RÉMY COINTREAU

Q3 Sales 2024-25

Wednesday, 29th January 2025

Transcript produced by Global Lingo
London – 020 7870 7100
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Q3 Sales 2024-25

Operator: Hello and welcome to the Remy Quarter Three Cointreau Sales 24/25. My name is Caroline, and I will be your coordinator for today's event.

Please note this call is being recorded and for the duration of the call your lines will be on listen-only mode. However, you will have an opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your questions.

We kindly request you to limit the number of questions to two per person. If you require assistance at any point, please press star zero, and you will be connected to an operator.

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

Thank you.

Luca Marotta: Good morning, everyone. Thank you for joining us today. As highlighted in our press release, Q3 sales declined by 21.5% organically. This performance reflects several key factors. First, high comparison and ongoing destocking in the US, despite a slight sequential improvement in volume depletion from Q2 to Q3. Second, challenging market condition in China in APAC Travel Retail.

Third, a significant sequential improvement in the rest of the world, including Europe and the rest of Asia, which returned to growth in Q3. And fourth, last but not least, a positive calendar effect linked to Chinese New Year, which is earlier this year, more or less 1.5 points in Q3 at Group level, representing in absolute value around €5 million.

So far, trends for Chinese New Year are soft, but slightly better than our initial expectation.

Q3 sales decline is broken down as follows. Volume decreased of -13.8% and -7.7% of price-mix effects, largely driven by the underperformance of high-end brands. Lastly, the cost-cutting plan is progressing well in line with our roadmap highlighted some months ago.

Looking at the overall sales performance by region, Americas has recorded very strong double-digit decline over the nine-month period, primarily due to, first of all, high base of comparison, as you remember, most of the H2 US shipment occurred in Q3 last year. Second point, a continued destocking, although volume depletion showed slight sequential improvement, but still in negative lands.

APAC sales decreased by high single-digit over the nine months due to tougher market conditions in China. Conversely, rest of Asia showed strong improvement and returned to growth in Q3, led by Liqueurs & Spirits. Always regionally speaking, EMEA declined by low-double-digit in nine months, but showed a sharp recovery in the last quarter in Q3.

This was driven by Liqueurs & Spirits returning to positive territory and a reduced decline in Cognac division. This was sell-in shipment. In terms of the best approximation of sell-out, so value depletion at Group level over the past nine months, in the US, value depletion declined by mid-teens year-on-year in nine months, including a high single-digit volume drop.

Compared to pre-COVID, nine-month value depletion are down low-single-digit, but out of VSOP, excluding VSOP, increased by around 40% in value.

In China, value depletion were flat year-on-year in nine months, but grew, so increasing by mid-single-digit in Q3. On a five-year basis, nine-month value depletion in China increased by over 20%.

In EMEA, value depletion decreased by mid-single-digit year-on-year, but grew, increased by mid-single-digit in the last quarter. Excluding Russia, to be a bit comparable, geographically speaking, nine-month value depletion are up mid-single-digit in Europe compared to preCOVID levels. So, what we can say, making the global analysis, that overall, Group value depletion fell by high single-digit year-on-year, more or less -8%, over the nine months, outperforming clearly sell-in trends with others, -17.8%. And on a five-year basis, value depletion grew by low-single-digit, a little bit less than 2%, exceeding sell-in trends that are overall negative over five years of around -4%, -3.9%.

So, the message is that thanks also to what's happening in the last quarter, last month, we are performing better in the last part of the chain, the more we are near to the consumer, compared to the sell-in. So still destocking, but if there is no spark in a clear way visible, we are starting to have some – to bear some fruits in terms of depletion, value depletion dynamics.

To conclude on this very first slide, we reconfirm our full-year guidance for both top line and bottom line. Based on our nine-month sales performance, we expect to reach the lower end of the sales guidance range, i.e., close to -18% in organic terms.

On slide three to five, I'd like to, as usual, briefly highlight some of the key marketing initiatives undertaken during the quarter.

Slide three, let's look at what happened in November in Vegas. We relaunched our Louis XIII pop-up store during the Formula One Ultimate Race at Wynn, Las Vegas. This retail activation showcased a wide range of Louis XIII offerings, including the Iconic Collection, Drop Collection, and Rare Cask.

We also provided exclusive accessories and personalisation services, which resonated well with our target audience. These initiatives delivered impressive results, with double-digit sales growth exceeding our initial projection expectation. While the financial contribution to overall US sales is modest in absolute value, this activation remains a very powerful tool to strengthen Louis XIII brand equity and reinforce its premium positioning in this very important market.

Turning to page number four, let's discuss China, with a focus on e-commerce, one of our most strategic direct channels. Despite the challenging marketing environment, e-commerce continues in China to perform strongly, with sales growth of plus 10%, more or less, during this quarter. This was driven by key activation during Double 11, 11 November Festival, and Super Brand Day, held on 18 December.

Both campaigns were hosted on our flagship platforms, in Tmall and JD.com, leveraging innovative live-streaming from the Remy Martin House pop-up store in Shenzhen. This pop-up, strategically located at the Shenzhen Bay Opera House, celebrated our 300-year heritage and bridged the gap between our roots in Cognac and our ever-growing presence in China. The fourth boosted our e-commerce performance, and both special occasions, Super Brand Day, Double 11, recorded a double-digit growth compared to the previous year.

So once again, I repeat, every time, and clearly, in China, we are in direct touch with the final consumer, we continue to perform in a very positive way.

Lastly on slide, number five, I'd like to touch base on Metaxa, which is our Greek brand, which achieved outstanding results in the quarter, in the last quarter, particularly in the EMEA region, which is a very important region for this brand, where sales grew by over 20%, two-zero. This success reflects the team's effort to rejuvenate the brand, attracting a younger demographic while at the same time elevating the portfolio of this specific brand.

An example is the launch of 12 Stars Zeus, the first-ever limited edition of the 12 Stars range. Released in September, this exclusive product saw more or less 50,000 bottles distributed across key markets, such as Poland, the UK, Greece, and the Czech Republic.

Now let's turn to slide number six, back to figures.

Nine-month sales amounted to €787.8 million, representing a year-on-year decline of more or less €170 million, €168.9 million, to be precise, or -€17.7 million on a reported basis. This performance was shaped by the following factors. First of all, strong organic decline of €117.1 million, i.e., -€17.8 million of organic sales decrease, performance split between -€13.6 million of negative volume effect and -€4.2 million of price-mix. So, price-mix is negative in nine months. And why? Result from a slight negative pricing effect, and more substantially by low to mid-single-digit negative mix effect.

Why? Linked to the underperformance of the end product and, to a lesser extent but clearly important, the Cognac division. We still are mainly a cognac company. So, if we are growing more in Liqueurs & Spirits for the dynamics conversation, in the end specifically, is bad compared to the Cognac growth.

Second, we recorded a slight positive currency translation impact of €1.3 million, so positive one, or a €0.1 million gain for the nine months, the first since a while in terms of conversion. This gain was mainly driven by the improvement of British pound, more or less €1 million, and US dollar for the same amount.

However, this gain was partially offset by negative impact from the Japanese yen, more €0.5 million, and Chinese RMB for the same magnitude in terms of absolute value.

Then number seven, an important slide, we provide a breakdown of performance by division, as always, compared to the nine months of the pre-pandemic, so 2019-20. And you can read this spreadsheet, but I'll summarise the key triggering points, the key highlights.

In a nutshell, Cognac volumes declined significantly in the current US environment, clearly, although price-mix effects remained very strong over five years. Overall, total sales, Cognac sales were down 16.3% versus pre-COVID, while value depletion was slightly better, declining by a low-double-digit. At the same time, we have the opposite effect, Liqueurs & Spirits division sales showed a significant growth of 34.7% compared to pre-COVID, driven, and this is very interesting, both by volume and price-mix. Sales are below the value depletion trends, which grew by over 40% over the same period. The trends we highlighted for the short term are also visible and accountable for the comparison to five years. So, and we'll be back to that in the Q&A, I'm sure, when we talk about stock; don't forget, absolute value of stock are lower than five years ago, are lower.

At Group level, these figures reveal a divergence, a difference between sell-in, -3.9%, and value depletion are slightly up, -2%, emphasising, so I re-ask this concept, I admit the better resilience of the end market demand, compared to nine months cumulative end of 19/20, five years ago.

Now, digging more analytically on the organic trend by region, at Group level, let's start with APAC. APAC, nine months organic sales declined by a high single-digit year-on-year, but increased by around 20%, two-zero, on a five-year basis.

In terms of volume value equation dynamics, year-on-year performance was only impacted by the value component, driven by the underperformance of high-end brands and ranges. In China, sales were down low-double-digit in Q3, amid a challenging market condition, tougher market condition, particularly for the high-end segment. However, as already highlighted, direct channels were more than 45% of sales in the last quarter, and, if you consider the nine months, more than one-third, more than 30%.

And this channel proved to be resilient, rising by strong double-digit e-commerce, 10% in the quarter, supported by Double 11 and Super Brand events. And as a consequence, e-commerce penetration for China, reached nearly 30%, three-zero, sales by the end of December, nine months; but considering only the quarter, the overperformance is clearly visible, plus 10% on a negative, it was around 40%. Beyond the decline, so in a correlative way, of the undirected channels, overall performance was also affected, negatively speaking, by the continuing weakness of the Hong Kong market, and softer trends in APAC Travel Retail, where travellers have returned, but are spending less.

This was sell-in. On a more positive note, value depletion in China, showed encouraging and the other way around trends up mid-single-digit in the last quarter, bringing the nine-month performance to almost flat value. On five-year basis, nine-month value depletion increased by more than 20%.

Even the stronger resilience of depletion compared to sell-in, inventory levels remained in China, in APAC generally healthy, at the end of December. Elsewhere in the region, so out of China, and Travel Retail APAC, rest of Asia returned to growth in the last quarter, increasing by low-single-digit, primarily driven by Australia and New Zealand, with strong performance in Liqueurs & Spirits. Admittedly, it was time to do that, they were not responding positively since a while, so they are more than welcome.

By the end of December 2024, APAC region accounted for 42% of our Group sales, four points more than the previous year. Second region by importance at Group level, is the Americas, in which nine-month organic sales declined by very strong double-digit, and, compared to five years ago, is the opposite of APAC, it's more or less -20%. Year-on-year performance included very strong double-digit negative volume effect, and mid-single-digit negative price mis impact. Why? Is more reflecting an affordable mix of products, use, states, and format.

In the US, inside the Americas, sales declined by very strong double-digit in Q3, driven by two factors. First, extremely high comparables, the majority of H2 shipment in the US last year were concentrated in the Q3, and second point, another round of destocking due to continued weakness in value depletion, down mid-teens year-on-year for nine months, equivalent to a low-single-digit decline on a five-year basis, but plus 40% when we exclude VSOP.

This performance in the quarter, this partial catch up and sequential improvement, was clearly driven by the non-cognac brands. In this context, inventory levels in the US stood slightly below if you want to shoot a number of five months by the end of Q3, but, as I said, not the same absolute value as five years ago. In Canada, sales experienced a sharp decline in Q3, while Latin America, the opposite, recorded strong double-digit growth supported by Cognac and Liqueurs & Spirits.

There again was too bad quarters before, so they were more than welcome. By the end of December 2024, Americas accounted for 35% of our Group sales, down five points year-on-year.

Finally, in a big Europe region, EMEA, nine-month organic sales were down by low-double-digit, and around 5% versus five years ago, reflecting primarily a negative volume effect.

But EMEA is a big region, so we have to dig in a bit more on the sub-clusters. So third-party distributor cluster achieved mid-single-digit sales growth in the quarter, led by Germany, Czech Republic, and Poland. At the same time, sell-out trends turned positive, driven, as already highlighted, by Metaxa.

UK and Nordics sales rose by low-double-digit in the quarter, benefiting from favourable comparables and market share gains due to a robust, solid activation plan during OND, October, November, December. Benelux and France, the opposite, Q3 sales declined mid-teens, impacted by competitive promotional pressure in Cognac, and persistently sub-trends in Liqueurs & Spirits.

Last but not least, in AMEI CIS, ex-CIS, not Russia, clearly, we don't sell in Russia, sales fell by low-single-digit in the quarter, reflecting continued destocking and very intense promotional activity, particularly in South Africa, where the market remains, as you know, heavily focused on VS, a category in which we are not playing.

Over the nine-month period, value depletion in the region, so not sell-in but the best approach of sell-out, declined by mid-single digit but improved by mid-single digit in the quarter, so a change of rhythm. On a five-year basis, excluding Russia, nine-month value depletion would increase by mid-single digit, boosted by Liqueurs & Spirits. Overall, inventory levels remain healthy across most areas.

End of December, the EMEA region accounted for 23% of Group sales, up one point compared to the previous year. So, plus four APAC, plus one EMEA, minus five points Americas.

Let's now turn to slide nine and analyse by division, starting with Cognac.

Cognac division posted a nine-month organic sales decline of -19%, driven by a minus 14.7% drop in volume and a negative price-mix of 4.3%. End of December 2024, Cognac accounted for 63%, so a little bit less than two-thirds of our sales, down one point compared to the previous year.

Let's start with APAC. APAC, inside APAC, mainly in China, sales declined by low-double-digit in Q3, impacted by challenging market conditions in the domestic market, and softer trends in Travel Retail APAC.

As already said, announced, indirect wholesalers and not directly in touch with consumer channels were the most affected, due to continued cash flow pressure, waiving on wholesaler confidence and their ability to place orders and carry stock. This was further influenced by the transition in Louis XIII business model. As a reminder, we are significantly reducing, and we had already, the number of wholesalers a few months ago, a few, more or less one year, to retain only those meeting specific requirements, increasing the direct touch with the consumer.

On the other hand, direct channels performed robustly, including e-commerce, Louis XIII direct freestanding stores, e-boutiques, and PCDs. Talking about ranges and brands, Club, Remy Club, demonstrated greater resilience with value depletion up 20% in value in the quarter, at almost 100%, so double on a five-year basis, while at the same time high-end brands remained impacted by a bit of "luxury shaming".

Elsewhere, as said, Hong Kong underperformed, Taiwan and Macau delivered growth – we are happy with that – strong growth in both sell-in and depletion in the quarter. Overall, despite very challenging tough context, value depletions for cognac in APAC and Q3 rose by a single digit year-on-year, bringing in the nine-month performance in China to almost flat in value. On a five-year basis, I repeat, this is equivalent to more or less 20% both in the quarter and the year-to-date in a month in China for Cognac.

In the rest of Asia, Cognac sales declined by a mid-to-high-single-digit in Q3, with Japan, Malaysia, and Singapore facing strong competitive pressure from the promotional environment and softer trends in China's tourism, as already highlighted.

Second region in terms of weight considering Cognac is Americas. Let's start with North America, so US combined with Canada. Cognac sales fell by very strong double-digit in Q3, affected by high comparables and continued stocking due to depletion that are improving sequentially but still in negative land, considering a softer comparison. So, the absolute values are not yet meeting the expectation. It's going better, but not yet the expectation.

Q3 US value depletion declined by mid-teens year-on-year, with contrasting trends control states. Control states outperformed, with volumes almost flat. And VSOP returned to positive growth.

It's important. Control states are always, considering the low stock, a first indicator of what's really happening in the market. So, we consider that good news.

Open states, conversely, were more significantly impacted, and more by negative clearly, and clearly mostly by Illinois and New York. Given these factors, Cognac inventory coverage was slightly below five months at the end of the quarter. And if we consider the 12 months of rolling value depletion, we have two points of negative price-mix effect in December. But on a five-year basis, price-mix remains up 13 points on Cognac in terms of value depletion.

In Latin America, sales rose by a very strong double-digit in the quarter, driven by strong performance in Mexico, Central America, Caribbean, and particularly for Remy VSOP and XO. So, more than welcome.

Third region by weight in Cognac is EMEA, where Cognac sales declined by a low-single-digit in Q3, mainly due to intense promotional competition across most markets. UK returned to growth, up strong double-digit, supported clearly by favourable comparables, and the success of new activation plan implemented a few months ago.

And sub-cluster European third-party distributor performance was negatively impacted by Germany, destocking in Czech Republic, following a distributor change at the beginning of the year, and weakness in Austria. In Africa, EMEA sales declined by a mid-single-digit in the market, essentially driven, as said by VS, a category, a championship in which we are not playing. Lastly, EMEA value depletion, so best approach to sell-out, outperformed sell-in for Cognac, and returned to growth, up low to mid-single-digit during the quarter, but still very negative on a five-year basis.

This was the analysis, the cross-analysis of Cognac division, digging into the three regions. Let's do the same thing on Liqueurs & Spirits, which was clearly more dynamic in the quarter.

Liqueurs & Spirits division reported a -14.9% organic sales decline in nine months, driven by a strong volume decrease of -12.2%, and a negative price-mix effect of only 2.7%. By the end of December, Liqueurs & Spirits division accounted for 35% of our sales, up one point compared to the previous year.

What happens by region? Let's start with the first one in terms of weight, the Americas. In North America, sales were down very strong double-digit in the quarter, primarily due to a very challenging base of comparison and increased caution from wholesalers aiming to optimise inventory levels in a slowing market.

Despite these challenges, underlying trends showed strong resilience with sequential acceleration. Cointreau's Q3, US value depletion was up high-single-digit year-on-year, and more or less 80% more than Q3 19/20, 80%. Almost double.

Botanists and Bruichladdich delivered strong growth year-on-year at plus 10%, plus 20%, respectively. So, on a five-year basis, we are talking plus 90% in the first case, plus 50%. And on top, price-mix was flat compared to last year for the 12-month period ending December '24 but increased in terms of value depletion by around 20 points, 19 on a five-year basis. In Latin America, sales rose by very strong double-digit in Q3, driven by Cointreau's strong performance in Puerto Rico, Mexico, and Brazil.

Second region by weight is EMEA for Liqueurs & Spirits, where sales increased by mid-single-digit in the quarter, showing a strong sequential improvement from Q2, led by the UK, Germany, Poland, Italy. Value depletions were in line with sell-in, so growing, accelerating to mid-single-digit year-on-year in Q3. It's more or less plus 30% compared to five years ago.

Breaking sales down further, UK posted a strong sequential acceleration, low-double-digit in Q3. Same reason for Cognac, easy comps, a strong success of OND, October, November, December activation plan across key brands for Liqueurs & Spirits as well, but mainly Cointreau, St-Remy, Botanist, Mount Gay, and Telmont Champagne. And in parallel, Europe's third-party sub-cluster sales increased by mid-teens in sales, so very strong growth for Liqueurs & Spirits, boosted by strong performance from Metaxa, Germany and Poland, Cointreau and St-Remy.

Third region by weight for the Liqueurs & Spirits, APAC.

Inside APAC, let's start with China, where sales grew by mid-teens in Q3, driven by Cointreau and some positive phasing effects on Bruichladdich. Overall, Q3 value depletion was strongly positive year-on-year on Cointreau and on The Botanist, but still under pressure on Bruichladdich, which is in line with the whisky category dynamics in China, most prestigious qualities of whisky. Overall, Q3 Liqueurs & Spirits China value depletion were down mid-single-digit year-on-year, but up more than 40% on a five-year basis, bringing the nine-month performance to flat year-on-year and sturdy compared to five years ago.

Rest of Asia for Liqueurs & Spirits were up mid-teens in the Q3, led, as said, by recovery in key markets like Australia, partially New Zealand. In Japan, sales were more impacted by negative phasing effects related to whisky. But Telmont showed a solid momentum on Telmont Champagne.

So, we are missing 2% of the Group sales. They are non-Group brands. They are representing 2% as said of the Group sales, stable year-on-year.

They recorded, saw a decline of -26.5% in nine months and -26.7% compared to five years ago at the same period.

To conclude on slide number 11, and then I'll give you the mic for the Q&A, I would like to confirm the guidance.

Slide number 11. Basically, for this year, we expect sales, shipment, top line of our P&L to decline organically between 15% and 18%. Given our sales performance over the first nine months of the year, the Group expects its full-year performance to be at the lower end of the range. So, closer to -18% on organic basis.

And what about the bottom line? We expect to land between 21% and 22% of operating profit margin in organic terms. Based on recent evolution of our main currencies, the Group now expects FX rates to have a positive impact for the full year, both in sales and operating profit.

So, we are changing, we are updating the guidance in absolute value. In terms of top line, we will be positive between €2-5 million, thanks to the H2, as you witnessed in the Q3, it's visible. And positive between €5-10 million on operating profit, primarily accounting in H1.

As already said, these 24/25 guidance, top and bottom line, takes into account the recent most common decision based on the information that we have as per today. The impact for P&L is marginal for this fiscal year. And last but not least, we reconfirm our 29/30 midterm guidance.

Thank you for your attention. Now, I'll be very happy to answer to your question.

Questions and Answers

Operator: Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. We kindly request you to limit the number of questions to two per person.

We will take the first question from line Edward Mundy from Jefferies. The line is open now. Please go ahead.

Edward Mundy (Jefferies): Morning, Luca. Thanks for taking the question. I've got two questions, both around sparks.

So, I know we can see that the sell-out trends are better than the sell-in trends, and you're talking to inventories being healthy across EMEA and Asia and getting on the right track within the US. But if we take both China and the US and talk about sparks, you saw value depletions up mid-single digits in the third quarter. Could you perhaps talk about what's behind that, and to what extent do you think that's sustainable is the first question. And then the second question is on the US, where you're talking about some improved performance in certain states, but the open state is still being quite tricky. Do you think that also constitutes a spark, and are you seeing any green shoots in the US on Cognac?

Luca Marotta: Thanks for your question. So, I will use your question to explain in a bit wider way what's happening in terms of current trading in China and the US. So, maybe it would be helpful for everybody more globally.

So, what's happening in this moment in China? In the Q3, the sales were down low-double-digit. At the same time, depletion were up mid-single, clearly with a very strong performance of direct channels like e-commerce and in terms of products like Club. While the indirect channel was suffering because there is less confidence and cash, and the high end portfolio was also suffering as well. Liqueurs & Spirits, mainly Cointreau and partially some specific skews of Bruichladdich, more phasing effect, outperformed.

It is an interesting point of diversification, but in terms of absolute value, as you highlighted, China global performance and China Cognac performance gives the same figures. So, China is still all about Cognac.

Value depletion in China outperforms sell-in. So, the question is, why? Consumers are more active than intermediate layers. Consumers, so far, are still liking our product. Consumers are more dynamic than our direct partners. Why that? Because they are sleeping now, because of cash pressure and there is a foggy environment with a lot of macroeconomic and macropolitical elements that are weighing on that.

So, to be a bit more precise, so, by channel, I repeat, which we show the performance in the quarter that we never achieved before. 45% of sales. Think also to the weakness of the global denominator, but 45% is most of 50%, and we are not supposed to be a direct brand. So, it's something which is very positive for our relationship with the consumer, also for the P&L, because we can have a fixed cost, and we have increased the brand awareness.

Clearly, e-commerce continues to hammer that, and boutique, our freestanding store, accelerated, generated strong growth. PCD also, where more complicated, are catching up. And what does it mean? PCD are there to sell the highest brand, the highest ranking, which has suffered. They are suffering globally.

So, inside the global negative figures, there is some positive element. I will not call it a spark in terms of dynamics on the quantitative footprint, but they are positive. On the negative side, indirect channels underperform, impacted by cash flow pressures and the global environment.

They are waving more on the enthusiasm and the dynamics compared to the figures. If we remain to stick to figures, we should have better performance in the Q4. And as you will see, and I will highlight later, Q4 will be a very negative quarter for China.

Off-trade was impacted by a soft start in banquets, due to the high peers' promotion on XO. And at the same time, on-trade was better than the past, more dynamic, but still a very small basis. We were 5% and we are 10%.

And important things that we need to highlight in the quantitative basis is that, to give also the sense of what's happening, that's weighing in terms of confidence, softer sell-in is due also to some collateral anti-dumping investigation effects. Not only rational. Difficult to understand the rationale behind that, but this is the way it is. So, Cognac category, for instance, in duty-free, so now, is not allowed to refuel duty-free channels. So, I don't know why. That's the way it is. And something that it is linked as a collateral impact of the investigation, anti-dumping investigation effects. This wasn't clearly manageable for us in the Q3, also for peers that have a lot of stocks, more than us.

But we should see a catch-up in Q4, if the situation normalises. But nobody knows. My message is that the anti-investigation have also some hidden impact on the dynamics of the next future.

I cannot measure this potential and negative effects of this decision last in Q4. I only wanted to share with you this point because it was not clearly highlighted so far in the market. There are some collateral impacts of the anti-investigation – anti-dumping investigation effect that are starting to weigh on the duty-free. It is important to say it.

Coming back to brands in China as well, Club was hammering, plus 20% in Q3 and almost 100% of their bases, more complicated on the high-end and very good performance of Liqueurs & Spirits. And to end this very long and articulated answer on China, giving also some additional hint that I think you don't have it, let's talk a bit of Chinese New Year.

Today, it's today, the year of the snake of wood, which is my year. I was born in 1965, the same year. Chinese New Year is early, 29 January, compared to 10 February. This way, in technical calendar, increasing the Q3 for €5 million. Last year was negative for €8 million. So, this is part of the answer to the Q4. You have a reverse effect. Last year, we had a positive impact on the Q4 for China, €8 million. This year will be negative for €5 million.

So, it's €13 million. I know that I'm talking small figures for our peers, but we are a smaller company. So, €13 million, at our scale, it's wave.

This technical calendar effect of €5 million will impact a Group level 1.5% on the quarter in Q3, 4.5 points for APAC, and 2.5 for the Cognac. We can qualify the Chinese New Year so far as correct, a bit soft overall, but better than expected, and up. So growing compared to last year in depletion, sell-out so far.

So if we are breaking down, analysing the performance of the Chinese New Year refurbishment and sell-in scores, the more we are going to tier-2 and the retailer, the more the performance is positive compared to last year, witnessing the fact that the first layer, the tier-1, are more concerned by global situation and have a cash pressure limiting the stock. But it's clearly the situation which is far better than what we experienced in the US in the last two years. In China, what we are saying is we are performing better and on a constant basis in depletion and sell-out compared to the sell-in.

So, the restocking or sell-in dynamics will be facilitated by that. This is, I think, a nice transition to the second question. What is the current trading? What's happening now in the US?

In the US, Q3 sales were down very strong double-digit, while value depletions were down more or less -10% year-on-year and mid-single-digit of five years. This was an improvement. The nine-month sales were down very strong double-digit, value depletion down mid-teens because there is a catch-up, but still negative.

Let's look at the positive thing before the negative one. Value depletion outperformed was better than sell-in. Why? High comps in sell-in. Last year, we invoiced more or less the big part of the H2 and Q3 and continued destocking. On a sub-channel point of view, before states, retail chains are now overperforming the independent stores.

This can show that big chains and retailers seem to finalise their stocking, while this is still ongoing for independent stores, where we are the most exposed. So that's negative for us. At the same time, it's positive, because the final dynamics of the retail chain is more than independent.

But for independent, we were always a treasure for Remy Cointreau. And we always said that we are not witnessing accounting debt in a correct way. We are a bit late in terms of performance, so the stocking is still waiting on them.

Then, switching the analysis by states in terms of depletion, more than sell-in, we have, let's start with the positive, some positive signs. Control States outperformed, with volumes almost flat driven by Michigan and Pennsylvania. So big states, top five.

VSOP returned to growth in volume in Q3. It's positive. So, okay, still very far from five years ago, but it's part of the strategy.

On the negative side, open states were more negative, impacted by two important states, Illinois and New York. While slightly positive, Florida and California returned to growth in Q3 in volume. Not at the same time in value, but in volume.

So, different performance that are contributing to the sequential improvement. Even if this positive element are not yet qualifying for a spark. There is an improvement, but there is no fire. It's still cold.

Focus Cognac. Like, what happens specifically for the Cognac, because now we need to split in the US. Because the car of Liqueurs & Spirits and Cointreau is going faster than Cognac. So, we need to be more analytical, I think. Let's talk about Cognac in the US. Sell-in was strong – was down strong double-digit in the quarter, affected clearly high comps and destocking. But Q3 value depletion declined by mid-teens year-on-year, with contrasting trends across states.

So, the -10% is more driven by Liqueurs & Spirits's overperformance than Cognac. And it is something which is a touch more negative than positive. Also, for the P&L in the future. So, given this factor, Cognac inventory coverage is more or less slightly below, slightly bigger than five months, has not moved. But in absolute value, is far lower than five years ago.

On the positive side, sorry for this long answer, but it's important to give you the whole picture, because otherwise you will not understand why we are saying that we are beating in sell-out our sell-in, and we are now at the bottom of the range. So, we are sending, if we do not explain, counterintuitive messages to you. So, we need to explain why we are more cautious for the Q4.

For Liqueurs & Spirits, sell-in were down very strong double-digit in Q3, due to very challenging base of comparison, and increased caution from wholesaler, aiming to optimise inventory in a slowing market.

And I repeat what I said two calls ago. Cognac is so important in the US, is overshadowing a bit also the mechanics of Liqueurs & Spirits, and sometimes also Cointreau. So, the wholesaler footprint is sometimes a little bit too classified, and they do not enter in the analytics details of the reordering pattern they should be.

Despite these challenging underlying trends showed stronger resilience with sequential acceleration. Starting with Cointreau. Cointreau Q3 US depletions were up high-single-digit, up high-single, and plus 80% compared to five years ago.

Botanist and Bruichladdich as well, very strong. Clearly, helped also by some new point of sales compared to five years ago. But the velocity also is positive as well.

In a nutshell, to answer in a very long way to your question, there was no spark yet, but the slight sequential improvement of the overall meteorological situation. Is this enough? No. Less than our expectation. So that is why we are cautious guiding for the end of the year, remaining on the range.

So we are still in the same guidance, where we precise in terms of sell-in, we are more at -18% on top line. And bottom line, if there were a question, a concern, so we answer, it is between 21% and 22%. And we will see during the quarter, which is crucial to determine the final balance of the profitability as well. That's the reason why you have this answer, Q4 would be important.

Sorry, Ed. I was more than long, more than Mediterranean and Latin in my answer. I'm clearly not straight to the point in Anglo-Saxon way, but if you analyse the call, you will find a lot of useful information.

Edward Mundy: Thanks, Luca. Appreciate the colour.

Operator: Thank you. We will take the next question from line Laurence Whyatt from Barclays The line is open now. Please go ahead.

Laurence Whyatt (Barclays): Morning, Luca. Thanks very much for the opportunity to ask questions. A couple for me, please.

On your guidance around Americas, you're talking around no recovery before Q4 24/25, which presumably is the quarter we are in. Just on that, have you seen much change in January with regards to being able to hit that recovery in this quarter? But also, in context of the comments coming in from LVMH last night, they're not really expecting much of an improvement in the Wine and Spirits division for the next couple of years, or they're giving it two years to see a recovery.

It seems to us that the impact that you're facing is due to the promotional activity coming in from Hennessy in the US in particular and just wondering if you think that recovery could be happening in this quarter, given what they seem to be doing on their pricing.

And then secondly, similarly on the promotional environment, are you seeing any change in promotional environment in China, whether that's in – from different brands, different companies, or different price points? Are some areas of the Cognac business in China being promoted more heavily or less heavily than others?

Thank you very much.

Luca Marotta: Thank you so much for your question. So, for the US specifically, for the full-year in sales, we are expecting in top line in sales a strong double-digit, so the worst regional performance, showing a slight sequential improvement in H2 versus H1. Q4 sell-in should be back to growth, driven by very easy comps and dynamics of Liqueurs & Spirits.

In terms of depletion, we should see a continuing improvement yearly, and to be at best flat in Q4 in volume at least. In terms of run-rate, what's happening in January, we are fitting with the hypothesis so far, we are more or less flattish in volume, but it is only the situation we had some days ago.

We see the final channel and clear influence by control states. It will be the same in Q4? We hope so.

It will be enough to change our guidance? No, because as explained, there's sequential improvement, more in volumes than in value, and some big states underperforming are waiting on the maths for the guidance, which is precisely -18%. So, Q4 will be positive in sell-in and improving sequentially, with the aim to be at best flat in volumes depletion in Q4 for US.

I will answer to the third question if you allow me, China. So yes, China, it is also slightly touched by promotional intensity, and when there is no promotional intensity, I'm talking globally, I'm not talking about us, because in terms of pricing power control, I think that I don't want to bench ourselves with our peers, but we are quite proud of what we are doing on that point. There is promotional intensity, and there is also – I will point to that I will be back on that, also maybe sometimes for some of our peers, a bit overstocked on the field. So the promotional intensity is there, and considering, let's just imagine that the more common additional duties will be eventually confirmed on the latest, the 5 July, now the new deadline, the 5 April, clearly it will drive to increase of prices, and clearly if you have a lot of stock for some brands, for the Cognac, it will be a promotional intensity to try to speed up the sell-out, because you have to get rid of the stock. I'm talking category, I'm not talking about us. Our stocks are very, very healthy.

So yes, there is a bit more promotional intensity. In terms of category, yes, the fact that Liqueurs & Spirits are overperforming for us means that there will be more diversification. It is something that will be negative in terms of compounded growth rate, both for demographics on the habits of consumption for Cognac in the long term? We don't think so. As you know, we totally respect your opinion, but we are not aligned on that on the long term. The promotional intensity could have an impact on value dynamics on the short-term, in the long run.

Now, your second question, which is linked to the LVMH and try to compare what they said to our situation. So, let me answer in a different way. We can say that there is a strong optimism of Mr. Arnaud in the US, directly, which is good news for us, because our strong, very strong exposure, bigger than them comparatively, and I hope he's right. So, this is in terms of long shot. So, this is an important statement. For China, for what we're concerned, which we are performing, I think, not bad, quite better than our peers. We demonstrate greater resilience. So, without putting any medals on our shirt, but I think that is a comparative difference between our performance and theirs.

In terms of timeframe, two years, three years, I don't know what it means, frankly speaking, because we don't need two years to clean our inventories in China, for instance, if you want to put it that way. The fact that we stick to our pricing power and strategy has been, and it is painful in the US, is weighing on our performance, is weighing on every indicator, is weighing our market cap, clearly, but makes that digestion is already there. And third point, we don't have a management change that allows to give a time frame or some period of adaptation to help the figures improve by themselves.

You know, for them, it's only a division. It is not listed separately. It is not visible. Okay, you have some indicators. For us, we have only our brands. So, everything we are doing with our size, €1 billion in top line, is very visible. Every single wave is weighing.

So, I don't know what two years means. What I know that two years, considering the actual point of the actual situation, at the end of December, of Remy Cointreau and Cognac, more than that, we cannot afford two years to solve that. We have to move and to speed quickly and continue to arm our fundamentals and to performance.

We don't have the chance to have many billions additional ancillary business covering losses of the Wine and Spirits division.

Laurence Whyatt: Understood. Thanks very much for the colour.

Operator: Thank you. We will take the last question from line Simon Hales from Citi. The line is open now. Please go ahead.

Simon Hales (Citigroup): Thanks. Morning, Luca. A couple of things for me.

Obviously, you've given a lot of detail. I'm probably going to have to go over the transcript to fully understand everything you've said this morning. But just so I make sure I understand now what's driven you to now guide towards the bottom end of the organic sales growth range, it sounds like perhaps versus your expectation, the indirect channels in China are a little bit worse. We've clearly got a Chinese New Year timing affect in Q4, and maybe some of the major open states in the US are underperforming slightly versus your expectations. Is that right? Are they the main things I should take away from your comments?

And then secondly, maybe related to those open state comments you made, particularly around New York and Illinois, can you give a bit more colour as to why those states are underperforming so much and what you're perhaps doing there to try to improve performance?

Luca Marotta: Thank you. Good morning, Simon, and thank you for your question. Illinois is a very important state. It is a fighting state for everybody. For instance, you can see the price of one of our new competitors. We can say, we can name it. In the last five years, it was the lowest one. Illinois has always been a fighting territory. So, and it is one of the big states in which price war, price positioning, big volume deals has always weighed on the performance, since always, since 50 years. That is very important. So, it is a clear, important state. In this moment, our integrity in terms of pricing power weighed a bit on that. And it is also a strong VS state as well, in which – a category in which we are not playing. So, we are not playing with the same cards. It is the way it is.

So, but to try to answer to your question, let me give you the – what we expect for the Q4, okay, at Group level. So, I think you have some colour by region and by division. We expect the Q4 in terms of sales to be slightly better than Q3. Q3 was -21.5%. But marginally, not so much in sell-in. That is why we are guiding more towards -18%. Inside that, our US, I repeat, in top line, will return to double-digit growth, led by Liqueurs & Spirits. While at the same time, Cognac will be more complicated, probably in top line, will still remain negative. Why? There is a spark in sell-out depletion, more Liqueurs & Spirits, but it is not to the same extent we expected. So, the absolute value of the recovery, the restocking, is delayed.

China, which is the most important factor, is driving the guidance more towards -18%. China will be in a double-digit decline in the Q4, impacted by mainly three factors. Negative calendar effect. -€5 million this year, plus €8 million last year. It's €13 million that are weighing for that. So we have reverse Q3, Q4, Chinese New Year's effect.

High comps. You remember Q4 last year? Massive restocking effect last year in China. That wave, that not reproducing themselves automatically this year. And more in the indirect channel.

And third, indirect channels. Softer market condition. A bit of cloudy environment driven by the anti-dumping investigation. So, you have this grey cloud that are weighing on the atmosphere and cash pressure on the wholesaler. We are not giving additional discount to place additional stock or giving, I don't know, 90, 120, 180 days more. I don't know what the peers are doing, but I know that they are more stocked than us.

EMEA. EMEA in Q4 should be down, impacted by Cognac. So by division, you understand that the Q4, which will be globally slightly better than Q3, but not so much, will be up strong double-digit in Liqueurs & Spirits, and down strong double-digit in Cognac. So, a very diversified footprint. If you want regionally to try to summarise that in terms of H2 deviance compared to the previous guidance, if you want to consider -18% compared to -15%, who is doing what? 40%, 40-50% is China softer trends, 30-35% is US, and the remaining part is the rest of the world.

By division, it is almost 90% Cognac. So, combining China, which is a Cognac country, and delay in timing of improvement in the US for Cognac, everything is better than before, but not meeting the expectation and on lower comp. So, maths count, figures count, global dollars and volumes at the end are not there.

Simon Hales: Brilliant. Thank you, Luca.

Operator: If there's no further question at this time, I'll hand it back over to your host for closing remarks.

Luca Marotta: So, no more questions, I guess. So, one time, we'll try to do another exercise. I will ask you a question or two questions. Let's do this again, a new one. I would be interested with that. Maybe more face-to-face than on a conference call by phone.

So, thank you for your attention. Have a beautiful year. So, this is the first call of the year. And clearly, let's keep in touch. And next meeting, official one for everybody, end of April for full-year top line and even more important, beginning of June with our CEO, Eric Vallat, to comment the result of the year. Sell-in, it's even more important, sell-out, guidance for next year and what's next until 2030. So, a very easy finger on the nose meeting.

Thank you so much. Have a nice day.

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

[END OF TRANSCRIPT]