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RI.PA - Pernod Ricard SA North America Conference Call

EVENT DATE/TIME: MARCH 10, 2020 / 1:00PM GMT



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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to today's North America conference call. (Operator Instructions) I must advise you, the conference is being recorded today, that's Tuesday, the 10th of March 2020. Now I'd like to hand the conference over to Julia Massies. Please go ahead.

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

Good morning or good afternoon, ladies and gentlemen, depending on your location. I'm delighted to welcome you today to our North America call for fiscal '20. We're hosted today by Ann Mukherjee, who's our new Chair and CEO of North America as of just 3 months ago. Excited to have Ann here present to you today. She will take you through a brief presentation and then move on to your questions. Without further ado, let me hand over to Ann.

Ann Mukherjee - *Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America*

Good morning, everyone. What a pleasure to be able to speak to all of you this morning. It truly is a wonderful opportunity to represent Pernod Ricard and to give you kind of my early insights as I've come into the company, as Julia mentioned, over the last 3 months.

Clearly, you can see from my background, I am a very passionate brand builder when it comes to creating sustainable businesses. That is one thing I'd love for you to take away is I believe that building brands is what builds sustainable business growth. That is where my career has been, and I've always been a very commercial-oriented leader. And especially with my training at PepsiCo coming into Pernod Ricard, my ability to really leverage how to execute within a 3-tier system is something that is near and dear to my heart because of my training and executional capabilities. But most importantly, where I get my passion is really operationalizing strategies such that people can really execute with excellence.

As we move on, I would love to say that North America is a must-win market, as you all know, for Pernod Ricard. This is a market that has been growing very strong, slightly ahead of the long-term trend. And as we move forward, we continue to see positive growth momentum across all of North America. I'd like to spend 1 minute on the next slide to talk about our Canadian market.



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We continue to see very strong commercial performance, not just from our international brands, but I'm happy to say they've restaged and repositioned the J.P. Wiser's Canadian whiskey brand, and that also is continuing to do some really great performance for the company.

As we move to the next slide, as you can see from latest trends, we're seeing the category grow circa around 4.5%. A little dip in the most recent period, probably driven a little bit by a slowing of innovation that we're seeing in the category. But ultimately, underlying the trends, we continue to see very, very strong fundamentals.

If you move to the next page, you can clearly see that there are some segments that are driving some very impressive growth, whether that be in the whiskey, tequila, cognac segments as well as a little bit of an uptick in the gin segment as well. Now what's really interesting about the U.S. market, as you may all know, on the next page, is that 4 states really represent almost 35% of the U.S. spirits market: Florida, California, Texas and New York.

And keeping all of that in mind, if you go to the next page, I would love to give you just kind of a headline around how I see the opportunity here at Pernod Ricard North America. The great news is, a few years ago, as the company launched its accelerating transformation strategy, we've seen growth come up in the U.S. market almost growing at the rate of the market. So we've seen some great progress. The great news is, I think we can write the next chapter of that growth and now cross the threshold over the time period to start beating the market. And I think it's really across 4 areas. First, as we have been shifting more from a brand-centric to a consumer-centric company, I think in today's world, around predictive analytics and really understanding the science of what is predictive of choice, both for the consumer as well as the shopper being able to build that science into how we operate the total business is a great opportunity.

Second, as we think about speed to market, really simplifying and continuing to work on simplifying our ways of working, especially with our wholesaler partners and really working hard to take that complication or kind of how we plan with them and operate with them to get to greater speed of market.

Our third opportunity clearly is our incredible portfolio and maximizing growth across that portfolio by understanding where our brands can play incrementally. And then finally, as I've talked before, everything is done at the shelf or at the bar and that flawless attention to execution and operating such that we win every single time when it comes to that shopper or drinker choice is going to be absolutely key.

Now as we move on, I don't want to be remiss without talking about our commitment globally to our sustainability and responsibility strategy, which I know many of you have heard about. Something I'm very proud to be able to be associated with. And just to give a couple of examples in terms of how we here in North America continue to push that agenda, it may be a little bit biased, but I'm very proud of our quality in future leadership that we have taken on. We do not have any issues on gender wage gap disparity, and that's actually been taken by external audit in terms of making sure that we are on par with gender equality when it comes to pay.

And also, from a biodiversity perspective, 100% of our California wineries have been certified sustainable by the California Sustainable Winegrowing Alliance. So we continue to push on all measures when it comes to sustainability and responsibility.

On the next page, many of you have seen this, we have a very impressive portfolio that has wonderful opportunity from growth as well as pushing our capabilities around innovation. Let me go into a little bit more detail across that portfolio, starting with, of course, our pride and joy, our jewel of our portfolio, Jameson. And what's so exciting about working on this brand, just like big brands that I've worked out in the past, multibillion-dollar brands, every brand has an opportunity in its growth to reach the next S-curve of growth, and that's exactly where we are with Jameson. We have the next opportunity to build growth on this business.

And as we think about how we're going to do that, it starts with not just a great brand in and of itself and how we continue to build that story, but expanding into very meaningful innovation. And we're very excited about our latest innovation with cold brew. It's doing very well, early read, and that is the way I think Jameson would do an innovation around flavors.

We, of course, have lots of opportunity for growth when it looks across all our states. We still have opportunities to grow, especially a great example of that is Texas, where Jameson is still a very fast-growing business for us. And in states where we do see a higher penetration, understanding



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adjacencies from which we can source volume to continue to grow Jameson is our next opportunity, so I'm excited about how to write that next chapter for Jameson as we unlock further growth.

As we move on and go to Glenlivet. As you know, scotch is a great category, and I'm so proud of what the team has done with Glenlivet, fastest-growing scotch in the segment. And what's great about this is the brand is really beginning to break barriers. And as we see younger consumers, the millennial generation, trying to understand how to drink scotch, Glenlivet has done a wonderful job through its innovation portfolio to be able to help people do that. And we're seeing not only younger consumers, but actually women drinking in the scotch portfolio. Very, very nontraditional and women are looking to do so and Glenlivet has been the brand of choice. And we have some exciting innovation coming in with our Caribbean cask Glenlivet, which is finished in rum barrels, and so we continue to create new taste profiles for this younger generation to enjoy.

Moving on to Martell, a beautiful brand in our portfolio. And of course, cognac is on the rise. We've seen some very good launch, early launch, on Blue Swift. We continue to try to build that brand, but here's what's really exciting about it. It's really much more the momentum that we're seeing is, again, with younger consumers, especially Asian Americans, which is not a surprise, but also African-American consumer. Quavo has been a great celebrity spokesperson for the brand. And as we continue to grow this brand for the future, it will be critical for our portfolio.

Moving on to an incredible portfolio that we have in our premium tequila and mezcal. Once again, this is a booming category. We're seeing this segment grow for us as well. We've got some great marketing behind all of these brands and a wonderful story in how we're leading the way in mezcal. So this is a very incredibly important segment for us.

Going to our next brand, one of the reasons I actually joined Pernod Ricard, which was our own Absolut. This is a brand that I really cut my teeth in marketing many, many years ago and talk about the next S-curve. This is not just a vodka brand, this is a brand of culture. And as you know, as I've come on, one of the things that has been very important to me is to bring back that timeless story when it comes to Absolut. This is a brand that has always been about a brand of culture, the proverbial door that is open at Studio 54 to allow the disenfranchised to be heard and seen and accepted. And so while that story is great, today's generation needs to understand what that timeless story is in a meaningful way for them. And that's exactly what we did with our Gen Z consumer this Valentine's Day. This is a generation that is very conscious in their drinking, responsibility matters to them and most importantly, they collectively want to make change and create movement. And that's exactly what we did with this timeless story of Absolut. When we came back and talked about not just drinking responsibly, but what does that truly mean in today's world of consent. And it's a very gray area and really telling people what we should be talking about and having them talk about it was a very important thing that we needed to start back up on Absolut. And we continue to innovate across this brand, and we have a great spokesperson as we have launched our Absolut Juices with Lizzo. She is absolutely and squarely in this generational set. And as we start building these plans up for Absolut, I feel very, very optimistic about where we can take the brand in terms of bringing back its incredible glory.

Moving on, Malibu, a fabulous brand. Rum is not necessarily that big of a segment that's growing, I mean, but Malibu has done a fantastic job in terms of bucking the trends and continuing to grow very, very nicely. This is a brand that represents summer and optimism and something that is very important to this younger millennial and this Gen Z consumer. So we continue to see fabulous results from this, and we've got new innovations coming out around strawberry that we're very, very excited about.

Last, but certainly not least, the incredible portfolios that we have across, first, our American whiskeys. What a great portfolio this is. These are brands that range more from a regional TX brand to a fully national brand around Jefferson, crossing many price points and segments. This is an incredibly important segment for future growth. In addition, we have a fantastic Irish whiskey lineup with our spot whiskey line, Redbreast, Midleton. So when we think about not just Jameson, but the entire Irish whiskey with the segment, we have an incredible portfolio.

And then finally, premium gins, we know that we're seeing that uptick on gin and whether it be Monkey 47, which is doing amazingly well. And we, of course, have Malfy. We just, of course, bought some stake at a Japanese gin you might have heard about. So this continues to be a strong focus for us as well.

So hopefully, as you kind of overview where we are as a business and where we look to go, you can really see an incredible portfolio set up for growth as to where the market is growing. We're continuing to build on our capabilities and write that next chapter. And ultimately, with the 2 combined and the great people here at Pernod Ricard, we have strong aspirations to continue that next chapter to beat the market.



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And with that, I'll turn it over for questions. Thank you.

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

I've got 3, please. The first is on the slide where you talk about the consumer-centric mindset. And I think you flagged that you're looking to shift from a brand-centric to a consumer-centric model. I was wondering whether you can give some examples of specific behaviors that you're hoping to introduce into the business is the first question. The second question is around the portfolio. You mentioned you've got the right portfolio to be a share gainer within the U.S. I suppose my question is really around levels of investments. Have you got the right level of investments? Or is it a case of using the existing investment and reallocating resources or spending differently amongst your brand portfolio?

And then the third question, it would be sort of remiss of me not to ask the question, so apologies in advance. COVID-19, appreciate it's not as prevalent in the U.S. at the moment. So I was hoping to get your early feedback on the move from wholesalers and retailers on the virus.

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Great. Thank you. Thank you for all 3 of those questions. Let me address them one by one. So first, let's start a little bit around what does it mean to be a much more consumer-centric and shopper-centric way of operating the business. So first and foremost, I think what I've learned with my history in this is that when you think about what drives purchase, what drives consumption, it is actually not as simple as we think. It's really context that drives it. And understanding the why of an occasion becomes very critical because we as consumers are not single-minded. Context will drive how we behave and what we consume. So you might drink a certain way when you're home alone, and it's kind of an unwinding moment. But when you're at a party, you might drink absolutely something very differently or you may be at a celebratory moment and you might want to choose something differently. Understanding the predictive science behind each one of those occasions and understanding what is the drink of choice in those occasions is how you architect your portfolio for growth. So not only do you need to be a great brand, but ultimately, what you need to do as a company to grow incrementally across your portfolio is to be the portfolio of choice when it comes to all these various occasions. And from a shopper perspective, a lot of people confuse just understanding the consumption moment to understand the shopping moment. They actually are very linked, but you have to understand from a shopping moment, you might need to understand what the price pack architecture may need to be. What is the promotion strategy, times of year? So you have to architect for both sides to be able to unlock that consumer and shopper-centricity.

From a portfolio perspective, we continue to look to invest behind our A&P here in North America. We are looking not only at our current investment, which as many of you know, we've increased almost by 200 bps over the last couple of years. We are now much more competitive than we used to be. Even with our current existing allocation, what we also want to look at is, are we maximizing each dollar for ROI? And so do we need to move more and more into working media? And so we continue to look at those choices, but then also look at continued increasing our investment as we move forward to beat the market.

And then finally, this unfortunate situation that we're in worldwide on the virus. We are watching it very, very closely. And we are looking to make sure that we are not only protecting our employees and everyone that we work with, but as we see these first cases come in the U.S., our priority remains to protect our business partners, our employees. And currently, we are open for business and we are operating as normal, though smartly. We have curtailed travel for noncritical business reasons. And while we are expecting to see somewhat of a negative impact, it's really too early to assess what that will be. We are closely monitoring it, literally day-by-day and staying agile and nimble as we plan for the rest of the year.



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Operator

And your next question comes from that line of Oliver Nicolai from Goldman Sachs.

Jean-Olivier Nicolai - Goldman Sachs Group Inc., Research Division - Equity Analyst

Just got 2 questions, please. Looking at whiskey, there's been about 4 local brands, premium brands, in whiskey. Jameson, obviously, continue to be strong and The Glenlivet is seeing more marketing support. Is there any space for Chivas Regal in your portfolio in the U.S.? That will be the first question.

And just to follow-up on the previous question from Ed. Could you just remind us what the split on off-trade in terms of sales in the U.S.? And which brand is over index in the on-trade channel compared to the average of your portfolio?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

I'm sorry, can you repeat the second part of your question? I'm sorry.

Jean-Olivier Nicolai - Goldman Sachs Group Inc., Research Division - Equity Analyst

Sure. The second question is the split between on and off-trade in terms of sales for your portfolio in the U.S. and which brand is over-indexed in the on-trade channel for instance?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Got it. Got it. Okay. So absolutely, Jameson and Glenlivet will continue to be very, very strong brands for us as we move forward. On Chivas Regal, and I think the whole segment, when it comes to the segment around blended whiskeys, I think this is an area that not just for Chivas Regal, but I think for the industry, people are trying to figure out what's the next step of growth. And so for us, we consider this to be one of our bastion brands. It is, of course, a brand in our portfolio that has great heritage and as we look across how we prioritize across the scotch and whiskey portfolio, we will continue to see that as a bastion brand.

Now on average, on and off-trade, what we see is that 75% of the business tends to be off-trade, 25% of the business on-trade. And we all know how important on-trade is as a way to almost advertise for in-home consumption. A brand like, for instance, Jameson is very close to that ratio. But more of the up and coming brands that we see in terms of Monkey 47 or some of our American whiskey brands, you'll see a little bit more on the on-premise because they're still building that awareness. And so our strategy when it comes to on-premise and bartender strategies become very important as we grow those businesses.

Operator

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

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

It's 3 also from me. Firstly, I was wondering if you could give us like the key things you want to take away from Frito-Lay and put into the Pernod business in North America.

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Secondly, at the moment, you're tracking slightly below the U.S. spirits category. And I was just wondering what are the key reasons you think that, that lag has happened and what you can do to turn that around in the near term.

And then thirdly, regarding the U.S. whiskey portfolio. Historically, Pernod has said that it didn't want to buy any U.S. whiskeys because Jameson operated in a very similar moment of consumption but now, obviously, that has changed. I was just wondering what's changed in that thought process in order for you to purchase those U.S. whiskeys?

Ann Mukherjee - *Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America*

Absolutely. Thank you for your questions. So I think my biggest lessons from Frito-Lay -- and I will tell you, PepsiCo was an incredibly great place for training. As many of you know, Frito-Lay is the driver of a lot of the profits for PepsiCo worldwide. So the discipline that I learned at Frito-Lay in terms of operating the business and what I would tell you is what I learned there is when you're a leader, you operate absolutely from the front. No detail should be overlooked. And what I've learned at Frito is if you can bring the smart into speed, there is no stopping you. And so the smart comes from understanding, again, portfolio strategy, building brands that pull off the shelf, such that the DSD organization at Frito-Lay can, with its incredible power at store level, be able to architect those brands for growth. And the executional kind of excellence that you have to operate at Frito, you have 27,000 drivers around the country, you cannot get any part of the operating system wrong. And the ability, therefore, to connect brands all the way from what I call media, all the way to shelf is kind of what I will bring to Pernod Ricard. And what I would also say is that similar to the 3-tier system, you have to have brands that pull off the truck. And whether you own the route to market like we did at PepsiCo, or we are in a 3-tier system here at Pernod Ricard, every one of our brands have to be pulled off that truck. And so really being able to architect that across the system is what I think I can bring to Pernod Ricard.

When it comes to our business in the near term, we've made a lot of progress, I will tell you, over the last 3 years. And clearly, there is room for opportunity. So I'd like to think I'm here to be able to help the company get to that next level of growth. But in the short term, what we definitely want to focus on is stabilizing Absolut. And my passion for that brand is where I think that will start. I think we need to write that next S-curve, as I've said, chapter of growth for Jameson, and we have these incredible growth relays that we now need to start architecting for that incremental portfolio growth, as I said, by understanding the science around occasion and pulling apart our portfolio, which leads me exactly to your last question around U.S. whiskeys. I think as Pernod Ricard has moved more to a consumer-centric way of looking at the business, I think it was very, very smart on the part of Alex Ricard and the management team to say that it's now really more important to not only grow Jameson, but to start growing the whiskey portfolio in other occasion where American whiskeys may be more prevalent and more important. And so I think that opportunity to go out and get these incredible promising new brands and get them at the right price points because if you will notice, some of these American whiskey brands are at a much more premium to Jameson, and there are occasions where people are looking for those more premium, ultra-premium occasions. So I think that's why rounding our portfolio in the whiskeys is so great. And given that this is a growing part of the category, I think we're very, very well positioned.

Operator

Your next question comes from the line of Sanjeet Aujla.

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

Firstly, this time last year, the business went through a wholesaler inventory optimization process. I think the rationale of that was to free up working capital for wholesalers to reinvest in the portfolio. Have you seen that reinvestment come through? And if so, why haven't we seen a growth acceleration over this fiscal year from a sellout perspective?

My second question is on Jameson. You suggested in your presentation, we could see more flavor extensions going forward. How do you ensure that is incremental and doesn't cannibalize the core franchise? And when you're expanding Jameson into lower penetrated states like Texan -- like Texas, where are you sourcing the volume from? Is that coming from other whiskey brands, particularly bourbon?



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Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Yes. Great questions. So let me first start with our wholesaler optimization on our inventories that we executed last year. About 2 weeks of inventory basically came out of the system for our wholesalers, and we did that not from a working capital perspective, but really because we wanted to try to be much more sophisticated when it came to how we managed our supply chain. And this goes back again to the flexibility and agility that I was talking to before. And so our ability now to move faster within that supply chain system of our wholesalers becomes key. And I think as we'd start to put together how we want to start leveraging our portfolio to be able to do that and have that flexibility with our wholesalers becomes important. They have a lot of complexity in their system. And so for them to take on more of our portfolio to get that through the system, it becomes really important. And if we had not done that reset when it came to inventory at our wholesalers, that would have been very, very difficult to do.

On your second question on Jameson, let me be clear, I am not one that believes that innovation for the sake of innovation. Innovation has to be incremental to the portfolio. And whether that's to extend your current drinker for another purchase or to be able to source volume from adjacencies, that becomes very, very important. And what you will see on Jameson is very thoughtful innovation, whether it be on the flavor side or the segment side. And as you will see with cold brew, this was not just any flavor. We didn't copycat a flavor that was doing well in bourbon. We went back and really thought through what would be an appropriate flavor extension for Jameson. And what we're seeing in terms of coffee trends among millennial consumers and Jameson and the heritage of Irish coffee, being able to build that into a brand equity that matters, that's the kind of innovation that we plan to do on Jameson.

Now cold brew is very early to call. We are targeting these new occasions of coffee drinkers, but we think that was a smart way of going about it. And when it comes to Jameson in Texas, this is a very, very well-developed whiskey market, as you all know. And yes, we are looking to source our growth from some of that whiskey market that is out there. You have a lot of, as you know, migration into Texas. You're seeing a lot of young millennials come into that state. They are looking for variety. They are looking for Jameson, which is kind of a drink of choice among millennials. And so as we look at kind of how the state is shaping from a demographic perspective, Jameson will be well suited to take advantage of that growth.

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

Got it. And just a quick follow-up on tequila. Your portfolio seems to be more skewed towards the super premium segment. A lot of the growth is coming out of ultra premium. Do you think you've got a gap there from a price positioning perspective?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

You're absolutely right. I mean it's great to see the resurgence of tequila in the industry. And I really think our greatest opportunity when it comes to ultra-premium tequila is our Aviión Reserva 44. That business is doing extremely well for us. And back again to that focus in the tequila segment having both something in super premium and ultra-premium without having to add a lot of brands becomes really important. And so having Aviión across those price points all the way up to ultra-premium is really important for us.

Operator

And your next question comes from the line of Richard Withagen from Kepler.

Richard Withagen - Kepler Cheuvreux, Research Division - Research Analyst

Can I ask 2 questions, please? Ann, you say you are committed to meaningful change. So on the commercial side, where do you see the biggest opportunities for Pernod Ricard in the U.S.?

And then the second question is, how do you use the data intelligence to improve performance on the various enablers that you mentioned on the slide?



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Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Great. Let me start with the first question. I think, again, from a commercial perspective, what I talk about when I talk to operationalizing strategy, this is all about better connection from marketing to trade marketing to sales operations to sales strategy and execution. Being able to actually wire that seamlessly across the organization all the way into how we partner with our wholesalers, such that it feels like one absolute team. And so the devil is in the details and making sure that we have architected that system of commercial optimization is going to be the next chapter that we're going to be writing. The great news is we have incredible talent. We have incredible tools. Now it's a question of wiring all of that together for flawless execution. The other thing that I would say is, to your second question, which also is a part of the first, data intelligence will be incredibly important in how we do that wiring, and it really starts with what I've talked about before. If you do not understand how consumers consume your brands, whether that be on the off or on-trade, and if you don't understand what is predictable about what -- how they shop your brand, you won't know exactly how to optimize that wiring.

So the underlying science that we need to bring into what I'll call both the art of brand building and the kind of rigor of executing will be a big miss. So that will be the very first part of that predictive analytics that we will bring in. But then in today's world, overlaying that with data analytics, AI capability to understand then how do you use that to leverage how you media buy and how you segment one-on-one on a mass basis, how do you do account segmentation to understand in-store what are the tactics that you can take that are more predictable in terms of store performance. So those, as I said, all the way from brand all the way to execution and you have to have the right set of analytics and data to be able to underpin all of that for execution and further growth.

Richard Withagen - Kepler Cheuvreux, Research Division - Research Analyst

And as a follow-up on that, in terms of data collection, I mean, is there a lot of own data that you can use or the data that you get from distributors or from other third parties?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

The answer is yes, yes, yes and yes. And it's more important in today's world. Data is not difficult to find. It's actually making data actionable such that it gets to a desired outcome that makes your results predictable. And I think that's the journey we're going to build here at Pernod Ricard. We have incredible data sources from our suppliers. We have incredible methodologies that allow us to get the quality quant understanding of our consumers and our shoppers. There's incredible data out there in terms of media and the ability to stitch that together in a very simple, not complicated way that our frontline can easily use is the key to all of this.

Operator

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

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

A couple of questions, please. Firstly, on Absolut, you're showcasing another new campaign to try and sort of stem the losses in the brand. And how should we think about Absolut under your stewardship? What is success for you in 3 to 5 years? Is it stabilization? Is it return to growth?

And then secondly, on the cognac business, could you give us a sense what the mix of the business is now between the key brands like Cordon Bleu, Blue Swift, et cetera? And where do you think most of the growth is going to come in cognac? Where are you going to fight the battles there?



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Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

So let me start with Absolut. I would tell you that the latest act that we came out with at Valentine's Day is what it is. It is a act of Absolut signaling to its consumers and lovers that Absolut is back. I would tell you one of my main focus is, in Absolut, is to bring this brand back to stability. We are competing in a segment today, which is largely flat, pretty much the growth of Tito's has extracted all growth out of all other competitors. So for me, it's really about understanding how to bring Absolut back as a brand of choice. Not just to source from within vodka, but to understand where we can source from other occasions that Absolut would fit. And you will see over time, over the next few months, bringing back a strategy for Absolut that goes back to its timeless days about being a brand of provocation. So our consent act that I'd like to say, was our first kind of shot off the bow. But there is much more that we are going to build to bring this brand back to its former kind of brand's timeless story.

When it come to cognac...

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

Is the time set on that? I mean do you campaign a year, 2 years to work?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Yes, I would say within the next year, you're going to see a new campaign on Absolut. That's what we're focused on right now. And so this is -- remember, on week 11. But our hope is in the short-term to be able to come back out and talk about Absolut in a way that matters. And then, therefore, in our near term, we hope to see us begin to start stabilizing that brand. And of course, when it comes to cognac, we have an interesting mix. Blue Swift is roughly 35% of our business and if you look at Cordon Bleu as well as XO, it's probably another 50% of our business. But where we think the opportunity is, is more on the value side. That's our priority 1 when it comes to Blue Swift. Why? Because we think there is a younger, more contemporary drinker that is out there. They need a more opening kind of way to enter cognac, and we think Blue Swift is absolutely that. So that's where you're going to see a lot of our focus moving forward when it comes to cognac.

Operator

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

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

Yes. I also have 3 questions, please. First, could you talk a bit about the on-trade, how it is performing versus the off-trade in your portfolio? And is there anything you think you need to do differently in this channel?

Second, about the stabilization of Absolut. To what extent do you think you'd be prepared to reallocate marketing spend towards the brand in order to stabilize it? Or is it more about, as you're saying, doing things differently on the brand but without more spend behind it?

And third one is a question, please, on COVID-19. Again, what flexibility do you have to potentially hold back marketing spend at very short notice should you see a deterioration in the top line? Or more generally speaking, flexibility to hold back costs.

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Great. Thank you so much. When I think it comes to both our on-trade and our off-trade business, what we're basically seeing is 2 very different types of our business. When you -- let me start with off-trade first. What's interesting about off-trade is where we're seeing disproportionate growth is really kind of in our chains business. It is 2x that of the market. And given my CPG background, the chain is something I understand extremely well. And it's a very different way of selling that I think traditionally people have seen in this category. Having said that, I think when it comes to



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our on-trade, we're slightly below average when it comes to that growth. But this is back to why we need to understand a very good portfolio strategy because the strategy that we will see on-premise from a portfolio perspective will be different from the portfolio strategy that we'll probably see off-premise. And so therefore, driving executional strategies on-premise with portfolios that matter. And these are what I'll call your more persona brands, brands that people want to talk about, bartenders want to mix cocktails with. Really understanding and segmenting those accounts based on our various segments will be very key in really unlocking further growth in our on-premise. And going back to Absolut, what I would tell you is, I absolutely see Absolut stabilizing over the medium term. It is, of course, one of our bastions, but I will be looking to reallocate A&P within our Absolut franchise. I think in the past, we probably spent across different Absolut brands and flavors and so consolidating that spending around the mother ship of Absolut, around Absolut Blue, will be absolutely key because that will actually halo to the broader portfolio as opposed to the other way around, which is people thought that different parts of the Absolut portfolio might halo back onto Blue. We're learning, of course, that's not the case. So I'm really looking forward to rebuilding Absolut the right way.

And then finally, from a COVID-19 perspective, again, as I said, it's very, very early to call. And the good news is, we do allocate our P&L. And we do hold costs on a variable basis where we can, especially on the A&P side, but it's really critical that we protect our investments. That's the way we are looking at it. Now if there's an investment and we're spending against something that will not give us a return, if we need to reallocate that, we will absolutely look at that. But we will closely monitor this with tariffs because it's really critical that we continue to invest around the U.S. market and continue that growth despite what we're seeing in the virus right now.

Operator

Our next question comes from the line of Alicia Forry from Investec.

Alicia Ann Forry - Investec Bank plc, Research Division - Consumer Analyst

Just 3 quick questions. One, I was wondering if you can update us on how tariffs have impacted the single malt category in the U.S. and if consumer behavior has been impacted. And what has The Glenlivet done to navigate that change so successfully?

And then secondly, I wonder if you can give us a sense of the scale of those future growth stars within the North American business. Are we talking 5% of the business? 10%?

And then thirdly, you've talked about the outlook for accelerating the top line and a bit about marketing investments potentially going up. Is there anything you can say about the implication for margins in the business there as you accelerate the growth further?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Great. As you all know, we, along with the industry, have faced tariffs. Predominantly, 25% on our single malt, and that has, of course, impacted both Glenlivet and our [Avión] business. And Glenlivet being the lion's share of our growth and our scale, we have increased prices on Glenlivet 12. But we've been very selective across other SKUs of the portfolio because we know these SKUs could be entry points into The Glenlivet franchise. So we're being very smart around how we're playing across the price P&L and that's really how we've managed despite the tariffs to continue strength across that business.

When it comes to our future growth stars, today, they're less than 5% of our business. But they will be a disproportionate amount of growth as we move forward. So will they be a greater piece of our pie moving forward? Absolutely. And so we feel very good about what that will do to boost growth for the overall portfolio.

And then finally, as we continue to invest in the U.S. market. We, of course, will be watching margins closely and the impact of that. The good news is we have the ability to get operating leverage where we need. And so being very focused on those initiatives to continue to fuel the investment around A&P, but to look at other places for inefficiency to be able to do it will be a key part of this. And we want to make sure that we have to keep



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our eye on being thoughtful about how we invest those dollars around the right brands that fuel disproportionate growth to be able to get that return on that investment, such that we're not eroding margin as we go do it.

Operator

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

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

Just a follow-up on Sanjeet's question, actually on the the cold brew from Jameson. Just wondering what the decision went? How the decision process happened to line price that brand? Historically, all the line extensions on the Jameson brand have been at a premium to the core and cold brew has been line priced. Can you just run us through your thinking behind that, please?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Sure. I think when you think about the strategy on pricing for cold brew versus other segments like Black Barrel or our cask-based business, the thing about cold brew is we're trying to bring more and more young drinkers into the Jameson portfolio. And what cold brew does a very nice job of is going after a huge trend that we're seeing with younger drinkers around coffee. And so those people that might want to enter the franchise through that love of coffee and looking for a coffee whiskey experience, this is a wonderful way for them to enter that franchise. So it actually helps us fill that incremental penetration for the core Jameson business. And that's why we line-priced it because when you do, you also have the opportunity to co-promote that at store level. And so it's a wonderful way to use the scale of Jameson to bring in those new users.

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

Understood. And just sort of similarly on Absolut, you mentioned that the halo effect doesn't work the other way around and that's why you're focusing on the Absolut Blue core brand. Is that learned from the recent Juice launch? Or could you tell us how the Juice launch has impacted the original Absolut franchise?

Ann Mukherjee - Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America

Well, actually I'm going to say it from both standpoints. Let me just take a step back and just talk about the academics of the physics of marketing. I mean whatever industry, whatever kind of basic brand kind of learning is, it's very, very hard for flavors just to grow the main franchise. And when you over-innovate it, it actually hurts your base business. So that's just a kind of a -- from a basic kind of marketing science perspective. Having said that, you want to also make sure that when you do launch a flavor extension or an innovation that the experience gives consumers a positive view of the overall brand, including the mother ship. And so it -- while one will not necessarily drive the business of the other, it's got to drive positive perceptions of the other. And when we look at our Absolut Juice business, I think we have an opportunity to continue to drive that segment for Absolut. It is absolutely on trend. We continue to learn from our first execution what we can do better. But this notion of a refreshing drink is absolutely key to today's young drinkers and that's what Absolut Juice does. And so we want to make sure to continue that franchise. But as we've done the post-consumer research of people who are drinking Juice, the great news is that we see very positive perception in terms of the total Absolut franchise when people are drinking Juice. So we feel continued optimism around the juice franchise. It's an important segment and one that we'll continue to learn and do better for the Absolut portfolio.

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

Thank you very much, Laurence. And I think that was our last question, so we'll close the call now. Thank you very much, Ann, for taking the questions. Thank you, ladies and gentlemen, for your time and enjoy the rest of your day.



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Ann Mukherjee - *Pernod Ricard SA - Chairwoman & CEO of Pernod Ricard North America*

Thank you, everyone.

Operator

Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may now disconnect.

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