Remy Cointreau Q4 Sales 2024-2025 call

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Operator: Hello and welcome to the Remy Cointreau Q4 sales 2024 2025 call. Please note this conference 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. Please go ahead, sir.

Luca Marotta: Good morning, everyone. Thank you for joining us today. As outlined in our press release, full year sales declined by 18% on an organic basis, in line with our revised sales guidance. In the fourth quarter, sales were down 19%, reflecting a number of different dynamics. In the US, we delivered very strong sales growth, but from a very low base of comparison. As a reminder, last year most of the H2 shipment occurred in Q3, which means a very weak Q4. In China, however, sales posted a significant decline impacted by, first, a stellar base of comparison. Last year following substantial destock in Q3, we experienced a sharp restocking in Q4.

Second point, the inaccessibility of the duty-free channel, which weighed heavily, representing approximately four points of impact at group level or, if you want in absolute value, around €10 million. And third point, a negative calendar effect linked to Chinese New Year with an impact of around minus two points or €5 million at group level. So technical negative factors in the Q4 for around €15 million. Without that, Q4 sales would have been down -13 and not -19, so six negative points. All these factors clearly played out in a persistently harsh market environment.

Breaking down the Q4 sales decline of 19% in volume and price mix effect, volume decrease was of -4.6, primarily driven by China and the price mix effect was negative of 14.4, largely due to the underperformance of high-end brands in APAC region. On a more positive note, our yearly cost optimization program is progressing very well. Now let's look at the sales performance by region.

Over the past 12 months, Americas declined by 20.2% over the full year in Q4. As already said, sales returned to very strong growth, but from a very low base of comparison. And the volume depletions showed a sequential improvement from Q3 to Q4, but they are still negative. APAC region sales decreased by 18.2% in full year 2024, 2025. This performance includes a sharp sales drop in Q4, impacted in China by an exceptionally high base of comparison, disruption in the duty-free channel and Chinese New Year timing effect. Representing on APAC region level 12 points or the same €15 million that we commented before at group level because they all belong to APAC.

Third, ongoing challenging market conditions in China, meanwhile, sales in the rest of Asia were slightly up in Q4. Third region, EMEA region reported a decline of 13.8% for the year, including a mid-teen decrease in the last quarter, while sell out trends were positive in a tough and volatile market. We made the decision to optimize year end inventories to try to start a new fiscal year on solid footing. The region was also marginally impacted by the timing of Easter, which had a negative calendar effect, more or less 2 to €3 million. This was shipment selling. Now let's talk the best approximation of sell out. Value depletion at group level over the past 12 months, same yearly horizon.

And let's start with the US, in which value depletion declined by mid-teens with volume down high single digits. Compared to pre-COVID, so 2019, 2020, 12 months value depletion are down mid-single digit in the US, but excluding VSOP, they are up plus 35%. In China, value depletion declined by more or less 10% year on year versus a flat trend over the first nine months. So after a strong December also benefiting from a favourable calendar effect of Chinese New Year, momentum reversed sharply from mid-February till 12 months value depletion remains plus 35% overall in China, if you compare ourselves to pre-COVID level in 2019, 2020.

In EMEA, value depletion were down high single digit year on year, excluding Russia. Because there is a scope parameter topic here, 12 months value depletion are up low to mid-single digit versus 2019, 2020 level. So what you can say after all these figures that group wide overall if you consider the performance of 2024, 2025 yearly level. Value depletion declined low double-digit. Outperforming, if you can say that because it's negative, but outperforming the decline of selling trends was -18%. If you do the same exercise on a five-year basis, value depletion grew by mid-single digit. So a growth also ahead of selling trends that were negative of mid-single digit.

To conclude this very first slide, we reaffirm, confirm our full year organic margin guidance that will be between 21 and 22% of net sales. And we will clearly analyse that during the yearly conference call in the 4th of June. Now slide number three and four, I'd like to briefly highlight some of the key marketing initiative we undertook during the last quarter as part of our US strategy to drive sales, and more specifically, to boost visibility for VSOP. We launched a new limited edition in February called This Is My City. This initiative leverages Remy Martin's strong ties to music and culture to raise awareness of the limited-edition bottles and engage both cognac enthusiasts and music lovers. So it combined initiatives.

In parallel with our decision to allocate additional AMP investment to VSOP in order to support the brand's turnaround, this type of initiative helps to strengthen the brand equity and reinforce its presence, particularly in the off-trade channel. Each limited edition is available only in its respective city or state, so Detroit, Chicago, New York, Atlanta, and it is sold at the same price as the classic range. Activation is supported below the line so directly on the field by a dedicated campaign. So including retail and digital initiatives with a strong focus on cocktail culture, especially Rémy ginger cocktail. At this stage, early results are very encouraging and are contributing to the stabilization of VSOP volume depletion in the last period.

Page number four. There are a few examples of our activation in China for the Lunar New Year. Our teams delivered a good job during this crucial period, navigating the current complexities of the Chinese market with agility and resilience. While Chinese New Year 2025 was not a particularly strong season overall. We nevertheless managed to achieve a modest depletion growth despite the multiple headwinds and clearly gaining market share among the key initiatives. Our teams delivered leverage successfully. The temporary opening of the Rémy Martin in Shenzhen as part of our 300th anniversary celebration of Rémy Martin Brands anniversary, supported by the comprehensive 360 degrees campaign spanning media, social media, e-commerce and trade channels.

Second, initiatives the release of a special anniversary episode of the acclaimed known series Blossoms Shanghai, further reinforcing Rémy Martin XO roles in entertainment and storytelling. These initiatives helped drive brand relevance, strengthen our emotional connection with consumers during the gifting season and enhance desirability for the XO range. Third, the collaboration with the Chinese artist, Huang Yuxing, who designed two exclusive local gift packs for the year of the snake. These were launched exclusively on e-commerce platforms for Rémy Martin XO and club, creating strong appeal among younger, dynamic and digital savvy consumers.

So now let's back to added figures. Turning to slide number five. And let's talk about the full year sales with the bridge. Full year sales amounted to €984.6 million, representing, as already said, a year-on-year decline of €209.6 million, or, if you want, -17.5% on a reported basis. This performance was shaped by the following factors. First of all, a strong organic decline, bigger than the published one or €215.3 million. So -18% of organic sales decrease. We can split this yearly global performance between -11.8% and negative volume effect and -6.3% of price mix, so this -6.3% of price mix impact resulted from a slightly negative pricing effect, minus low single digit and low to mid-single digit and negative mix effect. Why? This is clearly linked to the underperformance of high-end products, and to a lesser but mathematical effect by the cognac division overall in the global turnover picture.

We have also to highlight as a second element, a positive currency translation impact of €5.7 million, or 0.5% gain for the 12 months. This conversion and top line gain was mainly driven by the improvement of the US dollar around $4 million, $3.8, British pound for €1.3 million and Chinese RMB for one million. However, these gains were partially offset by a negative impact from the Japanese yen €0.6 million negative and Canadian dollar for 0.4. This was the global picture for the turnover of 2024, 2025.

So on slide six, we provide, as usual a breakdown of performance by division compared to five years ago, 12 months 2019, 2020.

And I'll summarize the key highlights in a nutshell, cognac volumes declined significantly in the current US environment, although price mix effects over five years remain strong. Overall, total cognac sales were down 17.8% versus pre-COVID, while value depletion were ahead declining mid to high single digit. So cognac at group level, even if both are negative value depletion, run better or less worse than sell in. In parallel, legacy spirits sales showed significant growth since the opposite of cognac of 33.7% compared to pre-COVID, driven by both volume and price mix. Sales once again are below the value depletion trends, which grew by over 40% over the same period.

At group level, the consequence what it is. This figure reveals asymmetry between sell-in, -4.8 over five years and value depletion, which are up at mid-single digits more or less plus five, emphasizing the better resilience of end market compared to 12 months 2019 to 2020. And I'll be back on that point on Q&A session, a tangible destocking in absolute value on which we need to reflect this is something positive to capitalize on. Now let's now turn to slide number seven to wealth into organic trends by region. This slide shows the performance at group level. Starting with APAC, fully organic sales declined by 18.2%, but it is a very important plus 23.3% compared to full year 2019, 2020. If we look for this region overall at the volume value equation, full year performance was primarily impacted by the value component due to the underperformance of high-end brands and as well partially the channels mixed performance.

Inside APAC, biggest role is for China. In China, sales declined sharply in the last quarter, impacted once again repeatedly very important by several factors. An exceptional stellar high base of comparison. Second, the inaccessibility of duty-free channels, which weighed heavily on APAC sales, less eight points in during the fourth quarter. And third, a negative calendar effect around Chinese New Year, four-point waving on APAC performance considering the different calendar last year compared to this year. In addition, the market environment was particularly harsh, as highlighted from mid-February. This was sell-in.

In parallel, best approximation of sell-outs full year value depletion in China were down around 10%, as already said, but still more or less up plus 35% if we compare to the full year 2019, 2020. comparing China to 2019, 2020 is clearly acknowledging a change of dynamics and paradigm positively. As such, inventory levels in China remained healthy at the end of March. Elsewhere in the region, APAC region, the rest of Asia delivered growth in Q4, rising by a low single digit led by cognac and to a lesser extent, likewise in spirits. Country wise, Australia performed particularly well in the last quarter. By the end of March 2025, APAC region accounted for 40% of group sales, stable versus the previous year.

Second region by relevance in terms of weights is Americas, in which full year organic sales declined by 20.2% year on year and were down by 23.6 compared to full year 2019, 2020. The performance is more or less similar to APAC. What is different? It is this compounder, this performance compared to 2019, 2020. This year-on-year performance includes a mid-teens negative volume FX and a mid-single digit negative price mix impact, reflecting an unfavourable mix of products, states and format, as well as the price smart adjustment on VSOP. In the US, we saw very strong sales growth in Q4, benefiting from a very low base of comparison and also on a positive note, sequential improvement in volume depletion, primarily driven by cognac and clearly notably VSOP. On a full year basis, value depletion were down mid-teens, including high single digit drop in volumes.

On a five-year basis, value depletion were down mid-single digits or negative, but better, less worse than sell-in and up, plus 35% excluding VSOP. In this context, inventory levels in terms of coverage are close now to four months at the end of March based on depletion future forecast. In Canada, sales grew by low single digit in Q4, mostly driven by lack of security, and Latin America delivered low EBIT growth in Q4, primarily supported by cognac. In terms of weight, end of March 2025, Americas represented 37% of group sales, down one point. Last but not least, big in a region in which full year organic sales declined overall by 13.8% and were down 5.4% compared to full year 2019, 2020. This decline mainly reflects a negative volume effect. So good job in terms of price mix.

Inside that, we need to give some colour to highlight the performance by Subclusters. In Europe, third party distributors sales fell by a very strong double digits in Q4 despite positive sell out trends. Why tough and volatile market? And as I highlighted in this first chart, we decided to optimize yearend inventory to try to start the new fiscal year on very solid footing. So sales were also impacted mainly in this part of Europe by the calendar shift of Easter, more or less two to three million. UK And Nordic cluster witnessed a Q4 sales down by high single digits, largely due to pressure on cognac in a challenging and promotional market environment. Benelux and France posted a strong double digit decline last quarter, impacted by promotional competition in cognac and ongoing softness in local spirits.

Last but not least, AMEI in Eastern Europe declined by mid-single digit in Q4, affected by ongoing destocking and very aggressive promotional activity by the competition across EMEA. Full year value depletion. So the best approx of sell out declined by the lower extent by a high single digit and rose low to mid-single digit compared to five years ago when we exclude Russia that was there five years ago. Inventory levels for the region remain healthy across most areas. End of March 2025, EMEA represented 23% of group sales, up 1% versus last year. So more or less, the regional weight remained the same over the year as the ongoing dynamics of the short term, that's changed a bit. Plus 1.4 EMEA and -1 for the Americas and flat for APAC.

Now we have to do another part of the exercise. So we turn down the page number to slide number eight. And we analyse the performance by division. And we start with the arts of our performance for the good and for the bad, which is cognac. Cognac division posted a full year organic sales decline of 21.9%, so bigger than the average, driven by 15.6% drop in volume and the negative price mix of 6.3%. End of March 2025 accounted cognac accounted for 62%, more or less two thirds, of our total sales, down three points compared to the previous year. Let's dig in by region inside only the cognac division. Where we find starting with APAC, mainland China, Q4 sales were significantly negatively impacted by huge base of comparison and persistent adverse market conditions.

All channels declined in Q4 except for our deadly weapon e-commerce, which grew by 10% and reached more than 30% of sales penetration over the full year. Because if we do that, this math for the Q4 is much more than 30. Despite the slight growth in value depletion during Chinese New Year, up low single digit versus last year, Q4 value depletion were sharply negative, affected by an unfavourable calendar, and a very weak performance from mid-February. Excluding calendar effect, value depletion would have been down by high single digit in Q4. So negative, but less negative.

While Hong Kong and Macau posted a weak result, Taiwan recorded strong growth in both Selene and depletion during the last quarter. Overall, full year value depletion in China saw declined by around 10% in cognac, like the group level measure in China, but were still approximately once again plus 35% above five years ago result. Remaining parts of Asia sales were up mid-to-high single digit in Q4, led for the cognac part by Australia and Singapore, while other countries continue to face tough and fierce promotional market conditions.

The cognac inside the Americas. In North America, so US and combined with Canada, Q4 sales increased by mid-teens, supported by very low base of comparison and on a positive note, a continuous sequential improvement in volume depletion, primarily driven by VSOP. In the US, specifically, Q4 value depletions declined high single digit year on year, with volumes down low single digit, but gap versus peers narrowed, with VSOP volume being now flat in Q4. This is important. Performance was mixed out, but encouraging across states. Control states continue to outperform the average, so they are down by low single digit in value, while open states remain more volatile. Some great shots here and there. Emerging open states, Illinois was strongly up reversing a bit to the trend, what we discussed together end of December, as well as Georgia. While California, despite being negative, showed a limited decline, low single digit, meaning that it is sequentially improving.

So sequential improvement in California means sequential improvement in the US. California is very important for the US in this context. Inventory levels in the US now stood close to four months in terms of coverage estimation. End of March based once again depletion simulation forecast for the future that still clearly need to be achieved on a 12-month basis by depletion included a four-point negative price mix year on year by depletion not selling, but remained up plus 12 points compared to 2019, 2020.

Latin America. In Latin America, Q4 sales posted significant growth, driven by Mexico, Puerto Rico, Brazil and Dominican Republic. We are talking of small figures but positive, mainly led by what, XO derivative. So small figures, but positive and nice part of the portfolio. In EMEA, third region by weight in terms of the weight for the division, two thirds Q4 sales were down by very strong double digit, impacted by inventory optimization and negative calendar effects such as timing of Easter. Market context remained highly promotional across most countries.

In the UK, sales were down a single digit. Benelux and Europe, third party distributors posted significant declines, especially in Germany and Italy. Germany, Austria and Switzerland. Sorry, I switched my mother tongue language. In CIS, sales declined by a mid-single digit, but were supported by some restocking in South Africa and Nigeria. Value depletion across India were down by very strong double digit in Q4 compared to last year for cognac.

Now let's turn to the same analysis by region inside the spirits divisions, slide number nine. The Liqueurs & Spirits Division reported a full year organic sales decline of 9.6%. So clearly negative, but far less than the cognac one driven by a 9% drop in volume and only -0.6% impact from price mix. At the end of March 20th, 2025, Liquid and Spirits accounted for 36% of total sales, up three points versus last year. Now let's review the performance by region, and let's start with the Americas.

North America sales recorded significant growth in Q4. Supported for this division was even more important than for cognac, a very low base of comparison and better resilience in value depletion relative to the market. While depletion underlying trends is low down, we have to say compared to Q3, they remain solid, very solid versus peer. Take an example. Q1 Cointreau US that depletion Q4 were down mid-single digit year on year, but still up plus 55% compared to Q4 2019, 2020. The gin. Our gin botanist showed positive moment with value depletion up by high single digit year on year, doubling, so 100% growth compared to five years ago, the double. Additionally, there was volume. Price mix was up plus 1% compared to last year for the 12-month period ending March 2025, an increase of 17 points. So more the cognac division on mobilization on a five-year basis.

In Latin America, sales increased by low to mid-single digit in Q4, led by very strong growth in Mexico and Brazil and mainly driven by Cointreau. Second region in terms of weight for spirits is not in that case APAC, but is EMEA. EMEA, in which sales declined by a single digit in Q4, mostly impacted by softer performance of Benelux and while the UK remained nearly stable, and Europe third-party distributor also was negative. Overall performance reflects the group's strategy to optimize inventory levels at year end, as well as negative calendar effect linked to the timing of Easter. It is clearly visible also for this division.

Beyond this technical calendar factor and will to start with solid footing, the consumer environment remained subdued as well. This was sell-in in terms of value depletion. They were down low double-digit year on year in Q4, despite the positive sell out trends. So there is a disconnection between final sell out in Europe for legacy spirits and intermediary wholesaler. The dynamics in APAC, which is the third region by weight for liquids and spirits but very promising for the future. In China, sales grew by strong double digit in Q4, driven by

Cointreau and to a lesser extent, the gin botanist, which continued to benefit from a growing trend of mixology. Today there are low figures, true, but they are very promising. Whiskey single malt remained under pressure, in line with the broader challenges of the most prestigious whisky categories in this country. Q4 value depletion were strongly positive for both Cointreau and bottlings in China.

In the rest of Asia, sales increased by a low single digit in Q4, supported by the recovery in Australia, its top market in the region. Japan returned to very strong growth in the last quarter, benefiting from positive phasing effect, reversing the impact seen in Q3 and strong performance across the portfolio out of cognac or whiskey. Cointreau, clearly and Telmont, our champagne. In terms of the vision, what we are missing, we are missing non-group brands. Non-group brands represent about 2% of the group sales, unchanged versus last year and posted a full year decline of 27.2%, or 25.1 over five years, mostly impacted by the performance of Benelux and UK. So we are almost finished with the prepared presentation.

In conclusion, slide number ten, I would like to reconfirm our organic cup margin guidance in a nutshell. We expect to land between 21 and 22% of margin in organic terms for full year 2024, 2025, based on the recent evolution of our main currencies and our hedging policies. The group now expect ethics rates to have a positive impact on the bottom line on current operating profit of around €5 million. For the impact on the top line is already highlighted in the first part of the presentation. So thank you for your attention. And now I will drink a bit of water, and I will be happy to answer to your questions.

Questions and Answers

Operator: Thank you, Luca. If you would like to ask a question, please press star one on your telephone keypad. To withdraw your question, please press star two. Please note to limit your questions to a maximum of two only. We will take our first questions from Edward Mundy from Jefferies. Your line is open. Please go ahead.

Edward Mundy (Jefferies): Good morning, Luca. So two questions, please, for me. The first is just to come back on what you're saying about China, which was a flat from a value standpoint to the end of December, but down around 10% for the whole year with the big drop off from mid-February. I appreciate there are quite a lot of technical factors rushing around, but could you perhaps provide a bit more colour around that drop off in the most recent month and a half, and whether that's continued into April?

And then the second question. I appreciate that you normally give guidance with full year results in May, but the trading statement talks to a resumption of that trajectory set for 2029 to 2030. There's still a fair amount of macro volatility out there. Could you perhaps talk in the broadest terms about fiscal 2026 at this stage, and how you're thinking about range of outcomes on both top line and bottom line?

Luca Marotta: Thank you for your question. So I try to highlight in a clear manner what are the factors that technically waived on China and Korea on APAC in the Q4. So exceptionally comps, duty free channel not accessible. So waving in a huge way on the group and a group level on China as well and on forward calendar. But it's true that after good considering the situation Chinese New Year from mid-February the environment turned down in more harsh environment. The synthetic and important thing to highlight this is more linked to a lack of confidence in terms of wholesaler and global environment being also indirectly hit by the pressure of the trade war with the US overall, not for lack of spirits, and is not a consumer behaviour topic.

So we acknowledge the fact that the situation in the market is much more difficult than two or three months ago, but it is more a global topic than a specific one. Every time, I repeat, we have the opportunity to get in touch with the consumer, we are beating the competition having and we are also positive. Let's look at the dynamic by channel. E-commerce grew by 10% for B2C and also B2B. That was supposed to suffer from this lack of confidence. So it's more an overall shadowing negative effect and cloudy one that waves on that. So it is more a freezing the ability of the wholesaler to get more stock before price increase because they know that tariff will stand. There will be more or less a price increase as part of the mediation plan, and wait and see attitude even more than before.

So it is something that will last. We hope not, and we hope also that the duty-free topics will be solved. So far, we are very cautious. So we are not betting on the clear reopening from the one for the future, but the technical factors plus the lack of confidence are clearly the triggering element that made the exit rate end of March more negative than before. April is first sign of not changing very much the global situation and for the bad and for the positive also because every time we are getting in touch with a consumer, we gain market share.

For the second question, so let's talk a bit of guidance. Would be much more precise clearly with the 4th of June when we comment and we disclose the full year results. But for the 2025, 2026, it's clearly early stage to try to give specific indication. Let's start with the top line, because at the end, for everybody, part of the recovery of mitigation plans you want, consider the situation which everybody needs a top line back to growth in 2025, 2026 so far visible, to my knowledge, is betting on a 2025, 2026 sales consensus, plus 4.6 more or less the same for Bloomberg. So we can say mid-single digit. It is early. We'll comment on that will be more precise with the 4th of June.

But what I can say is that this is consistent with our midterm guidance that fits mathematically with the 2029, 2030. So mid to high single digit top line. Nothing more to add, we'll be giving more colour. So it is scaring me this consensus, no. So we'll comment on that. And at this stage overall, it seems like a good approx. What you have to understand is that the compounders inside that are moving pieces growth equation is very, very complex for the next year as it involves several parts that are not totally clarified at this stage. That will change eventually, the commercialization politics inside the country.

Let's start by China. Acknowledging the fact that the consumer behaviour is not a topic for ourselves or at this stage, for our analysis. It is more the external and macroeconomic and trade war impact that may have a negative impact in terms of confidence. So China, today I speak Italian. Sorry. It's just to confirm officially started. We have until 5th July. It is easy to understand that the involvement of DIS on this equation can potentially, could potentially change the game for China as well at the group level. In the US, the news flow in a particularly volatile environment and they are changing one day to another. So overall, considering the actual environment will be more precise with the actual consensus, don't scare us. This was top line for 2025, 2026, which is consistent with the mid to long term.

So your question is what happened to the bottom line? So if I had a crystal ball, I would be rich. But let's try to factor that in a clear way, the clearest possible before the 4th of June. A third glance, so normally speaking, we do not expect an organic improvement in margin for 2025, 2026. Why? Because at this stage, we are factoring what this seems to be there for 2025, 2026. In fact, a risk of tariffs in both China and the US, that, if it is the case, will not be fully offset during the first year. And on that point, it would be very clear the 4th of June. I commit on that with Eric on the gross impact, net impact and some colour in terms of mitigation plans. I can already tell you that part of mitigation plans is not only cost cutting or supply chain optimization is also growth. So part of our - we are fine with plus 4.6 at this stage is that we are betting and we are counting on top line growth clearly coming from the US, because I'll be back on this point later. They need to send the lift back after two years or very negative performance, and they sit on a lower stock in absolute value compared to three, four, five years ago.

So at this stage, as said, no organic improvement in margin for 2026. If both China and US stand, because part of the mitigation are also counting on the expected top line back to growth that need to be also fuelled with the A&P, we already said with the risk that will be more below the line, more volume oriented, more depletion oriented, and a bit less on brand awareness, because brand awareness is fine. But now there is a fire, we need to extinguish the fire. So they have to fuel it with specific cost, like specific AMP and specific overheads. Part of the growth meaning will be reinvested, and so as a consequence, the impact of the tariff in China and the US are there can't be offset during the first year. What if which is the question of you, and many of you are Barclays. I can name you all with a different density of opinion and aggressiveness. What if no tariff? If no tariff in both China and in the US, organic operating profit improvement. I repeat, what if no tariff organically? Organic margin included for both countries.

Why I'm insisting on organic, I cannot commit. I can only disclose give some colour on ethics. But in this moment, part of the trade uncertainty is waving clearly on the dollar. For us, the dollar is very important. So on that part, I will every quarter give you our latest estimation. But I will never commit. We never committed on that. But even more in 2025, 2026 on ethics guidance. Only organic one. What if only tariff in the US and not in China? That, I don't know if it is true, but it seems to be a little bit more of a positive attitude, more for the China level, considering the dialogue between Europe and China at this stage. What if it is only US tariff? Margin should be in terms of percentage, slightly down, meaning that the growth of operating profit will be lower of the growth of the top line. Once again, if both tariffs are there, we will not be able to offset the impact in year one. We will highlight that if will be 40%, 60%, 50%, 70%, we will adjust all along the year.

The 4th of June with a recovery will give you the global direction, gross net mitigation plan for both and then also. A [inaudible][00:00:46:59] will fly for new destinations, for new adventures, and also with the new guy or girl at the helm. We will adjust that considering dynamics of the market. Tough environment and a very complex situation. So I cannot be more transparent than that. And I challenge you. I challenge you to say who is able today for the fiscal year, according to our calendar, to give you some more precise or is saying that this year we will offset both component of tariffs, it happens. It is quite impossible because it's an important one.

The last part of your question, sorry for my long answer. It is for not 2029, 2030. So your hidden question is why? Why you are reassuring that the mark, why you're saying, because it is. It was and is clearly a firm commitment. So we cannot overnight only profiting of something which is very complicated, a change on the people at the helm and getting out of the committed. So we have to wait and understand all the elements that are behind that before reconfirming or cancel that one mathematically is achievable. Despite the expected declines in results for the second quarter this year, despite the complex situation, we were fairly ahead of the schedule, and we demonstrated the elasticity both on positive and negative is still there.

2025, 2026, we expect a very Substantially stronger restocking effect in the US, helped by more than ridiculous comps. But, and but is key in the actual in the answer, we have to understand if this guidance what happened because it's pending on several important parameters that are not only sit in our will of decision, in our capacity to decide tariff, trade war, China, and also eventually, but it is too early to say, eventually adaptation of the strategies that will not change. So clearly, we have to understand what the new guy or girl at the helm will decide in terms of the execution of the strategy. We are talking more about adaptation, but it's too early to talk about that. So at this stage, it is confirmed. It is achievable.

The 4th of June, I'm sure that will be back on that point because, as said mathematically, it sits through one point the ability of the US to start strongly the year and to send the lift back with the restocking effect. So if there will be some news, positive or negative, there will be acknowledged. So far, 2029, 2030 guidance is confirmed. On that point, no sorry, I will finish with one because your question also to see something, to say something that I committed during the presentation, which is very important to try to put figures behind the concept that otherwise are cloudy and smoky. Why we are counting overall group level and mainly in the US for the future? Look at the math. Everybody is thinking saying that we are too optimistic in terms of depletion coverage in terms of stock five for months, but highlighting the fact that we are now below pre-COVID levels. Absolute terms that the stock averages are what. I don't want to comment on that. Everybody's on their conviction.

Look at figures what happens in five years in absolute terms to our value stock. Best approximation stock sits everywhere in the home of the consumer in their stomach, in the wholesaler, whatever it is. Over five years compared to pre-COVID, we have destocked more or less €100 million. So 10% of the group turnover. Why €50 million or more at group level in value depletion? Apple to apple comparable. And we sold in terms of selling €15 million less. The main part has been done here in the US and the major part, €80 million of that in 2024, 2025. So the lift now the elevator is a minus three and the normative is floor number 15. And the energy is there. The graphite, the nuclear reaction is ready. So it's up to us to let it possible compounders are very positive for us in the near future. We are betting on that. Sorry for my question. Sometimes out of the topics, but I think and I thought was important for you to understand part of this math on the destocking effect over the long period and the fact that they are eating positively the future quarters. We hope that we count on that. We can't in the US.

Edward Mundy (Jefferies): Thanks, Luca.

Operator: Thank you. We are now taking our next questions from Sanjeet Aujla from UBS. Your line is open. Please go ahead.

Sanjeet Aujla (UBS): Hi, Luca. Two quick ones from me, please. Just coming back to the US. I think you highlighted four months of inventory. So it's ticked down a little bit from December which is ultimately based on your forward depletion expectations. Are you able to share those forward depletion expectations? We've seen some sequential improvement, but what are you building in for the plans for fiscal 2026 on depletions please? And then secondly, on FX, I appreciate you're not guiding and it's particularly volatile, but can you just give us some mark to market sensitivities on FX, and where you're hedging is today on the transactional side, please? Thank you.

Luca Marotta: Thank you for your question. On the first point, if I give you that, I need to disclose the guidance right now for the future, because US are so important to the equation for next year and the spark being the depletion. I come to the conclusion that I need to give the - so on that point, we'll give you our estimation. The 4th of June with the 4th of June will be a conference call of seven hours and half. That's a joke. But because we are committed. So take some sandwiches with you, sunglasses, cream. So that point will be addressed 4th of June. Clearly, restocking is huge. So we're counting on double digit next year in top line. The depletion underlying would be more precise during the conference call of the 4th of June.

In terms of FX, give me a second because there, otherwise Chris Pitcher will shout at me because I'm not precise. The expert, I think. Hi, Chris. If the tariff environment is complicated, the consequence of the FX are a nightmare. Why that? Because everybody is covering the flows, but not the P&L flows, is the entire company flows? So every move when we call supply optimization, inventory management, you are delivering before time, after time. So there is something which is not really correlated. On top, we build a budget when some week ago and the dollar was 107, 106, 108 and now it's 115 and nobody knows what will become. As you know, our hedging policies to cover by anticipation, we prefer not to be tactical and get all the options, but to be set on very predictable, sure figures.

So the only thing I can say, and today I was prepared for your question and Chris Picture of the question as well, to give you what is three different scenarios and what if, considering what we have covered, the expected phasing of the future year and the movement of the spot rate for the uncovered part of the 2025, 2026. So please listen to me carefully. And every three months, every quarter, I will update you on that sensitivity analysis. If we consider what was normal until the 20th of March, 1.07 US dollar spot rate hedging what we've done option all the cooking will determine hedge rate of 109. So in that part, the impact on forex, the forex on operating profit is marginal negative from 3 to €5 million. Second hypothesis, 1.15 spot rate more or less today. Hedging rate switched from 109 to 112. So the negative forex impact, we increase from between 10 to 15 million euro on cup with more precise also in June in term of phasing. But first scenarios, 3 to 5, second, 10 to 15.

Let's imagine a crash negative scenarios where the dollar is 1.25 spot rates the average of the full year. Hedging rate deteriorates becomes 114. So as you see, this approach limits the losses because the impact will be clearly bigger but still limited. So no more 10 to 15, but 15 to 20. So once again, 107, 3 to 5 on yearly basis, 115, 10 to 15. And worst case a one 15 to 25, 15 to 20. This will give you some indication. Do I commit on that? No. I will give you every quarter the estimation. We do not guide even never, but even more next year unpublished effect. I'll give you our estimation every quarter to adjust. The guidance will be done as usual on organic terms.

As you have seen, and notice I gave you a fixed impact on bottom line, not in top line because we do not cover all the flows, only the net position. So the bottom line in terms of sales, the conversion impact will be more severe because I'm more linked to the to the spot rate and will be communicated following two or three scenarios. As I said in June, as usual, and every quarter adjusted only to remind you if you are in negative scenarios of 1 to 5, with 15 to 20 million of bottom-line negative impact, the impact on top line which is not covered will be more important. So in terms of percentage of profitability, published rate, not absolute value will be increasing. I hope it was clear enough.

Sanjeet Aujla (UBS): Very good point. Thank you.

Operator: Thank you. We are now taking our next questions from Laurence Whyatt from Barclays. Your line is open. Please go ahead.

Laurence Whyatt (Barclays): Good morning, Luca, thanks very much for the question. I think it would be really helpful if we could just get some clarification on your US expectations, because of course, we're sitting here looking at, say, the Nielsen Data, NABCA data, which is still looking relatively negative in recent months, sort of the group looking at sort of mid-teen negative with the cognac business looking just north of -20. So in terms of understanding the sort of restocking effect that you anticipate, would you anticipate that wholesalers would increase their stock levels, even if your depletion levels would remain negative in the near months? Or is there a scenario where we still have negative depletions in Nielsen, yet the wholesalers increased their stock levels? Is it reasonable to expect we'd need to see positive depletions before we expect that restocking effect to become very apparent in your reported numbers?

And then secondly, just in terms of mitigation plans, of course, there's been some speculation with regard to moving production. Of course, that seems to be a desire of the US administration, but is there any scenarios where you would consider moving your production sites, whether that's bottling or of course, there are restrictions on what you can do there, but are they any part of your mitigation plans? Thank you very much.

Luca Marotta: I'll start with the second one, mitigation plan with switching operation in the US. No, not at this stage. Not to my knowledge. No mitigation plan. We will disclose on the 4th of June are based on an ongoing concern on the way we buy or the way we build our inventories. We deliver operation and we sell. So no change on that part so far. Second question is what if, as I said, I can't give you figures right now. Be more precise 4th of June. But the restocking impact is important. So clearly, we are betting on more symmetry between depletion and saline. It is not the case today, but the asymmetry is a bit the other way around since many quarters, so depletions are still negative but less negative sell-in. So the lift being minus three as a floor. Technically speaking, even if it's not we are wanting, we are not betting. Technically, even if depletions are negative, there is space for positive sell-in in terms of base of comps that are changing.

One technical point, Nielsen is only a part of the reality. We use Nielsen as a panel for open state that is under evaluating performance in chains in liquor stores, as I already said. So we combine that with a more global panel, including NABCO control states in which the last two quarters we overperformed and with part, which is more or less combining the two. We are covering 72%. We are still 28% not covered. That is the on trade and the part of the other countries that are not our states that are not covered by both panels. This is not perfect overlap. So if you look only at Nielsen, you will not have the reality of what is our best estimation. We are highlighting that in our spreadsheet. But give you also Nielsen and discuss in total picture. Most important thing I repeat, even if depletion are negative, technically it should drive to a top line increase because of the base of comps and the huge asymmetry in sell-in, sell-outs the group level and mainly in the US in 2024, 2025. 100 million less stock in value compared to five-year goals and destocking of 80 in the last year.

Laurence Whyatt (Barclays): And just to clarify, is it reasonable to believe that the wholesalers are going to look on a historic basis with regard to the number of months of inventory, or do you anticipate the wholesalers to look at the forward levels that you're anticipating as well?

Luca Marotta: It would be clearly a commercial debate. They will try to put the debate on the coverage without considering too much the historical level, considering that maybe this level will not be reached again, and our part of our job is also to convince them it is part of our commercial people that this purpose need to be moderate, considering also the normative figures in terms of depletion in absolute level. So clearly, it is part of our job to convince them to get out of normal algorithms of vendor inventory management based on stock average considering that having a lift at minus three is normal when you have a hotel which is built from the 15th floor and clearly will be a debate. And it's there that our execution ability need to deliver

Laurence Whyatt (Barclays): Thank you very much.

Operator: Thank you. We are now taking our next questions from Chris Pitcher from Redburn Atlantic. Your line is open. Please go ahead.

Luca Marotta: Hi, Chris. Good morning.

Chris Pitcher (Redburn Atlantic): Good morning, Luca. We cover the currency. Thank you. A couple of questions, please. On capital investment and EdV prices, given the recent campaign finished, can you give us an idea of what sort of prices you're buying EdV at, and whether you've thought about capital investment plans for the next three to five years? And then just on a clarification, sorry, the phrase restocking keeps getting used. But really what this is, is that 80 million destocking, if inventory levels remain flat, you get a very significant benefit in the United States just from that part of it unwinding. You're not hoping to see a restock. I just wanted to check that.

Luca Marotta: Yep. The second part is that is mathematical. The impact is with the mathematical destocking this year. Then clearly there is a restocking, which is mathematical because you start from a very negative. But as Laurence pointed out, there can be moderate or clearly multiplied, enhanced by the fact that the depletion sparks becomes positive or not, it remains negative. You have more debate on the historical relevance of figures compared to the actual state of the art. If it is increasing and is the case in volume, it will be less in value, because also our decision to reposition partially, at least in some states, it will be more easy to understand in terms.

Chris Pitcher (Redburn Atlantic): Can I just - sorry. You said four months in the United States, and previously you have said a range of two to three. I think that would indicate perhaps there is -

Luca Marotta: In terms of a negative, but okay. But this is four months more or less. When we were at Covid two to three, we were out of stock in a lot of point of sales. So there is also a delay because it is a stock in trade overall. There is a delay of execution between wholesaler and retailer. So two or three when there will be a restocking impact will jump to four to five automatically. Because you need to feed up to feed the water that are waiting in the houses because it is more inside the building. I will say level up capital and cash allocation on a very long term. It is not the right conference.

What I can tell to you that will disclose that once again in June, but the CapEx will be reconfirmed in term of a strategic intention in terms of investing behind our strategic pillars for the future, but will be probably reduced in terms of intensity in value. So the latest one was between 6065. Probably will be squeezed down a bit to try to improve a bit our free cash flow conversion rate and to improve a bit for what is possible our return on invested capital is part of our business model to try to improve it a bit in terms of prices. We are not counting on price decrease in terms of harvest and buying pattern. It is established that everybody is trying to reduce the future engagement without betrayal, considering our DNA. Considering with all respect, all the effort, all the vineyards that have been done accompany them. So it will be a decrease, but not decrease in prices.

And with the way of cooperating, that will be visible in the strategic working capital as a decrease, but not from the first year on, a very limited part, because we are talking of engagement for the future, where you can, will be seeing that more at the end of September, when we will disclose in off balance sheet elements inside the URD the document, our set of accounts. And you will see the valuation of the future commitment. And you will see this reduction which will be visible. I repeat, it will not be a price reduction per hectolitre. It is more a containment of the buying pattern, respecting our past engagement and betting together for a bright future with the vineyards. We are not betraying our DNA.

Chris Pitcher (Redburn Atlantic): Thank you very much.

Operator: Thank you. We are now taking our next questions from Trevor Stirling from Bernstein. Your line is open. Please go ahead.

Trevor Stirling (Bernstein): Hi, Luca. Just one question from my side, Luca. You've talked about the US needing to send the lift back. And clearly, as we've talked in the past, the potential is there. But you need that spark. And that spark has to be depletions turning positive. You've mentioned about VSOP being stable in volume terms, still obviously negative because of the price adjustments, but the overall portfolio is still negative in volume. When do you think we can start to see that total portfolio into positive territory in value?

Luca Marotta: I hope the sooner the better. I can only hope that will be soon because the comps are very low. The action that we are putting in place are giving some fruits. So far, more volume level. Liquors and spirits are waving, but clearly so far, we are still negative. So the restocking impact will be there. But I'll be the happiest guy in the world, even more than you all, when we'll be back in sustainable positive lands and value depletion for cognac division. Because at the end in the US, the cognac division is clearly overwhelming the rest on a more sustainable basis. So VSOP needs to continue to deliver, so improving in volume because the value will be a little bit depressed with some price adjustment in some key, in some more commercial states. 7038 need to continue to contribute even more than now. And the upper part of the portfolio that I hope now is now stabilized and need to grow based on very low comp. So we are quite modestly reasonably optimistic on that.

Trevor Stirling (Bernstein): Thank you very much, Luca.

Luca Marotta: I cannot commit on a calendar on that right now.

Trevor Stirling (Bernstein): I understand. No problem. Thank you.

Luca Marotta: Thank you.

Operator: Thank you. It appears there are no further questions, so I will hand you back to Luca Marotta for any additional or closing remarks. Please go ahead, sir.

Luca Marotta: So thank you for joining this call today. As you've seen, we respected our guidance. I confirm that we respect our bottom-line guidance between 2021, 2022. I'm fine with the consensus of our own bottom line as well. So I give you another answer to the question. It has not been posted or asked. So see you all or talk with you all with Eric on the 4th of June will be a very intense with Marie-Amélie de Leusse as well, our chairman. A very intense conference calls with the result in which I repeat is very important, will give you some information about the technical effect the state of the art of tariff situation at that, at that date, at that deadline. And what is the impact, qualitative and quantitative in terms of guidance in the short term and if any changes need to be applied to the medium to long term guidance. So it will be a very long, intense one. And until then, take care and have a nice day. Bye bye. Ciao, ciao.

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

[END OF TRANSCRIPT]