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PERP.PA - Pernod Ricard SA North American Conference Call - Q&A
Session

EVENT DATE/TIME: MARCH 09, 2021 / 2:00PM GMT

CORPORATE PARTICIPANTS

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

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

CONFERENCE CALL PARTICIPANTS

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

Andrea Pistacchi *BofA Securities, Research Division - MD in Equity Research & Head of European Beverages*

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

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

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

Pinar Ergun *Morgan Stanley, Research Division - Equity Analyst*

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

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

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

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

PRESENTATION

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

Thank you very much, and welcome, ladies and gentlemen, to today's 2021 North America conference call. We're hosted today by Ann Mukherjee, our Chairwoman and CEO for North America. I believe most of you will have had a chance to watch the video presentation that was posted on our website this morning. So in the interest of time, we will jump straight to the Q&A session.

So without further ado, let me hand over to our first caller, please.

QUESTIONS AND ANSWERS

Operator

The first question comes from the line of Alicia Forry from Investec.

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

I actually have a couple of big-picture questions for you. One is what do you think about the future of spirits consumption in the U.S.? Obviously, things have changed during the pandemic. I'm curious, what changes you think might be permanent for your industry? Just some thoughts on that would be interesting to know. And then secondly, curious how you think Pernod Ricard USA has changed since you arrived?

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

Thank you. Two great opening questions, and good morning, good afternoon to everyone. I am very bullish about the future of this industry in this category. I think there's been some profound changes, and I think there's some changes that will go back to what I call underlying behavior

of the category. I think from a -- changes that we will see, I think people are beginning to really enjoy in-home cocktail making. I think this notion of continued consumption at home, premiumization at home, I think this notion of what we've seen from convenience through e-commerce, all of those things will continue. And I think that bodes very well for the off-premise channel as we think about from a channel perspective. But at the same time, I do think there's robustness coming back on-premise. As I've mentioned before, I think this is going to be yet still a very robust channel. And so overall, for the spirits industry, I think we're going to see continued strength. And I think it will continue to source from the other parts of alch bev industry, and so you'll continue to see very, very strong momentum.

And I think it was those kind of insights and learnings that really helped us pivot within Pernod North America. And I think we tried very hard to understand, looking at our entire portfolio, what are the pivots that we really needed to make to be able to understand how each of our spirit brands could take advantage of each one of these individual trends and continue to monitor them as we come out of COVID and understand how we continue to flex our portfolio as we see kind of new trends evolve. I think this is a company -- as I've said before, I had 4 very focused challenges coming in, and 16 months into the role, the company has made dramatic improvement in those areas. It speaks to the resiliency of our team. And I think we're getting a much more simplified way of working, leveraging our portfolio to be more consumer oriented. And I think we're really focusing to win that purchase and design for that purchase at shelf. And so I've seen a lot of great momentum. So thank you for the question.

Operator

Okay. And your next question comes from the line of Simon Hales from Citi.

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

A couple for me, please. I mean, Ann, in your prepared presentation, you talked a lot about the investment that's been happening around consumer analytics, digital e-commerce sort of generally. I wonder if you could just maybe provide us a little bit more detail as to where you think you are in terms of the investment and where you are on the journey to where you want to be in those areas, those capabilities. Just try to assess how far along you are there, how much more investment we should think perhaps needs to go into those areas over the next sort of 12 or 18 months?

And then secondly, can I just ask you around sort of stock levels in trade just on a shorter-term basis? Obviously, in the first half, mid-single-digit sort of growth. I think that was all depletion led. I don't think there was any overall stock replenishment in the first half. How should we think about stock levels as we look into H2 and beyond? And perhaps when we come out to the other side, hopefully, of the pandemic in the coming months, where do you think inventory levels will sit overall in your wholesale tier compared to where you were pre the pandemic? Do you think things will be structurally lower?

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

Simon, thank you. So first, let me address your first part of the question around continued investment around our digital journey. I think we are -- have laid the foundation. I think, again, in this COVID time, this allowed us to probably accelerate that a bit more and really put in, first of all, the analytics that mattered. And so we spent a lot of time understanding what those were, then starting to sharpen our tools against them. And it will be a journey. This is not something that's going to happen overnight. It's not a light switch. So I think you will see us continue to invest in this space.

And where my focus is really going is taking what we have developed and creating digitized tools for ways of working so we can work at rapid speed. And so you will continue to see that. The United States continues to be a pilot market for the rest of the group of Pernod Ricard. And the great news is we get to learn off of each other from different pilot markets. So I think we're doing it very prudently, and we're balancing that kind of intersection of effectiveness and efficiency. So more to come as we continue that journey.

From an inventory perspective, I think we are probably, at least within Pernod Ricard, what we call fit-for-purpose on our inventory. We've worked very hard to get to the right days of supply. We've instituted, I think, more sophisticated demand planning tools with our -- within our own company and with our distributor partners. And so there's a lot of emphasis on S&OP. And I think you will always, of course, see ebbs and flows in inventory as the year progresses, but I don't think you're going to see a lot of major stocking moving forward. I think we're getting better at understanding

that relationship between sellout and depletions. And so it's getting much stronger in terms of how we're getting information and analysis to manage the stock levels.

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*

Two questions from my side, please. The first one is, okay, we've been through the COVID and the massive channel dynamics. And in the U.S. at least, we're starting to see a reversion to the on-trade in some states. If you look at states where the on-trade is picking up a little bit at pace, places like Texas and Florida, is there any learning about what people are doing? Are the habits that they picked up in the off-trade during the COVID restrictions, are they bringing those back to the on-trade with them?

And my second question is around your digitization journey. What do you think are the biggest challenges there? Is it around data? Systems? People? Or maybe a mixture of all 3?

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

All really, really great questions, Trevor. Thank you. I will tell you, it's still very early on the on-trade side. I would tell you, states like Arizona, Florida, Texas, we've seen a lot of even robust on-premise behavior in the past few months, and it continues to accelerate. And what you're seeing on trade, and this is why I think it's still a bit early, people are still -- they're not spending hours and hours on-trade, right? So speed of cocktail making, cocktail convenience on-premise, those things are still very robust. We're seeing still a lot of takeout and delivery. So cocktails on-the-go continues to be really important.

And so I think how we're going to see that shift behaviors of off-trade back to on-trade, look, at the end of the day, I think it's going to be about people gathering. And so whether it's -- that bar experience is still going to be very important as on-trade comes back. And I think consumers are going to look for new experiences and experiences that now that they've been able to do it at home, they're not going to look for what's the next experience on-premise. So again, very early to tell. There's -- we're watching it closely. A lot more to learn. But I think the biggest thing is we need the rest of the states to come to the levels that we're seeing in Florida and Texas. And the good news is we're beginning to see early signs of that, and that's really, really encouraging.

On your second question around the digital journey, I would tell you, it's all of them. Data infrastructure in this industry, coming from CPG, it's not as robust. And so being very smart about what that data architecture is, is going to be very critical. And this is a space where we have to understand proxies and understand modeling much more than what I've experienced in CPG. People are critical. And as you saw in my video, getting the right people to understand how to do this journey, especially people outside of the industry, and bringing in these new practices. And so blending that with people who understand the industry will be absolutely key. And then really being smart about the investment that's required for this journey, getting that ROR -- excuse me, ROI along the way, proving ourselves to smart investment is going to also be key. So it's all connected, and it's going to take architecture and design to really understand how to get there as fast as we can.

Operator

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

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

Three from me, if that'll be okay. Firstly, in terms of your market shares, particularly within the on-trade and the off-trade, I appreciate, as a company, you're more on-trade focused and certainly were pre-COVID. How do you see your market share within the off-trade evolving during the COVID period? And also, how do you see your market share in the on-trade evolving during COVID?

And then secondly, on your Irish Whiskey portfolio, the presentation focused quite heavily on Jameson, understandably. Irish Whiskey, as a category, has been very dominated by the Jameson brand, but you mentioned starting to talk about Redbreast a little bit more, and obviously, you have a portfolio of Irish Whiskeys. Do you see the moment is right for a portfolio approach to Irish Whiskey? Or do you still see Jameson as being the dominant brand within that category?

And thirdly, on your Vodka portfolio, or at least on Absolut. Vodka has been a very challenged category, as I'm sure we all know, with one brand taking a huge amount of share. Do -- you mentioned in the presentation, a lot of differences were in terms of marketing on Absolut and sort of you say you're getting a lot more consumer engagement, but we've seen Absolut being launched many times in the past. But what do you think is different this time around the marketing of Absolut that you think may be able to reverse some of those share losses to be able to accelerate that brand?

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

Well, thank you for your questions. These are great. So let's talk a little bit about our share position. As you saw, from an off-premise perspective, we pretty much accelerated to be growing kind of with the channel right now. In on-premise, to your point, we way over index. On average, we're probably 25% on-premise versus the industry at 20%. We have brands that way over index, like the Jameson, more closer to 30% on-premise. So here's what I would say. My goal right now is to continue to grow with the market off-premise and then keep up with that growth by flexing our portfolio in a way that allows us to do that. And then on on-premise, because we tend to over index, it coming back will be critical for us in continuing our leadership position. So that really helps the overall business be much more buoyant moving forward. So I continue to stay very focused on that, in addition to e-commerce, because e-commerce is almost 5% of the business right now. So being very thoughtful about how to accelerate our advantage will continue, I hope, to deliver the performance we are looking for.

On Jameson, it's a great question. Look, I think the way to look at our portfolio was twofold. We have what I'll call very high awareness, robust brands, like a Jameson, like a Glenlivet, and those brands were going to continue to double down on. But taking a more portfolio approach, and you're going to see more of that come from us, is going to be absolutely key. And one of the reasons is this is as much a volume game as it is a value game, and that's because premiumization matters in this category. So to your point, we've got some gems when it comes to Irish Whiskey, and so whether it's the Redbreast or the Spot line, so in scotch, we've got Aberlour. So we've got a ton of premiumization brands that I think will round out the portfolio for that value growth.

And then finally, on Absolut, I have to tell you, when I joined Pernod Ricard, one of the main reasons I joined was Absolut. This is a brand that is an iconic brand. And I think we've had an opportunity to really unleash the historical narrative of what Absolut is. Absolut challenges society and culture, and that is what we are bringing back. And we are monitoring it very closely to make sure it's really relevant. And let me tell you the lessons learned on this one. For me, there are brands that can absolutely buck the trend, so to speak. So if you look at Malibu, which is in a subsegment called rum, it is far outstripping the growth of the segment because Malibu has gone beyond being a rum, it's a lifestyle brand. And that is exactly what Absolut has the potential to be again, a lifestyle brand that bucks the system of vodka. So this is a journey. We've just started it. It's showing early response, but it's one that we're going to continue the journey on because I think Absolut has an incredible iconic heritage that if we don't leverage it, shame on us.

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

Ann, that's really clear. And maybe just to follow up on the Absolut point, what would you see as success in your brand story for Absolut and transforming it into a lifestyle brand and, hopefully, outgrowing the category?

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

Yes. For me, from an engagement, from a brand growth perspective, it's really about people choosing it as a -- not just as a vodka, but it's a brand that people feel they want to be associated with because it says something about who they are. That's the ultimate mark of a great brand. It's not what it does for you, it's what it says about you. And there are so many examples of great brands that do that. And I think as a result, over time, the Absolut therefore growing as a part of the segment is what we're going to watch. And I would tell you, I've been a part of multiple brand turnarounds, behemoth brand turnarounds, multibillion-dollar brand turnarounds. And it doesn't happen overnight, but you know very early if you're on the right path. And so this is not a one-and-done deal, it's not a switch. It's one that you have to work at. And I think we've got the right brand-building tools to do that.

Operator

Your next question comes from the line of Edward Mundy from Jefferies.

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

I've got the three, please. The first is around the role of wine in your U.S. business. Are there any benefits in having a bigger Wine portfolio that you can talk to, either in terms of scale or from a commercial standpoint?

The second question is around taxes. There's clearly been a lot of government support during the crisis. Are you able to share any perspectives around the risk of tax increases either at a state or federal level?

And then the third question is really around your portfolio. You mentioned on your prerecording that tequila is now quite a decent size and growing quickly, as is American whiskey. Could you talk about any other gaps in the portfolio, possibly hard seltzers or any others that you might look to?

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

Great. Edward, thank you so much. I appreciate the questions. So let's start with the first one. Wine and champagnes, I would say, they round out our portfolio very well. And again, when I talk about us approaching this much more from a demand-driven analytics, when you look at the shape of demand, consumers don't buy based on age factors or income factors, they buy based on what occasion they are in. And in many occasions, wine and champagnes are a critical -- must be a critical part of your portfolio because whether it be celebratory moments, winding down moments, whatever the particular occasion is, wine and champagnes play a very important role.

So it's -- what we look at in terms of where our spirits can't go, where does wine and champagne help us moving forward. And so it will remain an important part of our portfolio, but we talk about it as a portfolio as opposed to what's our strategy in wine and champagnes versus spirits. It's really about what's our occasion strategy, and that's really where wine and champagnes plays its key part. And so over time, where we can build scale, we do, and we're very happy with what -- the scale that we're building on Campo Viejo as well as our Mumm Napa range. Champagnes really came back strong as a part of COVID. And so we look at it from that standpoint.

From a taxes perspective, look, it's uncertain where this is all going. And it will differ very much from a state-to-state perspective, especially the kind of response we'll get if there is any kind of taxes that may be considered. I think the bigger issue right now for us is what the Biden administration is doing with the COVID relief bill. I think the stimulus checks will be important in terms of continued strength for our category. But more importantly, there's almost \$30 billion in that relief bill for support for restaurants. So at this point, that's where our focus is, and we continue to monitor it closely. And we'll see where that goes moving forward.

From an opportunities perspective in our portfolio, no doubt, hard seltzers is on fire. And I think it's partly because it's convenience, it's low calorie, and it allows for what we call conscious day drinking. But again, we continue to see a lot of that being sourced from beer. But what I think is really

interesting about hard seltzers is the convenience aspect and the ready-to-drink aspect. And so we continue to look at this space. This is a space that could be really right for ready-to-drink cocktail. And we continue to look at our brands, whether it be Absolut, whether it be Malibu, and we're seeing kind of how that is playing out. So I think this is one we're watching and one that if it continues on the rise and this allows spirits penetration to increase, this is a space that we will definitely double down on if we need to.

And then again, yes, American whiskey is on fire, as is tequila. And I think what we're trying to figure out is how to leverage what we have as part of our portfolio approach to definitely grow our total pie. It's less to me about do we have enough in American whiskeys, do we have enough in tequila, do we -- it's more about how you flex your portfolio to grow the whole pie. And that's how we've been approaching it. And so far, it's been paying off. So thank you.

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

And can I just follow up on the ready-to-drink cocktail piece?

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

Yes.

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

Actually, there's a bit of a price differential given the difference in how excise duty is applied to both the malt based and then the spirit based. Do you get the feeling that consumers are ready to trade up now to spirits-based ready-to-drink cocktails. I think you showed one in your opening presentation. Was it Kahlúa, I think? Do you think the market is ready for it?

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

I do. And like I said, I still think it's early days, but I absolutely do. I think people have now gotten used to this notion of cocktail drinking outside of on-prem and this notion of what I'm going to call cocktail convenience. And it could be both ready-to-drink, it could be ready-to-mix, there's lots of ways to look at it. But I do think by putting it into a ready-to-drink platform, it makes spirits more approachable. And so I think there are very popular cocktails that in a ready-to-drink format could be huge opportunities moving forward. So this is what we're playing with right now.

Operator

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

Andrea Pistacchi - *BofA Securities, Research Division - MD in Equity Research & Head of European Beverages*

I have two, please. First one is on Martell. It's been growing nicely. I think you said 12% depletions in the Nielsen channels. But a bit less clean than the category, which has been very strong. Is this -- is it a supply issue? Are you focusing more on Asia? Or what do you think the potential for Martell in the U.S. is?

And then more broadly, on your future growth stars, looking even at the other ones, which have all been growing strongly, and you've added a lot of these to your portfolio in the past few years, where do you see most upside on a 3- to 5-year view?

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

Great question. Thank you. First, let's start with Martell. Look, I have a lot of passion for Martell, and I think we've got a lot of opportunity with Martell. As you look at the Nielsen numbers on Martell, it's a bit understated because it doesn't report anything on-premise. So we see a little bit better performance in NABCA. But here's what I would tell you, I think we have an opportunity to further accelerate Martell in the United States, and we have the capability and supply to do so. And I think it's a question of how we build this brand in the United States. And that's what we are really, really doubling down on right now. And so I would really -- again, based on what we're seeing in the shape of demand, we've got a lot of opportunity to do that with Martell. So you'll see much more from us moving forward.

I think in the future, what is the upside? Look, I don't think what we're seeing in ready-to-drink or in tequilas or in cognac, I don't think that's slowing down in the near future, American whiskeys. I think a lot of these are going to be ongoing trends moving forward. The biggest one, I think, that's really important for us, especially in the next 3 to 5 years, premiumization is not going to slow down. And I have to tell you, coming from a CPG background, to see this phenomena of such high double-digit growth in the super premium, ultra-premium prestige, it's a real opportunity. And this is where -- why this category is so attractive. It really drives continued growth from a value perspective. So that's the one I think that is most important. And so balancing our portfolio for both volume and value growth is going to be key over the next 3 to 5 years.

Andrea Pistacchi - *BofA Securities, Research Division - MD in Equity Research & Head of European Beverages*

And sorry, on the future -- the other future growth stars, where you see the largest opportunity?

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

From a brand perspective in our portfolio?

Andrea Pistacchi - *BofA Securities, Research Division - MD in Equity Research & Head of European Beverages*

Yes.

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

Yes. No, absolutely. I -- as I said, Martell is huge. I think American whiskeys will continue to be big for our portfolio. The one that I'm also watching very closely, and again, it's bigger in Western Europe, but I think premium gin. So what we're seeing with Monkey 47, what we're seeing with Malfy, we're going to continue to watch that space very closely. Some trends do jump over the pond, and we'll keep watching this one. So I think, again, like I said, a lot of our premium brands that you see in our portfolio, those are the ones where -- I have a lot of energy for in terms of faster growth moving forward.

Operator

And 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 for me, please. Firstly, thank you for the comments on Absolut. It sounds like it was a big part of the entry process at Alexandra. And I was just wondering, would you be prepared -- it sounds like you've got a plan. Would you be prepared to put a timescale on it? Or following on from the early question, is it sort of stability of share? What should we be looking for in Absolut over the next couple of years?

And then secondly, in the presentation, you talked about doubling down on a lot of brands, a lot of initiatives, investing in digital. At the group level, there is the aspiration of margin expansion. How much room have you been given, 16 months in now, to invest to deliver on all these plans you've got? Is the U.S. source of margin growth? Or should we expect a hiatus for a couple of years until the initiatives you have started to sort of yield benefits?

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

Really astute questions. So first, let me talk about Absolut and kind of a time horizon. Look, my goal is, to your point, stability on Absolut and making sure that we stabilize this brand. And then from there, is there more opportunity? So I think in the short term, what you're going to look for is stability in that brand.

I think from a -- the question around investment in the United States and in North America, look, there's no doubt there's been very open discussion about investing in North America, especially the United States. We've continued to see that as we've put together our longer-term plans. But here's the thing that's most important, and I think this is the world of what I'm going to call performance marketing and why is digital so important in terms of building brands, we are now in a world where it isn't money that drives share of voice, it's actually the fact of your ability to target in a precision basis and really understand how to remove inefficiency in your marketing activities and your commercial activities. It's understanding not just how you spend your media dollars, but then how do you deliver against the brands from a supply and demand perspective and taking off the inefficiencies in the commercial chain and really getting to granular demand and granular supply at an account outlet level.

So this is about really removing the inefficiencies from mass marketing and leveraging that to get better ROI. So your investments that you're putting into the market should be coming back at you at a higher rate of return. And so hopefully, if done right, as you're investing, you're continuing to build your margins and still keep a very healthy P&L as you continue to drive overall growth for the portfolio. And that's why this transformation that we're doing digitally is so critical. If you have the analytics to do this, you can do a lot with same. You could do a lot more with same, and you can do a lot more with more. And that's really where our focus has been.

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

Could I -- if I've still got the line. About 5 years ago, the business went through a major commercial reorganization. Based on what you've just said, is the structure that was in place, is that still fit for purpose? Or are you having to significantly change and reprioritize people within the organization?

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

Yes. Look, I think it was start of a journey, right? And we're continuing in that journey. I think a lot has happened in 5 years. The market has changed dramatically in 5 years. And I think 5 years from now, it's going to change more. So I think it's about -- in those 5 years, what has changed and building up an organization that is fit for that purpose, it is about bringing in these new analytics. And look, the shape of demand doesn't change dramatically over 5 years. The shape of demand is actually a glacier. It actually is pretty stable over 5 years. However, how consumers and shoppers interact, that's what's dramatically changing. And so that's what you've got to keep pace with, and that's the kind of new capabilities and new people. Why I'm bringing in new skill sets into the company to be able to do that.

So I think the biggest change that you'll see from 5 years ago is that we still have moments of reality what we call our demand. But what we've overlaid with that is a much deeper precision and understanding of how to purchase and being able to understand how to convert that demand in a way that's advantage for Pernod Ricard. And I think that's the biggest difference you're seeing as we continue to build against this vision.

Operator

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

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

I've got two, please, both on the technology side, again. Can you give us a sense of where you are on the technology side compared to your competitors? I mean so what is the feedback you get from distributors and customers or people you hire from outside the organization or outside the industry?

And then the second question is I remember you talked about data intelligence last year. So I was wondering what changes in resource allocation have you already made based on the results from the increase in usage of predictive consumer analytics?

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

Let me address the technology question first. To be honest, it's hard for me to say versus my competitors as they are on their own journeys. I would tell you, my goal is to leapfrog and leapfrog within the industry. And the changes that we're bringing is not to just adapt best practices in the industry, but really to invent them. That's always been my approach to leadership. And the early -- we've got a lot of pilots going on. We're working very closely with our distributor partners. And the -- and again, it's interesting, we just had a recent discussion with one of our largest ones, and they're beginning to see the impact, and they're beginning to see what we are doing and they're commenting. And we've brought them in with us as a part of this journey. So they themselves, our distributor partners themselves, are going through their own digital transformation.

And so for us to be able to take our advantaged analytics and being able to partner that with our distributor partners, that's the secret sauce. And so we're getting very good feedback, and we're getting very good partnership from that. And so I'm encouraged because these people have been in the industry for quite a long time. So I'm hoping they're really giving me the right perspective.

And then from a data intelligence perspective, yes, I have put a lot of resources and investment in this space. And one of the things is it's not just the data intelligence but creating an infrastructure that actually knows how to operationalize it. That is the secret. It isn't that people don't have data, it isn't that people don't have framework, everyone does. The secret is who is the one that can operationalize it the best to democratize it for their frontline. And so that's where my investment has gone. I've created an organization that is focused on doing that so that the operating side of the business can stay very focused on the day-to-day operations and selling our business. And so this is -- the transformation is not just on the data and technology side, it's on the organizational design side to be able to operationalize it.

Operator

And your next question comes from the line of Pinar Ergun from Morgan Stanley.

Pinar Ergun - *Morgan Stanley, Research Division - Equity Analyst*

I have three quick questions, please. The first one is what do you see as the key drivers of margin upside in the longer term? And has COVID changed this in any way? And look, I appreciate you just talked about marketing, but is there anything else you would like to add?

The second one is how do you expect spirits demand to evolve as consumer spending shifts from at-home indulgences to out-of-home experiences?

And then a final one, which is a bit more near term. Would you be able to give us some color on how your depletions are trending in the U.S.?

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

Can you just do me one favor? Can you repeat the second question, just so I make sure I understand it?

Pinar Ergun - *Morgan Stanley, Research Division - Equity Analyst*

Yes, absolutely. So at the moment, people are sitting at home, and there's quite a bit of focus on at-home spending for things like indulgences, premium spirits. How would you expect that to evolve as and when consumers can go out and some of that spending will shift into out-of-home experiences like going on holidays and stuff? So what would the impact on the spirits demand be?

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

Yes. No, great question. So let's talk a little bit about your first question on further margin expansion. Look, there's -- it's a multiple-pronged answer. First, I think this -- and I've talked about it before, so it's really critical, I think premiumization is going to continue to help us from a margin perspective, right? This is for the industry. And so this is where I think people should get very excited about this industry because it is built into the trends that we're seeing from a shopping and consumption perspective. So that's number one.

Number two, and again, I'm going to compare back to my CPG experience, my experience coming into this category is that there's a lot of upside to modernizing the commercial system in alch bev versus what I've seen in fast-moving consumer goods. And so things like e-commerce, okay? That was -- I've seen much more sophistication on e-commerce on the CPG side than what I've seen here. I've seen that catch up dramatically in COVID. And as we continue to see e-commerce grow, people are willing to pay a premium for that delivery. So again, that is another space.

I think the third space is there's a lot of inefficiency in terms of how companies are going to market, and I talked about this before. And what -- this is why digitization is so important. It eliminates a lot of that inefficiency in the system, whether that's supplying much more -- and this is why inventory stock levels are beginning to kind of average out because we're getting better demand signals to be able to supply more at a granular level.

All of these are inefficiencies. And as you eliminate inefficiencies, that really bodes well for P&Ls and margin expansion. So it's a multipronged answer, but there's a lot of upside, I think, for the industry and especially for Pernod Ricard, as we move forward. So that's the first thing.

On your second question, look, this is, again, another thing that I'm excited about, which is I think COVID opened up consumers' eyes. I think they realized a different value equation for spirits at home. And so you are now getting consumers to understand, wow, for \$50, \$100, I can enjoy some really amazing spirits that I thought was kind of out of reach and I only could go to on-premise for. I don't think that's swing is going to turn off tomorrow. I think that's going to continue, and that's what's driving the premiumization trend. But I also think there are times where people want to either celebrate or be catered to on-premise. So I think the bar, sorry, pun intended, will go up for on-premise in terms of the experiences people will be looking for and the value they're going to be willing to pay for it.

So again, both from an off- and on-premise, this is -- again, this is what I think is fueling the premiumization. People are just really beginning to enjoy spirits as an everyday kind of whether it be mini luxury, something that, for a small price, they can get a lot of enjoyment and satisfaction from. And so I do think that you're going to see continued premiumization, both off-premise as well as on-premise post COVID.

And then from a depletion standpoint, listen, here's what I'll tell you, we have worked very hard to really get to a purpose-based understanding of our stock levels. And so what you're going to continue to see is very comparable depletions growth and sell-out growth. And that is something I'm working very hard with our organization and distributor partners to continue by putting the right analytics processes and demand planning tools to make sure that our depletions growth stays healthy with our sell out.

Operator

And your last question comes from the line of Sanjeet Aujla from Crédit Suisse.

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

Just a couple of questions on innovation, please. Firstly, on Cold Brew, I think we'll start to lap the launch of that brand. You called it out as a pretty successful innovation. But to what extent do you think that line extension can start building? I recall a couple of years ago, some of the line extensions around Caskmates did struggle to comp the launches. So yes, I would love to get your thoughts on how the Cold Brew has evolved compared to that? And more broadly, can you just share your thoughts around the innovation pipeline looking forward across the portfolio?

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

Absolutely, Sanjeet. Thank you for the questions. Innovation is at the heart of any category. So let's start with Cold Brew. Look, we -- I think, again, there are 2 vectors -- well, actually, there's multiple vectors for innovation. So let's start with the this. There is an opportunity for both premiumizing Jameson, which is what we've seen with Black Barrel, but there's also a huge opportunity. And I think now that we are such an established brand with the cases that we're selling, now is when we're beginning to think about what is our right flavor strategy. And flavors are important. I mean if you look across the category, we've seen flavors drive a lot of growth for a lot of brands.

The issue is, and this is true for any brand, but what is the right flavor strategy for a brand like Jameson, right? And this is not about a follow strategy. It's not about, well, peach is doing really well or apple is doing really well, let's just copy it. No, that's not the point. The point is Jameson is an Irish Whiskey. And so when you think about Irish whiskeys and you think about cocktail flavor strategy, that should drive your flavor innovation strategy, which is why I think Cold Brew has done so well. Irish coffee is a great cocktail. And so in consumers' minds, there's a linkage that makes it very differentiated for a Jameson to launch a Cold Brew. And I think that's the way we're approaching our flavor strategy, which is to say, start with the brand, start with the type of spirit it is and what makes sense for a long-term flavor strategy, and that's what you're going to see from Jameson moving forward.

So I'm going to come back to your last one and say the same thing. We are looking at every occasion and the occasions that our brand plays in, and that's what we are looking to unlock their strategies. What can we do to premiumize that occasion with the brand? What can we do to create variety with that brand? What can we do to make cocktail experiences better for that brand, whether that's off-premise or on premise. So each -- we have kind of innovation vectors that then we apply to each occasion and each brand.

And then across the shape of demand, I think our biggest opportunity, and you'll see this like we're seeing with ready-to-drink, I think across the shape, where are those unmet needs on cocktail convenience? And so that's how we think about our innovation strategy, and it's leveraging our portfolio to do it. And if there is an opportunity to leverage it across the portfolio, we'll look at it because that drives efficiency and scale. So that's kind of how we're thinking about innovation.

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

Thank you very much, Ann, and thank you very much, ladies and gentlemen, for your time today. Please stay safe, and I hope we have a chance to meet face-to-face in the not-too-distant future.

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