Rémy Cointreau 2023-2024 Q2 Sales publication

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Operator: Hello, and welcome to the Rémy Cointreau H1 sales publication. My name is Natalie, and I'll be your coordinator for today's event. Please note this call is being recorded, and for the duration of the call, your lines will be on listen-only. 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, Luca Marotta, CFO, to begin today's conference. Thank you.

Luca Marotta: Good morning, everyone. As you'll see in the press release, H1 sales were down minus 22.2% in organic terms, including a decrease of minus 10.8% in the second quarter. Even if Q2 sales have shown a sequential improvement compared to the Q1, this is not enough and below our expectation. This performance has been mostly impacted by the Americas, where the recovery is slower than expected.

In parallel, the Rest of the World grew at plus 13.8% year-on-year in H1. H1 sales decline is split between a volume decrease of minus 18.9% in H1 and a minus 3.3% of price mix effects impacted by the America region, as a result of the strong cognac's underperformance compared to the Liqueurs and Spirits division.

Overall, H1 sales were up plus 20.9% in H1 as compared to pre-COVID level, despite including clearly the important US destocking.

Looking at the overall sales performance by region. Americas recorded a decline of minus 49.9% in H1 year-on-year, mostly impacted by the Cognac division on the back of: first, sharp normalisation of consumption; second, a meaningful the stocking in absolute value; and third, tougher market condition, including a persistent promotional environment and the rise in financial cost.

Compared to '19-'20 Americas is down minus 3.2% at this stage. APAC, Asia Pacific region was up plus 16.6% in H1, led by China, Southeast Asia, and the continued recover of travel retail. This represents very important plus 55.8% growth over four years.

EMEA was up plus 8.9%, showing a relatively good resilience despite a touch softer demand. EMEA is up 19.4% versus four years ago. This was sales sell-in.

Now let's talk of value depletion at Group level of the last six months. In the US, value depletions were down high-single-digit. Compared to pre-COVID covid value depletions, up plus 30% and stripping out VSOP, plus 70%.

In China, value depletion were down mid-single-digit in H1 against very high comps. On a four-year basis, China value depletions were up plus 45% in H1 following only plus 20% in the previous quarter. H1 negative performance reflects Q2 in value depletion, high comps and touch softer demand during the summer in China.

Finally, in EMEA, value depletion were up mid-teens led by Africa and Middle East, Benelux and Eastern Europe. This represents an increase of around plus 30% versus H1 '19-'20. So we can say and see very clearly that overall at Group level, this means that depletion on a four-year basis grew almost two times faster compared to sell-in, plus 35% versus around plus 21%.

This is the mathematical and clear demonstration that sell-in is impacted by some conjectural short-term effects while the underlying consumption has clearly accelerated compared to four years ago.

To sum up for this very first slide, important one, following our performance, which is unfortunately below our expectation assumption and taking into account our new assumption for the coming months, we have decided to adjust our full year guidance. We now expect a decline between minus 15% and minus 20% on a organic basis and a contained decrease in operating margin organic basis as well.

This is also, thanks to a deployment of a major cost-cutting plan. I will detail it more in the last slide of this presentation.

On pages three and four, we picked up some marketing initiatives that been undertaken over the last quarter, first in the US and then in China.

Let's start with page three and the new Rémy Martin’s campaign with Usher, Life is a Melody for 1738 and EXO, as well as the new chapter on Cointreau with Aubrey Plaza for the Cosmopolitan cocktail.

Depletion are far from being satisfying in cognac. However, it is important, it is a key to keep our long-term vision alive. We continue to strengthen our brand equity by growing the long-term awareness and desirability of the brand.

Preparing the recovery is key for on cognac and we will continue to selectively invest in A&P, advertising and promotion. On Cointreau, the situation is clearly different as Cointreau benefits from a strong momentum and the objective is to leverage it and to continue to gain market share.

Page four, just a quick word on China and more particularly on Mid-Autumn Festival. Sell-in was solid despite a slower-than-expected economic recovery in China, but depletions were below expectation. In this market, our main objective has been to support depletion fostering below-the-line concrete initiatives, a little bit more than above-the-line advertising actions. E-commerce and off trade, talking about channels are very - two very important channels for us and a lots of animation has been done - been done to support our brands, including the launch of a new skew for XO with a 50 centilitre format on JD.com.

In addition, we did several animation to continue to develop off-trade and social gatherings. In the meantime, we continue to work on gaining new distribution listing in on-trade for XO, which will be a strong game changer over the mid-term. Here you can see on the slide an example of modern on-trade animation to announce our visibility.

Now let's back to call figures. Moving to the H1 sales analysis, slide number five. Sales amounted to €636.7 million, down by €230.4 million year-on-year or minus 26.6% on a reported basis. This reflects, first, a very strong organic decline of €192.7 million, which is minus 22.2% of organic sales decrease. This performance is split between minus 18.9% on negative volume effects and minus 3.3%, as already said, of price mix linked to the Americas underperformance.

Regarding the latter, so the price mix, this is a combination between a positive pure price effect, low to mid-single digit and the negative mix effect around high-single digit. Second, a negative currency translation impact of €37.8 million, which means a 4.4% loss in H1 ’23-’24. Why? This loss was largely driven by the declaration of the Chinese yuan for around 20 million, 20.3 million, US dollar for 12.7. In addition, Canadian dollar, Australian dollar and Japanese yen posted a slight marginal loss of respectably €1.2 million, €0.8 million and €0.7 million.

Slide number six, an important slide showing the performance by division versus H1 ’19-’20. On the left, evolution of the Group sales at constant exchange rate. In H1, we grew at plus 20.9% on a four-year basis, including a volume effect of 3.9% and huge price mix effect of 17%.

Looking into the performance by division on the right part of the slide, we can see that on one slide the cognac renewed with growth at plus 9.4%, thanks to the second quarter, which improve sequentially. Volumes remain significantly negative, but price mix is still strongly up by 28.9%.

On the other side of the slide, Liqueurs & Spirits was up 55.8%, which is amazing and showed a well well-balanced breakdown between price mix and volume.

Now slide number seven, dig into organic trend by region at the end of H1. And let's start with APAC, Asia Pacific organic sales in which sales were up at plus 16.6% year-on-year in H1, which means plus 55.8% on a four-year basis.

Looking at volume-value equation, the performance year-on-year is equally driven by volume and price mix. Inside this region, clearly, China has a very important weight. China sales were up high single-digit in Q2, benefiting from a solid level of sell-in during MAF, Mid-Autumn Festival, and despite a slower-than-expected recovery post COVID.

Over the period in terms of channel, direct channels and off-trade and e-com outperformed and offset the weaker performance displayed by other channel, and the on-trade, which for us remains a small part of our business, less than 10% so far as far as I speak of total sales for China.

Meanwhile, value depletions at Group level were down mid-single-digit, i.e., plus 45% versus ’19-’20. This change in trend reflects softer demand in July and August, exacerbated by some calendar effect. Mid-Autumn Festival was three weeks later this year, and very high comms. They are below sell-in, which implies now mathematically and a higher level of inventories in China compared to the end of the Q1. This will waive - will impact on the expected shipment before Chinese new year as we will destock to ensure a sound level inventories post Chinese New Year.

Remaining part of Asia reported a mid-teens growth in H1, boosted by stronger rebound of some countries like Japan. End of September 2023, APAC accounted 40% of our Group sales, up 12 point versus last year.

Americas. Americas organic sales recorded decline of more or less 50%, 49.9% compared to H1 of last year, mostly impacted by volume while price mix were also negative to the strong underperformance of Cognac compared to the Liqueurs & Spirits. More specifically in this region, talking about the US, sales were down at very strong double digit in Q2, showing however a sequential improvement versus Q1. This performance reflects continued destocking in absolute value on cognac alongside tougher market condition, including promotion and rising financial cost, which impacts the capacity of financing for both retailers and wholesaler.

In the meantime, Liqueurs & Spirits division in the US showed a sharp rebound, as expected. Overall, Q2 was slightly above pre-COVID level in the US if we achieved the strongest destocking absolute value. This is importantly not visible in terms of days of coverage due the further deterioration of depletions.

Consequently, the level of inventories is still at around five months at the end of the Q2. On a six month basis, value depletions are still down high single-digit year-on-year, down low single-digit excluding VSOP, and approximately up plus 30% versus H1 ’19-’20 and plus 70% on four years basis, excluding VSOP.

Talking about Canada, sales showed also very strong decline in Q2, impacted by more or less the same factors and events as in the US. In parallel, Latin America was down low double-digit in Q2 as well. End of September, Americas accounted for only 37% Group sales, down 19 points year-on-year. So APAC 40%, Americas 37%.

EMEA organic sales were up plus 8.9% in H1 and a plus 19.4%, more or less 20% versus four years ago. This year-on-year performance was only driven by price mix, while volumes were slightly negative. Inside that by sub region, Western Europe was up high single-digit in Q2, led by some southern Europe country like Spain, Greece and Italy.

UK was also up high single-digit, but also benefiting from a positive phasing effect, linked to the duties increase in August. Remaining part of EMEA, we generated a very strong double-digit growth in Africa Middle East, while Benelux and France recorded a softer trend.

H1 value depletion were up mid-teens year-on-year, representing plus 30% of growth versus four year ago. So more than the sell-in. At the end of September 2023, EMEA region accounted for 23% of Group sales, up plus 7 point versus last year.

Now let's turn to slide number eight and switch from a regional standpoint to analysis by division in terms of footprint, starting with the Cognac. Cognac posted an organic decline of minus 30% in H1 ’23-’24, reflecting a significant decline of minus 39% in volume and a strong prime - price mix gain of 8.9%. End of September 2023, Cognac division accounted for 60% of our sales down 8 points year-on-year.

Now let's dig in and start with APAC. In APAC, let's start with China. In China, Cognac sales were up high single-digit in Q2 on top of a very high base of comparison. Indeed, sales growth represent an increase of more than plus 100% versus Q2 ’19-’20.

If sell-in is below our expectation, they remain very solid. They represent a good achievement in the current environment. The recovery post COVID is lower than expected and affected by a softer consumer confidence, having a good comprehension the current trends is a relatively complex exercise and the visibility is currently quite limited.

The key takeaways so far are: first, on-trade channel was weaker and is just starting to show some sign of improvement, while, second point, off-trade and direct sales demonstrated a better resilience. Overall, talking about value depletion, value depletion were down mid-single digit in H1. So as a result in cognac, as already said, for the Group level - at the Group level, at the end of H1, our level inventory is higher compared to the end of Q1 in China.

Our objective is to now de-stock and ensure a sound level post Chinese New Year. In other regions, Taiwan generated an outstanding performance in Q2. Macau continued to be weak in terms of sell-in, but value depletion showed a strong acceleration, which bode well for the coming months.

And finally, in Hong Kong, we recorded a very strong quality supported by dynamic value depletions.

In Americas, let's start with North America, so US and Canada. North America Cognac says declined meaningfully year-on-year on Q2, impacted by destocking, consumption normalisation, high comps. In meantime, market condition are getting tougher and tougher. The rising financial interest is reducing significantly wholesalers and retail financing capacity. Moreover, persistent market, not by us, but the market overall promotion adds pressure on Rémy Martin volumes, as we have decided not to make any compromise on pricing, fostering long-term value creation instead of non-sustainable and quick winds in volumes.

As a consequence, US value depletion in cognac have deteriorated sequentially in Q2 versus Q1. They were down minus 32.8% year-on-year, i.e., minus 10.6%, more or less minus 11% compared to the Q2 ’19-’20. In this context, the level inventories on cognac is now in terms of coverage above more or less above five months in terms of - for the cognac. It will be lower for the Liqueurs & Spirits division giving a 5% as an average for the US in term of value depletion at Group level.

Price mix effects were positive 7 points year-on-year in the last 12 months period ending September ’23, led by price increases. On a four year basis, price mix was up plus 26 points. Latin America side was up mid-single-digit in Q2, led by VSOP.

And then talking about the third region, EMEA, cognac cells were up low to mid-single-digit in Q2, led by Africa, Middle East, and western Europe. In parallel, Benelux, France were softer in Q2 in a more promotional market. And finally, travel retail Europe and some Eastern Europe countries were negatively impacted by the global geopolitical context.

Now let's turn to the Liqueurs & Spirits divisions, slide number nine. The Liqueurs & Spirits division posted a flat performance on organic basis in H1 ’22-’24, including a decline of minus 6.5% in volume, mainly due to the Americas in Q1 and the positive price mix effects of 6.6%, as a result, we have more or less zero, 0.1 increase.

At the end of September, Liqueurs & Spirits division accounted for around 33% of sales, up 8 point versus last year.

Now less review the performance of the division by region, starting with Americas and North Americas first of all. North America sales were up very strong double-digital year-on-year in Q2, as expected, and following some negative phasing momentum in Q1. This represents an increase of around plus 65% versus Q2 ’19-’20. This performance reflects a strong momentum both in sell-in and value depletion on some brands like clearly Cointreau, but also Botanist, our gin, and Bruichladdich.

More specifically on Cointreau, Q2 US value depletion were up plus 9.2% year-on-year, which means plus 75.1% versus Q2 ’19-’20. Besides that, price mix was up by 6 points versus last year in the last 12 months ending September and up plus 30 point on a four year basis.

In parallel, for Liqueurs & Spirits division in Latin America, sales were down in Q2 year-on-year in a market showing softer tourism trend for these kind of brands.

In EMEA, sales grew up - grew at the low to mid-single-digit in Q2 year-on-year, led by Bruichladdich, whiskey, single malt, Botanist and Cointreau. UK continue to benefit from positive restocking effects just before the duties increased in August and Western Europe outperformed and generated a strong growth.

In the meantime, Benelux, Africa, Middle East continue to show solid dynamics led by the whiskeys and Cointreau.

Finally, as already said for the cognac, it is also valid for travel retail for Europe and some Eastern Europe country will still have been impacted negative by geopolitical context and softness.

In APAC, China posted high single-digit sales decline in Q2 year-on-year, but approximately plus 60% compared to four years ago, the same momentum, and impacted by the continued destocking in whiskey, specifically. Rest of Asia performed well and recorded a midstream sales growth in Q2, led by some countries like Japan, New Zealand, Australia and Vietnam.

Before to conclude, one last word on the performance of the non-Group brands, which represent now only 2% of our Group sales, stable year-on-year. They were down minus 1.6% in Q2, mostly affected by the UK, where Passoã is facing a strong promotional environment in competition.

In conclusion, before switching to the Q&A, slide number 10. Worsening market condition in the second quarter, primarily in the United States has led us to update our underlying assumption for this fiscal year ’23-‘24 as follow. First, in the United States market condition, I repeat, have significantly deteriorated in Q2 on the back of a very strong promotional environment and the rise in interest rates that has cut, reduced distributors financing capacity. As a result, the rebounding sales initially expected for Q3 in the US is now anticipated for the next fiscal year in ’24-’25.

Second in APAC region, Asia Pacific, group expects it to generate a positive growth this year, but a piece below initial assumption, given slower-than-anticipated post-COVID economy recovery in China.

Last but not least in the EMEA region, the Group expect more moderate annual growth in a persistently inflationary context. In this context, Rémy Cointreau is determined to protect its profitability for this fiscal year through tight cost controls, while continued to roll out its medium term plan.

To this end, it will, first of all, maintain a strict and uncompromising pricing policy. Second, protect its gross margin in a persistently inflationary environment. Third, selectively reduce A&P spends clearly, particularly for the most affected cognac division. Fourth, significantly reduce other operating costs.

As a result, Rémy Cointreau has adjusted its full year ’23-’24 objectives and now expects a decline between minus 15% and minus 20% in sales on an organic basis compared to the previous guidance, which was stable.

Second, a contained organic decrease in operating margin compared to stable previously, thanks also to a deployment of a major cost-cutting downsizing plan.

Lastly, based on the shift in its geographical mix and the RMB decline, the Group expect exchange rates to have a negative impact for the full year on sales between €50 million and €60 million of which two-third in H1, no change compared to the previous guidance in operating profit between minus €10 million and €15 million, mostly on H1, no change compared to the previous guidance.

Rémy Cointreau is today ahead, clearly ahead of its strategic 10-year plan and is underpinned by very solid foundation and long-term vision. This makes '23-'24 an harsh year, but the transitional year, which allow the Group to return cognac inventors in the United States to healthier levels to absorb the effect of post COVID normalisation before adding into a '24-'25 years in the best possible condition, resuming regaining the trajectory of growth it set itself for '29-'30.

Thank you for your attention. And now after I drink a bit of water, I will be happy to answer to your question. Thank you.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you'd like to ask a question, please press star one on your telephone keypad. Thank you. We will now take our first question from Simon Hales from Citi. Your line is open. Please go ahead.

Simon Hales (Citi): Thank you. Morning, Luca. A couple of questions really from me, please. Firstly, I wonder if you could just talk a little bit more about the scale of the cost cutting initiatives you are going to put in place through the end of the year? And how much protection these cost cuttings this year may actually give to your EBIT margins in 2024?

And then looking ahead, I assume obviously things like marketing spend cuts this year will only be temporary and they'll therefore sort of rebound into 2025 and beyond. But how do we think about some of the more permanent cuts you are talking about around structural operating costs? How big will they be? Where are they coming from? So that's the first question.

And then secondly, can I just sort of come back to the whole level of inventories in your major markets? I just wonder if you could expand a little bit on the inventory positions in the US and China at the end of the quarter? What level of inventories are now in China at the end of September versus Q1?

In the US, are Liqueurs & Spirits inventory levels, okay. And is all of the problem just really in the cognac business? And I appreciate it's tough to generalise, but what do you think the right level of inventory are in key markets like the US and China now in the new higher rates environment that wholesalers are operating in?

Luca Marotta: Thank you. So for the next 30 minutes, I will try to answer. Thank for you very small and nice questions.

So I will not detail in a very analytical way today because it's still a sales call and we'll be more precise in November. But we can say already very, very clear things about the cost cutting. We are working on that to cut it, to offset as much as we can, the important sales effect to protect our profitability because I'm sure you notice the range between €50 million and €20 million is quite large, means between €230 million to €310 million mathematically peak in terms of sales.

And if you apply that, a gross margin normative level makes a hell of a difference in terms of profit theoretically missing if you don't operate on cost, if you are minus 15% or minus 20%.

So we already set some targets. And when we talk about major cost cutting, we are not talking only about A&P. We are talking about everything. We are talking about industrial costs, we're talking about A&P. We are talking about OpEx. And the magnitude of the overall impact will be between 10% and 15%. So to give you a number, we are looking for €100 million of cost saving.

How much will be long-lasting? How much will be temporary that will be injected if the - second question, if the top line is [inaudible], really this is part of our future adjustment. But so far we are running for that kind of magnitude. I repeat 10% to 15% reduction point of the reduction the cost base considering A&P, OpEx and part of the non-strategic industrial cost and a split between the long-lasting and a short-term.

If you want to be more precise, I can, it is more - will be more on A&P this year, 15% to 20%. And OpEx more or less 10%. As a result I repeat, 10% to 15% in term of magnitude. And what will be the impact of the operating contained means - what does it mean in English? More is - more exact in English that in France. It's more contained that our first intention is to protect the trajectory in terms of market share and growth for the future year.

So I don't know, following the depletion journey, what will be the end of the year minus 15%, minus 17%, minus 14%, minus 20%. But we have to prepare - to be prepared also for the worst situation. That's the reason why, and this is quite a very important call for a Group like us. We are calling for a major cost cutting plan right now. And I repeat some of these measure will be long-lasting. It's not only about temporary.

In term of - I think I've answered to your first, second and third question because it was always combined. In terms of level inventories. Situation in the US in terms of coverage has not improved. It's not because we are not over in the sell-in, because what we can do more than B minus 50. So we are not pushing. For safety, we're not compromising on promotional - we are not comprising on the short term.

It's that the main deception was the Q2 in term of depletion, we were expected to have a sequential improvement and we had a very negative Q2. It’s clearly visible. So we don't have to be scared to admit that. There will be an improvement also in the future quarter. But the hit in the Q2 makes a miss that need to be taken to account very clearly.

So, so far, despite the fact that we made a huge sacrifice to reduce the - in all freight chain, the level of inventories in absolute value, the coverage is still more or less five months, maybe a touch more than before coverage because it's more in cognac and less in Liqueurs & Spirits. Does it mean something? No, no, no. Please do not think in terms of a month of coverage.

So your second question on the US, we cannot modelise a normative level in terms of months because what is today is five, six, seven months in some state becomes all of a sudden 35 days if you have experiencing a huge jump that we are prepared to follow. And because we think that is short-term congenital and the appetite for the cognac is not lost. It's part of the historical curve of up and downs and cognac. It's maybe a little bit more schizophrenic in terms of normalisation, as well it was schizophrenic in the rise for the last three years.

So we remain very calm despite the fact that I'm talking very passionate, but don't think in terms of normative. If you want absolutely modelise that three to four months sometimes means having missing products and being out of stock in some point of sales.

Being back to your question on level of inventory, we have to talk about China. China is a bit more in terms of stock coverage compared to the Q1. Why? Because Mid-Autumn Festival on the heels, a very strong Mid-Autumn Festival last year was a very good one in terms of placement of sell-in.

But depletion and final sellout was a little bit disappointing, a little bit, but disappoint compared to our expectation. So as a fact, we don't want to overstock in China. So yes, we have to get read the part with this stock in Chinese New Year and to give all the chances to continue to serve to very strong year for the following one, even reducing the guidance for China per se, we will perform a positive year not on sell-in and bought on depletion.

So on a temporary basis, if you want also the first sign of September - first sign of October are quite encouraging. So I agree with some of my - of our peers. They're saying there is some signs of positive development in China is the fact that we want to be cautious because this success in math in term of sell-in compared to depletion and we don't want to overpromise for the China's new year to be able to normalise the level.

Rest of the world overall remain very sound but slightly increasing. Why? Because in some European and also Asian countries, the summer was slightly disappointing.

So last point, which is very important I think for everybody. Let's try to put some figures behind the difference between the initial guidance flat on top line and the new one, which is minus 15% to 20%. On purpose, I want to highlight that very clearly to be clear for everybody. So we are talking about a magnitude of sales difference compared to the Q1. I repeat, between €232 million to be precise and €310 million if you apply minus 15% to minus 20% to the previous top line of the last year at organic basis.

How we can split the effect by region? 60% to 65%. So we can say a small two-third of this is linked to the Americas and US, 25% China, but will still remain a positive year both in depletion and in sell-in, and the remaining 15% to the rest of the world.

Now let's dig into the biggest part, two-third Americas. Why two-third? One-third of this two-third is linked to the difference between the H1 expectation for - that we had and the H1 sales miss. So it is what we have today end of September compared to our initial assumption and forecast. Deterioration depletions Q2 has impacted the sell-in, but this is only one third of 60%.

Why we are have a multi - we have a multiplicator effect on the remaining part of the year? Because we are expected to have a V shape and now is more a U shape with a little bit more lasting of the neutral part of the U. So two-thirds of the 60% are related to H2.

On top of the deterioration of the patient forecast that implies less sell-in, we have to consider that the restocking effect, that it is clearly a consequence of this realignment will not be strong as expecting, and will be probably delayed to the next fiscal year.

So I repeat. This difference in terms of previous [inaudible] guidance is split in terms of magnitude two small third for the Americas, 25% China, 50% of the rest of the world. We thought it was very important for us to disclose this kind of those element to help you modelise also next year even if nobody has a clear visibility, nor do I, nor we have. This is important to try to set some scenarios.

Last but not least, despite that it will be a growing year for the Group out of the US, a growing year with performance in many countries at least equal, if not better on our peers. Thank you.

Simon Hales: That's really helpful, Luca. So just pulling those final comments all together, I appreciate all the comments around what's driving the new organic sales guidance range. If I link that into what you said around your cost reduction plans, is it broadly fair to say that your organic COP reduction this year will probably be running at about 500 basis points worse than whatever your organic sales decline ends up being?

Luca Marotta: How much you said, because you're not clear.

Simon Hales: 500.

Luca Marotta: So you are saying that it is minus 15% in top line, it implies minus 20% in operating profit. This is your question?

Simon Hales: That's correct. Correct, yes.

Luca Marotta: It's too early to answer. If you are in the - if we are, we are in the smallest part of the range, 15%. I have some good expectation to be able to contain a little bit more. So less than 5%. So I don't know. I don't want to commit, but less than 5%.

If you are in the highest part of the range, top line has 1 point as a huge - I cannot cut - I can cut nails and I cannot cut my fingers. So it is a 20%, it will be 5%, maybe 6%. But compared to the actual consensus, we are clearly missing the consensus in top line? But you were collectively a bit too pessimistic in term of our ability to cope face this strong wind.

So in operating project, when we say contained, we will contain.

Simon Hales: Very helpful. Thank you.

Luca Marotta: I repeat. 5% - if it's 15%, I want to be able to reduce operating profit less than 5 points again. If this 20%, may be 5%, maybe 6%. Because at one point there is a mathematical - I cannot cut cost forever. I cannot be more clear than that.

Simon Hales: Thanks, Luca.

Operator: Thank you. We will now move to our next question from Trevor Stirling from Bernstein. Your line is open. Please go ahead.

Trevor Stirling (Bernstein): Morning, Luca. Well, I hope you have some fingers left at the end of all of this. Just one question from my side, Luca, and it's probably a tough one to answer. But focusing in on the minus 30% value depletions in cognac Q2 US, I appreciate there's a lot of moving parts here. But can you estimate at all how much of that is retailer destocking, how much of it is the fallout from the competitor promotions, and how much of it is real underlying demand? And I'm pretty sure that's a really tough one.

Luca Marotta: I think it will be something strange for you. It's my first time in 10 years. I don't know. I'm not able to answer really. Any answer would be a wrong one. I don't have a clue.

Trevor Stirling: Well, that's two of us.

Luca Marotta: This means that we are counting what happens on the field, on the battles. And actually, I - it means that the visibility for the future is not ideal. I can say that. I agree with that. So it's a consequence knowing that we are not able to decompose, to split it up in a casual track. Very clear means that visibility, it depends on factual basis.

I agree on rule with that. I admit that it is a very important point, but I will be a liar if I answer to that.

Trevor Stirling: Then, maybe just that one follow up then Luca. Clearly, given that a lack of uncertainty that informs I guess a lot of the uncertainty around where you're going to end up in terms of sales depletions or sales for the year, is your assumption that value depletions are stable by the end of fiscal year ’24?

Luca Marotta: You're talking about US?

Trevor Stirling: US cognac, yes.

Luca Marotta: Now still negative. It would be a sequential improve, but the miss - so the volume Q2 was strong double-digit negative, and once again, we expected something much less negative and more of strong sequential improvement. And this plays a role in terms of the impact on the future quarter.

So the restocking and the increase of depletion of final retail sales has been cut because every time a company, a mix company has a guidance which is in V shape, there are clearly a risk of missing that if the building blocks for the more difficult part are not showing the tender result.

So what we have lost in the Q2 is very strong compared to the short-term - for the short-term also for the future quarter. So it will be still negative. Improving in the H2, but at yearly level, value depletion will not be positive on or - but in China it will be positive in that case. And so it is clearly only about US in this moment.

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

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

Mitch Collett (Deutsche Bank): I'd like to ask a couple of questions on the US as well, if that's okay. So I think during the peak in terms of growth in the sort of pandemic and post pandemic period, we talked about a new paradigm for the category. I guess as of today that that doesn't look like it's the case. And I suppose I wondered what your thoughts are - were on why that's changed? And I think there's been lots of industry participants who at that time thought that the step forward was something that could be retained. So I'd love your thoughts on why that hasn't happened.

And then I guess linked to that, in the data you gave on slide eight for your US volume depletions, I just wondered if you could help explain why the - your company estimated depletions, which is minus, I think, 37.4 in the last three months was quite a lot worse than what you would imply from the NABCA Discus data you give and also Nielsen. I know you said it was very hard to understand what's going on in terms of retailer destocking, but I guess are there channels outside of NABCA, Nielsen and Discus that are underperforming the channels that we can track? Thank you.

Luca Marotta: Thank you. I will start the second one because the panel you have, they're covering more or less 50% - 54%. What is – so the remaining part is very important. And so this time you have this kind of assertion, this kind of statement but many times was the opposite. We were highlighting figures that were in the other way around, so better than. So the fact that the remain missing part is make things very difficult.

Once again, to remind that we are trying to combine that. We are underrepresented in Nielsen because of some chains and mostly the Liqueurs stores. And so it is very complicated to try to, in a moment in time to comment the difference between one and the other.

Liqueur stores are very important for us, and they're not track that. What's important is that, in my opinion, our opinion is not to compare to the momentum to the distance, but to follow the same logic you'll be able to compare to the previous - at least we are comparable.

So the first question, it's clear. Another very, very, very usual. Let's try to differentiate the short-term or medium term, if you want, the one year performance compared to the overall desirability of the market and what will be the future of the cognac market, in our opinion, the US, at least for a company like us, does this is clearly fit with the long-term views of drink less but better.

So actual US performance for us and indirectly for the market is linked to, first of all, a strong sharp consumption normalisation, no doubt of that, even stronger than when we fought. But it is announced, increased by the destocking in absolute value for cognac linked to the fact that when we are in this kind of momentum, if you are a wholesaler in financial interest rise, you give short-term priority to a more fast moving brands that plays on promotions and time zone, price decrease because you have the rotation of your employed capital that got faster.

So in the short term, we have a weak point compared to our pieces in terms of financial, but we think this is not our strategy. So we keep - we can keep on going with our idea, and we are a very solid company. We will be back on this point at the end of presentation.

Intensive promotion for our competitor. This is not stopping. It's destroying value, destroying part also the perception in terms of the consumer. So it is something short-term that is implying the strength of the promotion and the length of the promotion is implying that could be something more lasting.

Once again, a rise on financial cost, reduced financial capacity of wholesale retailers. If you compare what they are carrying today in absolute value to 10 years ago, it's ridiculous. Even - they're much more in VIM today, in vendor inventory management as a consequence than what it was largely before COVID.

Underlying consumption is softer, but once again, we think that is influenced by this kind of different element in which we are a bit alone because we play a different strategy. Does it means - so we're going to the hard part now. The cognac category lost its desirability partially or totally or not? For us, in our opinion, not at all. I repeat, not at all.

All perception surveys and brand health tracker and other are showing the country for the category and even more for us. We are clearly spot on in what the desire of the consumer is showing. Also in this very complicated momentum, Rémy Cointreau now is number two in term of desirability in the US and the number one in China, is public. I can say it.

The issue comes from the fact that we are personally facing all the headwinds at the same time as I - as we said, and this is also in demonstrated that depletions on a four-year basis are clearly beating the sell-in performance on a four year.

On a four year, you have all things are linearised are comparable. There is no more short-term, long-Term element. Depletion, we're growing two times faster than sell-in. It's a fact, even today. Even today, they are at bottom of the hour performance in term of depletion. We have only minus 10 compared to pre-COVID, and there is a clear acceleration coming, will be not enough to confirm the guidance, but will still very strong compared to where we will stand.

So it's important this context to continue to feed the brands and to be able to jump on the growth that will happen. Historically, cognac last 50, 60 year has been growing at the category, 3% in volume. Will be maybe a little bit less in the future because drink less, but better. But have you seen our price mix effect on sell-in, even more on sellout. We'll be there to support that.

So the cycle could be made more schizophrenic like the temperature in this moment, like the weather, but the long-term trajectory we believe is there and the disability is very, very strong. Also in term of demographics is less of a topics in our opinion. It's more U&A, user and habits game.

In the short-term, we are obliged to cut cost. We will do it. We will try to be smart. And as said to Barclays - to Citigroup, to Simon, we will jump on that as soon as the sales will be recovering in the short term. So we'll be cutting.

But - and nothing will imply in our opinion, a loss or disability of the cognac in the medium to long term. We are very, very opinionated on a positive way on that point.

Mitch Collett: That's very comprehensive. Thank you, Luca. If I can ask one quick follow up that's unrelated on China. I know you said that the on-trade channel was weaker than the off-trade. I just wondered if you had any thoughts on why the on-trade was weaker. And I know you also said there's very limited visibility. But what gives you confidence that that on-trade weakness doesn't spill over into weakness in other channels? Thank you.

Luca Marotta: Thank you for your question. I will probably to elaborate a bit more on China because it's very important. So I will start with the on-trade. On-trade overall, which is not so important, for example, a weight but for the profession, for the category, yes, it is, was a particularly week during Mid-Autumn Festival, also because of the 100 days campaign did not help.

The spend per capita was lowering clearly. But since October, there are clearly early signs of improvement. I agree with one of our merger competitors in China that things are going better in China in terms of the on-trade.

For us, it's not so important, but it is a clearly sign. But it's a little bit more complex situation in China. I can say that for us to try to give some colour, the current trading is that we are obliged to cut our initial guidance, even if we will be increasing turnover compared to the previous year for four negatives and two positive factors. Let's start with the four negatives.

The context is clearly negative. The crisis in real estate, finance sector, soaring unemployment, the cash tension in trade, anti-corruption, intensification. So expectation overall that the lower the temperature and the enthusiasm on China.

Second one, a clear softer demand during summer, July, August, September was better with retailers waiting for the last minute to deplete due to low confidence and cash constraints they have. Third point, the on-trade, as we just said.

And then fourth point, that the visibility as a consequence is also limited, bit more limited by some - and blurred by some calendar effect. [Inaudible] was three weeks later and high base of comps. But we have two very important positive element that gives confidence to us also for other company.

First one applies to everybody and even more to us. Our channel split is the very good one in this moment because every time we are in touch with the client and the customer, the direct channel, we overperform big time. We're much more dynamics[?] in direct channel. And e-commerce is clearly booming, even more on the B2C, D2C part than the B2B. So very good performance.

And second point, September and early sign of October, depletion are showing a strong pickup, which did not offset deterioration seen in July and August, but it is a positive sign. That's the reason why we are lowering the guidance. It was double-digit growth, both on top line and depletion to growth, solid growth, meaning low-to-mid single-digit both in sell-in and in depletion for the whole year.

In this context, we'll be growing, I repeat, in China as a Group, despite the global for negative factors in China for the fiscal year ’22-’24. I think it's very important to highlight. Reducing the guidance, but still positive top line and in terms of sales and depletions in China for Rémy Cointreau Group and clearly Rémy Martin.

Mitch Collett: Thank you, Luca.

Operator: We will now move to our next question from Olivier Nicolai from GS. Your line is open. Please go ahead.

Olivier Nicolai (Goldman Sachs): Hi, good morning, Luca. Just a couple of follow ups, if I may. You might have covered this on previous questions. But just wanted to go back to slide six. When you look at the cognac in the US here, you had price mix 28.9% growth during that that period. Do you have any rough estimate of how much is mixed versus price for you and if you consider that maybe if it's like more than half of it is mix for instance? I'm just trying to compare this to your main competitor.

The second question is on essentially the guidance that you gave particularly for the US. You flag obviously the high promotional activity and the rise in interest rates makes things just a bit more cautious of heading inventories. And you flag that's going to be better next year. But what makes you - what gives you confidence that those two elements would not still be there next year as well. Thank you.

Luca Marotta: I didn't catch clearly the second one. Can be more – if you can be more direct?

Olivier Nicolai: Sure. If you look at slide 10, I mean the first line of your outlook, you do flag in the US that obviously market condition are deteriorated fiercely promotional environment and rising interest rates. But those two elements could still be there in 2024-2025. So what makes you confident that actually you will see a rebound in sales here?

Luca Marotta: Thank you. It's clear. So in term of the price mix in only four years is more price than mix. I will say two-third, one-third. Two-third - on the short-term, as you've seen, price is positive and mix is on the short-term negative, but clearly on the - over the long term because of the underperformance of the VSOP compared to remaining part of the range is two third, one-third deposit. In the short-term, we have also a mixed issue, but it's very short-term element.

So which gives us the confidence is that the sacrifice we are doing today not to increase the short-term volumes with promotion and short-term operation, gives more speed to the piece of normalisation compared to the final demand. So sell-in would be mathematically increasing if we are able to normalise the depletion to stabilise them.

The first important and very important indicator will be depletions in value in the US for the cognac, really, first of all. Once the depletion will be running better than previous period or the previous year, you have an automatic normalisation of stock, there will be an evaporation of the stock coverage in term of days. The strong sacrifice in term absolute value will be clearly visible, and you will have what this year will be delayed, the restocking effect because at that point, the calculation of stock coverage would be clearly there.

The important thing is not to give up and to continue to be buoyant[?] with our long-term strategy and to support with a mix of the right long-term initiatives and short-term more point of sales animation, the - this kind of mathematical alignment.

So even if it would be in strong fierce promotional environment, the normalisation of the stock level will give us automatic positive element.

Then the question, the second question will be okay, but what will be your underlying for the ’24-’25 in the US will be mid-single-digit, high-single-digit or double-digit, considering the miss of this year. To this question, I cannot answer because the visibility of today doesn't allow me to give this answer. I will be more precise all along the year, also with Eric Vallat in H1 and even more in June because this is the very important. There will be an underlying growth.

How much it is? It is 2%, it is 8%, it is 15% in the US? I don’t know. Today, I don't know.

Olivier Nicolai: Thank you.

Luca Marotta: And to answer to this question, I would be able - I need to be able to answer something to the question of Trevor because the casual track of what's happening today.

Olivier Nicolai: Thank you.

Luca Marotta: A very candid way. I don't want to invent things to be a liar on this point. I don't have this answer today.

Operator: We will now move to our next question from Rashad Kawan from Morgan Stanley. Your line is open. Please go ahead.

Rashad Kawan (Morgan Stanley): Thank you, and good morning, Luca. Just one for me also on the us. When you talk about reducing marketing spend in cognac, quite a significant reduction, you talked about what gives you the confidence that that's the right approach given, the weak sellout data and the promotional activity you're seeing across peers. And is there any scenario where you look to engage in some level of promotional activity in the short-term?

Luca Marotta: We will not compromise on our strategy. The practical part of our operation will be all in term of activation point of sales, dynamize, the acceleration of the consumer habits, not playing on prices. It doesn't make sense to hold your breath three minutes and then when we're missing only 30 seconds to start to do something. That is wrong for your strategy. We will not do that.

So we play maybe some statistically, but on the BTL and not on the price. So in term of exposure on the shelf exposure, not in terms of structural prices and structural promotion. We do not enter in the price war and the price cream.

We think that our brands are very strong and desirable. And the Group, I will be back on this point at the end is very solid, prepared, calm, and all the weapons to pursue is long-term journey. It's harsh today, it's earth. We are not happy when we need to continue to fight for the sake for the wellbeing of our long-term journey. It will be a disaster to compromise on that.

Rashad Kawan: Got it. Thank you.

Operator: That's all the time we have for Q&A. So I'll hand it back over to Luca Marotta to conclude today's conference.

Luca Marotta: So we will meet again end of November along with Eric Vallat, Marie -Amélie de Leusse to talk about H1 result, detailed profit loss, free cash flow, balance sheet and so on, all the global set of figures.

But I'd like to remind two or three things that we need to think about it. Year '23-'24, it's very negative. It's very harsh one for us. It's a harsh year transition, no doubt at all. But please remember five important things. First of all, we have a very strong and solid strategy. No short-term compromises that would be incoherent in destroying acts and will be weakening and destroy client perception and network wholesaler and distributor partners for our brands, really in cognac, but not all.

Second point, we are materially ahead over 10-year plan. So a harsh year transition will not change. I repeat, will not change our medium to long-term goals.

Third point, we have a very solid balance sheet with the longevity of strategic financial resources that's been increased. A clear example, the last 380 private bond placements that we concluded some weeks ago at around 10 years officialised, and a very competitive interest rate. So we are much better positioned as a Group versus previous difficult situation the Group experienced 10, 20, 30 years ago. We have a DNA to fight this kind of situation and now we are much more solid financially speaking, strategic speaking, compared to the past.

Four, US normalisation, harsh normalization, tough, tougher than expected normalization, pulls down overall Group performance, but stripping out US, remember solid growth compared to the previous year on all remaining part of the world. And for some key countries with performance at least if not better than our big peers.

Fifth point, strong increase improvement over the Group size on all KPIs, starting not only including - starting with sales versus pre-pandemic '19-'20 in term of performance. So the Group is still playing and we playing in another league.

On this word, I wish you all a very nice day. Thank you so much.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.

[END OF TRANSCRIPT]