

December 2022 Quarterly Activities Report & 4C Market Update

Key Highlights:

- Whisky under maturation increased to 2.22m litres, underwriting future sales
- Cash balance of \$9.1 million with \$15 million undrawn bank facility available
- \$9.6million Net Sales H1 (-7% pcp) and Q2 sales of \$5.4m (+27% increase vs Q1).
- Lark core range of Classic Cask and Symphony No. 1 continued sales momentum in the quarter reflecting 29% growth and +38 % respectively for the half vs pcp
- Lark owned hospitality venues performing strongly as consumers return to on-premise experiences, more than offsetting decline in e-commerce as consumers buying behaviour changes
- Christmas cask sold out at \$250 per bottle and our rare cask super luxury Tokay 100 was well received by whisky enthusiasts and collectors
- Lark increased points of presence in national key accounts and independent retailers
- Continued growth in export revenue
- Channel mix shift drives margin expansion with Gross margin of 68.6% for the quarter
- First Tranche of Fed Government Modern Manufacturing grant received (\$1.8m)

Whisky under maturation increased to 2.22m litres, underwriting future sales

Lark's whisky under maturation continued to strengthen during Q2 to 2.2 million litres at 43% ABV as at 31 December 2022, supporting its long term growth ambition. The Company maintains flexibility with respect to deployment of liquid across age bands and building an aging profile to meet market demand for aged Tasmanian whisky.

Lark delivered \$9.6million Net Sales for H1 (-7% pcp) and Q2 sales of \$5.4m (-14%pcp, +27% v Q1)

Net sales for Q2 is down 14% compared to last year as we cycle overly optimistic summer sales forecast for Forty Spotted Gin, non-organic and opportunistic transactions in Q2 FY22 and elevated covid related e-commerce sales.

Whilst net sales for H1 FY23 were down 7% vs H1 FY22, Lark delivered organic net sales growth of +18% for H1 FY 23 vs H1 FY22 when normalising for non-organic and opportunistic transactions. This was achieved by strong seasonal performance over the Christmas period, focusing on sustainable long term growth positioning and building brand investment on the Core Lark portfolio.



Lark continues to focus the sales, brand building and distillery teams on growing the Core Range. The Rare and Limited Release program is performing well with more constrained and targeted offerings, with Lark Christmas Cask completely sold out.

This approach contributed to our Core products of Classic Cask and Symphony delivering strong results growing by 29% and 38% in H1 FY 23 vs H1 FY22, supported by brand building activities and increased points of distribution which increased in independent retailers by 10% since September 2022 and 28% since June 2022¹.

Points of distribution gains reflect the impact of the larger sales and marketing team and Lark's targeted trade marketing initiatives. This investment in brand building and route to market activities has increased our brand building expenses as a % of net sales by 4 ppts however these initiatives are important to our growth ambitions.

Lark owned hospitality venues performed strongly with more than 100% growth compared to same time last year, driven by increased visitation to Tasmania (up 43% compared to last year), and all five venues operating compared to two venues in H1 FY 22.

Growth from hospitality venues was offset by e-commerce performance, with net sales \$1.1 million lower versus H1FY22. Whisky sales via e-commerce were, like other sectors, negatively impacted as consumer shopping and consumption revert to pre- pandemic behaviours.

During H1 FY23 the business continued to export its whisky to customers in China and commenced trading into Singapore, Thailand and Vietnam with limited release whisky and Forty Spotted Gin. The business is optimistic on its future export potential while growing from a small base.

Lark's focus for H2 will be to continue its growth focus through establishing its new core range and continuing to build growth organically. Non-organic transactions in H2 FY22 included sales to a whisky subscription business and private cask collectors.

Channel mix shift drives margin expansion

Margin benefit from channel shift continued in Q2 with a gross profit margin of 68.6% (versus 62.2% Q2 FY22). Lark owned hospitality continued to be the primary driver with 2 additional venues vs pcp. Gross profit margin for H1 was 68.2% (versus 61.8% H1 FY22).

First Tranche of Fed Government Modern Manufacturing grant received (\$1.8m)

The Modern Manufacturing Grant awarded to Lark in June 2022 resulted in the first tranche of funds of \$1.8m received for this quarter. The application for the new distillery is currently with the approving authorities.

"Lark continues to build brand awareness, create an expanded core product range and invest in our people, while laying down award winning whisky to support our ambitions. Lark is uniquely positioned to grow its export business with a strong whisky bank and the appointment of a new CEO with deep industry and Asia experience."

- Laura McBain (Interim Managing Director and CEO)

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

December quarter cashflow highlights

Net operating activity cash outflows were \$0.35 million for the quarter. Operating activity inflows through customer receipts totalled \$7 million representing a \$0.9m increase on the corresponding period last year. Payments for product manufacturing and operating costs increased from the prior quarter due to timing of purchases. Increase in advertising and marketing costs included Christmas advertising and costs for development of brand strategy.

Increase in payments for staff costs compared to prior quarter was driven by \$0.5 million signing bonus for new CEO. Admin and corporate costs increased by \$0.4 million compared to the prior quarter driven by \$0.7 million non-recurring costs including the Pontville acquisition, and CEO recruitment fees. Government grant receipts relate to the first instalment of the Modern Manufacturing grant relating to the new distillery at Pontville. Other operating cash movements were in line with prior quarters and expectations.

Payments for investing activities included payments relating to the redevelopment of the Pontville site. Plans for the new distillery at Pontville have been submitted to council. A \$1.0 million payment is due in February 2023 for the acquisition of cooperage assets at Pontville to complete the acquisition.

Payments disclosed in section 6.1 included \$98K spend for purchases of casks from Seppeltsfeld Wines Pty Ltd, an associated entity related to Warren Randall (Non-Executive Director). The remaining payments disclosed relate to Non-Executive Director fees and Executive Director Remuneration.

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:

Melanie Leydin (Company Secretary)
+613 9692 7222
Melanie.leydin@vistra.com

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 2022

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	7,001	13,694
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(3,317)	(6,267)
(c) advertising and marketing	(1,077)	(1,695)
(d) leased assets	(45)	(138)
(e) staff costs	(2,434)	(4,462)
(f) administration and corporate costs	(1,943)	(3,521)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	9	17
1.5 Interest and other costs of finance paid	(93)	(163)
1.6 Income taxes/GST paid	(251)	(515)
1.7 Government grants and tax incentives	1,800	1,800
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(350)	(1,250)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	(120)
(b) businesses	-	-
(c) property, plant and equipment	(308)	(503)
(d) investments	-	-
(e) intellectual property	(93)	(93)

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	(401)	(716)

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
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)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (payment of lease liabilities)	(45)	(90)
3.10	Net cash from / (used in) financing activities	(45)	(5,052)

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	9,872	16,094
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(350)	(1,250)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(401)	(716)

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)	(45)	(5,052)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	9,076	9,076

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	9,076	9,872
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)	9,076	9,872

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.		
<p>The company secured a \$15million debt facility from National Australia Bank (as announced by the company on 24th November 2021). Out of this facility, \$5 million has been used.</p>		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(350)
8.2 Cash and cash equivalents at quarter end (item 4.6)	9,076
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)	24,076
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	68.8
<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? <div style="border: 1px solid black; padding: 5px; margin-top: 5px;">Answer: N/A</div>	
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? <div style="border: 1px solid black; padding: 5px; margin-top: 5px;">Answer: N/A</div>	
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? <div style="border: 1px solid black; padding: 5px; margin-top: 5px;">Answer: N/A</div>	
<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: 27 January 2023

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.