P +61 8 9314 0000
F +61 8 9331 2400
info@gageroads.com.au

Gage Roads Brewing Co Ltd
14 Absolon St, Palmyra
Western Australia 6157

PO Box 2024 Palmyra DC
Western Australia 6169

ABN 22 103 014 320
ASX: GRB

4 February 2020

H1 FY20 SUMMARY

- Good Drinks brands up 17% to 4.2m Litres
- Revenue up 10% to $19.3m^
- Gross profit up 12% to $13.3m^ (69% GP)
- Unaudited H1 FY20 EBITDA $0.3m^
- $8m packaging line expansion program on track
- Redfern microbrewery and taproom on track
- 5,000+sqm logistics facility and cold store commissioned

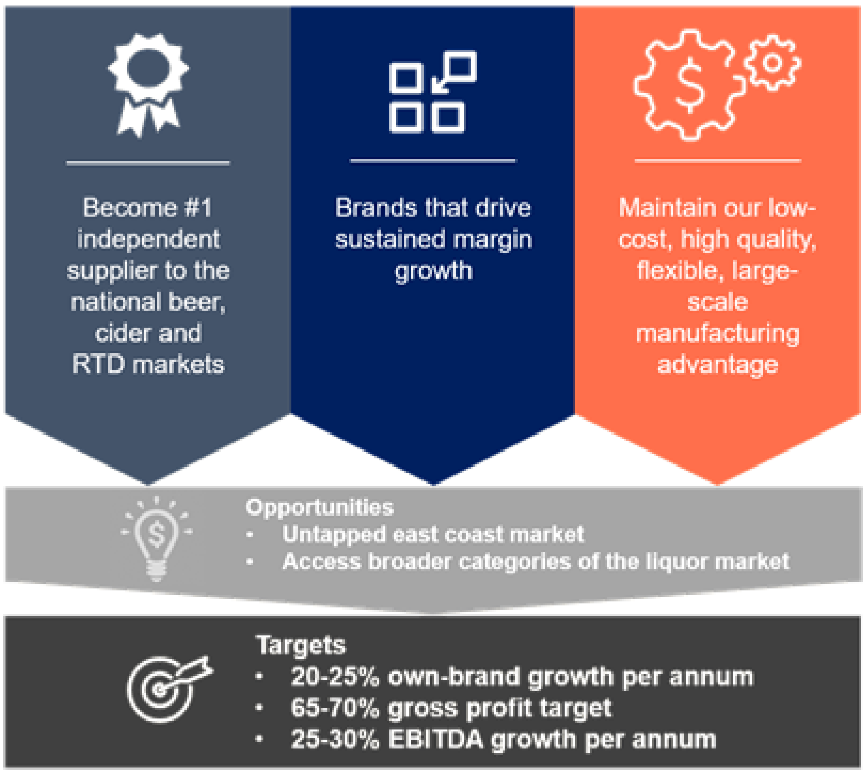
^unaudited

Results are in comparison to H1FY19

The combination of our investment in the longer-term Good Drinks strategy and a temporary shortfall in sales through one channel to market has led to a softer H1 earnings result in comparison to H1 FY19. We feel that the Good Drinks strategy is building a firm foundation for future growth of earnings, including the expansion into the east coast and that the business is on track to achieve the strategy's longer-term targets.

GOOD DRINKS STRATEGY

We continue to invest in the Good Drinks strategy and grow the three pillars that are delivering a sustainable competitive advantage for our business and our shareholders.



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.

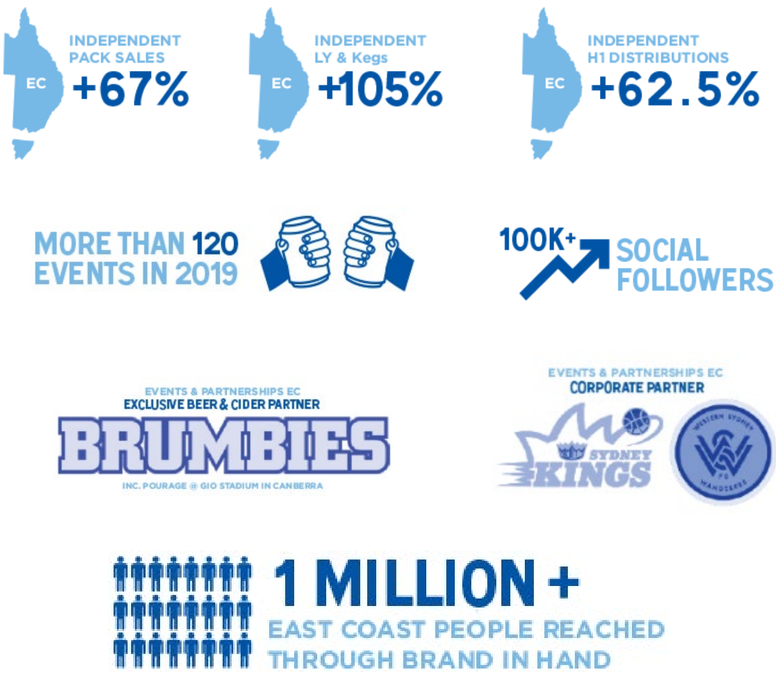
Become #1 independent supplier to the national beer, cider and RTD markets

East Coast Expansion:
We have seen good traction in executing our strategy to develop opportunities in the underweight east coast markets. Aligned with our strategy, the investment in our east coast sales resources, including state-based leadership and key account management, is proving successful and momentum on the east coast is growing strongly.

H1 distributions grew 55% nationally, with the east coast growing at 62.5% and the independent retailer's share of business growing by 15%.

The key account team signed terms with a number of banner groups for 400+ incremental bottleshops (NSW, VIC, QLD), ranging both *Single Fin Summer Ale* & *Matso's Ginger Beer*. Additionally, the team secured a key national on-premise partner contributing to 105% of draught sales on the east coast.

Brand-in-hand activities included securing the exclusive beer and cider partnership for the ACT Brumbies at GIO Stadium in Canberra and partnerships with Sydney Kings, Western Sydney Waratahs, Laneway Music Festival



Brands that drive sustained margin growth

Redfern venue:
The strategy to strengthen relevance of our brands to each regional market is underway with the commencement of our taproom and microbrewery in Redfern, *The Atomic Beer Project*. The venue is expected to be open to the public in Q4 FY20 at a cost of $4.5m.

The capital cost of the project is expected to be funded via existing operating cash flows and credit facilities.

The Atomic Beer Project venue is the first of a number of venues that we plan to establish in key markets Australia-wide over the next few years.

Maintain our low-cost, high quality, flexible, large-scale manufacturing advantage

Packaging line expansion:
Aligned with our strategy to maintain our manufacturing advantage, the high-speed canning line and the upgrade of our existing bottling line is on track and nearing completion.

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 site works and the mechanical installation of the equipment are largely complete (see pictures below) with electrical works and software integration remaining before final commissioning commences. Our new bottle filler is expected to be online by February and the new canning line is scheduled to be commissioned in March. Accordingly, the program is both on schedule and on budget and is fully funded via a capital raising undertaken in June 2019. See pictures in Appendix 1.

Warehouse and cold store expansion:
During the half-year we have also moved into a larger warehouse and cold store facility, significantly increasing our inventory capacity. Crucially, the cold store capability delivers market-leading quality for our brands. The investment in our expanded logistics facility provides scale and efficiency and is aligned with our strategy to maintain our lower cost, high quality, flexible manufacturing advantage. The new 5,000+ sqm warehouse and cold store is an important piece of strategic infrastructure designed to complement our growth plans over the next 5 years.

The new facility and stock-build in H1 will allow us to comfortably complete the packaging line expansion project without any expected out-of-stock scenarios. Production amounted to 8.7m L in H1 FY20 (compared to 6.1m L sold), ending the half-year with a healthy inventory balance.

H1 FY20 NATIONAL SALES RESULTS

Sales by channel (million Litres)	H1 FY20	H1 FY19	Growth
National Chains	1.0	1.4	-25%
Independent Retailers	1.5	1.0	47%
Draught	0.9	0.7	41%
Brand-in-hand	0.7	0.5	40%
Total Good Drinks volume	4.2	3.6	17%
Contract -Brewed Brands	1.9	2.2	-14%
Total Volume	**6.1**	**5.8**	**5%**

Our strategy to diversify our channel mix has delivered strong growth across the independent channel and on-premise draught channel resulting in total Good Drinks brands for the half-year being up 17% to 4.2 million Litres.

However, sales of Good Drinks brands through the national chains were down 25% for the half-year contributing to a shortfall to our total 20-25% annual volume growth target for the Good Drinks brands. This shortfall was due to a combination of high opening inventory balances and timing of new product ranging with our largest national customer relating to the transition from a historic contractual relationship to one of a traditional supplier.

We feel this is a temporary shortfall to strategy. Large inventory balances in the national chains channel at the beginning of the financial year resulted in lower replenishments of around 0.6m L in H1. The higher-than-usual inventory balances were a result of meeting volume commitments relating to a supply agreement which concluded 30 June 2019. Accordingly, this stock overhang is not expected to re-occur.

The independent channel also held 0.2m L in additional inventory at the beginning of this financial year.

Pleasingly, strong consumer demand at store level has reduced these inventory balances back to normal levels, indicating that the brand health of the brands in our portfolio continues to be very strong.

During the half-year, we deleted a number of non-performing brands with a view that our strong new product development program would compensate for the deleted volume. Not all of the proposed new products were accepted by the national chains during the first range review which impacted an estimated 0.4m L of sales in the short-term.

However, these new products have performed exceptionally well in the independent and on-premise channels and we anticipate the major national retailers to follow the market in the uptake of these products over time.

Our investment in resources to strengthen our key account service capabilities is proving to be highly effective and we are successfully positioning ourselves as a top-tier national beer business partner.

We are pleased with the growth in the independent retail channel (up 47%) and the on-premise channel (up 41%) which highlights the strong brand health of our products. Diversification towards these channels continues to be a key driver of our strategy.

CASHFLOW AND BALANCE SHEET

Cash Reconciliation 1 July to 31 Dec	$m
Opening balance 1 July	9.3
Increase in receivables	-6.6
Increase in inventory	-4.0
Increase in payables	4.2
Proceeds from debtor finance facility	4.0
Proceeds from senior debt facility	2.0
Proceeds from issue of equities	1.0
Payments for Plant & Equipment	-4.2
Closing cash balance 31 December	**5.7**

During the half-year, debtors have increased by $6.6m as a result of both the seasonal cycle of beer sales towards the end of the calendar year as well as a change in payment terms with our largest national chain customer. The impact of this change in payment terms has now been absorbed in full. In order to manage this change in working capital we have put in place a $4.5m trade debtor finance facility which was drawn to $4.0m at balance date.

Inventory increased by $4.0m in order to build up stock to cover sales during the implementation of our packaging line expansion program.

We also utilised $2.0m of our $5.8m senior debt facility to help fund short-term working capital requirements.

Capital expenditure for the period amounted to $4.2m including the packaging line expansion, Redfern venue preliminaries and on-going maintenance capital expenditure. We expect to spend an additional $3.2m to finalise the Redfern venue in H2 (total build $4.5m) and $4m to complete the packaging line expansion (total build $8m). As the packaging line expansion was partly vendor-financed, only $2m of these payments will fall into H2 with the remainder spread over FY21 and FY22.

The Company ended the half-year with a cash position of $5.7m. The unwinding of the both the debtor position as well as the inventory levels are expected to have a positive cash flow impact in H2 and with headroom in our facilities, the business remains funded through operating cash flows and existing facilities.

H1 EARNINGS RESULT

Unaudited		H1 FY20		H1 FY19		Variance
Volume (m Litres)		**6.1**		**5.8**		**0.3**
Revenue	$	19.3	$	17.5	$	1.8
Cogs	$	(6.0)	$	(5.6)	$	(0.4)
Gross Profit	**$**	**13.3**	**$**	**11.9**	**$**	**1.4**
GP%		69%		68%		1%
Variable Costs	$	(3.8)	$	(2.8)	$	(1.0)
Gross Contribution	**$**	**9.5**	**$**	**9.1**	**$**	**0.4**
Sales & Marketing	$	(6.1)	$	(4.1)	$	(2.0)
Operating Costs	$	(3.1)	$	(2.9)	$	(0.2)
EBITDA	**$**	**0.3**	**$**	**2.1**	**$**	**(1.8)**

The combination of the shortfall of sales combined with the continued investment in the Good Drinks strategy has impacted the half-year earnings, resulting in an unaudited $0.3m EBITDA for H1 FY20.

The growth in sales of our own brands has resulted in unaudited revenues of $19.3m for the half-year, an improvement of 10% over H1 FY19.

The own-brand portion of the total sales mix has grown from 62% in H1 FY19 to 68% in H1 FY20. This shift in sales mix towards our own brands has improved our unaudited gross profit margin to 69%.

With the growth of our brands on the east coast and in the independent channel, we incurred additional $0.6m in variable costs, relating to distribution, and warehousing costs and $0.4m in one-off costs relating to obsolete stock and old packaging from the Matso's acquisition. As higher volumes to the east coast deliver logistical efficiencies, we expect to achieve cost savings in distribution and warehousing and are targeting a gross contribution percentage similar to the prior year.

During the half-year, we continued to invest in the Good Drinks Strategy with an additional $1.9m in sales and marketing expenditure.

Managing Director John Hoedemaker commented on the result, noting:

"FY20 is a year of 'changing gears' for our business. We are investing ahead of the curve in the right areas of the business to drive future growth.

"The transition from a contractual relationship to a traditional supplier with our largest national chain customer has been completed but in this period led to a temporary loss of sales that will have an impact on our short-term earnings and will mean that our target of 25-30% EBITDA growth is unlikely to be met for FY20.

"The investment in our packaging lines, growing our sales capabilities and broadening our brand portfolio as well as the execution of our venue strategy are all key strategic pillars designed to secure the long-term success of our business.

"Sales at store level continue to grow strongly and accordingly, I believe that the strategy and the targets we have set for ourselves are sound and achievable beyond FY20."

Appendix 1


Overview of upgraded packaging line


New sterile bottle filler

New can filler


New conveyors being fitted

Internal view of can filler


Custom pipework being assembled

- END-

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