



ASX ANNOUNCEMENT

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FY19 HIGHLIGHTS

- Proprietary brand volume up 60% to 8m Litres
- Revenue up 20% to \$39.7m[^]
- Gross profit up 26% to \$25.5m[^], representing a 64% GP (up from 61% in FY18)
- EBITDA up 25% to \$5.5m[^]
- Successfully integrated and grown Matso's brands
- Accelerated sales and marketing investment
- \$8m packaging line expansion program on track
- \$3m Redfern microbrewery and taproom on track

[^] unaudited

We are pleased to present another year of strong growth that has driven increased earnings and ultimately higher value for our shareholders. We have continued to deliver on key leading indicators during the third year of the 5-Year proprietary brand strategy.

In summary, this strategy seeks to increase the awareness of our proprietary brands and expand those brands into broader national markets, driving incremental sales from the independent retail and on-premise channels to market.

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

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, Atomic Beer Project, 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.

FY19 SALES AND EARNINGS RESULTS

Sales by category (million Litres)	FY19	FY18	Growth
Underlying Gage Roads Brands	5.2	4.2	23%
"Brand-in-hand" volume	1.2	0.8	51%
Total Gage Roads branded volume	6.4	5.0	28%
Matso's Brands	1.6	-	100%
Total Good Drinks volume	8.0	5.0	60%
Contract-brewed brands	5.2	7.7	-33%
Total Volume	13.2	12.8	4%

Sales by channel (million Litres)	FY19	FY18	Growth
National Chains	3.0	2.4	27%
Independent Retailers	2.4	1.0	146%
Draught	1.3	0.8	62%
Brand-in-hand	1.2	0.8	51%
Total Good Drinks volume	8.0	5.0	60%

Strong growth across all channels resulted in total proprietary brands sales for the year being up 60% to 8.0 million Litres. These results now include 9 months of

Matso's sales (acquired in September 2018) which were previously captured under contract-brewed brands.

The growth in sales of higher-margin brands has resulted in revenues of \$39.7m for the year, an improvement of 20% over FY18.

In line with our strategy, the own-brand portion of the total sales mix has grown from 39% in FY18 to 61% in FY19. This shift in sales mix towards our own brands has improved total gross profit from 61% in FY18 to 64% in FY19.

The combined proprietary sales and contract brewing volumes resulted in a total throughput of 13.2 million litres and generated an unaudited EBITDA of \$5.5 million for FY19, an improvement of 25% over FY18. This result represents 46 cents EBITDA per underlying Litre (total volume less brand-in-hand volume) and is up from 39 cents EBITDA per underlying litre in FY18.

Aligned with the Good Drinks strategy and the growth of our proprietary brands, underlying sales and marketing expenditure (including employee expenses) grew from \$4.3m in FY18 to \$7.0m in FY19.

On the back of the growth in our own brands, this expenditure includes an accelerated investment in sales and marketing, bringing forward sales, distribution and marketing capabilities that were originally ear-marked to be deployed later in the 5-year strategy.

MATSO'S ACQUISITION AND GOOD DRINKS

On 20 September 2018, the Company acquired 100% of Matso's Broome Brewing Pty Ltd. Since on-boarding the brands we have improved the growth in sales rates of Matso's flagship product *Matso's Ginger Beer* and have reversed the decline of *Matso's Mango Beer*. We have also added to the family by introducing a new and innovative brand *Matso's Hard Lemon*. The acquisition has delivered to date on its volumes and earnings expectations with Matso's brands on track to achieve circa 2m litres on an annualised basis.

Acquiring the Matso's brands provided a step-change for the 5-year proprietary brand strategy. The acquisition represented a major expansion of our brand portfolio and was the catalyst for the re-branding our sales and marketing team to Good Drinks and the Good Drinks strategy. The Good Drinks strategy seeks to evolve the business from a branded house to a house of brands, each with distinct identities, and to develop a highly capable national sales, distribution and marketing team to enable broader distribution and deliver sustained sales and earnings growth.



Good Drinks milestones for the year included investing in new and highly experienced leadership and capabilities for both the sales and marketing teams.

The sale team established our sales head office in Sydney, invested in key account management, state-based leadership and promotional programs, commercial analysis and a number of additional sales people. Focusing on developing joint business plans with key national accounts and delivering broader distributions both in Western Australia and across the eastern seaboard, the sales team have delivered a solid platform to enable strong sales results this summer.

Additional investment in marketing saw expanded advertising, national outdoor signage and event-based marketing campaigns, significant new product development and the addition of communications, graphic design and brand management capabilities to the marketing team. During the year the business also established and secured experienced leadership for our venue strategy.

This year a total of 13 highly qualified and experienced people joined the Good Drinks team. Our investment, to significantly increase our sales, distribution and marketing capabilities whilst generating a strong 25% growth in EBITDA, validates our strategy and secures the future earnings capabilities of our business. We feel our growing Good Drinks capability will become one of our strongest and most enduring competitive advantages.

NEW BRANDS

We have introduced a number of new and exciting brands to complement our existing brand portfolio.

The Atomic Beer Project



- *Atomic Pale Ale* has been converted from a product under the Gage Roads range to a stand-alone halo brand, the *Atomic Beer Project*. The *Atomic Beer Project* provide for the exploration of hops and the development of a number of new limited release and core products.
- Re-branded existing *Atomic Pale Ale* product into flagship product of the new *Atomic Beer Project*
- Created limited edition *Atomic IIPA* in 500ml can format demonstrating our craft beer ethos and credibility
- Introduced new *Atomic IPA* into the core range 330ml can format
- Introduced new *Atomic XPA* into the core range in 330ml can format



Gage Roads



- The Gage Roads range has been evolved to take advantage of the growth in craft can format, including a special release *Gage Roads Small Batch Lager*, based on our original “launch lager” and celebrating our 15 years of extraordinary brewing.
- Converted *Little Dove New World Ale* into 330ml can format product
- Introduced *Sidetrack All Day XPA* into the core range in 330ml can format (launching September 2019)
- Releasing *VHA Very Hoppy Ale* on draught and in 500ml can format later in the year



Matso's



- The Matso's range see's the addition of Matso's Hard Lemon to this flamboyant and fun flavoured brand family, continuing to explore the growing consumer trend to seek out brands in new categories. Refreshed master brand with minor changes in design
- Refreshed artwork of *Matso's Ginger Beer*
- Refreshed artwork of *Matso's Mango Beer*
- Introduced new *Matso's Hard Lemon* in 330ml bottle format



REDFERN MICROBREWERY AND TAPROOM

Our first microbrewery and taproom venue in Redfern, NSW, the home of the *Atomic Beer Project*, is also progressing well. Brewing equipment has been ordered and construction works are expected to commence shortly.

We are investing \$3 million for the installation of a brewhouse and taproom fit-out of the premises, which will be funded via existing operating cash flows and credit facilities.

Our venue strategy has two primary benefits; to significantly improve awareness of proprietary brands driving increased retail sales on the east coast, and to deliver a standalone financial return. To support our east coast growth strategy, part of the earnings generated by this venue will be re-invested to fund the growth of our Good Drinks team.

This is the first of a number of venues that we plan to establish in key markets Australia-wide in the next few years. The Atomic Beer Project is expected to open to the public in Q3 FY20.

PACKAGING LINE EXTENSION PROGRAM

On 20 April 2019 we successfully completed an \$8m capital raising in order to fund the implementation of a packaging line extension program. The program includes the installation of a new commercial scale canning line, a new high-speed bottle filler and other plant improvements. These improvements provide a new can-format capability for the business and drive increased plant efficiencies that will result in lower operating costs and improved earnings.

The market for beer in can format is in significant growth, currently representing 11% of the craft beer market and growing rapidly at 134% per annum.

The new can filler, bottle filler and plant improvements provide production efficiencies and reduced waste. With this new machinery in place, the Company is targeting additional earnings of \$1.5 million to \$2.5 million by FY22. The program is well underway and is both on schedule and on budget.

The new equipment is expected to be commissioned in December and is expected to be fully operational by Q3 FY20.

CASH FLOW AND BALANCE SHEET

Gage Cash Reconciliation FY18 to FY19		\$m
30 June 2018 cash balance	\$	16.9
Add capital raising (SPP - Matso's)	\$	2.1
Add capital raising - Canning Line	\$	7.6
Add EBITDA	\$	5.5
Less Matso's acquisition	(\$	14.2)
Less capital expenditure purchases	(\$	4.4)
Less increase in trade & other receivables	(\$	6.4)
Less increase in inventory	(\$	0.2)
Add increase in trade payables	\$	2.5
30 June 2019 cash balance	\$	9.3

The Company finished the financial year with a strong cash balance of \$9.3m and in a debt-free position. During the financial year the business had one-off non-

recurring working capital movements resulting from both a change of trading terms with Woolworths as well as the natural increase of debtors due to the onboarding of Matso's sales and revenues. This resulted in an increase of \$6.0m in trade debtors at year-end (FY19: \$8.8m, FY18: \$2.8m).

During the year the Company addressed these working capital movements using existing cash flows and debt facilities. Although these movements were by absorbed by year-end, the Company is implementing a tailored debtor financing facility from the Commonwealth Bank to fund any future intra-year movements in working capital to support the continued strong growth of our brands.

The Company is in a debt free position and has debt facilities to an approved limit of \$6 million. 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 FY20

- Good Drinks brands growth and 5-year strategy on track to deliver margin growth and earnings targets for FY20 and beyond
- Redfern venue expected to be opened early in 2020 and next sites identified
- National chain volumes in line with expectations
- Good Drinks team continues to focus on building capable, empowered and nationally represented sales team
 - Increased brand-in-hand activity driving consumer awareness on east coast
 - Key account focus on on-premise and off-premise
 - Optimise distributions to maximise this summer's key trading period
 - Implementing state-led teams and state-based programs
 - Strong new-product development agenda
- Continue to explore potential acquisition targets and international opportunities

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, we are 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:

"FY19 was a fantastic year for the business and I'm pleased to see that key targets we have set as part of the 5-year proprietary brand strategy are being delivered. The business delivered strong growth in earnings even with the increase in sales and marketing investment. Having brought forward this investment really allows us to set up for success and deliver on our targets this summer. Awareness for our brands has grown significantly and we look to build on that even further with our rollout of additional microbreweries in key markets.

"John-Paul Murphy has been a fantastic key appointment as Head of Sales of our Good Drinks team and is providing the experience and the leadership required to take our brands to the next level. He has built a strong leadership team to support him and I am confident in his ability to deliver sales growth of our brands in line with our 5-year plan.

“I feel the business is now well-positioned to execute the remainder of strategy and continue to deliver incremental earnings and value to our shareholders”

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Further information:

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