

Mighty Craft Q1 FY24 Update: *Modest growth driven by Better Beer*

Mighty Craft Limited (ASX:MCL) (“Mighty Craft”, “MCL” or the “Company” is pleased to provide a business update for the quarter ended 30 September 2023 (Q1 FY24 or Q1) and Appendix 4C.

Q1 FY24 HIGHLIGHTS:

- **Unaudited group revenue of \$19.2¹ million, +8.5% versus prior corresponding period (“pcp”)**
- **Cash receipts of \$21.7 million², +10.9% versus pcp**
- **Net operating cashflows during the quarter of \$(3.5) million, impacted by seasonality and one-off restructuring costs and staff redundancies.**
- **Wholesale performance across categories:**
 - **Beer & cider: 2.6 million litres sold (+34% versus pcp)**
 - **Spirits: 53k bottles sold (-10% versus pcp) impacted by premium positioning in market and lower tourism visitations at Kangaroo Island**
- **Better Beer sales of 2.2 million litres across ANZ, (+53% versus pcp)**
 - **Launch of 12 pack New Zealand format in August**
 - **On track to hit New Zealand distribution target of 1,200 unique distribution points by November 2023**

STRATEGIC REVIEW & FUNDING UPDATES:

- **The recently-undertaken strategic review resulted in two clear priorities for the short to medium term:**
 - Priority #1 - Restructure operating cost base; and
 - Priority #2 - Materially reduce debt via expanded asset divestment program.
- **Priority #1 progress:**
 - Head office costs – annual reduction of \$4.4 million in people costs flowing through in Q1 FY24 (Chart 1 shows the improving trend)
 - Discretionary costs – annual reduction of \$0.5 million (Chart 2 shows the improving trend)
- **Priority #2 progress:**
 - As previously announced, the Company has two streams of divestment programs:
 - Non-Core divestments target of ~\$10 million and currently expects ~\$6 million to have settled by the end of the calendar year, including:
 - Divestment of Jetty Road Brewery for ~\$3 million including stock – close to completion. Settlement expected in early November 2023, following licence transfers;

¹ Group unaudited revenue in Q1 FY24 includes sales from discontinued operations of approximately \$1.7m.

² Group unaudited cash receipts in Q1 FY24 includes sales from discontinued operations of approximately \$1.5m.

- Divestment of Hills Cider for ~\$3 million including stock – executed Non-Binding Indicative Offer, with settlement expected in Q2 FY24; and
 - Divestment of Mighty Moonee Ponds for \$0.35 million – completed.
- Expanded divestments – targeting ~\$25 million over time. This program is focussed on either divesting a larger asset in either Beer / Cider or Spirits to materially reduce debt. At this stage no acceptable offers have been received for these assets. The Company will now prioritise maximising trading over peak.

Mighty Craft Chair Chris Malcolm said:

“Mighty Craft is in the early stages of a significant restructure and turnaround. As we have previously announced the first two priorities are to reduce the cost base of the business and to materially reduce debt levels. We are making good progress on the cost base with an improving trend evident across the business. We also expect a number of divestments to settle in Q2, despite taking longer than anticipated. Given the importance of peak trading, we will focus the business on maximising growth and earnings in the short term, while assessing any divestment opportunities that make sense for Mighty Craft shareholders. The Company still requires significant restructuring, and we need a runway to execute our plans. I am pleased with the progress that is being made and we look forward to delivering a strong peak trading period.”

Financial Performance

Mighty Craft delivered Q1 FY24 unaudited revenue of \$19.2 million (+8.5% versus pcp). Cash receipts totalled \$21.7 million (+10.9% versus pcp). Importantly, June and September quarters are seasonally quieter periods for Mighty Craft, such that the Company anticipates volumes across all brands to increase meaningfully throughout peak trading (Q2 FY24 and Q3 FY24).

Operating cash was \$(3.5) million in Q1 FY24, partially reflecting the abovementioned seasonal sales along with a number of one off costs. Specifically, as the Company sought to materially reduce its cost base as part of its Board-led strategic review, several one-off costs were encountered, impacting operating cash, notably restructuring costs and redundancy-related expenses.

In aggregate, progress made to reduce operating costs was significant, evidenced by the charts below illustrating the underlying reduction in head office costs (both people and non-people) over the last six months. The “target” represents the outcomes of the strategic review findings and incorporates both people and non-people cost savings required to run the remaining business. In the event of a more meaningful future divestment, it is likely these costs would further decline.

Chart 1: Head office – people cost by month.

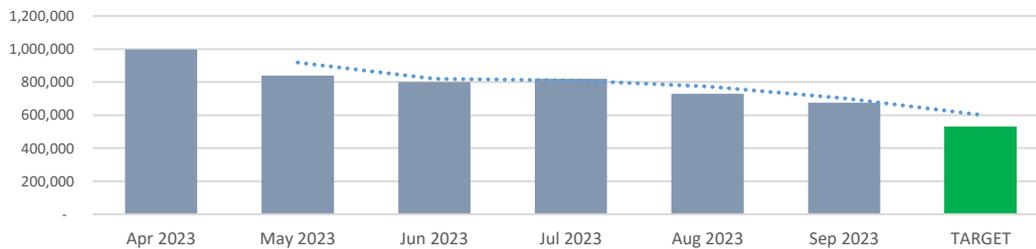
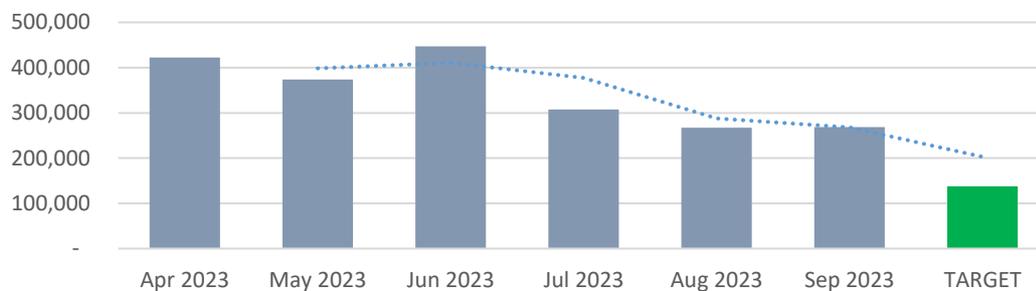


Chart 2: Head office – non people cost by month.



Better Beer

Better Beer continues to perform exceptionally well, selling over 2.2 million litres for Q1 FY24, representing +53% growth versus pcp. Sales in New Zealand accelerated with the launch of the 12-pack format driving a significant increase in distribution and velocity per outlet (VPO). In aggregate, the continued exponential growth in both Australia and New Zealand reaffirms the companies view that Better Beer has quickly become a significant mainstream beer brand in both countries. Given the size of addressable market (> 1.9 billion litres across Australia & New Zealand), the Company believes Better Beer has a unique opportunity to continue to disrupt what is largely a market dominated by sizeable multinational companies.

While the Better Beer capital raise process is still ongoing, the Company has observed interest from multiple parties around Mighty Craft’s Better Beer equity stake. Notwithstanding this, the Company remains committed to maximising Better Beer’s growth over the peak summer period. The Company is firmly of the belief that the Better Beer asset has significant value for MCL shareholders given the extraordinary growth profile and will only entertain interest in the asset that represents fair value for its shareholders.

The chart below reflects sales out of national retailers, illustrating significant weekly growth ongoing. Year-to-date scan growth is at +59% versus pcp, excluding on-premise sales and New Zealand.

Better Beer scan performance (last 12 months)



Wholesale

Category growth continued to be impacted by softening consumer demand across premium segments during the quarter. In particular, this continued to impact premium spirit categories as consumers continue to shift spend towards value-based brands. While the Company expects premiumisation to continue as a long-established trend, the short-term outlook for premium products will continue to be impacted by cost-of-living pressures. The Company has increased support (price and marketing investment) for Q2 FY24 to drive consumer demand. Investment levels were minimal in Q1 FY24 as the company looked to preserve the majority of investment for the peak trading period starting in Q2 FY24.

The Company will continue to balance short-term tactical drivers – including price promotions – versus longer-term brand building investment throughout its upcoming peak trading period.

Wholesale revenue performance for Q1 FY24 (including cellar door)

	Q1 FY24 Growth		Q1 FY24 Growth
	-10%	Better Beer.	+53%
	-15%		-18%
	-22% ³		-10%

³ Includes cellar door sales out of Kangaroo Island Distillery

Total Spirits	-11%⁴	Total Beer / Cider	+27%
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The table below shows overall category growth performance within national retailers.

National scan data – off premise wholesale market

	Commercial Beer	Craft Beer	Cider	Gin	Whisky	Vodka
Q1 FY24	+7.5%	+0.8%	+2.3%	-2.8%	-2.8%	+2.0%

Venue Performance

Venues delivered \$2.9million⁵ in sales across Q1 and \$0.4 million EBITDA contribution. The Company has placed significant focus into a number of venues with turnaround plans in place at Mighty Hunter, Foghorn and Kangaroo Island Distillery. These turnaround plans are largely focussed on improving the margin profile of these venues through increased revenue and more efficient cost structures. Slipstream and Lot 100 continue to perform strongly, while improvements are already evident across other venues.

Whisky Acceleration

The Company continued to reduce its whisky investment during the quarter considering its focus on cashflow management.

Whisky Bank^[1]	Litres
CY21 - 23	162,225
CY24 – 26	298,936
Total in barrel as at Sep 2023	461,162

Strategy & Funding update

The Company has announced its intention to materially reduce debt via the increased divestment program. While there has been significant effort on the program and genuine interest, the Company is unlikely to execute a major divestment until after peak trading. While the underlying and renewed strategy of the

⁴ Includes distribution sales relating to Mt Uncle Distillery (Agave and Rum)

⁵ Venue numbers represent continuing venues, excluding those held for sale.

^[1] CY represents expected calendar year maturity date – note this may change over time

Company remains intact, given the importance of peak trading the Company will be wholly-focused on maximising this important upcoming period to deliver the best outcome for all stakeholders.

In terms of further updates to the Company's funding:

- Senior Lenders – the Company is in ongoing constructive dialogue with its senior lenders and will continue to pursue a path that sees a material reduction in debt in the short to medium term. The most likely avenue to execute this aim remains via a major divestment. Despite this, the Company is conscious that it needs to balance the repayment of debt with maximising asset valuations for Might Craft shareholders.
- ATO payment plan – the Company is in ongoing constructive dialogue with the ATO around the outstanding liabilities and a potential payment plan, from H2 FY24. This payment plan will be dependent upon the divestment program as well as agreeing a path with the Company's senior lenders.

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Jess Lyons
Interim CEO
investors@mightycraft.com.au

Sam Wells
Investor Relations
sam@nwrcommunications.com.au
+61 427 630 152

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

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