Creditreform Corporate Issuer / Issue Rating

Pernod Ricard S.A.

Creditreform Rating

Rating object	**Rating information**	
Pernod Ricard S.A. Creditreform ID: 582041943 Incorporation: 1975 Based in: Paris, France Main (Industry): Wine and spirits CEO: Alexandre Ricard	Corporate Issuer Rating: **BBB+ / stable**	Type: Update Unsolicited Public rating
	LT LC Senior Unsecured Issues: **BBB+ / stable**	Other: **n.r.**
Rating objects: Long-term Corporate Issuer Rating: Pernod Ricard SA Long-term Local Currency (LT LC) Senior Unsecured Issues	Rating date: 01 December 2022 Monitoring until: withdrawal of the rating Rating methodology: CRA "Corporate Ratings" CRA "Non-Financial Corporate Issue Ratings" CRA "Rating Criteria and Definitions" Rating history: www.creditreform-rating.de	

Content

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Summary

Pernod Ricard S.A. (hereinafter referred to as the Company, Group or Pernod Ricard) is the parent company of the Pernod Ricard Group and is headquartered in Paris, France. Together with its subsidiaries, Pernod Ricard is one of the world's leading companies for wine and spirit production and distribution. The Group operates a comprehensive portfolio of 240 premium brands, including international brands such as Absolut, Jameson, Chivas Regal, Havana Club, Beefeater, and Martell, which are distributed in over 160 countries worldwide. The distribution network is divided into the three sales regions: Americas (29.3%), Europe (29.2%), and Asia/Rest of the World (RoW) (41.5%).

In the 2021/2022 financial year, with approx. 19,480 employees, Pernod Ricard was able to generate a consolidated turnover of EUR 10,701 million (2020/2021: EUR 8,824 million) and a net profit of EUR 2,031 million (2020/2021: EUR 1,318 million).

Rating result

The current unsolicited corporate rating of BBB+ attests Pernod Ricard a highly satisfactory level of creditworthiness with a low to medium default risk.

Against the backdrop of the overall stabilization of markets since the outbreak of the COVID-19 pandemic, with resilient off-trade and a strong recovery of the on-trade businesses, as well as of the global travel retail, the development in the financial year 2021/2022 shows, for the second year in succession, a strong development of the Company's earnings and cash flows, and of its key financial figures. Despite persistent negative effects resulting from the COVID-19 pandemic, supply disruptions, and the implications of the geopolitical tensions in Europe, Pernod Ricard, due to continual market processing, efficient price-mix effects and its focus on premium brands, has been able to gain market share in the most of relevant markets and shore up its profitability, achieving the highest net sales and profit from recurring operations in the Company's history. The expansion of balance sheet total and net financial debt is commensurate in our view with an increased volume of transactions along with the Company's strengthened internal earnings capacity. Pernod Ricard's well-diversified product and brand portfolio, strong market position, wide distribution network and high level of innovation lead us to expect – in spite of the highly competitive market in which it operates – sustainable future development, and underpin the lifting of our rating assessment by one notch.

Outlook

The one-year outlook for the unsolicited rating of Pernod Ricard SA is stable. Our assessment is based on the assumption of largely stabilized demand for the Company's products given the rebound in social activities, travel and on-trade business. Taking into consideration the Company's strengthened financials, especially its adequate liquidity position and strong earnings capacity, its overall balanced assets and financing structure, as well as a solid equity base, we assume that the Company will be able to maintain the rating at least for one year and sustain possible demand fluctuations or negative effects resulting from the currently elevated energy and commodity prices, interest risks, currency fluctuations and supply chain disruptions.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations from the rating process, the derived valuations of the analysts participating in the rating and, if applicable, other rating committee members. The fundamental external sources used are specified in the sections "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2021/2022:
+Sales
+EBITDA, EBIT, EAT
+Net total debt / EBUTDA adj.
+Return on investments

-Total assets
-Equity ratio
-Capital lock-up period

Relevant rating factors

Table 1: Financials I Source: Pernod Ricard SA Universal Registration Document 2021/2022, figures standardized by CRA

Pernod Ricard SA **Selected key figures of the financial statement analysis** **Basis: annual consolidated financial statements as of 30.06. (IFRS)**	**CRA standardized figures[1]**	
	2020/2021	**2021/2022**
Sales (EUR million)	8,824	10,701
EBITDA (EUR million)	2,764	3,333
EBIT (EUR million)	2,323	2,942
EAT (EUR million)	1,318	20,31
EAT after transfer (EUR million)	1,305	1,996
Total assets (EUR million)	27,702	31,100
Equity ratio (%)	49.72	47.42
Capital lock-up period (days)	96.67	102.97
Short-term capital lock-up (%)	19.46	27.45
Net total debt / EBITDA adj. (Factor)	4.23	4.10
Ratio of interest expenses to total debt (%)	2.68	1.76
Return on investment (%)	5.96	7.30

General rating factors

General rating factors summarize the key issues which – according to the analysts as of the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

+ One of the major players on the global market for wines and spirits
+ Focus on premium products (17 products are placed among the world´s top 100 brands of premium brands)
+ Good geographical and brand diversification
+ Strong distribution network
+ High innovative power, enabling to adapt to modern trends
+ Proved access to financial markets

– Intense competition
– High pressure to innovate and to invest

[1] For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the company.

- High levels of volatility (currency exchange rates, raw material costs)
- Elevated country risks due to intensive activities in developing markets

Current rating factors are the key factors which, in addition to the underlying rating factors, have an impact on the current rating.

Current rating factors

+ Significant growth across all business and product segments with market share gains
+ Strengthened key financials in the last two business years after the outbreak of COVID-19 pandemic
+ Significantly improved profitability and earnings capacity
+ Positive development in Q1 2022/2023
+ Accelerated, profitable growth in must-win markets (USA, India, China and Global Retail)
+ Currency effects
+ Successful implementation of digitalization
+ Successful placement of the first sustainability-linked bond

- Increase in debt
- Edging down of equity ratio
- Overall uncertainty resulting from geopolitical tensions and supply chain disruptions

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors, whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

Prospective rating factors

+ Global growth of population and growth of the middle class in emerging countries
+ Successful acquisitions
+ Further implementation of digitalization
+ Skale effects
+ Sustainable improvement of financial ratios
+ Beneficial effects from the implementation of the sustainability strategy

- Market share losses
- Deterioration of key financials
- Falling levels of social acceptance of alcohol consumption
- Legal or regulatory restrictions

ESG factors are factors related to environment, social issues and governance. For more information, please see the section "Regulatory requirements". CRA generally takes ESG relevant factors into account when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

ESG-factors

CRA generally takes ESG factors (environment, social and governance) into account within its rating decisions. In the case of Pernod Ricard SA we have not identified any ESG factors with significant influence.

We have not identified any factors with regard to ESG with an impact on the rating of Pernod Ricard. Sustainability and responsibility are central elements of corporate development for the Group. Pernod Ricard recognizes the need to limit global temperature increases below 1.5 degrees Celsius, in accordance with the Paris Agreement. Against this background, Pernod Ricard has set itself the goal of completely eliminating net CO2 emissions (Scope 1 + 2) in its production by 2030 (net zero emissions), and reducing absolute carbon dioxide emissions by 30% compared to 2018 . Scope 3 emissions are to be reduced by 50% by 2030 and eliminated by 2050. These goals are in line with the Paris Agreement on Climate Change, which was confirmed by the Science-Based Target Initiative (SBTi) in 2019. In order to increase transparency, Pernod Ricard also follows the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). In addition, Pernod Ricard intends to provide all its production facilities and administrative offices with 100% renewable electricity by 2025.

The Group's sustainability and responsibility strategy is based on a robust framework of four pillars: Nurturing Terroir, Valuing People, Circular Making and Responsible Hosting. All of these pillars directly support the United Nations Sustainable Development Goals (SDGs) and are aligned with its 2030 Plan. Pernod Ricard has been recognized as a UN Global Compact LEAD participant for its work on the SDGs, making it the only wine and spirits company to receive this award.

Pernod Ricard is active in an industry that in cases of product abuse can potentially cause dependencies and various health and social damage. The Company is committed to reduce harmful consumption and underage drinking in form of marketing campaigns, social advertisement, and labelling.

Overall, we consider Pernod Ricard to be well positioned with regard to ESG factors, but we do not identify any significant influence on the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the company's achievement of its targets and regulatory changes.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Best-case scenario: A-

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

In our best-case scenario for one year, the rating is notched up to A-. Here we assume a continuation of the favorable development seen so far in the last two years, as well as no significant regulatory or market-related turbulence. Based on this, a decrease in indebtedness and an improvement in key financial ratios would justify a higher rating.

Worst-case scenario: BBB

In our worst-case scenario for one year, unfavorable market trends and a failure of the Company to meet its targets, combined with a significant increase in indebtedness, e.g. in the context of M&A transactions, makes a downgrade of the rating conceivable.

Business development and outlook

In the 2021/2022 financial year, against the backdrop of the overall recovery from the implications of the COVID-19 pandemic, especially the rebound of on premise consumption (on-trade) and of the travel retail business, Pernod Ricard has recorded net sales of EUR 10,701 million (2021: EUR 8,824 million), an increase of 21.3%. Organic growth adjusted for currency (+4%) and scope effects (+1%) amounted to 17%. This development was driven by single-digit price increases and targeted brand activation, which resulted in a price/mix effect of 13%, with market share gains in the most of the relevant markets.

Table 2: The business development of Pernod Ricard SA I Source: Universal Registration Document 21-22, reported information

Pernod Ricard SA				
In million EUR	2021	2022	Δ	Δ %
Net Sales	8,824	10,701	1,877	21.3
Gross margin after logistics expenses	5,293	6,473	1,180	22.3
Profit from recurring operations	2,423	3,024	601	24.8
Operating profit	2,361	2,963	602	25.5
Net profit	1,318	2,031	713	54.1

All three of the Company's segments and all categories of spirits (except for Strategic wines, mainly due to the small harvest in New Zealand) posted positive development with double-digit growth rates. The regions defined as Must-Win Markets – United States, China, India and Global Retail Trade – all recorded sales increases, especially India (+26%) and Global Retail Trade (+48%).

Table 3: The development of corporate divisions in 2021/2022 I Source: Universal Registration Document 21-22)

Pernod Ricard according to individual corporate divisions in 2021/2022						
in million EUR	Americas		Asia/Rest of the world		Europe	
	20/21	21/22	20/21	21/22	20/21	21/22
Net Sales	2,627	3,133	3,640	4,438	2,557	3,130
Gross margin after the logistics expenses	1,699	2,059	2,060	2,496	1,534	1,918
Profit from recurring operations	803	1,014	996	1,220	624	790

Driven by strong growth in both Latin and North America, as well as by the rebound of the travel retail business, the Americas segment reported 19% growth in net sales. Adjusted organic growth amounted to 12%. Asia/Rest of the World, led by India, Turkey, China and Sub-Saharan Africa, as well as Europe, led by Spain, Germany, Poland, UK, and the travel retail business, also saw dynamic increase in net sales, with reported growth of 22% and organic growth of 19% respectively.

Due to the favorable price/mix effect and the absorption of fixed costs, the gross margin improved organically by 12 basis points. The share of advertising and promotion expenses was maintained at a level of approximately 16%. Initiatives to stimulate growth through continuing portfolio management, and to enhance operative efficiency, enabled the Company to expand its profit from recurring operations significantly by 24.8% with a record total of EUR 3,024 million (2021: EUR 2,423 million). The operating margin improved (+80 bps reported, +52 bps organically) despite increased commodity prices and inflationary costs during the year. Against the backdrop of a considerable decrease in net financial result (EUR -260million; 2020/21: EUR -371 million), mostly due to the reduction in average cost of debt from 2.8% to 2.3%, the annual net profit has surged to EUR 2,031 million (2020/21: EUR 1,318 million), an increase of 54.1%.

During the year, the Company acquired a minority stake in the company Sovereign Brands (Bumbu Rum brand and French sparkling wine brand Luc Belaire), as well as a majority stake in Château Sainte Marguerite as part of its aim to strengthen its position in ultra-premium and luxury brands. In addition, 100% of shares in The Whisky Exchange were purchased, which may contribute to expanding Pernod Ricard's e-commerce offering. In total, concluded acquisitions and partnerships came to EUR 550 million.

In the first quarter of the 2022/23 financial year, Pernod Ricard continued to demonstrate strong performance. Reported net sales grew by 22% to EUR 3,308 million (2021/22: EUR 2,718 million), of which 11% organically. 2% growth was due to scope effects and 8% to foreign exchange effects.. Price increases in the 2021/22 financial year and in 2022/23, especially in the USA, also contributed to the surge in net sales. Alongside a price effect of 7%, the growth in net sales was driven mainly by a further rebound of on-trade and travel retail business.

For the financial year 2022/23, based on prioritization of revenue growth management initiatives and with a view to the results of the first quarter, the Company expects further dynamic development of net sales. Pernod Ricard envisages an increase in capex of up to 7% of net sales from approximately 5% in the last two years, as well as in strategic working capital. Furthermore, it initiated a share buy-back program of between EUR 500 million and EUR 750 million. Simultaneously, Pernod Ricard plans to focus on operating efficiency and maintaining solid financials.

Despite persistent negative effects resulting from the COVID-19 pandemic, supply disruptions and the implications of the war in Ukraine, Pernod Ricard, pursuing its strategy, has demonstrated overall strong performance in the last two financial years, gaining market share in 90% of its markets, according to management. Against the backdrop of resilient off-trade sales and a rebound in on-trade sales, mobility, events and nightlife, and due to permanent sales management initiatives, the plunge of 10% in organic net sales in the pandemic year 2019/2020 was overcompensated by increases of 10% and 17%, respectively, in the following two financial years. With a view to the global trends of growing population and especially of a growing middle class in the emerging countries, the Company has set its strategic focus on premium brands (premiumization). Considering the changing ways of life, Pernod Ricard has enhanced its innovation activity, aimed at the development of new products and product lines concurrent with modern consumer preferences and trends. The Company has developed the concept of a so-called "Conviviality Platform" which is based on the digitalization of all aspects of the business and the creation of closer connections with end consumers. Using data and its own digital developments, including AI, this platform should help to better understand market trends and optimize offering and pricing policy. This strategy, combined with its proven competitive advantages such as a broad product portfolio and diversified geographical footprint, as well as an extensive distribution network, has enabled the Company to significantly improve its performance in the last two years despite persistent and substantial market and geopolitical uncertainties. With a view of the development over recent years, we consider this strategy to be sound and promising. Our assessment is underpinned by the Company's so far prudent financial policy, and the stable, solid results of our financial analysis. Nevertheless, major acquisitions and continuing share buy-back programs, combined with persistent negative exogenous factors, may negatively affect the Company's financials.

Structural risk

Pernod Ricard was created in 1975 out of the merger of the French spirits manufacturer Pernod S.A. and Ricard S.A., and is today one of the largest companies in the wine and spirits sector worldwide. Its parent company is the listed French public limited company Pernod Ricard S.A., headquartered in Paris. Its share capital is broadly distributed. The main shareholder is the family company Societé Paul Ricard, which controls approximately 20% of the voting rights.

With 96 production facilities in 26 countries, and its own sales force in 74 countries, Pernod Ricard has an extensive operational infrastructure. These primarily include wineries (26), distilleries (36), storage and aging cellars (50), and filling plants (52) for its main products: wine, vodka, gin, rum, whiskey, cognac, brandy, liqueur, tequila, and other distillates. Pernod Ricard currently has 17 brands in the top 100 bestselling spirits brands in the world.

Pernod Ricard is a decentrally organized holding company wherein the most important operational responsibilities are delegated to its subsidiaries, which operate largely independently. The financial interrelationships between the companies are essentially limited to the settlement of license fees and the payment of dividends. The market-oriented structure of the Company, as well as its diversified customer and supplier portfolios, enable Pernod Ricard to react quickly to changes in the market and take advantage of potential growth opportunities.

Pernod Ricard's market area is divided into the three main regions of Europe, Americas, and Asia/Rest of the world, each making a relatively equal contribution to the Company's performance, with revenue shares of 29.2%, 29.3%, and 41.5% respectively. In its international operations, Pernod Ricard is subject to a number of internal and external risks, which the Company manages by means of extensive risk management and a strong internal control system.

As Chairman of the Executive Board and CEO, Alexandre Ricard is the top representative and decision-maker of Pernod Ricard. He dominates the Executive Board and Executive Committee, the Group's two most important decision-making bodies.

At the end of the 2021/2022 fiscal year, Pernod Ricard employed 19,480 staff (2020/2021: 18,306). With a view toward sustainable positioning and parity, the Company sees a future-oriented personnel policy as one of its main strategic tasks.

In our opinion, the Company's existing structure and organization provides a promising framework for continued favorable development. However, due to the size of the Company and its international business activities, it is exposed to numerous internal and external risks, which the Company manages with the help of comprehensive risk management and a strong internal control system. Overall, we consider the structural risk of the Pernod Ricard Group to be slightly elevated against the background of the Group's complex corporate structure, continuing acquisitions and their associated implementation, and integration risks, but nevertheless manageable.

Business risk

Pernod Ricard is an internationally oriented, globally leading spirit and wine company with a strong brand portfolio and balanced geographical diversification. The Company holds a comprehensive portfolio of more than 240 premium wine and spirits brands, which are distributed in over 160 countries. Among the risk factors for Pernod Ricard is its dependency on economic development in its target markets, where recessionary market trends could negatively impact the Company's business figures. This means that economic downturns could lead to a decline in the consumption of wine and spirits, or to substitution with cheaper or inferior alternatives.

Furthermore, Pernod Ricard is increasingly subject to country risks due to its international focus, which can arise in the form of political and legal uncertainty as well as related to capital and finance. This particularly includes currency risks, which exert a large influence on the Group's turnover and earnings, and are all the more relevant for Pernod Ricard, as it achieves a comparable contribution from both mature and emerging markets (Asia, South America, and Eastern Europe). A further risk is the high degree of competition in the wine and spirits market, requiring high investments in markets and business infrastructure. Continuing consolidation in the wine and spirits market with regard to manufacturers, as well as to distributors and retailers, could shift market conditions to Pernod Ricard's disadvantage, leading to a decline in sales and profits. Moreover, the seasonal nature of the business, with few peak periods during the year (Christmas and New Year), implies challenges related to process and liquidity control. Additionally, ever-changing consumer behavior demands a high degree of flexibility and innovation, as well as extensive market research. Furthermore, price volatility in sourcing raw materials, as well as production costs, could reduce or even jeopardize the Group's market success. Moreover, inferior product quality could lead to a loss of consumer confidence or cause reputational damage to Pernod Ricard. This may also be exacerbated by a decline in the social acceptance of alcohol consumption.

In the context of its daily business, Pernod Ricard is vulnerable to a variety of legal claims. According to the 2021/2022 annual report, provisions in the amount of EUR 441 million have been accumulated to cover these risks.

Pernod Ricard pursues the goal of becoming the leader in the worldwide wine and spirits market. To this end, the Company relies on high product quality and customer-oriented policies, as well as a focus on the continued development of its well-diversified brand portfolio. With innovation, a determined premium strategy, and high cost-effectiveness, Pernod Ricard aims to provide a sustainable future for itself in a strongly contested market, which is increasingly determined by local suppliers in addition to the international players.

Based on the Company's good market position, diversified product portfolio, and product innovations, and in spite of increased geopolitical tensions and a slowing global economy, we see Pernod Ricard's business risk as moderate and view favorable future business development as realistic. The envisaged top position may, however, not be achievable without further acquisitions.

Financial risk

For analytical purposes, CRA makes adjustments to companies' original balance sheet values. The following statements refer to the key figures calculated by CRA according to its methods, unless otherwise stated. Due to these adjustments, and generally CRA's own calculation methods of key figures, they may differ from the original values and information provided by Pernod Ricard.

Based on the 2021/2022 consolidated financial statements, the highly satisfactory results of our analysis of the financial ratios from last year were confirmed, which forms the basis for our rating assessment. After a deterioration in 2019/2020 due to the pandemic, the overall result of the financial ratio analysis has stabilized at pre-crisis level.

However, the analytical equity ratio as of 30 June 2022 edged down from 49.72% to 47.42%, which is still solid in our opinion, in particular in view of the fact that we deduct 50% of recognized goodwill from equity. Reported equity increased to EUR 16,253 million (30.06.2021: EUR 15,075 million), primarily due to the positive annual results, offset by the acquisition of treasury shares (EUR 807 million) and dividend payments (EUR 876 million). The development of the equity ratio was mainly due to an increase in non-current assets as a result of acquisitions (see Business development and Outlook) and foreign currency gains, as well as an increase in strategic inventories to support the future growth.

Total liabilities increased, on the one hand as a result of the overall increase in the transactions volume, and on the other hand due to an increase in financial liabilities. Gross financial debt went up by 17.4% to EUR 10.664 million (30.06.2021: EUR 9,086 million), mainly as a result of a bond issuance in October 2021 (EUR 500 million) and the issuance of a sustainability-linked bond in April 2022 (EUR 750 million). Both of them have a maturity until 2029. In October 2021 Pernod Ricard redeemed the full amount of a EUR 500 million bond maturing in September 2023. Taking into consideration cash and cash equivalents of EUR 2,527 million (30.06.2021: EUR 2,078) and lease liabilities amounting to EUR 507 million (30.06.2021: EUR 508 million), net financial debt increased by 16.2% to EUR 8,657 million (30.06.2021: EUR 7,452 million). Due to the improved earnings capacity with an adjusted EBITDA of EUR 3,333 million (2020/2021: EUR 2,764), the net total debt to EBITDA adj. ratio edged down slightly to 4.1x (30.06.2021: 4.23). The improvement of this ratio is the reason why we currently do not identify heightened risks in connection with the overall increase in debt. This assessment is underpinned by the comfortable repayment structure with 67% of finance debt having maturities of over 5 years.

The cash flow from operating activities increased against the backdrop of the Group's positive performance, by 14.8% to EUR 2,294 million (2020/2021: EUR 1,999 million), which enabled the Company to cover the cash outflows related to its investing activities (EUR -1,203 million; 2020/2021: EUR -486 million) and with dividend and interim dividend payments (EUR -826 million; 2020/2021: EUR -704 million). This amount includes net interest payments (EUR 227 million; 2020/2021: EUR 315 million), increase in working capital requirements (EUR 252 million; 2020/2021: EUR 54 million), as well as tax payments (EUR 619 million; 2020/2021: EUR 371 million). The reported self-financing capacity before financing interest and taxes surged by 23.9% to EUR 3,392 million (2020/2021: EUR 2,738 million), which is a stabilizing factor in view of the increased debt burden. The reported free cash flow, which is defined as self-financing capacity deducted by capex (without acquisition of financial assets), working capital requirements and dividend payments improved by 11.4% to EUR 1,813 million.

The liquidity position as of 30 June 2022 was stable in our view, with an increased amount of cash and cash equivalents (EUR 2,527 million, +21.8%) and undrawn credit facilities of EUR 3,260 million, in particular a multi-currency syndicated loan of EUR 2,500 million, a bilateral line of EUR 500 million and a Champagne loan of EUR 260 million. Pernod Ricard has an EMTN programme of up to EUR 7 billion in place. The Company and its affiliates concluded factoring agreements as a further financing instrument. As of 30 June 2022, the amount of derecognized receivables sold under the factoring programs was EUR 602 million. The financing agreements include financial covenants, with which, according to the Company, it was in compliance.

Overall, we assess Pernod Ricard's liquidity position as solid and its financial risks as manageable and moderate-to-low, given the overall solid results of our financial ratio analysis, its well-balanced assets and financing structure as well as improved earnings capacity, which is commensurate with the increase in debt. The Company's proved access to financial markets underpins our assessment. However, in view of the current overall uncertainty related to the inflationary environment, disruptions in commodity supply, elevated energy prices and interest rates, a substantial worsening of the financials and, consequently, of our rating assessment as a result of a decline in demand, increased costs or a further increase in debt cannot be ruled out.

Issue rating

Issue rating details

This rating assesses exclusively the Euro-denominated long-term senior unsecured bonds issued by Pernod Ricard S.A., which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The Notes have been issued under the EMTN programme with their latest prospectus of 24 October 2022. This EMTN programme amounts to EUR 7bn. The notes under the EMTN programme are senior unsecured, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge provision, a change of control clause and a cross default mechanism. The Issuer also has the option to terminate and redeem the bonds prematurely (against the payment of a surcharge). The terms and conditions of the bonds do not contain any financial covenants.

In addition to the bonds under review, Pernod Ricard S.A. has also issued bonds denominated in USD. These bonds, however, are expressly not included within the scope of this rating.

Result corporate issue rating

We have assigned the long-term senior unsecured issues of Pernod Ricard S.A. a rating of BBB+/stable. This decision is mainly based on the corporate rating of Pernod Ricard S.A.

The following tables provide an overview of the ratings rated by Creditreform Rating AG in this context, as well as the key features of the EMTN Programme according to prospectus of 24 October 2022.

Overview

Table 4: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date	Rating
Pernod Ricard S.A. (Issuer)	01.12.2022	BBB+ / stable
Long-term Local Currency (LC) Senior Unsecured Issues	01.12.2022	BBB+ / stable
Other	--	n.r.

Table 5: Overview of 2022 Euro Medium Note Programme I Source: Base Prospectus dated 24.10.2022

Overview of 2022 EMTN Programme			
Volume	EUR 7,000,000,000	Maturity	Depending on respective bond
Issuer / Guarantor	Pernod Ricard S.A.	Coupon	Depending on respective bond
Arranger	Societe Generale	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes issued by Pernod Ricard S.A., which have similar conditions to the current EMTN programme, denominated in Euro and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured Notes issued under the EMTN programme. Notes issued under the programme in any currency other than euro, or other types of debt instruments, have not yet been rated by CRA. For a list of all currently valid ratings along with additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues that do not denominate in euro will not be assessed.

Financial ratio analysis

Table 6: Financial key ratios |Source: Pernod Ricard's Universal Registration Document 21/22, structured by CRA

Asset structure	**2019**	**2020**	**2021**	**2022**
Fixed asset intensity (%)	68.70	64.22	62.72	61.67
Asset turnover	0.35	0.31	0.32	0.36
Asset coverage ratio (%)	98.74	98.96	114.42	111.12
Liquid funds to total assets	3.45	7.13	7.50	8.13
Capital structure				
Equity ratio (%)	53.48	47.32	49.72	47.42
Short-term debt ratio (%)	17.14	16.56	15.22	19.63
Long-term debt ratio (%)	14.36	16.23	22.05	21.11
Capital lock-up period (in days)	86.94	81.10	96.67	102.97
Trade-accounts payable ratio (%)	8.18	6.92	8.44	9.71
Short-term capital lock-up (%)	24.46	28.30	19.46	27.45
Gearing	0.81	0.96	0.86	0.94
Leverage	1.89	1.99	2.06	2.06
Financial stability				
Cash flow margin (%)	22.30	-1.54	17.50	22.64
Cash flow ROI (%)	7.66	-0.48	5.57	7.79
Total debt / EBITDA adj.	4.48	5.66	4.98	4.85
Net total debt / EBITDA adj.	4.15	4.90	4.23	4.10
ROCE (%)	11.86	5.63	11.35	13.03
Total debt repayment period	6.46	22.32	6.92	7.38
Profitability				
Gross profit margin (%)	100.00	100.00	100.00	100.00
EBIT interest coverage	6.87	2.49	6.23	10.22
EBITDA interest coverage	7.71	3.41	7.41	11.57
Ratio of personnel costs to total costs (%)	14.91	16.39	14.62	13.63
Ratio of material costs to total costs (%)	0.00	0.00	0.00	0.00
Cost income ratio (%)	74.13	88.70	74.09	72.51
Ratio of interest expenses to total debt (%)	2.78	2.69	2.68	1.76
Return on investment (%)	6.71	2.57	5.96	7.30
Return on equity (%)	10.73	2.58	9.91	14.24
Net profit margin (%)	16.14	4.14	14.94	18.98
Operating margin (%)	25.88	11.32	26.33	27.49
Liquidity				
Cash ratio (%)	20.14	43.10	49.28	41.39
Quick ratio (%)	56.50	76.70	86.96	73.63
Current ratio (%)	182.56	216.15	244.87	195.22

Appendix

Rating history

The rating history is available under https://www.creditreform-rating.de/en/ratings/published-ratings.html.

Table 7: Corporate Issuer Rating of Pernod Ricard S.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	28.03.2017	04.04.2017	28.05.2019	BBB / stable

Table 8: LT LC Senior Unsecured Issues of Pernod Ricard S.A.

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	09.10.2018	16.10.2018	28.05.2019	BBB

Regulatory requirements

The rating[2] was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

The present rating is, in the regulatory sense, an unsolicited rating, that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

A management meeting did not take place within the framework of the rating process.

The documents and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.4	July 2022
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

[2] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

Name	Function	Mail-Address
Elena Damijan	Lead-analyst	E.Damijan@creditreform-rating.de
Christian Konieczny	Analyst	C.Konieczny@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 1 December 2022, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the company on 5 December 2022. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring, if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

You can find out whether ESG factors were relevant to the rating in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report at this point:

No ancillary services in the regulatory sense were carried out for this rating object.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a “rating action”; initial release is indicated as “initial rating”, other updates are indicated as an “update”, “upgrade” or “downgrade”, “not rated”, “confirmed”, “selective default” or “default”.

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG’s default rates are available in the credit rating methodologies disclosed on the website.

Disclaimer

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