Distil plc

("Distil" or the "Group")

Final Results for year ended 31 March 2022

"Building for long term growth"

Distil plc (AIM: DIS), owner of premium drinks brands RedLeg Spiced Rum, Blackwoods Gin and Vodka, Blavod Black Vodka, TRØVE Botanical Spirit and Diva Vodka, announces its final results for the year ended 31 March 2022.

Operational highlights

- RedLeg Tropical Rum launched into UK and Australian market
- New export markets opened in Eastern Europe
- Additional listings secured for RedLeg Spiced Rum range
- TRØVE Botanical Vodka listed in prestigious premium UK retailer
- TRØVE Trademark successfully registered in USA
- Successful launch of Blackwoods 2021 Vintage, including branding refresh and new liquid development across the range as all gin production moved to Scotland
- Development of Blackwoods distillery at Ardgowan, near Glasgow, continues in line with plans with gin production expected to commence late Summer 2022.

Financial* and corporate highlights

- Turnover decreased 19% to £2.94 million (2021: £3.62 million) (increased 20% vs 2020: £2.44 million)
- Gross profit decreased 19% to £1.63 million (2021: £2.01 million) (increased 13% vs 2020: £1.45 million)
- Volumes (litres) decreased 12% (increased13% over volumes in year ended 31 March 2020)
- Margins remained broadly level at 55.4% (2021: 55.6%) (2020: 59.2%)
- Advertising and promotion spend decreased 17% to £890k (2021: £1.07 million) (2020: £665k)
- Adjusted** administrative expenses increased 15% to £746k (2021: £651k) (2020: £597k)
- Adjusted*** EBITDA of £9k (2021: £303k) (2020: £195k)
- Operating loss of £132k (2021: £254k profit) (2020: £184k profit)
- Net cash inflow of £500k (2020: £204k) resulting in year-end cash reserves of £1.56 million (2021: £1.06 million)
- Net assets of £7.34 million (2021: £3.81 million) at 31 March 2022
- Successful equity fund raise of £3.2 million (before expenses) to invest in Ardgowan Distillery Company Limited; Initial advance of £2.85 million (£3 million less £150k retained interest) made to Ardgowan
- Appointment of Michael Keiller as Non-Executive Director

**Due to the unprecedented one-off surge in sales in the prior financial year, especially during Q2 (June-September), caused by the impact of lockdown and associated unusual trading patterns, the above financial highlights are presented for both the prior year and 2020 to enable a proper understanding of key trends.*

*** Administrative costs adjusted to remove the one-off transaction costs associated with the Ardgowan investment*

*** *EBITDA adjusted for one-off transaction costs associated with Ardgowan investment and annual share based payment expense*

Don Goulding, Executive Chairman of Distil, said:

" Distil brands continued to perform well in a volatile market recovering post-Covid. The reopening and return of consumer confidence in the hospitality sector has contributed to growth in-line with our forecasts pre-pandemic. Continued challenges to costs have accelerated the consolidation of our production, which has allowed us to benefit from greater efficiencies and economies of scale. In addition, we are building our sales and marketing departments internally to allow us to react quickly to market challenges, increase our distribution footprint, and drive marketing reach "

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This announcement contains inside information as stipulated under the UK version of the Market Abuse Regulation No 596/2014 which is part of English Law by virtue of the European (Withdrawal) Act 2018, as amended. On publication of this announcement via a regulatory information service this information is considered to be in the public domain

About Distil

Distil Plc is quoted on the AIM market of the London Stock Exchange. It owns drinks brands in a number of sectors of the alcoholic drinks market. These include premium spiced rum, vodka, gin, vodka vanilla cream liqueur and are called RedLeg Spiced Rum. Blackwoods Vintage Gin, Blackwoods Vodka, Blavod Original Black Vodka, TRØVE Botanical Spirit and Diva Vodka.

Chairman's Statement

Performance

Our brands performed well in a market recovering post-COVID-19, which this year saw the encouraging return of the on-trade to 2019 levels despite experiencing months of closures, and Duty-Free markets reopening amid increased confidence in travel. However, this is being balanced by new pressures and volatility from supply chain challenges, widespread cost inflation and, more recently, the impact of tragic conflict in Ukraine.

Sales revenue declined 19% year on year as we lapped extraordinary results in the year ended 31 March 2021. During that year revenues increased 48% versus prior year, in part due to additional retailer promotional activity throughout lockdown, consumer panic buying and export market distributors building stock cover.

Compared to the year ended 31 March 2020, revenue has increased 20% and in line with previous market growth expectations prior to lockdown.

Reported losses of £95k over the past 12 months are mainly attributed to the Ardgowan investment and financing costs totalling £66k and prepaid marketing costs of £34k.

Marketing and new product development

Throughout recent market turbulence, we maintained focus on creating stakeholder value through premium spirit brand building in the UK and internationally.

To support this, marketing activity has focussed on price premiumisation, and the development of our first TV commercial for RedLeg Spiced Rum. Launched regionally at the start of the new financial year commencing April 2022, this represents a major investment in long-term growth of our most popular brand. Working closely with strategic partners including ITV with the aim of building consumer brand awareness, the advertisement received critical acclaim in trade press. We will continue to ensure strategic moves are made to build on this success in the coming year.

New varieties of RedLeg Spiced Rum were launched including new packaging formats. In January, 1L RedLeg Spiced Rum launched in the UK to target new opportunities for growth with value-driven consumers shopping online. In August, we developed a partnership with a well-established national gifting company to launch a unique miniature gift pack securing national listings in major grocery and high-street retailers.

To capitalise on the growing popularity of flavoured spirits, this year saw the introduction of RedLeg Tropical Rum, which has been well received in the on-trade and has secured a major listing in Australia.

TRØVE Botanical Vodka secured a listing of all three varieties with a prestigious premium UK retailer, and the trademark was successfully registered in the US.

New product development centred on the crafting of a new vintage for Blackwoods gin, involving the creation of a new, premium liquid from our Master Distiller, as well as a significant branding refresh across the range to highlight Scottish provenance. As part of the development of this new vintage, we transferred all distillation and bottling of both Blackwoods gin and Blackwoods vodka to Scotland. These moves align all aspects of production ahead of the planned opening of our new Blackwoods distillery at the impressive Ardgowan site near Inverkip, west of Glasgow.

Planning for the site has been approved and the team is pressing ahead with the development of exciting plans for Blackwoods Distillery. Scottish-made distillery equipment has been commissioned and is expected to be delivered in the summer, with gin production due to start shortly after. The Ardgowan Distillery is investing in the latest technologies to reduce impact across the production process and has pledged to be carbon negative by 2024.

Sustainability is a focus across all brands, we maintained pressure to reduce our environmental footprint through improvement measures large and small. This includes now using 100% recyclable corks and stoppers with a no-glue system, moving our labels to 100% recycled paper or, in the case of RedLeg, paper made from waste sugarcane, and increasing the percentage of recycled glass used in production of our bottles.

Improving our 'green' credentials is an area of good progress although we still have much to do. We are, therefore, continually looking for new ways to reduce fuel usage and waste throughout the entire supply chain and to find creative packaging solutions.

After the reopening of hospitality, we returned to events, albeit on a reduced scale, and being face-to-face with the consumer to build brand awareness and trial which we hope to be back in full swing of by the end of this coming financial year.

Export growth

International market expansion progressed, with new markets opened in central and eastern Europe. As confidence in international travel began to resume, the Duty-Free market showed encouraging signs of growth, especially for Blavod black vodka, which was hardest hit during lockdown.

Ukraine and Russia were new growth markets for our brands prior to the tragic conflict commencing in February. Both were still relatively small and therefore these market closures have had little or no material impact on our results or plans. In our spring trading update we were able to confirm to all customers and shareholders that we do not source, directly or indirectly, any packaging, ingredients or production from either Ukraine or Russia.

Cost pressures

Over the past year we have seen substantial cost price increases being proposed by our suppliers due to inflation, paper shortages, labour shortages and increased fuel costs. We continued to manage these cost pressures and make savings where possible whilst maintaining supply of products for all our markets. As part of this cost management, we successfully consolidated the majority of production to one site to gain economies of scale and improved efficiencies.

Strategic investment into Ardgowan Distillery

In August, we announced a £3 million strategic investment in the form of a convertible loan and with an option to increase to £5 million in Ardgowan Distillery Company Limited which will see the development of a new Malt Whisky distillery, planned for opening in 2023. This move will provide the Company with a long-term interest in a growing premium category as we develop our own Malt Scotch, as well as providing a new home for Blackwoods Gin with its own distillery, visitors' centre and retail facilities.

Board Changes

In July, we welcomed Mike Keiller on to the board as an Independent Non-executive Director.

Mike brings a wealth of experience to the business. Having begun his career as a chartered accountant, Mike went on to hold senior finance and business change roles at Guinness plc, United Distillers Europe and Diageo plc in its early development stage. Continuing this experience of business transformation, Mike joined Suntory owned Morrison Bowmore Distillers Ltd as CEO in 2000, developing a vision and strategy which converted the business from bulk whisky supplier to a strongly profitable consumer brand marketing-led business with globally acclaimed single malts. He retired from full time management in 2014 after assisting Suntory with the integration of their acquisition of Beam Inc. Following this, from 2015 to 2018, Mike was Non-executive Director of The Last Drop Distillers Ltd which was sold to The Sazerac Corporation in 2017.

Outlook

The international premium spirits market remains attractive despite local and global pressures, and our brands are well positioned within their categories, and supported by our team which is responding well with an adaptable and positive mindset to ever changing environments and new growth opportunities to drive the business forward.

In addition, we have plans to strengthen the organisation in commercial and marketing departments to further accelerate growth of our brands.

As we enter the new financial year, price inflation will play a key role in determining cost of goods and consumer spending habits as disposable income is squeezed.

On the supply side we will strongly resist increases and work to find creative cost efficiencies and to leverage scale.

During a time of higher inflation and reductions in disposable income, our brands will remain

reassuringly positioned as an affordable premium product.

Throughout this time, we will continue to focus on driving efficiencies and closely managing our supply chain to ensure that margins are protected wherever possible and will continue to invest in marketing support of these brands, as well as new product development, to build brand positions within the market.

Strategic Report

Results for the year

The loss before tax attributable to shareholders for the year amounted to £95k which includes transaction costs relating to the investment in the Ardgowan convertible loan in August 2021 (2021: profit before tax £243k). Adjusted EBITDA* was £41k (2021: £303k)

Year-on-year sales revenues and volumes declined 19% and 12% respectively. However, this was against challenging prior year figures, distorted by the initial Covid-19 lockdown and customer stockpiling which resulted in an unprecedented surge in sales by 48%, particularly in the second quarter of that year. Compared to pre-pandemic sales levels reported in the year ended 31 March 2020, sales revenues and volumes grew 20% and 13% respectively, largely driven by our lead brand, RedLeg Spiced Rum. This was in line with previous growth forecasts and expectations.

Despite an increase in production costs caused by supply chain disruptions we maintained year-on-year gross margins at c.55% during the period. In the short term we do not expect gross margins to return to pre-Covid levels due to cost increases throughout the supply chain. We continued to invest in brand development during the period, maintaining overall marketing spend at 30% of sales revenue. Additional marketing funds were invested in launching our new Blackwoods 2021 Vintage and also in promotional activity across Redleg Spiced Rum to support a retail sales price increase as we 'premiumise' the brand.

The Group continues to minimise overheads where possible, whilst ensuring sufficient investment to support the growth in sales of its existing brands and development of new brands. Other administrative expenses (including lease amortisation costs and one-off costs associated with the financing and investment in Ardgowan Distillery Limited ("Ardgowan")) increased by 25% over prior year. Adjusting for the one-off Ardgowan costs the increase was a modest 15% largely due to investment in staff recruitment to support business growth.

Cash flow

The operating loss together with net movements in working capital resulted in a net cash outflow from operating activities of £150k during the year (2021: £254k inflow). Following the equity financing and investment in Ardgowan, exercise of warrants by a shareholder during the period and modest capex, the Company's cash and cash equivalents increased £500k to £1.56 million at the financial year end.

Balance sheet

The Group had net assets of £7.55m at the financial year end (2021: £3.81m). This included financial assets of £3.0m (2021: £nil), cash reserves of £1.56m (2021: £1.06m) and intangible assets of £1.61m (2021: £1.60m) comprising expenditure on trademarks related to our brands. Financial assets solely comprise our investment in Ardgowan, further details of which are set out below and note 11 to the accounts. Inventories increased to £637k (2021: £553k) primarily due to planned increases to mitigate anticipated disruptions in supply.

Investment in Ardgowan Distillery Limited

In August 2021 we announced a £3 million strategic investment (in the form of a convertible loan and with an option to increase to £5 million before 31 December 2022) in Ardgowan Distillery Limited which will see development of a new Malt Whisky distillery, planned for opening in 2023. To enable the Ardgowan investment we completed an equity fundraising in August that raised £3.2 million (before expenses) from existing and new shareholders.

The investment provides the Company with a long-term interest in a growing premium category as we develop our own Malt Scotch, as well as providing a new home for Blackwoods Gin with its own distillery, Gin school and visitors' centre. Development of the gin distillery at Ardgowan is progressing in line with plans with gin production due to commence at the end of Summer 2022.

**EBITDA is adjusted for share based payment expenses of £59k (2021: £34k) and one-off costs associated with the Ardgowan financing and investment of £66k (2021: £nil).*

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 Vintage Gin, Blackwoods Vodka, Blavod Original Black Vodka, TRØVE Botanical Spirit and Diva Vodka.

The overall results for the 2022 financial year reflect the continued priority of 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 for the year decreased £200k to £739k (2021: £939k) (2020: £781k). This decrease was primarily due to a 19% fall in overall sales revenues whilst advertising and marketing costs saw a lesser reduction of 17% during the year as we maintained investment in our brands.

- **Sales turnover versus previous year**

Total sales decreased 19% year-on-year to £2.94m (2021:£3.62m) (2020:£2.44m). Sales of RedLeg Spiced Rum which accounts for the majority of sales revenue decreased 19% whilst Blackwoods Gin posted a 20% decrease in revenue during the period. Blackwoods Vodka and Blavod Original Black Vodka experienced a recovery in sales with increases of 56% and 129% respectively, albeit off relatively small bases.

- **Gross margin versus previous year**

Gross margin as a percentage of sales experienced only a small reduction to 55.4% (2021: £55.6%) (2020: 59.2%) despite an increase in production costs arising from disruptions to the supply chain (caused by widespread staff shortages across production and distribution) and materials cost inflation.

We also closely monitor both the level of, and value derived from our advertising and promotional costs and other administrative costs. As a percentage of sales, advertising and promotional spend amounted to 30% (2021: 30%) (2020: 27%) during the year, reflecting our continued commitment to investing in existing and new brand development.

Other administrative costs increased 25% to £812k (2021: £651k) (2020: £597k). Adjusting for £66k one-off costs associated with the financing and investment in Ardgowan during the period, other administrative costs amounted to £746k, a 15% increase on 2021 levels.

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 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 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.

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.

Consolidated statement of comprehensive income

For the year ended 31 March 2022

	2022	2021
	£'000	**£'000**
Revenue	2,942	3,616
Cost of sales	(1,313)	(1,606)
Gross profit	**1,629**	**2,010**
Administrative expenses:		
Advertising and promotional costs	(890)	(1,071)
Other administrative expenses	(812)	(651)
Share based payment expense	(59)	(34)
Total administrative expenses	**(1,761)**	**(1,756)**
(Loss)/profit from operations	**(132)**	**254**
Finance income	37	-
Finance expense	-	(11)
(Loss)/profit before tax	**(95)**	**243**
Taxation	269	100
Profit for the year and total comprehensive income	**174**	**343**

Earnings per share		
Basic (pence per share)	0.03	0.07
Diluted (pence per share)	0.02	0.07

Consolidated statement of financial position

As at 31 March 2022

	2022	2021
	£'000	**£'000**
Assets		

Non-current assets		
Property, plant and equipment	167	167
Intangible assets	1,606	1,598
Financial assets at amortised cost	3,000	-
Deferred tax asset	445	176
Total non-current assets	**5,218**	**1,941**
Current assets		
Inventories	637	553
Trade and other receivables	687	609
Cash and cash equivalents	1,562	1,062
Total current assets	**2,886**	**2,224**
Total assets	**8,104**	**4,165**
Liabilities		
Current liabilities		
Trade and other payables	407	358
Financial liabilities at amortised	150	-
Total current liabilities	**557**	**358**
Total liabilities	**557**	**358**
Net assets	**7,547**	**3,807**
Equity		
Share capital	1,474	1,292
Share premium	6,211	2,908
Share-based payment reserve	198	117
Accumulated losses	(336)	(510)
Total equity	**7,547**	**3,807**

Consolidated statement of changes in equity

For the year ended 31 March 2022

	Share capital	Share premium	Share-based payment reserve	Accumulated losses	Total equity
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2020	1,292	2,908	83	(853)	3,430
Profit for the year and total comprehensive income	-	-	-	343	343
Share based payment expense	-	-	34	-	34
Balance at 31 March 2021 and 1 April 2021	**1,292**	**2,908**	**117**	**(510)**	**3,807**

Profit for the year and total comprehensive income	-	-	-	174	174
Shares issued	182	3,466	-	-	3,648
Share issue costs	-	(141)	-	-	(141)
Share based payment expense	-	(22)	81	-	59
Balance at 31 March 2022	**1,474**	**6,211**	**198**	**(336)**	**7,547**

1. Basis of preparation and summary of significant accounting policies

The consolidated and company financial statements are for the year ended 31 March 2022. They have been prepared in accordance with UK-adopted International Accounting Standards ("IFRS").

The financial statements have been prepared under the historical cost convention. The measurement bases and principal accounting policies of the Group are set out below.

Distil Plc is the Group's ultimate parent company. The Company is a public limited company incorporated and domiciled in England and Wales. 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 73 Watling Street, EC4M 9BJ.

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 2022 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 2022 statutory consolidated financial statements upon which the auditor's opinion is unqualified. The statutory consolidated financial statements for the year ended 31 March 2022 were approved by the Board on 10 June 2022 and will be delivered to the Registrar of Companies in due course.

The financial information for the year ended 31 March 2022 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.

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

2. Earnings per share

The calculation of the basic earnings per share is based on the results attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The diluted earnings per share is calculated based upon dilutive share options and warrants.

The earnings and weighted average number of shares used in the calculations are set out below.

	2022	**2021**
Profit attributable to ordinary shareholders (£'000)	174	343
Weighted average of number of shares	676,801,406	501,982,913
Basic per share (pence)	0.03	0.07

Diluted per share (pence)	0.02	0.07

3. Segment reporting

	2022 **£'000**	**2021** **£'000**
Revenue		
UK	2,612	3,221
Export	330	395
	2,942	**3,616**
Gross profit		
UK	1,424	1,810
Export	205	200
	1,629	**2,010**

The directors have decided that providing a geographical split by two locations, UK and Export, offers an enhanced indicator of business activity. Only revenue and gross profit can be easily identifiable when splitting between UK and export markets. All trade is undertaken and assets are held in one geographic location, being the UK.

During the year ended 31 March 2022, 86% of the Group's revenue was derived from one wholesale distributor (2021: 78%). All of this related to UK revenue. There were no other customers who accounted for more than 10% of revenue.