# Equity Valuation: Pernod Ricard SA.

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**Abstract**

Pernod Ricard is a French conglomerate, holding a notorious portfolio of recognized spirits and wine brands. This work aims to perform a thorough valuation of the company and the market in which it is inserted, as a way to reach a final theoretical price. After using a set of financial and strategic assumptions and resorting to models like the Discounted Cash Flow and Relative Valuation, based on multiples, it was possible to achieve an intrinsic price of €189.67 according to the former and a range of prices between €189.55 and €200.58 according to the latter, constituting a BUY recommendation, when compared with the company's price on December 1st, 2023 (€158.15). These values were subsequently compared with the price achieved by an investment bank, which concluded a theoretical price not far from that reached in this dissertation, more specifically €194.00. Despite, the price estimated by the bank not being highly divergent from that achieved in this work, it considers a HOLD recommendation as more appropriate. However, it is understood in this dissertation that given the upside potential, allied to the positive perspectives for the company, a BUY recommendation is adequate.

Keywords: Alcoholic Beverages Industry, Discounted Cash Flow Model, Pernod Ricard, Regression Forecast, Spirits and Wine, Relative Valuation, WACC.

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**Resumo**

Pernod Ricard é um conglomerado francês, detentor de um portfólio notável de marcas reconhecidas de bebidas espirituosas e vinhos. Este trabalho tem como objetivo fazer uma avaliação minuciosa da empresa e do mercado onde esta está inserida, de forma a chegar a um preço teórico final. Após utilização dum conjunto de premissas financeiras e estratégicas e recurso a modelos como o Desconto de Fluxos de Caixa e Avaliação Relativa, baseada em múltiplos, foi possível chegar a um preço intrínseco de €189.67 de acordo com o primeiro e um espaço de preços entre €189.55 e €200.58 de acordo com o último, constituindo uma recomendação de COMPRA, quando comparado com o preço da empresa no dia 1 de Dezembro de 2023 (€158.15). Estes valores foram posteriormente comparados com o preço chegado por um banco de investimento, que concluiu um preço teórico não distante daquele atingido nesta dissertação, mais especificamente €194.00. Apesar, do preço estimado pelo banco não ser altamente divergente daquele atingido neste trabalho, o mesmo considera uma recomendação de MANTER mais apropriada. No entanto, é entendido nesta dissertação, que dado o potencial de crescimento, aliado às perspetivas positivas para a empresa, uma recomendação de COMPRA é adequada.

Keywords: Indústria de Bebidas Alcoólicas, Desconto de Fluxos de Caixa, Pernod Ricard, Regressão Previsional, Bebidas Espirituosas e Vinho, Avaliação Relativa, WACC.

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## List of Abbreviations

| | |
|---|---|
| 3-FF | Three Fama-French |
| A&P | Advertising and Promotion |
| APT | Arbitrage Pricing Theory |
| APV | Adjusted Present Value |
| bps | Basis Points |
| BV | Book Value |
| CAGR | Compound Annual Growth Rate |
| CAPEX | Capital Expenditure |
| CAPM | Capital Asset Pricing Model |
| CF | Cash Flow |
| COGS | Cost of Goods Sold |
| CRP | Country Risk Premium |
| D/E | Debt-to-Equity |
| D&A | Depreciation and Amortization |
| DCF | Discounted Cash Flow |
| DDM | Dividend Discount Model |
| EBIT | Earnings Before Interest and Taxes |
| EBT | Earnings Before Taxes |
| EMR | Expected Market Return |
| EV | Enterprise Value |
| FCFE | Free Cash Flow to Equity |
| FCFF | Free Cash Flow to Firm |
| FX | Foreign Exchange |
| FY | Fiscal Year |
| GDP | Gross Domestic Product |
| IMF | International Monetary Fund |
| $k_d$ | Cost of Debt |
| $k_e$ | Cost of Equity |
| LATAM | Latin America |
| LDA | Legal Drinking Age |
| M&A | Mergers and Acquisitions |
| MRP | Market Risk Premium |
| MSCI | Morgan Stanley Capital International |
| MV | Market Value |
| NC | Non-Current |
| NOPAT | Net Operating Profit After Tax |
| NWC | Net Working Capital |
| OCA | Other Current Assets |
| OLS | Ordinary Least Squares |
| OWC | Operating Working Capital |

| | |
|---|---|
| PGM | Perpetuity Growth Method |
| PP&E | Property Plant & Equipment |
| PR | Pernod Ricard |
| PRO | Profit from Recurring Operations |
| PV | Present Value |
| $r_f$ | Risk-free |
| ROIC | Return on Invested Capital |
| RoW | Rest of the World |
| RV | Relative Valuation |
| S&P500 | Standard & Poors 500 |
| SIB | Strategic International Brands |
| SLB | Strategic Local Brands |
| TGR | Terminal Growth Rate |
| TV | Terminal Value |
| US | United States of America |
| WACC | Weighted Average Cost of Capital |
| YoY | Year-over-Year |
| YTM | Yield to Maturity |

# 1. Introduction

The resilient alcoholic beverages industry is full of powerful and competitive players, which guided by the market concentration nature, work their way to the top by attempting to outperform the competition by closely following the surging market and innovation trends intrinsic to the industry, promoting a strong brand marketing for getting ahead market share-wise. Among these players, Pernod Ricard (PR) stands as a strong, innovative, and growing focused company, which detains most of the share of the market in one of the sub-types of the industry, the Spirits.

Through an intertwined approach that attempts to not only thoroughly analyze Pernod Ricard from a strategical and financial standpoint, but also to navigate through the Alcoholic Drinks industry peculiarities, it's expected to rightfully valuate the company, by reaching a final target share price for the upcoming fiscal year (June 2024). This valuation process was only possible by resorting to two different methods, a Discounted Cash Flow (DCF) and Relative Valuation (RV) models, grounded on a set of assumptions, legitimized by the company's fundamentals and the macroeconomic environment. It is crucial to note that these methods are validated by an extensive Literature Review on the subject, present in the first chapter of this dissertation.

In the end, the reached theoretical price is compared with an equity research report on Pernod Ricard, provided by a globally recognized bank, HSBC, serving to not only compare the valuation procedures and figures but also as a robustness test on the final theoretical share price.

To conclude it is important to acknowledge that the methods and reached conclusions of this work are based on a self-analysis and various assumptions. These should not be taken lightly or serve as a guarantee of a secure investment, but rather as a guiding light for investors interested in this industry in general and Pernod Ricard in particular.

# 2. Literature Review

This chapter gives an introductory note on the importance of valuation in finance. An overview of some important valuation characteristics, models, and paramount variables used in these is also performed.

## 2.1. Company Valuation

Valuation in general and company valuation, in particular, are crucial concepts to comprehend by anyone involved in the field of finance. That is so, not only because there are extensive practical uses for it in diverse professional areas related to finance, such as Portfolio Management, Mergers and Acquisitions (M&A) or Corporate Finance (Damodaran, 2012). It is also because one can identify the sources of economic value and destruction within a company by mastering these same concepts (Fernandez, 2023).

A firm is an asset, and every asset has a value. Even though there are many different methods and models to value a company (or asset), one of the most widely used ideas behind valuation is the concept of fundamental (or intrinsic) analysis, which is the idea that the true value of a firm is intrinsically related to its financial characteristics. Any deviation from this value is a sign of over or undervaluation of an investment (Damodaran, 2012).

However, the value added by fundamental analysis would challenge Fama's (1970) efficient market theory, which states that markets at any point in time fully reflect available information in the markets, since prices would adjust almost instantly, not giving opportunity for financial professionals to exploit mispricing in the market. Although this remains a valid theory among finance academics, according to Harvey (as cited in Fabozzi et al., 2017) this is not a realistic assumption, and the markets should be approached with a view of relative efficiency. Thus, if the price of financial assets is viewed as equal to the sum of expected values of discounted future cash flows, the market efficiency theory hinges on the ability to get as close as possible to the exact discount rates and expected cash flows. Therefore, even if we cannot reach the exact discount rates and amounts if we get closer to estimating the intrinsic price than others are, there is a possibility of making excess returns, when the market prices revert to their "true" price.

As a result, if we believe in this last approach, the intrinsic price of an asset could be exploited by using models and methods such as the DCF, RV, Adjusted Present Value (APV) or variations of the Dividend Discount Model (DDM), for instance.

### 2.2. Valuation Models

Even though there are many methods to value a company, in this work the focus will be on two major groups of valuation models, the first one being the so-called Net Present Value (NPV) (or Discounted Cash Flow) Model, which uses company fundamentals to try to determine the intrinsic value of a firm, in which the value is the sum of discounted expected future cash flows, as the case in DCF, APV and DDM Models. RV Models can also be resorted to value a company. These imply the use of market multiples, allowing one to determine the price of an asset by comparison with the analysis of the price of a similar asset (Fabozzi et al., 2017). Both types of methods possess advantages and limitations, and their use is deemed appropriate depending on the structure and peculiarities of each different firm.

#### 2.2.1. Discounted Cash Flow

One of the most known and widely used NPV models, among professionals and academics, is the DCF Model, mainly derived from the existing idea that the value of a stock in the present reflects the expectation of future cash flows. Hence, according to this model, we can relate the idea of the value of an asset to the Present Value (PV) of future cash flows on that same asset and calculate it by applying equation ( 1 ) (Damodaran, 2012; Fabozzi et al., 2017).

$$\text{Value} = \sum_{t=1}^{t=n} \frac{CF_t}{(1+r)^t} \qquad (1)$$

Where:

$CF_t$ = Cash Flow in period t

r = Discount rate reflecting the riskiness of the estimated cash flows

t = Number of periods

When using the DCF model there are two main pathways one could take to value a firm, either the Enterprise or the Equity Valuation approach (see Appendix A, for Equity Value approach). In the first we value the whole business, by discounting the cash flow available to all investors, whereas in the second, we can directly value the equity holders' cash flows. While both approaches use different definitions of cash flows and discount rates, they should yield consistent estimates of equity value (Damodaran 2012; Koller et al, 2020).

As aforementioned using the Enterprise Value (EV) approach would allow us to value the whole company. The value of the firm is obtained, as exhibited in equation ( 2 ), by discounting the expected cash flows to the firm, i.e., the cash flows available to all investors (equity and debt holders and other investors), at the weighted average cost of capital (WACC), since the cash flow is available to all suppliers of capital. It is also worth noting that from the EV approach, we can also derive the equity value, by subtracting debt and other nonequity claims[1] (Koller et al, 2020).

$$\text{Firm Value} = \sum_{t=1}^{\infty} \frac{\text{FCFF}_t}{(1+\text{WACC})^t} \qquad (2)$$

Where:

$\text{FCFF}_t$= Free Cash Flow to the Firm in period t

Even though DCF is widely used to value firms, one should be aware that, as with any other model, it also presents limitations. It only presents more accurate results in firms that exhibit positive and predictable cash flows and might run into problems when valuing distressed, cyclical, or private firms, for instance (Damodaran, 2012; Fabozzi et al., 2017). When these situations are in place, one should consider the use of other different models or methods.

[1] Other nonequity claims arise when stakeholders other than shareholders have a claim against the company's future cash flow but do not hold traditional interest-bearing debt or common stock.

#### 2.2.1.1. Free Cash Flow to Firm (FCFF)

According to Pinto et al. (2010):

> Free cash flow to the firm is the cash flow available to the company's suppliers of capital after all operating expenses (including taxes) have been paid and necessary investments in working capital (e.g., inventory) and fixed capital (e.g., equipment) have been made. FCFF is the cash flow from operations minus capital expenditures. (p. 147)

A company's expected FCFF, normally calculated as in equation ( 3 ), is the basis for any DCF analysis and it is derived from a variety of assumptions about its expected financial performance and is typically projected for five years[2]. The objective is to project FCFF to a point in the future where the target company performance is in a steady state, serving as the basis for the terminal value computations (Rosenbaum & Pearl, 2009).

$$FCFF_t = EBIT_t\ (1 - \text{Tax Rate}) + D\&A_t - CAPEX_t - \Delta NWC \quad (3)$$

Where:

$EBIT_t$ = Earnings Before Interest and Taxes in period t

$D\&A_t$ = Depreciation and Amortization Expenses in period t

$CAPEX_t$ = Capital Expenditure in period t

$\Delta NWC$ = Changes in Net Working Capital in period t

Additional comments on the FCFF variables can be read in Appendix A.

#### 2.2.1.2. Weighted Average Cost of Capital

The WACC is the widely accepted standard to discount the FCFF, which is one paramount DCF analysis variable. According to Koller et al. (2020), the "WACC represents the returns that all investors in a company…expect to earn for investing their funds in one particular business instead of others with similar risk", hence also called as opportunity cost of capital. In its simplest form, the WACC is calculated as in ( 4 ). It should not also be forgotten that there are cases where the company has other securities, like preferred stock or hybrid

[2] The period may be longer depending on the sector of the firm, stage of development and CF predictability.

securities. In that case, we should also add to the formula the proportion of that security on the total firm's value, as well as the expected rate of return on that same security.

$$WACC = \frac{D}{V} k_d (1 - T_m) + \frac{E}{V} k_e \quad (4)$$

Where:

$\frac{D}{V}$ = Target Level of Debt using Market-based Values

$\frac{E}{V}$ = Target Level of Equity using Market-based Values

$k_d$ = Cost of Debt

$k_e$ = Cost of Equity

$T_m$ = Company's Marginal tax rate on income

#### 2.2.1.2.1. Target Capital Structure

The capital structure represented in equation ( 4 ) by (D/V) and (E/V) plays a significant role in determining the WACC, as the company's long-term capital structure split trend will mold the basis for the cost of capital.

The capital structure is preceded by the word "Target" not by chance but rather because under no circumstance we should deem appropriate the use of a company's book values to determine WACC (Fernandez, 2011), mainly because the company's capital structure may change over time and differ substantially from what it will be in future years, so WACC may also change (Pinto et al., 2010). Therefore, it should be used a target capital structure that is coherent with the firm's long-term strategy. Consequently, there are several approaches for estimating the appropriate target capital structure. Koller et al. (2020) suggest various valid approaches to calculating it, such as determining the market-based values of capital structure, resorting to public comparable companies as a meaningful benchmark for target capital structure, and/or reviewing the company's management policies and outlook for these variables.

#### 2.2.1.2.2. Cost of Debt

The cost of debt represents the cost the firm incurs by borrowing funds to finance the business. The best proxy to determine the cost of debt is by using the Yield to Maturity (YTM), implied in the company's long-term option-free bonds, which can be computed by reverse-engineering the equation. This approach delivers more accurate results when the firm has liquid, widely traded, option-free, long-term debt. When this is not the case, the best option is to use as a proxy, the company's credit ratings and associated default spreads (Damodaran, 2012; Koller et al., 2020).

The aforementioned cost of debt estimation methods will lead us to a pre-tax cost of debt. However, as interest expenses are deductible to the firm, we use in WACC an after-tax cost of debt, as shown in ( 4 ). Since the marginal tax rate better reflects the company's future cost in raising funds, the marginal tax rate is more appropriate for these computations rather than simply using the firm's effective tax rate (given by reported taxes divided by pretax income).

#### 2.2.1.2.3. Cost of Equity

Damodaran (2012) refers to the cost of equity as "the rate of return investors require on an equity investment in a firm."

The cost of equity can be determined using different types of methods (see Appendix A, for other alternatives to compute the cost of equity). However, even though the Capital Asset Pricing Model (CAPM) theory is contested by some, it is still unanimously used by most practitioners to determine the cost of equity, thus the focus and basis of this work will be set on the premises defined by the CAPM for determining it.
The CAPM lies in various principles and assumptions, being the chief ones the fact that investors do mean-variance investments, i.e., they will allocate funds for a portfolio that offers the highest expected rate for a given standard deviation (known as an efficient portfolio), so if investors can lend or borrow at the risk-free rate of interest, they will invest solely towards the best efficient portfolio (the one that offers the highest ratio of risk premium to standard deviation). It also assumes that all investors have the same market information, so in that case, everyone should hold the market portfolio (the same portfolio everyone else holds). Moreover, they do not look at the risk of a stock in isolation but rather at its

contribution to portfolio risk, which depends on the stock's sensitivity to changes in the value of the portfolio. Finally, a stock's sensitivity to changes in the value of the market portfolio is known as beta.

The conclusion is that if beta measures each security's contribution to the market portfolio risk, then the risk premium demanded by investors is proportional to beta (Brealey et al., 2010). Simplifying it, the CAPM cost of equity is given by ( 5 ).

$$E(R_i) = r_f + \beta_i[E(R_m) - r_f] \quad (5)$$

Where:

$E(R_i)$ = Expected Return of Security i

$r_f$ = Risk-free rate

$\beta_i$ = Security i's Sensitivity to the Market Portfolio

$E(R_m)$ = Expected Return of the Market Portfolio

Even not being implicit in equation ( 5 ) it is worth mentioning that an adjustment on company-specific risk should be added for accuracy purposes, such as country[3] or even an industry risk measure.

#### 2.2.1.2.3.1. Risk-Free Rate

The risk-free (rf) rate is the expected return on a security that bears no risk. Even though all securities, even those considered riskless, always present some implied risk, the most common proxy for the risk-free rate is national T-bills, T-bonds, or T-notes. Due to a historic panorama of low-interest rates (sometimes even negative), Koller et al. (2020) suggest the use of a synthetic risk-free rate, determined by summing the expected real interest rate and the long-term average real interest rates, to better forecast these macroeconomic trends.

[3] A Country Risk Premium (CRP) can be summed to the equation ( 5 ) in the form of CRP = λ × CDS Country Spread, where λ = Weight of revenues generated in a specific country. Having possibility to access Damodaran's database, where CRP of each country are being constantly updated, we can use Firm's CRP = λ × Damodaran CRP.

#### 2.2.1.2.3.2. Market Risk Premium (MRP)

The MRP, given in equation ( 5 ) by the spread between the Expected Market Return (EMR) and the rf, as any other variables used in CAPM also can be estimated by resorting to different approaches.

The most common way to compute the MRP is by resorting to historical data (see Appendix A, for alternative MRP estimation). By using this approach, one should collect data (historical EMR) from a stock index that reliably represents the geography[4] where the company operates and compare it against the expected return on a risk-free security[5]. Afterward, an average on this data should be performed using either an arithmetic or geometric average. However, according to Blume (1974), these estimators are biased depending on the time length used, so a better approach would be to use an estimator, suggested by the author, that consists of a combination of both computational forms. Another consideration to make is the historical time length used. There is some dispute here since some authors are proponents of shorter time lengths because they believe it better represents the risk aversion shift in investors. Nevertheless, authors like Damodaran (2012) and Koller et al. (2020) defend larger spanning datasets as they defend the larger the better to get better quality estimations.

#### 2.2.1.2.3.3. Beta

The Beta is a measure of systematic risk, i.e., the risk intrinsic to the entire market or the incremental risk of an investment to a market portfolio. We can use three chief methods to determine the Beta: The use of historical data; the appropriate use of fundamental characteristics of the investment; and the use of accounting (Damodaran, 2012). In this work, we will give more focus on what Damodaran (2012) refers to as the "Bottom-up Betas" approach, which consists of a combination of the first two referred concepts. Meaning, that regressed betas will be used (as in the first approach), and then the fundamentals of the firm will be looked upon, namely financial leverage (as in the second approach). The use of accounting betas will not be highlighted, since according to Damodaran (2012), this approach can bring some bias to computations.

[4] E.g., S&P500 for companies that operate in the US or the MSCI Europe Index for companies operating in Europe.
[5] The most used security by practitioners tends to be Government Treasury Bonds (Damodaran, 2012).

Hereby, the "Bottom-up Betas" approach consists, according to Damodaran (2012), of four fundamental steps: 1) Identification of the scope of the business the firm operates in; 2) Location of a poll of comparable firms and obtaining of their regression betas[6], which will be used to compute an average[7] beta for the firms; 3) Estimate the average unlevered beta of the business by unlevering the average beta of the comparable firms by their average D/E ratio, as shown in equation ( 6 ); 4) Estimation of an unlevered beta for the firm, by taking the sum of weighted average businesses the firm operates in (this just applies if a company operates in different branches of businesses); 5) Estimation of the Market Value (MV) of Debt and Equity to estimate a levered beta.

$$\beta(U)_{Business} = \frac{\beta_{Comparable\ Firms}}{[1 + (1 - t)(D/E\ ratio_{Comparable\ Firms})} \quad (6)$$

Where:

$\beta(U)_{Business}$ = Business Unlevered Beta

$\beta_{Comparable\ Firms}$ = Beta of Comparable Firms

t = Marginal Tax Rate

$D/E\ ratio_{Comparable\ Firms}$ = Debt-to-Equity ratio of Comparable Firms

Further adjustments can also be performed on the Beta to deliver more accurate computational results. There are many complex adjustment techniques, but the most used one is based on Blume's (1975) finding, that Betas revert to the mean, called "Beta Smoothing", which involves moving beta to the overall mean (Koller et al., 2020), like depicted in equation ( 7 ).

$$Adjusted\ Beta = 0.33 + 0.67\beta_{raw} \quad (7)$$

Where:

$\beta_{raw}$ = Raw Beta (Regression Beta)

[6] The regressed beta can be obtained by dividing the covariance between the stock's return and the market expected return by the variance of the market.

[7] The median can be used in case of outlier bias.

#### 2.2.1.3. Terminal Value (TV)

A still under-discussed yet highly significant variable for the DCF analysis is the Terminal Value. That is so because the larger portion of the EV comes from the TV discounting, therefore it is a variable that should be carefully considered and estimated. The TV is a variable used to capture indefinitely the Cash Flows (CF) beyond the period being analyzed and should be added to equation ( 2 ) in the form presented in ( 8 ).

$$\frac{TV_n}{(1 + WACC)^n} \qquad (8)$$

Where:

$TV_n$ = Terminal Value

n = Terminal year of the projected period

There are two main approaches for estimating the TV: the Perpetuity Growth method (PGM) and the Exit Multiple method. The PGM treats the company's terminal year FCFF as perpetuity growing at an assumed rate (in most cases the firm's long-term growth expectation, which in most cases tends to be the nominal GDP growth rate) and is given by equation ( 9 ).

$$TV_n = \frac{FCFF_n \times (1 + g)}{(WACC - g)} \qquad (9)$$

Where:

$FCFF_n$ = Free Cash Flow to Firm in the terminal period

g = Perpetuity growth rate

Another approach used to determine the Terminal Value is the Exit Multiple method. The method determines the terminal value by using a multiple of a company's terminal year EBITDA (Rosenbaum & Pearl, 2009) and it is given by ( 10 ). However, authors like Damodaran (2012) prefer to avoid a multiple approach when determining the TV, because

they consider mixing relative valuation with a DCF analysis a dangerous mix of two completely different valuation methods.

$$TV_n = EBITDA_n \times \text{Exit Multiple} \quad (10)$$

Where:
$EBITDA_n$ = Firm's EBITDA in the terminal period

### 2.2.2. Relative Valuation

At par with the DCF model analysis, Relative Valuation stands as one of the most known valuation methods. According to a survey ran by the CFA Institute almost 93% of participants, constituted by professionals, reported using RV as their main approach to valuation (Fabozzi et al., 2017). RV models estimate an asset's value relative to the value of comparable assets, being the main premise for this type of valuation the belief that on average the market is correctly priced, but sometimes stocks individually might get mispriced. Using RV models, however, allows for the identification and correction of these prices over time (Damodaran, 2012).

Hereby, RV consists mainly in using a set of comparable key ratios to value the firm being analyzed. Therefore, when choosing this method, one should be careful in the choice of two chief aspects: the peer group and the multiples. As for the first aspect, Koller et al. (2020) suggest the use of a peer group in the same industry that has similar prospects for Return on Invested Capital (ROIC) and growth, whereas for the second there are far more considerations to be made such as: 1) The use of forward ratios rather than backward-looking ones since these embed future expectations better than the historical data; 2) when valuing multi-business or multi-geography firms, perform a sum-of-the-parts valuation[8]; 3) Use multiples such the Net Enterprise Value to NOPAT, avoiding or carefully picking earnings ratios, which due to its distortion-potential nature may bring some bias to the valuation process (Koller et al., 2020).

[8] Type of valuation that consists of to break a company in parts (usually by business or geography) and valuate them individually. It is better suited to multi-business companies.

Even though RV valuation is alluring to many practitioners, due to its simple and swift essence, when valuing a company, one should be cautious when handling this type of valuation. The reason being that there is a high risk of bias and potential for errors, given that no two firms are alike, and the concept of comparable firms may sometimes be unclear.

### 2.3. Conclusion

There is a vast set of approaches, methods, and models one could resort to when valuing a company. For the rest of this work, the focus will be centered on two of the most widely used models of valuation: DCF and Relative Valuation. The choice falls into these two derived not only from their simplistic and intuitive nature but also because when properly used they can be reliable in the process of valuing a company. By performing the due analysis of a model that derives value from a company's fundamentals and another that takes value from the market (peer) valuation, is possible to get the best of two worlds: the company and the market perception.

Other mentioned models like the APV or the DDM were not deemed as value-adding methods to use in the valuation of the company being analyzed, Pernod Ricard SA. The APV because even though PR is a company constantly trying to invest and expand its reach in its market, it has also been capable over the years of controlling its debt ratios within a specific moderate and acceptable interval. As for the DDM, although there is a recognition of its value, not only distributed dividends were not as predictable in terms of growth but also the methods chosen were considered capable of better value-capture.

Additional content on the Literature Review can be explored in Appendix A.

# 3. Company Analysis

In this chapter, an overview of the company in analysis, Pernod Ricard SA., will be performed. The company strategy and financial performance will also be discussed.

## 3.1. Company Overview

Pernod Ricard is a French-based worldwide wine and spirits producer company, established in 1975 after the merger of two main forces in this area, Pernod and Ricard. It operates directly in 74 countries and distributes over 240 brands in more than 160. Its notorious portfolio brands include among many others, the well-recognized Absolut Vodka, Chivas Regal, Jameson Irish whiskey, and Havana Club rum. The group has been placed as number one for the worldwide premium spirits producer and number two worldwide for the wine and spirits category. The company classifies its products into five different strategic categories: Strategic International Brands, Strategic Local Brands, Specialty Brands, Strategic Wines, and Other Products. Geographically, it classifies its reach into three different categories: Americas, Asia/Rest of the World, and Europe.

Following the waves of M&A deals at the beginning of the century, the spirits and wine industry became concentrated in the hands of a limited number of players in the market, being PR one of these powerful players, which thrived by acquiring and managing a large number of well-established brands with enormous potential, eventually becoming number one in premium spirits and number two in wide spirits in the world (Pernod Ricard, 2023b; MarketLine, 2023).

## 3.2. Company Segments

As previously mentioned, Pernod Ricard segments and respective revenue breakdown can be divided by geography and strategic product placement.

### 3.2.1. Geographic Segments

Pernod Ricard operates primarily in three different strategic regions: Europe, Asia/Rest of the World[9], and the Americas (the composition[10] of each region can be seen in Appendix B).

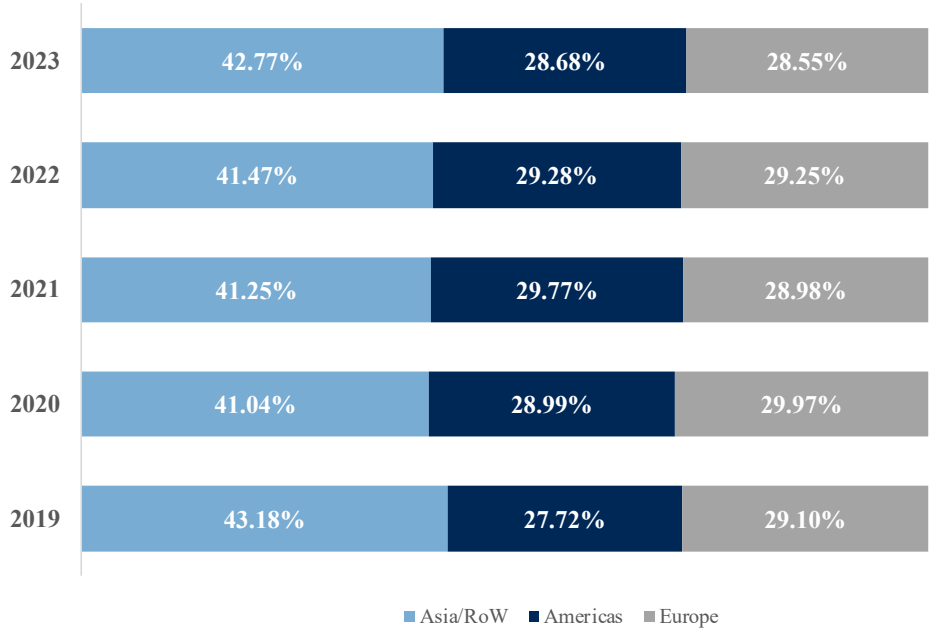


Figure 1: Historical Breakdown of PR's Net Sales by Geographic Segment (Pernod Ricard, 2023b)

As depicted in Figure 1, Asia/RoW is the region that unequivocally has been contributing the most to the company's net sales, with 42.77% of sales being attributed to this region in 2023, followed by the Americas and Europe, which closely dispute the second place in terms of sales, respectively with 28.68% and 28.55%. Even though this hierarchy, hasn't changed much in the last few years, the region of the Americas has been steadily gaining ground when compared to Europe, mostly due to factors such as the importance premiumization has assumed in the market, the dynamic growth of revenues in LATAM countries and macroeconomic factors, such as the positive FX impact.

The hegemony of the Asia/RoW region is mainly driven by growing and emerging countries, benefiting from premiumization in ultra-premium and prestige segments and the expansion of

[9] Asia/RoW comprises countries in Asia, Oceania, Africa, and the Middle East.
[10] It is only being considered the majority of countries where PR operates directly.

middle-class consumption in high-growing economies, such as China and India, where Pernod Ricard is a strong market leader (Pernod Ricard, 2022).

### 3.2.2. Product Segments

PR's brand portfolio encompasses various brands of spirits and wine, and it is divided into five different segments: Strategic International Brands (SIB), Strategic Local Brands (SLB), Specialty Brands, Strategic Wines, and Other Products (For further breakdown analysis see Appendix C).

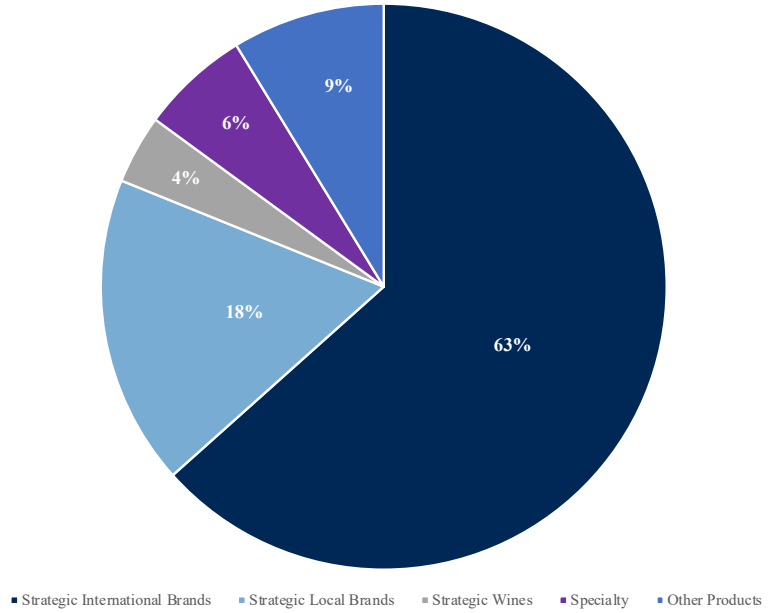


Figure 2: Historical Breakdown of PR's Net Sales by Product Strategic Segment in FY23 (Pernod Ricard, 2023b)

#### 3.2.2.1. Strategic International Brands

SIB is the backbone of Pernod Ricard's business. It represents the largest stake in the Group revenues and the one with which the company spans its reach over borders. As seen in Figure 2, in FY23 this segment represented 63% of net revenues, having organically grown by 11% when compared to FY22.

#### 3.2.2.2. Strategic Local Brands

SLB is PR's second most important segment (18% of total net sales in FY23). This segment benefits from a high adherence of local consumers and their loyalty to local brands. The segment is not meant for international distribution, allowing PR to penetrate important strategic markets. It had a 10% organic growth in FY23.

#### 3.2.2.3. Specialty Brands

Specialty Brands is the most recent segment, having been only integrated in 2018. It is recognized for its niche market brands, which despite comprising solely 6% of PR net sales, have been having the rapidest growth of all product segments in the last few years (24% average growth in the last 5 FYs, even presenting solid growth in the Covid-19 pandemic year (2020), when all other segments suffered considerably), with the perspective of becoming in the future Strategic International Brands.

#### 3.2.2.4. Strategic Wines

Strategic Wines is PR’s segment dedicated solely to the manufacturing and sales of wine brands. The segment allows PR to extend beyond the spirits business, this way diversifying their products. Strategic Wines represent 4% of Pernod Ricard's business. It is worth noting that this segment is possibly one of PR’s weak spots, which has been suffering some declines over the years (it had a 2% decline in organic growth in FY23).

#### 3.2.2.5. Other Products

Other Products is PR’s segment dedicated to alternative beverage products, such as Non-Alcoholic brands, which have been rapidly growing, due to general population health concerns and as consumers are shifting tendencies in the market, and Ready-To-Drink brands, whose growth has been notorious, mostly due to its portable and convenient format. This segment is the third biggest, constituting 9% of the company’s total revenues.

### 3.3. Company Strategy Overview

Since 2015, Pernod Ricard has been implementing a transforming strategy aiming to generate sustainable, profitable, and responsible growth in the market where it operates. This strategy consists of building an efficient growth model, based on four accelerators: 1) active portfolio management, bringing new brands on board quickly and efficiently, while optimizing its existing portfolio; 2) brand premiumization, which has been one of the company's main focus, following the awareness that this becoming a main consumer trend over the years; 3) innovation, by always keeping track of the new market and consumer trends and 4) digital transformation, where through its data analysis "Conviviality" platform, the company expects to pioneer new avenues for growth. (Pernod Ricard, 2023b).

### 3.4. SWOT Analysis

SWOT (Strengths, Weaknesses, Opportunities and Threats) Analysis is a tool that aids one in comprehending the internal and external environment where the company operates, thus shedding light on the state of the business and the company itself. The SWOT analysis was performed in this work by resorting to platforms such as Marketline (2023) and Statista (2023d). It can be further explored in Appendix L.

### 3.5. Financial Targets

The group also has medium-term ambitions that are important to be disclosed such as 1) net sales growth in the upper end of a range between 4% and 7% and an operating margin expansion of +50/+60bps; 2) advertising and promotion expenses consistent at around 16% of net sales; 3) disciplined investments in structure costs, allowing the group to pursue more pivotal investments; 4) continuing investment in future organic growth, through strategic inventories and capital expenditure; 5) pursuit of value-creating M&A transactions, which has been a paramount factor on putting the company on a competitive pedestal; 6) maintain a dividend payout ratio of around 50% of net Profit from Recurring Operations (PRO) and 7) carry out share buybacks (Pernod Ricard, 2023b).

# 4. Market Analysis

To understand the external environment where the company operates and to perform a more diligent forecast, it is pivotal to execute an analysis of the market in which the company is inserted.

## 4.1. Market Overview

The broader denomination of Pernod Ricard's market is the Alcoholic Drinks Market. However, this market is highly diversified and segmented, therefore it is important to place PR's business in the Spirits and Wine industry, with a special focus on the former denomination.

### 4.1.1. Global Alcoholic Drinks Market

The alcoholic drinks market is characterized by saturated volume sales. Companies in this segment try to tackle the issue by pursuing strong M&A and premiumization strategies. The market can be divided into five different main segments: Beer; Cider, Perry, and Rice Wine; Hard Seltzer; Spirits and Wine, which distribution in 202211 can be seen in Figure 3.

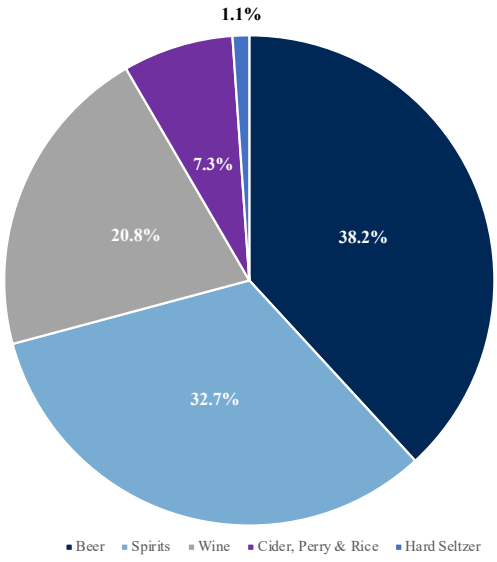


Figure 3: Distribution of alcoholic beverages Globally in 2022 (Statista, 2023a)

[11] It's being reported the year of 2022, since 2023 hasn't yet ended, thus the latter is being partly forecasted (the most recent update according to Statista is August 2023).

According to Statista (2023a), which covers 150 countries, in 2022 the overall alcoholic drinks market amounted to an astonishing €1.4 trillion (with a high chance to reach €1.5 trillion in 2023), which is equivalent to 272 billion liters of alcohol sold. As depicted in Figure 3, the market is mostly concentrated on the beer segment (€539.4 billion in revenues in 2022), closely followed by the spirits industry (€461.4 billion in revenues in 2022), with wines appearing in third place (€293.5 billion in revenues in 2022) and the other 2 segments in a visible minority. The overall market is expected to grow at a 4.73% CAGR between 2023 and 2027, reaching a total revenue of €1.9 trillion with a revenue change in 2023 of 6.9%. In Figure 4, it is possible to further analyze the historical and forecasted growth in the market.

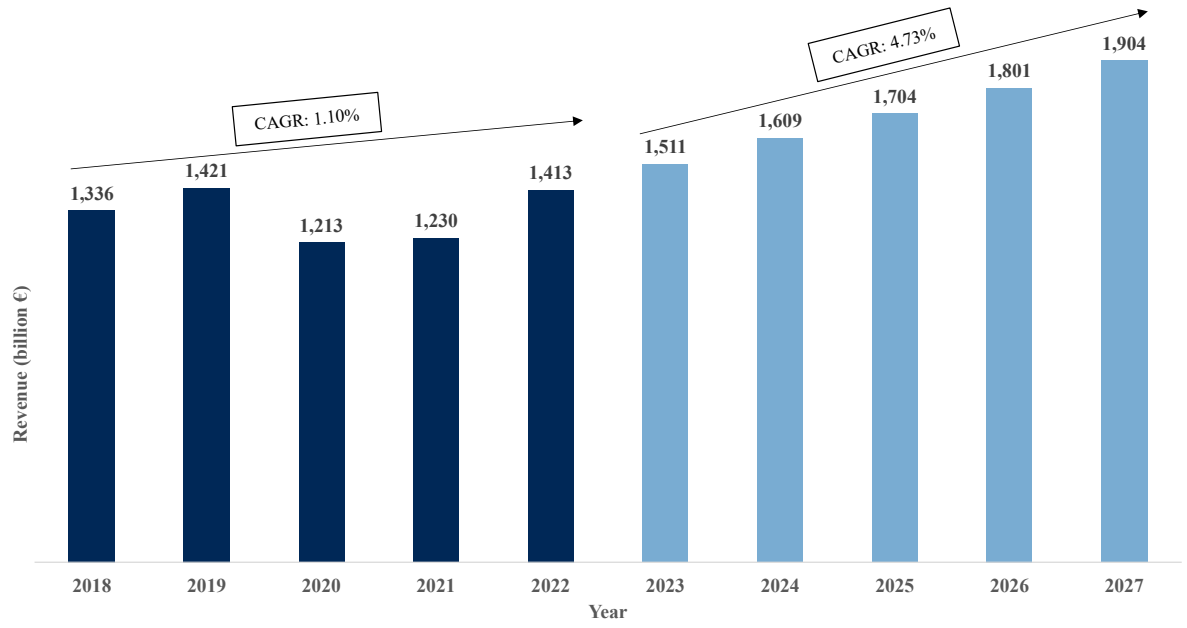


Figure 4:Global Historical (dark blue) and Forecasted (light blue) Alcoholic Beverages Revenue (Statista, 2023a)

### 4.1.2. Spirits Market

The spirits' market is Pernod Ricard's stronghold. It constituted about 72% of net sales in FY23. The spirits market encompasses distilled alcoholic beverages with an alcohol content ranging from 20% to 50% or more in terms of volume. The market is structured into segments such as Whisky, Vodka, Rum, Gin, and Brandy as well as Liqueurs and Other Spirits.

As aforementioned, spirits were the second most sold alcoholic beverage worldwide, amounting to €461.4 billion in 2022, and expected to reach €493.4 billion in 2023, with an

expected CAGR (2023 – 2027) of 4.05% and a historical CAGR (2018 – 2022) of 2.61% (Figure 5).

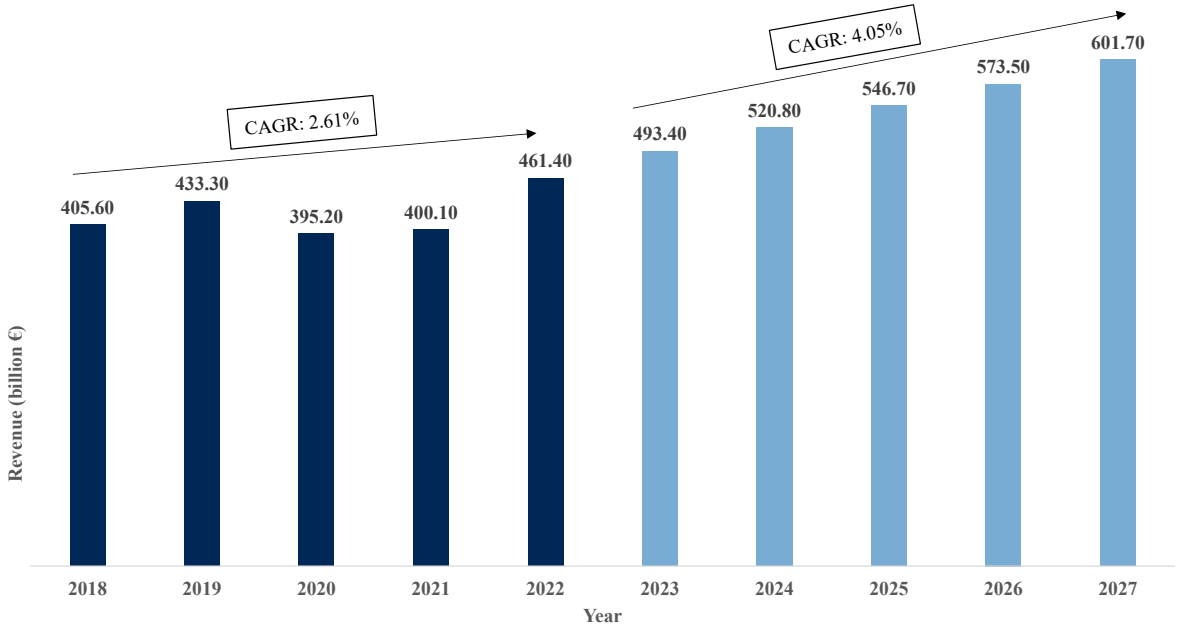


Figure 5: Global Historical (dark blue) and Forecasted (light blue) Spirits Market Revenue (Statista, 2023b)

The countries that spent the most in spirits in 2022 were Japan (€469.3 per capita) and Estonia (€431.6 per capita). As seen in Figure 6, Asia is the continent that concentrates the biggest revenue in this segment.

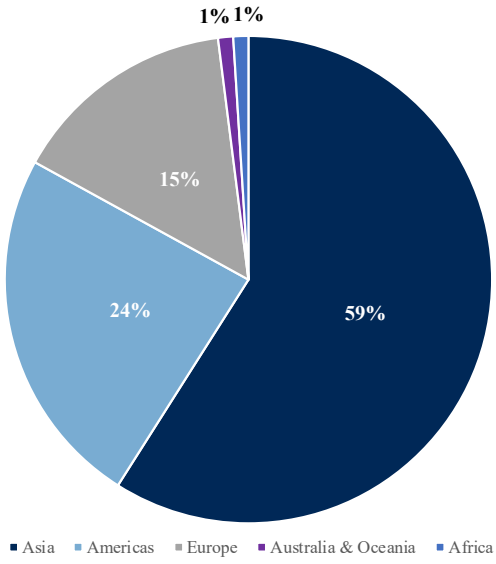


Figure 6: Revenue Share in the Spirits Market in 2022 (Statista, 2023b)

### 4.1.3. Wine Market

Wine is the second most important category of beverages in PR's portfolio. Even though the Strategic Wines segment represents only 4% of PR's business there are other recognized and pivotal wine brands for PR, such as G.H. Mumm and Perrier-Jouet, that are scattered among other categories (SIB or SLB), which totals 19% in net sales in FY23. Thus, it is important to dig through the wine industry as well.

The market is divided into three different segments: Still Wine, which includes Red, White, and Rosé wine; and Sparkling Wine, which includes champagne and Fortified Wine. Wine is the third major force in the alcoholic beverage industry, amounting to a total of €293.5 billion worldwide in 2022, having had an impressive growth of 13.5% when compared with 2021, the year where it is possible to observe the rebound from the Covid-19 pandemic. The growth in the wine market can be observed in Figure 7. It is important to mention that the descending trend between 2019 and 2020 was caused by the pandemic that affected most areas, including the alcoholic beverage industry.

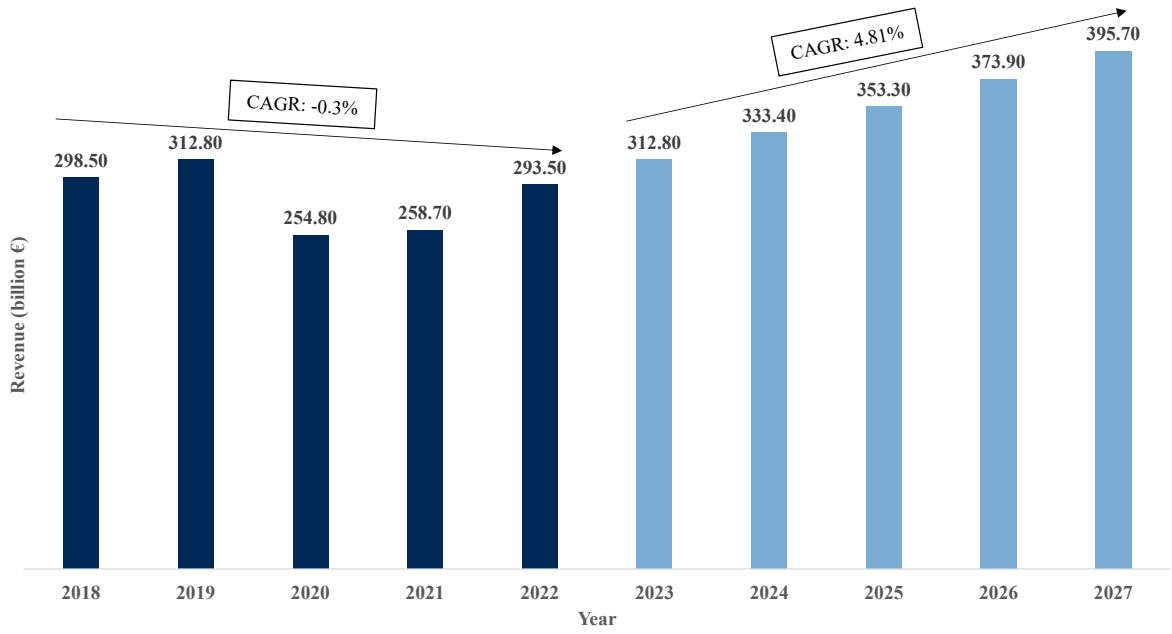


Figure 7: Global Historical (dark blue) and Forecasted (light blue) Wine Market Revenue (Statista, 2023c)

As seen in Figure 8, revenue is mainly condensed in Europe. The countries that contribute the most to this share are Norway (€595.5 in revenue per capita in 2022) and Luxembourg (€586.1 in revenue per capita in 2022).

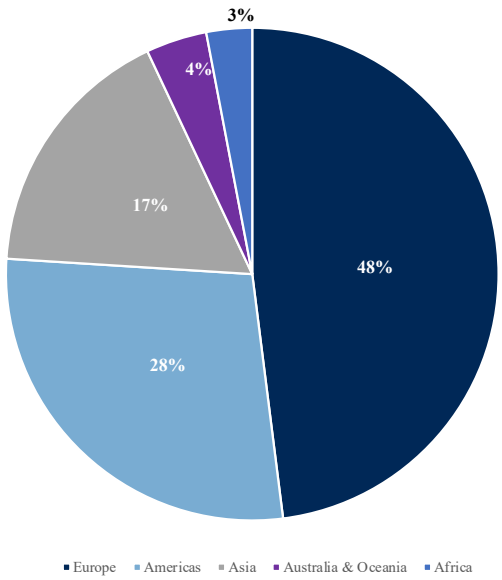


Figure 8: Revenue Share in the Wine Market in 2022 in % (Statista, 2023c)

### 4.2. Key Drivers

There is a set of paramount market drivers that guide the alcoholic beverage industry growth in general, and the spirits and wine market in particular.

#### 4.2.1. Premiumization

Premiumization is defined as the consumption trend towards higher-end products and is one of the chief drivers for growth in the market. Even though all global alcoholic beverage segments benefit from it, spirits is the market that seems to benefit the most from this characteristic. This phenomenon is driven by two major forces in the industry. The first one is the fact that the market is highly saturated, leading the expectations regarding the rising demand for premium brands. The second is related to the recent and possibly persevering economic fragility scenarios, which on one side could mean that the pressure on disposable income will directly lead to a reduction in consumption, on another it could mean that consumers will be more selective about the brands and categories they are willing to spend

their incomes in, thus expanding the trading of higher-end products. Also, the lower disposable household income outlook is expected to put higher pressure on volume rather than on value, specifically at the more price-sensitivity lower end of the market (IWSR, 2023; Statista, 2023a). In Figure 9, it is possible to further analyze the premiumization growth in the spirits' market.

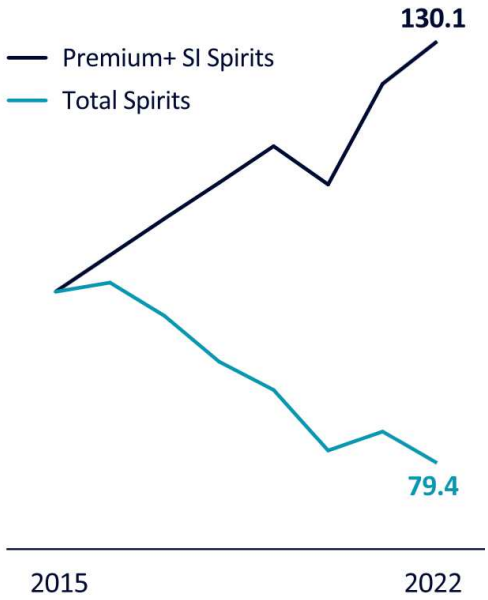


Figure 9: Change in the Volume of Premium + International Spirits vs. Total Spirits (across all price brands) between 2015 and 2022 (100 = 2015) (Pernod Ricard, 2023b)

It is also interesting to note that premiumization across all the alcoholic beverage segments seems to show, on average, resilience during and after recessions. According to IWSR (2022), if we analyze the US market alone, we can have a sample of these effects on action, mainly by analyzing GDP and Inflation levels vs. Alcohol consumption.

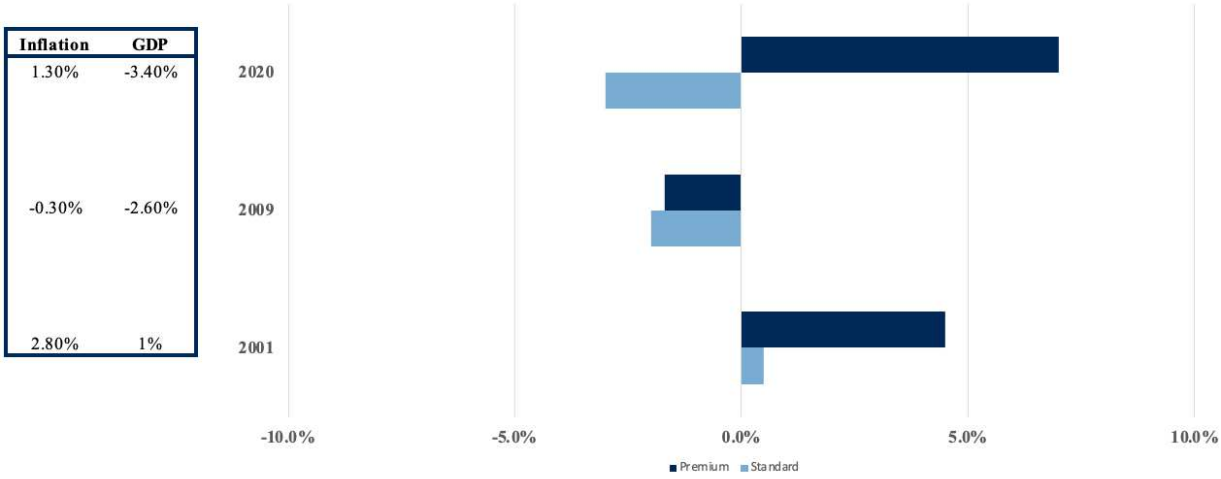


Figure 10: YoY Change in Alcohol Consumption by Price Band During Recessions (IWSR, 2022)

### 4.2.2. Demography

One of the catalyzers for the alcoholic drinks market growth is demographics, with birth rates, legal drinking age, and social norms being the main drivers for either a growth or decline tendency.

According to Pernod Ricard (2023b), two main elements are positively affecting its business. The first one is the increase in the LDA population, with an average growth of 1.3% between 2020 and 2025 and the second is the expansion of middle-class families in emerging countries. However, according to Statista (2023a), there are potential damaging factors for the growth of the alcoholic drinks industry in the future, one of them being the decline in birth rates and consequently the fastest-growing population with +55 years, leading to pressures in volume sales.

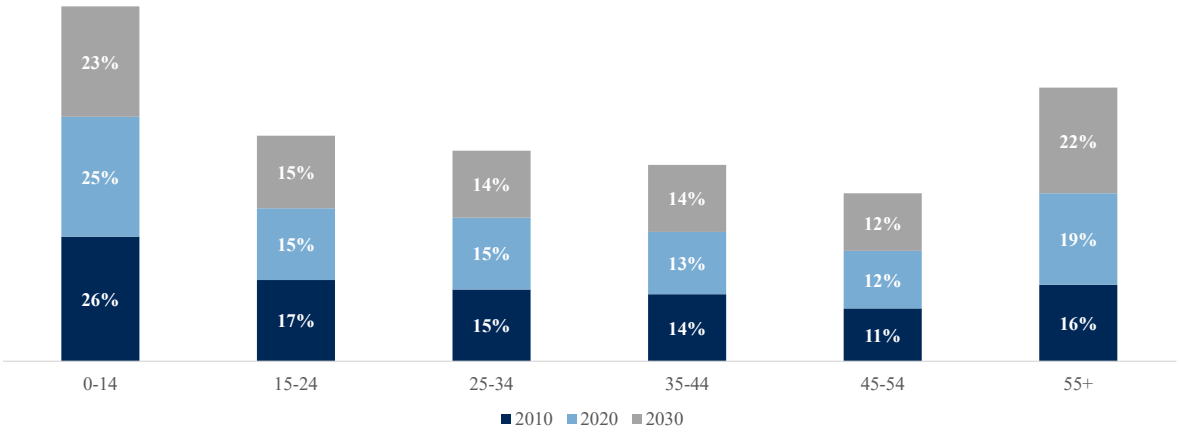


Figure 11:Worldwide Population by Age Group in % (Statista, 2023a)

Another factor that could negatively impact the industry is the overall awareness regarding alcohol's harmful effects, which is causing a general decline in alcohol consumption. As seen in the figure below, this is particularly true for Europe, whose decline can be explained by the aging population and health awareness. On the other side, Asia presents an increasing tendency, boosted by countries such as China and India (WHO, 2023; Statista, 2023a).

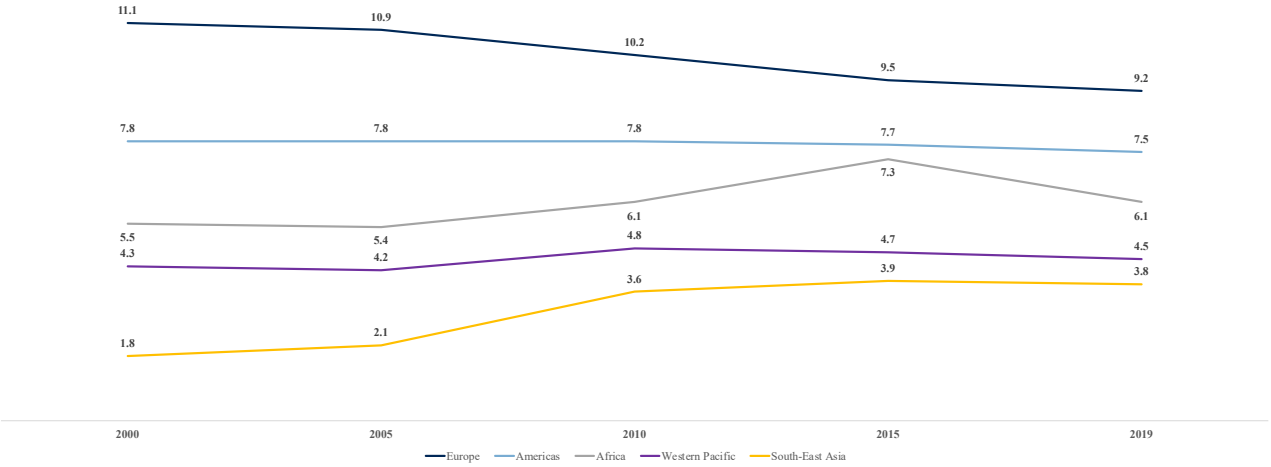


Figure 12: Total Consumption of Alcohol per Capita (+15 years) in liters (WHO, 2023)

## 5. Financials Analysis

In this segment, an analysis of some paramount financial PR items will be performed, based on the last 5 FYs, to deep dive into the company's financial analysis on the period being analyzed and contextualize the basis for future assumptions, which will be discussed in the next chapter. Also, to framework the analysis, the company's historical financial statements can be seen in detail in Appendix D.

### 5.1. Net Sales

The company designates on its statements the income coming from its Revenues as Net Sales. I.e., the revenue of its products after deducting items such as excise duties and volume rebates.

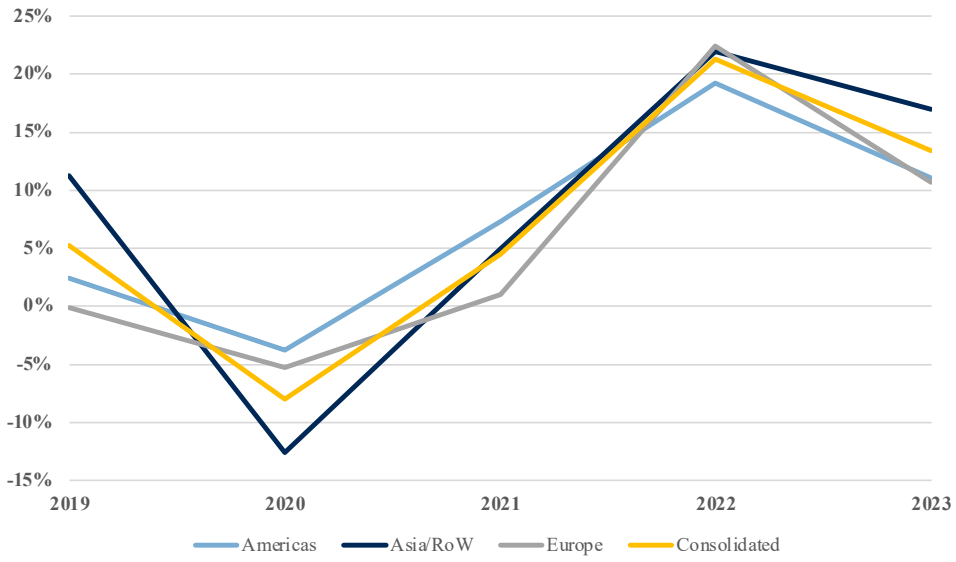


Figure 13: PR's YoY Net Sales Growth in the Last 5FY by Geographical Segment

After having the revenue by segment discussed, it's also crucial to analyze the company's Net Sales development. As depicted in Figure 13, overall PR's Net Sales Growth has been significantly positive, reaching its all-time peak in FY22 (21.27%), mainly driven by the strong travel retail rebound from the Covid-19 pandemic (Pernod Ricard, 2022b), which was the event responsible for the considerable slump in 2019-2020, with Asia/RoW having the heaviest hit, mainly due to the heavy lockdown policies applied to one of the central contributors to this region, China.

### 5.2. Profit from Recurring Operations

The PRO serves as the company's primary operating profit gauge, commonly designated as EBIT. Due to the nature of some infrequent occurring items, the company clarifies that these shall not be inherent to the recurring performance of the Group. Thus, for CF purposes, for instance, this is the measure that should be used. The PRO is computed after subtracting the Cost of Sales, A&P Expenses and Structure Costs from Net Sales. PR has been able to efficiently control these types of costs over time, leading to a stabilized variation over the last 5 FY, which buildup can be analyzed in Figure 14.

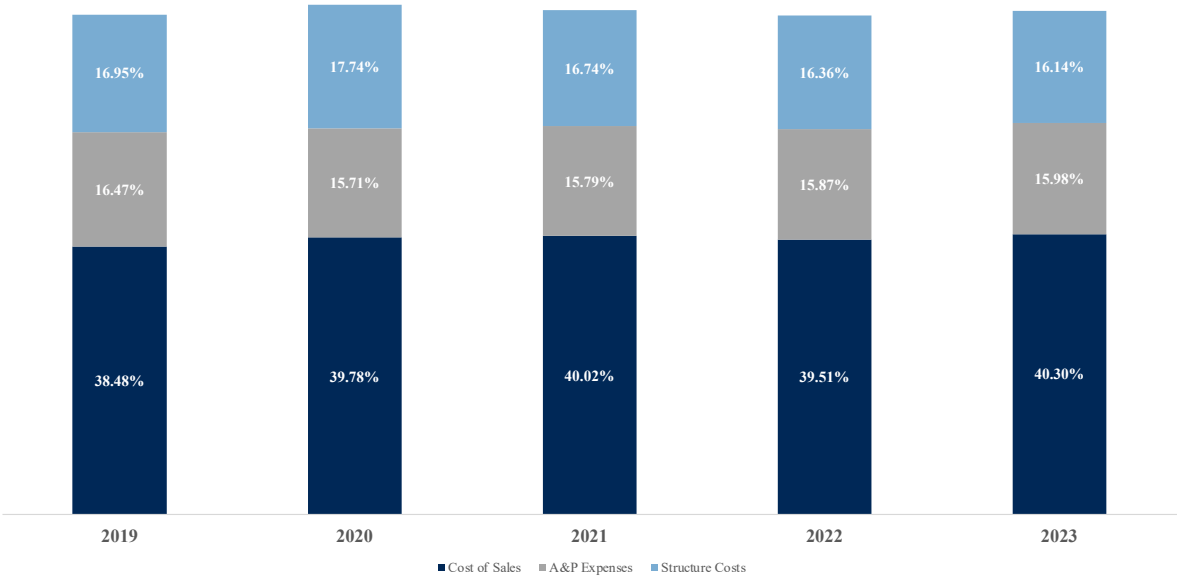


Figure 14: PR's Operating Costs as a % of Net Sales in the Last 5 FY

The ability to control these kinds of expenses has allowed PR to maintain a stable, but overall positive PRO growth trend, having been able to offset in FY23 the unfavorable macroeconomic framework, such as the inflationary pressures on COGS (particularly noticeable in the Americas) and negative FX impact on various emerging market currencies.

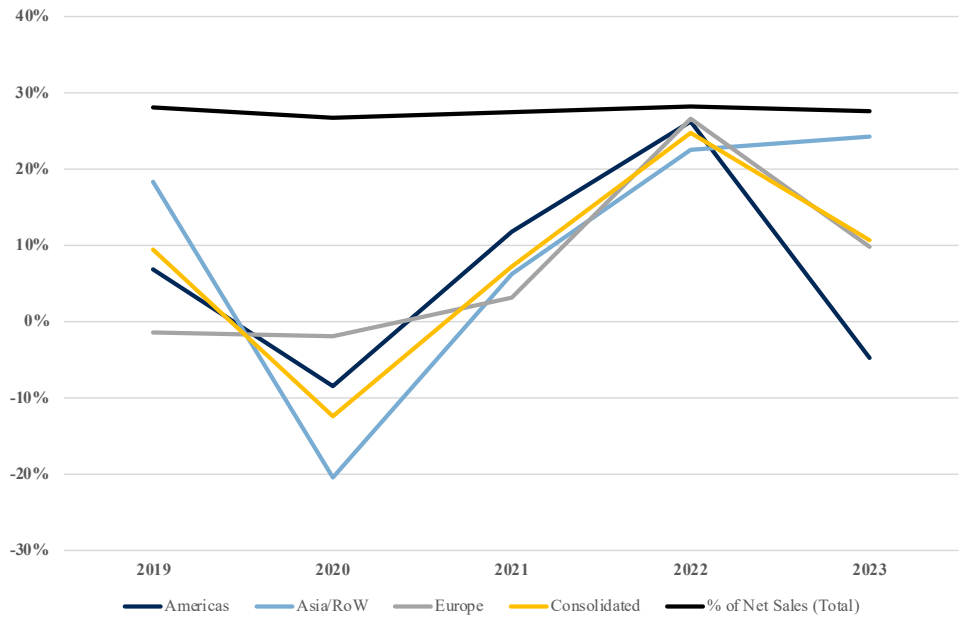


Figure 15: PR's YoY PRO Growth in the Last 5FY by Geographical Segment and Consolidated PRO % of Net Sales

### 5.3. Debt

The debt structure of a company is an important measure of its solvency and leverage levels. When analyzing the firm in terms of BV, it is possible to assess that most of Pernod Ricard's debt is mainly condensed on Bonds (86.42% in FY23), followed by Other Financial Current Liabilities, namely Bank Borrowings (9.51% in FY23) and Leases (4.07% in FY23).

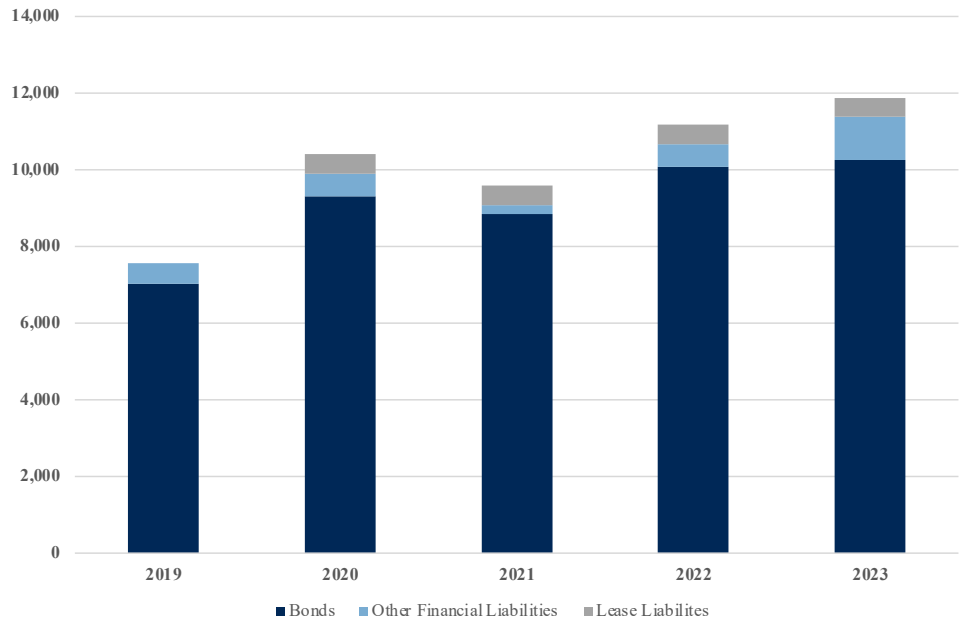


Figure 16: PR's Debt Breakdown in the Last 5 FYs in Million €

The company's portfolio expansion ambitions and business escalation have been highly supported by Debt. Hence, as seen in Figure 16, this item has a lifting tendency. However, it is safe to declare that the company's Debt falls into healthy and controlled parameters, with the company being able to manage diligently its leverage levels. This can be measured by the evolution of the Table 1 leverage ratios.

| Book Values | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Debt to Equity** | 0.47 | 0.73 | 0.64 | 0.69 | 0.71 |
| **Net Debt/EBITDA** | 2.36 | 3.25 | 2.69 | 2.54 | 2.73 |
| **Interest Coverage Ratio** | 7.46 | 5.61 | 5.91 | 9.82 | 8.81 |

Table 1: PR's Leverage Ratios Evolution

In FY23, the BV Debt-to-Equity ratio presented a value of 0.71 with very little shift throughout the past 4 years, always being able to maintain it below 1, signaling more reliance on equity, when compared with debt and consequently a mitigated financial risk. Even though, this ratio jumped considerably when compared with FY19. This can be mostly explained by the company results only bouncing back from the negative pandemic effects after FY20, growing at a slower pace than the debt being contracted. Nonetheless, as previously mentioned, these values are within a healthy and safe range, also boosted by the historically solid nature.

Moreover, the ability to comply with its financial obligations, measured by its Net Debt/EBITDA has been deemed as healthy and rather stabilized, with values with residual shifting and below 3, which tends to be a “rule-of-thumb” leverage health indicator. Another known leverage ratio, the Interest Coverage ratio has presented positive values, when gauged, for instance, by Damodaran’s (2012) implied rating proxy (Appendix I).

# 6. Forecast Models

To reach the final Pernod Ricard target price, two distinct forecast models were used: the DCF Valuation and the Relative Valuation Model.

## 6.1. DCF Valuation

The DCF Valuation model was performed by resorting to an OLS regression-based analysis at the level of some income statement items.

Since PR closes its FY in June of each year, the year 0 (historical) was set to June 2024, allowing for a target price analysis closer to the date of the present work submission. However, FY24 had to be forecasted as well, the latest available report at the date of the execution of this is from FY23. Moreover, it was used 5 years as the forecasted period (FY25 – FY29), when it is assumed, that the company will enter a steady state.

It is also important to mention that a Sum-of-the parts analysis was performed. I.e., when data on items of each geographical segment was available, it was forecasted for each segment and consolidated at the end. Each geographical segment and consolidated forecasted Income Statement can be further analyzed in Appendix E.

### 6.1.1. Net Sales

To forecast Net Sales, a regression-based analysis was executed. It was done so, mainly because there was not a clear pattern of this item on the company accounts, nor a clear vision on how sales would develop over time, despite the 4% - 7% CAGR target the company has for the 2023-2025 period.

Therefore, the solution was to rely on market forecasts for the industry, bound by the company's historical growth and growth outlook. The process consisted of several steps:

1. Identify a database, in which forecasts were included. The chosen databases were Statista Alcoholic Beverages data and IMF inflation (2023a) and GDP growth indicators (2023b).

2. Divide each database by geography, following the Appendix B list, to match the database geography with the company's geographical segments.

3. Since PR's other products, are a segment that is not covered by, for example, the Statista database, the analysis was solely conducted for the spirits and wine market. Thus, for the Statista database, it was only picked the data concerning these industries. Thus, the other products were also subtracted from the company's total historical net sales. We also know that spirits volumes tend to be affected by inflation patterns (IWSR, 2022), with inexistent data for the other product segments.

4. Infer if there is a high historical collinearity pattern between the database and each PR's geographic segment's historical net sales (for only wine and spirits). It was verified that the Americas and Asia/RoW presented this pattern with the Statista Database for Revenues in the spirits and wine segment. For Europe, the collinearity was not as strong. However, a stronger pattern was observed for the IMF inflation database (2023a). This could be attributed not only to a normal response of businesses in this industry to the rising inflation but also because some European governments tend to adjust the excise duty tax in line with inflation (Kiely, 2023). For GDP, the results were not significant enough.

| | Americas | Asia/Row | Europe |
|---|---|---|---|
| Correlation IMF's Inflation Database | 0.509 | 0.540 | 0.981 |
| Correlation IMF's GDP Database | 0.183 | 0.121 | 0.284 |
| Correlation Statista Database | 0.832 | 0.897 | 0.664 |

Table 2: Correlation Between PR's Geographical Segments and Statista and IMF Databases

5. Perform an OLS regression, for the period 2015-2022[12], PR's historical YoY change in net sales for wine and spirits in the Americas and Asia/RoW on the historical YoY change in the database revenue for the same industry. For Europe, the same rationale was applied, but the historical inflation growth database was used instead. In the end, assess statistical significance. The regression can be seen below and descriptive statistics in Table 3.

$$\Delta Y = \beta . \Delta X \quad (11)$$

Where:

$\Delta Y$ = YoY change in historical net sales in each PR's geography

$\beta$ = Regression Beta

$\Delta X$ = YoY Change in Database

| | Change in Net Sales | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| | Americas | Asia/RoW | Europe |
| Change in Database | 0.555*** | 1.071*** | 2.462*** |
| | (0.143) | (0.215) | (0.200) |
| _cons | 0.042** | 0.013 | -0.053*** |
| | (0.016) | (0.020) | (0.009) |
| Obs. | 8 | 8 | 8 |
| R-Squared | 0.681 | 0.805 | 0.962 |

Standard errors are in parenthesis
***p<0.01, **p<0.05, *p<0.1

Table 3: Net Sales Regressions' Descriptive Statistics

6. Based on the database forecasts, obtain the future growth for PR. Due to the data length in each different database, for Europe, the forecasted period is 2024 – 2028. However, for the Americas and Asia/RoW it was only possible to forecast until the year 2027. For the latter two, even though collinearity with inflation was not optimal, it is known that inflation is a macroeconomic driver in this industry. Therefore, it was applied the inflation change between the year 2027 – 2028 to forecast the year 2028. For the year 2029 in all

[12] It is the minimum period available in the Statista Database. The same period was used for IMF database, for congruency purposes.

regions, it was considered a stabilization in growth. Thus, assuming the same growth as 2028.

7. Other products were added as an average percentage of the historical 3-year net sales.

8. When consolidated, it was observed that the forecasted growth fell under the company's outlook parameters for the medium-term period. Therefore, accepting that the forecast is acceptable.

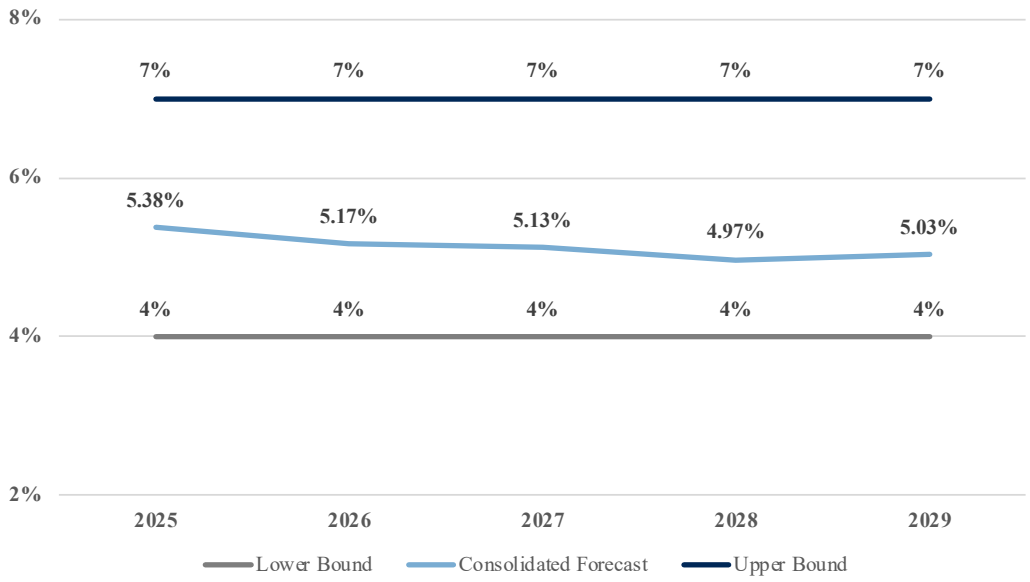


Figure 17: PR's Consolidated Forecasted Net Sales Growth vs. Outlook for Net Sales Growth (Lower and Upper Bound)

It is important to disclaim that this methodology-based analysis was not performed to obtain an accurate or near-perfect forecast model, but rather to observe, based on self-assessed suitable database forecasts and good correlation profiles, how would PR sales shift annually in the future. Thus, empirical robustness tests are not being performed, reminding that the obtained values are bound to the company's outlook and reasonable analysis of the company and market outlook.

### 6.1.2. Cost Structure

#### 6.1.2.1. Cost of Sales

The company does not provide ample information on the Cost of Sales. However, over the last 10 years, for all regions, this item as a percentage of net sales has fallen under a strict and controlled range (under 2% standard deviation in the last 10 FYs). Since there tends to exist a high collinearity profile between sales and cost of sales and the most realistic assumption would be to vary the aforementioned ratio with the growth tendency of sales, another regression was conducted, following the rationale of net sales, but now regressing for each geography, the company's historical cost of sales growth on the company's own historical net sales growth. Then, forecasting the future cost of sales, based on the forecasted net sales growth. Having information for both variables, the period used here was FY15-FY23.

| | Change in Cost of Sales | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| | Americas | Asia/RoW | Europe |
| Change in Net Sales | 0.861*** | ***0.869 | 0.859*** |
| | (0.021) | (0.078) | (0.111) |
| _cons | 0.013 | 0.019* | 0.014 |
| | (0.021) | (0.009) | (0.009) |
| Correlation | 0.826 | 0.973 | 0.946 |
| Obs. | 9 | 9 | 9 |
| R-Squared | 0.682 | 0.946 | 0.956 |

Standard errors are in parenthesis

***p<0.01, **p<0.05, *p<0.1

Table 4: Cost of Sales Regression's Descriptive Statistics

#### 6.1.2.2. A&P Expenses

The company reports that pretends to maintain for A&P Expenses a 16% ratio of net sales. Therefore, this ratio was kept in perpetuity.

### 6.1.2.3. Structure Costs

PR does not provide notes or any information on this item. It simply mentions that intends to have disciplined investments in it. Once again, the ratio as a percentage of sales has been constant over time in each geography (under 2% standard deviation). Thereby, once again, by assessing first the collinearity profile, the same process as in cost of sales was conducted.

| | Change in Structure Costs | | |
|---|---|---|---|
| | (1) | (2) | (3) |
| | Americas | Asia/RoW | Europe |
| Change in Net Sales | 0.751** | ***0.639 | 0.876*** |
| | (0.273) | (0.124) | (0.174) |
| _cons | -0.002 | 0.015 | -0.010 |
| | (0.026) | (0.022) | (0.015) |
| Correlation | 0.721 | 0.889 | 0.885 |
| Obs. | 9 | 9 | 9 |
| R-Squared | 0.521 | 0.791 | 0.784 |

Standard errors are in parenthesis

***p<0.01, **p<0.05, *p<0.1

Table 5: Structure Costs Regression's Descriptive Statistics

### 6.1.3. Tax Rate

For simplification purposes, throughout the valuation process, only the effective tax rate was used (as opposed to the marginal).

Even though there were years in the near past when the effective corporate tax rate shifted quite brutally (mainly due to tax policy reforms in certain domains where the company operates), when analyzed in depth it is possible to verify that when those outlier years are withdrawn, the tax rate is quite constant. Thus, to forecast the effective tax rate, the assumption was that from FY23 onwards, the tax rate would consistently increase at a 20bps rate until reaching the 10-year (except outliers) average (23.33% in FY23)

### 6.1.4. Net Operating Working Capital

Seven different items were accounted for to compute Net OWC. These are Inventory, Receivables, Other Current Assets and Liabilities, Deferred Tax Assets and Liabilities and Payables. It is noteworthy that the company only reports operational items under Other Current Assets and Liabilities.

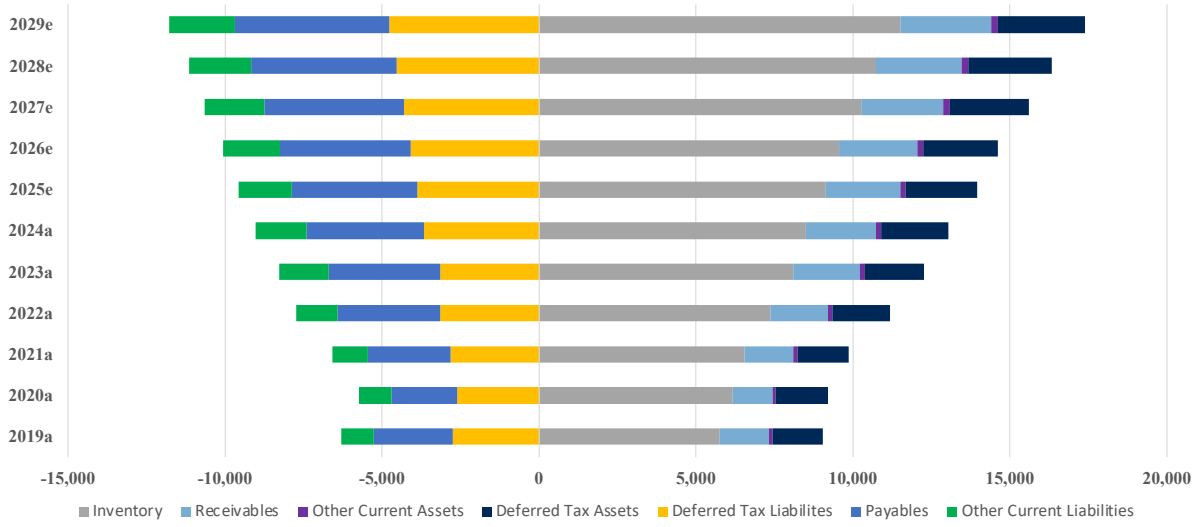


Figure 18: PR's Forecasted vs. Historical Net OWC Items in Million €

#### 6.1.4.1. Inventory

Due to the characteristics of its business, PR maintains a high level of inventories. This happens because there is a set of alcoholic beverages that need time to mature. Therefore, this does not necessarily mean that the company has issues with the efflux of inventories.

According to the company's outlook, PR sets the goal of maintaining levels of inventory similar to FY23, for the future. Based on that, it was decided to set an arbitrary goal for FY29, of modest growth of +50bps in terms of Inventory Days, between 2023 and 2029, with this value varying equally YoY. Hence, reaching a 5.21% CAGR in inventories (2024 – 2029).

### 6.1.4.2. Receivables

If the Covid-19 pandemic FY (2020) is discarded, which was an outlier period, the Receivables-to-Net Sales ratio seems to show an undoubtful consistency, even superior to the Receivables Days. Then, this item was computed relying on this ratio.

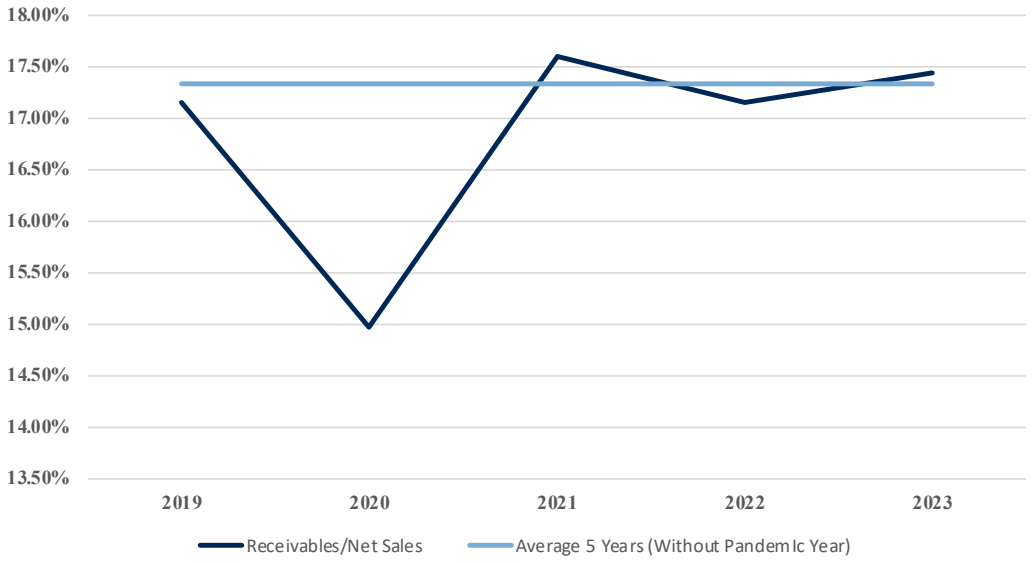


Figure 19:PR's Historical Receivables-to-Revenuer Ratio and Respective 5Y average (without pandemic FY)

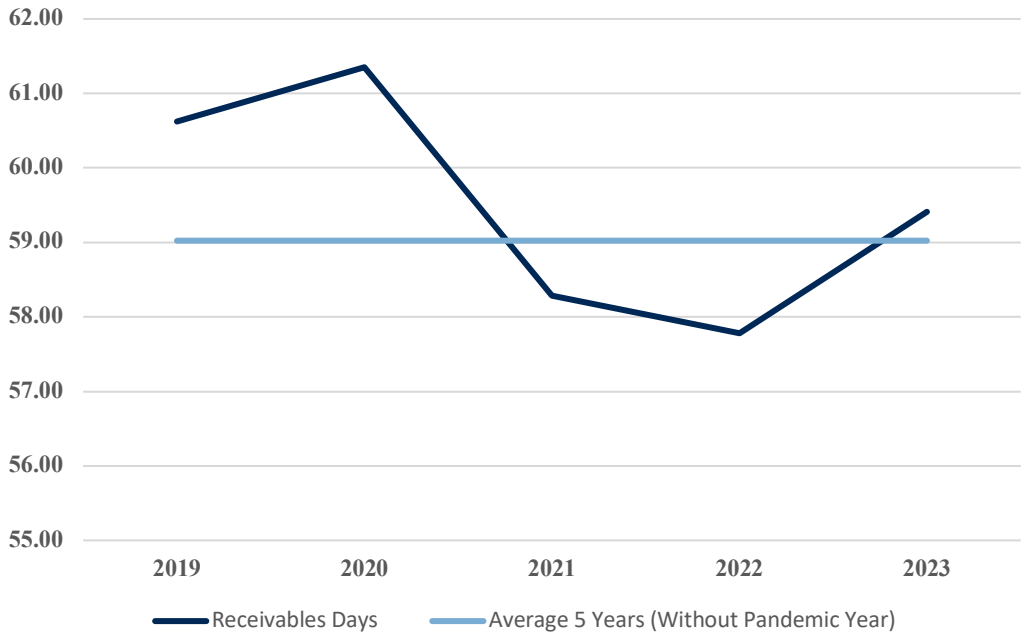


Figure 20:PR's Historical Receivables Days and Respective 5Y average (without pandemic FY)

Even though, according to the forecasts, PR is increasing YoY its revenues, and most times, this signifies an increase in this item, it's expected that PR can manage Receivables, which are already high in terms of absolute value.

#### 6.1.4.3. Other Current Assets and Liabilities

Other Current Assets have shown, in the last 5 FY, to be constant as a percentage of Net Sales. Hence, as in other items, the average of this ratio was used to forecast this item.

Even though the standard deviation for Other Current Liabilities is not as low as for Other Current Assets, it is likewise low if we consider only the last 3 FY (0.34% vs. 0.09% for OCA), hence the same process was used, with the difference that only the last 3 FY were used and to not have an accentuated fall in the absolute item value, there would be a change in the order of the average ratio value minus 10bps, until the ratio stabilizes in the average ratio, which happens in FY26.

#### 6.1.4.4. Deferred Tax Assets and Liabilities

For both items, it was verified that the ratio between deferred taxes and effective taxes tends to present a convincing constancy over time. This can occur due to various reasons, namely because of the company's stability, the differences between tax book values and fiscal norms can stabilize over time. Thus, for these items forecast it was considered that this relation would continue for the forecasted period.

#### 6.1.4.5. Payables

Both payable days and Payables/Net Sales presented the same low degree of volatility in the last 5 FY. However, to forecast this item, the Payable Days formula reversion was performed since it was assessed that by using this method, the forecast movement presents itself as more harmonious.

### 6.1.5. CAPEX

PR's expansion has been supported by astute and ambitious CAPEX investments over time, reaching in FY23 an all-time high value of €702 million, which was accompanied by an equally all-time high sales value. For FY24 the company intends to invest in the range of €800 million to €1000 million.

For the forecast, it was considered that the company would spend €900 million in CAPEX, a value that would fall in the middle range of the company's expectations. Even though it's being considered that net sales are increasing every forecast year, the growth level is not superior to those observed in FY22 and FY23, for instance. This way, since any company cannot support constant high CAPEX investments (at least if the company's profitability doesn't match these), the assumption being taken is that from FY24 onwards, the CAPEX-to-Net Sales ratio, which presents low volatility, will decrease at 70 bps until reaches the 5-year ratio average, in FY27, maintaining thereafter at a rate under the net sales growth rate.

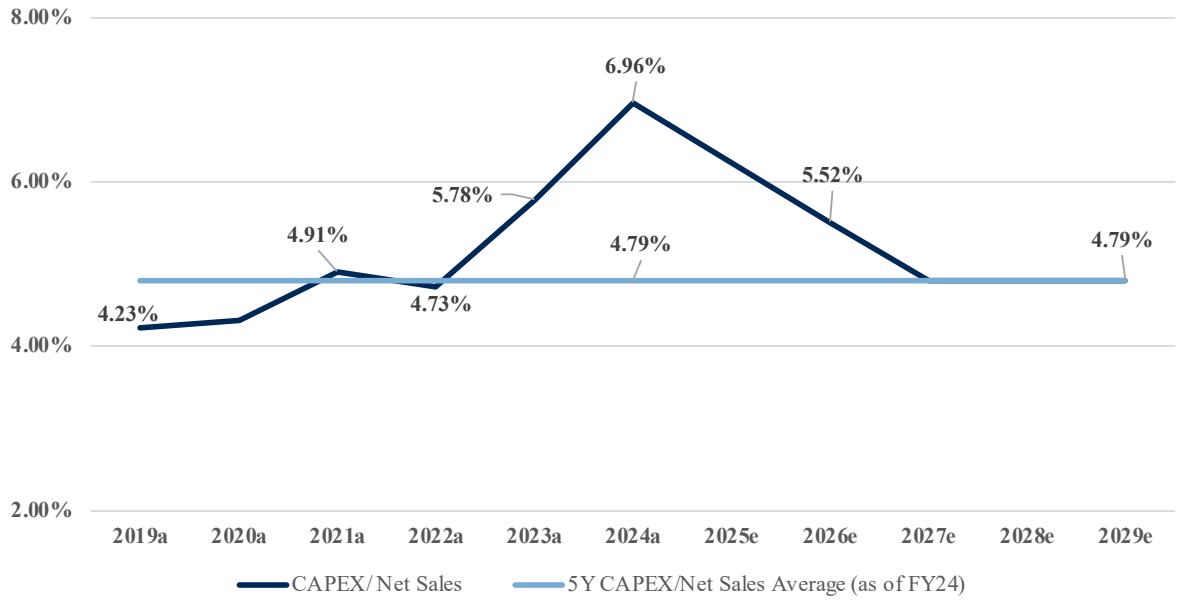


Figure 21: PR's Historical vs. Forecasted CAPEX/Net Sales

### 6.1.6. Depreciation

Since PR's intangible assets are not amortized, being only subject to impairment tests, the only analysis that should be performed for the DCF model is at the Depreciation level.

To forecast Depreciation, the first step was to forecast PP&E. For congruency and since PP&E and CAPEX are significantly related, once again the average last 5 FY PP&E-to-Net Sales ratio was assumed. Once again, the assumption was that the company would slightly adjust it (about 27 bps) until reached the ratio 5-year average in FY27 and maintain it constant thereafter. In sum, the premise is that the company has its PP&E Investment aligned with revenues, assuring a controlled PP&E Turnover.

| | 2019a | 2020a | 2021a | 2022a | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PP&E (Million €) | 2,424 | 2,549 | 3,095 | 3,177 | 3,591 | 4,190 | 4,453 | 4,721 | 5,004 | 5,253 | 5,517 |
| PP&E-to-Net Sales | 27.76% | 36.64% | 36.00% | 33.56% | 32.14% | 32.41% | 32.68% | 32.95% | 33.22% | 33.22% | 33.22% |

Table 6: PR's Historical and Forecasted PP&E and PP&E-to-Net Sales Ratio

It was then applied perpetually to the forecasted PP&E, the average depreciation rate, gauged by Depreciation/PP&E, of the last 2 FYs (10.65%) since it has remained almost unchanged, this way obtaining the Depreciation amounts.

| | 2019a | 2020a | 2021a | 2022a | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Depreciation (Million €) | 226 | 350 | 367 | 381 | 417 | 446 | 474 | 503 | 533 | 559 | 588 |
| Depreciation Rate | 8.87% | 11.31% | 11.55% | 10.61% | 10.69% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% | 10.65% |

Table 7: PR's Historical and Forecasted Depreciation and Depreciation Rate

### 6.1.7. Forecasted CF From Operations

CF from Operations is the first stronghold before forecasting the EV. The forecast of this item can be seen in Table 8.

| | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|
| EBIT | 3,348 | 3,559 | 3,730 | 3,900 | 4,075 | 4,247 | 4,429 |
| NOPAT | 2,606 | 2,763 | 2,889 | 3,013 | 3,140 | 3,264 | 3,396 |
| Change in Net OWC | 540 | 27 | 369 | 171 | 390 | 226 | 439 |
| CAPEX | 702 | 900 | 850 | 790 | 722 | 758 | 796 |
| DepreciationS | 417 | 446 | 474 | 503 | 533 | 559 | 588 |
| **Operational CF** | **1,781** | **2,330** | **2,191** | **2,599** | **2,604** | **2,885** | **2,796** |

Table 8: Forecasted CF from Operations

### 6.1.8. WACC

Even though a dynamic WACC can be used to discount a company's operational CFs, WACC tends to be used by most practitioners as a virtually fixed rate. Hence, for PR's analysis, a fixed WACC rate based on the following discussed FY23 factors, was used. That was performed so, due to one main reason, which is, the fact that simplifying a process based on actual historical values, which *per se* do not tend to shift immeasurably YoY (also because of a somewhat constancy on PR's debt structure) will allow us to have a clearer picture on a more accurate WACC rate to use. Below, it will be further discussed each one of the factors used for the WACC's computation, which resulted in a discounting factor of 6.95%.

| | |
|---|---|
| **$k_e$** | 7.94% |
| **$k_d$ (Pre-Tax)** | 3.50% |
| **MV Debt (Million €)** | 12,056 |
| **MV Equity (Million €)** | 51,824 |
| **Debt-to-Value Ratio** | 18.87% |
| **Equity-to-Value Ratio** | 81.13% |
| **Beta** | 0.77 |
| **Tax Rate** | 22.16% |
| **WACC** | 6.95% |

Table 9: WACC Items' Summary

#### 6.1.8.1. Target Capital Structure

The Target Capital Structure encompasses the MV of Debt and MV of Equity computed for PR in FY23.

The MV of Equity (€51,824 million) was computed by multiplying the number of shares outstanding (256,048,280) by the price of shares (€202.40) in the closing FY23 period.

The MV of Debt was computed by splitting the company's debt into two different categories of debt detained by PR: Bonds and Other Debt, the latter encompassing all interest-bearing items, such as (Other) Financial Liabilities and Leases. Since Pernod Ricard values its bonds directly at the market value, stating: "market liquidity enabled the bonds to be valued at their

fair value using the quoted prices" (Pernod Ricard, 2023b, p.237), MV of Bonds was directly retrieved from the Balance Sheet, whereas to find the MV of Other Debt, the following Damodaran's (2012) formula was adopted, resorting to PR's statements information:

$$\text{MV of Debt} = I \times \left[\frac{1-\frac{1}{(1+k_d)^T}}{k_d}\right] + \frac{BV_D}{(1+k_d)^T} \quad (12)$$

Where:

I = Debt's Interest Expense

$k_d$ = Cost of Debt

T = Debt's Maturity

$BV_D$ = Book Value of Debt

After computing the MV of Other Debt, the MV of Total Debt in FY23 totaled €12,056 million, resulting in a structure of 18.87% of Debt and 81.13% of Equity.

| | 2023a |
|---|---|
| MV Bonds (Million €) | 10,258 |
| BV Other Financial Liabilities (Million €) | 1,129 |
| BV Leases (Million €) | 483 |
| BV Other Debt (Million €) | 1,612 |
| Interest Expense (Other Financial Liabilities and Leases) (Million €) | 86.3 |
| Cost of Debt (Other Debt) | 2.3% |
| Average Maturity Other Debt | 4 |
| MV Other Debt | 1,798 |
| MV Total Debt | 12,056 |

Table 10: PR's Debt Structure in FY23

#### 6.1.8.2. Cost of Debt

To calculate the $k_d$, once again a division had to be done, regarding Bonds and Other Debt, where the final $k_d$ was obtained by performing a weighted average of the two forms of debt, resulting in a final pre-tax cost of debt of 3.50%.

To compute the cost of debt of bonds, it was retrieved directly from the company's financial statements the bonds outstanding, and respective YTM[13] and then, conducted a weighted average between these two, after adjusting for the YTM disclosed in foreign currency (Appendix H), which led to a bond's $k_d$ of 3.77%.

For Other Debt, it was used Damodaran's (2023) interest coverage ratio proxy (Appendix I), which consists of summing a risk-free rate to a default spread (which results from matching the company's interest coverage ratio to a synthetic rating and finally to the mentioned spread). In this case, the risk-free rate was summed to a default spread of 0.69%, the result of an interest coverage ratio in FY23 of 8.81, and consequently an Other Debt $k_d$ of 3.08%.

#### 6.1.8.3. Cost of Equity

The $k_e$ was computed by resorting to the CAPM model, adjusted to the company's geographies CRP, which resulted in the end on a cost of equity of 7.94%.

##### 6.1.8.3.1. Risk-free Rate

Since PR has its headquarters in France, the deemed appropriate $r_f$ rate is based on the 10-year German Government Bond Yield in 30/06/2023, retrieved from DataStream (2023) (2.39%).

##### 6.1.8.3.2. Betas

The Beta obtained for PR was 0.77 and it was reached by following the steps below:

1) Gather a group of the most comparable peers (Appendix F) and extract their respective betas, by computing their slopes against the index MSCI World[14], which prices were retrieved from DataStream;

[13] It was not possible to retrieve the YTM at the end of FY23. Therefore, it was considered the most recent figure (as of 09/12/2023).

[14] Since Pernod Ricard has a worldwide operational reach, MSCI World Index was deemed as the most appropriate index to use, due to its likewise large global reach, allowing to capture the global dynamics, captured by PR itself.

2) Unlever each peer company's beta, resorting to equation ( 6 );

3) Compute the industry unlevered beta, by doing a weighted average (weighted by revenues) of all the peers' unlevered betas;
4) Re-lever the Beta obtained in 3) at Pernod Ricard's specific capital structure (FY 23 MV of Debt and Equity and effective tax rate);

5) Adjust the Beta, as in equation ( 7 ).

The use of an industry-adjusted beta, rather than the company's beta, was deemed as more appropriate because this way it is possible to capture not only PR's leverage levels and consequently fundamentals (captured by the re-leveraged) but also the systematic risk of the market the company is inserted. Thus, offering a more holistic view to this factor.

#### 6.1.8.3.3. MRP

The Market Risk Premium used (5.25%) was the one recommended by KPMG for the second quarter of 2023 (FY23).

#### 6.1.8.3.4. CRP

For accuracy purposes, a Country Risk Premium factor was added to the CAPM formula. In the end, a CRP of 1.48% was obtained. Since the company does not provide a sales breakdown by country of each strategic region, the first step to compute this factor was by obtaining a GDP-weighted CRP by region (based on Appendix B regions and respective countries). After having each region's CRP, it was then computed the final CRP by performing an FY23 revenue-weighted average by region.

### 6.1.9. Terminal Growth Rate (TGR)

The TGR for Pernod Ricard is based on a weighted average of the forecasted inflation's growth rate by region for the year 2028[15]. That is mainly because as mentioned above for

[15] The last available forecast year on the IMF Database.

FY28 and FY29, the net sales were linked, due to macroeconomic relations, to the inflation rates in each region. However, some countries presented historical and forecasted levels of hyperinflation, which distorted the TGR. Therefore, these were treated as outliers and withdrawn from the TGR calculations. In the end, a 2.83% rate was observed, which considering the market and the company's framework seems to be a reasonable rate.

### 6.1.10. MV Debt

An MV of Debt needs to be subtracted from the EV to reach the Equity Value. Even though, an MV of Debt was computed for the WACC, as aforementioned this value has as its base FY23. Since we are setting FY24 as the last historical FY, it was needed to forecast the MV of Debt for FY24.

For the Other Debt forecast, it is considered *ceteris paribus*, that the only changes that will occur will be at the interest expense and cost of debt level. The assumption is that the company's renewed Other Debt at a rate that the BV of this type of debt will be unaltered in the company statements. However, due to the macroeconomic environment, it was assumed that the interest expense moved at the differential between the observed interest expense in FY23 and the 5-year average of the same items (which has remained quite constant over time). In contrast, the new cost of debt was computed based on a weighted average of OECD forecasts for the long and short interest rates between Q2 2023 and Q2 2024.

| | FY23 | FY24 |
|---|---|---|
| **Long Term Interest Rate Forecast** | 2.77% | 3.61% |
| **Short Term Interest Rate Forecast** | 2.07% | 3.41% |

Table 11: Forecasted Long and Short-Term Interest Rates (OECD)

For the MV of Bonds forecast, it was retrieved from Refinitiv as of December 9th, 2024, PR's Bonds Outstanding, multiplied afterward by the respective quoted price. However, one of the bonds, which matured before the end of FY24 was disregarded. Even though, the quoted prices may change until the end of FY24, forecasting it is a difficult task. Thus, the assumption is that until then the prices will remain unchanged.
Moreover, it could be postulated that the bond that is being disregarded could be revolved. However, there are two points in favor of the assumption being taken. The first one is that it is

assumed a conservative scenario, where since there is uncertainty if this bond will, in fact, be refinanced, it is preferred, for transparency and congruency purposes, to not make considerable adjustments or assume the issuance of new bonds. Also, as depicted in Table 12, the FY24 MV of Bonds and Debt falls in line with FY23, which seems realistic given the stable nature of this item in the company's accounts. Furthermore, it is already considered in this computation, the addition of two new bonds issued by the company one month before the maturity of the mentioned bond, which together make up more than double the issued amount of the bond being disregarded.

| | 2024a |
|---|---|
| MV Bonds (Million €) | 10,291 |
| BV Other Financial Liabilities (Million €) | 1,129 |
| BV Leases (Million €) | 483 |
| BV Other Debt (Million €) | 1,612 |
| Interest Expense (Other Financial Liabilities and Leases) (Million €) | 86.8 |
| Cost of Debt (Other Debt) | 3.5% |
| Average Maturity Other Debt | 4 |
| MV Other Debt | 1,725 |
| MV Total Debt | 12,016 |

Table 12: PR's Debt Structure in FY24

### 6.1.11. Cash & Cash Equivalents

Another important item to account for to estimate the Equity Value is Cash & Cash Equivalents. Here again, a forecast for the proceeding periods was needed (Forecast on Appendix J)

The starting point was the FY23 amount of Cash (€1,609 million), to which it was added the FY24 forecasted Net Profit and Change in Net OWC and subtracted items such as Dividends, Share Buybacks, CAPEX and Other items belonging to the Cash Flow Statement.

Dividends & Share Buybacks were forecasted based on the company's outlook. I.e., the company pretends to maintain a 50% payout ratio of net PRO and buyback shares in the range of €500 million to €800 million. Therefore, for the latter item, it was assumed an in-between scenario, meaning an average between both values (€650 million). For all other CF statement

items, it was either conducted an average of the last 5 FYs or if there were recurrent values, the mode was deemed as the most appropriate.

### 6.1.12. Other Items

Other Items' forecast as Non-Controlling Interest and Number of Shares Outstanding are further discussed in Appendix K.

### 6.1.13. DCF Valuation Conclusion

In summary, the starting point for the DCF valuation was the Net Sales forecast, from which, we could derive most of the costs and consequently reach PR's EBIT. From there, by forecasting items for the next 5-year period, such as taxes (to compute NOPAT), Change in Net OWC, Depreciation, and CAPEX and discounting these at the estimated WACC of 6.95% and TGR of 2.83%, an Enterprise Value of €59,516 million was determined. Then, by subtracting the company's Net Debt and Non-Controlling Interest and dividing it by the number of shares outstanding (254,017,030) it was possible to achieve the target price.

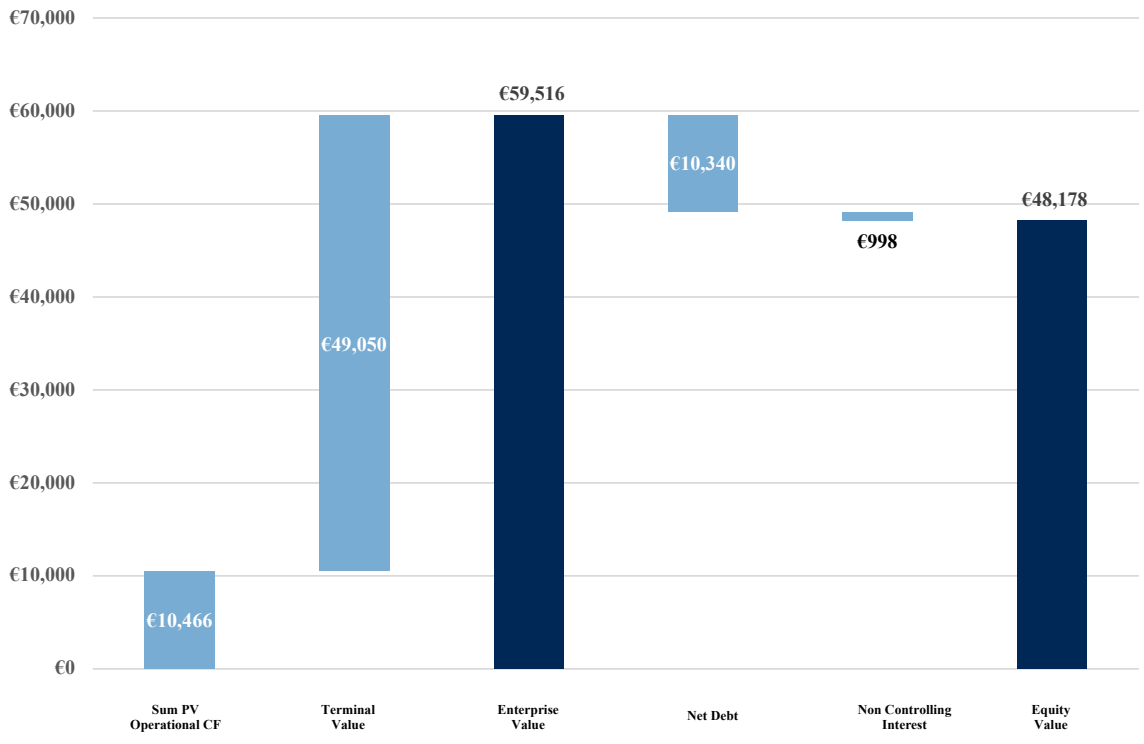


Figure 22: Pernod Ricard Target Equity Value Deconstruction in Million €

A target price of €189.67 was achieved, which constitutes an upside of 19.89% when comparing it with the last inferred price, on December 1st, 2023 (€158.15).

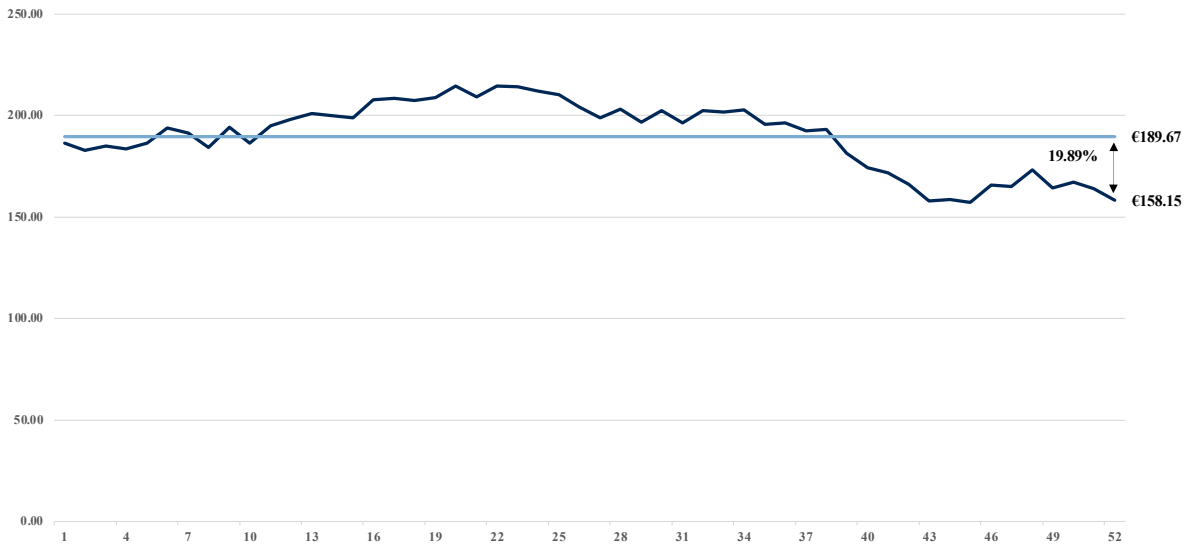


Figure 23: 52-Week PR's Share Price (Dark Blue) vs.DCF Achieved Target Price in € (Light Blue)

### 6.1.14. DCF - Sensitivity Analysis

It is noteworthy that two assumption-based variables possess enough power to completely shift the final achieved target price, even if there is a slight adjustment to the assumptions taken: the WACC and the TGR, with honorable mention for the latter, since in the valuation in place, the PV of the terminal value constitutes a staggering 82.42% of the final obtained EV. Thus, it is imperative to study how minor adjustments to these rates would affect the valuation.

| | Terminal Growth Rate | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2.53%** | **2.63%** | **2.73%** | **2.83%** | **2.93%** | **3.03%** | **3.13%** |
| **6.65%** | 192.17 | 197.23 | 202.54 | 208.13 | 214.03 | 220.24 | 226.82 |
| **6.75%** | 186.54 | 191.33 | 196.37 | 201.66 | 207.23 | 213.10 | 219.30 |
| **6.85%** | 181.16 | 185.72 | 190.50 | 195.52 | 200.79 | 206.34 | 212.19 |
| **6.95%** | 176.03 | 180.36 | 184.90 | **189.67** | 194.66 | 199.92 | 205.45 |
| **7.05%** | 171.12 | 175.25 | 179.57 | 184.09 | 188.84 | 193.82 | 199.05 |
| **7.15%** | 166.43 | 170.36 | 174.48 | 178.78 | 183.29 | 188.01 | 192.97 |
| **7.25%** | 161.94 | 165.69 | 169.61 | 173.71 | 177.99 | 182.48 | 187.19 |

Figure 24: DCF Valuation Sensitivity Analysis

According to the sensitivity analysis depicted in Figure 24, if a shift of down to -30 or up to +30 bps is performed to the WACC or the TGR, the minimum price obtained would be €161.94 and the maximum €226.82. Even though these do not constitute significant variations in the rates being studied, it is still possible to assess that the price is sensible to a certain degree of fluctuation. However, even though a downside risk is present, in this concrete case there is not a major price distortion or a major decay in the worst-case scenario, which in a way, certifies the valuation being studied as somewhat robust. However, it is important to acknowledge that due to possible macroeconomic uncertain events, a higher degree of variation might be plausible, which could carry major downside risks and eventually a shift in recommendation.

### 6.2. Relative Valuation

A target price range was also achieved by resorting to a Relative Valuation model, more specifically to four different multiples, all these forward-looking, which are EV/EBITDA, EV/Sales, Price-to-Earnings ratio, and Price-to-Sales.

An emphasis was put on Sales multiples because these tend to be a good choice when analyzing Retail companies, whose operations are highly dependent on each year's sales levels (Damodaran, 2002). It was also decided to choose two well-known and reliable multiples, in which we could relate the value of the company with operating profit and overall profitability, EV/EBITDA, and Price-to-earnings.

As for the peer group, it was chosen based on Appendix F, with a minor adjustment. Brown-Forman Corp. was withdrawn from the original group since as assessed from Figure 25, the multiple values of the company are somewhat distorted when compared with all the other peers. Thus, it was treated as an outlier for this purpose.

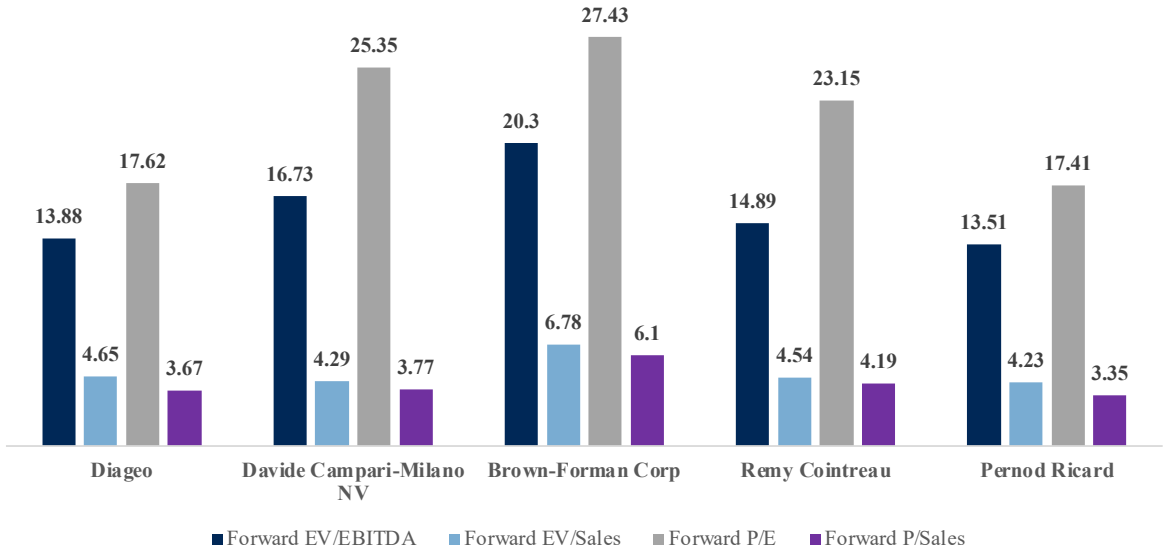


Figure 25: Multiples' Values by Peers

A weighted-average system, based on the peers' revenue levels was performed. Upon analyzing the target prices, it is concluded that the target prices fall in a very circumscriptive and realistic range when compared with the DCF Model results, for instance, which in a way not only legitimizes the DCF target price but also the good choice of peers and multiples when using this valuation method. In the end, a range price between €189.55 and €200.58 was achieved.

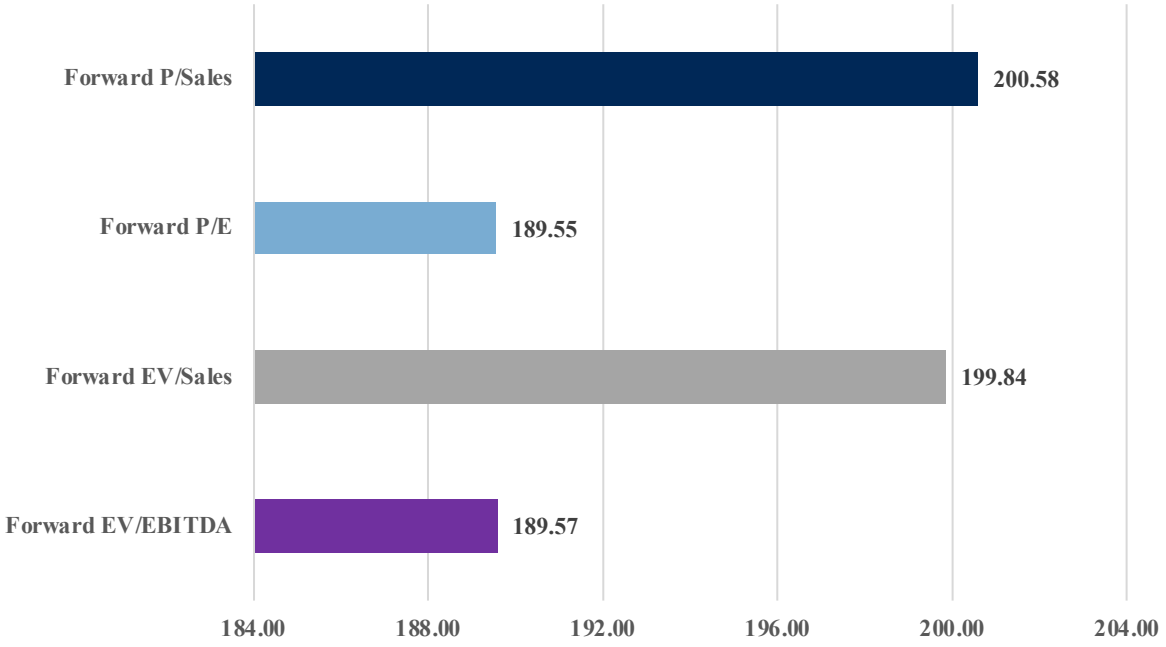


Figure 26: Target Price by Multiple in €

## 7. Valuation vs. Investment Bank Report

The target price obtained by resorting to the DCF model was compared with HSBC[16] equity research report target price for Pernod Ricard (also based on a DCF analysis), which is €194.00, representing an upside of 14.6%, when compared with PR's price as of September 18 (€169.25). Since HSBC reports a correction on the target price for FY23, due to timing reasons (i.e., this work is being conducted after PR's end of FY23 period (06/2023), therefore the period 2023-2024 was considered historical. Hence the year 0 being considered in this work is FY24), there is a mismatch between the period being analyzed by the bank and this work. However, after adjusting for the same period as HSBC a close price was obtained, €191.17, representing an upside of 13%. Nonetheless, for analysis purposes, the target price being discussed in this section will be the one achieved considering FY24 as the year 0 (€189.67).

| | HSBC | Dissertation |
|---|---|---|
| Reported Forecasted Periods | 3 (FY24 - FY26) | 5 (FY25 - FY29) |
| Average Forecasted Revenue (Million €) | 12,936 | 15,087 |
| Average Forecasted EBITDA (Million €) | 4,160 | 4,608 |
| Average Forecasted Depreciation (Million €) | 478 | 531 |
| Average Forecasted EBIT (Million €) | 3,682 | 4,076 |
| Average Forecasted Tax Rate | 24.00% | 22.94% |
| Average Forecasted CF from Operations (Million €) | 2,920 | 2,570 |
| Average Forecasted CAPEX (Million €) | 771 | 783 |
| rf rate | 3.50% | 2.39% |
| MRP | 5.30% | 5.25% |
| Beta | 0.80 | 0.77 |
| $k_d$ (Pre-Tax) | 3.50% | 3.50% |
| TGR | 2.50% | 2.83% |
| Debt-to-Value ratio | 12.50% | 18.87% |
| WACC | 7.10% | 6.95% |
| Target Price | €194.00 | €189.67 |
| Upside (as of September 18, 2023) | 14.62% | 12.06% |
| Recommendation | Hold | Buy |

Table 13: Investment Bank vs. Dissertation DCF Figures Comparison

As observed in Table 13, the price and values reached in this work were identic to those achieved by the investment bank. However, the CF from Operations estimated by HSBC was

[16] HSBC is a prominent British bank with global reach, which offer a broad variety of financial services, namely a strong equity research background.

marginally above those obtained in this work, mainly due to the bank's more conservative view regarding items such as CAPEX or Depreciation. It is also noteworthy that certain items and periods are not being disclosed in the bank's report. Thus, it is not possible to infer what is fully driving the slightly higher price reported by the bank. It is, however, safe to say that even though the periods being analyzed are not identical, the prices fall in the same range, not being expected a considerable shift even if these were matched, mainly due to PR's financially stable nature and the company's positive outlook.

Even though a Hold recommendation is given by HSBC, mostly due to the upcoming slower (when compared with FY23 or FY22), yet positive growing periods, a 12.06% upward potential is deemed sufficient to consider a Buy position. Even more compelling, considering the optimistic historical and forecasted outlook for the industry and the company. The upside is even more noticeable when juxtaposed with the latest retrieved price, €158.15.

## 8. Conclusion

After thoroughly analyzing Pernod Ricard from a strategic and financial lens, a holistic comprehension of the company's valuation was possibly achieved. However, the objective culmination of the valuation process wouldn't be possible without resorting to two important valuation methods: a DCF and RV models, as these were deemed as the most appropriate for the company being studied. A target price per share of €189.67 was delivered with the former method and a range price between €189.55 and 200.58€ with the latter, as of FY24. This range of prices constitutes a minimum upside of 19.82% when comparing these values with the most recently retrieved share price for PR, €158.15 (as of December 1st, 2023).

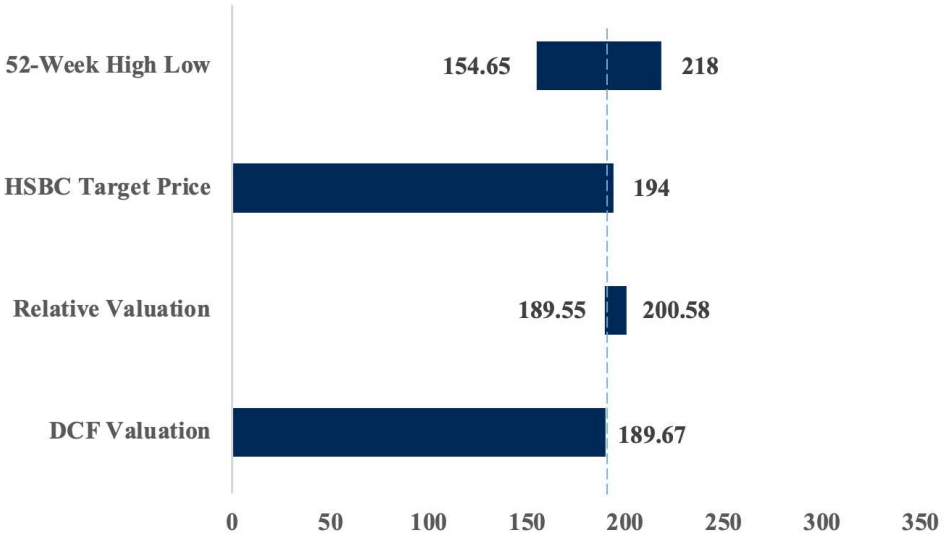


Figure 27: Football Field Valuation in €

Furthermore, the robustness of these results was also confirmed by comparing these with the target price achieved by an investment bank, €194.00. Even though both analyses are being done for different periods (FY23 vs. FY24), it is deduced from PR's stable and mature financial nature, that the price outlook should not shift considerably. Thus, even though the achieved prices between the dissertation and the investment bank report are not identical, they are not far from each other (2.23% divergence), which can corroborate not only the robustness of the methods used in this work but also the upward potential for PR.

All in all, as of FY24 Buy recommendation is being attributed to FY24, derived from various factors. Particularly, it is observed an upside potential, considering the several analytical models and the investment bank report. Furthermore, the sustained historical stability and growth, in parallel with the company's optimistic outlook, driven by the ambitious projects and investments, reinforce the recommendation.

This dissertation works as a pivotal framework on PR's fundamentals and intrinsic valuation and its position in the market of Alcoholic Beverages, providing a guided and sustained recommendation for shareholders and investors, who intend to invest in the company in an informed manner. However, it is of the utmost importance to acknowledge that the models referenced here are assumption-based. Thus, it's paramount the consideration of continuous monitoring of the company and the uncertain and dynamic macroeconomic variables that are intrinsic to the market.

# 9. Appendix

## Appendix A: Literature Review (Additional Content)

### Equity Valuation Approach

Although we can derive the intrinsic equity value of a firm, using the EV approach, there is a way to directly get the implied equity value, that is by resorting to the equity valuation approach. In this case, we will have:

$$\text{Equity Value} = \sum_{t=1}^{\infty} \frac{\text{FCFE}_t}{(1+k_e)^t}$$

Where:
$FCFE_t$ = Free Cash Flow to Equity in period t
$k_e$ = Cost of Equity

The FCFE is defined as the CF available to the firm's holders of common equity after all operating expenses, interest, and principal payments have been paid and necessary investments in working and fixed capital have been made (Pinto et al., 2020) and we can compute it by relating it with the concept of FCFF, by doing:

$$FCFE_t = FCFF_t - \text{Interest Expense} \times (1 - \text{Marginal Tax Rate}) + \text{Net Debt Borrowing}$$

### FCFF: Tax Rate

According to Rosenbaum & Pearl (2009), the marginal tax rate should be used for modeling purposes. However, the effective tax rate in previous years can also serve as a reference point.

**FCFF: D&A**

D&A are subtracted to EBITDA to reach the EBIT (the springboard to calculate the FCFF) and since it is considered as a non-cash expense, it should be added back in the FCFF computations (Rosenbaum & Pearl, 2009).

**FCFF: CAPEX**

CAPEX is the amount of funds used by a company to purchase, improve, expand, or replace physical assets. As opposed to D&A it represents a cash outflow, thus being subtracted in the FCFF formula (Rosenbaum & Pearl, 2009).

**FCFF: Changes in NWC**

The NWC is a measure of how much cash a company needs to fund its operations on an ongoing basis and can be calculated by subtracting accounts payable, accrued liabilities and other current liabilities from account receivables, prepaid expenses, and other current assets. The change in NWC from year to year represents an annual source or use of cash for the company and can be calculated as:

$$\Delta NWC = NWC_n - NWC_{(n-1)}$$

Where:
n = the most recent year
n-1 = the prior year

**Alternatives to CAPM to Determine the Cost of Equity**

Even though CAPM is by consensus one of the most simple, intuitive, and reliable valuation models to use, over time there have been models that promised to defy the theory behind CAPM. It is the case of the Fama-French three Factor Model or the Arbitrage Pricing Theory.

The Fama-French three Factor Model resides on the idea, proposed by the authors who gave name to the model, that some basic principles of the CAPM are not empirically supported and

that there are three pivotal factors capable of determining excess stock returns: Size, Book-to-Market and Market. According to the authors, the excess returns can be determined by performing the following regression:

$$r - r_f = \beta_1(Mkt) + \beta_2(SMB) + \beta_3(HML)$$

Where:
$r - r_f$ = Excess Stock Return
$\beta$ = Factor's coefficient
Mkt = Excess Market Return
SMB = Small minus Big (Return on Small Firms – Return on Large firm's stocks)
HML = High minus Low (Return on high Book-to-Market Firms – Return on low Book-to-Market firm's stocks)

Although the 3-FF model outperforms the CAPM, caution is advised when handling regression models, as these tend to be quite imprecise (Koller et al., 2020), since factors are unstable and change over time (Damodaran, 2012). Another known alternative to CAPM is the APT, which falls under the assumption that investors seek to profit from arbitrage opportunities in the market and that "a security's actual returns are generated by k factors and random noise" (Koller et al., 2020, p.323) and given by:

$$E(R_t) = r_f + \beta_1\lambda + \beta_2\lambda + \beta_k\lambda_k$$

Where:
$E(R_t)$ = Expected return of security
$\lambda$ = Factor's Risk Premium

Although it is a powerful model, in theory, the APT is difficult to apply in reality, since there is a lack of understanding on how many factors should be used, what they represent and how to measure. Overall, even with existing models that empirically prove to be better than CAPM, the CAPM is still the model that proves to have more applicability in practical terms,

**MRP Estimation Alternatives**

One alternative that can be used to estimate MRP is by determining the implied Market Premium. By using this method, we are assuming the market is correctly priced and we determine this variable by finding the discount rate that brings future expected dividends and buybacks to the present price paid for an index like the S&P500. By then subtracting the risk-free rate we will obtain the market implied premium.

**Adjusted Present Value**

Throughout this work, a constant stress on DCF's reliability and validity has been made. However, models like the APV can capture some valuation particularities that the DCF cannot, more specifically leverage effects. The APV model is another form of the already referenced NPV models. The APV is a model constructed on the basis of value additivity, which promotes the idea that a good form of valuing a project is by dividing it into pieces, valuing each piece and then adding them back (Luehrman, 1997). The APV does precisely that by separating the effects on value of debt financing (tax benefits – bankruptcy costs) from the value of the assets of the firm, represented by the unlevered value of the firm (Damodaran, 2012), so concisely we will then obtain:

$$V_L = V_U + Dt_c \text{ - PV of Expected Bankruptcy Costs}$$

Where:
$V_L$ = Value of Levered Firm
$V_U$ = Value of Unlevered Firm (FCFF discounted at the unlevered cost of capital)
$Dt_c$ = Value of Tax Benefits
PV of Expected Bankruptcy Costs = Probability of bankruptcy × PV of bankruptcy cost

In addition to being a model that allows practitioners to separate the effects of debt, the APV adds a substantial amount of value to the valuation process when we are valuing a firm that tends to significantly change its capital structure, since contrarily to the DCF it does not assume that the debt ratio stays unchanged forever. Some difficulties on its estimation may arise when trying to determine bankruptcy costs and probabilities of default. Nevertheless, DCF or APV should deliver similar results (Damodaran, 2012).

**Dividend Discount Model**

Another well-known type of NPV model is the Dividend Discount Model, which lies in the idea that since the only cash flow an investor receives when buying a stock comes from dividends, the present value of a stock is a function of the expected future dividends through infinity (Damodaran, 2012), represented by:

$$\text{Firm Value} = \sum_{t=1}^{\infty} \frac{E(DPS_t)}{(1+k_e)^t}$$

Where:
$E(DPS_t)$ = Expected Dividends per Share
$k_e$ = Cost of Equity

There are two main variations of the DDM. The Gordon Growth Model and the Two-Stage Growth Model. "The Gordon growth model can be used to value a firm that is in "steady state" with dividends growing at a rate that can be sustained forever" (Damodaran, 2012, p. 144), whereas Two-Stage models can be used to model companies which present two different stages of dividend growth rates.

Although suffering some criticism from professionals, with many arguing that it is an outdated valuation model, with main drawbacks residing in the fact that it should only be used in firms that pay stable and predictable dividends, it has proven to be an adaptable and useful model in gauging value (Damodaran, 2012; Fabozzi et al., 2017).

## Appendix B: Countries by Strategic Region

| Americas | Asia/RoW | Europe |
|---|---|---|
| Argentina | Angola | Andorra |
| Brazil | Australia | Armenia |
| Canada | Cambodia | Austria |
| Dominican Republic | China | Belarus |
| Chile | Ghana | Belgium |
| Colombia | Honh Kong SAR | Bulgaria |
| Cuba | India | Croatia |
| Mexico | Indonesia | Czech Republic |
| Peru | Japan | Denmark |
| Uruguay | Kazakhastan | Estonia |
| USA | Kenya | Finland |
| Venezuela | Malaysia | France |
| | Morocco | Germany |
| | Mozambique | Greece |
| | Myanmar | Hungary |
| | New Zealand | Ireland |
| | Nigeria | Italy |
| | Philippines | Latvia |
| | Singapore | Lithuania |
| | South Africa | Netherlands |
| | South Korea | Norway |
| | Sri Lanka | Poland |
| | Turkey | Portugal |
| | Thailand | Romania |
| | United Arab Emirates | Serbia |
| | Vietnam | Slovakia |
| | | Slovenia |
| | | Spain |
| | | Sweden |
| | | Switzerland |
| | | Ukraine |
| | | United Kingdom |

## Appendix C: Strategic Products Net Revenue Breakdown

| Million € | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Strategic International Brands | 5,811 | 5,268 | 5,544 | 6,780 | 7,694 |
| **YoY Growth** | **8%** | **-9%** | **5%** | **22%** | **13%** |
| **% of Total Net Sales** | **63%** | **62%** | **63%** | **63%** | **63%** |
| Strategic Local Brands | 1,754 | 1,599 | 1,576 | 1,917 | 2,151 |
| **YoY Growth** | **5%** | **-9%** | **-1%** | **22%** | **12%** |
| **% of Total Net Sales** | **19%** | **19%** | **18%** | **18%** | **18%** |
| Strategic Wines | 451 | 431 | 484 | 485 | 478 |
| **YoY Growth** | **-5%** | **-4%** | **12%** | **0%** | **-1%** |
| **% of Total Net Sales** | **5%** | **5%** | **5%** | **5%** | **4%** |
| Specialty Brands | 301 | 373 | 472 | 598 | 755 |
| **YoY Growth** | **14%** | **24%** | **27%** | **27%** | **26%** |
| **% of Total Net Sales** | **3%** | **4%** | **5%** | **6%** | **6%** |
| Other Products | 865 | 776 | 748 | 921 | 1,059 |
| **YoY Growth** | **-5%** | **-10%** | **-4%** | **23%** | **15%** |
| **% of Total Net Sales** | **9%** | **9%** | **8%** | **9%** | **9%** |

## Appendix D: Historical Financial Statements

### Income Statement

| Million € | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Net Sales | 9,182 | 8,448 | 8,824 | 10,701 | 12,137 |
| Cost of Sales | 3,533 | 3,361 | 3,531 | 4,228 | 4,891 |
| **Gross Margin after Logistc Expenses** | **5,648** | **5,086** | **5,293** | **6,473** | **7,246** |
| Advertising & Promotion Expenses | 1,512 | 1,327 | 1,393 | 1,698 | 1,939 |
| **Contribution after Advertising and Promotion Expenses** | **4,137** | **3,759** | **3,900** | **4,775** | **5,307** |
| Structure Costs | 1,556 | 1,499 | 1,477 | 1,751 | 1,959 |
| **Profit from Recurring Operations** | **2,581** | **2,260** | **2,423** | **3,024** | **3,348** |
| Other Operating Income/Expenses | (206) | (1,283) | (62) | (62) | (83) |
| **Operating Profit** | **2,375** | **978** | **2,361** | **2,963** | **3,265** |
| Financial Expenses | 346 | 403 | 410 | 308 | 380 |
| Financial Income | 36 | 36 | 39 | 48 | 53 |
| Corporate Income Tax | 582 | 258 | 667 | 676 | 651 |
| Share of Net Profit/Loss of Associates | 0 | 0 | (4) | 5 | (4) |
| Net Profit of Discontinued and Held for Sale Activities | 0 | (3) | 0 | 0 | 0 |
| **Net Profit** | **1,482** | **350** | **1,318** | **2,031** | **2,283** |

## Balance Sheet

| Million € | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Net Amounts** | | | | | |
| **Non-Current Assets** | | | | | |
| Intangible Assets | 11,683 | 10,965 | 10,725 | 11,512 | 12,250 |
| Goodwill | 5,391 | 5,611 | 5,505 | 6,145 | 6,750 |
| PP&E | 2,549 | 3,095 | 3,177 | 3,591 | 3,901 |
| Non-Current Financial Assets | 1,419 | 522 | 685 | 761 | 855 |
| Investments in Associates | 14 | 28 | 36 | 243 | 37 |
| Non-Current Derivative Instruments | 20 | 54 | 65 | 4 | 5 |
| Deferred Tax Assets | 1,590 | 1,678 | 1,623 | 1,844 | 1,870 |
| **Total Non-Current Assets** | **22,665** | **21,953** | **21,816** | **24,100** | **25,667** |
| | | | | | |
| **Current Assets** | | | | | |
| Inventories and Work in Progress | 5,756 | 6,167 | 6,555 | 7,369 | 8,104 |
| Trade Receivables & Other Operating Receivables | 1,226 | 906 | 1,126 | 1,388 | 1,814 |
| Income Taxes Receivable | 105 | 142 | 141 | 145 | 31 |
| Other Current Assets | 359 | 323 | 413 | 435 | 435 |
| Current Derivative Instruments | 6 | 12 | 8 | 32 | 15 |
| Cash & Cash Equivalents | 923 | 1,935 | 2,078 | 2,527 | 1,609 |
| **Total Current Assets** | **8,375** | **9,485** | **10,321** | **11,896** | **12,008** |
| Assets Held for Sale | 5 | 87 | 11 | 15 | 1 |
| **Total Assets** | **31,045** | **31,525** | **32,147** | **36,011** | **37,676** |
| | | | | | |
| **Shareholder's Equity** | | | | | |
| Share Capital | 411 | 411 | 406 | 400 | 396 |
| Share Premium | 3,052 | 3,052 | 3,052 | 3,052 | 3,052 |
| Retained Earnings & Translation Differences | 11,069 | 10,177 | 10,066 | 10,496 | 10,006 |
| Group Share of Net Profit | 1,455 | 329 | 1,305 | 1,996 | 2,262 |
| **Group Shareholder's Equity** | **15,987** | **13,968** | **14,829** | **15,944** | **15,717** |
| Non-Controlling Interests | 195 | 243 | 246 | 309 | 998 |
| **Total Shareholder's Equity** | **16,182** | **14,211** | **15,075** | **16,253** | **16,715** |
| | | | | | |
| **Non-Current Liabilities** | | | | | |
| Non-Current Provisions | 269 | 310 | 253 | 318 | 294 |
| Provisions for Pensions and other long-term employee benefits | 559 | 605 | 477 | 361 | 349 |
| Deferred Tax Liabilities | 2,756 | 2,596 | 2,825 | 3,139 | 3,134 |
| Non-Current Bonds | 6,071 | 8,599 | 8,787 | 9,238 | 9,678 |
| Non- Current Lease Liabilities | 0 | 433 | 405 | 400 | 384 |
| Other Non-Current Financial Liabilities | 363 | 192 | 108 | 179 | 173 |
| Non-Current Derivative Instruments | 16 | 0 | 0 | 18 | 14 |
| **Total Non-Current Liabilities** | **10,034** | **12,735** | **12,854** | **13,653** | **14,026** |
| | | | | | |
| **Current Liabilities** | | | | | |
| Current Provisions | 149 | 222 | 163 | 150 | 164 |
| Trade Payables | 2,187 | 1,877 | 2,337 | 3,019 | 3,461 |
| Income Taxes Payable | 307 | 232 | 282 | 263 | 113 |
| Other Current Liabilities | 1,058 | 1,016 | 1,134 | 1,311 | 1,556 |
| Bonds - Current | 944 | 723 | 70 | 842 | 580 |
| Current Lease Liabilities | 0 | 88 | 103 | 107 | 99 |
| Other Current Financial Liabilities | 177 | 380 | 122 | 406 | 956 |
| Current Derivative Instruments | 5 | 24 | 6 | 9 | 6 |
| **Total Current Liabilities** | **4,827** | **4,563** | **4,218** | **6,107** | **6,935** |
| Liabilities related to Assets Held for Sale | 2 | 16 | 0 | 0 | 0 |
| **Total Liabilities and Shareholder's Equity** | **31,045** | **31,525** | **32,147** | **36,012** | **37,676** |

## Cash-Flow Statement

| Million € | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| **Cash-Flows from Operating Activities** | | | | | |
| Group Share of Net Profit | 1,455 | 329 | 1,305 | 1,996 | 2,262 |
| Non-Controlling Interests | 27 | 21 | 13 | 35 | 21 |
| Group Share of Net Profit/loss of Associates, net of dividends received | 0 | 0 | 4 | (5) | 4 |
| Financial Income/Expenses | 310 | 366 | 371 | 260 | 327 |
| Tax Income/expenses | 582 | 258 | 667 | 676 | 651 |
| Net profit from discontinued operations | 0 | 3 | 0 | 0 | 0 |
| Depreciation of fixed assets | 226 | 350 | 367 | 381 | 417 |
| Net Change in Provisions | 7 | 97 | (80) | 7 | (74) |
| Net change in impairment of goodwill, PP&E and intangible assets | 69 | 1,007 | 78 | 10 | 52 |
| Changes in fair value of commercial derivatives | (3) | 0 | 4 | 2 | (7) |
| Changes in fair value of biological assets and investments | (3) | (3) | (4) | (4) | (80) |
| Net (gain)/loss on disposal of assets | 0 | (27) | (16) | (5) | (74) |
| Share-based payments | 40 | 23 | 28 | 40 | 44 |
| **Self-financing capacity before financing interest and taxes** | **2,711** | **2,423** | **2,738** | **3,392** | **3,543** |
| Decrease/increase in WC requirement | (181) | (433) | (54) | (252) | (568) |
| Interest paid | (340) | (371) | (350) | (275) | (292) |
| Interest received | 32 | 36 | 35 | 48 | 4 |
| Tax paid/received | (521) | (474) | (371) | (619) | (654) |
| **Net Cash from Operating Activities** | **1,701** | **1,181** | **1,999** | **2,294** | **2,033** |
| **Cash-Flows from Investing Activities** | | | | | |
| Capital Expenditure | (388) | (365) | (433) | (506) | (702) |
| Proceeds from Disposals of PP&E&I | 50 | 14 | 63 | 25 | 100 |
| Purchases of Financial Assets and Activities | (192) | (618) | (131) | (735) | (1,159) |
| Disposals of Financial Assets and Activities | 14 | 34 | 15 | 12 | 30 |
| **Net Cash used in Investing Activities** | **(516)** | **(936)** | **(486)** | **(1,203)** | **(1,731)** |
| **Cash-Flows from Financing Activities** | | | | | |
| Dividends and interim dividends paid | (645) | (849) | (704) | (826) | (1,072) |
| Other changes in Shareholder's Equity | 0 | 0 | 0 | 0 | 0 |
| Issuance of long-term debt | 163 | 3,822 | 1,788 | 1,564 | 1,702 |
| Repayment of debt | (431) | (1,553) | (2,379) | (493) | (845) |
| Repayment of lease liabilities | 0 | (100) | (97) | (115) | (116) |
| Acquisition/disposable of treasury shares | (121) | (526) | (20) | (813) | (786) |
| Other Transactions with Non-Controlling Interests | 0 | 0 | 0 | 0 | 0 |
| **Net Cash used in Financing Activities** | **(1,034)** | **795** | **(1,412)** | **(683)** | **(1,117)** |
| Cash-flows from non-current assets held for sale | 0 | (3) | 0 | 0 | 0 |
| **Increase/decrease in cash and cash equivalents before FX impact** | **151** | **1,037** | **100** | **407** | **(815)** |
| Transalation differenes | 1 | (26) | 43 | 42 | (103) |
| Restatement for IFRS15 on opening position | 16 | 0 | 0 | 0 | 0 |
| **Increase/decrease in cash and cash equivalents after FX impact** | **169** | **1,011** | **143** | **449** | **(918)** |
| **Cash and cash equivalents at beggining of period** | **754** | **923** | **1,935** | **2,078** | **2,527** |
| **Cash and cash equivalents at end of period** | **923** | **1,935** | **2,078** | **2,527** | **1,609** |
| **Free Cash Flow** | **1,313** | **816** | **1,566** | **1,788** | **1,331** |

## Appendix E: Forecasted Income Statements

Each geographical segment is solely forecasted at the PRO level since beyond that, items are reported as consolidated.

### Americas

| Million € | 2019a | 2020a | 2021a | 2022a | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 2545 | 2449 | 2627 | 3133 | 3481 | 3753 | 4037 | 4340 | 4666 | 4995 | 5347 |
| **YOY Growth** | **2.41%** | **-3.77%** | **7.27%** | **19.26%** | **11.11%** | **7.80%** | **7.58%** | **7.51%** | **7.51%** | **7.04%** | **7.04%** |
| Cost of Sales | 847 | 850 | 928 | 1074 | 1261 | 1362 | 1468 | 1581 | 1703 | 1828 | 1961 |
| **YOY Growth** | **-1.05%** | **0.35%** | **9.18%** | **15.73%** | **17.41%** | **7.98%** | **7.79%** | **7.72%** | **7.73%** | **7.32%** | **7.32%** |
| % of Net Sales | 33.28% | 34.71% | 35.33% | 34.28% | 36.23% | 36.28% | 36.35% | 36.42% | 36.49% | 36.59% | 36.68% |
| **Gross Margin after Logistc Expenses** | **1698** | **1599** | **1699** | **2059** | **2220** | **2391** | **2570** | **2759** | **2963** | **3167** | **3385** |
| **YOY Growth** | **4.24%** | **-5.83%** | **6.25%** | **21.19%** | **7.82%** | **7.71%** | **7.47%** | **7.38%** | **7.39%** | **6.88%** | **6.88%** |
| % of Net Sales | 66.72% | 65.29% | 64.67% | 65.72% | 63.77% | 63.72% | 63.65% | 63.58% | 63.51% | 63.41% | 63.32% |
| Advertising & Promotion Expenses | 505 | 461 | 470 | 568 | 686 | 740 | 796 | 855 | 920 | 984 | 1054 |
| **YOY Growth** | **2.02%** | **-8.71%** | **1.95%** | **20.85%** | **20.77%** | **7.80%** | **7.58%** | **7.51%** | **7.51%** | **7.04%** | **7.04%** |
| % of Net Sales | 19.84% | 18.82% | 17.89% | 18.13% | 19.71% | 19.71% | 19.71% | 19.71% | 19.71% | 19.71% | 19.71% |
| **Contribution after AP Expenses** | **1193** | **1138** | **1229** | **1491** | **1534** | **1652** | **1774** | **1904** | **2044** | **2183** | **2332** |
| **YOY Growth** | **5.20%** | **-4.61%** | **8.00%** | **21.32%** | **2.88%** | **7.66%** | **7.42%** | **7.33%** | **7.34%** | **6.81%** | **6.81%** |
| % of Net Sales | 46.88% | 46.47% | 46.78% | 47.59% | 44.07% | 44.01% | 43.94% | 43.87% | 43.80% | 43.70% | 43.61% |
| Structure Costs | 408 | 420 | 426 | 477 | 569 | 601 | 635 | 669 | 706 | 742 | 780 |
| **YOY Growth** | **2.26%** | **2.94%** | **1.43%** | **11.97%** | **19.29%** | **5.70%** | **5.53%** | **5.47%** | **5.48%** | **5.13%** | **5.13%** |
| % of Net Sales | 16.03% | 17.15% | 16.22% | 15.23% | 16.35% | 16.19% | 16.19% | 16.19% | 16.19% | 16.19% | 16.19% |
| **PRO (EBIT)** | **785** | **718** | **803** | **1014** | **965** | **1050** | **1139** | **1235** | **1338** | **1441** | **1551** |
| **YOY Growth** | **6.80%** | **-8.54%** | **11.84%** | **26.28%** | **-4.83%** | **8.82%** | **8.50%** | **8.36%** | **8.34%** | **7.70%** | **7.68%** |
| % of Net Sales | 30.84% | 29.32% | 30.57% | 32.37% | 27.72% | 27.98% | 28.22% | 28.45% | 28.67% | 28.84% | 29.01% |

### Asia/RoW

| Million € | 2019a | 2020a | 2021a | 2022a | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 3965 | 3467 | 3640 | 4438 | 5191 | 5537 | 5877 | 6237 | 6620 | 7019 | 7443 |
| **YOY Growth** | **11.25%** | **-12.56%** | **4.99%** | **21.92%** | **16.97%** | **6.66%** | **6.15%** | **6.11%** | **6.14%** | **6.03%** | **6.03%** |
| Cost of Sales | 1657 | 1498 | 1580 | 1942 | 2222 | 2392 | 2564 | 2748 | 2946 | 3155 | 3380 |
| **YOY Growth** | **8.02%** | **-9.60%** | **5.47%** | **22.91%** | **14.42%** | **7.65%** | **7.21%** | **7.17%** | **7.20%** | **7.10%** | **7.10%** |
| % of Net Sales | 41.79% | 43.21% | 43.41% | 43.76% | 42.80% | 43.20% | 43.63% | 44.07% | 44.50% | 44.95% | 45.41% |
| **Gross Margin after Logistc Expenses** | **2308** | **1969** | **2060** | **2496** | **2969** | **3145** | **3313** | **3488** | **3674** | **3864** | **4063** |
| **YOY Growth** | **13.69%** | **-14.69%** | **4.62%** | **21.17%** | **18.95%** | **5.92%** | **5.35%** | **5.29%** | **5.31%** | **5.18%** | **5.16%** |
| % of Net Sales | 58.21% | 56.79% | 56.59% | 56.24% | 57.20% | 56.80% | 56.37% | 55.93% | 55.50% | 55.05% | 54.59% |
| Advertising & Promotion Expenses | 592 | 517 | 542 | 634 | 740 | 789 | 838 | 889 | 944 | 1001 | 1061 |
| **YOY Growth** | **12.12%** | **-12.67%** | **4.84%** | **16.97%** | **16.72%** | **6.66%** | **6.15%** | **6.11%** | **6.14%** | **6.03%** | **6.03%** |
| % of Net Sales | 14.93% | 14.91% | 14.89% | 14.29% | 14.26% | 14.26% | 14.26% | 14.26% | 14.26% | 14.26% | 14.26% |
| **Contribution after AP Expenses** | **1716** | **1452** | **1518** | **1862** | **2229** | **2356** | **2475** | **2599** | **2730** | **2863** | **3002** |
| **YOY Growth** | **14.25%** | **-15.38%** | **4.55%** | **22.66%** | **19.71%** | **5.68%** | **5.08%** | **5.01%** | **5.03%** | **4.88%** | **4.85%** |
| % of Net Sales | 43.28% | 41.88% | 41.70% | 41.96% | 42.94% | 42.54% | 42.11% | 41.68% | 41.24% | 40.79% | 40.34% |
| Structure Costs | 537 | 514 | 522 | 642 | 713 | 759 | 806 | 855 | 908 | 963 | 1021 |
| **YOY Growth** | **6.13%** | **-4.28%** | **1.56%** | **22.99%** | **11.06%** | **6.47%** | **6.15%** | **6.12%** | **6.14%** | **6.07%** | **6.07%** |
| % of Net Sales | 13.54% | 14.83% | 14.34% | 14.47% | 13.74% | 13.71% | 13.71% | 13.71% | 13.71% | 13.72% | 13.72% |
| **PRO (EBIT)** | **1179** | **938** | **996** | **1220** | **1516** | **1596** | **1669** | **1744** | **1822** | **1900** | **1981** |
| **YOY Growth** | **18.37%** | **-20.44%** | **6.18%** | **22.49%** | **24.26%** | **5.30%** | **4.57%** | **4.48%** | **4.48%** | **4.28%** | **4.24%** |
| % of Net Sales | 29.74% | 27.06% | 27.36% | 27.49% | 29.20% | 28.83% | 28.40% | 27.97% | 27.53% | 27.07% | 26.61% |

# Europe

| Million € | 2019a | 2020a | 2021a | 2022a | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 2672 | 2532 | 2557 | 3130 | 3465 | 3640 | 3710 | 3752 | 3777 | 3797 | 3818 |
| **YOY Growth** | **-0.07%** | **-5.24%** | **0.99%** | **22.41%** | **10.70%** | **5.04%** | **1.92%** | **1.14%** | **0.67%** | **0.53%** | **0.53%** |
| Cost of Sales | 1029 | 1013 | 1023 | 1212 | 1408 | 1489 | 1534 | 1570 | 1601 | 1631 | 1661 |
| **YOY Growth** | **-1.44%** | **-1.55%** | **0.99%** | **18.48%** | **16.17%** | **5.72%** | **3.05%** | **2.38%** | **1.97%** | **1.85%** | **1.85%** |
| % of Net Sales | 38.51% | 40.01% | 40.01% | 38.72% | 40.63% | 40.90% | 41.35% | 41.85% | 42.40% | 42.95% | 43.52% |
| **Gross Margin after Logistc Expenses** | **1643** | **1519** | **1534** | **1918** | **2057** | **2151** | **2176** | **2182** | **2176** | **2166** | **2156** |
| **YOY Growth** | **0.80%** | **-7.55%** | **0.99%** | **25.03%** | **7.25%** | **4.57%** | **1.14%** | **0.27%** | **-0.26%** | **-0.44%** | **-0.46%** |
| % of Net Sales | 61.49% | 59.99% | 59.99% | 61.28% | 59.37% | 59.10% | 58.65% | 58.15% | 57.60% | 57.05% | 56.48% |
| Advertising & Promotion Expenses | 415 | 350 | 381 | 496 | 513 | 539 | 549 | 555 | 559 | 562 | 565 |
| **YOY Growth** | **2.22%** | **-15.66%** | **8.86%** | **30.18%** | **3.43%** | **5.04%** | **1.92%** | **1.14%** | **0.67%** | **0.53%** | **0.53%** |
| % of Net Sales | 15.53% | 13.82% | 14.90% | 15.85% | 14.81% | 14.81% | 14.81% | 14.81% | 14.81% | 14.81% | 14.81% |
| **Contribution after AP Expenses** | **1228** | **1169** | **1153** | **1422** | **1544** | **1612** | **1626** | **1626** | **1617** | **1604** | **1591** |
| **YOY Growth** | **0.33%** | **-4.80%** | **-1.37%** | **23.33%** | **8.58%** | **4.42%** | **0.88%** | **-0.02%** | **-0.58%** | **-0.77%** | **-0.81%** |
| % of Net Sales | 45.96% | 46.17% | 45.09% | 45.43% | 44.56% | 44.30% | 43.84% | 43.34% | 42.80% | 42.24% | 41.68% |
| Structure Costs | 611 | 564 | 529 | 632 | 677 | 700 | 705 | 705 | 702 | 698 | 694 |
| **YOY Growth** | **2.17%** | **-7.69%** | **-6.21%** | **19.47%** | **7.12%** | **3.41%** | **0.68%** | **-0.01%** | **-0.42%** | **-0.54%** | **-0.54%** |
| % of Net Sales | 22.87% | 22.27% | 20.69% | 20.19% | 19.54% | 19.24% | 19.00% | 18.78% | 18.58% | 18.38% | 18.19% |
| **PRO (EBIT)** | **617** | **605** | **624** | **790** | **867** | **912** | **922** | **921** | **915** | **906** | **897** |
| **YOY Growth** | **-1.44%** | **-1.94%** | **3.14%** | **26.60%** | **9.75%** | **5.20%** | **1.04%** | **-0.03%** | **-0.71%** | **-0.95%** | **-1.01%** |
| % of Net Sales | 23.09% | 23.89% | 24.40% | 25.24% | 25.02% | 25.06% | 24.84% | 24.56% | 24.22% | 23.86% | 23.49% |

## Consolidated

| Million € | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|
| Net Sales | 12137 | 12929 | 13624 | 14329 | 15063 | 15812 | 16607 |
| **YOY Growth** | **13.42%** | **6.53%** | **5.38%** | **5.17%** | **5.13%** | **4.97%** | **5.03%** |
| Cost of Sales | 4891 | 5242 | 5566 | 5899 | 6250 | 6614 | 7002 |
| **YOY Growth** | **15.68%** | **7.18%** | **6.18%** | **5.99%** | **5.95%** | **5.82%** | **5.87%** |
| **% of Net Sales** | **40.30%** | **40.55%** | **40.85%** | **41.17%** | **41.49%** | **41.83%** | **42.16%** |
| **Gross Margin after Logistc Expenses** | **7246** | **7687** | **8058** | **8429** | **8813** | **9197** | **9605** |
| **YOY Growth** | **11.94%** | **6.09%** | **4.83%** | **4.60%** | **4.55%** | **4.36%** | **4.43%** |
| **% of Net Sales** | **59.70%** | **59.45%** | **59.15%** | **58.83%** | **58.51%** | **58.17%** | **57.84%** |
| Advertising & Promotion Expenses | 1939 | 2068 | 2183 | 2300 | 2422 | 2547 | 2680 |
| **YOY Growth** | **14.19%** | **6.64%** | **5.56%** | **5.37%** | **5.33%** | **5.15%** | **5.21%** |
| **% of Net Sales** | **15.98%** | **15.99%** | **16.02%** | **16.05%** | **16.08%** | **16.11%** | **16.14%** |
| **Contribution after AP Expenses** | **5307** | **5619** | **5876** | **6129** | **6390** | **6650** | **6925** |
| **YOY Growth** | **11.14%** | **5.88%** | **4.56%** | **4.32%** | **4.26%** | **4.07%** | **4.13%** |
| **% of Net Sales** | **43.73%** | **43.46%** | **43.13%** | **42.78%** | **42.42%** | **42.06%** | **41.70%** |
| Structure Costs | 1959 | 2061 | 2145 | 2229 | 2316 | 2403 | 2496 |
| **YOY Growth** | **11.88%** | **5.19%** | **4.11%** | **3.92%** | **3.87%** | **3.78%** | **3.86%** |
| **% of Net Sales** | **16.14%** | **15.94%** | **15.75%** | **15.56%** | **15.37%** | **15.20%** | **15.03%** |
| **PRO (EBIT)** | **3348** | **3559** | **3730** | **3900** | **4075** | **4247** | **4429** |
| **YOY Growth** | **10.71%** | **6.29%** | **4.83%** | **4.55%** | **4.48%** | **4.23%** | **4.28%** |
| **% of Net Sales** | **27.59%** | **27.52%** | **27.38%** | **27.22%** | **27.05%** | **26.86%** | **26.67%** |
| Other Operating Income/Expenses | -83 | -85 | -89 | -94 | -99 | -104 | -109 |
| **YOY Growth** | **33.87%** | **2.08%** | **5.38%** | **5.17%** | **5.13%** | **4.97%** | **5.03%** |
| **Operating Profit** | **3265** | **3474** | **3641** | **3806** | **3976** | **4143** | **4320** |
| **YOY Growth** | **10.19%** | **6.40%** | **4.81%** | **4.53%** | **4.46%** | **4.21%** | **4.27%** |
| Financial Expenses | 380 | 429 | 423 | 445 | 468 | 491 | 516 |
| **YOY Growth** | **23.38%** | **12.77%** | **-1.19%** | **5.17%** | **5.13%** | **4.97%** | **5.03%** |
| Financial Income | 53 | 55 | 58 | 61 | 65 | 68 | 71 |
| **YOY Growth** | **10.42%** | **4.67%** | **5.38%** | **5.17%** | **5.13%** | **4.97%** | **5.03%** |
| **EBT** | **2938** | **3101** | **3276** | **3422** | **3572** | **3720** | **3875** |
| **YOY Growth** | **8.69%** | **5.54%** | **5.65%** | **4.46%** | **4.39%** | **4.13%** | **4.18%** |
| Corporate Income Tax | 651 | 693 | 739 | 778 | 820 | 861 | 904 |
| **YOY Growth** | **-3.70%** | **6.47%** | **6.58%** | **5.37%** | **5.28%** | **5.01%** | **5.06%** |
| **Effective Tax Rate** | **22.16%** | **22.35%** | **22.55%** | **22.74%** | **22.94%** | **23.14%** | **23.33%** |
| Share of Net Profit/Loss of Associates | -4 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net Profit of Discontinued and Held for Sale Activities | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net Profit** | **2283** | **2408** | **2537** | **2644** | **2753** | **2859** | **2971** |
| **YOY Growth** | **12.35%** | **5.46%** | **5.39%** | **4.20%** | **4.12%** | **3.86%** | **3.91%** |
| | | | | | | | |
| of which: | | | | | | | |
| Non-Controlling Interests | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| **YOY Growth** | **-40.00%** | **5.46%** | **5.39%** | **4.20%** | **4.12%** | **3.86%** | **3.91%** |
| **% of Net Profit** | **0.92%** | **0.92%** | **0.92%** | **0.92%** | **0.92%** | **0.92%** | **0.92%** |
| **Attributable to Group Shareholders** | **2262** | **2386** | **2514** | **2620** | **2728** | **2833** | **2944** |
| **YOY Growth** | **13.33%** | **5.46%** | **5.39%** | **4.20%** | **4.12%** | **3.86%** | **3.91%** |
| **% of Net Profit** | **99.08%** | **99.08%** | **99.08%** | **99.08%** | **99.08%** | **99.08%** | **99.08%** |

## Appendix F: Peer Group Choice

The main prerequisite for choosing Pernod Ricard's peer group was the business areas the companies were inserted in. Even though the Alcoholic Drinks industry is vast and full of different players, companies, whose main operations were concentrated, as Pernod Ricard, in the Spirits and/or wine segments, were privileged. Thus, for instance, companies whose main products are beer or wines were withdrawn. After that, other factors such as growth, profitability, market size and operations geography, were considered, with more focus on the first two.

| | Pernod Ricard | Diageo | Davide Campari-Milano NV | Constellation Brands Inc | Brown-Forman Corp | Remy Cointreau |
|---|---|---|---|---|---|---|
| Average 5Y Sales Growth | 8.99% | 11.42% | 13.00% | 5.00% | 6.58% | 11.60% |
| Average 5Y Sales (Million €) | 10,211 | 16,714 | 2,106 | 8,256 | 3,525 | 1,249 |
| Market Cap (Billion €) | 44.88 | 80.14 | 12.48 | 40.57 | 25.63 | 5.51 |
| Average 5Y Net Income Growth | 88.97% | 32.60% | 20.13% | -4252.33% | 2.98% | 30.15% |
| Average 5Y Net Income (Million €) | 1,779 | 3,679 | 306 | 1,246 | 792 | 202 |
| Business Area | Spirits and Wine | Spirits and Beer | Spirits | Beer/Wine/Spirits | Spirits and Wine | Spirits and Wine |

Due to a good similarity profile with Pernod Ricard, the companies mentioned above were considered for the peer group. However, due to a considerable distortion in profitability levels, it was deemed appropriate to withdraw Constellation Brands from the group. Thus, Diageo, Davide Campari-Milano, Brown-Forman Corp., and Remy Cointreau were the companies chosen to encompass the final peer group.

## Appendix G: Pernod Ricard's Bonds Outstanding

| Nominal Amount | Issue Date | Maturity | Carrying Amount at FY23 - Million € | Carrying Amount at FY24 - Million € |
|---|---|---|---|---|
| EUR 500 Million | 24/10/2019 | 24/10/2023 | 500 | - |
| EUR 650 Million | 29/09/2014 | 27/09/2024 | 660 | 640 |
| EUR 1000 Million | 27/04/2020 | 07/04/2025 | 1001 | 966 |
| EUR 600 Million | 17/05/2016 | 18/05/2026 | 600 | 577 |
| USD 600 Million | 08/06/2016 | 08/06/2026 | 537 | 476 |
| EUR 500 Million | 24/10/2019 | 24/10/2027 | 500 | 454 |
| USD 600 Million | 01/10/2020 | 01/04/2028 | 551 | 476 |
| EUR 750 Million | 07/04/2022 | 07/04/2029 | 742 | 680 |
| EUR 500 Million | 04/10/2021 | 04/10/2029 | 492 | 418 |
| EUR 1000 Million | 27/04/2020 | 08/04/2030 | 1009 | 911 |
| USD 900 Million | 01/10/2020 | 01/04/2031 | 823 | 653 |
| EUR 500 Million | 24/10/2019 | 24/10/2031 | 497 | 415 |
| USD 850 Million | 12/01/2022 | 15/01/2042 | 790 | 791 |
| USD 500 Million | 01/10/2020 | 01/10/2050 | 448 | 288 |
| EUR 500 Million | 02/11/2022 | 02/11/2032 | 503 | 512 |
| EUR 600 Million | 02/11/2022 | 02/11/2028 | 604 | 601 |
| EUR 600 Million | 15/09/2023 | 15/09/2027 | - | 609 |
| EUR 750 Million | 15/09/2023 | 15/09/2033 | - | 765 |
| **Total Bonds** | | | **10,258** | **10,291** |

## Appendix H: Cost of Debt – YTM Adjustment

The adjustment was performed on the YTM of bonds PR had outstanding in US dollars, and it was done so by assessing the difference between the German and US Government Bond Yield, and applying it to the former US YTM, by matching the closest possible, the bonds' maturity dates with the US and German Government Bond Yield periods. The Yields for the different periods were retrieved from the World Government Bonds site. The differential can be seen in the table below:

| | |
|---|---|
| Germnay Govt. Bond Yield 2Y | 3.07% |
| US Govt. Bond Yield 2Y | 5.02% |
| Δ | **-1.94%** |
| | |
| Germnay Govt. Bond Yield 5Y | 2.66% |
| US Govt. Bond Yield 5Y | 4.77% |
| Δ | **-2.12%** |
| | |
| Germnay Govt. Bond Yield 7Y | 2.63% |
| US Govt. Bond Yield 7Y | 4.85% |
| Δ | **-2.22%** |
| | |
| Germnay Govt. Bond Yield 20Y | 3.11% |
| US Govt. Bond Yield 20Y | 5.22% |
| Δ | **-2.10%** |
| | |
| Germnay Govt. Bond Yield 30Y | 3.11% |
| US Govt. Bond Yield 30Y | 5.22% |
| Δ | **-2.10%** |

The YTM and respective adjustments, used for the bond's cost of debt computations can be seen in the table below:

| Nominal Amount | Issue Date | Maturity | YTM | YTM Adjusted for Currency |
|---|---|---|---|---|
| EUR 500 Million | 24/10/2019 | 24/10/2023 | 0% | 0% |
| EUR 650 Million | 29/09/2014 | 27/09/2024 | 4,12% | 4,12% |
| EUR 1000 Million | 27/04/2020 | 07/04/2025 | 4.06% | 4.06% |
| EUR 600 Million | 17/05/2016 | 18/05/2026 | 3.77% | 3.77% |
| USD 600 Million | 08/06/2016 | 08/06/2026 | 5.47% | 3.52% |
| EUR 500 Million | 24/10/2019 | 24/10/2027 | 3.71% | 3.71% |
| USD 600 Million | 01/10/2020 | 01/04/2028 | 5.58% | 3.46% |
| EUR 750 Million | 07/04/2022 | 07/04/2029 | 4.04% | 4.04% |
| EUR 500 Million | 04/10/2021 | 04/10/2029 | 4.06% | 4.06% |
| EUR 1000 Million | 27/04/2020 | 08/04/2030 | 4.06% | 4.06% |
| USD 900 Million | 01/10/2020 | 01/04/2031 | 6.00% | 3.78% |
| EUR 500 Million | 24/10/2019 | 24/10/2031 | 4.05% | 4.05% |
| USD 850 Million | 12/01/2022 | 15/01/2042 | 6.48% | 4.37% |
| USD 500 Million | 01/10/2020 | 01/10/2050 | 6.10% | 4.00% |
| EUR 500 Million | 02/11/2022 | 02/11/2032 | 4.19% | 4.19% |
| EUR 600 Million | 02/11/2022 | 02/11/2028 | 3.95% | 3.95% |

**Appendix I: Interest Coverage Ratio Proxy Table**

| > | ≤ to | *Rating is* | *Spread is* |
|---|---|---|---|
| -100000 | 0.199999 | D2/D | 20.00% |
| 0.2 | 0.649999 | C2/C | 17.50% |
| 0.65 | 0.799999 | Ca2/CC | 15.78% |
| 0.8 | 1.249999 | Caa/CCC | 11.57% |
| 1.25 | 1.499999 | B3/B- | 7.37% |
| 1.5 | 1.749999 | B2/B | 5.26% |
| 1.75 | 1.999999 | B1/B+ | 4.55% |
| 2 | 2.2499999 | Ba2/BB | 3.13% |
| 2.25 | 2.49999 | Ba1/BB+ | 2.42% |
| 2.5 | 2.999999 | Baa2/BBB | 2.00% |
| 3 | 4.249999 | A3/A- | 1.62% |
| 4.25 | 5.499999 | A2/A | 1.42% |
| 5.5 | 6.499999 | A1/A+ | 1.23% |
| 6.5 | 8.499999 | Aa2/AA | 0.85% |
| 8.50 | 100000 | Aaa/AAA | 0.69% |

# Appendix J: Cash-Flow Statement Forecast

| Million € | 2023a | 2024a | 2025e | 2026e | 2027e | 2028e | 2029e |
|---|---|---|---|---|---|---|---|
| **Cash-Flows from Operating Activities** | | | | | | | |
| Group Share of Net Profit | 2,262 | 2,386 | 2,514 | 2,620 | 2,728 | 2,833 | 2,944 |
| Non-Controlling Interests | 21 | 22 | 23 | 24 | 25 | 26 | 27 |
| Group Share of Net Profit/loss of Associates, net of dividends receivec | 4 | 0 | 0 | 0 | 0 | 0 | 0 |
| Financial Income/Expenses | 327 | 373 | 365 | 384 | 404 | 424 | 445 |
| Tax Income/expenses | 651 | 693 | 739 | 778 | 820 | 861 | 904 |
| Net profit from discontinued operations | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation of fixed assets | 417 | 446 | 474 | 503 | 533 | 559 | 588 |
| Net Change in Provisions | -74 | -49 | -49 | -49 | -49 | -49 | -49 |
| Net change in impairment of goodwill, PP&E and intangible assets | 52 | 47 | 47 | 47 | 47 | 47 | 47 |
| Changes in fair value of commercial derivatives | -7 | 0 | 0 | 0 | 0 | 0 | 0 |
| Changes in fair value of biological assets and investments | -80 | -29 | -29 | -29 | -29 | -29 | -29 |
| Net (gain)/loss on disposal of assets | -74 | -32 | -32 | -32 | -32 | -32 | -32 |
| Share-based payments | 44 | 37 | 37 | 37 | 37 | 37 | 37 |
| **Self-financing capacity before financing interest and taxes** | **3,543** | **3,894** | **4,089** | **4,283** | **4,483** | **4,676** | **4,881** |
| Decrease/increase in WC requirement | -568 | -27 | -369 | -171 | -390 | -226 | -439 |
| Interest paid | -292 | -306 | -306 | -306 | -306 | -306 | -306 |
| Interest received | 4 | 29 | 29 | 29 | 29 | 29 | 29 |
| Tax paid/received | -654 | -696 | -742 | -782 | -823 | -865 | -908 |
| **Net Cash from Operating Activities** | **2,033** | **2,893** | **2,701** | **3,053** | **2,992** | **3,309** | **3,258** |
| **Cash-Flows from Investing Activities** | | | | | | | |
| Capital Expenditure | -702 | -900 | -850 | -790 | -722 | -758 | -796 |
| Proceeds from Disposals of PP&E&I | 100 | 63 | 63 | 63 | 63 | 63 | 63 |
| Purchases of Financial Assets and Activities | -1,159 | -675 | -675 | -675 | -675 | -675 | -675 |
| Disposals of Financial Assets and Activities | 30 | 19 | 19 | 19 | 19 | 19 | 19 |
| **Net Cash used in Investing Activities** | **-1,731** | **-1,493** | **-1,443** | **-1,384** | **-1,315** | **-1,351** | **-1,389** |
| **Cash-Flows from Financing Activities** | | | | | | | |
| Dividends and interim dividends paid | -1,072 | -1,235 | -1,302 | -1,357 | -1,413 | -1,468 | -1,526 |
| Other changes in Shareholder's Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Issuance of long-term debt | 1,702 | 1,808 | 1,808 | 1,808 | 1,808 | 1,808 | 1,808 |
| Repayment of debt | -845 | -1,140 | -1,140 | -1,140 | -1,140 | -1,140 | -1,140 |
| Repayment of lease liabilities | -116 | -107 | -107 | -107 | -107 | -107 | -107 |
| Acquisition/disposable of treasury shares | -786 | -650 | -540 | -540 | -540 | -540 | -540 |
| Other Transactions with Non-Controlling Interests | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Net Cash used in Financing Activities** | **-1,117** | **-1,325** | **-1,281** | **-1,336** | **-1,392** | **-1,447** | **-1,505** |
| Cash-flows from non-current assets held for sale | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Increase/decrease in cash and cash equivalents before FX impact** | **-815** | **76** | **-23** | **333** | **285** | **510** | **363** |
| Transalation differenes | -103 | -9 | -9 | -9 | -9 | -9 | -9 |
| Restatement for IFRS15 on opening position | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **Increase/decrease in cash and cash equivalents after FX impact** | **-918** | **67** | **-31** | **325** | **276** | **502** | **354** |
| **Cash and cash equivalents at beggining of period** | **2,527** | **1,609** | **1,676** | **1,645** | **1,969** | **2,245** | **2,747** |
| **Cash and cash equivalents at end of period** | **1,609** | **1,676** | **1,645** | **1,969** | **2,245** | **2,747** | **3,102** |

## Appendix K: Other Items's Forecast

### Shares Outstanding

Since a share buyback scenario was considered, an adjustment to the FY24 Shares Outstanding had to be made. Thus, the new shares outstanding were estimated by dividing the abovementioned €650 million by the mandated share price limit set by PR shareholders (€320) (Pernod Ricard, 2023a).

### Non-Controlling Interest

In FY23 the company had a BV of non-controlling-interests in amounts of €998 million, constituting a 223% rise when compared with the previous FY. This was mainly due to the strengthening minority position of the company on Sovereign Brands, a growing company, with a unique portfolio in the wine and spirits industry with a global presence. For the DCF Model, it was considered the FY23 BV. Even though the year 0 is 2024, it's being considered that this value will remain unchanged.

## Appendix L: Pernod Ricard SWOT Analysis

### Strengths

### Global Presence

PR operates worldwide, having a big geographic span (Americas, Asia, Africa, Middle East, and Europe). It operates 96 production sites in 25 different countries around the world. It operates directly in 74 countries and distributes its products in over 160 countries. Thus, the geographic scattering allows PR to diversify its risk and generate multiple revenue streams, providing a competitive advantage and financial stability in the long term.

**Strong Brand Portfolio**

Pernod Ricard owns many well-established and recognized brands, such as Beefeater, Chivas Regal, Absolut Vodka and Ricard, among many others, which appeal to the consumers' loyalty and provide a strong competitive advantage.

**High Revenue Growth**

In FY22 PR beat its all-time-high sales record (€10,701 million), repeating this achievement in FY23 (€12,137 million), having a 13% average sales growth rate in the three last FYs, which stands as a great signal for investors' confidence.

**Weaknesses**

**Increase in Accounts Receivables**

Accounts Receivables have been constantly growing since FY20, reaching an all-time high in FY23 (€2,116 million). This could mean a decrease in the company's cash flow from operations. The inability to recover this item can significantly be damaging for the company's cash flow and liquidity.

**Opportunities**

**Growth in the European Wine Market**

PR's strategic wine segments can benefit from the growing wine market in Europe. The wine market in this segment is forecasted to grow to a value of €333.4 billion.

**Globally Growth Boost in the Spirits Market**

The main PR focus and revenue generation streamer has been for a long time the production and sales of spirits. It is expected for this market to grow by about 5.6% in 2024, reaching € 520.8 billion globally, which will benefit PR's business. The rapid middle-class growth and

increasing demand in the Asia-Pacific region can be important determinants for this growth pattern.

## Threats

### Growth of Counterfeit Products

Since PR brands are globally recognized, the risk of counterfeiting is plausible, which could not only affect the company's sales and profit margins but also its brand image, which could be perceived as inferior in case of counterfeiting.

### Advertising Regulations

Due to ever-increasing health-related awareness, alcohol-selling companies have been criticized for their portrayal of alcoholic drinks in advertisements. In Europe, a lot of governments are trying to tackle alcohol consumption by imposing regulations on spirits in the media.

### Foreign Exchange Risk

Due to its geographic reach, PR is highly exposed to foreign exchange fluctuations, which could negatively impact its results.

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