# Interim Results 2020

Wednesday, 13th May 2020

## Business Review

Mirek Stachovicz

*Chief Executive Officer*

Thank you, Heidi. Good morning, everyone. Thank you for joining us for our 2020 half year results. I hope you and your families are staying safe and well. We are sorry not to be seeing you face to face today but hope to catch up with you all again in person before too long.

We have this morning published our reported numbers for the six months to 31st March 2020 and all comparative figures for the six months to March 219 have been restated to align with the new IFRS-16 requirements, which were adopted by the group on 1st October 2019. As usual, I'm joined today by Paul Bal, our CFO.

Moving to slide 2 and the agenda for today, I will start by providing a brief summary of the first half of the year, then give you an update on what COVID-19 has meant for Stock Spirits whilst also reminding you of the differentiated and unique business model of ours. I'll then take you through the business review for the period including an update on the performance in each region before handing over to Paul to talk you through the financials in detail. I'll then come back to give you some closing remarks, after which you'll have the opportunity to ask questions.

Turning to slide 4, I'd like to start by summarising our performance during the first half of the 2020 financial year. As you know the main challenge for us during this period until Coronavirus reached our markets was managing the excise tax increase in our two largest markets of Poland and the Czech Republic. I'm delighted to say that in both cases, trading exceeded our expectations in the two months following the increases, which is a clear illustration both of the popularity of our products, and the quality of our planning for these events.

This was also reflected in the numbers. In Poland we delivered a revenue increase of 25.4%, and in Czech, we grew revenue by 9.1%, which was a particularly pleasing result given the highly competitive market there, especially in the herbal bitters segment. This strong performance was also reflected at the Group level. Underlying constant currency revenue was up 15%. Underlying adjusted EBITDA was up 25.6% at constant currency and adjusted basic EPS was up 41.1%.

We have a strong balance sheet position, which is clearly particularly important given the current environment. Cash conversion was 58.9% over the six month period, and that reflects both the fact that we have built a safety inventory in order to ensure continued supply to our customers, as well as particularly strong sales in March as increased buying at the start of the pandemic was combined with the eastern sales peak. As at 31st March, our leverage is 0.71 times net debt to EBIDA. We have also substantial and unutilised Bank facilities.

I will come to talk about COVID-19 in more detail shortly, but for now, the headline is that it had a minimal impact on our performance. However, some of our operations have been affected. Italy, which represents around 7.8% of Group revenue has been the most effected of our businesses and although market conditions have actually been improving prior to the outbreak, underlying revenue was down 6.2% during the period.

And our Irish joint venture with Quintessential Brands has had its branded sales hit hard and the Visitor Centre in Dublin has been closed. We are therefore writing down this investment with to result in an exceptional expense of €14.2 million and the release of €1.8 million of contingent consideration. We are today announcing an interim dividend of €0.0277 per share, which is an increase of 5.3% versus last year's interim dividend.

The fact that we are able to continue with our progressive dividend policy despite the exceptionally challenging circumstances is a testament to the strength of this business. So, to summarise our position, our model is heavily weighted towards the off trade. Our key markets of Poland and the Czech Republic have remained resilient and we are in a strong financial position. However, we are absolutely not complacent and continue to monitor situation very closely in all our markets in order to ensure that we are trading as effectively as possible admidst the ever-changing conditions.

Turning now to slide 5, I'm conscious that this is the first time that Stock Spirits has updated the market since the COVID-19 pandemic reached our markets, so I wanted to give you some detail on the areas that we have been prioritising the impacts on our markets and what we are doing now to prepare for the future. Our number one priority has been to protect our employees and also to do everything we can to assist the communities in which we operate in their responses to the pandemic.

Most importantly of all, we have done everything we can to keep our employees safe and have introduced enhanced safety and cleaning measures across all our facilities including distributing protective COVID-19 masks that our procurement team were able to source direct directly from China. Our strong performance allowed us to avoid reducing our headcount making use of furlough schemes, implementing pay cuts or seeing any kind of government supports. We have been fortunate to be in a position to be able to mass produce hand sanitizer in our facilities in Poland, Czech and Germany, which has been then donated to governments, local communities, hospitals, and frontline staff of our retail customers.

Our second area of focus has been ensuring the continuity of our business in terms of production and supply chain. All our production plants and logistics centres have continued to operate as normal, with no interruptions including third party sites. We have also increased our inventory both in plants and with trade customers and have established backup manufacturing sites for our best-selling SKUs. Overall, despite some initial issues with cross-border shipping, which were quickly resolved without having had any impact, our supply chain has remained fully intact.

We have seen robust levels of demand for our products in Poland and the Czech Republic. In both these markets, we have had a strong – excuse me, we have had a long-standing focus on the off trade. Any impact from the closure of the trade was mitigated by the shift to off trade channels as customers consumed our products at home, rather than in bars or restaurants. In Poland, vodka is viewed as a staple product compared to beer and wine and we have seen increased footfall in our – in local, traditional trade shops and consumers reverting to more familiar local brands, which clearly plays to our strengths.

In the Czech Republic as in Poland, spirits are more of a staple than wine and other types of alcohol. While we have a higher percentage of on-trade business there than in Poland, we have managed to redeploy our on-trade resources to focus on digital marketing, supporting

our off-trade customers and providing training. Czech is also the most advanced of our markets in relaxing the lockdown measures in bars and restaurants.

Turning now to slide 6. Given everything that is going on across the world at the moment, I thought it would be timely to remind you how Stock Spirits is differentiated from its international peers, particularly as this differentiation is driving our strong performance at the moment. The key word here is local: across our operations, supply chain, employees, customers, brands and consumers. We have local sourcing departments in Poland, the Czech Republic, that use local suppliers for raw materials as much as possible. This means that we have exceptionally strong supplier relationships and long term contracts, which in turn means that we get priority treatment during challenging periods and when there are shortages.

We manufacture our products locally with 99% of our own brands in Poland and Czech Republic being both manufactured and sold there. This means that we have a high level of control and oversight which comes with a clear focus on health, safety, efficiency and environment. Our local marketing teams work with a broad portfolio of strong brands at all price points and work hand in hand with our sales teams. This means that we are able to be quick to meet our consumers' needs as they shift between price segments and distribution channels.

Finally, a key element of our route to market is selling direct to the local wholesalers, who then sell to the traditional trade shops and to the on-trade. This means that we have close customer relationships across both the off-trade and on-trade, but with a clear strategic emphasis on the off-trade. Overall some 85% of the /group revenues come through the off-trade channel. Because our brands are so local, we are also underrepresented in duty free channels so avoided any material impact there.

We will now go through the performance on the market by market basis, starting with our core market of Poland on slide 8. The overall Polish spirit market is now worth €3.7 billion up 9.6% at March 2020 versus March 219. consumption levels remain strong despite the excise increase in January. The overall clear vodka market was up 6.1%, with flavoured vodka continuing to perform particularly well, up 10.2% year on year. Prem – premium vodka outgrew whiskey and was up 25.4%.

Whiskey continued to be the fastest growing category up to 18.4%, although we have seen stronger price competition in the discounter channel, since the excise increase. Oher categories, which include gin, rum, and tequila delivered 17.7% growth from a small base.

Turning now to mainstream pricing on slide 9. As you can see from this chart, which covers the last 18 months, Zoladkowa Deluxe has continued to generate command[?] a higher retail price. We were able to pass on the excise increases additionally taking a 2% margin on top of the increase. This has increased pricing – excuse me. This increased pricing was accepted faster by consumers that we originally expected because of changes in shopper behaviour caused by COVID-19. Additionally, March net pricing was held by the decline in promotions, again as a result of the pandemic.

Now, turning to slide 10. In the last 12 months, our value market share on a moving annual basis increased from 28.5 to 29.7. What you see on this chart is the movement in the last six months, where the main event was the excise increase. In January in February we lost

the marginal amount of volume and value market share as a direct result of our decision to use excise load to drive sales of higher margin brands at the expense of lower margin mainstream and economy products. However, in the month March, we recover our 30% value share after prioritising our newly enhanced Zoladkowa range and restoring – restoring the service levels on the lower margin economy brands.

Our volume and value growth rates are ahead of the category in both the clear and flavoured segments. This has been achieved through an increased focus on our flavoured range coupled with the success of our premiumisation initiatives in clear vodka where Stock Prestige amongst an expedition or Acacia all in double digit growth.

Turning now to slide 11. The two key points to make here are that, firstly, the number three player in the Polish market, Marie Brizard, is becoming less and less of a factor in the competitive landscape. And secondly, the decline of Marie Brizard has primarily benefited Roust, as their core brands are similarly mainstream focus as Marie Brizard brands.

Turning now to slide 12, and an update on the wider market. I have already described how we have navigated the excise change. When we last updated you, we talked about the anticipated introduction of a small format tax. This has not materialised due to opposition to the legislation in Parliament meaning – meaning that it now has been defeated twice. We expect that it may no – now be delayed until after the COVID-19 crisis, but in any event, we are committed to fighting this legislation on several – several levels should it be reintroduced, including challenging the decision at the EU level.

To give you an idea of the dynamic between the on-trade and off-trade in Poland, the trade segment represents only around 10% of total market sales, and only around 3% of stock sales in Poland. Consequently, the closure of on-trade has been more than compensated by the growth in the off trade. And looking forward we expect the domestic tourism – i.e., Poles stating in the country for the summer holidays rather than going abroad – will increase, meaning that the on-trade’s returned could be substantially aided in the coming weeks and months.

Turning now to the Czech market on slide 14, consumer price prices were largely unchanged during the period due to the significant trade loading that took place before the excise rise was implemented. The total spirits market grew 6.4% to €0.5 billion, with particularly strong performances from rum, vodka and whiskey more than compensating for the contraction in herbal bitters, and fruit driven categories. However, it should be noted that the decline in value in herbal bitters is now slowing compared to prior periods.

Turning now to slide 15. We have continued to lead the Czech spirits market whilst investing in equity growth and maintaining margins for the long term. While we achieved an overall increase in absolute value, our overall volume share was flat, which resulted in 1.3% reduction in overall – overall value share.

Our share in the rum category was supported by strong performance from Republica rum and the addition of the Bartida rum brand since its acquisition last July. Intense competitor pressure – pricing pressure in herbal bitters eroded our value share of that category by 7.3%, but the ongoing Fernet Stock relaunch is slowly enhancing brand equity and pricing and early signs are promising.

Turning now to slide 16. As I said before, price increases have not yet been fully passed on to consumers due to the significant level of trade load and before the excise change. So there has been no material impact on consumer demand so far. We are pleased with how seamlessly the integration of Bartida was executed and the business was performing ahead of our expectations prior to the closure of the on-trade in March. The synergies already driving growth with the performance of Legendario rum being particularly noteworthy, increasing its value share of the premium rum segment from four to 6.2%.

The on-trade in Czech represents around 30% of market sales and around 30% of our revenue in the Czech market. Similarly to Poland, the increase in off trade sales of local brands largely offset the closure of the on-trade in March. This was helped by the redeployment of our staff who usually work in the on-trade to range of new roles including supporting off-trade sales activities, conducting online training, assisting on-trade customers in navigating government support packages, and digital marketing.

Turning Italy on slide 18, which as a reminder accounts for around 7.8% of our sales. market conditions in Italy has actually been improving prior to COVID-19 outbreak, which as you all know has had a profound impact on the country in recent months. During the period, the total value of spirits market grew by 4.2% to €1.6 billion. We are delighted to gain – we were delighted to gain Beam-Suntory as a distribution partner in Italy and the distribution of their products commenced as planned in April despite the lockdown. This arrangement will provide us with more scale in the market in which we still have a relatively small overall share of total spirits.

Three out of our five categories – limoncello, clear vodka and grappa – were in moving annual value growth at the end March although flavoured vodka remains in decline with a drop of over 3%.

Turning now to slide 19. One of the key highlights in Italy during the period was a pleasing performance in brandy, where our premium variant of Stock XO fared particularly well and achieved fantastic results at the recent World Drink Awards. Elsewhere, following our increased investment in Keglevich last year, we grew overall share in clear and flavoured vodka. The integration of Distillerie Franciacorta acquisition is progressing as planned and is adding scale in the growing Grappa category in which we maintained our category leadership.

Turning now to slide 20. While our operations are based in the epicentre of the region in which the coronavirus outbreak first started, thankfully none of our employees have been diagnosed with the virus and all of our business operations were able to continue as normal. We temporarily and voluntarily closed our Borgo Antico distillery in mid-April and brought forward scheduled maintenance from May, but ensured that sufficient inventory was in place before doing so. The distillery is now already back in operation. One additional point I would like to make here is that about 40% of our sales in Italy is on-trade. So we are much less exposed to the on-trade than the 53% market average.

Turning now to slide 22 and the highlights from our other markets and the JV operations. In Slovakia, we managed to maintain our market share against the backdrop of flat value market and declining volumes. Our investment in the Amundsen vodka range delivered value growth of 19%, while in rum, the rollout of Božkov Republica helped to grow our share of that category from 7.6% to 12%. In April, we announced that the management team of our

Slovakian business would be combined with our Czech operations to better leverage the combined scale of the broadly similar brands portfolio in both countries. This will come into effect from 1st October. In our International division, in Croatia, we had pleasing results from Stock 84 brandy post this relaunch, which reinforced our market-leading position of imported brandy and grew value share from 11.3% to 13.1%.

In Germany, our new distributor has already delivered tangible results by gaining increased listings in the retail segment for our Polish brands. We have also appointed a new brand ambassador for our Italian portfolio to help drive similar growth for those products. In terms of our Irish whiskey joint venture with Quintessential Brands, COVID-19 has heavily impacted its less established and higher-priced brands as consumers switched to cheaper and better-known alternatives. In March, the visitor centre in Dublin was closed and will not be opening again until the city's tourism industry recovers, depriving the company of its most important brand-building tool. These developments brought the sales forecast of the venture well below expectations despite the fact that the volume actually doubled in the previous financial year.

As I have said earlier, we have taken an impairment on the investment, and Paul will talk more about the accounting for this. While this is disappointing, we have been always clear that this minority JV stake is our – only one part of our multifaceted whiskey strategy. And with the extension of our Beam-Suntory partnership to Italy, our wider plans for this category are ahead of schedule. Finally, it should be noted that the distillery is operating, new-make malt liquid is being laid down, the products are award-winning, we remain a shareholder and intend to play an active role once trading conditions normalize.

Finally, moving to slide 23. I want to talk you – talk about our M&A plans before handing over to Paul. Unsurprisingly, our work in this area has been interrupted by market disruption resulting from COVID-19, and all projects have been postponed. This has resulted in the write-off of an investment of €1.3 million made to date, which is disclosed as an exceptional item.

However, our strategy and ambitions in this area remain unchanged, and work will resume, again, at the earliest opportunity. As a reminder, our criteria for transformational opportunities are that target companies must be within what we call the 'vodka in bitters belt', that there must be local brands with positions of scale in markets, categories or segments with growth potential, and they must be cash generative.

Finally, we believe that there may be some attractive opportunities for making bolt-on acquisitions in our existing markets as a result of the current challenges presented by COVID-19.

I will now hand over to Paul to go through the financial results in more detail. Paul, over to you.

## Financial Results

Paul Bal

*Chief Financial Officer*

Thank you, Mirek. Good morning, ladies and gentlemen, both on the webcast and on the call. It's my pleasure to present the financial results for the six months ended 31st March 2020.

I'll start with Slide 25. Our results announcement released this morning sets out the details of the basis on which these results are prepared. This includes adoption of IFRS-16 leases since the start of this financial year on the 1st October 2019. The comparative period has been restated accordingly as if IFRS-16 applied then to. One, consequence of the adoption is an improvement of our EBITDA and EBITDA margin as certain operating costs associated with leases are now treated as financing.

You will recall our two acquisitions in the second half of the last financial year completed in June 2019. To better appreciate and understand the underlying performance and results, driven by better operational leverage, we have reported the picture with and without their impact on the Group's results. Where we refer to underlying results, these exclude the contribution from those two acquisitions and therefore, they are more comparable to the prior period.

On this basis, our underlying results show continued strong improvement in financial performance notwithstanding two very big challenges. First, from excise increases; and secondly, from the COVID-19 pandemic towards the end of this period. There is growth throughout from the top lines of volume and sales to the bottom line and margin. In constant currency terms, underlying revenues were up 15% to €180.7 million. Underlying adjusted EBITDA grew 25.6% to €44.2 million, underlying adjusted EBITDA margin was up at 24.6% and adjusted earnings per share grew 41.1% to €00.1438 per share.

Beyond the profit and loss account, our financial position remains as robust as ever. Given the uncertainties created by the pandemic, we proactively and prudently deployed some of our strong cash flow to hold higher-than-usual inventory levels to ensure availability of our products and better manage supply chain risk. Our progressive dividend policy – under that, we are announcing a 5.3% increase in our interim dividend compared to the 2019 interim. This is a payment of €0.0277 per share. The dividend is announced having considered our strong reported performance, our solid financial position, our outlook and our responsibility to all stakeholders during these challenging times. I mentioned adoption of IFRS-16. There are further details on the restatement of comparatives in Appendix 3 of today's presentation on slides 45 and 46.

So moving to slide number 26, and the Group's consolidated profit and loss account with the restated comparatives. The reported 20.8% increase in revenue was helped by last year's acquisitions. Underlying revenue, excluding acquisitions, was up a strong 15% in constant currency terms. Besides volume momentum, this also reflects better pricing in Poland and Czech. Gross profit margin moved slightly, essentially from the mix effects that are largely driven by last year's acquisitions. Higher selling and overheads reflect inclusion of the trading costs of the acquisitions as well as higher marketing investment and inflation on staff costs. We include our 25% share of the results of our associate Quintessential Brands Ireland

Whiskey Limited. Overall, our performance has resulted in another period of double-digit growth; 32.5%, in fact, in the operating profit before exceptional items and quite an improvement in that margin, some 190 bps to be precise.

We have booked three exceptional items in this period. They totalled €13.8 million. First, an impairment of €14.2 million against the carrying value of our Irish Whiskey associated investment. Partly offsetting this is a net credit of €1.6 million, which is mostly a release of a lot of the provision for deferred consideration due in respect of the Irish Whiskey investment. Both of these items essentially reflect the impact of market uncertainty resulting from the pandemic on this young business's future prospects. And thirdly and finally, €1.3 million of invested costs were written off, having been incurred during the period on M&A work that has been postponed given the market disruption following the outbreak of the COVID-19 pandemic.

Net finance costs were largely flat. The higher tax charge actually represents a lower effective tax rate. The rate benefited from small positive impacts in prior years and deferred tax. Our strong underlying performance is best reflected in the improved adjusted underlying EBITDA, growing 25.6% in constant currency terms. It is also visible in the strong adjusted earnings per share growth of 41.1%.

With slide number 27, 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 10.1%, with some 180 bps coming from last year's two acquisitions, meaning that our underlying volume growth was a very strong 8.3%. The markets driving this growth were our two biggest, Poland and the Czech Republic, delivering a consistent performance.

Turning to our revenues. It is pleasing to report that our underlying average prices were clearly up too. Some of this reflects successful planning, management and negotiation of the substantial January excise increases in both Poland and the Czech Republic. In Poland, we passed on the excise increase, and also took an additional margin. In the Czech Republic, our increases were less, reflecting the more competitive situation in that market. Less enduring could be the pricing benefit received in the month March in some markets as promotional pricing was rolled back in the face of higher consumer demand. Mix was less of a driver than in the past, partly due to the increasing excise and partly as lockdowns occurred. They drew consumers to bigger, local and typically more mainstream brands. Of course, the two acquisitions from last year also made a positive contribution to the reported revenue.

Looking then specifically at Poland in the next slide, slide number 28. Revenue grew a very strong 25.4% at constant currency, benefiting from a very healthy positive combination of all three growth levers: impressive volume momentum, positive pricing, in part helped by the January excise increase, and some continued mix improvement. Of the three levers, pricing now took centre stage. As I mentioned earlier, some rollback of promotional pricing in March provided additional tailwind as possibly did Easter timing, as did the pull-through effect on our sales of stronger consumer demand. I remind you that Poland is very much an off-trade market, especially for us. This meant that we actually gained from the closure of on-trade at the end of the period.

EBITDA grew a significant 43.8% in constant currency terms, demonstrating, once again, our capability in a still competitive market to grow value. The EBITDA margin was up 350 bps.

And this result was delivered, notwithstanding investing more behind our Polish portfolio than before.

Turning in the next slide, slide number 29 to the Czech Republic, our second biggest market after Poland. Here, we also delivered strong growth in the top line at 19.9% in constant currency terms. Stripping out the sales contribution from the Bartida acquisition, it was still an impressive growth of 9.1%. Pricing was a key driver, partly because of the excise increase, though not to the same extent as in Poland, reflecting a more competitive landscape as well as the larger trade inventory loading that occurred during the first quarter of our financial year. The continued upward volume momentum was also pleasing.

Bartida traded ahead of our expectations until the lockdown in early March closed the on-trade channel, which is more sizable as a proportion of the total spirits market than it is in Poland and a bigger proportion of our sales than it is in Poland. We estimate that in the Czech Republic the impact of the closure of on-trade was fully compensated by gains in the off-trade in March. EBITDA growth was a very strong 27.6%. Without the contribution from Bartida, it was up 22.7%. Underlying EBITDA margin, excluding Bartida, is also well up on 2019 at 38.6%, partly due to lower marketing investment in this period. The margin dilution from Bartida reflects integration costs from the March lockdown.

I move now to slide number 30, and Italy. As Mirek said, we saw continued signs of stabilization and even some positive traction in the underlying business during most of the period. However, this was curtailed from late February as the market went into a very strict lockdown. And as on-trade, the predominant channel in this market closed. Its size meant that growth in the off-trade was insufficient to fully offset the loss from on-trade. This is reflected in the negative impact on both volume and pricing in the underlying business and the results in volume contraction.

Reported revenue growth for the period rose 21%, due completely to the contribution of the Distillerie Franciacorta business acquired last summer. However, this business was also significantly hampered by the closure of on-trade and did not deliver to our expectation over the period. Consequently, adjusted EBITDA and the EBITDA margin was down despite the small positive contribution from the acquisition. Part of this reflected costs associated with the Managing Director change in the period. The costs associated with the ongoing integration of Distillerie Franciacorta also weighed on the EBITDA and EBITDA margin.

Turning now to slide number 31, I now move to the rest of our operations. The small underlying revenue contraction was tempered by a positive contribution from the Distillerie Franciacorta's export sales. The underlying decline was 6.2% and largely driven by our Slovakian business. As Mirek mentioned, this has been severely challenged by a combination of increased competition as well as tough regulations issued last summer, favouring smaller local businesses. Export orders for our international business also fell significantly in March as countries went into lockdown and consumers reverted to more trusted bigger brands. EBITDA and EBITDA margin consequently declined. The positive EBITDA contribution from Distillerie Franciacorta exports is also impacted by the pandemic in March was not enough to offset the underlying business decline.

If we now move to slide number 32. Currency movements were more marked in the final weeks of the period. However, overall, they have had very little impact on our top and

bottom line for the period. In Appendix 1 to this presentation, on slide 43, we have set out the key exchange rates over recent periods. And for those who still remember it, we reconfirm that we don't believe that Brexit will have a material impact on our business.

The next slide, slide number 33, sets out net finance costs. Our financing arrangements run to late 2022 and have not changed over 2019. Falling interest rates over the period have offset the impact of higher drawings to finance last year's two acquisitions. As you can see, we are operating well within the covenants on our financing arrangements and with significant unutilised facilities, and we forecast to remain so.

I now move to slide number 34, turning now to the subject of taxation. The significant rise in the current tax expense comes from both higher taxable profit, but also having exhausted brought forward tax losses in Poland. However, there is some offset from a lower deferred tax charge. The tax rate picture is a little distorted by movements related to prior year taxes. Ignoring these, there is a relatively stable effective tax rate in the low to mid-20s over both periods, with market mix being the real driver. The tax environment remains challenging with authorities taking an aggressive approach. As reported previously, we have felt this, especially in Poland. Here, as previously reported, in late 2018, we were assessed in respect of our 2013 corporate tax return, mainly relating to pre-IPO corporate restructuring between 2009 and 2013.

Our two appeals to date, heard by the tax authorities themselves and by a local court during this period, have been unsuccessful. Our final appeal has very recently been launched with the Supreme Court. Based on the updated professional advice received, we remain confident that our position will ultimately prevail on the main issues. During this period, the tax authorities have commenced their audit of the 2014 corporate tax return. The Group has provisions totalling €3.8 million, down from €4.3 million at the end of last year, where, based on professional advice, future settlements are likely or expected in respect to historic positions. Nevertheless, in some circumstances, the group may have to pay over some assessed as due by the authorities and then seek their recovery through appeal.

Moving to the next slide, slide number 35, and we come to cash flow. Strong cash generation is a hallmark of the group. However, during this period, free cash flow was down 18.6%. The implied conversion rate was 58.9%, which is down on the prior period. The main reason for this is a significant increase in working capital, predominantly trade receivables, resulting from the higher sales towards the end of the period, whether because of COVID-19 or Easter. In addition, we proactively and prudently have raised inventory levels beyond those planned to safeguard product availability. Ignoring the impact of these would have resulted in a conversion rate of over 90% and closer to the prior period.

I click now to slide number 36. Turning to our strong financial and cash position. Our net debt has remained stable at €55.4 million over the period. This has been restated in light of adopting IFRS-16. Our balance sheet leverage has fallen to 0.71x on this basis. This is well within our desired range of 0.5x to 1.5x leverage. The Group has significant liquidity available to it and is very well-funded for the future. This provides financial flexibility, which has always been our array. Ordinarily, this has been to pursue our strategic growth aspirations and to reward our shareholders with progressive dividends. In these uncertain times, it also serves to protect the continued operations of the group.

I turn now with my final slide, slide number 37, to the subject of dividends. The Board today has announced an interim dividend of €0.0277 per share for the period. This is progressive, being a 5.3% increase on the €0.0263 per share interim dividend for the previous comparable period. The dividend has been declared having considered our future forecast cash requirements and position under several scenarios. It is also mindful of the need to consider all of our stakeholders in our business. It is declared recognizing that no colleagues have been furloughed, laid-off or had a salary cut. No state assistance has been sought in any market, and we are working collaboratively with suppliers and customers as required to carefully navigate and manage the challenges of the COVID-19 pandemic.

Going forward, we will continue to focus on providing our shareholders with progressive dividends where our cash generation and position allows.

And with that, I thank you, and I hand back to Mirek.

## Concluding Remarks

Mirek Stachovicz

*Chief Executive Officer*

Thank you, Paul. So moving to slide 39, just to summarise what we have just heard. We have successfully navigated the excise increases in Poland and the Czech Republic, and our long-standing focus on the off-trade has more than compensated for the impact that the pandemic has had on the on-trade in those markets. This has resulted in an underlying constant currency revenue increase of 25.4% in Poland and 9.1% in Czech. The performance and integration of Bartida and Czech has proceeded ahead of our expectations. In Italy, whilst COVID-19 has affected our business, it has not translated to material impact at group level and the integration of Distillerie Franciacorta is progressing on track. Our strong financial results, the highlights of which are shown again on this slide, are a great illustration of the resilience and adaptability of our business model.

Turning to slide 40. I know that having seen the strong performance that we've delivered, you will naturally be wondering, what can be expected of Stock Spirits in the future. We believe that the answer to that question lies in the quality of our relationships with our stakeholders. So on this slide, I would like to take you through our key stakeholder groups and consider how our relationship with them have been influenced by the pandemic and what this could mean for the future.

Starting with our shareholders. Hopefully, we have demonstrated that the strength of our balance sheet and cash flow and the resilience of our business model have allowed us to trade our way successfully through not only large excise increases in our two main markets, but also through the coronavirus market conditions. That resilience is being evidenced today by our interim dividend, which is up 5.3% over last year's interim dividend.

Next, working clockwise around this graphic, our employees, as I said earlier, the well-being and health has been our first priority during this crisis, and we have implemented a range of enhanced procedures across our operations in order to keep them as safe as possible. We have further strengthened our relationship with employees not only by avoiding any headcount reductions, but indeed by improving employee benefits, including enhancing

bonuses for frontline workers. With our customers, we have been able to keep pace with the level of demand that we have seen for our products and have been as flexible as possible on delivery terms and credit. More practically, we have donated large quantities of hand sanitiser to them for use by their frontline customer-facing staff.

In terms of consumers, we believe that our strong local brands are now more trusted, familiar and appreciated than ever before. And we have also continued to innovate through our NPD programs. We have also fostered even closer ties with the national and local government bodies in the markets in which we operate, again, by providing hand sanitiser and bulk raw alcohol to help with their responses, but also not having to make use of furlough schemes or government aid packages. And finally, in the local communities in which we operate, we are hugely proud of the way in which our employees have gone out of their way to assist with local initiatives that are aimed at helping those who are most in need. All in all, we believe that we will emerge from this period with stronger relationships than ever across our entire stakeholder base.

Finally, turning to slide number 41 and the outlook. First of all, it is important to understand that spirits are and will remain a stable product in our key markets. So we expect consumer demand to remain robust. With our half year ending in March, the real impact of the pandemic on the consumer demand was practically limited in our results to this one month only, and demonstrated that the demand has been exceptionally resilient in the off-trade channel and that we may also benefited from consumer – some consumer stockpiling.

Stock Spirits' performance in the second half of the year will, therefore, depend significantly on the speed of recovery of the on-trade channel in our markets. It is important to keep in mind that the scope of impact of any possible scenarios here could be limited to the historical 15% share of the on-trade channel in the overall group revenue. Beyond this, given the global nature of the pandemic and the uncertainty around the severity and duration of the impact across multiple markets, we are not in a position to offer guidance on revenue and profit growth for fiscal year '20.

As we have said, we are confident that our local base model will serve us well in responding to the challenges of COVID-19, as well our strong balance sheet and cash flow. We are now planning for what the new normal will look like in each of our new markets and are confident that there will be growth opportunities, both organic and inorganic for us as we emerge from this period of uncertainty.

Ladies and gentlemen, we would like to now invite you to ask questions. If you wish to ask a question please press star one on telephone keypad now. I will hand over to the organisers, please, to manage this.

## Q&A

**Fintan Ryan (JP Morgan):** Good morning Paul and Mirek. Just two questions from me, please. Firstly, following the March off-trade stockpiling you mentioned, broadly, how is pricing and promotions in both Czech and Poland developed over April and May? And have you seen any sort of normalisation in the off-trade channel demand? And then secondly, you also mentioned that in Poland you saw a two percentage point margin benefit from the excise increase in H1. Given the competitive environment and presume post-COVID promotional

normalisation, how sustainable do you think that margin gain can be? And now is this sort of high 20s margin in Poland sustainable new normal?

**Mirek Stachowicz:** Well, let me take – Fintan, thank you for your questions. Let me take the first one and the second one. So in terms of pricing, it is really too early to tell. I'm sorry to be – not to be able to give you more detail, but we rely on our pricing on data from Nielsen. This data hasn't come to us. All I can share with you is the incidental evidence. And we have seen that the subdued promotional pricing was still evident in the market. So consequently, the pricing continued strong in the market.

Overall, you may recall that we've always been saying that there are 2 dials that will – 2 impacts that will really change and turn the dial-in our business. One is M&A and the other one was pricing. Now I think that this period is demonstrating what pricing could do in our core market of Poland in terms of the positive impact on the business. This 44% growth of profit is coming from the fact that we are finally able to use all the leverage – levers in our business in Poland.

In terms of – that links to the second question about how sustainable this is. I hesitate to comment on this because it depends on behaviour of the number one player. You have seen that we – the competitive situation continues to evolve and the number three players much less of a factor. You have also seen from page 9 of our presentation that the pricing of the number three player has moved upwards, and now they have not been able to keep pricing of their mainstream products low. It's hard to say how the main number one competitor will behave, but so far, we've benefited from a less competitive, less aggressive pricing environment in Poland. We will, of course, monitor this as we have over the last four years since I've been here.

And we will continue to focus on value. You have seen that we have not gone aggressively for market share in the period of excise increase. We have taken the opportunity to drive value, and we will continue to take opportunity to drive value whilst at the same time, you can see we have actually grown market shares. I hope that answers your question.

**Matthew Charles Webb (Panmure Gordon):** Good morning everyone. Three questions, please. Firstly, I presume that quite a number of your customers in the on-trade will be struggling at the moment. I just wondered how you're thinking about extending credit to them. Are you able to support them? Obviously, you've got a very strong balance sheet yourselves or is that just too risky given the default risk?

Second question, I just wondered why you think that the proposed duty increase on smaller bottles in Poland didn't go through. I think when you talked about this issue back in – when was it, February, it didn't sound like you were that optimistic. So it sounds like that was a positive surprise. I just wondered why you think that was.

And then the third and final question, I'm sorry, I might have slightly missed it, but I think you mentioned that Distillerie Franciacorta would have performed a bit below your expectations in the period, but I wasn't sure whether that was due to the COVID impact or whether that was sort of on an underlying basis pre-COVID. Could you just clarify that for me, please?

**Mirek Stachowicz:** Alright. Well, if I can divide the questions between ourselves. So could you take the on-trade credit risk, Paul? And I'll take the second two, please.

**Paul Bal:** Yes. So Matthew, thanks for the questions. So first of all, yes, I mean one solution that is open to us to assist our customers in the belated on-trade is to extend credit. And we are looking at that where we feel it's prudent and safe to do so. There is a greater credit risk attached to the on-trade customers typically because of the nature of their business, because of their size and so forth. But nevertheless, we do have credit insurance arrangements. So we're obviously cognisant of that. And where we can extend credit and manage our overall credit risk, we will do so.

However, as Mirek mentioned, what we are also doing, which is proving very effective, is deploying some of our reps who would have been selling into that channel, they are now helping the operators, our customers in those channels in accessing the state aid and assistance and various sort of schemes that are open to them in the various markets. So through a combination of those arrangements, some assistance from us prudently, but also helping them to navigate the bureaucracy, we're finding a way forward.

**Mirek Stachowicz:** And I would also say that because of our close relationships with these wholesalers who are serving on-trade, we actually know them better than their banks. So we know who is going to come out with flying colours and who is not likely to do that. And we, of course, exercise judgment there. One more comment on on-trade. Some of our markets are well-ahead of what's happening here. So in Czech Republic, for everybody's information, you can have a beer outside already as of this Monday...

**Paul Bal:** But we prefer you to have a vodka or an herbal bitter.

**Mirek Stachowicz:** Yes, absolutely. So they are moving quite quickly. For example, Croatia has already opened up all on-trade, including interior of bars and restaurants, and that has already been legislated. So yes – but then having said that, Croatia has been the most severe lockdown in all Europe, and they have managed to basically stamp out the COVID altogether there.

So moving to the second question, the small – the duty on small bottles. We were – we didn't want to overpromise in February. We indicated to you that we will deploy a number of avenues that were – opened up a number of avenues that we could travel to counter this very controversial law. This is a controversial law. It singles out certain number of producers, including alcohol producers, but also producers of products with sugar.

This has been a law that has met significant resistance, political resistance in the – in Poland. We were able to convince a number of legislators that there are better ways to – to deal with this. And COVID also helped because, you know, one doesn’t want, I mean, the legislators realised that this is disruptive and they realised also that the – the pandemic, period of pandemic, when the economy will clearly be impacted is the last – is the least – is the worst moment to introduce further disruptions to the – to businesses. So I think that that’s one element.

And the second element of course is that we have been saying from the beginning that we see a strong possibility to challenge this legislation at the EU – on the EU level through legislation that deals with unlawful state aid. And we have been able to actually submit a

challenge like this which we believe has a reasonable chance of succeeding. I deliberately try not to be – over promise here and I think that is a factor in the mind of legislators as well especially as we were able to – to demonstrate ways in which objectives of this legislation could be achieved in better ways, yeah? So we remain optimistic that this is going to take time if ever will be implemented.

Now, coming to the Distillerie Franciacorta, when you look at the – the plan that we have had, we are – we are successfully integrating the – this – this acquisition. Keep – keep in mind, this is a bigger and more complex acquisition than the one that we have done in Czech Republic. And we – what we have experienced around Christmas time was we had some tactical issues around scheduling promotional activities in the accounts that we have – we have integrated with our – with our key account team. So not always we're able to schedule the promotions that – that we're hoping to do.

Now, that has impacted our performance around Christmas. We were hoping to recover this around Easter but COVID came in and had very selective impact on – on demand in – in Italy. COVID coincided with Easter. Easter is a very family – very much a family affair in – in – well, everywhere, but in Italy especially. So we have seen that – that some of our products did much better in – in COVID Easter than others.

Those ones that did not do well were those ones that are consumed together around the table so for example, limoncello. And we were not able to – to recover the – all the sales loss in – before Christmas around Easter time because there weren't so many consumer promotions. So that's the – that's the story of Distillerie Franciacorta. We are – we are very positive about Franciacorta. And we think this is just a temporary setback that is, as I said, purely tactical. I hope that answers your question, Matthew.

**Matthew Webb:** That's great. Thanks very much. That's very – very clear and reassuring. Thank you.

**Mirek Stachowicz:** We can take one more question, please. Any more questions?

**Chris Wickham (Equity Development):** Yeah, thank you. Just two things. One is just on the issue about alcohols and sand – hand sanitiser. I'm just unsure whether or not in the long term there is a market there and whether that's – that's of interest.

And then secondly to segue from your earlier answer when you're talking – to – to Fintan's[?] question, you talk about M&A and I mean, that's clearly a perennial question with FMCG companies about, you know, the FMC – what M&A opportunities are currently being thrown up. How, you know, wide a scope would you look at in M&A right now? I mean, for example, you know, mix is obviously, you know, an area where there's been a little bit of, you know, COVID impact and there might be some opportunities there. Is that something that might interest you?

**Mirek Stachowicz:** Chris, thanks for your questions. Let me take them. Now, on the hand sanitiser, I don't think there is a market for us there and we didn't do that in order to create a market. You know, there are – there are companies that specialise in this type of products.

What we did was we used our existing capabilities to deliver free of charge hand sanitiser. We have given it away, you know? It was – it was deliberate because, you know, quite frankly, Chris, to go through the pain of registering a product like hand sanitiser would take a

year. So having an option of doing nothing or doing something for free, we did it for free, you know? We – we were able to get our act together quickly and deliver the product when it was needed. So – and you probably will see now, if you go to [inaudible] here, you will see that there's lots of hand sanitiser available now. It was – it was important to do it then and there.

The – the M&A, well, as I said, we – we haven't changed our – our ambitions at all. We had to put them on hold. Very clearly, it's not the right moment now to – to move with M&A. We see opportunities emerging as a result of this crisis. With our strong balance sheet, we will certainly be able to take advantage of that. But let's not make a mistake about it. We will continue to rigorously follow our – our criteria. So there will be lots of businesses available that – that will require, you know, these will be distressed assets.

We are not really looking forward to buying anything like that. We want to – we want to stick to our criteria and if something comes up on the market now that we'll be very interested. We are – we would like to certainly continue with the significant transformational acquisitions. And we will need to wait for the dust to settle before we progress with this. Meantime, we will be looking at M&A opportunities in line with our criteria.

**Paul Bal:** We are told that we do have time for another question or two. So please, operator, if we can have the next sort of two questions, I think we should be able to manage those.

**Doriana Russo (HSBC):** Yes, good morning. I have a couple of questions if I may. Coming back to the situation in Poland and I think it was mentioned that you have marginally adjusted your strategy locally to support higher margin products versus low margin products. Can you elaborate more on that in terms of brands and in terms of whether this is a shift of your medium– to long-term strategy or it's just a tactical impact to go through the excise tax increases?

Secondly, I wanted to ask if you could please give us an update in terms of your key markets. Where do they stand in terms of opening up to the – on trade and – and to easing some of the restrictions imposed during the lockdown? You mentioned some of your markets but can you please mention also whether you have seen any – anything happening from the demand point of view in your key markets of Poland, Czech Republic and Italy, please?

And finally, in Italy, it was already asked about the Distillerie Franciacorta and what was wrong. But obviously, the expectation initially in terms of profitability of – of that recent – have just recently changed. Do you think we can recover some of the old margins that have been lost? Do you see the last year as a one-off or do you think the market is structurally less profitable than it was the case before? Thanks.

**Mirek Stachowicz:** Thanks, Doriana. I would take the first two questions and then I will ask Paul to respond to the Italy profitability of Distillerie Franciacorta and whether it's structural.

So let me just start with the Polish and the – the – the question whether it's strategic or tactical. Doriana, it's purely tactical. It was related to the fact that the – we needed to carry out as efficiently as possible the trade load before excise was implemented 1st January. Now, excise in Poland was announced only in late November as opposed to Czech Republic where it was announced in June. So in Czech Republic, we're able to prepare well for this and to shift significant volumes to our trade customers.

In Poland, we had a very short time horizon, just one month effectively, which meant that we had to choose with our fairly complex product range. We had to choose what we could manufacture and load in the short time available. So we naturally – having a choice of running lower margin products through our factory or higher margin products, we chose the higher margin products even though we knew that it would result in a short-term decline of our market share.

When you look at the proportion between various products, the largest volume and value share of – of the Polish market is still driven by mainstream vodka. So the decision to prioritise more profitable products such as premium clear vodkas and flavoured vodkas had its consequences in the – in the – relatively small but still a decline in our market shares in January and February.

Now, after the – the trade law was finished in January, we restored customer service levels on products like our economy clear vodka brands and the – the mainstream clear vodka brand – now, that – Żołądkowa de Luxe – that was normalised in March, in early March. So you could see that the – the jump in market share in March basically brought us back where we were before the excise load. In total, it was tactical; it's not strategic.

Now, in terms of opening up whether it has an impact, right now, we see impact. I will respond the same way as – as before. It's too early to tell because we need the data which we – we are still – we will receive data from Nielsen next week for April so we don't really know.

But I'll tell you what is happening. It's very clear that our markets are very keen to open up. The markets of Central and Eastern Europe, they implemented rigorous shutdowns at the same time as markets of Western Europe but the COVID wasn't – was barely there, yeah? So the impact of these shutdowns was much more effective. It's not because the governments are wiser; they just moved at the same time. So effectively, they pre-empted the epidemic better.

Now, that – that means that they're now opening up faster. So in Poland, we are – next week, we are beginning to see outdoor on trade opening up. We also see next week the shopping malls opening up although the – they will not be opening up bars and restaurants.

In Czech Republic, as I said already, the outdoor on trade is already open. And in most advanced – the same goes for Slovakia. Most advanced is Croatia and, you know, Croatia is actually the market where we, in the summer, we had the biggest component of on trade. So you can see that we have disclosed quite detailed data about the core market. I can also disclose that in the summer in Croatia, about 60% of our – all of our sales between May and September come from on trade because of the big tourist season, right? So potentially, this could be a significant risk.

Having said that, and that is why I said that when you look at the outlook, on trade is a key element of uncertainty here. But looking at Croatia, Croatia has actually made a deal with Austria, Czech and Slovakia already that they will open up the tourist corridors to Croatia. 80% of tourism in Croatia is a driving tourist, at least historically, that's what it was last year so not people flying in but people driving in from north of Croatia.

I believe that Poles will also join this which should mean that the – the tourist – the tourist trade in Croatia has a decent chance of recovering before being hit too hard, yeah? Don't know really where it – where it will end up but the early signs are – are promising.

**Paul Bal:** To your final question, Doriana, about Distillerie Franciacorta and our ability to recoup the lost margin, I think I would make two points here. First off, just to sort of echo what Mirek said earlier, the issues that we had this year in the performance around Christmas were tactical and were pretty specific to the Christmas programme. So we don't expect that to be either systemic or to repeat itself and we should be able to recover from that.

The second driver on the performance is obviously the integration costs. This acquisition was completed last June and we said that the integration process would take about a year and that partly reflects the negotiation cycle you have of contracts that you've entered into with your customers. So that, you know, in the background has been progressing to plan. So we should have completed that as we expected during this fiscal year.

We always said that this deal will be earnings enhancing in fiscal '21 and we are still on track for this deal to be earnings enhancing in fiscal '21. So we will recoup what we lost earlier in the – in the – in the period.

**Doriana Russo:** Okay, thank you.

**Mirek Stachowicz:** If we could take a final question. Apologies for having to cut it but, you know, it's a busy day so if you – if we could take one more, please.

**Sahill Shan (N+1 Singer):** Thank you. Morning, gentlemen. Just very briefly, quite a few of my questions have been asked but just one quick question on the Czech market. Clearly, there's a loss of market share there then there was commentary around the competitive environment. So my question to you is as follows:

How – how do you plan to arrest the steady decline in that particular market? And what – what are you going to be doing in terms of trying to combat the competitive landscape out there?

**Mirek Stachowicz:** All right. Let me take this and thank you for your questions, Sahill. The – the steady decline in Czech market essentially comes from one source and that is the – the herbal bitters category. That is coming from the fact that we have a competitive pressure, price pressure, coming from Jägermeister who have introduced their brand as a – as a premium product. And now, over the last year and a half, two years, has been aggressively discounting this driving significant volumes.

So how do we deal with this? Well, we have a plan which has been proven in this market already. We are rebuilding the brand architecture of our herbal bitter – herbal bitter product, Fernet. Why – why do we think it's proven? Because we are – we are essentially doing the same thing as we did with our rum brand, Božkov. So it took is about two years to take a product that was Božkov domestic rum, built the brand architecture stretching all the way to premium and then reset pricing and then recover volumes.

Now, Božkov was our priority because it's a bigger brand. It's a bigger market segment. And also, we didn't have as much competition in Božkov as we have with herbal bitters. Now, Božkov plan culminated in the success of Republica rum. We have similar – we are deploying

exactly the same strategy with Fernet. So we have taken now eight months to rebuild the brand architecture stretching three price points – economy, mainstream and premium.

Our premium varieties of Fernet are now priced at the same price as – as Jägermeister is pricing their products at – on promotion, which means that Jägermeister doesn't have much more space to go lower.

Secondly, we re-established pricing at much higher level for the mainstream category. Mainstream category of Fernet used to be price at about CZK100 per half a litre bottle. Over the last six months, we established pricing for this category of products at 125%. Now, that's not a mean – not a small achievement to grow price by 25% in the face of this type of competition.

Now, the third element is we are reintroducing the economy range. And this economy range has been in the market only since effectively December. With the excise increase disrupting all the pricing architecture of – of the brand, we needed to re-establish this one also in February and – and – January and February.

I said in the – in my narrative that the early signs are promising. They are promising. So we can see that the – the brand is moving on the same trajectory as – as – as Božkov was. We have the same team deploying the same strategy in the same market. We believe we are on the right track but it's taking time and yes, it has resulted in the market share loss which will take time to recover. And I'm not even entirely sure we will recover all of it. But what I'm sure about is we will certainly recover all of the profitability.

**Sahill Shan:** Brilliant. Thank you for that. That's really helpful.

**Mirek Stachowicz:** My pleasure. I would like to thank you all for your participation. We – we had many people on this call who couldn't ask us a question. We will be very happy to take questions from you individually. If you can contact us, then please feel free to do so. We will be happy to talk to you individually. In the meantime, please stay safe and I hope to speak with you all soon. Thank you very much.

**Paul Bal:** Thank you.

[END OF TRANSCRIPT]