



EASTSIDE DISTILLING, INC.
(NASDAQ: EAST)



Business Update Conference Call

Thursday, January 30, 2020
5:00 p.m. Eastern

CORPORATE PARTICIPANTS

Lawrence Firestone – Chief Executive Officer, Eastside Distilling, Inc.
Robert Manfredonia – President, Eastside Distilling, Inc.
Robert Blum – Managing Partner, Lytham Partners

PRESENTATION

Operator

Good day and welcome to the Eastside Distilling Business Update Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your touchtone phone, to withdraw your question, please press "*", then "2." Please note, this event is being recorded.

I would now like to turn the conference over to Robert Blum with Lytham Partners. Please go ahead.

Robert Blum

Thank you so much, and good afternoon, everyone, and thank you for joining us today to discuss Eastside Distilling's business update. I am Robert Blum, Lytham Partners and I will be your moderator for today's call. Earlier Eastside issued its preliminary yearend and fourth quarter 2019 results in a press release and provided a corporate update.

Joining us on today's call is Lawrence Firestone, the company's Chief Executive Officer and Robert Manfredonia, Eastside's President. Following their remarks, we will open the call to your questions. Before we begin with prepared remarks, we submit for the record the following statements. Certain matters discussed on this conference call by the management of Eastside Distilling may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, Section 21E of the Securities Exchange Act of 1934, as amended, and such forward-looking statements are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe future expectations, plans, results, or strategies and are generally preceded by words such as *may*, *future*, *plan* or *planned*, *will* or *should*, *expected*, *anticipate*, *draft*, *eventually*, or *projected*. Listeners are cautioned that such statements are subject to a multitude of risks

and uncertainties that could cause future circumstances, events or results to differ materially from those projected in the forward-looking statements as a result of various factors and other risks identified in the company's 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission on March 28, 2019,

With that said, I'd like to turn the call over to Lawrence Firestone, CEO of Eastside Distilling. Larry, please proceed.

Lawrence Firestone

Thank you, Robert, and thank you, everyone, for joining us today. As you can hopefully imagine, we've been running hard to reshape the company since I joined in mid-November. Robert and I felt it is important to take a time out and report on the progress we've been making at Eastside Distilling and give an update on the business at this point of the quarter versus waiting until the mid- to late-March timeframe when we officially announce our Q4 results and file our 10-K.

Since joining the company in mid-November, we are focused on reshaping the company to continue the transformation of Eastside from a small regional craft distillery with the majority of our business in Portland, Oregon to our vision of becoming a well-oiled public house of brands that acquires, develops markets and sells branded spirits on a national level and then sells those brands when they are proven and ready to be acquired by larger players in the industry. As such, to strengthen our foundation for growth, we have focused on the following: working capital; leveraging our business model; growth in the national platform; and the integration of the acquisition of Azuñia Tequila brand into our company and positioning it for penetration in the off-premise national platform; and shaping the internal structure of the company and driving to EBITDA breakeven.

I'll start with working capital. As I mentioned on the earnings call in November, our objective at the time was to secure working capital financing, utilizing the assets of the company including accounts receivable and inventory to allow us to fund our business and continue to grow without turning to the equity markets near term.

In December 2019, we closed an accounts receivable factoring agreement with ENGS Commercial Capital with a total capacity of up to 2 million. The agreement allows us to borrow up to 85% of the eligible accounts receivable subject to various terms and conditions outlined in the agreement. Also, in December, we signed a short term \$2 million bridge loan agreement with TQLA to fund the purchase of Azuñia Tequila and other general purposes. This was a bridge to the larger inventory facility that we closed in mid-January.

Then earlier this month, we closed a new credit facility of up to \$8 million with Live Oak Bank backed by the company's raw spirits inventory. This funded the payoff and replaced the two existing inventory facilities with KFK and the short term TQLA facility, totalling \$5 million in capacity. In addition to the increased availability of up to \$3 million, the new credit facility offers some advantages to Eastside, including a reduction in interest rate. These working capital facilities were major achievements for Eastside as we will continue to look to leverage our asset base to help fund the growth in our operations are supposed to turning to the cap] table as the first stop for financing.

As you saw in the press release issued today, we have recalibrated our focus from a pure case count growth at a very high cost through the national platform to a more balanced approach looking for leverage in our growth strategy by combing through our numbers and rationalizing our marketing expenses and



sales incentive spending and looking for opportunities within the business to reduce cost and optimize our operations, thus creating the much needed leverage in our model to balance the business. This is a significant change from the past two years of pure case count growth and with the help of John Ridge of Redneck Riviera whisky that allowed Redneck Riviera whisky to become a national brand and Eastside to open up the national distribution platform. John Ridge's efforts were above and beyond and our linkage with Eastside sales team produced outstanding results.

Based on our current line of sight, including our growth plans, and with our reshaped spending plans, we believe we can create leverage while we continue to penetrate national accounts and increase sell-through which will allow us to manage our working capital and drive to EBITDA breakeven this year. In the national platform, we are focused on the expansion and growth of our Redneck Riviera whisky line up leveraging the introduction of our Azuñia Tequila brands in the off-premise trade and the introduction of our Burnside line up and our Hue-Hue Coffee Rum product.

I'll have Robert Manfredonia run through specifics on each of our brands in terms of approximate cases sold, points of distribution, sales and marketing plans, et cetera for the fourth quarter of 2019 and the first quarter of 2020. I am extremely pleased with the entire Eastside team's efforts as we focused on the common goal of growing the business, leveraging our platform, and driving to and beyond EBITDA breakeven.

Now, for an update on the customer-facing side of the business. Let me now turn the call over to Robert Manfredonia our President. Robert.

Robert Manfredonia

Thanks, Larry. As mentioned, we've come through quite a transition from a primary focus of Redneck Riviera through the national platform in 2018 and 2019, to now widening our national platform to include not only Redneck Riviera brands, but Azuñia Tequila, Burnside Bourbons, and Hue-Hue Coffee Rum.

I will provide an updated range and approximations based on the early look on top line results for quarter four, 2019 in total, and a range of projected quarter one expectations. I will also provide details on brand expansion, channel penetration, and new market information relevant to expanding the Eastside national platform.

Results include the following, starting with Redneck Riviera brands. Fourth quarter 2018 versus 2019 case growth of approximately 909-liter cases roughly 14% growth versus quarter four, 2018. 2018 versus 2019, total case growth of almost 12,809-liter cases and roughly 85% growth versus 2018. Revenue increase of approximately \$1.9 million and roughly 100% growth versus 2018.

We're having a very good start for Redneck Riviera brands for quarter one, and that includes the following. Quarter one, 2020 outlook versus quarter one, 2019, we expect total case growth of approximately 4,509-liter cases that will total in excess of 10,000 cases for quarter one, which will be about 79% growth over 2019 and approximately 89% year-over-year revenue growth for Redneck Riviera brands.

New authorizations and programs. In December, we added chain wide distribution for Publix, Florida. February, we are starting a Costco Louisiana program. And as of January 28th, we are now mandated to be in 740 Rite Aid stores for Redneck Riviera Whiskey. We will start shipping in early Q2 and expect all stores to be reset and selling by June 1st.



The significance to this placement, this represents the first entry into the drug class of trade, usually the drug calls of trade takes in excess of five years for brand entrance. Redneck Riviera whiskey enters a major drug outlet in less than two years. Redneck Riviera is nationally mandated or is participating with in and out programs in all classes of trade.

Finally, there's a growing market in wholesale or excitement for Howdy Dew. The Redneck Riviera Brand RTD. Howdy Dew is a wine-based brand that allows entrance into the mass convenience store sector. The wine base also provides a tax benefit, wine versus spirits that enables Howdy Dew to be a highly competitive brand from a price position standpoint.

Now, shifting to Azuñia Tequila. Note, we introduced a 10% price increase across all Azuñia brands apart from Azuñia Black. Quarter four, 2018 versus 2019, total case growth of almost 809-liter cases and roughly 30% case growth versus quarter four, 2018. However, revenue comparably grew at almost 40%, or 10% over case growth. Total revenue 2019 versus 2018 increased by approximately \$600,000 in roughly 24%.

Quarter one outlook 2020 versus 2019, we have a planned total case growth of almost 1,500 cases for a total case amount of 5,400 cases for the quarter, an increase of roughly 40% projected revenue increase, and almost 60% over quarter one, 2019. Azuñia is now being introduced to national retail corporate accounts tied to a review cycle, April for the fall and the fall for Spring-2020. We are also presenting to all other non-cycle retailers in the next 90 days.

Our approach will include targeted, mandated distribution, and in-and-out programs inclusive of Reposado and Añejo instead of exclusive alignment to Blanco. We will continue to aggressively work towards on and off premise trade balance along with prioritizing higher revenue SKU development.

Note, wholesaler transitions will conclude by the end of the first quarter in the Midwest and the East, also we just received the sign-off for RNDC, Florida to represent all of the Azuñia Tequila marks. This will bring all Eastside brands into one wholesaler within the State of Florida.

The Oregon business unit: 2019 case growth of almost 7,300 cases and almost 42% growth. As stated with our last call, we've adjusted down Oregon personnel by two-thirds in the second half of 2019. So, the adjusted Oregon team did extremely well with performance execution.

Also, we exited 2019 by reducing our SKU count by a third. The Oregon business unit has been repositioned to be a self-sustainable, bottom line, profitable business. We will continue to utilize Oregon for brand development and tactics review to support national platform implementation. We are also focused on a tiered, prioritize portfolio within the Eastside National platform.

Lastly, Burnside and Hue-Hue are both entering select national markets, inclusive of California, Washington, Texas, Florida, Arizona, Tennessee, and Illinois by the end of the first quarter.

With that, let me turn the call back over to Larry, for a continuation on the shape of the business. Larry.

Lawrence Firestone

Thanks, Robert. Let me walk through a few more of the permanent structural changes. Let's start with our Oregon infrastructure. After careful evaluation of our Oregon-based tasting room and retail operations, we will be closing the four tasting rooms that we operate in and around the Greater Portland area by March 31st, 2020. Although these tasting rooms allow for customer sampling and have



predominantly been looked at as a marketing expense. We will rely on continued growth in our Oregon on-premise business for the local brands and wider than Oregon for the national brands to provide the same tasting room experience.

The tasting room operations have been seasonal, and the revenues appreciated a boost in Q4 every year for the holiday season. However, the boost is not enough to allow the stores to breakeven for the year. While the closing of the tasting rooms will lower our 2020 retail revenue, that will positively impact our bottom line and cash flow. Once the retail operations are closed, the results will be reported in our numbers as discontinued operations throughout the year and our 2020 quarterly financial reporting.

As many of you are aware, Eastside has built itself through acquisitions of different brands over the years, and while the company remained focus on acquiring brands and businesses. However, the integration of acquisitions became a secondary priority and consequently, integration did not occur. The acquisition and non-integration of the Big Bottom Distillery is a prime example of that, leaving Eastside with two distilleries in the Portland area, one in Hillsboro and one in Milwaukee, Oregon.

As of March 31st, we will be closing our Hillsboro operations and consolidating all production operations into our facility in Milwaukee, which will not only reduce our overhead, but will cost reduce our Big Bottom products significantly. The Big Bottom gin and whiskey products produced in Hillsboro principally supply the Oregon market. So, the closure of this facility will not impact our growth expectations in the national channel, and we expect these products to continue to grow in the Oregon market and eventually be ready for prime time on a national level.

The combination of the tasting rooms and the Hillsboro production facility comprise the closing of five of our eight locations in Oregon. We are considering additional consolidations to optimize our operations and our workflow, but we have not advanced those plans to the point of execution yet. We feel it's in our best interests to digest the closure of these five locations first before we proceed with further consolidations.

Next, we spent significant time evaluating our sales and marketing spend to become more targeted and focused, ensuring that marketing and selling dollars that we spend are being allocated as efficiently as possible to drive both additional penetration and continued growth and sell through in the national platform. This was a major overhaul by our sales and marketing team, and they worked extremely hard on this.

Finally, like all the other areas of the business and the P&L, we've been tightening up our spending and trimming our G&A expenses. Going forward to help investors understand the true cash G&A versus non-cash expenses, such as amortization of intangibles and depreciation, we will breakout in our financial reports the cash and non-cash G&A expenses in our financials in order to orient the cash spending versus other non-cash expenses.

The net effect of all these items is a financial model that, if we execute to our plans, projects us achieving an adjusted EBITDA profitability in the fourth quarter of 2020. Please note, however, we are still very focused on growth for all of our brands and leveraging the national platform and we are by no means complete in our evaluation of how to run the business in a more efficient manner.



We are still working through the business and anticipate further optimizations. But we anticipate that once we get the business in balance, we will seek to use some of the cash flow provided by the improvement to fund marketing and sales expenses in the future to drive revenue.

Now, let me turn the call over for any questions. Operator?

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question, please press "*", then "2."

Our first question today will come from David Bain with Roth Capital.

David Bain

Great. Thank you so much and appreciate the update. Just to run through the numbers again, Robert, on Redneck, did you say 12,800 for the quarter...fourth quarter, cases?

Robert Manfredonia

Hi, David. Yes, we said 12,800 cases for the year...for the year meaning that was the difference between '18 and '19.

David Bain

Right. Okay. So, I guess, I'm just trying to look at my fourth quarter numbers and reconcile a little bit. Can you give us some sense as to the canning revenue number?

Robert Manfredonia

Larry, do you have the canning number information to provide?

Lawrence Firestone

I actually...yes, I don't have that number rolled up at this point.

David Bain

No problem. Okay. No...

Lawrence Firestone

That's not one that we have finalized yet.

David Bain

Okay. I'll follow-up maybe offline or something. But...and then the one area and 1Q, the segment that we didn't get visibility, I think for kind of case volume expectations was Burnside. Do you have anything there?



Robert Manfredonia

With the expectations for 2020, David?

David Bain

Yes, I think you have given some 1Q Azuñia and 1Q Redneck expectations. I was wondering if you had Burnside as well?

Robert Manfredonia

No, we don't, because Burnside and Hue-Hue will be entering into the market and in all probability, late February, early March. The states I outlined that will be going into, most of the programming, and the distribution build-outs are going to be in April and May. So, we're finishing up not to get too far in the weeds, but we're finishing up our annual business plans now over the next two weeks. And then with that, we'll start laying out to the market short of all the beginning, seeding for both of those brands.

David Bain

Right. Okay. And now you mentioned, I mean, monetization is part of the overall strategy. Maybe if you could provide us a little bit more color as to what that could look like. Would that be, you know, less core brands, so to speak? Would it be in Oregon portfolio at this point in time? Do you believe that there is buyer appetite for items [indiscernible]?

Lawrence Firestone

Monetizing selling brands are our portfolio, yes?

David Bain

But I think on the...

Robert Manfredonia

Yes, go ahead.

David Bain

I was just wondering if that was a 2020, you know, potential event and your strategy behind something like that?

Lawrence Firestone

Yes. Here's the way we are looking at it. And I would say this is early in the characterization of the strategy. But as we've looked at it, we think where we play an incubating brands from the zero to 100,000 case a year level and from 100,000 cases north, you know, if that makes sense, that's when the big players would pick it up and take it forward. So on the local level in the Oregon market I don't think I've got a marker yet for the top end before it would trade into somebody else's...somebody else on the local level's hands for Portland brand, and I think we're really more...Robert and I are more thinking that, we can mature some of these brands like a Burnside and Hue-Hue and then eventually some of the gin products and whatnot into the national platform. I guess that's the sort of the...the funnel that we're looking for.

Robert Manfredonia

Okay, David, I can get to a little bit more on that. And I'll take it from a different perspective. What we've tried to do is with Redneck, we aligned the brand first with the market appetite, right? If the transactional data retailers, wholesalers are saying categorically this is where we want to go, this is where the push will be, retailers are providing the same Intel, that's how we want to navigate our business. Redneck Riviera



is an above premium position brand, check. That's where it should be within the whiskey...American whiskey space.

Azuñia is in a above premium luxury position, right? Check that...so that's where the data say is the highest growth is. Craft Whiskey with Burnside, and then, same thing applies and then with Hue-Hue, we see luxury position rum is the one segment, one price segment that is growing exponentially within rum, all the other ones are in decline. So, we're just following the data so to speak, and making sure that we're in complete alignment. We're not going against it, which is a lot more costly and takes a lot more time to convince people to go, so we're just kind of following the trend lines.

David Bain

Now, that makes complete sense, I probably wasn't clear. I'm traveling, sorry but from a divestiture standpoint potential, is that something that can be looked at in the Burnside category or?

Lawrence Firestone

Yes, at the same levels that I described, We see ourselves playing in that arena.

David Bain

Okay. And then, just sorry, last one. I guess, if I look at Redneck, Robert, 9,000 to 10,000 points of distribution. If I look at the silos of those distribution points, is there kind of like a read through or the back of the envelope case number that we can look to, if you don't get anything else this year, that you can expect at this point?

Robert Manfredonia

On total cases, if we don't have incremental growth of x...can we provide that approximation? I mean, we can, or we can hold that for a different time, what's best?

Lawrence Firestone

Yes, I think we'd rather see us vet that number a little bit, but I see where you're going, David and I think that's a good, that's probably a real efficient way for us to communicate the growth in our market to the investors. But Robert, let's take that offline and then figure out how maybe we can introduce that on the March call.

David Bain

Okay.

Robert Manfredonia

David, one thing I mentioned with our notes previously is that, we're starting now to have a continuation of as an example, Costco. We're running a program in Louisiana at all their buildings, their first orders, nine pallets. We're excited about that. That happens by them reading the data on what they're seeing across the country, and then previous programs at Costco. Rite Aid is another great win for the brand where it's the first entry into the drug sector, which is a very advanced class trade. So, we're happy with the development.

I think the thing that we want to focus on is rate of sale, rate of sale, rate of sale. And then, continue to be very careful and selective with the distribution growth that we have. That's incremental, right? Work on the organic business, let's focus on that. So that's part of the marching orders.



David Bain

Awesome. Okay. Thanks again for the transparency and I know, and let's just be happy with the profitability projection that you gave to them. I appreciate it.

Lawrence Firestone

Sure.

Robert Manfredonia

Thank you, David.

David Bain

Thanks.

Operator

Again, to ask a question, you can press "*", then "1."

Our next question comes from Ian Gilson with the Zacks Investment Research.

Ian Gilson

Good afternoon, gentlemen. First question, with all of the adjustments, changes, and then reduction in staff, are there any charges to be taken in the fourth or first quarter?

Lawrence Firestone

Yes, we will be taking some charges against the P&L in the fourth quarter related to the shutdowns. We don't have those fully baked yet, but you'll see. And we'll carve those out in the March call and also on the...in the press release, so people can identify with them. And then in the first quarter, I think it'll be pretty marginal and mainly non-cash.

Ian Gilson

Okay. On Burnside, Burnside is quite heavily weighted towards the ground spirits market and you haven't discussed or spoken about the vodka side of that business. How is that going? Is that going to be expanded, continued, going national or kept local?

Robert Manfredonia

Good question, again.

Lawrence Firestone

Robert, I'll let you take that, yes.

Robert Manfredonia

Yes, yes. The Portland Potato Vodka business all sizes and it's primarily 750s and half gallons 175s. In Oregon it's a very healthy, somewhat scalable business in that given market, growing very nicely without a lot of deep discounting. So, it's effective just on brand. But we don't see that being something at least at this point in time that we want to breakthrough to the national market.

Vodka, as you probably know, above premium where that brand is positioned at is heavily discounted, very costly, and it's in a slight decline, when you take Tito's out of the mix. For us to breakthrough would be very difficult to do. So, we're consistently looking at the transactional data and seeing if there's a place



for it. But really the big four that Tier one will be the brands that we mentioned: Azuñia, Redneck Riviera, Burnside, and Hue-Hue. And then, we'll have a Tier two and we're looking at opportunities and if they present themselves. Then we'll do our due diligence to moving in or not based upon the market conditions.

Ian Gilson

Yes, when you look at Burnside, you've got what one, two, three, four, five, or so different entries in that business not counting Hue-Hue.

Robert Manfredonia

Yes.

Ian Gilson

Are you going to nationalize that or keep it similar?

Robert Manfredonia

No, no, that's nationalized that will be in about nine states, high spirit states, right, large populations -- Florida, Texas, Illinois, Washington, Arizona, and I can keep going. But the idea there is each state kind of has what it's looking for. Some are looking for blended spirits. Some are looking for ultra-premium Bachmann's-type brand, which is an \$80 brand. We fit the brand to the marketplace and make sure that we just kind of synergize with it. So not all five brands will come out of one. In all probability, we start with three within a given market, a ride that will fit into Arizona, as an example, and two others. And then we will incrementally grow from there, but the idea is not to force things. It's just to read the market and follow the brand sort of business behind what the market can bear.

Ian Gilson

Clear. How about the RTD business?

Robert Manfredonia

The RTD business, that's a great question. Howdy Dew, which is part of the Redneck Riviera branded portfolio, lime-based product. We are starting now to move into pretty much most of the Redneck Riviera states and we are already starting a program that's out in places like Florida where we have a customer called Winn-Dixie, a major grocery outlet called Winn-Dixie. And now we are going to be one of their featured items in the month of February. So, we are starting to bring it in. There is an appetite for RTDs, you've seeing what's going on with the [indiscernible] and all types of seltzers. We think there is an opportunity there and also there is a different class of trade that we can move a Howdy Dew-type of brand and which is the convenience sector, single serve, so we are revealing how to capitalize on that also. So that is part of the plan moving forward.

Ian Gilson

Okay. How are we doing in finding a Chief Financial Officer?

Lawrence Firestone

Yes, we are working on...we have one candidate we are finalizing on to join us in an interim capacity. It's a gentleman that I've worked with before. And I expect him to join in the next week or two.

Ian Gilson

You said that's on an interim basis?



Lawrence Firestone

On an interim basis, yes.

Ian Gilson

Okay, fine. Thank you very much.

Operator

Our next question comes from Joe Reda with Special Equities Group.

Analyst

Hi, it is Tyler Berry sitting in for Joe. Just had a few questions. How much have you drawn on the working capital line so far?

Lawrence Firestone

We are at about \$6.2 million, just sort of ballpark off the top of my head.

Analyst

Okay. Great. And you indicated EBITDA breakeven in Q4. What kind of gross sales or net sales do you need in order to achieve that?

Lawrence Firestone

Yes, we haven't given that guidance yet. We will do that as we go but it's certainly going to be...we are planning on up revenues from Q4 of 2019. And as Robert mentioned, you know we are opening the year with record sales, case sales in Redneck Riviera in Q1.

Tyler Berry

I am assuming that Q4 you will be fully deployed in Publix, Costco, and Rite Aid. Is that a good assumption?

Robert Manfredonia

Yes, Tyler, yes...well, it will well before that. So, the Rite Aid piece of it will be done June 1st. The shelves are supposed to be done by May 16. I mentioned June 1st because there is always a lapse. Publix is pretty much complete now and Walmart is...the authorization is already set. On all of those, the only one that's outstanding at this point in time is Rite Aid.

Tyler Berry

Okay. You said Walmart, I thought, is that something different then...did I miss, or you've said Costco earlier in the call.

Robert Manfredonia

Yes. Well, I did mention Costco, I did mention Walmart. Costco, what we are doing there is in and out programs with selective regions. Our first one that is locked in, we start shipping next week, is the Louisiana region. It is really part of Texas, but it is...Louisiana is where they have...where they have an openness to the programs that we want to run. And then we are going to be running some other things over the year with Costco, with different types of packs for not only that, we are also...we are starting to introduce in and out programs potentially for Azuñia with Costco, be it a Reposado or an Añejo for in-and-out programs. So, yes, that one is already confirmed. That's a pallet program so it is not just shelf. You know the Costco layout so that is...there is going to be pallets strapped on the floor in their buildings.



Tyler Berry

Right, right. Okay. And the last one is, post all the restructuring and cost cutting, can you give us an indication about what the dollar amount of operating expenses will be on a quarterly basis?

Lawrence Firestone

Yes, we will give that guidance as we get to the March call. I really want to get to the point where we have got the dust settling around the closures and what not.

Tyler Berry

Got it. Okay. Great. Thanks a lot. Good luck, guys.

Lawrence Firestone

Alright, thanks, Tyler.

Operator

Our next question comes from Ross Taylor with ARS Investment Partners.

Ross Taylor

Gentlemen, I would like to thank you for what is a completely changed tone of the call. That's nice to hear professional management actually operating.

Lawrence Firestone

Thanks Ross.

Ross Taylor

I would like to get into two things. One, you did a refinancing. Are you confident now that your current financial structure carries you through whatever plans you have for this year?

Lawrence Firestone

Yes, that's the way we designed the operating plan for 2020. So that's the framework we ran in and of course, as you know, the business has to live within its skin, so that...

Ross Taylor

That's actually fantastic to hear because the obviously, the market still seems to be afraid you're going to be forced to do an equity offering and it's good to hear that we can put that to rest. Second, as we roll forward, you talked about a number of brands and labels that you are working to move them nationally. Can you give us an idea of what kind of case...if we are looking out two, three years, where should we be with things like Hue-Hue, Burnside, the Waco business and others? It would seem that you have...that in that timeframe you should be able to grow in a number of these businesses to that kind of low end where they might be monetizable.

Lawrence Firestone

Yes, Robert. Do you want to take the...kind of the trajectory of that? I would say the nuts and bolts of the mechanics of implementation, and then...

Robert Manfredonia

Yes. Well, there's a lot there, Ross. I'll just give you a little bit of how we're trying to work the portfolio because all these brands kind of work a little bit differently. In the sense of Redneck Riviera was an off-



premise first brand, which is ultimately where you want to go. The development sort of pace was a lot quicker than most brands. Azuñia is a traditional brand, as Burnside and Hue-Hue will be also. So, there are going to be on-premise brands. Then they'll sequence into the off independent then corporate retail.

The hope is that we start to as quickly and appropriately as possible, try to get them to the off because that's ultimately where you can scale up the business. That usually takes from, let's call it, the start of the off-premise and getting balanced within the business, it takes about two and a half to four years before you start to have a balance between the on and the off. The other thing that we're going to try to do is try to bring it, I mentioned, about eight states that we're going to start with. My hope is that those eight states will turn into 16 states because we have distribution, we have relationships with our wholesaler network. And we can kind of do both -- have a balance with the on and the off over the next couple of years with those brands and also start to accelerate the pace of state entrance based upon fit. And I use that word "fit", I always want to make sure that we are not trying to force something into a marketplace or force it into a class trade, because if it doesn't perform properly, even if it's just it's too young, the market's not forgiving.

So, we try to be...we try to be very, very appropriate as we bring brands into a class of trader into a state. I think the four brands that we mentioned, Azuñia getting over to the off-premise that will start this year, and then Burnside and Hue-Hue will probably start to move over in middle of '21 into '22.

Ross Taylor

Okay. And so, you obviously now have put together this soup-to-nuts kind of distribution network. Can you talk about how you're seeing that integration going? Are you...is it ahead of schedule, behind schedule? And then after that, can you talk about the profitability in the canning business, and how you decide to allocate in resources for internal products versus, you know, canning for external sources?

Robert Manfredonia

I'll take the first part of that, Larry. We're on track with the timing sequencing of bringing the brands into the marketplace. So, all of our annual business plans are being finalized right now, which leads into...we're going to start shipping product in late February, March into those markets. It'll start hitting the shelves in March and into April. We're ready for sort of decline of the late spring/summer and then where most of the action is in the final trimester of the year.

So, we're right on schedule with the four brands, so really with the three brands, Azuñia, marrying up with where Redneck is, and then bringing the two other brands. We did a preliminary presentation to all of our major distributors, Illinois, Florida, and they liked directionally what we're doing. And they are taking all those brands. It's not a foregone conclusion just we had a brand, they take it. They're very selective with what they take and they're very...they're very optimistic and very excited about what we have to offer.

Ross Taylor

Okay, and the canning...?

Lawrence Firestone

Yes, the canning business. As you know, that's...it's a half vertical integration and half with the side order of revenue and cash flow. So, on the vertical integration side, the Craft Canning folks would be the ones that would be, you know, we would utilize them in the capacity of canning how you do products, any of the RTDs that we...that we push through under our brands. And then also, that group does RTD products for other companies as well, and therefore, in some cases, prime capacity and in other cases, you know,



overcapacity for surge times when folks are hitting holidays or whatever. And the profitability on that side is-- it's actually...it is pretty steady in the, you know, I'd say in the 40% to 45% gross margin range. We run a low overhead operation so it's...it has a nice...a nice effect on overhead coverage, if you will.

Ross Taylor

Okay, then I just like to suggest that you guys find yourself back on the East Coast in the reasonably near future to meet both shareholders but also new prospective investors. And as I said it...to me, I must also amaze that the stock seems to ignore all the progress you guys have made. And I think that this is a totally different company. It's a much more valuable company today than it was a year or two years ago, even though the stock is selling at a fraction of what it was selling at then. And I want to thank you guys for the efforts you made to transition this company to where it really looks exciting going forward.

Lawrence Firestone

Well, I know we're excited. Thank you. Thanks for those comments.

Robert Manfredonia

Thanks for the support, Ross. Thank you.

Ross Taylor

No problem. Thanks.

CONCLUSION

Operator

As we have no further questions. This will conclude our question-and-answer session.

I would like to turn the conference back over to Lawrence Firestone for any closing remarks.

CONCLUSION

Lawrence Firestone

Thank you, operator and thanks again, everyone for joining us on the call today. And a special thanks to our employees who are working double time to drive growth and market penetration while we transform Eastside Distilling into our vision of becoming a well oiled public house of brands that acquires, develops, markets, and sells branded spirits on a national level, and then sell those brands when they are proven and ready to be acquired by larger players in the industry.

As I'm sure you all know, plant and retail closures are never pleasant. But we feel it's a good first step towards bringing Eastside to the in-state business model. I personally look forward to speaking and meeting with you in the weeks and months to come. And just a note, and this will go along the lines in what Ross was just mentioning, we will be presenting at the ROTH conference in Newport Beach in March. And also, we've been invited to present at the Oppenheimer Growth Conference in May in New York City.



So, with that, I'll just thank everybody again for your support and have a great rest of your day or evening. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

