

Lark Distilling Co. Ltd (LRK-AU) – BUY – Price: \$2.20; Target Price: \$2.65

Lark Distilling Co. Ltd (LRK) is a Tasmanian-based producer of craft whisky and gin. LRK's strong growth outlook (~88% FY20-22e sales CAGR) is expected to be driven by favourable spirit consumption trends, increasing e-commerce penetration and production volume uplift. Initiate coverage with BUY & \$2.65 TP

Overview

- LRK is a Tasmanian-based producer of craft whisky and gin. It operates 2 distilleries (Bothwell & Cambridge) and 2 retail premises (Lark Bar Hobart CBD and Brooke St Pier) in Tasmania.
- At 31 Dec 2020, LRK had ~818k litres under maturation, with an est. net sales value (after govt. excise) of ~\$114m at maturation. LRK is targeting 1,500,000 litres by FY22 (est. net sales value = \$209m).¹
- LRK generated \$6.4m net revenue in FY20 and a \$1.1m EBITDA loss; however, as outlined below, it is on track to double net sales in FY21 which should see it deliver a maiden EBITDA profit in FY21.

Investment summary

- **Strong growth outlook underpinned by: 1) favourable spirit consumption trends; 2) rising e-commerce penetration; and 3) investment in inventory + production volume uplift**
 - Premiumisation trend expected to continue to drive consumption of spirits
 - Increasing online penetration: 1H21a e-commerce sales ~5x vs pcp
 - LRK targeting 1.5m litres whisky under maturation by FY22 = est. net sales value of \$209m¹
 - Flexible sourcing model provides low capital intensity expansion optionality
- **On track to achieve FY21 net revenue guidance of \$12m (1H21a: \$5.8m) and deliver maiden EBITDA profit in FY21**
 - Moelis FY21e net sales \$12.2m (+90% vs pcp); FY22e net sales \$22.7m (+87% vs pcp)
 - Moelis FY21e EBITDA \$1.3m; FY22e EBITDA \$5.1m
- **Continued delivery of earnings growth and inventory investment expected to drive valuation re-rate**
 - While LRK's share price is up +55% in last 3 months, LRK still trades on 5.8x Moelis FY22e sales, a -17% discount to its peer average of 7.0x which we view as unwarranted given its strong growth outlook: +88% FY20-22e sales CAGR vs peer average of +20% (+1.0% excluding TSI)
 - Our \$2.65/share TP implies 7.0x our FY22e sales (in line with peer average); 31.2x FY22e EBITDA (peer avg: 24.5x) and 17.9x FY23e EBITDA (peer avg: 27.9x; 23.9x excluding TSI)

Capital Structure

Lark Distilling		24-Mar-21
Last price	\$	2.20
Shares on issue	m	62.8
Market capitalisation	\$m	138.1
(Cash)	\$m	(11.9)
Debt	\$m	5.3
Net debt (cash)	\$m	(6.7)
Enterprise value	\$m	131.5

Note: Balance sheet data as at 31-Dec-20

52 week range (low / high)	\$	0.03 / 2.33
Free float	%	66.1%
Average daily value	\$m/day	0.12

Key Financials

\$m unless indicated otherwise	FY20a	FY21e	FY22e	FY23e
Net sales	6.4	12.2	22.7	30.8
% growth	+39%	+90%	+87%	+36%
Gross profit	4.0	7.9	14.8	20.0
% growth	+40%	na	+86%	+36%
% margin	63.1%	65.1%	65.0%	65.0%
EBITDA	(1.1)	1.3	5.1	8.9
% growth	-72%	na	+309%	+74%
% margin	(17.8%)	10.3%	22.5%	28.9%
EBIT	(1.3)	1.1	5.0	8.7
% growth	-69%	na	+351%	+76%
% margin	(19.8%)	9.0%	21.8%	28.4%
Underlying NPAT	(1.4)	0.7	3.2	5.8
% growth	-67%	na	+378%	+83%
EV/Net sales	20.5	10.8	5.8	4.3
EV/EBITDA	na	105.1	25.7	14.8
EV/EBIT	na	119.5	26.5	15.0
P/E	na	207.1	43.3	23.7

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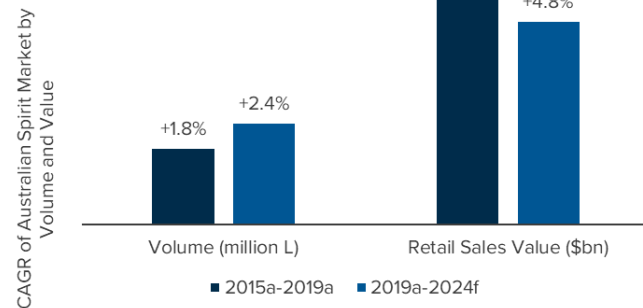
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Investment thesis in key charts

We expect LRK to continue to re-rate as it delivers on its growth profile. Our 12-month target price of \$2.65/share implies an EV/FY22e sales of 7.0x, in line with comparable spirits companies

1 Premiumisation trend expected to continue & drive demand for spirits...

Retail sales value of Australian Spirit Market growing quicker than volume over same period. E.g. 2019-24 CAGR ~5% vs ~2%



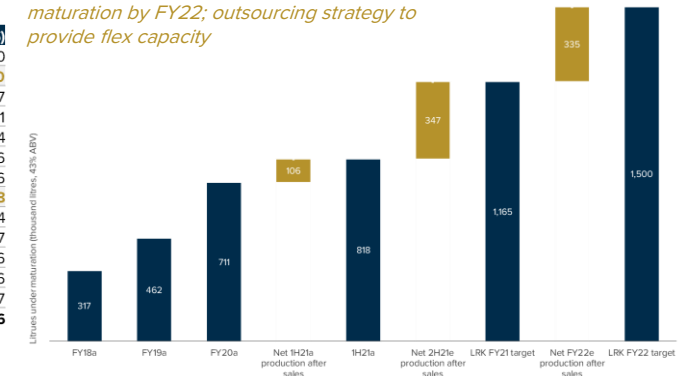
2 ...which should benefit LRK's premium pricing & Brand Tasmania approach

LRK appears to be able to command a premium for its whisky when compared to a selection of \$100+ whiskies

Brand	Product	Origin	Price (\$)	Volume (mL)	Price/L (\$)
Old Kempton	Single Malt Classic	TAS	220	500	440
Lark	Classic	TAS	180	500	360
Nikka 12	12yo Japanese Whisky	Japan	250	700	357
Johnnie Walker	Blue Label	Scotland	225	700	321
Sullivans Cove	Double Cask	TAS	220	700	314
Macallan 10	10yo Single Malt	Scotland	200	700	286
Hibiki	Harmony	Japan	200	700	286
Lark	Symphony No.1	TAS	139	500	278
Yamazaki	Distiller's Reserve	Japan	150	700	214
Limburners	Single Malt	WA	145	700	207
Lagavulin 16	16yo Single Malt	Scotland	130	700	186
Oban 14	14yo Single Malt	Scotland	130	700	186
Chivas Regal 18	18yo Single Malt	Scotland	110	700	157
Average			177		276

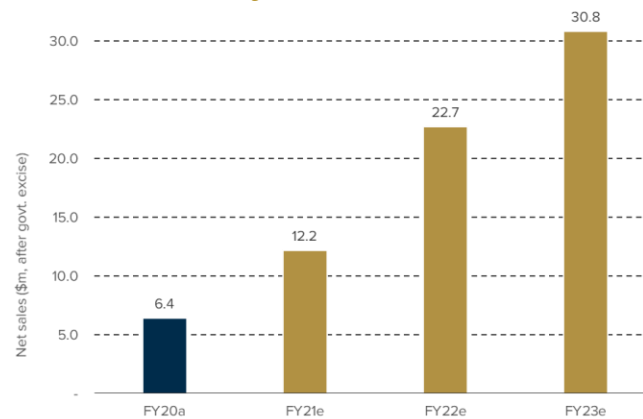
3 LRK has continued to invest in its inventory...

LRK is targeting 1.5 million litres of whisky under maturation by FY22; outsourcing strategy to provide flex capacity

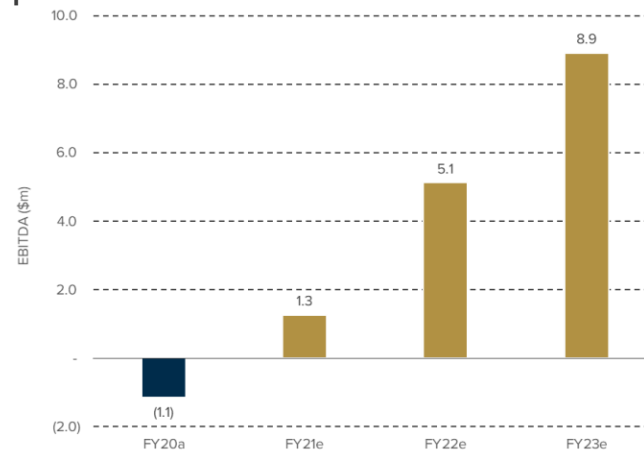


4 ...which is expected to drive strong revenue growth...

We estimate LRK net sales growth of +90% in FY21 and +87% in FY22

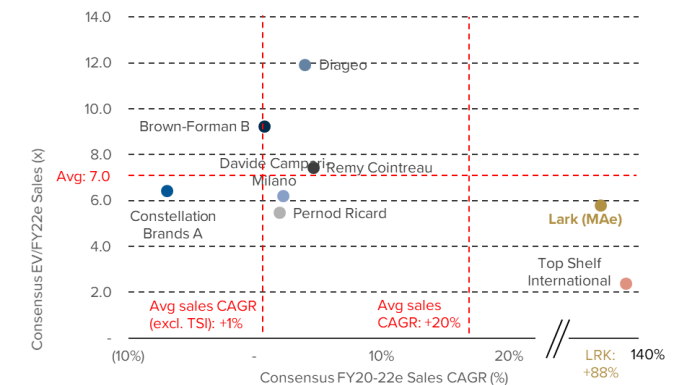


5 ... and deliver LRK a maiden EBITDA profit in FY21



6 Delivery of earnings growth expected to drive valuation re-rate towards peers

LRK currently trading at a -17% discount to its spirits peers despite its strong growth outlook



Source: Euromonitor International – Alcoholic Drinks in Australia, 2020 edition (September 2020); TSI prospectus November 2020, ABS; Factset; Moelis Australia.

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COMPANY OVERVIEW







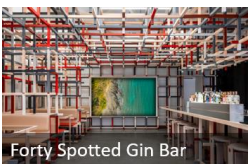
Company and product overview

Established in 1992, LRK is a Tasmanian-based producer of premium malt whisky (75% 1H21 revenue) and gin (18% revenue).¹ It operates 2 distilleries and 2 retail premises with plans to open another gin and whisky bar

Key segments and products

Segment	Description	RRP (\$)	1H21 gross revenue (\$m)	% 1H21 gross revenue
Whisky 	<ul style="list-style-type: none"> Production of whisky at company-owned distilleries under Lark and Nant brands 	3 tier pricing for Lark:* <ul style="list-style-type: none"> Luxury: \$300+ Classic: \$179-\$220 Blend : \$139 	\$5.5m	75%
		<i>*500mL bottles</i>		
Gin 	<ul style="list-style-type: none"> Production of gin under the Forty Spotted Gin brand at Cambridge distillery 	<ul style="list-style-type: none"> \$55-75 	\$1.3m	18%
		<i>*700mL bottles</i>		
Other	<ul style="list-style-type: none"> Includes production of other spirits like Slàinte (whisky liqueur), brandy and rum 	<ul style="list-style-type: none"> Slàinte (whisky liqueur): \$60 Brandy/rum: \$120-\$130 	\$0.5m	7%
Total			\$7.3m	100%

Operating assets (all in Tasmania)

Operating Asset	Description
 Cambridge Distillery	<ul style="list-style-type: none"> Whisky distilling capacity ~275,000L per annum. Gin distilling capacity ~286,000L per annum.
 Bothwell Distillery	<ul style="list-style-type: none"> Acquired in 2017 for \$5.6m Capacity is ~75,000L of new make spirit per annum
 Brooke Street Pier	<ul style="list-style-type: none"> Opened in November 2019 Offers guided tastings of limited release whiskies and other core products.
 Lark Bar Hobart CBD	<ul style="list-style-type: none"> The Lark Cellar Door & Whisky Bar offers >250 premium whiskies and other Tasmanian beer, wine and cider.
 Forty Spotted Gin Bar	<ul style="list-style-type: none"> Currently offers a Gin Blending Experience for guests to learn about blending aromas and flavours. The Gin Bar will fully open in ~July 2021 and will carry the full Forty Spotted Gin range as well as other rare gins.

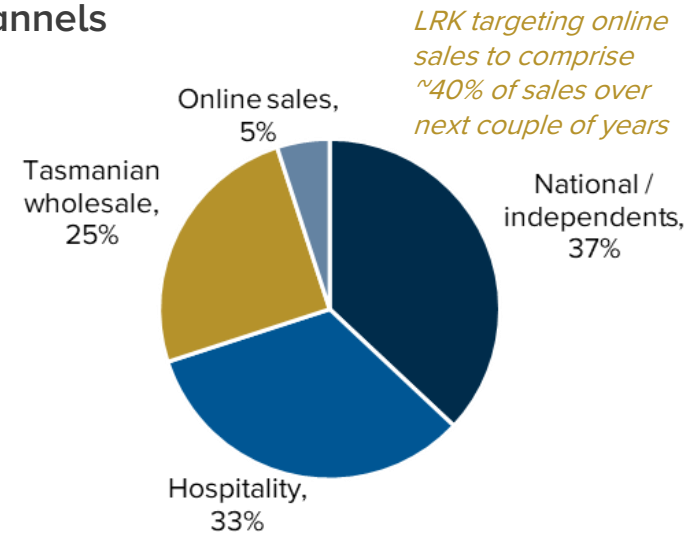
Source: Company, Moelis Australia
 Note: 1. Remainder 7% generated from sales of other spirits.

Business model

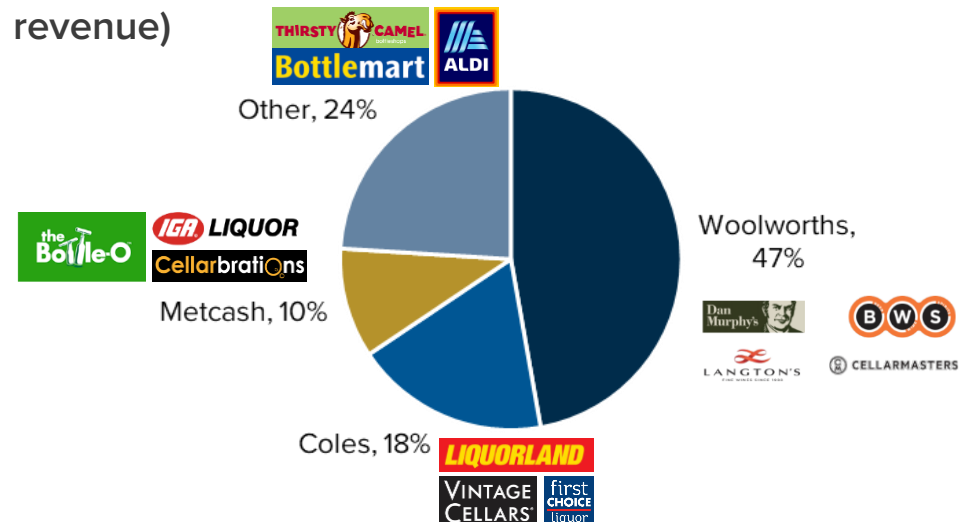
4 main sales channels: 1) national/independents (37% FY20 revenue); 2) LRK-owned hospitality venues (33%); 3) Tasmanian wholesale (25%); and 4) online (5%, although this category has been growing rapidly in 2021)

- LRK produces its spirits via its own distilleries which have a combined whisky production capacity of ~350,000L p.a. (63% ABV)
 - Cambridge: 275,000L p.a. whisky; 286,000L p.a. gin
 - Bothwell: 75,000L p.a. new make spirit
- In addition, LRK is developing an outsourced production model to reduce capex and provide “flex” capacity. Under this model, LRK will source new make spirit from 3rd party distilleries in Tasmania but barrel and age at its own facilities. LRK targeting 120,000L p.a. new make spirit by Q4 FY21
- Bond storage and 3PL is outsourced for finished goods (based out of Melbourne)
- Distribution is performed in-house as at 1 July 2020
- LRK sells its product via a number of channels:
 - National independents (~37% FY20 revenue): Dan Murphy’s, Vintage Cellars and BWS
 - Hospitality (~33% revenue): Lark Bar Hobart CBD and Brooke St Pier
 - Tasmanian Wholesale (~25% revenue)
 - Online sales (~5% revenue). As noted earlier, online sales to date has been strong and is expected to comprise ~40% of sales over next couple of years

Sales channels



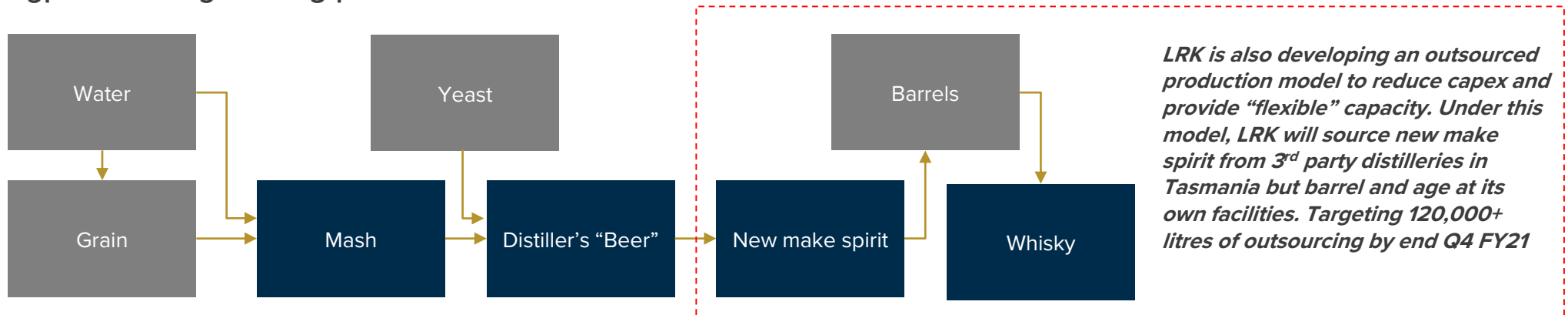
Off-premise alcohol retail market (% mkt share by FY20 revenue)



Production model

LRK produces its whiskies and gin at its own distilleries but is also developing an outsourced production model to reduce capex and provide “flex” capacity – targeting 120,000+ outsourced litres p.a. by Q4 FY21

Typical whisky making process



- Grain (e.g. barley) is malted, a process where the grain is steeped in water and left to germinate to create malt
- The malt is then dried and ground

- Water is then added to the malt which converts to a liquid known as mash

- The mash is added to a fermentation tank along with yeast which converts the sugars into alcohol
- The resulting liquid is known as a distiller’s beer

- The “beer” is then distilled twice in a copper pot still to produce “new make spirit”
- The spirit is then transferred to barrels, usually made from oak, where it is left to mature for >2 years (LRK products typically ~5yrs)

- Water can be added to dilute the whisky (and alcohol by volume) and it is stored in glass bottles which do not react with the whisky’s flavour

Whisky & Spirits 101

- Whisky is a spirit produced from fermented grain and aged in wood
- A spirit is any alcoholic beverage in which the alcohol content has been increased by distillation.
- Other spirits include vodka (distilled from grain but not aged), gin (distilled from grain, unaged but flavoured with juniper berries and other ingredients), rum (distilled from sugarcane juice or molasses)

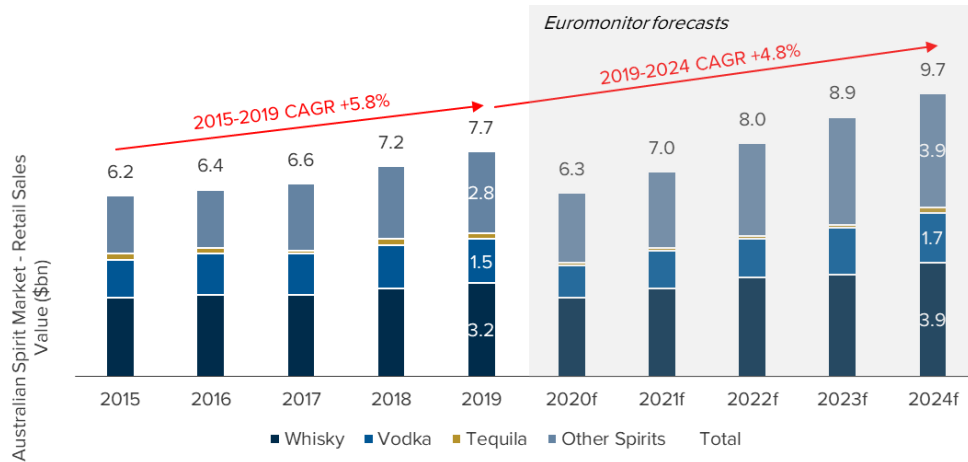
INVESTMENT THESIS



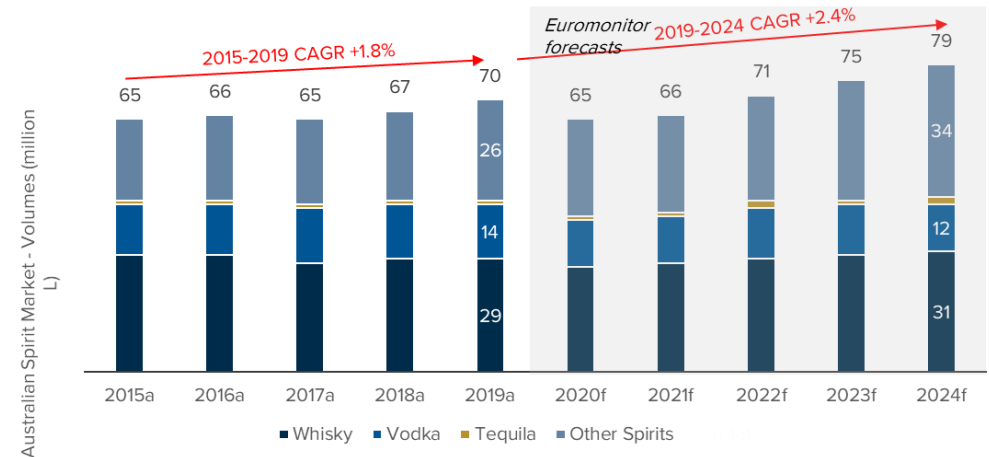
Premiumisation trend driving continued growth in spirit consumption...

Despite declining alcohol consumption per capita in Australia, spirit consumption is expected to continue to increase (on an absolute and per capita basis), largely driven by the premiumisation trend

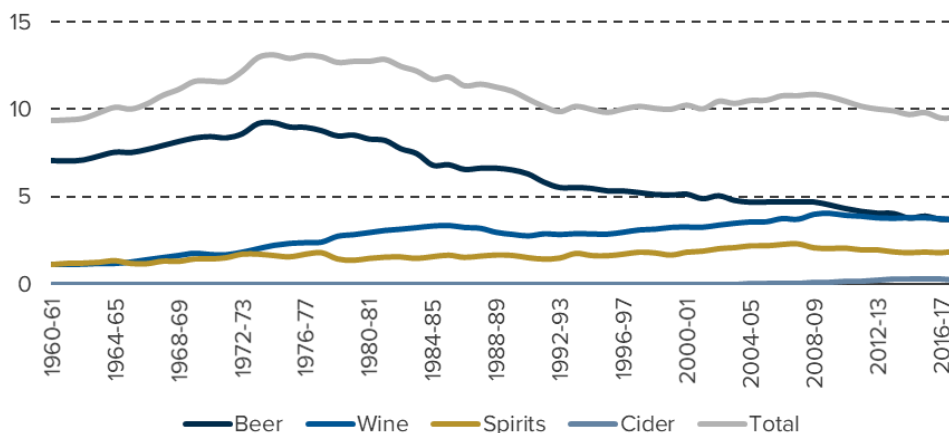
Australian Spirit Market by Value



Australian Spirit Market by Volume



Alcohol consumption per capita (litres pure alcohol per capita)



- **Total Australian alcoholic drinks market \$48bn (retail sales value); of this, spirits comprise ~\$8bn and includes whisky at ~\$3bn (~29m litres p.a.), based on Euromonitor estimates of 2019 retail sales**
- **While alcohol consumption has been declining on a per capita basis, spirit consumption is expected to continue to increase driven by the premiumisation trend (and to a lesser extent, from population growth)**
 - Overall alcohol consumption per capita has been declining, driven by, amongst other things, drink driving laws, education and increasing health consciousness.
 - That said, spirit consumption has broadly been increasing, on an absolute and per capita basis, and this trend is expected to continue driven by the premiumisation trend and (to a lesser extent) population growth. This premiumisation trend is demonstrated by the higher 2015-2019 CAGR of spirits retail sales value at 5.8% vs volume CAGR of 1.8% over same period

Source: Euromonitor International – Alcoholic Drinks in Australia, 2020 edition (September 2020); TSI prospectus November 2020, ABS.

Notes: 1) Retail sales value assumes Australian dollars, including sales tax and shown in current terms; and 2) Other Spirits category includes rum, gin, liquors, cognac and other alcoholic spirits not otherwise described.

...which should benefit LRK's premium pricing & "Brand Tasmania" approach

LRK is able to command a premium for its whisky given the quality of its award-winning whiskies & its "Brand Tasmania" approach: locally grown barley, highland peat bogs, pristine waters and high-altitude climate

LRK's price positioning vs selected domestic and international brands

Pricing	Value \$30	Mainstream \$40	Premium \$50	\$60	Super Premium \$70	\$80	\$90	\$100+
Scotch / Bourbon	<ul style="list-style-type: none"> Canadian Club Cougar Grants Jim Beam White Johnnie Walker Red 	<ul style="list-style-type: none"> Chivas Regal Jack Daniels Jameson Johnnie Walker Black Wild Turkey 	<ul style="list-style-type: none"> Bulleit Dewars Gentleman Jack Monkey Shoulder Woodford Reserve 	<ul style="list-style-type: none"> Jim Beam Black Glenfiddich 12 Glenlivet 12 Glen Grant 10 	<ul style="list-style-type: none"> Glenmorangie 10 Johnnie Walker Gold 	<ul style="list-style-type: none"> Aberlour 12 Cragganmore 12 Johnnie Walker Green 15 Laphroaig 10 Talisker 10 	<ul style="list-style-type: none"> Ardbeg 10 Bowmore 12 	<ul style="list-style-type: none"> Chivas Regal 18 Johnnie Walker Blue Lagavulin 16 Macallan 10 Oban 14
Japanese						<ul style="list-style-type: none"> Suntory Tenjaku 	<ul style="list-style-type: none"> Akashi Mars The Chita 	<ul style="list-style-type: none"> Hibiki Nikka Yamazaki
Australian			<ul style="list-style-type: none"> NED (VIC) 	<ul style="list-style-type: none"> Starward (VIC) 		<ul style="list-style-type: none"> Whipper Snapper (WA) 	<ul style="list-style-type: none"> Hellyers Road (TAS) The Gospel (VIC) 	<ul style="list-style-type: none"> Lark (TAS) Limeburner (WA) Old Kempton (TAS) Sullivans Cove (TAS)
% of total mkt value	53%		27%	8%	11%			

Previous awards

Product	Event	Awards
Lark Whisky	2020 International Wine & Spirits	<ul style="list-style-type: none"> Sherry Cask (Gold) Symphony No. 1 (Silver) Classic Cask (Silver)
Lark Whisky	2011 International Whisky Awards	<ul style="list-style-type: none"> Gold Medal Whisky of the year
Nant Whisky	2019 World Whiskies Awards	<ul style="list-style-type: none"> Port Cask (Best Australian Single Cask Single Malt)
Forty Spotted Gin	2019 World Gin Awards	<ul style="list-style-type: none"> Winter Release (Best Australian Matured Gin)

Brand	Product	Origin	Price (\$)	Volume (mL)	Price/L (\$)
Old Kempton	Single Malt Classic	TAS	220	500	440
Lark	Classic	TAS	180	500	360
Nikka 12	12yo Japanese Whisky	Japan	250	700	357
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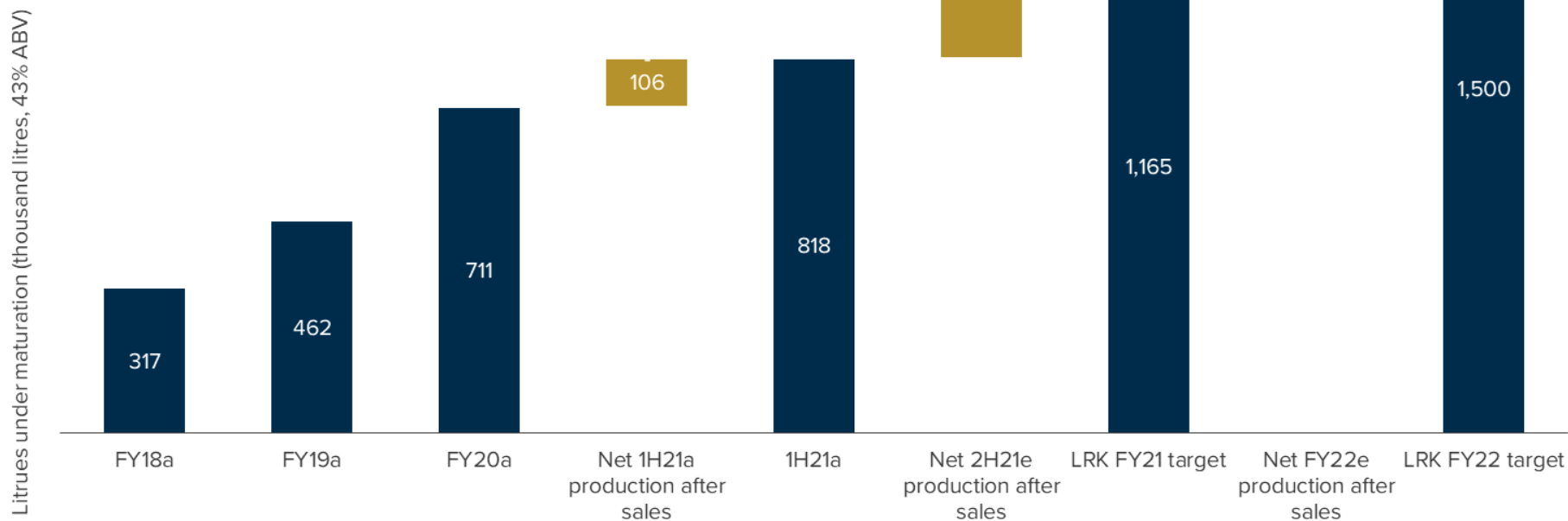
Source: Top Shelf International prospectus (November 2020), company websites, Dan Murphy
 Note: RRP per Dan Murphy website as at 21 Mar 2021

Increased investment in inventory provides support for growth outlook and valuation

LRK had 817,549 litres whisky under maturation at 31 Dec 2020 with an estimated net sales value of ~\$114m at maturation. LRK is targeting 1,500,000 litres by FY22 which will underpin future growth (~5yr maturation profile)

LRK target whisky under maturation (thousand litres, 43% ABV)

Period	Whisky under maturation (L)	Value @ cost (\$m)	Est net sales value at maturation (\$m)
FY20a	711,313	16.7	98.8
1H21a	817,549	18.1	113.6
LRK FY21 target	1,164,673	27.3	161.9
LRK FY22 target	1,500,000	35.2	208.5



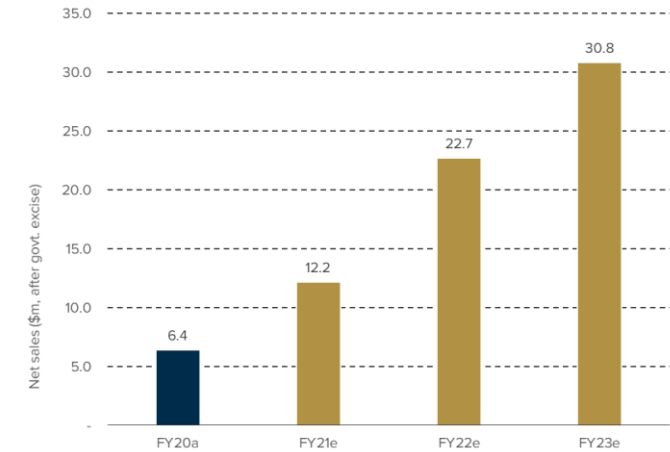
Strong outlook expected to deliver maiden full year profit in FY21

LRK is on track to achieve FY21 net revenue guidance of \$12m (1H21a net sales: \$5.8m) and deliver a maiden EBITDA profit in FY21. We estimate FY21e net sales \$12.2m (+90% vs pcp); FY22e net sales \$22.7m (+87% vs pcp)

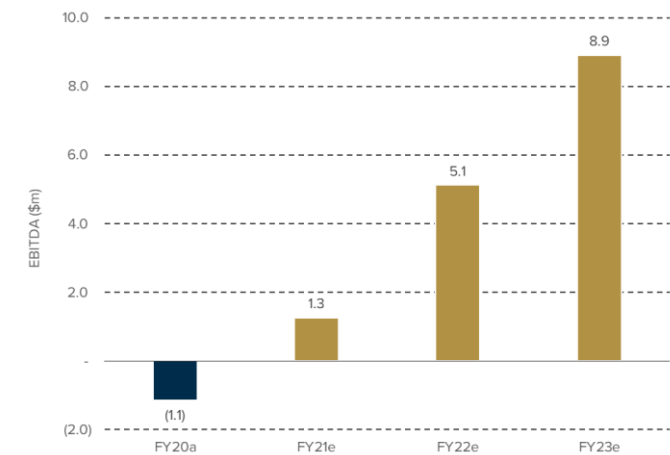
Key earnings estimates

\$m unless indicated otherwise	FY20a	1H21a	2H21e	FY21e	FY22e	FY23e	Growth on pcp		
							FY21e	FY22e	FY23e
Key earnings									
Gross sales revenue	7.4	7.3	7.9	15.2	26.7	35.9	+104%	+76%	+35%
Net revenue	6.4	5.8	6.4	12.2	22.7	30.8	+90%	+87%	+36%
Gross profit	4.0	3.8	4.1	7.9	14.8	20.0	+96%	+86%	+36%
% net sales	63.4%	65.4%	65.0%	65.2%	65.0%	65.0%	+181 bps	-18 bps	+0 bps
Overheads	(5.8)	(3.5)	(3.8)	(7.3)	(9.9)	(11.4)	+26%	+36%	+15%
Other income	0.6	0.5	0.1	0.6	0.2	0.2	-2%	-61%	-
EBITDA	(1.1)	0.8	0.4	1.3	5.1	8.9	na	+309%	+74%
D&A	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)	+18%	+3%	+3%
EBIT	(1.3)	0.7	0.4	1.1	5.0	8.7	na	+351%	+76%
Net interest	(0.2)	(0.2)	(0.2)	(0.4)	(0.4)	(0.4)	+118%	-0%	+0%
PBT	(1.4)	0.5	0.2	0.7	4.6	8.3	na	+532%	+83%
Tax rate	na	-	30.0%	7.4%	30.0%	30.0%	na	+2,259 bps	-0 bps
Normalised tax expense	-	-	(0.1)	(0.1)	(1.4)	(2.5)	na	+2,461%	+83%
Underlying NPAT	(1.4)	0.5	0.1	0.7	3.2	5.8	na	+378%	+83%
Extraordinary items	0.2	0.0	-	0.0	-	-	-100%	-100%	na
Reported NPAT	(1.3)	0.5	0.1	0.7	3.2	5.8	na	+378%	+83%
EPS - underlying, basic (\$)	(0.026)	0.009	0.002	0.011	0.051	0.093	-140%	+378%	+83%
EPS - underlying, diluted (\$)	(0.026)	0.009	0.002	0.010	0.048	0.087	-138%	+375%	+83%
DPS (\$)	-	-	-	-	-	-	na	na	na
Margins									
Gross profit (%)	63.1%	65.2%	65.0%	65.1%	65.0%	65.0%	+199 bps	-11 bps	-
EBITDA (%)	(17.8%)	13.8%	7.0%	10.3%	22.5%	28.9%	+2,810 bps	+1,226 bps	+636 bps
EBIT (%)	(19.8%)	12.5%	5.9%	9.0%	21.8%	28.4%	+2,885 bps	+1,281 bps	+652 bps
Underlying NPAT (%)	(22.4%)	9.3%	2.0%	5.5%	14.0%	18.9%	+2,792 bps	+855 bps	+486 bps
Key multiples									
EV/Net sales	20.5			10.8	5.8	4.3	-47%	-46%	-26%
EV/EBITDA	na			105.1	25.7	14.8	na	-76%	-43%
EV/EBIT	na			119.5	26.5	15.0	na	-78%	-43%
P/E	na			207.1	43.3	23.7	na	-79%	-45%

Net sales revenue (after govt. excise)



EBITDA



Source: Moelis estimates

Delivery of earnings growth expected to drive valuation re-rate towards peers

Our 12-month TP of \$2.65/share is based on 7.0x our FY22 net sales estimate, in line with spirits peers and implies +20% upside to LRK's last price of \$2.20. We initiate coverage with a BUY rating.

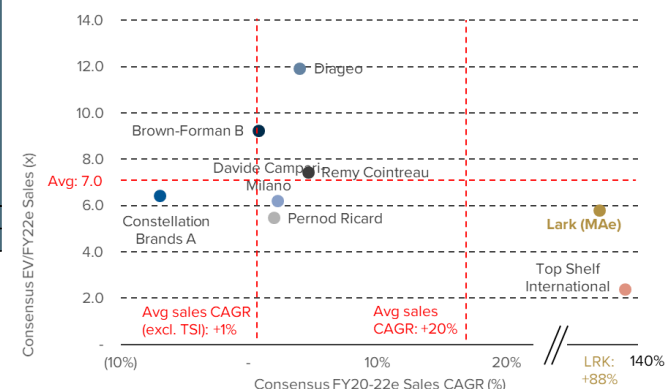
Consensus trading comparables

Company	Ticker	Last price (\$)	Mkt Cap (\$m)	EV (\$m)	EV/Sales (x)		EV/EBITDA (x)			P/E (x)	
					2021	2022	2021	2022	2023	2021	2022
LRK TRADING COMPARABLES											
Brown-Forman B	BF.B-US^	69.86	42,578	44,584	9.9	9.2	29.0	26.4	24.6	40.0	36.4
Constellation Brands A	STZ-US^	229.08	57,689	72,119	6.5	6.4	17.4	16.5		23.0	20.9
Davide Campari-Milano	CPR-IT^	9.52	17,091	18,653	6.6	6.2	28.9	24.6	22.1	47.6	38.4
Diageo	DGE-GB	29.95	125,802	151,066	12.7	11.9	37.2	33.8	31.4	26.6	23.8
Pernod Ricard	RI-FR	159.30	64,475	77,499	5.9	5.5	19.6	17.6	16.4	28.6	24.8
Remy Cointreau	RCO-FR^	162.30	12,668	13,339	8.2	7.4	32.3	27.9	25.0	58.7	48.0
Top Shelf International	TSI	2.15	107	103	5.1	2.4	nm	nm	47.8	nm	nm
Average			45,773	53,909	7.9	7.0	27.4	24.5	27.9	37.4	32.0
Median			42,578	44,584	6.6	6.4	29.0	25.5	24.8	34.3	30.6
Average (excl. TSI)			53,384	62,877	8.3	7.8	27.4	24.5	23.9	37.4	32.0
Lark Distilling	LRK MAe	2.20	138	131	10.8	5.8	105.1	25.7	14.8	207.1	43.3
<i>Listed spirits companies typically trade at a premium to beer/wine companies</i>											
OTHER AUSTRALIAN ALCOHOL											
Treasury Wine Estates	TWE	10.90	7,864	8,986	3.6	3.7	14.4	13.7	12.1	27.9	25.6
Coca-Cola Amatil	CCL^	13.45	9,738	11,567	2.4	2.3	12.6	11.6	11.0	26.6	23.5
Good Drinks Australia	GDA	0.10	124	141	2.9	2.6	12.5	11.0		23.9	20.4
Australian Vintage	AVG	0.75	209	315	1.1	1.0	7.4	6.9	6.4	10.3	9.6
Average			4,484	5,252	2.5	2.4	11.7	10.8	9.8	22.2	19.8
Median			4,036	4,650	2.6	2.4	12.6	11.3	11.0	25.3	22.0
INTERNATIONAL BEER											
Anheuser-Busch InBev	ABI-BE^	52.35	136,998	256,476	4.1	3.8	11.2	10.2	9.6	25.9	19.1
Asahi Group Holdings	2502-JP^	4,579.00	27,823	49,365	1.9	1.8	13.3	11.4	10.6	17.9	14.0
Carlsberg B	CARLB-DK^	982.40	31,708	37,234	2.9	2.7	12.3	11.6	10.8	22.1	20.2
Heineken	HEIA-NL^	88.56	78,839	102,663	2.9	3.0	14.8	13.1	11.7	34.0	24.6
Kirin Holdings	2503-JP^	2,146.00	23,507	32,458	1.5	1.4	10.9	10.3	9.4	20.3	15.7
Molson Coors Beverage B	TAP-US^	48.79	12,928	23,091	1.8	1.7	8.3	8.3	8.1	12.7	12.4
Thai Beverage	Y92-SG^	0.72	17,407	26,587	2.4	2.3	14.2	13.7	13.2	15.6	14.6
Average			47,030	75,411	2.5	2.4	12.2	11.2	10.5	21.2	17.2
Median			27,823	37,234	2.4	2.3	12.3	11.4	10.6	20.3	15.7

Moelis valuation and target price

EV/Sales Valuation		
FY22 Net revenue	\$m	22.7
Multiple	x	7.0
Enterprise value	\$m	159.1
Add: net cash	\$m	6.7
Equity value	\$m	165.8
No. of shares	m	62.5
Valuation per share	\$	2.65
Less: Forecast 12mth dividends	\$	-
12 month share price target	\$	2.65
12 Month Yield	%	-
12 Month Capital Return	%	20.5%
12 Month Total Return	%	20.5%

Consensus EV/FY22e Sales vs FY20-22e Sales CAGR for selected peers



Source: Moelis Australia, Factset.
Note: ^ = Calendarised to 30 June year end.

Key Risks

- **COVID-19 restrictions:** LRK's operations and licensed premises offering LRK products have had to close due to COVID-19. Although this impact has been off-set by increasing at-home consumption, there is ongoing uncertainty from the prospect of more lockdowns and restrictions, which can disrupt LRK's operations and impact financial performance.
- **Change in consumer preferences:** if there is a significant shift in customer preferences and tastes and LRK is unable to adapt, demand for its products and LRK's earnings may be impacted.
- **Weaker demand in economic downturn:** Increased unemployment and low economic growth could lead to weaker demand for premium LRK products. LRK has found a new revenue stream from manufacturing hand sanitiser and applied for federal government support packages.
- **International tensions make expansion unattractive:** Ongoing geopolitical tensions, particularly between Australia and China (where LRK is likely to sell its products) may affect LRK's decision to expand internationally. While FY20 sales were largely domestic, the new AX8 line of whisky is aimed at the overseas market.
- **Freight costs and delays:** Any increase in freight costs or any delivery delays may impact LRK's financial performance, particularly if additional costs cannot be passed on to customers or if supply chain disruptions result in reduced sales.
- **Low on-premise sales:** Sales from re-opening the Gin Bar and Brooke Street Pier venues may be low because of the small Tasmanian population, with mainland and e-commerce sales remaining primary sales channels.
- **Muted growth from domestic focus:** Management is focused on growing awareness of the LRK brand within the domestic market, so growth could be muted as international expansion is put on hold.

APPENDICES



Key Financials – Key cashflows & balance sheet items

Summarised below are our key balance sheet and cashflow estimates for LRK

Balance sheet

Balance Sheet (\$m)	FY19a	FY20a	FY21e	FY22e	FY23e
Cash	6.7	6.1	8.2	5.1	10.0
Inventory	14.8	19.3	24.9	28.7	26.7
Current Receivables	0.5	1.5	1.7	3.1	4.0
PPE	6.8	7.9	8.7	10.6	13.2
Intangibles	11.0	11.2	11.2	11.1	11.1
Other	0.5	0.2	0.3	0.3	0.3
Total Assets	40.4	46.3	54.8	58.9	65.3
Current Payables	1.3	3.1	2.2	2.9	3.3
ST Debt	0.5	0.4	-	-	-
LT Debt	0.4	5.2	5.3	5.3	5.3
Provisions	0.2	0.2	0.3	0.5	0.6
Other	-	-	0.2	0.2	0.2
Total Liabilities	2.4	8.9	7.9	8.8	9.4
Net Assets	38.0	37.4	46.9	50.1	55.9
Equity & Reserves	49.4	50.0	58.9	58.9	58.9
Retained Profits	(11.4)	(12.6)	(12.0)	(8.8)	(3.0)
Shareholders' Equity	38.0	37.4	46.9	50.1	55.9
Minorities	-	-	-	-	-
Total Equity	38.0	37.4	46.9	50.1	55.9
Performance Ratios	FY19a	FY20a	FY21a	FY22a	FY23a
ROA	(10.9%)	(3.3%)	1.3%	5.6%	9.4%
ROE	(12.5%)	(3.8%)	1.6%	6.6%	11.0%
ROIC	na	na	2.5%	7.4%	12.1%
Net Debt (Cash) (\$m)	(6)	(1)	(3)	0	(5)
Net Debt/EBITDA (x)	1.5	0.4	(2.3)	0.0	(0.5)
ND/(ND + Equity) (%)	(18.3%)	(1.4%)	(6.6%)	0.2%	(9.3%)
Interest Cover (x)	(16.6)	(7.5)	3.0	13.5	23.8
Working Capital	14	18	24	29	27
Working Capital/Sales (%)	302.0%	275.3%	199.9%	126.2%	87.8%

Cashflows

Cashflow (\$m)	FY19a	FY20a	FY21e	FY22e	FY23e
EBITDA	(4.0)	(1.1)	1.3	5.1	8.9
Net Interest	(0.3)	(0.1)	(0.3)	(0.4)	(0.4)
Tax	-	-	0.5	(1.4)	(2.5)
Change in Working Capital	(3.7)	(3.7)	(6.5)	(4.4)	1.6
Other	3.5	1.5	(0.4)	-	-
Operating Cash Flow	(4.6)	(3.5)	(5.4)	(1.0)	7.7
<i>Growth</i>	<i>(9%)</i>	<i>(23%)</i>	<i>53%</i>	<i>(82%)</i>	<i>(891%)</i>
Capex	(0.7)	(1.6)	(1.1)	(2.0)	(2.8)
Acquisitions	-	-	-	-	-
Divestments	-	0.0	0.2	-	-
Other	(0.0)	-	-	-	-
Investing Cash Flow	(0.7)	(1.6)	(0.9)	(2.0)	(2.8)
Equity Raised	11.9	-	8.9	-	-
Dividends Paid	-	-	-	-	-
Net Borrowings	(6.1)	4.5	0.0	-	-
Other	(0.7)	(0.0)	(0.5)	-	-
Financing Cash Flow	5.1	4.5	8.4	-	-
FX / Non Cash Items	-	-	-	-	-
Change in Cash	(0.1)	(0.6)	2.0	(3.0)	4.9
Free Cash Flow	(5.3)	(5.1)	(6.5)	(3.0)	4.9
Cash Flow Metrics					
FCF/Share (\$)	(0.00)	(0.09)	(0.10)	(0.05)	0.08
Price/FCPS (x)	(636.9)	(23.4)	(21.3)	(45.8)	28.3
Free Cash Flow Yield (%)	(0.2%)	(4.3%)	(4.7%)	(2.2%)	3.5%
Gross Cash Conversion	na	na	na	14.9%	118.2%
Capex/Sales (%)	15.2%	24.6%	8.9%	9.0%	9.0%
Capex/Depreciation (x)	12.2	12.4	6.6	10.2	12.6

Board, Management and Key Shareholders

Board of Directors

Name & Position	Summary of experience
David Dearie <i>Chairman</i> (0.08% shareholder)	<ul style="list-style-type: none"> Appointed Executive Chairman from 4 Oct 2019 to 1 May 2020, then Non-executive Chairman from 2 May 2020. A global beverage industry leader with over 30 years' experience in alcohol retailing, distribution and brand building. Founding CEO of Treasury Wines Estates and senior executive positions with Fosters Group Ltd and Brown-Forman.
Geoff Bainbridge <i>Managing Director</i> (5.5% shareholder)	<ul style="list-style-type: none"> Appointed Managing Director in October 2019. 10+ years at Fosters Group with experience in group strategy and business development in Australia, China, India and Vietnam; Managing Director for the domestic Continental Spirits business. Sales and marketing specialist across a portfolio of brands, including founding partner of Grill'd Burgers, Bounce Trampolines, Happy Socks and Studio Ongarato.
Warren Randall <i>Non-executive Director</i> (3.8% shareholder)	<ul style="list-style-type: none"> Appointed Non-executive Director in May 2019. 42 years' experience in the Australian wine industry including Wynn Winegrower, Seaview Champagne, Lindemans and Seppeltsfield
Laurent Ly <i>Non-executive Director</i> (7.6% shareholder)	<ul style="list-style-type: none"> Appointed Non-executive Director in September 2019. Founder of Spica Capital, a Hong Kong-based food & beverage investment holding company with investments in alcoholic beverages, restaurants, bakeries and vending machines. Before Spica, Laurent spent 11 years in consumer & retail investment banking at Lehman Brothers (London) and Nomura (Hong Kong), advising clients on M&A and financing transactions in food & beverage, retail and hospitality in Europe and Asia.
Laura McBain <i>Non-executive Director</i> (0.04% shareholder)	<ul style="list-style-type: none"> Appointed Non-executive Director in May 2020. Former Managing Director of Longtable Group (2017-2019) and CEO and Managing Director of Bellamy's Australia Ltd (2014-2017), prior to which she was CEO/General Manager since 2007. At Bellamy's, Laura oversaw significant change, innovation and business growth, including expansion into SE Asia and China. Current director of Export Finance Australia since 2014. Previously worked as an accountant in Sydney and Hobart.

Source: Company releases

Key Shareholders

Name	No. of shares (m)	% SOI
Quality Life Pty Ltd (Bruce Neil)	7.2	11.4%
Malcolm Property Pty Ltd	3.4	5.4%
Board & key management	10.7	17.0%
Total	21.3	33.9%

Other Key Management Personnel

Name	Role
Alex Aleksic	Chief Financial Officer
Melanie Leydin	Company Secretary
Chris Thompson	Head Distiller
Craig Johnstone	Head Operations
Demetrius Giouzelis	Head of Brand
Brent Tremain	Head Sales

Disclosure & Disclaimers

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