BSVI - Pernod Ricard Equity Research

Analysis Date: 11/29/2023

Pernod Ricard is the No.2 worldwide producer of wines and spirits. The Group, which owns 17 of the Top 100 Spirits Brands, holds one of the most prestigious and comprehensive portfolios in the industry with over 240 premium brands distributed across more than 160 markets. The Group's mission is to unlock the magic of human connections by bringing "Good Times from a Good Place", in line with its Sustainability and Responsibility roadmap. Pernod Ricard's decentralised organisation empowers its 19,480 employees to be on-the-ground ambassadors of its purposeful and inclusive culture of conviviality, bringing people together in meaningful, sustainable and responsible ways to create value over the long term.

BUSINESS MODEL

Pernod Ricard's business model is built on a combination of organic and non-organic strategies to generate profits. Here's how the company earns money through these various sources:

Organic Business:

Production: Pernod Ricard operates distilleries and production facilities worldwide, manufacturing a wide range of high-quality alcoholic beverages. This production occurs through proprietary brands and in-house production agreements, allowing the company to leverage its expertise in crafting spirits.

Proprietary Brands: The company develops and markets a wide range of proprietary brands, each with a prominent position in the market. Notable brands include Jameson, Chivas Regal, Absolut Vodka, and Martell Cognac. Pernod Ricard generates revenue from the direct sale of these products at the retail and wholesale levels.

Marketing and Promotion: Pernod Ricard makes significant investments in marketing and promotion activities to enhance the visibility and popularity of its brands. This commitment includes advertising, event sponsorships, and marketing campaigns.

Geographic Expansion: The group expands its organic business by seeking opportunities in new markets and strengthening its presence in existing markets. This geographic expansion contributes to revenue growth.

Non-Organic Business (acquisitions):

Strategic Acquisitions: Over the years, Pernod Ricard has made strategic acquisitions of competing companies and new brands. These acquisitions have significantly contributed to the company's revenue and have allowed it to enter new market segments. For example, the acquisition of the wine and spirits production division of the Canadian Seagram group was a pivotal moment in its growth.

Diversification: In addition to alcoholic brands, Pernod Ricard has diversified into related sectors, such as wine and other alcoholic beverages, through targeted acquisitions. This diversification has further expanded its business.

COMPETITIVE ADVANTAGES

Diversified Brand Portfolio: Pernod Ricard's strength lies in its extensive and diversified brand portfolio. This diversification spans multiple categories of alcoholic beverages, including whisky, cognac, vodka, liqueurs, and champagne. The advantage here is reduced exposure to any single product or category, mitigating risks associated with changing consumer preferences.

Iconic Brands: The company owns a portfolio of iconic and globally recognized brands, such as Jameson, Absolut Vodka, Chivas Regal, and Martell Cognac. These brands boast a long history of production and enjoy high levels of consumer recognition, fostering a strong and loyal customer base.

Global Presence: Pernod Ricard maintains a robust global presence with operations in numerous countries worldwide. This extensive global distribution network allows the company to reach a wide customer base and adapt to local market preferences.

Focus on Innovation: The company consistently invests in research and development and product innovation. This commitment enables Pernod Ricard to introduce new offerings and adapt to emerging trends in the alcoholic beverages sector, such as the growing demand for ready-to-drink cocktails and low-alcohol beverages. (such as the new project forecast)

Strategic expansion: Pernod Ricard has a history of strategic acquisitions that have expanded its brand portfolio and market presence. Examples include the acquisition of Absolut Vodka and the purchase of Seagram's wine and spirits production division.

Sustainability Commitment: Pernod Ricard is dedicated to environmental and social sustainability. This commitment contributes to building a positive brand image and can attract consumers who prioritize sustainability in their purchasing decisions.

Marketing Capabilities: The company is renowned for its creative and innovative marketing efforts. This ability enables Pernod Ricard to effectively promote its products and create engaging consumer experiences.

BRAND STRATEGY & BRAND EQUITY

Pernod Ricard boasts the most extensive portfolio of premium brands in the market, covering all major wine and spirits categories, providing a distinct competitive advantage. This dynamic portfolio, shaped by strategic management and brand acquisitions, allows the company to adapt to emerging consumer trends and invest in promising segments.

The company employs a "House of Brands" framework to optimize resource allocation across markets, categorizing brands into five key segments:

Strategic International Brands: Representing the largest share of the business, these brands hold significant international potential and serve as top priorities globally.

Specialty Brands: Meeting the demand for craft products, these brands offer unique value propositions that align with evolving consumer trends.

Strategic Local Brands: Rooted in specific markets, these brands benefit from strong local consumer loyalty, supporting the company's route-to-market strategy.

Prestige Brands: Comprising highly desirable luxury brands, these cater to affluent consumers worldwide, creating a competitive portfolio across major luxury categories.

Strategic Wines: Encompassing a diverse range of origins and tastes, these wines cater to various consumer preferences, contributing to global appreciation during meals and special occasions.

Pernod Ricard adopts a nuanced investment strategy for each brand category:

- **Grow:** Leading brands with international or local prominence receive significant investments, actively contributing to the company's overall growth.
- **Build:** Brands in attractive categories receive disproportionate resources, targeting promising growth in the medium and long term.
- **Harvest:** Mature brands or those in competitive categories receive sufficient investment to protect their market share, sales, and profits.
- **Commercialize:** Brands in undynamic or small categories receive tactical investments to play a strategic role in the portfolio.

This strategic framework enables Pernod Ricard to make agile investment decisions, striking a balance between short, medium, and long-term goals while continually building exceptional brands across key geographies.

5 PORTER'S FORCES: SPIRIT SECTOR

1) Intensity of Rivalry among Industry Competitors:
The alcoholic beverages industry is marked by intense competition, with numerous players striving for market dominance. Leading companies engage in continuous competition, leading to price pressure and a focus on product innovation.

2) Supplier Bargaining Power:
Key raw material suppliers, including grapes, barley, corn, and bottles, hold some bargaining power, particularly for high-quality products. Major industry players often maintain established relationships with suppliers, enabling negotiation of favorable agreements. Diversification of sourcing reduces dependence on specific suppliers, mitigating risks.

3) Buyer Bargaining Power:
Customers across various segments of the alcoholic beverages industry possess some bargaining power. Distributors, restaurant chains, and bars can negotiate prices and contractual terms with producers. Final consumers, though presented with a diverse range of choices, can be influenced by marketing strategies, promotions, and branding, allowing successful companies to build lasting customer relationships.

4) Threat of New Entrants:
The alcoholic beverages industry faces a moderately high threat of new entrants. Stringent regulations act as a barrier, but established companies benefit from economies of scale, industry expertise, strong distribution channel relationships, and well-established brands. New entrants can potentially gain a foothold through marketing innovation and the creation of distinctive brands.

5) Threat of Substitutes:
The threat of substitutes in the alcoholic beverages industry is moderate. Although non-alcoholic beverages serve as an alternative, the cultural and experiential associations with alcohol consumption limit this threat. Trends toward healthier lifestyles may, however, increase the demand for non-alcoholic alternatives, posing a potential challenge to the industry.

GEOGRAPHIC STRATEGY

The company's geographic strategy is characterized by a balanced distribution, with approximately one-third of operations in the Americas, Europe, and Asia. This balance extends further with half of the focus on mature countries and the remaining half on emerging countries. The recent fiscal year demonstrated growth across all regions and countries, with significant market share gains. Sustainable growth is attributed to a long-term strategy, evidenced by consistent yearly performance and Pernod Ricard's strengthening position in a competitive market. The unique and powerful Pernod Ricard model relies on *three key levers: an extensive brand portfolio, a robust distribution network, and a distinctive company culture*. The brand portfolio stands out as the most comprehensive in the market, covering a wide range of categories and price points, from bottles starting at EUR 5 in India to premium offerings nearing EUR 1 million. Premium brands have already contributed 80% to the company's recent growth, with prestige brands at the top of the segment experiencing a 15% growth. The success of Pernod Ricard is not just additive but multiplicative, as the three levers work synergistically to propel the group forward. The emphasis on brand strength, an effective distribution network, and a distinctive company culture underscores the company's sustained growth in a highly competitive landscape. Pernod Ricard's dynamic brand portfolio is a key element of their strategy, exemplified by the dynamic management of the portfolio, which undergoes continuous improvement.

Strategic portfolio management and innovation:

Over the past six years, the company has engaged in 30 acquisitions and approximately 15 divestments, marking '22- '23 as the most active period in a decade. This activity aligns with a *dual strategic objective*: reinforcing their presence in the lucrative U.S. market, the world's leading market in value, and strengthening their position in high-growth categories.

Innovations and Market expansion:

In the U.S., Pernod Ricard *solidified its partnership with the Sovereign Brands company*, introducing successful products like *Bumbu Rum*, a sparkling wine, and the well-received peated *whisky Deacon*.

The company strategically entered the tequila segment with the *acquisition of the Código brand* and focused on the booming flavored whiskey sector in the U.S. Noteworthy is the *Skrewball brand*, offering a uniquely flavored peanut butter whiskey tailored to the U.S. market.

In Canada, Pernod Ricard ventured into the **ready-to-drink** cocktail segment, particularly with Ace, a category witnessing robust growth in the North American market due to cultural trends, premiumization, practicality, and the rise of at-home leisure. The brand portfolio's dynamism is evident in Pernod Ricard's exploration of new frontiers, exemplified by *partnerships such as the one with Coca-Cola to launch Absolute Sprite and the Twist and Mix by Glenlivet*. These innovations cater to the evolving consumer demand for convenient, high-quality beverages, eliminating the need for extensive mixology skills.

Addressing the rising demand for alcohol alternatives, Pernod Ricard introduced Seagram Zero Gin in Spain, with plans to launch Beefeater Gin Zero. This initiative reflects years of research, development, and investments to offer a quality non-alcoholic option while preserving the distinctive style and essence of Beefeater.

In a forward-thinking move, Absolut adopted a virtual *sponsorship approach with [REA] in China*, gaining cost-effectiveness in the virtual world. This strategy proved successful on social platforms, with the Absolut night world of cocktails in China garnering over 425 million views.

Pernod Ricard's commitment to innovation and adaptability underscores its ability to navigate dynamic market trends and consumer preferences.

Global presence:

Pernod Ricard boasts a global presence spanning over 160 countries, with a direct sales team operating in approximately 75 nations. This expansive network, meticulously cultivated over time, sets the company apart within the industry. Striking a balance between mature and emerging markets, Pernod Ricard holds a distinctive leadership position in key markets such as India, China, travel retail, and the United States, where continuous growth is evident.

New Distribution channels

The company's strategic approach involves not only maintaining its existing legacy but also embracing new distribution channels, including business-to-consumer (B2C) platforms like the Whiskey Exchange. This platform, specializing in rare and premium spirits, serves more than a mere selling function; it acts as a vital conduit for understanding consumer preferences, market dynamics, and global trends. This dual strength – market influence and an acute understanding of the current era – empowers Pernod Ricard to successfully develop and promote spirit brands worldwide. Illustrating this dynamic is the example of Lillet, a Bordeaux brand that became part of Pernod Ricard in 2008. Since then, Lillet has experienced a remarkable twentyfold increase in sales volume. This success story exemplifies Pernod Ricard's ability to leverage its global network and adapt to market trends, ensuring the sustained growth and flourishing of its diverse portfolio.

SWOT ANALYSIS

Strengths:

Diverse Brand Portfolio: Pernod Ricard boasts a wide and diverse range of well-established brands across various categories, offering resilience and opportunities for cross-selling and market expansion.

Global Presence: The company's global footprint and distribution network enable it to tap into multiple markets, providing geographical diversification and access to a broad customer base.

Innovation Capabilities: Pernod Ricard invests significantly in research and development, allowing the company to introduce new products and adapt to evolving consumer preferences.

Strong Marketing: The company is known for its creative and effective marketing strategies, enhancing brand visibility and consumer engagement.

Sustainability Initiatives: Pernod Ricard's commitment to sustainability appeals to consumers and aligns with growing environmental and social responsibility trends

Weaknesses:

Exposure to Economic Fluctuations: The alcoholic beverage industry can be sensitive to economic downturns, which may impact consumer spending on premium brands.

Regulatory Challenges: The industry faces stringent regulations regarding production, distribution, and advertising, which can add complexity and compliance costs.

Opportunities:

Emerging Markets: Expansion in emerging markets with rising middle-class populations offers significant potential growth.

Acquisitions and Partnerships: Strategic acquisitions and collaborations can further diversify the brand portfolio and enhance market presence.

E-commerce: The growth of online retail presents opportunities for reaching consumers directly and adapting to changing retail trends.

Threats:

Competition: The industry is highly competitive, with major players like Diageo and others competing aggressively for market share, potentially pressuring pricing and profitability.

Changing Consumer Preferences: Evolving consumer tastes and preferences pose a challenge, requiring continuous product innovation and adaptation.

Regulatory Risks: Ongoing and changing regulations, especially concerning advertising and labeling, can affect the company's operations and compliance costs.

Economic Uncertainty: Economic downturns, trade disputes, and currency fluctuations can impact consumer spending on premium alcoholic beverages.

PEST ANALYSIS

POLITICAL FACTORS:

Pernod Ricard's operational landscape is intricately tied to the political sphere, particularly within the highly regulated alcoholic beverages industry. Governmental interventions, encompassing rules and regulations governing production, labeling, and advertising, are pivotal determinants influencing the company's operational dynamics. The potential for alterations in tax policies and regulatory frameworks introduces a noteworthy element of risk, capable of significantly impacting both the operational functionality and profitability of Pernod Ricard.

ECONOMIC FACTORS:

In assessing Pernod Ricard's financial outlook, it is imperative to consider the intricate interplay with economic variables. The company's performance is inherently sensitive to economic cycles and consumer spending patterns. Economic downturns, for instance, may precipitate a reduction in consumer expenditures on premium alcoholic beverages, thus directly affecting the company's revenue streams. Additionally, given the international scope of Pernod Ricard's operations, currency exchange rate fluctuations can exert a tangible influence on raw material costs and the overall profitability of the company. Likewise, inflationary pressures warrant careful consideration, as they have the potential to impact production and operating costs, subsequently exerting pressure on profit margins.

SOCIAL FACTORS:

Pernod Ricard must adeptly navigate the evolving landscape of consumer preferences. The company faces the ongoing challenge of aligning its product offerings and marketing strategies with the prevailing trends, such as the discernible shift towards healthier lifestyles and responsible drinking. The global footprint of Pernod Ricard necessitates a nuanced understanding of diverse cultural norms and consumer behaviors in various markets, underlining the importance of tailoring marketing and product strategies to suit these variations. Furthermore, the heightened emphasis on social responsibility and sustainability in consumer decision-making presents an opportune avenue for Pernod Ricard to strategically showcase its commitment to sustainable initiatives.

TECHNOLOGY FACTORS:

In the realm of technology, Pernod Ricard stands to benefit from strategic advancements that can augment production processes, fostering heightened efficiency and elevated product quality. The integration of digital platforms and data analytics into marketing endeavors and e-commerce sales represents a promising avenue for the company to enhance its market presence and adaptability. Moreover, technological solutions in supply chain management hold the potential to optimize operational efficiency, simultaneously reducing costs and environmental impacts. As an equity analyst, closely monitoring these technological facets becomes imperative for gauging Pernod Ricard's long-term sustainability and competitive positioning in the market.

Corporate Social Responsabily (CSR)

Pernod Ricard emphasizes a forward-looking vision by highlighting its commitment to corporate social responsibility (CSR) and sustainable development, deeply ingrained in the company's history. Grounded in the terroir of its products, Pernod Ricard formalized a CSR roadmap in 2019, aligning with the United Nations' Sustainable Development Goals for 2030.

The company is also committed to the circular economy, aiming to protect resources and reduce carbon emissions, water consumption, and waste. Pernod Ricard has achieved a 12% reduction in its carbon emissions, particularly in scopes 1 and 2 since 2017-2018. The fight against climate change is positioned as an industry-wide responsibility, and Pernod Ricard is actively contributing as a leader. Shifting focus to packaging, the company pioneers innovations through a cross-functional task force across global sites. Five principles guide their approach, including rethinking packaging design with sustainable alternatives like Absolut vodka made of paper and a glass bottle for Royal Salut whiskey that decreases carbon emissions by 70%. Pernod Ricard challenges the status quo by eliminating secondary packaging for certain bottles in India, aiming to balance sustainability and cost-effectiveness. The company also engages in reuse initiatives, developing ecoTOTES in partnership with ecoSPIRITS, reducing raw materials weight and carbon emissions. Combating plastic waste, Pernod Ricard works towards a goal of less than 410 tonnes of plastic for safe recycling, supporting the development of glass recycling infrastructures, particularly in the United States.

Protecting terroir through regenerative agriculture:

The company prioritizes the protection and preservation of territories, incorporating over 120 ingredients from 350 terroirs worldwide. Pernod Ricard actively promotes regenerative agriculture, with a focus on reintegrating nature into the agricultural landscape. Regenerative agriculture has been successfully deployed in 7 of the company's 8 wine territories, leading to positive effects such as fertile soil, increased resistance to climate events, and enhanced biodiversity with reduced carbon emissions.

Social initiatives:

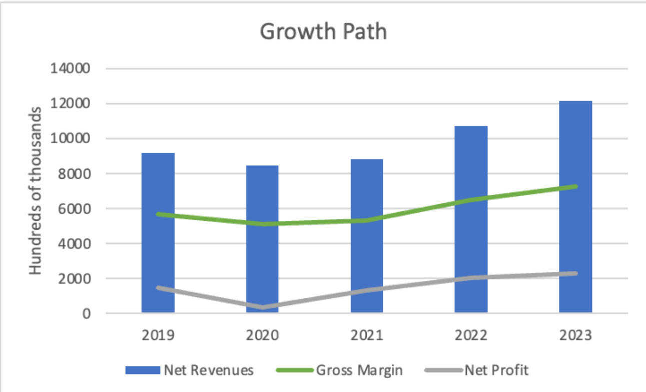
- **Circular innovation:** Pernod Ricard underscores its commitment to opening up to innovative startups in these areas. The company encourages engagement with forward-thinking entrepreneurs, exemplified by an invitation to listen to the founder of a startup during the presentation. In summary, Pernod Ricard is actively addressing environmental concerns, demonstrating leadership in sustainability practices, and fostering collaboration with innovative startups for a more circular and responsible future.
- **Bartender training:** Pernod Ricard recognizes the growing significance of bartenders as stakeholders and has surpassed its goal to train over 10,000 bartenders in sustainable practices through the Bar World of Tomorrow program.
- **Gender equality and inclusive practices:** In line with creating values friendly for humans, Pernod Ricard achieved wage parity between men and women globally, with balanced gender representation at the Board and executive committee levels. The company continues to intensify efforts to hire women across its management teams.
- **Leadership role in combatting Alcohol abuse:** Acknowledging its leadership role in the industry, Pernod Ricard assumes a specific responsibility to combat abuse and toxic alcohol consumption. The "drink more water" campaign serves as an illustration, impacting millions online and at events, emphasizing the company's commitment to responsible practices and social well-being. Overall, Pernod Ricard's vision for the future involves a holistic approach, integrating environmental sustainability, social responsibility, and inclusive practices into its corporate strategy.

FINANCIAL STATEMENTS ANALYSIS

GROWTH PATH

Income Statement: As result from the analysis of the comprehensive income statement, that resumes the operational management activities for the period under consideration (2019-2023); it can firstly be observed that Net Revenues are following in general a positive trend of constant growth. The slight decline in sales due to the Covid-19 pandemic, that caused a reduction of 8% in 2020's net profit, it has been rapidly covered by an increasing during 2021 that continued in 2022 with a significant growth of 21,3% in net revenues.

Regarding the Net Profit, it also follows a similar trend as net revenues however, it is to say that in 2020 the company has registered a strong decreasing of profit, with a reduction of 76,4% from the previous year. The cause of this abnormal value is due to other operating expenses for €1,007 million during that specific financial year, resulting in particular from brand impairment tests, mainly on the Absolut brand for €912 millions, due to its dependency on travel retail.

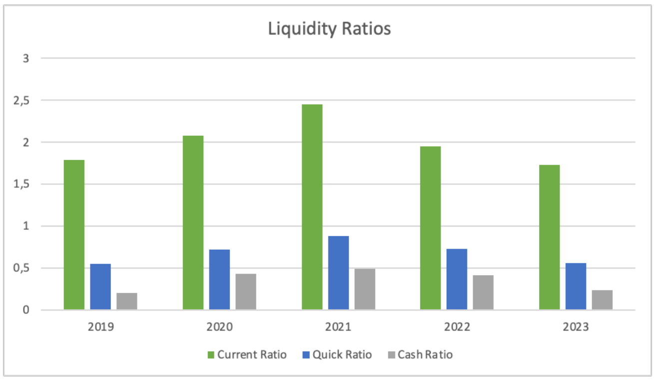


Balance Sheet: From the data collected, it can be observed that Total Current Assets experienced a steady growth, with a slight plateau in 2022 and 2023, resting around €1.2 billion. However, this positive trend of growth is expected to continue, with the group's CEO, Alexandre Ricard, announcing the raise in prices by a "high single digit" percentage for 2023. It is interesting to note that there was an irregular spike in the Total Growth of Assets in 2022. The expected value, that would have worked accordingly with previous trends, would have been around 3% of Total Asset Growth, however this spiked up to 12.02%. This exception was explained by the 17% organic growth in sales of Pernod Ricard, totaling €10.701 million.

Another interesting deviation from trends to note is the drastic drop in Short-Term. The value in 2021 decreased by 82.6% from 2020. This was explained in the company's Press Release for the FY2021, stating that its Net Debt decreased by €972 million, in comparison to the €7,452 million in June 2020, primarily due to a very significant Free Cash Flow improvement linked to business recovery, partly affected by the COVID-19 restrictions. The Total Short-Term, Total Long-Term, and Overall Total Liabilities held fairly steady over the studied period, with a minor fault during 2021, most likely affected by the drastic drop in Short-Term Debt.

RATIO ANALYSIS

Liquidity Ratio: The "problem" of excess cash can be evaluated by looking at the company's Current Ratio. A clear peak can be seen in 2021, which is when the Share Buyback Programme was announced and put into place. Excluding 2021, the company's current ratios fluctuate between 1.5 and 2 which is interpreted as a very liquidity healthy ratio, as it implies that the company has a comfortable buffer of current assets to meet its short-term obligations. It also suggests a healthy balance between liquidity and efficiency in managing short-term financial responsibilities. Pernod Ricard's Current Ratio in 2021 was 2.45, which is significantly beyond the considered "healthy" benchmark.



This is because, although it can suggest a conservative approach to liquidity, more often it is associated with an inefficient utilization of assets. This ratio implies that the company has excessive funds tied up in non-productive assets, which was definitely flagged to Pernod Ricard's managers, hence the initiation of the Share Buyback Programme.

From the graph above, it can also be seen that the company's quick and cash ratio followed a similar trend, however not to the significant extent that the current ratio faced. This was definitely as a result of Pernod Ricard's "outstanding cash performance", logging Recurring Free Cash Flow in FY21 at €1,745 million, its historical high.

Profitability Ratio: the net margin followed a growing trend throughout the years but is it to say that the increasing of profit is not only a consequence of an increasing of sales but it has followed more than a proportional growth in these last two years. Indeed, the average profit ratio was around 16% before the pandemic, decreased significantly in 2020 (due to the Absolut case, as stated above) and then increased significantly until reaching near 19% during the 2022 and 2023 fiscal year. due to the increasing of the net profit margin of the last two years, we believe this trend will continue also in the next future (2024-2025), with a possible growth of 1,5% per annum.
Through the calculation of ROE, it is possible to define the return that the shareholders hypothetically get on their investment in the company. It increased significantly in 2022 and 2023 hovering around 12%; this increase is due to a growth in net profit, since the total shareholder's equity has remained virtually unchanged throughout the years. The increasing in net profit is driven by both higher profit margin and higher turnover.
Through the calculation of ROA, it is possible to asses the ability of the company to employ its assets efficiently. This index remained quite stationary for all the period under consideration (except of 2020), with a growth of only one percentage point; given that total assets have grown in step with net profit.
Since the company is involved in the segment of high quality alcoholic beverages (more luxurious) it generates high profit margins (around 18%) but a rather low asset turnover (in 2023 32,2%), given that they sell slowly and the sector needs high level of assets to generate profit.

Profitability and Efficiency Ratio: it seems crystal clear that Pernod Ricard is managing its liquidity in a truly efficient way. Indeed it can be observed that the DPO, days of payable outstanding have been increased significantly in recent years, reaching in 2023 258 days. This data define that the average payment time to suppliers it's around 260 days; this signifies a strong leverage in the relation with suppliers (strong bargaining power), that, in order to sell, they are willing to be paid nearly 9 months later.

On the other hand the DSO, days of sales outstanding have remained constant over the last few years, stabilizing around 60 days (64 in 2023); this data signifies a quite strong bargaining power with the customer that have to pay the products in early 2 months. Since the DPO is much greater the DSO, the company is obtaining financing from its suppliers, since it receives the money from the sale 200 days before the product is actually paid.
Continuing the analysis of liquidity management and its efficiency, it is important to emphasize that although the company obtains financing from its suppliers (DPO > DSO due to a strong bargaining power), it still has a very high average time required to convert its financial input investments into cash derived from sales. This because of the extremely high inventory days, that in 2023 decreased to 2811 days, but before were around 3200 days. The explanation that it is possible to give for this uncommon period of inventory is related to the aging period of wine, distillates and of alcoholic beverages in general. Therefore the time needed the time required to recoup the investment made in a particular product is very high

Solvency ratio: Another aspect to evaluate its Leverage/Debt to Equity Ratio. Pernod Ricard's ratio ranges between 0.92 and 1.22, which is considered to be a quite healthy range, with no major fluctuations/anomalies. This ratio suggests that the company holds a reasonable balance between debt and equity, which reduces their exposure to risk and financial distress, as well as higher interest rates due to uncertainty for lenders. The overall trend shows the values are increasing year by year, however this difference isn't significant, still maintaining a healthy range. the company is at an even level with its competitors, not highlighting any particular points of distress that the Group should be worried about.
In conclusion, it is evident that the company is exceptionally robust, as demonstrated by its solid balance sheet and the absence of any concerning factors. The solidity of the company is demonstrated also by a continuous growing in sales throughout the years; this due to an increasing of market share of the current product range but also for the acquisition of new companies or collaborations that permit to enlarge the areas of business. Regarding the future of the company could be interesting to highlight that Pernod Ricard has signed a partnership with Coca-cola for the creation of a Ready-to-drink cocktail (Absolut Vodka & Sprite).
For all these reasons we firmly believe that the company will persist in its trajectory of sales growth in the future; however, it is likely that it may not have the

same intensity observed in the past two years (growth of 21,3% in 2022 and 13,42% 2023). As stated in the first quarter 2024 resume, presented to the investor, the year started softly (as expected) with an organic decline of 2% in sales, notably with USA in decline. Therefore we believe that due to a normalizing of the market context also in the rest of the world, such a trend of strong growth may not continue in future years; our forecast for revenue growth is 5% per annum.

COMPANY VALUATION

(under the finance division)

THE GROWTH RATE

In order to decide what growth rate to use in the DCF model, both historical and fundamental growth were analyzed.

Historical growth: Based on the data presented in the table below, it is evident that prior to the outbreak of COVID-19, the company was experiencing a period of sluggish growth. However, during the pandemic, the company's revenues declined significantly due to the inability to sell products in the traditional way. Despite these challenges, the company was able to recover and emerge from the pandemic with remarkable success. As seen from the table, the company experienced a remarkable 21.3% growth in revenues in 2022 and is projected to achieve a growth rate of 13.4% this year. This impressive growth can be attributed to the company's resilience and ability to adapt to changing market conditions.

YEAR	REVENUES (in mld €)	HISTORICAL GROWTH RATE
2019	€ 9,182	5,3%
2020	€ 8,448	-8%
2021	€ 8,824	4,45%
2022	€ 10,701	21,3%
2023	€ 12,137	13,4%

Fundamental growth: After analyzing the data, we took into account the Compound Annual Growth Rate (CAGR) projected for the industry from 2024 to 2028 of 7.25%, as well as the current macroeconomic situation in both the United States and France. We carefully evaluated all the relevant factors to ensure that our decision was based on a comprehensive understanding of the market conditions.

FR GDP growth	1,6%
US GDP growth	3%
FR Risk-Free Rate	1,5%
US Risk free	2,3%
FR Inflation	2%
US Inflation	3,6%
CAC40 Mkt return	8,9%
S&P Mkt return	13%

Conclusion: In order to provide a conservative estimate, we have used the estimated growth rate (g) for the first four years of the analysis period, and then halved it for the last two years (years 5 and 6). This approach allows us to offer a more precise and accurate analysis of the corporate cash flows growth rate. Therefore, we have decided to consider a growth rate of 10% for the first five years and 4% for the remaining years.

WACC

Beta: given the source of revenues for Pernord Ricard, to compute the WACC an average of the US and France Cost of Equity were computed. The beta value between Capcom and the S&P 500 as well as the CAC40 were both taken into account. After meticulous calculations, the final beta value achieved was 0.73.

Cost of equity: Based on the Beta analysis, the risk-free rate for Pernord Ricard was calculated to be 2.74%, while the Market Risk Premium (MRP) was determined to be 5.75%. These two figures were used to arrive at the Cost of Equity, which was computed to be 6.91% for the Discounted Cash Flow (DCF) analysis.

Cost of debt: In order to calculate the cost of debt, we utilized the 3-month EURIBOR swaps 5 year as the risk-free rate. Additionally, we took into account the SPREAD, which was determined to be 0.42%. By factoring in these elements, we were able to arrive at a comprehensive and accurate estimation of the cost of debt.

WACC: to calculate the Weighted Average Cost of Capital (WACC), we utilized the costs of both debt and equity. We took market capitalization as equity and debt value from book value to determine the market value weights. This calculation required analyzing the cost of debt and the cost of equity. By considering these factors and applying the appropriate weights, we determined the WACC for the company.

The following chart displays a comprehensive list of all the data points that were utilized in the computation of the Weighted Average Cost of Capital (WACC).

Cost of Equity (CAPM)	
Risk Free Rate	2,65%
MRP	5,75%
Beta	0,725723293
Ke	**6,82%**

Cost of Debt	
Interest	2,65%
Rating	BBB
Credit Spread	0,42%
Kd (bonds (YTM)	**4,92%**

WACC Calculation	
Equity Value	42.624,96
Debt Value	9.362,00
Tax Rate	25%
E / D + E	81,99%
D / D + E	18,01%
WACC	**6,26%**

DISCOUNTED CASH FLOW MODEL

In order to determine Pernod Ricard's intrinsic value, we utilized a discounted cash flow model and made several assumptions. Firstly, we applied a conservative growth rate of 7.26% and a long-term growth rate of 3%. With these assumptions, we were able to compute the enterprise value to be €58.463, as illustrated in the free cash flow projection below. After taking into account the net debt and finding the equity value, we divided it by the number of shares to obtain a **share price** of **€188,54.** It is important to note that these calculations were made with the discount rate that we had decided upon beforehand.

MULTIPLE ANALYSIS

PERNOD RICARD'S MULTIPLES	
EV/EBITDA	14.25
Price/Book Value	2.72
P/E	18.36

The selection of the peer group was based on business operations, risk profiles, and growth opportunities. Diageo is the most pertinent peer, given its close alignment with Pernod Ricard in the international beverage manufacturing industry, exhibiting similar operating results and market risk exposure. While the other two comparables operate in the beer segment and demonstrate higher financial figures, their risk exposure and growth potential.

For each multiple valuation, the Next Twelve Months (NTM) value was deemed more reliable because of the disparity in fiscal year durations between Pernod Ricard and its peers, with 2023 financial data already available. To maintain temporal consistency in valuation,we adopted Last Twelve Months (LTM).

EV/EBITDA: is noteworthy as it isolates the effect of financial leverage, providing an asset-side valuation of the company. Pernod Ricard's results align closely with direct comparable Diageo, indicating a fair valuation.

Price/ Book Value: is significantly lower than Diageo's, suggesting that the company is not being traded at an excessively high value relative to its book value of equity. It is essential to consider that Diageo might be an outlier in this context. When comparing Pernod Ricard's multiples with the industry average, the company appears to be in line.

DISCOUNTED CASH FLOW MODEL							
Year	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**Termina Value**
FCFF	€1.465	€1.571	€1.685	€1.808	€1.939	€2080	€66.547
Discount factor	1	0.94	0.89	0.84	0.79	0.74	0.74
Discounted FCFF	€1.465	€1.481	€1.496	€1.512	€1.529	€1.545	€49.435
ENTERPRISE VALUE							**€58.463**

P/E: the Price/Earnings (P/E) ratio indicates that the company is currently traded at 18 times its earnings. This valuation is consistent with industry standards.

Considering the results of the multiple analysis the company appears to be traded fairly in comparison to its peers. The valuation analysis indicates a reasonable alignment with comparable companies. The company's valuation metrics and the Discounted cash flow bring to the conclusion that **on 11/29/2023 the stock is 17% undervalued** and therefore we take the decision of buying the stock.

UNDERVALUED

Fair Price = €188.54

VS

Current Price = €105.50