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ESG factors are factors related to environment, social issues and, governance. For more information, please see the "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.

11 December 2023 – Neuss, Germany

Rating Action / Update:

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Pernod Ricard SA at BBB+ / Stable

Creditreform Rating (CRA) has confirmed the unsolicited, public corporate issuer rating of Pernod Ricard SA – referred to as Pernod Ricard, the Company or the Group, as well as the unsolicited corporate issue rating of long-term local currency senior unsecured notes issued by the Company at BBB+ with Stable outlook. The initial short-term rating of the Company has been set to L3.

Current relevant factors for the rating

The following considerations were of specific relevance for the rating assessment:

+ Positive operative development in the 2022/2023 financial year
+ Sound key financials over the recent years, with strengthened earnings capacity and solid financing structure, despite challenging environment
+ Global population growth and growing middle class in emerging countries
+ One of the major players on the global market for wines and spirits
+ Good geographical and brand diversification with focus on premium products
+ Proved access to financial markets

– Increase in debt
– Slight edging down of equity ratio
– Intense competition
– High levels of volatility (currency exchange rates, raw material costs)
– Overall uncertainty resulting from geopolitical tensions, supply chain disruptions and elevated costs and interest rates

ESG-criteria:

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.

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 CO_2 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. 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.

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.

Despite the overall challenging environment in the 2022/2023 financial year with geopolitical tensions, disruptions in supply chains, and persistent inflation, Pernod Ricard demonstrated strong development with a further expansion of sales and improved earnings capacity. Due to continual market processing, efficient price-mix effects, and its focus on premium brands, Pernod Ricard has been able to gain market share in most of its relevant markets and maintain solid profitability. The further expansion of its balance sheet total and net financial debt is commensurate, in our view, 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, underpinning our rating assessment.

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 activity, travel and on-trade business. Taking into consideration the Company's solid financials, its adequate liquidity position and strengthened 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 and sustain possible demand fluctuations or negative effects resulting from the currently elevated prices and interest risks, as well as currency fluctuations.

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.

Best-case scenario: A-

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 over 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 deteriorated earnings situation, 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 2022/2023 financial year, despite the challenging environment with tense geopolitical situation, overall high inflation, especially in Europe, supply chain disruptions and heightened interest rates, Pernod Ricard managed to demonstrate strong performance. Net sales grew by 13.4% to EUR 12,137 million (2022: EUR 10,701 million). The Organic net sales growth adjusted for currency and scope effects amounted to 10%, and was composed of 8% average price increases, and each 1% volume growth and product mix effects. The positive development was accompanied by share gains in the most of the Company's markets. With regard to the brand portfolio, organic sales growth was driven by the categories Strategic International Brands (+11%), Strategic Local Brands (+10%) and Specialty Brands (+8%). The category Strategic Wines declined slightly again, with -2% organic sales development.

Table 1: Financials of Pernod Ricard SA I Source: Universal Registration Document 2022/2023 including the Annual Financial Report, standardized by CRA

Pernod Ricard SA Selected key figures of the financial statement analysis Basis: Annual consolidated financial statements as of 30.06. (IAS)	CRA standardized figures[1]	
	2021/2022	2022/2023
Sales (million EUR)	10,701	12,137
EBITDA (million EUR)	3,333	3,701
EBIT (million EUR)	2,942	3,235
EAT (million EUR)	2,031	2,283
EAT after transfer (million EUR)	1,996	2,262
Total assets (million EUR)	31,100	32,458
Equity ratio (%)	47.42	46.00
Capital lock-up period (days)	102.97	104.08
Short-term capital lock-up (%)	27.45	27.27
Net total debt / EBITDA adj. (factor)	4.09	4.19
Ratio of interest expenses to total debt (%)	1.76	1.73
Return on Investment (%)	7.30	7.95

[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

Table 2: The development of corporate divisions in 2022/2023 I Source: Universal Registration Document 2022/2023)

Pernod Ricard according to individual corporate divisions in 2022/2023						
in million EUR	Americas		Asia/Rest of the world		Europe	
	21/22	22/23	21/22	22/23	21/22	22/23
Net Sales	3,133	4,076	4,438	5,191	3,130	3,465
Gross margin after the logistics expenses	2,059	2,220	2,496	2,969	1,918	2,057
Profit from recurring operations	1,014	965	1,220	1,516	790	867

All three of the Company's segments posted positive development with double-digit growth rates in reported net sales (Americas 11%, Asia/RoW 17%, Europe 11%). Organic growth in the Americas segment amounted to 2%, in Aisa/RoW 17%, and in Europe 8%. The global travel retail grew by 40% organically against the backdrop of the overall recovery in passenger traffic, notably in Asia, with passenger numbers at approximately 90% of the pre-COVID-19 level.

Due to the favorable price/mix effect and focused portfolio management, reported profit from recurring operations grew by 11% to EUR 3,348 million (2022: EUR 3,024 million). Advertising and promoting expenses rose by 14% to EUR 1,939 million (2022: EUR 1,698 million), with only a marginal increase in their share in relation to net sales (16.0%, 2022: 15.9%), despite the broad price increases and inflationary environment. Reported operating margin edged down by 68 bps to 27.6% (2022: 28.3%), while organic operating margin, adjusted for currency and scope effects, was slightly above the previous year's level, amounting to 28.6%. Due to the overall increase in interest rates with an average cost of debt increased to 2.6% in 2023 (2022: 2.3%), the financial expenses from recurring operations grew by 36% to EUR 291 million (2022: EUR 215 million). The annual net profit grew to EUR 2,283 million (2020/21: EUR 2,031 million), an increase of 12.4%.

Net cash from recurring operations dropped by 11.4% to EUR 2,033 million (2022: EUR 2,234), in particular due to the increased working capital requirements, especially for strategic inventories. Capex grew by 38.7% to EUR 702 million (2022: EUR 506 million), free cash flow was down by 21% (EUR 1,431 million; 2022: EUR 1,813 million). The Company continuously strengthens its portfolio, with focus on ultra-premium and luxury brands. The stake in the Sovereign Brands group was increased to roughly 33% after the acquisition of the 10%-stake in September 2021. Sovereign Brands has an innovative portfolio and is globally active, especially in the strategically important US market. Additionally, Pernod Ricard acquired significant stakes in Código group and Skrewball, which concentrate on producing agave-based spirits and flavored whisky, respectively. Accordingly, the cash outflow from investing activities increased significantly, by 43.9%, to EUR 1,731 million (2022: EUR 1,203 million). The dividend payments totaled EUR 1,072 million after EUR 826 million in 2022. According to the announced dividend payments per share, the expected cash outflow for dividend payments will further increase by roughly 14% in the current financial year 2023/2024.

total debt takes all balance sheet liabilities into account. Therefore, the key financial figures shown often deviate from the original values of the company.

In line with increased capex and major investments aimed at strengthening the Company's portfolio and market position in strategically important markets, the gross financial debt increased by 6.8% to EUR 11,387 million (2022: EUR 10,664 million). Net financial debt stood at EUR 9,789 million (2022: EUR 8,150 million), +20%, due to a lower cash balance as of 30 June 2023. Including lease liabilities, net financial debt increased by 18.4% to EUR 10,273 million (2022: EUR 8,657 million).

Pernod Ricard has various financial facilities at its disposal, including the new sustainability-linked agreement amounting to EUR 2.1 billion, concluded in April 2023 in order to replace the EUR 2.5 billion loan, which was to expire in June 2024. The Company has an EMTN-Programme in place with a maximum nominal amount of securities outstanding of EUR 7.0 billion. Since 2022, The Company has issued three bonds incorporating environmental commitments. Despite slight deterioration due to the extended dividend payments and debt, the equity reported as of 30 June 2023 was very solid with 46% (2022: 47.42%). A marginal deterioration of net total debt / EBITDA adj. (4.19x vs. 4.09x) could be seen as of 30 June 2023, following the stronger increase in debt as compared to the increase in the Company's earnings capacity.

For the current 2023/2024 year, the Company expects a 4-7% organic net sales growth with an improved operating margin by 50-60 bps. Pernod Ricard plans to continue focusing at revenue growth management and enhancing operational efficiency, with significant capex of EUR 800-1,000 million and maintaining a substantial level of investments in strategic inventories. The share buyback program is envisaged to stand at EUR 500-800 million. In April 2023, Pernod Ricard announced its decision to discontinue exports of its international brands to Russia. Russia and Ukraine's market represented approximately 3% of the Company's net sales before the war.

The Company's strategy of focusing on luxury and premium brands, combined with global geographical presence and developing of innovative products according to modern trends, has proven to be successful. Its comprehensive portfolio of more than 240 global and local brands is distributed in over 160 countries. In this, Pernod Ricard's business benefits from the overall trends of growing population and especially of globally growing middle-class. 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. Despite the persistently challenging economic environment and substantial geopolitical uncertainty, Pernod Ricard has so far demonstrated positive performance and has been able to strengthen its market position. Due to its sound financing policy, the Company has been able—despite significant capex and investments aimed at developing its brand portfolio and maintaining its leading global market position in the segment of wines and spirits—to continuously display a solid equity base and financing structure. The currently growing debt is still commensurate with the improved internal financing capacity which the Company has shown. Pernod Ricard's solid liquidity position is underpinned by its proven access to financial markets and a range of different available financing facilities.

Risks arise from subdued economic sentiment in some regions, the persistently tense geopolitical situation, inflationary environment, and heightened interest rates. The still significant dividend payments and continuous share-buyback programs, as well as major acquisitions, could potentially put pressure on its liquidity and on the overall result of the financial analysis.

Further ratings

Based on the long-term issuer rating and taking into account our liquidity analysis, the short-term rating of the Pernod Ricard SA was set at L3 (standard mapping), which corresponds to an adequate liquidity assessment for one year.

The rating objects of the issue ratings are exclusively long-term senior unsecured issues, denominated in euro, issued by Pernod Ricard SA, which are included in the list of ECB-eligible marketable assets.

We have provided the long-term local currency senior unsecured notes issued by Pernod Ricard SA with an unsolicited rating of BBB+ / stable. The rating is based on the corporate issuer rating.

Long-term local currency senior unsecured notes issued by Pernod Ricard SA, which have similar conditions to the current EMTN programme with its last Base Prospectus dated 24 October 2022, denominated in euro and included in the list of ECB-eligible marketable assets, generally receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN programme. Notes issued 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 and additional information, please consult the website of Creditreform Rating AG.

Table 3: Overview of CRA Ratings I Source: CRA

Rating Category	Details	
	Date of rating committee	Rating
Pernod Ricard SA	11.12.2023	BBB+ / stable / L3
Long-term Local Currency (LC) Senior Unsecured Issues issued by Acciona Financiación Filiales S.A. Unipersonal	11.12.2023	BBB+ / stable
Other	--	n.r.

Creditreform Rating

Appendix

Rating history

The rating history is available under the following link.

Table 4: Corporate Issuer Rating of Pernod Ricard SA

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

Table 5: LT LC Senior Unsecured Issues of Pernod Ricard SA

Event	Rating created	Publication date	Result
Initial rating	09.10.2018	16.10.2018	BBB

Table 6: Short-term issuer rating of Pernod Ricard SA

Event	Rating created	Publication date	Result
Initial rating	11.12.2023	www.creditreform-rating.de	L3

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:

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.

[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.

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
Corporate Short-Term Ratings	1.0	June 2023
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:

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 11 December 2023, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the Company on 11 December 2023. 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.

Creditreform Rating AG ensures that the provision of ancillary services does not present conflicts of interest with its credit rating activities and discloses in the final rating reports any ancillary services provided for the rated entity or any related third party. The following ancillary services were provided for the rating entity or for third parties associated with the rated entity:

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

For the complete list of provided rating and credit service ancillaries please refer to the Creditreform Rating AG's website.

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.

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