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Moa Group Limited

+64 9 367 9481
+64 9 367 9473
www.moabeer.com
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Union Fish Co Building
Level 1, 116-118 Quay Street
P.O. Box 105542
Auckland City 1143
New Zealand
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4 November 2013

Moa Group Limited: Trading and Performance Update and Outlook

- Moa now responsible for New Zealand and Australian distribution
- Difficult transition from previous distributor with low sales and stock returns during the August-September period with adverse impact on half year result, to be reported 19 November
- Good volume recovery in October - strong sales in New Zealand with good pre-sales for November
- FY14 136,000 9LE case volume forecast confirmed, FY14 loss estimated between $5.0-$6.0m

Previous Commentary: Market Update 12 August and Annual Meeting 20 August

This update reports on progress made and new developments since August when Moa Group Limited reported a downgrade of its expectations for FY14 sales volumes and outlines current expectations as we see them at this time.

On 12 August 2013 Moa Group Limited advised that it expected to fall short of its FY14 sales volume target by approximately 30% (approximately 60,000 9 litre equivalent cases or 9LEs), largely due to an anticipated sales shortfall in the New Zealand market. This downgrade in current year expectation was further explained at the company's annual meeting on 20 August. At the annual meeting we committed to providing updates as soon as we had further information to report.

In the 12 August market announcement, Moa advised that it would be changing its New Zealand distributor and would resume its own sales initiatives for the New Zealand market and further advised at the annual meeting that the targeted changeover date was 1 October.

Moa Group will report its half year result on 19 November and a full company briefing will be provided at that time.

Moa further advised (12 August) that in its export markets, the US and Rest of World were expected to perform in line with original expectations, although in Australia, sales volumes had been tracking behind PFI. In response, the company had recently acquired the Australian sales agency rights in order to manage the Australian business directly.

In the annual meeting presentation on 20 August, Moa referred to lower than expected margin outcomes in New Zealand with too much emphasis having been placed on Moa Original at the expense of the company's premium Estate and Reserve ranges.

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Moa CEO Geoff Ross commented to the annual meeting that "The lower sales and lower margin in New Zealand, and bias towards our more value driven product Moa Original, will make a large impact on this year's result. Particularly so in the first six months of the year, where these effects will be most pronounced. The half year result will also bear the brunt of the distributor changeover, before the benefits of the new model start to come through in the second half of the year. As a result the full year PFI targets will not now be achieved."

At the annual meeting, both Grant Baker and Geoff Ross commented that the slower than expected growth path had put the company 6-9 months behind in its growth plans for New Zealand and Australia, however they reiterated that they remained positive about the future for Moa and that the company would be working hard to regain the lost momentum. This is still the case.

Moa is now updating on progress under the following key headings:

- New Zealand Sales
- Australia and USA
- Total Expected FY14 Volume relative to 12 August downgrade
- Sales Mix and Margins
- Brewery Capacity
- Outlook for FY14
- Strategic Review

New Zealand Sales

Moa has experienced encouraging sales volume for October, being the first month under the new distribution model. This provides an initial indicator that the revised FY14 volume projections (as announced on 12 August) should be achieved.

Moa does not believe that October sales are pipeline filling, as shown by good pre-sales already received for November.

October sales are a good start to the second half with positive feedback from the market about both the Moa range and the resumption of direct sales activities by the company.

Sales during the period to 30 September were disappointing not only as to volume but also, as referred to earlier, due to mix with insufficient focus on Moa's higher margin Estate and Reserve ranges. Now that the company has control of its sales efforts, a renewed focus and energy will be applied not only to Moa Original but also to the important Estate and Reserve ranges.

Manufacturing gross profit margin will continue to be impacted by the need for contract brewing compared to the intended model of an upgraded and expanded brewery at the Marlborough site. This situation is expected to continue for some time as the prospect for brewery expansion at the Jacksons Road property remains unresolved (refer Brewery Capacity below).

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Moa is focused on sales volume (and mix) as its most critical driver with manufacturing margins and cost structures to be addressed once volumes are re-established. Hence the continued priority on sales volume targets as the fundamental base performance measure at this stage of the business cycle.

Australia and USA

The company is gaining confidence that the Australian market offers greater opportunity than previously foreseen. An increased focus on Australia will be developed over the next 6-12 months. Previously the company has seen Australia as a neighbouring but less important export market but this market is starting to look more promising than first thought.

Moa has achieved encouraging order activity in Australia during October with shipments scheduled for November.

In the US market, Moa remains committed to its importer (St Killian) but is finding margins more difficult to achieve than originally foreseen. Significant resource has been applied alongside St Killian in order to drive volumes.

We now expect that Australian FY14 volumes should outperform our August expectation but that US volumes may be slightly behind. However, it is expected that overs and unders between these two markets should approximately balance out.

Total Expected Volumes for FY14

Early results post the distributor changeover in New Zealand are encouraging and export markets, whilst moving around somewhat, are expected to be in line with previous expectations.

As a consequence, Moa is confirming its 12 August sales volume projection, being 136,000 cases across all markets, down from 195,000 in the original PFI.

Sales Mix and Margins

As mentioned above, sales mix in New Zealand has been adversely impacted by a lack of focus and targeting on the higher margin Reserve and Estate ranges and there has also been a range of promotional activities to achieve volumes. Both factors have impacted on expected sales margins.

Margins in the US have proved challenging due to a combination of factors. In addition to an unfavourable exchange rate, there has been a shift in sales mix towards varieties and formats with a higher cost of manufacture. Some pricing remediation has been realised, however, the route to market cost, especially in light of additional sales resources being deployed by Moa, remains challenging.

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And in the business overall, lower than expected volumes have been hindering the company's intentions relating to economies of scale.

The delay in the brewery upgrade and the necessity to contract manufacture the Original and Cider ranges, are also part of the lower margin picture at this stage.

These issues will be addressed in the near future but the company's immediate and first priority, at this stage of its development phase, is to build sales volumes in each of its major markets.

Brewery Capacity

In late July, Moa was awarded resource consent to expand and upgrade its existing brewery operations in Marlborough. That resource consent has been appealed by those who opposed the original application and the cost and timing of an appeal has forced the company to rethink its manufacturing options for the next 12 months.

Arrangements with a contract brewer have been put in place to augment Moa Original production through to 31 March next year which will address the immediate brewing capacity constraints.

The company has made no decision at this time on whether to proceed with its originally planned brewery expansion, given the uncertainty of an outcome on the resource consent appeal and as a result of reduced volumes and lower than projected financial results year to date.

Outlook for FY14

Moa's financial result for FY14 will be significantly impacted by the various adverse circumstances that have developed during the first half. During the second half the company expects to rebuild volume in New Zealand and grow volumes in Australia but that there will continue to be pressure on sales and manufacturing margins, as outlined above.

In a research report dated 21 October, Forsyth Barr referred to a number of the issues which we have covered in this update and predicted a loss of $4.5m for FY14.

Moa has been modelling a range of projected outcomes for FY14 and anticipates, despite a level of confidence at this time that the revised sales volume targets can be achieved, that it will be difficult to limit the FY14 loss to $4.5m and that given the adverse circumstances of the first half result the FY14 loss could be between $5.0-$6.0m.

Strategic Review

The board and management note the pressures prevailing on the Moa business and outlook and will be considering a range of strategic initiatives to improve the overall profitability and viability of the business model in each of its markets and in terms of its manufacturing capability, both for the immediate and medium terms.

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Moa remains confident that it has excellent brand positioning, a well-regarded product range, and significant growth opportunities in its various markets, both domestic and overseas. This has been reinforced for us in October under the new sales regimes in New Zealand and Australia.

Result Announcement: 19 November

This update is released ahead of the half year result to maintain the market communication initiated in August. Whilst it is early days in the new (New Zealand) distributor period, October sales and November presales (as at 1 November) augur well for the revised FY14 volume projections to be achieved.

The company will further brief the market at its half year result announcement on 19 November.

Ends

For enquiries please contact:

- Geoff Ross, Moa CEO, on 021 424 219, or
- Grant Baker, Moa Chairman, on 021 729 800