Press Release

Creditreform Rating

Rating object	Rating incl. outlook / watch
Pernod Ricard S.A.	BBB / stable
Long Term Local Currency Senior Unsecured Issues issued by Pernod Ricard S.A.	BBB / stable

The present update is, in the regulatory sense, a public unsolicited rating.

Date of inception / disclosure to rated entity / maximum validity:

Rating object	Date of inception	Disclosure to rated entity	Maximum validity
Pernod Ricard S.A.	09.12.2021	10.12.2021	Until withdrawal of the rating
Long Term Local Currency Senior Unsecured Issues issued by Pernod Ricard S.A.	09.12.2021	10.12.2021	Until withdrawal of the rating

There occured no changes after the communication of the rating to the rating object.

Rating summary:

Creditreform Rating has confirmed the unsolicited corporate issuer rating of Pernod Ricard S.A., as well as the unsolicited corporate issue ratings of the euro-denominated, long-term senior unsecured Notes issued by Pernod Ricard S.A., at BBB. The outlook remains stable.

Significant factors for the rating decision are the positive business development in the 2021 financial year (FY21) and the reduced net financial debt, which contributed to an improvement in the results of the analysis of the key financial figures. Nevertheless, both sales and earnings, as well as net financial debt, are not yet back to their pre-crisis levels. Hence, we have left the outlook at stable for the time being, against the background of the intensifying pandemic trend and the associated uncertainties and volatilities they pose to the further business development, and despite the operational and financial improvements in FY21.

After the pandemic-related sales and earnings losses in FY20, Pernod Ricard achieved sales growth of 4% to EUR 8.8 billion (previous year: EUR 8.4 billion) in the past fiscal year 2020/2021. All regions contributed to this, with sales in the USA and China reaching a new record level of over USD 2 billion and EUR 1 billion, respectively. In its main core markets, Pernod Ricard was able to gain market share, mainly due to solid off-trade performance and a partial recovery in on-trade sales. The global travel retail sector, on the other hand, incurred further sales losses (-40%) compared to the previous year. Profit from recurring operations (PRO) increased by 7.2% year-on-year to EUR 2.4 billion (previous year: EUR 2.3 billion). It should be noted that both sales and profit from recurring operations were impacted by exchange rate effects. According to the company, without the negative exchange rate effects, the pre-crisis level (FY19 sales of EUR 9.2 billion; profit from recurring operations of EUR 2.6 billion) would have been exceeded. The PRO margin improved from 26.8% in the previous year to 27.5%, but did not reach the pre-crisis level of 28.1%. Pernod Ricard benefited from cost-cutting measures implemented in FY21, some of which have proved unsustainable. At 15.8% of sales, advertising & promotion (A&P) expenses were only slightly above the previous year's figure (15.7%), but well below the pre-crisis level (16.5%). Structural costs fell to 16.7% (previous year: 17.7%) and were thus even below the pre-crisis level (16.9%). A further improvement in the PRO margin appears ambitious and remains to be seen for the time being, as Pernod Ricard has announced a noticeable increase in structural costs - e.g. in personnel expenses and advertising and promotion expenses - in order to implement the planned sales growth in FY22. The EAT in FY21 showed significant improvement, at EUR 1.3 billion compared to the previous year (EUR 0.4 billion), and was mainly affected by impairment write-downs due to the pandemic, although the pre-crisis level (EUR 1.5 billion) was also not reached here.

Against the background of the ongoing challenges due to the pandemic, as well as negative exchange rate effects, business development in FY21 can be assessed overall as solid. This is also reflected in improved internal financing power. Free cash flow (FCF) in FY21 was at an all-time high of EUR 1.6 billion, nearly doubling compared to the previous year (EUR 0.8 billion). In addition to the operational business development, changes in working capital and a reduced tax burden also had a positive effect. Cash and cash equivalents increased from the previous year to EUR 2.1 billion (previous year: EUR 1.9 billion), assisted by prudent dividend policy – a reduced dividend, and the suspension of the share buyback program. With available credit lines of EUR 3.1 billion, which were undrawn as of June 30, 2021, Pernod Ricard has sufficient liquidity leeway. At the same time, Pernod Ricard was able to reduce its financial liabilities, so that net financial debt fell from EUR 8.4 billion to EUR 7.5 billion. According to the company's calculations in FY21, net financial debt thus corresponded to 2.6 times EBITDA (previous year 3.2x). Before the pandemic (FY19), net financial debt was EUR 6.6 billion, equivalent to 2.3 times EBITDA. We therefore still see a certain need for improvement here compared to the pre-crisis level.

Overall, we see Pernod Ricard, due to its strong market position, its strong and well diversified product and brand portfolio, continued cost and liquidity management, and sufficiently solid financial and liquidity position supplemented by established access to the capital market, as fundamentally capable of achieving stable to positive business development. This is supported by the positive sales trend in the first quarter of the current financial year. However, against the background of a partially worsening pandemic situation in key target markets, as well as rising cost inflation, increasing uncertainty is to be noted once again, which may stand in the way of the Group's sales and earnings targets and an improvement in its key financial indicators. In our opinion, a further reduction of financial debt will be impeded by the planned increase in dividends, the continuation of the share buyback program, and planned investments in future organic growth. Possible M&A transactions may also have an impact on the Group's net assets, financial position and results.

Based on the unsolicited corporate issuer rating of Pernod Ricard S.A. (BBB / stable), CRA has prepared unsolicited corporate issue ratings on issues (ISIN) of Pernod Ricard S.A. The rating objects considered here are exclusively the EUR-denominated Long-Term Senior Unsecured Issues which are part of the ECB's list of eligible marketable assets and which were issued by Pernod Ricard S.A. This ECB list of eligible marketable assets is available on the website of the European Central Bank. These issues (ISIN) are rated BBB / stable.

Primary key rating drivers:

+ Strong market position, as No. 2 on the global market for wines and spirits (in terms of sales revenues)
+ Well-diversified product and brand portfolio
+ Sufficiently solid liquidity situation in connection with established access to the capital market
+ Positive business development with improved margins in FY21 - not yet at their pre-crisis level due to negative currency effects
+ Net financial debt significantly reduced again, but still noticeably above its pre-crisis level
+ Net debt / EBITDA significantly improved but still below pre-crisis level

- Pro margin not yet at pre-crisis level
- Noticeable increase in advertising and structural costs planned in FY22 - possible burden on the operating margin, depending on sales growth
- Remaining or increasing uncertainty with regard to the economic and market-related framework conditions due to the currently intensifying pandemic
- Currently rising energy and raw material prices, as well as increasing competition
- Liquidity burden due to the planned increase in the dividend and continuation of the share buyback program (around EUR 0.5 billion)

ESG-criteria:

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Pernod Ricard S.A. we have not identified any ESG factor with significant influence.

We have not identified any factors with regard to ESG with an impact on the rating of Pernod Ricard. Sustainability and responsibility are central elements of corporate development for the Group. Pernod Ricard recognizes the need to limit global temperature increases to well below two degrees Celsius and, if possible, below 1.5 degrees Celsius, in accordance with the Paris Agreement. Against this background, Pernod Ricard has set itself the goal of completely eliminating net CO2 emissions (Scope 1 + 2) in its production by 2030 (net zero emissions), and reducing absolute carbon dioxide emissions by 30% compared to 2018 . Scope 3 emissions are to be halved by 2030 and eliminated by 2050. These goals are in line with the Paris Agreement on Climate Change, which was confirmed by the Science-Based Target Initiative (SBTi) in 2019. In order to increase transparency, Pernod Ricard also follows the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD). In addition, Pernod Ricard intends to provide all its production facilities and administrative offices with 100% renewable electricity by 2025.

The Group's sustainability and responsibility strategy is based on a robust framework of four pillars: Nurturing Terroir, Valuing People, Circular Making and Responsible Hosting. All of these pillars directly support the United Nations Sustainable Development Goals (SDGs) and are aligned with its 2030 Plan. Pernod Ricard has been recognized as a UN Global Compact LEAD participant for its work on the SDGs, making it the only wine and spirits company to receive this award.

Overall, we consider Pernod Ricard to be well positioned with regard to ESG factors, but we do not identify any significant influence on the rating. In the future, ESG factors may have an impact on our rating assessment, depending on the company's achievement of its targets and regulatory changes.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found here.

Rating scenarios:

Please note: The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Best-case scenario: BBB+

In our best-case scenario for one year, we assume a "normalization" of the pandemic situation and social life concurrent with an economic recovery in the markets relevant to Pernod Ricard, resulting in an improvement in sales and earnings, a further reduction in financial debt and an improvement in the key financial figures above the 2018/2019 level. Short-term cost inflation would be offset by corresponding price and volume effects, as well as by continued cost discipline.

Worst-case scenario: BBB-

In the worst-case scenario, we see a deterioration of the rating to BBB- over the course of the year. Such a downgrade would have to be considered in the event of persistent or new restrictions on social life in the course of the COVID-19 pandemic, resulting in lasting deterioration of the economic and geopolitical situation, as well as an associated sustained decline in business development leading to a deterioration in the Company's current income and Internal financing power, and an increase in debt resulting in a lasting deterioration in its key financial figures. An inadequate dividend policy and leveraged M&A transactions could also have a negative impact on the rating. Overall, we consider the worst-case scenario to be unlikely.

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Initial rating:

Rating object	Event	Rating created	Publication date	Monitoring until	Result
Corporate Issuer Rating of Pernod Ricard S.A.	Initial Rating	28.03.2017	04.04.2017	28.05.2019	BBB / stable
LT LC Senior Unsecured Issues issued by Pernod Ricard S.A.	Initial Rating	09.10.2018	16.10.2018	28.05.2019	BBB / stable

Status of solicitation and information basis:

The present rating[1] is, in the regulatory sense, a public **unsolicited** rating. The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

[1] In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

Regulatory requirements:

In 2011 Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on the registration Creditreform Rating AG (CRA) is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation. The rating was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA-Regulation).

Conflict of interests

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report

2. Website

3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating

2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the ESMA website.

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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