

## Mighty Craft Q2 FY24 Update: *Better Beer continues growth trajectory*

Mighty Craft Limited (ASX:MCL) (“Mighty Craft”, “MCL” or the “Company”) provides a business update for the quarter ended 31 December 2023 (“Q2 FY24”) and Appendix 4C.

### Q2 FY24 HIGHLIGHTS:

- **Unaudited group revenue<sup>1</sup> of \$29.5 million, -5% versus prior corresponding period (“pcp”)**
- **Cash receipts of \$31.1 million<sup>2</sup>, -6% versus pcp**
- **Like-for-like unaudited group revenue<sup>3</sup> of \$29.5 million, +3% versus pcp**
- **Net operating cashflows of \$(2.3) million, impacted by normalisation of extended trading terms (~\$1.2 million) and ongoing restructuring costs (~\$0.9 million)**
- **Operating cashflow excluding impact of one-off trading terms and restructuring was \$(0.2) million**
- **Unaudited underlying EBITDA<sup>4</sup> of \$0.3 million, -70% versus pcp**
- **Reported revenue performance across categories:**

Revenue						
AU\$ million	Q2FY24	Q2FY23	% Change	H1FY24	H1FY23	% Change
Beer / Cider	20.3	19.4	5%	32.6	29.1	12%
Spirits	3.9	5.7	-31%	6.4	8.8	-27%
Hospitality	5.3	6.1	-13%	9.6	11.0	-13%
<b>Total Revenue</b>	<b>29.5</b>	<b>31.2</b>	<b>-5%</b>	<b>48.6</b>	<b>48.9</b>	<b>-1%</b>

- Beer & cider: 4.6 million litres sold (+11% versus pcp). Like-for-like sales<sup>5</sup> of \$20.3 million is +18% versus pcp.
- Spirits: 81k bottles sold (-25% versus pcp), impacted by challenging market conditions in the premium spirits category.
- Hospitality – like-for-like hospitality sales<sup>6</sup> of \$5.3 million or +2% versus pcp.
- **Better Beer sales of 4 million litres across Australia & New Zealand, (+23% versus pcp)**
  - Better Beer achieved annual sales of 11.8 million litres in CY 2023 reflecting +35% growth versus pcp.

<sup>1</sup> Group unaudited revenue in Q2 FY24 includes sales from discontinued operations of approximately \$3.6m. Classification of discontinued operations is subject to finalisation of the half-year review.

<sup>2</sup> Group unaudited cash receipts in Q2 FY24 includes sales from discontinued operations of approximately \$4.0m.

<sup>3</sup> Like-for-like revenue adjusts for the impact of the businesses sold or disposed of in the current half-year including Jetty Road, Hills Cider and Mighty Moonee Ponds.

<sup>4</sup> Unaudited underlying EBITDA excludes one-off restructuring costs and asset impairments.

<sup>5</sup> Like-for-like Beer & Cider sales adjusts for the sales of Jetty Road Brewery & Hills Cider Company.

<sup>6</sup> Like-for-like Hospitality sales adjusts for the sales of Mighty Moonee Ponds & Jetty Road Brewery.

- *Day for it Day* a notable success, resulting in sales of 1.7 million litres in December 2023.

**Mighty Craft Managing Director, Katie McNamara, said:**

*“Q2 trading performance was a mixed result – we continue to see Better Beer perform exceptionally well, while cost of living pressures continue to impact the premium end of the spirits category. Better Beer sales of 12.2 million litres in its second calendar year post-launch is remarkable. The Company continues to focus on reducing operating costs and divestments and has made solid progress on both fronts.”*

**STRATEGY & FUNDING UPDATE:**

- **The two key priorities that the company is focussing on remains:**
  - Priority #1 - Restructure operating cost base; and
  - Priority #2 - Materially reduce debt via expanded asset divestment program.
- **Priority #1 progress:**
  - Head office people and non-people costs – Reduction in head office costs reflected in Chart 1 & 2 on P5 & P6 – reflecting strong progress towards target.
- **Priority #2 progress:**
  - As part of the strategic review announced to the ASX on the 29<sup>th</sup> August 2023 the Company is pursuing an extensive divestment program in order to materially reduce debt.
  - Significant progress on divestment program made during Q2 FY24, designed to provide funding runway to execute restructuring plans, including:
    - \$5.5<sup>7</sup> million in total divestments completed in Q2 FY24;
    - Approximately \$2.0 million<sup>8</sup> in additional divestments expected to settle in Q3 FY24 subject to entry into formal agreements; and
    - The company is working through multiple non-binding offers for various combinations of its South Australian based assets. The Company is continuing to pursue divestment of these assets through H2 FY24.
- **General funding:**
  - Senior Lenders - the Company is in ongoing constructive dialogue with its senior lenders and is continuing to pursue a path to material reduction in debt in the short to medium term. The ongoing support from senior lenders is

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<sup>7</sup> Noting the \$5.5m divestment number is before fees and does not include a phased stock payment for Hills Cider (funds expected in Q3 FY24).

<sup>8</sup> The \$2m of expected divestments in Q3 FY24 includes Foghorn Brewery, Hunter Valley Brewhouse, Slipstream Brewing, and the freehold land in Emu Bay on Kangaroo Island (separate to Kangaroo Island Distillery).

critical to the Company having the funding runway to execute the restructuring plans.

- Geneva based bridging loan - the Company has repaid \$1.7 million<sup>9</sup> of the \$5 million loan and continues to work constructively with the lender around repayment terms. The current repayment date of this facility is 17 February 2024; and
- ATO payment plan - the Company is in ongoing constructive dialogue regarding 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.

**Mighty Craft Chair, Grant Peck, said:**

*"As disclosed in August 2023 the MCL business clearly needs to reduce debt levels and redefine the core business. This two-step process will require extensive collaboration and alignment from stakeholders, including equity, debt, and strategic brand partners. Our obligation to consider the best outcome for all, involves consideration of divestment opportunities across the business. This process is well underway and saw cash results of c \$5.5m in the quarter, with associated progress on the cost base. Our commitment to all stakeholders is to communicate outcomes as and when we can. We will then be able to clarify the future business focus and intent".*

**Better Beer**

Better Beer continued to grow well-ahead of market, gaining significant market share in both Australia and New Zealand. The brand sold over 4 million litres in Q2 FY24 and almost 12 million litres for the 2023 calendar year, reflecting +23% growth for the quarter and +35% growth for the calendar year.

CY2023 was only the second full year that the brand has been in the market – illustrating a remarkable growth trajectory. Since launch in October 2021, the brand has now achieved over 20 million litres in sales.

The chart below reflects sales out of national retailers, illustrating significant weekly growth ongoing. Year-to-date scan growth is at +35% versus pcp, excluding on-premise sales and New Zealand.

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<sup>9</sup> The \$1.7m of debt reduction was across two payments. The first payment of \$870k was in Q2 FY24 while the second payment of \$870k was made in January 2024.

**Chart 1: Better Beer scan performance (2023 calendar year, cases per week)**



Better Beer continues to build presence in the on-premise channel with the brand available in over 1,000 venues around Australia in Q2 FY24 with strong growth in Queensland and Victoria. On premise volume has increased to approximately 10% of total sales which is strong in a channel that is traditionally challenging given the contracted nature of tap points.

The Better Beer capital raise process – as announced in 2023 – is currently on hold while Mighty Craft’s divestment and restructuring program is finalised.

**Wholesale**

Category growth trends continued to reflect a shift away from the premium end of the market with consumers seeking value-based brands, driven by increasing cost-of-living pressures. In particular, this impacted Craft Beer as well as premium spirits categories, including Gin and Whisky.

The table below shows overall category growth performance within national retailers.

**Table 1: National scan data – off premise wholesale market<sup>10</sup>**

	Commercial Beer	Craft Beer	Cider	Gin	Whisky	Vodka
Q2 FY24	+6.1%	+0.3%	+0.2%	-6.7%	-1.6%	+3.9%

<sup>10</sup> Scan data is sourced from national retailer sales data

### Financial Performance

Mighty Craft delivered Q2 FY24 unaudited revenue of \$29.5 million (-5% versus pcp). Cash receipts totalled \$31.1million (-6% versus pcp). Q2 FY24 unaudited underlying EBITDA was \$0.3 million, versus \$1.0 million in pcp.

**Table 2: Unaudited Q2 FY24 P&L**

Q2 FY24 financial performance was mixed with strength in Better Beer offset by declines in the premium spirits portfolio. Reported revenue declined 5% for Q2 FY24 vs pcp while like-for-like revenue growth was +3% versus pcp.

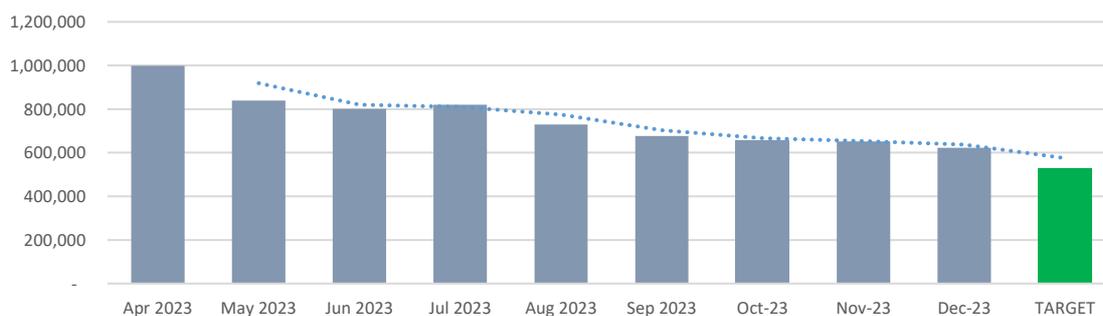
PROFIT LOSS			
AU\$ million	Q2FY24	Q2FY23	% Change
<b>Revenue</b>	<b>29.5</b>	<b>31.2</b>	<b>-5%</b>
Gross margin %	23.7%	35.0%	(11.3) ps
Marketing	-0.2	-1.1	-81%
Opex	-6.1	-8.2	-26%
<b>Underlying EBITDA</b>	<b>0.3</b>	<b>1.0</b>	<b>-70%</b>

Gross margins were impacted by the shifting sales mix towards Better Beer and ongoing inflationary pressures. The Company has significantly reduced marketing investment and made sustained progress with regard to reducing the operating cost base.

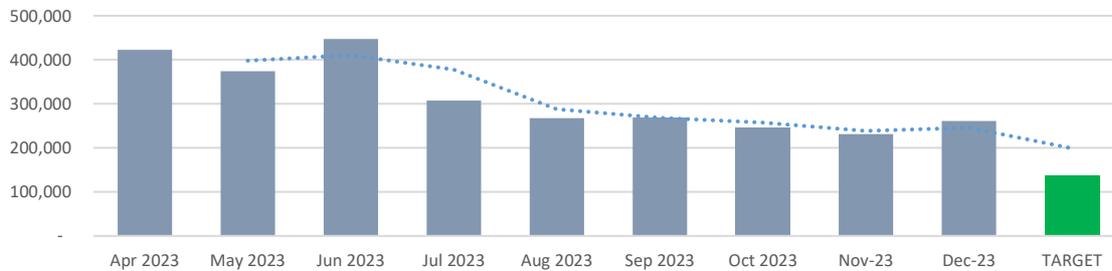
Operating cash was \$(2.3) million in Q2 FY24, which was impacted by the unwinding of the extended trading terms that were announced to the ASX in the Q1 FY24 performance update. The operating cashflow number also continues to be impacted by ongoing restructuring costs as the Board works through the future direction of the Company. These costs largely cover advisory fees and are expected to continue to H2 FY24.

The three charts below illustrate that while progress is being made on people and non-people head office costs, short term restructuring costs are impacting both the P&L and cashflow in the short term.

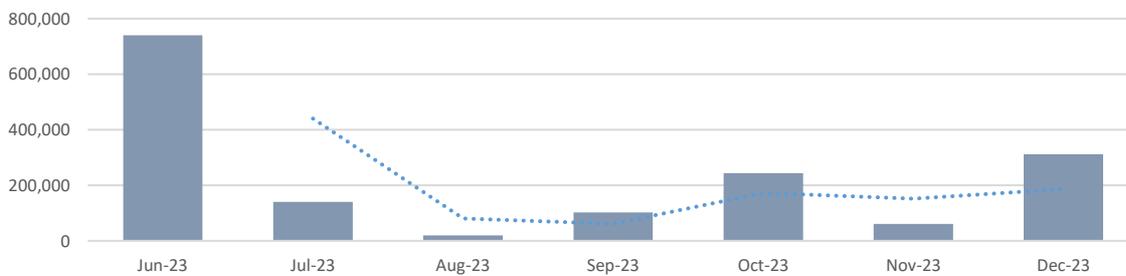
**Chart 2: Head office – people cost by month.**



**Chart 3: Head office – non people cost by month (excluding restructuring costs).**



**Chart 4: Restructuring costs by month. <sup>11</sup>**



### Venue Performance

Venues delivered \$5.3 million in sales across Q2 FY24 representing the strongest trading quarter from a hospitality point of view, providing a \$0.9 million EBITDA contribution. Key contributors during the quarter were Lot 100 (\$0.31 million EBITDA), Slipstream (\$0.16 million EBITDA) and Mismatch Brewhouse (\$0.13 million EBITDA). Pleasingly, the Company has seen turnarounds in Valley Brewhouse and Foghorn Brewery in Newcastle with both venues returning a profit in Q2 FY24.

<sup>11</sup> Restructuring costs include redundancy costs, restructuring advisory costs, debt structuring advice, legal costs and financial modelling costs

### Whisky Acceleration

Whisky stocks in barrel declined in the quarter as the Company continues a prudent approach to whisky production given cashflow pressures.

<b>Whisky Bank<sup>[1]</sup></b>	<b>Litres</b>
CY21 - 23	155,779
CY24 – 26	290,015
<b>Total in barrel as at Dec 2023</b>	<b>445,774</b>

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This announcement has been authorised and approved for release by the Board of Directors of Mighty Craft Limited

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<sup>[1]</sup> CY represents expected calendar year maturity date – note this may change over time. Whisky Bank figures include stocks held by the Whisky Development Syndicate.

**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 Propsectus (\$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
Aquire 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 coporate 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
<b>TOTAL</b>		<b>29.1</b>	<b>29.1</b>