

Sector View

Spirits

	1 M	3 M	6 M	31/12/15
Food & Bev.	-8.1%	-10.0%	-6.4%	-10.0%
DJ Stoxx 600	-1.0%	0.2%	0.9%	-6.8%

*Stoxx Sector Indices

Companies covered

CAMPARI	BUY	EUR10,7
Last Price	EUR8,87	Market Cap. EUR5,166m
DIAGEO	NEUTRAL	2200p
Last Price	2005p	Market Cap. GBP50,385m
MARIE BRIZARD		
Last Price	EUR15,69	Market Cap. EUR444m
PERNOD RICARD	BUY	EUR115
Last Price	EUR101,8	Market Cap. EUR26,900m
REMY COINTREAU	BUY	EUR84
Last Price	EUR74,67	Market Cap. EUR3,699m

Rising to the Generation Y challenge

ANALYSIS

- Millennials: the priority target. This generation has become the major obsession for the spirits industry which is engaged in a ferocious battle to conquer its heart and wallet. The representatives of this age bracket represent the driving force in consumption, regrouping more than 385m individuals in China (c.28% of the total population), 122m in the EU (c.24%) and 92m in the United States (c.29%). Beyond this demographic influence, in 2020 this generation will represent more than one third of retail sales in the United States and 53% of Chinese domestic consumption (BCG).
- Authenticity and experimentation. While brands are very important to Generation X, Millennials prioritise products which have a story to tell. This is why the notion of authenticity has become key, explaining both the craft trend and the success of certain categories like whisk(e)y, cognac, Latin American spirits (tequila/mezcal) and bitters. Experimentation has also acquired a predominant role. These days we do not just consume a product but all that its universe can offer. The implications are numerous: marketing changes, the emergence of mixology, the importance of new technologies and ethical considerations. The product itself is increasingly specifically designed to create an experience, hence the success of aromatised spirits, the abolition of frontiers between categories, etc.
- Rémy Cointreau: the best positioned. The company generates 64% of its sales in categories in phase with the Millennial generation, i.e. mainly cognac but also, to a lesser extent, single-malt scotch. The Campari portfolio, with its high proportion of bitters and bourbon, is also attractive. We calculate that 39% of the Italian company's sales are generated in products that are popular with Generation Y. In the case of diversified groups like Pernod Ricard and Diageo, this percentage falls to a respective 21% and 11%. Lastly, we estimate that only 3% of MBWS sales are aligned with Generation Y tastes.

VALUATION

- This analysis reinforces our positive conviction on Rémy Cointreau (Fair Value: EUR84), Campari (Fair Value: EUR10.7) and Pernod Ricard (Fair Value: EUR115). We maintain our Neutral recommendation on Diageo (Fair Value: 2,150p) and we initiate coverage of MBWS with a Neutral opinion and a Fair Value of EUR17.1.

NEXT CATALYSTS

- Rémy Cointreau: H1 2016/17 results

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