

# Western Gate Private Investments Limited

We recommend that Shareholders vote AGAINST Resolutions 2, 4, 5 and 18.

29 January 2019,

## Dear Stock Spirits Shareholder,

Western Gate Private Investments Limited ("Western Gate") is a 10% shareholder of Stock Spirits Group PLC, and we are writing to inform you of important information relating to the Annual General Meeting which will be held on Thursday, 14 February 2019 at 10:00am.

At the upcoming AGM, Western Gate will be voting **AGAINST** the re-election of David Maloney, Chairman and John Nicolson, the Senior Independent Director ("SID") of Stock Spirits and recommends the immediate commencement of a process to appoint independent replacements using an independent executive search firm. As the largest shareholder in the Company we feel the Board needs a new culture and culture is set from the top, so we urge our fellow shareholders to do likewise.

We have made our concerns public over the years and have provided our recent press statement and our engagement track record to date on our website here: <http://www.westerngate.eu/news.html>

**Your action is requested, as a large protest vote against Messrs. Maloney and Nicolson should be taken as a mandate for change to review the Company's M&A strategy, capital allocation and dividend policy.**

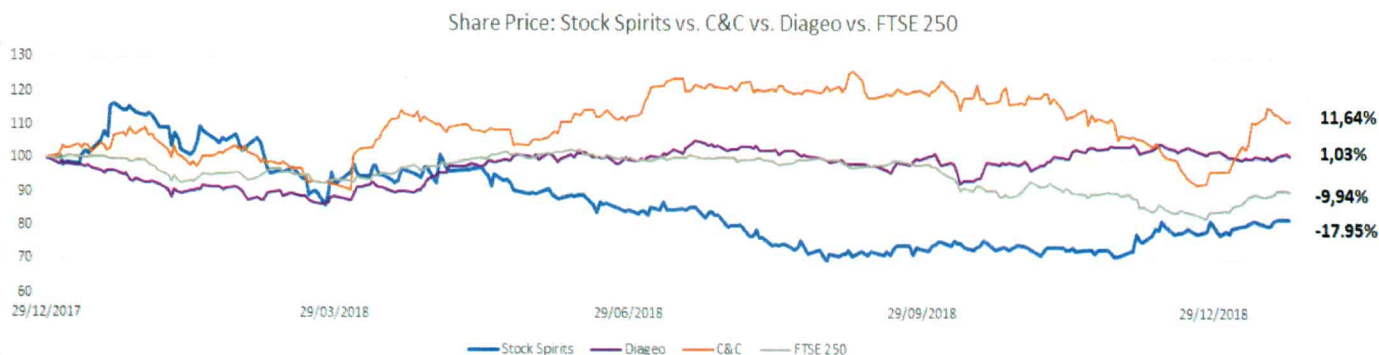
## Fundamental Concerns Persist

Following significant shareholder value destruction at Stock Spirits as a result of below peer financial performance and lost market share since its IPO, shareholders continue to suffer from the Board's (led by David Maloney) lack of: clear growth strategy; M&A activity, with none completed in 2018 (and little since the IPO); and negative Total Shareholder Return ("TSR"). Our concerns have been left un-addressed, even following meetings with the Chairman and Executive teams in Q3/Q4, these are:

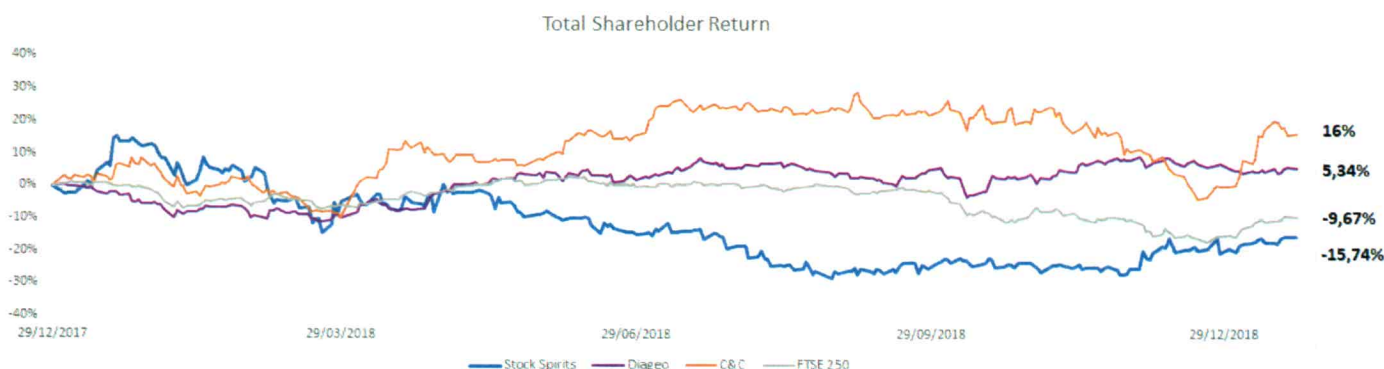
- The Company's failure to articulate and execute a credible growth strategy with limited M&A;
- Despite the low leverage ratio in the sector of x0.53 and good cash generation, the Company offers one of the lowest cash returns to shareholders amongst its peers. No reasonable dividend policy;
- Recent financial performance is not satisfactory - Continued underperforming against some peers;

	Stock Spirits	Diageo	C&C	FTSE 250
Share Performance (5 Year)	-20.97%	38.76%	-27.01%	17.35%
TSR (5 year)	-10.51%	59.48%	-12.06%	17.35%
2018 to Date	-17.95%	1.03%	11.64%	-9.94%
TSR 2018 to Date	-15.74%	5.34%	16.00%	-9.67%

- Stock Spirits' share price is down 17.95% from 01 January 2018 to date, 6.8% since its IPO in October 2013 and 30.5% since its peak (Source: Yahoo Finance):



- Stock Spirits' TSR is down 15.74% from 01 January 2018 to date (Source: Yahoo Finance);



- Long-term financial performance - Maloney and Nicolson are the only two remaining NEDs who were on the Board at IPO and have overseen shareholder value loss with the -20.97% share performance over the last five years as per the table above;
- Stock Spirits 2018 (proforma) Net debt/EBITDA 0.53 vs C&C Group 2.37 and a sector average of 1.95 <sup>1</sup>;
- A slower than anticipated recovery of market share in Poland and declining market share in Italy and Czech Republic; and
- **We conclude that the Chairman and SID roles are held by entrenched Directors (Maloney and Nicolson) who have responsibility for weaknesses in the governance model including:**
  - Western Gate raised its concerns regarding M&A and capital allocation with Maloney and the Board in Q3 2018, all of which have been left substantially un-addressed;
  - There is insufficient diversity on the Board, including gender;
  - There is no committee in place with a strong M&A and digital strategy remit;
  - Other investors share the view of the Chairman as since 2015, 20-30% of shareholders have consistently voted against his re-election:

	Votes against %
<b>2018 AGM</b>	<b>20%*</b>
<b>2017 AGM</b>	<b>30%</b>
<b>2016 AGM</b>	<b>22%</b>

\*From independent traditional institutional investors, does not include Western Gate

- Our concerns had been heightened when we felt that two high-calibre, experienced and independent non-executive directors were marginalised when they were appointed to the Board to help turn the Company around. The Company deemed them not independent, even though they were by the Code and the Proxy Advisers. The main reason for their non-independence and exclusion from joining Committees seems to be that Western Gate had nominated them, although we were happy the selection process had been independently run and the executive search agents opined that they were independent.

Western Gate has decided to bring the matter of removing the Chairman and SID directly to shareholders for their consideration. These roles are held by two entrenched Directors who have been on the Board since IPO, overseeing significant shareholder value destruction.

<sup>1</sup> Peer group: Diageo, C&C Group and Schloss Wachenheim



Western Gate encourage you to **VOTE AGAINST** David Maloney, Chairman and John Nicolson (Resolutions 4 and 5). We see this as the best way to ensure Stock Spirits is run for its owners and the Company, and not its managers. The Board, led by the Chairman, David Maloney continues to treat corporate governance as a box-ticking exercise whilst over-seeing a culture of group think. In short, a vote against David Maloney and John Nicolson is a vote for higher cash returns and a more shareholder friendly Board focused on delivering a credible growth strategy.

Western Gate will also be voting **AGAINST** the Remuneration Report (Resolution 2) as we feel that:

- The Annual Bonus for 2018 paid out 97% of salary even though the share price and TSR have slumped;
- The remuneration structure could be encouraging short termism and the annual bonus scheme has a larger maximum payout than under the long-term incentive arrangements; and
- The Key Result Area (KRA) target for M&A was not achieved and yet 14% of the maximum 20% of this personal target element of the Annual Bonus was paid out, thus the M&A targets represent a maximum of 6% of annual bonus.

Western Gate will also be voting **AGAINST** resolution 18, which allows the Company to call general meetings at 14 days' notice, rather than 21 days. The Company states in its Notice of AGM that this resolution will increase 'flexibility', we on the other hand see this as an attempt to undermine shareholder rights at the very time they should be enhanced.

### **Recommendations**

**Western Gate RECOMMENDS THAT YOU VOTE AGAINST RESOLUTIONS 2, 4, 5 and 18 as it will be doing with its own holdings**

**A large protest vote against Maloney and Nicolson should be taken as a mandate for change to review the Company's M&A strategy, capital allocation and dividend policy**

More information can be found by following this link: <http://www.westerngate.eu/news.html>.

### **Assistance**

If you have any questions, or you would like to arrange a call or meeting with **Western Gate**, please contact Boudicca, who are acting as our Shareholder Communications Consultants for this AGM: [info@boudiccaproxy.com](mailto:info@boudiccaproxy.com), +44 (0) 207 099 2075.

Thank you for your continued and considered support.

Yours faithfully,

  
Francisco Santos  
On behalf of Western Gate