



Lark Distilling Co.

ASX ANNOUNCEMENT

ASX: LRK

31 July 2020

LARK DISTILLING CO. LTD : 4C MARKET UPDATE INCLUDING COVID-19.

Q4 Highlights:

- June quarter sales growth of 45% year on year to \$2.2m
- Forty Spotted Gin secured two gold medals at the prestigious British “*The Spirits Business - Magazine*” awards
- Sale of Overeem completed, with \$1.05m received
- Total value of whisky under maturation at 30 June 2020 is \$98m
- Newly installed column still opened by Premier of Tasmania Peter Gutwein
- Export formulated AX8 Whisky being distilled using newly installed column still

The Company is pleased to advise that it has had no COVID-19 related incidents during the quarter and there has been no interruption to the core business of making and laying down whisky. Bond store inventories are accumulating at the rate of 4,100 litres per week bringing total litres under maturation to 711,313 at the end of June 2020 representing a 52% increase on the opening balance at 1 July 2019.

The total value of whisky under maturation at 30 June 2020 is \$98m as detailed in the below chart.

Lark Distilling Co. - Litres of Whisky Maturing as at 30 June 2020 at 43% ABV				
FY Maturing	Litres of Whisky at Maturation at 43% ABV	Liquidation Value Today		Net Sales Value at Maturation Date
2021	97,513	\$	13,554,299	\$ 13,554,299
2022	63,998	\$	7,741,978	\$ 8,895,766
2023	120,595	\$	11,809,490	\$ 16,762,670
2024	134,097	\$	10,752,680	\$ 18,639,518
2025	106,747	\$	6,484,360	\$ 14,837,797
2026+	188,363	\$	6,592,720	\$ 26,182,517
Grand Total	711,313	\$	56,935,527	\$ 98,872,568

Value at Cost 30 June 2020	\$ 16,511,399
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During the June quarter the Company commissioned and completed construction of a column still at a cost of approximately \$743,000 for the production of a new whisky product line, working title AX8, the base alcohol for Forty Spotted Gin and Lark Sanitiser.

AX8 is a new whisky formulated and designed by the Lark Master Distiller, Chris Thomson, to support the Company's ultimate entry into the Asian marketplace. The Company will commence laying down in excess of 150,000 litres of this product throughout F21 and beyond.

Whisky produced through the column still will form the basis of the new AX8 spirit and will materially lower the cost of production, allowing Lark to enter the \$100 RRP price point market in line with the business strategy previously presented at the AGM.



Lark Distilling Co.

Lark Hand Sanitiser

Following the opening of the column still on the 2nd of June 2020, by the Premier of Tasmania Peter Gutwein, Lark has formally launched “Lark Distilling Co. - Hand Sanitiser” securing numerous Tasmanian government departments and multiple private businesses.

The anticipated demand for sanitiser in Tasmania is below the levels expected at the time of commissioning the column still given the successful management of COVID-19 in Tasmania which until recently had not reported a case in the previous 65 days. The successful management of COVID-19 has seen less usage of sanitiser across all day-to-day aspects of life in Tasmania.

At the March 4C Business Update the Company advised that it had considered Chapter 11 of the ASX Listing Rules and confirmed there would be no significant change to the nature and scale of the Company's activities. Subsequently the board no longer considers this a long-term sustainable business opportunity but stands ready to support the Tasmanian community in the event of a 2nd wave of COVID-19.

Sales and Marketing Performance

The Company ceased the mainland Australia distribution arrangement with Proof & Co. effective 1 July 2020 and during the quarter took all necessary steps to implement a direct distribution model under the leadership of Head of Sales, Phil Henderson. Mr. Henderson has a proven sales track record in the alcohol beverages industry having previously filled the positions of Director Key Accounts and Field Sales Independents for Treasury Wine Estates.

The Company achieved sales of \$2.2m (including the Overeem Sale) during the quarter despite receiving less than \$96k in sales from Proof and Co. Significant sales and marketing progress was made during the quarter with a focus on the July 2020 launch of Lark Symphony N°1 and the securing of distribution into Dan Murphy's, Vintage Cellars and BWS. At the time of writing the Company had taken in excess of 650 pre-sale single bottle orders from customers on larkdistillery.com for Lark Symphony N°1.

The relaunch of Forty Spotted Gin remains on track for the 2nd quarter of F21 with positive news during the quarter that the reformulated gin products had secured two gold medals at the prestigious British “*The Spirits Business - Magazine*” awards.

Hobart Head Office, Restricted Hospitality Offer and JobKeeper

As previously updated, the Lark hospitality business had temporarily closed with a reduced take away service for whisky, gin and sanitiser available from the cellar door. The cellar door continues to operate under COVID-19 restrictions however on-premise consumption of alcohol has returned. The Forty Spotted Gin Bar opening has been postponed until November, and the Brooke Street Pier installation will reopen when MONA reopens later in the year.

During the quarter Lark reopened the Hobart based head office in line with federal and state government recommendations.

Lark has been receiving JobKeeper payments which in the last quarter totalled \$228k. Given the expected sales performance Lark will not be eligible for JobKeeper beyond September 2020.



Lark Distilling Co.

Settlement of Overeem Sale

The Overeem sale was completed during the quarter with the Company receipting the sum of \$1.05m in early July 2020.

Cashflow Highlights

During the quarter, net cash movement for the Group was 'business as usual' excluding the CAPEX outflow for installation of a new column still. Net cash used in operating activities for the quarter of \$5k reflects an increase in receipts from customers and receipt of government incentives relating to the JobKeeper initiative. These cash inflows have been offset by increased product and manufacturing costs relating to the purchase of raw materials for production of hand sanitiser.

Net investing activity cash outflows for the quarter of \$827k relates to the purchase and installation of a new column still for production of a the new whisky product line, the base alcohol for Forty Spotted Gin and Lark Sanitiser, along with the continued investment in premium hospitality experiences for consumers.

Net financing activity cash outflows of \$108k were minimal for the June quarter, improved in the March quarter due to the \$5m debt facility provided by the largest shareholder, Quality Life Pty Ltd. Movement in cash from financing activities relates to the interest repayments from the drawdown of the funding provided.

The related party payments of \$228k reported in 6.1 of the Appendix 4C relates to the payment of Non-Executive Director Fees and Executive Director Remuneration of \$222k and payment to Seppeltsfield Wines, a company associated with Mr Warren Randall, of \$6k for the purchase of neutral spirit for sanitiser production.

Board Structure and Appointment of Chief Financial Officer

Ms Laura McBain joined the Board on the 25th of May and has since been appointed chair of the Audit and Risk Committee.

On the 3rd of July the Company announced that Mr Alex Aleksic has been appointed to the role of Chief Financial Officer.

For more information contact

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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 (previously "Australian Whisky Holdings Limited")

ABN

62 104 600 544

Quarter ended ("current quarter")

30 June 2020

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	2,607	8,108
1.2 Payments for		
(a) research and development	0	0
(b) product manufacturing and operating costs	(1,810)	(6,959)
(c) advertising and marketing	(178)	(729)
(d) leased assets	0	0
(e) staff costs	(323)	(2,045)
(f) administration and corporate costs	(484)	(1,371)
1.3 Dividends received (see note 3)	0	0
1.4 Interest received	1	33
1.5 Interest and other costs of finance paid	(66)	(165)
1.6 Income taxes paid		
1.7 Government grants and tax incentives	258	258
1.8 Other (provide details if material)	(0)	(18)
1.9 Net cash from / (used in) operating activities	5	(2,888)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities		
(b) businesses		
(c) property, plant and equipment	(763)	(1,518)
(d) investments		
(e) intellectual property	(64)	(131)
(f) other non-current assets		

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
2.2	Proceeds from disposal of:		
	(a) entities		
	(b) businesses		
	(c) property, plant and equipment	0	6
	(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	(827)	(1,643)

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		
3.4	Transaction costs related to issues of equity securities or convertible debt securities		
3.5	Proceeds from borrowings	0	5,000
3.6	Repayment of borrowings	(108)	(1,081)
3.7	Transaction costs related to loans and borrowings		
3.8	Dividends paid		
3.9	Other		
3.10	Net cash from / (used in) financing activities	(108)	3,919

4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	7,049	6,731
4.2	Net cash from / (used in) operating activities (item 1.9 above)	5	(2,888)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(827)	(1,643)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(108)	3,919
4.5	Effect of movement in exchange rates on cash held		
4.6	Cash and cash equivalents at end of period	6,119	6,119

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	6,119	7,049
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)	6,119	7,049

6. Payments to related parties of the entity and their associates

- 6.1 Aggregate amount of payments to related parties and their associates included in item 1
- 6.2 Aggregate amount of payments to related parties and their associates included in item 2

**Current quarter
\$A'000**

228

0

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

7. Financing facilities

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.

7.1 Loan facilities

7.2 Credit standby arrangements

7.3 Other (please specify)

7.4 **Total financing facilities**

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
5,000	5,000
5,000	5,000

7.5 **Unused financing facilities available at quarter end**

0

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.

Quality Life loan facility of \$5M is a secured loan of 4% per annum plus RBA published cash rate paid quarterly. This loan is an interest only loan with principal due at end of the 5 year term.

8. Estimated cash available for future operating activities

\$A'000

8.1 Net cash from / (used in) operating activities (Item 1.9)

5

8.2 Cash and cash equivalents at quarter end (Item 4.6)

6,119

8.3 Unused finance facilities available at quarter end (Item 7.5)

0

8.4 Total available funding (Item 8.2 + Item 8.3)

6,119

8.5 **Estimated quarters of funding available (Item 8.4 divided by Item 8.1)**

N/A

8.6 If Item 8.5 is less than 2 quarters, please provide answers to the following questions:

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

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

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

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 July 2020

Authorised 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.