Remy Cointreau
Q3 Sales '22/'23

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Rémy Cointreau Q3 Sales 2022-2023

Operator: Hello, and welcome to the Rémy Cointreau Quarter Three Sales 2022-2023. My name is Caroline, and I'll be your coordinator for today's event. Please note this call is being recorded, and for the duration of the call, your lines will be on listen-only mode. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your questions. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand it over to your host, Luca Marotta, the 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, the first nine months showed a very good performance, plus 10.1% in organic terms on top of the high base of comps. Last year, we recorded plus 38.1% organic growth over the nine months. This performance includes a decline of 6% in the last quarter, Q3, split between a meaningful price-mix positive of plus 11.2% and a volume decline of minus 17.2%.

The overall performance of the quarter reflects, on one side, we cycled a high base of comparison and the normalisation of the US consumption. And on the other side, a strong sell-in in China before Chinese New Year, and the sharp recovery of the Travel Retail, which is now down 9% compared to pre-COVID in Q3. As a reminder, we were down minus 50% in H1 on a three-year basis.

Overall, Q3 sales are up plus 42.9% as compared to pre-COVID level. Calendar positive effects are linked to Chinese New Year are marginal and represents around €3 million.

Looking at the overall sales performance by region over the nine months, starting with the Americas. Americas were up mid-single-digit over the nine months and down very strong double-digit in Q3, affected by the comps as well as the normalisation of consumption as guided. However, we are far from the pre-COVID level in a positive way, being up plus 45% on a three-year basis.

APAC were up very strong double-digit but over the nine months and the Q3 supported by stronger sell-in in China before the Chinese New Year, and a sharper recovery in Travel Retail and rest of Asia. This represent plus 65% two thirds growth compared to three years ago in Q3.

EMEA region generated double-digit sales growth over the nine months including a low single-digit decline in the last quarter, reflecting some phasing effects in Western Europe and following amazing summer. EMEA is up around 8% versus three years ago in the Q3. This was sell-in.

Now talking about of the best approx. sell-out value depletions at Group level. In the US, value depletions were down mid-teens over the nine months, i.e., plus low single-digit if we exclude VSOP, as compared to pre-COVID level value depletion were at plus 35% in the US, and plus 70% if we exclude VSOP.

In China, value depletion were up double digits over the nine months, led by CLUB, Rémy, XO and Whiskey portfolio. Over the last quarter, the market was affected by COVID, as you all know. Depletions were also up double-digit in the quarter but it was below our expectations before – because of this pandemic impact.

Last but not least, in EMEA, value depletions were up mid-single-digit over the nine months, led by all sub-regions except, clearly Eastern Europe.

To conclude on this very first slide, I would like to reconfirm our full-year guidance. We expect another year of strong organic growth, alongside an organic improvement of our operating margin. This year will be, however, uneven, as I already said, both in terms of sales and operating profit between H1 and H2. I will come back on it in more details at the end of the presentation.

Pages three to six are there to show you some marketing initiatives that have been undertaken over the last quarter. Let's start with page number three and the launch of the Drop Louis XIII in various key markets such as London, Hong Kong, Shanghai, Singapore or New York.

The objective of the first – of this innovation is, first, to finance the unique DNA Louis XIII, and particularly its luxury lifestyle identity. Second, recruit new consumer, new customers, especially among the younger generations. So far, this is very promising, as 80% of our sales made with the Drop are to new client. Last but not least, increase traffic in boutiques and e-boutique.

Page four, just a quick word on last openings on Louis XIII. First the sixth, Louis XIII boutique in China, in Chengdu in the prestigious SKP Mall. This is the first boutique in southwest of China. It sits in the centre of the mall among top luxury brands.

Second, the new global retail concept swill for Louis XIII in Beijing. This boutique, firstly opened in 2016, has been entirely renovated to enhance and magnify the client experience. The digitalised sensory swill installation triggers an immersive virtual journey into a creative interpretation of Louis XIII key moments. The new collection Drop stands in the entrance of the salon creating curiosity and desirability for Gen Z to explore Louis XIII universe.

Switching to Liqueurs & Spirits division, and on page five, The Botanist reached a new step with the launch of a new global campaign, Look Further. As you know, over the past ten years, we are working on unique quality with its liquid. Now it's time to grow. And the purpose is to position Botanist as a lifestyle brand and to reach customers behind this category, i.e., to move the brand from a wild foraged niche to a broader audience towards lifestyle.

The new campaign is promoting the brand's unique DNA, its iconic bottle, the exceptional liquid quality, the untamed beauty of the Islay Island.

Finally, page number six, the last campaign of Bruichladdich, our single malt Scottish whiskey that we have already mentioned and has been now successfully rolled out around the globe. This supports the strong result that we have recorded so far. I am extremely proud to say now that all the range has received the Double Gold award from the World Spirits Competition in San Francisco.

Now let's move on to more concrete figures, slide number seven, the nine months sales analysis. Sales amounted to €1,304.7 million, up to €218.9 million year-on-year or plus 20.2% on a reported basis. This reflects a very strong organic gain of more or less €110 million, €109.7 million, i.e., plus 10.1% of organic sales growth, which includes plus 10.7% of price-mix and minus 0.6% of volume effect. And on the other side, a meaningful positive currency translation impact of more or less the same amount €109.2 million or 10.1% gain in nine months 2022-2023.

These currency translation gain was largely driven by the US dollar, which contributed by €81.3 million to the total gain, to a lesser extent with the Chinese yuan for €22.6 million. In addition, Canadian dollar, Hong Kong dollar posted a slight gain. On the negative side, Japanese yen and Polish zloty deteriorated slightly by more or less 1 million combined €0.8 million and €0.3 million, respectively.

As already said in Q2, the next slide number eight, is important to better understand the expected effects in terms of base of comparison in the short term. On the left, we have the evolution of Group sales at constant exchange rate; over the nine months, we grew at plus 50.3% on a three-year basis, including a volume effect of more or less 20%, 19.9%, and a huge massive price-mix contribution of 30.4%.

Looking at this performed by division on the right part of the slide, we can see that Group performance relies in a very balanced way on its two pillars, Cognacs and Liqueurs & Spirits. They showed a well-balanced performance with 50.5% of sales growth for Cognac, and 54.9% for Liqueurs & Spirits division.

Starting more deeply with Cognac division, the three years price-mix effect was plus 28.9%, while volume grew at 21.6%. This is a huge massive performance, representing an compound average growth rate in volume of 6.7%, which is clearly outpacing our ten years guidance of around plus 3% in volumes. In the same time, Liqueurs & Spirits division grew its three years price-mix by 30.9%, massive, and generated 23.9% of volume growth, i.e., a compound average growth rate in volume of 7.4% and a CAGR value of a massive 9.4%. This is already a strong achievement, but we expect even more to come in volume inside the ten-year journey for this division.

Let's now turn to slide number nine to dig in to organic trends at Group level by region. Let's start for – with a global figure. At Group level, overall, compared to three years ago, nine months, we are at plus 50% compared to three years ago. In this figure, we have to start with the Americas. Organic sales were up mid-single-digit over the nine months, but it means plus 80% on a three-year basis. More specifically, in Q3, sales in the US declined at very strong double-digit. This was expected and reflects: first, the meaningful effect are linked to the base of comparison; second, the normalisation of consumption following two years of exceptional growth.

Of course, this exceptional growth has been boosted by the fact that consumers were at home and add on the ability to spend elsewhere. However, this period offered us a unique, as many times said, opportunity to educate, train consumer, and invest behind our brands in our brands to grow their awareness and long-term desirability. As such, we are keeping a level of activity much bigger than pre-COVID. We have recorded more than 50% sales growth versus '19-'20 in the Q3 and we are reaping the benefits of our value strategy with continued uptrading trends.

Considering this result and the expected ongoing normalisation of depletions, inventory level mathematically increased from around two plus months at the end of H1 to three to five months depending on states performances, which are quite different state by state. In parallel, nine months value depletion were down mid-teens, i.e., up plus 35% compared to three years ago. But if we exclude VSOP, as we done usually, value depletion were up low-single digit versus last year and up plus 70% over three years ago.

In Canada, sales were up low-single-digit in Q3, driven by the on-trade recovery, and more specifically, in terms of products, Louis XIII, XO and Whiskey. In parallel, Latin America recorded double-digit decline in Q3, impacted by some phasing effect as the underlying trends remain solid in the wake of tourism recovery.

End of December 2022, Americas region accounted for half of our sales, 50%, down 1 point compared to the previous year.

Second region, APAC organic sales were up at very strong double-digit over the nine months, i.e., plus 45% on a three-year basis. Inside APAC, let's start with China. China sales were up mid-teens in the last quarter, supported by strong sell-in before Chinese New Year. The contest is clearly currently complicated to analyse. In the short-term, we are facing a strong volatility of depletions due to an unprecedented wave of COVID cases. However, the outlook is clearly more positive today than it was two months ago in China. We have to remain focused, be patient and get ready, totally ready to tackle the full recovery, which is now very close, considering the reopening of the country and the end of restriction.

Taking into account what I just said, inventories are increasing but from a very low base and reached a level which will qualify as normal. Meanwhile, value depletion at Group level were up double-digit as well over the last nine months. This was China. For the remaining part of Asia, we reported a very strong double-digit growth in Q3, led by Japan, Malaysia, Singapore, South Korea as borders reopened and also Asian Travel Retail.

End of December 2022, APAC region accounted for 33% of our sales, up 2 points compared to the previous year.

And the third big region, big EMEA region, in which organic sales were up double-digit over the nine months and more or less 10% over three years. Western Europe was down mid-single in the Q3. This is in line with our expectation because this performance reflects some phasing effects following a strong sell-in last summer and the high base of comparison last year. In the UK, sales show the solid resilience and were up high single-digit in Q3, driven in terms of product range by XO, Rémy Martin, Louis XIII, Cointreau and Whiskey portfolio. Remaining part of EMEA, we record a strong dynamics in Benelux and Africa Middle East, while Eastern Europe continued to be affected by geopolitical context.

In this quarter, this impact is more visible as Q3 was usually an important quarter in terms of ship and before the orthodox New Year. End of December, EMEA region accounted for 70% of our Group sales, down 1 point compared to previous year. This was the global overall region at Group level analysis.

Now let's dig into the division performance and start with Cognac. Cognac division posted an organic growth of 8.5% over the nine months 2022-2023, including a decline of 80% in volume and a very strong price-mix gain of 17.3%. End of December, Cognac division accounted for 73% of our sales, flat compared to previous year.

But what happened in the region inside this division? In Americas, let's start with North America, cognac sales were up at the low single-digit over the nine months, which corresponds to plus 85% compared to three years ago, 85% compared to pre-pandemic, cognac in North America. It's very important to memorise this figure. We are starting today to talk about normalisation, but we are 85% more than three years ago.

Q3 sales were down very strong double-digit, impacted by the high base of comparison and the normalisation of the consumption. On a three-year basis, sales were up plus 40%. And if we exclude VSOP, sales were up more than 100%, more than double.

Performance is negative versus last year, but however, in the short time clearly, fundamentals are more than solid and premiumisation of trading trends remain a clear strategic key driver. At the same time, US value depletion were down strong double-digit year-on-year in Q3, but they are up at around plus 10% compared to Q3 ’19-‘20. And once again, excluding VSOP, plus 35% compared to three years ago.

Price-mix effects on value depletions were strongly positive and more than 10 points in the 12 months period ending December 2022, led by price increase as well a positive mix effect. On a three-year basis, price-mix on depletions is up more than 25 points. So what we are seeing in valorisation, price-mix in sell-in in our profit and loss is also visible in what is the best approximation of sell-out. It is translated to our client, meaning that our pricing power is very strong. There is a symmetry there.

Latin America was up mid-single-digit over nine months and recorded a very strong double-digit decline in Q3; again, as said, underlying trends are solid, but overshadowed by some phasing effect in the short term.

In APAC, mainland China. Mainland China sales we are up mid-teens other the nine months and the Q3, tough market, strongly impacted by an unusual wave of COVID cases. Visibility is limited for the coming weeks. However, we are increasingly confident beyond Chinese New Year. Excluding the effects linked to COVID, consumption is very solid, as demonstrated by the strong performance for instance of the e-commerce channels, 21% of sales penetration over nine months, of which plus 35% of growth in the last quarter.

Looking at other area out of China home, we recorded a very strong performance in Taiwan in Q3, while the activity remains weak in Macau, with the just emerging from pandemic restriction. And in Hong Kong, sales were slightly down but should recover with the reopening of the borders. Rest of Asia sales grew at strong double digits in the last quarter, led by, once again, Louis XIII, XO in Malaysia, Singapore and South Korea and Travel Retail.

In Europe, cognac sales were up mid-teens over the nine months and down mid- to high-single-digit in Q3 affected by some phasing effects as said in Western Europe, and by geopolitical tension in Eastern Europe, which are quite visible in terms of comp on the Q3 because of the Orthodox Christmas. Meanwhile, Benelux and the UK remains solid in the Q3. Overall, we enjoyed strong outperformance of the Rémy Martin, XO and Louis XIII once again.

Now let's turn at the second division, Liqueurs & Spirits on slide 11. Liqueurs & Spirits division posted a 16.7% organic sales growth in nine months ’22-’23, including plus 7.7% of volume growth and plus 9% of price-mix, plus 9%. End of December, Liqueurs & Spirits accounted for 25% of our sales, up 1 point compared to previous year. And now let's review the performance by – or the division by main regions.

Americas. North America recorded mid-teens sales growth year-on-year over the nine months and the quarter, i.e., corresponding to around plus 80% versus nine months three years ago, and plus 90% versus Q3 ’19-’20. The drivers were clearly Cointreau and the Whiskey portfolio.

Thanks to a continued rise in mixology, a good momentum in tequila and a robust demand for Classic Laddie, Obru[?] Laddie.

Inside that, in terms of depletion, Cointreau US value depletion were up mid-teens in the Q3, i.e., up 70% versus three years, the same, same figure, clearly beyond what we realised three years ago. Besides that, price-mix was up 5 points versus last year in the last 12 months in terms of depletion and up plus 20 points on a three-year basis in terms of value depletions.

So not only cognac has demonstrated a strong pricing power, also Cointreau or other brands of our Liqueurs and Spirits portfolio. In parallel, Latin America recorded a very strong double-digit sales performance over the nine months, including a mid-single decline in Q3 affected by phasing effects as said.

In EMEA, the second region in term of weight for the Liqueurs & Spirits division before APAC. Sales grew at low double-digit over the nine months and were flat in the last quarter due to some phasing effects in Cointreau, which is continued to benefit from solid momentum. By sub-region, Benelux and Africa Middle East showed strong dynamics led by Cointreau. UK remained resilient, while Western Europe was impacted by some facing effect on Cointreau.

And finally, Eastern Europe continues to impact the geopolitical context. And the last region, because it’s the less important today in terms of weight, inside the Liqueurs & Spirits division is APAC, in which China posted a very strong double-digit sales growth over the nine months, but more than plus 100% more than double compared to three years ago, and was up double-digits in Q3, led by the Whiskey portfolio.

In Q3, we faced a tough market, impacted by weak traffic in on-trade due to the COVID. Remaining part of Asia also performing very well and recorded very strong double-digit growth over the nine months and the quarter, led by the whisky and the strong ramp-up of Telmont in on-trade and clearly in this very important market, which is Japan.

Before to conclude, one last word on the performance of the non-Group brands, which represents now less than 2% of Group sales, meaning down 1 point year-on-year. They were down 7% over nine months, mostly affected by the strong base of comp, particularly in Benelux.

Last slide, as a conclusion, we confirm our objectives for the year. We expect for ’22-‘23 global full year to generate a strong organic sales growth. This performance will be uneven between H1, H2 and will include a continued normalisation of consumption in Q4, particularly in the US. At the same time, as already said and guided, we intend to increase our A&P investment, which will be overweighted in H2. The announcement of our participation to the Super Bowl in February with Rémy Martin is a very good illustration of that.

However, we all suspect to improve our operating COP margin organically this year, driven by, first of all, a substantial gross margin gains, and second, steady control of our operating expenses. Given the expected phasing effect on sales and A&P, the improvement on the COP margin will be mainly driven by H1.

Finally, for the full year, we continue to forecast a positive currency effect on sales within a range of €120 million, €130 million to be compared to €110 million, €120 million, previously, and on operating profit, we confirm a range of €55 million to €60 million.

Thank you for your attention, and now very happy to answer your question.

Questions and Answers

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take the first question from line Olivier Nicolai from GS. The line is open now. Please go ahead.

Olivier Nicolai (Goldman Sachs): Hi. Good morning, Luca. Good morning, Célia. Just two questions, please. So first of all, you mentioned a strong sell-in in China during the quarter. Do you have any early indication of sell-out for Chinese New Year or any anecdotal evidence from your teams over there?

And secondly, in the context of Q3, how should we think about Q4 normalisation in terms of the percentage growth? And in general, Luca, what's your definition of normalisation medium term for China and for the US for Rémy Cointreau? Thank you.

Luca Marotta: Thank you. So in China, what is the current trading? Overall, after a very strong mid-Autumn festival, we did a very good 11.11 Super Brand Day and towards the end of December. Sell-in in Q3, as said, was in line with our expectation before Chinese New Year. And depletion over the last three months are up low double digits, clearly positive but slightly below for external element, our expectation.

Recent developments regarding at the end of pandemic restriction and the opening of borders are very good news for China. We are today very positive, much more positive for next year compared to the three months ago and also for the next coming quarter. We remain cautious for the short-term because the visibility remains low for a very short term. A lot of Chinese people were tested positive to COVID over the past few weeks, so traffic mostly on-trade was extremely low.

So coming back to your – straight to your question, sell-in so far was very good. Depletion is good, but it's a little bit less buoyant than expected, and we think that will be catching up soon. But this is a very short weeks – potentially because what we have to retain that we are very, very confident, and the name of the game is to remain focused. And we are ready to tackle the full recovery, which is there to be grabbed, to be reached.

We don't have the exact data clearly for Chinese New Year depletion because we have to wait for the next coming days, that will be crucial. But once again, even if in the short term, it is a little bit more of dizzy or relies on[?] because of the pandemic restriction, the medium starting very soon is there to be reached and grabbed. We have to be ready to tackle the full recovery.

So the inflection point is positive on China, more – clearly more than two months ago, three months ago.

In terms of Q4, and I'm assured there will be some question on a global overall consensus. But to start with Q4 in terms of sales. Today, I confirm that we forecast that Q4 sales sell-in to be back to growth after a minus 6%. We expect a growth in Q4. But that said, the context is slightly less predictable in China and also in the US because normalisation is clearly there. Too early to confirm the precise amplitude of the Q4 growth even if, I repeat, we are expecting growth, the range is extremely tight.

As a reminder, Q4 of last year generated €227 million sales. So 1 point is €2 million. And also at Group level, at yearly level, 1 point is €50 million. So we are extremely volatile as a company compared to what we are expecting. But so far, I repeat, Q4 back to growth and with an amplitude which is cannot be precise or today in terms of Q4. But at yearly level, we think that we will reach another year of strong growth.

So in terms of global overall consensus, I cannot confirm that we are okay with the actual consensus top line net sales to the last decimal point because of the short term disruption in China and the normalisation still hitting depletions in the US. But ballpark we are comfortable. Consider all the context, if you want, global consensus on top line which is today for our figures 10.8% could be a touch optimistic, but is not our global issue because the – we do not manage the company at €2 million variances on a quarter. And even more important, organic COP growth at 13.5% is spot on.

Olivier Nicolai: Thank you very much, Luca.

Operator: Thank you. We will take the next question from line Laurence Whyatt from Barclays. The line is open now. Please go ahead.

Luca Marotta: Lawrence?

Operator: Hi, Lawrence, your line is open now.

Luca Marotta: It's [inaudible].

Laurence Whyatt (Barclays): Hello.

Luca Marotta: Hello, Lawrence. I'm here.

Laurence Whyatt: Can you hear me?

Luca Marotta: Yes.

Laurence Whyatt: Great. Sorry about that. I don't know what happened. Three questions for me then, please. The US was down 40% in Q3 on depletions. But could you give us an indication of how that worked between VSOP and the products above the VSOP levels, sort of 1738 and above?

Secondly, on the stock levels, in the US, you mentioned there at three to five months. That's a little bit ahead of where they've been previously. I think it was two to three at the half year. And before the pandemic I think it was around three months. Do you anticipate any levels of destocking that would be required over the next quarter or so?

And then finally, again in the US, you mentioned that you were taking very resilient approach to pricing implying that there are some challenging pricing dynamics from some of your peers; I was wondering if you can talk about what you're seeing on the ground with regards to pricing and how you would potentially respond to that? Thank you very much.

Luca Marotta: Thank you for your three question. A little bit US – is a joke. So let's start with value depletion in Q3. So I will try to give you a very precise answer. At Group level, let's start. Last three months in the value depletion – value, because we are not in volume. We are value depletion. We were down strong double-digit, affected by comps and normalisation. But excluding VSOP, we are down at high single-digit, so was mathematically last[?] quarter.

But in three-year basis, up 20% with the 15 points of price-mix, and excluding VSOP, up to 50% with 20 points of price-mix. So at Group level, a complicated quarter in terms of depletion, a bit more negative than expected, because then we will talk also about our expectations and more depletions equation for the end of the year, meaning that this correlate and will answer to your second question to the stock level, which is today three to five more for a mathematical extrapolation, consequence of the normalisation then the fact we have stock more than expected.

What we are realising sell-in is absolutely corresponding our estimation, is more the depletions. So the best approx of sell-out, there were a little bit more normalising decreasing compared to our expectation in the short term, but nothing changes to the medium term. This was the Group level.

In cognacs, precisely, which is your question, we were down very strong double-digit affected by consumerisation. And the same thing excluding VSOP. So it was a little bit more normalised. Inside that, some touch 1738 is better clearly than VSOP. XO good, Louis XIII good. But overall, it was this globe – overall result clearly impacted by VSOP.

On a three-year basis, plus 10%, and excluding VSOP, cognac plus 45%. So excluding VSOP, Group level plus 50% on a three-year basis, and cognac 45%. So morally the same. But out of cognac, and let's start with Cointreau, mid-teens. And on three years base, plus 70%. So there is a disconnection in this kind of normalisation between cognac and non-cognac portfolio.

So for the future also we need to analyse, and we are clearly already in a more analytical way between different brands and different states because I come back to your second question, current level of inventories in the US increased mathematically from two to three – two plus months at the end of H1 to three to five, but is more correlated at the state's performance and the fact is this mathematical extrapolation of the denominator. So the depletion, normalisation and what is the impact on a mathematical element.

What is not taken into account is the impact on the future without putting too much pressure on our shoulder. But clearly, if we are doing the Super Bowl, is there to pay an ROI starting from the gradual improvement months after months of depletion and then clearly delayed because today we're three to five months stock per state an impact on sell-in. And this is why also we decided to do it on a strong brand Rémy Martin, because we have to increase desirability.

The latest BHT 2022, Brand Health Tracker survey has confirmed that cognac is still a very hot category in some countries like US. So we have to increase desirability, also to offset some of states differences and discrepancies playing on a more, not mainstream, but large basis of ourness, we think is the way to go. So three to five is more a mathematical. And what will happen next? The impact of normalisation in the last six months was clearly visible. We are currently beating three years ago performance while in short term is negative.

So we'll need some quarter to normalise that. So at Group level but clearly US is playing a role, Q1 – you have to expect that Q1, therefore in '23-'24, that will be negative in terms of sell-in. Q2 will be, I don't know to qualify that in terms of extent, positive, but Q1 and clearly consider the weight of the Drop in Q1, H1 will be probably negative next year at Group level, with, as already said, an underlying progressive rate catching between depletion and sell-in, starting from the H2 '22-'24.

So the impact in this moment on stock is not linked to a bump of sell-in or overselling, and normalisation and the mathematical extrapolation. With the normalisation of stock, there will be progressive, all along the H1 of next year.

Pricing arena, it is true that in US and China as well, our peers are tougher than us in terms of trade promotion. We are not in this game. This is tactical behaviour. We don't do that. We do not change our global strategy. We think we have a strong pricing category, and with strong pricing power, even if we have a short-term even more important volatility on that, we will assume that. And we remain focused.

There is a very interesting research published by one of your colleagues the latest day that is highlighting one of these points is very, very important. So with that, the short-term volatility and the trade promotion might impact the wholesaler needs or flavour to grab more stock. We do not enter in that. We don't want to slow down our promotion to increase volume to have a very higher rotation. Clearly, will be maybe some short-term volatility quarter by quarter.

But we continue to increase price and to play on mix. Compared to our peers, as I said many, many times, we are not on a tough volume game. We do not enter in the competitive trade promotion battle. We continue to increase prices. We play a lot of mix, mix in terms of skew in terms of states. And we will continue to do that also in the next fiscal year.

Laurence Whyatt: That's really clear, Luca. And just finally on the pricing, is it reasonable to expect you to put through a similar price increase this year as you did last year? Is that reasonable?

Luca Marotta: In '22-'24, it's too early to say. It will be a little more fine-tuned state by state also to avoid the increase of different performance. But overall, we are sit on the same or even more higher hypothesis. So price and valorisation through all means rise. SKU mix, state mix, channel mix is part of our DNA. We will continue to play on that. If we have to sacrifice volume, we will.

Laurence Whyatt: Understood. Really clear. Thank you very much.

Operator: Thank you. We will take the next question from line Ed Mundy from Jeffries. The line is open now. Please go ahead.

Ed Mundy (Jefferies): Morning, Luca. Morning, Célia. A couple from me. If we go back to slide eight and just think, I guess, big picture about your comments around cognac, the volumes have grown on a CAGR of about 6.7%. And on a normalised basis, given there's limited supply of cognac, and you're ageing for a long period of time, you'd probably want to grow about 3% per annum. Does that sort of suggests that the course correction on volumes for one year to get back on course to 3%? So the volumes to be down about 10% for a year. I suppose is that the right way to think about it? And where are we in that process? If it was to take more than one year, are you wedded to that? And do you have to get back towards that 3% number? Or would you be happy to grow at a slightly higher rate than that 3%? I'd just love to get your overall views on inventory. And then I've got a second question.

Luca Marotta: Okay, it's clear. So we will not justify the actual normalisation of performance in the US as a nice way to catch up with the 3%. So today, we have in our stock what is necessary to feed our long-term 10-year journey, but we want to sell it at the right price. So we will not adjust our speech because we cannot continue like that.

So to your answer, we are not planning to catching up in only one year. If it is the consequence, is the consequence on our adaptation to the global consumption environment. We do not need to unplug volume in the short-term because we are out of product- – out of liquid or out of product in cognac in the very short term.

Clearly, at the end of the 10-year, we need to readjust a bit. So it is the consequence of our global strategy and clearly increasing pricing even more on some intermediate ranges like VSOP, it is coping positively with our global strategy. But this is not something that we are looking for, because we do not have in the very short term enough products. Our 10-year journey is secured. It is more the problem after 2030 if we do not adjust.

Ed Mundy: Understood. And then second question on the US. You mentioned I think that the fundamentals are more than solid and the pandemic period on people stuck at home, there's an awful lot to deal with more disposable income. They got into cognac a little bit. Could you just talk about the category health itself? Clearly, some categories such as tequila and bourbon are still growing off that higher base in other categories, and perhaps scotch and cognac are sort of giving back some of the gains made over pandemic and there's a bit of indigestion. I'd like to just get your overall views on I guess the health of the category and why you're confident that this is a category that's still going to see very good growth over the medium term.

Luca Marotta: Yes. Overall, in the short term, at this moment, the cognac, which are clearly positive are tequila, bourbon, and in the short-term declining vodka and also driven by major competitors, NSC[?] clearly, and ourselves, brandy cognac, but this is short term elements. All surveys very important one and all the information that we have in terms of intelligence are showing that cognac is still in a very desirable category.

So not only in the US, but also in other very important countries like China, South Africa, Nigeria, Germany. For this dynamism, we are clearly consider as main actor, clearly NSC number one but ourselves as well. The implication, clearly, in our opinion, is to increase our desirability and continue to grow in terms of consideration. So we have to increase a stronger relevance by focusing our efforts on strategic targets among the cognac drinks considers and future also clients, reinforces that through the dimension and leverage the strength or the strengths that we have on taste the quality and aspirational way.

We think that we have an asset that our peers don't have the same level, and I repeat myself, a bit continue to develop ourness. We have still market share in value to conquer. It is in this uptick that big events like Super Bowl will play in not only the short term but the medium to long term will play a role in terms of return on investment on the overall brands.

Ed Mundy: Thank you, Luca. And just one final. Can you just remind us on duty-free, how big a part of your business that is today relative to pre-pandemic levels? And if the Chinese consumer does start travelling again, is that incremental sales or is that sort of cannibalisation from other domestic market or Hainan?

Luca Marotta: Clearly, towards GTR is booming compared to previous year. It's catching up progressively compared two, three years ago. It is more solid in terms of business, and we are betting on a '22-'24 stronger increase, even stronger increase that compared to today. It is more costly as a business model compared to some years ago. Also because we are not totally comparable. We made some switches. Some operators are more managed locally. And we are more managing the worldwide level overall worldwide operators, airports and a clear GTR environment. Hainan for instance is managed not by the GTR team but the local team in China.

So historically, we used to have a very strong way to both in top line and bottom line in Travel Retail, 15 and 10, basically. Today, we are far from that. So the potential for the Group to count on a strong GTR is very, very important. It's more in terms of execution, if we are able to follow it, but we count on the remaining seven years of the 10 years plan to clear doubling and tripling the business in Travel Retail, with the level of profitability, which is lower than before, before the pandemic it was too profitable.

Clearly, be assured that the travel retail is not diluted compared to the weight of the Group. So overall, we'll be gaining on that. And thanks also –

Ed Mundy: Sorry, Luca, sorry, I interrupted. Please.

Luca Marotta: Now, all I said, repeating myself a bit saying that sometimes also, we need to increase our consumer journey, and to have specific investment on this channel, and not treat like in a not mainstream, in a similar way to the local market. So that's the reason why it's more costly also in terms of A&P.

Ed Mundy: Great. Thank you.

Operator: Thank you. We will take the next question from Simon Hills from Citi. The line is open now. Please go ahead.

Simon Hills (Citi): Thank you. Good morning, Luca. Good morning, Célia. You answered a lot of my questions. But I wonder, Luca, can I just come back a note to the US again. I just want to make sure my understanding is correct on the go forward messaging, particularly as we look into fiscal '23, sort of '24. I think you've confirmed that basically, by the time we get into the second half of the next fiscal year, that's when we should be seeing more normalised sort of trading patterns across your US cognac business. But between now and then, as I look at Q4, I think you said that sort of depletions will probably pick up but we won't see an improvement in sell-in, given where the inventory levels are. And then as we move through the first half of next fiscal year, Q1 is probably weak and then we should start to see some gradual improvement thereafter and then H2 normalising. Isn't that right in terms of sort of the sequence of events there, please?

Luca Marotta: Totally right. So this year we'll end according to our expectation. We hope, because I'm not a magician, but I think we can – we confirm what was just said. Next year will be an uneven year clearly impacted at Group level by the reversed impact on figures of the US. This year '22-'23, it is strong H1 and H2, which is more moderate. Next year is the opposite. For many different reason, we have to expect top line and also bottom line at Group level and clearly for the US because of US, because China will be operating the other way around.

Mathematically, negative H1 and recovery in H2 linked to the cycling of easier comps, underlying normalisation of consumption and catching up between sell-in and sell out. And also a weighted impact on investment that are cycling this year a very strong investment in H2. And next year would be more normalised you don't have this kind of pick. So it is an uneven year '22-'24, which is the – is not the twin brother of '22-'23, is the opposite. It is built in the total opposite logics. Weaker H1, stronger H2, which is something also new at Group level, and also some positive reverse implication because if you consider at the Group balance, also income statement also balance sheet in terms of peaks, in terms of phasing, we are a bit overinfluenced by the H1 historically. So could be also something which is healthy[?] in terms of the diet, in terms of our – not in negative way, in terms of our balance of our figures, is something more balanced between H1, H2.

Simon Hills: That's really helpful. And then secondly, can I just sort of come back to a couple of points around sort of China? I know you haven't seen any data yet following sort of Chinese New Year, but I wonder if you've sort of been seeing anecdotally obviously, the footfall data we've seen generally coming out of China increasing mobility. I wonder what you've seen there and now on the ground that you're noticing an increase in people's willingness to want to increase their consumption of cognac and spirits generally? Is that what you're hearing back from your guys?

And secondly, related to China reopening. Can you talk a little bit about Macau? How big was Macau historically before the pandemic for you? I know a lot of high end cognac was historically sold there. I just wonder what you think about the recovery on that market?

Luca Marotta: Thank you for your question. So I will qualify China underlying behaviour as very dynamics in this moment, very positive. All the soft elements are there, more positive dynamic way than expected. Quantitatively the depletions are not yet that because of physical restriction. So it's like before the final match of the Champions League, everybody wants to enter to see the game to rush for that. So we are in this hour before the match of Champions League and we think that the match will be a very strong one.

So we are very focused not to miss the opportunity, because the magnitude of the reopening with – we think will be massive. So all soft elements are on the green side of our smiles.

Macau. Macau used to be a very strong partner, a little bit less because we had some ups and downs in terms of operators in terms of specific local disruption, some changes in terms of pricing. We count on that less than in the past. And it is quite an important market for the upper part of our portfolio, Louis XIII and XO. So we count on that specifically.

But we do not think that inside of the 10 years plan, we regain the weight that used to have 10 years ago, for instance, when I arrived. Macau was also much more gifting and volatile business. Today, it's more sound. And so we prefer to have some certain and sure steady patterns to count with less volatile. We don't want any more volatile – volatility.

Simon Hills: Brilliant. Thank you ever so much.

Operator: Thank you. We will take the next question from line Chris Pitcher from Redburn. The line is open now. Please go ahead.

Chris Pitcher (Redburn): Thank you, everyone. Couple of questions for me, please. On Hong Kong specifically, that business clearly was impacted before the pandemic and obviously is set to be a big beneficiary of the reopening. Can you give us a sense of how that business is versus fiscal '18 sales when before the protests adversely impacted demand? And how much recovery potential there is?

And then secondly, Luca, you mentioned about the refacing or the rebalancing of the business. There's a lot of investment going into the US market from your competition in terms of marketing, etc. And Liqueurs & Spirits last year made a loss in the second half due to marketing phasing. Are you rebalance – is it going to be more balanced this year for Liqueurs & Spirits in terms of the marketing investment? Or is it still going to be a bit more H1 weighted? Thanks.

Luca Marotta: Thank you. Hong Kong is an gradual improvement, not back to pre-COVID level. It is not massive opportunity. It's bigger than Macau, but it's not a game changer. USA Liqueurs & spirits imbalances. The answer is yes. Also starting because last year we made Super Bowl for Botanist for instance way – clear important way on top line profit and loss balance. This year, we'll do that on Rémy Martin.

So Liqueurs & Spirits will be more balanced mainly in the US in terms of profit and loss between H2 last year and H2 this year, even if overall in terms of profit and loss, our operating profit margin improvement because we are guiding on that. I repeat myself. We are spot on, on the consensus 13.5. It is essentially driven by the cognac division also because H1 is – was massive. So H2 more balanced like H1 is there, playing a role. Compounders are clearly influenced by cognac division '22-'23.

Chris Pitcher: Thank you very much.

Operator: Thank you we will take the next question from line Trevor Stirling from Bernstein. The line is open now. Please go ahead.

Trevor Stirling (Sanford Bernstein): Hi, Luca. A few questions from my side, Luca. One, I suppose come back to the US and sorry to keep on about this, but I guess it's the area where there seems to be the greatest uncertainty about what is the new normal going to be. If I look at the numbers in your charts, I've got nine months sales, up 85% versus pre-COVID, Q3 sales up 40%, Q3 value depletions up 10%. So a massive range there of where the new normal might be. So I guess I'd appreciate it's difficult for you to say that either. But I wonder what the current thinking is sides that the Group is about versus 2019? Where do you think the new normal will be in terms of value in the US?

A second question, just tactically, you mentioned that in Q1, you expected a negative sell-in in the upcoming fiscal year. Just wanted to check that was Group sales and not cognac sales. And the third thing that concerning competitors in the US, you touched on Hennessy very briefly. Is D'usse being more rational than they have in the past, or are they still a bit of a rogue player in the US as well?

Luca Marotta: Thank you so much for your easy question. So I change – I call Mr Houdini[?]. Houdini, come here for the first question. What would be the normalisation underlying? I don't know. I can shoot a figure but for sure what I'm sure we will not lose 85% of sell-in US or 35% of value depletions. So is not a level that we maybe continue to reach in the future. I don't know it is 50%, 40%, 35%, 55%, maybe 85% in selling compared to the pre-COVID. It is a little bit high in this moment because of the normalisation of stock level if the depletion on the not grabbing, revamping up. But for sure we'll not be back at this level.

So I cannot answer in a clear way. Q1 is negative is – will be negative, we think, not only for cognac but Group level. Clearly, Liqueurs & Spirits have different dynamics. But cognac could be the most touched division and US as well. But overall, the impact is so massive that Q1 is – will be negative in terms of top line.

NSC is very promotional, like others in this moment. That is their strategy in this moment, mainly in some states, we do not enter in trade promotion. I repeat, we might have some a merchandising feature, which is not the same thing that price feature.

What about the 10% market share player, D'usse? They are clearly always disruptive in terms of commercial execution. And they have a different strategy in terms of liquid sourcing compared to us without developing on that. But they're still quite successful. So it's on them, because they were able to enter a new category with consider a strong barrier and to grab market share – value market share as well, which is a very good one. So we can argue that they are not playing the same game with other elements, but the results are good at this stage.

So we do not fight against them because we have other DNA. So we cannot – we don't want to enter in this kind of fighting game, neither commercial neither in terms of liquid topology and let me allow only this word, integrity. But in terms of result, that's all. Close to them.

Trevor Stirling: Super. Thank you very much for the extra colour, Luca.

Operator: Thank you. I will hand it back over to your host to conclude today's conference.

Luca Marotta: Thank you so much for this morning with us. So talk again end of April and then even more interesting beginning of June with Eric Vallat, to answer all strategic implication much more than me for all your question in terms of where do we stand in terms of 10-year journey. We'll the short term implication and balance between depletion, sell-in and profit and loss track and future journey into '22-'24. So talk again to you in three months' time. Thank you so much.

[END OF TRANSCRIPT]