brands that have driven roughly 80% of the growth and with the Prestige segment growing at plus 15%.

So if you look at our Scotch portfolio, it grew organically 17%. If you look at our Irish Whiskey portfolio, driven, of course, by Jameson, double digit with 11% growth; same growth rate for Cognac & Brandies; same growth rate of double digit, 11% for Vodka; 8% growth for Gin; and same as for Cognac, Irish Whiskey and Vodka, for Indian Whiskeys at double digit, 11% growth. And you see that contribution is very well balanced, perfectly in line with our intent.

Still obsessed by our consumers, consumer centricity really fueling our innovations, driving consistent brand investments as well across the globe, a strong innovation strategy. I would just like to underline the soon-to-come launch of Absolut and Ocean Spray, which is our first co-branded RTD range. And you see a few other initiatives. And let's pause here with a small commercial.

(presentation)

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

Okay. This past fiscal year has been our most active year in terms of portfolio management in a decade. We’ve invested more than EUR 1 billion to complement our portfolio in attractive categories in North America. So after North American whiskey and our latest investment there with Jefferson’s a few years back, we’ve increased exposure to tequila. We’ve penetrated the flavored North American whiskey market, and we’ve increased our exposure to ready-to-drinks.

By the way, tequila, North American whiskey, flavored whiskey and RTDs are the fastest-growing categories in North America. So it’s -- we didn't -- this is not just a coincidence. It’s perfectly in line with our strategic road map. And we also strengthened our partnership with Sovereign Brands, which is the most innovative and creative beverage alcohol company in the U.S. So very active year as well with the divestment of Clan Campbell here in France, which we announced just ahead of summer.

Just a quick focus on our capacity to integrate bolt-on acquisitions. We took that example amongst many, which is Malfy. And you look at our capacity to integrate these acquisitions into our distribution network to increase, of course, significantly the volumes. So ever since we acquired Malfy in 2019, our sales volumes were multiplied by 3 and even more so in value, driving even more margin improvement as well and increasing the number of markets where the brand is present. So this is the perfect illustration of our bolt-on acquisition strategy with Pernod Ricard’s distribution network.

Again, very important, sustainability and responsibility being at the core of our growth model based on 4 key pillars: Nurturing Terroir, number one; Valuing People, number two; Circular Making, number three; and Responsible Hosting, number four. Within each of these pillars, we have a number of very clear, ambitious targets, some by 2030, others by 2025. It’s something that we monitor, of course, very, very closely.

Around Nurturing Terroir, I think regenerative agriculture is one of the most important topics which -- on which we are working. On Valuing People, we are perfectly in line with our ambitions where we want to get to top management balance in terms of gender. We also have gender pay equity.

In terms of Circular Making, and we'll talk about this a bit later in the presentation, of course, we're investing heavily in terms of reducing our carbon footprint, both on Scope 1 and 2, but also with very strong initiatives on Scope 3 through partnerships with our partners, supplier partners, whether it’s agricultural or industrial.

And finally, Responsible Hosting, which is very specific to our industry and where we leverage the power of our brands to drive responsible consumption messages around the globe and engage with our consumers.

So delivering sustainable and stretched profitable growth, this is what we are here to do. We want to build on the strengths of our growth model, which is a triptych, the most comprehensive portfolio of brands in the industry, the most comprehensive route to market with a presence across
all regions and, most importantly, a winning culture. And I’d like to take this opportunity as well to thank all of our teams around the world for the very strong results Pernod Ricard delivered.

And of course, beyond that triptych, our growth model, which is powered by what we call the Conviviality Platform and the key digital programs, leveraging algorithms or leveraging artificial intelligence to be able to activate a lot more brands, so moving from 6 to 8 brands activated across the globe to 15 to 20 brands, what we like to call precision at scale, leveraging tech and data.

So we already gave you in the recent past, I think it was last February, some clear examples around some of our key digital programs. The first one being Maestria, which is mapping, thanks to consumer insight, mapping all the moments of consumption in any given market and addressing all of these with a clear portfolio strategy.

Matrix as well, again, maximizing our marketing investments by touch points, leveraging again very insightful data and our algorithms. Same thing for promotional efficiency using our tool, an algorithm called Vista Rev-Up. And finally, around D-Star, which is a sales force automation, again, leveraging the power of tech and data. And it's all about having the right brand at the right time at the right place at the right price with the right message, targeting the consumer.

And of course, all this delivering the -- our performance, our road map, as we announced it. We're perfectly in line with what we said we would deliver. As you can see, despite the small blip in 2020 with COVID, we came back to exactly our ambition, which is the upper end of the 4% to 7% top line growth with margin expansion of roughly 50 to 60 bps per annum.

And this, of course, results in a sustainable long-term value creation for all of our stakeholders. You see here the TSR over a 1-, a 3- and a 5-year period. But also when I mean all stakeholders, it's also from an S&R point of view. It's also our colleagues from around the world that deliver these results. We're happy and proud to be part of Forbes 2022 World's Best Employers. We also received in 2023 a gold rating from EcoVadis for our sustainability. And finally, the engagement, the commitment of our teams around the world despite the challenging environment. So again, thank you to our teams.

And of course, adapting our operating model to all of the above, should I say, as we have transformed ourselves over the last few years as we deploy our digital transformation, which we call the Conviviality Platform. We've also adapted our operating model and governance with a new EXCOM, Executive Committee, to lead our ambition with, of course, Hélène in finance and IT; but also with somebody representing global brands, Philippe Guettat; somebody representing global markets, Gilles Bogaert, alongside Ann, who represents North America; Maria Pia, who joined us 6 months ago, who is driving our operations, S&OP; Cédric, which most of you know, on HR; Anne-Marie, our General Counsel; and finally, Conor McQuaid takes care of corporate communications, S&R and public affairs.

So this is a resized EXCOM. We have also an executive leadership team, which regroups basically headquarter functions around the digital IT, but also 10 management entities. We used to have 22, we now have 10 and 6 global brand companies. So a resized, reshaped operations for Pernod Ricard to adapt ourselves for future growth, leveraging our Conviviality Platform.

And with a clear medium-term financial framework, which we presented to all of you during Capital Markets Day last year, we aim, of course, the upper end of the 4% to 7% top line growth. We will continue to focus on revenue growth management, enhanced by our proprietary digital predictive tools, one of them being Vista Rev-Up, I already mentioned. Of course, continuous improvement in operational efficiency, building on our culture of excellence, which is something we're now nurturing every single year.

Significant A&P investments, I mentioned it's a record level, maintained at roughly 16% of our net sales to drive very strong consumer-driven brand equity, brand awareness, brand consideration with even higher return on investment, leveraging again our Conviviality Platform. Keeping discipline on our structure costs, investing in priorities while maintaining an agile organization, I've just showed it, aiming at a rate of cost increase below, of course, the top line. And finally, delivering, therefore, operating leverage of circa 50 to 60 basis points on average within that framework. So that's what we call driving long-term sustainable value creation.
A very strong price effect of high single digit. Share gains in the Irish and North American whiskey categories, in the single malt category and share gains for both Malibu and Kahlua. We’ve continued to deploy our RTD portfolio in the U.S., enjoying very strong double-digit growth. And as I mentioned, we're looking forward to the launch of Absolut-Ocean Spray RTD. The successful very recent integration of Código tequila and Skrewball peanut butter-flavored whiskey, which I recommend for those of you who can have access to it in the U.S.

Agility in our inventory management and declining sales expected in our first quarter on a high comp basis, but with a positive outlook for the year. So remember that last year, we significantly increased our prices October 1, which obviously led to a retailer sell-in ahead of these price increases. And we also sold into our wholesalers ahead of an OND period, back in a time where supply chain disruption was quite huge, which thankfully is over now. So declining sales for Q1, but positive outlook for the full year due to the technicalities I just mentioned.

Moving on to China, plus 6%, frankly, a strong performance throughout the fiscal year in a contrasted year. So if you recall, we started the year very well with a very strong Mid-Autumn Festival performance. In fact, it was a record performance. And then the environment became more challenging with a soft Chinese New Year season. Remember, there were lockdowns ahead of Christmas. And then the zero COVID strategy was stopped, but created quite some disruption, which led to a very soft Chinese New Year, and followed by a very strong rebound in the fourth quarter with the resumption of consumer activity, amplified by a low basis the year before.

We ended the year with a very healthy level of inventories by June end in China. We did increase prices. We have a high single-digit price effect. We increased our prices again during the month of May, as we do every year, in fact. The growth was driven by Martell, but as well by our premium brands portfolio, led by Absolut and Jameson. We have maintained our value market share in China. And we do expect a soft Q1 in China due to challenging macroeconomic conditions and also a high comp basis, which is clearly expected to ease from Q2. Remember, we’re recycling a record Mid-Autumn Festival in China.

India, well, excellent growth with continued premiumization momentum. China (sic) India] up 13%. Growth was led both by price and mix. Our Strategic International Brands continue to enjoy very strong momentum with strong double-digit growth, notably on our Scotch portfolio, Jameson, Absolut, et cetera, et cetera. Our Strategic Local Brands continue to premiumize, and we have a strong focus on Blender’s Pride and Royal Stag. And we maintained our very strong market leadership position in the segment in which we operate. And we just launched L77, Longitude 77 in the very dynamic Indian single malt category.

Global Travel Retail, which is continuing to normalize and will continue to normalize this fiscal year with strong recovery as passenger traffic resumes in Asia. So for this last fiscal year, Travel Retail grew 40%. Passenger numbers are roughly at 90% of pre-COVID levels globally. We have a double-digit price effect and a very favorable mix as a result of the resumption of travel in Asia, led by China. Strong performance notably on Scotch, on Martell as well as on Absolut. We’ve maintained our value leadership. And we expect a solid start of the year this fiscal year with a continued recovery in Asia.

Then on the other regions, so for Europe, up 8%, which is a very strong performance for Europe. Resilient volumes across the region with as well a high single-digit price effect. We’ve had very strong growth in Spain with a very strong on-trade recovery last summer, remember, driven by our gin portfolio, but also by our scotch and vodka brands. Germany also had a very strong year with 8% growth across basically all channels. The U.K. grew 2%, but we’re keeping -- gaining share in the U.K. with very strong share gains in the on-trade. Listen, modest growth of Ricard in France, up 1% after a year of growth as well. So 2 years of consecutive growth for Ricard, which is really gaining traction again in France. And finally, dynamic performance in Eastern Europe, notably with double-digit growth in Poland.

The Americas, up 2%; Canada, 3%, which is a good overall sales result with strong growth on Absolut, Jameson, Glenlivet and our Specialty Brands; and very strong ready-to-drink performance as a category, but ourselves within that category. Brazil, 1% growth with a slowdown in H2. This is
probably one of the markets where we were very aggressive on price, and it hit a little bit our volumes. Mexico, double-digit, 12% growth, driven by Absolut and our Scotch brands, in particular, Chivas.

Asia-Rest of the World, excellent growth at 17%, with 21% growth in Japan; 19% growth in Korea; double-digit growth in Taiwan; very strong growth as well in Turkey, 44%, led by Chivas, and with share gains across the portfolio; 15% growth in Africa, led by South Africa, Nigeria and Kenya, with our whiskey brands and Martell. And again, I won’t dwell upon it, I already touched upon that, but growth across all our spirit segments with double-digit growth for our Strategic International Brands.

A word on Jameson, up double digit, 10%. Strong growth across Europe and Asia. Volumes continue to grow in fiscal year ‘23, building on our last year’s 10 million case milestone and, therefore, driving us to invest a little bit of money in capacity expansion, and we’ll talk about it a bit later. Very strong pricing, very strong brand equity. U.S. enjoyed a mid-single-digit value depletions growth with a very strong growth for Jameson Orange, very successful innovation. I think it was rated one of the most successful innovations over the last fiscal year in the industry in the U.S. And the continuation of the globalization of the brand. Outside the U.S., Jameson grew 22%. And to be fair, this growth is driven by all regions and within all regions, I would say all markets.

Our Scotch grew 17%, double-digit pricing, building on the strong global demand for scotch. Chivas, we just broke the 5 million case milestone. Chivas is now up 25% in terms of net sales with a clear premiumization ongoing within the whole range, the 18-year-old performance, the 13-year-old performance and so on. Ballantine’s, again, double digit at 13% with strong growth as well across Asia, but also in European markets such as Spain and as well in some of our LATAM markets, principally Brazil.

Royal Salute, up 32%. I mentioned our Prestige range is up 15%, in particular, driven by Royal Salute, up 32% with a strong recovery in Travel Retail, but also growing in many other markets. And Glenlivet, up 9%, led as well by premiumization within the range, notably in the U.S. where we gained share in single malt, but as well in Taiwan, in India and, to be fair, in many other markets.

Absolut, up 10% and with broad-based growth, so coming from all regions. And again, building on the 12 million case milestone we broke last year with strong pricing on Absolut because of its strong brand equity with a very strong performance across Western Europe, the strong international development of the brand, led principally by China and India, but without forgetting Mexico, Australia, et cetera, and the strong rebound in Travel Retail.

And Martell, up 10%, principally led by Asia and Global Travel Retail with a strong price effect in line with our value strategy, which is not new, of course, with favorable mix offsetting a very slight volume decline. As I mentioned, we had a record Mid-Autumn Festival last year. And the year was softer in the U.S. And very strong development in Africa, Middle East, notably in Nigeria, perfectly in line with our internationalization strategy for Martell.

More broadly, on the rest of the portfolio, very dynamic performance. Ricard, plus 1% for France is very good. I mentioned 15% for our Prestige portfolio; Beefeater, up double digit, led by a dynamic U.S. performance for Beefeater in the U.S. Havana Club, up 6%; Malibu, 4%, with a nice rebound in the U.S. in H2. And our champagne portfolio, which grew 1%, with a strong rebound in H2.

And on that note, over to you, Hélène.

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

Thank you very much, Alex. So let’s move into the profit section so that we can have a deep dive into the financial translation of this very, very solid performance that Alex just detailed with you.

So starting first with the P&L and with the margin evolution, I must say, as I’m sure you remember, sustaining the gross margin was a key ambition for us this year, especially given the unprecedented pressure coming from inflation. And I must say, we are very pleased that collectively, we managed to sustain that gross margin. You see the performance here, plus 3 bps in terms of organic expansion. And this is obviously mainly linked
to a very solid pricing increase -- price increase across the brand, across the portfolio, across the world. Alex already covered the performance by brand and by market on that front.

It’s obviously a strong testimony of the strength of our portfolio. And I must say as well, a very solid demonstration of the very strong execution of price that has been done everywhere, which is obviously linked to our capabilities in terms of revenue growth management. We have as well kept very strong A&P, accelerated our investment in key markets like the U.S. with A&P to net sales ratio quite stable at 16%, as already announced.

When it comes to our teams, obviously, investing in our teams, attracting and retaining talent is critical for our sustained long-term growth. So we kept investing, but in a disciplined way in our structure, with a growth which is below top line at plus 8% organically. So this is then getting to the profit from recurring operation performance, growing at plus 11% organically and as well on reported numbers, translating into this operating margin expansion.

When it comes to the FX, so FX has been negative, especially in Q4, I must say, and this is linked to the deterioration of currencies, especially in emerging markets that has been a bit stronger than expected in Q4, and this is partly offset by a perimeter impact.

So moving now to the earnings per share growth. So a very strong performance in terms of profit from recurring operation is translating into a strong group share of net profit from recurring operation growing at 10% and further improves to EPS growth of plus 11%.

So let’s maybe have a quick view on where it’s coming from. So starting with the financial expenses, due to the rapid rise of interest rates, our financial expenses are higher than last year. But we managed to maintain an average cost of debt which is well inside the 3% guidance we provided a year ago with an average cost of debt at 2.6%. Tax rate on recurring items is virtually stable at 22.6%. And the earnings per share has the accretive benefit of the share buyback program of EUR 750 million that we executed in fiscal year ’23.

So bridging now from the group share in profit from recurring operation at plus 10%, we report an increase in group share of net profit at plus 13%. This improvement is due to nonrecurring expenses after tax being lower than last year with nonrecurring expenses driven by reorganization and restructuring costs, partially offset by asset disposal and positive nonrecurring corporate income tax.

So let’s move now to cash flow and balance sheet. So first, we are consistently generating a strong cash, which is obviously key to provide us the means, but as well the confidence to strongly invest to prepare our future in a sustainable way. So recurring free cash flow at EUR 1.7 billion, which is minus 14% lower than last year due to primarily the significant increase of our strategic investments to fuel future growth with well over EUR 1 billion in total invested in fiscal year ’23 in CapEx and strategic inventory. We have as well a modest increase in working capital.

So maybe let’s come back to the strategic investment. CapEx investments were notably directed toward expanding our production capacity in aged products. And I will share some examples -- a very concrete example of an exciting one, I must say, with you in a moment. So our CapEx amounted to circa 6% of net sales. We have as well doubled our investment in strategic stocks versus fiscal year ’22, investing circa EUR 500 million in fiscal year ’23. And this is absolutely critical to protect our future growth, notably, obviously, with our aged portfolio.

So moving now to concrete highlights of our investment program, again, dealing with both capacity expansion, but also very importantly investing in sustainable technologies such as mechanical vapor recompression in Ireland and Scotland. Needless to say that as well our new builds in Ireland and in the U.S. will include the top technologies, I must say, to ensure that our production is carbon neutral. So you have here beautiful pictures of our investments to come in Ireland with a new distillery in Midleton, in Scotland with additional investments, in the U.S. with a new distillery in Kentucky. And as well, we kept investing, as I mentioned, in strategic inventories.

So let me give you a bit more flavor on what we expect for fiscal year ’24 on that front. So we share with you a guidance for our strategic investments with a range between EUR 800 million and EUR 1 billion for CapEx for fiscal year ’24 and strategic inventories level to be similar to fiscal year ’23. And we anticipate as well that we will have elevated investments for those precise reasons, very strategic reasons for the next 2 years.

So moving now to the balance sheet. So our net debt increased by EUR 1.6 billion, and we maintain a strong balance sheet with a net debt-to-EBITDA ratio of 2.7 while deploying a very dynamic financial policy. So you have the numbers here, starting with a very significant M&A activity that Alex
went through a few minutes ago. We're notably increasing our shareholding into Sovereign Brands and as well acquisition of majority share into Código and Skrewball. We have as well executed our share buyback program for EUR 750 million in fiscal year '23, quite consistent, obviously, financial policy when it comes to dividend for close to EUR 1.1 billion. And some positive FX impact on net debt coming from the U.S. dollar-euro evolution.

So this has enabled us to accelerate our return to shareholders, given this very consistent performance, strong performance that we have delivered over the years. So we are proposing a dividend of EUR 4.70 per share, subject, obviously, to the vote at our upcoming Shareholders’ Meeting, which would be a plus 14% versus fiscal year ’22. We are as well announcing a share buyback program with a range of EUR 500 million to EUR 800 million.

And let me remind you our financial policy with 4 priorities in the following order while maintaining investment-grade rating. So number one priority, investing in future organic growth, in particular through strategic inventories and CapEx. Number two, continued active portfolio management, including value-creating M&A. And by the way, active portfolio management means acquisition, but as well disposal, and we've been quite active during the summer, as you know. Dividend distribution at circa 50% of net profit from recurring operation, aiming at consistently growing dividends; and finally, share buyback.

Back to you, Alex for the outlook.

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

Well, thank you very much, Hélène. I think the most important message on this slide and for the outlook is our confidence to deliver our ’23 through ’25 medium-term financial framework, aiming, of course, at the upper end of that 4% to 7% top line range and delivering as well 50 to 60 bps of operating margin.

For this specific year, in a challenging environment, we anticipate, number one, broad-based and diversified net sales growth for the full year with, as we already mentioned it, a soft start in Q1 amplified by a high comparable basis. We have and we are experiencing easing inflationary pressures, which is good news. We will continue to focus on revenue growth management and operational efficiency. We'll continue, of course, to invest at record levels behind our brands and the brand equity at around 16% of our net sales, which is optimized, leveraging our key digital programs.

We'll continue to be even more so disciplined in our investments in structure, and all of this leading to organic operating margin expansion. As Hélène just mentioned it, you should expect significant investments to fuel our future growth in CapEx between circa EUR 800 million and EUR 1 billion and as well behind our strategic inventories to a similar level as this last fiscal year. And again, as Hélène announced it, we will have a share buyback program throughout the fiscal year expected to be between EUR 0.5 billion and EUR 800 million. And as well, finally, we should expect, at least based on current exchange rates, a negative FX impact.

I think that’s it.

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

Thank you, Alexandre and Hélène. And we can now turn into the Q&A. (Operator Instructions) And I guess the operator can open the call with the first question.
Simon Lynsay Hales - Citigroup Inc., Research Division - MD

So obviously, 2 questions for me then, please. Just first, I wanted to start off on the outlook for Q1, just to make sure I understand the drivers of the weakness there. On the U.S. specifically, can you just confirm that you're not expecting any further destocking in the first quarter, that the weakness really, I think you said, Alex, is primarily just driven by the tough selling comps ahead of the price increase last October? And if that is the case, how do we think about overall depletion expectations for the U.S. for both full year 2024 and for Q1?

And then secondly, also related to that, from a China standpoint, I appreciate, as you said, Alex, you've got a tough Mid-Autumn Festival comparative, but the headline comparative from last year's Q1 of, I think, 9% growth in China doesn't look overly tough. You highlighted the softer macro in your comments. Are you already seeing some changes in consumer behavior there? And how does that make you think about full year trend growth in China? So that's my overarching question.

And then just a quick second one maybe for Hélène. You talked about weak FX into 2024 being negative. Can you give a bit more guidance on how negative you expect FX to be this year?

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

Well, I'll start with the U.S.-China one. Listen, we mentioned agility in inventory management. The basis, to be fair, is basically inflated by price increases, which led to a strong sell-in to the retail ahead of October 1. That was when we increased our prices quite significantly, should I say, number one; and number two as well, for very strong demand at wholesaler level ahead of the OND period. Again, remember, last year, at that same time, we were -- not just ourselves, by the way, we were all struggling with supply chain disruptions. And the one thing you want to avoid is out-of-stock situations during the key festive period of OND.

So this is what we're recycling in the U.S. The underlying dynamics are positive. I mentioned consumer resilience for the U.S. We're not at the 4% to 5% underlying growth medium-term level as we are normalizing. We believe right now the market, from a consumer demand standpoint, is probably anywhere between 1% and 2%. And then the rate at which and the timing to get to the 4% to 5%, I would say your guess is as good as mine, but it's not going to happen in years from now. It’s a question of, is it 6 months, 12 months or 18 months max? This is something we'll see. That being said, for the full year, we said we expected a positive full year in the U.S.

Just one thing on China, by the way, the famous 9% to which you're referring of last year, Q1, the previous year was up 23%. So just bear this in mind, 23 plus 9, plus now recycling a record Mid-Autumn Festival, so this is also something to bear in mind.

And so on FX, Hélène?

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

Yes. So by the way, Simon, I think I'll make it 3 questions for you. But -- so how negative? It would be very difficult to quantify that at this time of the year. You have the average rate for our main currency in our deck, and we ended the year with the euro/U.S. dollar at 1.05. And the spot rate is what it is, more close to 1.10. So that's why we expect negative FX impact. I cannot quantify it more at this time of the year.

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

Brilliant. And just to confirm on the China point, sort of, Alex, you mentioned the softer economic backdrop that we're seeing there. I mean, are you seeing a change in consumer behavior on the ground already in recent months?
Alexandre Ricard - Pernod Ricard SA - CEO, Chairman & Member of Executive Board

Well, the channels which is probably suffering most related to the economic environment is the on-trade. So the on-trade, I mentioned, night clubs are clearly suffering big time. The on-trade overall is being challenged due to the environment. That being said, we're seeing, I was there a couple of months ago, the strong emergence of live bars, so basically bars where you have live entertainment, music bands and the strong emergence as well the -- of cocktail, which is spreading. So we are seeing consumer resilience. However, to be fair, there is some softness related to the macroeconomic environment.

Operator

The next question is from Edward Mundy with Jefferies.

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

I've got 2 questions then. So the first is on the recent organizational changes that you announced last night. Alex, when it comes to execution, what are the sort of 2 or 3 behaviors that you're looking to achieve and drive following this organization evolution? And as a second part of that question, Hélène, how should we think about the financial impact of these moves as some of the delayering takes effect?

And then the second question is on margin expansion. I think you laid out some of the key moving parts for fiscal '24, quite a confident turn on driving margins. Could you perhaps elaborate on this? And do you think fiscal '24 will be a year where you're able to grow margins 50 to 60 basis points in line with that medium-term framework?

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

Well, listen, Ed, thanks for your question. I think that's -- these changes this last fiscal year is probably one of the most significant change we've operated during the course of the year. The name of the project, by the way, just to share it with you, was called Project Tomorrow. And by the end of September, we'll say that tomorrow has now become today and the project is over. We have significantly delayered, by the way, no more regions. The headquarter is directly linked to now the big management entities, the 10 management entities on one side and the 6 brand companies on the other.

From a behavioral point of view, maybe I will stress 3 keywords or 3 key philosophies we based all of these changes on. The first one is simplification. So we simplified some of the layers. We simplified functions, function by function. In today's world, it's very simple to complicate things, and it's very complicated to simplify things. But simplicity -- simplification is critical. So the only thing that matters to us is our consumer and our consumer-centricity and the relationship between our consumers and our brands. So number one, simplification.

Number two, we always talk about centralization, decentralization, to be fair, pragmatism, being decentralized where it matters, being centralized where it also matters. Should IT be centralized? I think the answer is, at least on the hardware piece, of course, infrastructure and so on. I could go on and on, but the key word there is no longer these kind of things, it's empowerment.

We now have a framework. By the way, the one we have that we share with you is the global one. But the beauty of that framework is that we can cascade it by brand and management entity with a very strong portfolio strategy in place, leveraging our tech and data. That framework is sufficiently clear and straightforward and, in a way, simple that we can easily empower people just to get the work done. Once we agree on that framework, and we call this freedom within a frame, people are empowered to make the right decisions very swiftly where it matters. And this, I think, is at the core of what we're doing. And we've seen it in the recent past, it is already having an impact.

And the third and final philosophy around Project Tomorrow is we call it discipline, discipline in execution. This year is going to be an execution year. We are delivering market by market, brand by brand our framework. We really want to focus on that clarity of execution now that we have
the framework. So simplification, empowerment and discipline, all at the service of our consumers that are at the core of our model. That's the behavior I expect from my teams around the world. And that's, to be fair, what they expect as well.

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

So moving to the -- your following question in terms of financial impact. So as Alex just mentioned, this evolution of the organization is really to deliver stretched profitable growth. So this is not a cost-cutting exercise. This is an evolution to deliver on our strategic journey.

Having said that, you have just mentioned discipline, Alex. Obviously, discipline as well has been an obsession on many aspects, including in our investment in structure. So we're going to keep having that very strong discipline in terms of investment in structure. And you can expect some synergies because of the simplification, the delayering of the organization, some simplification and mutualization that will contribute to that journey of disciplined investment with structure cost growing below top line.

Talking about margin expansion for our fiscal year '24, so maybe let me just start by saying, thanks to this very solid performance of fiscal year '23, we are starting the year in a very solid position when it comes to the business and when it comes to our margin. So first, our brands have been very resilient in the context of a strong price increase, and we're going to keep that benefit in this fiscal year '24 with some carryover of last year in terms of price increase and some new price increase that are going to still be implemented in the months to come, probably in a more specific way and, to some extent, a bit more moderate in a context where, as we mentioned in our outlook, we believe that we will be moving to, I would say, some easing in terms of inflationary pressure. So pricing, premiumization will obviously be key for our performance in fiscal year '24.

Moving to COGS. So easing inflationary pressure doesn’t mean we will turn into tailwinds. We believe that especially when it comes to our dry goods, our wet goods, it will be still quite significant in terms of pressure, but not to the same extent as in the fiscal year '23. And we're going to keep benefit from all the initiatives we put in place in terms of operational efficiencies. And we'll have finally good news coming from logistics costs, which already materialized, to some extent, in H2 of fiscal year '23. So especially, for instance, in terms of (inaudible) that will support our margin expansion in fiscal year '24.

Moving now to A&P, so quite consistent policy here, aiming at circa 16% of net sales. And as I mentioned, discipline in structure cost. That's why we are confident at this beginning of the year to share with you this ambition to expand our organic margin in fiscal year '24, but we are not guiding on that topic at this time. Again, we are as well reiterating our confidence into delivering our midterm framework by fiscal '25, which is, as you know, both an ambition in terms of top line growth and organic margin expansion of 50 to 60 bps.

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

And Alex, just a quick follow-up on the 3 sort of philosophies. I mean, how does having much better data in digitalizing the business, how does that help you with those 3 philosophies?

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

Let's be very clear, a fact-based -- data fact-based decision-making, very swiftly, when you get the information and the data to make your investment decisions in terms of A&P, when you get the data swiftly as well and reliably to make your promotional decisions. What this is going to do, by the way, is your full year strategic planning from an executional point of view and operational point of view in terms of what brands to activate in what conditions throughout the year and at what time.

There is -- I was mentioning OND is a critical festive time in the U.S. But to be fair, every month is critical on a specific brand or a specific set of brands. There is the month of May for tequila. There's summer for a number of our brands. I cannot enough mention St. Patrick's Day and so on and so forth. But what this will do is we will be a lot more precise in terms of our strategic plan and execution on the brands we activate everywhere in the world. It's as simple as that. I find it simply, as you said. Now we need to execute it. It's a new mindset.
Jean-Olivier Nicolai - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Just got 2 questions. First of all, on the portfolio management slide that you mentioned earlier, you have acquired [rich brands] in the U.S. this year. Could you give us an indication of the organic sales growth boost that you would get? I mean the U.S., for instance, this year was flat. What would have been the rate if those brands were inorganic?

And then secondly, you also mentioned some disposals. I think you sold Clan Campbell recently in France. This is obviously a small brand. So not deciding to ask you more detail -- much details about this one specifically, but can you share us some insight of what the catalyst for this decision in general, what the trigger for you to dispose of a brand?

And then just a follow-up, perhaps, on the presentation. You mentioned 2.6% interest coupon for full year ’23. Looking at the debt maturity profile and the need to refinance for next year, how should we think about next year in terms of coupon rate?

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

So if that’s fine with you, Alex, I’m going to cover all those questions. Thank you, Olivier. So portfolio management, yes, obviously, fiscal year ’23 has been very active, especially for North America. This will be still in perimeter impact mainly in H1 of fiscal year ’24, starting to contribute to organic growth in H2 of fiscal year ’24. By the way, that means that perimeter impact in fiscal year ’24 would be quite significant, thanks to this active portfolio management, and this will partly offset the negative FX impact I was referring to.

So more to come. Our focus right now is obviously to integrate those brands in the U.S. and in Canada soon with ACE Beverage as efficiently and as dynamically as we can. There’s a lot to come in terms as well of investment behind those brands. So I must say we are extremely enthusiastic to have those brands joining our already quite comprehensive portfolio.

Clan Campbell is exactly what I was referring to when I was talking about disposal. By the way, again, for us, active portfolio management has always been both acquisition and disposal even if we’ve been probably even more dynamic in terms of acquisitions recently. But we’ve been selling brands over the recent past as well. So what -- I mean the strategy and the way we are looking at our portfolio is, again, to see what are the brands that are contributing to the growth, what is the value that we can keep creating behind those brands moving forward. And if we believe that some brands are a bit less dynamic and not as critical for global portfolio in related markets, we are looking at the opportunity to sell them.

And then when we come to the financial expense projection for fiscal year ’24, you’re right, cost of debt was 2.6% in fiscal year ’23. In the current context of increase of interest rate, we believe that the cost of -- the average cost of debt for fiscal year ’24 could be between 3% and 3.5%.

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

A couple for me then, please. Firstly, on your Travel Retail business, I think you had a target to get to the 2019 level of profits this year. I’m assuming you hit that pretty well. Just wondering if you think there’s further growth to come from the Travel Retail business as the world continues to return to travel and China is getting on more planes and the like. What are your sort of expectations on Travel Retail? Do you think that will be growing ahead of the rest of the group?
And then secondly, you built your digital capabilities, I think, in 2020, and you announced them to us at the Capital Markets Day last year. Of course, those years were pretty impacted by various restrictions and lockdowns and the like. And now we’ve had a more normal year of operations this year, has everything performed to your expectations? Have you had any learnings as people are operating slightly differently than they did during the pandemic? What can you take away from that sort of change to more physical meeting?

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

Sure. Laurence, thank you for your questions. On GTR, so I mentioned traveler is at 90% versus 2019. But in terms of profit, we’re in fact above. We were aiming at being back to 2019 levels. And at the end of the day, we ended up even above that. So great news, of course, related to the increase in traveler numbers, number one, which we call normalization; but number two, to very strong and good positive pricing; and number three, indeed, due to mix, both in terms of brands, but also as well in terms of regions with the Asian region being the last one to rebound. That rebound is expected to continue throughout fiscal year ’24. So we do expect a dynamic GTR for this new fiscal year growing faster than the rest of the world, for sure. Unless there’s another pandemic and all these kind of things, let’s not get there.

Digital capabilities, yes, we’ve been building digital capabilities on one side. And from that point of view, I’m very confident. But even more importantly, we’ve been gathering the data. Initially, the data was gathered manually. And now we’re starting to automate our data gathering processes. The data is becoming more reliable as well. We’re starting to use it with a lot more precision, et cetera, et cetera.

And on that front, I would say that the data piece is never ending. It’s endless because we will keep gathering data year in, year out, which will enrich our models. As you know, we have algorithms for our KDPs, whether it’s on the marketing front, whether it’s on the promotional front. And they will constantly be enriched by the data. So we have a big change management piece, of course. And now that I talk about execution for this year, a lot of it is going to be around change management to make sure that everybody adopts these tools, which is underway. And the ultimate vision, which I call the cockpit vision, is to have all these tools not work in silos, but work overall getting to an excellence in execution from a strategic planning point of view.

Operator

The next question is from Celine Pannuti with JPMorgan.

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

My first question will be on the U.S. I saw in my note from last year that your sell-in was 2% ahead of sell-out last year. So it seems that you have a tough comparative for the first half of the year. Plus, you mentioned that the market is growing in the low single-digit range. So I’m just wondering how -- what makes the bridge from starting the year negatively the tough comp, if I’m right, in sell-in and ending the year positively in the U.S.?

My second question will be on the outlook. You mentioned that you are confident on your midterm algorithm at 4% to 7% -- at upper end of 4% to 7%. Do you think that this year, fiscal year ’24 will be within the 4% to 7% corridor? And within that, could you as well help us understand how your pricing dynamic versus volume should evolve in ’24 versus, I think, ’21 where pricing was -- volume was 1%?

And then maybe just lastly, to make sure I’m right, could you say how big Russia is in terms of sales and EBIT for fiscal year ’23? And is that going to be accounted for in the organic number for ’24?

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

Okay. So thanks for all those 3 questions. I’ll start with the U.S. So you’re right, things have been a bit volatile from one quarter to the other last year in the U.S., by the way, the year before as well, which I will call agility in the inventory management because situation was very different with a strong COVID recovery, so putting pressure -- very positive pressure in terms of demand, at the same time, very significant disruptions in terms of
supply chain. So there were some movements from one quarter to the other. That could be very different at the wholesaler's level and at retailer's level. And our ambition was obviously to be very agile to monitor our shipments accordingly.

So things were different from one quarter to the other. Taking the example of Q1 versus Q2 last year, as Alex already mentioned, you're right, Q1, we had shipments below depletion. And then in H1, the situation was different because there was, in Q1, and I will come back to it briefly, some significant impact coming from a supply chain being much better than the previous semester and as well ahead of price increase in Q2. Things were normalizing versus, I would say, kind of abnormal Q1 in a context that was changing dramatically.

So let me just pause a second in terms of the high comp in Q1 that we are now cycling this year because we already mentioned, there are 2 main drivers that I will call technical. By the way, this has nothing to do with consumer demand. So there was the price increase, I don't think I need to come back to it; but as well those global supply chain tensions that were created, strong depletion in Q1 so that, again, wholesalers and retailers were confident with the level of finished goods they were getting ahead of a very important season that are summer and OND.

And in our level, which has an impact in terms of shipments, we were as well adjusting the level of wholesalers' inventory at a time where we were exiting a very difficult time during which lead times have doubled, I'm talking about H2 of fiscal year '22. So our shipments in Q1 were as well, in a way, boosted by our ability to ship our own finished goods to wholesalers, mainly in July fiscal year '23.

So -- and that's what we're going to be recycling this year. Good news is that those supply chain tensions have been resolved. And as well in the current context, especially so we have that confidence that this, I would say, normalization of supply chain is giving to the trade and as well the rise of interest rates, we are expecting some tighter management of trade inventory at trade level. So we're going to keep a very agile way of managing our inventory across the year.

As you know, this is our focus. We've been, I would say, quite consistent in doing that over the recent past, despite a very chaotic environment. So we're going to do that again this year. Having said that, please expect that we are not monitoring that on a quarterly basis because that doesn't make sense from a business point of view. But our ambition is always to land with a healthy level of inventory, and that will be again the ambition in fiscal year '24.

When it comes to the top line corridor, we are not giving, at that time, the corridor that we could deliver in fiscal year '24. We are reiterating probably with that word by '25, our ambition, as I mentioned already. This year, we are confident with a broad-based and diversified net sales growth, again, starting the year with a very solid position. You mentioned the combination of price, volume and mix. Obviously, difficult to know so early in the year. But last year, our brands were very resilient and volume were at plus 1%. Again, we are confident in the resilience of our portfolio moving forward.

When it comes to pricing, we would expect a pricing which would be probably more close to mid-single digits for fiscal year '24, especially because of the environment and the easing of the inflationary pressure, and this will be a combination of carryover and new price increase.

When it comes to Russia, I think we shared that number already a few times. This is below 3% of our net sales pre-war. And the exit from Russia will be in our organic performance already in fiscal year '23 and in fiscal year '24.

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

Just to make sure I'm clear, so what you were saying about the tough comp on H1 of fiscal year '23 will be mainly felt in Q1 and not necessarily in Q2?

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

Yes, I was focusing on Q1. You're right.
The next question is the last question from Trevor Stirling with Bernstein.

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

Just one question from my side, and it’s coming back to your commentary, Hélène, on input costs for next year. I’m talking about wet goods and dry goods. And it would seem to me that glass-bottled supply is one of the stickiest areas of pricing where even though energy prices are falling, the price of the glass bottle is not yet falling. Would you concur that that’s probably one of the more problematic areas of the dry goods?

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

I do concur with the fact that it is not moderating significantly. I would say we are now used to deal with this type of pressure. So that’s, I would say, part of our ways of working right now, together with all the efficiency that we want to deliver. So that’s our main assumption. That’s very fair to say for fiscal year ’24 that this will not be dramatically moderate when it comes to dry goods.

Operator

So this was the last question. I turn the conference back to the speakers for any closing remarks.

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

Thank you very much for attending this presentation and then for all your questions. We wish you a very good day, and we’ll see you for Q1.