

Mighty Craft Q3 FY24 Update: *Deleveraging progress and Strategy update*

Mighty Craft Limited (ASX:MCL) (“**Mighty Craft**”, “**MCL**” or the “**Company**”) provides a business update for the quarter ended 31 March 2024 (“**Q3 FY24**”) and Appendix 4C.

Q3 FY24 HIGHLIGHTS:

- **Unaudited group revenue¹ of \$19.8 million, -22% versus prior corresponding period (“pcp”)**
- **Cash receipts of \$21.9 million², -22% versus pcp**
- **Like-for-like unaudited group revenue³ of \$19.8 million, -11% versus pcp**
- **Net operating cashflows of \$(2.4) million, impacted by ongoing restructuring costs (~\$0.3 million)**
- **Asset divestment program**
 - Sale and purchase agreement executed for the sale of 78 Degrees and Mismatch for \$7.2m, and is on track to settle by 31 of May 2024.
 - Non-binding offers received for the remaining South Australian based assets. The Company is assessing the offers and will announce any material developments to the market in due course.
- **Funding update**
 - The Company repaid \$2.3 million of senior debt during Q3 FY24.
 - The Company expects approximately half of the proceeds of the 78 Degrees and Mismatch divestment to go to further paying down senior debt.
 - The Company is in ongoing constructive dialogue with senior lender Pure Asset Management (**Pure**) and continues to pursue a path to material debt reduction in the short to medium term.
 - The Company remains in breach of various loan covenants and the ongoing support of Pure is contingent upon its satisfaction with the Company’s progress towards further divestments and debt reduction.

STRATEGY UPDATE:

- **Better Beer focus**
 - The Company notes that Better Beer continues to gain market share and demonstrated scan growth in Q3 FY24 of +18.2%⁴.
 - The Company has sold 12 million litres of Better Beer in the twelve months to March 2024 and expects FY24 sales to be in line with this number.

¹ Group unaudited revenue in Q3 FY24 includes sales from discontinued operations of approximately \$6.1m.

² Group unaudited cash receipts in Q3 FY24 includes sales from discontinued operations of approximately \$6.0m.

³ Like-for-like revenue adjusts for the impact of the businesses sold or disposed of in the current financial year including Jetty Road, Hills Cider, Slipstream, Mighty Hunter and Mighty Moonee Ponds.

⁴ Scan growth represents consumption growth or “sales out” sourced from available national retail scan data

- Better Beer remains an asset of significant strategic value and the Company confirms a shift in its strategic direction, now focussing on restructuring the business in a way that allows the value of this asset to be maximised.
- The Company is holding preliminary discussions with Better Beer to explore the possibility of a transaction under which the Company would acquire the remaining shares in Better Beer not already owned by the Company in exchange for the issue of shares in the Company to the Better Beer shareholders, and a subsequent capital raise. The Company has signed a non-binding letter of intent with Better Beer to explore the feasibility of this option and is in preliminary discussions with the relevant stakeholders, including Pure, around the terms, the valuation of Better Beer relative to the divestment program and the overall viability of the transaction. The Board notes that while discussions are ongoing, it has not entered into any binding agreement with Better Beer's shareholders to implement a transaction and there is no certainty that any transaction will eventuate. The Company will continue to assess all available options for the benefit of all stakeholders and will update the market as and when required in accordance with the Listing Rules.
- In the event that the Company is unable to formalise an agreement with Better Beer and Pure within the coming months, the Board consider that it would likely be difficult to secure the additional debt or equity funding that would be required to allow the Company to continue its operations.

Mighty Craft Chair, Grant Peck, said:

“The focus and priority of the Board remains very clear – deleverage the company and continue to reduce operational costs. The deleveraging process has started with a \$2.3 million debt reduction in the quarter and the divestment of 78 Degrees and Mismatch. The Company’s debt levels, however, will remain unsustainable and divestments of the non-Better Beer assets alone will not be sufficient to restructure the balance sheet to the extent required. While the Board continues to assess all available options, the Company’s strategic focus has shifted towards seeking a potential merger with Better Beer. Discussions with the relevant stakeholders are at a very early stage, and there is no certainty of any transaction eventuating. The Board is committed to finding a path that balances the interests of all stakeholders, and we will update the market as required by the Listing Rules.”

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

Disclaimer

Nothing contained in this announcement constitutes investment, legal, tax or other advice. You should seek appropriate advice before making investment decisions.

This announcement contains “forward-looking statements.” These can be identified by words such as “may,” “should,” “anticipate,” “believe,” “intend,” “estimate,” and “expect.” Statements which are not based on historical or current facts may be forward-looking statements. Forward-looking statements are based on:

- assumptions regarding the Company’s financial position, business strategies, plans and objectives of management for future operations and development and the environment in which the Company will operate; and
- current views, expectations, and beliefs as at the date they are expressed, and which are subject to various risks and uncertainties.

Actual results, performance or achievements of the Company could be materially different from those expressed in or implied by these forward-looking statements. The forward-looking statements contained within the presentations are not guarantees or assurances of future performance and involve known and unknown risks, uncertainties, and other factors, many of which are beyond the control of the Company, which may cause the actual results, performance, or achievements of the Company to differ materially from those expressed or implied by forward-looking statements. For example, the factors that are likely to affect the results of the Company include general economic conditions in Australia and globally; exchange rates; competition in the markets in which the Company does and will operate; weather and climate conditions; and the inherent regulatory risks in the businesses of the Company. The forward-looking statements contained in this announcement should not be taken as implying that the assumptions on which the projections have been prepared are correct or exhaustive. The Company disclaims any responsibility for the accuracy or completeness of any forward-looking statement. The Company disclaims any responsibility to update or revise any forward-looking statements to reflect any change in the Company’s financial condition, status or affairs or any change in the events, conditions, or circumstances on which a statement is based, except as required by law. The projections or forecasts included in this presentation have not been audited, examined, or otherwise reviewed by the Company’s independent auditors.

You must not place undue reliance on these forward-looking statements.

Related Party Transactions as per ASX Listing Rule 4.7C.3 - \$0.2 million

Amounts shown under 6.1 of Appendix 4C represent director fees & salaries paid to directors during the period.

Appendix 4C
Quarterly cash flow report for entities
subject to Listing Rule 4.7B

Name of entity

MIGHTY CRAFT LIMITED		
ABN	Quarter ended ("current quarter")	
13 622 810 897	31 March 2024	
Consolidated statement of cash flows	Current quarter	Year to date
	\$A'000	(9 months)
		\$A'000
1 Cash flows from operating activities		
1.1 Receipts from customers	21,869	74,834
1.2 Payments for	-	-
(a) research and development	-	-
(b) product manufacturing and operating costs	(18,514)	(62,283)
(c) advertising and marketing	(276)	(1,142)
(d) leased assets	(111)	(382)
(e) staff costs	(3,899)	(14,713)
(f) administration and corporate costs	(1,288)	(4,291)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	-
1.5 Interest and other costs of finance paid	(319)	(1,016)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	116	547
1.8 Other (provide details if material)	22	133
1.9 Net cash from / (used in) operating activities	(2,400)	(8,313)
2 Cash flows from investing activities		
2.1 Payments to acquire:		
(a) entities	-	-
(b) businesses	-	-
(c) property, plant and equipment	(7)	(359)
(d) investments	-	-
(e) intellectual property	-	(2)
(f) other non-current assets	(25)	(25)
2.2 Proceeds from disposal of:		
(a) entities	-	-
(b) businesses, net of cash disposed	346	5,795
(c) property, plant and equipment	751	751
(d) investments	-	9
(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 - outflow on loss of control of subsidiary	-	(55)
2.6 Net cash from / (used in) investing activities	1,065	6,114

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
3 Cash flows from financing activities		
3.1 Proceeds from issues of equity securities (excluding convertible debt securities)	-	100
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	-	5,000
3.6 Repayment of borrowings (including leases under AASB 16)	(2,980)	(5,053)
3.7 Transaction costs related to loans and borrowings	-	(126)
3.8 Dividends paid (from subsidiary entity)	-	(105)
3.9 Other (provide details if material)	-	(100)
3.10 Net cash from / (used in) financing activities	(2,980)	(284)

4 Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of period	5,486	3,654
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,400)	(8,313)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	1,065	6,114
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(2,980)	(284)
4.5 Effect of movement in exchange rates on cash held	-	-
4.6 Cash and cash equivalents at end of period	1,171	1,171

5 Reconciliation of cash and cash equivalents	Current quarter \$A'000	Previous quarter \$A'000
at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts		
5.1 Bank balances	1,171	5,486
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)	1,171	5,486

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	194
6.2 Aggregate amount of payments to related parties and their associates included in item 2	-

Amounts shown under 6.1 represent director fees & salaries paid to directors during the period.

7 Financing facilities

Note: the term "facility" includes all forms of financing arrangements 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	Amount drawn at quarter end
\$A'000	\$A'000
(22,685)	(22,685)
-	-
(5,022)	(4,792)
(27,707)	(27,477)

7.5 Unused financing facilities available at quarter end

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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.

Loan Facility is with Pure Asset Management, \$20m Facility, 3 year term, 11.5% interest rate, Pure Asset Management have first ranking security over assets of company and subsidiaries. Loan with Geneva based family office is short-term, 6 month loan with 25% interest, with repayment in August 2024. \$3.2 million of the loan has been repaid as at 31 March 2024.
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8 Estimated cash available for future operating activities

\$A'000

8.1 Net cash from / (used in) operating activities (Item 1.9)	(2,400)
8.2 Cash and cash equivalents at quarter end (Item 4.6)	1,171
8.3 Unused finance facilities available at quarter end (Item 7.5)	230
8.4 Total available funding (Item 8.2 + Item 8.3)	1,402
8.5 Estimated quarters of funding available (Item 8.4 divided by Item 8.1)	0.6

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:

The company is in the process of an ongoing restructuring and divestment program, with a number of one-off associated costs impacting operating performance. As outlined below, the Company has made progress on this divestment program with the sale of Mismatch Brewery and Hills Distillery, with a number of non-binding offers currently under consideration on other assets within the Group. While the Company is executing its restructuring plan its operating performance will continue to be challenged, however the inflow from asset divestments will support ongoing operations in the near term.

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:

As announced on 3 April 2024, the Company has entered into an agreement to sell the assets associated with Mismatch Brewing Company Pty Ltd and The Hills Distillery Pty Ltd, for total consideration of \$7.2 million. The transaction is expected to complete in May 2024.
The Company's broader divestment program is ongoing with various discussions and non-binding offers on a number of assets.

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:

On the basis of the funding/liquidity initiatives outlined above, the company expects to be able to continue its operations and meet its business objectives.

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: 30 April 2024

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.