31st August 2017

Letter to the Board of Stock Spirits PLC: the view on recent results and investment

Western Gate Private Investments Limited (“Western Gate” or "we"), notes the recent results of Stock Spirits Group (the “Company”) for 1H 2017 and is pleased that they show evidence of stabilisation in the Company’s core Polish market. We note also the retirement of Lesley Jackson, and would like to thank her for her contribution to the Company.

Whilst the core business is showing a more stable trend, we still believe that the Company can achieve much more. We still expect the Board to set out a clear strategy to regain, at least in part, the Company’s lost position and market share.

We continue to believe that having the Company’s head office in the UK brings more costs than benefits. We welcome that the Board has implemented some cost saving initiatives, and has moved some responsibilities from the head office to local markets to bring savings. However we see further potential for value creation from moving the head office to Poland - not only financial benefits but also organisational.

We note the Company’s recent investment in Quintessential Brands Ireland Whiskey Limited (“QBIW”). Having consulted with the Company directly on this investment in a recent meeting, our considered opinion is that this investment brings more risks than value, and might even be disruptive for current business. We support the objective of benefiting from the growing whisky market, but do not consider that this is the right way for the Company to address this trend.

First, we do not consider that the Company has obtained sufficient control over QBIW in return for its substantial investment. The Company paid consideration of up to €18.3m for 25% of the equity, thereby valuing QBIW at up to €73.2m. It is not clear to us how the Company has calculated this value today and its likely ROI, especially given that the terms of an exclusive agreement to distribute QBIW’s brands in the Company’s core territories have not yet been agreed.

Second, this transaction may have the potential to disrupt existing, and attractive, whiskey distribution arrangements with third parties.

Third, it would seem that the potential financial returns from the investment will not be seen for a number of years and may be diluted if further investment becomes necessary to complete the project.

Finally, we see the investment as a financial investment, in conflict with the Company’s strategy. On 10th August 2016, during its 1H 2016 results presentation, the Company confirmed that it would seek potential M&A in CEE markets: *“Although our long-term strategy to seek consolidation opportunities in the CEE region remains, our primary focus is on our performance and turnaround in Poland”*. This statement was also reaffirmed on 8th March 2017 during the FY 2016 results presentation: *“As for M&A activity, as we stated at the half-year, we will only pursue bolt-on acquisitions in the current markets whilst we focus on delivering a sustainable profit in Poland.”* Accordingly, a financial private equity-style investment, including to complete the construction of a distillery in Dublin, is not in line with the Company’s strategy as communicated to shareholders.

In summary we do not believe that it is for the Company to play private equity investor with shareholders' funds, and that any M&A activity should be focused instead on (a) core or adjacent geographic markets; and (b) majority investments in businesses that achieve financial returns meeting typical public company standards. In our opinion the Board should put this agreement under voting and keeping focus on its position recovery and realization of M&A directions that have been promised.

Luis Amaral
On behalf of Western Gate