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Pernod Ricard Struggles: Sales Fall Short, Shares Plummet 35%

Economic Woes Hit Pernod Ricard

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In a world where economic turbulence is becoming more of the norm than the exception, even giants like Pernod Ricard are feeling the pinch. The renowned French spirits maker has faced significant challenges in the third quarter of 2024, with sales figures falling short of expectations, particularly in its most crucial markets: the United States and China. This disappointing performance reflects a broader trend affecting global businesses as they navigate through an era of economic uncertainty.

During the first three months of 2024, Pernod Ricard's organic net sales remained flat compared to the same period last year, yet overall, they dipped by 2%. This downturn places the French group's sales performance at a 6% decline year-over-year, or a 2% drop in organic terms for the first nine months of their fiscal year.

The slight growth in sales volume by 1% from January to March barely makes a dent following four consecutive quarters of decline, leaving the company's sales 4% lower in the nine months since last June compared to the previous corresponding period. This quarter's sales reached 2.35 billion euros, a figure that shows no change from last year and falls significantly short of the projected 2.9% growth anticipated by analysts.

The market's reaction was swift and unforgiving, with Pernod Ricard's shares dropping by 2.5% to 141.5 euros in Paris, marking a staggering 35% decrease in value over the last 12 months. Despite this, the company maintains an optimistic front, describing its sales figures as "robust." It highlights the strength of its diversified portfolio of international premium spirits and its broad geographic footprint that spans both mature and emerging markets.

Alexandre Ricard, the CEO, noted in an interview with Bloomberg an "increasing momentum that we are experiencing in the rest of the world, with the exception of China and the U.S." This sentiment, albeit somewhat general, was not enough to mitigate the reduced forecast set by Pernod in February, although it has kept its mid-term sales growth guidance unchanged towards the top of its 4% to 7% range.

The company still expects a modest 1% growth in organic recurring operating profit for the full year ending June 30, with an expansion in organic margin. However, the weak Lunar New Year in China, typically a boon for spirit sales, posed an additional challenge for the company this quarter.

In China, total sales plummeted by 12% (9% organically) as the economy grapples with a housing investment crisis. However, Pernod Ricard observed robust spending by Chinese consumers abroad, particularly in Japan, where the weak yen has made shopping more attractive, and travel retail is picking up speed with tourism nearly back to pre-pandemic levels.

In the United States, wholesalers and retailers are being particularly cautious with their inventories of premium beverages. Total sales in the quarter dropped by 11%, or 8% in organic terms. On the brighter side, India emerged as a shining star, where strong consumer demand drove organic sales up by 8%, or 5% overall, with notable performances from products like Jameson Irish whiskey, Absolut vodka, and The Glenlivet Scotch.

In the UK, sales figures were described as "weak," with particularly soft demand for the group's wines. The challenges are significant, but Pernod Ricard's ability to adapt to these turbulent times will be crucial for its continued success. As they steer through these choppy economic waters, the resilience and strategic agility of Pernod Ricard will be key factors in whether they can regain their momentum in the global spirits market.