

Lark Distilling Co

Bottling a good strategy

Lark Distilling Co, formerly Australian Whisky Holdings, owns and produces premium award-winning single malt whisky and gin brands. The company owns the Lark whisky brand, Tasmania's first whisky brand produced in the state's rejuvenated whisky industry, and Nant, another award-winning whisky, as well as Forty Spotted Gin, a premium and award-winning gin label. Over the past 18 months, the company has been through enormous change with a new board and management team, the sale of two whisky labels, Overeem and Old Kempton, recapitalisation through a new \$5m debt facility and the completion and commissioning of a new column still to produce its new export whisky, working title AX8, the base alcohol for Forty Spotted and Lark hand sanitiser. The company has also overturned previous third-party distribution agreements to return to an in-house sales team, appointing a former Treasury Wines sales executive to drive that process. The company reported \$7.4m in revenue in FY20, an increase of 34.5%. The net loss for the year was \$1.27m, substantially improved on the net loss of \$4.33m reported a year ago. At June 30, Lark's whisky inventory under maturation was valued at \$98.9m, at a cost of \$16.5m and with a liquidation value of \$56.5m.

Business model

Lark generates income from whisky and gin sales. The company has more than 711,000 litres of whisky in barrels awaiting maturation, with more than 522,000 litres with a maturation date within the next five years. The company's stills are producing more than 4,100 litres a week. Based on an average price of \$139 per litre, the inventory has a value at maturation of \$98.9m, and a cost value of \$16.5m. Whisky inventory has grown more than 52% in the last 12 months. With the commissioning of the new column still, the company plans to lay down 150,000 litres a year of the new export whisky AX8, which Lark will use to enter the \$100 RRP price point market. With the return of sales in-house, Lark is now focussed on securing distribution through Dan Murphys', Vintage Cellars and BWS.

Operating cashflow breakeven in Q4 FY20

Lark reported operating cashflow break even in Q4 FY20 and noted that it expected to be EBITDA positive in FY21. The company has reported revenues of \$7.4m for FY20, and gross profit of \$4.04m, an increase of 40.3% on the previous corresponding period. The company reported a significantly narrowed net loss of \$1.27m, compared with \$2.96m (adjusted for a \$1.367m impairment on inventory in FY19), driven by a marked reduction in administration expenses while investing in employees and marketing.

Trading at a premium to near peers

Lark is trading at a ~50% premium to Australian Vintage and Foley Wines on an EV/Revenue basis, however, this is not unexpected given its earlier stage position, higher growth rate (albeit off a low base) and focus on premium whisky and gin products with the former having a longer maturation profile (+5 years) to wine products. Over the past four years LRK has delivered revenue CAGR of more than 193% versus AVG at 5% and FWL at 8%. With more of its whisky inventory coming to maturation, we would anticipate an acceleration of sales over the next several years.

Historical earnings and ratios

Year end	Revenue (A\$m)	Gross Profit (A\$m)	EBITDA (A\$m)	NPAT (A\$m)	EPS (c)	EV/Sales (x)
06/17a	0.1	(0.06)	(2.09)	(2.64)	(29.2)	183.1
06/18a	0.4	0.26	(2.07)	(3.39)	(20.6)	146.7
06/19a	5.5	2.88	(2.53)	(2.96)*	(5.85)*	10.5
06//20a	7.4	4.04	(0.98)	(1.27)	(2.34)	7.9

Source: Company data *excludes a \$1.367m impairment

Food & beverage

4 September 2020

Share details

ASX Code	LRK
Share price (3-Sep)	\$1.10
Market Capitalisation	\$59.9M
Shares on issue	54.5M
Net cash at 30/06/2020	\$1.12M
Free float	25.75%

Share performance (12 months)



Upside Case

- Refocussed with committed, experienced board and management
- Opportunity to expand revenues through e-Commerce and direct distribution channels
- Near term revenues from relaunch of Forty Spotted Gin and Lark Sympathy No 1

Downside Case

- Small player in a market dominated by global players
- Liquidity, small free float
- Working capital is tied up in inventory

Catalysts/upcoming events

- Launch of export whisky brand into Asia
- Delivering on positive EBITDA in FY21

Comparable companies (Aust/NZ)

Australian Vintage (ASX:AVG), Foley Wines (NZX:FWL)

Top 5 shareholders

Quality Life Pty Ltd	13.04%
Chris Malcolm (fmr CEO)	9.94%
Ace Cosmo Developments Ltd	8.74%
Hillhouse Capital Management	6.13%
Geoff Bainbridge (CEO)	5.63%

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FINANCIAL SERVICES GUIDE

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