



14 November 2023

**2023 ANNUAL GENERAL MEETING
MELBOURNE**

CEO ADDRESS

Thank you Katrina, and good morning everyone and it's wonderful to see some familiar faces and some of our shareholders in the room today.

Before we move onto the business of the meeting, I would like to share a presentation that includes a quick recap of the FY23 results, progress against our strategic plan, a Q1 performance update, and the outlook for the remainder of FY24.

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I will start my CEO presentation with a quick recap on the FY23 results.

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Looking at our P&L for last year

Revenue was down 32.4% on prior year due to a reduction in China revenue. The Fall in China revenue was partially offset by growth in the USA and domestic markets.

Underlying gross margin of \$17.9m or (30%) is broadly in line with FY22 due to our continued strong product mix and reduced bulk sales in FY23.

Marketing costs increased 57% reflecting investment in the USA where Bubs now holds a 95% share of the goat infant formula market and where we are investing for growth.

Our Administrative and other costs increased due to some large one-off expenses such as FDA related costs, capital raising costs, legal fees, retention payments and ERP implementation costs.

We took up an Impairment of \$36.2m recognised to intangibles including brand names (\$4.1m), licences (\$28.9m) and customer contracts (\$3.2m)

One offs include the following non-recurring non-cash items: share-based payments (\$0.6m), inventory provision (\$27.3m), credit losses (\$6.8m) and the already mentioned intangible asset impairment (\$36.2m)

Obviously, not a great set of numbers but the key message I want shareholders to take away from this slide is that we have completely de-risked the balance sheet and are now investing for growth.



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I think this slide is important because it demonstrates three things; Firstly, just how significant the decline in China ex-factory sales were year on year. The second thing it highlights is the rapid growth in the USA. And thirdly, if you can look beyond China the rest of the Bubs business and geographies performed very well year on year.

I will now move to our strategy and how we are executing against our five strategic pillars.

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In early July we announced our strategic review and our simple but achievable 5-point plan to responsibly manage capital and maximise shareholder value.

The 5 strategic pillars of our plan are:

1. USA is our growth engine
2. China requires a reset.
3. We need to optimise our portfolio.
4. We must sweat our assets.
5. We have to better manage working capital and be more disciplined around costs.

I am pleased to say we are already making solid progress against each of our strategic pillars and our new General Managers Chris Lotsaris (USA) and Jackie Lin (China) continue to build momentum in their respective markets.

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I will now talk to each strategic pillar and our progress to date.

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The USA remains our big bet and growth engine and we have grown revenue 200% year on year, and we expect FY24 revenue to grow by a further 100% over FY23.

As you know Bubs was granted a unique opportunity under the US enforcement discretion and project fly formula and the company has made the most of this opportunity with broad distribution across the US.

We are well distributed across almost all of the major brick and mortar retailers and we are stocked in approximately 5900 outlets across the US.

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The biggest driver of our recent US sales performance outside of Amazon, has been the increased throughput or velocity in each retail store on the back of new in-store planograms, better shelf visibility, and the effectiveness of our trade marketing activities and in-store activation.

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Our growth in Amazon has been extraordinary and Amazon has grown from 17% of our US revenue to 54% in less than a year.

We are now averaging more than \$400k a week in Amazon and we have the 4th and 8th best selling Infant Formula products on the Amazon platform which is amazing.

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This graph is our volume growth by month in scan sales, or sales achieved in our brick-and-mortar outlets and on the Amazon platform, and importantly it represents true consumer demand not just pipe fill or infill.

We couldn't be happier with our sales momentum at present and if anything, we could have achieved even higher sales if not for some supply chain shortages due to the increased demand in the US which I will talk to in the next slide.

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As you all know, we are investing for growth in the fast-growing US market where we have a first mover advantage in Goat infant formula and to ensure we were driving velocity and pull through in key retail stockists, after the successful and initial fly formula pipe fill.

With Bubs Amazon sales growth compounding at 3% each week in Q1 and the improved performance in brick & mortar retailers on the back of the new planograms, we have unfortunately become a victim of our own success and have experienced some stock shortages during late October and early November.

We remain on track to grow our revenue in the US by more than 100% over FY23 and so strong has been our demand in the US that we have had to air freight finished goods to meet the demand.

It's not ideal because, airfreight is frightfully expensive and also because we can't afford to let our service levels and fill rates drop with our key brick & mortar retailers leading into key range reviews.

We will continue to closely monitor the demand patterns in the US and we aim to increase our safety stock levels over the next 3-6 months to avoid repeated out of stocks and to avoid the need for airfreight.

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The US is not just all about Amazon and Brick and Mortar retailers, we also have to build our brand, increase brand awareness and encourage consumer trial of the Bubs portfolio of products.



During October Bubs exhibited at the American Academy of Paediatrics conference in Washington DC, the largest Paediatric conference in the United States.

The reason we exhibit there is because health care professionals are an important cohort, that influences US mums looking to bottle feed or supplementary feed their infants and toddlers.

We were thrilled with the level of engagement during the conference with many paediatricians mentioning how popular our Bubs brand was with many of their patients, and how important availability and accessibility of our brands is, given the infant milk formula crisis of 2022.

Many paediatricians also mentioned the strong interest in our hero goat formula and that our clean label nutrition and purity award was a strong differentiator, and our enhanced formulations are welcomed by American moms and families.

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Bubs remains on track for permanent FDA approval and access to the 2nd largest infant formula market in the world.

I'm hoping you all saw our clinical trial update provided to the ASX in September, that highlighted our clinical trial and growth monitoring study has commenced, right on schedule.

Bubs clinical trial involves a nationwide growth, tolerance and safety study of healthy term infants consuming Bubs infant formulas monitored by healthcare professionals.

The study evaluates all three Stage 1 formulas in the market including goat milk and two cow milk products as well as a commercially available formula as the control sample.

We continue to meet the regulatory milestones and remain on track for permanent access to the USA market in 2025.

I'll now share a recent news piece that went to air while I was in the US on Fox news relating to our clinical trial.

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Show Video

I trust that you enjoyed that clip and I think it tells the story well and also highlights that the US infant formula crisis is still firmly on people's minds.

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I do get a lot of shareholder questions relating to the cost of the FDA regulatory approval process and specifically the clinical trial costs.



Hopefully this graph will give you a better understanding of the overall costs and the timing or phasing of that expenditure.

As you can see we have already incurred approximately 45% of the total regulatory costs with a big chunk related to the clinical trial and patient recruitment expected in Q2 of this year, before it tapers off into FY25. This is because we are activating 26 clinical trial sites across the USA for patient recruitment and therefore a large part of the expense is front end loaded.

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Now moving to our 2nd pillar and our China Reset

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The China market is the world's largest infant formula market and is critically important to most Infant Milk Formula manufacturers and brand owners and it is a strategically important market for Bubs.

Our Q1 China gross revenue of \$3.8m was down 51% on the pcp as Bubs continues to reset its approach to the China market.

I firmly believe the Q1 result is encouraging given the setbacks we faced in this market due to the continued overhang of stock still held by Bubs former distributor which will be removed by the end of this calendar year, so just six more weeks before we have clean air.

I have no doubt the 2nd half of the year will deliver a significantly improved performance in China and whilst the headline ex-factory sales figures in Q1 were disappointing, Bubs did achieve 58% growth in the CBEC channel in September.

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Bubs also experienced strong growth in adult formula sales which were up 863% or 8 x the prior corresponding period. This result actually understates the performance and opportunity for Bubs Caprilac adult nutrition range in China which was also constrained by stock availability during the quarter.

This growth also reflects the new management team's portfolio optimisation strategy and focused investment in Bubs' hero brands, being key tenets of the 5-point strategic plan.

We have some new and improved formulas coming soon and plans to participate in the China gifting market, so we expect continued growth from adult nutrition in China.

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I guess the best demonstration of our improved outlook and confidence in China is evidenced by our performance in last week's double 11 or singles day promotion which is China's biggest sales event of the year.



Our Bubs sales were up 71% on last year and our Caprilac sales were up 15% on last year.

Caprilac was the number 1 adult goat milk product sold on Tmall Global and in CBEC during 11/11, and we grew our new customers and repeat purchases significantly.

Our average transaction value also increased for both Bubs and Caprilac and Jackie and the team are doing a fabulous job to rapidly grow our branded sales whilst maintaining our premium brand positioning.

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In early November Bubs participated in the China International Import Exhibition and as you can see, we had a stand or booth befitting of a market leading premium brand.

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As Katrina mentioned, our Prime Minister Anthony Albanese was at the fair and in this slide, you might recognize our former Premier of Victoria – Mr John Brumby with Victoria’s Commissioner to Greater China – Brett Stevens.

Overall, it was a great trade show that showcased our wonderful portfolio of Australian made premium infant formula and adult nutrition.

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Our 3rd strategic pillar is portfolio optimization and we have moved quickly to address some gaps in our portfolio, enhance our formulations and refresh our packaging.

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In this slide you can see our new label and smaller 20-ounce tin for the US market as well as our yet to be launched new and improved formula of Caprilac Adult Goat Powder.

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On this slide you will see our new look and refreshed label which we plan to launch globally next year. The changes to our packaging design are intended to increase the premium look and feel, make it easier for consumers to discern between Goat and Bovine, enhance our shelf appeal, maintain our distinctive assets, and importantly provide a much stronger call out of the product attributes that Mums really care about.

We have only made these changes after extensive research and consumer testing in Australia, the USA and China.

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Here is another example which is our Bubs organic 0–12-month product offering.



Interestingly in the USA they don't offer stage 1, 2, 3 & 4 like they do here in Australia and American consumers found our Stage 1 (0-6mths) and Stage 2 (6-12mths) confusing and a barrier to purchase, hence the change to one product 0-12mths, on the right of screen.

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Strategic pillar four was to sweat the asset and we are committed to sweating our state-of-the art Deloraine manufacturing facility here in Melbourne.

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The exciting news is that we now need to move to a 2nd shift commencing in January next year to meet the accelerating demand in the US and other markets.

We are currently recruiting and training additional staff and our second shift will double daily production from 14,000 tins to 28,000 tins and at the same time will improve plant efficiencies, overhead absorption, and our cogs.

The last time we ran a double shift was to support Project Fly Formula which was pipe fill or sell-in. This time the 2nd shift is needed because of the true demand or sell through in the US is so strong.

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Strategic Pillar 5 and the last of our pillars is working capital and cost discipline.

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In terms of cash flow and expenses I am very pleased to report that our Q1 operating cash outflow reduced to \$4.4m as working capital and cost discipline initiatives were implemented. This reflects a \$3.5m improvement on pcp or a 44% reduction in the cash outflow.

Monthly operating cash outflow for the quarter reduced to \$1.5m which was better than our forecast however it will increase in Q2-4 with additional clinical trial costs which are one off in nature and airfreight costs to the USA that will be non recurring in FY25.

The clinical trial costs have increased (they were \$2.9M in Q1) as we add more clinical trial sites across the USA to accelerate patient enrolment and to meet the FDA's timeline.

This is a necessary investment and cost of doing business exercise in the US but as I said they are abnormal or non-recurring expenses.

Having said all of that, our assumptions regarding underlying operating cash flow remain unchanged.



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Recapping our Q1 Performance

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Strong sales momentum continued with gross revenue up 21.7% on Q4 FY23 and we are currently tracking ahead of our internal budget of \$80m in net sales for the full year and remain cautiously optimistic.

You should expect to see our sales revenue accelerate in the 2nd half of the year and our Year-on-Year growth rate will increase significantly now that we have cycled Q1 FY23.

Our USA growth engine delivered gross revenue of \$11.6m, up 24% on pcp and representing 48% of group gross revenue for the quarter. Our domestic business was also very strong delivering 36% growth on pcp and a record market share result. Our domestic share of the Total IMF category has now increased to 5% overtaking Bellamy's domestic market share which again underpins the strength of our brand, our go-to market strategy, and our marketing efforts.

Our success in Amazon talks to the strength of the Bubs brand and how it is resonating with consumers. We are currently the 4th and 8th ranked infant formula sold on the Amazon platform depending on the week and rank 1 for organic search for Goat infant Milk Formula.

We are the No.1 Goat Formula brand in Australia² and USA³ based on market share.

Infant Formula Q1 gross revenue of \$17.5m, up 41% on pcp (excl. Supreme sales) so more than 70% of our portfolio is now coming from our high margin infant formula ranges which is encouraging.

But we are not a one trick pony, and we have a great adult nutrition brand in Caprilac which delivered sales growth in Q1 of 868% on pcp or 8x growth, albeit of a low base. We see continued upside potential for this brand in China, Southeast Asia, and the USA.

With our strong focus on working capital and operational expenses, as at 30 September 2023 we had \$21.6 million in total cash and cash equivalents plus \$8.0m in undrawn debt facilities available enabling us to continue to execute on our current strategy.

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This chart shows how our business is growing on pcp in all geographies other than China which I have already said will accelerate in the 2nd half of the year and we continue to work hard on new markets and territories to allow us to expand globally.

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Moving to the outlook for the remainder of FY24



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- We said we would deliver \$80M in net revenue and we are currently tracking above forecast.
- We are targeting gross margins of 40% and we are broadly in line on an underlying basis (airfreight and sales of slow-moving obsolete stock at a discount both dilute gross margin %)
- Our FDA and regulatory pathway remain on track with our final stage clinical trial now underway.
- Our focus on working capital and costs delivered a better-than-expected result in Q1 however, we do expect it to be lumpy in the next two quarters due to costs associated with meeting the accelerated demand in the USA and the commencement of our clinical trial.
- As you have heard through the presentation today our portfolio optimization is ahead of plan and working well.
- And to round out the outlook we are expecting to be cash flow and trading EBITDA positive in FY25 and we remain on track and highly confident in our business model.

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And to close out my presentation today I'd like to finish with a slide on the Bubs investment proposition.

These are the six key ingredients that I feel make us a strong investment proposition and that contribute towards our competitive moat.

- A large and growing addressable market worth US\$100B globally.
- We are a capital light business with significant operating leverage.
- Australian provenance and access to high quality dairy ingredients remains a strength.
- Our Bubs portfolio is differentiated and distinctive.
- We are the only Australian FDA approved Infant Formula Manufacturing facility with permanent access to the US expected in 2025.
- Bubs is growing 100% YOY in the USA where penetration of Goat IMF is very low, providing a long runaway for sustained growth.

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That completes my CEO presentation, and I will now hand you back to our Chair Katrina for the business of the meeting.



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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 ten markets across China, Southeast Asia, the Middle East, and USA.

Consumer Website:

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