

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



**Fourth Quarter and Fiscal Year 2019  
Financial Results Conference Call**

**Monday, March 30, 2020  
5:00 p.m. Eastern**

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**CORPORATE PARTICIPANTS**

**Lawrence Firestone** – Chief Executive Officer, Eastside Distilling, Inc.  
**Robert Manfredonia** – President, Eastside Distilling, Inc.  
**Stuart Schreiner** – Interim Chief Financial Officer, Eastside Distilling, Inc.  
**Robert Blum** – Managing Partner, Lytham Partners

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**PRESENTATION**

**Operator**

Good afternoon, and welcome to the Eastside Distilling Reports Fourth Quarter and Fiscal Year 2019 Financial Results Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "\*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "\*" then "1" on your touchtone phone, to withdraw your question, please press "\*" then "2." Please note, this event is being recorded.

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

**Robert Blum**

Thanks so much, Eric. Good afternoon and thank you everyone for joining us on today's call to discuss Eastside Distilling's financial results for the quarter and fiscal year ended December 31, 2019. Apologize for getting started just a moment late here, just waiting on the SEC to...for the filing to close, which is just [indiscernible].

As the operator indicated, my name is Robert Blum of Lytham Partners, and I will be your moderator for today's call. Earlier, Eastside issued their fourth quarter and fiscal year 2019 results in a press release and the 10-K has been filed.

Joining us on today's to discuss these results are Mr. Lawrence Firestone, the company's Chief Executive Officer, Mr. Robert Manfredonia, Eastside's President, and Mr. Stuart Schreiner, the company's Interim Chief Financial Officer.

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

Forward-looking statements describe future expectations, plans, results, or strategies and are generally preceded by words such as may, future, plan or planned, will or should, expected, anticipates, draft, eventually or projected. Listeners are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events or results to differ materially from those projected in the forward-looking statements.

Such matters involve risks and uncertainties and 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 as a going 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 the latest information pertaining to the company's annual reports on Form 10-K for the year ended December 31, 2019 filed with the Securities and Exchange Commission today.

Now, I'd like to turn the call over to Lawrence Firestone. Larry, please proceed.

#### **Lawrence Firestone**

Thank you, Robert, and thank you, everyone, for joining us this afternoon. First of all, we hope everyone on the call and your families are safe and healthy, and steering clear of the coronavirus.

We are certainly operating in unprecedented times and the world has changed drastically since we spoke at the end of January. As you'll see from the press release, results for the fourth quarter and year ended 2019 were in line with our preliminary report we provided back on January 30, which marked a tremendous growth and record revenues, as well as case volumes for the year in 2019 for Eastside.

For 2019, gross sales were \$17 million compared with \$7.2 million in 2018, an increase of 136%. The increase was attributable to organic growth in the company's Redneck Riviera product which grew to approximately 27,200 cases in 2019 compared to roughly 15,000 cases in 2018, as we expanded our points of distribution at a record pace.

Full year results from Craft Canning and Bottling, which we acquired in January of 2019, as well as late third and fourth quarter contributions from the Azuñia Tequila brand, which we acquired in September of 2019. For the fourth quarter, gross sales were \$4.3 million compared to \$2.4 million in the fourth quarter of 2018, an increase of 79%.

As we described back in January because we were recasting our 2020 forecast to bend the curve and put some leverage in our P&L, our off-premise programs represented late and planned shipments of the Redneck Riviera set for December 2019 were pushed to January which negatively impacted the fourth quarter results. However, the fourth quarter and even at the time of our conference call that we had in

January, seems like a lifetime ago as the COVID-19 situation moved in and has impacted our business every day since then.

Let me spend some time walking you through the impact to our business from the Coronavirus and the initiatives we're putting in place to mitigate the impact to the extent possible and provide some view into the first quarter and beyond.

As you may recall from our conference call in January, the delayed placements of our Redneck Riviera line up from Q4 that were expected to roll over into January occurred as expected as we started Q1 ahead of our original plan, which was for approximately 6,300 cases of Redneck Riviera Whiskey. We shipped over 3,000 cases of Redneck Riviera in January, which is typically the lowest month of the first quarter with momentum building towards the end of the quarter.

We had authorizations for continued growth in place from our off-premise customers such as Costco and others and based on what's shipped in January, we anticipated potentially 10,000 cases of Redneck Riviera to be sold in the quarter. This would have been a record quarter for this brand. As the coronavirus took root mid-February, we experienced a downward shift in the trend that we saw in January.

Turning to Azuñia; we anticipated approximately 5,400 cases to be sold during the first quarter and anticipated increase of more than 50% over the prior year's first quarter. And this, as we looked at, at the rest of our spirits business what we call our legacy brands such as Burnside Bourbon, Hue-Hue Coffee Rum, and Portland Potato Vodka, and others, we were anticipating another approximate 6,200 cases to be sold during the quarter. We are well on our way to having a record first quarter with what would have been an estimated 22,000 cases sold in a single quarter.

Most importantly, in the long-term initiatives we had in place to transforming Eastside Distilling from a company with one primary gateway product Redneck Riviera Whiskey to a House of Brands that leverages our national distribution capabilities was firmly on-track. However, once February hit and the mandates and impacts from COVID-19 began to occur, purchasing from our customers has meaningfully slowed.

Let's spend a minute talking about what changed and perhaps more importantly, the steps that we're taking to mitigate the impact. First, our business...while spirits businesses are on the essentials list, which kept our employees classified as essential workforce, many of the on-premise locations, in other words, bars and restaurants have largely been closed, and those that are open include carry out only. Further, there has been a significant shift within the off-premise locations as consumers are focusing on the major brands and pulling the larger 1.75 liter bottles off the shelf instead of the smaller 750s where we play on the national platform.

We only saw 1.57 liters of our Portland Potato Vodka, which is experiencing an uplift in the current environment. The surge in spirits sales that has been reported by the media, as you might expect to have a halo effect for Eastside in the bulk shopping is in a different segment of the market with major established brands that produce 1.75 liters.

Further, the market data suggests that the bellwether brands are the ones most favorably impacted as opposed to the earlier stage brands that are growing in the market. I relate this shift in buying practice like a flight for safety almost as the customers really want to buy in bulk and limit their visits to the store. A negative driver for us is also the fact that our planned in-store tastings at the major chains coupled with



the more insertions that we had planned on have been shut down as retailers had cancelled these opportunities to taste our brands.

Additionally, we had targeted the commencement of the Burnside Bourbon and Hue-Hue Coffee Rum national launch, which have been delayed as retailers have postponed or canceled new store roll outs in the near-term.

Extending these impacts is the fact that the consumer shopping for spirits has also been shifting to online purchases where we do not currently have a strong presence. However, our marketing team is kicking that effort into high gear and we will have all of our products including the Oregon brands available online in Q2. We will look to expand our online channels as we list our brands on retailer's spirits sites and connect them with our distributors throughout the year.

One bright spot, Craft Canning is experiencing strong demand from the craft beer and wine industry as the brewers and wineries have batches that they have produced, and need to get them into bottles and cans, between workforce issues at our customer sites and the closure of the on-premise businesses, in other words, the taps are closed and this has created demand for our mobile canning business.

Our business model for mobile canning is to send our team of two people in a box truck including a canning line and inventory to set up at the customer site. Then we can produce their product at their site and this eliminates the need for transporter shifting. So, as we currently estimate the Q1 impact from COVID, we believe we will see a shortfall of between 6,500 and 7,000 cases over a suite of branded products.

Overall, we believe the first quarter gross sales will be between \$3.7 million and \$4.2 million, which is a negative impact of more than \$1 million in gross sales from our original Q1 expectations.

The important question now is, what are we doing to mitigate the changing landscape and immediate impediments to our business. Crisis breeds creativity and oftentimes when there is a tectonic shift in circumstances, we get a chance to look at our business from a different angle and develop solutions that were not evident before.

First, we have enacted a series of initiatives to improve sell-through including offering promotional discounts on Redneck Riviera Whiskey and Azuñia Tequila. Many of you have seen emails or online promotions for this, and while the data is very early, the analytics are very encouraging as we pull the consumer eyes towards our brands.

Second, as I mentioned, we are adding online sales capabilities, Redneck Riviera Whiskey is currently available for online purchases and we anticipate Azuñia and our legacy brands will be available online very soon.

Third, with the on-premise restaurant and bar closures throughout much of the country and in all of the major markets where we play, we have been reallocating our resources to support the efforts of our off-premise independent stores and wholesalers by creating several programs aimed to energize the local marketplace. Robert will report on this further.

Fourth, and although unrelated to COVID-19, we were already working on lowering our cost structure as we implemented our previously planned initiative to shut down our unprofitable retail operations by the



end of March, which is now complete. Along with this initiative, which included 18 retail employees, we resized our production operation and reduced 9 employees in production. In total, since joining the company, we have reduced our workforce from 138 people down to 89.

Fifth, we are targeting other areas where we can deliver efficiencies and lower cost of operations. Now, while these programs are in their infancy, we will be driving them hard to accelerate the impact at Eastside. Among many areas where we are focused and following our top priorities, we want to capture what I call money in the bottle, which is to say, we need to drive our cost of goods sold down to the lowest level possible.

We currently operate at a blended gross margin in the mid-30s and we need to be closer to other spirit industry brands, which are closer to 50% or even greater, which is one area that creates an opportunity to produce the marketing dollars to support the growth of our brands long term, part of that includes reducing our fixed costs such as the closure of our Hillsboro production facility.

The next area is looking both, inside and outside for cost of goods sold reductions. Now, as we look at our production facility and where we want to take our brands, which is volumes far north of where they are today, we've hired a Director of Program Management to drive an outsourcing program for Redneck Riviera Whiskey as this is at a volume level that we believe would be attractive to major spirits co-packers that will deliver our case product on a turnkey basis and eliminate what we believe would be significant cost from each bottle, and increase our gross margins on that product. One small example would be the cost that we pay to ship raw barreled [ph] whiskey from MGPI in Indiana to Portland, and then back to the East Coast. If we can save \$1 per bottle on a 30,000 case brand like Redneck Riviera Whiskey, that's \$180,000 annually.

Additionally, as we look for a turnkey relationship, we will likely sell the co-packer by raw material inventory at the time of closing the contract which will significantly streamline our business. Outsourcing will also position the Redneck Riviera brand well for when the brand sells in the future as we will already have garnered the economic benefits for Eastside which we believe will allow for the premium sales price at the time of the brand sale. We are in the midst of a restructuring our overhead and our...and are looking for all opportunities to reduce our SG&A.

The challenge is part of our workforce, for example, the on-premise sales team is in a holding pattern waiting for the market to come back, then will be a burden on the P&L and cash flow without the revenue loss. So, while the on-premise business is shutdown, we're evaluating our on-premise programs and we'll be changing or eliminating some of those programs that have negative gross margins.

We are still focusing on driving the business to EBITDA breakeven and potentially given the market conditions in some of our initiatives we will lower our breakeven point and even get there at a lower level. We believe we're driving the right strategy, and the impact from COVID would pass hopefully sooner, rather than later. We further believe in the long-term outlook for Eastside remains strong as we have a solid portfolio of products. We are on pace for a record...we were on pace for a record first quarter through the first month of Q1, and Robert and team have been absolute rock stars getting new insertions for our brands throughout 2018 and 2019, now setting up for 2020.

Now with the new insertions on hold, we are laser-focused on rate of sale in the trade which we need for long term growth of our brands. It will be a bumpy road in the short-term, but we feel our strategy is a



solid foundation to build Eastside back from when the world reverses the shutdown and starts to reopen for business, and we certainly hope this will happen soon.

The obvious question is our liquidity and working capital availability and our ability to withstand the near term storm. We're in the fortunate position unlike other companies to have a number of options in this regard and many of which I cannot address in detail, but will do so when we have those finalized. As many of you are aware, we closed two critical working capital facilities over the last few months. In December 2019, we closed an accounts receivable factoring agreement with ENGS Commercial Capital with a total capacity of up to \$2 million. The agreement allows us to borrow up to 85% of the eligible accounts receivable, subject to various terms and conditions outlined in the agreement.

Then in January of 2020, we closed a new credit facility of up to \$8 million with Live Oak Bank backed by the company's raw spirits inventory. This funded the pay-off and replaced two existing inventory facilities with KFK and the short-term two QLA facility totaling 5 million capacity, and in addition to the increased availability of approximately \$2.6 million, the new credit facility offered some advantages to Eastside including a reduction in the interest rate.

These working capital facilities were major achievements for us, as we will continue to leverage our asset base to help fund the growth in our operations as opposed to turning to the capital markets for the first step for funding. In addition to the ENGS and Live Oak lines, our logistics part of Park Street also provides an AR factoring facility for the spirit sales that run through their house. So as we move product into the market, we have access to cash earlier than the 30-day terms that we invoice at.

In addition to the lines of credit that we mentioned, we have significant inventory in-house which is also a source of cash, and especially for the Redneck Riviera product. So when we sell Redneck Riviera products, since we already own the inventory, this is cash flow. Lastly, when we complete the contract for outsourcing production, we will look to the sale of our raw materials to that supply of the cash. Based on our success of our collections at the end of March, we estimate that we will end Q1 with between \$800,000 and \$1 million in cash which we will manage very carefully as we move forward.

In addition to our cash on hand, we are looking at all other aspects in the businesses that are sources of cash; nothing is off the table right now. We all understand that the government has authorized \$2 trillion in relief funds and \$300 billion of that is designated for small businesses which East Side is one of many. Live Oak Bank has already contacted us as a potential solution to be our lending source given that they hold the collateral in our inventory to potentially connect us to those funds.

As this was all approved late last week, the situation is unfolding rapidly, but not in place yet. We'll work closely with Live Oak Bank as their security in our inventory gives them an advantage, if we can work with them. Once we determine our borrowing capacity, where...we'll also look at other lenders as well. We'll look at our brands as a source of capital as well; the good news is we have knobs to turn on the P&L and I'm sure in assets that we can monetize as we go through this global situation.

Finally, let me state that while we're lower changing our internal works [ph] to optimize our model, we remain committed to our strategy as we run the business through this period and beyond. As we have stated, our objective is to become the leading mid-tier spirits company that acquires, develops, markets and sells these premium branded spirits on a national level, and once they become proven and sustaining brands, sell them to the larger tier 1 spirit houses in the industry.



Even though we have not sold the brand yet, we believe that there is tremendous value and quality in the brands that we have in-house and are developing. And as we stated last fall, we have begun the process of validating that and looking at all options, including those that would unlock value from our portfolio of brands and allow us to step up investment in key areas to accelerate growth.

While it's difficult to see from the outside, particularly given our stock performance of recent, as the world has moved away from Microcaps, we see a company in the midst of a large scale transformation that will leave a more profitable, faster growing company in the future, and one we believe that the market will appropriately value.

Now, let me turn the call over to Robert to add some additional color. Robert...

**Robert Manfredonia**

Okay. Thanks, Larry, and good afternoon, everyone. While I normally go through a series of market data points, I will adjust because of the realities of the market and the significant changes over the last month plus instead. I will focus on details from Larry's overview and I will elaborate on the market and how we are adapting to the significant changes.

As Larry indicated, we started off with a very strong January. In fact, we were significantly over the original forecast for the month. As an example, the Redneck Riviera new distribution for [indiscernible] Florida was set on the shelf and provided an initial list. We expected the usual off-premise cadence of gradual monthly growth to continue through the quarter. Unfortunately, our expectations and many other early stage brands were interrupted with market circumstances. Redneck Riviera also was further challenged by a large program cancellation with Costco Louisiana; this further exasperated the volume challenge. Fortunately, in regards to Costco, we have a southeast regional program, committed to before the fourth quarter.

Moving to Azuñia, shipments were impacted by the market disruption as well. This is inclusive of in months March shipments and case deliveries for April business; this is inclusive of existing sell-through business replenishments and new incremental business schedule for a March release. This market condition also had a slight effect of early delivery opportunities for [indiscernible] programs. Nationwide, generally, the first quarter cadences are very linear in the on-premise. Azuñia's current volume is driven by the on-premise delivering 78% of the total volume.

Regarding new Azuñia business, the team has spent a considerable amount of time in the first quarter adjusting our wholesaler network in the East and the Central region, the transitions we're focused on 15 wholesalers. Highlights include the transition to RNDC Florida, the favorable news; the initial order equaled the entire 2019 first quarter shipments.

Michigan, Wisconsin, and Alabama will carry Azuñia to scale-up [ph] for the first time ever, all existing states with brand availability that transitions provided aggressive initial orders inclusive of New Jersey, the initial opening order was seven times higher than the entire shipments last year. Illinois opening order was double the entire 2019 shipments for last year, and Tennessee and Georgia's opening POs were three times higher than the entire 2019 shipments.

Lastly, New York City, Azuñia is scheduled to be released in May and the agreed to 2020 case commitment from the new wholesaler is in excess of 1,800 9L cases. To put that in perspective, last year Azuñia sold



four cases in New York City. We're extremely excited about the immense opportunity in New York City to further develop the brand within the high profile metropolitan area. We're also extremely encouraged by the overall wholesale response and the position reflected in the initial orders.

Burnside and Hue-Hue national rollout; as I mentioned in January, both Burnside and Hue-Hue were set to enter select national markets including California, Washington, Texas, Florida, Arizona, Tennessee, and Illinois by the end of the first quarter; this did not occur from most states outside of California as retailers adjusted to the impact of the virus.

Worth noting, the process before market release is the wholesaler kick-off meetings inclusive of brand education. All wholesaler new brand launches are on hold until the market normalizes. The favorable news, all wholesalers are excited and will represent the brands. Worth noting, wholesalers are very selective with accepting brands and most decline with the initial presentation, and many brands have to move to Tier 2 wholesalers for distribution representation.

Larry spent a lot of time talking through some of the marketing and sales initiatives we are driving to combat the impact of the virus. I will add some additional points. Within marketing, we had several new March programs already launched inclusive of the following. Azuñia, text-to-win a trip to the distillery, also a \$4 instant rebate were legal, messaging is focused on our database and social media platforms inclusive of Instagram, Facebook, and Twitter. Azuñia Black has a separate marketing program aligned to social media platforms with a higher value instant rebate coupon.

Oregon brands are supported with the by local campaign driven by geo-targeted digital coupons, and Redneck Riviera is driving geo-targeted video ads to high density distribution areas, specifically in Florida, Northern and Southern California, and Northern and Southern Illinois; this is a John Rich video driving back to the point of purchase supported by a downloaded coupon of buy one, save three, or buy two and save eight.

We've increased our direct digital marketing and couponing outreach through delivery services like Instacart and Drizly. The Drizly model is focused more on the off-trade general market. In simple terms, they work for retailers and our delivery service where the consumer can receive products where legal within a few hours if the product is available in the local area. For Instacart, their model is focused on corporate retail that provides the delivery service for a nominal charge to the customer; we do not incur any of the cost to retailer who supports this.

We track all of these initiatives through Facebook or Google Analytics along with wholesaler depletion reports and Nielsen transaction data focused on 30-day versus previous 30-day reviews. All of the electronic couponing will be followed in April with paper in-store coupons to ensure we're capturing all potential purchase opportunities. Once the off-premise environment normalizes, we will start in-account nationwide product samplings where legal.

While we are remaining adaptors and instituting a number of programs aligned to the current market conditions, it's important to note that we are continuing to focus on executing the long-term initiatives that we are ultimately going to support the high valued growth across our national platform.

For the long-term, we are now and have been presenting new authorization presentations with the grocery class trade focused on Azuñia Reposado and select presentations for Hue-Hue Coffee Rum.





Redneck Riviera continued growth in part is driven by the new class of trade entry, in the next couple of months Redneck Riviera 750 milliliter will enter Rite Aid in California and Michigan by the end of June, unless market conditions cause a further delay and Walgreens Florida will be added in the month of August. This is the first entrants into the drug class of trade for a mandated shelf position with full distribution in all stores in all three states.

In closing, while the current environment is certainly challenging to our business, we will continue to execute our plan where available, course correct based upon market conditions, as needed; and most importantly, be prepared for the normalization of business when the market does adjust. I am confident we are in a favorable position to come out on the other side, once the market does normalize.

With that, I will turn it back to Larry.

#### Lawrence Firestone

Okay. I was on mute, I apologize. Thank you, Robert. As mentioned on the call, at the beginning Stuart Schreiner, our new Interim Chief Financial Officer has joined us on the call today. And I have worked with Stuart previously, and he joined at a critical time to help Eastside with leadership in the finance area.

His first point of attack has been in the cash flow of the company, this is so critical for growing the company for now and especially in these times. Because he recently joined, he has been getting his hands dirty inside the finance and control side, and I'm going to give him the pass on discussing the normal quarterly analysis that I've already summarized today. Now, I'm confident that Stuart's hands-on approach with the process and continuous improvement will add tremendous value to Eastside going forward, and he is certainly well versed in solving problems for companies that are transitioning on the stage of investment to that of cash flow positive.

As a company, we've become more nimble and are completely focused on creating value. So just a shout-out to our Eastside team, Robert and his team are working hard every day on the customer facing side of the company. Stu and his team are working with the cash flow and financial models, and Kevin Quinn and Mel Heim are working to outsource Redneck Riviera Whiskey production and to improve our gross margins on that brand and mining all of our brands for cost reduction.

Todd Garrett and his team are driving hard capitalizing on the opportunities for Craft Canning and not just during the crisis. We've gelled with the team over the last four months and come up literally every day as all of us are working to lower overhead and breakeven point to get Eastside to the point where we can run the business organically on our own cash flow.

We would also like to thank John Rich as well for all of his efforts to promote the Redneck Riviera brand. I had the pleasure to watch John in action at a private concert, and the Redneck Riviera bar on stage was awesome. But more importantly, his commitment to our armed forces is moving. Thank you, John. Now clearly, the COVID-19 has raised the bar on our team and near term impact on our business, but we believe this will quickly pass and we will drive to regain the strong footing by which we started the year off with. There is plenty of work to do, but I believe we have a great team to get us there.

Robert and Stu and I are all remote. So as you ask your questions, we will call on each other to answer which is certainly a change from all being in the same room. So with that said we'll go ahead and open up the call for questions.

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## QUESTIONS AND ANSWERS

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### Operator

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

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

### David Bain

Great. Thank you and thanks for some of the additional transparency in the press release with case volumes and revenue by driver. I guess first, Larry, you mentioned you lower the breakeven point. Just looking at 2020 trying to expect it next with our on-premise and off-premise now and you are Canning, and then the other margin efforts you sought to could you point us to kind of where top line needs to be for a breakeven on a quarterly basis?

### Lawrence Firestone

Yes, it's still a moving target, David. So I am going to pass on that for right now, because we have...we're still pieces in the middle of the business. As we mentioned, the on-premise team is really kind of on the sidelines right now, so as we work through that we'll come back to you with that number. But it's...certainly we're moving the headcount down and closing the retail operations and those kinds of things, it is really moving in the right direction. But I'm not yet to the point where I'm ready to guide a breakeven point.

### David Bain

Okay, I understand. That's fair. And then just given, as you know, is historical on-premise mix and I understand the plan has always been tactical that kind of built national off-premise chain. But you know, obviously the urgency here are probably even a little bit higher. And Robby there is some nice acceptance data points at the first [indiscernible]. I guess, just a couple of questions as we head into resets. I mean broadly, has timing of reset changed, I understand the form factor is more popular as you mentioned for the 1.75 versus 7.50 [ph], but can we adjust to match the current environment, we're current path are not long, but you know, what has been the response from distribution hosts to kind of the sales effort at this point? And what you're doing outside of kind of the four [ph] incentives you mentioned and how those are being accepted at this point?

### Robert Manfredonia

Yes, thanks David. The first thing I want to reiterate is the wholesaler confidence that we have, the numbers that I quoted with new distribution points are not the norm, it's usually a wait and see they take very little product inventory and then based upon the market reaction then they incrementally start to taking more inventory that hasn't been the case. So there is a position from New York City to Florida to Illinois and many other states where a lot of our wholesaler partners are very bullish on the brand itself. It starts with that and their confidence because we need their support with retailer presentations. We

are presenting for the...what they call the fall, pull and plug which is a September timed period of time, usually the...most of the distribution changes are done in the spring.

We missed a large portion of that with acquiring the brand in mid-September, so we're going to go through the mid year and we are presenting Reposado for the most part to most of the chains across the country and the reception has been fantastic. A lot of the chains are starting to trade up from Longo to Reposado. We have a product that's organic and they're very excited about it. We will say it's a smaller consideration period, so there is less...there's less changes that are made overall. But we will continue to fill in what we call the general market, the independents where there isn't that hardline consideration period, but the early response has been fantastic and even to the point of brands like Hue-Hue, there are selected retailers that are intrigued by the brand like Publix in Florida...in South Florida, that we have an opportunity to be very selective on where the brands go. So we have the right brands to go into high growth categories, we're positioned in the right price segmentations which is above premium and luxury and that's where we want to stay. So that's really the model and now we're moving things through the model itself.

**David Bain**

Okay. Alright, great. And I guess, I just want to....looking at for divestment potential opportunities are cashing in [indiscernible] growth you've created for certain brands. I know there is the opportunity [indiscernible]. But when you look at the portfolio, are there certain broad strategies you can consider, like a matrix you look at...when you look to potential brand incubation, that period being finalized with anytime?

**Lawrence Firestone**

You broke up a little bit at the beginning there. But, I think the question was...

**David Bain**

I'm just asking about divestments, yes.

**Lawrence Firestone**

Go ahead, go ahead again.

**David Bain**

Okay. So divestment opportunities and what you are looking at on year-end, as to considerations to pull the trigger, should you be approached on certain brands or market certain brands outside of financial considerations or is there something of a matrix you look at within the portfolios, I mean, I'm just trying to understand...?

**Lawrence Firestone**

Yes, that's a great question. The brands that hit the national platform, we...well, straight up, Robert and I are working on that. So what is the...what's the exact model that we want to get to, and that's a work in progress, I mentioned the gross margin target is being a piece of that. And I think the way I look at it is, as a trailer hedged to one of the tier 1s, what would they like to buy, they would probably much rather buy a brand that's performing in the margin level that they're used to and that has, you know, that has in the national platform, wide distribution that's sticky that can...that they can easily import into their line up and take it to the next level. So metrically, I don't have that yet David, but for the local brands or the brands that are more predominant in Oregon in the Northwest, Robert and I have talked about some of



those brands and whether they have...what kind of growth opportunities they have, have they peaked, and what kind of margin opportunities they have as well. So we're just getting started on digging into cost of goods sold and those kind of things, because I feel like there is quite a bit there, with the 30%...mid-30s kind of gross margin. So it's really going to come down the peak and apart and kind of taking the brand engine apart and seeing what we need to do when we put it back together.

**David Bain**

Great. Well, it sounds like things are extremely strong before and look forward to getting back there. Thanks so much.

**Lawrence Firestone**

Likewise.

**Operator**

Our next question comes from Jim McIlree of Bradley Woods. Please go ahead.

**Jim McIlree**

Yes, thanks and good evening. Just a couple of questions, how much was on-premise sales in the quarter? And then of the inventory balance at year-end, how much of that was whiskey?

**Lawrence Firestone**

Oh. On-premise sales, I'll let Robert answer that from probably...maybe just a percentage of the business. But the whiskey...the raw barrels of whiskey, I want to say...at cost, it's probably in the \$7 million...\$6 million to \$7 million range and the strange thing there Jim is when we borrow from Live Oak, they lend against market value. So there is a spread there between our cost and our market.

**Jim McIlree**

Got it. And the on-premise sales, you're saying just a small percentage?

**Robert Manfredonia**

Well, it just depends upon the brand itself. So Redneck Riviera is 11% on-premise brand from a volume standpoint.

**Jim McIlree**

Okay.

**Robert Manfredonia**

The Azuñia brand is 78% of the volume...

**Jim McIlree**

Right.

**Robert Manfredonia**

...it's provided by the on-premise. The Oregon market alone...the on-premise is 12% of the market.

**Jim McIlree**

Okay.

**Robert Manfredonia**

So that's in part what we're all dealing with, right. Not only us, but it's part of it. And it's also...I think it's worth adding, wholesalers have taking sort of a position within this crisis of really focusing on the very well developed brands, that's what they're bringing in additional inventory with the smaller brands, the mid-sized brands even, they are playing inventory levels very, very tight at this point in time, that's part of this challenge that we're facing in the near term. That will loosen up very quickly, we're already having planning sessions with them for the month of May and June, so we have our plans in place for the reopening of the market.

**Jim McIlree**

Got it. Alright, very good. Thank you. Good luck with everything.

**Robert Manfredonia**

Thank you.

**Lawrence Firestone**

Thanks.

**Operator**

Our next question comes from Harold Webber of Aegis Capital. Please go ahead with your question.

**Harold Webber**

Yes. Hi, good afternoon, guys, hi everyone.

**Lawrence Firestone**

Hi, Harold.

**Harold Webber**

Can you hear me?

**Lawrence Firestone**

Good afternoon. Yes, we can hear you.

**Harold Webber**

I've got a question...a couple of questions. First, on a basic level, there has been all kinds of talk about distillers converting some of their production to making alcohol to distribute for sanitizing purposes. Have you guys have been involved in that at all? Do you have any...

**Lawrence Firestone**

We have not, we have not. We run a small production shop, and frankly, Robert and I and the rest of the team that I mentioned have been working so hard to construct or reconstruct or transform...transition the business in so many different ways for us to, to stop, drop, enroll and cut in a new sanitizer product. We would be up against the guys like the President announced that Pernod Ricard came out with sanitizer, and those guys will make...those guys will make a million gallon by the time we would get our product rolling. So we made the decision to not go down that path.



**Harold Webber**

Okay. So just [indiscernible], if you have idle capacity and/or production, if you don't have, that's okay too. What should I say good public relations thing, so being a good corporate citizen and stuff like that, but if you're saying that it doesn't make sense then, okay. And I'd like to get an idea if you've been working on...we were talking about doing something in regard to enhancing our corporate branding image. Have you been doing something in regards to that?

**Lawrence Firestone**

Yes. So we have our marketing team, probably not along the lines that you want to hear Harold, but our team and I have been trained on this. If you look at the tier 1 peers in the industry, most of the...if not all of the brands...each of the brand stands on their own and they roll up to a corporate parent. So other than maybe like Seagram's, you wouldn't really know who owns, for example, Jose Cuervo or Bushmills Whiskey or just go on down the brands. So, the...what you've been asking for is Eastside's name on the bottle of everything and that is...

**Harold Webber**

No, not exactly. I'm just...I'm trying to get to raise the corporate identity of Eastside with some type of a better branding logo showing the brands that we own, and I am not saying we have to put Eastside in every bottle, I don't really care about. I'm trying to get the image of Eastside as a premium brand company, raised.

**Lawrence Firestone**

Yes, and that I would say, we're starting our press release campaign you've seen that's hit the newswire now on a pretty consistent basis. That attaches Eastside to the specific brands and our marketing team is actually working on the brand sites. And as, I mentioned earlier in the call, they are working on the brand sites, so that there is a buy now and every brand site. We have some buy now that don't quite work well. So we've got to get that fixed so that people who are on our brand sites can buy our brands and that's kind of my primary focus right now. I hate to have a customer that wants to drink our liquids and can get them.

**Harold Webber**

Absolutely, you want to certainly...anybody who wants it should be able to get fulfilled.

**Lawrence Firestone**

Yes.

**Harold Webber**

Any progress or any further developments in regards to the outlandish products?

**Lawrence Firestone**

Outlandish, we have...we pulled back from that when the...it was an Oregon-only product for us. And when the liquor board in Oregon pulled back from the ability to mix CBD with spirits that made that business for us extremely small. So we're putting our horses behind the mainstream spirits business that we're running.

**Harold Webber**

That's fine, that's fine, and if and when that changes we can go back to ramping that up if the demand is there, right?

**Lawrence Firestone**

If it's there, yes.

**Harold Weber**

Okay. And [indiscernible] saying is something in regard...some kind of branding identity, a logo some...when you send that email, do you send that, it just puts you to sleep. Something these companies they have vibrant they have colors, they have picture, they have a theme, they have something, I don't really care. When you look at the bottles, we have all kinds of bottles with nice stuff on them; maybe put one of them on the label or on the corporate logo with something.

**Lawrence Firestone**

Yes. We've got a great branding house in Sandstrom Partners, and they really work on the brand level, but, you know, so I think that's really where our money is going. And when we talked about deploying our resources, it's really...it's really at the brand level.

**Harold Webber**

How do you see the other products getting rolled out, I suppose at some point have you gotten any feedback from the distributors about some of the other things?

**Lawrence Firestone**

Over to Robert.

**Robert Manfredonia**

Yes, I'll take that. So as I mentioned, we have all of the markets that we identified are...have accepted all of the brands. Some we have shipped in, they've landed in the warehouses, some we have, you know POs that are waiting, that they are waiting for the market conditions to change, but we've have already have confirmed POs if not product in the systems. We have kick-off dates that have been pushed back a little bit. But there is a process to kicking off a brand. It just makes sense, right. You have to...before you are launching into a market, you have to sit down with the teams that are representing the brands, explain what the brand is about and make sure that they are fully equipped to go out and appropriately represent the brands. So all the states that we put forth has been the launch [ph] dates are engaged. They've accepted all of the brands. We have either POs in hand or we have products in the warehouses. We're just waiting for the market conditions to adjust and we're ready to go. We're ready to go and they are too. And I did mention that we like many other company's presents our brands to them for representation and most get declined. So above and beyond acceptance and the size of the initial orders and the financial commitment, we're extremely excited about the position that you're taking with our brands. So I expect big things to be happening again once things normalize.

**Harold Webber**

Okay. So basically, we're ready to ship and as soon as they say we are ready to come to take, is that basically right?

**Robert Manfredonia**

Yes, that is correct. They are ready to go and once we can go through the process of kicking off, the product will be in, prior to that we will do our meetings and we will start going out aggressively into the market with a targeted plan. That is correct.

**Harold Webber**

And how long would you anticipate it taking to roll out to many of these distributors?

**Robert Manfredonia**

I would say well, I think...

**Lawrence Firestone**

Once everybody wants...everybody is back to...is somewhat back to normal, let's say.

**Robert Manfredonia**

Right. So let's just say Harold, it seems normalized and everything in the market...on-premise is open, we can get in a room with people in the month of May, then the products will be launched in May, if that's June, then that will be June. There'll be no delay or lag time once everything normalizes with the market, back to the wholesaler.

**Harold Webber**

Okay, that sounds good. We're waiting to hear about it, only to see it, waiting to see them in the stores yet.

**Robert Manfredonia**

Well, we're excited.

**Harold Webber**

We are too...

**Robert Manfredonia**

For our New York City, we couldn't be more excited about the opportunity that...not just for Azuñia, but for Hue-Hue and Burnside and Redneck in the city, but also the suburbia markets within the Boroughs. The reaction of the wholesaler was as our expectations, so that is something that we can really build our brains off of. So there is a lot to come with that. We're excited about it.

**Harold Webber**

Okay, great. Hopefully, we will be able to ramp up sooner rather than later. Good luck.

**Robert Manfredonia**

We agree.

**Lawrence Firestone**

We totally agree.

**Operator**

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



**David Bain**

Only one quick follow-up, it was on the online expansion...distribution, obviously that's a huge market but sometimes we hear how competitive that can be. Can you kind of lay out what the strategy could look like, the platforms that you'll be utilizing to try and penetrate sales from that method?

**Lawrence Firestone**

Do you want to take that one, Robert?

**Robert Manfredonia**

Yes, absolutely. Well, I mentioned David that we are utilizing delivery services of Instacart and Drizly, right. Their models are...and what we're going after is we're focused on when our consumers approach Drizly or Instacart, our brands pop-up, it's part of the geo-targeting we're doing with and that's part of the plan.

The secondary piece of it is that we are utilizing our databases and our social media platforms of engagement, right with direct messaging through a John Rich video, as an example, or through something with the brand like Azuñia or even products within Oregon. So...and we have different tactics that we're doing. We're sending messaging and then we're trying to focus on high density opportunities with distribution. And then we provide them sort of the support of a coupon, right, you can download coupon for \$3 on a one bottle buy or you buy two and you save \$8. So we're trying to use a variety of different tactics and through the digital space to get people to be aware of our products.

Joe Giansante [ph], our Senior Vice President, is doing a good job, a really good job in expanding what's going on with this approach and we have a lot more to come. So this was always part of where we wanted to go. Obviously, it's being further accelerated, because of the conditions and we are receiving a lot of data back through just Google Analytics and Facebook Analytics and we're starting to see sales coming through the online space. So it's going to be something that we are going to continue to advance and develop. These brands speak well online and we have the ability to do it. So that's where we're going to be driving as we move forward.

**David Bain**

Okay, that's helpful. I understand. Thank you so much.

**Robert Manfredonia**

Sure. Thank you, David.

**Operator**

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

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## CONCLUSION

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**Lawrence Firestone**

Thank you, operator. And thanks again to everyone for joining us on the call today. I look forward to speaking with you all on our earnings call in May if not before as we strive to keep you updated on our progress. Please stay safe and healthy and have a good evening. Thank you.

**Operator**

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