mighty craft

Mighty Craft FY23 Results

Mighty Craft Limited (ASX:MCL) (**Mighty Craft** or the **Company**) today released its full year results for the period ended 30 June 2023 (**FY23**).

FY23 Highlights:

- **Revenue from continuing operations of $82.5 million, +48% versus prior corresponding period ("pcp")**
- **Reported EBITDA[1] from continuing operations of $17 million, versus $(12) million in pcp**
- **Underlying EBITDA[2] from continuing operations of $(6.2) million, adjusting for one-off items versus $(6.3) million in pcp**
- **Total Beer / Cider volume[3] sales of 13.3 million litres, +83% versus pcp**
- **Total Spirits volume sales of 299k bottles, +19% versus pcp**
- **Better Beer sales revenue of $45 million (+135% versus pcp), total volume sales of 10.4 million litres**
- **Operating cash outflow of $(5.9) million including interest costs on debt financing**
- **Investing cash outflow of $(2.1) million, reflecting prudent capital investment strategy**
- **$3.7 million cash balance as at 30 June 2023**
- **Webinar to be held 11:00am AEST today, Tuesday 29 August 2023. Click here to register**

Commenting on the results, Mighty Craft Interim CEO, Jess Lyons said:

"The team has delivered strong growth in FY23 in a significant year of change for the business. $82.5 million in sales at +48% organic growth is a significant achievement. Notwithstanding this, earnings performance has not met expectations of the management team and Board. The Board-led strategic review announced to the ASX on the 25th of May outlined the key short-term priorities, notably reduce debt via an expanded divestment program and restructure the cost base. The Board and Management are working hard on the expanded divestment program and look forward to updating shareholder at the earliest convenience. As for the cost base, we've already made significant progress, removing nearly $5 million of cost during Q4 FY23, with further reductions slated for H1 FY24. I remain confident we are on the right track to stabilise the earnings profile of the Company and provide a clear path forward for all stakeholders."

Also commenting on the results, Mighty Craft Chairman, Chris Malcolm said:

"Mighty Craft is going through a significant period of restructuring to address number of issues within the business. As part of the strategic review the Board has listened to many key stakeholders and it is clear the business model needs to change. We need to reduce debt and we need to reduce the cost base. In order to

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[1] EBITDA is a non IFRS measure that management believe is an important measure of performance.
[2] Underlying EBITDA is a non IFRS measure that management believe is an important measure of performance and removes one-off items including fair value gain on Better Beer, goodwill impairment, share based payments, redundancy and restructuring costs and other one of non-recurring items.
[3] Volume sales are represented on a 100% basis including discontinued operations (i.e. Jetty Road).

do this, we need to divest some larger assets. Once we are through this interim period and divestments are clearer, we will outline a path forward for the business. Rest assured the management team and new board are working incredibly hard to stabilise the business and implement the outcomes of the strategic review".

Summary of financial performance

Profit & Loss			
A$ million	**FY23**	**FY22**	***% Change***
Revenue	82.5	55.7	48%
Gross margin	22.6	18.1	25%
Gross margin %	27.4%	32.5%	(5) pps
EBITDA	17.0	(12)	NA
EBIT	14.1	(14.3)	NA
Underlying EBITDA[2]	(6.2)	(6.3)	1%

During FY23, Mighty Craft delivered revenue growth of 48% versus pcp, driven largely by strong underlying growth across the Company's wholesale channel (+45%). Brand performance was mixed with key growth drivers being Better Beer (+135%) 78 Degrees (+22%) and Seven Seasons (+12%). The remainder of brands were broadly flat, in aggregate. These results were delivered against a back drop of category declines in Craft Beer (-5.4%) and Gin (-7.4%) reflecting encouraging market share gains.

Gross margins declined versus pcp, largely driven by the ongoing mix-shift within the Company. Specifically, the ongoing growth of Better Beer continues to shift mix away from spirits, a typically higher margin segment. Better Beer sales made up ~60% of total sales in FY23, versus ~41% in FY22. Beyond this, ongoing inflation across Beer / Cider also impacted gross margins. The Company did increase prices on 1st August 2022 and also took select price increases on 1 February 2023, although was unable to fully recover the inflationary impact.

Gross margins within spirits remained relatively stable at ~35.2% during FY23, reflecting the higher margin profile, further aided by a ~5% price increase on 1 August 2022. Inflationary impacts observed across the spirits business was not as severe as witnessed within beer / cider. Lastly, venue gross margins were 67.3% with pricing increases passing the impact of inflation onto consumers.

Gross margin performance			
	FY23	**FY22**	***% Change***
Beer / Cider	21.5%	28.7%	-7.2 pps
Spirits	35.2%	37.0%	-1.8 pps
Venues	67.3%	66.4%	0.8 pps
TOTAL	27.4%	32.5%	-5 pps

FY23 market conditions and wholesale performance

National retail scan growth

	Beer	Craft Beer	Cider	Gin	Whisky	Vodka
QTR ending 25/6/23	10.9%	-2.1%	-0.7%	-4.8%	-1.2%	2.9%
HY ending 25/6/23	9.1%	-2.5%	-1.9%	-4.5%	-1.5%	2.2%
FY ending 25/6/23	0.8%	-5.4%	-6.8%	-7.4%	-1.3%	-0.5%

Overall operating conditions deteriorated over the course of FY23 as cost of living and inflation impacted consumer spending. Craft beer declined ~5.4% for FY23, after a significant period of double-digit growth in the preceding years. Mainstream beer grew 0.8% for the full year, accelerating to 9.1% during H2 FY23, with a further acceleration during Q4. The gin category declined 7.4% for FY23 while Whisky and Vodka reflected marginal declines during the year.

The individual brand performance is shown below.

Wholesale revenue growth versus pcp			
Better Beer	135%	78 Degrees	22%
Jetty Road	-1%	Seven Seasons	12%
Mismatch	-1%	Kangaroo Island	-8%
Hills Cider	4%		
Beer / Cider	**73%**	**Spirits**	**7%**

Venue Performance

Venue performance also softened during H2 FY23, despite a relatively robust H1. Overall venue profitability delivered 14.1% EBITDA, notwithstanding venues continue to be a smaller contribution of the overall Company performance given the growth in wholesale revenues.

Group venue performance			
AU$ million	**FY23**	**FY22**	***% Change***
Revenue	11.3	8.9	26.4%
Gross margin	7.6	5.9	27.9%
Gross margin %	67.3%	66.4%	0.8%
EBITDA	1.6	0.9	69.6%

Update on strategic review

There are two core priorities coming out of the strategic review as announced to the ASX on the 11th July 2023.

Priority number one is to restructure the cost base of the organization to ensure a medium-term pathway to sustainable earnings. There are three phases of this initial piece of work;

- Phase 1 - $4.9million removed from head office costs and discretionary spend – complete.
- Phase 2 - $4.9 million in further savings across head office and corporate costs – H1 FY24.

- Phase 3 - $1.5 million in further supply chain consolidation savings – H2 FY24.

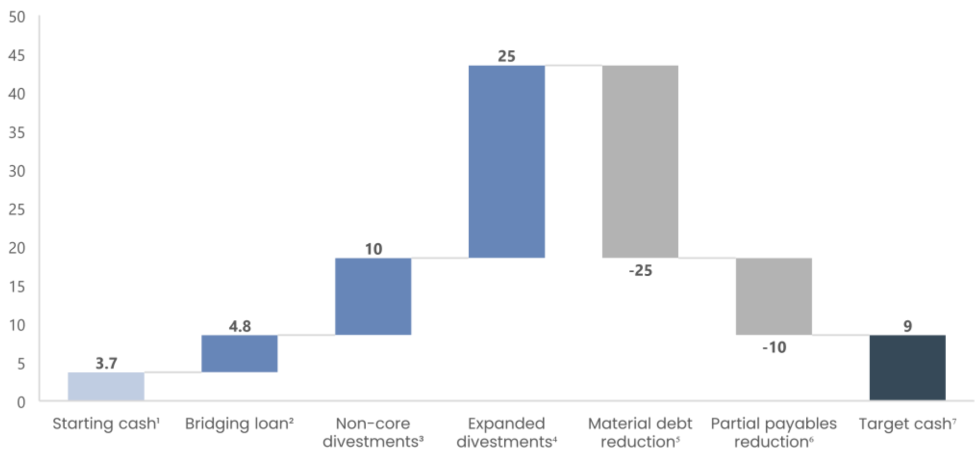
Priority number two is expanding the divestment program to materially reduce debt. This will allow the completion of the restructuring plan and recapitalisation of the business. This phase is targeting $25 to $45 million in divestments to allow the reduction in the senior debt facility, repayment of the bridging loan and improvement in the trade payables position. These two streams of work will ensure that the business can materially reduce debt and ensure a medium-term path to sustainable earnings.

The divestment process is ongoing and there has been interest in a number of the Company's assets including both medium-sized branded assets along with larger assets. The sale of Jetty Road was announced to the ASX on the 31st of July 2023 and the company is in ongoing discussions around a number of both smaller and larger assets. The Company will continue to consider offers for assets that are consistent with the outcomes of the strategic review and that make sense for Mighty Craft shareholders.

Funding updates

The Company has outlined its funding plan as part of the strategic review, and this also consists of a number of phases. The first phase was to secure the short-term funding runway to execute the divestment program in an orderly fashion. This has been secured with the recent announcement to the ASX on the 18th of August that outlined a ~$5.0 million bridging debt facility that is repayable on the 18th of February 2024. This bridging loan gives the company time to execute the next phases of the divestment program. The Company is targeting $10.0 million from near-term divestments (including Jetty Road) and then between $25.0 million and $45.0 million from larger divestments over the course of the next six to nine months. The chart below is an illustrative example of how the recapitalisation program could work including divestment, debt reduction and ideal target cash balance.

Chart 1 – Illustrative example of the funding program[4]



1. As at 30 June 2023.
2. As per ASX announcement 18 August 2023.
3. Incl. Jetty Road and Foghorn ($3.5m).
4. Midpoint of 'balance' as per slide 11.
5. Material reduction, including. Senior and bridging facilities.
6. Assumed ~50% reduction.
7. Adequate target liquidity of $8-10m.

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[4] The chart is illustrative and should not be considered guidance

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FY24 outlook

The first two months of FY24 have be steady from an overall sales point of view with approximately 15% growth over July and August 2023 versus pcp. Growth continues to be driven by Better Beer, 78 Degrees and Seven Seasons. The company expects these growth rates to broadly continue for Q1 FY24. The company has released its FY24 volume growth ambitions and these are reflected in Table 1 and illustrated below. The growth is expected to be driven by Better Beer which is targeting 17 million litres in FY24 along with 78 Degrees, Seven Seasons and Kangaroo Island Spirits.

Table 1: FY24 Growth ambitions

	FY23 Actual	FY24 Ambition[1]	FY25 Ambition[1]
Beer, Cider & RTD	13.3m LITRES	19m LITRES	24m LITRES
Spirits	299k BOTTLES	400k BOTTLES	600k BOTTLES (revised down from 1m)
Maturing Whisky	469k LITRES	535k LITRES	750k LITRES (revised down from 1.5m)

Investor webinar
The Company will host an investor webinar with Non-Executive Chair Chris Malcolm, Interim CEO Jess Lyons, and CFO Andrew Syme, at 11.00am AEST on the same day – Tuesday, 29 August 2023– to discuss the results.

Register for the investor webinar via the link below:

https://us02web.zoom.us/webinar/register/WN_B0m5bkaKSJqqxojLY1KqSQ

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

After registering, you will receive a confirmation email containing information about joining the webinar.

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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