# Distil Plc

# ("Distil" or the "Group")

Final results for the year ended 31 March 2015

**"Key brands enter USA market and growth in UK multiple retailers"**

Distil (AIM: DIS), owner of premium drinks brands including Blackwoods Gin and Vodka, RedLeg Spiced Rum, Blavod Black Vodka, Diva Vodka and Jago's Vanilla Cream Liqueur, announces its final results for the year ended 31 March 2015.

**Operational review**

- TTB full approval received for Blackwoods Small Batch gin and Blackwoods Limited Edition Gin.
- Appointment of distributors for key brands in the US for Blackwoods, Red Leg and Blavod Black Vodka.
- Appointment of Finance Director.
- International and domestic sales volumes growing strongly.
- Jago's and Diva ready to be re-launched.

**Financial review**

- Turnover falls to £666k from £2,405k as the Group moves from 3rd Party brand distribution in the UK to focus solely on domestic and international sales of its owned brands
- Gross profit from owned brands increased 20% from £338k to £406k
- Margins on owned brands rise from 46% to 61% for the same period, year-on-year.
- Total administrative expenses reduced by 21%
- Operating loss reduced by 22% from £367k to £286k
- Cash reserves of £511k at 31 March 2015.

Don Goulding, Executive Chairman of Distil, said:

"We have now completed the transition from being a third party brand distributor to a brand owning, brand focused business. Despite delays in the early part of the year we made solid progress in the second half with developments in the USA and continued growth in the UK. New listings for our brands in many leading bars and pubs together with one of the biggest UK multiple retailers have increased consumer awareness and trial of our products. I'm delighted to report that this level of improvement in our trading has continued into the new financial year and we are therefore optimistic looking forward."

| | |
|---|---|
| **Distil PLC** | |
| Don Goulding Executive Chairman | Tel: +44 207 352 2096 |
| **SPARK Advisory Partners Limited (NOMAD)** | |
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**Executive Chairman's statement**

**Results**

The overall result for the year to 31 March 2015 was satisfactory as we completed the transition from being a third party brand distributor to a brand owning, brand focused business. Overall losses for the period were £289k on sales of £666k, representing a 26% reduction in losses over prior year.

Gross profits and margins from our brands have risen in the period as we focused on brand building through increased distribution, marketing and promotion. In particular we have made significant progress in establishing our presence in the USA and also domestically where we have been successful in securing a number of listings for Blackwoods and RedLeg in major

UK retail multiples both in the 'On' and 'Off' Trade.

Despite this success however, the overall performance was held back by two issues - the unexpected delays in securing US Alcohol & Tobacco Tax & Trade Bureau (TTB) approval for Blackwoods Gin and the effect this had on expected revenues, and also a drop-off in sales through Eastern Europe, especially Ukraine and Russia for our Blavod black vodka brand.

Operating costs were reduced further during the year, with a continued lowering of administrative and staff costs and moving our offices to smaller, lower cost premises.

**People**

We were delighted to announce the appointment of Shaun Claydon, ACA, in January as Finance Director. Shaun is a corporate financier and business adviser with over 15 years advisory and main board experience and we have welcomed his input in developing the company further.

**Placing**

Also in January, we announced that we had raised £587,800 (gross) following a placing of 73.475 million new ordinary shares at a price of 0.8 pence per ordinary share. Funds raised from the placing are being used to provide working capital and to fund the continued development and marketing of our existing drinks brands, as well as the re-launch of the newly designed brands.

**Operations**

In July last year, we announced that we had agreed terms with two US distributors for Blavod Vodka, Blackwoods Gin and Blackwoods Vodka, subject to their approval by the TTB. At that time, we expected this approval to be granted by August 2014 having submitted our requests in December 2013 and March 2014. In the event the initial approval did not materialise until late November 2014 and subsequent secondary approval was not received until January this year. The effect of this was to delay our projected sales and earnings significantly, with the consequence that we did not achieve the monthly break-even position we had previously anticipated, and this is reflected in our financial results.

**Domestic Sales**

UK market conditions have continued to be favourable for premium brands. We worked closely with our distributor to build distribution and develop customer marketing and promotional activities. Sales volumes have continued to grow with the Blackwoods brand growing by over 10% year on year, and RedLeg Rum up by 84%.

In November we announced that we had secured a number of important new listings across a range of outlets including bars, retail groups and a major wholesale Cash & Carry operator. As was recently announced we also secured a major listing in one of the largest UK retail multiple groups supported with seasonal promotional campaigns and advertising.

We have also continued to focus on growing sales through specialist retailers and promoting our brands in the summer season using the RedLeg "Rum Shack" at a number of the leading UK food and music festivals in Brighton, Bristol, London and Birmingham.

As part of our ongoing re-design activities of our brands we have developed new packaging designs for Blavod vodka and the first of these - Blavod Original - was launched in January.

Blackwoods gin also continued to perform well following greater investment in marketing activity in an increasingly competitive market. Our frequency of promotion and sampling has increased.

Blackwoods vodka sales are ahead of expectations, albeit from a small base, following its re-launch in improved packaging and with a more premium liquid. Both trade and consumer reaction has been positive and we are confident this brand will continue to gain popularity due to its unique consumer proposition in a crowded but large vodka market.

**International**

Much of the focus on the Group's activities this year has been to develop the international market for our brands and in particular the US and Europe. Early in the year we announced that we had appointed distributors for RedLeg in Canada and for Blackwoods Gin and Vodka in Portugal, Germany, France and Italy. In these European territories we increased our spend on promotional support and this has delivered good results in achieving increased levels of sales. Spain was disappointing in terms of Blackwoods gin purchases, but our distributor has made progress in repositioning the brand there.

As I have already stated, trading conditions in Eastern Europe were very challenging as a result of the conflict in the Ukraine and a reduction in the Duty Free market within the region. Accordingly we concentrated our efforts on seeking new market territories, and although we have been partly successful in this, the situation did impact negatively on our financial performance.

Equally, the delays we experienced in getting TTB approval for Blackwoods have delayed the revenue growth anticipated, however in January Blackwoods Small Batch Gin was fully approved for sale in the USA, the largest single market for UK produced gin in the world, and we are delighted that it has been well received. It is exclusively distributed in the US by The Winebow Group, a specialist distributor covering all the USA, Virgin Islands and Puerto Rico

In February we received full TTB approval for Blackwoods Limited Edition gin and also Blavod Black Vodka which is being distributed by Ohio based Kanetz trading.

In Australia, leading drinks retailer Dan Murphy, part of the Woolworths Group has been successfully selling RedLeg Rum for the past two years, and ran a successful promotion of the brand over the Christmas period with in-store activation including tasting and sampling.

### New Brands and development

Jago's, our premium vodka based Vanilla Cream Liqueur, has been redesigned with an improved pack design and improved liquid. Due to the nature of minimum production runs we will only produce once we have sizeable listings for the brand. We have begun talking to retailers to target the Christmas season.

Diva, our super premium wheat based vodka featuring a unique wand of Swarovski elements, is now fully redesigned with new packaging including the addition of a Diva diamante bracelet inside a premium gift box is now produced and being presented to high end retailers for their Christmas range reviews.

We have gained first round approval from the U.S. TTB for both RedLeg and Blackwoods vodka and anticipate full approval in the first half of this financial year.

### Outlook

We are optimistic for the coming year, having seen sales improve strongly in the last few months in the UK and also steadily increasing internationally as our brands gain momentum. All our brands have the potential to perform very well following completion of brand redesign and liquid improvements. We expect to further grow revenues and to expand our distribution network in the months ahead.

## Strategic report

#### Results for the year

The operating loss attributable to shareholders for the year amounted to £286k (2014: loss of £367k). The current year and prior year losses relate solely to ongoing activities.

Gross profits and margins from our brands have risen in the period as we focused on brand building through increased distribution, marketing and promotion. In particular we have made significant progress in establishing our presence in the USA and also domestically where we have been successful in securing a number of listings for Blackwoods and RedLeg in major UK retail multiples. Despite this success however, the overall performance was held back by two issues - the unexpected delays in securing TTB approval for Blackwoods Small Batch Gin and the effect this had on expected revenues and also a significant drop off sales in sales in Eastern Europe for our Blavod black vodka brand.

Operating costs were reduced further during the year, with a continued lowering of administrative and staff costs and moving the offices to smaller premises in Soho.

The directors' primary focus is to return the Group to a sustainable break even position and ultimately to turn a profit.

#### Principal activities and business review

Distil Plc (the "Company") acts as a holding company for the entities in the Distil group (the "Group"). As detailed in the Chairman's statement the principal activity of the Group throughout the period under review was the marketing and selling of Blavod Black Vodka, Blackwoods Gin and Vodka and RedLeg Spiced Rum domestically and internationally.

The results for the 2015 financial year reflect the continued work in refocusing the business on its key owned brands, both the active brands detailed above and Diva and Jago's which were rebranded during the period ready for re-launch. The transfer out of remaining agency brands was successfully completed during the year enabling the Group to focus solely on driving future domestic and international sales of its owned brands.

**Key performance indicators**
The Group monitors progress with particular reference to the following key performance indicators:

- **Contribution – defined as gross margin less advertising and promotional costs**

  Contribution from owned brands increased £123k from £135k in 2014 to £258k in 2015. This increase in contribution was achieved, despite an overall reduction in owned brand revenues, through improvements in product mix toward higher margin product sales, improved gross margins across the portfolio and a reduction in rebranding costs during the period.

- **Sales volume versus prior year**

  Total volume of owned brands sold declined year on year as a result of a significant fall in volume sales of Blavod Black Vodka in Eastern Europe. Volume sales of Blackwoods Gin, Blackwoods Vodka and Redleg Spiced Rum increased year on year albeit not sufficiently to offset the decline in volume sales of Blavod Black Vodka.

- **Sales turnover versus previous year**

  For owned brands this fell by 9% year on year. Notable within this were the 57% fall in sales of Blavod Black Vodka which was partly offset by year on year increases in sales of Blackwood Gin and Blackwood Vodka of 6% and 144% respectively.
  Agency brand sales were negligible following completion of the transfer out of all remaining agency brands during the year.

- **Gross margin versus previous year**

  Owned brand gross margin as a percentage of sales increased from 46% to 61% reflecting a shift in product mix toward higher margin sales and reduced input costs through selective direct sourcing of raw materials during the period.

  We also closely monitor both the level of and value derived from our advertising and promotional costs and other administrative costs. Advertising and promotional costs on owned brands decreased by £55k from £203k to £148k. Prior year expenditure included £90k related to investment in brand redesign and liquid development in preparation for brand re-launches, compared to £17k in the current year.

  Other administrative costs decreased by £151k from £714k to £563k reflecting the continued focus on ensuring overhead levels, in particular staff costs, remain appropriate for the size of the Group.

**Future developments**
Following an encouraging start to the financial year the Group will seek to continue to expand sales of its existing brands both in the UK and internationally whilst ensuring its cost base remains appropriate for the Group's size of business.

**Principal risks and uncertainties**
The management of the business and the nature of the Group's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business.

The directors are of the opinion that a thorough risk management process has been adopted which involves the formal review of all the risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

**Economic downturn**
The success of the business is reliant on consumer spending. An economic downturn, resulting in reduction of consumer spending power, will have a direct impact on the income achieved by the Group. In response to this risk, senior management aim to keep abreast of economic conditions. In cases of severe economic downturn, marketing and pricing strategies will be modified to reflect the new market conditions.

**High proportion of fixed overheads and variable revenues**
A large proportion of the Group's overheads are fixed. There is the risk that any significant changes in revenue may lead to the inability to cover such costs. Senior management closely monitor fixed overheads against budget on a monthly basis and cost saving exercises are implemented wherever possible when there is an anticipated decline in revenues.

**Competition**
The market in which the Group operates is highly competitive. As a result there is constant downward pressure on margins and the additional risk of being unable to meet customer expectations. Policies of constant price monitoring and ongoing market research are in place to mitigate such risks.

**Failure to ensure brands evolve in relation to changes in consumer taste**
The Group's products are subject to shifts in fashions and trends, and the Group is therefore exposed to the risk that it will be unable to evolve its brands to meet such changes in taste. The Group carries out regular consumer research on an ongoing basis in an attempt to carefully monitor developments in consumer taste.

**Portfolio management**
A key driver of the Group's success lies in the mix and performance of the brands which form part of the Group's portfolio. The Group constantly and carefully monitors the performance of each brand within the portfolio to ensure that's its individual performance is optimised together with the overall balance of performance of all brands marketed and sold by the Group.

By order of the Board

S Claydon

*Director*

03 June 2015

## Directors' report

### Review of business and financial performance

Information on the financial position and development of the Group is set out in the Chairman's statement and the strategic report.

### Results

The Group reports an operating loss for the year of £286k (2014: loss of £367k). The current year and prior year loss relates solely to ongoing activities.

### Subsequent events

There are no significant subsequent events to note.

### Financial risk management

Details of the Group's financial risk management objectives and policies and its exposure to risks associated with the use of financial instruments are disclosed in note 16 to the financial statements.

### Directors

The directors of the Company who served during the year and/or up to the date of this report are as follows:

D Goulding (Executive Chairman)
S Claydon (appointed 29 January 2015)
S Bertolotti (resigned 29 January 2015)
M Quinn (Non-executive)

### Statement of disclosure to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the directors have taken all steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Auditor

Chantrey Vellacott DFK LLP merged its practice with Moore Stephens LLP with effect from 01 May 2015 and now practices under the name of Moore Stephens LLP. A resolution to appoint Moore Stephens LLP as auditor will be proposed at the Annual General Meeting to be held on 3 July 2015.

### Going concern

The Group incurred a consolidated loss of £289k during the year under review. The Group also held cash reserves in the amount of £511k at the year-end following the placing in

January 2015.

The Group has prepared detailed three year forward forecasts for the business in its new format. These forecasts have been prepared on a prudent basis without reliance on major new customers and markets, although these are anticipated. These forecasts demonstrate the Group's steady move forwards towards its planned break even position following its change in business model. The forecasts demonstrate that the current cash reserves are sufficient to meet the Group's needs for the foreseeable future.

For these reasons, the Group continues to adopt the going concern basis in preparing the report and accounts.

**Statement of directors' responsibilities**

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the consolidated financial statements under International Financial Reporting Standards as adopted by the European Union (IFRS) and the Company financial statements under United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws). The financial statements must, in accordance with IFRS, present fairly the financial position and performance of the company; such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving suck presentation. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRS have been followed for the consolidated financial statements and UK Accounting Standards have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Approved by the Board of Directors and signed

on its behalf

S. Claydon

*Director*
03 June 2015

# Consolidated statement of comprehensive income

for the year ended 31 March 2015

| | 2015<br>£'000 | 2014<br>£'000 |
|---|---|---|
| **Revenue** | 666 | 2,405 |
| Cost of sales | (260) | (1,830) |
| **Gross profit** | **406** | **575** |
| Administrative expenses: | | |
| Advertising and promotional costs | (148) | (235) |
| Other administrative expenses | (563) | (714) |
| Depreciation and amortization | (4) | (7) |
| Other operating income | 23 | 14 |
| **Total administrative expenses** | **(692)** | **(942)** |
| **Operating loss** | **(286)** | **(367)** |
| Finance expense | (3) | (25) |
| **Loss before tax from continuing operations** | **(289)** | **(392)** |
| Taxation | - | – |
| **Loss for the year and total comprehensive expense** | **(289)** | **(392)** |
| **Loss per share** | | |
| Basic and diluted (pence per share) | (0.08) | (0.12) |

# Consolidated balance sheet

as at 31 March 2015

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Assets** | | |
| **Non-current assets** | | |
| Property, plant and equipment | 6 | 9 |
| Intangible assets | 1,510 | 1,493 |
| **Total non-current assets** | **1,516** | **1,502** |
| **Current assets** | | |
| Inventories | 230 | 64 |
| Trade and other receivables | 211 | 361 |
| Cash and cash equivalents | 511 | 344 |
| **Total current assets** | **952** | **769** |
| **Total assets** | **2,468** | **2,271** |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade and other payables | (238) | (314) |
| **Total current liabilities** | **(238)** | **(314)** |
| **Total liabilities** | **(238)** | **(314)** |
| **Net assets** | **2,230** | **1,957** |
| **Equity** | | |
| **Equity attributable to equity holders of the parent company** | | |
| Share capital | 1,227 | 1,153 |
| Share premium | 2,341 | 1,853 |
| Retained deficit | (1,338) | (1,049) |
| **Total equity** | **2,230** | **1,957** |

# Consolidated statement of changes in equity

for the year ended 31 March 2015

| | Share capital £'000 | Share premium £'000 | Retained earnings £'000 | Total equity £'000 |
|---|---|---|---|---|
| Balance at 1 April 2013 | 1,096 | 1,358 | (657) | 1,797 |
| Issue of ordinary shares at a premium (note 15) | 57 | 495 | – | 552 |
| **Transactions with owners** | **57** | **495** | **–** | **552** |
| Loss for the year and total comprehensive expense | – | – | (392) | (392) |
| **Balance at 31 March 2014 and 1 April 2014** | **1,153** | **1,853** | **(1,049)** | **1,957** |
| Issue of ordinary shares at a premium (note 15) | 74 | 488 | - | 562 |
| **Transactions with owners** | **74** | **488** | **-** | **562** |
| Loss for the year and total comprehensive expense | - | - | (289) | (289) |
| **Balance at 31 March 2015** | **1,227** | **2,341** | **(1,338)** | **2,230** |

# Consolidated cash flow statement

for the year ended 31 March 2015

| | 2015 £'000 | 2014 £'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before taxation | (289) | (392) |
| Adjustments for: | | |
| Finance expense | 3 | 25 |
| Depreciation | 4 | 7 |
| Loss on disposal of property, plant and equipment | - | 2 |
| | **(282)** | **(358)** |
| Movements in working capital | | |
| (Increase)/decrease in inventories | (166) | 297 |
| Decrease in trade and other receivables | 150 | 267 |
| Decrease in trade payables | (76) | (114) |
| **Cash (used in)/generated by operations** | **(92)** | **450** |
| Finance expense | (3) | (25) |
| **Net cash (used in)/ generated by operating activities** | **(377)** | **67** |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | (1) | (1) |
| Expenditure relating to the acquisition of licences and trademarks | (17) | (75) |
| **Net cash used in investing activities** | **(18)** | **(76)** |
| **Cash flows from financing activities** | | |
| Proceeds from issue of shares net of issue costs | 562 | 552 |
| Net cash repaid to finance facility | - | (259) |
| **Net cash generated by financing activities** | **562** | **293** |
| Net increase in cash and cash equivalents | 167 | 284 |
| Cash and cash equivalents at beginning of year | 344 | 60 |
| **Cash and cash equivalents at end of year** | **511** | **344** |

## 1 Basis of preparation and summary of significant accounting policies

The consolidated financial statements are for the year ended 31 March 2015. They have been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The consolidated financial statements have been prepared under the historical cost convention.

These consolidated financial statements are presented in Pounds Sterling (£), which is also the functional currency of the parent company. Unless otherwise stated, all amounts are given in round £'000s.

Distil Plc is the Group's ultimate parent company. The Company is a public limited company incorporated and domiciled in the United Kingdom. The address of Distil Plc's registered office is 201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT and its principal place of business is First floor, 10-11 Moor Street, London W1D 5NF.

These results are audited, however, the financial information does not constitute statutory accounts as defined under section 434 of the Companies Act 2006. The consolidated balance sheet at 31 March 2015 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended have been extracted from the Group's 2015 statutory consolidated financial statements upon which the auditor's opinion is unmodified.

The financial information for the year ended 31 March 2014 has been derived from the Group's statutory consolidated financial statements for that year, as filed with the Registrar of Companies. Those consolidated financial statements contained an unmodified audit report.

Copies of the Annual report will be sent to shareholders shortly and will available on the company's website www.distil.uk.com and from the company's registered office at 201 Temple Chambers, 3-7 Temple Avenue, EC4Y 0DT.