



## ASX ANNOUNCEMENT

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### PROGRESS UPDATE – 2<sup>ND</sup> QUARTER FY19

Gage Roads Brewing Co Ltd (**ASX: GRB**) is pleased to report to the market on the ongoing progress of the business.

#### 2<sup>ND</sup> QTR FY19 HIGHLIGHTS (3 MONTHS)

- Proprietary brand sales 58% of overall sales mix\*
  - GRB brand sales to independent retailers up 27%\*
  - Gage Roads draught sales up 38%\*
  - Total proprietary brands volume (incl. Matso's) up 54%\*
- \*in comparison to Q2 FY18*

#### H1 FY19 HIGHLIGHTS (6 MONTHS)

- Proprietary brand sales 62% of overall sales mix^
  - GRB brand sales to independent retailers up 64%^
  - Gage Roads draught sales up 69%^
  - Total proprietary brands volume (incl. Matso's) up 96%^
  - Unaudited gross profit 68% (H1 FY18: 59%)
  - Unaudited H1 FY19 EBITDA of \$2.1 million up 59% (H1 FY18: \$1.3m)
  - Filled key sales management roles in WA and on the east coast
  - First year of Optus Stadium contract complete, over 1 million litres sold
- ^in comparison to H1 FY18*

Gage Roads Brewing Co Limited is one of Australia's leading craft breweries. Since commencing brewing operations in 2004, Gage Roads Brewing Co Limited has been at the forefront of the thriving craft beer industry, producing some of Australia's most popular beer and cider brands including Alby, Hello Sunshine, Matso's Broome Brewery and the Gage Roads range of craft beers.

Gage Roads Brewing Co's distribution extends across Australia through its national sales and marketing team, Good Drinks Australia, providing its portfolio of award-winning beer and cider to Australia's leading retailers and hospitality venues.

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 continues to deliver on key leading indicators 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 through the 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 proprietary products.

#### Q2 SALES RESULTS (3 MONTHS)

The business has recorded a positive second quarter of FY19, lifting sales of our proprietary brands (including Matso's) by 54% compared to the same quarter in the previous year. The uplift in sales was primarily driven by a 27% increase in sales to the independent retail channel and a 38% increase draught keg sales, which excludes keg sales to Optus Stadium. The addition of the recently acquired Matso's brands has also contributed to the result.

## H1 SALES AND EARNINGS RESULTS (6 MONTHS)

### *Sales*

Sales to the independent retail channel - a key driver of growth for our brands - were up 64% over H1 FY18 and form a meaningful portion of all GRB-branded retail sales. *Single Fin Summer Ale* has continued to outperform in this market and is a key contributor to the improved result, having been independently recognised as the fastest growing craft beer brand in Australia (IRI MarketEdge MAT 04/11/18).

Sales into the national retail chains have also improved, up 13% on H1 FY18.

Higher-margin, on-premise draught sales have continued to perform well, delivering a total sales uplift of 136% over H1 FY18. Excluding draught volume sold under our “brand-in-hand” strategy, draught sales have improved by 69%.

We continue to see success with our cost-neutral “brand-in-hand” marketing strategy, achieving increased sales through greater brand awareness. In our first year of this major supply contract, sales to Optus Stadium for the calendar year 2018 have exceeded 1 million litres and have delivered earnings that have fully offset the costs of the strategy.

Strong growth across all channels resulted in total Gage Roads brands sales for the half-year being up 58% to 2.9 million Litres. Underlying sales, which exclude 0.55 million litres of draught sales to Optus Stadium and other marketing events under our “brand-in-hand” strategy, represent 2.4 million litres, up 38% in comparison to H1 FY18 (1.7 million Litres).

During the half-year, we also successfully on-boarded the Matso’s brands into the Good Drinks product portfolio. Since the acquisition in late September, the brands have performed in line with expectations and sales out of stores have remained steady during the ownership transition.

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 were down 7% compared with H1 FY18.

### *Earnings*

Gage Roads’ own brand portion of the total sales mix has grown from 41% in H1 FY18 to 50% in H1 FY19 (underlying: 41%). Including Matso’s brands the owned brand portion of the sales mix now represents 62% (underlying 53%). This shift in sales mix towards the Company’s own brands has improved total gross profit from 59% in H1 FY18 to 68% for H1 FY19 (underlying gross profit: 66%). Underlying earnings exclude volumes sold to marketing events under our cost-neutral “brand-in-hand” marketing strategy.

The combined Gage Roads brand sales and contract brewing volumes resulted in a total throughput of 5.8 million litres (underlying: 5.3 million litres) and generated an unaudited EBITDA of \$2.1 million for H1 FY19, an improvement of 59% over H1 FY18 (\$1.3 million).

## KEY SALES MANAGEMENT APPOINTMENTS

### *Head of Sales*

The Company is pleased to announce the appointment of John-Paul (JP) Murphy as Head of Sales of its national sales and distribution division Good Drinks.

John-Paul has more than 14 years of sales experience in the liquor industry. He joins Good Drinks from Bacardi Martini Australia (BMA) where he currently leads the sales function.

Prior to BMA JP spent 4 years with Diageo in a number of senior management roles including Head of Coles/Agency & the Head of Metcash. JP also spent 11+ years at Coca Cola Amatil in their liquor & grocery channels working on their beer, spirits & soft drink portfolios with most major customers across Australia and has total liquor experience with time sitting on the Drinks Board.

Based in Sydney, JP will immediately commence laying the foundations of the national Good Drinks sales activation strategy.

Gage Roads Managing Director John Hoedemaker commented on the appointment: "JP is an authentic and energetic leader with a strong passion for the liquor industry and a long history of building partnerships with key customers across the liquor channel. We are confident he will have a very positive and rewarding impact on our national sales team and will help us further develop meaningful and value adding relationships with our customers. With JP at the helm we hope to develop Good Drinks into the best customer-focused sales team and brand offering in the beer channel".

#### *Sales Manager, WA, SA, & NT*

Gage Roads Brewing Co is also pleased to announce the appointment of Murray Reid to the position of Sales Manager (WA, SA & NT). Murray is an experienced and driven senior sales team leader from a strong background in the WA Liquor Industry. Murray has over 20 years of experience at CUB where he was most recently employed as State Sales Manager. He is an excellent fit with our sales team in what is an exciting period of growth for the business.

#### **OUTLOOK FOR FY19**

- Good Drinks 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
- National chain volumes in line with expectations and commitments
- Opportunities to continue to shift proprietary brands beyond the current sales mix to drive margin growth
- Focus for Good Drinks on the east coast:
  - Relocate sales head office to Sydney
  - Establish consumer and trade facing branded taproom and brewery venues in key states
  - Increasing national marketing visibility and consumer awareness
  - Increasing partnerships and events to complement growing east coast distributions
  - Increase sales capabilities

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 first half-year provided a strong foundation for the remainder of the year:

"We're pleased to deliver another strong quarter and half-year of growth, both in sales and earnings and we're pleased to see that all the key targets we have set as part of the 5-year Proprietary Brand Strategy are being delivered.

“John-Paul Murphy and Murray Reid are fantastic key appointments for our sales team and provide the experience and the leadership required to take our brands to the next level and to help activate the key markets in WA and the east coast of Australia.

“We look forward to continued growth of our proprietary brands through all channels and to deliver incremental earnings and value to our shareholders.”

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**Further information:**

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