



## ASX ANNOUNCEMENT

25 July 2018

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ASX: GRB

### APPENDIX 4C & PROGRESS UPDATE – 4TH QUARTER FY18

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

#### 4TH QTR FY18 HIGHLIGHTS (3 MONTHS)

- \$2.9 million cash generated from operations during the quarter
- Sales to independent retailers up 173%\*
- Gage Roads draught sales up 145%\*
- Announced acquisition of Matso's Broome Brewing
- Successfully completed \$10 million placement and \$2 million SPP

*\*in comparison to Q4 FY17*

#### FY18 HIGHLIGHTS (12 MONTHS)

- Sales of Gage Roads' brands comprise 39% of overall sales mix (up from 32% FY17)
- Sales to independent retailers up 181%^
- Gage Roads draught sales up 218%^
- Total Gage Roads brands volume up 47%^ to 5 million litres
- Total volume up 20% to 12.8m^
- EBITDA (unaudited) \$4.5 million, up 28% over FY17 (\$3.5 million)+

*^ in comparison to FY17*

*+ excluding FY17 non-recurring income of \$1m, further discussed below*

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.

We are pleased to present another quarter of strong growth, continuing the trend set by previous quarters that have driven increased earnings and ultimately higher value for our shareholders.

Gage Roads continued to deliver on key leading indicators during the second year of the 5-Year proprietary brand strategy. In summary, this strategy seeks to increase the awareness of its proprietary brands and expand those brands into broader markets, driving incremental sales from the previously untapped independent retail and on-premise channels to market.

Greater consumer awareness combined with expanded access to these channels is expected to continue to increase annual volumes of our brands, delivering further improved margins and sustained earnings growth through the shift in sales mix towards higher-margin Gage Roads products.

#### Q4 SALES RESULTS (3 months)

The business has recorded a remarkable Q4 against a strong comparative quarter (Q4 FY17), lifting sales of our brands by 4%. The uplift in sales was driven by a 173% increase in sales to the independent retail channel and a 145% increase draught keg sales, which includes keg sales to Optus Stadium. Underlying draught sales (i.e. excluding sales to Optus Stadium) are up 115% on Q4 FY17.

Sales to the national retail chains were down 15% against Q4 FY17 as last year's fourth quarter contained a one-off stock build into the retailers which impacted on replenishment sales Q1 FY18. Not having this stock build at the end of this current financial year will improve Q1 FY19 sales.

### **FY18 SALES AND EARNINGS RESULTS (12 months)**

Sales to the independent retail channel - a key driver of growth for our brands - were up 181% over FY17 and now form a meaningful portion of all own-brand retail sales. *Single Fin Summer Ale* and the *Alby* range of beers have continued to outperform in this market and are key contributors to the improved result.

As previously announced the large inventory balances held by the national retailers at the beginning of the financial year have fully normalised. Accordingly, full year FY18 sales to the national chains were in line with those achieved in FY17.

Higher-margin, on-premise draught sales have continued to perform well, delivering a total sales uplift of 218% over FY17.

We continue to see success with our cost-neutral "brand-in-hand" marketing strategy, achieving increased sales through greater brand awareness. Sales to Optus Stadium, Fringe World, Rugby 7s and other events are on track to deliver earnings that fully offset the costs of the strategy.

The "brand-in-hand" marketing strategy is designed to promote trial and consumer awareness by utilising latent capacity to generate additional sales volumes at stadiums and events which aim to offset the costs of the strategy. The business refers to the balance of normal retail sales volumes as "underlying" sales volumes that deliver full margin.

Strong growth across all channels resulted in total Gage Roads brands sales for the year being up 47% to 5.0 million Litres. Underlying sales, which exclude 0.8 million litres of draught sales to Optus Stadium and other marketing events under our "brand-in-hand" strategy represent 4.2 million litres, up 28% in comparison to FY17 (3.4 million Litres).

Gage Roads' own brand portion of the total sales mix has grown from 32% in FY17 to 39% in FY18 (underlying: 35%). This shift in sales mix towards Gage Roads' own brands has improved total gross profit from 58% in FY17 to 62% in FY18 (underlying gross profit: 60%).

The combined Gage Roads brand sales and contract brewing volumes resulted in a total throughput of 12.8 million litres (underlying: 11.9 million litres) and generated an unaudited EBITDA of \$4.5 million for FY18, a prima facie improvement of 1% over FY17. It should be noted that the FY17 result contained \$1 million in other income, comprised of a one-off a \$0.8 million compensation payment and a non-recurring \$0.2 million ATO excise refund. Against adjusted FY17 earnings of \$3.5m, the current year delivered an uplift of 28%.

Accordingly, we are on track to deliver growth in earnings and margins through the shift in sales mix towards higher-margin Gage Roads brands as the management team delivered on year 2 of our 5-year strategy.

### **MATSO'S ACQUISITION**

On 8 June 2018, the Company announced that it will acquire 100% of Matso's Broome Brewing Pty Ltd. Acquiring the Matso's brands provides a step-change for the 5-year proprietary brand strategy. At its core, this strategy seeks to deliver

further improved margins and sustained earnings growth through the shift in sales mix towards higher-margin Gage Roads owned products.

The acquisition represents a major expansion of the Gage Roads brand portfolio. The additional Matso's brands at current volumes and strong profit margins provide Gage Roads the opportunity to leverage its existing national sales, marketing and distribution capability and deliver sustained earnings growth, highlighting the value we have created for Gage Roads through our expanded national sales and marketing team. Our history and knowledge of the Matso's brands and existing production capability minimises integration and sales risks allowing the incremental margins to truly flow through to and complement existing earnings in full.

With Gage Roads' strength of people, sales, marketing and distribution expertise we anticipate outperforming current volumes and growing the Matso's brands to their full national potential.

The Company is in the process of finalising formal documentation and satisfying conditions precedent and expects to complete the transaction in Q1 FY19.

#### **Q4 CASH FLOW AND BALANCE SHEET**

Net operating cash inflows were \$2.9 million for the quarter resulting from strong Q4 sales.

During the quarter, the business invested \$0.7 million in capital infrastructure, predominantly for additional storage tanks and preparation for alternative pack formats.

The Company remains in a debt free position and debt facilities (to an approved limit of \$6 million) remain in place and undrawn.

A \$10 million placement to institutional shareholders was also successfully completed during the quarter resulting in total cash reserves of \$16.9 million and the end of the financial year. This will readily allow for the settlement of the \$13.25 million cash component of the Matso's acquisition in Q1 FY19. The proceeds from the \$2 million shareholder share purchase plan were receipted post year-end and will be recorded in Q1 FY19.

With additional headroom in our credit facility the business is in a strong financial position, providing an excellent platform from which to continue to execute the 5-year plan.

#### **OUTLOOK FOR FY19**

- Gage Roads brands growth and 5-year strategy on track to deliver margin growth and earnings targets for FY19 and beyond
- Continuing distribution and sales growth opportunities in the independent channel
- Grow national chain volumes in line with expectations and commitments
- Focus on east coast partnerships and events to complement growing east coast distributions
- Increasing national marketing visibility and consumer awareness
- Matso's brands provide a step-change to the 5-year strategy, bringing forward earnings targets

With a flexible balance sheet, a management team strongly-aligned to shareholders, existing revenue streams secured and enhanced ability to drive revenue and margin growth, Gage Roads is well placed to deliver growth in earnings and sustained value for our shareholders.

Managing Director John Hoedemaker said the successful year is indicative of the momentum of the business:

“FY18 was a fantastic year for the business and I’m pleased to see that all the key targets we have set as part of the 5-year proprietary brand strategy are being delivered. Awareness for our brands has grown significantly and we look to build on that even further. The Optus Stadium deal and the other parts of our “brand-in-hand” strategy are delivering great results and I am really excited about the prospects for our brands.

“We’re also looking forward to adding Matso’s to our portfolio and broadening our offering of high quality brands to our customers. We now have an exciting opportunity to position the brand for further growth through our national sales team and accelerate earnings growth for our shareholders.”

**- END-**

**Further information:**

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

## 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")**

30 June 2018

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	16,381	53,113
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(10,614)	(37,341)
(c) advertising and marketing	(1,021)	(3,446)
(d) leased assets	-	-
(e) staff costs	(1,877)	(7,272)
(f) administration and corporate costs	(108)	(459)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	3
1.5 Interest and other costs of finance paid	(23)	(96)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	125	500
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>2,864</b>	<b>5,002</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(734)	(2,142)
(b) businesses (see item 10)	-	-
(c) investments	(89)	(89)

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
(d) intellectual property	(3)	(26)
(e) other non-current assets	-	-
<b>2.2 Proceeds from disposal of:</b>		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
<b>2.3 Cash flows from loans to other entities</b>	-	-
<b>2.4 Dividends received (see note 3)</b>	-	-
<b>2.5 Other (provide details if material)</b>	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(826)</b>	<b>(2,257)</b>

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	10,031	10,031
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)	(730)
3.5 Proceeds from borrowings	-	6
3.6 Repayment of borrowings	-	(2,051)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>9,303</b>	<b>7,256</b>

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	5,570	6,986
4.2 Net cash from / (used in) operating activities (item 1.9 above)	2,864	5,002
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(826)	(2,257)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	9,303	7,256

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(22)	(98)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>16,889</b>	<b>16,889</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	16,889	16,889
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>16,889</b>	<b>16,889</b>

**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

<b>Current quarter \$A'000</b>
181
-

Payments include directors' fees for non-executive directors and salaries for executive directors

**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

<b>Current quarter \$A'000</b>
-
-

8. <b>Financing facilities available</b> <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	-
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.		

<b>8.1 Loan Facility</b>	
<ul style="list-style-type: none"> <li>\$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.</li> </ul>	
<b>8.2 Credit standby arrangements</b>	
<ul style="list-style-type: none"> <li>\$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</li> <li>\$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.</li> </ul>	

9. <b>Estimated cash outflows for next quarter</b>	\$A'000
9.1 Research and development	-
9.2 Product manufacturing and operating costs	(9,735)
9.3 Advertising and marketing	(476)
9.4 Leased assets	-
9.5 Staff costs	(2,016)
9.6 Administration and corporate costs	(172)
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>(12,399)</b>

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. <b>Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	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: 25 July 2018  
(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.