



Stock Spirits Plc – Interim Results

Tuesday, 14th May 2019

Interim Results

Mirek Stachowicz

CEO, Stock Spirits Plc

Introduction

Good morning, everyone, and thank you for joining us for our 2019 half-year results. We have published today our reported numbers for the six months to 31st March 2019 and pro-forma unaudited six-months comparatives. As usual, I am joined here by Paul Bal, our CFO. I will start by providing a brief summary of the first half of the year, 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 through the financials. I'll then come back to give you some closing remarks. Afterwards, you will have opportunity to ask questions.

Performance summary

I'd like to start by summarising our performance during the first half of 2019 financial year. We delivered good market-share gains in our key markets during the period. In Poland, we outperformed all of our competitors in share growth, in both volume and value terms. In the Czech Republic, we achieved a record value share, despite already being the market leader. We also achieved a positive financial performance, growing revenue by almost 10% on a constant-currency basis, and adjusted EBITDA by almost 6%, also on a constant-currency basis. Adjusted EPS was up just over 11% for the period. Our cash generation remains strong with 93.2% cash conversion during the six-month period. At the end of the period, our leverage stood at 0.42 times.

Acquisitions

During the first half, we announced plans to acquire Distillerie Franciacorta, a premium grappa business in Italy, for €26.5 million. We expect to complete the transaction in June 2019. While post the period end, I thought it was worth drawing your attention to the fact that we announced another bolt-on acquisition this morning. We have agreed to acquire Bartida and its sister company, Bartida Retail, a premium spirits drink business focused on the premium On-Trade market in the Czech Republic, for up to €11 million. This provides a step change in our capabilities in the premium On-Trade and I'll talk about this in more detail later in the presentation.

Dividend

Lastly, I'm pleased to announce an interim dividend of 2.63 euro cents per share, which is up 5.2% on last year's interim dividend and demonstrates a continued progressive dividend, in line with our policy.

Polish market grows well

We will now go through the performance on the market-by-market basis, starting with our core market of Poland on slide number 6. The overall Polish spirits market is now worth €3.5 billion, up 1.8% at March 2019 versus March 2018, despite the fact that Easter fell in the second half of the financial year compared to the first half last year. The overall clear vodka market was up 0.8%, with flavoured vodka continuing to perform well, up 4.4% on the year. Stock's volume and value growth rates were ahead of the category in both the clear and

flavoured segments and across all price segments, including total premium, mainstream and economy. We are particularly pleased with our flavoured range results, which have grown value almost twice as fast as the total flavoured segment over the last year. We continue to see higher growth in the premium, top premium and [inaudible] premium segments, reflecting growing consumer affluence and the positive economic environment in Poland. The whiskey category continues to demonstrate strong value growth, up 10.6%. On 16th April 2019, the Polish government published its long-term financial plan for 2019 through to '22, which included a proposed 3% increase in excise duty on spirits, beer and wine from January 2020. We are currently assessing the risk, but remain confident in our ability to manage the impact of any increase.

Pricing strategy

Turning now to mainstream pricing, on slide number 7. As you can see from this chart, which covers the last 18 months, Żołądkowa Deluxe [?] generally commanded higher retail price. At only three points during the period shown, we have been at parity with our key competitors, and each time only for a month. At the same time, over the last 12 months, Żołądkowa Deluxe has shown greater market share growth than its competitor brands, due to the successful relaunch in early 2018, involving a new bottle and improved liquid. We believe this all demonstrates that despite Roos [?] continuing its strategy of reducing prices, this is not translating into market-share gains. While we are seeing early signs of stabilisation in pricing in the last few months, it is still too early to tell if this signifies any fundamental change in Roos's long-term pricing strategy, and we believe they will remain opportunistic. However, we are no longer as reliant on this category for profitability, having built strong positions in the flavoured and premium categories, which drove our organic growth in the period.

Outpacing competitors in Poland

Now, moving to slide number 8. As you can see from this slide, we continued to outpace our competitors in Poland in share gains in both volume and value terms. During the period, we achieved the greatest absolute growth in both volume and value and the fastest growth rates among the major players in the market. We are also outpacing the market in clear and flavoured vodka and across all price segments, including premium, mainstream and economy. In clear vodka, the success of our premiumisation initiatives are demonstrated by continued share gains by Stock Prestige, which grew almost 23% in value, and Amundsen Expedition, which grew over 14% in value. This category-leading growth has been achieved through our increased focus on our flavoured range, in particular Lubelska and Saska. Over the last six months, Lubelska grew value share 16% and Saska grew value share over 77%. Just over three years after launching the Saska brand, it is now larger than Marie Brizard's long-established Krupnik flavours range.

Taking market share

Moving to slide number 9. As you can see from this slide, we have consistently delivered quarterly market-share growth throughout the year and continue to take share from both our major competitors. In fact, to the end of 2019, we have achieved 23 months of consecutive volume-share growth year-on-year. From the graphs, you can see that while Marie Brizard's share decline has slowed in the last two quarters, it is yet to stabilise and remains in overall decline. We believe in the past Roos has been the main beneficiary of Marie Brizard's decline,

gaining share in mainstream clear vodka. However, more recently, we have gained share from both Marie Brizard and Roos in premium and in flavoured vodka.

New product development

Moving to the slide number 10, I'd like to talk you now through the two areas of success for new product development in the period. Firstly, we launched Orkisz, an ultra-premium vodka made from spelt wheat. We relaunched Orkisz, forgive me. This product aligns to our strategy of premiumising our offering to consumers who are prepared to pay a premium for higher-quality taste and premium packaging, of which our Orkisz relaunch is a great example. We have also had a lot of success with the expansion of our Saska range, with more sophisticated multiple flavours targeted at Millennials' taste profile. Our coffee with a hint of brandy flavour has proved particularly popular. It's now our best-selling flavour, accounting for 41% of the brand sales.

Czech strength

Turning now to the Czech market. As in Poland, we have seen continued strength in the wider market, due a robust economy and rising disposable incomes. The total value of the spirits market grew by 4% to €0.5 billion. We saw three out of four biggest spirit categories in the market – rum, vodka and whisky – achieve moving annual total volume and value growth, which more than compensated for a contraction in total demand for herbal bitters during the period. We continued to see particularly strong performance in the rum segment, which was up 11.4% in the period. During the course of last year, we encountered certain headwinds relating to changing dynamics in trade promotions and private-label ranges in the Czech Republic, which we addressed during the summer. The changes made by the retailers in promotion are now back to normal levels and we have returned to positive momentum. We continue to address changes in the vodka category, where the expansion of private-label offerings has stolen share from the longer-established vodka brands. On 5th April, 2019, the Ministry of Finance in Czech announced the proposed circa 13% increase in duty on spirits, with effect from January 2020. Similar to in Poland, we are currently assessing the risk, but remain confident we can manage the impact of any increase.

Growth in rum and whiskey

Moving to slide number 13. Notwithstanding our leadership position, we increased our market-leading value share of total spirits from 33.6% to a five-year record of 34.7%, driven by growth in rum and whiskey. We grew value share in rum, the biggest spirits category in the Czech Republic, by 3.7%, from 61.4% to 65.1%, driven by the success of Republica, where we now have 45% of the premium rum segment. The growth achieved in rum and whiskey more than compensated for the contraction of our total vodka share in Czech and offset the decline of the herbal bitters category. I'll talk on the next slide about our actions to relaunch Fernet to address this contraction. Black Fox, a new brand launched last year, also continues to grow share of the premium herbal bitters segment. Stock grew value share of the whiskey category by 3.9 percentage points, strengthened by Stock's expanded distribution portfolio with the addition of Beam Suntory brands. Today, we announced the acquisition of Bartida in the Czech Republic and I will talk more about this later.

Category management

Moving to slide number 14. To address these two remaining headwinds in the Czech Republic, allowing us to maintain this strong momentum we are seeing in the overall market, we have revisited our vodka promotional activity. We have been working to improve our category management with retailers to manage the growth of private label. We have optimised assortments, revisited shelf plans, rebuilt fixtures with key customers, which increased our share of shelf space at the expense of under-performing competitors. In herbal bitters, we relaunched the Fernet Stock range with new, improved premium packaging – you can see an example here – and flavour innovation, supported by traditional and digital advertising campaign as well as store activation. We are seeing positive early signs from both initiatives, with an improving performance for the full year to date for Stock's key brands in both categories.

Challenges in Italy

Turning now to Italy, which, as a reminder, accounts for around 8% of our sales and just over 3% of our EBITDA. As you all know, the overall economic environment in Italy continues to be challenging, with a high level of unemployment and low growth impacting consumer consumption. During the period, the total Off-Trade market declined slightly in volume, by 0.9% and remained flat in value terms, but with growth in certain categories and price segments, for example the premium grappa segment.

The government in Italy has also announced a proposed increase in VAT from 22% to 25% and/or an increase in excise tax from 1st January, 2020. Similar to Poland and Czech, we will continue to monitor this, but remain confident we can manage any impact of this increase.

Stock 84 relaunch

Moving to slide 17, we are pleased with the success of our premiumisation in brandy, where the relaunch of Stock 84 range last year with improved liquids and packaging has delivered share gains and volume and value growth ahead of the category. Against the backdrop of continued tough trading conditions in Italy, our value share of clear vodka fell 0.3% and we gained marginal share in brandy. However, as a result of the softening market and strong growth of private label, we saw losses in flavoured vodka-based liqueurs and limoncello.

Keglevich still strong

Keglevich clear vodka has responded well to our multi-year investment and maintained its position as market leader, despite pressures from private label. However, in flavoured vodka, it is now apparent that our focused investment isn't delivering the desired rebound as quickly, as forcefully as we had hoped for. We are therefore now re-evaluating alternative tactics, such as investing behind a broader range of our brands. We believe there is a significant opportunity in consolidation in Italy, which will allow us to build scale in the market. This opportunity is demonstrated by our planned acquisition of Distillerie Franciacorta, which I will talk about later.

Slovakia

Looking now at other markets division on slide 19, in the Slovakian market we maintained value share of total spirits at 12%. Stock maintained [inaudible] in herbal bitters, but lost share due to the aggressive price promotional activity by a major competitor. In tandem with the Czech Republic, we relaunched the Fernet Stock range in April 2019 to support a return to

share growth in this category. We continue to focus on premiumisation as part of our new product development in the market. Stock's fastest value growth in Slovakia was in whiskey. Having begun distribution of Beam Suntory's range in May 2017, Jim Beam's value share increased to 7.7% from 5.9% moving annual total. We delivered a positive performance in Croatia with the relaunch of Stock 84 brandy last year, reinforcing our market-leading position of imported brandy and driving share gains in this category. In our export markets, our new distributor in Germany was appointed in January 2019 and since then has gained listings in the retail segment for Polish brands.

M&A

Moving now to slide 20. Having now demonstrated our organic strategy is delivering results, I would like to move on to our fourth strategic pillar, M&A, and talk through our recent acquisitions. Firstly, I'd like to update you on the investment we made in Quintessential Brands' Irish Whiskey. In February 2019, our joint venture partners commissioned a Dublin distillery and this, along with the visitor centre, opened in Dublin with a very positive response from the national media, as you can see from the slide, and we've been very pleased with the response from visitors so far.

Distillerie Franciacorta

Moving to slide number 21. And now to our acquisition of Distillerie Franciacorta, which we announced in January this year. The deal will enable us to become the number-one player in branded grappa in the Off-Trade. It will also provide scale and will be earnings enhancing in the financial year 2021 due to integration costs in the first year of ownership. We will triple our sales force, enabling us to leverage growth in both the Off- and On-Trade and it will enhance the provenance of our Italian brands portfolio. This deal is a template of the kind of bolt-on acquisitions we would like to look at in Italy in the future. It is an example of how we can generate growth and consolidate the market through acquiring family-run businesses operating in this fragmented market.

Bartida

Moving to slide 22. I'd like now to give you some more detail on the announcement this morning that we have signed contracts for the acquisition of Bartida, a premium spirits drink business in the Czech Republic. This acquisition will strengthen our position as the leading player in the premium On-Trade within the Czech market. Bartida's brand portfolio includes both own premium brands of fruits, spirits and liqueurs and third-party distribution brands, primarily focused on premium rum. This deal is entirely complementary with our existing brand portfolio, including our existing distribution brands, with no conflicts and provides both revenue synergies as well as complementary operational capabilities. The business is focused on premium On-Trade utilising an e-shop, a demonstration bar, an On-Trade training centre in the centre of Prague. Whilst we are ready – we are already in the – excuse me. Whilst we are already the overall market leader in the Czech Republic, this acquisition will provide a step change in our capabilities in the premium On-Trade as well as delivering against the group's premiumisation strategic objective. The deal will also provide us a direct route to market in the premium On-Trade, a proven model we can then look to roll into other markets. Due to the unique concept and On-Trade capabilities of Bartida, we plan to keep the unit operationally independent whilst also including our own premium brands within its portfolio. We signed a deal yesterday and expect to complete on 31st May.

Looking now at the deal financials, we are acquiring the business for up to €11 million, including a five-year earn-out, allowing us to retain the two current shareholders over the period. This is a split between €7.3 million payable on completion and €3.7 million earn-out based on certain conditions for the existing shareholders. We expect the acquisition to be earnings neutral in the first complete year of ownership and earnings enhancing thereafter.

The future

Moving now to slide number 23. Moving now to M&A and the future. We have carried out four acquisitions since the end of 2016, three of which have been in our existing markets. However, we do see some limits to potential opportunities, given our market-leading positions in our existing markets and the need to ensure we integrate recent acquisitions successfully in the relevant markets before embarking on future deals. As a result of this, we will also start to look for opportunities in new geographic markets, but only where we can leverage our competitive strengths, firstly where we can leverage our strong expertise in specific spirit categories, in particular in clear and flavoured vodka and herbal bitters. Secondly, we have proven expertise in local brand development, with an important place on the provenance of our brands. We will look at adjacent geographies where we can acquire a leadership position, at least growing segment or ideally the overall market in order to facilitate synergies. Lastly, we benefit from the ability to leverage the strong cash-generative nature of our business and of course, we always apply strict disciplines for evaluation of any deal, be it financial or commercial.

And now I will hand over to Paul to talk through the financial results.

Financial Results

Paul Bal

CFO, Stock Spirits Plc

Sorry, just before I start the presentation on my part, just to clear up one thing that may just have been one misunderstanding on the reference that Mirek made to the Bartida deal. It is earnings enhancing in the first full financial year, as we said in the statement, just to be absolutely clear. And the same on the slide deck.

Okay, thank you Mirek. Good morning, ladies and gentlemen. It's my great pleasure to present the financial results for the first six months ended 31st March, 2019.

Change to year-end

I start with slide 25. Last year, Stock Spirits moved to a 30th September year-end. Therefore, the financial results for the six-month period to 31st March, 2019 are reported against a comparative which is the pro-forma, unaudited result for the six months ended 31st March, 2018. This provides a more meaningful and comparable picture of our performance for the first six months for this financial year. Our results announcement released this morning sets out the detail for the basis on which the pro-forma results are prepared. This includes the adoption of IFRS 15, revenue from contracts with customers, which was adopted since January 2018, but which has been also applied throughout the reported comparative period since 1st October, 2017.

Improvement in overall financial performance

Now, on this basis, our results reveal continued improvement in our overall financial performance, from the top line of volume and sales growth to the bottom line. The revenues are up 8.2% to €156.9 million. Reported adjusted EBITDA grew 4.2% to €33.5 million. On a constant-currency basis, the increase was higher, at a pleasing 5.8%. The gross profit margin and adjusted EBITDA margin did soften a little as a result of sales and channel mix, as well as more investment in our products. And basic adjusted earnings per share grew a strong 11.3% to 10.15 euro cents per share. As a result of the challenging conditions affecting our operations in Italy, we have recognised a further impairment against the carrying value of that business. This €14.3 million impairment has been treated as an exceptional non-cash item. The comparative period includes a previous impairment of €14.9 million, recognised in December 2017.

Robust cashflow, increase in dividend

Beyond the profit and loss account, our cashflow delivery remains robust, with 93.2% cash conversion, and as a consequence, our balance sheet has got stronger and net debt leverage is now at 0.42 times. Finally, in line with our progressive dividend policy, we are announcing a 5.2% increase in our interim dividend compared to the 2018 interim. This is a payment of 2.63 euro cents per share.

Revenue up 8.2%

So, starting with the group's consolidated profit and loss account on slide 26. The 8.2% increase in revenue was driven by volume and mix, but hit by pricing and unfavourable currency effects. Otherwise, revenue was up a strong 9.7% in constant-currency terms, with both volume and mix reflecting our strategic focus on premiumisation.

Gross profit margin falls 47%

Earnings to cost of goods increased beyond general inflation levels, so that the gross profit margin decreased to 47%. This reflects the greater volume of higher-cost premium products sold, both in our own portfolio and from our stable of third-party distribution brands, especially whiskey. This increase was exacerbated by channel mix, with increased sales through discounter channels, where pricing is not as high as in other channels in which we operate. We have also continued to invest in our product offerings, keeping them attractive propositions for our consumers. In a similar vein, the increase in selling expenses also reflects more consumer promotions during the period. This investment was partly compensated by a small decline in other operating expenses. We maintain our focus on our overhead cost base, both in the centre and in our operating units. We include our 25% share of the results of our associate, Quintessential Brands' Ireland Whiskey Ltd and this result is in line with our expectations. At the time of making the investment in 2017, we said that the payback would not start until year four, which is our year-ending 2022. The Dublin distillery and visitor centre opened in February this year. Liquid is now being laid down to deliver its own whiskey three years from now.

Double-digit operating profit growth

Overall, our performance resulted in almost double-digit growth in operating profit before exceptional items and a 30-basis-point improvement in our operating profit margin to 18.5%. Net finance costs were slightly up, reflecting more drawing down against our facilities to fund

dividends, M&A and the tax payments, as well as some working capital in the period. On an underlying basis, there was a small improvement in the effective tax rate. Underlying performance is best reflected in the improved adjusted EBITDA growing 4.2% or 5.8% in constant-currency terms. The adjusted EBITDA margin, slipping 18 basis points to 21.4% reflects the softer gross profit margin. Nevertheless, the adjusted EPS growth of 11.3% rounds off a pleasing set of results for the period.

Volume up 6.8%

With slide 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 very robust 6.8%. The market particularly driving this growth was Poland, with its increasing share. The Czech business also did very well, reaching a five-year share record. Revenues up over 8% would have been up almost 10% were it not for the foreign-exchange effects of 1.5% being a drag on the results. Our underlying average prices were down nearly 2%, driven in the main by Poland and the Czech Republic. Mix continues to show healthy improvement as we premiumised further and leveraged our portfolios to deliver value.

Poland

Looking specifically at Poland in the next slide, slide number 28, we see revenues benefited from a healthy positive combination of two growth levers: solid volume growth, especially in premium and flavoured vodkas; and significantly improving mix. Overall pricing was negative, reflecting channel mix as more sales went through the discounter channel, especially in whiskey, as well as the continued strong price competition in parts of the vodka market. EBITDA grew a solid 7.4% in constant-currency terms, showing our capability in a very competitive market to grow and yet also deliver a decent return. The EBITDA margin slipped 19 [?] basis points to 23.5%, due mainly to the margin impact of sales mix, increased product investment, as well as some higher marketing spend. For these conscious regions, it is below the 26% to 27% EBITDA margin range that we aspire to be within. Though we're outside that target range, we still consider that to be the goal in current market conditions as we seek to regain market share and deliver value growth simultaneously.

Czech Republic

Turning to the next slide, slide number 29, the Czech Republic, our second-biggest contributor after Poland. Very healthy growth in the top line was primarily driven by the continued strong success of Republica, launched in early 2018. Some of this comes through the higher volume, but it mainly comes through the significant mix improvement, and also, as also does the benefit from growing the Beam Suntory brands. The pricing hit comes predominantly from promotional activity in the vodka category. EBITDA growth was significant, at over 28%, and the EBITDA margin, up 380 basis points. However, this reflects lower marketing investment in this period, compared to last year, when we invested behind the two major launches of Black Fox and Republica. Stripping out that effect, there is a slight softening in underlying EBITDA margin, due to margin mix and local cost inflation.

Italy

I now move to slide number 30 and I would just like to reiterate what Mirek has previously mentioned, that Italy is only 8% of our group revenue and just over 3% of our EBITDA. The market has faced another challenging period, with the economic environment remaining

testing for our consumers, and this was most evident around the Christmas period. This has put pressure on all of the growth levers and therefore sales volume and revenues are lower. The adjusted EBITDA and the EBITDA margin were down, primarily given the lack of sales growth. There was also higher marketing spend as we invested in turning around the fortunes of our key vodka brand in Italy, Keglevich. The continued disappointing performance in Italy has resulted in us recognising a further impairment against the value of our existing business. A write-down of €14.3 million has been recognised in this period as a non-cash exceptional item. In late 2017, we had already recognised an impairment of €14.9 million.

Slovakia

Turning now to slide number 31, I move to the rest of our operations. Overall, they have delivered slightly higher revenues, primarily in our international exports business. Our Slovakia business encountered some aggressive price competition in the herbal bitters category. Consequently, EBITDA fell, as did the EBITDA margin, with Slovakia's pressures offsetting the growth in international.

Corporate costs

Moving to slide number 32 and some words on central or corporate costs. These represent the costs not only of our UK corporate office, but also the costs of central functional heads such as for operations, procurement and internal audit, who are located outside of the UK in other group locations. Despite inflationary pressures, we have kept the core cost base flat and remain vigilant for further opportunities to make our model more efficient.

Minimal Brexit impact

I guess no results presentation is complete these days unless there's some reference to Brexit. Ours is on slide number 33. As stated here, due to our set-up, Brexit is not a principal risk for us. We have minimal exposure to its potential impacts beyond some foreign currency volatility.

Foreign exchange creates headwinds

On the subject of foreign exchange, I now move to slide number 34. I've already mentioned that foreign exchange movements created some headwind to our top line. This was also the case for the bottom line and this came predominantly from the weakening of the Czech crown and the Polish zloty versus the euro over the period. Given the macroeconomic uncertainties in Europe, in the appendix to this presentation we've set out the key exchange rates over recent periods, as well as where they stand at present. There are no formal hedging instruments in place at 31st March, 2019. We consider ourselves reasonably well naturally hedged. However, we monitor the situation and should foreign-exchange volatility increase or become more prevalent.

Net finance costs

The next slide, slide number 35, sets out our net finance costs. As our financing arrangements have not changed over the period, I would not expect much underlying movement. However, currency movements did have some impact. Higher bank financing costs reflect more and deeper drawing of our facilities to fund the tax payments, working capital, dividends and M&A. Our financing facilities run to late 2022 and, combined with a strong balance sheet, these financing facilities provide us with a good base from which to pursue our strategic aspirations.

Taxation

I now move to slide number 36, turning now to the subject of taxation. The increase in the current tax expense results from higher profits, but also from having fully utilised, brought forward tax losses in Poland. This is partly offset by lower deferred tax charges, as timing differences in Poland also reduced, partly because of the exceptional write-down of deferred tax balances taken in the prior period. Therefore, the effective tax rate has reduced 110 basis points, to 25.1%. The tax environment remains challenging, especially in Poland. The group holds provisions totalling €7.2 million, where based on professional advice, future settlements are likely or expected in respective historic positions. We have previously stated that in some other circumstances, the group may also have to pay over sums assessed as due by the authorities and then seek their recovery as the appeal processes run their course. That was the case at the end of December 2018, when we received an assessment in respect of our 2013 filing in Poland. One element of that assessment covered the pre-IPO intellectual property restructuring, in respect of which an assessment of €4.5 million was levied. This has since been reduced to €3.9 million by the authorities. We paid the assessment and launched an appeal for the now €3.9 million, as we believe our 2013 position will prevail. This position is supported by our professional advisors. Our results announcement released this morning sets out further details on the extent of such potential exposures, as does our 2018 report and accounts.

Strong cash generation

Moving to the next slide, slide number 37, then we come to cash flow. Strong cash generation has been the hallmark of the group and free cash flow rose significantly. The implied conversion rate moved up from 79% to a very robust 93.2%. This is all the more impressive given the increasing quantum of our third-party distribution agreements, as these typically represent a higher value than our own product inventories. While free cash flow was up, net free cash flow was down, as we paid over the 2013 Polish tax assessment, which we consider as recoverable in time, as well as the advance payment for the Distillerie Franciacorta acquisition.

Reduced net debt

I click now to slide number 38. Staying with this theme on the next slide, our strong cash generation has enabled us to reduce net debt to €25.2 million, a reduction of €6.4 million during the six-month period, notwithstanding these material payments that I have just referred to. Consequently, our already low balance-sheet leverage has reduced further, to 0.42 times. Now, whilst this is below the 0.5 to 1.5 range I have targeted, we fully expect to soon be paying further acquisition costs as we complete the Distillerie Franciacorta acquisition and we proceed with the Bartida deal that was announced today. The group has significant liquidity available to it and it is well funded for the future to pursue our strategic aspirations and reward our shareholders with progressive dividends. And should there be opportunity, we are also well placed to consider further distributions.

Dividend

With slide number 39, I will now conclude and cover off two masses [?]. First is the subject of dividends. The board today has approved an interim dividend of 2.63 euro cents per share for the six-months period. This is a 5.2% increase on the 2.50 euro cents per share interim dividend paid last year. The dividend will be paid on 21st June and it will be based on the

record date of 31st May and further details are set out in our results announcement released this morning.

We plan to continue to focus on providing our shareholders with progressive dividends. If, through the combination of our continued strong cash generation and little-executed M&A, the group finds itself with an inefficient capital structure, the board will consider making additional shareholder distributions.

And finally, Merik and I look forward to hosting a number of you who have confirmed their attendance at our capital markets visit to our Czech facilities next month. Beyond that, we will provide our usual update immediately after we close our year-end on 30th September, and the full release of our annual results will follow on in early December. And with that, I thank you and I hand back to Merik.

Conclusion

Mirek Stachowicz

CEO, Stock Spirits Plc

So, to conclude, I want to provide a quick summary of our performance during the first half of the year and some comments on the outlook.

Continued and accelerated organic growth

Firstly, during the period, we continued to deliver against our strategy. In our largest markets, Poland and Czech Republic, we delivered continued and accelerated organic growth. In Poland, we achieved 23 months of consistent year-on-year volume-share growth, outperforming our competitors. We delivered organic growth in premium and flavoured vodka segments and, having built strong positions in flavoured and premium categories, we are now less dependent on the highly competitive mainstream clear vodka segments for profitability.

Record value share in Czech Republic but Italy a challenge

In the Czech Republic, we now have record levels of value share, due to the success of our premiumisation strategy. We have seen significant success with our Republica, as well as the original Božkov Tuzemský range, and focused new product development on the relaunch of Fernet to address the decline in the herbal bitters category. Italy remains a challenge, but we remain focused on turning around the performance of the business and continue to assess potential acquisition opportunities that can provide us with additional scale in the market. In terms of our financials, we achieved a positive organic performance with our market share performances reflected in our financial results for the period.

Focus on M&A

Moving to M&A, we successfully executed two acquisitions in our existing markets, which align to our strategy and the clear criteria we have laid out. Our immediate priority remains to successfully integrate these recent investments. Looking forward, we continue to assess opportunities in our existing markets for bolt-on acquisitions against our criteria and with rigorous discipline. In addition to this, we will assess the potential to enter new markets where we believe we can leverage our competitive strength and expertise.

That concludes the presentation today. We would like now to open the floor for questions. Please can I ask you to give your name and the organisation you represent before asking your question. Thank you.

Q&A

Ted Nyhan (JPMorgan): Ted Nyhan at JPMorgan. Just a couple on the Czech Republic. Can you give us any colour on your outlook for the Czech – well, Czech margins specifically, but also on the top line in terms of volume and mix, in the second half, given annualisation of Božkov Republica launch and the private-label promotional activity in Q1 '18? And on private label, is – have we seen the worst of that in the Czech Republic? Do you expect any further I suppose disruption from increased penetration? Thank you.

Paul Bal: Shall I'll – I'll take the results one and you do the private label?

Mirek Stachowicz: Yeah, the private label. [inaudible].

Paul Bal: So, Ted, as you know, we're not going to make forward-looking statements, but as we highlighted on slide 29, there's a number of things going on in the Czech Republic EBITDA and probably the principal one is the fact that we had a high amount of marketing investment last year, supporting the two big launches of Black Fox and Republica. So clearly, we don't have those coming in, so therefore you're seeing the effective benefit of that in the current results. Going forward, we expect the continued momentum to be positive in the Czech Republic. And of course, we've just launched Fernet. It's too early to make the call on it, but initial signs are positive. So, if we strip out the underlying, if you strip out the increased investment issue, you should get a more stable run rate on the margins going forward. And certainly, there is still an underlying improvement period-to-period and year-on-year.

Mirek Stachowicz: On the private label, I have mentioned in the presentation that we see the period of instability in the relationship with customers as ending. We saw this at the beginning of last year, where customers started changing the promotional schedules and that was combined with the introduction of wide ranges of private labels. What we have been able to do since then – and you could see the spill-over effect still in the results of the whiskey category – was to essentially work closer with customers once they realise that some of the activities they decided to implement last year were not working according to their expectations. We were able to work with them on category management to improve the performance of the entire categories for them. Now, that doesn't mean that we are able to roll back the private label, because most of the introductions will stay, but being then the clear market leader – and just let me remind you, we are three times bigger in terms of market share than our nearest competitor in Czech Republic – so that gives us leverage to be a credible partner for our distribution partners to work on category profitability and that allows us, as I said, to gain disproportional share for our brands also in vodka, versus the underperforming other brands. And that is the nature of the activity that we have undertaken. This has taken some effort and investment, but we are optimistic it is going to work. And let me repeat, there has been a period of adjustment in our customers' relationships where the customers were looking at changing things, but they now are working hand in hand with us. So, I'm optimistic about their ability to manage this in the Czech business.

Matthew Webb (Panmure): Hi. Matthew Webb from Panmure. Three questions, please. The first just on your dividend, I see increased by 5% in the period, well below the growth in the adjusted EPS of around 11%, despite the debt being very low and below your targeted range. I just wondered why that was. I know that the dividend growth is more in line with your EBITDA growth. I don't know whether that's a coincidence or whether that's more how you think about, you know, how you should be growing your dividend. Second question, possibly related: the – I see the depreciation charge was quite sharply lower. I just wondered why that was. And then the third question on the acquisition in the Czech Republic: I just wondered what sort of proportion of your portfolio is going to be transferring across to Bartida. You talk about your premium brands. What would that account for as – roughly as a percentage of your portfolio? Thank you.

Merik Stachowicz: You take the first two and then I take Bartida.

Paul Bal: Yeah. So, on the dividend, Matthew, as we've said in the past, we are following a progressive dividend policy, so over the last several cycles, we have been increasing the dividend broadly around sort of the around the 5% mark. Yes, based on the results of this period, it obviously looks out of kilter, given the increases that you're seeing, as you say, in the earnings per share, but it is in line with sort of where we are with the EBITDA. I recognise what you're saying about the leverage in the balance sheet, but equally, as I've said, we've got a number of sort of cash payments that'll be imminent over the coming weeks and we shouldn't also forget that there are still some potential exposures that we face on the fiscal side, which, whilst we believe we will prevail, there's a risk that we may be making payments. So, in that, and particularly as this is an interim stage, I think, you know, the board feels comfortable to keep with the progressive approach and, you know, keeping that progressive interpretation as being around 5% for now.

Merik Stachowicz: Now, regarding the Bartida question, what percentage of our portfolio will transfer to Bartida, well, we don't split the reporting by brands, but let me just give you an idea of how it works. The acquisition of Bartida gives us what we call the leading position in the Czech On-Trade and that's a deliberate choice of words, because there is a funny interpretation of IWSR, who's the main reporting source. Some of the brands that we consider premium, such as Captain Morgan or Jägermeister, which we don't distribute, are not considered premium by IWSR, which doesn't seem logical, but because we want to keep reporting consistent with external sources, therefore we don't – we didn't report that we're number one in distribution. In reality, we are, when you consider brands like Captain Morgan or our Republica. We are number one distributor of premium brands through – because of this acquisition, we become the number one distributor to premium On-Trade. Now, premium On-Trade is by far the fastest-growing part of Czech On-Trade and that change has been accelerated as a result of taxation changes in Czech Republic and the smoking ban, where you see a number of traditional pubs closing down as a result of the need to have cash registers. And the booming part of the On-Trade is the premium On-Trade. So, we are very pleased with this acquisition, because it gives us an existing unique channel and what is interesting about it is it is a new area of competence because it's direct delivered to this channel by our own logistics system. Now, what will transfer, clearly our third-party brands. Bartida has no access to either the Diageo or Beam portfolio. But we also have our own premium brands, such as Republica, which is a very hot product in Czech Republic. With 45%

of premium rum, clearly everybody wants to be distributing this. And we of course have Black Fox. Now, we are looking at various other areas where we are going to premiumise. You can see that the relaunch of Fernet is in full swing and we are hoping that we are going to follow this one up with some interesting further premium propositions in this premium – in the bitters area. So, I think it – the combined portfolio of Bartida and ours is second to none. We were very pleased with having the ability to distribute Beam Suntory alongside with the portfolio of Diageo. With this acquisition, we have full possibility to generate growth synergies in the fastest-growing part of the Czech On-Trade, so we are very excited about this.

Paul Bal: Coming back to your question on depreciation, yeah, obviously it's a little bit tricky to navigate with the re-statement of the year and so forth, so one's got to obviously be careful one's not comparing the statutes, because you're comparing the nine-month period with a six-month period in these results. However, if you look on note 5, you will see a more comparable number. And yes, there is a reduction in the depreciation, but not as marked as obviously if you were comparing six months versus nine months. And that's largely a question of timing, Matthew, more than anything else [inaudible] when assets become capitalised [inaudible] to become depreciated, more than anything else.

Matthew Webb: Okay. Thanks very much.

Damian McNeela (Numis): Hi there. Damian McNeela from Numis. A couple of questions. On excise, you mentioned that we're seeing excise increases coming through in Czech Republic and Poland and possibly even Italy and that you were confident of managing those. Could you give us a sense of what the sort of the historic excise increases have been over recent years and what sort of price elasticity of demand looks like from those categories, and sort of support your confidence around that? And then secondly, Paul, on margins, you are below where you sort of guided. Again, I think you said you're comfortable that you'll get back to sort of the range. Can you sort of give us a bit more colour on why you think that's the case please?

Paul Bal: Yeah, sure. So, firstly in terms of excise, the last increase in excise in Poland was in 2014 and that, if some of you will recall, was quite a significant increase of 15%. So, what we're looking at at the moment here, at around 3%, is obviously a different proposition. And an excise increase of that size would have quite a considerable sort of impact on consumption patterns, at least in the short term, and then sort of the real effect will even out over the longer term. But in the short term, an excise increase of that would have been disruptive, as I believe it was. In terms of the evolution of excise in the other markets, the Czech market's been relatively stable since at least 2010, and in Italy there have been visible increases, but they haven't been anywhere near as marked. And so, during the period of 2013 and '14, there were some changes there, but those were more possibly VAT related rather than excise related. So yes, we're expecting obviously some change. The precise details haven't been confirmed fully. There are some public announcements out there, but we're sensing that the position is still moving and likely to move as governments complete their own budgeting.

Mirek Stachowicz: Can I comment? Sorry to interrupt you. The pricing elasticity is – just one more thought – Paul is absolutely right that the impact on the – on the sales will be significant of any excise increase, but the bigger the excise increase, the bigger the impact. But it varies according to the segment, so when you look at the pricing elasticity in the

mainstream and economy segments, this is by far the biggest impact there. Where you see the dynamic of the market is moving towards premium and the impact of excise increase there will be much more limited, so the consumer propensity to buy will be much less impacted by this. And I think that we as – as we said, we are much less dependent on profitability from the mainstream and economy segments. We are less likely to experience an impact of excise increase specifically in Poland, but anywhere where we are premiumising, then our competitors were sitting mostly in the mainstream and economy.

Paul Bal: I think that addresses the excise question, Damian.

Damian McNeela: Yes.

Paul Bal: Yeah? In terms of your other question in terms of sort of the margin in respect of Poland, the main driver on the margin in Poland in this period was the sales mix, as we refer to, with whiskey in the discounter channel. There is a seasonality to whiskey, so we should not see that as being as big an impact as we go forward into the second half of the fiscal year, because of the seasonality. So that's probably the single driver, but in terms of sort of compensation, obviously the more we continue to grow in flavoured will have a beneficial effect offsetting that margin. So, whilst we were outside of our sort of stated goal of 26 to 27, as I said, you know, that's still where we feel we should be and that is where we will continue to sort of aspire to in that way.

Doriana Russo (HSBC): Doriana Russo, HSBC. Another follow-on question on Poland. Obviously, you had the exceptional growth in the first half and way ahead of the underlying market. What are your expectations for the full year? If you can share some thoughts and whether we should probably – if there is any one-off action that we need to take into account, not to extrapolate the total growth. And secondly, you mention a change in strategy in Italy. I know it's just a small part of your portfolio, but can you elaborate a little bit on what are the opportunities that you see or as a second driver [?] to reinvigorate your presence there? Thanks.

Mirek Stachowicz: So, regarding Poland, as Doriana you know, we don't make the forward-looking statements, but I said that I remain confident in our ability to continue the positive momentum. And the reason why I am confident about this is because there isn't any particular one-off item that has driven the performance of Poland. The performance is coming across the board and I tried to emphasise this in the narrative. The performance comes from a variety of categories, a variety of segments. We seem to be growing across the board and we are outgrowing the fast-growing segments. So, I remain optimistic that we will continue to do so. I don't see any significant reason why we should see a sudden contraction or stabilisation of growth in the segments where we have been growing in the first half. So, whiskey seems to be performing very well, flavoured vodka is particularly important for us, continues to grow, premium clear segment continues to grow, and our brands have momentum. So, I remain optimistic that this will continue in Poland. As far as Italy is concerned, we – as you recall, I said we are serious about Italy and we will behind invest – I said many times we would invest behind the business in Italy. And we invest in two ways. We are looking to grow our critical mass, because as there's a certain amount of fixed costs that we need to carry in the country and by putting more business through the fixed-cost base, we will get better efficiencies and operational leverage. So, we do this by investing behind brands and looking for acquisitions that would bring in a minimal overhead. And I

think that the acquisition of Franciacorta is a good example of an acquisition that brings in minimal overhead and brings in additional volume through the business. Now, we invested behind Keglavich and Keglavich is a key brand for us in Italy. Keglavich plays in two categories: in clear vodka, and that's a segment that is growing; and in flavoured vodka, that's a segment that is contracting. We have put significant investment behind Keglavich brand and the clear part of our brand has responded very well to this. So, the growth of clear vodka comes from two parts of this segment: from private label and from premium end. Keglavich sits in the middle and he was able to keep its position. We believe through the investment, because we started communicating with consumers. There is a buzz around the brand – it's very positive. So, we are pleased with this part. And it's absolutely – this was the right thing to do. Now, we also saw response from the flavoured part, but the response is not sufficient to justify the investments, so we can continue to invest behind flavoured brand – part of the brand – but it will not be as efficient an investment as behind other parts of our portfolio. And don't forget, our portfolio has just grown by an acquisition of a premium grappa brand. It's this product here. And this premium grappa brand represents an opportunity because it operates in a growing part of the market. So, we need to reassess, considering these two factors, where the money invested behind the brands will bring better benefit and what is the response to the brand support from the flavoured vodka. It doesn't mean that we are going to stop supporting flavoured all together, but we are going to play with the available funds for investments in such a way that we generate best possible return.

Doriana Russo: May I ask one more question? [inaudible]. Shall we then assume that Italy will – the profitability of Italy will structurally stay low for, you know, the immediate future until you figure out what strategy is going to come next?

Paul Bal: Yeah. I think the answer to that is watch this space. It's clear that we have some work to do in Italy and we never said it was going to be quick. When we first started on this journey, 12 months ago, we said this was going to be a multi-year programme and I think we, you know, we're responding to a decent period of time to have got some first experience of it. And I think the journey will still continue – it will still be something of that order that we said before. So yes, I would manage the expectation in that regard, but we are on it.

Mirek Stachowicz: Italy's a business that needs a turnaround and I think that we are doing the right things to deliver this turnaround. We need time to do this.

Chris Wickham (Equity Development): Yeah, hi. Chris Wickham from Equity Development. Just three things. Number one, just to reconfirm, because you say you don't make forward-looking statements, that that EBITDA at 0.42, that struck off the 59.4 you did last year, adjusted, yeah? And then, the second one is really just on sustainable, organic EPS growth. I mean, you have got that quite classic-looking distilled spirits where you take a revenue number and then you add close to 200 basis points to the growth from margin enhancement and then you've got another couple of hundred from sort of finance and tax. Should we like assume that that's the sustainable growth rate but with due regard for maybe having a slower rate of growth of sales? And then the third point, I mean you've talked quite a lot about the disciplined process of M&A. I mean, it's very much a grind out really, isn't it, in western Europe to try and find those opportunities. How long do you think it could take? And this goes back to a conversation we were having before the meeting. How long will it

take really for your perception to change from being, you know, a single-market company with some exciting add-ons, to being an international spirits company?

Mirek Stachowicz: Would you like to take the first two, Paul, then I'll take the last? Okay.

Paul Bal: Okay, sure. So, on the first one, regarding EBITDA, I think Chris, the – the consensus that's out there is around sort of in the mid-62 level and according to Bloomberg. And you know, we're comfortable with that overall sort of number as an aspiration for this financial year. And then, sorry, you'll just need to give me some help with the second question.

Chris Wickham: The second one really refers to the – just the build-up of EPS growth. I mean obviously you've printed 11.3% there and that comes off 8. – you know, roughly about 8% from sales. And then you've got the two evenly divided add-ons, really, which are sort of margin enhancement and then the financial effects of sort of interest and tax. And I was just really wondering whether we should just the latter two in place and then sort of maybe strike, you know, a lower sales growth when we're looking forward, you know, two to three years, just to have that sort of mental build-up of what your earnings per share growth model is?

Paul Bal: Which is – which is probably traditionally what has been the case, yeah. So, I would say I would probably stick to that.

Mirek Stachowicz: On the final question regarding the acquisition: how long was it going to change the perception of us as being single – focused on a single geographic market. Well, I think that the perception as far as our company's concerned regarding the M&A is changing. We had a lot to prove. It was a stated part – it has been the stated part of our strategy and that we will consolidate markets. And we had first to prove we are capable of doing it, because there was no M&A since the IPO until 2016. Now, we have four M&As, four bolt-on acquisitions behind our belt, three in the exiting geographies, so and – so we have been able to change the perception that we are unable to do acquisitions. Now we can prove we can. There was a lot of questions at that time whether there are targets available and I was saying, 'Yes, there are targets available that are attractive with good financial return.' Despite the general perception that assets are over-valued, we are able to buy them at the right price. So, I think that that's another significant change: we can prove that we have assets, we are identifying assets that are available at the right price. And as I signal here, we will continue to do so. We see still scope in some of the existing geographies to continue to do bolt-ons, but we will need to absorb some of the bolt-on acquisitions that we have already done. So, we are looking at new geographies and, you know, we cannot clearly comment about what acquisitions we have in mind, but I'm signalling that we are looking at new geographies, as we see the potential to extend into new geographies. And I think it will benefit our business, provided that we meet the criteria that we have set out. So, we need to operate in the adjacent geographies, we need to use our competencies, and we need to be very clear about what kind of acquisitions we make in order to give them immediately the critical mass in the markets that we will be operating.

Matt Reid (Berenberg): Hi. Matt Reid from Berenberg. Just a couple on Czech. Have you seen any impact so far in the kind of as competitive behaviour, promotions, whatever, behind Jägermeister following them taking back distribution in the market from Rémy Cointreau I believe? And then just kind of going back to, you know, looking at margin for the second half

of the year, you know, what should we kind of anticipate in terms of the impact from the Fernet relaunch? Is that going to be another kind of chunk, margin dilutive, like we saw previously from the launches behind Black Fox and Republica? Thank you.

Mirek Stachowicz: I'll take the first one if you'd like to take the second. Well, let me take the Jägermeister question and then Paul will respond to the Fernet question. The quick answer to your question is we have not seen much of an impact of Jägermeister requiring distribution from Rémy Cointreau in Czech and in Slovakia. Do we expect to see any significant change? We don't. You have seen from our announcements that we've seen a lot of price aggression in this segment, with Jägermeister's pricing coming down significantly. We are addressing this issue with the relaunch of Fernet. We needed time to – we needed to sequence events correctly in the Czech and Slovak – especially in the Czech market – in order to take advantage of all the opportunities that we had available to us. And I think that the results of the Czech business indicate we were right, because the performance has been, you know, nothing short of stellar. So, what we need to do is we need to address this issue of competitive situation in the Fernet market, in the bitters market. And we have – we are confident we can do this. I don't expect a worse situation coming from Jägermeister, because this – the price position of Jägermeister had been aggressive over the last two years. The amount of investment going into distribution building and ATL communication has been heavy. So, I think we don't anticipate any significant change there. The – our activities will respond to this challenge appropriately.

Paul Bal: On the question about margins, Matt, I mean clearly our strategy is not to be margin dilutive, right, let's be assured. But in terms of being able to provide a definitive, it's far too early. There's too many moving pieces. And also, obviously, it's commercially sensitive. So certainly, our intention is not to be margin dilutive. There's a number of things that are in place. Obviously, it's too early at the moment to be able to definitively comment on the performance. We only launched it a few weeks ago, so it's still sort of finding its way into the market. Also, we have obviously the excise change on the horizon and the other variable that comes into play in a case of this category of course is alcohol content – ABV – so that also has a bearing. So, there's a number of sort of moving parts here. But certainly, the intention is, you know, not to be margin dilutive.

Mirek Stachowicz: Are there any more questions? No. Thank you very much for your time. It's a pleasure to meet you.

[END OF TRANSCRIPT]