

EASTSIDE DISTILLING, INC.
(NASDAQ: EAST)



**Second Quarter Fiscal Year 2019
Financial Results Conference Call**

**Wednesday, August 14, 2019
5:00 p.m. Eastern**

CORPORATE PARTICIPANTS

Steve Shum – Interim Chief Executive Officer & Chief Financial Officer, Eastside Distilling, Inc.
Robert Manfredonia – President, Eastside Distilling, Inc.
John Rich - Founder, Redneck Riviera
Robert Blum – Managing Partner, Lytham Partners

PRESENTATION

Operator

Good day and welcome to the Eastside Distilling Report's Second Quarter Fiscal Year 2019 Financial results. 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 Mr. Robert Blum. Please go ahead.

Robert Blum

Thanks so much Shawn and good afternoon, everyone. Thank you for joining us today to discuss Eastside Distilling's financial results for the quarter-ended June 30th, 2019.

As Shawn indicated I'm Robert Blum with Lytham Partners. I will be your moderator for today's call. Earlier, Eastside issued their second quarter 2019 results in a press release, as well as, filed its 10-Q.

Joining us on the call today to discuss these results are Steve Shum, Interim Chief Executive Officer and Chief Financial Officer and Robert Manfredonia, Eastside's President.

Following the remarks, we will open the call to your questions. Please note that there is a slide presentation that will accompany a portion of today's call. Those of you listening on the webcast will have

access to it through the webcast portal and a copy is also available on the company's website under the Investor Relations' section.

Before we begin with prepared remarks, we submit for the record the following statement. 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 and 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.

Such matters involves 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 as a growing 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 31st, 2018 filed with the Securities and Exchange Commission on March 28th, 2019.

With that said, I would like to turn the call over to Steve Shum. Steve, please proceed.

Steve Shum

Thank you, Robert. We would like to thank everyone for joining us today. We have a fair amount to cover on the call. So, we thought we would change the format around this time to start with quickly recapping the results in the second quarter, so we can spend more time reviewing our current positioning as a company, the business trend, and our general outlook.

The gross sales topped \$4.25 million in the quarter, an increase of 154% over last year. Net sales increased \$3.9 million, up 155%. As we stated on our first call...quarter call, aside from expecting sequential revenue growth, we also had two other key goals for sequential improvement over the first quarter of this year, gross margins and the EBITDA loss. Gross margin on net sales improved 38% from 34% in the first quarter and the EBITDA loss improved sequentially to \$1.82 million, or roughly a \$300,000 improvement.

Branded case sales increased 57% over last year's second quarter and was down slightly from the first quarter of this year as the Redneck Riviera case volume was below plan for the quarter. We will address that in more detail as part of our outlook discussion.

Co-packing services grew 389% over last year as a result of the acquisition of Craft Canning at the beginning of this year, which added substantially to this part of the business. On a pro forma basis, assuming we'd owned Craft last year, the business was up 32%. Although, I would note, that Craft's



specific portion was up in excess of 50%. We could not be more pleased with how the co-packing business is performing and growing.

We closed the quarter with approximately \$768,000 in cash and a strong overall working capital position of just over \$12 million, which included \$2.2 million of accounts receivables and \$11.9 million of inventory. Additional details are available in the 10-Q, which is now been filed. So, I would like to turn the focus to the key business points along with our general outlook.

Let me first start by highlighting one of the main points we want to drive home, which is the value of the platform we have created at Eastside. We really look at it as a comprehensive end-to-end solution. Starting with our internal product development capabilities, and since our early days, we have always been known for creating great tasting products, thanks to our strong team of blenders and distillers lead by Mel and Travis.

In late 2016, we forged a strong relationship with Sandstorm Partners, something you have heard us highlight extensively which affords us the ability to create better packaging, branding and marketing of our products.

We have invested heavily in our production facilities over the past two years, including the recent acquisition of Craft Canning at the beginning of this year. This now affords us substantial production capabilities and expertise. To put that into context, we have a current run rate on our branded product business approaching 60,000 cases a year. However, we have the ability to produce around 500,000 cases of bottle products and over 2.6 million cases of can product per year.

As many of you realize, we utilize much of that excess capacity for our co-packing customers. So, we have the advantage of having this overhead production ability without the carrying costs. In fact, we make excellent profits in our co-packing business. We essentially get paid to have this excess capacity available to us. But the strategic advantage here is that we have the ability for the benefit of our branded business and that we could allocate that capacity overtime as the branded business continues to grow.

So basically, that is nice growing revenue stream and profit stream to the business, which helps offset the investment span we are doing to build the branded products, but it also supports the production needs of our branded business as it expands. All this was a critical part of our strategy and why we advanced the co-packing business.

And lastly, thanks to the success of the Redneck Riviera products, over the past year we have built out a national distribution networks working with tier one distributors across 46 states and direct relationships with major retailers like Walmart, Albertsons, and others.

So within this platform, we can create product, properly package and brand it, produce it in volume, and distribute it across a large national network where appropriate for the specific product type and its fit. We view this as something highly unique for a small producer and something the team has worked extremely hard to implement and something all of our shareholders should be excited about.

Now, the key as we move forward is to leverage this platform, driving increased revenue and operational efficiencies. The critical aspects of that goal is, of course, exercising the national distribution to bring other



products into specific areas. This might include utilizing existing products within our portfolio, newly created products or brands we might acquire that we believe can take advantage of the national distribution network.

To be clear, not all products within our existing product suite will be suitable for regional or national expansion, but our focus moving forward will be on identifying the ones that are. Also, our net product development efforts are now much more focused on only moving products forward that we believe have that potential and any acquisition targets must also meet that criteria. What this also means is that we are and have already begun reducing the number of new product initiatives in order to be more focused, and we have also identified older legacy products within the portfolio that we plan to discontinue. That focus is designed to keep us from having slow moving products drag down our overall growth rate. We want to focus on products that deliver real growth and positive overall contribution to the business.

Turning to the next topic, we have had a number of questions regarding the CEO position and my interim role. We and the board are not ready to provide any specific updates on this yet, but it is an active focus and is in process. I would like to say that this does not create any issue internally.

The strength of our entire team is great. We have excellent sales operations and management leadership with Robert and Jarrett, both are very experienced professionals. Robert is also doing a great job handling many other operational items within the company. On the production side, Todd Garret, CEO of Craft; Jonathan Gostnell and Tom Wood; along with support of Owen Lingley, the founder of Craft are doing a fantastic job running our production operations for both our branded products and the co-packing services.

Our accounting team is strong and performing well, it is a team sport at Eastside...that Eastside has developed incredibly strong group of managers that are focused, motivated, extremely capable, understand our mission. I am certain all of you have noted the recent board departures. We want to personally thank each of them for their service and contributions to help build Eastside. The remain board member support the current strategy and are working diligently to identify and bring on additional board members to ensure we regain NASDAQ compliance within the allowed grace period. While this is not how we would have preferred to have had events unfold, we are viewing this as an opportunity to reset the board and move forward. You will hear more about this in the weeks to come.

Moving to the next topic, while our working capital position remains strong at over \$12 million, we are actively pursuing options to further strengthen this position. For example, we have been working on utilizing our large inventory position as one non-dilutive solution to make sure we have adequate liquidity. We understand the shareholders are sensitive to ongoing dilution and we are always seeking ways to mitigate this as much as possible.

But that being said, we recently had approximately 366,000 warrants expire, although we would have liked those warrants to have been exercised and provide additional liquidity, we are not currently looking to conduct a large equity raise, especially what we consider to be a very undervalued stock price.

We have had several key long-term shareholders provided commitment to assist should we decided to supplement what we are working on with our inventory funding. We appreciate that show of support and commitment as a possible alternative to the expired warrants.



So, at this point, I'm going to turn the discussion over to Robert Manfredonia to take a deeper dive into second quarter results on Redneck Riviera and more importantly the current trends for this important brand within our portfolio.

Robert Manfredonia

Steve, thank you and good afternoon and good evening to the folks in the east. This presentation that we are going to go through is actually available on the website and on the webcast.

So, Robert, slide four, which starts with Redneck Riviera first half results. H1, 9,413 shipments, that's nine liter cases versus H1 2018 to 4,378 cases, that's a 126% growth year-over-year. Quarter two, 4,271 cases, quarter two 2018, 2,182, cases.

Depletions off premise represents 92% of the total volume, package mix the 750 package represents 90% of the total volume. It is also worth noting Granny Rich is now surging with interest and more importantly new distribution. We just secured our first corporate customer last week with ABC Liquor in Florida and we are presenting it as our number one priority outside of Redneck Riviera 750 with full assortment new presentations and we expect mainstream brochures to have it on the shelves in spring 2020.

Slide five, accounts sold towards points of distribution. Off premise represents 88% of the total distribution base. We are however spending special focus within the national account on premise segments. New accounts that have been secured include Logan's Roadhouse, 23 states, 175 locations. That will become operational September 1st. Jim & Nicks, Ford Garage, and Cody's Roadhouse, and we are also very excited to start a trial within Hooters within Florida; Coyote Ugly within Florida; and Hard Rock Café in Ohio, Sacramento, and Tampa, Florida.

Slide six, regional business unit volume breakdown, you can see the breakdown by regions. The central region is our fastest growing region. And it is the most balanced business with four states in the top 10. The southeast is disproportionately driven by Florida with 17% of the overall business and California is the far west driver, it's also worth noting 950 mandated points of distribution within corporate accounts off premise are now available and on the shelves.

Slide seven, forecasts challenges quarter two. Unfortunately, 65% up in new distribution that 1,600 of the 2,500 points of distribution, were set extremely late equating into a two-turn loss. This is inclusive of Walmart, VONS, Albertsons, Safeway, and some other selected grocers. So, there is timing vulnerability within our early stage brand reliant on disproportionate growth driven by incremental volume. The favorable news is always all distribution is now set on the shelf across United States.

Slide eight, customer input. We look at customers not only as the end users, but we look at wholesalers and retailers as very critical customers for us and we have a simple satisfaction classification. We look at satisfaction based upon, number one exceeding expectations, number two, being satisfied or number three, not meeting expectations.

And starting off with corporate customers, I would categorize all the customers that we currently have is exceeding expectations or at least satisfy with way to sale distribution. If you look at customers like Jewel and Meijer and Winn Dixie and ABC and Safeway, and I can get down the line, they are all data-driven



buyers. The point of distribution dollar contribution is the name of the game. So, it is a very quantitative process.

The favorable news is that we have exceeded their internal expectations and we are starting pick up second and third placements with existing customers. Tier one wholesaler inputs, we are exceeding their expectations also. That includes Illinois, Florida, and also California which is not mentioned.

Slide number nine, current transaction data. So, the next slides are four transactional data points inclusive of: Florida total market; Albertsons/Safeway, Washington, Jewel-Osco, Illinois, which is a subsidiary of Albertsons and Meijer Midwest, which is an independent grocer within five states.

Next slide, which is slide 10. Now, there is a lot of information, everyone on this slide. So, I'm going to try to make it as simplistic as possible. But this is Florida XAOC, which is short for Extended All Outlets Combined Transactional data. This is 24 weeks ending June 13, 2019. Just a quick explanation from left to right. Looking at the far left, you have the products. The second column is the dollar delivery brand ranking, then you have the scales unit performance, and on the far right you have the average retail price.

Slide number 12, so this is a little bit of where Redneck ranks within the total Florida market again, 24 weeks of information. Redneck now is contributing in excess of \$248,000 within a 24-week span. So, if you look at the far right notes, it's the 96 rank brand out of 483, which puts Redneck in the top 20% of all Whiskey brands within the State of California. Worth noting, total market distribution penetration is only at 48%. So, when we get to 100% and as you extrapolate where we are with the current trajectory, Redneck will be a top-50 brand. It is also worth noting that this does not capture mandated Walmart distribution, once we set that...that distribution is already set in store, when I captured. Once that is in place, and it is starting to be driven through the data, will be a 68% of total available outlets within the State of Florida. One other critical point is the average retail price is \$24.48. The EDLP, the everyday low price for Redneck is suggested to be at \$20.99. So, there is very minimal price reduction being done. So, there is two points to that. The consumer is picking up the brand at full price and we are making full margin cases, which is what our objective is, okay.

Secondarily, we have already picked up new authorizations in ABC and Winn Dixie, now we are going in, in the fourth quarter. The other thing that's worth mentioning is some of the highlighted brands below Redneck, those are brands that are multi-year developed, well-established with immense financial support and within the first full year of availability, Redneck is outperforming mainstream brands, like George Dickel, one example of that. Next slide, please.

Next is Safeway/Albertsons, Washington, this is a 52-week ending July 13th, 2019. You can see again same format with brand and in dollar contribution and retail pricing. Redneck is highlighted in yellow with \$72,000 of dollar contribution. It has been in the sets for 10 months and if you extrapolate over 12 months, that would be in excess of \$86,000 dollars of dollar contribution.

Brand ranking is 36 out of 83 and we are currently outperforming mainstream brands like High West and Old Forester, there has been minimal new competitive brands put into the set. We have had limited discounting. And then the last point is the most critical one, which is QFC and Fred Meyer, which are Kroger subsidiaries. Kroger authorized within their two chains mandated full distribution, based upon the



Safeway data. So, competitors look at each other, they see what is selling and then based upon that, that is the preferable way of making a decision for new entrants. Next slide, please.

Jewel-Osco which is an Albertson's subsidiary for the State of Illinois, 26-week brand and brand is being exercised because the other data was at SKU level, so within a brand the data that you see on the far left there could be multiple SKUs within it. So, if you look down below and you see Redneck in yellow and you go up forward to see an ELIJAH CRAIG with three. So, with three brands are contributing \$72,000 of dollar contribution, Redneck is already contributing \$46,000.

Far right notes. Within a 52-week trajectory, that is a \$100,000 plus of dollar contribution, this is being done with one SKU. Brand ranking is 27 out of 82, and then you can see below Rednecks some very well-established brands again.

Tin Cup being one of them, which is a Proximo brand, which also has Cuervo, Bushmills, Three Olives, Crack-in and several other advanced brands, \$30 million National TV budget and the dollar contributions below a one-year brand, such as Redneck.

Basil Hayden is owned by Jim Beam, George Dickel is a very well-advanced brand. And then, at the very bottom of the page you will see Whistlepig which is one of the harder brands out there with half of the dollar contribution of Redneck Riviera at this point in time. Next slide please.

Meijer, we only have our own internal data, because they won't provide the rest of the market information, but if you look at 12 weeks, and you look at \$38,000 plus of dollar contribution, that's exceptional. If you put that over 52-week span, that is \$180,000 plus. They have five states, we have already done our preliminary presentations, and early feedback is exceptional. And we expect to add another one-to-two placements for 2021, spring of 2020.

So really, the purpose of giving you this information is for several reasons. One is to see how we are doing versus competition. So now we have four data points within the Southeast, the Far West, and the Midwest. We also now have shown from this just this initial data that we are outperforming brands that are well developed a well funded within the first full year. And that is, that is exceptional. So that is kudos to the team and obviously to John Rich, who is a major part of it in driving the brands through and but the brand is doing exceptional, we are starting to add second and third points of distribution.

Next is the fourth quarter value-added tax, and this is the follow-up to the very successful 2018 Get Down kit. The package one bottle of Redneck Riviera 750 you can see at the left and 375 of Granny Rich to the far right, this is a \$20 value. Next slide please.

This is the back of the box if you haven't seen it. This will be in your local stores in September. The value-added pack provides us visibility in trial in the all-important fourth quarter. So, the way the market works is if you are not a top 15 mature brand, and you don't have a compelling VAP, you are not available on the floor. It's exceptional that we have been able to have our second VAP package which is completely different than most of the VAPs out there. And that is in part why they Get Down kit is so well last year, and we expect the same amount of the Granny Rich package moving forward. So, this is really, really exciting.



So, with that, it is my pleasure to introduce a special guest, the founder and owner of Redneck Riviera, John Rich. John, good afternoon.

John Rich

Hi, Robert, thank you very much. And thanks everybody on the call, I have been listening to Steve and Robert go down through this information, which I'm very well acquainted with as we work and speak together on a daily basis.

I wanted to be on this call, because I know who always listening--all of our investors, people that are looking at Eastside and watching this very closely. And without hearing from me directly, you might not fully understand the scope of the amount of effort and leverage and heat that is being applied to this brand. So, I just wanted to go through a few things.

First of all, before I get into some stats here, I want to say thanks to Steve for being a very steady, solid guy. And a guy that has a lot of passion for Redneck Riviera, for Eastside, and for hiring people like Robert Manfredonia, and Jarrett Catalani, who then have hired people out in the field that I have worked side-by-side with...at this point literally hundreds of occasions with this team.

And as you know, I come from the music business, which is one of the most cutthroat competitive environments a person can find themselves in. And so when I stepped in to this arena of the spirits world, I found myself standing side-by-side with people that I would walk into a site anywhere anytime, I truly believe we have one of the most bulletproof teams out there down to every single member, seeing people do things above and beyond their job descriptions, doing whatever it takes to make it happen, and to see the success that Robert just walked you through with some of these numbers in placements.

So with that being said, when we started this adventure, I told everybody that I was going to leverage country radio, which obviously is in my back pocket from the decades I have spent in country music and a big and rich fan base, which is in the millions, I was going to leverage that. I was going to leverage social media, print, and also national television. And I believe, we did this exactly the right way in 2018, where we went after this state-by-state, region-by-region until we had enough mass moving that it was time to pull what I call the national lever getting on television and speaking to the whole country at one time. And we saw the results of that in the fourth quarter with the surge on that value-added pack, the Get Down kit.

So that let us into 2019 and one thing that we were able to do in 2019, that we didn't do in 2018, because it was too early is we have now engaged the Big and Rich Tour. And let me walk you through how we are doing this. So, first of all, on the stage of every Big and Rich show, in 2019, there is a bar built called the Redneck Riviera Whiskey Heroes Bar, it sits dead center of the stage.

During the show, we invited active duty military and veterans onto the stage. We read their name, their rank, where they served, when they served. Then we sit them at the Redneck Riviera Whiskey Heroes Bar and I hold up the bottle in front of the crowd and everybody does a shot the Redneck Riviera Whiskey. The last show, I did that at was in Detroit Lakes, Minnesota and the crowd was at 42,850 people to give me an idea of how many eyeballs are seeing this actually live. Forget about TV and radio. They are seeing it live. So that is what happens on the stage. But what we have done is two, three, sometimes four weeks prior to a concert,



we deploy radio and we use tickets to the big and rich show as giveaways on the radio stations, where they get to come to the show and then they get to come to see me before the show on the Redneck Riviera Whiskey bus and have a cocktail, have a Redneck Riviera on ice, get a picture and then they get to go to the show. What's this accomplishes is, it keeps Redneck Riviera being discussed on the local stations in that market for multiple weeks leading up to the concert. So, by the time they get to the show, they know all about the Whiskey, they know about the website, they know about the store locators. And we see depletion in all the stores around that 50-mile radius of that concert. And then of course we finished it off live on stage.

And this is duplicated over, and over, and over again. It is also the plan for 2020 is to continue that trend and continue to take advantage of real life crowds, while using mass market terrestrial radio in each one of these places. California, it timed out very well this year that Big and Rich, I believe now we at 12 or 13 concerts that we will have played in 2019, which is a lot compared to a normal year in California. And it just so happens that California now Robert could tell you but our points of distribution are just astronomical. So, it turned out really well that we were doing that many shows in California and able to capitalize.

I also [indiscernible], before these concerts, I will be in South Dakota, for instance this weekend, Aberdeen, South Dakota, you might not think that's a big deal. It is a small town in a small state, but I'm doing two signings before the show and anticipate the same thing will happen there that just happened in New Mexico. That just happened in Detroit Lakes, Minnesota, that just happened you get my point. We are signing anywhere from 40 to 50 cases of Redneck Riviera Whiskey in under two hours we are selling out.

People are coming on and Robert said earlier, Granny Rich is searching, yes, well I have seen it, because people walk in and the Granny Rich bottle is \$39.99 and the Redneck Riviera bottle is \$24.99 or \$24.95, and guess what they are pulling down, the Granny Rich bottle. And they are not buying one they are buying them three, four, six at a time. And the reason is because we have connected with the general public in this country that this is not just another bottle of whiskey on a shelf.

There is a narrative around this brand. It was my intention from the beginning, and I have received the support from Eastside to see this coming now to fruition. The goal was, just like your music, you have to have an emotional connection with the customers. You have to stand for something and say it in such a way with a level of passion and integrity and focus and intensity that they know you are not playing around and this is real deal that they can count on. What we talk about during a radio interview, I tell people about my story how I grew up in a double-wide trailer in Amarillo, Texas up in the Panhandle. Nothing fancy, as I say, I know it is like to be in a family that goes month-to-month and they don't have a lot of money left over at the end of the week.

And so, Redneck Riviera, even though I would say it is the smoothest stuff on the shelf, and they agree by the way, it is still affordable. Because I'd say on these radio interviews and television that America's working class is the royalty classes...it is [indiscernible] good stuff, it is the working class of our country. Just because they are month-to-month, shouldn't mean they have to drink something they don't want to drink, something unpleasant to pour in their cup.



So, we celebrate the fact that they work hard. We give them a way to play hard as well and be able to afford it simultaneously and then when you add in, the fact that we support the folds of honor, which puts kids to college, who lost their parent in combat fighting for our country, which we have now funded over 50 college scholarships for those kids who now come out on national TV saying thank you to Redneck Riviera Whiskey for helping me get through college; I lost my dad in Afghanistan. That happened two weeks ago in New York when I was on National TV. Millions of people are watching this unfold. The retailers, the distributors who I have met every single one of them, they have my cell phone number. They see the real connection going on and you look at Robert just showed you, how in the world can a brand as young as Redneck Riviera Whiskey be outselling an American Icon brand like George Dickel or Basil Hayden or Keep Ongoing or brands that are spending tens of millions of dollars and we are outselling does guys.

How is that possible? You know why? Because authenticity is not something you can purchase. Authenticity is what it is and in a world that is more fabricated and shallow by every waking minute, it seems like something like Redneck Riviera whiskey comes cutting right through the white noise and stands up with big tall shoulders and says, "Hey, everybody, come over here, you can count on me."

They love the fact that it's affordable. They love the fact that Granny Rich is on a bottle. And they know her story and how she still runs her own business at 87, they identify with that kind of thing. That reminds them of their grandmother or their mother. It reminds them of who they are. And it crosses all across our country.

When you look at Washington State and Florida, how do you get any further than those two places? Yet, those are two of our biggest markets. Illinois, blowing up in Illinois, I can tell you that store locator that we have is so important, because we are able to glean that data, where people are searching their zip codes from. And we are sliding up right now in the top 10 are states like New Jersey, New York, Connecticut, places up in New England that are just now getting their hands on it are now lighting up the board.

So, I'm going to go through a few stats just so you guys know exactly what I have done in the past 16 months, and it is probably going to tired, but that is okay. The entire is part of it, guys, because we are winning right now in a major way.

And I will say before I say this, Eastside, as we all know was built to be a regional craft distiller. But because of their belief in Redneck Riviera, and what I'm doing, and I have the right people, and stepping up to the plate. We are now officially a national conversation.

You look at that list of brands, those are national conversations, if they are even on the list, they have to be a national conversation to make the list. And we are not only on the list, we are knocking people off the list right now, so kudos to Eastside for having the, just the vision to step into this thing and really take it to a whole new plane.

So here's a few steps, past 16 months, I have personally done over 300 radio interviews, which if you add up the cumulated audience to that is an excess of 100 million people. I have now done over 150 in-store signings and appearances, one that I did last year, and everybody says you are crazy. I said, yes, but we need to get in there.



I literally left a Thanksgiving dinner table, got on the bus, drove down to Tallahassee, Florida, and get a bottle signing at a Costco on Black Friday. My wife said, you shouldn't need to do that. And I said, if we are going to win, this is what we got to do. We got to go take it. We got to go show up and make them know we are serious.

So, there is no place I won't go. No place. I haven't been, and still a lot of places left to go, over 10 times now on national television, which is in the 10s of millions of people. We had a thing in Florida where Winn-Dixie took us on. And Robert and Jarrett explained to me if we do well in Winn-Dixie in Florida, it will be a trigger to set off other chains, because they are going to watch that data from Winn-Dixie.

So I said, Robert, give me every phone number of every manager of every liquor store at every Winn-Dixie in the state of Florida, because I'm going to call every single one of them and tell them number one, thank you for putting us in your store. And number two, here's how you sell my whiskey. Here's what you tell the customer to get them to pull it off the shelf.

And Robert said, John, there is almost 300 of them. I said, well, I better get to callin'. And it took me five days, eight hours per day to get through the entire list. Well, it worked. So, we turned those managers into our sales force inside of each and every one of those Winn-Dixie's. The product blew off the shelf. Next thing you know, here comes the next chain and the next chain and the next chain. And now you see the numbers that are generating out of Florida.

To me, it is important that I work well with the team, Robert, and Jarrett, they know all the guys, they know all the players around this country, because they've had decades of experience doing it. These guys set them up. I come in on the phone or in person and knock them down. And you would think this is a braggadocio statement, but it is actually true.

So, like my dad said, it is true. It is not bragging, if it is true. That is what he said. We are now batting at 1,000 meeting. There has not been one meeting that Robert and Jarrett has set up whether it be a Meijer, a Walmart, Avan [ph], the Safeways. Let's keep going through the list. Not one that we have had the meeting and not closed the deal.

We have yet to fail with this setup, which should give you some idea of the synergy and harmony that we have, our strengths playing very well together that so far, we have not gotten a note out of anybody. That is how we wound up in these big box locations. And by the way, there is no such thing is a brand that starts at big box, and then moves down. They all start small, as you well know. And it takes years of cultivation at a small level to warrant a possible shot at one of the chains. We have done it the opposite way.

We were mandated at Walmart nationally. I mean, these things are impossible. We are literally breaking every trend and every rule. Everything that everybody says is this is the way it has to go, we have thrown the playbook out the window. Redneck Riviera does not have a playbook. And that's something that really excites me as a guy that chases the American dream, as a guy that grew up pretty lean and mean in Texas.



I like the idea of thinking, that the harder we work and the more we push, the sky is the limit. You can even go beyond the sky, guys, if you want to go that far. I love the fact of no limitations. I love the fact that a regional distiller like Eastside is now a national conversation, a short 18 months later after we shipped our first cases, pretty incredible.

So that is why I wanted to be on the call. It is a lot of information. But I think it is important for our investment community out there these facts you hear from me personally and understand from me personally and hear the tone in my voice, what is happening, and what will continue to happen. I have got the pedal to the floor. To me, this is long ball play, we are looking at changing the way people view breaking a brand right now.

It is happening in real time, we have investor on this phone, it's a piece of that story, and has a piece of that action. I'm proud to be a part of the team. And I'll hand it back over to the guys but I am going to stick around for the rest of the call in case anybody has any questions for me just [indiscernible] appreciation. Let's go kick some serious ass. That's what I want to do next. God bless you guys.

Robert Manfredonia

John, thank you. I'm kind of laughing a little bit, because I'm always in the position of following John Rich, which is quite difficult to do. But it's been a pleasure working with John and we are going to see this mission through with what John has created. So, thanks again, John, we appreciate it.

Slide 19 is a picture of the Redneck Riviera brand family. And when I look at this personally, it is more than just a picture of brands. There has been a thoughtfulness, a collaborative approach. And we have gotten into a really following data as I like to call it, a data-driven approach to anything that we are looking at for new development or expansion. So, when you look at Granny Rich is one example, that's the premium vertical price strategy approach that we took to that brand at \$39.99, study the segment, the pricing and what could do and that is why we came out with that brand.

Also, I didn't mention, John just mentioned it, it is the highest margin Eastside brand within the portfolio. So, we have a vested economic reason to drive that brand. So, when you look at that and you look at how to do a unique offering within the high growth RTD sector, we are doing things in a very, very systematic, sequential, but thoughtful way, and that is the way we approach everything that we do.

Next slide, slide 20 please. So, I'm going to run through this very quickly. This is the Oregon top line results and some overall business adjustments. H1 7760, was H1, 2018. We finished up H1, 2019 with 11,333, 46% growth. We just came out of a very, very productive July where we grew at 60%, which was our highest month to-date. The mix of business, 94% of our total volume for sourced through the off-premise and 77% of the distribution that is through the off-premise.

A couple of organizational changes that you can see here on this slide. We reorganized and I would like to call it, we right-sized the Oregon business and we made these adjustments based upon market requirements, potential scalability, and some of the margin challenges that we have with the brand mix. So, April 1, we had 10 team members, including marketing, retail, sales, and sales support and as of August 1, we now have 14 members. So, the Oregon business moving forward is going to be a bottom line business, it's going to be profitable as we move forward, right. Appropriate personnel, marketing spend and a focus on higher-margin brands.

Just one key note, that's relative to this, last year, the Oregon business grew at 60% but lost almost \$900,000. We are going to grow at 35% and we are going to be profitable, and in fact we will exceed the 35%. So, it's just a shift on how we are looking at the bottom line piece of that small business unit. We will also make moderate adjustments with job eliminations. The end result is, we are going to save almost \$800,000 net, effective immediately.

Steve mentioned at the beginning of this call, SKU rationalization, we have already cut 20% of our existing SKUs. That was done in July and we have a new parameter on how we look at our business, especially in Oregon. And one of the ways that we look at it is, if we can't create \$10,000 rolling 12-month net profit, then we don't have a business that we want to retain. And what we are trying to do is take Oregon from looking at it from an Oregon standpoint and look at it from a national brand expectations standpoint.

And then the last point is product development adjustments, January of this year, we had 41 product development initiatives in different stages of development. July, we have five new products in development. And you can see the criteria, just the new way of looking at the business itself. And then the last line for me is the new brands.

Howdy Dew, which I mentioned, this is a national item that was starting to present right now in fact, this will be in selective regional markets in the fourth quarter. And this will have full distribution in the first quarter of 2020. Outlandish, which is the CBD mixer, we released the Seltzer in early July and we will release the Ginger and the Tonic September 1st. And we are excited. We just also released the Portland mule at the beginning part of this month. So, that's it from my end and I will turn it over to Steve.

Steve Shum

Thanks, Robert. And John much appreciated. So, as many of you know, acquisitions have also been part of our overall strategy. We...I thought I'd take a few minutes to describe the key elements, we would look for in acquisition. And let me first say, we would not be interested in issuing shares at the current price as part of a potential transaction.

We want any deal structure to be highly attractive for our shareholders. So beyond price and deal structure, the key elements we would target at this point include, a brand that already has real case volume and critical mass, and not so much that it is on the radar screen of a major player, but substantial relative to our current level of business. Something that plays in the premium or luxury positioning end of the market, especially considering that this is an area where many key industry growth is occurring. Preferably something that is in one of the faster-growing specific product categories. And really something that perpetuates the goal of building additional products through our national platform, and which allows us to jumpstart it more aggressively.

The last area I'd like to cover is a general outlook. As you all know, in the past, we have avoided providing guidance, as it's a bit challenging for early stage high-growth companies. However, as we are becoming bigger, we are reaching a point where we have improving visibility into our overall business activity. And we feel it is important for shareholders to understand how we see the business unfolding.



For the balance of this year, we expect to see further top line growth in both the third and fourth quarters. Gross sales should range between \$10 million to \$11 million for the six-month period. We believe we can see...further see strong improvements in our EBITDA loss in the back half of this year as well.

So, before we open up the call, just want to thank our investors for their support. Also want to personally thank all of our employees, their dedication and hard work is what really makes all this possible, not easy building a business like this, and they are all doing a great job.

So, with that, let's go ahead and open up the call for questions. And our apologies our prepared remarks went as long as they did today. But we want to try to give you guys a lot of information.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question-and-answer session. To ask you 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 "**", and then "2."

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

David Bain

Thank you, then, thank you guys, that was very helpful earnings call in many fronts. And Mr. Rich, completely clear that you are all in now and going forward. And I don't know. I think everyone saw that got a deep appreciation of that. So, thank you.

I guess my first question would be just because it's the first time guidance, based on the midpoint it looks like we should see close to 60% of the year in the back half. Can you give us a broad sense as to, bifurcated segment growth in the second half versus the first half? So, like if Redneck did 10,500 units in the first half and probably, what kind of growth can we look for in the second half? And I'm not trying to get too intrusive, just broad categorical metric or revenue growth ops related to the guidance would be helpful.

Steve Shum

Yes, I mean, on Redneck, Dave, you certainly see the back half of the year to be significantly stronger than the first half, aside from there being seasonality, which causes that. But there is other dynamics that play for us, the backpack, the point of distribution that, are now finally set. So, there is a number of contributing factors that we would anticipate pretty strong, Redneck second half of the year. I said probably, I think we would say at least 35,000 cases is kind of the target for the year.

So, as you can see, as you can imagine, we are certainly expecting a pretty strong second half for Redneck. The co-packing business inherently, as we said before, really has the strong periods in the second, third quarter. They tend to be a little softer in the fourth quarter. But there is some interesting dynamics going on in the co-packing business. It is really fascinating. We went out and we spent a lot of time and effort



and had to really cut our teeth, trying to figure out how to stabilize CBD and liquid and introduce our own branded products. And when we announced that, we've actually seen a pretty significant volume of other players that need help producing their product. And so, the craft team is...they have a pretty tremendous pipeline of leads.

So, we look at it is, it'll be great if we do really well for own branded products, but we know we are going to make good money on the CBD business on a co-packing side. And that could lend itself to having less seasonality in the co-packing business in the fourth quarter. We are not calling the ball on that yet. But it looks pretty promising for us, a smoother sort of run on the co-packing side into the fourth quarter. But we'll see. We need a little more visibility on that first ourselves, what to go a little deeper into this quarter before we can make that call. But that is kind of that.

So, we've said this before that, you know we look at the...for the business as a whole, softness quarter in the first, co-packing really strong. In the second and third, branded business really strong in the fourth. But again, we think, and we certainly think the branded business is going to be really strong in the fourth; starting the third, then really strong in the fourth. But I said we could see a reasonably strong quarter in the fourth for the co-packing business as well.

Robert Manfredonia

Can I add a little bit more to the question regarding Redneck and the national platform? Just the industry norm within spirits, the fourth quarter typically represents from 37% to 45% of volume from any Whiskey, Vodka mainstream product is 37% to 45%. That is the norm. So, where we think we will be right in that ballpark. So, there is a disproportionate amount of volume that will be done in that final trimester of the year. That is just the nuance within the sphere of space of how things work. So, we are bullish on that and optimistic that we will over deliver on that.

David Bain

Great. Thanks that's helpful. And then for the major national markets--California, Florida, what have you, we have boots on the ground--could you give me an idea as to current reorder pacing for Redneck, I mean, second half growth? Is that like a balanced combination of new points of distribution you'd mentioned, the market, you get 30% of the market left in Florida they go to Walmart on in there. Is it extensions, is it reorders, which elements truly lead the growth at this stage of its cycle?

Steve Shum

It is a good question. I think there is a way that I would look at it from your perspective analyzing business. So, most of the big chunks of new distribution, they are all going to be seated in the spring. The spring period, right. We are fall assortment presentations, which we are right in the middle right now. All of that will be...we said with all those major grocers across the country. That'll be done in spring.

So, if you look at just incremental new business, most of it will be captured from a grocery sector standpoint in the spring of each and every year. Now, we have availabilities with the selected chains be it the Winn-Dixies of the world, the Texas, which is a state sort of packaged entities done a little bit differently. So, we are going to have package extensions that will drive some of the incremental but now what we are really focused on, David, is execution of organic business.

And back to your point of looking at weighted sale, making sure that we hit the measurables and keep driving tactically how do we drive business that we have existing, because that is the health of a brand. It is really organically rate of sales acceleration. So, that will be the focus of the team right now, but...and then we will have these nice chunks of new business that will be primarily in the spring period, each and every year.

David Bain

Okay. And then, I don't want to abuse your time, but just two quick ones. One is, you know, looking at wholly-owned non-Redneck, obviously great result there in terms of growth, does that encapsulate any significant portion of Burnside being put into the national system or is that driver just still too early in that truly proliferated in any big way?

Steve Shum

Yes, it's early there, Dave. That's not coming out of Oregon business, so...and quite strong. We are still just starting to get our feet going, so to speak, putting Burnside in select markets.

David Bain

Okay. That will impact the second half, however, a little bit or...

Steve Shum

Yes. We'll some contribution there.

David Bain

Okay.

Steve Shum

We have got product placed in some stores down in Southern California, right?

Robert Manfredonia

Well, it's throughout California, so contractually we are set up in California and now we are starting to do our early implementation plan with Burnside throughout the whole states. So, you should have some results Dave with the next call.

David Bain

Great. And then, comments last on guidance, you suggest sequential improvements in EBITDA and then into next year. I mean, does that infer that at some point next year, the plan is to float a positive EBITDA?

Steve Shum

Yes. I mean, we are still making some operational improvements and trying to get more focus and so there are still few moving parts I would say, we made some improvements in Oregon and so we are generally trying to get more efficient. Our current plan is to obviously see, we certainly expect really strong growth next year. We certainly expect to continue to drive EBITDA improvement. We have got a couple of different scenarios that could get us into that sort of breakeven level by end of the year, but that's definitely a goal. I said we are still looking to make some of those various improvements up and down the organization to be more efficient.

David Bain

Great. Thanks again, and great color, guys.

Steve Shum

Thanks Dave.

Robert Manfredonia

Thanks Dave.

Operator

Our next question will come from Ross Taylor with ARS Investment Partners. Please go ahead.

Ross Taylor

Thank you. First, thank you gentleman for the new and focused direction of the company. I'm very excited about what you guys are doing. I also have to say it, John Rich, if you are just starting a call, that you can sign me up. I also want to thank you guys for taking the time to ensure that are alternative ways to finance the tremendous growth opportunities this company has without the need to resort to an equity offering. I know that there were a lot of investors, I've talked to or a lot of potential investors who have been sitting on the sidelines, waiting to get the chance because they feel that you needed to do one and to have that put the bed here in a very positive fashion makes me exceptionally happy.

I'd also like to have you guys...can you expand a little bit more on canning, how you see it playing out, how its impacting the balance sheet today and how you see it impacting the balance sheet as we go forward. To me it would seem that, as you build up working capital on the likes [ph] of this business, it should become effectively a bank producing strong cash flow with minimal additional investments needed and the like. And can you give us a little bit the economics of that and a little bit of the drag and opportunities that you will have for the balance sheet?

Steve Shum

Yes, sure. We really like the canning business we...I guess I would more broadly call it co-packing services side of the business. It's a strong performer. We didn't bring that business in with the idea that it was a stable cash cow, it is a cash cow, but it's actually a nicely growing business. I mean, they are exceeding their internal targets of at least 40% growth. And, it is contributing nice cash flow to the business.

It is obviously not enough to offset the investment spend we are doing on the branded side yet. But that is really part of, the vision to is to keep growing and building its cash flow, which again, does help fund the branded business and mitigates the risk of the of the branded business in our minds, lessens the need for financing and diluting to support the branded business. So it's a very important symbiotic relationship the way we view it because it is a growth area. As I said before, it's definitely, something we also look at as it gives us the opportunity to have significant production capability that we make money from and have it as available to us for to support our branded business as it grows.

As far as what kind of general economics look like to continue to allow them to grow, because there is an element that they have to add equipment and capabilities to keep growing. But the return profile is really quite attractive on that stuff. We are gearing up to do...just an example, gearing up to do some improvements in the facilities that are specifically to support the co-packing that probably going to cost



us a couple hundred thousand dollars at this point. But it allows us to bring in some business that is pending and waiting that probably earns us a cash on...cash pay back within, literally three months and then it is all profit from there.

So when another example, when we need to add a new line to the canning, to the co-packing operation, again you are talking about a few hundred thousand dollars of cost that, assuming the lines is utilized five days a week, eight hours a day, you are typically looking at a three to four-month payback cash on cash.

So, we love the economics to it. Of course, there is a little bit of an upfront cost to do those things. But we certainly feel it's absolutely critically important because it...again it facilitates growing that side of the business. We certainly don't want that part of the business to be a drag on overall growth, right? We want it to be pacing at a strong rate. And so, it takes a little bit of money up front to do that. But again, as it gets bigger, it provides increasing cash flow for the overall business and when we eventually slip to branded size, the profitability in this company becomes, really nicely profitable from there.

And last thing I would say, Ross, from the soapbox, I would tell you the team, this production team that we also inherently acquired from Craft is truly amazing. I can't say more about them. They really lifted the production facilities into shape. They do a fantastic job. They are highly efficient operators. Eastside was great at creating products and branding it and marketing...knowing how to market it and sell it. We weren't necessarily the great production operators and that team is. So they do a great job at co-packing side, but now they are really gotten hold and taken over all, all of our production on our branded business. And we think that's going to continue to contribute to improving gross margins as you go forward from here.

Ross Taylor

Okay, great. And then, before I let you go, I do have to make a comment about the 8-K that was filed on Friday. And I have to say, I found it disingenuous at best for those gentlemen to indicate that they'd resigned, when anyone who looks at the vote count recognizes that 3 of the 4 of them got less than 50% of the vote. And anyone who knows me knows that I'm a big believer in the ending of what I call Albanian elections, where you win as a director if you simply get ab vote , because you are running uncontested. Three of them got less than 50% and the fourth. I think got a 17 basis point win over 50%.

And I know, we ourselves, our organization, who are a large holder voted against them, not because they are part of a velvet coup to replace someone or bring someone back, but rather because we had lost faith in them, we have lost faith in their judgment and their decision making. And I have to tell you that literally just days after them being gone, I listened to this call and I know that we made the right choice to remove them, and allow you guys the unfettered ability to grow this company and exploit the opportunities you have in front of you. And I couldn't be more excited about what I heard today and quite honestly what I see is a totally different tone and tempo inside the company. And thank you very much for that.

Steve Shum

Thanks, Ross.

Operator

This will conclude our question-and-answer session. I would like to turn the conference back over to Steve Shum for any closing remarks.



CONCLUSION

Steve Shum

Well, apologies, I know we've been long on this call. Again, we really wanted to try to arm you with additional information, as you have a good understanding of what we are doing and where we are headed. But we appreciate everybody's time. As always, feel free to reach out to myself or Robert, if any of you have any follow-up questions. We'll be will be happy to answer and thanks again.

Operator

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

