Q4 Sales 23/24

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Operator: Hello and welcome to the Remy Cointreau Q4 Sales Publication Call. My name is Laura, and I will be your coordinator for today's event. Please note this call is being recorded, and for the duration of the call your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Luca Marotta, the CFO, to begin today's conference. Thank you.

Luca Marotta: Hello, everyone. As you've seen in the press release, full-year sales were down 19.2% in organic terms, including a roughly flat performance of -0.7% in Q4. This performance reflects some positive phasing effect in China, as well as a stabilisation in EMEA following some destocking in this region in Q3.

In addition, we benefited from a positive calendar effect linked to the Chinese New Year. We estimate that at around four points, i.e., around €10 million. In parallel, the US showed a sequential deterioration versus Q3, which was driven by some shipment phasing. As mentioned in January, we anticipated some shipment from Q4 to Q3 to optimise as much as we can our level of intermediary inventories at the end of our fiscal year.

Overall, the 12-month sales decline is split between a volume decrease of -14.6% and -4.6% of price mix effect, impacted clearly by the America region as a result of the sharp Cognac's underperformance compared to Liqueurs and Spirits. Finally, the cost-cutting plan is right on track, and we confirm the €100 million cost saving for the year.

Looking at the overall sales performance by region, Americas was down 39.6% in 12 months, including a sequential deterioration in the last quarter, Q4, due to negative phasing effects both in Cognac and Liqueurs and Spirits.

APAC was up +2% in the 12 months, including a significant growth in the last quarter driven by Cognac in China, positive phasing and as well some calendar effect.

EMEA, last but not least, was up plus 0.7% in the 12 months. In the last quarter, sales were up strong double-digit despite contrasted trends among subregions and continued soft consumer trends.

This was sales, sell-in. Now let's talk of the best proxy of final sell-out: value depletions at group level over the past 12 months. In the US, value depletions were down mid-teens and down high-single-digit, excluding VSOP. As compared to pre-COVID level, value depletion were up +10% and increased by 45% – four-five – excluding VSOP.

In China, despite high comps and a complex environment, value depletions were up low-single-digit in the 12 months of which plus high-single-digit in the last quarter. On a four-year basis, China value depletions were up +75% versus pre-pandemic and were multiplied by three versus Q4 2019-20, which is huge in terms of exit rate.

Finally, in EMEA, value depletions were down low-single-digit this year. This represents an increase of more than +20% if we compare to 12 months in 2019-20.

Overall, at Group level the general equation, this means that 12 months value depletion grew at approximately +40% – four-zero – on a four-year basis, so clearly faster than sell-in, which was up +16% on the same period.

Last word in terms of organic guidance – organic guidance, I repeat – is confirmed.

Now, on pages three to seven, we picked up some initiatives that have been undertaken over the quarter. Let's start with page number three with Louis XIII and the opening of two boutiques, freestanding stores, in China, bringing the total to ten boutiques, or freestanding store if you want, for the brand.

First one in Hefei, 5 million people, seen as the future Chinese Silicon Valley. The boutique is located in Hefei Yintai Mall, the first and only high-end luxury mall in the town. Our 68 square metres boutique is located on the ground floor among luxury brands to leverage high-premium traffic. The second one, second boutique, in Suzhou City, 8 million people, one of the fastest growing cities in terms of GDP per capita. The mall was opened in 2023, last year, and the boutique is also located among key luxury brands.

With these new boutiques, as Eric Vallat pointed out and said in the H1, during H1 result, the objective is to test the franchise model with a key strategic partner synergy, having a strong expertise in luxury hard-goods sector. Through this model, the ambition is to address tier 1 and tier 2 cities in a quicker way without any difference for the final offer for the clientele in terms of look and feel, pricing or selling ceremony.

Page four, quick word on Bruichladdich, which recently reveals a new luxury redefined range featuring first permanent high-aged statement whisky range, the 18- and 30-year-old single malt Scotch whiskies. So far, these new ranges have been rolled out in EMEA and the US and are about to be launched in China. The new luxury refined range is conceived, distilled, matured and bottled only on Islay. The bottlings feature an industry-first bespoke sustainable outer wrap. The first permanent 18-year-old single malt in Bruichladdich portfolio is an ultra-high provenance single malt whisky. Every single element is fully traceable from farm to glass, which for a whisky of that age is quite unique and incredible.

The Bruichladdich 30-year-old is the story of the distillery resurrection – embody that. The Bruichladdich story almost ended in the late 20th century when the doors of the distillery were forced to close in 1994. Over the next seven years, the two remaining members of staff supported the cask, which continued to mature in the depths of the warehouse before the distillery was restored in 2001. Bruichladdich 30 has been distilled using this high-legacy cask. Bruichladdich 18 is priced at £150 and Bruichladdich 30 at £1,500.

At the same time, Port Charlotte unveils its first 18-year-old single malt Scotch whiskey. This release, priced at £175, is the oldest expression of the heavily-peated single malt Scotch whisky to be released to date. So far, the results are very encouraging as the new ranges have been well received by the trade and sell-in has been 60% – six-zero – above target.

Page number five. One word on the release of our latest innovation for the gin, our gin, The Botanist. Following the release of a trial retail exclusive, The Botanist Hebridean Strength, The Botanist has unveiled two new additions, The Botanist Cask Rested and Cask Aged gins, inspired by Reposado and Anejo tequila, indirectly. The Botanist Cask Rested Gin is a cuvee of around 16 different cask types from a variety of gin regions and been aged in Bruichladdich warehouse on Islay for a minimum of six months. The Botanist Cask Aged Gin is a cuvee of around six different cask types from a variety of regions, has been aged in Bruichladdich warehouse for a minimum of three years.

Botanist Islay Cask Rested Cask Aged Gin will allow us to compete in the premium Spirits category with these products, recruit new drinkers for other super premium spirit – from other super premium spirit categories, catapults The Botanist into new occasion, new types of consumer, reinforce our distilling expertise, ageing credential and provenance. Botanist Cask Rested is priced at £50 – five-zero – and Botanist Cask Aged is priced at £70. So far, in terms of results, these two launches are promising, with sell-in being almost three times bigger than our internal target.

Page six, a few illustrations of the activation made in China for this Chinese New Year. Our teams have done an amazing job to support growth in a very complex market affected by a persistent low confidence since the reopening post-COVID. As you know, Chinese New Year 2024 was not a great vintage and showed soft trends. However, our value depletion had proven to be resilient, and we continued to gain market share, led clearly by Club and XO. By channel, e-commerce has been a very efficient weapon, once again, for us to face these headwinds. Boosted by our Super Brand Day on 12th January, which recorded 10% of sales growth, our e-commerce channel grew by almost 30% – three-zero – over the last quarter compared to last year.

Page seven, last but absolutely not least, travel retail. As expected, as guided, as announced, travel retail sales are now back to pre-COVID level, even above that time, with sales up high-single-digit versus full-year fiscal year 2019-20, and this despite the only partial recovery of the Chinese tourism. Many activation in Chinese New Year and the 300-year celebration of Remy Martin have been done to support this strong sales acceleration in Q4.

So, now let's stop talking about marketing initiatives. Let's talk about figures again. Slide number eight, and moving to the 12-month sales analysis, sales amounted to €1,194.1 million, down by €354.3 million year-on-year, or if you want -22.9% on a reported basis. This reflects first, a very strong organic decline of around €300 million – €297.2 million, i.e., as said, -19.2% of organic sales decrease. This performance is split between -14.6% of negative volumes and as said, 4.6% of price mix, -1%, linked to the Americas' underperformance.

Regarding the latter one, this is a combination of a positive price effect, low-to-mid-single-digit positive, and negative mix effect around high-single-digit. So pricing without mix was still positive.

Second, a negative currency translation impact of €57.2 million, or a 3.7% loss in the top-line in term of conversion for the full-year 2024. This loss was largely driven by the deterioration of the Chinese yuan for €30.3 million and the US dollar for €19.7 million. In addition, Canadian dollar, Japanese yen and Hong Kong dollar posted a slight loss of respectively €1.8 million, €1.7 million and €1.1 million. On the small positive side, we have to highlight Polish zloty, British pound and Swiss franc for a lesser conversion gain.

On page number nine or slide number nine, the usual performance by division to be compared to the 12 months 2019-20. I will not detail the figures, they are all on the slide. In a nutshell, volume performance is strongly down in Cognac amidst the current US context, while price mix continues to be very strong. Overall, total Cognac sales are still up +5.8% compared to pre-COVID, including important destocking in the US.

In parallel, at the same time, Liqueurs and Spirits continue to generate a significant increase in performance versus pre-COVID driven both by volume and price mix, and all three regions are clearly in very positive lens.

Now, we begin a bit more, slide number ten, into organic trends by region. Let's start with APAC, whose full-year organic sales were up +2%, i.e., +51.4% compared to four years ago. Looking at the volume-value equation, the performance year-on-year was mainly driven by a positive price mix. Specifically, on China, China sales recorded significant growth in the last quarter, boosted by some effects. First, positive shipment phasing linked to orders initially planned for December and finally booked in January; a positive calendar effect, i.e., the €10 million, which is four points at Group level, but 13 points specifically at APAC level. And overall, in terms of Chinese New Year, we can say that was fairly soft, but above, better than, our internal expectation. And indirect channels outperformed direct channels following meaningful destocking in Q3, as you remember, while e-commerce was once again up +30% to reach almost 25% of sales on the Q4.

Despite this context, 12-months value depletions at Group level were up low-single-digit versus last year of which high-single-digit in Q4, i.e., up +75% on 12 months versus 2019-20, and if we focus only on the Q4, more than three times bigger than the pre-pandemic level in Q4 at that time. Consequently, at end of Q4, inventories in China are back to a clearly healthy level.

Rest of Asia reported very strong double-digit growth in Q4, led by Cognac and driven by Malaysia, Singapore and New Zealand. End of March 2024, APAC as a global region accounted for 40% – four-zero – of our Group sales, up seven points compared to last year.

Second region, Americas. Americas full-year organic sales were down 39.6%, i.e., -4.1% versus four years ago, mostly impacted by volume differences, while price mix was also negative due to the strong underperformance, so more mix than price, of Cognac compared to Liqueurs and Spirits.

Let's talk more specifically the US. Sales recorded a significant important decline in the last quarter, showing a sharp sequential deterioration from Q3 impacted by first of all, negative phasing effect both in Cognac and Liqueurs and Spirits, sell-in, as we have decided to ship mostly in Q3 to give more time to the wholesaler to deplete and optimise as much as we can our intermediate inventories at the end of our fiscal year. Second point, a sequential visible deterioration in depletions against high comps and in a market still very, very promotional.

Despite the continued destocking, absolute value in Q4, in terms of volumes and value even more – which brings down to the level of inventories to the level of pre-COVID, even less for some brands and for some states in terms of money, in terms of value, working capital immobilised by the wholesaler, by the retailers – this is not yet visible in terms of days of stock coverage due to the sequential duration of the depletion of the quarter. I'm sure some questions will be on that. As a coincidence, level inventory is in terms of the coverage, if you want to do some maths, is still around five months' overall at the end of the Q4. On a 12-months basis, value depletions are down mid-teens year-on-year, down high-single-digit, excluding VSOP, and approximately +10% compared to four years ago. On 12 months, +45% compared – if we compare without VSOP.

In terms of Canada performance, sales were up a very strong double-digit in Q4, led by Liqueurs and Spirits and Cognac. And in parallel, Latin America was also up strong double-digit in Q4, led essentially by Liqueurs and Spirits division. End of March, Americas accounted for 38% – three-eight – of our Group sales, down a massive 12 points compared to last year.

Finally, EMEA full-year organic sales were up +0.7%, so slightly positive, and grew by 7.6% if we compare to four years ago. This year-on-year performance includes a strong price mix effect – very strong – while volumes were strongly negative.

Digging in by subregion, Western Europe was up a strong double-digit in Q4, driven by some countries like Greece, Spain, Austria, even on a small basis in Switzerland. Markets remain soft overall, but demonstrate a continued resilience of the on-trade channel, mainly in Southern Europe. UK was up mid-single-digit in Q4, led by Cognac division in a tough market still dominated, clearly dominated by promotion and downtrading.

The rest of EMEA region sales were up double-digit led by Africa, Middle East and Eastern Europe. The latter benefited from a positive phasing effect. Meanwhile, Benelux showed at the same time a good momentum, essentially in Liqueurs and Spirits and essentially in Cointreau, but the Cognac division was affected by fierce, huge, drastic promotion.

Over the last 12 months, value depletions for the region, for EMEA, were down low-single-digit year-on-year representing more than 20% of the value depletion growth versus four years ago, but as a consequence, the fork between sell-in and depletion, inventories in the region were slightly up versus the end of December. End of March 2024, EMEA region accounted for 22% of Group sales, up five points compared to the previous year.

Now, let's turn to slide 11, and the analysis by division, starting with Cognac. Cognac posted a full-year organic decline of 25.1%, reflecting a significant decline of 29.7% in volume and a strong price-mix gain of 4.6% at the end of March 2024. At the same date, end of March 2024, Cognac division accounted for 65% of our sales, more or less two-thirds, down six points year-on-year.

Let's start to begin by region, starting with APAC for Cognac. And clearly, we start with China. In China, sales recorded a significant growth in the Q4, boosted by favourable phasing of shipment and positive calendar effect. Of the same €10 million, which is for the Cognac division overall, is waiving for seven points.

Overall, the underlying trends remain a bit soft due to a low consumer confidence and persistent cash pressure in the trade. But despite this context, value depletions, the best proxy of the final consumption, have been quite resilient, up double-digit in Q4 year-on-year, and I repeat because it's massive in term of change of gears, three times more than four years ago, driven by Club in terms of product and to a lesser extent Remy XO, which gained market share this year. On a 12-month basis, value depletions were up low-single-digit, i.e., around +7.5% versus full-year 2019-20. As a result, end of March, our level inventory is back to healthy level.

Zooming by channel, on-trade for us continued to underperform. It is a weakness sometimes, sometimes a strength as well, impacted by some downtrading and a lower spend per capita. Within the off-trade, banquets and a key account customer have been more resilient, while e-commerce as said, and I repeat it, still very dynamic boosted by Super Brand Day in January.

In parallel, we recorded a strong quarter for Hong Kong and Macau, while Taiwan was weak, impacted by some unfavourable phasing effect. Remaining part of Asia, sales grew at very strong double-digits in Q4, led by Southeast Asia, particularly Malaysia, Singapore and Vietnam. Japan recorded a weak performance, reflecting a soft Chinese New Year.

In Americas, in North America, Cognac sales recorded a significant decline in Q4, impacted by the US market, while Canada was up strongly double-digit in Q4. US decline reflects the continued destocking, our firm position on pricing in a persistent promotional market, and a soft underlying demand. In the same time, Q4 US value depletion, so not sell-in but value depletion, were down very strong double-digit year-on-year with a strong underperformance of VSOP. Strangely, the two extremes of the portfolio outperformed. On one side, Louis XIII back to very strong double-digit growth, and the other side, Remy V, representing our first entry price even on a marginal quantity is showing good momentum, even if, I repeat, on a very marginal basis.

Considering the deterioration of the depletion, the level inventories on Cognac is, as said, still around five months in terms of days of coverage. It's not absolutely the same picture considering volume and value, in absolute value, compared to four years ago. Clear. This includes a flat price-mix effect year-on-year in the last 12-months period ending March 2024. But on a full-year basis, price mix or value depletion is clearly up 20%. That's the reason why sometimes in your calculation you are maybe a bit too focused on a year-to-go and year-to-date on volumes, and you forgot for us, compared to our peers, that you have a positive accretive value on value depletion much better than our peers. This is also the reflect of the strategy. Sticking to that, you have to pay some prices and volume, you have some benefit on value. It is visible not only on sell-in, even more on sell-out.

Latin America sales were down a very strong double-digit in Q4, still impacted by fierce promotional competition.

EMEA Cognac sales were up a very strong double-digit in Q4, led by Africa, Middle East, Western Europe and Eastern Europe. UK showed a good resilience in a very tough market while as said, Benelux recorded a strong decline in sales, impacted by very strong promotional competition. Overall, underlying demand in EMEA for Cognac remains a bit soft as inflation is weighing on purchasing power.

Let's now turn to slide number 12, so the performance in Liqueurs and Spirits division. This division was down -4.6% on organic basis in the full year, including a decline of 6% in volume, a positive price mix of 1.8%. At the end of March, in terms of weight, Liqueurs and Spirits accounted for 33% – three-three – of sales, up six points versus last year.

Now, let's review the performance by region. Let's start with Americas. In North America, where sales were down a very strong double-digit year-on-year Q4, impacted by the US market, while Canada was up a very strong double-digit. US trends reflect the important restocking made in Q3 to optimise our inventories at the end of March, as well as very high comps. More specifically, on Cointreau, as you can see, US value depletions were down mid-to-high-single-digit year-on-year this quarter, but still almost +65% – six-five – compared to four years ago, affected by tougher comps in Q4, as we were cycling adverse phasing from prior year. In addition, the current context is driven by more global general cautiousness from retailers.

Besides that, price-mix value depletions was here down four points versus last year in the last 12 months ending March 2024, and up ten points on a four-year basis comparing to pre-COVID.

In parallel, Latin America says we are up at a very strong double-digit in Q4, led by Brazil, Puerto Rico, Barbados, mainly Mount Gay, and the cruise business.

Second region in terms of weight for Liqueurs and Spirits is EMEA. EMEA sales were up mid-teens in the last quarter, supported by all subregions, particularly Benelux and Western Europe. St-Remy for the UK, Bruichladdich for the UK, Metaxa, Greece and The Botanist in Germany are some examples of brands and country clearly outperforming, performing better than expected and better than last year.

However, markets remain soft generally overall and highly, very highly, competitive on the back of the persistent inflation. Solid innovation pipelines as we have seen for Botanist, Bruichladdich, also one for Mount Gay, strong activation plans on Cointreau, a new listing on St-Remy in UK, have made it possible to sustain a good momentum while holding on to existing price point, even increasing compared to the previous year.

Third region in term of weight, APAC, in which we have China. China, we posted a very strong double-digit sales decline in the last quarter, impacted by continued destocking in whiskies essentially, and a weakened demand, mainly from younger generation which is proving to be more volatile for this kind of category. The rest of Asia was up high-single-digit in the last quarter, mainly driven by New Zealand, Singapore and Japan with St-Remy, Bruichladdich and Telmont, our champagne, outperforming.

One last word, for the record on the performance of the non-Group brands, which now represent 2% of the Group sales, stable year-on-year, and they were down, non-Group brands, 6.1% on full-year 2022-24.

Last slide, and then I can drink – water, not cognac – slide 13. I would like to reconfirm our operating profit margin guidance, organic operating profit margin guidance that we updated end of October. In a nutshell, we expect a contained organic decrease in COP margin and now €7-10 million of negative forex effect. Throughout the year, we kept a very tight control on cost. We maintained a firm pricing policy, and we reduced selectively our A&P, mostly for the Cognac division. More importantly, we rolled out, we committed, and we are realising a cost-saving plan of €100 million. In parallel, we don't have to forget, we protected as much as we can our gross margin in a persistently inflationary environment and despite a negative mix linked to the underperformance of Cognac and underperformance, mathematically, speaking, of the US.

Thanks for your attention, and now I'm happy to answer to your questions after I've had a bit of water.

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. Once again, if you would like to ask a question, please press star one. Thank you.

We will now take our first question from Simon Hales with Citi. Your line is open. Please go ahead.

Simon Hales (Citigroup): Thank you. Morning, Luca. So just a couple for me then. I wonder, firstly, could you talk a little bit more about China in the quarter? Clearly, the performance was certainly good relative to your expectations around Chinese New Year. But how did things develop through the quarter? I don't know if you can talk about how the early part of the quarter compared to perhaps trends through March as we headed into April, because it looks like things have perhaps deteriorated a little bit from a consumer offtake standpoint. So just some general broader comments on that.

And then maybe sticking with the go-forward commentary sort of more generally. Clearly the US was weaker overall than I think we expected from a depletion standpoint in Q4. If we have got a weaker exit rate, perhaps in China coming into the new fiscal year, how do we think about fiscal 2025? You know, when I look at consensus, I think we're looking for consensus of mid-single-digit organic sales growth a little bit higher, maybe sort of 6-7% organic EBIT growth. Are you happy with where people are sitting as we head into the new fiscal year?

Luca Marotta: So with your three questions, we can last one hour, I guess. Thank you for your question, Simon. So we start with China, as asked. So as you have seen, we are satisfied with the performance of China. In a nutshell, overall, our tag line or our press release is seeing sequential improvement, which is true because compared also to general competition, we can say that we are doing better in China. We are doing worse in the US, and for Europe, considering the size of the region and the volatility of the subregions, we are doing sometimes better, sometimes worse, but overall, we can count less compared to our peers on Europe. So this is the general element of the quarter.

So coming back to China specifically, full-year sales were very strong and Q4 was clearly strongest – stronger – of what I can see of some performance of our peers. Why that? Was clearly some soft comp, essentially in January and February, and then March, we can compare things comparable. So those are a phasing positive effect in terms of comps, a €10 million positive effect. But if we strip out that, it remains a very positive performance, either in sell-in and sell-out as well. If you remember that in the end of January, we highlighted an exit rate of depletion that we're cleaning up big time the slightly overstock that mid-autumn festival as determined. So that's the reason why we can say the soft Chinese New Year, it is being realised, it’s not better than soft, but it’s above expectation, clearly, and we are, I think we are very satisfied with that.

Why so we are not so much bullish on the future on China? Because still, we have to consider there is cash pressure in the trade. There are high comps that will be cycling in the Q1 and Q2 of the new fiscal year. And the level of confidence remains a little bit blurred, a little bit low. So we witness, we analyse, we dig in, we dissect the performance, we interpreted the figures. But for China, we cannot be very bullish for the future. We think that we are doing more than fine and if I can, I repeat, better than our peers. But we remain humble, no swagger at all. And we look forward to continue to increase our performance in China as best we can. We cannot commit to have this exit rate of the Q4, clearly based on China, also replicated in Q1 or Q2 the next fiscal year.

In term of – in term of brands and channel, I think that during the call I gave also already some colour. So I don't think I need to dig in more.

Let's talk now about US because it's clearly there that we still have a painful situation. So we are clearly experiencing huge comp compared to last year, also because of the Super Bowl, which is not there the same extent, we are showing very good results compared to four years ago, but the reality is that the spark of the recovery, which is linked to the depletion, is not yet there. So this spark is essential. Depletion needs to be positive again because all the maths, all the compounders are linked to this indicator to be able to capitalise on confidence, on compounders, on sales, on activation, that showing that in a very clear way.

So far, it's quite the opposite in terms of depletion. Q4 show a deterioration. So we have done the maximum that we can, and we'll be back on that point because it's important to highlight that. But so far, the situation has been deteriorating in Q4 compared to the Q3.

Why that? You want to give some elements on top of the depletion? Comps, I repeat, were very high on top of the Super Bowl. The promotional environment has not moved smooth. Quite the opposite. So we are facing also a fierce competition on that. And at the end, overall, in the longer period, strategic asset will remain what they are.

In the short period, when there's cash pressure in terms of capital – return on capital rotation, in terms of wholesale, you might prefer brands that with a promotional intensity are showing faster cycle of sell-in to the retailer point of sales. And so indirectly is slightly penalising ourselves because being firm and strict on our – respecting our strategy is implying the short term that we need – we need to hold on.

So on top, further deterioration in our opinion of the global US Spirits market, we are not yet out of the crisis in the US. Our better – best estimation is they will be much more skewed on the H2 of the fiscal year 2024-25. And US are so important, they are so key that 5-10 points of difference, positive or negative, can change all the Group footprint overnight. So the volatility is very important. China is a very good news, but US needs to have a spark, a positive spark, which is, in a nutshell, positive depletions in value, in value, in value. Some of you have done a very good exercise in terms of maths so far this morning. To name one, Sanjeet, UBS, very good one. But it's in volume, it's not in value. There's a huge mistake because you can capitalise on value depletion accretive impact.

So sorry, I will be a little bit longer because it's important. You can say that we are passive, you can say that we're waiting and see and look at the sky; nothing happened. And we are sticking to our strategy, so we are old and lazy guys that don't want to move. The opposite. We remain strict on our strategy, we remain strict on our baseline, on our credo, on our believers. So we changed the maximum what we can to improve the performance, and we are convinced we start to bear fruits. We changed the way we are doing A&P in the US, much more on BTL activation, moving the needle on the point-of-sales and less on brand awareness. Because as you have seen, and Eric is hammering on that every time he's speaking, Eric Vallat, BHT, brand health, is the maximum level in the US compared to our previous year. So strategy is there, the consumer top-of-mind knowledge is there. So probably, we need to change something. And we are changing something in terms of activation, marketing initiatives to be more consumer-centric, a little bit less brand overall umbrella-centric.

And then without elaborating on the economics, this is not the purpose, we made some reorganisation in term of the way we are approaching our marketing and our sales. It's not only an economic exercise, we're not doing that to have saving. It clearly is a secondary element because we have to change from a regional standpoint, from mirroring more the wholesaler organisation. So creating new responsibility, a full P&L responsibility for our teams, a more embedded integrated sales, marketing, e-commerce, trade marketing linked to the wholesaler footprint. And as every change needs also to have some time to unfreezing, warming, norming, performing. This is the low. On top, there is increased competition. So the time, I acknowledge that, is less fast than we expected.

So we are not only wait-and-see in terms of attitude, we stick to our fundamentals, but we are moving. I acknowledge that so far value depletions are not showing what we want. It's the spark. The spark needs to be there. When you will have it, you will have some reactions that are going beyond the mathematical compounder. You will see very strong acceleration even beyond compounders.

Sorry for this long answer.

So back to your third question, which is the consensus, the guidance and so on. So let me start for the fiscal year 2022-24. Top-line is there. It is, as you highlighted, a small bit. What does imply in terms of organic COP consensus? So far, the company consensus for the year is -28.4%. The Visible Alpha operating profit consensus is -28.8%. I'm okay with the consensus. I'm okay. What does it mean, okay? No more, no less. No more, no less. What happening in term of organic sales consensus for full-year 2024-25? If you have followed me in my delirium and long, long answer, you have understood that we have a strong belief in term of strategy, but visibility remains quite blurred. Volatility and fork, different fork performance between regions and brands, quarter-by-quarter are blurring even more our global visibility.

So at this stage, we cannot commit on any guidance. We have one positive element and one negative element to highlight. So let's start with the compounders of the consensus of the sales, as are shown by the company consensus is 4.7%, Visible Alpha, 4.5%, and Bloomberg, a very optimistic 6.3%.

On the positive side, we acknowledge and we highlight the fact that the consensus, and it's now taking into account our natural growth algorithm of high-single-digit that is clearly too optimistic for 2024-25. So it's clearly less than high-single-digit.

On the negative side, coming back to my point, visibility is very, very limited. There is fog. There is fog. I cannot say nothing more clear. I don't want to hide myself and say I don't give you this figure, I will give you this figure. The visibility is limited. I commit myself to be very clear what happened – what's happening. I cannot commit to something of tomorrow because more than ever, what will happen tomorrow is unclear.

The exact timing of the US recovery is key. The spark. The spark, so far, the best-case scenario is a US recovery in H2 of 2024-25. Beside all that, we didn't even close the year in term of the economics. My assurance on this point with Eric, with Marie-Amelie, during full-year result will be back clearly. So far, I repeat, I cannot give you a specific sales guidance for next year. Visibility is very limited, and not only for something that belongs to our responsibility. Global macroeconomic is very complex as well. Sorry for the long delirium.

Simon Hales: That's great, Luca. Thank you.

Operator: Thank you. And we'll now move on to our next question from Andrea Pistacchi of Bank of America. Kindly be reminded, this is limited to a maximum of two questions only. Thank you. Please go ahead.

Andrea Pistacchi (Bank of America Merrill Lynch): Yes, thank you. And good morning, Luca. I just wanted to follow up on the US, please. I mean, you've made it very clear that we need a spark for the performance to improve. What do you see? What do you think could be the spark? What is needed sort of in potentially in H2 2025? Is it an improvement in the environment in the US? Is it promotions? Promotions easing? I mean, nothing seems imminent, as you're saying, but what do you think? What shape could this spark have? And this is sort of the second part of my first question, if I may, on the US, your – you say that to drive, to have growth in the US, I think if I understand, you really need this spark. I mean, you need depletions to clearly inflect or turn positive. But in Q1 and Q2 in the US, if I haven't got the numbers wrong, you're up against sort of shipment comps of like -80%, -50% in the next couple of quarters. So, on those comps, do you still think it will be – I mean, will it be difficult to deliver growth because of what is happening to depletions?

And the second question, please, Luca, is on cost savings. You confirm that this year you'll be delivering the €100 million that you'd announced. Now some of these savings are temporary, but at the same time, you'll have a positive carry-over effect into fiscal 2025. So I was wondering if you could just give a bit of colour on what cost savings will look like in fiscal 2025, even if just qualitative? Thank you.

Luca Marotta: Thank you, Andrea, for your – for your questions. So shape a natural spark. I cannot be more clear. And if you want more dramatic than that positive depletion indicator, following all the activation, the change of execution in term of how our team are addressing the market, conjoint plan with our wholesaler, conjoint action by state. All that is there, is in place, is improving, is increasing. So we need to show that with figures to be able to capitalise on that. And the impact on our compounders, starting with the sell-in, will be even more, even stronger than what the maths will drive.

And this comes back to the second question. So your question is, you're phasing the US in Q1 is finger in the nose. So why you're prudent? Because so far, the exit rate in the Q4 was bad in depletion. So even if you compare in terms of value of stock and volume, stock compared to four years ago is lower. If you are, I will say if you are a retailer, you give short-term priority to the most fast-moving element of a portfolio that you have.

So once again, depletion, being depressed, do not announce, even if on very easy comps, to be very bold and positive. Clearly, on a positive side, this is an opportunity. A clear change, I come back to the spark, can improve big time the future. So we could be more volatile, more on the positive side. I can commit to that? No. It is finger in the nose? No, it is not finger in the nose. Once again, Q4 showed a deterioration. I would have preferred to have in a word, a slightly miss on the top-line for the Group, having improving depletion in the US in Q4, if I had to choose. So that's the reason why you cannot extrapolate the -0.7% that we had at Group level overall in Q4 as the starting point in Q1. Need to be cautious. I'm not a bear, I'm realistic.

Cost saving, I confirm that the cost saving will be realised, will be much more precise on nature, much more quantitative beginning of June. Part of that, more or less 60% highlighted, will be temporary. So will be back. So this is something that qualitative will have an impact on the profit or loss equation for next year. Because we will do a lot of things to try to mitigate this automatically negative carry-over because the long-lasting are there embedded in the backbone of the new overhead footprint, OPEX footprint. But we cannot replicate the same level. So clearly, there is potential threats that OPEX next year will grow at a speed clearly at the same level or maybe higher than the top line, considered the end what will be the next fiscal year.

In terms of qualitative element, something that not everybody has caught, these are not net cost savings. The €100 million gross saving. So gross saving. So means that part of this €100 million also has been put to continue to finance some strong A&P, some strong manufacturing industrial project, some strong OPEX, specific sales, specific head count recruitment. So it is a gross, gross global impact, not a net one. Has been used also to improve the footprint of the profit-loss 2022-24, as we'll see in one month, and will have the same effect next year. But the carry-over is there. You're right.

Andrea Pistacchi: Thank you, Luca.

Operator: Thank you. And we'll now move on to our next question from Celine Pannuti with JP Morgan. Your line is open. Please go ahead.

Celine Pannuti (JP Morgan): Good morning, Luca and Celia. Thank you for taking my questions. My first question is on the US. Can you tell us how big is VSOP now for the portfolio? And can you talk about the promotional intensity? I mean, you mentioned that it has worsened. I think you had promotion in the October, November, December quarter. What happened to promotion for you in this quarter? And so, maybe coming back to my point on VSOP, are you, I mean, what can be done really to make sure that you limit the depletion impact from competitors being aggressive on pricing?

My second question, maybe I was bouncing back on what you were just saying. Gross margins, you mentioned for this year, fiscal year 2024 protection. In fiscal year 2025, can you talk about, can you continue to do that if you don't have a pricing benefit and with top-line growth maybe below your algorithm, can gross margins still be flat in 2025? And then did I understand correctly that you were mentioning that some of those costs are coming back in the – in the P&L for – on the SG&A line? Thank you.

Luca Marotta: Thanks for the four questions. So in terms of weight is lowering, and now less than 50% in terms of value, the sales US in total. And clearly, as you highlighted, it's very visible, our performance of VSOP on last year and four years ago is worse than the rest, the remaining part of the portfolio. Clearly, we are doing much better with the other part of portfolio, starting with 1738. So it is still an important weight but declining, which is part of our strategy indirectly. It’s a little bit sharper than what we want. I'm not saying that I'm happy with that, but it's less than 50%.

So your second question in terms of – in terms of promotion, the global environment is increases, not reducing the promotion. We had some normal promotion in O&D, so no different than the usual one. Overall, I don't think that we can see easily a change of this promotional world in the next coming quarter. Also because globally the US period is going to be – is flat, +1%, +2%, but we are playing in some category, in some segment, we are clearly running worse than the average. So it's one plus one, plus two is including the RTD, and other categories are more dynamic than Cognac so far. So I think that we'll continue, we think that we continue to be a distinctive element of the market, and I repeat, we will not enter in this promotional war.

As you have seen, we will be a little bit maybe less optimistic in terms of price increase. We will moderate that. You highlighted that on the gross margin, but we will play on SKUs, on ranges, more in the mix, but will not enter on a face-to-face race with our major competitors or, without naming one, a second one which is very important in the US, only the US, but is clearly very promotional, quite inconsistent among prices state by state. If you enter in that, you end up nowhere having lose, I mean, lost all your credibility. And we are doing the opposite. And I repeat, the organisation of the sales team has been done not for costing, also for efficiency and mirroring what we have in place in terms of distribution pattern, in terms of activation A&P as well.

In terms of gross margin, as you have understood, we are – it's clearly more or less at the level of 2030 target in term of gross margin. We reach already a very high level. In terms of this year and next year, you will meet this more oppose because there is a clear negative mix even before pricing linked to underperformance of Cognac versus Liqueurs and Spirits as well as a negative product mix in some other part of the world, including China because Club is clearly beating VSOP. But it's better to do even more of XO, Louis XIII than Club. So, Club being our jewel has a slightly negative impact on the overall gross margin.

And all that clearly is talking about gross margin in comparable environment. We are clearly not talking, is on purpose, we are not neglecting that, I'm talking indirectly to the Barclays note now, and not neglecting that it is a threat, but it's not growing our end. So MOFCOM investigation, we are doing what we can. We are part of the three sampled companies. We think that we have done everything correctly. But in the end, you know what? I cannot master that.

On a comparable basis, we are, so, coming back to your question, a gross margin level already at more or less 2030. So this year, next year will be a little more temperate. I cannot be precise at this stage. It depends on what will happen by brands, by region, and also on the fact, and the saving, part of the saving has been done this year, the lasting one, on the manufacturing side, on the logistics side, and we cannot replicate this kind of saving forever.

So a little bit more moderate and at the same time, last your question, as you highlighted, there will be a negative carry-over in terms of – in terms of OPEX for the part, 60% of the €100 million. So more or less, at this stage, is €60 million, but we'll be more precise at the end of the year, in terms of offers that will be back. Does it mean that we will witness the profit and loss, declining inventory in gross margin, increasing OPEX and modest top-line and then declining bottom line? No, no, no. We will not witness that. So potential other plan of specific improvement of the profit and loss next year on all lines. And don't forget, A&P are moving more on the efficiency level. Our actual situation is calling for priority choices.

Celine Pannuti: Excellent. Thank you.

Operator: Thank you. And we'll now move on to our next question from Edward Mundy of Jefferies. Kindly be reminded this is limited to a maximum of two questions. Your line is open. Please go ahead.

Edward Mundy (Jefferies): Yes, I will keep it to two. Luca, thank you so much for very interesting colour. Just to sort of recap because there's a lot here, on the US, one of your competitors has started to see flattish consumption in the first quarter calendar and reasonably low inventories. And their spark, I guess, is to have cut prices. And it's pretty clear you don't want to enter into a promotional war, but is there a tipping point where you start to become a bit more promotional to find that spark, which then allows you to accelerate sell-out trends and then allows inventories to be cleaned up? And I appreciate it's a bit of a balance between sort of the long-term and short-term, but do you – is there a tipping point where you start to cut price, and then we get the inventories through, number one?

And then number two, just to sort of pick up on your last point, so I understand it correctly, that you do not expect to see declining bottom line in 2025. In other words, have we – are we close to reaching a floor on operating profit, do you think, and operating profit won't go down in 2025? Just want to sort of clarify that.

Luca Marotta: On the recap of the US, even if the promotional intensity is slowing down, quite the opposite. It is creating more negative buzz and also reducing, as I try to explain, our leadership call for the wholesaler. Because we are moving less fast than our peers, we will not increase our promotional intensity. We will be reducing our price increase. We will be more playing on SKUs, will be more value for money in terms of offer but no promotion. So, mix? Potentially, yes. No promotion. And lot it is in our hopes and wishes and plan for this new organisation that is nearest to the trade than before. I repeat, we count on that and A&P that are much more linked to the depletion activation. And if you want volume moving, then in the past two or three years, BHT, brand health tracker, grant us that. We have a capital that is still there and is there, is more, much more, than ever.

So no promotional like that. That's less price increase and a more direct efficient impact of all touchpoints on the point-of-sales. So we want to speed up the depletion rate so we can – we are trying to improving, increasing the odds to have the spark. Spark needs also that I need to try to do that with my end, and in the end, will be the spark will be there.

In terms of bottom line, it is too early to talk about that. Otherwise, it's guidance. We talk about that in June. But this year, as you've seen, we are reducing -28%, 28.5%, 28.8%, but reducing operating profit more than the top line. Meaning that the profitability is declining in a contained way, but is declining. We don't want to do that at this stage for next year as well. So we will do all we can without entering to specific figures to avoid to decline on profitability next year. But we'll be more precise with Eric because at the end everything depends on the top line. I can do whatever I can, the maximum as financial directors, but with -19% of top-line there is a – there is a limit also to the – to the improving action. Top-line needs to be there a bit more than this year.

Edward Mundy: Thank you.

Operator: Thank you. And we'll now take our last question from Gen Cross with BNP Paribas Exane. Your line is open. Please go ahead.

Gen Cross (BNP Paribas Exane): Good morning, Luca. Thank you for the question. Just back on US Cognac. So, I mean, depletions have been obviously quite negative for some time now and you mentioned that wholesalers are prioritising some of the faster-moving brands. I just wonder if you'd comment on whether you're seeing any impact in terms of the shelf space being allocated to the overall category and to Remy Martin. That's my first question.

And then just briefly on the Liqueurs and Spirits division, you comment in EMEA on a fiercely competitive environment and some soft markets. I just wonder if you could share some colour on whether this is quite widespread or it's more intense in some specific markets? Thank you.

Luca Marotta: Thank you for your question. I get the first one. Second one, maybe you can repeat. The shelf space there is some more debate. Clearly, it is a little bit a state game. Will be more in some state when you are, for most-priced SKUs, behind the glass. So in a specific environment we need to be preserved, and the other part is quite the opposite. You can see very easily that the shelf space is there, but our products are not present because the wholesalers did not refurbish that. So it is more state by state. But we don't – we don't see this risk so far in a clear, important way. It's not an issue so far.

And can you repeat the second one, please?

Gen Cross: Yeah, sure. Thank you. It's just on the Liqueurs and Spirits division, I think in EMEA you commented on – in the presentation on fiercely competitive environment and some soft markets. I just wondered if you could comment on whether that's quite widespread across Europe, or it's in specific markets that you're seeing that?

Luca Marotta: It is a bit all around. Some markets in which, South Europe, you have a stronger on-trade performance, is a little bit more moderate. In other ones like UK, Belgium, where there is more off-trade, classical footprint, it is bigger than in South Europe, but overall there is a very strong competition in terms of promotional and inflation impact. So it's causing instability in term of expectation realisation. So it can be far higher, far lower. So it's more that the point which is annoying.

EMEA is experiencing, even if it's the third region in terms of weight, more than the previous year, change in discrepancies between forecast and realisation. And is not only in the negative side, that can be also on the positive one. It has been this year in the positive one, it's the example in the last quarter, where clearly the sell-in performance was beating what at the end we discovered being the depletion rate. So it is more complex to manage and is a high competitive price position is increasing even more this volatility. On top is not a mystery that we are. We have a portfolio which is even inside the Spirits, it is not comparable to some of our peers in terms of size. So we are apart from Metaxa, Cointreau, other brands are – and our whisky, other brands are less important in term of fight face-to-face.

There, compared to the previous question, we need to be aware that it can be a shelf space game, more than in the US Cognac. So, but we have a team which is highly reactive in Europe. It is clearly on the ball every day because it is not the fact that they are the smallest division makes their work the easiest one, quite the opposite. Because you have a lot of countries, a lot of brands, a lot of priorities. It's a very, very complex job to be in charge of EMEA region and subregion.

Gen Cross: Thank you.

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

Luca Marotta: Thank you so much. Have a nice day. So see you in a month. Take the light fire because I need the spark, so I want the spark to be there. So waiting for the spark at beginning of June. Thank you so much. Have a nice day.

Operator: Thank you, Luca. Ladies and gentlemen, this concludes today's call. Thank you for your participation. Stay safe. You may now disconnect.

[END OF TRANSCRIPT]