

EASTSIDE DISTILLING, INC.  
(NASDAQ: EAST)



## Corporate Update Conference Call To Discuss Management Changes

Friday, October 11, 2019  
9:00 a.m. Eastern

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### CORPORATE PARTICIPANTS

**Paul Shoen** – Chairman of the Board, Eastside Distilling, Inc.  
**Steve Shum** – Chief Financial Officer, Eastside Distilling, Inc.  
**Robert Manfredonia** – President, Eastside Distilling, Inc.  
**Robert Blum** – Managing Partner, Lytham Partners

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### PRESENTATION

#### Operator

Good day and welcome to the Eastside Distilling Corporate Update conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on a touchtone phone. To withdraw your question, please press star then two. 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

Thanks so much for this call. Good morning, everyone, and thank you for joining us today to discuss Eastside Distilling's recent management transition. I'm Robert Blum of Lytham Partners and I'll be your moderator for today's call. Yesterday afternoon, Eastside issued a press release and 8-K regarding a management change and operations update.

Joining us on today's call to discuss this transition is Steve Shum; Paul Shoen, Eastside's Chairman of the Board; and Robert Manfredonia, the company's President. Following their remarks, we will open the call to your questions. Before beginning 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, anticipates, 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.

Such matters involve risks and uncertainties that may cause actual results to differ materially include but are not limited to the company's acceptance and the company's products in the market, success in obtaining new customers, success in product development, ability to execute its business model and strategic plans, success in integrating acquired entities and assets, ability to obtain capital, ability to continue to ongoing concern and all the risks and related information described from time to time in the company's filings with the Securities and Exchange Commission, including the financial statements and related information pertaining to the company's annual report on form 10-K for the year ended December 31, 2018 filed with the Securities Exchange Commission on March 28, 2019.

Now, I'd like to turn the call over to Paul Shoen. Paul, please proceed.

**Paul Shoen**

Thank you, Robert, and good morning to all of you. We wanted to take a few minutes this morning to provide an update to you on the transition in management and provide additional color on the operations of the business which remain strong. As I'm sure all of you saw, Steve submitted his resignation as the interim CEO of the company, effective immediately, to pursue a CEO position with another company. He has agreed to remain in his CFO capacity through the end of the current quarter and ensure a smooth transition.

I want to, first off, thank Steve for his hard work and dedication to Eastside over the last number of years. His efforts, along with that of the entire team, have helped to successfully position Eastside as one of the fastest-growing craft spirits companies in the country with an exciting portfolio of products and a platform that only a few very large spirits companies can claim.

While we will certainly miss Steve's leadership, he will be the first one to say that the team at Eastside is capable of reaching the objectives that we have all set for the future. With that said, the board is committed to running a process to fill the vacant management positions at Eastside with our initial focus on the CEO role with an objective to find the best talent available to lead the company into the future.

We have both strong internal and external candidates that we are considering and once we complete the vetting process, we'll move quickly but carefully to fill the position. Further, the board is committed to enhancing shareholder value. Working together with our management team, we have begun a strategic review and evaluation of a number of strategic directives aimed at maximizing shareholder value.

Again, I want to thank Steve for his many contributions to the company and look forward to working with him as consultant with the management and board of Eastside going forward.

Let me now turn the call over to Steve. Steve?



**Steve Shum**

Thank you, Paul. Good morning, everyone. I would like to sincerely thank the entire team at Eastside, including the board and all of our shareholders for the opportunity and support provided over the last few years. This has really been a tremendous experience helping to build the company from nearly the ground up and see the opportunity that we have before us to create a great spirits company.

I believe the team at Eastside has created an incredible foundation over the past several years and is poised for success in the future. I'm committed to helping Eastside on an ongoing basis. I want my stake in the company to become much more valuable and firmly believe that will happen over time. I'm also committed to an orderly transition and intend to remain in the CFO capacity through the filing of the 10-Q. I've also made it very clear that I welcome an opportunity to continue to assist the company in any way possible going forward.

I would like to thank all of you that have supported Eastside over the years. I have confidence in the company that's created something truly unique that will drive value for shareholders.

Let me turn this over to Robert for a brief update. As you can imagine, we are finalizing the quarter and therefore need to be cautious in providing specific financial details until that financial review has been completed. Robert?

**Robert Manfredonia**

Okay, thank you Steve and thank you Paul, and good morning, everyone. We are, as Steve just mentioned, finalizing our financials for the third quarter but we did want to provide an overview in a few key areas. First off, Redneck Riviera surpassed our expectations by setting a sales record for the third quarter, with what looks to be approximately 10,000 cases sold for the quarter. To put that in perspective, Redneck Riviera sold just under 10,000 cases for the first half of this year.

The sales initiatives we discussed on our last conference call are playing out and we anticipate the fourth quarter will surpass the third quarter. Turning to the Azunia acquisition, the integration is progressing well, and we are actively engaging off premise major retailers right now. We have also started our wholesaler consolidation discussions to align Azunia and the Redneck Riviera portfolio. We've also completed our initial team cross-training and territory mapping that we discussed on our September conference call. The Azunia Tequila brand provides us with a second national anchor brand along with Redneck Riviera.

In closing, I want to express my deep appreciation for everything that Steve has done for Eastside. He has made an immense contribution over the past few years and has been central to the organization and the development of the company. His leadership has helped take us through a period of incredible growth and I wish him every success in his future endeavors.

With that, let me turn the call back over to Paul. Paul?

**Paul Shoen**

Thank you, Robert. As Robert stated, we remain optimistic for the remainder of the year. We look forward to speaking with all of you again in a few weeks when we release our complete third quarter financial results. We would now like to turn the call over to any questions.





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## QUESTION AND ANSWER

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**Operator**

Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two.

Our first question comes from David Bain of Roth Capital. Please go ahead.

**David Bain**

Great, thank you. My first one, Paul, would be for you. In the press release and you mentioned in the prepared remarks that you're working together with management to begin a strategic review to maximize shareholder value. Can you give us a little bit more color, or expand on that comment a little bit?

**Paul Shoen**

I'd rather not comment on it at this time.

**David Bain**

Okay, fair enough. Then, Robert, I think that you're de-facto day-to-day leader. When you look at everything that you and Steve have kind of put together, is it fair to say that you're pretty much in lock step there and there's not going to be a lot of strategic directional changes or are there some thoughts on that?

**Robert Manfredonia**

No, David, and good morning. You're completely accurate. No, our alignment that we've set forth with the structure, the strategy, the tactical elements, the implementation that cascades through the sales force across the country will not change at all. That alignment, we've put a lot of thought into. We have a clarity of direction and process, and we'll continue to move in the way that we've expressed to you and everyone over the last couple of calls. That won't change at all.

**David Bain**

Okay, and then, just my last one if I could, also, Robert, on Azunia, it seems like things are going a little bit faster, in terms of integration, than expected. I'm wondering, like since close, do you have more confidence in maintaining the 37% DTM growth level that they had previously and maybe some of the benefits to Redneck or any other thoughts since close?

**Robert Manfredonia**

Yes, I won't touch upon where we think the projections are going to be, David, but I will say that we've had, in essence, a month, just about a month with the brand and as I mentioned with my prepared remarks, we've already started quickly presenting the brand to all the major retailers across the country: grocers, national corporate customers, even the Navy and the Air Force over the past two weeks and the reception's been incredible.

So, what excites us is the ability to have, sort of, a portfolio of brands, the platform that we've spoken about over the past year and really the highest growth trajectory categories, which is whiskey and tequila within the above premium and the luxury position subsegments. So, we couldn't be more excited from the reaction of, not just retailers, but wholesalers and the value we now provide to them.

So, everything that we thought this was going to be has played out, at least in the first month, so we're excited. All of the integration processing, the team's been down to Mexico, all of the planning and training and cross-training has already taken place, so we're ahead of schedule with our initial integration planning.

**David Bain**

Great, and then, just finally, Steve, congratulations. Good luck going forward. I look forward to working with you still during the transition.

**Steve Shum**

Thank you.

**Operator**

Our next question comes from Ross Taylor of ARS. Please go ahead.

**Ross Taylor**

Thank you. Steve, first, I know how excited you've been about what you and the team at Eastside have built, so I know that this was not an easy decision for you and that tells me how great the opportunity in front of you is, so I want to congratulate you on that opportunity and thank you for all you've done for the company and for shareholders while you've been at Eastside.

I'd also like to say that if the Board, in its infinite wisdom, decides to offer you a seat on it, we at ARS would not be uncomfortable supporting that because we do believe you've been an excellent bridge between the company and its shareholders and have a good feel for what our issues are and what the company is doing.

But, I'd like to move beyond that and I'd like to first, on your last conference call and then earlier on this call, it's very clear that the team at Eastside is exceptionally excited about what Azunia brought to the company, which to us looking at it is really the last leg in the stool, which over the next 12 months to 18 months should prove out that Eastside is not a company operating a limited number of brands but rather a platform that's going to be able to grow and market brands on a nationwide basis. In essence, that you've finally become the brand factory that has often been talked about.

I want to ask, there's nothing about your enthusiasm, or the board's enthusiasm, management's enthusiasm which has diminished in any way since the Azunia acquisition was announced, is there?

**Steve Shum**

Not at all, Ross. I mean, first of all, thanks for the kind words and yes, this was a very challenging decision, as you and I spoke about and my enthusiasm for Eastside is at the same level it always has been. I think the company is on a path to do amazing and great things and as I've expressed to everyone, I'm looking forward to continuing to support the company in any way possible and I'd like to remain involved in any capacity that makes sense because I think it's going to do great, and I'm very excited about it.



**Ross Taylor**

We would agree with that. There's a lot of ink in the release about your leaving and about the process of replacing you but Paul did mention what I think is the single most important line, so I don't mean to be offensive, in the release, which is that the company is working together with the management team. The board has begun a strategic review and evaluation of a number of strategic directives aimed at maximizing shareholder value.

Now, I've been in this business for over three decades and that line only shows up in releases for one of three reasons in my experience. The first reason is that the company is under severe pressure from its investors and shareholders to put an end to the shareholder's pain and to get the company sold so that shareholders can get out of an uptick and deploy their capital elsewhere.

The second is that the board is basically at wit's end as to what to do to get value out of a company and it's throwing in the towel, and the third is that someone's approached the company about a strategic or business combination that would transform the relationship between the company and its shareholders. That's a long-winded way of saying someone either wants to buy, merge or undertake a serious JV with the company.

Since, I'm one of your largest holders and I've heard from no large holders about being upset about the way the company is being managed in direction, I know it's not the first of those, and I know it's not the second because of the enthusiasm you guys all have and the model you've built and simply the fact that you're on the frontend of really proving that out over the next 12 months or so.

So, am I wrong to assume that the reason why that last line in paragraph 2 is there is because someone's approached the company about such a potential transaction?

**Steve Shum**

Yes, Ross, sorry. We really would have no comment on that right now.

**Ross Taylor**

Okay, so I would assume that if I was completely off base, I would be told you're completely off base, so in many ways I'll take no comment as a yes and I'll only say that I think, we, as large holders, are very excited about what we see going on here and we believe very much in the opportunity here and that whatever steps the Board takes, we're comfortable given the nature of the character of the Board and the people on it that the decision will be for the best interest of Eastside shareholders and we're excited to see what that that opportunity or those opportunities that you're reviewing are and how they play out for us. So, thank you very much and thank you once again, Steve, for being such an effective bridge.

**Steve Shum**

Thanks, Ross, appreciate it. Thank you.

**Operator**

Our next question comes from Ian Gilson of Zacks Investment. Please go ahead.



**Ian Gilson**

Good morning, everyone. If we at Zacks can do anything to help you, please let us know. I know that the recent acquisition is important. I know that the rich relationship is important but how is the rest of the business going? How is Burnside doing and how is the canning operation, which has been one of the growth areas over the past few quarters?

**Steve Shum**

Well, I mean Robert can also answer this. Again, the advantage of the Azunia acquisition helps accelerate our goal of exercising a national distribution platform and it also helps the facilitator to some of our earlier, smaller brands within our portfolio to help bring those into some of the opportunities and distribution that Azunia had.

So, I would say that it's early days but some of our other brands like Burnside we're very excited about and again, the Azunia transaction will be helpful in developing those brands a little more quickly.

**Robert Manfredonia**

Yes, I can add a little bit to that, Ian, also, just off of Steve's point. The way the Azunia brand is built and the positioning of it fits very well with brands like Burnside and even Hue-Hue, so part of the platform is making sure that we're very efficient with account [ph] depth and we're going to be able to use the Azunia brand especially and the Redneck brand, but especially Azunia and start to bring the brands out from Oregon, which was always our intention.

So, you will see a plan laid out in 2020 that will show the regional approach that we will take with those particular brands, and other brands that we have plans for that will be laid out for next year and subsequently over the next three years.

So, we're really excited about what Azunia provides, as for the platform, but also sort of the gateway effect that both brands, Redneck and Azunia, provide us for other initiatives that we have that we're going to move very fast with.

**Ian Gilson**

And, the canning operation? You'll be expanding that outside of Eastside to third-party customers?

**Steve Shum**

Yes, the co-packing operation is doing great. We remain excited about that, the full side of the business, as we've talked about. It's a great compliment to the branded side of the house and it's doing quite well.

**Robert Manfredonia**

And, Ian, one other question that you had was on Oregon, separately, because we kind of handle Oregon, being home base, as a separate business unit, and September was a net income profitable month for us, so we're very excited about the right-size initiative that we put forth and some of the adjustments we did with the operating plan there.

What we've put forth over the past three months has seeded [ph] and from a performance standpoint we executed, and the team did a really good job with that, so we're excited about where we are and where we're going to finish the year.



**Ian Gilson**

Great, thank you.

**Robert Manfredonia**

Thanks, Ian.

**Operator**

Our next question comes from Robert Grammen of Azunia Tequila. Please go ahead.

**Robert Grammen**

Yes, thank you. Well, in light of the prior questions, whether Eastside is selling or not selling, I think it's incumbent upon us, as shareholders and Board members, to take the attitude we're going to run the business like yard selling it because things don't always work out the way you think they will as it relates to that, so I'll start with that and also, congrats, Steve, to you. You're a talented guy. We're sorry to see you go but people have to do what's best for them. We only wish you the best.

But, losing Steve creates a big hole in our executive team and the skillsets. By the way, we're also huge fans of Robert and I think everybody on the phone is as well and, in that regard, Pat and I and the Azunia team always felt like there was terrific chemistry between the two. Robert's a terrific, nationally known guy that can get off premise stuff going. He's an entrepreneur, he's a rainmaker, and also leader Steve, a great leader that was running the company and had huge financial skills.

And we're a public company, I think all of us on the phone know what that means. If you trip on a few things, with releases and 10-Qs and 8-Ks and PR and all of the things of running a public business, that I'm just curious to see if the Board is considering someone with strong CFO sort of skills and maybe considering Robert as a CEO type. Maybe I shouldn't even say that but I will because that's the way that I feel about it personally, but anyway, I'll leave it to that to see how we're going to fill the huge hole Steve's going to create on the CFO, the public side, the running of the nuts and the bolts of a public enterprise which can be crucial to staying in compliance and doing things right.

**Steve Shum**

Bob, I'll let Paul answer part of that too, but I do want to reiterate that Eastside is really a team effort and there are great people and a strong team out there on the staff and I think that again, I also am remaining involved so from my perspective, we're not going to miss a beat. We're not going to miss anything and I'm confident about that. Do you want to add, Paul?

**Paul Shoen**

Sure. Yes, thanks for the question. I think you covered a lot of issues. What we are looking for is first of all, a CEO and when we find the right person, they'll hire a good CFO, and the Board is going through the process. It's a disciplined process. We have candidates both inside and outside the company and it's going to take a little time, but we're focused on it and it's going to happen.





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## CONCLUSION

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**Operator**

This concludes our question and answer session. I would like to turn the conference back over to Paul Shoen for any closing remarks.

**Paul Shoen**

Again, we look forward to speaking with all of you in a few weeks. The company very much appreciates your participation and support. Thanks a lot, and everybody have a good day.

**Operator**

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

