

# Purcari Wineries Plc

## 9M2020 Results



November 2020



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## Today's presenters

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**Victor Bostan**  
CEO, Founder



- Founded the Group in 2002
- Over 35 years of experience in wine industry
- Built and exited one of the largest wine companies in RU
- Technical University, Oenology
- Speaks FR, RO, RU

**Eugen Comendant**  
COO



- Over 10 years of management experience
- Ex Virgin Mobile, ACN in senior Business Development, Sales and Marketing roles
- Amsterdam University of Applied Sciences, ESSEC Business School
- Speaks EN, RO, RU, NL, FR

**Victor Arapan**  
CFO



- 20 years of experience in banking, audit, corporate finance
- 10+ years experience in wine making companies
- Ex-PWC, Acorex Wineries
- International Management Institute
- Speaks EN, RO, RU

**Vasile Tofan**  
Chairman



- Over 10 years experience in FMCG
- Partner at Horizon Capital, \$850m+ AUM
- Ex- Monitor Group, Philips
- MBA Harvard Business School
- Speaks EN, RO, RU, FR, NL

## 1 Our Group

## 2 9M20 Operational Results + COVID-19 Update

## 3 Update on 2020 Outlook + Contingency Plans

## 4 Q&A



Viorica de Purcari, caters to the increasing interest in indigenous aromatic grapes. **BEST IN SHOW** at Decanter 2020, 97 pts.

# 1 Purcari Wineries at a glance

## Leading wine player in Central and Eastern Europe...

Founded in 1827 by French colonists, Purcari group is now...

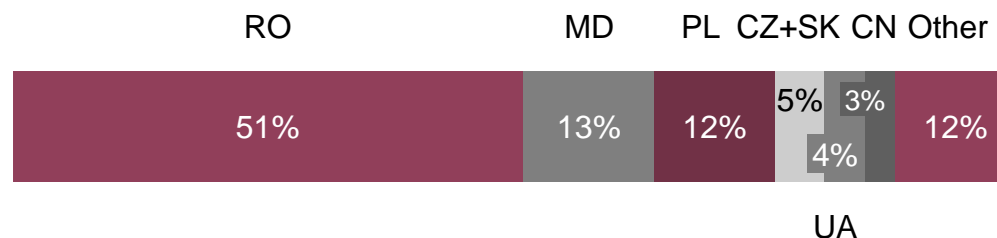
- #1** Most awarded CEE winery of the year in 2015-2020 at Decanter London, "wine Olympics"
- #1** Best premium wine brand in Romania, Moldova
- #1** Fastest growing large winery in CEE
- #1** Largest exporter of wine from Moldova
- top** 1 400+ hectares of prime vineyards, top production assets
- top** Listed on Bucharest Stock Exchange, with reputable shareholders alongside founder, Victor Bostan: Fiera Capital, Aberdeen, Conseq, East Capital, SEB, Franklin Templeton, Horizon Capital etc.

## 6 production sites and 4 brands, covering a broad spectrum of segments



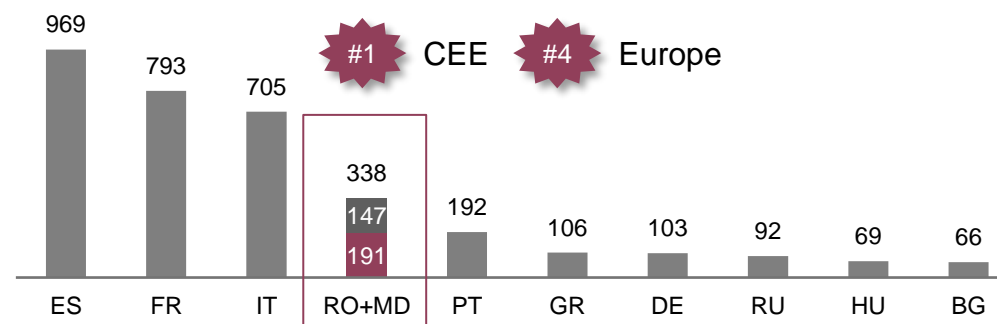
## ... with a strong & expanding regional footprint

Geographical breakdown of sales in value terms, 9M 2020, %



## Located in a region with one of the richest wine heritages

Top 10 European countries by area under vines, kha



## 1 Our Group: competitive advantage in an attractive market

### Attractive market

Secular shift from beer, spirits to wine, especially in CEE

### Competitive advantage

#1 premium wine brand in Romania

Wine growth '16-'20F in Romania 9.0% vs. 1.9% for beer

Plenty to catch up: wine consumption in Poland =  $\frac{1}{4}$  Germany, per cap.

#1 fastest growing large winery in Romania

#1 most awarded CEE winery at Decanter, "wine Olympics"

Shrinking vine plantations, create shortage, push prices up

Romania + Moldova undisputable #1 vineyards size in CEE, 5x vs #2

#1 EBITDA margin among global publicly traded wine peers

#1 on Instagram, Vivino engaging millennials in Romania

# 1 Our business model: Affordable Luxury

Modern,  
cost-competitive  
winemaking

Purcari is positioned at the intersections of three themes:

- **Modern winemaking:** the company is brand, as opposed to *appellation*-centric and runs a cost-efficient business
- **Affordable luxury:** as an aspirational brand, Purcari wines are an example of affordable luxury, building on a heritage dating back to 1827 and ranking among the most awarded wineries in Europe
- **Differentiated marketing:** the company is not afraid to be quirky about the way it approaches marketing, prioritizing digital channels and focusing on engaging content as opposed to traditional advertising



## Our mission

To bring joy in people's lives, by offering them high quality, inspiring, ethical wines and excellent value for money.

## Our vision

To become the undisputable wine champion in CEE, acting as a consolidator of a fragmented industry

## Our values

### *Hungry*

We win in the marketplace because we want it more

### *Ethical*

Always do the right thing and the money will follow

### *Thrifty*

The only way we can offer better value for money

### *Different*

We proud ourselves on taking a fresh look on things

### *Better*

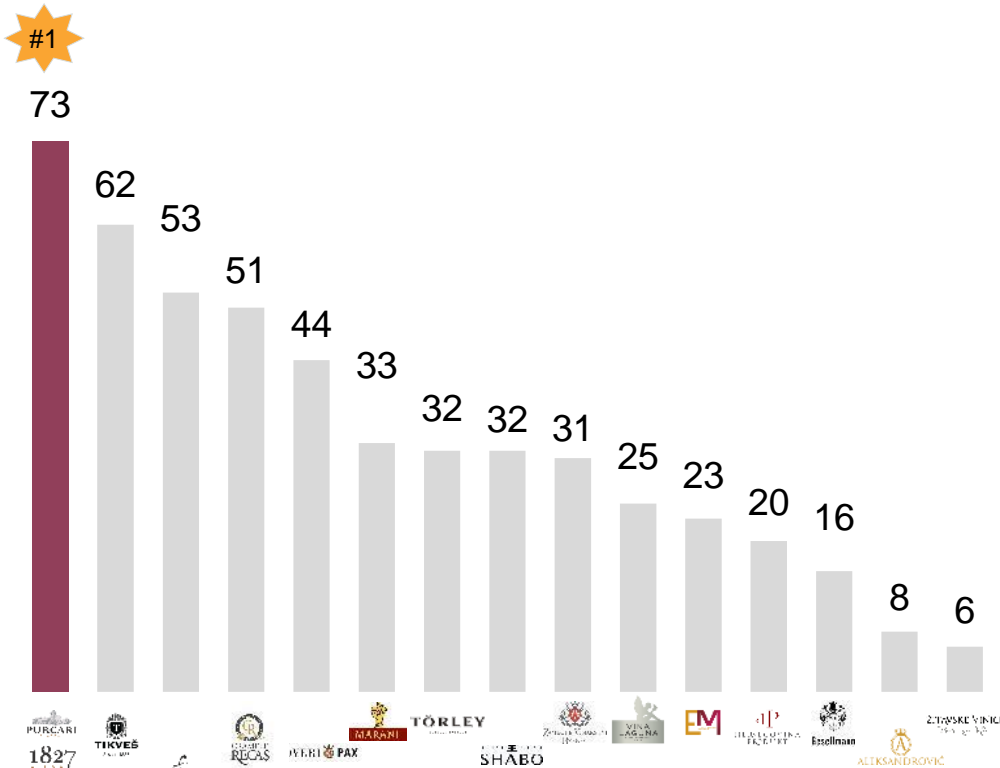
We keep improving – both our wines and our people



# 1 Quality highly commended, remain the most awarded winery in CEE

Leading medal-winning winery in CEE at Decanter, the Wine "Olympics"

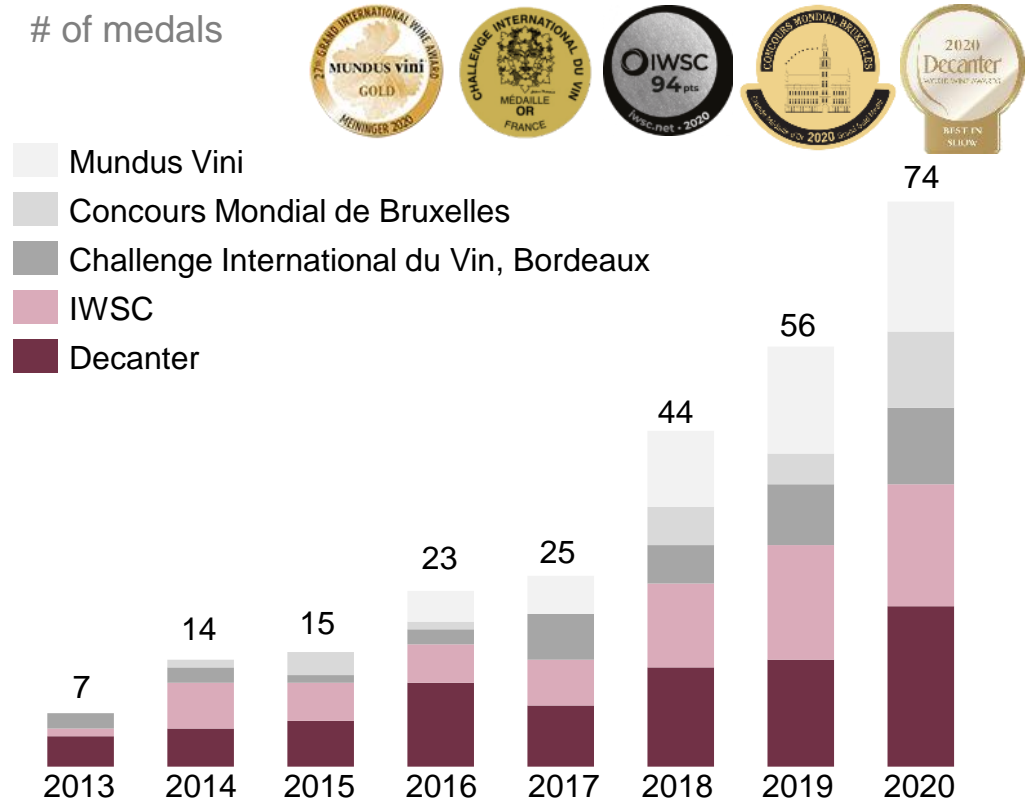
# of Decanter medals in 2015 - 20



- Most awarded winery to the east of Rhine, ahead of reputable (and much pricier!) German, Hungarian or Austrian wineries

Increasing number of medals won from year to year

# of medals

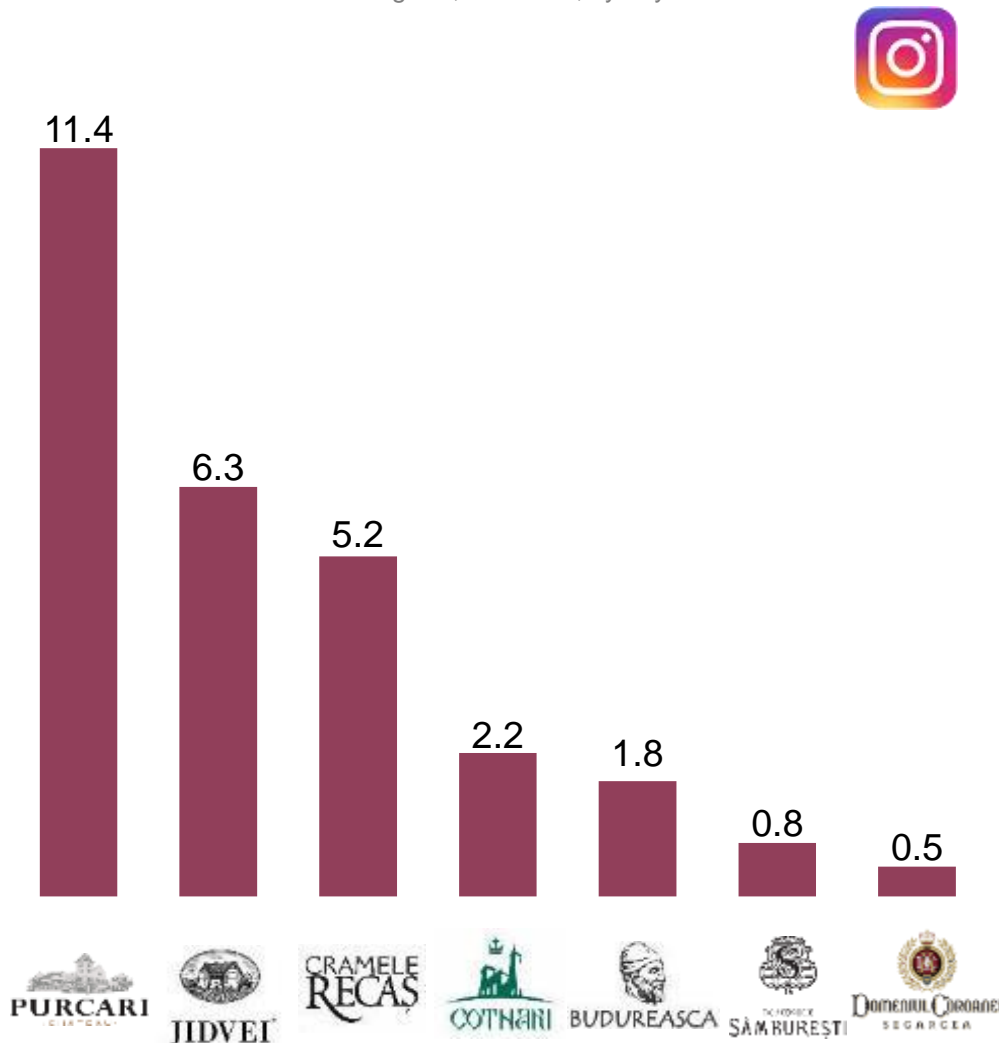


- Unlike beer or spirits, wine production is more prone to quality fluctuations. The Group has demonstrated the ability to keep raising the bar quality wisely, as illustrated by the mounting number of medals won at top global competitions

# 1 Topping competition at engagement, quality

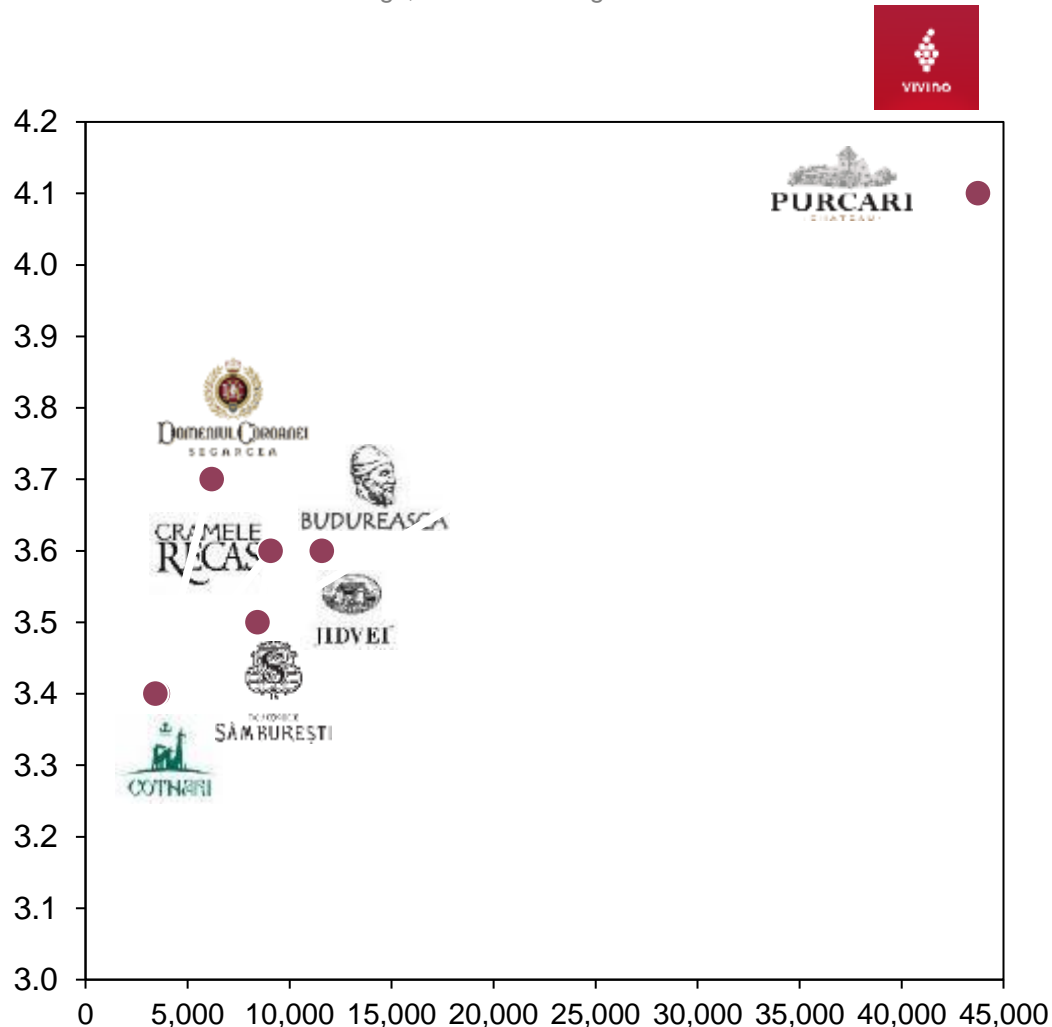
## Aspirational brand which consumers like sharing about

Number of #brand uses on Instagram, thousand, by key Romanian brands



## Highest number of ratings and highest scores on Vivino

X axis – number of Vivino ratings; Y axis – average Vivino score



Note: Purcari - #purcari, Cramele Recas - #recas, Jidvei - #jidvei, Cotnari - #cotnari, Budureasca - #budureasca, Samburesti - #samburesti, Segarcea - #segarcea

Sources: Instagram, Vivino as of November 2020

- 1 Our Group
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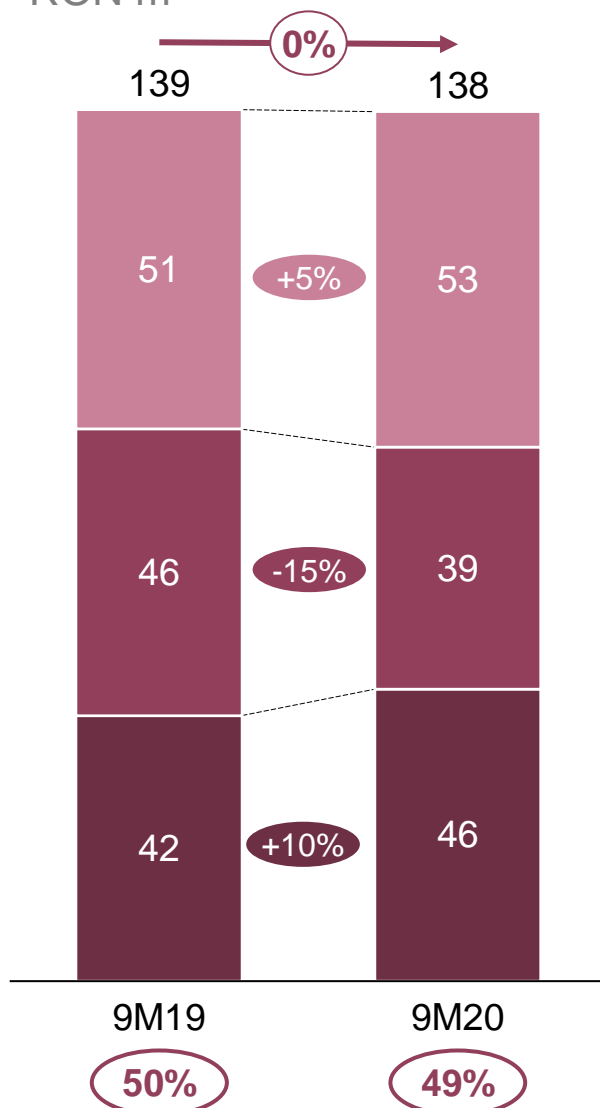
Negru de Purcari  
2015, **GOLD** at  
**Decanter 2020**,  
**95 pts.**, 4.4 score  
on Vivino, top 1%  
wine globally



## 2 Back to y-o-y growth in 3Q; profitability margins remains strong

### Revenues

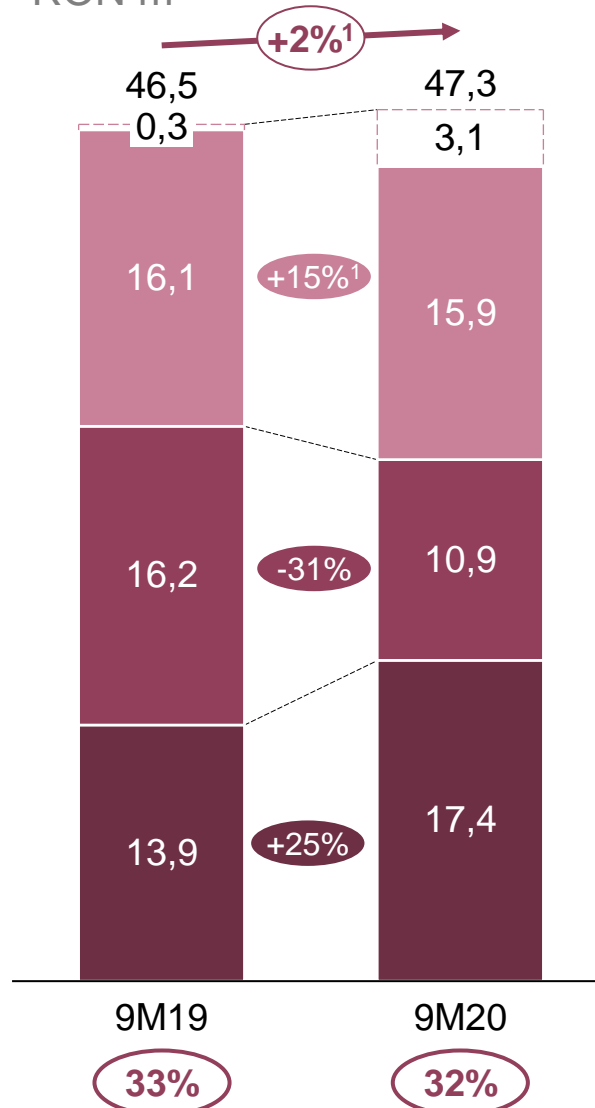
RON m



Gross Profit margin

### Normalized EBITDA<sup>1</sup>

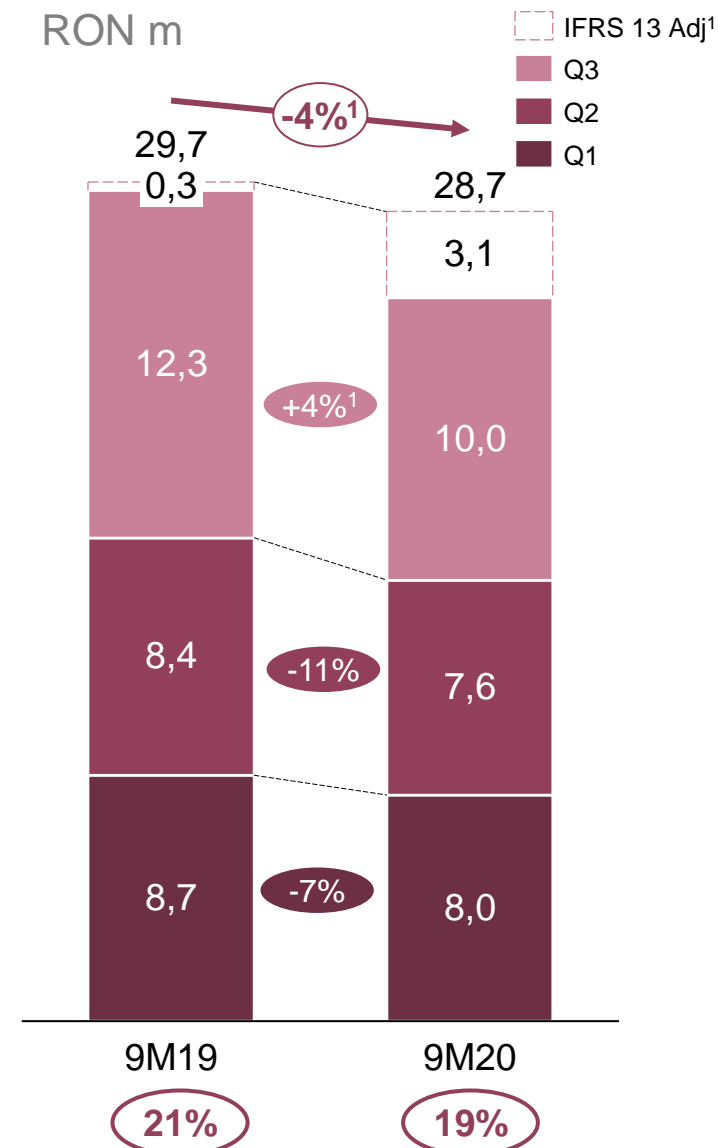
RON m



EBITDA margin

### Normalized Net Income<sup>1</sup>

RON m



Net Income margin

Note: (1) - Excluding RON 3.1mil. (Y20) and RON 0.3mil. (Y19) in fair value adjustments of biological assets revaluation. The biological assets are revalued upwards, running as gains through P&L, in years with good harvest and downwards, showing as loss in P&L, in years with poor harvest.

## 2 P&L – solid performance and margins given circumstances

	3Q			9M		
RON m	2019	2020	Δ 3Q	2019	2020	Δ 9M
Revenue	50.8	53.4	5%	138.6	138.3	0%
Cost of Sales	(24.6)	(26.0)	6%	(69.2)	(70.1)	1%
Gross Profit	26.1	27.4	5%	69.3	68.3	-2%
Gross Profit margin	51%	51%	-	50%	49%	(1 pp)
SG&A:	(10.7)	(10.1)	-6%	(28.9)	(28.8)	0%
Marketing and selling	(3.9)	(5.3)	38%	(10.7)	(14.2)	33%
General and Administrative	(6.8)	(4.8)	-30%	(18.2)	(14.6)	-20%
Other income/expenses:	(1.7)	(4.0)	141%	(1.4)	(4.1)	203%
Adj. of FV of biological assets	(0.3)	(3.1)	872%	(0.3)	(3.1)	872%
Other	(1.3)	(0.9)	-30%	(1.1)	(1.1)	3%
EBITDA	16.1	15.9	-1%	46.2	44.2	-4%
EBITDA margin	32%	30%	(2 pp)	33%	32%	(1 pp)
Net Profit	12.3	10.0	-18%	29.4	25.6	-13%
Net Profit margin	24%	19%	(-5 pp)	21%	19%	(2 pp)
Normalized EBITDA	16.4	18.9	15%	46.5	47.3	2%
Normalized. EBITDA margin	32%	35%	+3 pp	34%	34%	-
Normalized Net Profit	12.6	13.1	4%	29.7	28.6	-4%
Normalized Net Profit margin	25%	24%	(1 pp)	21%	21%	-

### Comments

- 3Q20 revenues up 5% YoY, recovering the drop from 1H20. Tourism Sales for Chateau Purcari recovering at a slower pace, still behind last year's figures.
- Gross margin rebalanced the 2Q20 decline on a better mix and increased volumes, limiting YoY downside effect of depreciation of right-of-use assets accounted according to IFRS16 "Lease".
- 9M20 SG&A flat YoY on the back of continuous cost discipline and effects of cost optimization programs.
- Marketing and selling expenses at 10% of revenue. Kept investing to sustain momentum. Includes also the costs of community contributions to support the fight against COVID-19. and certain salary cost reallocations<sup>2</sup> from G&A to marketing and selling expenses.
- G&A expenses reduced by 20% YoY, at 11% of revenue. Unexpected expenses with COVID-19 related materials (masks, sanitizers, COVID-19 tests, disinfection services, etc) have been financed with the proceeds from the cost optimization program.
- EBITDA at -4% YoY, recovering from 2Q20 slump. EBITDA margin mirrors the gross margin economics, down 1pp to 32%.
- Net profit at RON 25.6 million, declined by 13% YoY, including RON 3.1 million. non-operational adjustment for FV of biological assets. 3Q20 Normalized Net profit up by 4% YoY, limiting the 2Q20 impact on 9M20 results to 4% YOY decline.

(1) Reflects the adjustment to the FV based on IFRS 13 to own harvested grapes according to Market price. The FV adjustment is a pure IFRS estimation and not an operational result.

(2) Upon discussions with Group's auditors, the Company performed certain re-allocations of cost items between G&A and Sales and Marketing categories. Under a pro-forma reporting (i.e. without the effects of the reallocation), the G&A costs for 9M20 would have represented RON 16.1m (-12% year on year) and Sales and Marketing costs, respectively, RON 12.7m (+19% year on year).

## 2 Key operational highlights for 3Q20

### Strong performance in Romania, other CEE; slowly recovering Moldova, China

- Strong performance in Romania, Poland, Baltics, Ukraine, driven by modern trade channel
- The heavier reliance on HoReCa, Duty-Free and Chateau revenues in Moldova, continued to negatively affect sales there, though the situation improved significantly vs. 2Q20
- In Asia, YoY drop in 3Q20 shrank substantially vs. 2Q20, pointing to a solid recovery in the market

### Demand environment improving in October

- October sales continued the growth trend (up single-digit % YoY) albeit Moldova and China remained below the 2019 levels
- Channel wise, HoReCa, Duty-Free and Chateau sales remain significantly below 2019 levels though

### Strong margins, despite weakness in Moldova, China which skew more premium

- Normalized EBITDA margin remains at a strong 32%, despite revenue pressures
- Strong performance in Romania and Purcari brand compensate for softness in Moldova, China, which skew more premium
- Drop of higher-margin Bardar brand (Moldova, China, Belarus are the key markets) contributed to margin erosion; the October and November demand on Bardar shows improving trends though

### Poor harvest, on severe drought throughout Moldova, region








- Grape harvest in Moldova significantly down YoY, on unprecedented drought; accentuates the need to roll out irrigation systems, which, we estimate, will have a payback period of circa 3 years.
- Lower yields do have a silver lining in great quality, especially for the reds, so expect a stellar 2020 vintage.
- Comfortable stock levels to support an ambitious sales plan in 2021 given Covid impact on sales in 2020.

### Liquidity position strong, well placed to weather the crisis

- Net debt / EBITDA further improved at 1.3x, offering a comfortable leverage level; grace periods extended on selected existing facilities. Debt line of EUR 3m in place, optional for draw-down.
- Strong cash position as of 3Q20 end, on tighter liquidity management, including operating expenses, CAPEX, and working capital.



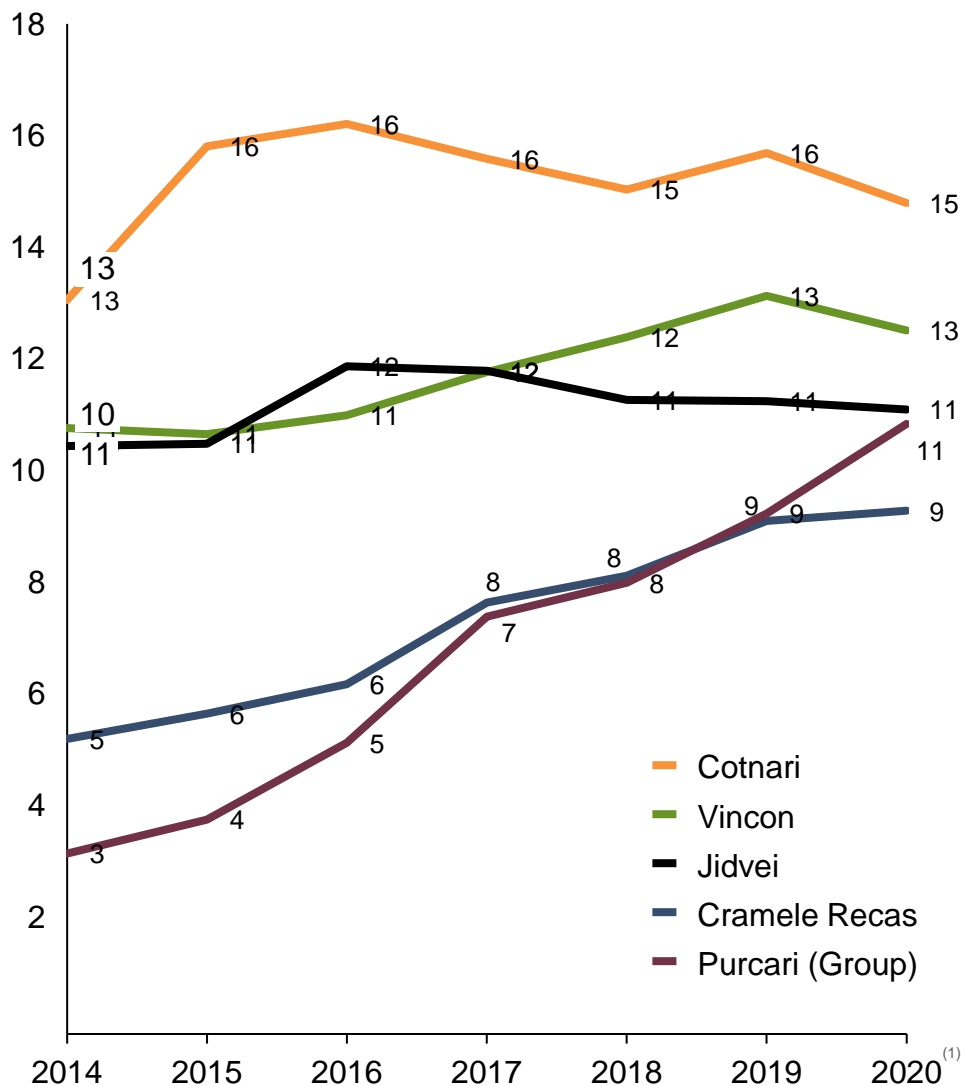
## 2 Markets: strong Romania, Poland; improving trend Moldova, China

Market	Share of sales, 9M20	Growth, 9M20 YoY	Comments
RO 	51%	+26%	<ul style="list-style-type: none"> <li><b>RO:</b> Sales accelerated in 3Q20 by 27% YoY, achieving +26% in 9M20 YoY. Brands performing well, with Purcari and Crama Ceptura achieving in 9M20 89% and 73% respectively of FY'19 sales, before accounting for seasonally strongest 4Q. Bardar up by 51% YoY in 9M20, albeit from a lower base.</li> </ul>
MD 	13%	-46%	<ul style="list-style-type: none"> <li><b>MD:</b> Demand environment still weak but improving. Market most dependent on HoReCa and Duty-Free in Group's universe. Still, 3Q20 is the best quarter in 2020: Purcari sales up 3.4x, Bardar up 3.2x, Bostavan up 1.4x QoQ. A slow further recovery is expected as avoiding short-term solutions, focus on preserving brand equity.</li> </ul>
PL 	12%	+18%	<ul style="list-style-type: none"> <li><b>PL:</b> Growth fueled by an improved product mix, medium price segment sales increase across all partners supplemented by new listings. Fortifying the leading position among Moldovan wine players in PL. Strong premium growth i.e. Purcari +84% YoY, albeit from a smaller base.</li> </ul>
ASIA 	3%	-52%	<ul style="list-style-type: none"> <li><b>ASIA:</b> Sales slowly recover, 3Q20 is the best quarter in 2020 yet still down 26% YoY. First signs for the reversal of downward trend, however, the uncertainty persists. Engaging with existing and potential new partners towards recovering sales levels.</li> </ul>
CZ SK 	5%	-3%	<ul style="list-style-type: none"> <li><b>CZ&amp;SK:</b> 2Q20 recovery continued in 3Q20 sustained by the good outcome from campaigns with main partners. The COVID-19 adverse effects and impact of TESCO restructuring have been offset. 9M20 marginally flat YoY.</li> </ul>
UA 	4%	+23%	<ul style="list-style-type: none"> <li><b>UA:</b> Expanding sales for Bostavan +19% YoY and Purcari +28% YoY, as the latter becomes increasingly popular with Ukrainian consumers, influencers, giving excellent value for money offered.</li> </ul>
RoW 	12%	+13%	<ul style="list-style-type: none"> <li><b>OTHER:</b> Good traction for main brands. Enforcing the partnerships launched during 2Q20. Bostavan continue showing good results in Baltics.</li> </ul>

## 2 Turned crisis into an opportunity, boosting market share in Romania

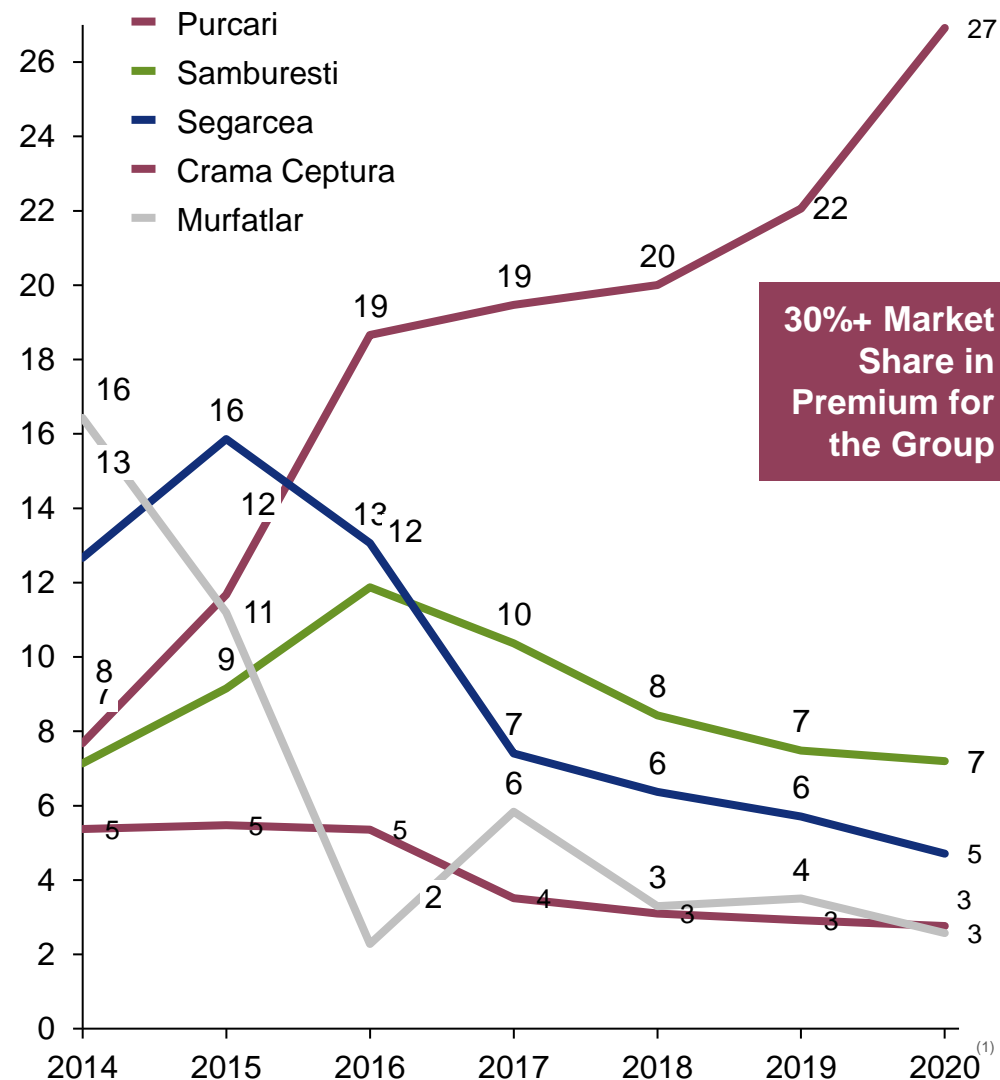
### Jumped to #4 in overall market, reaching 10%+ share...

Value share of TOTAL retail market, Romania, %



### ...while distancing by 20+ percentage points vs #2 in premium





Value share of Premium (RON 30+/liter) retail market, Romania, %



Notes: (1) YTD Jun 2020

Sources: Nielsen report; Purcari Group = Purcari, Crama Ceptura and Bostavan brands;

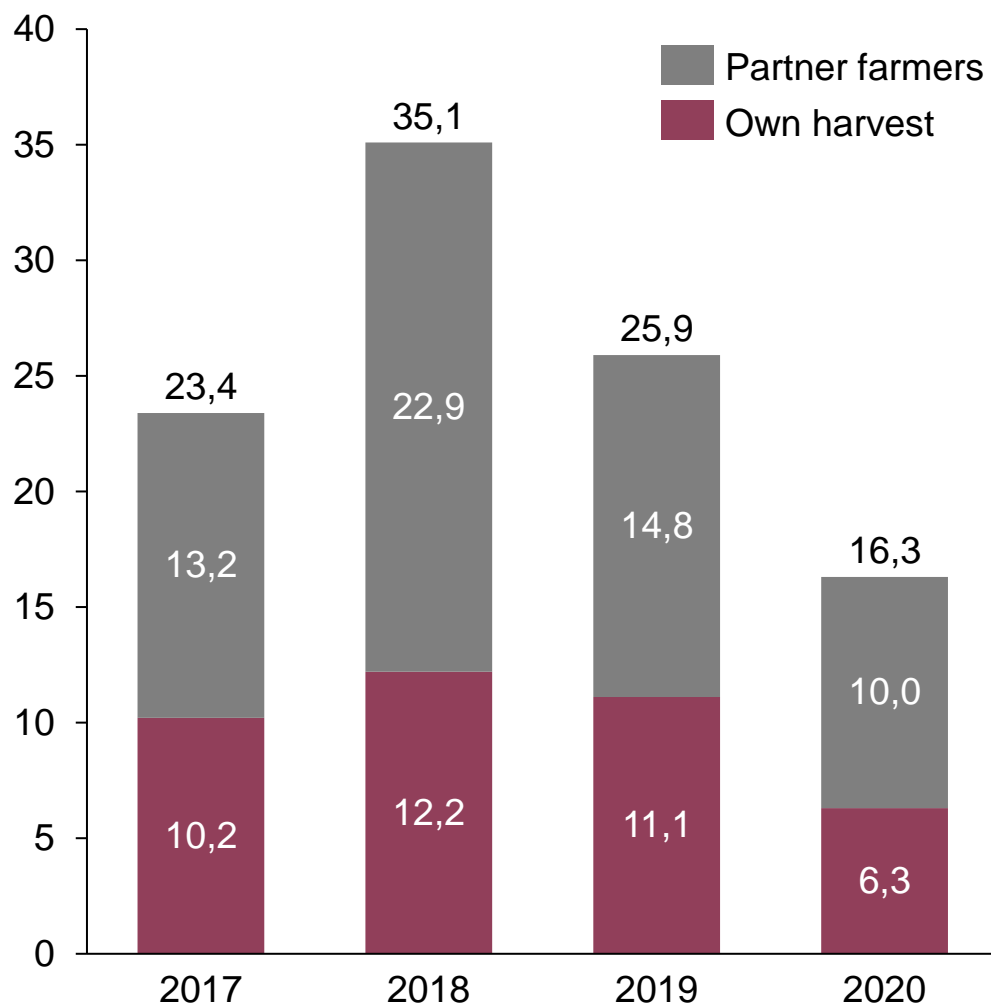
## 2 Premium Purcari and Crama Ceptura brands lead the growth

Brand	Share of sales, 9M20	Growth, 9M20 YoY	Comments
	44%	+9%	<ul style="list-style-type: none"> <li><b>PURCARI:</b> Ongoing strong traction in Romania, largely in the IKA segment; traditional retail has recovered to close to 2019 figures. Promising performance in newer markets: Poland, Belarus, Czech Republic and Slovakia. Moldova and China are the only markets still underperforming 3Q19. Most affected by HoReCa and Duty-Free closures in Moldova and slow recovery in China.</li> </ul>
	28%	-1%	<ul style="list-style-type: none"> <li><b>BOSTAVAN:</b> 3Q20 up 8% YoY compensating for the lower sales in 1H20. 9M20 sales strong across key CEE markets: Poland +17% YoY, Ukraine +19% YoY and Baltics +38% YoY.</li> </ul>
	17%	+9%	<ul style="list-style-type: none"> <li><b>CRAMA CEPTURA:</b> Brand continues strong rebound, as a result of re-invigorating marketing campaigns and improvements in quality. Romania +12% YoY. Testing new markets +4% 3Q20, albeit from a smaller base. China's sales were still below 3Q19.</li> </ul>
	10%	-33%	<ul style="list-style-type: none"> <li><b>BARDAR:</b> 3Q20 sales in Moldova still down 51% YoY, significantly affected by HoReCa closure, ban on public events (i.e. weddings, anniversaries), traveling restrictions heavily impacting Duty-Free channel. A detailed action plan is developed for 4Q20 to mitigate COVID-19 adverse effects.</li> </ul>



### Severe drought significantly affected grape harvest

Own harvest and 3<sup>rd</sup> party purchases of grapes, million kg



### Comments

- Moldova suffered an unprecedented drought. Record low harvest, for at least the last 10 years, in 2020, compounded by the already stressed vineyards after the 2019 drought.
- To mitigate the drought risk, we decided to roll out an extensive irrigation system, at a cost of circa \$3,000 per hectare. Estimated payback of investment circa 3 years. Plan to finish installations on circa 900ha (of circa 1,400 under operation) until the end of 2021, covering the highest drought-risk areas.
- Acquisitions from 3<sup>rd</sup> parties calculated to satisfy the inventory needs for 2021, taking into account the high 2018 stocks as well as the lower sales in 2020. In a good position to sustain the demand for 2021 also in a double-digit growth scenario.
- Harvest in Romania also below the 2019 level, but to a lesser extent than in Moldova. Expect a favorable pricing environment given supply limitations.

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Freedom Blend,  
indigenous grapes  
from Moldova,  
Georgia, Ukraine;  
**91 pts. by Wine  
Enthusiast**

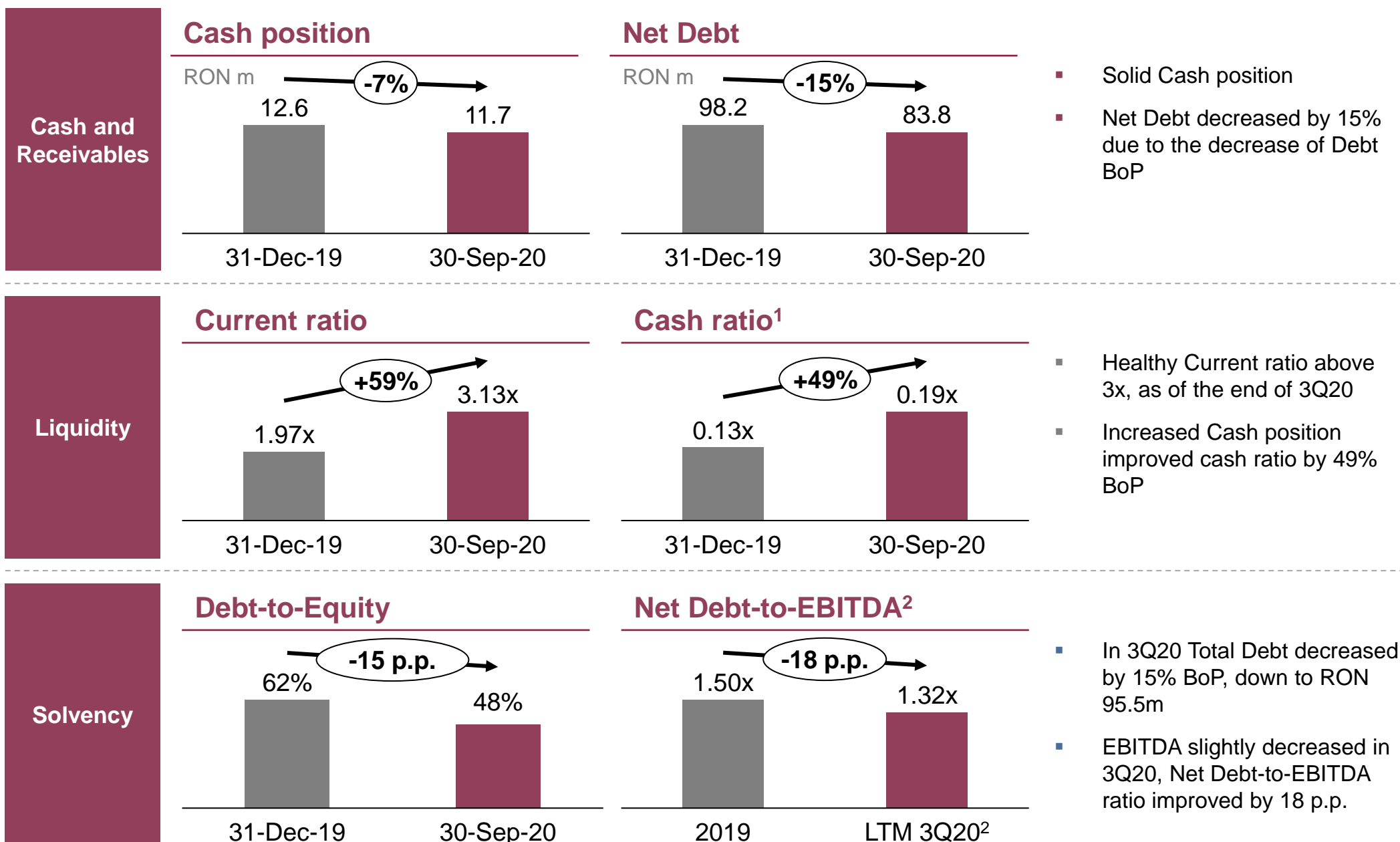
### 3 Performance significantly above April stress test scenarios

RON	1 – “Headwind”	2 – “Storm”	3 – “Hurricane”	Actual 9M20
• Revenue 2020 vs. 2019	- 6%	- 12%	- 18%	0%
• EBITDA 2020 vs. 2019	- 20%	- 26%	- 32%	- 4%
• EBITDA margin	29%	28%	28%	32%
• Net Income 2020 vs. 2019	- 21%	- 28%	- 36%	- 13%
• Net Income margin	18%	17%	17%	19%
• Dividends	no	no	no	no
• Capex	22M	17M	13M	14M
• Net Debt / EBITDA	1.2x	1.3x	1.5x	1.3x

***Important:*** the downside scenarios presented here, were based on multiple P&L, BS and CF assumptions as of April 2020, showing a high-level sensitivity analysis of the Company’s financials, focused primarily on the liquidity impact. For the avoidance of doubt, this did not represent a guidance for 2020.



### 3 Balance Sheet strong, providing sufficient leeway to weather crisis



- Solid Cash position
- Net Debt decreased by 15% due to the decrease of Debt BoP

- Healthy Current ratio above 3x, as of the end of 3Q20
- Increased Cash position improved cash ratio by 49% BoP

- In 3Q20 Total Debt decreased by 15% BoP, down to RON 95.5m
- EBITDA slightly decreased in 3Q20, Net Debt-to-EBITDA ratio improved by 18 p.p.

### 3 2020 Decanter: huge success, including a top-50 global wine



*“Two Moldovan wines in our Best in Show selection makes 2020 a breakthrough year for this significant but often underrated wine-producing nation – and what could be more appropriate than that one of these is based on the indigenous variety Viorica”*

Beth Willard, Regional Chair for North, Central and Eastern Europe at DWWA

### 3 Vivino feedback remains very strong, key for online sales too

#1 presence in the crucial RON 30-60 segment, holding 13 out of TOP-25 positions



#1



- We remain **obsessed about the quality of our wines**, which pays off in excellent consumer feedback
- In our core premium segment, 30-60 RON per bottle shelf price, we dominate the category with **13 best-rated wines in Vivino's top-25**
- Negru de Purcari 2015 among the **top 1% of all wines in the world**
- We remain convinced, it is the **product that will make the difference** in the mid and long term with consumers, so we are focusing on making exciting wines, that capture people's imagination



### 3 Extraordinary growth in Vivino usage, key for consumer engagement



**4.2**

Average score out of 5.0 in 3Q20

**89.1%**

Scores equal or above 4.0

**17,689**

Vivino scans in 3Q20

**+101%**

QoQ scans growth

**+25%**

MoM scans growth in October vs. September

**+146%**

YoY scans growth in Romania LTM

### *Crama Ceptura*



- Campaign: “Cold minded solutions”
- Launched: September 10
- Medium: TV, Online, SM

### *All brands - Community*



- Campaign: “Breathe freely”
- Launched: March 24
- Medium: Social

### *Crama Ceptura*



- Campaign: “Easter on Zoom”
- Launched: April 14
- Medium: TV, Social

### *Purcari*



- Campaign: “Thank you, heroes”
- Launched: April 14
- Medium: TV, Social

### *Bostavan – DOR*



- Campaign: “A different Easter”
- Launched: April 15
- Medium: TV, Social

### *Bardar*



- Campaign: “Cheers to heroes!”
- Launched: April 15
- Medium: TV, Social

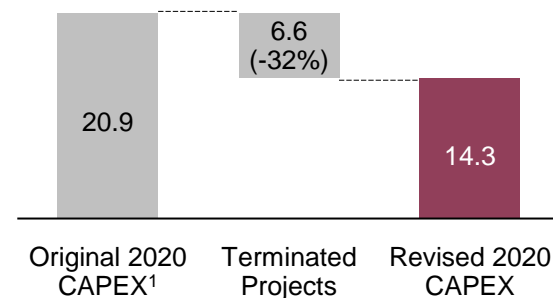


### 3 Broad and deep cost and cash optimization program initiated

#### A CAPEX cut

- **CAPEX program was revised** with all non-critical projects terminated / postponed, resulting in circa **RON 7 mln savings**, or 32% of original CAPEX program.
- Management had **reached out to suppliers** of equipment for revised CAPEX project with **request of discounts** and **revision of payment terms**, to reflect the new realities of the day.

2020 CAPEX Program, RON mln



#### B OPEX cut

- Management had initiated **holistic OPEX cost optimization program**. Cross-functional team is working on design and implementation of cost cutting initiatives across all main pillars.
- **Program is focused on:** procurement excellence, elimination of all non-critical purchases, negotiations of discounts with suppliers, order size optimization, forecasting improvements.
- Management and Board have all taken **voluntary salary cuts** of between 25% to 100%, for periods of between 3 and 12 months to set the tone for the rest of organization, protect more vulnerable employees and finance community contributions – more details: <https://bit.ly/34OzGQz>

#### C Liquidity optimization

- New loan facilities of ~RON 32 million available from MD bank at a negotiated lower interest rates.
- Credit line of RON 15 million is available from the bank in Romania, where ROBOR 1M decreased in the reported period, so lower finance cost is expected.
- Tight liquidity monitoring, including working capital. Overall, run a more prudent, cautious liquidity profile.

<sup>1</sup> Including agricultural investments

### 3 No updated guidance for 2020, until better grip on new steady state

#### Guidance for 2020

Target	2020 guidance	Comments
Organic revenue growth	+16-20%	<ul style="list-style-type: none"><li>Romania to remain growth driver, continue focusing on Poland, Czechia, Slovakia, Ukraine; continue seeding newer markets – Asia, Scandinavia, Germany.</li><li>Launch a number of new products from our Bostavan winery, on premiumization drive.</li></ul>
EBITDA margin	30-32%	<ul style="list-style-type: none"><li>Expect moderate increase in COGS given smaller harvest, but to be compensated by favorable pricing environment and ongoing premiumization of portfolio.</li></ul>
Net Income margin	20-22%	<ul style="list-style-type: none"><li>Financing cost does rise on higher rates in Romania; financing in Moldova remains very competitively priced.</li></ul>

#### Guidance suspended

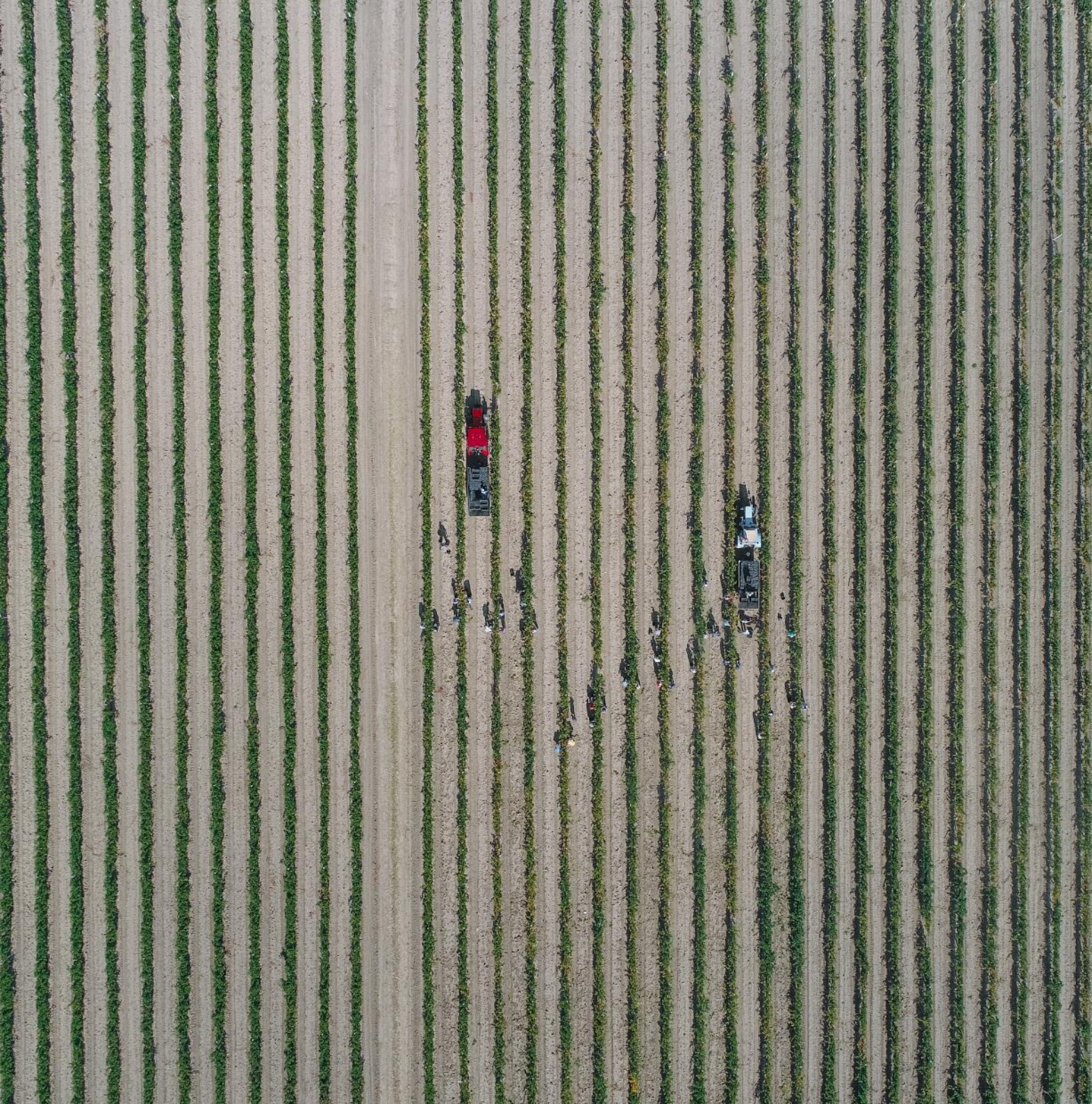
- Due to **high uncertainty** related to the development of Global Covid-19 crisis
- Including uncertainty on **time and extent** of Covid-19 related **restrictions** and depth of **negative economic** effects
- We **suspended** earlier disclosed **Guidance for 2020** until a better grasp of what the new steady state looks like

- 1 Our Group
- 2 9M20 Operational Results + COVID-19 Update
- 3 Update on 2020 Outlook + Contingency Plans
- 4 **Q&A**



Cuvée de Purcari, the extension to sparkling launched in 2017. Made according to the traditional, *Champenoise* method, with in-bottle fermentation





Thank you.