



## RÉMY COINTREAU

Rémy Cointreau (RCO:EPA, Market Capitalisation €8.25b) is a company that provides investors with exposure to the growth of luxury markets around the world. Increasing global income inequality continues to benefit brands at the low end of markets and brands at the very top. Rémy sells some of the finest Cognacs in the world, with a full range of brands that serve all the segments between premium and upper luxury. Rémy also sells liqueurs, whiskey, gin and rum, but with a more limited range in each. In sum, Rémy has a set of global brands which are nearly impossible to replicate, some in excess of 300 years old. This is a vital, and insurmountable moat that Rémy can lay claim to, no amount of money can replicate Rémy's business.

Rémy is well positioned to benefit from an increasingly discerning consumer base, situated in high value, fast growing categories, which offer potential for greater margin expansion as Rémy's substantial operating expenditure (OpEx) abates in the coming years. Compared to its peers, Rémy is far more conservatively leveraged, a symptom of majority family ownership, that further separates it from its peers.

Rémy's valuation has fallen significantly over the last two years, faster than the broader industry who have also faced the same headwinds, an uncertain macro outlook, rising inflation and highly restrictive Chinese lock-downs which have hit revenues. Despite the ultimately short term issues that have plagued the industry, we take a longer term view of Rémy's potential as a well run family controlled company that provides a unique exposure to growing affluence, particularly in Asia.







# A brief history of Rémy Cointreau



**1703**  
Establishment of Mount Gay Rum in Barbados, (The oldest brand of rum in the world).



**1724**  
Establishment of the House of Rémy Martin Cognac.



**1849**  
Creation of Cointreau and Cie by the Cointreau brothers.



**1881**  
Creation of the Bruichladdich Distillery on Islay.



**1881**  
Creation of the brand Metaxa.



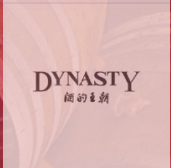
**1924**  
Acquisition of E. Rémy Martin and Cie SA by Andre Renaud.



**1965**  
Andre Heriard takes over from his father-in-law M. Andre Renaud.



**1966**  
Creation of the Rémy Martin international distribution system.



**1980**  
Creation of the French-Chinese joint venture Dynasty Winery.



**1985-1988**  
Acquisition of Piper-Heidsieck Champagnes.



**1889**  
Acquisition of Mount Gay Rum by the Rémy Martin Group.



**1990**  
Transfer by Pavis SA of Rémy Martin shares to Cointreau and Cie SA.



**1991**  
Adoption by the group of the corporate name of Rémy Cointreau.



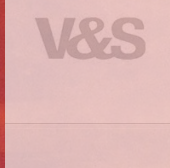
**1998**  
Dominique Heiard Dubreuil, Chairman of Rémy Cointreau.



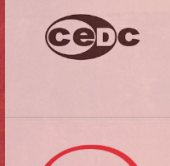
**1999**  
Establishment of the Maxxium distribution system.



**2000**  
Acquisition of Bols Royal distilleries, including Bols and METAXA brands.



**2001**  
Vin & Spirit join the Maxxium network.



**2005**  
Disposal of Bols' operations to CEDC.



**2006**  
Disposal of the Dutch and Italian Liqueurs and Spirits operations.



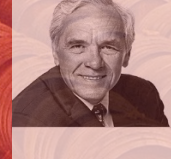
**2009**  
March 30: Rémy Cointreau exists the Maxxium joint venture.



**2011**  
July 8: Rémy Cointreau sells its Champagne branch to EPI.



**2012**  
September 3: Acquisition of the Bruichladdich Distillery.



**2012**  
Francois Heriard Dubreuil; Chairman of Rémy Cointreau.



**2013**  
Disposal of Larsen to Finnish group Altia.



**2015**  
Disposal of Izarra to Spirited Brands.



**2017**  
Acquisition of French single malt whiskey Domaine des Hautes.



**2017**  
Acquisition of single malt whiskey; Westland Distillery.



**2017**  
Marc Heriard Dubreuil becomes Chairman of Rémy Cointreau.



**2020**  
Rémy Cointreau acquires the Maison de Cognac J.R. Brillet and century old Champagne house J. de Telemont.





# A portfolio of exceptional spirits

The Rémy Cointreau Group boasts a portfolio of exceptional world renowned spirits: Rémy Martin and Louis XIII Cognacs, Cointreau liqueur, Greek Metaxa spirit, Mount Gay rum, St-Rémy brandy, The Botanist gin, and the single malt whiskies Bruichladdich, Port Charlotte, Octomore, Westland and Domaine des Hautes Glaces. Two new houses recently enriched this portfolio: Belle de Brillet liqueur and Telmont Champagne. Depending on the spirit category, production process and geographic sales distribution, the Group's brands are allocated to one of the following two divisions: "Cognac" or "Liqueurs & Spirits". Brands distributed by Rémy Cointreau through its network on behalf of third parties form a separate category, "Partner Brands". Rémy Martin Cognac is the groups main revenue generator providing more than half of the company's revenues and is arguably one of the strongest brands remaining outside of global beverage company control.

## Rémy Cointreau's Portfolio



### Cognac:

Rémy Martin, Louis XIII, Brillet

**€948.3m**  
in sales

### Liqueurs & Spirits:

Cointreau, Metaxa, Mount Gay, St-Rémy, Telmont, Belle de Brillet, The Botanist and Single Malt whiskies

**€333.2m**  
in sales

### Partner Brands:

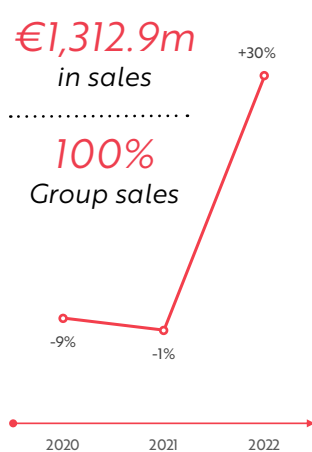
Non-proprietary brands distributed by the group

**€31.2m**  
in sales

### Organic sales growth for the Group

**€1,312.9m**  
in sales

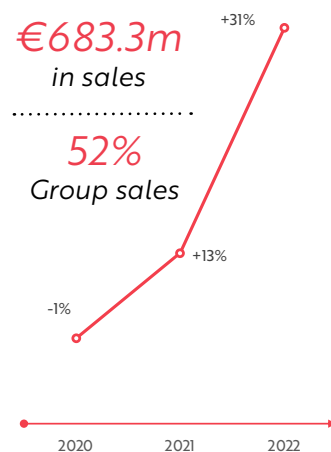
**100%**  
Group sales



### Americas

**€683.3m**  
in sales

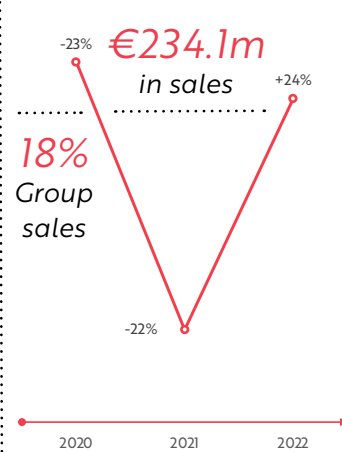
**52%**  
Group sales



### Europe, Middle East & Africa\*

**€234.1m**  
in sales

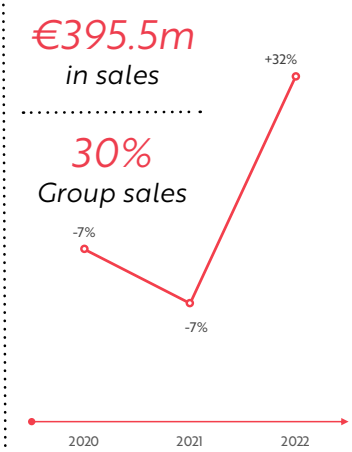
**18%**  
Group sales



### Asia Pacific

**€395.5m**  
in sales

**30%**  
Group sales



\*EMEA 2021 decline largely attributable to expiration of partner brands distribution contracts, organic decrease of -6.4%.

Source: Rémy Cointreau, Elevation Capital

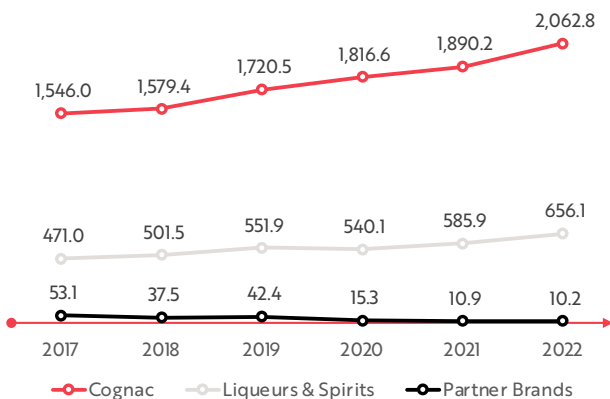


# Understanding the Cognac business

Cognac is an appellation d'origine contrôlée (AOC) eaux-de-vie, (the French expression that translates to "Water of Life", a clear fruit brandy that is fermented and double distilled). AOC requirements dictate that Cognac must come from vineyards in the Cognac region (south-west France). The appellation covers six territories or "crus": Grande Champagne, Petite Champagne, Borderies, Fins Bois, Bons Bois and Bois Ordinaires. "Fine Champagne", which refers to a Cognac made exclusively from the first two crus, Grande Champagne (at least 50%) and Petite Champagne make up a separate AOC within the Cognac AOC. Rémy Martin only selects its eaux-de-vie from the "Fine Champagne" (Grande Champagne and Petite Champagne) AOC, whose quality is best suited to the production of its superior quality Cognacs with their longer ageing potential. Rémy then stores select blends of eaux-de-vie for a minimum of two years in century old oak barrels from the limousin forest. All of Rémy Martin Cognacs are produced in and around the town of Cognac, on a site that includes ageing and fermentation cellars, laboratories, a packaging complex, offices and a visitor and reception centre. The House also owns wine estates (238 hectares of vines eligible for the Cognac appellation), as well as a new distillery in Juillac in southern France, which opened in November 2018.

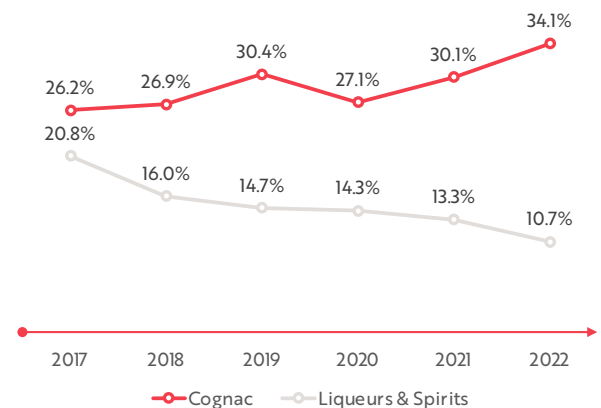
Rémy's stock of Cognac eaux-de-vie has been built up largely as a result of exclusive partnerships with Grande and Petite Champagne producers. This partnership policy, introduced in 1966, has enabled the Group to manage its long-term supplies and meet the quality standards required by The House of Rémy Martin. Due to the lengthy aging process involved in production, Rémy carries a vast amount of inventory on its balance sheet and consequently working capital is very high. However, the value of Rémy's inventory continues to appreciate while it remains in oak barrels, the longer it is left in storage, the more valuable it becomes. This leads to a unique situation where capital is tied up for lengthy periods of time in the inventory and results in a long term capital gain at the time of sale.

## Inventory (in million €)



Source: Rémy Cointreau, Elevation Capital

## Operating Margins before tax (%)

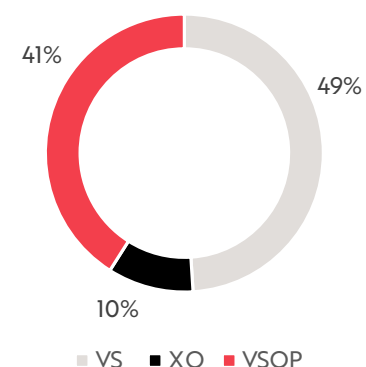


Source: Rémy Cointreau, Elevation Capital

## The Cognac market is an Oligopoly

The Cognac market is dominated by four major houses that share ~84% of the total market by volume and ~88% of value. Hennessy (LVMH), Martell (Pernod Ricard), House of Rémy Martin (Rémy Cointreau), and Courvoisier (Suntory). Rémy Martin's market share of Cognac shipments for all qualities combined is 13.6 % by volume as at March 2022, up +0.5 pts compared to March 2021. Virtually all the shipments of the House of Rémy Martin are for the superior quality segment (VSOP and XO qualities), which accounts for 51.1% of the total Cognac market. Barriers to entry are exceptionally high, built on centuries of history, rather than greater access to capital or even superior product. What can be defined as Cognac is strictly defined by its AOC, and stringent regulations prevent the mass planting of new vines. This results in long term structural supply tailwinds, which will continue to fall short of demand in greater and greater volumes. While this limits revenue growth to a degree, it results in a product with exceptional margins and a devoted following.

## Worldwide shipments of Cognac by quality (%)



Source: Rémy Cointreau, Elevation Capital





# Shifting consumption habits favour Rémy

Beyond the changes observed in the context of the Covid pandemic, consumers of high-end spirits have changed in recent years. Millennials (of generations Y and Z) are seeking more knowledge about the spirits they consume, their history, the know-how behind them, and differentiation. Consumers are also looking for a more convenient way of buying spirits (growth of e-commerce), as well as more services, an enhanced shopping experience and a tailor-made offering. There are however, nuances in how these new generations from Rémy's key markets, US, Europe and Asia, consume their spirits. From a casual individualistic consumption in the West to a collective and on-trade drinking market in Asia.

The House of Rémy Martin is well positioned with four flagship Cognacs, consistently recognised as a superior products within their peer group:

- VSOP Fine Champagne;
  - 1738 Accord Royal and CLUB;
  - XO Excellence Fine Champagne;
  - Louis XIII Grande Champagne.
- 

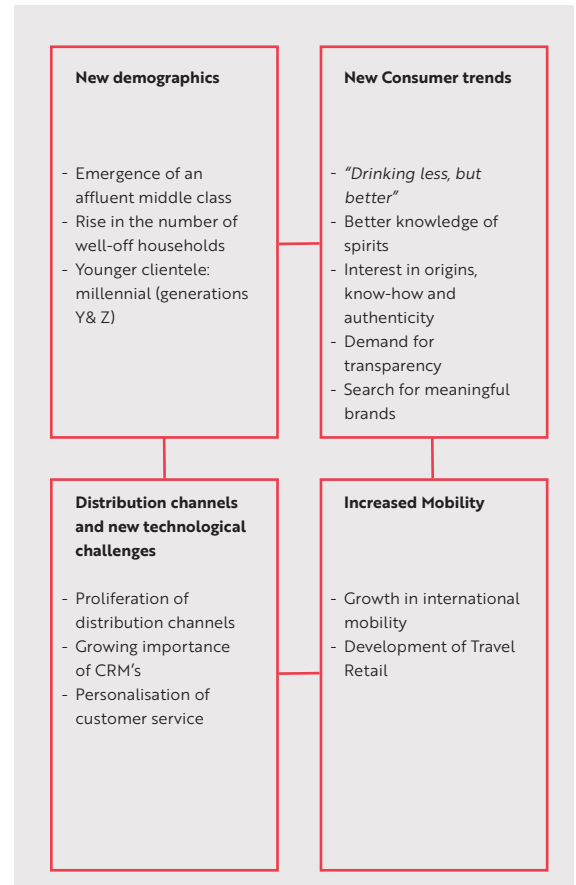
## United States & Europe

American consumption is driven by hedonism and self-expression. The US clients of Rémy Cointreau enjoy their spirits neat or on the rocks – there is a growing trend for cocktails; even for Cognac: the most popular mixer being cola. More people are drinking Cognac casually at home, and less to celebrate a special occasion. Western millennials continue to shift their alcohol consumption habits away from beer and wine to spirits. On a typical night out, a young millennial is more likely to order a Scotch whisky than fancy wine or cheap beer. The “neat” consumption is also a trend in Europe. Millennials spend less time in club or pubs, and enjoying less, but higher-quality spirits, “*Drinking Less but Better*”.

## Asia (China)

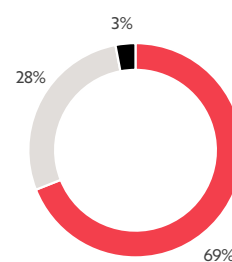
Asia is the largest market by volume for Cognac, and China is by far the largest in value. Chinese millennials have a strong preference for Rémy's more expensive VSOP\* and XO varieties. Cognac in China is a social drink mostly consumed “on-trade” or as a gift: serving expensive bottles is a way, for the middle class, to display their relative wealth. But traditions are evolving, Asian millennials, are more and more likely to buy high end spirits for themselves, not as a bottle to gift. Also, due to their western origins, Cognac, rum and gin (not whiskey) all share an exotic flavour for Asian clients of the Group.

## Emerging trends impacting Rémy

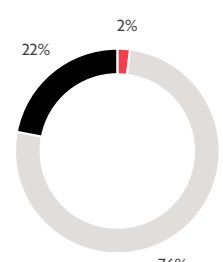


## Cognac consumption by quality level and geography (%)

### United States



### Asia (China)



■ VS ■ VSOP ■ XO

■ VS ■ VSOP ■ XO

Source: Rémy Cointreau, Elevation Capital

\*There are several Cognac quality levels classified in accordance with legal standards (BNIC) based on the youngest eau-de-vie used:  
 - VS (“Very Special”), which by law must be aged for a minimum of two years;  
 - QS (Qualité Supérieure), covering all the VSOP and QSS labels;  
 - VSOP (“Very Superior Old Pale”), which by law must be aged for a minimum of four years;  
 - QSS (Qualité Supérieure Supérieure), which by law must be aged for a minimum of ten years;  
 - XO (“Extra Old”), which is included in the QSS category.

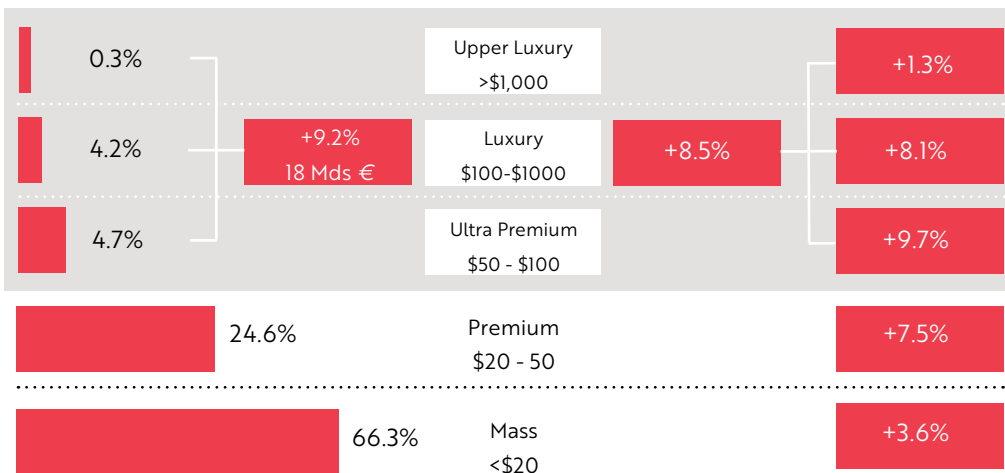


# Exceptional spirits: a fast growing segment

The Exceptional Spirits market features an extensive number of co-existing local and international brands in a particularly competitive environment. Against this background, Rémy Cointreau has, for many years, implemented a value creation strategy aimed at developing its upmarket brands in the high-end segments of the global markets, which offer high growth and earnings potential. Over the past 15 years, the implementation of this strategy has led the Group to sell brands and other assets deemed less suited to its value creation strategy and to take full control of its distribution in key markets (exiting from the Maxxium distribution system in April 2009). Since 2015, the Group has accelerated its strategy of moving upmarket so as to differentiate itself and emphasise its uniqueness.

## Market Value Split Per Price Segment (by Value)\*

## CAGR % 2011 - 2021 (by Value)



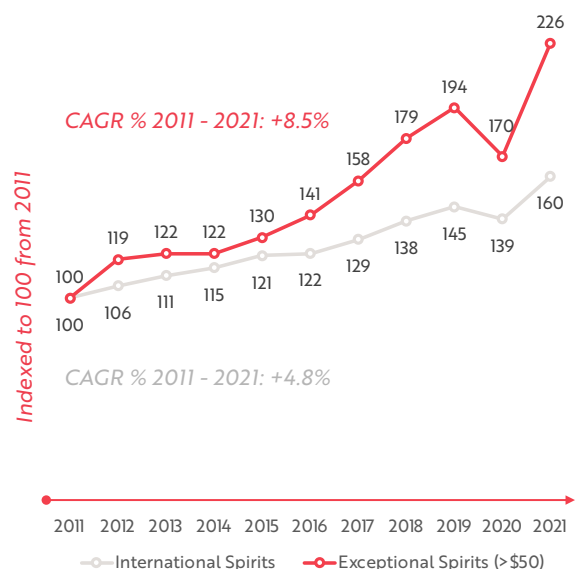
● Exceptional spirits are enjoying +8.5% growth per year on average, compared with +4.8% for the spirits market as a whole over the last 10 years.

● This is driven by a move towards the high-end of the market and an increasingly discerning clientele in terms of the quality, production and know-how.

■ Rémy Cointreau's primary market

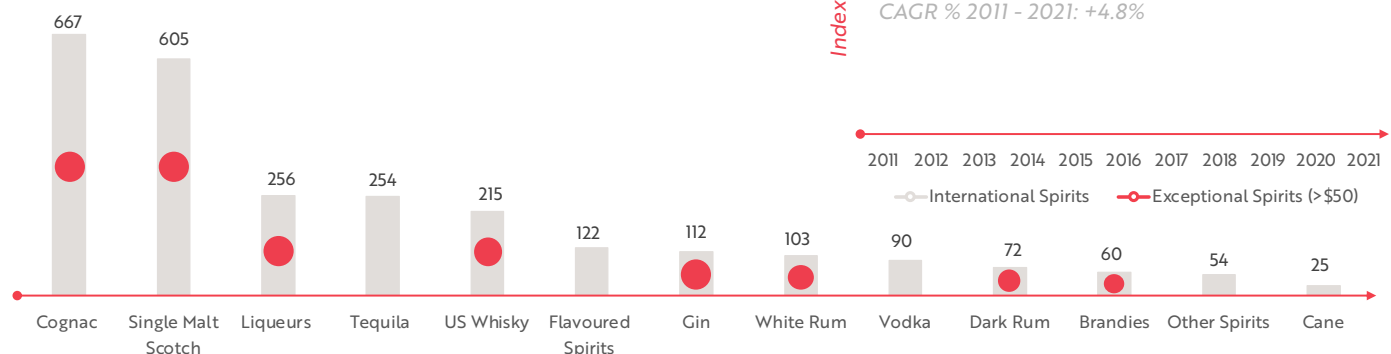
Rémy Cointreau Group brands belong to categories of spirits (such as Cognac, single malt whiskey, dark rum or gin) that have benefited from strong momentum (+8.5% per year on average during the 2010/2021 period). The international spirits market grew +4.8% on average over the last twenty years. Correspondingly, these categories offer very attractive valuation metrics ("value per case"): Cognac, single malt whiskey and liqueurs are the categories of spirits with the highest value per case on the market. As a result, the average value per case of the Group's portfolio of brands was nearly €500, compared to just over €100 for the international spirits market.

## Exceptional Spirits have outperformed the global market since 2011\*



## Value per case by category of spirits (in €)\*\*\*

● Rémy Cointreau Group Categories



\*Source: IWSR, Rémy Cointreau, Elevation Capital, assuming international spirits market estimation at ~US\$ 200 billion

\*\*Source: IWSR, Rémy Cointreau, Elevation Capital

\*\*\*Source: IWSR, Rémy Cointreau, Elevation Capital

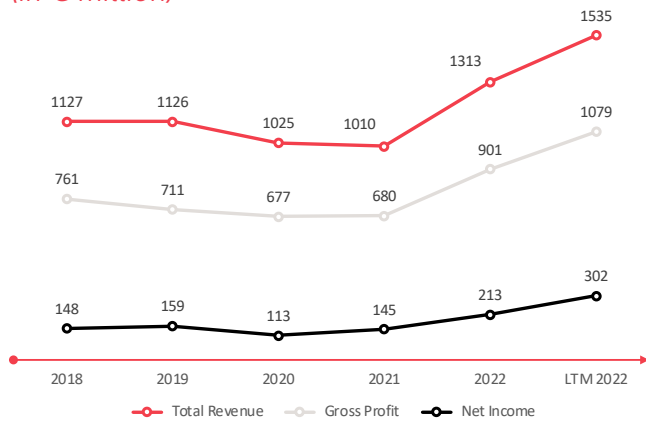




# Strong sales and improving margins

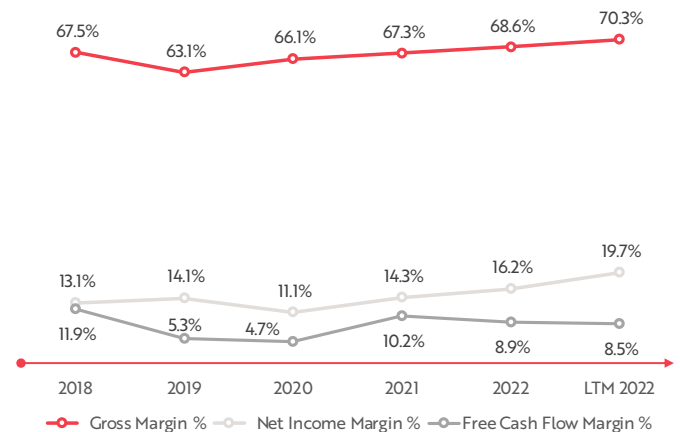
Rémy Cointreau generated sales of €1.304.7 million in the first nine months of 2022-2023, +10.1% on an organic basis and +50.3% compared to 2019-2020. Total sales were bolstered to +20.2% on a reported basis, supported by a +10.1% gain from a weakening US Dollar (USD). A steep rise in Cognac shipments to China ahead of the Lunar New Year and continued recovery in travel retail have been the two dominant themes responsible for the gain in organic sales in the third quarter ended 27 January 2023. Liquors and Spirits also performed strongly, lead by the Cointreau and the Whiskey portfolios which were the strongest performers over the last nine months. Longer term, growing high margin XO Cognac sales remains a priority as Pernod Ricard and LVMH/Diageo continue to dominate this lucrative category.

## Rémy Cointreau top & bottom line growth (in € million)



Source: Elevation Capital/Capital IQ

## Rémy Cointreau Margin Analysis (%)



Source: Elevation Capital/Capital IQ

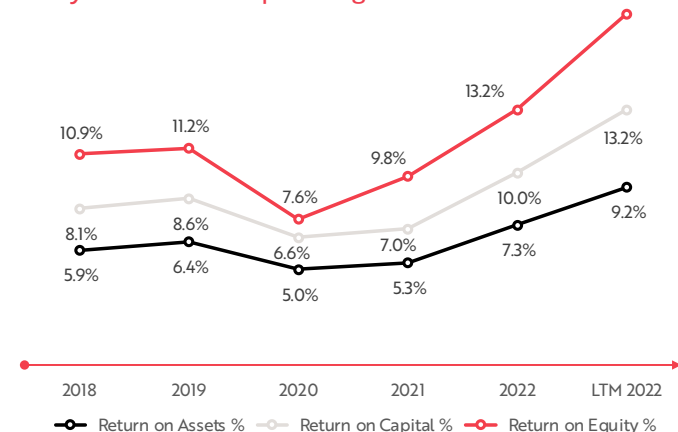
Improving margins remains a long term focus for management, who are targeting 77% gross margins and 33% operating margins by 2030. Rémy's partner brands and spirits portfolio have been a drag on margins for the last decade, which have underperformed peers with less luxurious offerings. While margin improvement has taken a back seat to marketing spend with high profile celebrities in China and the US, it is managements overarching priority heading into 2030. Rémy can likely achieve much higher margins once its current investments are completed, however, scale remains an issue. Margin expansion in recent years has been characterised by improving gross margins but widening operating expense margins: While gross margin expands naturally from price increases, management has chosen to invest a substantially into OpEx areas such as direct distribution, including both physical stores and e-commerce. As a result, Advertising & Promotion (A&P) costs have been increasing at a double-digit rate. This investment phase should be completed in the near term, at which point EBIT growth should accelerate as revenue growth continues.

## Effective capital allocation in a difficult market

Post Covid, management have executed well, as returns on invested capital have approximately doubled. ROA and ROE have similarly grown strongly.

Due to the time required to undertake investment in additional inventories, operating metrics are lagging indicators of management's primary capital allocation decisions and market conditions. Management also continues to invest heavily in marketing and new distribution channels, and in due course, we expect to see this realised in Rémy's operating performance.

## Rémy Cointreau's Operating Performance



Source: Elevation Capital/Capital IQ

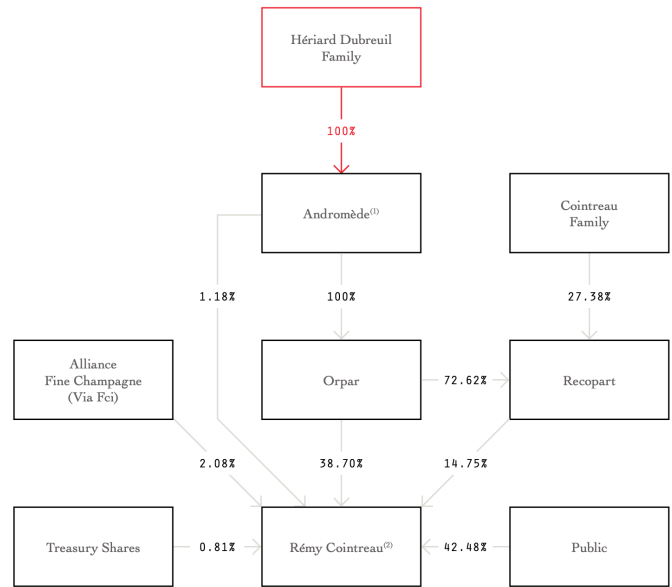


# Family control induces sound practices

Through the holding companies Orpar and Recopart the Dubreuil and Cointreau families control ~53% of Rémy Cointreau. This offers investors a number of tangible benefits;

- Family ownership (53.27%) typically aligns long term incentives. The Dubreuil and Cointreau families have a large amount of "skin in the game", and are more inclined to allocate capital to ensure long term sustainability, over and above hitting quarterly sales targets.
- This relative financial conservatism extends to the balance sheet, Rémy Cointreau uses far less leverage than its peers, who are ~2.75x more leveraged on average, (Net Debt/Capital).\*
- The most likely scenario in which the family's would lose control would be under acquisition which we believe would occur at a significant premium, in part due to the ability to move as a block.

Holding Structure (as at 31 March 2022)



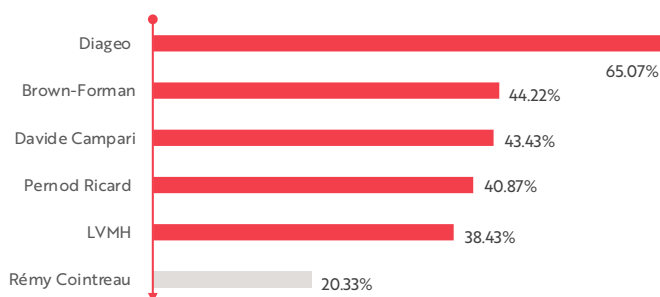
## Rémy has a fortress balance sheet

A symptom of majority family ownership, Rémy is very well capitalised and holds extremely conservative levels of debt in comparison to its peers in the Spirit and Alcohol industry. The vast majority of operating cash flow is retained within the business to fund CAPEX, Inventory, brand-building and further channel development.

Management has provided a (mostly) rising regular dividend (+1.1% in 2022), which is likely to be maintained during downturns, given Rémy can increase leverage from the current 0.9x Net Debt/EBITDA when required. Rémy also repurchased shares in 2022, to the value of €171m.

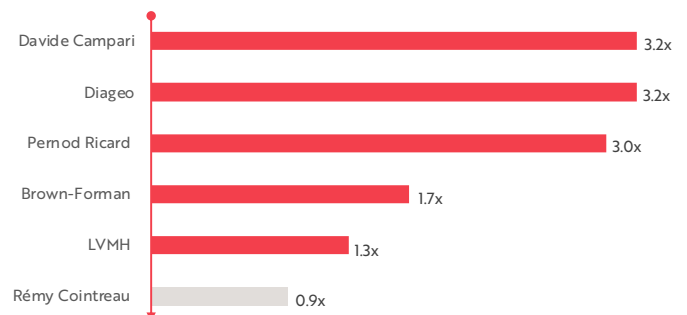


Rémy Cointreau Net Debt/Total Capital vs Peers\*



Source: Rémy Cointreau, Elevation Capital

Rémy Cointreau Net Debt/EBITDA



Source: Rémy Cointreau, Elevation Capital





# Consolidation multiples illustrate Rémy's value

In the largest transaction in industry history, Suntory the Japanese beverage giant, acquired Jim Beam Inc (BEAM) for €13.272bln representing an acquisition multiple of 20.5x EBITDA. Jim Beam Inc had a strong portfolio of brands with a long history, including Jim Beam founded in 1795 and Makers Mark. Acquisition multiples have fluctuated largely depending on the quality of brand, number of interested buyers and market conditions, however the vast majority of transactions have been in the vicinity of 20x EBITDA. Rémy is undoubtedly a more attractive and manageable target than BEAM. Rémy Martin is one of the last great independent cognac brands, making for a truly unique asset. Brown-Forman reportedly expressed an interest in 2014; luxury groups such as Kering and Richemont may wish to imitate LVMH's successful 66/34 Moët Hennessy joint venture with Diageo. With an enterprise value of €8.46bln Rémy is within the size range for a variety of beverages and luxury groups. From current multiples, bidders could easily offer a +50% premium for Rémy, given they would be able to raise margins post an acquisition, and extract other synergies.

## Acquisition multiples imply significant value for Rémy Shareholders.

Year	Company Acquired	Acquiring Company	Price Paid	EBITDA Multiple (x)
2001	Seagram	Vivendi Universal	€7,979.2 million	24.80x
2004	The Glenmorangie Company	LVMH	€509.56 million	21.30x
2005	Allied Domecq	Pernod Ricard	€1,173.8 million	14.30x
2008	Vin & Spirit	Pernod Ricard	€6,134.4 million	20.80x
2008	Beam Global	Fortune Brands	€3,581.1 million	14.60x
2012	Bruichladdich Distillery Company	Remy Cointreau	€68.3 million	N/A
2013	Burn Stewart Distillers	Distell Group	€218.3 million	20.00x
2014	United Spirits Limited	Diageo	€2,710.4 million	26.90x
2014	Whyte & Mackay	Emperador	€576.7 million	19.30x
2014	Beam Inc.	Suntory	€13,272.4 million	20.50x
2016	The BenRiach Distillery Company	Brown-Forman	€399.6 million	N/A
2016	Grand Marnier	Campari Group	€648.1 million	21.10x
2018	Patrón Spirits International	Bacardi	€4,231.3 million	N/A
2019	Castle Brands	Pernod Ricard	€252.75 million	57.30x
2022	Wilderness Trail Distillery	Campari Group	€419.79 million	26.40x
		Average		23.94x
		Median		20.95x
		Rémy Cointreau's Current Valuation		18.62x

Source: Elevation Capital/Capital IQ

## Why might a potential buyer pay an additional premium for Rémy?

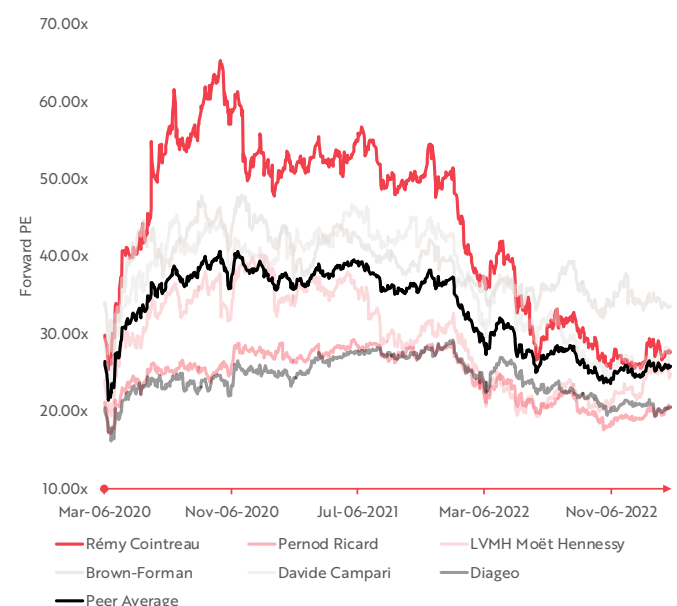
- Rémy has a set of global brands which are nearly impossible to replicate. The key component of any brand is history, particularly in the luxury sector.
- Rémy Martin is arguably one of the best remaining brands outside of global beverage company control.
- Rémy can likely achieve higher margins for a strategic buyer; who could raise Rémy's EBIT margin (largely through scale benefits) to those of its peers.

## Rémy is oversold

In large the early Covid-19 pandemic years were good for Rémy. Explosive sales growth in China enabled Rémy to average double-digit annual EBIT growth, far exceeding both Diageo and Pernod-Ricard. While Diageo and Pernod Ricard are conglomerates with broad portfolios in terms of category and price, Rémy is a more niche and premium-focused player. All of them have traditionally traded at a premium to the S&P 500 based on their recession-resistant, significant profit margins, and enviable cash flow attributes.

In essence, Rémy is an excellent vehicle to access the "enrichment of Asia", and the last two years have been terrible for that thematic. Extended lock-downs for much of China and a global downturn in consumer spending have plagued the company and the broader industry. Rémy's valuation is now near a similar valuation level as its other spirits rivals (significantly cheaper than Brown-Forman, in fact), even though Rémy is a highly-attractive business sitting squarely in the luxury category and should have faster growth rates than its peers for many years to come.

## Rémy Cointreau's Forward PE vs Peer Average



Source: Elevation Capital/Capital IQ



## Conclusion

Rémy remains – in our opinion - one of the best ways to participate in the growing wealth of the world, particularly in Asia. While the spirits industry is cyclical, we are confident in Rémy's ability to achieve strong earnings growth over the long term, given the structural trends in the industry, the strength of Rémy's brands, and the potential for margin expansion. Current market conditions have provided the opportunity to reacquire Rémy at a significant discount to what we believe to be its true intrinsic value. While we see it as unlikely that Rémy is acquired by a larger beverage conglomerate, its value proposition under an acquisition scenario, relative to its peers remains a useful exercise in ascertaining the true value of its irreplaceable portfolio of brands.



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This summary report was written in March 2023

Any data not referenced was sourced from Rémy Cointreau Annual Reports & Earnings Conference Calls.

1 Capital IQ

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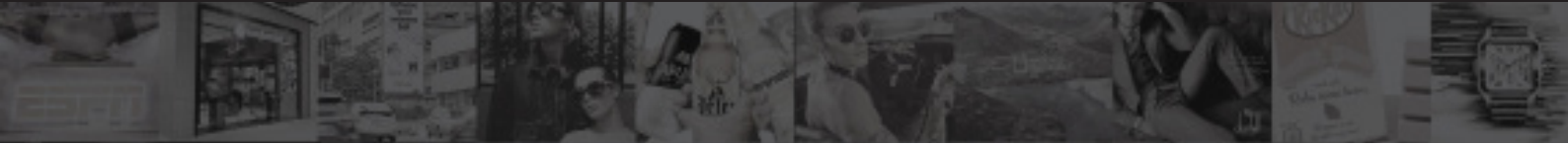
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# *Independent Thinking* *Disciplined Investing*

**[In-de-pend-ent Think-ing] ind ə'pendənt THiNkiNG verb**

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

**[Dis-ci-plined In-vest-ing] disciplinəd inves'ting verb**

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.



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YEAR 2013, NEW ZEALAND



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