

# Western Gate calls for the removal of David Maloney, Chairman and John Nicolson, Senior Independent Director of Stock Spirits

Key issues and rationale for shareholder action

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# Stock Spirits Group

## Key areas of concern regarding Resolutions 4 and 5

- Stock Spirits has failed to articulate and execute a credible growth strategy with limited M&A
- Despite one of the lowest leverage ratios (x0.53) in the sector and good cash generation, the Company offers one of the lowest cash return to shareholders amongst its peers
- Stock Spirits continues to suffer from an underperforming share price down 18% and lack lustre TSR down 16% from the beginning of January 2018 to date
- A slower than anticipated recovery of market share in Poland and declining market share in Italy and Czech Republic
- The Board continues to treat corporate governance as a box-ticking exercise whilst ignoring shareholders and over-seeing a culture of group think
- All of Western Gate's concerns have been left un-addressed following a meeting with the Chairman

## Shareholder action needed

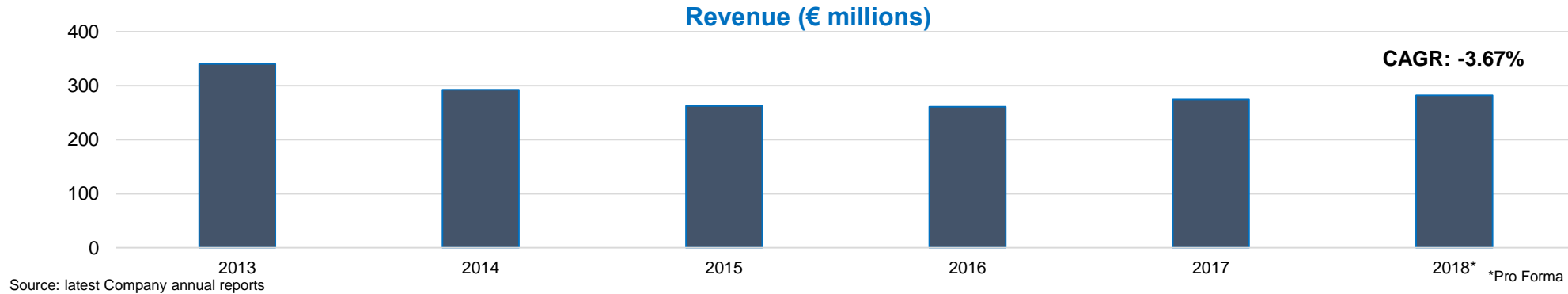
### Western Gate calls for:

- The **removal of David Maloney, Chairman and John Nicolson, Senior Independent Director** of Stock Spirits
- The immediate commencement of a process to **appoint independent replacements** - using an independent executive search firm – who engender a culture of diversity, challenge the Executives' growth strategy, its execution and optimize the Company's capital allocation policies
- In light of Stock Spirits' cash generation and unconvincing growth strategy, Western Gate calls upon the Board **to increase the dividend and or introduce a special dividend**
- **Shareholders to vote against Resolutions 2,4,5 and 18**

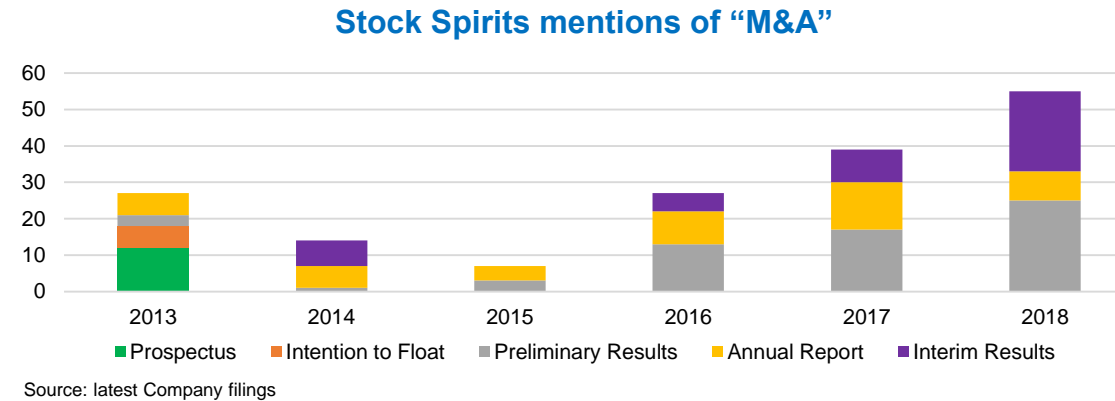
**The Board needs a new culture and culture is set from the top**

## Key Issues regarding Resolutions 4 and 5

# Stock Spirits is not growing....



...it consistently discusses M&A...



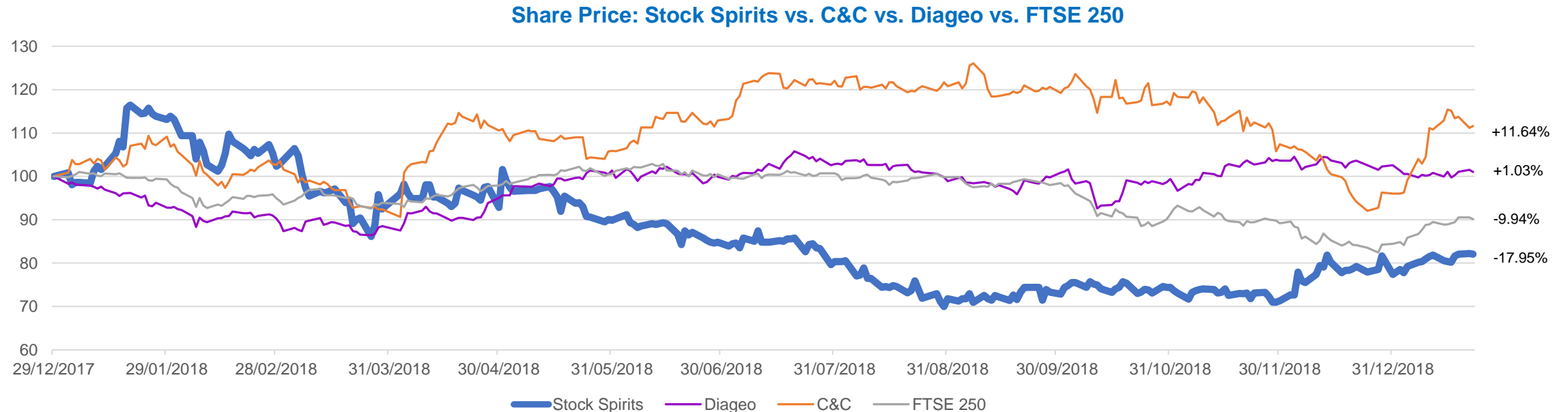
... but fails to execute a credible M&A strategy...



despite constant mentions since IPO and several major sector acquisitions in 2018 demonstrating there are deals available for proactive companies

# Failure to articulate and execute a credible growth strategy, with limited M&A, has delivered a continued underperforming share price

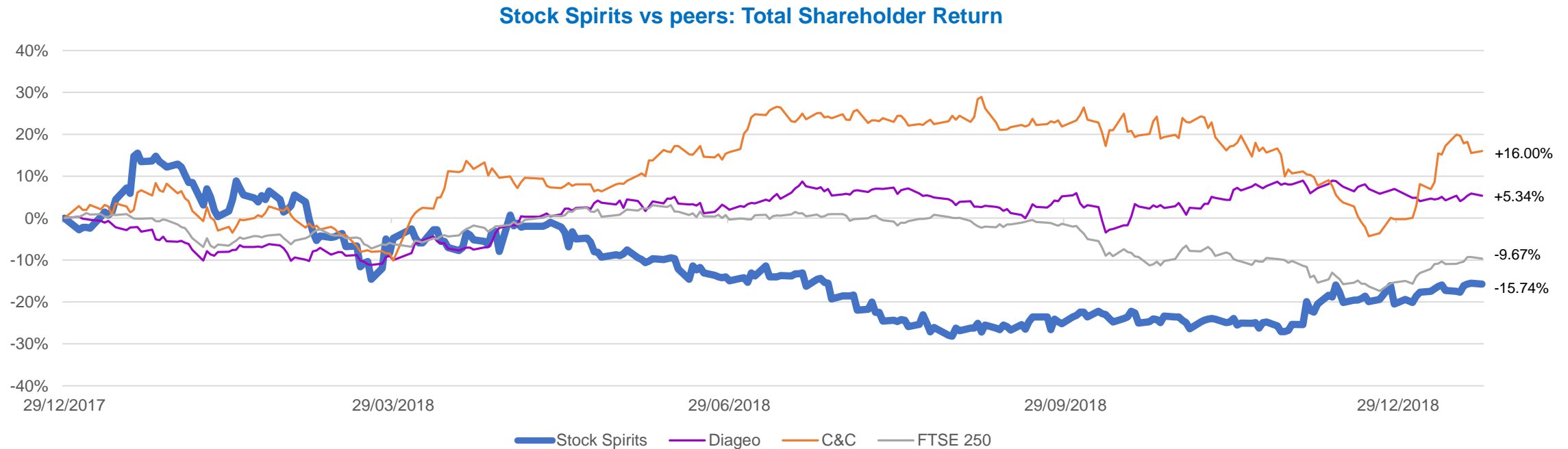
Stock Spirits' share price is down 17.95% from 01 January 2018 to date, 6.8% since its IPO in October 2013 and 30.5% since its peak.



Source: Yahoo Finance

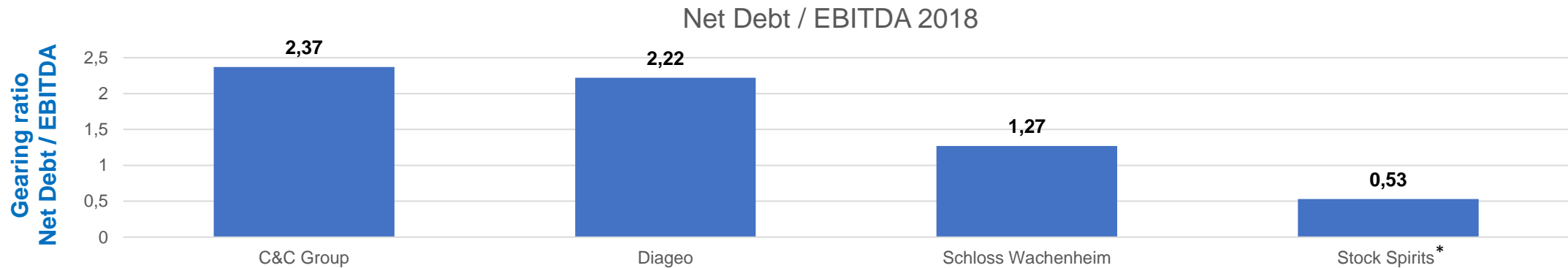
# Failure to articulate and execute a credible growth strategy, with limited M&A, has delivered pitiful TSR

Stock Spirits' TSR is down 15.74% from 01 January 2018 to date.

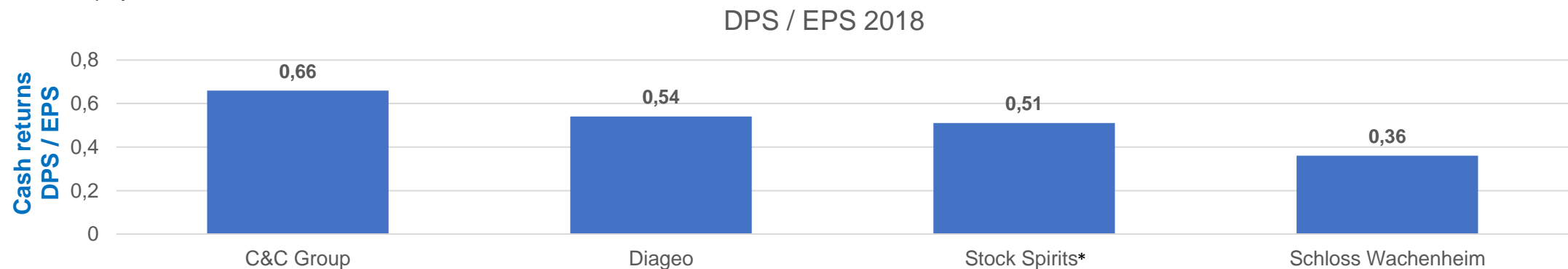


# Stock Spirits offers one the lowest cash returns to shareholders, despite good cash generation

Stock Spirits' has the lowest gearing in the sector:



Yet pays out one of the lowest cash returns:



**In light of the Company's good cash generation and lack of M&A, we call upon the Board to increase the dividend and or introduce a special dividend**

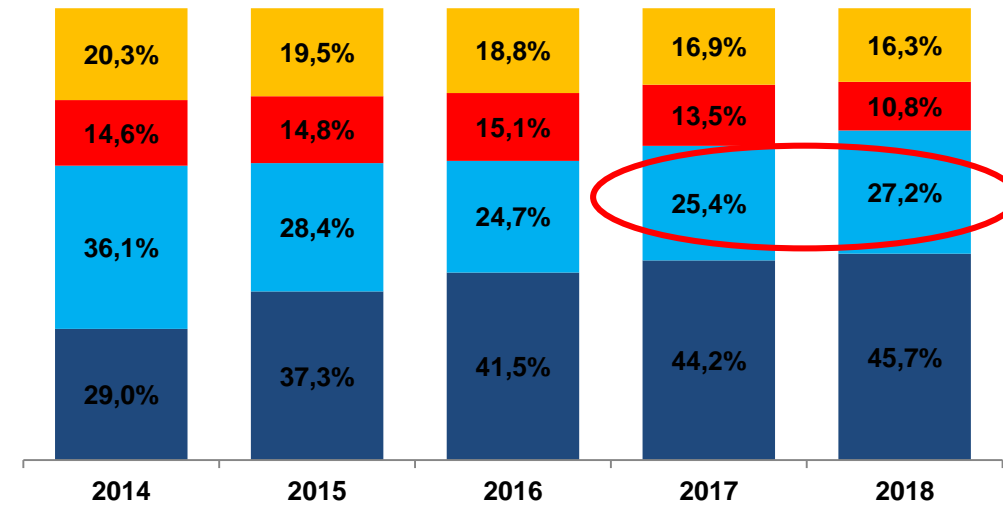
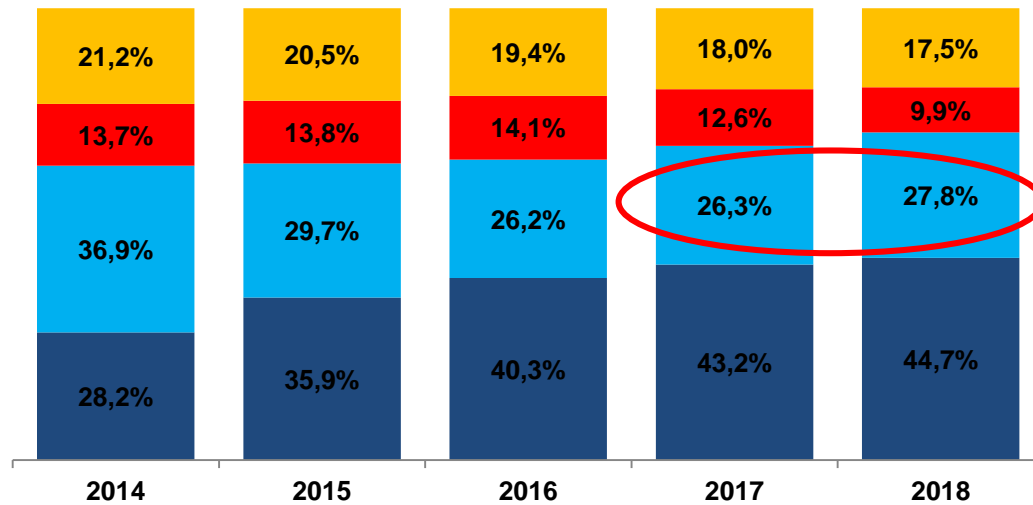


# Slow and inadequate recovery of market share in Stock's core vodka business in Poland

Value market share

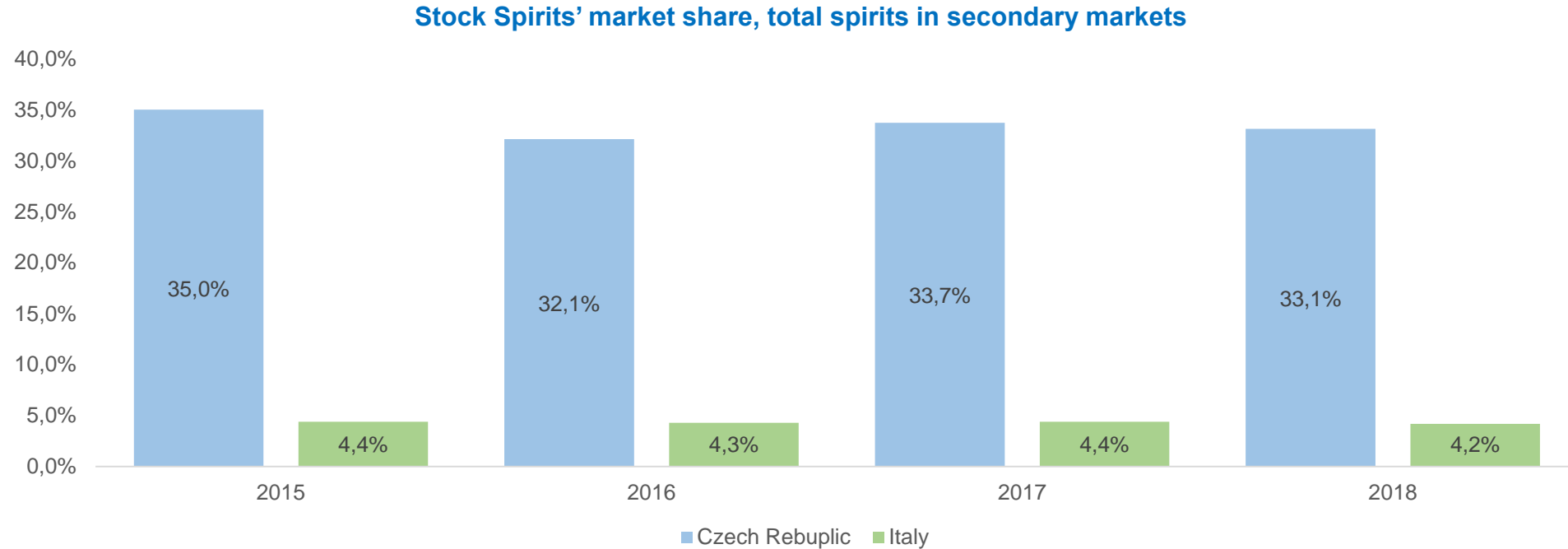
Volume market share

■ OTHERS  
■ MARIE BRIZARD  
■ STOCK  
■ ROUST



- Stock Spirits' market share remains below 2014 levels of 36.9% value market share and 36.1% volume market share
- In Poland in 2018, Stock Spirits gained 1.5% value market share and 1.8% volume market while Marie Brizard and Others continue to lose market share.

# A declining market share in Czech Republic and Italy



- In Czech Republic, Stock's market share fell from 33.7% to 33.1%
- In Italy from 4.4% to 4.2%

# Corporate Governance treated like a “box ticking” exercise

The Chairman and SID roles are held by entrenched Directors (Maloney and Nicolson) who have large responsibilities for the governance model including concerns with:

- Shareholders being ignored - 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;
- The Board suffers from insufficient gender diversity and both Maloney and Nicolson are members of the Nomination Committee;
- Insufficient evaluation of the Board:
  - Internal evaluations are led by the Company secretary and lack objectivity, with the last external evaluation having been in 2016;
  - Disclosures in the Annual Report appear to be of the boiler-plate variety, and don't offer much insight into the process or findings
- Western Gate successfully requisitioned the appointment of two new independent Non-Executive Directors to provide the Board with a fresh perspective and relevant experience in May 2016:
  - The Board deemed the two independent directors appointed by shareholders in 2016 as non-independent, even though they were deemed to be independent by the executive head hunters; the proxy advisers and the UK corporate governance Code. This had the effect of preventing them from joining any Board committees

## Key Issues regarding Resolutions 2 and 18

## Resolution 2 - Remuneration

- The Annual Bonus for 2018 paid out 97% of base 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.

## Resolution 18 gives more power to the Directors

- Resolution 18 allows the Company to call general meetings at 14 days' notice, rather than the statutory 21 days
- Stock Spirits states in its Notice of AGM that this resolution will increase '*flexibility*'
- Western Gate see this as an attempt to:
  - Undermine shareholder rights
  - Give more power to Directors
  - Limit shareholders right to prepare for General Meetings and act if necessary

## Western Gate's voting intentions

Western Gate will be voting against the following AGM resolutions as a protest against these directors and a mandate from shareholders for change:

- Resolution 2 – to approve the Director's Remuneration Report
- Resolution 4 – to re-elect David Maloney as a Director
- Resolution 5 – to re-elect John Nicolson as a Director
- Resolution 18 – short-notice of general meetings, other than annual general meetings

**Western Gate URGES SHAREHOLDERS VOTE AGAINST RESOLUTIONS 2, 4, 5 and 18**

**This is to ultimately drive the appointment of a suitable Chairperson with the right skill set to hold the Executive team accountable and optimize shareholder returns**

## 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

Other investors share some of our views of the Chairman as, since 2015, 20-30% of shareholders have consistently voted against his re-election:

	Votes against %
2018 AGM	20%*
2017 AGM	30%
2016 AGM	22%

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



# Appendix

# Introduction to Western Gate

## **Western Gate**

- Western Gate is a private family office investor representing the interests of Luis Amaral
- Western Gate is currently a 10% owner and the largest shareholder in Stock Spirits Eurocash
- Luis is majority shareholder and CEO of Eurocash, a ~Warsaw listed wholesaling Company with all of its operations in Poland
- Eurocash is the largest customer of Stock Spirits

## **Luis Amaral**

- Luis Amaral is a Portuguese citizen who has been operating businesses in Poland for 20 years
- Luis gained initial business experience at Unilever and Nissan in Portugal before joining Jeronimo Martins Holdings (JMH) as director of Poland in 1995
- While at JMH, planned and executed the expansion of Biedronka, the market leading discount supermarket chain in Poland, opening 550 stores
- Luis spent 2000 – 2002 working in private equity in Latin America before returning to Poland in 2003 to lead the management buyout of Eurocash from JMH

## **No conflict of interest**

- As the largest shareholder in Stock Spirits, Western Gate is fully aligned financially with all shareholders to see the business turned around