



## SOLID ORGANIC PERFORMANCE UNDERMINED BY CURRENCY HEADWIND

We cut our F10 EBITA by €100m (€60m of incremental currency hit, €40m trading) and we cut our TP from €63 to €62. This still provides some upside but not enough to chase the stock at these levels, in our view. The currency headwind has decoupled Pernod's organic performance from its reported performance and this will remain the case for another six months. For now, we prefer Diageo, which enjoys a currency tailwind compared with Pernod's currency headwind.

- **No clear winner:** In terms of organic growth, Pernod clearly beat Diageo's performance on margins, but not on sales or EPS:
- Pernod's organic sales were down 3% (including positive price/mix) versus Diageo down 2% (with flat price/mix). It's impressive to have positive price/mix in a recession, but Diageo's sales decline was still more modest than Pernod's.
- However, Pernod's margin performance was far stronger than Diageo's: Pernod's organic EBITA was flat (with AMP down 30bp), compared with Diageo's organic EBITA down 3% (with AMP down 60bp). Had Diageo limited its AMP cut to 30bp (with no positive impact on sales), it would have reported EBITA £15m lower (i.e. a 4% organic decline, rather than the 3% recorded).
- At EPS level Pernod's performance is less rosy: EPS down 15% (down 5% in level currency) versus Diageo's EPS down 10% (down 2% in level currency). In summary, the performance of the two companies varies but it is difficult to suggest that Pernod has outperformed Diageo, or vice versa.
- **EPS forecast cut 7%:** We are cutting our Pernod EBITA forecast by €100m (a 5.5% cut), comprising a €60m hit from currency and €40m from trading. The €60m currency hit is at the bearish end of Pernod's guidance range, but as the H1 hit was far worse than we had anticipated, this seems wise to us. The number of shares in issue was also greater than we had expected so we cut our EPS by 7.3% from €3.99 to €3.70.
- **We remain Holders:** In a reassuring conference call, Pernod majored on themes that naturally appeal to the market: AMP will rebuild in H2 (although note that Diageo said the same thing last week); pricing is firm; and it continues to see strong growth in China and India. In most respects the story is similar to Diageo's: the worst news is now in the past. But unlike Diageo, it still faces a currency headwind (compared with a tailwind for Diageo). Given relative valuations (Diageo cal 10 P/E 13.7x, EV/EBITDA 10.6x; Pernod cal 10 P/E 14.6x, EV/EBITDA 13.0x), we remain strong buyers of Diageo and holders of Pernod until the currency headwind has passed and reported performance recouples with organic growth.

Rating	HOLD
Target price (€)	62.00
Current price (€)	58.29
Market cap (€)	15.1bn
52-wk range (€)	35.89-60.89

Year-end June (€m)	2009A	2010E	2011E
Revenue	7,203	6,985	7,535
EBITDA	2,003	1,919	2,095
EBITA	1,846	1,766	1,931
PBT	1,227	1,277	1,464
Net profit	1,002	979	1,121
Net (debt)/cash	(10,927)	(10,326)	(9,847)
Net assets/(def)	7,615	8,381	9,190
Dil EPS (€)	4.24	3.70	4.23
DPS (€)	1.32	1.32	1.40
FCF (€)	4.40	3.30	3.20
P/E (x)	13.7	15.7	13.7
EV/EBITDA (x)	12.4	13.6	12.2
Net debt:EBITDA (x)	5.45	5.38	4.70
Interest cover (x)	3.0	3.6	3.5
ROIC (%)	8.9	7.0	7.4

### Research

Matthew Jordan +44 20 3206 7188 matthew.jordan@matrixgroup.co.uk

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Figure 1: Pernod Ricard P&amp;L forecast

Year-end June	2009A				2010E				2011E				2012E			
	H1A	H2E	IFRS	±%	H1E	±%	H2E	IFRS	±%	IFRS	±%	IFRS	±%			
<b>Sales breakdown</b>																
France	404	331	735	3.5%	397	-1.7%	347	744	1.1%	752	1.2%	786	4.4%			
Europe excl. France	1,497	920	2,417	11.4%	1,247	-16.7%	1,070	2,317	-4.1%	2,417	4.3%	2,521	4.3%			
Rest of World	1,130	893	2,023	0.8%	1,145	1.3%	848	1,993	-1.5%	2,302	15.5%	2,485	7.9%			
Americas	1,181	846	2,027	19.3%	1,000	-15.3%	931	1,931	-4.8%	2,064	6.9%	2,184	5.8%			
<b>Total turnover</b>	<b>4,212</b>	<b>2,991</b>	<b>7,203</b>	<b>9.3%</b>	<b>3,789</b>	<b>-10.0%</b>	<b>3,196</b>	<b>6,985</b>	<b>-3.0%</b>	<b>7,535</b>	<b>7.9%</b>	<b>7,976</b>	<b>5.9%</b>			
<b>EBITA</b>																
France	111	67	178	19.7%	116	4.7%	69	185	3.5%	189	2.2%	200	5.6%			
Europe excl. France	411	126	537	1.3%	338	-17.7%	198	536	-0.2%	598	11.6%	636	6.4%			
Rest of World	288	207	495	17.4%	305	6.0%	162	467	-5.7%	526	12.6%	578	9.8%			
Americas	387	249	636	51.0%	302	-21.9%	276	578	-9.0%	618	6.8%	662	7.2%			
<b>Total Wines and Spirits</b>	<b>1,196</b>	<b>649</b>	<b>1,846</b>	<b>21.3%</b>	<b>1,062</b>	<b>-11.2%</b>	<b>705</b>	<b>1,766</b>	<b>-4.3%</b>	<b>1,931</b>	<b>9.3%</b>	<b>2,076</b>	<b>7.5%</b>			
<b>INCOME STATEMENT</b>																
<b>Sales</b>	<b>4,212</b>	<b>2,991</b>	<b>7,203</b>	<b>9.3%</b>	<b>3,789</b>	<b>-10.0%</b>	<b>3,196</b>	<b>6,985</b>	<b>-3.0%</b>	<b>7,535</b>	<b>7.9%</b>	<b>7,976</b>	<b>5.9%</b>			
Cost of goods sold	(1,709)	(1,286)	(2,995)	6%	(1,526)		(1,308)	(2,834)	-5%	(3,020)	7%	(3,157)	5%			
<b>Gross profit</b>	<b>2,503</b>	<b>1,705</b>	<b>4,208</b>	<b>11.7%</b>	<b>2,263</b>	<b>-9.6%</b>	<b>1,887</b>	<b>4,150</b>	<b>-1.4%</b>	<b>4,515</b>	<b>8.8%</b>	<b>4,819</b>	<b>6.7%</b>			
Gross margin on total sales	59.4%	57.0%	58.4%		59.7%		59.1%	59.4%		59.9%		60.4%				
Operating costs	(1,229)	(977)	(2,205)	6.4%	(1,125)		(1,107)	(2,232)	1.2%	(2,420)	8.4%	(2,570)	6.2%			
<b>EBITDA</b>	<b>1,275</b>	<b>729</b>	<b>2,003</b>	<b>18.2%</b>	<b>1,138</b>	<b>-10.7%</b>	<b>781</b>	<b>1,919</b>	<b>-4.2%</b>	<b>2,095</b>	<b>9.2%</b>	<b>2,249</b>	<b>7.4%</b>			
EBITDA margin	30.3%	24.4%	27.8%		30.0%		24.4%	27.5%		27.8%		28.2%				
Depreciation	(79)	(79)	(157)	-9.0%	(76)		(76)	(152)	-3.0%	(164)	7.9%	(174)	5.9%			
<b>EBITA</b>	<b>1,196</b>	<b>650</b>	<b>1,846</b>	<b>21.3%</b>	<b>1,062</b>	<b>-11.2%</b>	<b>705</b>	<b>1,766</b>	<b>-4.3%</b>	<b>1,931</b>	<b>9.3%</b>	<b>2,076</b>	<b>7.5%</b>			
EBITA margin	28.4%	21.7%	25.6%		28.0%		22.0%	25.3%		25.6%		26.0%				
Interest paid net	(339)	(280)	(619)		(246)		(243)	(489)		(467)		(446)				
<b>Normalised pre-tax profit</b>	<b>857</b>	<b>370</b>	<b>1,227</b>	<b>3.2%</b>	<b>816</b>	<b>-4.8%</b>	<b>461</b>	<b>1,277</b>	<b>4.1%</b>	<b>1,464</b>	<b>14.6%</b>	<b>1,629</b>	<b>11.3%</b>			
Exceptionals	(179)	18	(161)		(75)		0	(75)		0		0				
<b>Pre-tax profit</b>	<b>678</b>	<b>388</b>	<b>1,066</b>	<b>-2.4%</b>	<b>741</b>	<b>9.3%</b>	<b>461</b>	<b>1,202</b>	<b>12.7%</b>	<b>1,464</b>	<b>21.8%</b>	<b>1,629</b>	<b>11.3%</b>			
Tax	(60)	(48)	(108)		(126)		(118)	(244)		(297)		(330)				
Underlying tax charge	(169)	(35)	(204)		(157)		(118)	(275)		(315)		(350)				
Tax rate	8.8%	12.4%	10.1%		17.0%		25.5%	20.3%		20.3%		20.3%				
Underlying tax rate	19.7%	9.5%	16.6%		19.2%		25.5%	21.5%		21.5%		21.5%				
Associates/asset for disposal	(3)		0		0			0		0		0				
Minorities	11	(32)	(21)	-27.6%	(10)		(13)	(24)	12.7%	(29)	21.8%	(32)	11.3%			
<b>Attrib. earnings (net)</b>	<b>626</b>	<b>312</b>	<b>937</b>	<b>11.7%</b>	<b>604</b>	<b>-3.4%</b>	<b>330</b>	<b>935</b>	<b>-0.3%</b>	<b>1,139</b>	<b>21.8%</b>	<b>1,267</b>	<b>11.3%</b>			
<b>Normalised earnings</b>	<b>696</b>	<b>307</b>	<b>1,002</b>	<b>11.7%</b>	<b>648</b>	<b>-6.8%</b>	<b>330</b>	<b>979</b>	<b>-2.3%</b>	<b>1,121</b>	<b>14.5%</b>	<b>1,247</b>	<b>11.3%</b>			
Dividends		(301)	(301)				(323)	(323)		(370)		(411)				
Transfer to reserves	626	11	636		604	(0)	7	612		769		856				
<b>PER SHARE DATA</b>																
Net div. per share (€)			1.32					1.32	0.0%	1.40	6.2%	1.56	11.3%			
Basic weighted avg shares (m)	237.616		234.871		263.874		263.874	263.874		263.874		263.874				
Headline EPS - basic	2.60	1.39	3.99	1.8%	2.30	-11.5%	1.24	3.54	-11.3%	4.32	22.0%	4.80	11.1%			
<b>Normalised EPS - basic</b>	<b>2.90</b>	<b>1.37</b>	<b>4.27</b>	<b>1.9%</b>	<b>2.50</b>	<b>-13.8%</b>	<b>1.21</b>	<b>3.71</b>	<b>-13.1%</b>	<b>4.25</b>	<b>14.6%</b>	<b>4.73</b>	<b>11.3%</b>			
Fully diluted shares (m)	237.963		236.491		264.669		264.669	264.669		264.669		264.669				
Headline EPS - fully diluted	2.63	1.33	3.96	2.6%	2.28	-13.3%	1.25	3.53	-10.9%	4.30	21.8%	4.79	11.4%			
<b>Normalised EPS - fully diluted</b>	<b>2.92</b>	<b>1.32</b>	<b>4.24</b>	<b>2.7%</b>	<b>2.45</b>	<b>-16.1%</b>	<b>1.25</b>	<b>3.70</b>	<b>-12.7%</b>	<b>4.23</b>	<b>14.3%</b>	<b>4.71</b>	<b>11.3%</b>			

Source: Company data, Matrix Corporate Capital estimates

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This report was first released on 19 February 2010.

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Pernod Ricard (RI)	None

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**Matrix Corporate Capital LLP**

One Vine Street

London, W1J 0AH

+44 (0) 20 3206 7000