

## Chief Executive's statement



**Mirek Stachowicz**  
Chief Executive Officer

# We believe in the strength of our brands and that our strategy is delivering results.

### Group financial performance

Given the change in our accounting year to 30 September, we have presented summarised proforma results for the 12 months to 30 September 2018 along with proforma 12 month comparatives. On this basis, we have delivered growth in volume, revenues and profitability and the balance sheet has strengthened further as net debt was reduced.

### Continued growth in Poland

Our Polish business continued to grow from the foundations that have been re-laid in recent years. Given it contributes some half of Group revenues, success in Poland is critical.

The economic environment remained favourable, and the total vodka category was stable, with welcome growth in premium segments. Total vodka category growth is still driven by the flavoured sub-category, with clear vodka seeing a small decline. Trade channel dynamics were also stable notwithstanding some regulatory changes in retailing. Against this backdrop, we were able to capitalise on rising consumer affluence by continuing to strengthen our portfolio with attractive premium brands.

Stock out-performed the total vodka market, continuing to grow volume and value share. Our total vodka volume share grew from 25.2% last year to 27.0% this year, and value share grew from 26.2% to 27.4%<sup>1</sup>. In recent months, both our volume and value growth rates outpaced our key competitors.

A significant contributor was the continued strong growth of our leading premium brand, Stock Prestige, which is the number one brand in premium vodka in Poland. In the top premium

segment, our Amundsen Expedition grew volume well ahead of that segment's volume growth. Our leading mainstream brand, Żołądkowa de Luxe, was re-launched and also achieved volume growth, outperforming its segment. In the economy segment our Żubr and 1906 brands grew their combined volume strongly, benefiting from pack size innovation. We also grew total flavoured vodka volume and value versus last year, led by Stock Prestige Flavours and Saska Flavours.

We are building on our progress in flavoured vodka to achieve our longer term aim of growth ahead of that sub-category. Our revised flavoured strategy will entail an increasing focus on our top flavoured brands: Żołądkowa Gorzka, Lubelska and Saska.

We continued to grow whisky category share via the Beam Suntory portfolio. Our co-operation with Synergy Brands, which has been in place since July 2016, also generated positive results as Beluga grew value in the fast growing ultra-premium vodka segment.

The strengthening of our sales capabilities continued with a significant programme of store re-layouts in traditional trade channel which improved results at point-of-purchase.

### Overcame headwinds in the Czech Republic

The Czech Republic is the Group's second largest market. We have held spirits market leadership for over 20 years<sup>2</sup>, leading in the three key spirits categories of rum<sup>3</sup>, vodka and herbal bitter liqueurs<sup>4</sup>. The Czech economy is also performing well, and with higher consumer incomes we see an increasing desire for premium products, which in turn drives value growth<sup>5</sup>. The total spirits market grew value and volume despite reduced levels of retailer promotional activity<sup>4</sup>.



*Our brands are responding well to increased investment. Our strengthened core brands have delivered steady growth and improved mix; they position us well for ongoing success.* ”

Given our scale in these categories, Stock was heavily impacted by the shift in retailers' promotional strategy, resulting in only marginal total volume growth. Despite this, the combination of our premium innovations, benefits from previously-acquired brands and the addition of new distribution brands delivered value growth, maintaining our market leadership and achieving value share of 33.1%<sup>4</sup>.

Stock grew value share in the biggest spirits category, rum, through the outstanding success from the Q1 launch of Božkov Republica. This has achieved 24.5%<sup>4</sup> value share of imported rum. Captain Morgan, which we distribute on behalf of Diageo, remains the number one international rum and also achieved solid value growth.

In the highly competitive vodka category, the Bohemia Sekt spirits brands that we acquired in 2016, helped maintain our category leadership despite massive growth of retailer private labels.

Our established partnership with Diageo, coupled with the new distribution agreement with Beam Suntory, have created the strongest whisky portfolio in the market. We grew whisky value share to over 10% despite significant price reductions by some leading competitors.

Success in rum, vodka and whisky outweighed a decline in herbal bitters value share, driven primarily by the changed retailer promotional strategy, coupled with aggressive price-discounting by Jägermeister. Our new premium herbal bitter, Black Fox, which was launched late last year, increased its value share of the premium segment counteracting, in part, the decline of Fernet Stock in the mainstream segment.

EU Commission deliberations on the use of rum ether concluded that the aroma will not be banned in domestic rum (Tuzemak) for five years. Our team managed this challenge without significant business implications.

A new debate that has opened between the EU Commission and the Czech Ministry of Agriculture and Food Inspection regarding inclusion of milk in egg liqueurs carries no material risk to Stock.

We continued to develop our sales and trade marketing capabilities, achieving step-change in category-management. We also stay focused on price management and promotional efficiency, as price competition remains strong, especially with the growth of private label. Our Czech business has a demonstrable ability to deliver value growth through focus on premiumisation, both of our own core brands and by working with our distribution partner brands.

### **Tough trading conditions in Italy**

Italy is our third largest market in terms of revenue and EBITDA. The market is highly fragmented with several mature spirits categories including, bitters, vodka, brandy, whisky and liqueurs. Whilst Stock has a relatively small overall share of total spirits, with 6.0% volume share in our main focus area of the modern off-trade channel, we hold leading positions in several key categories including number one brands in the clear vodka, vodka-based liqueurs and limoncello categories, and the number two brand in brandy.

Trading conditions remain very tough as a result of high levels of unemployment and consumer consumption is being impacted by rising inflation. As a result of these trends, the total market declined slightly in value in the period.

Against this backdrop, Stock's total volume share was slightly down to 6.0% with value share slightly down to 5.7% in the modern trade channel<sup>6</sup>. Stock held overall volume and value share in its four key categories, with slight gains in brandy, but as a result of the softening market and strong growth of private label, there were slight losses in flavoured vodka-based liqueurs, limoncello and clear vodka.

Source(s):

1. Nielsen, total Poland, total off-trade, total vodka MAT September 2018. For the purposes of this estimate, total vodka = total clear vodka plus total flavoured vodka plus total flavoured vodka-based liqueurs
2. IWSR
3. In the Czech Republic the "rum" category of the spirits market includes traditional rum, which is a spirit drink made from sugar cane, and what is widely referred to as "local rum", known as "Tuzemák" or Tuzemský", which is made from sugar beet. As used in this Report, "rum" refers to both traditional and local rum, while "Czech rum" refers to local rum.
4. Nielsen MAT to end September 2018, total Czech off-trade
5. OECD 2018
6. IRI total Italy, total modern trade, total spirits, MAT September 2018

## Chief Executive's statement continued

Looking ahead, continuing economic challenges and political uncertainty are expected to constrain consumer confidence and disposable income with a continuing negative impact on overall spirits sales. There is also a possible VAT increase from 22% to 24.2% on 1 January 2019, with further smaller increases possible in 2020 and 2021.

Despite this, in the early summer we relaunched the Keglevich fruit flavoured range, supported by new packaging and a programme of investment in a new 'Pure Vodka, Pure Fruit' campaign using both digital and traditional media. Early indications point to a positive consumer response.

Our iconic brandy, Stock 84, which was refreshed last year, achieved value and volume share growth, to which our premium XO variant contributed significantly.

We continue to carry out focused brand-building in selected premium on-trade outlets for Syramusa, the premium sub-brand of Limoncè limoncello, which was launched in late 2017. The brand is also now listed in travel retail.

Finally, our distribution brand range expanded further with new distribution agreements with Nuove Distillerie Vicenzi, Dictador rum and The Dubliner Irish whiskey.

### Continued strong results in Slovakia

Our Slovakian team delivered another strong performance growing both volume (+4.9%) and value (+3.9%) ahead of the market<sup>7</sup>. Stock maintained its leadership in herbal bitters, with growth supported by the Fernet Stock grapefruit flavour extension, coupled with revised price-positioning of Fernet Stock Grand<sup>8</sup>. The continued roll-out of Black Fox added a premium dimension to our bitters portfolio, whilst in vodka, Amundsen achieved double digit volume and value growth<sup>9</sup>.

As in other markets, NPD also drove premiumisation. Božkov Republica was rolled out, and we entered the borovička (Juniper) category using the premium Golden Ice brand.

Stock's second highest value growth in Slovakia came from whisky. Having begun distribution of Beam Suntory's range in May 2017, Jim Beam's value share was increased to 7.5% from 3.6%, with strong growth in sales<sup>10</sup>. The distribution brands portfolio was expanded to other growth categories through adding the Quintessential Brands gin range, The Dubliner and The Dublin Liberties whiskeys, and Barcelo premium rum.

These initiatives contributed to overall volume and value growth for Stock in Slovakia, and reinforced our position as the second biggest spirits company in the off-trade<sup>7</sup>.

### Other markets

In Croatia we grew volume and value<sup>11</sup>, primarily through an increased focus on the on-trade, supported by the relaunch of Stock 84, and an increased range of distribution brands from Beam Suntory plus Beluga, Botran Rum and Lucas Bols.

In our export markets, reorganisation of our route to market in Germany was completed successfully, and contributed to a strong volume uplift. New distribution in Taiwan for Hammerhead Single Malt Czech Whisky also generated high margin incremental sales.

### Innovations

We continued to build our core brands via a focused programme of NPD. In addition a new online NPD process flow was implemented to streamline and speed up this critical process.

In Poland in clear vodka, we relaunched our leading brand by volume, Żołądkowa de Luxe, with a new, smoother taste and impactful new packaging. The relaunch was supported by awareness and trial building activity, including an innovative digital campaign and a Guinness Book of World Records entry winning the largest ever linked-arms toast.

We also introduced an evolutionary update of Stock Prestige's packaging to retain consumer appeal in the fast evolving premium vodka segment.

In the flavoured category, a strong package of consumer-activation on Lubelska and Saska, coupled with the launch of two new Lubelska flavours and three new Saska flavours contributed to volume growth. We continued to have a strong NPD pipeline in flavoured vodka.

Building on our history of successful flavour innovation on Božkov, and with the ambition of premiumising the brand, we launched new Božkov Republica imported rum in February 2018 in the Czech Republic. It has achieved outstanding growth, growing the overall rum category. Božkov Republica is fast becoming one of the most successful NPD launches in Czech spirits history.

Source(s):

7. Nielsen, total Slovakia, total off-trade, total spirits MAT to end September 2018  
8. Nielsen, Slovakia, total off-trade, total herbal bitters MAT to end September 2018

9. Nielsen, total Slovakia, total off-trade, total vodka MAT to end September 2018

10. Nielsen, total Slovakia, total off-trade, total whisky MAT to end September 2018

11. Internal Stock Spirits Group audited sales data



A full review of the Keglevich flavoured range in Italy resulted in the launch of a new improved liquid. The new recipe uses six times distilled grain vodka coupled with 100% fruit juice. The range was also relaunched with new packaging. Keglevich clear vodka has also been relaunched, again with an improved quality six times distilled liquid and more impactful packaging. It has outperformed the category in both volume and value growth.

In Slovakia, Fernet Stock Grapefruit won the Consumer Choice Award 2018, which is awarded to the most successful innovation in the spirits category by Slovak consumers.

Božkov Republica was also rolled out in Slovakia, and we entered the borovička (Juniper) category using the premium Golden Ice brand.

### **Operations and supply chain**

Smarter purchasing strategies coupled with new systems tools delivered encouraging results, and helped to mitigate adverse market conditions in certain categories of input.

### **Digital and technology**

We are enhancing our marketing and sales capabilities with the latest technology to deliver enhanced brand experiences. Digital communications played a leading role in our Keglevich relaunch in Italy, where we pilot tested a new smart e-commerce tool which links our social media activation directly to opportunities to purchase.

In Poland, Stock established the first ever virtual bartender league, along with tools to encourage brand advocacy and increased consumer engagement.

In the Czech Republic we began working with our customers to develop our reach beyond the established 'bricks and mortar' channels into the emerging e-retail arena.

In respect of our IT infrastructure, we have consolidated and strengthened our network architecture which will also facilitate us running more Group-wide software solutions in future.

### **Our people**

We made senior Marketing and Sales appointments in Poland and the Czech Republic. We also invested in our Italian marketing team in order to support the Keglevich relaunch.

A number of updated health and safety initiatives were put in place across the Group, the improvements from which have been recognised by third party auditors.

The results from our very first employee engagement survey have been acted upon, providing a base-line from which to create an engaged, agile culture.

### **Our partners**

The integration of the distribution brands with Stock's leading local brands has brought significant benefits to the combined portfolio, further strengthening our overall offering to customers and consumers.

We will soon complete our fourth year as exclusive distributor of Diageo's core brands in the Czech Republic, where we are delighted with the continued value growth that has been achieved on Captain Morgan, Johnnie Walker and Baileys. The addition of the Beam Suntory range to our Czech portfolio made a material increase to our total whisky share and we also began distribution of The Dubliner and The Dublin Liberties whiskeys from Quintessential Brands.

In Italy, the Vicenzi range of liqueurs from Nuove Distillerie Vicenzi was introduced from 1 January 2018. The distribution brand range expanded further with the addition of two new distribution agreements with Dictador rum and The Dubliner Irish whiskey.

In Slovakia, we began the distribution of Beam Suntory's range in May 2017. The distribution brands portfolio was further expanded to other growth categories, adding the Quintessential Brands gin range, as well as its whiskeys The Dubliner and The Dublin Liberties, and Barcelo premium rum.

### **Outlook**

We are pleased with the ever increasing strength and resilience of our core Polish business, and also with the way in which we have combatted the headwinds experienced earlier in the year in the Czech Republic. While challenges remain in certain parts of our operations, most notably in Italy, we believe that the strength of our brands and the fact that our four pillar strategy is starting to deliver tangible results means that we are well positioned for further success.

**Mirek Stachowicz**  
Chief Executive Officer

5 December 2018