

Rating object

Pernod Ricard S.A.
Long Term Local Currency Senior Unsecured Issues

Rating incl. outlook / watch

BBB / stable
BBB / stable

The present rating 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.	17.12.2020	18.12.2020	Withdrawal of the rating
Long Term Local Currency Senior Unsecured Issues	17.12.2020	18.12.2020	Withdrawal of the rating

There occurred 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 rating of the euro-denominated, long-term senior unsecured Notes issued by Pernod Ricard S.A., at BBB. The outlook has been revised from positive to stable.

Decisive for the adjustment of the outlook are the negative effects of the COVID-19 pandemic, which have led to a significant decline in sales and earnings, a significant increase in (net) financial debt, and thus a noticeable deterioration in the results of the key financial figure analysis for the 2019/2020 financial year. Although the qualitative and quantitative fundamentals of the company remain solid overall, we see no prospect of a rating improvement for the year as a whole against the background of the COVID-19 pandemic, which continues to develop dynamically, and the associated uncertainties and volatilities with regard to further business development.

In this past 2019/2020 financial year, sales fell by 8% to EUR 8.4 billion (previous year: EUR 9.2 billion). Since the reported revenue was influenced by positive currency effects, organic growth was even slightly weaker at -9.5%. The decline in sales can be attributed to the COVID-19 pandemic and the lockdown measures implemented to contain it, which had a particularly negative impact on the on-trade and travel retail sectors. Off-trade sales were relatively stable, especially in parts of Europe and the USA. The profit from recurring operations (PRO or EBITDA) decreased compared to the previous year from EUR 2.6 bn to EUR 2.3 bn and, with organic growth of -14%, remained above the value of -20% expected by Pernod Ricard at the beginning of the COVID-19 pandemic. Despite implemented cost-cutting measures and a reduced sales base, the PRO margin fell from 28.1% in the previous year to 26.8%. At EUR 0.4bn, net income was well below the previous year (EUR 1.5bn), mainly due to pandemic-related impairment write-downs (EUR 1.0bn) - especially on the Company's by far strongest brand 'Absolut' (EUR 0.9bn) - as well as due to restructuring expenses and slightly higher interest expenses. Amidst a noticeable increase in (net) financial debt and a decrease in equity mainly influenced by negative other comprehensive income (OCI), share buybacks, and dividend distributions, the result of the key financial figure analysis for the financial year 2019/2020 deteriorated. Net financial debt rose from EUR 6.6bn to EUR 8.4bn and, according to the company's calculations, was 3.2 times higher than EBITDA (previous year: 2.3x). Based on the 2019/2020 consolidated financial statements, we assess the liquidity position as sufficiently solid. Additional borrowing more than compensated for the weaker operating cash flow and free cash flow compared to the previous year. The cash balance rose from the previous year to EUR 1.9bn (previous year: EUR 0.9bn) and, in conjunction with available credit lines amounting to EUR 3.4bn that were unused as of June 30, 2020, provides for sufficient liquidity headroom. In this context, we see the postponement of the current share buyback program as well as the planned dividend cut as positive, even though this still corresponds to the planned distribution rate of 50% due to the reduced annual net income.

Against the background of the ongoing - and in some cases worsening - pandemic situation in key target markets, we assume that the restrictions on social life taken to contain the COVID-19 pandemic will be extended, and that the hoped-for economic recovery will be further delayed as a result. The associated uncertainties and volatilities with regard to further business development, which are also reflected in the Q1 figures for the current 2020/2021 financial year, limit our rating outlook. Due to the Company's strong market position, strong and well-diversified product and brand portfolio, its cost and liquidity management adjusted due to the crisis, and its sufficiently solid financial and liquidity position which is supplemented by an established capital market access, we see Pernod Ricard in a position to achieve stable business development at a reduced level of sales and earnings, despite the difficult Market environment. Positive business development can only be achieved in connection with a mitigation of the pandemic and an economic recovery.

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
 - + Implementation of measures to mitigate the negative effects of the COVID-19 pandemic
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- Significant decline in sales and earnings in the course of the COVID-19 crisis - Earnings decline is partly due to a special write-off on brand values ('Absolut')
 - Negative other comprehensive income (OCI), dividend payments and share buybacks have had a noticeable impact on equity
 - Significant expansion of (net) financial debt to strengthen the liquidity position in FY 2020
 - Free cash flow decreased compared to the previous year
 - Result of the key financial figure analysis in FY 2020 clearly deteriorated; however, the company's qualitative and quantitative fundamentals remain solid overall
 - Operating margin (PRO margin) fell noticeably despite the cost-cutting measures introduced and a reduced sales base
 - Significant uncertainty in the wake of the COVID-19 pandemic and the associated volatility with regard to further business development

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.

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:

<https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/The%20Impact%20of%20ESG%20Factors%20on%20Credit%20Ratings.pdf>

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 noticeable softening of the COVID-19 pandemic and a "normalization" of social life, accompanied by an economic recovery in the markets relevant to Pernod Ricard and consequently an improvement in sales and earnings levels as well as in key financial metrics. Any further improvement in the asset, financial, and earnings position above the level of 2018/2019 could have a positive effect on the rating, although we consider this to be unlikely against the background of the currently difficult and uncertain market situation.

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 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 further 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.

Analysts / Person approving (PAC):

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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 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

Rating methodology / Version / Date of application:

Rating methodology	Version number	Date	Website
Corporate Ratings	2.3	29.05.2019	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Corporate%20Ratings.pdf
Non-financial Corporate Issue Ratings	1.0	October 2016	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/Rating%20Methodology%20Non-Financial%20Corporate%20Issue%20Ratings.pdf
Rating Criteria and Definitions	1.3	January 2018	https://creditreform-rating.de/en/about-us/regulatory-requirements.html?file=files/content/downloads/Externes%20Rating/Regulatorische%20Anforderungen/EN/Ratingmethodiken%20EN/CRAG%20Rating%20Criteria%20and%20Definitions.pdf

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

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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.

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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: <https://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml>

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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