

ASX ANNOUNCEMENT

ASX: LRK

29 April 2022

LARK DISTILLING CO. LTD: 4C MARKET UPDATE.

- On track to deliver 2m litres of whisky under maturation at 30 June 2022 with 1.95m litres at the end of Q3 – potential estimated future net sales value of \$422m
- Year to date net sales of \$13.5m, delivering 51% growth year on year
- Premium brand positioning has driven gross profit (“GP”) margin increases of 480bp compared with H1
- Building the beachhead for export – Heads of Agreement signed with China Distributor, GNT Fine Wines, with initial trial order received in April 2022 – further orders expected in June
- On track to deliver expected revenue outlook – limited releases including Para 100, Chinotto IV, Legacy and Dark Lark to drive sales in Q4 and deliver full year revenue in-line with February projections
- Awarded \$4.5m Federal Government’s Modern Manufacturing Initiative Grant
- Cash position of \$14.6m to support expansion, with an additional \$10.0m available via the NAB Debt Facility – not including \$4.5m Modern Manufacturing Initiative Grant

On track to deliver 2 million litres of whisky under maturation by the end of FY22

Lark is on target to reach its ambition of 2m litres at 30 June, with 1.95m litres of whisky under maturation at 31 March 2022. The future potential net sales value of this liquid is \$422m, based on the FY21 average net sales price per litre of \$216.

The volume increase is a result of:

- Improved production efficiencies and output across Bothwell and Cambridge; and,
- 483,000L of high-quality liquid acquired as part of the Pontville Distillery and Estate (“Pontville”) acquisition on 1 February 2022.

This important milestone for Lark will enable it to progress its global aspirations by expanding sustainably into key export markets, while continuing to grow its brand presence in Australia.

Lark Distilling Co. - Litres of Whisky as at 31 March 2022 at 43% ABV			
FY Maturing	Litres of Whisky at Maturation at 43% ABV	Liquidation Value Today	Net Sales Value at Maturation Date (\$216/litre)
2022	80,707	\$ 17,432,779	\$ 17,432,779
2023	194,571	\$ 34,400,175	\$ 42,027,363
2024	435,322	\$ 59,900,256	\$ 94,029,472
2025	407,709	\$ 40,118,543	\$ 88,065,095
2026	237,485	\$ 14,059,114	\$ 51,296,766
2027+	596,813	\$ 11,936,268	\$ 128,911,690
Grand Total	1,952,607	\$ 177,847,135	\$ 421,763,165

- Litres under maturation has increased by 610k litres (+45% v Dec 2021)
- Value of the whisky bank has increased by \$132m (+45% v Dec 2021)
- Includes litres from the Pontville acquisition
- Estimated FY22 NSV per Litre expected to increase by between 15% to 25% (vs FY21)

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Lark delivers year to date net sales \$13.5m, growing 51% year on year

Net sales in Q3 was \$3.3m bringing year to date net sales to \$13.5m. The quarterly sales reflect the continued impacts to on-premise performance caused by the Omicron variant in early 2022, planned timing of limited releases scheduled for the last weeks of March, and e-commerce performance as a result of restrained advertising.

Our B2B mainland partners increased inventory holdings in Q2 in anticipation of a strong sell-through to the independent on-premise trade. Constraints caused by the Omicron variant of COVID-19 interrupted trading, and limited staff availability contributing to softer than expected demand and adversely impacted the planned replenishment cycle.

Premium brand positioning and owned hospitality venues drive GP margin expansion

The stronger GP margin was influenced by higher pricing of limited releases, in conjunction with a net sales channel shift to hospitality which improved the overall position in Q3, compared to H1 performance (GP% H1 ~61.7% vs Q3 ~66.5%).

Lark experienced stronger trading conditions in its owned hospitality premises in late March, contributing to strong GP growth in the quarter despite variable trading conditions in the first months of the year.

Lark hospitality venues provide an opportunity to showcase the Lark brand, driving new consumers to the brand and providing a retail sales opportunity.

In late March 2022, the newly acquired site at Pontville opened its freshly branded Lark Cellar Door to customers. Early indications suggest that the historic and picturesque site will drive foot traffic and enable the Lark brand experience to expand further.

Lark also recently launched Legacy, the first 20-year-old whisky to be released by Lark and its first whisky retailed at over \$2,000.

Supporting the premium positioning of the brand is an array of awards collected in Q3, with Lark fast becoming Australia's most awarded whisky distillery, collecting;

- Distillery of the Year – Australian Whisky Awards
- Whisky of the Year (Christmas Cask III) – Australian Whisky Awards
- Best Blended Malt Whisky (Symphony) – Category Winner – World Whisky Awards
- Sustainable Distillery of the Year – World Whisky Awards
- Campaign Innovator of the Year – World Whisky Awards
- 14 Silver and 8 Bronze awards – International Wine & Spirits Competition

Building the beachhead for export

Lark is well-positioned to build its beachhead to new export markets – a key driver of future growth – with the expansion of the volume of whisky under maturation.

In late March 2022, Lark executed a Heads of Agreement with GNT, a highly regarded liquor distributor to China. An initial order was dispatched in April, with a variety of products aimed at high net wealth and premium selected retailers in southern areas of China.

Expansion into other markets including South-East Asia, key US cities and Canada continues to be vigorously pursued with strong interest from multiple parties.

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CEO transition

Lark's global CEO search is continuing, with the goal to install a visionary leader who possesses strong skills in the development and execution of an export strategy and the recruitment of agents, distributors and direct employees around the globe with an immediate focus on China, Southeast Asia, and selected parts of North America.

Federal Government's Modern Manufacturing Initiative Grant

Lark was awarded a \$4.5m grant in relation to the Modern Manufacturing Initiative-Manufacturing Integration Stream - Food and Beverage Priority Round 2. Funds will be directed towards the new Pontville Distillery build which is currently in planning stage.

Outlook

Lark continues to build on its brand reputation and growth initiatives, supported by a strong cash position:

- The business remains focussed on delivering its vision of becoming a global icon in single malt whisky, renowned for being the world's most innovative distiller
- Net sales guidance for FY22 is reaffirmed in the range of \$20m – \$24m, with FY22 average net sales value per litre expected to increase by between 15 to 25%
- Planned launch of 7 new innovative products in Q4 FY22 including a *Rare Cask Series* release collaborating with renowned Scottish brand Glenfarclas, as well as our highly anticipated seasonal winter release, Dark Lark
- New e-commerce website upgrade in Q4, focusing on; conversion rate, segmentation of audiences and products, and highlighting Lark experiences available at hospitality venues. The new website will be equipped to deliver a strong Father's Day gifting programme, capitalising on the learnings from last year's pilot
- Major partnership with Australia's largest whisky subscription business, with significant orders to be fulfilled in Q4
- Rare Lark x Para 1992 Cask Finish launched, commencing celebrations of 30 Years of Tasmanian Whisky, amplified by trade media and public relations coverage
- Anniversary events with a two month focus period (May – June) aimed at increasing brand awareness via targeted events, increased public relations coverage and brand activations
- Additional export orders to China expected in June 2022

Q3 cashflow highlights

Net operating activity cash outflows were \$3.7m for Q3. Operating activity inflows through customer receipts totalled \$5.1m. Product manufacturing and operating costs included a payment of \$1.2m relating to the production of new make spirits by the Pontville Distillery between October 2021 and 31 January 22. Increased payments for staff costs compared to Q2 were driven by the timing of payments, while other operating cash movements were in line with prior quarters and expectations.

Net investing activity cash outflows for Q3 were \$37.8m. On 1 February, the acquisition of the Pontville Distillery & Estate was completed with net cash outflows of \$37.3m comprising a cash settlement of \$37.5m, less the acquired entity's bank balances at that date. Plant and equipment purchases for Q3 were \$0.5m with the majority related to fit-out costs for the new "Pontville Cellar Door" (\$0.3m), which opened on 25 March, and planning and design works for the new Pontville Distillery (\$0.1m).



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The Group made payments of \$139k to an associated entity related to Warren Randall (Non-Executive Director) for the purchase of casks from Seppeltsfield Wines Pty Ltd. The remaining balance of payments disclosed in section 6.1 related to Non-Executive Director fees and Executive Director remuneration.

For more information contact

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This announcement has been approved for release by the Board of Directors.

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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 March 2022

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	5,122	16,927
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(5,707)	(17,173)
(c) advertising and marketing	(606)	(1,933)
(d) leased assets	-	-
(e) staff costs	(1,471)	(3,827)
(f) administration and corporate costs	(824)	(3,278)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	2
1.5 Interest and other costs of finance paid	(47)	(177)
1.6 Income taxes/GST paid	(142)	24
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(3,674)	(9,435)
2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	(37,252)	(37,252)
(b) businesses	-	-
(c) property, plant and equipment	(501)	(2,000)
(d) investments	-	-
(e) intellectual property	-	-

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Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 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	(37,753)	(39,252)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	57,860
3.2	Proceeds from issue of convertible debt securities	-	-
3.3	Proceeds from exercise of options	38	76
3.4	Transaction costs related to issues of equity securities or convertible debt securities	-	(1,976)
3.5	Proceeds from borrowings	-	5,000
3.6	Repayment of borrowings	-	(5,090)
3.7	Transaction costs related to loans and borrowings	-	-
3.8	Dividends paid	-	-
3.9	Other (payment of lease liabilities)	-	-
3.10	Net cash from / (used in) financing activities	38	55,870

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	56,218	7,643
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(3,674)	(9,435)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(37,753)	(39,252)

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	38	(55,870)
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	14,826	14,826

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	14,826	56,215
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)	14,826	56,215

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	194
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>		

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7. Financing facilities <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>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
7.1 Loan facilities	15,000	5,000
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	15,000	5,000
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. The company secured a \$15million debt facility from National Australia Bank (as announced by the company on 24 th November 2021). Out of this facility, \$5 million has been used.		

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(3,674)
8.2 Cash and cash equivalents at quarter end (item 4.6)	14,826
8.3 Unused finance facilities available at quarter end (item 7.5)	10,000
8.4 Total available funding (item 8.2 + item 8.3)	24,826
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	6.8
<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?	
Answer: N/A	
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: N/A	
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: N/A	
<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: 29 April 2022

Authorised by: By the Board
(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.