Stock Spirits Group PLC Analyst Day

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2018–2020 Strategy Outlook

Mirek Stachowicz

Chief Executive Officer, Stock Spirits Group PLC

Welcome and introduction

Good afternoon, ladies and gentlemen, thank you for coming to our analyst teaching. Our – I had a suggestion yesterday from our advisors that I start this meeting by introducing myself because not all of you know me. So perhaps let me just share with you some of my background.

My name is Mirek Stachowicz, I was born and raised in Poland, Krakow, and educated to university level there. I spent a bit of time abroad, about 15 years, and my professional career was all about FMCG. I worked for multinationals. I worked for Best Foods, Knorr soups and Hellman's mayonnaise. Then I worked for Imperial Chemical Industries in their paint division, Dulux. And then I was with ICI at the time of Akzo takeover. I stayed with Akzo until 2012. And then I said at the age of 50, I thought enough was enough and cashed in and left Akzo happily to start a plural career. And while the – I started in Poland of course, by the time when I joined the board of Stock Spirits as non-executive, I was on five other boards, including one of the largest companies in Poland.

And I joined Stock Spirits board in November 2015, two weeks before the second profit warning, so it was an interesting experience. The board felt they wanted to give me the role of interim CEO after Chris Heath left in April 2016. By August I was nominated as permanent CEO and I found willingness in myself much earlier to do this job because it turned out to be very interesting, challenging and a lot of fun.

And here I am. I have been running this business now for just over two years, almost two years and I'm going to share with you today the presentation about strategy. Now, the reason why I am first one to go because we felt that it would be unfair for you to listen to this later in the afternoon. You have all seen our one-pager, strategy one-pager. And the way the strategy one-pager is designed is to explain our strategy on one page, so many of you may feel that you know our strategy. What I wanted to do today is actually to go a bit more in depth so that you understand what you can expect from us in the future.

Agenda

So let me start by going back to my script. So, on behalf of my team here, welcome to Stock Spirits' analyst teaching. I am joined here by Paul Bal, CFO of Stock Spirits. Paul will introduce himself separately at the beginning of his presentation.

I am also joined here by members of our Polish on-trade team, who are right now outside but they will come at the end of the presentation to walk you through the product testing.

I am going to start the afternoon with a presentation focused on our strategy for the next three years, which is centred around the four pillars that we have outlined at the time of the full-year results in March. This will be followed by a short break, after which Paul will take you through some of the brief highlights of our half-year results.

If I can please ask you to make notes of any questions you have because there will be two Q&A sessions, one after my strategy review and then another after Paul's presentation. After this we will have a short presentation on some of our products and brands, as a world-renowned expert on vodka. And then we will have a tasting session, to which I would highly – strongly encourage you to participate because it will be interesting, I hope.

Now, let me share with you the agenda. The agenda is as follows: I will start by briefly reminding you of the four strategic growth pillars, followed by a brief overview of the review itself, the objective of this review and the assumptions that we made as part of the process. We will then talk through our strategic ambitions, set out the market context, before discussing each of the four specific growth pillars in more detail and how we plan to execute the strategy.

Strategy

Now, you will now be familiar with this slide, this is the one-pager. This outlines the four-pillar growth strategy, focusing on the premiumisation of our brands, becoming more relevant to millennials, investing in digital and then the mergers and acquisitions.

Saska

Now moving to objectives and assumptions, you will see some of these slides also show our products. So this is Saska, it's a flavoured vodka, it's a new brand that we brought to the market about two years ago. You will be able to taste it. Now, this is specifically marketed at millennials. I will be, actually, the bartender at the stand where this is being poured. So I will explain specifically why but it's about flavouring and it's about the flavour compositions. As you will learn from our presentations, flavoured vodkas tend to be one flavour, and this is always a combination of flavours that attracts people with more sophisticated tastes and we know, from research, this is what millennials are expecting.

Objectives and context

So, objectives and context. During the second half of 2017 we conducted an extensive strategy review. The objective of this was to revisit whether we – whether the strategy from our IPO in 2013 and since I took over as CEO remained valid. While we concluded it did remain valid, the world has moved on and therefore we wanted to revise it to ensure it aligns to changes in the environment we operate in. The review process involved input from over 20 senior managers in our company over the course of six months. Now, I stress this to Damien, we did not use external consultants for this. One of the reasons is that I am a former consultant and I believe that strategies need to be formulated by those ones who will implement them because they need to own it.

We wanted to ensure renewed buy-in from all of the management team and the board, and to redefine our strategic ambitions, as we believe this is important to ensure the successful implementation of the revised strategy across the group.

How we have revised our strategy

Now, how we revised this strategy. There is a lot of detail on this slide, so I will, firstly, pick out a few of the key revisions and improvements we have made to our IPO strategy, just two. Firstly, we want to ensure we put our brands at the centre of strategy, as well as making sure that new product development played an integral part of the strategy. Secondly, we wanted to ensure a collaborative focus rather than a senior management team working in isolation country by country.

Now moving on to a list of our key commitments, on the right-hand side, we have made significant progress since our IPO in 2013, returning the group back to strength. And these are aimed at ensuring we remain focused on continuing this growth. Firstly, Poland – Poland accounted for over 50% of the group revenue and over 75% of EBITDA during the first half of this year. I have been asked previously if we will seek to decrease our reliance on Poland within the group. However, our review has reaffirmed our belief that Poland is an attractive market to be in and it will be continued to be a pivotal part of the Group's future growth.

We have made significant cost savings over the last few years and our central cost base has now been reduced to optimal levels. However, we will continue to look at opportunities to make our model more efficient.

We will ensure our resources are focused on just a few key growth opportunities, including strategic M&A, premiumisation, digital and millennials. This implies it will not be focused on something else, which is always a characteristic of a good strategy.

The pricing environment in Poland and the Czech Republic remains very competitive. While we will continue to ensure we remain price-competitive in our core categories and adapt our pricing strategy as appropriate, we will not allow the pricing environment to distract us from our strategic objectives.

Finally, our resource allocation will be driven by consumer trends and brands that address these trends.

Three-year plan key assumptions

Now, moving on to the key assumptions, these are the key assumptions that we took into consideration while reviewing our strategy and creating our three-year plan. First, while our Polish business has stabilised, the pricing environment remains competitive. Therefore, we assume that future margin improvements in the Group cannot rely on recovery in mainstream pricing in Poland. We have assumed that wider macroeconomic conditions and how our competitors behave and the pressures and challenges that this brings with it will continue. We have assumed that one of our four pillars is strategic M&A. So we assume that this is complementary to everything else that we are doing, as this will be dependent not only on opportunities arising but whether these opportunities align to our acquisition criteria. And finally, as per previous announcement, we have assumed any key earnings from our – excuse me, any earnings from our strategic investment in quintessential brands will make a contribution only at the end of the three-year plan.

Distinct and unique mission, vision and values

Now, our mission at Stock Spirits is to make spirits drinking more enjoyable through our unique combination of superior quality with local understanding, local pride and local innovation. And local is very important for us. Our vision is to be the leading spirits company in Central and Eastern Europe. And our values are to have integrity, agility, empowerment, equality and cooperation.

Now, I believe this differentiates us from our competitors. Firstly, our competitors are aspiring to build global multi-regional companies, whereas we are exclusively focused on

Central and Eastern Europe. Secondly, they talk about delivering affordable luxury, or mainstreamisation, where our strategy is about premiumisation. Thirdly, our more local and targeted focus allows us to cultivate a small-company mindset. As a smaller business, we are also much more agile and capable of adapting quickly to evolving trends and market conditions.

Now, if I can share with you my personal experience, I worked for multinationals, and this is one of the key things I insist on, which is that we differentiate from the big organisations and we are really about small-company mentality.

We believe this distinct and unique set of missions, vision and values are a key differentiator to our local competitor, especially in Poland.

Republica

Now moving on to our ambitions and before we – I talk about this, this is Republica. That's a product that we launched in Czech Republic. You'll be able to taste it at my bar. Now, the way we describe – we are describing this launch is runaway success. We launched it in March. By June it has taken 28.8% market share in imported rums in the Czech Republic and rum is the largest spirits category in this country. And the reason why we were able to do this is because we leveraged strength of domestic rum brand called Božkov.

Our strategic ambitions for the next three years

Our strategic ambitions – our vision is to be the leading spirits business in Central and Eastern Europe. In terms of M&A, we plan to increase the scale of the Group through earnings-accretive M&A over the next three years, assuming opportunities arise which align to our M&A criteria. Within our premiumisation pillar, as stated at the time of our full-year results, we plan to achieve over 30% of Group volumes from premium brands by 2020. This will be from 21.6% in 2017. In terms of millennials, we plan to increase the penetration of selected core brands within the millennial group by 10% by 2020. I will explain this all in detail later. We will establish regular digital communication with 75% of our target customers for our key brands by 2020. Now, of course, our ambition is that this should all lead to increase in profitability and shareholder value for the Group.

Where we are today

Now, these are the ambitions, where are we today on the journey to achieving these strategic ambitions? We are already the volume and value share leader amongst the spirits brand owners in our wholly-owned distribution markets. So these – this is a chart showing the volume in the five markets where we are. That is Poland, Czech Republic, Italy, Slovakia, Croatia and Bosnia. I think it's not a very well-known fact that we actually are by far bigger than anybody else in this. That's a volume chart; if you look at value chart, we would still be the leader; the bubbles would be closer to each other.

Competitive strengths

Now, being the leader, our challenge is growth, both in terms of volume and value. Since IPO we have faced a number of challenges in our key markets and through this process these competitive advantages have become evident and we believe will now support our revised strategy.

We have a diverse brand portfolio which includes authentic local brands, recognisable established brands with scope for premiumisation and the widest of high – widest range of high-margin local brands in Poland and Czech Republic. The brands are really important.

We have extensive distribution and commercial execution capabilities for both off-trade and on-trade across our geographies, as evidenced by significant market shares in these countries. We have world-class operations that enable the manufacturing of high volumes to high quality standards, with high customer service, combined with the buying power of centralised procurement. And I'd like to stress the latter. You will be surprised how many sizeable companies don't buy centrally; we do.

We have excellent business processes and capabilities. Firstly, financially, we have significant balance sheet capacity and strong cash flow management. Secondly, we have a proven cost track record – sorry, cost restructuring and turnaround track record. Finally, as well as excellent legal and ethical compliance, we have a strong reputation with customers and third-party brand owners.

New opportunities since the IPO

Now, as mentioned, a lot has changed since the IPO in 2013. There has been growing sense of national pride in Central Europe which we think can benefit our brands with strong local provenance, for example, Fernet, Syramusa and Żołądkowa de Luxe. And I would add, when we talk about Republica, the positioning of Republica around this theme is one of the key contributors to its success.

We have seen growing consumer affluence, which has started to fuel premiumisation of our local brands through powerful brand values that these brands enjoy, for example Božkov, for example Żołądkowa Gorzka.

Millennials are the key emerging consumer group in Central and Eastern Europe and we have invested in a number of brands to ensure that they have unique appeal to millennials, for example Lubelska, Stock Prestige and Keglevich Fruit.

Finally, we have seen strong growth in flavoured growth in Poland, driven by changing consumption patterns of females and millennials.

Fernet

Now let me move to strategy context. Before I do, these are bottles of Fernet. You will not try them today. It's as much of an acquired taste for Czechs and Slovaks as Marmite for the Brits. It's very bitter but that's – bitters are a very important product category in this part of the world. But you will try another product in this category which is formulated much more to the taste of the millennials and I can see a lot of millennials in the audience here, so I hope you enjoy it.

Consumer trends in our markets

Now moving to premiumisation pillar, let me start with this. A question we are often asked is how can we achieve further market growth in our key markets when spirit consumption is already high in these markets? Our data reveals that consumers in our markets drink more per head than elsewhere in Europe, as you can see from this but currently at lower-than-average prices.

As you can see in this table, in markets such as Poland, Czech Republic and Slovakia, there is an opportunity to premiumise, where consumer trends such as rising disposable income support the trend to drink less volume but more premium spirits.

Future growth will be driven by value

Similarly, this graph shows you future growth will be driven by value, not volume, which in turn will be dependent on commanding higher average pricing. Total spirits value growth has outperformed volume growth over the last five years globally, as well as in our own wholly-owned distribution markets and we see this trend continuing. This data confirms our thinking that the spirits category has a demonstrable ability to premiumise in response to consumer needs.

SSG markets

Value share by category

This chart shows Stock Spirit's markets as a percentage value share of total spirits by category. As you can see, vodka is by far the biggest category in these markets we operate in. Having a strong presence in vodka is critical for mass, for scale. There has also been notable growth in the flavoured vodka and vodka-based liqueurs market in Poland, thanks in large part to preference of millennials.

Whisky has been a key growth driver over the last five years and we see this trend continuing. This trend supports our decision to support in Quintessential Brands' Irish whiskey, which will shortly be rolled out across all our key markets, allowing the Group greater penetration into the fast-growing whiskey subcategory in the market. I'll cover the whiskey strategy in a second.

Rum and herbal bitters have seen far more significant growth in the distribution markets Stock operates compared to globally.

Finally, the spirit aperitifs and gin categories are in growth but in our markets it's from a very small base.

Sources of growth by category

Now moving to sources of growth, this chart illustrates where the growth comes from in our markets. When you look at this, it's very clear everybody knows about whisky. What is less known is rum, herbal bitters, which don't feature at all on the horizon of multinational companies, with the exception of Jägermeister. Brandy is also growing.

Now, typically people think of clear vodka as low growth and commoditising – commodity product. Now, if I split the clear vodka into two bubbles, economy and mainstream and premium, premium would end up here and it would be a sizeable bubble. And that is why our strategy focuses covers this part, this part and this part.

Black Fox

I'll skip the script on this. Now, about execution, how do we execute these strategic pillars? The bottle here is Black Fox. Black Fox is the product we launched in the bitters category that I told you about. You will be able to try it. We launched it at the very end of last year it has gained 3.7% market share since the launch in the bitters category against Jägermeister. It's not bad because Jägermeister were building their position for 15 years, so I think we have a pretty good ride ahead of us on this.

Premiumisation

Average pricing in SSG markets

Let me start with premiumisation. On one of the earlier slides I talked about future growth being driven by value rather than volume and that the global markets we are – where we have our own distribution are growing. On this slide I'd like to highlight the growth in price in Stock's distribution markets by category. As you can see, grappa has seen the biggest price increases versus 2012, which is evidence of premiumisation of this product, again, not on horizon of all, practically, multinational companies.

There is a lot of speculation that traditional vodka is becoming commoditised. However, this slide shows – this shows that it isn't the case and the average price per litre in the market we operate has increased since 2012, despite the size of the category in these markets.

This slide also demonstrates that premiumisation is happening and consumers are willing to pay more for certain spirits. It is this evidence that should form our premiumisation strategy in key markets.

Premiumisation in action

Now, in order to demonstrate our premiumisation strategy in action, we have focused on four examples. Firstly, Božkov Republica: this is an example of us taking an established high-margin core brand, Božkov Original, and developing more premium expression of this. For this we used imported rum and premium packaging. Božkov Republica retails at double the price of Božkov Original.

We have also identified existing underleveraged brands which could be considered craft brands, for example Syramusa from Limonce. This has Sicilian provenance and authenticity and retails at 50% above limoncello – above Limonce, our limoncello brand, which has over 40% market share.

Thirdly, we have developed new high-margin brands in growth categories, for example Black Fox, which we have introduced for the Czech and Slovak markets. This is a new entrant in the premium herbal bitters category and retails at double the price of Fernet Stock.

Finally, we work with distribution partners in select categories where we lack our own scale and capabilities, which enables us to build competencies in these growth categories, for example Jim Beam, which we have taken into Poland, Slovakia and Czech Republic and retails at 50% more than Stock Prestige vodka.

One more example – a bit more comments about Republica. It's about how we achieved this growth in such a phenomenally-short time.

Whisky strategy

Now moving on to whisky strategy, which is part of the premiumisation effort. I have talked you through four examples of our premiumisation strategy in action. Looking at whisky specifically, I would like to talk you through our strategy for this specific category and to highlight that it isn't restricted just to third-party brands. Whisky is a key growth area for Stock Spirits and is growing faster than the total spirits market in our core markets and the whole of Central and Eastern European market. Whisky commands a higher average price per litre than total spirits, as seen in these graphs, so it is clearly a premiumisation opportunity.

Our whisky strategy has three elements. First, we seek to work with global distribution brand partners like Beam Suntory and Diageo. We have already seen positive progress to date, growing share and delivering growth in Poland, Czech Republic, Slovakia and Croatia. We are also distributing Diageo and Beam Suntory whisky brands in the Czech Republic, both of whom would consider Stock as the best-in-class distribution partner.

Secondly, through our joint venture with key partners such as Quintessential, we look at – we look to build the brands, Dubliner and Liberties and enhance our capabilities. This is progressing well, with distribution agreements confirmed in all our core markets. Our own whisky development is also being supported by the Quintessential Brands JV team.

Thirdly, we plan to relaunch our own whisky brands, for example Printers whisky, which will be ready for relaunch in the Czech Republic in October 2018. This includes new, improved liquid and packaging.

Millennials

Targeting the next generation

Now moving to millennials, millennials are a core target audience for us and the next generation of consumers who we will target with our products. I won't dwell on the definition of millennials, as this is widely understood but just to pull out a few characteristics: millennials are digital natives and therefore heavily influenced by digital channels. They have limited brand loyalty and can be heavily influenced by their wider peer group. They also have entered their peak spending years. They tend to be agnostic to big brands, instead valuing credible heritage and authenticity. They demand personalised communication. Finally, there is a trend towards both sexes consuming spirits together, with this no longer being a gender-specific product.

Based on these characteristics, we have developed our strategy around how we can seek to influence their buying habits. This includes moving our communication from not just being mobile-friendly but directly targeting the content and length itself to ensure it is mobile-centric. More than just being influenced by peers, we want millennials to drive recommendations for – from key influencers so that they feel part of the development of the brands. Millennials are willing and curious to try new things, so we want to explore this characteristic and seek to influence them. We will look to ensure our communication is personalised and authentic, with a focus on values and use of real people which consumers can relate to in order to promote our brands. Finally, we will ensure we provide a rapid response to any consumer's enquiries, which is something that is expected by this generation of consumers.

Brand targeting

As part of our millennials growth pillar, we are seeking to target specific brands at a millennial audience. In doing so we believe this will drive penetration of our products and support increased margins and volume. A number of our existing brands, as shown here, appeal strongly to millennials, with a high percentage of total drinkers of these products already being millennials. However, in relative terms, these products also have a relatively low penetration among the wider millennial audience. This therefore represents an opportunity for us to grow our penetration of total millennial consumers without the need to reposition these products.

So, for example, Lubelska, which you will be able to try, 47% of consumers of Lubelska already are millennials, we know this from research but only 9% of all millennials drink Lubelska. That represents the opportunity and you can see an example of other opportunities like this. You don't have to reposition the brand to drive penetration, therefore it is easier to do and more cost effective.

Digital

Context and opportunity

Now, final growth pillar, organic growth pillar, is digital. Any successful business today needs to focus on digital development and we are no different. Ecommerce is currently estimated to account only for about 2.5% of alcohol beverages globally but this is a fast-growing channel which is forecast to be 10–15% of alcohol global beverages within the next decade. The opportunity for Stock is to take advantage of this complex channel and be the best of the local players in digital.

Now, let me just emphasise this. We're not going to compete with people like Diageo, who have unparalleled resources to us. But we are setting out to be the best local player in terms of digital because we believe this is going to make a big difference in our markets.

B2B digital communication complements the distribution and retailer coverage and is already working in the premium spirits sector. B2C digital provides an easily-accessible route to the consumer and an ability to use the analytics to analyse and target consumers based on key trends.

We see digital not just as a marketing device but also something that we can leverage throughout the business. Understanding the future channel segmentation will be critical here.

Digital in action

Now moving to how it works, we have developed Group-wide digital KPIs to measure the effectiveness of our actions. Each of our digital companies will have a pre-agreed list of KPIs to assess the success of the specific activity. Our KPIs are tailored around three areas: social media networks, paid campaigns and websites. The aim of the KPIs is to assess and evaluate how any given digital activity is driving a return on investment and ensuring Stock consumers don't just read our communications but actually become our brand ambassadors.

Keglevich relaunch in Italy

Now – I'll now show you a short video to demonstrate our digital strategy in action. This is a TV commercial which we used to relaunch our Keglevich brand in Italy this year, actually in June. This was shown on TV but it is also the basis for all our digital communication for this brand relaunch.

[VIDEO]

Right, this TV commercial was shown on regular TV in June 2018. We decided on this channel based on research that millennials are still influenced by watching TV commercials. Alongside this, we also made a significant investment in digital communication and this slide demonstrates the successful result of this campaign.

We use three measures to report on the success of our digital communications. Firstly, COD, or content on demand, which involves measuring how many consumers open up a piece of content related to our brand communication. As you can see, COD communication was four times more effective than other comparable FMCG brands, so we got something right here.

The second measure was engagement rates on social media, the ER. This measures the click-through to our communication materials on social media. This communication was 1.5 times more effective than other types of brand communication on social media. Finally we measure click through rates on search engines. So if consumers typed in a generic term related to Stock Brands, for example, 'flavoured vodka', this search would generate a link to Keglevich. The results show we achieved almost double the effectiveness in click-through rates versus other surveyed FMCG brands.

M&A

Key criteria

Now let me move to the final growth pillar, which is mergers and acquisitions. We have always said that we will seek attractive M&A opportunities where they meet our strategic objectives and add demonstrable shareholder value. The criteria we will apply to any piece of M&A, in order of priority, includes acquisitions which offer cost and growth synergies; an enhancement of our existing brand portfolio, for example, the acquisition of Bohemia Sekt spirit brands in the Czech Republic; the opportunity for geographic expansion and acquisition, or investment, within strategic rationale, for example, our strategic investment in Quintessential Brands.

I would like to highlight that, for the first two criteria, an acquisition which offers cost and growth synergies and an acquisition which would enhance our existing portfolio would be both focused in our existing geographies by nature of these criteria, right? You cannot extend your portfolio unless you have it in a certain geography and you cannot get growth synergies – sorry, you cannot get cost synergies unless you have costs somewhere. So that means that we will be focusing most of all on our existing geographies to begin with.

Financing capability

If an acquisition meets our criteria, we have the capacity to value-enhance strategic M&A. We have total financing facilities of €370 million, which have now been extended through to November 2022. All this leaves us with significant capacity on our balance sheet to do strategic acquisitions if opportunities arise.

Summary

Now let me come to the summary. And this is Keglevich, which you'll be able to try. It's in the relaunched bottle with the new liquids inside, that emphasise purity and – pure spirit and pure fruit.

Summary of our strategy, in short: we are focused on value growth. So our strategy for the next three years will be focused on value, not on volume growth. We have aligned our strategy to consumer trends, for example premiumisation and digital and we will continue to invest and focus on these areas. We believe we offer a differentiated proposal to our competitors. We are building a well-invested, innovative and diversified product offering. We are an agile business with a collaborative mentality. And we have a strong senior team with strong industry and local experience.

It is for all these reasons that I believe we remain well-positioned to achieve sustainable long-term growth. This is a quote from myself; I couldn't help it.

That concludes the strategy presentation and I would like to now open the floor for questions. As we are recording this presentation, can I please ask you to give your name and the organisation you represent before asking your questions. Thank you. Damian?

Q&A

Damian McNeela (Numis): Damian McNeela from Numis. Just – you started the sort of presentation with an indication that you expected margins to increase over the three-year timeframe. It feels like there's lots of costs being invested behind brands and behind the digital platform, obviously that will hopefully come through in sort of pricing – better pricing but can you give us an indication of where the board is expecting margins to go to? And clearly there's no targets in the presentation but the magnitude of margin improvements that you expect to make?

Mirek Stachowicz: The short answer is, I cannot.

Damian McNeela: Okay, thought as much.

Mirek Stachowicz: But you've seen the premiumisation objective and we've shared these ambitions. We are planning to move, within three years, about 30% of our products being in the premium, where the definition of premium is that these products enjoy significantly higher margins than the rest of the portfolio. So you can see that there is going to be a lot of mix improvement coming through. And when you will see from post presentation, this mix improvement is a feature already. So we have formulated the strategy and communicated it in March but we have been implementing it already from last year. So the mix improvement is driving – is driven by the premiumisation strategy.

Damian McNeela: Okay but the – should we expect costs to absorb that margin improvement in the short term or should we start to see margin improvement from immediately, or in the near term?

Mirek Stachowicz: Let me defer to my CFO, who will be able to dodge this question better.

Paul Bal: I think, as you'll see from the first-half results already, that we're seeing margin improvement. And remember you're seeing this margin improvement not just at the gross profit level, you've got a slight improvement there; you're also seeing it at the EBITDA level. Now, that's notwithstanding the additional investment that we've made in A&P, advertising and promotion. That's notwithstanding the investment that we've put behind the new product launches that we're talking about, and also other innovations that are yet to come to the market.

So we have clearly invested more than we have done in the past and we have still made progress on the margins. So if we're able to do it in this sort of first six months, which is typically sort of the toughest six months because you don't have that seasonal peak within it, I think we have a high level of confidence that we should be able to progress with margin improvement, notwithstanding the investments that we're making and also notwithstanding the investment that we're making in digital.

One thing about digital is, we need to sort of think beyond the traditional big, heavy technology IT investments of the past. Actually sort of making progress in digital and moving to – and embracing digital in your business is a far cheaper proposition than the old-scale big systems and big data and everything else that went with it.

Mirek Stachowicz: Well, let me just comment here. Paul is particularly well positioned to comment on this. Paul joined us from Tupperware, before that – you will hear Paul's story. But in Tupperware Paul was responsible for the IT strategy and Tupperware had a big challenge. You know, the Tupperware parties are no longer working so they have to move to digital. And one of the key reasons why I wanted Paul to join us is because of his experience in digital.

Damian McNeela: And hopefully a quicker answer: what is the implied assumption around net debt to get to your €370 million firepower number? Your net debt to EBITDA gearing ratio? What are you comfortable going to?

Paul Bal: So in terms of the projections for the –

Damian McNeela: Yeah.

Paul Bal: – aspirations for that? We – I think we were around about one, was the – a gearing of around one.

Damian McNeela: Okay.

Paul Bal: Yeah. So the bulk of the value was actually being created through the increased profitability, more than anything else.

Damian McNeela: Clear, thank you.

Mirek Stachowicz: Maybe one more thing about myself which I didn't say. I am actually very – digital is key for me as well. Personally, I have experience of this. For the last four years before I joined Stock Spirits, I was chairman of the largest online business in Poland, yeah? So I actually know how this area works. I'm invested in this business, by the way, so it's not something that I'm a stranger to and I believe there is a significant opportunity for us, both in terms of consumer communication but also converting the ways of working within the company to digital.

Deutsche Bank: Mirek, hi, [inaudible] from Deutsche Bank. Quick question: one of the issues you have in Italy is critical mass. Do you see the opportunity, maybe, to gain some through your partner brands for Keglevich?

Mirek Stachowicz: Well, yes. We had a dilemma and we had a lot of questions – I had a lot of questions when I came onboard. Do we sell Italy or do we fix Italy? And I made it very clear that we need to fix Italy. There are very good reasons for this: it's an attractive spirits market, it's fragmented, so it can be concentrated. It's much more difficult to further concentrate already quite concentrated markets. This one is fragmented. Can we grow Keglevich in this? We believe we can. We think that Keglevich, as a brand, suffers from two key problems. One is the unemployment levels in – among young adults. That's been extremely high, over 30% in Italy and we know that they have about €18.00 to spend per week on drinks. It's not much. That – having said that, we can't do much about unemployment in Italy so what we do is we are trying to improve the brand perception. And we have seen that the brand had not enjoyed enough communication. So last time we were communicating the brand was eight years ago, for a variety of reasons but mostly because the company got into trouble and there was no money.

Now the fact that we are confidently moving with investment in Italy shows you something about our level of confidence when it comes to Poland because the reason why we were underinvesting in Italy was because we needed to channel the resources to Poland. Now we can start sorting things out, outside of Poland and this is one of the things we are doing. This communication that you have seen is just the beginning of the process. We see this as a multi-year plan because, by nature of communication, it has to be a multi-year plan. We have – we are planning to grow not only our brand because the size of our brand is so big within the category, the whole category grows. But you know, if we don't take care of the category, who will, if we are market leader?

So this is going to be a consistent investment plan stretching over 2–3 years, and we believe we will see a size of recovery as a result of this plan. So we ask for patience on this because this – some things just take time and this is one of these things.

Paul Hickman (Edison Investment Research): Paul Hickman at Edison. On the chart at page 11 you showed the volume shares. And I think you commented that if the same thing was shown in value terms, the companies would be closer together. Do you still expect that to be the case in three years' time?

Mirek Stachowicz: Well, we will be growing value, of course, that's the nature of our strategy, as I said. We are focused on value, not on volume. We don't want to play the same game as Roust. We have expression in Polish, you don't want to enter into a kicking match with a horse. You know, I don't know what drives them but certainly not the same principles when it comes to realising value for shareholders. So therefore this graph will look different but I don't see this as a problem because I do believe in three years' time we will still retain volume leadership in our markets.

Paul Hickman: Thanks. My other question was about ecommerce. You were – you said that the estimate was 2.5% of alcoholic beverages, moving to 10–15% in the next decade. Where are you relative to those numbers?

Mirek Stachowicz: Well, we are nowhere. And the reason is that our largest market, Poland, is a dark market, so there are strong regulatory prohibitions that would prevent us from actually selling online. But they can be managed, as is evident from premium whiskies, it's just that it doesn't lend itself to easy B2C strategy. Consumers want not only to be able to buy things but also to make it in an easy way. But what we can do, we can develop this strategy in markets where it can work easily and hope that in Poland it will become easier as well. A good example is Italy. We are going to go with a B2C aspect of this digital strategy for Keglevich shortly, whereby we will be able – consumers will be able to go directly from social media click into buying it from either existing retailers or online shops. And that makes it easy for consumers and that's what they want. They want to have one click and I'm buying. So I see more of this happening and I think in many markets outside of Poland it will happen faster. In Poland we will see.

Matthew Reid (Berenberg): Hi, Matthew Reid, Berenberg. I was wondering if you could talk a little bit more about your own whisky brands, so the Printer's, Hammerhead. You know, do you have enough kind of inventory on hand – liquid on hand to actually kind of, you know, see significant growth of your own whisky brands across the markets that you do have superior distribution?

Mirek Stachowicz: We have currently two – three whisky brands, as you said: Printer's, which is in Czech and Slovakia. We have Gold Barrel, which is in Poland, was withdrawn from the market because we clearly didn't have capability to get the right quality of liquid so we wanted to take it out, rather than sell things that were not acceptable. And we have Hammerhead and Hammerhead is a very untypical Czech-origin whisky. We have a small facility in a place called Prádlo, near Plzeň, near our main facility in Czech. Prádlo is an exceptional place; I went there and I was amazed. It's a 16th-century building. It was built in the 16th century in order to watch the people who were extracting gold from the stream from which we now take water for our whisky. We have a number – well, we have some stock of ageing whisky there. It dates back to the Velvet Revolution. Just before the Velvet Revolution, the master distiller of Prádlo decided he's going to make Czech whisky. So some of our liquids are 30 years old and we are selling this whisky in small quantities, at a reasonable price, you know, ranging from €80–150 a bottle. So it's pretty good margin. But, of course, the opportunity here with this whisky is to make it really fly. In other words, to work with the existing stocks of liquid in order to blend it correctly and to create ranges of whisky that would – or maybe age it further but in different casks.

This type of expertise is not available in our markets, yeah? There are no master blenders for whisky in Poland. Why would there be? And that's why the reason why we entered into QB relationship, because Darryl McNally, who is a master blender – award-winning master blender for the Dubliner, he is working on these liquids for us and he brings exceptional expertise to this. One of the reasons why we loved the investment in Dubliner so much and Liberties is the quality of liquids. You know, you have proliferation of liquids in whisky and in gins but very few of them are really top notch. I firmly believe that the Dubliner is top notch and the Liberties are exceptional. So we can sell it on the basis of quality of liquid in markets where there's a lot of competition, a lot of promotions going on. We can always go out there and say, 'Look, these liquids are fantastic,' and we want to do the same with Hammerhead. We'll probably rename it too because, you know, Hammerhead is really not exactly what – that's the master distiller came up with 30 years ago. But it's going to be small this one, yeah? It's going to be like a flagship for us to be proud of. We will make nice money on it but it will always be limited. The big one will be the local brands – the bigger one will be the local brands. And here we are not attempting to make liquids in Central and Eastern Europe because consumers are not looking for this. They are looking for liquids – for scotch. And now central procurement, combined with the knowledge of Darryl McNally, allows us to get liquids that are at par with market leaders. So I can guarantee you that the liquid we'll have in Printer's will be as good as Tullamore DEW. Tullamore DEW is the number one whisky in Czech. It will be cheaper. Now, you know, for Czechs it should fly.

So we will source this liquid from Scotland.

Matthew Reid: So it's third-party liquid.

Mirek Stachowicz: Yeah.

Matthew Reid: Yeah, okay. Okay, and then one other question on the millennials. On the chart on page 25, you know, you've got the kind of – the percentage of your drinkers who are millennials of the brand and then you've got your penetration of total millennials. Obviously – is that – I mean presumably that's all millennial drinkers, or all millennials, or all millennial spirits drinkers, vodka drinkers?

Mirek Stachowicz: Well, it's all millennials because all millennials, at least in these markets, are drinkers.

Matthew Reid: Okay, sure.

Mirek Stachowicz: Very few of them are not. It's not common – I mean there are a tiny number of people who completely abstain from drinking. So that's all millennials. We've done pretty much in depth research on this, so we know about 9% of millennials in Poland have been using this, so they are regular users. And but it is well-targeting millennials because 47% of users are millennials. So clearly there is – the values of this brand resonate well, which means that we can rapidly increase this by the right communication.

Matthew Reid: Maybe just one final one then, on Keglevich. You know, obviously, the metrics look very good in terms of the brand communication. What kind of response have you seen from consumers in – or customers in the trade?

Mirek Stachowicz: It's too early.

Matthew Reid: Too early, okay.

Mirek Stachowicz: It's one month into the campaign.

Matthew Reid: Sure.

Mirek Stachowicz: So usually there is a lag between the campaign and the commercial response. So we will be able to report more on this at the full year and we'll come back to this subject for sure because that's an important for us. You know, basically, everybody's attention has shifted now from Poland, where clearly we are doing alright, at least, to Czech now and to Italy and Italy has been a common theme. When you look at the size of Italy in our business, it's not that big. It's really about the opportunity that we could take advantage of in Italy, rather than this impacting the group. Yes, it impacts the group but by tweaking performance in Poland, we can easily cover the gap in Italy. What I want to do is I want to make Italy an important market for us, not just an afterthought.

Jakub Mičian (WOOD & Company): Good afternoon, Jakub Mičian, WOOD & Company. If I could ask you specifically on Czech Republic, given that you have just recently relaunched, or launched, Black Fox and you have previously mentioned that you have seen some competitive pressures in the herbal bitters, especially from Jägermeister, has Black Fox sort of alleviated that pressure? Has that helped already or have you already seen a result?

Then my second question would be also on Czech Republic, specifically on the private label growth. Given that you are sort of focusing on the premiumisation of the brands, however we are seeing the trend of growing – or there are some private labels that are suddenly popping up in Czech Republic, is that something that you need to watch out for, going forward?

And my third question would be: there has been, previously, discussion of the Fernet rebranding going forward. How do you stand with that? Are there already firm plans when you will start rebranding Fernet Stock? Thank you.

Mirek Stachowicz: Let me start with the third. We have been talking about this but I will not give you specifics. I can't. On the – the first one was about whether Black Fox is making up. Black Fox has achieved 3.7% of the category, for a launch of a new-to-the-world brand is very good because, you know, you need to take into account that, if you use an existing brand, it's much easier to draw consumers. Here we had to start with on-trade, where we let people like – the Diageo terminology is to put the liquid on the lips. So we want you to try it. And then they decide whether they like it or not. Now, we are confident that they will like it. The reason why we are confident about this is not only because we have actually analysed the taste of the millennials, we know that the millennials are – their taste profiles for spirits are shaped by carbonated drinks, because that's what they are drinking as kids. So they like sweet, they don't like too bitter. Now, this product is not only less sweet than Jägermeister, and I'm not even talking about Fernet, which as you know, is a pretty hard experience. But it's also incorporating a taste signature of Kofola, and for everybody's knowledge, Kofola is the number-two carbonated spirit drink in Czech, a Czech original, yeah? So, anybody who is Czech – and I'll be curious of your opinion about this – who drinks this, the taste will seem familiar, yeah? So, when you try it, being Czech, you say, 'Mm, yeah, I know it from somewhere'. And that was the idea. So, we are superior on liquid, because we want to compete with Jägermeister. And what's the weakness of Jägermeister in Czech? They have a global liquid. Its liquid has to match everybody's preferences. Well, we don't have to. We can do a tailored liquid for Czech consumers, and that's what exactly we have done. I hope that answers the first question.

The second question about the private label; that's a very interesting question, because you have seen that we have reported results that are weaker than in the past, and our Czech business is, again, growing top-line, but it has been the strongest part of the group, and first half of this year, I heard comments that they were surprised to see that it's not performing as strongly as it did. Now, I think that the team is performing very strongly, but what has changed are the two external factors. One is the pricing pressure from Jägermeister, which is a bit strange, because they are taking a premium brand which they have developed in the premium, and they are discounted it through the level of mainstream. So, when you go and look at the promotional activity of Jägermeister, sometimes the price on promotion will be equal to price of our Fernet, which is in a different price category. But it's their choice, yeah? I think there are some reasons for this.

We need to respond to this, and Black Fox is unable for now, because it's early, to fill the gap, yeah? So, we are losing share in bitters, no question about it. Of course, we have plans to regain, and so on; I'm not going to be sharing these with you.

Now – so one pressure is the pressure from Jägermeister. But the second one is about private label. Now, what happens in Czech Republic is, Czech trade is fairly concentrated, so the international chains take a big chunk of sales, of the distribution channel, much bigger than in Slovakia, much bigger than in Poland, bigger than in Italy. It's much more concentrated; it's more like in Germany. And in Czech Republic, what's happening is that these international companies, they are looking at macroeconomics and they see that the consumers are getting more affluent, their incomes – the unemployment is at its lowest level ever in Czech Republic, yeah? I mean, it's very hard to find people for work in Czech Republic. When I was in Prague last time, I took Uber, and the Uber driver was from Italy, because there's no work in Italy, and it's fantastic work in Czech and good money. So, Czech label market is booming, and the consumer disposal income is booming.

At the same time, 80% of – roughly 80% of spirits are sold on promotion. So, the retailers are figuring out why. Why would we sell on promotion so much to consumers who are richer, yeah? Why don't we cut down on promotions? And they have – a number of our customers have started doing it, as of first quarter of this year. Now, we believe they are not right about the way in which they do it, but because they have their ideas, they want to test them. We believe in the end, they will realise that their strategy, combined with implementation of private label, is actually decreasing profitability of the category for them. We know this because we are good in category management. It's one of the key strengths we have. It takes time to discuss this with them, reason with them, especially as some of them brought in new people who want to show new ways. So, it comes to this. We are having a period now where we are discussing and pushing back and forth a bit about what's the best way, because I do believe also that when consumers are seeing their incomes growing, they should be more inclined to buy brands without promotion.

Now, the growth of private label is part of this process. So, they figured out that if they have fewer promotions on brands, they need to provide an opportunity for people who are price-sensitive to buy something cheaper, and they bring in private label. Will they succeed? Well, we will see. But we believe it's not going to be dead easy. Why? Because spirits – private label succeeds in categories that are commodities, where brands don't matter, and here brands matter. Where – and the brands matter where people have emotional attitude. So, brands matter most with baby food, as mothers are very peculiar about what they give to their children, yeah? This is when you look at pricing elasticity, baby food has the lowest pricing elasticity.

With spirits, brands matter too. People are very peculiar about their spirits, yeah? And when you talk to people, they will have very strong opinions about why they drink a particular spirit. It's not that easy to convert people who are so emotional about their products to a generic private label, so I think that there is going to be a period when they will be pushing this product into the distribution channel. They have easy time putting it on the shelf, because the shelf belongs to them, so it comes at no cost, only at opportunity cost. Opportunity lost of not selling brands. And they will need to figure it out with analytics whether it pays off for them or not. We are quite confident that this is going to – the size of this is not going to have a significant impact long term. But yes, there's much more private label now, and yes, we need to deal with this. And that's why – that's the second factor that is currently visibly influencing our performance in Czech. We are most influenced by it, because we are the market leader in every single category.

Did I answer your question?

Jakub Mičian: Yeah, thank you.

Mirek Stachowicz: Shall we move on to Paul? A quick break, perhaps?

Paul Bal: Yes, I think – so thank you, Mirek, for that. I think what I suggest now is if we could take maybe a sort of five-minute break, just sort of grab some coffee, catch up with emails, whatever, bathrooms. And then we'll start again in about five minutes, and we'll talk about the highlights from the first half. In terms of refreshments, I really suggest you go for the refreshments that are there as opposed to the refreshments that are out there, okay? Thank you.

Mirek Stachowicz: Paul's presentation is about one third the length of mine, so don't worry.

Half-One Highlights

Paul Bal

Chief Financial Officer, Stock Spirits Group PLC

Introduction

Okay, good afternoon, again, ladies and gentlemen, and welcome back. Before I get into the half-one highlights, just a few words about me, as well. So, Paul Bal, the CFO for the Group. I joined Stock Spirits back in November last year, so I'm also sort of just over half a year, as well. And prior to that, as Mirek said, I spent nearly three years in tupperware brands, and this was based in Switzerland, working in one of their three regions. And the brief there beyond finance was technology and digital, and strategy, as well, a number of strategic issues. Digital was one of them, and I spent a considerable amount of time there.

But really, I think what gives me more credentials in respect of what we do here is really the fact that I've worked in international tobacco and cigarettes for over 20 years, predominantly with British American Tobacco. And worked in practically every continent, in quite an international career which has spanned finance, IT, and also into general management. There's a lot of parallels, obviously, between the two industries. Chartered accountant by training. So, I am a Brit, and happen to be very fortunate to be living around the corner – literally around the corner from our offices in Wooburn Green, so I can cycle to work in the mornings.

Okay, so before the break, Mirek set out our vision and our aspirations for the future, and the strategy we're using for bringing that about. And he also demonstrated that we are underway, and we are putting that strategy into action. I'll now quickly go through some of t4he highlights for the results for the six months ending 30th June 2018, that we released yesterday morning.

Business review

I'll start with the business, then I'll turn to the financial results, and then conclude, and then you'll have the opportunity to ask more questions after that. Disclaimer. So, starting with the business review. Despite some challenging conditions in some of our core markets, we're very pleased to deliver some positive group results for the first six months of the year. Organically, we've delivered high volume, higher revenue and higher profits. Further, we've improved our margins, both at the growth profit, at the EBITDA and at the operating profit level, and our cash generation has also been robust. We announced an interim dividend of 2.5 euro cents per share, which is a 5% increase on 2017's interim. Our financial firepower for possible M&A has also increased. Our business in Poland has stabilised, as we previously announced. Yes, the market remains subdued and it is intensively competitive, but we have learned to deal with it. Evidence is seen in that we're recently beginning to outperform Roust, the market leader, in terms of volume gain, and this is very encouraging for us.

Our business in the Czech Republic has been tested. The trade environment has toughened, as some of our big customers have reduced their traditional levels of promotional activity, choosing to focus on value growth over volume, and they're trying to capitalised on the strong economic landscape and the increasing consumer spending power. Some of the trade have also hedged that bet by turning to private label. Recently, we've seen some of these strategies soften as the trade has seen the footfall traffic suffering as a result of these strategies and a result of fewer consumer promotions. But we remain confident that we can address these types of challenges in the Czech landscape.

As we said we would, we invested further in our brands across all of our main markets. We continue to focus on our cost base to help us to fund this. Our successful partnership with Beam-Suntory was extended to the Czech Republic and to Slovakia, and they are already seeing the benefits of this, as are we. We have also secured agreements to distribute certain Irish Whisky brands from Quintessential Brands following our 25% investment this time last year. The strategy that Mirek set out earlier serves as our focus for directing our effort and our resources to where they will contribute most to delivering the value in the future. We already see some encouraging results, and as you've seen from Mirek's presentation; and you'll see more evidence here.

Poland vodka market share trends

Turning to Poland, in year-to-date terms, there was a small decline in the Polish market, possibly a reflection of the rather prolonged and unseasonably hot period that we've all experienced across Europe this year, and certainly, the beer business has seen better volume. Despite the challenges of recent years in Poland, we have maintained a portfolio of brands, with a presence in all of the main subcategories and in all price points. And we are doing especially well in the premium segment, and so this is already benefiting from our focus on premiumisation. This recent picture of our volume and value performance in the Polish vodka market is also very encouraging. In the last three months, we have started to outgrow Roust in both volume and in value terms. Our persistence, our hard work and the investment in preserving and developing our brand portfolio is paying off, and we are certainly now doing better than both of our main competitors.

Mainstream clear vodka pricing

This recent performance in Poland is all the more impressive given the pricing backdrop. As this chart of the mainstream main brands' average overall pricing shows, the stabilisation that we saw in late '17 and early '18 didn't last long. We continue to see aggressive pricing from Roust, when all discounts, rebates and promotional pricing actions and taken into account. So, against this, our recent outpacing of Roust is all the more a strong achievement.

Headline financials

I'm now going to turn to the financial highlights. So, in terms of the financials, the key financials, you'll note the advance in all of the key measures. Revenue is up over 5%. The EBITDA is up over 6%. The operating profit is up nearly 10%. The post-tax profit, up 8.6%, and then the basic EPS is up over 9%. But it's also pleasing for us to see the margins advancing, too, both at the growth profit and the EBITDA level. Our heritage of strong cash flow delivery remains intact, with a 147% free cash flow conversion. So, consequently, net debt was reduced to just under €39 million, and this translates to a leverage of 0.67, and this clearly gives us the financial strength to consider M&A opportunities to accelerate our growth. The interim dividend was declared at 5% up, at 2.5 euro cents, and that's payable next month.

Consolidated P&L

The profit and loss account, now with IFRS 15 adopted, is set out here. The comparatives have also been restated, so that a like-for-like comparison is possible. Now, IFRS 15, remember, has not altered the EBITDA. It does raise the EBITDA margin slightly by some 20 basis points across both periods. The movement in cost of goods sold per litre also reflects the mix impact of more third-party distribution sales, but nonetheless, gross profit margin improved slightly. In March, as we reported the 2017 results, we said we would be investing more behind our brands, and we have done. Some extra €1.7 million was invested in the period, mostly across our Polish, Italian and Czech brands. Other operating expenses were held to an increase of 2.5%; that's well below the inflationary levels that we see in our key markets across Central and Eastern Europe. As the competitive and the pricing environment remains tough, we try and stay lean. In the period, we have also adopted IFRS 9 in the context of accounting for our trade receivables. The impact is not material, as most of our trade receivables are covered by credit insurance. We now also include our 25% share, the results of our associate undertaking, Quintessential Brands Irish Whisky Limited. The small increase in financing costs reflects the higher drawings across our facilities at certain points in the period; the facilities themselves are unchanged. Though the tax charge is higher, the effective tax rate is lower, reflecting the mix of profits and costs across the main countries in which we operate. And this all results in a pleasing 8.6% increase in the profit for the period, and a 6.2% increase in EBITDA, as well as a 20-basis-point improvement in the EBITDA margin against the same period last year to 18.9%.

Volume and revenue overview

Going down a level of detail to the top-line results, we can see a slight improvement in the overall group volumes over the period. Essentially, the shortfall in the Czech business was more than offset by the advance in Poland. Overall, reported group revenue was up over 5%, as we have seen. It was up a creditable 3.5% in constant currency terms. The main driver was an improving mix, the fruit of our strategic focus on premiumising our portfolio further. Pricing was not really a driver, as you can see.

Poland financial performance

If we now turn to the main markets, starting with Poland, the 4% rise in revenue in constant currency terms was effectively all coming from mix improvement. Volume gain was offset by the continued drag of pricing in the highly competitive market. The mix benefit driving our results confirms that our strategy of driving for more premium products is the way to navigate the current market dynamics. The EBITDA rose with revenue. And we have managed to maintain the EBITDA margin in the 26-27% range that we have previously communicated. This was achieved despite the higher investment in our brands, and despite the inflationary cost pressures on the cost base.

Czech financial performance

Revenue in our Czech business was up too, over 3% in constant currency terms. But the volumes contracted under some challenging market conditions, as I've already mentioned. This left the levers of pricing and mix to drive the overall growth in the top line. We have already heard from Mirek of what a runaway success Božkov Republica rum has been, and how it and the almost as new Black Fox herbal bitter are able to command impressive premiums in pricing. In addition, we also had some benefit from the new distribution agreement with Beam-Suntory. Though absolute EBITDA was down a little, the EBITDA margin was clearly impacted. But the real driver at play here was the increased investment behind such brands as Božkov Republica and Black Fox, especially in those all-important months around launch, which we believe will deliver sustainable benefit in the longer term. Of course, the Czech market is also subject to the higher inflation we have seen in the region, especially as compared to Western European markets.

Italy financial performance

Italy. Italy remains a very tough market, and all of the revenue drivers were against us. The market remained subdued, with spirits contracting in the period, and pricing and mix was under pressure from competition in private label. EBITDA fell sharply, but this reflected more than just the market challenges. It also reflected the start of the increased investment we had signalled on Keglevich. In this period, we began the multi-year programme to turn around the brand's performance and fortunes, and this is a comprehensive initiative that includes revisiting the liquids, the packaging, the positioning, as well as the marketing, and our aim here is the widen the appeal of Keglevich beyond just the younger adult consumer, and at the same time, look to it being considered in more drinking occasions. Now, we have confidence in the Italian spirits market in the longer term, and Keglevich is a key brand in that market, and it's the start of a journey that we have committed to, and it's critical to fixing our Italian business. As Mirek showed, the early signs of the first campaign are encouraging, particularly in the digital channels.

Other segments' financial performance

If I turn now to the remainder of our markets, and this encompasses Slovakia, Croatia, Bosnia-Herzegovina, our exports business and the Baltics distillery. Overall, these businesses delivered well in the period. Revenue growth was a robust 8.5% in constant currency terms, with most of the businesses contributing to this. Slovakia has also benefitted from the new distribution agreement with Beam-Suntory. EBITDA and EBITDA margin recovered sharply. Now, this is not just the improved performance in markets such as Slovakia, but it is also the recovery of certain issues from 2017, such as the Baltic distillery breakdown, and debt recovery issues in Croatia.

Concluding remarks

So, in conclusion, in these six months, we have navigated some challenging conditions, through staying focused and investing behind the levers that will drive valuable growth. As a result, we have been able to deliver both top-line and bottom-line growth, and progress in margins. The investments we are making in our portfolios are paying off. Our strategy of premiumising our portfolio further will see us continue to invest in our brands in this way. Cash flow remains our focus too, and the robust generation is strengthening our financial position, and it's widening the strategic choices that are available to us. We continue to plan and forecast on the basis that pricing in Poland does not improve in the foreseeable future. That is really under the control of the market's main player, Roust. We've seen no indication that their position in changing, so we have no choice but to focus on the value drivers that are under our control. In applying that focus across those drivers, we have the benefit of a clear strategy that guides us in our decisions and resource allocation, and we believe that all this positions us well for delivering the value to our shareholders despite these tough conditions.

And with that, I thank you and finish with the highlights from the first half, and now I'm going to throw open the floor to your questions. And again, as we said earlier, before you pose your questions, please, for the purposes of the recording of the session, please identify yourself and the organisation you represent. Okay, thanks. So, first question, please?

Q&A

Matthew Reid: Matthew Reid, Berenberg. I was wondering if you could give us a little bit of context around what's happening now with Marie Brizard in Poland. You know, are they still tied up with Eurocash? They were talking about this kind of vast destocking in Q2, and they've got this kind of business reorganisation, new MD, etc., hiring again in sales. Yeah, really be interested to hear your thoughts.

Mirek Stachowicz: Well, we have all seen the communication from Marie Brizard, and looking at it from our standpoint, we believe that there has been no change in the contractual relationship with Eurocash, although we are not party to this. We also know that they have increased their team by hiring a national sales manager, with a brief to improve the ability to activate brands in the traditional trade, which was a key weakness. Further, we also know that they have just announced recruitment of the new CEO, who I actually know, and he's a highly respectable professional who knows the drinks market very well. Worked a large part of his career with leading beer company SABMiller. So, I think that they've made a good choice when it comes to the CEO. The question is, of course, how quickly and to what extent they will be able to turn around the performance. When one looks at the results, the trading results they published for first half of the year, there is a clear indication that the underperformance that was characteristic of the Polish business has now spread to a number of their geographic divisions, and most importantly, to France. France was already signalling decline in sales in the first quarter of this year, and is now showing a decline of over 11% in sales in France. France is a key division. First half of this year, Marie Brizard declined over 64% in Poland. And yes, they were talking about destocking. I have to confess, I don't understand. I can't comment. Don't know what destocking that is. Don't know enough about the situation in other markets. In Poland, destocking lasting two years would be a strange phenomenon, but, no, it's a very short communication, so I'm not going to comment on this. I think there's going to be a big challenge for Marie Brizard to recover, based on my experience of turning around Stock Spirits in Poland. One needs to take some tough decisions, which, Marie Brizard was unable to do in the past, I think. But we'll see whether under new leadership, they will be able to do that.

Now, I think that in Poland, the rapid decline is certainly not slowing down, and I think that it's – since the new CEO is coming in the end of October, I would not expect any significant improvement this year. That will be my guess, but then it's based just on our assessment of their capabilities in Poland. Whatever they do in terms of turning around the business in Poland, speaking just about Poland, will require investment, and they have said in their half-year announcement that they are expecting to have another year of loss. So, the question is how much appetite among the shareholders there is to continue to invest in the business that is bringing losses. That's something that I can't determine also. Does that answer your question?

Matthew Reid: Yeah. Can I follow up? I heard from people in the industry that potentially one reason for ongoing price competition in Poland has been if you can secure the exit of Marie Brizard, and essentially turn the traditional trade into your play, that could be quite a value accretive situation for yourselves and your main competitor. Is that the way that you guys are looking at this?

Mirek Stachowicz: When you look at the pricing chart that we have shown, you can see that Marie Brizard is declining despite the fact that they are at parity with us, in terms of pricing mainstream, so pricing is not the main driver of their decline, in my opinion. If I'm right, then the pricing that market leader is applying in the market is not the factor for the decline of Marie Brizard, and then we certainly are not suffering from this pricing.

I think that Paul was trying to demonstrate that our strategy was focused on ensuring that regardless of pricing in Poland, we are going to deliver on our commitments. So, I would question whether this pricing is really driven by this factor. I think that Roust sees these dynamics, and I think that the Roust presence in the traditional trade and the scale in the market, would allow them to achieve these objectives without having to undercut pricing so much. But then I don't know what their reasoning really is. A company that's been in Chapter 11 and is clearly heading again into Chapter 11, it surprises me that they use this type of pricing, I have to say.

Matthew Reid: Thank you. Just on the pricing chart, which is all format so, presumably impacted by format mix.

Mirek Stachowicz: Correct.

Matthew Reid: Just in terms of your 500ml ZDL versus Zubrowka versus Krupnik, how would this chart look? Would it be similar?

Mirek Stachowicz: The 500ml chart we used to show that actually. We are roughly at parity. So, it's a bit different picture, but you need to remember that the smaller formats are actually an important element of the market. That's why we have selected in the last two reporting cycles to report all formats, because it does reflect more the average price that the consumer is facing on the shelf.

Paul Hickman: Thanks, Paul Hickman. I think it's maybe a question for you as well, Mirek, on the same chart. But I wondered if you could just talk a little bit around the relative performance in volume, particularly versus Roust in the last quarter where as you say you seem to be increasing your out-pace.

Mirek Stachowicz: Yes?

Paul Hickman: I just wondered because you described a situation in Krakow so eloquently, if you could talk a little bit about what is happening, particularly with yourselves versus Roust here.

Mirek Stachowicz: Well, I think that two things are happening in here. We are able to drive our premium brands such as Stock Prestige and Stock Prestige is enjoying healthy growth rates, as well as Amundsen. You'll be able to try these products, shortly. But if you remember we have relaunched our main brand in this country called just the Deluxe. Again, it's waiting for you to try it. This is a major project for us. This brand is by far the largest volume brand for us, so the risk involved in completing new packaging was significant. We decided to completely change the shape of packaging, change the liquid to make it smoother. Hopefully, you'll be able to appreciate it. And we brought it into the trade in April. So, because of the size of the brand, it hits the shelves gradually. The amount of product in the distribution channel is significant and it takes time for it to filter through to the shelves.

I believe that the reason why we are able to drive volume aside from being able to move Premium brand so well is also the success of this launch because we know from consumer research and from comments from our distributors, that this bottle is seen as a Premium bottle. We've deliberately chosen a very pristine and simple design to differentiate from quite rich and busy designs of other players on the market, and I think that it's working.

It's very hard to say what's the reason for the particular performance of this brand because it's always a combination, but we think that the brand clearly is outpacing the market and outpacing the segment, so we are very pleased with it. Without this, we would not be able to have such good volume performance. It's still early days. The size of the brand is so big that to reach perfect distribution of the new packaging will take us, probably until the of Q3 and then I will be able to more authoritatively say whether this is really the success that it seems to be. That's why we are not really commenting on this until we are 100% certain.

Matthew Webb (Panmure Gordon): Hi, Matthew Webb from Panmure Gordon. I wonder if you could comment on how you think vodka is positioned versus beer in Poland at the moment, both in terms of value for money and also, perhaps how it's perceived by millennial consumers in particular?

Mirek Stachowicz: Happy to do that. Beer and wine enjoy different duty rates in Poland, and it's a deliberate policy by the government just trying to manage the heavy consumption of alcohol so, therefore, it encourages lower alcohol content products with lower duty rates. So, therefore, beer is per alcohol unit. It's much cheaper to consume than the spirits. That represents a challenge to the spirits industry. There's been a dynamic growth of beer consumption in Poland as a result of this over the last 25 years.

I believe that in the last five years, this has stabilized at a sustainable level and currently this is driven more by seasonal factors than anything else. As Paul mentioned, we have seen dynamic growth of beer in Poland this year with sometimes double-digit growth of consumption in the heatwaves. This is not only happening in Poland. I've seen press reports about beer manufacturers in Germany running out of bottles because there's such a massive growth in consumption of beer. We know from our seasonality patterns that vodka and spirits, overall, are consumed more in the cold periods.

This is a challenge that we want to deal with, and outside you will see an interesting proposal that we are now promoting in Poland, which is cold cocktail called Wodnik containing our flagship Zoladkowa Gorzka, so Natasha my executive assistant, enjoying a sip of it and I recommend you try it, too. So, it is actually dealing with two issues. It's one that typically in the summer people, they like to have lower alcohol content drinks and it's building on the growing cocktail culture. We are running these promotions across holiday resorts, so we do this outdoors. We have a promotional mechanism and people can try it out.

We have actually mobile vans that are serving this to adults. So, yes, I think seasonality is driving now a lot of the switch from beer to vodka. There's of course, wine, and wine is dynamically growing in Poland. We see also millennials consuming much more wine and I would believe that this is more at the expense of beer than at the expense of spirits. The reason for this is that beer does have some perception of product that it has a high calorie content, so people prefer wine as a healthier choice. These would be my comments.

Matthew Webb: Thank you. Very helpful. Thank you.

Paul Bal: Another seasonal factor is possibly also that we had a World Cup in that period, although, the Poles were rather early in their exit.

Mirek Stachowicz: They were, yes. But then, we did extremely well in Croatia, as you can imagine.

Jakub Mičian: Good afternoon. Jakub Mičian from WOOD & Co. If I could ask you first and foremost, in Poland where we have seen in the first half was, primarily the mix has been the driver of the revenue growth. My first question would be if that has been primarily because of the flavoured vodka growth or it has been because of the stronger mix of whisky?

The second question would be, what is the proportion of the flavoured vodka right now in the spirit market in Poland and where would you see a saturation of the segment? Where would you see a normalized growth level, given that it has been such a dynamic growth driver in the Polish spirit segment?

And the third question would be primarily on the corporate costs. Given that people have been discussing that to quite an extent, now the question will be, where do you see further potential in terms of the corporate cost or if you feel like you have already reached a peak in terms of these expenses?

Paul Bal: Thanks, Jakub. Taking the first one, which was about, so what's behind this maybe 4% mix benefit that we see in Poland. This is predominantly coming from our progress in the premium price segment and also in the price segments that are above premium. We've had a very successful period with our main premium, clear vodka brand, Stock Prestige. We ran a special edition of that as well, which helped, so that was a key driver of that. There was also progress in the price segments above premium, as well. There's a number of above premium segments. That was the main driver really of the 3.9%.

Now when we reported on the 2017 results back in March, both Mirek and I expressed some of our disappointment in our performance in the flavoured vodka subcategory and whilst we have seen improvement in that over the period that we've just reported on, we still feel that we've got a way to go. So that wasn't a major driver of the mix benefit. There were some impacts, but it wasn't the main driver by far. In the period, we have invested behind two key flavoured vodka brands, Lubelska and Saska, but it's early days at this stage to be able to report on the benefit that we will see from those. So that was the first question.

The second question was about the size of flavoured vodka in the Polish market. In terms of the overall spirits market, the flavoured vodka is probably around the 25% to 30% is where we estimate it to be and it's growing still, healthily. It's growing beyond 5%, but not as much as 10% in our estimation. Then your final question, Jacob, was on central costs. Central costs came down considerably in 2017 versus 2016 and the prime driver of that was a number of initiatives that we're trying to address the cost base at the centre.

Looking not just to deliver to the bottom line, but to reallocate resource to where we needed it at that point the most, and that was to be able to invest it in the front line in Poland and that's exactly what we did, and there were two big initiatives and restructurings that took place which impacted the central costs. So, the last of those initiatives came through and delivered a benefit last year. What you're seeing in the numbers this time round is a more even comparative between the two periods.

You'll see as you look through the detail of the financial statements that we still continue to make progress on the central costs. The central costs are lower in absolute terms than they were in the prior period. As a percentage of sales, they're now sort of becoming what I would consider to be more reasonable. Now that's not driven by any specific program or initiative. That is just a continuation of what I said, which is our focus on our cost base in trying to maintain a lean cost base and investing where investing will make a difference.

Right now, investing behind our brands is making a difference as we can clearly see. So, we will continue to do that, and we will continue where we find opportunities to address the cost base even further, we will do that. Now in this period, we have seen inflationary pressure, but that inflationary pressure is predominantly in the Central European markets, in terms of sort of wage inflation. We've seen also inflation in terms of raw materials and energy costs. So, again, we will look to find opportunities in places like central costs to be able reallocate resources where we need to address the issues.

Matthew Reid: Hi, Matthew Reid, Berenberg. Just a couple for you, Paul. Firstly, so looking at the EBITDA at your interim presentation last year, you called out a number of one-off costs, such as restructuring and whatnot, which were about $2.1 million. So, if we're looking year-over-year on an underlying basis, there would have been an organic decline. Are there any hidden one-off costs in the number, the $23.4 that you reported for H1?

Paul Bal: Nothing in the magnitude that I would say would have been comparable to what we saw last year and, hence, that's why we haven't called anything out. Yes, I mean there may be some one-off costs, but there's nothing singularly material or even an aggregate that would add up to anything material. Which goes back to, as I was addressing the earlier question, there have been no initiatives or rationalization programs or anything of that nature or major reorganizations in the period.

Matthew Reid: So then in terms of the brand investment which was, obviously significantly upweighted, a large part of that was from Czech Republic and Italy and basically would it be fair to think that the upweighting would very much have been H1 weighted? Because it's the product launches, and so therefore, going forward we won't see such a diluted impact on the margin from A&P?

Paul Bal: I'm not sure that's an assumption you can make, Matt, to be honest with you. I think you will see further investment behind our brands, continued investment behind our brands. Will it be of the level potentially that we have seen in the first quarter? Possibly not as high as that, but there will be, if you were comparing quarter-to-quarter or second half to second half of the calendar year, yes, you will see higher investment levels through the rest of the remaining two calendar quarters of this year compared to the year before.

There's a number of campaigns. For example, Keglevich, which are multiyear campaigns, so those will continue to require investment and through our normal cycle of refreshing our products and our offers there will be brands that will require refreshment. Plus, we continue to look at innovation to drive the premiumization that we aspire to.

Matthew Reid: Thank you. Maybe one final one on Poland. If we're looking at calendar year '18, in order to get to that the target of 26-27% margin, it would imply fairly material, organic margin accretion in the second half of the calendar year. A: Are you still comfortable with that 26-27% and if so, where do you see that accretion or expansion coming from?

Paul Bal: So, first of all, for the record 26% to 27%, isn't that hard target for us. It's an aspiration that we set ourselves as to provide some discipline for us in terms of financially managing the Polish P&L. You'll remember when we reported 2017, we were outside of that range and we explained why were outside of that range. So, whilst it's there, it's a guide that we have shared publicly that we are aspiring to, where it makes good business sense, we will deviate from it. Now at the moment, you're asking me, am I comfortable that I'll be within that? I mean, I would respond to that by saying I would still keep that as my aspiration to be within that.

Damian McNeela: Damian McNeela from Numis. A couple of P&L questions. Interest costs were up in the period, but net debt ended the period lower. For the second half, should we be expecting a similar level of interest costs or should we expect that to edge down, given the lower start point? Tax rate, I think was just under 25%. Does that feel like a good number for this year and then the next couple of years? Then what – can you give US the percentage of A&P or A&P as a percentage of sales, please? You talked about the step up, but the overall percentage.

And then perhaps this is one for Mirek on flavoured vodka. You've got two brands in flavoured vodka going up against Roust's single – four brands, okay. Can you just give the sense of what each of those two brands is doing and why not one over the other, please?

Paul Bal: So, I'll take the third of the three questions for me first, which was the proportion of A&P expense, the advertising and promotion expense within the P&L as a proportion of sales. We don't, Damian, surprise, surprise, it's not something that we disclose, and we wouldn't want to disclose that for competitive reasons. Your second question was in relation to the tax line and the tax charge and whether the effective tax rate which is just below 25%, whether that's sort of where we expect to be. I expect to be around that level. As I said, the movement in that reflects the mix of profits and costs and one of the drivers, the key drivers behind that was the lower costs, for example, in the UK. So, yes, around 25% is where I would expect us to be.

Then your first question was in relation to the financing costs and the uptick in the financing costs that we saw in the first period. As you'll see in the detail of the financing charge note in the financial statements, there's a couple of one-offs in both periods. But when you strip that out, yes, there is an underlying sort of increase that we've seen in the first quarter, first half. What that reflects is more utilization of our facilities during this first six months compared to the six months in the prior period and what was that driven by? That was predominantly driven by two things. One, was the impact from over the year. If you remember, we had provided additional credit to certain customers in a tactical initiative in Poland and it was really the unwinding of that, which all unwound in the first quarter.

Then secondly, we had built up working capital in the Czech Republic and this was to mitigate the risk as we were approaching the decision on the rum ether situation. To mitigate that risk we had built up inventories, which obviously now, as that issue has now been navigated successfully we are now rolling down. So, consequently, in the second half, I would expect the financing costs to be more in line with where they should be with a comparative period. I think that's the three questions.

Mirek Stachowicz: Damian, on your question about the brands, we actually have four brands in flavoured, but the Roust has three. Actually, we have five. So, we have, starting from premium, we have flavoured varieties of Stock Prestige. Now, in this segment of the market, flavours don't play such an important role because people actually do drinks. So, they use vodka, a high-quality vodka to mix with their drinks. The flavoured is less useful. Then you have the mainstream of flavoured where people drink it neat, and the consumption there is by people who are looking for taste, combined with – flavour taste – flavours with alcohol.

It's driven by millennials and by females because these products also have lower alcohol content, so it goes with the overall trend to drink products with lower contents of alcohol. Now Roust has taken a strategy which is typical for Coca-Cola, for example. Don't forget, the majority of their management over the last five years came from Coca-Cola. Their ambition was to occupy the centre of the market, so they have driven two brands to be sitting right in the very centre. One is Zubrowka in clear and the other one is Soplica in flavoured.

They have successfully implemented this strategy at high cost. So, they have gone for it and they have achieved leadership in both of these categories. The problem with brands like this is that they want to be everything to everybody. What we have, we are trying to flank them and target the brands. Now we have a brand called Zoladkowa Gorzka and we know from psychometrics this is a brand that is traditional and is consumed by people of higher age, so it's not millennials. This is not a millennial drink and it's seen as traditional.

Now, Soplica has built brand equity around traditional Polish historical. So, we have our brand that is doing this at a higher price point actually. We then have another brand called Lubelska and I'll talk about this in a sec, which is strictly targeting millennials and it's about purity of the fruit taste. It's very simple fruit flavours, just as Soplica is. This is lighter. This is more about transparent liquids and it's about fun. It's cheap and cheerful, so to say. It's much for more the young adults for partying. It's a bit like Keglevich positioning.

Then we launched Saska, and Saska has quite a story. Saska was developed as what we called a Soplica killer. Now, Soplica – Roust didn't like it. The previous management in point, made some mistakes in terms of registration. The registration of the brand ownership was challenged. We decided not to go into this. We have settled with Roust and we regained ownership of the brand, and from then on, we started in 2016, we started developing this brand. It's meant to be a direct response. So, we have two brands flanking Soplica and we have one brand which is going head on with Soplica. How does it differ? Are we different?

Well, we are not trying to be everything to everybody. This is a millennial brand and the tastes are very different than anything you will find on the Polish market. It's a combination of flavours, so it's always some predominant flavour with something else.

The second bestselling variety of flavours in Poland is cherry, so every manufacturer of any stature will have a cherry-flavoured vodka, all they care. While ours is a cherry-flavour with a hint of rum. Why? Because rum is seen as aspirational by millennials. When we make this, we actually macerate the cherries longer than anybody else, so there's a much more pronounced taste of cherry and we are using not some rum flavour. We are using real rum in it.

The same goes for another variety, which is orange with bourbon. There's real bourbon inside. Actually we have access to good bourbon and properly macerated oranges, which is actually our home territory because macerated oranges are the backbone of our most respected brand, Żoładkowa Gorzka; you'll be able to try that. So we are combining tastes. It's a new concept and it's actually working very well. So we have, for example, a runaway success with a flavour called coffee with brandy. Now we are brandy specialists, right? So who else could do this besides us? That's why we have three brands. Each of them has a different role. Now, it makes it more difficult for us to merchandise this because Roust can take a range of Soplica and place it, and it's simple. We need to place three ranges, and that is why it's more complicated role for us to play in the activation in the thousands upon thousands of traditional stores. That's why we are still not where we not to be with this, because it's taking us time.

And don't forget, you need to have experienced sales force dealing with this. If you recall our previous communication at the end of 2016 and beginning of 2017, we replaced 50% of sales team, yeah? 5-0. Out of 20 sales team managers, we replaced 19, so it's a new team. There is a learning period, and that is why it's taking us time, but I think that our brand portfolio is better. So we will be able to deliver better result with this brand portfolio because we can play within it. It's very difficult for Roust to play with one brand sitting in the middle. They've gained quick success. Now we will be nibbling at them, and I think we will be able to have success with this strategy.

Deutsche Bank: Hi, [inaudible], Deutsche Bank. Just a quick one. Can you just confirm that the pricing situation that you're seeing, that's not a formal price? You haven't seen a formal price from Rous anymore; it just purely promotionally driven?

Paul Bal: Yes, so we have not seen any formal price movement from Roust, certainly in the six months that we're reporting, or subsequently.

Okay, it looks as though we've dried up here. That's good. So what we'll now be doing is moving to the next stage of the afternoon, and before we start getting into the products and seeing for yourselves some of the things that Mirek and I have been talking about, Mirek's going to give a quick introduction and context of some of the products that you will be experiencing.

Before Mirek does that, I just want to, because I know I will forget, I will say that we have organized also some products for you to take away with yourselves and to share with others as good brand advocates should, so please, when you are going to make your way home afterwards, please do take one of the brand boxes that you can see there. In that, you will find four samples of the products that you will be experiencing later on.

Mirek Stachowicz: I think it is Amundsen and Black Fox. It's Republica and it's Syramusa. So you'll be able to experience variety of products from a variety of our markets. Hopefully you'll find something you'll enjoy.

Paul Bal: Certainly wouldn't mix the four together.

Mirek Stachowicz: Okay, should we go on without a break?

Paul Bal: Yeah, I think so.

Mirek Stachowicz: I want to introduce Carlos, who is leading the Polish entrée team that has come here all the way from Poland, and they will be introducing you to our products. At the end of this presentation, we'll explain how we are going to do this, and I count if I make any errors here you will –

Paul Bal: Yeah.

Mirek Stachowicz: Thank you.

Paul Bal: Have fun.

Mirek Stachowicz: Okay, so now there's the fun part, because we are talking about products. Now, I couldn't be a CEO of this company without actually enjoying a drink. So I do, in moderation. Let me tell you about vodkas. That's an interesting subject because people keep asking me how vodkas differ. Before we go into that, something from Adam and Eve, yeah, Aristotle and so on – what's interesting here, vodka, the word vodka, actually appeared in the first time in Poland in 1405, and you know, Gdansk, which you know was part of the Hanseatic setup, they became a major exporter of vodka in fourteenth and fifteenth century. Now our role started around 1906, where the factory in Rlublin was set up by charismatic founder. This guy was not only doing vodka – for example, produced the planes. He was a pioneer of aviation in Poland, produced a plane. In 1920s, there was the major bomber in the Polish army in between the wars. And in 2007, this factory was taken over by us and became part of Stocks Spirits Group. Now, the word vodka comes from 'aqua vita.' Latin was used a lot in Poland in the Middle Ages. Hence, the word vodka, which means water of life.

Now, why is Polish vodka better? Now, being Polish, I have no doubt about this, but before I explain the difference between Russian and Polish vodkas, why is Polish vodka better than any, Polish and Russian vodka, better than others? We have done actually a small exercise. I asked Bartosz to buy a bottle of Glen's Vodka, which is the number one vodka in the UK in terms of volume. It actually pretends to be Polish. It has Polish flags on it. We had a little taste before I went into the presentation. That's why I was so relaxed. You will be able to taste it yourself, hopefully. Glen's Vodka is a mainstream vodka and you will be able to taste it against our mainstream vodka which is called Żoładkowa de Luxe. Hopefully you'll be able to tell the difference.

Now, reason why Polish and Russian vodkas are world-leading is because we drink it neat, so most people in the world mix it with other drinks, carbonated soft drinks, Bloody Marys and so on, but we drink it neat. It has to taste good. Otherwise, we wouldn't drink it. So this consumer demand and pressure for quality is actually visible in the pressure – in the quality of liquids. Now, what's the difference between Polish and Russian? It's about quality of spirits. We tend to see in Russian vodkas the lower quality of spirits is masked by usage of sugar. And we see this also with some of our competitors. We are able to use fructometers to detect presence of sugar, and we detect presence of sugar. We would never do this because proper vodka doesn't have sugar. Germans who are fanatical about their beer. We need to be leaders in terms of understanding what vodka is all about. We go about distillation rectification thoroughly, so there is no rushing this. We have massive overcapacity there, just to make sure we do it properly. The purity is important in vodka because you will have impurities, and we are making sure that we eliminate this through the process. Now, Russian producers tend to do this through filtration with carbon filters. One could argue it's the same thing. It is not, because carbon filters change the taste of vodka and make it the same. If you put anything through carbon filters, it will taste the same, because carbon takes away everything. And doesn't contain any additional artificial tastes, clear vodka.

One of the leading – I will not name names – one of the leading global Russian vodka names ultra-premium is actually not vodka, because it contains so much additives and sugar that it's under EU law is classified as liquor, although worldwide they sell it as vodka. That's the main difference. It's about purity and it's about achieving this purity in ways which are consistent with the manufacturing process, not through addition. Interesting fact: Pablo Picasso loved Polish vodka. Another interesting fact, Rolling Stones came to Poland in the dark days of communist, 1967, and the story actually goes like this. They asked for tequila in the bar in the hotel. Of course, nobody heard of tequila, so they gave them vodka. The next morning, they demanded to change the contract to receive two wagons of Polish vodka as payment. Now, the story goes further. The true story goes further. They were paid two wagons of vodka, but never received it because it got stuck in customs in the UK.

Now, what does it mean? According to consumers, it has to be smooth. It has to be cold. It has to make you feel good the next day. The hangover issue is actually important. We believe it's about impurities and various other things, excessive consumption too, of course. Hopefully you will enjoy the first two things. Now, when it comes to the temperatures, it has to be served between six and nine degrees centigrade. It cannot be really frozen because you will not taste the taste. In Poland, people stick it mostly in the refrigerator to freezer, but then they drink it over period of time so that the temperature increase more or less to between five and 15. You will be drinking at the proper temperatures here, so you can taste the flavours and the smells. Does vodka freeze? Yes, it does, because you know, it's 60% water, and it freezes at about -24.

Quickly about the manufacturing process, so one needs to select the raw materials correctly and I will talk about raw materials in a second. Then, they get heated to 150 degrees, you add yeast, then you ferment it to 7-11%. Then it's distilled to very high purity alcohol. Then it's rectified, and you know, these two processes can be done in various ways. Like everything else in life, small things matter here. You know, master distillers are people who really know the differences between various metals that are used for the rectifying columns or various shapes of the distilling columns. That makes a difference in taste. Finally, water is added. In Lublin, we are using water from underground deposits. It's the same water that Nestlé uses for their leading brand of bottled mineral water, so it's highest-quality water. It has a distinct taste also, as mineral waters do. Then, there is additional filtration for those that require that, and bottling.

Now, another fact, you know, Poland was so much about vodka that in 19th century 70% of economy consisted of vodka production. Now, let me talk about the raw materials. They affect the taste. So wheat, it's with hint of sweetness. Potatoes are slightly sweet and they have a flat taste. Now, I can't describe it any other way. Barley, it has a clean neutral taste and smell. Rye adds character and sharpness to the taste. Spelt is an ancient form of wheat. Now, spelt is still grown in parts of the country and we source it for our top vodka. It actually has slightly different DNA than wheat, because it wasn't evolved for mass production. So therefore it's more expensive. And corn has very sweet nose, but it has a hint of bitterness, and people who make bourbon know about this. They remove this bitterness through proper crunching of corn and removing the husks, because it is the husks that give the bitterness.

Now, let me talk about our products. You see, this is the standard way in which we measure the taste profile, because the taste profiles are different. So these are the products you will taste today. This is Żoładkowa de Luxe, which is the mass market mainstream. The most important thing is smoothness here, and it will have a sweet taste profile. Why? Because people begin to prefer the sweetness in alcohol. It's the influence of carbonated drinks. The smoothness, it's Stock prestige. it's our millionaire brand premium. It's the number one premium brand in Poland. You also have by comparison Orkisz. Orkisz is the super premium brand that we have. It sells very small quantities. It's made of this ancient wheat. It has a much richer taste, actually. It's my favourite vodka of all our vodkas. Then neutral is Amundsen, and then this one has a bit more bite to the tongue. That's why it's in two places. It's both smooth and has this little thing at the end.

Now, going one by one quickly, Żoładkowa has this smoothness because it's not only six-phase distillation and the water, but we also have a mix of grains here, and it's wheat and corn. So mixing the grains with the various types of alcohol produces various tastes. That's where vodkas differ. This is about superior smoothness, so we go here about to mostly barley. Barley gives you a bit more elegant taste. Now, I don't know if you have the same view of elegancy of taste of vodka. Let's give it a try when you try it. This is mix of three kinds of alcohols, so made of barley, wheat, and rye. It's a slower distillation process, 60% slower than normal. Plus, we then filter it below zero Celsius. Why we do this? Because it does change slightly the taste, if you filter it above zero Celsius versus zero Celsius. I ask this question when they ask for capital investment for the refrigerator in which we will be filtering it. Finally, this one, this is the top liquid that we make. It's made of spelt. Very few areas in Poland and very few areas that grow it in Poland.

Now, let's move to flavoured. Flavoured is traditional, which means that in Poland and in Central and Eastern Europe, Czechoslovakia, flavoured vodkas come from distilling fruits. And it's made from – you take plums and you distil them. You add yeast and you create alcohol from plums. In most other places, flavoured vodkas became a fashion when they simply started adding fruit flavours to alcohol from grains. And that's how economy flavoured vodkas are made everywhere, but the real premium flavoured vodkas are made from distilling fruits.

In the 17th century, it used to be a liquor that was medicinal. Then it became less medicinal, more for fun. Lemon and cherry are the most important flavours. Our lemon Lubelska is the number one selling flavoured vodkas in Poland. Then, we are at the point where I'm going to talk you quickly through these three. Żoładkowa Gorska – I recommend you try this. It's a formula from 1822. Now, it's based really on bitter oranges. Currently what we do is we go through a lot of trouble. We actually buy bitter oranges in Haiti, have them cut up, put on the ship. They are shipped to Poland. We macerate them with spices. Then we add alcohol and the mineral water and we bottle it. It's not a quick production process. The taste is unique. I would like to have your opinion about it, because this is exceptionally interesting taste with a hint of clove in it. It's also a basis for this cold drink that Natasha was tasting. Lubelska – this vodka is about simplicity of flavours, so it's supposed to clear liquids with cherry flavour that is supposed to be quite distinct but simple, you know, nothing fancy about it. Received numerous awards, and it's the traditional way of making liquor by macerating the fruits. Saska, I told you about, yeah? That's the millennial response to Soplica and you will see these are fairly complex flavours. We understand that consumers are moving more to complex flavours. This is the trend with gin, where the botanicals are producing quite complex flavours. It also comes from people getting their pallets to taste, for example, wines, with complex flavours. We think that similar things are happening with spirits, and we want to, aside from clear vodka, that should have fine flavours, complex flavours should be produced here in these kind of products.

So let me hand over to Bartosz, who is going to now – because my presentation happily is over. Bartosz, you will explain how we're going about this, yeah?

Bartosz Paśko: You didn't leave me lots of time, so, briefly I will talk about what's going to happen right now. First of all, welcome to everyone. My name is Bartosz Paśko. Currently, I'm holding the position of entrée activity manager in Stock Polska, and together with my friends who is waiting outside, we came all the way from Poland to bring you closer to our brands and show you how you can drink it, show you different kind of consumptions, especially on Żoładkowa Gorska, because that was the subject you were talking about quite a lot. So you will see different kind of ways of drinking it.

Plus, we want to talk about innovation, maybe not even talk but show you the innovation, because we know how it's important to be the first one in whatever we do, and I'm not talking only about introduction of new products, but also how we promote them on the market to the consumer. So that's why we collaborated with a company called VR Factory. They, together with Tomasz Malek – this is the world-famous bartender who won ten times world championship in Flair – they created an app that puts everyone in the body of a bartender, so actually you can become a bartender. Finally, yeah? I think everyone at some point wanted to do that. That's why we are cooperating with them, and this is something that we want to show you. Of course, everyone also wants to be first in everything. That's why we are actually first for introduces the VR Bartender League. This is the league dedicated for professional bartenders, and they can actually compete in the digital world. Of course, this is just one part of the activation we have prepared. There is the other activation dedicated just for the simple consumer, and actually we want to give them also just a hint how to be a bartender in top clubs in London, New York, Paris, Milan, Warsaw. This is what the application is about, so let's just go through the short intro and I will give you more info how we will proceed with the next step of the evening.

[VIDEO]

Bartosz Paśko: So hopefully I will see each of you trying the VR Bartender app, and we still have some small prizes, but still prizes, for the best one. So the competition will look like everyone is trying the bartender, making one drink, and whoever does it first gets a prize.

Mirek Stachowicz: You clearly don't know the drinks. It's going to be deadly. These people are competitive.

Bartosz Paśko: Okay, so I want you to split in three groups. We have around 20 people, so groups of seven, maybe. Maybe let's take first three rows. That will be the group one. Group two, maybe with you. The rest is the group three. Now, we will go to the different zones. We have three bars prepared with different brands, and we have two VR zones for you. Can you take one group?

Speaker: Yeah. We're going to go – I'm going to help with Mirek's.

Bartosz Paśko: Okay – so take one group.

[END OF TRANSCRIPT]