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PRESENTATION

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

Good morning. Good morning, ladies and gentlemen, and welcome to Pernod Ricard's Fiscal '21 Sales and Results Presentation. We're hosted this morning by Alexandre Ricard, our Chairman and CEO; and H el ene de Tissot, our EVP, Finance, IT and Operations. We'll follow our usual format and take you through a brief presentation and then turn to your questions.

Thank you very much. Without further ado, over to you, Alexandre.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Thank you very much, Julia. Good morning to all, and I do hope you had a wonderful summer as I did.

So may I suggest we start directly with the executive summary. Well, listen, excellent rebound with our sales and profit from recurring operations, above precrisis levels with 10% organic growth of our top line and 18% organic growth from our profit from recurring operations, pre-COVID crisis levels at constant currency, of course, and a strong growth momentum. So the growth is very diversified with all regions growing.

Our domestic must-wins, 2 of them have reached record sales: the first one being the U.S. with 16% organic growth and reaching the milestone of \$2 billion of net sales; and the second one, which is China with a whopping growth of 44% as well hitting an important milestone which is above the EUR 1 billion of net sales. Significant premiumization, of course, thanks to our Strategic International Brands that have grown double digit and our Specialty Brands portfolio which has grown significantly by almost 30%. And we have gained share in most markets across the world.

Our business transformation is clearly underway. We are continuing to deploy our Transform & Accelerate strategic road map. Significant investment behind our priority brands and markets, and I would call this dynamic management of our resources. Strong progress in our digital transformation, which is, in fact, accelerating with an outstanding growth for our e-commerce channel, which grew by 63%, and that growth is widely spread. And finally, acceleration of our sustainability and responsibility road map, I'll come back to that.

So excellent performance with very active resource management and achieving a significant operating leverage of 213 basis points. Outstanding cash performance reaching a record high level for our free cash flow and -- free cash flow as well as recurring operations, which has driven our net

debt-to-EBITDA ratio to 2.6x, and therefore, leading to an increased shareholder returns with a proposed dividend back to precrisis levels of EUR 3.12, which was a historical high in fiscal year '19 and as well the resumption -- proposed resumption of our share buyback.

So here, you have the numbers. I won't dwell upon them. I already mentioned most of them. Just to mention the significant adverse FX impact of slightly more than EUR 0.5 billion on our net sales and EUR 253 million on profit from recurring operations.

As I mentioned in the executive summary, acceleration of our sustainability and responsibility road map. There are 2 things we clearly accelerated during this COVID crisis and with clear purpose: number one, digital acceleration; and number two, equally as important, our responsibility and sustainability road map. And I'm proud to announce today our new collaborative agreement, and we're the first private company to do so with the IUCN, the International Union for Conservation of Nature. And I will be going to Marseille on Friday to participate there. This is a very, very important partnership. I'm extremely excited about it and very enthused at the idea of what we will be doing together in the coming months and years.

Second as well, we've introduced a new global diversity and inclusion road map, which is titled Live without labels, to drive more inclusion and diversity within Pernod Ricard. Just to mention as well, the gender pay gap has been reduced to 1.8%, which is very low.

We have also revisited our targets in terms of carbon. So our new carbon targets are to reach net zero in Scope 1 and 2 by the latest in 2030 and hopefully -- and this is what we're going to try and drive even before 2030, and Scope 3 by 2050. We are signatory of business ambition to 1.5% (sic) [1.5 degrees] Celsius, which is an SBT initiative.

Finally, packaging and waste. As we mentioned, we accelerated some of our targets there starting with the removal of single-use plastic point-of-sale material. The initial target was 2025. It's done with the exception of cups for the time being, which we are currently addressing.

And finally, in terms of responsible hosting and responsible consumption, we launched over summer, and hopefully some of you have seen this, our Drink More... Water, of course, campaign, which is really targeting binge drinking amongst young adults. First results of that campaign are extremely positive. And we now have 3 logos, and the aim is to have 3 logos on all our labels throughout the world where obviously it's legal. No drink driving, no underage drinking, and obviously, if and when you are pregnant, no drinking as well.

So these are all our initiatives. Just a summary of some of the most important ones, but obviously, the road map is much more detailed, and it is something we're extremely proud of and which is embedded today throughout our entire business.

I wanted to take a little bit of time as well to go beyond just the numbers and talk a little bit about our strategy. At the end of the day, I wouldn't say numbers are a detail, but numbers are a consequence of strategy. And I really believe strategy is what matters, and that the numbers come there afterwards. So 3 years ago, we shared with you our Transform & Accelerate strategic road map. It was a 3-year road map. And if you look at some of the results, number one, some of the key milestones in our most important markets and in terms of portfolio management, I already mentioned the U.S. and China with record sales and some very symbolic milestones that have been reached. Our leadership in Global Travel Retail in China and in India has been reinforced over the last 3 years. I already mentioned e-commerce which is really enjoying significant growth and will continue to do so in the coming years. And also, I mentioned dynamic management of our resources in terms of allocation, in terms of reinvestment across markets and brands, what really matters with a clear return on investment strategy there.

In terms of digital, I mentioned, again, we accelerated our digital transformation. And this is across all functions with 6 key, what we call, key digital projects, KDPs, touching really every function. We are building industry-leading data science capabilities across the business, and it's starting already to pay dividends. I mentioned it as well, we have an ambitious sustainability and responsibility road map and mentioned some of our ambitious targets. And as well to remind you, we are a UN Global Compact LEAD.

And finally, of course, as a consequence, in terms of financial performance, we have strong top line momentum. Before crisis, we had reached [6]. We're now above our precrisis levels at current constant FX. We have gained operating leverage with a record year this year with 213 basis points, historical high cash performance and, as I mentioned in the introduction, increased shareholder returns.

I often now get the question on our strategic road map. It was a 3-year strategic road map. What's next? First of all, to deliver this road map and to work on that strategy, we had done a very, very -- a lot of work, an in-depth analysis of market trends of emerging trends driven by a consumer insight. So these trends have not changed during the crisis. I would even go as far as to say they have accelerated due to the crisis. The first of them and the most important one was changing consumer values and expectations from brands and corporations. We had mentioned within the framework of our strategic road map that consumers had radically changed. They were much more open, much more connected due to the rise of digital social networks. They were more fickle. They were no longer faithful or loyal to one brand but to a repertoire of brands depending on the moments of consumption. They were increasingly demanding with an increased thirst for purpose, for new experiences and services. This has not changed. It has accelerated during the COVID crisis, and we have organized ourselves to address these needs.

We also have designed the strategic road map within a new, what we call, world -- a new world order framework, as you can see, with a radically new geopolitical context. And this, in fact, has accelerated during the COVID crisis.

We had mentioned the real emergence of middle and affluent classes representing over half of the global population. For the first time in history, middle and affluent classes represent more than 50% of the world's population, reaching 3.8 billion people, which is expected to reach 5.6 billion people by 2030. Thus, the importance of our leadership presence in China, in India and our investment strategy as well beyond China and India, in Southeast Asia, in Sub-Saharan Africa and in Latin America. And this is very important.

We also had mentioned the tech and data revolution. Well, no need to dwell on that one, which is obvious to everybody, as you can see how digital has increased and digital penetration and ways of working have increased during the COVID crisis.

And finally, and this was -- goes back to 3 years ago, it's still more than ever a true unprecedented change in the workplace, and clearly, there is an increasing war for talent. And by the way, The Island, which is Pernod Ricard's headquarters from which we are here live, is the perfect physical illustration of what we want to do, be extremely attractive, have people wanting to come and work at the office, and by the way, we're fully booked today, and really facilitating a collaboration within our working space. So no more silos.

So these fundamental insights are even more true today than they were ever before, and we are continuing our transformational journey. We have a very compelling vision, *créateurs de convivialité*. It's extremely aspirational. It's more than ever true that desire that people have to really to connect, to meet socially, and we saw during the crisis when this doesn't happen, how difficult it is for people. So *créateurs de convivialité*, a very compelling vision. We have a single-minded ambition, which is to become the #1 wine and spirit company globally.

In 2015, we introduced a consumer-centric business model based on business fundamentals, which you have here on the slide, the essentials for Pernod Ricard and also based on what we call our business accelerators, which you also have on the slide. We have a very clear strategy around winning in key geographies, building passion brands, valuing our people and funding the journey. These are the 4 big battlegrounds.

And finally, in terms of mission, everything is evolving. Our mission has evolved over time. I would say that during the decade from 2000 to 2010, well, we played a leading role in industry consolidation with big, transformative transactions and deals with Seagram's, with Allied Domecq, with Vin & Spirit. So that was from 2000 to 2010. Then during the decade of 2010 to 2020, it was all about route to market. I mentioned earlier, capturing that emerging middle class in emerging markets. So we developed our route to market in Southeast Asia. We developed a new route to market and opened a lot of affiliates in Sub-Saharan Africa. We started really increasing our investment levels in Latin America. So that was the decade from 2010 to 2020.

And now as we embark in this new decade from 2020 to 2030, our next mission is to build what I call Pernod Ricard as a conviviality platform company. What does it mean? Well, at the end of the day, it's all about developing direct, transparent interactions that bring together all those in our professional environment: consumers, customers, clients, partners, brands, employees, et cetera, using all the data generated by our activities to offer products and services that are ever more relevant. It's all about having the right product, at the right place at the right time to the right consumer everywhere where it matters and leveraging data to do this in the most efficient and effective way. That's what it's all about.

So our framework which we had shared with you 3 years ago, which is, over time, to maximize long-term value creation, is still here. So our medium-term ambition framework is very clear, 4% to 7% top line growth, leveraging key competitive advantages and consistent investment

behind key BMCs, brand market companies -- combinations; focusing on pricing and building operational excellence initiatives; significant A&P investment, and global framework ratio for that is at around 16% of net sales with very strong arbitrations behind the relevant brands and markets; discipline on structure costs, as you may have seen over the last few years, investing in priorities while, of course, maintaining an agile organization; and finally, delivering over time, medium-term operating leverage of circa 50 to 60 basis points, obviously, provided that 4% to 7% top line framework.

And from a financial policy point of view, our priorities are still extremely clear. Number one, invest behind our business to drive organic growth in terms of resources, whether it's A&P, whether it's HR, our people, our structures, but of course, as important in terms of strategic inventories, of course, and CapEx. Second priority, M&A, bolt-on acquisitions, continue and pursue our active portfolio management, and we've been extremely active from that point of view. And with the new announcement of our -- of a great partnership this morning with Sovereign Brands, a great company, great people. I'm very excited about our collaboration to come together. Third priority, dividend, of course, to thank our shareholders with a payout policy of circa 50%. And finally, share buyback, and we are going to resume our share buyback program, as I mentioned earlier.

I will make an announcement as well. We will be holding a Capital Market Day sometime during this fiscal year, probably during spring, but we need to see if all the agendas work, and again, depending on the sanitary situation, but this is more or less what we are aiming at. So we'll give you a comprehensive strategic update by then.

Very briefly in terms of our top line sales by region, you see that all our regions are growing, 2 of which are growing double digits, starting with the Americas, up 14%. Excellent, broad-based, by the way, growth across the region, obviously, with the U.S.A., up 16%. But I could mention Canada and South America, with a great performance both in Brazil and Mexico.

Asia-Rest of the World, up 11%, very strong growth, driven principally, but not limited to, of course, China but as well South Korea and Turkey. A strong, strong growth in Turkey. And by the way, as well, India which grew 9%, second highest top line ever in India, not record sales yet. Hopefully, by the end of this year, it will be.

And finally, Europe, of course, 4%, very dynamic rebound, extremely good growth in the U.K., extremely good growth in Germany and in Eastern Europe, by the way, gaining share in all these markets, offsetting -- more than offsetting the decline in Spain for obvious reasons and Travel Retail. All of this leading to a great growth of 10% of our top line.

Well, I won't dwell into these, but again, U.S.A., very strong growth of 16%. Global Travel Retail, unfortunately, down 40% for understandable reasons but gaining strong market share in that channel. And we are big believers of a rebound of that channel in the future. For this year, we expect a gradual recovery. Very strong growth in China, record growth and record year, up 44%, growing across all segments and across all brands with a very strong mix. And India, I mentioned, up 9%. By the way, very resilient given the environment in India, while the underlying consumer-driven trends are clearly there.

Europe. Market share gains in France, market share gains in Spain, market share gains in the U.K., market share gains in Germany, market share gains in Russia, market share gains in Poland. And you have here some of the numbers.

Americas. I mentioned the U.S., but as well, good growth in Canada. Excellent growth in Brazil and Mexico, as I mentioned. Mexico up 32%, for instance, where we also gained quite a lot of share.

And finally, Asia-Rest of World, which includes China and India, up 11%, as I mentioned. Difficult situation in India -- in Japan, but gaining value share. Successful refocus in South Korea on our strategic imported international brands. Triple-digit growth in Nigeria. And great performance in South Africa, given the circumstances. And finally, as I mentioned, market share gains in Turkey.

Finally, just a brief overview in terms of category. Strategic International Brands, up double-digit, 11%. Strategic Local Brands, up 7%, driven by the recovery of our Indian deluxe Seagram's whiskey brands but as well Kahlua, Passport, Ramazzotti, in particular, in Germany. Our Specialty Brands gained 28%, which is quite amazing, driven by Lillet but also by Aberlour. Amazing growth of Malfy, of our American whiskey portfolio but as well of our tequila Avion or of our Prestige craft Irish whiskey brand, Redbreast. And finally, our strategic wines, which are stable, with good growth by

Campo Viejo, which is offset by the decline of Jacob's Creek and finally, Kenwood. So you have here the detail by category. I won't spend time on it to leave time for Q&A.

And I'd like to pass on to -- for the profit section to Hélène.

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

Thank you, Alex. So let's move now to the profit and to the full P&L shape.

So profit from recurring operation is growing organically by 18.3%, with a very strong organic operating margin expansion of 213 basis points. If we start with the gross margin, it's expanding by 64 basis points, driven by stable pricing with fewer price increase in the COVID context and better fixed cost absorption from volume growth and operational excellence savings. A&P ratio at circa 16%, resulting from purpose-based investment, with quick response to channel shifts. So we've been really actively managing our resources with strong investments in market and categories returning to growth.

Structure costs, limited growth of plus 1%, which is delivering 136 basis points of improvement with a very strict discipline and the full year impact of fiscal year '20 reorganization. We do expect a strong increase of our structure in fiscal year '22 to support the growth. So profit from recurring operation is including profit of EUR 28 million that we communicated last week in U.S. dollar, so EUR 28 million in this P&L. A significant FX impact that you mentioned already, Alex, impacting our profit from recurring operation by EUR 255 million, which is mainly due to U.S. dollar and emerging market depreciation versus euro.

Moving now to the EPS. It's growing by 13%, thanks to increased profit and lower cost of debt. So starting with the financial results from recurring operation, it is improving by EUR 66 million versus the previous year, which is the direct result of a very successful bond refinancing at lower interest rates, especially the most recent one that we did refinance in November '20 for the -- on the U.S. dollar market and, to a lesser extent, a positive FX impact improving the financial result. Average cost of debt is decreasing very significantly. It is now at 2.8% versus 3.6% in fiscal year '20, thanks to this successful bond refinancing.

Tax rate on recurring items is at 24.3%, which is quite stable versus the previous year, with a geographical mix which is offsetting the positive effects of the reduction of the French corporate income tax. And the reduction in number of shares is reflecting the share buyback that we carried out in fiscal year '20.

Moving now to the group share of net profit with a strong increase, a very significant increase in net profit, which is due mainly to the nonrecurring items in fiscal year '20, in particular, the EUR 1 billion impairment charge that we booked last year. If we zoom now on the nonrecurring operating items at minus EUR 62 million, this is mainly driven by restructuring and reorganization costs linked to the transformation of the group and as well to the impairment of our Korean whiskey, Imperial. And then these total costs are partly offset by the U.S.A. drawback. Increase in corporate income tax, which is driven by the revaluation of the deferred tax further to the increase in the U.K. tax rate, which has been enacted in fiscal year '21, and as well the fiscal year '20 which was impacted by reduction in deferred tax liabilities related to the impairment. And this is not repeated in fiscal year '21.

Moving now to the cash performance. So Alex mentioned that already in the introduction, we are delivering a very strong cash performance this year, with an outstanding recurring free cash flow at historical high of EUR 1.745 billion, which is increasing by 74% versus last year.

If we look at the different drivers of this great cash performance starting with the strategic inventory, so lower increase in strategic inventories, which is driven by the higher usage of stock linked to the business recovery and the dynamic top line growth, partially offset by cash-out increase, obviously, to support our midterm growth.

Strong improvements in the operating working capital, which is very much linked to the rebuilding of payables with the acceleration of A&P, especially in the second half of the year, partly offset by higher receivables due to the business rebound. Increased CapEx to drive future growth. The amount of CapEx for the year is EUR 388 million. We are expecting our investment in CapEx to increase in fiscal year '22 to support our strategic

ambition to an amount which is expected at roughly 5%. Significant reduction in financial expenses, which is the cash translation of what I mentioned in term of P&L, so this is thanks to the successful refinancing. Reduction in our tax cash out linked the lower prepayments in the U.K. and favorable phasing resulting from the COVID impact in fiscal year '20 in France and China. Nonrecurring items due mainly to restructuring and make-whole call exercise with the \$2 billion bond early repayment done last year, partly offset by U.S.A. drawback cash collection.

Moving now to the evolution of our net debt. So a very significant decrease of leverage from very strong free cash flow, which is enabling us to reduce our net debt down to EUR 7.4 billion at the end of June. So EUR 972 million decrease in net debt, which is driven primarily by the very significant free cash flow improvement I just detailed linked to the business recovery, and to M&A cash out reflecting active portfolio management; a reduction in dividend paid in fiscal year '21 linked to the reduction of fiscal year '20 profit linked to COVID; a EUR 95 million debt from additional lease liabilities; and a positive translation adjustment, mainly due to the USD depreciation versus euro, which is bringing our net debt-to-EBITDA ratio down to 2.6.

Moving now to the return to shareholders and even to stakeholders, a significant return to stakeholders this year. In the context of our strong cash -- P&L and cash performance, we are proposing a dividend of EUR 3.12 per share, which is an increase of 17% versus fiscal year '20, back to the historical high of fiscal year '19. And you have on that slide the historical dividend from fiscal year '16. Our share buyback program that has been stopped in April '20 is going to resume for the remaining amount being EUR 0.5 billion. And we are resuming as well our employee ownership program. The first program was launched in fiscal year '19, so the second program is going to take place in fiscal year '22.

And back to you, Alex, for the conclusion and outlook.

Alexandre Ricard - Pernod Ricard SA - Chairman, CEO & Member of Executive Board

Thank you very much, H el ene.

Well, again, in terms of conclusion, this past fiscal year has been very good, with an excellent rebound with our sales up 10% and our profit up 18%. Now this past year is past. Looking forward for this new fiscal year, for fiscal year '22. What do we expect? Well, number one, we expect a good sales momentum supported by: number one, the on-trade recovery; number two, strong resilience of the off-trade; number three, continued dynamism of e-commerce; and finally, the Travel Retail channel, which will -- we expect to see gradually recover, obviously, off of a low base. And this in an environment where, of course, we do expect to see ongoing sanitary restrictions and volatility related to that.

We expect a very dynamic first quarter for July, August and September, obviously helped by a low basis of comparison last year. During the same time, our net sales were down 6%. We of course expect and will continue to invest significantly in terms of A&P and structures, of course, to seize all the growth opportunities around us and really to invest for us to support our future growth. We will continue, as I mentioned earlier on, to implement our clear strategy and specifically accelerate our digital transformation. And finally, we will resume our share buyback program by roughly about EUR 0.5 billion this fiscal year.

So without further ado, let me hand back to Julia for the Q&A.

QUESTIONS AND ANSWERS

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

Thank you, Alexandre. Thank you, H el ene. And we'll turn to your questions. Operator, if you could put through the first caller, please.

Operator

Yes. We have the first question from the line of Simon Hales at Citi.

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

Two or 3 questions, if I can. Firstly, I mean, you talked about sort of A&P and structure cost developments in the medium term. But H el ene, you mentioned in your presentation, clearly, the structure costs, in particular, would increase in F '22. Could you talk a little bit about where that investment is going, how we should think about the overall rate perhaps of structure costs as well as A&P investment relative to sales in the new fiscal year? So that's my first one.

And then secondly, with regards to the cash flow going forward, clearly, you benefited from the working capital improvements you saw this year which were quite impressive. But should we expect certainly the strategic inventory investment to return to more normal levels as we head into F '22 and beyond?

And then finally, as part of the transformation journey, Alex, you talked about the fact that you've needed to innovate and activate more brands in new markets -- or in existing markets. From here, do you still need to see a step-up, do you think, in the rate of internal innovation in the business? Or do we need to see further M&A to sort of create those brand opportunities in markets? Or is it more about leveraging the existing portfolio more widely now?

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

Okay. So thanks for the questions. Let me start with the 2 first questions, the first one on A&P and structure costs. So as you noted, I mentioned the need to reinvest behind our organization, and we did mention as well, obviously, the willingness to significantly invest behind our brands. So starting with A&P, we as well reiterate our medium-term indication in terms of how you should think of our business moving forward. So the circa 16% A&P to net sales ratio is still quite a good indication. So obviously, it's an estimate. And our willingness is really to be very active in reallocating those resources depending on the opportunities. And we are already obviously doing that very actively with our markets.

For the structure, the strong increase I mentioned is as well, we believe, very relevant in the context where for the past 18 months, we've been managing our structure in a crisis mode with a very, I would say, immediate reaction to the impact of COVID, if you remember our numbers in fiscal year '20 and the monitoring of our structure in the last quarter. In fiscal year '21, we had as well a very strict discipline. And we did put in place very strict guidelines across the group in terms of recruitment freeze and salary increase freeze. Now we believe it's time to reinvest behind our structure, behind our teams. We have a very ambitious agenda, a very ambitious agenda in terms of transformation, and we need to have the right resources to support that growth. So that's the way you should look at our investment moving forward.

Your second question on cash flow, you rightly pointed that the working capital need evolution, which has been very positive in this fiscal year '21. Maybe let me clarify on the strategic inventories because we didn't compromise on the strategic inventories investment in this fiscal year, and we will not obviously compromise either in the coming years. So the -- let's say, the fact that the net amount was a bit lower than pre-COVID is really linked to the stronger usage, linked to the rebound of the business.

So moving forward, the circa EUR 300 million we used to share is still a valid number. I'm using the opportunity of your question to mention that you should expect some normalization in term of working capital need evolution, especially because we are going to rebuild payables, obviously, but we won't have the same opening balance sheet than the one we did. This 97% cash conversion rate is probably one of our strongest. You should expect that rate to, let's say, normalize compared to where we were pre-COVID.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Well, Simon, to address your third question on Transform & Accelerate and the place of innovation, innovation is a key growth accelerator for Pernod Ricard. There is no doubt about it. And there are 2 sources of innovation internally, of course, and this is leveraging our existing brands and franchises, brand franchises. So a lot of innovation around, for instance, Jameson with Jameson Cold Brew which has had an excellent year. I think it was the top -- the third biggest innovation in the U.S. last year, and more to come with the launch of Jameson Orange, of course.

Around the Glenlivet, just to give you an example, again, which was the sixth largest innovation in the U.S. last year with the Glenlivet Caribbean Reserve. But I could go on and on. There's a big dynamism around innovation around our big brands, around every single one of our big brands. That's internally. But that doesn't mean we will not innovate through partnerships, through acquisitions, et cetera, with the external world. Our bolt-on acquisition strategy will continue. And so far, it has been very successful. It all started with Monkey 47, which, by the way, is still growing and is a very, very successful Prestige crafted gin. I'm not going to do a commercial around Monkey 47, but remind you, it's just amazing to see the success of this brand. But more recently, in the gin space as well, if you look at Malfy, where we had a triple-digit growth. I mean, Malfy is as well a great successful story.

Listen, we did not have, a couple of years ago, any presence in U.S. whiskeys. And now we have Smooth Ambler. We have TX whiskey. We have Rabbit Hole, which is very, very successful. And more recently even, we have Jefferson's, which is doing extremely well as well. So I could go on and on. As well, we announced a few months ago a partnership with La Hechicera, which is a great rum as well. There is great success around Del Maguey, which is a leading premium mezcal brand.

So it's both ways, innovation internally, using our existing franchises because we're good at that and innovation externally through acquisitions, partnerships and as well with platforms and teams and innovating teams. Last year, we announced a partnership with Lafayette. And this morning, by the way, we just announced a partnership through a minority stake in Sovereign Brands, an amazing team led by the Berish brothers with great brands, very creative ideas. So I'm very enthusiastic at what we will be able to do in the innovation space together.

So innovation is at the core of what we do. It is a key accelerator of our growth. And we'll keep on being a key accelerator of our growth for one simple reason, by the way, consumers want it. And we are a consumer-centric organization. And one of the key insights we have from our consumers is they want to test new things, and they trust us to do so.

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

That's really useful. And so I just want to pull that all together, and I look forward just into maybe fiscal 2022, particularly with H el ene's comments. Should we expect obviously strong top line and the sort of acceleration and sort of continuing? But should we expect to see any operational leverage next year, H el ene and Alex, given the reinvestment that's going back into the medium term?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

This stage, I'll tell you one thing, after having delivered 213 basis points of operating leverage last year, I would say that this year, let's just focus on sales momentum. There is sales momentum, and we want to invest behind our key growth priorities because there are a lot of opportunities out there. And so this should be the focus. There's still a lot of uncertainties in terms of channel mix, in terms of SKU mix, in terms of market mix. The one thing we know is we do expect to see that sales momentum, and we want to focus on that. So let's think about margin and all this kind of stuff a little bit later, if you're happy with that.

Operator

We are taking our next question from the line of Edward Mundy at Jefferies.

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

Just building on that last question, I appreciate you're not giving guidance for fiscal 2022, but you're talking about good sales momentum to continue this year with a very dynamic Q1. Does this imply that growth this year could exceed your medium-term 4% to 7% range? That's my first question.

My second question is really around the mood on the ground in China. You've had a very strong fiscal '21. What impact in underlying consumption, if any, do you expect to some of the potential common [prosperity] policies?

And then the third question is on the strategy and the conviviality platform that you highlighted, Alex. Without giving too much details ahead of the capital markets event, I'd love to better understand, what is the pitch of your success for you as you create this conviviality platform? Perhaps showing a few examples of 2 or 3 behaviors that Pernod is not doing today that you will be doing.

Helene de Tissot - Pernod Ricard SA - Executive VP of Finance, IT & Operations and Member of Executive Board

Okay. Thank you very much for your question. Maybe I will answer the first one. So in term of guidance for the year, what we are showing is a qualitative guidance with everything we know so far. So you mentioned this good sales momentum. So back to your question versus our midterm indication. As a reminder, the midterm indication is on a normalized context, I would say, normalized basis. And we know that we'll still be recycling, obviously, numbers impacted by COVID, H1 base being more favorable than H2 in this fiscal year '22. In H1 last year, we were declining by minus 4% with a strong rebound in H2. So that's already an indication.

If I want to give you a bit more detail in term of must-win, we do expect some recovery in India in fiscal year '22, even if we believe there might still be some volatility linked to the pandemic situation. U.S.A., the momentum is good and the growth should remain good in this fiscal year '22. China, I will come back to it, but has a very good momentum in fiscal year '21, and this is as well an expectation of a good momentum in fiscal year '22. And Global Travel Retail will be improving very gradually, but -- which means it would be growing on a low basis, which will as well support our numbers. That's what I can share with you.

Alexandre Ricard - Pernod Ricard SA - Chairman, CEO & Member of Executive Board

Well, so regarding your question on China, listen, my understanding, my take on what I read over the summer and what I heard is that the intent of the country is really to support the emergence of middle-class households. And by the way, our strategy which we shared with you was to leverage middle-class Chinese households as they emerge and to increase our penetration in the Chinese market. So all in all, from that point of view, if indeed, we see increase -- an increase in purchasing power and the acceleration of the growth of middle-class households, I would say, in fact, it could be a positive. So obviously, I will keep on following very closely what happens from that point of view. But my take is the focus of the country is on the emergence of middle-class households and our focus is as well.

Regarding the conviviality platform, yes, we did what we call a teaser this morning with that concept, which we really own and want to own. And again, the underlying vision which is to have the right brand targeting the right consumer at the right time with the right message at the right price. Behind this perfect, I would say, equation is data, of course, and the management of data and basically algorithms which will allow us to achieve that. And this really will end up by an uplift in our performance because at the end of the day, the difference in efficiency between having the right product in front of the right consumer within the right conditions versus something which is less data-enriched is huge. And of course, when we will do our Capital Market Day, we -- this will be our central focus. What do we mean by conviviality platform? And how does it translate from a technological and, more specifically, digital and data-enriched point of view? We have many, many clear concrete examples, which we are, in fact, rolling out as we speak throughout the world.

Operator

We're taking our next question from the line of Trevor Stirling at Bernstein.

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

Three questions from my side, please, various topics. The first one, focusing on the U.S., clearly, we've seen an extraordinary gain for spirits over the last 18 months in both in terms of at-home consumption and also trading up. What do you expect the new normal to be, Alex, for the U.S. spirits industry as we go forward from here?

The second one is the ambition for Scope 3 neutral by 2050 is clearly a massive step forward from where we are today. Do you want to lay out where you think some of the biggest challenges are, which are -- you probably don't know what the answer is at the moment, but the answer will have to develop over the next few years?

And then finally, H el ene, a technical point on the EUR 28 million benefit from the drawback. In the press release, you also talked about a total benefit of 133 -- sorry, \$163 million, of which \$33 million would be in PRO. The other \$130 million, where is that being recognized in the P&L?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Thank you, Trevor, for your questions. I'll take the first 2. Listen, on the U.S., there's no doubt, as crisis do, they tend to accelerate trends. And as we all know, spirits have enjoyed quite some momentum in the total alcohol beverage industry in the U.S. over the last decade or so. What we have seen during the COVID crisis, and you clearly mentioned it, is an acceleration of that trend through what we call increased penetration of households for spirits.

If you talk to consumers in the U.S., which, unfortunately, I haven't been able to do in the recent months for obvious reasons, but looking forward to do in the coming weeks finally. But our teams have been pretty clear from that point of view, people, consumers in the U.S. have learned how to drink cocktails at home, how to get served cocktails at home through digital, in fact, and convenience, but also how to blend their own cocktail at home. So mixology has become something quite fun, in fact, in the U.S., and we've even launched some master classes online to help our consumers from that point of view. Will that increased penetration remain going forward? It's difficult to give you a clear-cut answer. But clearly, we're working on making sure that part of that remains, for sure. And only the future will tell.

The second point which is on premiumization, we have seen an acceleration of this trend in the U.S., clearly, and we've seen trading up at home because for the same amount of budget, dining outside of home and drinking outside of home, you could treat yourself for that same budget with which -- with higher marks and more Prestige Brands, and that's what consumers did. Will it hold in the coming future is another question. But what it did do is it really developed a taste for these higher marks. So there will be a continuation of premiumization anyhow underlying as long as the economy continues to grow as well in the U.S. as it has been the case over the last, I would say, 12 years now. So we'll see from a more specific standpoint. But so far, it's true that spirits have been a clear winner out of this crisis.

On your question on Scope 3, very important question. Just to give you a number, Scope 3 is 90% of carbon emissions for us. So 10% that we deal with Scope 1 and 2, and we're very clear about. Our road map is very, very detailed, and we have clear milestones, and this we have direct control on. I would say the key challenge on the other 90% is number one, it is Scope 3, which means it's indirect. We don't have direct control upon it. So it's all about going to be the word collaboration. We will -- we have already started partnering and discussing about collaboration with some of our key suppliers around Scope 3, if I can take one example, glass manufacturers and so on, to see how we can improve together. Because obviously, changes from a suppliers' point of view will have impacts at Pernod Ricard side, including, by the way, cost, but it is a cost we're willing to address and absorb because it is the right thing to do. And eventually, consumers as well will fully understand.

So I would say the biggest challenge is one of collaboration with our suppliers because we don't have direct control, and our control or our impact is indirect. And we're going to leverage the great partnerships we have and the great relationships we have with our suppliers and partners to address this because we're all, at the end of the day, on the same boat.

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

On drawbacks, as you rightly mentioned, there is a part in the profit from recurring operation. The remaining amount is in nonrecurring operating items. You have the detail on Slide 23 of the presentation. So for USD 130 million, the equivalent in euro is EUR 109 million in nonrecurring items.

Operator

We are taking our next question from the line of Andrea Pistacchi, Bank of America.

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

I also have 3, please. The first one on gross margins, very strong performance in the second half that your gross margin has recovered only partially towards fiscal -- the pre-pandemic levels. Can you see the 61%, 62% that you were delivering before COVID as a level that you can get back to over time? And what do you see as a moving part affecting gross margin this fiscal year?

The second one, please, going back to what you're saying, Alex, on innovation. It seems that some of your more recent innovations like Jameson Orange or Cold Brew is probably more assertive than it would have been in the past, really pushing the boundaries of the brand in the case of Jameson. Does this reflect maybe a broader change in the way you're actually developing innovation, probably more decentralized than was the case in the past?

And then the third question, please, on Jameson in the U.S., where there's been clearly a very strong recovery in the on-trade there. Is Jameson performing strongly in this -- against this backdrop? And how is Orange positioned in the U.S. in order to sort of make it incremental to the franchise rather than recruiting from the core?

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

So let me start with your question on the gross margin, using this opportunity to clarify the drivers in fiscal year '21. So there was a quite positive brand mix from our -- and market mix when you look at the performance of U.S. and China. But there were as well some negative linked to the still subdued Global Travel Retail.

In fiscal year '22, it's very early days, obviously. What is very clear is that there will be pressure on the COGS. I'm sure you are fully aware of what's happening in term of supply chain and increased pressure on commodities, logistics and so on. So this is something we are very closely monitoring starting, obviously, right now. So this could be bringing some negative pressure. At the same time, we could be looking at a better environment in term of pricing. This has been quite subdued in the COVID context. And we are, as you know, very clear on our strategy in term of premiumization and price. So we had the ambition unchanged to premiumize and take price as and when possible. Let's see what will be the context in fiscal year '22.

And then back to your more midterm question, I would say that with premiumization, pricing power linked to the investments, strong investment behind our brands, this should help us to improve our gross margin, the recovery of Travel Retail as well. So this is what I can say in term of midterm evolution.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

So Andrea, regarding your question on innovation, yes, it's a good question because, in fact, if I go back to our consumer insights, consumers want brands to innovate. They want to taste new things, and they allow brands as well even to test new things. And the 2 examples you gave with Jameson Cold Brew, which is a great success from an innovation point of view, was the third largest innovation in the U.S. last year. And Jameson Orange is to come, by the way. The trade is extremely positive about it. It still hasn't been launched in the U.S. It's going to happen in the coming months.

Yes, we have -- again, based on our consumer-centric business model, part of the reorganization we've done over the last couple of years involves as well decentralizing our innovation hubs in what we call drive markets, close to consumers to drive creative ideas around our key brands. And you should expect to see more of that in the coming future, more disruption around our brands and more tests as well and interesting innovations. By the way, the day you'll be -- you'll have the opportunity to taste Jameson Orange, I'd be curious to know what you think about it. I was lucky enough to receive a bottle during my summer break, so I have my friends and myself obviously taste it. Listen, I wouldn't be surprised if it were to be a great success anyway. So we'll see.

For Jameson in the U.S., by the way, we've had a good year. So if you look at our last fiscal Nielsen performance for Jameson, it's 6%. Of course, Jameson suffered a bit because of its overexposure to the on-trade. But good news, the on-trade is reopening. So Jameson U.S. is probably a mid-single to high single-digit growth brand. And overall, Jameson is just undergoing great growth, growing basically everywhere in all regions. So I'm very confident about Jameson's near-term and medium-term, by the way, future.

Operator

We are now taking our next question from the line of Sanjeet Aujla at Crédit Suisse.

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

A couple from me, please. Firstly, just coming back to the U.S., would you be able to just give a bit more context around your sellout trends in Q4, as the on-trade has opened? How are you performing versus the market from a sellout perspective in Q4? And would you be able to just highlight your share trends in the on- and off-premise channels, if possible as well?

And then my second question, just coming back to the U.S. drawback, Hélène. Should we view that as a one-off benefit in fiscal '21 which comes out in fiscal '22? Or just give a bit more context around that, please.

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

Okay. So thanks for the question. Let me start with the first question in term of performance. If you don't mind, I will answer more globally not only focusing on Q4, even if, obviously, in Q4, we benefited from the reopening of the on-trade. So basically, what happened last year is, in H1, there was a strong growth in the off-trade, and the on-trade was declining quite significantly. In Q3, there was, let's say, a moderation in the growth in the off-trade because of the recycling of the pantry load the year before. And in Q4, the resurgence of the on-trade had some impact in term of decline in the off-trade.

In that context, we believe our sellout for the full year is around plus 7%. I take the opportunity to comment to clarify that in term of sell-in, we were -- our figures are on a low comparable basis because of the destocking we did at the end of fiscal year '20. So sellout at circa plus 7% in a market which has the dynamics I just described. So we were broadly in line in H1 in the respective channels and a bit penalized by other exposure to the on-trade.

In the second half, it's a bit difficult to assess our performance by quarter and by channels because there's so much volatility when you look at Q4 numbers. In the on-trade, for instance, we're talking about 300%. So I mean, we need obviously to take a step back and see in the coming months what is the global performance. But we've been still impacted by the difficulty in the on-trade. Q4 has been stronger when you look at the figures in the on-trade, and this is quite logical with our exposure to the on-trade.

So if I move then to your question on the drawback, I mean, the drawback numbers in fiscal year '21 are linked to the most recent decisions that was published a week ago. So we had in our numbers in our profit from recurring operation the flows linked to the fiscal year '21 activity. So far, drawback is legal mechanism that is eligible to spirits. And I remind you that this is a mechanism which is there to support the employment in manufacturing in the U.S. So this, I would say, a good likelihood that we will be able to benefit from that mechanism in a context which is obviously still very supportive of the employment in the U.S.

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

Thank you. I'm afraid we're coming up against time, so we'll have to limit our questions to just 2 more callers, please. Thank you.

Operator

We're taking our next question from the line of Laurence Whyatt at Barclays.

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

Three questions from me. Firstly, your medium-term guidance is dependent on getting back to a normalized context. And obviously, we're still currently under a few restrictions globally when it comes to COVID, and the Travel Retail market shouldn't be expected to recover for a number of years. How long do you think it will take for us to get back to what you would say a normalized context would be?

And I suppose my second question is linked to that directly on the Travel Retail business. Can you give us any indication of the current success of the Travel Retail division? We've got, on my numbers, about 3% of sales currently coming from Travel Retail. It used to be around, I think, 8% of sales. Could you give us a level of what you're seeing the current Travel Retail recovery now that some holidays and the like are now happening?

And then finally, on the U.S. business, it seems some of the success of your peer group is related to the tequila category and you are somewhat subscale in tequila at the moment. Do you have any plans to either accelerate your current portfolio? Or do you think it might require additional acquisitions in the category to be able to bring that up? Or do you think that you can just make it up elsewhere in other categories?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Well, listen, our framework is a framework. It's not a guidance. It's a framework. We do believe that the 4% to 7% top line growth framework is a medium-term framework, driven by, as I mentioned earlier, mid-single-digit growth in the U.S., high single-digit growth in China, low double-digit growth in India and a Global Travel Retail channel which is not disrupted, which will happen again one day. Question is when. So that's a medium-term framework within which we're very comfortable.

On your question, when will the world normalize again? Frankly, I read the same newspapers as you do, I assume. I read the FT. I read The Wall Street Journal. I also read the French press, Les Echos. It's -- the answer is not clear cut. And I would say it doesn't really matter to us at this stage because if I look at the current year, the one we're now, the fiscal year '22, we expect to see good sales momentum. We're really -- we have organized ourselves to invest really to seize these growth opportunities this year and, by the way, beyond. Whenever it happens, it will happen and we'll be there.

And by the way, when we entered into that crisis, we had 2 very clear objectives. Number one, to demonstrate the resilience of our business model, I hope, and up to you to tell us. But from my point of view, there's no doubt we've shown the resilience of our business model. And second, which is more where we are standing now, is to emerge out of that crisis even stronger than before. And that's why we accelerated our strategic road map and our transformation to really emerge from this crisis much stronger. When will this happen exactly? Your guess is probably as good, if not maybe even better than mine. So that's not my concern today. My concern today is really to seize all these growth opportunities out there because there are quite a few.

With GTR, listen, passenger -- international passenger traffic, let's be very clear, is still 80% down versus pre-COVID crisis levels. And regional travel has recuperated. In the U.S., traveling has recouped. Within China, it has recouped. Within Europe, it's growing again. But international travel is still significantly below pre-COVID crisis level, roughly 80%. So -- but the rebasing, if I have to call it, related to COVID has happened in GTR. GTR is back to growth, of course, of a much lower base this year. So you should see, as we mentioned, a very gradual recovery of that channel, which means it

will be growing, obviously, boosted by a very, very favorable comparable basis. Remember, our Global Travel Retail for the last fiscal year was down 40%.

Operator

We are now taking our next question from the line of Mitch Collett at Deutsche Bank.

Mitchell John Collett - *Deutsche Bank AG, Research Division - Research Analyst*

I have 3 questions, the first 2 of which are pretty quick. So you said e-com was up 63%. And can you give us the proportion of sales that are now e-com?

Secondly, you also said that you're gaining share in most markets. And Alexandre, I know you went through some of the markets where you're gaining, but could you perhaps put a figure on what percentage of sales you're actually winning share in?

And then the final one, you said CapEx is going to be around 5% for F '22. Can you give us some color on where the additional spend is going and also perhaps give us a steer on where you think CapEx can be long term? Should it go back to the 4% level that it was in the past? Or is 5% likely to be the new normal?

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Sure. Listen, on e-commerce, up 63%, e-commerce is still slightly below 5% of our total business. A big chunk of that, 95%, 96% is B2B2C, and the rest is B2C. By the way, that 63% growth is 50% growth in China, 80% growth in the U.S., 70% growth in the U.K., 30% growth in France and so on and so forth.

Listen, in terms of your question on share gains, if I take the way I measure share gains is I look at all our markets, market by market. But if you take our top 20 markets, I think we're gaining or at the very least maintaining share in at least 18 or 19 of our 20 top markets. So that's why I'm saying in almost all markets, and I'm not saying in all markets.

And on your question on CapEx, H el ene, what's happening to our investments?

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

Yes. It's a great question. So on CapEx, this circa 5% is linked to, I would say, an acceleration of the CapEx because it's fair to say that in the COVID context, it's not easy to as well be able to complete all the investments that we want to do. So there will be a part of a catch up. But at the same time, there's an acceleration of our investment behind great priorities. It's both in term of industrial investments to -- for maintenance but as well to support the growth ambition we have mid to long term. It's obviously as well in term of IT, many things happening not only behind digital transformation but which is already a very important topic, but as well in terms of cybersecurity and so on. So it's well spread, I would say.

And your question in term of, is it a new norm? A bit early to say. I would say it's fair to assume that this could be a right way to look at our CapEx in the midterm. And if we need to adjust that, I will do so obviously.

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

Thank you, Alexandre. Thank you, H el ene. Thank you, ladies and gentlemen. Charly and I are available to answer your remaining questions, and we will look forward to meeting an increasing number of you face-to-face in our coming roadshow. In the meantime, I wish you all a good day. Please stay safe and enjoy the on-trade responsibly. Thank you.

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

Thank you.

Alexandre Ricard - *Pernod Ricard SA - Chairman, CEO & Member of Executive Board*

Thank you.

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