



ASX ANNOUNCEMENT

28 April 2017

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ASX: GRB

APPENDIX 4C & PROGRESS UPDATE – 3RD 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.

Year to Date (YTD) FY17 Highlights

- YTD carton and keg sales of Gage Roads’ proprietary craft beer products up 9% in comparison to the 9 months ending 31 March 2016
- Sales to the independent retail channel up 256% over YTD FY16
- Draught sales to the on-premise channel up 163% over YTD FY16

The Company has continued to deliver solid results in executing its 5-Year “*Returning to Craft*” strategy. At its core, this strategy seeks to increase the awareness of Gage Roads’ proprietary brands and expand into broader markets, driving incremental sales from the previously untapped independent retail and on-premise channels to market. Greater consumer awareness and access to these channels is expected to improve margins and volumes of the Gage Roads proprietary brands, delivering sustained earnings growth.

Sales Results

The Company was thrilled with the increase in consumer awareness during the first nine months of the “*Returning to Craft*” strategy. The fast-tracked establishment of our sales and marketing capabilities has delivered real growth in distribution and consumer awareness, accelerating new sales in the independent and on-premise channels.

Sales to national independent retailers were up 256% over YTD FY16. The increase in sales is a result of an increase in the number of distribution outlets and strong re-order rates, both being key drivers of revenue growth and benchmarks of our “*Returning to Craft*” strategy.

Higher-margin, on-premise draught sales have also performed strongly, delivering a sales uplift of 163% over YTD FY16.

In addition to new sales through the independent retail and on-premise channels, the national retail chains also continue to grow with sales to consumers at store level up 12% on a MAT (moving annual total) basis. The Company is pleased to see that the sales growth in new independent

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.

channels to market has not come at the expense of our existing channels, but rather, the increased consumer awareness has supported growth of Gage Roads' brands in all markets.

Although sales to consumers were up at store level, sales from the Company into the national retail chains was down 9% over YTD FY16. As previously announced, this reduction resulted from an unwinding of a high inventory balance held by retailers at the start of the financial year. This position has improved significantly from the previous quarter, with sales during Q3 to the channel up 80% over Q3 FY16. The Company expects another strong result in Q4 to completely reverse this shortfall and bring full year sales to this channel in line with those achieved in FY16.

Consistent with our strategy, contract brewing volumes are being unwound in an orderly fashion and converted to proprietary brand sales. Accordingly, sales volumes of the Company's contract-brewing division, Australian Quality Beverages (AQB), were down 12% over YTD FY16. Full year FY17 contractually committed volumes are expected to be met.

The deliberate shift in sales away from contract brewing volumes towards higher-margin proprietary brand volumes continues to deliver an uplift in revenues and gross profit margins. The proportion of proprietary brands in the sales mix has improved 4% to 32% (YTD FY16: 28%) and has provided an increase in gross profit margin to 56% (YTD FY16: 52%).

This shift in sales mix and improvement in margin are key deliverables of the *"Returning to Craft"* strategy and, having already eclipsed our FY17 targets, are well on track to deliver our expectations for FY18 and FY19.

Operations update

The establishment of an independent sales, distribution and marketing capability, a key component of the *"Returning to Craft"* strategy, is ahead of schedule for FY17. The WA sales team is now complete with the recent hiring of an industry-leading state sales manager and an additional experienced brand ambassador. On the East Coast, the Company's expanding sales team has been complemented with a dedicated partnerships and events manager to continue to drive distribution and brand presence.

The Company's recent partnership with WA's largest festival Fringe World was an overwhelming success with Gage Roads scoring favourably with festival consumers on key parameters relating to brand awareness. The Company expects to execute further partnerships on a national basis with key event partners to capitalise on the existing growth in consumer awareness of the Gage Roads brands.

With our strong distribution partners in place (ALM, 100Proof), the increased sales and marketing capability is delivering results. West Australian and East Coast sales and growth of distributions are on track to meet the Company's FY17 targets of the 5-year *"Returning to Craft"* strategy.

On 5 April 2017 the Company announced the appointment of Mr Graeme Wood as Non-Executive Director to the Company's Board. Graeme has significant experience as a senior executive with both Foster's Australia and

Treasury Wine Estates and his appointment complements the Board's existing skill sets, providing strong expertise in sales, marketing and customer focus.

Q3 Cash Flow and Balance Sheet

Net operating cash inflows were \$0.2 million for the quarter. Whilst the Company generated cash inflows from collection of high debtor balances at the start of Q3 (\$3.1 million), it applied funds towards a reduction in creditors (\$1.9 million) and invested in building inventory (\$1 million) in order to satisfy Q4 demand.

The Company has credit facilities in place of \$6 million, currently drawn to \$2 million. The Company finished the quarter with strong cash reserves of \$3.1 million, maintaining a net cash positive position.

Outlook

- Continued growth into the independent retail and on-premise channels to market
- Strong underlying consumer demand in our core national retail market
- Increasing national marketing visibility and consumer awareness
- Total Australian craft market expected to continue to grow at over 20% per annum

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

“Nine months into our 5-year strategy, we are very pleased with the progress made during this quarter. All the leading indicators are pointing in the right direction and are validating the *“Returning to Craft”* strategy. We have appointed the right people in key sales and marketing positions nationally to add value and drive our strategy, both at operational and board level.

“It’s exciting to see the rapid growth of consumer awareness of our brands. Showcasing our brands at more events and with new tap points and bottle shops coming on board across Australia every day, it’s easy to see the momentum building to deliver the volume and margin uplifts we expect for FY18, FY19, and beyond.

“With a re-capitalised business and a flexible balance sheet, a management team strongly-aligned to shareholders, existing revenue streams secured and our ability to drive revenue and margin growth, the business is well placed to deliver growth in earnings and sustained value for our shareholders.”

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Further information:

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Company Secretary
Gage Roads Brewing Co Ltd
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Media/Investor Relations
Citadel-MAGNUS
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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 March 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	9,313	29,512
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(7,188)	(23,735)
(c) advertising and marketing	(233)	(720)
(d) leased assets	-	-
(e) staff costs	(1,488)	(4,467)
(f) administration and corporate costs	(121)	(645)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	6
1.5 Interest and other costs of finance paid	(39)	(239)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	150
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	245	(138)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(169)	(355)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (9 months) \$A'000
(d) intellectual property	(9)	(26)
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	(1)	3
(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	(179)	(378)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	10,124
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	-	(832)
3.5 Proceeds from borrowings	74	5,170
3.6 Repayment of borrowings	(43)	(12,759)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (Woolworths Limited share buy-back)	-	(1,563)
3.10 Net cash from / (used in) financing activities	31	140

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	3,037	3,559
4.2 Net cash from / (used in) operating activities (item 1.9 above)	245	(138)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(179)	(378)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	31	140

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (9 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(18)	(67)
4.6	Cash and cash equivalents at end of quarter	3,116	3,116

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	3,116	3,116
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)	3,116	3,116

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	
<ul style="list-style-type: none"> \$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	
<ul style="list-style-type: none"> \$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, Base Rate + 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	(7,001)
9.3 Advertising and marketing	(200)
9.4 Leased assets	-
9.5 Staff costs	(1,533)
9.6 Administration and corporate costs	(167)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(8,901)

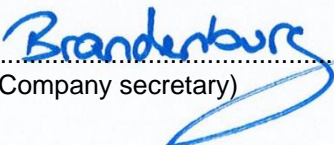
The company is an operating business that generates cash inflows each quarter, including receipts from customers. The above summary of anticipated cash outflows does not fully reflect the anticipated net cash flows for the following quarter, as it excludes cash inflows (such as receipts from customers).

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:


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(Company secretary)

Date: 28 April 2017

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.