

THE EXECUTIVE INTERVIEW SERIES



Steven Earles, CEO & Director
Eastside Distilling, Inc.



Steve Shum, CFO
Eastside Distilling, Inc.



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Eastside Distilling, Inc. (OTCQB: ESDI) has been producing high-quality, master crafted spirits since 2008 and is located in Southeast Portland's Distillery Row. Makers of award winning spirits, the company is unique in the marketplace and is distinguished by its highly decorated product lineup that includes Burnside Bourbon, Barrel Hitch American Whiskey, Below Deck Rums, Portland Potato Vodka and a distinctive line of infused whiskeys. All Eastside spirits are master crafted from natural ingredients for unparalleled quality and taste.

Tell me about the history of Eastside Distilling.

[ESDI] Eastside Distilling started in 2008 as a passion project to create high-quality spirits that could be enjoyed at a reasonable price. To this point, we have developed a series of distinctive products in the bourbon, whiskey, rum and vodka categories that have won numerous awards for taste and package design.

We have two premium, barrel-aged bourbons: Burnside Bourbon and Burnside Oregon Oak Bourbon. Our Burnside Bourbon is aged in oak barrels, is 96 proof and won the 2012 MicroLiquor Spirit Awards Gold Medal for Taste. In 2013, the prestigious Beverage Tasting Institute awarded Burnside Bourbon a Gold Medal along with a 90 point "Exceptional" rating. Our Burnside Oregon Oak Bourbon is produced in limited quantities and aged in Oregon heavily charred oak barrels and we consider it an "ultra-premium" brand at a value price. Our Burnside Bourbon brands accounted for approximately 35% and 40% of our revenues for fiscal years 2015 and 2014, respectively.

In the American whiskey category, we have created our Barrel Hitch American Whiskey and Barrel Hitch Oregon Oaked Whiskey. Our whiskey is 80 proof and won a triple-Gold Medal and best of show in the MicroLiquor Spirit Awards in 2015. Again, our Oregon Oak version is produced in limited quantities and aged in Oregon heavily charred oak barrels.

We also have a series of specialty whiskeys, including our Cherry Bomb Whiskey and Marionberry Whiskey. Our Cherry Bomb Whiskey combines handcrafted small batch whiskey with a blast of real

Oregon cherries while our Marionberry whiskey combines Oregon marionberries with premium aged whiskey. These are both highly unique products that our customers love.

In the rum category, we produce 4 rums under the Below Deck brand name: Below Deck Silver Rum, Below Deck Spiced Rum, Below Deck Coffee Rum and Below Deck Ginger Rum. All of these are fantastic products, but the one that everyone seems to gravitate to due to its uniqueness is the Coffee Rum. We blend aromatic locally-roasted Arabica beans from Portland Roasting Company with quality small batch rum that gives a deep smooth richness.

And finally, we have a unique twist with our Portland Potato Vodka. It is gluten free and has a clean, crisp taste that mixes especially well in your favorite cocktails or drinks great straight-up on the rocks.

As you can hear, for a small craft producer, we have a wide product portfolio that we believe will serve us extremely well as we cross market various products and leverage our portfolio with distributors. While we initially started with one retail location in downtown Portland, we have rapidly expanded to now distribute our products to 20 states with a loyal customer base. Additionally, we recently added a second retail location in the Clackamas Town Center mall in Happy Valley, Oregon. And, we opened up a 42,000 square foot production facility in Southeast, Portland to meet the expected demand from our recently launched national expansion.

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The craft distilling industry has seen tremendous growth the last few years, can you talk about what you see taking place in the industry?

[ESDI] You are right. Craft distilling has seen tremendous growth over the last few years. It's something very similar to what you saw in the craft beer industry. A recent stat showed that the number of craft distillers have increased from 100 in the first quarter of 2010 producing around 700,000 cases, to over 700 distillers in 2014 producing more than 3.5 million cases. The millennials have spoken, the consumer has spoken. They want something different, and that's what we give them at Eastside Distilling.

You offer a wide range of spirits, what has been the driving factor in the introduction of the products you currently sell?

[ESDI] I think the driving factor is a unique spin on traditional spirits. We are a craft producer, we make it our own, it's unique, it's individual. We believe that locally-produced, small-batch spirits simply taste better. Our spirits are made from quality natural ingredients at our facility in Portland, Oregon, which allows us to capture the vibrant variety of flavors and the “savor the moment” attitude that makes our home in the Pacific Northwest so unique. For instance, we achieve various complex flavor profiles through the infusion of fruits, and in the case of our whiskeys, aging of the products in various types of casks for extended periods of time. At the end of the day, quality will override everything and that is where our focus has been in developing our portfolio of products.

For those not familiar with the nuances of liquor distribution, can you provide a bit of an overview?

[ESDI] For the distribution of liquor in the U.S., there is a three-tier distribution system. You have the producer, the distributor, and you have the retailer such as liquor stores, restaurants, bars, grocery stores and so on. By law you have to use state-licensed distributors or, in the control states, state-owned agencies, to sell product to retail outlets. As a result, we depend on distributors for sales, for product placement and for retail store penetration.

On our end of the spectrum, the producer, what you need first is a great brand. You need a quality product in the bottle that tastes great. Once you get that you need to develop the relationships with the distributors. The distributors look at the packaging, the taste of

the product, and the marketing initiatives in place. Once it gets on the shelf, it's our job to help educate the consumer and have the consumer taste our product, look at the product, like the product, and pull it off the shelf.

Can you talk a bit about the success you have had in your home state of Oregon?

[ESDI] We have had tremendous success in Portland which is an important factor as we look to further our national roll-out. As you know, Portland is an up and coming city, it's very hip. Portland has been a leader in the movement towards craft beer as well as craft distilling. We are currently the third largest craft producer in Portland.

Overall, I think that the keys to success in Oregon are the fact that we have a quality product with a price point that is approachable by that younger crowd. We took those two key elements, embarked on an aggressive marketing campaign locally, and won over large contingents of the market. Our goal now is to replicate the success we have had in Portland and roll it out on a National level.

As you focus your efforts on the National Roll-Out, are there certain key markets that you are focused on? Can you discuss your marketing strategies?

[ESDI] Yes. As I mentioned, we are currently in 20 states. Initially the sales team is going to focus on the most highly concentrated key markets. We are going to be very strategic and systematic about where we spend our marketing dollars and how we go about rolling out each market. Initially, we have strong efforts in California and New York.

Overall, we employ in-house marketing, sales and customer service personnel who work together with third party design and advertising firms to maintain a high degree of focus on each of our product categories and build brand awareness through innovative marketing activities. We use a range of marketing strategies and tactics to build brand equity and increase sales, including consumer and trade advertising, price promotions, point-of-sale materials, event sponsorship, in-store and on-premise promotions and public relations, as well as a variety of other traditional and non-traditional marketing techniques, including social media marketing, to support our brands.

Besides traditional advertising, we also employ three other marketing methods to support our brands: public relations, event sponsorships and tastings. Our significant U.S. public relations efforts have helped gain editorial coverage for our brands, which increases brand awareness. Event sponsorship is an economical way for us to have influential consumers taste our brands. We actively contribute product to trend-setting events where our brand has exclusivity in the brand category. We also conduct hundreds of in-store and on-premise promotions each year.

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We support our brand marketing efforts with an assortment of point-of-sale materials. The combination of trade and consumer programs, supported by attractive point-of-sale materials, also establishes greater credibility for us with our distributors and retailers.

What other craft distillers operate in your space today? What are Eastside's competitive advantages and how are you distinguishing yourself from these other companies?

[ESDI] I would say it starts and stops with the quality of the product. You can get some shelf space initially but then it dies if the product can't live up to that initial purchase because the consumer really doesn't like it. Clearly we need to be effective from a distribution and marketing standpoint to drive awareness of our product, but at the end of the day, quality is the most important differentiator and we believe we have a very good product. Overall, the beverage alcohol industry is highly competitive. We compete with a number of other alcoholic and nonalcoholic beverages for consumer purchases, retail shelf space, restaurant presence and wholesaler attention. However, we believe quality will reign at the end of the day and we feel very confident in our portfolio of products.

Eastside is one of only a few public craft distillers—what does this mean for Eastside?

[ESDI] I think being a public company helps in a couple of different ways. It certainly can help build a brand because you get spillover between public market people and consumers and vice versa. Periodically in consumer-based products when a company goes public your consumers sometimes become your shareholders and your shareholders become your consumers. So there's an advantage there from helping to proliferate the brand, if you will.

Besides that, I think that it should help us pursue our goals of building a national presence faster than you might normally be able to do because we should have access to a wider range of potential resources to help finance the growth of the company, and ultimately drive greater value for shareholders.

Can you give us some color on recent trends in the M&A market?

[ESDI] I think that what you see in the industry is that when companies achieve success, and success in our industry is measured by case volume as case volume is a direct correlation to how successful you've been at building your brand. Once you reach critical levels, bigger companies tend to want to buy you. By focusing on the premium and super-premium segments of the market, which typically have higher margins we believe we are able to gain relatively significant attention from our distributors and the industry as a whole. The continued consolidation among the major companies is expected to create an opportunity for small to mid-size wine and spirits companies, such as Eastside, as the bigger players look for opportunities to grow their overall portfolio. When they do look to acquire smaller companies, what we've seen in the industry is that multiples are extremely attractive.

What are the early signs or benchmarks that interested parties should look at to gauge the progress of Eastside Distilling?

[ESDI] I think the number one thing that drives value is case volume. So as a company, the number one metric for both ourselves and the industry at large are case volumes that hit those critical threshold where you've seen significant value creation happen.

Overall, our objective is to continue building Eastside Distilling into a profitable national spirits company, with a distinctive portfolio of premium and super premium spirits. Our goal includes achieving nationwide distribution of our products. To successfully do this, we need to grow our distribution network and increase our production. Our new facility should ultimately be capable of meeting and exceeding any production requirement we may have. We are currently able to produce 100,000 cases per year and we expect our annual production of cases to increase each year. We believe our increased production capacity will make us more attractive to distribution partners and will also generate additional revenues and profits.

We will also selectively add new brands to our portfolio. For example, during late 2015, we introduced our new American whiskey product – Barrel Hitch American Whiskey. However, now that we have a strong portfolio of products, distribution agreements in key states, the next big key to our success is to build consumer awareness.

What are some of the key risks to achieving your goals?

[ESDI] I think on the front it is making sure the business is adequately capitalized to maintain our momentum and take advantage of the opportunity in the foundation that's already in play. It's an important time for the business to leverage the investments that have already been made, and expand into these additional markets, because if we do that the potential returns are significant.

What would you like interested parties to take away about Eastside Distilling?

[ESDI] With U.S. spirit industry sales continuing to set new records, Eastside is ideally positioned to benefit from the growing trend toward craft spirits. We see the craft spirit space evolving like the craft beer space where those who have achieved regional and national brand identity with strong case volume have experienced significant value creation. And our goal is to grow Eastside in a similar fashion.

It is important to consider all these factors when looking at Eastside for the first time and especially how far we've come in relatively short span of time, from a small craft distiller with a passion for excellence and who found itself winning award after award for quality and taste, to now a fast emerging national craft brand.

Given the unique appeal of our premium spirits, we believe that over the course of the next several quarters, if we simply do it right with our sales team focused in the right way, our growth will continue on its current trajectory.



PHOENIX
3800 North Central Ave.
Suite 750
Phoenix, AZ 85012
Office 602.889.9700
Fax 602.889.9696
www.lythampartners.com

NEW YORK
750 Third Avenue
9th Floor
New York, NY 10017
Office 646.829.9700
Fax 646.829.9701
info@lythampartners.com

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