

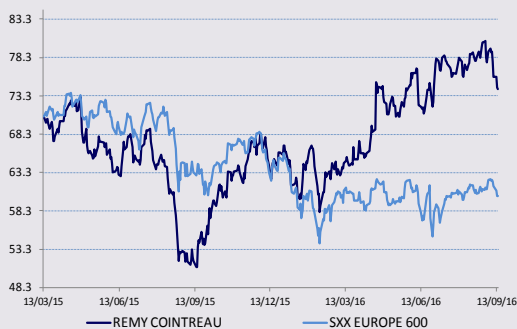
INDEPENDENT RESEARCH
UPDATE

15th September 2016

Food & Beverages

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 50.9
Market capitalisation (EURm)	3,623
Enterprise Value (BG estimates EURm)	4,077
Avg. 6m daily volume ('000 shares)	89.30
Free Float	45.7%
3y EPS CAGR	13.8%
Gearing (03/16)	41%
Dividend yield (03/17e)	2.15%

YE March	03/16	03/17e	03/18e	03/19e
Revenue (EURm)	1,051	1,076	1,140	1,232
EBIT (EURm)	178.4	206.64	229.41	258.39
Diluted EPS (EUR)	2.11	2.50	2.89	3.30
Diluted Adj. EPS (EUR)	2.27	2.50	2.94	3.35
EV/Sales	3.88x	3.79x	3.55x	3.24x
EV/EBITDA	20.4x	18.0x	16.0x	14.0x
EV/EBIT	22.9x	19.7x	17.6x	15.4x
P/E	32.8x	29.7x	25.3x	22.2x
ROCE	16.5	17.3	18.0	18.3



Rémy Cointreau

It keeps getting better

Fair Value EUR84 vs. EUR80 (price EUR74.35)

BUY

The stock had a very strong performance over the past six months (+17% vs DJ Stoxx) but should continue to benefit from the positive momentum. The United States shows no signs of a slowdown and China keeps recovering. Besides, the premiumisation strategy is a success, with the weight of exceptional spirits increasing 400bps in 2015/16 to 49%. We maintain our Buy recommendation and raise our Fair Value to EUR84.

An attractive category. Despite the anti-extravagance policy in China, global cognac sales posted a **10-year CAGR of 6.1%**, vs +4.7% for the spirits market. **Rémy Cointreau is close to being a pure player**, with the category representing 62% of its sales. **Growth in the US shows no sign of a slowdown.** According to our estimate, cognac value depletions were running at +20% in Q1, ahead of the 2015/16 trend of 18%. **China is recovering.** In Q1, the improvement in value depletions was strong and surprised us positively. They were up mid single-digit in Q1 after a stabilisation in 2015/16.

Successful premiumisation strategy. The group has indicated that its goal is to become the leader in exceptional spirits (retail price over USD50). **This segment should account for 60-65% of its sales by 2019-2020.** To reach this weight, it can improve price/mix organically or make some changes in its portfolio via acquisitions/disposals/end of distribution contracts. **2015/16 was a successful first step as the weight of exceptional spirits rose 400bps to 49%.**

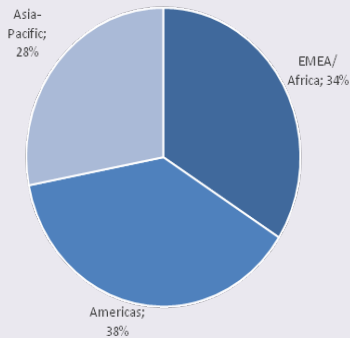
Fair Value lifted to EUR84. The stock has been one of the best performers in our coverage universe. **It outperformed the DJ Stoxx by 17% over the past six months.** It is trading at 19.7x EV/EBIT 2016/17e and 17.6x EV/EBIT 2017/18e, 16% and 14% above the peers' average. This compares to a 10-year historical premium vs its peers of 18%. **We have increased our EBIT forecasts by 4% on average over the next three years. Our Fair Value is adjusted upwards to EUR84 from EUR80.**



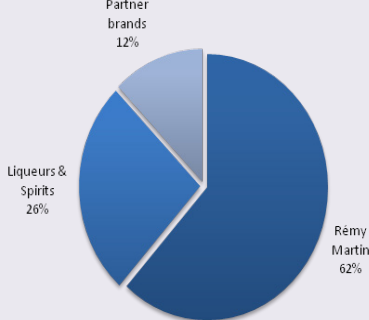
Analyst:
Virginia Roumage
33(0) 1.56.68.75.22
vroumage@bryangarnier.com

Sector Analyst Team:
Nikolaas Faes
Loïc Morvan
Cédric Rossi

Sales breakdown by region, 2015/16



Sales breakdown by division, 2015/16



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 owns 52% of the capital and 69% of the voting rights.

Simplified Profit & Loss Account (EURm)	31/03/14	31/03/15	31/03/16	31/03/17e	31/03/18e	31/03/19e
Revenues	1,032	965	1,051	1,076	1,140	1,232
Change (%)	-13.6%	-6.4%	8.9%	2.4%	6.0%	8.1%
Gross profit	618	618	666	707	759	831
EBITDA	167	178	200	227	252	284
EBIT	150	156	178	207	229	258
Change (%)	-38.8%	3.9%	14.4%	15.8%	11.0%	12.6%
Financial results	(26.2)	(29.7)	(27.3)	(23.0)	(17.0)	(16.0)
Pre-Tax profits	119	127	151	184	213	243
Tax	(45.8)	(33.5)	(44.1)	(57.0)	(65.9)	(75.2)
Profits from associates	(10.9)	(0.70)	(4.8)	1.0	1.1	1.2
Profit from continuing operations	62.4	92.6	103	128	148	169
Net profit (loss) from discontinued operations	0.0	0.0	0.0	0.0	0.0	0.0
Minority interests	0.0	0.0	0.10	0.0	0.0	0.0
Net profit	62.4	92.6	103	128	148	169
Restated net profit	80.2	94.6	110	128	150	171
Change (%)	-47.1%	18.0%	16.7%	15.9%	17.6%	13.8%

Cash Flow Statement (EURm)

Operating cash flows	110	98.8	157	213	238	268
Change in working capital	(61.7)	(79.4)	(42.4)	(16.1)	(17.1)	(18.5)
Capex, gross	(42.2)	(36.8)	(30.8)	(35.7)	(37.6)	(40.6)
Financial investments / tax paid	(108)	(53.0)	(52.8)	(80.0)	(82.9)	(91.2)
Dividends	(69.3)	(48.0)	(72.8)	(81.9)	(81.9)	(81.9)
Other	(69.4)	(42.8)	6.0	(34.1)	(17.0)	(16.0)
Net debt	414	467	458	454	419	364
Free Cash flow	(43.8)	7.7	75.2	97.4	117	136

Balance Sheet (EURm)

Tangible fixed assets	191	216	223	232	239	244
Intangibles assets	481	491	488	488	488	488
Cash & equivalents	186	74.1	46.9	(6.6)	28.5	83.0
Other current assets	1,443	1,375	1,407	1,280	1,280	1,355
Other non-current assets	164	183	164	165	165	166
Total assets	2,278	2,339	2,282	2,164	2,172	2,252
L & ST Debt	600	541	505	418	418	418
Others liabilities	667	722	663	677	712	762
Shareholders' funds	1,012	1,076	1,113	1,069	1,041	1,072
Total Liabilities	1,267	1,262	1,168	1,095	1,130	1,180
Capital employed	1,390	1,532	1,552	1,477	1,418	1,400

Ratios

Gross margin	59.77	64.05	63.37	65.70	66.60	67.45
Current operating margin	14.56	16.16	16.98	19.21	20.12	20.98
Tax rate	38.46	26.42	29.13	31.00	31.00	31.00
Net margin	7.77	17.96	10.51	11.89	13.19	13.90
ROE (after tax)	7.93	8.79	9.92	11.96	14.44	15.96
ROCE (after tax)	17.10	15.60	16.50	17.30	18.00	18.30
Gearing	40.86	43.35	41.16	42.43	40.20	33.95
Pay out ratio	52.60	80.10	75.99	64.00	55.36	48.54
Number of shares, diluted (Thousand)	49,312	48,683	48,683	51,167	51,167	51,167

Data per Share (EUR)

Diluted EPS	1.27	1.91	2.11	2.50	2.89	3.30
Diluted restated EPS	1.63	1.95	2.27	2.50	2.94	3.35
% change	-47.4%	19.9%	16.3%	10.2%	17.6%	13.8%
BVPS	20.52	22.11	22.87	20.90	20.35	20.96
CFPS	2.23	2.03	3.23	4.17	4.64	5.24
FCF	(0.89)	0.16	1.54	1.90	2.28	2.66
Dividend Total	1.27	1.53	1.60	1.60	1.60	1.60
o/w Special Dividends	0.0	0.0	0.0	0.0	0.0	0.0

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

1. A cognac player

1.1. An attractive category

Cognac is one of the most dynamic spirits categories, with a 10-year CAGR of +6.1% vs +4.7% for the spirits market. This has been achieved despite the anti-extravagance policy in China which caused declines in global cognac shipments in 2013 and 2014.

Fig. 1: Global spirits category growth (2005-2015 value CAGR)

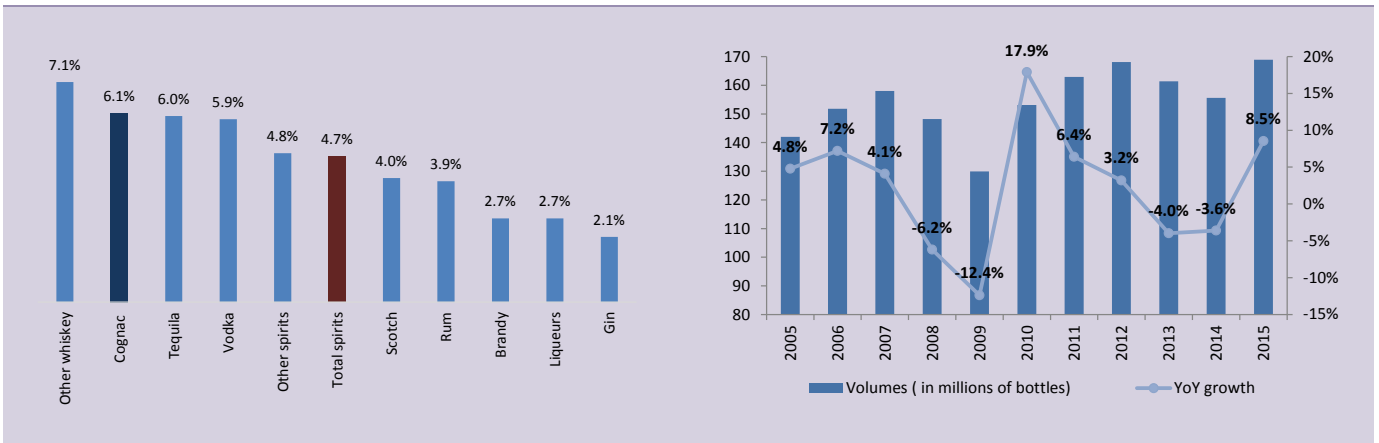
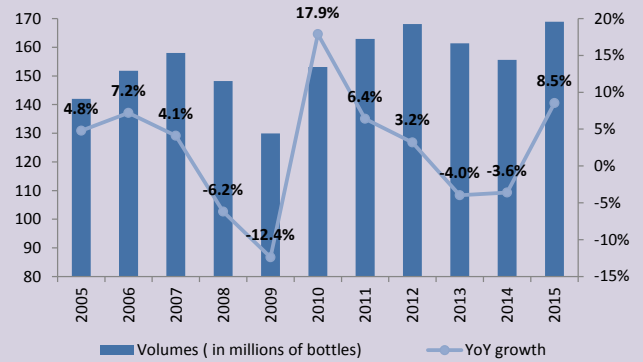


Fig. 2: Cognac global shipments in volume



Source: LVMH, BNIC

Rémy Cointreau is close to being a pure cognac player, with its division Rémy Martin representing 62% of its sales (78% of its EBIT). The United States is now the group's n°1 cognac market (35% of cognac sales), ahead of China.

Fig. 3: Sales breakdown by division, 2015/16

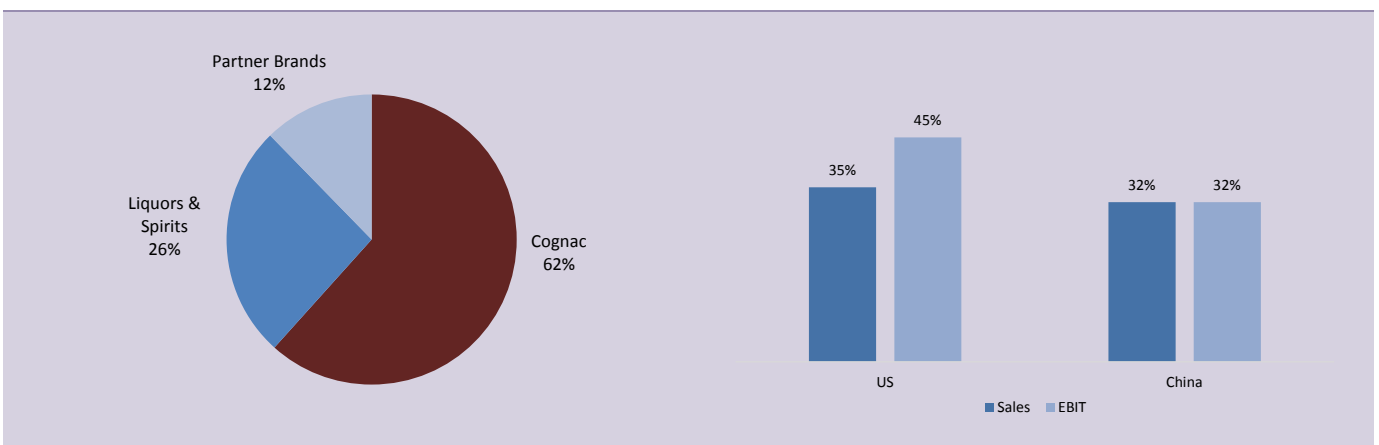
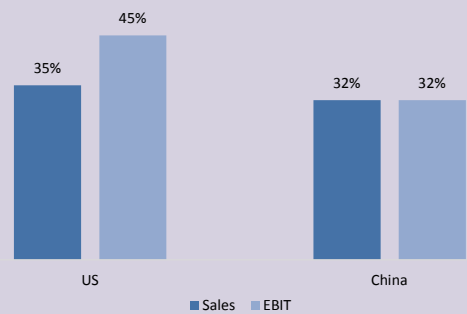


Fig. 4: Weight of the main markets (as a % of cognac sales/EBIT)

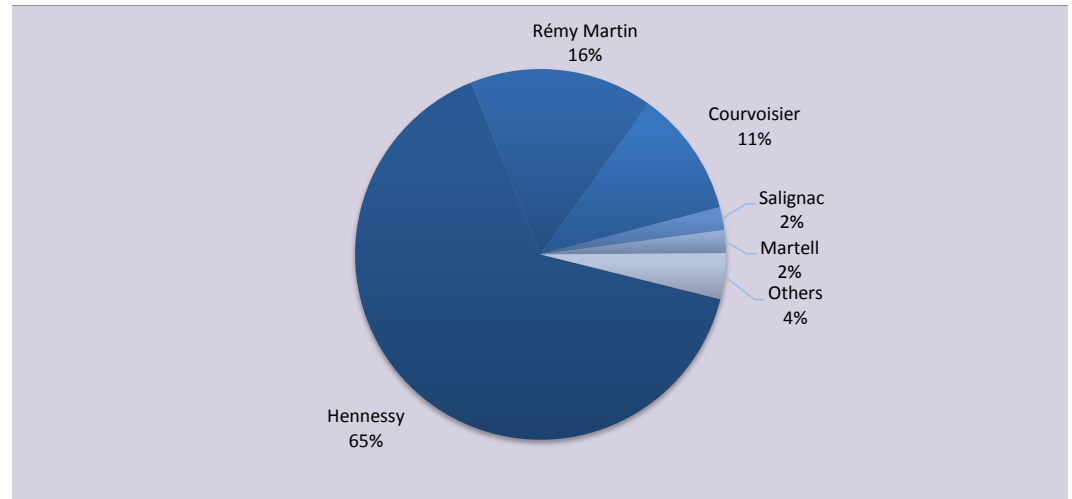


Source: Rémy Cointreau, Bryan, Garnier & Co

1.2. No sign of a slowdown in the US

Cognac accounts for two-thirds of Rémy Cointreau’s sales in the US. The group is the n°2 player in the market, with a 16% market share in volume.

Fig. 5: Cognac players in the US in volume



Source: Impact Databank

Consumer tastes in the US have moved from white to brown spirits and cognac is currently growing in double-digits. **Growth of Rémy Cointreau’s products is outstanding. We estimate that in value the brand’s depletions were running at +20% in Q1, ahead of the 2015/16 trend of 18%.** The group is outperforming the market.

Fig. 6: Growth of the US cognac market (in value)

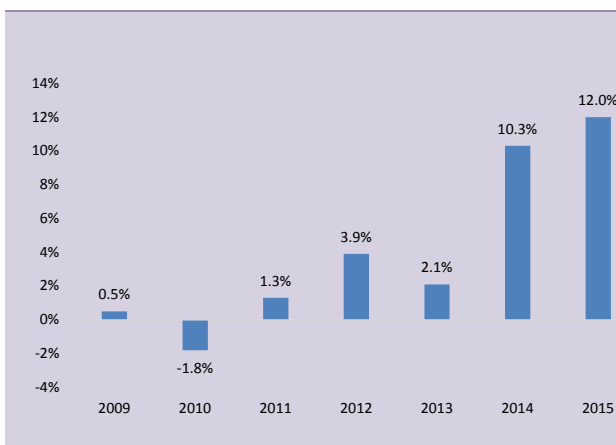
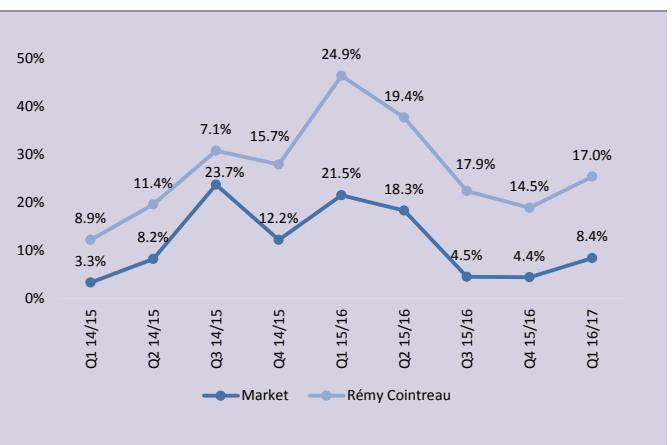


Fig. 7: Cognac volume depletions: Rémy Cointreau and the market



Source: DISCUS, Rémy Cointreau, Bryan, Garnier & Co

This performance was mainly driven by 1738 which is an “intermediate plus” product priced at USD60 (USD45 for VSOP). Its sales grew 50% in 2015/16, helped by the new marketing campaign “One Life/Live them” starring Jeremy Reiner. The rapper Fetty Wap and his crew named Remy Boyz 1738 have also contributed to its success.

The company is also accelerating the development of Louis XIII in the US to take profit from the HNWI population. In 2015/16, it launched the “100 Years: The Movie You Will Never See” campaign. The feedback was positive. At its Q4 conference call, the group reported that the brand’s depletions had accelerated.

We now expect cognac sales in the US to grow 16% organically in 2016/17. This compares to our previous forecast of 11%. The competitive environment in cognac does not seem to have deteriorated for Rémy Cointreau despite increased investments behind Martell. The group believes that Pernod Ricard will help financing the cognac category without jeopardizing its own position as it will not compete in the same price points (Rémy Cointreau no longer sells VS).

1.3. Upturn in China

Rémy Cointreau ended 2015/16 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 depletions were down mid single-digit in value and stable in volume. Its guidance was for a low single-digit decline in value. The positive inflection was led by Mainland China and Taiwan, while Hong Kong and Macau remained soft. **The group benefited from a normalisation in private consumption and its marketing initiatives.**

Louis XIII has improved on the back of the group’s strategy of private dinners. The principle is simple: an HNWI targeted by the group invites some friends to his home to taste Rémy Cointreau’s products. This helps to avoid scrutiny by the public authorities. The company reported that as many as five bottles per guest are sold during a single private dinner. Last year, around 250 dinners were held. **The intermediate product Club which sells for EUR80 (vs EUR50 for a VSOP bottle) also proved to be very successful,** supported by a new marketing campaign, "One Life/Live Them", starring Mr Huang Xiaoming.

Fig. 8: One Life / Live Them advertising campaign

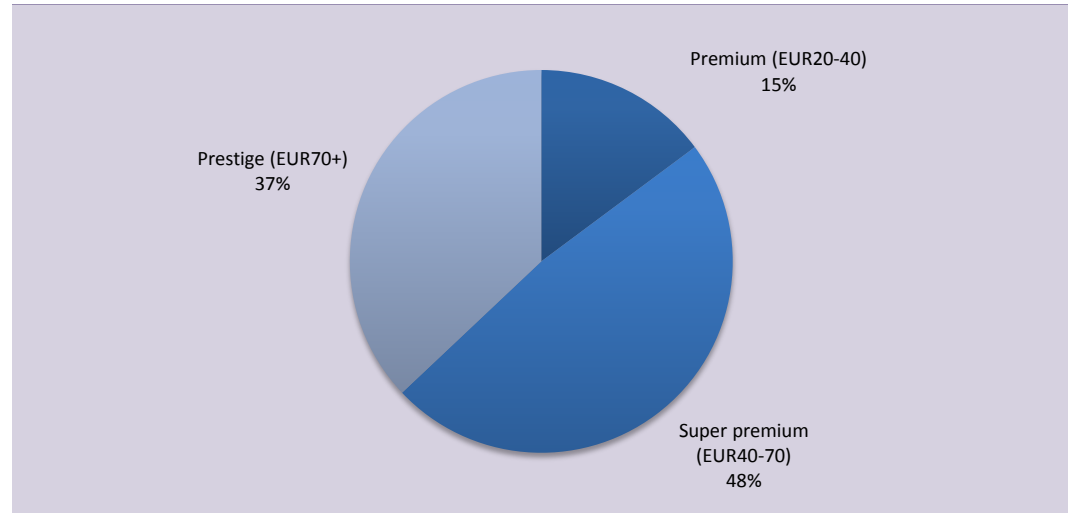


Source: Rémy Cointreau

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

Both Club and Louis XIII could be considered prestige according to IWSR as they are priced over EUR70. This segment still accounts for 37% of the market, which proves the attractiveness of the group's positioning.

Fig. 9: Breakdown of the Chinese cognac market in value



Source: IWSR

Rémy Cointreau said that its sales and value depletions should return to growth in 2016/17 in China. In Q1, sales declined double-digit organically due to a technical effect (stock-loading ahead of price increases and the Chinese New Year). **But the improvement in underlying consumption was strong and surprised us positively. Value depletions were up mid single-digit over the quarter (stable last year). We expect organic sales in China to rise 3% in 2016/17.** This should support further margin expansion. Of note, the margin in China is now at the group's level according to our estimates.

In the longer term, Rémy Martin has more growth drivers than its competitors as it can extend its distribution network, especially in tier three and four cities. We believe 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.

2. Successful premiumisation strategy

2.1. A successful first step

Rémy Cointreau has indicated that its goal is to become the leader in exceptional spirits (retail price over USD50). The vast majority of the group’s brands offers corresponding products.

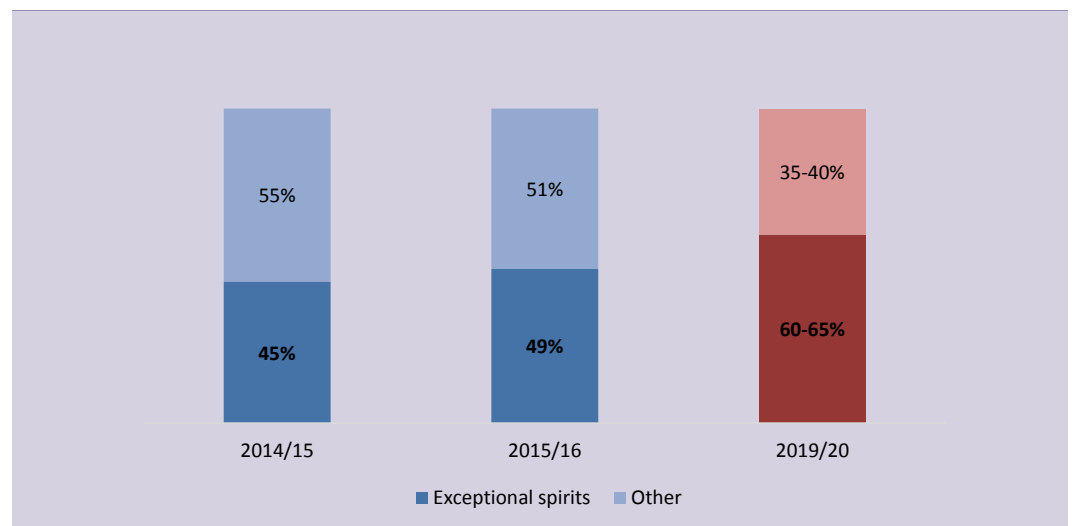
Fig. 10: The group’s portfolio



Source: Rémy Cointreau

Its objective is for exceptional spirits to account for 60-65% of the group’s sales by 2019-2020. To reach this, it can improve price/mix organically (section 2.2) or make some changes in its portfolio via acquisitions/disposals/end of distribution contracts (section 2.3). **2015/16 was a successful first step as the weight of exceptional spirits rose 400bps to 49%.**

Fig. 11: Weight of exceptional spirits in the portfolio (as a % of group’s sales)



Source: Rémy Cointreau

This strategy has implications for the distribution network. The group is targeting specialised and cocktail bars in the on-trade and selective distribution in the off-trade.

2.2. Improving price/mix in the existing portfolio

To reach its target, the group is primarily focusing on improving the price/mix of its existing portfolio. It is investing more resources in products priced over USD50, launching new products at this price level and increasing prices.

Products priced over USD50 are benefiting from more investments. One of the priorities for the cognac portfolio is to **develop the intermediate category** which is priced higher than VOSP but lower than XO. A big marketing push was made in 2015/16 behind the intermediate products, Club in China and 1738 in the US. The **recovery of Louis XIII to its 2012 status is key**. The brand which is currently almost exclusively sold in China is being geographically rebalanced. Opportunities exist in the US, Canada, Russia, India and, to seize them, the group has to recruit key influencers among the HNWI (13 million people globally). Innovations are also important, with special editions such as the Black Pearl Anniversary or the miniature (5cl sold at EUR500). As a reminder, VS volumes are now residual (mainly Russia). **In Liqueurs & Spirits, the group is investing heavily in Bruichladdich/Port Charlotte/Octomore/the Botanist** which all match the price criterion.

The group is launching new products at a price level of USD50 or increasing the prices of existing products. It has rolled out internationally Mount Gay Black Barrel and XO. It also successfully launched Cointreau Blood Orange, Saint-Rémy XO, and Metaxa Angel's Treasure which is priced at USD150 and is only sold in Travel Retail. Rémy Cointreau took on a round of price increases on Mount Gay Eclipse in the US. In about two years, the price of the product was raised from USD15 to USD25.

2.3. Making changes in the portfolio via acquisitions/disposals

In October 2015, Rémy Cointreau offloaded the Izarra brand (Basque liqueur) which sells for EUR25. In September 2016, it announced its intention **to form a joint-venture for Passoa** with Luca Bols which will assume financial and operational control. This passion fruit liqueur which represents an estimated 1.5% of the group's sales should be deconsolidated at the end of 2016. **We do not believe the group will dispose of other liqueurs & spirits brands.**

But it may continue to stop distributing some third-party brands, the majority of which do not meet the price criterion. In 2015/16, Partner Brands accounted for only 12% of the group's sales compared with 24% two years before. Over the past few years, many distribution contracts have been terminated, especially the Edrington's whiskey brands in the US in 2014/15, the EPI's champagne brands in the US in 2015/16, and the EPI's champagne brands in France, Benelux and Travel Retail in 2016/17... The remaining contracts are of small size (mainly William Grant & Sons' and Russian Standard's brands). The policy of CEO Mrs Valérie Chapoulot-Floquet is not to try to retain them. They were concluded when Rémy Cointreau needed to have a critical size, which is no longer the case. Of note, in the spirits industry, there is no penalty when one ends a distribution contract.

Some acquisitions are possible, even though none has been made since Bruichladdich in 2012. The group has difficulty in finding 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. Champagne, whiskies, tequila and mezcal could be possible targets. According to the press, High West Distillery has recently been put for sale. This distiller is in line with consumers' tastes towards craftsmanship and would enable Rémy Cointreau to rebalance its geography and category exposure. But the acquisition price is likely to be too high (around USD100m) and some of its brands are not expensive enough. While Rendezvous rye and Campfire whiskey are respectively sold for USD59.99 and USD64.99, the retail price of Double rye and American Prairie bourbon is around USD35.

3. Fair Value lifted to EUR84

3.1. Improving trend over the rest of the year

Q1 2016/17 organic sales were flat due to shipment loading in Q4 before a global hike in prices. Q2 should return to positive territory (our estimate: +3.3%), mainly driven by Cognac and Liqueurs & Spirits while Partner Brands should be affected by the loss of the EPI champagne distribution contract in France, Benelux and Travel Retail. Over the year, we expect sales and EBIT to rise 4.2% and 10.2% organically. This is in line with the group's guidance of growth in EBIT at constant FX and scope. Overall, we have increased our EBIT forecasts by 4% on average over the next three years.

Fig. 12: Sales forecasts by division

EURm	2014/15	2015/2016	2016/17e	2017/18e	2018/19e
Group					
Sales	1,032	1,051	1,076	1,140	1,232
% reported	-6.4%	8.9%	2.4%	6.0%	8.1%
% organic	0.6%	0.3%	4.2%	7.1%	8.1%
Rémy Martin					
Sales	565	648	687	749	823
% reported	2.5%	14.7%	6.0%	9.0%	10.0%
% organic	-1.9%	3.2%	8.0%	9.0%	10.0%
Liqueurs & Spirits					
Sales	263	274	276	278	292
% reported	10.8%	4.1%	0.8%	0.8%	5.0%
% organic	7.2%	-1.5%	3.0%	5.0%	5.0%
Partner Brands					
Sales	137	129	113	114	117
% reported	-43.5%	-5.9%	-12.4%	0.3%	3.0%
% organic	-1.0%	-8.1%	-12.2%	0.3%	3.0%

Source: Rémy Cointreau, Bryan, Garnier & Co

Fig. 13: EBIT forecasts by division

<i>EURm</i>	2014/15	2015/2016	2016/17e	2017/18e	2018/19e
Group					
EBIT	156	178	207	229	258
Margin	16.2%	17.0%	19.2%	20.1%	21.0%
Change in bps	160	82	223	91	85
Rémy Martin					
EBIT	117	140	163	182	206
Margin	20.8%	21.6%	23.7%	24.3%	25.0%
Change in bps	-197	78	213	65	66
Liqueurs & Spirits					
EBIT	52	48	54	57	62
Margin	19.7%	17.6%	19.4%	20.5%	21.3%
Change in bps	406	-212	187	105	78
Partner Brands					
EBIT	7	6	6	6	6
Margin	5.3%	4.6%	5.1%	5.0%	5.0%
Change in bps	174	-67	41	-9	0
Holding company costs					
EBIT	-21	-15	-15	-15	-15
% of sales	-2.1%	-1.5%	-1.4%	-1.4%	-1.3%

Source: Rémy Cointreau, Bryan, Garnier & Co

Fig. 14: Change in our estimates / consensus

<i>EURm</i>	Sales			EBIT		
	2016/17e	2017/18e	2018/19e	2016/17e	2017/18e	2018/19e
Previous estimate	1069	1133	1214	199	221	245
New estimate	1076	1140	1232	207	229	258
Consensus	1087	1152	1221	204	224	244

Source: Rémy Cointreau, Bryan, Garnier & Co

3.2. Stock valuation and multiples

The stock has been one of the best performers in our coverage universe. **It outperformed the DJ Stoxx by 17% over the past six months.**

Fig. 15: Absolute performance

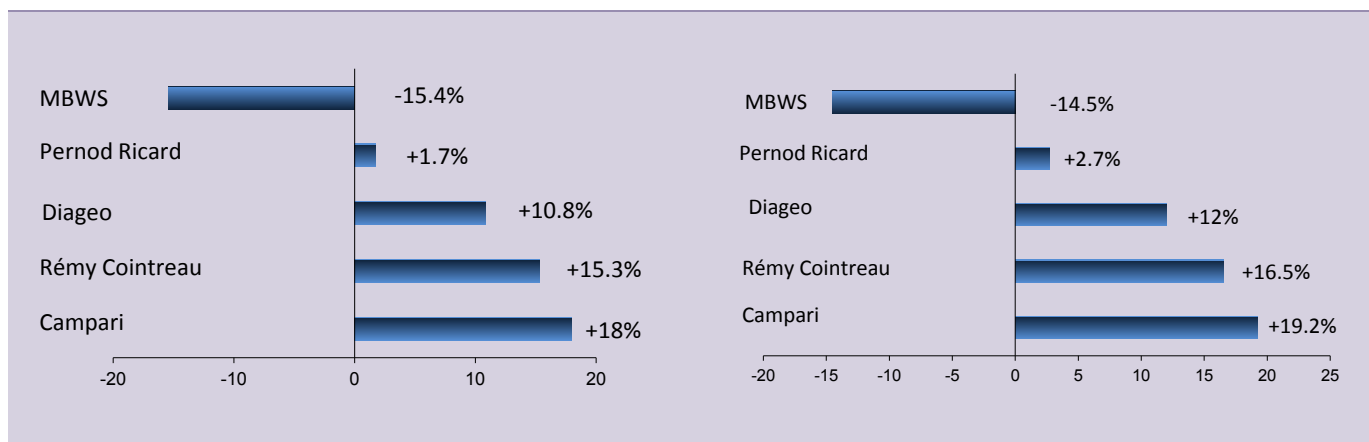
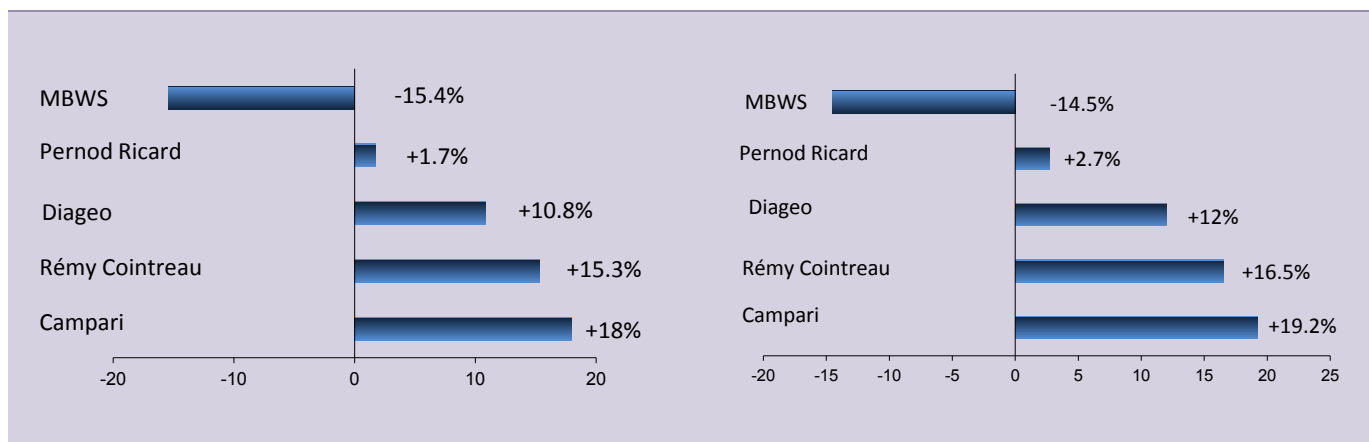


Fig. 16: Performance vs DJ Stoxx



Source: Thomson Reuters

The stock is currently trading at 19.7x EV/EBIT 2016/17e and 17.6x EV/EBIT 2017/18e, 16% and 14% above the peers' average. **But this compares to a 10-year historical premium vs its peers of 18%.**

	2016e EV/EBIT (x)	2017e EV/EBIT (x)	2016e premium/discount	2017e premium/discount
Campari	16.0	13.7	-6%	-11%
Diageo	17.0	15.8	0%	3%
Pernod Ricard	15.2	14.4	-11%	-6%
Rémy Cointreau	19.7	17.6	16%	14%
Average	17.0	15.4		

Source: Rémy Cointreau, Bryan, Garnier & Co

3.3. DCF: EUR84

Our Fair Value is adjusted upwards to EUR84 from EUR80.

Fig. 17: DCF (1/2)

EURm	2016/17e	2017/18e	2018/19e	2019/20e	2020/21e	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e
Sales	1,075.7	1,140.0	1,231.8	1,335.9	1,454.1	1,563.1	1,659.0	1,738.1	1,797.5	1,834.4
% change	2.4%	6.0%	8.1%	8.5%	8.9%	7.5%	6.1%	4.8%	3.4%	2.1%
EBIT	206.6	229.4	258.4	286.9	319.6	343.5	364.6	382.0	395.0	403.1
EBIT margin	19.2%	20.1%	21.0%	21.5%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
-Income taxes	-57.0	-65.9	-75.2	-80.3	-89.5	-96.2	-102.1	-107.0	-110.6	-112.9
+Depreciation	20.4	22.8	25.9	29.8	34.3	38.9	43.5	47.8	51.8	55.2
as % of sales	1.9%	2.0%	2.1%	2.2%	2.4%	2.5%	2.6%	2.8%	2.9%	3.0%
+ Change in WC	-16.1	-17.1	-18.5	-20.0	-21.8	-23.4	-24.9	-26.1	-27.0	-27.5
as % of sales	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%	-1.5%
Operating cash flows	153.9	169.2	190.5	216.3	242.6	262.8	281.1	296.8	309.2	318.0
-Capex	-35.7	-37.6	-40.6	-43.4	-46.5	-49.2	-51.4	-53.0	-53.9	-54.1
as % of sales	-3.3%	-3.3%	-3.3%	-3.3%	-3.2%	-3.2%	-3.1%	-3.1%	-3.0%	-3.0%
Free cash flow	118.2	131.6	149.9	172.9	196.1	213.6	229.7	243.8	255.3	263.9
Discount coefficient	0.94	0.88	0.83	0.78	0.73	0.69	0.65	0.61	0.57	0.54
Discounted FCF	111.1	116.2	124.5	135.0	143.9	147.3	148.9	148.5	146.3	142.1

Source: Rémy Cointreau, Bryan, Garnier & Co

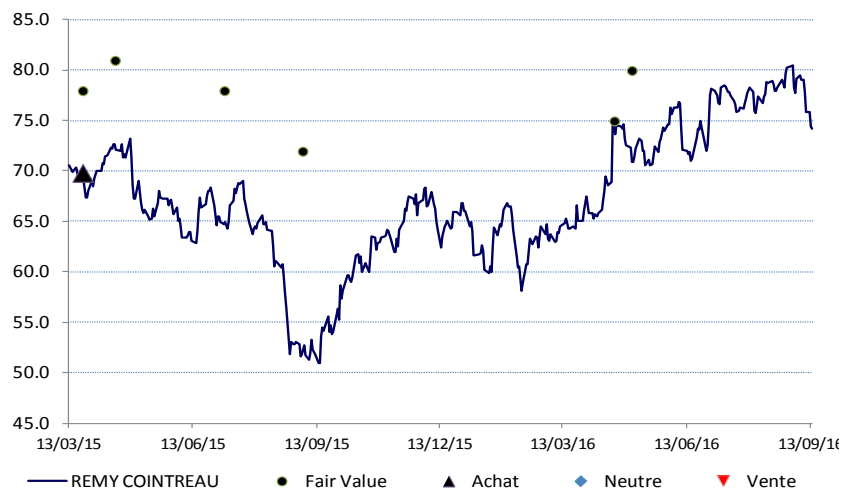
Fig. 18: DCF (2/2)

Sum of discounted cash flows	1,364
+Terminal Value	3,304
-Net debt	458
-Provisions	36
-Minorities	1
+Financial assets	135
Equity Value	4,308
Number of shares (m)	51.2
Fair value (EUR)	84

Source: Rémy Cointreau, 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
28/02/14	end of coverage	EUR96.8
23/05/12	BUY	EUR80.73

Target Price	
Date	Target price
03/05/16	EUR80
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
28/02/13	EUR0
17/01/13	EUR109
09/01/13	EUR100
23/05/12	EUR92

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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.
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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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BRYAN, GARNIER & CO

London	Paris	New York	Munich	New Delhi
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