Stock Spirits Plc 2019 Year-End Results

Wednesday, 4th December 2019

Business Review

Mirek Stachowicz

CEO, Stock Spirits Plc

Agenda

I think we're all here. Can you hear me everybody? So why don't we start? Good morning everyone and thank you for joining us for our 2019 Full Year Results. We have published today our reported numbers for the 12 months to 30th September 2019 and proforma unaudited comparatives. As usual, I'm joined here today by Paul Bal, our CFO. I will start by providing a brief summary of the year, then take you through the business review for the period, including an update on the performance in each region, as well as clear evidence of our strategy in action, before handing over to Paul to take you through the financials. I'll then come back to give you some closing remarks, after which you will have the opportunity to ask questions.

2019: Successfully Delivering our Growth Strategy

Strong performance in key markets

I'd like to start by summarising our performance during the year. We delivered a very good market share performance in our two key markets. In Poland the turnaround of our business is now complete and we have now delivered 29 consecutive months of year-on-year volume share growth, in both volume and value terms. Revenue – sorry. We did – we continued to outperform our competitors there in share growth in both value and volume terms. Revenue from Poland increased 14% on a constant currency basis. In the Czech Republic we have enhanced our market-leading position which has been further strengthened by the acquisition of Bartida during the year. And underlying revenue from this market increased by 10% on constant currency basis. Excuse me, I need some water.

Positive underlying financial performance

The Group achieved a positive underlying financial performance, growing revenue by a little over 10% on constant currency basis and underlying adjusted EBITDA by 7.3% also on constant currency basis. Adjusted earnings per share was up over 17% in the period.

Strong cash generation

Our cash generation remains strong with 91% cash conversion during the year. At the year-end our leverage stood at 0.7x. The fact that this performance has been driven almost entirely organically shows that our underlying organic growth strategy is working.

M&A completed and integration on track

However, it has also been an eventful year for M&A. In June we completed the €26.5 million acquisition of Distillerie Franciacorta in Italy. And in May we completed the bolt-on acquisition in the Czech Republic of Bartida for up to €11 million.

Future value-creation opportunities

We have already signalled previously, we continue to look at the range of value-enhancing opportunities. In terms of M&A this will leverage our expertise in vodka and bitters and what we constantly – and we are constantly reviewing a number of opportunities across Europe in what we call the vodka and bitters belt. Today we are announcing a *c*. €25 million investment in our Polish distillation capabilities which will take place over a three-year period and have a five-year payback.

Final dividend proposed

Lastly, I am pleased to announce a total dividend for the year of 8.94 €cents per share which is up a little over 5% on last year's total dividend. This demonstrates a continued progressive dividend in line with our policy.

Overview of the Polish Spirits Market

Increasing consumer confidence and purchasing power

We will now go through the performance on market-by-market basis, starting with our core market of Poland on slide six. The overall Polish spirits market is now worth €3.7 billion, up 7.5% in value terms at September 2019 versus September 2018. The clear vodka market grew up 4.6% with flavoured vodka continuing to perform well, up 8.1%. The economic backdrop in Poland remains positive which in turn means that the higher price segments within vodka continue to have the greatest growth as disposable incomes rise and unemployment falls. The whisky category also continues to demonstrate strong value growth, up 15.7% in the year. And the other segment, rum, gin and tequila, are now starting to show good growth, albeit from a small base.

In our half-year results statements in May we referred to the possibility of an increase in alcohol excise in Poland. As you may have seen, since then the draft legislation to implement a 10% increase from January 2020 was introduced in the Polish parliament in November and is on the verge of being passed. Now, you will expect me to say that such events are normal in this industry but I would like to nevertheless say we have prepared very well for this event. Paul will cover this in his – in more detail in his section. But in the meantime I want to say that Stock is in a very different position now than it was in 2014 when it was the last increase in Poland and we have now a far stronger brand. We have far stronger operations and teams across the region. And the wider Polish and Czech economies are now much more robust with rising disposable income, falling unemployment and increasing consumer confidence. All in all, we are confident that we will be able to manage our way through this situation.

Poland Vodka Category Share Gains in the Last Six Months

Outperforming the competition

Now moving to slide seven, we continue to outpace both our competitors in Poland in share gains in both volume and value terms. We're also outpacing the market in clear and flavoured vodka and across all price segments including premium, mainstream and economy.

Mainstream Clear Vodka Pricing

A positive upwards trend

Turning to mainstream pricing on slide eight you can see from this chart which covers the last 18 months, there has been a clear and positive pricing trend over the past year. It is worth noting that our brand Zoladkowa De Luxe is growing faster than its segment in spite of generally being priced higher than the competitors.

Poland Market Share Trends

A great performance in a competitive market

As you can see from slide number nine, we are the only player in the Polish market to have consistently delivered quarterly market share growth throughout the year. In fact, to the end of September 2019 we have now achieved 29 months of consecutive volume share growth year-on-year and 25 months of consecutive value share growth. We think this is a great performance in the context of such a competitive market. And having seen October data, I'm pleased to confirm that this trend has continued.

Strategy in Action

Millennials Love Saska

In terms of evidence of our strategy in action in Poland I would like to highlight the continued success of Saska in appealing to the millennial audience. This has been achieved by creating a compelling communication campaign around the three new flavours that were launched in 2018, supported by point of purchase merchandising and social media campaign which reached over two million views on different platforms. In addition, the recognition of the changing way in which young adults are consuming our products we recommended pairing the flavours with selected foods. As a result Saska flavours achieved 102.3% moving annual total value growth versus last year in the Polish off-trade.

Overview of the Czech Market

As in Poland, a positive economic climate driving growth

Turning now the Czech market on slide 12, as in Poland we have seen continued strength in the wider market due to a robust economy and rising disposable income. The total value of spirits market grew 3.2% to €0.5 billion. We continued to see a particularly strong performance in the rum and whisky segment, which is – which more than compensated for a contraction in the total demand for herbal bitters during the period. Vodka, the second-largest spirits category, was flat in the year whilst retailer own label vodka continued to grow, its growth rate and share gains slowed significantly. In our half-year results statement in May we referred to the possibility of an increase of spirits excise in the Czech Republic. Legislation proposing a 13% increase from 1st January 2020 is progressing through the parliament with final approval expected very shortly. As in Poland, we have prepared extensively for the situation and Paul again will cover this in more detail in his section.

Czech – Operational Highlights

Enhanced market-leading position

Moving to slide number 13, notwithstanding our leadership position, we increased our market-leading value share of total spirits from 33% to 34.3%, driven by growth in rum and whisky. We grew value share in rum, the biggest spirits category in the Czech Republic, by 4% from 61.8% to 65.8%. This was driven both organically by the strong performance of Republica rum and via M&A through the addition of the Bartida rums. The decline in the herbal bitters category is being addressed by the recent relaunch of Fernet that has increased the average price per litre of the product by 22%.

Strategy in Action

Using digital to relaunch Fernet

Moving to slide 14 in terms of evidence of our strategy in action in the Czech Republic, the use of digital communications, which is another key strategic pillar for us, around the relaunch of Fernet has been particularly successful. From April to September we ran an online campaign entitled, 'Be the maker of your own destiny' which incorporated content on demand adverts on Facebook and Instagram, high profile sampling events and music events to generate online social media activity by attendees in our targeted demographic. The result of this activity was improved brand awareness and higher consumption frequency scores. For example, perception by consumers when asked, 'Fernet Stock is a brand that I want to be seen with' increased by 50% and 'Fernet Stock is better than other brands' increased by 53%. Now for those of you in the audience who are financially-minded these are very important scores.

Overview of the Italian Market

Fragmented but attractive

Moving on to slide number 16 and Italy, turning to Italy which, as a reminder, accounts for around 9% of our sales. During the year there has been an improvement in consumer confidence underpinned by slight declines in unemployment and inflation, and an increase in disposable income. Reflecting this improving macro trend, the total spirits market grew in value by 3.8% to €1.6 billion. And just comparing it, it's slightly ahead of the growth rate we saw in the Czech market but in a market that is three times the size of the Czech market. The market remains highly fragmented but attractive given the potential for consolidation. During the year we entered the premium grappa market courtesy of our acquisition of Distillerie Franciacorta. While the grappa market declined very slightly overall, it grew in the standard price and premium segment with the decline coming from the economy segment. in our half-year results statements in May we referred to the possibility of an increase in VAT from 1st January 2020. Since then there have been no further developments in this area.

Italy – Operational Highlights

Investments starting to bear fruit

Moving to slide 17, against the background of an improving market our underlying Italian business is showing signs of stabilisation and we achieved positive revenue growth in the second half of the fiscal year. We grew volume and value share in the brandy category by continuing success of our Stock 84 range, notably via the premium Stock 84 XO variant. The relaunch of Keglevich is beginning to deliver results in the flavoured vodka category where our value share is now at 61%. A key focus for our Italian team was the acquisition of Distillerie Franciacorta and the integration process is well on track. We're also delighted to recently announce the appointment of a dedicated managing director for the Italian business. Marco Alberizzi is an Italian national and has extensive beverage and FMCG experience in the region with great track records of turnaround at Bacardi Italia.

Strategy in Action

Premiumising an existing and much-loved brand – Stock 84

Now moving to slide 18, in terms of evidence of our strategy in action in Italy our work with Stock 84 is a great example of our ability to successfully premiumise our products. Last year

– sorry. Two years ago we launched Stock 84 XO, a barrel-aged 8-year-old brandy with improved packaging and brand positioning. As a result, Stock 84 XO now commands a retail price premium of around 35% versus Stock 84. As a result, we have achieved moving annual total value growth of 4.5% which is well-ahead of total brandy category growth of 1.4%.

Other Markets – Operational Highlights

Slovakia

Now looking at other markets division on slide 20, in the Slovakian market we saw a marginal decline in volume share but maintained our value share. We maintained brand leadership in the herbal bitters category but lost share due to the highly competitive pricing. The recent Fernet Stock relaunch is addressing this. In vodka Amundsen's value growth rate was double that of vodka category. Our biggest growth driver was rum where Bozkov Republica's rollout achieved number two ranking behind Captain Morgan in the imported rum category in the first year of launch.

International

Turning now to international we grew both volume and value in Croatia through our on-trade focus which was supported by the relaunch of Stock 84 and the widened range of distribution brand. We also saw good growth of the Polish vodka brands in Germany and the UK on the back of appointment of new distribution partners there.

Third Party Brands

Growing the strength of our route-to-market

Now moving to slide number 21, our strong route-to-market makes us the partner of choice for global brand owners such as Beam Suntory and Diageo where we hold multi-year distribution contracts with these global companies. This allows us to generate incremental margins from categories in which we would otherwise not be present. Having premium third party brands in our portfolio also helps us drive our own premiumisation strategy, albeit the growth inevitably dilutes our percentage margin. The strength of our route-to-market yields benefit for both parties and you can see on the page here some examples of the value growth we have generated in the year.

M&A: Progress Update

Moving on to page number 22, I want to update you on our acquisitions that were undertaken recently. All three acquisitions are on track with integration progressing well. Starting with Distillerie Franciacorta, it provides us real scale in grappa, especially in the premium segment. It also means that we are now the number one grappa player in the branded off-trade. Bartida gives us a unique focus on premium on-trade and provides us with a business model that we will look to deploy in other markets. Finally, looking at the JV with Quintessential Brands in Dublin, Poland is now the third-largest market for the Dubliner. We are also very pleased with the numerous awards received by our brands, reflecting the superiority quality of our whisky – superior quality of our whisky.

Investment Plans

Moving to slide number 23, acquisitions are not the only investment that we can make to enhance the shareholder value. Today we are announcing an investment of *c*. €25 million in expanding our Polish distillation capabilities. It will have a three-year – it will be a three-year project and once commissioned, will generated a very attractive five-year payback. it will enhance our gross profit margin in the future but also increase our current capability to support our strengthening business as well as provide flexibility in our distillation capabilities across the Group. This investment represents also a strong vote of confidence in our growing Polish business.

M&A: The Future

Clear criteria and a disciplined approach

Moving to slide 24 and finally before I hand over to Paul, I want to reiterate our criteria for future M&A. This slide will be familiar to those of you who attended our Capital Markets event in the summer in the Czech Republic. In terms of type of target we are looking at, there will be businesses with which we can leverage our expertise in spirits and especially in clear and flavoured vodka and in bitters. We are looking for proven local brands that have positions of scale in their segments and markets and are cash-generative. And are geographically close to our existing operations in order to facilitate synergies where possible. We are setting high financial hurdle rates in assessing these acquisitions, in line with the impairment rates for the given market, rather than our actual cost of capital. And in terms of the regions we'll consider, it's what we describe as the vodka and bitters belt across Central, Eastern and Northern Europe. And as we've said before, we will not be considering acquisition opportunities in Russia, Belarus and the Ukraine. With that I will hand over to Paul for the financial review.

Financial Results

Paul Bal

CFO, Stock Spirits Plc

Financial Highlights

Okay, thank you Mirek. Good morning ladies and gentlemen and it's my pleasure to announce our results for the year ended 30th September 2019. I'm going to start with slide 26, the audited results for the year 30th September 2019 are required to be reported against the comparatives which is the audited reported results for the nine months ended 30th September 2018. This is because the Group adopted 30th September as the new year-end last year. Therefore to provide a more comparable picture of our performance we're also reporting proforma comparatives. These comprise the results for the 12 months ended 30th September 2018 so my section of today's presentation is based on that proforma approach to presenting our results.

How these are compiled is summarised in slide 48 in the appendix to this presentation. Further detail is set out in the results announcement release this morning and in our annual report and accounts which is available in due course. This is the last time we will take this approach as from this year we will have comparable audited prior year numbers.

So the further twist in the 2019 results is the result of the two acquisitions. Both acquisitions were only completed in June and therefore have only had a small impact on the Group's results for this year. Nevertheless, there are places in our reporting where we refer to underlying results and these are references excluding the impact of those two acquisitions.

On this proforma basis our underlying results showed continued improvement in the financial performance from the top lines of volume and sales growth to the bottom line. In constant currency terms underlying revenues are up 10.1% to €308.4 million. Underlying gross profit margin at 47.5% in line with our expectations. Adjusted EBITDA grew 7.3% to €63.2 million. Underlying adjusted EBITDA margin was 20.5%. And basic adjusted earnings per share grew 17.7% to 19.68 €cents per share.

Beyond the profit and loss account our cash flow delivery remains robust and as a consequence our balance sheet remained strong even after making two acquisitions. After I present more details on the financials I will provide an update on excise in Poland and the Czech Republic. Then I will end by covering the final dividend that we're proposing in line with our progressive policy. Finally, IFRS 16 on leases is effective for us from 1st October 2019. The anticipated estimated impact on the current year ending 30th September 2020 is not material and is set out in slide 50 in the appendix to this presentation.

Consolidated P&L

Proforma comparatives

So moving to slide number 27 and the Group's consolidated profit and loss account with the proforma comparatives, I won't go through the entire detail set out here. Suffice to say the reported 10.6% increase in revenue was impacted by a small unfavourable currency effect. The underlying revenue excluding acquisitions was up 9.2% at reported rates but 10.1% in constant currency terms. Clearly our growth strategy is driving strong top line growth and our profits are growing too, gross profit being up 7%.

We invested more behind our brands than in previous years and there has also been more investment in our salesforce capabilities. We include our 25% share as a result of our associate Quintessential Brands Ireland Whiskey Limited and this result is in line with our expectations. Overall our performance has resulted in another year of double-digit growth in operating profit and a slight improvement in our operating profit margin.

We booked three exceptional items before tax this year. First, as reported at the half-year, a non-cash impairment of €14.3 million against the carrying value of our Italian business and now €1.1 million of costs associated with making the year's two acquisitions and a €3.8 million non-cash foreign exchange gain on liquidating a dormant subsidiary.

Higher net finance costs largely reflect more borrowings to fund acquisitions. The lower tax charge and lower effective tax rate are impacted by payments and settlements in respect of historic tax issues, mainly in Italy. And the underlying effective tax rate is stable. Underlying performance is best reflected in the improved adjusted EBITDA growing 6.4% year-on-year or 7.3% in constant currency terms. It is also visible in the adjusted earnings per share growth of 17.7%.

H1-H2 Performance

Strong H2 vs H1

Turning now to slide number 28, breaking down the results of each half-year shows the cyclicality following the move to a 30th September year-end. The first half of the financial year containing the important fourth calendar quarter, now our Q1, is a little bigger than the second half of the financial year. Across both halves we see continuing year-on-year upward momentum in our underlying revenues, even before we include the contribution from the year's acquisitions. Adjusted EBITDA has a positive momentum too, especially in the second half of the year, reflecting the later Easter in 2019 and given that integration costs were being incurred at our acquired businesses. Looking at the underlying results excluding the acquisitions impact, margin pressure was less than in the first-half.

Volume and Revenue

With slide number 29 let's now look into the components of our results in a little more detail, starting with the top line. Our overall volume grew a strong 8.5% with some 50 basis points coming from the year's two acquisitions. The markets driving this growth were Poland with its increasing share and growing market, and the Czech Republic going from strength to strength. Stripping out this very positive volume impact our underlying average prices were slightly up. Foreign exchange impacts were negative this year and I'll cover that later in my presentation. And mix improved as we premiumised further.

Gross Profits up 7%

Clearly our growth strategy is driving strong top line growth and, as slide 30 shows, profits are growing too, with gross profit being up 7%. This is driven by positive momentum in our key markets, our organic growth strategy and also acquisitions. We remain very focused on input costs. We leverage our growing scale and smart sourcing and procurement continues to help us manage cost inflation. However, there was margin dilution and as we proceed with our plans, sales mix can have a different impact in terms of margin mix. And notwithstanding the higher gross profit, mix changes across our markets, channels, customers and brand portfolio resulted in a gross profit margin of 47.3%. Today we announced our intention to build additional distillation capacity in Poland. The capital investment will be around €25 million over three years and we'll deliver a strong return and a fast payback for a plant investment, being about five years. Beside the vote of confidence in our Polish business, it will give the Group more strategic flexibility as well as more means to manage our margin.

Poland Financial Performance

Looking then specifically at Poland in the next slide, slide number 31, we see revenue grew a strong 14% at constant currency as it benefitted from a healthy positive combination of all three growth levers: volume growth, positive pricing and improving mix. Of the three levers, pricing still lags the others reflecting the continued strong competition in the market, as Mirek showed. EBITDA grew 9% in constant currency terms, showing once again our capability in a very competitive market to grow and yet also deliver a very decent return. The EBITDA margin was outside our 26-27% range that we aspire to simply because we chose to invest more behind our Polish portfolio than before.

Czech Financial Performance

Turning to the next slide, slide number 32, to the Czech Republic, our second-biggest market after Poland. As in Poland, we delivered very healthy growth in the top line at 13.1% in constant currency terms. Stripping out the sales contribution of the newly acquired Bartida business, it was still a strong 10%. This underlying growth was primarily driven by premiumisation and notably the continued growth of Bozkov Republica rum as well as of the Beam Suntory portfolio. Their success is now spread across all three growth levers, but especially volume and mix. EBITDA growth was a very strong 12.1%. Even without the small contribution from Bartida, it was up 11.5%. Underlying EBITDA margin excluding Bartida would have been up on 2018 at 30.6% given lower marketing investment this year. The margin dilution from Bartida reflects integration and is not an indicator of the normal margins to come from that business. We expect this business to be earnings-enhancing in the current year.

Italy Financial Performance

I'll move now to slide number 33. As Mirek said, in Italy we see signs of stabilisation in the second half of the year and some progress with pricing was possible. Both volume and revenue were slightly up in the underlying business in the second-half. Revenue for the full-year rose 4.4% due completely to the contribution of the newly-acquired Distillerie Franciacorta business. Otherwise, underlying revenues were only slightly down for the year. Adjusted EBITDA and the EBITDA margin was down. The costs associated with integrating Distillerie Franciacorta weighed on the EBITDA and the EBITDA margin also. And it's not an indicator of the margin that the business is capable of delivering once integrated. A bigger, more complex business than Bartida, we expect this business to be earnings-enhancing in the next financial year.

Other Segments Financial Performance

> *Slovakia, Bosnia, Croatia, Bosnia & Herzegovina, our export activities and our Baltic distillery*

Turning now to slide number 34, I now move to the rest of our operations. The 5.2% revenue growth was helped by a contribution from Distillerie Franciacorta export sales. The underlying growth rate was still 4.2% and largely driven by our international business, especially in the Balkans and Germany. As Mirek mentioned, Slovakia showed resilience in the face of tough market conditions, managing to deliver some revenue growth. EBITDA and EBITDA margin declined. A contributing factor were higher costs in our Baltic distillery. The positive EBITDA contribution from Distillerie Franciacorta exports wasn't enough to offset the underlying business.

Impact of FX Movements

So if we now move to slide number 35, I've already mentioned the foreign exchange movements provided a small headwind to our top line. This was also the case for our bottom line. This came from the weakening of our two main currencies, the Czech Crown and the Polish Zloty, versus the Euro. In the appendix to the presentation on slide 49 we have set out the key exchange rates over recent periods. We have found our key currencies to have been relatively stable and we can reconfirm that we don't believe the proposed Brexit will have a material impact on our business.

Net Finance Costs

The next slide, slide number 36, sets out our net finance costs. Our financing arrangements run to late 2022 and they have not changed over 2019. The Czech Republic's interest rate has risen over the period so raising our interest costs a little. Otherwise we have seen higher financing costs mainly due to higher borrowings to finance the year's two acquisitions and also to pay historic tax.

Tax

I'll now turn to slide number 37 and turning now to the subject of tax. The significant rise in the current tax expense comes from both higher taxable profits but also having exhausted brought forward tax losses in Poland. However, there is a corresponding offset from a lower deferred tax charge. The picture is distorted by movements related to prior years. This year saw material benefit from settling historic issues under an Italian tax amnesty. Ignoring exceptional items and the prior year issues, a more stable effective tax rate in the mid-20s over both years is there[?]. The tax environment remains challenging with authorities taking an aggressive approach. As reported before, we have felt this especially in Poland. Here as previously reported, during the year we were assessed in respect of our 2013 corporate tax return, mainly relating to pre-IPO corporate restructuring between 2009 and 2013. Our first appeal – our first appeal heard by the tax authorities themselves in August was unsuccessful. Our next appeal which will be heard by a normal court with the hearing scheduled to start later this month. Based on the professional advice received, we remain confident that our position will ultimately prevail. The Group has provisions totalling €4.5 million, down from €8 million last year, were based on professional advice. Future settlements are likely or expected in respect of historic positions. Nevertheless in some other circumstances the Group may have to pay over some of the assessed as due by authority and then seek their recovery through appeal.

Free Cash Flow

Moving to the next slide, slide number 38, we come to cash flow. Strong cash generation has been a hallmark of this Group and the free cash flow rose 5.9%. The implied conversion rate was a robust 91%. The main reason for the lower conversion rate for the last year is an increase in capital expenditure, predominantly in our plants and our car fleet. It masks good progress being made in managing down our working capital.

Net Debt

I'll click now to slide number 39 and staying with this theme on the next slide. Notwithstanding our – our strong cash flow generation, our net debt increased to €43.3 million, a rise of €10.7 million during the year. Of course, this largely reflects the two acquisitions completed this year as well as tax and dividends paid. Our balance sheet leverage has risen to 0.67x. This is within our desired range of 0.5-01.5x leverage. The Group has significant liquidity available to it and is well-funded in the future to pursue our strategic growth aspirations and to reward our shareholders with progressive dividends.

Plans in Hand Ahead of Excise Increases

With slide number 40 I now turn to the subject of excise in Poland and Czech Republic. In neither country has any new law actually been enacted yet but the legislative process is underway and we are sufficiently confident both laws will pass shortly to take effect from 1st January 2020. For Poland a 10% excise rise against most alcohol is expected. The last rise was in early 2014 at 15%. The 10% rise expected now could represent a retail price increase of some 8%. For the Czech Republic the proposal is for a 13.2% excise rise just for spirit alcohol. The previous rise was in 2010 at 7.5%. The 13.2% excise rise now could represent a retail price increase of some 10%.

Whilst we cannot share our precise plans due to commercial sensitivity, we can explain some of the ways in which we are prepared for such developments and some of the actions we'll be taking over the coming months to manage the impact. After all, having to manage excise increases from time to time is an inherent characteristic of this industry. Over the years our business has become more resilient. Our brand portfolios in both markets have a much larger premium component where consumers are typically more resilient to higher prices. In the Czech Republic the proportion of our revenue that is premium has almost quadrupled since 2010 to nearly 40% of our revenue. In Poland the proportion has more than doubled since 2014 to 35%. Brands covering all price segments give us flexibility to use them tactically to achieve overall pricing objectives. We are also more adept at managing margins through managing the alcohol content within our products. Overall we are going into these excise changes better-placed than we were last time.

Inventory building is common in situations such as this and this is now underway. Throughout the value chain players will hold more inventory at the old prices. This gives flexibility as to how and when price – new pricing will be introduced once the new excise is effective. Our strong balance sheet gives us the strength to participate in this as well as to provide support our customers. The pricing strategy in response to the excise rise is critical and requires good market insight and intelligence as to consumer, customer and competitor positions, as well as to their likely actions and reactions. It also requires a capable salesforce to execute the strategy and yet be flexible enough to adapt to an evolving competitive situation.

Once the new pricing is in place focus shifts from customers to consumers. Though spirits could be considered a staple in these markets, it still becomes important to reignite consumer interest in the category and our marketers are already developing plans for this. These plans also have to be flexible enough to adapt to changing scenarios and competitive reactions. Consumer communication, including through digital channels, also plays a part. We believe we have all this in hand with both of our teams, in Poland and in the Czech Republic. We are also entering into this situation with strong positive momentum in both markets.

In these markets, as we saw with previous excise rises, and we expect to see again this time, a short-term negative effect on consumption but then there is a clear return to trend in the following year. More premiumised markets, especially those with positive economic drivers in which consumers now enjoy considerably stronger earnings, should prove more resilient to higher pricing than before. And given our September year-end, any consumption impact will be spread over the current and next year. Excise and price increases always provide challenges. However, at Stock Spirits it's in better shape than it's ever been to manage this.

Dividends

I now turn with my final slide, slide number 41, to the subject of dividends. The Board today has proposed a final dividend of 6.31 €cents per share for the 12 months to 30th September 2019. This is progressive, being a 5% increase on the 6.01 €cents per share final dividend for the previous nine months. The total dividend for the year including the interim dividend of 2.63 €cents is 8.94 €cents and this is a 5.1% increase over 2018's total dividends. Going forward we will continue to focus on providing our shareholders with progressive dividends where cash generation allows. And with that I thank you and I hand back to Mirek.

Concluding Remarks

Mirek Stachowicz

CEO, Stock Spirits Plc

Continuing Operational and Financial Progress

Thank you, Paul. So to conclude, this has been another year of continuing operational and financial progress. Our Polish business now has been turned around and we are consolidating our leadership position in the Czech Republic. And Italy is stabilising. In Poland we are announcing a significant investment in additional distillation capacity with a very attractive payback period. The strong underlying financial results speak for themselves and we are pleased with the M&A that we have undertaken to-date.

How we are Progressing against our Strategy

And we are also pleased with the progress we are making against our – the four pillars strategy. In the area of premiumisation our aim was for 30% of Stock's revenue to come from premium brands. We have exceeded this target, achieving 31.7% and doing so a year ahead of schedule. Our aim for millennials was to attract internationally-minded consumers to our local brands and we have now increased our millennial consumers up 3.4% to 21.1%, an additional 300,000 consumers in the target segment headed to our portfolio. In digital we had the objective of regularly communicating with 75% of our target consumers through digital channels. During the year our combined digital communication achieved a reach of 88.8% and I covered earlier our track record in M&A. So all in all we are very happy with the strategic progress that we are making.

Making the Most of our Leading Position

Finally, I want to finish by outlining the opportunities that we see in front of us. Firstly, we feel confident in saying that we have built a strong track record in local brand premiumisation and distribution whilst also executing and integrating acquisitions. Secondly, we are now the number three spirits player in Europe in volume terms and the number one player in Central and Eastern Europe. And, as I said before, this volume point is very important as it gives us a strong route-to-market with all its strategic benefits.

And from here our medium-term strategic plans beyond 2020 are to continue to exploit these advantages of scale and distribution, especially through premiumisation. And to explore and potentially enter attractive new segments and markets. By doing so we see a clear opportunity to significantly enhance shareholder value using our financial resources to accelerate organic growth and to execute our disciplined acquisitions strategy.

That concludes the presentation today. We would like to now open up the floor for questions. Could you please identify yourself with your name and organisation before you ask your questions? Thank you.

Q&A

Ted Nyhan (JP Morgan): Thank you. Ted Nyhan, JP Morgan. Two questions please. Just on margin dynamics for next year [inaudible] shift towards – towards premium but potentially also [inaudible] market spend [inaudible] would be helpful. And then also in terms of the difference in the impact of the excise duties in Czech and Poland, do you expect there to be any – a material difference in – in either retail or – or consumer reaction? Or – or is it broadly similar? Thank you.

Mirek Stachowicz: Maybe you'll take the first one, I'll take the second.

Paul Bal: Sure, yeah. Okay, so first on the margin – on the margin point, Ted, you know me better than that. I'm not going to give any future guidance on margin. I mean, suffice to say the margin impact that we've seen this year, as I said on the slide, was predominantly driven by a combination of mix factors. It's not input costs per se. You know, if we look at the – the movement that we have seen about a third of that came from classic cost inflation, right. The rest of it is a combination of these impacts that we see. Now, a lot of these impacts are coming from progress from our strategy. They're planned, they're expected. And in a way they're signifying our success. Our challenge, of course, is to manage those and – and obviously focusing on what we can do, we can bring our input costs down further and the investment that we've outlined today is one step in achieving that. It will create the space so we can manage these kind of shifts further. To what those shifts will be in the future, you know, we shall – we shall have to wait to see. In terms of the material point?

Mirek Stachowicz: Yeah. The – the question about the differences between the way that excise will play itself out in Poland and Czech, where do I see the difference is? Well, I think there are two key differences. One is the – the shape of the distribution channel is different in Czech than in Poland. So the traditional trade in Poland is being much more fragmented, allows us having a much better access than our competitors to be more skilled in introducing our pricing strategy. In other words, in Poland over 60% of sales of spirits are done through the – the very fragmented, traditional trade channel. And there are only two companies capable of – of executing effectively pricing rises in this channel. That's – we are one of them.

And the second point that differentiates Poland and Czech is the importance of on-trade. Now, Poland has a relatively small on-trade. Czech has a relatively large on-trade so the sales of on-trade into the whole record[?] channel and bars is over 30% then for premium it's well-over 40%. Now, we are much stronger in on-trade, especially after acquisition of Bartida. On-trade will be much less sensitive to excise increases because consumers are paying the premium in – in on-trade anyway. Now, that gives us – the very strong position in on-trade in Czech Republic gives us a possibility to shift resources and to get better return from investment and marketing in the more premium end of the market. So it will cushion the – the potential impact.

Paul Bal: I think Mirek has talked about the differences. I mean, the one important similarity is the dynamic we've seen historically that in the first 12 months you've got the dip in consumption but within 12-24 months it's back up to normal trend.

Mirek Stachowicz: We've seen this in the past, for sure. Javier?

Javier Gonzalez Lastra (Berenberg): Yeah, thank you. Javier Gonzalez Lastra from Berenberg. A couple of questions. Mirek, I appreciate you can't talk about your pricing strategy too much in detail ahead of the – owing to the excise rate increase but I just wondered whether you could comment from the lessons learnt in the situation in 2014/15, what would it – you know, looking at that example what would you have done different back then in terms of the pricing and on-trade – the trade execution? Second question is on the slide, what is it, 31 where you guys gave the growth, volume growth in Poland of 11.1%. I just wonder whether you could give us a – break that down in terms of what the third party brands have contributed to that growth. And lastly, I was interested on your comment of utilising the financial flexibility to facilitate the trade loads. Does that mean that you're going to facilitate payment terms to your customers and would you – we should expect a significant increase in the debtor base?

Mirek Stachowicz: Okay. How about I take the first one?

Paul Bal: I'll do the second two.

Mirek Stachowicz: The second two, right. So Javier, concerning the pricing in 2014. I wasn't around in 2014 but I joined as a non-executive in 2015 so I have learned the lessons very well. There was – the problem in 2014 wasn't so much the excise itself. It was broader pricing after the excise and it was a decision of the – the Russian competitor to – not to pass on the excise. And consequently dropped the pricing by roughly 15%. It wasn't the handling of the excise that was the problem. The problem was the perception of the management team at the time that that position was not sustainable for Russian competitor. What has changed since then is that we have adjusted our strategy and we have told ourselves – the assumption we have been making since the time when I came on board was that the current pricing in mainstream market in Poland is here to stay forever. And the – the challenge I – I put in front of the team was to make it work. So we need to grow regardless of pricing in mainstream in Poland. And I think we have demonstrated the ability to do so. We grow both the top line and the bottom line successfully regardless of what our Russian competitor does with pricing. So it wasn't so much the handling of excise. It was the overall pricing strategy. And rest assured, regardless of what we do with the excise we will remain competitive in pricing. And I have demonstrated on page eight, we are capable of pricing our mainstream products at some premium to – to the other players and still outgrow the mainstream category. So clearly we are capable of pulling other levers which are marketing and sales levers that we're not capable of pulling in 2014. And that's really the – ultimately the biggest difference. The biggest difference is the quality of the team. There is a reason why we are investing €25 million in Poland and it really is a vote of confidence from our vault into the capability of – of getting good return on this. And that – that's down to the team that we have in place in Poland that really knows what they are doing. We have systems in place. We have control of the business. I'm confident we'll manage this. Paul, the…

Paul Bal: Yeah. So Javier, your second question was about the – the role of the third party brands in the Polish growth story, particularly on the top line of 14%, yeah. I mean, obviously for commercial sensitivities, we don't talk about the sort of precise sort of proportion of our business which is third party. But suffice to say, in the 14% the third party portfolio has played its part. And we've seen that obviously as I said, in the mix impact that we saw, for example, third party sales going through in whisky in – in Poland. The third party portfolio is working alongside our own portfolio. It's growing at similar kind of rates to our own portfolio and the overall sort of indicator of that is if I look at the overall proportion or contribution that third party makes to our sort of portfolio in Poland it's relatively stable, right.

Mirek Stachowicz: There was one more.

Paul Bal: Yeah, so – and then in terms of the – the final question which was about trade load. Yeah, I think it starts with competitive advantage. Our balance sheet, our strong balance sheet gives us a competitive advantage over both our – our competitor Marie Brizard. There are obviously issues. But also over our bigger competitor, Roust. Now, obviously we will use that to our competitive advantage and – and we have done that in the past as well, if you recall back at the end of 2017. Now, we are a September year-end so consequently the trade load that we will be seeing that is now taking place will probably peak towards the end of this quarter but then will unwind over the coming quarter. So consequently any sort of distortion on working capital should have played itself out within the first half of the year. Now, it does of course raise concerns about governance and cash management and I'm confident of the controls that we've got in place in terms of authorisation to make sure that we're extending credit where it's safe to do so. And we've also got other mechanisms in place in – in our markets including Poland to give us some protection should things not go as we've planned them to go. So overall I'm confident that we're able to sort of exploit our – our balance sheet and we will do so competitively in the situation.

Mirek Stachowicz: Michael, I think, then Chris.

Paul Bal: Chris first.

Mirek Stachowicz: Chris first.

Chris Wickham (Equity Development): Okay. Thank you very much. Chris Wickham from Equity Development. Just three things. I mean, I was wondering perhaps if you could put a bit more granularity about the actual investment behind the – the Polish brands that you talk about on slide 31. And then I think when we're talking about pricing, I mean, clearly, you know, we're – we're many, many – well, five years on from where we were in that notorious 2014 in terms of your largest markets. But, you know, there's always a combination of how the market is structured and then premiumisation. You have that stated target of 30%. You obviously beat that. I was just wondering where you might go in terms of premiumisation not simply in the percentage of premium brands but simply what you're charging for those premium brands. I mean, you know, where you can start to scale up in terms of, you know, go up the scale of pricing. And then finally, in terms of M&A, you know, obviously you've given us that – that heat map, that footprint where you want to be and you've been very descriptive in terms of the kind of businesses you'd like to acquire. What I'd really be interested to know is, you know, what is that you will do better with your targets than what they're currently doing. When you look at them you say, 'That's not the way to run that business.' You know, what is that – what is the sort of the magic Stock Spirits effect that's going to turn those businesses around and therefore add a lot of value for shareholders?

Mirek Stachowicz: Yes. Let me –

Paul Bal: Shall take the investment?

Mirek Stachowicz: Why not?

Paul Bal: And you take the pricing?

Mirek Stachowicz: The -?

Paul Bal: [Inaudible] competitive market.

Mirek Stachowicz: Yeah. I'll do the last ones.

Paul Bal: So the investment – so the – the – specifically the investment that was made in Poland, the increase in investment year-on-year, was predominantly in the flavoured vodka category, as it were. And the brand which benefitted the most is the iconic Zoladkowa Gorzka brand and – and that as you know is an iconic brand. It's the bitter orange bottle that people will sort of remember with the recipe that goes back to 1822. So besides the mother brand, our money went on these things here, Chris, which are two premium extensions of Zoladkowa Gorzka, called Kolonialna and this is now sort of going back to sort of 1822, the spirit of sort of Polish adventure, maritime adventure, exploration and spices and botanicals and so forth. Okay. So that's where the bulk of the investment went on that – on that particular brand. There was investment across obviously the rest of the portfolio too but that's where the – the big game was, okay.

In terms of your sort of second question?

Mirek Stachowicz: Yes, it's about the premiumisation and how could that translate into higher pricing? And I guess the – the roots of your question is if premiumisation – if we premiumise so well, how come we are not getting better pricing, right? Now, we are Premiumising in two ways and we are getting better pricing. We're Premiumising through sales of our own brands and we are also selling more third party brands. So our successes in whisky are through mostly global brands of Beam Suntory and Diageo. These brands we sell at different margins because for Diageo and Jim Beam we are of course distributors and these sales are margin-dilutive for us, even though in terms of cash margin they're highly attractive. And we would not want to do without them, right. It's very clear. It makes sense for us to be present in segments where we don't have our strong brands or we don't have our own brands at all, to use third party brands. It also has a cross-selling effect. So when we go to a premium on-trade outlet, let's say in Poland, still two years ago we wouldn't be in a position to sell our vodka portfolio without having Beam Suntory brands because they open the door. So we – even though you don't have an immediate financial impact it opens doors. The fact that you have what is called the full range supply is important for our on-trade customers. So that – that effect is very important. Further premiumisation will be taking place. We are ambitious and as Paul said, if you look at the business in Poland in 2014 there was about half of the sales – I mean, it was much smaller segment of the premium sales. It's doubled since then. In Czech Republic since 2010 it quadrupled. So we are doing the right thing in this respect. And we will continue but it will not have an – the same effect on our margins as it does on margins of say companies like Diageo where they are only selling their own – their own brands.

Last final point I would make, we had a huge success with this product, which is called Republica. It's a fantastic product. It's got a massive margin but in terms of margin percent it is dilutive versus other products because we are buying Caribbean rum. We're buying in bulk. We're negotiating the pricing right but we don't yet own a distillery in the Dominican Republic. Nor do we plan to own one in the near future. So consequently it will have a dilutive effect even though it makes all the strategic sense in the world to – to sell this product cos it's huge – it has hugely attractive margins.

And finally the magic of SSG, well, acquisitions are about being able to make them and being able to make them work. And I think we can do this. We have – we are looking at businesses that are about local brands. And I think our track record in the last three years shows that we know how to premiumise local brands and how to make them work, how to leverage the strength of route-to-market. We really know about this. I did not say this on the presentation, but I feel reasonably confident on the basis of the turnaround we have delivered in Poland that we can take any broken business and fix it. So clearly we will not be looking at businesses that are in a perfect – perfect shape. We'll be looking at businesses where we identify an opportunity to apply ourselves to it. We are a team that is used to working internationally. We are an international team, very diverse, and I think we can work in any European market and add value there. And our – our Board is of the same view, having to work with – having worked with us for the last three years.

Paul Bal: I think in terms of sort of specifics, Chris, I mean, specific sort of tangibles, if we look at the investments that we've made this year, the two acquisitions, we bring, for example, more route-to-market clearly, given our size. There's obviously the cost leverage. I talked about our capabilities in sourcing and in procurement. I have to say we get stronger and stronger and of course the more scale we bring into the machine the better the result. Our marketers, particularly on the digital side, remember these are predominantly sort of private and small companies that we're buying so we're able to also, you know, throw in our competency in that area, including digital, as I said. And – and also, you know, finally as Mirek said, it's the ability to premiumise in a way that the current vendors aren't necessarily able to do.

Mirek Stachowicz: And finally, what Paul is referring to is what – what we call the base in our strategy. So we – you are very well familiar with the strategic four pillars but there is a base there. There was huge amount of work in our business that went into strengthening the foundation, which means that when we come to an acquisition like Distillerie Franciacorta right now we are in the positon to have plug and play processes. So when we come there we don't waste time on thinking how to do this. We have a process. We say, okay, this is how the process works. We plug you in. We are in the position to do this with – with any other acquisitions. We are confident we can integrate well.

Paul Bal: Matt. Matt. I think it's Matt's turn at the front.

Matthew Webb (Panmure Gordon): Thanks, Matthew Webb from Panmure Gordon. Can I start off with a couple of questions on Poland? The first really sort of broadens out Chris's question about investment in – in the Polish brands. Obviously, you talked about investment to premiumise your portfolio but I see in the statement you also talk about stepping up the intensity and quality of promotional support. And I just wondered whether you could give a bit more detail on what was entailed there and, you know, which particular categories and brands got that support? And the – the second question on Poland was just whether you were able to give any – any guidance on the phasing of that €25 million of investment? I've got a couple of questions on Italy as well but maybe do those first.

Mirek Stachowicz: I'll take the first one, yeah, and maybe you could talk about the phasing? So the – the quality and the amount of the promotional support. I think the – the – without going into specifics by brand, if you turn to the slide on the Polish market on page six, no better the one on seven, you have the – the brands in – we compare here the segment growth versus our brand growth. And in various segments we used various tools to propel this growth which is well-ahead of the segment. So going one-by-one, in the economy segment in Zubr it was really about pricing because in economy segment that's what it – what matters. We – we are of course having superior liquid to other – to other economy brands in Zubr. And, you know, people who are – who buy economy brands don't buy it for prestige. They buy it because they know about vodka. They appreciate vodka and they know the taste of vodka. And the quality of liquids that we have in – in economy is superior to anything that competition has. And that's why – that's how we win. So it's about price and quality mix.

On Zoladkowa De Luxe it's about the quality of execution in-trade. We have relaunched the bottle in 2018 and because it's a massive brand. It's the largest brand it has. Only in 2019 we really only had the – the new bottle on the – on the shelf. So we have directed resources to execute this well on the shelves in the – in the traditional trade. It's over 60,000 stores, yeah. And you need to go to them and you need to merchandise the product correctly. And you need to also have point of purchase merchandising materials that block the position on the shelf for your products. When there are only two companies that can affectively execute this that is – that has a devastating impact on others. And you can see this in the – the position of Marie Brizard. We of course have programmes to do this. We have what's called the Perfect Store Programme where dozen – over a dozen – over 10,000 stores are now executed according to our merchandising standard within the Polish trade.

Moving on Stock Prestige that has grown really rapidly, +26% and it's the number one premium brand in Poland. And we've – we've grown this – the segment. The segment grew 25% and we still outgrew the segment being the leader. That is achieved both through the quality execution and the quality of communications, mostly digital communication. And it's digital communication in Stock Prestige. Stock Prestige is a very young brand so it is one of our millennial brands. It's also one of our millionaire brands. So we – we – the execution – the digital execution of Stock Prestige is critical and that's where our know-how comes in play. We have really creative ideas and, you know, if you met the marketers there these guys are different kind. They're really – really creative people. So we – we come up with – with digital communication that is – that is striking the cord with the – with the millennials.

Amundsen the same and the quality of execution in Amundsen is so high our Polish team actually got what's called FE[?]. That's the most prized – respected prize for – for effective marketing execution and it was for the campaign, digital campaign where we were running photo competition for extreme sports for Amundsen, which was Amundsen Expedition Competition. It had huge response from amateur photographers and has created big waves.

Beluga we – we use the same – it's not our brand but we don't have anything in the ultra-premium. And finally Lubelska which is a massive brand and it has outgrown – grown at double the – the speed of the segment. We invested in new product development there in execution and it's also about the – the recipe. So we had upgraded recipe of the products. You can see we are playing different – we are pulling different levers and it's not one fits all. It's depending on the segment, on the brand, on the target consumer.

Did I answer this one for you?

Paul Bal: Yes. So Matt, in terms of your second question which was about the phasing of the €25 million investment in the instillation capacity. As you will appreciate we're still sort of fine-tuning our actual sort of plans and given the size of this obviously that's quite a – quite a task. But for obviously appreciating the need to sort of want to sort of model the impact that this has on cash and so forth, I will I would say the assumptions that I would suggest sort of for now would be probably looking at over the next three years, so taking year 2020, 2021 and 2022, I would take a profile which is €6 million, €13 million and €6 million. So the bulk of the investment falls into the financial year 2021, okay. That's realistic given sort of where we are with excise at the moment and where our focus is. So that I think reflects where the phasing at this stage is. Obviously, because it's a material project we will keep you updated on our progress on that and if that materially changes I will obviously report that. I think it's – I think it's, you know, also I think at this stage worth sort of saying that this is beyond the traditional guidance that I have given on capex. So the traditional guidance I've given on what I call operational capex has been €6-10 million per year. A programme of this magnitude is sitting outside and beyond that guidance.

Matt Webb: Thanks, that's – that's very clear. And sorry, just two questions on Italy. The first, I think you've said that there was no new information on the proposed VAT increase. Are you assuming that goes ahead or not? And then the – the second question, you said that the DF acquisition integration is proceeding according to plan but I wonder if you could just sort of update us on where you are in that process, you know. For example, are you starting to get any benefits from cross-selling or is it too early for that? Thank you.

Mirek Stachowicz: I'll take the second.

Paul Bal: You take the second one and I will [inaudible].

Mirek Stachowicz: Sorry, what was the first question?

Matt Webb: [Inaudible].

Paul Bal: On the – right. So on the VAT, there was a 2% VAT increase that was being [inaudible] and we are not assuming that that will now happen.

Mirek Stachowicz: There was the first stage of – of putting the two businesses together, which is done. So shipping products together to customer happened essentially on day one of the – of the ownership, which is great. There was no – no delay. The customers did not see any gap. And it's putting together the two salesforces which is critical. And that – that stage we are now in so large part of the Distillerie Franciacorta salesforce is in on-trade which is fantastic for us. These are agents and we – one needs to train these agents in the new products so that they are capable of selling them. We have looked at the entire brand portfolio and we have split the brand portfolio in such a way there's no competition between on-trade and off-trade. It's critical in any on-trade sales. And we – we have cross – started cross-selling some of the premium products of Stock like the Stock XO brandy into the existing channel. Whilst we have used our salesforce where the old Stock salesforce in the on-trade to improve the – the presence in the modern trade. Now, modern trade takes time because terms and conditions need to be re-negotiated on cyclical basis so we need to wait for the next cycle to see real benefits of this. But in on-trade the benefits are coming quickly. We have also been able to start selling DF products in Croatia and they are big success there because of their premium nature and our – our Croat business is mostly on-trade. So these premium products of DF are working very well in – in on-trade. So we are hopeful we'll be able to – to roll them out elsewhere. Our – our next target is Germany. We want to put something on the ground to – to get into the Italian – the Italian products in Germany.

Paul Bal: And given one of the objectives of this, as we'd sort of set out, was to have minimal impact on overheads it goes without saying that the back office integration is pretty advanced.

Matt Webb: Thank you.

Sahill Shan (N+1 Singer): Morning, it's Sahill from N+1 Singer. Most of my questions in all honesty have been asked but just a few follow-up questions here. Just again on acquisitions, you've talked about DF in Italy. What about the one in the Czech Republic? I suppose what I'm getting at really is relative to your sort of revenue/cost synergy expectations, how are the two acquisitions performing? The second question is, again the nod, the increase in duty increase coming through the next 12 months or so, what's – what's the expectations in terms of a step-increase in marketing spend going forward to try to mitigate that in terms of sort of getting the consumers on side and – and trying to de-risk the – the volume risk from that? And – and my final question was coming back to the Polish market, could you give us a bit more colour in terms of competitor behaviour or – or struggles vis-à-vis, and Marie Brizard in particular, out in the Polish market since you updated us back at the interim stage?

Mirek Stachowicz: Shall I take the acquisition and the last one? Maybe I could talk on that. Okay, so acquisition performance, it's well on track and I think I repeated this twice but maybe I'll give you a bit more colour on this. So I already talked about the Distillerie Franciacorta. In terms of Bartida that's an on-trade business that is extremely successful by developing two tools. One is the direct channel to premium – premium on-trade outlets where they essentially deliver immediately after receiving an order. And the – the second one is the e-commerce shop. We have aligned the e-commerce activities with the – with the premium range of our products and it's mostly Republica. We also launched in – in – when was it? Since September, the premium version of this one which is – which is Fernet Barrel-Aged and that is going strictly in – in the first stage into on-trade outlets using the channel of – of Bartida.

So it – it has opened up – Bartida has opened up rapid way of – of deploying premium products from our portfolio in this. The – we have said that Bartida will be – will be profit-enhancing in – in 2020 and I'm confident it will be because it's – the integration has gone extremely well. It's seamless. We have actually designed it as a – as a separate entity in our – in our organisation and we have connected the back offices but we want to keep the – the salesforce as autonomous because of the different nature of distribution channel. So it is almost as if we had another distributor, specialised distributor. Because we are geared to deal with distributors very well, we are – we are actually using the – the salesforce of Bartida as – as if it was a specialised on-trade distributor with rapid developments there.

And I – and DF I have covered all that I think with Matt. Now, concerning the competitive behaviour in Poland, well, I've shown you the pricing. We are winning in Poland. There's no question and we've – we've shown you sufficient number of figures to confirm that we are winning in terms of market share. I think the objective of our competitors are different. I think the objective of Roust is to defend and monetise their market share. It's beginning to be more apparent. Defend and monetise and I think that the objective of Marie Brizard is to get out. The – that's my suspicion of course but I – I read – I follow their announcement closely and they – they say in their announcement that they will consider any option. They have already sold their wholesale business. Rumours have it that they are out in the market looking for buyers for the – for various assets that they have in the market. So that – that – the outlook for – for competition, you know, it's unpredictable always what will happen, especially with excise increase.

Early signs – you can see that there's an upward trend in pricing in – in the last 12 months. Early signs of what companies want to do, you know, we are in December. So price lists usually need a month – need to be communicated a month in advance to – to – to the trade so we have seen what our competitors have done in Poland with pricing and essentially the price lists have been increased by – by an excise. Especially important here is Roust who's the largest player. Now, it doesn't guarantee that there will be no drop in pricing as a result of – of discounts and allowances later in the game but the early signs are promising. Marie Brizard is less material in this respect. I think because of they are looking for a way out I think that they will be very aggressive in pricing. But their room for manoeuvre is limited because over the last 3-6 months they have filled the trade with so much product you can see the difference in their – in what they are reporting as sales out and sales in. So their stocks are growing. Their ability to respond to the price increase now will be limited. And I think that they – they have few options.

Paul Bal: Coming – coming to your question about what does it mean for marketing investment in light of the excise, the short answer is it's not going to make a material impact on our marketing investment. And the reason why is if we look back over these two markets and – and, you know, I think we've said this from the – when we announced the 2017 results back in March 2018. We said we were entering a period when we were going to step up investment behind our brands. And we did that. So in both of these markets the portfolios have enjoyed sustainable levels of consistent investment. So at this juncture we don't see the need to all of a sudden sort of step up an investment in marketing. We're quite happy with where our portfolio is up. Now, what it does mean, Sahill, is that, you know, if – if the pricing environment becomes competitive we're well-placed in terms of the equity of our brand, you know. As we saw in the pricing chart for mainstream clear vodka, even with our pricing where it is, we're growing share and that's a testament to the equity that we've built over the last few years behind these brands.

Mirek Stachowicz: If there are no further questions, thank you very much for joining us. Hope to see you at the half-year results.

[END OF TRANSCRIPT]