# Business Model

Our ambition is to be the pre-eminent brand-led wholesale drinks supplier to the licensed on and off-trade across the UK and Ireland. Our existing and recently acquired platforms provide: an unrivalled range of brands; enhanced customer service; and comprehensive geographic coverage. We firmly believe this is the right model to meet the needs of both customers and consumers, who are increasingly demanding authentic, differentiated local brands as well as premium and global reach.

*Meeting customer needs*

| | |
|---|---|
| **Core Brands**<br>All own brands | "Must-have" local brands |
| **Super-Premium and Craft Portfolio**<br>Own brands, international agency or craft JVs | Craft and premium consumer experimentation |
| **Local Brands**<br>Owned local and specialty brands | Local, niche and specialty brands |
| **World Premium Brands**<br>3rd party brands distributed under contract, primarily AB InBev brands | Access to global brands |
| **Drinks Wholesale**<br>3rd party brands | Range, insight, expertise – a "one-stop shop" |

## Revenue Generation and Earnings Growth

- In our core geographies of Ireland and UK, we seek revenue generation through a full-service, brand-led wholesale model focused on our own range of brands and drinks wholesaling to the hospitality sector. Internationally, we focus on volume and value growth in established markets and seeding new markets in Asia and Africa.
- We seek to make brand innovations and investments at low cost and exploit niche and premium markets.
- We seek earnings growth through revenue generation, cost control and margin improvement.

## Cash Generation

- Our core branded businesses are strongly cash generative. We therefore focus on cash. We critically review the value for money of all brand and capital investment. Our current emphasis is on investment in brands, innovation and route-to-market to drive revenue and market share. Group management relentlessly drive to reduce costs – in production, distribution and commercial overheads.

## Engagement

- We engage with our workforce and incentivise them to ensure alignment with shareholders.
- Local management are incentivised with financial targets relevant to their local business unit.
- Where necessary, we are prepared to buy in expertise on a margin-sharing basis.

## Strategic Capital

- We seek local expansion in our core territories. Potential acquisitions must complement our business and meet our strategic objectives.
- We are prepared to make larger transformational acquisitions, and we are ready to seize opportunities as they arise due to the strength of our Balance Sheet.
- We will make disposals where they will enhance shareholder value.
- In the absence of capital investment opportunities we will return surplus cash to our shareholders.

## Social Responsibility

- Throughout the Group we seek to operate compliantly with the law and as good corporate citizens.

# Group Strategy

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

| *Strategic pillars* | *Medium term strategic goals* | *Financial characteristics* |
|---|---|---|
| Enhance value of key brands | Brand and product investment to build value of key brands over the long-term | Cash generation and Balance Sheet strength<br><br>EPS growth |
| Grow Super-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 UK and Irish hospitality sectors | |
| 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 | |

# Achievements during FY2018

- FY2018 saw a resilient performance across our branded portfolio in the UK and Ireland, with total C&C branded volumes +0.3%; revenues +0.8%, outperforming the wider beer and cider sectors.
- The Tennent's brand has had a very strong year, benefitting from continued investment in social media, sponsorship and new fount roll-out programme. Net sales revenues for the Tennent's brand for the period were up 5.3% in GB. After a slow start, Magners volumes have gathered momentum through the second half +9% (H1 2018: -6%).
- During the year, we significantly increased our investment behind the Bulmers brand. This included the launch of Outcider by Bulmers, and a new marketing campaign for Bulmers Original under the tag-line "100% Irish". Brand affinity and brand salience scores for Bulmers increased with our key target demographic of 18-24 years olds by 8ppts on each measure, to 40% and 54%, respectively.

- Operational and financial performance at our Tennent's wholesale distribution business in Scotland strengthened throughout the year. Customer numbers are up +2% year-on-year, volumes were up 3% for the year (H1 2018: +1%), with revenues further ahead.
- Success has been driven by leveraging the Group's procurement scale to deliver value to customers, excellence in service levels, including a streamlined ordering process with on-line ordering.
- The performance of our C&C Gleeson wholesaling business improved through the year, with a strengthened management team leveraging off the procurement synergies of the C&C Group, for the ultimate benefit of customers.
- Our wine businesses in Scotland and Ireland performed strongly with volumes up +4% and +3%, respectively. Both businesses benefitting from good performance at our own label and distribution brands such as Santa Rita and Castella.

- We made good progress in the year transitioning our brands in certain key target markets to higher quality and proven international partners, such as AB InBev, Coca Cola Amatil and Karlsberg.
- Our Export markets (excluding North America) grew volumes in aggregate for the year by +2%. However, excluding discontinued/suspended activity in India and Africa, these markets were in growth by 10%, in line with our long-term growth targets for this part of the business.
- In the US our cider brands continued to be negatively impacted by declines in the overall cider market. In February 2018, we announced that we were resuming full responsibility for the sales and marketing of our brands in the US and terminating our distribution arrangements with Pabst Brewing Company.

- Strong organic growth in super-premium and craft with volumes +41% across our portfolio. Our super-premium and craft portfolio now contributes 108kHL of volumes and revenues of €15.7m.
- In Ireland, we increased our financial investment in the Five Lamps brewery in Dublin. To complement the Five Lamps range of craft lagers we launched our Dowd's Lane range of traditional craft Ales, Stouts and Cider.
- In the UK, Menabrea increased volumes by +55% to 18kHL, achieving good growth across national on and off-trade accounts, casual dining as well as the Scottish IFT. Heverlee was +33% and Drygate, our Scottish craft joint venture, almost doubled. Off-trade distribution points for our UK premium and craft portfolio has grown from 350 in March 2017 to 5,691 now.
- We strengthened our craft portfolio completing the purchase of Orchard Pig during the year. Orchard Pig is a fast-growing craft cider brand based in Somerset which has built a strong consumer franchise and an impressive distribution footprint across the on and off-trade.

- The Group completed its major site rationalisation programme during 2016 and operated smoothly from its two principal manufacturing facilities at Wellpark and Clonmel. Utilisation rate across our plants were in line with expectations and capex requirements have returned to more normalised levels.
- Our new distribution partnership with AB InBev on cider in the UK enabled us to make some synergy savings in sales and marketing overheads in Great Britain. The AB InBev partnership also enables us to streamline our divisional management and reporting structure.
- Capex for the full year includes c.€3m of investment in IT infrastructure in Ireland that will facilitate more consolidation across our back office functions and supports our slimmed down divisional structure.

- The Group delivered strong free cash flow of €71m in the year and cash conversion of 71% of Adjusted EBITDA
- This was a year of strategic investment: €42 million investment in Admiral Taverns, €11 million on our craft brand portfolio and a further €78 million returned to shareholders through a combination of share buybacks and dividends, taking net debt/EBITDA at February 2018 of 2.37x.
- Strong Balance Sheet and cash conversion profile enabled the acquisition post year end of Matthew Clark Bibendum for £135 million, in addition to funding on-going working capital requirements.

# Group Strategy
(continued)

## Strategic priorities for FY2019

**Core Objective**

Our core strategic objective is to deliver earnings growth.

**Strategic Priorities**

### EXISTING BUSINESSES

- to strengthen and grow 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 operational efficiencies
- stabilise the recently acquired Matthew Clark Bibendum acquisition and return stock, working capital and customer service levels to normalised positions
- leverage the revenue and procurement synergies available from our Admiral Taverns investment
- to grow international volumes and earnings through distribution partnerships

### CAPITAL ALLOCATION

- maintain the strong cash conversion characteristics of the business
- after increased investment in FY2018 and Matthew Clark Bibendum post year end we will start to de-gear towards target leverage of 2x Net Debt/EBITDA

### 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

# Key Performance Indicators

| Strategic Priority | KPI | Definition (see also financial definitions on pages 205 and 206) | FY2018 performance | FY2018 Focus | Links to other Disclosures |
|---|---|---|---|---|---|
| *To enhance earnings growth* | Operating Profit | Operating profit (before exceptional items) | FY16 €103.2m<br>FY17 €95.0m<br>FY18 €86.1m | To seek continuing growth, through revenue enhancement, acquisition synergies and cost control | Group CFO Review page 46 |
| | Operating Margin | Operating profit (before exceptional items), as a percentage of net revenue | FY16 14.5%<br>FY17 15.9%<br>FY18 15.7% | | |
| *To enhance earnings growth* | Adjusted diluted earnings per share | Attributable earnings before exceptional items divided by the average number of shares in issue as adjusted for the dilutive impact of equity share awards | FY16 24.2c<br>FY17 23.8c<br>FY18 22.0c | To achieve adjusted diluted EPS growth in real terms | Group CFO Review page 46 |
| *To generate strong cash flows* | Free Cash Flow | Free Cash Flow is a non GAAP measure that comprises cash flow from operating activities net of capital investment cash outflows which form part of investing activities | FY16 €113.4m<br>FY17 €54.3m<br>FY18 €66.0m | To generate improved operating cash flows | Group CFO Review page 49 |
| | Free Cash Flow Conversion Ratio | The conversion ratio is the ratio of free cash flow as a percentage of EBITDA before exceptional items | FY16 103.1%<br>FY17 53.0%<br>FY18 70.5% | | |
| *To ensure the appropriate level of financial gearing and profits to service debt* | Net debt: EBITDA | The ratio of net debt (Net debt comprises borrowings (net of issue costs) less cash) to Adjusted EBITDA | FY16 1.33x<br>FY17 1.55x<br>FY18 2.37x | Move towards medium term target of 2.0 times Net Debt/EBITDA | Group CFO Review page 48 |
| *To deliver sustainable shareholder returns* | Progressive dividend/return to shareholders | Total dividend per share paid and proposed in respect of the financial year in question | FY16 13.65c<br>FY17 14.33c<br>FY18 14.58c | The Group will continue to seek to enhance shareholder returns | Chairman's Statement page 14 |
| | Dividend Payout Ratio | Dividend cover is Dividend/ Adjusted diluted EPS | FY16 56.4%<br>FY17 60.2%<br>FY18 66.3% | | |
| *To achieve the highest standards of environmental management* | Reduction in CO$^2$ emissions | Tonnes of CO$^2$ emissions[1] | FY16 45,071t<br>FY17 41,228t<br>FY18 31,612t | To achieve best practice across the Group, including acquired businesses | Corporate Responsibility Report page 59 |
| *To achieve the highest standards of environmental management* | Waste recycling | Tonnes of waste sent to landfill[2] | FY16 24t<br>FY17 16t<br>FY18 0t | To achieve best practice across the Group, including acquired businesses | |
| *To ensure safe and healthy working conditions* | Workplace safety accident rate | The number of injuries that resulted in lost-work days, per 100,000 hours working time in production facilities[2] | FY16 0.42<br>FY17 0.56<br>FY18 0.54 | To achieve best practice across the Group, including acquired businesses | Corporate Responsibility Report page 61 |

1. Clonmel, Wellpark and Vermont in FY2016. FY2017 and FY2018 includes the Gleeson and Wallaces Express businesses.
2. Clonmel and Wellpark in FY2018. FY 2016 and FY2017 includes Shepton Mallet.

# Principal Risks and Uncertainties

The principal risks and uncertainties which have the potential to have a material impact upon the Group's long-term performance and achievement of strategy are set out below.

These represent the Board's view of the principal risks at this point in time. There may be other matters that are not currently known to the Board or are currently considered of low likelihood which could arise and give rise to material consequences.

| Risks and Uncertainties | Mitigation |
| --- | --- |
| **Risks And Uncertainties Relating To Strategic Goals** | |
| The Group's strategy is to focus upon earnings growth through organic growth, acquisitions and joint ventures and entry into new markets. The Group is prepared to take measured risks to acquire new assets, talent, brands and innovation. These opportunities may not materialise or deliver the benefits or synergies expected and may present new management risks and social and compliance risks. | The Group seeks to mitigate these risks through proactively monitoring the market to identify suitable acquisition targets, due diligence, careful investment and continuing monitoring and management post-acquisition.<br><br>Only acquisitions that the Board believe will add value and are a strategic fit are considered. |
| As the Group grows through acquisition, it is necessary to adjust to change and assimilate new business cultures. The breadth and pace of change can present strategic and operational challenges. Business integration and change that are not managed effectively could result in unrealised synergies, poor project delivery, increased staff turnover, erosion of value and failure to deliver growth. | Significant acquisitions have formal leadership and project management teams to deliver integration. Regular Group communications ensure effective information, engagement and feedback flow to support cultural change.<br><br>The executive management team oversees change management and integration risks through regular people, planning and products meetings. |
| **Risks And Uncertainties Relating To Revenue And Profits** | |
| Consumers may shift away from larger brands towards more localised, premium and niche products. | Through diversification, innovation and strategic partnerships, we are developing our product portfolio to enhance our offering of niche and premium products to satisfy changing consumer requirements. |
| Seasonal fluctuations in demand, especially an unseasonably bad summer in Ireland could materially affect demand for the Group's cider products. | The Group seeks to mitigate this risk through geographical and brand diversification. |
| Consumer preference may change in our core geographies, new competing brands may be launched and competitors may increase their marketing or change their pricing policies. | The Group has a programme of brand investment, innovation and product diversification to maintain and enhance the relevance of its products in the market. For instance, as part of this programme, Tennent's launched the Caledonia range and the Group also acquired Orchard Pig, a craft cider brand, in FY2018. The Group also operates a brand-led model in our core geographies with a comprehensive range to meet consumer needs. |

| Risks and Uncertainties | Mitigation |
| --- | --- |
| The off-trade and increasingly the on-trade in Great Britain continues to be highly competitive, driven by consumer pressure, customer buying power, consolidation and vertical integration of distribution channels and the launch of heavily-invested competing products. | The Group seeks to mitigate the impact on volumes and margins through developing a focused portfolio approach, innovation, strategic partnerships and acquisitions, such as the distribution arrangement that the Group has entered into with AB InBev, the strategic investment in Admiral Taverns, the acquisitions of the drinks distribution businesses, Matthew Clark and Bibendum, and the craft cider Orchard Pig, the introduction of brand propositions that are in tune with shifting consumer and customer needs and through seeking cost efficiencies. |
| Customers, particularly in the on-trade where the Group has exposure through advances to customers, may experience financial difficulties. | The Group monitors the level of its exposure carefully. |
| The Group is reliant on the performance of its distribution partners for the distribution of its products in international markets and the UK. | The Group mitigates these risks by continuously monitoring the performance of its distribution partners and having agreements with appropriate protections in place in relation to inadequate performance. |
| Key strategic partnerships may not be renewed or may be renewed on less favourable terms. | The Group seeks to mitigate this risk by managing its relationship with its key strategic partners and by putting long-term arrangements in place in relation to termination and renewal. |
| **Risks and Uncertainties Relating to Costs, Systems and Operations** | |
| Input costs may be subject to volatility and inflation and the continuity of supply of raw materials may be affected by the weather and other factors. | The Group seeks to mitigate some of these risks through long-term or fixed price supply agreements. The Group does not seek to hedge its exposure to commodity prices by entering into derivative financial instruments. |
| Circumstances such as the loss of a production or storage facility or disruptions to its supply chains or critical IT systems may interrupt the supply of the Group's products. | The Group seeks to mitigate the operational impact of such an event through business continuity plans, which are tested regularly to ensure that interruptions to the business are prevented or minimised and that data is protected from unauthorised access, contingency planning, including involving the utilisation of third party sites and the adoption of fire safety standards and disaster recovery protocols. The Group seeks to mitigate the financial impact of such an event through business interruption and other insurances. |
| Increased levels of cybercrime represent a threat to the Group's businesses and may lead to business disruption or loss of data. The Group is exposed to the risk of external parties gaining access to Group systems to deliberately disrupt business, steal information or commit fraud. Theft of data relating to employees, business partners or customers may result in a regulatory breach and impact the reputation of the Group. | The Group has a number of IT security controls in place including gateway firewalls, intrusion prevention systems, security incident monitoring and virus scanning. The Group's approach is one of ongoing enhancement of controls as threats evolve with the target being to align controls, and in particular to implement any new services or changes to the environment, with reference to the ISO 27001 international standard. The Group also has a suite of information security policies in place. |

# Principal Risks and Uncertainties
(continued)

| Risks and Uncertainties | Mitigation |
|---|---|
| **Financial Risks and Uncertainties** | |
| The Group's reporting currency is the Euro but it transacts in foreign currencies and consolidates the results of non-Euro reporting foreign operations. Fluctuations in value between the Euro and these currencies including, in the case of Sterling, resulting from the UK vote to leave the European Union, may affect the Group's revenues, costs and operating profits. | The Group seeks to mitigate currency risks, where appropriate, through hedging and structured financial contracts to hedge a portion of its foreign currency transaction exposure. It has not entered into structured financial contracts to hedge its translation exposure on its foreign acquisitions. |
| The solvency of the Group's defined benefit pension schemes may be affected by a fall in the value of their investments, market and interest rate volatility and other economic and demographic factors. Each of these factors may require the Group to increase its contribution levels. | The Group seeks to mitigate this risk by continuous monitoring, taking professional advice on the optimisation of asset returns within agreed acceptable risk tolerances and implementing liability-management initiatives such as an enhanced transfer value exercise which the Group conducted in FY2016 and FY2017 in relation to its Irish defined benefit pension schemes. |
| **Fiscal, Regulatory and Political Risks and Uncertainties** | |
| The Group may be adversely affected by changes in excise duty or taxation on cider and beer in Ireland, the UK, the US and other territories. | The Group seeks to mitigate this risk by playing an active role in industry bodies and engaging with governmental tax and regulatory authorities. In Ireland, we engage with the Government in relation to excise duty reductions in support of domestic producers. In the UK, the Group is a board member of the National Association of Cider Makers and a steering committee member of the all-party Parliamentary beer group. In the US, we are active in the United States Association of Cider Makers. |
| The Group may be adversely affected by changes in government regulations affecting alcohol pricing, sponsorship or advertising, and product types. | Within the context of supporting responsible drinking initiatives, the Group supports the work of its trade associations to present the industry's case to government. |
| The UK vote to leave the European Union has created significant uncertainty about the near term outlook and prospects for the UK, Ireland and European Union economies. While the economic effect of the UK leaving the European Union is uncertain, it could have the effect of negatively impacting the UK, Irish and European Union economies and currencies and the financial performance of the Group, reducing demand in the Group's markets and increasing business and regulatory costs including through the application of additional tariffs and transaction taxes on the Group's products and raw materials. While recent developments in relation to the transition period have brought greater clarity for that period and there have potentially been positive developments in relation to a free trade agreement after that period, were WTO tariffs to be applied to our exports from Ireland to the UK or were there to be a hard border in relation to the movement of people and goods within the Island of Ireland, it would negatively impact the Group. With our reporting currency as the Euro, the Group is exposed to the translation impact of a weaker Sterling. | The Board and management will continue to consider the impact on the Group's businesses, monitor developments and play a role in influencing the UK, Irish and Scottish Governments to help ensure a manageable outcome for our businesses. We are working closely with the Food and Drink Federation in Ireland and the European Cider Association in relation to the implications of the UK vote for our businesses. Our manufacturing capability in Scotland may also provide opportunities for the Group arising from Brexit. On an ongoing basis, we seek, where appropriate, to mitigate currency risk through hedging and structured financial contracts and take appropriate action to help mitigate the consequences of any decline in demand in its markets. |

| Risks and Uncertainties | Mitigation |
|---|---|
| **Liability-Related Risks and Uncertainties** | |
| The Group's operations are subject to extensive regulation, including stringent environmental, health and safety and food safety laws and regulations and competition law. Legislative non-compliance or adverse ethical practices could lead to prosecutions and damage to the reputation of the Group and its brands. | The Group has in place a permanent legal and compliance monitoring and training function and an extensive programme of corporate responsibility. |
| The Group is vulnerable to contamination of its products or base raw materials, whether accidental, natural or malicious. Contamination could result in a recall of the Group's products, damage to brand image and civil or criminal liability. | The Group has established protocols and procedures for incident management and product recall and mitigates the financial impact by appropriate insurance cover. |
| Fraud, corruption and theft against the Group whether by employees, business partners or third parties are risks, particularly as the Group develops internationally. | The Group maintains appropriate internal controls and procedures to guard against economic crime and imposes appropriate monitoring and controls on subsidiary management. |
| **Employment-Related Risks and Uncertainties** | |
| The Group's continued success is dependent on the skills and experience of its executive Directors and other high-performing personnel, including those in newly acquired businesses, and could be affected by their loss or the inability to recruit or retain them. | The Group seeks to mitigate this risk through appropriate remuneration policies and succession planning. |
| Whilst relations with employees are generally good, work stoppages or other industrial action could have a material adverse effect on the Group. | The Group seeks to ensure good employee relations through engagement and dialogue. |