Rémy Cointreau
2023/24 Q3 Sales Call

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Rémy Cointreau 2023/24 Q3 Sales Call

Operator: Hello, and welcome to the Rémy Cointreau Q3 Sales 2023-2024 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, Luca Marotta, CFO, to begin today's conference. Thank you.

Luca Marotta: Good morning, everyone. As you've seen in the press release, nine months sales were down 22.7% and in organic terms, including a decrease of minus 23.5% in Q3. This performance has been mostly impacted by major destocking in China and Europe.

In addition, start to Chinese New Year was soft but improving in January as cash pressures in trade weighs on wholesaler orders. Postponing of orders contributes to inflate the negative calendar effect of around minus 2.5 points, around €10 million in value, linked to the timing of the later Chinese New Year this year.

In parallel, North America showed a strong sequential improvement, partly driven by some positive phasing effect in Liqueurs & Spirits division. Overall, the nine-month sales decline is split between a volume decrease of minus 17% and minus 5.6% of price-mix effects impacted clearly by the America region, as a result of the sharp Cognac’s underperformance compared to Liqueurs & Spirits division.

Finally, the cost-cutting plan is progressing well and in line with our guided roadmap.

Looking at the overall sales performance by region. Americas was down very strong double-digit in nine months, including however, a sharp sequential improvement in Q3, led by Liqueurs & Spirits.

APAC was down high single digit in nine months and down very strong double digit in Q3 due to major destocking in China and softer market condition in the rest of Asia. EMEA was down low single digit in nine months, including a strong double-digit decline in Q3 affected by destocking and softer market condition. This was sell-in.

Now talking about value depletion at Group level, the best approximation of final consumption and sell-out. Over the past nine months, we can say and observe that in the US, value depletion were down mid-teens and down high single-digit, excluding VSOP. As compared to pre-COVID level, value depletions were up plus 15% and increased by 50%, excluding VSOP.

In China, value depletion were down mid-single-digit in nine months against very high comps. On a four-year basis, however, China's value depletion were up plus 35% in nine months. In Q3, important to highlight that value depletions in China improved sequentially versus Q2 and were up low single-digit year-on-year.

Finally, in EMEA, value depletion were up high single digit. This represents an increase of around plus 15% versus nine months '19-'20.

Overall, all in all, at Group level, this means that nine months value depletion grew at approximately plus 25% on a four-year basis. So clearly faster than sell-in, which was up around plus 17% in the same period of four years.

To sum up, some negative effects such as destocking in APAC and EMEA are temporary and should not be seen with the same amplitude and magnitude in the Q4. However, the underlying performance, particularly in the US and in China, is unfortunately close to our most cautious scenario. This is why for the full year, we confirm our guidance of organic sales decline by the lower end of the guidance, i.e., around minus 20% in terms of top line.

Now pages three to five. We picked up some marketing initiatives that have been undertaken over the past weeks.

Let's start on page three with Rémy Cointreau, which is kicking off a year of celebration around the globe for its 300th year anniversary. To mark its tricentenary, the House has planned a year of special activities around the theme, We Dream Forward. And the release of an exceptional cognac, the 300th anniversary Coupe available in a very limited edition, 6,700 individual numbered bottles from 8th January.

This special release has been created by Cellar Master Baptiste Loiseau, clearly from the Remy Martin Réserve Perpétuelle, a collection of the exceptional incredible, amazing eaux-de-vie exclusively from Grande Champagne terroir, clearly, saved and passed forward by generation of Cellar Master.

Throughout the year, a series of events to celebrate this occasion, the tricentenary, will also take place around the world, including, first of all, a virtual visit of the vineyards to explore Rémy Cointreau’s terroir through immersive VR technology in selected airports all around the world. Second, the Centaur Birthday Tour that will bring the celebration to some of the globe's top nightclubs. And third, several important local events alongside specific activation during Chinese New Year.

Page four, a quick word on China, with several events expected for the Q4. First, on CLUB. With the launch of a new product package, the campaign teamed up with China's top celebrity, Xian Li as Rémy CLUB's first brand spokesperson. Xian Li is one of the most popular Chinese actor. Starting from January, the brand-new package featuring him has been launched on various media channels across the country.

Rémy CLUB was looking for a celebrity to further interpret the brand manifesto, which is “Uncover your edge”. Xian Li has a huge fan base not domestically, but also internationally. His movies and active performances on social media will benefit to CLUB awareness and will further announce the brand's competitiveness in the cognac category.

So far, CLUB new product launch campaign has yield exceptional results across brand content, media communication, CRM, e-commerce, social, and ThirtyPR.

Second, Rémy XO teams up with Blossoms Shanghai, the China's most popular TV series of the movie Director, Wong Kar-wai, who asked whether Rémy Martin onboard. XO is present for a total of 13 minutes in the series. As an official partner with multiple product placement, the Group will leverage this fantastic opportunity to rejuvenate the brand, recruit drinkers from the movie tribe, clearly, be this point of differentiation versus competitor and continue to establish Rémy XO role in movie to drive consideration, relevance, and at the end, share words.

Finally, one word on e-commerce, which is one of our key direct channels in China showed a strong performance in the current context. Thanks to all specific activation made around the festival 11.11 and Tmall alongside the launch of an exclusive edition CLUB Sheep Chen Le Centaure.

Page number five, a word on the US. I would like to highlight two important events. Still small in terms of business contribution, but a very good important illustration of the all the work done to enhance and further develop direct-to-consumer channel and enhance the portfolio management.

First, the opening of the first pop-up store, LOUIS XIII on 8th November during the Ultimate Race Week Formula 1 in Wynn Las Vegas. The retail pop-up experience showcases an extensive selection of LOUIS XIII's most coveted offerings, including the iconic collection, The Drop collection, Rare Cask 42.1, and an exclusive assortment of the brand's spoke - bespoke accessories, complemented with personalisation services.

Results were strong in terms of sales, 60% above our internal target set, CRM activation, image impact and data collect on top. The pop-up on top will get two extension periods and will be now open until 18th February to be present during the SuperBowl events as well as the Chinese New Year.

Second, we are very proud of the outstanding results that we recorded on Westland during the quarter, and which concretised all the work carried out in recent years on the quality of the brand and images of this exceptional Single Malt, American Single Malt. Following a strategic shift on our marketing plan since last June, alongside the continued commitment to Liquid excellence, Westland Garryana edition number eight has been selected as number three in Whisky Advocate Top 20 list of the most exciting whiskey of 2023. This marked the first time a American Single Malt has been selected in a top three position. It is very important.

This recognition marks another step forward and has triggered an amazing sales acceleration in December. We are overall plus 135% of sales growth in the quarter, in Q3, including more or less 14 times of growth in December on our direct-to-consumer channel. Westland Garryana 8th edition was sold out since 26th December.

Now slide number six, let's move back to figures. In the nine-month sales analysis, sales amounted to €956.6 million, down €348.1 million year-on-year or minus -26.7%on a reported basis. This reflects, first, a very strong organic decline of around €300 million, a precise €295.5 million, i.e., minus 22.7% on organic sales decrease. This performance is split between minus 17% of negative volume effect and minus 5.6% on price-mix linked to the Americas performance and split by division's performance.

Regarding the latter, this is a combination of the positive price effect, low to mid-single digit at Group level, and a negative mix effect around negative high single-digit.

Second, clearly, to have the bridge between organic and reported performance, we had - we experienced a negative currency translation conversion impact of around €53 million less €52.6 million, which equals to minus 4% loss in the nine months '23-'24. This loss was largely driven by the deterioration of the Chinese New Year conversion for €24.9 million and US$20.9 million. In addition, Canadian dollar, Japanese yen, and Hong Kong dollar posted a slight loss of respectively, 1.7 million, 1.2 million and 1 million.

On slide number seven, we look a little bit on a longer horizon and the user performance division versus nine months, four years ago before pre-COVID level - pre-COVID. I will not detail all the figures which are on the slide. You can see that. But in a nutshell, volume performance is slowing down in cognac amidst the current US context, while price-mix continues to be very, very strong.

Overall, total cognac sales are still up at plus 3.5% versus pre-COVID level, including important destocking in the US and specifically in the last quarter in China.

In parallel, Liqueurs & Spirits division continued to generate an amazing outstanding performance versus pre-COVID level, driven both by volume and price-mix. So it's very balanced equation.

Now an important slide, slide number eight, to dig into organic trends by region. Let's start with the Americas whose organic sales recorded very strong double-digit decline in the nine months, i.e., more or less plus 10% versus four-year in the same period, mostly impacted by volume, while price-mix was also negative due to the strong underperformance of cognac compared to Liqueurs & Spirits.

To dig in more specifically in the US, sales were slightly down in the Q3, showing a sharp sequential improvement from Q2, led by, first, a gradual but slow sequential improvement in depletions. Second, positive phasing effect in Liqueurs & Spirits in terms of sell-in. Overall, all in all, Q3 was strongly above pre-COVID level, more or less plus 45%. We continued to destock in absolute value over the quarter, and now the level of inventories in absolute value is in line with pre-COVID levels.

But unfortunately, this is not yet visible in terms of days of stock coverage due to the continued negative depletions and some positive phasing effects in sell-in in Liqueurs & Spirits.

At the end, basically to end the year in the best possible condition, we have decided to anticipate some shipments in Q3 instead of Q4. As a consequence, level inventories is still more or less everything counted around five months at the end of the Q3.

On the nine months basis, value depletion are down mid-teens year-on-year, down high single-digit, excluding VSOP, and approximately up plus 15% versus nine months '19-'20 and plus 50%, excluding VSOP. In Canada, sales were slightly up in Q3. Like the US, Canada benefited from positive phasing effect in Liqueurs & Spirits.

In parallel, Latin America was down strong double-digit in Q3. End of December 2023, the Americas accounted for 40% of our Group sales, down 10 points compared to the previous year.

Second region is APAC in terms of weight, clearly. In APAC, organic sales were down high single-digit year-on-year nine months, i.e., up at more than 30% on a four-year basis. Looking at the volume value equation, the performance year-on-year was only impacted by volume, while price-mix was positive.

China sales were down very strong double-digit in Q3, affected by a series of element. First, major destocking ahead of China's New Year. Second, negative calendar effect, as highlighted, 2.5 points at Group level, but specifically for the region, it's more. It's 5.5 points at the level of APAC region. And third, cash pressures in the trade.

Direct channels continue to significantly outperform, led by e-commerce as a channel, which was up 10% to reach 35% in terms of weight of sales in the quarter. Meanwhile, nine months value depletions at Group value were down mid-single digits, which corresponds to more than plus 35% compared to '19-'20. Thus, as I highlighted, I repeat it, Q3 showed as well an improvement. They were up value depletion low single-digit.

They were much above sell-in, which implies a strong destocking during the quarter, accounting for most of the expected efforts. As a consequence, this kind of asymmetric movement, more sell-out and less sell-in in the quarter at the end of the Q3, determine that inventories were strongly down versus Q2 and still slightly high. However, destocking is still catching up, and very quickly in January. So the dynamic stand last in January.

The rest of Asia reported a strong double-digit decline in Q3, impacted by Australia, Singapore, and Malaysia. In parallel, Japan continued to recover sharply. End of December 2023, APAC accounted for 38% of our Group sales, up 5 points versus last year. EMEA region organic sales were down low single digit in the nine months but grew more than 5% versus four years ago. This year-on-year performance includes a strong price-mix effect, while volumes were strongly negative.

If you look inside the sub region, Western Europe was down strong double-digit in the quarter, impacted by Germany and Spain. This performance reflects one-off destocking and more promotional market and a touch softer demand. UK was down mid-teens in Q3 following Q2 restocking ahead of excise duty increase and affected by downtrading to cheaper categories, partially. In the rest of EMEA, we were down double-digit affected by destocking as well in Africa, Middle East, and Benelux.

In terms of value depletions in nine months, they were up high single-digit year-on-year, represented on more or less plus 15% compared to four years ago. End of December 2023, EMEA region accounted for 22% of our Group sales, up 5 points compared to the previous year.

Now slide number nine and 10, we have the analysis by division. Let's start by Cognac. Cognac posted an organic decline of 31.4% in nine months, '22-'24, reflecting a significant important decline of 36.3% in volume and a stronger price/mix gain considering situation of 4.9 points. At the end of December 2023, Cognac division accounted for 64% of our sales, down 9 point compared previous year.

Inside the Cognac division, let's start to analyse the APAC. In China, sales were down very strong double-digit in Q3, significantly impacted by destocking before Chinese New Year and a negative calendar effect. I repeat because it's very important. The equation, the matrix, the cube, China cognac is very important in publication.

The underlying trends are softer – a touch softer due to lower consumer confidence and a rising cash pressure weighs on the trade. But as said, depletion in the last quarter were far better than sell-in and this destocking is catching up in January. By channel, on trade is slightly improving, but it shows some downtrading towards cheaper categories a bit. Within off-trade, bankers were more resilient, and e-commerce, as said, was still very, very dynamic, boosted by 11.11. And every time we get in touch in a direct way with the consumer, we are experiencing very good result at least, if not better, our major competitors.

Overall, value depletion were down mid-single-digit in nine months, but I repeat, slightly up in the Q3. As a result, at the end of the nine months, our level of inventory is still slightly high, but much lower at the - compared to the end of Q2. And again, destocking is catching up quickly in January. It is our objective is to reach a sound level post-Chinese New Year, and this will support a Q4 in China will be in strong growth.

In parallel, we recorded a strong quarter for Hong Kong and Taiwan, while Macau remained weak as gaming has not yet bounced back. Rest of Asia, sales declined a very strong double-digit in Q3, impacted by Southeast Asia, particularly in Malaysia, Singapore, and Australia. Japan on the opposite, recorded a solid growth.

Second region, by weight, Americas in terms of cognac. So there was a switch in terms of weight with the payback. In North America, cognac sales recorded a very strong decline in the quarter but improving sequentially compared to the Q2. Sales are back to growth versus Q3 '19-'20 plus 10%. This performance reflects continued destocking in absolute value in a persistent promotional intense market and soft underlying demand.

In the meantime, Q3 US the value depletion were down minus 13.7% year-on-year, improving quite materially and sequentially compared to the Q2 but still negative. They were down minus 7.6% versus Q3 '19-'20. In this context, even if inventories are down big time in absolute value, the level of inventories in cognac is still around five months in terms of days of coverage because depletion is going better, but still in negative lands.

Price-mix effects were positive at plus 3 points year-on-year in the last 12 months period ended December 2023, led by price increases, more than mix. On a four-year basis, price-mix is clearly very much up at plus 21 points.

Latin America sales were down very strong double-digit in Q3 while domestic market was quite resilient. Duty-free fell sharply.

Last region by weight for the cognac, in EMEA, in which cognac sales were down very strong double-digit in Q3, impacted by destocking following the slowdown in sell-out at the end of Q2. And second, the touch softer demand as inflation weighed on purchasing power in some key countries. Third, negative phasing effect in the UK, as said, because we increased Q2 follow - trying to anticipate the rise in excise duties done in August.

Same type of analysis in Liqueurs & Spirits division, Slide number 10. The Liqueurs & Spirits division was up at plus 1.5% on an organic basis in nine months. Included a decline of 5.4% in volume and a positive massive price-mix effect of 6.9%. This is very important. It was not given for the year.

At the end of December 2023, Liqueurs & Spirits accounted for 34% of sales, up 9 points, the switch with cognac in Liqueurs is compared to the previous year.

Now let's review the performance by division, starting with the biggest one in terms of weight, which is the Americas. In North America, sales were up very strong double-digit year-on-year in Q3, more or less plus 165% versus Q3 '19-'20, driven by a resilient momentum and boosted by some positive phasing effect as we fostered and said, shipment in Q3 rather in Q4.

More specifically on Cointreau in which the US value depletion were down minus 2% over the quarter, but a massive increase compared to Q3 '19-'20 of 64.5%. Beyond the very high comps, the negative performance in terms of depletions of the quarter reflects a touch of cautiousness by some big retailers as the year-end approached. Besides, price-mix in terms of value depletion was up a little bit less than 1 point, 0.6 points versus last year in the last 12 months period, but 22 points on a four-year base for Cointreau. So we have the same symmetric dynamic between Cognac and Cointreau on value depletion, price-mix accretive impact on a 4-year basis. So think of that, it's massive.

In parallel, Latin America sales were slightly down in the Q3, less than cognac but still down. EMEA second region by weight in terms of weight for Liqueurs & Spirits, sales were down mid-teens in Q3 year-on-year, impacted by one-off destocking and softer demand due to persistent inflation environment.

The UK, I repeat it, was impacted by some phasing effect following the excise duty increase in terms of promotional environment as well as some downtrading to some cheaper categories. Benelux and Western Europe faced some destocking following a very strong H1. And last but not least, Africa was mainly impacted by South Africa rising price competition and geopolitical tension all over the region.

In APAC, which is the smallest region in terms of weight for the Liqueurs & Spirits division so far, China posted a very strong double-digit sales decline in Q3, impacted by continued destocking in whiskies and weak end demand, mainly from younger generation for whiskies.

Rest of Asia recorded a mid-teen sales decline in Q3, mainly impacted negatively by Australia, New Zealand and Singapore. Japan saw a steep rise as recovery continued.

One last word on new Group brands, which represents 2% of Group sales, so stable year-on-year. They were down minus 13.5% for the quarter and a touch less, minus 7.3% in the nine months.

Two last slides. The next slide is you can say one word of the current Chinese investigation. On 5th January 2024, industry associations, spiritsEUROPE, and BNIC industry players, including Rémy Cointreau were informed that the Chinese MOFCOM had opened an antidumping investigation. This investigation targets brandy exports from European Union member countries to China in containers under 200 litres for the period between 1st October 2022 to 30th September 2023. It may run for up to 12 months and can be extended for a further six months.

Rémy Cointreau immediately contacted its trade representatives, is fully cooperating with the Chinese authorities in this investigation. China is a long-standing trade partner of Rémy Cointreau and the European Spirits Industry as well. And we have always had excellent relations and levels of cooperation. So we are convinced that our products and business practices comply fully with Chinese international regulation and approach future discussion with confidence and diligence.

Well, I could have ended the presentation there, but it's better to say something about the guidance, I guess. So in conclusion, on slide number 12, what's the message?

We reconfirm and we respect the guidance that was updated end of October. Following Q3 regional trends, we are now able to be more accurate. The guidance is the same. Basically, for this year, we expect to record an organic sales decline at the lower end of the guidance range. It contains organic decrease in COP operating profit margin, including a resilient gross margin and a selective reduction of A&P, mostly in Cognac division.

To do so and based on what I've just presented and repeating what we guided end of October and even more accurately in the end of November, we will be strongly focused on supporting sell-out and depletion growth and dynamism.

Second, maintaining a strict pricing policy. Third, selecting A&P that drive impact, leverage, digital and below-the-line initiatives. Fourth, continue to execute. It is well in line of the €100 million cost-cutting plan that need to be realised before the end of this year.

Thank you so much. So now maybe you will have some questions. We have some information on the current trading. And I will drink some water, and then I'm ready for you.

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 Simon Hales with Citi. Your line is open. Please go ahead.

Simon Hales (Citi): A couple, please. Can I just sort of start off on China? Could you just give us a little bit more colour on how depletion trends perhaps evolved through Q3, if you can, maybe outside of the e-commerce channel in terms of what you're seeing in terms of that trading in the on-premise and in the off-premise? You talked about low single-digit aggregate depletion growth for the quarter. I just wonder what the exit rate looked like because there has clearly been a bit of mixed messaging around the health of the Chinese consumer through the back end of last year.

And maybe associated with that, a bit more detail of how you think around Chinese depletions as we head into Chinese New Year, and your confidence around offtake levels.

And then secondly, looking forward, I appreciate the reiteration of the guidance for 2024. But how are we thinking about 2025? I mean back at the half year stage in late November, you were talking about the fact that we probably wouldn't see high single-digit Group organic sales growth for fiscal 2025. Is that how you're still thinking about the year? Is there any reason we should think that there's been a change in the way you think about the outlook for fiscal '24-'25? Thank you.

Luca Marotta: Thank you so much. So currently, in China, it's a huge topic. I will try to stick to your question. It can be more wider in terms of answer but talking about the dynamics that influenced the positive Q3 depletion performance.

First point is the channel. I think that on-trade improved slightly, but showing some downtrading trend to cheaper categories is not there, even if we got a good performance that we gained this positive light loss to single digit. It is e-commerce clearly in which we are very, very strong, boosted all the activation made by the teams and also off-trade and banquets resilient has been a winning channel in the period just before the Dragon year.

More generally, because you have boutique, you have direct sales, direct channel overperformed big time, not only on sell-in but even more on sell-out and depletions during the quarter, the previous period, and are responsible in a positive way for this destocking, which is continuing right now in January, allowing the destocking to be very positive for the Q4 dynamics. But I'll be back on that point.

Let's focus by brand. Clearly, high end of cognac portfolio more affected the current context. So a little bit of negative mix inside this recovery. And out of cognac, whisky, as said, was the category most impacted by the destocking in the performance. And also probably a stronger exposure to younger generation, a little bit more volatile considering the context. It's not an issue for Bruichladdich, it's more general for the whisky, the most precious and prestigious whisky in China.

LOUIS XIII performed correctly even if as said by Eric Vallat also in November. The transition of LOUIS XIII model more retail, it is clearly a huge journey. It's taking a little more time to educate, to have the level of requirement respected. But also like LOUIS XIII, even more direct channels clearly outperform the weighted average.

So in conclusion, these dynamics in a visibility that remains limited, okay, we acknowledge and blurred by important calendar effect. Mid-Autumn Festival was three weeks later as well as Chinese New Year. We did €10 million or 2.5 points, or Group led 5.5 points for the APAC for cognac level. And yes, those comps complicate the equation.

But on a positive side, the destocking is continuing. Final demand is there. And for the year, on the yields of this third quarter and Q4, in which we continue to modelise this kind of performance, sales should sequentially improve driven by less destocking and a positive calendar effect in Q4. So overall, we anticipate in the quarter a strong growth that sell-in will determine that a yearly level, we will end in China with a slight positive sales growth, even if strongly below the budget expectation.

In terms of value depletion, because you have to look at that as well, not only the dynamism of asymmetric of the sell-in. On the years of the Q3, I repeat, we expect the Q4 and so the H2 in terms of value depletion for China to be positive compared to the previous year. The aim is to end the year strongly than Q3 and with the health inventories condition.

In terms of guidance. Okay. I'm quite - I'm disappointed. I was thinking you would ask about '25-'26 or '27 or '28 or something like that, it will be more fun. Now jokes apart, let's start with the '23-'24. Company sales consensus is already at the bottom end of the guidance range. We are fine with that. It is minus 20%. I just reconfirmed. It is definitely the right level to consider - considering the recent regional trends.

On operating profit, as already said, for this year '23-'24, being at the bottom end of the sales range make the gaps of 5 to 6 points that highlighted between sales and COP organic decline is much more difficult to achieve.

So at this stage, I can’t be more accurate. The company consensus implies minus 20% in sales. I repeat. Fine. It's okay. We're okay. And minus 27.1% in operating profit, so 7-point gap in terms of decline in organic terms. We are fine. And I would be slightly more conservative, but we are not far in terms of bottom-line.

'24-'25, if I may is the most surprising element because this high-level expectation for the next year, it is not respecting our comments during the H1 result. We were pretty clear on the fact that we were not expecting to reach high single-digit top-line dynamic for the next year and company consensus in terms of sales is still at 7.9%. So it is clearly high single digit. High single-digit is the compound average growth rate that we are modelising for the remaining part of the next six year to realise the 10-year plan. But for the next year, it is not what we are expecting, high single digits.

So in this moment, I'm quite surprised because the company consensus or sales, it is not aligned with our comments. I can agree, okay? So I want to develop that. I can agree that base of comps will be low in the US. However, we need to be realistic and consider different criteria and parameters in the growth equation.

First, US depletions. They are doing better, they're improving, but they're still negative, which means that inventories are still too high in terms of days of coverage. You cannot expect strong shipment sell-in in Q1 - H1 if inventories are too high in terms of days of coverage.

Second, base of comps in China in Q4 will be strong, but the comps for 24-25 is very high in the H1. And the context is improving, but still is a bit softer than we expected at the budget time.

Third, the third region, Europe, shows a softer underlying trend that will not reverse overnight. So overall, I repeat, that's the reason why we confirm that the high single-digit is the algorithm of top line for the next compound average growth rate for the next six years or the long-term journey, but this is not what we modelise for the next fiscal year in terms of the plan.

Simon Hales: Got it. Thank you very much, Luca.

Operator: Thank you. And we'll now take our next question from Ed Mundy at Jefferies. Your line is open. Please go ahead.

Ed Mundy (Jefferies): Morning, Luca. Morning, everyone. Two questions for me, please. The sentence in your outlook that you aim to finish this fiscal year heading into fiscal '24-'25 in the best possible conditions. Could you elaborate a little bit more on what is best possible conditions? Is that in terms of brand equities, in terms of inventory? What exactly does that imply, in particular, there's a little bit of destocking going on.

And then the second question, coming back to your opening remarks that your shipment trends are up 17%, but your depletion trends are up 25%. If we take those comments as to slide seven and assuming that the plug really is in cognac, that would sort of imply that your cognac nine months '23-'24 sales should be closer to €700 million assuming that your Liqueurs & Spirits are sort of in an okay position. Does that, therefore, mean at some stage, not necessarily next year, but over the next couple of years, there will be a catch-up in terms of shipments relative to competitions where you're - on a full-year view, your ships have been running below depletes.

Luca Marotta: Okay. I got two. But you said three questions. I got two. Overall - okay, but I will try to answer to these ones which are obviously quite intense. So what does it mean to be able to end the year in the best possible condition? So that it means that we want to avoid to be in an overstock situation at the end of the year. We clearly respect the guidance, but there is no need to charge - to stuff the channel with €10 million more if the depletion rhythm is not at the same speed.

So far, the inventories' level at the end of December are the following. For the US, more or less five months, which is more stable versus Q2, a little bit more Liqueurs & Spirits and less on cognac. Even if the absolute value decrease a lot. For China, I repeat, at the end of Q2 - end of Q3, they are much below Q2, but slightly high. Destocking is catching up. In January, it is decreasing. And the rest of the world, it is already to in healthy level. So end the year in the best possible condition is not force ourselves to do stupid things that will impact next year, which is not a walk in the park as well.

The second question, the equation compared to four years ago at Group level comparing sell-in and sell-out is a very complex one. Because it's difficult to modelise because as you noticed, we are declining compared to four years in terms of cognac in terms of depletion. So that will have an impact in terms of increase. So even if increasing, I don't know, mid-single-digit in terms of depletion, that could be not an assumption. It's an idea. What is the impact at the compound level compared to four years ago? It's complicated to acknowledge.

Next year, we will compare ourselves to '19-'20 as well. But 2021 and '19-'20 were not so different in terms of dynamics. The real stretch was clearly created in '21-'22. So it's not a guidance, it's more an idea, mid-single-digit increase to high single-digit maximum in terms of depletion dynamics. So next year it could be an idea. Base of comps are easier, but still depletion so far, is still negative.

So at the end, we have to fight with the short-term figures. And at the end, comparatives are there. They are nice for - compared to where we stand in the past, but to solve the day-by-day problem, you have to compare what you are doing at the point of sales yesterday, not four years ago. So it is a mix of a nicer and softer footprint, the more we go, and difficulty is on day by day.

In a nutshell, I repeat, we are improving. The speed of this improvement we hope will be fostered, will be improved as well to have a global positive impact on our performance. I hope it's clear.

Ed Mundy: That’s very clear. Thank you. And just, I guess a follow-up on Simon's question. And I think you did reiterate back at H1 that high single digits is the medium-term run rate, not necessarily the right run rate for fiscal '25. Do you think you should see shipment revenue growth in fiscal '25?

Luca Marotta: In terms of - at this stage, it's early to say that I only say that high single digits is clearly a compound annual growth rate algorithm. And at the start of the year, considering the situation in the US will not be a walk in the park. After minus 20%, clearly, we are waiting to something better next year, and clearly, a possible growth.

Ed Mundy: Thank you.

Operator: Thank you. And we will now take our third question from Mitch Collett with Deutsche Bank. Your line is open. Please go ahead.

Mitchell Collett (Deutsche Bank): Thanks. Good morning, Luca. I've got two questions. I know it's normally not the dumb thing to comment too specifically on your competitors, but on LVMH's call last night, they said they weren't discounting, but you and Pernod are. I mean to quote them specifically, they said there were no discounts. We cancelled the price increase. Discounts is what Pernod and Remy do. And there are also some press reports that suggest that Rémy Martin is being discounted in China. So I wondered if you would comment on whether you are engaging in any discounting and perhaps linked to that, any pricing plans for this year?

And then secondly, I appreciate it's very difficult for you to comment on the outcome of the China antidumping investigation. But in a scenario where your China business was substantially smaller, what would you be able to do to find additional sales growth or indeed to manage the cost base more tightly?

And then - sorry, actually, one - third one is, have you seen any initial reaction from consumers in terms of social media activity or purchasing when it comes to the antidumping investigation?

Luca Marotta: Thank you. I will start with the second one, which is far more strategically important. So on the antidumping investigation, as said, we cooperate with the confidence and diligence. We think that we are totally in line with the - what is the rules. And we do it with calm and we ensure that the cooperation will be the best.

In terms of what will end at the end, we cannot comment because it's too early stages. So we are providing all the information in this change.

In terms of the consequence of the consumer confidence, is there a impact of sales? So far, no. If you want to quite the, as said, destocking is improving with time in January. So, so far, there's no negative trade business consequence on that so far. Also some external element, TV series, word of mouth, share of art is not declining. If one day it will be hit in terms of cost of the business in China, it is part of the global worldwide equation.

As we have done, we have supported Americas even if so depletion and top line has been clearly, clearly storm in Oregon this year, we didn't cut all the means in the US. It will be the same. So it is - we have a global worldwide business. We play all cards, all brands, advise to contribute.

So China is a key country. Even the cost of living should increase one day, we will not react as we were only selling in China. We're selling everywhere. We are a worldwide company, and we will activate all means to preserve the strategic disposal and the weapons to operate in China in the best possible condition.

So you are - we are focused, we are clearly concerned, but we are calm and serene in Italian. I don't have the means the word in English right now.

Okay. Talking about competition. I have two answers. The one is the official, one was the personal one. As a personal one, I started laughing yesterday night and still laughing now. This is comma, ended. I opened the bracket, I closed bracket. And it was quite comic.

Second answer, more directly on the business. When you are very strong in some channels, direct-to-consumer and you have specific operations done, you don't discount. You have operations that in 11.11 that respect a specific trade price, and you have the campaign that is aligned and the operators at the end is clear with all these prices. We are not downtrading or making discounting for the sake of it. And we want to enter in the dynamic. Maybe one day, we can do a specific call talking about mechanics because one thing can be discounted, and one thing is the repricing cutting the price of 20 - 30% of the product.

So there is a bit of downtrading in terms of the mix, but without entering into specific peer-to-peer comparison, we are clearly the company that put pricing integrity and power on the top of the list. And I was clearly laughing yesterday night and still laugh. Thank you.

Mitchell Collett: Okay. Thank you, Luca.

Operator: Thank you. And we will now take our next question from Olivier at Goldman Sachs. Your line is open. Please go ahead.

Olivier Nicolai (Goldman Sachs): Hi. Good morning, Luca and Célia. Just two quick follow-ups, please. First on the US. Regarding the destocking of inventories in the US, you still have, as you said on the slide five months of inventories at the end of December. With the current trading that you're expecting, is it fair to assume that you're going to be back to a healthy level of inventories by June or end of Q1 '25?

And second question is on the €100 million cost savings. Could you give us an update on how much of this €100 million will be permanent and will reduce your cost base in '25? And how much of it is obviously just temporary, such as marketing reduction? Thank you. Hello?

Luca Marotta: Hello? Do you hear me? Because the mic had a problem.

Olivier Nicolai: Yeah, I can hear you now. Thank you.

Luca Marotta: Okay. Today, we are at five months. When will we be back to four, three - it depends on the rate of the depletion. So far, they are still negative. So it means that in the short term, to be able to reverse the equation within sell-in and depletion, inflation should be better than sell-in. It has been realised for a while in absolute value.

We need to improve even more the visibility to that. So when we'll be back to - it's impossible to answer to me to that. It will be during the year of ’24-'25 clearly. So it's our expectation. But so far, I need to be cautious because we improve where we are still negative. We will cycle clearly lowest comps, easier comps but still so far, the reality is that we are negative.

So our assumptions that we'll be reducing during the fiscal year '24-'25, precisely, if it is end of June and September, I can't answer. I would be a liar. I can't answer. It depends on the depletion's rhythm, clearly.

Cost-cutting. Cost-cutting, let me remind the dynamic of the €100 million, which are clearly not at risk. They will be realised this year. By type of duration, 40%, so more or less €40 million is structural forever, and 60% is one-off. So your question is let's focus on the €40 million. We have more or less of this 40%, half it is A&P. A&P more linked to the cognac division and more linked to the brand awareness less than the BTL activation and digital expression.

On top, we have to remind that in the compounders for the past, you have SuperBowl for a huge amount, which is something that cannot be replicated soon, not at this extent because we have done - we've done something this year, but it's not at the same scale.

Then we have more or less 80% of this 40 that are manufacturing or logistics and is 100% structural. So we changed some proceeding manufacturing. We improved in terms of operation, logistic ads. The way we are performing supply chain and factories operation with savings that will last. So once again, 40%, €40 million, half of that, it is A&P, not working A&P, 8% so a little bit - or a little bit more than one quarter on the manufacturing and logistics. And the remaining part, it is the structural overheads savings, making that we didn't replace some position. We organised in some regions and brands that operation without making huge restructuring plan with rightsizing that.

We were able to have the difference, the different part, 12% of the long-lasting savings. This is the split of the €40 million that will last more or less.

Olivier Nicolai: Thank you very much.

Operator: Thank you. And we will now take our last question from Chris Pitcher with Redburn Atlantic. Your line is open. Please go ahead.

Chris Pitcher (Redburn Atlantic): Thank you, Luca. A couple of questions for me. Luca, just following up on a couple of things. In terms of the China anti-dumping, that's like a review, can you confirm whether the temporary tariffs have already been imposed? And is there a risk that you see perhaps some stock build ahead of the potential restrictions?

And then your comment that you're a worldwide company. Given the uncertainty in both the US and China, are you increasing your investment outside of those two markets in spite of the cost savings? And if so, which of the markets are you targeting as your medium-term priorities to hopefully balance out US and China over the next 10 years or so? Thanks.

Luca Marotta: Thank you so much. So for the antidumping, so far, we didn't see any temporary measure, and we are not changing overnight, the way the operation, not in consumer base, not on logistics. So there is business as usual.

Once again, we don't panic, and we remain focused. So we don't change the way we are organising things in China. It is a dialogue. It is clearly an investigation. Let’s not panic, and we continue to do business as usual. And no specific temporary measure that is put in place so far by the Chinese government.

In terms of rightsizing, as I said, yes, we are investing in other markets, clearly, GTR, some Asian countries, some European countries, also can be also in part of the America. We might have some specific investment in the very short future to improving. But also, we are not giving up and switching the attention totally from China and US because, okay, we are cutting A&P but more in the long term, depletion in the US need to be supported by below the line visible working field A&P.

So two years ago, in the boom of the consumption, with the shortage, we could - we had improved our A&P footprint, putting more money on the table for the long-term desirability of brands and it's paying dividends. Now we are moving in a fighting mode in the Garryana. And so we need to put the attention on the A&P.

So we still need to unlock to invest in the US, clearly in China to grab more depletion because depletions means at the end, retailer disposal, retailer sales. If we don't have depletion, all the mechanism is stopped. So we need to move that. So there is a part of reinvesting in other parts of the world. Travel Retail, I confirm that at the end of this year, will be more or less at the same level of pre-COVID with another type of business model, even more long-term.

And in other countries, we are doing a very good job to increase the footprint, but we are not switching overnight and giving up on China and in US also, because if you compare to pre-COVID level, we are still having very good performance also in the US. But if you're talking about China, the change of gears has not been compromised by the negative quarter. We are in another world. We are clearly stronger than before. So we don't want to give up to invest in China and the US, absolutely not.

Chris Pitcher: Okay. And you say GTR will be back at pre-COVID levels in sales. Some of your competitors have improved profitability. Is that the same for you as well?

Luca Marotta: What you said in terms of profitability?

Chris Pitcher: Travel Retail. You mentioned the change in model and approach. Some of your competitors are more profitable now in Travel Retail.

Luca Marotta: It's like a bit less. In our case this model is more long-standing to profitability, but it will be a little bit less because we are putting more specific means, more specific investments, initiatives, more dedicated teams. So compared to pre-COVID level, the profitability will be a bit less. But pre-COVID level for Rémy Cointreau, GTR was operating in another mood with more also of all the invoice act without adequate support to support the depletions, making that Travel Retail in the past was way too much a cash cow. So it's much more balanced today.

And at that time, if I may, why was that? Because profitability of some countries like China was not the right one.

Chris Pitcher: Excellent. Thank you for your colours always, Luca. Thank you.

Operator: Thank you. I'm now happy to hand it back to Luca for closing remarks. Thank you.

Luca Marotta: So thank you so much for your attention. It was an important quarter because even if with some storms, some headwinds, we are able to confirm our guidance. It is a low end of the range, but the dynamism of the underlying depletions is improving. It's not the rhythm we'd like to have. We want to add more of that, but clearly, we are progressively on the right path. Next year, '24-'25, the algorithm of the medium-term growth, high single-digit is too optimistic.

How much it is, which phasing, what implication, days of stock coverage? This will be during next quarters' dialoguing together part of our interesting chat and discussion. Have a nice day. Have a nice weekend. And all the best for you and your families. Thank you.

[END OF TRANSCRIPT]