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Half Year 2024 Pernod Ricard SA Corporate Sales Call

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PRESENTATION

Operator

Good morning. This is the conference operator. Welcome, and thank you for joining the Pernod Ricard First Half and Full Year 2024 Sales and Results Conference Call and Webcast. (Operator Instructions)

At this time, I would like to turn the conference over to Ms. Florence Tresarrieu, Global SVP, Investor Relations and Treasury. Please go ahead, madam.

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

Hello, everyone, and welcome to our H1 FY '24 sales and results presentation to be followed by Q&A. We are hosted today by Alexandre Ricard, our Chairman and CEO; and Hélène de Tissot, our EVP, Finance and IT. Alex and Hélène, over to you.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

Thank you very much, Florence, and good morning to all of you. Let's dwell directly into our first half financial year '24 sales and results. Globally speaking, we've had a robust performance, with organic sales down 3% and organic profit from recurring operations down 3%. Regarding the overall H1 performance, I would like to share with you maybe 4 underlying factors.

The first one is the overall normalization of the spirits market globally, particularly skewed towards the U.S., after 3 years post-COVID super cycle across our spirits industry. The second factor is inventory adjustments in the U.S. particularly at a retailer level in a high interest rates, therefore, high cost-of-carry environment. The third element is a weaker consumer confidence in China within a weak macroeconomic environment. And finally, the fourth element is a strong growth in India and very strong growth in Asia, excluding China. Very strong growth in Africa, Middle East. In Central and Eastern Europe, if you exclude Russia. And finally, pretty strong resilience in Western Europe. That's basically the 4 key factors that describe our first half performance.

At the same time, we sustained our organic operating margin, principally related to very strong gross margin expansion, and this is a direct consequence of our revenue growth management strategy and, as well, operational efficiencies. We've maintained strong investments behind our portfolio of brands, with roughly EUR 1 billion of marketing investments in growth versus the first half a year ago. And we've maintained a very strict control of our structure costs, which are broadly stable.

We are accelerating our strategic investments, as planned and anticipated, for the long-term sustainable growth of our business. So we've had a significant step-up in H1 in our CapEx behind our Irish whiskey capacities, behind our North American capacities in Kentucky and behind our scotch capacities in Scotland. We've also secured future growth by maintaining strong levels of investments in our aged or strategic stock. And finally, while the free cash flow reflects perfectly the lower reported PRO, which is also impacted by currency effects and accelerated strategic investments, as I've described 2 minutes ago.

You have here the principal financials, which will go into a lot more detail with Hélène in a few minutes. So broadly saying, if you exclude Russia, we're growing in 2 out of the 3 regions. You see here minus 7% in Americas impacted by destocking, half of that is destocking. You see Europe at minus 4%, which would have grown 1% excluding the Russia technical impact. And finally, Asia Rest of the World, plus 1%, impacted by a weaker consumer confidence in China. And you see very strong pricing across the globe.

I thought this analysis could be of interest to you because this perfectly illustrates what we call by normalization. So the first column is basically the pre-COVID semester. H1 fiscal year '20 was the semester, starting July 2019 up to December 2019. We used an Index 100 for the following first half, just to show the exponential growth we've had, which we call the post-COVID super cycle, which is now normalizing. And by the way, ever since that super cycle started, you see that our CAGR is at plus 8%, whereas our natural framework is somewhere between 4% and 7%.

We're still very consumer-centric. We've been increasingly active all the way through to the run-up to the festive period to the O&D period. And without further ado, I'll share with you one of our commercials that was very successful across Christmas.

(presentation)

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

Okay. So for those of you who haven't recognized her, this was Selma Hayek. I thought that would be interesting to share with you as well, one of our greatest investments over the last couple of years, which is THE CHUAN. So it's basically a malt whiskey distillery in China. The first whiskey distillery in China tested by an international spirits group. I was there just a few months ago, it was quite breathtaking. I tasted the product as well, and it's phenomenal. We are very excited about THE CHUAN. which we started commercializing in China since Christmas.

We've been very active in terms of our portfolio management. Last time I shared our results with you, I shared the fact that we had acquired a number of brands. I had mentioned Skrewball. I had mentioned Código. I had mentioned an increased stake in sovereign brands, which includes Bumbu. But since then, we've been quite active on the other front, which is the disposals front, with 2 major disposals, Clan Cobell over summer; and Becherovka, which is expected to close within the next 2 to 3 months. So very active portfolio management from an M&A point of view.

And again, as reflected in our CapEx investment, I mentioned we're doubling our capacity in Midleton. And the new doubled distillery down in Midleton will be the biggest whiskey distillery in the world. In Scotland as well, we're particularly investing behind our malts. And as I mentioned as well, we're building a distillery in Kentucky for our Jefferson bourbon brand. And at the same time, investing behind our strategic stocks in terms of aging and warehousing. And all of this is done in a very sustainable way. So we're still growing sustainably from grain to glass. You have here a number of examples that are occurring as we speak.

If we go into the sales by must-win market. The U.S., organic growth of minus 10%, despite a strong or resilient consumer demand. As the spirit market continues to normalize, as we already mentioned, a number of months ago last year, in fact, we believe that the sellout in the U.S. spirits industry from a value point of view is between 1% and 2%. Two, if we include the RTDs; one, if we exclude the as it normalizes and actually catches up with its long-term underlying trend of 4% to 5%.

Our value depletions were down 6% with high comps. So we're cycling high comes, and as I mentioned, compounded by inventory adjustments, which are costing us a little bit more than 3 points over the first half. We've gained share on Jameson Original, Malibu, Kahlua, The Glenlivet, Código and Jefferson's. We are -- we have accelerated investments in the key and core U.S. market. Roughly 20% of our sales have been reinvested behind our portfolio of brands, and we do expect an improvement over the second semester of this fiscal brand with very strong execution.

When it comes down to China, which declined by 9%, and I mentioned this as we started the conference, consumer demand is soft and a challenging macro environment. Our international premium spirits brands are quite dynamic, particularly Absolut, Jameson, tequila and gin. Martell Noblige is quite resilient and so are premium and super premium whiskeys. So the trade has been cautious, and we share this with you as we enter into Chinese New Year, and we'll have the real sell-out data in 6 weeks from today.

India. India was up 4% over the first half, recycling the loss of the Delhi license. We do expect strong growth for H2, and the market remains very strong with very strong as well consumer demand, and we are seeing clear premiumization in the Indian market. Finally, Global Travel Retail, down 3%. There is an ongoing normalization in terms of passenger traffic. We're now at 95% pre-COVID levels, but Chinese travel recovery is still lagging. The net sales are impacting by phasing between H1 and H2, and in particular, some discussions with a number of customers.

More broadly speaking, in terms of regions. Resilient Europe, which would have grown with the exception of Russia. So very, very resilient. Strong growth in Central and Eastern Europe, led by Poland. Very strong resilience in Western Europe, led by Germany, which offsets a softer performance, particularly in France and U.K. We are gaining share in the Premium Plus categories in many European markets.

Americas, I spoke about it. It's mainly related to the U.S. Canada sales have declined, but that's average phasing for the year. LatAm, we're cycling a high comparable basis, particularly in Brazil and Mexico, and we do expect a significant improvement over the second half. And finally, Asia Rest of the World, up 1%, with very good growth in Japan, Taiwan, Travel Retail and Australia. And I'd be remiss I have to mention Africa and Middle East, and in particular, Turkey with very strong growth in Nigeria as well.

From the House of Brands, you have here the principal numbers by segment. I'll just underline the strong performance of Jameson, which is impacted by a little bit of destocking, as I mentioned. The dynamism of Absolut in particular in Asia Rest of the World and Europe.

And on that note, I'm passing over to Hélène for the financials.

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

Thank you very much, Alex. Good morning, everyone. So let's look at our financial performance. So we achieved strong gross margin expansion in this first half of 126 bps and organic operating margin expansion of 7 bps. This gross margin expansion is delivered, thanks to strong pricing, complemented with a focus on revenue growth management and as well continued operational efficiencies. This is more than setting easing cognition and adverse market mix.

We have strong marketing investments, with a notable increase in our key geographies, which is the U.S., with A&P ratio now at 20% of net sales. We kept a tight control of structural costs, with a strong discipline on that front. And together, this leads to the organic operating margin expansion of 7 bps, I was just mentioning, with organic profit from recurring operation at minus 3% versus last year.

We have significant unfavorable FX impact of EUR 311 million, which is partly compensated by a favorable perimeter effect, which translates into a reported profit from recurring operation decrease of minus 12%. Our softer profit from recurring operation translates into a group share of net profit from recurring operation at minus 7p due to the increase of recurring financial expenses, with an average cost of debt at 3.1% in this first half, which is following the significant increase of interest rate. And the EPS is declining by 16%.

Bridging now from the group share in profit from recurring operation at minus 70%, we report a decline in group share of net profit at minus 12%. This is mainly due to nonrecurring operating income driven by asset disposal.

Turning now to cash flow and balance sheet. Recurring free cash flow amounts to EUR 301 million, which is 68% lower than last year, and this is due to lower profit, with significant adverse FX impact and the acceleration, as planned, of our strategic investment to fuel long-term growth, especially with CapEx increase, close to EUR 400 million in this first half, which is up EUR 260 million versus last year. And as well, investment in strategic inventory of EUR 221 million, which is increasing by EUR 75 million. The operating working capital outflows are broadly stable versus last year.

So as you know, we are making significant investments, as Alex mentioned, in our new U.S. whiskey distilleries in Kentucky, our Jameson Midleton in Ireland, as well as in Cascan Warehouse in Scotland. We expect the investment in CapEx to remain elevated at record level for the 2 years to support the very strong trajectory expected from our [H2 point of view].

Let's look now at our net debt, which is increasing by EUR 1.1 billion. The net debt-to-EBITDA ratio is higher at 3.3x versus last -- compared to last year, reflecting lower year-on-year reported profit from recurring operation and higher net debt. We have a strong balance sheet, consistent with our solid investment-grade rating, while deploying capital with discipline as illustrated by the bridge on the page. So limited impact of the M&A with beverage cash out offset by Clan Campbell disposal proceeds, and we expect Becherovka proceeds to be cashing in, in the second half. Share buyback execution of EUR 150 million in this first half and dividend payments in line with our policy. Our leverage ratio to improve as reported PRO growth normalizes.

Back to you, Alex, for the outlook.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

Thank you very much, Hélène. So for the outlook. First of all, regarding our medium-term building a very strong fiscal year '23 in what we described as a robust performance over the first half of this year. We are confident in our medium-term financial framework of plus 4% to 7% top line growth, aiming for the upper end of the range, with organic operating leverage of roughly plus 50 to plus 60 bps. And we do trust that our strategy and our midterm financial framework are very much valid beyond fiscal year '25.

Now within this fiscal year what do we expect for 2024? Well, dynamic H2 second half net sales, which are improving versus the first half and leading to broadly stable organic net sales for the full year. We will continue to focus on revenue growth management and operational efficiencies as we have over the first half. We expect an A&P ratio of circa 16% of net sales and to continue the very strict control of our structure costs. This should lead to organic operating margin expansion, with organic profit growing low single digits. There will be a negative FX impact partially offset by the parameter effect.

We will keep on investing in our strategic inventories, as mentioned, at a similar level to fiscal year '23. And we are increasing CapEx to circa EUR 800 million this year. The free cash flow is expected to reflect lower reported profit for recurring operations and the increase in our strategic investments. And finally, we expect a share buyback of roughly EUR 300 million, with already half completed in the first half.

And on that note, before moving into Q&A, I will share with you another little commercial on Jameson.

(presentation)

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

Thank you, Alex, and Hélène. Now we turn to your questions. (Operator Instructions) And now I'm turning to the operator, who's going to be handing the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Olivier Nicolai with Golman Sachs.

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

Alex, Hélène and Florence, I got 2 questions, please. First of all, on India, sales growth improved in Q2, but still obviously below the double-digit growth that you did historically. Now is that slowdown due to macro shift in consumption or actually competition being up? And would you be able to give us an update on when you will expect your license in Delhi to be given back?

And then second question on the U.S. Alexandre, accounts obviously opportunities, but a few of these brands are appearing on the shelves behind you. So would you be able to give us a bit of an update on the 3 acquisitions Código, Skrewball and sovereign brands. How much progress have you done of distribution across the U.S.? And how much of a boost is this for the organic sales growth for the U.S.?

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

You want to take India?

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

Yes. Do you want to start with it or I'll start?

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

I'll start with India and finish with...

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

Thank you for the question. So India, yes, we expect an improvement in H2. By the way, if you look at the performance in H1, it's a solid 1 month, because as Alex was referring to, we are cycling in Q1 a period last year where we had our license in Delhi. So excluding this, this is a quite good performance in H1. So more to come in H2. I would say in India, we have a very solid performance. And by the way, a very strong ambition for the future. We are maintaining leadership with our Indian whiskey brands. We are gaining share with the imported spirits. So a lot of excitement. As you know, this is probably one of the country where the consumer confidence is the strongest. GDP growth is as well great. So many, many positive and potential for us moving forward.

On your question on the Delhi license, we are doing everything we can to get it back as soon as possible. But strong ambition in the near future. No change in terms of potential. This is a must-win market for us. So the low double-digit algorithm is perfectly valid. So we'll see what would be the full year performance. Obviously, H1 is going to weigh a bit on this low double-digit algorithm, but I would say our ambition is fully intact.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

So on the U.S. and in particular on the 3 brands you mentioned. I'll start with Código. So we're very happy with the acquisition of Código. And as we speak, we're investing and executing against Código to increase velocity, which is happening; and distribution, which is equally happening. On Skrewball, the distribution transition was more complicated than anticipated. But now it's fully in line. The distribution is now fully aligned and we have normalized our A&P investment and execution against Skrewball. So we're very excited as well.

On Bumbu and sovereign brands, sovereign brands in the U.S. have their own distribution, so -- and it's going very well. And outside the U.S., I'm happy to say that we're extremely happy with the performance of, in particular, Bumbu, but also Ballard, and as well a great start with the Deakin, which was created by sovereign brands with the help of our master distiller at Chivas Brothers. So we're pretty happy so far.

Operator

The next question is from Simon Hales with Citi.

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

So my first question is just coming back to the U.S. depletion trends. Clearly, I think H1 was a little bit weaker than you and the industry hoped, and perhaps holiday season was also a little bit softer. I wonder if you could just talk a little bit more about the performance of your portfolio through Q2. Was there any trade down to call out, maybe some of the channel differentials between the on the off trade that you saw within your portfolio? And associated with that, some of your peers have talked about maybe some improvement or signs of improvement in depletion trends towards the end of December and into 2024. Is that something that you're seeing within your business? How do we think about depletion rents for pro in the U.S. in the half? So that's a quite detailed first question.

And then secondly, I mean, you reiterated your midterm guidance this morning. I mean what gives you the confidence that you can deliver as you say, still at the upper end of that guidance range? Obviously, one of your big competitors has pared back their midterm expectations, especially with regards to operating leverage in recent months, highlighting the need for sustained investment, why are you still very confident you can deliver at the upper end of those target ranges?

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

Okay. Thank you, Simon. I'll start with the first question on the U.S. So you are, I think, focusing on Q2, so which is O&D obviously. So it's a very important season in the U.S. and elsewhere. But in the U.S., it was a bit softer than expected, as you rightly mentioned. Not dramatically softer, just a bit. Probably linked to 2 things, a bit softer in the on-trade and as well, a bit less lifting than expected. What I'm just describing it's not Pernod just specific. It's really the market. Improvement end of December, it's that when you look at the Napca as well the Nielsen in January that I can confirm that. It's very early days. I'm not sure we can draw any implication of that.

What I can tell you is that first, in this first half, we had some, I would say, strong highlights behind some of our big brands. I mean, Jameson Original is gaining share. We are gaining share with Malibu, with Kahlua, with Código, with Jefferson, with Glenlivet, so things are going well for some of our key brands, and these are strategic priorities. Having said that, we are still a bit underexposed to a very dynamic category, like tequila. But more to come, as Alex mentioned, with Código, especially in the second half. We have as well a bit under exposure in RTD, even if you are very dynamic. By the way, I take the opportunity of that question to say that Absolut play is on fire in the U.S., which is great. And it's -- and we are probably still a bit as well underexposed in terms of exposure to the North American whiskey.

And again, on that front, this is as well a strong ambition for us in the coming weeks. So what to expect in H2, lots of exciting brand activation. By the way, you saw the Jameson media ring, which is going to be, I guess, very visible in the U.S. in the coming weeks. So we are keeping strong investment behind, I would say, our historical portfolio. And as well, accelerating behind these new brands that Alex was referring to with again, Código, with as well as Skrewball and old brands from sovereign brands. plus our North American whiskey portfolio. So quite exciting for this H2 in the U.S.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

So on our framework, let me just be clear, it's a framework, it's not a guidance. But that framework that medium-term framework goes beyond fiscal year '25. I'm not going to start giving a specific guidance for fiscal year '25. We do think we will be in the range, but I'm not going to start talking about upper, lower, middle at this stage for 2025. Now from a fundamentals point of view, yes, we are confident of that medium-term framework of 4 to 7 and the upper end of the range for a number of reasons.

If you look at the must-win markets, we do believe that the U.S. will finally normalize it's happening. And by the way, it's quite -- the sellout remains quite resilient. As I mentioned, between 1 and 2 before going back to 4 to 5, after 3 years of double the rate growth years with 8%. So until we reach that point, we do believe then the U.S. will go back to that mid-single-digit range. Then if you move on to China, the reality is our consumer pool in China is middle class Chinese households, which are expanding. And bear in mind our penetration rate, our household penetration rate or our market penetration rate is still extremely low at 2%.

Right now, there are macroeconomic headwinds, but the consumer right now is here, but he's basically putting money in a bank, rather than spending it. But over time, we remain very confident on China as well. India, there is the technical impact Hélène mentioned. But the underlying fundamentals in India are very strong. The demographics are strong. The GDP growth is strong. The urbanization rates are strong. And the premiumization trend is happening as we speak, and we do believe India will continue to deliver strong growth for Pernod Ricard.

And then the Rest of the World has proven to be quite resilient. And I do believe that for the Rest of the World, which includes, by the way, Europe, the recycling of that super cycle, of that revenge conviviality, is now behind us and we do expect as well resilient growth on that front. So all in all, this is what brings us to believe that we are confident for the medium term. These fundamentals have not changed, and this was all consumer-centric. So I hope this helps.

Operator

The next question is from Laurence Whyatt with Barclays.

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

A couple from me as well. Just following on from what you mentioned around the medium-term framework. I think when we spoke in September, you were expecting high single digit, low double-digit growth in China for the next 15 years. I noticed that when Hélène was talking about the Asian venture, you talked about the U.S. whiskey aging, Jameson aging, scotch, but you didn't mention cognac. Firstly, I was just wondering if you were still expecting that high single-digit, low double-digit growth in China for the next 15 years and whether you are actually aging your cognac for -- to expect that sort of growth?

And then the second question is around the buyback in particular. I think previously, the buyback was looking for around EUR 500 million to EUR 800 million over this year, and you're now sort of expecting around the $300 million range. Wondering what the key reasons for that were.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

I'll address your cognac question, and the answer is yes. I'm going to give a few explanations, but the answer is quite clearly yes. We do expect China to deliver over time some high single digit, low double digit. And I've always said, there'll be better years than worse years. And so for the foreseeable future, you should expect, on average, China to be within that range, but with better and worse years.

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

So by the way, I did mention cognac because I was commenting the increase. Obviously, when it comes to strategic inventory, Martell has his fair share to protect long-term growth. So your second question on share buyback, yes, I mean, we are now clarifying what to expect in terms of top line, which is a bit softer than expected initially at the beginning of this fiscal year. That's why we are slightly adjusting the share buyback program of the year. As you know, buyback is the #4 priority in our financial policy. So slight adjustment due to the softer top line expected for the year.

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 is on the balance between pricing and volume in the first half. I think you had a bit -- implied high single-digit volume decline. Of course, there was the issue of destocking in the U.S., but still it will mean that you will have mid- to high single-digit volume decline ex that. And so how should we think about your whole improvement going forward?

And maybe in the same question, price/mix has been quite limited. You mentioned the premiumization. But what about the pricing? How do you see that environment coming? I think some of your peers have been a bit less positive about we've seen pressure in some categories with price cut. So yes, would be quite interested to see how that unfolds as we look in the next 6 months, but as well the next 18 months, in fact.

My second and maybe is a follow-up on China. So -- well, great about the midterm outlook. I just wanted to have a look more on the '25 -- sorry, '24 calendar performance. I see, like you mentioned that Chinese New Year, there was probably a bit softer intake on the trade. Let's see how the numbers (inaudible) in. But should we be concerned that there is some form as well up down-trading in China and what that means for your profit pool there? And maybe if you could comment as well what you have to do on this ongoing investigation for antidumping? And what would be a plan B if that is tariff were to be implemented?

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

So I'll start with the first question on price and volumes and mix. So -- and this is a very important point, obviously. As you know, we've been very clear in our strong ambition to protect margin when inflation was rising very dramatically. We believe we have a very strong portfolio of brands with strong equity. And that's why we were able to be probably, in many geographies, first movers in terms of taking price to protect margin, and that's exactly what happened last year.

There is some implication in terms of volumes. And by the way, it's true that H1 is probably amplifying that because of the timing of those price increase that happened mainly in H1, and I would say, end of Q1, Q2 last year, which means, by the way, that we're going to recycle in H2 a different environment. Because last year, volumes were starting to be adjusting because of those price increase. So those price increases were absolutely critical to protect margin. And, I would say, consistent with the equity of our brands.

Having said that, we believe that volume growth is part of a good top line trajectory, mid- to long term, and that's what we expect for the year to come. I insist as well on the fact that for the volume in H1, we were recycling as well post-COVID super cycle, including, for instance, a fantastic summer in many countries, especially in the south of Europe. So this is as well impacting us in the volume in this first half.

Some moderation expected for the price benefit in the months to come because we're going to be, I would say, cycling H2 where most of those price increases were already implemented in the market. I can confirm what I said for the Q1 communication, which is we expect prices to be around mid-single digit for the year. So moderating, because pricing is high single digit in this first half. So some normalization to happen. Probably more, I would say, a targeted price increase in the months to come compared to much broader price increase that we implemented last year.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

So maybe on China, I'll start with the antidumping inquiry. Obviously, the entire industry is mobilized to cooperate with the Chinese authorities. So we're sharing with them all the data they are asking. We are, from a Pernod Ricard standpoint, confident there's no dumping on Martell. So bear in mind that the data that was shared with the European Union from the Chinese authorities is they think there is a 15% dumping. So we're cooperating and we'll see what happens from that point of view.

Regarding calendar year 2024 in China, again, I would say the current macroeconomic environment is more of a headwind. Consumer confidence is relatively weak. And as far as it goes so far, the trade has been quite cautious as we enter into Chinese New Year, but it's still too early to have final conclusions on that front. In terms of down trading and so on and so forth, again, I think it's a bit early to start saying there is down-trading. What we do see, as we entered in Chinese New Year, pretty good performance of Absolut and our whiskey brands. Very strong resilience of Martell Noblige and some softness around XO. Would this already qualify as down-trading? I don't know which theory to tell for this specific year. And then midterm, yes, the fundamentals are absolutely unchanged.

Operator

The next question is from Edward Mundy with Jefferies.

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

Hélène, you protected profit margins pretty well despite adverse operating leverage and negative country mix. And your guidance for the year implies some modest operating leverage in fiscal '24. Could you perhaps talk to some of the initiatives over and above the strong pricing that's allowing you to drive that operating leverage despite not delivering within the 4% to 7% this year?

And then second question, Alex, at the Capital Markets event a year or 2 back, you highlighted some of the KDPs including Matrix, Vista, Revap and D-Star. In those markets that are sort of most advanced in your digital rollout, could you perhaps talk to some of the early wins that you're seeing from an execution standpoint on maybe share performance or ability to take price or ability to prioritize the right portfolio within those markets?

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

So I'll start with your first question. So for the full year, we are mentioning some operating margin expansion, organic operating margin expansion. And the reason for us being confident that we can deliver that this year is that, first, as we highlighted, we have a gross margin expansion, which is very solid in H1. So we're going to keep some positive expansion at gross margin level. We expect top line to be better in H2. That's how we're going to be delivering a full year top line that we believe would be organically broadly stable. So this as well will help.

With this top line trajectory again, as I was just referring to, probably a bit more moderation in terms of pricing benefit because we aim at delivering mid-single-digit pricing for the year. Mix, difficult to be specific right now. Probably still going to be negative because of the destocking in the U.S. and the macroeconomic environment in China. When it comes to COGS, I would say probably quite similar to what we had in this first half, which means much lower increase than last year in terms of COGS evolution, because of all the operational efficiency initiatives that we put in place.

And we had as well in this first half, and we'll keep that for the full year, a very positive tailwind coming from logistic cost with the decrease of the deep sea freight, which I'm sure you remember raised very, very strongly last year. So then in terms of resource allocation, A&P, we want to keep a strong A&P investment, which would be at this circa 60% in A&P to net sales ratio, and as well a strong control on structure costs. That's how it's going to lead to organic op margin expansion.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

Great. On your questions which relates to our overall digital transformation, we are absolutely tracking all of the different KDPs. By the way, the first one, the overall one is what we call Mastria, which is all about optimizing our portfolio strategy by market and being able to activate many more brands that we could in the past, and we're tracking portfolio strategy market by market. We're tracking the internal adoption rate of the KDPs one by one. And in all our markets, these KPIs are growing.

So the 3 main performance-driven KPIs, which should deliver share gain, because at the end of the day that's why we're doing this. The first one is the return on investment at 3 levels: the first one on pricing, the second one on promotion and the third one on the return on spend on A&P investments. And on all 3, the KPIs are in the green.

The second one is the shelf space. So this translates through D-Star, by the way, an increased child space. And also through D-Star, the distribution gains. So the first one is on velocity and number two is the distribution gains, and we monitor this very closely market by market. The optimal situation will be when all 3 KDPs are perfectly aligned with our portfolio strategy market by market, and we're in full deployment mode this year.

Operator

The next question is from Sanjeet Aujla with UBS.

Sanjeet Aujla ***UBS Investment Bank, Research Division - Analyst***

Alexandre, Hélène, two from me, please. Firstly, on the U.S. Could you just talk a little bit about Jameson? I appreciate the core brand is doing well and gaining share, but I think some of the innovation through perhaps isn't sticking. Can you just talk a little bit about the lessons learned, what you need to do differently on Jameson innovation to get it to be more stickier? And second, just coming back to THE CHUAN Chinese whiskey. Do you think that is incremental to your franchise in China? Or do you anticipate that to cannibalize cognac to some degree?

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

Okay. So thanks I'll start with Jameson. So you're right, we are gaining share on Jameson Gino. This is a beautiful brand. By the way, Jameson is growing in many geographies. So I take the opportunity to say it's not only a brand which is very relevant for the U.S., it's a beautiful brand growing very strongly in the rest of the world. And by the way, that's why it makes so much sense for us to be (inaudible).

So having said that, I think your question was more focusing probably on Jameson, Black Barrel and Orange. So we are strongly activating Jameson, I would say Jameson family. There is more to come as well as our Black Barrel and Orange. And probably, what I can say is that this is a brand that has, as you know, a fantastic history, legacy, including strong activation in the on-trade. So that's probably as well something that could be applied in the weeks and months to come.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

On your question on THE CHUAN, Western style spirits penetration in China is so low that THE CHUAN is just going to be incremental. And I do believe there are enough moments of consumption and consumer profiles to drive growth behind cognac, behind white spirits, by the way, because Absolut is growing quite significantly. And as well behind whiskeys, with different origins, and THE CHUAN will be one of them. So we're -- the team is very excited about THE CHUAN. but it's not going to be detrimental to some of our other brands. The opportunity to grow Western Style Spirits is quite significant in China.

Operator

The next question is from Chris Pitcher with Redburn Atlantic.

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

A couple of questions, please. Actually on the U.S., you've had a change in senior management there. I just wonder if this signals any major strategic shift in the market. And specific to that, you mentioned that A&P in the U.S. is now at 20% of sales. Can you remind us how much of a step-up that is? And have you increased your commercial and selling resources as well, i.e., sales headcount?

And then there's been a lot of talk around, obviously, your Chinese single malt that's coming to the market. Last year, you announced an Indian single malt, (inaudible) 77, given sort of short-term supply issues and so forth. Is -- do you think the Indian single-malt opportunity is actually much larger than the China one? And specific with your local R&D center now in India, should we expect a lot more product innovation to broaden out what has been a very tight portfolio in India thus far?

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

So maybe on the U.S., so the new CEO in the U.S. is Conneor McQuade. He's a 30 -- roughly 30-year-old veteran in the industry and started his career at Irish distillers, and is an integral part of the U.S. Jameson and, by the way, the global Jameson success story. What I would expect is continued very strong execution in the U.S., with probably a little bit more of a focus as well on the on-trade, which is one of the core strengths around Jameson and a number of our brands. But otherwise, it's just a matter of really executing our very sound strategy in the U.S.

And alongside that strategy with the right resources is increase A&P. Now we're investing, as I mentioned, 20% versus historical levels that were probably a little bit shy of 18%. So it's 2% to 3% increase in a ratio. And in terms of distribution, it's a question of finding the right balance between often -- by channel, let's put it that way. And I won't go any further to detail. I think it's better not to.

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

India, maybe. So I can take this one. You mentioned our innovation with the Indian malt. So it's still early days, but we are very excited by this innovation. And as you mentioned, this is fair to expect more innovation in India. We have already a very solid portfolio of brands, both local brands and imported spirits. And by the way, we've been bringing innovation to the consumers with our Indian whiskey brands in the recent past, with Royal Stag and Blenders Pride. Now we are coming with this Indian malt, which looks like a quite promising brand. So again, India must win market for us, so you can expect all the right priorities to deliver a strong ambition in that country, including innovation.

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

We're going to be taking your last question.

Operator

The last question is from Gen Cross with BNP Paribas Exane.

Gen Philip Cross ***BNP Paribas Exane, Research Division - Research Analyst***

I think back in the summer of last year, Alex, you talked about expectation of the U.S. spirits market returning to this kind of mid-single-digit sellout over the course of 6 to 18 months from then. I wonder if you could give us an update on whether you think we're now closer to seeing that return or it's still too early? And my second question is just on Europe. Clearly, Russia was quite a big drag on the H1 performance. I wonder if you could just share any insight into whether we should expect a similar drag in H2 or it to be a bit smaller.

Alexandre Ricard ***Pernod Ricard SA - CEO & Chairman***

So on your first question, yes, you're right. Last summer, I mentioned it would take anywhere between 6 to 18 months to get back to normative levels of growth in the U.S. So thematically, that was 6 months ago. So I would say now it's probably going to take between 6 to 12 months. It's pure math. And so far, again, based on what we expected from the U.S. market in terms of sellout, it's perfectly in line with our expectations.

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

For Russia. So we decided to exit the country back in Q4 last year, early Q4. So there is as well some impact expected in our H2 performance versus last year.

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

Thank you very much, Alex and Hélène, for the question. Thank you, everyone, for listening in and then asking questions. We wish you a very good day and speak to you very soon.