Registered Office

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Good Spirits Hospitality

Good People Good Times Good Spirits

22 November 2022

Annual Shareholder Meeting 2022
Chair Address

It will be of no surprise to anyone that the impact of COVID on the Group's financial result in FY22 was considerable.

The Delta lockdown in Auckland from August 2021 to December 2021 forced the mandated closure of all Auckland venues for a period of 107 days, which materially impacted our revenue and placed the Group under severe cash flow pressure. Government imposed Covid restrictions also meant that our venues endured an additional 19 weeks of restricted trading, with many venues running significantly below capacity with reduced operating hours and further restrictions on number of customers allowed on site and the manner in which those customers could behave whilst onsite.

In addition, the mandated international border closures throughout the year resulted in no international visitors, which also negatively impacted our revenue and contributed to labour shortages.

During this time, we initiated our COVID response plan, removing and trimming costs from the business where possible, negotiating supplier payment terms and rent relief from most landlords, and agreed with our lenders measures that recognised the impact of the COVID restrictions and provided support to the Company both in terms of the capitalisation of interest and provision of funding where needed.

In summary, the repercussions of COVID related lockdowns and restrictions adversely impacted Group earnings by approximately $9.8m in FY22 as a direct result of our venues being closed, or subject to restricted trading, for eight months during the year.

For the year ended 30 June 2022 the Group reported a net loss before tax of $6.6m. There were a number of one-off unusual items that contributed to the reported net loss, including: due diligence and other transaction costs of $1.5m related to the Nourish Group acquisition which did not proceed, non-cash Goodwill impairments of $0.6m, and a non-cash right-of-use asset impairment of $0.5m.

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In regard to the Nourish transaction, whilst it ultimately did not proceed, GSH and its board considered it in the best interests of shareholders and other stakeholders to pursue this transaction which, if completed, would have given the group the scale it has historically lacked along with a material deleveraging of debt burden. The acquisition was also in line with GSH's previously stated aim of growth through prudent acquisition. For the benefit of shareholders' knowledge, GSH had agreed debt terms with its lender to partially fund the acquisition and had received strong support from a number of private equity funds to raise the necessary equity including draft terms. Unfortunately, efforts to finalise the equity raise coincided with the COVID Omicron wave and resulting harsh lockdowns and other restrictions were seen by these funds as being too high a risk to proceed. Unfortunately GSH was not able to negotiate an extension with the vendors of the Nourish group, such an extension would likely have resulted in a successful acquisition of the Nourish group.

Despite the significant headwinds and unprecedented challenges created by COVID, the Group delivered a respectable operating result in FY22:

Operating Revenue decreased 24% to $17.7m primarily due to COVID lockdowns, capacity restrictions and travel restrictions affecting international traveller numbers;
During the period when venues were operating the underlying venue EBITDA (before unusual items and corporate costs) was strong
80% of venues delivered positive EBITDA - despite COVID;
Group operating cash flows prior to unusual items for the period were $2.2m; and
We delivered a strong operating performance in the final quarter of the financial year driven by the gradual easing of COVID restrictions and a progressive return to pre-COVID trading levels, highlighting the resilience and popularity of our venues.

Geoff will provide you with some more detail on the Group's trading performance financial year to date and our outlook for FY23 later in the presentation.

Balance Sheet & Strategic Review

That being said, the company now finds itself at a crossroad. Whilst the board and management have, for the last few years, sought to restructure, refocus and improve the underlying performance of the business, the debt levels we inherited, together with the forced closures and restricted trading of our venues and resulting losses, has been difficult

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and taken an enormous effort from everyone involved in this company as well as the support of our bankers simply to keep the company afloat.

The Directors have undertaken a cash flow forecast review for the twelve months following the date of approval of the annual report, which shows that the Group will be able to meet its obligations as and when they fall due and comply with covenant requirements. This forecast is based on achieving significantly higher revenue in the 2023 financial year than in 2022 (predicated on non-Covid trading restrictions), and also allows for cost reductions implemented early in the 2022 year. The Group considers the operating cash flow forecasts to be achievable, with downside risks able to be partially mitigated through further cost reduction initiatives.

Pacific Dawn has been supportive of GSH over the past couple of years during an unprecedented global pandemic, including by providing c. $2m in funding support for the Fox refurbishment as well as allowing the company to capitalise c. $2.5m of interest payments and making $500k in additional funding available. However Pacific Dawn is now looking for a concrete plan to address the current financial position of the Company.

On 30 September 2022 the Group successfully negotiated an extension of its banking facilities with Pacific Dawn from 31 December 2022 to 31 December 2023.

One of the conditions of the banking facility extension is that GSH must achieve certain milestones for a possible range of transactions within a prescribed timeframe.

The possible transactions include the subscription for new shares of GSH or its subsidiaries for cash, a merger between GSH and another operator, a sale of the GSH's assets or its subsidiaries' assets (or a series of sales), or a sale of GSH's subsidiaries.

On 27 October 2022, the Board appointed Tonnant Partners as its Transaction Advisor to advise on potential transactions. This strategic options review is now underway, and we will update the market with any material developments as they progress.

Before I hand over to CEO Geoff Tuttle to provide you with a trading update, I would like to thank my fellow Directors and the Management team for their hard work, resilience and ongoing commitment to GSH over the past two and a half years as we collectively dealt with the significant challenges created by the COVID-19 pandemic.

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GOOD SPIRITS Hospitality

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After a challenging and unprecedented period for the hospitality industry, the Group is pleased to start FY23 with strong momentum and a reaffirmed commitment to deliver value to our stakeholders as the hospitality industry slowly returns to a pre-COVID trading environment.

We thank all shareholders, staff, suppliers and of course our valued customers for their ongoing support.

ENDS

For further information, contact:
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About Good Spirits Hospitality Limited: Good Spirits Hospitality is a NZX Main Board-listed investment company focusing in the Hospitality sector (NZX: GSH). Good Spirits Hospitality Limited owns and operates hospitality venues in New Zealand's North Island, providing places to connect with others and world class standards to provide lasting and memorable experiences to our guests and customers.

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