

Mighty Craft delivers record sales in Q3 FY22 despite ongoing COVID disruption

28 April 2022

ASX Announcement

Mighty Craft Limited (ASX:MCL) (**Mighty Craft** or the **Company**) is pleased to provide a business update for the quarter ended 31 March 2022 (Q3 FY22) and an Appendix 4C.

Highlights:

Financial Performance

- **Record cash receipts of \$21.3¹ million for the quarter**, up +96% on Q3 FY21 (“pcp”) despite the ongoing impact to venues and sales into the on-premise channel.
- **Revenue for the quarter of \$19.4m** up +105% versus pcp.
- **Operating cash outflow of \$(2.9) million** versus \$(1.6)m in the previous quarter (Q2 FY22) reflecting the COVID impact in venues as well as the increased working capital investment to support growth, especially in Better Beer.
- **EBITDA for the quarter of \$(1.3) million** versus \$(2.2) million pcp.
- **Better Beer sales of \$7.8 million (1.8m litres)** in Q3 FY22 versus zero in pcp, including a record sales month in March of **\$3.4 million**. Better Beer is on track to deliver the 4.0m litre target for FY22.
 - The company notes that the growth of Better Beer is requiring an ongoing investment in working capital to support the growth and this has impacted operating cashflow.
- **COVID continued to cause disruption** to the business in Q3, as flagged in the recent investor update. In terms of the COVID impact the company notes:
 - **Venue sales dropped to 25% of total business sales** versus 45% in pcp and 29% in H1 FY22.

Sales of Kegs in Q3 FY22 declined (4)% vs pcp versus an overall growth rate for the Beer / Cider category of +100% vs pcp for the quarter. This resulted in **keg sales only making up 11% of total Beer / Cider / RTD sales** in Q3 FY22 versus 22% in pcp.
- Cash balance as of 31 March 2022 was **\$6.8 million** (31 December 2021: \$10.7 million)

Strategic

- **Investor Roadshow** – the company released an updated Investor Presentation in March 2022 and undertook an extensive marketing schedule in April, meeting face-to-face with investors across Brisbane, Sydney, Adelaide, and Melbourne.
- **Whisky Development Syndicate** - the company announced the launch of the Whisky Development Syndicate (“WDS”), which is a funding initiative that will enable Mighty

¹ All numbers included are unaudited management accounts.

Craft to fund and accelerate the production and maturation of Whisky without utilising its own cash reserves. The WDS was launched in early April with an aim to closed by the end of May 2022.

- **Capital management** - The company is exploring several capital management initiatives to ensure sufficient funding to execute upon the growth strategy. These include but are not limited to:
 - The company is working through options with its lenders with respect to working capital funding and expects to unlock further flexibility over the course of Q4 FY22.
 - Portfolio management and simplification – Mighty Craft is actively pursuing the potential sales of non-core assets, some of which are expected to complete in Q4 FY22.

Mighty Craft's Managing Director, Mark Haysman said: "Q3 FY22 was another record sales quarter for the business despite the ongoing COVID impacts to both our own venues and sales into the on-premise channels. Whilst this has caused a short-term impact from a profit mix perspective, we view this as temporary and expect hospitality to continue to bounce back to pre-COVID levels.

The business is in very good shape heading into FY23 and ready to deliver ongoing and sustainable profits. We will continue to simplify and focus the business, back the brand winners and divest non-core assets, which will also help us from a capital management point of view. We have a very clear set of priorities and the best portfolio of craft beverages in the country, which is incredibly exciting."

Key focus areas and initiatives:

- **Better Beer acceleration** – drive towards the FY22 target of 4.0m litres which includes further innovation in market in Q4 FY22.
- **Simplify and focus** – the business will continue to look at opportunities to divest non-core assets and is actively engaged in several discussions, which it is aiming to close out in Q4 FY22.
- **Whisky Development Syndicate** - partner closely with the WDS to ensure it is fully funded and able to partner with Mighty Craft to accelerate it's production and ambition to deliver 1.5m litres under maturation by FY25.
- **Prudent capital management** – the company will focus on increasing the flexibility of funding facilities already in place, along with potential divestments to ensure sufficient funding is in place to fund short and medium term growth initiatives.
- **Cost minimisation** - Ongoing focus on profit improvement through cost reduction and shifting focus and resources towards priority brands. A simplified and focussed portfolio will allow the business to implement a leaner operating model heading into FY23.

Whisky Acceleration Update

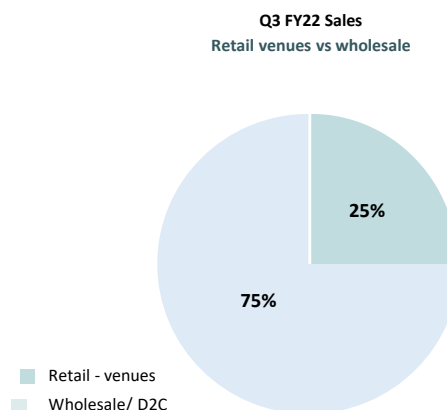
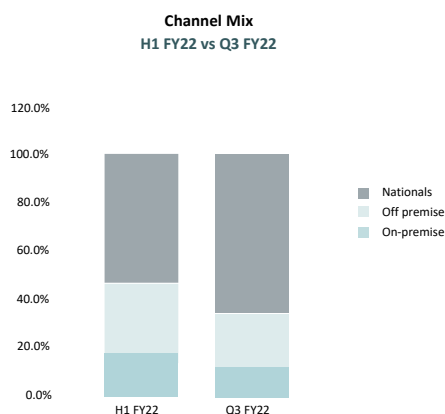
- The company continued to invest in whisky stocks with litres under maturation increasing to 273k litres, representing an increase of ~55,000 litres on Q2 FY22. Going forward, once the WDS raising is complete, all future Whisky production will be funded via the syndicate avoiding the need for Mighty Craft to use any cash reserves.

Whisky Bank ²	Litres
CY21	78,487
CY22	45,123
CY23	26,472
CY24 – 26	123,466
Total in barrel as at Mar 2021	273,548

COVID Impact

COVID interruptions continue to impact sales across direct venues and into the on-premise channel. Whilst the business experienced an improvement in Q2 FY22, this softened considerably in January and February. The chart below shows the ongoing mix shift away from venues towards national retailers. As previously communicated, we expect trading conditions to remain unpredictable across the remainder of FY22, with consumer confidence and patronage still well below pre COVID levels.

- Mix impact – the company notes that the performance of venues and on-premise in Q3 FY22 had an adverse impact on both overall growth and margins. Venues dropped to 25% of total business and sales into the on-premise channel were in decline versus prior year.



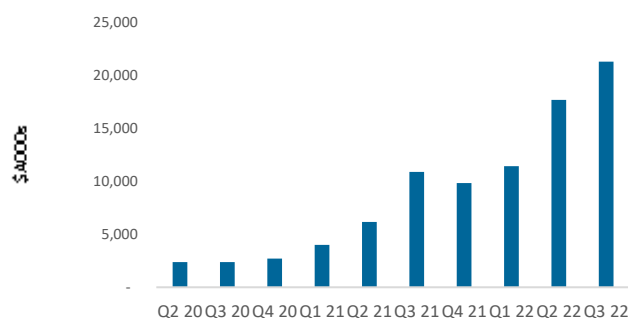
² CY represents expected calendar year maturity date – note this may change over time

Financial Performance

Cash Receipts since IPO

Mighty Craft delivered record receipts again in Q3 FY22 with Better Beer being the key growth driver, along with strong growth across the Seven Seasons and Kangaroo Island Spirits brands. Given the ongoing impact of COVID on venues and the on-premise channel, the company is pleased with the growth profile in Q3 FY22 and notes that once trading returns to normal across venues and on-premise, this presents a positive opportunity for both sales and margin in FY23.

Quarterly Cash receipts since IPO³



Key Growth Drivers



Wholesale Revenue Growth

Wholesale revenue grew significantly in Q3 delivering \$15.5 million in the quarter, representing another record quarter for wholesale revenue. The Company announced that it has secured an increase of over 8,500 additional distribution points in Q3 FY22, taking the total number to over 33,000. This is important as distribution is the key forward indicator of future sales.

The key contributor to the growth in wholesale was the acceleration of Better Beer. Better Beer delivered \$7.8 million in sales for Q3 FY22 (1.8m litres). Since launching in November 2021, Better Beer has delivered \$9.5 million in sales (2.2m litres) and is on track to meet the 4.0m litre target for FY22.

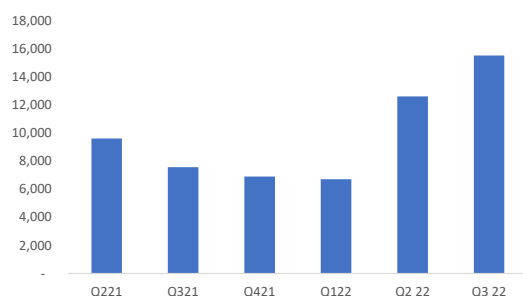
During the quarter, the first round of innovation was released to market nationally in all Dan Murphy and BWS stores across the country. Better Beer Ginger Beer is now in the market and early sales data is very positive with \$0.5 million in sales in Q3. Further innovation is planned for release in Q4 FY22.

³ As reported to the ASX in Appendix 4C submissions since listing on the ASX in December 2019

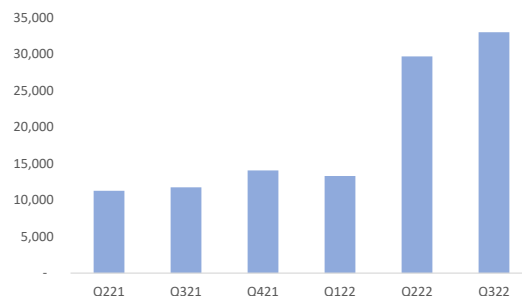
In addition, two additional key business growth drivers were Seven Seasons and Kangaroo Island Spirits. Seven Seasons delivered 109% sales growth and Kangaroo Island Spirits 19% growth versus pcp. The company expects Kangaroo Island sales to increase significantly in Q4 given the distribution gains that have been secured on the back of the relaunch without yet realising sale of stock (expected in Q4 FY22).

Overall, the company is pleased with the growth in the wholesale channel while noting that sales into the on-premise channel remain significantly impacted by COVID. Keg sales declined in Q3 FY22 by 4% reflecting the slower than anticipated re-opening of hospitality venues across the country. The company expects this channel to gradually return to normal over the course of Q4 FY22.

Wholesale revenue⁴ (total group)



Distribution Growth⁵ (total group)



Cash Flow Update

Operating

Cash used in operating activities of \$(2.9) million was impacted by a number of key drivers:

- Scale in wholesale – the company delivered another record in terms of sales and receipts for the quarter. This is reflected in the record receipts number in the cashflow of \$21.3 million.
- Working capital impacts – the scale of growth has required the company to invest in working capital, especially relating to Better Beer.
- Whisky stocks – see commentary below under “Whisky Acceleration Update”

Investing and Financing

Minimal impacts during the quarter on investing and financing outside normal operations

⁴ Wholesale revenue represents sales through Might Craft sales and distribution agreements

⁵ Distribution represents unique distribution points for individual products

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This announcement has been authorised and approved for release by the Board of Directors of
Mighty Craft Limited

About Mighty Craft

Mighty Craft (ASX:MCL) is a craft beverage accelerator with a nationally diversified portfolio of craft beverages. It has built a unique infrastructure and distribution offering that enables the company to scale production, distribution and sales as it seeks to become Australia's leading premium craft beverage company. Mighty Craft is achieving its vision by strategically investing in craft beverage producers, with celebrated local brands, and providing them with leadership, growth capital and industry solutions to maximise brand awareness and accelerate growth, whilst achieving scale. Mighty Craft is proud to be taking local Australian craft beer and spirits brands to customers Australia wide and abroad.

mightycraft.com.au

Financial:

Pursuant to Listing Rule 4.7C2 the Company confirms that during the period since listing on the ASX on the 17th of December 2019 expenditure is largely in line with the Use of Funds set out in the prospectus with a Summary shown in the Table below:

Use of Funds under the Prospectus		Use of Funds per Propsectus (\$M)	Actual use of Funds (\$M)
CAPEX for Jetty Road and Foghorn	1	1.4	1.0
Complete the acquisition of additional craft Breweries and Distilleries, including Ballistic, Slipstream and Sparkke Investment	2	4.3	5.9
Aquire Interests in, or accelerate the development of additional hospitality venues	3	5.9	6.6
Investment in Sales Collective, export capabilities, product and development and general coprporate expenses	4	7.4	7.6
Additional Funds for Investment and Working Capital	5	8.6	6.6
Cost of the Offer	6	1.4	1.4
TOTAL		29.1	29.1

Mighty Craft unaudited Q3 FY2022 cashflow statement in respect to the financial year ending 30 June 2022

Summarised cash flow; A\$'000	Current quarter \$A'000	Year to date (9 months) \$A'000	3QFY2022 commentary
Cashflows from Operating Activities			
Receipts from customers	21,289	50,373	
Payments to suppliers & employees	(22,239)	(52,735)	
Other	(1,950)	(7,578)	
Net cashflow from / (used in) Operating Activities	(2,900)	(9,940)	Record cash receipts for Q3 FY22 despite ongoing interruption in venues due to COVID
Cashflows from Investing Activities			
Payments made to acquire entities	0	(25,654)	
Payments made for PP&E	(334)	(1,837)	
Payments made for Investments	0	(96)	
Other	(130)	4,267	
Net cashflow from / (used in) Investing Activities	(464)	(23,320)	
Cash flows from financing activities			
Proceeds from issues of equity securities	0	34,169	
Proceeds from Borrowings	0	5,810	
Transaction costs / Other	(508)	(4,172)	
Net cashflow from / (used in) Financing Activities	(508)	35,807	
Net increase / (decrease) in cash & cash equivalents	(3,872)	2,547	
Cash and cash equivalents at beginning of period	10,676	4,255	
Net cash from (used in) operating activities	(2,900)	(9,941)	
Net cash from / (used in) investing activities	(464)	(23,319)	
Net cash from / (used in) financing activities	(508)	35,807	
Cash and cash equivalents at end of period	6,804	6,802	

* The statement of cashflows is unaudited and is subject to rounding

Note – as per ASX listing rules in the Appendix 4C under item 6.1 there is 357k worth of payments to related parties and their associates. Included in this amount are the cost of Directors who sit on the executive team (Mark Haysman, Stuart Morton, Daniel Wales) CFO (Andrew Syme)