Rémy Cointreau FY2022-2023 Results

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Operator: Hello, and welcome to the Rémy Cointreau 2022-2023 Full Year 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 your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, 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 full year results. I am here with Eric Vallat, CEO, and Luca Marotta, CFO.

Full-year ’22-’23 has been another year packed with major initiatives in terms of marketing, business operations and sustainability. For the past three years, the Group has started a deep transformation and made some solid progress as you will see in the coming slides. We are proud of what was achieved by the teams across the globe. So first, let me start by thanking all of them for their commitment, agility, creativity, and achievements in a context which remains volatile.

In ’22-’23, the Group generated 10.1% of organic sales growth, led by remarkable growth in APAC and EMEA. In parallel, the US market faced a sharp normalisation of consumption as well as a very high base of comparison following two years of exceptional growth. This strong showing reflects steep gains in price mix, plus 10.1%, in line with the Group's value-based strategy and steady volumes.

This leads to a remarkable level of gross margin and COP margin reaching new historic records. We are today ahead of our 10-year plan, and thus we confirm our long-term objectives.

I will now let Eric take you through the full year business review. Eric, the floor is yours.

Eric Vallat: Thank you, Marie-Amelie, and be prepared now to a more French accent before the Italian accent of Luca. I'm happy to take the mic, indeed. And I would like to start by thanking you for joining us today. And I will hand over to Luca after a few slides.

Now I am on slide five. And as you've seen from the press release this morning, our full year ’22-’23 results are excellent. We delivered on what we said and reached a whole new time high across the board, and more particularly on our two-key metrics, gross margin and COP margin.

Back in April, you saw our sales numbers. We talked about a 10.1% organic growth on top of very high comps. This represents plus 43.6% of growth versus ’19-’20. In terms of profitability the current operating profits stood at €429.6 million, up 16.2% on an organic basis, representing 27.7% of margin, which means 1.4 points versus last year up.

This performance has been driven by a strong gross margin improvement to a record level of 71.3% despite the current inflationary context and by a good control of our overhead costs while investing on key strategic areas. The reported EPS came at five point seventy one – €5.79, sorry, so more than twice what we recorded in ’19-’20.

These results are excellent and are even more so considering the strong performance that was already delivered over the previous two years. I am now on slide six.

I am proud of what was achieved so far. The Group is today clearly reaching a new step in its expansion. With the 6.5 million cases sold, volume grew by 14.3%, while sales value increased by 44% almost, including a meaningful price increase improvement. This translates into a fantastic gross margin improvement of 4 points at 71.3%. So not far from our ultimate goal in ’29-’30.

Consequently, we've had the ability to accelerate our A&P investments as showed by the increase of 3.7 points compared to ’19-’20, entering into a virtuous circle of value creation, which led to an amazing COP margin expansion of 5 points.

The slide seven gives me the opportunity to stress that these great results have been achieved, thanks to the solid progress made on our four Group transversal priorities since the launch of our 2030 plan. Priority number one is to increase value. What matters to us is to make sure we improve our gross margin, which gives us the means to invest behind the future of our brands.

In a challenging environment with an unprecedented inflation worldwide, we have managed to gain 2.6 points of mixed price at the gross margin level versus last year and 3.1 points versus ’19-’20. This has been achieved more, particularly thanks to the pricing power of our brands supported by strong A&P, and thanks to the improvement of the product mix, notably in our cognacs, where the global weight of our intermediates has gained 15 points versus 2019.

And we expect this improvement of the mix to continue with the 1738 in the US and with the acceleration of the growth in China, driven by CLUB and the upper grades.

I am now moving to slide eight. You may recall that our priority number two is to enhance portfolio management to move from a pure cognac selling culture to real portfolio management. Each brand has been assigned a mission and we have trained our teams building among others on a commercial excellence framework that is being implemented worldwide.

We are now starting to harvest the benefits of our efforts. With the growth of the Liqueurs & Spirits division that speaks for itself at 18.7% versus last year and plus 54% versus 2019. This is all across the board, but I would like for ones to highlight a brand that we rarely mention in our conferences, St-Rémy. Not only the brand has been growing fast in the past three years, it has also gained more than 5 points of gross margin since 2019- – since 2019-’20 – ’19-’20. Thanks to an outstanding improvement of the mix.

Metaxa did great too despite its stronger exposure to Russia than the rest of the Liqueurs & Spirits portfolio. Metaxa grew by more than 20% over the past three years.

Last but not least, Cointreau, which is having an amazing success since 2019. The brand enjoyed a 75% sales growth over the past three years, boosted by a solid plan of investments, a relevant marketing strategy around cocktails, and more particularly, the Margarita cocktail, which also relies on the great momentum of tequila.

The slide nine now speaks of our third priority, which is to deploy a consumer-centric culture model. I would like to pause a bit longer here as I believe this is a game changer in our industry and every group is now rightfully making it a top priority. So what are we talking about and what differentiates us from our competitors there?

In our view, being client-centric means making sure: one, you know your clients as a way to build desirable brands with relevant content and campaigns for them; two, you leverage their purchasing journey to drive visibility where and when it matters on the relevant touchpoints. On these two axis, I would like not to pretend that we are the best in class as they are widely leveraged in our industry. But I can testify that we have made huge progress to support the sharp increase of our A&Ps, leveraging our marketing intelligence team much more than in the past.

Being client-centric also involves more targeted and tailor-made actions. It is not only about knowing your clients and leveraging their purchasing journey. It is also about understanding their motivations to design meaningful experiences and interacting with them to build loyalty. These two axis are not easy to manage in our industry, as distribution barriers and layers make it difficult to engage a direct dialogue and relationship with our clients. This is a shame as this direct relationship is creating value. It also helps to build a sustainable business as we could witness during COVID in China, with Louis XIII, for instance, where our private client directors never lost the contact with their clients.

And this business is not only more sustainable, it is also margin-accretive as it is more direct. This is where I believe lies our competitive edge with our portfolio more focused on the high end, there is so much more we can do and aim at. Take Louis XIII for instance, its status as the only true luxury brand in the spirits industry, enables us to aim at changing the rules and being the first brand to sell direct to a large majority of its end clients by 2030.

By leveraging full-speed direct e-commerce, boutiques, and private client directors. Of course, the Louis XIII model is not replicable as such, but Louis XIII is a fantastic laboratory for the Group. There is so much we are learning from it, which can be adapted to other brands. The expertise we acquire in new fields like CRM or direct selling is incredibly valuable for the Group in the long run.

And the expertise is such that we even managed to launch a brand like Maison Psyché, which sells only to end clients by appointment. A good illustration, I believe, of our ability.

It will be a long journey, but so far results are already visible. We recorded plus 25% growth in e-commerce globally with the penetration rate multiplied by two versus 2019, and we can now count on our 15 e-boutiques. The results are particularly visible in China, where our direct sales represent today 25% of our total sales, despite a context which was not supportive this year.

We now rely on 11 boutiques including the last ones in Chengdu for Louis XIII and in Newport at Hainan for Rémy Martin, alongside a solid opening roadmap for the coming years.

After this long explanation, I'm moving now onto slide 10, as we also make progress in terms of sustainability as part of our sustainable exception roadmap. Today, we chose to put the focus on our climate strategy. It is obviously a key topic for Group not that we are big polluters, but because climate warming is a threat for our terroir. And as such, we need to do our fair share.

Three pillars behind this climate strategy. Number one, mitigate our impact. Number two, adapt our terroirs to climate change. And number three, regenerate our terroir so that they are part of the solution to climate change.

So first mitigate. In 2022, we validated our reduction targets. They are all in line with the 1.5 degree scenario, warming degree, of course, with the Science Based Target initiative, which is not yet so common. They imply overall a 50% reduction per bottle by 2030, and the achievement of Net Zero by 2050. For that, the focus will be on four big levers of reduction – is already on four big levers: energy for distillation, packaging raw material, ingredients, and transports. I'll come back to that in the next slide.

Second, we need to adapt our terroir to a warmer and more unpredictable climate. For that, we are actively investing in R&D to identify climate-resilient crops for all of our key raw material ingredients. We also conducted a climate risk mapping of our terroir and identified a few ingredient sourcing that might need to be adapted over time.

Third, regenerate. Beyond the adaptation of our crops, we want to regenerate our soils for two reasons: to make them more resilient in the face of climate change and to maximise their role of carbon sinks. For that, we are deploying regenerative agriculture practices. Today, 100% of our own estates are already in conversion testing and learning, but the real challenge is obviously to embark on our agricultural partners. So we commit to educate 100% of our direct partners to regenerative agriculture practices by 2030.

What is key for us is also to be able to measure the change, measure that our farming practices have a positive impact on the planet. For that, we've been working with the startup Genesis for the past two years, the moody's of the soils, as we could call it, to measure scientifically the health and the evolution of the health of our soils based on carbon, biodiversity and water retention.

It is also in that context by the way that we partnered with them, the NGO WWF and our competitor and partner on wet and sea to create an environmental credit larger than just a carbon credit to embark and remunerate the transition of our farmers towards regenerative agriculture.

Just to quickly come back on our CO2 reduction actions on slide 11, with a focus on our four key levels. Starting with energy for distillation in our sites. 38% of the energy used is coming from renewable sources. Our goal is to reach 100% by 2030. This should enable us to largely reach our SBT target, which is to reduce our Scope 1 and 2 emissions by 42% by 2030.

Packaging is the big lever accounting for 40% of our footprint. Here our SBT commitment is to reduce by 25% our emissions by 2030. In order to achieve such, we are deploying our 3R roadmap. Reduce, today 78% of our bottles are sold naked without a gift box, and our goal is to get to 85% by 2025, a topic we are clearly pioneering. We are also working on better eco-designing and our portfolio of bottles. You might have seen that our Telmont bottle is now the lightest of all champagne bottles at just 800 grams.

And last but not least, we are working on going more circular. For that, we are testing a number of reuse formats that we shared with you last November.

Improving emissions of raw material ingredients is about greener energy for tractors and distillations, but also greener entrance, another area of the workforce. The deployment of regenerative agriculture practices on our terroir, our own and those of our partners, will be a powerful lever to reduce our emissions but also to store more CO2 in soils. This is why our SBT objectives are more ambitious on that metric at minus 30%. We have now discovered that our soils can be part of the solution.

And lastly, transportation, on which we committed to reduce our emissions by 25% by 2030. The good news is that in ’22-’23, our emissions failed by 13% year-on-year and by 23% since 2021. Our starting point not far from 2030 target.

Our no plane policy for goods, actions to replace road by train, and to encourage our track partners to switch to biofuel explain this great performance and have clearly helped.

So a lot of actions going on, but at the end, we asked ourselves the question, what if tomorrow we had to pay a carbon invoice? What would be the impact on COP? And based on the current regulated carbon price of €100, it would imply a €15 million invoice, assuming we have to pay a tax on our Scope 1, 2 and Scope 3. This would lower our COP margin by only 1 point to 27%. So minimal impact.

By the way, this explains why we are part of the index Vérité quarante, 40 in English, which is what the CAC 40 Index would look like after taking into account each company's carbon invoice on top of its results. I think this is an important metric because it shows that even if carbon regulations strengthen, we have the means to face it and to keep investing, to adapt our business, and make it more circular over time.

Let me now take you through a quick business review before giving the mic to Luca. And this is taking me to slide 13, which gives me the opportunity to remind you of our full-year sales numbers by division. I will be quick, as they were already detailed by Luca in April.

Cognac, which represented 71% of our sales, grew 7.6% organically versus last year at 41.3% – and sorry, and at 41.3% on a three years basis. Liqueurs & Spirits which contributed to 27% of our sales recorded an almost 19% growth versus last year and a plus 54% on a three years basis. Lastly, our partner brands at 2% of Group sales were down minus 5.3%.

On slide 14 now, just a word on the regions. The slide shows that total growth was mostly driven by APAC and EMEA this year with a meaningful expansion for all of them on a three-year basis. Americas grew 2.5% on top of an extremely high base of comps. Americas is up 58% versus ’19-’20, and the region growing the fastest.

APAC posted a very strong growth of 23% almost, representing an increase of 49% versus three years ago. And lastly, EMEA was up 11% organically, which means plus 9% versus ’19-’20.

I am now moving to slide 15. The histograms here speak for themselves in the US. As a reminder, Nielsen accounts for approximately 40% of our sales and slightly more than 20% for Nabca. We've been growing much faster than the market whether with Rémy Martin or with Cognac, and we could have shared the same slide and the same results for The Botanist, for example. As a result, we have gained market shares. This comfort us in our belief that smart A&Ps spent today behind our brands are preparing the growth of tomorrow.

This is what we have witnessed in the past three years, particularly because our products are of great quality, but their awareness remains relatively low, including for Rémy Martin. And I take it as good news, there is still room for growth in the future.

The histograms of slide 16 also speak for themselves in China, where we gained 1.7% market share versus 2019. As you can see with the histograms on the right of the chart, this has been driven particularly by a CLUB, which grew 67% versus 12% for the equivalent grades in Cognac.

We made CLUB a top priority seven years ago now, and we managed to grow it, notably thanks to 360 plan, including, among others, innovation, and e-commerce. Our next pattern is XO, where we are far from our fair market share, to be honest, starting now with the reopening of on-trade.

Let's now focus on the Cognac division quickly as well, profitability, whose great key figures are summarised on slide 17. Current operating profit grew by 25.5% on a reported basis, which means a multiplication by two versus three years, representing an increase of the margin of 2.8 points to 36.8%. This is a new record high. This breaks down into an organic increase of 2.2 and a positive currency effect of 0.5.

The organic improvement reflects a meaningful gross margin improvement of 3.9 points, mainly resulting from a very strong contribution of the price mix and particularly the price component. In Cognac, the main COGS is the liquid itself, which has been bought several years ago, making the inflation impact much more limited than on other liquids. Consequently, price increases largely compensated the inflation effects on logistic, glass and others.

These gross margin gains have been reinvested in our brands in A&P, including an important campaign during the Super Bowl and a busy activation plan in China around the MAF, Middletown Festival and Chinese New Year. As you know, China and the US are our key priorities in terms of markets.

Finally, those strong operating leverage of the division also contributed to this meaningful improvement with a good control of our OpEx, the ratio remained stable overall.

And I'm now on slide 18, looking at the Liqueurs & Spirits' profitability division, whose key figures are encapsulated on slide 18. Current operating profit grew by 35.6 points on a reported basis, representing a margin of 11.5%, up 0.8. This performance reflects a stable organic performance alongside a favourable currency effect of 0.9 points. This evolution includes, as expected and planned, a sustained level of marketing and communication spend aimed at preparing future growth.

And as you have seen, sales are accelerating, showing a strong pace of growth for now three years. Should we keep the same growth pace, we will benefit from a meaningful operational leverage in the second part of our ten years plan, as already shared.

The gross margin was impacted by rising production costs, that were partially offset by higher sales price. At the same time, the Group maintained a strict control of its structural costs. The ratio was down 1.1 point.

Let me now have a glass of water and give the mic to Luca, who will take you through the more financial slide – slides.

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

So as already mentioned, organic sales were up plus 10.1%, i.e., up 42.6% compared to full-year '19-'20. On that basis, gross profits increased by 14.2% in organic terms, implying 260 bps organic improvement in gross margin, i.e., plus 400 bps on a three-year basis, reaching a new all-time high. This excellent performance versus last year was essentially driven by a meaningful price mix effect of €129.1 million, which is mostly linked to a pure price effect for €103 million following price increases in all regions.

At the same time, volumes contribution was quite neutral following a strong contribution over the last and past two years. Sales and marketing expenses were up plus 12.9% in organic terms, reflecting our decision to reinforce our investment behind our brands. Within this total, A&P expenses grew by 17.1% organically at 21.6% of sales, meaning an organic increase of 3.7 points compared to sales on a three-year basis. So clearly above our organic sales growth.

As we are ahead of our 10-year plan, this ongoing ramp-up reflects our decision to reinvest most of our gross margin gains in A&P to continue to build desirable and aspirational brands, while increasing their long-term awareness. Technically, most of the spending comes from the above the line part. What is above the line? Classic media, digital, public relation for around 65%, of which of this 65% more than 55% are digital. So as a consequence, around 35%, one-third of our total spend in advertising and promotion is today digital.

In parallel, distribution cost increased by 6% organically, i.e., organic increase of only plus 2.3% on a three-year basis. This was reflecting an increase in terms of key headcounts in our international subsidiary, as well as some strategic OpEx to accelerate on retail direct to client on commercial excellence and revenue management.

Administrative expenses increased by 13.7% on an organic basis, i.e., an organic increase of 42.3% on a three-year basis, slightly more than our sales growth. This evolution reflects an increase our brand OpEx related to some additional headcount and key investment in e-commerce, CRM, the transformation programmes and brands development and protection activities.

All in all, as a consequence, this profit and loss is showing that the current operating profit reached an all-time high at €429.6 million. On an organic basis operating profit, current operating profit was up plus 16.2% and up plus 28.5% on a reported basis, after taking to account a favourable currency impact of €41 million.

On a three-year basis, operating – current operating profit in absolute value has almost doubled versus full-year ’19-’20. COP margins stood at 27.7%, up 140 bps on organic basis versus last year and up 505 points versus three years ago.

Now let's move to the analysis of the Group of current operating margins, slide number 21. It was up plus 230 bps as reported reaching 27.7%. Again, I repeat, it's very important. This is an all-time high. This breaks down into an organic increase of 140 bps and a positive currency effect of 90.

The organic improvement of the current operating margin basically reflect a strong increase of the gross margin, once again reinvested into A&P and an excellent control of our distribution and structure cost ratios. In more details, gross margin was up 260 bps as a result of very strong price mix global effect.

A&P ratio at the same time increased by half of it, 130 bps. The acceleration A&P was particularly focused in the US, magnified by the Super Bowl, and in China to support the strong recovery. Liqueurs & Spirits in term of divisions and more particularly the five global brands, priorities has been a key focus in '22-'23.

The ratio of distribution structural cost was stable, reflecting a very good control of our cost despite a strong sales growth.

Now slide number 22, take a look altogether at the rest – at the remaining part of the income statement. Other non-recurring operating expenses stood at minus €3.1 million and net financial charges increased to €17.6 million. I will detail them – both of them in next slides.

The reported tax rate decreased from 31.1% last year to 28.4%, benefiting from the drop in tax rates in France. Excluding non-recurring items, the effective clean tax rate was similar, 28.3% in '22-'23 compared to 29.3% in '21-'22, so 1 point less. At this stage, we expect tax rate to remain stable in '23-'24.

As a result, net profit Group share came in at €293.8 million, up plus 38.3% on a reported basis, meaning a net margin of 19%, up plus 280 on a reported basis. But excluding non-recurring items, net profit came in at €296.6 million up, plus 30% on a reported basis.

The net margin, excluding non-recurring items, stood at 19.2%, up 180 bps on a reported basis, and a reported EPS came out at €5.79, up 37.5% on a reported basis, meaning that has been multiplied by more than two versus '19-'20.

So moving to slide number 23. This is the analysis of non-recurring items, i.e., the reconciliation table between net profit and net profit excluding non-recurring items.

Non-recurring items mainly integrated two components, first of all, €3.1 million of net charges, which include, on one side, €8.5 million of positive elements of which essentially the reversal, partial reversal or the provision for international customer risk for €7.7 million. And on the other side, €11.6 million of negative component split into a depreciation of the remaining Westland goodwill, €7.5 million, and a charge – non-recurring charge related to the early unwinding of hedging on the rouble in the current geopolitical context for €4.1 million. This €3.1 million were reduced by €0.4 million of positive non-recurring tax items linked to this charge.

Now moving to slide number 24. It's not working, I guess. It is working. Net annualized cash flow generation and net debt. Free cash flow generation stood globally at €48.6 million in '22-'23 compared to €90.3 million last year. This evolution reflects, first of all, a very strong increase of the EBITDA more or less €100 million, €98.2 million, which is partially offset by different things.

First, an increase of the total working capital requirements for €54.3 million, which has to be considered split in between an increase of the working capital outflow related to eaux-de-vie and spirits in ageing process, €84.9 million additionally, and a decrease on other working capital items outflows for €30.6 million.

Inside this mathematical evolution, we have to point out that the increase of our level of eaux-de-vie and bulk purchases compared to last year, is there to clearly prepare the future. And meaning that two third of this strategic working after variation was linked to that increased by in part. This is clearly in line with our strategic capital allocation policy.

Second, a conjectural specific increase of our level in inventories mostly due to the cognac normalisation in the US, which account for one-third of the strategic working capital variation. In parallel, as shown, other working cap variation was down for more or less €31 million, €30.6 million driven by a decrease of accounts receivable for 21.8 compared to last year. Why that? Because in ’21-’22 last year, we reached a pick at the end of the year due to the anticipation of purchases by our customers in a context of logistic tension. And as a reminder, the corresponding payments were made in H1 ’22-’23.

Second element to explain the free cash flow generation, is very important line, is the increase of €51 million, €50.8 million to be precise, of the tax outflow, which is the clear connection reflecting the higher level of profit. In the meantime, CapEx investment outflow were up €21.1 million as expected, as guided, including some investment related to manufacturing, storage site, IT, e-commerce and hospitality infrastructure.

In parallel, so on top of the free cash flow generation variation, other cash flow outflow strongly increased by €102.6 million. And this was largely driven by lower level or earlier redemption of the OCEANE €42.9 million of conversion ’22-’23 versus €154.6 million last year, as well as the increased cash dividend impact compared to last year, €17.3 million.

As a result of these multiple variances, which reflect clearly a clear choice in terms of strategical capital location, at the end of March ‘23, our net financial debt stood at €536.6 million, up from €353.3 million in March ’22. A ratio still very low, is moving up slightly from 0.79 in ’21-’22 to 0.84 in ’22-’23.

Now slide number 25. A few comments on important slide, which is net financial expenses, which were a charge of €17.6 million in ’22-’23, up from €13.2 million last year. Net debt servicing cost were slight up in absolute value, reflecting the context of rising interest rate as well as a continuous use of more credit line to finance our short-term cash needs on a monthly basis.

Consequently, our cost of debt was slightly up from 1.2% to 1.7%. But we have to guide for next year. And at this stage, we expect our financial charges to more or less double next year to the interest rates rise context and increase of the average monthly debt.

Net currency inside this part of financial line, financial expenses line, increased from a loss of €0.7 million last year to a loss of €2.5 million. These charges are related to hedging intergroup financing. And finally, other financial residual expenses stood at €3.4 million in ’22-’23.

Now let's move to a quite technical but important slide in our opinion, which is the impact of currency hedges. The Group reported a positive translation and transaction impact of respectively, as you know, €102.8 million on sales, conversion, translation, and €41 million on COP in ’22-’23 transaction. This mainly reflects the strength of US dollar and the Chinese renminbi.

We enjoyed a strong improvement of the average euro-dollar translation rate over the period, which came out at $1.04 per euro in ’22-’23 compared to 1.16 last year. But in addition, our average hedge rate was down at around US$1.11 per euro in ’22-‘23 versus $1.17 last year.

More important to look in our opinion to talk about the future and no more the past. Looking at our forecast for ’22-’24. Assuming an average euro-US dollar conversion rate at $1.10 and a euro-US dollar hedge rate at $1.11 as per today, we anticipate a negative impact between

€50 million and €60 million on sales as a translation, which most of the effects recorded in H1. Two-thirds of this effect will be in H1 and one-third probably in the H2. And only a minor in proportion effect between minus €10 million and minus €15 million on operating profit with also most of the negative effect recorded in H1.

As the evolution of the euro-US dollar and all currencies exchange rate remains very volatile. As you know, we will continue to update our model, our estimation, and to share with you and update every quarter. For this year, the sensitivity, which is very important with some news there compared to our – the way we communicate on that, versus our expectation are the following. €0.01 variation, plus or minus in US dollar versus euro generates in around €6 million to €7 million impacting sales and €3 million, €4 million impact on operating profit, all things being equal.

US dollar and pegged currency to US dollar has a weight today of around 70%. So that means that Chinese yuan is the more and more important in our balance in term of conversion, our foreign currency impact. $0.10 variation in Chinese yuan versus euro generates the €67 million impact in sales and €3 million, €4 million impact in COP, the same, all things being equal. But Chinese yuan weight being now approximately 25%.

Bear in mind that hedging in advance as per hour policy, our group policy implies cost of $0.04 or to $0.05 on top of hedge rates. At this stage for '22-'24, we have already covered around 95% of our net US dollar exposure, but about 50% of this coverage is composed of option.

Now let's move on the overview of the balance sheet with total asset and liabilities, total of €3.19 billion, €3.2 billion, up €208 million compared to last year. On the asset side, global inventory increased by €201 million to reach €1.82 billion due to purchases of young eaux-de-vie, as well as an increase of our level inventories in the current US context. Inventories account for 57% of our total asset, up 3 points versus last year.

On the liability side, the shareholder equity is up by €93 million, mainly driven by the strong progression of the net income, the early redemption of the OCEANE, as well as the scrip dividend decided last year. This has been partially offset by the share buyback programme.

Net gearing, so an indicator KPI, which is the Group's net debt to equity ratio was up over the period from 21% to 31%, reflecting the increase of our net financial debt.

Now let's move on ROCE, return on capital employed. Our ratio came in at 24.2% in '22-'23, better for 2.2 points on a reported basis and stable, flat in organic terms. This was driven by 1.9 points increase in the ROCE of the Group brands and a positive swing, even if minor in absolute value in the partner brands ROCE from minus 1.4% to plus 6.2%.

Employed capital grew at the same pace as the organic growth, respectively, plus 17% and plus 16.2%. As a consequence, the organic performance of ROCE was more or less stable.

Looking at the performance by division. Cognac ROCE rose by 180 points, basis point to reach 28.5% on a reported basis, and was down slightly for 60 bps in organic terms. Why? Because the very strong organic COP growth of the division plus 14.7% was more than offset – slightly more than offset by the 17.5% organic increase in capital employed due to increase of the hedging inventories and CapEx.

For Liqueurs & Spirits, ROCE increased by 210 bps, 2.1 points to reach 14.2% and was slightly up in organic terms for 0.2. This evolution reflects, of course, our decision to intensify our investment behind our brands, but also a strong in operating profit as volume continued to accelerate, and this is very important in the uptake of the 10-year roadmap.

Looking at the capital employed more closely, slide number 29. The overall amount increased by €255.6 million mainly split between an organic increase of more or less the same value, €256.6 million, negative currency impact minus €1 million. On the organic side, the plus 17% year-on-year increase in capital employed reflected by nature a strong increase in ageing inventories, more or less 60% of the total, and to a lower extent, an increase in CapEx, including manufacturing, storage capacity, and other inventories. So basically, most of the increase is linked to specific effect and even more to long-term strategic investment.

Last two slides. Slide number 30, entering in a TSR lens. Finally, moving to the yearly dividend. Given our strong, very strong record year annual result and our confidence for the coming years, an ordinary dividend €2 per share in cash will be put to a shareholders vote at the General Assembly on - the general shareholder meeting on 20th July 2023.

In addition, an exceptional dividend of €1 per share also in cash will be proposed. Overall, this will represent an all-time high in absolute value. For your technical information, share will trade ex-dividend on 28th September, and dividend will be made payable like this year, every year starting from 2nd October. Overall, very important, the total dividend equates to a pay-out of more than 51%, which is best-in-class in the industry, and a yield of 174% on the average share price over the fiscal year. That was €172.31.

Last slide on my side before giving the mic back to Eric Vallat for the outlook. Moving to slide 31, a quick last important word in our opinion on our cash allocation policy, aiming at preparing the future. In ’22-’24, we will continue to ensure a well-balanced allocation on the back of the solid balance sheet. This will include, first of all, investing on future organic growth through strong focus on strategic working capital, once again, meaning, inventories in eaux-de-vie for cognac, an ageing liquid for whiskeys and rum, champagne as well.

Sourcing is the key priority. We intend to continue to buy to prepare the future. We are oriented medium to long term, not short term. Overall, we expect to spend about €110 million, €120 million, additional variation in this strategic working capital item. CapEx, capital expenditure will be between €70 million and €80 million for ageing, manufacturing, IT, and digital.

Second element, M&A to drive synergies and value creation. As you can see on the slide, we have several options, potential new category fitting with our values, including terroir and ageing potential, increasing even more our cognac vertical capabilities, reinforcing our route-to-market not only in Europe, and as already partially done with Maison Psyché, diversifying our business such as we did. And we continue to explore.

Third, global, very important point. Commitment to maintain an attractive level of total shareholder returns, including dividends such as this year and share buyback like with the ones we did in the – over the past two years. The last two share buyback totalling more than €330 million cash out has been generating a cumulative accretive impact on EPS of more than 4%, in money than €0.20.

So now I give back the mic to Eric Vallat to drive you to the future outlook.

Eric Vallat: Thank you, Luca. And I'll try to make it quick to allow time for questions. So I am now trying to move to slide 33. There we are. Before talking about the outlook for '23-'24, let me just share with you where we stand today with our 10-year roadmap.

As you can see on the slide, we have achieved a strong progress. Our gross margin and COP margin improved year after year quite significantly. More importantly, what was achieved in '22-'23 was much above what was expected internally. Indeed, we have already reached in '22-'23 so in year three more than what was expected for year five.

Even if we include a transition year for '23-'24, we will remain much ahead of our 10-year plan. And this has given us means to invest more than what we would have expected in the future of our brands. And sorry for hammering this again, but the investments of today are the sales of tomorrow.

Moving on to slide 34 now. At the same time, we are facing some short-term headwinds in the US. In H1, we will face a challenging environment. This is not new. And you already know what our main challenges are. First, an extremely high base of comps. As a reminder, in '22-'23 Q1, we generated 185% sales growth on a three-year basis. This is absolutely huge and much more than the growth on the second semester, which was 30%.

Second, consumption will continue to normalise. In addition, promotion intensity is increasing. On this topic, we have been quite clear. No compromise for us. We will resist and protect our price positioning. Our objective is to create value over the long-term and not to be tempted by quick volume wins.

When it comes to building brand, keeping price consistencies a prerequisite. You lose confidence in a brand if you do not know what its fair price is.

Finally, tequila is obviously gaining some market share of course. This puts additional pressure, but this is part of the game, and I'll come back to it in the next slides and probably during the Q&A.

On slide 35 now, our priorities, of course, to manage the current context while preparing the recovery that we expect in H2. In the US, the objective will be to leverage some current positive drivers such as the comps that will gradually ease from 185% in Q1 to 30% in H2. Nothing compares between both.

The destocking that will start to be less impacting as a big part will be done in H1. The continued rebalancing of our cognac business towards the upper ranges, including 1738 and Louis XIII with the help of Rare Cask that we just recently launched, that will support our price mix improvement.

And last but not least, a strong activation plan in Liqueurs & Spirits, particularly on Cointreau. It is too early to share precisely our marketing investments for '23-'24. Several activations are already in the pipe and will notably support the celebration of Cointreau 75th anniversary. And more broadly our cocktail strategy starting in Q1 with the week of Cinco de Mayo, very exciting results so far on Cointreau, which was ranked second brand, within the cordials category on a weekly basis on that Cinco de Mayo week.

At the same time, we will, of course, activate some levers in the rest of the world to mitigate the US performance. And this is the last pie of the chart – part of the chart, accelerating in the fastest growing channels, such as on-trade and travel retail, leveraging our most dynamic market China, while continuing to overinvest on our booming brands like Cointreau and CLUB notably and 1738. Finally, we will continue to benefit from price increases effective since 1st April.

On slide 36 beyond these factual drivers that will shape our H1 and H2 phasing, I would like to spend a couple of minutes or even less on slide 36 and our strong fundamentals that reinforce our confidence in our ability to recover in H2. Before everything else, our strategy is fitting perfectly well with consumer trends and our past three years results have confirmed the relevance of our strategic plan.

During COVID, we have benefited from certain consumer trends that have been accentuated by the pandemic: drink less, but better; premiumisation; at home mixology. We were poised to ride the wave of these trends. All three play to our strength and tie in with our strategy. I am convinced that in the coming years, our portfolio will embrace their full potential, leveraging these trends. We are lucky to count on a 300-year-old brands endowed with an authentic heritage and which have their roots in exceptional terroir. I am sure that we echo the current aspirations of consumers including cultural relevance and environmental consciousness obviously.

The slide 37 speaks of the desirability of the cognac category. We perform every two years a brand health tracker survey together with Ipsos, it measures, among others, the desirability of the categories we are in and of the brands we own. It is just hot from the press, which gives me the opportunity to share some results with you.

One output is that cognac remains a very attractive category. It is in the top five most desirable premium spirits categories. Like two years ago, it is number four in the US and number two in China. As cognacs suffered from the boom of tequila, maybe more particularly on its lower grades. And this is not the first time it happens. Cognac might be hit temporarily, but history has proven a great level of resilience. Cognac being somehow timeless.

And don't forget that out of the high-end brands spirits drinkers, 25% only drink cognac and another 25% consider drinking it. And we know that the younger generations are inclined to taste and discover more than the previous ones, which were loyal to a category. The level of penetration of a cognac being low, this is an opportunity in the long run.

I am now moving to slide 38, which shares the results of our brands health tracker for Rémy Martin, not only for the cognac, but for Rémy Martin in the US beyond the cognac category. As you can see, we have increased our A&P as a percentage of our sales in the US and sales are way more than what they were three years ago. And we are still activating the Super Bowl and advertising below the line.

These efforts have not been useless as Rémy Martin is now the number two most desirable brand in the cognac category and has entered the top 15 most desirable brands in spirits in the US for the first time. I am speaking of share of heart here, which I believe is very encouraging for the future – share of heart speaks for the future.

In conclusion, on slide 39, we are confirming the guidance disclosed by Luca end of April. Following two outstanding years, Rémy Cointreau full year ’23-’24 to show a continued strong normalisation of consumption in the US. However, it should settle at a new normal levels significantly above ’19-’20. And at the same time, we expect a strong organic sales growth throughout the year in the rest of the world, including China, where we forecast major sales gains. EMEA and rest of Asia, that should generate a very good performance. And of course GTR, Global Travel Retail, that should reach this year pre-COVID levels.

In this context, the Group expects total sales to remain stable on an organic basis in ’23-’24, with a strong decline in sales in the first half, reflecting essentially a very strong fall in the US and high basis of comparison, and a strong recovery in the second half, driven by a sharp rebound in the US from Q3 notably.

Meanwhile, Rémy Cointreau intends to confirm its organic level of profitability based on a continued rollout of our value-driven strategy built on a firm pricing policy and improved price mix, a resilient gross margin in a persistently inflationary context, a stabilisation of the A&P ratio as a percentage of sales and a tight control of overhead costs.

I would now like to thank you for your attention. And Luca and I are now happy to take your questions, should you have any, which might be the case. Thank you very much.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. Thank you. We'll now take our first question from Edward Mundy at Jefferies. Your line is open. Please go ahead.

Edward Mundy (Jefferies): Morning, Eric. Morning, Luca. Three questions from me, please. The first is on the brand health tracker survey on cognac within the US. I'd love to get a little bit more detail on what the detail was around why cognac remains an attractive category per the survey, and why are you confident that some of the current challenges are cyclical as opposed to structural? That's the first question on the US.

Second question is on China. Just any sort of updates since quarter end on whether the momentum has continued, perhaps a bit more colour on recovery by channel. And then specifically, what are you doing differently to tap into the XO opportunity within China.

And then third question is really a question just to clarify around finance charges. Luca, did you said that finance charges would roughly double in fiscal ’24. Just want to make sure I got that correctly.

Eric Vallat: Okay. Luca, maybe you want to answer the third question?

Luca Marotta: Yes.

Eric Vallat: And then I can take the first one.

Luca Marotta: Okay. So more or less, almost double because there is increase in interest rate. It is a public information that our resources are based on long term, part of that also in short term. And the short term is more linked what is the interest at this stage, and the – on a short term, the dephasing of H1, H2 in term of business already guided imply that an increased investment expenses basis in term of cash out, at the same time turnover being more skewed to the second part of the year, makes an increase of the monthly average net debt, meaning the average amount to finance is bigger.

The combination of that makes an increase from this €70 million to something around €29 million, €30 million. So to be roughly precise, I said almost double. It does not mean probably double. But once again, this is linked to the short-term business and the spike in interest rate. So it is a very technical mechanical impact two element, interest on the short term means that we have inside our resources and the increase of the monthly average debt compared to the previous year on the first part of the year.

Eric Vallat: Thank you, Luca. So on the BHT, so it's just heard from the press from last week. So I'm not going to share details, as I need further discussion with the teams. But what I can tell you is that basically this is addressing two topics. One is the desirability of the brand, so beyond classic topics like its awareness and so on. Really, the share of that meanings the appetite for the brand. Is it a brand that is liked or not, and why? And compared to its competitors and to other categories when it comes to cognac.

It is also measuring a funnel, a funnel which addresses first the awareness of the brand and then the consideration, and then the conversion. And what I see very interesting in this survey is that we've made good progress on awareness and consideration, which is preparing conversion. These are the two ones where we are probably a bit weaker than our competitors because our awareness historically was less. And obviously, the less awareness you have, the less likability as well as the less consideration set.

We've made good progress there, and I believe it is notably thanks to our huge investments in the past three years. And I still believe it is work in progress and I still take it as an opportunity. But I'll be – I'm happy to share more if it's a topic that people are interested in, in the coming month. It's just hot of the press now and we do it only every two years, and it's a big survey that deserves some more investigation than these big highlights, which is why I'm not going too much into detail.

Now your question on the US, and here I'm going to answer much more precisely, was about if I have understood correctly what makes us believe there is – it's conjunctural and not structural and stuff like this. For me, the way we should look at what is happening in the US is actually fourfold. So there are four drivers to look at it.

The first one is mechanical somehow. It's just a very high basis of comp of last year. I remind you that growth was 185% in the US versus three years ago compared to 30% for H2. And this was driven not only by demand. It was also driven by supply chain constraints and the fact that the pipes, so the stocks of the retailers and the wholesalers were totally empty at end March '22.

And at that time, we started delivering again beginning April, and we filled the pipe and the depletions were massive. But so part of it is really mechanical not linked to demand. And this will clearly normalise. This for me is something I don't call either conjunctural or structural. It's mechanical and it is going to mechanically improve from – sequentially from Q2 and more particularly in S2.

The second key to read our results is indeed the conjunctural part. What do I feel is conjunctural and what is happening today? I would say one is inflation in the current macroeconomic context. But here, I would somehow minimise it for our brand in cognac, reason being that it is affecting more VSOP than the rest of the portfolio. And we are probably less exposed to entry price points and to people who have less money to spend than the average of the industry.

But it is a fact that in some states where we are more exposed, like Illinois for instance, we do for sure have a conjunctural impact. And the second one is tequila. And I put it in conjunctural and not structural because we see sales of tequila normalising now. And again, it's part of the history of cognac to be attacked by categories. But as being a non-fashionable product and a very timeless one, we see our resurgence every time.

The third key is strategic. In fact, we have decided not to go for promotions. We are even increasing our prices now in the US less than we were in the past, because we're not crazy, but we are increasing our prices. And you know what? I believe that when you increase prices, there's always a hit. And this hit never lasts forever because people tend to get accustomed to prices. Plus, it is part of our strategy.

Our products deserve pricing, and I strongly believe that when you change your prices, you lose a certain level of credibility, which I said when speaking of the – in the presentation.

Second, I believe that, if you look at it in the long run, it is part of our strategy and we said it. We said it one or two years ago to lower the volumes of VSOP and to increase the volumes of 1738. So, of course, VSOPs impacted in the short term by what is happening in the overall context. But if you take it in the long run, we still believe that we are in a business which is driven by more demand than offer.

So this also gives us an opportunity to rebalance our business a bit quicker than expected, indeed. And this is where the conjunctural part is playing a role for sure. I'm not denying it.

Last, structural. What is happening from a structural standpoint? And here maybe it's because I'm Rémy Martin, but I strongly believe that the structural is positive for us, meaning the conjunctural is not changing the structural, meaning the drinking less but better is a trend that will not fade out. It is temporarily a minority bit by the context, but it's clearly something that we witness.

And you know what? We did a survey on the motivations for our clients to buy alcohol. And when they buy a bottle of alcohol, their number one motivation is their health. So this can be very surprising. This surprised me. What it means is this trend of drinking less but better is far from being slowing down. So this is the way I look at our results today with the sequential improvement as said, strong impact in the short term, very strong one, but at the same time also good reasons to be confident for S2.

And I think you had one last question on China, and I'm going to try to –

Edward Mundy: Yeah. So has the momentum continued towards the end of the quarter? Any colour in recovery by channel? And what are you going to be doing differently to tap into the XO opportunity? Thanks. Thanks, Eric.

Eric Vallat: Yeah. So it's a good question on China because you see some macroeconomic figures on China, which might not be very encouraging. There are three reasons why on our side we are particularly confident.

Number one is we shall not forget that our business is a bit different than others. And we are benefiting from the reopening of on-trade. So whatever the global news, there's one fact which is on-trade is reopening and on-trade before COVID was 45% of our business. Okay? It is now 20%. So there is room for growth with on-trade. And this is something we witness.

Second reason to stay on a more macro perspective at Rémy level, you know we are a commodity goods. We are a luxury and high-end on part of our portfolio, but also we are commodity goods. We did not benefit like the true luxury brands from the repatriation of the business that was done in their stores into China because we have no stores elsewhere and we are a commodity goods.

So we have always been both in China, so we benefited less from COVID and we are going to be less impacted by outflow tourism as well.

Third reason is we have CLUB. CLUB is – has become a fantastic weapon for us. We have multiplied by more than two the volumes while increasing the value, and it's still growing fast. I think the job we've done in the past seven years on CLUB is fantastic and it's exactly what we am at doing for XO. So I said seven years. So it takes time. So it's the kick-off for XO. The kick-off was meant to be last year but with the closure of on-trade, and XO is very exposed to on-trade, it made it difficult.

So the 360 plan for XO is driven by, first, specific and dedicated campaign that will be on air soon. It was planned for last year with a celebrity. We had problems with our celebrity, so we had to restart again. We have worked on new – on a new campaign that is going to be on air. And meanwhile, we have adapted the visuals of the previous campaign without the celebrity, but this is only part of it.

Then you have a fantastic opportunity with the banquets, where we are less present than our competitors with XO. XO, I remind you, our share, market share is 7% versus an 80% market share overall. So there is much we can do there. And this addresses, notably the banquets, which is a big driver for a brand like XO. So there is some commercial tactics also behind it for sure.

And then the – we are relying on the survey we made, which shows that XO is a very strong brand, actually Rémy Martin as well in China, of course, but a bit dusty. So we are going to leverage the campaign as well as some more tactical social networks actions to rejuvenate XO like we did with CLUB. This is going to take time before it pays off. But if you look at our 2030 vision, it's a fantastic unluckier of the gross margin and of the business in China.

Edward Mundy: Great. Thanks very much.

Eric Vallat: You're welcome.

Operator: We'll now move to our next question from Mitch Collett at Deutsche Bank. Your line is open. Please go ahead.

Mitch Collett (Deutsche Bank): Thanks. I've got there please. So the first one is, you said a big step up in your investment in ageing stock. Can you confirm whether that's driven by volume? So higher volume of eaux-de-vie purchase or is it partly driven by the price of eaux-de-vie increasing? And is that the right level to assume you purchase going forward?

Secondly, you mentioned that you are interested in M&A and that there's opportunities. Can you just comment on whether there's enough assets out there and the price expectations of vendors, given that the cost of financing has obviously increased?

And then the third question is that you guided to a flat tax rate. Can you just comment on the drivers of that, given the changing geographic mix of your business this year? Thank you.

Eric Vallat: Can you – sorry, can you just repeat your question number two on the M&A? I'm not sure I got exactly the question.

Mitch Collett: Yeah, I just wanted to know whether you really see there's enough assets out there that are available and whether there's been a change at all in the price expectations of potential vendors, given that the cost of doing a transaction is obviously higher now than it was maybe a year ago?

Eric Vallat: Okay. Step up in ageing, you can complement as well. Luca, feel free. But to your question is driven by volume and value. But we now see prices normalising clearly. So if you take at the normative purchasing in value for the coming years, I think it's important for us to tell you that first it's not necessarily easy to predict, because it depends on also the seasons. I mean, you have some very good crops and some others which are much less.

So when the crop is good, the price is a bit less and there is more you can get. And when the crop is not good, and this happens as well, then prices are higher and you don't get the same quantities. So it's also linked to the crop itself. So it's hard to predict, but what I can tell you is that we believe that, as I said, it's driven by volume and value. And today, we have in our stocks, the necessary stocks to drive our growth in the future, to achieve our plan, and even slightly more, on all the grades of the range.

So we are in a good position, which has improved versus two years ago, thanks to the actions we undertook. And it was important to take them two years ago because I remind you that our stock is ageing. So we are quite comfortable there, and I don't see a dramatic increase of our purchasing in the future, particularly if prices keep normalising. But again, this is also dependent on the number of factors that we do not master.

Luca Marotta: Yes, to compliment on that. Actually, it is quite stable in prices, not because they're not stable, the price, because the term of the mix of the length of the contract and the mix of the types of eaux-de-vie. So no worries on increasing of the price on a single hectolitre. It is clearly volume driven.

Eric Vallat: And I'll try to answer quickly to take some other potential questions before 10.30, 10.35 max. So just to say on the M&A opportunities, so we are looking at assets. As said, we are not looking at it for the sake of it and not – we have no deadline. We want to make sure the acquisition we do fits perfectly, our portfolio, our values and has potential. So no change in the strategy, no change in what we are looking at.

Indeed, the change could be that particularly in some categories, and that includes tequila. But prices could normalise. So it's an opportunity we would be prepared to seize. But again, what matters beyond everything for us is not solely the price of the acquisition made, but, more importantly, it's fit within our values and our strategy.

Luca Marotta: Tax rate, very quickly. So guidance, I repeat is to be more or less flat, which is behind the lines, is an improvement because when you have a year in which US is clearly lower than China in terms of mix, we are able to absorb it. So on a comparable basis, it's an improvement to being able to be stable. Clearly, the tax rates in France being now far lower than some years ago, it's helping.

Mitch Collett: Thank you, guys.

Operator: Thank you. We'll now move on to our next question from Cedric Lecasble at Stifel. Your line is open. Please go ahead.

Cedric Lecasble (Stifel): Yeah. Thank you. Good morning, Eric and Luca. I have a follow-up on the US and a question on the Liqueurs & Spirits business. On the US, could you maybe update us on the – you said promotional intensity was still strong. Maybe you could update us on the kind of price gap between your prices that you don't move and competitions that are moving to a category to let us know how this gap has evolved and what consequence for the consumer?

And to make it maybe more straightforward, what are your basic assumptions on sell-out for the category and for your brand? And if things went different from your expectations, what could be the magnitude of the delay, like plus or minus one quarter for the normalisation of the start of the improvement? That's question number one. It's around timing, given the type of context in the US. The second one on –

Eric Vallat: I think I would answer.

Cedric Lecasble: So second one on A&P. Just what's the threshold that you are targeting to be consider the A&P investment? Where do you want to be before your put foot on the brake on A&P as a percentage let's say? Just to understand the rationale. Thank you very much.

Eric Vallat: So quickly on question two. The threshold, we believe we are at the threshold roughly, which is what we said when we launched our plan in 2020. We said the first years would be dedicated to a sharp increase of our A&P ratio versus sales. Actually, we increased more than expected. So what was meant to increase in five years as a percentage of sales has increased quicker, thanks to the gains on gross margin. And we believe today we are at a normative level in terms of percentage of shares – of sales.

So it doesn't mean that we are putting our feet on the brake because we still are ambitious on our sales in the medium terms. So, in absolute value, A&P will grow, but in relative share they should stabilise. In – and for the US, I'll try to be quick as well as we don't have much time left.

But – so first the promotion intensity to be – I don't want to go too much into detail and to speak too much of competition directly as well. But if you take cognac, which I think is more your question, it's more on the entry price point and on the VS category that there is more price aggressivity than on the upper ranges. So the gap between our products and others is probably not moving that much if you consider the upper ranges, even though we are the only ones to increase but not necessarily we at a higher percentage, except for XO.

But the gap between VSOP and the grades below is increasing between our VSOP and the grades below, which we take as a good news because we are fine champagne and we need to position VSOP at the right price point, relatively speaking. And this is what's happening now. And we are kind of solving 10 years issue when the VSOP had been decreased 10 years ago, and was too close from VS. There we are. At least now we are getting close to what our target positioning is and should be.

And I remind you that in the long run, our bet in volumes is 1738. And not that we kill VSOP, we're very proud of it, but stabilising sales it would help us grow 1738, which is our number one objective.

As to the sell-out, it's a bit early today to speak of sell-out. You see it in the listed figures and you see it in the official figures. What you can witness is that it has improved if you compare it to two month ago. It is still negative, clearly, but it has improved. If you look at it versus three years ago, it's still incredibly positive, particularly for Rémy Martin, with which tells us, and which comforts us in the fact that when the comps will ease, we will naturally improve, because we are between – if you compared to three years ago, we have a very strong double-digit growth, even though we are decreasing versus last year.

And last, the magnitude of the delay, is clearly too early to say, of course, at this stage because it'll depend on the magnitude as well. For the moment, we don't see any reason to change our guidelines for the year. That's the best answer I could give. But Luca, if you can –

Luca Marotta: No, just jumping on these two points, be some question that because we are running late. I anticipate maybe some question that are not – you are not able to ask in terms of timing.

What about the yearly consensus? At this stage, we are broadly in line with your full year consensus in terms of the top line organic, sales top line in terms of operating profit. So we are broadly in line. The two points in which you need to adjust the consensus, I insist, but then you need also to moderate that in term of absolute value impact it is that the net financial charges need to be increased to almost double. It is not double, almost double. I'm quite precise when I say thing.

So it is ’29 to ’30 at this stage because of the increased amount average debt, and so also the net debt because if there is a part in which you can improve your model is the net debt in A ratio. A ratio will be always remaining in a very moderate modest trends. This was for the yearly picture.

I can confirm the rhythm. So we will start slow in the Q1. At Group level, we will start in the mid-30s negative, being positive everywhere and then ever or more or less everywhere. And clearly realigning – still realigning in the US. And then sequential improvement, Q2, Q3, Q4 year. Here two halves, H1 will be negative overall, because the rhythm is start increasing from the Q2 and then positive in the H2.

This is the point – two major point on the yearly consensus and the rhythm, slow start, mid-30s and then improvement, sequential improvement. Last point, very important. We will never be, at Group level, reaching a lower point whenever in the year compared to ’19-’20. We’ll be always up compared to ’19-’20. I hope it helps.

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

Trevor Stirling (Bernstein): Thank you, Luca, Eric. And thank you, Marie-Amélie. Two quick questions. One in the US on pricing. Are you taking pricing right across the portfolio including VSOP, or is just only on the higher grades?

And second question. Luca, maybe just talk to us a little bit about the moving parts on margins next year? I know you've guided a stable. But where is the pressure and where is the offset?

Eric Vallat: Okay, Luca, I let you answer question two and I take question one.

Luca Marotta: Okay. You want to start?

Eric Vallat: Yes, I start and a little bit quick and let's make it in five minutes max, three minutes max, if we can. So thanks for the question. On pricing, yes, we are increasing VSOP price as well, but at low single-digit. So we have a pricing strategy in the US, which is very tailor-made grade by grade. So a strong high single-digit price increase on XO, low single-digit increase on VSOP.

Luca Marotta: Organic COP margin flat on a yearly level. So clearly, H1 for was the H2, because that's linked also to the top line, and the linearity of investment. Gross margin will be more or less flat. So we are able to more or less compensate all that. Also, the negative impact mathematically of the US negative figures on a full-year, and mainly in the first part of the year.

A&P, more or less flat compared to the turnover. So stabilising the ratio. And the same thing for OpEx, i.e., being able to absorb strategic OpEx increase, being able to absorb important salary increase linked to inflation, and the result being an organic stability in terms of profitability. But as you have noticed, clearly you have negative impact in published, because you have a top line and bottom line impact of forex.

One last word, because I know that many of you will be at that their model of the net financial comment I made on guidance. Don't forget that we are here for the future, and we're covering the needs to invest in the future. This year you have under your eyes more than €100 million positive price mix effect. The spike in interest is €10 million, €30 million, so one-tenth of this positive impact.

So when you compare that, you understand where is the needle for the future. Thank you.

Trevor Stirling: Thank you very much, Eric and Luca.

Eric Vallat: Thank you. I think this concludes our session. Thank you very much for your attention. And I think I give the mic back to the organiser maybe.

Operator: Thank you. Ladies and gentlemen this concludes today's call. Thank you for your participation. Continue to stay safe. You may now disconnect.

[END OF TRANSCRIPT]