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PRESENTATION

Joelle Ferran - *Pernod Ricard SA - Head of Investor Relations,*

Good morning, everyone. We are pleased to have you for our H1 FY26 results. Alexandre Ricard and Helene de Tissot will take you through the highlights before we open the Q&A session. Over to you, Alexandre.

Alexandre Ricard - *Pernod Ricard SA - Chairman of the Board, Chief Executive Officer, Member of the Executive Board, Member of the Executive Committee*

Well, thank you very much, Joelle, and good morning to all of you. I suggest we go into our first half of fiscal year '26 sales and results. Now before we deep dive into all the details of this first half, I would like us to, for a couple of minutes, just sit back and think about the underlying, I would say, mindset that underpins these results and what we're about to share with you for the short and medium term.

So steering with agility, discipline, and strategic conviction in what we call a transition period. So first of all, and I hope you'll get a gist of this in a few minutes, but we are clearly adapting our organization and executing strategies to go and capture growth where it lays because at the end of the day, in a contrasted environment, there are, of course, some challenges, but clearly as well some opportunities in an environment as well where consumer trends are continuously evolving, which is not new.

Second, you'll see we have made rapid progress on the delivery of our EUR1 billion operational efficiency program, which we introduced exactly a year ago. You'll see where we stand on that program. Third, you'll see as well, we have a clear focus on cash generation to preserve our strong balance sheet with and we'll focus and deep dive on this with Helene in a few minutes, normalizing strategic investments and improved operating working capital.

Finally, and this will be a conclusion later this morning, we remain absolutely confident in the attractive fundamentals of the industry, in our strategy, in our operating model, and we confirm our outlook for this fiscal year, the medium-term framework with some lower strategic investments that we'll detail and the financial policy as well, which remains unchanged.

So in terms of results, net sales are down roughly 6% organically with a soft first half in, as I mentioned, a contrasted environment. By the way, excluding the US and China, our sales are broadly stable with many markets in growth across all regions.

The second quarter trajectory is improving. Q1 was down roughly 8%. Q2 is down roughly 5%. This is notably due to the acceleration in India and led as well by Global Travel Retail. I would also mention that in Q2, excluding China and the US, the rest of the world is in growth of 1%.

The declines in the US and China are amplified by inventory adjustments and as well, our first half gets a negative impact from currency and perimeter effects.

When it comes down to our PRO, which is in organic decline of minus 7.5%. We have done a lot of work to defend our organic operating margin through operational efficiencies. We have indeed been hit by the trade tariffs on one side by some COGS inflation, particularly on aged liquids, which have been partially mitigated through some strong operational efficiency levers.

You'll see sharp reduction in structure costs. They're down 10% in this first half driven clearly by the implementation of our fit-for-purpose, fit-for-future operating model and ongoing strong cost discipline. Finally, with EUR482 million of free cash flow, we see a strong improvement, up roughly 10%, and this despite the decline in profit from recurring operations, leading to an enhanced cash conversion with, and you'll see this later, normalizing strategic investments and discipline around our operating working capital management.

And we've continued and pursued our active portfolio management, notably with the disposal of Imperial Blue in India. You have here a synthesis of the key figures for our first half, which we'll deep dive on with Helene in a few minutes.

So I mentioned, by the way, broadly stable sales over the first half if we exclude US and China, with growth in many markets across all regions, whether it's mature markets such as Ireland, up 3% or the Nordics up 7% or then again, Canada up 3% or by the way, Japan, up 6%, but as well are Poland, up 1% with some acceleration over the second quarter.

And then in other emerging markets with the continued excellent performance of Turkey, up 27% and so on and so forth. This, I think, is important to stress because again, we believe that our global balanced and diversified footprint is a key competitive advantage for Pernod Ricard.

So I mentioned in the introduction, what I wanted you to take away from today's session as well is that we are constantly or continuously adapting our strategies to really go capture growth where it is and to really address our consumer needs that are constantly as well evolving.

So we'll touch upon these four growth levers, which are underpinned by the way, by data and artificial intelligence. The first one is meeting or addressing evolving consumer trends, particularly with convenience and affordability. At the same time and leveraging the depth of our portfolio, really capturing that opportunity, which is on the very high end, the prestige opportunity, in a way addressing as well the K-shaped economy paradigm.

Third, accelerating on the consumer-centric innovation at scale. We've always innovated over the last decade or so, but I think that the inflection point on that front is skilled innovation with global impact. And finally, elevating cultural relevance with increasing consumer experiences and brand associations again leveraging our scale, which is the nuance and the inflection point there.

So if I start with meeting evolving consumer trends with convenience and affordability, you have here our small formats. They now represent 17% of our value in the US if I take this market alone. They're much more affordable and they are driving, they are growing very nicely. Likewise, in our premiumization strategy, we are addressing the affordability question with price positionings that are on what we call various sweet spots from one market to another.

Here, you have the example of Jameson Triple Triple, which is up roughly 20% over the first half. Of course, you all know, RTDs, convenience are a trend that we had identified, just pre-COVID as an emerging trend, which post-COVID has significantly accelerated. So we're investing behind RTDs, behind our brands, behind as well from an innovation standpoint.

We are collaborating or partnering as well with some very well-known household brand names such as Ocean Spray, and soon to come Dole. And finally, in terms of affordability as well, we have stepped up when it comes down to revenue growth management, leveraging our AI tool, Vista Rev-Up, which is now really embedded in our ways of working. So meeting, evolving consumer trends, which is at the core of our focus right now.

I mentioned that leveraging the depth of our portfolio, including Prestige. We gave one example with the Jouet which is up 25% over this first half. We have Rare & Collectibles. We really invest behind experiences money can't buy at our brand homes, but sometimes as well, we bring our brand homes to our consumers across the world with amazing experiences as well. We see our Private Client Society keep on growing quite significantly across the world, particularly in Asia, but not only.

Third, as I mentioned, accelerating consumer-centric innovation at scale. We have selected here a number of launches that we did in the first half. Xclamation, which was launched broadly exactly the same month we closed the Imperial Blue disposal. This is a range of different propositions, which is at a more premium price point versus what used to be Imperial Blue and basically to meet the premiumization of the entire spirits industry in India, which is, in fact, accelerating.

Kahlua Dunkin, we already mentioned it last time, but again, meeting that specific taste for indulgence, which is spreading around. We have also listed here a number of key innovations for the whole fiscal year. You have what we have already launched in the first half, and you also have our innovation pipeline for the second half.

This is not exhaustive, but these are the key main, I would say, impactful innovations with Malibu Pink, which was launched, in fact, a couple of weeks ago in the US. Absolut Tabasco, I'll get back to that. And as well, so the ready-to-drink Malibu Dole, which is in the process of being launching and soon to come as well. The non-alc innovation here with Lillet Zero, which is going to be launched in the coming couple months.

So speaking of impactful innovation at scale, it was difficult to go unnoticed. Hopefully, you've all heard about it. You have here Absolut Tabasco. It was launched on January 28. It is -- let's be clear, it is our first ever global launch.

So it was launched simultaneously across 50 markets with huge media impact, although it's still early times because it was just launched a couple of weeks ago to give you exact numbers, we're quite positive. In fact, very positive on the impact. And on that front, I think there's a short video on Absolut Tabasco.

(video playing)

Great. If you haven't tasted it, please don't hesitate. By the way, this innovation is also designed to address another new consumer need, which is a desire for more spiciness. So we have the spicy margarita, we have the spicy lemonade, we have the spicy Bloody Mary, which is growing amongst the new as well consumer occasion, which is that Sunday brunch, which people are increasingly enjoying.

And finally, as well, elevating cultural relevance through consumer experiences and brand associations at scale. And it's not a mystery. If you look at these five brands, and in the following order, Jameson, our number 1 brand in terms of profit; Martell, our second largest brand; Chivas, our third largest brand. Absolut, our fourth largest brand, and Ballantine's, our fifth largest brand.

We're really leveraging the scale of these billionaire brands in retail sales value to drive big, impactful and skilled partnership and experiences, particularly if I take just the [MiLuna] with TomorrowLand that moment of consumption is one of the fastest growing, what we call max movements of consumptions in our industry, which is festivals.

And all these initiatives are leveraging our key digital programs or key DPs that are all powered with artificial intelligence. I won't go through them. You are all familiar with them. We started this exactly 5.5 years ago, almost 6 years ago. They are now deployed across the group and embedded in our ways of working. And there are further opportunities in terms of additional efficiencies powered by AI, and we took here one example on the marketing front with Jenny, which is generative AI, and we gave an illustration of the impact the development of Jenny can have on our business.

You see here the cost of development of the latest Glenlivet brand campaign, which was down 80%. So better quality, faster time to market, in fact, a lot faster time to market and significantly reduced costs. That's on the marketing front. But of course, we are also leveraging AI across the entire supply chain.

Now if we look at our sales by region, starting with the US. The US is down 15%. The spirits market there continues to remain soft albeit some green shoots in Jan and February. Too early to make any specific call. Let's remain cautious. But that being said, we're happy to see some of these green shoots in this new year.

Our sellout value gap to market has continued to narrow to roughly 2 points. In fact, the most recent numbers are closer to 1 point. So we're on track to close the gap. And we have some of our key brands that are gaining share in their respective competitive sets with the likes of Jameson, Kahlua or yet again, the Glenlivet. It's worthwhile noting as well that our H1 numbers were impacted by inventory adjustments, as expected, down 15%, which is not a reflection of our sell-out performance, which is somewhere between 4% to 5% decline.

India, so net sales up 4%. If we exclude Imperial Blue, which is now disposed and closed, the performance is plus 8%, in line with what we're used to see in India and despite, by the way, our first quarter, which was severely impacted by the very strong tax increase in Maharashtra. We expect to see this momentum continue over the second half. It's worthwhile as well noting that our international spirits brands are enjoying strong double-digit growth in India as the market continues to premiumize.

China, down 28%, driven by a number of factors. The first is the tightened regulatory environment, number one, which is impacting the high end on trade. Number two, the persistent macroeconomic headwinds, and number three, the continuation, I would say, of a weak consumer sentiment. So of course, this is impacting Martell and Chivas.

Our premium brands portfolio is continuing to grow with a strong performance, particularly of Absolut and Jameson, and our tequila brands in China. It's worthwhile noting as well, we're at February 19, two days ago was Chinese New Year. What we can stress is a cautious trade sentiment ahead of Chinese New Year.

Finally, Global Travel Retail, down 3% over the first half with a very strong rebound as expected in the second quarter with the resumption of Martell sales in China duty-free. Asia, beyond China, continues to see some weakness, but very good underlying growth, both in Europe and Americas.

More broadly, if we go beyond our four must wins market, Europe down 3% with market contraction in France impacted by some phasing, some softness in Germany and Spain, but pretty strong resilience in the UK, good growth in Poland and very good performance as well, from a market share point of view, but as well in terms of growth of Jameson and Absolut, Bumbu and PJ.

Americas organic net sales down 12%. I won't go back to Canada up 3% with very good momentum across the whole portfolio. Brazil suffered from the methanol crisis over the first half with a return to growth as of January, and more generally speaking, over the second half. And Mexico in decline due to weak market conditions. So Asia, Rest of the World finally down 4% with very strong growth in Turkey, up 27%, as I mentioned, South Africa in strong growth as well with very strong performance of Martell.

Japan, up 6%. Australia, a very resilient and the rate of decline is strongly moderating and expected to keep doing so for South Korea. I won't go through all of these brands. The aim of these numbers is just to show you that excluding the US, which has been impacted by stock adjustments, you see that we have brands such as Jameson which are in growth, mid-single-digit growth.

Absolut outside the US is in growth as well, plus 2%. The plus 20% for Martell, excluding China, means that our diversification strategy, diversifying the sources of growth of Martell outside of China, which is a 10-year strategy is starting to pay dividends, plus 20%, again, excluding China. Chivas globally stable. I mentioned the 25% on PJ.

Our Agave portfolio is growing quite significantly, overall double-digit growth for it. And it's nice to put Bumbu on the spot here with 16% growth. This brand has now become the number 1 super-premium rum across the globe with more than 0.5 million cases sold.

And we keep on investing behind our brands, behind brand equity, to drive desirability across the portfolio of our brands. And this translates into gaining or maintaining share in the majority of our markets with that one notable point, which is that linear closure of gap to market in the US, which is, of course, a very strong focus.

And now Helene, let's deep dive into the financials.

Helene de Tissot - Pernod Ricard SA - Executive Vice President - Finance and Tech, Member of the Executive Committee

Thank you, Alex, and good morning, everyone. So let's start with the profit from recurring operations. I confess it's a quite busy slide. So in this first half, the profit from recurring operations declined by 7.5% organically and 18.7% on a reported basis, largely impacted by foreign exchange. We have actively defended our organic operating margin, limiting the decline to 55 basis points. We responded with agility to a contrasted environment through disciplined resource allocation and the fast implementation of our efficiency program.

So let's start with gross margin. The gross margin evolution of minus 216 bps reflects three main elements. First, price and mix had a moderately negative impact of around 50 basis points. Second, gross margin was impacted by approximately 70 basis points from tariffs in the US and China as expected. Third, as anticipated, we faced inflation on aged liquids and lower fixed cost absorption in a softer volume environment.

We were successful in partially mitigating this cost inflationary pressure with the implementation of operational efficiencies across procurement, manufacturing and supply chain.

Now moving to A&P. Advertising and promotion stood at circa 13% of net sales in H1 with phasing over the full year weighted towards H2, supporting our innovation rollout, notably Absolut Tabasco launch, we shared with you earlier. We continue to prioritize brand investment to support long-term brand equity. So no change to earlier guidance to maintain A&P at circa 16% of net sales for the full year and strengthening return on investment discipline through digital tools, and increasing as well the proportion working versus non-working A&P.

And now on structure costs, Alex mentioned the decline of 10% organically, which is reflecting the rapid implementation of our Fit-for-Future operating model and very strict cost discipline, both set to continue in the second half.

Reported operating margin declined by 142 bps driven by the decline in organic profit from recurring operation, plus a significant negative FX impact of EUR187 million, while the perimeter impact on the margin was positive by circa 50 bps, thanks to our margin accretive brand disposal. I note that excluding the adverse foreign exchange impact, the reported margin would have been sustained.

Moving now to the earnings per share. So the EPS is down at minus 20% due to lower reported profit from recurring operation, mainly linked to the negative translation effects. From a financing perspective, the recurring financial expenses decreased, and our cost of debt improved from 3.4% to 3.2%. Income tax on recurring operation reduced in line with the reduction in profit from recurring operation.

Moving now to the cash and to the free cash flow of EUR482 million in this first half, which is an improvement in terms of generation through optimized strategic investments and operating working capital management. Indeed, we delivered an increase in free cash flow of EUR42 million, which is plus 9.5% with strong improvement in operating working capital, notably trade receivables and continued focus on finished good inventory optimization.

CapEx investments coming off their peak in fiscal year '24, continuing to normalize as expected, now at EUR217 million, down circa EUR150 million versus the same period last year, lapping high investments last year on capacity expansion programs. Optimized strategic inventories, the increase now is at EUR111 million, which is EUR92 million less than last year, though normalizing for their peak, those investments remain key to secure our long-term growth. This strong focus on cash generation has led to an improvement in cash conversion, up 11 points with 61%.

So let's deep dive on the cash generation and the net debt evolution. Regarding net debt, we are committed to preserve the strength of our balance sheet and maintain strategic flexibility. And hence, we are focused on cash generation. As of December, our net debt stands at EUR11.2 billion, which is a decrease of circa EUR0.9 billion over 12 months, thanks to the improving free cash flow generation and proceeds for margin-accretive brand disposals.

As I explained in the previous slide, free cash flow in H1 grew by 9.5% with optimized strategic investment and strong operating working capital management supported by our efficiency program. We also benefited from the positive contribution from brand disposals, notably Imperial Blue for which we received the proceeds this H1.

Moving now to the net debt-to-EBITDA ratio, it stands at 3.8x. This ratio has increased primarily as a function of the softer reported profit from recurring operation. We remain focused on cash generation to support deleveraging and to preserve a strong balance sheet.

Our clear intention is to deleverage and to bring our net debt-to-EBITDA ratio below 3x by fiscal year '29. We expect the ratio to improve with four levels. Number one, strategic investment normalizing, reducing from peak levels. Number two, ongoing operating working capital management improvement initiative, including with the support of our operational efficiency program. Number three, dynamic portfolio management. And number four, with a return to growth of the profit from recurring operation.

Regarding the strategic investment, which is the first lever I just mentioned, strategic investments are now expected to reach circa EUR750 million in fiscal year '26 and no more than EUR800 million per annum for the period '27 to '29. This reduction will have a cumulative benefit to our cash conversion acceleration of circa EUR800 million compared to our earlier strategic investment guidance that we shared last August.

Back to you, Alex, for the strategic update.

Alexandre Ricard - Pernod Ricard SA - Chairman of the Board, Chief Executive Officer, Member of the Executive Board, Member of the Executive Committee

Well, thank you, Helene. I think that's perfect timing as well, just to again reiterate some of the fundamental reasons why we remain perfectly confident in the industry fundamentals in our strategy and in our business model.

This slide, we already shared with you during our full year results back in early September. It's all about leveraging our key competitive advantages around our geographical breadth, around our diversified portfolio, and leveraging, again, our teams that have that very strong winning mindset and level of engagement.

You'll see, we have continued to really simplify our organization to really find and strike the right balance between on one side scale and on the other side, business proximity and agility. You'll see our road map on operations to deliver the efficiencies is very well on track with some acceleration, in fact. And all this, of course, to create value with this year being a transition year with an improving top line trends, with that medium-term framework of an average growth over the period at '27 to '29 is somewhere into plus 3% and plus 6%.

And we have an illustration to show you the building blocks that got us to there. And of course, and Helene touched upon it already, and we'll detail a little bit further, improving cash conversion and to maintain our balance sheet strength and flexibility.

So again, the underlying drivers remain absolutely attractive. I won't go into the long-term fundamentals, particularly in terms of demographics, legal drinking age population, middle and affluent classes and the increasing spirits share amongst all beverage alcohol. That doesn't mean we're denying the fact that right now, there is some particularly soft consumer confidence, particularly in China or that there is some degree of squeeze to consumer wallets, particularly in the US.

But matter of fact is conviviality continues to evolve. Premiumization is an underlying very long-term trend. Experiences, as I mentioned, are clearly expanding, convenience is accelerating, and there are evolving lifestyles which we like to embrace. These include changing occasions. These include different frequency levels, et cetera, et cetera.

Again, this is to illustrate how balanced our geographical footprint is. This is why, excluding US and China, second quarter was up 1%. And it basically comes from all the regions. And we have a balanced exposure between mature markets and emerging markets. And well, you see this. I think it's quite unique to Pernod Ricard with roughly half of our business exposed to emerging markets that have a strong growth

potential for the foreseeable future. And where we have strong leadership positions on go on Turkey, which was up 27%. But Turkey is now our fourth largest market, where we have a leadership position.

India, as you know, where we have as well a leadership position with strong demographics. China, currently soft environment. But again, the underlying long-term fundamentals remain attractive there, and we have a leadership position and so on with Vietnam and so on with South Africa or yet again, Nigeria, just to name a few.

So I mentioned on the distribution front, on the geographical front, but I would say it's equally true. In fact, on the portfolio front, where we cover all the segments within the industry that are relevant and also all the different price premiums. So it is our duty to be as flexible and agile as possible to really leverage all the sweet spots depending on the markets across the world, leveraging that the wealth of our portfolio of brands.

And again, I alluded to that earlier on when I was talking about partnership with cultural relevance. We are leveraging the scale and attractiveness of our brands. We have five billionaire brands in terms of international brands plus as well some local ones. And these brands have a -- or close to have a what we call a must-have status amongst our customers, and we can leverage the scale of these brands for further, more efficient impact.

So I think it's worthwhile just spending a few minutes on these illustrations. So as you know, our medium-term framework is top line growth, organic top line growth somewhere between the plus 3% and plus 6% on average. What we showed on the left illustration is that achievement of the low end of this range on average does not require the US and China to be within the range. They can be below plus 3%.

But with Global Travel Retail between plus 3% and plus 6%, which is, by the way, it's normal type of algorithm. We've known it in the past. We now know it as well, and we have projections for passenger growth in the foreseeable future. With Rest of the World emerging markets growing, I won't go back to that slide, Turkey, sub-Saharan Africa, Southeast Asia, Latin America and so on. And with India, above that 6% range, which it already is, yes, we can deliver on average over the next three years, a growth comprised between plus 3% and plus 6%.

The reality is, indeed, over time, as China and/or the US come back to a more normalized growth pattern, we could even be top of the range. These are pure illustrations. This is not any sort of guidance. But it's just to share with you the building blocks of that medium-term framework and the tangibility of why we believe we can deliver at the very least, on average, at the bottom end of the range.

Likewise, a couple of years ago, there were a number of questions around the new geopolitical landscape in the world might have a lasting impact on Pernod Ricard's model through trade tariffs. This is a perfect illustration. Do not try and reconcile this with P&L. This is just to show you that pre-geopolitical trade tariff-related tensions in 2023.

Broadly speaking, 18%, the equivalent of 18% of our retail sales value around the world had trade tariffs. This spiked to a potential of 28% with the announcements in the US market, but as well at the height of the trade tariff announcements in China.

Since then, a number of things happened. New free trade agreements were signed. Some are on the brink of being ratified. Based on what we know today, factually, which has been signed and announced. And we know in real life, things will be different. But based on what we know today, we're going to start seeing that record peak number of 28% steadily decline to, by the way, in the next 18 months to 14% and by 2035, again, based on what we know, to 11%.

That's just to give you a snapshot of the current geopolitical trade tariff-related landscape. It's going to move upwards, downwards, ups and downs. We don't know. And that was just to address some of the questions some of you may have had over the last 12- to 18 months on that front. That being said, we do not control this. This is beyond our remit.

What we do control is what we've been working on post-COVID, in fact, for the last three years, which is driving increasing agility throughout our whole operations and supply chains with increasingly agile global flows with some nearshoring initiatives and more broadly speaking, a more flexible manufacturing footprint.

So as I said, we've done a lot of work to be fit for future from an organization point of view to be a lot more efficient, to be a lot more faster and to strike the right balance between leveraging our scale on one side, but as well on the same -- on the other side, leveraging our business approximately.

I won't go through tomorrow Phase 1, which was all about having a simplified market company organization based on 10 management entities with a lot of delayering that happened there and a few years down the road, a couple of years down the road, it is working extremely well.

And the more recent tomorrow Phase 2, which is now in full effect since the beginning of January in this new calendar year where we moved from that tripartite organization HQ and functions on one side, brand companies on the other side and market companies on the third side, to just dual relationship between global and one side and market companies on the other side, with some further simplification going on.

So talking about simplification. So a simplified organization, leveraging, as I said, that global scale and consumer proximity which is anchoring a fit for future structure. You have here our ExCom, or Executive Committee, which basically is driving much more faster decisions and arbitrations in a world which is quite volatile, so where the decisions have to happen on a continuous and very fast basis and as well with the creation of two global brand business units.

On one side, the Gold business brand unit and on the other side, the Crystal brand unit, in each case with very specific specificities where we can generate some clear synergies and much more simplicity as well. This is now effective, as I mentioned, and has started to work pretty well and effectively.

Helene de Tissot - Pernod Ricard SA - Executive Vice President - Finance and Tech, Member of the Executive Committee

So talking about efficiency with the zoom of the different initiative. So here you have on that slide, the key initiatives that are supporting our EUR1 billion efficiency program, which is well on track, one-third being delivered in fiscal year '26. That's our very strong expectation for the year.

By the way, let me say, this is year 4 of our efficiency program. We started back in fiscal year '23 and completed the EUR900 million by '25. And now this is year 1, I would say, of Chapter 2, but I think it's important to have that in mind. We started accelerating the control of the controllables already four years ago. So we are advancing at pace on this EUR1 billion efficiency program, as I just mentioned, as a continuation of a very structured and multiyear program to deliver sustainable P&L and cash impact.

Many detailed on the slide, so I'm not going to elaborate on each of those, but you can easily understand that this is about procurement optimization with significant savings, manufacturing efficiency gains, end-to-end supply chain integration with a more efficient footprint and optimized inventory levels to support the cash acceleration, organizational simplification, as just mentioned by Alex, with a leaner headquarter and two scaled brand units, Gold and Crystal being fully implemented as of Jan 1, which are complementing the market management entity organization that we implemented a few years ago.

So margin expansion has been and is a core focus as we speak. As you know, the objective for the year is to protect profitability as much as we can this year, enhance cash generation while continuing to prioritize customer-facing investment and long-term growth.

A zoom now on the organization. So we've been pursuing an active reorganization program already for some years. The efficiency program in place since '23-'24 has been very visible in terms of tangible results, and that's what you can see on that slide. SG&A head count is down cumulatively 18% with the main impact being from the two reorganization programs.

This has been combined with a very strict cost discipline, which translate into below inflation structure cost organic increase in fiscal year '23-'24 and since then, a decrease of minus 4% in fiscal year '25. And as we mentioned already of minus 10% organic decline in our structural cost in H1 set to continue in H2.

This reorganization not only supports our ambition to protect the organic operating margin, but they are there to build the Fit-for-Future organization, which means simpler, more agile and better able to leverage the group global scale.

Moving on to cash. So as I explained earlier in the presentation, preserving the strength of our balance sheet is a key priority to maintain strategic flexibility. Strategic investments in both CapEx and aging inventory are normalizing, as you can see on the slide, and continue to reduce from peak investment levels in fiscal year '24.

Those investments are now expected, I'm going to repeat myself, to reach circa EUR750 million in fiscal year '26 and no more than EUR800 million per annum for the period '27 to '29 with a cumulative benefit to our cash conversion acceleration of circa EUR800 million.

We maintained a strong focus to improve operating working capital across all levels, including finished good inventories. Here, you can see on that slide, the reduction we have made over the past two years, and we are continuing to drive efficiencies in the finished goods with a strong focus on the SNOP process, and improving as we have forecast accuracy among our affiliates.

I'm also pleased to announce today that we now expect to achieve our midterm target of cash conversion ratio of 80% and above one year earlier, meaning this fiscal year '26. And we expect, obviously, to continue to achieve this cash conversion ratio of 80% and above for the medium term. Taken together, and as I mentioned earlier, this strong initiative contribute to bringing our leverage ratio below 3x by fiscal year '29.

Back to you, Alex, for the active portfolio management.

Alexandre Ricard - Pernod Ricard SA - Chairman of the Board, Chief Executive Officer, Member of the Executive Board, Member of the Executive Committee

Sure. Thank you, Helene. And we've been very active on that front as well. And just like you mentioned, Helene, on the operational efficiencies, we started a number of disposals back in fiscal year '23, which was our record year in terms of results. And I won't go back to Clocombert, Becherovka, Tormore, the wine business, which we closed more recently in fiscal year '25 or the Nordics brands and more recently, particularly Imperial Blue.

And in this new second half for Pernod Ricard, the announcement of the disposal of Mumm Napa sparkling wines which we expect to close before the end of this fiscal year.

These disposals are perfectly strategic, designed to really focus Pernod Ricard on our premium brands that have growth potential, that has strong margin versus brands that had lower growth potential, or in some cases, no longer growth potential with and that were quite dilutive from a margin point of view. Over the last few years, the cumulative gross proceeds of these disposals is roughly EUR1.5 billion of proceeds.

Our financial policy remains unchanged. It basically aims to balance the deployment of capital for on one side, profitable growth and on the other side, returning capital to shareholders, in line with our financial policy and consistent with what we've been doing in the fiscal year '24 and '25. It is indeed our intention to maintain a stable dividend in fiscal year '26, subject, of course, to Board and AGM approvals in due course.

This brings me to the outlook for the year. Basically, the outlook remains unchanged, except maybe for two important elements that Helene stressed a few minutes ago. So I won't go through all of these because you're familiar with them. I'll just focus on the two changes.

The first one is the focus on cash generation with strategic investments that are now revised to roughly EUR750 million for this fiscal year versus EUR900 million previously indicated and strong working capital management. That's the first one. And the second, which is a consequence in part of the first one, is aiming, as Helene said, for circa 80% and above cash conversion as of this fiscal year, one year ahead of what we had initially anticipated. And finally, FX impact is expected to be significantly negative this fiscal year.

Likewise, we are confirming our medium-term framework, again, with one change, which is on the cash generation. Given that we are now expecting to see our strategic investments normalize to no more than EUR800 million per annum in fiscal year '27, '28 and '29, versus initially EUR1 billion, as previously indicated.

So all in all, and in conclusion, we are confident in our strategy. We are confident in our operating model and in the engagement of our teams, which I'd like to thank again, and to deliver sustainable value growth over time.

So before moving on to Q&A, may I suggest a small matchup video, just so we get a minute to breathe a little bit.

(video playing)

QUESTIONS AND ANSWERS

Joelle Ferran - *Pernod Ricard SA - Head of Investor Relations,*

(Operator Instructions) Operator, you can start with the first question.

Operator

Sanjeet Aujla, UBS.

Sanjeet Aujla - *UBS AG - Equity Analyst*

A couple of questions from me, please. Firstly, on the top line outlook is unchanged. What's embedded in the guidance for H2 organic sales? Should we expect the rate of decline to moderate or even return to growth just given some of those comparatives?

And then my follow-up is on free cash flow. I think with the lowered guidance on strategic investments, would you expect your free cash flow now to cover the dividend, which I think you said would be stable for the year?

Helene de Tissot - *Pernod Ricard SA - Executive Vice President - Finance and Tech, Member of the Executive Committee*

So thank you for those questions. Let me start by the first one. So we are reiterating the guidance for this fiscal year '26 in terms of improving trends for the top line versus last year. So a transition year towards H2, and that was expected. And I think already hopefully clearly mentioned in our previous interactions.

So if you do the math, that means obviously a stronger H2 to deliver that top line trajectory. And when you think about what happened in H1, you can see already some improvement. I think Alex mentioned it from Q2 versus Q1. So we expect a stronger H2. And maybe just to highlight some key building blocks supporting that ambition for H2.

Number 1 will be China because as you know, China had a very significant decline in H1, by the way, much higher decline than the underlying performance of our portfolio because we believe that our sell-out are roughly at mid-teens decline, and you see the number in terms of top line.

So there is obviously CNY phasing. Last year, it was end of Jan. This year, it was two days ago, which will have an impact for H2 and as well, to be fair, a quite low comp last year. So a very different trajectory expected in H2 versus H1 with strong technicalities behind that. As you noticed, probably we have a cautious sentiment ahead of Chinese New Year. So the stabilization trends expected in China in the second half is mainly technical.

Then I'm not going to talk only about technicalities. We are expecting a strong H2 for India, which is obviously a very exciting market for us, our number 2 market, and there would be some acceleration in H2 because the momentum is great, and we have as well a stronger top line ambition. And now that Imperial Blue has been sold, we have as well Travel Retail, which is expected to benefit as well from a better environment because as you remember, last year, at the same time, we didn't have the ability to sell Martell in China duty free. So this year, we'll have, obviously, this as a positive.

And I'm not going to go into the list of all the markets because obviously, there is as well strong expectation that the market that we are in strong growth in H1 will continue to be in H2. So when it comes to free cash flow, I'm not going to guide on what would be the free cash flow ambition for the full year. I believe I said already a lot in terms of what I suggest matters, which is as well what we are doing and what we will be doing in the months and years to come to accelerate this cash generation.

To answer your question, hopefully, this was clear as well on the slide that we've been covering the dividend when you look at our free cash flow in calendar year '25 but please don't expect any guidance in terms of free cash flow number for June nor in terms of net debt-to-EBITDA ratio. I think what matters is really our intention, which is to preserve a strong balance sheet and to accelerate the cash generation with the drivers I mentioned before.

Operator

Andrea Pistacchi, Bank of America.

Andrea Pistacchi - BofA Merrill Lynch Asset Holdings Inc - Analyst

So two questions also from me, please. First one on the US. Now the market had a challenging QND, but recent industry data have been looking a bit better. So what's your read on the market recently? Are you seeing any maybe even slight signs of improvements or trends getting less and less bad?

But on the other hand, given the soft holiday season, what is the distributor inventory situation now in the US? Do we need to see some correction here? And I think you flagged in your remarks earlier some inventory adjustment to impact the full year. How sizable could this be?

The second question is on the balance sheet. Now you're clearly very focused on reducing net debt EBITDA. In the four strategic levers to do so, you didn't mention understandably, I think a potential India IPO. There were press reports yesterday saying that you seem to be considering listing your business there, but no decision has been made.

So the question is, I mean, what are the key factors you would evaluate as part of this assessment and if you can comment on this sort of what time frame would you expect to make a decision?

Alexandre Ricard - Pernod Ricard SA - Chairman of the Board, Chief Executive Officer, Member of the Executive Board, Member of the Executive Committee

Okay. Well, thanks, Andrea, for your questions. I'll pick the first one. I was in Vegas two weeks ago, I spent the whole week in Vegas, not to play, let's be clear. It was the annual convention of the WSWA.

For those who are not familiar with that name is the Wine and Spirits Wholesalers of America where you have all the distributors that gather there the entire week and that's the perfect opportunity to go get a sense of what's happening in that middle tier and also get a sense of what are the underlying dynamics.

And I had the opportunity to have one-on-one meetings with basically all the distributors, whether it's Southern Glaziers Wine and Spirits, whether it's RNDK, whether it's RAS, whether it's Allied Beverages or Johnson Brothers, or Breakthrough for that matter or Martinet or Crescent Crown or I could -- Empire, if I don't know, name them.

But yes, OND was somewhat softer than expected. But and as I mentioned during the presentation, there are signs of green shoots, but in January and February. But I'll say, but, but I wouldn't -- I will not be the first one to say things are improving.

I will just say there are signs of green shoots. The market is currently trending somewhere between minus 3% and minus 4%. We are trending somewhere between minus 4% and minus 5%. The gap is closing. We have strong expectations, as I mentioned, particularly around innovation, taking Absolut Tabasco and Malibu Pink, then the acceleration of our smaller formats as they enter into our supply chain across the US.

The tone, I think that's the only thing we can speak about was slightly more positive than what it was a year and two years ago because things have stabilized. We're not out of the woods yet, but there are some early signs of green shoots. But that's as far as I will go on that note.

From an inventory point of view, listen, I said our sellout is minus 4, minus 5. Our sell-out is down 15% over the first half, and we clearly said expect this inventory adjustments to impact the full year in the US, but it's planned and it's going as planned. So Helene, apparently, an article came out yesterday. Is that correct?

Helene de Tissot - Pernod Ricard SA - Executive Vice President - Finance and Tech, Member of the Executive Committee

I believe so. So I mean, I think you were kind enough to even almost repeat word by word what was the rumors about and what was our answer. So I'm not going to do that again. What I can tell you is that, I mean, looking at strategic options that could create value is obviously, I would suggest our jobs.

But I'm not going to comment anymore. What I can tell you is that the intention that I shared earlier today, which is to deleverage and to bring our net debt-to-EBITDA ratio below 3 by '29 does not include an assumption of a listing in India.

Operator

Simon Hales, Citi.

Simon Hales - Citi Infrastructure Investments LLC - Analyst

So two for me. I mean, firstly, can I just go back to China a little bit, please, Alex? Obviously, you talked about, obviously, still the low consumer confidence. The caution coming into Chinese New Year. I wonder, are you seeing any signs at all on the ground of an improvement there from a consumer standpoint, from a regulatory standpoint?

I appreciate to Helene's point earlier that you've got easier comps in the second half of the year, but is there anything that we should feel a little bit more optimistic about? And then secondly, just on FX guidance for the full year. Obviously, FX big headwind in the first half. Helene, how do we think about the FX headwind for the full year, please?

Alexandre Ricard - Pernod Ricard SA - Chairman of the Board, Chief Executive Officer, Member of the Executive Board, Member of the Executive Committee

So Simon, I'll address your first question. We did mention that basically, there was some cautious trade sentiment ahead of Chinese New Year. So that's point one. Helene stressed in one of her answers a couple of minutes ago that our assumption, at least in terms of the building blocks for H2 when it comes down to China was mainly technical with some phasing topics and some comparable topics.

All I can say is, yes, the environment has -- remains quite soft in China. And it's the tale of two worlds. The premium brands portfolio is expected to continue to be quite dynamic. But the higher end, in our case, Martell and Chivas are still experiencing strong softness. And this is a direct result of the tightened regulatory environment, which will start to recycle starting the month of June, to be fair. And it is also the result of a continued weak consumer sentiment in China.

So it's still very early to give you any immediate feedback on Chinese New Year. It was just two days ago. They're all on vacation, hopefully drinking for that matter, but cautious is the way to go. And we don't want to assume anything more optimistic on that front. But again, China is now 7% of our global business.

Helene de Tissot - Pernod Ricard SA - Executive Vice President - Finance and Tech, Member of the Executive Committee

So FX, I'm not going to give you any number. I mean, we are obviously using spot rate as well to do the math on what can be our expectation for H2. But to be fair, and that's why we are obviously flagging it as well in our outlook for the year, we believe it's going to be significantly unfavorable for the full year with as well a negative impact in H2.

Operator

Edward Mundy, Jefferies.

Edward Mundy - Jefferies LLC - Analyst

So two questions for me, please. The first is on the normalization of the strategic investment. Alex, could you perhaps provide some comfort that you've got sufficient inventory to fulfill your medium-term demand? And as the growth comes back, how quickly can you turn the taps back on if required?

And then the second is on the Absolut Tabasco global innovation rollout. I think you mentioned it's the first time you've done such a big rollout at a global level. What are the early learnings from the simplified brand company organization? And do you expect more global launches and campaigns after the success of this one?

Alexandre Ricard - Pernod Ricard SA - Chairman of the Board, Chief Executive Officer, Member of the Executive Board, Member of the Executive Committee

On your first question, Ed, let's be clear. Our strategy has been, is and will always be to fund and invest for the future long-term growth of our business. The fact of the matter is volumes have rebased. And as volumes rebase, we regularly revisit our strategic investment plans to be fully in line with the reality. Let's put it that way.

I just want to put a nuance there. Strategic stocks, it's not just you open the tap full on and then you close it full off. It's really a fine-tuning and a continuous fine-tuning initiatives. I used to say a couple of years ago, we used to have one meeting a year on that topic. Then we moved to having it every semester. Then we moved to having that meeting every single quarter based on what we call our commercial sequences, putting -- updating our base and then projecting. So we're ready to take our -- more than our fair share, should I say, of our future growth, particularly on strategic stocks. That's perfect.

But we will keep on fine-tuning and adapting to the reality and to the world as we know it. So it's always finding that right balance. And so put it in a nutshell, yes, we're ready to grow the business when it comes. Yes, so Tabasco -- Absolut Tabasco, it is our first global launch. It is the big difference between being completely decentralized and leveraging our scale while at the same time maintaining that consumer proximity. We're starting together all of the key learnings of that launch, which, by the way, it's a fact. It has been a successful launch.

Let's see how it turns out in terms of volumes, net sales and value creation. I feel quite optimistic about it. And what we will be doing internally, which is part of what we call a learning organization is get all the key learnings of that success and then replicate them, of course, for other global launches with impact. And I would say it's the same for our global partnerships.

When you sign a partnership with a partner, you want to sweat the asset as much as possible in the most impactful way. As a matter of fact, last week, I was in a meeting on one of these partnerships, which was signed a little bit more than a year ago on the key learnings and what else could we drive more to sweat that asset in an impactful way. So we'll keep on learning from what we're doing. In some cases, it might fail. In others, it might be a success, and we can learn from both.

Operator

Trevor Stirling, Bernstein.

Trevor Stirling - Sanford C Bernstein & Co LLC - Analyst

Two questions from my side, please. I guess they're a little bit interrelated. So the first one, Helene, just when I look at your slide on your savings and where the savings are coming from and the phasing of those savings. It looks like the SG&A a lot of those cuts have been front loaded because you made the organizational changes. And then I would expect them the future savings will come more through the COGS line. Does that make sense?

And then the second one, I guess, Alex, coming back to a theme I asked you about six months ago. If you are through the worst of the organizational realignment, if you like, and savings, can you get your arms around the organization and really get the morale back into the organization, which inevitably suffers, when we're having to go through significant constant realignments?

Helene de Tissot - Pernod Ricard SA - Executive Vice President - Finance and Tech, Member of the Executive Committee

So thank you, Trevor. I'll start with the first question. So you're right, there were two important move in terms of adapting the organization and that for the most recent one in place since January 1. So you can still expect some benefit in terms of savings to go through the P&L with, I would say, even a stronger impact in H2 because of the timing of the implementation of this leaner headquarter and combined brand units with Crystal and Gold.

But to look at the midterm, I would say, first, and I was alluded to that, the organization is really designed to be Fit-for-Future being growth so that we can really scale that organization moving forward. So which means that, obviously, we're going to be investing behind the organization to support the growth, but with a very focused way where it matters.

And the scale impact, I would suggest means that we don't need to increase the structure cost as fast as the top line when we be back to growth. And that will obviously contribute to the margin expansion, which is, as you know, a part of the midterm framework ambition.

Alexandre Ricard - Pernod Ricard SA - Chairman of the Board, Chief Executive Officer, Member of the Executive Board, Member of the Executive Committee

Hello, Trevor, and thank you for asking this question, which I believe is key. As you know, and by the way, as you all know, commitment, our team's commitment and engagement around the world are paramount to our culture. And as we navigate through an environment which is quite contrasted, in some cases, dealing with fast growth, which is not easy, in other cases, dealing with declines, which is not only not easy, but as well from a moral point of view.

After summer, I traveled the whole world across the organization. My internal company team had an idea to call that worldwide trip, the next chapter tour. So -- and that next chapter tour, by the way, the title says it all. We went through a series of transformations, particularly that last one tomorrow to which opens a new chapter for Pernod Ricard, a chapter, which we could qualify by a leaner chapter, a more efficient chapter.

By the way, lack of efficiency or lack of speed of decision-making or layers can be frustrating for teams and unleashing their desires to be more efficient, to be faster when they make decisions and to really focus on what eventually fundamentally matters, which is our consumers and our brands can be quite reinvigorating. So having traveled the entire globe over the last four-, five months.

The one thing I can tell you is morale remains very strong. The enthusiasm of our teams remains equally strong. And there is this winning/fighting mindset, which is paramount, I have to say. Not easy by the way, but at the end of the day, life is not designed to be easy. We need to fight to be successful in life, no matter what the environment.

Yes, right now, the environment is not the most pleasant environment of them all. But you know what, we're in the business of (spoken in foreign language) and people have a smile on their face. So listen, what can I say other than, yes, this is my number 1 objective to make sure that the teams are enthusiastic.

It's fair to say that after that visit, they injected more energy in me because the last 18 months haven't been that easy, making some of these tough decisions. But frankly, I'd just like to conclude by saying I'm extremely proud of these teams, and I can never thank them enough for what they're doing, which is very strong.

Joelle Ferran - Pernod Ricard SA - Head of Investor Relations,

Thank you, Alexandre, thank you, Helene. So that concludes today's Q&A and presentation. Thank you, everyone, for joining. Have a great rest of the day.

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