

## Outcomes of Board-led strategic review

Mighty Craft Limited (ASX:MCL) (“**Mighty Craft**” or “**the Company**”), is pleased to announce the outcomes of the Board-led strategic review announced to the ASX on 25 May 2023.

Following completion of the Board renewal process in May, the new board – in response to feedback from several large shareholders commenced an in-depth formal strategic review process across the entire business. While certain objectives of the strategic review remain a work-in-progress, the Board is pleased with its early advancement, outlining some of its key initial findings.

### Highlights:

- **Strategic review reveals three primary objectives:**
  - 1) Restructure head office costs to ensure sustainable near-term earnings;
  - 2) Immediately reduce debt, de-levering the Company;
  - 3) Optimise the Company’s corporate structure.
- **Significant cost reduction progress already made** – including \$4.4 million of annual costs removed, over Q4 FY23
- **Board renewal complete** – a new non-executive board is now in place with all original founding board members replaced.
- **Spirits and Beer division** – the company will continue it’s move towards separate Beer and Spirits divisions, with appropriate cost bases in place for each.
- **Challenging market conditions evident across both craft beer and premium spirits** – anticipated to prevail for the medium term in light of broader consumer sentiment and cost of living pressures.
- **Q4 FY23 results support the need for urgent implementation of strategic review outcomes.**
  - Q4 FY23 Sales expected to be in the range of \$21.0 million - \$22.0 million, representing approximately a 7.5% decline versus Q4 FY22 despite strong growth from Better Beer and delivery of the 10 million litre commitment in FY23; and
  - Q4 FY23 operating cashflow result expected to be in the range of \$(4.7) million to \$(5.0) million.
- **Funding update**
  - Based on the Q4 FY23 cashflow result and forward forecast, the board is exploring funding alternatives to ensure sufficient working capital until the sale of assets return capital to the business. The board expects further updates on funding to be released with the Appendix 4C to be released at the end of July 2023

- **Better Beer capital raise process ongoing, expected to be finalised throughout Q1 FY24** – following execution of the Better Beer corporate restructure, to be recognised in FY23 financial statements (as announced to the ASX 14 March 2023).
- **Friday Capital has been appointed to advise and assist the Board on the strategic review outcomes, including execution of key streams.**

**Mighty Craft Chair Chris Malcolm said:**

*“During the last six weeks, Mighty Craft’s newly appointed Board and interim CEO has progressed its review of all aspects of the Company. It is very clear to us that the Mighty Craft business model requires urgent change. The cost base is disproportionate to the earnings profile, debt levels are excessive and further simplification of the business model are necessary. While there are some positive growth signs, we need to address these issues urgently to ensure a near term path to sustainable earnings.”*

*“In terms of our early progress, we have expanded the asset realisation program to assist with the planned reduction of debt as well as already removed \$4.4 million of cost from the business, ahead of further cost reductions to be executed throughout H1 FY24. We’re also assessing all options regarding the optimal future corporate structure for Might Craft, an element requiring further consideration. We will continue to keep the market updated on our progress in coming months.”*

**Interim CEO Jess Lyons also commented:**

*“Mighty Craft is facing some significant challenges, including consumer sentiment and cost of living pressures, many of which are expected to continue in the medium term. In light of this, we must adjust our cost base accordingly. The Company has taken longer than anticipated to deliver sustainable earnings – along with a refreshed Board, I am committed to ensuring this is achieved as soon as possible.”*

**Key objectives of the strategic review:**

The immediate focus for the Company is to execute the first two (of three) objectives and ensure the cost base is urgently reduced and the debt levels are reduced.

**Restructure the companies cost base**

Mighty Craft’s ongoing strategic review has revealed current head office costs remain disproportionate with the earnings profile of the Company. In light of this, the Board has identified three key phases to execute:

- Phase 1 – *completed Q4 FY23* – removal of \$4.4 million of annual cost, including recently announced CEO resignation. Phase 1 benefit visible from 1 July FY24 with all associated costs recognised as at 30 June 2023;

- Phase 2 – to be completed in H1 FY24 – target further \$3.0 million reduction in annual costs, primarily across head office.
- Phase 3 – *to be completed in H2 FY24* – go forward lean organisation in place targeting business that delivers sustainable earnings at the EBITDA line from March 2024.

The Board has established a cost down committee – chaired by MCL Chairman Chris Malcolm – to ensure the new organisation structures are implemented in an effective and timely manner.

The Board has also established a remuneration and nomination (REM) committee – chaired by Non-Executive director Katie McNamara and an Audit and Risk committee chaired by Non-executive director Sean Ebert – reporting into the Board.

In addition to headcount reductions, the Cost Down Committee has identified key business-related cost out and efficiency improvements, which include:

- Head office and other lease costs reductions.
- Consolidation of manufacturing processes between locations.
- Activate procurement synergies across Spirit businesses.

### **Immediately reduce debt**

The Company is aiming to materially reduce debt during H1 FY24, enabled by three key streams:

- 1) Execute current divestment plans – a number of assets are currently under due diligence, expected to settle through Q1 FY24;
- 2) Expand asset realisation plans that may lead to potential third-party interest in some of the companies larger assets. A sale of larger assets within the business would allow the Company to further reduce debt, while also restructuring the cost base of the Company in the near term; and
- 3) Ensure the cost base is aligned with, and appropriate for the earnings profile – enabled by executing the cost down initiatives, as outlined.

### **Optimise corporate structure**

As part of the third and final objective of the ongoing strategic review, Mighty Craft's Board is undertaking an in-depth assessment of the optimal go-forward corporate structure for the Company. While this element of the strategic review requires further consideration, there are a number of observations:

- Public company structure is not providing shareholders with satisfactory returns;
- Cost of capital for sub-scale consumer-based companies expected to remain high for public companies for the foreseeable future; and
- As a brand lead business, the Company needs to invest behind growth, and this is not possible in the current structure.

The Company will continue to provide updates on progress with regards to execution of the program and will update shareholders on a regular basis.

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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.

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