

Moa Group Limited

General trading update

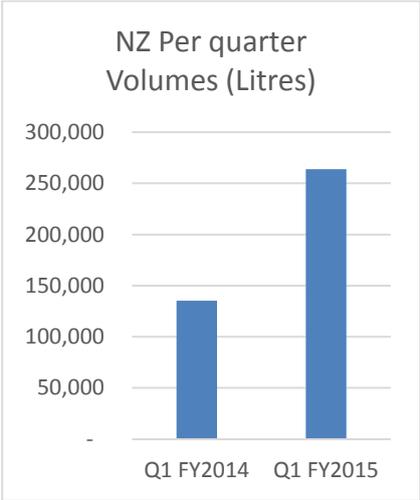
Moa Group Limited has completed the first quarter of the new FY2015 year. This coincides with the company having its Annual Shareholders Meeting on 24 July 2104 and so it is timely to give shareholders and the market a general trading update. This update covers sales, brand positioning, margins, market performance and brewing capacity.

1. Sales Performance

New Zealand

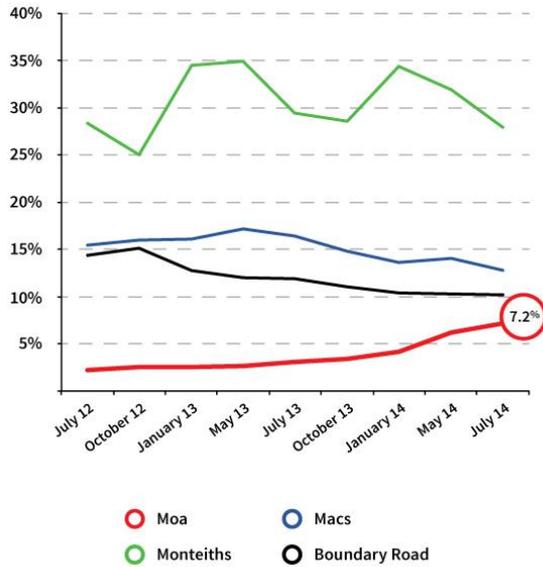
We made significant changes to our sales and distribution structure effective from October 1 last year – in hindsight, a structure we should always have had. The increase in sales since then has been substantial and can be measured by our own absolute volume performance as well as in comparison to our peers. This is best illustrated by the graphs below.

Comparing the quarter ending June 2014, to the same quarter last year, shows that we have increased sales from 135,000 litres to 264,000 litres — an increase of 95%.

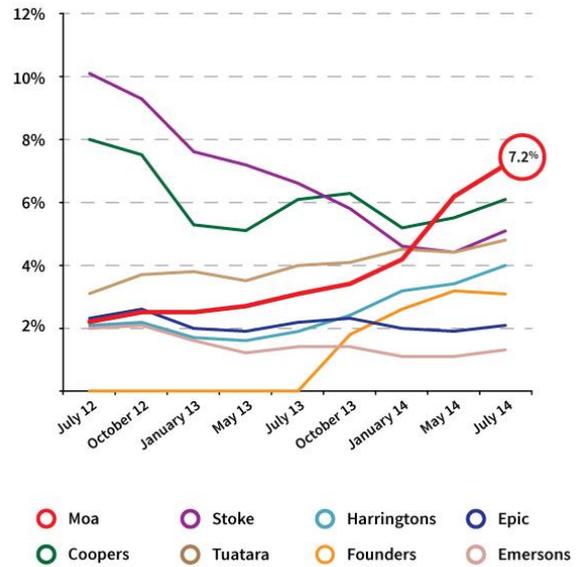


When comparing our performance to our competition in the craft beer market we have grown to hold the No. 4 slot for market share based on independent AC Nielsen surveys drawn from supermarket checkout scan data across grocery channels; doubling our market share since the “New Moa” started 1 October 2013.

Top 4 Craft Brands Total Supermarkets - Val % Share



Other Craft Brands Total Supermarkets - Val % Share



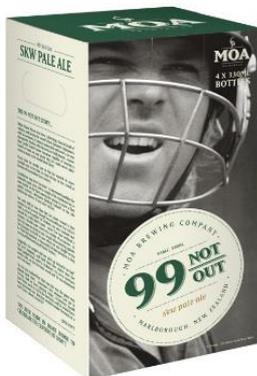
Source: AC Nielsen data

New Zealand is the priority market for Moa right now. It is our own backyard, and the market we must gain a meaningful share in first, before investing more heavily in offshore markets. Within New Zealand, both craft and premium beer categories are in growth and so we believe a business of scale can be created in this market alone.

MOA IS NEW ZEALAND’S FASTEST GROWING CRAFT BEER AND THE LARGEST NEW ZEALAND OWNED INDEPENDENT BEER BRAND.

Australia

Like New Zealand, Australian craft and premium beers are in growth. We can send Moa to Australia and still achieve a robust margin. There is currently not as strong a New Zealand beer presence in Australia as there is for wine, yet the reputation for New Zealand’s beverage credentials, and specifically for us, continues to grow. We have recently gained placement in key Woolworths stores and also created a pale ale marketed in collaboration with iconic cricketing legend Shane Warne for this market. We have two sales staff based in Australia.

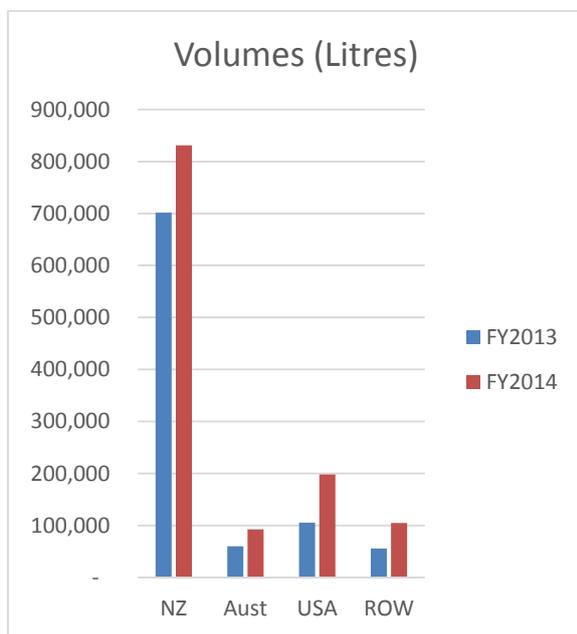


USA

We have a strong distribution network for Moa in the USA and the brand is well received. The challenge for Moa in this market is achieving a reasonable margin. After incurring freight and both importer and distributor margins, the remaining margin for Moa becomes one of the lowest in our network. We have recently increased prices across several products, however in doing so we expect growth to be more modest. We have also recently launched Moa Cider, which has started off well, and does give a better margin. We have three of our own people based in the USA.

ROW Markets

Other key markets for Moa include China, Singapore, Brazil, Canada and Finland. In these markets local importers take responsibility to import and market Moa. We currently do not have any of our own people in these markets. While these countries do represent opportunity for growth, with the limited resources we currently have, we have focused on New Zealand, Australia and USA.



2. Brand positioning and value

Broadly speaking the beer market is split into three categories: mainstream beer, which in New Zealand includes brands such as Speights, Tui and Lion Red; premium beer which includes Heineken, Stella and Steinlager; and craft beer which includes Moa, Montieths, Mac's, Stoke, Epic and Tuatara. The mainstream beer category is the largest category, however it is in decline and margins tend to be lower. The premium beer category is in growth, has good margins and a loyal customer following. The craft beer category is in high growth, has good margins, however it is still small, only representing approximately 3-5% of total beer consumption.

The profitability and status of these three categories are also similar to the market in Australia. Many beer drinkers are trading up, and we see the opportunity for Moa to attract those consumers currently drinking brands in the premium category who want to venture into craft beer. They will often require accessible craft beer styles with a deeper taste profile, although not too big, and will also require accessible price points. Moa Original lager and our new Session Pale Ale have been developed specifically for this group moving from premium to craft; and should be a natural step in moving to higher quality beer styles. The range has been slimmed down and tuned to meet this market.



Moa also offers a pilsner called Methode Pilsner and an I.P.A. (Indian Pale Ale) called South Pacific I.P.A. This is part of our Estate range for those who seek a more flavoursome beer style, which many consumers are starting to do here and in Australia. In particular the I.P.A style is growing in popularity and draws upon its big rich Nelson hop characteristics.

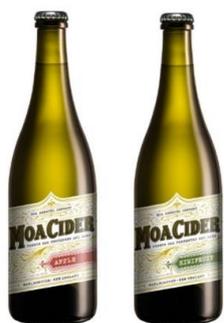


For those true craft beer aficionados, Moa also creates a small set of Reserve and Special Reserve brews. Often these are aged and have a far greater complexity, which are perfect for matching with food. While smaller volumes, margin tends to be higher.



The New Zealand and Australian markets suit our Classic and Estate ranges. It is the Reserves and Special Reserves that are most appealing to customers in the USA. Our new Southern Alps White I.P.A. has been received very well.

We have also created a new Moa Cider. This is currently exported to the USA but in New Zealand we will be moving branding from the current Weka Cider to Moa Cider.



Gross margin across the complete range is a key measure for us. In the first half of last year, gross margin was 14% but we improved this to 19% in the second half. We expect marked improvement in this as we progress through the FY2015 year which will strengthen our business model.

We plan to achieve margin improvement through a major strategic project we have commenced within Moa, which we call 'Moa 3.0', and extends the changes already made to revitalise the company. All areas of the supply chain have been reviewed with particular emphasis on raw materials and packaging, freight and logistics, product rationalisation and access to contract brewing. Brewing does benefit from scale and we will start to realise these gains. We are confident that by year end the margin the business delivers will be **substantially** greater. This will considerably improve the timeframe to achieve profitability.

3. Brewing and brewing capacity

The obvious requirement for a growth company is capacity to ensure the growth can be delivered. When we first listed Moa, in late 2012, we anticipated building a larger brewery on the current site. Our application was successful, however it was appealed by several parties, one being a neighbouring offshore-owned winery with a significantly larger footprint than our planned new brewery. We then went through a review process with an Independent Commissioner and were again successful with our application. Unfortunately this was again appealed.

We have chosen to engage in mediation with affected parties in an effort to avoid the expense and management time involved in going to the Environment Court. We expect to reach some form of solution later this year.

During this drawn out process, Moa still needed to brew increasing quantities of beer. For this reason we approached the nearby McCashin's Brewery in Nelson, which, with our help, were able to start brewing our largest single product – Moa Original – at their brewery.

We believe this was a mutually beneficial move for us and McCashin's Brewery. It gave us the capacity we required and also gave McCashin's Brewery greater scale, which generates brewing efficiencies for both parties.

While this relationship started informally, we moved to a full contract brewing relationship in May 2014. Moa was able to relocate several items of equipment to the McCashin's Brewery as part of this agreement, further increasing scale and brewing efficiencies for both parties' benefit.

This is a long term contract, and in addition to Moa Original being brewed at McCashin's Brewery, in time our Sessionable Pale Ale, Cider and potentially the Estate range will also be brewed under contract.

Moa's existing brewery will continue to produce the Reserve and Special Reserve brews and, when mediation reaches a solution, we plan to undertake minor upgrades to our existing brewery.

4. Support from the major shareholders

The company stated in the release of its annual results that the major shareholders, Pioneer Capital and The Business Bakery, had given their commitment to the company to support the growth plans and capitalise on opportunities. In addition to a trading update, the company expects to brief shareholders on its capital management plans at the Annual Shareholders' Meeting on 24 July.

Conclusion

Moa undertook substantial changes in FY2014. The growth achieved in the last nine months is evidence that there has been a true turnaround. Sales, distribution, marketing and brewing are all driving growth and increased margins.

Moa is now demonstrating that it can take a lead role in developing the craft brewing sector of this country and has taken a key step to becoming New Zealand's largest exporter of Craft beer.

We look forward to providing further updates of progress, and as a fellow Moa owner, hope that despite a rocky year, you see Moa is now performing as it should. Moa's ambition is to be of substantial size in Australasian brewing within two years, then move on to gain a presence in the Northern Hemisphere markets where it has already created a beach head.

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