Distil plc

("Distil" or the "Group")

Final Results for the Year Ended 31 March 2019

"Another year of strong top line growth driven by focused investment and targeted activity in support of our key brands"

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 2019.

Operational review

- Increased investment in marketing at the point of sale
- Development of RedLeg Caramelised Pineapple Spiced Rum for launch in the summer of 2019
- Development of new gift packaging and miniature bottle format
- New markets opened for our brands in Europe, North America and Asia
- Implementation of operational cost savings

Financial review

- Turnover, supported by further marketing investment, increased 19% to £2,401k from £2,014k
- Gross profit increased 22% from £1,172k to £1,429k
- Margins improved to 60% for the same period, year-on-year (2018 : 58%)
- Advertising and promotion spend increased 48% from £465k to £688k
- Other administrative expenses increased by 10%
- Operating profit of £160k compared to prior year profit of £157k
- Net operating cash inflow of £85k (2018: £166k) resulting in year-end cash reserves of £1.07m (2018: £1.03m)
- Net assets of £3.17m (2018: £3.01m) at 31 March 2019

Don Goulding, Executive Chairman of Distil, said:

"I am pleased to report another strong set of results with growth in revenue, profits and gross margins supported by increased marketing investment in our brands. We remain debt free and our cash position improved once again.

We will continue to invest in our brands through marketing and promotion which will be particularly important as we anticipate UK consumer confidence will naturally remain fragile through this calendar year. The initial response from the on-trade to our new caramelised pineapple spiced rum is very positive and we look forward to its full launch later this year."

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Chairman's Statement

I am pleased to report another period of strong revenue growth and increased investment in our brands for the year ending 31 March 2019.

Performance

Sales revenue increased by 19% to £2.4m up from £2.01m the previous year, gross profits increased by 22% to £1.43m and gross profit margin improved 2% to 60%.

This was supported by a planned 48% increase in marketing investment in our key brands resulting in a reduction in contribution margins to 31%. EBITDA increased from £163k to £169k.

We also maintained positive cash flows during the period increasing cash reserves by £37k to £1.07m with no debt at the year end.

Key Brands

RedLeg Spiced Rum achieved a growth rate ahead of the overall market despite increased competition in all markets. We invested additional funds in both consumer and trade activities to generate increased rates of sale and improve brand awareness at the point of sale. Overall distribution continued to expand as interest in the rum category broadened and reached new consumers.

Trade support is vital for all of our brands and we are therefore delighted with the increased availability across all trade channels but especially in the growing number of independent bars, pubs and restaurants serving RedLeg Spiced Rum.

Our rum continues to be a favourite with consumers due to its delicious, award winning, flavour profile - either neat or mixed in cocktails. That aside, we know that customers are seeking new flavours, fresh packaging and ideas for mixing and serving our drinks.

Consequently, in March 2019 we announced our first RedLeg line extension: RedLeg Caramelised Pineapple Spiced Rum for launch in the summer of 2019.

Blackwoods 2017 Vintage Dry Gin performed satisfactorily in an extremely crowded gin market. Volume shipments to the trade are down year-on-year as the prior year included the pipeline fill of our new vintage and its new packaging. Promotional support has grown in importance as consumers are faced with a wide range of offers and new products especially in the coloured and flavoured gin section. Blackwoods Gin is well positioned in a market which has seen many brands drop prices to gain share of promotion and visibility although our share has declined as the number of promotional items has increased significantly.

Depletions (sales from Distributors to their customers) of Blavod Black Vodka, are relatively flat year-on-year and in line with the overall vodka market. This is not reflected in our volume sales for the period as we agreed with our US distributor to reschedule our US shipments of Blavod Black Vodka to reflect our distributors' new shipping methods.

Productivity and cost management

Product costs were well managed by the team despite general price pressure across the board. We improved gross margins by 2% through improved planning and procurement whilst maintaining or improving product quality.

We decided not to try and load export markets with inventory ahead of any likely disruptive Brexit outcome although some distributors increased stock cover in the last quarter as a precaution.

UK market

The UK is our largest market in volume and value and therefore provided the majority of our sales growth year-on-year. The spirits market grew faster than beer and wine. Within spirits the gin sector gained share from most other categories. Compound gins in the form of coloured, flavoured and sweetened gin (gin-based liqueurs) made extraordinary advances and had the biggest impact on the UK market. Dry gins also advanced on the back of new market entrants offered from the wave of new micro distilleries.

Blackwoods Gin new vintage was well received as was the Blackwoods' new packaging and seasonal gift pack. Our share of promotional activity and shelf space declined overall as the number of gin brands stocked in retail and in bars increased significantly. Although our 'affordable premium' price positioning kept the brand competitive.

The spiced rum sector also advanced ahead of total spirits in the UK and RedLeg Spiced Rum was one of the fastest growing brands within in it, both in the on trade (bars, pubs and restaurants) and the off trade (retail). Seasonal promotions, events and gift packs supplemented an upweighted digital marketing and PR programme.

International markets

We opened new markets in Europe, North America and Asia mainly for our rum and gins. As indicated in prior years, we are seeking a long-term strategic relationship in the USA and have explored several options. We will keep shareholders informed of our progress in this area. Asia, mainly Japan, China and India are showing long term potential for our brands.

Outlook

Premium spirits and spirit-based cocktails continue to become more mainstream and are taking a greater share across almost all drinking occasions and with a broader consumer group. Therefore, we anticipate steady progress in the total spirits market including both the rum and gin categories. Gin growth will naturally slow down from the current highs, but we anticipate will remain in good health. We forecast rum will grow at current levels.

Investment in our brands and commercial infrastructure will increase to capture new markets and new consumers.

Don Goulding

Executive Chairman

Date: 7 June 2019

Strategic report

Results for the year

The operating profit attributable to shareholders for the year amounted to £160k (2018: £157k).

Overall sales volumes and revenues demonstrated further strong growth during the year, supported by a significant increase in marketing and promotional spend ahead of sales in line with our strategic plans.

Growth has been driven by another year of strong performance from RedLeg Spiced Rum which continues to attract a loyal customer base across all sales channels. This strong performance was partly offset by weaker year-on-year sales of our Gin and Vodka brands against the backdrop of increasingly competitive markets, and in the case of Blackwoods Gin, the prior year pipeline fill of our new vintage and packaging.

The Group continues to minimise overheads where possible, whilst ensuring sufficient investment to support the growth in sales of its brands. Other administrative expenses increased 10% against an increase in sales revenue of 19% during the year. The Group also seeks to carefully manage its cash resources posting a net operating cash inflow of £85k (2018: £166k) during the year.

The Group's position at the financial year end remains robust showing net assets of £3.17m (2018: £3.01m). This included cash reserves of £1.07m (2018: £1.03m) and intangible assets of £1.56m (2018: £1.55m) comprising expenditure on trademarks related to our brands. Inventories increased to £312k (2018: £177k) due to a planned increase in stock cover as we transitioned the production of RedLeg Spiced Rum to a new supplier during the year.

Against the backdrop of increasingly competitive and crowded markets we have continued to invest in our core brands, expand overall sales volumes and revenues and deliver another profitable set of results in the current year.

Principal activities and business review

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

The results for the 2019 financial year reflect the continued focus on investing in the Group's key brands to drive top line growth in both domestic and international markets whilst ensuring overhead costs remain appropriate for the size of the Group.

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 increased £34k from £707k in 2018 to £741k in 2019. This increase was achieved through a significant increase in overall volumes and revenues which more than offset a 48% increase in advertising and marketing costs during the year.

- **Sales volume versus prior year**

  Total volumes increased 15% year-on-year driven by a significant increase in volume sales of RedLeg Spiced Rum which showed year-on-year growth of 45%, whilst Blackwoods Gin, Blavod Black Vodka and Blackwoods Vodka showed an overall year-on-year decline in volume sales during the year.

- **Sales turnover versus previous year**

  Total sales increased 19% year-on-year to £2.4m. RedLeg Spiced Rum continued to be the key performance driver posting a 50% increase in revenue. Blackwoods Gin and Vodka decreased 12% and 39% respectively, the latter off a relatively small base. Blavod Black Vodka experienced a 68% decline, primarily due to a fall in non-licensed sales.

- **Gross margin versus previous year**

  Gross margin as a percentage of sales
  increased from 58% in the prior year to 60% in 2019, reflecting planned improvements in planning and procurement.

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 increased in absolute terms by £223k from £465k to £688k as the Group continued to invest in marketing activities to promote its brand portfolio and drive top line sales growth. During the year we invested in the development of new gift packaging and miniature bottle formats for RedLeg Spiced Rum and Blackwoods Gin. As a percentage of sales, advertising and promotional spend amounted to 29% (2018: 23%) during the year.

Other administrative costs marginally increased by £50k from £522k to £572k as we continued to carefully manage our cost base.

Principal risks and uncertainties

As a relatively small but growing business our senior management is naturally involved day to day in all key decisions and the management of risk. Where possible, structured processes and strategies are in place to monitor and mitigate as appropriate. This involves a formal review at Board level.

The directors are of the opinion that a thorough risk management process has been adopted which involves a formal review of the principal 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 monitors fixed overheads against budget on a monthly basis and costs 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 the Group's portfolio. The Group constantly and carefully monitors the performance of each brand within the portfolio to ensure that its individual performance is optimised together with the overall balance of performance of all brands marketed and sold by the Group.

- **Withdrawal of the UK from the EU**

  Following the UK's decision to leave the EU in 2016 we have taken appropriate steps to minimise the likely impact of this decision on our operations. We now source glass in the UK for all our production in England and Scotland and, similarly, source glass in Europe for our Blavod Black Vodka production in Germany.

  We also invoice all of our sales in GBP thereby minimising our exposure to currency fluctuations.

  In view of the current uncertainty regarding the timing and terms of Brexit we continue to monitor developments and will take appropriate further measures once we have a clearer understanding of the potential opportunities and challenges.

Future developments

We remain focused on four key growth drivers to maintain profitable brand growth and create value. These are listed below:

Brand activation and marketing at the point of sale:

- Precise timing and frequency of promotional activity including occasions & gifting.
- Bringing promotions to life and aligned with changing consumer needs.
- Marketing and promotional activity tailored to local market needs.

Innovation in liquid & packaging development:

- Pack sizes & formats, new brands, liquids and flavours.

Route to consumer:

- Build long term relationships with capable local distributors in each key market.
- Open new territories for each key brand, targeting premium growth markets.
- Develop new trade channels through format and product.

Access to new production and design:

- Across all aspects of distilling, bottling, packaging.

Approved by the Board and signed on its behalf by:

S Claydon

Director
7 June 2019

Consolidated statement of comprehensive income

for the year ended 31 March 2019

	2019 £'000	2018 £'000
Revenue	2,401	2,014
Cost of sales	(972)	(842)
Gross profit	**1,429**	**1,172**
Administrative expenses:		
Advertising and promotional costs	(688)	(465)
Other administrative expenses	(572)	(522)
Share-based payment expense	-	(22)
Depreciation	(9)	(6)
Total administrative expenses	**(1,269)**	**(1,015)**
Operating profit before tax	**160**	**157**
Taxation	-	**-**
Profit for the year and total comprehensive income	**160**	**157**

Earnings per share		
Basic and diluted (pence per share)	0.03	0.03

Consolidated statement of financial position

as at 31 March 2019

	2019 £'000	2018 £'000
Assets		
Non-current assets		
Property, plant and equipment	129	95
Intangible assets	1,556	1,551
Total non-current assets	**1,685**	**1,646**
Current assets		
Inventories	312	177
Trade and other receivables	207	395
Cash and cash equivalents	1,068	1,031
Total current assets	**1,587**	**1,603**
Total assets	**3,272**	**3,249**
Liabilities		
Current liabilities		
Trade and other payables	98	235
Total current liabilities	**98**	**235**
Total liabilities	**98**	**235**
Net assets	**3,174**	**3,014**
Equity		
Share capital	1,292	1,292
Share premium	2,908	2,908
Share-based payment reserve	83	83
Accumulated losses	(1,109)	(1,269)
Total equity	**3,174**	**3,014**

Consolidated statement of changes in equity

for the year ended 31 March 2019

	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Accumulated losses £'000	Total equity £'000
Balance at 1 April 2017	1,291	2,884	61	(1,426)	2,810
Share issued	1	24	-	-	25
Transaction with owners	**1**	**24**	**-**	**-**	**25**
Profit for the year and total comprehensive income	-	-	-	157	157
Share-based payment expense	-	-	22	-	22
Balance at 31 March 2018 and 1 April 2018	**1,292**	**2,908**	**83**	**(1,269)**	**3,014**
Profit for the year and total comprehensive income	-	-	-	160	160
Balance at 31 March 2019	**1,292**	**2,908**	**83**	**(1,109)**	**3,174**

Consolidated statement of cash flows

for the year ended 31 March 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit for the year	**160**	**157**
Adjustments for non-cash/non-operating items:		
Depreciation	9	6
Expenses settled by shares	-	17
Share-based payment expenses	-	22
	169	**202**
Movements in working capital		
(Increase)/decrease in inventories	(135)	22
Decrease/(increase) in trade and other receivables	188	(66)
(Decrease)/increase in trade and other payables	(137)	8
Net cash generated from operating activities	**85**	**166**
Cash flows from investing activities		
Purchase of property, plant and equipment	(43)	(37)
Expenditure relating to licences and trademarks	(5)	(16)
Net cash used in investing activities	**(48)**	**(53)**
Cash flows from financing activities		
Proceeds from share options exercised	-	8
Net cash generated by financing activities	**-**	**8**
Net increase in cash and cash equivalents	37	121
Cash and cash equivalents at beginning of year	1,031	910
Cash and cash equivalents at end of year	**1,068**	**1,031**

1 Basis of preparation and summary of significant accounting policies

The consolidated financial statements are for the year ended 31 March 2019. 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 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 306.A, 6 Hays Lane, London Bridge, SE1 2HB.

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 2019 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended have been extracted from the Group's 2019 statutory consolidated financial statements upon which the auditor's opinion is unqualified.

The financial information for the year ended 31 March 2018 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 unqualified audit report.

Copies of the Annual Report will shortly be available on the Company's website www.distil.uk.com and from the Company's registered office.