Western Gate Private Investments Limited

We recommend that Shareholders vote FOR RESOLUTION 20 TO APPROVE A SPECIAL DIVIDEND.

21 January 2020

Dear Fellow Stock Spirits Shareholders,

Western Gate Private Investments Limited ("Western Gate") is a 10% shareholder of Stock Spirits Group PLC, and we are writing to you in connection with the Annual General Meeting which will be held on Thursday 6th February 2020 at 10am at Numis Securities, 10 Paternoster Square, London, EC4M 7LT.

Western Gate has proposed to the Board of Stock Spirits a resolution for the payment of a special dividend. We have proposed the Company pays a special dividend of €0.1219 per ordinary share. This would increase leverage to 1.25x EBITDA, well inside the management target of 0.5x – 1.5x EBITDA and well below the sector average.

We have decided to call for this resolution for the following reasons:

- Delayed returns from the acquisitions achieved with earnings accretion not expected until 2023
- An erratic policy towards returning surplus capital to shareholders despite strong cash flow generation
- Low rates of TSR which compare poorly with representative peers

The main reason for the resolution is to question the capital allocation policy proposed by the Board and make sure that the Shareholders adequately benefit from their investment in the Company.

Capital Allocation

The better cash conversion in the Company has resulted in a leverage ratio of 0.67x, towards the bottom end of management's own guidance of 0.5x to 1.5x. Furthermore, current sell-side analysts' forecasts for Stock Spirits indicate that, without further acquisitions, this ratio could fall to 0.45x in the current year and that the Company could be almost debt free by 2022.

The low leverage demonstrates there is clearly sufficient headroom within the Stock Spirits' balance sheet to pay the Special Dividend. Based on recent 2019 Stock Spirits' preliminary results, Western Gate believes that payment of the Special Dividend would increase leverage to 1.25x. Using current consensus forecasts from analysts suggests that this would be 1.12x in 2020 and would fall to 0.70x by 2022.

Furthermore, given Stock Spirits' performance and after the payment of a special dividend, the Company would still have €70 million available for new acquisitions. This demonstrates that the Company has comfortable headroom to reward shareholders and conduct meaningful M&A

Given the lack of meaningful progress in acquiring profitable assets since 2015, there is a case for the Company to reward shareholders' patience and to re-set the capital structure. We believe the Company should focus its capital allocation on its shareholders, core markets and products rather than the current erratic acquisition track record which we outline below.

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Concerns over Governance

Western Gate has raised its concerns with the acquisition strategy versus returns to shareholders throughout 2019. The Board has refused to consider any policy other than its own. In the Notice of AGM letter, dated 27 December 2019, the Board stated that it will not comply with the advisory resolution requested by Western Gate to pay the Special Dividend if it was to receive shareholder approval. We believe that the shareholder vote should be always very carefully considered and not denied even before it is heard.

Our lawyers could not locate any recent example of a UK listed company in which the board decided to state that no matter what the shareholders recommendation is, the board is not willing to even consider such recommendation. Western Gate supports a common policy generally accepted among the UK listed companies where the board follows the recommendation issued by its shareholders - on behalf of whom the board should, after all, appropriately steward the capital provided by shareholders. We support a meaningful dialog between the owners and the board.

The Board of Stock Spirits is rejecting any discussion where its policy is challenged. The aim of the Resolution is to trigger such discussion.

Acquisition Strategy

Stock Spirits argue against Resolution 20 on the basis of their M&A strategy stating that a special dividend would be *'a significant restraint on our ability to execute that strategy'*. As we have outlined above, there is significant headroom and the payment of the Special Dividend would not restrain the company.

Previously, within its 2015 final results, Stock Spirits set out an M&A strategy following a period of underperformance in its core Polish market. At that time and in the same announcement, the Chairman, David Maloney, made the following statement:

"With regard to shareholder returns, should the business not announce a meaningful M&A transaction in the near term, the Board intends to increase the dividend and to distribute surplus cash to shareholders".

Stock Spirits has not conducting meaningful, earnings enhancing M&A since that point and yet will not return capital to shareholders. They have invested €47.5 million in three acquisitions, two of which are in non-core markets. They have invested €28 million in a product which evidenced structural decline in 2019. Finally, the Company's 2019 turnover in Italy was the equivalent to the impairments registered therein in the last two years and the Distillerie Franciacorta acquisition. This is a poor M&A track record and shareholders, as it stands, are stuck waiting for the acquisitions undertaken to deliver returns in 2023; this is unacceptable.

Total Shareholder Returns vs Remuneration

Furthermore, executive pay at Stock Spirits has more than doubled since 2015, growing by 132.8%.

The mismatch between performance and remuneration should be placed in a comparative context. Western Gate has assessed Stock Spirits' position in relation to Pernod Ricard, Brown-Forman and Berentzen Gruppe.

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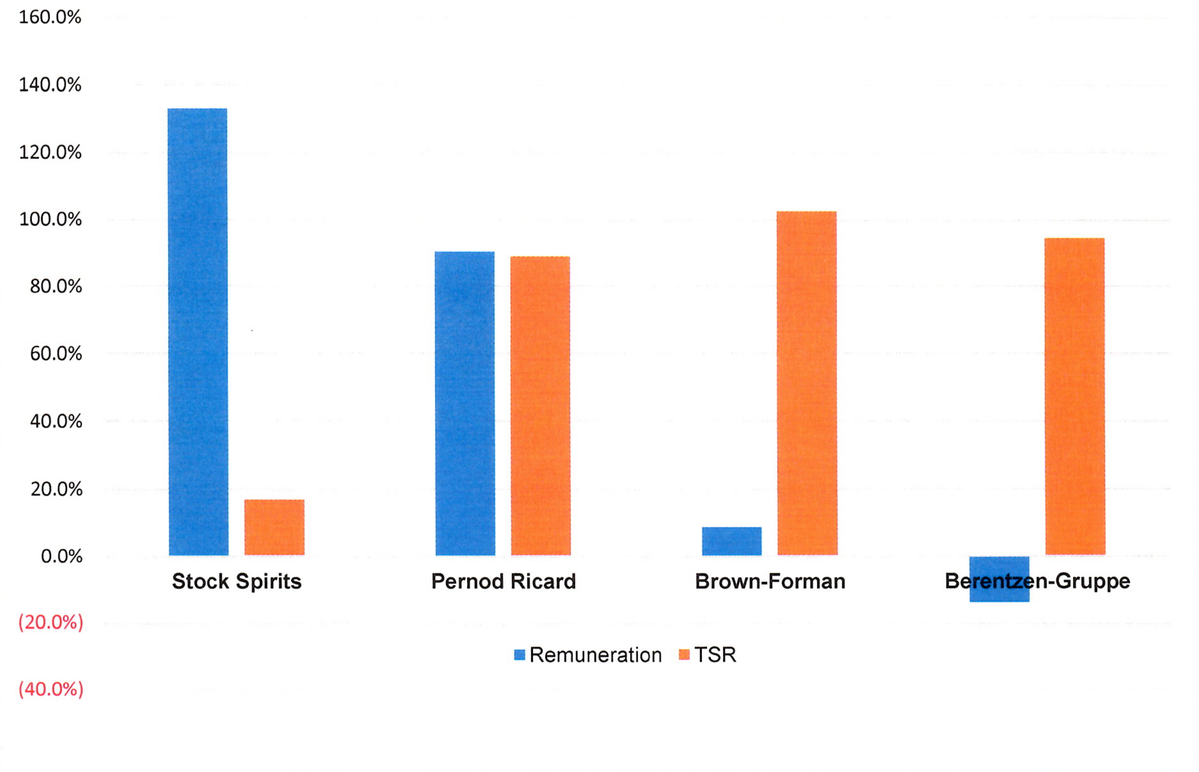
TSR / Remuneration Comparison (2015 – 2019)



Source: Report & Accounts

Stock Spirits' peers have produced TSRs in excess of the growth in remuneration and much higher than that provided by Stock Spirits. Western Gate believes that this reflects a culture which seeks to reward management without recognising the modest performance of the underlying business and the lack of progress in developing the business via value-generating acquisitions.

Critically, in Western Gate's opinion, this highlights a refusal to recognise the strength of the balance sheet and the need to reward shareholders accordingly.

Conclusion

Western Gate is a long term shareholder in Stock Spirits and we are generally pleased with the improvement of the Company's operational performance. However, for several years we have felt the Company is being run in the best interest of the Board rather than all shareholders. We are concerned with the Governance following the unprecedent response to Resolution 20. We feel the Board should recognise the lack of meaningful growth and the long-term nature of its acquisitions and return capital to shareholders.

We call on fellow shareholders to vote FOR Resolution 20 at the upcoming AGM and for the Company to see a large vote in favour as a mandate for a review of the capital allocation policy.

Recommendations

Western Gate RECOMMENDS THAT YOU VOTE FOR RESOLUTION 20 TO APPROVE A SPECIAL DIVIDEND

A large vote in favour of a special dividend should be taken as a mandate for change to review the Company's capital allocation, M&A and dividend policy.

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The formal Notice of Meeting can be found here:
https://www.stockspirits.com/_userfiles/pages/files/stock_spirits_nom_2020.pdf

Assistance

If you have any questions, or you would like to arrange a call or meeting with Western Gate, please send your request to Boudicca, who are acting as Shareholder Communications and Corporate Governance Consultants for this AGM process: info@boudiccaproxy.com, +44 (0) 207 099 2075.

Thank you for your continued and considered support.

Yours faithfully,

21/01/2020

Francisco Santos

On the behalf of Western Gate