Rémy Cointreau H1 2023-24 Results

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Operator: Hello, and welcome to the Rémy Cointreau H1 2023-2024 results call. My name is Laura, and I will 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. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on the telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator. I will now hand you over to your host, Marie-Amélie de Leusse, Chairwoman, to begin today's conference. Thank you.

Marie-Amélie de Leusse: Good morning, everyone, and thank you for being with us this morning for Rémy Cointreau's first half results.

I'm here with Eric Vallat, CEO, and Luca Marotta, CFO. Both of them will of course take you through the detailed results, but before starting, I would like to take a step back to give you a wider view about the headwinds we, and our industry, are facing.

Despite such a context, our Group remains confident with its long-term strategy, while navigating the year as best as possible. That means, first, focusing on bringing our Cognac stocks in the United States back to a healthier footing, and, second, absorbing the effects of the normalisation to head into next fiscal year in the best possible conditions. We aim to be back on the trajectory we've set for 2029-30 as quickly as we can.

Beyond the short term, I know that we can rely on very solid foundations. They are even stronger than in previous times, and I absolutely remain confident in our ability to get through this.

We will achieve this thanks to the strength of our business model, the attractiveness of our brands, a relevant strategy and a Liqueurs & Spirits division that is now ramping up. We can also rely on a stronger balance sheet than in the past.

Today our strength lies in our ability to maintain a long-term vision. Rémy Cointreau is founded on brands that are centuries-old (almost 300-years for Rémy Martin), and all of which have a unique heritage, recognised know-how and quality, in other words, brands that have withstood the test of time.

Being well ahead of our long-term strategic plan today is one more factor that allows me to reconfirm our medium-term objectives with confidence.

I will now let Eric take you through the H1 business review.

Eric, the floor is yours!

Eric Vallat: Thank Marie-Amélie. I will now propose you some more French accent. Good morning, everyone. Thank you for joining us today. I'll begin with a quick overview of H1 2023-24. Luca will then detail our financial results, and I will conclude by giving you an update of the group situation and the outlook as usual.

I am now, as you can see, on slide five. As you've seen from the Press release this morning, H1 results are roughly in line with our expectations bottom line despite a sharp decrease in sales. Back in October, you saw our sale numbers. As a reminder, we talked about -22.2% in organic terms.

In terms of profitability, Current Operating Profit stood at €169 million, down 43.0% on an organic basis, which means up 16.1% compared to H1 2019-2020, leading to a current operating margin of 26.6%, down 9.8 pts on an organic basis.

Beyond, high comparatives (as a reminder the Group recorded in H1 2022-23 the equivalent of 12 months of COP), this deterioration reflects:

Obviously, the sharp decline in sales;

A solid resilience of the gross margin which was up 0.3 pts organically;

While we continued to invest in A&P which grew 6.5% organically;

And we showed a strict control of our costs (down 5.2%). As part of the €100 million of savings that we are targeting for the year, we did already €25 million, which Luca will detail in the coming slides.

I am now moving to slide six, which gives me the opportunity to remind you very briefly our H1 sales numbers by division.

Cognac which represented in H1 65% of our sales was down 30.1% organically versus Last Year.

Liqueurs & Spirits which contributed to 33% of our sales were flat versus last year.

And lastly, our Partner Brands (2% of Group Sales) were down 3.2%.

On slide 7 now, just a word on the regions. The slide shows that total performance was mostly impacted by the Americas while the rest of the world showed strong trends.

Americas declined by almost 50%, and you know already the main reasons,

APAC posted a strong growth of 16.6%.

Finally, EMEA was up 8.5% organically.

Let’s now focus on the Cognac division profitability, whose key figures are summarised on slide eight.

Current operating profit was down by 47.2% on an organic basis, which led to a decrease of the margin of 12 pts to 34.9% on a reported basis.

This breaks down into an organic decline of 11.5 points and a negative currency effect of 0.5.

The organic deterioration includes a good resilience of the Gross margin, which is up 0.2, mainly resulting from a positive Price-Mix effect of 2.1 pts which more than offset the negative impact of COGS inflation.

If the Group’s value-driven strategy helped hold gross margin high, tight management of overheads only partially offset the fall in sales, combined with a rise in marketing and communication expenses.

Let us now have a look at the Liqueurs & Spirits profitability division, whose key figures are encapsulated in slide nine.

Current operating profit retreats by 3.5% on an organic basis, representing a margin of 14.7%, almost stable, as you can see.

This performance reflects a slight decrease organically, alongside a favorable currency effect of 0.3 pts.

This evolution includes a strong improvement of the gross margin of 2.5 pts as a result of a very positive price and mix effects alongside a slight negative effect linked to COGS inflation.

In the meantime, and as planned, we kept a sustained level of marketing and communication spend aiming at preparing future growth. The ratio is slightly up by 0.9 pts.

Finally, structural costs ratio was up 2.2 pts, as you can see on the slide.

Let me now give the mike to Luca who will take you through the more financial slides.

Luca Marotta: Thank you, Eric. Now let's move on to the detailed analysis of the financial statements and begin with the H1 income statement.

So, as already mentioned, organic Sales were down 22.2%, i.e., equal to up 20.9% versus four years ago, H1 19/20. On that basis, Gross Profits decreased by 21.9% in organic terms, implying a 30bps organic improvement in Gross Margin, i.e., a very sustained +4.5 pts on a four-year basis, reaching a new all-time high.

This performance reflects an unfavourable COGS evolution more than more than offset by a positive Price effect.

Sales and marketing expenses were up +6.2% in organic terms, reflecting our decision to keep a Long term vision by nurturing the brand equity despite a very tough current trading. Within this total we have to split:

A&P expenses grew +6.5% organically to reach 21.8% of sales (i.e., an organic increase of 6.9 pts on a four-year basis; so in this timeframe, four-year, we had a four times faster increase of A&P compared to the sales growth). Most of the spending comes from the "Above the line" part (i.e. classic media, digital and PR for around 60% of the total A&P, of which 55% were digital). As a consequence, more than 30% of our overall A&P spending is digital.

In parallel, Distribution Costs increased by 5.7% organically, mainly driven by China where we continue to expand our direct to client and retail channel. On a four-year basis, it corresponds to a very contained expansion of 11.4%.

Administrative expenses decreased sharply by 18.9% on an organic basis. This evolution reflects a series of optimisation on overhead costs in response to current economic conditions.

Overall, combined SG&A expenses in terms of optimisation will ramp-up in H2 as already said.

All in all, the Current Operating Profit was down -43.0% on an organic basis and down 47.0% on a reported basis, i.e., after taking into account a negative currency impact bottom line of €13.0 million. Beyond very high comparatives, this decline reflects a sharp decrease in sales, partially offset by a gross margin improvement and a reduction in overhead costs. If you compare to four years ago, Operating Profit is up +16.1%.

COP Margin stood at 26.6%, down at 9.8 pts on an organic basis versus last year and down -1.1 pts versus four years ago.

Now let's move to the analysis of the Group's Current Operating Margin, page 12.

It was down reported of 10.3 pts, reaching 26.6%.

This breaks down into an organic decrease of 9.8 pts and a negative currency effect of 0.4 pts.

The organic deterioration of the Current Operating Margin basically reflects an improvement of the Gross Margin, reinvested into A&P and a solid control of our Distribution & Structure costs in absolute value.

In more details:

Gross Margin was up, as said, +0.3 pts. Thanks to the Price increases we passed last April and that more than offset the negative impact of inflation on COGS. As you can see on the slide, the spreadsheet, the Mix effect was Neutral in the period as a consequence of the strong underperformance of Cognac versus Liqueurs and Spirits division.

Second important point, A&P ratio which increased by 5.9 pts. The strong increase of the A&P ratio reflects obviously the sharp decrease in sales as well as an increase in absolute value of the A&P mostly driven by three factors: China to support depletions around Mid-Autumn Festival; second, sales recovery in the Travel Retail channel; and third, last but not least, a sustained level of investment compared to the top line in the US to support depletions improvement journey.

Third point, the ratio of Distribution/Structure costs was up 4.2 pts, but down €8.7 million in absolute value, reflecting an excellent control of our costs basis in a very short period of time to mitigate the effect of the strong sales decrease.

Overall, this around 10 pts margin deterioration reflects the sharp decrease in sales which is partially offset by some cost savings for around €25 million in the six months, part of the 100 on the one-year basis of which 45% on the semester are one-off savings and 55%, so more than half, are structural savings; so they will remain, they will stand, they will last. We achieved it in a relative short period of time. We can split this optimisation in terms of nature on manufacturing, industrial, logistic costs (representing 50% of total savings) and the overhead costs (for the remaining 50%). In parallel, only in H1, would be different in H2, no savings have been implemented on A&P.

So, slide number 13. Let's take a look of the remaining part of the income statement. Slide 13.

In H1 2023-24, the operating profit, as you can see, did not include any other non-current expenses.

In parallel, financial charges increased as expected, as guided, from €5.1 million to €15.7 million. I will detail them in next slides.

Reported tax rate decreased from 28.0% Last Year to 26.6%, reflecting essentially the positive evolution of the geographical mix.

At this stage, we continue to expect Full Year tax rate to remain stable even slightly down versus Last Year, even slightly down, at 27% to maximum 28%. So far, this is the guidance for the Full Year.

As a result, Net Profit Group Share came in at €113.0 million, down 49.5% on a reported basis, i.e., a net margin of 17.7%, down 8.1 pts on a reported basis.

Reported EPS on the period, on the six months, came out at €2.24, down symmetric figure, -49.1% on a reported basis.

In a nutshell, net profit in absolute value is far better than four years ago as you can see on the slide.

Slide 14, Free Cash Flow generation and the Net Debt evolution on slide 14. Free Cash Flow was negative at -€99.0 million in H1 23/24 compared to +€16.6 million Last Year, i.e., a negative variance of €115.6 million.

This evolution reflects clearly a sharp decrease of the Ebitda which was partially offset by two major elements:

First element, a decrease of the other working capital items outflows (a positive cash effect in variance of +€40.7 million) because while the working capital outflow at the same time related to EdV and spirits in ageing process was slightly up, so negative variance in cash of €2.9 million.

In a nutshell, the overall working capital evolution reflects:

A lower increase of our stocks compared to H1 22/23, still an increase by the lower fees in terms of the finished goods, Cognac EdV, aged liquids out of Cognac and raw materials/packaging elements.

And a decrease positive cash elements of account receivables for €17.0 million compared to Last Year.

Second element of free cash flow, a decrease of €15.4 million of the tax outflow, reflecting a lower level of the expected profit.

On top of these two components, Capex outflow was up reflecting the strategic purpose of the cash allocation of the company for a €14.1 million and financial expenses cash out on cash basis up €9.2 million.

This was the free cash flow. In parallel, Other cash flow inflow strongly increased by €56.7 million. This was largely driven by the absence of share buyback in H1 compared to Last Year as well as a higher level of early redemption of the existing OCEANE convertible bonds (€50.8 million in H1 this year versus €42.3 million in H1 22/23).

As a result, at the end of September 2023, our net financial debt stood at €590.5 million, up by €242.2 million from September Last Year. Consequently, A ratio is up from 0.65x in H1 22/23 to 1.57x in H1 23/24, still remaining on the lower side compared to our peers.

Slide 15, that's it. Some interesting comment, I think, I guess, on Net Financial expenses on page 15, which were a charge of €15.7 million this year, H1 23/24, up from a €5.1 million charge Last Year.

Net debt servicing costs were up in absolute value, reflecting a context of rising interest rates, including the recent, very recent, €380 million private bond placement with an average of ten-year maturity at 5.58% of global weighted interest rate, as well as the use of more credit lines to finance our short-term cash needs on a monthly basis. As a consequence, our cost of debt was up from 1.25% Last Year to almost 3%: 2.97%.

But it was the semester. For the year, we expect our financial charges to more than double this year. Since the last Full Year publication, we have completed the private bond placement, which is now booked in our financial charges prorata temporis. So, as a consequence, on increase of the maturity in terms of resources, at the expense of the increased yearly charges.

Net currency decreased again from 1.4 million Last Year to a loss, to -1.4 million this year, so a net difference of 2.8. These charges are related to the hedge of intra-financing elements not related to the commercial flows of the period.

Last but not least, other financial expenses stood at $2.6 million in H1 23/24.

Now let’s move on to the overview of the balance sheet, with total assets/Liabilities of €3.54 billion, up more or less 400 million, €399 million, compared to H1 Last Year.

On the assets side, on the left side, global inventory increased by around €200 million, €191 million, to €1.84 billion due to the purchase of young eau-de-vie as well as an increase of our level of inventories in the current context. Inventories global stock, internal stock, account for 52% of total assets, stable, in terms of weight, versus Last Year.

And on the liabilities side, the right side, Shareholders’ Equity is up by €38 million, mainly driven by the strong progression of the Net income and the early redemption of the OCEANE. This has been partially offset by the payment of the cash dividend, clearly.

And Net gearing, so the indicators (net-debt-to-equity ratio) was up over the period, from 20% to 33% reflecting the increase of our financial debt.

So, now I will pass the mic to Eric, again, in slide number 18.

Eric Vallat: Thank you Luca. I am indeed moving on to slide 18.

It will be no surprise to you that the outlook gives me the opportunity to confirm once more our value strategy and our ambition to become the leader in exceptional spirits. This is not a denial of the environment which is currently very challenging. But it is a fact that most of the headwinds are cyclical. This is a point I will elaborate on, in a focus on the US, which I believe you expect in the context.

More importantly, the current headwinds do not question our value strategy based on the belief that traceability and a strong link to terroir play a key role in the desirability of our brands in the long run while driving potential scarcity, of course. The future remains about drinking better, not more; a long-lasting trend that is moving back this year but that has not disappeared.

Which is why we are staying the course and holding on prices. This is not helping short term, but this contributes to reinforce brand equity and this will help emerge stronger.

Slide 19 now. We are driven by a vision that is unchanged. I consider it a good news as it is probably easier to anticipate the next 10 years than the next 6 months.

But being long term can only work if you manage short-term challenges properly.

Holding prices is reinforcing brand equity and preserving our gross margins, but it has a short-term negative impact on our volumes and sales.

This is why we have worked on an ambitious savings plan which I will detail in the coming slide.

And more importantly, we have launched a sales boost plan, working on four main levers.

The first lever focuses on the awareness and the desirability of our brands in our key markets. There is a lot going on, as we can roll-out a very rich content developed in the past months. To quote a few examples: our collaboration with Usher in the US has given birth to a third campaign called Life is a Melody. And guess what, Usher will take over the Super Bowl halftime show in

2024. We are also hosting events all around the world to launch Louis XIII Rare Cask III. And, still in the US, we just launched in October our new Cointreau campaign Keep it Cosmo.

The second lever is innovation. To drive premiumisation and to boost sales. The innovation pipeline for Q3 and Q4 this year is the densest ever. To be honest, I have prepared a slide first with the pictures of the products full page, but the page was not nice, but there’s a lot coming. The Botanist will leverage its know-how in Islay and will launch a unique proposition with rested and aged liquid. Meanwhile, Mount Gay is launching a single estate rum, with the cane from the plantation in Barbados where it all started more than 300 years ago, pioneering a new approach to rum.

The third lever refers to distribution. Distribution in spirits has pros and cons. Let’s leverage the pros and among them the many channels that can be activated.

Starting with GTR of course. And ecommerce as well. We just consolidated the results on D11 in China. While it looks like the results overall were not that great, we managed on our side to grow double digit versus Last Year and exceed our target.

Beyond ecommerce, we keep expanding on DtoC, particularly with Louis XIII. We will now start to open stores on a franchise model with a partner who works with the best watch makers in China. An opportunity to address Tier 2 and Tier 3 cities, but also a great recognition of the unique status of the brand.

In a more challenging environment, we are also investigating more proactively channels like BtoB whose potential for some of our brands is material and On-Trade in the countries where we still see the recovery, two channels where we cannot pride ourselves of being leaders today.

Last but not least, we have launched a number of Blitz projects, first to accelerate portfolio management and the expansion of non-cognac brands, and second to support VSOP but I will get back to it when speaking of the US.

So, moving on to slide 20, now. Beyond stimulating our sales performance, which I just referred to, we have decided to mitigate the impact of these short-term headwinds with a very pragmatic approach on costs.

As mentioned during Q2 sales, we are going to reduce our cost base by around €100 million of which €25 million were already achieved in H1.

Let me be perfectly clear on this point. Through this reduction, there is no question of jeopardising future growth. To the contrary, after three years of exceptional growth, the objective here is to question ourselves, step back, and look at what can be optimised in our way of operating. This corresponds to what we call “structural savings” (40% of the total savings). In addition, some quick and temporary gains can be done, this is what we call the “one-off” savings, which account for something like 60% of the total.

Starting with the A&P that will represent around 50% of the total. And this includes:

First, One-off savings, spread across the globe (mainly in the Cognac division) with, of course, a bit more emphasis on the US market. Here, the objective is to protect Below-The-Line spends and to be more selective on Above-The-Line spends

Second, Structural savings mostly linked to the non-renewal of the Superbowl which corresponded to, at the time, an investment opportunity made in a context of exceptional growth and profitability that year.

Regarding overheads, this includes 20% of manufacturing savings and 30% of pure overheads' optimisation:

One-off savings only encapsulate overheads savings linked to variable compensation benefits

Structural savings integrate both optimisation of the industrial and logistic costs and some savings in pure overhead costs.

Let us now focus on slide 21 in the US and more particularly on Rémy Martin as the rest of the portfolio is resisting much better, comforting us on our decision years ago to accelerate on non-cognac brands.

I am on slide 21, as I said, and I would like to start by our view on what is happening there with our cognacs.

First, tequila has been cannibalising cognac. No doubt. But less and less so Tequila growth is now normalizing, particularly on the high-end.

And this is not the first time that a category is taking share from cognac, nor the last, for sure. Cognac is timeless and always comes back.

Second, normalisation. Normalisation is structural in essence and we expected it. But it is amplified by inflation which led to a more promotional environment while we have been holding on prices and while we have little to propose below $40-$50 range. There is no downgrade from VSOP in our Rémy Martin offer. This has been driving depletions down.

Third, this is of course amplified by the three-tier system, the cash tensions within the trade and our will to destock.

The chart on the upper right shows our estimate of the weight of each factor in our downward trend, comparing to a record year.

Meanwhile, has the desirability of Cognac and that of Rémy Martin weakened? No, if I refer to the feedback I get from the market, and I do a lot of market visits, and I was in the US not so long ago, in Texas and in New York, and could speak to a lot of people in the field.

And also no, if I refer to the surveys we make with partners like Ipsos, in France, which are very, let's say, independent, of course. When talking about share of heart, Cognac remains in the top five categories in the US, and Rémy Martin is now number two versus number three in desirability in 2020. So, we've made good progress, which is normal as we have invested way more than we had in the past.

I am now moving to slide 22. As you can see, the consumers of Rémy Martin are well balanced. It's interesting to note, by the way, the growth of the Hispanics as a result of our efforts in the past few years, and thanks to 1738 also which is a more multicultural. But let us be honest, VSOP is more exposed to Black/African American communities who are more impacted by inflation. Consequently, it is also our product which is the most exposed to price war.

Is it a bad thing from a strategic standpoint? No. No, because the growth of VSOP was not sustainable from a sourcing standpoint in the long run, and no because it is less profitable than

the rest of the range. Plus, this year, results show that this SKU is not the most strategic in our quest for value.

Is it good news? No. Neither. The loss, while mostly cyclical, or cyclical, is too much. We must support VSOP to protect our share on shelf and share on cash, and to preserve our ability to keep on investing in the future in our upper grades.

Moving on to slide 23. Of course, as I said, you will not be surprised by our priorities consequently. 1738, XO, and Louis XIII remain our top priorities, and we will keep activating them with more than 500 events in H2, a record ever the number of events.

But we will also support VSOP by including it more systematically in ATL – above-the-line and below-the-line campaigns. There is a lot more plans, of course, on VSOP, and I will be happy to address questions on the topic should there be.

And, of course, we will smartly promote VSOP as well during OND – October, November, and December period, like we do every year.

I just want to insist here as some of you might be surprised by pricing in some stores in the US, but this is business as usual, not more, and more than 80% of our OND promotions are trade-driven to drive velocity. They are not, for 80% of them, consumer-facing.

We stay the course on pricing, we do not reprice our products, but we are not crazy either, and we play by the rules during key periods of the year.

Moving on to slide 24 and 25. By the way, I will conclude, and I would like to reconfirm the guidance that we updated end of October.

I will not detail the underlying assumptions that you already know, but basically, for this year, we expect to record:

A decline between 15% to 20% in sales on an organic basis,

A contained organic decrease in COP margin, including a resilient gross margin and a selective reduction of A&P, mostly in Cognac, as you have understood.

To do so, and based on what I’ve just presented, we will be strongly focused on:

Supporting sell-out and depletions growth,

Maintaining a strict pricing policy,

Selecting A&P that drive impact, leveraging Below-The-Line and digital to drive volumes, and

Implementing the 100 million cost-cutting plan.

In parallel, our four strategic priorities will remain, of course, a day-to-day focus. We aim at continuing to make progress throughout the ten-year plan, which is reconfirmed today.

One last word on slide 25, on our midterm targets. Rémy Cointreau is today well ahead of its strategic plan, and we have already achieved strong progress on gross margin and COP margin. We are convinced that our strategy is relevant, and our fundamentals are very strong. These give us all the confidence to reach our 2029-30 targets.

At the same time, and as already flagged by Luca, end of October, visibility over the next 12 months remains poor, and the growth equation is still uncertain for next year. While we maintain our guidance of high single digit growth in the medium term, 24/25 should be considered with

caution as the timing of the rebound is not known yet. So, it is more realistic for next year to anticipate a growth below high single digits as some important parameters are still pending. And these parameters include:

The impact of the geopolitical context on consumption, especially in EMEA;

The exact timing of the US recovery in terms of sell-out depletions and sell-in: is it H1 or H2? At this stage, it's not possible to answer this question.

The level of US stocks at end of March '24, which is strongly correlated to depletions recovery,

And finally, the pace of growth in China. Although the context is different of the US, the level of growth will be key to assess the global equation.

I now would like to thank you all for your attention, and we are now prepared and ready to take and answer your questions. Thank you.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question please press star one on your telephone keypad. And in the interest of time, we kindly ask you to limit yourself to two questions only. Thank you. We'll now take our first question from Edward Mundy at Jefferies. Your line is open. Please, go ahead.

Edward Mundy (Jefferies): Good morning, Eric, good morning, Luca. Thanks for the presentation. The first question really is – I mean, you start up pretty clearly that holding price helps to protect the brand equities and emerge stronger from the current situation. But I guess two parts; A, how do you think philosophically about a price reset on VSOP to bring it down to the below that $50 a bottle price? And I know that you cut VS back in 2009, so you have done it in the past. So, how do you think philosophically about a price reset? Number one.

And then, second of all, financially, what does it mean from a financial perspective? On the one hand, you'd probably get lower gross margins from[?] a cut, but on the other hand, it would serve to clear out the inventory and get a velocities moving again, so just a little bit of a discussion around that point.

And then the second question is really an update on China. I think you mentioned a quite good performance in November, but where are we on the destocking cycle in that fiscal Q3? And can you talk to any more underlying performance quarter to date?

Luca Marotta: Okay. Thank you, Ed. So, starting with the US and the potential price reset of VSOP. So, as you can imagine, this is not planned. We did a price reset in the past, in 2008-09[?], and it took us ten years to recover our proper pricing. So, again, we favour long term, and this is not what we are going to go for. Now, indeed, in a very promotional context, you could wonder about the velocity, and we do wonder as well. And I believe that velocity today is not solely a matter of pricing. It is, partly – I would like to tell you a bit more about what's behind VSOP.

As we explained, VSOP is the SKU that is the most exposed to Black Afro-American clientele, and that is the most exposed to, let's say, lower purchasing power. So, it's the one which is the most affected. Does it mean that it should be reprised? I believe no. Does it mean that we

should activate the velocity and work on it? Yes. That is why we are, indeed, activating promotions currently in October, November, and December period, like we do every year, smartly, probably more smartly than previous years because we have some more intelligence there on the efficiency. And we do not refrain from this, and we do not consider it a contradiction with our pricing policy.

So, no repricing, but smart and active promotion. Obviously, in the current month, it takes time to be implemented, it is currently being implemented, and we do expect it to contribute to velocity. It will not impact the gross margin as it is compared to what we are doing every single year. It is part of the business as usual, obviously. Now, activation is not only a matter of price promotion, and I would like to insist there are many levels to activate VSOP. And there are even more levels, as we have not activated it in the past three years, as much as we are in the process of doing it today. So, I'll just give you a few examples of what we can do. Take Illinois, Michigan, Ohio, which are states where price sensitivity is more, we are working with quite a refined level on activating the smaller formats. And, of course, this is where also we focus more on promotions.

Take Florida, California, Texas. It's interesting to see that the Hispanics, for instance, have been growing in the share of our clients, thanks to 1738. But this opens the door also to VSOP, and VSOP is now included in our targeted Hispanic campaigns, which it was not before. Take another example, Usher. Usher is very relevant for the Black Afro-American clientele, and we are lucky enough to have Usher chosen for the halftime show. You can imagine we are going to activate this as well. But there are many other examples – on-trade. On-trade, we are now activating a plan on on-trade, where VSOP is a fantastic liquid for cocktails for instance.

Last but not least, we now have 50 ambassadors in the US, which is way more than what we had in the past. These ambassadors, they are part of these 500 events we are speaking about, testing, activations, trainings, and so on, and these ambassadors have now, in their priorities, to activate the VSOP, which was not the case in the past years and the past month. It's also in the top five priorities for our wholesalers, because, as we said, it's not a long-term priority, but it is a short-term priority to protect our volumes. So, I hope this answers your question. I've been a bit long, sorry.

And second, on China, and I'll be shorter here. If you ask me about the business, so let's say the depletions, October and November have been very good, particularly October, very strong growth of depletions. To be honest, partly inflated by the fact that Mid-Autumn Festival was three weeks later, so, obviously, this has helped, and so it is not a constant perimeter, let's say. But it's interesting to see that sales have been picking up and picking up very fast. Still, you can expect a sharp distorting in Q3. Because of the trust of the trade, we did very good sales during Mid-Autumn Festival. Sell-out was not as good, and we want to keep a healthy level of stocks. So, you can expect a strong down trading in Q3 before recovery in Q4. This down trading is also linked to the fact that there are some cash tensions also in China with the wholesalers.

One element important to add on the gross margin question, which was related to VSOP, but I think it's[?] important to give you some additional elements for the H2. As I highlighted, the H1 results are positively influenced by €25 million savings, of which, more or less half of that are industrial manufacturers. So, they are playing a role, mathematically, on half a year of sales. So, without changing anything, because as Eric explained, the magnitude of the activation

in October, November, December of VSOP will not play a major role in gross margin is the fact that the savings that are accounting for the whole year are already done for the industrial[?] part in the first part of the year.

So, mechanically, everything equal to our plans, it is normal to consider the H2 gross margin at group level will not be improved, it will be slightly down, for a year that we remain very resilient in gross margin. But it will not be – to be considered as a consequence of this kind of activation, which are quite comparable, is the fact that the savings are already installed. It plays a mathematical role which is more important, the H1. Sorry it was longer, but it is worth for the future explanation. And for your eventual question for the investigation. So, it's a mathematical reverse[?] that you have already the saving in H1 for essentially whole year.

Edward Mundy: Indeed. Great, thank you.

Operator: Thank you. We'll now take our next question from Olivier Nicolai at Goldman Sachs. Your line is open. Please, go ahead.

Olivier Nicolai (Goldman Sachs): Hi, good morning, Marie-Amélie, Eric, Luca, and Celia. Just two questions, please. Follow-up on the US, first of all, going back to the headwinds that the industry is facing, and that's what you showed on slide 21, could you perhaps give us a bit more detail on the availability[?] of Cognac in the US? What makes you think that the Cognac demand will bounce once that normalisation ends[?], do you see the discounting from your competitors, for instance, as damaging the whole category? And ultimately, do you really think that Cognac will become more than 7-8% of the total US spirits market? I will appreciate some details there.

And then secondly, just on slide 18, to become the global leader in exceptional spirits, obviously the Cognac is not the only premium category. So, could you remind us of your ambition in terms of M&A? Do you have any interest in getting more Scotch brands, tequila, champagne, and how would you be willing to finance those acquisitions? Is it debt[?], equity or both? Thank you.

Eric Vallat: Okay. Luca, you will answer the very last part of the second question and I will take the first two questions until there. So, the headwinds and what makes us believe that Cognac will bounce back, and the questions about discounting. So, the headwinds we have detailed in the slide, and maybe I can try and come back to the slide – I don't know if you still have the slide anyway, so, no. But basically, the headwinds, first we expected a normalisation. I think we were among the first groups to speak of normalisation, one year ago, and so this is something structural that is happening, that we expected. What we did not anticipate was the normalisation to be that harsh this year. And this is due to a number of factors, which we believe are, for most of them, cyclical.

As you have understood, to give you some more colour, we cannot deny the fact that tequila has been taking share from Cognac, but it is now normalising. Ready-to-drinks are also taking share from spirits in general, but probably less from cognacs. What is probably today impacting us the most is the promotional environment and the purchasing power, which is less this year. And what makes us feel that we will bounce back? First, we believe that these headwinds, as I said, are cyclical, and second, and I think it's important to remember, if we look at depletions versus four years ago, and even if we look at Cognac only in the US, depletions are +70%, if you exclude VSOP versus four years ago. One that is impacted is VSOP.

So, for me what it says, it's not the health of the brand, it's not the health of Cognac, it's the purchasing power of the VSOP clients that is impacted this year. That's why we need to smartly adapt to this, but this is it. So, once it should recover, we will start bouncing back, and bouncing back quickly. I believe the question is when, and this is harder to say, but no doubt there. Even more so, as, again, the brand desirability, the brand equity is strong. And I strongly believe that what we are doing with our pricing is even reinforcing the brand equity. When you're a client, and when you don't know at what price you should buy, when you see the price going up or down and doing like this, then you end up being a bit lost and you lose trust. So, I believe we are building trust in the long run.

So, obviously, we need to manage short term. But when you look at depletions, because sell-in is a different story for all the reasons we know, what it tells us is that Cognac is still a desirable category, and Rémy Martin, in particular, thanks to our investments. So, we will bounce back, that's our belief. When? I don't know. Can Cognac achieve more than 6% or 7% or 8% percent of the total spirits? This is, as well, hard to say. As you know, we are more in value than the volume strategy ourselves, so we believe we can recover, we believe we can grow in share of the total spirits. We are not obsessed by it; much more obsessed in value than in volumes, of course. And, yes, I believe we can afford it. We have the liquid, because we have organised ourselves for such, and I believe in the ability of Cognac as a category to bounce back as well, for the reasons I just shared.

As to question number two, which is referring to M&A. No change here. What I'm going to answer is we believe in the value of M&A and external growth. We believe in the strategic complementarity of tequila for us. It fits our value. There is a strong link to terroir. There is a strong culture element and aspect into it, plus for Cointreau and Margarita, it makes total sense. We believe also in the value of champagnes, [inaudible] to terroir as well, obviously, but then it would have to be a very different champagne from Telmont. So, there are a number of potential strategic acquisitions to complement the portfolio.

There are also acquisitions we could look at, let's say, to address our weakness in Europe, because we are driven by Cognac, and our route to market in Europe is more made of distributors than subsidiaries. Acquiring a brand that is strong in Europe would help us gain time. Nothing has changed there. We also believe it's a weakness and a strength in meaningfulness beyond speed there. Clearly, you know – and I'm not saying one strategy is better than the other, but if we were less obsessed by the education[?] with values and so on, we probably would have acquired already a tequila, but this is not our way. So, this is why it's a weakness, sometimes speed, but it's also a strength as we speak to people who I think speak to very few other people, because we have a certain level of legitimacy there.

Now, is it a topic for the day? No. Not that we are not looking at what is happening, not that we are not considering, obviously, but our focus, short term, is our organic growth, as you can imagine. And I believe, you know, what is happening is also an opportunity. A tougher environment is driving to questioning ourselves, pausing, stepping back, and I think that after three years of a huge growth where we focused mostly on development, it's a healthy exercise, and we should emerge stronger if we do the exercise properly. Luca, maybe you want to answer the…

Luca Marotta: Today, in terms of – let's imagine an acquisition, and how much we can put on the table, and which kind of [inaudible] financing that. So, clearly, the more structural and

transforming the acquisition will be, eventually, clearly we have to go out of our – exceed our actual resources. But today, our balance sheet is very solid. We have recently raised additional resources. We have more than 1.1 billion resources. Our A ratio, even now it's bigger than one; still very healthy. So also, in standalone, you can clearly, easily do the math. If the target is a little bit profitable in terms of EBITDA, we can easily, alone, with our own legs, could make the deal bigger than 1 billion in terms of price.

Then for sure, the bigger and transforming the deal is, we are to think to other ways of financing, new ways. And what if equity or not? I cannot answer to that, but clearly, the more transformed the deal is, the more the global opportunity[?] will be discovered. But today, in terms of internal organic potential deal, we have already a lot of weapons to play with to be able, if there is the right target, to put some money on the table without jeopardising[?] our net depth structure out of the actual covenants[?]. So, I'm not scared about that.

Olivier Nicolai: Thank you very much. Thank you. Very clear.

Operator: We'll now take our third question from Simon Hills[?] at Citi. Your line is open. Please go ahead.

Simon Hills (Citi): Thank you. Morning, everybody. So, just a couple for me as well then, please. Maybe Luca, just following up on the discussion around capital allocation sort of plans, as you've talked about the possibility of M&A. I just wonder how you think about the possibility of a share buyback programme in the current environment, particularly given the level that your stock has been trading at. Obviously, you've returned cash in the past, the balance sheet is healthy, as you talked about, you've had the private placement. How do you think about the possibility for share buyback? So, that was the first question.

And then secondly, Eric, just really a point a clarification. In your closing remarks, you talked about perhaps fiscal 2024-2025 in terms of growth perhaps being below high single digits, I just wondered what you were referring to specifically there. Is that an expectation that organic sales growth is going to be below high single digits, you would think in next fiscal year? Any clarification would be great.

Eric Vallat: Okay. In terms of capital allocation, I was answering specifically to an M&A question, so it does not mean that we change our priority. So, priority number one to use our cash, invest our cash, is invest behind our organic growth levers. So, strategic already, as you can see. This is lower increase, but it's still an increase of the stock, it's clearly visible, production manufacturing capacity, direct selling, retail model, and portfolio capabilities. This is the first priority. Then the second one, it is very important, the second one, because if you don't invest for the future, the second one is not possible. It is a combination between dividend and share buyback. And third one in this kind of priority, M&A. I'm not saying that is less important, but it's the way our board of directors put the priority very clearly for Eric and myself.

Share buyback specifically, this is clearly a decision called not only by us but also clearly endorsed by the board of directors. The board considers that the price today is quite attractive, so share buyback could make sense, so that could be the hypothesis. But having said that, I repeat, in this very singular year, we have to be sure to invest the cash behind the organic levers. This is more than ever priority number one. Managing cash now is a very important matter, even more important than profit and loss, and the key focus for myself. So, why not? It is a decision that belongs also to the board of directors. It depends also on the way we are

able to feed and to answer to the first priority given to us, which is invest behind our brands, but share buyback could make sense, clearly, because we believe that is a very good investment for the future.

Second question, the below high single digits, which is our medium-term guidance, so yes, it is organic growth I'm referring to. Don't consider it as a proper guidance to the – the visibility is little; we still have five months to go. But the point here is more to say that in fact we don't know when sales and depletions will pick up again in the US, and this, obviously, is instrumental to the group. Is it second or first semester? We believe that the rebound will be more as soon as the depletions recover, because our stock levels are not so high in absolute value. So, in number of months, they will decrease very quickly as soon as depletions recover. The question is when. As we don't know when, we believe it makes sense to anticipate with the very little visibility we have today below high single digit growth.

Simon Hills: And just to confirm, Eric, you are talking about your total shipments when you talk about organic sales growth of below high single digit. It's not a comment on depletions. Because, obviously, you will last[?] through the destocking of this year and next year, so technically, organically, your sales picture should look stronger, but your depletion picture is still unknown. Or am I reading that incorrectly in terms of your commentary?

Eric Vallat: So, if you look at depletions, it's been months, they have been much better than shipments in the US. Having said that, we still have stocks which are a bit high. Again, in number of months, more than in absolute value. As to depletions, we believe in their sequential improvement, which is what we've been witnessing lately, but they are still negative, currently. So, until they turn to positive, it's hard to anticipate rebounds. But as soon as they will get positive, the rebound in sell-in should be even more, because then there will be some restocking, and this is something we'll be keen on managing properly, by the way.

Luca Marotta: Simon –

Simon Hill: Got it.

Luca Marotta: – maybe to try to help. High single digit as a guidance, we are talking about an algorithm on the medium term in compound hedged[?] growth rate. So, it is not linear. It is a compounded growth rate on the remaining part of the ten-year journey, with some ups and downs, considering the sell-out depletions sell-in levels. So, maybe some volatility, but high single digit is a sell-in, it is a top line, overall value, CAGR KPI.

Simon Hill: Got it. Thank you very much.

Operator: Thank you. And we'll now take our next question from Mitch Collette at Deutsche Bank. Your line is open. Please, go ahead.

Mitch Collett (Deutsche Bank): Thanks. Morning, Eric, morning, Luca. Can I ask about the structural cost savings? Can you give a bit more colour on what the structural overhead cost savings are, specifically, and perhaps some tangible examples of costs that you're planning to cut, or have cut already? And then I guess, when you laid out the long-term target, there was no expectation of any structural cost saving. So, I'm interested in what's the offset from that structural cost saving when we think about the 2030 target. Is it the lower level of sales, or is there something else that's offsetting it to keep you at the same level of profitability in the long term? Thank you.

Luca Marotta: Okay. So, as already highlighted by Eric, overall, 40% are structural, and 60 are one-off. So, let's focus on the 40%: so, 40 million. It is 50-50 between A&P and the overheads. In the overheads I already said, manufacturing and logistics structural because we changed some manufacturing proceeding to be[?] more efficient on some brands, not only in Cognac, because we had made some right-sizing project inside the way we are doing logistics, in terms of containers replenishment, in terms of optimisation, the way we managed the transportation. Some initiatives that are also positive for the planet are also positive for profit and loss. Maybe you are in[?] with the less speed, so you cannot react to some volatility, but less transportation using – and cheap, and polluting vehicles would play a role.

So, this part has already been implemented in the H1. So, the good point that we are already capitalising H1 or some structural saving side the manufacturing and data[?]. On top, you have some which is linked to the overheads. I can't be very precise, because mainly we are talking about salary and benefits. As you know, so far, there is nothing inside this element which is a classical restructuring plan, are more tough – efficiency that are accounting not only for this year, because we last[?] in terms of the mix of the salaries, of expenses, being able to make some selection the way we are replacing people, being able to do the same thing or less activities. So, we are doing structural saving in environment, as already mentioned by Eric, in which we invested a lot in the last three years, in all elements, including overheads. So, we are not tackling the backbone of the company. We are not putting at risk of the future growth. They are lasting, but very sustainable actions.

Operator: Thank you. And we'll now take our next question from Chris Pitcher at Redburn Atlantic. Your line is open. Please, go ahead.

Chris Pitcher (Redburn Atlantic): Good morning, everyone. Thank you for the questions. Luca, I know you've given a lot of detail on the gross margin, but I slightly suppose there wasn't, perhaps, a stronger product mix, particularly on the 70 bits you talked about, particularly given the underperformance of VSOP in the US, and the geographic mix shift to China. Can you give us a bit more colour on what the product mix specifically was like in China? Are you seeing any similar impacts on purchasing power that perhaps you're seeing in the United States, a willingness to trade down?

And then to follow up on one of your comments, you mentioned you had 500 more additional brand ambassadors in the US. Can you say how much of a fixed cost are they, or is it more a variable? Because, obviously, Diageo has talked about increasing investment in the United States, you know, have you spent enough in absolute terms both in terms of marketing and selling resource? Thanks.

Luca Marotta: I think there is a mistake. It is not 500. It's 50 ambassadors and 500 events.

Chris Pitcher: Sorry. Thank you for the clarification.

Luca Marotta: Yeah. [Inaudible] a lot of shaking. So, on the question on the gross margin, I'll take it. In fact, in China and the product mix in China, more particularly, do we see some trade down? And here, the answer is yes and no, and it's the opposite of the US. In fact, we do see some – to be honest, we struggle on the high end, so I would say Louis XIII and XO are more impacted than CLUB, which is resisting quite well, being a very strong queue[?], and that's the good news; because CLUB is today the backbone of our business, which is why China is doing good.

And for me, there are reasons to that. One is, if you take with Louis XIII, the fact that we have been addressing for years the real estate millionaires, and needless to say that their life has changed, and that they are clearly spending less. It doesn't mean there is no wealthy client – there are no wealthy clients to address, there are a number. If you take tech, for instance, and second and third generation in some other businesses. So, we are proactively working on it with Louis XIII. And to be totally honest, I think that Louis XIII, the current trend, which, as you have understood, more impacted than CLUB, is also related to the turnaround of our business model.

And I think I should be humble there. I must say that this turnaround is taking more time than I would have anticipated. We still believe and are totally convinced that it's the right move. But moving from, let's say, wholesale to retail model, and moving from a wholesale classic model to a wholesale partnership model whereby we improve pricing, we improve the level of execution, takes time, and probably more time than expected. And this is also hurting Louis XIII. But I would like to point out that in this current context, the channel that is resisting best at Louis XIII in China is actually the direct-to-client channel.

So, whether it's boutiques, private client directors, or ecommerce, these are resisting the best. And this makes sense, because we know our clients, we've built loyalty with them, we have programmes for them. So, this reinforces us in our strategy in the long term, that's the paradox, but in the short term, it is hurting us a bit. So, yes, in China, there is an impact on the higher end of the portfolio. More particularly on Louis XIII. On XO, we are gaining market share, but on a franchise that is not necessarily growing. I hope this answers your question.

Chris Pitcher: Okay. Thank you.

Luca Marotta: We were trying to figure out the 50/500. I'm not sure I listened to the question full speed, but the question was, are we still investing enough behind our US business, right? Okay. So, here, I think it's probably this year, our second year whereby we invest the most in the US in our whole history. So, nothing to be ashamed of. Less than Last Year because we are not going to do the Super Bowl indeed. The Super Bowl, as I said, was an opportunity we seized for Rémy Martin Last Year because we had the profitability to afford such. But if I look at it beyond, yes, we are cutting A&P. It is still the second or third record year, second or third in spend, and second, for sure, or even first, in number of activations.

Don't underestimate something. You saw our A&P growing in first semester. They grew more than 5%. This is bringing a windfall of activations for H2, because part of the spend of H1 is dedicated to H2: it's content. So, if I take H2, we are launching a new campaign with Aubrey Plaza on Cointreau. We have Life is a Melody with Usher. We are going to work with him also on the Super Bowl. We have a number of activations on other brands. We are launching activations for the Asians in the relevant states on leveraging Chinese New Year. We are enlarging the Sobremesa activation on Hispanics. So, honestly, I think it's a very, very active and productive year in terms of A&P.

And the same applies to ambassadors and to their in-the-field activation, reason being that we have more ambassadors than we had a year ago. Because we have, of course, started working on optimising our organisation in the US, and part of the optimisation was to relocate some of our resources to the ambassadorship, which we believe is a business driver. That's also what we mean when we say that the focus will be more on Below-The-Line. It's also – it's qualitative

Below-The-Line, but it's clearly more volume-driven. I hope this clarifies, but this is what I wanted to answer about the US.

Chris Pitcher: Thank you very much. Very clear.

Operator: Thank you. And we'll now take our last question from Trevor Stirling at Bernstein. Your line is open. Please, go ahead.

Trevor Stirling (Bernstein): Hi, Marie-Amélie, Eric, Luca, and Celia. Just one from me, please. Thank you very much for slide 21. I think it's following up on some previous questions. So, very, very helpful, indeed. And I'm trying to put that then, Eric, in the context of long-term growth in the US for your Cognac business. So, if we do get back to an industry that grows 2-3% in volume as it did pre-2019, and assuming maybe there's a little bit of share loss for Cognac to tequila but not much, then we have a Cognac category that's flat to up a little bit, then I would expect that VSOP and above quality should do much better than the overall Cognac. And then within Rémy Cointreau, we should be expecting price and mix going forward. Is that the right way to think about the long-term algorithm in the USA?

Eric Vallat: Yes. Indeed, thanks for your question, and the previous questions also which…

Luca Marotta: [Inaudible].

Eric Vallat: Yes. So, to make it clear, I think that, yes, it's going to be, as you know, we're focused on value, and the 2-3%, you know, for us, whether it's 1%, 2%, or 3%, it doesn't matter so much, so much as it is growing, of course. Back to growth, of course, the year it will start recovering from this challenging year, so next year S1 or S2, it will be more than 1% or 2% in volumes, but then it should normalise at 1% or 2%, and then the focus will be on value. And the mix will play a key role indeed. This, for sure, we still believe we have a wealth of opportunity with the 1738. We still believe that it is SKU that we own that is not exactly competing with our direct competitors, but that is potentially a good hook to benefit and leverage the tequila boom for a number of reasons.

So, 1738 will help improve the mix. XO also, which is – I mentioned and I referred to the Asians – we are small with the Asians. This came as a surprise to me, you know, to be honest, when we received our rum health tracker this year. I was positively surprised by the Hispanics and negatively by the Asians, and we are now reactivating, and this should help on XO for sure. And XO has been well repositioned. Pricing as well. You know, we – I don't know if they were – I'm not the best expert here, but I don't know whether inflation will go back to 2% or not. But for sure, on our side, we aim at preserving our gross margin, and this will come also clearly with pricing, probably more particularly on the SKUs that have more pricing power, typically 1738, but as well VSOP. I believe probably a bit more in mix than in price short-term, but if you look at it long term, both should play a role. This is why we don't want to give up and compromise this year. It's because this is the way we look at it long-term.

Trevor Stirling: Thank you very much, Eric.

Eric Vallat: That's why we won't give up on A&P and investing behind our brands, including this year, because this can only come with a good level of desirability, which has improved, but which can still improve, for sure.

Luca Marotta: And Trevor, slide number 21 is your slide. We call it Trevor Stirling's slide.

Trevor Stirling: Thank you very much, Eric.

Eric Vallat: Because you've noticed. And the question is of interest as well, because indeed, we are almost at our ten-year vision. So, you could say we will give up on pricing. No. To be honest, next year, we are aware also of the purchasing being less short-term. So, Last Year, we will take advantage of the fact that we are way ahead, and we will be more selective in our price increases and smarts, of course. But if you look at it medium term, yes.

Trevor Stirling: Very good. Thank you very much, Eric, and thank you, Luca, for slide 21.

Eric Vallat: Thank you.

Operator: Thank you. I will now hand it back to Eric for closing remarks. Thank you.

Eric Vallat: Thank you. So, I had not prepared any closing remarks, but first, I would like to thank you for your attention. As you can see, we are confident and still very long-term-driven while being, obviously, opportunistic and pragmatic in the short term. We believe the strategy is still right. We believe that the headwinds are, for many of them, cyclical, which is why we are not going to question 100 years' value strategy because of 2022-23. Thank you very much for your attention. We're looking forward to speaking to you sooner. Thank you. Bye-bye.

Luca Marotta: Bye.

Marie-Amélie de Leusse: Bye.

Operator: Thank you, ladies and gentlemen. This concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]