



**EASTSIDE DISTILLING, INC.**  
**(NASDAQ: EAST)**



**Third Quarter Fiscal Year 2018  
Financial Results**

**Thursday, November 14, 2018  
11:30 a.m. Eastern**

**CORPORATE PARTICIPANTS**

**Grover Wickersham** –Chairman and Chief Executive Officer, Eastside Distilling, Inc.

**Steve Shum** – Chief Financial Office, Eastside Distilling, Inc.

**Robert Manfredonia** – Vice President of National Accounts

**Robert Blum** – Managing Partner, Lytham Partners

**PRESENTATION**

**Operator**

Good day, and welcome to the Eastside Distilling Third Quarter Fiscal Year 2018 Financial Results conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by 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 your telephone keypad. To withdraw your question please press star then two. Please note that that this event is being recorded.

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

**Robert Blum**

Thank you very much Cole. Good morning and thank you everyone for joining us today to discuss Eastside Distilling's financial results for the quarter ended September 30, 2018. As Cole indicated I'm Robert Blum at Lytham Partners, I will be your moderator for today's call.

Earlier, Eastside issued their third quarter 2018 results in a press release as well as filed its 10-Q. Joining us on today's call to discuss these results are Grover Wickersham; Steve Shum; and Robert Manfredonia, from Eastside Distilling. Following the remarks, we will open the call to your questions.

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, 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 involve risks and uncertainties that may cause actual results to differ materially includes, 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 the growing concern, and all the risk 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-10K for the year ended December 31, 2017 filed with the Securities and Exchange Commission on April 2, 2018.

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

**Grover Wickersham**

Thanks, Robert, and good morning to everyone on the call. Thanks for joining us today. I wanted to mention that Robert Manfredonia, our SVP of National Accounts is also with us and I've asked him to comment on chain store sales after Steve Shum's remarks. And obviously, he'll also be available for Q&A.

I am pleased with the third quarter results, which showed record revenues for the third quarter. I am excited about the opportunities we have to finish the year on a roll as our best ever. The quarter was highlighted by certain operational points. Our gross sales for the third quarter increased 90% to \$1.7 million compared to \$895,000 last year. This was led by the continued growth in Redneck Riviera whiskey case sales, as well as our private label and wine canning operations and continued traction of our vodka and brown spirits product lines in the Pacific Northwest.

We shipped more than 13,000 cases during the quarter with almost 9,000 of them branded products, an increase of 115%, compared to just over 6,000 cases in last year's Q3. Of the 9,000 branded product cases, approximately 4,000 of them were Redneck Riviera whiskey and the momentum continues to build in the fourth quarter.

We continue to strengthen our balance sheet with \$6.1 million in cash and \$2.7 million of debt reduction during the third quarter through the calling of the publicly traded warrants and exercise of half of the underwriter units from our up-listing in 2017. I am pleased with our overall results. Let's zoom in to take a look at some of the details.

Redneck Riviera is now distributed in 30 states through eight different major distributors. We expect to announce Northeast states very soon. We see strong adoption amongst key retailers, including new third quarter authorizations and launches at Albertsons, Safeway, Walmart, Winn-Dixie, Jewel-Osco, Binny's and others. There are currently 4,395 points of distribution where Redneck Riviera whiskey is available; with 684 of those being on premise and 3,711 of those being off premise accounts, including over 1,100 chain store accounts. In addition, we have already approved authorizations scheduled for rollout in Q1 of



2019 that will bump our distribution for chain accounts by over 100% just with what we have in hand today. We already have commitments for a minimum of 1,800 new chain accounts for Q1.

Many of you saw the press release about Costco ordering Redneck Riviera whiskey for road show test run in two of its Florida locations in November. No guarantees of course, but we're optimistic this will lead to further adoption by Costco as John Rich will personally be supporting the retailer with bottle signings at both locations later this month. We're receiving great market support from John Rich who continues to bring awareness to the product through television, radio, social media, in store bottle signs, personal outreach and concerts.

As I alluded to earlier, we're in the process of opening up the Northeast US market during the fourth quarter. This is the last major geographic territory for the product. I hope to be able to issue a press release on this shortly. All told, we are on pace to do something very few of any other spirit brands and certainly craft spirit brands have done in their first 12 months on the market. And I want to thank everyone on our team who has made this possible.

Let's turn to our strategy in the Pacific Northwest, we've launched a Samson design marketing campaign in Oregon to help fuel growth in Burnside Bourbon case sales. I am pleased to report that we are seeing very positive early results as we transition from the third to fourth quarter. I am optimistic about exiting 2018 with substantial momentum with Burnside and our core market. Our Portland Potato Vodka continues to be a solid performer. We launched an extension of our Portland Potato Vodka, Marionberry vodka. It's a local favorite and it's off to a strong start. I believe 2018 will see very good initial sales of the Marionberry vodka extension. I expect further line extensions, including our Portland Mule ready to drink beverage.

An opportunity we've discussed for the last few quarters have been the goal of using our canning operations for proprietary ready to drink beverages. I am happy to say that we received TTB approval for the first line of branded ready to drink products in our history. And we branded trademark Portland Mule, and this is based on our, again, our award-winning Potato Vodka.

We'd like to see product on the shelves in Q4 of this RTD. We have also celebrated our 10th anniversary by introducing a Burnside Buckman reserve tenure aged Bourbon. Mel has taken some of the best aged Bourbons and put them in our distinctive Oregon Oak and created what is our highest most premium Bourbon to-date. We look forward to entering that in craft spirit contest this year and next year. Lastly, we took delivery of and are commissioning a new 500 gallon still. This will enable us to ramp up production of our great gold medal American Single Malt and other products.

As a reminder, in June, we entered Eastside's first authentic American Single Malt whiskey. The new product is distilled from grain to glass by our Big Bottom Distilling subsidiary. It's distilled on-premises barreled and American Oak and balled entirely in bond and it meets the rigorous standards for calling a spirit American Single Malt. The new Big Bottom American Single Malt has already won two very prestigious spirit industry awards, gold-medal from the 2018 San Francisco World Spirits competition and best in category from the 2018 Los Angeles International Spirits competition.

I'd like to just comment a little bit on some of our recent references to CBD. As many of you know, when I took over as CEO, I said that I saw Eastside Distilling as a platform company for opportunities in various



beverage categories like for example, the ready to drink cocktails that I mentioned. As many of you also know, Oregon was the first state in 2014 to fully legalize cannabis for recreational use and Oregon also pioneered deregulating CBD, which is a component of cannabis. For almost a year, we've been evaluating competitive opportunities in the CBD beverage market. We see opportunities emerging if the farm bill ultimately passes in its current form and CBD is deregulated on a federal basis. However, given the large amount of hype that has surrounded this area I am going to leave it at that and be very careful not to make any un-cautious statements.

Recently, we formed an LLC in Kentucky as a preliminary step in a partnership with an affiliate of the established agricultural company, Caudill Seed. And this is to produce high-grade CBD hemp oil as a basic ingredient. This is our first step in developing a US sourced CBD for use in beverages, as we think that consumers will in the future gravitate towards domestically produced CBD, because of the reported problems with Eastern European and Chinese CBD. A little bit about Caudill Seed company. I am relying here on my background as many of you know of having taken S&W Seed public in 2010 and being very much involved in the agricultural space. Caudill is a long-standing personal relationship and it's also a long-standing company, first established in 1947 as a diversified agricultural production company. They are working nationally and internationally on the production of specialty crops, both seeds and planting purposes and also organic food for consumption. They also have substantial capabilities and chemical engineering on staff. We look forward to speaking more with you in the future as things develop.

Lastly, we made two significant additions to our Board of directors, first Pat Crowley, a Hollywood producer who is known for several movies, such as the Jason Bourne franchise, Jurassic World and other, many other movies, Legends of the Fall; I think there's probably 100 movies to his credit. Pat will be assisting us in our celebrity endorsement and co-ownership strategy going forward.

Second to join us was David Holmes. David is a spirits industry innovator and icon who developed the Spiked Seltzer Brand with himself and one partner, and took it to, I can't say the revenues, but significant revenues and sold it to Anheuser-Busch in 2016. As I mentioned, David, is an industry icon and with Spiked Seltzer, he created what is now a rapidly growing \$400 million category. David is currently the CEO of Plant, it's a company engaged in developing and marketing a CBD beverage using hemp based CBD. We look forward to leaning on David's expertise as we expand our CBD initiatives.

With that said, let me turn the call over to our CFO, Steve Shum, to run you through the financial results. Steve?

**Steve Shum**

Thanks Grover. As Grover mentioned, gross sales in the third quarter totaled approximately \$1.7 million as compared to \$895,000 in prior year, an increase of approximately 90%. Net sales, which exclude the excise taxes and certain customer promotion activities, increased 141% to \$1.49 million versus \$618,000 in the year ago period. During the third quarter, we sold 13,275 cases overall. This consisted of 8,991 cases of our branded products, 4,284 cases of private label. This reflects an increase of 65% over the prior year in our branded products and 115% case growth overall.

The higher branded product sales were driven largely by our Redneck Riviera product, an increase in wholesale traction in the Pacific Northwest on our Vodka and Burnside brand. That was partially offset by lower retail case sales during the period due to our decision to further rationalize some of our event



activities and retail locations. The private label business benefited in the second quarter from an increase in canning projects and from the sale of bulk spirits during the period. Overall, wholesale revenues improved by approximately 96% to just over \$1 million compared to \$520,000 last year. The Redneck Riviera product was a major contributor to this improvement but we also saw contributions from other key products, Vodka Burnside and the Big Bottom line.

Looking ahead, we believe the Redneck Riviera brand will continue to benefit from the investments being made, especially considering the larger geographic footprint, substantial increase in larger chain retailers and the various marketing programs underway. We are experiencing strong momentum heading into this fourth quarter and remain excited about the 2019 outlook. As Grover mentioned, we've already been authorized for a number of additional rollouts scheduled in the March timeframe in a number of larger chains. Those existing approvals or authorizations will more than double the existing points of distribution on the national chain account side of business.

The number of Redneck Riviera points of distribution is currently around 4,400, which includes a little over 1,100 current national chain points of distribution. We are also experiencing an uptick in trend line for our Burnside product line up as we've initiated the new marketing programs in Oregon. Revenues in our private label business were approximately 455,000 for the period. This was a result of both the canning operations ramping up along with additional sale of bulk spirits. Revenues derived from our retail and special event operations were approximately \$225,000, which represented 27% decrease from a year ago. We made a purposeful decision to reduce some of our unprofitable event activities along with the closing of one of our underperforming retail locations. As noted last quarter, we have been focusing on fewer yet more profitable events and retail store activities on that side of the business.

Gross profit for the trade totaled approximately \$602,000 compared to \$234,000 in the prior year. Gross margin relative to net sales was 40.4% versus 38% a year ago and overall 2017 margin of 37%. The gross margin in the period was positively impacted by the new federal excise tax rate, which was partially offset by higher customer incentive programs as compared to last year. The overall gross margin in the third quarter was lower than what we saw in the first and second quarters of this year. I would highlight that this was entirely a result of abnormally low margins in our private label business. When looking at the branded side of the business, the margins on net sales were very consistent with the first and second quarters at above 50%.

Advertising, promotional and selling expenses for the year increased to \$1.13 million, up approximately 100% from \$563,000 last year. Again, we made strategic decisions to ramp our marketing efforts to support the more rapid and planned geographic expansion of Redneck Riviera. These efforts are also supporting our efforts to expand other key products, both locally and regionally. Also, under our agreement with John Rich, if and when the Redneck brand is sold, we are allowed to recover 50% of our direct marketing expenses in support of the Redneck Riviera product.

Through the end of third quarter, those reimbursable expenses are now exceeding \$800,000. Also, beginning October 1st, we further refined this arrangement and will now be able to have certain expenses that have not been included in this figure through the end of September. We greatly appreciate our partners support on this.



G&A expenses for the period totaled \$1.56 million, an increase of 50% from last year, which was a result of additions to key personnel along with higher stock based compensation and depreciation expenses. Net loss in the period totaled \$2.6 million or \$0.42 per share compared to a net loss of \$1.4 million or \$0.34 a share in the year ago period. Our adjusted EBITDA during the period was a loss of approximately \$1.39 million, which compared to the loss of \$1.1 million a year ago.

Moving to the balance sheet, cash at the end of the period totaled approximately \$4.86 million. Inventories further increased, reaching approximately \$10.18 million. We have built inventories to support the new product launches and ensure our ability to deliver and set us up to improve our cost of goods in future periods.

During the third quarter, as Grover mentioned, we successfully completed the previous announced warrant call which brought approximately \$6.1 million in cash proceeds along with reducing our debt by \$2.7 million.

That concludes my highlights before handing it back to Grover I would like to allow Robert a few minutes to further comment on some of the national chain activities and his perspective on that. Robert?

**Robert Manfredonia**

Thank you, Steve. Good morning everyone. I'm going to provide a top line summation of off-premise corporate accounts in the environment, and I will start with our three year distribution build-out plan.

The goal of Eastside with Redneck is to achieve 7,300 points of distribution by the end of 2020. Up to this point and we have roughly 1,200 points of distribution in and we will conclude the year 2018 with 1,700 points of distribution. Plan for 2019 is to add 3,200 points of distribution. The fantastic news within that objective is we've already secured over 2,000 points of distribution within the goal of 3,200. Those 2,000 points of distribution will be added to the spring sets, which is traditional grocery sector time of mass change and then we will conclude 2020 with 2,400 points of distribution.

So at this point, we have 40 targets and we have 21 major retailers secured either we're shipping product to them or we will by spring 2019, which is incredible for a new brand. Some of the things that have happened with our brand is a non-traditional classic trade build-out approach. Usually within this space, the grocery sector, club sector, the drug sector, usually are the last piece of business to be secured; its independent business first on-premise, independent business off-premise and then they start to move with validation to the larger corporate accounts.

We have been able to successfully change the dynamics and we have added on the off premise corporate business within a six-month period, which is quite honestly unheard of within this space for a new brand. We've been able to do it with expedited major customers and within their clusters. We've been able to generate an immense amount of acceptance and excitement without transactional data to fuel the on boarding. We've also been able to drive ad programming but within that programming success beyond the expectations of retailers. One example of that is Winn-Dixie, a customer within the grocery sector in Florida, 137 stores.

Our first ad we were able to transactionally ... move within a week 550 bottle. The hurdle rate with that chain is 250 bottles. That has given us the platform for additional ads and favorability with that retailer.





Steve mentioned and Grover mentioned the Costco test. We will start a test with them in their Tallahassee building and their Jacksonville building on the 23rd and 24th of this month, both buildings will receive two pallets each and then we have an aggressive activation plan behind it. Hopefully and our expectation is with that success we're going to be able to move throughout the Southeast and then move to the other seven regions within a year's period of time. Costco, as many of you may know, is the highest rated sale customer within the country. Walmart is the largest amount of stores within the US market. And by 2019, we're going to have the majority of their stores with mandated distribution across the country in all the major markets.

Albertsons and their subsidiaries, by spring 2019, we have committed to be in every single major region that Albertsons has across the United States, with the exception of Northern California, which they have not made a decision yet on ads and deletes. One of the highlights within that is their largest business unit, which is Southern California, we will be adding 350 stores within the Southern California region toward the bonds Albertsons and for billings banner. We are one of the few brands that have complete distribution, and that includes all the major brands. It's an amazing acceptance to a brand in a very short amount of time, and the other note that is pivotal is within the acquisition landscape, many of the large supplier portfolios look for chain performance penetration and acceptance. They put a premium on this sector of the business. We're on our way to providing a very good foundational piece of the business for other opportunities as we move forward.

That is it. I'm going hand this back over to Grover and I can answer questions at the end of the call. Thank you.

#### **Grover Wickersham**

Thanks very much, Robert. I wanted Robert to be able to be on the call today, because I think that he exemplifies what we're doing with our new, I'll call it pedal to the metal strategy with Redneck, we're making very, very substantial investments to support a national sales infrastructure and advance of what we expect to see very, very important large chain store activations right on the horizon. It's a major investment and it's I think a proper investment for us to maximize the brand value.

I'd like to thank you for your time today and I'll suggest we open it up to Q&A.

## **QUESTIONS AND ANSWERS**

#### **Operator**

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're using a speakerphone please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time we will pause momentarily to assemble our roster.

And our first question comes from Ross Taylor with ARS Investment Partners. Please go ahead with your question.



**Ross Taylor**

Yes, Thank you. First Gentleman, congratulations on your success in the rollout of Redneck. I'd like to ask couple of questions, first about Redneck. Can you give us an idea or thought process on how rapidly with the growing number of distribution outlets we can expect to see the case sales? I would think actually explode. You have substantial distilled spirits inventory. It would seem that you're planning on having a pretty big 2019?

**Grover Wickersham**

Well, as a general comment, Ross, we've tried to suggest this in the last call that when we announce the state or announce a new retailer coming online, there's often a little bit of a lag before we see the distributors get products into their system and out onto the floor. There has been a bit of a lag on some of this. And I'll let Robert speak to this, but it starts to look like it starts coming together where it does start to manifest itself in bigger numbers in the very near future.

**Ross Taylor**

You won't to say it's something like 50,000 to 60,000 cases. Your inventories would seem to support numbers higher than that. I understand that aging brown liquor doesn't necessarily make it less valuable.

**Steve Schum**

Well, I think we'll let the analysts do his numbers as—

**Grover Wickersham**

Well, I'll just close on this topic with a general comment that last quarter and this quarter based on our original messaging, I think we had talked about a smaller rollout of Redneck and not going to full national in the first 10 months. But with the input of the Board and assistance, as Steve mentioned, there's a lot of assistance now from John Rich as far as encouraging us to spend, because we're going to recapture 50% of most of the spend when the brand gets sold. That's to use the analogy of the pedal to the metal, it's like we're driving a 1980 turbo. And so, you floor it and there's a bit of a lag.

**Ross Taylor**

Yeah, there's a ton. Could you also address the canned spirit business, you rolled out one product you have. Can you talk about your capacity? I know you bought a canning line last year. And could you also talk about rolling out additional product? It would seem no one has one canned product, obviously you're looking at rolling out others. And lastly in that area, should we expect to see Redneck product coming out in cans?

**Grover Wickersham**

Well, I think the last comment first. I think we've messaged that we plan to be working on additional Redneck products and we are working on an RTD with Redneck. I think the point of the acquisition of the equipment and the co-packing business was it was to—the co-packing was particularly to defer some of the costs of producing RTDs for our own purposes and also take advantage of the huge rush into wine canning and our core geography. But we are coming out as I mentioned in my prepared remarks. We're coming out with a Portland Mule line and that's a ginger-based cocktail that we've trademarked the name and it's been very popular in menus throughout Portland.





And we're excited about that. It has four variances to it. When we complete getting it on the shelf we'll probably have the first variant, I'm hoping we'll have the first variant out momentarily. And we see the RTD area, especially craft cocktails, we see that is a very fast-growing segment. And so this is our first foray into it, primarily designed to be a Pacific Northwest product but with Robert's help and obviously his demonstrated expertise with national accounts, the hope is that we will be cherry picking RTDs to roll out nationally under Robert's guidance.

**Steve Shum**

On that point if I can interject. One of the values of Redneck has been, what I'd call, the gateway effect for other Eastside brands to go national and they maybe just regional entities. We'll strategize them where the proper spots are and then we will phase it throughout the national platform. But the validation of Redneck is invaluable for making Eastside a national beverage company. And the success allows us favorability to add new brands, bring them in and have opportunities that usually you won't have if you don't have what we call the flagship brand performing at a very high level.

**Ross Taylor**

Ok thank you **I'll step out and come back in later perhaps.**

**Operator**

Once again, if you would like to ask a question please press star then one. Our next question comes from Ian Gilson with Zacks Investment Research. Please go ahead with your question.

**Ian Gilson**

Good Morning Ladies and Gentlemen. I had a few financial questions as I usually do, probably for Steve. You had a new line on the balance sheet of a trade credit of approximately \$1.95 million. What is that locality used for and why was it broken out where it was?

**Steve Shum**

That's the credit facility revolver we put in place with one of our existing investors who offered it up basically to be used against funding bulk spirit purchases. It's separated because it's different in its mechanics versus standard non-secured simple notes that we've done in the past. That facility again is specifically for purchasing of bulk spirits. It has a three year term and a 7% coupon, no conversion features and no warrant coverage on it.

**Grover Wickersham**

And it's secured only by the bulk spirits.

**Steve Shum**

That's right.

**Ian Gilson**

That is the actual amount taken down or is there a limit credit facility?

**Steve Shum**

Yes, the original facility amount was \$3 million.



**Grover Wickersham**

The logic behind that is that there is a friendly shareholder who gave us, I think I would call it a sweetheart deal, the spirits that we're buying and are appreciating in a significant double digit rate, and are very marketable. So, it's a nice thing.

**Ian Gilson**

Ok, if you calculate the tax and promo expense on the basis of cases sales in total, it was almost double that of the first two quarters. Why?

**Steve Shum**

We've been increasing some of the customer incentive programs in the third quarter as we anticipated doing in support of both the Redneck Riviera product, as well as other brands.

**Ian Gilson**

They carry a higher tax per case?

**Steve Shum**

I don't know. You're talking about the line item, the excise tax and customer incentive program line? Ian, is that what you are asking about?

**Ian Gilson**

Yes, correct.

**Steve Shum**

Remember that line has both the federal excise tax, the Oregon state tax that relates only to our retail operations, or retail sales. And then it has the customer incentive programs. The tax rates are pretty stable, obviously. But the customer incentive programs will bounce around depending on specific programs we might be running in various markets on any given period.

**Ian Gilson**

The added expenses, \$800,000 for Riviera Redneck whisky, are they on the balance sheet or in—

**Steve Shum**

No, are you talking about the reimbursable portion? Remember, we obviously as an organization have spent more than that in supporting of the Redneck Riviera rollout. That figure we referred to is the portion that we have agreement that gets a tract, if you will, and it is the recoverable portion if and when the brand sells. Because that's a "if the brands sells," it's not a specific line item on the balance sheet. We're simply providing commentary on it and giving some information on how it's tracking and what the number is accumulating to so far. But it's not an asset on the balance sheet or specifically called out in the foot notes.

**Ian Gilson**

But it's an added expense in the fourth quarter?



**Steve Shum**

Well, yes, that's the added expenses that are again recoverable that have occurred over the last three quarters. But again, we've actually incrementally spent more than that as a company supporting the Redneck Riviera. It is one of the—as most should know, one of the biggest reason you've seen our expenses gone up is to support the Redneck Riviera product launch. And again, a portion of that is something that we can track and book as in collaboration with our partners as recoverable.

Now what we also pointed out is that we further, in agreement with our partners, have refined that where we actually get to include some additional expenses starting October 1st that hadn't previously been in that tracking bucket.

**Grover Wickersham**

Yes. The idea there is that we're spending an increased rate but we're getting much larger ultimate recovery on that. And also just to remind people on the call what the deal is with John Rich, is that we get all the income on the current income on the brands. If this product can get to profitability quickly, then that enters ... to our benefit and you combine now with the reimbursable expenses. Those are I think good economics from the John Rich deal.

**Ian Gilson**

But those expenses have been expensed and would be recoverable on the sale of the RRW?

**Grover Wickersham**

Correct.

**Ian Gilson**

Ok, that's fine. If we exclude the recent acquisitions, what is the basic organic growth?

**Steve Shum**

I would say a significant portion of the sales growth was organic, obviously, a big contributor to that being the Redneck Riviera product. The Big Bottom product line is growing, but it's off of a really small base and certainly not growing at a pace that Redneck Riviera is. And the mother load, or the private label business you can see, which we breakout, has definitely been a strong growth area for the company but that's being augmented also by some of the bulk spirits sales. Call it pure organic growth within the private-label business is probably about 50% of that is, call it, organic within the private-label versus the incremental additions in the bulk spirits sales.

**Ian Gilson**

Basically on a year-over-year basis, your organic growth exceeded 100%?

**Steve Shum**

Yes, I guess we'd have to take a deep dive and break that out. But it's probably pretty close.

**Ian Gilson**

On the CBD, I know that it can be a sensitive issue. Is it inside strategy to restrict that to the spirits markets?



**Grover Wickersham**

Well, this is an area where I'll first say, Ian, you and I go back quite a ways, and including with S&W; you were their first analyst on S&W. I'd just say a couple of words about it. But again I would caution everyone that this is preliminary that we've entered, we're still working through details on a working relationship with Caudill. But I kind of channeled my agricultural roots here and the thought is if you look at a lot of the hype and everything about CBD and when the farm bill passes and all that, the idea is that maybe it's going to be picked up by the major international beverage company once assuming the farm bill passes.

What our thinking was is that major companies look to the source of the ingredient. Starting at the ground floor with a home-bred Kentucky based gold standard ag company would give us a leg up in supplying the ultimate ingredient domestically. That's the first step. The idea is to actually sell to third parties. Caudill does this already, sell to third parties. It's something like 1,000 ingredients that they sell, thousand different SKUs. And they are going to be managing this. I didn't think it'd be appropriate for Eastside to get too deeply into or get deeply into. We're not an ag company and we have an excellent partner here they are going to be managing it.

The concept to start with an American ingredient and then as far as what you can legally do right now, federally you can't—a beverage company of any sort is not supposed to be selling an interstate commerce. But we would like to be in a position to test the waters. We've been approached for co-packing by CBD beverage companies and would like to—in this scenario, we're hoping to get some traction within the future. I would mention that although Constellation Brands put I think its \$2 billion into Canopy in the Canada space in Canada. And people are not aware of it actually in our state the number two prosperous company is a little bit bigger than us is in CBD beverages. I don't think you have to be a major company to participate. And I'll just close with that. Steve is giving me the cut off signal. We don't want to say much about CBD.

**Ian Gilson**

Ok, fine. Thank you very much.

**Operator**

And once again if you have a question, please press star then one. Our next question comes from Harold Weber with Aegis Capital. Please go ahead, sir.

**Harold Weber**

Good Morning guys, how you doing? A couple questions, first, in regard to some let's say the Rivera and things, those type of beverages. How much capability you have as far as ramping up production? And demand hopefully is continuing to grow at the same rate, are you going to be able to deliver product throughout, and I am sure you're preparing, I guess that's why you're buying the bulk stuff. But just to get an idea as business continues to grow, hopefully, on the same level still you will be able to deliver the supply, right, it's not like there's going to be a shortage in your backlog or you're going to have to tell people to wait or do you?

**Steve Shum**

Yes, good question Harold. This is one of the reasons we have made a lot of investments in our facilities on top of the inventory. Current facilities, the build out that we've really been doing for quite some time and it's still going on to some extent, because we're still adding. But we did an assessment a couple of



months back where we figured based on running one shift standard five days a week, we could do about 150,000 cases a year with our current facility setup. And of course, we can go to double shifts or even 2.5 if we had to. We feel we have really good overhead capability or capacity in the facilities. And of course that's complemented by the significant buildup in inventories too. We are ready.

**Harold Weber**

Ok, that's really good. And you talked about rolling out some stuff here in the northeast shortly. Any idea of how much penetration you'll have on the East Coast over, in the next couple months? Before the holiday time, that's obviously when you want to get the most exposure I guess?

**Grover Wickersham**

Well, we hope to have an announcement later this week but we're planning to be available in the northeast.

**Steve Shum**

We're going to add in a number of key states and like you said, try to get product on shelves as quickly as possible for the holiday period. We agree with you.

**Robert Manfredonia**

Yes, what I think just to add a little bit to your question on the northeast. Steve mentioned we're going to try to expedite the on-boarding of distribution to capture the all-important conclusion of the year. But you're going to see a lot January, February and March, which is the traditional timing within the market where most distribution is added just because of the timing of the season. If you look at the phasing of it, distributions first trimester traditionally, you have the summer season and then you have the final trimester, which are driving large displays. We are going to put a lot of focus and pressure through our distributor network to ensure that we have distribution aligned to all the major targets through the first trimester of year, so we capture the summer season next year.

**Steve Shum**

The other thing I want to just quickly mention too is we spend a fair amount of time talking about national chain accounts and those are great, they are very high profile, they are good chunky pieces of business. But there is an equally very important ground game going on that's being led by our entire sales team Redneck Riviera, led by Jarrett Catalani, that is really an important complement to the national chains and a significant portion of business for us as well. And that'll be part of that northeast rollout, as well as other areas.

It's critically—we don't want to understate the importance of the blocking and tackling and the points of distribution build out that's happening outside of the national chains, because that's really important for market fill out and revenues and so forth. I just want to make sure people are aware that it's a really a two-pronged attack effort, if you will, that is proving to be very successful and it's a tribute to the entire sales team that has been built out and it's still being built out on the Redneck Riviera side.

**Harold Weber**

I just want to add one more piece to that please. In regard to the canning operation, whether it's going to be the wines or hopefully some CBD products or whatever. I am hoping that you guys are going to be pursuing, let's say, the commodity side of doing the packaging for others, as well as hopefully coming out with some of our own branded products, we working along or thinking along those lines?



**Steve Shum**

Absolutely, that's exactly what the plan is. We're excited that RTD business could be a big revenue and cash generator for us, and with our own brands, that's where you get the most.

**Harold Weber**

You get the bang, making 2% is not the story you want to make some real money, is selling your own branded merchandise.

**Steve Shum**

Exactly. And I am also working on—our overall strategy involves acquisitions too. To the extent we can use our acquisitions to accelerate growth we're going to do that.

**Harold Weber**

Okay, I hope to hear about these new developments soon guys. Thank you.

**CONCLUSION****Operator**

And this concludes our question and answer session. I'd like to turn the conference back over to Grover Wickersham for any closing remarks.

**Grover Wickersham**

Well, I'd like to thank everyone for joining the call. I think that third quarter met our expectations, we're excited about this ramp up that we're doing in the chain stores, that's why we had Robert on the call. My feeling is you're going to, no promises, but my feeling is that if you do the math for the new points of distribution, we're going to be seeing a surge forward that you get after the turbo lag starting right now and going heavily into the Q1 and Q2. But thanks for being supportive and we look forward to communicating with you in the future about some of these new initiatives that we're doing. Thank you very much.

**Operator**

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

