20 April 2016

Western Gate Private Investments Limited

Letter to Fellow Shareholders of Stock Spirits Group plc ("Stock Spirits" or the "Company") following Stock Spirits' response to the requisition resolutions

Western Gate continues to recommend shareholders to vote FOR the requisitioned resolutions.

On 4th April 2016, Western Gate Private Investments Limited ("Western Gate" or "we"), a 9.7% shareholder in Stock Spirits, requisitioned proposals to be considered at the AGM of Stock Spirits, which has subsequently been scheduled for 23rd May 2016. These proposals included the appointment of two new Non Executive Directors to increase the depth of experience on the Board of the Company (the "Board") to help turn around the Company's recent fortunes. Also we called for the Board not to implement any M&A projects until a revised M&A strategy was presented to and approved by shareholders.

We launched this requisition following meetings and interactions with members of Stock Spirits' executive management and Board at which we had expressed our concerns about the recent performance and strategy of the Company. In summary, our concerns related to:

1. The significant decline in market share which is evidenced by a 33.5% decline in Polish revenue from FY13 to FY15 and has resulted in the Company surrendering its market leading position in the Polish vodka market;
2. An underperforming share price which at 154p[1] has more than halved from the peak of 315p and is 34.5% below the listing price of 235p;
3. The significant increase in corporate costs which are up 111% since 2011, whilst revenues have declined 11% over the same period
4. The high level of UK head office costs where the Company has no major revenue generating operations;
5. Executive management have continued to be very well rewarded notwithstanding poor underlying business performance; and
6. A culture of "Group Think" at the Board level which has helped contribute to "Remote control management" from the UK and, as evidenced by the market share loss and share price fall, is not working and may have resulted in the loss of key regional leadership with 5 regional managers (across 3 regions) leaving the Company since IPO.

The Company has now issued its response to these points and urged shareholders to reject our proposed resolutions. In this response it has unfairly sought to discredit us, and made various unjustified statements about our intentions. We believe that the Board's efforts would be better spent constructively focusing on turning around the Company's business rather than needlessly attacking its largest shareholder.

Western Gate's intentions

Western Gate launched the requisitions with the clear objective to improve the Company's future performance for the benefit of all shareholders. As Western Gate is the largest shareholder in Stock Spirits, with just under 10% of the Company, its financial interests are very much aligned with those of all Stock Spirits' shareholders, and stands to benefit the most from a turnaround of the company's fortunes.

It is correct that Luis Amaral owns a significant holding in Eurocash S.A. ("Eurocash"), and that Eurocash is a customer of Stock Spirits. The Board has claimed that therefore Western Gate wants the Company to do various things to "chase market share at the expense of profitability" for the benefit of Eurocash. We would like to reassure shareholders that this is not the case. The sales of Stock Spirits' products account for only 3% of Eurocash turnover and make a negligible contribution to attributable profit. Eurocash is not involved at all in Western Gate as it is a private, family venture of Luis Amaral. In addition a material proportion of the share register of Stock Spirits are also shareholders of Eurocash and it is not in the interests of Western Gate or Luis Amaral to jeopardise the good relationships they enjoy with the majority of these shareholders.

In respect of the Company's strategy, it is true that we do consider it very important that the Company regains its "loss of significant market share". Thus far we see little evidence of any turnaround with monthly market value share falling a further 4.0% over the 6 months to February 2016[2]. We can understand why the Company would want to preserve its margin but the key problem is that its volumes are now so much lower that overall profitability is down sharply. We calculate that even if the Company had been able to maintain its EBITDA margin in Poland at 2013 levels it would still have seen adjusted EBITDA in Poland down by 33.5% relative to 2013 - given the lower volumes sold. Wholesalers and retailers will only buy what is ultimately sold to consumers. There is Stock Spirits' product on the shelves – but fewer and fewer people are buying it. That is what Stock Spirits must now address as a matter of urgency.

In light of this, we consider that the Board would benefit from additional expertise in both CEE markets and in growing international beverages sales. That is why we proposed two new, independent, Non-Executive Directors. These proposed Non-Executive candidates, Randy Pankevicz and Alberto Da Ponte, have both been assessed by Heidrick & Struggles as strong, independent non-executive director candidates, meeting the independence requirements of the UK Corporate Governance Code. Their 'Independence Criteria Evaluation' reports have been made public here: http://www.westerngate.eu

The Company has claimed that as a result of being proposed by Western Gate, the proposed directors would not be independent. It also made a number of other unjustified statements that their appointment would result in a "transfer of influence" and so forth. Western Gate is rightly unhappy with the Company's poor performance, and considered that in order to improve that performance the Board should be strengthened. The fact that it has proposed Directors doesn't render them not independent, and it cannot be the intention of the Corporate Governance Code to prevent shareholders from proposing to all shareholders that additional Directors be appointed to the boards of struggling companies.

We believe that the experience of the nominees is just what the Board needs as:

- Alberto Da Ponte is a veteran of the drinks industry for 25 years having run businesses for Heineken Group, Scottish and Newcastle, Unilever and Cadbury Schweppes; and
- Randy Pankevicz has worked in the drinks industry for 25 years primarily at PepsiCo International and has held senior commercial, operational and financial positions across its Central and Eastern Europe divisions.

Western Gate has also asked for the Company to review its revised M&A strategy which included new target geographies like the UK and Norway which we do not consider to be aligned with Stock Spirit's mission statement (and the basis on which shareholders invested on IPO). This review should not take up significant Board time, as essentially what we are asking is that the Company focuses on turning around its core business instead of seeking M&A which should be a project for the longer term.

In respect of the turnaround of the core business, Western Gate is not thus far reassured. We believe that the "improved performance" highlighted by management in the recent Q1 2016 trading update reflects the business stabilising at a significantly lower level of sales without evidence of a return to sustainable growth - market value share continues to fall: Feb 2016 MAT of 29.5% vs. end Dec 2015 MAT of 36.9%[3]. Also comparisons to Q1 2015 provide a misleading picture of the Company's performance given the de-stocking that took place in that period across the entire sector. We believe that the Company's New Product Development programme has failed to yield material additional sales – according to Nielsen "other brands" in Poland accounted for only PLN 5.9 million out of total consumer sales of PLN 228.9 million in February 2016[4].

We have previously drawn attention to the Company's corporate costs, as aside from turning around the core Polish business, a way to improve profitability which is within the Company's control is to cut costs. We believe that the key area where this can be done is in respect of central head office cost. 2015 Head Office costs of €7.0 million make up 45% of Total Corporate Costs at 2015 FX rates[5]. Western Gate continues to believe that head office costs could be reduced very considerably by relocating a significant portion to Poland and aligning these costs with the currency of the Company's major revenue generating activities.

Luis Amaral commented:

"I am the largest shareholder in the Company and share the same interests as all shareholders: to improve the performance of its business. Stock Spirits represents only 3% of Eurocash's turnover and a negligible contribution to Eurocash's attributable profit so the Board's claim that I have an overriding conflict of interest is incorrect and a distraction from the real issues which are the Company's financial underperformance and loss of market share.

"The two independent non-executive director candidates we are proposing are drinks industry veterans who have been assessed by Heidrick & Struggles as strong and independent and we believe should be welcomed by the Board. Their independence will ensure that there is no undue influence on the part of any shareholder and their knowledge and skills will bring a greater depth of expertise and support to the Board and help the Company to deliver value for all shareholders."

Ends

Contact

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Notes

Sources: FactSet, Stock Spirits filings, Nielsen

1. Current share price as at 18 April 2016,
2. Nielsen - total Poland, total vodka - % monthly value share
3. Stock Spirits trading statement, 14th April 2016
4. Includes VAT and excise tax, "Other brands" includes Sznaps, Amundsen and Saska, amongst others, excludes key brands: Zoladkowa, 1906, Stock, Zubr and Lubelska (includes all separately identifiable Lubelska 'sub-brands' and flavour variants)
5. Stock Spirits AGM response, 19th April 2016