



## ASX ANNOUNCEMENT

30 January 2018

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ASX: GRB

### APPENDIX 4C & PROGRESS UPDATE – 2ND 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.

#### 2ND QTR FY18 HIGHLIGHTS (3 MONTHS)

- Sales to independent retailers up 165% compared to Q2 FY17
- Gage Roads draught sales up 199% compared to Q2 FY17
- Total proprietary brands volume up 56% compared to Q2 FY17
- New products launched, *Alby Draught*, *Alby Crisp* and *Hello Sunshine Cider*
- Commenced deliveries to Optus Stadium
- Secured Rugby 7s sponsorship in NSW

#### H1 FY18 HIGHLIGHTS (6 MONTHS)

- Proprietary brand sales 34% of overall sales mix (up from 29% in H1 FY17)
- Improved overall gross profit margin to 60%
- Sales to independent retailers up 184% compared to H1 FY17
- Gage Roads draught sales up 167% compared to H1 FY17
- Total proprietary brands volume up 16% compared to H1 FY17

Gage Roads has continued to deliver on its key leading indicators, 18 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.

#### Q2 SALES RESULTS

The Company has recorded a strong Q2, lifting sales of its proprietary brands by 56% compared to the prior year corresponding period. The uplift in sales was driven by a 165% increase in sales to the independent retail channel, a tripling of keg sales as well as a 13% improvement in proprietary brands sales to the national retail chains when compared to Q2 FY17.

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.

## H1 SALES RESULTS

Higher-margin, on-premise draught sales have continued to perform well, delivering a sales uplift of 167% over H1 FY17. Excluding sales to Optus Stadium and marketing events, draught volumes are up 121%.

Sales to the independent retail channel were a solid contributor to the first half result, up 184% over H1 2017.

Large inventory balances at national chains at the beginning of the financial year resulted in lower replenishments in Q1 and contributed to a softer H1. During the half-year, continued strong consumer demand at store level has reduced the inventory balances to normal levels and we expect full year sales to the national chains to meet expectations.

Despite the softer sales to the national chains, the strong growth in the independent retail and draught channels resulted in total proprietary brands sales for the half-year being up 16% to 1.85 million Litres in comparison to H1 FY17 (1.60 million Litres).

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 11% compared with H1 FY17.

The increased proprietary brand sales and the lower AQB sales resulted in a total throughput of 5.4 million Litres.

The Company expects to meet its full year sales ambitions of at least 11 million Litres and is on track to deliver growth in earnings and margins through the shift in sales mix towards higher-margin proprietary brands as the management team delivers on year 2 of our 5-year strategy.

## NEW PRODUCTS LAUNCHED

During Q2 the Company has successfully launched a number of products into the market. *ALBY Draught* (4.2%) and *ALBY Crisp* (3.5%) are classic lagers that have a parochial Western Australian connection with a strong focus on locally sourced ingredients. The Company is entering into this market to take advantage of its unique position as the only regional brewer capable of producing high quality, high volume lager beer in Western Australia.

This is beer proudly made in WA, by locals, for locals. *ALBY* is a classic, no fuss, West Australian lager.

*Hello Sunshine* is an apple cider extension to the Gage Roads Craft Range that has been developed in collaboration with Fringe World. Part proceeds of the sale of every litre of *Hello Sunshine* will go back to funding grassroots arts development in WA. *Hello Sunshine* is positioned to participate in the growing national cider market.

All of these products will be available in retail and on-premise and will be cornerstone offerings at Optus Stadium. Initial sales results have exceeded expectations and consumer feedback has been overwhelmingly positive.

## **RUGBY 7s SPONSORSHIP**

Gage Roads has signed a two-year partnership with Rugby Australia to become one of the official beer partners for the HSBC Sydney 7s event, which kicked off on Australia Day. This partnership is reflective of our marketing strategy to use brand-in-hand events to drive increased consumer awareness.

Gage Roads *Single Fin Summer Ale* was available at bars around Allianz Stadium, while guests enjoying Rugby Australia functions and hospitality packages had access to a broader selection of Gage Roads beers.

Having craft beer at the HSBC Sydney 7s is a shift from the traditional lager-style offerings common to sporting events and reflects the broader shift in tastes among Australian beer drinkers.

## **EARNINGS**

The Company recorded an unaudited EBITDA result of \$1.3 million for H1 FY18 (down \$1.5 million from H1 FY17: \$2.8 million). This result is in keeping with the Company's expectations. In comparing the two results, we note that the prior year result included \$0.9 million in non-recurring other income relating to a settlement with an equipment supplier and a tax refund.

In keeping with the strategic plan to increase marketing activities and improve gross profit margins, the Company invested \$1.1 million (unaudited) more in sales and marketing in H1 FY18 than the previous half-year and delivered an incremental \$0.5 million in earnings (unaudited) as a result of improved gross profit margins.

## **Q2 CASH FLOW AND BALANCE SHEET**

Net operating cash inflows were \$2.4 million for the quarter resulting from strong Q2 sales.

The Company invested in \$0.8 million in capital infrastructure, predominantly increasing the keg float required to support growing draught sales.

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

The Company ended the quarter with cash reserves of \$4 million. With 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.

Cashflows pertaining to the supply contract with Optus Stadium will start to have an impact in Q3. An annual rights fee is paid up front in January each year and is expected to be recouped through earnings from the stadium over the year. The timing of these payments and revenues will have cash flow impacts from quarter to quarter and are expected to be cashflow neutral on a calendar year basis.

## OUTLOOK

- Continued growth into the independent retail and on-premise channels to market
- Increasing national marketing visibility and consumer awareness
- Annual Fringe World festival commences 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 and commitments.
- Sales, margin and earnings growth are in line with our 5-year strategy

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 that the partnerships with Optus Stadium and Rugby Australia are an important part of the company's 5-year strategy:

"Our aim is to work with sporting, entertainment and event organisations who have a 'consumer first' approach and provide our consumer a fantastic experience while they trial our range of beers and ciders.

"The East Coast of Australia is a key focus and the Rugby Australia partnership will get the *Single Fin* product in the hands of thousands of Australian rugby fans. We expect this to have a positive effect on our retail partners particularly in New South Wales, but also in other states as rugby fans return home after the event.

"I am very excited to see the positive consumer response to the *ALBY* and *Hello Sunshine* brands as they were launched this month into the retail market and during the first few events at Optus Stadium."

**- 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")**

31 December 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	13,971	20,722
1.2 Payments for		
(a) research and development	-	-
(b) product manufacturing and operating costs	(9,105)	(16,122)
(c) advertising and marketing	(654)	(1,098)
(d) leased assets	-	-
(e) staff costs	(1,754)	(3,461)
(f) administration and corporate costs	(142)	(241)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	-	2
1.5 Interest and other costs of finance paid	(24)	(51)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	125	250
1.8 Other (provide details if material)	-	-
<b>1.9 Net cash from / (used in) operating activities</b>	<b>2,417</b>	<b>1</b>

<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment	(800)	(850)
(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	-	-
(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	(7)	(21)
(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)	-	-
<b>2.6 Net cash from / (used in) investing activities</b>	<b>(807)</b>	<b>(871)</b>

<b>3. Cash flows from financing activities</b>		
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)
3.5 Proceeds from borrowings	-	6
3.6 Repayment of borrowings	(16)	(2,051)
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (Woolworths Limited share buy-back)	-	-
<b>3.10 Net cash from / (used in) financing activities</b>	<b>(16)</b>	<b>(2,047)</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	2,426	6,986
4.2 Net cash from / (used in) operating activities (item 1.9 above)	2,417	1
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(807)	(871)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	(16)	(2,047)

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (6 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	(14)	(63)
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>4,006</b>	<b>4,006</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	4,006	4,006
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>4,006</b>	<b>4,006</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>
176
-

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	(11,382)
9.3 Advertising and marketing	(2,918)
9.4 Leased assets	-
9.5 Staff costs	(1,752)
9.6 Administration and corporate costs	(246)
9.7 Other (provide details if material)	-
<b>9.8 Total estimated cash outflows</b>	<b>(16,298)</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:   
(Company secretary)

Date: 30 January 2018

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.