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Remy Cointreau 2025-26 Q1 Sales

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Operator: Hello, and welcome to the Rémy Cointreau Q1 Sales Publication. 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, the CFO, to begin today's conference. Thank you.

Luca Marotta: Good morning, everyone. Thank you for joining us today. As highlighted in our press release, Q1 sales increased by 5.7% organically.

This performance reflect several key factors. First of all, a very favourable base of comparison in the US and a modest sequential improvement in value depletion, Q1 of this year compared to Q4 previous fiscal year.

Second point, tough market condition for China and the continued disruption of Travel Retail in China. Excluding this technical specific factor, representing a negative impact of 2.5 points at Group level, China specifically would have been positive, showing a good resilience.

Third point, a sequential sales improvement in EMEA compared to Q4, led by Liqueurs & Spirits division.

Q1 sales improvement is broken down as follows, plus 12.4% in volume and 6.6% negative price/mix effect. Why that? Largely driven by the underperformance of high-end brands and the outperformance - positive performance of Liqueurs & Spirits.

So looking at the sales overall performance by region. Americas recorded a very strong double-digit growth, primarily due to a very favourable base of comparison alongside, as said, a modest sequential improvement in value depletion.

APAC, Asia Pacific sales decreased by low to mid-single digit, affected by persistent tough market condition for Cognac, and as said, the technical disruption of China, duty-free China.

EMEA declined by high single digits, but showed a sequential improvement led by Liqueurs & Spirits division versus Q4. If Liqueurs & Spirits is clearly back to growth, Cognac inside EMEA continued to be weak. This was the sales picture.

In terms of value depletions at Group level, so the best approximation of the final sellout. Let's start with the US. In the US, at Group level, value depletion declined by high single-digit year-on-year. This is slightly better than what we posted in Q4 of the previous one. And compared to pre-COVID Q1 value depletion are up low single-digit, but not considering VSOP, plus 45%. So out of VSOP compared to six years ago, plus 45% in terms of value depletion in the US.

In China, value depletion were up positive year-on-year in the Q1 and by strong double digits, so more than that in Mainland China specifically, underlying the negative contribution for other Chinese area, including duty-free in Hainan. We consider that even if it is a small quarter, a very good performance considering the current context.

However, we should be careful not to overinterpret this performance too positively. Q1, as said, remains a small quarter. The base of comparison were low as showed by the negative

performance versus this year. And we are now entering in the battlefield with the preparation of Mid-Autumn Festival.

In third region, EMEA, value depletion decreased by high single-digit year-on-year. But excluding Russia that were there six years ago, Q1 value depletion are also down mid to high-single-digit versus pre-COVID levels.

Overall, what we can say in a nutshell at Group level, Group value depletion fell by low single-digit in Q1, 2.2%. So underperforming sell-in trends was 5.7% increase.

So why this negative alignment between depletion and sell-in? Essentially, because US value depletion, even if improving slightly, are still negative.

To conclude on the first slide, we increased our full year organic COP guidance following recent updates on the tariff side in China and the US. We continue to expect to generate a mid-single-digit organic sales growth, while we now improve the bottom line, forecasting an organic COP decrease between mid-single-digit and high-single-digit to be compared to down mid to high teens previously.

Slide number three to five, I'd like to briefly highlight some of the key market initiatives undertaken during the quarter.

Let me start with our Cointreau activation, which delivered good momentum this quarter. In June, Cointreau unveiled the second opus of MargaRight campaign nationwide in the US. This new satirical campaign, Any Tequila is starring Aubrey Plaza, leveraging the continued popularity of Margaritas, number one cocktail consumed year-round in the US.

The campaign positioned Cointreau as the essential ingredient in any tequila-based Margarita. We partnered again with Aubrey Plaza to generate strong engagement and cultural relevance. The creative highlights Cointreau's versatility and authenticity, resonating with both bartenders and consumers. Early results are very encouraging.

Beyond easy comps, organic sales growth was significantly ahead of last year. Social media impression and earned media exceed expectation, reinforcing the brand equity. We believe this campaign will continue to drive consumption through the summer peak season. Overall, this initiative strengthened Cointreau leadership in the premium cocktail culture.

Slide four. I'd like to touch a word on this new strategic launch for one of our key future important markets, Africa. We executed a major strategic launch with Rémy Martin VS in Africa this quarter. The official introduction will take place in September because before launching something so important for the region, we need to prepare that in South Africa and Nigeria. And I would like to insist on the restricted perimeter, i.e., Africa of this launch.

This move is designed to expand our footprint beyond our traditional core market of the US and China. Africa is a highly promising region where VS represents about 70%, a bit more than two third of cognac volumes. In South Africa alone, VS accounts for nearly 80% of category sales, underscoring clearly the relevance of this launch. We are targeting a new generation consumer, particularly in the younger 25, 35-year-old segment.

Initial feedback from trade partner, the consumer has been very positive. This launch supports our ambition to reinforce Rémy Martin's global leadership and clearly recruit new consumer.

Last but not least, on page number five, I'd like to highlight our last e-commerce activation during the 18th June festival in China. This campaign aims to build resilience and accelerate online sales in a challenging market environment.

On Tmall, Rémy Martin collaborated with Hey Box and Bazaar to create a distinctive pop-up. Pop-up blended a Chaoshan cultural element to connect authentically with the loyal consumer. On JD.com, we partnered with JD PLUS to deliver premier tasting and cruise experiences. These initiatives helped to drive strong organic sales growth compared to last year's festival.

The 6/18 Festival has become a very important annual milestone for e-commerce engagement. Our focus remains on premiumisation and experiential marketing to differentiate our brands online.

Early performance indicators, including not only top line, but also traffic conversion and repeating purchases are very encouraging. This success demonstrates the potential of digital channels to sustain growth in China.

Turning to slide number six, more added figures. Q1 sales amounted to €220.8 million, representing a year-on-year increase of €3.8 million or plus 1.8% on a reported basis. This performance was influenced and shaped by the following factors.

First of all, an organic growth of €12.5 million, i.e., plus 5.7% of growth. This performance is split between plus 12.4% of positive volume FX and a negative minus 6.6% in price/mix. Why that? The price/mix impact results from a slight negative pricing and effect and low to mid-single-digit negative mix effect linked to the underperformance of high-end products and, to a lesser extent, the weight of the Cognac division to be compared to the weight of the Liqueurs & Spirits.

Second point, negative as expected, currency translation impact of €8.7 million or 4% loss, mainly driven by the deterioration in terms of conversion of the US dollar for €4.9 million and Chinese renminbi for €2.9 million.

Now let's turn to slide number seven to delve into organic trends by region. Let's start with the Americas at Group level, in which organic sales increased by very strong double-digit, but at the same time, around 5% down on six years basis.

Year-on-year performance, very positive performance include a very strong double-digit in volume and a low to mid-single-digit negative price/mix impact, reflecting, as already said, an unfavourable mix and some price adjustments already started previous year on VSOP.

In the US specifically, sales grew by very strong double-digit, driven by, first of all, a very low base of comparison for both Cognac and Liqueurs & Spirits alongside a modest sequential improvement in value depletion from Q4 to Q1. In Q1, by depletion at Group level in US were down high single digits. This performance is clearly driven by the non-cognac brands.

Considering the compounders in this context, inventory level in trade in the US is still close to four months at the end of Q1. In Canada, LATAM, sales experienced an equivalent sharp growth led by the Cognac division discussed. By the end of June, Americas accounted for 42% of the Group sales, increasing its weight to the total sales of the Group of 7 points.

Second region in terms of weight is Asia Pacific, in which organic sales declined by low to mid-single-digit year-on-year, but increased more than 15% on a six-year basis. Talking about the

volume value equation, performance was impacted by the value component driven by the underperformance of high-end brands, while volumes were slightly positive.

In China, sales were down low to mid-single-digit amid challenging market condition, particularly for the high-end segment. Disruption within the duty-free will also be a key headwind, representing for this region, a negative impact of 6.5 points at APAC level. Excluding duty-free, China would have been positive by mid-single-digit.

In parallel, direct channels, which account for around 50% or half of the sales in Q1 proved to be very dynamic, generating a very strong growth. Direct e-commerce grew at more than 10% in Q1. As a consequence, e-commerce global channel penetration reached more than 35% of sales in Q1 in China.

Beyond the decline of the indirect channel, overall performance was also affected by a very weak performance in Hong Kong, Macau and Taiwan.

On a more positive note, value depletions showed positive trends. Up high single digit year-on-year, including a strong double-digit growth in Mainland China. It's a small quarter, but is a very positive indicator. On a six-year basis, Q1 value depletion decreased by mid-single-digit, but we were up mid-teens in Mainland China, witnessing the change of the shape geographically speaking, inside Greater China dynamics.

Given the strong resilience of depletion compared to sell-in, inventory levels in China remain healthy at the end of June. Elsewhere in the Asian region, rest of Asia showed a sequential deterioration compared to Q4, impacted by the Cognac division, where Japan, Malaysia and South Korea essentially, while Liqueurs & Spirits improved sharply to high single-digit, but clearly, there is a clear difference in terms of weight between cognac and non-cognac in these countries.

End of June, APAC accounted for 35% of Group sales, down 4 points compared to the prior year. Last but not least, the big EMEA region in which organic sales at Group level were down high single digits and around minus 5% compared to six year ago, primarily reflecting a negative value effect. But what happened inside this region in terms of subregion or subclusters?

Within Europe, third-party distributor cluster, 3PD, recorded a low single-digit sales decline, impacted by Spain, Austria and Czech Republic, while Germany and Greece generated a strong performance. In the UK and Nordics, sales decreased by mid-teens, impacted by some phasing effect and a complex environment, particularly in the on-trade. However, sell-out was more resilient and sell-in performance should improve in the Q2 in this important cluster, UK and Nordics.

In Benelux and France, sales declined by low double-digit, impacted a very strong promotional competitive pressure in Cognac and softer trends in Liqueurs & Spirits.

Lastly, in AMEI and CIS region, sales were flat more or less, showing some good progress on VSOP in South Africa and Nigeria. And as I've just mentioned, we will enjoy the imminent launch of Rémy VS to address a very specific demand in this specific part of the world.

In Q1, value depletion at EMEA level declined by high-single-digit year-on-year. And on a six-year basis, excluding Russia, value depletion are also down high single-digit. Overall, this kind

of balanced equation between sell-in and sell-out or best approx of that determined implies that inventory levels remain healthy across most areas.

End of June, EMEA region accounted for 23% of Group sales, down 3 points compared to the previous year.

Let's now turn to slide number eight and the analysis by division, and let's start with the queen of the division, which is the Cognac division. Cognac division posted an organic sales growth of 1.3%, driven by a 9.4% increase in volume and negative price/mix of 8.1%. End of June, Cognac accounted for 59% of our sales, down 3 points compared to last year.

What happened inside the region inside APAC? Let's start with the Cognac Mainland China analysis. Here, sales declined by low single digits, affected by the challenging market condition in domestic market and continued disruption in Travel Retail. So here again, calculating the impact of the technical effect of Travel Retail in APAC only for Cognac, we had four points of negative effect at Cognac APAC level. The indirect channels were the most affected due to the continued cash flow pressure waiving impacting the wholesaler confidence and their ability to place orders. This was further influenced by the transition in the Louis XIII business model.

As a reminder, we significantly reduced the number of wholesalers clearly starting in the previous year and to retain only those to meet our specific requirement. On the other hand, direct channels performed robustly, positively, including e-commerce, up by more than 10% and as well Louis XIII PCDs, personal client directors.

By brand, CLUB demonstrated greater resilience with value depletion up at more than 40% year-on-year. And if you calculate the performance in value depletion over six years, is plus 65%. While high-end brands at the same time, performance were more contrasted in sell-in and depletion. Elsewhere, Hong Kong, Taiwan and Macau delivered, as said, a very weak performance, both in sell-in and depletion.

Overall, despite the challenging context, value depletion were more than satisfying, strongly outperformed the sell-in and were up high single digits year-on-year and even more in Mainland China. On a six-year base overall, this is equivalent to a high single-digit decrease, but with an increase of mid-teens in Mainland China.

In the rest of Asia, sales were down low double digit impacted Japan, South Korea and Malaysia due to the strong promotional and competitive environment and softer trends in Chinese tourism.

The second region in terms of weight inside the Cognac division is Americas. In North America, US and Canada, Cognac sales were up mid-teens, boosted by a very low base of comparison and despite a modest sequential deterioration in depletion, partially by this compounder as well. What the consequence is that the Group continued to destock.

Q1 in US value depletion declined by low double-digit year-on-year on Cognac, mostly impacted by VSOP, while the high-end segment outperformed in value depletion Louis XIII, XO but on a lower absolute basis compared to the intermediate plus range.

Trends were contrasted by state with Illinois this time being particularly weak and California and Texas being flat. Given these factors, Cognac inventory coverage was still close to four months at the end of Q1.

If we analyse the value depletion cognac in the US on a 12 months rolling basis included five points of price/mix negative effect at the end of June. But on a six-year basis, we can see the effect on price/mix of the uplift and the lower resilience compared to the VSOP because this indicator is up 12 points.

In Latin America, sales of cognac rose by triple digit, but a very, very low basis, driven by Rémy VSOP and Louis XIII.

Third region, which is EMEA, in terms of cognac and weight, cognac sales declined by double digits, affected by strong promotional and competitive pressure in most markets and a weak demand. The UK was strong double-digit down, impacted by negative phasing effect, category softness and some aggressive market promotion. However, sell-out was only slightly down, outperforming sell-in, which is always something promising for the very next future.

Europe 3D cluster was strong, down double-digit, impacted by Germany and continued destocking in Czech Republic in a very soft and promotional market. In AMEI and CIS, sales declined low double-digit in a market essentially driven, as said by VS. In terms of depletion, EMEA cognac value depletion were strong double digit year-on-year.

Now let's turn to Liqueurs & Spirits division, slide number nine, where situation was different. Liqueurs & Spirits division reported a plus 17.3% organic sales growth, driven by strong volume increase of 16.8% and a slightly positive price/mix effect of 0.5%. End of June, Liqueurs & Spirits accounted for 39% of sales, up four years versus last year. So the rebalancing weight in a natural way within Cognac, Liqueurs & Spirits continue to be realised.

Let's review the division performance by region. Let's start with the most important one in terms of weight, which in this case is Americas.

In North America, sales were up by very strong double-digit, primarily due to a very low base of comparison, led by Cointreau, Botanist and Bruichladdich. In parallel, Cointreau Q1 US value depletion were up low single digit year-on-year, which means more or less plus 95% or twice the weight and the value of the Q1 Cointreau value depletion in US in '19/'20. So they doubled in value.

The Botanist and Bruichladdich were flat, i.e., respectively, plus 90% and 55% on a six-year basis. Additionally, always talking about the depletion, price/mix was up 1 point compared to last year for the 12 months rolling basis ending June, but increased by 19 points on a six-year basis. So volume and value depletion turnaround compared to six years ago and not only on the short term.

In Latin America, sales rose by a very strong double-digit, driven by Cointreau's strong performance in Puerto Rico, Mexico and Brazil.

In EMEA, second region by weight for Liqueurs & Spirits sales increased by low-single-digit. Increase, so very important, showing strong sequential improvement from Q4, led by all subregions, except the UK. Value depletion were above sell-in up to low to mid-single-digit year-on-year.

Breaking sales, so top line further, UK posted a sequential deterioration to mid to high-single-digit decline, impacted by the same element as cognac, so phasing, but also a global weather of strong promotional environment. In parallel, sell-out was quite resilient. In Europe, third-

party distributor sales cluster increased by mid to high single-digit, boosted by Metaxa, particularly in Germany, Greece and Poland and some market share gains for Cointreau.

Last but not least, Benelux and France was up mid to high single-digit, while AMEI and CIS up by very strong double-digit.

In APAC, third region by weight, China sales were up very strong double digits on a very low basis, driven by Cointreau, Bruichladdich and Botanist. Overall, Q1 value depletion were strongly positive year-on-year, also driven by our top three brands, so perfect correlation, low figures, small figures, but very promising. Rest of Asia was up high single-digit, driven by Cointreau market share gains in New Zealand and good momentum for Bruichladdich, mainly Octomore in Japan.

A final word on Group brands, which represent now 2% of the Group sales, so down 1 point compared to previous year. They recorded a very strong massive 41.7% decline, mostly affected by the Benelux and the UK, which is consistent with our strategy to focus on our own brands.

Let me breath a second. And then to conclude, a very important slide. Slide number 10 for a few comments on our guidance for the full year '25-'26. We have tried to be as precise as possible, although the environment remains unsettled. Despite these headwinds with backdrop, we expect Group sales, Group top line to return to mid-single-digit organic growth for the year, mainly driven by what I would describe as a technical rebound in the US. This performance reflects phasing effect both in the US and China, leading us to anticipate a return to growth in the second part of the year, in the second half, even though Q1 is already positive.

So let's be clear and explicit. We anticipate a decline in Q2. Why? Three factors. China, where we continue to expect pressure among wholesaler as well as a negative calendar effect linked to a later Mid-Autumn Festival.

Second, US. In the US, even if there is a sequential improvement of depletion, the depletion remain negative. And so far, they are running behind budget. On top, we expect some distribution changes on a minor scale, but still there operationally in California because of the what just happened with the change between RNDG and Southern Glazer's.

Third, EMEA, even if it's more dynamics in Liqueurs & Spirits than in Cognac remains clearly a leopard stock cluster - leopard spot, not stock, sorry. Meaning that the performance is like leopard skin characterised by positive, also some negatives that globally makes the expectation for the Q2 better than Q1 but not so enough, not so bright to change the footprint of the Group clearly.

In a nutshell, I repeat, Q2 will be a transitional quarter, driven by several specific phasing effects, but it will be a negative quarter. Q3, Q4 and H2 should mark a return to a positive trajectory, and we believe in that because it's part of our guidance.

Now this was for the top line. Turning the guidance to the bottom line, the COP. As you know, we have signed, and we highlighted that, a price undertaking agreement with the Chinese authorities, which allows us to significantly reduce the expected bottom line impact for the year.

We now estimate the impact at €10 million to be compared with €40 million previously, net of our mitigation plans. In the US, in this guidance, we have factored the latest statement from President Trump, which might be still subject to change. As of today, we consider in this

guidance a net negative impact of €35 million versus €25 million previously, reflecting an assumed tariff rate of 30% on European imports instead of 20%.

At the same time, gains achieved in China relative to our earlier estimates enable us to reinforce sustained investments and clearly with specific arbitration where there is a more expeditive speed to the return on investment, so notably in China.

All in all, we now anticipate an organic decline in COP between mid to high-single-digit to be compared to a decrease of mid to high teens previously. Remember, beginning of June, we said everything included mid to high teens or minus 15% to minus 19% more or less. Now it is between mid to high-single-digits. So it's an improvement.

This includes four elements, an underlying growth in COP, excluding tough tariff, which is unchanged compared to what we communicated in June. The new import pricing in China, which is another cost compared to the past, but less than expectation.

The risk linked to the latest official statement in the US of 30% tariff importation duties in the US and some reinvestments to our initial budget assumption to dynamize even more depletion. So at the end, top line.

In addition to this organic performance expectation of footprint and of guidance, I wanted also to update the currency effect, which remained negative this year and highly volatile. While our hedging policy has to mitigate part of the adverse impact, the recent evolution of the dollar and the renminbi leads us to expect a situation which has worsened. So a sales conversion impact of minus €50 million to minus €60 million to be compared to minus €30 million, €35 million previously. And a COP impact on €15 million to €20 million to be compared to €10 million to €15 million previously.

In terms of phasing, both effects should be more or less 50-50, H1, H2. Exchange rate is not dictating our calls in terms of investments, in terms of guidance. The company has managed since many, many, many years in terms of organic performance. But we will update you every quarter on this indicator. This is important for you, for us to estimate the financial implication of the exchange volatility positively or less this year negatively. This is why I will continue to update you every single quarter and not only every six months for what concern the forex impact.

Thank you for your attention. Now I'm very happy to answer to your questions. Thank you so much.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, as a reminder, if you would like to ask a question, please press star one on your telephone keypad. And in favour of allowing more people to ask questions, we kindly ask you to limit yourself to two questions only. We'll pause for a brief moment. Than you. We'll take our first question from Simon Hales of Citi. Your line is open. Please go ahead.

Simon Hales (Citigroup): Morning, Luca. Morning, Célia. Just 2 for me then, Luca. Just firstly, just really a clarification. I just wonder whether you could just sort of go over again some of the comments you made around the outlook for Q2 organic sales growth, particularly with regards to the US. You talked about I think your performance running a little bit behind

budget there, but I didn't quite catch everything that you were saying. So just a point of clarification, please, on that.

Then secondly, on China. Can I just clarify some of the assumptions you're now making in your new guidance following the move to a minimum price agreement there and the €10 million net impact you're guiding to on EBIT for the full year. Are you assuming that you absorb fully the minimum price moves that you're seeing? Or could we yet see some of that pass-through in terms of pricing? And what are you assuming on a go-forward basis with regards to China duty-free from here? Are we still expecting that, that remains a headwind through the second quarter of the year and there's no sort of restock of the channel at all in your full year '25, '26 Group organic sales guidance for mid-single-digit growth?

Luca Marotta: Hi Simon. Thank you for your five questions on China. Let's start with maybe an illustration of the Q2 in terms of what we expect for the Q2 and globally for the sales. Clearly, we anticipate sales to decline before the rebound of Q3 and Q4 clearly, impacted by specific effect, both in the US and China. I know that your question is more on the US, but part of the Q2 decline is more in China. So that is why I will explain China before.

In China, even if the quarter was very positive, and we are highlighting a bit in depletion compared to the sell-in, it's a small quarter. And overall, the economic context is still very complex. We face some additional pressure with new restriction on alcohol consumption with governing bodies that hit both imported spirits as well as baijiu. So there is a global temperature with still a bit under some cloud. We continue to expect, and it is the case, cash pressure among wholesalers, big one.

And on top of the fact that there is - even if we increased price in April or lowest side of the range compared to what we have done in the past, the fact that the pricing environment is less dynamic than before in terms of price increase makes that the anticipation because we have many layers in China of saving before you count on that to anticipate price increase, reduce the speed of restocking between the intermediate layers. So this is something which is laying off a bit additionally.

On top, they made some early purchases and the older tariff before the potential antidumping tariff. So it's not very material, but I believe more in terms of confidence than in terms of MAF and compounders. There are also a negative impact in terms of calendar three weeks later, two weeks, three weeks later in terms of MAF. And that's the reason why APAC sales should be negative compared to the previous year.

On top, one thing I forgot but I highlighted that during the call, Mainland China is overperforming, but compared to some years ago, we are still struggling in the Hong Kong, Macau and Taiwan part. So at the time, we are much more important. So this is waving also at the end of the day and totalling of the performance.

US. US and it's totally consistent with our guidance, executed a strong start to the year, in terms of top line. So the technical rebound is more or less there. It's slightly less than budget and less for the organic element, more to the situation more linked to the RNDC California disruption. So more or less budget top line. But depletion are not where we expected. So we need to be cautious that the second part of the year, also the start with Q2 need to be back at the expected budget depletion expectation or otherwise, the magnitude of the restocking of the sell-in could be more fragile. That's the reason why we believe in our guidance, but we are

cautious on the short term in terms of Q2, even if the decrease of the US will be lower in terms of decrease of China.

So, so far, I repeat, top line, okay? We pick the case, depletion, improvement, but not yet a budget expectation. So this is not enough. We need to do more. EMEA should improve sequentially versus Q4 and versus Q1 as well, but still not enough to be able to balance China and the US. So at the end, Q2 with negative.

Q3, we believe in that, should mark a return to positive trajectory. But clearly, all will happen during the summer and September, the Mid-Autumn Festival will be very, very important.

So in terms of China and what we have done to offset, what we think to do to offset the impact of the tariff. You know that with the new price undertakings, the net impact is €10 million compared to the previous estimation. The gross impact is more or less €35 million. So we have done 70% of offsetting, which is bigger than we have done in the US in terms of compensation mitigation effect. So the plan was not very specific only oriented on only one item. It was a mix of inventory optimisation. So in terms of logistics and stock movement anticipating the events.

Price increase. So we did a price increase at the beginning of the year, but a lower extent compared to the past.

Channel optimisation. Every time we are able to realise in terms of top line and value depletion and a bit compared to expectation of direct channels, e-commerce, we are accretive in terms of top line. In terms of bottom line, it might be sometimes different, maybe [inaudible] [00:45:53] store, but top line is a bit.

And then US have done it the previous year. China is happening right now. Cost savings linked to some - I'm not so sophisticated as others, so I won't do. For me, it's cost cutting. So I'm a very basic guy. So it's cost cutting lasting. So I don't know what is the efficiency. But for me, it's cost cutting that will last and will dynamize our bottom line.

So at the end, more than two-third in China of the impact is offset. We could have been even more aggressive, but we decided and Franck and Marie clearly pushed already on that to reinvest part of that already in China to be able to speed up the recovery, if any, because we can say the negative side, the confidence is not yet there. But we know that the time to market in terms of reactivity, in terms of speed to reaction is higher in China than everywhere in the world. So that's the reason why we will get a preferential eye in terms of reinvestment in this part of the world.

Pricing. Pricing can be modelled accurately at this stage for the future quarters? No. Clearly, I repeat, we increased that a lower extent compared to the previous year. So there was a minimal impact, but we are more focused on doing volumes, sales, recover the confidence of the indirect channel, accompany the consumer appetite, then play on that part.

Last part of your question is duty-free. We didn't consider when we started the year. The budget guidance, a duty-free block for the full year, but only for the first four, five months. So today, the situation seems to be improving. Officially, it's opening, but you know there is obviously some difference in terms of official statement, a specific operation in fact. So we hope that will be fully operational as it seems. And in that case, clearly, it will help.

Our guidance was not built on zero duty-free sales for the full year, but only for the four, five months. I hope I was long, but clear.

Simon Hales: Very helpful, Luca. Thank you.

Operator: Thank you. We'll now move on to our next question from Laurence Whyatt of Barclays. Please go ahead.

Laurence Whyatt (Barclays): Hi Luca. A couple of questions from me, if that's okay. You talked about the impact in Hong Kong, Macau and Taiwan. I was wondering if you could just give a bit more detail on what the issues are there, if there's anything quite specific to those regions versus Mainland China?

Then secondly, if you could just give us an update on what's happening in California with RNDC. If you've had any luck with your RFPs to other wholesalers. And just is there any concern we should have of sort of stock being put into the market at a somewhat discounted level from RNDC putting out of that market? Anything we should be concerned about in California that might impact you in the future? Thank you.

Luca Marotta: Thank you for your two questions. So it's not a technical effect. It's Macau, Taiwan, Hong Kong. So we highlighted that also in other occasion. But this time, the phasing of the Q1 '19, '20, we are still a type of model in which we rely more on a direct channel in this part of the world compared to what happened during the COVID makes that more visible now. So it's not technical. It's more lasting.

So this kind of change has been included in our long-term plan, what it was in 2019 early and is followed through all of the year. So in a nutshell, Mainland China is supposed to recover what we have lost. But at the same time, we put specific investment in these three specific countries, Taiwan, Hong Kong and Macau to be able to get to grab the local market, which is there. And specific external condition like reduction of the gaming industry, Hong Kong be up and down closed also with some political situation element that wave that during this year.

With Taiwan also being sometimes not for us, but for some competitors more considered as a CBT or transit land makes that this investment are not getting the ROI in top line, we were highlighting so very clearly. So it's not a technical factor. It's that - it's on our shoulder, we need to be able to be back on this plan on this specific land or it's more definitive ultimate that is not possible. We need to consider that we need to be able to recover that in Mainland China, Hainan and duty-free.

Part of that was also some inside trading the regional operations. So that's the reason why the duty-free operators footprint need to be there because it contains many sub layers of growth. It's not a technical factor. It's a specific weakness that we need to cope with and to resolve.

California change. So we are not happy, but RNDC decided to stop the operation. California is a very important state for us, one of the top three states, more or less 10% of our top line value depletion. RNDC bought that many years ago, five, six years ago from Young's and have been actively accessing the ways to accelerate our development for several months because it's a key state. Even before the change, we need to beat the market in California to be back to be in positive land.

This announcement was a good thing, simply act as a catalyst for a transition that was already underway. In the short term, it's a negative news. However, we already signed very quick

reaction for our teams, a lot of ping-pong with the corporate, but really kudos to our teams to have taken all the bull by the horns and resolved the situation the soonest.

The new contract will start in September for a while in order to align California with other open markets. So technically speaking, Southern Glazer will acquire the business stock or RNDC and some additional stock. We don't expect in California per se a lot of disruption, as you already highlighted in the Q1 disruption of some million euros, but not major, they could have been old product.

And Southern Glazer is not a new guy for us. It's already there for Nevada, New York, Missouri and Canada. So doing that will be increasing its weight, more or less 20% of our top line. RNDC will be less than 50%, so reducing that. So negative short-term disruption element will be some negative impact more because when you change type of operation, the VIM[?] [00:53:51] management change, you have some technical adjustments.

But if you think more medium to long term, the California performance was a question mark and needs to improve in the future. What is the main driver of that? The Southern Glazer, we thought and we think it is more plug and play than other competitors for the key period of the year, which is [inaudible] [00:54:20] portfolio will be part of the main division and exclude other frontline competitors that are not included in our footprint.

We expect some negative impact in Q2. Q1 was €5 million to €6 million. It's too early to be accurate on that. It is more in terms of indirect operational disruption and day-to-day leakages than a specific will of the new wholesaler to say, "I need to realign the stock. We are not in this kind of situation that is declining right now."

So I was very analytical and very clear with you I hope.

Laurence Whyatt: That's super helpful. Appreciate it, Luca. Thank you.

Operator: We'll now take our next question from Edward Mundy of Jefferies. Your line is open. Please go ahead.

Edward Mundy (Jefferies): Morning, Luca. Morning, Célia. Two questions, please. The first is coming back to your guidance of mid-single-digit growth for the year. Are you able to share with us what your budgeted expectation is on depletions? Does it need to be a material improvement relative to the down low singles that we saw in the first quarter?

Then the second question is, I think it's now one month since Franck's been in the seat. Any early perspectives that you're able to share, perhaps maybe give a bit of a flavour of what he's been doing and any perhaps change of emphasis and strategy. That would be very, very helpful.

Luca Marotta: And what is the third? The guidance of top line?

Edward Mundy: First question is, what's your depletion expectation for the year to get to mid-single-digit revenues? Then the second question is, in a new CEO, one month into his seat, sort of what's he been doing? And any change of emphasis?

Luca Marotta: Okay. So it was guidance, depletion and Franck's first takeaways. Okay. Clearly, Franck will be with you all at the end of November for the half year results that will be far more complete what I described. The first takeaways, as I already said, is that in a world, the only way is up. So top line dynamics, top line dynamics, top line dynamics. Meaning thing

that all the compounders, all the investments need to be back to ROI we need maybe to be improved in terms of reaction of the top line because everything becomes much more easier and natural if the first line of the profit and loss is not declining.

Now we had the luck to arrive in the first quarter after eight quarters on negative result because I didn't highlight that, but I probably your question to highlight that, the first positive after eight. So it was cause for me. I have a big quote. In summer, I took up the quote.

And clearly, we want to continue to stress this positive concept of top line. Then other points, it will be declining that, but he's a very experienced professional, clearly with a huge track record of transformational experience. He's installing a positive electricity and pressure inside the company. Top line is the way.

Second point, guidance. Let me allow to go beyond your question for a while and talk about the guidance in terms of profit and loss, and then I'll be back on your depletion because as a consequence. So what we are saying today is that top line is for us mid-single-digit, so more or less 5%. Company consensus, company, not visible alpha is more or less already in line with the guidance, 3.6%, 4%, if you take the median. So we are there.

On organic COP, it is mid to high-single-digit decline, which is an improvement. But if you consider clearly in a very mathematical way, the company organic consensus before this call, it was already at minus 4.5%. So you can say that our upgrade was already modelled by you. And in this point, I'd like to begin and to explain that I respect the fact that you can modelise something different, but it's very different compared to what we highlighted at the beginning of June. We said that net of all tariffs, we will be between mid to high teens, minus 15% to minus 19% and company concession minus 4.5%.

So already, you took into account overall, not you Jefferies, but all of you, an improvement in the situation and clearly on the tariff side. Today, we re-express in a very clear way the tariff impact and drive to minus 5% to minus 8%. So what I'm saying that today, your consensus even before our call is more or less spot on for the wrong reason, allow me that, is a bit on the higher side of the range. And you need to adjust also the FX impact on COP because it's a bit on the lower side. Your consensus minus €15 million, minus €15 million to €20 million, but it is some volatility. So overall, the guidance for the technical element should be in this range.

But clearly, what is important after the sword battle also between us intellectually in terms of what kind of footprint you take into account for the tariff. Now back to base to the underlying compounders, what you need to consider. So at this point, let me remind what are our expectation for the year to be able to deliver the mid-single-digit guidance.

And let's start with the dynamics of top line of quarters. Q1 done, fantastic, sometimes lower than budget, sometimes better than budget, better than budget is China, but overall done. Q2, negative, slightly behind budget so far. Q3 and Q4 will be growing based on the assumption - the following assumption.

If depletion in line with budget, meaning there will be a catch-up in Q2, Q3 and Q4, strong growth, very strong growth. Strong double-digit. If less than that, we will analyse that during the next quarter and talk also with you. But clearly, the top line will be declined because the [inaudible] [01:02:05] will not be there at the same strength. So we might eventually switch from a strong growth, double digit to a high single, mid-single, we will decline that.

The situation translated very clearly of the actual depletion value in the US, meaning that we are not doing the budget right now is more on the risk side. APAC, what's happening, what we are putting in place, I think that we might have some positive surprise. Bit cautious, the budget is cautious considering the context. So it might be also something there to offset, I don't know if totally, the inherent risk you can consider the US have because of the lack of speed compared to the budget in terms of depletion.

In a world, less complicated. If you want, you have some risk in the US, some upside so far in China and rest of APAC with some additional cherry on the cake, we hope with the duty-free and dynamics of new channel like e-commerce, not new anymore, but direct channel.

EMEA will be the third guest. We hope that will improve. And if you have their back or the budget assumption also slightly less, all that at the end of the day will fit with a mid-single-digit top line impact. Bottom line risk is compared to mid to high single-digit decline. So far, no. And I repeat first statement of the new CEO is dynamics on top line and move, move, move on top line. So I expect him to be also very clear on that with you, with his priority end of November. But first sign, I clearly on an increase of electricity inside the positive tension, if you want. Electricity is not the right word. I hope I answered it in a clear, analytical way.

Edward Mundy: Very clear. Thanks, Luca. And just if the tariff situation in the US is not 30%, I mean, how do you think philosophically about that potential tailwind that might come relative to existing guidance? Does that get reinvested? Or does that use to absorb volatility? I mean, how are you thinking about that potential tailwind that, clearly, we don't know what the outcome is at this stage?

Luca Marotta: I can't answer because we will need to discuss at Comex level and Franck Marilly decision will be a very important one. All clearly will be a positive. Everything equals news for the bottom line. But then once again, top line depletion to be dynamized. So I don't know if it will be a 50-50 decision. It will be offsetting some additional risk on your bottom line. I don't know. It's too early for that. But clearly, we will not be stubborn and looking only at one picture will be a lot of what if and ping-pong, I think it's better than me in playing ping-pong. So I will be in a very complicated discussion because what if we do that, what if we do this one.

So it will be at adage, but a positive one, is a dynamic one.

Edward Mundy: Thank you.

Operator: We'll now take our next question from Andrea Pistacchi of Bank of America. Please go ahead.

Andrea Pistacchi (Bank of America Securities): Hi, Luca. Two from me, please, which are a bit of a repeat of some of the things you said. I just wanted to clarify a couple of things, please. The first one on the US on how you're thinking about depletions going forward and your guidance. Now your depletions in the US are down around low double-digit you said now, which is clearly quite an improvement from where you were six months or so ago when it was more than 20%. You're performing more or less in line with the industry now, but you said you're a bit behind budget. So does this budget, does this mean that you were expecting or you are expecting for the second half a continued improvement in that rate of decline, i.e., maybe that in H2? Yes, you're still down in terms of depletions, but nowhere near what you were before?

Then sort of similar to this, but just want to understand China a bit. Depletions there were clearly strong in Q1, up high single-digit. You're outperforming the market there. You called out the reasons why Q2 would be softer, but it all seems headwinds that are mainly related to shipment phasing or calendar effects, the later Mid-Autumn Festival, for example. And in what you just answered now, you're sounding fairly confident about China saying that it could potentially offset weakness in the US. So yes, what gives you this confidence in the momentum in China about the, let's say, the positive depletions continuing there?

And on the government ban on alcohol in sort of official meals on that, you touched on it very, very briefly earlier. Could you just confirm - I mean, this isn't very material, right, for cognac? Or is it? And how is it affecting your business? Thank you.

Luca Marotta: Thank you, Andrea. In terms of depletion, US at the Group level is not double-digit negative. It's high single-digit negative.

Andrea Pistacchi: Sorry, cognac I meant, yeah. Sorry.

Luca Marotta: Cognac yes. But we unleash DL positively, like Gladiator said in terms of [inaudible] [01:08:25] so it is less balanced between them, but at the end it's high single-digit. So clearly, the budget was based on a better depletion, and we are doing all we can do also in terms of investing more below the line, more linked to the point of sales with a stronger reactivity to improve that. Because I didn't say already, but I repeat what the spark in the US is linked to positive depletion.

Even if we are improved, we remain in negative land. If we are doing maybe now better than the competition, it is not positive. So we need a spark. And this guidance is built with a rebuild of depletion in the second part of the year, more in the second half than the first half. But so far, we are not double-digit negative, but high single-digit negative, okay? It's a small difference, but important.

In terms of China, it is more a technical impact in Autumn Festival for the sell-in of the Q2. And our assumption is that if this depletion rhythm on stronger and bigger quarter remains, if we are able to beat big time the market in direct channel every time we touch the consumer, the confidence will be reinstalled and will be Q3 and Q4, which might be bigger than budget expectation.

All in all, this could be enough to offset the top line of the US? I don't know. But for sure, will be fit with the mid-single-digit organic growth at Group level. So the confidence is linked to the fact that the reactivity change on dynamics linked by the investment and dynamics linked to the overall confidence as far more expeditive. [Inaudible] [01:10:46] bigger in China than in any other part of the world.

Andrea Pistacchi: Okay. Got it. And then just a word on the government alcohol ban?

Luca Marotta: It is something that is weighing more on the confidence of wholesaler, a bit on our A&P because direct A&P, so testing a specific dinner are decreasing a bit. So you have to reorientate a bit more the profit of that to improve the investment in e-commerce channel. So you need to be very reactive. And there, once again, I never stopped to reiterate that. The biggest weapon we have in China is the team. One fantastic, wonderful team.

Andrea Pistacchi: Okay. Got you.

Operator: Thank you. We'll now take our next question from Mitch Collett of Deutsche Bank. Your line is open. Please go ahead.

Mitchell Collett (Deutsche Bank): Thanks. Morning, Luca. Sorry to ask the same question again, but I'll try and rephrase it. In the US, are you assuming positive depletions in 2H behind your guidance? That's my first question.

Then my second question is on VS and the push for that in Africa. Rémy Martin stopped doing VSOP a few years ago. Is there an opportunity to do that more broadly? You sounded like you were saying specifically not. But I guess given the challenges to cognac in the US, would you ever consider doing VS again in the US?

Luca Marotta: I start with the second one, no. So VS is only at this stage specific for Africa at this stage for two countries, South Africa and Nigeria. And so far clearly this project that starts already clearly before Franck Marilly arrived, clearly a project like that has 12, 18 months of just of intellectual preparation. It is linked to Africa.

For many quarters, we lose market share because VSOP and our VSOP was not the right weapon. So we installed that. At this stage, it is not meant to be resale or to be proposed in the US. But coming back to a structural down trading of the cognac offer falling down in the 2008 declining pyramid of ranges, at this stage is absolutely out of question only in Africa.

In terms of the assumption. So thanks for your question because I think it's important also to less words, less noise from my side and more figures. Value depletions in the US in terms of building blocks for the full year at budget time were quite modest, so meaning mid-single-digit in value based strong H2 and more or less flat H1. So we modelise that.

And as said, at that time you remember two or three times Trevor Stirling asked the same question, what does it mean one point of depletions in terms of automatic restocking, meaning that the automatic restocking and resetting with the compound of depletion at this positive spark, the organic stock was an impact on sell-in which is very large. So between €20 million, €30 million could be even more.

So it is enough to realize a mid-single-digit, sometimes also low to mid-single digit value depletions at full year. And the model was built with a strong double-digit value depletion increase in the H2. So far I repeat top line is there compared to the value expectation. Value depletion in the US are running behind. Is there still time we can we do what we are highlighting in the guidance to be able to catch up? Yes. There is some risk. Yes.

Can you offset that with the other part of the world like China, mid-single-digit top line? Yes.

Mitchell Collett: But just to make sure I've understood. Apologies to follow up, but you assume strong growth in the second half in depletions, given that you're expecting - you're budgeting mid-single-digit value growth across the year, and it looks like 1H is likely to be down given the start you've made and where you are in 2Q?

Luca Marotta: I disagree because the balance between depletion and the sell-in effect in the US will be much bigger. So the dynamics between depletion and sell-in is very correlated in terms of consequence. So mid-single digits, so let me say, as an example, plus 4%, plus 5% at Group level, if you are realising high single-digit in depletion in value in the US is much more in sell-in. So automatically, you have an accretive impact of the top line of the US. And budget expectation in China at the time were more moderate. And I hope not to be wrong, but I think

that situation is not running very bad at the moment in China. There are some clouds, but there is also some sun under the clouds over the clouds.

Okay. Any more questions or what happened?

Operator: I'm sorry. We will now take our last question from Trevor Stirling of Bernstein. Please go ahead.

Luca Marotta: I was waiting for you. You were viewing on the subway. You were on the subway.

Trevor Stirling (Bernstein): No, I'm still here. It just took some time to get out of the underground. Two questions, Luca. For once, it's not about stocking and destocking and depletions and shipments. Thinking about consumers, Luca, you mentioned that in China, the direct channels are looking very strong and some rays of sunshine there, as you say. Have you any colour - I know it's really difficult to say, what consumption is actually driving this? Is it consumption outside Guangdong? Is it people buying cognac via direct channels and then consuming it in restaurants? Any colour you can give there, that would be great.

And then on the other side, in the US, where the value depletion is still weak and clearly, that's also your major competitor is still very weak. Does it make you start to worry that there's a bigger structural factor here at play in the US such as your African-American consumers switching to tequila? Or again, any colour you can give on consumption trends in the US would be brilliant.

Luca Marotta: Thank you for your easy question as usual. So on-trade in China is still very weak for us. So when you say we overperform on direct channels, direct channels linked to a model which is not really on trade, but it's more penetration of direct consumer. We use e-commerce also mainly in the past also to penetrate a new region.

Now the company is already there and B2B part has underperformed compared to the B2C, the D2C part of e-commerce. So in terms of hint, it is more skewed cognac, non-cognac. It is still more skewed to cognac. CLUB playing the lion part. The plus 40% in value depletion is clearly linked and correlated to that. There is some change in terms of format. Sometimes it's a little more skewed to the smallest format in terms of dynamics of profit and loss, as you remember. Gross margin is lower in this type of direct channel, but bottom line is bigger because of less of specific OPEX.

The other part of direct channels, like PCD is clearly more accretive even if they belong to a specific man-to-man relationship. But once we have found the guy that is able to realise more than the breakeven point in terms of the number of bottles, it is very totalling profit like hell. And the last one is very profitable in terms of gross margin, which is freestanding store, but is more moderate and temperate in terms of bottom line return.

Today, with the boutiques and freestanding store in China, we are profitable in some of them, less profitable like everybody when you have the biggest investment. But in terms of EBIT or consumption, direct channels are more skewed non-cognac, not really visible, more in the cocktail bar environment, but it's still very low in terms of penetration. And it is more this part, the specific wholesaler that are driving to cocktail bars specific part of their intention, more than direct. So still something to do.

The last, the mother of all question, Trevor. It is a long cycle or is semi-structural, rigid cycle or semi-structural? I don't know. This cycle stands a bit too much for my taste. It would be an important year to acknowledge that. It is the same question Franck Marilly asked us as well. And nobody has the crystal ball to answer very clearly. So far, we are still in the dynamics of historical pattern, stochastic analysis of cycle.

Clearly, for the third year in a row will be a global market fall with all signs going negative. We need to clearly address this global question as well. And also this is part of the reason we raise with decline - not decline, was not the right verb. We offset the long-term guidance has been removed.

It is an important question. So far, everything we are doing is still on the sentiment on the conviction. It is a long cycle, but appetite is there. Share of art is bigger than ever. For Rémy Martin, it's improving. We are number two both in US and China. All the soft elements, the positive elements are there. Every time we get in touch with consumer, we beat competition. I cannot deny, we are still in negative land. Also the latest figures in Nielsen's final sell-out are not nice at all, not only for us, for everybody. So the question is more than legitimate.

So it is a very long cycle or is it semi-structural. This year, end of the year, everybody is professionally to draw a balance and answer clearly to this question. So far, everything we are doing is coping and considering that is a long cycle, but it's a cycle. It's not a structural lasting impact.

Trevor Stirling: Super. Thank you very much for your perspectives, Luca.

Luca Marotta: Thank you.

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

Luca Marotta: Thank you for your interesting question. It was a positive quarter. So I'm very proud because at least after eight negative one, there was some plus. I lost the habit to do that. But the next one will be negative. But for the year, we are clearly committed and we believe in what we highlighted in terms of guidance of top line and bottom line. So see you soon and talk soon end of October for the second quarter.

Clearly, the most important meeting will be end of November with the presentation of the half year results and clearly, our new CEO on stage to answer to all your questions and to give the light for the remainder of the year and the future year to come. Thank you so much. Have a nice summer and take care.

[END OF TRANSCRIPT]