



Bubs Australia Limited
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1HFY23 HALF YEAR RESULTS

HEADWINDS IN CHINA OFFSET GROWTH IN OTHER KEY MARKETS

Melbourne, 28 February 2023: Infant nutrition and dairy specialist Bubs Australia (ASX: BUB) today lodged with the Australian Securities Exchange its Half Year Activities Report and auditor reviewed financial results for the six months ended 31 December 2022.

INTERIM RESULTS OVERVIEW

- 1HFY23 Group Revenue: \$31.5m, down 6% pcp
- 1HFY23 Group Gross Revenue¹: \$37.9m, down 1% pcp
- 1HFY23 Infant Formula Revenue increased 44% pcp
- As foreshadowed in the Q2 Activities Report, Group Gross Margin of 8% was impacted by inventory provision balance driven by volatile trading conditions and slower than expected consumer offtake in key markets
- Group Product Margin² of 35%, increasing 8 ppts (FY22: 27%), with Bubs® hero Goat Infant Formula Product Margin² increasing 5 ppts to 44% (FY22: 39%)
- EBITDA statutory loss of \$44.4 million includes a total of \$20.0 million non-cash impairment relating to the Deloraine Dairy cash generating unit (CGU) driven by the uncertain timing of SAMR resubmission for the three slots for which nomination rights are held by the Australian facility
- Other key factors impacting earnings include \$10.5m in provisions for inventory and doubtful debts, together with increased wages, legal and regulatory advisory fees associated with the entry into the USA in setting the foundation of operations in North America
- Bubs has sufficient cash balance of \$51.4 million at 31 December 2022 to realise its growth ambitions
- Bubs is now the No.1 Goat Formula brand in both Australia³ and USA⁴
- Continued growth in Australian grocery and pharmacy retailers, with 1HFY23 Domestic Revenue up 36% pcp
- USA and Other International sales were up 63% pcp, with USA contributing 31% of 1HFY23 group revenue
- US FDA permanent regulatory pathway for all Bubs® Infant Formulas: Goat, Organic and A2 protein
- China sales were significantly impacted by prolonged lockdowns and channel disruption, down 48% pcp; CapriLac® was more negatively impacted than Bubs®, partially because infant formula is an essential product
- Entered into a definitive agreement with Bubs' China JV partner, and lodgement has occurred of the State Administration for Market Regulation (SAMR) submission for Bubs® China label Infant Formula under the new GB standards to provide a regulatory pathway into China's General Trade



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Bubs Founder and Chief Executive Officer, Kristy Carr said: "Although Group Gross Revenue was flat, the first half of the financial year saw demand build for Bubs® portfolio, with revenue for all branded products increasing 12 percent and Bubs® Infant Formula increasing 44 percent, compared to the same period last year. This growth was largely driven by Bubs® fast-tracked entry into the USA, which contributed 31 percent of first-half group revenue, enabling the Company to truly diversify its business globally.

"Bubs® hero product is now the clear Number One goat infant formula brand in both Australia³ and the USA⁴, surpassing long-time market leaders owned by multinational corporations.

"Net sales were down 6 percent, constrained by a sharp downturn in China sales, and cycling of \$5.3 million in low-margin bulk ingredient sales in the same period last year.

"Product Margins² for all key portfolio segments are the highest in the Company's history due to the increased contribution from the U.S. market entry, controlled and consistent rates of trade spend, and optimisation of product mix. This was particularly pleasing given the inflationary environment. Increases in cost of goods were offset by select price increases globally, production and supply chain efficiencies, and other cost mitigation initiatives.

"As foreshadowed in the Q2 Activities Update, the Group Gross Margin at 8 percent was heavily impacted by the inventory provision balance, driven by volatile trading conditions and slower than expected consumer offtake in key markets, causing there to be a gap between historical sales and inventory holding. The Company is focused on optimising its inventory position, converting inventory to cash, and limiting its exposure to inventory write-off.

"EBITDA statutory loss includes a total of \$20.0 million non-cash impairment relating to the Deloraine Dairy cash generating unit. The new GB standards came into effect on 22 February 2023 and the Company is focused on its joint venture in China as the pathway to launch the first China label product. Whilst the Company continues to hold nomination rights for three additional brands and formulations in Australia, the uncertainty of timing following resubmission is outside of the Company's control.

"Other key factors impacting earnings were \$10.5 million in provisions for inventory and doubtful debts. However, the Company expects the momentum to build in 2HFY23 and to work through the inventory, which still has plentiful shelf-life. In addition, the Company will be actively seeking to recover a portion of its doubtful debts.

"The accelerated entry into the USA has required an increased investment in organisational capability, that include employee costs, premises, and marketing, as well as regulatory, legal and consultancy fees needed to secure successful new market entry and permanent FDA approval. Other than the initial costs relating to the setup of our presence in the US market, we expect to see increased costs in obtaining permanent FDA approval in 2HFY23 along with the consistent investment in business operations and marketing activities.

"All of the above elements have led the Company to report a half-year EBITDA loss of \$44.4m," Mrs. Carr said.

1HFY23 GROUP REVENUE PERFORMANCE

- Group Revenue: \$31.5m, down 6% pcp
- Group Gross Revenue¹: \$37.9m, down 1% pcp
- Branded Products Revenue: \$30.1m, up 12% pcp (excludes canning services, bulk powder, ingredients sales)



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1HFY23 PRODUCT PERFORMANCE

Bubs® Infant Formula group revenue remains in double-digit growth. Infant Formula is the Company's most profitable portfolio segment, making this significant contribution a more optimal product mix.

- Bubs® portfolio: \$27.9m, up 44% pcp, contributing 89% group revenue
- Adult goat dairy portfolio: \$2.4m, down 72% pcp, contributing 8% group revenue
- B2B: \$1.2m, down 79% pcp, contributing 3% group revenue
(Deloraine contract packing had a five-fold increase in revenue in 1HFY23, but were outweighed by \$5.3m ingredient sales in 1HFY22).

1HFY23 REGIONAL PERFORMANCE

Strong growth in Australia and the USA was offset by a sharp downturn in China sales amidst very challenging market conditions and channel disruption.

- Australia: \$8.5m, up 36% pcp, contributing 27% group revenue
- China: \$10.1m, down 48% pcp, contributing 32% group revenue
- USA: \$9.8m, up 200x pcp, contributing 31% group revenue
- Other International: \$3.0m, down 62% pcp, contributing 10% group revenue
(Export sales of branded products increased 75% pcp. 1HFY22 included \$5.3m in ingredient sales.)

IMPROVED PRODUCT MARGINS²

1HFY23 Product Margins for all key portfolio segments had significant margin gains.

- Group Product Margin: 35%, up 8 ppts (FY22: 27%)
- Total Bubs® Infant Formula Margin: 39%, up 5 ppts (FY22: 34%)
- Bubs® Goat Formula Margin: 44%, up 5 ppts (FY22: 39%)
- CapriLac® Margin: 39%, up 8 ppts (FY22: 31%)

AUSTRALIA

Bubs continues to grow at a faster pace than the category in its home market, with solid growth momentum across major retailers, resulting in 36 percent increase in revenue compared to the same period last year.

Bubs remains the fastest growing infant formula company within the top six manufacturers³. Bubs® has consolidated its leadership position in the goat infant formula segment, now representing over half of the total goat formula market in Australia. Bubs Organic® Grass-fed Formula is the No.2 brand in the organic segment with scan sales growing strongly, up 42 percent³.



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CHINA

Market and trading conditions were very challenging in China with sales experiencing a sharp downturn, as prolonged lockdowns and COVID outbreaks spread rapidly causing widespread channel disruption and suppressed consumer spending through to Chinese New Year. Commodity milk powder products like CapriLac® were more severely impacted given they are not an 'essential' product like infant formula. CapriLac® is also more seasonal and price sensitive than infant formula.

The transition to Bubs' new 'Manufacturer-to-Consumer' (M2C) model in partnership with Bubs' channel partner was interrupted during this period with limited growth in Online-to-Offline (O2O) store expansion.

Now that China's COVID restrictions have eased and borders reopened, we expect to see a steady growth rate across Daigou and Cross-border e-Commerce, gaining momentum in the fourth quarter of FY23.

Post balance date, the Company finalised a joint venture agreement with Zhitong (Hangzhou) Health Technology Co., Ltd to establish a Chinese entity to be controlled by Bubs to distribute Bubs® Chinese label Goat Infant Formula products, subject to the State Administration for Market Regulation (SAMR) approving the brand slot licence under Heilongjiang Anjia Dairy Co., Ltd for exclusive use under the Bubs® brand.

The Company has received confirmation that SAMR has formally accepted lodgement of Heilongjiang's application. Subject to SAMR approval, the renewed licence will enable Bubs® Goat Infant Formula China-label products to be sold into the General Trade throughout China.

USA

Bubs considers the USA, being the second largest addressable market for infant formula, a key export market for the long-term. In the first six months of the Financial Year, it is already contributing around a third of group revenue. During the first-half, Bubs confirmed with the Food and Drugs Administration (FDA) a regulatory pathway for permanent market access beyond the existing interim approval up until October 2025. The Company is well progressed in preparations to meet these regulatory requirements for all three ranges of Bubs® Infant Formula: Goat, Organic Grass-fed and A2 beta-casein protein.

Bubs has quickly established an enviable retail footprint of over 6,500 stores nationwide, including the four largest formula retailers: Walmart, Target, Kroger, and Albertsons-Safeway, as well as health food chains, drug stores, and e-Commerce marketplaces like Amazon. Recently Bubs has secured ongoing placement in three of the top four retailers' 2023 planograms (with the fourth pending). This is testament to Bubs® premium product offering meeting consumer needs and building trust with American families.

Bubs® Goat Formula has been a stand-out as the top performing product segment and is truly pioneering goat infant formula in the U.S. with 94 percent of the goat segment market share in the last twelve weeks⁴.

With the market beginning to normalise, ongoing demand has become more predictable with most retailers replenishing stock on a regular basis with higher levels of forecast accuracy.

Bubs was proud to be awarded '2022 Australian Exporter of the Year' at the 60th Australian Export Awards hosted by the Australian Trade and Investment Commission in Parliament House, citing Bubs' rapid response when the Biden Administration called for international help to alleviate a U.S. supply shortage.



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IMPAIRMENT

EBITDA statutory loss of \$44.4 million includes a total of \$20.0 million non-cash impairment relating to the Deloraine Dairy CGU driven by the uncertainties of State Administration for Market Regulation (SAMR) approval time frame, which to a certain extent lie outside of the Company's control.

The predominant driver of the value in use calculation is the approval of the SAMR accreditation. Given the uncertainties of the SAMR approval time frame, and the regulatory requirement to resubmit applications under the new GB standards, the value in use model for the Deloraine Dairy CGU has excluded all associated revenue and expenses. As a result, a non-cash impairment of \$20.0m relating to the Deloraine Dairy CGU was recognised.

This does not detract from the strategic value of the Deloraine Dairy acquisition which delivered a vertically integrated supply chain security to the Group, essential to a sustainable future. The Company has plans to continue to pursue SAMR accreditation for the three brand slots nominated to the Deloraine facility, and will continue to update the market with any progress.

BALANCE SHEET

Bubs held \$51.4 million in cash reserves as at 31 December 2022. The Group's total cash on hand and unused finance facilities as at 31 December 2022 is sufficient to fund the business operating activities and realise our growth ambitions in the future. In July 2022, \$4 million in deferred consideration was paid to the Deloraine vendors. Deferred consideration relating to all prior acquisitions have now been settled.

OPERATIONAL FOCUS AND OUTLOOK

The Company is focused on optimising its inventory position through demand generation in key markets and shortening the supply chain cash cycle by reducing its weeks of cover until China's sales trend stabilises. Converting inventory to cash and reducing direct costs is a high priority to improve profitability and extend the cash runway. The Company will largely draw from existing inventory on hand and thereby have reduced procurement and production commitments in the second half.

Management remains disciplined on managing opex expenses whilst continuing to invest in building organisational capability and brand development to build growth momentum in key markets.

Reflecting on progress in the half-year whilst traveling through China for the first time since the onset of the pandemic, Bubs Executive Chair Dennis Lin said: "As we go into the second half, our focus is on precision in execution of our growth strategies in both China and the USA, whilst leveraging our supply chain expertise and portfolio strengths.

"Despite the challenging market conditions and channel headwinds, we expect the growth rate in China to return following the easing of restrictions and borders reopening, with momentum building in the fourth quarter. Bubs evolving distribution model brings us closer to our end consumers with transparency in the end-to-end supply chain which, in turn, will improve the demand and supply balance whilst upholding the pricing architecture.

"The accelerated entry into the United States provided important global diversification in Bubs' core business, and we see the USA as remaining a key export market for the long term with significant upside potential. As the



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trading environment normalises, Bubs is charting steady growth based on data-driven sales and marketing metrics to optimise our return on investment.

"Although the downturn in China's first-half revenue was below expectation and offset the gains delivered in other key markets, we remain confident in the Company's strategic roadmap. Bubs is entering a new phase of growth runway and maturity as a global infant nutrition specialist, and has sufficient capital to realise its growth ambitions," Mr Lin said.

This release is approved by the Board of Directors.

END

FOOTNOTES

¹ Gross revenue is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Gross revenue represents the revenue recognised without rebates and marketing contribution. Gross revenue \$37.9million = revenue \$31.5 million + rebates and marketing contribution \$6.4 million.

² Product margin is a non-IFRS measure. Non-IFRS measures have not been subject to audit or review. Product margin is calculated as (revenue – production costs) / revenue. Gross margin is calculated as (revenue – cost of sales) / revenue. Cost of sales includes production costs and inventory provision.

³ IRI Scan Data, Total Infant Formula Category Retail Scan Sales (\$000's) in Coles, Woolworths and Chemist Warehouse combined to MAT 15/01/23.

⁴ IRI Scan Data, Total US Multi-Outlet Combined (excludes e-Commerce sales) 12 weeks to 05/02/23.

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ABOUT BUBS AUSTRALIA LIMITED (ASX: BUB)

Founded in 2006 in Australia, Bubs' purpose is to grow happy, healthy families through clean nutrition. Bubs® A2 Beta-Casein Protein, Bubs Organic® Grass-fed, and Easy-Digest Goat Milk Infant Formula, along with Bubs Organic® baby food range, cater for all feeding occasions and stages of a child's development during their first 1,000 days of life.

Bubs® products are widely sold in major supermarkets and pharmacies throughout Australia, as well as exported to China, Asia, the Middle East, and the USA.

Consumer Website: bubsaustralia.com

Investor Centre: investor.bubsaustralia.com