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Remy Cointreau 2024- 25 H1 Results

Thursday, 28th November 2024

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Operator: Hello and welcome to the Rémy Cointreau H1 results call. My name is Saskia, and I will be your coordinator for today's event. Please note this call is being recorded. 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. This can be done by pressing star one on your telephone keypad. I will now hand you over to Marie-Amélie de Leusse, chairwoman, to begin today's conference. Please go ahead.

Marie-Amélie de Leusse: Good morning, everyone, and thank you for being with us this morning for Rémy Cointreau's first half results. I am here with Éric Vallat, our CEO, and Luca Marotta, our CFO. Both of them will, of course, take you through the detailed results. Despite a continued challenging global environment, we have stayed focused on our long-term vision, which remains our guiding principle. Our approach this semester has been to preserve the unique DNA and core values that define our brands while ensuring consistent pricing strategies and cost discipline. We have remained vigilant in seeking out opportunities for growth, exploring new areas that align with market demands, and continuing to innovate with high quality products.

These efforts aim to strengthen our position in the premium spirits industry and prepare ourselves for the recovery. Moreover, we have prioritized rigorous and agile cost and cash management to maintain financial stability during these uncertain times as we navigate the complexities of this period. Our focus is on ensuring long term growth while protecting our heritage and brand integrity. Today, we will share with you our key financial highlights and strategic insights, illustrating how we are addressing current challenges and preparing for future success. I will now let Éric take you through the H1 Business Review. Éric, the floor is yours.

Éric Vallat: Thank you, Marie, and good morning. And it's better with the mic indeed. Thank you, Marie. I will begin with a quick overview of H1 24/25. Luca will then, as usual, detail our financial results and will conclude by giving you an update on the group situation and the outlook. Let's begin with a review of our business performance for the first half. And now on slide five. Group sales totaled €534 million, representing an almost 16% organic decline compared to the same period last year. While this reflects the broader macroeconomic challenges, we have taken steps to mitigate the impact by adjusting our operational priorities.

As a result, COP stood at 147 million, down 17.6% on an organic basis, leading to a margin of 27.6%, up one point as reported, including a slight decline of 0.5 points organically. This relatively good resilience reflects first on one side, a slight erosion of the gross margin of 1.4 impacted by costs of production, inflation and compared to a record level at a level of 72.5%. Gross margin is still up three points versus H1 19/20.

Second, ANP expenses were reduced by a third versus last year, now accounting for 18.4% of sales, reflecting a more targeted and efficient approach to brand Bronze Investments. We have obviously taken measures in the current context, making sure to keep the right balance. Following four consecutive years of acceleration and posing but from a high level, ANP are still up 25% versus pre-COVID. And third, OPEX. OPEX decreased by 6.8%, highlighting our commitment to streamlining costs while maintaining operational excellence. These numbers reflect the dynamic challenges of the current market, but they also demonstrate the resilience of our operational strategy.

As we move forward, we will continue to focus on strategic investments and explore all innovative opportunities to foster growth, recovery and maintain our competitive edge. Let's now focus on the cognac division profitability, whose key figures are summarized on slide six. Current operating profit was down 17.9% on an organic basis, which led to an increase of the margin of 2.1 to 37% on a reported basis. This breaks down into a stable, organic performance and a positive currency effect of 2.3 points. The organic performance reflects at first a slight erosion of the gross margin, down one point mainly resulting from the Cogs inflation and, to a lesser extent, an unfavorable mix effect, mainly due to the product mix. Price contribution was flat, which is already a good achievement in the current promotional environment.

This has been offset by a tight management of costs, including ANP and overhead costs. Nonetheless, ANP ratio are still up 3.3 versus pre-COVID, and price consistency over time is contributing, like ANP, to brand equity and trust of the trade and our clients. Let's now have a look at the Liqueurs and Spirits profitability division, whose key figures are encapsulated in slide seven. Current operating profit retreats by 3.3% on an organic basis, representing a margin of 16.5%, up 1.8% as reported. This performance reflects an organic increase of 1.5 points, alongside a favorable currency effect of 0.4. This evolution includes a deterioration of the gross margin by two points against the high base of comparison.

As a reminder, it was up 2.5 points last year and impacted by negative Cogs evolution as well as a negative mixed contribution. In the meantime, we reduced the GNP ratio by five points, but again ensuring that we kept a decent level of investment. ANP grew by almost 45% versus pre-COVID, so clearly outpacing the cognac trends. Finally, structural cost ratio was up 1.6 but down 6.9% in absolute value in absolute terms. Let me now give the mic to Luca, who will take you through the more financial slides.

Luca Marotta: Thank you, Éric. Now let's move on to the detailed analysis of the financial statements. As usual, every six months, starting with the H1 income statement, profit and loss. As previously mentioned, organic sales were down by almost 16%, 15.9%, but up plus 1.5 compared to H1 of five years ago. Based on this, gross profit decreased by 17.5% in organic terms, implying 1.4 140 basis points of deterioration in gross margin. But this still represents a strong improvement of three points on a five-year basis. This H1 performance reflects an unfavorable evolution in Cogs and, to a lesser extent, a negative mix effect.

Pricing contribution in this period was more or less neutral. Sales and marketing expenses were down about 21.8% organically. While we have reduced some investment in the current context. Spending remains well above pre-COVID levels, i.e. plus 13.2 versus H1 19/20, but inside Side this line, we have to split between ANP expenses. They were down 29.2% organically, representing 18.4% of sales. That means an organic increase of the weight of the BNP of 3.5 points over a five-year period.

As part of our optimization efforts, we increased the share in the short term of below the line spending relative to the above the line during the period. Consequently, total spending was split equally 50/50 between above the line. So I remind you, traditional media, digital and PR and below the line. Additionally, digital overall represented more or less 60% of the above the line. So by the fact that above the line and below the line at 50/50 around 30% of our total ANP spending, more or less the same rate of last year was digital.

The second part, the second soul of this line is distribution cost, which decreased by 10.8% organically, mainly due to the restructuring efforts in the US and Europe that we started. And we announced last year. As you remember, they are generating savings this year as planned over a five-year period. These costs are essentially flat in absolute terms. There is another line which is administrative expenses were almost flat on organic basis, reflecting a series of overhead cost optimization in the period. In response to answer to the current economic condition, which I will detail shortly, but on a more broad basis on a five years, this line is increasing 8.4%. Why? To sow more than the top line dynamics.

Two main reasons. First one is data mining teams and digital transformation CRM investment that we are not there five years ago. So new capabilities to the group that if cash is king, data is queen. And second point, investment in brand cost for ancillary brands that need to be there to be able to give the incremental sales that deserves they deserve in the future. So overall, the current operating profit was down 17.6% organically and 12.9% on a reported basis after accounting for a positive currency impact of more or less €8 million, 7.9. That's very important because, as you can see, dynamics in the first half of the operating profit in terms of marginality, in terms of profitability, are different between published figure and organic figure.

COP margins stood at 27.66, up one point as reported, and showing a slight decline. Okay, more or less flat, we can say of -0.5% organically. The sharp decrease in sales of the top line -16% more or less, alongside the slight decline of the gross margin, were almost offset by significant important cost reduction. Now, let's take a look at the group's current operating margin in terms of bridge. Slide number ten. It was up one point as reporting reaching as said 27.6. This breaks once again into a slight organic decrease of 50 basis points, 0.5, and a positive currency factor of 1.6 points.

Let's focus on the organic evolution of the current operating margin, which largely reflects the deterioration of the gross margin, which remains at plus three points higher compared to five years ago in the same period. This was also almost offset by a reduction in ERP and spend, but once again at a level still much higher than pre-COVID times, along with further optimization and cuts on distribution and structure costs. In more detail, gross margin down 1.4 compared to last year, impacted by inflation in Cogs and unfavorable mix effect. Why the underperformance of cognac versus like spirits and the high-end segment in China? Pricing was more or less stable over the period in terms of gross margin impact, reflecting our strategy even in this very complicated time in terms of pricing environment to remain firm and consistent in the long term.

A second element to highlight is the AP ratio, which decreased by 34 points, primarily due to the optimization effort, like we have explained, and prioritizing BTL spending over above the line. While we have made these cuts, the reduction is relatively modest minor compared to the significant acceleration in spending over the past four years, and spending is still up once again, it's very important, 3.5 points versus H1 19/20. The top line is much more assisted by ANP investment now than five years ago. Third point is the ratio of distribution structure. Cost was up 2.6 points, so negative in terms of marginality but decrease of €10 million, €10.3 to be precise, in absolute terms.

Reflecting savings, very strong savings, related to the organization project of last year, coupled with excellent cost control efforts to mitigate the impact of the sales decline. But alas, the sales decline is clearly bigger than this effort. Moreover, the more or less flat organic COP margin, -

0.5 includes another round of cost savings totaling in the H1 €42 million, of which 49% were one-off. So they will come back and 51 were structural savings. They will last forever. This gross saving can be broken down as following manufacturing, industrial and logistical saving more or less 4% of total savings or minor, ANP optimization 52%, and overhead cost reduction 44% of total savings. Clearly, this amount, a view you can see, is not far from our yearend target of additional plan of €50 million.

So I anticipate your question that might be why it's important to consider the phasing of last year's performance in terms of phasing. Most of the savings €145 million were achieved in H2, €25 million H1, €120 in H2. So meaning that cost comparison in H1 was quite high. It was easy to match with the lasting efforts made last year in the second part of the year and the first part. Additionally, we must ensure we are ready for the recovery phase, and we expect that very important to increase ANP spend in H2 to assist support the peak season in both US and China, and also in major EMEA countries. They need to be there to speed up depletion, as a spark, so much waited spark to the top line.

Slide number 11 now, let's move to the remaining part and items of the income statement in H1 24/25. The operating profit included almost no other non-current income of expenses. Financial charges increase as expected in less than the guidance if you want, from €15.7 million to €21.1, but I will go into more detail on this on the next slide. So a bit of your attention here in terms of reported tax rate, which increased from 26.6 last year to 27.5, reportedly mainly due to the changes in geographical mix, but it's important also to talk about the future, not only H1, because at this point it's too early to give an ultimate outlook for the year. as you know, French government is still finalizing its position for what will be the impact for this fiscal year the next. We expect more clarity in the coming weeks.

The profit before tax for the French base representing for Rémy Cointreau group more than 50% of the total of the profit before tax. But let's imagine this is voted and excluding any potential positive impact on deferred tax assets. We anticipate an increase of about three points on the normative group tax base tax rate based on our initial budget expectation. So what does it mean? We expect a normative group tax rate of around 31% if this is voted. Meaning in absolute value of five to six million more in terms of impact compared to 28 previously on a full year basis. In that case, for this year, if it is voted, there will also be a positive, non-cash deferred tax asset impact of around minus five points, meaning €7.8 million positive in terms of profit and loss, non-cash, which will determine a partial group tax rate of around 26% at the end of the year.

In a nutshell, after this all up and downs, we expect tax rates to land, if everything will be voted the French government for the group, at around 26%, including five more points of positive one-off and three negative linked to the additional taxes that will eat the company if it is voted. These five points of positive one-off will not be there next year. So that's the reason why, if it is voted, will be considered as a tax element, but a non-recurring element of the positive element for the profit and loss.

As a result, net profit group share came in at €92 million, down €18.6 on a reported basis, meaning a net margin of €17.2, down 0.6 points compared to the previous year. EPS for the semester came out at €1.8, down 19.4%. Now next, let's analyze the free cash flow generation slide, which is very important. And the net debt evolution number 12. Free cash flow was negative at -€7.6 million in H1, compared to -€99 million in H1 of last year. This evolution

reflects a meaningful decrease in EBITDA, but partially offset by three major factors. First of all, a decrease of the other working capital items outflows, meaning that you can see that in the spreadsheet. A positive variance effect of €56.8 million compared to the previous year.

While the working capital outflow related to ODV spirit and in aging process, so the more strategic part of the working capital was slightly up for €2.6 million. Overall, the global working capital evolution reflects, a lower increase of our stocks compared to H1 22/24. In terms of finished goods, cognac eau-de-vie, aged liquids and raw material packaging elements, consider the current context. And second, that's very important, decrease of the level of the account receivable compared to H1 22/24, meaning an indirect inflow of €36 million in line with the activities go down. To anticipate your potential questions, this is not on rocks linked to the factory increase, because this year we factored €74 million against €104.

Second element to explain this offsetting point compared to the slowdown of the EBITDA is the decrease of €60.4 million of the tax outflow, reflecting lower net result and a tax refund related to overpayment that made in previous years in terms of anticipation, prepaid taxes expecting to have a bigger net result in the future. This is not there. So there is a refund which should not be there in cash in the future. On top of these two components, I want to highlight the CAPEX outflow was down €19.1 million as expected, as guided and considering the optimization action that we decided to protect cash and at the same time to continue to fulfill and to respect our strategic journey in terms of CAPEX.

In parallel, other cash flow inflows decreased by €32.2 million. This was largely driven by the absence lack of redemption of the existing remaining OCN convertible bonds this year compared to the previous year. As a reminder, we recorded debt to equity conversion last year of around €51 million, €50.8. As a result, all in all, end of September 2024, our net financial debt stood at €644.3 million, down by only €5.4 million compared to March, but which is still a very good result considering the PNL dynamics. Consequently, a ratio is up from 1.68 in March to 1.90 in September 2024, and compared to September of last year, net financial debt increased by €53.8 million and a ratio increase from 1.57 to 1.90 still in September 2024.

Slide number 13. A few comments on net financial expenses, which amounted, as said, to €21.1 million in H1 24/25, compared to €15.7 in H1 of last year, so up €5.4. Net debt servicing costs were up in absolute terms as a result, as a consequence of the 12-month integration of €380 million private bond issuance of last year, which has an average ten-year maturity and a weighted interest rate. I remind you of 5.58%. As a reminder, we issued this bond in September 2023. As a consequence, our cost of debt for this part increased from 2.97 to 4.17. It was guided, it was forecasted as you remember, net currency expenses in this line decreased from a loss of 1.4 last year to 0.5 this year, primarily due to the hedging of intra group intercompany financing. And last but not least, other financial expenses stood at -€3.9 million in H1 of this year.

For this year, in terms of guidance for the full year, we expect our financial charges line all increased by less than 10 million, reflecting the full year integration of €380 million bond. So last year the full year was €38.5. So we expect something less than €48 million, as said very clearly, which is something better than the previous guidance. Let's now move on to the impact of the currency. A bit technical, but still very important. The group reported a negative translation impact of €1.6 million on sales better than expected, and a positive transaction effect of €7.9 on operating profit in H1. This mainly reflects the evolution of the US dollar

because it was positive on the bottom line. Others minor currency were contributing as well, and Chinese New Year, Chinese one was more or less flat, slightly declining.

Digging into details, the average euro dollar conversion rate was stable over the period at 1.09, while recorded a deterioration of the Euro RMB translation, which came out at 7.84 in H1 24/25, compared to 7.77 last year. But on our average edging rates, so not the conversion. So the policy of the company of cover C is net needs improved for the dollar from 112 to 107 in H1. That's the reason main reason of the gain and improve as well in terms of hedging for the RMB Chinese one from 1776 to 1766 this year. So hedging rates better, far better of the conversion rate. That is the past.

Looking at our forecast for this year to help you to model your figures. Assuming a conversion rate of 1.09 euro dollar and 7.84 on euro RMB, as well as a hedging rate of 108 on euro dollar and 1776 on Chinese one. We anticipate, as described in the guidance between -4 and -8 million on sales, mostly driven by a negative effect in the H2 and between plus five and +€10 million positive on COP on operating profit, mostly driven by the positive effect that we account in the H1. As you can read in the slide, the forex sensitivity by currency is clearly explained. And as the evolution of the euro US dollar exchange rate, also RMB remains very volatile. We will continue to share with you an update every quarter.

At this stage for this year, 24/25, we already covered 80% of our net US dollar exposure, of which still around 40% of options are there. On RMB as well, we covered more or less 80% of our net Chinese RMB exposure, and once again, around 40% of options. Agreed some flexibility in our final hedging result. Almost finish my favorite slide, the last one which is the balance sheet overview and dynamics. Total assets liabilities stood at €3.37 billion, down €170 million compared to last year at the same moment. On the asset side, global inventory increased by €134 million to reach more or less €2 billion, €1.97, due to the purchase of young eau de vie, increase in our inventory levels given also the current context. Inventories now represent 58% of our total assets, up six points compared to last year.

And on the liability side, we have the shareholder equity is up by €122 million, mainly driven by the net income, partially offset by the payment of the dividend related to the fiscal year 23/24 net gearing. So the group indicator net debt to equity ratio was slightly up over the period from 33% to 34%, reflecting the increase of our financial debt. Thank you so much. **Éric**, the floor is yours.

Éric Vallat: Thank you, Luca. So we are at a pivotal moment in our journey as we navigate a challenging global landscape, as you have understood and as you all know, today I would like to outline our short and mid-term strategic priorities. And to illustrate, I've picked up some marketing initiatives designed to drive resilience and to prepare ourselves to the recovery. You will not be surprised to see that our short-term priorities are to return to growth in the US, and to leverage our strength in China to protect our resilient business in a challenging macro context. And of course, we are in parallel, working on our businesses beyond cognac and on geographies beyond the US and China.

So starting with the US, of course. On slide 18, our most challenging market and our number one priority to fix today. While our performance has been notably negative, we have recently observed some encouraging signs on cognac. Starting with the sequential improvement in value depletions from Q1 to Q2 and upward the trend that continued in October. Although this is

encouraging, indeed, the pace of recovery is slower than expected and anticipated. In this context, it is crucial to strike the right balance for us between protecting our volumes without deviating from our value strategy and managing costs and investments carefully to safeguard profitability and, above all, cash. However, this approach alone is not sufficient, and we should never let a good crisis go to waste. A thorough diagnostic was essential before we could move forward.

In short, we have successfully developed 1738 since 2019. We've lost traction with our customers in VSOP by making two drastic choices in terms of ANP allocation within our cognac portfolio. This explains why on a five-year basis, depletions are negative and strongly positive, in fact, excluding VSOP, while VSOP has never been and still isn't a strategic priority, it plays a critical role as a cash cow that allows us to fund the expansion of our high-end segments. This is why we've decided, as you know, to reactivate VSOP to boost its desirability and visibility, which obviously takes time and more importantly, to reconnect with our historical customer base. Given the current context, we must adopt a more measured approach and execute smartly, leveraging BTL volume driven activations over 88 investments and focusing on local activations to strengthen our brand equity.

Intensifying, number two, our focus on the top ten US states for the launch of a new limited edition, VSOP citizen[?]. And third, ensuring the right level of pricing, which takes time to be fully enforced. At the same time, we will continue to sustain. This is the second column of the chart, but we will continue to sustain the momentum on 1738, among which our sponsorship of Asia and North American very successful tour offers a unique platform to connect with our core audience and extend our reach as 1738 is a great tool to recruit. Innovation is also at the heart of our strategy. Initiatives like Hexanite aim to create new consumption occasions, tapping into evolving consumer behaviors and recruiting new clients to the franchise.

Additionally, our new Rémy V offering with a new bottle and a new liquid at 35 ABV, is tailored to appeal to younger female and white spirit drinkers. It will ultimately contribute to brand awareness, help increase brand footprint in on trade and educate to spirits. With its competitive pricing and fresh branding, this product is an exciting addition to our portfolio. The launch has begun in Florida and California this October, with a strong focus on trade to drive mixology on unique cocktail recipes. The national expansion is planned by 2025.

In summary, it seems we've reached the bottom in the US. Early signs of recovery in cognac are emerging. Indeed, we must continue our efforts to protect profitability, but it is also time to prepare the recovery by revitalizing our foundations, supporting our core business, and recruiting new customers. In parallel, and this is slide 19, depletions in liqueurs and spirits. Divisions are resilient even in the face of tougher market conditions. This translates into low single digit percentage growth in value depletions in Q2 and confirms the relevance of our brands portfolio and of our execution as we are overperforming the market and gaining market share.

Quatreau, one of our flagship brands, has been a key driver of this success. Value depletions for the brand are up an impressive 80% compared to 19/20 and positive currently in October and November. The brand has solidified its position as the number one branded spirit in core cocktails over time, closing the gap in total volumes with its top competitor. We are preparing to capitalize on the upcoming holiday season with a solid H2 marketing plan focused on the Cosmo and the Margarita, designed to sustain this positive momentum and drive consumer

relevance. It will include a new campaign called Cosmos and Caviar, which hinges around the influencer, Danielle Zaslavsky. And more importantly, we are working and investing on a new nationwide campaign to be on air in Q1 next year for Cinco de Mayo.

Similarly, the botanist continues to expand its reach with innovations like the new distiller strength release coming after the launch of Roasted unaged[?]. It also builds on targeted partnerships, including collaboration with the major pickleball and the Association of Pickleball Players. These efforts are opening new occasions for brand engagement, reinforcing its premium positioning and appealing to a wider consumer base. As a result, the botanist depletions are up high single digit in H1 and even accelerating, currently representing an increase of almost 100% on a five-year basis.

Unbroken added[?] to mitigate category headwinds, we are rolling out our largest ever holiday activation plan. This includes delivering more tools and programs to 135 retailers aimed at driving increased education and activations, particularly during the OND period, which remains a critical driver for our business. The category as well as [inaudible] are currently declining and we expect to revitalize this trend. Depletions are still up 75% on a five-year basis and improving sharply in Q3 thanks to the launch of Octomore, a new release, one of the most heavily peated ever. In a market showing high promotions for OND season, these efforts reflect our commitment to maintaining good momentum through thoughtful investment in our brands, strategic partnerships and bold marketing initiatives.

On page 20, to conclude on the US market, I would like to highlight a few key points. While the overall US market remains under pressure, a closer analysis of our portfolio performance reveals encouraging signs of recovery, or at least stabilization, which reinforces our confidence in the effectiveness of our strategies focused on protecting value in the long run. Our key brands are beginning to outperform their respective categories, even cognac, while still in a negative territory. Over the past 12 months, our cognac sales were down 22% compared to a -16% decline for the category. However, the pace of decline has slowed over the last three months, with Rémy Martin down 12% versus a 15% drop for the category, which for us reinforces the idea that our pricing policy is correct, and we see a continued improvement while still in the negative territory in Q3.

In Cointreau states, we are seeing additional positive signals for cognac over the past 24 months. Volumes in these markets have steadily improved, with depletions showing a sequential upward trend from Rémy Martin through September 2024. According to Napca[?] data. A similar trend is witnessed for Cointreau, which is showing solid acceleration over the past 12 months. Since the beginning of the year, depletions are back to positive. Finally, The Botanist, which is outperforming its category and has experienced a strong acceleration since the end of the summer. This performance is largely driven by targeted activations and innovation and growing consumer demand.

While these developments are encouraging, we remain realistic about the pace of recovery and short-term challenges, particularly in selling. The challenges in the US market are far from over, and the road to stabilization and recovery will take longer than initially expected. However, the data clearly supports our belief that our efforts are yielding results with solid signs of improvement across our core brands and markets. I do like to have a drink of water, as you like to say, Luca. And now on page on page 21.

China remains a challenging yet essential market. Of course, although volatility persists, we are leveraging our strongest assets to adapt and thrive. The Chinese market is not as dynamic as it used to be, but our performance demonstrates the resilience of our brands and the strength of our strategy. While depletions showed slight growth in Q2 and amazing performance in the context, we anticipate continued lack of visibility and heightened volatility into the second half of the year. To navigate these conditions, we are leveraging our strength. First, e-commerce, which now represents 25% of our sales in H1. A testament to our leadership in this channel. During Double 11 festival, Rémy Martin outperformed again targets with double digit sales growth, reinforcing its position as the number one brand across all platforms.

By fostering tailored offerings with local driven innovation and maintaining a rigorous pricing strategy, we are turning e-commerce into a robust growth engine for us. Second strength, Remy Martin Club; it's also central to maintaining resilience. The brand continues to drive performance. Depletions were up mid to high single digit in Q2 for MAF, benefiting from its strong presence in off trade channels, including banquets, and a lower exposure to the on-trade market. Our focus on brand rejuvenation through smart collaborations, like with the Shanghai Fashion Week, ensures the club remains highly relevant to Chinese consumers.

By fostering loyalty through targeted campaigns and rigorous pricing, we aim to protect our premium positioning, and we are excited to share that Rémy Martin Club will be the hero of the last episode of the very successful and buzzworthy series from Wong Kar-wai, Blossoms Shanghai. One more success to celebrate at the house of Rémy Martin, which will open in December in Shenzhen. A very dense program to come, as you can see. Third, after e-commerce and club harnessing CRM and data platforms, we enhanced our omnichannel approach by integrating data insights into our marketing strategies. Our CRM platform enables us to target first time buyers across all brands, driving conversions while building loyalty for key products like Rémy XO and Quantum. This capability is critical to maximize our presence in both direct to consumer and wholesale channels.

And last but not least, a topic, this topic I just addressed of CRM and data platform gives me the opportunity to conclude this chart with the fourth strange still in the making, but already proving resilient in the context with this new business model focused on B2C activities, meaning private client directors, boutiques, and of course, retail in prestigious malls next to luxury brands. As you can see on the slide, the share of B2C has increased to more than 70%. We achieved better trends than most luxury brands in these molds, thanks to more innovation and 13 tools created to support sales, from personalization to tailor made events, we managed to grow sales during MEF period and November is also delivering.

Having said that, the growing share of B2C for betrays[?] is not only due to its better resilience. It is also explained by a sharp decrease of our wholesale activities. The direction is not challenged, but it takes more time than expected to embark the trade preferred partners. So the wholesale towards a more CRM driven approach. I could have had another strength which is the strength of our team, but this has been said by Luca, I think previously a number of times. So despite the short term challenges, and there's not much we can do about it, it's the global environment. We are confident that these strategies position us to navigate volatility effectively while capturing opportunities for sustainable growth.

One last word on the MOFCOM and the China duties, which will be potentially a part of the challenges that we will have to face with the introduction of a 38.1% provisional tax duty. We

are working on a comprehensive mitigation plan, including price adjustments, cost efficiencies, reorganizing operations to sustain competitiveness while safeguarding our talented team. This is too early to quantify, but we will if the provisional decision is confirmed. And as a reminder, the impact for this year is minimal. The slide 22 shows that beyond addressing immediate challenges, we are committed to building a robust foundation for the midterm with a clear focus on better balancing our business.

External growth could be a key contributor in the years to come, but we also make sure we focus on our existing business with two clear priorities. One, expanding beyond cognac. As I shared in 2020, the expansion of liqueurs and spirits is a key driver of our diversification strategy. In five years, we have achieved great results with Cointreau. The botanist has also grown fast and cherry on the cake has become accretive from a gross margin standpoint. We know the way forward for these two brands, and we will keep on pushing for more volumes through awareness, desirability, innovation and distribution. While volumes have increased sharply, there is still room for more. China is now on the map as we see the interest for these categories growing, and we are well positioned with a great team and a great e-commerce expertise thanks to our historical presence in China with cognac.

And two, exploring growth opportunities outside of existing markets. We are also working on geographical areas which remain untapped for cognac, even if even in China, there is room to grow beyond Guangdong and Fujian. And while streamlining our cost structure there, potentially in the future we will make sure we allocate more means to the West and to the northeast. Nigeria and South Africa also displaying a real potential for our cognac specific plans, which cannot be disclosed yet, are in progress for the rest of the portfolio. It is a world of opportunities. It will take time, and it is about seeding sometimes, but we are now proactively working on leveraging the potential for Cointreau and The Botanist in Brazil, Saint-Rémy[?] And The Botanist in India, for instance, as surveys show that they do have a great potential there.

Lastly, we are currently optimizing our routes to market in many countries, which have been left aside for a long time due to their small cognac potential. Again, this will take time, but the beauty of the headwinds is that they force us to reinvent or reinvent ourselves. On page 23, a quick word on ANP and innovations. As already mentioned, we are reinforcing our efforts this year to manage carefully our cost basis with 50 million cost saving plan. However, it is essential that we do not lose sight of our goals and in that respect, the time has come to prepare for recovery. This is why we plan to begin reintroducing targeted investments in marketing as early as H2 to support peak activity in both the US for R&D and China for CNY, and to prepare next year, as I hinted, for example, on Cointreau in the US.

In this respect, most of ANP savings have been achieved in H1 and we expect to sequentially increase our ANP ratio in H2. In parallel, we intend to keep the same pace as in 23/24. In terms of product innovation launches this year. This is important for two key reasons. First, it drives brand desirability, and second, it is expected to fuel our growth in 25/26 with a full year impact. And when we talk about innovation, this goes beyond just new products. Innovation in our view, extends to various areas including CSR, customer experience and the digital tools that support these efforts. In this respect, I'm happy to re-introduce RC Ventures, our newly established corporate venture capital fund, and to highlight its first investment in EcoSpirits.

EcoSpirits is a pioneering startup in the circular economy space, focused on reducing carbon emissions through innovative solutions, they might shape the future of our industry, and this

investment is a natural progression of our operational partnership with EcoSpirits, which began in 2022. Through RC Ventures, we aim to support high potential innovative startups that align with our values and vision within the broader wines and spirits industry. The fund will provide these emerging companies with both financial backing and access to our operational expertise, while our global teams will lend their support. We are committed to preserving the autonomy and the entrepreneurial spirit that are crucial for these startups to drive value.

Beyond stimulating our sales performance, we have decided to further focus on cost management. I'm here on slide 24 to mitigate the current headwinds. As mentioned during the Q2 sales update, we are aiming for another round of optimization targeting over 50 million in savings. Given the tough market conditions, we have no choice but to protect our cash through these cost optimization efforts. Having said that, we are ensuring that we maintain a good balance between the need for optimization and the protection for future growth. At the same time, we are beginning to prepare for recovery in H2 and are gradually - well, now the slide appears, and are gradually reintroducing some ANP investments.

Additionally, our goal is to maintain a higher ANP to sales ratio compared to pre-COVID levels. Achieving this by optimizing our spend rather than simply cutting it. Let me clarify that. We mean by one-off and structural savings. Specifically, for ANP, the meaning is slightly different from last year. Our approach to ANP is driven by a strategic conviction. We must invest behind our brands to fuel future growth, but also by an opportunistic pay as you go mindset. As a result, structural savings in ANP are expected to last at least until next year, which will be the first year impacted by the MOFCOM decision potentially, while one-off savings will be reinvested as early as the beginning of next year.

First, ANP will account for around 70% of the total savings. This includes 50% of one-off savings spread across global markets, with an emphasis on the US market short term. The goal here is to protect BTL spending while being more selective with ATL investments and 50% of structural savings. Second, overheads will account for 25% of the total savings, of which 60% to be structural and 40% one-offs, including cuts to T&E expenses. Finally, manufacturing and logistics savings will represent 5% of the total savings and will mainly be structural. I am now on the last slide.

To conclude, I would like to reconfirm the guidance that we updated end of October. I will not detail the underlying assumptions that you already know. However, now that we have finalized our revised budget process, I would like to quantify our full year guidance. Basically, for this year, we expect sales to decline organically between 15% to 18%, and we expect to land between 21% and 22% of COP margin in organic terms, meaning excluding forex. As I said last October, this 24/25 guidance takes into account the recent MOFCOM decision based on the information that we have as of today and the impact on PNL is marginal for 24/25. Lastly, we reconfirm our 2930 mid-term guidance. There we are. I would like to thank you for your attention, as it's already 9:55 and we are now prepared to take your questions. Thank you.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question on today's call, please signal by pressing star one on your telephone keypad. That is star one for your questions today. And first up, we have Sanjeet Aujla from UBS. Please go ahead.

Sanjeet Aujla (UBS): Good morning, everyone. A couple of questions from me, please. Firstly, can you please comment on how you're seeing the pricing environment at the moment both in the US and China, particularly amongst your competitors? Are there any signs of stabilization there? And secondly, just coming back to the VSOP plan in the US. Éric, you spoke about this quite a bit back in June. Can you just give a bit of context on how progress has been so far versus expectations, and when do you think that plan will be fully executed in the market? Thank you.

Éric Vallat: Thank you. So first, the pricing environment, is it improving or stabilizing? It's too early to say on the pricing front. And I think we should distinguish China and the US. And we should also distinguish the SKUs. If you take the US, you still see competition being aggressive and pricing, but having said that, I am probably even more convinced than last year of the pertinence of our strategy because we've been struggling indeed, in the past few months, probably more than competitors. But we now see the gap narrowing and we've been protecting our value in the meantime.

VSOP and the VSOP segment is still a subject to aggressive pricing, probably more than the 1738 segment. We're on top, we have a specific brand and where we see a much better resilience, by the way, of our volumes. On XO, you see also some aggressiveness more recently, and to be transparent to you, while we are the leader on VSOP, and we believe it is our job to make sure that the pricing is consistent on XO. Of course, we are not the leader, and we are probably more looking at what competition is doing and also adapting to this. So it really depends on the SKUs but still aggressive pricing. And I don't think this will soften with ONG coming. That's why we are coming in with a very intense plan to support sales in China. It's different because the price aggressivity at trade level can be at the end client level. And there is still a pricing aggressivity, I would say probably more at trade level than at end client level.

On our side, I think that in China, we are lucky enough to be able to rely on our expertise on e-commerce and a strong desirability for club to support our pricing strategy while managing. And I said it for Mid-Autumn Festival to have a slight even increase of our volumes, particularly on club. I'm speaking retailer depletions here. I'm not speaking our sales to the wholesalers. They are impacted by current cash tensions. VSOP plan., it's maybe I should have been clearer at that time, but I think you can imagine that when you relaunch an SKU, a brand that had been a bit left aside for three years, it doesn't happen in six months. It's going to take one, two, three years. It's going to take time. So because there are things that we do which have an immediate impact, like some local activations, the repricing. But the repricing is taking time.

Repricing is too strong. It's positioning it, as you know, at \$49.99, which is below the \$50 threshold, which is more a kind of slight adjustment, but which we believe can have an impact. Where we did it, we saw an impact, but it's not yet rolled out full speed everywhere, plus the communication and activation part is still an ongoing process. Now as to the results we see. As I said, our depletions are improving. They are much better than selling sequentially. VSOP is still lagging behind, but it's also improving sequentially. I think the semester to come will be critical. Of course, what will help also, particularly in Q4, will be also the comps that will make it much easier for us to achieve a better relative performance.

Sanjeet Aujla (UBS): Thank you very much.

Operator: Thank you. And our next question comes from Edward Mundy from Jefferies. Please go ahead.

Edward Mundy (Jefferies): Good morning, everyone. A couple of things for me. First, Éric, you talked about being ready for the recovery phase. What do you mean? Visibility is still quite low. What are the things you're looking at with regards to best of category and your business that's giving you confidence to start to press the ANP lever as you go into the second half? The second thing is, on your medium-term guidance, where you're maintaining your 32% margin, which based on where you're going to end up at the end of this year, implies at least a 50% uplift in COP. And that's before you include any sort of revenue recovery from here. Could you provide a bit more color in terms of how you're thinking about that bridge, and what are the key sort of things?

And then just a final question. I think the market's obviously seen quite a big shaving of earnings estimates after the super cycle with the post-Covid hangover. I guess the key question is really do you think this is the last cut based on the level of destocking having been finished as we get through the end of fiscal 2025, and as you look to the recovery from 2026 and beyond?

Éric Vallat: So I'm sorry because the sound was rather poor and I'm not the best English-speaking person. Just to make sure I got it, the first question, I'm not sure, can you repeat the first question? Sorry.

Edward Mundy (Jefferies): Yeah. The first one is what gives you confidence to be ready for that recovery phase, and what are you seeing that's giving you confidence to increase your ANP as you look to the back half of this year and into the future?

Éric Vallat: Okay. So for the first question and might ask you to repeat second and third as well. But for the first question, to make it very simple, first, we are indeed reinvesting ANP, but in a very measured approach. It's not like we are going to boom, like in the past three years. This is controlled. And the beauty of ANP is that you can cut easily, voila, should things not happen as expected. Second, the confidence comes, to be honest, first, from easy comps. But here we should distinguish sell-in and sell out. If you take the US, for instance, we expect a rather poor selling in Q3 compared to last year because I don't know if you remember, but last year most of the selling was made for the second semester was made in Q3.

But on the opposite front, we expect Q4 to be positive from the first time since long. And what is more encouraging is the depletions, which are still better than sell-in. So we are destocking. Are we destocking fast enough? No, we would like to destock more and quicker, of course, at the same time, we see, as I said, an improvement of the trend sequentially quarter after quarter. And this coupled with the easier comps, we believe that we have the potential to, let's say, start growing again in the US, almost for sure on sell-in in the next year and even in depletions potentially. Of course, it's too early to say, and it's hard to say when, but it's coming.

It's coming for a number of reasons, including our poor performance in the past, but not solely and because we have adapted our cost structure to this new environment. As soon as it reverts, there are means we'll be able to release. And lastly, don't forget that our stocks are indeed still below five months in the US, for instance, which is still a bit too high but much less than in the past. But they are very small in absolute value, so the day it starts to revert, we should have an impact, which should be an exponential rise. So question two.

Luca Marotta: Question two was related to the fact that if you ended at 21, 22, how it's possible to reach 33 or 72% in terms of confounders. What is your vision, Mr. Vallat? I'm asking you the question.

Éric Vallat: Thank you, Mr. Marotta. This is a very good question, by the way. So on this question, which is a good one, of course. And you could add that MOFCOM is adding a level of uncertainty, should it be applied. For me here, the main challenge in fact is not the relative value. It's not the 72% margin or the 33% COP. Reason being, we spent the past two years optimizing our cost structure, things we would not have done, by the way, if we had kept growing the way we were growing. The question is really more about the absolute value. It's really the vitality of the market. Is it going to recover or not, and at what speed and with what magnitude?

Personally, if you look at the next five years, I believe there is room to grow in China. I believe there are untapped opportunities in China, even though I know that this year and maybe next year will be challenging. I mean, the middle class is still growing and growing fast. We are in a great position with our cognacs. E-commerce is still delivering opportunities and so on. And plus, we have this geographical expansion. So I still believe that in five years, there's a lot to do.

I also believe that in the US, once the trend fully stabilizes, there will be an upside on the volumes, which will be probably even more than the sellout and that we will have to control. Plus, we are now starting to work on the rest of the portfolio and on some other markets, which for some of our competitors, are already big and not for us yet. If you take, for instance, South Africa or Nigeria, which are in the top three markets, at least for South Africa, for some of our competitors.

Far from that for us, but the brand equity is strong there. So we have a plan that we had didn't have two or three years ago. So for me, the question is much more on the top line than on the 72% and the 33%. And I believe that on the five years, probably less than what we anticipated on the top line, but more or less cost, a combination of less top line than what we would have thought two years ago, and less costs as well can still help us achieve this target.

Luca Marotta: Question three, I'll handle it. If I understood correctly, the question is the last round of saving or not? We are not in deep restructuring harsh cost cutting mood. We are in a continuous improvement, a right sizing flexible and fluid environment. This is our mentality. So to answer directly to you, as you understood the second part of the year, the compounders, the marginal profit or loss will be clearly highly deteriorating compared to the H1. Why? Because we are investing more gross margin will be far less accretive also because of some saving. Even more for the mix of the second part of the year compared to the first part. And overheads are already profiting of big part of the saving because of the phasing of the round of last year.

As a consequence, at full year to reach 21/22, so we are talking about 3.5 to 4.5 margin decrease. It is guided by the weight of the overheads at the end become more or less the decline on a yearly basis of gross margin will be absorbed a little bit less by the ANP because we increased in second part, the full year the decline will be more or less offset, maybe 20, 30 basis points less, and then the eat is that overheads, even if we decrease big time compared to the top line of the year, which is depressed -15 to -18 after -19 last year. In some countries, we are at more or less 50% of the weight of two years ago. Makes an impact. What does it

mean? That we cannot exclude a continuous improvement of the cost base, but we can exclude at this stage big restructuring moves or change of DNA of the group going a more harsh way as far as I speak.

So the mentality is to be consistently on the ball, to try to give in terms of fluid and flexible means the maximum fuel we can to the business. Repeating that the clear point is the top line. We need to improve the top line. So we are not committing not to create any saving anymore. It will be something that is demanded by the business. One, another technical point I always highlight with the risk saving, like gross savings is not net saving, meaning the part of the saving are already reinvested. I pointed out on purpose that compared to five years ago, we had the ability to create new capabilities like the data mining teams, like the digital transformation.

And we really are trying to add, as I said, in a provocative way, in a funny way, another key pillar to our religion, which is cash is king. Because we are creating debt, we are selling in seven eight years what we will buy now. But data is queen also even more important in this very volatile and predictable environment. It is correct, it doesn't matter. It is consistent. It gives you some hints. That's much more important. So I hope to have an answer to your question. We are not committing not to cut any more in terms of fluidity, to give more means and more chances to the top line to develop top line also linked clearly to depletion.

Edward Mundy (Jefferies): Thanks, Luca. That's helpful context. I mean, I think what I was also hoping to try and understand is that we've obviously been through the big Covid boom. We've had the challenges for the industry in the post-Covid environment. Revenues are sort of getting back to 2015, 2016 levels. Profits are getting back to pre-pandemic levels. Do you think we've had a deep enough rebasing at this stage after what we're going to go through this year with the end of the destocking, probably within the US and the reinvestment that you're putting in place today, it is ahead of us, the future.

Luca Marotta: It is our hypothesis building on blocks, we are not back to 15%. So the blocks are quite solid. So considering the impact on the top line could have been far worse in terms of profitability, in terms of profile of profit and loss. So we are building on a situation which we have lost a lot of absolute value, but the spine, the DNA of the company is really always looking forward to reach the objective we are committed and a substantial restocking. Very strong one in the US when depletion set in will be aligned and we are improving on that. It's not clear when. You don't have to consider it tomorrow. Q3 will be a very negative one overall, for instance. It's important to say that but is the right movement.

And on top, maybe we are a bit optimistic maybe in your opinion, but we are really counting on it. We think that despite the lack of confidence in China, we think that we are a competitive advantage for many, many reasons that Éric explained. And on top also, as said, with our team, compared to peers, Europe is more volatile. It's more complex to forecast, but at this stage, it is the reverse positive point of the weakness. It is not so important for us, so we are building on this block to continue to pursue this journey.

And one last word. This guidance of 2930 is based on two key points. One is the top line high single digit back in sales starting from next fiscal year, counting clearly on the US and better than peers' performance in China I can add, and on bottom line, a progressive non-symmetric came back to the profitability, meaning that if MOFCOM decision will be confirmed, we will put

in place all the measures we can to try to offset it, but maybe we will not be in year one. So it is progressive. It is not symmetric. Everything is taken in this kind of context, but at this stage, we clearly believe in our mid-term guidance.

Edward Mundy (Jefferies): Great. Thank you.

Operator: Thank you. And ladies and gentlemen, in the interest of time, we kindly ask you to limit yourself to two questions only. Thank you. And up next, we have Laurence Whyatt from Barclays. Please go ahead.

Laurence Whyatt (Barclays): Good morning. Thanks very much for the questions. A couple for me, if that's okay, Éric. When we were talking a number of years ago before the pandemic, sort of remarking that your sale price of VSOP in the US was at a very similar level to Hennessy's VS product, so both were around the \$35. And I remember you talking around the concern of taking too much of a price premium to Hennessy's VS product as a result of sort of leaving the low end of the cognac market open to Hennessy as a player on its own.

Now, today, when we look at the price points of the two different products, yours is much closer to \$50. You mentioned \$49.99 after the price adjustments you've been making, but Hennessy is still slightly north of the \$35 level we see at a sort of \$36, \$37 a bottle. Does that concern you in any way now? Has your view changed that you're quite relaxed about having this quite large price difference between the products, or do you think there needs to be some sort of further adjustment to your price?

And then secondly, on your balance sheet. When we look at the inventory level at Rémy Cointreau, if you compare today's inventory values to pre-pandemic levels, we're looking at nearly twice the value of that. And if you look on inventory day levels, again, it's about twice the level of inventory versus your sales. Now, of course, your sales have taken a bit of a hit in this sort of post-pandemic hangover, but do you think your inventory levels of your own aged inventory is at the right sort of level, or do you think there are any adjustments that need to be made there? Thank you very much.

Éric Vallat: Luca answering question number two. Just one comment for question number two. Don't forget that when you compare to 19/20, you look at the sales. But you should also look at depletions, which are better because the real end demand. So coming back to question one, I think there was a misunderstanding five years ago because in fact, I'm happy. And I've always been happy with the idea of VSOP being at a premium price point versus VS. I think what I said at that time is, having said that, we need a minimum volume of VSOP to support the investment to fuel the upper grades, and that's where probably again, we've been, let's say, as I said, going downwards too much on VSOP.

For me, if you ask me, it's the opposite. Five years ago, if I'm our competitors, I would say, look, we are selling our VS at the price of VSOP. What does it tell about the brand? I don't think it's positive for us. I think it's very important that our VSOP recovers the price point. That makes sense versus VS, and we had probably made the mistake in 2009. And it's easy to say in my position today, but to lower the VSOP price to enter in a corridor war against Hennessy VS, not to be specific, I think this was a mistake because we cannot fight with the same weapons. We don't have the same weapons. They are five million cases. We are much less. It's not the same liquid. Our is aging more because it's a VSOP.

So I think it's good that they repositioned. What does it mean? It means that if you compare to two or three years ago, indeed, our volume ambition in the long run is probably less than it was two years ago. It still can, I believe, drive the plan ambition that we shared for 2030, but with less VSOP than what we probably would have anticipated two years ago. Even though in five years a lot can still happen. So I am, to answer your question, comfortable with this price point. I am also aware that it means that the target with VSOP in the long run is not two million cases. I don't think it is a bad thing if you look at the next 20 to 50 years. We were short of stock two years ago. I know it sounds strange to say again now in the context, but it will happen again in the future and voila.

So for me, yes, VSOP not repricing but positioning versus VS today is in fact a good thing. It's been painful more than what we anticipated for sure. It has driven more cost savings than what we anticipated to protect pricing. But last but not least, I also believe that consistency in pricing is a way of ANP because it's contributed to brand contributing to brand equity in the long run. When you're a client and you see your prices changing, you end up losing trust. I think that this price consistency is a way also to contribute to the equity of the VSOP.

So that's my view today, of course, very US driven, but a big share of the volume of VSOP is made in the US. By the way, just to say on the US also, sorry, just to make sure everything I said is well understood. So we do see signs of recovery, stabilization and so on. It's very early signs as to the timing. It's hard to say. And as Luca said, you have sell-in and you have depletions, and the sell-in will remain tough for Q3. As you explained, Luca, Q4 will be much better. Depletions, voila. October was quite encouraging. Let's see how it goes through the rest of the year. But indeed, these are early signs, but they are there.

Luca Marotta: I will take the end of the second question. So Laurence, we try to answer you in three different ways. First point, we don't have the same figures, probably because the starting point is 1.3 inventories against two. So it is 60% on the double. I get the provocation of your question, but it is more the proportion of the inventories that I think your question needs to be posed. But maybe we will disagree on that. And I'm not adding any insult to the injury on that please. So I disagree on the figures, but the movement is clearly increasing. It is not something that is new. It's not something that came out of the standard.

If you consider the off balance sheet commitment that represents the engagement we have in buying OTV, with the long-term contract we have with our vineyards that represent the seriousness of the company, and which is much more important than one quarter or two quarters of negative figures. It is important to stick with that. So our commitment for the future stands. Clearly, the context needs to be considered, and it is already visible. We switched, for instance, two years ago from a working capital ODB variation of negative one because we increasing supplying for the future of 150 million to 110 and 100 this year to 110. So every year reducing for 40 million is an impact. But what is the ideal coverage in terms of internal inventories compared to the Selena[?], it cannot be evaluated for a cyclical industry like cognac in a specific in a specific period analysis, so need to be evaluated over time.

What I remember in 2001 and 2002 that after two quarters at plus 40 plus 50% of depletion, we were running out of stock. So the part of your question which is important is what is the spectrum inside the inventories in terms of age? Does it fit with our mid-term or short-term expectation? Was less fitting two years ago because we are short of young. So now with the VSOP right sizing that we don't like it. But in terms of the footprint of the eaux de vie, it's

something that's much more balancing that. So this specific, if you want to take it in a financial way, increase of working capital, which is hitting the return of invested capital momentarily is something that we can consider very strategic, much more strategic of the loss of €1 million on a given freestanding store for a luxury brand that accepts to have in the short term. This is quite the same thing. They are losses. They are strategic investment for the future and the most important one for us so far, and we are really convinced on that, is investing in serious building of stock for the future, for the recovery, not betraying our DNA and not betraying our engagement. We might be adjusted, but we are not betraying our soul.

Laurence Whyatt (Barclays): Very clear. Thank you very much.

Operator: Thank you. And our final question for today is coming from Trevor Stirling of Bernstein. Please go ahead.

Trevor Stirling (Bernstein): Good morning, everyone. Two questions from my side. One, just looking at Q3 and Q4, Éric and Luca, you emphasize that the sell-in is going to be negative because of the comps? But if I look at the October Nadca, as you say, it's very encouraging. You could almost dream that depletions might be flat in Q3 based on what you've seen in November. Is that a ridiculous dream or that's something that is a possibility?

And the second question, just digging in a little bit more to the margin compression in H2 that's implied in your guidance. Is that all coming from increased ANP or are there other factors at play in terms of that. And I suppose that increased ANP. I think, Éric, you said a lot of it's going to go into BTL. Does that imply also some price promotion element of that BTL?

Luca Marotta: I'll get the second one in a combined base. The first one, you start with the first one.

Éric Vallat: Okay. Then if you want, you can start.

Luca Marotta: I'll start with the second one. So H2, a bit driven by ANP, but much, much more by overrides weight compared to the turnover. Today we are -16, -15 to -18 a year. So more or less with a very negative Q3 and a less negative Q4. So different phasing for the second part of the year. Top line, you can see it is more or less the same of the first part of the year. Overall, a group level but overhead saving has already hit. So far the base for the H1, so compared to the lower turnover when you consider the second part of the year meaning it means that the overheads all overheads combined in terms of weight, brand cost, distribution cost, holding cost, holding support cost will be more or less 30%.

So the main drivers of the profitability shift, mathematically speaking, we are talking of 16%, 17% in H2. If you combine that to H2 2022, it is driven by the weight of the overheads because of the technical element I explained before and because I was one point, as Ed was highlighting, we cannot cut more than nails. We don't want to cut. This is the first point. The second point, I will start and then Éric will end with the depletion part. The phasing of the second part of the year. Q3 is expected to be selling basis top line. By far the worst quarter of the year, worse than the H1. This is due to very high comps in the US. If you remember, last year was a boom in the Q3 because a big part of the turnover for the open state for one of the major wholesalers was concentrated in this part of the second part of the year. So huge, huge columns.

And it's true, we have some highlight positively overall on October, specifically on [inaudible], but contrast is not a big part of our footprint. November also for calendar reason with Thanksgiving shift is a bit more moderate compared to October. So overall, as an assumption, we cannot commit that we will be back to positive land. We think that will be starting from Q4 selling also depletion will be more positive element. I continue on the selling basis and then I give the mic to Éric.

Sequential deterioration Q2 to Q3 in China. China is better in this moment in depletion than selling because of lack of confidence, because also Chinese New Year is entering, even if with a very healthy level of stock, their wait and see attitude and MOFCOM is not waiting on our result for this year in terms of impact. Is waiting in terms of confidence, is waiting in terms of attitude of the wholesaler the indirect part of business in China to take some additional stock because they wait and see, and I can understand that. Does it mean that can be different in the short term? Difficult can be a bit different in Q4. But remember issue of depletion and sales depletion, mainly comp in the Q4, the reverse of US.

Remaining part of the world, GTR and Europe and the rest of the world should improve sequentially, is less negative than the other, but is far more unpredictable and far more leopard[?] in terms of positive and negative results oriented than the remaining part. So I repeat, part of the sell-in global yearly guidance is linked to the very by far negative Q3. Q4, better. How much? Between 15 and 18. That's the reason why of the quite a large fork. Bottom line, we are concerned less, otherwise I will shoot with Éric a more a larger fork on the bottom line 21 to 22. We are committed on that. I don't know, Éric?

Éric Vallat: Not much to add. Now, you've said it all. Almost. Luca, just maybe to comment on your we can dream of positive depletions. First, we can always dream, which is good. Second, to give you some color, we start seeing some positive month and then a negative one. If you look, for instance, at October. Indeed, it's quite encouraging. November, because of Thanksgiving being later and one day less will be more in a negative territory. But we expect December to be rather good. So that's why I'm saying it's too early to say that we are back to positive depletions. But it could be in the coming months that the challenge is more on sell-in than on sell out. It could be that it starts balancing differently, which I wouldn't take as bad news, but it's probably a bit too early to be very affirmative there.

Trevor Stirling (Bernstein): Fully understood, Éric.

Operator: Thank you. And with that, I'd like to hand the call back over to the management for any additional or closing remarks.

Éric Vallat: I'm told not to say anything, but I'm going to just say a few words. Now, just first to wish a Happy Thanksgiving to the potential American friends, if any. Now just to say, as you have understood, I think the semester shows a strong resilience of our profitability, which is the consequence of two years of continued work and optimization indeed, and as you can see as well, we expect a rather tough second semester, driven more particularly by Q3 in sales. But there are some encouraging signs. Let's wait for more color in the coming months. It's too early to claim for a recovery, but at least probably at the beginning of a stabilization. Thank you very much, and have a good day. Bye bye.

Operator: Thank you for joining today's call. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]