

INDEPENDENT RESEARCH
UPDATE

23rd November 2016

Food & Beverages

Bloomberg	RCO FP
Reuters	RCOP.PA
12-month High / Low (EUR)	80.4 / 58.1
Market capitalisation (EURm)	3,711
Enterprise Value (BG estimates EURm)	4,145
Avg. 6m daily volume ('000 shares)	93.10
Free Float	45.7%
3y EPS CAGR	12.6%
Gearing (03/16)	41%
Dividend yield (03/17e)	2.14%

YE March	03/16	03/17e	03/18e	03/19e
Revenue (EURm)	1,051	1,076	1,145	1,227
EBIT (EURm)	178.40	206.46	227.56	256.28
Basic EPS (EUR)	2.11	2.46	2.84	3.24
Diluted EPS (EUR)	2.27	2.46	2.84	3.24
EV/Sales	3.97x	3.85x	3.59x	3.31x
EV/EBITDA	20.9x	18.3x	16.4x	14.4x
EV/EBIT	23.4x	20.1x	18.1x	15.8x
P/E	32.9x	30.3x	26.3x	23.0x
ROCE	16.5	17.3	18.0	18.3



Rémy Cointreau

Near-ideal positioning

Fair Value EUR84 (price EUR74.67)

BUY-Top Picks

In view of its status as a quasi pure cognac player, Rémy Cointreau is the company the best positioned to contend with the Millennial generation. We reiterate our Buy recommendation and our Fair Value of EUR84.

■ **A dynamic US market...**The group's largest market, representing 35% of sales and 44% of the operating result, is posting very robust growth rates. Value depletions have increased by 13% in the last twelve months, mainly driven by cognac whose consumption has changed from being emblematic of a community to a generational symbol.

■ **...and a pick-up in China.** This country is also showing very marked signs of an improvement. The company reported 5% growth in its Chinese value depletions in the first half of the year, representing a significant acceleration after the flat outcome in 2015/16. Rémy Cointreau is targeting a return to sales growth in 2016/17.

■ **A strategic plan on the right track.** The company is aiming to become the leader in exceptional spirits which should represent 60% to 65% of sales by 2019/20. 2015/16 may be deemed to represent a first successful step in this direction, in that their proportion of sales progressed by 400bps in one year to 49%.

BUY. Fair Value of EUR84. In our sector report, we calculate that 64% of Rémy Cointreau's sales are aligned with the tastes of the Millennial generation. These are mostly generated from cognac (62% of sales) but also, to a lesser extent, from single-malt scotch (2%). This reinforces our positive conviction on the stock. We reiterate our Buy recommendation and our DCF-derived Fair Value of EUR84.

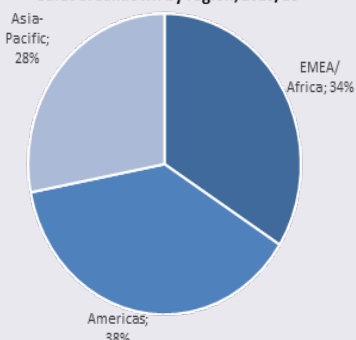


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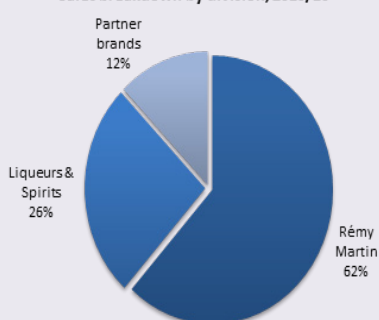
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Rémy Cointreau

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	1,145	1,227
<i>Change (%)</i>	<i>-13.6%</i>	<i>-6.4%</i>	<i>8.9%</i>	<i>2.5%</i>	<i>6.4%</i>	<i>7.1%</i>
Gross profit	618	618	666	707	763	827
EBITDA	167	178	200	227	250	282
EBIT	150	156	178	206	228	256
<i>Change (%)</i>	<i>-38.8%</i>	<i>3.9%</i>	<i>14.4%</i>	<i>15.7%</i>	<i>10.2%</i>	<i>12.6%</i>
Financial results	(26.2)	(29.7)	(27.3)	(23.0)	(17.0)	(16.0)
Pre-Tax profits	119	127	151	183	211	240
Tax	(45.8)	(33.5)	(44.1)	(56.9)	(65.3)	(74.5)
Profits from associates	(10.9)	(0.70)	(4.8)	(0.60)	0.0	0.0
Profit from continuing operations	62.4	92.6	103	126	145	166
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	126	145	166
Restated net profit	80.2	94.6	110	126	145	166
<i>Change (%)</i>	<i>-47.1%</i>	<i>18.0%</i>	<i>16.7%</i>	<i>14.1%</i>	<i>15.3%</i>	<i>14.1%</i>

Cash Flow Statement (EURm)

Operating cash flows	110	98.8	157	213	236	266
Change in working capital	(61.7)	(79.4)	(42.4)	(16.1)	(17.2)	(18.4)
Capex, gross	(42.2)	(36.8)	(30.8)	(35.7)	(37.8)	(40.5)
Financial investments / tax paid	(108)	(53.0)	(52.8)	(79.9)	(82.3)	(90.5)
Dividends	(69.3)	(48.0)	(72.8)	(81.9)	(81.9)	(81.9)
Other	(69.4)	(42.8)	6.0	(15.0)	(17.0)	(16.0)
Net debt	414	467	458	435	401	348
Free Cash flow	(43.8)	7.7	75.2	97.4	115	135

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	12.5	46.3	99.5
Other current assets	1,443	1,375	1,407	1,300	1,299	1,370
Other non-current assets	164	183	164	165	165	166
Total assets	2,278	2,339	2,282	2,184	2,190	2,268
L & ST Debt	600	541	505	418	418	418
Others liabilities	667	722	663	677	715	759
Shareholders' funds	1,012	1,076	1,113	1,088	1,058	1,090
Total Liabilities	1,267	1,262	1,168	1,096	1,133	1,177
Capital employed	1,390	1,532	1,552	1,477	1,416	1,401

Ratios

Gross margin	59.77	64.05	63.37	65.70	66.60	67.45
Current operating margin	14.56	16.16	16.98	19.18	19.88	20.89
Tax rate	38.46	26.42	29.13	31.00	31.00	31.00
Net margin	7.77	17.96	10.51	11.70	12.69	13.51
ROE (after tax)	7.93	8.79	9.92	11.58	13.74	15.21
ROCE (after tax)	17.10	15.60	16.50	17.30	18.00	18.30
Gearing	40.86	43.35	41.16	39.94	37.90	31.89
Pay out ratio	52.60	80.10	75.99	64.98	56.35	49.38
Number of shares, diluted (Thousand)	49,312	48,683	48,683	51,167	51,167	51,167

Data per Share (EUR)

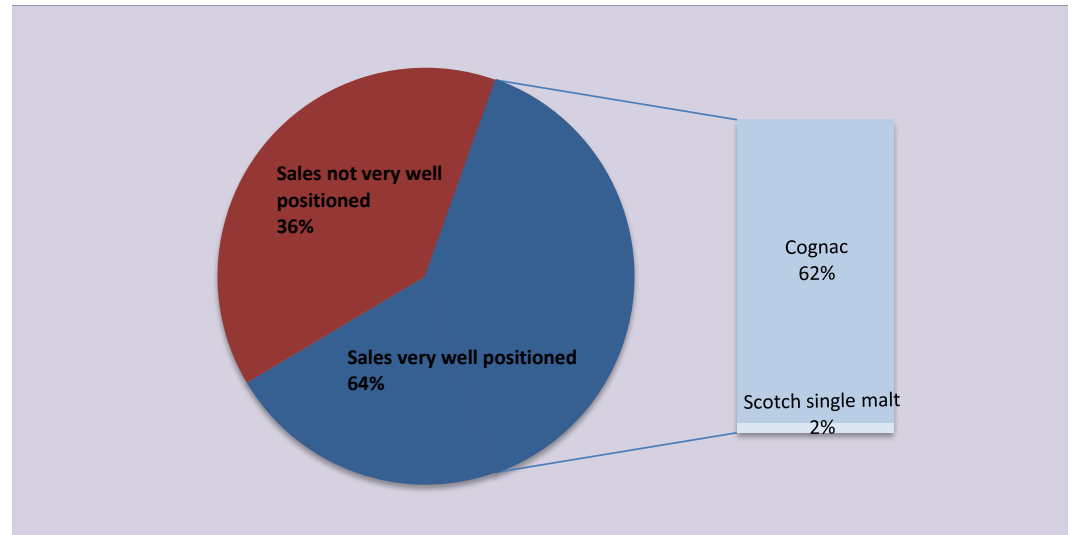
Diluted EPS	1.27	1.91	2.11	2.46	2.84	3.24
Diluted restated EPS	1.63	1.95	2.27	2.46	2.84	3.24
<i>% change</i>	<i>-47.4%</i>	<i>19.9%</i>	<i>16.3%</i>	<i>8.6%</i>	<i>15.3%</i>	<i>14.1%</i>
BVPS	20.52	22.11	22.87	21.26	20.67	21.31
CFPS	2.23	2.03	3.23	4.17	4.61	5.20
FCF	(0.89)	0.16	1.54	1.90	2.26	2.64
Dividend 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. 64% of sales are well-positioned

Based on our forecasts, 64% of Rémy Cointreau’s sales are aligned with the tastes of the Millennial generation, i.e. mainly cognac (62% of sales) but also, to a lesser extent, single-malt scotch (2%). The group’s other categories remain interesting and some are posting strong performances although the attraction they hold for Generation Y seems, in our view, less obvious.

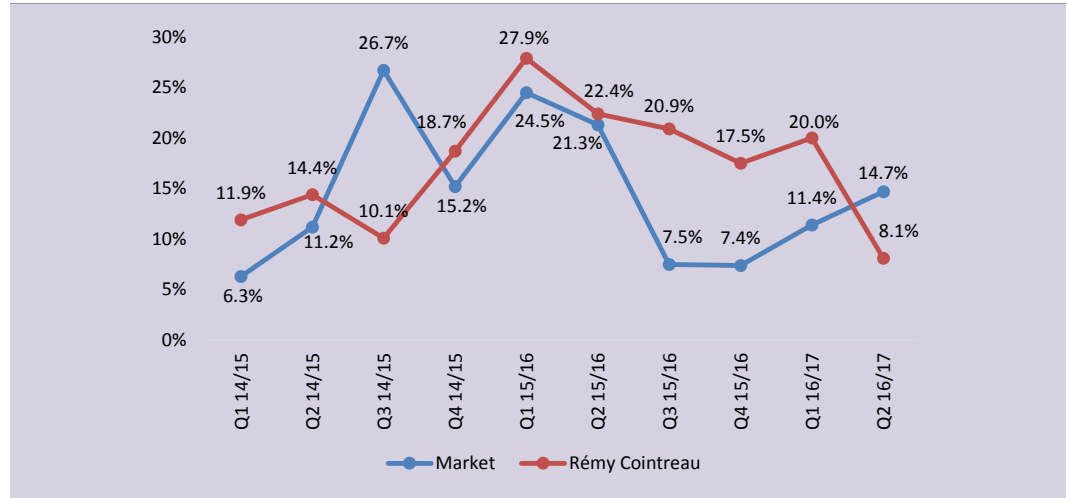
Fig. 1: The Rémy Cointreau portfolio (% of group sales)



Source: Rémy Cointreau, Bryan, Garnier & Co

The United States, which account for 40% of the group’s cognac sales, are posting very robust growth. The country’s consumption has changed from being emblematic of a community to a generational symbol. Thus, Afro-Americans who used to represent 60% of cognac consumers now account for no more than one third, Caucasians and Latino-Americans constituting the remaining two thirds. In the United States, Rémy Cointreau has astutely repositioned itself in the high-end qualities (VSOP and XO), enabling it to virtually-consistently outperform the cognac market over the past two years, the recent slowdown being explained by retailer destocking following the price rises at the beginning of the year.

Fig. 2: Cognac depletions in value: Rémy Cointreau vs the US market

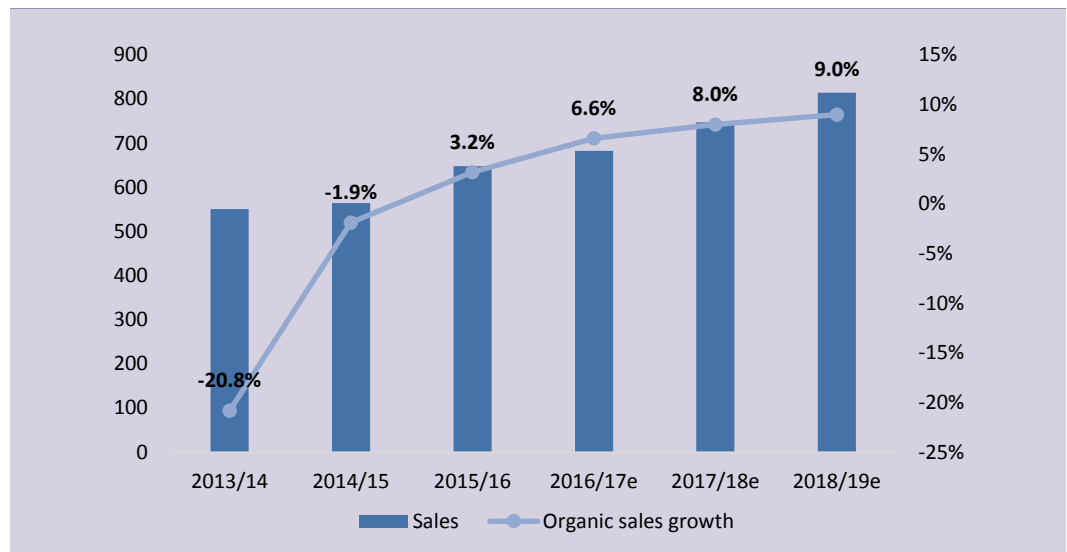


Source: Rémy Cointreau, Bryan, Garnier & Co.

China, the number two cognac market for Rémy Cointreau (32% of sales), is also showing very clear signs of a pick-up. Rémy Cointreau reported mid-single-digit growth in its depletions in value during H1 2016/17, i.e. a very sharp acceleration relative to the stable trend of the 2015/16 financial year. **Private consumption, which had been dampened by a collective paranoia after the implementation of the anti-extravagance policy in 2012, has been normalising since the summer of 2015, particularly in Mainland China.** In this country, the group has also benefited from its ‘One Life/Live Them’ marketing campaign showcasing the Chinese star Huang Xiomng. The iconic product for the company remains the Club (EUR80 a bottle). Rémy Cointreau’s guidance for 2016/17, i.e. a return to growth for sales and depletions (value), remains unchanged.

The Cognac division is expected to be the main growth driver for Rémy Cointreau in the coming years. Our forecasts show sales increasing by 6.6% in 2016/17, a significant acceleration on the 2015/16 level (+3.2%).

Fig. 1: Sales forecasts



Source: Rémy Cointreau, Bryan, Garnier & Co

2. A strategic plan on the right track

In its strategic plan unveiled in June 2015, Rémy Cointreau stated its goal of becoming the leader in the exceptional spirits segment, i.e. a bottle price of over USD50. Most of the brands satisfy this criterion.

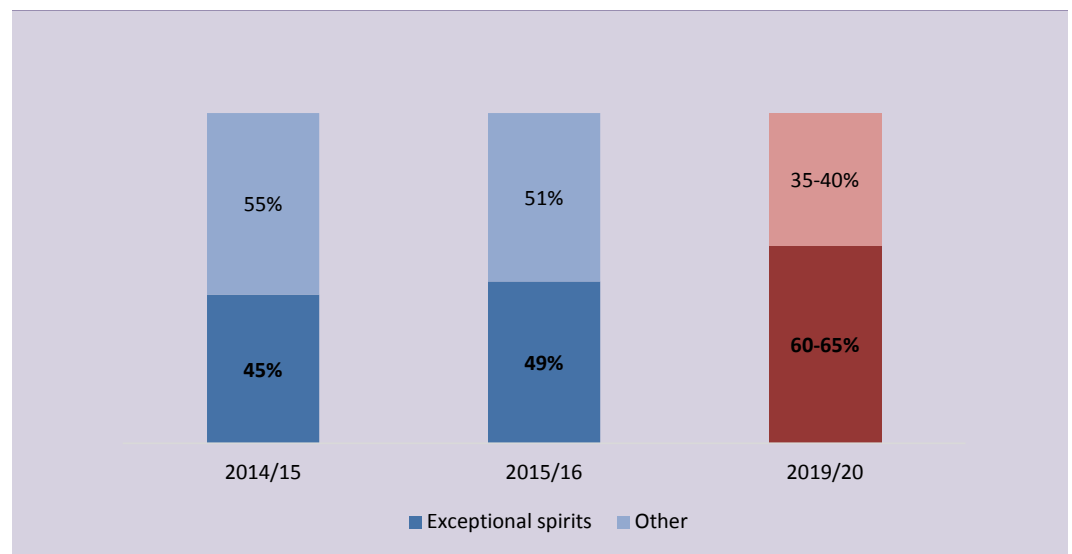
Fig. 2: The group's portfolio



Source: Rémy Cointreau

The group aims to generate 60% to 65% of sales in exceptional spirits by 2019/20 and we are confident in its ability to achieve this target. **2015/16 may effectively be deemed to represent a first successful step in this direction**, in that their proportion of sales progressed by 400bps in one year to 49%.

Fig. 3: Percentage of exceptional spirits in the group's sales



Source: Rémy Cointreau, Bryan, Garnier & Co

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

To achieve its objective, the group is mainly focusing on improving the price/mix of its existing portfolio. Concretely, it is increasing prices, upping its investment in products which qualify as 'exceptional spirits' and launching new products in the over-USD50 price bracket.

- One of the priorities for the **cognac portfolio** is to develop the intermediary category whose price is above that of VOSPs but below that of XOs. Club in China and 1738 in the United States have thus benefited from a major marketing campaign. Louis XIII must also regain its pre-2012 status. For this purpose, a geographical diversification is under way. There are opportunities outside China, in the United States, Canada, Russia, India, etc. To seize them, the group will need to recruit influencers from amongst HNWI's (13 million globally). Innovation is also important. The company has launched the miniature (5cl priced at EUR500) and special editions like the *Odyssée d'Un Roi*. Note that the VS volumes are now residual (mainly in Russia).
- Within the **Liqueurs & Spirits division**, the group is massively investing in the Bruichladdich products (Bruichladdich/Port Charlotte/Octomore/The Botanist) which may be considered to be 'exceptional'. It has also launched premium versions of the existing brands: Mount Gay Black Barrel, Mount Gay XO, Cointreau Blood Orange, Saint-Rémy XO, and Metaxa Angel's Treasure. In parallel, it has increased the price of Mount Gay Eclipse in the United States from USD15 to USD25 in two years.

Adjustments to the product portfolio should also enable Rémy Cointreau to increase the proportion of exceptional spirits. In October 2015, the group sold the Izarra brand before establishing a JV with Bols for the Passoa brand in September 2016. This passion fruit-based liqueur, which represents around 1.5% of the group's sales should be deconsolidated at the end of 2016. We do not see more liqueur and spirits brand disposals but other distribution contracts could be terminated. The group has already ended its US distribution agreement with Edrington whiske(y)s in 2014/15, and EPI champagnes in the United States in 2015/16 and in France, the Benelux and Travel Retail in 2016/17...In 2015/16, the Partner Brands division contributed only 12% of the group's sales against 24% two years previously. The remaining contracts are modest in size (primarily William Grant & Sons' and Russian Standard's brands). Having made no acquisitions since Bruichladdich in 2012, this October Rémy Cointreau announced plans to purchase the *Domaine des Hautes Glaces*, an organic whisky manufactured using renewable energy and sold at a bottle price of between EUR65 and EUR150. The group has always said that it is interested in a champagne brand but we have argued that whisk(e)y's, tequilas and mezcals might be potential targets.

3. Forecasts

Fig. 4: Sales

EURm	2014/15	2015/2016	2016/17e	2017/18e	2018/19e
Group					
Sales	1032	1051	1076	1145	1227
% reported	-6.4%	8.9%	2.5%	6.4%	7.1%
% FX and perimeter	-7.0%	8.5%	-1.3%	0.2%	0.0%
% organic	0.6%	0.3%	3.7%	6.2%	7.1%
Rémy Martin					
Sales	565	648	683	748	815
% reported	2.5%	14.7%	5.4%	9.5%	9.0%
% organic	-1.9%	3.2%	6.6%	8.0%	9.0%
Liqueurs & Spirits					
Sales	263	274	281	284	295
% reported	10.8%	4.1%	2.8%	0.8%	4.0%
% organic	7.2%	-1.5%	4.8%	4.0%	4.0%
Partner Brands					
Sales	137	129	112	114	117
% reported	-43.5%	-6.0%	-12.8%	1.1%	3.0%
% organic	-1.0%	-8.1%	-13.0%	0.3%	3.0%

Fig. 5: Current operating result

EURm	2014/15	2015/2016	2016/17e	2017/18e	2018/19e
Group					
EBIT	156	178	206	228	256
Margin	16.2%	17.0%	19.2%	19.9%	20.9%
Change in bps	160	82	220	70	102
Rémy Martin					
EBIT	117	140	162	180	203
Margin	20.8%	21.6%	23.7%	24.1%	24.9%
Change in bps	-197	78	217	32	88
Liqueurs & Spirits					
EBIT	52	48	54	57	63
Margin	19.7%	17.6%	19.2%	20.2%	21.2%
Change in bps	406	-212	162	103	97
Partner Brands					
EBIT	7	6	6	6	6
Margin	5.3%	4.6%	5.2%	5.1%	5.1%
Change in bps	174	-67	57	-12	0
Holding company costs					
EBIT	-21	-15	-15	-15	-15
% of sales	-2.1%	-1.5%	-1.4%	-1.3%	-1.3%

Source of all tabs: Rémy Cointreau, Bryan, Garnier & Co

4. Buy; FV: EUR84

Fig. 6: DCF (1/2)

<i>EURm</i>	2016/17e	2017/18e	2018/19e	2019/20e	2020/21e	2021/22e	2022/23e	2023/24e	2024/25e	2025/26e
Sales	1076	1145	1227	1319	1424	1520	1605	1676	1730	1765
% change	2.5%	6.4%	7.1%	7.5%	7.9%	6.8%	5.6%	4.4%	3.2%	2.0%
EBIT	206	228	256	282	312	333	351	367	379	386
EBIT margin	19.2%	19.9%	20.9%	21.4%	21.9%	21.9%	21.9%	21.9%	21.9%	21.9%
-Income taxes	-57	-65	-74	-79	-87	-93	-98	-103	-106	-108
+Depreciation	20	23	26	29	34	38	42	46	50	53
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	-17	-18	-20	-21	-23	-24	-25	-26	-26
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	154	168	189	213	237	255	271	285	297	305
-Capex	-35.7	-37.8	-40.5	-42.9	-45.6	-47.9	-49.8	-51.1	-51.9	-52.1
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	130	149	170	191	207	221	234	245	253
Discount coefficient	0.94	0.89	0.83	0.78	0.74	0.69	0.65	0.62	0.58	0.55
Discounted FCF	111	115	124	133	141	144	145	144	142	138

Fig. 7: DCF (2/2)

Sum of discounted cash flows	1337
+Terminal Value	3300
-Net debt	458
-Provisions	36
-Minorities	1
+Financial assets	135
Equity Value	4276
Number of shares (m)	51.2
Fair value (EUR)	84

Source of all charts: Bryan, Garnier & Co

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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.

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BUY ratings 72%

NEUTRAL ratings 0%

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