Q1 Sales 24/25

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Operator: Welcome to Rémy Cointreau Q1 Sales Publication Conference Call. My name is Allen, and I'll be your coordinator for today's event. Please note this call is being recorded and for the duration your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad, and please limit yourself to two questions during your turn. If you require assistance at any time, please press star zero and you'll be connected to an operator.

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

Luca Marotta: Hello, everyone. As you've seen in the press release, Q1 sales were down -15.6% in organic terms. This performance of the quarter reflects continued destocking, particularly in the US, high base of comparison, notably in APAC and EMEA, as well as a soft context of consumption globally alongside a strong promotional activity. Overall, the Q1 sales decline is split between a strong volume decrease -20.2% and +4.6% price mix effect linked to limited price increase and a lower decrease of Cognac compared to Liqueurs & Spirits that gives the mix effect.

Looking at the overall sales performance by region, America generated a strong sales decline reflecting destocking in the market, not showing any sign of depletion recovery yet. APAC recorded a slight decrease, mostly affected by Southeast Asia, while China was almost flat due to high comps and in a persistent tough market. Finally, EMEA showed a very strong double-digit decline impacted by high comps, some phasing effect and also some softer consumer trends. This was sell-in shipment.

In terms of value depletions at Group level, all brands over the past three months, starting with the US, value depletion were down strong double-digit. Compared to pre-Covid, value depletion were up +10% and clearly stripping out VSOP. Excluding VSOP, +55%. In China, value depletion were down mid-teens in the Q1 versus last year and as well compared to 2019-20. The level can be considered particularly negative, however, and we'll be back on that point I'm sure, I would recommend not to pay too much attention considering the very short period of time which creates some volatility, small size of Q1 for China in absolute value and a different split in terms of business compared to 2019-20 linked to duty trade. On top, and we'll be back on that, you have to combine that at least six months moving average reminding that the last quarter we are 200%, 3x the weight of 2019-20 value depletion footprint in China. So you have to combine that.

Following the strong rise in Q4, this is the situation in China. So, value depletion should be appreciated on a rolling basis. So combining that in terms of numbers, they are up +70% versus 2019-20 in six months and up mid-single-digit versus last year. Once again, Q1 cannot be appreciated alone because it's a more volatile quarter.

Finally, a word on EMEA. Value depletion were down mid-teens versus last year and down low-single-digit compared to Q1 2019-20. But excluding Russia, value depletion would have been flat versus five years ago.

Overall at Group level that means that three months' value depletion declined of 4.5% on a five-year basis, in line with sell-in trends, -4%. But this global alignment compared to five years ago includes some contrast situation. One, strong destocking in the US clearly is there;

second, a more natural evolution in China where the small size of the quarter cannot really influence the level of inventories; and third, a more or less neutral evolution compared to five years ago in big EMEA region.

To conclude, on this very first slide, we confirm our full-year guidance.

On page number three and four, we pick up some main marketing initiatives as usual of the quarter. And as announced in June and as part of the US plan to improve growth rate, we started improved the investment rate behind VSOP to improve its visibility on the point of sales, the conversion rate. We continue to leverage cocktail momentum through activation around Cointreau, particularly during the week of Cinco de Mayo. Results are positive, depletion speaking, all channel and coverage included. In parallel, we have deployed the Mount Gay innovation Eclipse Navy Strength, which will contribute to improve the profitability and the visibility of the brands. And finally, last but not least, we pursue our efforts around Bruichladdich, the single malt Scotch whiskey, to increase education and awareness. This is only the beginning, and we hope that we'll be able to improve next trends in the US.

On page four, a quick word on China e-commerce and particularly good result achieved on 6/18, 18 June shopping festival that realised, conquered a +14% sales growth. As mentioned by Eric Vallat, e-commerce is a very solid weapon for China. The ambition is to continue to grow, building on a team whose know-how and relationships and soft skills with the key players are a true asset and a competitive edge. We have successfully launched two exclusive new products for e-commerce channel and achieved a good depletion number to 6/18 campaign. In parallel, at the same time, we leverage the pop-up stores that we opened in Shanghai to celebrate the 300 years of Rémy Martin using live-streaming session and social media.

Now let's go back to dry figures, moving to the Q1 sales analysis, slide five.

Sales amounted to €217 million, down €40.5 million year-on-year, or 15.7% on a reported basis – 15.7%. This reflects first a very strong organic decline of €40.2 million. It means 15.6% of organic sales decrease. This performance is split between, as I said, -20.2% in negative volume effect and +4.6% of prime mix, and as said, I repeat it's important, is a combination of the slight positive price effect and low-to-mid-single-digit positive mix effect.

We have also a light – a very slight negative currency translation impact of €0.4 million or 0.1% loss for the quarter. So very marginal. But this is interesting because this loss is really mainly driven by the duration of the renminbi, the Chinese yuan currency for €1.2 million and the Japanese yen for €0.4 million. And in parallel in terms of conversion, US dollar turned positive with a gain of €0.9 million.

On slide six, the usual performance by division versus now five years ago, then Q1 2019-20. I will not detail all the figures because they are clearly highlighted on the slide; but, in a nutshell, volume performance is strongly down in Cognac amidst the current US context, while price mix continue to be very strong. Overall, total Cognac sales are now down 17% versus pre-Covid, while value depletion are strongly down at the same time around -20%.

In parallel, Liqueurs & Spirits division continue to generate a significant performance of +35.1% versus pre-Covid, driven both in combined balanced way, volume and price mix, and well below value depletion trends we set at +45%. At Group level, this shows global symmetry between sell-in -4%, and value depletion -4.5% versus Q1 2019-20. But inside that, there are different situations by region and by division as highlighted, I suppose.

Let's now turn to slide seven to dig more analytical organic trends by region. Let's start with APAC, whose Q1 organic sales were slightly down year-on-year, and up at the same time more than 20% on a five-year basis.

If we look at the volume value equation, the performance year-on-year include a strong positive price mix effect and a low-double-digit negative volume effect. Inside that, China sales were almost flat in the Q1 in a market that remains complex, tough, particularly for the high-end segment. In this gloomy environment and market, the only channel we can say we emerged very clearly and positively is e-commerce. In the quarter, it grew more than 15%, representing more than 35% of sales penetration in China. The overall performance also reflects strong negative impact coming from Taiwan, Macau and Hong Kong.

In this context, Q1 value depletion, so no sell-in value depletion, best approximation sell-out of the Group level in the region, were down mid-teens year-on-year and as well versus Q1 2019-20. But I repeat, +70% on a six-month rolling period versus 2019-20 took it into account some phasing effects between Q4 and Q1 of this year. Moreover, the misalignment between sell-in depletion does not impact our level of inventories which remains healthy at the end of June.

Remaining part of Asia reported mid-teens sales decline in Q1. Market is very tough in Southeast Asia, particularly in Australia, Malaysia and Singapore. At the same time, Japan, on the positive note to this publication, generated very strong sales growth, boosted by tourism and partially also the weak yen. At the end of June 2024, APAC region accounted for 39% of our Group sales, up four points compared to last year.

Let's talk about Americas. Q1 organic sales were strongly down again year-on-year, and down -25% compared to five years ago, mostly impacted by volume while price mix was slightly negative. And digging talking about the US, while sales recorded a strong sales decline in Q1, impacted by continued destocking given the absence of signs of depletion recovery. Yet despite another round of destocking in absolute value in the US, which now brings down the level inventories to the level of pre-Covid, this is not visible in terms of days of stock coverage considering further sequential deterioration or depletion over the quarter that just ended. But the absolute value are very, very, very low. As a consequence, in term of amount of coverage, level inventories in the US is still around more or less months at the end of the Q1. On a three-month basis, value depletion are down strong double-digit year-on-year and more or less +10% compared to Q1 2019-20, and as I said, +55% excluding VSOP.

In Canada sales were down low-double-digit in Q1, impacted by Cognac, and Latin America were also down a very strong double-digit. End of June 2024, America has now accounted for 35% of Group sales, which is the same weight over the last year at the same period.

Finally, third region in terms of size is EMEA, big region, in which Q1 organic sales were down a very strong double-digit and grew at a low-single-digit versus five years ago. This year-on-year performance mostly includes a very strong negative volume effect. Digging in, Western Europe was down a very strong double-digit in Q1, affected by Germany, Greece and Spain facing high comps and some destocking in a couple of countries. However, this quarter showed a strong disconnection between sell-in and depletion.

UK was down double-digit in Q1 impacted by high comps as Q1 of last year 2023-24 were boosted by some restocking ahead, you remember, of the rise in excise duty in the country. In addition, the economic content shows some encouraging sign of improvement on the back of less inflation, positive effects that start to be seen on the final consumption on sell-out.

The remaining part of the huge EMEA region, sales were down a very strong double-digit impacted by the stock in Africa, Middle East, some negative phases linked to the orthodox New Year in Eastern Europe and negative cognac trends in Benelux. Over the last three months, value depletion, so more linked to the sell-out, were down mid-teens year-on-year and down low-single-digit on a five-year basis. Excluding Russia, however, value depletion would have been flat compared five years ago.

Overall inventories are now back to healthy level, slightly up compared to the previous quarter. But we said at that time there were a little bit on the low side. End of June in term of weight, EMEA region accounted for 26% of Group sales, down four point versus last year's. So in terms of weight compared to one year ago, America's flat, EMEA minus four, APAC plus four.

Now let's turn to slide eight and the analysis by division, and we start by the queen. So Cognac.

Cognac posted a Q1 organic decline of 12.2%, reflecting a decrease of -8% in volumes and a negative price mix of -4.2%. End of June 2024, Cognac division accounted for 62% of our sales, up two points versus the previous year.

In this Cognac division, let's start with the APAC. And inside APAC, let's start with China.

China sales for cognac were flat in Q1, affected by high comps and a weaker consumption. In a nutshell, consumer confidence remains low and continues to impact consumption, while cash pressure as well wave on wholesalers. As a consequence, value depletion were down mid-teens in Q1 year-on-year and versus five-year. But within this global evolution CLUB, our key reference is overperforming, clearly overperforming, while the high-end products are a little bit more on the underperforming side.

By channel, on-trade is the most affected one in the current contest, also in terms of downgrading and lower spend per capita, while e-commerce is clearly up, I repeat +15%, boosted by the 6/18 festival and banquets which were relatively resilient during this low season. On the negative side, Hong Kong, Taiwan and Macau were particularly weak, impacted by high comps destocking and tourist preference for Japan over Hong Kong.

Rest of Asia was down mid-teens in Q1, particularly impacted by Malaysia, Philippines, Singapore. But on the positive side, Japan generated a very strong double-digit growth in the Cognac division.

Second region term of weight it is for the Cognac is Americas. In North America, Cognac sales were down low double-digit, still impacted by destocking on the back of persistent negative depletion which are not showing any sign of spark yet. Overall, the market remains highly promotional. Underlying demand continues to be weak. Q1 US value depletion were down a very strong double-digit for Cognac year-on-year and -10% versus Q1 of five years ago, showing a sharp underperformance of VSOP.

In fact, Q1 trends are below Q4 of last year. However, we should consider the high comps that explain the sequential deterioration. Indeed, June depletions were up mid-teens last year in 2023-24 before the implementation of the price increase from wholesaler to retailers beginning end of June, beginning of July. Considering all that was already said, the level that is in Cognac in the US is still around more or less five months, in terms of date of coverage, that is one of the lowest level in terms of absolute value. 12 months' value depletion, rolling 12, includes two points of negative price mix effects year-on-year end of June. On a five-year basis, price mix is up 18 points.

Finally, word on Latin America sales that we're down for Cognac very strong double-digit in Q1, impacted by a very strong, fierce promotional competition.

In EMEA, cognac sales were down very strong double-digit, reflecting high comps, negative phasing and softer markets. Overall, EMEA was mostly impacted by South Africa and Germany. The UK showed relatively good resilience despite very high comps. As a reminder, last year we benefited from a strong destocking effect ahead of the rise of excise duty, and in addition, I repeat that because it's important, sell-out shows early sign of improvement alongside the inflation decrease which is encouraging.

Western Europe as a subregion was down double-digit in sales. However, sell-in was well below depletion and sell-out, which is something with a positive expectation for the next months. Finally, overall EMEA value depletion were down mid-teens year-on-year in Q1 and down very strong double-digit compared to Q1 2019-20.

Let's now turn to Liqueurs & Spirits division on slide number nine.

Liqueurs & Spirits division was down -20.4% in the quarter on an organic basis, including a very strong decline of volumes, almost 24%, 23.9%, and a positive price mix effect of 3.5%. End of June, Liqueurs & Spirits division accounted for 35%, down two points versus last year.

Let's now review the performance of the division by region. In this case, most important region is Americas.

In North America, sales were down double-digit in Q1, which Canada was up low-single-digit. North America was impacted by some destocking, alongside the greater cautious from wholesaler in a slower market. So the cautiousness of the wholesaler is impacting as well Liqueurs & Spirits, creating some, mathematically speaking inexplicable disconnection between dynamics of depletion and replenishment in sell-in. However, the underlying trends are resilient as shown by the Cointreau Q1 US value depletion or channel which were up low-single-digit year-on-year and approximately +95% versus five years ago. So Cointreau doubled its size of business compared to five years ago in terms of value depletions, all channels.

The Botanist, our gin, also showed positive trends. Beside all that, price mix was down five points versus last year in the last 12 months' period ending June, and up 18 points on a five-year basis. In parallel, Latin America sales were down also for this division, very strong double-digit in Q1. Once again, for a persistent promotional market.

EMEA, a very strong region, important region for Liqueurs & Spirits, realised sales for Liqueurs & Spirits that were down strong double-digit in Q1, impacted by high comps, negative phasing effect and a softer consumer trend. In parallel, value depletion were down high-single-digit versus last year in Q1, but 30% more than five years ago. Inside all that, while Benelux shows a good resilience, driven by Cointreau, UK was impacted by high base of comps and in Western Europe it was sharply down on the back of high comps, some destock in Germany and overall a soft market. Eastern Europe was impacted by some destocking following also some slight changes in route-to-market.

Third region so far in terms of weight for Liqueurs & Spirits is APAC. Inside APAC, China. Let's talk about China.

China posted for this division a strong double-digit decline in Q1, impacted by continued destocking in whiskeys and a weakened demand, mainly from younger generation, more volatile in terms of habits. However, value depletion were strongly positive for Cointreau and The Botanist, while Bruichladdich value depletion posting a more limited decline, so some small sign of positive inflection compared to previous quarters. Overall, value depletion were up high-single-digit versus last year, increased 40% versus a year ago. So focusing on five years ago at the end of Q1, Cointreau +95%, and APAC/EMEA, +30%, +40%. So a huge increase of the footprint of Liqueurs & Spirits, and Cointreau more especially, in the region. So in all the regions for the group compared to five years ago.

Rest of Asia posted a mid-teens decline in Q1. Southeast Asia faced a sluggish consumption, Australia, New Zealand mainly, but we continue to gain market share in a very depressed market. Japan still booming also for Liqueurs & Spirits driven by Bruichladdich and Telmont Champagne.

One last word on the performance of non-Group brands, which represent almost 3% of Group sales. So, stable compared to last year and the year before. They were down -24.6% in Q1 and -14% versus Q1 2019-20. This is clearly okay and fine with the strategic journey that Eric Vallat set, put in place five years ago.

To conclude, let's switch to page number ten.

On the back of Q1 sales results, which do not show any specific news, nothing new under the sun, we confirm our full-year guidance which includes two distinct periods. H1 sales is still impacted by US destocking, high comps in China, and softer consumer trends in EMEA. H2 sales that are expected to show a recovery, mostly driven by the US. In this tough, very tough contest, the Group is well determined to use tight cost control and its value-driven strategy to protect its profitability, i.e., its organic COP margin.

In the full-year 2024-25, the Group will build on these compounders. First of all, the resilience of its gross margin, thanks to a measured selective rise in price amid moderate inflation. Second, normalisation of the A&P sales ratio at a much level – and level much higher than in 2019-20, but lower than last year. And third, a tight control overheads to offset most of the rise in cost in overheads, resulting for the reversal of the temporary saving achieved in 2023-24, as you remember.

For the sake of clarity for everybody, this guidance does not take into account any potential impact linked to duties increase in China or elsewhere in the world. No duty increase by taking account in this guidance.

Thank you for attention. And now I am happy to answer to your question, but before I have to drink a bit of water. Thank you.

Questions and Answers

Operator: If you'd like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. You'll be advised when to ask your question. As a reminder, please limit yourself to two questions during your turn. We will take our first question from Andrea Pistacchi, Bank of America. Your line is open. Please go ahead.

Andrea Pistacchi (Bank of America Merrill Lynch): Yeah, good morning, Luca. My first question is on Liqueurs & Spirits, which has shown quite a deterioration in the last two quarters.

So the question is, how much of – how much do you reckon of the 20-25% decline that we've seen in the last six months is really phasing effects and what is more underlying, and how do you see the rest of the year panning out in Liqueurs & Spirits? And from an underlying point of view, where is the most difficult area for your Liqueurs & Spirits business at the moment? Is it the US? Is it APAC or EMEA?

The second question, Luca, please, is a couple of things on tariffs in China. I don't know how much you'll be able to say on this. There's a lot of uncertainty. We don't know, of course, how much the tariff will be. We don't know if it will be still applied to the transfer price or further down the value chain. But two points I want to ask. One, is it reasonable to assume that you will pass it on in full to the consumer? Second, how are you thinking about shipment phasing around the potential tariff? Would you be shipping product to China early to get in before the higher tariff is applied? Would you be able to ship more product to distributors ahead of the tariff, or would this even be possible in the current environment? Yeah. And any sense of the timing? I think, I mean, we should hear something before the end of August. Do you have any more insight into potential timing of any announcement and potential implementation? Thank you.

Luca Marotta: Thank you for your questions. So we start with tariffs. So what are the latest development following the hearing on July, publicly, in July 18?

Hearing was organised, the outcome held in Beijing, partly on anti-dumping investigation. Everybody was there is part of the willingness of the association as well as European companies to fully cooperate, I reiterate that, with Chinese authorities. In this contest during now the various European party to reject the unfounded allegation of dumping, which are neither technically legally support. And on our side, we reiterate the absence of dumping, injury or threat of injury.

So what are the next steps? So far, the outcome did not make any official communication regarding the exact timing to make that decision. So the procedure is still going on and we cooperate. Why I'm saying all that? Because consider the second part of your question, we were not in a shaky reactivity mood, change our way of making business in China. So we don't take any different habits compared to the previous quarter. So far, the investigation did not – doesn't affect – didn't affect the consumer taste or the essence of the business. So we are not changing also the operation to try to anticipate offset in extraordinary way the technical impact. Because frankly speaking, we still think that we are on the right side. So we don't see why we should be penalised. But that is not only in our end. And if the day comes, we'll be prepared to react. I can today, that will be everything covered by price increase, when? How? In a very calm way, we are there. We cooperate and we react. We are in reactive move, and we are not changing nor gears in terms of habits compared to the usual ways of doing business in China.

In terms of Liqueurs & Spirits dynamics for the quarter and more rolling six months and what will happen in the future, so I will start with the end. For the year 2024-25, we consider that Liqueurs & Spirits this stage will beat Cognac performance. So, no change in guidance in terms of division footprint for the 2024-25, and also for the medium- to long-term Liqueurs & Spirits is meant, and we invest a lot, not only in A&P, but in all means to improve the size of the business.

So coming to your question, we think this is more a short-term concern. Short-term that need to be differentiated by region. Let's start with the more easy one in terms of explanation, which is China.

China, and it is still a small part of the business, reacting still good, Cointreau, The Botanist. In terms of size, the attention is taken by Cognac. But we continue to improve this size. And for the Liqueurs & Spirits negative part, it is more Bruichladdich, the single malt that have a more roller-coaster performance in the last two years with the high spikes younger generation getting on it. Part of also of speculation in terms of buying to store and capitalise on the value of the bottles. It's not something linked to Bruichladdich, also to some other brands of our major competitor in this business, Scottish business. I will not name it, but everybody understands who we're talking about. So this decline is linked to the volatility, younger generation, and some resale value that has been lost during the global gloomy period that we are living in term of visibility, but it is temporary and is not weighting so much for the overall performance of the group.

Second one is EMEA. EMEA is much more a jeopardising situation because we increase prices very much for all. Starting with Cointreau. We are clearly on the right strategy, but now there is a pause in term of volume, so it is to an assessment, not an assessment. A stabilisation in the consumption that will come normalisation after this huge price increase. We are continuing to improve the set of tools to improve visibility and rotation, but is really, again, country by country. It's very difficult to encapsulate that in only one figure.

Overall, at this stage, EMEA is the region which we need to focus more for Liqueurs & Spirits, to be able to deliver a clear and steady run-rate, positive run-rate for the future. Because of the different situation of every single market, it's a global, very complex situation.

For the US, it is a complex and very easy to answer situation. There is a clear misalignment between sell-in and depletions. What I tried to say in an elegant way before is that sell-in is negative, clearly running behind the performance on the sell-out and depletion. And we can say that sometimes on a given quarter, Nielsen is negative. But we look at all channel, Nielsen, remember that for us is totally not representative. Only 35% against 44% for the market because not taking into account some major change, independent local stores in which we are beating other peers.

So this misalignment is linked to what in the US, and we need to solve, it is not a strategic point, it's more a tactical negotiation, execution point, but that we need also our sales to pay. We say this in the US, to play the same game. Destocking following Q4 negative depletion clearly, there is that. Strong cautious from them for wholesaler and they are in today a record in global context. Value depletion are positive. So in a nutshell, Cognac depreciation underperforming for Rémy. Rémy is Cognac is weighing negatively for all other brands. And this is our job, but the job also the wholesaler to understand that in 2024, we need to work in a more analytical, skilled and dig-in basis.

So overall at Group level, I repeat, we think that there are more conjoined or specific elements that are weighing on the negative news of the publication. I'm really aware that Liqueurs & Spirits is a miss compared to the expectation but is more neutral than long-term trends. And every single region and country for EMEA need to have a specific boost plan or re-engineering plan to address that, starting with Cointreau. But not only. Not only Cointreau, also for Bruichladdich and for Europe, Metaxa as well. Metaxa, specifically, was pressurised also for some changes in route-to-market in Eastern Europe, as I said. Please?

Andrea Pistacchi: Sorry, Luca, just to clarify, if I understood what you just said on the US destocking situation, you're saying that the situation in Cognac with the very weak depletions and the destocking that is also weighing or that is driving in part the destocking that you're seeing on your other brands. So it's an execution thing that you have to fix in how you're dealing with the distributors.

Luca Marotta: Totally exact. The Cognac underperformance is overshadowing positive news. So it is an execution element to fix, in which we need also wholesaler collaboration. We can't react only looking at global figures – brand by brand, SKUs by SKUs.

Andrea Pistacchi: Perfect. Thanks.

Operator: We will take our next question from Edward Mundi. Apologise. We will take our next question from Sanjeet Aujla, UBS. Your line is open. Please go ahead.

Sanjeet Aujla (UBS): Hi Luca, a couple of questions for me, please.

Firstly, can you just elaborate on the implementation of the VSOP boost plan, how that's progressing? Appreciate it's early days, but any colour you're able to share as you've made those changes in the US over the last couple of months.

And my follow-up question is on EMEA. You called out intensified prom activity. Can you just go into a little bit more detail? Is that broad-based across categories, or any particular categories and markets you'd call out where you've seen that step-change? Thank you.

Luca Marotta: Thank you so much for your question. Let me allow to give to yourself and everybody, a more global vision of what's happening, the current trading in the US.

Apart from figures, so it is clearly there that Q1 depletion in the US showed a sequential deterioration versus Q4. So first stop for decline, there's a deterioration. Why that? High comps. Last year, before the implementation of price increase to retailer, June was up mid-teens for the Cognac category. The exit rate was very, very strong. Tough market, still tough market is driven by strong promotion. And we are far less promotional than other peers, as you know. And promotion intensity? Promotion intensity is not lowering. Absolutely not. You can also see it in our spreadsheet. When we bench on three months or six months, the market number discussed compared to our peers, you will see a huge positive is clearly driven by other ranges that we do that in the portfolio, i.e., BS that means also what does it mean in terms of alignment with sell-in depletion for other big peers?

Spirit market slowed overall versus Q4. So, market is low in that. Current trading, we do not see the spark yet in the US. Limited visibility, still negative. Let's see how the next quarter will move forward. So far, small positive news. July showing a strong sequential improvement. I'm not saying positive, but strong sequential improvement. Too early to determine if it will be sustainable and lasting for the Q2, even if on the low base.

Another point is important to highlight is the asymmetry between states. We are clearly some very good performers in the US, Georgia, Nevada, and we have huge underperformance California, Texas, New York and partially Illinois. So it is a very complex dynamic, state by state. It's like having a huge European state inside a lonely US market. We are just finalised, on the positive side, implementation of our boost plan. We started to reinforce our activation of point of sales in VSOP. We implement our smart pricing strategy that Eric Vallat highlighted very clearly with thresholds that can be up in some states, down in some states where threshold which is aligned. Too early to conclude because just started. The benefit should be there more in the Q2. So far, we record encouraging trends in a few states, one of them Michigan.

Then, if all confidence and the market is still down, it's very difficult to acknowledge the performance. It is more a performance which is less negative should have been that is clear positive. But so far, some encouraging trends in some states, I repeat, and end Q2, we will be more precise on the result of the boost plan on VSOP.

We have signed also something very important, new partnership with Usher that will also contribute to animate the coming months, and we are confident that we can be better than today. But so far for the short-term, Q1 was a deterioration, and Q1 in terms of depletion was clearly in miss compared to our expectation. So global overall at Group level, not only us, we have a very marginal means in sell-in and more important, some points more in terms of depletion compared to our internal estimation.

Liqueurs & Spirits, let me repeat what I just said, it's very important. For the US, we said that misaligned between sell-in and depletion for the reason just highlighted, destocking following Q4 negative depletion and strong cautious from wholesale to take orders in this current context. Value depletion are very positive, including for Cointreau and The Botanist top of mind. Fundamentals for Cointreau are very, very solid. We gained market share very clearly in 2023 0.9 points and seven points of market share compared to five years ago, and we intend to continue to leverage this good moment.

In terms of EMEA environment, it's I will try not to be too long because it's a complex region. The current trading apart from figures that you already highlighted, Q1 sales were impacted by softer underlying trends, and inflation weighs on purchasing power, the fact that we increased strongly our pricing last year and the time to consume it, absorb it. High comps in the UK, some negative phasing effect, particularly Eastern Europe waiving on Metaxa and weak markets in South Africa, Nigeria.

In terms of dynamics and depletion, down mid-teens and down low-single-digit on five-year basis and inventory back to healthy level. The global environment, I repeat, is more complex than other states because it's state by state, country by country operational plans that need to be put in place. And with the new organisation that has been changed beginning of the year, as we highlighted at the full-year result, we switched from more geographical footprint and business unit system to a more developed market and future growth. So there is also a time of this new organisation to be put in place.

The question you might have is this is slowdown more an ongoing concern or is a short-term issue? So far, at this stage, we continue to think that Europe will be able to deliver a positive top-line dynamic for the year, but we started lower than the expectation. So we don't think there is a long-term issue. It's a short-term problem linked to inflation or reaction to consumer normalisation and adjustment or route-to-market in our organisation to this new environment. So we should witness in the coming quarters and more clearly from Q3, a recover and re-speed of the region. I hope it was clear.

Sanjeet Aujla: Great, thank you.

Operator: We will take our next question from Edward Mundy, Jefferies. Your line is open. Please go ahead.

Edward Mundy (Jefferies): Hi, Luca. Morning. Two questions for me.

First, so on China, it appears that your performance is a little bit better than your peer who reported yesterday. Clearly, you've got a slightly different portfolio with that gap between VSOP and XO, closed with CLUB. But can you talk about some of the other differences, perhaps between your business and your peer's business, particularly on route-to-market, with your very strong e-commerce and also potentially your channel exposure relative to your peer, what is it that allows you to potentially outperform your peer within China is the question?

And then the second question is around your guidance. Clearly, we're one quarter in. I think you're signalling there's no new news really. Today, you had expected the first quarter to be quite tough. But do you think the second quarter will be just as tough as the first quarter, or do you think it'd be worse, or do you think it will be better? I appreciate that Q2 has also got very tough comps, you know, relative to pre-pandemic levels.

Luca Marotta: Thank you for this very easy question, finger in the nose. So China, as we said, if you look at our figures on depletion for Q1, first reaction is that there is destocking impact at the end of the Q1. Today we try to animate this conference and Q&A even more, taking also part of your question thinking and not be – trying to tackle the point in a very clear way. As I said, on a six-month basis, this is totally reversed and part of the footprint and the business model five years ago changed the way we operate. We are more China home and less reliant on ex-travel retail on operators in Macau and Hong Kong. So you cannot compare apple to apple in a very clear way. But overall, we are running at the value depletion on a moving average in a very positive way, in our opinion.

However, to moderate that, the mid-teens decline in depletion encapsulated an overall slowdown the activity on top of high comps. So to be able to confirm the fact that we are clearly able to beat our peers in China, to tackle your question, we need to assess the system very clearly at the end of Mid-Autumn festival, Chinese New Year, Q2 and Q3. This is key. The quarter is 15% Q1. The very important part, more than 50-60%, is Mid-Autumn festival and Chinese New Year. And so far on the negative side, I will start on purpose on negative, not because I'm bearish today, because I want to be clear. And then I will detail the positive side. Low level of confidence in the country, real estate, poor performance in finance sector, high unemployment, low expectation economic growth and consumers showing their willingness to be low-key by spending less on high-end products. You can see also in our performance. I said very clearly CLUB is beating and the high-end is underperforming. Cash pressure and the trade, they are clearly visible. So we deal with that, but we do not compromise also to sell-in with trade terms of med. And if I may say that a bit of nationalism, sentiment protectionist consumed locally.

On the positive side, so why we are getting there, why we think we are going to be proud of our performance in China at this stage? Because for the negative channel overall on-trade we are less exposed. So we have also this kind of chance. On-trade, we are doing – continue to do a very strong job. Our team we are very proud is very strong. We have a very strong China team. e-Commerce is a deadly weapon, positive speaking. Every time we get in touch with consumer I say that every time the result are there, 18 June, 11/11 we are clearly, clearly beating our internal estimation, and beating competition; and overall, even if it's complex, our switch on direct sales for some part of our business, our retail part for the team, it is improving in term of image and will be soon in terms of result as well.

So we have some advantage in terms of channel, in term of teams, in our opinion, in term of lower exposure to the on-trade. So for the year, we do not change our forecast for China. It is more complex in term of global environment than estimate, but so far, it is to be slightly up, but in sell-in and depletion for the year. I repeat at this stage, but everything is linked to two important moments. Everything can be better or worse. Maths Mid-Autumn festival and Chinese New Year combined between 55-60% of the business. On this point, must come custom duties can weigh only in terms of financial, not in terms of consumer sentiment. So far, we didn't get any negative impact about the investigation.

So I try to answer to you in a balanced way, putting in the first line the negative elements in China for us, for everybody and what it makes the difference.

Guidance, too early to comment precisely. It's only the start to the year. What we confirm is that the year is very imbalanced between H1/H2. Timing US, recovery comes, depletion running worse in Q1 of the sell-in is something that is a red point. So we cannot ignore that. It is enough to change the guidance? No, no, no, no. We believe in the guidance. It is something that can weigh on Q2? Yes, yes. At this stage, visibility of that is blurred, but we are committed. There are three important positive points in this publication, and I'm quite modest, and I don't want to put China be a better than peers on that.

The first one is Japan, something common. For fundamentals, also yen. The second point which is specifically for us. Sorry, in this point I will not be modest, e-commerce. The third point very positive, the fighting spirit is there. Everybody is committed. It's not because we are -15.6% that we are sitting in our offices looking at the figures, making simulation and resetting the six revised forecasts every day. We are fighting, then we will count. But we are fighting. That's why I also made some comment on collaboration. All the chain of actors need to be mobilised with the same fighting spirit.

So what's the consequence for your estimation? That based on the strong negative Q1 performance there and depletion being a little bit worse than our expectation and worse than sell-in 15.6%, 18.6% on depletion Group level, visible alpha consensus today seems not to take into proper assumption the asymmetric trends between H1/H2. So far, the consensus on top-line H1 visible alpha, if I'm not mistaken, is more or less -9.5%, -10%. So it is too optimistic.

So, gives space to the second part of your question, short-term, what we'll be having tomorrow for lunch or for dinner, what do you expect the performance for Q2? No spark visible in Q1 in the US for depletion. End of Q1 Group level shows a slight slow stock overall compared to end of March. Why? I repeat sell-in -15.6%, depletion down 18.6%. Based on current trends, so I'm not sure, I'm really not sure that will generate a sequential improvement in Q2 versus Q1 in sell-in. July started better in depletion in the US, but too early to conclude. I repeat, if this trend is sustainable, and it will be enough to encourage wholesaler to increase orders and stock, stock that are at the minimum level. So I'm sure that Trevor is thinking what he will do. His question will be when tomorrow depletion back to positive, and he will call you at the phone every two minutes to replenish. Will be out of stock in two days because he's right. He's right, Trevor is right. It's what will happen.

China is still impacted by high comps +100% in Q2 last year versus Q2 2019-20, even if it was another way of operating, and the market remains very tough, particularly for high-end segment. And EMEA, to reiterate, trends will improve during the summer. We are mobilised of that, but it's still tough.

So all in all, I think you understand for the Q2, we will not be in a positive land and also the sequential improvement compared to -15.6%, I'm not sure that will be there. I cannot be more clear than that. We are committed on the guidance. Balance is very, very different from what we – you are expecting right now on visible alpha.

Edward Mundy: Q2 is going to be the same as Q1 or worse.

Operator: We will take our final question from Lawrence Whyatt, Barclays. Your line is open. Please go ahead.

Laurence Whyatt (Barclays): Morning Luca, thanks very much for the questions. A couple for me as well. More clarifications. But you had a very strong performance in Japan, and I was just wondering what's the relative [inaudible] –

Luca Marotta: We miss you. We are not hearing now. Something happened.

Operator: Apologies. The participant line seems like disconnected. So once again, Lawrence Whyatt, if you can hear us, please press star one to join back into the queue. We have Lawrence Whyatt back on the line. Please proceed with your questions.

Laurence Whyatt: Hi Luca. I don't know what happened there. I could still hear you all the way through. But just to repeat everything.

Luca Marotta: I'm sure that you are not blackmailed by me. I thought that I will tell you. You are one of the more positive. He will be back one day, I'm sure.

Laurence Whyatt: Exactly. Just a couple of questions then. On Japan, just wondering what the relative price environment is in that country particularly versus China. Do you typically sell – are you currently selling products in Japan at about the same price as you're selling them in China? And are people buying higher-end or lower-end products in Japan versus China?

And then secondly, just given the relative weakness in the on-trade recently and your current high strength in e-commerce, could you give us a breakdown of sort of the sales split between those three regions, your on-trade, your off-trade and your e-commerce, just to help us understand that? Thank you.

Luca Marotta: Thank you for your question. So Japan for us, we are not – the nature, Japan is a positive element, but it's very small weight. So it's 2%. So clearly there is some sales that going to the Chinese tourism. Maybe what you are intending here, that can be somebody, some traders making some deals to replenish the China market. It is marginal and clearly the yen, the weak yen, is playing a role. But at Group level, scale can switch the weight of 1% to 1.5% to 2.5%. So we are talking about €5-10 million. So at global level, so it is not a disturbing factor, the effect the local basis of compassion consumption.

What is affecting is part of travel retail performance. Because maybe you have some local sales in Japan for the Chinese tourists that are in Japan, that should be belong – should belong to the other type of – but at the end, the disturbing effect on top-line, very minimum, increasing at the lower gross margin. Group level, very marginal. Bottom line, not much assisting A&P. So bottom line, it is squared.

In terms of weight today, the weight it is for us, on-trade is no more than 5%. Used to be 40-35% before Covid. We are very weak today in on-trade, which is a negative element. We can improve. It is also protection in the short term also because on-trade in China is less profitable than – it is profitable, but less profitable than off-trade. E-Commerce so far, it is 35% of the weight. So the difference is the all remaining channels between off-trade, the direct; and the weight of the e-commerce, don't forget, will be normalised in Mid-Autumn festival and Chinese New Year because in that part classical business will sell, and direct sale will improve. So yearly level should be between 24-27% in terms of weight of e-commerce.

Frankly speaking, we prefer to be 20% as well because it means that the other channel clearly improving compared to the actual – to actual scale of growth. At Group level, this is an important point, e-commerce now end of Q1 Group level, not China, is 18% of the business against 43.6%. So the Group realised -15.6%. e-Commerce channel all countries, all brands together are slightly negative, more or less flat with China booming. So every single country is doing more than its job on this channel. And thanks God, we think that this is a clear, distinguished, positive weapon that we have. Thank you.

Laurence Whyatt: Thank you very much.

Luca Marotta: See you in September.

Operator: That is all the time we have for question-and-answer session today, so I will now hand you back to your host for closing remarks.

Luca Marotta: I don't have any special closing remarks, so I hope that you will have a very nice, peaceful summer. Have fun and see you and during next month and talk to everybody end of October for the Q2 and H1 top-line performance. Have a safe and beautiful summer. Ciao. Ciao.

Operator: Thank you for joining today's call. You may now disconnect.

[END OF TRANSCRIPT]