



Lark Distilling Co.

ASX ANNOUNCEMENT

ASX: LRK

28 January 2022

LARK DISTILLING CO. LTD: 4C MARKET UPDATE.

H1 Trading Highlights and Business Activities

- FY22 H1 Net Sales were \$10.4m, up 78% compared to prior period last year and consistent with our sales growth in the first quarter of F22.
- GP% to Net Sales was 61.7% for the half, down 3.6 ppts vs prior period last year being heavily impacted by supply chain constraints, and a shift in our sales mix away from our own hospitality venues into the lower margin national accounts business.
- Execution of the Lark Gifting programme was a significant sales success with many insights and learnings to carry into next year.
- Extensive planning and preparation into the 30 year activations in H2 all designed to increase brand awareness, trial and underlying brand perception. Let the celebrations begin !
- Reached agreement to acquire Shene estates, distillery and whisky inventories, completed a \$50m + share placement and secured a revolving debt facility with the NAB to fund the acquisition.
- Upgraded various roles on the leadership team including Grieg Evan's new head of production, Mee Ok as the new head of people and culture and finally Adam Trewin (ex-Sales Director for Spirit Platform) starts in early January as the new head of domestic sales.
- Secured board or committee representation on both the Tasmanian Whisky Spirits Association and on the Australian Distillers Association to better represent Lark's interests
- Litres Under Maturation is 1.34m litres, an increase of 250k litres from 30 June 2021 and before adjusting for the Shene acquisition.
- Net Sales Value of the Whisky Bank at Maturation is \$290m, up from \$236m as at 30 June 2021 and before adjusting for the Shene acquisition.
- Closing Cash at Bank position \$56.2m, with an additional \$10m available thru NAB Debt Facility.

"In the face of a series of sustained COVID disruptions to all aspects of our business in all parts of the country, the achievement of 78% sales growth YOY in the first half is an outstanding result and testament to the brand activations aligned to our vision of being the world's most innovative distiller." Managing Director, Geoff Bainbridge.

"Despite the COVID interruptions to our sales momentum we continue to laydown world class whisky that will power the Company's growth for years to come. With the addition of the Shene inventory in the second half the Company expects to close F22 with over 2m litres under maturation at a whisky market value of in excess of \$430m." Bainbridge said.

COVID Impact on Trading

Lark has experienced significant shipping delays, cost increases and domestic fulfillment challenges in H1 all associated with the ongoing impact of COVID-19 and all of which have continued into the beginning of 2022.



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- Impact of COVID-19 On- Prem nationally due to closures, staff availability and lower traffic.
- Material shift of sales away from the higher margin channels of Lark owned hospitality venues and the independent on-premise trade to the lower margin National Key Accounts.
- Mainland 3PL Warehousing/Distribution partner materially impacted by Covid-19, losing a third of its workforce in early November forcing a return to the more expensive Tasmanian fulfilment solution.
- Delay in receiving 100ml glass bottles (originally planned to be in Australia July/August, received early December), materially reduced the number of Gift Pack configurations that could be offered in the lead up to Christmas trade.
- Pallet shortages affecting lead times and deliveries nationwide.

It is expected the ongoing impact of Covid 19 will see challenges continue through H2. Lark will continue to explore all avenues to reduce and mitigate these impacts.

COVID Impact on Lark Owned Hospitality Venues

- Hospitality achieved net sales of \$891k in H1 which is down -36.5% vs prior period and all connected to the various stages of lockdowns in the key tourist markets of Victoria and NSW.
- On a positive note Lark hospitality venues delivered strong revenue growth in the weeks following the easing of border restrictions in Tasmania on 15 December, including 100% week on week increase in sales at the Cellar door and achieving a record sales performance in the final weeks of 2021.
- Sadly the arrival of the Omicron wave in early 2022 has impacted this trend, and in recent weeks, Lark hospitality venues have experienced declines in foot traffic and staff availability in line with the industry trend.
- Importantly, Lark is well positioned to grow its hospitality revenue in future periods subject to the impacts of Omicron on hospitality venues reducing.

Building The Whisky Bank

Lark Distilling Co. - Litres of Whisky as at 31 December 2021 at 43% ABV			
FY Maturing	Litres of Whisky at Maturation at 43% ABV	Liquidation Value Today	Net Sales Value at Maturation Date (\$216/litre)
2022	73,828	\$ 15,946,846	\$ 15,946,846
2023	138,694	\$ 24,521,153	\$ 29,957,969
2024	215,032	\$ 29,588,363	\$ 46,446,850
2025	348,891	\$ 34,330,907	\$ 75,360,527
2026	150,868	\$ 8,931,364	\$ 32,587,408
2027+	416,083	\$ 8,321,658	\$ 89,873,906
Grand Total	1,343,396	\$ 121,640,291	\$ 290,173,506

Value at Cost December 2021 (unaudited)	\$24,834,440
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- Litres Under Maturation has increased by 250k litres (+23% v June 2021)
- Value of Whisky at Maturation has increased by \$54m (+23% v June 2021)



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Acquisition of Pontville Distillery & Estate Update

As announced in October 2021, Lark Distilling Co will acquire the Pontville Distillery & Estate with the transaction being completed in February 2022. Significant amount of planning has been invested to ensure a smooth transition of ownership. The transaction includes 483,000 Litres of Whisky Under Maturation, considerable estate of 40 acres and buildings (distillery & bond stores), and onsite cooperage.

This acquisition continues to support our vision of becoming a global icon in single malt whisky and the world's most innovative distiller.

Domestic Sales Re-Structure

During the quarter the Company put in place a new domestic sales structure with an increase in headcount from 3.5 to over 9. We have successfully recruited proven whisky sales staff with the only vacancy at the moment the recruitment of a Victorian sales rep. This much needed increase in our physical presence on the mainland is expected to have a material impact on sales in the first half of F23. This new sales infrastructure is being shared with a fellow Tasmanian distillery – Callington Mill – so the overall costs increase to Lark is less than 20% growth in wages YOY for an almost tripling of sales staff out in their markets.

CEO Transition and Export Resourcing

An extensive search has begun for either a COO (or ultimately a CEO) with a very clear requirement for them to take the lead on the development and execution of our export sales strategy and the recruitment of agents, distributors, direct employees around the globe with an immediate focus on China, Sth East Asia, the Middle East and selected parts of Nth America (and they must have a proven track record in two of these markets). The Board remain on track to make further announcements about this requirement before the end of the financial year.

NPD Product Pipeline

The business has an outstanding schedule of new release in the 2nd Half of F22 all designed to celebrate and promote 30 years of Lark and Tasmanian whisky. This is a very unique time for the company and our media presence and exposure during this period will be significant.

December Quarter Cashflow Highlights

Net operating activity cash outflows were \$3.798m for the quarter. Operating activity inflows through customer receipts totalled \$6.1m and represented a \$401k increase from the September quarter. Operating cash outflows for product manufacturing and operations increased from the previous quarter due to increased liquid purchases, Seppeltsfield casks and packaging materials. Payments for administration and corporate costs included \$375k of corporate advisory and due diligence fees relating the Pontville acquisition. Other operating cash movements were in line with prior quarters and expectations.

Net investing activity cash outflows for the quarter were \$1.027m. Majority of spend for property, plant and equipment for the December quarter related to fit-out costs for the "The Still" of \$411k and a deposit for works on the new distillery at Pontville of \$467k.



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Net financing activity cash inflows for the quarter were \$55.846m. \$55.884m inflow was received, net of costs, from the capital raise in October. During the quarter, the Quality Life Pty Ltd loan was repaid and replaced with a NAB debt facility.

The Group made payments of \$201k to an associated entity related to Warren Randall (Non-Executive Director). These payments were for the purchase of casks from Seppeltsfield Wines Pty Ltd. Payments of \$165k were made for Non-Executive Director fees and Executive Director Remuneration.

For more information contact

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This announcement has been approved for release by the Board of Directors.

Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Lark Distilling Co. Ltd

ABN

62 104 600 544

Quarter ended ("current quarter")

31 December 2021

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,103	11,805
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(6,460)	(11,466)
(c) advertising and marketing	(740)	(1,327)
(d) leased assets	-	-
(e) staff costs	(1,284)	(2,356)
(f) administration and corporate costs	(1,308)	(2,454)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(77)	(130)
1.6 Income taxes/GST paid	(33)	166
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,798)	(5,761)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,027)	(1,499)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
	(f) other non-current assets	-	-
2.2	Proceeds from disposal of:		
	(a) entities	-	-
	(b) businesses	-	-
	(c) property, plant and equipment	-	-
	(d) investments	-	-
	(e) intellectual property	-	-
	(f) other non-current assets	-	-
2.3	Cash flows from loans to other entities	-	-
2.4	Dividends received (see note 3)	-	-
2.5	Other (provide details if material)	-	-
2.6	Net cash from / (used in) investing activities	(1,027)	(1,499)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	57,860	57,860
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	38
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(1,976)	(1,976)
3.5	Proceeds from borrowings	5,000	5,000
3.6	Repayment of borrowings	(5,038)	(5,090)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other	-	-
3.10	Net cash from / (used in) financing activities	55,846	55,832

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	5,194	7,643
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,798)	(5,761)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,027)	(1,499)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	55,846	55,832
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	56,215	56,215

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	56,215	5,194
5.2	Call deposits		
5.3	Bank overdrafts		
5.4	Other (provide details)		
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	56,215	5,194

6.	Payments to related parties of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to related parties and their associates included in item 1	366
6.2	Aggregate amount of payments to related parties and their associates included in item 2	
<i>Note: if any amounts are shown in items 6.1 or 6.2, your quarterly activity report must include a description of, and an explanation for, such payments.</i>		

7.	Financing facilities <i>Note: the term "facility" includes all forms of financing arrangements available to the entity.</i> <i>Add notes as necessary for an understanding of the sources of finance available to the entity.</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1	Loan facilities	15,000	5,000
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	15,000	5,000
7.5	Unused financing facilities available at quarter end		10,000
7.6	Include in the box below a description of each facility above, including the lender, interest rate, maturity date and whether it is secured or unsecured. If any additional financing facilities have been entered into or are proposed to be entered into after quarter end, include a note providing details of those facilities as well. During the quarter, the company secured a \$15million debt facility from National Australia Bank (as announced on 24th November 2021). Out of this \$5m facility has been used during the quarter to retire previous \$5m loan from Quality Life Pty Ltd		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(3,798)
8.2	Cash and cash equivalents at quarter end (item 4.6)	56,215
8.3	Unused finance facilities available at quarter end (item 7.5)	10,000
8.4	Total available funding (item 8.2 + item 8.3)	66,215
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	17.4
Note: if the entity has reported positive net operating cash flows in item 1.9, answer item 8.5 as "N/A". Otherwise, a figure for the estimated quarters of funding available must be included in item 8.5.		
8.6	If item 8.5 is less than 2 quarters, please provide answers to the following questions:	
8.6.1	Does the entity expect that it will continue to have the current level of net operating cash flows for the time being and, if not, why not?	
Answer: N/A		
8.6.2	Has the entity taken any steps, or does it propose to take any steps, to raise further cash to fund its operations and, if so, what are those steps and how likely does it believe that they will be successful?	
Answer: N/A		
8.6.3	Does the entity expect to be able to continue its operations and to meet its business objectives and, if so, on what basis?	
Answer: N/A		
Note: where item 8.5 is less than 2 quarters, all of questions 8.6.1, 8.6.2 and 8.6.3 above must be answered.		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Date: 28 January 2022

Authorised by: By the Board
(Name of body or officer authorising release – see note 4)

Notes

1. This quarterly cash flow report and the accompanying activity report provide a basis for informing the market about the entity's activities for the past quarter, how they have been financed and the effect this has had on its cash position. An entity that wishes to disclose additional information over and above the minimum required under the Listing Rules is encouraged to do so.
2. If this quarterly cash flow report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly cash flow report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.
4. If this report has been authorised for release to the market by your board of directors, you can insert here: "By the board". If it has been authorised for release to the market by a committee of your board of directors, you can insert here: "By the [name of board committee – eg Audit and Risk Committee]". If it has been authorised for release to the market by a disclosure committee, you can insert here: "By the Disclosure Committee".
5. If this report has been authorised for release to the market by your board of directors and you wish to hold yourself out as complying with recommendation 4.2 of the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations*, the board should have received a declaration from its CEO and CFO that, in their opinion, the financial records of the entity have been properly maintained, that this report complies with the appropriate accounting standards and gives a true and fair view of the cash flows of the entity, and that their opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.