



ASX ANNOUNCEMENT

23 January 2017

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ASX: GRB

APPENDIX 4C & PROGRESS UPDATE – 2ND QUARTER FY17

Gage Roads Brewing Co Ltd (ASX: GRB) (“Gage Roads” or “the Company”) is pleased to report to the market on the ongoing progress of the Company. Please find Appendix 4C – Quarterly attached.

H1 FY17 Highlights

- EBITDA up 43% to \$2.8M (unaudited) in comparison to H1 FY16
- Gross Profit margin 55% (unaudited) up from 54% in H1 FY16
- Gage Roads sales through the national chains up 24% to 1.3M litres
- Sales to the independent retail channel up 244%
- Draught sales to the on-premise channel up 184%

The first 6 months of the Company’s “*Returning to Craft*” strategy have delivered strong progress in distribution into new channels to market and the growth of our craft brands. At its core, the strategy seeks broader markets for the Gage Roads proprietary brands with incremental sales from the independent retail and on-premise channels to market. The strategy anticipates that access to new channels will deliver incremental margin and volumes of the Gage Roads proprietary brands and deliver sustained earnings growth.

The results from H1 FY17 validate the strategy with initial signs of success. During the half-year, national distribution partnerships were entered into, securing crucial routes to the independent and on-premise markets. With distribution secured the newly deployed national sales force made meaningful inroads into the independent trade. Sales to national independent retailers were up 244% over H1 FY16 as a result of increased distribution and growing consumer demand.

The on-premise sales and distribution strategy is also showing initial signs of success. The Company’s sales of Gage Roads’ higher-margin draught products improved 184% as a result of increased distribution and growing consumer demand.

Accordingly, the higher proportion of Gage Roads proprietary brands in the overall sales mix improved gross profit margins to 55%. With the variable

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, Little Dove New World Pale Ale, 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.

and fixed cost structure well controlled, this improved margin helped drive a strong \$2.8 million EBITDA result for shareholders for the half-year.

These results are encouraging and the Directors feel that the business is well on track to deliver on the longer-term outcomes of the “*Returning to Craft*” strategy.

Earnings Results

The Company achieved a strong half-year EBITDA result of \$2.8M (unaudited), up 43% on H1 FY16. These earnings were complemented by the recognition of circa \$816K compensation agreed with key equipment supplier Kronos (announced on 23 December 2016) and \$150K micro-brewery excise refund received from the ATO. Adjusted EBITDA of \$1.8M (unaudited) represents 33 cents per litre, up 10 cents per litre from the FY16 result (23 cents per litre). The underlying earnings result was driven by the improved margin and sales of Gage Roads proprietary brands and is on target with the Company’s 5-year strategic plan.

In addition to incremental sales through the independent retail and on-premise channels, Gage Roads has also experienced strong demand for its proprietary brands through the national retail chains’ store network during H1 FY17, with sales from those stores to consumers increasing by 24%, compared with the previous corresponding period.

Despite the improvement in sales out of the national retail chains’ stores, total sales volume for H1 FY17 was 5.6M litres, 6% lower than H1 FY16. GRB proprietary brand volume sold into the national retail chains during H1 FY17 was down 22%. As previously announced (28 October 2016), this reduction resulted from a temporary inventory adjustment from an unwinding of a high inventory balance held by retailers at the start of the financial year. With inventory balances now normalised and with strong underlying consumer demand, the Company expects this first half-year imbalance to be reversed during the second half-year and the full-year sales to this channel to meet the Company’s FY17 expectations.

Sales made through the Company’s contract brewing division, Australian Quality Beverages (AQB), declined 4% over H1 FY16, in line with the Company’s expectations, and full year FY17 contractually committed volumes are expected to be met.

Operations update

During the half-year, the Company has established its national sales team to meet growing demand for the Company’s products. This now allows the business to represent itself in the independent retail and on-premise channels in all major cities across Australia and was one of the key milestones of the 5-year “*Returning to Craft*” strategy.

Another key objective of the strategy was to secure national wholesale distribution through a number of major wholesalers and distributors. The

Company delivered on this objective by entering into distribution agreements with both Australian Liquor Marketers and 100 Proof during the half-year.

The marketing strategy has progressed well during the half-year and the Company formed strong partnerships with key event partners to capitalise on the existing growth in consumer awareness of the Gage Roads brands. One of those partnerships includes exclusive beer rights for the Perth Fringe World festival for the next three years. Fringe World is the largest annual event in Western Australia and the third largest fringe-style event in the world. On the east coast, although still in its early stages, the Company supported several grass roots events, which, along with strong social media following helped improve consumer awareness of our brands. The coming months will see the company finalise its FY17 sales and marketing team expansion, with the placement of a dedicated marketing manager on the east coast.

Q2 Cash Flow and Balance Sheet

Net operating cash inflows were \$0.4 Million for the quarter and were lower as a result of an increase in debtors towards the end of December required to meet anticipated demand during the Christmas period.

During Q2, the Company successfully concluded its \$10.1M capital raising. The proceeds were applied as follows

<u>Use of Funds (millions)</u>	<u>(\$M)</u>
Buy-back WOW	1.6
Retire debt	4.7
Working capital	3.0
Cost of raising	0.8
Total Funds	10.1

After retiring \$4.7M debt, the Company completed a re-financing of its remaining \$5M debt facility with the Commonwealth Bank (CBA). As the Company does not have an immediate requirement to utilise the \$3M working capital raised, it has applied those funds towards reducing the CBA debt facility down to \$2M, retaining the option to re-draw up to \$5m as required. The Company has furthermore established a \$1M overdraft facility with CBA, which is currently undrawn.

The Company finished the quarter with strong cash reserves of \$3M, resulting in the Company becoming net debt positive.

Outlook

- Continued growth into the independent retail and on-premise channels to market
- Strong underlying consumer demand in our core national retail market
- Increased marketing visibility on the east coast of Australia

- Craft market expected to continue to grow at over 20%
- AQB's contract-brewing volumes expected to be met or exceeded

Managing Director John Hoedemaker said the Company is delivering on its 5-year strategy:

"We are really pleased with the progress made, only 6 months into our 5-year strategy. All the leading indicators are pointing in the right direction and are validating the *"Returning to Craft"* strategy.

"Key distribution partnerships have been formed and initial sales into new channels are proving successful. With a re-capitalised business and a strong balance sheet, I feel the Company's financial position and our growing brand strength are well placed to deliver growth in earnings and value for our shareholders' as *"Returning to Craft"* continues to unfold over the next 5 years."

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Further information:

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Gage Roads Brewing Co Ltd
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Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

Gage Roads Brewing Co Ltd

ABN

22 103 014 320

Quarter ended ("current quarter")

31 December 2016

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	10,379	20,185
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(7,842)	(16,593)
(c) advertising and marketing	(267)	(488)
(d) leased assets	-	-
(e) staff costs	(1,603)	(2,980)
(f) administration and corporate costs	(389)	(524)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	6	6
1.5 Interest and other costs of finance paid	(59)	(200)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	150	150
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	375	(444)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(150)	(195)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (6 months) \$A'000
(d) intellectual property	(3)	(9)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	4	4
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(149)	(200)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	8,528	10,126
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	(728)	(834)
3.5 Proceeds from borrowings	5,096	5,096
3.6 Repayment of borrowings	(12,665)	(12,716)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (Woolworths Limited share buy-back)	(1,563)	(1,563)
3.10 Net cash from / (used in) financing activities	(1,332)	109

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	4,125	3,559
4.2 Net cash from / (used in) operating activities (item 1.9 above)	375	(444)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(149)	(200)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(1,332)	109

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (6 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	18	13
4.6	Cash and cash equivalents at end of quarter	3,037	3,037

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	3,037	3,559
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,037	3,559

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
160
-

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7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
-
-

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8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	5,000	2,000
8.2 Credit standby arrangements	1,000	-
8.3 Other (please specify)		
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

8.1 Loan Facility

- \$5,000,000 Cash advance facility, Commonwealth Bank of Australia, Base Rate + 1.25% p.a. Margin + 1.5% p.a. Line Fee on the Commitment, secured against company assets

8.2 Credit standby arrangements

- \$800,000 Working Capital Facility, Commonwealth Bank of Australia, Base Rate + 1.25% p.a. Margin + 1.5% p.a. Line Fee on the Commitment, secured against company assets
- \$200,000 Bank Guarantee Facility, over office address 0.75% p.a. Margin + 1.00% p.a. Line Fee on the Commitment, secured against company assets

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(8,534)
9.3 Advertising and marketing	(414)
9.4 Leased assets	-
9.5 Staff costs	(1,598)
9.6 Administration and corporate costs	(480)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(11,026)

The company is an operating business that generates cash inflows each quarter, including receipts from customers. The above summary of anticipated cash outflows does not fully reflect the anticipated net cash flows for the following quarter, as it excludes cash inflows (such as receipts from customers).

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  Date: 23 January 2017
(Company secretary)

Print name: Marcel Brandenburg

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.