

Mighty Craft delivers +81% growth in Q1 FY23

27th October 2022

ASX Announcement

Mighty Craft Limited (ASX:MCL) (**Mighty Craft** or the **Company**) is pleased to provide a business update for the quarter ended 30 September 2022 (Q1 FY23) and an Appendix 4C.

Highlights:

Financial Performance

- **Cash receipts of \$20.7m¹ for the quarter**, up +81% on Q1 FY22 (“pcp”)
- **Group sales revenue** up +66% on pcp²
- **Operating cash outflow of \$(2.7)m** reflecting trading performance along with the initial stock build to support peak trading. This was an improvement on the previous year of +\$2.7m with operating cashflow in Q1 FY22 of \$(5.4)m
- **Investing cash outflow of \$(0.8)m** reflecting minor works to support increased capacity at Lot 100 and Better Beer investment in brand infrastructure
- **Wholesale performance:**
 - Beer / Cider litres - **2.2m actual** representing +182% growth vs pcp
 - Spirits Bottles - **64k actual** representing +25% growth vs pcp
 - Whisky under maturation - **379k litres achieved versus 535k** litre target
 - **The Company confirms FY23 volume guidance**
- **Better Beer sales**
 - Better Beer remains on track to deliver the 10 million litre ambition for FY23
 - The Company notes scan sales out performance has continued to increase (chart on page 5) including the largest week since launch in September 2022
- **Venue performance reflected a strong rebound** as hospitality conditions return to normal post COVID with **venues up +75%** in revenue versus pcp and profitable
- The Company’s cash balance as at 30 September 2022 was up +54% at **\$5.7m** compared to 30 June 2022 at \$3.7m
- The Company notes that October 2022 will be a record sales month with approximately **\$9m in sales revenue expected**, giving the Company confidence in the growth trajectory heading into peak period

Strategy

- **Better Beer** – now in market for one year from launch in October 2021. In this time the brand has reached several milestones:
 - Approximately 6 million litres sold
 - First export market (New Zealand) secured

¹ All numbers are unaudited management accounts

² Group revenue in Q1 FY23 includes sales from discontinued operations of approximately \$1.5m

- The most followed beer brand in Australia on social media including over 100,000 followers on Instagram as of 26/10/22, the first beer brand to achieve this in Australia
- Innovation in market six months from launch in the form of Better Beer Zero Alcohol and Better Beer Ginger Beer. Further innovation is planned for H2 FY23
- #6 in the 2021 GABS hottest 100 craft beers in Australia, awarded three months after launch
- **Price / Inflation** – price increases executed from August 2022 for key wholesale customers to partially recover the cost of inflation. Further price rises expected from February 2023
- **ATO / Excise rebate** – the Company notes that it does not intend to challenge the ATO on the eligibility for Foghorn to claim the excise rebate. Given the costs involved the Company does not consider that this is in the best interests of shareholders

Capital and cost management

- **Strong peak trading** – Q2 is traditionally the strongest quarter of the year given seasonality. The Company expects a strong result improving both earnings and cashflow from previous quarters. As mentioned, the October 2022 result is expected to be approximately \$9m in sales which gives the Company confidence in the growth trajectory heading into summer
- **Planned divestments** of non-core assets comprising the two Mighty venues and potentially smaller branded assets. The Company has progressed the divestment of non-core assets along with the previously announced exit of its investment in Sparkke and expects to execute at least one further divestment in Q2 FY23
- **Cost management program** – the Company previously announced a cost reduction program which is expected to show cash benefits from Q2 FY23 (redundancy payments of \$0.25m were made in Q1 FY23)

Unlocking future value

- As previously flagged, the Company has appointed advisors with a focus on unlocking brand and shareholder value
- The engagement will cover business simplification, M&A, longer term capital management and investor relations

Mighty Craft's Managing Director, Mark Haysman said "Q1 FY23 was a strong trading period for the Company in what is traditionally a low sales quarter from a seasonality point of view, positively positioning us as we gear up for peak trading. We are pleased with the growth achieved with wholesale up 74% versus pcp and venues up 75% vs pcp given the soft category performance across Beer and Spirits in off-premise trade seen in the industry. We continue to observe the shift in consumption trends with venues / on-premise sales returning the strongest performance we have seen in over two years. Our venues delivered strong growth and importantly were profitable for the first time since pre COVID-19. We expect this trend to continue as we move into peak season and expect record trading over the next two quarters.

Better Beer continues to perform exceptionally well and is on track to deliver 10 million litres it's first full year of trading, which is incredible. The initial read on the New Zealand launch is that there is a similar level of excitement, and we are fielding calls for further international expansion. In short – I am pleased with our start to FY23 and look forward to a record summer."

Whisky Acceleration:

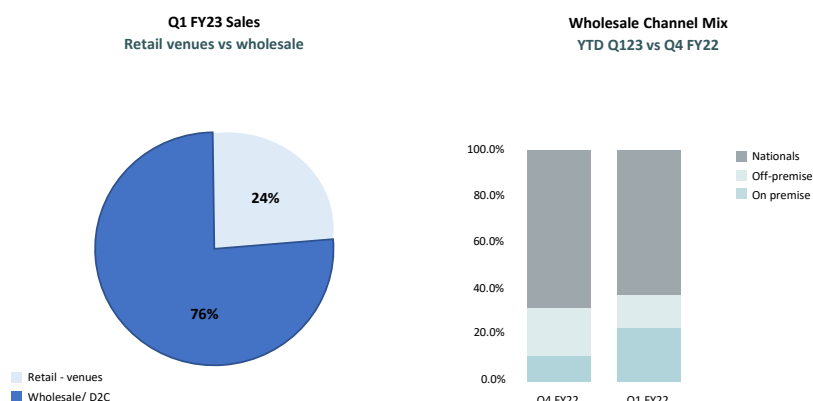
The Company continued to invest in whisky stocks however this was slower than previous quarters as the Company manages cash outflows and endeavours to close the Whisky Development Syndicate ("WDS").

The Company believes that this is an important capital management program and will allow the Company to deliver on its ambition of 535k litres of Whisky under maturation by the end of FY23.

Whisky Bank ³	Litres
CY21	61,591
CY22	43,600
CY23	26,472
CY24 – 26	247,625
Total in barrel as at Sep 2022	379,288

Venue Performance:

Venues performance had a strong start returning their first operating profit in over two years in what is traditionally a slow quarter from a seasonality point of view. The venues returned +75% sales growth versus pcp, and performance is expected to continue to improve through peak trading. This rebound is also evident with the improvement in on-premise sales as a % of total wholesale sales (see chart below). This shows total wholesale on-premise mix of approximately 20% for the quarter versus approximately 10% for Q4 FY22. This trend is expected to continue into peak trading.



³ CY represents expected calendar year maturity date – note this may change over time

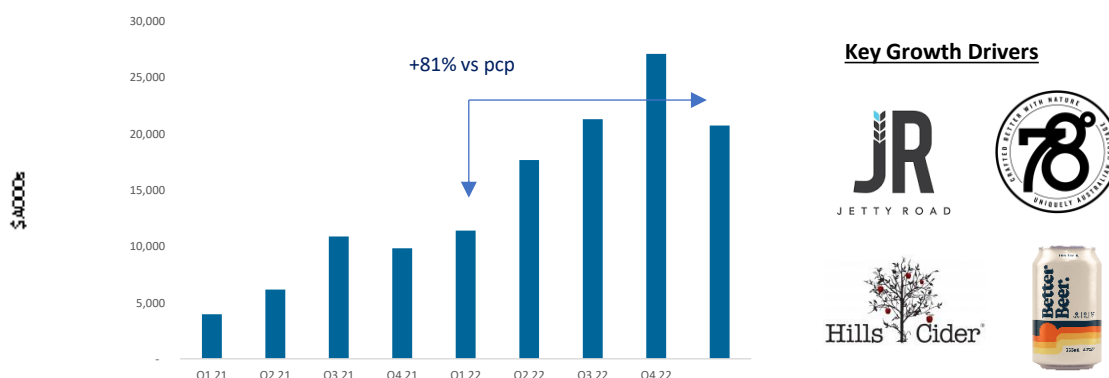
Financial Performance:

Cash Receipts

Mighty Craft delivered cash receipts of \$20.7m in Q1 FY23 in what is seasonally a low sales quarter. This represents +81% growth versus pcp with key growth drivers being Better Beer, 78 Degrees, Jetty Road, and Hills Cider. Pleasingly Hills Cider returned to growth for the first time since acquiring the brand in FY22.

The Company notes that Q4 is a low sales quarter from a seasonality point of view with Q2 & Q3 the highest quarters reflecting the demand increase through peak trading / summer. The Company expects Q2 FY23 and Q3 FY23 to reflect this trend.

Quarterly Cash receipts since FY21⁴



Wholesale Revenue Growth

Wholesale sales revenue again grew significantly in Q1 FY23 delivering \$13m in revenue for the quarter representing +74% growth versus Q1 FY22. Key growth drivers for the quarter were Better Beer, driven by the core lager SKU along with the first New Zealand shipments to support the launch in October 2022. The initial shipments for Better Beer in New Zealand were approximately 300k litres in Q1 FY23. Other notable growth performances included 78 Degrees (+31%) Adelaide Hills Cider (+15%) and Jetty Road (+21%).

The Company is pleased with the ongoing growth achieved this past quarter given seasonality and cycling of COVID-19 lockdowns which impacted category growth in Q1 FY23. Overall off-premise category data suggests a decline in Q1 of approximately 6% based on available data across Beer and Spirits reflecting strong market share gains for Mighty Craft. While the Company has a natural hedge with its venue exposure, the mix of the business is weighted towards off-premise sales with approximately 65% of group sales off-premise.

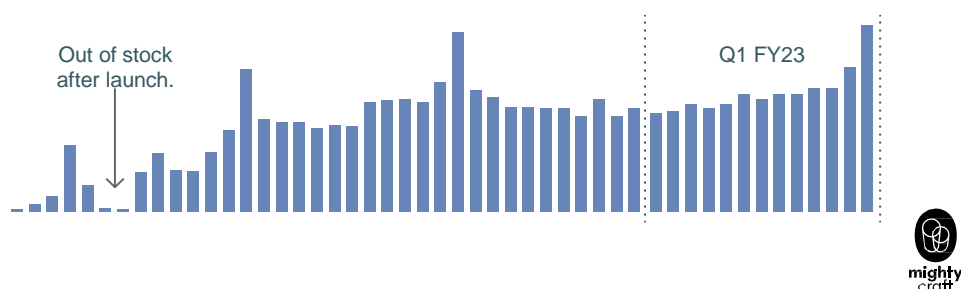
Better Beer scan package sales in Australia are reflected in the chart below which is encouraging as the business heads into peak trading. It is clear that the trend is still positive,

⁴ As reported to the ASX in Appendix 4C submissions

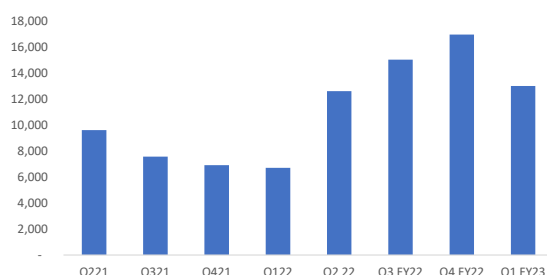
and the Company is confident that the baseline scan sales will continue to improve through the warmer summer months. As previously announced the Company is targeting 10 million litres from Better Beer in FY23 and is on track to meet this ambition.

Distribution remained relatively flat through Q4 FY23 reflecting seasonality.

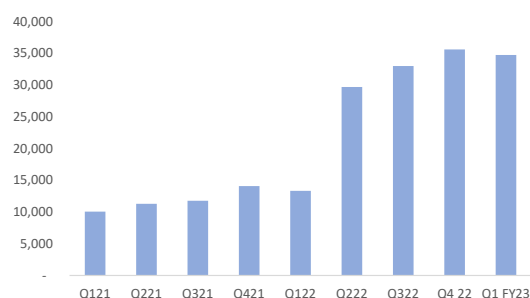
Better Beer Scanned package sales from launch to September 2022



Wholesale revenue⁵ (total group)



Distribution Growth⁶ (total group)



Cash Flow Update

Operating

Cash used in operating activities of \$(2.7)m reflects strong receipts for the quarter of \$20.7m with some notable aspects:

- **Seasonality** – Q4 and Q1 are the lowest sales quarters of the year as can be seen from the historical charts showing receipts and wholesale performance. This is also true for operating cashflow with Q3 FY23 and Q4 FY23 the largest outflows of the year
- **Stock build** – the Company did build stock in Q1 FY23 to service demand through peak trading. The estimated impact of this stock build in the quarter was approximately \$1m

Investing and Financing

⁵ Wholesale revenue represents sales through Might Craft sales and distribution agreements

⁶ Distribution represents unique distribution points for individual products

Cash used in investing activities \$(0.8)m and financing activities of \$5.4m reflects investment across PP&E as well as drawing down on the increased debt facility with Pure Asset Management:

- **PP&E** investment in Lot 100. This involved an investment in a larger permanent outdoor marquee which will increase the capacity of the venue and improve trading in particularly through increased functions over peak period
- **Minor brand infrastructure investment of \$0.2m** for Better Beer
- **Digital investment of \$0.3m** in the quarter representing ongoing improvements to planning and reporting systems
- **Net financing inflows of \$5.4m** reflects the draw down on the increased Debt facility with Pure Asset Management which was announced to the ASX in July 2022

* * *

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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

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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 Prospectus (\$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
Acquire 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 corporate 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 Q1 FY2023 cashflow statement in respect to the financial year ending 30 June 2023

Summarised cash flow; A\$'000	Current quarter \$A'000	Year to date (3 months) \$A'000	1QFY2023 commentary
Cashflows from Operating Activities			
Receipts from customers	20,738	20,738	
Payments to suppliers & employees	(20,547)	(20,547)	
Other	(2,878)	(2,878)	
Net cashflow from / (used in) Operating Activities	(2,687)	(2,687)	Reflects trading performance and stock build for peak trade over summer
Cashflows from Investing Activities			
Payments made to acquire entities	0	0	
Payments made for PP&E	(686)	(686)	Payments for an upgrade to the outdoor marquee at Lot 100 and Better Beer brand infrastructure
Payments made for Investments	0	0	
Other	(146)	(146)	
Net cashflow from / (used in) Investing Activities	(832)	(832)	
Cash flows from financing activities			
Proceeds from issues of equity securities	0	0	
Proceeds from Borrowings	6,300	6,300	Pure Asset refinance
Transaction costs / Other	(854)	(854)	Pure Asset transaction costs, and repayment of lease liabilities
Net cashflow from / (used in) Financing Activities	5,446	5,446	
Net increase / (decrease) in cash & cash equivalents	1,927	1,927	
Cash and cash equivalents at beginning of period	3,737	3,737	
Net cash from (used in) operating activities	(2,687)	(2,687)	
Net cash from / (used in) investing activities	(832)	(832)	
Net cash from / (used in) financing activities	5,446	5,446	
Cash and cash equivalents at end of period	5,664	5,664	

**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 \$612k 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, Dan Wales) and CFO (Andrew Syme)