

MARKET CAPITALIZATION ASSESSMENT OF PERNOD RICARD CORPORATION. APPLICATION OF WACC CALCULATION

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Abstract

In the article, we have assessed the most significant financial indicators of the Pernod Ricard Corporation, with the aim of revealing the effectiveness of the corporation's capital management. Pernod Ricard is one of French companies, whose branch also operates in Armenia, as a producer and seller of a wide range of wines and spirits. In the article, based on the data of the Pernod Ricard Corporation, we have assessed the corporation's:

1. debt-to-sales ratio behavior
2. relationships between the components of the capital structure
3. level of coverage of liabilities with assets
4. debt service capacity
5. weighted average cost of capital (WACC).

The weighted average cost of capital (WACC) represents the combined cost of capital from all sources. However, WACC weighs the cost of each type of capital as a percentage of the total capital. It can include debt and equity types such as bonds, convertible debt, distributable reserves, issued share capital, lease financing, non-convertible long-term finance, long-term loans, mortgage bonds, undistributed reserves, preferred stock, and retained earnings.

We have considered it appropriate to estimate the weighted average cost of capital of an organization because we believe that WACC is useful for determining the value of each aspect of the organization's capital structure based on the proportion of debt, equity, and preferred stock. It is often used as a discount rate in financial modeling, especially when calculating NPV.

Keywords: Pernod Ricard Corporation, debt-to-income ratio, asset-liability ratio, market capitalization, weighted average cost of capital (WACC).

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ԱՇՈՏ ՄԱԹԵՎՈՍՅԱՆ

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ֆինանսների ամբիոնի դասախոս,
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ՄԱՆԵ ՄԱԹԵՎՈՍՅԱՆ

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Համառոտագիր

Հոդվածում իրականացրել ենք Պեռնո Ռիկար կորպորացիայի ֆինանսական կարևորագույն ցուցանիշների գնահատումներ, նպատակ ունենալով բացահայտելու կորպորացիայի կապիտալի կառավարման արդյունավետությունը: Պեռնո Ռիկարը ֆրանսիական ընկերություն է, որի մասնաճյուղը գործում է նաև ՀՀ-ում՝ որպես գինիների և ոգելից խմիչքների լայն տեսականի արտադրող և վաճառող:

Հոդվածում Պեռնո Ռիկար կորպորացիայի տվյալների հիման վրա՝ գնահատել ենք կորպորացիայի՝ պարտքի և իրացումից հասույթի հարաբերակցության վարքագիծը, կապիտալի կառուցվածքի բաղադրիչների միջև փոխհարաբերությունները, ակտիվներով պարտավորությունների ապահովվածության մակարդակը, պարտքի սպասարկման կարողությունը, կապիտալի միջին կշռված արժեքը (WACC):

Կապիտալի միջին կշռված արժեքը (WACC) ներկայացնում է կապիտալի համակցված արժեքը բոլոր աղբյուրներից: Այնուամենայնիվ, WACC-ը կշռում է յուրաքանչյուր տեսակի կապիտալի արժեքը՝ ըստ ընդհանուր կապիտալի ընդհանուր տոկոսի: Այն կարող է ներառել պարտքի և սեփական կապիտալի տեսակներ, ինչպիսիք են՝ պարտատոմսերը, պարտքը՝ սովորական բաժնետոմսերի փոխարկելու օպցիոնով, բաշխելի պահուստները, թողարկված բաժնետիրական կապիտալը, վարձակալության ֆինանսավորումը, երկարաժամկետ ֆինանսներն՝ առանց սովորական բաժնետոմսերի փոխարկելու հնարավորության, երկարաժամկետ վարկերը, հիփոթեքային պարտատոմսերը, անբաշխելի պաշարները, արտոնյալ բաժնետոմսերը, պահպանված եկամուտը: Հատկանշական ենք համարել կազմակերպության կապիտալի միջին կշռված արժեքի գնահատումը, քանի որ կարծում ենք, որ WACC-ը շահավետ է կազմակերպության կապիտալի կառուցվածքի յուրաքանչյուր կողմի արժեքը որոշելու նպատակով՝

հիմնված պարտքի, սեփական կապիտալի և արտոնյալ բաժնետոմսերի համամասնության վրա: Այն հաճախ օգտագործվում է որպես զեղչի դրույքաչափ ֆինանսական մոդելավորման մեջ՝ հատկապես NPV-ն հաշվարկելիս:

Բանալի բառեր՝ Պեռնո Ռիկար կորպորացիա, պարտքի և իրացումից հասույթի հարաբերակցություն, ակտիվներով պարտավորությունների ապահովվածության մակարդակ, շուկայական կապիտալիզացիա, կապիտալի միջին կշռված արժեքը (WACC):

Introduction

Pernod Ricard Corporation operates as a holding company, with a structure divided between brand-owning subsidiaries, such as The Absolut Company, Havana Club International and Chivas Brothers, which produce and develop marketing strategies for the brands, and regional distribution subsidiaries, such as Pernod Ricard Europe. Pernod Ricard Americas and Pernod Ricard Asia, which implement marketing strategies and distribute local brands. The company is active in eight main beverage sectors: whiskies, aniseed spirits, liqueurs, cognacs and brandies, white spirits and rums, bitters, champagnes and wines. Pernod Ricard SA's leading brands include Ricard, Havana Club, Ballantine's, Malibu, Martell, The Glenlivet, Chivas Regal, Jameson and Absolut Vodka, among others.

The closing price of Pernod Ricard's last shares as of December 31, 1969 is 0.00 (Macrotrends, n.d.-a).

The company's weighted average cost of debt in 2021 was 2.8%, compared to 3.6% in fiscal 2020.

The weighted average cost of debt is defined as net financing costs plus structuring and underwriting fees divided by the average net financial debt plus the average amount outstanding under factoring and securitization programs (Pernod Ricard, 2021).

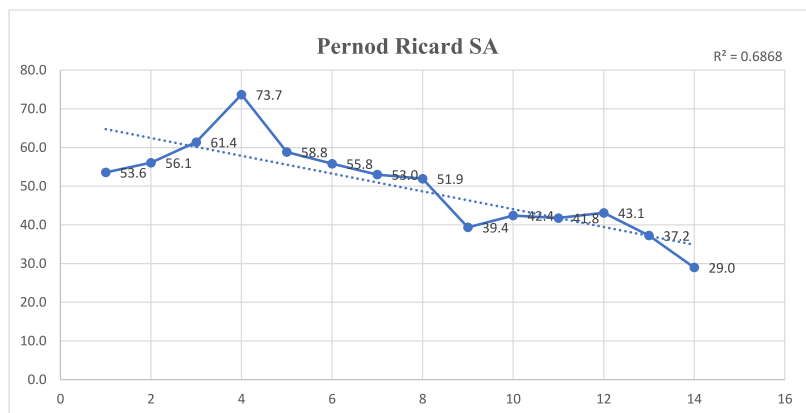


Figure 1 Pernod Ricard Corporation Value (EV)

Note. As of January 2025, Pernod Ricard has a market capitalization of €27.43 billion.

This makes Pernod Ricard the 697th most valuable company in the world according to our market capitalization data. Market capitalization, commonly referred to as market cap, is the total market value of a publicly traded company's outstanding shares and is commonly used to measure the value of a company¹.

Table 1

Market Capitalization Trend in Pernod Ricard Corporation (RI.PA, 2025)

Years	Market Capitalization	Change
2024	\$40.84 B	-8.6%
2023	\$44.68 B	-11.03%
2022	\$50.22 B	-19.23%
2021	\$62.18 B	23.49%
2020	\$50.35 B	7.29%
2019	\$46.92 B	8.37%
2018	\$43.30 B	4.08%
2017	\$41.60 B	44.52%
2016	\$28.78 B	-5.17%
2015	\$30.35 B	1.94%
2014	\$29.78 B	-1.88%
2013	\$30.35 B	-0.46%
2012	\$30.49 B	24.89%
2011	\$24.41 B	-1.34%
2010	\$24.74 B	9.22%
2009	\$22.65 B	39.29%

Note. 2023–2009 /Enterprise Value (EV) = Market Value of Shares + Market Value of Debt – Cash

^a Pernod Ricard Corporation's EV increased in 2010. In particular, in 2023 it amounted to 53.6 million USD, increasing by 1.84 times compared to 2010. The maximum value in 2010–2023 was reached in 2020 – 73.7 million USD.

^b The EV change trend over the past five years is as follows:

- 2023 compared to 2022 – 4.44%
- 2022 compared to 2021 – 8.67%
- 2021 compared to 2020 – 16.69%
- 2020 compared to 2019 – 25.25%
- 2019 – 2018 – 5.40%

Theory and Methodology

In the stock market, there have always been corporations with relatively large capitalization. The main reason for this condition is a significant increase in the value of their shares resulting from an increase in profits and the volume of sales of products (goods, services). The size of the market and the financial capacity

¹ See the same source.

of investors have certain boundaries that call into question further substantial growth in the capitalization of such corporations. Under these conditions, the study of the hypothesis regarding the impossibility (or possibility) of a significant growth in shares of the corporations that are already leaders in the level of capitalization in the stock market is important (Morhachov et al., 2024).

WACC is a measurement indicator that describes capital financing in a company. If the movement of shares is higher, the WACC value is not good in the company because the burden increases – the WACC value that the company has must be smaller so that the company can carry out its obligations, especially regarding share payments (Hurian, 2021).

The aim of this study is to analyze the factors that affect the WACC in the company, namely liabilities and market capitalization.

In our research the method we used is multiple linear regression. Secondary data, namely financial reports and data streams (Pernod Ricard) were analyzed and calculated using data from metrotrends basis. We chose financial data from a 10-year period.

The results of this study explain that liabilities and market cap affect WACC. This can be because market conditions depend on the amount of company debt and market capitalization, because other external factors such as trust in companies and investors' confidence in the banking sector are increasing and developing.

Research Methods

1. In the first step, the behavior of the debt-to-sales ratio in the studied organization is assessed:

- o *Total Debt/Sales*
- o *Short-Term Debt/Current Revenue*
- o *Long-Term Debt/Current Revenue*

2. In the second step, we determine the ratios characterizing the relationships between the components of the capital structure:

- o *(non-current liabilities + current liabilities)/ equity: $G_{1,1}$*
- o *current liabilities/ assets: $G_{1,2}$*
- o *non-current liabilities/ assets: $G_{1,3}$*
- o *non-current liabilities/ (equity + non-current liabilities): $G_{1,4}$*

3. In the second step, we determine the ratios characterizing the relationships between the components of the capital structure:

- o *(non-current liabilities + current liabilities)/ equity: $G_{2,1}$*
- o *current liabilities/ assets: $G_{2,2}$*
- o *non-current liabilities/ assets: $G_{2,3}$*
- o *non-current liabilities/ (equity + non-current liabilities): $G_{2,4}$*

4. In the fourth step, we determine the debt service ratio using the following ratios:

- o *gross profit/ net cash flow: $G_{3,1}$*
- o *EBIT/ long-term debt: $G_{3,2}$*
- o *cash /current liabilities: $G_{3,3}$*
- o *(cash + accounts receivable)/ (long-term debt + current liabilities): $G_{3,4}$*

5.In the fifth step, we estimated *the weighted average cost of capital (WACC)* of Pernod Ricard Corporation.

Results

The developed methodology estimates started from the ratio of Pernod Ricard Corporation’s debt, its components, and sales revenue. The results of the assessment are presented below in Table 2 (Macrotrends, n.d.–b).

Table 2

The ratio of Pernod Ricard Corporation’s debt, its components, and sales revenue²

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Total Debt/ Sales from Sales	1.41	1.49	1.53	1.63	1.21	1.22	1.29	1.42	1.47	1.46	1.41	1.43	1.00	0.97	0.75
Short-Term Debt/ Sales from Sales	0.57	0.57	0.48	0.54	0.51	0.42	0.47	0.57	0.60	0.49	0.52	0.45	0.39	0.56	0.39
Long-Term Debt/ Sales from Sales	0.84	0.92	1.05	1.09	0.70	0.81	0.82	0.84	0.87	0.97	0.90	0.98	0.61	0.41	0.35

Table 3

R2 estimates of the mathematical trend of total debt and its components relative to sales revenue for Pernod Ricard Corporation

	Total debt/Sales from sales	Short-term debt/ Sales from sales	Long-term debt/ Sales from sales
Pernod Ricard SA	0.431	0.1796	0.3745

Then, having determined the indicators characterizing the relationships between the components of the corporation’s capital structure, namely: (non-current liabilities + current liabilities)/ equity: $G_{1,1}$, current liabilities/assets: $G_{1,2}$, non-current liabilities/assets: $G_{1,3}$, non-current liabilities/(equity + non-current liabilities)): $G_{1,4}$, we estimated the relationships between the components of the capital structure. The results of the assessment are as follows.

² The table was constructed using data from the studied alcoholic beverage companies taken from the website <https://www.macrotrends.net/stocks/industry/19/alcoholic-beverages>

Table 4

Indicators characterizing the relationships between the components of the capital structure of Pernod Ricard Corporation

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
$G_{1,1}$	1.25	1.22	1.13	1.22	0.92	0.97	1.17	1.27	1.29	1.34	1.42	1.59	1.71	1.90	2.27
$G_{1,2}$	0.18	0.17	0.13	0.14	0.15	0.13	0.14	0.16	0.17	0.14	0.16	0.13	0.11	0.15	0.11
$G_{1,3}$	0.37	0.38	0.40	0.40	0.33	0.37	0.40	0.40	0.39	0.43	0.43	0.48	0.52	0.51	0.58
$G_{1,4}$	0.46	0.46	0.46	0.47	0.39	0.42	0.46	0.47	0.47	0.50	0.51	0.56	0.58	0.60	0.65

We assessed the level of coverage of liabilities with assets of Pernod Ricard Corporation using the following indicators characterizing the level of coverage of liabilities with assets in the company: (inventories – current liabilities) / non-current liabilities: $G_{2,1}$, current assets / current liabilities: $G_{2,2}$, (current assets – current liabilities) / current assets: $G_{2,3}$, long-term debt / assets: $G_{2,4}$. The assessment results are summarized in Table 5.

Table 5

Indicators characterizing the level of asset-liability coverage in Pernod Ricard Corporation

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
$G_{2,1}$	0.08	0.09	0.18	0.13	0.11	0.16	0.09	0.03	0.02	0.08	0.01	0.04	0.07	0.00	0.06
$G_{2,2}$	1.73	1.95	2.45	2.08	1.79	2.09	1.77	1.47	1.44	1.70	1.47	1.76	1.95	1.50	1.98
$G_{2,3}$	0.42	0.49	0.59	0.52	0.44	0.52	0.43	0.32	0.31	0.41	0.32	0.43	0.49	0.33	0.50
$G_{2,4}$	0.27	0.27	0.29	0.29	0.21	0.24	0.25	0.24	0.25	0.28	0.28	0.28	0.18	0.11	0.10

We assessed the debt service capacity of Pernod Ricard Corporation using the following indicators: gross profit/net cash flow: $G_{3,1}$, EBIT/long-term debt: $G_{3,2}$, cash/current liabilities: $G_{3,3}$, (cash + accounts receivable)/ (long-term debt + current liabilities): $G_{3,4}$. We presented the assessment results in a table.

Table 6

Indicators characterizing the debt service of Pernod Ricard Corporation

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
$G_{3,1}$	3.564	2.822	2.64782	4.30737	3.321	3.1554	3.4123	4.0202	5.1169	5.3053	4.9318	4.4814	4.065	3.5004	3.737
$G_{3,2}$	0.319	0.302	0.25387	0.10603	0.3691	0.3171	0.3024	0.2856	0.2131	0.2366	0.273	0.414	0.398	0.5904	0.692
$G_{3,3}$	0.234	0.419	0.49455	0.42669	0.1987	0.206	0.1647	0.1164	0.1158	0.1288	0.1403	0.2215	0.262	0.1763	0.183
$G_{3,4}$	0.165	0.207	0.1964	0.17298	0.1521	0.142	0.1201	0.1016	0.1057	0.1005	0.1119	0.1212	0.103	0.0926	0.084

We have summarized the methodological assessment used and proposed

in the research by determining the weighted average cost of capital (WACC) of Pernod Ricard Corporation, for which we have developed the 3-step sequence of calculations.

Calculation of Pernod Ricard Corporation's WACC:

Step 1: Weights

In general, the company's assets are financed by debt and equity. We need to calculate the weight of equity and the weight of debt.

The market value of equity (E) is also called "Market Capitalization".

The market value of debt is usually difficult to calculate, therefore, GuruFocus uses the book value of debt (D) to perform the calculation. It is simplified by adding the average of the last half-year short-term debt and capital lease obligations and the long-term debt and capital lease obligations. 2023 As of December 2018, the average book value (D) of Pernod Ricard's latest one-year semi-annual debt is \$13,101.8343 million.

a) Equity weight = $E / (E + D) = 40,063.319 / (40,063.319 + 13,101.8343) = 0.7536$

b) Debt weight = $D / (E + D) = 13,101.8343 / (40,063.319 + 13,101.8343) = 0.2464$

Step 2: Cost of Equity

GuruFocus uses the Capital Asset Pricing Model (CAPM) to calculate the required rate of return. The formula is as follows:

Cost of Equity = Risk-Free Rate of Return + Asset Beta * (Expected Market Return – Risk-Free Rate of Return)

a) GuruFocus uses the 10-year Treasury fixed-rate as the risk-free rate. It is updated daily. The current risk-free rate is 2,65%.³

b) Beta is the sensitivity of the expected excess return of an asset to the expected excess market return. The Pernod Ricard beta is 0.50.

c) (Expected Return of the Market – Risk-free Rate of Return) is also called the market premium. GuruFocus requires a market premium of 6%.

Cost of Equity = $2,65\% + 0,50 * 6\% = 5,65\%$

Step 3: Cost of Debt

To get the simplified cost of debt, GuruFocus uses the latest TTM interest expense divided by the last one-year semi-annual average debt.

As of December 2023, Pernod Ricard's interest expense (a positive number) was \$379.667 million. Its total book value of debt (D) is \$13101.8343

Cost of Debt = $379.667 / 13101.8343 = 2.8978\%$.

Step 4: Multiply by one minus the TTM Tax Rate

To calculate the tax rate, GuruFocus uses the most recent TTM tax expense divided by the most recent TTM Pre-Tax Income. The estimated TTM tax rate is limited to 0% to 100%. If the estimated tax rate is greater than 100%, it is set to

³ Please note that we use the 10-year Treasury fixed rate for the country/region where the company is headquartered. If data for that country/region is not available, we will use the US 10-year Treasury fixed rate as a default.

100%. If the estimated tax rate is less than 0%, it is set to 0%.

The most recent estimated TTM tax rate = $614.355 / 2866.209 = 21.43\%$.

The Pernod Ricard weighted average cost of capital (WACC) for today is calculated as follows:

$$WACC = E / (E + D) * \text{Cost of Equity} + D / (E + D) * \text{Cost of Debt} * (1 - \text{Tax Rate}) = 0.7536 * 5.65\% + 0.2464 * 2.8978\% * (1 - 0.2143\%) = 3.91\%$$

Table 7

Pernod Ricard Corporation WACC, CAMP

	The range	Selected
Selected beta	0.80–1.02	0,91
Cost of equity	8.0%–10.0%	9.0%
Tax rate	18.0%–18.0%	18.0%
Cost of debt	4.5%–4.9%	4.7%

Note. WACC low 8.0 %, WACC average 8.8 %, WACC high 9.3 %

Conclusion

The assessment and control of the weighted average cost of capital (WACC) in commercial organizations is one of the key areas of financial management. Of the various approaches to assessing WACC, the approaches of the weighted average cost of capital and the capital asset pricing (CAPM) have gained significant importance in practice. Problems arise in calculating the market value of debt in the WACC calculation; therefore, the adjusted book value of debt is mainly used, adding the average of the last one-year semi-annual short-term debt and capital lease obligations and the long-term debt and capital lease obligations.

A similar approach is also used when determining the cost of equity. In particular, the capital asset pricing model (CAPM) uses the 10-year US Treasury fixed interest rate as the risk-free rate. In both calculation approaches, the tax adjuster plays a role: $(1 - \text{Tax rate})$.

From the estimates made, we can It should be noted that the WACC of Pernod Ricard Corporation was significantly affected by the cost of equity (7.2%), which, according to estimates, was 2.95% higher than the cost of debt (4.25%).

In practice, from the point of view of financial management, equity in this company is considered expensive, therefore, we propose to achieve a decrease in the cost of equity under the conditions of the permissible debt burden through optimization of the capital structure.

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