Rémy Cointreau 2022-2023 Full Year Sales

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Operator: Good day, and welcome to the Rémy Cointreau Q4 sales ’22-’23 call. Please note this call is being recorded. For the duration of the call, your lines will be in listen-only. However, you will have the opportunity to ask questions. And 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'll be connected to an operator.

I will now hand over to Luca Marotta, CFO. Please go ahead, sir.

Luca Marotta: Good morning, everyone. Thank you for being here with us this morning. As you have seen in the press release, we generated a strong full year performance, plus 10.1% in organic terms, representing plus 43.6% of sales growth compared to ’19-’20. This performance includes an increase of plus 10.2% in Q4 split between a meaningful price mix of 7.6%, an increase of 2.6% in volume.

The overall performance of the last quarter reflects, on one side, a sharp normalisation of the consumption in the US for the Cognac business, and on the other side, a meaningful rebound in China and the for the Travel Retail, which is now approximately plus 45% compared to pre-COVID in Q4 from a low base of comparison, as Q4 ’19-’20 was already impacted by the COVID.

As a reminder, Retail, we are down minus 9% – we were down to minus 9% in Q3 on a three-year basis. In addition, this performance includes a slight negative calendar effect of, one, minus 1.5 points at Group level related to Chinese New Year, i.e., around €3 million.

Looking at the overall sales performance by region over the year. Americas were up plus 2.5% this year, and were down mid-single digits in the Q4, affected by the continued normalisation of the consumption. However, we are far, far better than pre-COVID level being up plus 58.4% on a three-year basis.

APAC, Asia Pacific region are up plus 22.7% this year, up very strong double digits in Q4, led by China and Travel Retail recovery. This represents a plus 49.1% increase versus three years on a full year basis.

Then, EMEA region, Europe, and Middle East, generated plus 11% of sales growth this year, showing a solid resilience in Q4, up a strong double-digit and was led by all sub region, except Russia nearly. EMEA is up plus 8.8% compared to three years ago, so on recorded level on a full year basis. This was shipment sell-in.

Now talking about value depletion. So the best approximation of the final consumption at Group level. In the US, value depletions at Group level were down mid-teens year-on-year. It corresponds up a low single digits if we exclude VSOP. Compared to pre-COVID level, value depletions were up approximately plus 30%, and really more plus 60%, excluding VSOP.

In China, value depletion were up mid-teens year-on-year led by CLUB, whiskies, and Rémy XO. In Q4, depletion were also up mid-teens with the March exit rate in value depletions that multiplied by eight, our performance, our depletions compared to last year.

Finally, in EMEA, value depletions were up by single-digit year-on-year, led by all sub-region, once again except the Russia. We don't operate there.

To conclude on this first slide, I'd like to reconfirm our full-year guidance for this fiscal year 2023. We expect to generate strong organic COP growth, alongside an organic improvement of the operating profit margin. I will come back on it in more details at the end of the presentation.

As usual, on page three to five, we pick up and we show you some marketing initiatives that have been undertaken over the last month, in this case the last quarter. Let's start with page number three and the Superbowl game in the US, leveraging the tennis woman icon Serena Williams.

As you know, this year's campaign marks Rémy Cointreau's continued investment in the biggest game of the year for the third year in a row and the first time on a national scale. Rémy Cointreau has championed the concept of teaming up for excellence for many years, instilling the notion into all aspects of the brand and passing it from generation to generation. Through the Inch-by-Inch campaign, Rémy Martin continue to spotlight our teamwork drives us for words and showcases the many forms in which teamwork takes shapes.

The concept of this campaign was larger than our previous experience and included a TV ad, alongside press, social media and CRM and a follow-up programme with some on an off-trade activation that will last until June and July.

Post marketing results are promising, as we materially enhanced our brands awareness and desirability, even if in the short term the current market environment eyes partially these positive effects on short-term depletions. But once again, the main goal was and is to improve, increase the brand awareness and desirability in the medium to long term.

Marketing KPIs, however, are very strong with this campaign. The ads have been ranked 25th out of 124 as commercial of the Superbowl game. In terms of customers engagement, we strongly outperformed median of the Superbowl ad by 2.7. We are positioned within the top 10 of the highest purchase intent. And Serena Williams has been ranked number two among the top five celebrities which has generated the more social mention.

In terms of quantitative development, this campaign has generated major buzz with 11.1 billion on press impression, and 477 million of social media impressions. I repeat the ultimate goal has been reached. Inch by Inch has elevated brand perception relevance in more than 25 to 45 years old spirit drinkers, female population and legitimated the price positioning of Rémy Martin brands.

Page number four, a quick word on our last activation in China for Chinese New Year was the 22nd January and beyond. As you know, overall, the market has been tough in China during Chinese New Year, with sales, like everybody, in unprecedented wave of COVID cases, which was as mainly – which has mainly affected the on-trade channel. But despite this environment, we have demonstrated agility and flexibility in order to adapt to this new market condition, our way of working. Why? Because we accelerate off-trade activation, such as the Rémy Martin cognac express Pop up, which has been deployed in several key city like when Guangzhou and Shenzhen, postponing also and continuing to some on-trade activation to February along – around the Rémy CLUB and XO.

You can see on this slide, an example of MOT, model on-trade that has been entirely rebranded with Rémy Martin. And third, strongly leveraging e-commerce channel with some limited edition dedicated gift boxes and collaboration with the Chinese equivalent of the Deezer platform called QQ Music.

All in all, we are very proud to announce that we recorded an excellent quarter in China, driven Rémy CLUB, which was up plus 75% in the quarter. And another important element, the e-commerce channel, which increased by 180% to reach on the quarter 50% of sales penetration. Overall, a very solid robust Chinese New Year compared to the previous year.

Page number five, just a last word on our latest launch with Louis XIII, ten years after the rolling out its Rare Cask 42.6 degrees. Louis XIII unveiled a third milestone in its iconic legacy, Rare Cask 42.1 The first one, Rare Cask 43.8 was discovered in 2004 by previous cellarmaster, Pierrette Trichet. And Rare Cask 42.6 in 2009 when Baptiste Loiseau and Pierrette Trichet were collaborating.

For the third time in history, Baptiste Loiseau now uncovered Rare Cask 42.1. This single song tierçon is a distinct expression Louis XIII cognac, never encountered before and with an unexpected 42.1 ABV. The single cask that is single tierçon provides a limited number just over 70 – 775 decanters, specially crafted from black crystal by Baccarat and to be sold at a very specific price, around €50,000.

An exclusive event has been held in Venice gathering our most important clients, media, and influencers, 120 more or less. The discovery of this Rare Cask edition is also possible through a tasting experience in several cities around the world, including London, Dubai, New York, Miami, and Vegas.

Now, let's move to some figures. This is full year sales analysis slide number six. Trades amounted to €1,548.5 million after €235.6 million year-on-year or plus 17.9% on a reported basis. This reflects a very strong organic gain of €132.8 million, which means more or less plus 10.1% of organic sales growth, which includes a neutral volume effect and 10.1% of price-mix, and on top, a meaningful positive currency translation impact of 102.8 million or 7.8% gain in 2022-2023.

This currency translation gain was largely driven by the US dollar, which contributed for 82.1 million to the total gain and to a lesser extent by the Chinese yuan, which contributed by 16.9%. In addition, Canadian dollar and Hong Kong dollar post a slight gain, but on the negative side, Japanese yen, British pound, and Polish zloty deteriorated slightly by globally more or less €2 million.

Let's now turn to slide number seven to dig into three years performance by division by – to better understand the expected effects in terms of basis for comparison. On the left, we have the evolution of Group sales at constant exchange rate. Over the last 12 months, we grew at plus 33.6% on a three-year basis, including volume effect of plus 14.3% and a huge massive price-mix contribution 29.3%. This represents a three years CAGR, compound average growth rate, in sales of plus 12.8%.

But looking into this performance by division, we can say the Group performance relies on its two pillar in a very balanced way: Cognac and Liqueurs & Spirits. Cognac is up at 41.3%. And Liqueurs & Spirits 54.1%, outperforming in this moment the Cognac division as per our roadmap.

In Cognac, price-mix effect is up plus 29.9% while volume grew at 11.4% which means CAGR in volume of 3.7%, slightly above our 10-year guidance in volume of around 3%. Overall, the three-year CAGR in sales stood at plus 12.2%, so much above the 10-year plan. This gives us strong, very strong assurance to absorb the effect of the normalisation cognac in US in ’22-’23.

In parallel, Liqueurs & Spirits its three years price-mix by 33.5% and generated on top plus 20.6% of volume growth, i.e., a CAGR in volume of 6.4% and in CAGR in value of 10.1%. This is already a very strong achievement. The Liqueurs & Spirits division now clearly bringing on the table additional volumes. And we expect more to come according to over ten years roadmap in volumes at the three-year journey and gives more global absolute value, improve the Group profitability even more in proportion to the cognac for the next years until 2030.

Now, let's turn to slide number eight and dig into organic trends by region. And let's start with America, whose organic sales were up plus 2.5% in ’22-’23, which means, as said, plus 58.4%, more or less 60% on a three-year basis. More specifically in Q4, sales in the US declined at mid-single digits. This reflects the sharp normalisation of the US consumption following two years of exceptional growth. However, we are keeping the level of activity much, much bigger than pre-COVID reaping the benefits of our value strategy with continued upgrading trends.

Considering these results and the effect ongoing normalisation of depletions, inventories level increased from around to three to five to five to six months, reflecting depletion softens that we experienced during the quarter. In parallel, 12 months value depletions were down mid-teens year-on-year, i.e., up plus 30% compared to three years ago.

If we exclude VSOP, value depletions were up low single-digit versus last year, and plus 60% in the three – versus three years ago.

In Canada, sales were down very soon double-digit in Q4, impacted by some phasing effect of St-Rémy following strikes in France in March we prevented the departure of some specific shipments of these brands in this country from there.

In parallel, Latin America recorded a very strong double-digit growth in Q4, driven by Mount Gay, Rémy VSOP, and more broadly by the continued rebound of the tourism flow. End of March 2023, Americas accounted for 50% of our Group sales, down 2 points year-on-year.

APAC organic sales were up plus 22.7% this year, which means plus 49.1% compared to three years ago. I repeat, Americas plus 60%, APAC plus 50% compared to three years ago, to pre-pandemic. We're back on this point, but we are part in play in another league.

China sales showed a very strong digit sales growth in Q4 reflecting a solid Chinese New Year compared to last year. This performance reflects the strong effects of Rémy CLUB and our whiskies, which continued to outperform. During Chinese New Year, on-trade was weak due to the COVID. However, as already shown, e-commerce has been a key weapon to offset it and generated a stellar growth during the quarter. We reached an all-time high in terms of sales penetration for this channel with around 50% of sales in the last quarter.

Take into account what I just said, inventories are now back to normal levels. So we are starting in China the year with very high degree of serenity and ready to seize opportunity. Meanwhile, value depletion Group level were up mid-teens over the last 12 months, and again, including an amazing exit rate of more than 700%, eight times of value depletions in March.

Rest of Asia, out of China, reported very strong double-digit growth in Q4 as well led by Japan, Australia, and New Zealand. And last but not least, Asian Travel Retail. End of March 2023, APAC accounted for 33% of Group sales up plus 3 points compared to the previous year.

EMEA organic sales were up plus 11% this year, which means plus 8.8% compared to three years ago. Western Europe was up very strong double-digit in Q4 across the world portfolio. UK sales showed a solid resilience and were up very strong double-digit in Q4. On-trade continue to benefit from solid dynamics with – while the overall performance was driven by VSOP in terms of range, followed by Cointreau, the whiskies and, last but not least, the distribution ramp up of St-Rémy brand.

In rest of EMEA, we recorded strong dynamics in all other remaining sub-region with exception in Russia.

During the quarter, we enjoyed good dynamics in on-trade in these other parts of EMEA and the continued success of the mixology. All in all, we end the year with a very, very healthy level of inventories. End of March, EMEA region accounted for 17% of Group sales, down 1 point compared to the last year.

Now slide number 10 – nine, and analysis by division and start with the Cognac. Cognac posted their organic growth of 7.6% in ’22-’23, including a decline of 9.3% in volume and very strong price-mix gain of 16.9%. In Q4, specifically, Cognac was up plus 2.9%. And the end of March, Cognac division accounted for 71% of our sales, 1 point down compared to the previous year.

Let's start with the Americas. In North America, Cognac sales were down at the low single digit in the full year, i.e., at more than plus 60% compared to the year ago. Q4 sales were down very strong double-digit, impacted by sharp normalisation of the US consumption. But in meantime, up-trading trends are lasting and Louis XIII, RM XO outperformed the rest of the portfolio. This was sell-in.

At the same time, US value depletions were down very strong double-digit year-on-year in Q4, but they are up at around plus 10% compared to Q4 ’19-’20. Excluding VSOP, where they were up in the last quarter plus 40% compared to four – to three years ago in terms of value depletions growing. So it means the price-mix effects were strongly positive not only in sell-in, but also in sell-out and depletion and accretive more than 10 points in the 12-month period ended March 2023, led by price increases as well as positive mix effects. On a three-year basis, the price-mix was positive on depletions of more than 25 points.

Latin America was up mid-teens this year, and at more than 100% in the last quarter, doubled. The performance was driven by Louis XIII, Rémy 1738, and more broadly by the return of tourism flows. However, the level of activity is not yet back in Latin America to pre-COVID level.

Now Cognac inside APAC and starting with mainland China. Mainland China sales were up in mi-teens this fiscal year and showed an excellent performance in Q4, mainly driven by Rémy CLUB. The market is dynamic, pick it up from mid-February, thanks to the stellar performance in e-commerce, triple digit increase in Q4 with more than offset the on-trade weakness. Considering the strong dynamics, we are very confident for ’22-’24 in China.

Looking at other areas, we recorded a very strong double-digit performance in Taiwan in Q4, driven by a rebound in traffic flows from China and strong Chinese New Year. In parallel, the activity was weaker once again in Macau in Q4 impacted by limited high-end tourism flows. And last but not least, Hong Kong showed a triple-digit rise, increase driven by the recent reopening of borders and Rémy CLUB. In the rest of Asia sales grew at high-single digit in Q4 led by Louis XIII and 1738, particularly in Australia, South Korea, Japan as well as from Asian travel retail.

In Europe, Cognac sales were up mid-teens in ’22-’23, of which a very strong double-digit in Q4, led by all regions, except Russia. Benelux and UK enjoyed a strong dynamics in Q4. Overall, Rémy VSOP and Rémy XO outperformed the rest of the portfolio.

Now let's go to the Liqueurs & Spirits division, slide number 10. Liqueurs & Spirits division posted a plus 18.7% organic sales growth in ’22-’23, including plus 8.3% of volume growth and plus 10.5% of price-mix effects.

In the last quarter, Liqueurs & Spirits were up plus 26.2%. End of March, Liqueurs & Spirits accounted for 27% of our sales, up 2 points compared to the previous year.

And now let's review the performance division by region.

In Americas, let's start with North America, US and Canada combined, recorded very strong double-digit growth year-on-year in full year and in Q4, approximately being at plus 75% compared to three years ago. And the driver were Cointreau and Botanist. This performance reflects a continued rise in mixology, boosted by good momentum around the Margarita cocktail clearly, and persistent up-trading trends in the on-trade.

Cointreau’s US value depletions were up by mid-single-digit in Q4 due high comps in March 2022 before price increases in last April. And on a three-year basis, value depletion of Cointreau is US were up plus 75% in the Q4.

Besides price-mix was positive up by 6 points versus last year in the last 12 months period ended March and up plus 16 points on a three-year basis. In parallel, Latin America recorded a very strong double-digit sales performance year-on-year, including high-single digit rise in Q4 led by Mount Gay and whiskies.

Inside EMEA, a very important region for Liqueurs & Spirits, sales grew at low double-digit for the full year in Q4, led by Cointreau, whiskies and St-Rémy brands. We enjoyed an increasing growing interest in mixology, gradually catching up with more mature markets such as US and UK.

By subregion, Western Europe and UK showed a strong resilience and outperformed, while Benelux and Africa performed very well as well. Finally, Eastern Europe continues to be impacted by the geopolitical context.

And APAC, which is the less relevant in terms of weight region for Liqueurs & Spirits so far division, China posted a very strong double-digit sales growth for the year in the Q4 around plus 120% compared to pre-pandemic. Whiskies continued to outperform the overall portfolio, led by new generation looking for novelty high-end products. Rest of Asia is also performing very well and recorded a very strong double-digit growth for the year and Q4 for the division led by Cointreau and St-Rémy brand. In parallel, Telmont is ramping up very quickly in Japan.

Before to conclude, one last word on the performance of the number of brands which represent now slightly less than 2% of Group sales, down 1 point compared to the previous year. They were down 5.3% in the ’22-’23 year, mostly affected by some base of comps effects in H1, particularly in Benelux. And in Q4, non-group[?] brands were up plus 2.5%.

Slide number 11. As a conclusion, we confirm our objectives for the year ’22-’23. We expect for ’22-’23 to generate a strong organic COP growth leading to an organic improvement in operating margins. This performance will reflect: first, sizeable, very visible improvement in gross margin despite the inflationary environment; second, an increased investment in A&P in H2; and third, tight control of our overhead costs.

Take into account the impact of phasing effect on sales lines in A&P spend, organic COP margin improvement will be driven primarily by H1, that is ’22-2023.

And in terms of forex, accretive impact, the Group now estimate the currency will have a favourable impact of around €40 million versus €55 million to €60 million previously highlighted.

Now, even if it is a sales conference, it was important to talk a little bit and to look at it beyond ’22-’23, which is almost close. So we have decided this time to share with you a little bit earlier than usual the framework for next year ’23-’24 to give you some visibility and answer to your question that you may have. But we decide this year, don't get used to it, we have this anticipation. Will not be a new habit of the Group. This is important, because after three years of very huge results ’22-’23 will be a different, a more moderate year. So we have to explain what's happening and to be able to dialogue and transparency. But is not something that you can get used to, I repeat myself.

On the heels of two outstanding years, Rémy Cointreau expect full year ’23-’24 to show a continued strong normalisation of consumption in the US. However, it should settle a new normal level, significantly above ’19-’20, considering the following elements.

First, we are today relying on much stronger brands, both in terms of our awareness and desirability. Second, thanks to these two amazing years, we have significantly increased our investment capacity. Third, we can today leverage a more efficient organisation as we made solid progress to our – towards our four strategic priority: reinforcing our category capabilities in several transversal functions, such as digital, commercial and revenue manager.

And last but not least, we can count on lasting new consumer trends, such as up-trading and mixology.

At the same time, we expect a strong, very strong organic sales growth for the year in the rest of the world, including China, where we forecast for next year, major sales gains. Second, EMEA and rest of Asia that should generate very good performance. And third, of course, Travel Retail that should reach this year pre-COVID level.

Slide number 13. Against this backdrop, the Group expects worldwide sales to remain overall globally stable on an organic basis, I repeat, organic basis to 20 – in ’22-’24, with a strong decline in sales in the first half, reflecting essentially a very strong fall in the US and high base of comparison.

And second point is stronger recovery top line in the second half, driven by a sharp rebound in the US starting from Q3.

Meanwhile, at the same time, Rémy Cointreau intends to confirm its level of profitability based on: first, a continued rollout of our value-driven strategy built on a firm, clear 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; and fourth, a tight control over overhead costs.

Thank you for your attention. Now, I will be more than happy to answer to the question you might have.

Questions and Answers

Operator: Thank you. If you would like to ask a question, please press star one on your telephone keypad. To withdraw your question from the queue, it's star two. But again, please press star one to ask a question. We will take the first question from Laurence Whyatt from Barclays. Please go ahead.

Laurence Whyatt (Barclays): Morning, Luca. Thanks very much for the questions. Two relatively short-term ones from me and one a bit longer term. Firstly, just looking at Q1 next year, you've given an expected shape for the US in cognac. Would you expect Q1 to be more negative than this Q4 number that you've given organically? Or do you expect a sequential improvement going into Q1?

And secondly, on China with the exit rate of around 700% in March, obviously, that's very positive. What sort of level of growth would you expect in Q1? You're obviously comping that East Coast locked down? So I think the comp was around negative high-single digit in Q1 last year. So just give us an indication of what sort of level of growth you would be expecting in Q1 in China.

And then finally, just much longer term, China has sort of become a much more important part of the Group versus the USA as we sort of look at the numbers versus 2019 and 2020 last - the last few years. CLUB is much more expensive than VSOP that you sell in China versus the US and you've got much higher digital penetration in China. Could you quantify the margin difference between China and the US today? Or perhaps give us an indication of how much of the marginal uplift in 2030 do you expect to come from this mix effect between China and the US? Thank you very much.

Luca Marotta: Thank you for your question. So let's start with the short-term. Q1 at Group level will be negative. Inside these overall figures, the only region that will be, or important that would be negative will be the US. So you have a negative performance of the US, in which the sell-in will be the consequence of the rid of depletions. So no push, only pull. Because if you analyse the second quarter – the third and fourth quarter of this year, you can see that we already decrease very much the sell-in, so clearly in pull mode, not in a push mode.

So the sharper normalisation we are experiencing is driving ourselves lower the sell-in accordingly. The level of sell-in, so it will be the consequence of the depletions expectation and reality. We estimate at this stage that the decline will be very visible in terms of US and the Q1 and bigger than what we experienced and clearly in the Q4. But overall, all other region in Q1 will be performing positively from high-single to very strong double-digit, in a very strong double-digit, so clearly some Asian countries like China are part of them.

So the region continued to be the same path or the same track that we experienced in the Q4 for the growing countries; and in the US, in the short term, will be a little bit harder than in Q4.

In terms of rebalancing the year, I insist Q1 is only very small element. We have to look at the overall the year. ’23-’24 will be a year, which is unbalanced in terms of region performance will be in balance in terms of timing, which is something quite new for the Group.

We have the evidence to start very, very strongly and to decline a bit in this third and fourth quarter. Will be the opposite, which is also something quite not bad in terms of financial balancing, because having more balanced semester is something positive as well.

And the underlying element for the US will be visible starting from the Q3, once again, I repeat, according to the rhythm of the depletion, because the sell-in will be only the consequence of the depletion performance.

In terms of over times what will happen China taking in the next two to three years more share in terms of mathematical impact from the US will be accretive for the Group, because today the difference that we experienced in bottom line or everything including between US and China has been highly reduced in the last two to three years. So there's still a small difference but we don't have to model – modelized a reduction on the Group profitability in the future year because China is ramping back quite the same or, if I may, maybe the opposite. Because the direct to client which we are exposed in China is still very, very important, will be much too important than what we have in the US. And e-commerce and also other forms of direct to client like boutiques and direct relation with the clients will bring – drives more profitability into our global account. So no threats on that point, quite flat or maybe probably an opportunity for that at Group level.

Laurence Whyatt: That's really clear. Thanks very much, Luca.

Operator: We will now take the next question from Edward Mundy from Jefferies. Please go ahead.

Edward Mundy (Jefferies): Morning, Luca. Thank you very much for showing the framework as to how you’re thinking about next year. I've got two questions, please. The first is, what gives you confidence that flattish organic sales and profits in fiscal ’24 is the floor? Could you perhaps talk through your assumptions a bit more detail? What's giving you that confidence to give this guidance at this early stage?

The second is coming back to the question around this very strong fall in the US. I mean, the previous question, you just mentioned that you're going to see a more normalised level of seasonality in the first quarter relative to history. I mean, when you look at the last two years, Q1 has been very, very strong, and it’s generating over a quarter of sales for the year, whereas it used to generate about 20%. And if you do even some back of the envelope math, that would imply, maybe Q1 being done about 30% or so. Is that roughly the right way to think about Q1 being done in that sort of magnitude?

And then third of all, just on the cognac category. There's been obviously quite a bit of debate and it came up on your luxury goods peers conference call recently around, whether pressures in the US just, call, structural? I'd love to get your two pennies worth on how you think about that debate, given the current demand slowdown in the US.

Luca Marotta: Thank you for the question. So our vision for ’22-’24 is that, overall, even if on an unbalanced way in terms of phasing and region performance, we are targeting a flat year in top line and bottom line. So what we are targeting now is stability of operating margin as a percentage of sales. And all the levers that we mentioned before in terms of gross margin improvement resumes for next year.

The fact that we reach the level of A&P that is very important to have work in A&Ps to dynamize our top line, our depletions. And an extremely cautious approach in terms of tight overheads is our self-confidence to be able to react to be flexible, to readjust in terms of correlation between bottom line and top line. Clearly, this is – the hypothesis is that we remain stable in top line and we have the same profitable bottom line. If we are doing better than that, we may – might reinvest something more.

We are doing a little bit less. We are cutting even more cost. So we are, at this stage, even if on the heels of very unbalanced quarter, very imbalanced semester, at the end, we are piloting our car or vehicle to be able to reach organically to this result. I repeat, organically, because as you noticed, it is not something which is important per se in terms of the business dynamics, that is in term important to be named for the EPS movement.

Forex is less accretive than was estimated some months ago. The €55 million to €60 million that was in part for this year now reduced to €40 million which is the effect of the deterioration some – on some currencies. Also the fact is you have the indirect element that we adjust the sell-in. So the generated profit in dollars is lower compared of what was expectation. And this deterioration in terms of rates, in terms of value time will apply also to next year.

It is very early to quantify that. I will be very precise in June. But you can start to mobilise both in top line as a conversion effect and in bottom line as a transaction effect, a negative impact, a diluted impact in our published results.

So organically it’s flat in top line. Organic is flat in bottom line for next year, means at this stage our expectation negative in top line and negative in bottom line at published level. To what extent? We’ll be more precise in one month. So only wait one month, you can do a calculation. It is not very huge. But it – we need to say that.

You were asking me for the phasing with the percentages. So you're – I give you a finger, you take me the arm. So I think you're quite good in math overall. So overall, it will be, at Group level, very strong double-digit decline at the end of Q1 on a small quarter compared to the year and also considering that we have a huge comparison. Once again, starting from the Q2, it's very important to understand that will be sequential improvement, including in the US.

But if I may, look beyond that. Everybody, look beyond. We peaked compared to three years ago. You have to look every quarter not to ask me every time because it's very important to understand that what – where we will stand at the end of every month quarter in a given region, brand compared to three years ago. We changed league.

And what I can say to you that even a more imbalanced and negative region all around ’22-’24, we are fighting. We do all what we can and we are targeting to be better than ’19-’20. So even at the lowest point of the mathematical performance in given region, we will be stronger and visibly better than ’19-’20.

What does it mean? Today we are two – more than two years in advance, two years in advance than compared to 10 years plan. So one year of stabilisation overall, even for more dynamics on much more important absolute value, you have to look at all this point. So it's not important to look at all in the short term, but to pause a bit and to make the calculation in terms of short term clearly, but the ratio we reach and the absolute value, the monumental cash flow and EBITDA we generated and we will generate compared to the year ago that will stand also next year. That's very important. Look beyond the horizon and first of ’22-’24 and any given quarters.

In terms of market, US market, it is quite a complex question because – I will try to answer in a very pragmatical way and I will get your question on the negative side. Let me imagine that I'm an analyst and negative orient of the title. So the question is, how can you explain your performance in the short-term in the US being slightly more negative than you expected?

So let's rank the different reason in our vision. Overall, the markets overall, Liqueurs & Spirits is much more promotional. Our peers, direct and indirect peers has more and more nervous there. So they are dragging down, down-trading a bit the market. We are seeing – we are not counting to follow them structural price decrease from some of the competitors. We don't want to decrease price.

The reputation of the brands is also composed and down by these kinds of things. You can't invest for years and then destroy, in our opinion, suddenly, because you have a very complicated quarter, [Foreign Language] in French.

Third, most structural, or at least in the short term, in some key states like California, tequila effectively is taking a little bit from cognac, which is bad for cognac, very good for Cointreau, because we are finger pointing now cognac in US. I understand. But we are reaching stellar result in Cointreau. So linked to Margarita should link also to tequila. So some – and sometimes of US whiskey, more in the mainstream category, which we are not because we are there with the single malt compared to cognac, but in the short term in our opinion, because cognac is a big boat. And little – it was more cyclical before that it is today.

And specifically, in some states some underperformance compared to some commercial dynamics of our competitors that we are not follow. So back to square one is a bit, and more specific in some key states.

Last but not least, it is something that refers to everybody, that the correlation between retail depletion and sell-in, it happened many, many times in the past. What has changed today is the drastic, the increased spike in interest rate, that also is frees a bit the capacity of wholesaler, as was shown also in your research some months ago, to carry on extra stock to be able to serve on the rebound because interest rates, the working capital requirements are indirectly costing more.

So I tried to give you a global answer, mixing some specific elements and generic one. One last thing, is a very long question but I think it’s very important. Please, in the US, we are really in a reverse analysis. We analyse depletion and we react with sell-in. So we are in a pull mode and not in push one.

So if we can see that giving you a moment in time we have a stock of five to six months is not because we invoice too much, is because in the short term, the depletion rhythm has been reduced. So that's why it's important to follow and not to panic in the next quarter – next two quarter, and targeting a sequential improvement. And that's the reason why Q1 for the US will be very, very negative.

Edward Mundy: Thank you very much.

Operator: The next question comes from Olivier Nicolai from Goldman Sachs. Please go ahead.

Olivier Nicolai (Goldman Sachs): Hi, good morning, Luca. A couple of questions, please. So just going back to the guidance of 2024. So you're expecting no organic sales growth, and therefore no organic EBIT growth either because of developing better ways and comps, etc. But could you comment perhaps on your assumption for the depletion for the sell-outs in the US and in China for the next 18 months? If you think that they still the same interest for the cognac category, or if you're seeing more competition from the likes of tequila or premium whiskey? And also if you could address the question about the health of core cognac drinker in the US in terms of disposable income? But a long first question.

Just second one very briefly, you still have a very strong balance sheet. Now what's the probability of seeing a new share buyback programme being announced concerning the stock valuation, which I'm sure you think is undervalued? Thank you.

Luca Marotta: Thank you so much. So yes, I will answer your point. ’22-‘24 so far, I repeat, very unbalanced between H1 down H2 strong but will be a year that we estimated at this stage overall as flat top and bottom organically. Published figures so far will be dragging down EBITDA performance. Forex will not be after three positive year a positive element next year, I repeat.

You’re right, depletions expectation for next year all around the year with some volatility between quarters. Starting with Americas and US, we are targeting overall, it's positive value depletions here. This is for the year with an acceleration, progressive acceleration from Q2 and positive lens underlying the trends starting clearly from Q3.

This is for US, and is clearly for cognac. For Liqueurs & Spirits, we are targeting to be a little more balanced inside US in terms of less up and downs.

APAC and China, very simple, hammering stronger double digit, top line, bottom line, depletion, e-commerce, whatever you call it. So the stock are very lean. If you want to try to find the negative elements, let's play the – as that we have to be ready to seize, to grab the opportunity, to take them because the rebound is strong like China is able to do. They are very dynamic.

I don't want even to imagine if all flights will be operational what will happen also travel retail. So maybe we are also underestimating so far. But then we have the execution issue because we have to follow because then you have to do operation on daily basis. We have to deliver containers. We have to be able to feed the demands.

So the issue is more on are we able to accompany to surf on this wave which is there or more than is there effectively another intelligent way may be an opportunity in China. There is. And we think that we are very, very well positioned to grab it. And our expectation is very strong double-digit top line, bottom line, everywhere.

Travel Retail, not only measure, is suppose, touching wood, would be back at least at the level of ’19-’20. So it correspond to the estimation we made three years ago, but it was not something totally it was a reason to achieve with a different environment, much more stable brands, much more investments and a more sustainable and long-lasting business model.

And if I may, touching wood again, our expectation are very strong also for EMEA, high-single overall, which is quite something positive in – I’m not saying expected, is little bit something more positive than we can estimate, not low single to mid-single to the old Europe. So we are we are targeting top line and depletions because the stock has very, very low here[?] of high single digits in EMEA.

Attention, the weight of the US makes that in terms of Cognac and versus Liqueurs & Spirits division split, next year will be different. So, Cognac so far in terms of the sell-in should be negative because the weight of the US, and Liqueurs & Spirits highly positive. In depletions, positive in all cases, but Cognac would be much less accretive in the last years compared to Liqueurs & spirits. It's much more something that could be considered like the Q4 performance in terms of division split.

Balance sheet, we will talk about that in one month, if you may, because this is still a sales conference and the auditors need also already to define their – to complete their mission and the accounts are not ready to be disclosed. For sure, we are very strong. Share buyback could be part of our way to give back a money and value to the shareholders. But also as you mentioned, the first source of capital allocation is increasing our strategic capabilities to feed the future growth. This is something you can say – I can say very easily.

You will see inside our accounts in one month that we continue to buy into stock on cognac, whiskies, brandy, aged liqueurs & spirits for the future. This is the first source of capital allocation. Then we have dividend, share buyback, maybe one day M&A, but I cannot say the share buyback will be the first priority for next year. But we'll talk more deeply of that during the June conference.

Olivier Nicolai: Thank you. Thank you, Luca. Just on the first question, is it fair therefore, to say that your depletion for full year '24 should be therefore ahead of sell-in, which is measured by your organic sales growth of flat for the year, right?

Luca Marotta: Yes. The aim is that, mathematically, that overall, at Group level, we'll destock, if you want to put it very easy, because it's not – it was not our will. But the consequence is, at the end of March, we are more stock than what we thought in the US. The way currently in US as an important way. So if top line is zero next year overall, debt depletions they'll be running far better than that. Overall, don't make the calculation, but I think it could be high-single to even low double in value.

Olivier Nicolai: Yeah. Thank you very much.

Luca Marotta: Not in volume.

Operator: We will now take the next question from Simon Hales from Citi. Please go ahead.

Simon Hales (Citi): Thanks, Luca. Morning. Just a couple really for me. Just firstly, just coming back to your near-term guidance, Luka. Just for the current fiscal year fiscal '23, you're obviously saying you expect a strong operating profit growth. Just so we get the base right, does that mean you're comfortable with where consensus is with 13-14% organic EBIT growth for the current fiscal year?

And then secondly, just coming back on US cognac, I just want to be sort of clear in terms of the H1. So the trend that you're really confirming – you're not assuming any slowdown in consumer depletions in the first half, but VSOP plus and XO market in the US. And then all of the weakness that you'll see in your organic sales deliveries just really a result of the destocking and normalisation of consumer uptake on VSOP.

And then finally, I just wonder if you could just talk a little bit more generally about your pricing plans for 2024. Have you announced any pricing increases yet on cognac? When should we expect to hear more on that?

Luca Marotta: Thank you, Simon. I know you want to avoid any mistake on the short term. Top line for '22-'23 is known[?]. Bottom line, I'm very confident with the consensus, i.e., maybe we will do a little bit better, a little bit for '22-'23. So lot of serenity on profitability for the year, very strong one. That's the reason why also because we can consider that the stability next year is capitalising on a very huge pyramid of profits, both in value and in terms of ratio.

Cognac depletions in the short term, it is at the end a bit of crystal ball, but we expect that there will be some dynamism in the coming weeks, already now. What we will witness inside our estimation accounts end of Q1, Q2 will be difficult to acknowledge. But even if there is slightly better than that, we will not adjust our estimation for the Q1 because we need to be – to destock a bit compared to the – what we have at the end of March.

So it doesn't change the vision of the Q1 in the US that will be very, very strongly negative in terms of sell-in.

Price for next year, yes, we are taking price. We are not following the ideas of decreasing prices because when you decrease prices, then it's very complicated for your brands and deck[?]. We are not following a huge promotional waves of inventions. We are quite – we are taking the ifs, if you want, and we increase prices. In the US will be more on the low single with some exception on the highest part of our portfolio, XO, Louis XIII, which is more mid to high single digit increase.

China is clearly more mid to high. And Europe is mid to high. So Europe, I insist on that, it is quite dynamic, even more than expected in value, and for some brands also in volume. So it is something that will be visible and accretive to the Group performance.

We are taking prices. We have not – the short momentum is not showing up and determining the change of attitude because we have important difficulties in the Q1, in the H1. We are taking price increase even in the US.

Simon Hales: Got it. That's really helpful. So just on that US cognac outlook, you're not assuming any change in consumer uptake trends or consumer behaviour, I should say, with regards to your higher end marks as we move into the next – into 2024. You still expect the high end to be resilient. It's all about destocking and VSOP being weak?

Luca Marotta: Yes, we do not expect any change, if change means downgrading and negative. We are operating to improve it even more. On-trade tickets is improving big time, and it already visible even more in the Liqueurs & Spirits. So we are operating to obtain the reverse effect, the positive one. No downgraded at weighted or observed.

Simon Hales: Brilliant. Thanks, Luca.

Operator: We will now take the next question from Trevor Stirling from Bernstein. Please go ahead.

Trevor Stirling (Bernstein): Hi, Luca. Good morning. Two questions on my side, Luca. One, I think you said that stocks at the end in the US are about five to six months. Would you – in ideal world, would you like that to have around two or two to three. So what would be your target inventory level in the US?

And second question, and maybe this is a little bit naïve. Clearly, VSOP in the US is week, which frees up liquid. Can you then use that liquid and age it and use it for CLUB in China and 1738? Or is it a separate liquid that you use or separate eaux-de-vie that is used for CLUB and for 1738?

Luca Marotta: Thank you, Trevor. So it was five to six – it is five to six. Clearly, on the observational depletion, they're quite depressed now and certainly this number changed becomes two or three being the same at absolute value is the rhythm is improving. But having said that because it's a little bit tautological.

What is the ideal number? It depends on the state but let me say, three, 3.5 something maximum for the ideal number is at.

Trevor Stirling: Thank you.

Luca Marotta: And how much is today, the overall, to give you a figure which is very interesting for everybody. An overall measure of a month of stocking considering the footprint, it is around €40 million. So this is the magnitude of the impact of sell-in, if you will want to increase or decrease the stock, around €40 million, which is the magnitude of the impact.

Yes, we can marry, not me or you, but the – for 1738 and VSOP. We can marry the different eaux-de-vie to have a flexible approach, less VSOP, it has CLUB. There are some times than some other – for the marriage to achieve this group. But they are not frozen. There are some flexibility.

Trevor Stirling: Brilliant. Thank you very much, Luca.

Operator: We will take the last question from Mitch Collett from Deutsche Bank. Please go ahead.

Mitch Collett (Deutsche Bank): Morning, Luca. I've got two questions. On the US in on-trade point, is it being five to six months of sales. Can you just clarify on what the sales base you're calculating that? Because clearly, if depletions continued to decline, that five to six months would be slightly higher.

And then the second question is on China, where you said that e-commerce, I think if I've understood this correctly, is now 50% of China sales? And how does that affect the economics of your China business? And how would you expect that percentage to change as China returns to more normal consumption? Thank you.

Luca Marotta: Yeah, you said three questions.

Mitch Collett: No, sorry, I said two.

Luca Marotta: It's okay. Okay, I take this two. So five, six months is the coverage considering not our sell-in but our expected value depletions level. Today being the depletion level negative clearly is increasing the result because the point of reference is depressed. So if you – in a while you increase, you put at zero, the five, six, clearly reduce the same – for the same absolute values 0.5, 0.6 and so on.

So to answer your question, we are based on the observation of a depressed depletion. So it is not a calculation making on a theoretical sell-in level consider the depletions are not moving. So it's a dynamic look-forward calculation. That's the reason why this kind of indication is important to be exchanged with you. It gives the measure, the temperature of the market, that is not some something which never changed, because an oscillation of plus 10 or plus 20 modification change dramatically all the figures.

It is based on expectation of depletion. Five to six so is quite high because depletion is functionally quite depressed. Becomes, as I said, 4.5 to 5 if you put it the zero or plus 10. And we are targeting only ’22-’24, a positive year, not a positive single quarter year, but a positive year overall in terms of value depletions in cognac in the US.

E-commerce China 50% was the weight of the Q4. The offset – is offset a bit on-trade weakness. The normative weight between, according to quarters between 30, 35 to 18, 20. The more you are in Mid-Autumn festival in Chinese New Year, the less you have e-commerce. But overall, we are increasing and growing in e-commerce, more than the average we are improving so the share of e-commerce and is something which is positive for the bottom line for the profitability of China at Group level. Even before counting the CRM, consumer wins we are getting.

Today, around 25-30% of our sales are direct in China. So overall, it's a patrimony of resources of knowledge that we don't have in other parts of the world. It's potentially also one of the reason why we think they are well positioned compared to some peers to – an ability to grab the opportunity that are visible now.

Mitch Collett: Thank you. And I will ask a follow up that's unrelated if that's okay. I know it's only a sales call. But are you able to give any colour on what you'd expect in terms of FX impacts for F’24?

Luca Marotta: It's – sorry, it's not – what I expect in the FX?

Mitch Collett: Yeah. For ’24?

Luca Marotta: Yes, at this stage, I can give you a specific number because still working on them. I will be very precise, as usual. In our estimation, in the beginning of June, when we have the yearly result, you will have a negative conversion impact on top line, and you will have a negative impact on forex on operating profits.

So to what extent? I don't know. I think this is lower than €40 million. This year we have plus €40 million. There will be a negative one, but far less than €40 million. But clear official figure will be disclosed 31st May and 1st June.

Mitch Collett: Understood. Thank you, Luca.

Operator: That will conclude the question-and-answer session. I will now hand back over to Mr Marotta for closing remarks.

Luca Marotta: So thank you so much for being with us today with a quite an unusual conference call because we get out of the line in a way giving you some hint that we are not be able to do. It – don't get used to it, I repeat. It's quite an exceptional way because we understand that we are in a moment that needs to be explained.

So I will say you goodbye with four key points to highlight. First, very strong ’22-’23 year for the Group in top line, and as you will see in one month in terms of results. And well, well ahead of our ten-year journey 2030 plan in terms of trajectory, in terms of ratios, but even more in terms of absolute value.

Second point, ’22-24 will be a more moderate year, flat overall in top line and flat overall in bottom line organically, but with an unbalanced regional performance, plus-plus China GTR[?] plus in other areas of the world, negative for USA normalisation with a gradual improvement sequential, but overall with[?] the year would be negative. And second point, an unbalanced and unusual phasing with a very low H1 and a very strong H2, top line and bottom line.

This leads to the third point, it's struggle but we are – we think we are the winners of the pre/post pandemic period. And now after the reduce spike, we are, on a short term, slightly declining normalising and you can see we are doing that deeper than our peers.

If you compare to ’19-’20 we still remain better than our peers, and bigger than ’19-’20. So it's not declining quarter, even sharper maybe than expected, part of that you can say more than sharper that will change this kind of judgement. We are playing in another league, but in the ratio, reputation thing and profitability and absolute value. This is very important thing to retain. Compare not only the short terms that Rémy Cointreau what it used to be in qualitative and quantitative element and value in ’19-‘20.

Thank you so much. Have a nice day and see you and talk to you in one month for the yearly result. Bye-bye. Ciao, ciao.

Operator: Thank you that will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]