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PRESENTATION

Florence Tresarrieu - *Pernod Ricard SA - Vice President - Financial Communication and Investor Relations*

Good morning, everyone. We're very pleased to welcome you to our H1 FY25 sales and results presentation. Alexandre and Hélène will take you through the slides before we take your questions.

Alexandre, over to you.

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, Florence, and good morning to all of you. And welcome to today's first half fiscal year '25 sales and results presentation. We will cover as well our full fiscal year '25 outlook, and we have decided to take this opportunity as well to share with you an update on our medium term taking, in a way, a longer-term perspective.

We are meeting, in fact, a week earlier than planned. So let me just begin by sharing with you why we have moved our results release today. So as you know, we had expressed in our previous financial communication that it was our expectation to return to growth, albeit modest growth, for this full fiscal year. We have now begun to receive early signs that Chinese New Year is likely to be very soft. In addition, the challenge posed by the technical suspension of the Duty Free regime on cognac in China due to the anti-dumping measures, which started in December, is still ongoing and is now expected to impact heavily our second half.

So taking those impacts into account leaves us to update our expectations for our top line to low single-digit decline for the full year fiscal year '25. Given this change in outlook, we have to communicate earlier than planned to comply with our regulatory obligations, hence, today's call, which we're delighted to have with you.

So first and foremost, I think the two most important pages of this presentation are the two I'm going to cover with you at the beginning of this presentation. I think that the title perfectly summarizes our state of mind here at Pernod Ricard. We are all, all 20,000 colleagues around the world, determined to navigate the current cyclical headwinds with resilience and agility.

Our first-half performance is in line with our expectations with a sequential improvement in Q2 over Q1, with Q2 down 2.5% in terms of net sales versus negative 6% for Q1, marking four consecutive quarters of volume growth. So volume growth has now been stabilized, volumes are up a little bit more than 2% over the first half, and over the MAT period, the calendar year 2024, volumes have grown roughly a little bit less than 3%.

Our strong first-half organic operating margin has grown now by 65 basis points. And this is following 80 basis points increase of our operating margin last fiscal year and despite 18 months of soft top line. And this is clearly due to continuous improvement initiatives that are driving EUR900 million roughly of efficiencies since fiscal year '23, so over the last three years, including our full fiscal year 2025.

Ongoing challenging macroeconomic environment and intense geopolitical uncertainties, which we don't have to discuss in detail, you all know about them, continue to impact the spirits market, particularly the worsening context in China and Travel Retail Asia that I mentioned in the introduction and strongly impacting particularly Martell. Finally, we anticipate, as I said, a low single-digit decline in organic net sales for the full fiscal year '25 while sustaining our operating margin organically.

So moving on as well to next fiscal year, which we qualify as a transition year. So conditional on the degree of challenges posed by the global tariff environment, obviously, we've made a few scenarios and sensitivity analyses, but there's a bit of lack of visibility on that front, which we're taking clearly into account. We do expect fiscal year '26 to be a transition year with improving trends in organic net sales in our top line.

And amidst extraordinary trade tensions, which we're currently experiencing, we are determined and focused on defending organic operating margin to the fullest extent possible for fiscal year '26. And finally, cash conversion will improve.

Finally, after having spoken about fiscal year '25 and the transition year fiscal year '26, if we look a little bit beyond, particularly from fiscal year '27 to fiscal year '29, we are projecting stronger organic net sales growth, aiming for a range of plus 3% to plus 6% on average with organic operating margin expansion. Now, this expansion will be driven by delivering continuing efficiency initiatives to optimize operations and simplify the organizational structure. And these initiatives are expected to deliver roughly EUR1 billion in efficiencies over the next four years, fiscal year '26 all the way through to fiscal year '29.

We are focusing as well on strong cash generation, aiming for roughly 80% and above cash conversion to fund our financial policy priorities. With strategic investments (and what I mean by strategic investments is the sum of CapEx and increase in strategic inventories) normalizing to roughly EUR1 billion from fiscal year '26 and onwards. Finally, we are confident in our strategy in our operating model and in the engagement of our teams around the world to deliver sustainable value growth. We're determined to continue to navigate, as I mentioned, with resilience and agility these cyclical headwinds.

So let's deep dive briefly into our first-half sales and results performance. So first half, as I mentioned, organic operating margin has expanded despite sales decline and amidst ongoing challenges in our two largest markets, which are the US and China. So volumes over the first half, I mentioned, up 2%, with Q2 up 4% which marks a sequential improvement and resilient underlying consumer demand. Organic net sales have declined 4%. I mentioned sequential improvement, minus 2.5% in Q2 versus minus 6% in Q1. I mentioned the volume growth, which didn't offset a negative price and mix, which were down 6% principally driven by market mix, US, China, to name a couple.

H1 margin expansion of 65 bps, as I mentioned, through a very strong revenue growth management across the board through marketing agility -- obviously, a very strong agility from our team in China, to mention it. We're still investing in our long-term sustainable growth with strategic investments in CapEx and inventories, which have peaked last year and have started to decline as of this year. We'll talk about this in more detail later with Hélène. And finally, this has led to an improved free cash flow of roughly EUR440 million.

Last point, H1 has been unfavorably hit by negative foreign currency exchange. The impact on PRO is EUR110 million. But since December -- November-December, rates have evolved and we're now in a more positive, I would say, cycle from an FX point of view, and we expect FX for the second half to be positive. So the EUR110 million negative impact over H1 should improve over the full fiscal year.

I won't dwell into these numbers which summarize the financial performance. You'll see most of them in more detail in a few minutes.

In terms of our top line, the minus 4% would have been flat. The rest of the world, excluding our two largest markets, US and China, is flat. You see Americas at minus 4%, up 2%, excluding the US. You see Europe, minus 2%, but plus 1% excluding Russia, which, by the way, it's the last time you'll see a bubble excluding Russia number, because since December of 2023, we were no longer selling in Russia. And finally, Asia rest of world down 5%, but up 3% if we exclude China.

I think this is an important graphic because what this graphic clearly shows is that the volume recovery is there and continues following the post-COVID normalization. So there you have it. We're back to four consecutive quarters of volume growth for Pernod Ricard.

I think it's also worthwhile noting that despite soft top line, underground in the field, basically across most -- almost all markets, but the vast majority of markets, with obviously one notable exception, which I'll deep dive into, which is the US, we are either maintaining our share or gaining share. And this is the result of basically all of the top-line initiatives we've been carrying throughout the group in terms of revenue growth management, but also in terms of building the desirability of our brands and the efficiency of our marketing spend, the return on spend we get both from a short-term point of view and in terms of immediate uplift in sales, but also building brand equity over the longer term.

The elephant in the room, if we may call it like this, is the US, but I'll deep dive in the US in a few minutes.

Very briefly in terms of our must-win markets. Here, you have the US, organic net sales down 7%. We believe the market is growing at roughly plus 1% in value. Our sellout -- Pernod Ricard's sellout is down roughly 6%. We've seen improving trends for our performance, particularly on Jameson over the OND -- October, November, December -- period, and we expect to see improvement in sellout throughout the second half.

India, well, nothing really to say other that there's a strong broad-based and dynamic growth perfectly reflecting the underlying consumer demand, with strong growth as well of our imported brands, notably Jameson, Ballantine's, The Glenlivet, and Royal Salute, with ongoing premiumization as well. Good growth of our local whiskeys, notably Royal Stag, and finally, we do expect continued strong momentum over the second half.

China, I mentioned it in the introduction, clear ongoing challenges from a macroeconomic standpoint, very weak consumer demand, which are leading to sharp declines, particularly on Martell and Royal Salute. And this, despite some pretty good growth on our premium brands, such as Absolut, such as Jameson or such as Olmeca. And as I mentioned again, the quality insider feedback we started getting from our team in China is we expect a very soft Chinese New Year, driven principally by a significant decline in gifting this year and very poor consumer confidence. We announced as well a mid-single-digit price increase for Martell post-Chinese New Year. Finally, Travel Retail, very good growth, in fact, across Americas and Europe, but which doesn't or cannot offset particularly from a mix -- portfolio mix standpoint, the weakness around Chinese Asia -- around Duty Free Chinese Asia, which is hit since December by that technical suspension I mentioned earlier.

For the rest of the world, which, by the way, represents more than 55% of our business, as I mentioned, Europe down 2%, up 1% excluding Russia. Americas down 4%, but with a very good performance in Canada and Brazil, just to name a few, where we're gaining share. And Asia rest of the world, down 5%, but up 3% excluding China, with a very good performance in Japan or Turkey, just to name a few.

Now to Hélène for the financial update.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

Thank you, Alexandre. Good morning, everyone.

So let's move right away to the financial update for this first semester. So starting obviously with the P&L, so we delivered minus 2.2% organic profit from recurring operation with 65 bps margin expansion and minus 7.4% reported. As already mentioned, but I think it's worth insisting on, that sustaining and expanding our margin is a key element of our financial framework and one we have been consistently delivering through the years regardless of the top-line trajectory as we will see later in the presentation.

Gross margin is down 20 bps on this first half. In particular, we are impacted by the negative market mix -- obviously, when you look at the decline of US and China -- but helping mitigate that mix effect is our efficiency program. These have been running over recent years. They are now accelerating. To be fair, it's probably circa 50% of the efficiency that we will deliver this year and that have started in fiscal year '23. So they are significantly contributing to the margin expansion this semester, and they will obviously contribute as well to the gross margin for the full year.

A&P has a favorable impact of 115 bps. As usual, we will also have some phasing between H1 and H2. And I'm sure you remember that H1 is bigger than H2. So in terms of ratio, we always have a lower ratio in H1 versus H2. Having said that, we are adapting our A&P spend where it matters and especially in China, considering the very deteriorated consumer environment. So this is mainly what you can see here in terms of inflection for the A&P spend.

Structure costs, minus 30 bps, which is a solid result considering the top line as our very strict cost control and continuous improvement in our organization enabled us to reduce our structure cost by minus 2% organically in this first half. FX, Alexandre you mentioned them, has been a headwind this H1, partially compensated by Perimeter. Now, with the USD strengthening, we expect a positive FX impact in H2, assuming a spot rate.

Moving now to our efficiency programs. You probably remember, last time I spoke to you at our Q1 results, I explained that efficiencies are at the forefront of my priority -- forefront of my priorities. As the Group CFO, I think it makes sense. So let me come back to that theme with much more details.

So efficiency at Pernod Ricard, a continuous process of ongoing improvement in the way we operate and in the way we are organized. Their impacts are material. You see here the numbers, EUR900 million. They are sustainable and they encompass the entirety of the cost base, including balance sheet, mainly P&L, but as well including balance sheet between fiscal '23 and '25. And here, to be very clear, I am including an estimate for the full fiscal year '25. We have been delivering EUR900 million efficiency through continuous improvement, again, across operations and structure.

So operational efficiency, you have lots of detail, I believe, on that slide. We are delivering productivity on mainly -- main aspect on our COGS basis plus, as well, improving cash with finished good inventory reduction. Together, these are expected to reach circa EUR600 million for this period of '23 to '25. So they account for two-thirds of the overall efficiency contribution. Three main areas of contribution: procurement, which is obviously critical and you see the weight of this efficiency over the three-year period; we have as well some significant efficiency in the making, which mainly means production footprint; but as well, obviously, in the supply with logistics and as well reduced finished good inventory that I was referring to a few seconds ago.

If I move now to the structural cost efficiency, we want to ensure that we are running a consistent, sustainable, fit-for-purpose organization with very strict discipline and, as well, adapting to the changing circumstances we faced without obviously jeopardizing our ability to capture growth opportunities. So those structure efficiencies account for one-third of the total efficiency.

And let me maybe just highlight, I believe, a telling illustration of this impact by flagging the 9% reduction in SG&A headcount since fiscal year '23. So I emphasize that these are continuous programs, and so we can look forward to future efficiency gains, which I will obviously come back to later in the presentation.

Moving now to the earnings per share, down on H1 at minus 11% due to lower reported profit from recurring operation, increased financial expenses as expected as we refinance bond debt that was issued in a much lower rate environment, partially compensated by a reduced income tax on recurring operations.

Moving now to cash flow and debt. So first, free cash flow and cash generation, this is obviously a very strong focus, and we have improved free cash flow by circa EUR150 million versus December '23. So this year -- this first half, it amounts to EUR440 million. We are continuously optimizing ordinary working capital with this semester's notable improvement in finished good inventory level.

Our strategic investments, being CapEx and increase in strategic inventories, remain elevated compared to historical standards as we invest in our future growth. But as already mentioned by Alex, they are, however, coming down from their peak reached in fiscal year '24. For fiscal year '25, we expect circa EUR700 million in CapEx and strategic inventories increased to be comparable to last year.

Moving now to the net debt. Our net debt to EBITDA ratio is at 3.5% at the end of December, which reflects also the timing of our dividend, which, as you know, is always paid in full in H1. This ratio should come down in the full year versus H1 but will remain above 3%. We don't have a specific range in terms of net debt to EBITDA. Nonetheless, we are keen on gradually getting back to 3% and inside, as reported profit, recurring operation growth normalize, strategic investment come off their peak, and we benefit from the proceeds from previously announced M&A.

Back to you, Alex, for the midterm 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, Hélène. Regarding the medium-term update, I think it's important just to sit back a second and have a broader view on the evolution of the international spirits category, the one in which we operate. So here, you have the IWSR value numbers that go back to that go back 25 years, since the year 2000. And you see that there have been cycles both in terms of super growth and in terms of strong declines. I won't go through them.

You know them all. But I think what's interesting to see is that we estimate the normative value growth for the total international spirits segment to be at around between 5% and 6%. By the way, this includes standard spirits. It would be higher, if you exclude standard and just look at Premium Plus, which is the segment in which we even operate further. And if you look at since -- so from 2010 to COVID, and that 5.4% CAGR is what we believe the normative value growth to be.

And since COVID, in fact, and we didn't do it on purpose. It is also 5.4%. And we estimate this year 2024, the forecast here is part of that low end of a cycle. But I think it was interesting to share this chart with you. So within that environment, we have some markets that grow.

We have others that are somewhat challenged going through different -- and by the way, cycles. But those bubbles basically are proportionate to the size of our business and to the contribution they have to the total sales of Pernod Ricard and what we're trying to share with you with this slide is basically to say we're very balanced from a geographical footprint point of view. So if we remain extremely agile in terms of resource allocation and go get the growth where it is, that's basically what we're obsessed with.

Not only are we balanced from a geographic standpoint. And as you know, we've been saying this and repeating it quite regularly. We're also balanced from a portfolio standpoint, from a segment standpoint and our obsession here is to be a segment agnostic because there are cycles within our industry from one segment to the other, which, by the way, aren't the same from one market to the other. What I do like to also share with you on that front, if you take some of our strategic brands, you here have a five-year CAGR in terms of value, since 2019 all the way through to December 2024 in terms of calendar years.

But look at Chivas 6% CAGR over that period, all the way through to December end; Ballantine's 6% growth CAGR; Jameson, 8% CAGR over the same period; Absolut, 4% CAGR Obviously, Martell being hit clearly by what we mentioned, particularly China and Travel Retail, down 3% CAGR over that period. But basically, strong underlying fundamental growth across the portfolio over that period. So as I mentioned it, the elephant in the room, if you like to call it that way, the US market is still soft, but it's starting to show some improving trends. And we believe that there is some degree of gradual recovery, albeit it's not fully linear.

And within that, we are closing the gap to the market in terms of performance. As you can see in the middle graph, upper graph, our gap to market is closing progressively. By the way, the latest Nielsens that came out a couple of days ago also -- and by the way, these four brands are just our four largest brands, Jameson being our number one brand, Absolut our second brand, then you have Kahlua and Malibu. And as you can see, you do see as well here a gradual recovery. We've put in place over the last year or so, a number of clear initiatives behind our brands both from a marketing standpoint with very, very strong media campaigns for key brands, the latest one, over OND, which was Jameson, both on the Jameson

Original brand, but also on Jameson Black Barrel and the more recent introduction of Jameson innovation called Triple Triple with very positive early signs and momentum, by the way.

Marketing and commercial, where basically, it's all about operationalizing our strategy from a field point of view and with our new sales director that recently joined us. So it's still working on the US, early green shoots that are starting to materialize.

Well, and yes, I'm not going to dwell on it, that being said, let's be very clear. India fully in line with our algorithm, 8% CAGR. In fact, we believe we can even do better than that. We enjoy a strong leadership position in what has now become from a top line point of view, our second largest market.

We have 40% -- a little bit more than 40% market share in the segments we want to operate in. The market is premiumizing. The market is extremely dynamic. I was there a couple of months ago. It's just quite tremendous to see, what's going on within the market, but also behind our own brands.

And again, the demographic profile of India is extremely attractive to us, roughly 25 million additional legal drinking age people every single year for the foreseeable future. China, yes, strong headwinds as we speak but huge potential over time. Let's be clear, the segment of population that we are focusing on is due to grow over the foreseeable future from a demographic standpoint, first of all, which are middle and affluent Chinese households, they're expected to grow over the coming years.

I think what is interesting to see there is a direct link correlation close to, if I gave a rounded number of 100% between consumer confidence on one side and consumer consumption on the other. And I think the bottom left chart explains this very clearly. We're at a record low consumer confidence level ever since the index was created. And at the same time, savings per capita, consumer savings rate is at its highest level, not only in China, but it's a worldwide record level in terms of big economies, at roughly 35%. So the resources are there. The purchasing power is there, but the confidence is just not there. So we do expect at some point in the future, when is another question, some type of rebound. In the meantime, obviously, we've reorganized ourselves in China from many points of view. And we are also taking this as an opportunity to really push our premium brands portfolio outside of Martell to diversify our future sources of growth in China.

And then frankly, I'm not going to dwell on this, but in the rest of the world, whether it's mature or emerging markets, we enjoy very strong leading positions, where we experienced a very positive momentum. But in the meantime, beyond the top line, which is our number one priority and focus. We're also driving efficiencies.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

We are, indeed. So let's move to this zoom now on what to expect in terms of additional efficiency for the year fiscal '26 to '29. So as I explained already, our efficiencies are sizable, sustainable and an important contributing factor to our margin expansion, which we want to grow over the midterm. So here, we see, obviously, that we have, I would suggest a very strong track record in terms of delivering organic operating margin expansion. You can see that on the left part of the slide, with efficiency initiatives across ops, logistics, A&P and structure.

As I explained, we have been achieving EUR900 million from '23 to the end of fiscal year '25 with a strong acceleration in fiscal year '25. We will continue to do that, and those initiatives will continue to contribute significantly to the organic operating margin expansion and by the way, to the cash generation for the years to come. So we expect circa of EUR1 billion of further efficiency to be realized from '26 to '29 from both operation and simplification of our organization. Moving now to cash and to our focus on delivering a strong sustainable cash generation from a profitable growth. Again, cash is a strong focus ultimately, this is a translation of our profitable growth, enabling us to fund our future growth and serve our financial policy priorities, first being organic growth.

We have delivered in average, since fiscal year '21, a free cash flow of circa EUR1.5 billion. The cash conversion has decreased those past two years as we have stepped up significantly our investment in strategic investment to fund the future growth of the group.

Those investments have peaked in fiscal year '24. CapEx, I'm going to repeat, is expected to amount to circa EUR700 million in fiscal year '25 with increase in strategic inventory to be at similar level to fiscal year '24, both strategic investments, so both CapEx and increase in strategic inventory should not exceed circa EUR1 billion from '26 onwards as most of our projects grow closer to completion.

So cash conversion is anticipated to trend back towards 80% and above. As reported PRO improve, Strategic investments normalize from the fiscal year '24 peak and thanks to ongoing ordinary working capital optimization.

We are actively managing our portfolio with margin-accretive disposals to focus on the most attractive and fastest-growing categories of premium international brands. We have disposed of local non-strategic brands, Clan Campbell and Becherovka, while announcing the disposal of our wines and Minttu and other Nordic brands expected to close in H2 of this fiscal year.

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, Hélène. Moving on to our financial policy, which remains unchanged. I think it's important to remind you that our financial policy aims to balance the deployment of capital for profitable growth, as Hélène mentioned, and returning capital to our shareholders. You know that policy, I think it's important to say that in line with our financial policy and consistent with what we've been doing in fiscal year '24, it is our intention to maintain a stable dividend in fiscal year '25, subject to Board and AGM approvals in due course. So to conclude, I'm not going to go through this page, which basically summarizes all of the key messages we just shared with you today.

So instead, I'd like -- please allow me to share with you I would say, some broader perspectives 2025 is, for us at Pernod Ricard, an important year. It's a milestone marking our 50th anniversary of the founding of Pernod Ricard.

Pernod and Ricard are merged exactly 50 years ago in 1975. And I think this is the perfect opportunity to step back and put into context of current challenges and I'd like to start by taking clear assurance in our ability to overcome these. It's not the first time it happens, it's definitely, by the way, not the last time, but we've always overcome challenges. Pernod Ricard has been at the heart of the spirits industry for decades now with the most experienced and passionate and committed teams in the field, focusing on building brand desirability and selling our brands. our exquisite products, I may be biased, but that's -- so be it, which, frankly, take years to craft embody our commitment to long-term vision and the agility needed to navigate an ever challenging environment.

I do believe that we have consistently demonstrated resilience and agility needed through past crisis. I won't go through them. I think you all know, which ones we're talking about over the last 20, 25 years, with the most recent one before that one being the global -- being the COVID crisis. And as before, I am confident that we will emerge stronger. We will emerge leaner, and we will emerge more efficient once these current cyclical challenges and before new ones obviously to come.

And about 18 months ago, and I think that's also what we wanted to share with you today. We took bold and decisive steps to adjust our organization. I won't go back to what Hélène presented. But these EUR900 million over the last three years, including this year. And by the way, we will continue to do so in the future as we mentioned.

I'd like to conclude by saying that I am fully truly proud of our team's ability to operate with discipline with focus and with agility and finally take the opportunity to thank them because they're doing a great job. And from now, I think we're happy to take questions you may have.

Florence Tresarrieu - *Pernod Ricard SA - Vice President - Financial Communication and Investor Relations*

Yes, we are opening the call for questions. So operator, if you can start with the first caller. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Simon Hales, Citi.

Simon Hales - *Citi Investment Research (Europe) - Analyst*

So I suppose a couple for me, please. I mean, firstly, can I just ask a little bit more about the guidance that you've laid out both sort of shorter and longer term. I mean, Alex, on fiscal 2026, you're clearly saying that it's going to be another transition year. Visibility is still quite low there, but you do expect to see an improvement in trend. Does that mean we should expect to see some return to growth next year from the declines this year?

Or are you a bit more cautious than that? And then when we think about the building blocks for the new 3% to 6% midterm target, how do we think about your expectations there for normalizing growth rates in your big markets like the US and China? I think, historically, we have talked about, I think, growth in the US perhaps trending on average at about 4% for the industry.

Historically, in China, you've talked about high-single-digit to low double-digit growth rates being the norm there. What are your new expectations on those markets? And then briefly, secondly, I wonder if you could just comment on where we are now on inventory levels in your major markets around the world?

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

So maybe I'll let Hélène talk about the short term and next year. And I'll address your last question on the medium-term framework.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

And maybe I can start with your second question on inventory level because I think we can move fast on this one. As you know, this is something we are very closely monitoring. At the end of December, I think they are appropriate, especially in our key geographies that we are really laser-focused on. And as you know, the focus for us as well is to make sure that we are closely monitoring the evolution of those trade inventory until June ending to make sure that we land this fiscal year as the previous one with a healthy level of trade inventory. So nothing to flag on the inventory front.

So starting with probably this year and next fiscal year in terms of top line expectation, so maybe just to clarify for fiscal year '25. As you noticed, H1 lending is, I would say, exactly in line with our expectation. So what's really driving this update is the worsening situation in China and this technical suspension of the Duty Free regime impacting Travel Retail Asia, to be more specific, China Duty Free and cognac in China Duty Free. So this is the main reason for this revised outlook for fiscal year '25. Having said that, we are expecting some improvement in H2.

Maybe let me flag one, which is some sequential improvement in the US and I think that was well highlighted in terms of green shoots, but there's probably more to come in H2. So gradual improvement in the US, which we still expect to be in decline for the full year.

So China worsening versus our initial expectation. Having said that, we have a quite favorable comp in H2. So we expect full year not to be as down as H1 so far, but would be significantly down due to the consumer confidence, which is quite low. Travel Retail, our assumption for the second half is that despite all our efforts, obviously, to fix the situation, we might be facing this suspension of the Duty Free regime for the full year. So now moving to fiscal year '26.

So we are talking here about sequential improvements in terms of top line, which means to be quite direct that we don't expect full recovery in China. It's probably more going to be at least in our central case about stability compared to where we are today knowing, and I'm sure we'll get back to that, that we are obviously including in our outlook, the implementation of tariffs, which are so far temporary.

But again, I'm sure we'll have the opportunity to come back to tariffs. When it comes to the other big markets, so Travel Retail, again, difficult to predict. But if we were to still be in that situation of the suspension of the Duty Free regime that will probably put us more in a kind of a soft trend for next year in Travel Retail, not some decline as this year. India, we expect this very strong momentum to be delivered again next year and by the way, for the midterm. And for the rest of the other geographies, I mean, I believe you saw that they are solid to strong already in H1, and that is our ambition for next year, knowing obviously that issue as well.

A clear illustration of the strength of our geographical footprint and diversification. Maybe back to you, Alex, for '27 to '29?

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

Yes. Thank you, Hélène. Thank you for the question because it's the perfect opportunity to give you the underlying fundamentals to that framework, which I would qualify as I'd like to say in Pernod Ricard, we're grounded in the real and pragmatic. First of all, we strongly believe in the underlying fundamental growth of our portfolio. Some of these brands have a lot of growth fundamentals in them.

And following three years of normalization, what we did take into account to be pragmatic is a gradual, but prudent recovery for the US and China, as Hélène was mentioning, starting by the way, next year, but in that plan as well.

The US, we believe, in that gradual and prudent recovery. By the way, cycling fiscal year '24, down 9% and our first half in the US, down 7% and based on what I was mentioning earlier in terms of the initiatives, both from a marketing standpoint and a commercial standpoint that we're deploying as we speak. China, again, very prudent expectation. So we're not relying on a full recovery of China. But we do believe, again, that we're going to have a pretty favorable comparable basis after fiscal year '24, down 10%.

And the first half, down 25%. That's a big chunk of business that's been rebased. Then I could keep on with India, which is ongoing momentum and so on. But I would only mention two final things. Degree of the performance in that range will depend on the pace of the recoveries and the scenario to achieve the bottom end of that range, which, by the way, is not our base case, but I think it's important to get a good feel for that is no growth from China and modest low single-digit growth in the US, and we still achieved the low end of that range, which is, again, not our base case, but which gives us reassurance regarding that framework.

I hope that helps.

Operator

Edward Mundy, Jefferies.

Edward Mundy - *Jefferies - Analyst*

3 questions from me, please. The first is, Alex, your big picture views around the cyclical versus structural debate. The industry has been around a long time. Why do you think this is cyclical and not structural? And then from an affordability standpoint, are you doing much work to start looking at some of the small packs, which seem to be doing quite well given this market such as the US?

The second question is around the efficiency program, perhaps for Hélène. Could you perhaps talk to some of the key drivers, maybe the split between the operational piece and the structural piece as we think about that fiscal '26 onwards, EUR1 billion? And then the third question is around China. I tend to agree with that the -- to have a flat China after the last couple of years, it has been quite conservative. But could you talk about what you're doing to accelerate the shift and the route to market towards the new channels and pushing your broader premium portfolio, which you start to develop over a decade ago.

What are you doing to diversify your sort of growth across categories and also within connect?

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

So maybe I'll take your first question. By the way, in appendix, you do have a couple of slides, which address at least partly your question. First of all, in terms of alcohol consumption, by the way, globally, our volumes have been growing for four consecutive quarters. So volume is growing at least for us globally. Demographics are still tailwinds for us.

If -- and you have these slides in appendix, but basically alcohol, total beverage alcohol penetration, by the way, in the US because a lot of questions on moderation are mainly focused on the US, but it's true as well elsewhere It has been and is still stable.

One American out of two, broadly speaking, drink some kind of alcoholic beverage. It was the case 10 years ago, and it's still the case. If you look at frequency, frequency has gone down, but intensity has gone up. The sum of the two, if you do the calculation, has gone down a bit. And this is where we believe, by the way, in terms of servings.

This is where we believe that the less, but better trend, which is not new, which we've been focusing on for the last 20 years is indeed happening. Finally, and by the way, and this is our conviction and belief. The current -- the biggest part of the moderation we are currently seeing, and it was inferred a little bit in your question with lower format is economic-driven moderation. Again, American households, middle class, American households disposable income has been under pressure after a couple of years of huge inflation, and therefore, their discretionary spend has gone down. Then finally, regarding specifically Gen Z. So Gen Z drink less, but they do drink better. So they definitely drink less beer and wine to be fair, and penetration, we do see has gone down for these two segments. At the same time and in parallel, penetration for spirits amongst that segment of the population has gone up by 3 points over the last decade.

There are a bit more abstinence amongst Gen Z. But regarding the rest of the Gen Z population, basically, what we see, and we have all the data to suggest it, they will drink less frequently, which regular drinking tends to skew towards beer and wine. And more occasionally. And when they do, they will trade up, if they have the right purchasing power, to stronger upper value spirit brands, which is the segment in which we operate.

So all in all, we do believe and we're not the only ones that -- the headwinds we're facing are mainly cyclical for the vast majority. There's a little bit of less drinking. By the way, the Gen Z starts drinking spirits earlier than Millennials did back in the day. And the dynamic emergence, I would say, of spirit-based RTDs tends to accelerate this phenomenon. So the less, but better is there, I agree.

But all in all, I do think right now, the moderation is mainly driven by economics.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

So efficiency. Maybe just to make it very tangible on what to expect in the future. Let me come back to the track record and what we have been delivering in the recent past, and including this year. So EUR900 million, two-thirds on ops, one-third on SG&A. There's lots of details again in the deck.

But if I can come back to the main sources of optimization in terms of ops, let's start with one which really delivered a lot, which is procurement. We have been working very strongly on procurement, and this is definitely optimizing many lines of our cost base, wet goods, dry goods, logistics, CapEx, A&P and many other indirect expenses. So this is something very sizable and again, sustainable for the future. I mentioned already some of the examples are making supplies, but all those operational initiatives account to two-thirds of the efficiency. Maybe let me zoom on the SG&A front, structure cost initiative.

So we have here too, as well, a sizable type of initiative, one which we call fit-for-purpose organization, where we are really working on simplifying the organization. By the way, many of those simplification have been anticipated and started before fiscal year '24, but have a full impact in fiscal year '24. So if I can name a few, we had simplified our organization in terms of regional layer by closing the regional hubs in EMEA and Asia. We had as well adapted our teams in France, and we are as well adapted very recently, the size of our organization. In China, we are as well taking quite fast the opportunity of closing of our disposal to adapt our route to market.

For instance, we have adapted our teams -- the size of the team in Czech Republic after the disposal of Becherovka and that can obviously go on.

In terms of cost discipline, which is the second part of the efficiency program contributing to the structural cost trajectory. We have, I would suggest, accelerated a lot in terms of very strict cost discipline. And if I can name two very concrete example. We have moved to a non-business essential travel ban already a few months ago and as well to a global recruitment freeze, except critical position.

So this is the past, but obviously, nothing is stopping at the end of June. We have a significant ambition that we mentioned of EUR1 billion from '26 to '29. I'm not going to go into the specifics on what will be the weight of operation versus structure, but you can expect operations to account for more than 50% of this global envelope because obviously, this is a continuous journey. What I can as well add to that is that we have a very accurate monitoring of those efficiency in terms of hard savings versus cost avoidance. And a big part of it is definitely hard savings and that's our intention as well for the future.

I think there was a question on China in terms of premium brands versus the rest of the portfolio?

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

Well, listen, as I mentioned during the presentation, it is clearly our intent to diversify our sources of growth in China. Martell is still 85% of our business in China, but we see that the other 15% are growing. So obviously, we'd love for Martell to grow as well. But in the meantime, as Martell is suffering in China, and we've adapted our strategy behind Martell in China, including from a marketing standpoint.

We are investing behind the rest of the portfolio behind the likes of Absolut, behind the likes of Olmeca and behind the likes of Jameson and a few other brands because they are growing, they have momentum, and they are benefiting from basically that emergence of that channel that started, I think, 18 months ago now, which is these neighborhood live venues, very accessible, very skewed towards the new Chinese generation, the Gen Z's and early millennial's drinks. You can buy by the glass, they're perfectly affordable. There's an increasing taste for cocktail driven spirit cocktails in these areas.

And again, it's not like the nightclub or KTV venues, where you have to buy by the bottle skews towards the higher marks, particularly on cognac. And so our goal is really to increase the proportion of our premium brands portfolio because we're lucky to have it across the market.

Operator

Sarah Simon, Morgan Stanley.

Sarah Simon - *Morgan Stanley & Co. International Plc - Analyst*

Yes. I had a couple of questions. One was on the thorny question of US tariffs. Have you given any -- I mean I assume you have given thoughts to kind of the potential impact based on different kind of input assumptions if US tariffs would be put on European imports? Second question was on tax. Is it true or is it correct that the higher tax in France is now going to be imposed. So can you give us a sense of what you think the tax rate will be in fiscal at '25, please, and '26? And then can you just remind us about disposal proceeds and what we should expect to be coming in on a net basis in the second half of this year?

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

I guess I can take those three questions, if that's okay with you, Alex?

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

Perfect.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

So I start with tariffs. By the way, I will -- my answer will as well cover our estimate on the antidumping impact because we mentioned that already in the recent past. So let me reiterate the numbers. So obviously, we are taking very seriously in our scenario, what could be the impact of tariff. So both antidumping measures that are already impacting us on a preliminary basis in China, which is the main impact for us, to be clear.

And what could happen in the US, so the global envelope -- referring to an annualized basis would be EUR200 million for both China and US China, we mentioned already that our estimate was around EUR150 million to EUR140 million, no change on that. So you can estimate what is at stake in the US with obviously lots of uncertainty, but these numbers is covering our estimate of what could be the impact of the 25% tariff in Canada, Mexico and 10% in Europe.

Obviously, we are not favorable to this very difficult trade tension environment, but you are asking me for estimates of -- these are my answers. Tax in France, this is an interesting question. I'm sure you know, many things can happen or cannot happen in those days in France. So I'm obviously not taking any risk in terms of what to expect from the parliament, but there's obviously, some measures that could impact our tax. We gave already some estimate last time we talked, which I can reiterate, which is that depending on how many measures would be implemented.

We estimate that impact in terms of effective tax rate for us would be, let's say, around 0.3% so our expectation for the year is 25.1%, it could move up to 25.4%. If nothing is happening elsewhere. And as I'm sure you know, there's always something happening in the world, when we can -- when we talk about tax and disposal proceeds, we don't mention the exact numbers for H2, but that will be obviously quite visible, when it comes to our full-year communication. But what I'm meaning by disposal proceeds is the closing of the wine disposal, which we expect to happen around spring.

Operator

Olivier Nicolai, Goldman Sachs.

Olivier Nicolai - *Goldman Sachs International - Analyst*

Just two quick questions, please. First on the US, could you talk through Conor McQuaid's key learning during his first year as a new CEO there. And partly around what's been missing for the Jameson brand according to you over the last, let's say, two years? And then secondly, going back to the 80% cash conversion target that you gave, have you also changed the top executive incentives to reflect this in full year '25 and beyond?

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

So on your first question, obviously, I speak to Conor, not daily, but several times per week. The key learnings, maybe the main one is really working on the operationalization of our field strategy. I think this is absolutely critical. From a strategic standpoint, again, our portfolio strategy, there was some fine-tuning, some clarity given to it, but it's there. It doesn't need to change.

It all sits around the power brand there are six of them and then some of the growth relays and so on and so forth. But very simple, very straightforward from that point of view. From a marketing standpoint, a lot of work has been done and I think that the brand plans from a marketing point of view are very strong. I mentioned during the presentation, which is a good transition that Jameson's brand plan, again, is extraordinary strong around must be at Jameson.

Jameson, if you look at the latest Nielsens, is back to growth. The number one priority around Jameson is Jameson Original, of course. Jameson Original is almost a mature brand in some big markets such as California and New York. But it's still a nascent brand in other big markets such as Texas and Florida, for example, where we believe we don't have our fair share yet and where the initiatives are there to grow the brand.

We've accelerated on Black Barrel and it's already paying dividends, if I may say so. So we had our first-ever media campaign for Black Barrel, which is a trade-up to Jameson. And finally, we fine-tuned our innovation strategy with a very recent launch of Triple Triple, which again, the early qualitative feedback we're getting from the field and from our trade partners is very positive. So listen, I mentioned there are some green shoots. We have, I believe, a great management team, which is now full.

And I think we'll have the opportunity or should I say Conor will have the opportunity to share a lot of his own learnings with you in May -- in next May because there'll be a call focusing on the US in a couple of months from now.

And I'm sure Conor will be happy to share these insights with you. But the main one is really operationalizing our strategy, our portfolio strategy, which is great on the field and backed by media campaigns, knowing that we've increased our media intensity in the US, while at the same time, we've lowered it in China for obvious reasons.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

So second question on the cash conversion. So maybe let me clarify what we are aiming at. So as I mentioned before, cash conversion is going to improve from fiscal year '26. And one of the quite explicit driver of this improvement is going to come from the strategic investments, which will be capped at circa EUR1 billion, where in the recent past, including fiscal year '25, we are both that with circa EUR700 million of CapEx and strategic investment at similar level than last year beyond '26, and we want to be back to a cash conversion rate at circa 80% and above.

We have obviously many drivers to that, starting with the PRO growth and profitable growth. But as well, as I just mentioned, normalization of strategic inventories and many initiatives in terms of working capital improvement. So your question on incentives. So as I just said, we are not, I would say, counting an incentive cuts to deliver sustainable, profitable growth and cash generation. Even if, of course, depending on where we are in terms of achievements of our ambition for the year, we will assess what is at stake and adjust the business achievement accordingly.

But I would say this is more short-term measures that we're obviously looking at every year.

And back to what I said before in terms of efficiency programs especially SG&A, we really want to work on structural initiatives, that's exactly what we've been doing and not only count on what I would suggest is more short-term measures that could happen and that happened already in the past might happen in the future, such as bonus adjustments.

Operator

Celine Pannuti, JPMorgan.

Celine Pannuti - *JPMorgan - Analyst*

So my first question is on price mix. So you noted that volume has recovered, price/mix remains negative, more than 6% in the first half and in the quarter. Could you talk -- and I saw on your strategic brands that many of the top five clients have as well negative pricing themselves. So could you talk about the pricing environment in US, Europe and China, let you know I'm a bit surprised about the 5% price increase in Martell in China, if you could maybe talk as well above that. The second question on Europe, we saw a sequential deterioration in the market, you flagged Germany.

Can you talk about what's going on in the market in terms of the competitive environment? And then lastly, just want to clarify your fiscal year '26 margin target. You said you want to defend this to the fullest extent possible, does that mean flat? Or do we mean that it's going to be down, but A&P will be a part of the equation for you to define that?

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

Okay. Thank you. So I'll start with price. So we have a price mix, which is mainly negative because of mix. But price is obviously much more muted than in the recent past for all the reasons you know in terms of normalization and moderation of the inflation.

And as well in terms of -- I would suggest more busy promotional environment. And this is definitely true in US and Europe. And in US, we are -- this is one of our key initiatives as well in terms of delivering sequential improvement of performance of the brands to make sure that their price positioning is where it should be.

So we are carefully, but actively working on profitable promotion activity and as well when it's required, adjusting price. So this is what we've been doing for a really few months in the US. And this is as well one of the reason why the volume improvement is where they are, as highlighted by Alexandre a bit earlier this morning. Europe. I'm sure you know it has always been a place, where price negotiation can be tough, and they are, but we are very determined to protect our price.

China, your question on Martell. As you might remember, we didn't increase price last year before, we've been consistently increasing price to this type of range of mid-single digit for Martell, which is as well, obviously the reflection of what can impact our COGS. So that's why we are increasing our price per CNY this year.

Celine Pannuti - *JPMorgan - Analyst*

Germany?

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

Yes. So first of all, I think it's worthwhile noting, Celine, that Europe still is surprisingly in a way, resilient versus what we hear in the news and so on and so forth. What has happened and what we're currently experiencing, is if you take our second and largest markets in Europe, respectively, more or less Spain and Germany. Spain is in slight decline.

And Germany is in sharp decline. Germany has gone into recession. And we see consumers suffering in Germany and promotional intensity has significantly gone up in this market. And this is why it's impacting overall. But other than that, the rest of our European markets are doing pretty well.

I'd like to take the opportunity to underline the good performance of France that has grown over the first half and not only in terms of top line, but in terms of market share as well but also markets such as the UK, despite a very intense competition, or Ireland.

And of course, the more you go eastwards, the more dynamic with markets such as Poland and so on. So pretty strong resilience of Europe, but with our two of the top three markets in that region, which are suffering one sharply, Germany and one slightly, Spain.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

And the last question was on the margin for fiscal year '26. So back to my comments before on tariffs. So we are building in our scenario or in our central case so far, an impact of tariff, which could -- depending on what could be implementation date and so on, but up to EUR200 million in terms of impact, again, mainly China, but as well. If things were moving in the US. And so far, we have obviously anticipated by the way.

That's quite clear for China because we are absorbing those impact, which is already a reality for us in China this year. We are observing that hence, confirming our ability to sustain the operating margin for fiscal year '25.

But when it comes to '26, having in mind this amount of EUR200 million, we cannot commit. So far to more than what we say, which is defend as much as possible operating margin expansion. Because obviously, it's a balance between what we can do and what we have been doing back to the efficiency program. And there's probably more that we can deliver, but we want as well, obviously, to protect the fundamentals of our organization to be able to seize the rebound of our top line, which we believe will happen soon. Maybe to be even more specific on the mitigation measures for our tariff.

So we have already adapted our business in China, again, which is more than covering the impact of the anti-dumping measures this year. We're going to keep implementing all these efficiency program I was referring to. And there is obviously some more specific initiatives we are working on in terms of supply chain optimization or revenue growth management which again quite quickly activate to mitigate tariffs. So far, our estimate is that we would probably cover up to 50% of those tariffs, if they were to happen again, with this annualized estimate of EUR200 million.

Florence Tresarrieu - *Pernod Ricard SA - Vice President - Financial Communication and Investor Relations*

We are going to take our last two questions.

Operator

Sanjeet Aujla, UBS.

Sanjeet Aujla - *UBS Limited - Analyst*

A couple for me, please. Firstly, on India, can you just comment a little bit to what extent you had a benefit from the opening up of Andhra Pradesh in the last quarter? And how significant that was and how that might play out over the second half of the year? Is that behind some of your optimism there? And just coming back to the US, Alex, do you think about your portfolio as it is today in the medium term.

You sound upbeat about the US getting back to historical growth rates of the category. But do you think your portfolio is fit for purpose to grow in line or ahead of that, which has been a long-term ambition?

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

Maybe the first one?

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

Yes. So I'm sorry, but I'm not going to be specific as you asked in terms of what is the size of the Andhra Pradesh opportunity. What I can tell you is, for sure, it is great news, contributing to the performance of India. But as usual, it is very amazing country. Sometimes there are opportunities.

Sometimes there are challenges -- but this is one. Again, India, our expectation for India is to be in line with the algorithm ambition for the year and for the years to come, but you're right, this is -- this is a great business opportunity that we are capturing.

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

And on your question on the US, so I was saying earlier, we have six power brands, Jameson, Absolut, Glenlivet, Malibu, Skrewball and Kahlua. That represents basically two-thirds of our business.

And then we have what we call , I mentioned growth relays, internally, we call them export brands. With our Tequila Código, our Mezcal Del Maguey, our bourbon Jeffersons and our nascent store Redbreast, let's put it that way.

So these two portfolios, the power brands and the export brands represent a little bit more than 80% of our business. Are we still underexposed to tequila relative to the market? Yes, but we have very strong focus on Código, and our aim is really to grow Código. Are we still underexposed to some extent, to bourbon? Listen, we have Jefferson today, which is not tiny.

And we're focusing on Jefferson's bourbon for that category in the US. Now bear in mind, and this is why I think it's -- the US, everybody is talking about tequila and ready-to-drinks. But the reality as well is there are other segments that have still some pretty strong growth potential. The most important one we're playing in is Irish whiskey with both Jameson, as I mentioned, which still has good growth to grow.

And Redbreast, which is, by the way, growing quite nicely. So do we have the right portfolio? That's what we've been doing over the last few years from an M&A standpoint, getting exposure to bourbon, getting exposure to tequila. And now we do believe we have enough of the right portfolio to operationalize that portfolio strategy on the ground and get that portfolio to grow.

Florence Tresarrieu - *Pernod Ricard SA - Vice President - Financial Communication and Investor Relations*

So we're going to take the last question. We have time for one last question. Okay. So thanks a lot. I think we don't have more questions.

So thanks a lot, Alex and Hélène for the presentation and then the answer to questions. Thanks a lot for connecting. I'm sure we're going to speak a bit later today or in the coming days. Thank you.

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

Thank you.

Helene Denise Marie De Tissot - *Pernod Ricard SA - Executive Vice President - Finance and IT, Member of the Executive Board, Member of the Executive Committee*

Thank you very much.
