# Chief Executive's statement

## 2017 was a year of stabilisation and turnaround, producing encouraging tangible results

**Stabilisation involved embedding changes set in motion since 2016.**

Some of this change enabled the re-allocation of resource to the front-end of the business. Turning around Poland was 2017's top priority, through a combination of aligned pricing, a restructured sales team and driving efficiencies across the entire organisation. We invested in Poland, and we are seeing positive results.



Mirek Stachowicz
Chief Executive Officer

### Introducing our four strategic pillars

**Premiumisation**
Ensuring brand equity is increased, driven by clear brand marketing strategies and positioning of our brands, that enables us to command higher price positions

**Millennials**
Increased awareness and focus on this valuable segment of consumers

**Digital**
Using digital marketing to underpin brand execution and to engage and keep pace with consumer habits

**M&A**
Looking at larger, more strategic opportunities to deliver growth and shareholder value for the future

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**Volume: 9 litre cases**

**13.1m**

(2016: 12.3m)

**Total Revenue**

**€274.6m**

(2016: €261.0m)

## Group financial performance

Evidence of stabilisation and turnaround is in the results: growth in volume, share, revenues, profitability and cashflow. The balance sheet strengthened further, as net debt was reduced, and financing facilities were extended.

## Turnaround in Poland

Our first focus was embedding the changes initiated in 2016, chiefly under the "Root & Branch review". This included strengthening and optimising our entire business to better compete in an intensely competitive market. To keep competitive, we had to further engage in the pricing re-alignment that the market has experienced since 2014, as our primary competitor continued an aggressive pricing strategy. Working with customers, we adjusted pricing architecture on selected products to stay competitive in on-shelf pricing. This, along with better execution in the trade, is the major driver of 2017's results. We continued to grow share in volume and value since December 2016, while monitoring the clearly divergent strategies, not to mention mixed fortunes, of our two main competitors.

Whilst these results are encouraging, we remain vigilant and the market, though stable, has yet to see upward pricing, as the market leader remains highly competitive.

The economy supported growth, with rising average incomes. Though the Government will restrict Sunday trading in 2018, we expect limited impact.

The vodka market continues to grow, and it remains, by far, the largest spirits category. Clear vodka is the main variant. Despite the aggressive pricing in economy and mainstream segments, consumers are up-trading to more premium and prestige brands, reflecting growing affluence. We benefit from this, given our brands' strong positions in premium price segments. Flavoured vodka has traditionally seen less premiumisation and so represents an opportunity, particularly as it grows ahead of the overall vodka category.

The traditional trade remains the key vodka trade channel, and one competitor's effective withdrawal from direct involvement in this prominent channel presents another opportunity for us.

In terms of our brands, our priority was distribution-build and consumer-activation over new product development (NPD). Our NPD focused on Saska flavour extensions and re-launching Stock 84 brandy.

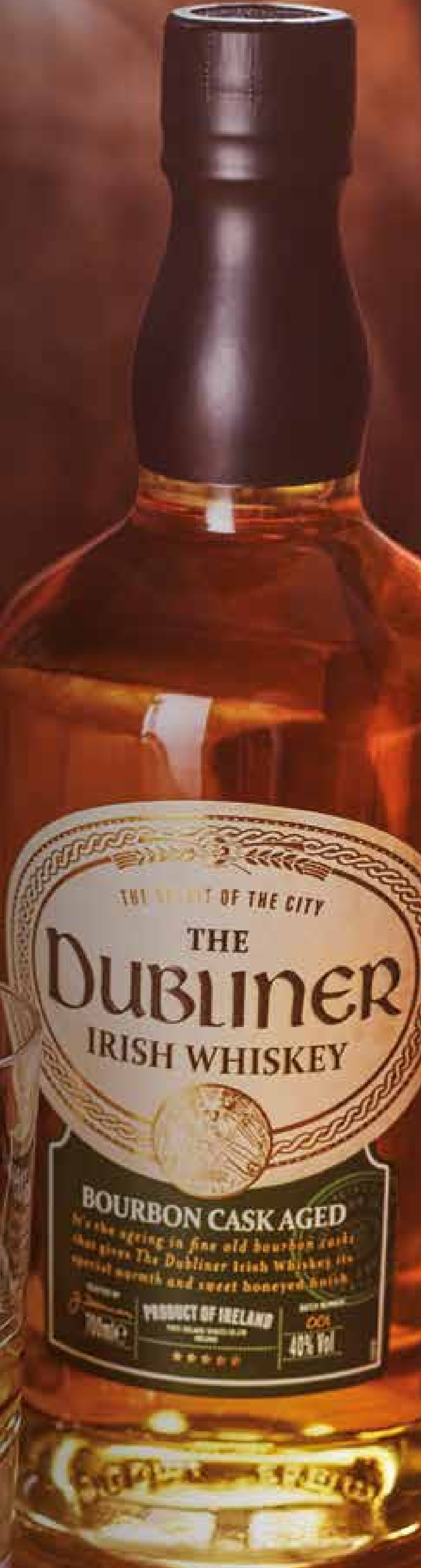
Our biggest brand, Żołądkowa de Luxe, returned to growth in sales, out-performing both the overall and clear vodka categories. Most of the growth came from the traditional trade. Żołądkowa Gorzka responded well to activation programmes directed at younger adult drinkers. We continue to strengthen Stock Prestige, for example with the exclusive limited edition Stock Prestige Carbon. Above it, in top premium, Amundsen Expedition continues to grow. We achieved more effective price execution on our economy brands Żubr and 1906, as well as introducing a 9cl variant. In the flavoured vodka sub-category, impressive growth from the more premium Stock Prestige flavours and Saska could not raise our share given slower growth on Żołądkowa Gorzka and the decline in Lubelska sales.

Our distribution arrangement with Beluga Group, now in its second year, saw the brand Beluga out-perform the ultra-premium segment.

## Strategy in action

WE REINVEST

# Irish Whiskey acquisition




### Stock Spirits Group PLC entered agreements with Quintessential Brands Group for the acquisition of a 25% equity interest in Quintessential Brands Ireland Whiskey Limited (QBIW).



QBIW owns The Dublin Liberties® and The Dubliner Irish Whiskey® brands, a range of ultra-premium through to standard Irish whiskies, on sale in over 30 countries. The Dubliner Irish Whiskey was the fastest growing Irish whiskey globally in 2016[1].

Whisky is one of the fastest growing categories across the Group's markets[2]. This investment allows the Company to capitalise on the trend and to enhance our whisky expertise.

We have already developed strong whisky category management capabilities through distribution agreements with our established whisky brand owner partners. The QBIW brands are highly complementary to that portfolio.

**+15.5%**

**Irish whiskey category volume CAGR in Stock markets over last five years[3]**

Source(s)

1. IWSR 2016, Irish whiskies with <1 litre recorded shipments in both 2015 and 2016. Year on year % volume growth
2. IWSR 2016, % volume growth by spirits category in Stock Spirits Group wholly owned distribution markets (i.e. aggregate of Poland, Czech Republic, Slovakia, Italy, Croatia and Bosnia Herzegovina)
3. IWSR 2016, % volume CAGR of Irish whiskey category in Stock Spirits wholly owned distribution markets (i.e. aggregate of Poland, Czech Republic, Slovakia, Italy, Croatia and Bosnia Herzegovina)

# **Chief Executive's statement** continued

In the trade, our brands continue to be celebrated, with prizes for the Lubelska range, Lubelska Cytrynówka, Żołądkowa Gorzka, Żołądkowa de Luxe and Żołądkowa de Luxe Peppercorn.

Whisky, though a much smaller category, experienced strong growth and its profit pool now exceeds flavoured vodka. The Beam-Suntory whisky brands, especially Jim Beam, rapidly grew share in the sub-category and beat Jack Daniels to number four position by volume. We see great interest in Irish whiskey and we will exploit opportunities through distribution of The Dubliner and The Dublin Liberties brands.

Following the significant changes in 2016, our Polish organisation benefitted from stable management through the year. We continued to up-skill our salesforce, improving sales execution capabilities. We strengthened our modern trade sales team to work more closely with customers and step up intensity and quality of promotions.

## Progress in the Czech Republic

Our Czech business delivered another set of robust results, extending leadership in the overall market. The spirits category continues to grow in volume and value, supported by the economy performing well, with earnings rising. This delivered growth, especially in the premium off-trade. The on-trade was impacted by increased smoking restrictions.

We see aggressive pricing across some sub-categories, and monitor positions closely and take actions as necessary, for example where we strengthened category-management in the modern trade.

Božkov returned to growth – strengthened by focus and investment, including new Božkov Tradicni and Božkov Bily variants providing incremental share. The brand won the "Most Trusted Spirits Brand" award for the second successive year. It also delivered better profitability and share growth.

The Pražská, Nordic Ice and Dynybyl brands acquired in 2016, and integrated ahead of plan, significantly contributed to our growth in the vodka category, as well as our Czech results overall.

The Black Fox launch was a strategic entry with a new brand into the premium herbal bitters category at a time of intensifying price-competition. The launch highlights increased use of digital marketing in our campaigns.

Our important relationship with Diageo delivered well for both partners, and is being extended into 2019, with our leading distribution helping Diageo to be the 2nd fastest growing spirits company in the market. Building on this successful relationship, we gained approval to distribute Beam-Suntory products and to explore synergies that exist between these two complementary portfolios. With the Diageo, Beam-Suntory and Quintessential Brands Irish Whiskey portfolios leveraging our Czech distribution, we will have the strongest range of third party brands covering all segments of the growing whisky category.

The impact from a possible EU ban on certain ingredients in rum ether is being managed, and we anticipate limited impact, given our plans in hand.

## Challenges in Italy

The Italian market continues to be challenging and high young-adult unemployment continues to impact our brands, primarily Keglevich, but we detect some optimism recently. The overall spirits category grew slightly, mainly through limoncello, gin and aperitifs, with pricing offsetting flat volumes overall.

We launched Syramusa, an ultra-premium Limoncé extension to consolidate our leadership in limoncello. The iconic Stock 84 brandy was re-launched with overt on-trade focus. The premium XO variant performs well, enabling us to remain in 2nd place in the brandy category.

As a result of the challenging environment, the Italian business' value suffered impairment (further details are provided by Paul in the Financial Review), a risk we had highlighted at the half year.

# Chief Executive's statement continued

Ultra premium spirits with a strong brand appeal to millennials



Whilst Keglevich retains leadership in clear vodka and it extended its leadship in flavoured vodka, this sub-category is declining. In late 2017 we brought to market our re-vamped Keglevich fruit variants, to better fit the changing preferences of the young adult consumers. This was the initial step of a multi-year program to strengthen the Keglevich brand.

Nuove Distillerie Vicenze, a liqueur business, was added as a distribution partner in November, as was Nordés Gin. The organisation was further restructured, investing more in the salesforce, especially in the on-trade. Though we made encouraging progress in the modern trade, our insufficient scale hampers results.

## Strong results in Slovakia

This business delivered to expectation, with solid performance by the Golden Ice range strengthening our position in the premium fruit spirits sub-category.

To penetrate the premium profit pool further, we signed a distribution agreement with Beam-Suntory here also. Combining our distribution capability and Beam-Suntory's strong investment in Jim Beam, we delivered pleasing results.

With the Jim Beam, Distell and Quintessential Brands Irish Whiskey portfolios under our distribution, we now have a range of brands covering the rapidly growing whisky category.

Our relationship with Beluga continued to deliver growth in the ultra-premium vodka sub-category.

## Other markets

There was good performance in Croatia. Our focus is in the on-trade and distribution was extended beyond the Beam-Suntory relationship to include Beluga Group, Bortran rum and Bols.

Stock 84 brandy became the biggest spirits brand in Bosnia. It benefitted from the re-vamp, seeing growing appeal amongst young adult drinkers, especially in the on-trade. Bosnia also benefitted from a new Beluga distribution agreement.

## Innovations

The Group's NPD process was strengthened during the year in order to help extend our reach in premium and higher price segments. The improved process aims to reduce the number of new launches whilst increasing their impact and speed to market, thus providing a better return from investment.

## Operations and supply chain

We continue to develop our excellent supply chain to further leverage our core competitive strengths of productivity, smart cost management and technical talent. This delivered further efficiencies and effectiveness and contributed to our overall success. We invested across people, facilities, processes and systems. We are now well-invested, and future investment focuses on safety and quality.

Sales and operations planning development was a major enabler of improved performance, integrating all disciplines and markets to drive us forward. Our operations team won awards in Poland:

- BRC Food and IFS Food Certification (the first spirits producer to gain both accreditations), and
- 'Employer – Organiser of Safe Work' (from PIP, the State Labour Inspectorate).

During the year we suffered an equipment failure in our Baltic distillery. Though spirits production was interrupted for a brief period, our businesses were able to operate as normal. The distillery has since returned to normal operations.

## Technology

We continue to invest in technology, leveraging prior investments made under the "One Network" strategy. Our cyber security kept the business safe, and we stay focused on security.

We completed the first phase implementation of a software-defined Wide Area Network (WAN) which has improved service levels. The second phase will deliver a "Tier 3" datacentre to house critical technology. As we extend digital capabilities across our business, we will have a technology base and capability underpinning this.

The group-wide Intranet, StockNet, was launched to provide a collaborative platform to quickly share and deliver further digitalisation. A unified communications suite delivers continued savings in travel, whilst enabling more engagement through virtual meetings. Progress to a single group-wide SAP platform continues.

## Our people

StockNet is an effective and exciting mechanism engaging and energising us into a more aligned workforce. Through this we leverage the full power of our people wherever they are. StockNet was used to conduct our first ever Employee Engagement Survey. We welcomed high participation and are studying the feedback.

## Our partners

The Group's partnership with Beam-Suntory was extended beyond Poland into the Czech Republic and Slovakia and we have mentioned our continuing partnership with Diageo. There is a new agreement in place with Beluga Group to distribute the ultra-premium vodka Beluga in Croatia and Bosnia. We also changed our route to market in the UK and moved distribution of our brands to Distell International.

Following investment in Quintessential Brands' Irish whiskey business, we have secured the right, from the owners of our existing whiskey agency brands, to distribute the brands from the investment where the brand range will enrich our portfolios around the Group.

## Our strategy

With the turnaround of our Polish business underway, we carried out a comprehensive review of the Group's strategy during the latter half of the year. We concluded that the strategy communicated at the time of the IPO remained valid, but that developments in our key markets since then mean that there is a greater need than ever before to focus on our brands in order to keep pace with the changing needs and tastes of our end consumers. Our focus now is therefore on four pillars of growth: Premiumisation, Millennials, Digital and M&A. These are supported by a foundation of engaged and empowered talent, effective processes, smart resource allocation and world class partners bringing complementary strengths. Further detail is set out on pages 16 and 17.

## M&A

To penetrate faster growing profit pools, a 25% stake was taken in Quintessential Brands Ireland Whiskey Limited, producer of "The Dubliner" and "The Dublin Liberties" whiskies. The former was the world's fastest growing Irish whiskey in 2016. Quintessential is the second biggest spirits supplier in the UK and has global reach, selling in over 30 countries. We expect our investment to be earnings accretive by 2021, as their new Dublin distillery becomes operational in 2018.

## Outlook

With a strengthened team and a more resilient Polish business, combined with a strong balance sheet and cashflow generation, we are well placed to exploit opportunities to expand our business.

**Mirek Stachowicz**
Chief Executive Officer

7 March 2018