



ASX ANNOUNCEMENT

16 October 2017

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ASX: GRB

APPENDIX 4C & PROGRESS UPDATE – 1ST QUARTER FY18

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.

1ST QTR FY18 HIGHLIGHTS (3 MONTHS)

- Appointed as exclusive supplier of beer and cider to Perth Stadium
- Sales to independent retailers up 251% compared to Q1 FY17
- Gage Roads draught sales up 81% compared to Q1 FY17
- Applied surplus cash of \$2m to pay down remaining debt

Gage Roads has continued to deliver on its key leading indicators, 16 months into its 5-Year proprietary brand strategy. In summary, this strategy seeks to increase the awareness of Gage Roads' 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 Gage Roads proprietary brands, delivering further improved margins and sustained earnings growth.

PERTH STADIUM EXCLUSIVE SUPPLY CONTRACT

During the quarter, Gage Roads was formally appointed as the exclusive supplier of beer and cider to Perth Stadium and Stadium Park, the 60,000-seat, world-class sport and entertainment stadium and precinct in Western Australia. Supplying beer and cider exclusively at one of the best sporting venues in the world is an extraordinary opportunity for our proprietary brand strategy and a major milestone for Gage Roads.

The supply agreement allows for the exclusive sale of Gage Roads draught and packaged products in the Stadium and Stadium Park. In exchange, Gage Roads provides annual rights fees, volume rebates and sponsorship fees to the Operator.

The stadium strategy represents a significant expansion of the Company's current sales and marketing investment and at anticipated attendance

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.

levels and consumption volumes, the return on sales is expected to offset the costs of the supply contract.

The stadium agreement represents an unprecedented brand and product exposure opportunity, reinforcing our 'brand in hand' strategy, and is expected to accelerate sales growth through our existing channels to market and deliver incremental earnings.

Strong demand from the stadium agreement during the seasonally quieter winter months is also likely to offset what has traditionally been lower production and sales volumes during this period, which will also drive further operational efficiencies.

SALES RESULTS

Validating our proprietary brand strategy, sales to national independent retailers were up 251% over Q1 FY17. The Company continued to expand its national sales, marketing and distribution capabilities providing growth in distribution outlets and sales to this important channel. This is a key driver of revenue growth and a cornerstone of the Company's strategy.

Consistent with prior year activities, each year our largest customer increases its inventory towards the end of the previous financial year, resulting in lower replenishment demand in current Q1. Accordingly, the Company again recorded lower sales into the national retail chains during Q1 FY18.

Despite the anticipated lower replenishment orders during Q1, actual out of store sales to consumers of our proprietary craft brands continued to grow in line with our expectations.

This recurring quarterly Q4/Q1 pattern was well-anticipated and is expected to be reversed during the remainder of the financial year, in a similar fashion to FY17.

Higher-margin, on-premise draught sales have continued to perform strongly, delivering a sales uplift of 81% over Q1 FY17.

Consistent with our 5-year strategy, contract brewing volumes continue to be unwound in an orderly manner. Accordingly, sales volumes of the Company's contract-brewing division, Australian Quality Beverages (AQB), were down 26% compared with Q1 FY17.

As we move from the seasonally soft Q1 to the higher activity during the remainder of the year, the Company expects to meet its full year sales ambitions and growth targets for all channels as we deliver on year 2 of our 5-year strategy.

OPERATIONS UPDATE

We are excited to report on continued success in the awards season for our proprietary brands. During the quarter, the Company was awarded two trophies for Best Beer In Show and Champion Draught Beer at the

Sydney Royal Show for its limited release *Red Rye IPA*. This success was complemented by additional gold medals for its limited release products *Sea Devil Stout* and *Gage Roads Hefeweizen*. These limited release products support Gage Roads' craft beer quality credentials and increase consumer awareness of our core range.

The Company has recently developed several new products designed to complement the existing product portfolio and provide exposure to new segments of the beer and cider market. Some of these products will become the cornerstone product offering in the new Perth Stadium and are designed to have broader market appeal to introduce the Gage Roads brand to a wide variety of consumers.

Q1 CASH FLOW AND BALANCE SHEET

Net operating cash outflows were \$2.4 million for the quarter resulting from a combination of lower sales to national retail sales as discussed above as well as the annual seasonal increase in inventories required to meet forecast summer demand.

During the quarter the Company applied \$2 million of surplus funds to the repayment of all debt and the Company is now in a debt free position. Debt facilities (to an approved limit of \$6 million) remain in place and undrawn.

The Company ended the quarter with cash reserves of \$2.4 million. With an additional headroom in its credit facility the Company is in a strong financial position, providing an excellent platform from which to continue to execute its proprietary brand strategy.

OUTLOOK

- Continued growth into the independent retail and on-premise channels to market
- Increasing national marketing visibility and consumer awareness
- New brands to be launched into retail and on-premise in Q2
- Perth Stadium to commence operations in Q3
- Similar to FY17, sales into the national retail chains are expected to rebound during the remainder of the year with annual volumes in line with expectations.

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 Company is delivering on its 5-year proprietary brands strategy:

"I am extremely proud of the team that put together the Perth Stadium strategy and to be awarded this contract. Our appointment is a ringing endorsement for the strength of our brands, people and the quality of our award-winning range of products. It is directly aligned with our 5-year proprietary brands strategy, delivering on increased consumer awareness

and incremental sales and earnings in both existing and new channels to market.

“The momentum of the increased distribution through bottle shops and tap points of our brands is exciting and shows that our 5-year proprietary brand strategy is well on track.”

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Further information:

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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")

30 September 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,652	6,652
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(6,950)	(6,950)
(c) advertising and marketing	(411)	(411)
(d) leased assets	-	-
(e) staff costs	(1,707)	(1,707)
(f) administration and corporate costs	(99)	(99)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	1
1.5 Interest and other costs of finance paid	(27)	(27)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	125	125
1.8 Other (provide details if material)	-	-
1.9 Net cash from / (used in) operating activities	(2,416)	(2,416)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(50)	(50)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	(14)	(14)
(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	(64)	(64)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
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	(2)	(2)
3.5 Proceeds from borrowings	6	6
3.6 Repayment of borrowings	(2,035)	(2,035)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (Woolworths Limited share buy-back)	-	-
3.10 Net cash from / (used in) financing activities	(2,031)	(2,031)

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	6,986	6,986
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2416)	(2416)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(64)	(64)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(2,031)	(2,031)

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(49)	(49)
4.6	Cash and cash equivalents at end of quarter	2,426	2,426

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	2,426	2,426
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)	2,426	2,426

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
180
-

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

Current quarter \$A'000
-
-

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	-
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	(8,378)
9.3 Advertising and marketing	(632)
9.4 Leased assets	-
9.5 Staff costs	(1,564)
9.6 Administration and corporate costs	(175)
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	(10,479)

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: 16 October 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.