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ASX Announcement

23 November 2023

LINK TO AGM RECORDING AND TRANSCRIPT

Please see below a link to the video recording of the Company's Annual General Meeting held today and a transcript of John Hoedemaker's address to shareholders.

Link:

https://gooddrinks.com.au/wp-content/uploads/2023/11/Good_Drinks_AGM Address23.mp4

Transcript

FY 23 In Review

Good morning ladies and gentlemen, welcome to our Financial Year 23 Annual General Meeting, thank you for joining us today. Welcome also to the Good Drinks team members, a number of whom are also shareholders, who have also joined us today.

The team & I very much appreciate your on-going support of our business and your alignment with our longer-term goals.

I'm very proud of the good people here at Good Drinks, they have overcome softer trading conditions and unforeseen challenges last year while still growing revenues and market share at an impressive rate compared to our competitors. An outstanding effort.

We are pleased to confirm that momentum continues this year with growth of our brands in the order of 9% year to date, across all key states.

And we are pleased to be delivering an improved earnings outlook for our core own brand beer business as a number of the challenges of FY23 have now been resolved.

Known or planned challenges in FY23 included a reduction in lower margin contract brewing volumes that we undertook for strategic reasons.

This transition was undertaken to create the headroom in our manufacturing capability to accommodate the anticipated growth of our own brands at no further significant capital investment.

We are currently producing approximately 15mL of our own brands per annum, and we have currently, at our disposal the additional 8 ML of headroom required to achieve our goals.

With longer term planning we successfully mitigated the risks involved with a reduction of production volumes with the introduction of two new revenue streams being hospitality and partner brands.

The on-boarding of partner brands including Miller Chill, Miller Genuine Draught, Coors and the Magners Original Cider brands was executed well and saw sales volumes and market share double during the year.

We were excited to see the performance of our hospitality segment, specifically with the Gage Roads, Fremantle jumping so quickly to success along with the solid operations of Atomic in NSW and our newly acquired venue in Eumundi QLD. The hospitality business added strong incremental revenues of $29M and earnings of $6.2M EBITDA for the year.

With the planned reduction in contract brewing in mind, during FY23, the supply chain team also undertook a significant restructuring, adjusting our shift structures and production programming to reduce costs accordingly.

This saw the business achieve a similar variable production cost structure of $0.35 a litre in spite of a 20% reduction production volumes. An impressive result and I'd like to thank all the team involved in that restructure for their hard work and.

Unknown challenges that we faced and met during the year included the onset of inflation, the impact of interest rate rises on discretionary spending and international freight rates increasing to extraordinary levels.

The lower than expected growth in sales volumes, pressure on pricing and high cost of inputs coupled with our commitment to continue to invest in our sales and marketing capabilities for longer term growth in market share, resulted in an underperformance in earnings in FY23 of our core beer business.

Although partially mitigated by the incremental earnings delivered by partner brands and hospitality, the group earnings of $7M EBITDA was certainly less than what we had planned for.

<u>FY24 So Far</u>

This year so far, we have resolved a number of these challenges and we are already seeing, and we look forward to delivering for the full year, an improved earnings result from our core branded business.

I am pleased to report cost of goods sold have normalised to $1.08/L for our own manufactured brands.

Freight rates have normalised, from USD9K during the height of the international supply chain shock to now back at pre-covid costs of around USD 600 per container.

The supply chain team have also worked diligently, world-wide, to keep a lid on ex-factory input costs of packaging.

We haven't experienced significant inflation in this area. In fact, in a few months we will commence taking delivery of bottles from a new supplier at even slightly reduced pricing vs last year.

Selling Price, or Net Sales Revenue per L, is stabilising, slightly improving as the strength of our brand equity has allowed price increases commensurate with rising costs, while still delivering growth in volumes.

As we innovate with our sales mix, including new products such as Matso's Nightlife, Hazy As and our growth in Draught, we also continuously target the improvement in Net Sales Revenues per Litre.

Recently we have also welcomed Mick McKeown to the executive leadership group as Head of Sales and Marketing.

Mick has extraordinary experience in both sales and marketing leadership in the beer industry. Having 12 years' experience with CUB including as General Manager of sales in QLD, we look forward to working with Mick to supercharge our national and QLD sales and brand strategies.

The key take-away from FY24 so far is Momentum.

Momentum in sales growth year to date continues at 9% and revenues at 6%. With the beer market declining at 8% this growth represents a delta of 17%, indicating we continue to perform and outpace our competitors.

We are achieving this growth and momentum both in our larger WA market and in all of the key eastern states markets as we maintain investment in our sales and marketing functions at appropriate levels and continue with our strategy to expand our footprint and reach on a national level.

With improved earnings results in our core business combined with strongly cycling hospitality earnings we expect FY24 to deliver an uplift in group earnings commensurate with our longer-term ambitions.

<u>Growth</u>

You may have read in recent articles that the craft beer industry is under pressure, with a number of participants facing administration with overhanging obligations to the ATO and other debt providers in a softening category.

That is not the position of Good Drinks Australia.

We have no long-term outstanding obligations to the ATO and we have a well considered debt structure that we are capable of servicing, and the business is appropriately leveraged to maximise the creation of value for shareholders.

Specifically, if others are under pressure, we view the next few years as a great opportunity to play to our strengths.

We feel we have the right portfolio of brands, the right team, the right customer relationships and reach to continue to focus on growing revenues and market share as our top priority, especially on the East Coast.

With our 4 key pillars providing a strong foundation, we maintain our longer-term goal of growing our own-brand volumes to 20 ML and Partner Brand volumes to 15ML.

We feel, ultimately, wide national distribution of relevant brands that deliver sustainable margins and a growing market share, is the true measure of value that we are striving to deliver our shareholders.

<u>We Are Good Drinks Australia</u>

I'd just like to take a moment to highlight what we have built together over the last 20 years, through the continued investment of our free cashflow into developing these 4 key fundamental pillars.

We have a scaled and national sales capability, able to widely distribute brands to every fridge in Australia. This is a unique competitive advantage compared to many other participants in the beer industry and has been recently validated by our successful on-boarding of partnership brands Millers, Coors and Magners.

We have built a winning portfolio of relevant world class brands, across multiple categories, and we are quickly becoming a total solution provider for our customers.

We have continuously invested in creating and maintaining our scaled and efficient low-cost manufacturing capability here in WA, allowing us to position our products appropriately and compete in changing market conditions.

And we have added a significant incremental revenue and earnings stream with our hospitality business, which also contributes strongly in building the awareness and relevance of our brands as we continue to expand our reach to key national markets.

As a result we have built a well-capitalised, well-resourced and resilient business with strong competitive advantages and diverse brands that win in key categories. We feel we have built a team and a business that is capable of adapting to and succeeding in challenging times.

National Sales & Distribution Platform

Our sales team has now grown to 65 wonderful people nation-wide with significant strengths in national and key account management and state-based sales teams and leadership.

We are executing a geographically focused approach and have expanded our QLD sales team to be similar in structure to what has led to our successes here in WA, and we have maintained our people and resources in NSW, VIC, SA and the NT.

We aim to be partners of choice and are increasingly taking a more strategic approach to sales, partnering with customers.

This year we expect to complete key joint business plans with our national chain customers and a number of the key independent groups driving long term alignment and mutual benefit for both us and our customers.

An example of recent national and key account success is the ranging of our new product Rider 4% in approximately 2,800 retail outlets for its launch and the recent ranging of Magner's Cider products in First Choice and Liquorland, the GDA team getting Magners back into the Coles Liquor Group the first time in 6 years.

Already our approach to develop our on-premise key account capabilities has led to a number of long-term strategic tap agreements with national pub groups helping to lift draught sales by 29% last year and 10% year to date.

One project, which has come to fruition early this year, has been the creation of a National Call Centre. Targeted with increasing distributions of key brands Miller Chill, Gage Roads Single Fin and Matso's Ginger Beer in regional areas we have already seen immediate success with approximately 17% uplift in sales in these regional areas and we expect to expand this capability over the next few years.

Another project completed already this year is a strategic partnership with a QLD cold chain warehousing and logistics business. This is currently allowing us to improve the freshness of our products on the eastern seaboard, improving the efficiency and costs of our east bound logistics and providing us an improved capability to service the QLD and eastern states markets.

Our scaled national sales and distribution platform is a key competitive advantage and underpins our strategy to grow market share on a national basis.

World Class Brands

GDA has a broad portfolio approach, we aim to have leading brands that compete in every major category and as I mentioned before, we aim to become a full solution provider for our customers.

We think Category, not brand.

Examples of this include:
Gage Roads Single Fin as the #1 independent beer in the craft beer category
Matso's Ginger Beer as the #1 independent ginger beer in the ginger beer category and the first to market as the instigator of that category
Miller Chill as the #1 flavoured beer in Australia, and also arguably the first to market in flavoured beer.
And Coors sits as the #2 brand in the US and #9 in the world.

In WA nearly half of all the craft beer growth is coming from Good Drinks brands, and 1/3rd of those growth dollars coming from Matso's Nightlife. Good Drinks Australia is providing good solutions for our customers.

We are not a one trick pony, our broad portfolio approach allows us to be diversified and stratify multiple consumer trends at multiple price points. As one category starts to accelerate, we are nimble and have the opportunity to allocate resources appropriately to drive total revenues.

Our low-cost manufacturing capability has also allowed us to position our products appropriately given the current economic conditions. For example, the Gage Roads range is positioned at the lower end of the higher value beer segment. As discretionary spending tightens, we are seeing people trade down from higher priced craft participants into Single Fin, Sidetrack and Hazy As, driving the growth of the Gage Roads range.

<u>NPD</u>
We are also capable of creating new brands to take advantage of new opportunities.

The Matso's Nightlife range, entering the ready to drink market, Yeah Bouy in non-alc, Hazy As in pale ale and Pinkies Sunset Cider are all examples of recent New Product Development that are showing strong signs of success.

In WA the Matso's trademark has nearly 60% share of the Ginger Beer category.

Pinkies Sunset has attracted 100% ranging in Dan Murphy's, First Choice and Liquorland and ranging in over 300 independent stores, recognition that consumers are yearning for cider innovation.

Yeah Bouy is growing at 65% YOY delivering comparable volumes to some of the full-strength beers in our portfolio.

Yeah Bouy is growing at 2X the non-alc category nationally, is the #1 non-alc craft beer in WA and is #4 nationally.

I'm also excited to see the business recently launch Rider 4%. Rider is a low carb, low calorie, low bitterness clear glass larger designed for Gen Zs and Millennial consumers.

It is our first exploration into the massive contemporary beer category. The largest beer segment in Australia with 1 in every 3 beers consumed in Australia coming from the contemporary beer category. Our ambition with Rider is to take a smaller slice of a very large pie and if we get it right we have the opportunity to fill 2 million L of our latent capacity with this owned brand.

Rider 4% has set a record for a national launch at Good Drinks Australia achieving ranging in 2800 retail stores across national chains and independents and exceeding our internal sales and re-order rate expectations.

We have also seen the events team support the launch of Rider 4% extremely well with world class activations at Listen Out, Cold Play here at the Optus Stadium and a number of summer festivals yet to come.

Efficient High Quality Manufacturing

Our world class WA based brewery is the largest brewery in the State with a capacity of 23 ML per annum, and has the fastest and most efficient packaging capability within the craft beer industry.

Our low cost efficient and flexible manufacturing capability represents the first strategic pillar and competitive advantage that we created our business around.

Over many years we have achieved industry leading efficiencies, costs of production, delivery in full on time results and extraordinary quality and safety results.

We have continuously invested to maintain that advantage and our operations, production, supply chain and logistics are well dialled in, in good order and operating as expected.

This year we expect to continue to invest up to $2m in our maintenance CAPEX with projects underway to expand our packaging format capabilities allowing us to enter the ready to drink market, our cellaring capabilities driving improvements in efficiencies and quality and investment in renewable energies, lowering our carbon footprint and driving cost efficiencies.

Again, I'd like to thank the operations team for restructuring of our shift structures and production planning during FY23, reducing operating costs accordingly.

Achieving our benchmark of 35c per L in production costs at reduced volumes was a significant achievement for the business and validates that the business will leverage operating costs to grow EBITDA as volumes increase.

Profitable Branded Hospitality Venues

Our newest business unit, hospitality, has brought the business fantastic new and diversified revenue and earnings streams.

The hospitality business also helps us with our cash flow/working capital cycle and provides fantastic brand awareness, not just for our consumers but for the trade as well.

This year our flagship Gage Roads Fremantle continues to perform. Often a hospitality venue will achieve strong honeymoon results in its first year, and we are pleased to report that the venue is cycling those initial results strongly with revenues on par with last year and earnings slightly improved.

Just last month the venue generated the best EBITDA result as a percentage of Revenues since it's opening. With a super-hot summer expected and an energetic hospitality team providing great customer service and executing some amazing events we are confident that Gage Roads Freo is on track to deliver improved earnings over last year.

We are also excited to see our development of Matso's Sunshine Coast in Eumundi QLD nearing completion and expected to be open prior to Christmas.

We are certainly at the pointy end of this construction project and as you can imagine, the whole Good Drinks Eumundi team and our project partners are working very hard to complete that project on time. I thank them for the hard work and the long hours, and I feel the venue will deliver a wonderful brand experience for QLD consumers and help us accelerate that brand on the eastern seaboard.

In FY23 we also took advantage of reduced gaming taxation and sold our 15 gaming licences generating $4.9 million in funds that we directed to the completion of the project. The sale of gaming licenses also represented a $1.6 million one off gain in earnings for FY23.

Therefore, I'd like to point out to investors that this year our hospitality business unit won't be cycling the same $6.1 million EBITDA result as we achieved last year.

Although Gage Roads Freo and Atomic in Redfern are operating as before, in FY24 we won't have the benefit of the $1.6 million gain on the sale of the gaming licences, and Masto's Sunshine Coast earnings for the full year, net of pre-opening costs and non-optimal operations during the construction period is expected to be similar earnings we achieved from Joe's Waterhole last year.

On an on ongoing basis, we are targeting Matso's Sunshine coast to deliver approximately $1 million in EBITDA per annum for the business.

<u>Outlook</u>

In summation, Good Drinks is well positioned for growth.

Although we continue to expect softer trading conditions and restricted consumer spending, we are nimble, well-resourced and better placed to out compete our competitors in these market conditions.

In fact, we are currently outpacing and outperforming our competitors.

We have great people and a great culture, multiple revenue and earnings streams, great brand diversity with winning brands in multiple categories.

Our brands and their price points are well positioned.

We have, world class capability in our sales and marketing functions, and continuously improving and strong relationships with key retailers in Australia,

And we have an efficient world class low-cost manufacturing capability.

We are also well capitalised, we feel we can achieve our growth ambitions with our current portfolio of meaningful brands, our new product development capabilities, and potentially new distribution partnerships that make sense.

At current prices we feel our equity capital is precious, we don't feel the need to acquire brands to achieve our growth ambitions and all of our current capital projects are fully funded by our existing debt facilities and operating cash flows.

We will continue to prioritise the growth in volumes and market share of our total portfolio.

We feel that is the best way to deliver growth in shareholder value, continue growth of market share now, and to leverage that market share in the future to deliver earnings at time when the business is more correctly valued on that basis.

I'd like to thank the entire Good Drinks Team in helping us build a resilient business that can adapt and succeed in times of change.

Thank you again for coming along today & your ongoing support of the team and our business.

I'd like now to open the floor and take any questions you may have.

-END-

This announcement has been authorised by the Company Secretary.

Marcel Brandenburg
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