New Age Beverages Corporation NASDAQ: NBEV)
Investor Conference Call
April 17, 2018

SEAN MANSOURI:

Good afternoon…and thank you for joining New Age Beverage Corporation's fourth quarter and full year 2017 investor conference call. I am Sean Mansouri with Liolios Group, the investor relations counsel for New Age. I'd like to welcome you all to the call today and to thank you all for joining.

On today's call we will have Brent Willis, Chief Executive Officer of New Age Beverages, and Chuck Ence, Chief Financial and Administrative Officer.

I'd like to remind everyone that this conference call may contain certain forward-looking statements reflecting management's current expectations regarding future results of operations, economic performance, financial condition and achievements of the Company. Forward-looking statements, specifically those concerning future performance, are subject to certain risks and uncertainties.

The transcript of today's conference call will be available on the Company's website, within the investor section at www.newagebev.com. I'd now like to turn the call over to Chuck.

CHUCK ENCE:

For the twelve months ending December 31, 2017, the Company delivered consolidated gross revenue of $56.7 million vs. $27.3 million in 2016, more than double the prior year, and more than twenty-five times the revenue of the firm exactly two years ago. Subtracting discounts and billbacks, at the net revenue level, the Company achieved $52.2 million vs. $25.3 million in the prior year, an increase of 106%. Net Sales as a percent of gross revenue was 92%, and we expect it to be between 90% to 92% of gross sales for the foreseeable future.

Within our segments, the DSD Division delivered its 9th consecutive year of growth with organic growth of 6% vs. prior year. The Division continues to be a positive cash generator as a standalone entity, facilitating New Age's growth and diversification.

Within the US Division, the Búcha brand led all brand growth, including sales growth in its largest national retailer of 38%. That growth, which led the category for the retailer, contributed to the chain to expand Búcha to all its banners nationally. Búcha has more than tripled since we brought it into our system 18 months ago, and recently has expanded to virtually all major grocery and convenience retailers throughout Canada, expanded to other markets internationally, and is now rapidly expanding to other convenience and grocery retailers throughout the US. Now, with a 43% gross margin, vs. the 16% when we started, the brand materially contributes to the overall results of the Company.

In gross profit, the firm delivered $12.4 million for the year vs. $5.8 million in the prior year, up 114%. Gross profit as a percent of sales, excluding shipping, was 29% vs. 27% in the prior year. The 200 basis points of continued gross margin improvement vs. prior year is a result of concerted efforts on mix enhancement and overall COGS reduction. Importantly, however, the increase in

gross margin is before any of the impact of the shift in Coco-libre sourcing, which started in Q1 2018 and is driving a more than 30% improvement in COGS.

Shipping costs for the period ending December 31, 2017 were $2.7 million or 5.1% of net sales vs. $1.1 million in the prior year or 4.3%. The increase in shipping costs was the result of the one-time transfers of products resulting from the acquisitions, and the change to three consolidated warehouses nationally. From a model standpoint going forward, 4.5% of net sales is a good number for 2018.

Total operating expenses for the year were $18.4 million vs. $9.4 million in the prior year. An improvement of 200 basis pts as a percent of net sales. Of the total OPEX, marketing investment more than doubled, evidence of our commitment to invest in and build brands, whilst still reducing overall OPEX.

Importantly, of the $18.4 million in total OPEX, $1.6 million was associated with non-cash stock expense impact associated with the acquisitions. In addition, there were an additional $5.2 million in one-time expenses incurred throughout the year associated with the acquisitions, uplisitng, and integration. Those one-time impacts were validated by an independent 3rd party as part of our quality of earnings analysis done to gain approval on the PNC credit facility. Not including those non-recurring expenses, OPEX was 25% of net sales, a reduction of 1200 basis points vs. prior year. 25% of net sales OPEX expenditure is also a good working model assumption for 2018.

Adjusted EBITDA for the year ending December 31, 2017 was $5.04 million, an 1824% increase versus the prior year. Included in that number was a one-time gain on the sale/lease-back of a warehouse of $2.5 million.

In summary, here is what is happening:

#1) We are gaining scale on the topline,

#2) We are adding more than 5 points a year in gross margin improvement,

#3) We are reducing our OPEX as a percent of net sales to below 25%.

Yes, we had some one-time impacts in 2017 as we were building our platform, but as the business model normalizes in 2018 and we focus on organic top and bottom line growth, we expect a 35% gross margin, OPEX below 25% of net sales, and achieve a 10% EBITDA margin.

Turning to the balance sheet and cash flow statements, we continue to operate with very healthy current assets over current liabilities. Current assets for the period ending December 31, 2017 increased 62% to $16.2 million as compared to $10.3 million in current liabilities, not including contingent and lease considerations. That equates to a working capital ratio of 1.6 to 1. We believe the total debt of $3.5 million on a business of this scale is de minimis. Total shareholder equity reached $52.7 million, vs only $4.9 million in the year prior. That represents a 981% increase in equity for our shareholders.

Looking at the cash flow, we finished the year with $285 thousand dollars in the bank. In Q3 of '16 we finished with $591 thousand, and in Q2 of 1'6 we finished with $279 thousand. Put another way, we have not had any excess cash to invest in the business, outside of what we have internally generated from operations, for more than a year.

To address that issue, we went to put in place a credit facility with a new, bigger bank in PNC. We started on this back in 2017, because we knew we had incremental working cap requirements in Q1. We expected the line to close in the beginning of February. As you can imagine with these major financial institutions, it takes time. In March we indeed gained formal approval on the $15 million credit facility from them, but we have still not yet closed.

Since we haven't closed yet, we needed the cash for inventory, really at the end of January. As Brent will discuss, we have more than doubled our traditional retail distribution and expanded to all these new channels. They all need inventory, and we did not have the cash for it, so we had to solve the problem.

Did we expect to have the problem? Yes – that's why we started on it last year. Did we expect to be delayed as much as we were in closing? No, of course not. So, what do you do? You either …alienate your major retailers and major distributors with no product …and lose them forever, and, also miss your 2018 business plan target, or….. you go get the cash to fund inventory.

So – we had to put in an interim and immediate capital solution, as we did with an ATM or other equity vehicle. Neither were intended. Neither were planned.

…And because we hate any dilution as much as our shareholders, with whom we are in the same boat by the way, we put it off for as long as possible, 12 months in-fact. Let me repeat that. Management is in the same boat as the shareholders, and we have as much disdain for dilution as all of you do. Our interests are 100% aligned.

So, we had to obtain the capital to run the business, and di so right at $3.5 million which we believed was all we needed in the interim, and we limited the amount, to just what we needed until our line with PNC goes in place. It is that basic, that simple. And, obviously we raised the cash via a private placement and cancelled our ATM vehicle.

Why not communicate the above before, over the past few weeks? Well, as all our investors know, we were in the quiet period right before the filing of our 10K. There was nothing we could say, so we just had to bite our tongue, begrudgingly until today. Had we filed our K on time, for which we earnestly apologize, we would not have had these unknowns, and would have continued

with what I know all our investors consistently play back to us, “that the company and management are very transparent, forthcoming and accessible.”

Speaking of the K, the primary reason it was delayed was the valuation of the three acquisitions completed during the year, one of which was extremely complex. The new rules for compliance require two separate and independent valuations, from certified valuation experts which takes an inordinate amount of time. Ultimately, we communicated a purchase price allocation in the 10K, which allocates purchase price across brand value, customers, intellectual property or hard assets, inventory, or receivables. Through that process, we have added an incremental $19 million in intangible assets in 2017, and we believe as we commercialize these businesses and brands…and convert our patents into products, that the value for shareholders will be even greater …substantially, greater.

To summarize, we had a very transformative year in 2017. We know all our investors want more, and they want it faster, but short-term hits, is just not our business model or way of working. It is why we have not established any guidance until this year, 2018. We knew we had a lot to integrate and build in 2017. With all that building and integration, topline revenue went from $2.1 million two years ago to $27 million at the end of 2016, to now $56.2 million in ‘17. All in less than two years. In gross margin we have gone 16% in June of 2016 to now 29% at the end of 2017. In OPEX, apples to apples, we have gone from 51% of net sales 2 years ago, to 37% at the end of last year, to 25% for the period ending December 31, 2017, whilst increasing marketing investment to 8% of net sales. And in EBITDA we have grown to just over $5 million.

Those are the facts and financial results from 2017, and it leaves us at the 58th largest non-alcoholic ranked beverage company, one of the largest healthy beverage companies, and the fastest growing.

BRENT WILLIS:

Those are the tangible numbers, and most any company would be proud of that performance. Are we? No. We want more, and we want more faster, and frankly we expected more, faster. Here are some of the negatives.

We came from a $2 million dollar, significant loss making, $0.19 cent, OTC company, with no liquidity. We now have an unfettered, and unobstructed runway. But are we unsullied with what we have done so far? No. Our brands that we acquired, everyone one of them, has needed rework, and more lifting than we thought. We have not yet rebuilt them to the levels they were 2-3 years ago, even though it appears that the expectation was that we would do it right away after acquisition. We did take out $14 million of net income loss on these businesses from when they were standalone entities, but that is not why we acquired them.

In addition to the timing of our brand and sales execution being a source of frustration, our margins are not there yet also, nor is our true net income from operations… without taking out one-time impacts including sale of a building that benefited us $2.5 million. In addition, we, I.. should have funded basic working capital needs last year instead of now, and I also think I have personally done a pretty poor job of managing down short term expectations to give us the time we need to get the job done. Those are some of my frustrations and I believe the negative assessments on our company and on me personally, on which we are working to improve.

On the positive side beyond the tangible numbers Chuck discussed, we uplisted onto the NASDAQ exchange, emplaced an entire new Board of Directors, acquired and integrated three major companies, reduced over 70 headcount from those acquisitions, and gained a significant portfolio of intellectual property. We integrated and changed out sourcing structures, integrated supply chains, and took more than $14 million in costs out of these acquisitions from when they were standalone enterprises.

On the commercial marketing side of the business, we developed and launched the new Marley Mate and Marley Cold Brew, developed and launched Coco-Libre Sparkling, the first Sparkling coconut water, and Aspen Pure Probiotic, PediaAde, and Enhanced Recovery.

On our brands, I believe I should base …or maybe rebase everyone's timing expectations. At the time we took the brands over, we paid consideration of less than 1 times revenue vs. an average acquisition multiple over the past two years of 2.4 times. That translates to… there is some work to do on these brands, which takes some time.

Rebuilding or relaunching any one brand in a year would be a lot. But we have done it with every one of our brands - all in 2017, and are now launching innovative new products within those core brand franchises. Take Búcha for example. In 2017 we made it shelf stable with 12 months of shelf life, and did a whole litany of things to increase its gross margin from 16% to 43%. Since taking it over, we've more than tripled the brand.

Take Marley Mate as another example. We launched it in November, exclusively with a major convenience store operator. In its first three months of being out, it is outselling the market leader in common distribution, and also outsells Rockstar's Mate brand by more than 60%, that launched around the same time Marley Mate did. In Colorado for example, we used to distribute a competitive product. It took us 3 months with Marley Mate, to eclipse what it took us 10 years to do with that other brand.

On all the other brands – all the new stuff has come out in late Q4 and in the 1st half of 2018. Anyone that knows the CPG industry, knows retail distribution takes time. First the retailer must yes, and the major ones take about a year to do so, then you must get the products on the shelf

chain wide. Knowing this, and the brand and sales and organization and retailer and distributor and integration and systems and financing work we had to do, we knew it would take time.

Now however, we are cooking. We are taking those newly developed products within our core brands – and on the commercial sales side of the business, we more than doubled our retail distribution in traditional grocery and convenience channels, adding more than 81,000 new points of distribution. In addition, we struck new distribution partnerships, with major players, and have begun penetration of new channels including international, Foodservice, Alternative Channels, and E-commerce. This is why we needed to fund the inventory.

Our retail throughput or …sales per point of distribution, a key indicator of our success going forward is really improving, as I shared with you on Marley Mate and Búcha as examples, but our inventory shortfall really hurt us in Q1. Most of the our biggest new distribution however is coming in April and May, when most of the major national retailers resets occur, so we were hurt, but not irrevocably.

To achieve our plan for the year, we need to continue to convert the distribution, and fully roll out of new products. Concurrent, or right behind, we have to drive pull through. To that end, we have significantly increased our influencer and digital and social media, experiential and event marketing, and significantly increased our in-store merchandising, racks, shippers and cooler placement activities.

Mind you, what I just went through was only what the team accomplished in 2017. Oh, and I almost left out our health sciences division, don't forget about that, and I think I will just leave it there so we can surprise on the upside there. That's a lot for any Company, let alone a relatively small one from where we came. I am so proud of our team, their work ethic, and their results. They have really busted their behinds. Don't forget 18 months ago, we started with 1 person in

supply chain and logistics, 0 people in Marketing, 0 people in International, 0 people in foodservice and new channels and e-commerce, 0 ERP systems…and we had a low 20's gross margin business, with >$20MM in debt. 18 months ago.

I want everyone to understand the key insight or inflection point on New Age's financial model and how our P&L works, that I am not sure any outsider fully understands yet. If you start off, with 85% of your mix at a gross margin of around 25% of net sales … comprised of XingTea sold at mostly 99 cents and a distribution business, and you have OPEX that starts out at 37% of net sales, ….that is not a good recipe. As an aside, not that it matters, but OPEX greater than Gross Margin is the norm for 100% of the companies in the beverage industry under $100 million, 100% of them.

So, here is the insight and inflection point – on our 25% gross margin base, we add in 45% gross margin acquired businesses, launch greater than 50% margin new products, in existing channels and in new channels where profitability is 30% greater. The result - mix shift that takes gross margin to 35%. With the increase in scale with a bit of discipline, OPEX stays at 25% or less of net sales, leaving 10 points of EBITDA margin. That is how our P&L gears.

Then, as you take further costs out of the business, and add further scale, you shift into a higher gear with more direct impact on EBITDA margin. No one seems to understand these basics of our model, and, that…the cake is just not baked yet, but the recipe and the ingredients are all there.

I must admit though, In our defense, I, we, our whole team in fact, just gets so excited with what we see for our Company, and we see it …so clearly. 2017 was foundation building, integration and development. ’18 is about leverage and execution. Simply put, Driving core brands and new products ….in expanded distribution. Penetrating new channels and markets…and expanding gross and EBITDA margins, underpinned by a focused and committed organization capable of scaling to a very different level.

The ingredients for success are there, the brands, the customers, the distributions, the team, the systems, the culture, and the financial model. All our ingredients and our recipe for success is coming together.