BRYAN, GARNIER & CO

INDEPENDENT RESEARCH UPDATE

3rd May 2016

Food & Beverages

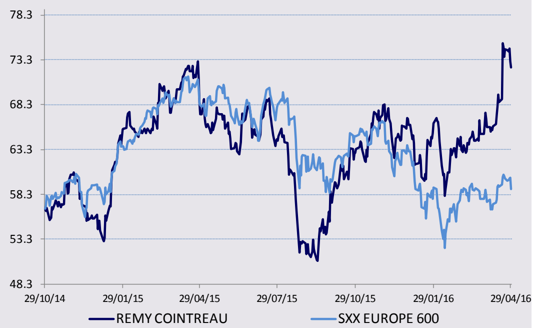
Rémy Cointreau

The glass is filling up

Fair Value EUR80 vs. EUR75 (price EUR72.32) **BUY**

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	75.1 / 50.9
Market capitalisation (EURm)	3,525
Enterprise Value (BG estimates EURm)	4,015
Avg. 6m daily volume ('000 shares)	120.0
Free Float	45.7%
3y EPS CAGR	15.3%
Gearing (03/15)	43%
Dividend yield (03/16e)	1.94%

YE March	03/15	03/16e	03/17e	03/18e
Revenue (EURm)	965.10	1,051	1,136	1,204
EBIT (EURm)	156.0	176.2	202.1	223.9
Basic EPS (EUR)	1.91	2.19	2.59	2.94
Diluted EPS (EUR)	1.95	2.19	2.59	2.99
EV/Sales	4.14x	3.82x	3.50x	3.26x
EV/EBITDA	22.9x	20.7x	18.0x	16.1x
EV/EBIT	25.6x	22.8x	19.7x	17.5x
P/E	37.1x	33.0x	28.0x	24.2x
ROCE	15.6	16.5	17.3	18.0



We have revised our EBIT margin for 2019/20 upwards from 18.7% to 20% to take into account margin improvement in China, strong growth in the highly profitable US market and good progress with the strategic plan. Our Fair Value is adjusted to EUR80. We maintain our Buy recommendation.

- **Wind in the sails in the highly profitable US market. The US, which we estimate accounts for as much as 42% of the group's EBIT, is growing very strongly,** with value depletions up 16.2% in 2015/16. Rémy Cointreau is benefitting from the **success of cognac** and its **Liqueurs & Spirits portfolio is pretty immune to the craft trend**. **We estimate that the group's organic sales in the country should increase 9% next year**, with cognac up 11% and Liqueurs & Spirits up 5%. Over the longer term, high single-digit growth looks sustainable.

- **China returning to growth in 2016/17. Rémy Cointreau ended the year 2015/16 with depletions stable in value and up mid-single digit in volume. This implies a strong improvement vs H1** when they were down mid-single digit in value and stable in volume. It was mainly driven by Club but **we think that Louis XIII may have returned to growth last year.** In our view, EBIT margin in the country could have declined more strongly than the market thinks and now stands at the group level. **In 2016/17, we expect organic sales growth in the country, in line with the group's comments, and an improvement in EBIT margin prompted by the better trading environment, the return to growth of Louis XIII and a potential catch-up effect.**

- **Good news going forward. Fair Value up to EUR 80. 2015/16 organic EBIT growth is likely to exceed expectations (1-2%). Our own estimate is for +4.5% vs +3% previously.** The full results are due out on 9th June. **We have revised EBIT margin upwards between 2016 and 2020 to stand at 20% in 2019/20 (vs 18.7% previously)**, at the high end of the group's guidance, driven by margin improvement in China, strong growth in the highly profitable US market and good progress with the strategic plan. **Our DCF now points to a Fair Value of EUR80. We maintain our Buy recommendation.**

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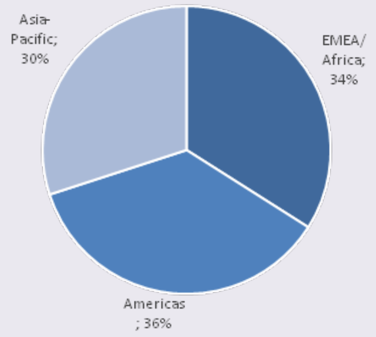
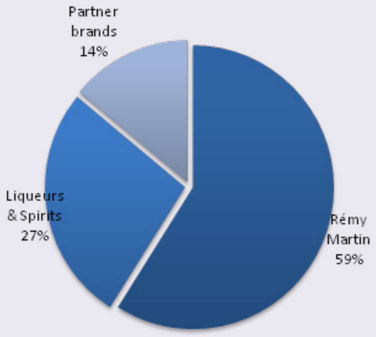
Sales breakdown by region : 2014/15



Sales breakdown by division 2014/15



Company description

Founded in 1724, Rémy Cointreau is a major player in the Wines & Spirits industry. It has a portfolio of widely recognised premium brands and is a reference in the cognac industry (60% of sales). The Hériard-Dubreuil family ows 52% of the capital and 69% of the voting rights.

Simplified Profit & Loss Account (EURm)	**31/03/13**	**31/03/14**	**31/03/15**	**31/03/16e**	**31/03/17e**	**31/03/18e**
Revenues	1,193	1,032	965	1,051	1,136	1,204
Change (%)	*16.3%*	*-13.6%*	*-6.4%*	*8.9%*	*8.1%*	*6.0%*
Gross profit	737	618	618	673	732	780
EBITDA	262	167	175	194	221	244
EBIT	245	150	156	176	202	224
Change (%)	*18.2%*	*-38.8%*	*3.9%*	*13.0%*	*14.7%*	*10.8%*
Financial results	(20.0)	(26.2)	(29.7)	(26.1)	(24.7)	(22.6)
Pre-Tax profits	218	119	127	150	177	201
Tax	(72.0)	(45.8)	(33.5)	(45.0)	(53.2)	(60.4)
Profits from associates	(15.5)	(10.9)	(0.70)	1.0	1.2	1.5
Profit from continuing operations	130	62.4	92.6	106	125	142
Net profit (loss) from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.0	0.0	0.0	0.0
Net profit	130	62.4	92.6	106	125	142
Restated net profit	152	80.2	94.6	106	125	145
Change (%)	*71.2%*	*-47.1%*	*18.0%*	*12.2%*	*18.1%*	*15.6%*
Cash Flow Statement (EURm)						
Operating cash flows	222	110	98.8	189	216	238
Change in working capital	(46.2)	(61.7)	(79.4)	(10.5)	(11.4)	(12.0)
Capex, gross	(26.1)	(42.2)	(36.8)	(36.8)	(34.1)	(36.1)
Financial investments / tax paid	(90.8)	(108)	(53.0)	(71.1)	(77.9)	(83.0)
Dividends	(18.4)	(69.3)	(48.0)	(74.2)	(67.9)	(67.9)
Other	(188)	(69.4)	(42.8)	(57.1)	(24.7)	(22.6)
Net debt	266	414	467	490	454	403
Free Cash flow	106	(43.8)	7.7	80.1	103	118
Balance Sheet (EURm)						
Tangible fixed assets	173	191	216	224	231	238
Intangibles assets	480	481	491	491	491	491
Cash & equivalents	187	186	74.1	3.7	(13.0)	38.3
Other current assets	1,424	1,443	1,375	1,348	1,328	1,347
Other non-current assets	190	164	183	184	184	185
Total assets	2,267	2,278	2,339	2,245	2,234	2,262
L & ST Debt	452	600	541	494	441	441
Others liabilities	720	667	722	772	822	862
Shareholders' funds	1,095	1,012	1,076	980	971	958
Total Liabilities	1,173	1,267	1,262	1,266	1,263	1,304
Capital employed	1,312	1,390	1,532	1,461	1,419	1,356
Ratios						
Gross margin	61.75	59.77	64.05	64.10	64.40	64.75
Current operating margin	20.56	14.56	16.16	16.77	17.79	18.59
Tax rate	33.04	38.46	26.42	30.00	30.00	(70.00)
Net margin	12.70	7.77	17.96	10.10	11.04	12.03
ROE (after tax)	13.84	7.93	8.79	10.83	12.90	15.13
ROCE (after tax)	30.30	17.10	15.60	16.5	17.3	18.0
Gearing	24.25	40.86	43.35	50.05	46.77	42.07
Pay out ratio	45.28	52.60	80.10	78.00	78.00	78.00
Number of shares, diluted (Thousand)	49,000	49,312	48,480	48,480	48,480	48,480
Data per Share (EUR)						
Diluted EPS	2.66	1.27	1.91	2.19	2.59	2.94
Diluted restated EPS	3.09	1.63	1.95	2.19	2.59	2.99
% change	*23.5%*	*-47.4%*	*19.9%*	*12.2%*	*18.1%*	*15.6%*
BVPS	22.34	20.52	22.20	20.21	20.04	19.76
CFPS	4.53	2.23	2.04	3.90	4.45	4.92
FCF	2.16	(0.89)	0.16	1.65	2.12	2.43
Dividend Total	1.40	1.27	1.53	1.40	1.40	1.40
o/w Special Dividends	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company Data; Bryan, Garnier & Co ests.

Please see the section headed "Important information" on the back page of this report.

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1. Wind in the sails in the US

This highly profitable market is expected to show high single-digit growth on a sustainable basis

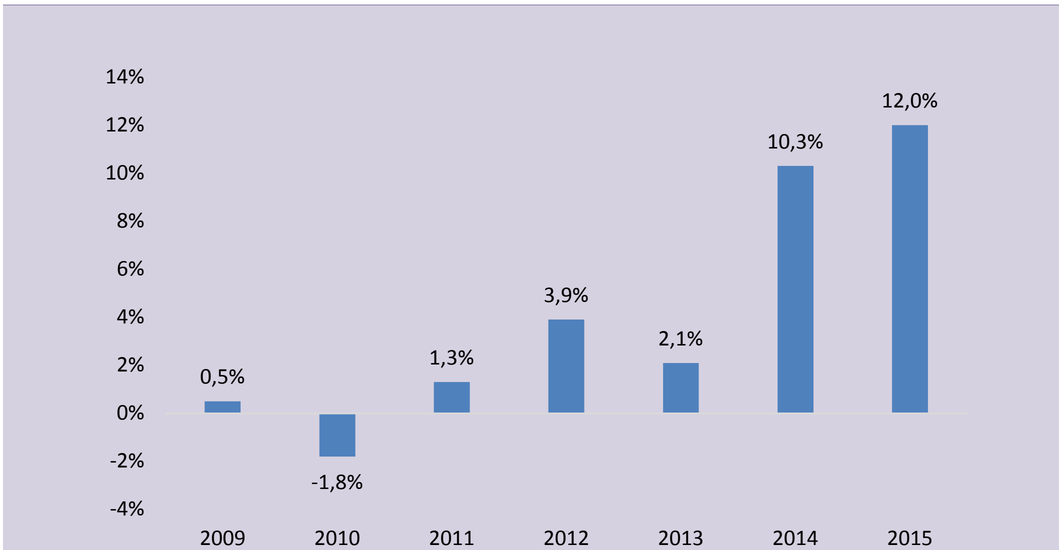
The US, which accounts for as much as 42% of the group's EBIT on our estimates, is growing very strongly, with value depletions up 16.2% in 2015/16. Rémy Cointreau is benefitting from the **success of cognac** and its **liqueurs & spirits portfolio is fairly immune to the craft trend**. **We estimate that the group's organic sales in the country should increase 9% next year**, with cognac up 11% and Liqueurs & Spirits up 5%. Over the longer term, high single-digit growth looks sustainable.

A cognac player in a market crazy about cognac

1738 and Louis XIII are the growth drivers.

Consumer tastes in the US have moved from white to brown spirits **and cognac is currently growing double digit**. Rémy Cointreau is almost a pure cognac player as **the category represents two-thirds of its sales in the country**. The group has refocused on the high-end category, which accounts for only 30% of the market but in which it boasts high market share. **Volume depletions for Rémy Martin (excl VS) were up 18.9% in 2015/16, driven by 1738.** The rapper Fetty Wap and his crew named Remy Boyz 1738, have contributed to the success of this intermediate product priced at USD60 vs USD45 for VSOP. **The group is developing Louis XIII cognac**, currently almost exclusively sold in China, by rolling out an advertising campaign and multiplying marketing initiatives (The Move You'll Never See) to recruit the HNWI population in the US. At its Q4 conference call, the group reported that the brand's depletions had accelerated in recent months. **Cognac sales growth next year in the US should remain in low double digits (our estimate: +11%)**. Rémy Cointreau does not fear an increase in investments for Martell. In its view, Pernod Ricard will participate in financing the cognac category without jeopardising its position (as Rémy Cointreau does not sell VS anymore).

Fig. 1: Value growth in the US cognac market



Source: DISCUS

A liqueurs and spirits portfolio fairly immune to the craft trend

Premiumisation is a protection against craft distillers

The group's brands are fairly immune to the craft trend. Cointreau, which generates 30% of its sales in the US, is a key ingredient for many famous cocktails such as Margarita, Cointreau Fizz and Cosmopolitan... **The depletion trend in Cointreau has been strong (+5% in volume in 2015/16),** led by all channels and despite a tough competitive environment. The acquisition of Grand Marnier by Campari is theoretically a threat to Cointreau. But the performance of Grand Marnier is sluggish and we think that Campari will need two or three years to restore the brand. **Mount Gay, The Botanist and Bruichladdich all have craft credentials due to their high-end positioning**. **The group continues to premiumise its Liqueurs & Spirits portfolio**. Mount Gay is a good example with the restaging of Extra Old (USD50) and the launch of Black Barrel (USD30), while prices at the low-end, Eclipse, have been substantially increased. We forecast 5% sales growth of Liqueurs & Spirits next year in the US.

2. China returning to growth in 2016/17

The group's depletions are improving

Private consumption is normalising

Rémy Cointreau ended the year with depletions stable in value terms and up mid-single digit in volume terms. This implies a strong improvement vs the first half of the year when they were down mid-single digit in value and stable in volume. The inflection was led by Mainland China and Taiwan, while Hong Kong and Macau remained soft. The group benefited from the launch of its new marketing campaign in Q3, "One Life/Live Them", starring Mr Huang Xiaoming. More importantly, **it said that private consumption in the country is normalising**. **Rémy Cointreau outperformed the cognac market,** which rose slightly in volume terms and dropped slightly in value terms. **The Chinese New Year was reported to be solid**. We think Hennessy was the clear winner of this festive period. But Rémy Martin also won some market share, especially in the intermediate category with Club. This product sells for EUR80 (vs EUR50 for a VSOP bottle) and drove the performance improvement last year. Going forward, **Rémy Martin has more growth drivers than its competitors as it can extend its distribution network, especially in tier three and four cities.** We think that its current penetration is only 50% in the former and almost nil in the latter. This compares to Martell's penetration of 100% in tier three and 60% in tier four.

Sales growth and margin improvement expected next year

The weight of China as a percentage of the group's EBIT is not more than 20%

Rémy Cointreau said that its value depletions should return to growth in 2016/17 in China. **It also expects sell-in to rise** after a low double-digit decline this year. There could be some difference between sell-in and depletions as the group shipped in advance in Q4 2015/16 before the prices increases. Note that Rémy Cointreau is set to raise prices for its Club bottles by 2-3% in 2016/17. **We think that Louis XIII may have returned to growth in 2015/16** given the change in the current environment and Mr Luca Marotta's comments at the Q4 sales release: *"Louis XIII, I really cannot disclose these kind of figures. We are quite happy with the depletions, both in volume and value. Happy, happy. It's okay, it's happy. I smile when I see the spreadsheet at night."* The group is gaining market share in this price segment, which shows the success of its private dinners strategy. The principle is simple: an HNWI targeted by the group invites some friends to his home to taste Rémy Cointreau's products. This helps avoid scrutiny by public authorities. The company reported that as many as five bottles per guest are sold during one private dinner. **We think that EBIT margin in China could have declined more strongly than the market thinks and now stands at the group level. In our view, the improving trading environment, combined with the return to growth at Louis XIII and a potential catch-up effect following the hefty fall in the margin, should lead to a rise in EBIT margin in 2016/17.**

3. Conservative margin guidance for 2019/20

The group wants to increase the weight of exceptional spirits in its portfolio to 60-65%

Rémy Cointreau already has a fairly premium portfolio with 45% of sales stemming from exceptional spirits (a retail price higher than USD50) and it plans to increase this weight to 60-65% by 2019/20. **To reach this target, the group is primarily focusing on its organic performance** by 1/ investing more resources in products priced higher than USD50, 2/ launching new brands at this price level or 3/ premiumising its existing portfolio. Some acquisitions and disposals are also possible. In October 2015, Rémy Cointreau sold the Izarra brand (Basque liqueur) and, going forward, the end of distribution contracts are likely as they are not core to the group's strategy and there is no penalty. The group has to find targets that tick all boxes: 1/ a retail price higher than >USD50 per bottle, 2/ a strong heritage, 3/ a wide distribution network and 4/ a transaction price lower than EUR60m. In our view, champagne, whiskies, tequila and mezcal could be possible targets.

Fig. 2: Rémy Cointreau portfolio by price segment

Source: Rémy Cointreau

The group is targeting operating margin between 18-20% at constant FX and scope by 2019/20 (16.8% estimated in 2015/16). This increase should be driven by the improvement in the mix and an increase in structure costs lower than sales growth (no rise in A&P expenditure as a percentage of sales). **We have increased our EBIT margin between 2016 and 2020 to reach 20% in 2019/20 (vs 18.7% previously)**, at the high end of the group's guidance, as a result of **margin improvement in China (with the likely return to growth at Louis XIII)**, **strong growth in the highly profitable US market** and **the overall move within the group towards products priced higher than USD50**.

At the full-year earnings release on 9th June, the group is due to give an update of its strategic plan. **We think 2015/16 organic EBIT growth is likely to exceed expectations.** Our own estimate is for +4.5% vs +3% previously. During the conference call, the CFO said that he is very comfortable with the consensus (1-2%). Note that Q1 2016/17 should be weak (possibly in decline) due to shipment loading in Q4 2015/16 before the global increase in prices.

Fig. 3: Change in sales growth

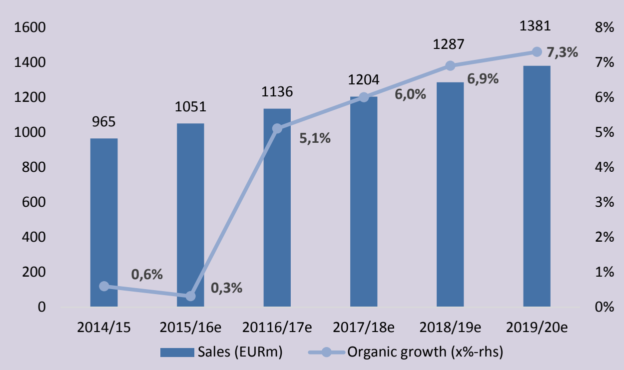
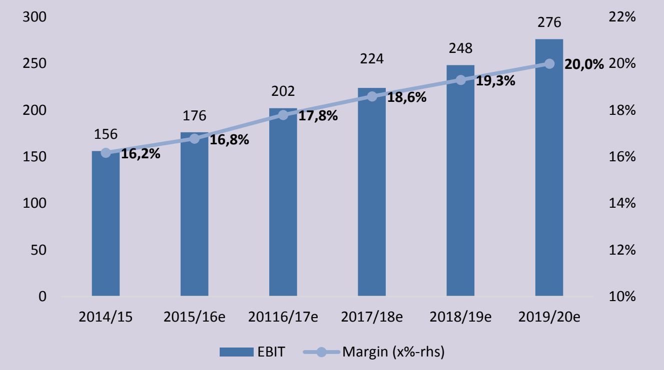


Fig. 4: Change in EBIT



Source: Rémy Cointreau, Bryan, Garnier & Co

4. Buy confirmed. Fair Value lifted to EUR80

Our DCF yields a Fair Value of EUR80, pointing to upside of 11%.

Fig. 5: DCF model

EURm	2016/17e	2017/18e	2018/19e	2019/20e	2020/21e	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e
Sales	1135,9	1204,1	1287,2	1381,2	1487,6	1585,1	1670,7	1741,7	1795,8	1830,8
% change	*8,1%*	*6,0%*	*6,9%*	*7,3%*	*7,7%*	*6,6%*	*5,4%*	*4,3%*	*3,1%*	*2,0%*
EBIT	202,1	223,9	248,3	276,1	297,4	316,9	334,0	348,2	359,0	366,0
EBIT margin	*17,8%*	*18,6%*	*19,3%*	*20,0%*	*20,0%*	*20,0%*	*20,0%*	*20,0%*	*20,0%*	*20,0%*
-Income taxes	-53,2	-60,4	-57,1	-63,5	-68,4	-72,9	-76,8	-80,1	-82,6	-95,2
+Depreciation	21,6	22,9	26,3	30,1	34,5	39,0	43,4	47,7	51,7	55,3
as % of sales	*1,9%*	*1,9%*	*2,0%*	*2,2%*	*2,3%*	*2,5%*	*2,6%*	*2,7%*	*2,9%*	*3,0%*
+ Change in WC	-11,4	-12,0	-12,9	-13,8	-14,9	-15,9	-16,7	-17,4	-18,0	-18,3
as % of sales	*-1,0%*	*-1,0%*	*-1,0%*	*-1,0%*	*-1,0%*	*-1,0%*	*-1,0%*	*-1,0%*	*-1,0%*	*-1,0%*
Operating cash flows	**159,1**	**174,3**	**204,6**	**228,9**	**248,6**	**267,1**	**283,9**	**298,4**	**310,2**	**307,8**
-Capex	-34,1	-36,1	-38,6	-41,4	-44,6	-47,6	-50,1	-52,3	-53,9	-54,9
as % of sales	*-3,0%*	*-3,0%*	*-3,0%*	*-3,0%*	*-3,0%*	*-3,0%*	*-3,0%*	*-3,0%*	*-3,0%*	*-3,0%*
Free cash flow	**125,0**	**138,2**	**166,0**	**187,5**	**204,0**	**219,6**	**233,8**	**246,2**	**256,3**	**252,9**
Discount coefficient	0,94	0,88	0,82	0,77	0,72	0,68	0,64	0,60	0,56	0,52
Discounted FCF	**117,1**	**121,4**	**136,7**	**144,7**	**147,5**	**148,9**	**148,5**	**146,6**	**143,1**	**132,3**

Source: Bryan, Garnier & Co

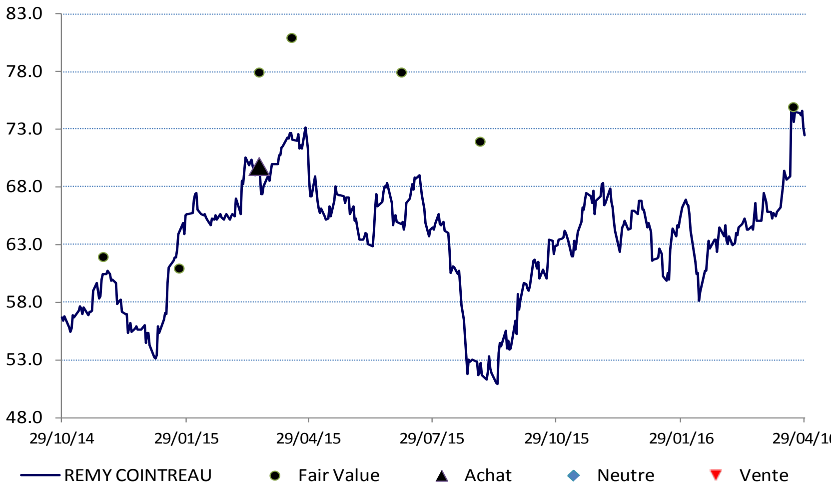
Fig. 6: DCF model

Sum of discounted cash flows	1386,8
+Terminal Value	2 875,5
-Net debt	467
-Provisions	42
-Minorities	1,4
+Financial assets	141
Equity Value	**3893,5**
Number of shares (m)	48,5
Fair value (EUR)	**80**

Source: Bryan, Garnier & Co

Price Chart and Rating History

Rémy Cointreau



Ratings Date	Ratings	Price
23/03/15	BUY	EUR68.98
02/10/14	NEUTRAL	EUR55.49
27/03/14	BUY	EUR58.79

Target Price Date	Target price
20/04/16	EUR75
02/09/15	EUR72
06/07/15	EUR78
16/04/15	EUR81
23/03/15	EUR78
23/01/15	EUR61
28/11/14	EUR62
02/10/14	EUR60
22/09/14	EUR71
10/06/14	EUR75
22/04/14	EUR67
27/03/14	EUR70

Bryan Garnier stock rating system

For the purposes of this Report, the Bryan Garnier stock rating system is defined as follows:

Stock rating

BUY	Positive opinion for a stock where we expect a favourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential upside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
NEUTRAL	Opinion recommending not to trade in a stock short-term, neither as a BUYER or a SELLER, due to a specific set of factors. This view is intended to be temporary. It may reflect different situations, but in particular those where a fair value shows no significant potential or where an upcoming binary event constitutes a high-risk that is difficult to quantify. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.
SELL	Negative opinion for a stock where we expect an unfavourable performance in absolute terms over a period of 6 months from the publication of a recommendation. This opinion is based not only on the FV (the potential downside based on valuation), but also takes into account a number of elements that could include a SWOT analysis, momentum, technical aspects or the sector backdrop. Every subsequent published update on the stock will feature an introduction outlining the key reasons behind the opinion.

Distribution of stock ratings

BUY ratings 57,9%   NEUTRAL ratings 33,6%   SELL ratings 8,6%

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9	Remuneration of analyst	The remuneration of the investment analyst or other persons involved in the preparation of this Report is tied to investment banking transactions performed by the Bryan Garnier Group.	No
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15	Other disclosures	Other specific disclosures: Report sent to Issuer to verify factual accuracy (with the recommendation/rating, price target/spread and summary of conclusions removed).	Yes

Summary of Investment Research Conflict Management Policy is available www.bryangarnier.com

Please see the section headed "Important information" on the back page of this report.

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