PLC Year-End 2017 Results

Wednesday, 7th March 2018

Introduction

David Maloney

Chairman, Stock Spirits Group PLC

Good morning everyone. Welcome to our 2017 Annual Results presentation. With me today is Mirek Stachowicz, our CEO, and Paul Bal, our CFO. We also have many of our colleagues in the room, including the leaders of our businesses in Poland, Czech, Italy & International. That's Marek Sypek, Jan Havlis and Michael Kennedy.

Agenda

Our agenda on slide number four is as follows: after I've completed my introduction Mirek will review how the business faired in 2017, followed by Paul taking us through the financial results. Mirek will then provide some closing remarks before we give you the opportunity to ask some questions.

2017 Year-end Results Summary

I now turn to slide number five. In summary the Group had a positive performance in 2017 as volume, revenue, adjusted EBITDA and adjusted EPS all grew versus 2016. There was a stabilisation and turnaround in the market and financial performance in our largest business in Poland, while Czech had an outstanding year. Our cash generation continues to be robust with an 86.3% cash flow conversion and we're proposing a €0.0572 final dividend.

If approved, then we will be paying €0.081 per share which compares to €0.0772 paid last year, excluding the special dividend. That represents an almost 5% increase. We were delighted to agree a 25% investment in Quintessential Brands' whiskey business in July and this represents an important step in our plans to significantly grow our presence in that market segment.

On the people side, we welcomed Paul Bal to our team in November. He replaced Lesley, who is enjoying a well-deserved retirement. We also announced today that Randy Pankevicz has resigned from the Board as a non-executive director and will not be seeking re-election at the forthcoming AGM. I'd like to thank Randy for his contribution to the Group over the last two years and wish him very well for his future.

Looking ahead, we believe that we're well-placed for the future. We have a more robust business and we look forward to implementing a refresh strategy. Thank you. I'd like to hand over to Mirek now who will take you through a review of the year.

Business Review

Mirek Stachowicz

Chief Executive Officer, Stock Spirits Group PLC

Introduction

Thank you David. Good morning ladies and gentlemen. I will start with slide number seven. It's a real pleasure to be presenting to you the 2017 results. Let me start by reminding you the commitment that we made 12 months ago. First and foremost, we committed to turning around the Polish business. We defined turnaround as being a return to growth in market share, revenue and EBITDA. So growth had to be profitable and also sustainable. We had announced two waves of cost cutting initiatives so that we could invest in building our brands and achieving competitive pricing in Poland. Our review of the Polish business under the root and branch study had highlighted areas where our model needed strengthening. 12 months later I am happy to say we are on track to deliver a turnaround in the Polish business fortunes. It has delivered some positive financial result alongside share growth. Given the importance of Poland, this has enabled the Group to put some pleasing financial results in 2017.

There has been a couple of technical, non-cash and non-recurring accounting adjustments but I will leave it to Paul to cover these in his financial review. What I will say is that the cost savings are bearing fruit with some €3.2m of savings realised in the year. These are coming from two waves of initiatives, in [inaudible] from the summer of 2016 and from spring 2017. Whilst this is almost everything we said we would deliver on cost cutting, we remain vigilant to find further opportunities to make our operations more efficient. Our new-found resilience in Poland has exposed weaknesses in our key competitors, such that we find ourselves well-positioned, despite the continued uncertainties of that market.

In late 2016, we announced a small acquisition of brands in the Czech Republic and we have managed to integrate them ahead of plan, such that they have already contributed to the success of our Czech business in 2017. We made another deal in 2017 with a 25% investment in the Irish whiskey business of Quintessential Brands. This was a well-timed move that positions us to better participate in the fast-growing whisky segment in a number of our core markets.

The Polish Spirits Market

Turning to slide number eight, let's start with Poland. The total spirits market is still growing, as is vodka. Growth in vodka continues to be delivered by growth in flavoured vodka. As I already mentioned, whisky is growing rapidly and is in fact the fastest-growing sub category in spirits within an attractive profit pool. Both reflect an overall positive economic backdrop as consumer affluence increases with rising incomes.

So notwithstanding the very competitive environment, we have continued to support our premium vodka portfolio and it has already yielded some positive benefits in sales mix. The traditional trade at some two thirds of the market remains a critical last-win battleground. Through 2017, we have increased both volume and value share in the face of heavy competition. Our resilience has had a noticeable impact on the competition, as you'll have read in the recent filings. It also illustrates the significance of vodka as well as the rising importance of whisky.

Poland Vodka Category Share Gains Last Six Months

I turn now to slide number nine and how the main players faired in 2017. We can see both winners and losers. We have come through steadily and gradually increasing share in both volume and value. We were on the winning side and largely at the expense of Marie Brizard. What is pleasing is that our growth has come from both our premium and economy brands, highlighting yet again the importance of portfolio breadth to sustainability.

Poland Market Share Trends

Turning to slide number ten, this shows market share movements of the key players per quarter compared to 2016. It is really pleasing to see our market share growth rate improving quarter by quarter through 2017, with an improving momentum in the trend too. Both we and Roust are gaining from Marie Brizard. Roust's slowing trend is also encouraging.

Mainstream Clear Vodka Pricing

Slide number 11 shows the actual on-the-shelf pricing of the main brands competing in the largest price segment, mainstream. It is here that you can really appreciate the scale of us having to match our competitors' pricing. We have made appropriate investments in the mainstream pricing. Having done this, we are comfortable with our position as evident by the improving profitability in the second half of 2017 which Paul will cover in more detail in his section.

Let me emphasise here that we will always make our pricing decisions to gain maximum competitor advantage in the light of changing market circumstances. We are confident in our own strategy and I believe we have demonstrated we are able to react effectively to what the market throws at us. And we'll continue to do so.

The Competitive Landscape

My next slide, slide number 12, I want to address the question I'm repeatedly asked, what is the outlook for vodka pricing in Poland? Whilst this is a vital point for management and investors alike to understand, it is very difficult to predict because we operate in such a competitive market. Let's consider our two local competitors. It is difficult to understand what's happening at Roust. There have been departures of the Group CEO and the MD of Poland, with the simultaneous departure of all independent non-executives. The management turnover makes it hard to speculate about their future strategy.

Turning to Marie Brizard, their position in Poland is declining rapidly, resulting in the group's recent profit warning, and then also a change in the group CEO a couple of days ago. They are undergoing significant change in management in Poland, where the group appears to be relying on improving market pricing in the mainstream segment for its turnaround.

Given this continued volatility, Stock's strategy and planning is based on the assumption that market pricing in the mainstream segment will not improve, at least in the mid-term. We have spent the best part of the last two years building a much more resilient business to be able to make this assumption. I believe we have shown our strong capability to adapt, survive and even thrive in these adverse market conditions.

Poland – Operational Highlights

In the next slide, slide number 13, I will summarise our operational highlights in Poland. Our star performer has been in whisky where we grew Jim Beam volume by 48.5%, overtaking Jack Daniels in volume to become the number four whisky brand in Poland. We have secured the consent of Beam-Suntory to distribute the Irish whiskey range of Quintessential Brands, the Dubliner and Dublin Liberties, in Poland, enhancing our range in this market.

Achieving turnaround in the flavoured category in Poland takes time and continuous investment. Complex product ranges require excellence in activation in the traditional trade channel and ranging in the modern trade changes only once per year, so acceleration is gradual. We achieved a return to growth in flavoured during 2017 with volume sales of Stock's total flavoured vodka range up 1.4%.

I now turn to slide number 14. We have achieved these successes through consumer activation on selected brands and categories. In the whisky category, this has been done through relentless consumer trial building and sampling initiatives on Jim Beam. We have outperformed the category in premium vodka in Stock Prestige, supported by aspirational limited editions. And on Amundsen, through consistent distribution building support by strong digital communication campaign.

In flavoured vodka on Zoladkowa Gorzka, through promotions expanding innovative seasonal usage. And on Saska, by tailoring our offering to millennials' taste and lifestyles. Lastly, but perhaps most importantly, we focused on improving our execution at the point of purchase, so critical in the dark market of Poland, by our Perfect Store programme with its integrated up-weighted shelf space, enhanced merchandising and leaflet feature.

2017 has been a year of consolidation and strengthening of our core brands. Our clear vodka business is back in growth with strong gains from Stock Prestige and Zoladkowa de Luxe. That's the mainstream business. Our main challenge and key area of focus for 2018 is the higher-margin flavoured vodka segment, where we aim to achieve growth ahead of the category. We are well-placed to address this challenge with our revised flavoured strategy and plans to increase focus on our top flavoured brands, Zoladkowa Gorzka and Lubelska. And to drive continued growth on Saska.

Overview of the Czech Market

Moving now to slide number 15. Turning now to our second-biggest market, the Czech Republic. This, as a reminder, delivers some quarter of our sales and this market where we lead. The market is growing well in both volume and value. The strongest growth was registered in the biggest sub category, that of domestic rum. And this happens to be the core of our business. We also see increasing demand for rums of an international origin. And as with Poland, note the fast growth of whisky.

Czech Republic – Operational Highlights

I now move to slide number 16. Looking at our performance we managed to increase our share in the growing market. A key driver was the re-energised Bozkov range, benefitting from our recent range innovation and up-weighted investment. Our herbal bitter offerings lost out in tough competition from Jägermeister's price repositioning. We responded in November through the launch of Black Fox, our new premium herbal bitter. I'm personally very excited by Black Fox, as it is a standalone new product we developed with international and millennial appeal.

In the whisky arena we are assembling a strong portfolio, leveraging the combined strength of our partners, Diageo, Beam-Suntory and most recently Quintessential. The combination of such strong brand portfolio is an exceptional opportunity to drive growth in this significant category. The vodka category, although expanding slower than others, continued to grow at a respectable pace. Here, our newly acquired brand portfolio which we integrated ahead of the original plan, allowed us to see off a sustained price attack from the local competitor.

New Brand Developments in 2017

I now move to slide number 17. Brand building is central to our growth strategy. In 2017 we took some bold steps to premiumise our offerings in growing sub categories. Similar to Poland, the Czech Republic is also experiencing rising consumer affluence. Our newly-launched Bozkov Republica is a fully-fledged international rum that premiumises our well-established and award-winning Bozkov range. This is an illustration that some local brands with sufficient equity can premiumise through range extensions.

Black Fox, on the other hand, was launched as a standalone brand, both [inaudible] pricing at a clear premium to our established ranges. The launch of Black Fox also serves as an illustration of our increasing use of digital marketing to engage and excite our target consumers. Continued innovation in the Czech Republic will maintain our momentum and strengthen our leadership position.

Overview of the Italian Market

Moving to slide number 18, we now turn to the third market that I would like to specifically cover, Italy. As this slide will instantly tell you, Italy has a much more fragmented spirits category than either Poland or Czech Republic. Whilst we enjoy commanding positions in Limoncello, clear vodka and flavoured vodka, combined with number two position in brandy, these do not bring the same scale as we enjoy in Poland and the Czech Republic.

Italy – Operational Highlights

The next slide, slide number 19, shows that we held our overall market share at around 5.6%. This was achieved through growing in limoncello and brandy ahead of the sub categories. Whilst the same was true in flavoured vodka, that category shrank as spending power among its mainly young adult consumer franchise continued to decline. Our share in clear vodka came under significant competitive pressure. These last two factors led to an impairment being triggered in the caring[?] value of the Italian business. Paul will cover this in his section.

New Brand Developments in 2017

Moving to slide number 20 or what's next for Italy? Notwithstanding the challenges we continue to invest in innovation and brand building in Italy also. The relaunch in 2017 of the Stock brandy range was a success. We have recently launched an ultra-premium limoncello to cement our leadership in this most Italian of sub categories. Most importantly, we started execution of a multi-year plan to increase Keglevich's appeal to a wider consumer audience and to target new drinking occasions. These are all new and important initiatives; however, the real game-changer for Italy will be a material increase in our critical mass.

Other Markets – Operational Highlights

Slovakia

Finally, slide number 21. My last slide for now covers the remaining market operations. Firstly Slovakia delivered solidly with a small increase in volume share. All of our core sub categories continued to do this. As in the Czech Republic, we also strengthened our whisky portfolio by starting relationship with Beam-Suntory.

International

The International business operates in over 50 markets. It has strengthened its portfolio through partnerships with global spirit brands, including the right to distribute Quintessential's Irish whiskey brands in selected markets.

That concludes my overview of our trading performance during 2017. I will return a little later to talk about what comes next for Stock Spirits now that Poland is in turnaround. But now I would like to hand over to our CFO, new since November, Paul Bal, to take you through the financial performance of the Group over 2017. Paul, over to you.

Financial Results

Paul Bal

Chief Financial Officer, Stock Spirits Group PLC

Introduction

Thank you, Mirek. Good morning ladies and gentlemen, it's my pleasure to present the financial results for the year ended 31st December 2017. I'll start with slide 23. The financial trading results for 2017 year come from a combination of top line growth and cost savings. As Mirek said, Poland underwent quite a bit of change but it has produced some encouraging results. And the turnaround is on track. The results from the Czech Republic showed good progress, also benefitting from the successful integration of our 2016 acquisition of certain Bohemia Sekt brands. Italy managed to hold its underlying EBITDA margins, despite some challenging conditions in vodka.

But whilst our trading results also benefitted on translation from positive exchange movements and lower corporate or central costs, we have incurred two very material non-cash and non-recurring charges that are classified as exceptional items. Beyond the profit and loss account, our cash flow delivery was robust and as a consequence our balance sheet remains strong. I'll now [Inaudible] changes in the accounting and reporting requirements [inaudible] we will now [inaudible] change [inaudible] yearend. And finally [inaudible] starting with the profit and loss account on slide 24.

Consolidated P&L

The 5.2% increase in revenue was effectively volume-driven. But a leverage of our scale and smart sourcing has meant that we kept cost of goods flat in per litre terms so that the hit to the gross margin was really pricing. We continue to invest in talent, especially at the sales and commercial end of the business. That, with the year's stronger performance, triggered higher staff incentives and these were the main drivers of the higher other operating expenses as they offset cost savings in other areas.

Overall, this resulted in a double-digit growth in operating profit before exceptionals and a 90 bps improvement in the operating profit margin to 16.3%. However, as Mirek mentioned, the continued decline in Italy has resulted in an impairment of €14.9m against the carrying value of goodwill in that business. The risk had been flagged at the 2017 interims. It's non-recurring and it does not impact our cash flow. Stripping out €1.5m foreign exchange gain in inter-company balances in 2016, net finance costs were flat as our financing lines remained unchanged.

We now include our 25% share of the results of our new associate Quintessential Brands Ireland Whiskey Ltd. This resulted in line with our expectations. At the time of making the investment we said that the payback would not start until year four. And the distillery build in Dublin is on track to open in the fourth quarter of 2018.

In our tax charge, we suffered a further exceptional, a non-cash hit relating to deferred taxation. We are no longer able to obtain tax relief on the amortisation of intangible brand assets in the Polish business. This created a deferred tax liability of €4.7m. Again, another non-cash item which is non-recurring. These two exceptional items have contributed to a profit for the year that is not representative of the underlying trading performance of our business in 2017. That underlying performance is better reflected in the improved adjusted EBITDA showing 9.7% year-on-year growth, and in the adjusted EBITDA margin growing beyond 20%. This is also visible in the adjusted EPS growth of 14.3%.

H1 - H2 Performance

Turning to slide 25, and breaking down the results by half-year, show a good momentum in revenue and that is improving. Adjusted EBITDA has momentum too and it’s pleasing to see the margin strengthening. There is a turnaround afoot.

Volume & Revenue Review

With slide 26, let’s now look into the components of our results in a little more detail, starting in this slide with the top line. Our overall volume grew in excess of 6%, with clear vodka within this volume growing at almost double that rate, driven by Poland in the main. There is clearly potential for us in that category. Stripping out the volume impact, our underlying average prices suffered despite positive foreign exchange effects of over 2%. The price hit was some 3% and was largely the cost of remaining competitive in Poland.

Poland Financial Performance

Looking specifically at Poland in the next slide, slide 27, the picture is more pronounced. Our revenues benefitted from a healthy combination of volume growth and mix. But overall average pricing going into reverse, reduced by more than half, as a benefit of higher volume sold and better mix. EBITDA grew, showing our ability to fight a tough price [inaudible] and yet also deliver a return. Had we not invested further in talent or rewarded the achievements of our Polish team in line with their incentive schemes, they would have generated an EBITDA margin closer to 2016’s 21.6%.

Czech Financial Performance

Turning in the next slide, slide 27, to the Czech Republic, our second-biggest contributor after Poland. Healthy growth in the top line was driven by the Bozkov family returning to growth after the recent range revamp. We’ve also had benefit from integrating the brands from Bohemia Sekt in the last quarter of 2016. The Czech team delivered strong EBITDA growth at a solid 8%, improving their margins. All this was done whilst increasing advertising and promotional investment. Top marks for their progress, continuing to grow from their leadership position in the market.

Italy Financial Performance

I now move to slide 29. Italy faced another challenging year that culminated in the exceptional impairment charge mentioned earlier, and which was highlighted as a risk in our interims reporting in 2017. Whilst pricing held up, a decline in vodka, especially flavoured vodka, hurt our volume, namely in the Keglevich brand. Adjusted EBITDA was down but excluding restructuring costs, the 23.4% margin was held. The restructuring strengthened the commercial team and came alongside the investment into turning around the fortunes of some of our key brand in Italy. We are confidently looking at our Italian business and the recent restructurings and the investments behind the portfolio demonstrate this.

In addressing the impairment, we are taking a proactive view in light of the prospects for the business and the circumstances in which it operates. IAS 36 impairment of assets sets the rules. Quite simply the future cash flows projected have reduced. The snap-off point for the projections is also lower and the discount factors applied to those flows have gone up, as capital costs and risks in Italy are forecast to rise according to most sources. The upshot of this process, which has been verified by audit, has been a €14m write-down of the carrying value of the goodwill ascribed to the Italian business. I should remind you that this rather technical adjustment is non-cash and is not considered to be recurring. Our investment behind Keglevich over the coming years is aimed at resetting the course of that business. And it comes after the revamp work on Stock 84 brandy and XO in 2017.

Other Markets Financial Performance

Slovakia, Croatia, Bosnia, Baltic distillery & Exports

Turning now to slide 30, I now move to the rest of our operations. They also experienced an overall revenue decline. In fact, revenue growth in our Slovakian business was masked by revenue lost from by-product sales when our Baltic distillery suffered a temporary shutdown in early summer. Operations were resumed without disruption to our trading and an insurance claim lodged.

Stripping out some non-recurring costs, the improved EBITDA and margin predominantly reflected the revamped Stock 84 brandy's success in Croatia and Bosnia. The non-recurring costs reflected change to our route-to-market here in the UK and costs associated with the Baltic distillery repairs.

Corporate Costs

Moving to slide 31 and some words on costs. Mirek already touched on the benefit we enjoyed from the two waves of cost savings initiatives launched in the summer of 2016 and then spring 2017. In total, we committed to annualised savings of €3.5m. In 2017, we benefitted from some €3.2m of these savings, as the balance had already crystallised over the last months of 2016. The savings were made in corporate or central costs and these costs are now lower in underlying terms.

However, our stronger trading performance has meant that staff reward costs are higher, as bonuses are triggered for the first time since the IPO. In addition, the accounting impact of new and open share rewards is a charge in 2017, as opposed to a credit in 2016, from writing back lapsed awards as performance conditions were not met. Restructuring and certain other non-recurring costs were lower in 2017 too. We'll remain vigilant for further opportunities to make our model more efficient and redeploying costs for commercial gain. But for now, we don't anticipate further organic cost-saving programmes as we go forward from here.

Impact of FX Movements

If we now move to slide 32, I already mentioned that foreign exchange movements provide a tailwind to our top line and less so our bottom line. This came predominantly from the strengthening of the Polish Zloty and the Czech Koruna versus the Euro.

Net Finance Costs

The next slide, slide 33, sets out our net finance costs. As our financing arrangements have not changed over 2017 I would not expect much movement. And stripping out the foreign exchange benefit received last year from inter-company loans, that is largely true. Our facilities have been extended to late 2022. Combined with the strong balance sheet, these financing facilities provide us with a strong base from which to pursue our strategic aspirations.

Tax

I'll now move to slide 34, turning now to the subject of taxation. Improvements in the current tax expense came largely from the Italian corporate rate reducing. However, this benefit was more than offset by prior year tax charges coming from the Czech Republic and higher deferred taxation. The higher deferred tax charge this year is in line with the higher accruals for sales rebates given by our stronger performance.

As I mentioned previously, we have taken a second exceptional charge in 2017 and this is in relation to deferred tax. In Poland, from the start of 2018, companies are no longer eligible for tax relief on the amortisation of intangible assets following a law change in late 2017. Consequently, a deferred tax liability is now to be recognised as future tax payments will rise. This is a non-recurring and non-cash item.

Free Cash Flow

Moving to the next slide, slide 35, we come to cash flow. Strong cash generation has been a hallmark of this Group and free cash flow rose ever so slightly. The implied conversion rate moved back from the 94.1% achieved last year to a still robust 86.3%. The main reason for this lower conversion was us utilising our cash flow muscle to obtain competitive commercial advantage in Poland. Quite simply, this is something our main competitors cannot leverage. We used this lever carefully at a certain point and drove benefit, neutralising our competitors attempted trade load in the critical pre-Christmas period of November. Had we not done this, our cash conversion would have been even higher than last year, exceeding 100% actually.

Net Debt

I click now to slide 36 and, staying with this theme on our next slide, our strong cash flow generation has enabled us to fund the Quintessential Irish whiskey strategic investments and the dividends. And we had also reduced net debt to €53.1m, a reduction of €6.6m over the year. Our already low balance sheet leverage is now below 1x. The Group has significant liquidity available to it and is well-funded for the future.

Changes in Accounting Policies and Yearend

With slide 37, I will now turn to the impact of changing accounting and reporting rules on our policies. From the start of 2018, we'll apply IFRS 15 which alters the way promotional spend with customers is accounted for. It gives us a small hit to revenues and a small adjusted EBITDA margin. IFRS 9 applies from 2018 too and will require trade receivables to be discounted. But, given our various mechanisms to protect our trade exposures, this will not have a material impact on us.

As has been communicated throughout 2017, the Group is now moving to a 30th September yearend. It makes sense, given the seasonality in our business. So over 2018 we will report as follows. First, the usual six-month interims to 30th June 2018. This will be the last reporting to that date. It also happens to be a period where our heavier phasing on brand portfolio investment will not convey a representative picture of our underlying performance. And we'll be reporting again three months later. So these 30th June interims will be a results[?] release without a presentation and a subsequent roadshow of investor meetings. Of course, we remain at the disposal of any of our investors who would like to meet with us.

For the nine months to September 2018 reporting, besides the statutory nine-month numbers, we will also present proforma full-year to 30th September 2018 results, along with 12-month comparatives to 30th September 2017. Again, that approach with the pro formas will provide a more representative picture of our true performance as it will include the all-important fourth calendar quarter's trading. This approach should also ensure that everyone moves off the same baseline as they recalibrate their modelling.

Those results will be announced and presented very much as we're presenting these results, in early December 2018. And they will be followed by a roadshow of investor meetings. Indeed, one can say therefore that this is the first and the last time that I shall present the results for the year to 31st December.

Dividends

I turn now with my final slide to slide 38, the subject of dividends. We are today proposing a final dividend of €0.0572 per share for 2017. This is a 5% increase on the €0.0545 per share final dividend in 2016. In terms of the full distribution for 2017, this means a total dividend of €0.0810 per share. It's not comparable with the 2016 distribution of €0.1962 per share which included the special dividend of €0.119. Given the Irish whiskey investment of €15m, a special dividend is not being proposed this year.

Taking that out of the equation, the 2017 distribution is an increase of 4.9% over 2016. Our existing dividend policy has articulated at the time of the 2013 IPO, referred to progressive dividends but did reference to a 35% of net free cash flow. Our proposed total distribution for 2017 is almost double that level.

Going forward, we will focus wholly on providing our shareholders with progressive dividends when cash generation allows for this. And with that I thank you and I hand back to Mirek.

Looking Forward

Mirek Stachowicz

Chief Executive Officer, Stock Spirits Group PLC

Group Strategy at the IPO

Thanks for summarising the Group's financial results, Paul. We have covered a lot of detail on the past performance during this presentation, and in this final section I would like to talk about the future. I now turn to slide number 40.

The second half of 2017 we conducted an extensive strategy review, involving all of the senior management team and the Board, to revisit whether the strategy which persuaded investors to buy at the time of the IPO remains valid. Our conclusion is that it does remain valid. Whilst the overall strategy stated at the time of IPO remains valid, the world has moved on since then and we will focus on four key pillars to enhance our execution of that strategy and to ensure we prioritise our actions correctly in the changed environment.

Our Strategy Looking Ahead

I'm now moving to slide number 41. We will focus our execution on these four key growth pillars and building a solid foundation. Whilst the growth pillars are of high interest to many businesses, we have selected and will shape our behaviours in them in such a way that it will allow us to differentiate from our local competitors. For example, by premiumisation we aim to differentiate and give consumers compelling reasons to pay more for our brands. This is different – it's a different mind-set from Roust who appears to be much more about discounting to provide consumers with affordable luxuries or the mainstream-isation strategy of Marie Brizard.

When we think about the emerging next generation of consumers, we are shaping our brand range to meet their evolving taste preferences. For example, millennials' taste preferences are directly reflected for our latest flavours extensions in Saska and the taste profile of Black Fox.

In the digital arena, we built competitive advantage by understanding our consumer preferences better and earlier than our competitors. For example, in the way we have invited our Keglevich social media fans to co-create new flavours with us, making them our advocates and ambassadors to their friends and online followers. We recognise that the digital revolution is not just about external marketing and we are now rolling our initiatives to bring added efficiencies to our internal business processes.

For Stock M&A is about spelling our clear criteria for acquisition targets, just as we did on the Czech vodka brand acquisitions which, as forecast, have helped us to grow ahead of the category. Our recent acquisition of an interest in the Dubliner brand will expand our presence and expertise in whisky. Our work on developing the solid foundation of people development, business processes and governance includes initiatives which will ensure that we will never find ourselves again in the kind of crisis that we experienced in 2014-2016.

Concluding Remarks

To conclude, I move to slide number 42. A lot has been said in this presentation about pricing and competitive behaviour. I want to stress that we are focused on building shareholder value regardless of whether or not price wars continue in Polish mainstream. Our actions to drive turnaround over the last two years have allowed us to break out of the cycle. We are on the right track to achieve sustainable shareholder value growth through a number of priorities. We will continue to grow our critical mass in Poland. We will invest to accelerate organic growth of our existing businesses through premiumisation of our product range, deployment of digital tools and attracting millennials to our local brands.

We will invest strongly and consistently in our brands in Italy. We will focus on becoming a leading whisky player in our markets. We will seek attractive M&A opportunities where they deliver our strategic objectives and add demonstrable shareholder value. With a strengthened team and a more resilient Polish business, combined with a strong balance sheet and cash flow capability, we are well-placed to exploit opportunities to expand our business.

Thank you for your attention. That will conclude our presentation and I will now open the floor to questions. Prior to asking your questions, for the purpose of the webcast, please could you announce yourself and the organisation you represent? Thank you.

Q&A

Chris Wickham (Equity Development): Yes, hello, it's Chris Wickham from Equity Development and congratulations on some great concluding words. I was just really thinking, if we just go straight into the Polish vodka market, I mean, clearly this business has moved a long way forward from that period to which you refer. Yet, I sort of feel somehow it's like a football team that keeps on winning but without the star striker scoring any goals. And that star striker, to my mind, should be the Polish vodka market and pricing within the Polish vodka market. Because after all, that is the sustainable reason why people invest in distilled spirits companies. It's to get that long-term pricing movement. How far are we away from that being the core driver of the business?

Mirek Stachowicz: I guess, that's a question to me, Chris. Let me use the football analogy then. We are playing a football game and it seems like the opposing team was not scoring any goals, keeps changing the players and keeps developing – keeps pushing the strategy that is not scoring any goals. When I was coming to this business I was telling this is going to take time to turn around. And I think we are clearly sending a message that we are absolutely on the right track and point. When you turn to page 11 of our presentation, you will see a true picture of pricing in Poland, which is a key issue that we have been facing in Poland. And you can see that we've been very prudent in exercising the market power that we have at our disposal.

Now, I think we are behaving in a proper way to maximise the shareholder value in this respect. You can see from the chart there that it's taken us considerable amount of time to equalise our pricing. We are comfortable in this position. Now, does it score any goals for us? I believe the results show that we are actually winning. When you compare these results with the results of our competitors, using sports analogy, it's a cheap shot to talk about Marie Brizard's result. But when you actually analyse the results that Roust started finally presenting, their business model I'd put question mark whether it works. But are they winning? I don't think they are winning.

So I think that the match is not over. I think we are on the winning side. I think we are playing the right kind of game with the right strategy and tactics. And, you know, I think we are scoring goals. Maybe they are not as spectacular as many would like us to see but I have been saying that we are not interested in taking market share that is not valuable. A lot of the market share in Poland, because of the pricing that we have seen, does not represent a big profit opportunity. With the market shares as they are, it is up to the opposing team to decide what they want to do about the total profitability of the market. And we are going to continue to play our winning game against this kind of set of circumstances. And I'm confident we can grow shareholder value in this because that's what we spent the last two years doing, preparing for this kind of a game. I hope that answers your question. Xavier?

Xavier (Berenberg): Yes, Xavier[?] [Inaudible] from Berenberg. One quick question on your slide 11. What's the logic behind announcing the price increase in January and having the two-month lag until it becoming effective? When I think that that promotes trade loading by distributors buying ahead of that price increase. Wouldn't you want obviously to announce it and make it effective immediately?

Mirek Stachowicz: That's not the way it's done ever. It would not be seen by our partners as a friendly tactic. They have, at their disposal, working capital and they may decide to deploy it accordingly. So we would not want to do what tax authorities do and they announce suddenly that there is a tax change so that there is no possibility to react to it.

Now, you are right to point to this move. We have shown a picture of pricing and we have also shown that the pricing has not improved in the market over 2011. Now, with our position in the market, we are clearly not in the position to change pricing, you know. The biggest player in the market always is in the position to change pricing. And that's the way it is. Our price increase in January was announced following a price increase that was announced by Roust in November.

So that could be seen as a positive development. However, we know that shortly after announcing the price increase in November that Roust has made commitments to a number of key competitors representing well over 40% of the sales volume to keep the prices across 2018 unchanged. Now, why do we make announcement of our price increase? Because it's the right thing to do. We need to see ways in which we should grow the shareholder value.

Whether we will be able to implement this price increase, that depends significantly on the competitive environment. We are committed to not wasting the work that we have done over the last two years. We have finally achieved equalised pricing and we will not allow competitors to take advantage of a price gap.

Damian McNeela (Numis): Damian McNeela from Numis. Two questions. Firstly, on the sort of moving your portfolio towards 30% premiumisation, can you just give us an idea of where the portfolio stands at the minute and by when you hope to get to 30%? And then just in terms of your digital marketing capabilities, can you sort of give us a little bit more colour on where you are and whether you need to improve your capabilities in being able to sort of market your brands digitally?

Mirek Stachowicz: So I'll take the first question, and then I'll ask Paul to respond to the other because Paul is our Chief Digital Officer in addition, due to your background from previous work. I think we can release this information right? About the number of – the amount of brands? I just consulted my lawyer and actually we can release it. Currently, the premium brands in our portfolio constitute just over 20% sales. So we expect dynamic growth from this.

Obviously, we are interested in building as much of this growth through our own brands where the profitability is a bit better. Or through Quintessential Brands where we share both the distributor and the manufacturer's margin.

Paul Bal: Moving, Damian, to your second question on digital and what exactly do we mean? And how does it sort of build from what we have today? So, I mean, if we look first of all in the sort of B2C space where one engages with an end consumer, we are active, digitally, out there. We've got a number of digital assets out there that bring our brand and our offers to life.

What we are talking about though is sort of moving that on a notch and actually being clear at the outset what we're trying to achieve by those manifestations. So what we're trying to, in terms of engaging and maintaining an engagement and moving the consumer through a disposition funnel, from being interested in the brands that we have and the products that we have all the way through to obviously trial and repeat and then habit. And digital lends itself very well to be able to do that. And what we're talking about is building our capability that we can help navigate the consumer through that funnel. Be able to monitor that navigation of the consumer through the funnel, so that we have enduring relationships with the consumer. But also ultimately to be able to monetise that relationship. So, that's the first objective.

And what that requires is we'll be looking at our brand assets across all of our markets, looking to standardise as much as we can in terms of the back end. We've got sort of synergies and we can leverage off all that. But making sure that we can then sort of maybe deploy some of those synergies to actually sort of invest more upfront to make our reach more effective than it is. And that's on the B2C.

There's a B2B component as well where there's a lot that digitalisation can do in terms of revolutionising and making efficient today's processes and bureaucracy of ordering, transactions and relationships between us and our customers across the different trade segments. So we will also be investing in that side of it. And then, of course, there's also the digitalisation of the back end of the business which we will continue on the journey. Well, that hopefully gives you a colour of where we're focusing in the digital arena.

Mirek Stachowicz: And maybe one more comment from me, Damian, because we were having these discussions before this presentation. We realised that the strategy that we presented with these pillars, it looks like a lot of good statements. You probably have seen many companies that make these statements about millennials and premiumisation and digital. What we wanted to ask ourselves and share with you is where we want to differ, how we want to really execute. And I wanted to emphasise that this is not a strategy that was formulated in the back door and now we are going to scratch our heads how to go about this.

We have actually gone through a process where the management team of the business was aligned. And it's a product of our discussions, yes, about how we execute the strategy since the time of the IPO. Where can we explore the changed world? Now, that was translated into objectives. So, we have now a very clear map of objectives for everybody who is on the management team. Everything that is on this chart, and I'm confident to say this, is translated into specific, measurable objectives that will be now delivered by the team who is aligned to deliver these objectives. Measurable objectives.

And I'm confident we're on the right track there. I think that we can make a difference because also these can be translated into objectives for every part of the organisation. So, we're looking recently at the operation strategy. Millennials translate into operation strategy very directly. How? Through provenance. Provenance is a very important matter for the millennials. We need to have operation strategy that addresses this issue, and so on and so forth. That's the power of this strategy because we can develop specific action plans for every part of the organisational based on these four pillars.

Doriana Russo (JPMorgan): Good morning, Doriana Russo, JPMorgan. I've got three questions, if I may? On the digital argument – not argument. On the subject of digital, can you give us a sense of how much are you currently already investing in digital? And whether you have any skills and capabilities to use advanced technologies, such as data analytics, to develop advanced marketing strategies? And where?

Secondly, what is the profit outlook for your investment at Quintessential? There was a small loss in last year. What do you expect that is – when do you expect that to translate into profit? And what are you gaining from distributing Quintessential starting in 2018?

And lastly, will you be able to give us the split of growth in the Czech Republic between volume and price and M&A? Thanks.

Mirek Stachowicz: Doriana, many thanks. It's easy for me because I'll pass it on to Paul.

Paul Bal: I'll take the digital and the digital spend first. So our digital spend today is predominantly operational spend. It's not capital spend by the nature of how we go about operating digitally; that's through parties and agencies. I don't envisage that model changing dramatically. In that world a lot of success is achieved through collaboration with third parties. It's very different from the past technology big investments into databases and applications and so forth.

So looking forward, within our projections we'll be including our digital spend. Do I expect it to have a material impact on sort of our run rate on cost? The answer is 'no.' And the answer is also 'no' in terms of sort of a material impact on CAPEX as well. We have over the years invested in our technology infrastructure and it's secure enough to be able to support our aspirations on the digital side.

In terms of the point on analytics, the solutions that we are developing will be focusing more on online real-time analytics as opposed to the classic, static CRM databases of the past. Those are going out of fashion simply because there's such a surfeit of data that often becomes a challenge to be able to translate into insight. And a lot of insight is now being drawn in the moment in the new world and that's where we will be focusing. It's also fair to say that our investment on digital is going to lean towards the millennials more than other consumers, as well.

In terms of the profit outlook for QB, I think we said at the time that we were looking at a return from year four on [inaudible] the investment. So we have a while to go. And I think that's not a big surprise given the nature of the business that we've invested in, which is the whisky business. And there's a number of components to that. There's the distillery build, which, as I mentioned, is on track, and should come on line in the fourth quarter of 2018. It's not just the distillery build. It's then the building of the liquid stocks as well. And hence the year four outlook. And at the moment we've got no reason Doriana to assume that we're off in terms of that outlook. Everything is on track with that. We have a good relationship with the QB team, of course. We're joined here by two senior members of that team.

And then finally your question on the Czech split. I don't have that to hand but that is something that I can make available. The M&A did have a material impact. We do get a material gain out of the incremental growth that we saw in the Czech Republic. But the volume and the mix I'll be able to come back to you.

Grant Tomlinson (Company): Grant Tomlinson from [inaudible]. Can I just return to the Italian market? And you've talked about – in that fragmented marketplace that you've described, you talk about striving for critical mass. Can you just elaborate a little bit in terms of the measures you intend to make within that market? And secondly, just on the Quintessential, clearly there are a couple of representatives here. Is that a likely development from your 25% stake? Is there any sort of progression of that relationship going forward? And just leading on to the M&A, you talked about sort of major M&A moves going forward. Can you again put a little bit of colour in terms of how you see whether that's market driven or product driven?

Mirek Stachowicz: Excuse me, the last one was M&A. Could you repeat the last one?

Grant Tomlinson: Whether it's product driven or market driven or which – you talk about in your aims of major M&A. You've raised that. I just thought perhaps you could elaborate a little bit further.

Mirek Stachowicz: Certainly. Well, let me start with Italy. I think many of you asked me whether we will fix or sell Italy. We'll fix Italy. And I think that it's – where the critical mass will come from – we need critical mass [inaudible] and where the critical mass will come from, we can reliably only comment on the organic growth. And you can see that we are in the process of revamping and relaunching our product range to make it more relevant to consumers. We've started with the brandy range and it's a successful relaunch.

We then moved on to limoncello. You can see examples here, the ultra-premium product that has hit the shelves and is performing well. Our key challenge, of course, is in flavoured vodka. And we've taken a year to figure out how to go about this. And I have emphasised in this presentation that we are going to have a sustained programme of investment. Why? Because Keglevich, we revamped the range to make it more relevant to the consumers that we want to target. So, we emphasised the natural components, the fact that we have revamped the packaging to make it fit a bit broader audience. Because we are looking to grow the drinking occasions of this product. Based on consumer research, we are convinced we can do that. But we will require investment. So growth will come from that, from these areas. From organic growth in the categories where we operate.

Now, this is a very fragmented market in Italy and we are looking for ways to leverage our balance sheet also to make acquisitions in Italy. Because it's fragmented, there is a number of smaller enterprises available. The problem there is there's usually family-owned enterprise and, as we all know, families tend to speak with many voices. And it's not necessarily like treated as a commercial enterprise so that's tricky. I think it's a possible route to move – to increase the size of the critical mass. Clearly, we can't make any commitments and I would not comment on any M&A ongoing activities. I hope that answers the question about Italy.

Thank you for your question about Quintessential. Warren and Enzo are here with us. Thank you for coming. We have an excellent relationship with – we enjoy this relationship and, of course, we would want to explore every opportunity for us to work together. I think I speak for all of us. I would not comment about the contract that we have signed because it's confidential. But, regardless of the contract, I mean, there's always a possibility to work together and that could always involve an increased equity stake and vice versa. So, the opportunity's open to us and it really depends on what kind of prioritisation of these opportunities we will decide to deploy. Very clearly, we want to make work the Irish whiskey investment for both parties, yes. And that's our key focus. I think we are on the right track there.

You see in the presentation that this investment – at the half-year I was unable to comment whether we would be able to convince our existing third-party partners to incorporate Quintessential Brands' products into our ranges because obviously we enjoy mutual exclusivity. So we have to gain consent of both Diageo and Beam-Suntory. We have gained this consent. There was a question mark about it so I'm happy to confirm that we have gained this consent. Moreover, it opens up synergistic possibilities, something that without enjoying this type of relationship with our friends from Quintessential, it will be more difficult for us to have the success in Czech, where we're able – largely through the work of Jan who is here, we were able to complete a portfolio that nobody else has. It's rare to have a portfolio consisting of both Diageo and Beam-Suntory and Quintessential Brands. So, I think that has paid off, this relationship, in more than one way.

Finally, on M&A, we tried to make it – we can't comment about the M&A activity. It would not be in our interest, nobody's interest. But what we tried to spell out was the criteria and I think that whilst it was in the past known that we are interested in M&A, we tried to spell out criteria. And the top criteria and criteria [inaudible] cost and growth synergies. Clearly, if we are looking at cost and growth synergies we are looking at the existing markets because that's where the cost and growth synergies can be fastest and easiest generated. We are looking at brand portfolio enhancements. We are looking at geographic expansion. So, that's the kind of M&A that requires much more organisation to be able to have both the team that is capable of doing it and also plug-and-play processes. I think we are there. Over the last year we've done a lot to have them both in place.

And the strategic rationale so it's – a good example is our relationship with Quintessential. There is a good strategic rationale why we'd do this. However, some people needed time to understand this. I think that the results are showing that it's the right move. Whisky is an extremely important market segment for us in Central and Eastern Europe. Two years ago we were nowhere near where we are now, in terms of whisky. And our ambition is to become a serious player in whisky, and a serious spirits distributor in these markets. We have an opportunity to explore and we are determined to explore it. I hope that answers your questions.

Jason Streets (Hardman): Jason Streets, Hardman, morning. In the UK there's been a huge surge in sort of craft distilleries springing up everywhere in the last five years. Is there anything similar going on in Poland and the Czech Republic? And is that a) interesting, b) threatening?

Mirek Stachowicz: Yes, in the UK there was massive resurgence in both whisky and in gin. In the region of Central and Eastern Europe, there isn't such a resurgence to this extent. Of course, there are always new entrepreneurs coming on the market. Some of them are successful and we are monitoring closely these events because we are interested in expanding our position. I would say that the trend is more – and one of our shareholders – Board members described this as there is no craft revolutions, products are a bit more crafty. So when you look at this, products with known brands are trying to increase their appeal to the millennials mostly, so younger generation of consumers. And if you look for example at Pernod Ricard's[?] Wyborowa[?], which is a premium vodka in Poland, sold internationally, they are now launching lines of the Wyborowa with signature of master distillers. So what does it tell you? It's still made in the same factory, yes. But they are trying to capitalise on this trend. And that's where it's heading for now, I'd say.

Paul Bal: I think the dynamics of the market also are slightly different and don't necessarily lend themselves to that same dynamic. So, for example, in Poland you've got a dark market so it's harder for a new sort of emerger to break through. Also, the route-to-market is critical. You don't have the same degree of organisation that you would have, for example, in the UK where you can make progress by signing up a supermarket. And, of course, in our markets the salesforce is critical in that. So if you don't have those levers it is harder to break out on the craft.

Matthew Reid (Berenberg): Hi, Matthew Reid, Berenberg. On flavoured vodka in Poland, you lagged the market growth in 2017. Was that brand-specific or was that across all of your brands? And what's the plan? Obviously the millennial-facing [inaudible] on Saska, but what else have you got planned for 2018?

Mirek Stachowicz: I'll take this one. Clearly, I will not be very specific about what else we have planned [inaudible]. Thank you. Paul is concerned that I will be talking too much. I can comment that clearly we see a different performance coming from our two key brands. One is Zoladkowa Gorzka, where in the last half-year presentation, as well as today, we emphasised that it's performing well. And the growth of this segment is driven by expenditures – it's driven by consumer trends and significant expenditures that both we and Roust are making in this area. Of the two key brands that we have – we have really three brands but two of them are the largest, Zoladkowa Gorzka and Lubelska. Zoladkowa Gorzka has benefitted the most from the investment that we have made.

Lubelska on the other hand has suffered the most from the competitive pressure from Roust. And, as I said, we are looking to grow ahead of the category. So clearly we need to do something about Lubelska. Saska is a very interesting brand that we have launched recently and we had some issues, at the time, of losing the ownership of the IP around this brand, regaining it. Finally it's back on track. And you will see that in the majority of our NPD[?] actually goes into this brand. Reason for this one is because it targets directly the largest competitive brand. It targets directly the [Inaudible] brand of Roust. We do it in a differentiated way. It's the millennials and it's the appeal to this particular group. When you look at ranging, we believe that we've found the key how to really target the millennials. So we hope with the increased distribution of this brand and the increased rotation, we will be able to significantly slow down the growth of our competitor here.

And I would emphasise that it takes time to do this because, whilst in traditional trade it's about developing the Perfect Store programme where we invest in the on-the-shelf exposition, in modern trade it takes a long time because they only change ranging once a year. So last year, we were in the middle of changing our salesforce so we were not really well positioned to fight for shelf space. This year's a different story. So that's why we are happy to communicate an expectation that we expect to grow ahead of the category.

Matthew Reid: Thanks. Could you give us a rough idea of how your flavoured vodka sales break down between – you said Lubelska and Gorzka are the largest but could you give us a rough idea?

Paul Bal: We don't – sorry Matt, nice try. No, we don't, in terms of sort of our sales. Obviously, you've got access to the offtake which will sort of give you a demonstration of the sell-out but we don't disclose the sell-in. I think if you look at the segments that they operate in, that'll give you an idea of the weighting for Lubelska and Saska. And ZG.

Mirek Stachowicz: Could we treat it as the last question because I think we'll need to be wrapping up? Doriana, please.

Doriana Russo: Just going back to Italy, have you given yourself a time for you to fix or else find alternatives? Or is that definitely, yes, forever [inaudible]?

Mirek Stachowicz: Nothing lasts forever, except – well, nothing lasts forever.

Doriana Russo: I mean, you can't disclose it but just to give us an idea what internally you have set yourself a timeframe of how long you're prepared to invest behind the country?

Mirek Stachowicz: Yes.

Paul Bal: I mean, Italy's our third-biggest contributor so it's a material part of our business and it still is generating a significant amount of cash for us. So, as Mirek said, we started work effectively last year with brandy. We have now moved our focus onto limoncello and now most recently onto flavoured vodka. Each of these span over a couple of years. So, certainly, at least in the foreseeable future, I would see us continuing to turn around that business.

Mirek Stachowicz: I think that concludes the meeting. Thank you very much for coming and thank you for your questions. Bye bye. Please feel free to try some of our products. We brought them deliberately for this purpose.

[END OF TRANSCRIPT]