Rémy Cointreau – Q1 ’23-’24 Sales Presentation

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Operator: Hello, and welcome to the Rémy Cointreau '23-'24 Q1 sales publication conference call. Please note that this call is being recorded. And for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask question at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Mr Luca Marotta, CFO, to begin today's conference. Thank you.

Luca Marotta: Good morning, everyone. Thank you for being here with us this morning. As you have seen in the press release, Q1 sales were down minus 35% in organic terms, in line with what we expected. This performance reflects, on one side, the huge base of comps that we cycled. As a reminder, Q1 last year was up plus 74% compared to Q1 '19-'20.

On the other side, [inaudible] and expected headwinds in the US. I will come back on it in a few seconds. In parallel, the rest of the world generated a very strong double-digit growth driven by China, Southeast Asia, EMEA and Travel Retail. This performance is split between a negative price/mix of minus 9%, which reflects a strong negative mix linked to the underperformance of the Cognac division compared to the Liqueurs & Spirits division.

In the meantime, volume decreased by minus 26%. I will detail it on the next slide. Overall, Q1 sales were up plus 14.3% as compared to pre-COVID level.

Looking at overall sales performance by region. Americas recorded, as expected, a massive decline due to different reasons. First of all, high comps, and second major reason, meaningful destocking, essentially on Cognac. Compared to '19-'20, America is down approximately at the end of Q1, minus 10 points - 10%. This negative performance on a four-year basis is specific and punctual and will reverse already starting from the Q2.

APAC was up very strong double digits, led by China, Southeast Asia and the continued recover – recovery of the travel retail channel, even if Chinese tourism is not yet fully back. This represents plus 30% growth versus four years ago.

EMEA was up mid-teen, showing a broad-based growth across the region. EMEA is up at more than plus 35% compared to four years ago. This was shipment sell-in.

Now talking about our value depletion at Group level, the best approximation of final sell-out or final consumption. At a regional level, in the US, value depletions were down low-single digits, i.e., stable if we exclude VSOP. As compared to pre-COVID, four years ago, value depletions were up plus 45% and increased more than 75%, excluding VSOP.

More importantly, we enjoyed a strong sequential improvement throughout the quarter with June back to positive in term of exit rates.

In China, value depletion were up very strong double digits in Q1, led by all Cognac segment. On a four-year basis, China value depletions were up plus 20%.

Finally, in EMEA, value depletions were up strong double digits, led by Africa, Middle East, Benelux and Eastern Europe. This represents an increase of around plus 50% compared to Q1 '19-'20.

So in a word, strong, huge value depletion performance at the end of the quarter comparing to four year ago.

To conclude on this very first slide, I would like to reconfirm our full year guidance. We expect to remain stable, both in sales and profitability on an organic basis. 23'-'24, as a year, will be a year of two halves in sales and operating profit margin, with H1 strongly negative and H2 showing a very sharp terrific recovery.

On page three and four, we picked up some marketing initiatives that have been undertaken over the last quarter, first in the US and then in China. Let's start with page three and the launch of the new Cointreau campaign, the Marga Right on 14th June. As part of the celebration of the 70th anniversary -- 75th anniversary of Margarita Cocktail, this 160 degrees campaign includes a large activation plan, on-premises, off-premises, e-commerce, social media and out-of-home panel across high-traffic locations.

So far, the results were very positive with 230 around millions of impression, 39 million of views on digital media and a positive – very positive consumer sentiment response to the campaign. The heart of the campaign runs through September, while we'll keep it to some degree throughout January.

On page four, just a quick word on China. This slide illustrates the last e-commerce operation that we made in China during the 6/18 shopping festival event. We managed the day on our two key digital platforms, Tmall and JD.com.

On Tmall, we proposed a special edition, CLUB-Radiant Sun and [inaudible] in the art territory with the Chinese artist Sheep Chen at the Affordable Art Fair in Shanghai. During this event on livestreaming, Sheep Chen interpreted in front of the camera his inspiration on Radiant Sun bottle by graffitiing his iconic motifs.

At the same time, on the other platform, JD.com, we offered a special edition CLUB Shenzhen, leveraging the influencer Austin Li for an outdoor lifestyle e-commerce livestreaming in Shenzhen as well. This day has been a strong success for Rémy Martin above our expectation with around plus 25% of sales growth on Tmall and JD.com. We have been ranked number one among Western spirit brands on JD.com and number two on Tmall.

Now let's move to Q1 sales and figures analysis, slide number five. Sales amounted to €257.5 million, down by €152.4 million year-on-year or minus 37.2% on a reported basis. This reflects a very strong organic decline of €143.5 million, i.e., minus 35.0% of organic sales decrease, as expected, and the negative currency translation impact of €8.9 million or 2.2% loss in Q1 '23-'24.

This loss in term of conversion was largely driven by the deterioration of the Chinese yuan for €4.8 million and USD for €2.1 million. In addition, some other currencies like the Canadian dollar and British pound posted slight losses of respectively €0.6 million and €0.4 million.

On slide number six, I would like to share the performance by division and at Group level versus Q1 '19-'20, so pre-pandemic, even if this is not at our advantage this time due to the important destocking on the US cognac.

On the left, the evolution of Group sales at constant exchange rates. In the Q1, we grew at 14.3% on a four-year basis, including a volume effect of plus 8.2% and a strong price-mix effect of 6.1%. Looking inside this performance of the four year by division, on the right part of the slide, we have first of all, on one side, the Cognac division, declined by 4.4% - I’m sorry, over four year due to the US destocking, as already mentioned. And consequently, volumes were significantly negative, but price-mix still strongly up by 25.6%.

On the other side, Liqueurs & Spirits were up 69.7%, which is huge and showed a well-balanced breakdown between volume and price-mix.

Now let's turn to slide number seven, digging into organic trends by region. And let's start with the Americas, whose organic sales recorded a massive decline of more than 60%, mostly impacted by volume, while price-mix was negative due to the strong underperformance, mathematically speaking, of Cognac compared to Liqueurs & Spirits.

More specifically, inside this region, in the US, sales declined at the same pace, reflecting huge comps, meaningful destocking, and to a lesser extent, some phasing effect on Liqueurs & Spirits following a very strong Q4 in '22-'23. This performance is clearly, and as expected, negative.

Having said that, the positive news is the evolution of our inventories, which lends now in our best estimation to four to five months, so a decrease of at least one month compared to three months ago. This is not yet enough, but we are clearly going in the right direction. Sorry to repeat myself, but this KPI is a very complex one, relying on different moving parts, such as, first of all, the timing of the shipment inside within the quarter and second one, more important, depletions forecast of the future and the timing of the depletions execution as well.

Even if depletion trends are clearly encouraging, we prefer to remain cautious at this stage and be focused on their evolution on a weekly basis. So again, the best KPI to monitor at this stage for that is the value depletion underlying trends. In Q1, they were down, overall, low single digits, i.e., stable, excluding VSOP and improving month by month.

In Canada, sales were down strong double-digit in a challenging market impacted by the economic context and some destocking and following a disappointing Chinese New Year in Q4 in Canada, as Chinese tourism is not back yet. However, on a positive note, St-Rémy, which represents turnover sales in Canada recorded a solid sound performance.

And at the end, last but not least, Latin America was up high-single-digit in Q1, with solid underlying trends in the wake of tourism recovery. End of June 2023, Americas region accounted for only 35% of our Group sales, meaning down 31 points compared to one year ago.

Second region is APAC, in which organic sales were up at very strong double-digit year-on-year, i.e., plus 30% on a four-year basis. Looking at the volume value equation on this region, performance year-on-year was equally driven by volume and price-mix, very balanced.

China sales inside this region were up very strong double-digit, benefiting from the on-trade recovery and were essentially led by our cognac references, including CLUB, XO, VSOP and Louis XIII. We recorded another strong performance in e-commerce, mainly in D2C and B2C, above our expectation. Thanks to the strong activation plan for the 6/18 festival on Tmall and JD.com, we recorded a very important performance.

Meanwhile, value depletions at Group level in China were up a very strong double-digit as well, leading to a sound level of inventories. The remaining rest part of Asia reported very strong double-digit growth in Q1 in Southeast Asia, particularly in Malaysia and Philippines, while Japan as a country was more challenging.

End of June 2023, APAC region accounted for 35% of Group sales, up 17 points compared to last year. So you see 35% Americas, 35% APAC, and you will see EMEA 30%. So even with a big destocking, a more balanced picture, regionally speaking.

EMEA organic sales were up mid-teen and at more than plus 35% compared to four year ago. This year-on-year performance was equally driven by volume and price-mix, a little bit the same picture that we experienced in APAC. Inside that, by sub-region, Western Europe was up at very strong double-digit growth led by Germany, France and Greece.

UK. The UK showed a solid resilience despite high comps and high-single-digit, driven by value market share gains and some positive phasing effects before the expected duties spike increase that will happen in August. The remaining part of EMEA, we recorded strong dynamics in Benelux, Africa, Middle East and Eastern Europe with clearly cycled low comps, Eastern Europe without Russia, because we don't sell to Russia.

Over the quarter, value depletions were up at strong double-digit year-on-year. So another positive element for this region. End of June 2023, as already said, EMEA region accounted for 30% of Group sales, up 14 points compared to last year.

Let's now turn to slide number eight and the analysis by division, start with the Cognac, the heart of the Group.

Cognac posted an organic decline of 44.7% in Q1 '23-'24, including a significant important decline of 55.1% in volumes and a very strong price-mix gain of 10.4%. End of June 2023, Cognac division accounted for 60% of our sales, down 11 points compared to last year.

By region, let's start the most important on weight now region for the Cognac, which is APAC. In APAC, we'll start with Mainland China. Sales were up very strong double-digit, approximately plus 100%, so the double of Q1 '19-'20, driven by on-trade recovery, a very good performance of the e-commerce during the 6/18 Festival. And add to that, to say that e-commerce grew approximately at plus 30%, mainly on B2C and D2C, leading to a total sales penetration by channel of 33%.

The overall performance was led by all cognac segments. CLUB continued to really outperform the market, while XO showed some positive early signs. As a result, inventory level remains sound, and our outlook is positive despite a clearly challenging macroeconomic context.

Looking at other areas, in South China, Taiwan recorded an outstanding performance, while Macau performance was muted as gaming activity is not yet fully back.

Finally, Hong Kong was slightly down, impacted by some phasing effect. At the same time, value depletions were strongly up in the Q1.

Cognac division now looking inside Americas, and starting with North America, so the combination of USA and Canada. Cognac sales were massively down year-on-year at more than 75%, impacted by extremely high comps and a very meaningful destocking effect. As a reminder, Q1 '22-'23 last year in the US, specifically, was up at more than 190%, so almost 3 times compared to Q1 '19-'20.

In addition, in a market that showed structural price decrease and a more global promotional context, Rémy Martin continued to reinforce its pricing – price positioning by slightly increasing its prices on 1st April. On a four-year basis, sales are down at very strong double-digit and turned positive at mid-single-digit, if we exclude VSOP.

At the same time, US value depletions for cognac were down minus 4.5% year-on-year, i.e., around 38% - 37.9% increase versus Q1 '19-'20 or approximately plus 90%, so almost a double, excluding VSOP. More important to note, they showed, the US cognac value depletion, a sequential improvement throughout the quarter, June being back to positive lens. Rémy Martin 1738 was back to positive overall in the full quarter.

Price-mix effects were positive at plus 8 points year-on-year in the last 12 months, more long period - longer period ending June 2023, led by price increases as well as positive mix effect. On a four-year basis, price-mix in value depletions was up of plus 27 points.

Latin America sub-region was up very strong double-digit, supported by continued tourism recovery.

Last region at cognac, EMEA. Cognac sales were up very strong double-digit led by all regions, particularly Africa, Middle East and Western Europe. Meanwhile, Eastern Europe generated a strong double-digit growth from the low comps and the UK showed good resilience.

Overall, inside the EMEA, Rémy VSOP and Louis XIII were the two big winners of the quarter.

Now let's now turn to slide number nine and talk about the global Liqueurs & Spirits division. Liqueurs & Spirits division posted a decline of minus 11.4% in organic sales in Q1 '23-'24, including splitting to a decline of 7.6% in volume, mainly due to the Americas, the negative price-mix effect of minus 3.8%, linked to the phase impact on Cointreau in the Americas.

End of June 2023, Liqueurs & Spirits division accounted for plus 37% of our sales, up 10 points compared to last year.

Now let's review the performance of the division by region, starting with the Americas. In North America, the sales were down strong double-digit year-on-year, approximately plus 70% at the same time compared to Q1 '19-'20, impacted by very high comps. As a reminder, Q1 '22-'23 in the US, also for this division, was up at around plus 160% versus Q1 '19-'20.

In addition, the division faced some phasing effect linked to some distributor restocking in Q4 just before the price increase on 1st April. This was particularly visible in Cointreau. At the same time, underlying trends remain healthy and sell-in will renew with growth from the Q2.

Cointreau Q1 US value depletions were up plus 4.1% year-on-year comparing to very high comps. They represent an exceptional growth of plus 85.4% compared to Q1 '19-'20. Besides, on top, price-mix was up by 4 points versus last year in the last 12 months period ending June '23 and up plus 25 points on a four-year basis. So also, on Cointreau, a huge value depletion compared to pre-pandemic, not only in Cognac.

In parallel, Latin America sales were able to be stable in Q1, if Cointreau performed very well, Mount Gay declined in Barbados affected by lower tourist traffic in the island.

In EMEA, important region for Liqueurs & Spirits, sales grew at mid-teen in Q1 year-on-year led by Cointreau, the whiskies and St-Rémy. Western Europe, Africa, Middle East and UK outperformed and generated double-digit growth, while Benelux showed solid dynamics led by whiskies.

Finally, Eastern Europe recorded very strong double-digit growth from a very low basis. APAC, for the division inside APAC, China posted a strong double-digit sales decline in Q1, approximately plus 35% if compared to Q1 '19-'20, impacted by some destocking at retailer levels following Chinese New Year on this division, and aggressive promotion from high-end competitors. Remaining part of Asia performed well and recorded a mid sales – a mid-teen sales growth in Q1 year-on-year, led by Japan, New Zealand and Thailand. Which brands? Cointreau, whiskies and Telmont Champagne.

Before to conclude, one last word on the performance of the non-Group brands, which now represents 3% of our Group sales, up 1 point year-on-year. They were down by around 5%, minus 4.6% in the Q1, mostly affected by the UK, where our non-Group brand Passoa is facing strong discounted competition.

In conclusion, slide number 10. We are reconfirming our guidance disclosed end of April. Following two outstanding amazing years, Rémy Cointreau expects full year '23-'24 to show a continued strong normalisation of the consumption in the US. However, it will settle at new normal levels significantly above '19-'20 pre-pandemic levels. At the same time, we expect a strong organic sales growth throughout the year in the rest of the world, including China, where we forecast, we expect major sales gains.

EMEA and rest of Asia, they should generate very good strong performance, and of course, on top travel retail channel, that should reach this year pre-COVID levels in terms of sales. In this global sales context and balance but overall focus in this target, the Group expect total sales to remain stable on organic basis for the full year '23-'24 with a strong decline in sales in the first half, reflecting essentially a very strong fall in the US and high basis of comparison, and clearly, a very strong recovery in the second half of the year, driven by sharp rebound in the US, starting from the Q3.

Meanwhile, Rémy Cointreau intends to confirm its organic level of profitability, meaning stability also in terms of organic profit compared to last year, based on four different elements. First of all, a continued rollout of our value-driven strategy built on a firm pricing policy and improved price-mix.

Second, a resilient gross margin in a persistently inflationary context. Third, stabilisation of the A&P ratio as a percentage of sales at Group level. Fourth, very important, tight - extremely tight control of our overhead costs.

Thank you for your attention. And now I will be happy to answer to your potential questions.

Questions and Answers

Operator: Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star two. The first question comes from the line of Simon Hales calling from Citi. Please go ahead.

Simon Hales (Citi): Hi. Thanks, Luca. Good morning. A couple of questions, please. I mean, could you just talk a little bit more about the scale of the impact of the US destocking we saw on the Q1 results? I think I remember you indicated back at the Q4 sales that a one-month worth of inventory reduction equated to about a €40 million impact on Group sales. Given that you said in the presentation there that you've probably seen about a month's inventory reduction. Is that the sort of level of impact that we did see in Q1?

And then on the go-forward, how do we think about the ongoing scale of the destock in the second quarter? Is there another month probably to come out, do you think, over the next sort of two to three months?

And then secondly, I suppose against that backdrop, I wonder if you could just talk about how you think about the expectations generally for Q2 and H1 consensus organic sales growth. I think the market at the moment is looking for Q2 sales for the Group to be down around 2% and for overall H1 to be down 18%. I mean does that tally with your comments at the end there for a strong decline in sales in H1?

Luca Marotta: Yeah. Thank you. So in term of qualifying the destock in the US, you have to compare the quarter not with one year ago, but in a rolling way to the last quarter. So you have to compare Q4 and Q1, if you want to do it mathematically, and at the same time, the speed of the depletion. So the months of destocking that we highlighted overall, at least on months, from five to six to four to five is our best estimation, is linked to a clear decrease in shipments. But again, you have to compare it with the Q4 not with the Q1 because the stock is a living indicators. You cannot compare that with the shipment of one year ago. And the depletions value and the time of the depletion value.

We are in the right direction. We continue to destock. It will last maybe a bit also in the Q2. The very important indicators in our opinion is not what will be the shipment in the US in the Q2, and what will be the depletion trends in the Q2 in the US. So will be - there will be some volatility, clearly, month after months. We remain cautious. We analyse that on a weekly basis. We are confident that the sequential improvement will continue.

So overall, comps will be easier, will be clearly positive from the Q3. From the Q2, on a mathematical basis, we could expect, in terms of depletion, to be more in a positive lens. We cannot guarantee that because there is still a level of volatility, and we are observing and we continue to destock in the Q2 in terms of stock equation in the US, because it's the way we built the budget. So no pressure on that. It is a year or two.

So one month of destocking will continue to destock and the situation will be even more clearly addressed after the end of the Q2. We are in the right direction. So I think that this answer to both questions. For the first, qualifying the ongoing destocking in the US, we cannot say that it's totally ended and we can be in positive land in the future in the US. This is not will be the case.

And a more general question about the quarter, what will be the quarter in a Group level in the Q2? So we expect a sequential improvement. It's too early to guide more precisely. Do you expect at Group level, is your question, to be positive in Q2? No. Do you expect to be still negative? Yes, probably single-digit negative at Group level. I'm talking shipments. So this is the way we design the budget.

The underlying trends are respected. We'll continue to perform in that way to observe on a weekly basis. And we will decide and I will address this point even more clearly end of Q2. Very good news, but too early to capitalise on that for the full year. The guidance is there. We confirm it. So in a way, we are saying that we are committed at this stage to reach the budget target.

Simon Hales: Got it. I understand. And just to confirm, Luca, when we think where you hope you'll be at the end of September, so the end of H1 from an inventory position in the US, should we be expecting to see inventory running at three to four months at that point? Is that still your target to get to that sort of level?

Luca Marotta: No, we do not target coverage as a result. We target absolute value of running depletion on a weekly basis. We correct them. We get a monthly expectation, and we phase the shipment. We correct. And as a result, we calculate the stock coverage at the end, because, frankly speaking, it's very complex. It's sometimes a bit too dry indicators, KPIs that can be an objective per se.

Why that? Because three to four months or four to five months of today, if you are increasing depletion of 20%, 30%, 40%, with the spike we experienced very clearly some quarters ago, all of a sudden becomes irrelevant. It becomes out of stock. So we do not target to have a monthly coverage as a global objective. It will be the consequence of depletions written and ship adjustment.

So no commitment on stock coverage at the end of the Q2, but sequential improvement and clearly visible positive effect starting from the Q3 in term of profit and loss and shipment.

Simon Hales: Got it. Thank you very much.

Operator: The next question comes from the line of Edward Mundy. Please go ahead.

Edward Mundy (Jefferies): Morning, Luca. Two questions for me. First of all, on the US. Could you perhaps talk about the depletion journey for cognac in the US in the quarter? So you reported a minus 4.5% in value. You talked about trends improving sequentially and being back to positive in June. I guess the question is, what's really driven that improvement from a depletion standpoint and has that continued into July?

And then second of all, in China, I think part of the strong recovery is the on-trade coming back. Could you talk about what you're seeing in terms of China recovery and traffic? And where is the on-trade as a proportion of your sales today? I think you were talking about it being 20% of sales a quarter or so ago.

Luca Marotta: Thank you. So the depletion journey in the US was a positive one and mainly in June, as I said. In exit rate and the exit rate in June, we are clearly positive in volume and value, both for Cognac and at the Group level, so overall. But we cannot conclude at this stage the June trend can be extrapolated and will be only up. There will be some volatility, week after week and month after month.

So what is important is to continue to follow these trends in a more consistent way quarter-after-quarter, I repeat myself, with some volatility to be expected. June was clearly positive. So to qualify that, it was volume and value all around the division and with some products clearly overperforming, 1738 was one of them, XO, Cointreau, clearly, Botanist. So, so far, so good. We are on the right direction.

In terms of China, what is the current context and what we can say, which you don't know? Because you already know that we backed on China, and we think that we will be doing better than competition. So the very - the Q1 it has a very good performance. We are confident for the full year. The macro is slightly worse clearly what we was expected. But the level of our brands, this is more than enough to continue to deliver strong growth.

In Q1, we profited - we benefited from the on-trade reopening. Traffic is now back to normal. E-commerce is very, very dynamic, as you've seen. In terms of the portfolio, CLUB is the clear weapon, clear drag in the portfolio, XO shows positive signs. And also linked to the on-trade, VSOP penetration and performance is accelerating on the back of this on-trade reopening.

Louis XIII is doing okay. But clearly, the real estate sector still a bit struggling, has a little impact on the performance, but we are clearly in a positive performance as well. We are confident for the full year now for China, it is very important for this kind of conversation at the end of Q2 because mid-autumn festival and then Chinese New Year will be the tow key moments.

We are running very good. We are confident for the year. But once again, in this kind of environment, we have to be humble, look at figures, disclose them and comment. So far, we are more than in the right direction, but no swagger - and we are not showing our [inaudible]. Figures are speaking for themselves. Very, very strong performance.

And if you compare China and APAC to pre-COVID, it is the lowest growth compared to pre-COVID. So it gives you the fact that we might have also additional space for the future to even more Asia - Asiatic-oriented than today in our figure. So a lot of confidence in - for ourselves in terms of China performance for the future.

Edward Mundy: Okay. Thanks, Luca.

Operator: The next question comes from Andrea Pistacchi calling from Bank of America. Please go ahead.

Andrea Pistacchi (Bank of America): Yes. Hi, Luca. I have three, if I may, please. The first one on the US. Your depletions are improving clearly. But Nielsen shows depletion - Nielsen doesn't measure exactly depletions, but based on Nielsen, I think there's still about a double-digit decline. Nielsen, we know is far from perfect. But what, in your view, mainly explains this discrepancy between your depletions, and what, say, Nielsen and NABCA are showing?

And the second question, please, again, on the US, if you could just talk - comment a bit on the pricing environment. Is it still quite complicated? Are there signs of improvement?

And then a broader question on your guidance, please. So Q1, in line with your expectations, depletions in the US are improving. The macro in China probably not as favourable as you would have anticipated a few months ago. So in the way you think of the - how the full year pans out, has anything changed maybe in terms of relative strength China versus US, as we go into the next quarters?

Luca Marotta: Thank you for your question. So starting with Nielsen. As you remember, we highlighted many times this point. Nielsen is off-trade and up in States. The coverage is so far considered 44%. Market level for us is 38%. So we are underrepresented because this is not a good proxy for Rémy Cointreau, I repeated it many times because independent stores and liqueur stores are under-evaluated in this index, and we are very strong there. And two key chain store, Costco and Walmart, are not included.

So we combine Nielsen, NABCA. And the commission at NABCA for us is around 60%, for the market it's 68%. And the 40% remaining that you see is the combination with the discussed figures, giving the best approximation of the whole market. So there is some disconnection, but it is consistent all along – comparable all along the different cycles. So there's not showing an acceleration of the discrepancy or something different.

So we don't see it as an issue once again because we are clearly under-indexed in some key actors and channels. Pricing environment is – in the US is still structurally complex. So the fact that we are able to maintain or to increase our prices, it's a very strong identity habits that we are showing in the market. So despite the price that will impact - we'll have on our shipment because there is an immediate short-term impact, we are very convinced that the respect for the brand is built day after day and month after month and playing with prices in a very huge up and down, so it's not a good thing to do because you might destroy the reputation of the brand.

There's structural price decrease from some competitors and very strong promotional activity from other one. Without naming it, you know better than me, the situation. So price environment is still very complex in a universe, which wholesaler want to carry less stock because also the interest rate, the working capital is more costly. And the return on capital employed demanded by different Board of Directors clearly is higher. So this is a global context that, in the short term, could imply this kind of volatility that you see in the shipment and depletion as well, because depletion at the end is only a logistic movement between wholesaler and retailer.

At the end is what's happening at a retail level in terms of respect [inaudible] and appetite for a brand that we determine who is right, who is wrong. I repeat myself, in this case, it will be a little bit more swagger. And so we are suffering more than others in the short term. But compared to four years ago, COVID, we are the clear winner. So we can support this short-term headwind because we think we are right.

In terms of full year balance, did something change in terms of regional balance? No. At this stage, we are expecting our reported is clearly capitalised on six months result after the Q2 will be - we will have more visibility to be able to confirm that. So far, we are in this direction with the US strong decline to be able to destock and to fit with depletion that will be clearly showing positive lands starting from the Q3. And China, which is very strong despite the macro challenge and Europe so far is performing very well, better in some countries, less on other, but overall more than respected by the expectation.

Southeast Asia, if you want to find the negative point of attention be Japan, Australia, Canada in a way and some beating countries like, so far, some European, Africa, clearly, China and travel retail. Retail, which is very important, being back - one sentence I said before, it's in my opinion - in our opinion, very important. Being back at travel retail level end of the year with the Chinese tourism not yet back at the full speed, it's an important driver for this year and for the future.

Andrea Pistacchi: Thanks, Luca.

Operator: As a final reminder, if you’d like to ask a question, please press star one now. The next question comes from the line of Nik Oliver going from UBS. Please go ahead.

Nik Oliver (UBS): Hi, Luca. Thank you so much for the questions. Just two from my side. When you talk about inventories in the US now being four to five months, can you give us some sense of what you're assuming for the underlying market? And then when you talk about that rebound in the second, I guess, calendar half, your underlying assumptions behind that as well?

Luca Marotta: Yeah. So inventory in the US in terms of the underlying observation of our competitors is very complex because we cannot cycle the comps. What we can see that at market level, I know it's answer to your question, global market, liqueurs and spirits, all categories is low single-digit clearly driven by categories in which we are not. So even as lower piece Tequila is clearly better than other categories, RTD, some bourbon or whiskey, which we are not in.

Because if you look at our spreadsheet in the category we are playing it, so Cointreau, Cordials and Cognac, we are beating the market in the short term in volumes and value. So I suspect that in terms of inventories, they could be mathematically a bit more dynamic than us, if we're doing a lot of promotional activity or structural price decrease. But then, I don't know. I don't know if the fact that you are decreasing prices big time makes that one guy buy two bottles or one. Maybe he'll buy only one. So it will be - the results will be what will the consumer will dictate.

In the short term, when you do structural and huge promotional decrease in this kind of context, you might be summarised at an advantage, a tactical advantage because the rotation of the capital employed is bigger. At the end, the underlying is not this well.

So I cannot answer precisely, only try to give you some hints. Second question is - for us is on the underlying for us despite the spike, which is the restocking and what is the underlying. So far, the figure will be in the Q3 depletions value and shipment, a very strong rebound, but it's a part of restocking replacement.

So our underlying depletion trends for the normalised US environment, clearly in Cognac, is to be into mid to high single-digit underlying sustainable trends, beating the market.

For Liqueurs & Spirits, maybe Cognac could be even higher. This is stripping out any destocking, restocking effect. This year it's very complicated to analyse. So on that point, clearly, we need to be very clear in '24-'25 after this shaking down and up year would be ended. But I repeat, underlying expected trends in the US depletions value starting from a normalised new level will be mid to high single-digit for cognac, maybe something better for Liqueurs & Spirits, also because there is a penetration in numeric environment to conquest as well in this part.

Nik Oliver: Thank you, Luca, for that. Very clear. Thank you.

Operator: Next question comes from Trevor Stirling calling from Bernstein. Please go ahead.

Trevor Stirling (Bernstein): Morning, Luca. Two questions from my end. One, Luca, you've referred to the pricing environment in the US and being very structurally, very complex. Is it getting any better directionally? Or it's just staying as bad as always?

And second question, I think, could you give us a little bit more colour on Asian Travel Retail? You touched on it in your comments. But in the presentation, there's not so much detail. So maybe just what are you seeing in terms of, is it a slow recovery of overseas Chinese tourism? Or are you seeing that coming through in the numbers as well? Any colour there would be great.

Luca Marotta: Thank you for your question. Pricing environment in the US is more or less in the same situation that it was three months ago. I was personally in California in mid-June and observed that this kind of jeopardised and sometimes mad environment exists with huge differences from main - from major SKUs of some competitors from one chain to another and clearly a volume game, which we are not in, which is played.

I don't have the feeling and our teams know more that this pricing destruction has been solved. It's still there. In term of Asian Travel Retail, we are running very good, triple digits versus last year, still below level of '19-'20. The aim - the goal is to regain. It's historically a very important channel, not only for travellers, but also because of our Chinese travellers, both for other foreign and historically, very good margin as well.

Without disclosing too much, but the Asian Travel Retail in terms of top line and bottom line is the heart of the travel retail channel. So doing better there is giving more green dollars, non-theoretical blue dollars to the Group.

Nik Oliver: Very good. Thank you, Luca.

Operator: And the last question comes from Yubo Mao calling from Morgan Stanley. Please go ahead.

Yubo Mao (Morgan Stanley): Morning, Luca. Can I just have a quick question on the US? If I look at your volume depletions of cognac, it was down around 5.5% in the trailing quarter versus minus 32% in March. So there was some significant improvements. But in the meantime, if I look at the same table, the market run rates are more or less stable. So it seems like you've gained some meaningful volume share, which is interesting, given your comment around you're not being as aggressive on promotions. So I wonder if you could talk about what drove this outperformance on volumes and how sustainable it is? Thank you very much.

Luca Marotta: Thank you so much. We are clearly in a value game, so the volume are a little bit the consequence of that. But I understand your question. So it is a matter of comps. And comparing the percentage of growth would decrease - it's more important to compare the absolute value. And we are not - if you just - the sense of your question, dynamized depletion with the short-term effect is that the destocking is playing a role, is that the fact that we are, since two, three, four years, hammering on A&P is playing a role in terms of the brand equity.

Big operations like the Super Bowl in which maybe we do not put them in advance like other peers could have done, but they are giving this kind of - bearing this kind of fruit. There is a delayed positive effect on the brand. So our performance is not linked to commercial tricky device by ourselves, if it is the hidden sense of your question, and it's more the solidity of the brands and the fact, please remind that in terms of the economics of the given distributor and retailers, our Group is giving one of the best gross margin and profit per case, per bottle.

So we are very, very important for the economics of distributor and retailer as well. The more you perform with our portfolio, the more you are accretive to your balance sheet. So mathematically and financially speaking, you have a lot of financial directors sitting at wholesaler or retailers that are pushing to our brands as well and to sell it because it's a benefit for their profit and loss from their cash flow.

Operator: There are no further questions, so I will hand you back to your host to conclude today's conference.

Luca Marotta: Thank you so much for your attention. In a word, it was a good quarter. We realised what we said. The guidance, it was mid-30s, minus 35% by chance. But the dynamics of depletion is clearly there. Very humble way, very cautious, weekly basis, some volatility, but we are on the right track.

We will analyse and comment and disclose even more carefully every single figures in the Q2, in the conference at 27th October, which is very important. Since then, we'll have a clear - even more clear situation about mid-Autumn festival, European trends, clearly US. And so far, we are in the right direction.

We confirm Europe was, from the Q3, a visible material, significant rebound on all indicators. Q2 should drive some improvement. It will be, I said Q2 at Group level in shipment will not be positive so far, will be negative by about single-digit with different dynamics by region. But again, no panic, we are in the right direction, quite the opposite. Be assured, we are committed to continue our journey towards budget.

Thank you so much. See you - no, talk more than see you 27th October. Have a nice summer.

Operator: Thank you for joining today's call. You may now disconnect.

[END OF TRANSCRIPT]