# Group Strategy

Our long term strategy is to build a sustainable international, cider-led, multi-beverage business through a combination of organic growth and selective acquisitions.

| Strategic pillars | Medium term strategic goals |
|---|---|
| Enhance value of key brands | Brand and product investment to build value of key brands over the long term |
| Grow Premium and Craft portfolio | Leverage key brand strength and market position to grow our portfolio of Premium and Craft brands |
| Brand-led drinks wholesaler in key markets | Deliver unrivalled portfolio strength, value and service to the Scottish and Irish on-trade and off-trade |
| Rigorous focus on costs and efficiencies | Ongoing commitment to delivering operational efficiencies and cost control |
| International growth | Grow international volumes of our key brands through strategic alliances |
| Capital allocation to enhance growth and shareholder returns | Selective acquisitions to fuel sustainable, profitable growth and/or cash returns to shareholders |

**Financial characteristics**

- Resilient high margins
- Cash generation and Balance Sheet strength
- EPS growth and cash returns

## Achievements during FY2017

- Up-weighted investment in our key brand assets of Magners, Bulmers and Tennent's, returning them to volume growth of +2.6% in their key markets. Direct brand marketing across these three key brands rose to 9.5% (FY2016: 8.4%) of net sales value with a further 4.0% (FY2016: 3.4%) invested in new founts.
- Re-launched and re-positioned the Magners Original brand in the UK with new packaging and a comprehensive marketing campaign under the "Hold True" tag line. Launched Outcider from Bulmers, a new sweeter tasting cider targeting a more youthful audience.

- The Premium and Craft portfolio (which includes Chaplin & Cork's, Heverlee, Menabrea, Pabst as well as our local craft businesses Five Lamps, Dowds Lane, Drygate and Whitewater) grew volume by 60%.
- Premium and craft now accounts for 2% of our own brand volume, 3% of own brand revenue and is starting to make a meaningful contribution to bottom-line given the premium price points and attractive margins.

- The Group complements its branded business with third-party drinks wholesaling, own-label and agency distribution in its key domestic markets of Ireland and Scotland.
- We are working through the challenges and complexities of running fully integrated brand-led wholesale businesses and the increased focus delivered improved performance in the second half of the year. Significant new client wins in Scotland helped stabilise volume and customer numbers by the year end, giving increased confidence for the year ahead.

- We closed our plant at Borrisoleigh in Ireland and sold our cidery and bottling operations at Shepton Mallet in England. The activities at both sites were transferred to our Clonmel site. These changes were essential for the Group, improving our utilisation rates at our key sites to mid-70's percent and ensuring the cost competitiveness of our products.
- The site rationalisation savings helped to successfully deliver the €15m of cost reductions announced in March 2016. The cost savings facilitated incremental investment in marketing and price support to further strengthen our core brand domestic positions.

- The Group enjoyed another good year of progress in its international business, with volumes during the year up + 3.9% (FY2016: +14.8%).
- The International team delivered a strong performance in the more established markets of Western Europe, with volumes +14% in the region. The Tennent's brand performed well in Export, increasing volume by +17% . It now accounts for c.30% of the Group's international division.

- Our Balance Sheet remains in robust health with a net debt to EBITDA ratio of 1.55x at the year end. This is after paying out €66m in dividends and share buybacks, increased net capex of €16m (including €17m on the new PET line at Clonmel) and investing an additional €12m in our trade lending books in Northern Ireland.
- Our guidance is medium term target leverage of 2x Net Debt/EBITDA. We anticipate we will move towards this level during the course of FY2018 through a combination of our progressive dividend policy, acquisitions and/or share buybacks.

## Strategic priorities for FY2018

**CORE OBJECTIVE**

Our core strategic objective is to deliver earnings growth.

**STRATEGIC PRIORITIES**

### Existing businesses

- to strengthen core brands and develop a portfolio of differentiated premium brands to capitalise on niche, craft and specialist opportunities
- to leverage integrated brand-led wholesale platforms in Ireland and Scotland to drive revenue growth and reduce costs
- successfully imbed our new distribution relationship with AB InBev for our cider portfolio in the UK, to grow volume and value in our core cider brands
- to grow international volumes and earnings through distribution partnerships

### Capital allocation

- after increased investment in FY2017 maintain the strong cash conversion characteristics of the business
- to move towards target leverage of 2x Net Debt/EBITDA which provides flexibility to take advantage of consolidation opportunities
- to return value to shareholders in the absence of strategic opportunities

### Corporate responsibility

- targeting further sustainability improvements across the Group
- focusing our social responsibility agenda on engagement in the community
- achieving a continuous improvement in workforce health and safety