



Top Shelf International Holdings Ltd

Principal Place of Business:
16-18 National Boulevard
Campbellfield
Victoria, Australia 3061

31 July 2023

ASX ANNOUNCEMENT (ASX:TSI) - FY23 Q4 QUARTERLY REPORT AND APPENDIX 4C

Top Shelf International Holdings Limited (“Top Shelf” or “the Company”), Australia’s leading premium spirits company, provides an update for the fourth quarter of FY23 in accordance with ASX listing rule 4.7C.

Business strategy update

The Company launched a placement and entitlement offer with secured pre-commitments of **\$30.0 million** in July 2023 with the proceeds to be used to reduce debt and fund ongoing investment in business operations.

Top Shelf’s Chief Executive Trent Fraser said *“Along with the completed capital raise, the Company now transitions from build mode to delivery and execution with a clear pathway to profitability.*

“We have been action focused with the key priority on resetting the cost base, establishing distribution partnership opportunities and other divestments that are non core.

“The current mode is focused on value creation with renewed emphasis on being customer-first and brand-led. Commercially, whilst maintaining focus on costs and cash preservation, all attention is geared towards a fast start to FY24:

- *national NED Whisky ranging with Endeavour Group and further strengthening of our Coles Liquor group partnership.*
- *Act of Treason Australian Agave continues to gain excitement both domestically and abroad ahead of its November launch. Many pre-commitments already in place as part of the route to market strategy as we look to scale early next year.*
- *building on the annualised cost savings with in excess of \$7.5 million realised to date.*

“Top Shelf is moving to a new phase that is more prudent and disciplined to deliver in this critical first half of FY24.”

FY24 strategic objectives

The business strategic objectives for FY24 are:

- evolve the brand business model to improve margin (minimum of 30%) and profitability through distribution growth, improved mix (channel and product) and trade focussed brand spend to deliver a sustainable reinvestment model;
- complete the Australian Agave distillery project with the market launch of Act of Treason in the December 2023 quarter;
- to secure a strategic distribution partner to accelerate growth in new channels and markets
- to leverage non-core asset realisation opportunities to reinvest capital in the Company’s brands; and
- maintain a focus of cost control and cash preservation.

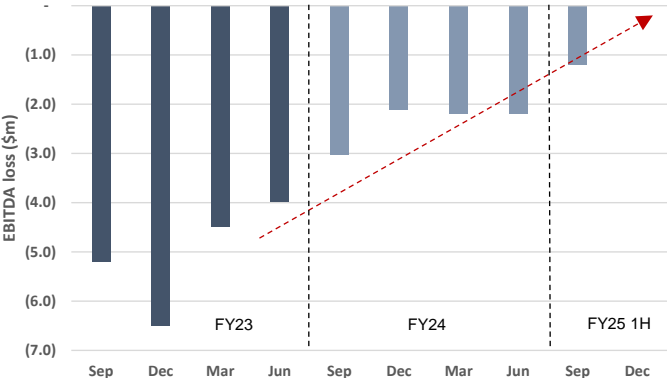
Top Shelf has successfully secured in excess 3,000 new distribution points through expanded ranging Coles Liquor Group (Liquorland, First Choice and Vintage Cellars) initial ranging of NED Australian Whisky (five glass and RTD products) with Endeavour Group (Dan Murphy’s and BWS) from the first quarter of FY24.

The Company is **streamlining business activities** and **reducing the cost base** that to date has realised annualised reductions of labour savings of \$2.5 million with existing roles expanded or re-prioritised across all business functions and non labour expenditure savings in excess of \$5.0 million with rightsized investment spend, business activity reduction or change, supplier tender processes and the removal of discretionary spend.

Pathway to profitability

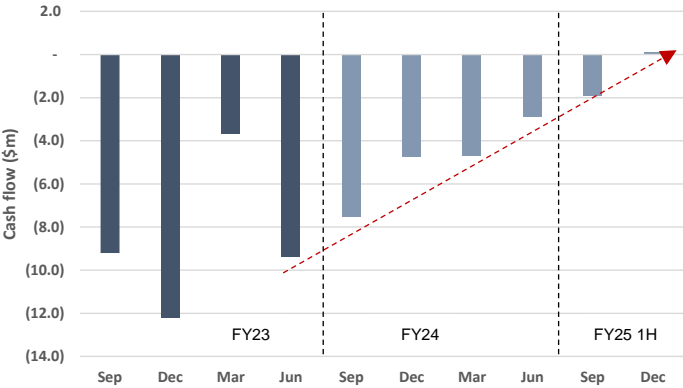
The Company is committed to delivering the 18 month pathway to profitability as set out in the Strategic Review update ASX announcement dated 16 June 2023.

Chart 1: Projected quarterly EBITDA trajectory



Note 1: FY23 June quarter EBITDA reflects actual performance \$(6.0) million (refer Table 1) adjusted to exclude non-recurring employee termination costs and corporate project expenditure (\$2.0m).

Chart 2: Projected quarterly cash flow trajectory



Note 2: FY23 June quarter cash flows reflects actual performance.
 Note 3: FY24 1H cash flows include approximately \$2.0 million of non-recurring project capital expenditure to complete the agave distillery project.
 Note 4: The cash flow impact of non-core asset realisation opportunities has not been reflected in Chart 2.

FY23 business highlights

Brand revenue: FY23: \$23.4m Growth: 74% on PY	Gross margin: FY23 cash: 27.4% FY23 net excise: 43.9%	Normalised EBITDA: FY23: \$(13.5)m
Annualised cost out: \$7.5m	Business investment: FY23: \$14.7m	Cash receipts: FY23: \$38.5m

Summarised profit or loss and performance metrics

The Company's unaudited summarised profit or loss to EBITDA and performance metrics for FY23 by quarter are set out in Table 1.

Table 1: FY23 quarterly profit or loss and performance metrics

\$ million	FY23				
	Q1	Q2	Q3	Q4	Annual
Revenue	5.7	9.0	6.4	6.5	27.7
Gross margin ¹	1.6	2.7	1.5	1.8	7.6
Variable contribution margin ²	1.4	2.3	1.2	1.6	6.5
Operating contribution ³	(1.3)	(1.4)	(1.6)	(1.2)	(5.5)
Brand and business investment	(1.8)	(2.8)	(1.1)	(0.9)	(6.6)
Contribution margin	(3.1)	(4.2)	(2.7)	(2.2)	(12.1)
Group support	(2.1)	(2.3)	(1.9)	(3.8)	(10.1)
EBITDA	(5.2)	(6.5)	(4.5)	(6.0)	(22.2)
Discontinued and non-recurring expenditure	1.5	3.6	1.0	2.6	8.7
Normalised EBITDA	(3.7)	(2.9)	(3.5)	(3.4)	(13.5)
<i>Gross margin – cash % ¹</i>	<i>27.5%</i>	<i>29.7%</i>	<i>23.2%</i>	<i>28.1%</i>	<i>27.4%</i>
<i>Gross margin – net excise % ⁴</i>	<i>41.1%</i>	<i>51.9%</i>	<i>39.6%</i>	<i>40.9%</i>	<i>43.9%</i>
<i>Normalised controllable expenditure ⁵</i>	<i>(5.1)</i>	<i>(5.2)</i>	<i>(4.7)</i>	<i>(5.0)</i>	<i>(20.0)</i>

¹ Gross margin is disclosed on a cash basis reflecting adjustments to exclude depreciation and whisky liquid cost from the Cost of goods sold.

² Variable contribution margin is presented as gross margin less distribution and other variable items.

³ Operating contribution is presented as variable contribution margin less selling and general operating costs.

⁴ Gross margin – net excise reflects the calculation of Gross margin relative to Revenue net of excise.

⁵ Normalised controllable expenditure representing costs below the Variable contribution margin line to EBITDA exclusive of discontinued and non-recurring expenditure.

EBITDA

EBITDA as set out in Table 1 is inclusive of gross margin on a cash basis (refer footnote 2) and excluding the recognition of the non-cash gain of the fair value of agave plants, and asset impairment charges ⁶. These items will be reflected in the statutory financial reporting within the Company's annual report.

Normalised EBITDA has been adjusted to exclude discontinued and non-recurring expenditure. The balance of **\$8.7 million** is inclusive of:

- Labour - **\$2.4 million** - reflecting actual labour cost of vacated roles not replaced and actual termination costs recognised in FY24;
- Non-labour expenditure - **\$4.1 million** – reflecting expenditure across sales, marketing, operations and corporate functions resulting from business activity changes and rightsizing spend. An additional **\$1.0 million** of expenditure recognised directly in the balance sheet in FY23 has been discontinued; and
- Other - **\$2.1 million** – representing other costs, largely corporate related, assessed to be non-recurring in nature.

Further commentary in relation to the Company's revenue performance has been set out later in this report.

Cash flow reconciliation

The Company's unaudited cash flow for FY23 by quarter is summarised in Table 2.

Table 2: FY23 quarterly cash flow reconciliation

\$ million	FY23				
	Q1	Q2	Q3	Q4	Annual
Operating					
Business investment	(2.1)	(3.1)	(1.3)	(1.6)	(8.3)
Trading activities	(4.9)	(6.0)	0.7	(4.3)	(14.6)
Operating - total	(7.0)	(9.1)	(0.6)	(6.0)	(22.8)
Investing					
Business investment	(1.3)	(1.5)	(1.7)	(1.9)	(6.4)
Other – stay in business	(0.2)	(0.5)	(0.4)	(0.4)	(1.4)
Investing - total	(1.5)	(2.0)	(2.1)	(2.3)	(7.9)
Operating and investing - total	(8.5)	(11.1)	(2.7)	(8.3)	(30.7)
Financing	2.6	3.6	8.3	(1.2)	13.4
Net	(6.0)	(7.5)	5.6	(9.5)	(17.3)
Closing cash balance	14.2	6.7	12.3	2.9	2.9

Trading activities

The Company's trading activity cash flow in FY23 Q4 predominantly reflects:

- seasonal influence on cash collections as Q3 benefited from the Company's revenue seasonality profile;
- reversion to normalised excise payments (Q4: \$3.9 million; Q3: \$0.7 million); and
- non-recurring expenditure (\$1.0 million) in relation to labour terminations and one-off corporate project expenditure.

⁶ The EBITDA disclosed in Table 1 excludes an asset impairment charge in relation to the Company's trade receivables, inventories and plant & equipment. The Company is currently finalising its assessment of the necessary charge at 30 June 2023 that will be subject to approval of the directors and review by the Company's external auditors. The Company expects the total charge to be approximately \$4.5 - \$5.5 million. The asset impairment charge will be disclosed in the Company's FY23 annual report.

Business investment

Top Shelf has invested in three strategic growth drivers of the business during FY23 as summarised in Table 3.

Table 3: FY23 quarterly business investment reconciliation

\$ million	FY23				
	Q1	Q2	Q3	Q4	Annual
Brand	1.4	2.7	0.8	0.8	5.7
Whisky	0.8	0.5	0.4	0.3	2.0
Australian Agave	1.3	1.5	1.8	2.4	7.0
Business investment - total	3.5	4.6	3.0	3.6	14.7

Brand: Top Shelf's brands have engaged with consumers during FY23 Q4 through the Australian Supercars, Queensland Maroons and high profile on-premise venues in Melbourne. The Company has ongoing plans to leverage these relationships during FY24 to continue to build brand awareness and consumer engagement, as well as increasing consumption at the events assisting further sales growth.

Whisky: Expenditure during FY23 Q4 reflects new make production with production sustaining the Company's whisky bank. The Company expects production and harvest volumes to be in equilibrium during FY24.

Australian Agave: The investment in Australian Agave is inclusive of:

- agave agronomy operations at Eden Lassie (recurring);
- the development of a dedicated onsite agave distillery (non-recurring); and
- brand market launch development expenditure (non-recurring).

Agave agronomy operations are in a stable state with quarterly expenditure of approximately \$0.3 million.

During FY23 Q4 the agave distillery project expenditure was \$1.6 million (FY23: \$4.2 million). The agave distillery project has remaining expenditure of approximately \$2.0 million with commissioning in the September 2023 quarter.

Funding

As announced on 7 July 2023, the Company launched a placement and entitlement offer with secured pre-commitments of **\$30.0 million** (before offer costs).

As at 30 June 2023, the Company's debt facility with Longreach Credit Investors remained drawn at **\$35.0 million**.

Revenue

The Company delivered brand pro forma ⁷ revenue of **\$23.4 million** in the twelve months to 30 June 2023 (LTM June 2023) representing growth of **74%** on the prior comparative period, LTM June 2022.

Brand pro forma unaudited revenue of **\$4.2 million** in FY23 Q4 (FY22 Q4: \$5.7 million) was significantly influenced by the timing of retail ranging decisions with Coles Liquor Group (Liquorland, First Choice, Vintage Cellars) and Endeavour Group (Dan Murphy's and BWS). Fulfilment of 2023 ranging outcomes will occur in FY24 Q1 whereas in the comparative period of FY22, fulfilment of initial ranging with Coles Liquor Group commenced in April 2022.

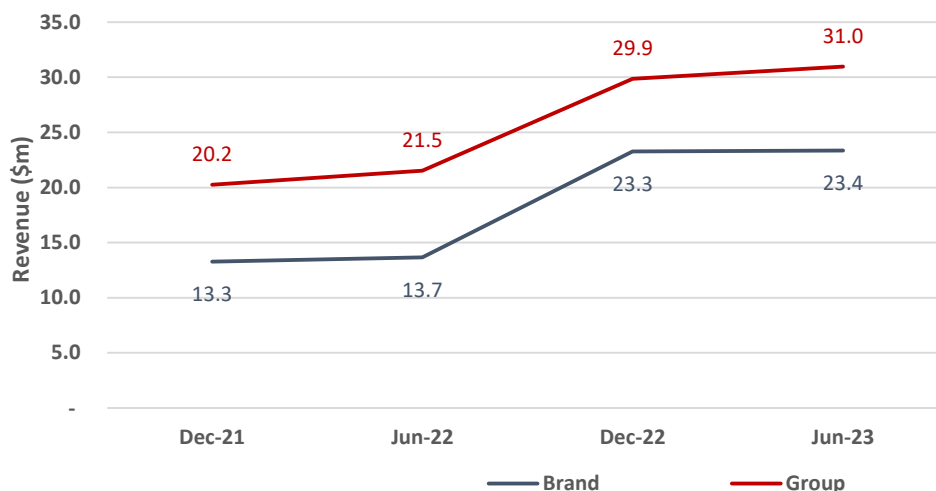
As announced on 25 May 2023, Top Shelf has expanded NED Australian Whisky (super premium Green Sash Reserve Australian Whisky 700mL, NED Whisky 1 litre, and NED Whisky 220mL SKUs) and Grainshaker Australian Vodka product ranges in Coles Liquor Group from July 2023 and August 2023 respectively. As announced on 6 July 2023, NED Australian Whisky has been ranged with Endeavour Group (700mL glass and four RTD SKUs). Fulfilment of expanded product ranges to Coles Liquor Group and initial ranging with Endeavour Group has commenced in July 2023.

The additional retail ranging will represent in excess of 3,000 new distribution points across Australia.

Top Shelf commenced contract packaging services for a multinational beverage producer in February 2023 with the Company packaging over 250,000 third party cases in FY23 Q4. The Company expects to sustain contract packaging throughput of approximately 80,000 – 100,000 cases per month during FY24 improving the operating efficiency and asset utilisation of Top Shelf's Campbellfield production site.

Top Shelf's pro forma unaudited revenue in the twelve months to 30 June 2023 was **\$31.0 million**, inclusive of brand sales and contract packaging services. The Company's LTM pro forma unaudited revenue to 30 June is illustrated in the chart below.

Chart 3: Pro forma unaudited revenue profile – last twelve months



⁷ The presentation of brand revenue on a pro forma basis reflects the gross up of excise from sales to Coles Liquor Group to disclose revenue consistently on a gross excise basis across all domestic channels (FY23 adjustment: \$3.3m).

End

This announcement was approved by the Company's Executive Chairman Adem Karafili, on behalf of the Top Shelf Board.

For more information (investors and media):

For further information, please visit our investor website <https://www.topshelfgroup.com.au/investors> or contact investor relations at investor@topshelfgroup.com.au or on +61 409 916 474.

Media enquiries, please contact Matt Slade on the above number.

About Top Shelf

Top Shelf International is a Melbourne based distiller and marketer of premium Australian spirits, with distinctive brands in NED Australian Whisky and Grainshaker Hand Made Australian Vodka. The Company has a track record of success creating high quality, premium Australian products and brands; each in its own way encapsulating a distinctive Aussie attitude, social experience and flavour profile.

The Company has expertise in the development and production of distilled spirits, undertakes a significant level of research and development and operates modern fermentation, distillation and packaging facilities in Campbellfield, Victoria.

The Company is creating Australia's first agave spirit range from its magnificent Agave farm in The Whitsundays region of Queensland. This location has been specifically chosen for its climatic suitability for growing *tequilana* blue agave. The farm is being developed using the most up-to-date and innovative agronomy and horticultural practices.

In addition to distilling and manufacturing its own portfolio of spirit brands, Top Shelf also provides canning, bottling and packaging services to a range of customers.

Appendix 4C

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

Name of entity

Top Shelf International Holdings Ltd

ABN

22 164 175 535

Quarter ended ("current quarter")

30 June 2023

Consolidated statement of cash flows	Current quarter \$A'000	Year to date \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,771	38,482
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(7,069)	(29,646)
(c) advertising and marketing	(3,139)	(12,143)
(d) leased assets	-	-
(e) staff costs	(2,814)	(11,296)
(f) administration and corporate costs	(2,754)	(8,117)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(6,006)	(22,720)

2. Cash flows from investing activities		
2.1 Payments to acquire or for:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(1,924)	(6,244)
(d) investments	-	-
(e) intellectual property	(73)	(199)
(f) other non-current assets	(299)	(1,474)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
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	(2,295)	(7,917)

3.	Cash flows from financing activities		
3.1	Proceeds from issues of equity securities (excluding convertible debt securities)	-	10,000
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	-	(679)
3.5	Proceeds from borrowings	-	10,000
3.6	Repayment of borrowings	-	-
3.7	Transaction costs related to loans and borrowings	-	(2,062)
3.8	Dividends paid	-	-
3.9	Other		
	Payment of lease liability principal – buildings and equipment	(84)	(327)
	Interest and other finance costs paid - borrowings	(886)	(2,815)
	Interest and other finance costs paid - leases	(186)	(753)
3.10	Net cash from / (used in) financing activities	(1,156)	13,364

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

Consolidated statement of cash flows		Current quarter \$A'000	Year to date \$A'000
4.	Net increase / (decrease) in cash and cash equivalents for the period		
4.1	Cash and cash equivalents at beginning of period	12,312	20,129
4.2	Net cash from / (used in) operating activities (item 1.9 above)	(6,006)	(22,720)
4.3	Net cash from / (used in) investing activities (item 2.6 above)	(2,295)	(7,917)
4.4	Net cash from / (used in) financing activities (item 3.10 above)	(1,156)	13,364
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of period	2,855	2,855

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	2,855	12,312
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)	2,855	12,312

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	26
6.2	Aggregate amount of payments to related parties and their associates included in item 2	-

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.

In accordance with ASX listing rule 4.7C.3, the following summarises the related party transactions of the Company in the fourth quarter of FY23.

Top Shelf engaged Fairchild Advisory, a related party of former Managing Director, Drew Fairchild (resigned 21st April 2023), in relation to the provision of health safety, environment and quality services. The Company has incurred fees of \$25,650 (excluding GST) in relation to these services.

7. Financing facilities	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
<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>		
7.1 Loan facilities	45,000	35,000
7.2 Credit standby arrangements		
7.3 Other (please specify)		
7.4 Total financing facilities	45,000	35,000
7.5 Unused financing facilities available at quarter end		10,000
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.	
	<p>Top Shelf International Holdings Ltd has a secured financing facility agreement arranged by Longreach Credit Investors Pty Ltd with AMAL Trustees Pty Ltd as trustee for the Longreach Direct Lending Fund.</p> <p>The facility limit is \$45.0 million. The interest rate is 10.25%, or if the market capitalisation of Top Shelf exceeds \$75.0 million, the interest rate is 8.25%. The facility matures in December 2024.</p>	

8. Estimated cash available for future operating activities	\$A'000
8.1 Net cash from / (used in) operating activities (item 1.9)	(6,006)
8.2 Cash and cash equivalents at quarter end (item 4.6)	2,855
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)	12,855
8.5 Estimated quarters of funding available (item 8.4 divided by item 8.1)	2.1
<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

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.

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 2023

Authorised by: Adem Karafili, Executive Chairman
(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.