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RI.PA - Q3 2020 Pernod Ricard SA Corporate Sales Call

EVENT DATE/TIME: APRIL 23, 2020 / 1:00PM GMT

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PRESENTATION

Operator

Ladies and gentlemen, welcome to our conference call. (Operator Instructions) I must advise you that this conference is being recorded today, Thursday, the 23rd of April 2020. I would now like to hand the conference over to your speaker today, Julia Massies. Please go ahead, madam.

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

Good morning, and good afternoon, ladies and gentlemen, and thank you for joining Pernod Ricard Third Quarter Fiscal '20 Sales Call. We're hosted today by Hélène de Tissot, our Director for Finance, Production and IT. We will run through the usual format and then we will go through a brief presentation and then give you -- hand the floor to you for your questions. Without further ado, let me hand over to Hélène.

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Thank you, Julia, and good morning and good afternoon to everyone. So let's review together the sales of the 9 months of our financial year 2020. So I will start with the executive summary.

The COVID-19 situation is leading to a decline of net sales performance for the first 9 months of the fiscal year, a decline of minus 2.1%. This is the organic view. This is translating into a stable performance when it comes to the reported sales. So a decline of minus 2.1%, decline despite a solid first half in the FY '20 as well a solid start of Q3.

If we zoom to Q3 organic sales, the decline is minus 14.5%. So this is a solid underlying business performance with, I have to say, a strong dynamism in the first half, where the performance was up plus 2.7% in terms of organic growth of the Net sales and a good start of Q3 before the spread of the pandemic.

China and Travel Retail Asia have been affected from January, with resulting significant impact on Chinese New Year celebration and travel. Other markets have been all impacted by March, probably, let's say, between mid-March and end of March, with on-trade shut in most markets but up-trade remaining resilient.

COVID-19 is impacting growth of all categories. Though Specialty Brands are still very dynamic at plus 13%, and strategic international brands are resilient. E-commerce is in strong growth. We've been as well pursuing those 9 months in active portfolio management after the acquisition of Castle Brands in the first half. We have been signing partnership with KI NO BI, the ultra-premium Japanese gin, more recently, and as well Italicus which is super-premium liquor. And we finalized as well the acquisition of the final stake in Monkey 47. We are as well protecting our long-term investments in terms of strategic inventories and CapEx.

So good resilience through the crisis, with a priority given to health and safety of our employees and business partners. We've been as well helping the communities through different initiatives that I will come back to in a minute, like donation of hand sanitizer or providing pure alcohol and as well providing health equipment, our support as well to the ecosystem of our suppliers and customers. We've been as well implementing a very comprehensive global cost mitigation program everywhere to remove nonessential spend together, obviously, with an active cash management.

Talking now about our manufacturing and supply chain. This is still broadly operational with the exception of India, with a strong focus on business continuity and as well a robust management of the demand. We confirm a strong liquidity position. The amount as of 21st of April is EUR 5.5 billion. And here, we highlighted as well the credit rating that have been upgraded by 1 notch in October 2019; the repayments of the eurobond of EUR 850 million on 23rd of March; the issuance of 2 bonds on first of April of EUR 750 million each in 5 years and 10 years, and you had the indication on the coupon. And so far, we have EUR 3.4 billion undrawn bank credit lines that are available.

If I move now to the must-win markets, starting with the U.S. So a growth of plus 3%, with a good start to Q3 fiscal year '20 following a good growth in the first half. Thanks in particular to Jameson, the Glenlivet, Malibu and Specialty Brands. The growth has been slowing in March due to confinement and physical distancing measures in most states of the United States. Jameson has been impacted by the cancellation of St. Patrick's Day events but we managed to have a successful launch of Jameson Cold Brew in February. As you know, on-trade outlets are shut in most states from mid-March. Off-trade is continuing, with only some very specific closures in liquor stores in a few states. And Pernod Ricard is performing well in terms of off-trade with recent sharp growth of retail store sales, that's what we call pantry load, and good performance of core brands, in particular, Jameson, Absolut and Malibu and as well larger formats.

Global Travel Retail is performing at minus 13% for the 9 months and minus 38% for the third quarter, so severe decline from February obviously driven by travel restrictions and lockdown imposed across the world with a massive consolation of traveling. There was a solid underlying sellout pre-COVID-19 prices.

Moving now to China. The performance is at minus 11% for the 9 months, with Q3 in severe decline primarily impacted by on-trade closures that started just a few days before Chinese New Year. We had as well some earlier phasing of Chinese New Year, which is impacting Q3 figures. And all of this despite what has been a strong execution of the Chinese New Year program. In China, the recovery is slow with outlets reopening progressively. But physical distancing is impacting the revenue traffic. Absolut, in that context, is resilient, and we have a continued strong double-digit growth of the Glenlivet. E-commerce is in dynamic growth, and we have strong pricing driven by Martell.

Moving now to India. India is at plus 1% from 9 months on a very high comparable basis. We were at plus 19% last year at the same period. So solid mid single-digit growth until February on high basis of comparison, as I just mentioned, but nationwide lockdown imposed on 24th of March softening obviously the Q3 performance. Continued very strong growth of Strategic International Brands and good resilience of Seagram's whiskeys portfolios and Jacob's Creek, a strong pricing of plus 2%.

Moving now to the other key markets, starting with Europe. Europe is stable with a good performance to February, so the first 8 months of the fiscal year '20, we are at plus 2% with obviously an impact by -- with a double-digit decline in March as a result of COVID-19 expansion. E-commerce is accelerating with strong double-digit seller growth across mature markets. France is at minus 5% in a challenging environment and weak month of March following the national lockdown that took place in March. We are continuing to implement the Reconquer project to return to growth in medium term. U.K. is at plus 2%, with continued share gain and strong gin dynamism, partly offset by the value strategy we've been implementing on Jacob's Creek. Spain is at minus 2% with a modest sales decline, overall in line with the market. Business has been significantly impacted from mid-March by the closure of the on-trade and border shops. And as you know, Spain is heavily weighted in terms of on-trade versus off-trade.

Germany continued strong double-digit growth on a low comparison basis and share gains, and happy to highlight an excellent performance of Lillet in Germany. Russia is at plus 9% with dynamic sales in fast-growing spirits markets, but now the business is strongly impacted by confinement. We don't trade closed but resilience of convenience store. Italy is at minus 5%, impacted stronger and earlier, one of the first country in Europe to have been impacted by COVID-19. Off-trade remains resilient in Italy.

Americas. So Canada is stable with continued strong development of Jameson. Latin America, it's more contrasted, with a low single-digit growth with Brazil. Strong dynamism there. But difficulties in Mexico with market slowdown and on-trade closure.

Asia-Rest of World, minus 5%, with Japan at plus 2% in the first 9 months, continued strong growth driven by Perrier-Jouët Mumm, Chivas and the Glenlivet as night outlets were still open in Q3. Now the country has moved to state of emergency and we faced partial entry closures from early April. Korea is at minus 26%, stable if we exclude Imperial, for which as you might remember we transferred the distribution to a third-party a bit more than 12 months ago. So Korea, stable, if we exclude Imperial with a refocus on Strategic International Brands. But Korea has been impacted by weak month of March with partial on-trade closures.

Southeast Asia is impacted by pandemic. We've logged on measures in many countries as well restrictions in terms of movement and gathering. So this is very true for Singapore, Vietnam, Thailand and Malaysia.

Africa/Middle East is in a modest growth in the year-to-date, but now impacted by COVID-19 with a full lockdown in South Africa, both on- and off-trade since 27th of March.

If I move to the brand performance. So COVID-19 is impacting the growth of all categories though, as I mentioned, Specialty Brands are still very dynamic at plus 13%. So you have here the detail of the different category of our House of Brands. So Strategic International Brands at minus 2%. This is largely due to a decline of Q3 at minus 20%. This category of brands, we are growing in the first half at plus 4%. So a significant decline in Q3, largely driven by Martell and Chivas, which obviously have been impacted with China and Global Travel Retail as soon as end of January. Continued strong dynamism of Jameson, the Glenlivet, Malibu, Royal Salute and Beefeater.

Strategic Local Brands growing at plus 1%, so modest growth, driven by a double-digit performance of Imperial Blue and Olmeca, but as well continued strength of Becherovka and Ramazzotti on a high basis of comparison for that category.

Specialty Brands, I mentioned plus 13%, so strong dynamism, albeit softening due to COVID-19. And you have here the brands that are performing very strongly. I mentioned already Lillet, Altos, Redbreast, Monkey 47, Aberlour and our mezcal Del Maguey.

Strategic Wines at minus 2% with modest decline, with a good growth of Brancott and Campo Viejo, offset by Jacob's Creek.

If I move now to the actions and initiatives that we've been implementing both internally and externally to help in the fight against COVID-19 and its impacts. So I will start by the extensive support we are bringing to the communities with the hand sanitizers. So we have been providing 2 million liters of true alcohol across the group to try to help as much as we can the production of hand sanitizers. We have as well some manufacturing sites that are directly producing hand sanitizers. We are helping as well in terms of medical equipment, such as masks, but as well donation for ventilators, temperature detectors and all the other things that are absolutely critical to fight the pandemic. We are as well supporting hospitality workers in different means, with financial help, training and other initiatives, providing as well support in our ecosystem with our suppliers and customers. I mean supporting them as well as much as we can in terms of credit term, maintaining, obviously, our long-term buying contracts, and we are as well making donations and other initiatives with some charities all over the world.

If I move now to the initiatives that we are actively pursuing in terms of cost, cash and operations management. As I mentioned in the introduction, we've been implementing a very strict control of our costs with a very ambitious mitigation program everywhere to really track and cancel all of these spends that are not essential. So this is obviously very true for the A&P spend that are canceled when no longer relevant. We are as well strictly controlling our structure costs with a very strong discipline in every market with freeze of the recruitment everywhere and obviously cuts of travel expenses. And we are strictly controlling all the spend commitments for the coming days, weeks and months. At the same time, we want to protect our long-term strategy, long-term growth with adjustments of the strategic investments. And we are systematically checking the prioritization of those investments.

Moving to the manufacturing and supply chain. We are adapting our footprint there to have a robust management of the demand. We are, as I mentioned before, broadly operational. Implementing, obviously, physical distancing in order to protect our people with access restriction, strict implementation of WHO workplace guidelines to ensure health and safety of our people and partners, and as well when necessary, obviously, we are putting in place temporary closures if it's required. A very strong focus on S&OP process, which is absolutely critical in the uncertain environment, especially on demand management, as I mentioned. And we are -- as we are working hard on the adjustments to be made in terms of sanitary guidelines everywhere and especially in the current time where we are preparing ourselves for de-confinement, with obviously different timing depending on the country.

So I move now to the outlook. So our business model and our strategy are resilient. We have a good underlying performance as evidenced by the first half growth and the start of Q3. But overall, our business is significantly impacted by COVID-19 from Q3. You have here a confirmation of the assumption we have on COVID-19 as communicated on the 24th of March. So they are the following: China, very limited business in February and March and slow recovery from April. Travel Retail, 80% business decline from February to the end of June. And for the other markets. For the off-trade, which accounts to circa 3/4 of our sales, a 10% sales reduction from mid-March to end of June. For the on-trade, no sales from mid-March to end of June as outlets are shut or not reordering.

We are and continued implementing the strategy with this comprehensive cost mitigation plan that I just mentioned to manage COVID-19 and protect our business. And we have new estimate of the FX impact for the financial year of circa EUR 40 million on the profit from recurring operation. So we are confirming our revised guidance of an organic decline of profit from recurring operation of minus 20%.

Last, on the financial policy. As published at the end of August 2019, we have listed our priorities while retaining investment-grade rating. And the #1 priority, which is investment in future organic growth, in particular through strategic inventories and CapEx; continued active portfolio management, including value-creating M&A; the dividend distribution payout at circa 50%; and up to EUR 1 billion share buyback program across fiscal year '20 and fiscal year '21. The share buyback of EUR 523 million has been completed for fiscal year '20. The remainder of that, EUR 0.5 billion, is suspended.

For the interim dividend, it will amount to EUR 1.18 per share to be paid on 10th of July 2020, but the final dividend payment would be proposed pursuant to the Board decision in September 2020, and obviously, subject to the vote at the AGM at the end of November 2020.

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

Thank you very much, Hélène. We will now turn to your questions, please. Operator, I think you wanted to give some technical guidelines.

QUESTIONS AND ANSWERS

Operator

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

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

Another month has gone by since you provided that guidance. Clearly, it's a very fluid environment on --

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

Sorry, the beginning of your question, was inaudible. Do you mind starting again, please? We can't hear you very well, but go ahead, we didn't hear the beginning of the sentence.

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

Okay. So I've got 3 questions. The first thing with respect to the guidance that you're reaffirming today that was first communicated on the 24th of March, appreciate that has not changed that guidance, but I was wondering whether you were able to highlight how you (inaudible) is worth given the very fluid environment. The second question...

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

I'm sorry, I couldn't make out the question. So I heard it's a question about the guidance. Maybe would you mind dialing back in from another line, if that's okay? That is better. Sorry. Question is about the guidance.

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

Okay. You are on speaker, I thought that wouldn't be so good. But okay. So sorry for everyone. So the question is, since you gave that guidance, which was 1 month ago, it's clearly a very fluid environment. Is anything better or anything worse relative to that guidance that was first given on the 24th of March, which you're reaffirming today?

The second question is around levels of inventory around the business. I was wondering whether you're able to provide any quantitative or qualitative commentary as to your visibility and sort of how much stock is out there essentially at wholesale and retail?

And then the third question, it might be a little bit premature given that we're sort of in the eye of the storm of COVID-19. But clearly, you're going through a very meaningful cost mitigation program. As we come out of COVID-19, clearly, you're going to spend on structure costs, on A&P to accelerate that growth. But are there any incremental savings incremental to the Transform & Accelerate program, which will certainly be additive to your margins over the medium term once this is behind us?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Okay. Thank you. So I'll start with your first question on the guidance. So as you rightly mentioned, this was already done 1 month ago. And obviously, the situation is evolving very fast and probably everywhere. So maybe just to clarify how we built that guidance. So obviously, the assumptions that are concerned in the today presentation is a summarized view of what has been built with a more, let's say, bottom-up view with the vision market by market, channel by channel, and for the biggest geographies, even at brand level. So this -- again, it's a summarized view that you have now, with this impact of 100% on the on-trade and 10% decline on the off-trade. The assumption can vary by market.

So since 1 month ago, there is obviously, for instance, worst news in some countries. We mentioned India, which moved to a full lockdown, I think, few hours after our communication end of March. And as you know, this has been for almost until third of May so far, and it's a full lockdown both on- and off-trade. And South Africa as well has moved to this type of situation since our communication. At the same time, and I'm sure we're going to get back to that, the off-trade has been resilient in different geographies like Europe and as well in the U.S. So I would say there is some plus and minus compared to what were our assumption 1 month ago. We believe that the -- those overall assumptions are still appropriate. And that's why we are confirming our guidance, which we believe is robust in that context. But it's fair to expect some plus and minus in some geographies.

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

And so on the Travel Retail, and then before we move on to the next question on Travel Retail, clearly, you were talking about 80% decline from February to June. You're in the high 30s in Q1. We're comparing apples with pears a little bit, but is the 80% a little bit on the pessimistic side as well?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Unfortunately, I'm not sure because, as you know, there is as well for Travel Retail, some, let's say, very interesting data in terms of very significant drop in passenger numbers. And for instance, I believe the global forecast for the traffic in April is minus 81%, so very consistent with the assumption we took for Travel Retail. And on top of that, since the -- I mean, since end of March, there've been as well some very, let's say, visible measures taken by airports, for instance, to really reduce dramatically their cost with a consolidation of operations in terminals, for instance, in Heathrow, the Changi Airport announcing that they're going to shut the terminal for 18 months. So our view, to be fair, that this channel will be durably affected. And our assumption for the weeks to come is probably quite realistic, I must say.

So if I move to your second question in terms of level of inventory. So what I would like to say is that obviously, because of the timing of the impact of COVID-19, first, end of Jan in, let's say, Chinese Asia, which means few days or even hours before Chinese New Year, and then the impact in the U.S. just a few days before St. Patrick's or at the time of St. Patrick, it's fair to assume that there will be some destocking happening of the current excess stock, at least in those 2 markets. And this is incorporated in our guidance. Our aim is to finish fiscal year '20 with broadly normative levels of stock. Obviously, there's some uncertainty there, and it really depends on the pace of the recovery in the coming weeks.

When it comes to your final question on cost mitigation. So obviously, maybe let me give some content to what we've been doing right now. We are obviously focusing on all the immediate variable costs that we can strictly control and reduce. And this is obviously the priority with many other very important priorities such as obviously protecting our people, protecting our business, adapting our operation to the environment. And at the same time, as I said, focusing on this very comprehensive cost mitigation measures. So for the weeks and months to come, obviously, as you can guess, the environment is very uncertain. We are, as I just mentioned, focusing on running our business in the current environment. We're going to be quite cautious in our spending. At the same time, we want to protect strategic investments, and we're going to very carefully and closely monitor the evolution of the situation, both obviously in terms of off-trade, on-trade, the confinements and impact on the consumer behaviors.

So you mentioned as well Transform & Accelerate. Obviously, we believe our strategy is still very relevant so we're going to keep implementing it. But at the same time, as I mentioned, protect the business and be very cautious in our spending to manage the prices as best as we can and exit the prices in the best way as possible as well.

Operator

Your next question comes from Olivier Nicolai from Goldman Sachs.

Olivier Nicolai

I got 3 questions for you. Just the first one is on the pantry loading that we've seen in Europe and bartering in the U.S., are there any specific brands in your portfolio benefiting more from this pantry loading? And are you seeing any negative mix or down-trading in your portfolio in terms of brands? I know you mentioned large format doing better, but I was more referring to brands here.

The second question is just on the A&P spend. You did mention that some A&P will naturally be canceled. Can you just help us understand how much of your A&P spend, which was for the on-trade, is going to be moved for the off-trade and how much is going to be canceled essentially this year?

And lastly, you've issued 2 bonds, I think it was EUR 1.5 billion, recently with relatively low interest rate on this, low coupon. Is it fair to assume that -- I know you don't give a guidance for the next year for 2021 coupon, but is it fair to assume that we should see a much lower or at least definitely a lower coupon for 2021 compared to the 4% group coupon rate that we've seen in 2019 or 2020?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Thank you. So I'll start with your first question, which was about pantry loading. So if I may, I will maybe expand my answer a bit in terms of what's happening in the off-trade and the resilience of the off-trade. So as you mentioned, it's true that we can see some more positive trends in the past few weeks, both in Europe and in the U.S. But we need obviously to be very cautious because things can dramatically change from 1 week to the other. It's fair to say that in both geographies, just before the confinement, there was a very significant increase of the off-trades, so that's what we name pantry load. And those positive trends have been as well, to a lower extent, but still positive in the days and weeks after. So this -- which is suggesting that there's some reordering happening after the pantry load. So this is something that we'll need obviously to carefully monitor and understand to see how much this is actually consumed at home. And that's something we are looking at. Just for you to know, when we look at the consumption data, especially in the U.S., we know that a kind of significant part of the off-trade sales, I think it's circa 40%, is related to consumption in groups of 5 people and more, so -- which is as well showing that part of the home consumption could be, obviously, limited in the current environment where gathering is not allowed in many markets.

So back to your question, a positive and quite impressive pantry loading in the first days around confinement and positive trends a bit later. So what we can see is that it's probably very positive for what we call tried and trusted brands, which obviously, we have in our portfolio. So we are benefiting from this positive trend. So for instance, in the U.S., that's very true for blockbuster brands like Jameson, Absolut and Malibu. As we said, it's true that larger format are even more popular those days. And to be more specific, to the U.S., it's fair to say that the e-commerce is booming and probably as well, consumers are taking advantage, okay, of the ability they have to do kind of one-stop shop at grocery to buy at the same time, food and alcohol.

So larger format and strong performance on blockbuster brand. So for the larger format, I mean, back to your question on margin, it's true that it has some negative impact in terms of margin. But your question, I think, was as well, do you see any down-trading? And I would say, so far, we don't see that. What is true is that probably prestige brands are weaker than super-premium and ultra-premium one, but this is not down trading.

Moving to the A&P question. So to be very simple, what we're doing is that it's really revisiting all the A&P spends we wanted to do in the days and weeks to come and systematically get what is nonessential. So I would say it's not only looking at on-trade and eventually reallocating to off-trade. It's looking at everything. So another way to answer your question is that we are obviously prioritizing what could be done if relevant to the current environment, which means for instance, digital activation. So I'm not going to give you any figures because, obviously, the situation can be extremely different from one market to the other and as well from one brand to the other, but we are systematically revisiting all the A&P spend.

Your last question on the bonds, I think it's a bit too early, obviously, to tell you what could be our cost of debt next year but we'll agree with what you said. Obviously, the refinancing we did this year, one in October and most recent one, early April, should go in direction you mentioned in terms of reduction of cost of debt.

Operator

Your next question comes from the line of Sanjeet Aujla from Crédit Suisse.

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

Hélène, Julia, 2 questions from me, please. Firstly, just to understand the U.S. dynamics a bit better. You seem to be suggesting that depletions have held up, okay, in Q3 with the pantry load and reordering in the off-trade, but it seems like your shipments did decelerate in the quarter. Can you just walk us through those moving parts, please? Why did we see the weaker sell in? Are distributors anticipating already less depletions going forward? And then just a question on the -- on China. Clearly, a significant part of your business there is on-trade. Clearly, it's still early days, but do you think there's a permanent change in behavior taking shape? And I appreciate you don't have a crystal ball, but any assumptions you can make on that on-trade business stabilizing?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Okay. Thank you. So maybe some clarification on the U.S. trends I was mentioning because I was -- it's true, more commenting the figures from Nielsen and the most recent ones that are in the presentation. So it's really what's happening at the consumer level more than, obviously, depletion nor even shipments. So -- and I think, obviously, this is very important to track that in the current environment to see how consumers are behaving in those very exceptional circumstances. So that means then that when it comes to our shipments, there could be some difference as well in the phasing and how this positive news for the off-trade resilience is going to impact our top line performance in the weeks to come. And on top of that, I will repeat what I mentioned briefly a few minutes ago, which is that it would be fair to assume that there is likely to be some destocking at retailer level, especially with the timing of the lockdown around St. Patrick's Day, at a time where, especially for Jameson, the level of stock in the market is probably quite high.

Your second question on China, as you said, it's really early days but we are as well very interested to understand if there is already some change in the consumer behavior happening in China. So maybe just to clarify what I mentioned in terms of the resumption of the consumption here because it's true that people are now -- at least most of them back at work. It's especially true for other sectors. So the resumption of the entertainment industry, I would say, is a bit slower. The restaurant are reopening, but at a different pace depending on the cities. And as well, same thing, I would say, for low-energy bar and even some night clubs, but probably more in the kind of test mode. And there's probably a very low traffic still so far. That's what we are talking about, a slow recovery, very few people visiting those places because of social distancing. And probably as well the mood, which is not yet to be fully, let's say, back to normal in terms of moments of conviviality. So far, the on-trade is probably reopen at, let's say, circa 30%. As I said, it's very different from one city to the other. So for instance, a few days ago, Shanghai was probably open around 40%, 43% I think is the exact figures. It was stronger the week before. Beijing is much more close, I would say, than that. I think the amount of on-trade open is probably closer to 5%. And in the south of China, it's much more positive. Shenzhen is probably above 80% in terms of on-trade reopening.

There as well some positive signals in terms of normalization. As you know, schools will be reopening probably end of April or early May in the different cities, so normalization is likely to happen in the coming weeks or months.

In terms of consumption, what we see already in that context -- so obviously, let's be very cautious, it's really early days and as I said, the situation is definitely not normalized. But what we can see is that there's probably less appetite to have dining-out, let's say, moments. So there is a trend of preferring to stay at home or to gather with friends in more private rooms, for instance, catering has been exploding recently especially in cities like Shanghai and even very high level restaurant like 2-star Michelin restaurants offering catering program to their customers. So this is an interesting, let's say, new trend. Let's see if it's still happening and should withstand. We believe this is likely to remain, but we'll need to follow that.

Operator

Your next question comes from the line of Simon Hales from Citi.

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

I think I've got 3 questions as well, please. Hélène, you were just sort of talking about sort of the depletion of shipment trends with regards to the off-trade in the U.S. and the fact that we've certainly seen some perhaps retailer destocking of inventory supporting perhaps the pantry loading we were seeing at the consumer end. Should we expect to see some actual restocking of that retail supply chain in the U.S. and elsewhere as we move into your fourth quarter at all, do you think?

Secondly, can I ask just around the March sales growth rate. So you gave the number for Europe for it being down sort of double digits, so I estimate sort of mid-teens declines. Are you able to give a similar guidance to how much sales were in the Americas, Asia, around the group level? And then finally, if you could talk a little bit about your cash management, particularly what you're doing to support your customers and on both the demand side and from a supplier point of view?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Okay. Thank you. So for your first question, I would say, I wouldn't assume any restocking soon, to be fair. As I said, there is probably a high level of stock because of how brutal the lockdown has been implemented in many geographies and as well in the U.S. So I don't think that would be a reasonable assumption for the weeks to come.

For the March sales growth, we don't give the figures for all the markets. As you can expect, depending on the timing again of the lockdown, this is impacting those different markets you mentioned from mid-March to end of March. So what is fair obviously to assume is that most of the impact would be in Q4.

And your last question on cash management. Well, maybe let me as well, on that question, mention what is our view here because as I mentioned before, obviously, for us, it's very important to be -- to support our customers and as well our suppliers. So -- and at the same time, obviously, to be extremely dedicated to secure the cash generation of the group and as well, obviously, to secure the cash collection of our receivables. So when we mentioned the support of the ecosystem of customers and suppliers, it's about finding the right balance between being supportive and especially for the smaller players that could be more fragile. And for instance, we are in some markets, anticipating some of the payments we need to do for some smaller suppliers to help them in the current environment. And as well if need be, giving some extension in terms of credit terms for some very specific customers. So that's what I have in mind in terms of cash management for the suppliers and customers. Obviously, we are looking at cash management and all the different aspects of it, managing the working capital need, revisiting our CapEx spend with the same discipline that what I mentioned before in terms of A&P and structure cost trend, which means protecting strategic priorities, postponing what can be postponed, and at the same time as well, obviously, managing our inventory, strategic inventory and finished good inventory.

Talking about finished good inventory, because of the way the COVID-19 impacted our market, we're probably going to land with a level of finished good inventory which would be slightly above what would be, let's say, normalized level of inventory. So with some impact on the working capital need for the end of the year.

Operator

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

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

Hélène and Julia, I have 3 from me, please. Based to your experience in China and this cautious return of customers to the on-trade, is there any reason to suggest that your customers in Europe and the Americas will behave any differently? Would you expect that same cautious return when lockdowns are hopefully lifted in those countries?

Secondly, it seems like a long time ago when we were talking about taking 2 weeks of stock out of the U.S. warehouses, and you mentioned that you're expecting your stock level to return to around a normal level by the end of this financial year. Can we assume that would mean a normal level, including the reduction of the 2 weeks worth of stock levels?

And do your current results, end of Q3, take into account that blocking, taking 2 weeks out of the stock? And then finally, Travel Retail is obviously very highly impacted and will continue to be for the next few months, maybe longer. Would you generally expect that spend to shift elsewhere if people are not traveling? Would you expect them to purchase those product or gifts in other channels? Would you expect that to simply be lost sales?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Thank you. So on your first question, well, it's a very interesting one. Do we believe that this cautious return we are seeing in China will happen in other places? I would say probably yes and no. Meaning that, obviously, the cultural aspect of the different countries could be very relevant in terms of how people will behave at the end of their respective confinement. So meaning that, that could be very different in Western Europe or in the U.S. compared to China. At the same time, there is probably going to be some similarity in the way the end of the confinement is happening in all those places, especially in terms of physical distancing and protective measures, which could impact for a short period of time hopefully the way our consumers are back to consumption. So for instance, if we had some limitation of capacity in the on-trade as it is happening -- as it was happening as well already a few weeks ago in China, this would obviously have some impact as well in another geography. So I would say it would depend probably as well and how systematic those type of physical distancing measures will be put in place.

Your second question relates to the level of stock in the U.S. So as you rightly remind us, we did this reduction of the wholesalers inventory last year. And as we mentioned already at that time, our intention was then to keep the level of inventory and not restocking. So obviously, this is still our intention. And as I mentioned before, this is -- let's say, this was included when I mentioned before that we want to finish the year with a healthy level of inventory in the key geographies. So for the U.S., including this 2 weeks, obviously, this will depend on the demand in the weeks to come, but this is our assumption.

For Travel Retail, that's a very good question as well. I would like to say, hopefully, yes. It's probably not as straightforward as what can happen, for instance, in luxury. But it's fair to say that some of those purchase will probably move to other occasions. Let's see.

Operator

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

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

Hélène, I think firstly, my questions have been answered, but maybe just one quick follow-up. You talked about on-trade and some of the channels inside the on-trade in China LM. What about the KTVs, both for family KTVs and the traditional ones. Are they opening, too?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

And should I wait for another question or is that your only question? Sorry.

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

That's my only question, Hélène.

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Okay. Thank you. So well, in our assumption and as we built in China, we always assumed that a part of the on-trade could be a bit longer in terms of recovery for specific reason, and that's exactly the case for KTVs. And those specific reasons are that many of those employees working in those outlets usually are coming from other cities than the big cities where we have our KTVs. So it's taking time for them to be back to work and to feel comfortable to go back to those, let's say, bigger cities. So that's probably the type of outlets that would be the last one to normalize, I would say.

Operator

Your next question comes from the line of Chris Pitcher from Redburn.

Chris Pitcher - *Redburn (Europe) Limited, Research Division - Partner of Beverages Research*

Two from me. Firstly, yes, obviously, we've got a month you're making 0 revenue given the lockdown. But how are you thinking as and when that lockdown seems relaxed, do you see pent-up demand coming back into the market? Are you able to produce accordingly? Do you have stocks to meet that, if that's the case? And then secondly on your cash flow management, you talked about maintaining sort of CapEx in strategic investment. Can you sort of briefly, (inaudible) I think in CapEx was going to be 5% as sales is going to be lower than when you were guiding to that. And I think you were talking about EUR 300 million of strategic investments. Can you give us a bit of what you would be expecting to spend in the current environment on both of those?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Can I ask you, sorry, to repeat the first part, we didn't hear that well. So which market were you referring to on your first question? Yes.

Chris Pitcher - *Redburn (Europe) Limited, Research Division - Partner of Beverages Research*

So in India, you've got a complete supply of stock in your article I imagine at the moment. But how are you thinking about India when the liquor stores open again? Do you think there will be significant pent-up demand? And do you have the stocks if you're unable to produce to meet that demand if it returns?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Yes. Okay, thank you. So I will start with India. As you mentioned, in India, the situation is, let's say, even worse in other geographies because of this full lockdown, which is as well stopping us from producing in our different sites. So we'll have -- we have some stock there, but with obviously some limits. So let's see how could we start and how fast can we start again the production in the countries to obviously try to be as efficient as possible once the end of trade will reopen. This is a market which is heavily off-trade, as you know. So that's a good question. There might be some lead time to be back to normal in terms of operation, but that's obviously something that we are already trying to prepare, to be as efficient as possible as soon as we have the authorization to run our business.

Your second question on cash. So maybe let me be a bit more specific on the strategic investment because as you rightly mentioned, our working assumption that we shared with you almost a year ago was this EUR 300 million strategic inventory and as well we are talking about circa 5% CapEx in terms of ratio. So as I said in the mitigation program, everything is revisited, including CapEx and strategic inventory. But to be fair, we are already in April. And obviously, we've been investing to support what was a very strong growth until very recently. So there will be some postponement and savings on both lines as much as we can, as I said. As for the other spend that I mentioned before, I won't give you the exact figures. And it's fair to say that the level of net sales will be obviously very different from what we assumed. So I don't think talking about ratio would be very relevant for the year in terms of CapEx, but in terms of value, that would be less than what we wanted to spend a few months ago. And for the strategic inventory, we are as well doing our best effort to reduce the investment here. But at the same time, there is some negative impact because of the lower usage of those inventories because, obviously, of the drop of demand.

Operator

Your final question comes from the line of Richard Withagen from Kepler.

Richard Withagen - *Kepler Cheuvreux, Research Division - Research Analyst*

I've got 2 as well. How do you expect consumer demand for premium brands to develop after the coronavirus is behind us, but obviously, the economy will be in a completely different shape?

And then the second question is, Hélène, you talked about the supply chain, obviously, but you export a lot of products to various end markets. Have you seen any disruptions in these exports at all?

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

Sorry, Richard, the line broke up. We didn't quite get the second part of that question. Do you mind reformulating, please?

Richard Withagen - *Kepler Cheuvreux, Research Division - Research Analyst*

Yes. The last question was on the supply chain. Obviously, there's a lot of exports of products to go to various end markets. Have you seen any disruptions in these exports at all?

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Okay. So I'll start with this one. So as I said, this has been one of the very strong focus on the very first days of the impact of COVID-19 to really try to protect our business with a strong supply chain. So there was nothing significant in terms of disruption so far.

Your first question, yes, on the premium brand. So I would say it's probably even a broader question about how resilient premiumization can be. We believe that premiumization, obviously, has been ongoing for many years, even in the previous, let's say, tough times, for instance, in 2008, 2009. So sometimes there could be some, obviously, glitch. But premiumization trend has been then accelerating so we believe this is still a very valid and resilient strategy, I must say. What is as well important to have in mind is that if we talk about recession, one of the probably best safeguards I can think of in terms of safeguard against recession is the geographic footprint we have in many markets as well, the diversity, obviously, of our products, head of our consumer profile. And on top of that, back to the financial crisis in 2009, we see that volumes have been quite resilient quite shortly after the crisis.

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

That brings us to the end of our call today. Thank you very much, ladies and gentlemen. Thank you very much, Hélène.

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Welcome. Thank you.

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

So don't hesitate if you have any further questions, to reach out to Charlie or myself. Have a good afternoon or morning wherever you are.

Hélène de Tissot - *Pernod Ricard SA - Member of Executive Board and MD of Finance, IT & Operations*

Thank you all, and stay safe and stay home so far. Thank you. Bye.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.