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## CORPORATE PARTICIPANTS

**Julia Massies** *Pernod Ricard SA - VP of Financial Communication & IR*
**Paul C. Duffy** *Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America*

## CONFERENCE CALL PARTICIPANTS

**Edward Brampton Mundy** *Jefferies LLC, Research Division - Equity Analyst*
**Fernando Ferreira** *BofA Merrill Lynch, Research Division - Director*
**Jean-Olivier Nicolai** *Morgan Stanley, Research Division - Executive Director*
**Mitchell John Collett** *Goldman Sachs Group Inc., Research Division - Executive Director*
**Sanjeet Aujla** *Crédit Suisse AG, Research Division - European Beverages Analyst*
**Simon Lynsay Hales** *Citigroup Inc, Research Division - MD*

## PRESENTATION

**Julia Massies** ***Pernod Ricard SA - VP of Financial Communication & IR***

(technical difficulty)

Call. We're hosted this morning by Paul Duffy,

our Chairman and CEO for North America, who will take you through a presentation and then hand over to your questions. Without further ado, Paul, on to you.

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**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

Thank you, Julia, and welcome to all. Delighted to be here today to update you on our progress. As you may remember, I met a lot of you 2 years ago at a Capital Markets Day, when we set out a very comprehensive plan for achieving certain targets and, ultimately, for transforming our business in the North American region. And it's great chance for me to, as I said, to give you a progress report on how that's going.

North America is a critical market for Pernod Ricard. It accounts for about 21% of global sales. As we all know, the U.S. market is profitable, premium and stabilizing close to its long-term trend of about 4%. And the dynamics of the market with good demographics and strong spirits growth in the alcohol beverage category make this market very, very attractive.

We set out a goal 2 years ago to grow broadly in line with the markets. And at that time, we really defined very, very clear strategic choices around how we wanted to run the business, around consumer centricity, our customers and the Route-to-Market and how it was going to be underpinned with digital, data and much better analytics.

I'm delighted to say that Pernod Ricard USA is on track to achieve its medium-term ambition of mid-single-digit growth and market share. And in our last fiscal year, we grew, in the first stage of that, in line with the market.

A quick update on Corby. As you know, it's a quoted affiliate, so I'm not going to say that much about it. Just to say, it's a solid business for us in terms of the Pernod Ricard brands. We had a very good performance of Jameson, particularly, and in some wine brands, in fiscal '18. Jameson was the largest contributor in value to the Canadian spirits markets in fiscal year '18. And it remains very, very dynamic for us.

But today's call really is about the U.S. spirits markets. And I'm going to give you just a couple of slides on the background to that type of 4% growth that we see and give you some of the dynamics within the spirits market.

So from 2002, there you can see on the left-hand chart, to 2017, we see the growth rate of the total alcohol beverage and how it's split between the 3 main categories of spirits, wine and beer. And within that, obviously, spirits growing at rates higher than the others and gaining market share. And that yields itself on the right-hand side with about 2.4 points of gain from this calendar year 2012 to 2017. The market, as you can see, there's been some variation. We've said for quite a while now that we believe that the long-term trend of 4% is where the market generally heads out, and some years, it's going to be slightly better, and some years, slightly worse. And we saw deceleration in 2017 that brought that market rate down. But I'm glad to say that we think that the market rate is closer back to its longer-term trend of about 4%. And that breaks out, there you can see, between how we look at the market between Nielsen and NABCA and rest of the markets' data.

Within the total market, then we can see who the winners and losers are. This is a Nielsen chart. It shows what categories within spirits are winning. Obviously, Tequila, the stand out growth category. Whiskey, a very, very strong performance with a significant share of market, tremendously important for us, obviously, given the growth we have for Jameson.

In Cognac, we've seen a slowdown in that. I think that's been primarily related to the availability of some inventory for some of our competitors. But we have a brand here with Martell that we are tremendously excited about. And we look to that with tremendous optimism.

Rum is a very challenging category. Again, for that, we've had good performance from Malibu, for example, which is in slight growth. And then when we look at categories like gin, gin it kinds of hides a piece of the double-digit growth rate we're seeing in the super premium segment. And we have some really nice brands exposed to that segment. So quite an interesting opportunity for us.

The U.S. is a tremendously premium market. You can see on the left-hand side of Slide #7, the different growth rates between ultra premium, super premium and the value standards type of segments. So value standard is below $15, and ultra premium is generally $41-plus. And you can see there the double-digit growth, it remains a market that is highly geared towards premiumization. And we have about 80% -- just over 80% of our business is in the premium plus categories.

Lots of conversation about pricing in the United States and where pricing is going. On the chart on the right, which is, again, a Nielsen chart, you can see the pricing elements and what's driving growth in the U.S. You see from the October '18 numbers there that volume is growing at 1.1%, brand mix is the key driver at 2% and brand pricing, which is slightly negative at 0.4%. So pricing does remain challenging in the market on an individual brand basis, but when you have a strong brand pull and strong brand dynamics, we see opportunities to take price. For example, on Jameson, we're going to take price in 43 markets in fiscal '19. On our tequilas, we're going to take the price, for example, on Altos, on 23 markets this year. And some of our cognac brands, such as Martell Blue Swift, we also have taken a very opportunistic view of pricing this year as well.

The next chart just shows and talks a little about the craft spirits element of the industry. I mean we, needless to say, believe our large brands are, by definition, crafts. These brands go back with tremendous history and knowledge. But if you look at this IWSR definition on the left-hand side, it says the number of active distillers in the United States at about just under 1800 distillers. That is about 3.3% in volume, and it's a slightly higher element in value.

We are exposed to this in our acquisitions of some of these smaller brands, which we then put into our New Brand Venture team, which we described, again, a few years ago. And within that New Brand Venture team, we incubate what we are -- we see as a number of future growth drivers for our portfolio.

I think that the slide on the right-hand side is tremendously interesting because while we see the growth in the number of active distillers in United States, also recognize just the share growth and the weight of growth which comes from top brands. So this, again, is a Nielsen chart. It shows it 64% of all the growth in October 9 -- '18 52-week, that came from 5 brands. And within that, obviously, we have Jameson in there. So it's still, we see a lot of concentrated growth in terms of the blockbuster brand. And one thing that we keep seeking to do, which we'll talk about later when we talk about our portfolio prioritization, is to try to get as many brands into these winner-takes-all types of breakout growth stages.

When we look at our opportunities for growth in the business and how we allocate funds, this is an interesting chart because it's based around a prediction for 2050 and where the growth in United States are. So needless to say, we look at these types of metrics when we take decisions about resource allocations. And you can see the importance of the Southern states and obviously the Western states as well.

So over to our performance. In the U.S., in the last fiscal, as we said 2 years ago, we were keen to hit the same run rate as the market. It was the first step in terms of the results of the execution of our strategy. And I'm glad to say that in fiscal '18, on a shipments basis, we did that. Also to say that the underlying trends for this year remain in line with the market growth of about 4%.

Back to the clarity of our strategy. We have very clear strategy in terms of execution around our consumer, our customer and our capabilities. And in the U.S. the brand pull remains the most significant lever. And when we have very consistent approach with clear analytics and targeting against very specific consumer groups, we see a real opportunity for us to win with our brands. To do that, we have a very clear portfolio approach and geographic focus which guides our resource allocation. And then innovation for us remains tremendously important growing to about 40% to 50% of our growth rates in any given year.

You may have read recently about some of the Route-to-Market changes that we have made when we announced contract extensions with our principal wholesalers. And I will talk a little bit about that later on. We think it's very important as we look at these wholesaler contracts to provide real fit-for-purpose solutions. And that means a state-by-state, very much account-focused solution for us to be able to activate our brands. And as well as that, we have -- making sure that we are putting revenue growth management capabilities within the business on a state level so that we can absolutely manage our pricing, promotions, the mix format, et cetera.

On Capabilities. Just to talk a little bit about that. We have delayered the organization, decentralized into the field certain responsibilities, but in particular have specialized teams, where they are impactful, such as Chains, our New Brand Ventures team. And we've announced, for example, mutualization of certain back-office functions, which is now being 100% executed with our Canadian business. All underpinned by digital and data analytics. This is an area we've put significant resource and effort into over the last 18 months. We've built out a data science practice. We have real-time investments -- in-house investments formedia dollars, a trading practice, which is yielding us about 10% to 15% in terms of cost savings as we look at our spend. We've set up a dedicated e-commerce sales and marketing team and launched a direct-to-consumer wine and champagne e-commerce storefront under the Drinks & Company banner.

So an awful lot of work, in this area, more to do, but we're very excited about where that has led us to.

Just to talk quickly about the Route-to-Market structures. This fall, we renewed long-term distribution agreements with our 2 principal wholesalers, Southern and Republic. Southern acts for us across 35 states, including the key states of California, Florida and New York; and Republic acts for us in 8 states, including Texas. So the core of our Route-to-Market approach is around account centricity supported by real clarity around our portfolio prioritization. And to do that, very simple notion of having the right brands in the right accounts with the right resources and how we've driven that through our wholesaler contracts to make sure that we are not duplicating efforts and that we are working through each of our circle of capabilities.

Four states have gone through or will go through quite significant structural changes this year in terms of Route-to-Market, including Texas, New York, Illinois and Louisiana. And the new structure in Texas is complete, while the structure in those other 3 states is on the way to completion.

I talked about the clarity we have around portfolio prioritization. This is so critical, and we map this against underlying consumer trends, obviously, and this determines and informs our resource allocation in terms of dollars and A&P, people and, obviously, focus as we work through our Route-to-Market to the consumer.

Jameson continues to be a growth engine for the portfolio with a very strong launch of Caskmates IPA about 18 months ago and the Jameson Caskmates franchise, which includes Stout and IPA, was -- the #2 Irish Whiskey brand in the U.S. in the latest 52-week Nielsen's as of December 1. So a very successful launch and a very successful extension to the brands.

Absolut, to talk about our bastions, remaines a critical part of our portfolio Given the growth profile of the vodka category, our objective is to stabilize the brand. But we've also ensured that we've rightsized our investments to achieve this goal.

And then we look at the growth relays. One of the nice things that we've done over the last 2 years, which, again, we had communicated with you, was to ensure that the growth rate of our growth relays was improved and that we became less reliant on Jameson as an engine. So the growth for our growth relays and some of our wine breakout brands, wine and champagne breakout brands, contributed about 1/3 of our growth last year.

We've had some success with other bastion brands. I've talked briefly about Malibu, which is growing and taking share in a decelerating rum category. And then in our New Brand Ventures unit, we have some future growth stars. These are showing some very strong growth. Del Maguey, which I'll talk a little bit about later as well, is up 23% inNielsen and -- and Monkey 47 at 51% in Nielsen. And you've got to remember that Nielsen accounts would not be the primary focus for the growth of these brands. They remain very much in the incubation stage and a lot of the work is focused on the on-premise as well. So the innovation focus, at the bottom, remaines key. I've given you a number, about 40% to 50% of our growth has got to come from that. And last year, we had very successful launches of Lime, of Caskmates IPA, of Founder's Reserve and Blue Swift.

As I said, we've had success in innovation. And on Slide 14, one of the industry awards which we won is around recognizing the importance of, what we call, hot prospect brands. And I'm glad to say that Absolut Lime, Caskmates and Blue Swift were included.

We have a goal also of having fewer, bigger, better innovations. And so while we might have a lot of packaging refreshes and some small extensions. For us, we're really trying to find these fewer, bigger, better innovations that will impact the business.

A very strong innovation pipeline. For this fiscal year, fiscal -- and for fiscal '19, '20, which we're working on, for this year, we've had the launch of Absolut Grapefruit. The Glenlivet 12-year-old fresh fill, Beefeater Pink have already been launched. And the second half, we have new packaging refreshes from the likes of Jameson, Avión, and we have a new canister in Avión and the Glenlivet Code. So a very exciting pipeline for us over the next 12 months.

Absolut. Our goal remains to stabilize this brand. I highlighted the success of Absolut Lime. And we've got to recognize this is a challenging category, driven by the growth of similar domestic brands, some price compression, but also innovation. And when you get innovation right, there is no question that it can refresh and do a lot of work for the brand.

So just to talk about 3 things that we've been working on. One is an evolved consumer platform around sustainability. We've been testing this in Canada. As you know, our single-source origin, Absolut, has tremendous amount of sustainable claims. And we have been testing these in Toronto area over the last quarter to pretty good effect. We're very excited with what we've seen. And we will roll that out into the U.S. business in calendar '19. As well, we've had our Big Bets innovation. For this year, it includes Grapefruit, which really went live in September, October, and we're satisfied with where that's gone in its first few months; and then to focus on the evolution of this campaign into culturally and locally relevant assets and use the strength of our network. So we have a comprehensive plan in line for 2019's calendar.

Jameson remains critical to us. We love the way this brand is going and continuing to fuel double-digit growth. Growth is through geographic expansion. Just to say, if we look at hyper-growth markets, for example, such as Texas, where we were focused on Original. And then in those other markets that are little bit more mature, such as California and New York, we focus on Caskmates.

Just to say about Jameson in California: In Nielsen it is the #1 brown spirit by value. It's now a 3.5 million case brand, but we still see lots of growth opportunity for the brand in the country as a whole. Just to say as well, we have a Love Thy Neighborhood engagement platform that we are very satisfied with that allows us to do very, very localized and hyper-local work, which we've been doing with a number of craft brewers, for example.

Martell is such a wonderful brand and such a tremendous opportunity for us. Over the last 18 months, we have completely overhauled the brand in the U.S. We took significant price in some states that led to a drop-off in some of our headline numbers such as NABCA, where we took a significant pricing in Michigan, just over a year ago. And we have now cycled through it. We also introduced the new range, which you can see on the left-hand side, including our VSSD. We have a new VSOP coming in this year. And then we have Cordon Bleu, which we already had. And obviously, the launch then of Blue Swift. Blue Swift and -- the brand -- sorry, the brand in total went through -- is up about just under 50 % in the last 52 weeks. Again, just to say that Nielsen won't capture all the opportunities for this brand because a lot of those growth drivers will be in alternative channels, which may not get covered by Nielsen, such as in the Independent and Liquor channel. We've had a strong fiscal year '18, as I said, which was boosted by the VSSD launch. Blue Swift remaines the flagship for the brand in the U.S. We've had some really exciting social amplification, one of the images in the middle there is Quavo, who is working with us on the brand. And you can see, for example, he has 11 million followers on Instagram. And we're very excited about our work with him.

And obviously, the focus on this brand is really in multicultural markets and with multicultural consumers.

Glenlivet as a brand is not something, I think, we've talked a lot about in the United States before. We have, again, been going through quite a shift on this brand over the last 18 months and putting in place a lot of exciting things that we think will help it to become a more significant growth driver, just to say that category of $35+ whisky is a very exciting opportunity for us. I think one of the things that people would say about the malt category is that it's maybe been a little bit closed and not accessible and approachable for consumers. And we've been really trying to open up the category and our brand to new consumers. And one of the most important things we did was launch Founder's Reserve, which is starting to get some scale for us. It was the fastest-growing single-malt scotch unaged in Nielsen by dollar value over the last 52 weeks at 46 -- at 64%, should I say. And we have a very exciting pipeline of innovation in line for the calendar '19. We also have a strong E-CRM program called the Guardians that we've been working through and have just under -- just close to 0.5 million active Guardians in the database.

So a lot of work done in this brand. And I have to say, we're pretty excited about the plans for calendar '19.

Agave. We talked about the importance of tequila as a dynamic category, one of the most dynamic battlegrounds in the United States. We have a lovely portfolio of agave brands, offering consumers different choices and price points from $25 to over $100 for some of the expressions of Del Maguey. All brands are experiencing double-digit growth in recent Nielsen data, which, we think, significant opportunity further growth. In some of our customers, we've been able, actually, to multi-brand approach these and get a multi-brand opportunity on shelf. But each brand, as you can see, is quite distinct in terms of its consumer targets and what type of consumer it's talking to. We've launched new packaging and new canisters for Avión, which has been tremendously helpful, and it remains a critical opportunity and dynamic battleground for us in the U.S.

So just to conclude, before we get to questions, as I said, at this -- the opening remarks. 2 years ago, we laid out a comprehensive transformation plan for the U.S. We think that we are well advanced on this. We are focusing on executing at speed and pace but with a very clear and consistent and strategy centered around those drivers, which I mentioned earlier, the consumer, the customer and our capabilities.

We have a comprehensive portfolio with strong emerging growth relays, and we've positioned ourselves nicely, we think, for future growth relays so that this can be sustainable.

And then successful innovations. We've had a good pipeline. Over the last 18 months, 2 years, that's come through. And I'm very excited about some of our pipeline as I look ahead to calendar '19.

So our goal remains to have sustainable value share gains. As I said, this year, we were in line with the market, which was a very important milestone for us. On A&P, really trying to drill into the efficiency and effectiveness of our A&P and how we allocate and resource it against the right prioritizations and, ultimately, drive the right type of growth profiles.

Just to say, we don't believe that we need additional A&P at this stage. But given the life cycle of our brands, we will continue to invest at the appropriate levels and within the Pernod Ricard USA total A&P numbers. And then on structure costs, I've given you some of the things that we've been doing on our structure costs to keep them as disciplined, including mutualization of any back-office opportunities that we've had as well as other costs within the region. So happy to field any questions you may have.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We will take our first question from Edward Mundy from Jefferies.

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

Paul, Julia, 3 three questions, please. The first is: How do you think about the sustainability of the tequila category in terms of its growth rate? And what's really driving the renewed interest in the category? What's really made the category cool again? Second question is on Slide 11. You highlighted the move to a simpler organization. Are you able to provide some concrete examples on this to how to more decentralize the model is positively impacting execution? And then the third question is on innovation. You highlighted a pretty strong innovation agenda. One of your competitors has launched a lower-ABV vodka that is seeing some quite good traction. Do you see an opportunity for lower-ABV products in your portfolio?

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

Let me -- Let me get to the simpler organization first. Just to give you practical examples for that. We think that the right place, for example, for revenue growth management is out in the states. Each state, as you know, within the U.S., has really specific local laws around local taxes, around sales taxes, around things like that. And so they have a unified approach. We'd have a unified approach on the consumer side from the business about where we want our consumer positioning to be. But that the right revenue growth management is actually undertaken out within the states. And we do that with better data and digital and -- in terms of data and analytics for the field to use. So that's an example of where we see decentralization working because we're closer to customers and, ultimately, closer to the consumer in the field. In terms of simpler organization as well, we look at the delayering our organization. As I said, we've mutualized those areas that we can and taken those savings quite quickly. But I think that there are some decisions we just feel are better left to local markets in terms of execution. And we're very focused here on value growth. So the markets are really clear about what that should look like. On our innovation pipeline. Yes, I think we are excited. I'm not going to say in specific what we have ahead of 2019's calendar. We do see the trends, obviously, around lower alcohol and the trends around calories and things like that. So we're absolutely aware of that, and we are working with some ideas and propositions. As I said, I'd rather not go into it at this stage till we actually get closer to launch dates. On sustainability of tequila. I mean, I think it's a very interesting question because in states like California and even in Texas, I mean, tequila's really becoming the local spirit in some ways. It's that engrained in culture and that ingrained with consumers that you can nearly consider it as the local spirit in some of these states. So it's of a lower base. You got to look at the share of market as well. It's only 9% share of market. So while its growth rate is very, very high, comparatively to the share weight of whiskey and vodka, with whiskey at a share of about 35%, and vodka 27%, there's lots of opportunity, I think, for tequila to keep going.

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

And then there's markets such as California and Texas, where tequila is the most penetrated and the most widely consumed. Do you have a sense as to how big it is in proportion to market?

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

I don't have a number -- I'll come back to you in terms of the local state-by-state numbers. As I said, I've only got the national numbers.

**Operator**

We will now take our next question from Sanjeet Aju (sic) [Aujla] from Crédit Suisse.

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

Paul and Julia, 3 questions from me also, please. Firstly, on your Tequila portfolio. Do you think you need a more premium play in the segment, just given where the growth is coming from within the category? Secondly, on -- how much of your portfolio would you consider to be noncore? And some of your competitors have been disposing of some of their noncore brands. Just wondered how you're feeling about the tail of -- tail end of your portfolio there. And then thirdly, just coming back to Jameson. For how long do you think you can still keep growing double digit in that brand?

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

On Tequila. I mean, I think that we have a premium tequila portfolio already. Avión is lined, for example, with Patrón in the U.S. Avión 44 is about $130 retail, $100-plus retail. And it's growing very, very nicely. It's the kind of super premium, ultra premium expression of the brand. And on Altos, which is more of the $20 to $25 range, we think that, that's a really strong, pure growth opportunity just on the coattails of the whole category. So we think we are nicely covered off. And we look around on Jameson to just to try to get you a views of that. Again, I said we're at 3.5 million. I think the exciting thing that we believe about Jameson is that we really look at the opportunity in, what we call, hyper-growth markets, where we're under-indexed. And on those markets, we have number of times the total opportunity versus where we are at the moment. In more mature markets, I think that's why we talk about expanding the franchise, the use of Caskmates and Black Barrel. I think Caskmates is so interesting for us because it does extend nicely our shelf space, and Black Barrel really helps us to premiumize. And just to think as well, as we think about value over volume, Caskmates index is at about 120 to Jameson standard Original and Black Barrel at about 140 to 150 over standard Jameson. So we see the value drivers of those expressions as an opportunity for us in terms of extending the franchise. On the noncore elements of our portfolio, we have looked at it this. We constantly look at this and constantly review it. We do that with Paris, who is responsible, as you know, for the handling of M&A. But -- and also, we have taken some of those noncores. For example, in August of this year, we entered into a third-party distribution agreement with another importer in United States for 9 Pernod Ricard brands so that they were no longer imported by us within the U.S. but that they were to be handled by another importer. And so I think we're taking decisions like that as well and doing so in conjunction with Paris .

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

Just a quick follow-up, Paul. Just on the M&A pipeline. I think Alex Ricard has talked before about the U.S. may become a bigger part of the business. How are you seeing the deal pipeline shaping up at the moment?

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

I'm going to refer you to Paris for that except to say, for us, we recognize the categories where we are understrength in terms of market share. We all know that we're, as an organization, and Alex has been very clear about this, we're looking to try to find opportunities to enter into those segments. And we're very, very clear of what those segments could look like. Just to say, in our NBV portfolio, where we're looking to buy these future growth drivers, we have acquired Smooth Ambler, we have acquired Del Maguey, and we continue to look at a pipeline, which is very much focused in terms of our -- what we can do here. And we continue to explore that very regularly.

**Operator**

(Operator Instructions) We will take our next question from Simon Hales from Citi.

**Simon Lynsay Hales** ***Citigroup Inc, Research Division - MD***

Paul, 3 questions, please, from me as well. Just picking up on your closing remarks around marketing investment. I mean, you indicated that, perhaps, that won't rise as a percentage of sales going forward. But I wonder if you could give us some context just where that sort of metric has come from and gotten to over the last few years and perhaps how spend has moved around within the portfolio of the brands you prioritized and perhaps those you've de-prioritized. Secondly, just on pricing. Given you gave some figures in the presentation around how the decline in pricing for the overall market has been easing, as you look at your business this year, do you expect pricing overall to be a positive contributor to organic growth, given what you've done on Cognac, Jameson, Tequila? And then just finally, on Tequila and agave specifically. Obviously, that's a gross margin headwind for you this year, given the rising agave costs. How soon do you see those headwinds beginning to ease?

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

So just on the marketing investments, we -- as I said, we've really focused on using analytics here to work out, on a brand-by-state-by-consumer target, what it is we need to be successful and the type of threshold investment spent that we require to be successful. Once we set that for a state market consumer profile, then we, obviously, look to make ourselves more effective and efficient in terms of reaching those over time. But when we did this a number of years ago, we believed then that broadly we have the right pool of money available to us in order to make those -- the correct investments and that really the portfolio prioritization, the state prioritization, the consumer prioritization and modeling that we did was the critical piece. So over the last year, our A&P spend hasn't changed materially. We don't see that it will do so. As I said during the call, I believe we have enough assignment for this. So I think that we are comfortable on this. On pricing. Yes, I mean, I think we talked about the importance of brand pull. And when you have a brand -- a breakout brand which is proving successful then it does become -- there are opportunities to take price. And I went through some of the examples, whether that's Jameson or Altos or Martell, particularly when we've relaunched brands, or put new kind of livery and dressing on the brands. And just to say, in terms of when we look for price mix, obviously, given the premium nature of our portfolio and the way that we have really been driving value, the growth rate in volume will be well below the growth rate in value for us. We want to focus on those value drivers rather than necessarily just volumetric. And that's a big change, which we laid out 2 years ago, about how we wanted to run the business, really, as I said, focusing away from just pure boxes to the Route-to-Market into very much focused on value. On agave. Yes, you're right. It's a headwind for us this year. There's no question about that in terms of the agave costs. We think, though, that the costs will -- that was probably up top of the cycle. And I think given the nature of the movement of these costs, if you plot them back a number of years, you will see the movements are pretty dramatic. And we think, actually, it will turn into quite a nice tailwind for us, but I can't be predictive about when that's going to happen.

**Operator**

We will now take our next question from (inaudible) from Bank of America Merrill Lynch.

**Fernando Ferreira** ***BofA Merrill Lynch, Research Division - Director***

it's actually Fernando Ferreira. Paul, I have a few, please. First one on your future star brands, right, your future growth relays, you touched on Del Maguey and Monkey 47. Can you also talk about the performance on Smooth Ambler? And also when you package all those brands together, can you tell us how relevant they are for your U.S. business at the moment? Is it either a percentage of sales or a contribution to your overall growth? And then I had a question on the Route-to-Market changes, right? Those are happening at the same time in very relevant states. So can you just talk about how are you avoiding disruption from restructuring the business, right, at the same time, in important states with your wholesale partners?

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

So Smooth Ambler. The challenge we've had in Smooth Amb actually is to being -- to get liquid. If I'm very honest, we've been putting down liquid as quick as we can. And that will allow us to increase the scale of the brand. We relaunched the main product of Smooth Ambler range called Contradiction. It's been relaunched with very strong double-digit growth rate so far. And then the goal will be to let that liquid come through over the next number of years. Just to say, it is -- I mean, the future growth stars are a small percent of the total business. And where they start to impact, though, is on a local, state-by-state basis. So for example, Monkey 47 could become, and is becoming, an important brand for the growth rate of our New York business. So while it may not be significant for the total country and for our total business, as we look at our business on a state-by-state basis, these brands can provide us with nice growth rates for us over the next number of years. On the Route-to-Market changes. The -- yes, you're right. I mean, the largest changes are -- I think our 3 major changes, 4 changes, should I say, which was at Texas, New York, Illinois and Louisiana. At Texas, actually, we completed over the summer. So it's in market now, and we -- there is a couple of small changes. But I think broadly, we can say done and we're through that. New York went live on October 1. And so that has impacted our business, obviously, in the month of October. But again, that will unwind itself pretty quickly. Illinois as well has gone through a lot of big changes. And there are some changes still to come in other markets, as I said, like Louisiana and other markets will not actually get done until next year. But broadly, we're pretty happy with the way they've gone. And we think those some very short-term disruption but not material really for the business performance as a whole.

**Operator**

(Operator Instructions) We will take our next question from Oliver Nicolai from Morgan Stanley.

**Jean-Olivier Nicolai** ***Morgan Stanley, Research Division - Executive Director***

Paul and Julia, just 3 questions on my side. On Slide 12, you mentioned net revenue management. So I was just wondering if you could give us a bit more detail on why you are in this journey and if you believe there is[barely] much more upside on your profitability in the U.S. from net revenue management optimization. The second question is regarding your wine and champagne business. You bought Kenwood, I think, 5 years ago. Are you looking for more acquisition in this segment? And also could you please remind us of the or give us some details about the synergies you have between your spirits and wine business, whether it's in the on-trade channel or off-trade? And just lastly, I was following up on Jameson, again. The growth rate is obviously very impressive. I was just wondering if you were about to, for instance, take a state where Jameson is already strong, I guess, in Texas. And what is the underlying growth rate in states essentially where Jameson is already very well established?

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

Yes, I'll give you on the Jameson example, somewhere like California. So California, we would expect to come in at kind of high-single digits. And then on the hyper-growth markets, obviously, we're looking at higher double digits. So the other side, of course, is the value proposition play that I was trying maybe -- trying to explain, which, as we look to premiumize the innovation, such as Caskmates, that allows us to drive the value ahead of volume in these kind of more mature markets. And I think that on the wines and champagnes, we are looking to drive breakout brand performance. On the wine category, we have some very exciting opportunities that we see in that. On the synergies question. For example, we have synergies on our champagne portfolio under Prestige segment. We have a tremendous Prestige portfolio, and we're one of the only companies that can really supply champagne, cognac, tequila and vodka with our Elyx proposition. So when we look at that, we look at the opportunity to group those into one person on a call in. We have e-commerce opportunities for us, digital underpinning. Our brand building model is underpinned as the same. Our on-premise Chain team is the same. So when we have the synergies opportunities, obviously, we take them. In the Route-to-Market though, an awful lot, for example, of the buyers in the retailers, we'll have a separate wine and champagne team to the spirits team. So in those instances, it makes sense for us to have 2 teams calling in on the 2 separate buyers. And then I think the net revenue management piece, which is the...

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**Jean-Olivier Nicolai** ***Morgan Stanley, Research Division - Executive Director***

Yes, exactly.

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**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

Revenue, what we call, revenue growth management. Yes, I mean, I think this is -- it is so critical in a market where you can't just keep posting prices and how you look at that driving your promotional efficiency and effectiveness, your size mix efficiency and effectiveness, your format efficiency and effectiveness. And as I said, we have really only started our program, I would say, maybe 18 months ago in a very, very concerted way. We're on the way in the journey, and we think there's lots more to do, and obviously, as a result, we think there is lots more opportunity for us to get very -- to get better at this.

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**Julia Massies** ***Pernod Ricard SA - VP of Financial Communication & IR***

Okay. I think we will take our final caller. And we'll take our final question.

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**Operator**

We have one more question from Mitch Collett from Goldman Sachs.

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**Mitchell John Collett** ***Goldman Sachs Group Inc., Research Division - Executive Director***

A couple of questions on a couple of brands I don't think you've talked much about today. Could you perhaps give us an update on your plans with Malibu and Kahlúa, which I think are your third and fourth biggest brands in the U.S. I guess, both seem flattish. Do you have any plans to accelerate growth for either of those? And then secondly, can you perhaps talk about how many dedicated salespeople you have at your wholesalers, focusing exclusively on your brands now?

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**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

Okay. Yes, thanks. Just on Malibu, Kahlúa. So I briefly touched on Malibu. Malibu is a very interesting brand for us because it's consistently taken share of the rum category for years now. We have a incredibly consistent marketing and consumer engagement platform, which we have been leveraging for years. It's very simple and designed around recruitment. It's growing in line with the total market, so we don't see it as a drag in terms of our business. And as I said, versus the market, it continues to take share. Kahlúa is another interesting brand from our side because it used to be and -- have quite a lot of headwinds. And it's now really become quite a stable brand for us. You can see its changes in Nielsen rates over time. And I think we have, again, shown an ability to change with clear marketing around clear consumers, a way for us to change and have inflection points on some of these brands. So they are 2 very interesting brands. And most yes, they are big brands, but we have kind of cooked their growth rates into our models. And we are happy with their contribution to the business and scale they've given the business. On the dedicated teams. Just to say, when we looked at our wholesaler contracts, our goal was not to get -- increase massively our dedicated teams. We were really focused, this time around, around getting really clear, fit-for-purpose, state-by-state solutions to us and our activities. So what does that mean? It means, the simplicity of having the right brands, the right resources against the right brands in the right accounts, talking to the right consumer. So we didn't have any material -- we did have some increase in the dedicated teams, but it was not material. So all told, we have about 800 sales guys in the field, and that includes our activation specialists as well -- I am sorry, 800, and then the activation specialists would be on top of that, so maybe 900 in total, 900 in total.

**Julia Massies** ***Pernod Ricard SA - VP of Financial Communication & IR***

I think that brings our call this morning to a close. Thank you, ladies and gentlemen. Thank you very much, Paul, and good day.

**Paul C. Duffy** ***Pernod Ricard SA - Chairman & CEO of Pernod Ricard North America***

Thank you all very much. Bye-bye.

**Operator**

Ladies and gentlemen, this concludes today's call. Thank you for your participation. You may now disconnect.