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RI.PA - Full Year 2019 Pernod Ricard SA Earnings Call

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(technical difficulty)

presentation. We're hosted this morning by Alexandre Ricard, our Chairman and CEO; and Hélène de Tissot, Director for Finance, IT and Operations. We will take you through a short presentation and then give you a chance for questions. Alexandre, over to you.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Well, thank you very much, Julia. Good morning and welcome to all of you here at Pernod Ricard. Maybe just before we dwell into these numbers and the results, you probably all saw one of our press releases this morning regarding a great investment project we have in China. So I'd like to start with a little movie regarding this project. So movie, please.

(presentation)

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

So this announcement was also made locally in China today. It's a long-term project, and we expect to start distilling in 2021, and I look forward one day to be able to taste this great single malt Chinese whiskey with all of you.

So now back to our fiscal year 2019. Well, an excellent year, which is a clear demonstration of business acceleration. So we've had very strong delivery with a top line growth of 6%, so very dynamic, while at the same time optimizing our finished goods products in the U.S. Strong pricing, which marks somewhat of an inflection point on pricing, 2%. The accelerated completion of our operational excellence road map of EUR 200 million savings 1 year in advance, which leads also to profit from recurring operations of 8.7%, which is the highest growth since fiscal year '12.

At the same time, margin has improved by 74 basis points. And also, there has been a strong cash flow conversion, 88%; and recurring free cash flow, which is up 4%. The free cash flow itself is down 5%. We'll see later on with Hélène, it's related to the base and nonrecurring items; and of course, a strong investment paving the way for our future success. This was year 1 of the rollout of our Transform & Accelerate strategic plan. We'll get back to that in a couple of minutes. Active portfolio management, in particular through Gin and American whiskey acquisitions. We've had a, I'll tell you, dynamic summer this summer. The launch also of our 2030 sustainability and responsibility road map, I'll talk more in detail about this later. Strengthened route-to-market, both in the U.S.A. and in Global Travel Retail, all this was clear and sustained A&P investment at 16.5% of net sales. This is under new IFRS 15. And a significant increase, again paving the way for the future growth of Pernod Ricard and aging stocks of EUR 300 million, specifically on cognac and whiskey.

These great results, the acceleration of our performance, both in P&L terms and in cash flow terms, have led us to the inflection in our financial policy. So we propose to increase the dividend payout ratio to 50%. This is basically 1-year acceleration versus what we had told the markets 18 months ago, and we also plan to launch a share buyback program of up to a maximum of EUR 1 billion spread across this fiscal year and next fiscal year. I won't dwell into these numbers. By now you know them. In any case, we'll go through them one by one later on, especially with Hélène.

I mentioned Transform & Accelerate. This is the first year of our 3-year strategic plan. We launched Transform & Accelerate in July 2018. Remember, we had our medium-term ambition framework with our must-win markets. This was shared with you for the first time in 2015, mid-single-digit growth in the U.S. Right now, the sellout is at around 4%, broadly in line with market. High-single to low-double-digit growth in China. Actually, we've had a remarkable performance in China with 21% growth. Low double-digit growth in India, which is we believe is the long-term sustainable growth pattern we can deliver in India; right now, remarkable performance of 20%. And so on and so forth. We'll be going into all of these case by case.

So leveraging our unique premium portfolio. Strategic International Brands, up 7%; and Strategic Local Brands, up 12%; accelerating Specialty Brands, up 12%, with a continued dynamism; Strategic Wines, down 5%, but this is mainly driven by yourselves in the U.K. and U.S.A.; and innovation, still contributing dynamically to our top line growth. We'll see this later on.

I just want to spend some time on our active portfolio management. There's been quite a number of news over last few months with an acceleration of dynamic management of our portfolio of brands around 4 key pillars. Number one, leveraging basically brands that are positioned on dynamic categories. Example, leveraging gin boom with Monkey 47 a few years ago; more recently, during the last fiscal year with Malfy; and with also some more regional place in Brazil, for instance, or in South Africa. So leveraging dynamic categories.

Second pillar, basically reinforcing our footprint, our presence in key strategic markets and must-win markets such as the U.S. and the acquisitions or partnerships we have recently formed or made in Kentucky, in Texas, a few years back in West Virginia, so with Smooth Ambler, with Rabbit Hole, more recently with TX whiskey, and potentially, following the tender offer we announced last night with Jefferson's whiskey.

We are reinforcing our presence in our #1 strategic market with the U.S., which is ticking 2 boxes, by the way, leveraging dynamic categories, American whiskey; and reinforcing our presence in key strategic markets, in that case, the U.S. The Chinese example is another way to have a dynamic management of our investments because this is a greenfield investment.

The third is to reinforce our presence in routes-to-market. I think that our route-to-markets, the Pernod Ricard distribution platform, is one, if not the best, route-to-market globally. And the acquisitions, for instance, of Bodeboca is designed to accelerate or reinforce our presence, for instance, in the e-commerce route-to-market. Bodeboca is the market leader in e-commerce wine and spirits in Spain.

The fourth and final pillar of our dynamic management of portfolio investments is basically selling what we believe are noncore assets or nonstrategic brands: over last fiscal year, for instance, the disposal of our Argentine -- some of our Argentinean wines, for instance; and other ways as well like the outsourcing of the distribution of Imperial to a third party for Pernod Ricard Korea to focus solely on our strategic portfolio of international brands. So a pretty dynamic here in terms of active portfolio management.

So I mentioned the strong performance in our must-win markets. I'll go more in detail in a couple of minutes in each one of these markets. Overall, from a regional standpoint, this year has seen a quite a remarkable performance of Asia, which has clearly driven part of our growth with a 12% top line growth for Asia-Rest of the World. Americas has grown 2%; Europe, 1%. We'll detail this later. Q4 was up 5%. Well...

And I mentioned it earlier, in spring, we presented, based in cognac, our Good Times from a Good Place 2030 Sustainability & Responsibility Roadmap, building on our previous 2020 road map with 8 very strong, very ambitious commitments, with a number of milestones between now and 2030. This clearly will involve several hundreds of millions of investments over the next decade. It is absolutely critical in today's world for every company and Pernod Ricard, in particular, to play its role to make the world a better place.

So if we go into the markets. Let's start with our 4 must-win markets. For the U.S.A., our sellout is broadly in line with the market trends. We have had stable sales. As you know, we had shared with you our desire to optimize our finished goods inventory at wholesale level, which we have done. So no surprise, it's a 2-week reduction in inventories. And this puts us in a position to basically accelerate, basically, our performance in the U.S. market.

Our star brands, Jameson, which represents a little bit less than 30% of our sales, is growing, let's say, high single to low double-digit value, in particular, with an acceleration of our superpremium variant with Black Barrel. And we've had a slowdown in H2, which was driven by the fact that, given the size now of Jameson, we've decided also to rebalance our investment strategy and deseasonalize, basically, the brand's performance. Jameson is no longer just an Irish whiskey. It's a brand of its own right, so of course, St. Patrick's Day is part of its heart and roots, but Jameson is an all-year brand. And we're also somewhat lapping the Caskmates IPA launch, which was done previous fiscal year.

The growth relays, which are now weighing in our performance in the U.S. positively, of course, they represent today now 14% of sales. Think about it, maybe 6, 7 years ago, they represented nothing. The Glenlivet, growing at mid-single-digit, which has accelerated, thanks to innovation in Founder's Reserve. It is also playing its role of recruiter outside of the single malt category. Martell sales are up 53%, very strong momentum, driven by the Martell Blue Swift innovation we launched now 3 or 4 years ago, increasing distribution, increasing velocity. Great innovation. And our 2 tequila brands, Avion and Altos, both developing quite strongly.

Future growth stars as well are growing very nicely with a particularly strong performance of Monkey 47, Lillet, Del Maguey; much more recently, Malfy; great performance as well of our Irish Whiskey portfolio; and as I mentioned earlier, our new American whiskey portfolio with Smooth Ambler, Rabbit Hole and TX whiskey.

Our bastions represent a bit less than 1/3 of our sales with the likes of Absolut, Malibu and Kahlúa. Absolut is still in decline in a category that remains competitive. We've launched Planet Earth's Favorite Vodka in April, end of April. And we also launched in July Absolut Juice with a campaign featuring Lizzo. And I think Pernod Ricard USA announced yesterday, I think it was yesterday or about to announce today -- I've said maybe too much, but no, I think they have made it already public. They'll basically launch a program with Absolut across the U.S. this week, let's say. Basically, I've seen consumers to donate money to an NGO regarding the rain forest, the Amazon. And Absolut will also invest accordingly. Malibu, mid-single-digit growth, very great performance gaining share in its category. And good growth as well with Kahlúa, driven by innovation. So that was for the U.S.

China, outstanding growth. I have to say that team has performed quite remarkably in China, much beyond what we had guided in terms of our medium-term ambition. We still maintain that the medium-term ambition, sustainable ambition over time for the Chinese market is high single to low double-digit growth. We feel comfortable about this. There'll be better years like this year. There might be worse years, like we've known a few years back. But this year has been a remarkable performance across basically all the portfolio. We are broadening the base. Of course, the dynamism behind Martell is still ongoing, strong double-digit growth across the entire range via VSOP, XO and so on. And we've maintained our market leadership with roughly 42% market share.

Return to growth for Chivas. As you know, 2 years ago, we embarked on [reg] innovation strategy, a relaunch of Chivas with strong investments. These investments are proved to be the right ones. The growth of Chivas is now confirmed. And of course, our new, less and less new, it's now been 2 years -- premium brands route-to-market is delivering with great performance of brands, notably Absolut, growing strong double digits; Jacob's Creek; Ballantine's Finest; The Glenlivet single malt; and also good growth around our champagne brands.

And I won't dwell into this anymore other than say this represents our first-ever single malt distillery for Pernod Ricard in China, represents an investment of CNY 1 billion, EUR 150 million in euro terms for the next decade, which represents strong commitment of Pernod Ricard in our second largest key strategic market.

India. Well, I wouldn't like our Indian colleagues to be jealous from what I just said regarding our Chinese colleagues. That's a quite a healthy race between the 2 markets, I have to say. So unfortunately, by 1 percentage point, and there's a little bit of -- they're going to have to beat China this year in that case. But up 20%, which is also quite a remarkable performance, which was somewhat boosted with a good favorable base of the previous year. But in any case, it doesn't change the fact that the underlying performance of Pernod Ricard in India is very strong. Our Transform & Accelerate ambition there is low double-digit growth. This year, we've done better. But we believe we can sustain over time low double-digit value growth in our third key strategic market, which is India. Acceleration of Seagram's Indian whiskies; leadership maintained with a little bit less than half of the market, 45% value market share; and acceleration as well of our Strategic International Brands portfolio with strong growth across the whole range. And also, it's interesting to note very strong growth of our Strategic Wines with Jacob's Creek, which is market leader in India.

And finally, in terms of must-win markets. Strong growth in Travel Retail, driven by Asia, driven as well globally. Our Transform & Accelerate ambition there is basically leveraging our leadership in the premium plus segment. It's a great showcase channel. It's a very strategic channel, but it is also a profitable, of course, channel with a lot of effort made on pricing, on mix, strong focus on consumers, accelerating pace as well on a number of innovations. Over the last fiscal year, we've launched Chivas XV, Royal Salute Lost Distillery, Ballantine's 17 and 21 limited editions. I could go on and on. More recently, we've launched Jameson triple triple, which is an exclusive. We're leveraging, especially on the Prestige end of our portfolio, rarer and aged single malts and so on. Strong also growth, value growth for Martell. Very good performance of the entire whiskey portfolio. Very encouraging results on Beefeater as well. And as I mentioned, growth across other regions.

Europe. Well, modest growth in what we qualify a contrasted environment. First of all, Western Europe, while minus 1% but very strong price/mix, plus 3%. So I would say that the disappointing result this fiscal year is mainly France, minus 5%, but in a way, disappointing with not too many surprises. The market continues to decline, quite difficult from a structural point of view. But also the decline has accelerated with a more [conjectural] item with -- which is the Egalim law, which has induced strong consumer price increases, which don't benefit ourselves. Actually, they don't benefit anyone, but the reality is with close to 10% price increases, you can expect volumes to decline.

Very strong growth of Absolut. Double-digit growth of Absolut in a declining market, which is great, driven by flavors but also by innovations behind Absolut. So I was mentioning the Egalim law. You can see this mainly impacted our Q4. I won't dwell on our commercial disputes, which have been resolved back in spring.

Stable performance in Spain with market leadership maintained; positive price and mix, with continued good growth around Seagram's Gin and launch as well of innovations behind some of our other brands; some modest decline behind premium whiskey, in our case, Ballantine's and Chivas.

U.K., stable. That's a tale of 2 stories. Very strong growth in spirits, double-digit sellout, driven by Gin and innovation around Gin, by Absolut, Jameson, Chivas, Havana Club; market share gains and positive pricing. And on the other hand, but that's voluntary, we have adopted a very strong value approach on wines, basically accepting (inaudible) the brands where we don't believe there is any profit, decent profit to be made, so which has hit our top line much more, of course, than our bottom line.

Germany, minus 3%. That's clearly a result of the commercial disputes we had, which has been resolved, at least so far. And in Q4, you see the improvement, plus 11%. Very strong development of Lillet, which is a star brand for us in Germany and becoming, by the way, a global star brand as well. Ireland, plus 9%, driven by Irish Whiskey, principally Jameson, Absolut and Gin as well, as is the case in the U.K.

Eastern Europe, very strong performance. Continued dynamic growth in Russia, up 11%. Very good growth in Poland, 6%. And very robust growth in other Eastern European countries such as Ukraine, Kazakhstan, Romania, just to name a few.

Other key markets. In Americas, acceleration in Canada with good growth driven by Absolut, further to the Planet Earth's Favorite Vodka launch last year, just ahead of Christmas. Good growth also driven by Jameson and our single malt The Glenlivet. Very successful innovations as well around Jameson through the RTD launch in Canada and around Captain's Reserve for The Glenlivet. Very good growth in Brazil, up 13%, driven, by the way, by Beefeater, but also our whiskey brands and Absolut. Good news. That's a direct result of our strategy there, which is focused on international Scotch, Absolut, and leveraging small niche category booms like Gin. And I would say same story for Mexico, although it doesn't show with a minus 4%. That decline is mainly due to destocking and pricing disputes and so on, but the underlying trend is mid-single-digit value sellout for our portfolio of brands, again, Scotch and Absolut.

Asia-Rest of the World. Well, I would say Japan, up 9%, acceleration there driven by Scotch and Champagne and Jameson, just to name a few. Minus 24% in Korea, this is a direct consequence of the outsourcing of Imperial, which we will still live with in terms of impact up until, I think, spring of this new fiscal year. Excluding Imperial, we're down 3% in Korea. Africa/Middle East, up 16%, with very strong growth, and particularly stress the strong performance in Turkey.

Just by brand, this is where we can say it's broad-based growth. Strategic International Brands, up 7%; Strategic Local, 12%; Specialty Brands, 12%; Strategic Wines, I mentioned, minus 5%. If we go into more detail, Martell, remarkable growth of 18%, of which 11% in volume and 7% in value, price and mix. With regards to China, as I mentioned, it has been an acceleration of the growth across all segments and all channels and strong pricing, as we had already mentioned it to you last time we met. In the U.S., our strategy behind Martell with Blue Swift is paying dividends. We see our value growth in the U.S. of 53%. And clearly, our strategy behind Martell is very straightforward. We want to globalize Martell. And of course, I'm sure Hélène will detail more that sustained investments in our strategic inventories to support the medium-term growth for Martell. Jameson, up 6%. In the U.S., sales have been impacted, of course, by the optimization of our finished goods inventory. There has been positive price and mix, which was clearly driven by price increases, so negative mix related to mix. Sellout right now is in the high single-digit range with double-digit growth behind Black Barrel with a Q4, which has been the strongest quarter ever behind that SKU, which is an innovation; and high single-digit growth for Jameson Original. We're still lapping -- well, we still lap, now less so, the Caskmates launch of fiscal year '18.

In Europe, Jameson is up 8%. Very strong growth in the U.K. and double-digit growth across all Eastern European countries. And there, for Jameson as well, we have a clear global expansion strategy with double-digit growth basically everywhere else in the world; and just as is the case for Martell, good growth, very strong growth. And confidence in the future behind brands like Jameson requires a little bit of investment, in that case, EUR 150 million spread over the next 2 to 3 years. Absolut, globally, minus 3%. Let's start outside the U.S., which is now the biggest part of the sales with 60% of sales, up 4%. Growth is quite healthy, driven by both innovation and now the activation of our global campaign; continued development internationally with double-digit growth in some 20 markets. Look at India, 33%; China, 32%; Africa/Middle East, strong also, double-digit growth. Double-digit growth as well in Canada, in Brazil and a number of other Latin American countries; and double-digit performance, as I mentioned earlier, in France and a number of other countries.

In the U.S., sales have been impacted as well again by our wholesaler inventory optimization. Sellout is, let's say, minus 4%, minus 5%. We launched our campaign, as I mentioned earlier, in late April on 22nd. And Absolut Juice was launched in July with initial promising results.

Acceleration of our Scotch portfolio, plus 7% for Scotch sales. For our Strategic International Brands, I mean, it's 6%, 9%, 7%, 16%. If I had to summarize, 6% for Chivas, 9% for Glenlivet, 7% for Ballantine's and 16% great performance for Royal Salute. And this is also driven by a number of innovations across all of the brands.

Other key brands. Ricard, I won't dwell over it again, minus 3%; Beefeater, up 8%, would have been double-digit excluding Spain; Havana Club, stable with double-digit growth in Cuba, but again, commercial disputes in 2 of Havana Club's key markets. Its #2 markets, Germany and France, have somewhat dampened the performance of the brand, but I think it was for the greater good, as we say. Malibu, minus 1%, which has been as well driven by the commercial context, Germany, France, but the brand is gaining market share in the U.S. with great performance. Mumm, up 1%, driven by U.S., China and Japan and offset by France, which is upsetting, of course. Perrier-Jouët, up 5%. Great success in Japan, as I mentioned, but also very strong price and mix and a great activation platform. Specialty Brands, 12%; Strategic Wines, driven by our value strategy clearly, and you can see this through the price/mix of 3% and also dampened by the inventory management around Kenwood in the U.S. But again, mentioning the great performance of Jacob's Creek and its future growth relays, China, India and Campo in the U.S., which is flying off the shelves.

Innovation and luxury, again 2 of our key business accelerators, key strategic pillars around Transform & Accelerate. Innovation, up 26%, basically in line with our ambition. And luxury growing double-digit at 14% and now represents 13% of total group sales. I won't go back into detail here, as I mentioned it in the introduction.

Now sustainability and responsibility. We walk the walk very clearly. We announced our new strategic 2030 road map back in April based in cognac. And it was live, by the way, on the Internet. By 2025, we have a clear and very strong commitment to eliminate complete unnecessary plastic packaging. We've already started to have 100%, basically, reusable plastic recyclable or biodegradable packaging, to integrate recycled plastic into our packaging and finally roll out sustainable packaging guidelines for all our existing packaging and new product development. Of course, this has an underlying strong investment behind it, and we're committed to make this happen because it's the right thing to do. And also, let's be clear, consumers are driving this as well. And this is to pay tribute to our teams. By the way, when I say our teams, it's not just our sustainability and responsibility teams but our teams globally in Pernod Ricard. Sustainability and responsibility today is embedded into Pernod Ricard everywhere. And so it's nice to see as a recognition some of these accolades.

And to finish on sustainability and responsibility, it's also about people and the success of Pernod Ricard. Pernod Ricard's past success, current success and of course future success is driven by people. And we just started having the results of our fifth edition of our third-party independent iSay survey, which is run by [Towers Wesson] every 2 years. 88% engagement rate. By the way, 88% participation rate across the world, across our 20,000 colleagues, which in and of itself is a strong signal of the engagement rate. And 93 -- 94% of the people are proud to work for Pernod Ricard, and this makes me proud. I'm proud of them, by the way. I also participated anonymously to the surveys. I'm part of this 94%, of course, but these results make me proud as well, to know how committed our colleagues are.

And also, we've launched our first-ever employee share ownership plan, covering 18 countries, which is approximately 3/4 of our 20,000 global headcount. I wish we could have done more, but then there are legal tax complicated issues. Hopefully, going forward, we can do better. Very strong record-high-type participation rate, 42%.

I just mentioned India. 3/4 of our Indian workforce are now proud shareholders of Pernod Ricard, and half of our Chinese workforce is also -- are also proud Pernod Ricard shareholders. And I think this sends somewhat of a confidence message on their behalf. And they'll be shareholders for a minimum of 5 years now.

And that being said, I will now pass on to Hélène.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

Tough transition for me. I must say, well, I'm proud to work for Pernod Ricard.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

The results are okay.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

For sure, yes, exactly. Very proud to have as well participated to the employee ownership plan and proud to present the financial performance. So let's go from the profit, from a recurring operation right away. You did cover already, obviously, the top line growth, so I will jump to the other financial indicators.

Gross margin expansion. Gross margin improving by 7% from an organic point of view. You see here how much is at stake in terms of gross margin expansion, 39 bps. This is thanks to the strong pricing and strategic plans that you already mentioned. Strategic brands, plus 2%. We had some headwind in terms of cost of goods, in particular agave, glass and GNS in India, but we are able to offset part of this hit by accelerated completion of our operational excellence road map 1 year in advance. Negative mix linked mainly to the strong Seagram's Indian whiskies performance and as well some impact from the U.S. wholesaler inventory management.

Moving to the A&P, growing by 6%, with the A&P to sales ratio, which is quite stable. Again obviously, this is very consistent with our strategy, which is to keep strong investment behind our top priorities. The A&P are increasing broadly in line with net sales, with strong arbitration and focus behind strategic priorities, to name a few, obviously, China and India, having a strong investment.

Structure costs, growing by 4%, so below net sales with the impact in terms of margin of 33 basis points, moderate increase in the context of the business acceleration, thanks to strong discipline and again, on this resource focus on key priorities.

Profit from recurring operations of plus 8.7% from organic point of view, plus 9.5% from a reported point of view, with some positive FX impact, giving this 74 bps in terms of margin improvement, thanks again to positive pricing, gross margin improvements and structure cost discipline.

So if we go now quickly to the profit from recurring operation performance by region. First, with the Americas. So the profit from recurring operations here are stable from an organic point of view, plus 7%, from the reported point of view. Obviously, you have here some positive impact from the U.S. strengthening. So good underlying performance dampened by the U.S.A. wholesaler inventory optimization. So good underlying strength -- trends with strong dynamism that you already mentioned, Alexandre. But the impact of the inventory optimization on our sales in the U.S., which is giving these stable figures for the U.S. with, obviously, the underlying trend, which is in line with the market, as already mentioned.

Gross margin growth of 1% with a negative impact in terms of gross margin, and this is mainly driven, obviously, by the decreased rate of the U.S. A&P modest increase, driven by priorities such as Martell, The Glenlivet and Jameson in the U.S. but as well Beefeater in Brazil.

Structure cost increased plus 2% below that of sales, with strong discipline here; so with reported profit from a recurring operation of plus 7% that I mentioned already, thanks to the favorable USD evolution.

Moving to Asia-Rest of the World. So you mentioned already the excellent growth in terms of top line. This is, of course, given probably more stronger in terms of bottom line. These figures is extremely strong, plus 19%, from an organic point of view, with this strong margin expansion, so sales growth. No need to come back to that. You know which markets are the key contributor to that growth. Gross margin, improving by 15% with 121 bps expansion, thanks, in particular, to positive pricing and mix in China and as well pricing in Turkey. Strong A&P growth, plus 13%. We focus on core priority, and again on this, we are mentioning the Martell China but as well India media investment and To the MACs strategy.

Structure cost, plus 7%, which is reflecting the targeted investment in growth relays; and profit from recurring operation, with this excellent margin increase I was mentioning before, thanks mainly to pricing, continued significant investment both in terms of A&P and structural cost behind future growth.

Europe. So profit from recurring operation growing by 2%. This is strong growth in Eastern Europe but the difficult context that we mentioned already in Western Europe, with sales growth of plus 1%; gross margin, plus 2%, with some margin ratio improvement of 69 bps, driven, in particular, by the operational excellence initiative we did complete in this fiscal year.

Structural cost tightly managed, plus 2%, knowing that obviously the impact -- we have some impact in the ratio because of the weaker top line in some of our 2 main markets in Western Europe with the commercial dispute. Profit from recurring operation, plus 2%, with some modest improvements in term of margin and a reported profit from recurring operation impact by some negative FX.

So if I move now to the net profit. First, talking about the earning -- earning per share on the recurring operations, so double-digit growth, plus 10%, obviously driven the robust business profit growth I was just mentioning, plus 9% -- 9.5%, from a reported point of view. Slight increase in financial expenses, and this is mainly due to the higher short-term USD interest rate and some -- as well FX impact with stronger USD in this fiscal year. Tax rate is plus 26%, as announced earlier in the year, with a slight increase versus last year, and this is mainly due to the profit increase in countries with a higher tax rate.

Nonrecurring items. So let me start first with the nonrecurring operating income and expenses, minus EUR 206 million. So with the impairment charge of EUR 69 million, driven mainly by Brancott Estate and as well some capital losses on the Argentinian wine disposal. Restructuring costs, EUR 77 million, reflecting ongoing adaptation of the -- of our business model, mainly this year in Korea with the changes we've mentioned, post the outsourcing of Imperial distribution. We did reorganize our affiliate back in spring to focus on Strategic International Brands. Other nonrecurring income and expense, this is mainly driven by one-off noncash items that were declared -- already there in the H1, meaning the equalization reform impact on the Allied Domecq pension fund.

Corporate income tax, a small income. What is really relevant here is probably the comparable basis. You remember last year, we had a significant nonrecurring income on that line, mainly the U.S. tax reform and the French withholding tax reformed.

So if we move to the net profit, minus 8%. This is linked as well to the higher tax charge we have with the positive nonrecurring items in fiscal year '18 I was just mentioning. So decrease in this net profit despite the excellent growth of our profit from recurring operation, mainly driven by one-off item in fiscal year '19 and unfavorable comparable basis due to very positive one-off effects in the previous year.

So now let's move to the cash performance. So continued very strong free cash flow, plus 4% in term of recurring free cash flow. Free cash flow, minus 5%, is again mainly linked to the nonrecurring items, the cash impact on the nonrecurring items I was just mentioning. If we go into the details of the recurring free cash flow performance, so a strong recurring operating cash flow. You had here the figure in term of growth versus fiscal year '18. This is a strong performance with the maintenance of a high conversion rate in the context of the business accelerations. Positive operating working capital evolution and supported by the Operational Excellence initiatives we have on top of the P&L impact. As you -- I'm sure you remember, we have as well EUR 200 million road map in term of cash benefit.

Increasing strategic inventory builds of EUR 300 million, this is an additional EUR 100 million versus last year, Alexandre mentioned it, it's mainly driven by the investment we are making in whiskey and cognac to support our growth ambition, and this is something we intend to continue into fiscal year '20. So you should expect circa EUR 300 million as well in term of increase of strategic inventory in fiscal year '20.

Talking about CapEx, the ratio has been quite stable. This year, 4%, so very similar to the previous year. We do expect this ratio to increase to 5% to support key investment priorities. We mentioned already a few in the introduction.

Talking about the -- now the financial expense. So a slight increase as well from the cash point of view with the same reason than the one I mentioned already, higher short-term interest rates in the U.S. and as well some FX impact, higher cash tax, and this is directly linked to the increasing profit in the higher tax jurisdiction. Nonrecurring free cash flow, this is mainly due to restructuring, giving this free cash flow at minus 5% versus the previous year due to positive one-off in fiscal year '18. To be even more clear, in fiscal year '18, we had some positive cash linked to the sales of bulk Scotch and as well the reimbursement of the French withholding tax.

So now let's look at the impact in term of reduction of our net debt. The net debt is reducing by EUR 342 million, which is putting us in a leverage ratio figures down to 2.3, despite, I must say, increased dividend that we announced 1 year ago but as well dynamic M&A., so -- which I think you have all the detail here. And one point I wanted to highlight is some negative phasing with the -- with respect to the employee share ownership plan because we had the cash-out in June and the cash-in from the employee contribution in July. So negative translation adjustment as well in this net debt reduction figures of EUR 78 million linked to the USD evolution.

So in that context of the strong business performance as well strong cash generation and deleveraging, we are able to announce an inflection of our financial policy with the decision mentioned by Alexandre proposing a payout ratio of 50% for the fiscal year '19. You had here the figures of the dividend per share, and that would be subject to the shareholders meeting vote and as well the announcement of a share buyback up to EUR 1 billion for the fiscal year '20 and fiscal year '21.

So giving us the opportunity to update our financial policy with the following priorities that we have while retaining our investment-grade rating. Number one priority, it's obviously increasing our investment to support our future organic growth, in particular the items that I mentioned such strategic inventories and CapEx. We will continue to have a quite active portfolio management with the value-creation M&A strategy that we've been pursuing for already few years now, accelerating the dividend distribution with this increased payout ratio to 50% from fiscal year '19, and the launch of this share buyback program up to EUR 1 billion across this fiscal year and next fiscal year.

So proposed dividend, I think I covered that already. The launch of the share buyback program, so to be implemented over this 2 fiscal year. The shares will be canceled. The intention is to execute this plan at market condition, and we have the ability to suspend or terminate the program at any time.

So let me hand over back to you, Alexandre, for the conclusion and the outlook.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Well, thank you very much, Hélène. Again, excellent fiscal year, which stresses the business acceleration and long-term value creation, which is the story of Pernod Ricard. Growth is diversified across the portfolio. We've had strong pricing, up 2%. Remarkable performance in China, India and with strengthening of our routes to market in Travel Retail in the U.S.

We've accelerated the completion of our initial operational excellence plan, the 16-21, with 1 year advance. We will continue to focus investment to support our future growth, as you've seen. And again, I won't go back on the results.

Now as an outlook, we usually start by saying for this new fiscal year in an uncertain environment, we expect we've just added the word particularly uncertain environment. So within that particularly uncertain environment, we expect to continue the execution of our Transform & Accelerate strategic plan. We're going to be -- we are now in year 2 of that plan, focusing on dynamic growth and delivering leverage in line with the objective of maximizing creation over time. (inaudible) growth is expected to continue, albeit at a more moderate level, in line with our medium-term ambition for India and China. India, low double-digit. China, high single to low double-digit, as I said, consistently with our plan.

Dynamism in the U.S., following the inventory finished goods optimization. And clearly, increased investment, as you've just seen with Hélène, and behind our CapEx and strategic inventory priorities. We just mentioned we'd start a share buyback program at some point during the course of the year. And please note that Q1 is expected to be somewhat soft, but that's basically driven for technical reasons, basically an unfavorable comparison. Remember, last year, Q1 was up 23% for Asia-Rest of the World, but you should expect, on the other hand, the dynamic start in the U.S. This has driven us to share with you our fiscal year 2020 guidance of an organic growth and profit from occurring operations anywhere between plus 5% and plus 7%.

Thank you very much. Julia, back to you.

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

So we'll kick off the Q&A.

QUESTIONS AND ANSWERS

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

Are there any questions in the room? Marion?

Marion Boucheron - *MainFirst Bank AG, Research Division - Research Analyst*

Marion Boucheron from MainFirst. 2 questions for me, please. The first one would be on the impact of the U.S. wholesale optimization. Could you quantify the impact it had on EBIT for this year? Then another question would be on the latest trends you had from China, if you could give us a bit of color. And third question would be on commercial disputes. What are you expecting in the markets that were affected in the upcoming fiscal year?

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

Okay. So I would start with the first question. Could you please just clarify? The impact of the U.S. on the business profits in fiscal year '19? That's the question?

Marion Boucheron - *MainFirst Bank AG, Research Division - Research Analyst*

Yes.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

So well, as you know, we said it's 2 weeks in term of sales impact that has been done at the end of the fiscal year, which puts the U.S. in a stable top line position for fiscal year '19, thanks to this -- due to this reduction of wholesaler inventory optimization. And obviously, it has some impact in term of business profit, but -- that we are not detailing.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Now with the latest trends in China, so as you know, we've grown 21% over last fiscal year, and we believe it's more of an exceptional or remarkable year than just the business case. Our medium-term business case for China is high single to low double-digit value growth. There will be better years like we've known. There will be worse years like we've also known in the past, but this is where we believe we'll be during the course of this fiscal year. Now obviously, Mid-Autumn Festival has not happened yet, which will be an initial indication of what the year could look like. But again, given the importance and the weight of Chinese New Year, that's as far as we could say. But so far, in China, the underlying trends are good. They're growing. And again, expect low double to high, low -- high single to low double-digit value growth for China.

Now when it comes to commercial disputes, my point is very clear. We cannot -- Pernod Ricard cannot afford to agree terms and conditions with some clients that we believe or we deem unreasonable and that don't create value for ourselves, of course, for our clients as well. So if terms and conditions in the future tend to be unreasonable, please expect commercial disputes. If commercial terms appear to be reasonable, then there won't be any commercial disputes. And that's the strength of our business model. We can afford to say we want reasonable terms. It's important because it's the strength of our business. And also, by the way, that's important relating to our investment strategy behind our brands. It's important to have strong brands consumers choose. Customers are there to serve consumers, and so are we, but under reasonable terms. That's as far as I can go. So we'll see.

Marion Boucheron - *MainFirst Bank AG, Research Division - Research Analyst*

If we don't have any negative [building] from last year (inaudible).

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

We have -- just let's be clear, we have commercial disputes every year. This year was an inflection point of a commercial dispute, which was much bigger with more than the usual ones. But is it an exception? Or is it now going to become the rule? I have no idea.

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

Some more questions in the room?

Okay. In which case, we'll go to our callers, please.

Operator

(Operator Instructions) Your first question comes from the line of Edward Mundy from Jefferies.

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

I've got 3 questions, please. First question is that, as you're guiding for growth in China and India to moderate or normalize towards the medium-term ambition from the 20% you delivered in fiscal '19 and fiscal '20, what's driving the more normalized outlook? The second question is on your wider organic EBIT guidance for the group. I appreciate you're always quite cautious at the start of the year. I'm interested in what led you to include the word "particularly" and what exactly does this pertain to? And in particular, does the guidance take into consideration ability to absorb some of these particularities? And then third question is on the U.S. I appreciate this year has been held back by wholesaler inventory optimization. As we look into fiscal '20, should we get a restart, i.e., shipments running ahead of depletions? Or should we assume that shipments and depletions are [running line]?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Thanks, Ed, for your questions. Listen, China, India. Well, 2 reasons. We have always said and we still fundamentally believe that the underlying sustainable growth story in both markets is for China high single to low double-digit value and for India low double. That being said, if you look at China, China has been boosted, to some extent, by Martell. Martell was up globally by 11%. Of course, part of this is clearly related to China. Double-digit value growth is -- volume growth, I'm sorry, for Martell is just not sustainable, let's be honest. What we have always guided is Martell medium term can sustain high single digit volume and then, let's say, mid- to high single digit volume. So obviously, 11% is a little bit too much. It's not always easy to put the brakes on the volumes, but we're going to have to put a little bit of brakes also on our volumes this year for the sake of our ongoing growth story behind Martell. So this also will impact somewhat. And therefore, come back to more -- in that case as well, I would say reasonable growth rates in China. With regards to India, basically, part of the performance in India was also boosted by a strong, actually, a weak comparable base the previous fiscal year. So that's done. But again, I mean, low double digit value growth for India is a great place to be especially when you're a market leader. Now with regards to the outlook, why did we add the word particularly? What that word basically suggests is that the degree of uncertainty we all are facing has probably nudged up a little bit. If you look and read newspapers this year, from this summer, next to the swimming pool, you'll see that the tonality has somewhat worsened a little bit versus the previous years. So uncertainty in a way is the new norm, but you -- we get the feeling, however, that the level of uncertainty has nudged up just a little bit.

But within that degree of uncertainty, we feel, of course, confident with our guidance. One example, just to be -- or a number of examples, just to be clear, we don't know how well the tariff war will end between China and the U.S. We don't know whether there will be any tariffs on European spirits in the U.S. We may or may not know -- by now, I don't know anymore, but there may be a hard Brexit a few weeks from now. We had plans for that last year, but we'll plan for it again now. So I'm just saying that the degree of uncertainty has somewhat nudged up a little bit, but we -- the foundations and the way our business is built can obviously help us absorb, as you put it in your own words, absorb some of these risks if they were to materialize.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

Now maybe let's talk about the question in term of stock in the U.S. The intention is not to restock this fiscal year. Let me maybe just remind you why we did this reduction of finished good -- inventory at wholesalers' level. This fiscal year '19, it was really to strengthen our route to market there so that we can be more agile and accelerate. What do I mean by agile? Probably with a faster route to market, which obviously is quite useful in term of launching innovation, price increase, potential and so and so. The intention is not to restock the U.S. in fiscal year '20.

Operator

Your next question comes from the line of Laurence Whyatt from Barclays.

Laurence Bruce Whyatt - *Barclays Bank PLC, Research Division - Analyst*

Three for me. Firstly, on your advertising. You are obviously increasing your investments in your CapEx and your aging stock, and your advertising spend of 16.5% is slightly ahead of 16% whether you guide to post the change in IFRS. Is that the sort of normalized advertising spend that you expect going forward? Or is that on the higher end given where your current guidance is? Secondly, on your Irish Whiskey portfolio, you spent a lot of time talking about Jameson. Obviously, but there's a number of new entrants into the Irish Whiskey category in recent years, but you've got a large portfolio of Irish Whiskey brands with Irish distillers. And I was just wondering if you have any plans to roll those out more widely. Or what are your plans for those brands? And thirdly, slightly related to that, there's been a number of new acquisitions of smaller brands, particularly in the U.S. whiskey category. Could you just give us some confidence of how much management time these sort of projects take up given their small size and just give us confidence you're able to focus on the full business.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

So let me answer the first question. As you rightly mentioned, we want to keep investing behind our brands and as well in term of CapEx and aging stock. We did say that the A&P to net sales ratio would be -- it was more like a circa 16% including the IFRS 15 impact. So to answer your question, we believe that this 16.5% is more or less the new norm with post IFRS 15, meaning that we will keep investing significantly behind our key strategic priorities, at the same time bringing efficiency in our A&P spend because we did announce on top of the first wave, if I can call it that way, of the operational excellence road map from '16 to '19, that we're going to have a new EUR 100 million savings from '20 to '21, including A&P efficiencies. So we will have additional efficiency in term of A&P, which will enable us to keep investing behind our key priorities with -- at the end of the day, this ratio, which should remain quite stable.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Yes. So vis-à-vis Irish Whiskey portfolio, of course, Jameson is our star brand, but we have over the course of the years developed a quite a large portfolio of niche high-end, high-margin, high-growth potential Irish Whiskey brands, leveraging their heritage. I could mention Redbreast, which is growing quite significantly. I could mention the spot range, which is a single pop still range. By the way, [Ideal] has a vision -- or single spot sale Irish Whiskey or to the Irish whiskey category what single malts are to the scotch category. So there's a spot range as well. There's Powers, of course, which has developed as well an ultra-premium, a single pop still variant. And I could also mention Method and Madness, which is much more of a craft high-end Irish Whiskey brand. And finally, on the luxury end of things, I could, of course, mention Milton, which I strongly recommend Milton very rare.

Now vis-à-vis M&A in the U.S.A., and may more broadly speaking, we announced 2 things a while back part of our Transform & Accelerate strategy and road map. Number one, our House of Brands now includes what we call Specialty Brands that are growing at a fast pace. They're small in volume terms and big in value terms and growth potential. And of course, if we have now a new House of Brands on the brand side, we just need to make sure we have the right route to market to service all of these different brands, so we're seeing our routes to market market by market, including in the U.S., being more granular. In the U.S., we had announced, I think it was 2, maybe 3 years ago, the creation of NBV, New Brand Ventures, which will, of course, manage a number of these acquired brands, not all of them. Some have already enough size in terms of volume and value to go in what we call the main route to market or main book, but the more niche crafty brands are managed from a route-to-market point of view through New Brand Ventures. So please do not worry when it comes down to our big strong brands. There is a full focus on them on our main book.

Operator

Next question comes from the line of Sanjeet Aujla from Credit Suisse.

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

Three questions also on the U.S., please. Firstly, on Jameson. You talked about depletions running at high single-digit. Is that the new run rate? Or do you think, given the phasing of some of the investments, that could get back to double-digit growth? Secondly, on Absolut. You've done a number of line extensions, particularly with flavors. Can you just give us your assessment of how Lime and Grapefruit have performed and how you would expect Juice to perform in comparison to that? And then just on the Castle brands acquisition announced overnight. The margins there seemed quite low. Do you think over time you can get those margins to broadly in line with your U.S. margins?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Thank you, Sanjeet, for your questions. Jameson U.S.A. new run rate. Jameson, from my point of view, is a high single to low double-digit growth story in the U.S. Some tough years, it might be high single. In some better years, it might be low double. Black Barrel is clearly a double-digit growth SKU in the brand franchise and for the foreseeable future. Jameson Original, it can be anywhere between high single to low double. And what dampened a little bit the performance for the last fiscal year beyond the St. Patrick's effect and the de-seasonality strategy we're applying to brand is basically lapping the Caskmates launch the previous year.

With regards to Absolut line extensions, Lime was a huge success. I think it was one of the best Nielsen innovation successes back in its time, which created a strong comparison, I would say, for Grapefruit, which was less so versus Lime. Everything is relative. Juice has just been launched, let's be clear, launched in July. In terms of current distribution, numeric distribution growth, it is basically so far in line even slightly in line with Absolut Lime and better than Absolut Grapefruit. And as for Castle brands, I would just say we, at this stage, we have launched the tender offer. I would not like to comment anything.

Operator

Next question comes from the line of Simon Hales from Citi.

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

Three also for me, please. I mean, firstly, Alex can I just clarify on your comments around the particular on the outlook statement? Are you including in it some risks there for of the EU-U. S. tariffs within your 5% to 7% guidance. Is that built in some assumption of that one way or the other?

Secondly, Hélène, you talked about the high finance costs and charges in fiscal '19. How should we think about finance costs in F '20? And also on the financial side, can you tell us a little bit or give some guidance around FX impacts on the P&L for F '20?

And then just going back finally to all of the bolt-on M&A you've been doing. Should we expect the deals that you've done to date to be accretive to earnings in near term immediately as we look into 2020? And specifically around the American whiskey portfolio, you built out a number of acquisitions there over the last sort of couple of years, do you feel that you're broadly done now with the portfolio of brands that you need to access that American whiskey opportunity?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Simon, on your first question, yes, we have built in some assumptions on the potential tariff risk. These assumptions, at this stage, we would not like to share them with you. But of course, we've done what we do all the time. By the way, in these days, we do risks and opportunities analyses, and so part of the risks include some assumptions around these kind of disputes.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

Yes. Just to say, obviously, it's difficult to have a very exact view. That's why the environment is volatile. We don't have obviously information in term of timing, quantum, nor what could be the final list at stake. So that's why we are making some assumption here. For your second question in term of cost of debt. So it's roughly 3.9% this year. We believe that could be a bit higher than that probably circa 4% next year. In term of FX guidance, obviously, it's quite early in the year everything, and we didn't mention anything so far because of that, and it's obviously quite sensitive depending on the EUR-USD assumption. We are taking -- right now, the assessment we are making is slightly positive in term of impact for the fiscal year '20.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

M&A equity.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

M&A equity for earnings. I think it's small. So as we say, we are very happy to have new brands helping to strengthen our position in the U.S. and then it's great U.S. whiskey category, but it's still small brands that we will take lots of attention to protect and grow in a profitable manner.

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

Just in the interest of time, we'll just take 2 final callers, please.

Operator

For your next question comes from the line of Trevor Stirling from Bernstein.

Trevor J. Stirling - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

Two questions from my side. Alex, when you referenced putting the brakes on Martell in China, is that the classic taking price up to reduce the volume growth? Or is there something else going on as well? And second question probably for Hélène. Hélène you mentioned agave as a headwind in fiscal '19. Clearly, prices are staying higher for longer than we expected 12 months ago. If prices normalize, what order of impact could we expect on the cost of goods sold?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Thank you, Trevor, for -- on your first question. As you know we had increased our prices in Martell 2 years ago, in February, if I recall, 2017, and then we increased them again in February by 5%. We just need to be careful vis-à-vis consumer demand and so on. We never disclosed our pricing plans because it's quite sensitive. So the only point is we cannot grow double-digit our volumes on Martell. That would not be sound for the long term. So of course, you should clearly expect volume growth and therefore volume value for Martell to moderate versus what we have known this year.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

So in term of pricing, obviously, as you know, pricing is a very important part of our Transform & Accelerate ambition, what we call the revenue growth management, so we're going to keep focusing on that to have the best pricing policy and impact in our financial delivery. The COGS evolution, what we can say is that it's probably going to have as well some negative impact from headwinds in fiscal year '20. To name a few, agave is probably going to have a significant impact once again for us in fiscal year '20 and as well some significant cost in term of inflation of some commodities, could be as well GNS in India and glass, but we are implementing as well operational excellence initiative to mitigate those hits.

Operator

Your next question comes from the line of Andrea Pistacchi from Deutsche Bank.

Andrea Pistacchi - *Deutsche Bank AG, Research Division - Research Analyst*

I have 3 questions, please. The first one, just following up on -- now on the COGS on the gross margin question. You said that -- input costs agave glass should still be a bit of a headwind as was the case in fiscal '19. When you think of the other important moving parts that affect the gross margin, so country mix and pricing, how do you think of these drivers versus fiscal '19? Where I'm trying to get to is whether the 40 basis points of gross margin that you delivered this year, whether that is a sustainable level for the medium term.

The second question regarding your -- Q1 that you flagged will be soft because of the comps. One of the reasons, if I remember, last year why Q1 was strong was in China, which was very strong. You had done some early shipments already ahead of the Chinese New Year. Now Chinese New Year is about 10 days ahead think this year. So just wanted to ask whether this could be something you do this year, too. And my final question, please, on the situation from your point of view in Hong Kong and how large Hong Kong is as a percentage of your sales. And just to confirm that, I think you -- when you report China growth, that doesn't include Hong Kong. Is that correct?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

I'll let Hélène answer your first 2 questions. And just on Hong Kong, obviously, we're not going to comment other than to say Hong Kong is a small -- in itself is not the biggest market of the -- of Pernod Ricard, just to make it quite clear. Other than that, no comment.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

Yes. So maybe on the gross margin expansion, obviously, it's a bit difficult to give you visibility on this time of the year for fiscal year '20. But back to your question in term of midterm ambition, you remember that we did communicate that in the Transform & Accelerate ambition, we had this operating leverage ambition, which is circa 50 to 60 bps, subject to top line between 4% and 7%, and parts of this operational leverage could come from gross margin, but not only because we have as well some efficiency coming from the structural cost, discipline and allocation.

In term of -- to answer your question in term of mix, I think you mentioned all the drivers in term of gross margin. So positive one with pricing. But as well, mix in term of premiumization of our brands and depending on obviously on the product mix, and we had some significant positive impact in fiscal year '19 with the strong growth of Martell. So the moderation of this growth in fiscal year '20 would not had the same positive impact. And then obviously, this is the country mix. So very difficult to predict all those thing at this time of the year. We are working to improve the margin. And on top of what I just said, we have as well to offset as much as we can the headwinds in term of COGS.

For the Q1, first, I would like to say that in the soft Q1 assumption, we have as well some impact from Korea, which is going to have the kind of significant impact in this Q1. When it comes to your question for China, first, let's start with the first festive season, which is the Mid-Autumn Festival in Golden Week before Chinese New Year. On this, probably no significant impact and it's really between mid-September compared to end of September. So this should not change significantly Q1. And obviously, for our Chinese New Year, it's much too early for me to comment on this.

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

Thank you. So that brings our question session to an end. Thank you, Alexandre. Thank you, Hélène. Ladies and gentlemen, have a good day. Thank you.

Hélène de Tissot - *Pernod Ricard SA - MD of Finance, IT & Operations*

Thank you.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Thank you.