



ASX Announcement

16 May 2016

---

P +61 8 9314 0000  
F +61 8 9331 2400  
info@gageroads.com.au

---

Gage Roads Brewing Co Ltd  
14 Absolon St, Palmyra  
Western Australia 6157

PO Box 2024 Palmyra DC  
Western Australia 6169

ABN 22 103 014 320  
ASX: GRB

## **New Strategy Draws on Gage Roads' Craft Beer Heritage**

Gage Roads Brewing Co (ASX: GRB) today launched an operational strategy to focus on growing its proprietary craft beer range and the production of high quality, higher margin products.

Following a three-year extension (with a further two-year option), of its supply and distribution agreement with Pinnacle Liquor Group, Gage Roads is positioned to increase the supply and distribution of its craft beers, while maintaining overall production volumes. Pinnacle Liquor Group ("Pinnacle") is a subsidiary of the recently re-named Endeavour Drinks Group (formerly Woolworths Liquor Group).

### ***Changing Macro Beer Environment***

Gage Roads managing director John Hoedemaker said the macro environment of the Australian beer sector supported a shift in focus back to Gage Roads' heritage and core competency – the development and brewing of quality craft beers.

"The overall beer market is slowing, primarily due to the decrease in volumes in mainstream beer sales," Mr Hoedemaker said.

"In contrast, the higher-value craft beer sector has been improving year on year, as Australians' tastes evolve and become more accepting of beers produced by smaller craft brewers.

"We have a number of established and well-recognised craft beer brands in the market that have enjoyed extremely strong growth and we believe the time is right for us to focus on further growing our craft beer business, which is what we do best."

### ***Craft Beer Sales Increasing***

Sales of Gage Roads' craft beers have increased more than 86% in the past 12 months and now account for 28% of YTD total sales, compared with just 13% in FY15. By 2021, Gage Roads' anticipates its higher margin, proprietary craft beer brands will make up 70% of its total sales.

Gage Roads entered into a new supply deal (see ASX announcement) that will see the brewer continue to supply Pinnacle with contract brewing services.

"Pinnacle's continued support and ranging of Gage Roads' products, while accommodating a reduction in contract brewing volumes, provides us with the capacity to focus on higher margin craft products and the flexibility to open up other channels to market," Mr Hoedemaker said.

Gage Roads Brewing Co Limited has been one of Australia's leading craft breweries for over 14 years.

The Gage Roads craft range includes Atomic Pale Ale, Sleeping Giant IPA, Narrow Neck Session Ale, Breakwater Australian Pale Ale, Single Fin Summer Ale, Pils 3.5% and Small Batch Lager which have grown to become one of Australia's most popular suite of brands.

Through its contract brewing services division, Australian Quality Beverages, the Company also provides specialist contract brewing and packaging services to brand owners throughout Australia.

“While maintaining our current production volumes, Gage Roads will ramp up its sales, marketing and promotion plans nationally for our craft beer products.”

“Our strategy is to grow our high value in-house brands and become less reliant on the contract brewing of mainstream beers as we open up distribution channels in pubs and bottle shops across Australia,” Mr Hoedemaker said.

***National Brand Awareness and Engagement***

“A key pillar of our strategy to successfully make that transition is a big focus on building national awareness of our brands. We are currently in the process of expanding our sales team on the Eastern seaboard and opening up more opportunities for consumers to trial our products and engage with the Gage Roads brand values and ethos.

“Our strategy will give beer drinkers nationally the opportunity to discover our craft beers and build a positive connection with our brand,” Mr Hoedemaker concluded.

- END-

**APPENDIX:** Gage Roads Brewing Co. Investor Presentation (May 2016).

Further information:

Marcel Brandenburg  
Company Secretary  
Gage Roads Brewing Co Ltd  
Tel: (08) 9314 0000

John Gardner  
Media/Investor Relations  
Citadel-MAGNUS  
0413 355 997



**GAGE**  
**ROADS**  
**BREWING CO**



**RETURNING TO CRAFT**

MAY 2016

# THIS IS GAGE ROADS BREWING CO.

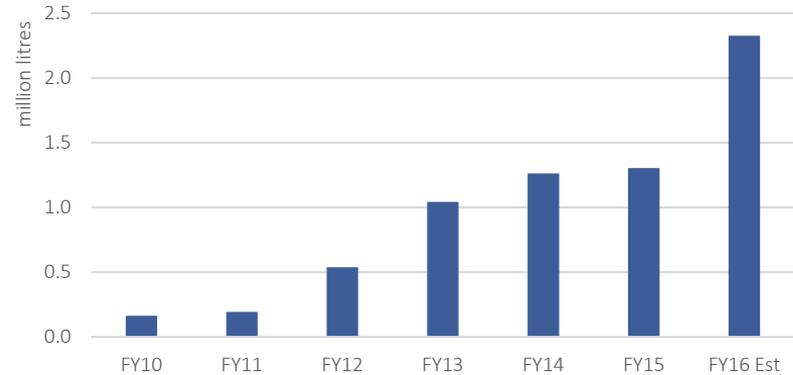
## A Proven Track Record

- One of Australia’s most established and awarded brewers of craft beer (established 2002)
- Currently producing 11 million litres p.a. comprising of 2.5 million litres proprietary craft brands and 8.5 million litres contract brewing
- State-of-the-art, world-class facilities, \$25m invested in capital expenditure since 2010, up to 17.4 million litres p.a. capacity
- Only brewer listed on Australia Securities Exchange (ASX)
- Since 2010, Company has achieved 29% CAGR in revenue
- Improved product mix and cost control delivered interim EBITDA \$1.8m in H1 FY16
- Gross margins maintained over the past 7 years (circa 50%), change in production mix towards proprietary craft beers is designed to further increase margins to 70%

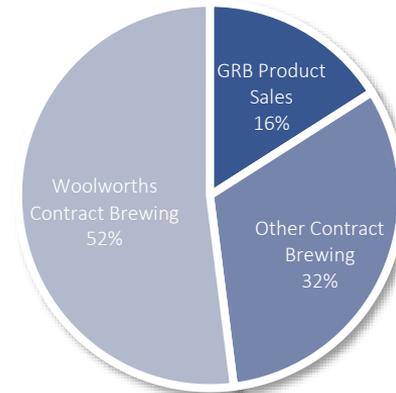
## Returning to Craft

- The Company has announced a strategy to improve sales mix away from lower margin contract-brewing towards higher-margin craft beer by opening up previously untapped market segments

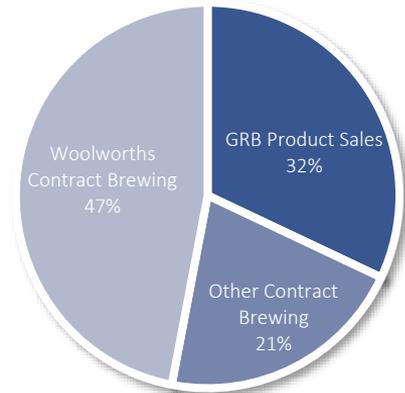
Gage Roads Craft Beer Sales



FY15 Revenue Breakdown



FY16 YTD Revenue Breakdown



# THE AUSTRALIAN CRAFT BEER MARKET

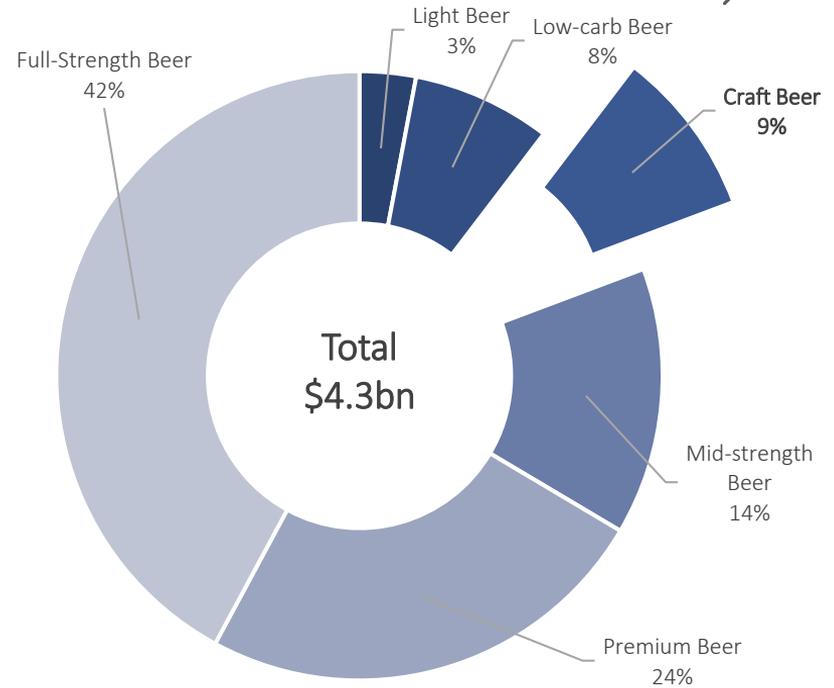
## Craft Beer In Growth

- The Australian Craft beer industry is enjoying strong tail winds as consumers shift preferences away from mainstream beers to craft brands, now accounting for 9%\* of the industry, up from (2%\* in 2012)
- Major brewers have attempted to claw back market share and product relevance through acquisition of craft brands i.e. Little Creatures by Lion (2012), Mountain Goat by Asahi (2015), Byron Bay Brewing by Lion (2016)
- Organic and non-organic growth opportunities emerging in the Australian craft beer market, nationally over 230 craft brands established\*

## Key statistics

- Craft beer market growing at 16.4%^ (6-year CAGR)
- Total Beer market \$4.3bn\*, declining 1.1%^ (6-year CAGR)
- Craft beer market expected to grow to 12-15%\* of the overall market within 5 years (US Market 17-20%)

Beer Market Product Segmentation (2015-16)\*



Market Share (2015-16)\*



3 \*Source: IBISWorld  
^Source: Aztec Australia

# BEERS WORTH DRINKING

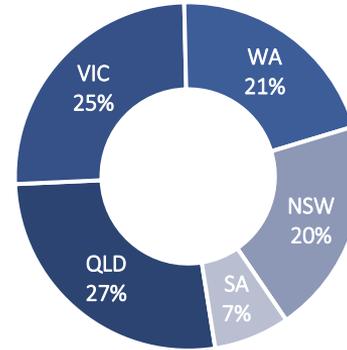
## Great Products

- Suite of recognisable craft beers in the market
- Progressive, modern marketing strategy
- National craft range positioned for high volume potential
- Packaging with strong shelf presence
- Craft beer delivering strong margins
- Majority of major craft brands are owned by the big brewers, consumers value and support independents

## In Growth

- Currently 300,000 cases per annum, a strong market has been developed for our brands in the current channel
- Gage Roads proprietary craft beer brands growing at 86% YTD
- Craft beers contributing 32% of GRB's total sales volumes YTD, up from 16% in FY15
- Gage Roads' proprietary craft beer brands now represent the largest independent craft beer brand in the Australian beer market

Gage Roads' craft beer sales by region *(Source: Internal Data)*



Australian Craft Retail Market *(Source: Aztec Australia)*

Ranking	Company	Range	Est. market share
1	Lion	James Squires Brands	30.2%
2	SAB-Miller	Matilda Bay Brands	16.5%
3	Lion	Little Creatures Brands	10.9%
4	Coles Liquor	Coles Private Label Craft	5.4%
5	Asahi Premium Beverages	Cricketers Arms Brands	3.9%
<b>6</b>	<b>Gage Roads Brewing Co Ltd</b>	<b>Gage Roads Craft Brands</b>	<b>3.9%</b>
7	Endeavour Drinks Group	John Boston Brands	3.8%
8	Stone & Wood	Stone & Wood Brands	3.0%
9	Matso's Broome Brewery	Matso's Brands	3.0%
10	4 Pines Brewing	4 Pines Craft Brands	2.5%
11	Asahi Premium Beverages	Mountain Goat Brands	2.3%
12	Coca Cola Amatil	Yenda Brands	2.0%
13	SAB-Miller	Cascade Brands	1.4%
14	Rebellion Brewing	O'Brien Brands	1.0%
15	Lion	White Rabbit Brands	0.1%

# NEW SUPPLY AGREEMENT

## Providing Support And Certainty

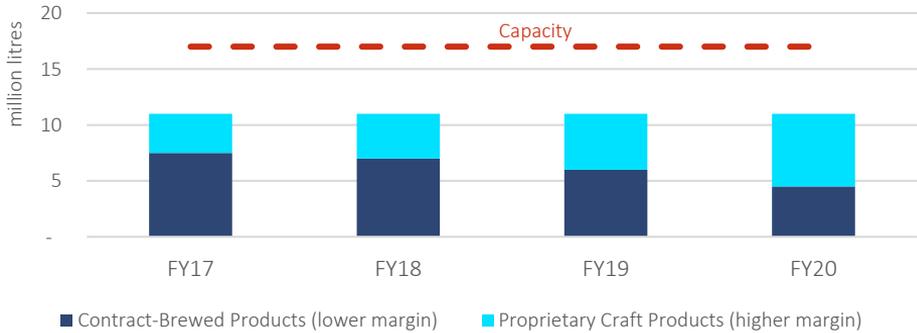
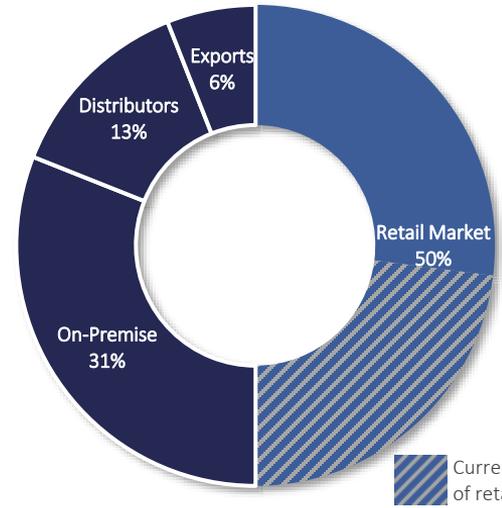
- Executed a new supply agreement with Pinnacle Liquor Group, part of the Endeavour Drinks Group (formerly Woolworths Liquor Group)
- Initial 3 year term, plus 2 year option
- Flexibility to proactively target the remaining 54% of the retail market
- Continued support and distribution for the Gage Roads craft brands within the current channel to market for 5 years
- Volume commitments for contract-brewed brands ratchet down over time as proprietary craft beer brands grow
- Annual volume commitments underwrite current revenue streams as we execute strategy to grow Gage Roads' craft beer distribution to remaining markets



# THE OPPORTUNITY

- Resonating, well-supported brands
- Growing craft beer market
- Current channel revenues secured via supply agreement
- Unlock the other half of the retail market
- Unlock the on-premise market (31% of total beer market\*)
- Convert current volumes (11 million litres p.a.) to
  - higher-margin own brand craft range
  - higher margin draught volume
  - wider independent retail channel
- Room to over-deliver 6 million litres with additional capacity, no further significant capital expenditure required

Australian Beer Market\*



# GAGE ROADS BREWING CO. IN 2021

- Has executed its 5-year plan successfully
- Distributing GRB proprietary craft brands through all major retail and on-premise channels to market
- Has built a national Sales and Marketing capability
- Output of at least 11 million litres p.a., higher-margin craft products represent 70% of sales mix
- Shift gross profit margin to 70% (FY16: 52%)
- Variable labour and production overheads of circa 40c per litre
- Sales, Marketing & Distribution costs increasing to \$5m p.a.
- Other fixed cost structure at current levels
- 11 million Litres at \$1 EBITDA per litre will deliver a step-change in valuation





THE 5-YEAR PLAN

# THE 5-YEAR PLAN

## BRANDS

- Build on current brand momentum
- Prioritise craft beer brands, replace contract brewing volumes over time
- A shift to craft brands and draught improves gross profit margins to 70% by 2021

## SALES & DISTRIBUTION

- New supply agreement with Woolworths supports current revenue streams and provides flexibility to target new channels while ratcheting down contract-brewing obligations
- Build national in-house sales capability
- Roll out distribution strategy targeting remaining 54% of the retail market
- Roll out distribution strategy targeting the on-premise draught market

## MARKETING

- Expand current marketing strategy to new channels

## MANAGEMENT

- Aligning management and shareholders with equity incentives linked to KPI's
- New Sales & Marketing executive hired in May 2016



# BRANDS

## High Volume Potential

- Portfolio tailored towards highest volume categories
- Approachable and recognisable styles
- Price-positioning delivers real consumer value

## Fresh and Consistent

- Rapid shelf turn keeps fresh beer coming through
- World-class facilities and personnel deliver consistent quality

## Innovative Liquids

- Strong early presence in Summer Ale segment with *Single Fin*, now the fastest growing segment
- Dynamic new product development process

## Designed For Impact

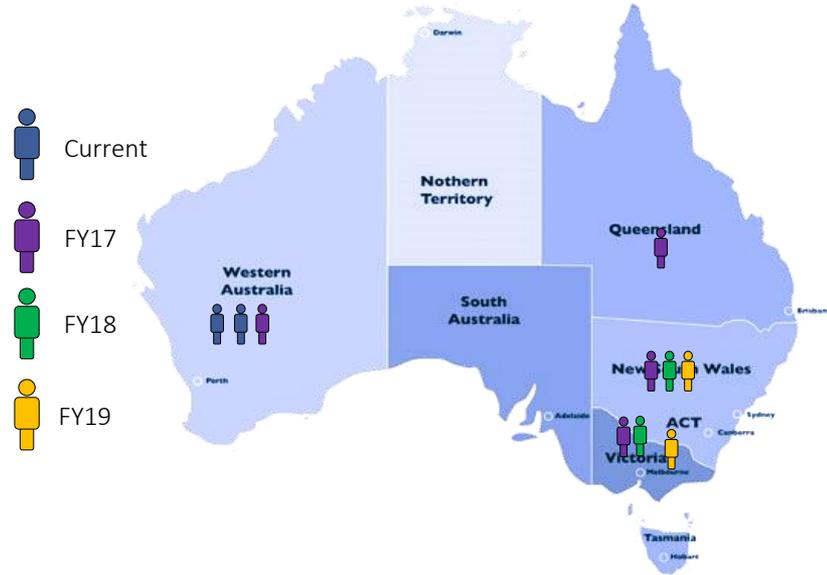
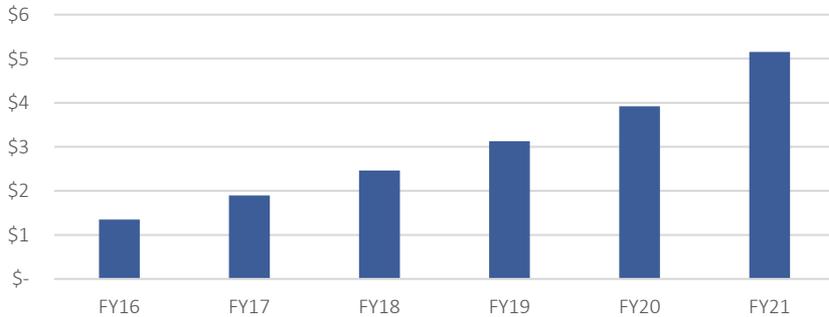
- Packaging designed for shelf impact
- Bold colours, unique design architecture, quality materials



# SALES

- Investment in sales, marketing and distribution increasing to \$5m p.a. by 2021
- High-profile sales & marketing executive appointed in May 2016
- National sales team expanding to 10
- Building brand-passionate, national, in-house sales capability
- Proven model to penetrate independent liquor retailers and on-premise outlets

Sales,Marketing & Distribution Investment (\$m)



# DISTRIBUTION: RETAIL

- Continued support in existing retail channel to market with extended 3 Year supply agreement with additional 2-Year option (circa 1,400 outlets)
- Target available untapped independent retail bottle shops (circa 2,300 outlets)
- Approach other large national retail chains to broaden distribution and market share (circa 800 outlets)
- By 2021 targeting 3,300 stores at 4 cartons per outlet per week to achieve 700,000 cartons per annum of proprietary products
- Gage Roads testing increased distribution through the retail channel in WA
  - Retail take-up extremely promising during the 3-month period
  - Strong re-orders in excess of targeted 4 cartons per store per week continue
  - Sales rates indicate new customers are being introduced to our craft beer brands



## DISTRIBUTION: ON-PREMISE

- The on-premise market represents 31% of the total beer market
- Approximately 3,000 bars, club, hotels, restaurants present a large market for our brands (currently accessing around 100 venues)
- Targeting 300-400 venues by 2021 at circa 2 kegs per venue per week to achieve 40,000 kegs p.a. of proprietary products
- The Company's Western Australian draught strategy has been extremely successful to-date
  - Targeting key iconic venues and craft leaders
  - 155% growth YTD
- Strong draught margins contribute to a blended gross profit target of 70% (by 2021)



# MARKETING

## Craft Beer Drinkers Don't Want To Be Marketed To

- Bold, flashy advertising campaigns are for “Big Beer”
- Consumers choose craft brands as an alternative to the mainstream
- Our marketing strategy is alternative

## Help Beer Drinkers Discover

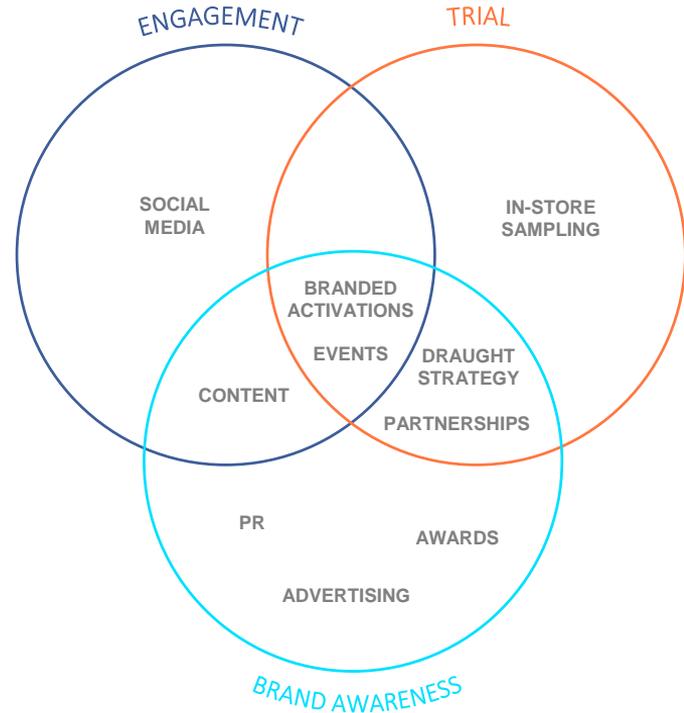
- Our strategies give beer drinkers the opportunity to “discover” our beer and build a positive connection with our brand

## Three Pillar Strategy

- Increasing **BRAND AWARENESS**
- Increasing opportunities for **TRIAL**
- Creating an **ENGAGING** brand experience

## Highly Effective

- Low cost for big impact
- Builds strong brand engagement



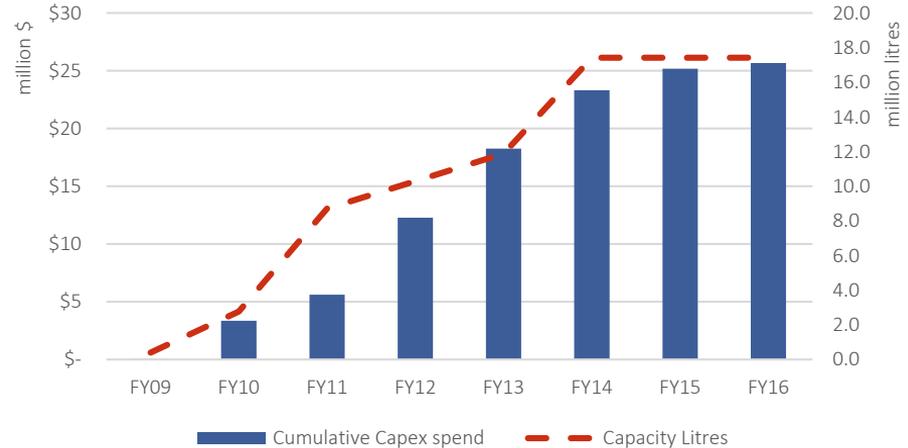
# MANAGEMENT

- Talented and experienced brewing, management and executive team
  - MD, 14 years with GRB
  - COO, 14 years with GRB (ex-Little Creatures)
  - CFO, 5 years with GRB
  - Sales & Marketing Executive, 17 years experience (ex-CUB and Little Creatures)
- Long tenure of personnel reflects strong culture and connection with the Company
- Strong focus on training and industry-specific skills and contribution to the wider brewing community
- Aligned to shareholders interests via employee share incentive plans linked to KPI's
- Structure of share incentive plans allow the business to retain key employees to execute the 5-year plan and beyond



# PLANT AND EQUIPMENT

- More than \$25m invested since 2010
- State-of-the-art equipment from leading suppliers
- Fully compliant with world-wide best practice quality standards
- Flexibility to produce a vast range of craft products
- Achieves production efficiencies required to deliver product price points with sufficient margins
- Competent and highly-trained personnel
- Efficient logistics and distribution
- Capacity to produce up to 17.4 million litres p.a. without significant further capital expenditure



# GAGE ROADS BREWING CO. IN 2021

- Has executed its 5-year plan successfully
- Distributing GRB proprietary craft brands through all major retail and on-premise channels to market
- Has built a national Sales and Marketing capability
- Output of at least 11 million litres p.a., higher-margin craft products represent 70% of sales mix
- Shift gross profit margin to 70% (FY16: 52%)
- Variable labour and production overheads of circa 40c per litre
- Sales, Marketing & Distribution costs increasing to \$5m p.a.
- Other fixed cost structure at current levels
- 11 million Litres at \$1 EBITDA per litre will deliver a step-change in valuation





[WWW.GAGEROADS.COM.AU](http://WWW.GAGEROADS.COM.AU)

## Disclaimer

GRB advises that these presentation slides contain forward looking statements which may be subject to significant uncertainties out of GRB's control.

No representation is made as to the accuracy or reliability of forward looking statements or the assumptions on which they are based.

Actual future events may vary from these forward looking statements and you are cautioned not to place undue reliance on any forward looking statement.