

Fitch: Positive Impact from Pernod Ricard's Rights Issue and Asset Disposals

Fitch Ratings-London-09 April 2009: Fitch Ratings says French wine and spirit maker Pernod Ricard SA's (Pernod; BB+; Negative Outlook) planned rights issue of EUR1bn, combined with progress in its asset disposal programme and the decision to not pay in cash two thirds of the FY09 dividend, would have a moderately positive impact on its credit profile when completed.

Fitch calculates that the EUR1bn rights issue and a one-off EUR200m cash saving on the FY09 dividend payment could improve Pernod's leverage (net debt/EBITDA) by approximately 0.5x. According to the agency's forecasts, this would bring forward by almost one year management's plan to de-leverage to 4.5x-5x by FYE10 and approximately 4x by FYE11. As of December 2008, Pernod had net debt of EUR13bn, yielding an annualised and seasonally adjusted net debt/EBITDA of approximately 6x, a level which Fitch reiterates is incompatible with the current 'BB+' rating.

"These measures represent a positive step by Pernod in the direction of achieving their net debt targets," said Giulio Lombardi, Senior Director in Fitch's European Retail, Leisure and Consumer Products Group. "However, the uncertainty surrounding the timing and success of the rights issue, which is currently not underwritten, and remaining asset disposals, combined with lower than expected 3Q09 trading results, are reflected in Fitch's existing concerns over Pernod's credit profile."

In its latest affirmation of Pernod's rating on 23 February 2009, Fitch had said that "an additional factor underpinning the affirmation of Pernod's ratings is that management has reinforced its commitment to de-leverage and to achieve an investment-grade rating through the announcement in October 2008 of a EUR1bn asset disposal programme".

While yesterday's announcement of the sale of the Wild Turkey brand for EUR433m and the EUR1bn rights issue confirm Pernod's commitment, Fitch remains concerned about the evolution of the company's profits amid subdued consumer confidence and disposable income. Over the past two quarters, these macroeconomic factors have contributed to a sharp de-stocking process by wholesalers in the important US market as well as stagnation in global consumption of the more profitable above-premium spirits, causing the two industry leaders, Diageo ('A'; Negative Outlook) and Pernod, to revise down their profit guidance for FY09.

Fitch will reassess Pernod's credit profile when more details about the timing of the rights issue and its terms are confirmed.

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