

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PERP.PA - Pernod Ricard SA North America Corporate Call

EVENT DATE/TIME: MAY 10, 2022 / 1:00PM GMT

CORPORATE PARTICIPANTS

Anindita Mukherjee *Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America*

Edward Mayle

CONFERENCE CALL PARTICIPANTS

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

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

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

Richard Withagen *Kepler Cheuvreux, Research Division - Research Analyst*

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

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

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Pernod Ricard North America Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Edward Mayle, please go ahead.

Edward Mayle

Hello, and welcome everyone to Pernod Ricard's 2022 North American Conference call hosted today by Ann Mukherjee, Chairman and CEO of Pernod Ricard North America. I hope you've had the opportunity to watch Ann's video released earlier today.

Before we begin, I remind you that Pernod Ricard will hold its Capital Markets Day in Paris on June 8 with a particular focus on its data and digital transformation, building Pernod Ricard's growth model, the conviviality platform. Ann will join us there and will share in more detail just how she's bringing the transformation to life in North America. But back to today, we'll aim to take your questions now for around 45 minutes. So let's begin with today's first question, please, Nadia.

QUESTIONS AND ANSWERS

Operator

The first question comes from the line of Edward Mundy from Jefferies.

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

I've got three, please. The first is on premiumization. You mentioned that consumers are considering the price-to-quality ratio of their purchase. And it sounds like some of these premiumization trends are quite sticky. As people go back into the on-trade where inevitably, you do spend more money, are you seeing any evidence of de-premiumization within the off-trade? That's the first question.

The second question is around DSTAR. I think you gave the example of a 72% uplift in Black Barrel. Could you provide a bit more granularity around that? What really led to the uplift with Black Barrel? Was it underpenetrated in that store? How exactly the sort of DSTAR work?

And then the third question is really around the level of buy-in within your organization around some of these digital initiatives. How are you incentivizing employees to use these new tools?

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

All three great questions, Ed. Nice to hear from you. So let me start with the first question on the premiumization trends that we're seeing in home. We're actually seeing very good continued premiumization trends on trade as well. I think what people have now begun to understand is that this is a category of affordable luxury. So even though you are partaking of better quality spirits at home, the trade-up is not that dramatic, but it is for the industry. And then when you're going out, you've now kind of conditioned yourself to enjoy these higher premium cocktails. So we are seeing that continue on-premise as well. So it's kind of enjoyable to be in this category when you see kind of the buoyant trends that we're seeing with our consumers really wanting to partake of an affordable luxury when times are tough, it's something we're continuing to see.

On the second question on DSTAR, I'm going to get into more detail at the Capital Markets Day. But I will tell you this, we are seeing -- we have multiple examples that we'll walk you guys through, but that's the beauty of DSTAR, whether it understands those very, very high potential outlets and whether the next best action is the way we talk about it, is it the next best offering that we should have at that space or that outlet that might be underpenetrated and this helps us identify it or it could be we have a current offering and the next best action is to drive more facings or velocity or orders.

And so that's the beauty of DSTAR. It really helps us understand the next best action and build off of it. And I would say, as we have been working this with the organization for the last few months, it's one of the things that I've been really pleasantly surprised about. I've done a lot of change management at a lot of companies. And the enthusiasm that we're getting not only from our own internal front line employees, the excitement that we're getting from our distributor partners because it's a real win-win because it's about growing the category. And so that's great for all of us, including our retailers.

So I've seen a lot of enthusiasm. I've seen a lot of enthusiasm to take on the change. We've also worked very hard on change management because we know that's always the key issue in launching initiatives like this. So I remain very optimistic about the ability for our organization to absorb this as a new capability.

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

Great. And just on -- coming back to the first question, it sounds like people are trading up in the on-trade when they start going out again. Given that the dollars are more stretched the on-trade, are you seeing any evidence of people trading down in the off-trade given that they're now spending more when they go out? Or are people continuing to keep their sticky premiumization trends within the off-trade?

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Yes. No, it's a great question. And I'll be honest, I thought kind of as we're coming out of COVID, we would see a little bit more slowdown in in-home kind of cocktail consumption, but we're not seeing that. And so we continue to see that stickiness in home. So therefore, it's continuing to make off-premise very buoyant. I do see a little bit more share of off-premise versus on-premise in a couple of points. It's still early, but it's not going away, and we're seeing it in both our channels.

Operator

The next question comes from the line of Olivier Nicolai from Goldman Sachs.

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

Edward, just a couple of questions, maybe three actually. Just first on the Jameson Orange. It looks like it's had a very good start. How much of the Jameson brands growth is driven by Orange versus the core? And also, can you give us an idea of how big Orange is today? And if you have already any kind of data on repeat purchasing for Jameson Orange?

And second question is well, actually the third one really, is on the spirits RTD that you're mentioning in your presentation. It looks like there's quite a lot of potential there. Could you perhaps give us an idea of how big you think that category will become, which of your brand could be extended in that, let's say, spirits RTDs category? And also if you are seeing some kind of, let's say, normalization between the excise rates that you have between hard seltzer and spirits as you drink?

Anindita Mukherjee - *Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America*

Absolutely. Great questions. Let me start with the first one. We are very happy. Again, it's still early on the launch of Jameson Orange. What's great about how we have launched Jameson Orange is it's really kept with the brand equity of Jameson. This is a very whiskey forward flavored whiskey. So it's -- there are other -- our competitors tend to be far more sweeter. So the reaction that we're getting from our Jameson consumer base has been very, very positive.

As I said, it's early, so I don't want to share too many early preliminary numbers, but the repeats that we're seeing, it's some of the highest we've seen. So I remain very positive about the launch. This is something -- it is trending to be one of the biggest whiskey flavor launches that we've seen from Pernod Ricard in the category. So I have a lot of optimism. And the growth that we're seeing, again, very early, but we're seeing a lot of new users come into the franchise. And so it's growing the whole pie. And that's what you really want when you do an innovation of a very big brand.

And then on RTDs, wow, I can't even tell you where that could go. Look, it's sourcing from Malt RTD. And there's a real easy consumer reason why. Conscious consumption is on the rise. People are looking for lower ABV alternatives. And what the problem with consumers on kind of the RTD malted ready-to-drink has been flavor. And again, what we've seen in the pandemic is that people are really enjoying cocktails, but they just want a convenient way to get it. And when you see flavored or cocktail RTDs, it brings flavor back. And so what we're seeing is you get the beauty of convenience, you get the beauty of low ABV and you're getting the beauty of a big brand that can bring in the quality and the flavor credentials of a ready-to-make cocktail.

And I will tell you, we've already launched Absolut, we launched Malibu. We just launched Jameson. And I think what we're looking at is what are the right brands that have that cocktail credential that can go into this space. So we continue to look at it, we continue to innovate against it. And I think there's a lot of opportunity. We've already seen that these are almost 5% of the category. I think there's a lot of upward momentum. And there's a lot of incremental users coming in because you have a lot of users that might be a little bit more intimidated by coming straight into a spirit, but this is an easy way to come into this category and start getting more familiarity with some of the big spirits brands.

So I remain very positive and optimistic about how this is going to continue to drive growth in the spirits category and continue to source from beer, and do a lot for our portfolio, given how many brands we have in our portfolio that we can potentially take advantage of.

Operator

The next question comes from the line of Trevor Stirling from Bernstein.

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

Just one question for me, please. If I look at the latest NABCA data for March and then look at quarter 1, it looks that Pernod Ricard volumes are down about 4% in a market that was broadly flat. Is that representative of what you think the growth gap is at the moment to the market? Maybe

it's different in value terms compared from volume? And whatever that growth gap is, what do you think the big levers are to close that gap and indeed to end up in your aspiration of growing faster in the market?

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Thank you for the question. I think the gaps that you're seeing and if you look at the most recent weeks, we're beginning to slowly close some of those gaps. We're not quite there yet, but we're getting very close. And if you just look at it on a trending basis, both in Nielsen and in NABCA, we're seeing a lot of our total portfolio begin to stabilize and begin to close that gap. And I think as you go forward, we've always talked about in our second half, we have a lot of innovation. We're being very good with our media, we're investing in our brands. So I think that momentum that you are seeing will continue. And as I've said, we are putting in place the capabilities for us to be able to not only start matching the market but sustainably start beating the market, and that has always been our goal.

And I think that as we move forward, what I get really excited about is and now beginning to see the power of our portfolio. And I think that's the biggest change we've made over the last 2 years is that now we're really leveraging that power. And so we are now beginning to understand which one of our brands has the highest right to win in which occasion, which really helps us grow the whole pie. And I think that one of the things we always have to remember, and it's hard for me because I come from the CPG industry, where when it comes to sell-out, there is a much bigger understanding of sellout. And NABCA is only a few of our control states. It's the only kind of source that we have for on-premise. And so it's hard to see the full picture. But as we triangulate our numbers, we're feeling pretty good about the momentum that we're building.

Operator

The next question comes from the line from Celine Pannuti from 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 rebounding on one of your points about what you mentioned being buoyant trends, both off-trade and on-trade. I would like to understand how you look at the next 6 to 12 months, how you prepare your innovation pipeline in an environment where the market is now worried about the impact on consumption from higher interest rates as well, how the consumer is with inflation? And I don't know whether those digital tools that you're mentioning are helping you to be closer to the consumer because many times, we see spirits are a bit behind the curve in terms of the time between the sell-in and basically when consumption happens?

And my second question is on RTD. You were talking about the opportunity there. I was just wondering about the investment, how should we look overall in the U.S., how you balance your investment spending? And RTD, if anything you can tell us about the economics of that as you are still quite small in terms of scale?

And then maybe if I just one more, if you can talk about -- you've not spoken much about Absolut. If you could give us a bit of view of where we are now with the brand? And what we should look forward?

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Thank you. Let me make sure I get all those three questions and answer it correctly. So on the first question around really understanding the short term. So let me be very clear. I think long term, the premiumization trend that we're seeing is going to continue. Everything that we see from a consumer perspective seems to indicate that. I think in the short term, that is the big question. And will there be a trade down from an affordability perspective? We're watching that very closely.

Here's what for us that is really good is when you look at our full portfolio, we are very, very balanced between what I'll call premium, super premium, ultra premium. So we have the ability to flex depending upon what kind of indicators we get from the marketplace. So I still think you're going to

see premiumization in the short term. You're definitely going to see it in the long term, but we have an ability to be able to be very agile. And that's why we make sure we're understanding kind of the signals that we get from our retailers, from the marketplace, from our distributors. So this is a category where you're going to have to have a lot of feelers out to really understand where you're going to see pockets because it can be very different across the country. You might have very different trends geographically. That's one of the big issues around the United States, and you have to be able to be mindful about understanding those geographic patterns. So that's the first thing.

On the RTD business, here's the thing about the economics. I always talk about incremental profit. The RTD business is an incremental business. And there's a lot of new users that are coming into the spirits category. And so as a result of this kind of convenience conscious drinking trend that we're seeing. So for us, this is an important investment. We make it thoughtfully. We're not just going crazy and trying to launch everything under the sun. We're being very thoughtful about which brand should go in. We're being thoughtful on the supply chain because what's different about ready-to-drink versus spirits, of course, is that ready-to-drink has an expiry date. And so managing that supply chain, managing that production, investing in the right way, these are all considerations to making sure you have the right economics around the proposition.

And then probably the third thing I'd say on Absolut, we're encouraged by some of the trends that we're seeing on Absolut. When we look at the total franchise, including ready-to-drink, Absolut is actually growing as a franchise as a total trademark. What I'm also really feeling good about is a lot of our flavors on Absolut are doing well. And I think what we figured out on Absolut is that Absolut is a brand that really needs to be less about "we're the best vodka". It's more about we were made to mix into cocktails. And that's really important because the trends that we're seeing in cocktails are huge. And what people are looking for are brands they trust to help them make the cocktails they desire. And so a lot of our new campaign around "Born to Mix," a lot of the responsibility campaigns that we've done with Absolut, again, because that is the history of the brand. It's a brand of provocation, it's a brand of inclusion.

And so we're beginning to see better trends on the business. It's still early. This is a brand, a huge brand that has done a lot of brand turnaround. But these are early indications that we're on the right track, and I feel good about where Absolut is going.

Operator

(Operator Instructions) The next question comes from the line of Sanjeet Aujla from Crédit Suisse.

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

A couple of questions for me, please. Firstly, on pricing. I think you've taken some significant price increases across the portfolio in February. Can you just give us a sense of how that's landed across your customers and consumers? And can you compare the magnitude you've taken versus the rest of the industry? That's my first question.

And then across the presentation this morning, a lot of emphasis on organically beating the market. I think in recent years, there's been a lot of bolt-on M&A across the portfolio. So can you just talk about your openness to do more bolt-on M&A? Are there still gaps in the portfolio you'd like to build?

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Of course, those are 2 very important questions in the industry and for us right now. So on pricing, yes, we did take a pretty significant price increase in February. And it's again, as I say, it's still early. This is a 3-tier system and that pricing working through the system is something that we literally monitor every week. But so far, the prices -- pricing that we're seeing and the response that we're seeing from our businesses is pretty good. I feel good about it. And consumers' willingness to pay more, this goes back to this industry and value for money. We're not seeing necessarily people come back at that pricing and say it's too much.

So I think we're being very thoughtful about our pricing. We are trying to only pass on the pricing that is really to offset uncontrollable costs. And in terms of more pricing, I think all of us in the industry are watching very, very carefully. We are seeing input costs go up across the industry. I think

everyone is being thoughtful about which segment, which brand. So this is not just about pricing anything. It's about really understanding the segments that consumers are willing to pay for and matching that against the segments where we're seeing the cost increases.

So it's a tricky exercise. But I feel good about our ability to leverage pricing as a lever in terms of margin protection. And moving forward, I think everyone in the industry may need to look at more pricing, given where we're seeing input costs go. But it's a category that consumers see as an affordable luxury, so they're willing to take that pricing. And please remind me about -- M&A was your second question. Yes.

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

Yes, yes.

Anindita Mukherjee - *Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America*

So look, we are always going to look for M&A opportunities. It's kind of our secret sauce. And I feel very good about our organic growth from our past M&As, take a brand like Jefferson's. I mean, this business has tripled in the last couple of years. And so our ability to take M&A and turn that into real organic growth is really something that I'm very proud of our teams to be able to do. And so yes, we will always look for those opportunities that will continue to really help us round out our portfolio and be able to drive even more organic growth for the portfolio as a whole. So we're always on the lookout.

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

Can I just follow up on the pricing point, Ann? Would you say you priced ahead of the industry at this stage? And you'd expect several competitors to follow? Have you been earlier than the competition, do you think?

Anindita Mukherjee - *Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America*

I think we went out almost simultaneously. I don't think we've priced ahead. I think we are pricing based on what we think the market can bear. And I think everyone is looking to the other one in terms of who's going to price next. But I think we probably -- versus history, we've probably been more proactive in our pricing actions than we've been in the past. And I think that's, again, one of the big changes that you're going to see from us here in Pernod Ricard North America. And I think that's because we're finally beginning to really invest in our brands in a way that we feel good about our ability to hold that pricing in the marketplace.

Operator

(Operator Instructions) The next question comes from the line of Richard Withagen from Kepler Cheuvreux.

Richard Withagen - *Kepler Cheuvreux, Research Division - Research Analyst*

I have got two questions, please. First of all, can you perhaps talk about the development and trends of your agave brands. So you did not mention them as one of the growth drivers for the business going forward in the webcast. But what does that imply for brand support, capital allocation to agave, et cetera?

And then the second question I have is on your route-to-market. You changed them for some parts of the businesses in the U.S. in the last couple of years. The collaboration with Lafayette and the tie up with sovereign brands, for example. So what are the learnings from these initiatives? And are you considering other changes in your go-to-market strategy?

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

So yes, on the first question, you'll have to remind me because I was -- what was your first question again?

Richard Withagen - Kepler Cheuvreux, Research Division - Research Analyst

Your agave portfolio, what is the focus there?

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Yes, absolutely. So I will tell you on agave. It is a smaller part of our portfolio, but it is an important part of our portfolio. So let me start with, I think, the strength of our Agave portfolio, which is clearly mezcal. We continue to be the leader in this segment. It is a growing segment, and Del Maguey has performed brilliantly. And we continue to increase our investment around our agave support for our brands. Again, we're seeing a lot of good and positive trends on the kind of higher premium side of tequila. And our Reserva business is one that is very, very positive. And that's why we've innovated off Avion, and we've just launched Cristalino. Again, very early, but looking very positive.

So I think you're going to continue to see us double down in this segment, and we're really trying to build these brands to compete above their weight in our portfolio. And as we look at rounding out our portfolio, we'll always look at agave opportunities because I do see the long-term trend on tequila is going to [continue to save us]. It's overlapping a lot of high growth, and it's going to get more complicated to grow in tequila, but I think we're being thoughtful about how we're approaching this segment and being really smart of our investments on doubling down.

Your second question was around -- you have to remind me, what was the second part of your question?

Richard Withagen - Kepler Cheuvreux, Research Division - Research Analyst

Yes, the route-to-market, yes.

Anindita Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

The route-to-market. So here's the thing about this industry. It is a very complicated industry. And one of the big focus areas that we've had in the last couple of years is simplification. And so getting focused in a 3-tier system is job 1, job 2, job 3 because our distributors have a lot on their plate. So being thoughtful about, first, on our main portfolio route-to-market, how do we simplify the way we work with our distributors, how do we simplify how we manage our distributors has been a huge undertaking. And that's why having other route-to-market the way we do with Lafayette, et cetera, it helps bring focus to the portfolio because our job is to grow every brand in the portfolio by finding the right to win with the consumer and finding the right to win with our distributor. And so being able to manage that is a really important part of managing this business. And so that's why you're seeing kind of our approach to route-to-market the way we're doing it.

Edward Mayle

So operator, are there any more questions? And if there's no more questions, then I think we can move to close the call.

Operator

There are no further questions at this time.

Edward Mayle

Well, thank you very much Ann then for taking the time to answer the questions, and thank you, everyone, for joining us today. Please stay safe, and we look forward to seeing, I hope many of you in Paris in just a few weeks.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect. Have a nice day.

Edward Mayle

Thank you. Bye-bye.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2022, Refinitiv. All Rights Reserved.