

September 2022 Quarterly Activities Report & 4C Market Update

Lark Distilling Co. Ltd (ASX: LRK) ("Lark" or the "Company") is pleased to release its Quarterly Activities Report and Appendix 4C Cash Flow Report for the quarter ending 30 September 2022 ("Q1" or "September quarter").

Q1 FY23 HIGHLIGHTS:

- Lark delivered Q1 net sales of \$4.2 million (+3% pcq)
- Normalised September quarter sales +13% QoQ
- Gross profit margin of 67.7% (versus 61.2% in pcq and 66.5% in FY22)
- Expanding whisky bank of 2.2 million of whisky under maturation at 43% ABV (+6% pcq)
- Pleasing performance across channels, highlighting ability to build sustainable sales
- Export sales continue to grow at exceptional rate
- Balance Sheet strength with solid cash position of ~\$10 million, in addition to an undrawn bank facility of \$15 million
- Investor webinar to be hosted at 1030am, Monday 31 October 2022 to discuss results ([register here](#))

Lark Managing Director and Interim CEO, Laura McBain, said:

"As a leading luxury whisky brand, we're encouraged by the sustained strength of sales across our channels and signature products, highlighting the continued demand and resilience of our luxury brand position despite a weaker general consumer sentiment."

Appointment of new CEO

Lark is pleased to announce it has identified and is nearing appointment of a highly qualified CEO candidate with strong industry experience, leadership, and skills to advance the Company's growth and strategy. The Company intends to update the market, once confirmed, expected later this week.

September quarterly sales

Lark delivered net sales of \$4.2 million for the September quarter, reflecting 3% growth versus prior corresponding period ("pcq"). Notwithstanding Q1 being a seasonally low quarter for the Company, mix-shift continued to evolve, highlighting flexibility within the business as it continues to scale.

When compared to net sales observed during Q4 FY22 (\$6.7 million), it's important to recognise Q4 FY22 experienced benefit from significant sales relating to bulk annual transactions. Normalising for these transactions, sales for the September quarter were up 13% from June quarter, demonstrating the long-term growth trends in the company's sales performance. Despite being lumpy in nature, Lark views the majority of these bulk sales as repeatable business.

Core product range and limited releases refined to optimise sales potential

As part of wider initiatives to solidify and enhance Lark's brand and positioning overall, continued focus is placed on ensuring the Company has the right products to go to market, across domestic and export channels. Lark was encouraged by the strength observed in Classic Cask and Symphony No. 1 during the quarter, achieving sales growth of +39% pcq.

As the company continues to fine-tune its disciplined limited release program – demonstrating innovation and award-winning whisky – it is also developing a new "always on" core range. This has been a specific focus during the September quarter – adding three new products to the core range beyond Classic Cask and Symphony No. 1, an expansion planned for launch in H2 FY23. The updated core range will provide diversity in products to meet consumer demand as well as better position Lark's portfolio and shelf presence in retail banner groups. It also allows the Company to continue to expand into export markets with greater confidence.

The limited release program continues to deliver success. Dark Lark – the Company’s largest ever limited release by volume – sold out of 5000 units, while Wolf V, Lark’s 5th collaboration release with Wolf of the Willows Brewery, continues to meet expectations. Notwithstanding a reduced cadence, success across these key releases continue to provide the Company confidence in its strategic objective of being renowned as one of the most innovative distillers globally.

Pipeline limited releases slated for Q2 include:

- *The Christmas Cask* – With our famous Christmas release being awarded the nation’s 2021 Australian Whisky of the Year, you’ll be walking in a whisky wonderland with our most festive single malt yet. Imparted with the essence of pâtisserie Jean Pascal’s fruit mince pies and Frogmore Creek’s red wine barrels, the Christmas Cask 2022 is all aglow with notes of comforting gingerbread, traditional Christmas spices and fruits mingling with vanilla custard atop a scrumptious plum pudding (\$250 RRP, October); and
- *Tokay 100 Rare Cask Series* – our relationship with Seppeltsfield Winery has opened the door to some of the rarest fortified wine in the world. With our TOKAY 100 release, we finished this unique Tasmanian single malt in historic barrels that until recently held Seppeltsfield museum blend Tokay, containing a highly precious parcel from the 1922 vintage. Stunningly viscous and palate saturating, TOKAY 100 Rare Cask is rich in character and steeped in history. (\$1000 RRP, November).

Lastly, Lark continues to be recognised globally for its outstanding whiskies, gins, bottle designs and carbon neutral initiatives. The Company is delighted to have been awarded an impressive 12 GOLD medals during the September quarter, with Classic Cask and Symphony No. 1 both taking home GOLD.

Most recently, Lark won GOLD at the Australian Distilled Spirits Awards for Symphony No. 1 and Para 50 II Rare Cask Release. Lark is also thrilled to announce that Bill Lark has been shortlisted for Lifetime Achievement Award at the global Spirits Business Awards, winners to be announced November 1st.

Business-to-business ("B2B") sales performance to key retailers was particularly pleasing following successful range reviews whereby core distribution was extended. Lark is also encouraged by improved breadth of distribution with 16% growth in Lark points of presence¹ to non-major retailers since 30 June 2022, more than double the same time last year. Consistent with Lark’s FY22 results in August, the Company continues to lay the foundations in its capability to support a sustainable growth strategy and views improved distribution as the next logical phase after its investment in key personnel.

Partially contributing to this investment, a renewed strength in hospitality was also observed during the September quarter as the Company cycled disrupted Q1 FY22 comparisons. Despite a considerable improvement, staff shortages were experienced at Pontville distillery & cellar door during the quarter, resulting in 39 lost trading days. The Company currently expects a full contribution from all venues during the December quarter (Q2 FY23).

With respect to eCommerce, further deterioration in online sales partially offset strength experienced elsewhere within Lark’s sales during Q1 FY23. Despite elevated eCommerce comparisons post a peak in online sales in Q2FY22, diminishing COVID-related benefits and meaningfully lower gift pack sales contributed to the result. For context, following the introduction of gift packs last year – commencing Q1 FY22, coinciding with Father’s Day – Q1 FY23 sale of whisky gift packs was \$0.6 million lower versus Q1 FY22. Importantly, excluding gift packs, overall group-wide whisky sales were +28% versus Q1 FY22.

Lastly, with respect to gin, the Company has turned attention to promoting and marketing gin to a broader audience during Q1. Gin sales during the September quarter (versus pcp) is the result of slower than expected sell-through by wholesale partners, impacting replenishment.

¹ includes direct-to-business sales (excl. wholesale distribution partners) plus sell-through to businesses from wholesale distribution partners.

Channel mix-shift drives ongoing margin expansion

As a pillar of Lark's underlying strategy to become a global icon in single malt whisky, the Company remains confident in its ability to achieve sustained sales across key channels. Strong sales performance during the September quarter across high-margin channels led to a gross profit margin of 67.7% (versus 61.2% Q1 FY22), also expanding on FY22 margins of 66.5%. This was primarily a result of Lark-owned hospitality venues, plus encouraging early signs from export markets.

Ongoing progress in export markets

Exports also continue to form a key part of Lark's future strategy as the Company methodically releases its whisky bank. Export sales during the September quarter continued to grow at an exceptional rate, despite growing from a low base. Redefining Lark's core range has also been a critical step in aiding future export potential.

While the Company continues to take a measured approach to expansion into new geographies, Lark remains encouraged by ongoing activity as well as Q2 FY23 committed orders as the Company seeks to build a successful, sustainable export channel.

Strategic optionality of whisky bank, underwriting future success

Lark's whisky bank continued to strengthen to 2.2 million litres at 43% ABV as at 30 September 2022 (+6% pcp). Lark remains well-placed to continue to extract value given the favourable maturity profile of its whisky under maturation. Notably, the Company maintains flexibility with respect to deployment of liquid, across age bands, noting some of the Company's more innovative and successful products recently released have utilised younger liquid.

Litres under Maturation ²	
Age	Litres
0-2 years	1,039,466
2-3 years	450,432
3-5 years	494,034
5+ years	195,948
TOTAL	2,179,880

² At 43%, post angels share, by age.

September quarter cashflow highlights

Net operating activity cash outflows were \$0.9 million for the quarter. Operating activity inflows through customer receipts of \$6.7 million reflected continued improved collection of debtors. Payments for product manufacturing and operating costs remained in line with the prior quarter, while the Increase in payments for staff costs was driven by the timing of payments. Other operating cash movements were in line with prior quarters and expectations.

Payments for investing activities included \$0.1 million payment relating to the acquisition of Pontville distillery. A \$1.0 million payment is due in February 2023 for the acquisition of cooperage assets at Pontville to complete the acquisition.

During the quarter, the Group repaid the \$5.0 million balance owed on the NAB facility. At the end of the quarter, \$15.0 million is available to be drawn through the facility.

Payments disclosed in section 6.1 related to Non-Executive Director fees and Executive Director Remuneration.

Investor webinar:

The Company will host an investor webinar with Managing Director and CEO (Interim) Laura McBain, and Chair of the Board of Directors, David Dearie, at 10.30am AEDT on Monday, 31 October 2022 to discuss the results.

Register for the investor webinar via the link below:

https://us02web.zoom.us/webinar/register/WN_lchFFpYITkO2Aybo8EbZNw

Questions can be pre-submitted to sam@nwrcommunications.com.au or asked via the Q&A function during the webinar.

About Lark Distilling Co:

Founded in 1992 by pioneers Bill & Lyn Lark, this year Lark Distilling Co. celebrates three decades of crafting world-class, award-winning Whisky. From humble beginnings on a kitchen table, curiosity and courage bore Tasmania's very first licensed whisky. Lark Distilling Co., the leading luxury Australian Whisky brand, houses a range of spirits headlined by its single malts; Classic Cask 43% and Cask Strength 58%, and its unique blended-malt whisky, SYMPHONY. The distillery also produces a range of Forty Spotted Gins and handcrafted Tasmanian liqueurs.

For the second consecutive year, Lark Distilling Co. was shortlisted for the World Whisky Producer of the Year in the coveted International Wine & Spirits Competition, and in August 2022 received the Master Medal Award, in the World Whisky Masters, for its innovative Chinotto Cask II Cask Strength release, alongside a further seven gold medals across the portfolio.

In April 2021, Lark Distillery was named Australia's first carbon-neutral distillery under the Australian Government's Climate Active Program, meaning the activities associated with running Tasmania's first distillery have no net negative impact on the climate. One of the most rigorous and widely recognised carbon-neutral programs in the world, Climate Active certification is only awarded to businesses and organisations that have credibly reached a state of achieving zero net emissions.

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")

30 September 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,693	6,693
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(2,944)	(2,944)
(c) advertising and marketing	(618)	(618)
(d) leased assets	(93)	(93)
(e) staff costs	(2,034)	(2,034)
(f) administration and corporate costs	(1,578)	(1,578)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	8	8
1.5 Interest and other costs of finance paid	(70)	(70)
1.6 Income taxes/GST paid	(264)	(264)
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(900)	(900)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	(120)	(120)
(b) businesses	-	-
(c) property, plant and equipment	(195)	(195)
(d) investments	-	-
(e) intellectual property	-	-

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 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	(315)	(315)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	-
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	38	38
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	-
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(5,000)	(5,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (payment of lease liabilities)	(45)	(45)
3.10	Net cash from / (used in) financing activities	(5,007)	(5,007)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	16,094	16,094
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(900)	(900)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(315)	(315)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(5,007)	(5,007)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	9,872	9,872

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	9,872	16,094
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)	9,872	16,094

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	207
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	-
7.2	Credit standby arrangements		
7.3	Other (please specify)		
7.4	Total financing facilities	15,000	-
7.5	Unused financing facilities available at quarter end		
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. The company secured a \$15million debt facility from National Australia Bank (as announced by the company on 24 th November 2021). Out of this facility, \$5 million has been used.		

8.	Estimated cash available for future operating activities	\$A'000
8.1	Net cash from / (used in) operating activities (item 1.9)	(900)
8.2	Cash and cash equivalents at quarter end (item 4.6)	9,872
8.3	Unused finance facilities available at quarter end (item 7.5)	15,000
8.4	Total available funding (item 8.2 + item 8.3)	24,872
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)	27.6
	<i>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.</i>	
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	
	<i>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.</i>	

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: 31 October 2022

Authorised by: By the Board

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.