



Top Shelf International Holdings Ltd

Principal Place of Business:
16-18 National Boulevard
Campbellfield
Victoria, Australia 3061

31 January 2024

ASX ANNOUNCEMENT (ASX:TSI) - FY24 Q2 QUARTERLY REPORT AND APPENDIX 4C

Top Shelf International Holdings Limited (“Top Shelf” or “the Company”), Australia’s leading premium spirits company, provides an update for the second quarter of FY24 in accordance with ASX listing rule 4.7C.

Highlights

Financial performance metrics – FY24 1H¹

<p>LTM revenue Group: \$32.4m Brand: \$23.3m</p>	<p>1H gross margin: 35.9% 7.0% improvement on PY</p>	<p>1H cost base: \$4.7m reduction or 32.0% improvement on PY</p>
<p>1H EBITDA loss: \$5.5m 53% improvement on PY</p>		<p>1H operating cash flow: 93% improvement on PY</p>

Quarterly financial performance trends

Chart 1: Group gross margin (cash basis) profile

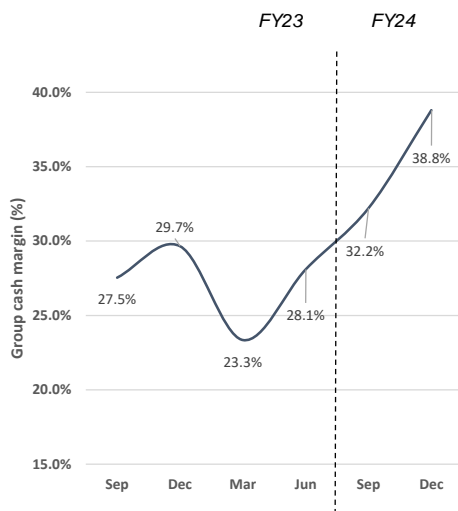
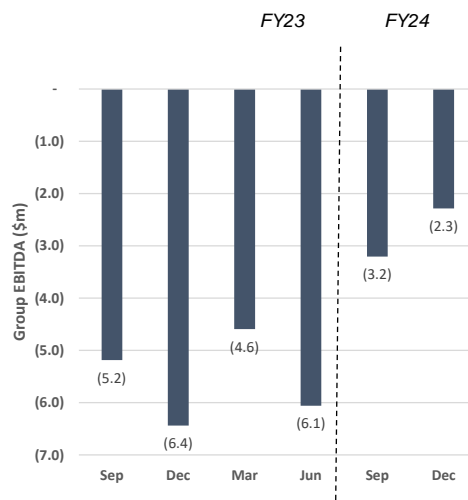


Chart 2: Group EBITDA profile



¹ The group and brand revenue metrics are presented on a pro forma basis for the last twelve month period to 31 December 2023. The operating cash flow metric reflects the Company’s operating and investing cash flow activities excluding the non recurring agave distillery build expenditure for each respective period.

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Operational

Top Shelf completed the build and commissioning of its agave distillery at the Eden Lassie agave farm during FY24 1H marking the end of the Company's intensive capital expenditure program.

In January 2024, the Company's first product release of its agave brand, Act of Treason sold out on the Company's website in a matter of hours. Top Shelf is currently focused on a broader on premise and retail market release of Act of Treason blanco and reposado offerings in March 2024. The release of Act of Treason Australian Agave completes the Top Shelf brand portfolio alongside the award winning NED Australian Whisky and Grainshaker Australian Vodka.

Strong market performance of Top Shelf's NED Whisky and Grainshaker Vodka brands reflected momentum from Grainshaker's IWSC Spirits Producer of the Year prestigious award in October 2023 and release of the NED Whisky Grand Reward ultra premium offering in December 2023.

As announced by the Company on 31 January 2024, Top Shelf has appointed Phil Baldock as a non-executive director. Phil joins Top Shelf with a wealth of industry experience including over 15 years as President & CEO Asia Pacific and South America for Beam Suntory.

Funding

Top Shelf has reduced debt by \$10.0 million during FY24 1H with the Company's borrowing position of \$25.0 million at 31 December 2023, and has commenced a refinancing process with the intention to complete during FY24 2H.

The Company has executed a non-binding term sheet for a \$10.0 million sale and leaseback of agave farmland and distillery assets, subject to various approvals. The proposed transaction excludes biological agave plant assets.

Top Shelf's Chief Executive Officer Trent Fraser said:

"Top Shelf delivered on an incredibly important milestone during the December quarter with the first harvest of agave plants from the Eden Lassie farm and commissioning of the agave distillery. The quality of the produced agave spirit and interest in our Act of Treason product from consumers and customers alike augers well for a successful mainstream launch of the brand during 2024.

"The Company has undergone significant change and improvement over the past six months since the strategic review to reset the financial performance of the Company through execution of various initiatives to grow margin and right sizing the cost base. The reset business model and operating structure is focused on value creation with delivered gross margin of 36% and a 50+% reduction in the EBITDA loss in FY24 1H, which also could not have been achieved without the hard work and dedication of the Top Shelf team.

"I look forward to 2024 with anticipation and excitement as Top Shelf seeks to realise the potential of our award winning brand portfolio and integrated infrastructure platform."

Revenue

Group pro forma ² unaudited revenue of **\$32.4 million** in the twelve months to 31 December 2023 (LTM December 2023) represented growth of **8%** on the prior comparative period, LTM December 2022.

The Company recognised stable brand pro forma unaudited revenue of **\$23.3 million** in LTM December 2023.

During FY24 1H, inclusive of the seasonally important December quarter, Top Shelf's NED Australian Whisky was available through national retail partners, Coles Liquor Group and Endeavour Group, and independent retailers.

Available retail industry scan data highlights the strong performance of NED Australian Whisky relative to its competitor set through the December quarter. In addition, demand for Grainshaker Australian Vodka and NED Australian Whisky has continued to grow through the on premise channel (inclusive of high image accounts, and festivals and events).

In FY24 1H, the provision of contract packaging services to a multinational beverage producer provided Top Shelf with consistent monthly throughput volume, enabling the realisation of improved operating efficiency and asset utilisation of Top Shelf's Campbellfield production site.

² The presentation of group and brand revenue on a pro forma basis reflects the gross up of excise from sales to Coles Liquor Group to disclose revenue consistently on a gross excise basis across all domestic channels (FY24 1H adjustment: \$3.5m; LTM Dec-23 adjustment: \$4.4m).

Summarised financial performance and key metrics

The Company's unaudited summarised profit or loss to EBITDA and performance metrics for FY24 1H and Q2 relative to comparative FY23 periods is set out in Table 1.

Table 1: FY24 1H and Q2 and comparative FY23 periods profit or loss and performance metrics

\$ million	FY23		FY24	Q2	
	1H	2H	1H	FY23	FY24
Revenue	14.7	12.8	15.1	9.0	8.4
Net excise revenue	9.0	8.2	10.5	5.1	6.0
Gross margin ³	4.2	3.3	5.4	2.7	3.3
Variable contribution margin ⁴	3.7	2.8	5.2	2.3	3.2
Operating contribution ⁵	(2.7)	(2.8)	0.1	(1.3)	0.5
Brand and business investment	(4.6)	(2.0)	(2.1)	(2.8)	(1.1)
Contribution margin	(7.3)	(4.9)	(2.0)	(4.2)	(0.6)
Group support	(4.3)	(5.8)	(3.5)	(2.3)	(1.7)
EBITDA	(11.6)	(10.7)	(5.5)	(6.4)	(2.3)
Discontinued and non-recurring expenditure	5.0	3.8	0.7	3.6	0.4
Normalised EBITDA	(6.6)	(6.9)	(4.8)	(2.9)	(1.9)
Gross margin – cash % ¹	28.8%	25.8%	35.9%	29.7%	38.8%
Gross margin – net excise % ⁶	47.3%	40.6%	51.5%	51.9%	54.8%
Controllable expenditure ⁷	(15.3)	(13.4)	(10.7)	(8.7)	(5.5)

EBITDA performance

EBITDA performance of **\$(5.5) million** in FY24 1H reflected an improvement of **52.8%** or **\$6.1 million** on the prior comparative period (pcp) of FY23 attributable to:

- **Gross margin improvement to 35.9%** (on a cash basis) reflecting various initiatives to improve brand margin at the channel and product level, COGS improvement initiatives, and production efficiencies at the Company's Campbellfield production site; and
- A **controllable cost base reduction of 32.0%** or **\$4.7 million** relative to pcp reflecting outcomes of the Company's strategic review to curtail expenditure by discontinuing activities and removing associated vendor spend and resetting the Company's organisational structure.

As aspect of the controllable cost base reduction reflected in FY24 Q2 was the discontinuation of brand launch sponsorships as the brands transition to promotion and activation activities in conjunction with retail and on premise partners.

Non-recurring expenditure in FY24 1H reflected labour redundancy costs and non-recurring corporate project expenditure.

³ Gross margin is disclosed on a cash basis reflecting adjustments to exclude depreciation (FY24 1H: \$0.7 million) and whisky liquid cost (FY24 1H: \$0.4 million) from the Cost of goods sold.

⁴ Variable contribution margin is presented as gross margin less distribution and other variable items.

⁵ Operating contribution is presented as variable contribution margin less selling and general operating costs.

⁶ Gross margin – net excise reflects the calculation of Gross margin relative to Revenue net of excise.

⁷ Controllable expenditure representing costs below the Variable contribution margin line to EBITDA.

Business investment

Top Shelf's business investments (brand, whisky and agave) included in operating and investing cash flows, totalling \$6.8 million in FY24 1H are summarised in Table 2 below.

Table 2: FY24 1H and Q2 and comparative FY23 period business investment reconciliation

\$ million	FY23		FY24	Q2	
	1H	2H	1H	FY23	FY24
Brand	4.0	1.6	1.6	2.7	0.8
Whisky	1.3	0.7	0.5	0.5	0.2
Australian Agave	2.8	4.2	4.6	1.5	2.0
Business investment - total	8.1	6.6	6.8	4.6	3.0

Brand: Top Shelf's brands continued to engage with consumers through commercial partnerships with Australian Supercars, the Australian Turf Club, and high profile on-premise venues in Melbourne. The Company has consciously moderated its commercial partnership investment in FY24 as the NED Whisky and Grainshaker Vodka brand mature and pivot focus to promotion and activation activities with retail and on premise partners.

Whisky: New make production has been deliberately constrained during FY24 1H reflecting its current reserves position of high-quality whisky through the significant investment in whisky production and maturation undertaken in recent years. Moving forward the current whisky reserve provides production flexibility to the Company.

Australian Agave: The Company's investment in Australian Agave included:

- agave agronomy operations (recurring) (FY24 1H: \$0.5 million);
- completion of the onsite agave distillery that commenced production in December 2023 (non-recurring) (FY24 1H: \$3.6 million); and
- brand market launch preparation expenditure (non-recurring) (FY24 1H: \$0.2 million).

Top Shelf has invested approximately \$9.5 million to build and commission Australia's only operational agave distillery. This investment completes the integrated operational platform for Top Shelf to execute its strategic objectives.

Cash flow reconciliation

The Company's unaudited cash flow for FY24 1H and Q2 relative to comparative FY23 periods is summarised in Table 3.

Table 3: FY24 1H and Q2 and comparative FY23 period cash flow reconciliation

\$ million	FY23		FY24	Q2	
	1H	2H	1H	FY23	FY24
Operating					
Business investment	(5.3)	(3.0)	(2.7)	(3.1)	(1.3)
Trading activities	(10.9)	(3.7)	(6.1)	(6.0)	(2.3)
Operating - total	(16.2)	(6.6)	(8.7)	(9.2)	(3.6)
Investing					
Business investment	(2.8)	(3.6)	(4.1)	(1.5)	(1.7)
Other – stay in business	(0.6)	(0.8)	(0.2)	(0.5)	(0.1)
Investing - total	(3.4)	(4.4)	(4.3)	(2.0)	(1.8)
Operating and investing - total	(19.6)	(11.0)	(13.0)	(11.1)	(5.4)
Financing	6.2	7.2	13.0	3.6	(6.0)
Net	(13.4)	(3.8)	(0.1)	(7.5)	(11.4)
Closing cash balance	6.7	2.9	2.8	6.7	2.8
Pro forma closing cash position	6.7	2.9	4.9	6.7	4.9

Operating and investing activities

Operating trading cash flows improved during FY24 1H relative to pcp by **\$4.9 million or 44%** reflecting the conversion of margin improvement and cost base reduction initiatives to cash flow.

Investing cash flows increased during FY24 1H relative to pcp reflecting the investment required to build and commission Australia's only operational agave distillery. The stay in business capital expenditure requirement of the Company is expected to normalise at \$1.5 million - \$2.0 million per annum (inclusive of recurring oak expenditure) in future periods.

Financing activities

During FY24 Q2, the Company made a prepayment of its debt facility with Longreach Credit Investors of \$5.0 million, reducing the drawn balance to **\$25.0 million** as at 31 December 2023 (30 June 2023: \$35.0 million). This prepayment has allowed the Company to commence the process to refinance the debt facility and extend the maturity date beyond the current date in December 2024. The Company is targeting to complete the debt facility refinancing process before the end of FY24.

As a result, the Company had cash reserves of **\$2.8 million** at 31 December 2023, and a pro forma closing cash balance of **\$4.9 million**⁸ reflecting the \$2.1 million to be received through January and February 2024 from the retail entitlement offer shortfall.

Asset disposal update

As foreshadowed during the 2023 strategic review, the Company undertook to explore explore certain non-core asset realisation opportunities to further reduce its secured debt position and introduce non-dilutive working capital into the Company.

On 30 January 2024, the Company executed a non-binding term sheet with an entity related to non-executive director Stephen Grove for the sale and leaseback of the land and distillery assets at the Company's agave farm located at Eden Lassie in far north Queensland for a total purchase consideration of **\$10.0 million**.

Other key terms include:

- 10 year term with 5 year option
- lease cost of \$1.0 million per annum (representing a 10% yield)
- ability for the Company to re-buyback at a future date for \$12.0 million

The key benefits to the Company and its shareholders include:

- retained ownership of the biological assets (agave plants) meaning no change to expected gross margin profile;
- retain full operational control and responsibility over the farm and distillery;
- allow for potential further reductions of the debt facility (current balance: \$25 million) from proceeds; and
- given the relatively low asset value ascribed to these assets in the existing debt facility, retains the borrowing base of other Company assets required for the potential refinancing.

The transaction is subject to certain conditions including satisfactory completion of due diligence, TSI shareholder approval (at an Extraordinary General Meeting of shareholders expected to occur in March 2024), consent of the Company's debt provider (Longreach Credit Investors), and other regulatory approvals. Subject to satisfaction of the above, the target completion is expected to occur during April 2024.

End

This announcement was approved by the Company's Chairman Julian Davidson, on behalf of the Top Shelf Board.

⁸ The Company is currently in discussion with its debt provider, Longreach Credit Investors, to provide the Company with the option to draw from the existing facility an amount of up to \$5.0 million, commensurate with the voluntary prepayment made by the Company during FY24 Q2.

For more information (investors and media):

For further information, please visit our investor website <https://www.topshelfgroup.com.au/investors> or contact investor relations at investor@topshelfgroup.com.au or on +61 409 916 474.

Media enquiries, please contact Matt Slade on the above number.

About Top Shelf

Top Shelf International is a Melbourne based distiller and marketer of premium Australian spirits, with distinctive brands in NED Australian Whisky, Grainshaker Hand Made Australian Vodka and Act of Treason Australian Agave. The Company has a track record of success creating high quality, premium Australian products and brands; each in its own way encapsulating a distinctive Aussie attitude, social experience and flavour profile.

The Company has expertise in the development and production of distilled spirits, undertakes a significant level of research and development and operates modern fermentation, distillation and packaging facilities in Campbellfield, Victoria.

The Company is creating Australia's first agave spirit range from its magnificent Agave farm and distillery operation in The Whitsundays region of Queensland. This location has been specifically chosen for its climatic suitability for growing *tequilana* blue agave. The farm is being developed using the most up-to-date and innovative agronomy and horticultural practices.

In addition to distilling and manufacturing its own portfolio of spirit brands, Top Shelf also provides canning, bottling and packaging services at its Campbellfield production site in Victoria.

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Appendix 4C

Quarterly cash flow report for entities subject to Listing Rule 4.7B

Name of entity

Top Shelf International Holdings Ltd

ABN

22 164 175 535

Quarter ended ("current quarter")

31 December 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	10,957	17,444
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(8,583)	(14,358)
(c) advertising and marketing	(1,888)	(3,555)
(d) leased assets	-	-
(e) staff costs	(2,373)	(4,833)
(f) administration and corporate costs	(1,713)	(3,443)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,599)	(8,746)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,372)	(3,602)
(d) investments	-	-
(e) intellectual property	(175)	(189)
(f) other non-current assets	(251)	(492)

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
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	(1,798)	(4,283)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	27,218
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	-	-
3.4	Transaction costs related to issues of equity securities or convertible debt securities	(41)	(2,174)
3.5	Proceeds from borrowings	-	-
3.6	Repayment of borrowings	(5,000)	(10,000)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other		
	Payment of lease liability principal – buildings and equipment	(97)	(185)
	Interest and other finance costs paid - borrowings	(718)	(1,525)
	Interest and other finance costs paid - leases	(185)	(371)
3.10	Net cash from / (used in) financing activities	(6,040)	12,963

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	14,224	2,855
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,599)	(8,746)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(1,798)	(4,283)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(6,040)	12,963
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,786	2,789

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	2,786	14,224
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)	2,786	14,224

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	100
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

In accordance with ASX listing rule 4.7C.3, the following summarises the related party transactions of the Company in the first quarter of FY24.

The Company has a sponsorship arrangement with Grove Racing Pty Ltd, a related party of non-executive director, Stephen Grove.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<i>Note: the term "facility" includes all forms of financing arrangements available to the entity. Add notes as necessary for an understanding of the sources of finance available to the entity.</i>		
7.1	25,000	25,000
7.2		
7.3		
7.4	Total financing facilities	25,000
7.5	Unused financing facilities available at quarter end	-
7.6	<p>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> <p>Top Shelf International Holdings Ltd has a secured financing facility agreement arranged by Longreach Credit Investors Pty Ltd with AMAL Trustees Pty Ltd as trustee for the Longreach Direct Lending Fund.</p> <p>The facility limit is \$25.0 million. The interest rate is 10.25%, or if the market capitalisation of Top Shelf exceeds \$75.0 million, the interest rate is 8.25%. The facility matures in December 2024.</p> <p>The Company is currently in discussion with Longreach Credit Investors to provide the Company with the option to draw from the facility an amount of up to \$5.0 million, commensurate with the voluntary prepayment made by the Company during FY24 Q2.</p>	

8. Estimated cash available for future operating activities	\$A'000
8.1	(3,599)
8.2	2,786
8.3	-
8.4	2,786
8.5	Estimated quarters of funding available (item 8.4 divided by item 8.1)
	0.8
<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?
<p>Answer: The Company does expect its net cash flows used in operating activities to improve in future quarters relative to the current level reflected in the December quarter of 2023. Improvement primarily reflects the expected continuation and translation of improved gross margin performance and reduced cost base demonstrated in the September and December quarters to operating cash flows in future quarters.</p>	

- 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: The Company and its directors are continually evaluating the capital requirements of the Company's operations and options to raise further capital in the form of either realisation of assets (as demonstrated by the proposed agave asset sale & leaseback transaction) or additional equity.

The ability to raise additional capital is underpinned by Top Shelf's track record of accessing capital to fund its strategic objectives and by the demonstrated improvement in operational performance of the Company in the six month period to 31 December 2023.

During FY24 Q2, the Company commenced negotiations for the sale and leaseback of its agave farmland and distillery assets in Queensland with expectations that settlement will occur in April 2024.

- 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: The Company, and its directors, expects to continue operations and achieve its strategic objectives utilising the funds currently available to Top Shelf and sourcing additional capital as required.

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.

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 January 2024

Authorised by: Julian Davidson, Chairman
(Name of body or officer authorising release – see note 4)

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.