2016 Year-End Results

Wednesday, 8th March 2017

2016 Year-End Results Summary

David Maloney

Chairman, Stock Spirits Group PLC

Agenda

Good morning, everyone. I'm David Maloney, the Chairman of Stock Spirits, and I'm pleased to welcome you all here to the Group's presentation of the results for the year-end of 31st December 2016.

Our agenda for today is as follows. I'll do a brief introduction and then, our CEO, Mirek Stachowicz, will take you through a business review, followed by Lesley Jackson, our CFO, who will run through the financials, and then back to Mirek for his concluding remarks. Following that, we'll open up the floor, as usual, for Q&A.

Financial results

I'm pleased to report that our total sales are up 1.2% on a constant currency basis to €261 million. Poland and Czech are ahead of prior year, and Italy, marginally behind. Adjusted EBITDA is marginally below prior year at €51.5 million, but pleasingly ahead of analysts' consensus. After taking account of some one-off costs, it's broadly flat versus prior year. Earnings per share are €0.14 per share, up 46.5% versus prior year, mainly reflecting the impact of a refinancing done in 2015.

Continuing business stabilisation in Poland, but market remains highly competitive

Our core Polish market remains highly competitive. But we believe the actions taken by our new management team are resulting in a stabilisation of our position there.

Cash generation continues to be strong

Our cash generation continues to be an area of competitive strength. And today, I am pleased to announce the proposed final dividend of €0.0545 per share. This, along with the interim and special dividends paid in 2016, means that the total paid and proposed dividends in respect of 2016 will be €0.1962 per share, significantly up from prior year, and representing 100% of net free cash flow generated during the year. We estimate that yields 9% based on the current share price. It reflects our commitment made to shareholders at last year's results presentation, that in the absence of any material M&A, we would return the surplus cash to shareholders and that commitment remains.

Bolt-on acquisition in Czech completed in October

We did, however, also say that we would plan to make small, add-on acquisitions. And I was pleased to announce in October that we made a €5 million acquisition in Czech. This will strengthen our vodka portfolio in that market, and also provides an entry to the gin market. More on that later from Mirek.

People changes in the year

2016 was also a year of organisational changes at Stock, both at Board level and senior executive level. I was personally delighted that Mirek was appointed as our CEO in August, following a few months as interim CEO. And this followed an independent and extensive external search process in which we also assessed candidates from outside the company. We now have a full senior management team in place across all the countries. And I'm delighted that Marek Sypek, our Polish Managing Director, is able to join us today.

Significant Board changes in the year

Turning to the next slide, there have been significant Board changes in the year. Two NEDs were appointed at the AGM in May, Randy Pankevicz and Alberto da Ponte. Tragically, we had to announce that Alberto sadly passed away earlier this year. In October, there were some other changes. Andrew Cripps retired as Chair of Audit Committee and was replaced by Mike Butterworth, who brings a wealth of experience as a PLC CFO and as a non-executive on other UK PLC boards.

With Andrew's retirement, John Nicolson, who has served on the Board since IPO, became Senior Independent Director. With Mirek's move from an NED position, he was replaced by Tomasz Blawat, who has extensive experience in running international businesses in Poland. And finally, Diego Bevilaqua, who is also here today, joined us, who brings more than 40 years' retail and FMCG experience. I believe that we now have a stronger Board, than at any time in the Group's short history, with the right mix of experience. We do not see any further requirement for change in the short term.

Year-end change effective September 2018

Finally, before passing over to Mirek, we also made one other announcement earlier today. The Board yesterday unanimously approved that with effect from September 2018, we will change our year-end reporting date. Lesley will provide more colour around this in her section. Thank you. And Mirek, over to you.

Business Review

Mirek Stachowicz

Chief Executive Officer, Stock Spirits Group PLC

Group strategy

Thank you, David. Could you turn to page – to slide number eight, please? On this first slide, I would like to take the opportunity to remind everyone of our strategic goals that were set out at the time of the IPO and still remain valid today. There were six goals, you can see here. And as I'm the new – as I'm new to the role of CEO, I would like to update you on the Board's current position on them.

We remain committed to developing our core brand portfolio, with a focus on premium, and increase utilisation of our platform for third-party brands. Secondly, we want to ensure we focus on the highest growth profit pools in our established markets. There's no change to our intent on delivering quality and competitive advantage using our purchasing and production capabilities, nor to our desire to enhance our distribution. We continue to invest in people and we now have a stable senior management team in place.

As for M&A activity, as we stated at the half-year, we will only pursue bolt-on acquisitions in the current markets whilst we focus on delivering a sustainable profit in Poland. However, we will continue to look at every opportunity available, as regards significant M&A. I will be talking more about our Czech bolt-on acquisition completed in the second half of this year later in my section.

Total Polish spirits market

Turning to slide nine, on this next slide, I want to simply refresh everyone's knowledge about the Polish spirits market. At €3 billion market, as you can see, vodka remains the dominant driver of consumption. And it's pleasing to see growth returning to this category during 2016, after the volatility following the duty increase in 2014. The vodka category has seen a 3.5% value and 2.5% volume growth in the year. Whisky, as you can see, has great growth, and is driving premiumisation that is occurring in this market. The economy is currently performing well. Disposable income is growing. And the consumers' desire for affordable luxuries is increasing over time.

Poland vodka category

Moving to slide ten, let's now have a look on this slide on the trends in the vodka category. Clear vodka is still the vast majority of the category, but flavoured is growing faster due to growing interest and easy-to-drink, lower-alcohol alternatives amongst female and young adult drinkers. There are often preconceptions that the vodka category in Poland is becoming commoditised. But as you can see from the lower chart, in fact, the greatest growth is being achieved in the premium segments, where consumers' desire for affordable luxury is just as important as in brown spirits.

We now have a range of brands capable of accessing all price segments, from Beluga in ultra-premium to Amundsen Expedition in top-premium and Stock Prestige in the premium segment. Also, whilst there has been a price battle in the mainstream segment, there is still value growth available, although at a slower growth rate than the premium segments. It's also interesting to note the mainstream pricing is trading up consumers from economy and driving the decline of this segment.

Poland vodka category channel share

Turning to slide 11, on this next slide, I want to reiterate how important the traditional trade channel is for vodka purchasing as it still accounts for two-thirds of the total volume. Over the years, many people have anticipated the contraction of the traditional trade in Poland for vodka towards larger supermarket formats as these are now dominant in the grocery shopping in Poland. But in fact, the position for spirits has remained very stable as Poles have not changed their purchasing behaviour. Whilst this desire for convenience in purchasing spirits for immediate consumption remains, the importance of traditional trade stores will continue.

Summary of Stock's strategic focus

Moving to slide 12, so now I have been through the details of the market. On this next slide, I would like to just summarise where Stock is focusing its energy. We are aware of the premiumisation agenda and we will develop our portfolio even further to access the growth – the growing profit portfolios not just in vodka, but also in brown spirits. With our own brands of Żołądkowa Gorzka, Żołądkowa de Luxe, Lubelska, Saska, Stock Prestige and Amundsen Expedition, we believe our portfolio is well-positioned to access all of these profit pools.

The scale and profitability of the traditional trade means it will remain an important area of focus. And we will provide a portfolio to our sales teams which has an evolving mix of flavours and pure vodka. For example, we will introduce new flavours of Saska as we relaunch it into the market. At this point, I would just like to update you on the recent resolution of the intellectual property issue on this flavoured innovation, Saska brand. We are resuming our active sales throughout Poland. We will continue to leverage distribution brands such as Jim Beam, Laphroaig and Beluga to access high-value profit pools and enhance distribution of our own brands.

Poland vodka category share gains in H2 2016

So now, I would like to take you through more detail of our performance in the market in the last year, turning to page 13. On this next slide, I want to discuss movements in our market share. We will see and we will continue to see monthly fluctuations in market share figures from month to month as we'll make appropriate responses to our competitors' actions. We, however, keep more of an eye on the longer-term trends.

Stock has witnessed a slight volume share decline over the year. However, since I became CEO and along with the new management team in Poland, we have been extremely busy making rather good changes to how we operate, which I'll go into more detail later. These changes have visibly improved performance in the second half of the year compared to the first. As you can see on the graph which compares our volume and value market share movement to our key competitors, we have grown by 1% in value and 1.2% in volume terms, which is better than our two key competitors in both instances. Indeed, in volume terms, we have outperformed them in all channels, apart from these countries.

Competitive environment in Poland

But before I take you through the actions which have driven our improved performance, let's talk about competitive developments in Poland as I know this is a high-interest area for many of you. Moving to slide 14, in February this year, Roust has announced its completion of its Chapter 11 bankruptcy, bringing the Russian standard brand into the Group to strengthen its balance sheet. There are two schools of thought on this for Roust. One, where we hope the new financial institution with shareholders will ensure that the company behaves in more – in a more rational manner; or the other, that the key – that they will continue to behave as they have done, in terms of acting very aggressively. We will continue to review their behaviour and implement the appropriate actions accordingly.

Also, on 1st January this year, Marie Brizard announced the transfer of its business in the traditional – important traditional trade channel, moving distribution to Eurocash who, many of you know, is the largest wholesaler in the channel. Again, it's too early to tell the impact of this decision on Stock, but we anticipate it may open opportunities for closer relationships with a number of important other traditional trade wholesalers who may wish to deprioritise brands purchase from a competitor.

Poland 'Root and Branch' review

Moving to slide 15. On this next slide, I just want to remind you of the actions coming out of the Root and Branch review undertaken earlier in 2016. And I want to take you through the actions I have initiated as soon as I joined the company as CEO and the positive progress made on numerous areas.

Vodka mainstream price segment

Turning to slide 16. One this slide, I would like to take you through what we have done to ensure that we are competitive on our price for our core brands and the steps taken on our core clear brands, Żołądkowa de Luxe, our main brand, and the mainstream price segment. This graph represents the price over the last year in Polish zloty for a 50cl bottle for the top three selling brands in the mainstream segment in the traditional trade. By working closely with our wholesaler partners, we have dropped the shelf price by an average of 6.3% across the whole channel, which has contributed to our market share stabilisation.

This has an impact on our margin which Lesley will talk you – talk more about later. But now, we are priced more competitive, particularly against the two key competitor brands: Marie Brizard's Krupnik and Roust's Żubrówka. Although this price revision comes with a cost, we would not have seen the better market performance without it. And I believe without it, there would have been continued market share decline seen as previously.

Poland traditional trade share gains

Moving to slide 17. On this next slide, we showed a specific impact of our actions on the market share in the traditional trade channel. It can be seen that as soon we started our pricing architecture revisions early in the year, we began to recover volume share in this important channel.

Actions taken by the new management team

Now to the next slide. I'm sorry it looks so busy, but it has been very busy. If I just pick out a few key points – I will discuss our distribution brands in a few moments. But as with the Root and Branch review recommendations, we have reallocated A&P expenditure from across the Group in order to support the revised pricing architecture on core brands in Poland. We have had a radical overhaul of our entire sales team. We have appointed a new national sales director, four new regional sales directors and a national key account manager. The overall sales force has seen a significant number of new hires also in the year. These changes have already started delivering tangible results in terms of sales force efficiency.

In the second half of the year, we have increased the number of stores visited by the traditional trade – in the traditional trade by 1,400 stores, increased the daily amount of time spent by an average sales person in the stores by 25% between June and January and increased the number of sales calls resulting in a customer order – so, a situation where a salesman produces actual order – from 44% in June to 83% in December.

Continuing to the next slide. I will discuss NPD in more detail later, but we have made significant strides in SKU rationalisation. We have removed a significant number of underperforming SKUs from our range which collectively contributed less than 1% gross margin. This SKU rationalisation, along with revised production planning processes, has made a significant decrease in working capital of €6 million on inventory levels at year-end compared to 2015. We have started implementation of a new sales force automation system, which allows us to leverage the latest technology to improve our returns from promotional activities. We will see more investment in this type of area across the Group in the future, as I believe we need to utilise technology to work smarter for us.

Whilst we continue to participate on a carefully-selected basis in the discounted channel, where profitable opportunities exist, we are taking them. A good example is the growth achieved on Stock Prestige, from 8.7% value share of premium clear vodka in the discounted channel in the first half of 2016 to 15.3% in the second half of 2016. I'm very pleased to take this opportunity to report that Stock Prestige has returned to the prestigious millionaire ranking in 2016 as we sold more than nine million litre cases in the year.

Summary of Poland

Moving on to slide 20. On this next slide, I would like to summarise for all the information we have just given you, where we are in the Polish market. It's been a great year of change in all areas of the business. If you remember, I was appointed as permanent CEO in August. Also, the new management team in Poland were mainly appointed during the second half of the year. We replaced the managing director, finance, sales and HR directors. As many of these hires arrived in the second half of the year, their influence on the course of the business will be more profound in 2017 and beyond.

We will continue to focus on the growing profit pools, continue to exploit competitor weaknesses, upgrade our sales force capabilities and ensure our cost base is appropriately managed. We will continue to be more competitive and stabilise our market share. In summary, we made a good start, but the job is not yet done and there is still more to do in 2017 and beyond. Our financial results for this market for 2016 shows the revenue up 3.9% on a constant currency basis at €136.9 million and EBITDA is marginally down 2.9% to €36.1 million. Lesley will discuss the detail of the financial performance in her section later.

Czech Republic operational highlights

Moving to slide 21 – and now to other markets, slide 22, so to the Czech market. We have increased our EBITDA by €1.1 million in the year to €19.6 million. Whilst the total spirits market has shown growth, however, we lost some share. The reason is – the reason why this happened is that we addressed the price competition in the market by introducing a more accessible – accessibly-priced, higher-margin Božkov variant in the second half. This variant is showing early encouraging growth and has allowed us to maintain our price position on our Božkov original variant and increase our combined brand margins. This was an effective tactical move and I want to ensure that we use this in the future as a blueprint of how to handle fierce price competition for our market-leading brands. In a nutshell, we want to chase some profitable volume by proving smarter about pricing elasticity.

Božkov remains a household brand name in the Czech Republic, where it was recently awarded the 'Most Trusted Alcohol Brand' in the country in an extensive nationwide poll. On the vodka category front, our bolt-on acquisition expands the opportunity to cover several price segments in this growing category.

Czech Republic acquisition

Turning to slide 23. On this next slide, I would like to give you more information about the small, €5 million acquisition we completed in October this year. The vodka category in Czech is 21% of the total spirits market by volume and has seen 6% growth in 2016. The spirits business we acquired contain primarily vodka brands as well as a gin brand to add to our portfolio. Pražská has just under 4% of the total category and its acquisition brings our combined share in the vodka category to 24%. This will allow us to access all different price segments, alongside with our current Božkov and Amundsen vodka brands. By bringing production in-house into our facility in Plzeň in Czech, we look to improve quality consistency and to deliver on bottling and cost synergies. We believe the acquisition – the acquired brands can achieve more as part of the dedicated spirits portfolio. But any returns in the short term will be reinvested in brand marketing.

Italy operational highlights

Turning to slide 24. And now turning to the next slide, I would like to discuss our Italian market. Our limoncello and brandy brands continue to grow share in declining categories and both have grown in volume and value terms year-on-year. The Distell distribution agreements signed in the second half will open new opportunities for incremental growth in the whisky and liqueur categories.

As you are probably very well aware, the Italian economic environment is challenging, with changing governments, banking crisis and very high youth unemployment. As a result of this, we see a continued total spirits consumption decline with a particular impact around the flavoured vodka category as younger consumers have less disposable income and are changing their social behaviours and habits. So, whilst we have grown share of the declining category and maintained our brand leadership in flavoured vodka, the slowdown has had a financial impact which is anticipated to continue in 2017. Our EBITDA for the market has reduced by €1.2 million to €6.9 million for the year.

Slovakia operational highlights

Moving to slide 25. Onto our next market of Slovakia, where we have marginally increased our volume and value share in the market. Positive growth was achieved in vodka and fruit spirits volume and value. We retained brand leadership in the high-margin herbal bitters category primarily by the Fernet citrus brand variant. Just as in Italy, our new distribution agreement with Distell expands our premium portfolio and creates a foothold in the growing whisky category.

Distribution brands

Moving to slide 26. Since we announced at the half-year, we now have third-party distribution agreements in all our wholly-owned key markets across the group. So now, I would like to talk you – talk more about our performance in our distribution brands in the key markets of Poland and Czech.

Poland distribution brands performance

Moving to slide 27. So, to Poland on this slide. In whisky, we have grown value at double that of the rapidly growing category. This has come primarily from Jim Beam brand, but we have also seen increasing incremental growth from other brands such as Teacher's and Laphroaig, where we utilise all brands across the whisky price ladder in the market place.

The addition of Beluga to our portfolio enabled us to enter the ultra-premium vodka segment, and it was the fastest-growing clear vodka in this price segment in the second half versus first half of the year. In fact, since we have taken over responsibility for distribution of the brand, we have increased its weighted distribution three-fourth. These distribution brand successes are further evidence that Stock Spirits is capable of performing equally well in the premium and ultra-premium segments as it is in its historical core business of mainstream and economy.

Czech distribution brands performance

Moving to slide 28. Also on the next slide for Czech, in whisky, as you can see on the chart, we are outperforming the category which is primarily driven by Johnnie Walker Red, achieving a higher growth rate in the year than any of its direct competitors. Within other categories in the market place, Captain Morgan is the largest imported rum, where rum makes up 30% of total spirit consumption. It grew volume and value ahead of the category, supported by Captain Morgan White. We're also very pleased with results from Baileys.

New product development

Turning to slide 29. Here on this next slide, I would like to discuss new product development or NPD. When I arrived, my assessment was that our growth from NPD was slowing, and with more focus in the future, we can deliver accelerated growth of our core brands from NPD and our premiumisation agenda.

In 2016, we launched a lower number of products than the recent years, but each of them was designed to extend our core brand usage or to premiumise our portfolio. I'm pleased to report that our premium vodka, Amundsen Expedition, which, if you are in the room here with me today, you can see here, is now distributed in all our wholly-owned markets in our – and in our international division. It is the first NPD in recent years to achieve this status in Stock.

Group cost base

Slide 30 now, please. To the next slide and finally for me, I would like to discuss the Group cost base. We have now closed our Swiss office with future savings of €1.5 million per annum and the Group operations have been restructured when I decided the role of chief operating officer was no longer required for the Group.

And now, to the topic of our head office, which is located in the UK. In November, I undertook a thorough review of the location of our head office and I have concluded that its transfer to Warsaw would not yield sufficient financial payback to justify the disruption and loss of expertise it would cost to the business. In addition, it would raise significant tax risk for both the business and shareholders. This conclusion was ratified unanimously by the PLC Board. So, I sincerely hope that the Board's decision now brings an end to this discussion.

As PLC, we have many professional advisors. For example, tax, internal audit, PR and legal. We have retendered all our advisors in the year and, where possible, have moved engagement partners directly to Warsaw, thereby reducing the blended hourly rate on these services, going forward, but without diminishing the service offering. The only exception was group audit, where we have already completely retendered at the end of 2014.

Numerous other cost initiatives have been implemented, such as, for example, renegotiating selected lease agreements on office spaces, a change in travel policy, an investment in internal communications to reduce travel.

So, that's it for me now. I will hand over to Lesley Jackson, CFO, and I will return to conclude and take questions from you later. Over to you Lesley.

Finance

Lesley Jackson

Chief Financial Officer, Stock Spirits Group PLC

Thank you Mirek. I will now cover the finance section.

Key points

Turning now to my first slide in my presentation and the consolidated profit and loss account, where the table presents the statutory figures. The key points on this slide are: net sales revenue has grown by 1.2% on a constant currency basis; our revenue per case has seen a slight deterioration on the same basis, down 3.5%, due to our investment in price support in Poland; COGS per case is largely unchanged, in spite of some additional stock provisions which we have booked from the review of our poorest-performing SKUs, which Mirek has outlined earlier in the presentation; we have invested margin in price support in Poland but actioned many initiatives across the group to mitigate the impact on overall profit. Mirek has covered many of these initiatives, which have included reallocating funds for new products planned in 2016 but not progressed, and a range of cost-saving initiatives, many of which will bear more fruit in 2017 and beyond; we have undertaken restructuring measures such as the closure of the Swiss office and the redundancy of the COO role. These costs have been booked within the full-year profit and the net cost is €1.6 million; savings on finance costs, which I will cover later, have helped us deliver a 46.4% increase in profit for the year, and an earnings per share of €0.14, over 46% ahead of last year. Our profit and earnings per share are both ahead of recent Bloomberg consensus for the year.

Moving now to the next slide. Our volume has increased by 4.2% against the backdrop of a poor quarter one in 2015. As I said for earlier, revenue has increase 1.2% after the impact of €4.8 million of foreign translation exchange. We have recorded decline in revenue per case due to the investment in pricing in Poland.

Group second-half performance

Overview

Now turning to the group half two performance. The impact of price support, coupled with a decline in flavoured vodka volumes in Italy, resulted in lower volumes in half two in 2016 than last year. The impact to margin was mitigated as far as possible with cost-savings and reallocation of new product development launch costs. We have also booked accelerated stock provisions, in addition to our normal ageing policy for terminated SKUs, and taken net €1.6 million of one-off-type costs which have impacted margin. Whilst foreign exchange translation has reduced revenues, the impact is negated with an EBITDA, which I will discuss later.

Poland

Now moving to the next slide and to our Polish performance, where the charts here are all in constant currency. Over the year, sales revenue has grown 3.9%. Quarter one 2015 was very poor, and in spite of the price impact during the price support – during the year on – during the year on core brands, net sales revenue has still grown. The devaluation of the Polish zloty during the year has impacted both net sales revenue and EBITDA, and the comparative reported numbers before FX for 2015 are shown below the charts. The bulk of the stock provisions have been recorded in Poland, which has decreased EBITDA. Overall, margin has declined by less than 200 basis points.

Now moving to slide 36 and looking in more detail at our performance in Poland. Firstly, 2015 was neither a good year or a typical year. Much has already been documented on our performance in 2015. Quarter one 2015 was very poor and, as we reported in our half-year results, we have recorded growth in the first half. In half one, we commenced price support activity. We moved the price on Żołądkowa de Luxe, our mainstream clear vodka brand, in quarter one and it was during quarter two that we changed pricing across the rest of our core brand range. Consequently, some of the price support impact is recorded in half one and the full impact is recorded in half two. This is reflected in both net sales revenue and EBITDA.

As Mirek has already covered, we have been very busy since he was appointed and there was a significant amount of activity taking place in Poland, as well as the rest of the group. There was a substantial amount of change in the sales team, their activities, as well as reviewing the underlying cost base and implementing cost-savings. As I said earlier, part of the activity was focused around cutting our poorest-performing SKUs from our portfolio, which necessitated additional stock provisions over and above our normal policy. All of these activities were undertaken in half two, and whilst the impact of the stock provisions and some savings are incorporated in the year – year-end results, many of the benefits will only be fully crystallised in 2017. If the impact of the total stock provisions is taken into consideration, the margin in half two would have been 29.4%.

2017 outlook

Overview

Turning to 2017, we currently don't expect there to be a material change in our overall full margins this year. We have established our pricing plans for 2017 and we expect any price support to be offset by cost savings. Furthermore, given the changes we have made to our production and planning processes and the reduction in our range of SKUs, we don't expect to book any accelerated stock provisions in 2017. However, given that it is very early in the year, we are unsure of how the competitive environment will develop, and we hope to have more clarity when we report at the half-year.

Czech Republic

Moving now to our Czech business on the next slide. Foreign exchange has had a minimal impact on the Czech results. Net sales are flat year-on-year. Mirek has already explained the changes we implemented on Božkov, and I am pleased that this has translated into improved mix and growth in EBITDA. We have seen good performance on our distribution brands and, during the year, undertook a reorganisation of the commercial team, which will deliver modest savings in 2017.

Italy

Moving to the next slide, given our large market position in the flavoured vodka category, the decline in the category has particularly impacted our Italian results and we've seen a decline in both revenue and EBITDA. We are actively reviewing our options to help arrest the decline as the measures we took last year, whilst they help us outperform the category, they were insufficient to halt the overall decline. We retendered the logistics provider in 2016 and the change was completed smoothly over the year-end. The savings will accrue in 2017. We reorganised the commercial team earlier this year and we expect this will generate further savings later in the year.

Other market segments

Now turning onto the next slide to our other market segments. We have seen a very good year in Slovakia International[?]. Higher maintenance cost for our Baltic distillery has negated this profit growth. This has arisen from more production of alcohol for Stock Prestige, due to the increased sales of this brand. The use of more barley in our stills increases the need for more maintenance. We are pleased to announce that we recently concluded agreement with Distell to change our route to market in the UK. During quarter two this year, our brands will join the portfolio of Distell, who will undertake the distribution of our brands going forward.

Cash flow

Moving now to cash flow. You all know that I have this personal obsession with our cash flow and I'm delighted that we have again delivered very strong cash flow in 2016. Our strong cash generation this year is after buying the business in Czech, negative foreign exchange on closing cash balances and providing a temporary duty guarantee in Italy for our change of logistics provider. There has been a lot of focus around market share, which is important. But market share must deliver value and generate cash. We are focused on generating cash for all of our shareholders.

Turning now to the next slide. In terms of net debt, we closed the year with just under €60 million of net debt. It is important to note that our cash generated from operating activities exceeds our EBITDA. This is not through sleight of hand. We have changed our production and planning process to ensure that we minimise stock levels. This has enabled us to deliver a €6 million saving in our year-end inventory levels. We committed in June to return 100% of net free cash flow to shareholders in respect to 2016, and I am pleased that, in addition to the special dividend paid earlier in 2016 and the regular interim dividend, we are today proposing a final dividend of €0.05,45 per share. This is around €0.01 per – higher than last year, and totals €0.19,62. This will mean we have returned just under €40 million to our shareholders in respect to this year.

Finance costs

Moving now to finance costs. We have significantly benefited from lower finance costs this year, following the refinancing we undertook in 2015. This has delivered a considerable benefit to earnings per share. The foreign currency gains we have recorded for the last two years will disappear, as they related to inter-company loans which have now been fully discharged. I have included some notes in the appendix to assist the modelling of our future finance costs going forwards.

Tax charge

On the next slide, I have set out details of our tax charge. Our pre-tax profits are higher this year, which has resulted in a higher current tax charge. Whilst there are normal ongoing tax investigations in the markets in which we operate, we believe that we have adequate provisions in place. As our tax charge and cash tax payment have, in the past, caused some confusion, I have also included some guidance notes in the appendix.

Corporate costs

Turning now to corporate costs. As both David and Mirek outlined during the presentation, we have undertaken a huge amount of change in the last six months. We have generated savings that, given many of the initiatives were only completed in the second half of the year, the benefits will fully crystallise in 2017. In addition to closing the Swiss office, we have re-tendered all group professional services. Where possible, we have moved the engagement of key professional advisors to Warsaw, whilst retaining access to international firms. This will reduce future costs if we maintain the same level of engagement with them as we have done previously.

We didn't grant a PSP award in 2016 and the charge for 2016 therefore only carried the cost of the 2014 and 2015 awards. I have split out the one-off-type costs which have been charged to profit in the year. These cover the closure costs of Switzerland and the redundancy of the COO, the pay in lieu of notice for the former CEO, board recruitment and other such costs.

We have written back the EPS costs of the 2015 PSP scheme as the targets cannot be met. This treatment is in accordance with accounting rules. In addition, we have also written back a provision booked at the time of the IPO on share options, which is no longer required. These items provide a benefit of €1.5 million, which has helped to offset the one-off-type costs. We have made further changes to the organisation in 2017, which will result in further savings.

Foreign exchange

Looking now at the impact of foreign exchange, on this next slide. The devaluation of the Polish zloty has been the primary driver of the negative impact in net sales revenue. This impact has in turn been more than fully negated within the EBITDA as a result of the devaluation of the GB pound. The conversion of our closing cash balances has also been impacted by the Polish zloty devaluation, and our net debt is reported as €4.2 million higher as a consequence. I have also provided some guidance notes in the appendix to help understand the FX impact further.

Change of accounting date

On this next slide, I would like to take you through an announcement today of our intention to change our accounting year-end to September from 2018. Our current year-end falls at the end of our busiest trading period, making full-year forecasting and cash management very hard, for many of our customers have December year-ends, and this can lead to added commercial pressure. In line with other listed beverage companies, we will move our year-end away from this peak trading period. We will therefore report a full year to December for 2017, a nine-month period from January to the end of September 2018, with normal 12-month reporting following on from the end of 2019 onwards. We will provide more guidance around our numbers and comparators in the coming 12 months.

I will now pass back to Mirek to conclude.

Concluding Remarks

Mirek Stachowicz

Chief Executive Officer, Stock Spirits Group PLC

Concluding remarks

Change programme

Thank you, Lesley. Moving to slide 48, please. So you have heard a lot of information here today about the intensive change programme executed during the year, which is beginning to yield positive results. This change programme is not just in Poland, but across the whole group. Since the strategic review, we have made good progress on implementing the actions as outlined in the root and branch review, and continue to believe in the strategic goals that I reminded you of earlier this morning. We have made a start in stabilising Poland, but I believe there is still a lot more to do, and we now hope – and we now have in place a strong management team to help deliver that.

I was pleased to report on the first acquisition since our IPO, with our small acquisition in Czech in the year, and until Poland is fully stabilised, we will concentrate on bolt-on acquisitions in the markets where we currently operate, but we will continue to review every opportunity as it arises.

I have implemented a significant amount of change to ways of working and cost efficiency, and I believe there is more to come in 2017. Our cash flow remains strong, as David said earlier. We committed to returning 100% net free cash flow in 2016 to our shareholders in the absence of any material M&A.

As for the outlook, I anticipate that the actions we have taken in the second half of 2016 will have more positive results in 2017 and we will monitor the competitive landscape closely and take any action as appropriate. I look forward to updating you again in the half-year.

[ENDS]